



AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network



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20 August 2020 – This week's headlines



Red Meat

[Beef export surge to US \[14 August, Hugh Stringleman, Farmers Weekly\]](#)



Food Marketing

[Chinese influencers sell 70,000 cartons of Kiwi UHT milk in a minute \[17 August, Debrin Foxcroft, Stuff NZ\]](#)



Food Innovation

[Iwi backs high-value molecules harvest \[14 August, Richard Rennie, Farmers Weekly\]](#)

[DryNZ launches pure NZ drinking fruit \[19 August, DryNZ Press Release, Voxy\]](#)



International

[China to stop food waste with legislation, crackdown on eating shows \[13 August, Ji Yuqiao, Global Times\]](#)

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Pricing's part in our 'volume to value' journey

It is everywhere, messaging of New Zealand's 'volume to value' mantra, numerous publications illustrate the criticality of executing on this but there are layers, so which one first, and are there low hanging fruit?

New Zealand's Economic Plan released in 2019 includes this mantra as a pillar, with the vision being "To build a productive, sustainable and inclusive economy" by becoming a more productive nation, within that there is significant thought, effort and investment with agritech, food and beverage industries explicitly stated in the transformation plans.

Observations are that the conversation around 'volume to value' typically include *attributes or formats of products, brand or origin or story*, but one area not often discussed is *pricing* and the associated strategies with it.

It often feels like we look to export statistics and when there is growth it is automatically attributed to our efforts on 'volume to value', is that right? sometimes... but not always. Often it is not of our doing, it can be attributed to underlying factors because of anomalies in markets, unexpected events, changes in demand profiles because of Covid-19, or in recent years geopolitics?

It is a critical area we need to get right, as ecological limits are being reached, and exceeded, with increased pressure to reduce intensification on natural resources which will also drive our consumer's 'willingness to pay'.

New Zealand largely operates a *cost-plus* pricing model when it comes to our exports, companies are assessing *value-based* models now which is more complex and requires different operating models to achieve it, but essential if we are serious about transitioning to cross border e-commerce (CBEC) options in the wake of the pandemic.

Pricing, and deliberate strategies behind them could be a low hanging fruit?

It's been interesting in recent weeks, questions in conversations with leaders are pushing us to think about 'what' or 'who' we are pricing for, is it to maintain market share, or command more of one when markets eventually rebound? are we discounting unnecessarily? and how do we price appropriately in a crisis while maintaining our integrity and not seen to price gouge and continue to deliver value.

Rafi Mohammed, author of 'The 1% windfall' talks about the concept of 'discounting with dignity' (if necessary), and understanding the next best alternative for customers, to enable us to set a price for the current market that doesn't inhibit our ability to lift pricing rapidly once an event has passed.

It appears that *hero* products in markets are under pressure, and with it, the profitability of some industries with some seeing a shift of value being placed in 'safe and secure' with more 'simplified' products as opposed to 'format', but question is what is the price customers are willing to pay?

Analysts have calculated that a 1% increase on price, if demand remains constant, has on average an increase on operating profit by 8.7%.

Covid-19 brings the opportunity to accelerate New Zealand's ability to capture premiums, perhaps early success can be achieved by assessing our pricing models and strategies.

Do we really need to discount, or do we need to check our underlying assumptions? If we do... do we set conditions and ask, "*if you, then I*", meaning if *you* need "*a*" price, then *I* need "*something important to my business*".

It is key to know what influences a customer's confidence when buying, as these are often not based on the overall economy, they are industry nuances and knowing what customers are saying about our pricing.

Bill Gates said, "don't compare yourself with anyone else in this world, if you do so, you're insulting yourself", that is at an individual level, but do we insult ourselves by comparing our pricing with other markets as opposed to establishing what is right for us?

Andrew Watene

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Agribusiness

[Govt mulling additional air freight support](#) [14 August, Farmers Weekly] Airlines have cut the number of operating aircrafts and the flying routes by 90% due to the Covid-19 pandemic. As exporters of meat and perishable fruit are facing flights shortage and soaring high costs to supply key markets, the Government may extend funding support for air freight to address the challenges. Transport Minister Phil Twyford says the Government is looking to extend the International Airfreight Capacity Scheme, which is supporting 70 flights a week in August.

[COVID-19: Let the small guys stay open — Feds](#) [14 August, Rural News] Industry lobby Federated Farmers calls for the Government to allow butcher and small fresh food sellers to operate under all Covid-19 alert levels. Feds president Andrew Hoggard believes "it's safer, fairer and better for small communities trying to buy local". Fresh fruit and vegetables are sold mainly through large supermarket chains and independent retailers, at a market share of approx. 80% and 20% respectively; whereas in Auckland independent retailers represent 60% of it. Additionally, independent retailers become essential for rural communities where supermarket chains aren't readily available.

[PGW battled through lockdown](#) [18 August, Farmers Weekly] Major listed rural servicing company PGG Wrightson suffered a net loss of \$4.9m in the first half of 2020 due to Covid-19 challenges. "Real estate, water, wool and sale yards were effectively unable to operate for the duration of the lockdown," chair Rodger Finlay said. The company's revenue dropped \$10m to \$788m in the 2020 financial year. It has decided not to declare a final dividend considering the pandemic and not are prepared to make a guidance for the current year.



Animal Welfare

[TB strain linked to feral pigs](#) [17 August, Farmers Weekly] The bovine TB infecting Hawke's Bay cattle was found linking to feral pigs in the Waipunga area off the Napier Taupo Highway. Ospri arranged meetings for farmers in Hawke's Bay to provide updates on the TB control operation in the region, and confirmed the spread is not coming through livestock movement but wildlife. Ospri has consent to begin pest control on the Trust's land but challenged by beneficial owner(s), with an injunction having been placed in the Maori Land Court. Ospri encourages those affected to read the proposed consultation plan and invites submission on its TBfree possum control aerial operations for 2021.



Dairy

[DairyNZ: Nominations open to join DairyNZ board of directors](#) [13 August, the Country] Industry body DairyNZ is inviting dairy farmers with an interest in shaping the future of NZ's dairy sector to apply for two director roles. DairyNZ board member Peter Schuyt says the board is responsible for setting and monitoring the delivery of the strategy which guides future research investments. Appointments to DairyNZ's board of directors apply for three years, with directors retiring by rotation. Both the board and the directors' remuneration committee roles are open to current levy paying dairy farmers. Visit dairynz.co.nz/agm for more about the roles.

[Dairy prices slump](#) [19 August, Dairy News] The latest Global Dairy Trade auction saw the third consecutive drop in GDT price index by 1.7%. Whole milk powder price sitting at US\$2936/metric tonne, down 2.2% and is for the first time since February below US\$3000/metric tonne.

[A2 Milk's annual profit increases 34 per cent to \\$386 million](#) [19 August, Stuff NZ] The A2 Milk Company released positive performance results for the year to June 30, with a 34% increase in profit after tax to \$386 million and a 33% increase in revenue to \$1.73 billion compared with the previous year. The company also benefited from people spending more on groceries due to Covid-19 lockdowns, according to A2 Asia/Pacific chief executive Peter Nathan, "We estimate that Covid-19 had a modest positive impact on revenue and earnings for the year. Additionally, our business was favourably impacted by foreign exchange movements."



Environment & Emissions

[Horizons Regional Council's biodiversity spend to become contestable](#) [15 August, the Country] To ensure the best use of limited money, Horizons Regional Council will make the biodiversity funding more contestable with councillors to decide the receivers against a list of criteria. Whanganui councillor Nicola Patrick will lead the committee and she expects a way of allocation that inspires outside organisations to contribute.

[Havelock North mushroom company gets \\$19.5m government loan to address odours and build new plant](#) [18 August, Stuff NZ] Havelock North residents have complained about odours from the Te Mata Mushroom company's plants for years. Now receiving a \$19.5 million government loan, the company's Havelock North site will upgrade its composting facility and expand growing facilities to address the odour issue for residents. Infrastructure Minister Shane Jones said the loan would "help create the largest mushroom production centre in the North Island and sustainable fulltime employment for more than 200 people".

[Agriculture is not the villain](#) [17 August, Farmers Weekly] Research overseen by Dr Frank Mitloehner and Dr Myles Allen shows that livestock-related greenhouse gases are distinctively different and significantly less harmful to the environment than that associated with other sectors. It was explained that methane from livestock has a shorter lifespan of 10 years compared to other climate pollutants, and the world often overlooked that forestry and agriculture sectors also "serve as a sink for greenhouse gases". Dr Mitloehner believes it should be publicised that the role that farmers are playing now makes significant reduction to their environmental footprint.



Food Innovation

[Iwi backs high-value molecules harvest](#) [14 August, Farmers Weekly] Te Wahi Ao, a subsidiary of kiwifruit company Te Awanui Global Pak, has partnered with Waikato-based biotech company Ligar to start harvesting bio-actives for nutraceuticals from the company's kiwifruit and avocado waste streams. Ligar chief executive Nigel Slaughter says their technology has enabled a broader range with nutraceutical properties to be extracted, developed and commercialized. The businesses aim to construct a refinery in Bay of Plenty capable of using kiwifruit and avocado waste streams, with supply buoyed by Seeka.

[DryNZ launches pure NZ drinking fruit](#) [19 August, Voxy] DryNZ, a company that also owns premium tea brand Ti Ora is launching a premium New Zealand drinking fruit sachet product to the domestic and Chinese market. Marketed as a mix for hot health beverage's, the sachets can also be used to enhance the nutrition of other foods such as yoghurt and ice cream. The product involves the drying and up-selling lower quality fruit, reducing transport footprint due to the dehydrated weight and with plans to be sold via WeChat in China.



Food Marketing

[Chinese influencers sell 70,000 cartons of Kiwi UHT milk in a minute](#) [17 August, Stuff NZ] Milk New Zealand, a Chinese-owned company has sold over 70,000 cartons of specialised protein UHT in one minute using a single influencer on the WeChat platform. The sales volume is the equivalent of 28 shipping containers, and Milk New Zealand product general manager Roy van den Hurk believes the sophistication of social media in addition to a Chinese market for milk products that will continue to grow presents great growth opportunities.

[Food Guides Showcase Unique Taste of Northland](#) [19 August, Scoop] the non-for-profit collective Eat New Zealand is selecting 30 food guides (Kaitaki) from around New Zealand to promote New Zealand's food stories both domestically and internationally. Five Northlanders have been announced as part of the food guide network in an initiative planned to run for 12 months.



Fisheries

[Closure of Sanford's Tauranga fish processing plant goes ahead, with 66 job losses](#) [17 August, the Country] Sanford Limit confirmed the closure decision on its Tauranga fish processing plant after the company held meetings with affected staff today. 2 key reasons for the decision are that Covid-19 pandemic hit fish processing arrangements and concerning long-term viability of the site showed in seismic engineering reports. Sanford's CEO Volker Kuntzsch said the company would retain some staff to continue working at the Tauranga site under the proposed arrangements.



Horticulture

[Thirty-three avocado trees stolen from Bay of Plenty property](#) [14 August, the Country] In Tauranga, Chris Booth found that 33 of the 52 newly planted avocado trees were ripped by thieves from his family's Sapphire Drive property. The owner had expected to sell and share some of the produce to the local community this summer. Mr Booth estimated the financial lost to be about \$1500. He has informed others living in the area to be vigilant and to add extra security measures.

[Auckland checkpoints could impact flow of produce, Pukekohe growers warn](#) [17 August, One News]

Long waits at Auckland Covid-19 checkpoints are making it difficult for Pukekohe growers moving between level 3 and level 2 restriction zones to complete essential work such as harvesting crops and delivering supply, as the vegetable production area is close to Auckland-Waikato border with some market gardens in both regions. The Ministry for Primary Industries said travel exemptions granted by the Ministry of Health for key workers involved in dairy processing and horticulture production and distribution should help to smooth the process.



International

[China to stop food waste with legislation, crackdown on eating shows](#) [13 August, Global Times] In an effort to reduce food waste and increase the perceived value of food, legislation and new video streaming rules are being implemented. A spokesperson from popular video platform Douyin stated that when users search specific topics such as "eating show" or "competitive eater", the user will be informed to value food.

[Restaurant chain in China apologizes for weighing diners to determine how much food they should eat](#) [17 August, CNN] After weighing diners upon arrival to their premises in order to suggest food items, a Southern China restaurant chain has issued an apology. The Hunan chain 'Chuiyan Fried Beef' had initiated the new protocol as part of China's national campaign to reduce food waste

[U.S. Patents Granted for Azotic Nitrogen-Fixing Technology](#) [17 August, AgriBusiness Global] Global ag-tech company Azotic Technologies has announced two new U.S. patents related to their Envita branded products which use natural nitrogen fixing technology. The food-grade microbe enables crops such as corn to fix their own nitrogen from the air, and Azotic now look to expand their product sales which are already occurring across the U.S.

[China targets Australian wine with anti-dumping investigation](#) [18 August, Financial Times] An anti-dumping inquiry has been launched by China investigating any damage to the Chinese wine industry from 2015 to 2019. After diplomatic relations began deteriorating from Australia's call for an independent Covid-19 enquiry into the Wuhan, China outbreak, the investigation of up to AUD\$1.1b of annual wine exports to China follows new duties on barley and import suspensions on Australian abattoirs earlier in the year.



Policy & Regulation

[DairyNZ releases election wishlist](#) [18 August, Farmers Weekly] Based on survey feedback with 248 dairy farmers in July, DairyNZ released top 10 policy priorities for the upcoming election focusing on science investment, future-proofing dairying and environmental policies. Key trends revealed from the survey include challenges with mental health, technology and government regulation.



Pork

[Vet says kiwi farmers rate well on pig welfare](#) [17 August, the Country]

North Canterbury-based specialist pig vet Bruce Welch believes New Zealand pig farmers rate well on animal welfare. The pork industry now has about 61% of meat imported and very little exported. "The vast majority of the pork imported into New Zealand comes from farms that don't meet our animal welfare requirements, our environmental requirements or our labour regulations, all of which help reduce their production costs lower than ours." Mr Welch said.



Red Meat

[Red meat demand unstable](#) [14 August, Farmers Weekly] Global uncertainty due to Covid-19 has put red meat prices under pressure, with generally weak demand from world markets and tentative signs of improving demand from China. Alliance Group sales manager Shane Kingston says unfavourable factors for the coming season include the global decline in food service, weaker demand for pelts and growing competition from South American beef producers.

[PULSE: Low Australian beef production](#) [14 August, Farmers Weekly] Australian Eastern states cattle slaughter had a 20% decline in July compared to same month last year, as good weather and improved feed made farmers retain stock. This reduction was reflected in Australian beef exports, which fell by 23% year-on-year in July to 88,786 tonnes. Export volume to China has largely reduced due to combined reasons such as increasing rate of Covid-19, generally lower demand and higher tariffs.

Beef export surge to US [14 August, Farmers Weekly] As China's imports of NZ beef for June and July decreased by 40% year-on-year, shipments to US increased 80% and 90% respectively. AgriHQ senior analyst Mel Croad stated that "When the US prices were high, Chinese importers didn't compete and it remains to be seen if that market demand comes back to its previous level".



Wool

[Woolen mask sales spike](#) [14 August, Farmers Weekly]

As a second wave of covid-19 threatens NZ and the Government considers mandating the compulsory wearing of face masks, suppliers and manufacturers are challenged to meet the surging demand. True Fleece Merino NZ owner Carl Uren said covid-19 has created a big wave to 100% NZ-made and helped the business to pivot. Campaign for Wool chair Tom O'Sullivan said despite the covid-19 situation, the woollen masks are an example of industry innovation that is good for growers, businesses, and the overall wellbeing and health of NZ.

Organisations referenced in this week's Field Notes include

AgriHQ

Alliance Group

Azotic Technologies

Campaign for Wool

Chuiyan Fried Beef

DairyNZ

DryNZ

Eat New Zealand

Federated Farmers

Global Dairy Trade

Horizons Regional Council

Ligar

Milk New Zealand

Ospri

PGG Wrightson

Sanford Limit

Te Mata Mushroom Holding

Ltd

Te Wahi Ao, Te Awanui Global

Pak

The A2 Milk Company

Transport Minister

True Fleece Merino NZ

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