

April to June 2016 Quarterly report

FarmIQ

Summary

- New consumer packs more than double value
- Grazing company adopts FarmIQ software
- Valuable market learning

Key highlights and achievements

New consumer packs more than double value

One of the notable impacts of the FarmIQ programme over the past six years has been the development of Silver Fern Farms branded consumer retail pack range. Beef, Lamb and Venison retail products are now selling well in New Zealand, Germany and Singapore, and there are plans for expanding the range into China and the United States in coming years.

The new value created by these types of products is by comparing the commodity value of a Lamb Leg (approximately \$10/kg) vs the branded retail packs (approximately \$27.50/kg). In other words, the research and development work has increased the export value of a Lamb Leg by 2.75 times. This has been achieved by creating convenient boneless cuts, packaging them attractively and implementing a premium price strategy that attracts additional profits. Over coming years Silver Fern Farms will scale up the volumes of these products as more market programmes are developed and existing markets expanded.

Grazing company adopts FarmIQ software

The FarmIQ software is now being used by grazing company GrazCare to track and report on nearly 27,000 stock units across multiple farms.

This takes the totals in the System to close to 4 million (3,937,680) stock units being run on 609,400 effective hectares as at 30 June 2016.

GrazCare, which is owned by nation-wide veterinary services business Veterinary Enterprises Group Ltd, offers monitored and managed grazing contracts. Having operated in the North Island since 1996, they expanded south in 2015. GrazCare assessed its options for a new information management system and determined that FarmIQ would provide a good and cost-effective system for their purposes. They've now got 120 farms set up in their information management software, GrazCare IMS, which is powered by FarmIQ.

For GrazCare, FarmIQ has provided the existing functionality along with a few enhancements. GrazCare use the IMS to manage contracts, monitor stock and generate reports. They are offering graziers and stock owners the option of logging in to view information online.

Valuable market learning

As the programme nears the final 12 months, the Market Lead Development team has a good platform of insights to work from.

One key learning is, as might be expected, there is no "one-size fits all" answer. Different markets require unique solutions, and consumer segments within markets also require products, packaging and brand stories tailored to their own specific needs.

Also, global consumer trends are also constantly evolving, so the development process is on-going, requiring regular consumer research and new offerings to ensure our brand remains relevant and engages with target consumers.

Fundamental components to creating new value involve both rational and emotive reasons to buy New Zealand Lamb, Beef and Venison. Backed by science, and integrated all the way back to farms (a true 'plate-to-pasture' story), the Beef Eating Quality (BeefEQ) system, for example, offers a powerful rational reason to buy as it offers consumers guaranteed tender, tasty and juicy beef. On the emotive side, there is a very compelling Silver Fern Farms story of New Zealand Red Meat – the Place, the People, and the Passion that goes into producing the world's best grass-fed beef, lamb and venison.

Creating new value is a relatively straightforward (but not always easy) process. It requires discipline and heavy investment up front. However the more challenging aspect, but arguably even more important, is building capabilities to capture that value. It's not uncommon for middlemen to take control of a disproportionate amount of the new value created, for example retailers re-packaging New Zealand Lamb under their own brand. So it is vital that any value creation programme has strong systems in place that capture as much of that value as possible.

These systems include: owning and controlling the consumer brand; having strong direct business relationships in place with selected distribution partners (importers, retailers); and finally enforcing a robust premium pricing strategy that ensures value is distributed correctly through the value chain. These are all significant challenges that any global food business encounters, but they are typically challenges that the New Zealand Red Meat industry has been historically weak at defending. Shifting to a value creation strategy makes it even more crucial that the value capture mechanisms are very robust.

Investment

Investment period	Industry contribution	MPI contribution	Total investment
During this Quarter	\$ 2.51m	\$ 1.24m	\$ 3.75m
Programme To Date	\$ 55.91m	\$ 53.34m	\$ 109.25m