

# Future of Food

## Riches in niches

How well is the New Zealand food sector innovating to meet global demand?



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# Riches in niches

**How well is the New Zealand food sector innovating to meet global demand?**

## An explosion in the number of small food brands in the last 20 years hints at where New Zealand's future food opportunities exist: **in global niches.**

**Threat:** New Zealand's strength in co-ops and single-desk trading gave this tiny country global clout in commodities. But with consumer demand fracturing along almost individual lines – and combined with ever-improving innovation and rapid manufacturing – can we rely on our historic strengths to flourish? Are we investing in the right skills and products to dominate the niches?

**Opportunity:** Entrepreneurs and innovators who spot trends, source, or develop products quickly and use personal connections to get into emerging markets have the potential to establish large, high-growth businesses and attract global investment. Online technology is also changing the way businesses are operating and opening many more opportunities to export finished goods. The way we sell our innovation story to the world will matter.

### Key points:



Where New Zealand used to have a few big companies exporting a handful of products, now thousands of entrepreneurs are exporting hundreds of brands, often with the help of contract packers and online channels



Is our food sector slow to adapt? New Zealand companies still don't scale fast, and few are investing in consumer research



Marketing is expensive and our companies generally don't have the budgets to connect directly with the end consumer in export markets. That makes our business-to-business (B2B) relationships crucial



Consumer research can help to prove demand and unearth problems, which can lead to products that have differentiation in the market. But it can't guarantee success



Storytelling is crucial to influence our consumers.

## Think about how New Zealand promotes its food and fibre exports and your mind probably goes to bucolic, rolling landscapes dotted with cattle and snowy peaks in the background.

**It's a comfortable, if not dominant, image of New Zealand's primary industries.** But is it out of date? Or even plain wrong? Since the early 2000s, our low-value, high-volume sectors, like sheep, beef, deer and fish, have shrunk in volume. Wool, once the mainstay of rural New Zealand, has effectively collapsed.

By contrast, manufactured exports such as wine, infant formula and nutraceuticals have grown in value. And – unheralded – there's been an explosion of small, innovative brands serving niche audiences, especially in Asia.

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### Is it time for a more sophisticated approach to understanding consumer demand?

Professor Joanne Hort politely says yes. A consumer sensory science specialist from the UK, now the Fonterra-Riddet Chair in Consumer and Sensory Science at Massey University, where she has established the Food experience and Sensory Testing (Feast) Lab. Hort is at pains to point out the many strengths of New Zealand's food sector, but there's a critical missing skill: consumer and sensory science.

“When I arrived in New Zealand from the UK, I was quite surprised about the lack of consumer-led approaches to food product development and marketing. It's one of the reasons I was invited over here – there was a recognition that New Zealand needed to up its game, not just in marketing but in product development and consumer and sensory science.”

By that, Hort means consumer and sensory testing. “In the UK for example, we ran government part-funded training programs to deliver consumer sensory science training for industry so they could bring in consumer sensory science at the very start of the product development processes, and technical development.”

Why does that matter? Consumer understanding is at the heart of adding value, she says. “New Zealand's been aware of this for a while now – that there's a real opportunity to add value to the meat, the milk, and commodity products that we produce. But we can only do that if we understand the consumer's wants and needs in those markets.”

# *Be very careful not to get caught in the dominant narrative of rural producers*

## Shift to niches

**A hint of that potential comes to us from the edges of the sector:** innovative, small-time food entrepreneurs. Market researcher Tim Morris of Coriolis Research has tracked the rise of the added-value sector for the last 20 years – and suggests it has pioneered what so many official task forces have failed to grasp.

“You need to be very careful not to get caught in the dominant narrative of rural producers who are tied to traditional industries,” says Morris. “The leadership in consumer marketing is happening at the edges, by the entrepreneurs.”

Without much fanfare, our economy has shifted from sending raw materials to the northern hemisphere, to sending finished goods to Asia. Rather than just a few products being sent to a few big markets, “there are tens of thousands of entrepreneurs trying things in tens of thousands of markets and channels,” says Morris. “And it is working for us.”

Take the ice cream sector, which is the translation of our strong position in the global dairy market and has only exploded since Brexit. Product innovation has resulted in new ingredients (cauliflower), new flavours (manuka honey), new bases (sheep or goats’ milk), and new packaging (cardboard tubs, novelty sticks). We have new companies entering the market and while export volumes have remained constant, value is being added through growing prices.

Chocolate is another sector we can add value in with our unique flavours (feijoa, kiwifruit, tamarillo). Worth circa \$100 million in exports per year, this will grow if we can follow in the footsteps of ‘wine and honey’ to focus on developed markets with high premium consumption.

Coriolis’ latest work – an in-depth, sector-by-sector analysis of potentially high-value/ low-emissions sectors for MBIE<sup>1</sup> – predicts that trend will continue. The study identifies 30 product categories that have high relevance for New Zealand’s primary sector: including essential oils, seaweed, microalgae, pineapples, pine nuts and hemp.

Joanne Hort agrees and says the growth hints at the scale of the opportunity if we get it right. “There’s potential for so much more value to be gleaned from what New Zealand produces. The key is understanding what’s acceptable *and* wanted.”

## Consumer trends

### So, what is wanted?

It would be easy at this point to reel off a list of attributes that sound right. New Zealand food has to be tasty, but should also be healthy, nutritionally dense, convenient, with sustainable values at their core and priced just right. And you’d be correct, according to 24-year-old Mrinali Kumar, a graduate of the food technology programme at Massey University, and co-founder of EatKinda cauliflower ice cream. Kumar says, “taste is always the most important thing when it comes to food, but sustainability is becoming increasingly important, and consumers are looking for it and paying more for it”.

### But you’d be foolish to think it was limited only to this.

The reason we need to up our research game is to discover what we don’t already know – and, importantly, what our competitors haven’t discovered yet either.

# *We have a long way to go and it's all about storytelling*

Anne Abraham, a Product Experience Scientist at the Fonterra Research and Development Centre with 30 years of experience designing products for customers and consumers, reckons “it would be fair to say Fonterra has increased its ‘voice of the customer’ in all of its innovation activities as we have moved from, what is today seen as, commodities to value-add products. This is challenging as it means understanding our export markets globally: the trends, the segments, and the optimised bundles of features.”

For Fonterra, managing the end-user needs is built into the whole innovation process to ensure that, when launched, the product fulfils a need and meets expectations. Consumer Insights feedback is inbuilt into the organisation’s structure, the challenge is acting on it quickly and accelerating the solutions through the pipeline.

Massey’s Hort agrees this approach is a great way forward. In her experience “we make mistakes when we make assumptions, for example, when we think about ‘the Chinese consumer’. Because there is no such person. There are millions of individuals with different taste preferences and cultures, in different regions and in different stages of life and in different states of mind. The same is true of American or European consumers.”

Hort has been studying flexitarians and discovered that our assumptions about what drives behaviour are almost all wrong. “We can make assumptions about why people reduce meat consumption. But flexitarians aren’t all driven by the same thing. Health is a key driver, but not universally so. The environment is important but only to some people. There’s a group concerned about animal welfare. And then you also find groups of people doing it to increase their social status.”

And there are problems with terms. Vegetarian may have a dictionary definition, but Hort’s research shows people use the term loosely. “Someone may describe themselves as vegetarian but what some mean, is that they don’t necessarily buy meat but will eat it on occasion, if served. Others will eat some meats but not others. In parts of India vegetarianism is not even a thing, it’s just the normal diet.”

So, it does seem after all, that all most people want is food that tastes great, feels morally justifiable and is well-priced.

## **Story telling**

### **But is that all?**

Dean Fraser is General Manager Transformation at Ngai Tahu Holdings and he believes there is more to it. He thinks that we have the power to influence the consumer and what they purchase, thereby setting the trend rather than responding to it. He says that “New Zealand is privileged, and we can drive consumer values if we get it right”. But, and it’s a big but, we have a long way to go and it’s all about storytelling.

Like Hort, Fraser believes that “consumers have really strong expectations of us, and we must deliver those”. He believes that we should deliver on expectations “by applying different knowledge, including a te ao Māori view and different technology. But it is pointless in doing this if we can’t tell a good story”.

Fraser’s job is all about change and innovation, something that Ngai Tahu farms is doing extremely well, but he is also pragmatic. Technology is expensive and there needs to be a return on the investment.

## *There are riches in niches*

One way of seeing a return is through provenance and in telling the te ao Māori story. Fraser reckons that “provenance is key for the conscious consumer. It isn’t easy to get this right though, and there is a danger in greenwashing consumers if we don’t truly tell the story in a compelling way.”

There is also an untapped opportunity “not just in new products and new tech, but actually just joining things up better” says Tanira Kingi who wears many different hats including Climate Change Commissioner and farm systems and economic modeller. His concept of ‘value networks’ is a powerful idea. As Kingi proudly states, “it enables value to be added to existing products, infrastructure, and innovation by simply cooperating better, creating better connections to the consumer and better insights back to the growers. It creates a network that all of a sudden has a great story to tell the consumer”.

An additional benefit to these collaborative networks is they shorten the supply chain and provide “risk mitigation for farmers when they are diversifying...it protects the erosions of value for the first mover food producers who want to create value in the niches.”

### **Innovate to grow**

#### **So where does innovation fit into this?**

Gil Meron is the current CEO of Sprout, a New Zealand company investing in transformative technologies for agriculture and food, supporting over 110 early-stage ventures through the Sprout Accelerator. Based in Palmerston North, Sprout has helped brands such as Ārepa turn a mere idea into a start-up business. Like

Joanne Hort, Meron is a new New Zealander and is a little surprised that New Zealand has such a modest food innovation ecosystem.

He should know. Formerly with Finistere Ventures a global agri- and food-tech investment firm, he met and evaluated 100s of startups in the space.

“I think there are a lot of very good entrepreneurs in New Zealand, but if I ask, ‘are there enough entrepreneurs in agri and food tech’, the answer is no ... And that’s something that I was surprised to find as an immigrant to this country. As someone who was a backpacker here 20 years ago, I thought Kiwis love risk, because they invented bungy and all that stuff. But when I moved here, I realised, no, that’s what the tourists do.”

To be fair, Meron is especially talking about hi-tech entrepreneurs, the kind which commercialise original IP and research, and create tech start-ups. In New Zealand those companies are more likely to be in software, where the barriers to entry are lower and the path to market is shorter. Food is harder. You need to grow it, relying on seasonality and environmental conditions. And you need to make it, and then ship it, to exacting international standards. And unlike software the margin cost of each new product costs real money.

#### **On top of that, it’s just hard to run a start-up.**

“It’s not a very rational thing to start a company because if you are educated, smart, driven, professional, then on average, you’d do better in corporate life. The start-up route is riskier, much harder. But of course, when you succeed, the rewards are much greater.”

Yet, as Tim Morris points out, there are riches in niches, and the explosion of tiny brands hints at an appetite for innovation. So, how do we get more?



## *He went ‘ewwww’, and then right after that he started eating it again*

Meron suggests there are strong opportunities ‘upstream’ in the food chain. He means, in production and manufacturing, such as robotics, automation, software and genetics. He’s especially excited about the potential of biotech to produce new food types, such as alternative foods and proteins and enhanced varieties of fruit and vegetables. These types of businesses, while costly to develop, have intellectual property at their centre, which can be licensed and replicated without high marginal costs.

A recent Sprout investment is SaproTech, a technology that turns fungi into a leather substitute. The start-up raised \$1 million in early-stage funding last year.

“Consumer brands such as Ārepa or EatKinda – both of which I love by the way! – rely on getting their product to consumer markets. It involves long distances and increasingly younger consumers are questioning why it isn’t sourced locally. It’s much better for consumer products to be produced close to the market, close to their consumers.”

That said, Meron says all innovation – from hi-tech to low-tech – ought to be encouraged. “To make a long story short, we have to find ways to create more value around our products and to put the functions upfront – whether that’s through fairly low-tech innovations such as functional foods right through to biotech and robotics. We need more.”

Joanne Hort has recently worked on a project on drinking yogurts, which aren’t really a thing in New Zealand, but are very popular in some other markets. She also conducted a lot of research on beer and coffee back in the UK. “Coffee has been very much consumer-led, and so you get all these different variants of coffee to meet different needs, right down to the little sachets

where you can make your own cappuccino. Such companies evaluate ideas with relevant consumers all the time to see what’s resonating.”

Closer to home, EatKinda’s cauliflower ice cream is another example of niche differentiation. As part of its market research, the company has conducted blind taste tests and their ice cream performs very well against other well-known dairy-based ice creams like Häagen-Dazs, with tasters often unable to distinguish between them. “They try it, they love it, then you tell them it’s made from cauliflower. It’s the best. The funniest thing is when you do it to children. One kid who was eating the ice cream got told it was made from cauliflower and he went ‘ewwww’, and then right after that he started eating it again.” Kumar says “there’s interest in the cauliflower... It makes it intriguing, but it’s a great product. It stands up”. “We’re onto something great.”

Another approach is to leverage personal connections. Immigrants to New Zealand leverage knowledge of their home markets, and now a large proportion of the successful food businesses often have personal connections. These family and personal connections help bridge the gap between brand New Zealand and ‘home’ markets. Morris says, “we need to make more of these connections.” Likewise, ANZ and MPI’s research<sup>2</sup> shows food-focused tourists tend to develop a connection to New Zealand brands and are willing to pay more for them when they return home.

# *It's time to re-think our export story*

## **What next**

In the old world, we were limited by the production capacity of the land. What did Sir Paul Callaghan say: there's only room for five Fonterras. But in a world of niche products with global reach, the limitations are less about production and more about ambition and imagination to add value.

Back in 2019, Rocketlab's Peter Beck chided New Zealand entrepreneurs for aiming too small. Why just create a million-dollar company when you could instead create a billion-dollar company<sup>3</sup>, he suggested. Beck was considered weird for thinking rockets could be sent into space from New Zealand, and let's face it, cauliflower ice cream sounds similarly strange.

But when you think about value-add it is found in the weirdest places. '70% of the profit in the New Zealand meat industry is made by people other than the meat industry, the renderers, the pet food companies, people who are adding value to waste'.

Tim Morris says the last two decades show that there are reasons for optimism. "When a company is getting double-digit growth every year, it will eventually become quite a big company. A bunch of small companies have emerged, and we keep finding new ones."

It's time to re-think our export story.



# 02

Future of Food series

**FoodHQ** is the New Zealand hub of leading food and food production researchers that advocates for collaboration, food innovation and investment among researchers, industry, and policymakers to tackle challenges to advance the food industry.

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