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ADVISORY

# Review of Farm IQ Final

September 2015

Summary Report

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# Introduction

## Background

The Primary Growth Partnership (PGP) was established in 2009 to support government (through the Ministry for Primary Industries (MPI)) and industry investment in long-term innovation programmes to increase the market success of the primary industries including wool; dairy; fishing and aquaculture; meat; pastoral; bee keeping; forestry; viticulture; and horticulture.

Proposed programmes must demonstrate that they are beyond business as usual, and have the potential to deliver significant economic and non-economic benefits. PGP programmes are therefore ambitious, often high-risk, and required to adapt over their lifetime to respond appropriately to new knowledge, challenges and opportunities.

PGP programmes are reviewed at mid-term and the review of Farm IQ took place at just over four years of a seven year programme. The review was completed in May 2015.

## Farm IQ objective

The objective of Farm IQ was to create a demand driven integrated red meat value chain to support the growth of the red meat industry. Central to the demand driven integrated value chain is a Farm Management System (FMS), which acts as an enabler for disseminating critical information through the value chain. The programme's wider benefits listed within the 'From Plate to Pasture' 2010 business plan included:

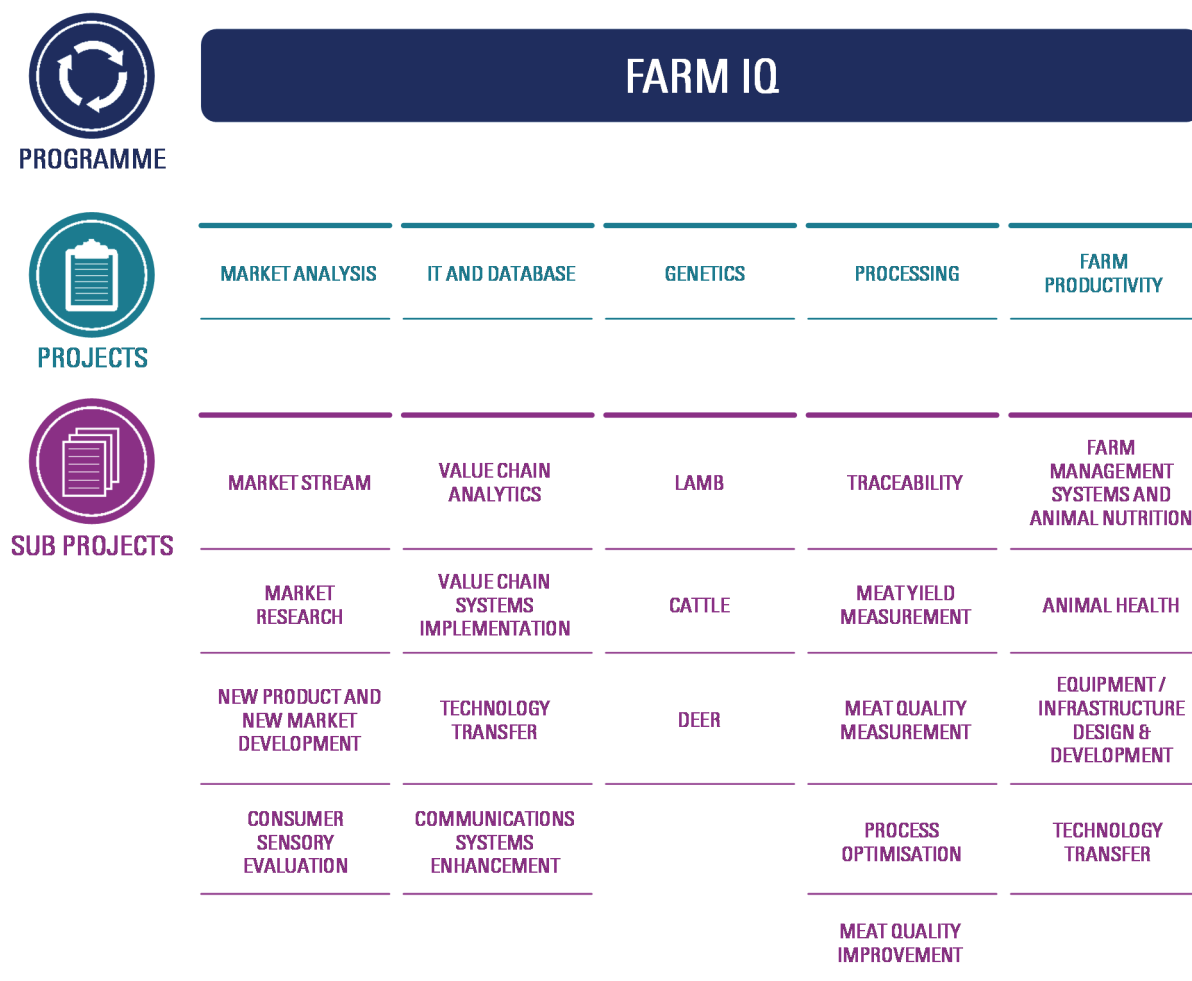
- Growing the red meat industry to \$6.3 billion by 2025 (50% increase on value in 2010);
- Annual net economic benefit grows from \$13 million in 2010 to \$2 billion by 2025;
- Industry projected to grow by 1.5% compound beyond 2025;
- Employment growth of 7,800 full time jobs;
- Increasing GDP by \$1.1 billion by 2025.

## Projects

Farm IQ currently comprises five projects. These span the red meat value chain and report on progress each year through the contracted annual plan:

- Market analysis – to develop capability to identify and understand markets that are willing and able to pay a premium for quality red meat products and to develop those products to meet consumer specifications.
- IT and database – to be a catalyst for the establishment and operation for a data collection and analysis mechanism able to support animal specific performance analysis.
- Genetics - to develop new genetic and genomic capabilities to enable the identification and isolation of desired animal traits to improve our ability to produce products to customers/consumer specification.
- Processing - to put in place the necessary traceability infrastructure and develop new technologies and capabilities to enable meat yield and quality information to be collected during processing.
- Farm productivity - to drive improved on-farm productivity and performance through best practice production systems, capturing data (both farm and animal centric) and aligning this with the integrated value chain.

Each project has a number of sub-projects as illustrated below.



Sub-projects have been realigned to projects throughout the life of the programme. The diagram above reflects the programme as at 2013/14, which differs from the structure outlined in the 2010 'from Plate to Pasture' business plan.

### KPMG's review objectives

This review was commissioned by MPI and Farm IQ, when the seven-year programme had been in operation for just over four years, in part to assess the progress of the projects comprising the Farm IQ programme. The review was completed in May 2015. The review is retrospective and sets out whether or not Farm IQ is currently on track to meet the various short-term objectives outlined in the PGP outcome logic map.

The three key objectives of KPMG's review of Farm IQ were to:

1. Provide assurance to MPI that programme activities remain beyond business as usual for industry partners;
2. Assess the credibility of the expected outcomes from the programme in light of the 2015 context;
3. Assess the progress of the five projects and the likelihood of the programme delivering the expected outcomes.

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As set out above, the review is retrospective. The report provides high-level recommendations to support the five projects to meet relevant short-term outcomes; detailed solutions to support the future Farm IQ work programme are outside the scope of this review.

## Approach

The diagram below outlines the approach taken to address the three review objectives.



## Scope of the review

All projects and sub-projects within the Farm IQ programme were included within the scope of this review. However, the following items were excluded:

- MPI's approval of the original programme and satisfaction of the PGP criteria.
- Financial management (MPI conducted a financial management audit in 2013).
- Assessment of technical inputs (e.g. quality of science behind project activities).





# Summary Findings

## Key findings

KPMG outlines the key findings in relation to each of the review objectives below.

**Provide assurance to MPI that the Farm IQ PGP programme activities remain beyond business as usual for industry partners.** The PGP was established in 2009 to support programmes funded jointly by the government (through MPI) and primary industries including wool; dairy; fishing and aquaculture; meat; pastoral; bee keeping; forestry; viticulture; and horticulture. PGP programmes are long-term innovation programmes supported by government and industry jointly. As such, they are expected to have stretch targets, and to drive industry beyond the point that could be achieved solely through industry research and development (R&D).

KPMG has assessed Farm IQ PGP programme against R&D activities undertaken by red meat sector companies inside and outside of the PGP framework over this period.

While individual meat companies have achieved success with their R&D programmes, the outputs are limited to individual parts of the red meat value chain and do not provide the complete solution that is integral to Farm IQ's vision. KPMG has concluded that Farm IQ differs from the R&D programmes conducted as part of normal business by organisations, and outside of the PGP framework, and provides value beyond business as usual in three key ways:

1. Farm IQ's aim is to develop a demand driven integrated value chain. This means understanding customers' needs and buying behaviours, including attributes of red meat for which a consumer is willing to pay a premium and passing that understanding through the value chain to farmers and processors. Detailed information from the customer research and market analysis can flow to the processor via the FMS so that processing practices can be adapted to meet customer needs. In parallel, the FMS can provide detailed kill data to the farmer that will inform management of farming practices to deliver animals with desirable eating characteristics matched to consumers' needs and attributes that achieve a commercial premium.
2. The benefits of Farm IQ are intended to be realised by the whole red meat sector rather than individual meat companies. While many of the sector wide benefits are reliant on increased farmer adoption of the FMS and collaboration with additional processors, if barriers to FMS adoption and collaboration can be minimised or removed, the productivity and profitability of the entire red meat sector could be increased.
3. Farm IQ is attempting to address a significant cultural barrier to measurement by introducing the FMS to farmers in the red meat sector. Farmer adoption of new technology is a sector wide issue and all stakeholders interviewed acknowledged that FMS adoption is the single biggest risk to the success of Farm IQ. Based on stakeholder interviews, due to the risks and challenges associated with farmer adoption, it is unlikely that a commercial entity (red meat sector participants or software development companies), would embark on a programme of work similar to Farm IQ without government support.

In summary, when compared to the scope, type and scale of R&D conducted within industry outside of the PGP framework, Farm IQ remains sufficiently innovative against the current industry context and beyond business as usual. Due to the risks and challenges associated with industry adoption of 'measure to manage' practices, identified through stakeholder interviews, it is unlikely that a commercial entity (red meat sector participants or software development companies), would embark on a programme of work similar to Farm IQ without government support.

**Assess the credibility of the expected outcomes from the programme in light of the 2015 context.** KPMG has considered the key drivers (economy, market, industry, environmental regulation and technology) of the expected outcomes over the five-year period from 2010 (when the programme was established) to 2015.

In economic drivers, the global financial crisis (GFC) and exchange rates were considered. The Farm IQ programme was launched in 2010 against a background of a global economy in a historically deep recession as a result of the GFC. In addition to the GFC, the red meat market was subject to exchange rate fluctuations over the period between 2010 and 2015, including some historic New Zealand dollar (NZD) highs, which impacted the profitability of the red meat sector's exports. At the same time, emerging economics were growing at unprecedentedly high rates during the first decade of the 21st Century, the sustainability of which was being challenged in 2010. The centre of economic power shifted towards Asia and away from New Zealand's traditional



developed markets. The nature of the Farm IQ programme, starting without preconceived ideas of the markets it would be directed towards, has enabled the programme to identify the potential in emerging markets and take steps to capitalise on these opportunities. KPMG has determined that Farm IQs overarching methodology and approach, including the selection of countries and market entry strategy appears appropriate and repeatable. The approach begins with the use of macro-economic factors to identify markets that warrant further market research. Macro-economic factors considered include average household income, average percentage of household income spent on food, demand for red meat, the ability of the country to produce red meat, and the country's competitive landscape for red meat. Detailed analysis is then undertaken to understand consumers' perception of New Zealand and their willingness to buy New Zealand products. As part of this research, other factors such as local packaging and labelling preferences are taken into consideration.

Market drivers reviewed include global trends such as the focus on low price propositions; and consumers' expectations of accessing detailed product information. Free trade agreements were also reviewed under market drivers. In 2010, New Zealand's free trade agreement had just been signed with China and it was anticipated that New Zealand would sign similar agreements with a number of other countries, including India, South Korea, the ASEAN countries, the Gulf Co-operation Council in the Middle East and Trans Pacific Partnership countries within a two to three year time horizon. However, this has been slower than expected with free trade agreements only in place for Hong Kong, ASEAN and more recently Taiwan. In addition, over the past five years export to Asian markets have become more important to New Zealand trade. Farm IQ has adapted well to New Zealand's increased focus on non-traditional markets, alongside traditional markets, and they have as used an appropriate and repeatable approach to market entry as discussed previously.

In 2010, a number of red meat industry issues were anticipated to have an effect on Farm IQ's ability to deliver its intended outcomes. As outlined in Farm IQ's 2010 Business Plan, the issues included:

- The red meat industry was disjointed and increased collaboration was required to achieve benefits for the red meat sector. Looking back over the period from 2010 to 2015, there have been no major mergers or acquisitions in the red meat sector. The structure of the industry remains fragmented, with few large companies and numerous niche operators. To drive benefits from Farm IQ for the entire red meat sector, it is important that Farm IQ continue to investigate methods to increase collaboration with meat processors.
- Farmers acted individually and supplied on short-term prices, rather than with a long-term strategic view. Today we are seeing a change in how some farmers are operating in terms of supply as they become increasingly focused on operating their farms as a business expected to generate cash flow and profit returns. Due to the volatile nature of red meat prices, farmers are reluctant to accept the certainty of a contracted price because it may be below the eventual market price. Full use of the Farm IQ FMS can enable farmers to better deliver on supply contract conditions, however, the biggest challenge to overcoming the transactional mentality remains a culture change amongst farmers. To date, there is little evidence that Farm IQ is having a material impact on changing mainstream thinking.
- The value chain was production led, rather than customer led and there was minimal feedback to farmers from processors and customers. This has not changed for the majority of participants in the value chain in 2015. Addressing this issue is a key objective for Farm IQ and significant work has been undertaken with the greatest success seen from the Beef Eating Quality initiative, which is now in operation.
- There was limited measurement and recording of data by farmers. While the last 5 years have seen major changes in measurement practices for dairy farmers, red meat farmers are still unclear about the benefits of measurement. Many red meat farmers still farm in the traditional manner without formal measurement or recording. Red meat farmers, who recognise the benefits of increased measurement informing better management decisions, continue to struggle with the practicalities of measurement in a red meat farming setting. Farm IQ has developed a number of initiatives to address the issue of limited measurement and recording of data by farmers. The primary initiatives have been IQ farm field days and case studies

showcasing success stories from the use of the Farm IQ FMS. To date these initiatives have not driven significant change in the sector.

- Land use was expected to change from beef farming to dairy farming. Conversion of beef to dairy farming has accelerated faster than anticipated in 2010. Land use change to dairy farming has been particularly prevalent in some areas of New Zealand, particularly in the South Island, and is often linked to a lack of confidence in the red meat sector as a sustainably profitable sector. The result of increased dairy farms is that there is less prime land available for sheep and beef farming, making it harder for farmers to increase productivity and profitability as activities are being confined to more marginal land areas. The Farm IQ value chain presents an opportunity for farmers to engage directly in a plate to pasture value chain and to receive a higher farm-gate return for their activities. The challenge remains that the return is currently a premium over the basic schedule price, which, as noted previously, remains susceptible to trading activities the majority of farmers continue to pursue.

Environmental regulation drivers included two key areas of regulation that are relevant to Farm IQ: (1) the National Animal Identification and Tracing scheme (NAIT); and (2) regional regulations being implemented to cap nutrient run-off within water catchments. The introduction of NAIT for cattle has also supported the use of Farm IQ's FMS. By mandating tracking of individual animals, this has provided a mechanism for easily measuring the performance of individual cattle and deer. The FMS has the ability to track individual animals through integration with radio frequency identification (RFID) technologies. While NAIT has not been mandated for sheep, many farmers who have adopted FMS have seen the benefits of using RFID devices for sheep as well as cattle and deer. In 2010, the Land and Water Forum (which was established to develop a strategy for the management of water in New Zealand), had just released its first report. A framework has subsequently been established that allows individual Regional Councils to set water objectives for their regions, including the implementation of limits on nutrient run-off in specific catchments as part of their regulations. The lack of consistency in policy across New Zealand's Regional Councils has led to uncertainty for farmers and therefore, many farmers welcome the use of a management tool to support them in meeting Regional Council regulations. Farm IQ enables farmers to respond effectively to these regulations by providing a Land and Environmental FMS module, which supports nutrient budgeting and effective environmental management. Farm IQ responded to customer requirements by modularising the FMS, therefore allowing customers to buy the particular capability they require.

In 2010, the Rural Broadband Initiative was announced by the Government to deal with the challenge of delivering broadband services for rural communities. The aim of the initiative was to deliver services to rural customers that were comparable to urban broadband services, and at a similar cost. Broadband quality is critical to the programme's success because the FMS application is hosted remotely and sold through a Software as a Service (SaaS) subscription model. This model allows the FMS to integrate with other agri-business systems. This in turn will assist with reducing duplication of data entry and allow non-core functionality to be provided through third party systems that are integrated to the FMS. Additionally, the use of mobile applications has increased since 2010 with smaller mobile technology devices like smartphones and tablets becoming more common and viewed as everyday business tools. The FMS was intended to support on-farm practices and, as such, mobility was a key design consideration and Farm IQ adopted 'mobility enabled standards' with the use of HTML5 in FMS development, as well as the use of SaaS to allow access to FMS from mobile devices.



While there have naturally been developments within each of the drivers outlined above, overall Farm IQ has adapted accordingly and the programme's expected outcomes remain credible.

**Assess the progress of the five projects and the likelihood of the programme delivering the expected outcomes, as set out in the 2010 business plan.** KPMG has mapped the five projects to the programme's short-term outcomes (based on Farm IQ's 2013 outcome logic model). Once mapped, the projects were assessed in the following terms:

- on track to achieve the outcome (green rating);
- achievement at risk (amber rating); or
- unlikely to achieve (red rating).

We note that the outcomes have not been adjusted since the 2010 business plan.

The diagram on the following page depicts KPMG's assessment of the progress and likelihood of delivering the expected outcomes.

### Progress/likelihood of expected outcomes

The following diagram provides the wider programme context and amalgamates the ratings provided across each of the five Farm IQ projects. We have also noted where mitigations are in place and are appropriate, mitigations require additional focus or acceleration or no mitigations are in place.

#### SHORT TERM OUTCOMES

PROJECTS		Increased uptake of smart processing techniques (off-farm)	Improved skills and farm management	Improved animal health (on-farm)	Improved breeding stock with desired traits	Increased ability to produce innovative products and to consumer specifications (value chain)	Increased market knowledge	Improved inventory management and traceability (value chain)
	Market Analysis					✓	✓	
		<p>KPMG acknowledge that there has been success with the development of Beef Eating Quality. The “at risk” rating for achievement by 2015 is driven by the fact that the full value chain is not yet available for lamb or venison.</p> <p>In addition, as planned at the start of the programme, Silver Fern Farms is the only processor currently in the value chain. This however hinders the programme’s ability to achieve sector-wide benefits. We note that Farm IQ have had discussions with other processors to engage with the Farm IQ programme, however to date this has not resulted in additional processors participating.</p> <p>The programme has been working towards securing long-term customer oriented contracts and there are currently short-term supply contracts in place. However, in light of the commodity nature of red meat and the volatility of prices, long-term customer oriented supply contracts will be difficult to establish.</p>						
	IT and database	✓	✓	✓	✓	✓	✓	✓
		<p>Stakeholders believe that the FMS is a world-class system, however slower than anticipated FMS adoption rates have led us to rate the IT and database project as “at risk” of achieving the intended short term outcomes. FMS acts as the enabler for disseminating critical information through all parts of the value chain. It integrates farm and processing activity, and provides data on the market premiums achieved through initiatives responding to consumer’s needs, such as eating quality.</p>						
	Genetics				✓			
		<p>There are two principal reasons for rating the genetics project as “at-risk” of achieving the short-term outcomes. The first is the delay across the project, driven by a delay purchasing the single nucleotide polymorphism (SNP) chip. The SNP chip contract was originally planned for June 2012 and then revised to September 2012. This was ultimately achieved in February 2013, a delay of eight months from the originally anticipated date. The second reason is a lack of a detailed commercialisation plan for lamb eating quality. Although the majority of benefits will be from productivity traits, and options for market approaches have been developed for beef and lamb genetics for productivity traits, KPMG believe Farm IQ should give further consideration to the commercialisation of lamb eating quality traits.</p>						

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## SHORT TERM OUTCOMES

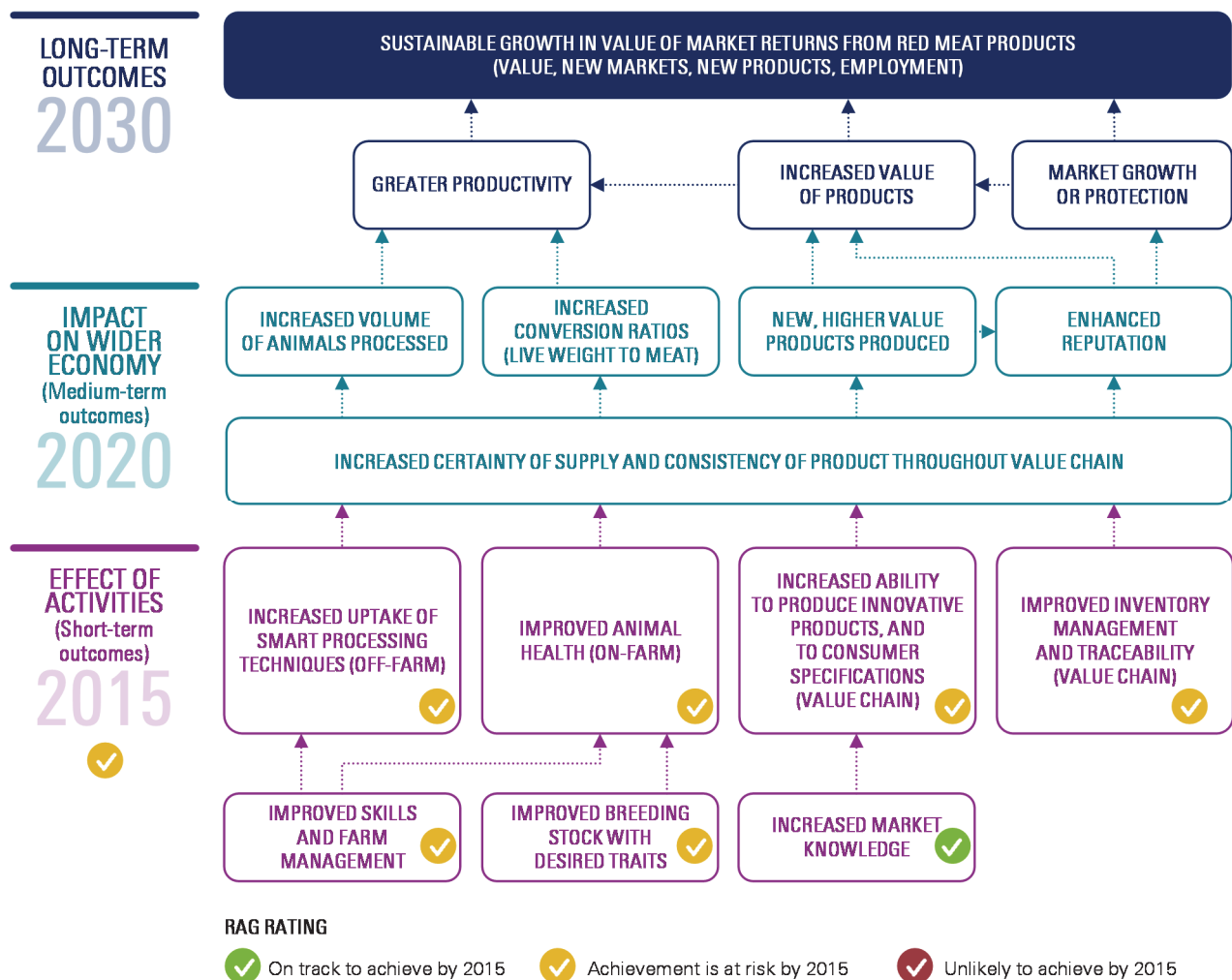
	Increased uptake of smart processing techniques (off-farm)	Improved skills and farm management	Improved animal health (on-farm)	Improved breeding stock with desired traits	Increased ability to produce innovative products and to consumer specifications (value chain)	Increased market knowledge	Improved inventory management and traceability (value chain)
Processing	✓						✓
	<p>The processing project was originally intended to run until 2017, however, a decision was made in 2014 to reduce the scope of work within the project. It has been reported that Silver Fern Farmers have improved understanding of meat yield and quality and have achieved initial gains towards improving carcass value, as a result of the project. The primary reason for rating the processing project “at risk” of achieving the short-term outcomes, is that Silver Fern Farms are the only processor currently participating in the programme. Therefore, the opportunities for spill over benefits to the wider sector are limited to publicity gained from the programme’s research and increased profile for companies associated with the programme.</p>						
Farm productivity		✓	✓				
	<p>It is likely that “improved animal health (on-farm)” and “improved skills and farm management” have been achieved for IQ farms. However, without significant farmer adoption of farming practices identified by Farm IQ (and adoption of the FMS) the outcomes for the farm productivity project have not yet been achieved for the wider meat sector.</p>						

### RAG RATING

 On track to achieve by 2015
  Achievement is at risk by 2015
  Unlikely to achieve by 2015

Overall, the programme is assessed as “at risk”. Proposed PGP programmes must demonstrate that they are beyond business as usual, and have the potential to deliver significant economic and non-economic benefits. PGP programmes are therefore ambitious, often high-risk, and required to adapt over their lifetime to respond appropriately to new knowledge, challenges and opportunities. As previously noted, the programme activities are ambitious and remain beyond business as usual for industry partners. The expected outcomes also remain credible in light of the 2015 context. However, there is a considerable amount of work required for the short-term outcomes to be realised, and for Farm IQ to be self-sustaining by the 2017 milestone.

The following diagram provides the wider programme context and amalgamates the ratings provided across each of the five Farm IQ projects.





## Recommendations

We outline our recommendations in relation to each project below. These recommendations largely reflect two principal challenges faced by the Farm IQ programme. The first is the wider red meat industry context, and the second is the shifting nature of Farm IQ from a 'programme of work' to a dynamic commercial entity. These are addressed below.

As noted in the March 2015 "Red Meat Industry: Pathways to Long-term Sustainability" report by the Meat Industry Excellence group, "the industry is characterised by [among other things] ...a lack of trust between the farming and processing sectors, with insufficient focus on consumers and value added strategies". Farm IQ was established in part to address these difficulties as set out in the Farm IQ Business Plan, 2010. These long-standing and complex features of the red meat industry require industry wide collaboration, and cannot be resolved simply. They are a significant contributor to the challenge and risk profile of the programme and along with other factors, discussed in this report, place the programme beyond 'business as usual', or typical industry R&D.

Farm IQ is also negotiating the shift from achieving a 'programme of work' to becoming a viable commercial entity, the next two years are critical to the success of Farm IQ as a company, and as a result, to the PGP's ability to achieve the long-term (2030) anticipated outcomes. The recommendations below are aimed at supporting Farm IQ both to achieve the programme outcomes and to become self-sustaining. At times, the recommendations build on initiatives that are already underway, but have been included both for completeness and to ensure continued focus is placed on them.

KPMG understands that in some instances, commercial realities have meant programme milestones or work priorities have been re-set. For example, the Market Analysis project had a project milestone to achieve a seven-year strategic plan. However, commercially it was more appropriate for Farm IQ to develop five-year rolling plans for Fast Moving Consumer Goods, and Hotel, Restaurant and Catering products. Similarly, although Lamb Eating Quality and a supporting lamb genetics schedule were planned to commence early in the programme, Farm IQ made a decision to prioritise Beef Eating Quality. The focus on beef is supported by the larger international market for beef, the greater market premiums available for beef, and the higher variability of beef eating qualities.

### Market analysis

- Continue to assess and re-visit additional market opportunities as global economies evolve.
- Determine how findings of the programme can be leveraged more broadly to support premium red meat products development, without commoditising outcomes for premium products, including a review of the treatment of Intellectual Property resulting from the Farm IQ programme.
- Determine an alternative method to establishing security of supply based on seasonal contracts for farmers to processors and processors to customers.
- Complete Lamb and Venison Eating Quality analysis to determine technical feasibility and the scale of the premium price that is achievable.

### IT and database

- Ensure Farm IQ has the capability to effectively execute the commercialisation plan as outlined in the 2013 master business plan.
- Review sales and marketing materials to ensure they are appropriate for the target audience of farmers who did not form part of the "early adopters", and assess whether a dedicated specialist should be engaged to maximise farmer adoption of FMS.
- Broaden sales capacity beyond key account managers/processor stock agents for sales and lead generation. Although a base of sales agents should be maintained and its use optimised, the programme should also supplement this base with alternative sales channels.

- Prioritise and accelerate third party integration in future FMS releases, including on-farm equipment (new products and existing products in the marketplace) and other agribusiness systems.
- Establish a more extensive work programme, with a dedicated full-time specialist, to effectively deal with farmer adoption of FMS (as current interventions are not achieving the required levels). Initiatives could include further collaboration with other initiatives considering farmer adoption of new on-farm productivity techniques, e.g. Red Meat Profit Partnership. Review of the continued appropriateness of the case studies mechanism and Farm IQ field days, should also be considered for the remaining two years of the programme.
- In addition to the previously outlined recommendations, Farm IQ should further consider expansion to the dairy sector (noting that original outcomes of benefiting the red meat sector should not be compromised) and broadening ownership of Farm IQ to include other processors or at least to include processor data reporting arrangements to farmers; e.g. kill sheet data. KPMG is aware that the technology required to assess processor data is planned to be completed by mid-2015, however, the key challenge will be to ensure collaboration from additional processors.
- As part of the development of interventions, a formal risk assessment should be undertaken to identify risks to success.

### **Genetics**

- Continue to monitor the delay in the genetics project, and assess and mitigate potential risks to programme outcomes.
- Review and implement a commercialisation plan for the outputs of the genetics project. This recommendation particularly applies to eating quality, as the SNP chip technology is already being used by the sheep industry for productivity traits.
- Improve the quality of reporting for the genetics project, to clearly track progress against activities detailed in annual plans and achievement against key success indicators.

### **Productivity**

- Consider how information from the farm productivity trials can be effectively disseminated throughout the farming sector beyond IQ farms and FMS users. Review the effectiveness and current form of case studies, newsletters, and field days, and consider how these contribute to FMS marketing and sales.
- MPI to review and provide clarity to stakeholders regarding the objectives and benefits of Farm IQ and Red Meat Profit Partnership programmes, including interfaces between the two to ensure that the outcomes are maximised, duplication of effort is avoided, and benefits stemming from public funding are equitably dispersed throughout the sector.

### **Programme management and governance**

- Establish and implement a programme benefits realisation plan.
- Review and implement a comprehensive plan for the commercial sustainability of Farm IQ post PGP funding, including an operating model and appropriate capability. This should extend beyond the plan currently in place for FMS, and to the remaining projects.
- As well as continuing on-going negotiations with additional partners, determine a broad strategy to accelerate farmer adoption of the FMS and broader industry exposure, which could include (but not limited to) changing the ownership of Farm IQ or engaging with new commercial partners. Any changes to ownership of Farm IQ should reflect its status as an Agribusiness software company, seeking to make FMS an industry-wide tool.
- Formally evaluate the inclusion of the dairy sector in the sustainability strategy by completing a full assessment of competing farm management systems in the dairy sector and ensuring that the inclusion of dairy would not negatively impact red meat outcomes of the PGP.
- It is prudent and good practice, to review the capability of the Board and management team to ensure they are able to support the successful commercialisation of the FMS.

- Improve the programme management disciplines by initially focusing on refining programme reporting and ensuring risk management and reporting framework is appropriate to the size and profile of the programme.
- Review upcoming annual project plans to ensure activities are aligned to achieving the Farm IQ intended outcomes.
- Introducing a comprehensive risk management framework for the programme that defines risk management policies, processes (e.g. how risks will be identified, categorised, reported and escalated), and tools (e.g. risk registers).
- Reviewing the risks faced by each of the projects and the programme overall to ensure that all risks are identified and reported.





