



cutting through complexity

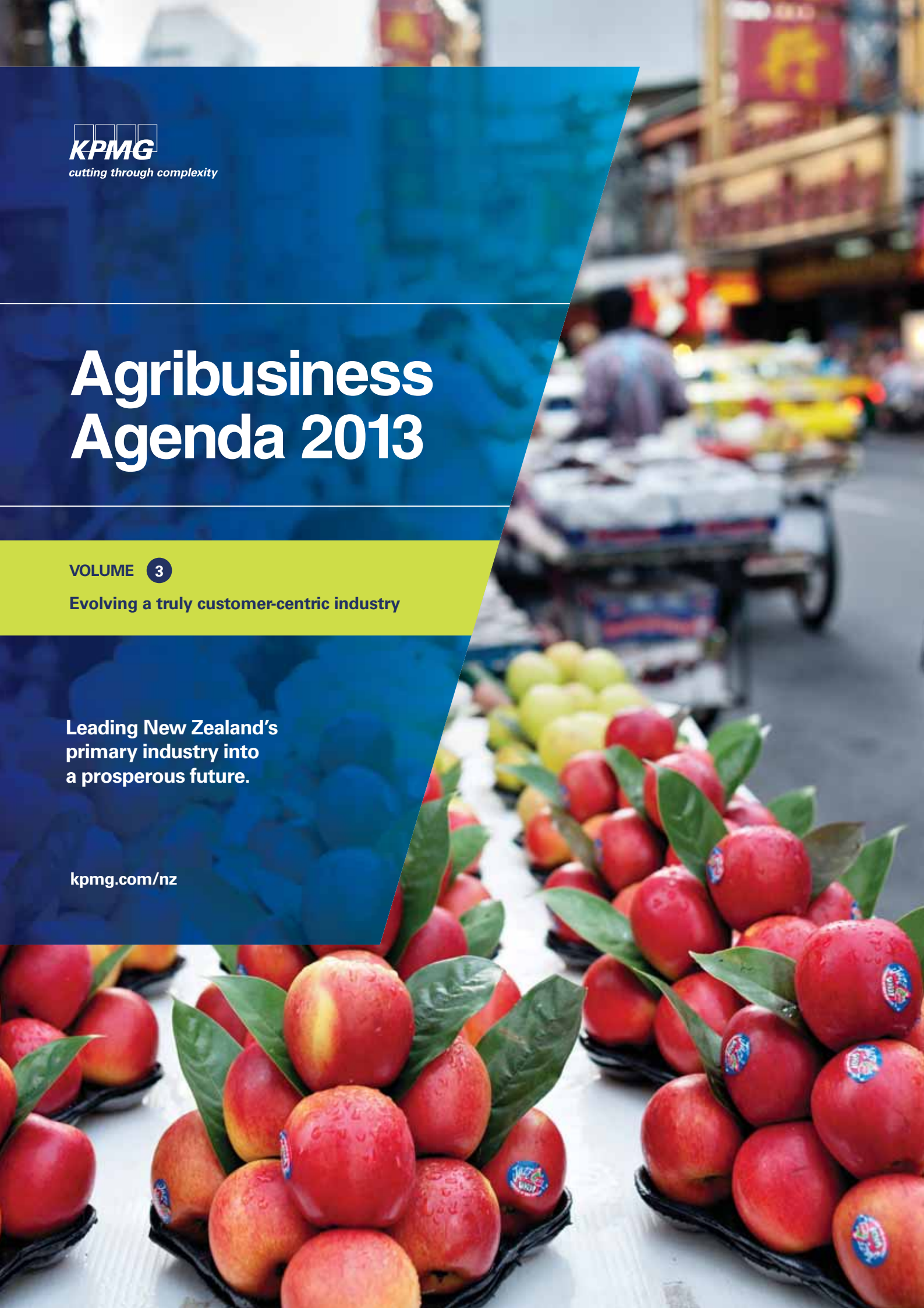
Agribusiness Agenda 2013

VOLUME 3

Evolving a truly customer-centric industry

Leading New Zealand's
primary industry into
a prosperous future.

kpmg.com/nz



KPMG IS HELPING TO FUEL THE PROSPERITY OF NEW ZEALAND'S PRIMARY SECTOR THROUGH SUPPORTING MARKET INITIATIVES...

/ As a proud strategic partner of the New Zealand Food Awards, we help to create well-deserved recognition for exceptional New Zealand food producers who are succeeding in export markets.

/ We bring insights from KPMG's global agribusiness network to companies and conferences in New Zealand to assist in understanding the fundamental drivers of global agri-food markets.

/ We encourage our people to support international trade groups and associations, and are proud of the Primary Industry and Māori Business Leader Boot Camp movements.

/ We facilitate and assist trade missions and exploratory visits into offshore markets.

/ We create forums (such as the Roundtable events and our Industry Leaders Breakfasts) where sector participants can network and discuss business opportunities.

FUELLING
PROSPERITY 

CONTENTS

- 04 Foreword
- 06 A customer-centric industry
- 07 The 10 largest retailers in the world
- 10 Barriers in global markets
- 12 Benefits of attribute marketing
- 15 Intergrating into customer business
- 18 Case Study: Comvita
- 22 Responding to government intervention
- 24 Achieving market immersion
- 26 Creating new generation business models
- 29 Preserving consumer trust
- 32 Case Study: Zespri
- 36 Consolidating market positions of scale
- 38 Articulating New Zealand's story
- 40 Case Study: New Zealand Wine
- 44 Acknowledgements
- 45 About KPMG

The *Agenda* this year has been prepared based on a series of 15 Roundtable discussions we held with industry leaders across New Zealand, in March and April 2013.



In order to explore the issues in greater depth, we are publishing the 2013 *Agenda* as a series of five volumes. This third volume, titled *Evolving a truly customer-centric industry*, provides insight on market opportunities for our primary sector.

FOREWORD



John Brakenridge
Chief Executive and leader since inception
The New Zealand Merino Company

WHAT GOT US HERE, WON'T GET US THERE.

A few weeks ago my team assisted in the design and implementation of the Māori Leaders Bootcamp at Stanford University. The week was inspirational and full of insights.

A very notable summary statement from the group was: "What got us here, won't get us there."

This was said with huge respect for those that have built the New Zealand and Māori economies to where they are to date. Importantly, it highlighted an awareness that the status quo simply will not deliver to the needs and the aspirations of Aotearoa.

The outcomes, direction, and importantly, energy of the week reflected those of the Primary Sector CEO Bootcamp held at Stanford University twelve months earlier. This alignment is extraordinary and exciting, from both a business and country perspective.

The two groups represent a huge percentage of New Zealand's primary sector investment and exports, at approximately 80%, and contribute significantly to New Zealand's GDP.

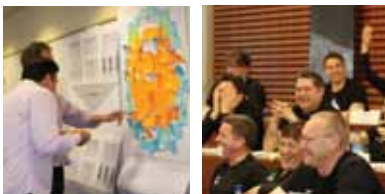
Both groups are very clear on the direction of the economic, environmental and social prosperity of New Zealand. This is reflected in their business aspirations of increasing shareholder and stakeholder wealth. From here it is about continued development, co-creation and action, with over 125 actions in play!

New Zealand has woken up and recognised both our vulnerability and the amazing opportunities in front of us. Rather than Government-led initiatives, these are business led and at times Government enabled.

Collectively, they represent a coalition of the willing. A movement that builds momentum 'from' and 'to', with the following hallmarks:

- **From what we do, to why we do it:** having a common cause, both at a company and national level, as to why we do what we do, followed by the how and what.
- **From volume to value:** creating and receiving far greater value from the containers we ship.
- **From mere sustainability to rejuvenation:** enhancing our rivers and natural ecosystems and, in doing so, building a reputation backed with substance that we are proud to market.
- **From a scattergun approach globally to targeted, aiming at the 30 million consumers at the apex of the triangle:** instead of trying to feed everyone, recognising that we are only able to feed and clothe around 30 million, let's hone our resources and align our efforts.
- **From silos to co-creation:** embrace an environment of like-minded entities, co-creating solutions to the right questions.
- **From individuals to an ecosystem:** better alignment of business, education, innovation and venture capital through partnerships with the likes of Silicon Valley.
- **From resisting change to driving change:** The status quo is a heavy anchor. The rope must be cut and our businesses must be recognised as the global leaders in the spheres we participate in.
- **From words to action.**

At NZM we have 700 growers determined to co-invest to ensure their product stays relevant. Through this collaborative approach we are extending into partnerships both within New Zealand and with leading world brands. We welcome and we are enjoying the opportunity to work with similarly aligned groups and businesses.





**PERHAPS THE
MOST POWERFUL
PHRASE SITS WITH
LEADERSHIP.**

**THIS IS NOT ABOUT
ANY ONE INDIVIDUAL
LEADER BUT IS ABOUT
'WE' THE LEADER. A
'WE' THAT RESPECTS
OUR ANCESTORS,
CELEBRATES OUR
UNIQUENESS, AND
PROTECTS OUR
PEOPLE AND PLACE,
IN ORDER TO PROVIDE
PROSPERITY FOR OUR
COUNTRY. AOTEAROA
NEW ZEALAND, A
COUNTRY IN WHICH
OUR CHILDREN WANT
TO LIVE AND WORK.**



WORKING TOWARDS A TRULY CUSTOMER-CENTRIC INDUSTRY

IT BECAME APPARENT DURING THE ROUNDTABLE CONVERSATIONS THAT MEASURING THE SECTOR'S SUCCESS IN ITS MARKETS IS ABOUT MORE THAN JUST SELLING EVERYTHING PRODUCED AND BANKING THE CASH.

On the face of it, a small exporter selling to more than 100 countries may appear to be a marketing success.

But in reality, it could simply be taking a scattergun approach; grabbing any and every deal that comes along regardless of the value created. Likewise, a sector producing a product in which it lacks any real competitive advantage is unlikely to build a sustainable market position long term. Somebody else will, over time, be able to do it better or cheaper.

The view was consistently expressed that if the sector is to maximise the value it creates, it cannot afford to be 'all things to all people'. Our producers need to be selective about the opportunities pursued – and say no to the easy opportunity if it does not fit with the long-term plan. We need to play a longer, more thoughtful game than we've been prepared to play in the past.

Those customers who see the most value in what we produce – and are consequently willing to pay a higher price for the attributes they value – must be at the centre of everything a company does.

The way our food, fibre and timber products are grown and harvested should exceed the expectations of our customers. As should the provenance stories we tell around the products, where and how incremental processing is performed, and the support delivered at the point of sale. Innovation needs to be targeted to enhance the value proposition for customers; whether that's focusing on in-market activities, behind the farm gate, or at any point along the supply chain.

Some companies have been prepared to throw away the traditional rule book and do things differently. The view was strongly expressed, however, that challenging the status quo should be a top priority for every sector. And we need to ensure each sector's thinking is fully aligned, from the pasture to the plate.

The industry needs to recognise that our competitors are increasingly doing things differently; either to improve their competitiveness, or in response to legislative changes. We need to be prepared to slay the odd sacred cow to create a set of rules that will enable us to compete. If we do not retain the loyalty of key customers, they will be 'innovated away' by international competitors.

As we noted in the first volume of the *Agenda*, a whole world of opportunity awaits New Zealand's primary sector, with the potential demand on an almost-frightening scale. Companies that are impatient or opportunistic in their approach to the market will, over time, leave value on the table. The resulting lack of customer loyalty will see them left to compete on price and not much else.

A truly successful small exporter may only be selling to one or two countries – but they truly understand their customers and how to deliver value to them. At the macro level, New Zealand's product mix may have to change, as sectors focus on growing those products that they have real competitive advantages in. Likewise, companies that invest in becoming truly customer-centric will deliver products that create unique value. Therein lies the advantage which our competitors will find very difficult to erode.



Ian Proudfoot
Global Head of Agribusiness
KPMG New Zealand
Report Author

LISTENING TO OUR CUSTOMERS - WHAT ARE THEY SAYING?



THE 10 LARGEST FOOD RETAILERS IN THE WORLD OPERATE IN 91 COUNTRIES BETWEEN THEM.

Not one of these companies has retail operations in New Zealand – yet they have a major bearing on our economy, our lifestyle and, ultimately, the prosperity of this country.

This is because, while the companies are extremely diverse, there is remarkable consistency around their strategic priorities. It is worth taking stock of what the global market (or at least its 10 largest participants) is saying about the direction their businesses will take into the future.

- With respect to **retail formats**, one size no longer fits all. Companies are creating themselves as multi-format retailers – with store sizes ranging from convenience stores to hypermarkets – to deliver to the needs of increasingly diverse groups of consumers.
- Retailers are focused on delivering a **low price proposition** to customers. In response to the GFC, as austerity measures start to bite in many countries around the world, there is a focus on increasing consumers' purchasing power. The everyday low price position is evolving to deliver symbolic low pricing on key staples to ease household cash flow problems.
- An increased proportion of sales from **corporate or house brands** is a high priority for all the top 10 companies. Many are creating a portfolio of house brands that are focused at different market niches. House brands are no longer viewed solely as low cost followers; but are also seen as a way to deliver innovation and premium products to customers. (A great example is the Kirkland Signature brand applied across all categories by Costco).
- With nine of the top 10 retailers operating in multiple countries, the challenge to **localise their offering** in each country of operation is a key objective. This is being achieved by focusing on sourcing from national suppliers and promoting regional products. Carrefour highlights a goal of sourcing 75% of the products it sells in any country from local suppliers; while Auchan has developed a regional co-operative house brand.
- It is interesting that many of the retailers have also highlighted the need to **diversify their revenues** away from core grocery and food products, with a particular focus on retail services that sit comfortably alongside their existing businesses. Investment is being directed into areas such as telecommunications, financial services, medical and optical services, and dining out.
- A key priority identified by many of the retailers is to **incorporate technology** into the business, particularly to enhance the consumer experience or provide a virtual shopping environment. Delivering relevant information to a customer on a timely basis – via integrated loyalty programmes and sophisticated data analysis – is seen as a way to build brand loyalty by being truly customer-centric.
- A strong theme across all the companies is a commitment to improve the **environmental and social performance** of their businesses. This is being realised through sourcing strategies, product packaging innovation, and improvements in the environmental efficiency of store operations. There is more strategically-targeted engagement with local community organisations; as well as a strong focus on making retail an attractive choice for employees to grow their careers.

**THESE MAJOR
FOOD RETAILERS
GENERATED
REVENUES OF
US\$1.32 TRILLION
FROM OPERATIONS
IN THEIR
MOST RECENT
FINANCIAL YEAR.**

#01

COMPANY:

WALMART

HEADQUARTERS:

USA

KEY MARKETS:

UK, Canada, China, Brazil and South Africa.

COUNTRIES ACTIVE IN:

27

Argentina, Botswana, Chile, Costa Rica, El Salvador, Guatemala, Honduras, India, Japan, Lesotho, Malawi, Mexico, Mozambique, Namibia, Nicaragua, Nigeria, Swaziland, Tanzania, Uganda, USA and Zambia.

#03

COMPANY:

TESCO

HEADQUARTERS:

UNITED KINGDOM

KEY MARKETS:

South Korea, Thailand, Ireland and Poland.

COUNTRIES ACTIVE IN:

13

China, Czech Republic, Hungary, India, Malaysia, Poland, Slovakia, UK, Turkey and USA.

#02

COMPANY:

CARREFOUR

HEADQUARTERS:

FRANCE

KEY MARKETS:

Italy, China and Brazil.

COUNTRIES ACTIVE IN:

39

Albania, Argentina, Bahrain, Belgium, Brazil, Bulgaria, China, Cyprus, Dominican Rep, Egypt, France, Georgia, Greece, India, Indonesia, Iran, Iraq, Italy, Jordan, Kuwait, Lebanon, Macedonia, Monaco, Morocco, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Saudi Arabia, Slovakia, Slovenia, Spain, Syria, Taiwan, Tunisia, Turkey and UAE.

#04

COMPANY:

METRO GROUP

HEADQUARTERS:

GERMANY

KEY MARKETS:

France, Russia, Italy, China and Poland.

COUNTRIES ACTIVE IN:

31

Austria, Belgium, Croatia, Czech Republic, Denmark, Egypt, Germany, Greece, Hungary, India, Japan, Kazakhstan, Luxembourg, Moldova, Netherlands, Pakistan, Portugal, Romania, Serbia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine and Vietnam.

#05

COMPANY:

AEON

HEADQUARTERS:

JAPAN

KEY MARKETS:

China, South Korea
and Thailand.

COUNTRIES ACTIVE IN:

15Australia, Cambodia, India,
Indonesia, Japan, Kazakhstan,
Laos, Malaysia, Myanmar,
Philippines, and Vietnam.

#07

COMPANY:

KROGER

HEADQUARTERS:

USA

KEY MARKETS:

N/A

COUNTRIES ACTIVE IN:

01

USA

#09

COMPANY:

COSTCO

HEADQUARTERS:

USA

KEY MARKETS:

Canada, Mexico and UK.

COUNTRIES ACTIVE IN:

08Australia, Japan, South Korea,
Taiwan and USA.

#06

COMPANY:

SEVEN & I HOLDINGS

HEADQUARTERS:

JAPAN

KEY MARKETS:

USA China, Australia and Mexico.

COUNTRIES ACTIVE IN:

26Australia, Canada, China, Denmark,
Indonesia, Japan, Malaysia, Mexico,
Norway, Philippines, Singapore,
South Korea, Sweden, Taiwan,
Thailand and USA.

#08

COMPANY:

LIDL

HEADQUARTERS:

GERMANY

KEY MARKETS:

France, UK, Italy, Poland and Spain.

COUNTRIES ACTIVE IN:

26Austria, Belgium, Croatia,
Cyprus, Czech Republik, Denmark,
Finland, Germany, Greece,
Hungary, Ireland, Lithuania,
Luxembourg, Malta, Netherlands,
Portugal, Romania, Slovakia, Slovenia,
Sweden and Switzerland.

#10

COMPANY:

AUCHAN

HEADQUARTERS:

FRANCE

KEY MARKETS:

China, Russia, Italy and Spain.

COUNTRIES ACTIVE IN:

13France, Hungary, India,
Luxembourg, Poland, Portugal,
Romania, Taiwan and Ukraine.

THE BARRIERS TO MAXIMISING VALUE IN GLOBAL MARKETS

DURING THE ROUNDTABLE DISCUSSIONS, INDUSTRY LEADERS RAISED A RANGE OF ISSUES AROUND THE PERFORMANCE OF OUR PRIMARY SECTOR COMPANIES IN GLOBAL MARKETS.

We have distilled these into eight key barriers which are perceived to be restricting the industry's ability to consistently maximise its value in international markets.

01

Selling on price rather than attributes

The view was expressed during the Roundtables that too many companies are focused on maximising production and then selling to anybody that is able to pay. The industry has developed a trading mentality over the decades; and many companies are yet to clearly distinguish between marketing and selling activities. Cost remains the key attribute that the industry focuses on; rather than thinking more widely about the full range of attributes that are valued by customers around the world.

03

Governments distort agricultural markets

For governments around the world, ensuring that sufficient and affordable food is available to meet the needs of their population is a bottom line. Consequently, governments regularly intervene and distort agricultural markets to ensure that policy objectives are met. They utilise an arsenal of tools to secure access to the food products they need – including producer subsidies, duties and tariffs on imports, restricting land ownership and use, and investing across borders. Clearly, this creates uncertainty for New Zealand companies looking to grow their business in export markets.

02

Challenges in building customer partnerships

There is a tendency for New Zealand companies to work through a distributor or intermediary when entering a new market. While this can provide immediate demand, it often means that the company is separated from its ultimate consumer (and the resulting feedback that can provide to improve its products). It limits the opportunities to work with the customer to grow mutual value – such as leveraging customer brands, exploring further processing in-market, and co-investing in innovation projects. Failure to work closely with customers increases the risk of market entry, and can erode business value.

04

Taking the same approach to every market

Many of the countries offering significant growth opportunities to our exporters have only come onto our radar in the last five years. Each country has unique features; in terms of religious beliefs, customary practices, the speed of urbanisation, the growth of the middle classes, and the quality of infrastructure. The view was expressed that many exporters are not investing in building market knowledge and developing tailored responses, in preference to a one size fits all approach.

05

Failing to keep pace with our competitors

The speed of innovation in global markets continues to accelerate. This innovation is occurring throughout the supply chain – across production, processing, logistics, brands and markets. The companies that will succeed are those that are able to continually evolve their business models to deliver incremental value to their customers. During the Roundtables, concern was expressed whether New Zealand's exporters have the capability and resources to reinvent their supply chains fast enough to keep pace with our competitors.

06

Failing to secure consumer trust

The message from the Roundtable discussions was very clear – customer relationships will not survive a breach of trust. Over the last year there have been a number of events relevant to this message. They have placed stress on the relationships that exporters have with customers, and highlighted the importance of complete integrity of the supply chain from 'gate to plate'. The view was expressed that maintaining consumer trust should be at the centre of any response to a quality issue.

07

Going to market in a fragmented manner

Scale has a huge impact on our ability to compete in global markets. This point was raised during many Roundtable discussions. Leaders recognised that the more consolidated sectors (such as dairy and kiwifruit) have a greater ability to influence the prices than fragmented sectors. Our consolidated sectors have benefited from their historic single desk structures; but given the modern trade environment, it is unlikely that other sectors will be granted a similar status. Instead, achieving greater scale will be driven by commercial imperatives and the foresight of industry leaders.

08

Relying on New Zealand's tourism brand

There is no doubt that New Zealand Tourism's *100% Pure* brand has been remarkably successful in building the global profile of the country as a premium tourism destination. The success of the brand has meant many primary sectors have associated their own messaging to *100% Pure*. The view was expressed during the Roundtables that the tourism brand does not tell the full story about New Zealand's food, fibre and timber products. As a result, we are selling ourselves short in global markets.

FOCUS ON SOLUTIONS: EVOLVING A CUSTOMER-CENTRIC INDUSTRY

To deliver on the Government's goal to double exports from the primary sector by 2025 to \$60 billion, our companies will need to become increasingly customer-centric. Fortunately, many of the barriers to placing customers front and centre to our thinking are not insurmountable. They just require a change of mindset and focus.

Certainly, investment is needed to build closer, long-term relationships with key customers. However there are many things individual companies can implement now – in order to help create value for the ultimate customers of our products.

The following sections explore the opportunities that were floated during our Roundtable conversations.

01

REALISING THE BENEFITS OF ATTRIBUTE MARKETING

BARRIER

Selling on price rather than attributes

- 01 A focus on maximising production and selling to anybody able to pay
- 02 Many in the industry are not distinguishing between sales and marketing

The Government has challenged the primary sector to double its contribution to New Zealand's exports to \$60 billion by 2025.

Delivering this ambitious target relies on a combination of: production volume growth, monetising our intellectual property, and increasing the value generated in market for the products we export. The industry has to break out of a 'produce, process, flog' mentality.

The winning strategy is easy to write in a report. Realising it in practice is far more difficult, and each element has real challenges. For example, intensifying production to produce more can impact on the environment and local communities, and requires significant capital investment. Extracting value from our intellectual property requires us to significantly lift the performance of our innovation ecosystem (an issue we explored in the 2012 *Agenda*).

Adding more value to production is often touted as the solution to all the sector's ills. During the Roundtable conversations, nobody disputed that adding value is critically important to growing our export returns. However they also recognised the challenges. These include changing customer expectations, established competitors, regulators, and the enshrined ways of doing business that we have developed over time.

Indeed, our tendency to stick with the tried-and-true was seen as one of the biggest impediments to growing value-add. For instance, a company that has always had a price-based relationship with a customer or intermediary will find it difficult to suddenly change the focus of that conversation to include other attributes. Nonetheless, growing the value of our production relies heavily on the industry improving its ability to effectively market relevant product attributes. This includes:

- **Understanding which attributes are most important to a potential customer** when they are making a purchasing decision. This requires a deep knowledge of the customer, and the drivers underlying the markets they operate in. Buyers for McDonalds will be seeking a different set of key attributes in a product, for instance, compared with a fine dining restaurant in Shanghai. This requires a targeted, strategic approach to market development utilising as much local knowledge as possible (to be discussed further in the next section).





HIGHEST PRIORITY ATTRIBUTES DRIVING AGRICULTURAL PRODUCT PURCHASES:

01

PRICE

02

CERTIFIED SAFETY
OF THE PRODUCT

03

SECURITY OF
SUPPLY

04

PRODUCTS EATING
ATTRIBUTES (TASTE,
TEXTURE, HANDLING)

05

PERSONAL
RELATIONSHIPS

06

TRACEABILITY OF
THE PRODUCT

07

PEST / DISEASE STATUS
OF EXPORTER

08

SUSTAINABILITY OF
PRODUCTION SYSTEM

09

COUNTRY OF ORIGIN
OF THE PRODUCT

10

INNOVATIVE NATURE
OF THE PRODUCT

11

MARKETING SUPPORT
PROVIDED TO CUSTOMER

12

LOW COST
MARKET ACCESS

COMPANIES THAT WANT TO CREATE A COMPETITIVE ADVANTAGE THROUGH ATTRIBUTES MUST BE WILLING TO MAKE AN INVESTMENT – IN AREAS SUCH AS R&D, IN-MARKET EDUCATION, AND CONSUMER COMMUNICATIONS.

- **Clearly articulating the attributes that are inherent in the products**

being presented to the market. The point was made in a number of Roundtables that attributes are most valuable when they can be verified and supported by robust research or analysis. While price is an important attribute that influences many purchasing decisions, customers may place equal or greater weighting on other attributes. These may include product safety, traceability, taste, texture, shelf life, colour, ease of handling, provenance, logistics, market support, or proven health benefits.

- **Being prepared to invest in attribute marketing.** Companies that want to create a competitive advantage through attributes must be willing to make an investment – in areas such as R&D, in-market education, and consumer communications. There are a number of New Zealand companies that are already doing this. FarmIQ, the PGP project led by Silver Fern Farms, is an example of a project focusing on consistent delivery of the key attributes of lamb meat demanded by consumers.

There can be no one-size-fits-all approach to attribute marketing. It comes back every time to attaching the greatest priority to attributes that are most relevant to a potential customer. This means getting to know customer inside out, so we can deliver them value that supports a premium price.

AGENDA ITEMS

- 01 Instigate a system of geographical indicators for unique New Zealand products, to highlight their unique attributes and support the effective marketing of product attributes in global markets.
- 02 Ensure a sufficient share of research funding is directed towards market-directed activities; with a particular focus on scientifically verifying attribute claims, or developing new attributes that are valued by customers.

02

INTEGRATING INTO CUSTOMER BUSINESSES

BARRIER

Challenges in building customer partnerships

- 01 Tendency to work through intermediaries or distributors when entering new markets
- 02 Limited opportunities to leverage customer relationships to create additional value

Businesses should regularly pause to ask themselves 'what does success look like for my customers?'

They can then challenge themselves on how they are able to contribute to the customer achieving that success. For FMCG retailers, for example, success may well be having the right products in the right place, at the right time and for the right price. (Although as discussed earlier, it's not always simple to assess whether the product, place, time and price is right). There is also great complexity in delivering the right solution consistently when a business reaches across continents and interfaces with millions of customers with diverse cultures, expectations and wealth.

A supplier that can help to reduce this complexity is valued by its customers. They can create opportunities to embed themselves within a customer's business model, by identifying mutually beneficial outcomes for both customer and supplier. A concern expressed during the Roundtable discussions was that, too often, New Zealand companies have utilised intermediaries to facilitate trade. By doing so, they fail to gain exposure to the customer or an understanding of their needs.

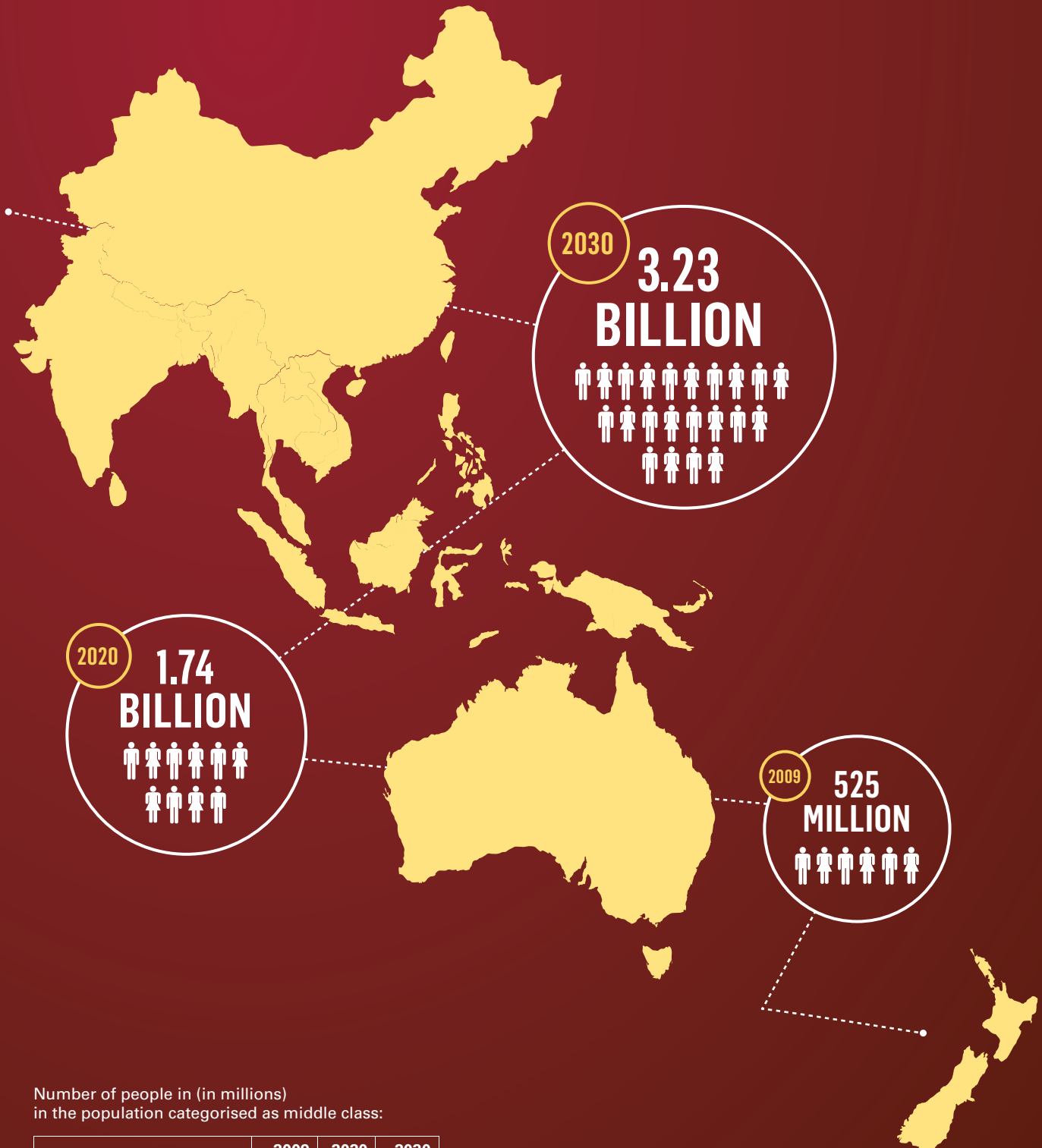
This separation has benefited the intermediaries, as it has enabled them to secure themselves into customer supply chains while keeping the price of supply from New Zealand low. However, the message from industry leaders is clear. New Zealand companies can no longer afford *not* to own their customer relationships if they wish to create additional value for their production.

Owning the customer relationship creates a wide range of opportunities that can help the customer achieve success, while growing the value created for our exporter. Industry leaders highlighted a range of opportunities that a closer, more integrated customer relationship can facilitate:

- Incorporating a unique New Zealand product as a component of a product carrying the customers' proven brand creates opportunities to get into the market quickly with strong recognition. This would replicate the success of brands such as Intel and NutraSweet; where the component branding is of as much importance to consumers as the host product brand. This has enabled both parties to secure a premium price.
- Customer partnerships create the opportunity to do something more than our capital and resources in New Zealand allow. Co-operating with a larger partner with deep insights into their domestic markets enables New Zealand producers to achieve scale; and share in significantly larger businesses than they could working solely from their own resources.



MIDDLE CLASS ASIA PACIFIC POPULATION FORECAST



Number of people in (in millions)
in the population categorised as middle class:

	2009	2020	2030
North America	338	333	322
Europe	664	703	680
Central and South America	181	251	313
Asia Pacific	525	1,740	3,228
Sub-Saharan Africa	32	57	107
Middle East / North Africa	105	165	234

Above Source:

OECD data reported by KPMG Australia
in publication "Expanding Horizons:
Agribusiness in Australia 2011/12"

**WORKING
CLOSELY WITH
CUSTOMERS ALSO
PRESENTS THE
OPPORTUNITY
TO OPTIMISE THE
SUPPLY CHAIN –
SO THAT COSTS
ARE MINIMISED,
AND THE VALUE
CREATION
BACK TO THE
PRODUCER IS
MAXIMISED.**

- Working closely with customers also presents the opportunity to optimise the supply chain – so that costs are minimised, and the value creation back to the producer is maximised. The most often cited example relates to strategically locating further processing activities of our raw produce to create new market opportunities. However such decisions need to take account of a wider range of factors, other than just cost, to ensure the integrity and reputation of the product is preserved.

It was also noted that even when there are no obvious benefits of partnering with a customer, companies should look for more innovative ways to sell products directly in order to maximise their return. One example noted was Fonterra's adoption of GlobalDairyTrade. This has enabled Fonterra to reduce its costs to serve smaller customers, while still maintaining a direct relationship with them through the auction site, rather than leaving them to be serviced by an intermediary. Fonterra is able to respond when they see changes in a client's buying patterns, and engage with them to proactively manage the relationship. This is something that would be lost through an indirect sales model.

AGENDA ITEMS

- 01 Consider creating a 'customer council' for the New Zealand primary sector; made up of a cross section of customers for our products. This would help the sector understand how it can address overarching issues to deliver greater value to customers.
- 02 Invest in building end-to-end supply chain knowledge and expertise within the primary sector; in order to help our companies better identify opportunities to create real, long-term value for customers.

CASE
STUDY

CREATING A MARKETING BUZZ



COMVITA'S SUCCESS WITH ATTRIBUTE MARKETING


It sounds like a marketer's dream – having a huge potential audience of well-informed customers, eager to hear more about your latest product developments.

But that's fairly close to reality for New Zealand company, Comvita, when describing its Asian-based distribution model for its range of bee-derived products.

Originally founded in 1974, today Comvita is a listed company with a market capitalisation in excess of \$113 million and operations throughout the world.

Scott Coulter, Comvita's Chief Operating Officer, explains how effective attribute marketing has contributed to their success.





**“THE
UNDERPINNING
ATTRIBUTES
THAT HAVE
MADE COMVITA
SUCCESSFUL
ARE QUALITY,
EFFICACY AND
PREMIUMNESS.”**



THE NATURAL HEALTH PROPERTIES OF BEE PRODUCTS ARE WELL- UNDERSTOOD BY THE ASIAN MARKET.

“The underpinning attributes that have made Comvita successful are quality, efficacy (people feel the benefits) and premiumness. The number one attribute is efficacy – they want the product to work. So in your marketing, you’ve really got to dial up the efficacy indicators. It’s also got to look premium; and have a quality system behind it that’s believable and real.

“We’re definitely seen as a premium brand – and we reinforce that through pricing, and the way we market our products. In recent years, we’ve moved from what was very much a wholesale model, towards a retail and direct-to-consumer model. We’re now really focused on one-on-one selling.”

In Comvita’s key Asian markets outside China, their retail operations are directly owned and operated. Within China, they work with a single partner who’s very aligned with the company’s values.

Having such a close relationship with their customers is all part of Comvita’s origins.

“We started to engage directly with our customers 20 years ago, when growing number of the Taiwanese and Hong Kong communities came to live in New Zealand,” says Coulter.

“Many of those people saw our products, used them, and spread the word to their friends and family back home. And when you’re talking New Zealand-size budgets, you’re really looking for that – you want your consumers to do the marketing for you. I always say to people, how are you going to create that environment where they trust you enough to put their own reputation on the line to push your product?”

The natural health properties of bee products are also well-understood by the Asian market; unlike most of their Western counterparts.

“We don’t need to educate Asian consumers about what propolis does, for instance, and why you would take it. They already know that. Instead they’re simply looking for the best products in the category.”

According to Coulter, their one-to-one selling model has definitely given Comvita an edge over their competition.

“Our customer relationship is not only based on the product – it’s also the relationship they have with our salespeople. I think they genuinely enjoy engaging with our staff, and talking to them about their health issues. In Kiwi language, we like to think it’s akin to buying something off your favourite auntie...”



WHO DO WE TRUST: THE PRODUCT, OR THE SELLER?

Here's another reason why attribute marketing is so successful for Comvita.

"In New Zealand, we generally trust the products that are on our supermarket shelves," says Scott Coulter.

"We believe the manufacturer and the supermarket wouldn't stock products that aren't up to acceptable quality. But in parts of Asia, where food safety is such a huge issue, people actually trust brands more. The concept of buying a house-brand in a wealthier section of China might be totally foreign. You don't know who it's from, so how could you trust them?"

Comvita has an extensive scientific programme, employing eight full-time research staff and a network of scientists around the world. But Coulter believes most consumers develop their sense of trust based on other factors.

"Last time you had a pharmaceutical drug, did you wonder about whether the manufacturer has a science programme? It's almost like the pharmaceutical industry has an inbuilt trust from the consumer.

"It's slightly different in our sector, but I still don't think consumers necessarily want to know whether you've conducted a double-blind clinical trial. They're more interested in how well you market your products; and whether you're a company that continues to innovate and launch new products."

ON THE RECENT MANUKA HONEY CONTROVERSY:

The reputation of manuka honey has been tarnished in recent months, with Britain's Food Standards Agency issuing a warning about misleading and illegal label claims.

Scott Coulter says while the UK retailers and the New Zealand Government have been 'allowing the confusion' to occur, it's in our own interests to tighten things up.

"The issue has been really simple – you can buy any brown honey in New Zealand, put a sticker on it that says its manuka, and sell it to the UK. The key problem is that if people buy the wrong stuff, they won't get the health benefits, and that causes the reputational damage. New Zealand Inc won't be able to extract the same value from these products."

Coulter expects the issue to be resolved fairly quickly, as the Ministry for Primary Industries has been given clear directives to act. Although the negative publicity has done little to dent Comvita's product sales – rather the opposite, in fact.

"It generally tends to increase our sales, because people gravitate towards products they believe to be genuine. We have very strong brand awareness, and we've been around a long time, so people are happy to transfer their business."

"COMVITA HAS AN EXTENSIVE SCIENTIFIC PROGRAMME, EMPLOYING 8 FULL-TIME RESEARCHERS AND A NETWORK OF SCIENTISTS AROUND THE WORLD."

03

RESPONDING TO GOVERNMENT INTERVENTION

BARRIER

Governments distort agricultural markets

- 01 Providing sufficient affordable food is a bottom line for many governments
- 02 A variety of tools are used that distort agricultural markets to achieve food security

Governments have struggled for decades to adequately feed every person on the planet.

The challenge continues to grow – and the provision of sufficient food at affordable prices is an increasingly pressing issue for virtually every country. Get it wrong, and a government can expect to be replaced via the ballot box or civil unrest.

During our Roundtables, industry leaders expressed the view that government interference in agri-food markets is on the rise. For exporters, this is often changing the playing field with limited notice. It is also creating uncertainty for investors.

At the same time, governments in the developed world are committed to reducing the cost of farm subsidies as part of their response to the global financial crisis. In the last year, the new US Farm Bill has seen cuts in support payments to farmers; while the European Union is implementing major changes to the Common Agricultural Policy ('CAP') in 2015.

It is our view that these changes will, over time, cause significant disruption to the global food supply. Farmers facing reductions in their subsidy payment will be faced with a choice of selling up, or innovating to increase production. We expect farmers will follow their natural inclination to innovate, thus increasing their production of premium products they will need to find markets for. We expect much of this production will find its way into Asia's fast growing markets – the same markets that New Zealand exporters are focusing on for growth.

The instruments that governments around the world are adopting to deliver food security to their populations are diverse, and reflect their country's circumstances. They can include: supporting local production, securing new sources of supply, manipulating prices, regulating trade flows and influencing food consumption trends. These are some recent examples we have seen:

- The government in Russia has introduced subsidies to support landowners who are prepared to upgrade the productivity of farms still being operated under former communist collective farming systems.

- The Saudi Arabian government has restricted dairy companies from exporting any milk product produced using domestically grown feed stocks, reflecting the country's water shortages.
- The Brazilian government has changed land ownership rules to restrict foreign ownership as part of a portfolio of policies aimed to position Brazil as a major exporter of agricultural products.

With the current rate of change in the global regulatory environment, exporters (and those considering entering new markets) need to invest the time to understand the current state of regulation and its susceptibility to change. The information obtained then needs to be incorporated into business plans that are sufficiently flexible to cope with any changes in the regulatory environment.

Exporters can only do so much to de-risk their business model. The industry also relies on government effectively fulfilling its role as facilitator and regulator of our international trade. In general, New Zealand Governments have fulfilled this role well; however there have been circumstances in the last year when simple mistakes have created issues for our exporters. The most notable example was the certification failings which left New Zealand meat sitting on the wharves in China due to a clerical error. These errors do little to support the reputation of our primary sector, and can bring extra regulatory scrutiny onto our exporters in market.





EXAMPLES OF GOVERNMENT INTERVENTIONS AROUND THE WORLD

RESTRICTIONS
ON FOREIGN
DIRECT
INVESTMENT IN
AGRICULTURAL
ASSETS

RESTRICTIONS
ON EXPORTS TO
HOLD NATIONAL
BUFFER STOCKS

TAX
INCENTIVES FOR
RESEARCH AND
DEVELOPMENT

DIRECT
GOVERNMENT
INVESTMENT
IN CRITICAL
INFRASTRUCTURE

SUBSIDISED
LOANS FOR
INVESTMENTS IN
AGRICULTURAL
ASSETS

REDUCED
TAX ON
PROFITS FROM
AGRICULTURAL
ASSETS

PREFERENTIAL
SUPPORT FOR
PROGRAMMES
FOCUSED ON
ENVIRONMENT/
CLIMATE

AGENDA ITEMS

01

Utilise the knowledge inherent within government and major exporters to provide companies with regular, easily-accessed analysis of global regulations impacting on the agri-food sector.

Above Source:
KPMG Global Agribusiness Network

04

ACHIEVING MARKET IMMERSION

BARRIER

Taking the same approach to every market

- 01 Growth markets have diverse characteristics giving each one unique challenges
- 02 Companies are not investing sufficiently in market understanding and tailored responses

We have argued for some time that a core driver of success in export markets is the depth of local market knowledge that a company has available to it.

It is local knowledge and insight that enables companies to develop a relevant, tailored approach to a market; rather than adopting a one-size-fits-all market entry model.

The right mix of experience around the board table can provide in-depth market knowledge, although we consider that many New Zealand primary sector exporters are yet to optimise the mix of skills sitting on their boards. Knowledge can also be gained from having people living and working in an export market. Whether they are local employees or expatriate staff members, there are real benefits delivered from this total market immersion approach.

People on the ground have daily exposure to a country's culture in everything they do. This provides the opportunity to detect emerging trends early on, and feed these into product development and marketing strategies. Of course, there is significant cost to having people in market; but, if a company is focused on a limited number of target markets, it can be a critical investment in the future. We have proposed in past *Agendas* that government funding should be directed towards supporting permanent people in market. We continue to believe this is an optimal use for the Government's trade development funding.

The market dynamics are changing constantly, as is the way products are being used by consumers. Markets are being impacted by global trends such as: the speed of urbanisation; the increasing discretion that affluent consumers have around the food they eat; as well as concerns around the way that much food is being produced.

While these trends are important, the view from the Roundtables is that it is the micro trends in the local markets that are critical for New Zealand exporters to understand and respond to effectively. For instance, it is accepted that we could only meet the complete protein requirements of between 20 and 40 million people. The consensus view is that our goal should be on delivering only a fraction of the complete protein diet to a far larger group of, say, 400 million people. These are people throughout the world that have the highest disposable income, and consequently the greatest ability to pay a premium price.

This means our exporters should be immersed not in 'the Chinese fish market', but more specifically in the 'white table cloth market in Shanghai'. Likewise, our wool sector needs to focus on the 'luxury carpet market for Colorado ski homes' rather than the wider 'US floor coverings market'.

Market niches that present our exporters with an ability to win need to be carefully sought out and defined. The ability to deliver a highly tailored product to a discerning, premium customer (just as they are recognising their need for it) creates the opportunity to build market profile and share. Customers in these segments are more attracted to local foods, sustainable production techniques, products that deliver proven health benefits and contribute to their lifestyle. Meeting these expectations is easier to achieve when a company has its own people fully immersed in its target niche.



HOW MUCH EXTRA ARE US CONSUMERS PREPARED TO PAY FOR LOCAL FOOD?



AGENDA ITEMS

01

Direct Government resources towards supporting companies to have permanent in-market resources.

Above Source:
AT Kearney Ideas and Insights;
Buying into the Local Food
Market; James Rushing and
Jens Ruehie; 2012

05

CREATING NEW GENERATION BUSINESS MODELS

BARRIER

Failing to keep pace with our competitors

- 01 The speed of innovation in global markets continues to accelerate
- 02 The need to have capability and resources to continuously reinvent supply chains

It is conventional wisdom that change is the only constant in the modern world.

Companies that are able to recreate themselves through innovating across their business will survive to fight another year. Companies with iconic global brands (such as Kodak, Nokia and Blackberry) have seen their market value evaporate over the same timeframe that Apple has grown into one of the most valuable companies in the world. The fundamental difference is that Apple was prepared to look at the world through a different lens.

It invested in the opportunities it saw in the future; while the others stayed true to their historically successful models and failed to recognise that the world was moving on.

Apple's resurrection from a near-death experience is the textbook example of value creation from re-imagining a business model. While it is very much a technology sector story, it was raised in a number of the Roundtable discussions.

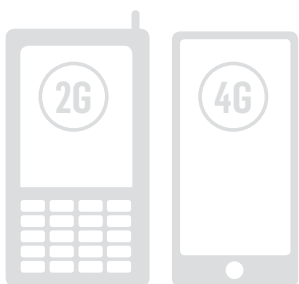
Concern was expressed that our primary sector companies appear to be more akin to a Nokia or Kodak in terms of their willingness to view the world through a different lens. Most companies have not been prepared to take a blank piece of paper to re-engineer how they deliver value to customers. Put simply, New Zealand exporters are not consistently producing innovations that can sustainably retain a price premium for our products.

The point was made that New Zealand exporters cannot expect the business models that have served them well for decades to continue to deliver indefinitely. Disruptive events to the global agri-food system (for instance evolving government intervention, opening up of new productive land, and growing demand for more complex animal proteins) are forcing competitors to innovate throughout their supply chain. We need to remember that our competitors are innovating for a reason – they want to set new standards and benchmarks that deliver them new market opportunities.

Our unwillingness or resistance to change may be attributable to the way New Zealand's primary sector has developed over the years. The co-operative focus on owning processing capacity has meant the sector is heavily invested in tangible assets – which as some leaders suggest, reduces flexibility and constrains the sector's ability to embrace innovation.

Despite this, many New Zealand primary sector companies are successfully evolving their business models and introducing new innovations for their customers. Much of the innovation is product-related; with respect to varieties, packaging and processed products. It was suggested that many Primary Growth Partnership (PGP) programmes currently underway are supporting the focus on product enhancement. Another point made was that the sector needs to introduce more technology-based innovation throughout its supply chain, as the speed of adoption of smart phones and tablets accelerates.

As we noted earlier, the key focus for New Zealand's primary sector must be on meeting a component of the needs of the 400 million or so people in the world with the greatest ability to pay. These are the customers who are most likely to take an interest in where their food comes from. They are more likely to seek out a relationship with the producer, through farmers markets or other connections. We consider this is one area where the sector really needs to take that proverbial blank sheet of paper. How can we employ technology to create real and meaningful links between our New Zealand producers and their global customers?



THE REAL LEADERSHIP LESSONS OF STEVE JOBS

- 
- A full-page background image of Steve Jobs walking from left to right on a stage, clapping his hands. He is wearing his signature black turtleneck, blue jeans, and glasses.
- 01 FOCUS
 - 02 TAKE RESPONSIBILITY
END-TO-END
 - 03 WHEN BEHIND,
LEAPFROG
 - 04 PUT PRODUCTS
BEFORE PROFITS
 - 05 DON'T BE A SLAVE TO
FOCUS GROUPS
 - 06 COMBINE THE HUMANITIES
WITH THE SCIENCES
 - 07 IMPUTE MESSAGES
THROUGH BRAND AND
PRODUCTS
 - 08 SIMPLIFY
 - 09 PUSH FOR
PERFECTION
 - 10 TOLERATE ONLY
'A' PLAYERS
 - 11 ENGAGE
FACE-TO-FACE
 - 12 KNOW BOTH THE
BIG PICTURE AND
THE DETAILS
 - 13 BEND REALITY
 - 14 STAY HUNGRY,
STAY FOOLISH

AGENDA ITEMS

- 01 Explore whether a commercial virtual shopping basket platform could be established; to allow smaller New Zealand exporters to present their products as part of a wide offering to potential customers.

- 02 Explore the creation of a user-pays Offshore Market Immersion Programme, to provide producers and those working in the sector with on-the-ground exposure to market innovation and best practice business thinking.

Above Source:
Harvard Business Review
"The real leadership lessons
of Steve Jobs" by Walter
Isaacson; April 2012

06

PRESERVING CONSUMER TRUST

BARRIER

Failing to secure consumer trust

- 01 Customer relationships will not survive a breach of trust
- 02 Failure to place maintaining consumer trust at the centre of responses to quality issues

If a customer does not trust a supplier, they simply will not buy their products.

The message from the Roundtables was unanimous – trust is developed slowly over time, but can be lost as a result of a single careless action. New Zealand has a world-class reputation in relation to conducting its business dealings with integrity. The World Economic Forum Global Competitiveness rankings place New Zealand first out of 144 countries in respect of the ethical behaviour of firms.

However, this reputation relies on every company that exports from New Zealand doing the right thing every time. We have seen a number of issues in the last year which have created a direct challenge to New Zealand's reputation. At the time of the Roundtable discussions, the concerns raised around traces of DCD-based fertiliser products being found in some milk exports were top-of-mind for industry leaders. Their assessment of how the issue had been handled were mixed.

Many industry leaders who had observed the issue from the outside expressed a similar view. At times it appeared the response could have done more to prioritise addressing customer concerns, rather than trying to play down the extent of the risk. A particular concern revolved around whether sufficient thought had been given to how the issue would be viewed in China (given that the Chinese translation of DCD was almost identical to Melamine, which has very negative associations in China). It cannot be overlooked that consumers in many other countries are not as trusting of companies as we are in New Zealand. Counterfeit and doctored products are part of their daily lives.

The DCD incident highlighted that any response to a quality issues must be open, honest and focused on addressing customer concerns. This position has been reinforced by the recent Botulism scare and concerns over the integrity of New Zealand honey products. The response must be built on the values that New Zealand companies are recognised

for globally – which means a commitment to doing the right thing by our customers.

As was noted during more than one Roundtable, this is what Fonterra did when it uncovered the Melamine issues at San Lu in 2008. Its reputation was enhanced as a result, and has contributed to the exponential growth in dairy exports to China in the last five years.

Issues that revolve around trust are simply not issues for spin or part truths. The facts need to be presented clearly, and the actions that will be taken to make things right articulated. The interests of industry and the government should be completely aligned. However industry leaders expressed a preference that response activities ought to be led by companies, as they are ultimately responsible to their customers.

The appropriateness of this approach is very apparent when we consider the outcomes of another food scare this year. The European horsemeat issue was uncovered by testing in Ireland and traced across the continent, highlighting failings in the supply chains of many of Europe's leading retailers. However, the credibility and reputation of the Irish industry has been preserved. Their co-ordinated, customer-centric response demonstrated the effectiveness of the country's testing procedures, and a commitment to protecting the ultimate consumer of the product.

1 World Economic Forum; Insight Report – The Global Competitiveness Report 2012-2013; Klaus Schwab: 2012



COUNTRIES WITH THE MOST ETHICAL COMPANIES

01 NEW ZEALAND

02 FINLAND

03 SINGAPORE

04 DENMARK

05 SWITZERLAND

06 NETHERLANDS

07 CANADA

08 SWEDEN

09 NORWAY

10 LUXEMBOURG

AGENDA ITEMS

01

Develop protocols to handle food safety issues quickly and from the perspective of the consumer, ensuring that there is an information loop including all impacted organisations.

02

The Government should commission an international peer review of our food safety systems and adopt the recommendations to ensure we can claim to set global best practice in this critical area.

CASE
STUDY

THE BRAND THAT WORKS 365 DAYS-A-YEAR



ZESPRI'S STRATEGY FOR GLOBAL YEAR-ROUND SUPPLY

Walk into many supermarkets around the world, and you'll see Zespri fruit 365 days a year. But with New Zealand's limited growing season – how is that possible? It's all down to the clever strategy behind Zespri Global Supply.

Zespri Global Supply supplements New Zealand's kiwifruit supply with fruit sourced from growers in five other countries around the world. In this way, they ensure there's a 12-month supply of fruit on the shelves, all proudly bearing the Zespri mark.

According to head of the business unit, Blair Hamill, it's a win-win concept that delivers benefits to growers, brand owners, retailers and consumers alike.





**"IT'S A
WIN-WIN CONCEPT
THAT DELIVERS
BENEFITS TO
GROWERS,
BRAND OWNERS,
RETAILERS AND
CONSUMERS ALIKE."**



“THERE’S OVERWHELMING SUPPORT FROM NEW ZEALAND GROWERS FOR THE 12-MONTH STRATEGY.”

“Essentially we’re able to maintain supermarket shelf space year round. When the New Zealand fruit finishes its season, we use fruit from our global supply to hold that shelf space, rather than leaving it open to competitors. This allows us to seamlessly switch the offering as soon as the New Zealand product is available – and ultimately maximise the returns for the New Zealand grower.”

Earnings from Zespri Global Supply are ultimately returned to shareholders as corporate profits. But Hamill says the main benefits to local growers are the intangibles derived from growing the Zespri brand, and holding shelf space for their fruit.

“There’s overwhelming support from New Zealand growers for the 12-month strategy. This year at the AGM, the resolution asking for support for 12-month supply passed with over 95 percent support. They understand its objectives and what it does for the positioning of New Zealand fruit, and the creation of wealth for local growers.”

The other major benefit of the 12-month strategy is its ability to grow the Zespri brand presence.

“Obviously, by having your brand out in consumer space for 12 months a year, you’ll generate that much more brand awareness. You can also leverage your promotional spend across a greater period. If you’ve invested in a TV campaign, for instance, you don’t need to take it off air when your fruit runs out.”

From the offshore growers’ perspective, they are attracted to the premium returns generated by Zespri.

“For our proprietary varieties, it’s very similar to New Zealand, both in the way we license our growers, and the way we run the commercial model. We take a fixed-margin commission off the sales price, and then return the rest back to growers on a market return by size.”

Running a multi-national and cross-cultural business is not all plain sailing, however. Nor can it totally protect the New Zealand market from the vagaries of disease incursions.

“We’ve also had issues with disease offshore,” says Hamill. “We got hit by PSA in Italy and France, and our gold volumes have suffered. We’ve also had challenges growing Hort 16A in countries where it was simply too hot for the variety. There are other environmental issues we don’t face in New Zealand – for example in Korea, they have a typhoon season every year.”



ON GAINING TRUST WITH OFFSHORE GROWERS:

“Building up that trust took some time. When we went in 10 years ago, we were a foreign company, going into foreign markets...and with a business model that was quite different to what growers were used to.

“In many of those markets, they were essentially fruit traders. Whereas instead of a buy-sell price, we were offering market returns less a commission. Back in the early days, they were effectively giving us their fruit without knowing what the return was going to be...or even if we were going to pay them or not!”

Hamill says it's critical to get to know the growers' local environment, before embarking on technical transfer and embedding the Zespri way of doing things.

“We have local staff and resources on the ground. We're absolutely committed to understanding the environments in other parts of the world, rather than imposing certain techniques on growers. Going in with a mindset that you must do it the New Zealand way will never work.”

And it's an approach that's earned overwhelming support for Zespri among offshore growers.

“One of the pleasing things we're seeing through our recovery in Italy is that there's no shortage of growers looking to get back into gold with us.”

ON KEEPING THE CUSTOMER SATISFIED:

As the world's supermarket chains and large retailers become increasingly powerful, suppliers are having to become more innovative in their offerings. So what do they find so attractive about Zespri's 12-month strategy?

According to Blair Hamill, it's the benefits of dealing with a single, trusted, respected brand – and one company that can deliver their year-round kiwifruit supply.

“They get to deal with Zespri's single global standard. Our fruit comes in the same box, differentiated by origin; and it meets the same criteria in terms of taste, cosmetic appearance, crop protection regimes and other well-established requirements.”

Plus there are all the benefits that come from working in a long-term partnership.

“They also know that Zespri is a reliable supplier of fruit that's going to deliver on its promise. We're there for the long-term because we're not just trading product – we're marketing a global brand.”

“GOING WITH THE MINDSET THAT YOU MUST DO IT THE NEW ZEALAND WAY WILL NEVER WORK.”

07

CONSOLIDATING MARKET POSITIONS OF SCALE

BARRIER

Going to market in a fragmented manner

- 01 Scale impacts on the ability of a sector to compete in global markets
- 02 Its is unlikely more single-desk arrangements will be established given trade arrangements

The reality is that the major retailers are the prime channel to market for many of our food and fibre products.

The challenge in dealing with the supermarkets is securing the initial listing of a product, or the real estate space on the shelf. This usually goes hand-in-hand with a commitment from the supplier to back their products with marketing support.

For many New Zealand products, however, our supply is seasonal. This applies to dairy products, fruit and vegetables, or fresh chilled meat. As a result, our producers are not able to occupy their hard won shelf space for 52 weeks a year with their own domestic supply. The retailer, though, wants to be able to offer customers a full product range all year round; which means competing suppliers also get to access to the shelf space. (They are able to leverage the marketing investment that our suppliers make, and potentially devalue the price points that the marketing is intended to deliver).

This illustrates one of the challenges faced by sectors that lack scale. A fragmented industry is not able to fund research into products that extend its season, or build brands that can lock in shelf space and price premiums. Nor can they develop global sourcing that provides customers with an all year-round supply programme.

The point was made very clearly during our Roundtable discussions. If an industry sector is able to develop scale – either from mergers, joint ventures or virtual commercial arrangements – the sector gets greater control over its own destiny. The benefits delivered by scale are widely recognised; although creating the vehicle to achieve it is much easier said than done.

We have highlighted in past Agendas the importance we place on the Primary Growth Partnership (PGP) structures to create pan sector collaborations. However the extent of fragmentation in some sectors, particularly horticulture, has to date limited the ability of sectors to even develop a business case to secure PGP funding. In the end, achieving scale primarily comes down to individual business people seeing the benefits that their business will extract from working collaboratively.

A recent example of this is the formation of Avoco, a hybrid company created by New Zealand's two largest avocado exporters (Primor Produce and Southern Produce). This has brought together 70% of avocado exports to Australia (our largest export market). The goal of Avoco is to transform New Zealand avocados into a global nutritional phenomenon, while delivering improved returns to growers. Two companies that were previously highly competitive rivals have recognised that one plus one can be greater than two.



RANKING IN INTERNATIONAL MARKETS OF MAJOR NEW ZEALAND AGRICULTURAL EXPORTS.

MILK WHOLE DRIED



NZ'S 1ST LARGEST EXPORT
NZ RANKED #1 GLOBALLY

SHEEP MEAT



NZ'S 2ND LARGEST EXPORT
NZ RANKED #1 GLOBALLY

BUTTER COW MILK



NZ'S 3RD LARGEST EXPORT
NZ RANKED #1 GLOBALLY

MEAT CATTLE BONELESS



NZ'S 4TH LARGEST EXPORT
NZ RANKED #6 GLOBALLY

MILK SKIMMED DRY



NZ'S 5TH LARGEST EXPORT
NZ RANKED #3 GLOBALLY

KIWIFRUIT



NZ'S 6TH LARGEST EXPORT
NZ RANKED #1 GLOBALLY

CHEESE WHOLE COW MILK



NZ'S 7TH LARGEST EXPORT
NZ RANKED #8 GLOBALLY

WINE



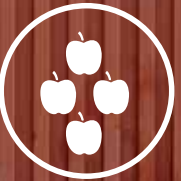
NZ'S 8TH LARGEST EXPORT
NZ RANKED #12 GLOBALLY

WOOL DEGREASED



NZ'S 11TH LARGEST EXPORT
NZ RANKED #1 GLOBALLY

APPLES



NZ'S 12TH LARGEST EXPORT
NZ RANKED #8 GLOBALLY

INFANT FOODS



NZ'S 14TH LARGEST EXPORT
NZ RANKED #9 GLOBALLY

GAME MEAT



NZ'S 16TH LARGEST EXPORT
NZ RANKED #1 GLOBALLY

THE POINT WAS CLEARLY MADE THAT OUR COMPANIES WILL LIVE OR DIE COMPETING INTERNATIONALLY.

Industry leaders also recognise that both the dairy and kiwifruit sectors have benefited from largely preserving their single-desk status. It is also acknowledged that our international trade commitments prevent the government from regulating to create new single-desk arrangements. However the point was clearly made that our companies will live or die competing internationally. This should be kept front of mind when industry sectors bring commercial consolidation plans to the table for approval, rather than placing too much focus on the domestic market.

A suggestion was made that the Government could take a bold step and exempt primary sector companies from compliance with the market impact tests within the Commerce Act, given that businesses of scale are so critical to delivering value to the New Zealand economy.

AGENDA ITEMS

- 01 Take bold steps to facilitate the creation of businesses with real market scale; such as potentially excluding primary sector companies from the requirements of the Commerce Act.
- 02 Share the learnings from successful collaborative initiatives across the industry; which could be presented at an industry-wide collaboration symposium.

08

ARTICULATING NEW ZEALAND'S STORY

BARRIER

Relying on New Zealand's tourism brand

- 01 *100% Pure* has been remarkably successful in building NZ's global profile
- 02 The tourism brand does not tell the full story of our food, fibre and timber products

During our discussions, a number of industry leaders talked about their experiences in developing branded product offerings.

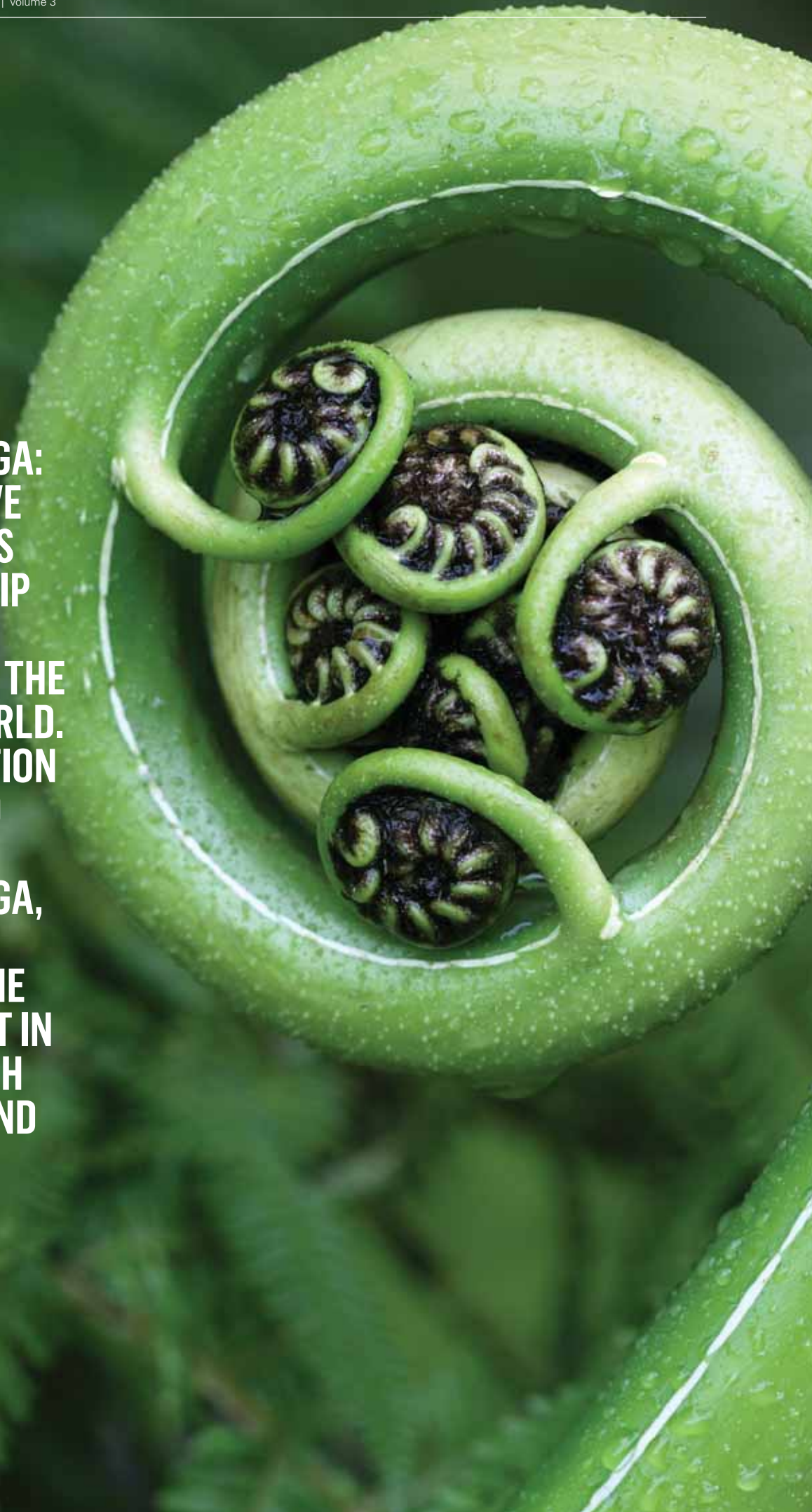
There were some common themes from these conversations – that building a brand takes far longer than they had ever envisaged; costs significantly more; and takes even longer to start to generate a return that can flow back through the supply chain. The long payback on investment has meant many companies have not actively sought to brand their products. Instead they rely on the association with New Zealand to generate a price premium.

Given that much of what is produced in New Zealand is exported with limited or no brand support, discussions during many of Roundtables touched on the need for an overarching New Zealand primary sector brand. This brand would articulate the provenance story of our products, and the values that the country stands for. The *100% Pure* tourism campaign has done this to some extent. However many of the world's other primary sector production regions can tell very similar stories to those encapsulated within the *100% Pure* brand; centred around their environment, food, lifestyle and pastimes.

At the core of New Zealand's primary provenance story is the safety and quality of the products we produce. This does not feature in the current *100% Pure* brand. The importance of the long-term sustainable management of land is also very important to New Zealand's brand in global markets. Recognising kaitiakitanga as core to the industry's values is critical, given the reliance that the country places on the primary sector to support the lifestyles that we aspire to over time.



**KAITIAKITANGA:
MĀORI BELIEVE
THAT THERE IS
A DEEP KINSHIP
BETWEEN
HUMANS AND THE
NATURAL WORLD.
THE CONNECTION
IS EXPRESSED
THROUGH
KAITIAKITANGA,
A WAY OF
MANAGING THE
ENVIRONMENT IN
BALANCE WITH
RESTORING AND
MAINTAINING
CULTURE.**



Options for a primary sector provenance brand

It was noted that there is currently a whole-of-government project underway focused on telling the New Zealand story in a way that will enable companies to gain a competitive advantage in global markets. While this is seen as a positive initiative, it was recognised that the story is being told in a general manner, rather than specific to the primary sector. It was suggested that the sector may need to extend the work to deliver the overarching integrity brand some industry leaders believe the sector needs.

When we surveyed industry leaders on their priorities for the primary sector, the need to develop brands that tell New Zealand's provenance stories to premium customers ranked 7th in 2013 (compared to 10th in 2012). However, not all industry leaders believe that this has to be delivered through adoption of a single brand. In fact some saw significant challenges to such an approach.

The biggest challenge to an industry brand revolves around ensuring every organisation consistently operates by the values inherent in the brand. Past proposals for an overarching primary sector brand have failed to secure agreement on: i) what the brand values are ii) what standards have to be met to use the brand and iii) how compliance with these standards will be measured.

While past efforts have failed to achieve consensus, the clear message from the Roundtable conversations was that industry leaders are increasingly talking about an 'NZ Inc' approach to markets. They're also talking about the role their organisation can have in enabling this approach. In last year's *Agenda* we floated the idea of 'NZ Primary', an industry integrity brand attached to all our primary sector exports. It would provide customers with assurance that the products have been produced in accordance with defined production standards.

NZ Primary, or something similar, could be created by the industry as an extension to the government's New Zealand Story. But as with everything we have discussed in this *Agenda*, our assessment of whether it is worth telling New Zealand's primary provenance story and building an integrity brand must be linked to whether it would create value for our customers.

We need to understand whether consumers of a NZ Primary product are prepared to pay a premium for that product; or whether a user of a NZ Primary ingredient would want to put the brand on their packaging. If our customers do not perceive value in a brand – no matter how much we consider it to be a good idea – it may not be worth making the investment. This again highlights the importance of getting to the heart of 'why' we do agriculture in New Zealand, as discussed in Volume 1 of the 2013 *Agenda*. This question would form the basis for a conversation between the urban and rural sectors, to seek out consensus on the future aspirations for the country.

AGENDA ITEMS

- 01 Define the baseline sustainability standards producers are required to meet to support the provenance story inherent within New Zealand's primary sector so that all producers are following the key principles of kaitiakitanga.
- 02 Commission a jointly funded research project to understand the demand from customers for an overarching New Zealand primary sector integrity brand, and its potential uses and limitations, before committing funding to such an initiative.

CASE
STUDY

A NOSE FOR CREATING MARKET OPPORTUNITY



NEW ZEALAND WINE
PURE DISCOVERY

SUSTAINABLE WINE GROWERS' PATH TO SUCCESS

When international media are being briefed on New Zealand wines, the message comes through loud and clear – we're a nation of sustainable, responsible producers.

That's largely due to the work of Sustainable Winegrowing NZ, which is a dedicated business unit within New Zealand Winegrowers, the national organisation for our grape and wine sector.

"We view sustainability as one of the three pillars of the NZ Wine brand," says Philip Manson, General Manager Sustainability.



Image Source: Man O' War Vineyards Ltd



**“NEW ZEALAND
WINE IS ALL
ABOUT QUALITY,
DIVERSITY, AND
SUSTAINABILITY.”**



“SUSTAINABILITY IS DEFINITELY FRONT AND CENTRE IN ALL OUR COMMUNICATIONS.”

“New Zealand wine is all about the three pillars of quality, diversity (both regional and varietal), and sustainability. At all our overseas events, or when international media are briefed here, sustainability is definitely front and centre in all our communications.”

Back in 2007, the organisation launched an ambitious goal – that by 2012, all New Zealand wines would be produced under an independently audited environmental programme.

And they’ve hit the target. Today, an estimated 94% of New Zealand’s producing vineyard area (accounting for approximately 90% of the wine produced) is certified by Sustainable Winegrowing NZ. A further 3-5% of vineyards operate under certified organic programmes.

Joining one of these programmes is voluntary for growers – but necessary, if they want to be included in New Zealand Winegrowers’ national and international marketing, promotional and awards events.

“We started our journey of sustainability back in the mid 1990s,” says Philip Manson.

“At that time, we were looking at the issues we needed to address as a growing industry. Sustainable production is a pretty critical thing to have – both from a market access perspective, but also being a responsible producer in your local environment.”

And what would be the advice to other sectors embarking on a similar programme?

“My advice would be that you should move carefully into this territory. We spent a lot of time designing our programmes to ensure they are credible, and offer something of real value. You need to be sure of that – because as soon as you put your head above the line, people will be asking you questions. You need to ensure you have a robust system, and that it continues to develop and grow.

“The other advice is to start small and start simple. Try not to over-complicate it from the start. It needs to make sense to people.”



WHAT DOES THE MARKET REALLY CARE ABOUT?

For any sustainability programme, this is where the rubber hits the road. What are the key drivers from the market's perspective?

If you ask the customers, there's no one answer.

"Each market sees different aspects of sustainability as being important – it really does depend who you are talking to," says Philip Manson.

"But the things that come consistently are water quality and biodiversity. Carbon has been big for some people. Increasingly, markets want to know about people – how you're treating your workers, including migrant workers."

But there's one thing the market audience does have in common – they're demanding to see the evidence.

"They all want to see exactly what the programme does, evidence of its benefits, and how it really works. Plus they want to see rigour around the audit process."

ON GETTING THE GROWERS ENGAGED:

No business owner wants more paperwork to deal with – so how does Sustainable Winegrowing NZ deal with any frustrations on that front?

"We're very aware that every hour they spend on completing scorecards and undertaking audits is an hour they're not working on their business," says Philip Manson.

"So we are working on streamlining the administrative aspects of running the programme, and making it easier for people."

But there's some positive feedback from growers too.

"The flip side of that, particularly for some of the smaller producers, is that the programme is probably helping them with their record-keeping. There's very little we require of them that's actually not just good management."

It can also help improve their business management in tangible ways – by reviewing things such as water usage, energy consumption, or agrichemical use.

"We've had several examples where members have used the benchmarking data to review and improve their systems. In one case, a winery discovered a water leak they didn't know they had. So there's some quite pragmatic uses of the data that give them a direct value back into their business, just as much as it gives them an advantage in the market."

"EACH MARKET SEES DIFFERENT ASPECTS OF SUSTAINABILITY AS BEING IMPORTANT – IT REALLY DOES DEPEND WHO YOU'RE TALKING TO."

Image source from left to right:

1. Villa Maria Estate Ltd
2. Palliser Estate Wines of Martinborough
3. Craggy Range Vineyards Ltd
4. Fromm Winery

ACKNOWLEDGEMENTS

KPMG WOULD LIKE TO ACKNOWLEDGE THE CONTRIBUTION OF THE FOLLOWING INDUSTRY LEADERS IN PREPARING THIS REPORT

We would like to offer special thanks to the organisations featured in the Case Studies in this volume of the Agenda:

Comvita

Scott Coulter

Zespri

Blair Hamill

New Zealand Wine

Philip Manson

Foreword by:

New Zealand Merino Company

John Brakenridge

Michael Ahie
Steve Allen
Wayne Anderson
Dacey Balle
Eric Barratt
Catherine Beard
Louise Beard
Larry Bilodeau
Chris Black
Richard Bowman
John Brakenridge
Barry Brook
Michael Brooks
Tom Bruynel
Jon Calder
Greg Campbell
Scott Champion
Peter Chrisp
Mark Clarkson
Brian Cloughley
Keith Cooper
Geoff Copps
Neil Craig
Anders Crofoot
Grant Cuff
Andrew Curtis
Jason Dale
Tony De Farias
Michael Dunbier
Charles Eason
Tony Egan
Connor English
Richard Fitzgerald
Eoin Garden
Howie Gardner
Colin Glass
George Gould
Prof Hamish Gow
David Graham
Jeff Grant
Richard Green
Craig Greenlees
Philip Gregan

Jim Grennell
Hon. Nathan Guy
Mark Harris
Sir Graeme Harrison
John Harrison
Angus Haslett
Mark Heer
Simon Hegarty
David Hemara
Peter Hampton
Andrew Hill
Brendan Hoare
Julie Hood
Gary Hooper
Traci Houppapa
Collier Isaacs
Mark Jeffries
David Jones
Chris Kelly
Max Kennedy
Natasha King
Barbara Kuriger
Peter Landon-Lane
Terry Lee
John Loughlin
Hon. John Luxton
Bob Major
Mike Manning
Laurie Margrain
Jeanette Maxwell
William McCook
Tony McCormick
Paul McGilvary
Bill McLeod
Champak Mehta
Dean Nikora
Paul O'Brien
Hon. Damien O'Connor
Warren Parker
Brian Patchett
Alison Paterson
Mike Petersen
Pier Pilkington

Owen Poole
Nick Pyke
Tim Ritchie
Sam Robinson
William Rolleston
Grant Rowan
Prof. Jacqueline Rowarth
Ben Russell
Jim Scotland
Jen Scoular
Peter Silcock
Prof Nicola Shadbolt
Haylon Smith
Michael Spaans
Graham Stuart
Murray Taggart
Jon Tanner
Geoff Taylor
Jo Thompson
Nadine Tunley
Herstall Ulrich
Ross Verry
Sir James Wallace
John Waller
Mark Ward
Andrew Warren
Donovan Wearing
Richard Wild
Murray Willocks
Bruce Wills
Stuart Wright
Richard Wyeth

HELPING THE SECTOR PROSPER

NEW ZEALAND CAN AND SHOULD BE ACHIEVING MORE WITH THE TALENT, KNOWLEDGE, NATURAL RESOURCES AND MARKET REPUTATION THE GENERATIONS BEFORE US HAVE BUILT.

We love agribusiness, and take great pride in how our roles as independent advisors, thought leaders, strategists and, in some cases, farm owners helps fuel prosperity for our great country.

Download copies of previous Agribusiness Agendas, published since 2010. www.kpmg.com/nz/agribusiness



5

PAN-INDUSTRY REPORTS



193

WEEKLY EDITIONS OF FIELDNOTES

FIELDNOTES.CO.NZ

KPMG CAN HELP YOU WITH:

- » Volatility in earnings due to exchange rates and commodity prices
- » Availability of capital, particularly in co-operative organisation structures
- » Addressing customs and quota issues and maximising the benefit of FTAs
- » Issues arising from climate change regulations, carbon trading and food miles
- » Obtaining R&D funding to support innovation in genetics, seed technology and nutrition
- » Cost management and control
- » Farming for profit
- » Valuation of brands on a local and international basis
- » Acquisition and transaction support to encourage growth in local and overseas markets
- » Advice on control and governance structures for all sizes of business
- » Mentoring and support for growing your business
- » Negotiating financing arrangements
- » Succession planning and future proofing your business strategy

Contact us

Auckland – Audit

Ian Proudfoot

T: +64 (9) 367 5882

M: +64 (21) 656 815

E: iproudfoot@kpmg.co.nz

Auckland – Financial Advisory Services

Gary Ivory

T: +64 (9) 367 5943

M: +64 (21) 932 890

E: givory@kpmg.co.nz

Auckland – Sustainability Services

Jamie Sinclair

T: +64 (9) 363 3460

M: +64 (21) 475 735

E: jpsinclair@kpmg.co.nz

Hamilton – Tax

Rob Braithwaite

T: +64 (7) 858 6517

M: +64 (21) 586 517

E: rbraithwaite@kpmg.co.nz

Hamilton – Farm Enterprise Group

Hamish McDonald

T: +64 (7) 858 6519

M: +64 (21) 586 519

E: hamishmcdonald@kpmg.co.nz

Hamilton – Farm Enterprise

Julia Jones

T: +64 (7) 858 6553

M: +64 (27) 524 8901

E: juliajones1@kpmg.co.nz

Tauranga

Robert Lee

T: +64 (7) 571 1773

M: +64 (25) 511 035

E: relee@kpmg.co.nz

Tauranga

Glenn Keaney

T: +64 (7) 571 1784

M: +64 (27) 288 7555

E: gkeaney@kpmg.co.nz

Wellington

Graeme Edwards

T: +64 (4) 816 4522

M: +64 (27) 296 5050

E: gdwards@kpmg.co.nz

South Island

Andrew Hawkes

T: +64 (3) 353 0093

M: +64 (27) 508 0135

E: ahawkes@kpmg.co.nz

South Island – Audit

Peter Taylor

T: +64 (3) 371 4851

M: +64 (21) 247 2548

E: ptaylor1@kpmg.co.nz

kpmg.com/nz/agribusiness

