



Agribusiness Agenda 2016

Volume 1:
Thriving in exhilarating times

KPMG New Zealand

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Growing the next generation of primary sector leaders.



The Experience Centre proposed for the ASB Farm at Mount Albert Grammar School creates the opportunity to educate young people in Auckland about the contribution the primary sector makes to New Zealand, the innovative practices the industry employs and the world class career opportunities that are available in many different disciplines.

The Centre will support the teaching of Agricultural and Horticulture programmes at Mount Albert Grammar School as well as providing an agricultural experience to over 20,000 Auckland school children a year, when fully operational. By engaging our youth we have the potential to embed our most productive industry into the prosperity of New Zealand.

The plans for the centre have advanced, with preliminary designs now complete and consents close to being applied for. There are many opportunities to get involved in the development and we need your help to enable the centre to be up and running for the 2018 school year.

Artist impression drawings above of the new building being constructed at Mt Albert



Foreword

It's been another challenging but successful 12 months for New Zealand's primary sector. While there is still global uncertainty over commodity prices, our producers have continued to innovate, grow and deliver for consumers around the world.

Particular star performers are the beef and horticulture sectors, especially the kiwifruit industry which has had a record year by every measure.

The round-table discussions that take place as part of the *Agribusiness Agenda* are a great opportunity for people to express their views on the challenges and opportunities facing our industry.

It is no surprise that biosecurity is once again the top concern by industry, and it continues to be my number one priority as Minister.

Annual biosecurity funding is now at a record \$223 million. Over the past 12 months, MPI has employed 90 new front-line biosecurity staff, introduced 24 new biosecurity detector dog teams, and installed six new x-ray machines.

Work is well underway on Biosecurity 2025 with public consultation to begin later this year. The aim is to provide a clear direction for the biosecurity system and identify any changes or improvements needed over the next 10 years.

We are determined to tackle TB and \$70 million in new funding has been announced in this year's Budget to achieve this. We're winning the war against this destructive disease and are aiming to eliminate it in livestock by 2026.

The strategic importance of Food Safety is again one of the main priorities uncovered in the survey results. Recently the New Zealand Food Safety Science and Research Centre was launched at Massey University, which reflects the partnership between Government, industry and research institutions to build a strong and internationally credible food safety system.

This year's *KPMG Agribusiness Agenda* highlights a range of other important priorities for the Government such as signing high quality trade agreements, developing irrigation and water storage schemes, and providing market insights to producers.

The signing of the Trans-Pacific Partnership Agreement earlier this year marks a huge step towards securing better market access for our primary products into 11 countries with 800 million consumers.

Investment in irrigation and water storage continues through the Ministry for Primary Industries' (MPI) Irrigation Acceleration Fund. The recent announcement of \$7.85 million into irrigation projects in Canterbury is a great example of a region benefiting from this initiative, alongside other recent progress made in the Wairarapa, Hawke's Bay and Gisborne.

These projects are about unlocking the economic potential of agriculture and horticulture in a sustainable way.

We know that a reliable source of water can be a major boost to jobs and export in the regions. A recent report by NZIER found that irrigation contributes \$2.2 billion to the national economy and this has the potential to increase further.

MPI has also developed an advanced consumer insights capability, aimed at delivering key market insights around consumer preferences and behaviour.

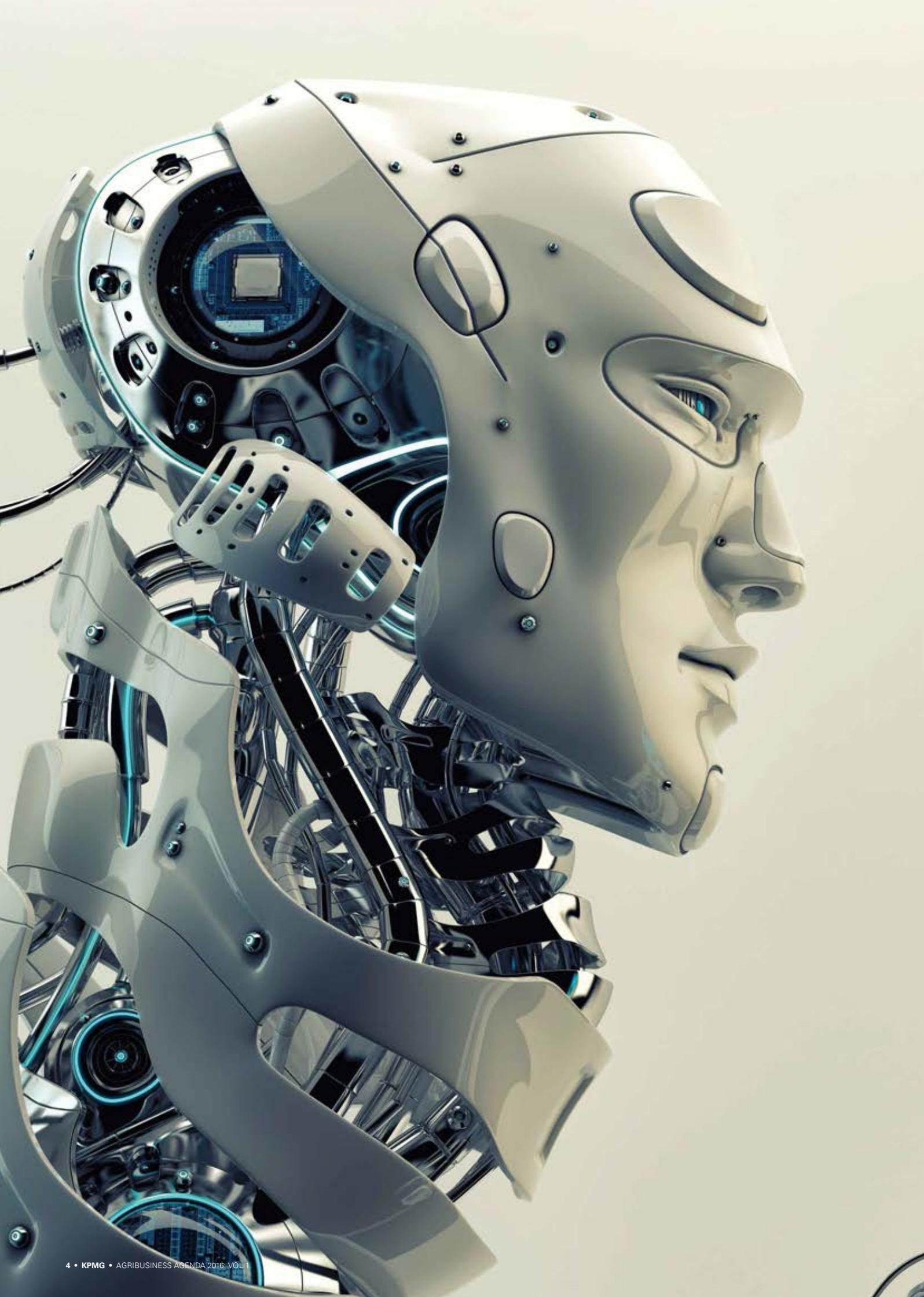
We all know the importance of research and development, which is why the industry and Government are working together through the Primary Growth Partnership. This publication looks at some exciting examples of innovation and new technology in action.

I welcome this year's *KPMG Agribusiness Agenda* which is always essential reading for anyone interested in the primary sector. I look forward to discussing its findings at this year's Fieldays.

Nathan Guy



Hon. Nathan Guy
Minister for Primary Industries
New Zealand



Are you ready to thrive on the opportunities delivered by the Fourth Industrial Revolution?

Two weeks into 2016, the World Economic Forum's annual meeting at Davos suggested this will be the year history remembers as the start of the Fourth Industrial Revolution.

It joins 1784, 1870 and 1969 as years historians consider to mark the start of each of the preceding revolutions; the industrial, technological and digital revolutions.

The declaration of the new era was well-timed for this *Agribusiness Agenda*. We had already decided to focus this *Agenda* on exploring how organisations are recognising and responding to the accelerating pace of change in the global agri-food system. This theme grew out of a question asked at the Agribusiness Leaders Breakfast we host on the first morning of Fieldays each year. The question challenged our panel as to whether organisations in the primary sector needed to integrate emerging technologies seamlessly into their business models as a core node of their organisational DNA.

This question provoked numerous follow-on questions, making it the perfect topic to explore during our conversations with industry leaders this year. This *Agenda* addresses a range of change-related issues. We look at how organisations are connecting to the pace of change; the governance responses that are being adopted; the impact change is having on collaborative business practices; and the effectiveness of New Zealand's innovation system.

The beginning of the Fourth Industrial Revolution highlights that we are moving into a new era of opportunity to grow the wealth and prosperity of all New Zealanders. Our ability to thrive in these exhilarating times and realise the opportunities created will depend on how we respond to the evolving needs of those who consume our food, beverage, fibre and timber products.



Understanding the emerging revolution

As with each preceding revolution, it is expected that the Fourth Industrial Revolution will build on what has come before. This revolution will be characterised by the fusion of physical, digital and biological technologies. The technologies at the core of this revolution were largely the stuff of science fiction a decade ago. They include 3D printing, wearable devices, nanotechnology, unmanned vehicles (both land and sky), robotics, Internet of Things embedded sensors, biotechnologies, augmented intelligence, and more...

The challenges for organisations arise from the speed, scope and impact that such a broad spectrum of new innovation has on all aspects of our personal and professional lives. The resulting technologies are cheap in comparison to those that have gone before. They are also more accessible, to more people across the world, than ever before. These technologies have the potential to transform our society in many positive ways, but could also wreak havoc if they are not used wisely.

Our society has never faced the level of change we will in the next decade or so; and this presents new challenges for governments, communities and business.

For governments, the pace of change and the acceleration towards a borderless marketplace challenges their ability to maintain relevant legislation, protect their revenue base and engage substantively with constituents.

Communities will need to come to terms with major changes in employment practices – particularly the reduced need for the white-collar workers that form the bulk of the traditional middle class – and the impact this will have on distribution of wealth across our society.

The challenge for business is to re-engineer their organisation and its culture to thrive on the opportunities inherent in change; and commit to the investment in innovation required to remain relevant. The challenge of initiating change in primary sector organisations was highlighted in numerous *Agenda* conversations this year. Many organisations are inherently conservative, focused on short-term cash returns, and hampered by a fear of failure that prevents them from taking even moderate risks.

The global community will seek to realise the benefits from the fusion of physical, digital and biological technologies in ways we cannot yet imagine. In order for New Zealand to maintain its standard of living, it is critical that the government, the wider community and business all play their part in shaping the 'new New Zealand'. We came away from our round-table discussions with a strong impression that many business leaders are still seeking the pathway to their future.

Having to run harder just to stand still

One of our contributors talked about a speech they were about to deliver to students in a local high school. The speech was based around a quote from Harvard Business School Professor, John Kotter, who wrote: "Perhaps the greatest challenge business leader's face today is how to stay competitive amid constant turbulence and disruption¹." In the article, which was published in 2012, Professor Kotter acknowledges that leaders and organisations are struggling to keep up with the pace of change – let alone managing to get ahead of it – given the pressures of continuing to maintain their day-to-day business. Many are uncertain of what their future course of action needs to look like.

Professor Kotter suggests that traditional organisational hierarchies, together with the processes and reporting structures that facilitate them, have been developed to deliver business success in steadily evolving markets. He acknowledges that traditional business models are struggling to respond in a world where the speed of change is accelerating to a point where organisations need to constantly respond to disruption on multiple fronts.

During our *Agenda* conversations, it was apparent that organisations are regularly confronting the challenges of disruptive change. It affects how the products they handle are grown, processed, distributed, retailed, consumed and recycled. As one of our leaders noted, the relentless need to change is intellectually and emotionally hard on an organisation. There is little doubt that organisations are having to run faster just to stand still.

Kotter's prescription is for organisations to evolve a separate, more flexible working structure outside of the core of the business. He suggests a network of teams that are able to scale up and down the resources they draw from the business to address issues as they arise. This leaves the traditional business to continue to deliver what it is good at – the day-to-day operations – while targeting the right people on the game-changing opportunities.



¹ Harvard Business Review; The Big Idea: Accelerate! by John P. Kotter; November 2012



It was apparent from our conversations that many organisations are looking to introduce innovation across their business. They recognise that what has delivered them success in the past will not guarantee their future success. Some are taking steps to adopt models that include some of the features suggested by Kotter, including creating units outside of the mainstream business to develop disruptive (even competitive) businesses on a standalone basis.

Industry leaders highlighted the role of information in enabling change. It was suggested that those who can paint a vivid, eloquent picture of what the future will look like – both with and without change – will find it easier to gain the support of governors, people and other stakeholders.

Recognising the resistance to change

The challenge for many leaders appears to be having the time and resources to articulate a sufficiently compelling vision of the future that will engage the more conservative elements of their stakeholder groups and encourage them to commit to joining the journey. It was apparent that many leaders are battling complacency within their stakeholder groups over the extent to which the agri-food sector is likely to evolve in the future.

There are still many experienced industry participants that suggest the commentary around cultured and synthetic foods, alternative proteins, nutraceuticals and local foods is grossly overestimating the impacts these trends will have on the global agri-food system. They argue that people will always need food, and as a consequence, there will always be markets for what we grow. They point to the fact that previous industrial revolutions have bypassed the agrarian sector and question why this revolution will be different.

These arguments assume that despite everything else changing dramatically, the customers that are prepared to pay a premium for our produce will be comfortable to accept more constrained change in respect of New Zealand products than they will expect from other countries. Given our production represents a tiny percentage of the world's food supply it is difficult to conceive that consumers will carve out New Zealand production and provide this with special exemptions to produce to different environmental or ethical standards than they expect from all their other suppliers, unless the product is truly innovative and unique.

It is dangerous to assume that the agri-food system will again be isolated from the revolutionary changes shaping our society and the wider economy, as has been the case with the preceding revolutions. The fourth revolution will leave no aspect of our lives untouched. And given it is centred on the fusion of physical, digital and biological technologies; the agri-food sector will be at the centre of much of the change that occurs. It will reshape how food, beverage, fibre and timber is produced, processed, distributed and consumed around the world. Similarly, it will revolutionise the clothes we wear, the fibres they're manufactured from, and the materials used to build our homes.

This is no time for leaders to give in to their conservative stakeholders, put their heads in the sand, and try to ignore the change that is happening around them. Their only appropriate response to the emerging revolution is action. The question for every organisation, its governors and the wider stakeholder group should be: what action do we need to take today if we want to capitalise on the opportunities change is delivering, to ensure we have a thriving business in the future?

One comment summed up the choice facing many organisations in a single succinct statement. It is worth keeping front-of-mind as you read and ponder this year's *Agribusiness Agenda*:

“To die while you are dreaming is not much fun. It is infinitely better to try and fail than to never try at all.”



Ian Proudfoot

Global Head of Agribusiness
KPMG New Zealand, Report Author

Ian Proudfoot is the Global Head of Agribusiness for KPMG and an Audit Partner based in Auckland. He provides services to clients in a range of sectors including viticulture, horticulture, pastoral agriculture and agricultural support services. He has led KPMG New Zealand's strategic agribusiness initiative since it was launched in 2009, authoring each edition of the *KPMG Agribusiness Agenda* and editing the weekly *Field Notes* publication. In 2013, he was asked to establish and lead a global network of KPMG professionals working with clients in the agribusiness sector worldwide. Ian is a regular presenter and commentator on sector issues both in New Zealand and internationally.

The year in review



JUN. 2015

The Government announced it was investing \$500,000 into a national programme for initiatives geared to **support farmers under pressure from lower returns** to better manage their mental health and depression.

Fonterra confirmed it had appointed McKinsey's to work with management to review the business in response to weaker returns and lower **milk prices**, significant levels of staff redundancy likely.

The Health and Safety Bill was sent back to select committee in hope a compromise could be reached given farmers concerns over rules perceived to be prescriptive and impractical.



JUL. 2015

MPI planning to exercise greater control over **swamp kauri trade**, with a goal of closing loophole in rules surrounding export of unprocessed timber, creating new employment opportunities in Northland.

Marlborough Lines announced \$89m purchase of Yealands Wine Group, seeing the electricity lines company diversify its business away from the regulatory constraints placed on the returns allowed from electricity distribution.

The industry mourned the passing of **Craig Norgate**. Mr Norgate, Fonterra's founding CEO, was remembered as a remarkable visionary and deal maker, given his role in the merger that created Fonterra.



AUG. 2015

Government announced it would conduct a review of the **Fisheries Act and Quota Management System** ensuring rules remain relevant to market and technological environment the industry now operates within.

Water flowed through canals and pipelines of \$172m **Central Plains Water scheme** in Canterbury for first time, project being delivered on time and largely in line with budget.

Cavalier Corporation, NZ based manufacturer of **wool carpets**, said it would restructure its business and sell the Ontera carpet tile business, to cut costs and debt as it struggles to compete with imported products.



DEC. 2015

Agreement reached at COP21 **climate conference in Paris** to accelerate the journey 195 countries are making to low carbon economy, with core commitment to keep average temperature increase less than 1.5% of pre-industrial levels.

Footage recorded by animal welfare group, SAFE, and broadcast on TVNZ's Sunday programme, of bobby calves being mistreated triggered national discussion on whether farmers were consistently meeting animal welfare standards expected of them.

The Government announced the **Queensland fruit fly** incursion identified in Mount Albert earlier in the year has been eradicated, at a cost of \$13.6m. MPI said it was difficult to identify how the fly first arrived.



JAN. 2016

A proposal to ban **commercial fishing** in the Hauraki Gulf and the Marlborough Sounds was released by the Government as part of an initiative to create recreational fishing parks in the areas, with questions being raised over compensation of commercial operators.

The Government has signalled that it intends to strengthen laws in the use of freshwater during 2016 to improve **management of freshwater** and the economic opportunities it is able to deliver to communities.

The Tourism Exporters Council has publicly backed the Choose Clean Water campaign launched this month to create a petition to collect 10,000 signatures to call on the Government to set fresh water standards at a swimmable level.



FEB. 2016

Zespi and T&G Global announced that they had signed an MoU to work together to create value in for their respective growers and shareholders, with the first step being collaboratively working to sell 1 million trays of **kiwifruit in South East Asian markets**.

Statistics indicate **honey exports grew by 41%** during 2015 to \$285m, fuelled by high demand for Manuka Honey, in a month when apiculture sector takes steps to unify its representative body to better enable growth of the industry to \$1.2 billion.

Fonterra announced that it commenced a review into its governance structure to ensure the board has correct composition and skill set to drive a large, **global business**.



SEPT. 2015

Silver Fern Farms confirmed entry into transaction with Shanghai Malling Aquarius, seeing the Chinese state controlled company take 50% stake in the company in return for \$261m investment.

Having considered the issue for over a year, Ministers Upston and Bennett **rejected proposed sale of Lochinver Station to Chinese** owned Shanghai Pengxin on basis they concluded benefits of sale were not substantial or identifiable.

Fonterra urged farmers to **curb use of PKE** on farms, suggesting maximum usage of 3kg a day per cow, to ensure the co-op's position as a supplier of high quality pasture based milk is not compromised.



OCT. 2015

The 12 countries that have been party to the **TPP** negotiations announced they have agreed the text of the agreement, with the deal welcomed by Prime Minister, who said the deal would bring benefits of at least \$2.7 billion.

Over 75% of Fonterra farmer suppliers applied for the co-operatives **interest free loan of 50 cents per kilo of milk solids** supplied which was offered to farmers in response to the prolonged downturn in dairy prices.

A man arrested by police in relation to **threats made to poison infant milk formula** manufactured in New Zealand with 1080 poison, putting the dairy industry at significant risk (he was later convicted and sentenced to 7.5 years in jail).



NOV. 2015

NZ Veterinary Association released research indicating application of scientific innovation to create reduced-antibiotic livestock systems could increase export revenues; the organisation seeks an antibiotic free industry by 2030.

Tru-Test brought leading global future thinkers to Auckland for the Beyond the Line of Sight event, which challenged the industry to recognise the changes that are occurring in the global agri-food system and make plans to respond.

The wine industry welcomed government proposals to introduce geographical indications registration system for wine and spirits, noting it gives consumers a guarantee to the source of the product and attributes they can expect.



MAR. 2016

On the back of sustained low dairy prices, Fonterra reduced its payout to farmers by a further 25 cents to a **farm-gate price of \$3.90 per kilo milk solids**, comparing to DairyNZ's average break-even milk price of \$5.25 per kilo.

Low returns in dairy sector and concerns about environmental impact of dairy farming in Central North Island resulted in Landcorp scaling back plans to **convert 14,500 hectares into 39 dairy farms**.

Outbreak of velvet-leaf, an invasive weed that crowds out crops and competes for nutrients, water and space, identified on a number of properties across the South Island. A response was launched.



APR. 2016

Horticulture New Zealand said growers around the country see potential in growing **medical cannabis** and called for work to determine if the industry represented a legitimate and commercial opportunity to create value.

The 2016 **NZ Organic Market Report** showed organic grocery sales through supermarkets and specialty stores have increased by 127% since 2012, following a global trend. Two out of three New Zealanders regularly buy organic products.

The **recreational fishing** industry supports 8,100 jobs and \$1.7 billion in economic activity annually while contributing \$200m to the Government through GST and Fuel Tax according to a report by NZ Marine Research Foundation.



MAY. 2016

Wilding & Co has developed a distillation process to **extract essential oils from wilding pines**, an invasive species across New Zealand, and have been successful in securing a contract to supply dōTERRA, the world's largest seller of essential oils.

Fonterra launched a campaign, #431AM, which shows **Ritchie McCaw** talking to farmers about the good things the co-operative is doing for our communities, the environment and the economy.

AgResearch has arranged the transfer of 726 packets of New Zealand seeds to the **Global Seed Vault in the Arctic**. The vault protects the world food supply as it is able, theoretically, to preserve and conserve critical seeds forever.

The state of the nation



While the pricing challenges in the dairy sector have shaped public perceptions of the wider primary sector over the last year, many sectors have reported record export figures and tangible progress towards their future aspirations.



This meant we were uncertain what tone to expect from the 157 contributors to the round-tables, conversations and survey as we set out to prepare the KPMG *Agribusiness Agenda 2016*.





It was not clear to us whether we were going to encounter industry leaders who had firmly battened down the hatches to weather the storm the mainstream media had determined was raging around them. Or whether we would meet a group realistic about the challenges they face but focused on continuing to invest in the innovation, collaborations and customer connections needed to remain competitive.

We were pleased to discover an industry in much better heart than we had expected. It is an industry that recognises life is currently incredibly difficult for some of its constituents, and that supporting these people through their challenges is a significant obligation. However, we also found an industry that recognises now is not the time to rein in ambitions or stop investing in the future. Later in the *Agenda*, we explore in detail in the theme of change and how the industry needs to respond to it. Though to begin, the following pages provide our primary sector State of the Nation update for 2016.

The KPMG *Agribusiness Agenda* 2016 has been prepared using a similar methodology to previous reports. We hosted 10 round-table events across the country in March (in Auckland, Hamilton, Tauranga, Palmerston North, Wellington, Nelson, Christchurch) attended by 157 contributors. In addition, we held one-on-one conversations with 31 contributors either in person or by telephone. We again requested contributors to complete an online survey, which listed 44 possible priorities facing New Zealand's primary sector. We asked respondents to rank them in terms of importance; with one being an issue of no priority while 10 is an urgent priority requiring immediate action. We received 89 responses to the survey. As is always the case with the *Agenda*, the reflections on the conversations that we had in preparing for this report are the work of the author and are not attributed to any specific contributor.

Here are the top 10 priorities...

RANK	ACTION	
1		World-class biosecurity
2		Food safety strategic importance
3		Deliver market signals to Producers
4		Deliver high speed broadband
5		Create NZ provenance brands
6		Innovate with Customers
7		Sign high quality trade agreements
8		Delivering R&D incentives
9		Developing future leaders
10		Invest in irrigation / water storage



If you wish to view the full survey questions and results, this document can be accessed on kpmg.com/nz/agri-priorities2016

The headlines

The survey results highlight a number of priorities which continue to rank in a similar way to previous years. While the issues remain important to many leaders because of the impact they have on their organisations (and the industry) they received limited airtime during our conversations.

2016 PRIORITY RANK NUMBER:



ENSURING
WORLD-CLASS
BIOSECURITY

2015 PRIORITY RANK NUMBER: 1

The need to maintain a world-class biosecurity system is again the highest priority for industry leaders. This has been the most significant priority in every survey since 2011. The last year has seen the Government implement a biosecurity levy on inbound passengers to recover part of the cost of border protection, enabling additional resources to be deployed at the border. Minister Nathan Guy highlights the issue as his number one priority and has started developing a direction statement for Biosecurity over the next 10 years. The industry is due to be consulted on this later in 2016.

When the topic of Biosecurity was raised in our conversations, the focus was on whether enough is being done to protect our borders – given the breaches that continue to occur. As inbound tourism grows, so does the potential for catastrophic damage to the industry and national economy. Regardless, there appears to be complacency around this risk, particularly among farmers and growers. Views were expressed that the Biosecurity 2025 statement should focus on how we identify risks and respond in advance of an outbreak. Issues are best managed before they ever reach the border. The focus should be on the actions that will make the biggest difference in eliminating risk rather than the number of dogs and scanners that are deployed at our airports.

2016 PRIORITY RANK NUMBER:



FOOD SAFETY
STRATEGIC
IMPORTANCE

2015 PRIORITY RANK NUMBER: 2

The strategic importance of food safety retained its ranking as the second highest priority in the survey this year. It has held this position since being introduced into the survey in 2014, following the precautionary recall of WPC 80 by Fonterra. With the arrest and prosecution of Jeremy Kerr for the threats he made to contaminate infant formula with 1080 poison, the vulnerability of our economy to food safety failings was again brought front-of-mind.

The point was made during our conversations that we cannot allow complacency to again rear its head. It was clear that our investment into food safety systems is critical to ensuring that our customers continue to buy the products we produce. As the safety issues of recent years fade into the distance, we must continue to recognise that world-class food safety systems are simply a cost of playing in high value markets. This is a cost we cannot afford to cut, even when markets are at their most challenging.

2016 PRIORITY RANK NUMBER:



SIGN HIGH QUALITY TRADE AGREEMENTS

2015 PRIORITY RANK NUMBER: 5

A key event at the end of 2015 the completion of the Trans Pacific Partnership (TPP) negotiations, enabling all 12 signatories to commence their processes to ratify the agreement. As a small country, in order to maximise the value we can create from our products, New Zealand needs access to as many high-value customers as possible. With concerns that we have become too China-centric since the China FTA took effect in 2008, the TPP presents the opportunity to diversify our customer base. It is the latest step in a bipartisan trade policy pursued by successive New Zealand governments for 30 years, to provide as much access as possible for our products at the lowest possible cost.

Industry leaders were unable to rationalise why TPP has attracted many more detractors than other agreements that have preceded it. They voiced real concern about Labour's apparent shift away from the long held bipartisan view: that maximum market access is in New Zealand's best interests. Every negotiation requires give-and-take and the TPP has been no different. The only difference this time seems to be the inherent distrust associated with the involvement of the United States and Japan, despite them offering significant opportunities for market diversification and value growth. Any trade agreement, however, is just a starting point to a long-term relationship. Work is needed on many of our existing agreements to enable market access for higher value products (such as chilled meats, processed foods or vegetables), rather than just the commodity products that agreements were initially negotiated on.

2016 PRIORITY RANK NUMBER:



INVEST IN IRRIGATION AND WATER STORAGE

2015 PRIORITY RANK NUMBER: 7

There is growing interest across New Zealand on how water resources are maintained and utilised. Water featured in many of this year's *Agenda* conversations. The discussions canvassed many issues; including the progress on development of regional irrigation schemes, the uptake of the recommendations of the Land and Water Forum, and whether New Zealanders want streams and rivers to be wade-able or swimmable. Water issues attract the attention of the media; whether its instances of cows being photographed in streams, or the calls from parts of the tourism industry to clean up waterways in order to safeguard the images we portray to the world.

The issues are complex and reflect both the environmental and economic importance of fresh water. They are emotive issues, but the impression from the conversations we had is that there is much common ground between stakeholder groups. At the heart of the matter is a desire to deliver the best long-term outcome for New Zealand. We are starting to make inter-generational decisions over how water is allocated, used and protected into the future. This requires people to move past their immediate concerns and think about the generations that will follow.

The proposed development of the Ruataniwha irrigation scheme came up during a number of discussions; the point was made that wider sustainability issues need to be considered in determining whether the scheme progresses or not. It not only requires recognition of environmental issues, but also the need to maintain vibrant businesses and strong communities into the future.

2016 PRIORITY RANK NUMBER:



RESTRICTING FOREIGN INVESTMENT IN LAND

2015 PRIORITY RANK NUMBER: 43

Concerns over the foreign ownership of New Zealand's agricultural land and processing assets are raised on a regular basis by political parties and the media. However restricting foreign ownership continues to be the lowest ranked priority for respondents to our survey. The view that selling assets to offshore investors is detrimental to our economic future is not widely shared by industry leaders. Leaders recognise the benefits that can be derived from leveraging the financial capacity and market connectivity of a strategic investment partner into a business. Some commented that the inherent capital constraints New Zealand companies face as they try to compete in global markets make foreign investment critical. These companies do, however, need to learn to effectively manage foreign co-investment to take full advantage of the opportunities.

It was highlighted that offshore investors often see greater potential in the New Zealand story than we recognise ourselves; and are therefore better-positioned to assist us in connecting the provenance of our products with global consumers. It was also suggested that investors are often so heavily invested in the New Zealand story that it removes the incentive to shift production or profits out of this country. The good news is this often provides an incentive to commit to long-term investments, build strong partnerships and deliver growth into the future.



Doing the right thing by the environment

2016 PRIORITY RANK NUMBER:

17



SCHEMES TO REGENERATE NATIVE ECOSYSTEMS

2015 PRIORITY RANK NUMBER: 23

2016 PRIORITY RANK NUMBER:

18



CODIFY PRODUCTION STANDARDS

2015 PRIORITY RANK NUMBER: 16

The interface between the primary sector and our natural environment was a significant talking point in many of our conversations this year. In fact it was suggested that previous *Agendas* have underplayed the challenges and opportunities facing the primary sector inherent in the sustainable management of our land, water, air and oceans.

While previous conversations had dwelt on the role of regulation and the costs associated with compliance, discussions this year were more comprehensive. They centred on the need to think more widely about how we appropriately interact with the environment, enabling it to be a long-term value driver for the whole community. There are seriously diverse and competing expectations being placed on our environment. The requirements of the primary sector are not always aligned with those of urban communities, the hunting and fishing groups, tourism operators, energy companies or, even, rural communities. These varying expectations create tensions between sectors, and result in organisations investing time in defending their positions rather than being prepared to explore more collaborative models for the long-term management of our natural assets.

Doing what is right

We regularly hear that no farmer intentionally sets out to pollute their own land. However there is a general consensus that the environment has deteriorated as agricultural production has intensified over the years. This can be linked to an historic lack of understanding on the impact on the environment of high inputs onto land, paired with a strong focus on growing productivity over the years. This model has served the industry well, growing production and revenues and creating wealth for farmers and their communities.

However the world is changing and it was noted during our discussions that many in the industry are struggling to recognise the speed of change. Premium consumers are increasingly focused on how their food is produced and expect it to be done sustainably. Yet there is no clear definition of what sustainable production actually is. One suggestion was that a “sustainable farming system” is an economic engine that ensures optimal social and environmental outcomes are delivered. It is a farming system founded on doing what is right by the environment because it is the right thing to do.

Historically, those farmers that have built farming systems on an environmental platform were seen as the outliers, the ‘weirdos’ (as one contributor put it). However, the number and diversity of entrants into programmes like the Ballance Farm Environment Awards indicates that businesses are increasingly focused on sustainable practices.

Preserving the social license to operate

The wider community is increasingly questioning whether farmers are the best guardians of our natural environment. The reaction to any failure within a farming system (be that environmental, such as cattle in streams or green slime in lakes



and rivers; or an animal welfare issue, such as the abuse of bobby calves) is becoming increasingly negative. As we highlighted in the 2014 Agenda, farmers and growers are increasingly farming in a fishbowl with every action shaping the rules and regulations they are required to operate under.

The inability to secure return on their best-practice environmental investments has constrained the farmer's willingness to invest in such initiatives. There is no direct reward – a farmer that produces milk using highly sustainable production techniques receives the same for their product as a farmer that does the minimum to comply with legislation. The consolidation of product results in the lowest-common-denominator attributes being applied to all production, and the value in the best stories being lost.

This position is leaving value unrealised. Consumers will not pay a premium for a product that merely complies with laws and regulations – that is simply a basic expectation. However a story of doing what is right because it is the right thing to do is valuable. It can attract a premium. The challenge is that this brings complexity from a logistics standpoint and challenges the co-operative principles that many organisations have been built on. Yet enabling farmers to be rewarded for the investment that they make into environmental management is critical. This will help ensure the necessary investment is made and the industry retains its social license to operate. Going beyond the minimum creates and delivers a story of value to customers.

Achieving a balanced regulatory position

Concerns were expressed over the arbitrary outcomes from much of the environmental regulation being proposed around the country. This is paired with a concern that many farmers will lose the value in their land as a result of unsophisticated regulation. This issue is significant – given that it directly impacts wealth, and is creating barriers between various sectors of the industry. One example of such issues is whether existing pollution levels should be grandfathered, or the right to pollute allocated proportionally across all farming businesses.

It was noted that regulatory positions have run ahead of the science. Instead of addressing key environmental issues, too many of the frameworks are focused on a single variable, for instance nitrogen run-off. The focus is on managing this one variable; rather than taking a whole-of-system perspective to drive better, more efficient, environmentally robust farming businesses.

It was also apparent from our discussions that the system is too slow and cumbersome to deliver effective regulation. As a country of small and medium-sized businesses, it is important that regulatory requirements are carefully balanced. The benefits of regulation must be aligned to the capability of a business to pay the compliance costs. Concern was also expressed about the speed of implementation, given that tools are not yet available for farmers to respond effectively to the regulations being imposed on them. While nobody questions the need for regulation, the view was clearly expressed that there is much to be done to reach a framework which will deliver optimal outcomes for the whole community.

When should the primary sector enter into the ETS?

The uncertain future of the Emissions Trading Scheme (ETS) and the primary sector's role in the scheme was a popular topic of discussion in the round-tables. With the speed that many counties are heading towards a low carbon economy, our leaders highlight the lack of recognition of this important issue in New Zealand, as well as the level of inaction.

Some leaders suggested that the immediate step should be having the primary sector enter into the ETS. This will more accurately reflect the costs of the products being produced and increase the need to invest in the innovation needed to shape a low carbon future. However the majority of industry leaders argue against such a move, given the costs associated with putting a price on carbon and the lack of solutions available for farmers to utilise.

There will never be a free lunch in relation to carbon or the environment – we will pay for our impacts at some point in time. It is also likely that the cost associated with our footprint will grow over time. Without the political will to put the primary sector into the ETS, the industry will have limited incentives to proactively invest in carbon mitigation unless consumers impose such expectations, driven by their growing concern for the environment.

It is the right time for the industry to do what is right for the environment. Delaying the conversation on issues like the ETS has financial implications for generations to come.



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2016 PRIORITY RANK NUMBER:



DELIVER HIGH SPEED
BROADBAND
TO RURAL AREAS

2015 PRIORITY RANK NUMBER: 2

2016 PRIORITY RANK NUMBER:



INFRASTRUCTURE
FOR STRONG RURAL
COMMUNITIES

2015 PRIORITY RANK NUMBER: 15

2016 PRIORITY RANK NUMBER:



INCREASING
RURAL / URBAN
UNDERSTANDING

2015 PRIORITY RANK NUMBER: 22

Sustaining rural communities

The past year has been a challenging one for many rural communities. Dairy cash flows have declined, forcing many farmers to cut their use of contractors, lay off staff and reduce spending on many inputs and services they have previously utilised.

For some farmers, these measures have enabled them to meet their obligations and continue to operate. For others, the downturn has stretched their cashflow to breaking point and they have become overwhelmed with the challenges surrounding their daily lives.

Simultaneously, farmers are having to cope with increasing compliance obligations (be they in the environmental area – as discussed previously – health and safety, employment or financial compliance). This places an incremental cost on many businesses without any prospect of these costs delivering an immediate financial return. While these attributes will enable farmers to continue to supply premium markets and build stronger businesses in the long run, the cost pressures have come at a challenging time for many farmers and could impact the long-term viability of their business.

The importance of support for rural communities was regularly emphasised our conversations. Thriving communities will enable primary sector to grow and prosper. Over the year the Government, industry good organisations and commercial businesses have taken a number of initiatives to ensure support is available to farmers who are under pressure. Communities have pulled together to provide support and, in extreme cases, kept each other alive. Our conversations consistently highlighted the need to ensure rural communities are communities in the true sense, both connected to the world and supported by the necessary social infrastructure.





Delivering the necessary community infrastructure

Connectivity standards for urban and rural broadband speeds have been redefined by the Government. The expectation is they should ultimately be the same. This overcomes a significant issue that was highlighted in last year's *Agenda* around the difference in the standards being set for urban and rural areas. However there remains no financial plan to build a network to deliver the same speed of connectivity right across the country. Delivering against this aspiration will require creative thinking to identify ways to build out the networks when the basic economics do not stack up. For instance, could infrastructure be built into irrigation networks or added to existing rural electricity networks? Incorporating connectivity into an irrigation scheme would shift the scheme from being an asset that predominately enables farm productivity growth, towards a true community infrastructure project. This would provide the community with a platform to enable it to make a change in its wealth.

Fast connectivity into rural communities is a game changer. It enables faster health care services to be delivered to remote regions; it enables students to connect to education resources around the world; and it removes a barrier to young contemplating moving to rural areas. They can gain the industry experience they are looking for and remain connected to the social and entertainment applications that they have become accustomed to using in their urban lives. It also delivers the ability for farming businesses to utilise data to enhance productivity and reimagine their value chains. This creates an opportunity to connect directly with the ultimate consumers of their products.

Deeper understanding between rural and urban communities

The perceived gap between the rural and urban communities was again acknowledged as an issue the industry cannot continue to overlook. The rationale for this is not unfamiliar. Given that Government is elected by the urban population, predominantly in Auckland, it will therefore make policies that appeal to the perceptions that electorate hold. If their perceptions towards the primary sector are uninformed and negative, the Government of the day will be inclined to take a harder line on restricting the sector's license to operate than if the urban community was better informed.

The challenge the industry faces is securing its share of the voice in a crowded urban media market to tell its story in an open, honest way. This means there is a need to explore ways to engage directly with the community rather than rely on traditional media channels. One such initiative is the proposed Agricultural Experience Centre at the ASB Farm at Mount Albert Grammar School (as highlighted inside the front cover of this *Agenda*). We still require more initiatives to get people out onto farms and connect them with where their food comes from and what growing food delivers to our economy. The need to excite and engage people about the future of the primary sector is greater than ever. This could come from scaling up farmers markets, hosting 'farm in the city' events, or creating virtual farms that demonstrate the fascinating technology and innovation within the primary sector.



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2016 PRIORITY RANK NUMBER:



ELIMINATING USE OF ANTIBIOTICS IN ANIMAL HEALTH

THIS IS A NEW PRIORITY ADDED

2016 PRIORITY RANK NUMBER:



INITIATING GENETICALLY MODIFIED FIELD TRIALS

2015 PRIORITY RANK NUMBER: 34

2016 PRIORITY RANK NUMBER:



EXPLORING SCALE ORGANICS

2015 PRIORITY RANK NUMBER: 44

Facing up to most challenging conversations

There is a practical reason why the primary sector must build understanding with urban communities around what the sector does, how it does it and, most importantly, why it does it. This is because there are some challenging conversations we need to have as a country in the coming years.

In a previous *Agenda* we have reflected on what is the 'why' for the primary sector. The importance of defining this became increasingly apparent during the recent round-tables. It is about utilising the country's natural capital and ability to produce high quality, natural protein to create wealth that benefits all New Zealanders. The why for New Zealand is not about feeding the world or even trying to do so. It is about creating a valuable story, so we can maximise the value of what we are able to produce from utilising the assets we have. Creating a compelling story around this will drive consumers to choose our products.

Difficult conversations are critical. Discussions around matters like the environment and intensification of farming systems need to be held in an informed way. Additionally, there are also key conversations about biotechnology (or genetic modification); the use of antibiotics and hormones in food production; and the role of organics in our food system. These were all identified as matters urgently requiring comprehensive, balanced discussions.

Clarifying the role of biotechnologies in our future

The need to address GM in our farming systems was regularly raised in our conversations. This is a conversation we cannot afford to ignore, as the rest of the world is moving forward with innovations in this space at pace. The regulatory system New Zealand has around GM technologies was a key issue for many leaders. There is concern that the definition of genetic modification, established by a Royal Commission in the late 1990s, has not been updated since, despite technologies evolving significantly. The increasingly diverse group of technologies that are considered to fall within our definition of GM means there are innovations that are widely accepted globally, that are not available for use in this country. This potentially impacts and risks our global competitiveness.





There is a need for a deep conversation around where New Zealand decides to position itself in terms of use of these technologies. Recent moves by the Hastings District Council to declare its region “GE-Free” highlights the need to ensure any conversation is based on a factual rather than an emotive basis. The implications of being GE free are significant, extending to the animal health remedies available to vets for instance, making it a much wider decision than just launching a marketing position. Furthermore, this is not just a conversation about the use of genetic technologies in the food system; there are opportunities to use GM to sustainably improve our environment (for instance to manage wilding pines) or get rid of invasive pests.

Our position should be shaped by what will create the greatest value for New Zealand. An independent forum is needed to provide all sides with an opportunity to come to the table. The aim is to fuse together a deep understanding of the views held across the New Zealand community, together with a definitive analysis on the consumer perceptions of these technologies. We can then reach an informed conclusion on whether the adoption of selected biotechnologies is the best course of action for the country.

Extending the conversation to cover organics

Given that New Zealand will only ever produce a tiny percentage of the food the world requires, it is clear that our role in the global food system is not to feed the world but to maximise the value of the product we are able to produce. Based on the premium attributes and provenance surrounding our products, this places us in a position to sell to high-value customers. Given this, natural products grown using organic or biological technologies may present an opportunity to secure larger returns than we are able to generate from traditional agricultural production systems. A recent example is Fonterra announcing a price for organic milk in excess of \$9 per kilo milk solids. This highlights there are strong price premiums available for organic produce when demand and supply are aligned; and behoves us to include the organics issue in a balanced, independent conversation around the future of our farming systems.

Taking a brave position on antibiotic resistance

The position that the NZ Veterinary Association has taken in relation to anti-microbial resistance (AMR) was raised on a number of occasions. The NZVA has taken a position of principle to eliminate the use of antibiotics in the maintenance of animal health by 2030, a position that has brought them criticism from some industry groups. Given the human health implications associated with AMR, people will start to die from minor infections due to the lack of an effective antibiotic, this issue is in turn pushing premium food purchasers around the world to look for sources of antibiotic-free food. This has the potential to create additional value for producers that can verify the status of their produce. The position the NZVA has taken challenges the industry to do the right thing. Doing the right thing is difficult and requires fortitude. Yet it raises a question as to what other areas the industry could focus on ‘doing the right thing’ to create a point of difference in the global market.



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2016 PRIORITY RANK NUMBER:



DEVELOPING
FUTURE
LEADERS

2015 PRIORITY RANK NUMBER: 6

2016 PRIORITY RANK NUMBER:



INCENTIVISING
STUDENTS INTO
AGRI CAREERS

2015 PRIORITY RANK NUMBER: 13

2016 PRIORITY RANK NUMBER:



ARTICULATING A
COLLECTIVE
INDUSTRY VISION

2015 PRIORITY RANK NUMBER: 26

Building careers people aspire to pursue

Two years ago, MPI forecasted the industry will need 50,000 new people (over and above normal levels of employee turnover). It was clear from our discussions that there is still much to be done in attracting, educating and retaining the people that will contribute to the industry's long-term success.

The impact of bringing well-educated young people into the industry cannot be underestimated. Their perspectives are critical to designing products that will meet the needs of consumers, enabling the uptake of innovation, and ensuring the industry is connected with the wishes and expectations of the wider community.

Addressing fundamental challenges with our school system

A core concern for some leaders was a lack of confidence that the education system is equipping young people with the basic reading and numerical competencies necessary to enable them to work safely in the industry. It was noted that this issue is becoming a more pressing concern as the percentage of the youth population from the Māori and Pacific Island communities grows, given these communities are already more likely to have failed to have succeeded within the education system.

It is no longer an option to sit back and wait for the education system to deliver the people the industry needs, with the skills and attitude industry leaders seek. There was a consistent view that organisations need to be engaging in programmes geared to appropriately equip future employees to succeed. This requires interaction with schools to ensure teachers understand the career opportunities available in the industry, and that they are incorporating relevant material into the general curricula.

Additional steps to proactively engage with potential employees are key. We have seen how some organisations are working with individual Marae to design and deliver programmes in settings that young people are comfortable within. Their goal is to provide young people with the skills to work either in a commercial role or a Māori-owned farming business.





Issues with education extend beyond the school system

The diverse nature of skills required in primary sector businesses continues to grow. There is a demand not only for predominately physical roles (such as fruit pickers or labourers) but also for highly technical science, marketing and managerial roles. The fractured nature of the tertiary education sector servicing the industry was highlighted as a threat to the sector attracting and retaining the people that it needs.

There were strong views expressed that there are too many organisations providing both academic and vocational training, which is impacting the quality and consistency of the training being delivered.

The question was raised whether there is a need to consolidate the food, agribusiness, farming systems and veterinary activities across our universities into a single multi-university campus. The world-renowned Wageningen University in the Netherlands invigorated student recruitment when the region was re-branded as Food Valley. This was highlighted as one example of what we need to do create more excitement around our tertiary system.

Retaining people requires organisations to lift their game

An underlying theme in many of the discussions was a real concern that too many industry organisations are simply not good employers when compared to employers in other sectors. Employment conditions, remuneration, health and safety, training, career progression and all other aspects of the employment experience must stack up against the many other choices available to prospective employees. The industry must recognise it is providing jobs and in doing so move beyond traditional employment practices. Employers need to ensure the jobs are at least equivalent to those offered by the country's leading employers.

If the industry can get the housekeeping right in relation to its employment practices, there is an inherent X-Factor in the primary sector that could supercharge the attraction of the most talented young people. Many millennials want a job where the 'why' is clear, and in the case of the global agri-food system, it's all about ensuring sufficient safe, nutritious food for the planet's 7 billion plus people. While New Zealand's agri-food system will never feed the entire world, we can certainly be part of the solution and young people that are recruited into the sector could be the conduit we need to make our contribution to delivering on the why.

Organisations that are prepared to let their people make a difference will gain a significant dividend in terms of commitment and loyalty. For example, a recruitment pledge that the organisation will fund a person to spend a period of time using their skills in an emerging nation would provide a huge differentiator that other sectors would struggle to match. Many employees would jump at the opportunity to use their skills and experience to help farmers in poorer countries to grow their yields to help sustain their communities. (It would also deliver a very tangible demonstration that the industry is playing its part in addressing the challenges of global malnutrition). These young people could become ambassadors that identify opportunities and partner with organisations in emerging markets, with the prospect of delivering commercial returns over time.



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2016 PRIORITY RANK NUMBER:



DELIVER MARKET SIGNALS TO PRODUCERS

2015 PRIORITY RANK NUMBER: 4

2016 PRIORITY RANK NUMBER:



CREATE NEW ZEALAND PROVENANCE BRANDS

2015 PRIORITY RANK NUMBER: 10

2016 PRIORITY RANK NUMBER:



FOOD SOLUTIONS FOR DOMINANT DEMOGRAPHICS

2015 PRIORITY RANK NUMBER: 20

Responding to volatility by moving to primary industry 3.0

Dairy price volatility has of course dominated primary sector media coverage over the last year. Markets have responded to a number of key events around the world – the lifting of quotas in Europe, the impact of Russia largely closing its borders, and cheap corn in the US reducing the cost of dairy production.

While current market conditions did not dominate our conversations with industry leaders, when the topic did arise, leaders focused on what the future may look like for the dairy sector, and the primary sector more widely.

Acknowledging that it is possible to make good money from effectively managing a commodity supply change, most of our contributors believe the future lies in creating higher value products. There is a pressing need to break the link with commodity price cycles and seek opportunities in higher value product streams.

As we discussed in last year's *Agenda*, adding value is easier said than done. The creation of sustainable value over just adding cost comes from investing in intangible areas such as people, brands and the associated experience, innovation and the close connection with consumers need to be key areas of focus. Many views were presented around what the industry needs to do to shift towards a higher value future. Some contributors suggest that on the verge of the fourth industrial revolution (and a global agricultural revolution), it is time to radically challenge the fundamentals. We need to clearly define the industry's 'why', and ensure what we do and how we do it is aligned.

Articulating a clear vision for the future

Articulating a clear vision for a future is a pressing issue. The Irish primary sector has recently updated its Food Harvest 2020 vision document, releasing Food Wise 2025 as a 10-year vision of the nation's agri-food sector. The Australian Government has also released a number of strategies, including its Agricultural Competitiveness White Paper and a paper on developing Northern Australia. These, and other governments, are working collaboratively with industry partners to recognise the strategic importance of their agri-food assets. They are defining what the future for those assets (and the country as a whole) will look like, and articulating the enabling steps they will take.

As a country that relies on our primary sector to generate wealth to pay for our schools, hospitals and roads; many contributors remain concerned about the lack of an overarching vision for the sector. Our vision should guide how land is used, natural capital employed, talent recruited, stories articulated and how New Zealand is positioned as a good global citizen. So far, we have differentiated ourselves on the basis of subsidy-free agriculture. This has enshrined an independent, innovative attitude into the industry, but focused attention on enhancing productivity and growing volume. It has contributed to the industry being predominantly commodity-centric. Without a clear re-articulation of the model, the majority of the industry will remain linked to commodity markets that will trend downwards over time.



The past is no longer a reliable or relevant indicator of the future. If we continue to believe that such a nexus exists we will make mistakes. Scanning what is happening globally shows it is the small innovative agri-food companies that are growing market share and value – at the expense of the major global players – based on authentic provenance stories, verified science, integrity and trust. Given we are niche food producers on a global scale, we should look to those organisations being successful around the world. We can then apply these learnings to the process of creating our own vision.



What could the elements of New Zealand's agri-food industry 3.0 look like?

While the immediate focus must be on the well-being of financially-stressed industry participants, particularly in the dairy sector, it is critical we learn lessons from the current downturn. These learnings need be applied to reshaping organisations so they are increasingly insulated from commodity price spikes. The kiwifruit and wine sectors have achieved this to a greater extent than many other sectors. They have focused on production systems, sustainability, brand stories and delivering an experience that competitors have been unable to replicate.

Producing more product without a known market was highlighted as being unlikely to provide the answer. With liquidity constraints, growing competition for the supply of commodity products, and the community expecting more in respect of environmental management; there is no choice but to accelerate the shift to generating more value from our products, rather than volume. This may mean we need to produce less milk in the future, increase the optionality around how milk is used, grow the value created, and utilise the freed-up land to develop new products and markets.

We need to clearly connect our farming practices to consumers in the market and ensure that they are world class to drive value. A recurrent theme during our conversations was how we can create a story specific to New Zealand's grass-raised beef cattle farming practices. Creating this value-add story will secure a price premium for our beef products.

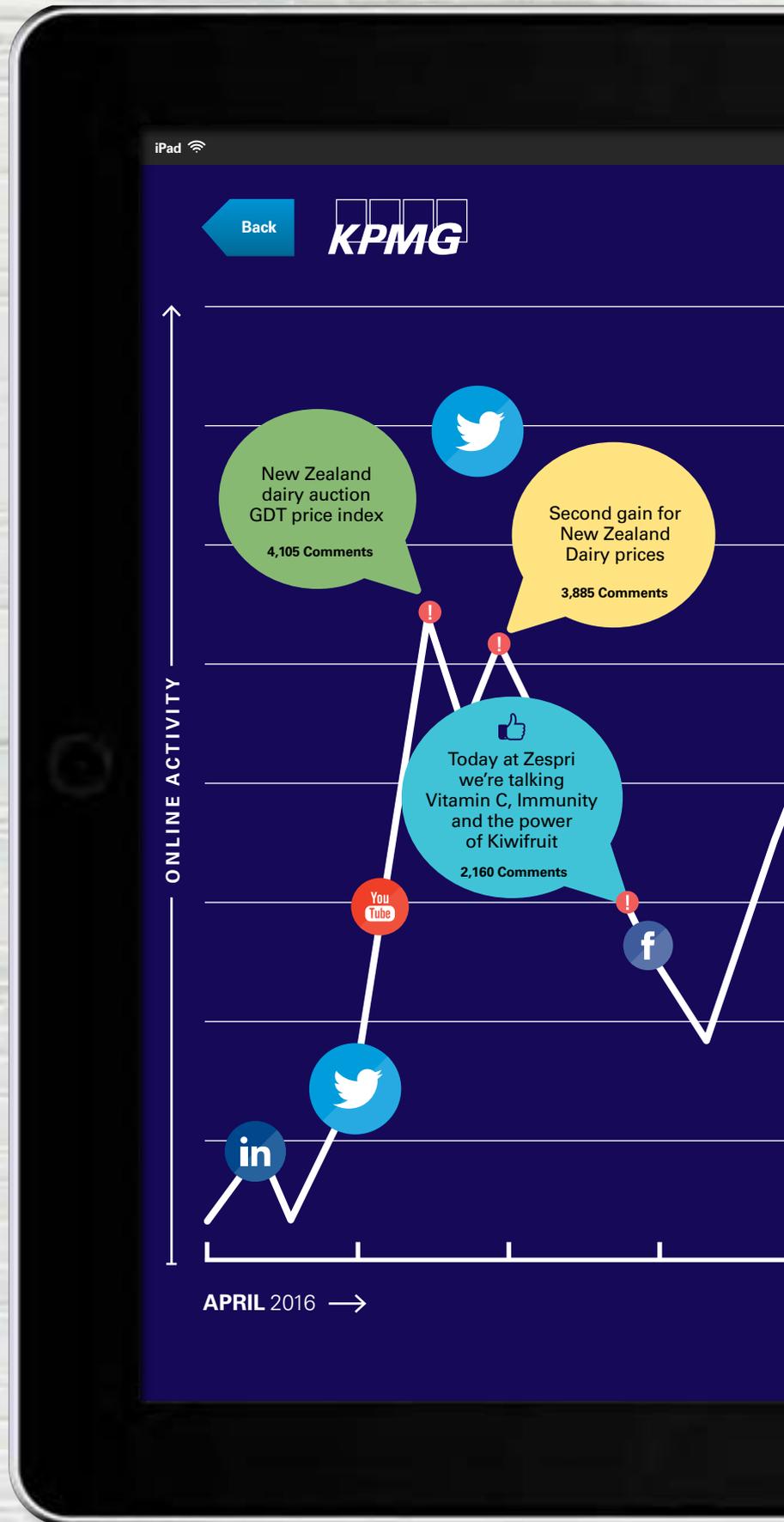
The sector will also need to be nimble as initiatives that create value-add today will quickly become commodity plays. To illustrate, the UHT milk plants being commissioned around the country are already supplying a market where the value premium is being eroded by commodity producers. The value-add strategy requires producers to lead in getting shelf stable, as fresh milk into major markets although this sector is also becoming very competitive. The challenges of responding effectively to a market which evolves on a daily basis are significant. We expand on this theme in the following pages of the *Agenda*.



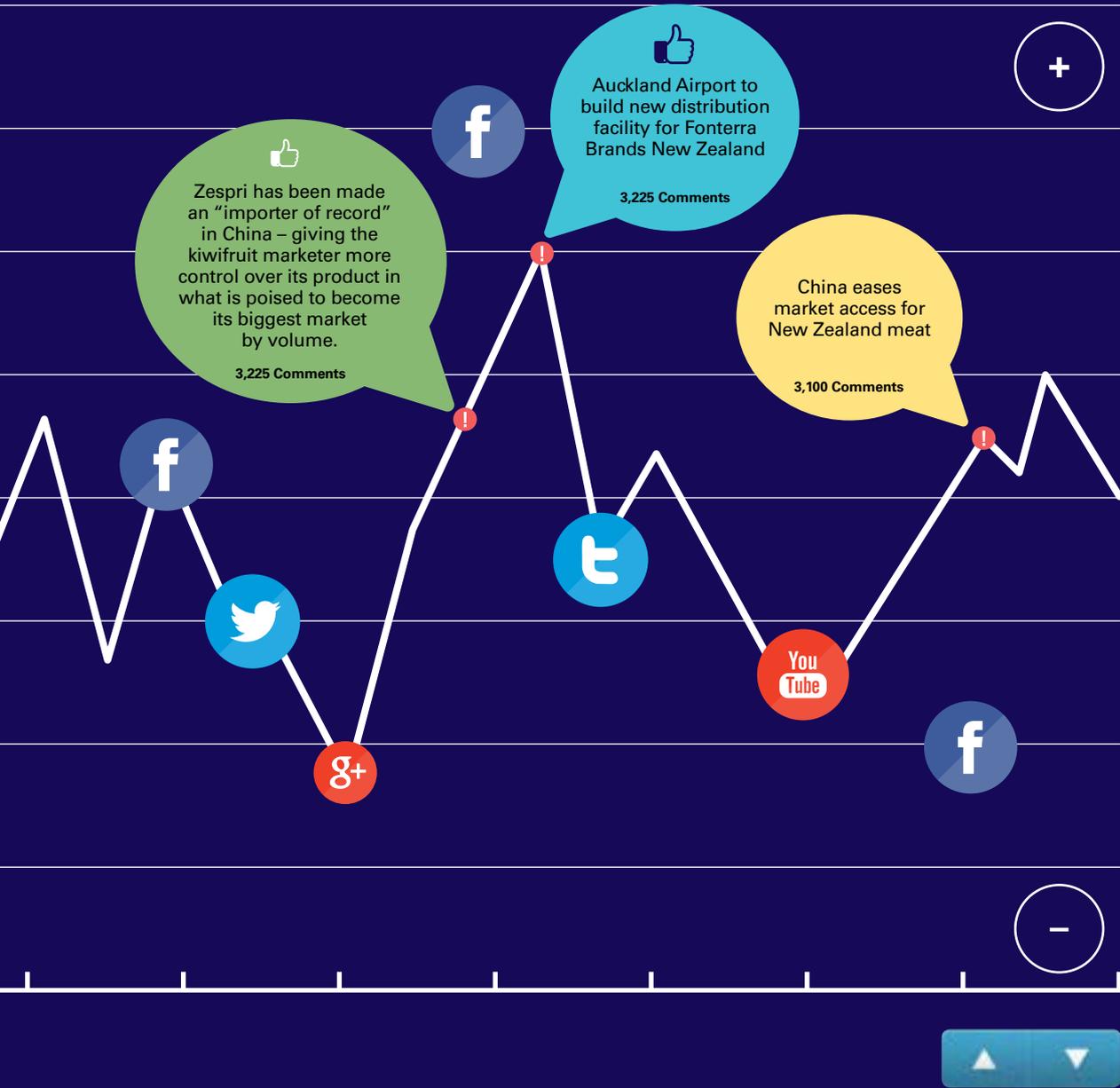
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That's what the leaders are saying... what does the community say about the industry?

In an innovative and digital environment, we are more connected than ever. Collecting, exchanging, and analysing data has never been so powerful. With the ability to track in real time, the ability to observe trends and chatter in the community is invaluable. Increasingly we have innovative ways to leverage social media to achieve competitive insights. We used social media listening tools to hear the wider community during the month of April. This is what they were talking about:



Forward 



Like to understand how Social Media Listening could help your business?
Please contact us at agribusiness@kpmg.co.nz



▶▶ The world has





...always changed



The Australian Government has announced the establishment of an incubator fund to support **Australian agricultural technology start-ups.**

The incubator will contribute to the agriculture becoming the Australia's boom sector over the next 30 years.



December 2015

The Campbell Soup Company announced that it now supports mandatory national labelling in the US of products containing **genetically modified** ingredients; saying it will disclose the presence of such ingredients in its products regardless of whether a law is introduced.



January 2016

UK supermarket chain, Morrison's, has signed a deal with Amazon to supply their customers with **fresh, frozen and non-perishable goods.**

The announcement of the deal saw Morrison's shares rise nearly 6%.



February 2016

it is now changing

December 2015



Resistance to the antibiotic, Colistin (the last line of defence against super-bugs) has appeared in Britain for the first time, leaving experts to suggest that **modern medicine** could be on the verge of collapse without new innovation to manage infections.

February 2016



A report by Swedish academics suggests that European citizens should get more of their **protein from chicken and pork** instead of using dairy and red meat as part of a wider strategy to reduce greenhouse gases.

February 2016



ChemChina has announced an agreed USD43 billion bid for Swiss seeds and pesticides group, Sygenta, as part of a strategy to improve and secure the **food supply for the Chinese population.**

Starbucks announced that it plans to begin a programme, Foodshare, to donate 100% of its leftover food to food banks in an attempt to combat hunger across the US.



March 2016

The Conservative Government in Britain introduced in its annual budget a proposal to implement a **sugar tax** on soft drinks to improve children's health. The funds raised will be spent on fitness programmes focused on children.



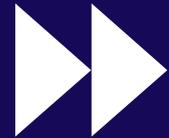
March 2016

Mars Foods will introduce 'occasionally' labels on some high profile products, including Dolmio pasta sauces, to enable consumers to distinguish between foods that can be consumed daily and those that should only be used occasionally.



April 2016

much faster...



March 2016



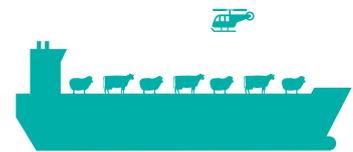
IKEA will start using packaging **materials made from mushrooms** as an eco-friendly replacement for polystyrene. The mycelium fungi packaging will biodegrade in a couple of weeks compared to thousands of years with polystyrene.

April 2016



A start-up business in New South Wales, Crowd Carnivore, has developed a **business on crowd funding whole animals** that they are buying directly from farmers, having butchered, with the resulting meat being split between the funders.

May 2016



Wellard Group launched the MV Ocean Shearer, the **world's largest live export ship, which has the ability to carry 20,000 cattle** or 75,000 sheep. The USD90m ship has the highest animal welfare standards of any ship on the ocean.

Are we attuned to the speed of change?

We live in a world that continues to evolve. The speed of change is faster than it has ever been before. This year's contributors accepted this as the reality they face today. The fresh next best thing is coming faster than it has ever done before.

Given change has become a constant in our private and professional lives, we set out to explore for this year's Agenda whether organisations in New Zealand's primary sector are attuned to change and capitalising on the opportunities it can create.

An averagely connected person is likely to be able to detect disruption occurring that will directly impact on their business. Regardless of this many organisations struggle on how to realise the value inherent in the insights they have collected. If relevant disruption occurs outside of the markets they regularly compete in, there is a lower likelihood that a relevant disruption will be detected, analysed and interpreted by many New Zealand organisations.

At the core of the fourth industrial revolution is the fusion of digital solutions with physical attributes and biological technologies. This fusion means that innovations introduced in a business are rapidly being copied and translated in completely different markets. The most obvious area that this morphing is currently occurring is in the access or sharing models. Concepts such as Uber and AirBnB are emerging in sectors as diverse food distribution, clothing and healthcare.

The need to scan the broad horizon for ideas that could be relevant to your business is greater than it has ever been.

If you are making profits, others have an incentive to work out how they can do things quicker, cheaper or better to secure a share (or take all) of the profit you are making. Information is becoming exponentially more available, enabling organisations to react and move faster. This creates greater volatility in markets with a larger peaks and troughs than at any time in history.

Despite this, many of New Zealand's primary sector organisations are either not scanning the environment at all; or they lack the breadth and frequency of scan to detect change in a sufficiently responsive manner.

Is this a consequence of complacency?

The curse of complacency came up during a number of our discussions. Some leaders felt that while the New Zealand primary sector has a track record of success; things are not looking so great when viewed in the cold, hard light of 2016.

Our analysis in the 2015 *Agenda* indicated that much of the value growth in the primary sector over the last decade had come from commodity price shifts and productivity improvements, rather than real innovation in market-facing initiatives or deep customer understanding. This left some leaders questioning how any organisation can feel comfortable about its future in 2016.

Others argue that as 'people always need to eat', we will always have customers for the food we produce. This world view largely assumes status quo in markets. It assumes they can largely carry on as they have for many decades, immune from the disruption occurring around them. The reality is that both our customers and competitors are continuously changing, as are their needs and responses. So while it is true there will always be a market for our produce, it may not be in the premium markets that we have been used to over the years.

Doing nothing is shaping our future

There were many reasons offered as to why many organisations are not as closely connected to the speed of change as they need to be. Some contributors suggested it is in part a generational issue. Many of the current leaders in the primary sector have grown up in an analogue system and are from a demographic that struggles to come to terms with how their business might integrate and evolve in a world where digital technologies are fusing with traditional physical products.

Potentially, it is a lack of confidence in what the future of a business looks like that is causing leaders to select a course of relative inactivity.

Doing nothing appears to be becoming embedded within New Zealand culture. The country is not known for taking revolutionary or counter-intuitive positions on many issues. This may be partly due to the impact that failure can have on the reputation of an individual or organisation in a small country. Given that an insular culture can encourage group think, it is critical that organisations welcome and embrace diversity. The contribution of women, millennials and minority groups will introduce new thinking and shape strategies more attuned to the future than current leaders and governors may shape on their own.

One contributor even suggested that the primary sector is potentially the second most conservative community within our society, after the clergy. Too many in the sector are comfortable to continue with strategies that have delivered in the past, and rely on past successes as their primary predictor of the future. Too many companies are doing too little to react to the changes being observed in global markets, and simply basing their assumptions on historic data. The reality is that as the world changes, the past becomes an irrelevant indicator of the future.

Plant and Food Research have recognised this need for deeper insights about markets and consumers, and their work in this area is explored in the following case study.

Cutting to the core of why consumers buy our products

☉ CASE STUDY

Understanding a product offering requires understanding of the complete experience delivered – all elements that a consumer associates with that purchase. Engaging with this wider narrative is part of the innovation process for Plant & Food Research.

As a science led organisation the discovery of knowledge is engrained in the ethos of Plant & Food Research's business. With long held experience in research and development, they are now taking a lead in shaping strategies to enable New Zealand companies to unlock the potential in untapped markets and with new products.

According to Peter Landon-Lane, Plant & Foods' CEO we need to fuse psychology and biology to understand in a much deeper way the impact a product has in a consumer's life.

"The organisation recognised that while science may occur behind the farm-gate, value is made in the market place," he says.

"There is an evolution occurring in the sensory science space. It is moving beyond measuring 'liking' to understand how flavour interacts with emotions, perceptions and the situations and places that we eat foods. Some of the insights gained through research have had a very profound effect on the industry."

Plant & Food Research has brought people into the team that have backgrounds in psychology and food anthropology.

"We started to realise that it is so much more important to understand emotions that people have with food. We need to understand how people make decisions in their homes; there is a lot of science that tells us you can't just ask someone a question and expect them to give you an unbiased answer. A lot of things that people do with food are not done consciously and are therefore a behavioural mechanism."

Building this capability, in 2012 Plant & Food Research launched a strategy called "Pathway to Premium". This strategy is built on a belief that a product means much more than its physical state, and the experience extends well beyond the point of consumption.

"With a lot of argi-based products the timeline to get them to market is long," notes Peter.

"Plant & Food are trying to understand consumers to a level where we are able to predict their needs into the future. It's a challenging space."

On Food Gifting:

One recent focus has been on Chinese food gifting. This well-established cultural tradition has grown rapidly alongside rising Chinese incomes and represents an interesting commercial opportunity for New Zealand companies.

A team led by Roger Bourne, Strategic Marketing Manager, partnered with market research company Mintel Group in order to understand core consumer behaviour and explore in depth the motivations behind food gifting.

"We were exploring food mega-trends and realised there was a gap in the conversation around gifting," says Roger.

"There are New Zealand products offshore, particularly in China, that are being given as gifts but we couldn't find research that had a depth of understanding around why those gifts were being purchased and where they sat relative to other gift options. It was untouched with a lot of potential."

The work explored the drivers for purchase including price points (which were high), product desirability, occasions and storytelling. All of these delivered valuable insights.

"We also discovered cultural drivers behind gifting which help New Zealanders understand the validity of that cultural practice that allow us to strip away any negative perceptions we may have had around when and why gifting is appropriate."

The findings are informing both product development and marketing strategies for New Zealand horticulture companies.





On Investing in Consumer Markets:

Other projects have sought to deliver consumer-based insights that can shape market strategies and innovation opportunities. Plant & Food has researched why New Zealand products are considered to be premium, how consumers make purchase decisions, how they look for information, and how they assess products.

Putting themselves in the consumer's shoes – literally – they followed consumers into their homes and on shopping trips to see first-hand the process of food selection. Plant & Food Research uses insights such as these to focus on how premiums are created along the value chain.



This helps science, and industry innovate around how value is created or enhanced throughout the 'farm to fork' process. Plant & Food are careful to point out that the project was not about teaching marketers how to market their products, but rather to provide valuable knowledge to augment their understanding.

Dr Roger Harker, the research leader, says some of the lessons were surprising, one being that Kiwis should "steal with pride", recognising not everything we do needs to be original. The need to collaborate is greater than ever, as is the need to build on existing knowledge.

"We can pick up a lot of knowledge that can translate across a lot of food types. The knowledge that exists should be shared more widely."

New Zealand food producers can use these insights to position their products in the premium category. As Peter Landon-Lane sums up, quoting last year's *Agenda*, "we want our products to be globally recognised as high value brands, the Rolex or Gucci of food."

"We are trying to understand consumers to a level we are able to predict their needs into the future."

Peter Landon-Lane
CEO, Plant and Food Research



Thriving in exhilarating times

In last year's *Agenda*, we explored in detail the challenges associated with adding value to primary produce, along with the organisational DNA we believe is necessary for a company to be successful in its value-add initiatives.

For an organisation to thrive in exhilarating times of change, all the seven DNA nodes of high value organisations need to be present. From our conversations, it then became clear that there are further competencies industry leaders believe are necessary to enable an organisation to identify and respond to change.

Recapping the DNA nodes of high value organisations



Pivotal leadership

These are leaders that bring enthusiasm, passion and vision to their organisation, setting the pace of the organisation and defining its direction of travel.



Ambition and attitude

The organisation has a desire to be the best in the world, but recognises they don't know everything and consistently seek learning opportunities to propel them forward.



Strategic anchor

The purpose of the organisation is clearly defined and understood by all employees; they are clear on why they get out of bed and go to work each day.



Investment and resource allocation

Organisations recognise that empowering investment is not just driven by spending on capital assets but into intangible areas such as people, brands, innovation and customer engagement.



Customer intimacy

The organisation is prepared to walk in their consumers' shoes, to understand the problems they need them to solve to enhance their daily lives.



Capable people

Technical competency is a given, but real value is delivered by ensuring alignment between a team member's aspirations and values and those of the organisation.



Deployment discipline

A single-minded focus on deployment is critical to consistently creating and capturing value.



We have continued our analysis into the DNA of high value enterprises during the past year; and in addition to the seven attributes discussed in last year's *Agenda*, have confirmed an eighth attribute, collaborative cultures. This theme is developed in this *Agenda*, as collective behaviour was consistently identified as being critical to responding profitability to change.



REALISING POTENTIAL

Energising, agile governance.

This means developing governance models that are aligned to an organisation's needs, rather than replicating structures that have dominated for decades, if not centuries.



How important is the 'NZ' Factor?

While it is important for companies to recognise their NZ origins, they must articulate a wider story than purely origin in order to de-risk their business and gain greater traction.



Taking calculated risk.

Overcoming the gravitational pull to replicate what has been done in the past is critical in a fast-changing world; organisations need to accept that taking calculated risks will contribute to success.

Fit for purpose innovation ecosystem.

An effective innovation system – focused on commercial results rather than academic output – is key to ensuring organisations prosper in a dynamic world.



REALISING POTENTIAL

Collaborative cultures.

Organisations that pay more than lip service to collaboration and enter into purposeful partnerships that share risk and rewards will realise the power that multiple perspectives can deliver.



Deep diving into the lives of consumers.

Organisations that are intimately acquainted with their consumers will identify opportunities to solve their problems, thus creating a competitive advantage.



Energising, agile governance



The key role of leadership in creating value came through clearly in last year's *Agenda*, and the issue again featured prominently in the conversations held this year. Contributors believe it is critical to have strong leadership at the helm, in both the C-Suite and the Boardroom, however it was regularly noted that organisations can be unclear on the differing roles of leadership and governance. This causes roles to become blurred and effectiveness to be impacted.

In last year's *Agenda* we identified leadership as a critical DNA attribute for a high value enterprise. We recognised that the right to lead comes from an ability to clearly articulate an organisation's direction and then set the pace at which it collectively moves along that course. A leader does not delegate decisions. They empower their people to make decisions when they hold the best available information.

We received a range of views around the behaviours that constitute good governance with one contributor eloquently suggesting that the role of the board is to 'put the wind under the wings' of their management team to enable them to soar. There was a clear message that governance is not about embedding a risk-averse culture into a business. Rather it is about achieving a balance between ensuring compliance and leveraging available opportunities to create stakeholder value. A strong board willingly mentors management to interpret and respond to 'matters of grey'; by drawing on experience and delivering insight.

The often-articulated challenge was that too many boards dedicate too much time to managing risk rather than delivering on the potential of their organisation.

Redefining governance models

The approach most primary sector organisations adopt to governance has changed little in decades. Governance is usually delivered by a group of predominately non-executive, self-selected directors. They meet on a periodic basis to consider reports from management on matters arising within the business and provide their views on issues such as investment decisions. For larger organisations in New Zealand, it is relatively rare for executives to sit on the board. Many organisations, particularly co-operatives and industry good bodies, often elect some or all of their directors to ensure stakeholder views are represented.

It was suggested that largely 'political' governance processes can see directors being retained based on past reputation or relationships rather than the skills they are delivering to the organisation. For a number of contributors, separating governance from representation was seen as critical to deliver optimal outcomes. The point was made that it does not follow that an elected board is going to be ineffective, particularly if reflects on its capabilities. A board that recognises its strengths and weaknesses and takes steps to ensure it has the right skills around the table is most likely to be effective. Examples were given where Boards have proactively embarked on initiatives to bring fresh and diverse talent to their table when a need has been identified.



Clearly, the best guarantee of effective governance is having the right talent around the board table. This may require some companies to rebalance the numbers of appointed and elected directors in order to reserve seats for people with critical skills. It also provides an opportunity to bring more disruptive thinking to how a board is structured.

For instance, start-ups often structure governance with a small core board of 2-4 directors, complemented by a group of trusted advisors, specialists and visionaries who collectively understand the business and its purpose. They join the board when they are able to bring relevant insight and understanding to the table. For some companies, this means they have upwards of 20 full and alternating Directors. Companies should ensure they have designed a governance model that best meets their unique needs rather than replicating what they have always done.

Enabling the business to handle change

The central theme in many of our conversations around governance was the time boards spend on risk and compliance compared to growth. Our discussions would suggest that there are very few boards in the primary sector where the right balance is being achieved. The prevailing view is that far too much board time is spent on risk, compliance and reviewing the past; with inadequate time dedicated to strategic awareness and future growth. It was suggested that initiatives such as the health and safety reforms are shifting the time balance even further away from growth, as focus shifts to staying out of jail rather than keeping people safe.

The industry needs energised governors that are able to focus on managing mission-critical risks without labouring the mitigation of every risk to the nth degree. This releases board time to focus on the long-term growth of an organisation. To do this effectively, directors need to understand the business and its operating environment more comprehensively than they ever have before. It also requires greater thought around the design of the board meeting agenda.

We received many insights into how boards are reshaping their work programmes to better focus on the future. Some organisations are setting aside time in their agenda for general information-sharing on what has piqued the interest of board members since the last meeting, encouraging wider thinking about opportunities for an organisation. Other organisations are encouraging Directors to have deep immersion experiences within market, which can include them taking part in home visits to consumers. Others are including an environmental scan in their board papers for each meeting. Some are shifting compliance activities into committee meetings to free up time in the main board agenda; or exploring how technology can be used to make compliance more efficient.

Agile, energised governance does not happen by accident. Organisations must invest in their Directors and governance processes to deliver the leadership to make an organisation soar.

Taking calculated risks



Given the world we live in is constantly changing, the most significant risk many organisations take is continuing to instinctively do the same things that they have done in the past.

This desire to replicate past success makes our organisations vulnerable to the future. However, for many of our contributors breaking the gravitational pull of the status quo is one of the most pressing leadership issues they face in their organisations.

These issues are not unique to the New Zealand primary sector. A resistance to taking risk has permeated business culture throughout the developed world in the aftermath of the Global Financial Crisis. Research from Harvard University found that companies in the US have focused heavily on delivering higher short-term shareholder returns, in preference to positioning an organisation to deliver long-term success. Management attention has been directed towards growing short-term profitability (through discounting, cutting costs, and scaling back or halting investments into more risky initiatives), increasing cash dividends and implementing capital return programmes; all with a goal to raise share prices.

While such initiatives deliver short-term gains, they can have significant impact on future growth; particularly if the business loses its capability to innovate. One contributor suggested that an unwillingness to take the necessary risks creates scenarios where an organisation could move rapidly from comfortable to catastrophic failure. This is particularly so when there are many emerging organisations looking at how they can disrupt established players to capture their profitability.

Last year's *Agenda* highlighted to the cost of creating value – with expenditure often required significantly in advance of the likelihood of return. Yet without that investment, it is difficult for a company to successfully break away from commodity cycles. The challenge for management is that they need to make a compelling business case for these investments; which can be particularly difficult when faced with a conservative board using short-term shareholder return models as their guiding principle.

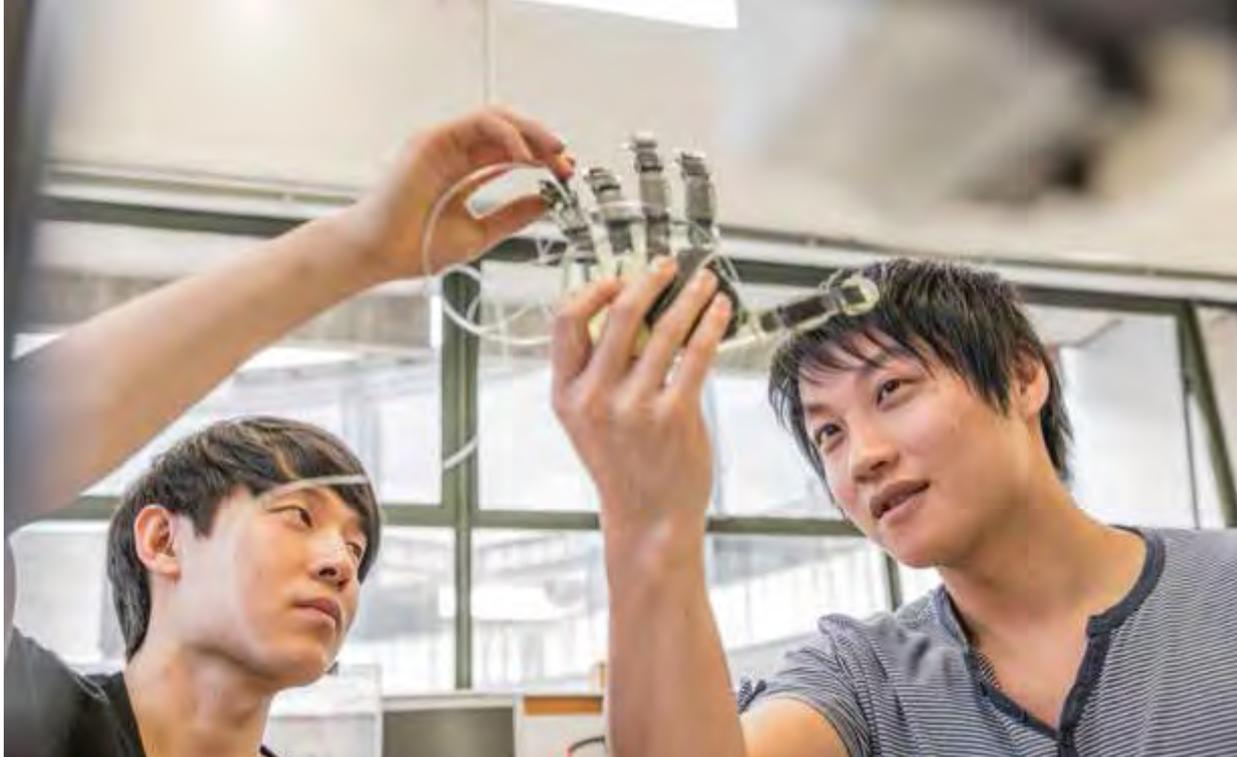
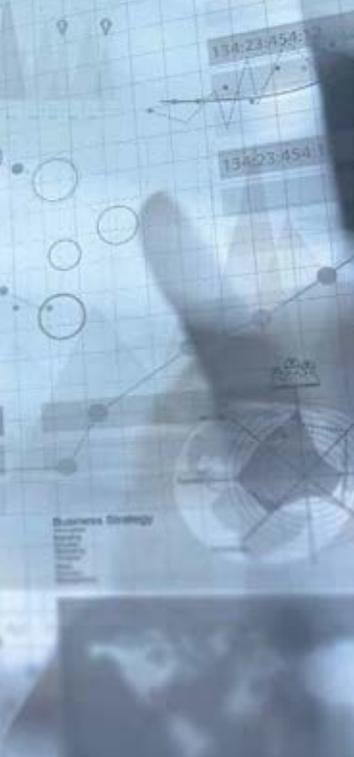
Many ideas were raised around initiatives companies should pursue. The goal is to provide them with both the flexibility and the capability to remain relevant to their consumers and position themselves to deliver shareholder returns into the future. These are not always radical tactics, but when combined with innovation spending, collaborative partnerships and consumer connectivity they can protect a company's relevance and equip it for future growth.

Sourcing adequate capital for growth

One of the biggest constraints on taking risk is the quantum and mix of capital available to New Zealand companies. Many of our large companies are co-operatives. These entities often lack cash to take risks for growth, given the cash needs of their members, however there is no lack of other funds available to enable good businesses to grow. We need to build a culture that recognises that owning half of a growing business is better than 100% of a stagnating entity. Even though risk comes from partnering in an investment, this can be managed by carefully identifying an investment partner and clearly defining the rules of engagement from the outset. Aligned investment can provide the capability to take a risk that an entity could not countenance on its own.

Creating billion dollar product brands

New Zealand has hundreds of companies growing and exporting agricultural products, despite producing less than 1% of global production. We have a plethora of great small food companies but they struggle to double or quadruple their businesses – yet alone grow billion dollar brands. With a small domestic market, our companies must risk entering offshore markets earlier in their lifecycle to build scale, making it harder to grow major brands from New Zealand. That is why collectively providing pathways for a warm entry into a market – whether co-funding of promotional activities or collectively bringing customers to New Zealand – creates value for all our growing businesses. The benefits of presenting a wider basket of New Zealand products to market provides both Government and commercial companies with an incentive to help growing businesses.



Embedding a start-up mindset

The inherent benefits of a start-up culture were raised during a number of conversations. Start-ups live by the seat of their pants. They try new things every day and often take risks that 'bet the business' in the process of delivering on their purpose. As the business grows, and process and governance is introduced, the excitement and passion of the start-up period is often dissipated. Preserving (or reinstating) these elements of a start-up culture in an organisation is critical if a business is going to be closely connected to its purpose and comfortable taking risks aligned to that purpose.

Learning to fail

Not every risk will pay off. Start-ups know this very clearly, and see failure as a critical part of developing and growing. Yet failure appears to carry a stigma in New Zealand that does not apply in other countries. This is something we need to change. As a small country, a failure often attracts disproportionate media attention than it would elsewhere around the world. Governors and others in the sector need to support people who have been through a failure experience. Learnings from failures are beneficial. The key is having the maturity to know when to admit something isn't working and fail an initiative, rather than trying to flog a dead horse.

Facing up to reality

The need to actively scan the global environment for opportunities and potential seeds of disruption has already been noted in this report. Problematically, we often only focus on the analysis that confirms our beliefs about the future. To ensure a business is focusing on the most relevant risks, it is more important that the analysis is not confirmatory but focuses on evidence that contradicts an established view of the world. In the agri-food sector, there are burning platforms, including the emergence of synthetic and cultured proteins which challenge all our assumptions on natural protein. Analysing these issues with an open mind clearly identifies the value inherent in storied, natural proteins that would be missed if the role of new food types is ignored.

Looking beyond the Government

For too long, the sector has looked to the Government to provide solutions to issues and risks they have identified in the market. The immediate reaction that the Government has the answer to every problem harks back to a past generation. Of course, there are areas where the Government is well-placed to assist with finding solutions; such as the challenges working through market access impediments, like phytosanitary issues, to get products across a border. However more often than not, it is better to look to the market for an answer; be that a commercial collaboration, a product redesign, an innovation programme or a supply chain reengineering exercise. During our round-table discussions, it was made clear that more solutions to primary sector issues will come from the market rather than Wellington.

Employing the visionaries

Every *Agenda* we have written has highlighted the importance of getting the right talent to enable organisations to unleash their potential. The key to identifying and managing risk is having people with the ability to see the biggest of pictures and understand what opportunities this creates for an organisation. Dreamers may be unfair description of them but they are people with the ability to scan the horizon, analyse, interpret and action the strategies that will shape the organisations future. They are the disruptors, who deliver a clarity of thought many organisations lack. Talented people can come from any background. One contributor described their game changing employee as a 15-year-old they had recently recruited.

Forcing change through standalone structures

A number of contributors raised examples of initiatives to drive change within their businesses through the use of challenger brands that sit largely or totally outside their mainstream business. These companies have taken this approach because of the resistance to change inherent in their organisation, making standalone the only effective way to respond to risk and shape the future. This approach is becoming more common. Spark used the approach successfully to create challenger brands like Skinny. Scaling a challenger model or shifting it into the mainstream can sometimes prove difficult; nevertheless, they provide a strong case for change to those still stuck in the past.

Building on a 130-year pedigree



☞ CASE STUDY

Landcorp has a challenging role as the backbone of the New Zealand farming sector. Focus continues to grow on what farmers do and how they do it. Landcorp was created in 1987 with a history that stretches back to 1885. Today Landcorp has an asset base of over a billion dollars.



Landcorp has contributed to the growth of the primary sector through significant success in lifting farmland performance. Social expectations have grown on how farmers manage their land. A new direction is critical for the future of the sector despite a successful past. Landcorp CEO, Steve Carden, has recognised the old business model cannot continue.

“Intensifying farming is not the best option for the animals or the environment, that means the model previously used is no longer viable”

This has driven Landcorp to deliver a new brand ‘Pāmu’; products of absolute integrity. A promise to be guardians of a healthy relationship between the land, people, and all living things.

Landcorp’s business model has four pillars; the health and safety of people, the health and well-being of animals, care for the environment and innovative systems. “We need to farm smarter and with care while driving innovation and taking the best of Landcorp to all our farms;” explains Steve Carden.

“We have the advantage of scale because of our network of interconnected farms.”

The next step for Landcorp is to refocus its products on consumer needs in niche markets. Landcorp may be our largest farmer in New Zealand, but on a global scale it’s more akin to an artisan farmer.

“Having the ability and expertise to understand consumer needs beyond the farm gate is critical. Globally we are small, so we need to be focused on the subsets of the markets we target.”

Sarah Risell, GM of Sales and Marketing, explains that Landcorp works with partners to create value through points of differentiation and the Landcorp story.

“Pāmu represents authenticity. It’s about having trusted quality and product integrity sourced from our family of farms.”

Steve Carden says building trust with the board and leadership team has been fundamental for Landcorp to start this journey.

“To really gain traction we need alignment from the board and our leadership team, while also taking staff on the journey. Small wins gain trust.”

Risks can be taken as trust is built. As Steve Carden notes, these will deliver more rewarding outcomes.



Partnerships

Building key partnerships is part of modernising and innovating the company. True value-add is created from partnering with those sharing the same values and philosophy.

New Zealand Merino is one of Landcorp's key strategic partners "We have similar values and the same philosophies, sharing an approach to grow value in the market;" says Steve Carden.

Recently the companies have jointly signed a two year contract with Danish Company, Glerups, that makes a 100% natural shoe from Pāmu wool.

"Glerups have come to us as we all share the same ethos. They love New Zealand and know we can provide a quality product with a story behind it."

Landcorp and Glerups work in partnership to tell a powerful and valuable story. "We work in partnership with our customers to align what we do with their needs and those of their markets."

Innovation – and another partnership reflecting this

Landcorp recognises the need to leverage natural resources and innovation to form great partnerships. Landcorp has partnered with SLC Ventures, the result is a market focused venture – Spring Sheep Milk Co.

The long term goal is to export high value quality sheep milk products to Asian consumers. The company has launched with a range of products and a decadent gelato but with plans to develop new products as market acceptance grows.

"It is a whole new farming system. The sheep are literally skipping in to be milked – it makes a huge difference when the animals are happy."

Learnings from these new farming systems can be applied to traditional meat and wool systems. Organics is another promising opportunity for Landcorp with the conversion of two dairy farms underway. Landcorp will certainly look to expand if prototyping goes well.

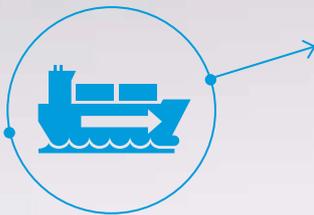
According to Steve Carden: "This is not about us throwing out 130 years of science and development; but it is about embracing what consumers want."

With new thinking driving future value creation, the Landcorp of tomorrow will be very different to anything that existed throughout its 130-year history.

"We work with our customers to align what we do with their needs, and the needs of their markets."

Steve Carden
CEO, Landcorp

Fit-for-purpose innovation ecosystem



Innovation and creativity in the primary sector will fuel the future economic prosperity of New Zealand. Our ability to differentiate our products to the world's more affluent consumers will create a thriving engine for our country.

An effective innovation ecosystem is critical to enable the sector to thrive in a dynamic and evolving world. Our contributors believe we can no longer afford to have a system tied to traditional academic benchmarks.

Instead, we need a system that directly measures the value that is created from its output. The innovation ecosystems in Silicon Valley or Israel are focused on commercial outcomes, and are models we should aspire to. We need to look past the delivery of perfectly polished scientific papers; and learn how to connect our commercial needs with science explicitly.

A key message from many discussions was that research institutions often prioritise scientific process at the expense of speed and agility. This is unsustainable in a world where the window to commercialise an innovation is constantly shrinking. As we enter the fourth industrial revolution, New Zealand is sitting on top of the powder keg of an agricultural revolution. This revolution is about to transform how produce is grown, processed and consumed around the world – yet we don't seem to be recognising the opportunities that this offers us. We need to accelerate our innovation systems if we want to remain relevant into the future.

Many of our contributors have spent significant time working with or within the science system. Their views provide clarity on what the system needs to enable us to produce a pipeline of transformational innovation. We received many observations about opportunities to enhance the system. We must ensure that it is fit-for-purpose to propel the primary sector towards a more prosperous future.





Impact of lack of industry vision

One contributor noted that we have no shortage of scientists or Government investment into science – yet we are short of the vision to focus our innovation on the transformational bets for the country. We have been arguing in the *Agenda* for years that there is a need for the industry to collaboratively articulate its vision. Without such a vision, it is difficult to identify the highest priority areas that innovation investment should be directed towards.

A number of our contributors highlighted the collaborative work that is currently underway to develop a national forage strategy. The goal of this project is to articulate a vision as to how our pastures can be optimally utilised by New Zealand farmers, and guide R&D investment to enable farmers to realise the potential of their pastures. This is a perfect example of how a vision can guide collaborative investment in to innovation, in turn maximising the benefits for all stakeholders. The creation of a clearly articulated vision for the primary sector will ensure that public investment is partnered with private capital to increase the probability of capturing the best opportunities for value uplift.



Challenges of doing science when the goal-posts keep moving

During the sixties and seventies, the primary sector in New Zealand made long-term intergenerational investment into research. This investment has provided a pipeline of innovation that has supported world-leading productivity growth for decades. The goal-posts in place during this period moved very little, simplifying the challenge of scoring goals and creating success.

Those investing in and delivering innovation today face more significant challenges. The continuous change in the communities' expectations of the sector, and the needs of consumers, means the goal-posts are consistently moving. It is therefore critical that investors and providers are scanning globally for the best opportunities to innovate to secure market leadership. Capturing these opportunities necessarily means company's need to take on greater risks. Taking risks about the future will mean more projects will fail to meet expectations. Organisations therefore need to take a portfolio approach to their investment, spreading their risk, and increasing the likelihood that they seek out collaborative partners to co-invest with.



Regional science focus

We gain local insights from holding our round-tables in varying cities around the country. One of the most significant variances we observe across the country is the varying science and innovation needs that exist in different regions. A process is underway to establish some regional science hubs. The Government received 24 proposals from which they have selected three for further development (relating to viticulture and oenology in Marlborough, space science technology in Central Otago, and precision agriculture in Southland). The ability to embed highly localised and relevant science capability closer to the users of the technology makes sense to us. However it is also important to ensure that the science remains intimately connected to the evolving needs of our markets and consumers, and not isolated from it. From the information available it appears the proposals are focused on productivity rather than consumer needs. There is a concern the hubs will add more governance and overhead to the science system. We strongly support connecting scientists to the users of their work, but believe the focus should be on creating regional landing bases for scientists to engage with the industry.



Problem-focused innovation

Many primary sector organisations keep their issues and problems close, working autonomously to try and solve them. When one looks at the best-in-class innovation ecosystems, a key attribute of these systems is that organisations are more willing to share their problems and crowd-source solutions. It is not unusual in Silicon Valley for groups of apparent competitors to join together to spend a day or a weekend hacking solutions to a specific problem the group has been challenged with. Diverse thinking and collaborative problem-solving will accelerate the speed at which issues are addressed and innovation brought to market. Accelerating the innovation rate by open-sourcing our problems and working collaboratively can challenge many organisations but is driving success around the world.



Specialist commercialisation resources

Another regular theme raised by contributors is the challenge of successfully commercialising innovation in New Zealand. There is no shortage of good ideas – we often lack the right people to deliver the solution from the lab to the world. The skill sets needed to develop a product are very different to those required to successfully market a product; and we lack the depth of commercialisation specialists that are able to fuse the handover of a technology to the commercial sector and take the product to market. One approach suggested by leaders is that innovators should be mentored on how to realise value from their ideas. This requires greater investment into post support networks to ensure our best ideas consistently find their way into the daylight.



Leveraging innovation occurring around the world

A comment made on a number of occasions was that our science budgets are comparatively small when benchmarked globally. This reduces our likelihood of unlocking transformational innovation compared to those with greater resources. A core competency we must develop is gaining access to, and leveraging, relevant innovation occurring across the world. In last year's *Agenda* we proposed creating a standalone capital fund, to take early stage investment positions in transformational technologies to provide New Zealand companies with early mover advantages as these innovations are commercialised. This requires a partial refocusing of our science system. Shifting away from fundamental discovery, we must tailor and adapt globally-sourced technologies to make them commercially relevant for our industries. Without taking and leveraging proactive positions in key global innovations we risk stagnating with a science system largely playing catch-up on innovations created by well-funded competitors around the world.

Innovation can take many forms – original research, new approaches to the market and different models for commercialising intellectual property. The development of Rokit Apples has seen many innovations come together to create rapidly growing global demand for this unique product.



Is New Zealand's science system where it needs to be?

The New Zealand Government makes a significant investment into relevant research and development for the primary sector. This is made through a range of organisations and programmes; including the Crown Research Institutes (CRIs), universities and Callaghan Innovation; as well as into programmes such as Primary Growth Partnership (PGP), National Science Challenges, CORE Funding and a range of contestable funding initiatives. Few contributors questioned the sufficiency of the Government's investment. There was much discussion, however, on whether the investment is effectively delivering the innovation step-up needed for long-term value growth.

Contributors recognised the Government is looking to cap its investment into innovation, expecting other organisations to lift their investment. This is resulting in the rules surrounding various programmes being tightened. It was suggested that this year's funding round had been the most contestable to date. Highly contestable funding systems tend to favour investigator-led research programmes. These programmes have more ambitious goals and the backing of an investigator with a proven track record (albeit they may lack alignment to a commercial purpose). Such a bidding process diverts the focus of our best investigators from their work to write funding proposals. Consequently the nexus between Government investment, science output and economic return is becoming blurred.

There was another issue raised relating to overhead levels being built into the public science system and the impact that this has on the efficiency of the system. The PGPs and National Science Challenges have introduced new levels of governance and administration into the system with no link between the growing overhead bill and enhanced innovation returns. Concern was raised that those guiding funding decisions are often more connected to the generation of science rather than its commercialisation. Consequently the wrong lens may be getting applied to the allocation of funds.

We have already touched on the perceptions that New Zealanders have about failure and it was suggested that the negative connotations of failure are shaping the government's investment into R&D. Funding is being pushed towards projects with lower risk profiles, perhaps reflecting a concern that the failure of a project will hit the headlines. The country needs game-changing investment – and the Government needs to direct funding towards high-risk projects; as without the right support, this work will just not happen.

There are varied perspectives on how easy it is to obtain Government co-funding for innovation programmes. Some commentators suggested that the hurdles to securing the funding are too high, so 'why bother?' Yet others note that thresholds are too low at times, particularly in respect of requiring a clear connection to market opportunity. A simpler, more easily accessible system for general R&D funding would accelerate overall innovation. Reverting back to a credit mechanism through the tax system would make it easy for relevant investment to receive Government support, without the cost and complexity that comes with current processes.



The small, sweet, easy to eat global phenomena

☞ CASE STUDY

With a different lens on the best way to revitalise the apple market in New Zealand, Rockit set out to disrupt the industry, one bite-sized apple at a time.

The Rockit apple was a unique product of the apple industry's breeding program, in which Phil Alison, the company's founder and Director, saw a global opportunity; the world's first, specially bred, miniature apple.



The initial response was sceptical, the size was seen as a shortfall. Undeterred, Phil recognised the opportunity and through the Havelock North Fruit Company (HNFC) secured the global rights for the variety and named the miniature apple "Rockit".

Size was its point of differentiation, being the perfect snack size it makes it easy to eat on the go; "it is small, a few crisp bites and you are done" explained Steve Saunders, one of HNFC's Directors.

"Normally small apples of the normal varieties are inferior. They are small because they are not pollinated therefore not having the flavour and taste. The core will be too large with not enough flesh around it."

Rockit apples were bred to be small, they are perfectly proportionate.

To test his hunch that there would be a market for Rockit, Phil planted some trees on his home block, selling some of the Rockit apples into Taiwan. To this day, Taiwan remains their biggest market.

"We saw a gap in the FMCG space for a differentiated health product. We did not want our apples to be in the produce section at the supermarket; we wanted it to be niche, in a premium position in the snack food department."

As the international potential of Rockit became clear, the need to raise capital was accelerated. Rockit's compelling story has made it one of the largest angel investment deals in New Zealand.

This story attracted brought a diverse group of investors around the table to create a blueprint for the rapid scaling of the product globally.

Steve and Phil went to the US and Europe in early 2012 and identified strong interest offshore. To get the markets developed globally, they needed to start in their backyard.

As Steve explains: "Increasing production in New Zealand led the company to set up a number of syndicated orchards. We leased land through limited partnerships, initially to develop 75 hectares. A year later, we developed another syndicate to plant an additional 50 hectares."

Using an 18-year lease model has attracted a number of Māori trusts to partner with HNFC. The opportunity for underutilised land to be developed and invested in to deliver an income has been compelling for many.

Scaling has been rapid. Globally, there are now 1.4 million trees are planted, equating to 550 hectares.



Packaging

A point of distinction is Rockit's unique packaging.

While they currently import tubes from China, they are striving to become more efficient and cost-effective around packaging.

"It is a challenge," says Steve.

"We are currently using recyclable PETs (polyethylene terephthalate), but we'd like to move to PLAs (Poly Lactic Acid) which is a plant-based compostable plastic. But the problem we have is that many countries don't have the infrastructure to deal with compostable plastics. You cannot put PLA in recycling bins. PLA is not recyclable, it is compostable. A lot of people do not realise the difference."

Steve notes there is a whole education piece that needs to take place around sustainability and packaging. In the market place you consistently come across plastic. Everything has something plastic over it and for good reason, it protects food security and traceability. It ensures the hygiene and safety, there is no touching or sneezing on the food.

Structures

Rockit has scaled using a model that has not been used widely before in the industry.

"In a number of key markets, we went out and found licensees for their respective territories. Under the license they have the right to market and grow the fruit within that territory."

The contracts are between Havelock North Fruit Company, the licensee, and the grower. Should problems ever occur, there is the backstop of a direct agreement between HNFC and the grower. This applies in every country around the world.

Steve adds that Rockit has taken lessons from "our 'big brother', Zespri."

"We implemented a 5-year research project as to how best grow Rockit apples. The partnership is between HNFC and Callaghan. Every year we update our growing best practice manual which gets disseminated to our growers around the world."

Within territories, each licensee controls their own marketing, however HNFC controls the overall global marketing of Rockit and sets the brand standards. This creates a cohesive global action plan in which each territory has to submit yearly plans including price points, statistics etc.

"Additionally we have an international growth grant with NZTE. They have been extremely supportive and have helped us to truly develop in Asia. It has been an absolutely fantastic relationship that has enabled us to really gain traction."

"150 hectares
now planted in
New Zealand,
we have
260,000 trees."

Phil Alison

Managing Director, Rockit Apples

Creating collaborative cultures

The younger emerging leaders of the primary sector expect substantive collaboration. This was made clear in last year's *Emerging Leaders Agenda*, when they delivered a stark warning to the organisations that they work for and the wider industry.

Organisations need to not just to pay lip service to collaboration but to really collaborate through sharing risks and relying on partners to deliver.

Given the relatively small scale of many businesses in the primary sector, the need for collaboration has been a recurring theme in the *Agenda*. This year, we're seeing evidence that organisations recognise the benefits of collaboration and are increasing their collaborative capability. They are expanding the diversity of their staff – bringing the perspectives of more women, young people and different ethnicities to the table to engage in collaborative business opportunities. As the boundaries between food and wellness become increasingly blurred, identifying and partnering with the right organisations offers the opportunity to unlock significant value. Business sectors or geographical origin are becoming less relevant.

In discussing how collaboration is evolving in the sector – particularly in response to the levels of change organisations are facing in their markets – we heard numerous examples where organisations are adopting innovative responses to support sustainable growth. Some of these include:

Overcoming the inherent constraints of seasonality

Seasonal growing curves, particularly for grass, are a significant limitation of the sector and value is lost through this constraint. A glut of product during spring and summer followed by shortages in winter limits the ability to place all product into higher value markets. Organisations are therefore looking for strategies that can help them overcome the grass-growing curve. For some, this is about investing into offshore production facilities to deliver year-round supply, while others are looking to partner smartly to meet customer expectations. This can require organisations to challenge what they are bringing to the value chain. What are their competitive advantages, what are the product attributes that consumers place most value on, and which story around their product resonates the most? Partners need to not limit themselves and think carefully about all attributes of the products. They need to present a single product experience to the market to maximise value.

Designing fit-for-purpose collaboration models for Māori organisations

A feature of the conversations this year was the initiatives Māori organisations are taking to work together, thus increasing their scale and the economic impact they generate for their people. Initiatives are occurring in sectors as diverse as berries and fisheries. Iwi are working collaboratively on initiatives to invest in understanding market opportunities, combining product volumes to increase scale in the market, and providing opportunities for smaller organisations to become involved in higher value projects. One collaborative model is the Iwi Collective Partnership, which brings together 14 iwi in the fisheries sector. It has enabled the iwi – who were previously followers and price takers – to joint venture with established export businesses to gain experience and capability across the value chain. In turn they achieve better returns on the investments they have made or received in the sector through settlement.





Regional collaboration to accelerate economic growth

Varying geological and climatic conditions across New Zealand result in sectors clustering together, assembling into regional areas that are best suited to the products they grow. Leveraging these natural benefits to grow greater value requires collaboration. It also requires the necessary infrastructure for organisations to thrive; services like science and innovation, investment and funding products, or tailored transportation solutions. It was apparent during our discussions some regions are doing this more effectively than others. This can be attributed to the willingness of businesses and Government to collaborate on a compelling, integrated economic plan for a region. Not forgetting the commitment to investment in line with the plan. The Bay of Plenty, for example, has positioned itself to be the region of choice for innovative businesses. Collaborative initiatives have included attracting a university campus to the region, the growth of a vibrant angel investment scene, and preserving a lifestyle that is attractive to creative people.

Collective initiatives to obtain deep insight into markets

Insights play a critical role in identifying the highest value market opportunities available, and we discuss this in the following section. The challenge, however, is that obtaining deep insights is a time-consuming and expensive exercise. It was clear during our discussions that more organisations are starting to recognise these can be collated more cost-effectively by collaborating with industry peers. For example, the Te Hono Movement has been a catalyst for bringing CEOs together from diverse parts of the industry and building trust between them. As these relationships have developed, organisations targeting similar markets are seeing the benefits of sharing costs in obtaining insights. Given they are very often focused on the same customers yet are selling different products, they can be complementary rather than competitive.



We're seeing many organisations doing more than just paying lip service to collaboration – they are taking substantive actions to reshape their business model. Yet the view was still regularly expressed that the industry could do significantly more to eliminate duplication and waste across the industry, and to grow value faster. Internationally there are huge food contracts (such as supplying ration packs to offshore governments for military or relief use) that a single company lacks the scale to service independently. With a co-ordinated approach, the New Zealand industry could position itself to target winning these high value contracts, with the potential to realise long-term value from the use of highly innovative food processing techniques.

To capture opportunities and truly add value we need to move away from working in silos. Too often, those with great business ideas run out of capital before they realise their vision. Attitude and energy dissipates as they try to do everything themselves. Creating scale through collaboration means the country is not left relying on a few people and an oily rag to deliver the future. To be competitive in a fast changing market we need to supercharge collaboration.

Deep diving into the lives of your consumers

Valuable consumer insights are not necessarily obtained quickly or easily. Passing observations, a fleeting visit to market, or once-over-lightly data analysis are not a sufficient basis on which to make fundamental decisions. The reality is sourcing deep, highly relevant insights is a long game. It requires ongoing investment of both money and time to truly comprehend the future market and the problems consumers want solved.

Deep insights should also challenge organisations to reshape the solutions they bring to the market. They may force an organisation to step outside its comfort zone in terms of how it interacts with its partners in the value chain. They may lead to a complete repositioning of operations into new niches that offer the greater potential to generate larger margins. While many primary sectors organisations have focused heavily on building sophistication inside the farm gate, too few have developed world-class sophistication beyond the farm gate to ensure that they own the consumer segments that their products are supplied to.



One contributor highlighted that we have no choice but to grow our in-market sophistication to secure long-term success. Without this, our organisations can never expect to keep pace with the structural shifts occurring in their markets. To capture true value, organisations need to look beyond agents and distributors. They need to apply creative, out-of-the-box thinking on how to position their products to the world's premium consumers.

These are just some ideas on how organisations can get closer to their customers in order to deliver outstanding experiences:



Unlocking the power of New Zealand's diaspora

Given the pride New Zealanders have in their country, it is a slightly inconvenient truth that 14.1% of native-born kiwi's (around 600,000 people) choose to build their lives outside of the country. Many reasons are given for this – the lack of high paying jobs, our under-performance in innovation, or simply the physical remoteness from the major population centres. The reality is that our diaspora (which is second only in percentage terms to Ireland in the OECD) provides us with a powerful source of insights about real life in the global markets we sell to. The industry – together with NZTE and organisations like KEA (the Kiwi expatriate network) – must work out how we leverage these New Zealanders more effectively. We need to enable them to enhance our understanding of the issues our customers face in their daily lives; as well as engaging them as product ambassadors for our exported products.



We don't just need to walk in our customers shoes, we need to live in their houses

It is apparent some industry leaders question whether traditional market research techniques generate sufficiently deep insights from consumers. As the Plant and Food Research case study highlighted, organisations are now looking for alternative, more invasive, ways of gaining insight. Rather than interview 2,000 people over the telephone or survey 20,000 respondents online, the application of ethnographic research to how people live and interact with food is evolving rapidly. Executives are looking to get really close to their consumers – by going out to meet with them in their houses, taking a shopping trip with them, going out for dinner and even staying the night in their home. The goal is to really understand how they live, what motivates them, and how they can help to deliver products that exactly meet their needs. The application of ethnographic research to how people live and interact with food is evolving rapidly. Given we target products towards premium markets, we have no choice but to be on the leading edge of this trend. The cost and complexity will mean projects will often need to be conducted collaboratively.



Creating organisations that are passionate about the experience they grow

We regularly hear that New Zealand is world-class at farming and farmers around the world look to learn from our innovation and how we have successfully grown productivity. This perception, which is probably not as true today as it was 20 years ago, makes many comfortable there will always be a market for our products. The reality is we should be looking outside of our borders to learn from these farmers that we would often, narrow-mindedly, write off as having little we could learn from them. The French dairy farmer, for instance that we view as subsidised and inefficient, has a passion for the cheese that their milk is used to produce and the experience the ultimate consumer enjoys. This is a critical attribute too often lacking in our primary sector. If we could absorb that passion widely into our farming systems, this would ensure that our products are grown with total focus on the experience that they deliver to the ultimate consumer. Aligning the farmer to the value-chain and creating a deep provenance story around the product, differentiates it in the market. If we are to become world-famous for the products we produce, we need to ensure that they are produced by foodies.



Using digital technologies to deliver local food experiences

Consumers that are able to pay a premium price for products often have a desire to understand more about the origins of their food and how it has been grown. They are more likely to buy through farmers markets or high-end food retailers (stores like Whole Foods Market or Farro Fresh in Auckland), because these retail channels better connect them to the source of the food. For many consumers, it is the link to the grower that drives their purchase rather than the geographical source of the food per se. This creates an opportunity for food producers in New Zealand to use digital technologies to position themselves as a local food producer to the world. The ability to tell a compelling story online grows continuously (virtual reality technologies such as Oculus Rift will soon take this to another level and well beyond anything possible at farmers market). Social media provides the conduit for real-time conversations with consumers; and e-commerce platforms, like Amazon and Alibaba, provide fulfilment channels to get products to consumers all over the world quickly. Gaining insights to the drivers of local food purchasing could enable our primary sector to reposition itself as the world's artisan food grower.



Matching volume to the scale of the market opportunity

The traditional goal for the majority of primary sector businesses – growing more volume – has had very little to do with the needs of their customers. Rather it is focused on a belief that more product will enable the organisation to make more money. The majority of companies that have therefore developed across the sector thrive on receiving a flood of products. They have created business models focused on processing volume rather than matching food experiences to market opportunities. To unlock the true value of the products we grow, it is critical that efforts are made to align the supply of the product to the size of the market, to gain the highest value price point. It was suggested that companies like Zespri, Tatua, Dairy Goat Co-operative and Comvita are creating value by broadly aligning supply to the higher value market opportunities they have identified.



Embedding capability into organisations to synthesise available insights

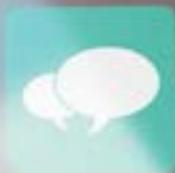
The ability to respond effectively to change is ever more challenging. Given that data flows are growing exponentially, the reality is that organisations need to embed new capability into their day-to-day operating models. This may require employing experts in areas such as data analytics and design thinking – so that information can be captured, interpreted and then applied in designing continually more tailored consumer experiences. Achieving this comes back to a theme that was raised earlier in this *Agenda*, and in many previous reports; the industry needs to be able to attract talented people with the skills and diversity of thought to apply these emerging practices to their businesses. Achieving this, as always, comes back to the leadership and ambition of our organisations.



12:03



THE RED MEAT SECTOR



12:08
18 AUGUST

Innovation and collaboration is key to quality



☉ CASE STUDY

The sheer passion for quality wine is palatable at Villa Maria. For this family-owned business – which exports to 60 countries, and has been ranked among the world’s top ten most admired wine brands – the drive for quality has underpinned Villa Maria’s strategy for over 40 years.



Executive Director Fabian Yukich explains how this purpose is embedded across the company.

“People talk about quality at every touch point. It is not just in the winemaking and in the vineyard, it is on the bottling line and everything we produce.”

“We have processes in place to ensure continuous improvement, for example we adopted a LEAN programme called ‘ACE’ – achieving continuous excellence. This guaranteed we had the hard processes and tools in place for us to continuously improve” explained Karen Fistonich, Chairperson of Villa Maria.

“If you put in an application for capital expenditure you need to justify how it will improve the business with a key question being what is the implication on the wine quality. It is just built into our “business as usual” processes to ensure everyone is speaking the same language.”

Karen’s father, Sir George Fistonich, has always had a focus on the longevity of decisions; not compromising future advances for short term gains.

With strong leadership, a vision to create a long-term business and an authentic family story, continuous improvement is the cultural backbone of their company.

Screw Cap Innovation

With a focus on quality, Villa Maria’s management recognised that the quality of corks was an impediment to consistently meeting consumer expectations.

“No matter how hard we tried to quality check the corks before they came in, our wine experience was inconsistent. The processes just didn’t exist in terms of quality with cork production overseas” recalls Karen.

A group of boutique wineries in Marlborough came together to look at how they could revolutionize the industry to secure consistency in wine quality. Numerous trials were done in an attempt to transition from cork to screw cap but consumers were reluctant to engage due to cork being the traditional closure. Despite the quality issues, consumers were committed to the cork top.

“While the evidence was strong that the quality of wine was better with screw caps, there was a lot of hesitation in market to adopt this”.

Even at a Board level there were concerns “I remember sitting around the Board table at the time, facing a very scary future.” Karen recalls of the discussions leading up to making a full switch to screw cap, the first major winery to do so.



People were devoted to the closure of a bottle being with a cork. Some considered it to be corporate suicide to challenge such a fundamental part of the wine industry. With an underlying promise to consumers to provide the utmost quality wine, they had no regrets about making the jump to screw caps.

However it was controversial. Negative feedback flowed in, orders were cancelled and complaints received. Sir George dealt with every complaint personally.

“After being educated, most people became passionate ambassadors for the screw cap. It actually ended up turning into a wonderful story, albeit risky at the time.”

With consumers realising that now with every case of wine received, there was a consistency of quality, the validity was a no-brainer.

This wasn't innovation for innovation sake, it was part of being on the journey of unstoppable improvement.

Collaboration of the Group of 12

Take one case of wine, insert 12 different premium brands, and this is collaboration at its best; each being each other's biggest advocates.

The Family of 12 had its beginnings ten years ago, when a group of Kiwi family wine-makers joined up to tackle the global wine market scene together.

“When going into an overseas market, consumers have a constant stream of wine makers and sellers knocking at their door. It is very hard to gain traction” Fabian notes.

Attacking as a group is powerful. Not to mention more economic and more enjoyable.

“We now bring people to our home land, top journalists and wine sommeliers. They will tour around New Zealand, experiencing the 12 distinct and unique wineries and go back to write up great reviews, raising our profile, encouraging people to buy our wines.”

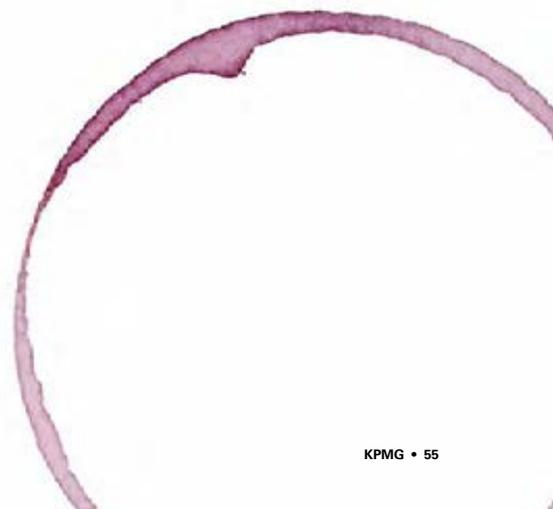
Each brand is successful in its own right, but collaboration and collective strength is far more powerful. It is a unique story that grabs people's attention.

Competitively, the group do have some strict rules. At family of 12 events there is a limit of two wines each from each member. Or if they have a dinner, they strategically match wines to certain courses. “We know how to play off each other's strengths. We look at what the market is asking for and present the most appropriate options”, Karen adds.

“Overseas we are selling our wine as an NZ brand, it is a holistic approach which we can all leverage off. The wine industry has proven success in collaboration especially in taking our wine out to the world.”

“Overseas we are selling our wine as a New Zealand brand.”

Karen Fistonich
Chairperson, Villa Maria



How important is the New Zealand factor?

Professor Simon Anholt, a globally recognised expert in country reputation, spoke to the Te Hono movement earlier this year. He spoke on maximising New Zealand's value by being perceived as a 'good country' – not just for its own people, but for the world.

Being good for the world is not just about having a brand story; it is about doing the right things because they are the right things to do, which is a theme that has come up many times in this report.

Most people around the world base their perceptions on whether a country is good, or not, on very limited knowledge and evidence. Consequently these views do not change quickly. Views tend to be enshrined into the psyche of the global community based on historical events, and it is likely to take a cataclysmic event of global significance to shift these views.

Many organisations place their New Zealand origin front and-centre in their marketing initiatives. They leverage the gains made in global awareness of the country over the last 15 years through strategies such as the Tourism New Zealand 100% Pure NZ campaign (one of the most successful tourism branding campaigns in history); the Lord of the Rings/Hobbit movies; and global events, such as the Americas Cup and the Cricket World Cup. The market positioning of New Zealand's brand was raised in many of the round-table discussions.

It was clear that, for many organisations, their New Zealand roots are an integral part of their DNA. For many others, their story extends well beyond their origins. The fact they are a Kiwi company is only one element of a much wider brand story they articulate to consumers around the world. This may be because product is no longer solely sourced from New Zealand (as is the case with Zespri kiwifruit and T&G Global apples), or that processing is being done closer to the consumer to maximise value. It could also be because the companies are placing greater focus on the innovation, integrity or experience that their products are delivering to consumers. It was suggested that the organisations that rely most heavily on Brand NZ are those that struggle to differentiate their products.

It was apparent that a lack of control over how other organisations use and impact the New Zealand story and national brand is seeing some organisations reduce their focus on their kiwi origins in telling their story.

While Professor Anholt suggests long-term perceptions of countries are glacial in their evolution, there is no doubt that a shock to the New Zealand brand in one sector resonates across the whole economy. If a foreign student is murdered in Christchurch, social media translates this into a conversation about safety and race relations in New Zealand, tainting perceptions about the reputation of the country for all. For an organisation that has made New Zealand central to its story, this could impact sales and profitability.

Recognising the power of New Zealand as a counter to the mega brand

The cost of creating a mainstream, global FMCG brand continues to spiral upwards. As the number of high value markets grow, and media channels become increasingly fractured, the reality is that the cost of creating mega brands is outside the financial capability of most New Zealand companies. Given the importance of a brand to articulate the experience that a consumer can expect from a product, the majority of New Zealand companies explore three branding options; either creating niche brands that appeal to the consumers they are targeting; partnering with a brand owner to leverage their IP; or associating their product with 'brand New Zealand'.

- » The niche strategy enables highly tailored messages but does require the approach to be shaped to each market the organisation operates in, which can increase cost and complexity. It was also highlighted that this strategy can confuse consumers if they are offered a number of similar New Zealand products telling different stories, directing their focus towards price rather than a product's attributes.
- » Partnering and collaborating with a brand partner is an attractive option for organisations wishing to scale quickly. In such arrangements, organisations need to be careful where the power lies. If their product does bring exclusive features to enhance the brand owner's story, the risk of commodifying a product increases. If power lies predominately with their partner, this could erode the value able to be realised at the farm or orchard gate.

» When marketing their products, many organisations look to leverage the perceptions of New Zealand and New Zealanders. Observations of a relatively simple, easy, clean lifestyle are inherent to our national brand. The brand has a perception of quality, safety and integrity. For those that have previous engagement with New Zealand this works well but for many their knowledge is limited. We therefore need to tell the story in many dimensions to enable consumers to connect with the aspects that are relevant to them. For some, that may be our values and the way we do business, or the imagery of New Zealand and our iconic landscapes; while for others, it may be seeking comfort around the innovation and integrity of our products (preferably delivered to their smart-phone at point of purchase).

Brand New Zealand and perceptions of our country are inherent to every organisation in our country. The industry needs to take proactive steps to preserve and enhance the perceptions that people hold of New Zealand being a 'good' country for the world. Creating optimistic and positive perceptions will create value for organisations and the wider community.



“We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard.”

– John F. Kennedy





When President John F Kennedy addressed an audience at Rice University in Houston in September 1962, the American public perceived that the US was losing the space race to the Soviet Union.

President Kennedy recognised how being first to the moon would impact on the morale of the country. It would be an absolute demonstration of the superiority of US technology and perseverance to redefine what the human race could achieve.

At the core of JFK's statement is a recognition that the biggest benefits come from doing the things that, on paper, appear close to impossible. The benefits that have been delivered by the Apollo moon landing programme have been far greater than just the prestige that comes from achieving something nobody else had. The programme accelerated technology advances in sports footwear, fire-proof fabrics, solar power, motion sensors, pacemakers, cordless equipment, digital imaging and alternative fuels. In this way, the moon landings have shaped many aspects of our day-to-day lives.

This speech was made many years ago, and has nothing directly to do with the primary sector in New Zealand. Yet when I heard the speech last year, there was something about it that instantly resonated with me. The primary sector in New Zealand has the ability to create greater value from the produce we grow. This is not something we will achieve by continuing to do the same things we have always done in a world that is changing as quickly as it currently is.

The message behind JFK's words is that the biggest reward comes from doing the hard stuff. The stuff that may seem a bit crazy, that may scare the living daylights out of you or, uncomfortably, cause your organisation to stand out from what everybody else is doing. More 'lone nuts' are what the world needs (for more on this, google Derek Sivers' TED talk).

Articulating your own 'moon landing vision' and setting a course to achieve it will direct your focus on doing the hard stuff. A bold, audacious vision will deliver more than what would ever be achieved through business-as-usual growth strategies. Delivering the hard stuff requires a clearly articulated vision (that stakeholders buy into), significant investments (aligned to the vision), and an unwavering focus on the goal.

The speed of change in global markets offers immense opportunities. The challenge is identifying the initiatives that will make your organisation stand out. Initiatives could come from radical new products, reshaping the experience delivered to a consumer, re-imagining supply chains, or taking a stand on an issue because it is the right thing to do. Committing to overcoming the challenges will create the game-changers.

The more organisations look beyond comfort and challenge themselves to do what is hard, the more likely New Zealand's primary sector will be recognised as the home of the world's finest, ethically produced, artisan food, beverage, fibre and timber. Achieving this will create a prosperous industry, easily delivering \$100 billion of value from our exports by the end of the next decade.

Let's take this course because, at this point in time, we choose to do these things because they are hard.

Nine actions we can't afford to ignore

This *Agenda* has covered significant ground and touched on many and varied issues. Having listened to the conversations and analysed the feedback, we asked ourselves what are the most important actions that the industry cannot afford to ignore, as at June 2016, if we want to shape the incredible future for New Zealand we know it is capable of.



1



Taking positions on environmental and ethical issues because they are the right positions to take

There are many issues that the industry must be prepared to take a stand on – whether it is ensuring the water quality in our rivers and streams delivers on the community’s expectations; eliminating introduced predators from our environment; removing farmers that fail to meet animal welfare standards from the industry; or delivering on consumer expectations to produce food without antibiotics. If we do what is right because it is right, we position New Zealand as a good country for world. This is a position that will deliver substantive benefits into the future.

2



Defining the expectations placed on all industry participants in an auditable framework

The Irish agri-food system has stolen a march on the rest of the world with Origin Green. It’s a framework that defines the expectations placed on businesses across the value chain in respect of environmental management, animal welfare, responsible employment, and other ethical business expectations. It follows having an industry that is prepared to take positions on these issues is just the first step. For these positions to become reality, all industry participants must live them day-to-day in their business. Defining the standards in an auditable framework, that builds on the Irish model, is critical to securing the value they create.

3



Establishing an independent body to facilitate the hard conversations

On a number of occasions in this report we have raised issues that have been in the too-hard basket for too long. Our positioning on the spectrum of genetic technologies is an obvious example, but there are others to be explored. These include the intensification of farming systems and the role of foreign investment in our future. People’s views on these issues are often deeply held, and finding consensus between entrenched positions is challenging. We need to find a way to talk about these issues; bringing relevant independent analysis to the table and seeking common ground. It may be time to create a Commission for New Zealand.

4



Collectively investing to secure access to game changing innovation

New Zealand has a productive and innovative science sector, but it is constrained by the funds that the Government and other organisations have available to invest into research. Given the scale of investment being made around the world in agri-food technologies, it is critical our organisations have early access to the most relevant innovations. We suggest that the industry collaborates to create a capital investment fund. This would create opportunities to gain first-mover advantage in developing new products and opening new markets.

5



Securing the future for our rural communities

Given the significance of dairy to our country, the current downturn in prices is having a material impact on rural communities in many regions. It is critical that our rural communities remain strong and vibrant if the industry is going to deliver on its potential. The current initiatives to provide support to those people most at risk must be adequately funded by Government and industry to ensure support is available when people need it. Continuing to pursue high speed connectivity in rural areas is also critical to effectively delivering social services, enabling productive high value businesses, and attracting talented people out of cities.

6



Progressing radical steps to attract and retain talented people with the skills and experience to realise the potential of the primary sector

The sector needs 50,000 additional people over the next 10 years, with hugely diverse skills and experience. These people need to be recruited in a highly competitive labour market; where the construction, technology and hospitality sectors are all targeting the same people to support their growth. As a consequence the sector must ensure it rates among the best employers. As well as providing attractive employment conditions, they need to provide clear career and development pathways. Ideally, the sector will be seen as the best place for talented people from New Zealand to have a career on the international stage.

7



Responding to new forms of protein and other disruptive threats

Globally, the investment being made into alternative forms of food means that it is only a matter of time before new food solutions come on stream. They will start to substitute some of the natural foods we have built our economy on growing. It is critical that organisations are consistently scanning the global market to identify the seeds of disruption that may impact their operations. Utilising these insights can drive the future direction of the business. It is critical that all the information is gathered and heard. The evidence that challenges established strategies has the greatest potential to identify opportunities that will create long-term value.

8



Articulating a compelling vision for New Zealand's primary industries to counter those that believe in the power of doing nothing

For a number of years, we have been advocating that a clearly articulated vision for the primary sector be developed. The need is only becoming more pressing as time goes by. New Zealand has some of the most strategically important primary production assets in the world, yet it is clear that without a vision many opportunities to use these assets to create wealth and prosperity are being missed. In the absence of a clear understanding of what we collectively could achieve, councils and organisations are preferring to shape the future by doing nothing.

9



Recognising that as participants in the global agri-food system our organisations have a role to play to addressing its failures

Although more food is grown today than ever before, the global food system still fails to adequately feed around 800 million people each day. While New Zealand producers will never feed the world, they do have an obligation along with all industry participants, to make a contribution to helping the world feed itself. New Zealand organisations should look at how such initiatives can contribute to their product story – whether it's participating in food recovery programmes, or providing talented people to use their skills in different parts of the world.



We received more commentary and insights from our contributors in preparing this edition of the *Agenda* than we have ever done before. That made the challenge of creating the report more stimulating than ever.



We trust that we have again created a useful narrative to move the conversation forward on how the industry creates the value for its participants and the wider New Zealand economy. We would like to thank each and every one of our contributors who gave their time and their opinions so freely – without your input we would be unable to produce the *Agenda*.





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Dallen Olson	Lindy Nelson	Simon Hegarty
Honourable Damien O'Connor	Lisa Payne	Simon Yarrow
David Birkett	Malcolm McMillan	Sir William Gallagher
David Handley	Malcolm Nitschke	Sophie Stanley
David Hemara	Mark Dewdney	Stephen Macaulay
David Surveyor	Mark Harris	Steve Carden
Debbie Birch	Mark Heer	Steve Maharey
Dion Tuuta	Mark Jeffries	Steve Saunders
Don McFarlane	Mark Ross	Stuart Gray
Dr Eric Buenz	Mark Ward	Stuart Wright
Eugenie Sage	Mark Williamson	Tiaki Hunia
Fabian Yukich	Mark Wynne	Tim Ritchie
Fiona Gower	Marie Dawkins	Todd Muller
Gary Hooper	Martyn Dunn	Tom Buryneel
Geoff Coppins	Mauray Leyland	Tom Richardson
Geoff Taylor	Michael Ahie	Tony Egan
Sir Graeme Harrison	Michael Brooks	Tony Nowell
Graham Smith	Michelle Thompson	Vicky Robertson
Graham Stuart	Mike Chapman	Volker Kuntzsch
Grant Absolum	Mike Peterson	Warren Parker
Grant Rowan	Honourable Jo Goodhew	Warick Roberts
Greg Campbell	Honourable Nathan Guy	Wayne McNee
Greg Muir	Miriana Stephens	Wayne Mulligan
		Wendy McGowan
		Zelda de Villiers

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Foreword

Hon. Nathan Guy

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Production: Tina Smith **Design:** Adam Herlihy



HELPING THE SECTOR PROSPER

We are proud to have partnered with or supported the following organisations and events over the last year



KPMG Farm Enterprise

The KPMG Farm Enterprise teams in both the North and South Island are driven by Brent Love and Julia Jones, our Farm Enterprise Specialists, who are passionate about working with ambitious businesses to enable them to prosper. They do this by bringing the full extent of KPMG's resources, together with their extensive experience, inside the farm gate.

Our mobile Farm Enterprise team enable us to do business with you wherever you are in the country, and we continue our commitment to grow our footprint across New Zealand. We have demonstrated this by growing our Timaru team and opening an office in Ashburton during the last year.



Bringing the skills of the wider KPMG team to the primary sector

With the rapidly expanding global population, competing land uses, increasing food price volatility and attention to environmental sustainability, food security has become a high priority issue for governments globally. To achieve food security trends including cross-border investment, market consolidation, sustainable supply chains, freeing up of trade barriers and governance enhancement have become increasingly evident in the sector creating business issues for industry participants that KPMG has the skills and experience to assist our clients in developing solutions.

Market consolidation

Agricultural industry structures have often reflected traditional subsistence farming methods, however these are unlikely to deliver the food security required in the future and consequently market consolidation is being driven by farmers seeking scale. Issues arise around industry structures, capital structures and market access. New investors are coming into the sector with different return and reporting expectations.

Freeing up trade barriers

Bilateral and multilateral trade agreements are changing trade patterns, for instance in the Asia Pacific region, the Trans Pacific Partnership agreement will form the basis of an APEC wide trade area. Understanding, interpreting and maximising the business benefit of trade agreements is increasingly important to companies across the primary sector.

Cross Border Investment

Agricultural production, processing and infrastructure assets have become increasingly sought after as governments look to secure food supplies and financial investors see opportunities for capital appreciation. Overseas ownership of agricultural assets has become a focus of political attention as the optimal use of land and water resources has become a priority domestic issue. We can help organisations looking to grow internationally or receive inbound investment to achieve these goals working with our global network.

Sustainable supply chains

Increasing consumer focus on where food comes from is driving retailers to examine supply chains to deliver more sustainably produced product to market. This requires retailers to understand how to improve the sustainability of their supply chains for agricultural produce and producers to be able to demonstrate sustainability. Legislation is yet to catch market practice.

Governance enhancement

The agribusiness sector has historically been closely controlled however is increasingly being exposed to international capital markets, increased scale and the demands that this places on governance and management. Establishing governance processes, implementing formal financial reporting and enhancing manual and technology based controls are challenges facing agribusinesses throughout the world.

KPMG can also help you with:

- » Availability and structure of equity and debt
- » Mentoring and support for growing your business
- » Negotiating financing arrangements
- » Volatility in earnings due to exchange rates and commodity prices
- » Issues arising from environmental regulations, carbon trading and food miles
- » Obtaining R&D funding to support innovation in genetics, seed technology and nutrition
- » Enhancing business performance by doing more for less
- » Financial reporting to support farming for profit
- » Valuation of brands on a local and international basis
- » Advice on control and governance structures for all sizes of business
- » Succession planning and future proofing your business strategy
- » Assisting businesses to successfully navigate China
- » Collecting, analysing and interpreting data
- » Social media listening and digital strategy
- » Cyber security

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