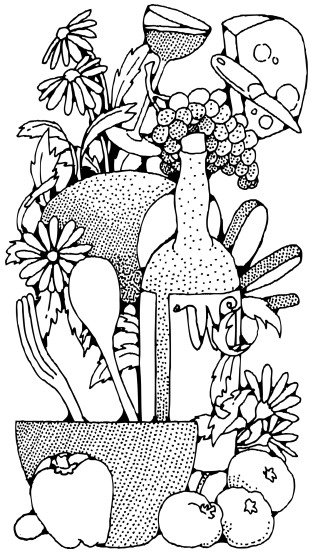
Thinking Small:

What are the Opportunities & Challenges for a Small Farming Business by Adopting a Niche Marketing Approach?



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Kellogg Rural Leadership Programme - 2016

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1 Executive Summary

Many agribusiness leaders see New Zealand as going through a transformational phase in agriculture. There is a lot of rhetoric about how best to solve the commodity cycle conundrum we find ourselves in. This 'cycle conundrum' is not new to New Zealand as we have been commodity price takers for decades and there are plenty of businesses that have done well out of this. What has changed over the past 5 years is simply the volatility in those markets which has meant less certainty for all who sit along the value chain, from marketer to farmer. There are plenty of industry leaders who talk about the need to add value, to tell our story better, to push the provenance of our products, think about our brands and to understand our customers better.

This research sought to find out what opportunities and challenges there were to small farming businesses if they were to adopt a niche marketing approach. When I looked at the world from a farmer's perspective I asked myself 'what can an individual farmer do to add value to their products when they sell them along a value chain and essentially have to take the price they are offered by their stock agent/wool buyer/account manager?' I wondered how the 'little guy' in this world of selling commodities could really make some cold hard cash and add value to their business. By digging a bit deeper it became apparent that there is a range of farmers in New Zealand who have also potentially posed that same question to themselves and their businesses and have ended up doing something about it.

A review of the literature helped guide my thinking around niche marketing in general and then how agriculture fitted into this. I then interviewed six farming businesses, five of which were small family owned and operated. Out of this research a number of themes emerged namely that there were three key factors that were a catalyst in small farming businesses choosing to adopt a niche marketing approach (financial, environmental and emotional). Other themes were based around the lack of resourcing and support available, the financial considerations in creating a differentiated product and that all businesses (with the exception of one) had at least one extravert (sometimes two) helping drive the business.

With some experts from around New Zealand offering their advice about niche/diversified markets, the discussion centred on the opportunities for farmers to really start thinking about what customers need and want before launching into adopting a niche approach. Some of the key requirements were discussed including relationship building, understanding the marketing mix, utilising regulation as an advantage and design thinking. There are challenges in going down a niche marketing route and these were discussed with respect to resources and investment requirements. All of the farming businesses interviewed showed courage and leadership in developing their niche businesses which I believe is a vital component to success.

The recommendation for farmers who want to explore whether a niche marketing approach is the right thing for their business is to first consider some key challenges that they may face. Some of these challenges include what investment is required (both time and financial), whether the people who are going to help drive the business forward have the ability to handle risk and where they are going to look in order to find sound advice and support.

Upon completion of this report, I came up with more questions than answers! This area is not well researched and I believe there is huge opportunity for more in-depth analysis of small farming businesses that have adopted a niche marketing approach.

2 Acknowledgements

- I would like to thank AGMARDT for providing me with a leadership and governance scholarship. Without this scholarship I would not have been able to participate in the Kellogg programme and so will be forever grateful to the Trustees for believing in me.

- I would like to thank my employer, Agri One, for supporting me by giving me the time off in order to do the programme and my CEO in particular, Mark Williamson, for debating the topic with me and helping me refine my thinking.

- I wish to acknowledge my fellow Kelloggers, some of whom had great ideas about who to research and were only a phone call away when I needed advice on a particular part of my research.

- Thank you to Lucy Griffiths, Mark Ward, Hamish Gow and Mike Petersen who kindly gave me their time and helped shape my thinking while I was pulling together my discussion.

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- Most importantly I wish to acknowledge the farmers who gave their time so generously to this research. Their insights and knowledge has meant that my research is so much richer and more vivid than I could ever have hoped for and for that I am grateful.

3 Introduction

"What has got you here won't get you there" Marshall Goldsmith

As societies grow in wealth around the world, more and more families have improved, diverse access and options about where and what they buy in order to provide sustenance for their families. Many factors influence the decisions they make including the price of products, perceived health benefits, how the products have been marketed and provenance of those products. For many years food and beverage businesses, large and small, have battled for market share every day both here in New Zealand and overseas.

New Zealand enjoys a popular reputation for innovative behaviour, which has been attributed to cultural values and the effect of geographical isolation. The primary sector in particular has been singled out as innovative, compared with their international counterparts (Harper, G.E. 2012). The Ministry of Economic Development report titled 'SMEs in New Zealand: Structure and Dynamics 2011', stated that SMEs in New Zealand contribute more to total value-add (30.5 percent) compared to their counterparts in the EU (21.8 percent).

Our 'number 8 wire' mentality has got us so far in terms of building businesses based around new products and services.

We have had a history of guaranteed access to markets and this, combined with our distance from key markets, has resulted in a sector which has not exhibited good appreciation of the importance and value of marketing credence attributes. This has led to a potential lack of investment in marketing diversified products, and the acceptance of commodity prices (Saunders et al, 2011). Having said this, some farmers have led the way by adopting a niche marketing approach in order to add value to their business.

There are three potential options to improve the value added of agricultural products namely:

- better positioning of existing exports in overseas markets,
- value added processing, and
- niche production and marketing (Saunders et al, 2011).

How New Zealand positions itself overseas is well researched. There is information about processors (such as Silver Fern Farms and Fonterra) and marketing companies (such as MerinoNZ and Zespri) and how they have managed to capture more value. There are also a number of additional food businesses who have captured a niche market in recent years such as UberFresh, My Food Bag and Jess's Underground Kitchen which are transforming the way we approach food. There are companies such as Ernslaw 1 who are looking at their land resource and wondering how to best utilize the spaces in between their forests. They have created a niche product in Keewai (Freshwater Crayfish) and sell these into a specific market at a specific time of the year. There are incredibly successful partnerships which have been formed in the sector such as the 'Family of 12' wineries and the Primary Collaboration New Zealand Limited based in Shanghai.

What I have found is that there is little research into niche marketing in agriculture from an actual small farm business perspective.

3.1 Research Aim

There are a number of primary sector businesses who have carved out a niche in the market, either domestically or overseas (or both). It has been suggested by Saunders (2011) that this solution will only work for farmers and small scale producers who have the time, skills and desire to personally market in this specialised manner.

Saunders (2011) suggested that due to this limitation, an increase in uptake could be assisted by providing exemplars for farmers to emulate. This research aims to research some of these potential exemplars and understand the opportunities and challenges that they have faced in their journey to date. My aim was to look at on-farm rather than off-farm activities as a way of driving revenue for the business (i.e. this wasn't about one of the partners in the family getting a job elsewhere). This research focussed on looking at the literature around niche marketing in general and whether that then translated over to the primary sector in New Zealand. There are some fundamental principles that have been suggested in niche marketing but there appeared to be little research into these in relation to successful small farming businesses in New Zealand.

3.2 Objective

There is currently no literature that focusses on NZ farming businesses and their strategies for adding value to their businesses by adopting a niche marketing approach that I could find. The objective was to create a report that could be helpful to other small farming businesses that may be looking at what opportunities and challenges there are for their own businesses.

3.3 Themes

I came to this research with a few preconceived ideas about themes that I may find. I Imagined that if a small farming business understood some key principles and followed these, there was money to be made in adopting a niche marketing approach. I defined these principles as:

- Know your customer
- Maintain supply
- Have amazing customer service leading to a great customer experience

3.4 Commodity versus Niche

This report does not delve into the literature around the idiosyncrasies of commodity markets versus niche markets and what the pros and cons are although it is worth noting there tend to be two main markets for produce in New Zealand. You can either sell through the commodity market whereby the key criterion consumers who purchase your product take into account is price. The other is niche whereby consumers have other drivers and levers when they are making their decisions, often based around their value set and ethics.

3.5 Definition of a Small Farming Business

In this context, I have defined a small farming business as a New Zealand farming operation which includes an owner/operator at the time of developing their niche business. They were all family run (with the exception of one case study which is explained on page 13 of this report) and were either dairy or drystock farming businesses. The criteria for selection is also outlined on page 13.

4 Literature Review

4.1 Niche Marketing – what is it?

The idea of niche marketing has been around since the 1970's when the research 'advised OMs (Owner Managers) to find a tightly-defined space in the market not being serviced by the larger players upon which to develop a marketing strategy' (Stachowski, 2012). Stachowski found in the literature himself that many thought that this was a good approach 'because it harnesses the ability of an SME to develop strategic advantage on the basis of flexibility and specialisation'. More specifics and what the literature says about benefits and potential problems can be found on page 9 of this report.

The United States Department of Agriculture (NSDA) define three characteristics that differentiate 'niche' farm products from others. Namely

1) Specific physical characteristics (e.g. food-grade versus feed-grain soybeans, high-oil versus standard oil sunflower seeds)
2) Physical properties proved by testing (e.g. GMO-free)
3) Point of origin (local versus elsewhere) buoyed by the 'local food movement'.

Number 3 on this list is of particular interest to businesses worldwide as social, economic and environmental factors which could have been seen as 'trends' in the past look here to stay.

There are differing schools of thought regarding how to define what niche marketing actually is and the difference between niche marketing and segmenting the market. Hammervol & Toften (2013) suggest there is no widely accepted theoretical basis for niche marketing, and there are multiple approaches to niche marketing and its operationalization. They also note that there has been no comprehensive and systematized review of niche marketing research since the work by Dalgic and Leeuw in 1994. At a fundamental level, it remains unclear whether niche marketing is a generic strategy, an applied marketing strategy or an extreme case of marketing segmentation strategy (Hammervol & Toften, 2013).

Hammervol & Toften (2013) also noted that businesses perceive the word 'niche marketing' in different ways. For example Honda perceives offering a two-door sports car as being niche while Porsche perceives such a car to be a basic product.

For this research, I have not used the popular Dalgic and Leeuw (1994) definition of a 'small market consisting of an individual customer or a small group of customers with similar characteristics or needs', neither have I used Shani and Chalasani (1993) literature where the 'marketer starts from the needs of a few customers and gradually builds up a larger customer base'.

A newer definition defined by Hammervol & Toften (2013) which takes into account a lot of the literature and whose work is the 'first comprehensive research review of niche marketing research for nearly 20 years has defined niche marketing' as

'The process of carving out, protecting and offering a valued product to a narrow part of a market that displays differentiated needs.'

This is a valid way to describe what niche marketing means in the context of this research.

Stachowski (2012) wrote 'at present managers in niche firms who are looking for published research to find answers to their challenges of optimising their marketing strategy will largely search in vain'. I certainly found it difficult to find specific literature on niche marketing within the rural context.

In Cuthbert's research (2008), he notes "Among the findings reported was the interesting observation that although niche marketing is an accepted strategy in the marketing literature as a means to adaptive change, and although the flexibility inherent in this approach is critical to the success of traditionally resource-starved small firms, it is not clear that the firms reported on in this study engaged in niche marketing as a planned strategy but rather came upon the opportunity through serendipity" (Cuthbert, 2008). This was something I was interested in in my own research as I hypothesized that the farming businesses I studied were also in the same boat as Cuthbert's although, as can be seen in the discussion part of this document, this was not necessarily the case.

4.2 Reported benefits of niche marketing

Hammervol & Toften (2013) suggest that the benefits of pursuing a niche marketing approach consist of growth possibilities, value creation and perceived value, profits, increase sales, prices and market shares, customer retention/loyalty, increase competitiveness, some degree of protection, higher purchase frequency and performance. This appears to be a substantive list and many of these benefits were touched on by the case studies researched in this report.

Shani and Chalasani (1992) literature about ideal niches is quoted in Cuthbert's (2008) research as having 5 characteristics:

1) The niche is of sufficient size and purchasing power to be profitable
2) The niche has growth potential
3) The niche is of negligible interest to competitors
4) The firm should have the required skills and resources to exploit the niche
5) The niche should provide barriers for competitors through accumulated customer goodwill

These 5 characteristics can be related to the case studies that were undertaken in this research although I believe that additional characteristics have become more important in today's society such as social factors and specialised characteristics that possibly others cannot actually replicate for example provenance attributes or genetics (creating health benefits) bred into animals.

4.3 Key success drivers

Success criteria such as uniqueness, high quality, relationships, commitment, dynamical capabilities, partial protection from competition and customer value are stated in Hammervol & Toften (2012) research.

For those businesses wishing to take a niche marketing approach Hammervol & Toften (2013) suggests there are five key areas that must be first explored as outlined in Table 1 below:

Table 1: Five Key Exploration Areas
Internal Dynamic Capabilities
The issue of developing these capabilities in order to compete is important. This is central to a lot of current strategy literature and has previously been studied in relation to both niche marketing and market segmentation.
Specialization
This is primarily related to the product knowledge and ability to create unique and differentiated products although can be applied to other areas, such as customer specialization and in combination with product specialization.
Relationship Marketing
This is based around the necessity of developing long-term, strong relationships with both customers and suppliers. Literature suggests that this has long been regarded as key to niche marketing success.
Building Protective Barriers
This is only vaguely discussed in literature but includes the barriers based on strong relationship and dynamic capabilities.
Expansion Strategies
Some literature suggests that niche companies do this, other literature suggests it doesn't. There is a possibility that expanding internationally due to relationships with others in the value chain has been an option.

Some generic advice has been given in Stachowski's (2012) research specifically regarding key lessons for SME's looking at export markets but I think that these can be translated into a domestic market as well. The advice is to:

- Standardise and specialise;
- Know your context inside out;
- Learn some marketing basics;
- Do not be a victim to the actions of other SMEs;
- Keep it simple and customer (not country) focussed; and
- Seek, develop and leverage professional relationships

There are some parallels between the suggestions above but we do need to keep in mind that there is little specific research in terms of utilising this in a primary sector context and whether the 'rules' still apply.

4.4 Problems with niche marketing

Linneman (1991) suggests that the tolerance for error is lower in niche marketing (compared to mass marketing). The need for information is much greater when looking to adopt a niche marketing approach (Linneman, 1991). He also suggested that there is almost a direct relationship between the amount of marketing information and success in niche marketing. This can make things challenging for small farming businesses looking to adopt this type of strategy due to a lack of resources in the first instance.

New Zealand's small domestic market means companies have had to export at a much earlier stage of their development than is typical for companies in other countries.

The small scale of such firms makes access into overseas markets more difficult, due to a range of factors (Saunders et al, 2011). This is understandable as the number of resources a small business can draw on is limited and the lack of scale can mean that the cost of accessing these resources (such as marketing expertise) is out of reach.

The USDA notes that 'moving niche products from farm to market is more complex and expensive than moving conventional farm products'. This is because of lower volumes therefore more expensive handling costs. I would suggest in New Zealand that there are also additional higher per-unit costs when processing unless businesses are doing it themselves as processors will charge higher rates due to the additional logistical challenges of smaller volumes. Below is a list of potential problems with niche marketing that Hammervol & Toften (2012) found that can be related to the primary sector:

- Sustainability
- Losing control of distribution channel
- Few independent distributors
- New entrants
- Pressure on prices
- Attract large customers
- Cannibalization
- Lack of market control
- Channel and product control
- Decreasing niche demand
- Slower growth

4.4.1 Porter's Five Forces

In 1979 Michael Porter from Harvard Business School created a conceptual framework called Porter's Five Forces. It is a framework that attempts to analyse the level of competition within an industry and business strategy development. It draws upon industrial organisation economics to derive five forces that determine the competitive intensity and therefore attractiveness of an Industry (https://en.wikipedia.org/wiki/Porter's_five_forces_analysis). Cuthbert (2008) suggests that a competitive environment is subject to negative impacts from all of Porter's Five Forces. This means that the individual firm (e.g. farm) has very little power in bargaining with customers or suppliers, and generally cannot prevent new entrants or the encroachment of substitute products which may be true in the case of farming businesses. When adopted, niche marketing can partially restore some aspects of control (overcoming some aspects of Porter's Five Forces) and hence in strategic terms may be risk reducing in the long term.

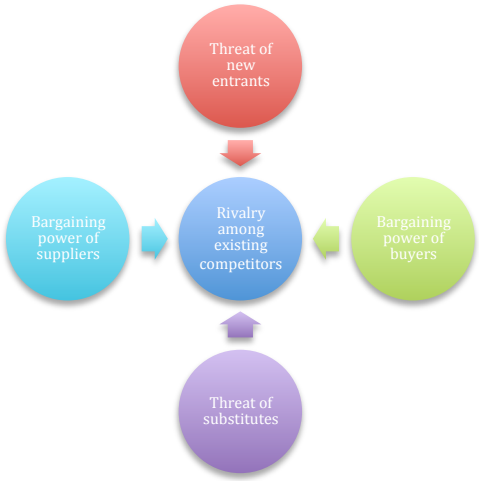


Figure 1: Porter's Five Forces, 1979

In his work Porter identified three "generic strategies;" cost leadership, differentiation, and focus that can be implemented at the firm level to create competitive advantage. With this in mind Cuthbert (2008) suggested that the selection of a focus (niche market) strategy should position the firm to leverage its strengths in defense against the negative effects of these forces. Porter's Five Forces have been around for a very long time but still stand up today as a good way of looking at strategy. With regards to the agriculture industry I see no difference in what we face except, as Cuthbert (2008) states below, we struggle with regards to perfect competition.

4.4.2 Perfect Competition

Cuthbert (2008) wrote that the tendency toward lower product prices is often found in primary industries, which in agriculture are generally represented in the literature as adhering to the parameters of 'perfect competition'. A competitive environment in which the individual firm has little control over final product price and limited power with respect to acquiring inputs and marketing products typifies this structure which is what the majority of New Zealand's small farming businesses have to accept when selling into a commodity market.

Perfect competition is a market structure in which the following five criteria are met:

1) All firms sell an identical product (e.g. dairy farmers selling milk to a factory)
2) All firms are price takers - they cannot control the market price of their product (e.g. milk processor gives farmer price)
3) All firms have a relatively small market share (e.g the majority of New Zealand dairy farming businesses)
4) Buyers have complete information about the product being sold and the prices charged by each firm (e.g a farmer can check out the end price of their product at a supermarket) and
5) The industry is characterized by freedom of entry and exit (e.g a farmer can choose to exit the industry as and when he/she pleases)

http://www.investopedia.com/terms/p/perfectcompetition.asp#ixzz47ZljbOmt

4.5 Significance of agriculture in niche marketing

It has been suggested that niche marketing is an important way that a few farmers can level value added by targeting niches within the domestic market such as restaurants and/or farmers markets (Saunders et al, 2011).

The 2015 KPMG Agribusiness Agenda touched on a number of key points around the concept that creating a high-value New Zealand primary sector is not simply a pipe dream. It is truly achievable if more companies are prepared to adopt a can-do mind-set and view the world from the market back rather than the farm forward.

The Agribusiness Agenda also suggested 'little progress has been made in realising incremental value driven by the attributes of our products, customer relationships, innovation and branding. There is also a perceived lack of understanding of what is required to market products effectively in our rapidly changing world; and a sense of comfort from leaving a third party to deal with the complexities of handling customers'.

Mandi McLeod (2009) wrote about the 'Mission Impossible' for farmers of today. That is to: Increase food production but also

- reduce our carbon footprint irrespective of what this really means and how it is measured
- AND reduce our reliance of fossil fuel despite having no viable alternatives;
- AND reduce our impact
- on the environment, especially greenhouse gas
- emissions from livestock;
- AND use less water
- AND do it cheaper but remain in business (McLeod, 2009)

Stachowski (2012) noted that SME's were characterised by 'having a small market share, being managed by someone who commonly has little or no formal business training, having independence from a conglomerate and often employing a personalised, sometimes participatory, management approach'. These characteristics are very common in small farming businesses in New Zealand.

The 'distinguishing characteristics of special quality markets, and particularly the role of new social movements in their construction, are now being extended to the marketing of basic food commodities. Rather than a return to the commodity economy, therefore, we are witnessing a struggle to incorporate the values associated with fair trade, organics, and sustainability as benchmarks for global commodity trade in food, feed, fuels, and forestry products' (Wilkinson, 2010). I certainly feel that these benchmarks based on social values that are intrinsic to who we are have driven some of the decisions around how best to adopt a niche marketing approach which is based more on customer drivers and is touched on later in the results and discussion part of this research.

We see this here in New Zealand with savvy consumers wanting more so than ever before to know that their products line up with the values they hold dear.

Niche marketing is also discussed in the context of strategic planning. A review of the literature establishes the premise that niche marketing is identifiable as a strategy, is separable from other mainstream strategies, and is a viable alternative for small and medium sized enterprises based in the agriculture and agri-food sectors of the economy (Cuthbert, 2008).

There is a range of views given in the literature about how best to create a successful niche. However, there is also support in the literature for the view that many very small agricultural enterprises, including some single farms and small processors, are required to form alliances in order to obtain the resources required for innovation and product development and also to access potentially more stable markets and even niche markets (Cuthbert, 2008). This can be seen in evidence in the New Zealand market with the likes of a number of my case studies having formed alliances with other farmers in order to not only meet supply but also create a more stable supply chain.

In summary the literature around niche marketing in general is relatively wide and varied especially from an SME perspective. There was very little information regarding the utilization of a niche marketing strategy within small farming businesses and therefore it was with great interest that I launched into my research.

5 Methodology

In 2011 the then Ministry of Economic Development described New Zealand as a country of small businesses (SMEs), with 93.8 percent of all enterprises employing nine or fewer people. SMEs in New Zealand are defined as enterprises with 19 or fewer employees (Ministry of Economic Development, 2011) and this is where I focussed my attention. There is a particularly high percentage of SMEs in agriculture, fishing and forestry (98.9 percent).

5.1 What is a small farming business

In this context, I have defined a small farming business as a farming operation which includes an owner/operator at the time of developing their niche business. This applies to the case study businesses that were used in this research. Having said this, one business I talked to (Drystock 4*) did not end up fitting my criteria for this research due to the fact that it was more focussed on a range of shareholders who have bought shares in a trading company that was then creating a niche product to sell to market through a processor who does the marketing. Even though they did not fit the above criteria, the opportunities and challenges that the CEO spoke to me about were similar to the other farming businesses and so I have kept some comments in although have referenced them all as Drystock 4*.

5.2 Approach

A case study, qualitative approach was taken with six farming businesses. This seemed the most appropriate methodology as I was asking 'why' and 'how'. I used a thematic analysis using a deductive approach. This analysis was used because I already had some preconceived ideas which were theory-driven. I wanted to investigate a range of end products that have come from what could be described as 'similar' farming enterprises. In this I mean they all fitted within the criteria outlined within Table 2 below. The interview question template I used can be seen in the Appendices under 14.1. I did not feel that there was a bias in my research as I did not know any of the businesses personally before I commenced this project.

Table 2: Criteria for Selecting Case Studies

Criteria	Reason
Located within New Zealand	Giving national context
SME status	Independent of 'head office' influence
Chosen to diversify products	Defines the sample
Family owned operation	To give comparison across enterprises to enable themes to emerge
Drystock or dairy operation when adopting niche approach	Defines the sample

Table 3: Summary of Case Studies

Case Study ID	Location	Niche strategy age	Product	Markets
Dairy 1	South Island	3 years	Wholemilk	Local/Regional
Dairy 2	North Island	30 years	Organic products	Nationwide
Drystock 1	North Island	4 years	Beef	Nationwide
Drystock 2	North Island	6 years	Lamb	Nationwide/International
Drystock 3	North Island	6 months	Goats Cheese	Local/Regional
Drystock 4*	South Island	10 years	Lamb, Rams	Nationwide

6 Results

The key themes and findings from the six qualitative interviews are outlined in this section. Direct quotes from the interviewees have been used to illustrate key points.

6.1 The Catalyst

I was interested in understanding from farmers the reason why they had chosen to go down a niche marketing path rather than stick with the status quo. The majority of the farms sighted financial constraints in some way, shape or form as a key reason for having to start thinking about alternative ways of marketing their products. Some felt a sense of frustration at the situation they found themselves in at the time and yet for others there were new regulatory frameworks being put in place which put pressure on the business to make any returns in a new compliance environment.

Table 4: Main Factors Affecting Decision Making

Case Study ID	Financial	Environmental	Emotional
Dairy 1			X
Dairy 2	X		X
Drystock 1	X	X	
Drystock 2			X
Drystock 3	X		
Drystock 4*		X	

6.1.1 Financial factors

Some case study farmers were struggling to make ends meet and were forced to think about how they could become more financially stable which became their main catalyst for looking at a new approach to their business.

'Old traditional methods of farming didn't make the property economically viable so we had to start looking at different ways to bring in income'.
This particular couple had seen severe drought in the region over the past few years and had looked at the cost of putting in irrigation and the numbers simply did not stack up so they had to look at alternative sources of income.

'We didn't like the inputs we had to use on-farm in order to make money. We were struggling financially so something had to change. It was also partly due to our values and not wanting to continue to use inputs'

One farmer was completing his MBA around modelling nitrogen and looked at six farms in his area and basically the results were a *'sobering piece of evidence to cause the family to think about things a lot'* The upshot of the modelling was that basically all farms would be technically insolvent within 10 years if they kept doing what they were doing with the nitrogen cap that was about to be placed on all of the properties.

Some of the reasons for being financially constrained came from some farms simply not being big enough to be economically viable units any more. This can be seen by the number of smaller farms over the past 20 years being bought by neighbouring farms or corporate ventures. I went looking for evidence of this statement and Statistics NZ census data shows that the number of farms as at 30 June 1995 was 68,776. By 30 June 2012, this had decreased to 58,068. DairyNZ data in Table 4 also shows the amount of herds going down yet total cow numbers increasing dramatically over the past 40 years.

Table 5: Herd and Cow Numbers Over Time

Season	Herds	Total Cows
1975/1976	18,442	2,091951
1985/1986	15,753	2,321,012
1995/1996	14,736	2,935,759
2005/2006	11,883	3,832,145
2014/2015	11,970	5,018,333

6.1.2 Environmental factors

In terms of environmental factors influencing decision making, I am speaking about external influences outside the control of the farm itself. The external environmental factors I came across in the interview process included:

- a change in weather patterns with more droughts and no way to feed animals.
- regulation from regional councils meaning a cap on how many animals could be farmed.
- generally being stuck in a model whereby farmers simply had to take what was paid to them at the end of the day because market forces were dictating the price.
- Drystock 4* also noted that they were being pushed into the hills with their sheep breeds due to the dairy boom in their area which meant a change had to occur. In their case, it was a change in genetics to produce a more appropriate sheep for the land type.

6.1.3 Emotional factors

You can be the most logical and rational person in the world but there can still be emotional factors that come into decision making in any business and is a factor that needs to be taken into consideration. This factor was found to varying degrees in most of the case studies bar Drystock4* which is not unexpected as this was not a small family farming enterprise therefore there were different levers that drove their original decision making.

'The pattern in the meat industry had been disillusioning. There was no continuous thread of relationships being built and strengthened. This led us to look at doing something different'

One farmer said that the cooperative he was supplying *'got him fired up'.* He felt that they were going down the wrong track for various reasons and he didn't agree with this therefore thought he wanted to try and add value to his products after what he had seen when on a trip to Europe.

One farmer said that she became disillusioned after years of drenching and spraying and had researched alternative methods from America that meant there was possibly another 'way' to farm.

All of these statements came from an emotional place rather than necessarily a rational, commercially sound one which shows how important the 'why' is in what these businesses wish to achieve.

6.2 The Status Quo

It may have seemed to be an obsolete question asking farmers why they didn't stick with the status quo after asking them why they had first adopted a niche marketing approach. The results showed a mixed bag of reactions to this question.

"There was not enough stimulation. We had the same annual farming cycle and had been doing the same thing for 18 years and it was refreshing to have a new challenge and it was stimulating working with other farmers and getting satisfaction out of the value."

This surprised me as I hadn't anticipated such an answer. Other farmers gave more pragmatic answers namely economic reasons (due to drought, having multiple family members wanting their share of the farm, nitrogen caps meaning less animals being able to be farmed), financial and emotional.

One farmer stated:

"I felt we needed to get into value add and I could go back to what I already knew having been chairman of a milk company long ago when a number of farmers had their own factory. I felt we should go back to what we used to do as it was a profitable business back then."

6.3 Resourcing and Support

During my literature review it appeared that there were a range of resources available for Americans in particular through the United States Department of Agriculture (USDA). I wondered what resources and support my case study farmers had been able to utilise during their transition into marketing a niche product. It's important to note when these transitions occurred as this may have constrained what resources (externally) were available at the time hence how I have laid out the results below.

- **30 years ago.** Dairy 2 had little resources to draw from, especially as they were seeking information about producing organic milk which was frowned upon at the time. They had a friend who had done a course in the United States where a lot of the knowledge about biodynamic methodology had come from. There were some books that were available at the time but with only one other practising organic farm in New Zealand 30 years ago, it was more of a 'practise makes perfect' model.

- **6 years ago**. Drystock 2 said that they had very little support and had to do everything themselves. There was really no one to help as there was no model to follow. They bought in a branding specialist who helped them with their packaging and have had numerous discussions with Beef & Lamb NZ although nothing at all to do with the Ministry for Primary Industries (MPI).

- **4 years ago.** Drystock 1 asked around for advice but *"everyone said we couldn't do it and so we stopped asking!"* This particular farming couple had backgrounds in education and marketing which helped them a lot.

- **3 years ago.** Dairy 1 did not utilised MPI at all. They had some technical support and contracted in an experienced Chief Financial Officer who brought a wealth of experience.

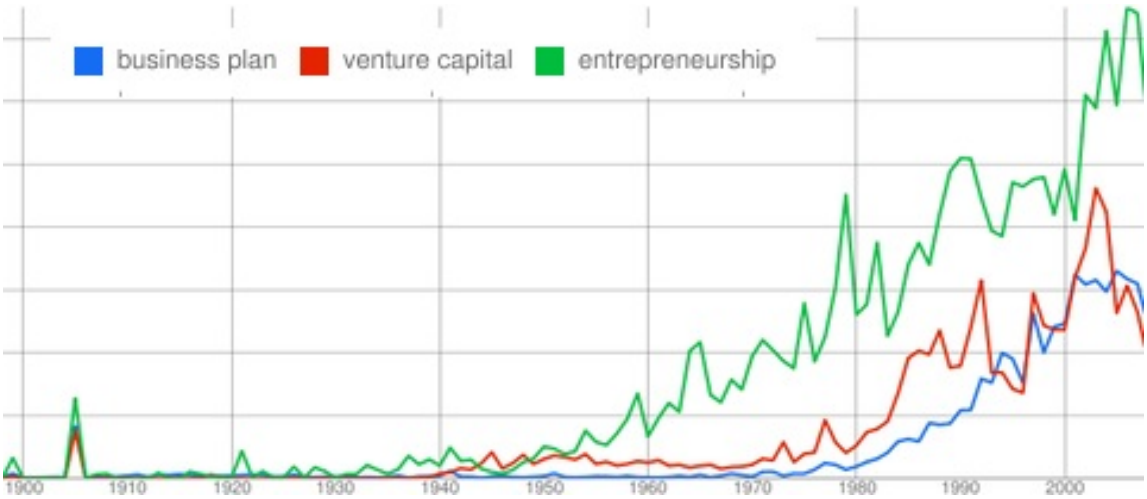
- **6 months ago.** Drystock 3 had a lot of family knowledge about goats which helped in the adopting of their niche marketing approach. The farm had once had goats on it and therefore the older generation had a wealth of knowledge and history to help support the decision making that was required.

  They also did a lot of ground research through the internet and sought out advice from MPI. The NZ Dairy Goats Association also had some valid information. The NZ Cheese School has also been helpful in not only learning to make cheese but also how to set up a cheese making business.

6.4 Business Plan

Three of the five farmers surveyed had some form of business plan when they started out. Some of these were fairly loose, others were more structured. Of the two that did not have business plans, one still had an idea of the structure and components required in order to make it work. Dairy 2 who started 30 years ago did not have a business plan which in itself is not that surprising as the language of business plans had not yet come along as seen in the graph below sourced from http://timberry.bplans.com/a-short-history-of-business-plans.html

Figure 2: Relative use in books, from 1900 to 2008, of the terms "entrepreneurship," "venture capital," and "business plan."



6.5 Measuring Success

When farmers chose to adopt a niche marketing approach, my initial assumptions was that they would measure success by looking at the bottom line. Only one farmer straight away said 'consistent profits' when asked this question. The fact that this was Dairy 1 and had been around for the longest of all case study businesses may have been telling. Dairy 1 also noted that for them success was about resilience, ensuring continued optimal animal welfare and being able to offer full time employment to staff year round. Other comments included:

Drystock 2: *"Happy suppliers and happy customers. And looking to get into a meaningful scale"*

Dairy 1: *"Delivering a good product. To be profitable"*

Drystock 1: *"Still being alive! The fact that we are coming into our 7th year. We have managed to supply everyone we have committed to supply. We have grown turnover and business throughout the North Island and are now starting to partner with key players. The idea was not to make money for one family but to test a concept. We won't consider ourselves to have been completely successful until we can get profits back to the farmers that counteracts the cost of the new legislation imposed"*

Drystock 3: *"We went to the cheese awards and got 3 silvers and a bronze when we were brand new. Seeing our product on the shelves"*

Drystock 4*: "*Getting everyone on the same page. Getting everyone to understand what we are trying to achieve. Everyone aligned and we are seeing results from our efforts. Being focussed on the end goal."*

6.6 Product Differentiation

In asking the case study farmers how they were differentiating their product in the marketplace I wanted to understand what they thought their Unique Selling Proposition (USP) was. There was a general theme across the case studies whereby they were all telling a story of some kind. Whether it was about flavour, health, provenance, family, animal welfare or supporting the environment, they were crafting stories to tell their end consumers and give them the confidence that the product they were buying was a little bit special, a little bit unique and was worth the price they were paying for it. The USPs my case study farmers described were:

"Seeing our product right through. The story behind the brand. Paddock to plate. Family farmed and operated." Their competitive advantage was also in being within an hour of Wellington which meant their produce was deemed to be 'fresh and local'. Also being able to play the provenance card which had been which had been a brand in itself built up over the past 20 years with the introduction of vineyards into the Martinborough region where this farming business is based has been an integral part of the storytelling.

"Moral and social obligation about water. There is a green element to buying our meat. We are animal welfare people. People are concerned about their health. Being grass fed with no antibiotics, no growth hormones and no palm kernel (PKE). It's also about how we process, age and package our product which we have done a lot research on"

"Home deliveries. Using a mixture of vending machines to sell our milk and cafes and having concentrated on those. Supplying local companies such as cheese and gelato makers"

"The unique part is connecting customers to farmers. It's not a processor driven brand, rather a farmer driven brand. There are also intergenerational farming families who are part of the business" This farming enterprise has its own unique tag-line which differentiates it from any others in the market and defines its USP.

6.7 Quantifying Niche versus Status Quo

I wanted to understand whether the case study farmers had been able to quantify whether it had been worth adopting a niche marketing strategy versus sticking with the status quo. I suspect my question was not very well put as these were the answers I received:

"Higher return for every lamb sold. Over time building value in the brand"

"Absolutely. The biggest one is the interaction with the customer and being able to get direct feedback and they can tell us what we should be doing e.g. stop feeding PKE. Over 500 schoolchildren have come on to the property and we can show kids where the milk comes from. We also take cows and calves to school. We get closer to our customers"

"In one sense there have been no benefits. If I was your investment manager I would say 'ditch the brand and play the market'"

Drystock 3 who are only six months old said it was hard to say due to the set up costs but their plan was that the farming partnership would buy the milk per litre off the fledgling setup therefore next season they hoped to be able to quantify this.

6.8 Challenges

The farmers researched in this report had the following to say about the challenges that they faced:

"developing a niche is very difficult and takes a lot of time. You can gain a premium at the retail level but you can't get all that back to the farmer. We have achieved a lot in terms of establishing the brand but not in terms of cash. Getting rid of the rest of the carcass is key to getting a premium"

"learning how to do it with no one really to help. How to make a profit. How do you convince people that your product is better than someone else's? It's a challenge to continue to get the story out there. We have lost in the fact that everyone thinks we are now a big corporation which we are not!"

"lack of technical knowledge in New Zealand. Labelling laws have changed and ongoing lab costs for example are horrendous. The sheer cost of compliance is huge and the system in New Zealand has been designed for a large processor not a small one which has huge constraints on what we can achieve"

"we take a pragmatic farming approach to it where you like everything to be cash flow positive. You need to be really passionate. When you are up against someone without those qualities it's easy to become disorganised and sloppy. All meat companies have tried to quash what we have done. You would expect innovation but it's just been undercutting. If you are not a branded product you have no other mechanism except competing on price which is not going to increase shareholder value"

"Our biggest challenge is cash. You need money for marketing and advertising but we are looking to use different channels such as social media. It is hard to know which pathways to take and which are worth it. The time it has taken has been huge. After hours and late at night to make it work."

*"Expectations – farmers think it will happen tomorrow. Takes longer, costs more." Drystock 4**

The main themes found were cash flow issues, lack of knowledge and expertise that was available in order to help give advice and support and the sheer time it has taken to get the venture off the ground.

6.9 Vision for the Future

The last question I was interested in was where these farmers saw their businesses going in future years. It was fantastic to hear the enthusiasm everyone had for the future, even if things were fairly tough at present. Some of their visions were big, hairy and audacious which was really encouraging to hear.

"Le Cordon Bleu cooking school visits. Booked tours. To increase production and to get into more markets. To promote our product and the benefits. To become a weekly on the shopping list. To be niche and also be commodity. To pay back into the partnership."

"Look to sell shares in the brand to processors and farmers. Like to be the leading lamb brand in the world"

"Model a business approach and business model that could apply at scale"

"To have a really great relationship with the consumer and have a very successful dairy by looking after the cows and turning the milk into a range of products"

"Successful succession. Which for us (the older generation) is away from growth and into consolidation"

"To maintain our position as a leader in lamb genetics. To be at the innovative end of lamb production. To be the industry leader in terms of bringing innovative lamb products to the market." Drystock 4*

6.10 Extrovert versus Introvert

I asked all case studies (minus Drystock 4*) to put both themselves and their spouse on a scale of 1 to 10 with 1 being highly extroverted and 10 being highly introverted. Carl Jung (1875-1961), who was a Swiss psychiatrist and psychotherapist, popularised the terms 'introversion versus extroversion. Popular theory suggests we are all somewhere on a continuum rather than just one or the other. www.dictionary.com describes an introvert as *'a person characterized by concern primarily with his or her own thoughts and feelings'* while an extrovert is *'a person characterized by extroversion; a person concerned primarily with the physical and social environment'*.

Table 6: Farmer and Spouse and Where They Sit on the Continuum

Case Study ID	1 (Highly Extroverted)	2	3	4	5	6	7	8	9	10 (Highly Introverted)
Dairy 1 Interviewee					X					
Dairy 1 spouse			X							
Dairy 2 Interviewee			X							
Dairy 2 spouse							X			
Drystock 1 Interviewee			X							
Drystock 1 spouse	X									
Drystock 2 interviewee							X			
Drystock 2 spouse								X		
Drystock 3 interviewee			X							
Drystock 3 spouse								X		

Besides one outlier in Drystock 2, all other businesses had at least one person who sat fairly high on the extraversion end of the continuum. See page 27 for more analysis of this data. Note: This analysis was done by the farmers themselves rather than using a form of personality testing methodology so the results are not grounded in research.

7 Discussion

"Necessity is the mother of invention" Proverb

Adopting a niche marketing approach can be a difficult, complex process in the first instance and requires a certain type of person to drive the business forward. By finding out how and why farming businesses were able to create a niche for themselves, I thought that there was an opportunity to share some of these insights with other farming businesses. I imagined some key themes might also emerge and was interested in whether what the literature had to say on niche marketing in general actually translated over to a small farming business in New Zealand.

Throughout this research I have kept in the back of my mind my theory around whether, if a small farming business understood some key principles and followed these, there was money to be made in adopting a niche marketing approach. I defined these principles as:

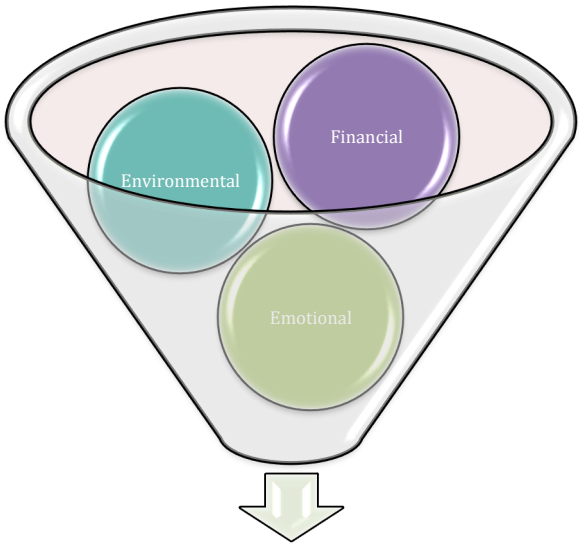
- Know your customer
- Maintain supply
- Have amazing customer service leading to a great customer experience

As a result of my research and the insights I have gained, I believe it is more complicated than what I have stated above. Customers are becoming much savvier in their purchasing decisions not necessarily based solely around price.

Only this month (May 2016) an article online really cemented in my mind what we have to strive for with our diversified products. “Only the foods that adapt to consumers’ evolving on-the-go, better-for-you, better-for-the-world and story-telling lifestyle will thrive” (http://theglobaldairy.com/noticias/future-of-milk-you-cant-run-the-dairy-like-your-grandfather-did-46645/).

From the research that I have done, I have concluded that there are a range of factors as to why farmers have chosen to look at adopting a niche marketing approach. They tend to fit into three categories; Financial, Environmental and Emotional. More often than not it was a mixture of these three that were the real catalyst to drive farmer’s behaviour. I have outlined these below.

Figure 3: Factors Affecting Decision-Making



In most cases these farming businesses absolutely had to look at different ways to get more value from what they were producing as their current model was not sustainable and a new approach was required in order to survive. As the proverb states, *'necessity is the mother of invention'* and great innovation and thinking outside the square often arises when your 'back is up against the wall'.

7.1 Opportunities for farmers

7.1.1 Relationships

One key theme that came out from the case study farmers was the need to build strong relationships with other parts of the value chain. A lot of these businesses had 'stuck their neck out' when they first looking at doing something differently. Many received very little support for the ideas they had therefore building positive business relationships was vital. For some farmers, it was years before they were able to build up a positive enough relationship in order to grow the business (for example a meat processor willing to take on a contract).

These relationships were varied but included:

- Meat processing plants
- Marketing companies
- Supermarkets
- End consumers
- Regional councils (by way of getting sign off for best practise)
- International agents
- Other farmers in order to add scale

The art of relationship building can be incredibly time consuming but I believe it's fundamental to good business. When times are good and everyone is making money businesses may not see relationships as quite so key to success but when you are in survival mode or wanting to take a risk to grow your business, knowing you can have those sometimes difficult conversations with others in a respectful way is so absolutely vital. In my mind it doesn't matter where you sit on the introvert/extrovert continuum, being able to communicate and respect one another's sometimes differing commercial views and come to an outcome that is positive for both parties is the only way a business relationship can continue.

Having spent time living in China recently and attempting to do business there, the concept of 关系 (Guanxi) underpins every business relationship in Chinese culture. Guanxi (relationship) comes well before any business dealings are done. You simply cannot do business with a Chinese company until they feel comfortable about who you are and what you stand for. This is often sought out through the eating of food and the drinking of alcohol therefore, even with all of our advances in technology and the ability to Skype, email and utilize social media; nothing beats a face to face conversation if you want to do business in China. New Zealand does not hold 'relationship' in quite so high esteem but it is certainly worth noting that you must understand different cultures (and therefore different value sets) when attempting to build business relationships.

Lucy Griffiths, one of the experts I spoke with, talked about the need to 'be good producers AND love consumers in order to be successful'. A lot of these farming businesses are communicating directly with the end consumer via in-store supermarket displays or at farmers markets. To be able to communicate with your customer face to face, it takes a certain type of person. They have to be passionate, engaging, trustworthy and eager to learn from their potential customers. I would suggest that for someone who is more at the extroverted end of the continuum, this is more of a comfortable space than for someone who is more introverted by nature. I am not implying that introverted people are any less trustworthy, they simply tend to internalise more of their thoughts and feelings which make them harder for others to read. In a case of interacting with potential customers, this can be overcome but it's not a natural disposition for an introvert.

A small farming business must look at its resources and decide who is best for what role. If you cannot find a person in the business to be front facing the consumer, you may need to look outside the business and buy in that expertise.

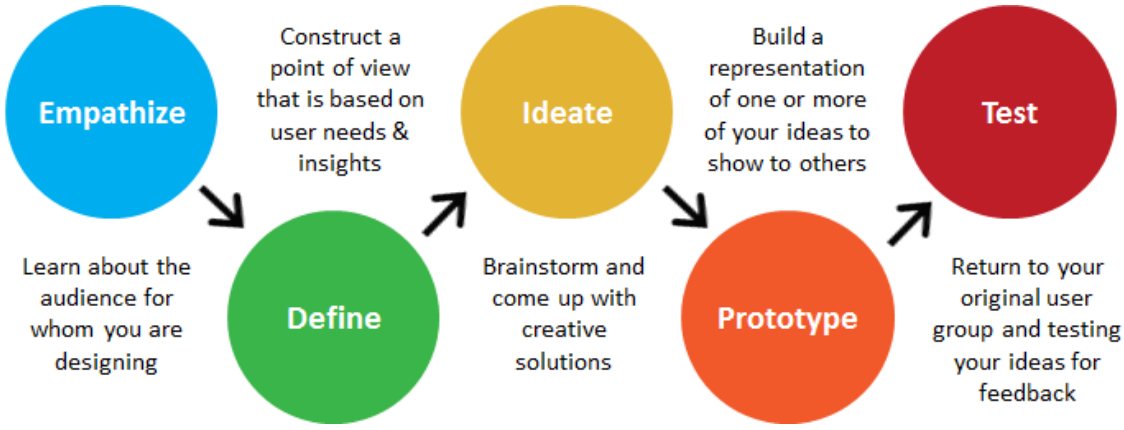
Most businesses today started off small. Their ability to partner with others allowed them to expand and grow. Whether it has been via the creation of co-operatives, farmers partnering directly with other farmers or developing equity partnerships, the success (or failure) of these ventures depends on the level of trust that is created and this occurs through communication and building a positive, healthy, respectful business relationship.

7.1.2 Design Thinking

KPMG's Agribusiness Agenda 2015 noted 'value creation grows exponentially as you get closer to the consumer'. There is an opportunity for farmers to get to know their potential customers better and produce a product that aligns with what the end user desires. This helps in driving success for a small business. The objective needs to be that they can position their products in such a way that customers can both understand and respect the uniqueness of the product. Otherwise, with all of the options available to consumers these days, they will look elsewhere to have their needs satisfied.

This is where design thinking could help support small farming businesses. The idea of design thinking has its roots in the sciences and was first written about in the 1960's in Herbert A. Simon's book *The Sciences of the Artificial*, and in design engineering to Robert McKim's 1973 book *Experiences in Visual Thinking.* (https://en.wikipedia.org/wiki/Design_thinking)

The fundamental elements of design thinking are:



Source: http://www.irdg.ie/design-thinking/

The key concepts are based around first talking to your potential end users, then finding patterns in that discussion which will allow you to look for opportunities, defining your principles around these, creating of plenty of rough prototypes and finally relentlessly tweaking and developing your concept.

This type of approach has been used by some farming businesses possibly without them really realising it. This came across with the case study farmers when speaking to them about their USPs and what the future held for their businesses. Creating a product that customers loved was high on the agenda and what drove these businesses to continue to engage with customers in supermarkets, farmers markets and/or at the restaurants they supplied. This is a good place to start in terms of finding out how to go about adopting a design thinking approach if you were a small farming business looking to get into a niche product. I believe it is absolutely key to being successful and in the 'Expert Opinion' part of this report (Appendix 11.3), all four experts stated the need to really understand what customers want from you.

There are some good resources online about design thinking. See page 31 for more information about who can help within New Zealand.

7.1.3 The Marketing Mix

Having worked in the marketing profession for 15 years, the 4 P's of the marketing mix are part of what I think about when developing marketing and business plans. They have been well researched and utilised by marketers over a number of years. The 4 P's of product, price, promotion and place are important for niche businesses when looking at how to produce the right product at the right price through the best channels to the correct place. For small farming businesses it can be a good tool to think about where you want to 'live' in terms of what you are trying to achieve with your products. If farmers are not familiar with this tool, it can seem unnecessary and foreign but it was interesting to note that some case study farmers did bring in outside expertise to help with this part of the business although I did not define a particular question around this.

Figure 4: The 4 P's of the Marketing Mix

Areas of consideration under the 4 P's would be (but are not limited to):

Product: Size, cut, fresh/chilled/frozen, long-life, organic, 'natural', GMO-free, high fats, lean cuts, certain health attributes (e.g. amount of omega in meat)

Price: High end? Competitors pricing?

Promotion: Storytelling, traditional advertising routes, social media, celebrity endorsement, word of mouth, advertorials, press releases, TV, radio, events, sponsorship

Place: Supermarkets, restaurants, artisan grocers, farmer's markets, local/national/international, top/middle/bottom shelf

To illustrate the power of the marketing mix tool, I have gone in-depth into the 'Promotion' part of the marketing mix to illustrate some of the decisions that a small farming business would need to consider.

1) **Word of Mouth:** We often talk about New Zealand and the 'two degrees of separation'. The entire New Zealand population would fit in one suburb in Shanghai! With this in mind, word of mouth communication based on positive customer experiences is key to these businesses continuing to develop and grow. This was well utilised by all case study farmers.

2) **Communication:** Understanding the unique brand attributes of the product you are selling is also essential. All of my case study farmers were able to articulate what made their product so unique. Some of this was articulated by hard science, especially Drystock4* who had spent considerable time and effort researching the science behind the quality and attributes of their lamb. For others it was more on the story-telling, provenance side of the spectrum. Both are valid so long as you can communicate what those attributes are and your customers can relate to them.

3) **Social Media:** With the advent of social media, some case study farmers were fully utilising this platform as a relatively inexpensive means of being able to promote their product. Social media such as Facebook allows small farming businesses to choose who they target with their product rather than traditional media which doesn't give such a defined focus to the target market. For example, you can put an advertisement into Kia Ora magazine which has a loosely defined market as *'a publication for people with an appetite to travel and enjoy the best things in life'* (www.bauermedia.co.nz/brands/kia-ora/). A full page advertisement in Kia Ora will cost approximately $18,000. Another option is to advertise your product through Facebook using specific criteria such as location, age, gender, 'like's' for around $30 per day. This can mean you cut out a lot of the 'waste' in terms of really honing in and only targeting those customers who fit your tightly defined segment. This is crucial when marketing a niche product as your target audience will be small and should be well defined so that you do not waste time and money. As one case study farmer put it *"it's hard saying no to pushy sales reps and difficult to know which pathways to take and which are going to be worth it"*. A number of niche business in New Zealand use social media as a means to promote their produce and then push people to their website where you can buy online. Two examples in the primary sector are Eketahuna Country Meats @EketahunaCountryMeats and Lake Farm Beef @lakefarmbeef.

7.1.4 Regulation and using it as an advantage

The old adage 'what got you here will not get you there' is so true for many New Zealand businesses. As one case study farmer found, with regulations being forced on them, they had to "change or die". As new regulations are imposed and customers demand to know more about where their products are coming from, farmers will have to adapt in order to make their business work. New Zealand's standards in our processing and manufacturing plants have a reputation for being world class which helps us leverage our products and differentiated brands when taking them to the world. This high standard of quality assurance, safety and regulation is one of the positive stories that can be told by farmers about their products.

Europe's independent certification system, GLOBALG.A.P is a good example of an initiative which is helping support customer expectations at one end and is able to be leveraged by farmers at the other.

GLOBALG.A.P. began in 1997 as EUREGAP, an initiative by retailers belonging to the Euro-Retailer Produce Working Group. British retailers working together with supermarkets in continental Europe became aware of consumers' growing concerns regarding product safety, environmental impact and the health, safety and welfare of workers and animals. Their solution was to standardize their own standards and procedures and develop an independent certificate system for Good Agricultural Practice (G.A.P.) (www.globalgap.org).

New Zealand Gap is New Zealand's Global Gap benchmarked independently audited programme that is a requirement for growers who want to gain access for their produce into Supermarkets. It is an assurance to the consumer and the supermarkets that standards are being met relating to food safety, health and safety, agrichemical use and the environment.

It ensures best practices are in place for the production, packaging and distribution of New Zealand fresh produce, and reduces the risk of health, safety and environmental issues - so customers can buy with confidence (www.nzgap.org.nz)

This type of 'regulation' could be embraced by the dairy and sheep and beef sector and seen as a mark of reliability and one of quality. Some large businesses already have their own standards such as Synlait's *Lead With Pride*™ programme but there is nothing yet at the industry-wide level customers can understand and relate to. Such a system needs to be internationally recognised and independently audited. It is no use the industry auditing itself as this lacks transparency and credibility. In order to differentiate our products we must be prepared for audits to confirm we are 'doing the right thing' to meet consumers and market expectations. Herein lies a big opportunity for New Zealand.

7.2 Challenges for farmers

One of the most important questions I asked the case study farmers and sought in my literature review was 'what were the challenges in adopting a niche approach'? The farming businesses have shown a huge amount of resilience in order to make their unique businesses work. Some key themes came out of my research were only vaguely similar to what Hammervol & Toften (2012) found in identifying some of the potential problems in niche marketing. As per page 10, the problems were listed as:

- Sustainability
- Losing control of distribution channel
- Few independent distributors
- New entrants
- Pressure on prices
- Attract large customers
- Cannibalization
- Lack of market control
- Channel and product control
- Decreasing niche demand
- Slower growth

The challenges these farming operations came up against didn't necessarily fit the paradigm of potential challenges as outlined in my literature review. Two key challenges not stated above are outlined in more detail on the next page.

7.2.1 Resources

I believe the lack of support (or certainly a difficulty in finding resources) is a real challenge for farmers looking at adopting a niche marketing approach. Most farmers don't have marketing and/or consumer research experts in their family.

They may not necessarily know where to go to get good sound advice. These people have been courageous and looked outside the standard paradigm which can be uncomfortable for peers and their communities so they haven't necessarily had a huge amount of support locally when mooting a new idea. Industy and our Government can do something about this by communicating better with farmers about what resources are available to new start-ups. See Appendix 11.2 for some links to resources in New Zealand.

7.2.2 Investment Requirements

'Most organisations adopting value add strategies fail to meet their return expectations because they do not have the culture to deliver what they hoped to achieve. Our work suggests that too often companies underestimate the investment required to successfully grow value. Significant time and money needs to be invested into a range of intangible value drivers.' (Proudfoot, I. KPMG Field Notes, 11 May 2016,). In section 11.3 of the Appendices, Hamish Gow, Director of Business, Innovation and Strategy at Massey University also noted that New Zealand farmers haven't naturally wanted to invest in intangible assets (such as marketing) in the past.

My case study farmers noted that it takes longer and costs more than what originally thought when attempting to adopt a niche marketing approach. The above statement by Ian Proudfoot, Global Head of Agribusiness at KPMG was aimed at businesses attempting to add value in general but niche producers will face the same challenges.

Most of the case study farmers interviewed had bankrolled their niche venture with cash from other parts of the business. I got a sense that they were not keen to look outside the farm gate for investors in the business although this was only touched on during the interviews and more research in this area would be very valid.

7.3 Leadership

Kouzes and Posner (2012) who have been researching leadership for 25 years conclude in their well documented research the following:

'Leadership is inextricably connected with the process of innovation, of bringing new ideas, methods, or solutions to use. The study of leadership is the study of how men and women guide others through adversity, uncertainty, hardship, disruption, transformation, transition, recovery, new beginnings and other significant challenges. It's the study of people who triumph against overwhelming odds, who take initiative when there is inertia, who confront the established order, who mobilize people and institutions in the face of strong resistance. It's also the study of how men and women, in times of constancy and complacency, actively seek to disturb the status quo and awaken others to new possibilities'.

I truly believe that all of my case study farmers have displayed incredible leadership attributes. They have had to think outside the square, deal with peers who thought their ideas would not work and attempt to traverse from thinking about their business in the commodity game to thinking about it in the value-add game. The majority had some form of structured business plan and certainly a vision about what they wanted to achieve and a strategy to get there. The have all 'stuck their heads above the parapet' and through hard work and a certain amount of grit and determination, have succeeded in carving out a niche business in an environment that is much more geared towards working within a commodity structure with a few large players only. These are the leaders that other farmers could learn from as per Saunders (2011) suggestion in the introduction of this research that an 'increase in uptake could be assisted by providing exemplars for farmers to emulate'.

7.3.1 Extroverts versus Introverts

With the exception of one case study farmer, all other farming businesses had at least one extravert in the farming business. Is this by chance or is there something more to this? There is no hard evidence to suggest that having someone highly extroverted means a company is more successful and it is not what I am suggesting. My opinion, from the research I have completed, is that there does need to be an extrovert at the marketing end of the business driving a lot of the communication and customer interaction (or a consultant helping in this space at least).

8 Conclusion

As I launched into this research I had some preconceived ideas about what I would find within the literature and when interviewing small farming businesses. One assumption I had was that the farmers would have followed a rather ad-hoc approach to strategy due to the lack of resources available based around the fact that they were often the first entities of their kind in the country to do what they were doing. I was mistaken. Even though the pathway has not always been straight and certainly not smooth-sailing, all of the case studies had one thing in common; that is that they had researched what they were going to do before launching into anything commercially. This was just as important 30 years ago as it was for the farmer who is six months into their business.

Another assumption I had was that if a small farming business was prepared to understand their customer, maintain supply and have amazing customer service; this was enough for farmers to be successful when adopting a niche marketing approach. I believe that this was somewhat naïve and there is a lot more to consider than what I initially thought.

Dan Steele, 2015 Nuffield scholar, recently suggested at the New Zealand Nuffield Conference in April 2016 that population growth does not equate to people wanting more New Zealand products. He challenged the attendees by saying that the world population had doubled since the 1970s and the question had to be asked 'had that meant that NZ farmers are all better off?' We are constantly being bombarded with the fact that the world population is due to double again within the next three decades. Is this an opportunity or a threat to farmers? Are we sitting around waiting for some epiphany to occur and a sudden shift in thinking from the rest of the world whereby suddenly everyone is going to be beating at our doors and be willing to pay top-price for our products? We also have countries like Ireland doing an incredible job in marketing their country and their products through their recent 'Origin Green' campaign http://www.origingreen.ie/ so where is our point of difference (or USP)?

With more and more of the research and development dollar going into finding alternative food sources through synthetics and genetically modified experimentation we mustn't sit on our laurels and assume that we will continue to find a market for our commodity products. This leads me to thinking that we need to find some aligned values between our markets and our farmers. There are significant opportunities for small farming businesses to look at adopting a niche marketing approach. There is the ability to be financially more independent, be in a business venture that is exciting and new and have more control of your own destiny. On the flipside, investing in a niche marketing strategy can be timely, expensive and may not make the return on investment that is anticipated in the short term. The strategy needs to look beyond the immediate term and focus on more long term goals and a vision that can ride out the waves which occur when building any successful business.

It takes a certain kind of person willing to take a risk around not playing the markets, instead diversifying and going for a value-add product. This person has to lead by example and often be willing to 'go places that other farmers have not gone before'. The support farmers get to help them diversify is patchy at best and there is no logical place to start in order to find out more information on how a niche marketing strategy may or may not work. It is my opinion that we don't 'fail fast' well in New Zealand and certainly adopting a niche strategy, without doing good research regarding the cost, infrastructure required, compliance requirements and customer expectations, can be detrimental.

In conclusion, our agribusiness leaders love talking about value-add, telling our stories better, building our brand proposition and embracing the provenance of our products. Is niche marketing simply an opportunity for a handful of small business to succeed as some of the literature suggests or can the opportunities reach much further afield? I believe, with the right amount of support, resourcing and sound advice, looking at creating a value-add product could be a successful venture for many more small farming businesses willing to adopt a niche marketing approach.

9 Recommendations

For farmers wishing to investigate whether the pros outweighed the cons regarding whether to adopt a niche marketing approach, my recommendation would be to source good, sound advice and information first. There are a range of business and agencies offering advice. Some of these are listed in Appendix 11.2.

Networking with other farm businesses and being involved in the likes of the Rural Business Network is one way to learn about what others farmers are doing. An organisation such as Business Mentors New Zealand offers a six month programme for start ups. This includes "accelerated mentoring for people who have a new business idea or are looking for help in starting a new business" (http://www.businessmentors.org.nz).

Resources available to small farming businesses are not promoted well to the primary sector. A campaign by both local and national government which could be supported through the likes of Federated Farmers, Beef & Lamb and DairyNZ would help farmers understand what additional opportunities there may be.

9.1 Additional Research

Having come to the end of this report I feel that I have only just scratched the surface regarding niche marketing and small farming businesses. I have more questions than answers and would be fascinated to see more research going into this space here in New Zealand.

I believe there is an opportunity for more research (both qualitative and quantitative) to be done following on from this report to more deeply understand more of the 'who, what, why and how' of niche marketing from a primary sector perspective.

More research into what 'type' of person helps create a successful value-add business would either prove or disprove my theory that an extrovert is often driving the niche marketing business certainly from the consumer facing end. I also wonder whether there is a relationship between the ability to be comfortable with a higher amount of risk and extroversion? Creating a new business model always has an element of risk and research into whether this has any relationship to personality type within a small farming business would be of interest.

There are other key drivers (financial, economic, emotional) that influence the decision by farmers to adopt a niche marketing approach that I don't think are fully understood and need more research.

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11 Appendices

11.1 Interview questions

1. Tell me about your business and your business model?
2. How many staff are involved?
3. What is the size of your farm?
4. What was the catalyst that made you think about changing your business model?
5. Why not stick with the status quo?
6. When you first started looking into diversifying your farming business how did you go about it?
7. How did you use external resources and support to help you in your decision making?
8. When you started, did you have a business plan? Do you have a business plan now? If not, why not?
9. How do you define success in your business?
10. How have you differentiated your product from others already in the market?
11. What is your unique selling proposition?
12. Have you been able to quantify the benefits of going for a niche marketing approach rather than staying with the status quo?
13. What challenges have you found in adopting a niche marketing approach?
14. What is your vision for the future?
15. On a scale of 1 to 10 with 1 being highly extroverted and 10 being highly introverted, where would you put yourself?
16. On a scale of 1 to 10 with 1 being highly extroverted and 10 being highly introverted, where would you put your spouse/partner?

11.2 Resources available

Below are some websites which could be useful for farmers looking for advice or support.

http://www.betterbydesign.org.nz/

http://www.business.govt.nz/support-and-advice/advice-mentoring

http://www.businessmentors.org.nz/

http://www.foodhq.com/

https://www.mpi.govt.nz/

http://www.newzealandchambers.co.nz/

http://www.ruralbusinessnetwork.co.nz/

11.3 Expert Opinions

After completing my in-depth interviews with farmers and writing part of my discussion I felt that there was a section missing. This was around what other people in the industry thought about where New Zealand was at regarding value-add, niche marketing and small farming businesses. I interviewed four experts who gave me their thoughts on these topics. This is a synopsis of their thinking below.

Professor Hamish Gow: Director of Business, Innovation and Strategy, Massey University

"There are essentially two types of markets, commodity and what I would call differentiated. In both types of markets profits can be made. It can be a real challenge to switch across from a commodity market and buy into differentiated markets. With a differentiated market you have to be willing to invest and spend money. Commodity markets you don't generally have to put money into. You really need to understand who your customers may be, choose one group of customers and then produce something that meets their needs in a fantastic way. Businesses that choose to go down a differentiated market route are destined for failure if they don't understand their customers and it's easy to waste a lot of money and not get any returns. New Zealand primary sector businesses have historically not been keen on spending money on marketing and marketers. They struggle mentally with marketing because it's not a tangible asset which makes sense due to the fact that farmers are in the business of investing in tangible assets. You need to be someone who can deal with risk and it's often not until people have their backs up against a wall that they are willing to look at other ways of doing things."

Lucy Griffiths: Owner of Innov8 Aotearoa, a consultancy helping iwi-agribusinesses and niche food producers to gain premiums for their products in NZ and global markets.

"The key in my opinion is getting producers to think about how they can add value to their products and target niche markets. It's not about producing more scale, it's about getting the best returns we can from the amazing tasty food we produce in NZ. It is important though that if farmers want to move from commodity to value-add they need to ask themselves if they have the skills and ambition to understand and work with customers. Too many farmers look at the value of the end product and think I should be doing that myself without realising the huge amount of time, effort and expense required to establish and maintain niche markets. In order to be successful, farmers have to love working with consumers, being in the market place and being heroes of their brands. They have to be good producers AND love consumers in order to be successful. Nowadays discerning global consumers want to know where their products are coming from. They want to look the producer in the eye and trust what they have to say about the product; that the animals have been cared for and the environment has been looked after and not exploited. Coupled with this there needs to be a strong story around the product that is well articulated throughout all marketing mediums. That story may talk of animal health and welfare, environmental considerations, packaging innovation, convenience, accessibility, the scarcity of the product, its taste, provenance and health attributes. There are a number of industries the drystock and dairy sectors could look to for inspiration around how to produce successful niche products. The salmon and oyster industries are two as are the pip and stone fruit and Manuka honey industries. All producing some very high value niche food products that the rich want. The future of NZ agriculture relies not on producing more scale but on producing quality products that have unique health and taste benefits, packaged beautifully and telling our unique NZ story."

Mike Petersen: New Zealand Special Agricultural Trade Envoy, Hawke's Bay Farmer.

Mike recently wrote a piece in the 'New Zealand Land & Food Annual: Why waste a good crisis? The end of 'white gold fever', and rethinking agribusiness' and he was happy for me to quote him here as writing the following:

"Businesses need to 'adapt or fail', and increasingly we are seeing companies suffer the consequences of failing to adapt to the pace of change in consumer markets.

One of the biggest challenges facing the Agri-food sector is the increased volatility of commodity prices. This is particularly true for internationally traded products. A number of New Zealand's key Agri-food exports dominate cross border trade in their category and this places a disproportionate weight of volatility on New Zealand Agri-food producers compared to their counterparts worldwide.

Being closer to the consumer is an extraordinary opportunity, but also an incredible responsibility.

Nimble and agile actions by New Zealand companies from real time market insights will provide us with the best chance of success. Collaborating and using the new tools of communications in innovative ways will deliver New Zealand Agri-food companies onto the dining tables of consumers. "

Mark Ward: CEO, FoodHQ which is the food and beverage industries gateway to more than 2200 scientists from nine internationally recognised research and innovation organisations in New Zealand.

"We don't take niche marketers seriously. It will take us a long time to 'double in size'. It's time we took artisan foods (goat's milk cheese, avocado) and look at them as non-niche because we might see them as 'niche' whereas other countries see this stuff as standard. In the news all you hear about is the big businesses portrayed. The wine industry has broken that mould. There are so many beautiful subtleties and wonderful nuances. They have differentiated themselves by provenance, by method, biodynamic wines. They have somehow managed to not compete with each other. They are a mature enough industry that they don't need to compete. We have got this mind-set that we can grow grass and depend on the weather and there is nothing wrong with that. We are so good at adding value to 'rain'. Just don't call it 'niche'. Call it 'high value'. The term 'niche' is where every other sophisticated food country lives and breathes. It's great we can add value to our pasture based system which means we have a lot of land to play with. We haven't allowed buildings to be built all over NZ. We have a culture where we believe we can grow almost anything. We should see niche as absolute gold."