Disrupting the value chain

Peter Lewis, creator of Lewis Road Creamery chocolate butter believes in quality over quantity.

Cheyenne Stein
cheyenne.stein@nzfarmlife.co.nz
@CheyStein2

Disruptive technologies are everywhere we turn. The likes of Uber, Spotify and Airbnb have all changed their respective sectors. St John Craner, recent graduate of the Kellogg Rural Leadership Programme, and planning director at rural marketing agency TRACTA, says agriculture is not immune to disruptive technologies either.

For his report, Craner undertook literature reviews, case studies and industry interviews that suggest disruption is already alive and well within our own value chain.

"This kind of disruption will only accelerate as new technologies become more open and affordable making it the norm. There's a clear message here and that's disrupt your own model before someone else does."

Craner's report focuses on the area in the value chain where the greatest value is being lost between farmer and consumer – the retail space. This space is closest to the consumer and the one facing the most disruption from new players.

"News in agriculture is well documented around the importance of brand and telling our story but I also think as an industry we don't fully understand the amount of disruption occurring in other industries. Just look at what's happening to the retail electricity market right now."

Thinking about "New Zealand inc" isn't enough of the story. Craner says we need to focus on the distinct provenance of our story as well.

"I'm a big fan of truth telling versus storytelling. It's saying what are the fundamental and unique truths that exist on-farm that act as the evidence and proof points to your story. There's a lot of brand noise out there but there needs to be proven truths otherwise consumers will punish you for that."

The chinks in the agricultural value chain have been widely discussed and debated. Return on assets for producer and processor are low compared to the returns a manufacturer or retailer enjoy.

Craner says that unless something changes, the fear is more family farms will decline in profitability as input costs rise with an inability to pass those costs on to consumers.

He believes we will see a number of progressive and innovative farming groups form regional clusters made of local producers who have become dissatisfied with the rate of return in the value chain and will want to regain control.

"This isn't a new concept, dairy companies in the bygone era were small like that anyway. They will come in 'underneath' like all disruptors do. Look at how craft beer brands Emersons and Panhead have stolen share and margin from large brewery beer brands who had no choice but to buy them knowing they couldn't beat them."

A direct model like this will create additional value through the efficiencies that come from a shorter value chain as well as more immediate and direct contact with farmers and producers via social media, which consumers increasingly want.

"These farmer groups will use online technologies to communicate and connect with their customers in a way they never could before creating raving fans of their produce posting and sharing their experiences online.

"Anyone who blocks the line of sight between farmer and consumer is ultimately serving their own interests and not that of the consumer or farmer."

To support his research findings, Craner spoke with a number of industry leaders both in and out of the NZ agricultural sector.

"The common thread in all the interviews was that customers need to be put back at the centre of the business and that we need to utilise technology. The more choice and control you give them the more likely they are to reciprocate. Closed and controlled supply chains aren't a long term prospect."

Lewis Road Creamery chief executive Peter Cullinane is a big advocate and believer in quality over quantity and believes the way we market our dairy produce does it a great disservice.

Asked what he felt were the biggest issues facing NZ agriculture's value chain today he said they were much the same as they were back in 1882 when the first refrigerated vessel made its way out of Port Chalmers in Dunedin. The tools then of commodity, pricing, export and technology are the same tools we are using more than 130 years later.

"We have to break the commodity volume addiction we have. We need to be thinking quality over quantity. We aren't big. If we think we can produce our way out of this then we are sorely mistaken."

Farmers need to be paying more attention to things like soil, environment, animal health and welfare, with many discerning customers willing to pay a premium for proof and promises on these types of attributes.

"Good honest storytelling based on fundamental truths and seamless, delightful customer experiences will win the hearts, heads and wallets of today's new customer."

- *To read Craner's full report head to: www.kellogg.org.nz*

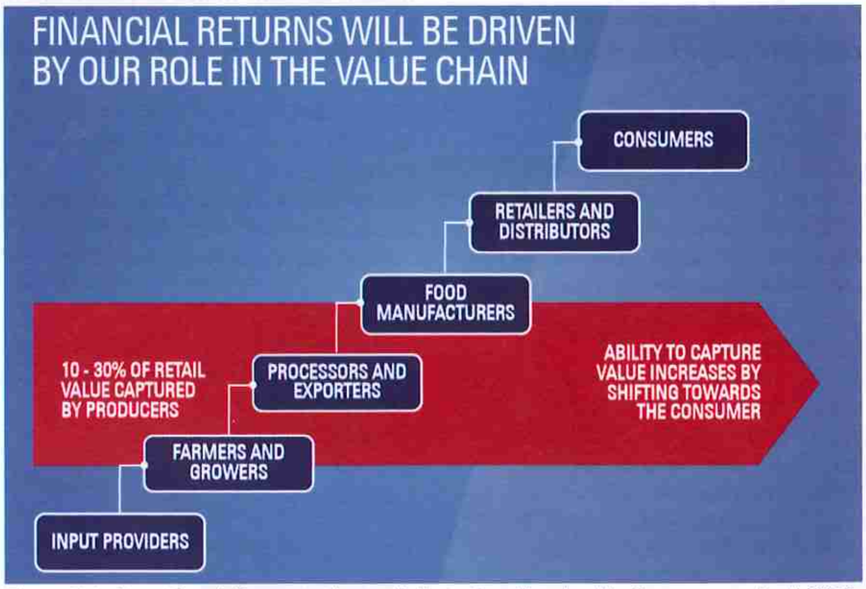

Figure 3.4: Proudfoot I, Presentation to Kellogg Rural leadership Programme April 2016