

# It's time to take back the initiative

By Ian Proudfoot  
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“People outside of farming do not realise that your whole life is consumed by farming – day in, day out. After six years in the industry, I am not certain I want a farm now. With the low returns, environmental issues, weather and biosecurity risks, long hours, animal health and welfare challenges, why would you do it? That said I am PROUD to be a farmer, a food producer, and I welcome people to come and visit my farm.”



Comment from  
grassroots roundtable

For the first time this year, we held two grassroots roundtable conversations in addition to our usual industry leaders' discussions. We invited good farmers, not those good farmers that sit on boards (although they may do in the future), but farmers that are ambitious and currently focused on growing successful, sustainable businesses. The discussions were fast-paced and sharp, and were encapsulated in the preceding quote. Working in the agri-food sector is hard. It takes over your life, you hate it at times, but you are going to keep doing it because you love the challenge and are passionate about producing high-quality food for customers around the world.

The problem is that the majority of New Zealand community has no knowledge about the complexities of running a farming business. Our customers are rarely, if ever, exposed to the passion of the people that grow the food that they pay a premium for. Our regulators are so focused on the minutiae of their rules that they miss the bigger picture, and fail to recognise how their actions impact the health and wellbeing of rural communities.

The mainstream narrative around the primary sector is nearly always negative. It feels like a newsreel of environmental neglect, farmers making big profits, animals mistreated, income crashes,

disastrous investments, disease spreading out of control, water being too dirty to swim in, people getting sick from eating food. We all recognise these stories and our hearts sink when the latest iteration breaks, as we know the media will milk it for a few days. That is one of the drawbacks of living in this beautiful place at the bottom of the earth, where there are few big happenings to report on, and mole hills can quickly become mountains.

The quality food, fibre and timber being created by thousands of farmers, growers and producers around New Zealand every single day is rarely, if ever, celebrated. The contributions that farmers make to their local communities and to New Zealand go largely unnoticed and recognised. The investments that the industry has made to better manage its impact on our land and water are dismissed as being insufficient, rather than being acknowledged for the scale of what has been achieved to date.

The reality is that the agri-food sector is the life blood of New Zealand. It creates wealth for the country year in, year out. The wide portfolio of products we grow and sell to the world means that even in a down year for dairy prices, there is usually another sector having a good year which is able to step up and fill at least some of the revenue shortfall.

## Selected export receipts – Year to December 2017



It is not like tourism, where an economic downturn or terrorist attack stops people travelling and the export receipts quickly dry up. It is not like oil and gas, where once the resource has been extracted and sold it is gone forever. It is not like property, where we trade buildings amongst ourselves and gross up both the asset and liability sides of our balance sheets. Unlike all those other sectors, food, fibre and timber generate sustainable revenue year after year and will always do so as people will always need sustenance.

The narrative around the contribution that the agri-food sector makes to New Zealand should be considerably more positive than it is. It is this sector that pays for the schools, roads and hospitals that the whole community relies upon.

The industry needs to act now to take back the initiative, and ensure that the world starts hearing the great stories that we have to tell.

Source: Statistics New Zealand Goods and Services Trade by Country: Year Ended 31 December 2017 – selected industries

## Why is now the time to tell our stories?

The unbalanced narrative around the sector has reached a point where it can no longer be ignored as an inconvenience or an annoyance. It is putting the sector at risk. It is putting the contribution the sector makes to New Zealand at risk. The message came through clearly during our roundtable conversations that the 2017 General Election highlighted how close the industry has come to losing its social license to operate.

However, it is not only the threat to the social license that should be focusing the industry on taking back the narrative. It is also about how customers perceive our products in comparison to a competitor's offering. The provenance story that underlies a product contributes to how its value is assessed. The positive stories we weave around a product can appear to be simply spin, when the customer makes a Google check and discovers nothing but bad news about the industry. They question our integrity. They question the provenance. If they do buy, they pay a lower price. The predominant narrative around the sector is costing our farmers, growers, processors and their supply chain partners real money every single day. It is costing New Zealand and all New Zealanders real money.

The reality facing the industry is that the threat of eroded value, caused by negative narratives, is growing every single day. As we have discussed in previous Agendas, the traditional value chain flowed lineally: from input suppliers, through the farmer to the processors, and ultimately to the retailer and the end consumer of the product. The bricks-and-mortar controlled by the retailer was the only point that the consumer interacted with the product, and this experience was carefully managed by the retailer to ensure that they captured the largest share of margin available from the value chain. Much of the time, the consumer had limited knowledge about the original source of the product they were buying. Given that, what was happening in the source country had little impact on their perception of the product or its value.

However, it has become increasingly clear to us that the traditional concept of a lineal value chain is rapidly being replaced by a much more complex 'value web' that is built around satisfying the needs of a consumer. Technology has eroded the previously-held power of the



retailer. Now every participant within the value web is able to develop direct connection with any other participant, including the consumer.

Given that the consumer sits at the centre of the web, every participant organisation should be focused on understanding their expectations for a product. Obtaining this understanding will enable them to maximise their contribution to delivering a high-value product; and in turn, be rewarded with a share of the margin reflecting this. In other words, they will be rewarded for what they bring to table, rather than simply due to their position on the lineal value chain.

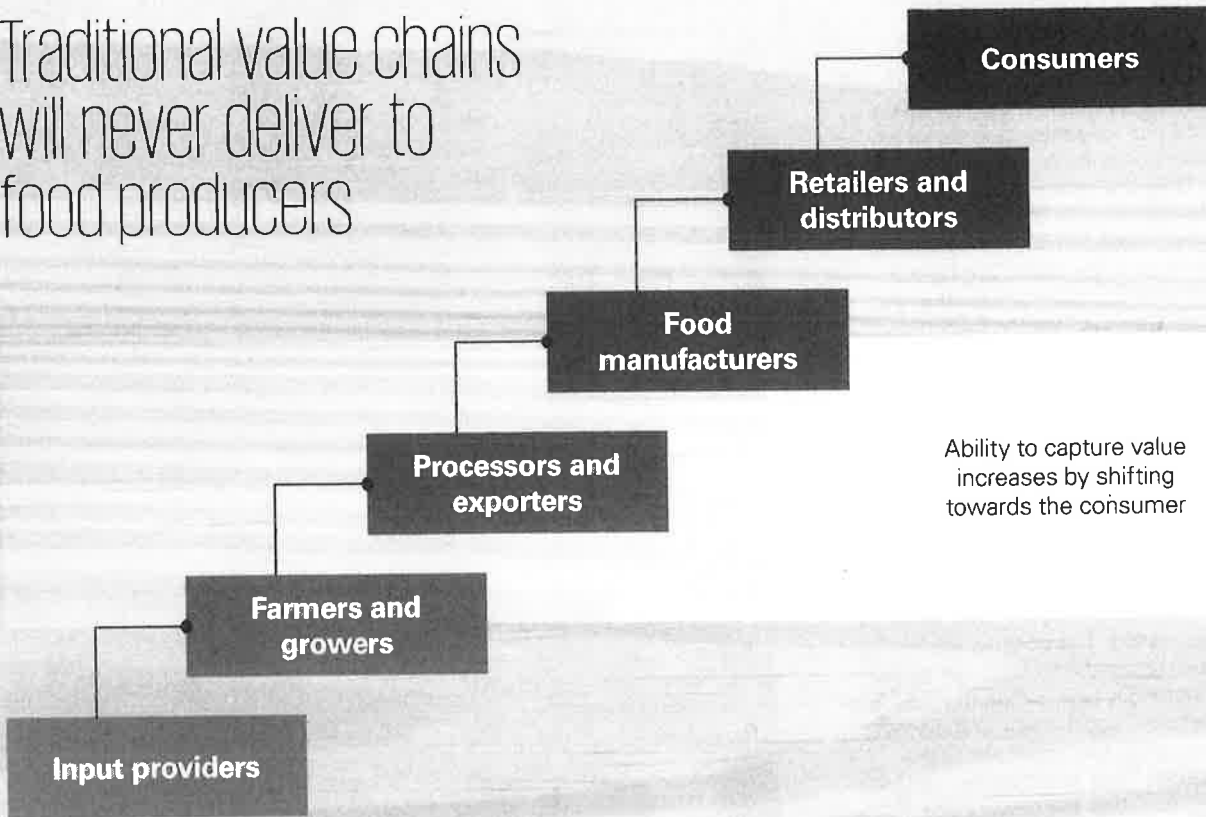
Meanwhile the consumer is also seeking information about the product they are being offered, and is seeking out a wide range of information before they make a buying decision. Uncertainty around the sustainability, efficacy, safety or quality of one product in comparison to another will make the buying decision easier for the consumer. The unbalanced narrative puts New Zealand's agri-food sector at risk. The need for organisations to raise their game and ensure that their stories are told in a way that satisfies the customer's requirements is more critical today than it has ever been in the past.

## So how does the industry tell its stories?

One industry leader that I met recently suggested that the agri-food sector does not need to tell stories. It simply needs to tell to the truth. His view was that in today's world of fake news and unreliable facts, stories are simply works of fiction to many consumers. His argument has merit. It may no longer be enough to wax lyrical about the natural environment the product comes from, the production systems used to produce it, and people responsible for growing it. While each of these elements are important, they do not tell the whole story.

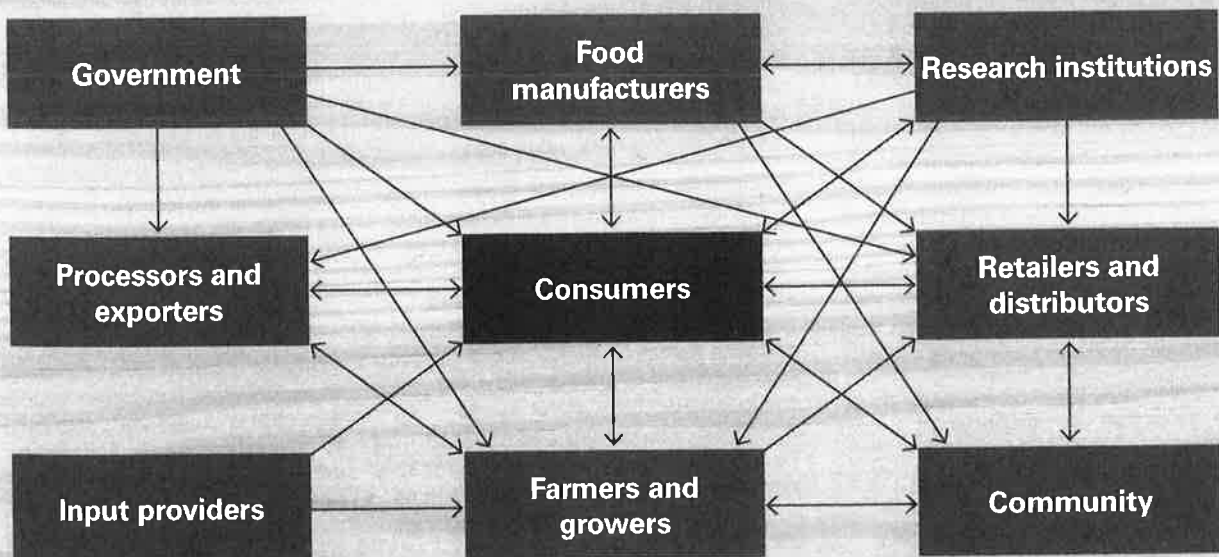
Trips our team have taken around the world over the last few months, some of which are described in this year's Agenda, have highlighted to us that consumers want more than poetry in their story telling. The stories they want to hear are articulated in a series of verifiable attributes that can be attached to a product as it is grown, processed, exported and ultimately distributed to the end consumer. Every step in a production process has the potential to add attributes to a product that consumers may find valuable. For instance, the cultivar or genetics of a particular plant or animal could be an attribute. The soil it is grown in, the way

Traditional value chains  
will never deliver to  
food producers



Ability to capture value  
increases by shifting  
towards the consumer

Envisaging the future:  
a consumer-centric value web





water is utilised, or how the environment is managed can all be attributes. The employment conditions of people involved in the process can be attributes, as can the channels through which a product is exported, or the technology deployed to verify its provenance.

The specific attributes that are important to a local community, an individual consumer or a specific market will vary; depending on their particular interests and values. However, an attribute will only be valuable to these stakeholders if it can be verified. This puts the truth at the heart of any story being told. When a local community can verify what is really happening within a farming system, it gives them confidence that the natural environment, water and animals are being used in an ethical and sustainable way. It will also assure a consumer that the provenance of a product is intact, and it has the attributes they would expect given its premium price point.

Throughout this Agenda, we provide ideas of attribute marks – or truthful, verifiable stories – that could be attached to New Zealand products. These could be developed by organisations, industries or the government around the key environmental, social and economic issues facing the sector.

Ultimately, specific businesses will identify and develop the suite of attributes that best suit the needs of their product, based upon a deep understanding of their customers' needs.

As more companies embrace the principles of integrated reporting (IR) – and consider their performance in a wider sense than just profitability – we expect the attributes that companies choose to focus on will increasingly align with a more comprehensive approach to business reporting. The inclusion of attributes within an IR framework enables companies to better articulate the total contribution they are making to their community, as well as being transparent about their opportunities to do better.

Given that the agri-food sector has faced a regular barrage of criticism in recent years, much of it unjustified, this represents a real opportunity. The great thing is that most in the industry are already doing what is needed to provide their products with a compelling attribute-based story. The industry now needs to front-foot this, obtain the necessary verification and take the lead in telling its stories in a factual way, but with the true passion that exists across the sector. This is the only way to take back the initiative and firmly regain control of the narrative. Articulating the attributes inherent within products will provide accurate stories to counter those based on half-truths and perceptions that have dominated the conversation for far too long.



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