A global view of the deer industry : Looking out ten years

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The business and export environment for primary industry

Imagining or finding a vision of the future is a very difficult but important task, and I would like to open by quoting a small excerpt from a paper by Peter Ellyard, an Australian futurist, with whom I worked some years ago.

> "A vision of the future can be of several kinds, one of them is a *probable* future: it will happen if you carry on with a business as usual mindset. It could also be a *preferred* future: what you would like to create for yourselves.
>
> The first scenario might be a somewhat bleak one. The second will inspire and motivate you to go out and realise your dream.
>
> A third future is a *possible* future: a reality-tested *preferred* future. What you can realise given the realities of resources, capabilities and competitors? This is the *future reality*".

The best way of imagining the future in a ten-year time frame is to put ourselves in the year 2008. Try to imagine what life is like and then look back to where we are now and imagine how we can tread a path towards that. Furthermore, if we have a clear idea what that *preferred* future should be like then it can be a lot easier to see what we need to do along the way to achieve it.

For most people, our preferred future is an optimistic one. Masochists should now read the health warning on this speech.

Predicting the future

I am tasked today with looking at the business and export environment ten years from now. To do so I would like to follow a process of, firstly, looking at the overall business environment in which our primary industry will operate; secondly, to look specifically at the primary industry picture; then, last but not least (and probably in fact, first), to look at customer needs and expectations down the track.

The traditional way of looking at the future is to project forward from our previous experience. My first serious attempts to project the future in this way was back in 1991 when I became CEO of Tradenz, and it was singularly unrewarding. Any attempt to project our future based on our previous experience at that time, for obvious reasons, looked pretty disappointing. In Tradenz we soon looked for different prophets.

Hamel and Prahalad coined the concept of stretch, defined as *an aspiration that creates by design a chasm between ambition and* resources.

The concept of stretch is that the *vision of the organisation (or more often that of the Chief Executive), must go beyond the resources which they immediately have available, or the organisation will simply not go forward.*

Before I get into my stride I would perhaps make a few philosophical observations:

To envisage a future is one thing; to actually achieve it is another.

My own observation would be that it is in this area where we strike what is something of a problem in the way in which we go about things in this country. Some would call it a conundrum, perhaps it is even a congenital weakness, but quite simply, there is a huge gap between our ability to understand what we need to do and the way in which we in fact behave.

There is ample evidence now to show that we understand quite clearly our current limitations, and also what are our future challenges.

In many cases, however, despite this very clear understanding; when it comes to the crunch we seem to lack the commitment, maturity or ability to change our behaviour. It's not that we aren't quick to try new things and ideas: in fact, one would argue that we are rather too good at this. Also, it would have to be said that we've embraced the market economy and in many cases it is working well. Nevertheless, as with some of the more intractable areas of Government policy, understanding is one thing and implementation is another.

To use an automotive analogy, our engine computer management system is fine but we have a lot of trouble selecting the right gear. Should it be low or high? Indeed, one could argue that in the late 80s we even selected reverse! Many of our primary industries exemplify this behaviour to an uncomfortable degree. Our single desk selling structures could be seen to have been a response to our inability to market agricultural products on their merits, rather than simply on price.

I am tempted to go on, but I'll now go back to the job at hand.

I'll now commit heresy, and look back for a moment, perjoratively, of course.

The business environment of yesterday, for the average New Zealand business anyway, really stopped at the seashore. Our overseas market was taken for granted and the Government in New Zealand simply changed the rules to ensure exporters made money and imports were controlled. (That, of course, ensured that most importers made money as well!).

Today things are somewhat different. Globalisation is upon us, and New Zealand has one of the most liberal import regimes in the world. We are now very aware of the concept of competition and we and consume other countries' competitiveness every day. Our primary industries have gone from being the protected playthings of politicians, to some of the most unprotected and competitive in the world. We have heeded the words of Peter Drucker who told us that *protecting industries only hastens their decline*. We are living proof of how this can work.

Having said that, our primary industries in my view are still struggling to achieve their real potential. Admittedly, this is partly because of the maintenance of quite restrictive trading conditions in many of our markets; but it is also because we have *failed to carry through many of the business theories and practices which we know ultimately lead to long term success.* There's the rub.

So much for philosophy and the swipe at our potential limitations. Let's look at the global picture for a moment and see what others, more clairvoyant than I am, have to say about that.

Peter Schwarz is co-founder and chair of the global business network and a respected futurist and author. Schwarz claims that the world is about to explode . . . . economically.

> "We are watching the beginnings of a global economic boom on a scale never experienced before. We have entered a period of sustained growth that could eventually double the world's economy every dozen years and bring increasing prosperity for quite literally billions of people on the planet. We are riding the early waves of a 25-year run of a greatly expanding economy that will do much to solve seemingly intractable problems like poverty and to ease tensions throughout the world. And we'll do it without blowing the lid off the environment."

He supports this scenario by pointing to the impact of five great waves of technology ... personal computers, telecommunications, biotechnology, nanotechnology and alternative energy. The science is already there, he says, and I would also point out that Schwarz is unashamedly an optimist, as well.

The economies to watch are, *inter alia*, America - already 'on a roll', Europe - which is currently overdosing on social democracy but will spit the dummy, and Russia - which finally learns to manage capitalism.

The risks to this scenario are pretty obvious. Openness hesitates and gives way to a vicious circle of inward looking fragmentation into isolated trading blocs. Economics stagnate and conflict erupts. We've been there before - the first lesson people learned was World War I and shortly after, World War II.

There are other possible manifestations of a failed scenario, ranging from ecological meltdowns to major international super power conflicts ... but our *preferred* future would rather write them out of the plot.

Primary industry doesn't stand still through all of this. Agricultural societies transform themselves into industrial societies, which begs the question: do we still have an agricultural society in New Zealand, or have we made the transition? If so, to what?

Agriculture itself is profoundly influenced by the biotechnology revolution. Human and animal gene mapping enables us to sidestep much genetic disease and more precise breeding of plants and animals. A green revolution enables high population countries to be sustained with new generations of super-productive animals and plants.

This begs another question ... do we want to be in this business, or not?

Infrastructure

Many of these issues are not those of primary industry alone, but are more issues of basic infrastructure which we must improve over the next ten years if we are to achieve our *preferred* future. I would like to look at these under a series of headings, first taking a quick look at the *status quo* and then in terms of a *preferred* future scenario.

- **(First and Foremost) Skills education and training**

  No-one would question that we now have a more flexible education infrastructure than we did 20 years ago, but we still have a critical skills shortage in many growth areas in our economy.

  Why is this?

  Education is, again, one of those areas where most of us are quite clear about what we have to do, but we seem stubbornly unable to achieve it. In the tertiary sector, funding still incentivises institutions towards volume. We still produce an oversupply of the wrong sort of graduates, and an under-supply of those which are surely needed by business.

  The market signals of needs and rewards are simply not getting through. I was amazed to hear the president of the New Zealand University Students' Association comment at a seminar held recently to discuss the Government's Green Paper on tertiary education. He said, and I paraphrase, that the problem with the education curricula and university courses, is they often had nothing to do with where the real strengths and needs in the economy were.

  He insisted that a much more strategic approach should be taken, and that the people planning and funding courses should make a judgement of where the needs are likely to be (picking winners in anyone else's language). In other areas of education and training we fail because of a lack of financial support. Government, perhaps idealistically, wants to get out (of the responsibility), but no one else wants to get in. More specifically, with our eye to ten years ahead, we should recognise what skills will be important to primary industry. Those people starting secondary school today will be graduates in ten years' time and going into the workforce.

  It is my belief that if we elect to stay in the primary business we will have an overwhelming need for graduates in science and technology. In particular, our needs will be in biotechnology, food processing and food technology, and the technology of international marketing (for that is in fact what it is becoming).

- **Science and Technology**

  This brings me to the *second element* in New Zealand's infrastructure which we should envision, *viz.* the rôle of *science and technology.*

We need to enhance our ability to conceive and acquire new scientific processes and technologies to improve both the output and the value of products coming from our primary sector. This is absolutely reinforced by Peter Schwarz's comments about the five waves of technology, which I mentioned earlier. The knowledge economy and society is upon us and we need to be full participants. This is a 'no-brainer' if ever there was one.

Government itself has been the largest investor in upstream science for the primary sector for as long as I can remember, and remains so. There is and has been considerable argument about whether this is desirable or not; however, it would be a bad day if Government pulled out and the private sector did not immediately move into the gap. We cannot afford to wait around for 10 years to see if the market will work.

There are many odious comparisons of how much money New Zealand spends on R&D as a proportion of sales compared to those of other countries and companies. Ironically, insofar as food is concerned we have not done too badly by international standards.

However, these statistical comparisons are misleading. We need to look at where the *real priorities* are in primary industry investment and R&D. As one who has been quite closely involved in Government R&D spending, both upstream and downstream; having sat on two priority setting panels and chaired the technological innovation working group last year, I have a clear idea of what our ten year vision must be. We need to not only up the absolute spend, but also vastly increase the relevance of much of the primary research that we do, and to become very much better at the process of technology transfer. This will unlock the value in the undoubtedly high quality research done by many of our scientists.

To do so requires very much more attention to the marketplace, as this is surely where the value must be earned. Many of our ten CIRs are servicing the needs of the primary sector, and whilst the majority are still very large clients of Government, many are also clients of producer boards, both levy payers and single desks.

I'm sure Government would like to think that in ten years' time the CRIs will all be considerably less dependent on Government as a client, and some will even be self-sufficient, despite the probable demise of the single seller.

As to the general direction of all this science and technology investment, I can only refer again to Peter Schwarz and his predictions re biotechnology. I asked the obvious question: "Should we be in this business?" In my view unequivocally - yes! Will we be willing to fund it? To some extent this question is a catch 22.

For New Zealand companies to invest adequately in R&D they must make good profits. It is, however, abundantly clear that if they do not invest in R&D they will not make the profits they require. Let's hope they get it right.

- **Finance**

Talking about money inevitably brings me to the third leg of my infrastructure quinella. To many businesses infrastructure equates with *finance*. In the early days of Rogernomics the emphasis on this was somewhat overdone, and I'm pleased to say that we have moved on a good way from there. Having said that, there is no doubting that the finance sector is still undergoing very significant change, with the traditional banking structure in the process of being dismantled, both to meet competition and reduce costs.

Many banking traditions have been slower to change; for example, the proper valuation of intangible assets. In the future this will be of critical importance in the business of capital raising. Already foreign capital is often a major and welcome contributor to the pool of capital available to New Zealand companies seeking investment. In ten years' time capital raising will be predominantly a global business, and one of our own companies, MAS Technology, recently demonstrated why intangible assets are far better appreciated in global financial markets than they are in New Zealand. Their very successful float on the NASDAQ exchange in New York is ample evidence of that.

Many players in the primary sector, however, are simply small businesses, albeit specialised. I would certainly hope that in the next ten years there is a much better understanding of their business needs by the banking sector. The provision of better information is one of the keys to this and of course this is a two-way street. Those companies and farmers seeking finance will need to do their bit and demonstrate their professionalism to their financial partners. More widespread adoption of internationally recognised quality and environmental certification by the farming industry will help their quest for funds. It works in the manufacturing sector and it will do so for farming. It may even be a prerequisite for doing business in 2008.

In the export sector itself primary product exporters simply must achieve a better understanding of country risk.

Some of today's risky markets will become less so, but there will be an endless supply of new pastures out there to graze, if you are brave enough. People talk about high risk, high reward; but in my experience a lot of them are simply high risk and no reward.

Commodity traders will still need to watch their debtors particularly carefully, and those selling to Third World countries will continue to need to understand the inherent risk and volatility of much of this business.

- **Environmental requirements and responsibilities**

The fourth area of infrastructure which I would like to comment on would not have received a mention twenty years ago. These days, however, *environmental requirements and responsibilities* loom large amongst the hurdles companies need to overcome before they can expect others to invest in their businesses and, more particularly, before they can sell to their prospective customers.

The Resource Management Act in New Zealand these days seems now to have a life of its own. It is to be hoped that in ten years' time the current excesses of interpretation of the Act will have worked through and we will have a more pragmatic and less expensive compliance regime.

There are currently an awful lot of people employed in occupations related to the RMA, but one would have to question whether the original objectives of the Act are really being realised. There is no question in my mind, however, that in ten years' time the need for us to operate with environmentally sustainable practices and to continue to support the export of our food products with low residue, quality assured, sustainable production, will be absolutely critical. However, to the genuine needs and fears of our overseas customers one must also add the cynical manipulation of phyto-sanitary and other agricultural regulations by bureaucrats.

Somehow or other we must manage to overcome all of these issues and be whiter than white or greener than green, as the case may be. We are too small to think we can throw our weight around.

- **Market access**

Market access is, of course, another area where Governments rule, and it remains a major infrastructural issue as far as many in our primary industry are concerned. As a small nation we have learned that we must liberalise or die, but at the same time we must accept that many of our trading partners remain locked in the past and are likely to continue to do so for many years to come. At least this is an area where we have indeed practised what we have preached. We can only wish the same would apply to many other countries. I think it was Disraeli who said that "politicians only ever act responsibly when they have exhausted all other alternatives", and many of our trading partners have plenty of scope for that.

If I have a message for our own bureaucrats for the next ten years it would be this. We must maintain professionalism and vigilance if we are to continue to enjoy the market access we need, and indeed to see a more liberal, global economy. At the same time our own negotiators must be conscious of where the demand is most required by New Zealand exporters and where they can do the most good. It follows that we should be sparing in our representation and support in countries which are not likely to provide very attractive or profitable markets for our primary industries in future.

- **Added value**

The last infrastructural area which I will mention is really one which is all-pervasive these days, but is more properly in the realm of private enterprise. By this I mean the increasing *need for companies to add value. A corollary is to manifest that value in both intellectual property and intangible assets* such as branding, through the marketing process. The last decade has seen an explosion of global branding activity and global marketing. The next ten years will, if anything, see even more. The strong will flourish and the weak will perish, and not having a brand or being associated with a brand will almost be being condemned to being a price-taker forever.

Markets and consumers

I would like to turn now to perhaps the most important aspect of our ten-year lookout. That is, to focus on our markets and our consumers, and look at identifying trends today that will become key drivers tomorrow in terms of values and behaviour.

As most of us are well aware, markets vary greatly in the level and sophistication of demand and their degree of consumerisation. Top of the heap is the USA, closely followed by Europe and Japan. Much of Asia and Latin America is rapidly catching up. Globalisation is having the effect of short-circuiting the development process of markets in Third Worlds. Many wealthy consumers in Asia, for example, are now emulating the demands of the most rigorous consumers in the United States.

What sort of things then are consumers of our primary exports likely to demand of us? In ten years' time?

First and foremost they will be looking for *value*. Value in the future will be a heady cocktail of branding and its intrinsic benefits: price, availability, durability, sustainability, usability; you name it - we've got to have it.

The key thing to remember is that price will no longer be the driver. That tells us a lot about what we should be doing with our products if we are to deliver value to those customers. Other drivers will focus on consumers' heightened awareness of risk, particularly with *food safety and environmental responsibility*. Peoples' lifestyles will be *less orientated around work, more focussed on leisure, culture, and sport and recreation*. Furthermore, the *ethnicity* of many of our consumer markets will become less relevant as immigration and globalisation deepen.

Consumer needs of particular relevance to our primary exporters arise largely from these lifestyle trends. There is already a huge shift in consumer eating towards *fresh product* and the need to have it available *now* - like this minute. The communication process will be short-circuited and consumers will become very impatient with structures that simply add costs, complexity and delay.

They will nevertheless look for consistency and security but with a liberal helping of variety when required. *High technology* by today's standards will drive much consumer behaviour. This will enhance both communications and payments, particularly in the wider, international context.

Rôle of Government

Last but not least, I should comment on the *rôle of Government* and the likely *legislative and regulatory environment*, both here and overseas, ten years from now.

All of us are aware that many of even the more ponderous Government establishments are now slowly unravelling themselves, questioning their very existence in some cases, and certainly merging and restructuring to reduce costs. This is to be applauded, and there are even some hopeful enough to think that in ten years' time there will be nothing left. Only a fool would believe that. However, before we condemn the fools, remember what Mark Twain said: "Without fools the rest of us could not succeed."

Moving right along, there can be little doubt that Government will continue to exercise a degree of control over much of the activity in the primary sector, although hopefully a good deal of the behaviour will be self-driven and many of the standards they set will be self-policed. More's the pity that our customers' Governments are unlikely to be satisfied with such assurances; even ten years hence, for example, will we still have a meat inspection regime laid down by other Governments or have some international standard recognised? We seem to be going backwards at present, not helped by food safety crises like BSE and 0157.

Monetary policy/labour market

I have already talked about Government's rôle in the area of education and skill, but a related issue, which has been the focus of New Zealand's reform programme this decade, has been with the *labour market*.

Regression from the status quo is considered very unlikely. No one seems to want that.

- Look then for total freedom of association
- Look for total focus on the enterprise rather than on multi-employer issues
- Watch for international covenants/conventions creeping into employment law and contracts
- Be prepared to have to be fully internationally competitive in transferable (technology) skill areas, and be prepared to import specialist resources
- Training will focus on individuals and Government are likely to opt out of paying for skills beyond compulsory education.

The other area of focus during the decade is *monetary and fiscal policy*. Many OECD countries think they have beaten inflation already and monetary policy is more about fine-tuning growth etc. There is also a view that while 1% has been compulsory - 3% is OK. But in ten years - who knows?

I consulted widely with various economic gurus on this question of both monetary and fiscal policy - a mulligatawny soup of views but some consistent themes:

- We will still have an independent central bank, and after 15 years' low inflation real interest rates will be lower;
- Countries will have less scope for monetary independence, but not all common currency schemes will have worked out;
- The Fiscal Responsibility Act will have led to lower taxes - look for 25% and debt less than 20% of GDP.

Our markets

Now, and perhaps fundamentally, let's look at what will be going on in our markets. Who will set the standards? Who will be the gatekeepers of the future? At present there is an arm wrestle between consumer groups, like Greenpeace, the large supermarket multiples like Marks & Spencer, and governments themselves. It's my bet that by 2008 house brands and strong international brands will provide the assurances of value, quality and safety consumers are looking for. This will be particularly important for home delivered, Internet sales of staples; look for growth in niche food shops - more browser-orientated. Traceability will be a key differentiator.

The trends in consumer behaviour are already there:

- Eating out - will be more than 50% (watch importance of food service);
- Read-to-eat meals will be preferred;
- Smaller families;
- "Lonely eating" (meals taken alone)

The future and our behaviour

I would now like to conclude by making a few more general observations about the future and the behaviours we will need to employ to achieve that preferred future we talked about at the beginning.

- We will undoubtedly be selling into a world where *'mega' consumption, 'mega' production and 'mega' distribution will be the order of the day.*

  (That is not to say they are not pretty 'mega' now, except that the further aggregation of purchasing and supply will mean that scale and reach will become critical success factors in any or all of our primary businesses).

  The real challenge for many of our (post-producer board) industries will be to achieve *the same level of aggregation and scale that they could when it was legally assisted.*

- Barriers to entry for many of these businesses will inevitably go up.

  The capital required will be huge and environmental, health and safety and quality certification needs alone will place huge demands on some of our relatively small industries.

- We will see considerably more *international investment in our primary industries*. Much of it will be welcome and necessary. Control will become a major issue and be the source of considerable political angst. Investment in New Zealand both upstream and downstream should certainly ensure that benefits will accrue to New Zealand.

  However, we should *match those investment dollars in the productive end of the business with New Zealand dollars invested in the marketing end overseas.* With one or two notable exceptions companies have been very slow to invest downstream. They have preferred to compete with each other aggressively for the supply of raw material and on CIF price, rather than invest a lot more dollars in controlling distribution in overseas markets. This must change.

  The price and presentation to actual consumers must become our focus in future.

  A corollary for all of this is for our stronger industries to invest in the production systems in other countries. If we successfully control breeding and production technologies then we should take the economic rent. The owners of those companies, if they are to remain farmers in New Zealand, must understand that this is a far better investment for them than, indeed, over-investing in New Zealand. This can, taken to extremes, simply drive up land values to an uncompetitive level. This sort of local capital appreciation may look good, but in the long term it does nothing for our competitiveness.

Overall, it will be more of a truism than ever that "trade follows investment."

- We must learn to become a *major supplier and exploiter of the technologies of primary production systems.* The who and how of primary production marketing must become much more important that the where. Controlling the technology at one end and the marketing at the other will surely be the secret for success for much of our production in ten years' time. We should not regret the fact that much of it may not be domiciled in New Zealand.

- Hand in hand with marketing importance is the *positioning of our products in world markets*, and their *branding.* I make no apology for mentioning this issue the third time in this presentation. In the more globalised World of 2008, having a brand of our own, or hitching firmly to someone else's, will be a marketing prerequisite.

- If we do it right from an *environmental* point of view then we are capable of being world leaders in environmentally sustainable production and indeed, with the right commitment we can achieve that with many organic products as well. The present level of effort by many of our corporates is, in my view, not sufficient to ensure we will be properly positioned by 2008.

- We absolutely must crank up the awareness and output of *appropriate skills and qualifications from our tertiary institutions.* As we add more and more value to our primary production the interface between primary and secondary industries will become blurred, and many of our exports will be in the category of manufactured and finished consumer products rather than primary products as we know them. Where the skills do not exist in New Zealand we must be willing and able to procure them internationally. Our immigration rules must facilitate and not inhibit this.

- We will see *much more liberal markets* but with this will come the need for us to be *more price competitive* than ever. Often when we do gain access into markets in which we have had partial access, we find that the margins available in these markets are probably unrealistically high when the barriers are totally removed.

- We will see many so-called 'borderless' markets emerge. Much of this will be driven by *Internet selling* which is already destroying many orderly geographical distribution models. It follows that companies that are not electronically connected with their customers, and through the selling process, will become has-beens. Those companies that do not have a home page today face a bleak future tomorrow.

- Many of our new products and technologies will require venture capital, and with the lack of sophistication within New Zealand global markets will be the likely source of funds in the future, and control will be a key issue.

Conclusion

To return to the theme of this session, to predict the business environment in ten years' time, here in 1998, is a much harder call than it would have been twenty years ago. Then, domestic factors would have driven the scenario, both political and commercial.

Today, with globalisation alive, well, and growing, we must consider a vastly expanded range of issues and many more challenges. It follows, however, that the opportunities are also infinitely greater. To capitalise on them will demand much more of our primary and related sectors than we perhaps realise. We must anticipate that the trends which are evident now will become the future reality, and prepare our industry for them.

Lastly, understanding the future is one thing, but actually getting on and doing something about it, is quite another - vital if we are to have the preferred future prosperity we are all seeking.