



AGRIBUSINESS

# Field Notes

Weekly news update from the KPMG Agribusiness network



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Agenda 2020**

**17 September 2020** – This week's headlines



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## “Parable to a boiling frog”

You ever heard of a wooley pig? not many have or know about the “Mangalica”.

It is a unique breed in Hungary, rare, endangered, exceedingly limited in supply, with an estimated annual kill of 60,000/year which for context is 0.0005% of the annual kill of the U.S. alone, let alone the world.

It is a protected species and certified as a national treasure by the Hungarian government with the nation protecting and controlling production, not to short the market, but to maintain integrity of their systems.

There are many breeds of pigs, such as Berkshire, Duroc, Iberico etc. “Mangalica” is one of them. Once you see the pig, it is unforgettable because of its hairy and cute form which reminds you of a sheep, hence it’s referred to as a ‘wooley pig’. It is a rare breed, not often found in primary format on supermarket shelves, as it is often combined with another national treasure ‘paprika’ to form value-added products such as salami, essentially combining two national treasures to make a new one.

It was during a review of our procurement model that an input cost stood out as an anomaly, roughly three times that of others, when queried, our team described the story above... the issue with that is we were manufacturing Chashu, and appeared we are commoditising a treasure!?

It didn’t raise enough of question for us to act, it was low volume, and the perception was that we had ‘cornered’ supply out of a market over our competitors, so it was deemed ‘acceptable’.

Beautiful as it is, Chashu is essentially a more expensive commodity, so costs count, and we were selling to a highly competitive fast-casual restaurant market segment.

It led us to analyse the product, it’s origin, the story, format, cost and supply as it was different to products in our existing product portfolio and required experience outside our existing resources and capability. Clearly, it meant entering a new market segment, question was ‘how’, and if it was a segment in which we could ‘compete’?

In the end we secured ‘tasting sessions’ with two of the best high-end restaurants in Singapore. 30 minutes, with Chefs who innately know ‘quality’ from ‘mundane’, and usually had little patience, a tough audience!

It was clear our approach to fast casual wasn’t going to cut it, so the decision was made to shingle pack bellies into a blank brand, which we would do a blind taste test on the spot against a ‘Landrace’ breed... change it up, to pique interest?!

It was led with an orchestrated story of the “Mangalica” and we asked each Chef to cook their way, and tell us which one it was... high risk, but potentially better result, and little to lose from our perspective as it wasn’t a segment we were clear we could ‘compete’.

It turned out each Chef picked the "Mangalica" immediately, attributes of the product withstood their stringent tests, and moved us to the next step of how to effectively price, and negotiate for a segment which wasn't clear, at least for us.

It was then, we realised as a team, the time, thought and preparation for these meetings helped us immensely. By doing that, we anticipated the power play of becoming a new supplier 'if you expect to supply us, we expect exclusivity on the brand, terms of 180 days etc.' Our uncouth response of 'we are not sure you are able to effectively manage, and use, the entire animal in a way which maintains the value we expect' ended up levelling the playing field, lifting us out of being just another supplier.

It led us to being able to ask open ended questions, understand their strengths, with specific products, ending in us offering them exclusive supply of those products, and selling others within the product range elsewhere, while reducing our risk.

It helped understand other pain points we could solve as a total solution, further increasing our value proposition.

It turned out delivery times and volumes were always a challenge for them, solving these would help lower inventory, increase space, and improve cashflow. It forced us to consider new operating models to meet these needs and move us into the area of pricing in a more positive position than we otherwise would have.

It enabled us to understand drivers of value, their effect on pricing, to create a more sophisticated and effective way to realise value.

In this example, a key change was the 'final mile' delivery mode to 'moped', circumventing slower options of truck or car, which increased our operating cost but negligible when you consider we managed to increase our sales price by a factor of 4.

Pricing has its critical place, but before that, it is getting clear about 'where to play' and 'what is valued' so you adapt an operating model to position a solution by understanding 'how to win'.

It enables a better conversation on pricing, as mentioned in an earlier article of 'if you, then I'.

It's 'parable to a boiling frog', if you aren't aware of the danger you are in within a market segment, you end up being boiled, and dying in a market where others succeed.

Ngā mihi, nā,

Andrew Watene  
Ngāi Tūhoe

### **Andrew Watene**

Associate Director - Food, Agribusiness and Export Lead  
KPMG Auckland



## Agribusiness Education

['Meat Industry Association hosts scholars for Wellington event'](#) [10 September, Voxy]

The Meat Industry Association (MIA) offers several undergraduate and post-graduate scholarships every year, to encourage young people to explore career opportunities that the meat industry can offer. Eleven students from across the country visited Wellington on September 8 and heard from speakers on a range of industry topics including trade, food safety, nutrition, science and engineering.



## Alternative Proteins

[Gen Z not ready to eat lab-grown meat: study](#) [09 September, Food Navigator]

University of Sydney and Curin University surveyed 227 Australian consumers aged 18-25, which shows 72% of the respondents were not ready to accept lab-grown meat alternative but 41% viewed it as a viable nutritional source for the transition to more sustainable food option and improving animal welfare. Many of the Gen Z consumers are wary of whether cultured meat is more environmentally sustainable and need to be educated about it, according to the researchers.



## Animal Welfare

[Health of future cows will boost resilience](#) [15 September, Farmers Weekly]

Breeding company LIC has taken part in a 7-year study that aims to produce cows with improved health, wellbeing and environmental

resilience. According to the LIC dairy geneticist Dr Richard Spelman, the company's work to develop climate smart cow of future will have a significant focus on welfare and health, which in turn will help deliver a more reliant and robust animal to cope with challenges imposed by the climate warming.



## Arable

[Hybrid forage project under way](#) [10 September, Farmers Weekly]

While pastoral production is challenged by the increasing frequency of drought across the country, AgResearch's Dr Jim Crush and his team at Ruakura is working on the development of future-proofed clover hybrid and grass types that are more resistant to longer drier conditions. Some varieties are looked at for early commercialisation, and farmers can expect the first commercially available results of the team's white clover hybrid efforts in five years' time.



## Dairy

[Fonterra should be back in black](#) [10 September, Farmers Weekly]

Fonterra Co-operative Group is expected to declare a return to profitability and a modest dividend on supply shares and investment units in its 2020 financial results on September 18, which would mark its return to financial health after two years of loss. "Based on the first nine months we expect our full year underlying earnings to be at the top end of the 15-25c range," said Fonterra chief executive officer Miles Hurrell in May.

[RFG to sell Dairy Country to Fonterra for \\$19m](#) [11 September, Business News Australia]

Retail Food Group (RFG) has agreed to sell its Victorian cheese business Dairy Country to Fonterra Co-operative Group (FCG) for \$19.23 million, which is still subject to Foreign Investment Review Board approval. RFG executive chairman Peter George said Dairy Country was not aligned with the core business following its FY20 restructure, although it had been a reliable contribution to the Group's earnings.



## Environment & Emissions

['World-leading' salmon farming standards needed for forestry in Marlborough Sounds](#) [11 September, Stuff NZ]

Steve Ulrich reviewed forestry regulation in the Marlborough Sounds and identified opportunities for improvement in his paper published in the NZ Journal of Forestry. Mr Ulrich stated the Marlborough District Council failed to address the environmental degradation over many decades. A collaborative development of seabed and water column environmental standards and monitoring for forestry in the Sounds and the Pelorus/Te Hoiere catchment is now under way.



## Food Innovation

[Collaboration aims to foster innovation](#) [10 September, Farmers Weekly]

The research network FoodHQ and the Lincoln University business unit B.linc have formed a new partnership to encourage innovation in the primary sector across the country. FoodHQ chief executive Abby Thompson says the collaboration will strengthen the 'whole of value' chain of food to ensure NZ's future success, by bringing together FoodHQ's connection to the food value chain and B.linc's on-farm networks.

[The key to Coca-Cola's innovation success: balance agility, discipline & consumer, customer needs](#) [15 September, Food Navigator]

The Coca-Cola Co. CEO James Quincey said the company needs both discipline and agility to drive the learning cycle for success, based on its experiences on several high-profile innovations launched, tweaked and re-launched in the past three years. Mr Quincey also stressed that innovation must offer value to business partners besides benefiting consumers.

[Ara Included in New CoVE To Deliver Excellence In Food And Fibre Sectors](#) [16 September, Scoop NZ]

The new Food and Fibre Centre of Vocational Excellence (CoVE) was announced on September 3rd, as part of NZIST's strategy to match the industry needs with education, training for employment and entrepreneurship within New Zealand's primary sector. The collaboration involves 54 organisations including Ara Institute of Canterbury Ltd and other education providers, as well as industry associations, Māori, employers, employees, and standard-setting bodies with a wide range of expertise spanning across the entire food and fibre sector.



## Fisheries

[Trout farm proposal threatens \\$1 billion trout sport fisheries, anglers say](#) [10 September, Stuff]

The Federation of Freshwater Anglers disagree with Primary Production Select Committee's consideration on commercialising trout farming, which is banned under the Conservation Act and Fisheries Act. Ecologist and the Federation secretary Rex Gibson says the trout industry attracts international tourists and domestic sports fishers which was worth over \$1 billion a year, and it would be threatened by commercial trout farms.

[Failed four-year scallop ban in Marlborough shows fishing not the problem, iwi says](#) [14 September, Stuff NZ]

Due to continued decline of scallop numbers, the Marlborough Sounds southern scallop fishery has been closed since 2016. Ngāti Tama trustee and Southern Scallop Working Group member Fred Te Miha said iwi had voluntarily stopped issuing permits for four years to reserve the habitat for sustainable fishery, but it turned out not helpful to restore the population. It is hoped to find other reasons than fishing for the low numbers of scallops through surveys. Preparation and research are being planned for resuming the fishery.



## Horticulture

[How researchers are putting the future avocado apocalypse on ice](#) [10 September, NZ Herald]

University of Queensland PhD student Chris O'Brien has developed the first critical steps of an avocado cryopreservation protocol, which has successfully revived cryopreserved avocado shoot tips to create healthy plants. "The aim is to preserve important avocado cultivars and key genetic traits from possible destruction by threats like bushfires, pests and disease such as laurel wilt – a fungus which has the capacity to wipe out all the avocado germplasm in Florida," O'Brien said.

['This just cannot happen': \\$9.5 billion at risk as horticulture sector struggles to fill \\$25-an-hour jobs](#) [12 September, Stuff NZ]

The shortage of horticultural workers due to the covid-19 border restriction is putting the sector at risk, and the Hawke's Bay alone will need around 10,000 seasonal workers starting from next month, according to NZ Apples and Pears chief executive Alan Pollard. Solutions being considered were to attract unemployed Kiwis and students for the summer break, and to use workers from corrections facilities on day release.

[Kiwifruit sector urged to ramp up capital planning](#) [14 September, Rural News]

A new report by Rabobank says global demand for Zespri kiwifruit is anticipated to rise to 300 million trays by 2028, which would require NZ production of kiwifruit to have a 46% increase on 2019 volumes over this period to meet the jump in demand. The report author, Rabobank senior horticultural analyst Hayden Higgins believes Zespri will need both bank debt and shareholder equity to fund the new infrastructure for expanding production, with expected capital expenditure between \$700m and \$750m.

[Worker shortage sees fruit bowl of NZ facing the prospect of rotting away](#) [15 September, One News]

Regions that rely on foreign labour could have severe labour shortages due to the border restrictions. Hawke's Bay is facing a deficit of 10,000 workers for the fast-approaching harvest season, and may risk the fruits rotting away. Apples and pears are worth over \$700m to the region's GDP and 8000 full time jobs. The Apples and Pears NZ's Gary Jones said more clarity is needed for the industry to prepare and invest for the harvest work.



## International

[Sourcing Soy in Brazil's Cerrado: Can Farmers and Forests Coexist?](#) [31 August, Food Navigator]

Cargill, a soy supplier in Brazil, is committed to environmentally responsible sourcing with significant long-term investments being made. The company believes that farmers and forests can coexist in a mutually beneficial manner. Cargill has partnered with local organisations to develop sustainable and economically viable agricultural solutions for farmers, and has made continuous effort to tackle deforestation in its supply chains.

[African Swine Fever hits Germany: What does it mean for the European pork sector?](#) [10 September, Food Navigator]

German agriculture minister Julia Klöckner has confirmed Germany's first case of African Swine Fever, a disease transmitted to pigs and wild boar with no cure currently available, found in Brandenburg. As Europe's largest pork producer, German pork exports and the market would be under disruption with downward pressure on prices. It is hoped to implement 'regionalisation principles' as a containment strategy which would restrict trade in pork meat from the affected area rather than the whole of the country.

[Yili tops Brand Finance list of world's most valuable dairy brands](#) [10 September, Food Navigator]

According to the latest Brand Finance Food & Drink 2020 report, Chinese dairy brand Yili had a 13% growth in brand value to USD \$8.6 billion as compared to 1 January 2020. Yili has now overtaken Danon to top the list of world's most valuable dairy brands, also claiming the second position in the overall Food 50 ranking for the year.

[Climate change is making our food less safe: FAO](#) [11 September, Food Navigator]

Climate change may increase the risk of consumer exposure to some contaminants through food including chemical pollutants and microbiological hazards, according to a recent document published by the UN's Food and Agriculture Organisation (FAO) *Climate change: Unpacking the burden on food safety*. The FAO experts stressed on the food security risks imposed by climate change, and called for further action to prepare supply chains and regulatory systems for it.

[Pringles tube tries to wake from 'recycling nightmare'](#) [11 September, Food Navigator]

Pringles is re-designing its distinctive packaging tube after being criticized for almost impossible to recycle its complex combination of materials, including metal, plastic and foil-lined cardboard. The maker Kellogg's is now trialling a simpler can, however, the Recycling Association's Simon Ellin says it is an improvement but not a full solution.

[Balancing health with price: six ways food and beverage innovation is evolving in the COVID-19 era](#) [14 September, Food Navigator]

The food and ingredients giant ADM has identified six emerging behavioral changes to drive innovation and growth for food and beverage companies, these are: more focus on gut health and immune function connection; plant-based trend becoming mainstream; concerns around weight management and metabolic health; new opportunities for comfort foods; customised approach to nutrition; and a polarisation in shopping values that is defined through health and price.

[Fatphobia: Are UK policies contributing to weight bias and obesity stigma?](#) [15 September, Food Navigator]

Obesity in the UK has received high regulatory attention lately, but is challenging to manage due to its multitude of factors including food, activity, environment and genetics etc. It was found that weight bias and stigma are common in the UK, with survey results showing more than half of the adults with obesity felt discriminated against. The Department of Health and Social Care's Jenny Oldroyd said it's important to ensure the Government's policies do not contribute to such stigma.

[‘A better way to connect producers and customers’: Farmdrop sees ‘skyrocketing’ demand, eyes expansion](#) [15 September, Food Navigator]

UK-based online grocer Farmdrop has experienced surging demand during the covid-19 lockdown, which the company believes it benefited from the unique business model and digital technology that directly connected exceptional producers to their customers. “Farmdrop has built its own supply chain technology that enables the local farmers we work with to see real-time orders and harvest daily for maximum freshness,” said marketing head Damian Hind.



## Policy & Regulation

[Hemp could be billion-dollar industry if rules change](#) [14 September, Farmers Weekly]

NZ Hemp Industries Association Inc commissioned a report to inform investors and politicians about the opportunity that hemp can provide to NZ’s post-covid economy. The report believes hemp could be a \$2b worth export crop and supply 20,000 jobs by 2030, given the current regulations are reformed to enable the manufacture, sale, import and export of non-medicine hemp products containing cannabidiol parts.



## Red Meat

[Work together, industry told](#) [11 September, Farmers Weekly]

New Zealand Roundtable for Sustainable Beef was formed late last year to bring beef industry stakeholders together to position NZ as a leading producer of beef that is safe, sustainable, socially responsible and economically viable. A pilot programme conducted by NZRSB for verifying sustainable beef was proof that it can potentially improve NZ’s standing on the world stage, said NZRSB chair Grant Bunting.



## Research & Development

[New grass produces sweet results](#) [10 September, Rural News]

Scientists have found a new high sugar grass, AberGreen AR1, that has up to 5.5% higher digestibility levels than conventional varieties. Seed company Germinal NZ says the new grass offers the potential for dairy cows, beef cattle and lambs to significantly improve milk or meat production, as well as reducing farmer’s environmental footprint.

[NZ-Spanish collaboration produces a ‘green’ red apple](#) [14 September, Rural News]

Plant & Food Research scientists, collaborating with Spanish researchers, have developed a variety of apple that would thrive in hot summer climates, by selecting the best plant material from both Spain and NZ for cross breeding. The current project head in NZ Dr Richard Volz said the new hot climate breed is a fully red apple, very sweet, juicy and has a moderately firm but crispy texture, and it looks very promising.



## Rural Communities

[Fonterra ends school milk programme to grow Kickstart Breakfast programme](#) [15 September, Stuff NZ]

Ending its school milk programme at the end of the year, Fonterra Co-operative Group is partnering with Sanitarium and the Ministry for Social Development to expand the Kickstart Breakfast programme to provide meals to more schools of all ages and deciles. Fonterra chief executive Miles Hurrell said the changes were to be a more holistic approach to reach more people, and was motivated by the needs by many food banks and charities during the lockdown.



## Viticulture

[Delving into waste yields sweet results](#) [09 September, Rural News]

Waste management and reduction should be prioritised for the Sustainable Winegrowing New Zealand Sustainability (SWNZ), said Sustainability Guardians Programme co-ordinator Bridget Ennals. The group was formed under the SWNZ Continuous Improvement programme and now has 20-30 companies involved to tackle winery waste. Ms Ennals said assessing waste streams helped identify opportunities to improve purchasing, recycling and reusing to reduce reliance on landfill.



## Trade & Exports

[Live cattle exports in limbo](#) [15 September, Rural News]

Due to an immediate suspension on live animal exports by the Ministry for Primary Industries (MPI) following the sinking of the Gulf Livestock 1, there is uncertainty around the fate of 28,000 cows in quarantine supposedly shipping to China in the coming weeks. MPI is investigating the incident and will not resume live exports until it is completed.

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## Organisations referenced in this week's Field Notes include

ADM

Ara Institute of Canterbury Ltd

Cargill

Curin University

Dairy Country

Department of Health and Social

Farmdrop

Fonterra Co-operative Group

Food and Fibre Centre of Vocational Excellence

Kellogg's

LIC

Ministry for Primary Industries

New Zealand Apples and Pears

New Zealand Institute of Skills and Technology

New Zealand Roundtable for Sustainable Beef

NZ Hemp Industries Association Inc

Plant & Food Research

Rabobank

Retail Food Group

Southern Scallop Working Group

Sustainable Winegrowing New Zealand

The Coca-Cola Co.

UN Food and Agriculture Organisation

University of Sydney

Yili Group

Zespri

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## Contact Us

Auckland/Audit

**Ian Proudfoot**

09 367 5882

iproudfoot@kpmg.co.nz

Auckland/Agri-Food

**Jack Keeyes**

09 363 3502

jkeeyes@kpmg.co.nz

Auckland/Agri-Food

**Andrew Watene**

09 367 5969

awatene@kpmg.co.nz

Auckland/Deal Advisory

**Charles Widdicombe**

09 367 5949

cwiddicombe@kpmg.co.nz

Wellington/Management Consulting

**Justine Fitzmaurice**

04 816 4845

jfitzmaurice@kpmg.co.nz

Hamilton/Private Enterprise

**Hamish McDonald**

07 858 6519

hamishmcdonald@kpmg.co.nz

Consultant – South Island

**Genevieve Steven**

03 307 0761

gsteven@kpmg.co.nz

Farm Enterprise – South Island

**Brent Love**

03 683 1871

blove@kpmg.co.nz

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