



THE ANZ

PRIVATELY-OWNED BUSINESS BAROMETER

FOOD & BEVERAGE INSIGHTS



HUNGRY FOR GROWTH



There's a big appetite for growth amongst New Zealand's food & beverage sectors; success will belong to those that focus on what really matters.

The energy of the New Zealand food & beverage manufacturing sector comes from its ability to develop great products and sell them through clever, innovative marketing campaigns. It's an industry full of hard-working people who are passionate about what they do and have a keen eye for opportunities to take their product to the world.

So it's not surprising that ANZ's research found that the food & beverage sector is very optimistic about the future and the potential for export growth. But for New Zealand businesses targeting overseas markets, the fundamental challenges I see are distance and scale – and these can be overwhelming. So to grasp the opportunity businesses need to open their thinking to make the shift from having really smart products, to having really smart businesses.

Our analysis suggests that the returns achieved can be exceptional and our ANZ Privately Owned Business Barometer study shows that owners are up for growth. However it also reinforced the need to be very clear about what's required to deliver and it's quite a list: spending time in market to really understand the end consumer and how they make buying

decisions; good business systems; and, the right people, good advice and funding. But perhaps what matters most is the mind-set for growth needed, and that's mainly about being open to outside help and partnership.

New Zealand has a golden opportunity when it comes to food and beverages. Water, land and a reputation for quality all open doors in growing markets.

Harnessing these strengths and tackling the challenges is a big ask but the potential prize for companies and for New Zealand is increased returns across the entire value chain - and that's vital to New Zealand's future. We're enthusiastic about the sector's future and look forward to contributing with services, insights and connections.

Graham Turley

Managing Director – ANZ Commercial & Agri





New Zealand's food and beverage industry is coming of age.

Privately-owned food and beverage companies are making their presence known, not only in crowded international markets, but back at home. Nationally we are more accustomed to noticing the performance of our large cooperatives. On the other hand, many emerging small and medium-size operations are building the credibility of their brands right through to the consumer, largely on their own.

With these emerging stars and future corporates commanding average annual growth rates close to 20 percent, a strong case has arisen for greater coordinated support from public and private providers to get alongside this multi-billion dollar export industry.

Overcoming barriers to smooth access and entry into hyper-competitive markets requires a more collaborative effort from this stunning sector, along with enabling from central and local government agencies. Issues to tackle include access to resources, talented staff, infrastructure, social license, and accreditation of new combination products and high-value ingredients. After these domestic barriers are addressed, lack of scale and integration into global value chains is the next hurdle. But none of this is too complex to overcome if strong collaborations are put in place across the value chain.

On the back of this broad collaborative approach, joint innovation can occur systematically and rapidly. With the nation's world-class science and technical expertise on hand, we could become one of the most innovative food nations on earth - we can have the smartest, safest and most sustainable foods. But, we have to continue to strive to connect the market opportunities with the people and teams that can unlock this potential. I am greatly encouraged at the foresight of ANZ's initiative and this report that takes us further in that quest.

Mark Ward
Programme Director – FoodHQ





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FOOD & BEVERAGE INSIGHTS

KEY FINDINGS:

From primary products to advanced food ingredients, the New Zealand food & beverage sector is varied and dynamic. This report gives an overview from a very diverse set of sub-sectors surveyed as part of the ANZ Privately Owned Business Barometer 2015. It gives an insight into what business owners are thinking and where synergies are taking place across the sector and supply chain. It finds:

- High optimism for long-term business performance: 61% of Food & Beverage respondents to the ANZ Barometer 2015 were very optimistic for their own business 3-years out vs 54% for all businesses
- Food safety regulations are seen as both a challenge and an opportunity
- Food & beverage businesses are showing the way in their use of mobile technologies with social media and mobile technology reshaping the way consumers buy and relate to the food they eat

- Collaboration in the sector is already high (60% of respondents are already collaborating with other businesses) but could bring further benefits, especially in opening up new markets
- Growth challenges are many. For owners wanting to take their business to next level, the key is to focus on the end goal and be open minded about what reaching that will take.

About the respondents:

Of the over 4000 respondents to the 2015 ANZ Privately Owned Barometer, 178 food and beverage businesses took part. They ranged from very small (21% with annual turnover of less than \$100,000) to medium-sized enterprises (10% with turnovers above \$10 million). Research was conducted during the first half of 2015 and included survey responses and focus groups.

ANZ thanks FoodHQ for their valuable contribution of time, expertise and insight to the research and this publication.



HUNGRY FOR GROWTH

The ANZ Privately Owned Business Barometer finds that New Zealand food & beverage company owners are hungry for growth, driven by a corresponding appetite for New Zealand produce around the world – and especially in Asia.

The New Zealand food & beverage industry is an exciting place to be – just ask food & beverage business owners. The 2015 ANZ Privately-Owned Business Barometer study found an overwhelming majority of food & beverage respondents – over 60% - were very optimistic about the growth prospects for their own business over the next three years, more than in other sectors.

Increasing global demand for food and proximity to increasingly wealthy Asian consumers were just two of the factors Barometer and Focus Group participants saw as creating huge opportunities for New Zealand's food & beverage producers.

In the domestic New Zealand economy, the channel to household kitchens is dominated by supermarkets operated by two major players (the Foodstuffs group and Progressive Enterprises Ltd). Exports, therefore, present opportunities for growth as well as the potential to leverage 'brand New Zealand' to achieve higher margins.

The approximately 2,600 NZ food & beverage manufacturers are already a major contributor to New Zealand's export drive. Research undertaken as part of the New Zealand government's Food & Beverage Information Project* identifies New Zealand as a major food & beverage exporter – and it also shows that our relative performance against our peers is improving. The value of New Zealand's food and beverage exports grew at a compound annual rate of 11% per annum in the decade from 2002 to 2012.

Importantly, the Food & Beverage Information Project research also points to significant capacity for further growth. An estimated NZD75-125 billion is added to the value of New Zealand food & beverage exports by offshore manufacturers and wholesalers.*

*The Food and Beverage Information Project: 2013 F&B Industry Overview; An Investor's guide to the New Zealand Food & Beverage Industry 2014. Coriolis Research



NEW ASIAN MARKETS

Asia, and China in particular, is a focus for exports and it's easy to see why. There's so much promise – China is the world's fastest growing consumer market and second largest importer of goods (Source: International Monetary Fund, imfdirect: China -fastest growing consumer market in the world, 2013).

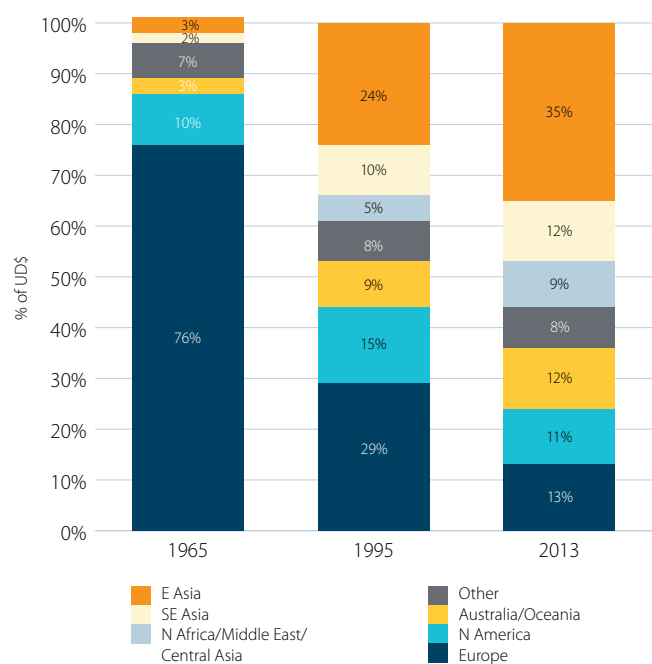
And the opportunity is set to get even bigger. In a new research report from ANZ, 'Sleeping Giant: China's Consumer', ANZ economists predict that China's middle class will more than double its spending by 2030.

"New Zealand will have to worry about the fact that there is more Chinese demand than you can possibly supply"
– Chinese President Xi Jinping.

But China is just one part of the demand story. The Food & Beverage Information Project highlights the transition that the sector is making, moving from feeding traditional western markets to catering to the middle-class Asian consumer, and outlines changes involved in such a shift including the nature of the product and the way it is marketed.

"My experience of the China opportunity was that it's tantalizingly close but also, potentially so far away! It wasn't until visiting Shanghai that we realised our trademark had been taken. All perfectly legal, but potentially ruinous for our export plans. Fortunately, with the urging and help of people on the ground, we've been able to win back our trademark and can now look optimistically at the potential China and particularly Shanghai, represents." — Peter Cullinane, Founder, Lewis Road Creamery

SHARE OF NEW ZEALAND F&B EXPORT VALUE BY REGION



Source: What does Asia want for dinner, emerging market opportunities for NZ food & beverages in East & South East Asia, July 2014, Part of the Food & Beverage Information Project, Coriolis Research.

Other markets are opening up too. Take wine for example, where Chinese markets accounted for just 2% of wine exports by value in the year to June 2015, such is the demand for New Zealand wine in other markets such as North America. (Source, NZ Winegrowers, Statistics NZ)

"We see a world market out there that's only going to get bigger – it's simple economics." — Dave Pearce, Strategic Director, Renaissance Brewing Limited, Marlborough.

Small in scale; large in ambition

How are New Zealand's privately-owned businesses responding to the opportunities? In short, with enthusiasm.

Export intentions by food & beverage companies are high: 32% of ANZ Barometer F&B respondents are exporting now and a further 16% plan to within the near future.

However, generally businesses are small. According to the Food & Beverage Information Project, in 2012 just 50 firms had annual turnover greater than \$140 million. This means that resources (especially management time) are tight.

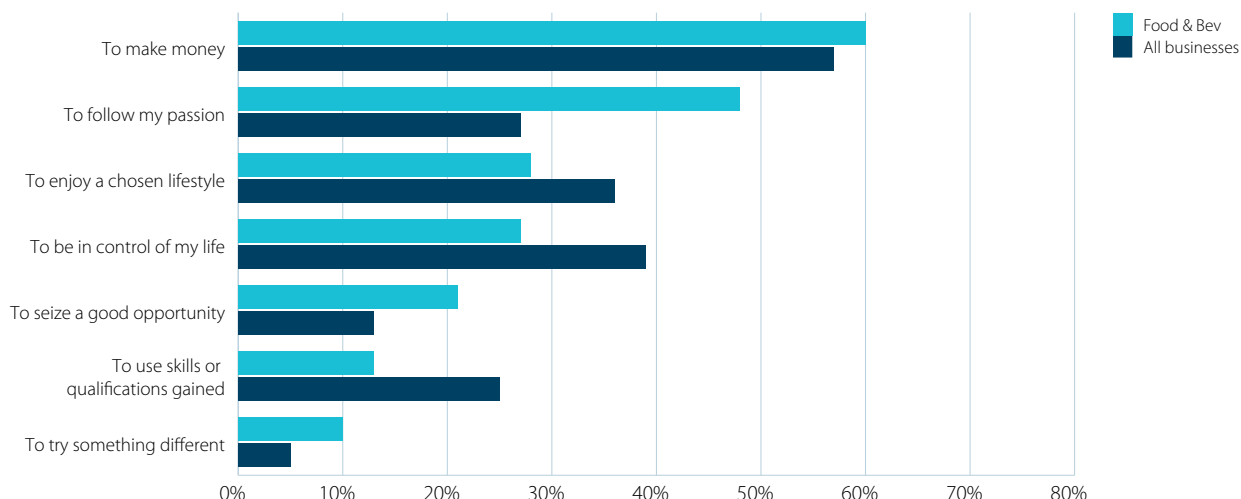
Working with the sector, we see businesses every day doing a great job to bring innovative food and beverage products to New Zealand consumers. But doing well internationally requires a shift in mind-set and a focused strategy.

In the Barometer, we asked business owners why they were in business. While making money is as important to food & beverage business owners as in other industries, they are also motivated by different things: following their passion and the challenge of seizing a good opportunity.

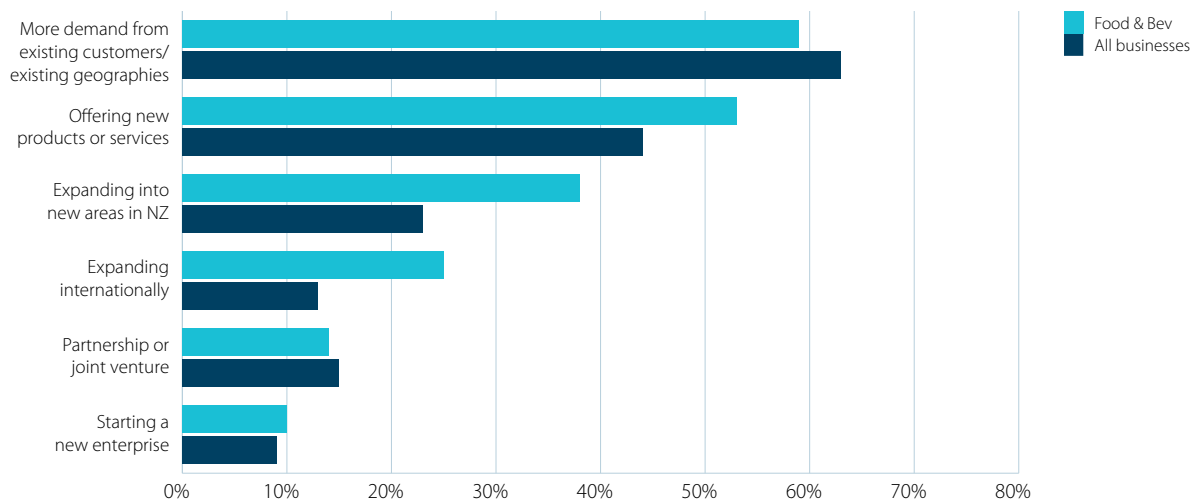
For owners starting a business these are key factors in success. But as the business gets bigger, the focus must change. Systems and processes, the ability to bring in the right people and other business management skills all become much more critical.

The challenge is moving, as one advisor put it, from 'cottage' to 'corporate'. The transition can be difficult. The key is doing it in a disciplined, strategic and smart way.

REASONS FOR BEING IN BUSINESS FOR BAROMETER RESPONDENTS



FACTORS CONTRIBUTING MOST TO FUTURE PERFORMANCE



LOOKING AHEAD: WHEN FOOD AND TECHNOLOGY CONVERGE

The application of technology to the production of food is a growing trend that's attempting to address increasing concerns about the sustainability and capacity of the world's food systems.

The idea (as articulated in the United Nations Food & Agriculture Organisation's publication, 'How to Feed the World in 2050') is that with the world's population predicted to hit 9 billion by 2050, feeding them all will not be possible without radical changes that lessen the impact on natural resources and ecosystems – and technology is key to those changes.

The involvement of a number of influential and well-resourced business leaders has created a number of innovations with the potential for major disruptions in the industry.

We're grateful to **Angus Brown, of the Food Innovation Network**, for the following overview of some of the key innovations that are emerging:

ALTERNATIVE PROTEIN SOURCES

Producing protein from plants instead of animals is a solution to meeting the world's growing protein needs while reducing the impact on the environment. Companies such as Beyond Meat and Impossible Foods are producing meat substitutes while Hampton Creek (backed by Bill Gates amongst others) has developed a plant-based substitute for eggs – the company's first consumer product is an egg-free mayonnaise, 'Just Mayo'.

FERMENTATION

Stated as one of the top three most important technologies in the future by food technology leaders in Switzerland, fermentation is the process of using clever 'brewing' and genetic technology to produce high value materials, companies are now biosynthesising a wide range of natural products that would otherwise require large amounts of initial raw material (for example fish skins to make omega-3 oil). Brewing has been around for centuries, but now technology companies are using this process to extract products like vitamins, nutritional oils, saffron, fuels, natural sweeteners etc which is far more sustainable.



WASTE PRODUCTS

Reusing waste products isn't new, but there's an increasing focus on smart use of technology to ensure the maximum use of resources. Examples include:

- Healthy green snacks produced from fruit and vegetable shavings produced during processing. This uses clever drying technology to maintain taste and texture.
- A winery wastewater re-use system developed at the UC Davis Wine Facility that allows wastewater to be filtered and re-used at least five times, dramatically reducing winery water usage.

TRUST AND TRACEABILITY

Consumers increasingly want to know where the food they are purchasing has come from and to be assured that it is safe. Products like AsureQuality's InSight allow consumers to scan a barcode on the packaging to view independent evidence about the features of the product they are holding (see www.aqinsight.com).

MICROBIOME RESEARCH

There is a huge amount of research going on into mapping and understanding the human microbiome – the trillions of microbacteria that live in humans, mainly in the gut. The research indicates significant links between those bacteria and health. The implications for the food industry are also huge and range from products designed to create specific health outcomes like reducing fat or protecting against specific diseases, to personalised nutrition programmes based on individual microbiome analysis.

CRAFT

Along with an emphasis on using technology to solve the issue of sustainable food production, there's almost ironically an anti-technology, anti-big business trend. In an increasingly complex world the desire to recapture a sense of simplicity is reflected in many areas, including food. It's characterised by small-scale artisan values, for which consumers are prepared to pay a premium. In New Zealand, the craft beer phenomenon is a powerful manifestation of that trend. Globally, large companies are struggling to move fast in craft innovations and are outsourcing this by acquiring high-growth start-ups or SME's.

ANZ thanks Angus Brown of the Food Innovation network for this valuable contribution.

A close-up photograph of a chef's hand holding a wooden handle of a wok. The wok is filled with colorful vegetables and is being cooked over a large, bright orange flame. The background is blurred, showing a kitchen setting.

GROWTH CHALLENGES: THE HEAT IS ON

Growth is great – but it's also hard. And the irony for food & beverage businesses is that in an industry with so many opportunities for growth, the challenges may be even more difficult.

There was no doubt about what Barometer Food & Beverage respondents saw as the number one challenge. Most reported that the difficulty with food safety regulations was the issue most likely to give them headaches. But in the focus group discussions, another quite different perspective emerged.

FOOD SAFETY REGULATIONS: THE BIGGEST PROBLEM OR THE BIGGEST OPPORTUNITY?

Compliance can eat up valuable time and resources and there's a danger of viewing it as just another overhead to be managed. But many of the focus group participants, in fact saw food safety regulations as a source of significant competitive advantage.

Food safety is an increasingly important factor in every market. In that sense, stringent food safety regulations are both a key advantage (if we get it right) and a key risk (if we get it wrong).

"Controls lead to quality" — Bruce Hearn, Owner, Tio Point Oysters, Marlborough.

Many focus group participants also felt our food safety standards provide a major barrier against competitors. As one business owner put it, "however high the bar is lifted in terms of food safety regulations, we can meet it – many other countries can't."

"Companies see compliance as an imposition, but it's what will make you successful in the long run." — Dave Pearce, Strategic Director, Renaissance Brewing Limited, Marlborough.

There was however concern expressed that some businesses were 'dragged kicking and screaming' into meeting standards, as a failure to meet standards by individual producers risks damaging not just their product, but the whole industry.

"Anyone who doesn't worry about compliance is putting the whole industry at risk."

Judy Finn, Co-Founder, Neudorf Vineyards, Nelson.

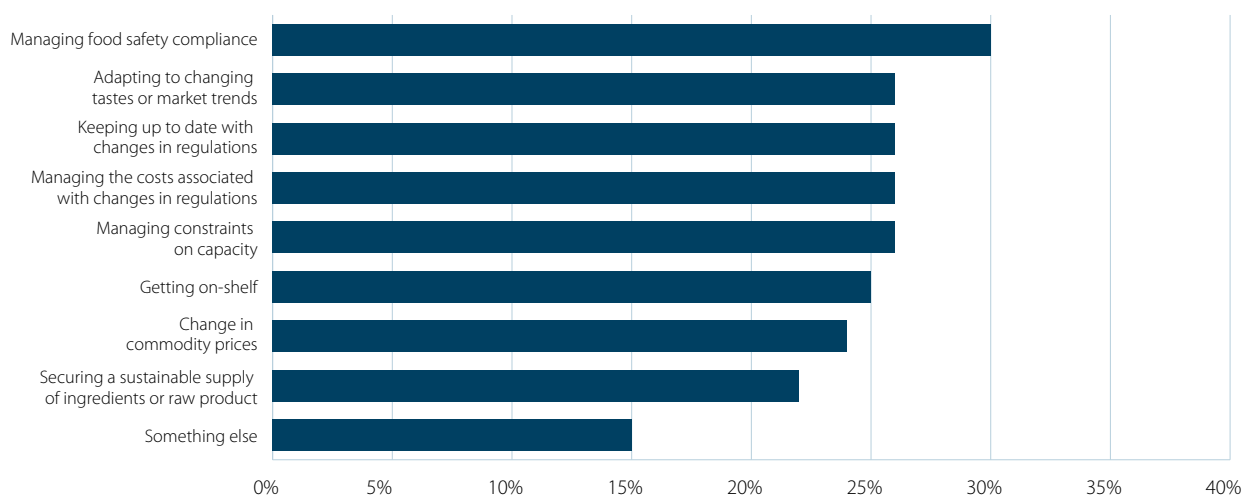
Focus group participants also felt that the key to turning compliance from a bureaucratic nightmare into a competitive advantage is investing in good systems and processes, right from the start. Once systems are set up and running, compliance becomes simply business as usual.

One way to ease the burden of compliance is to use consultants with specific skills and experience in setting up food safety systems. While it's an added cost, many respondents reported benefits as it fast tracked the process and made developing and introducing appropriate systems much easier.

“We’ve put a lot of work into making sure that audit day is just the same as any other day for us.”

Ron Turk, Managing Director, Turks Poultry Farm Ltd.

BIGGEST CHALLENGES IN THE FORESEEABLE FUTURE FOR FOOD & BEVERAGE RESPONDENTS



MANAGING CONSTRAINTS ON CAPACITY

More than a quarter of food and beverage respondents in the Barometer cited constraints on capacity as one of their biggest challenges. That's not surprising in a sector with so many opportunities for growth.

In Barometer focus groups business owners discussed elements of what these constraints were: time, people, plant and expansion funding were key themes.

More capacity usually requires new plant, which requires investment. And for small companies experiencing fast growth, funding new investment out of cash flow has limitations.

For those with international business, e-commerce is gaining traction with 30% of respondents using this channel. But the most common channel to market was via an agent or distributor (used by around half of respondents). Selecting the right agent(s) and maintaining relationships, of course, brings another set of challenges.

Whatever sales channel is used, the opinions of end consumers matter, especially in markets like China with high social media traffic, which means that building presence with a brand marketing strategy is something that can't be overlooked or delegated (to explore this theme further, see bluenotes.anz.com and search 'social-revolution').

GETTING ON SHELF

60% of Food & Beverage respondents said they were looking to grow by increasing their share of existing markets. On the face of it that seems straight-forward, but in a domestic market where the route to household kitchens is via a small number of supermarket chains, it's far from simple. With limited shelf-space to go around, gaining a listing may mean displacing another company's product.

Others are tackling even harder forms of growth. At least 40% are looking to expand into new regions or countries.

RISKS - WHAT COULD GO WRONG?

As well as asking about challenges, we asked Barometer respondents to tell us about the biggest risks to their business. The most common factors to keep them awake at night were:

- Sales volumes dropping due to factors outside their control (for example market fluctuations)
- Running out of cash
- Competition and potential loss of market share.

For owners the challenge is not simply how to mitigate those risks, but how to identify them in time to do something about them.

SOCIAL MEDIA AND MOBILE TECHNOLOGY

Social media plays an increasingly important role in connecting food and beverage businesses with their markets. Word of mouth is critical in this industry and social media is increasingly the forum where opinions are shared by both customers and influencers.

In the Barometer almost 50% said they used social media for both business and personal purposes, compared to 32% of total respondents. One nutritional beverage producer reported that their Facebook page had created business for them through visitors asking where they could purchase the products and other customers directing them to stockists. Social media had connected customers and driven sales, all without any input from the company.

Mobile technology is reshaping the way consumers buy and relate to the food they eat. 55% of Food & Beverage respondents in the Barometer said mobile technology had increased sales – almost three times higher than Barometer respondents as a whole. **One producer of natural health products reported that 90% of sales from their online store were through mobiles or tablets.**

For companies targeting Asian markets, understanding the role of social media and e-commerce is absolutely fundamental. China has become the world's largest and fastest growing e-commerce market. According to international research firm TNS, 4 out of 5 Chinese internet users access the internet via a mobile device.

“In the past you’d have to go through a really complex distribution and wholesaler network to get your product on the shelves, but now many of our clients are actually looking at e-commerce as a cost-effective go-to-market strategy.”

Chris Bonsi, Chief Client Officer, TNS Asia Pacific, speaking to an ANZ Opening Doors in Asia tour in Shanghai, May 2015.



CASE STUDY: THE IMPORTANCE OF BEING AGILE

Constant adaptation to emerging trends keeps New Zealand Extracts Ltd a prime ingredient.

The New Zealand food and beverage industry is characterised by an ability produce high quality, innovative products. But building a market for them is another thing. It's all about identifying the right proposition, in the right market, at the right time. And because customer preferences change, it's also about being able to adapt along with them and keep innovating.

New Zealand Extracts Ltd, a producer of natural bioactive ingredients from New Zealand grown fruit, is one example. It was formed when Dr. Glenn Vile, a former cancer and health researcher, became interested in the health and nutraceutical properties of grapeseeds after moving to the Marlborough region. Grapeseeds are essentially a waste product of the wine industry.

"In a sense the market had already been established," says Glenn. "It's well known that grapeseeds and grapeseed extracts are naturally high in bioactive compounds including antioxidants and antimicrobial agents. We knew there were potential opportunities out there, but the challenge for us was how to create a point of difference."

The 'New Zealand story' was a good starting point, but wasn't enough on its own. An aggressive product development programme was established. Out of this a trademarked clean, green water based extraction technology was developed which set NZ Extracts apart from competitors. Niche opportunities were also identified and developed.

The company is continuing to aggressively explore new opportunities for grapeseed and other fruit extracts, in line with emerging trends. "Some ideas will fly and others won't," says Glenn. "It can be hard to let go of an idea you've worked hard on but it's all about creating a proposition that meets the real needs and preferences of the market – and they change over time. It's a process of spending time in markets, going to trade shows, seeing what's out there, reviewing new products and figuring out which trends are 'stayers' and which aren't."

"For example, 5 or 6 years ago sports nutrition (sports drinks, etc.) was a big focus. Now it's much more about general nutrition and a more holistic approach to health, rather than a specific goal like training for a triathlon."

"It's also interesting that 5 years ago the New Zealand story was quite a difficult sell – in our market anyway people weren't that interested – but now it's a major competitive advantage."

While ingredients remain New Zealand Extracts' bread and butter, they have evolved a direct to consumer business. The first product is a weight management supplement using bioactive properties of grapeseed and kiwifruit extracts to slow digestion. It's another learning curve, with the direct to consumer market requiring more effort and investment to succeed.

"It's an ongoing process for us," says Glenn. "Things change and some things are out of your hands. It's about finding the balance between developing new ideas and knowing which ones to let go and which ones to pursue."

"Research and product development is fundamental, but ultimately it's about understanding what really matters to your customers."





SOLUTIONS: MOVING UP THE FOOD CHAIN

Our analysis suggests strong returns are possible for top performers. This echoes the industry's optimism, but also reinforces the need to be very clear about what's required to deliver on growth strategies and perhaps what matters most is the mind-set for growth required.

At the heart of all challenges food and beverage companies wrestle with is that of moving to the next level - in terms of both scale and value returned to the owner. The key for businesses is being focused on their end-goal, and going about it in a disciplined and strategic way.

Barometer focus group discussions pointed to **five focus areas** for business owners with high growth aspirations.

1. EYE ON THE PRIZE: GROWING A BUSINESS FOR SCALE (AND POTENTIALLY, SALE)

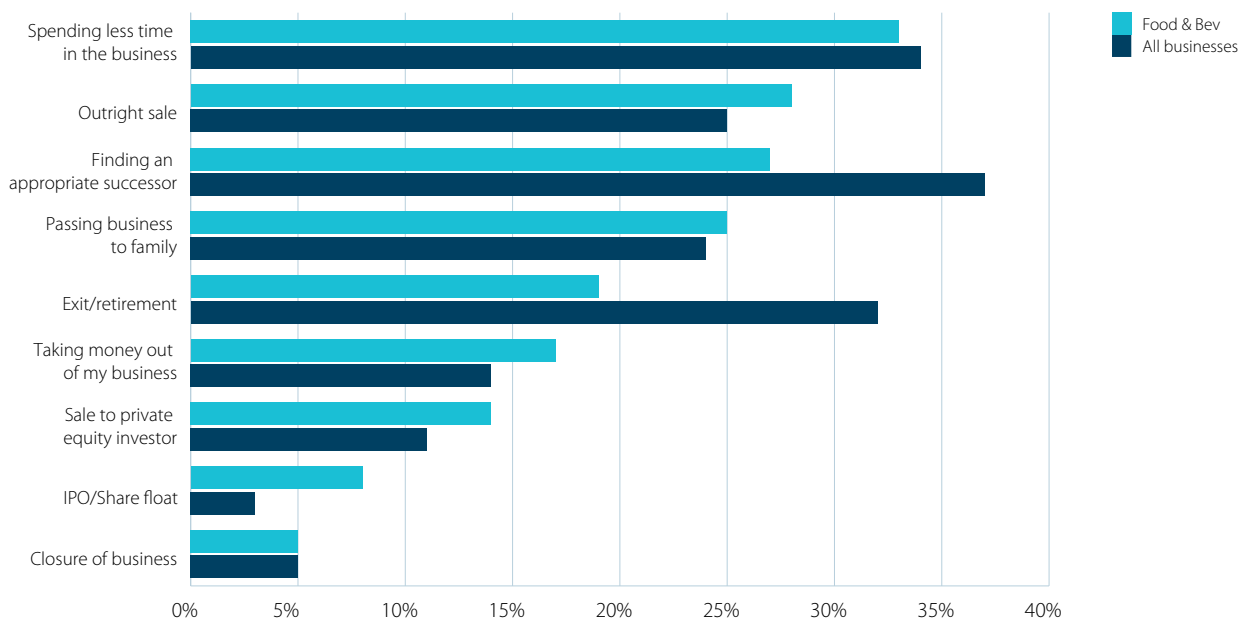
For food and beverage businesses, growth and transition of ownership can be one and the same thing.

Owners who are building a business long-term may look to grow organically, funded through cash flow. But a fast growth strategy with a sale in mind requires a different approach, particularly regarding funding.

Whatever the definition of and timeframe for success, –the key is focus - having a clear strategy – and using it to drive every decision. For owners developing their growth strategy, it may be helpful to think about the 'three big questions':

1. **Where are we now** – and what's helped us to get here?
2. **Where do we want to go** – and how fast do we want to get there?
3. **What do we need** to let us get where we want to go?

WHAT SUCCESSION MEANS TO BAROMETER RESPONDENTS



2. KEY RELATIONSHIPS

Growing a business is hard – and as focus groups identified, you can't do it alone. From governance, to management, to staff, participants felt that having the right people can be a game-changer.

Customers and distributors

For those with international aspirations, there was a clear consensus among food and beverage focus groups that there's no substitute for getting out and spending time in overseas markets.

It's important for two reasons. First, to really understand the different tastes and preferences of consumers in overseas markets, and second, to build relationships on the ground with distributors, customers and other key influencers. For example, one business reported a 40% increase in sales to a particular market after visiting there and spending time talking with distributors and the chefs who are the key purchasers of their product. Many respondents said the ability to have someone on the ground in new markets to represent them would make a real difference.

"Our focus at Coastal Spring Lamb is on establishing personal relationships with our distributor, sales teams and leading chefs. Each of these people are our ambassadors when we're not in that market, so it is critical they can accurately share our brand story."
— Richard Redmayne, Owner, Coastal Spring Lamb.

Management and staff

A quarter of food and beverage respondents in the Barometer said a lack of skilled staff had significantly impacted their business recently. The industry as a whole is facing a capability issue in developing the skilled talent pool required for New Zealand to succeed in high value markets.

Some of the solutions discussed in focus groups included training – as one owner put it, "I'm not fussed about what kind of training it is, any training is positive because it's a way to help people grow."

Paying well, building an employment 'brand' that involves staff in the growth story, and building a sense of excitement at being part of it, were also cited as ways to attract and retain good people.

Governance

About a quarter of Food & Beverage respondents had formal governance arrangements with a board of directors in place. Others have less formal advisory arrangements. Whatever the arrangement, focus group participants reported significant benefits stemming in part from greater discipline and accountability brought by governance. As far as skills sought for boards, respondents were looking for directors strong in strategy, marketing & business development and international business, reflecting the growth aspirations of the sector.

“Resourcing growth has meant relinquishing ownership and control. Funding from cash flow or back pockets is not always possible and as much as we would like to believe it isn’t the case, all the skills required for growth are often not found within the existing team. Acceptance of this is a difficult, but essential step in growing.”

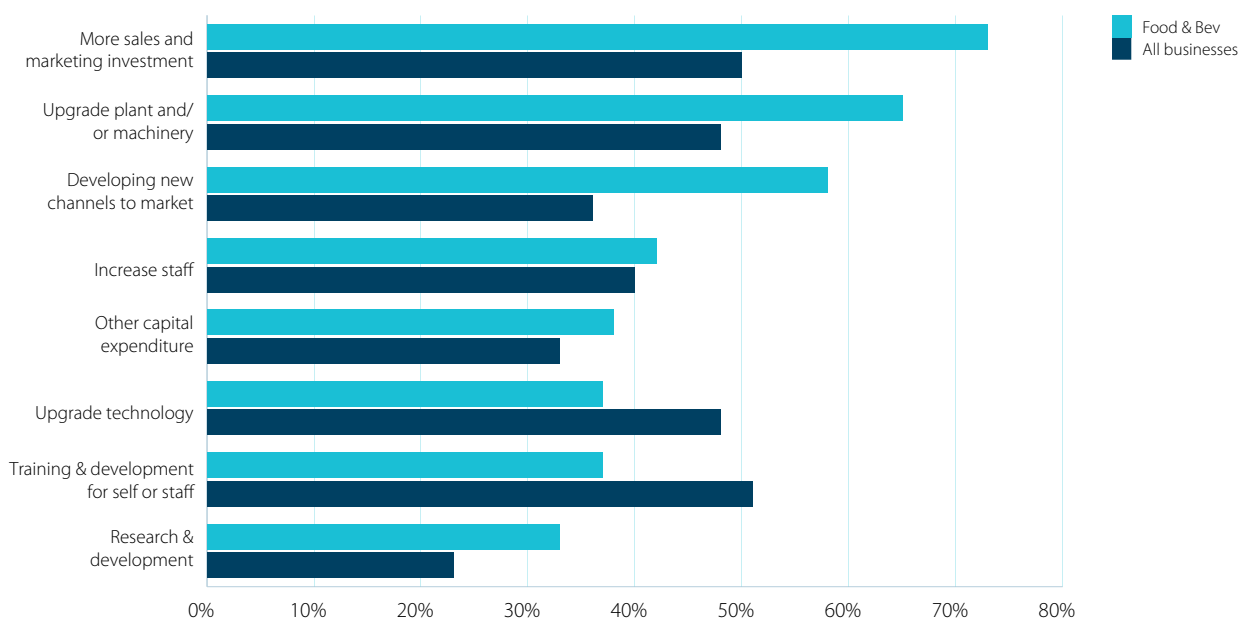
Dr Glenn Vile, Chief Technical Officer, New Zealand Extracts Limited,
Marlborough.

3. FUNDING

Our experience is that growth requires working capital – and lots of it. And the faster you grow, the more working capital you need. If you are planning to fund growth out of cash flow, it’s important to understand that there are limits to this, and your plan needs to reflect the realities of those limits. Seeking bank finance or extended payment terms from suppliers may be potential options but again, there are limits to this, along with potential impacts on profit margin to weigh up. Bringing in partners or investors can be a difficult and emotive decision, but it may be necessary to achieve your growth objectives.

The challenge in finding external sources of funding and capital is being able to show that there’s a sound business case. Investment analysis is key. In our experience, your suppliers will want to know what benefit they will receive from offering extended payment terms. Your bank will want to understand how it will be repaid. Potential sources of equity funding want to know what the return on investment will be, and that your assumptions are realistic. Investors also typically want to see a governance structure in place, and the use of well-connected advisers who can help achieve growth ambitions.

HOW FOOD & BEVERAGE RESPONDENTS ARE REINVESTING IN THEIR BUSINESS



Advisors such as accountants can help through the investment analysis process, or providing an independent review of the assumptions in your investment business case.

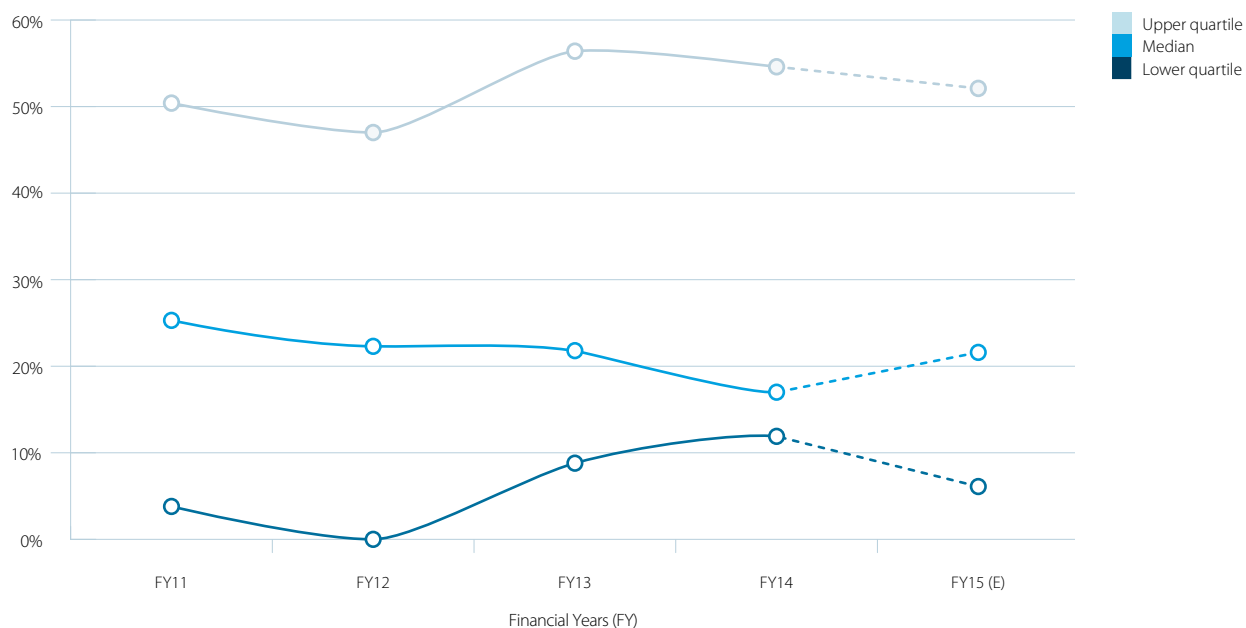
Benchmarking can be a useful place to start and ANZ can assist.

Barometer focus groups expressed interest in using good benchmarking data but felt it was not readily available. ANZ has developed financial benchmarks across many sectors, including Food Manufacturing. Each benchmark group consists of a consolidation of businesses with annual turnover of \$2m+.

Below is an example of ANZ's benchmark data showing Return on Equity. As the diagram below shows, we see a wide range of returns, including around a quarter who are achieving truly exceptional returns.

Please contact us if you would like a benchmark paper tailored to discuss your businesses performance relative to the industry (see contact details at the end of this document).

RETURN ON EQUITY: ANZ FOOD MANUFACTURING BENCHMARK



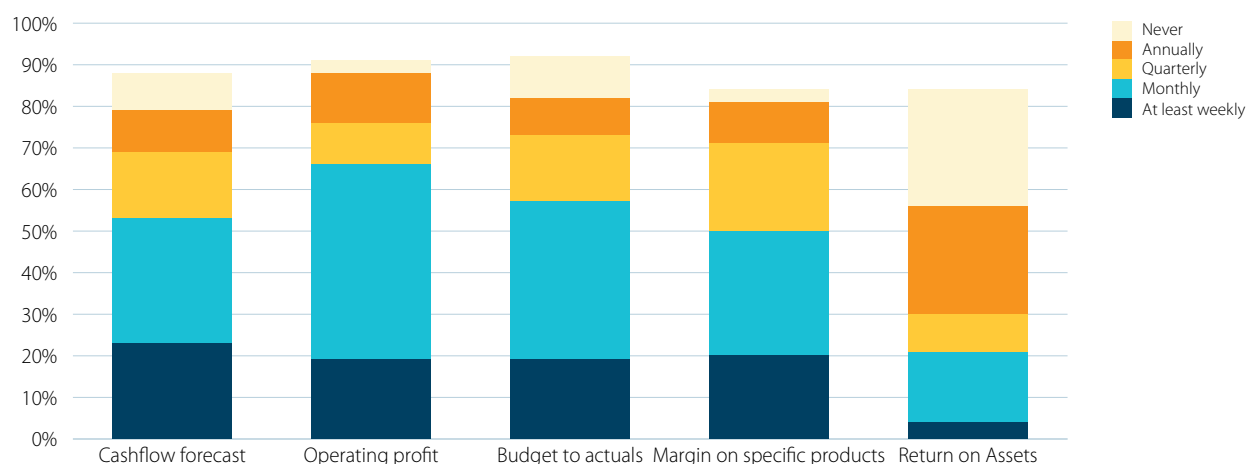
Source: ANZ Analysis

4. TEMPERATURE CONTROL — KEEPING ON TOP OF BUSINESS HEALTH

In the Barometer we provided a list of potential KPIs and asked respondents how often they calculated and reported on them. The results indicate that some food and beverage businesses

could be leaving themselves exposed by not monitoring key business and financial indicators frequently enough.

HOW OFTEN FOOD & BEVERAGE RESPONDENTS CALCULATE KPI'S



Of some concern was the reported frequency of monitoring cash flow. Poor cash flow management can create significant issues even when a business is trading profitably. It is even more of an issue in companies experiencing fast growth.

It's not just cash flow that needs to be monitored regularly. Keeping an eye on debtor days can help identify if the spread between debtors and creditors is widening, while understanding margins on specific products is key to maximising profit, as well as driving decisions on product range.

How often is often enough? The answer depends on the nature of your particular business, market, size, structure and complexity - but generally speaking, the more often the better. Monitoring of KPIs is straightforward business management, but it can get lost. As with compliance, the key is good systems to automate the gathering of data and production of reports as much as possible.

"Moving to daily financial reporting has changed our business completely. It's the only way to know what's really going on, to understand and address any variance in a timely fashion." — Darren Clifford, Managing Director, The Honey Company Ltd.

5. COLLABORATION — WORKING TOGETHER TO TAKE ON THE WORLD

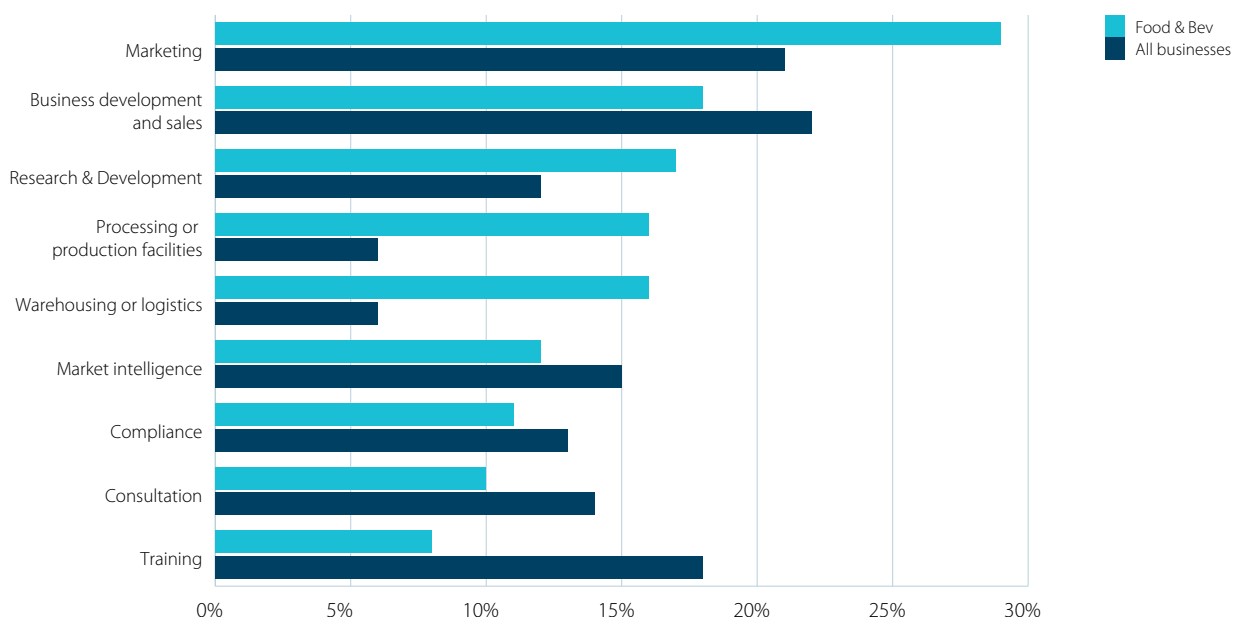
In common with overall results, 60 percent of Barometer Food & Beverage respondents report collaborating with other businesses in some way. For comparatively small businesses with limited resources, collaboration is a natural solution to the challenge of breaking into much larger offshore markets. Marketing was by far the most common area for collaboration, followed by processing and distribution.

But many opportunities remain for further collaboration, and further gains. In focus group discussions participants noted that in some industries, fierce competition and unwillingness to collaborate is effectively reducing value, especially in export markets – and consequently reducing the returns for individual businesses. That view is borne out by a comparison of Food & Beverage to other sectors in the Barometer.

"There's lots of small beverage companies all trying to get into the fridge – but if we joined together we could have our own fridge."

Chloe Van Dyke, Director, Chia Natural Health Drinks,
Marlborough.

HOW FOOD & BEVERAGE RESPONDENTS ARE COLLABORATING WITH OTHER BUSINESSES



Successful models for collaboration exist, sometimes on the basis of shared interest in a particular market. For example, to address the challenges of establishing a presence in the Chinese market a group of primary producers including horticulture, seafood and farming businesses have collaborated to create a marketing operation on the ground in China.

Innovation through collaboration can also be part of the success story. For example, the Marlborough Food and Beverage Innovation Cluster was created to collectively promote the region's food and beverage businesses, and to support innovation through collaboration between members. One example of the possibilities is a collaboration between a pet food and a sea food producer to create salmon tail pet treats for the US market.

BRAND NEW ZEALAND

Barometer focus group participants felt the 'New Zealand story' has as much resonance as ever. It remains a competitive advantage in overseas markets, where food safety and sustainability were major concerns. For example, one wine producer noted that New Zealand's high percentage of organic vineyards was an important contributor to the market perception of New Zealand wine.

There may be a danger of underestimating the impact of 'Brand New Zealand', perhaps because it's a story we are so familiar with. 50 percent of food & beverage respondents said that being a New Zealand business was very helpful in doing business internationally* and many focus group participants felt there was still plenty of room to turn up the volume on the New Zealand story in overseas markets. (*Note: small sample size).

"In our industry, you're selling Brand New Zealand first, and your own brand after."

Judy Finn, Co-Founder, Neudorf Vineyards, Nelson





CONCLUSION: A RECIPE FOR SUCCESS

Growth is often synonymous with success. But the experience of some Barometer respondents is that not all growth is good growth. Sometimes you need to be able to say 'no' to opportunities (no matter how attractive they are) when they don't fit with your business strategy, when they're not an immediate priority or when you just don't have the time and resources to do them properly. Growth for growth's sake can lead to distraction and loss of focus on your long-term goal.

Based on findings over the last nine years of the Business Barometer, and our own experience, we have observed the following characteristics in businesses that have managed to grow in a smart – and successful – way:

- A clear strategy for growth, setting out where and how you will compete and laying out different scenarios and options.
- A focus on maintaining margins while growing turnover, through:
 - Investing to achieve economies of scale (but ensuring any investment is driven by sound ROI analysis rather than guesswork)

- Being lean and efficient
- Continual innovation – but always with an eye on your market. This might mean more focus on market research (what's important to and interests customers), and less on product research
- Having a clear brand strategy – and using it to drive every decision you make
- An understanding of the risks facing the business, and a plan to mitigate them
- Realism. Getting from 'cottage to corporate' isn't easy and will lead to significant change in the business. In particular, it will require new and different skills and resources. Smart growth involves an honest appraisal of capability gaps and a commitment to filling those gaps.

Finally, we close this report as we opened it, with an emphasis on the value of a growth mind-set and being open to the learning and opportunities that can come through seeking outside help and collaboration.

A young girl with dark hair is looking intently at a chessboard. An adult's face is partially visible on the right side of the frame, also looking at the chessboard. The chessboard is on a wooden table, and the pieces are arranged in their starting positions. The background is a soft-focus outdoor scene with greenery.

ANZ CAN HELP WITH ANOTHER PERSPECTIVE

We hope this view from the ANZ Privately Owned Business Barometer has been thought-provoking and useful.

If you are a privately-owned business looking for another angle on growth, we can help:

More information about your own business:

A **Working Capital Insights Review** can help uncover trends in your business and ways to use your cash better. Contact your ANZ Relationship Manager, or email Bernie.Hankey@anz.com

A **Benchmarking** paper can help your focus on profitability by comparing your business to the industry. Contact your ANZ Relationship Manager, or email Josh.Newton@anz.com

More information about sectors:

ANZ Barometer 2015 reports are available for six sectors on our ANZ Business Insights web page including Red Meat, Dairy and Craft Beer and others.

More information about the market:

If you would like to get **ANZ economic publications** via email as they are released, visit our website for details. (anz.co.nz/about-us/economic-markets-research)

For more information about ANZ's service for growing businesses, contact your ANZ Relationship Manager or one of our General Managers:

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