

## 4. Auckland Food and Beverage Sector Group

– David Wilson

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This case study has its origins in the late 'nineties in Manukau where the EDA (Economic Development Agency) Enterprising Manukau (EM) identified a comparative advantage for Manukau in food and beverage processing and manufacturing. To begin with, there was no data to back up this observation, just recognition by the agency through their business development services and connections to the business community that there seemed to be a number of these types of companies situated in Manukau. Agencies like EM are interested in the benefits of clustering effects both for the businesses themselves and for the local economy in terms of present and future employment opportunities, export potential and so on. This of course threw up many questions like:

- What was the make-up of the sector – business profile; size, scale and scope; employment profile; export profile; growth opportunities etc?
- What kinds of skills are needed in the sector and are there educational pathways and institutions to support them?
- What kinds of industry support organisations were there?
- Was there any sign of collaboration or formal networking among industry players?
- What kinds of research and development activities were being carried out?
- What kinds of market failures existed? For example, was there enough market intelligence/information in the sector to make informed decisions?
- What was the business ecosystem like? For example, was the supply chain efficient and were there any shortages? What business and professional services were available and were the logistics good? etc.
- Were there any barriers to entry and/or barriers to business growth and development?
- What was the market opportunity and was this truly a comparative advantage in Manukau?

The answer to many of these questions required face-to-face interaction with the businesses themselves alongside hard data.

The hard data was relatively conclusive in terms of food-related manufacturing showing a disproportionate share (comparative advantage) of food-related processing and manufacturing businesses in Manukau, compared with the Auckland region and New Zealand as a whole; however the nature of that sector and the capability and capacity and potential of the sector were relative unknowns. Aside from some obvious larger players such as Villa Maria wines who were already exporting large amounts of product and the fact that the sector had been steadily growing, there was a perception that it was a sunrise industry with

some established players alongside a burgeoning number of small to medium-sized businesses.

Early on (1998) EM conducted a formal survey of the industry to see if there were any sector-wide issues that could be aided by EM, council or central government. At the same time they were interested to see if there was any appetite for collaboration or cooperation across the sector. The results at that time were fairly conclusive in that the industry saw little benefit in collaborating and were unaware of any sector-wide issues that could be resolved by the EDA or the public sector. Interestingly, at a similar time EM was conducting similar exploratory research with the transport and logistics sector which did have need of EM's services and advocacy for some roading issues within Manukau, servicing the Auckland International Airport and the Ports of Auckland.

EM were not interested in pursuing any activity with the food and beverage sector without it being industry-led and so they filed the research and put their efforts on hold.

Anecdotal evidence and the research they had conducted, however, indicated that there were efficiencies to be gained in the sector, that there was little connection and networking between firms, and that the potential for the sector was limited mainly by a lack of overseas market penetration and either limited (in the case of small firms) or often under-utilised (in the case of medium sized firms) productive capacity within the sector. In other words, the potential for economic development in this sector was large but industry engagement would need to be a prerequisite before any further taxpayer money was spent.

Initial research had also revealed that there were a number of larger industry players (Villa Maria, Dominion Breweries, Bluebird, Goodman Fielder, Griffins, Inghams, Nestle, Healtheries, Hellers, Hubbards, Vital Food Processors) and a plethora of small to medium-sized companies of varying sophistication and productive capacity. The gap between the smaller players and the larger seemed to be quite considerable in terms of productive capacity, market penetration and the ability to grow beyond a small slice of the domestic market with innovative, but niche, products.

Research also threw up the issue that many of these SMEs felt isolated in their day-to-day business with a lack of access to information and business/professional support services – not knowing just who to go to for which problem - and a sense that they could become so engrossed in their day-to-day business that they lacked the time to work 'on' their business. This initial research aside, there seemed little industry appetite for public sector intervention and so EM continued to collect information on this important sector and build a database.



## The food bowl

In 2003, Catherine Croot (EM tourism sector business facilitator) became very interested in a move Villa Maria Estate (VME) were planning to make to a new site near the Auckland International Airport. Her interest centred on the associated tourism opportunities this might

bring. Upon talking to George Fistonich (managing director) and Fabian Yukich (general manager) it became clear that they had a clear vision for the site; a beautiful natural crater, close to Auckland Airport and associated business and retail developments, with rich fertile land that could support vineyards, chalets for accommodation, and a fine dining restaurant with associated wine tasting and possibilities around catering and conferencing facilities.

Catherine's key question to George and Fabian was: what will differentiate this development from any other vineyard development? To which she suggested that a conversation could be had around widening the concept to include other tourism product. EM then facilitated bringing Ross McCallum (ex Kapiti Cheeses) who had started a successful business north of Wellington selling only New Zealand products, to Auckland to talk with the Villa Maria Estate team.

Informal research had thrown up that the area VME was moving to was a traditional food bowl for early Māori and that there had been large tracts of horticultural and agricultural activity with some evidence remaining in the green spaces surrounding the airport. Thoughts moved to the vineyard becoming a focal point for food production, building on that heritage and taking advantage of the concentration of food producing companies in close proximity. Other very exciting ideas started to formulate with George Fistonich and VME and others becoming excited by the possibilities.

In 2004, New Zealand Trade and Enterprise were approached for help in developing the concept. NZTE supported the development with \$10,000 that was matched by VME to develop a high level concept document. The concept document was developed in order to access regional development funding known as Major Regional Initiatives (MRIs), which were accessed through the AREDS (Auckland Regional Economic Development Strategy) office. MRIs were a key mechanism in regional development funding under the then minister for regional development the Rt. Hon. Jim Anderton and formed part of the Labour Government's economic transformation agenda.

The concept document centred on utilising the Auckland Airport as a gateway for export but also as the first port of call for inbound tourists. Small to medium enterprises (SMEs) would be able to co-locate to increase exposure and interaction with other businesses, clients and suppliers as well as research and product development. Early indications were positive with a micro-brewery interested and ideas for an international kitchen with associated cooking schools, food scientists, consultants and a research centre all being floated.

At that time, EM came into contact with Professor Ray Winger, a Massey University food technologist who had been looking to locate his idea for a short run production facility or centre, for businesses to trial new products and recipes, and to run commercial trial runs of 100-500kg. This would allow smaller companies access to trial run and production facilities that would normally be cost-prohibitive to them. Similar international examples existed in Wirrabee in Australia and 'Food Valley' in Holland. In both of these examples, governments had intervened to provide a public facility for the benefit of SMEs as no one company could afford the estimated \$10million start-up cost, would not be able to fund the long run return on such an investment, and would be distracted from their own innovative activity needed for the overall benefit of the sector.

The concept was developed with the following objectives:

Mission and objectives: Our mission is to help develop the food and beverage sector through:

- Providing representation and resources to ensure growth
- Delivering innovative events and services
- Providing an environment for exposure and expansion into overseas markets
- By helping to ensure the success of our members there will be an increased customer awareness of quality products and thereby an ultimate increase in the consumption of great New Zealand food and drink.

What we do: We are a forum and meeting place to promote the success of New Zealand food and beverage companies who:

- Promote key capabilities to key international markets
- Establish additional opportunities for increased business development
- Identify and address common issues that roadblock business development
- Encourage networking and supply chain groups
- Ensure availability of skilled labour
- Assist with connections to local and central government agencies
- Maximise benefits to the food and beverage industry sector and other associated areas of interest

(Source: [www.foodbowl.org.nz](http://www.foodbowl.org.nz))

However, in the first instance the concept did not get any traction with the AREDS office and as NZTE had stipulated the concept must go through the AREDS office there was a stall in proceedings. Not prepared to let it drop at that point, EM lobbied board members and other influencers to get it at least on to the agenda for consideration – which they did. EM received support from the NZTE internal board that viewed all concept documents and they gave the approval for a business case to be developed. Funding to develop a business case required local financial support to match central government investment.

Unfortunately regional economic development arrangements in Auckland in 2004/05 underwent some considerable changes and the AREDS office was eventually disbanded. This precipitated the Metropolitan Auckland Project (more commonly known as the Metro Project) and an international review into providing a pathway forward for regional economic development in Auckland. This hiatus was of course unhelpful for the cause of an MRI based around the food bowl concept, as it had not progressed past the approval stage to receiving MRI funding.

At this time EM, believing the concept was sound, and with little budget or resource to support such a project on their own, sought support from the Manukau City Council. The Mayor and the Council were very enthusiastic about the concept and set a number of processes in train.

The economic development team within Council took the project on. They appointed an external project consulting company to drive the project and they in turn appointed a project manager who had managed the development of the Botany Town Centre.

In the words of one respondent "...they threw big money at the project and started to look at developments on the ground – the hard infrastructure – forgetting that what really needed to be done was development of a strong business case" (which was what the MRI funding would have achieved had it been accepted). "The project managers lost their way and what they were meant to do, they were meant to develop the business case for this but they got caught up in a town centre type development". Then Council bought land that adjoined Villa Maria and started designing what the food bowl concept would look like with an international cookery school, factories that had frontages with a tourism perspective and even television studios to promote the food bowl and all of these components. This was done so that these developments would complement the Villa Maria developments. In short "a planners approach to economic development – they didn't get it". A 'build it and they will come' approach in this instance was not the right approach; it was premature and the busi-

ness case had not been worked up enough to gain industry support for anything more than a place to relocate to if the price was right. Long-term economic goals like industry collaboration, increased innovation, networking, research and development would require industry to be engaged and at the forefront of decisions and it would require attention to the functional relationships before any earth was turned, roads were laid or buildings were built.

EM at this time, worried that industry engagement was not what it should be, went to its board and requested that it pick up the food and beverage industry group project again and go back to basics. This was done in the hope that if Council plans were to go ahead then the food and beverage industry group might be able to connect in a meaningful way and contribute to the development. EM went back to their original research and went back on the road to ask an updated but similar set of questions to approximately 100 companies. The difference this time was marked; businesses were more aware of economic development in the wider sense and how public and private sectors can have mutually-reinforcing activities. Michael Porter (a Harvard professor) had convinced many in the business world that there could be benefits in collaboration, as much as competition, and they seemed more open to working with the public sector and others. As a result, EM determined to increase networking and cluster development activity in order to identify industry issues and opportunities.

Professor Ray Winger still wanted to get his short run production centre off the ground and was becoming frustrated by the various iterations of the food bowl concept. He had correctly identified a market failure that if rectified could provide real returns to the sector and the economy as a whole:

...most of my work is in solving industry problems. ...The food bowl hasn't gone anywhere after Sir Barry Curtis left....The Food Innovation Centre is like a small factory – an industrial scale pilot plant effectively – 1/4-1/2 a tonne of product per day, which is much bigger than any of the research organisations in the universities can cope with,...but it's what the industry needs if they want to do test marketing; if you want to export you have to manufacture a reasonable amount of product, you've got to package it; how its going to be sold – pretty much, and you've got to be able to do that in an export certified facility.

In Auckland, Professor Winger had identified a couple of centres that do broadly similar things, both of which are in large companies – Fonterra and Goodman Fielder. Both of these companies prefer to have a share in any intellectual property associated with products being tested (or produced) in their facilities. This, for many SMEs, is quite threatening; having to deal with a larger corporate organisation with resources that dwarf their own. As EM's research had uncovered, there remained (and remains) a huge gap between these small businesses with innovative ideas and products and the larger industry players. Consequently for many small businesses within the food and beverage sector there remains a problem with bringing their capacity up to a level where they can deal with supermarket chains and/or export quantities, let alone the structural impediments with simply being small.

The food bowl concept was developed to bring together industry players in an attempt to co-locate allied companies in a business park environment. The intention was to promote innovation and the cross-fertilisation of ideas amongst industry players through co-location, to encourage export market development and tourism opportunities. Many associated activities were mooted, but without a compelling benefit to businesses greater than a more conducive environment in which to locate, the decision becomes more about a lease and or real estate decision than one built on gaining a competitive advantage. In other words, the benefits of relocating to such an environment were marginal and unclear while the costs

were clear and possibly substantial. Therefore there needed to be a compelling reason over and above a simple real estate decision in order for the food bowl concept to work.

## Waste disposal cluster

While the food bowl concept began to stall, EM continued to bring industry players together buoyed by the second round of research indicating more willingness to work together on common issues. With approximately 120 members, a cluster group was established to seek data on quantity, composition and disposal solutions for organic waste.

Some larger companies had cited the problem of sending organic waste to landfill and/or dealing with waste disposal companies and not knowing the extent of the problem. Questions arose around the nature and extent of waste (composition, volume, location) in Auckland and options for more sustainable uses of organic waste.

EM approached the Ministry for the Environment (MfE) to seek funding for research to gauge the extent of the problem and to look at alternative, more sustainable ways of dealing with organic waste. The project started in July 2008 and surveyed 75 food producers along with large glasshouses, hotels, restaurants and hospitals. The group now have good data on what is happening to waste, with the surprising result that only 6% of food organic waste is going to landfill. Efforts are now being made to reduce the 6% to zero with one company 'de-packaging' waste in order to make right sized bio-degradable and digestible packages for alternative stock feed products.

This project has been led by industry with EM facilitating the liaison with MfE. The project manager has had 'absolute cooperation from the businesses' and other spin-off benefits have come about as a result. These include:

- Linking waste producers with waste services with the result that some companies that were paying to get waste taken away will instead get paid for waste
- Waste service providers are now getting the latest information on the food producers and what is happening in Auckland
- Planning is afoot for waste forums to discuss optimal waste minimisation and utilisation
- A pilot project for collection of consumer waste is under way
- The food and beverage cluster itself is starting to work better for its members
- Sub-clusters are forming as well; e.g. one looking at distribution. Another – The Gourmet Food Group – have landed a contract in the Middle East with high-end speciality/delicatessens. The cluster formed to meet orders that required a range of specialty products. NZTE worked alongside GFG in facilitating market entry and organising distribution.

The food and beverage cluster is now well established with a steering committee led by cluster members and facilitated by EM. Activities include networking meetings (providing information and guest speakers) and a website. Other business development services are available through EM and members who provide services to the sector.

There has also been specialised research done on behalf of the Foundation for Research Science & Technology to ascertain the reason for a very low uptake by food and beverage companies of research and development grants.

## Food innovation centre

Professor Ray Winger's concept for a commercialisation centre for food production has been through a number of false starts and near misses in terms of getting financial support. After working with Professor Ray Winger a number of times to get the centre funded to no avail, an approach to Labour's 'Fast Forward' fund was made and it "finally got some traction". But then there was a change of government and it seemingly went back to square one. However the current National Government have looked favourably on the project, recognising the huge potential in commercialising and adding value to New Zealand's primary food production.

In 2006, the Food and Beverage Taskforce recommended that a food innovation centre be established in South Auckland. Subsequently, The Ministry of Economic Development commissioned IGROW to do some work on the feasibility and concept. Their recommendation was for an industrial-scale plant near the Auckland International Airport "where companies can commercialise product" and that government funding should be targeted to establish the plant until it could self-fund through commercial leasing of the plant. The 'commercialisation centre' was designed to be the next step past research – to develop trial runs of commercialise-able products, with a business plan accompanying the trial. It was from this research that the model to collaborate with other food-related initiatives across the country was first promulgated. This work led to the possible financial support from the Fast Forward Fund.

EM were charged with gaining industry support for the concept. Currently there are 35 companies committed, in writing, to supporting the plant once it is built and the "whole industry knows what's happening".

The next step is for the business plan to go before Cabinet with the Manukau Centre being one of four proposed centres of excellence around New Zealand. Its core function is designed to focus on processed food which is aligned with the Auckland business environment and complements the other centres of excellence focusing on agricultural primary production (meat and milk), science and research and grain and crops. The centre is designed to be a stand-alone commercial operation within five years.

## The future

The structure of the Auckland food and beverage sector with a large number of SMEs still has capacity constraints and productivity may in part be increased through the better utilisation of existing plant. This could include sharing of facilities and/or utilising down-time production capacity.

There are also problems with protecting intellectual property for small companies, licensing product for export and meeting export standards. International demand for environmental sustainability and traceability increases the need for companies to establish benchmarks and standards, regardless of the size of production runs. This may provide New Zealand with a market opportunity if handled well within the cluster, allowing small and large companies alike to trade on New Zealand's reputation for organic and/or traceable food production. Sustainable practices around waste disposal, energy use and carbon footprint are some of the ways of contributing to that reputation.

EM's recent survey has shown export growth in the sector. The next stage in the development of this key export sector for New Zealand would be to look at every aspect and stage of the business life cycle and have the appropriate business development services available to help them grow. This could and should include the availability of sector specialists,

consultants and mentors as well as wrap-around business development services, facilitated by the EDA.

To do that we need to bring around the cluster a whole range of support services that is available for the industry so the cluster becomes the hub of those support services. We'll do that by utilising the web-port more and once the food innovation centre is built there will be a physical entity there. We will build support services around the cluster instead of people taking days to find services, they will be there for them.

*David Anstice, Enterprising Manukau.*

David has estimated that the food innovation centre should stem an extra \$1billion worth of exports for New Zealand in the next five years based on the case study research that has been done. This will be possible for two main reasons:

- The increased speed and ability for companies to move from concept/idea to commercial product
- Increased networking and collaboration will lift productivity (even utilising current capacity more fully could bring sufficient benefit) and innovation

Perhaps paradoxically, some of the companies that have been part of the food and beverage industry cluster group have expressed an interest in such a centre and could be interested in co-locating near such a facility. This may well open the way to add some research capacity and some of the other ideas floated in the original food bowl concept. However, this time it could be more of an economic development project than a land development project. The important lesson in terms of economic development is that the soft infrastructure (networks, industry relationships, working groups, industry associations, research and development work, signs of collaboration etc.) are just as, if not more than, important as the hard infrastructure. "Roads, buildings, streetscapes and broadband are fine but you have to have the businesses and market opportunities underpinning that, otherwise you might as well be building another town centre and the project will not be an economic development project at all" (Gaelle Deighton, Enterprising Manukau).