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## Food markets of the future

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### ABSTRACT

Looking from New Zealand at the food markets of the future, presents our industries with something of a challenge. To those with an industry background, this may seem an overcautious view. We are not altogether inexperienced as a food exporter, and can date trading in food products to well before colonisation. Today, over half New Zealand's total merchandise exports are food products, and we can count most countries of the world as our markets for food products of some sort or other. So why would meeting these future markets be so challenging? First, our experience as a food exporter has largely been with commodities; only recently has New Zealand started to significantly differentiate and transform its exports into more sophisticated products. Second, the wealthy consumer markets even of today, are hugely more complex than they used to be, and consumers' purchasing decisions are subject to many new influences, some almost totally unrelated to food, as such. Third, the control our exporters have over their food markets value chains is weak, and while this does not preclude us from participating, our returns are often constrained to f.o.b. margins, which will provide little more than a modest return on the capital we have invested in production systems. Last, some significant barriers to trade remain, in our most important markets. Some would describe these as intractable; suffice to say, progress in dismantling them has been painfully slow. All is not lost however. We are increasingly aware of the demands of future markets and, putting to one side the required action from our trading partners, we know what we need to do to lift our performance. Whether we have the will to change some historical behaviour and adequately re-configure the value chain in New Zealand remains to be seen; however, some radical surgery will be necessary. Of the many factors influencing the future shape of our food markets, technology is surely the most significant. E-commerce, and the dis-intermediation of our value chains that it is causing, is one example. The advances in food technology, biotechnology, and the ways in which we manage production systems are others. We need to understand and harness all these technologies. Market-related factors include rapidly changing lifestyles, the growing strength of food safety and animal welfare interest groups, and the need to be market-ready with consumer-friendly, fresh products, all year round. New Zealand will need to do most things differently, and more quickly, to service our future markets with confidence.

### INTRODUCTION

An alternative title of this paper could be "Food is War", if history is anything to go by. If so then food markets are the battleground. Perhaps they always have been, but if so, then things are more complicated now. The weapons are becoming more sophisticated, the rules change almost daily, and the casualty count is high.

We could talk about food for a week, however, the focus is on animals, New Zealand, a pastoral emphasis, and our own unique welfare considerations. The context is the future. For purposes of this paper I will look out 5–10 years. There are various techniques to help do this but the trends are there for us to see now. We can be certain there will be more mouths to feed, but what will they be eating? Where will they be eating it, and more importantly for us where will it come from? Like many people, I have expectations that a good share of it will be from New Zealand. If that is to be the situation however, we will have to do more than a few things differently.

### DRIVERS OF MARKET CHANGE

These vary in impact over time but are becoming cumulative in effect. It would be simple if the consumer was the only driver. The ubiquitous consumer is the justification for many quite different agendas. What is really going on? Who is really in control? Can many of the claims be believed? Who is pushing them and why?

Let us look at just a few of the many influences at work in the markets of today, and then imagine what those

markets will look like in the future.

### Food safety

The big one. The nuclear armaments of the food wars. The greatest casualty is truth.

To listen to the hysteria in the media, and the theatrics from the French over BSE and British beef, one can imagine consumers creeping around supermarkets with microscopes examining the fine print on everything they put in their mouth, minutely. The reality is that French consumers are probably far more at risk from some of the crude farm and food processing practices in their own food chain than from imports of British beef. The same could be said of many of the other countries of Europe, including Britain itself.

So do we conclude that food safety is about politics? No, but it has certainly been hijacked by politics. To be fair, there is the *hidden harm* argument—that people have a right to know that what they are eating may not be safe. The recent scandal about dioxin in fats in Belgium reinforces that perception.

### Genetically modified food

Another more recent preoccupation for consumers, the media, scientists, and Governments is genetically modified (GM) food. Whether the real danger is from the immediate threat of consuming GM food, or the harm to our ecosystems from growing the stuff, is lost in the rhetoric at this point. As no one really knows the answer to these questions, the preoccupation of the regulators is with the

right of the consumer to know what he/she is buying or eating—or is this missing the point as well? For example, in some markets 50% of food is now consumed outside the home, so how would the consumer know anyway? We don't see too many labels at food service venues such as restaurants.

### Traceability

Traceability is another issue which is in the same category. Transparency to the consumer is the issue, and the marketers must respect it. Perhaps it is a more rational approach to the safety question than the blatant nationalism that characterises the present dispute. All of this has a cost, which ultimately is borne by the consumer, and was he or she really given a choice? On the other hand, to some marketers it is an opportunity to put their company on parade, and traceability is a differentiator *par excellence*.

### Quality systems

Quality systems are important to marketers as they are an inbuilt protection against legal action. However, in the most litigious market in the world, the United States systems count for little against a determined lawyer. Deep pockets and a thick skin are the necessary body armour. Again the interests of the consumer pale into the background. Where does all of this leave the marketer of the product as the lawsuits crash through the value chain like dominoes?

Where do International Standards Organisation (ISO) certifications feature in the markets of today and of course the future? As a marketing tool in some situations quality systems are already useless. Whilst most of the large food groups in the United Kingdom know and respect ISO certification, a growing number of them will not accept it as a purchasing criterion. They instead prefer their own standards, which of course are a differentiator against the competition, who in turn, have their own. On the other hand, this tends to force long-term supplier/retailer mutual dependencies. From one point of view this can be good for continuity of business and reduce costs. From another, it gives the retailer a growing measure of control over the suppliers' part of the value chain, which is undesirable.

### Environment

Environment has a more subtle impact. There may be nothing wrong with the product as such, but the manner in which it is produced becomes the focus of attention. Again the consumer can be the barrel down which all sorts of political and protectionist bullets can be fired. Hypocrisy is alive and well here. "Do what I say and not what I practise". Responses range from the generic clean green images and innuendoes, at which we excel, through various grades of environmental certification as such, and on to the organic movement which is still gathering momentum. Will organic food production become the norm in future? Good question.

### Price

The oldest one in the book. This is the trench warfare of the food wars. A tough one too as there is an array of weapons lined up. Subsidies, tariffs, price support, all make the battleground a minefield, if you will forgive the

tautology. Now that we have our own Major General Mike Moore behind the enemy lines as President of the World Trade Organisation (WTO), we may get some relief, but I wouldn't count on it as he has only a short service commission, and this has been a long and drawn out campaign. I tried to find a suitable quote from Mike to mark this. Rodney Hide MP who reviewed Mike Moore's most recent book "A History of the Future" in *National Business Review* in April 1999, came to my rescue. "None of our ancestors died celibate. No one can survive alone. No one man alone can kill and eat a mammoth."

Margin structures in many markets are a reflection of the complicated structures of manufacturers, distributors, agents, and merchandisers who all feed off the food value chain, so to speak. These can make navigation very difficult for the fresh troops from abroad who parachute in by night, with no compasses, and foreign accents. However, the rules of engagement are changing rapidly and there are breaks in the enemy lines through which can slip special forces with modern weaponry. We'll talk further about some of these as well.

### Lifestyle

We've all heard the old one about how the English "eat to live" and the French "live to eat". The latest version of that parable is that everyone now "eats their life".

Consumers now literally go out to eat at restaurants which reflect their view of themselves and how they want to be seen by others. The "Outback" restaurant chain in the United States is a good example, along with the 'Planet Hollywood' and "Hard Rock" brands and the increasing variety of ethnic and other cultural food offerings around. Other consumer trends reflect changing lifestyles. One-person households are on the increase in Europe, and probably elsewhere, with 28% in the United Kingdom, 40% in Sweden, 37% in Denmark, and 35% in Germany. The marketer needs a sniper's rifle with a telescopic sight to reach these targets.

Eating out, designated technically "meals consumed outside the home", has been on the increase for years and doesn't seem to be levelling off. Now well over 50% of people in some countries, and Generation X and now genX2 or Gen Y, have lost the art of cooking as we know it, or even the notion of three meals a day. Grazing is no longer the preserve of the New Zealand farm animal.

### Animal welfare

So far I've hardly mentioned animals unless we consider that *homo sapiens*' behaviour qualifies. In a similar category to environment, animal welfare has been a growing influence on consumer perceptions over the last 10 years. We all remember the fierce resistance in Spain in 1992–93 to imports of British lamb on the hoof by truck direct to the abattoirs of Madrid.

Again hypocrisy is practised widely. To the feed-lotting and restricted farming regimes of Europe, the unconstrained free-grazing environment of a typical New Zealand farm can be construed as absolute cruelty, exposing animals to the elements, leaving them to fend for themselves, etc. It is all in the eyes of the beholder and almost anything goes. There are some fundamental issues here, however, which

we would do well to remember as we look at the markets of the future.

Some of you will know that I spent a while working in the deer industry and the issue of velvetting is about as tough as it gets in the animal welfare stakes. Sparing the animal any suffering is not the ultimate answer either, as xylazine by-product residues are now a no-no in the food business, with velvet consumed in many western countries.

### **Freshness**

This is another demand in Northern Hemisphere food markets which is growing in importance and which is difficult for us to satisfy economically, being physically so far away from our markets. Technology has enabled our fruit and meat industries to keep up but simply preserving the eating quality of a food product will not overcome the overzealous use of date stamps on perishable goods like meat and fish. It is too early to write off frozen product, but for front-line supermarket fare the product comes a poor second.

### **General**

It is time to pause and reflect for a moment. It wouldn't be too difficult to get quite discouraged about what the average food exporter in New Zealand at the bottom of the world is up against. Pause too and put consumers into the picture. How do they decide what is good for them and what is not, and how do they prioritise their choices? In my view, in many instances they do not decide at all, with the primary decisions being made by a group of powerful gatekeepers in the system, amongst them regulators, supermarkets, chefs and so on, so it is not quite the problem it seems.

It remains difficult for the marketer however, as, notwithstanding all of the above it is a competitive world out there, with many companies competing for the consumer dollar. A visit to one of the two international food fairs of Europe provides a quick reminder of that, or alternatively a stroll around the aisles of a United States hypermarket will do the same thing.

## **GEOGRAPHY**

It is almost axiomatic that where we are selling our products today will not be where we are selling them tomorrow. Not in the same proportions anyway. It is not possible here to cover all of New Zealand's likely future markets so I will touch on a few and try to provide a flavour of how those markets will develop given some of the trends we are seeing today.

### **Asia**

Two years ago Asia was the holy grail, and we were on the bandwagon, seeing it as the future for many of our export industries wearying of the battle in Europe and the United States. At one stage we were even proclaimed to be "part of Asia", although the reality of that was rather more difficult to address. Then the Asian economic wheels fell off and many of the fledgling markets slipped off the computer screen—look at the impact on food sales in Indonesia, for example. Some of these markets look to be off song for a while, but there is reason for optimism about

a recovery and we should be reviewing our files now.

Those in the food business who travel frequently to Asian markets will be well aware of the rapid changes which have taken place to food retailing there. Drivers of change have ranged from the introduction of scanning technologies and centralised warehousing, to the rapid expansion of international branding and franchising, with regional purchasing and distribution. Although the initial introduction of scanning technologies took 10–15 years to implement in western markets, the take-up in Asia took only 2 years and the same will be seen for other trends.

The mega retailer is now a major force, although in some countries the wet markets (traditional outside markets with no refrigeration, etc) will be there for a while yet. Distribution will be slower to develop, as infrastructure investments tend to take longer, and wholesalers still dominate many of the food chains. These wholesalers are generally inefficient and slow, trade off suppliers, and have little knowledge of retailer or consumer needs. This will, and is, driving retailers to work more closely with suppliers, and this offers opportunities for New Zealand and Australia which have advantages of reasonably sophisticated product portfolios and systems, and good proximity to the markets.

Asia is, of course, a collection of many individual countries and cultures, and although there are some broad similarities and some recurring ethnic themes, conditions vary markedly for the marketer. For example, the ease with which exporters can get their products into the individual markets varies enormously.

Any food products can be imported into Singapore and Hong Kong, but China, the Philippines, and Thailand have very high tariffs to protect their agricultural sectors. Others, like Korea, are reducing their tariffs to comply with WTO requirements, but are rapidly learning from the Europeans that there is a veritable armoury of non-tariff barriers out there which kill imports just as well, and in some cases even better.

In other respects Asian markets have not (yet) followed European and United States trends, but if Japan is a guide, they may well do so in future. Organic food development has been significant, but Japan leads the way in both the sophistication of the market offerings and in the premiums consumers are prepared to pay.

There are also new market segments like *halal* food which caters for the very significant Muslim populations in Indonesia, Malaysia, and Brunei, not to mention large populations in other countries. The needs of these consumers can only increase along with the increasing profile religion has in some of the countries.

At food service outlets, we have a real mixture of demand, from the foreigners dining at international hotels, whose eating habits are emulated by many of the wealthier domestic diners, to local cuisine which still dominates in most countries. You may be interested to note a few pointers for today's trade, which will endure in the future.

*Consistency* is a key requirement, and examples abound. In one situation when I was part of a team sent to North Asia in 1993 to look at meat market trends, we saw some very unusual behaviour in a lamb packaging plant in Hokkaido. Product was packed to an exact and consistent *weight*, rather than to an approximate weight and then

accurately *priced*, which is the way we would do it here. In another example, in Hong Kong; New Zealand strawberries, while passing the taste test with flying colours failed the size test in that they were all not the *same* size. *Portion control* is closely related and at food service outlets has become an important issue following the Asian crisis, which put pressure on costs throughout the supply chain, and particularly with food preparation. *Continuity* of supply is also an issue and unless we can offer it we may miss out altogether. *Relationships* are a key element of doing business in Asia, and food is no exception. Find and foster them before you do anything else, but pick them carefully. An investment in the wrong relationship is money down the drain.

As a closing comment and a pointer to the future, China just *has to be the key market* going forward. I have been to China often enough myself to know how frustrating the comment can be, as we have had almost a generation of exporters trying to turn the market into reality, and it's always just around the corner, or profits are anyway.

Nevertheless, it must be ultimately true, as the numbers of consumers stack up. China's accession to the WTO, the growing sophistication of the consumer, and the sheer demand for food, mean that the market for imports must grow, but the value chain will be difficult to work in and there will be some risks not shared in other markets. Patience is a virtue.

### The United States

In terms of developing trends, the United States is at the other end of the scale but let me hasten to add that doesn't mean it is any better, more rational, or easier to understand or penetrate. On the contrary it is worse by almost any measure. In the course of preparing this paper I noted comments by Bruce Axler, Principal, MMC Marketing, New York, when he was here in 1998 for the New Zealand Agribusiness Conference.

"Nothing has changed for the better. To the contrary, the food industry has been battered into more bizarre forms by the macro-economic events of the last 30 years and shattered by the deepening segmentation of the market.

Nothing is going according to the MBA textbook (algorithms) because the consumer has thrown the book away. To prosper in the 21<sup>st</sup> century, it might be necessary to burn it. Selling food in the United States is going to take a new sort of sideways thinking."

### What is going on?

The food industry in the United States resists categorisation

Food retailing and food service are no longer what they were. For example, supermarkets now open 24 hours a day and sell everything from battery acids to antacids, and have restaurants, sushi bars, bakeries, wine shops, and self-service delicatessens on the same premises. The convergence is palpable.

We can't even rely on the consumers for any constancy. Those who worked at a regular job and increasingly *ate out*, now are working at home and are *buying in* restaurant food from supermarkets.

As we have already noted people are eating their lives.

*Psychographics* now transcend *demographics* in the mind games of food-purchasing decisions. White and blue collars are out, and yuppies, guppies, puppies, woofers, and skippies are in, not to mention baby boomers and Generations x, y, and z.

### The major section of the marketplace is impenetrable

It is next to impossible to get into the system unless you are already part of it, and as big as it is. Fortunately things are changing. The inbred majority is being outflanked by the minority markets which by last count in the United States numbered around 260 million. In the vernacular of the Gladiators, the war sword and shield are out and the net is in.

### Information technology and brands are the only things that matter

Perceptions are reality and the product is the brands personality. Commodities lack personality and products without brands are commodities. Brand personalities can speak to ethics, social concerns, consumer self-awareness, decency, health, and nutrition, and of course concern for animals and the environment. The brand sits on a label and at point of sale and of course Americans, unlike us, read both.

Information Technology will be the *Blitzkrieg* of the next century. We have seen enough of its impact over the last few years to know that now.

The "market of one" is already there in the United States. The availability of specific demographic contexts for groups of consumers in that market is now huge; and direct mail and email vendors, credit card companies, and others can now precisely target their promotions to individuals.

The internet is demolishing value chains by a process of dis-intermediation, and putting conventional retailers on notice, if not out of business. With 65% of domestic air travel in the United States now booked direct on the web, travel agents are a threatened species and are transforming themselves into travel consultants with a whole new range of services which they charge direct to their client, no longer the airline.

Retail food is also switching, particularly for staples, and the supermarkets love it as the margins are much more attractive. Those clients who are members of loyalty programmes are a treasure-trove of information for the retailer, who now knows precisely what products and brands they buy, how much, and how often. Who said the *fifth column* was dead?

Food service will be next, and traditional vertical relationships in the value chain will be put to the test, if not the sword. Although chefs are a little like farmers in their slow uptake of information technology and use of computers, be in no doubt that they will, and soon. There will be a mouse in every kitchen, and chefs will have instant access to a huge range of products, portions, and meal ideas.

### Consumer paradoxes

Consumers in the United States are, as Axler describes it, spinning between polar positions, internalising opposing sets of values.

- Consumers want foods that are less processed, more

natural, and easier to prepare. In other words, they want pure natural food but all the convenience of highly processed food.

- Consumers want foods that are inexpensive but which have luxury connotations.
- Consumers want ordinary food to be gourmet.
- Some consumers want meaty vegetarian foods.

And so it goes on, and of course the question is where is it going on to, and how can we get a piece of it?

From the above examples we can be sure it won't be what we think it is going to be. The United States market of the future is certainly going to be risky, but then it always has been.

### Value chains

Again, this is a huge subject in itself and I will touch on it only to reinforce how the rules are continuing to change, and how illogical our New Zealand involvement in some of these value chains has been, bearing in mind what we will be up against in the future.

The value chain can now be seen to be an integral component in the strategic process. In this context, *strategy* is primarily the art of positioning the company in the right place on the value chain—the right business, the right products and market segments, and the right value-adding activities.

One view is to separate out *upstream* and *downstream* activities within a typical value chain. This view argues that value is added to the product, or service, within the business system, as the product moves towards the point of consumption. The product moves from being a standardised (undifferentiated) commodity, generating low margins, towards a differentiated product with higher margins. This differentiation can comprise things like quality, performance, uniqueness, and other characteristics. The product or service thus acquires a *brand* identity.

Traditionally we are of the view that *upstream* companies are most likely to pursue marketing approaches that emphasise product standardisation and low-cost structures to support aggressive price competition. This may or may not be accompanied by supplier-customer relationships which develop into long-term partnerships. (My experience with the deer industry would suggest otherwise, unless there are other incentives or coercion is present.)

*Downstream* companies rely on detailed market knowledge to identify target market segments and customers with tailor-made products and services. Marketing is based on branding, strong advertising to create awareness and develop brand loyalty, together with strong control over an assured logistics infrastructure.

How the various players view the value chain depends on their positions in it. We are slowly trying to change things in New Zealand but there is a strong concentration of power in the hands of the *downstream* end of the value chain which, by and large, we do not control. It gets worse, as with many retailers now setting the parameters for supply uniquely for themselves, and becoming the brand, the retailer control shifts further *upstream* towards producers. This further threatens the already thin margins of the producers, and

certainly reduces their options. Not a good scenario for a profitable, farm-based commodity industry upon which New Zealand has traditionally staked its economic future.

We know what we should be doing to break out of this commodity trap, but seem incapable of doing anything about it. At best, progress is painfully slow. New Zealand food value chains would certainly benefit from more co-ordination and integration. Maybe this is a model for the future which would enable greater vertical integration and profitability, more effectively match supply and demand, and provide a better basis for investment in the market end of the business system.

## CONCLUSION

To summarise:

- Food retailing in our major markets is *highly concentrated* and is becoming more *co-ordinated*.
- Changes in *consumer lifestyles* are creating opportunities within the food chain as customers' value expectations change.
- Strategy is the art of *creating and capturing value*. Strategy is also about positioning the company in the right part of the value chain.
- The most significant value is added by *downstream* organisations within the value chain.
- *Branding* is increasingly used by producers, processors, and retailers to create new value.
- *Designer-type* food products are the rage.
- Our traditional *upstream* production-orientated skills are inadequate for a future value adding New Zealand food industry.