

A report from the
Food and Beverage Taskforce
August 2006



Smart Food, Cool Beverage

NEW ZEALAND'S FUTURE IN THE
FOOD AND BEVERAGE SECTOR

the fact that the *Journal of Applied Behavior Analysis* is the most widely read journal in the field of behavior analysis.

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Minister's foreword



Earlier this year, Cabinet agreed that economic transformation would be one of the government's three priorities for the next decade. The approach to economic transformation is underpinned by five basic themes: growing globally-competitive firms; establishing a world class infrastructure; developing innovative and productive workplaces supported by high standards in education, skills and research; having an internationally competitive city in Auckland; and focussing on environmental sustainability.

These five general themes need to guide the actions of government agencies and private sector interests. This report reminds us, however, that it is the resource based industries that will anchor and drive economic transformation in New Zealand, with the food and beverage sector playing a central role. Economic transformation is about using our long established areas of international competitive advantage as the foundation upon which we can build new strengths to sustain our future prosperity. It is about building out of, rather than away from, our national economic heritage.

The report stresses that, when we talk about a sector, we are talking about a wide spectrum of players. The food and beverage sector is not just about private businesses. It is also about education providers, research organisations, trade unions, industry associations, local communities and border protection systems. Working together, these components can capture the enormous opportunities that are today emerging in world markets. Working separately we risk succumbing to the increasing competitive pressures of a globalising world.

This report is focused on a lot more than what government can do. It aims to challenge all sector participants to lift their game. The government is ready to play its part in securing a prosperous future for the sector.

A handwritten signature in black ink, appearing to read 'Trevor Mallard'.

Hon Trevor Mallard
Minister for Economic Development
Food and Beverage Taskforce Co-chair

Co-chair's foreword

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The Food and Beverage Taskforce was asked to assemble a development agenda for the sector and to secure stakeholder ownership of that agenda and commitment to its implementation. We were to help shape strategic thinking in the sector, by providing vision, drive and detail, based on a sound analysis of current strengths, weaknesses, opportunities and threats.

The report that follows is a mix of analysis and information to guide the thinking and actions of all sector participants.

Our approach evolved out of six areas:

- Research: to provide a set of performance indicators to map existing activity.
- A discussion paper:¹ the paper gave an overview of the changes the sector faces and asked for comment on three possible scenarios for the sector's future.
- Nine regional workshops: to engage sector participants around the country. Approximately 400 people participated in the workshops.
- Issue-specific presentations: the taskforce requested several presentations from industry experts on areas such as bio-security, environmental sustainability, business assistance programmes, new initiatives in food manufacturing and food safety regulation.
- Working groups on innovation, marketing and skills: the groups commissioned detailed research into specific areas of interest and developed related recommendations. The groups were serviced by the lead government agency and were co-chaired by industry and government.
- Taskforce discussions: the taskforce members provided invaluable insight and experience.

The taskforce's report describes where the food and beverage sector is now and what it needs to do to prosper. If you are interested in more in-depth information on particular features of the sector, a large amount of background data is available electronically.²

¹ New Zealand's Food and Beverage Sector: a Focus on the Future. A discussion paper prepared by the Food and Beverage Taskforce, November 2005.

² See Appendix 2 for details.

To move the sector forward, there are things that the government and industry can do in partnership, and other things that only industry, or only government, has the power to effect. Ultimately, this report is a call for action by the sector itself, its leaders and the many individuals who work within it. This is something the government cannot conscript. There is no viable future for the sector if it waits for the government to take it by the hand.

We have backed away from recommending yet another industry structure as industry associations already abound. Rather, we envisage that the development agenda will be delivered by various coordinated and fit-for-purpose implementation vehicles, be they existing or new, under the guidance of a peak level Prime Minister's Advisory Council.

Improved alignment and considerably more collaborative activities between sector players and government agencies are key requirements.

We acknowledge that the government is a key player and devotes a lot of resource to the sector: through its bio-security and food safety regimes; in education and training; funding of research; provision of business assistance programmes; and in trade access negotiations. Aligning that resource with market opportunities and the needs of New Zealand's food and beverage firms is a challenge that the managers of the public agencies must accept.

Our terms of reference stress that the ideal outcome is that the resources of industry, government, science and education are focussed in partnership to deliver faster, smarter, sustainable growth in the sector. We believe that we have signposted where that focus ought to be. Constructing the partnership and delivering on its potential now passes to those who can make it happen.



Tony Nowell

Chair, New Zealand Food and Grocery Council
Food and Beverage Taskforce Co-chair

Taskforce members

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Tony Nowell, Chair, New Zealand Food and Grocery Council

Food and Beverage Taskforce Co-chair

Tony, former Managing Director of Griffins Foods Limited, chairs the New Zealand Food and Grocery Council and the New Zealand Packaging Accord. He is a member of both the ASEAN New Zealand Combined Business Council and the New Zealand Business Council for Sustainable Development.

Carol Beaumont, Secretary, New Zealand Council of Trade Unions

Carol has a breadth of skills in strategic planning and advocacy for employees. She is also committed to adult education within industry.

Lynnette Ferguson, Head of the Discipline of Nutrition, University of Auckland

Lynnette also heads the university's Centre for Mutagen Testing and is the programme leader for the New Zealand Centre for Research Excellence in Nutrigenomics.

George Fistonich, Owner and Managing Director, Villa Maria Limited

George founded Villa Maria in 1961. He is renowned for his entrepreneurial talent, his determination and the vision he has shown for the New Zealand wine industry.

Tim Gibson, Chief Executive, New Zealand Trade and Enterprise

Before joining NZTE, Tim was the managing director of Kapiti Cheeses Limited. He is an advisor to the School of Business at the University of Otago and a trustee of the Asia New Zealand Foundation.

Tim Goodacre, Chief Executive, Zespri Group Limited

Tim has strong community and business commitments to the Bay of Plenty region. Prior to coming to New Zealand, he was involved with the Australian Wheat Board for twelve years at the senior-executive level.

Robin Hapi, Chief Executive, Aotearoa Fisheries Limited

Robin is an elected member of the Seafood Industry Council Limited and a director of the Sealord Group Limited. He has also had a twelve-year tenure as the chief executive of the Treaty of Waitangi Fisheries Commission.

Lauraine Jacobs, Food Editor, Cuisine Magazine

Lauraine is internationally recognised for her in-depth knowledge of local and global food culture and consumer trends. She is also a cordon-bleu trained chef and the food and wine ambassador for NZTE's Market New Zealand programme in America.

Peter Lucas, ex-Chief Executive, Heinz Watties Limited

Peter recently retired as chief executive of Heinz Watties Limited, Tegel Foods Limited and Heinz Watties Australia. He has worked extensively in the Australasian and Asian consumer markets.

Alison Quesnel, International Manager Emerging Markets, Blackmores Limited

Alison is an appointee of the Small Business Advisory Group, a director and mentor for Business Mentors New Zealand and a virtual advisor for Gosling Chapman's Export Training Programme.

James Ritchie, National Secretary, New Zealand Dairy Workers Union

James is also a board member of the Dairy and Meat Industry Training Organisation and a member of the New Zealand Council of Trade Unions' food sector group.

Sam Robinson, Farmer

Sam has extensive experience in the farming industry. He has been a sheep and dry-stock farmer since 1973. He was the chair of Richmond Meats until July 2004 and is currently the chair of the Agricultural and Marketing Research and Development Trust. Sam is also on the board of Farmlands Trading Society Limited and of the Port of Napier.

Murray Sherwin, Director General, Ministry of Agriculture and Forestry

Murray has previously held the roles of deputy governor and deputy chief executive of the Reserve Bank. At the Reserve Bank, he held responsibilities for economics, financial markets and currency functions.

Graham Stuart, Group Director Strategy and Growth, Fonterra Co-operative Group

Graham's experience in the dairy industry dates back to 1985 when he started working for Mainland Products Limited. Since then, he has held a number of senior roles including being Mainland Products Limited's chief executive.

Paul Tocker, Chief Executive, New Zealand Institute for Crop and Food Research

Paul has been involved in the dairy industry for three decades and is a former chief executive of Tasman Milk Products Limited. He is also committed to improving business performance through the application of science and intellectual property.

John Upton, Manager, Horizon Meats New Zealand Limited

John is also a council member of the Meat Industry Association of New Zealand Incorporated and a director of Cervena Trust Limited. He is a former director of the New Zealand Beef and Lamb Marketing Bureau Incorporated, Venison Rotorua Limited, the New Zealand Meat Board, Meat and Wool New Zealand Limited and the Meat and Wool Trust.

Peter Vitasovich, Chair, New Zealand Mussel Industry Council Limited

Peter is also an executive member of the New Zealand Aquaculture Council Incorporated and a shareholder in, and managing director of, Greenshell New Zealand Limited. He has been involved in the seafood industry for 29 years.

Ex Officio**Minister for Economic Development, Food and Beverage Taskforce Co-chair**

This role was held by the Hon Jim Anderton until 19 October 2005 and has been held since then by the Hon Trevor Mallard.

Minister of Agriculture and Forestry

This role was held by the Hon Jim Sutton until 19 October 2005 and has been held since then by the Hon Jim Anderton.



Taskforce Members (left to right)
James Ritchie, Tim Gibson, Robin Hapi, Lauraine Jacobs, John Upton, Sam Robinson, Lynnette Ferguson, Tim Goodacre, Carol Beaumont, Tony Nowell (Co-chair), Alison Quesnel, Murray Sherwin, Paul Tocker, Graham Stuart, George Fistonich. Absent: Peter Lucas, Peter Vitasovich, Hon Trevor Mallard (Co-chair)

Introduction

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Historically, the food and beverage sector has been the backbone of New Zealand's economic development. This has been due in part to beneficial resource endowments, resourcefulness and opportunism. In particular, though, it has been due to focussing science and skill on boosting yields, by driving down costs and by delivering a reliable supply of products that meet customer specifications.

Today, pressures in global markets are intensifying the unrelenting squeeze on trading margins. These pressures include consolidation of retail buying power, competitors expanding production and improving quality, and foreign governments imposing ever more stringent and costly food-safety and traceability regimes.

In the face of this, maintaining recent growth rates from the existing sector base is no easy task. It will need redoubled efforts to contain costs and protect prices, using innovation to further raise productivity, improving the flow of skills into the sector and developing more effective collaboration between the main players.

The sector, however, has the potential to do more than replicate its past. It has to do more if the wider economy is to prosper. There is no plausible scenario that envisages a major lift in economic performance that is not driven by an expanding and diversifying food and beverage sector. Conversely, if this sector is sluggish, it will drag on other important sectors in the economy.

We need to expand the product base to command market premiums by providing safe and traceable food, particularly in the space where food, nutrition, health and wellness intersect. The functionality of food is the fastest-growing segment of the global market, but to serve it requires more than clever branding or slick marketing. The efficacy of the product in delivering a benefit needs to be proven scientifically.

At another level, new markets are emerging in the high-growth economies of Asia, especially China. But New Zealand firms have tenuous understandings of the tastes and food preferences in those markets and limited in-market presence to support sales.

The future lies in developing new markets and in developing new products. This will not happen on its own. There is a need for improved connections and for integration. The product and market developers need to be closer to the end user to better understand customer requirements, rather than just developing innovative food solutions with the expectation that an unsuspecting world will embrace them.

There is a need to connect our science, our skills and our routes to market to overcome the tyrannies of scale and distance.

Collaboration is a key concept. There will be costs associated with capturing new opportunities. Some will need to be met by more government funding and some by business sharing the costs of industry good activity.

There is also a need for oversight. We expect the development agenda in this report to evolve as it is rolled out. We do not recommend yet another structure to take over from the many industry associations that are already active in the sector. We do suggest, though, that a guiding hand will drive momentum and make the difference.

There are things that the government can and should do. Ultimately, however, the changes needed are a change of mind and a change of behaviour. These changes cannot be conscripted.

Substantially, the future of the sector lies with and within itself.

Defining the challenge

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The food and beverage sector dominates the New Zealand economy. It generates over half of our export earnings from merchandise trade and, directly or indirectly, employs one in five members of the working population.

This dominance makes it critical to achieving the government's economic transformation ambitions and to raising New Zealand's sustainable growth rate. The environment in which the sector operates, market dynamics and consumer tastes are all changing. The changes contain a mix of threats and opportunities for New Zealand producers.

The sector's success in negotiating a path between these threats and opportunities will materially affect the economic wellbeing of the country and the future living standards of all New Zealanders.

The sector³ ranges from the primary producer to the end retailer. It encompasses harvesters, food processors, training and industry organisations, research institutions, unions, quality assurance agencies and market development and business support services. Its sub-sectors include dairy, red meat, seafood, poultry, horticulture, food processing, wine and other beverages.

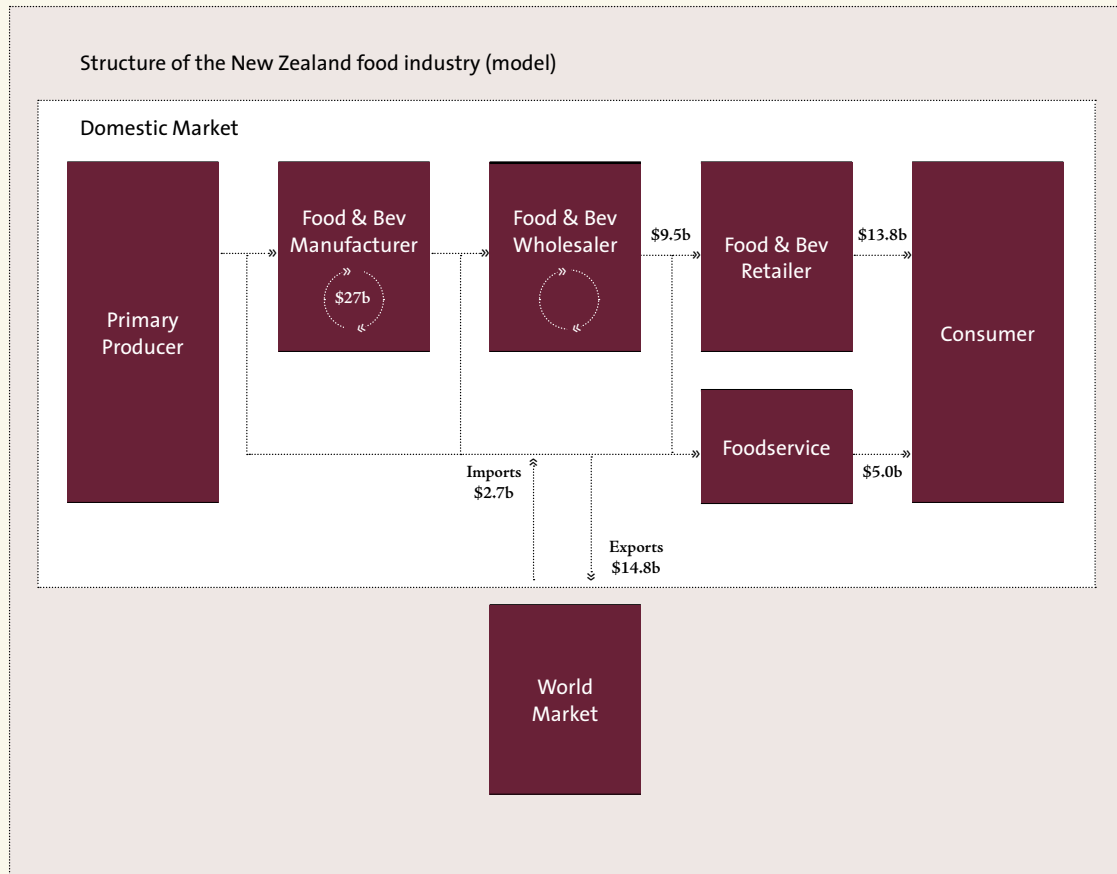
The dollar value of the sector's output has been growing at a compound rate of around 5 per cent a year over the last decade. To maintain that growth on the existing productive base will require assiduous and unrelenting productivity improvement. To secure a higher growth dividend will require diversifying into sophisticated new products and into new markets.

Productivity, new products and new markets are the three strategic imperatives around which the taskforce has designed a development agenda. You may find it useful to read this report in conjunction with the companion research and special studies that the taskforce produced, which explain our findings, at more leisure and in more detail.⁴

³ There will always be some arbitrary classifications around what is "in" and "out" of the definition of the "food and beverage sector." For some, like sheep farmers, it is not relevant to their business to make a distinction between the food and other products they produce (like wool). Other activities like tourism or hospitality rely on food and beverages as a core component of what they offer consumers, but food is not what drives the primary decision to holiday in New Zealand or to seek accommodation. We have tended to apply a "relevance" standard in drawing the boundaries, and have adopted a "fit for purpose" definition. The question is whether any activity is relevant to the problem or proposal being considered, and whether it can usefully be excluded from the definition of the sector without compromising the integrity of the analysis. Our terms of reference exclude "wool" from the definition, to stress that this is not an agriculture taskforce. We tend to focus on "farm to ship or supermarket," but a development agenda cannot get away from considering wider issues where appropriate.

⁴ A brief overview of the companion reports is appended. All are available at www.nzte.govt.nz/ff&btaskforce

Why the food and beverage sector is important



Lifting the game

The New Zealand food and beverage sector has a history of intelligent opportunism, resourcefulness and inventiveness. There are many success stories. They reflect different approaches and different strategic pathways. There is no single model of success but some models are: Fonterra; Zespri; Anzco; the wine industry; Greenshell Mussels; 42 Below and Whitestone Cheese.

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Each story carries different implications for the design of a development agenda.

- Fonterra. A producer-owned co-operative, Fonterra is the world's largest exporter of dairy products, exporting 95 per cent of its production. It also runs the largest dairy-ingredients business in the world, manufacturing and marketing more than 1000 ingredient products to international food-processing companies.
- Zespri. New Zealand kiwifruit commands a 20 per cent to 40 per cent market premium in most Asian and European markets. Zespri seeks to add value by establishing a strong brand and through innovations such as the gold kiwifruit. It markets itself as a quality producer and, unusually for a commodity exporter, ploughs back 7 per cent of its in-market revenue into promotion as part of its branding strategy.
- Anzco Foods. Set up in 1984, Anzco now markets under a range of brands in Asia, Europe and North America and has become the third largest meat company and the seventh largest food company in New Zealand.
- The wine industry. Wine export earnings broke \$2 million for the first time in 1984 and have continued to grow at an extraordinary rate since, reaching \$435 million last year. In the last decade, export volumes have increased from 8 million to 51 million litres. This success was achieved through a collaborative export strategy, funded in part by a compulsory industry levy authorised under the Wine Act.
- New Zealand Greenshell Mussels. Cultured mussels first went on sale in 1971 and have been exported since the 1980s. International interest is high because the New Zealand Greenshell Mussel, like New Zealand Sauvignon Blanc, has a distinctive taste born of qualities in the New Zealand environment, which other countries cannot replicate.
- 42 Below. A good product and imaginative marketing, reflecting the advertising background of the company's founder, Geoff Ross, have catapulted sales of 42 Below from \$500,000 in 2003 to \$12.58 million in 2005. Ross started the company in his garage in 1996 and floated it in 2003. It has won a clutch of international awards.
- Whitestone Cheese. An example of New Zealand's increasing gourmet offering, Whitestone produces 18 hand-crafted cheeses, including the Windsor Blue which was awarded gold at this year's Brisbane International Cheese Awards ahead of many of Europe's best known blue cheeses. The company, which exports to Australia and the United States, reported to the taskforce that its small size inhibits it from maintaining the in-market presence necessary to move its product off the supermarket shelf in overseas markets.

The above companies are leading examples of what is possible under current conditions but also of what is constraining growth. Economic transformation, if it is to occur, requires removing the blockages and putting in place the necessary supports to unlocking the sector's potential.

Value what we have and build on it

As we embark on the change process, it is vital that we protect New Zealand's existing assets and do not take them for granted.

First among our assets is the bio-security regime. New Zealand has been able to capitalise in recent years at the expense of competitors who have had to retreat from markets because of incursions of foot and mouth, BSE or avian flu. We need to maintain vigilance if we do not want to become victim to a bio-scare ourselves.

Other fundamentals on which the sector depends are advances in trade liberalisation, stable macroeconomic settings, protection of property rights and respect for labour and environmental standards. The development agenda is about increasing quality and safety, not about engaging in a race to the bottom.

Food & Beverage sales (NZ\$ billion, 2004)

Industry	Domestic sales	Export sales	Total sales
Dairy	1.4	6.4	7.8
Meat	2.0	4.6	6.6
Fruits and veg	1.5	2.0	3.5
Beverages	2.9	0.6	3.5
Seafood	0.2	1.2	1.4
Grain-based food	1.0	0.1	1.1
Other food*	3.4	0.4	3.8
Total	12.4	15.3	27.7

Source: Coriolis Research

*'Other food' is dominated by global category leaders (e.g. Nestlé, Unilever, Cadbury) with a few substantial local companies (Hansells, Healtheries) and many small emerging players.

A bird's eye view of sector
risks and opportunities



Strengths	Weaknesses
<ul style="list-style-type: none"> » Natural environment conducive to pastoral and marine production » Disease free status » Effective bio-security systems » Potential for year round production » Positive reputation internationally [but awareness limited] » Well developed science capability » Innovative culture and tradition » Small scale conducive to close networking and information sharing » Sustainable management of primary resources 	<ul style="list-style-type: none"> » Distance from markets » Poor in-market presence » Relatively high cost of production » Limited understanding of consumer preferences and trading conditions in emerging markets » Low levels of private sector R&D » Low levels of capital intensity » Few NZ owned mid-sized firms hungry for export-led growth » Skills supply gaps » Poor application of intellectual property protections » Tendency for “soft-selling” and undercutting in new markets
Opportunities	Threats
<ul style="list-style-type: none"> » Continued income growth in Asia » Ongoing global growth in food service » Potential to link gourmet cuisine to growing NZ tourism industry to extend global awareness » Income rich health conscious baby boomers » Closer economic integration with Australia » Growing Asian population in New Zealand » Ongoing trade liberalisation » Science based solutions creating “superior” foods » Capacity to lift productivity by improved uptake of available knowledge and technique 	<ul style="list-style-type: none"> » Declining availability of land, water and wild fish stocks » Consolidation of global retail chains leading to uneven bargaining and lower margins in export markets » Consolidation of global food producing companies making NZ a branch office » Increasing production and rising quality from China and South America » Increased flow of goods and people raises risk of pest and disease incursion » Rising standards on residues and demands for traceability raise costs of supply » Changing global weather patterns

Most of the factors identified here are well-known and well-understood. The following, however, merit further discussion.

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The producer co-operative

Four of the five largest food and beverage companies run on the producer co-operative model: Fonterra, Zespri⁵, PPCS Ltd and Alliance Meats Ltd. Between them, they account for over half of the sector's total revenues. The advantage they offer their members is that they can disperse the risks associated with weather, commodity price and exchange rate volatility.

The issue for the sector is whether this income security comes at the cost of opportunities for growth. Co-operatives strive to maximise the returns paid to their suppliers and members. However, this can lead them to focus on produce price rather than on downstream or longer-term investments.⁶

Decisions around the structure of these companies are, of course, for the owners to make. The taskforce raises the issue only because of its relevance to company investment and growth patterns.

Lack of mid-sized New Zealand owned firms

New Zealand lacks a tier of mid-sized locally-owned firms that are hungry for export growth. Surveys indicate that many small business owners do not want to grow their business substantially or to go offshore. This is largely because owners feel that will impact adversely on their lifestyle or will force them to sacrifice control. Those that do seek to export often list on the stock exchange and are then acquired by multinational food companies.

Subsidiaries of multinationals generate nearly a quarter of the sector's revenue. While there are some exceptions, their focus is often on securing a reliable supply of resource-based production or on occupying a share of the New Zealand market. They do not generally seek to grow export revenues from a New Zealand base.

The taskforce is not advocating restraints on foreign investment. Indeed, New Zealand's poor domestic savings record and weak capital markets make us reliant on offshore investors. Instead, we want to encourage more small businesses to take the next step into exporting.

⁵ While Zespri is a corporate, it behaves as a co-operative.

⁶ The implication of this is that the present value of expected returns to longer-term investments is not fully reflected in the surrender value of a co-op share. This was not tested, but the perception is that even if producer-owners believe that it will not be fully reflected in share values, governance arrangements will limit the discretion of co-op management to take a very long term view.

Lack of scale

Fonterra accounts for 40 per cent of the sector's revenue; the top ten companies, for more than 60 per cent; and the top 30 for 85 per cent. There are advantages to this degree of concentration as a small number of dominant players can work cohesively on market development, engage directly with science and education providers and present a strong voice to government.

But the thousands of small businesses making up the rest of the sector do not have the scale to invest significantly in capital plant, R&D or human resource development, let alone to develop foreign markets. During its consultations, the taskforce routinely came across sector participants who said that they could not afford the in-market presence [market information, distribution infrastructure, direct buyer contact] needed to penetrate a foreign market, including Australia, and to stay competitive there.

Lack of outward foreign investment

The low levels of outward foreign investment and the consequent lack of penetration of global supply and value chains have been commented on critically at a generic level by the New Zealand Institute⁷ and, in relation to the New Zealand food and beverage sector, in a submission to the taskforce from a think group based around Innovation Waikato.⁸

Exporting from a domestic base can make New Zealand firms price takers and dependent on third parties for defining the route to market. In the food and beverage sector, margins are extracted at all points along the value chain. If there is no investment by New Zealand along that chain, more of the value is captured by others.

A lack of outward investment condemns many New Zealand exporters to seeking returns from their New Zealand based operations rather than from offshore activity.

Changing world markets

Mature Northern Hemisphere markets

Volume growth in New Zealand's traditional Northern Hemisphere markets is static as the population ages and concerns about obesity rise. The temptation for suppliers in this circumstance is to erode already thin profit margins even further by engaging in damaging price-cutting wars or "soft selling." A more collaborative "NZ Inc" response is required.

Consumption patterns are also changing as income rich, time poor and health conscious consumers demand convenience, food safety, traceability, animal welfare, environmental sustainability, and food "functionality."⁹

These trends have been documented in a number of reports.¹⁰ Seizing the opportunities they create will require coordination around good science, effective

⁷ New Zealand Institute, "Dancing with the stars?" December 2005.

⁸ Graham Smith, Katolyst Group, "Submission to the Food and Beverage Taskforce", March 2006.

⁹ Recent advances in science have established that some additives increase the "functionality" of food: its capacity to improve health, digestion, blood flow etc.

¹⁰ See, for example, David Hughes, "Future Consumer Insights: Implications for the New Zealand Food and Beverage Sector", 22 August 2005.

commercialisation of that science, strict adherence to quality and reliability standards, collaborative promotion of the benefits of the generic New Zealand offering and strategic in-market alliances to develop longer term relationships with those at the end of the supply chain.

Emerging markets of Asia

The high population, emerging economies of China, India and South East Asia are a long way away; languages and business cultures are unfamiliar and dietary habits are different. The Chinese, for example, eat more pork per capita than the British but a quarter the amount of beef. In India, very little meat of any sort is consumed.

For these reasons, Asian markets are difficult, expensive and time consuming to establish. But they are well worth the effort. Their populations are so vast by the scale of New Zealand production that even a niche or micro market within these countries may be sufficient to absorb all the growth New Zealand can generate.

New Zealand firms seeking to access these markets can spread their effort through collaboration and reduce cultural barriers by establishing strategic in-market alliances. A highly focussed new market development strategy [for example beachheads or special customer relationships] will be more affordable than a broad brush approach.

Margin squeeze

Profit margins for many New Zealand producers are being squeezed by forces in the global economy. These include:

- Competition from large scale, low cost economies [China, Brazil and elsewhere] which are challenging New Zealand's established product hegemony, not just on cost but increasingly on quality;
- The emergence of hugely powerful supermarket chains and the consequent tip in the balance of negotiating power toward the retailer and against the producer; and
- Global food companies are responding to stagnating sales in the Northern Hemisphere by expanding into the emerging economies, further squeezing returns in these already price sensitive and expensive to maintain markets.

These pressures create a relentless imperative to continuously improve productivity at all points in the value chain and to diversify into new products and processes.

The might of the huge supermarket conglomerates evident on the world stage is also mirrored in New Zealand where Foodstuffs [Pak 'N Save, New World and Four Square] and Woolworths Australia [Countdown, Foodtown and Woolworths] dominate the market. Woolworths' Australian ownership and presence on both sides of the Tasman takes the consolidation to a new level. With two buyers on the domestic market, the risk of a loss of half of that market at short notice makes firms cautious about longer-term commitments to investment in such things as equipment and staff training.

A development agenda



The Food and Beverage Taskforce advocates a balanced development agenda aimed at continuing to grow the existing base at a compound 5 per cent a year while also expanding into new products and markets.

The vision is of a sector which is an attractive place to work, is recognised as a leader in the adoption of science and technology and demonstrates ongoing productivity improvement. It is of a sector which encourages, and has the infrastructure to support, continuous innovation in product development, marketing, management and in developing new business models that can succeed in increasingly dynamic and competitive markets. It is of a sector which is fully informed of and alert to customer demands and emerging market opportunities, both in the form of new products and in the form of new geographical markets. It is of a sector which is organised to share the costs of industry good activities and which is well-integrated so that there is minimal duplication of structure and resource.

What is required to achieve all of this is a mix of initiatives to:

- Continuously improve productivity across all product inputs and at all points in the production chain;
- Improve workforce skills, including at management level;
- Improve market responsiveness, knowledge and penetration;
- Encourage innovation in developing new products, processes and business models; and
- Encourage a more collaborative attitude and approach.

Activity across all of these fronts is required if the players in the sector – producers, manufacturers, exporters and education and science providers – are to be equipped to face the challenges of an intensely competitive future.

The Strategy Map: A vision for the future

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The taskforce invites you to spend a little time looking at the strategy map. It conveys in a single flow diagram the taskforce's analysis of the broad strategic thrust the sector should pursue and how the various parts of it interlock. The strategy map recognises:

- The fundamental importance of the sector to the New Zealand economy;
- The need to protect and enhance the sector's existing base and strengths; and
- The commercial imperative of exploiting new opportunities in order to overcome margin squeeze and create higher value.

One of the taskforce's key messages is that, although the government has an important facilitative and macro-policy setting function, in the end it is at the level of the individual firm that this strategy will succeed or fail. It is firms that decide whether to invest, when and what in, what to produce, where to sell it and how to brand it.

This does not absolve the industry associations, the industry training organisations [ITOs], the trade unions, the science establishment or any of the other organisations and agencies which are active in the sector from a role.

All should be more proactive in addressing the needs of small and medium-sized businesses. They must recognise that the person running a small business will often not have the time and the resources to access the supports that are available in the system, or to form the networks which may help them share the costs of developing new markets and new products.

The sector as a whole needs to establish structures and systems that will allow it to work more effectively as an integrated unit. That is important not just for the collaborative market development initiatives that might be undertaken, but also to derive best value from the sector's assets. This can be achieved by better aligning research with the commercial needs of industry, training to skills needs and regulation to the practical realities of business.

Vision

Food and Beverage as the reinforced core of a robustly expanding New Zealand economy

2016 Goals

Protect the base

Maintain the 5% compound annual growth rate currently achieved in the F&B sector

Invest and transform for the future

Upgrade Products
NZ products command a premium

Expand Markets
More large internationally competitive companies

Financial Perspective

Fend off margin squeeze

- Focus growth on higher margin sectors
- Reduce price undercutting

Fiscal incentives and sector levies finance investments across the full value chain

- Increase margin of base products
- Increase revenue from new products
- Increase in F&B export revenue from new markets

Customer Perspective

Reliable High Quality Supply

Basic requirements

- Delivered in full
- On time
- On specification
- At best cost

A distinctive positioning for NZ Food and Beverage

Added value differentiators

- Safe
- Traceable
- Bio secure
- Produced sustainably
- Nutritious
- Proven efficacy

Process Perspective

Productivity

Skills

- Ensure availability of competent resources

Innovation

- Use innovative R&D to increase productivity & meet increasingly sophisticated specifications
- Boost pastoral output by 50%

Protect resultant intellectual property

Collaboration

- Consolidate F&B value chain to reduce cost
- Focus and collaborate in key markets

Product & Process Value

Skills

- Apply globally competitive food technology

Innovation

- R&D supports distinctive NZ F&B positioning
- Use science to drive margin

Ensure commercially viable R&D

Collaboration

- Share risk of product related R&D

Market Growth

Markets

Identify market opportunities with competitive advantage

Build domestic market scale through consolidation

Understand changing preferences of both new and domestic markets

Maintain sustained in-market presence

Free Trade

- Free trade negotiation related to industry need

Action Agenda

Skills

- Identify F&B labour market drivers
- Position the F&B industry as a career of choice

Innovation

- Explore F&B productivity issues and develop tools for sharing best practice
- Investigate the drivers of technological learning & knowledge application

Collaboration

- Encourage the consolidation of infrastructure, knowledge, production processes, distribution & marketing
- Ensure efficient legislation and regulation supports viable and fast sector growth

Skills

- Strategic investment to develop optimal combinations of labour and technology
- Review current availability and funding of F&B tertiary education
- Develop globally competitive food technology

Innovation

- Agree mechanism for guiding R&D based on the Healthy NZ brand
- Develop vehicles to focus R&D on commercial problem solving

Collaboration

- Establish R&D collaboration through dollar for dollar government investment

Markets

- Increase the capability of SMEs with the desire to grow, through development investment agency
- Enhance market intelligence & communication systems
- Exploit market opportunities with competitive advantage
- Establish NZ F&B sector in-market distribution and merchandising agencies
- Industry collaboration on international promotions is led by larger companies

Free Trade

- Align channels needed to develop and exploit free trade opportunities

The productivity challenge

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On every resource front - land, water, labour and capital – food and beverage production growth is pushing up against volume constraints. Productive land is being lost to urban sprawl and to lifestyle blocks. Fresh water resources are fully allocated and under pressure. Environmental standards are limiting the type and form of land and water use in some parts of the country. There are low levels of unemployment and labour force participation rates are relatively high. Capital markets are thin and domestic savings rates are low.

New Zealand cost structures are comparatively high in an international context. Labour is the obvious and often cited comparison, but it is not just labour cost that generates the pressure. Land is expensive here, even compared with Australia, let alone Latin America. Our small size makes it difficult to capture economies of scale and our distance from markets makes transport and distribution costs high.

These pressures create a requirement for:

- Constant improvements to production efficiency each year; and
- More effective skills and labour systems that deliver higher productivity and better pay and conditions of employment.

Action Point

Constraints on the supply of land and high land prices create an imperative to achieve higher land productivity, especially in the pastoral sector, as this dominates New Zealand's food and beverage production.

We could significantly increase yields if there was wider uptake of the available knowledge. Current best practice indicates that 19 tonnes of dry matter per hectare per annum on pastoral land is feasible but the current national average is just 12 tonnes.

The taskforce recommends that the government and the private sector work together through strategic investment in science and improved pasture management to increase output from the pastoral industries by at least 50 per cent by 2016.¹¹

Given the small size of the average New Zealand firm, there is value in funding industry good activities on a shared basis. The wine industry's success is an example of this.

Most industries, however, now have to rely on the Commodity Levies Act under which the compulsory payment of a levy must be agreed by a majority of producers via elections every five years. The short five-year period creates a tendency to focus on improvements at the start of the value chain that provide an almost instant return, rather than on riskier investments with longer gestation periods where the potential pay-back may be much larger but would be derived by future generations.

Action Point

The taskforce recommends that alternative options for industry good funding, including some level of compulsion, be explored.¹²

¹¹ Recommendation 1.1, appendix one.

¹² Recommendation 1.2, appendix one.

Skills and labour productivity

Despite its economic pre-eminence, the sector is not seen as a glamorous or even as an attractive career choice and has difficulty recruiting some of the skills it needs. This is a brake on the sector's productivity and capacity to grow.

To command its full potential, the food and beverage sector needs to have the right skills in the right place at the right time and employed in productive, high quality workplaces. It has a way to go to achieve this. Its reputation as an employer is mixed: much of the work is seasonal; much of it dirty and dangerous; accident rates are relatively high, pay rates relatively low and employment conditions are often sub-optimal.

These issues are well-understood and there is already a lot of work going on to address them among industry associations, ITOs, trade unions and government agencies.

The taskforce does not want to duplicate this activity or to derail it. Instead we have sought to complement it by designing a Skills Action Plan around three broad objectives:

- Better labour market information and diagnosis;
- More strategic investment in training; and
- Improving the attractiveness of the sector as a career destination of choice.

Action Point

That a food and beverage Skills and Training Action Group [STAG] led by industry be established to supervise implementation of the Skills Action Plan.¹³

The New Zealand Council of Trade Unions has proposed setting up a Workforce Centre of Excellence to ensure that the workers in the food and beverage sector are engaged in the change project. The taskforce supports this initiative and agrees that a tripartite steering committee be established to oversee it.

The taskforce developed a food and beverage labour market forecasting framework to better predict skill shortages. This was tested in the dairy and wine industries and has the capacity to be applied across the sector. Key occupations which are currently experiencing genuine skill shortages¹⁴ include food technologists, dairy farmers, bakers, butchers and chefs. Solutions to address these shortages have been identified for action within industry.

Action Point

Implement a labour market forecasting framework across the food and beverage sub-sectors.¹⁵

¹³ Recommendation 6.2, appendix one.

¹⁴ Genuine skill shortage occurs when employers have difficulty filling job vacancies because there are not enough people with the right skills in the market to fill the positions on offer.

¹⁵ Recommendation 3.1, appendix one.

To improve and better focus the sector's investment in training, the taskforce worked with food and beverage ITOs and education agencies to identify a more collaborative approach toward training provision in the future, including opportunities for rationalising and aligning food and beverage qualifications.

Stronger integration of the six ITOs in the sector and better collaboration between them and the universities and polytechnics would reduce duplication of resources and better equip the sector to develop the skills configurations it needs.

Action Points

The Tertiary Education Commission and other government agencies to facilitate greater partnering of delivery between ITOs and other tertiary education providers to better meet industry needs.

Review the quality and relevance of the large number of food and beverage related qualifications with a view to consolidating them into a smaller number of higher quality courses. In specialist areas, this may mean establishing a single centre of excellence, for example: fishing, dairying, wine-making.

Review the relationships among the polytechnics, ITOs, industry associations and unions in setting food and beverage related qualifications and ensuring quality and relevance of training.¹⁶

Some industries in the sector are not getting enough new entrants coming through the education system to replace those leaving. This is particularly concerning because the sector's workforce is older than the average and there will be a high proportion of workers retiring over the next 20 years.

The Department of Labour has undertaken to do a stocktake of current initiatives to promote career and employment opportunities in the sector and, when it is completed, will share the findings with industry. The taskforce has also developed a series of recommendations around better promoting the sector as an employment option in schools and to parents, careers advice counsellors and school leavers.¹⁷

The way to attract good workers is by offering good pay and career prospects. The taskforce urges business and unions to work in partnership to establish industry standards around the uptake of technology and other productivity improvements so that a virtuous circle is created whereby wages and conditions can be improved, easing pressure on recruitment and retention.

Another issue for the sector is the poor level of foundation skills¹⁸ because this inhibits firms' ability to adopt new technologies and to respond to changing markets. The taskforce considers that this relationship may not be widely understood and recommends that an effort be made to get this message across to key participants within the sector.

¹⁶ Recommendation 4.4, appendix one.

¹⁷ See appendix one

¹⁸ Foundation skills include reading, writing, numeracy, Information Communication Technology, problem solving, oral communications and interpersonal skills.



Encouraging innovation

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Innovation is an important source of productivity enhancement. It can boost yields, improve distribution systems and drive out cost. This needs to continue.

Innovation is also important to meet product specifications, food standards and traceability requirements, which are all becoming increasingly demanding. Those countries, such as New Zealand, with the technical sophistication to comply with them will gain a competitive advantage.

Innovation can also launch New Zealand food and beverage production along new, high value product pathways in the nexus where food, nutrition, health and wellness intersect. This is seen by many commentators as the fastest growing segment of the global food market.

Research has established that certain additives or combinations of food types increase the “functionality” of food - its capacity to improve health, digestion, blood flow and so on. This has led to a cluster of foods described variously as functional, nutraceutical or bioactive.

New Zealand is well-equipped to move into this space but it will require a coordinated effort and some support from the government. Two warnings must be heeded:

- The functional food market is not a fad and cannot be captured by market promotion or slick advertising alone: food developments must be science-based and the efficacy of the product must be proven; and
- The regulatory and logistical barriers to establishing a commercially-viable functional food presence [testing combinations of food in a laboratory setting, scaling up to establish commercial viability of production and establishing in-market distribution linkages to take the product to market] are considerable and should not be underestimated.

More generally, but especially in relation to functional foods, the taskforce encountered a criticism that New Zealand producers do not connect closely enough to end use customers. We tend to “discover” what customers need, rather than respond to what customers articulate as their need. This “customer” need not be the final consumer. It can be the retail chain filling a need in its product portfolio, or the food manufacturer finding the right ingredient to improve the nutritional characteristics of its final product.

The observation we make is that innovation into functional foods needs to involve both a substantial science input and a strong ‘connect’ to real market demand.

Action Points

Research into the health effects of food and diet modification, essentially looking at food as a preventative medicine, is required and should be considered as eligible for health research funding.¹⁹

Commission a survey of existing food and beverage research capability, particularly in the areas of high-value processed foods and products, to identify current and emerging needs.²⁰

Develop mechanisms to enable research in the sector to respond more effectively to global

¹⁹ Recommendation 8.5, appendix one.

²⁰ Recommendation 8.1, appendix one.

market trends and to enable small and medium businesses to access industry and government research and innovation.²¹

Seek advice from the New Zealand Food Safety Authority on whether current regulations relating to the separation and use of raw materials can be relaxed where this will facilitate the development of new food products.²²

Other weaknesses in the science and research system are:

- A tendency to focus too heavily on production efficiency while largely ignoring product enhancement;
- Patchy science uptake [anecdotal evidence suggests as much as 20 per cent of productivity gain may be left on the “laboratory shelf”];
- Poor connection between the science system and the innovation needs of business; and
- Problems of access to government-funded research by small and medium-sized businesses.

To address these issues the taskforce has prepared a detailed set of recommendations [see appendix one] designed around the following three strategic priorities:

- Better aligning the scientific effort with the productive potential of the sector;
- Improving technology transfer and knowledge uptake; and
- Linking R&D to commercialisation of new products and services.

One of the reasons New Zealand is failing to achieve the best benefit from its scientific and research capability is that there is a lack of national and often even regional coordination, integration and direction. The taskforce believes this must be addressed as a matter of urgency by the government and industry in partnership.

Action Point

Government and industry to develop a National Innovative Food Research Strategy covering both basic and applied research across New Zealand’s research providers, including the universities and the Crown Research Institutes [CRIs]. The government to consider matching dollar for dollar new industry funds supporting this initiative.²³

The taskforce is clear about the respective roles of the private sector and the government in the research area. Where the benefits of the research will be captured by a narrow segment of the economy, those who stand to capture the benefit should pay. Where the benefits will be broadly relevant to a range of industries and sectors, or where the adoption of new technology is hindered by market failure, the government should pay.

²¹ Recommendation 8.2, appendix one

²² Recommendations 12.1 and 12.2, appendix one.

²³ Recommendation 7.1, appendix one.

Economic transformation will not be achieved unless there is commitment from both government and business to make the necessary investment.

Also needed are channels of communication so that people with new ideas can feed them into the science “pipeline”. The taskforce considered the merits of setting up a special website but concluded that the New Zealand Trade and Enterprise [NZTE] biz.org.nz site could be adapted to provide this facility. To deliver results, this will need to be actively promoted with the government sponsoring local networks of industry, university and science providers to publicise the portal, hold meetings and generate contacts.

Acceptance of the need to transform inevitably raised questions about how the necessary innovation activity would be structured and financed. The taskforce did not have the mandate to seek and evaluate proposals to provide research and commercialisation facilities, but became aware of some of them, at times through direct representation from interested parties.

As examples:

- The University of Auckland indicated that it has research capabilities and a broad spectrum research portfolio that could underpin work in the functional foods, health and nutrition areas;
- A consortium of interests grouped around the Waikato Innovation Park proposed that various industry, local government, university and research organisations be funded to establish a livestock-derived, food and ingredient research, development and commercialisation campus; and
- A group centred at Massey University in Auckland is working on a concept for a Food Innovation Centre where the food industry and the education sector can share resources as a part of a wider “Food Bowl” development and promotion facility in South Auckland.

The taskforce recognises that some new innovation infrastructure might be needed. Whether this needs new organisations, or additional funding, what gaps it should seek to fill, where it should be located, and what conditions should be attached to additional support are all matters that need further analysis and a fuller opportunity for comment. A contestable process for the award of any contract[s] to provide the services is one component that would be required.

Mixed Success

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Past efforts by New Zealand food & beverage companies to grow globally have met with mixed success

	Successful International Expansion	Failed International Expansion
Market Characteristics	<ul style="list-style-type: none">» Culturally similar» Limited/weak competition» No presence of global category leaders	<ul style="list-style-type: none">» Culturally different» Strong world-class competition» Intense competition from entrenched global category leaders
Company Characteristics	<ul style="list-style-type: none">» Market leader at home» Superior management or technology relative to competitive set	<ul style="list-style-type: none">» Number 2 or 3 at home» Inferior management or technology than competitive set» Less profitable/weaker balance sheet
Entry Strategy	<ul style="list-style-type: none">» Roll-up of group of existing small players in a fragmented market	<ul style="list-style-type: none">» Organic growth in an already developed market» Acquisition of a struggling #3 or #4 against strong leaders

Differences between successful and failed New Zealand international expansion efforts (model)



Developing new markets

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New Zealand's Food Culture

The New Zealand food and beverage sector exports around 55 per cent of its production. With this statistic dominating perceptions, it is easy to overlook that the sector's most significant single market is actually the local one, consuming 45 percent of production.

For many years, efficient production of fat, protein and carbohydrate was the defining characteristic of the food and beverage sector in New Zealand. Since the late 1980s, however, New Zealand has been embarking on more added value and developing national and regional food cultures. Partly this has been influenced by a coterie of chefs returning from overseas, bringing with them experience and influences from working in the best restaurants in Britain and elsewhere.

Important too was the "wine effect." The development of viticulture in southern Wairarapa, for example, has caused profound changes in small towns like Martinborough and Greytown. These have been transformed from sleepy rural service towns to desirable visitor destinations based around cafés, restaurants and the quality of locally produced wine. Along with wine, coffee culture has spread the length and breadth of the land with fine cafes to be found now not just in the metropolitan centres, but in many small towns.

Developing a strong and unique local food culture is important for a variety of reasons. It gives us a chance to celebrate the quality of local produce and generates local demand for innovation in products, packaging, marketing and in the hospitality industry. It is also crucial to enhancing New Zealand's international profile and branding and moves the local market from being relatively staid and unsophisticated into the 21st century.

While the French can trade off the history-bound depth and sophistication of their food culture, New Zealand is able to build on its youthful image and openness to influences from Asia, Europe and around the world. There is also a strong synergy with tourism. Tourists impressed by their table experience in New Zealand will become ambassadors for New Zealand foods and beverages upon the return home.

There is still immense value to be unlocked through building New Zealand's food culture and in particular the emergence and celebration of distinctive regional cuisines based on local produce and flavours. The recent establishment of farmers' markets - there are now 22 - makes an important contribution to local food culture development. If the explosion of innovative and high quality indigenous products is to continue, New Zealanders need to be encouraged to "eat local" and the hospitality industry needs to promote New Zealand gourmet cuisine when catering to tourists.

Action Point

That the government provide adequate funding over three years to promote awareness of the New Zealand food and beverage offering, including introducing a New Zealand Food Week and developing distinctive and differentiated New Zealand food and beverage branding.²⁴

²⁴ Recommendation 18.1, appendix one.

Identifying export opportunities

The first requirement for successful business planning and opportunity evaluation is knowledge. This becomes more difficult and expensive with distance from markets and cultural unfamiliarity. To assist with this NZTE has assembled a vast database on international markets. This information needs to be more readily accessible and regularly updated and disseminated.

Action Points

That market research and supporting data held on file by NZTE be made more accessible, updated regularly and the changes communicated to all known exporters trading in the relevant countries.

These reviews to be undertaken every two years for the top ten markets: Australia, the United States, Japan, China [including Hong Kong], Korea, Germany, Taiwan, Philippines, Britain and Canada.

For developing markets [Malaysia, Indonesia, Singapore, Saudi Arabia, United Arab Emirates, India, Russia and Brazil] the updates could be less frequent.²⁵

Size does matter

New Zealand food and beverage exporters face significant challenges, most of which are well-rehearsed and well-understood. Exporting from New Zealand is expensive. We are a long way from our major markets and tend to supply relatively small quantities. With a few exceptions, firms are small by international, and even often by New Zealand standards. They do not have access to economies of scale and cannot afford to maintain strong in-market platforms.

A more collaborative approach would off-set some of these pressures.

Collaboration was a constant theme in taskforce discussions. There is a general recognition that if the sector is to achieve the step-change we are seeking, we will need to abandon the business as usual mentality and work together to establish more of a “NZ Inc” approach. This needs to happen at sector, industry and firm level.

NZTE runs a number of commendable programmes to assist small businesses. These include the Regional Partnerships Programme, the Growth Services Fund and the Enterprise Development Grants Programme. But to assist small and medium firms to collaborate in developing overseas markets and to share the costs of maintaining an in-market distribution and servicing capacity, some bolder initiatives are needed.

The taskforce frequently came across problems with potential exporters maintaining an in-market presence, even in near-by markets like Australia. The costs and logistics of being on the ground and maintaining an active relationship with retailers are daunting and become extreme in distant and unfamiliar markets like China.

Action Points

That NZTE evaluate the establishment of collaborative vehicles, such as the Joint Action Groups [JAGs]²⁶ of the late 1980s and early 1990s, to support New Zealand firms in export market entry and development.

²⁵ Recommendation 13.1, appendix one.

²⁶ The JAG model was successful where there was strong private sector buy-in and a clear commercial focus. Government provided administrative and financial support for the first two years after which they were to be self-sustaining. Some – marine and wine – are still going.

That consideration be given to establishing industry-owned companies through which to channel collaborative in-market activities. It is envisaged that, like the Australian National Food Industry Strategy Ltd, it would require government funding at the outset but would become self-sustaining.²⁷

That NZTE work with key sector stakeholders to develop five to seven significant geographical action alliances.²⁸

That the government consider the practicality of setting up a development investment fund or agency to provide equity investment and financing support in the early stages of developing an off-shore business.²⁹

That food and beverage showcases be staged in target markets [China, Japan, the United States, Britain, Korea, Germany, Taiwan, Canada]. The recommended timeframe is three years and the estimated cost, \$3 million. The government would meet most of the costs but participating firms would be expected to pay 15 per cent of the costs of attendance.³⁰

Branding

Brands are expensive to establish and protect, requiring extensive market promotion and logistical supports. Few New Zealand companies have the scale to support this level of expenditure. In addition, the trend is for large supermarket chains to develop their own “house” brands so that they can extract for themselves any premium associated with branding.

However, while it is hard for New Zealand companies to compete with global brands, it is increasingly hard for global companies to compete with “brand New Zealand” as foreign consumers assign greater value to the ‘clean and green’ qualities identified with New Zealand.

One option, therefore, is to develop a distinctive and differentiated “New Zealand” brand based on common themes with which New Zealand food and beverage exporters can associate their products. This will also require protecting the brand through continued bio-security vigilance and through sustainable and environmentally responsible land use practices.

Action Point

NZTE and Tourism New Zealand to seek out platforms for the mutual promotion of New Zealand food and beverage and related tourist attractions.³¹

In formulating ideas in the export area, the taskforce has been mindful of the need to ensure any interventions are consistent with World Trade Organisation rules. It is important not to compromise New Zealand’s ability to negotiate Free Trade Agreements or multi-lateral trade liberalisation, both of which are extremely important to the food and beverage sector.

See appendix one for the full list of recommendations relating to marketing.

²⁷ Recommendation 16.1, appendix one.

²⁸ Recommendation 16.2, appendix one.

²⁹ Recommendation 15.4, appendix one.

³⁰ Recommendation 14.2, appendix one.

³¹ Recommendation 17.2, appendix one.

Structural and other issues



In consultations the taskforce encountered a number of issues that we consider should find a place in this report but on which we have made no recommendation.

Obesity

The implications for both New Zealand's traditional product range and for future market opportunities of emerging consumer and public policy concerns over obesity were raised with the taskforce and are potentially significant. We are of the view that the components of a strategic response to this issue are contained within the taskforce's broader sheet of recommendations, especially those relating to the need for better information around developing market trends and for a better use of science in developing new products.

Organics

Globally the organics brand is gaining strength, underwritten by consumer demand for products that are perceived as healthier and produced sustainably. They can command a price premium and there is clearly an export opportunity.

Organic food production is supported in New Zealand by an enthusiastic network of regional and national organisations to which the government has contributed through a \$1.5 million grant to help establish an umbrella body, Organics Aotearoa New Zealand.

While recognising the organics opportunity, the taskforce's consultations revealed the need to establish the efficacy of any health advantages that might be claimed for organic food and to confirm that all current practices are environmentally sustainable.

The taskforce considers that the growth needs of this segment of the food and beverage sector are captured within the wider development agenda we are recommending.

The regulatory framework

Regulations are a necessary part of the orderly conduct of social and economic life. In a world increasingly preoccupied by food safety, environmental impact, animal welfare and energy efficiency, a balanced regulatory infrastructure can be a source of competitive advantage.

But business needs to be confident that any regulation is necessary, fit for purpose and involves minimum intrusion and minimum compliance cost - in other words, that it is efficient. Such confidence is currently lacking in parts of the food and beverage sector.

Government and industry need to work together to refine the application of regulation, partly to reduce compliance costs but – just as important - to improve understanding by both regulator and regulated of what the end objective is.

Broader policy environment

The taskforce had limited resources and did not want to compromise the quality of its recommendations. Additionally, it did not think it was appropriate for one sector

to develop recommendations that would impact on the entire economy. For this reason, the taskforce chose to focus its time and effort on issues specific to the food and beverage sector.

However, we acknowledge that industry stakeholders raised many issues that related not just to the food and beverage sector but to the economy as a whole. These issues included compliance costs, Resource Management Act processes, the level and structure of taxation and the impact of these factors on growth and innovation.

Although we did not thoroughly research these issues, they are important. We want to see further work done on them and are keen to contribute to this work.

The principal economy-wide concerns were:

- The level and structure of taxation, and how it impacts on incentives to invest in longer-term productive activity as opposed to structuring investment activity around the quest for capital gains;
- The case for tax-based export support schemes based on the significant benefits exporting delivers including employment and an improved balance of payments;
- Compliance costs in their various guises;
- The industrial relations system, and whether it delivers an efficient and equitable balance between the rights of employees and the interests of employers;
- The Resource Management Act and other planning and consenting processes;
- The adequacy of, and access to, infrastructural services such as electricity, roads, rail, ports and water supply;
- Whether the New Zealand Superannuation Fund might provide more active support to the deepening of the domestic capital market; and
- Ownership structures and the motivation of businesses and whether they impart a bias toward investments that deliver returns close to the point of origin on the value chain.

After the taskforce's final meeting, the government released its Business Tax Review Discussion Document. A number of the proposals are in line with recommendations from some in the sector. The taskforce had earlier raised with Ministers the matter that consultations on the tax review were scheduled to take place after our deliberations. We were assured that members of the taskforce would be actively engaged in the consultation stage of the process and in evaluating and commenting on options for change. We look forward to making a constructive contribution to this vital debate in the forthcoming months.

The taskforce has also been assured of engagement in the government's broader review of regulatory frameworks.

If and when the other issues identified to the taskforce are reviewed, we propose that the government use the food and beverage sector as the reference point for evaluating the costs and benefits of any policy change. We further propose that the government "think small first" as, if a set of policies works for smaller scale firms, it is likely to work for larger ones but the same does not apply in reverse.

Implementation of the development agenda



Our terms of reference require us to establish a development agenda for the sector and to secure stakeholders' ownership of that agenda and commitment to its implementation.

The development agenda that we have created is based on research and on issues raised by sector stakeholders. As such, we feel that stakeholders have taken ownership of the agenda. However, we want to ensure that commitment transfers through to implementation.

The terms of reference envisaged that implementation would be rolled out over three to five years. Champions of projects like this often recommend the establishment of a special organisation to carry out the recommendations. In the case of food and beverage, a wide range of industry bodies and associations exist already and we do not want to further clutter an already crowded space. Additionally, a new organisation is unlikely to have the authority to conscript participation, financial contribution or the behaviours that are needed to bring some collaborative activities into effect. A new body without mandate from stakeholders will likely fail, or at best struggle.

On the other hand, in the absence of overall leadership, the current conditions for the sector [which stakeholders generally see as being sub-optimal] will continue.

Implementation structure

The ideal outcome, as articulated in the terms of reference, is that the resources of industry, government, science and education are focussed in partnership to deliver on the sector's potential. To achieve this we concluded that, while we did not see a role for an "implementation body," there is at least a need for centralised overview and guidance – not direction – of the sector's development.

The taskforce determined that the importance of the sector to the New Zealand economy is such that the oversight of the development agenda's implementation should be provided at a high level. This requires a peak organisation with the mandate to champion the changes that are necessary. Its membership needs to cover sector leaders with the authority to shape the actions that need to be taken, and the standing to feel accountable for the results that are achieved. That leadership would span key government agencies as well as private sector interests.

The composition of the peak body should reflect the diversity within the sector by industry, firm size and form of stakeholder interest [research provider, trade union, educational institution etc].

The peak body would engage with implementation bodies that form at industry level within the sector to develop their customised strategies and would review progress against the instruments that this report recommends for transforming the sector. It would be advised by the lead government agency tasked with progressing those aspects of the report that require action by the government. It will not be effective if it is not adequately resourced.

Some further discussion needs to be held between the government and sector leaders on the size, name and design of this peak body, but for illustrative purposes we are calling it the "Prime Minister's Advisory Council" to reinforce its oversight role and status.

We see the Council as an umbrella under which fit-for-purpose – not multi-purpose – vehicles would operate. These vehicles need to be function-specific. They would generally be time bound activities and would attract commitment to the implementation of the development agenda by proving their effectiveness.

Although, in the early stages, participation will be by the willing, there will also be incentives to help turn good intentions into specific actions and to conscript and leverage actual commitment of time and money.

Action point

That a peak body, perhaps titled the Prime Minister's Advisory Council for the Food and Beverage Sector, be appointed. The council will be an acknowledgement of the sector's primacy in the economy and in achieving economic transformation. It will be a champion of, and will monitor, guide and co-ordinate the implementation of the development agenda recommended by the taskforce.³²

The Council would meet quarterly, with agenda items to be determined on an as needs basis. Members would be appointed for a defined term and would be paid a board fee as it is important that they act like board members.

The Council itself would be set up for a limited period of time so that its functionality and value could be tested. Secretarial services could be provided by the Ministry of Economic Development [MED]. The MED would also provide annual reports outlining progress against the taskforce's recommendations.

Grassroots Implementation

In the final analysis, however, implementation is not something that can be done effectively by a single over-arching body or by government to the sector. The various players – from the grassroots level of individuals and firms to unions, sector bodies, government agencies and education and science providers – need to make a decision to act on this report's key messages.

It is at these levels that step-change needs to occur. In particular, two big themes emerged from the taskforce's consultations: the need for a more collaborative approach to mitigate the tyrannies of size and distance and the need to better align all the component parts of the sector, so that it works as an integrated unit with minimum dissipation of energy and resource.

The taskforce also considered whether there would be value in a direct engagement between the "top tier" firms in the sector and the government. This could assist in "jump-starting" or at least giving early traction to the development agenda and the taskforce recommends that the idea be further explored.

³² Recommendation 2.1, Appendix One.

The taskforce has developed a number of suggestions to address these needs. They include:

- Provisions to better link ITOs with the Tertiary Education Commission and to improve the alignment between the ITOs and other education providers within the food and beverage sector;
- The formation of an umbrella group – STAG – to co-ordinate the taskforce’s Skills Action Plan;
- Co-ordination around a National Innovative Food Research Strategy, ensuring appropriate links across research providers, including the universities; and
- A Workforce Centre of Excellence, supervised by a tripartite body with the aim of engaging sector workers and their unions in supporting the taskforce’s development agenda.

To facilitate collaboration at the level of the firm and with regional education and science providers the taskforce suggests:

- Government funding over five years to support between five and seven significant food and beverage action alliances;³³
- The government with industry to explore the potential of collaborative entities such as JAGs, Food Hawkes Bay or the Australian National Food Strategy Ltd; and
- That government continue to fund the development of sector specific strategies, similar to those developed by the aquaculture and pipfruit sectors.

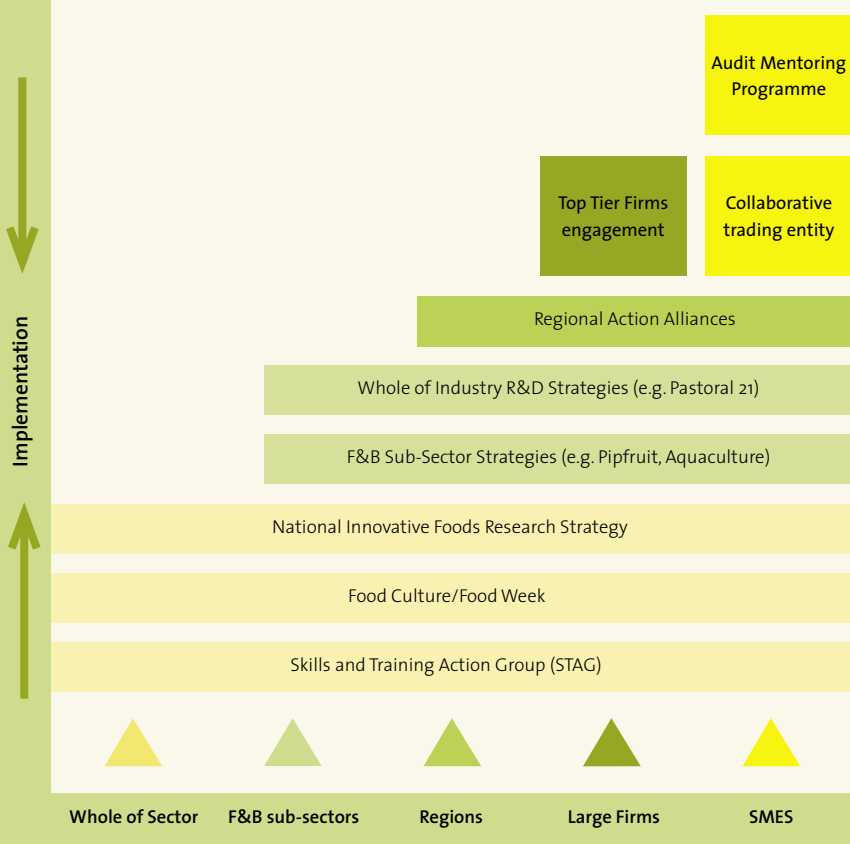
The diagram provides a visual representation of different segments of the sector and how the taskforce’s recommended initiatives are intended to impact on all or some of these segments. The key point is that successful change occurs through the intersection of leadership from above and willingness to participate from below. The recommendations represented are directed toward ensuring that the development agenda in this report makes it off the page and into reality.

³³ Action alliances are more than clusters. They involve firms within a food and beverage sub-sector and would also engage other stakeholders: for example research and training providers, economic development agencies and unions.

Oversight
Prime Minister's Advisory Council

Government Agencies, Science, Education, Sector Bodies, Unions, Industry Leaders

Implementation



Audit Mentoring Programme

Top Tier Firms engagement

Collaborative trading entity

Regional Action Alliances

Whole of Industry R&D Strategies (e.g. Pastoral 21)

F&B Sub-Sector Strategies (e.g. Pipfruit, Aquaculture)

National Innovative Foods Research Strategy

Food Culture/Food Week

Skills and Training Action Group (STAG)

Whole of Sector

F&B sub-sectors

Regions

Large Firms

SMES

Conclusion



The global food market is dynamic. Margin squeeze will continue as buyers consolidate their bargaining power and overseas competitors expand production and improve quality.

The strategic response outlined in this report envisages a three pronged approach: fending off pressures on the existing base while developing new high margin products and processes and expanding into new markets.

One size does not fit all.

The challenges of expanding into the emerging markets of Asia are different to those involved in capturing a larger share of the rapidly growing functional food market in the Northern Hemisphere.

Some initiatives will have general relevance while others will be more suited either to the biggest players in the sector or to the needs of the many small enterprises with growth potential.

The food and beverage sector cannot be complacent. The world is speeding up and catching up with us. It is time to shift up a gear.

The taskforce has every confidence in the sector's ability to do this. The sector has been engaged through its entire history in a process of continuous productivity improvement, innovation and new product development and has some remarkable successes to its credit.

A coherent strategy and a shared commitment across both the government and the private sector to its implementation will ensure that the sector continues to lift its game. The taskforce hopes that this report will be the first step in that journey.