



Collaboration through the Cervena appellation

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Kellogg Rural Leadership Programme

Course 36, 2017

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2. EXECUTIVE SUMMARY

An industry founded by entrepreneurs and innovators, the deer industry is relatively young. Farming the most recently domesticated animals, deer farmers have experienced all of the highs and lows that markets can deliver.

With boom and bust cycles a regular occurrence, industry leaders developed a strategy to create an appellation for premium New Zealand Venison – Cervena. These leaders were visionary in many respects with both a sound structure and an intense focus on quality, Cervena has emerged as a model to admire and aspire to.

Collaboration is at the core of the appellation which extends both vertically and horizontally within the value chain. Cervena provides the platform for the consistent brand message, collaborative behavior and loyalty that ultimately generates a premium for farmer suppliers inside the farm gate.

Cervena is not a whole of industry appellation and has very strict guidelines as to specifications that a product must meet to be branded. In this way it varies from other NZ industries which exhibit this marketing strategy such as Zespri with Kiwifruit.

Appellations have been used through history and the designers of Cervena drew inspiration from the European guilds which successfully created localized monopolies which could set and maintained standards for the quality of goods and the integrity of trading practices in that industry, the guilds worked to maintain stable prices for their goods and commodities; and they sought to control town or city governments in order to further the interests of the guild members and achieve their economic objectives. All of which was developed and utilized through the 11th -16th century in Europe.

Further inspiration was drawn from the sparkling wine appellation – Champagne.

Delivering value to the farmers who invest levies into the appellation is the ultimate goal by way of developing and growing new and existing markets for premium NZ venison.

Drivers of the consumer decision have seen a change from taste, value and price to a real focus on quality, food safety, social impact and experience. The provenance of our food is paramount to the consumer and can only be delivered by a robust quality assurance and traceability program. Cervena delivers that assurance of a consistent premium product

that can be eaten the world over at any time of the year.

Cervena has a natural fit with the broader NZ Inc market strategies and messaging to the world.

Cervena sales into the US have recently become the largest export market by both value and volume, replacing Germany as the top export market for NZ venison.

Cervena is certainly delivering on its core goals and we are entering into a golden era of venison pricing driven in part by limited supply but predominantly because of an appellation and collaboration throughout the industry.

3. ACKNOWLEDGEMENTS

I wish to thank the Kellogg Programme Investing Partners for the support provided to putting on the programme:

STRATEGIC PARTNERS



PROGRAMME PARTNERS



I would like to acknowledge the people who have supported me to complete this project.

- My family, Erin, Hamish, Poppy and Annabel who have had to support me to complete this program by taking up the slack at home and to create the space to focus on the research and writeup.
- David Morgan and Dermott O'Sullivan who encouraged me to apply and have been supportive in a number of ways throughout the program
- SCNO branch of the Deer Farmers Association for their contribution towards some of my course costs
- Scott Champion, Anne Hindson, Lisa Rogers and Desley Tucker, for their great work organising and facilitating such a diverse and intriguing course
- Glenn Tyrell (Duncan NZ Venison), John Sadler (Mountain River Venison), David Morgan (Farmer and DFA Chair), Mark Hawkins (Trustee of the Cervena Trust) and Innes Moffat (DINZ) for their time for my interviews.
- Deer Industry NZ and specifically Innes Moffat and Dan Coup for their background

information and industry data.

- Susan Hayward for proof reading my work
- Lastly I would like to congratulate the deer industry for its innovation and drive for performance. The initiatives such as advance parties, whereby farmer to farmer learning is fostered, are really driving the improvement in production while also promoting the industry to our young farmers.

4. INTRODUCTION

Deer were first introduced to New Zealand in 1861, primarily for recreational hunting purposes for antlers with venison as a by-product. By 1917, over 100 deer had been imported by private individuals, government and Acclimatisation Societies. The deer population increased quickly due to the lack of predators and a favourable climate. In 1931 the government enlisted professional hunters to cull the deer. The deer numbers however, continued to grow until the 1960s when entrepreneurs recognised the opportunity to ship venison into the traditional European markets.

Initial hunting was done on foot but by the 1960's aerial hunting from helicopters was common practice and was extremely efficient in reducing deer numbers. Processing plants were developed to prepare deer carcasses for export, followed closely by hygiene and preparation standards. This was the birth of the New Zealand Deer industry as we had a market for a venison which was complimentary to the traditional game market in Europe.

Until 1969 Deer had been classified as a noxious pest, The Noxious Animal in Captivity Regulations, 1969, were passed to reclassify deer as a farmed species, and deer farming began under licence.

With the law changed and licences issued to farm deer, entrepreneurs again saw the opportunity to recover live animals to be farmed domestically.

At the height of the hunting phase of the industry (1973), 145,000 deer carcasses were removed from New Zealand forests and tussock lands. (NZIER, NZ trade working paper #31)

During its evolution from a fledgling industry to maturity, the deer industry has undergone several classic boom-bust cycles. Some of the key aspects of these cycles have been;

- innovation and regulation changes to allow farmed deer
- established export markets venison, in particular Germany
- lack of protectionist policies that discriminated against venison imports in Germany

- rapid expansion of farmed deer numbers
- entry into the market of large-scale processors

Total Deer Numbers have varied because of cyclical nature and returns of deer farming as shown in this table below;

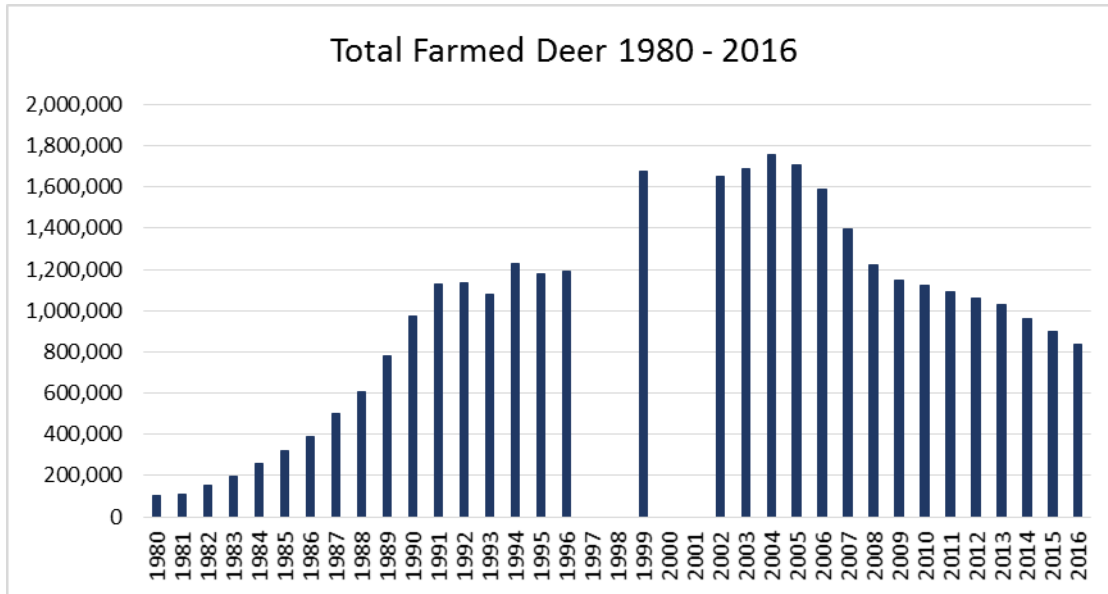


Figure 4.1 - Source; Statistics NZ

Industry Structure

In 1975, the New Zealand Deer Farmers Association (NZDFA) was formed. In addition, an Act of Parliament formed the New Zealand Game Industry Board (NZGIB) in 1985. It was a Statutory Government body, but without single-desk seller status. In 2002 these bodies were merged to form Deer Industry New Zealand (DINZ). Individual branches of the NZDFA still retained their identity and functions throughout NZ, but the NZDFA Head Office and

Council were merged into the NZGIB to form Deer Industry New Zealand (DINZ). DINZ also operate DeeResearch

DINZ undertakes the following main functions;

- Promotion
- Quality Assurance
- Research & Development
- Market Access and Industry Representation

Deer Industry New Zealand undertakes a range of programs on behalf of all industry stakeholders (not any one sector) and is accountable to the entire industry. It does not buy or sell any deer products, but works closely with those that do. Any trade enquiries are provided directly to relevant processors or exporters.

Promotion

Deer Industry New Zealand promotes New Zealand venison, velvet and co-products in both New Zealand and a range of export markets. The positioning depends on the market. For example in venison's case, qualifying venison is positioned as Cervena in North America, while venison is positioned as Neuseeland Hirschfleisch in Germany, and generally as farm-raised venison in New Zealand.

Individual processing companies are ultimately responsible for the marketing and sale of their own product.

Quality Assurance

Deer Industry New Zealand co-ordinates and administers industry quality assurance programs:

- On Farm
- Processors
- Stock and Station Agents
- Transport operators.

Research & Development

Deer Industry New Zealand carries out research (via research providers) on behalf of the deer industry. For example:

- Research to support international trade negotiations to open and/or maintain market access for deer products
- Production research to improve farming systems and on-farm management practices
- Product composition and efficacy research supporting the use of deer velvet as a health product
- Quality and food safety standards research programs for venison and velvet

Market Access and Industry Representation

Deer Industry New Zealand acts on behalf of the deer industry to assist New Zealand government agencies to improve market access and selling conditions for deer products.

Board Representation

The board of DINZ is made up of four producer representatives (farmers) three venison processors and a velvet and co products appointee. As strong representation of processors is positive for the collaboration in the industry. Having farmers and processors on the board is not uncommon in NZ industry boards however the even split between farmer appointed and processor appointed directors is unique and is a clear point of difference.

**All of the above information relating to industry structure was sourced from DINZ.*

5. OUR PRODUCT

This chapter covers the key attributes of the premium venison product, Cervena®. It will describe the industry, the appellation and the structures which define the industry.

Appellation

An appellation is defined as – ***“The action of giving a name to someone or something”*** (<https://en.oxforddictionaries.com/definition/appellation>)

The use of appellations in marketing of product is common with the most well-known example being Champagne which is a specific type of wine from a specific region in France which has protected the use of the appellation to the point it cannot be used for any other wine of the same type but without the provenance.

Appellations are often used to differentiate a product and is an attempt to remove a product from commodity status to a more niche market or value level.

Collaboration

Collaboration is defined as – ***“working with someone produce something”*** (<https://en.oxforddictionaries.com/definition/collaboration>)

Collaboration is a mind-set that requires some strong guidelines as to how the parties treat each other. It requires loyalty and in my opinion a willingness to work together for a common good.

Collaboration in the pure sense will see all parties benefit from the relationship however it is possible that in a specific deal or circumstance that the individual/ company can extract more value from the deal but in the long run the collaborative approach will provide more value over many transactions for all parties.

The deer industry has some great examples of collaboration in market but there is a limit as to how far this can go, for example there is law preventing collaboration (collusion) at the procurement end of the business which, in my opinion, is often where the least collaborative behaviour is exhibited.

Another example of this is where a company will exhibit a strategy first approach to a market compared to a short term deal by deal approach with a better margin.

Where appellation and collaboration collide

It is apparent that the use of an appellation is a model which is built on some underlying principles, traits, quality or the like. This itself provides benefit to the producers, marketers and consumer alike. The same can be said for collaboration between parties for a common good, but it is the intersection of an appellation and collaboration, which can create the most robust relationships between producers and the end consumers.

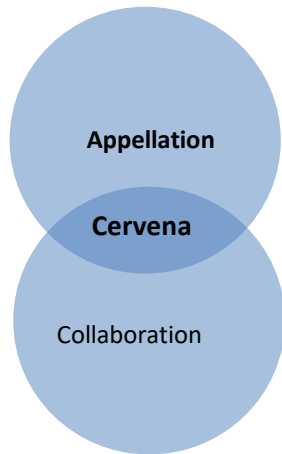


Figure 5.1

The points at which these collide for the deer industry are much smaller than I initially thought when beginning this project however it is the area where the value is created.

The intersection for Cervena in my opinion includes;

- Quality assurance
- Our story
- Differentiation
- Unified participants

Cervena®

In 1995 the NZGIB developed a branding program called '**Cervena**' to complement the existing brands of their members and build equity for New Zealand venison. This brand strategy was developed by designer Brian Richards who drew inspiration from **historical guild societies** and **France's Appellation system of geographic labelling for wine**. "I became very interested in the guilds in London. They are very old societies that exist in order to ensure that you are buying the genuine article. The guild mark is their integrity agreement. I then looked at the wine industry in Europe where they have the *appellation*, and again those are **integrity agreements**." (Michael B. Beverland, 2005).

Cervena is distinguished from all other venison by the trademarked assurance that the meat has been naturally produced, and processed in accredited plants, according to a system of high quality standards.

The name Cervena comes from a combination of the Latin, *Cervidae*, meaning deer, and *venison*.

The Cervena appellation was borne of the need to differentiate, or change the perception of venison away from a tough gamey product which was seasonally variable and irregular in quality.

To qualify as Cervena natural tender venison, the animal must be three years of age or under, and raised naturally without hormones or steroids on the fresh open pastures of New Zealand. Cervena venison must be processed according to internationally recognized quality standards. This processing is independently audited to industry agreed standards. Combined quality and marketing criteria mean Cervena venison delivers consistently high quality product. Furthermore Cervena has strict packaging criteria with its distinctive **3 gold stripes** for fresh product and **3 silver stripes** for frozen.



Cervena Chilled

Cervena Frozen

Figure 5.2 - Source; Cervena Website, November 2017

The Cervena brand strategy has only been used for emerging markets such as North America Australia and Asia. From 2017 a trial of Cervena into traditional markets in Europe will begin.

The use of the Cervena brand is restricted to franchised New Zealand exporters who meet strict quality and marketing criteria, the five participating exporters are;

- Alliance Group Limited
- Silver Fern Farms Ltd
- Mountain River Venison Ltd
- Duncan New Zealand Ltd
- First Light Foods Ltd

Cervena's assets are its brand, logo, and websites and are owned by New Zealand venison producers and Cervena licensee's. The assets are vested to Cervena Trust. The Cervena Trust is administered by Cervena Trust Limited, which has three directors appointed by DINZ, one representing venison producers, one representing Cervena licensee's and one independent appointed by DINZ.

Cervena Trust Limited is effectively a licencing body allowing companies to use the Cervena mark and package their venison as Cervena if they comply with certain conditions and package qualifying venison. The Cervena Trust Ltd is responsible for ensuring the licensee's act in a manner which is expected by the trust relating to collaboration and brand enhancement.

Initially the larger processing companies were hesitant about using Cervena as an appellation due to issues with funding which was predominantly related to where the marketing spend was made relative to the processors sales. However this was overcome and they now participate fully.

In the early days of Cervena the market penetration was slow however with persistence and ongoing targeted promotion the marketers are gaining some real traction.

Despite the success, until recently the market has experienced significant volatility in terms of on-farm pricing for venison animals

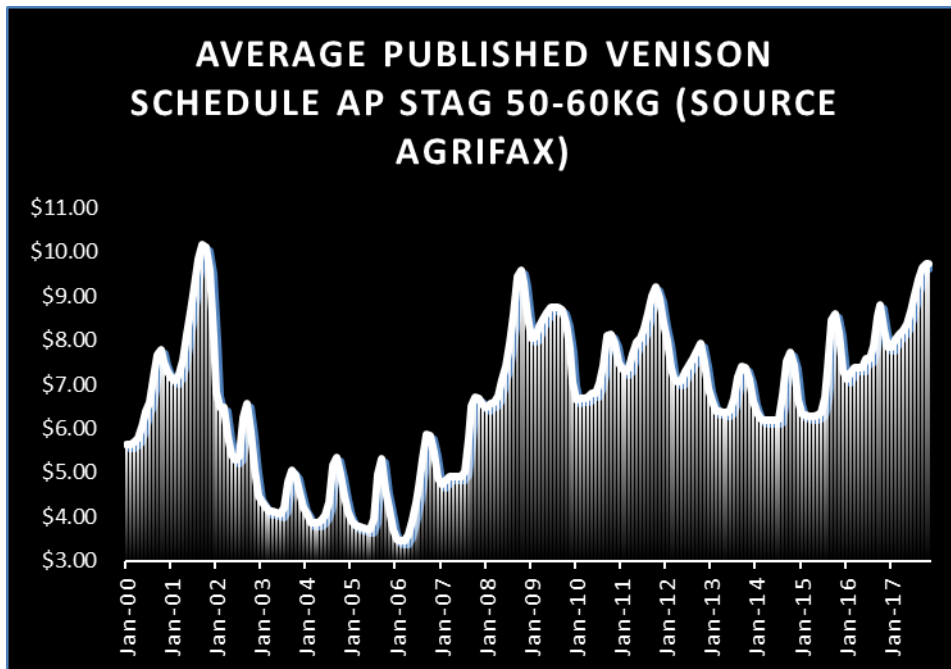


Figure 5.3

In 2005-06 the price volatility produced a perfect storm whereby a large number of deer were killed and the market couldn't withstand the volume and prices plummeted to industry low levels of \$3.35/kgCW. The deer kill peaked that year (refer table below) as more farmers exited the industry and more breeding stock were killed. This volatility has generally seen farmers who farm deer also farm other species of stock to mitigate some of the market risk volatility. In the past three years this volatility has been somewhat reduced due to the changing supply versus demand dynamics. In addition Cervena branded venison in year ended June 2017 accounts for 51% of all venison exports to the US by volume, and 64% of all venison exports to the US by value (Innes Moffat – DINZ). The other developing trend is that

with a year round demand the seasonal peak schedule in October/November each year is flattening out which may change the shape of the graph above into the future.

Cervena Structure

To understand Cervena we must first understand how it is structured. The table below refers to the governance structure which is employed along with a charter for members. The charter sets out the way in which members will act, the intent of the appellation and most importantly that the members must act in a manner of collaborative marketing of venison. Importantly the members, who must meet quarterly at a minimum, must reach decision by way of consensus and then act within the views of the group members.

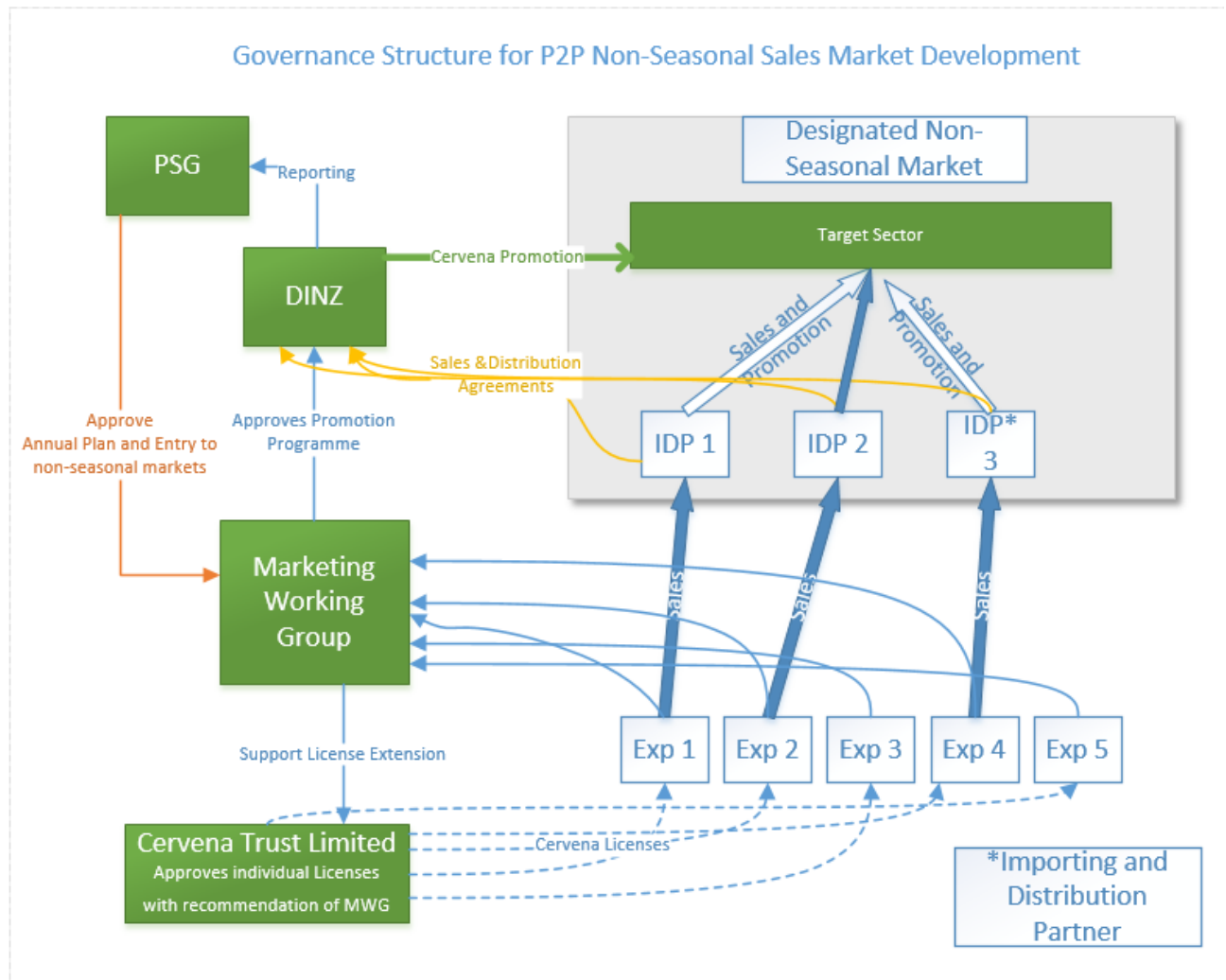


Figure 5.4

Livestock Market dynamics

Historically the venison market has been volatile with price swings for AP2 stags ranging from \$3.35/kgCW to \$9.88/kgCW between 2006 and 2017. The average price through this period was \$7.42/kgCW. Source; Interest.co.nz

The other driver which is not focused in this report is the impact of velvet on deer farming profitability, velvet is also very volatile and it can be very profitable but also be a deterrent from the industry.

Total deer numbers have dropped dramatically over the past 10 years as the relative profitability of deer farming and other sectors has dropped when compared with dairy farming. The dairy sector has seen the largest increase in area farmed in NZ with the impact on land use being significant.

Livestock numbers at 30 June (million)

	2006	2016	% CHANGE
Sheep	40.10	27.58	-31%
Beef Cattle	4.44	3.47	-22%
Dairy Cattle	5.17	6.50	+26%
Deer	1.59	0.85	-47%
Total Stock Units^{1,2}	93.66	84.31	-10%

1 Includes goats. 2 Provisional data for 2016.

Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

Figure 5.5

While the total kill number didn't drop much between 2010 and 2016 the amount of female deer killed kept venison production fairly constant, but each year the breeding herd got smaller. Now we are in a position where demand outstrips supply.

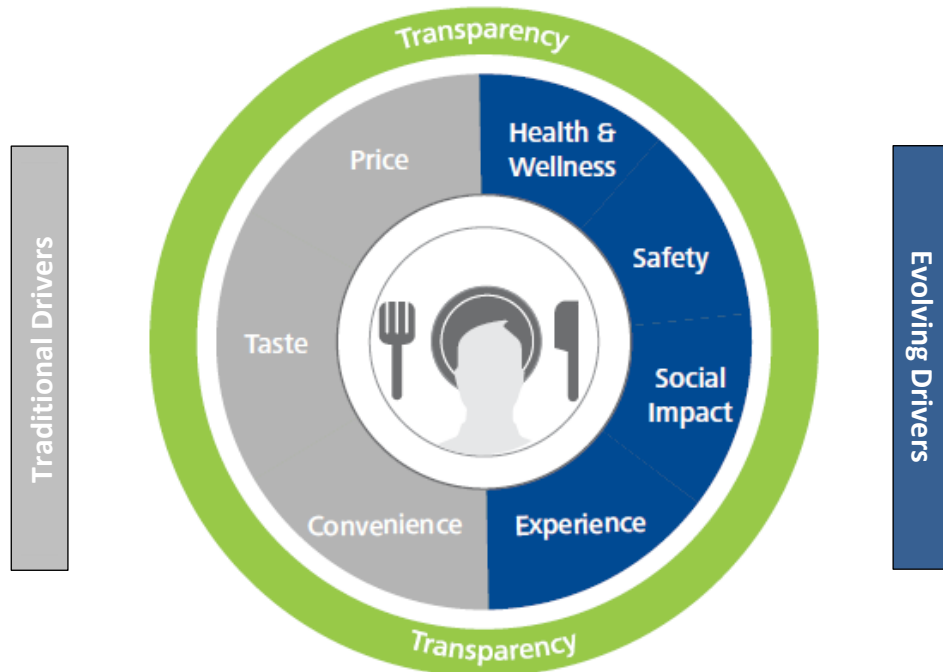


Figure 5.6 – Source Statistics NZ

Market Dynamics

“Capitalizing on the shifting consumer food value equation, Deloitte. 2016” found,

- *The drivers of consumer value appear to have fundamentally changed, with far reaching implications for the food and beverage industry.*
- *Traditional drivers alone (Taste, Price, and Convenience) no longer represent the dominant influence of consumer purchase decisions*
- *Roughly half of consumers now weigh Evolving drivers (Health & Wellness, Safety, Social Impact, Experience, and Transparency) with at least equal importance.*
- *As a result, it appears a notable portion of consumer purchase decisions are being driven by some combination of all drivers (Traditional and Evolving)*
- *Impact is not particularly influenced by demographic considerations such as Age, Income, Geography, or Gender and is pervasive across product categories.*
- *Consumers with high reliance or use of social media as well as those with higher levels of manufacturer and retailer distrust display a higher preference for Evolving drivers when making purchase decisions.*



Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

Figure 5.7

The traditional drivers of price, taste and convenience are now being equaled with consumer consideration for health, wellness, safety, social impact and experience. With consideration to these drivers Cervena is well placed to provide a product which meets both the traditional and evolving drivers of the consumer decision process. It is vitally important that Cervena continues with its stringent quality assurance program while also telling a story to the consumer highlighting our farm management systems, environmental obligations, animal welfare, quality assurance and traceability, all of which lead to a much better eating experience.

This will be more important in the face of disruptive technologies such as synthetic or plant based protein meat substitutes.

The marketing effort has been very strategic and specific to drive a year round demand for Cervena, some of the marketing campaigns have opened up new market such as;

- Non-seasonal supply into the Benelux (Belgium, Netherlands and Luxemburg)
- China
- Traditional European markets outside of the traditional game season.

With society changing where it receives its information, innovative forms of marketing promotion has seen the following strategies employed;

- Food bloggers
- Social Media
- Health food blogs
- Men's wellness magazine articles (*Silver Fern Farms –Presentation to 2017 DINZ conference*)
- Chef support with in market chefs

These are but a few of the initiatives underway and is an area for another project as to the marketing success achieved by the Cervena marketers.

6. AIMS, and METHODOLOGY

- AIMS

The aim of my project is to determine how collaboration through a brand appellation (specifically Cervena) delivers value back to the farmer in a sustainable manner

- METHODOLOGY

My method for testing the hypothesis that collaboration within the deer industry, specifically venison, will improve market presence and earn a premium for farmer suppliers is best summarized as follows;

- Complete research on a wide array of literature pertaining to both the deer industry, Cervena and other prominent appellations.
- Interview farmers, processors, marketers and industry bodies to improve the breadth of my understanding of the issues and opportunities.
- My interview included;
 - Two marketers/ processors
 - Two farmers
 - One industry executive
- Completed thematic analysis on the results of the interviews
- Use of robust industry data and historical trends to support my findings

7. LITERATURE REVIEW

This chapter outlines my findings from literature published in a range of locations. I have sought to look at both deer specific literature while also looking at broader themes of collaboration and the use of appellations.

Deer industry research

Although deer are an introduced species into New Zealand they have thrived in our temperate climate. What started as an import of a limited number of animals for their antlers, deer quickly grew into a significant wild population that ultimately needed to be controlled through government assisted culling. Like many other kiwi industries, entrepreneurs quickly identified the opportunity to make some money from deer, initially this opportunity presented itself as the ability to sell meat from the deer cull but quickly grew, with the advent of using helicopters as a hunting platform. The law changed (Noxious Animal in Captivity Regulations 1969) enabling deer to be farmed, entrepreneurs again came to the fore through live capture and the early adoption of deer farming.

The early adopters of the deer industry had to ride a boom and bust cycle through several decades. (1980-2010 in particular)

Once again entrepreneurs/visionaries saw an opportunity to brand better quality farmed venison which had much better eating characteristics than that of the wild game. The creation of the Cervena appellation was not without its challenges, however it has stood the test of time with additional licensee's joining and none of the original licensee's leaving the appellation.

Appellations

Appellations are widely regarded as an attempt to remove a product from commodity status into one which is renowned for certain characteristics such as quality assurance, location or process but can be as wide or specific as needed. A good example of this is the French Wine classification system known as Appellation d'Origine Contrôlée/Protégée (AOC/AOP). The French AOP system has rules that apply to nearly every aspect of wine production, including grape varieties that may be utilized, minimum alcohol level, aging requirements, and even

vineyard planting density. Such meticulous management of a single industry may seem overwhelming, but the geographic label implies what winemaking regulations were in play and can therefore serve as a guide for consumers which differentiates wine at 3 different levels – National, regional and provincial (Winefolly.com) Like Cervena the use of appellations in the French wine industry is a move to set quality control to differentiate the product from its competitors. The most famous of these is Champagne which is famous for sparkling wine and now is the appellation of choice with its proprietary rights staunchly defended. The map below shows how the 11 wine regions in France are divided and their appellations are applied.



Figure 7.1

8. SURVEY RESULTS

In order to develop a well-rounded understanding of the industry and Cervena I interviewed a range of participants ranging from processors/ marketers, industry representatives, Cervena Trust Ltd director and farmers

I will not disclose the responses by interviewee but will include all responses to each question which is included in appendix A at the rear of this report

Those interviewed were;

- Glenn Tyrrell – GM Marketing - Duncan New Zealand Ltd
- John Sadler – Marketing Manager – Mountain River Venison Ltd
- David Morgan – Farmer, Chair of NZDFA – Raincliff Station Ltd
- Mark Hawkins – Farmer, Director of Cervena Trust Ltd
- Innes Moffat – P2P manager – Deer Industry NZ

8.1. Key observations from the survey using thematic analysis

8.1.1. Value of the brand

- The Cervena appellation is essentially a quality assurance program that allows marketers to differentiate the product in the market. It allows them to compete in the specialty protein market with high value high quality product
- Market perception has changed venison from a commodity product to niche through the use of an appellation.
- The value chain back to the farmer is enhanced through Cervena for more consistent messaging to the producers and the ability to supply to a market of choice rather than a market of last resort.
- Cervena does have the ability to reduce price fluctuations, due in part to the fact that as a niche product, it demands a high value because of the quality assurance standards associated with appellation.
- Cervena has undergone a variety of reviews and the test of time has shown it to withstand review even despite rigorous debate and analysis. All licensee's remain and the addition of first light foods signals growth.

8.1.2. Investment into Cervena

- Even split from the respondents relating to investment which falls into two thought streams
 - Short term investment focus because the supply is tight now, so the investment is not as crucial hence existing funding is about right in terms of level of investment. They also noted the PGP money is welcomed but is spent on a dollar for dollar basis.
 - Long term investment into maintaining relationships and growing markets to ensure we can grow the demand at a similar rate to supply. Significant industry investment into on farm improvement through the advance parties and regional workshops is improving productive capacity within the farm gate which will increase supply and quality of the product required to meet the Cervena standards
 - Investment needs to be maintained at least at the current levels to build on the previous investment and Cervena and to maintain the good relationships for when the supply/demand balance changes.

8.1.3. Disruptive technology and whole of product positioning.

- All respondents were unanimous that Cervena being a quality assurance standard first and foremost, producing high quality specialty protein for the market would mean that disruptive technology would have less of an impact. Disruptive technology is thought to have the biggest impact into the lower value commodity type cuts. Because Cervena's target market is niche high value product those consumers will continue to appreciate and hence pay for a premium product rather than a synthetic alternative.
- Cervena is also an opportunity to demonstrate transparency in all aspects of production the premium product from the paddock to the plate. As discussed previously the changing drivers in consumer decisions now reflect a social, environmental and experience based decision process with an ever-increasing need to understand the provenance of our food.

- Only one respondent considered that the industry should strive for whole of industry product positioning, whereby all products derived from the deer should be branded as Cervena. That however they did acknowledge this would not be achievable due to lack of support from the rest of the industry.
- Whole of product positioning drew a very strong response from the processors and marketers given the complexity of turning a live animal into a multitude of products while been able to achieve a premium from the Cervena appellation.
- The correlation drawn from my question relating to the Zespri model was considered very weak due to the limited processing and product options been dealt with in the kiwifruit industry relative to the deer industry.
- It was noted that the idea of single desk marketing has not worked for other meat industries over time and that the current model was as close as they thought the wanted to get to that structure.

8.1.4. Collaboration

- Collaboration is evident in the industry but only to a minor extent. Some key points were
 - Essentially all companies are in direct competition
 - collaboration can be as simple as a consistent message in the market
 - collaboration in the marketing of the product is significantly greater than in the procurement of stock
 - loyalty is a big factor in collaboration and both farmers thought better loyalty between farmers and processes would help to get better market signals and hence return for farmers
 - Cervena encourages some collaboration however in many cases, it is simply a reduction in the competitive behavior of the companies. Are the companies collaborating or are they simply non-adversarial?
 - The appellation does create a platform into the US market while aligning and encouraging the behavior of the participants.
 - Collaboration between farmers and industry was also considered important to both grow existing productive capacity while also attracting new entrants to the industry.

8.1.5. Organisational Structure

- The Cervena operating structure was agreed by all respondents to be working well
- This was evidenced by the fact that no licensee's have left Cervena, Cervena is still operational some 23 years after its inception and the value has been recognised by government through the use of primary growth partnership funding through the Passion2Profit (P2P) program.
- Operating structure of the processors held a multiple of views which is best summarised as saying there is pros and cons for both corporate and cooperative ownership with no discernible difference.

8.1.6. Collaboration relative to market cycle.

- With supply tight the common feeling was that it was easier to collaborate when there was a more plentiful supply as any collaboration and market was more than undone with the procurement battles occurring at the farm gate.
- The Cervena agreement and charter which outlines the rules of engagement are key documents to ensure the success of Cervena regardless of the market cycle.
- Loyalty and clear communication between farmers and processors was thought to be another key to collaboration in the current market environment.
- While market conditions are firm in Europe and North America, priority is being given to supply customers whose vision for marketing New Zealand venison matches the New Zealand industry's. This will mean reductions to some traditional market sectors. Marketers are working together to supply these markets – but is this collaboration or simply extracting the most value for their product?

9. ANALYSIS AND RESULTS

The previous sections have pieced together a picture of the deer industry over time. By understanding the history and the structure of the industry we can start to draw some conclusions about benefits and challenges for Cervena and the wider deer industry.

- Deer numbers have been variable with a peak of 1.78m farmed deer in 2004. 2016 numbers at 834,000 – Statistics NZ
- Wide price variation in advertised schedule (AP Stag \$3.35 - \$9.88/kgCW) over the period from 2006-2017 with an average of \$7.42
- Total venison exports for the 12 months ending February 2017 are recorded as 12,600 tonnes, down 19% year on year and reflecting the lower kill numbers. – *Deer Industry News April 2017 – Issue 83*
- 2016 kill numbers lowest in 21 years - DINZ
- US took over from Germany as the largest export market in late 2016 by both volume and value
- Significant growth in volumes and value of Cervena sold into the US over the past five years in 2017, 51% of all venison by volume into the US is Cervena and 64% by value.
- With supply volumes falling the ability to sell to markets of choice rather than markets of last resort will enable marketers to return better prices to the farmer.
- Cervena shows even better volume and price growth the other NZ venison brands
- Interview results show marketers consider collaboration is easier in a market where supply is not as constrained as it is currently
- The Cervena appellation is proving its worth again with the ever increasing need of the consumer to have trust in a product (quality assurance) while also understanding the provenance of the product. Cervena certainly ticks that box.
- In the face of uncertain times such as disruptive technology the value proposition of Cervena will stand out for its quality but more importantly its story from the green pastures of NZ to the top end specialty protein that the discerning consumer will pay a premium for.

- We cannot simply apply all of our venison to Cervena as we have a diverse market base and not all of our products will meet the threshold required to maintain the Cervena appellation. By threshold I mean that we do not want a Cervena branded meat pattie, regardless of its quality, as this is at the low value commodity end of our market and is one which is most at risk of synthetic protein competition.
- Tradition markets in Germany will remain important for our industry but the challenge facing marketers is to have enough product to continue to maintain a relationship in those markets when they are not the most profitable.
- Long term strategy is required when we consider the investment into Cervena as our supply base will grow and we need to have created/ maintained markets for that ever increasing supply.
- Is a lift in the levy paid the right move given the firm returns from venison? Will the PGP fund match the increased investment from industry?
- In my opinion we can grow our markets and further investment into Cervena as we enter new markets such as China but equally the underlying quality assurance that the appellation provides will underpin the consumer choice into the future – refer Deloitte – Consumer food value equation on page 17
- The hind kill in 2016 reduced to 49% of the kill which was down 26% on the previous year, clearly showing the rebuild of the hind herd is underway.
- DINZ forecast the total kill for the next three years will remain under 400,000 head.

All of the above points considered, the value to the farmer is greater through the use of the Cervena appellation and while the collaboration is partly driven by market conditions the appellation provides a platform on which a quality assurance scheme can be built

10. DISCUSSION

An appellation is not a brand. It is so much wider than a simple branding of a product, if we strip Cervena back to what it is we can describe it as follows;

- Grass Fed
- Under 3 years of age = tender
- Steroid and hormone free
- Free Range – not housed or feedlotted
- Complies with animal welfare code of practice
- Processed to recognized QA standards
- Packaged consistently
- Auditable

Importantly the top end consumers want to know their food is safe, healthy, ethically produced, environmentally sustainable, and above all, top quality. We want them to associate all of these attributed to this...



Figure 10.1

The deer industry has had a boom bust cycle historically and those cycles will come again. The use of an appellation to not just define a product, but an entire supply chain, which can guarantee a consistent product throughout the year wherever it is required and evolve with food trends which will deliver better returns in the long run, than the traditional commodity based approach.

The appellation has had significant investment in money, time and effort – further investment is required in my opinion. While the returns are strong, the industry as a whole needs to be investing more into its future to grow the opportunities with Cervena.

The collaboration within Cervena is evident, however the ideal I had in my head before beginning this research project is very much diluted. Collaboration is happening and the ongoing success of Cervena is testament to this, however the platform of a quality assurance program backed with a significant provenance story, on which the five licensee's stand, is the single greatest example of collaboration.

While we have processors who are driven by production efficiency to generate profit, the premium to the supplier in part will be driven by their ability to negotiate with the procurement representatives for the processors.

I do not aim to make light the very difficult role that the processors/marketers have to take a living animal and process it into a multitude of products from pelts to pizzles to racks all while procuring enough animals, of the right specifications, to meet the demands of exacting clients on the other side of the world.

Our story is strong and working together is our strength, the unity of our story into the market coupled with the exacting standards set out by the Cervena agreement will ultimately see our products sought out and a premium paid back to the farmer suppliers. In the face of disruptive technology the value proposition of Cervena will differentiate our products to allow them to provide the niche market we aspire to, much in the same way Champagne is the appellation and not a generic term for sparkling wine.

11. CONCLUSIONS

My aim at the outset of this project was to determine both the existence of collaboration and, if so, the extent of that collaboration for the good of the farmer supplier.

Collaboration is occurring in the deer industry through the use of the Cervena brand.

In a wider sense the collaboration is not only between the licensee's but it extends vertically to the industry, the government, through the use of primary growth partnership funding distributed through the Ministry of Primary Industries (MPI) and to the farmer suppliers

The ability to provide both market presence and a premium to suppliers is evident and has become more prominent in recent years with the growth of the Cervena markets. The premium can be expressed in a number of ways, both as price advantage and/or accessibility to a market or the maintenance of a market through relationship and loyalty. Either of these will deliver better value to the farmer than the non Cervena branded product.

The supply/demand imbalance in the market currently is seen by processors as reducing collaboration in the fight to secure enough product to supply their customer base. The risk to the farmer in this scenario is that the loyalty may be tested as other processors send a message through short term pricing which is actually out of alignment with market signals.

Collaboration is built around a common platform being Cervena, however it also clear that all of the licensee's are in competition with each other and collaboration may be subtle in most instances. Subtle or not, the collaboration is beneficial to all Cervena participants.

Structure is the final observation that I want to conclude on – the foresight to create the appellation, to structure it correctly, with external oversight and a solid funding mechanism showed the entrepreneurs of this industry, to also be great visionaries.

The clear and obvious conclusion that I reach is that Cervena is delivering value to the NZ deer farmer, while also promoting industry collaboration for a common good.

12. RECOMMENDATIONS

From the data and information that comes from this report, I propose the following recommendations;

1. Invest in your industry – consider lifting the DINZ levy specifically for investment into Cervena. A small specific increase during the favorable times should be considered as an investment in the future, so that we get to sell to the market of choice rather than the market of last resort.
2. DINZ should continue to support and promote industry investment into on-farm improvement through the advance parties and regional workshops. It is improving productive capacity within the farm gate which will increase supply and quality of the product required to meet the Cervena standards
3. Cervena as an appellation underpinned by quality assurance is a tool against disruptive technology. Do not dilute it by allowing lower value cuts to be marketed under the appellation.
4. The changing drivers in consumer decisions now reflect a social, environmental and experience based decision process, with an ever-increasing need to understand the provenance of our food, play to our strengths of grass fed and work on our on farm environmental efforts
5. Be loyal – to your supplier, processor and industry
6. Adapt to changing food trends while maintaining our high standards.
7. The farmer suppliers have a broad understanding of Cervena – they need to better understand the appellation. This will create loyalty while providing more product of the correct specification as the demand grows.
8. Preserve the value of the brands that are run in parallel to Cervena for the balance of the New Zealand production. These brands will ultimately grow with supply but also offer an outlet for our lower value cuts.

13. NEXT STEPS

The research has been challenging to apply critical thinking to an industry founded by entrepreneurs and innovators.

Further work could be undertaken with a more detailed look at the marketing strategies employed by the individual marketers both inside and outside of Cervena.

My mind wanders to thoughts of New Zealand lamb, surely this is a model to be investigated, with a view to improve the value to the farmer supplier through the use of an appellation

I deal with a variety of farm businesses many of whom do not have the same level of engagement as those I work with in the deer industry. It is a credit to DINZ for the work they have put in within the farm gate, and I will continue to play my part in facilitating the information sharing between farmers.

14. REFERENCES

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15. APPENDIX A – QUESTIONS ASKED IN INTERVIEWS

The responses are those given by the respondents in both face to face and phone interviews.

Appellation

1. How do you value the Cervena brand

- Strong Premium for suppliers
- Relationships between farmers and processors
- Market based pricing
- Quality assurance program
- Differentiation to other venison
- Collaboration in the market – not price fixing
- Loyalty providing a premium
- Investment leading to new market development.
- Market perception has changed from commodity to niche or value based product.
- It's a platform for industry to collectively market venison
- Promotes aligned behaviour
- Hard to say it generates a premium over non Cervena branded (but Cervena qualifying) product. It is never marketed together otherwise any perceived brand value is diminished
- Quality assurance program rather than a consumer brand
- The initial value was thought to be in the brand but this is more specific to the food service sector.

2. How does your business extract value from Cervena

- Changing perceptions of eating quality of venison
- Specific market for middle into US which is growing
- More cuts into the Cervena brand
- Return on genetics from breeding more animals to hit the target spec's
- Market perception of eating quality has changed which leads to better pricing and sustainable demand.
- Stability of returns
- Market of choice rather than market of last resort will provide better prices
- QA systems underpins the value and demand
- Licenced trademark which helps protect value
- Messaging to the market
- Messaging to the producers – e.g. can it be Cervena if PKE is fed?

3. Can Cervena improve/ maintain the value for all people in the value chain, if so how?

- Farm value is in the supply chain and quality assurance
- Demonstrated by lift in prices over the past 3 years
- If it is not seen as a commodity then it will hold its value in the falling market environment
- It competes in the specialist protein market which already has high prices
- I don't think the NZ farmer gets enough of the retail price at the farm gate, it's not about lifting retail price but rather improving the supply chain value.
- Requires loyalty to achieve better returns for the farmer.
- Standards allows us to tell our story and justify price
- Cervena provides more certainty of supply, quality and supports development of out of season demand
- Yes but we have a limited supply base and the market is stretched around supply

4. Is there enough investment into the brand – marketers, processors, industry, government

- Yes - \$20m initial investment from a levy fund and now levies provide most of the fund along with PGP money from government
- Yes about right – at a time when supply is tight the investment is not a crucial but when it reverses, and supply is ample then the investment will need to be more.
- No not enough as we will need to create more markets as the supply grows
- Some in market promotion done by DINZ, some joint with processors and some from PGP funds. We need more joint promotion in market \$1:\$1 with DINZ and processors
- NZ Inc would like more investment into our story telling but this is very expensive to be selling the story to the consumer.
- No we need to invest in our strategy to grow the market. Otherwise we end up in the red meat pendulum whereby price goes too high then demand drops or supply increases too fast and we have limited market options.
- c. \$750k pa is spent on market development from DINZ via levies and PGP money. Some of this investment is direct in market spend and some is spent on the basis of \$1 for \$1 with the marketing companies.
- We need to be investing in the markets now more than ever to deal with the supply growth which will inevitably arrive.
- Significant investment inside the farm gate to drive productivity will close the supply/ demand imbalance.
- We have a niche product that needs a niche spend. We don't have an industry big enough to support the investment required to market to consumers

5. Is Cervena going to help to tell a story in the face of disruptive technology (synthetics)

- Absolutely – it is our story, our provenance
- Yes if our end consumers are sitting at a top restaurant table they will not be interested in buying an animal protein synthetic
- Low value cuts should not be marketed as Cervena as these are often the easiest to replicate with synthetics e.g. Mince
- Will they worry about their health eating a synthetic in 10years time?
- Niche vs commodity – this is more reason to push Cervena
- We can demonstrate modern farming techniques, processing, environmental, and packaging excellence to maintain Cervena in the prime speciality protein market.
- Yes and it's all about the quality assurance in system, process and product that will help here.
- It provides a platform for standards to ensure quality
-

6. When compared to Zespri with their whole of industry product positioning, do you see NZ venison getting to this point? Is this a good way forward

- Yes I see more product getting branded under Cervena and whole of industry product positioning may be possible but we cannot ignore the fact that we have a strong presence in Europe not currently branded under Cervena
- Don't compare us to a round hairy fruit that essentially you pack and cut in half to eat, we have a live animal who needs to have its welfare provided for, to process it into scores of products from pelts to pizzles to offal before we get into the carcass. Then we need to market the multitude of carcass cuts into a wide array of markets throughout the world. Whole of industry positioning is much easier for simple products such as Kiwifruit or milk.
- No I think we are as close to single desk marketing as we want to get with the current structures. 5 desks selling Cervena branded product works well to differentiate product but also allows for some innovation.
- No the Zespri linkage is weak and they are not niche marketers and the product is much simpler to deal with.
- Whole product positioning is possible, but with a lot of our product not sold under Cervena appellation the desire from the processors will not be strong enough to effect the change.

Collaboration

7. While collaboration sounds good, how does it work in reality within the Cervena context

- Collaboration is working well in the marketing end of the business. It is significantly better than Beef or Lamb who over time have tried to create value by branding or use of single desk selling into some markets.
- Can we take the next step and brand our farms similar to Waitrose
- Collaboration also requires loyalty from the farmers to the processors
- Examples of multiple processors helping to fill a product order when one processor didn't have enough to meet demand
- Collaboration is better at market end than procurement, noting the law around procurement and collusion.
- Common messaging in market is valuable but not necessarily strong collaboration.
- Cervena in to Europe will test the value of the appellation and marketer collaboration will be minimal other than telling a consistent story.

8. Do you think a co-operative model helps or hinders in a collaborative marketing effort for Cervena, why

- It should help – don't want to drop standards and co-ops should be working in the best interests of the shareholder suppliers
- Better loyalty to processor due to ownership?
- Ultimately comes down to farm attitudes and behaviours
- Ownership structure doesn't matter. Value is derived from Best marketing + Best people + Efficient processing
- Co-op hinders as a corporate sees the whole picture compared to a co-op which has scale thinking and may not see the bigger picture other than their individual department.
- Other competing brands already in place and co-op's are better at processing in bulk rather than niche customised orders or product ranges compared to the smaller non co-op processors
- Co-ops have a perceived lack of marketing investment into the brand and are more focussed on investment into processing. Short term win focus rather than long term investment.
- Co-ops have big percentage of volume into Europe and will have to manage carefully the introduction of Cervena which won't be used to compete with existing product/brands.
- Non Co-op has more advantage as they can cherry pick opportunities. No major difference really.

9. Is collaboration easier now with lower supply relative to demand – what if it was the other way around?

- Yes in the market but no in procurement
- With supply greater than demand the success of Cervena relies on the following
 - Sound rules of engagement
 - Monitoring of the rules of engagement
 - Licensee's understanding the risk of removal
 - Varied terms for the licensee's
- We need to grow market with supply – back to level of investment – we need to keep this up.
- Will come down to the attitude of farmers and processors alike to hold to standards and price levels
- No it is easier to work together when the demand is slightly lower as all benefits of collaboration in market are more than undone in the procurement battle to supply our customers
- Not collaboration rather non-adversarial at this stage in the cycle

10. With collaboration at the marketing end of the business what does it look like at the procurement of stock part of your business?

- Understanding the law around collaboration is key
- It is where the blood is spilled but is also driven by the need for a processor to be efficient to make a profit and if plant efficiency drops the margins are squeezed, this relates back to your question about co-op vs corporate
- If we continue to invest into markets then demand will grow with supply.
- No discipline from processor or farmer
- Driven by space and plant efficiency
- Very tough in the current environment when market returns are good so the urge to fill plants overrides the need to collaborate

11. Can marketing/ brand development keep ahead of supply growth? What part does collaboration have to play in this?

- Yes it can but we need to maintain marketing spend to develop market.
- Yes but we need to maintain our quality standards
- Supply has shrunk and the market is growing. It is important to work together to supply the best markets who exhibit growth and loyalty to the product.
- Strong growth into US now through effort in promotion, other emerging markets such as China will support supply growth but will require a united effort as was demonstrated into the US market.
- Yes but we need to keep up the level of investment into promotion and market development so we have both a good relationship when supply/demand balance changes and we can grow volumes along the way.

12. Is there any other areas which would lead to more collaboration in the industry?

- More independent oversight into the 5 licensee's to ensure they are working for the betterment of the Cervena brand.
- Encouragement of new entrants who can produce more high specification venison to meet the growing demand.
- Eating quality and meat characteristics driven from an genetic perspective
- Last 5 years has been very good – build on that
- Dedicated suppliers to each company
- Pure market price signals – not skewed by plant efficiency requirements
- Do our farmers value their industry partners? Can we get more by working together at all levels of the industry.
- Essentially all processors are competing but there is enough common good involved that some collaboration is evident
- Cervena has withstood the test of time and changing environments and no licensee's have left so it must be providing enough value to justify the collaboration in market where required.