FACTORS DETERMINING THE FUTURE OF KATIKATI FRUITPACKERS CO-OPERATIVE LTD. (KATIPAK) INTO THE NEW MILLENIUM.

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INTRODUCTION AND BACKGROUND

This project was undertaken with the aim of analysing the kiwifruit industry, putting it's historical and political events into order and from there drawing a definitive conclusion as to how the industry will evolve and what part a co-operative the size of Katikati Fruitpackers Co-operative Ltd. will play in the future of the industry.

From historical research it became apparent that the growers of the kiwifruit were never the people in control of the sale of the kiwifruit.

Originally the sellers were independent fruit and produce exporters, all creating on-shore competition and wanting a percentage of total sales but ratcheting down export prices to gain market share in the form of volume.

In an effort to counter this growers demanded the industry evolve by becoming a marketing Authority to control the number and powers of the exporters.

What became clear was that a subtle change in the personnel of the Authority lead to it becoming controlled by the packhouse operators who then became the strongest lobbying group in the industry. Control of the industry had been hijacked away from growers contrary to their own intentions.

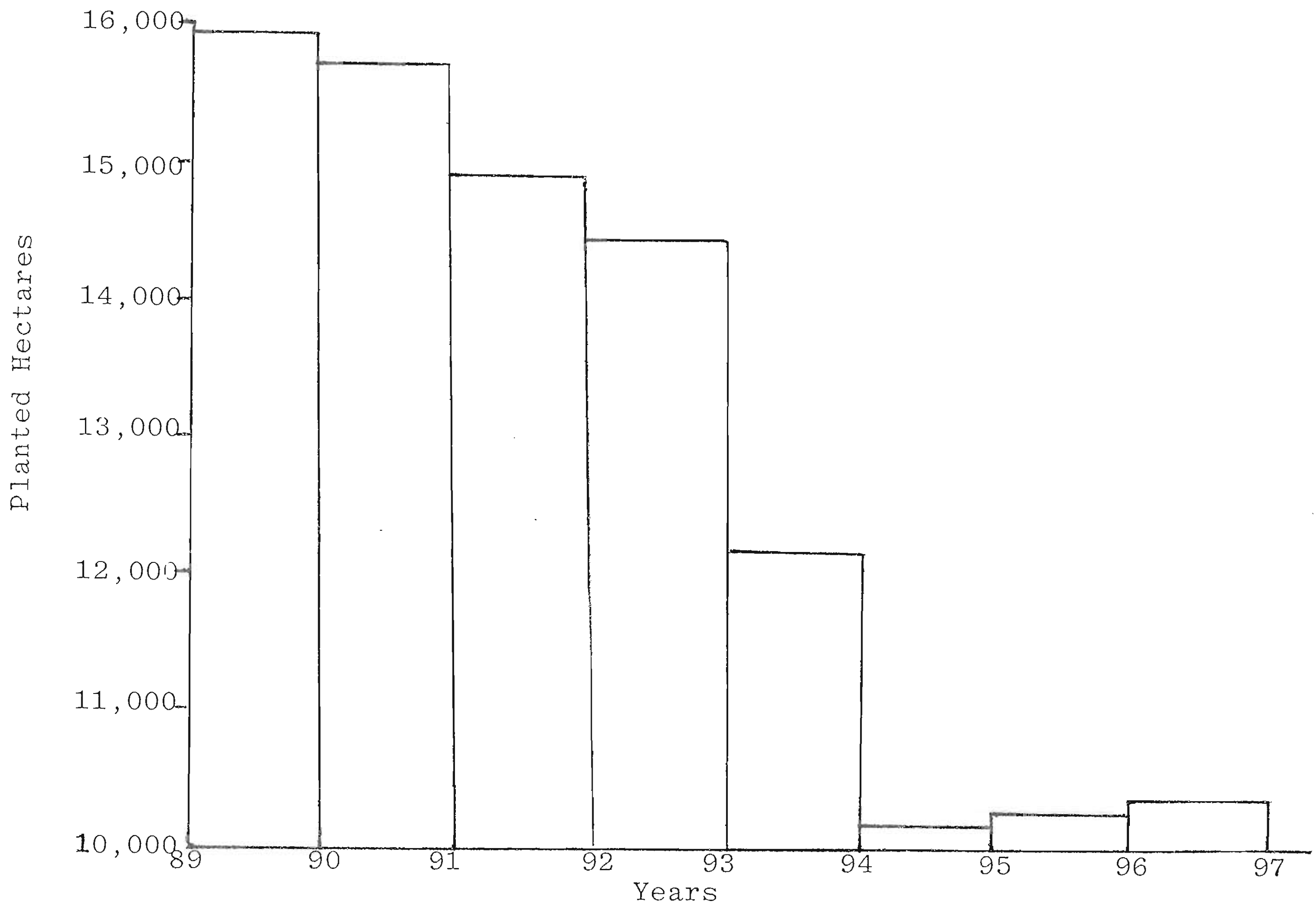
The transformation of the Authority into a single desk marketing Board, dispensing with the private exporters, was a short lived attempt to regain control until the directorship again came under the influence of the post harvest sector.

Perpetuating this loss of grower control by fixing the voting system for the new supposed grower organisation, New Zealand Kiwifruit Growers Inc. the post harvest operators dominance has been further cemented in place.

To determine the future for Katipak it has been necessary to define the development of the industry, the current trading and the political environment with regard to kiwifruit.

2. SETTING THE SCENE

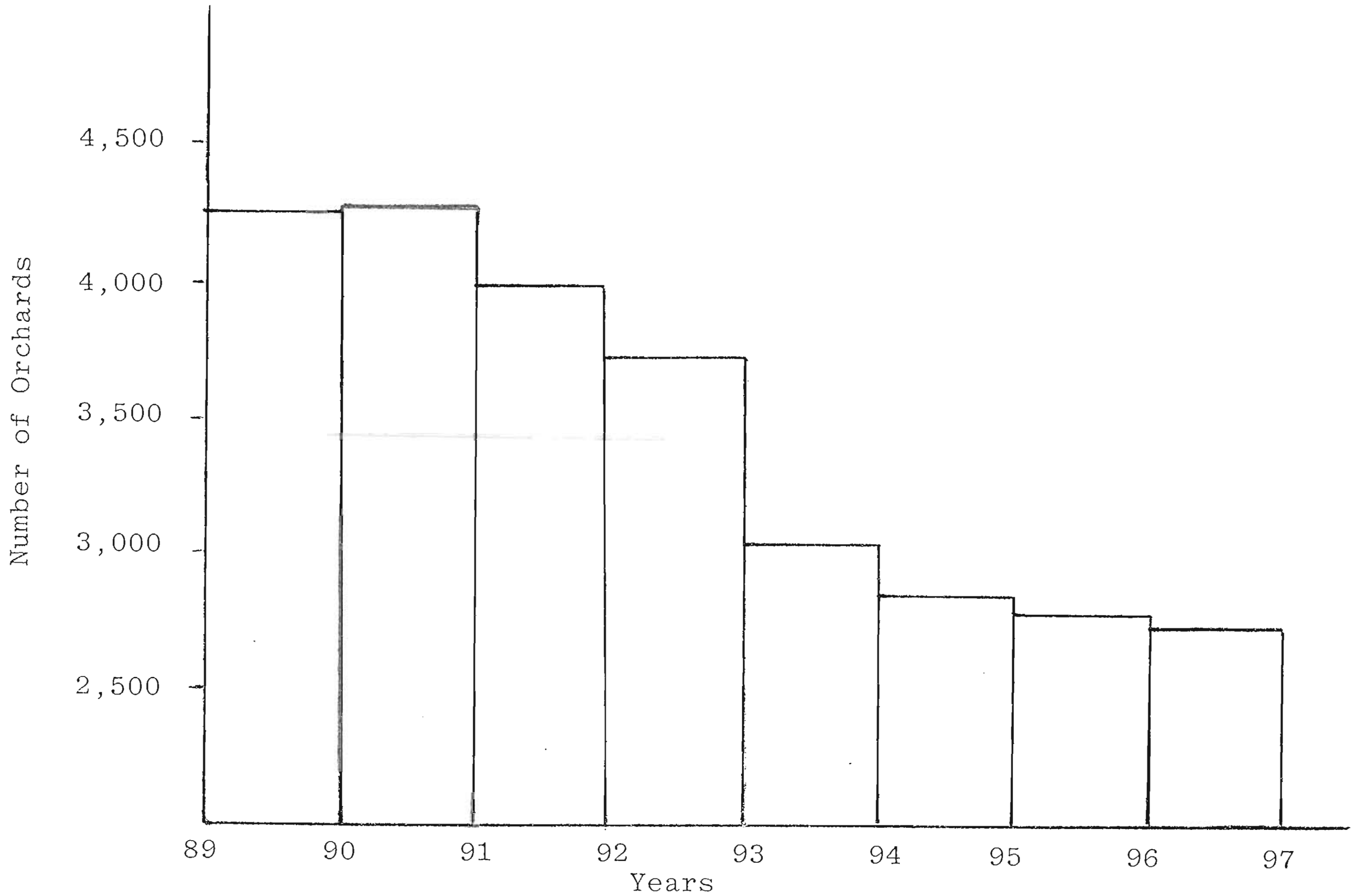
Kiwifruit is a sunset industry. If it is not - at the very least it is an industry in deep trouble. All available industry figures show this for example Graph 1 Planted Hectares.



Graph No 1. Planted Hectares

The peak planting occurred in 1989 with just under 16,000 Hectares throughout New Zealand planted in kiwifruit. For the years 1990 to 1992 there was a small decline in volume planted but by the harvest of 1992 when returns began to be unstable due to a much larger volume crop than predicted being submitted into the packhouses there was a huge volume decrease which has never been replaced in planted hectares.

The lower returns since 1992 created a significant drop in the number of orchards, see Graph No 2.



Graph No. 2 Number of Orchards

- 1993 it was apparent to individual growers that returns were not going any higher than they were and that if anything they were going to reduce - making many of the kiwifruit orchards uneconomic. Many orchards were pulled out and the land returned to pasture or lifestyle blocks depending on their location. Local Councils realised the significance of these newly marginal orchards as subdivisional lifestyle properties.

Growers turned to off-farm income to supplement their orchard returns and are now the highest sector of the agricultural and horticultural industry that relies on off-farm work, see Table 1.

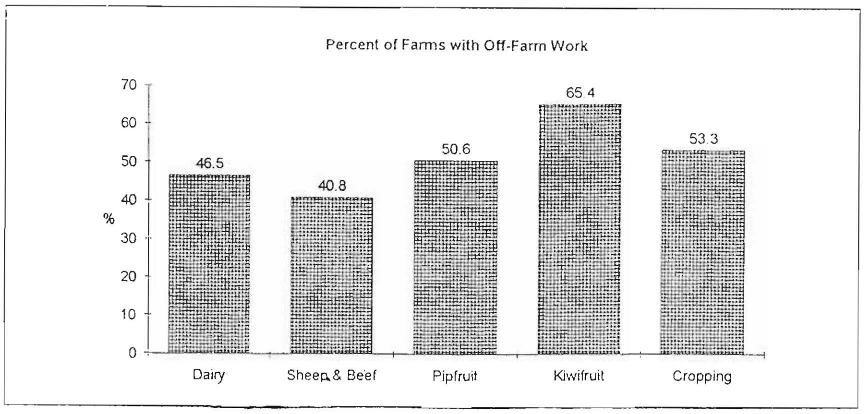
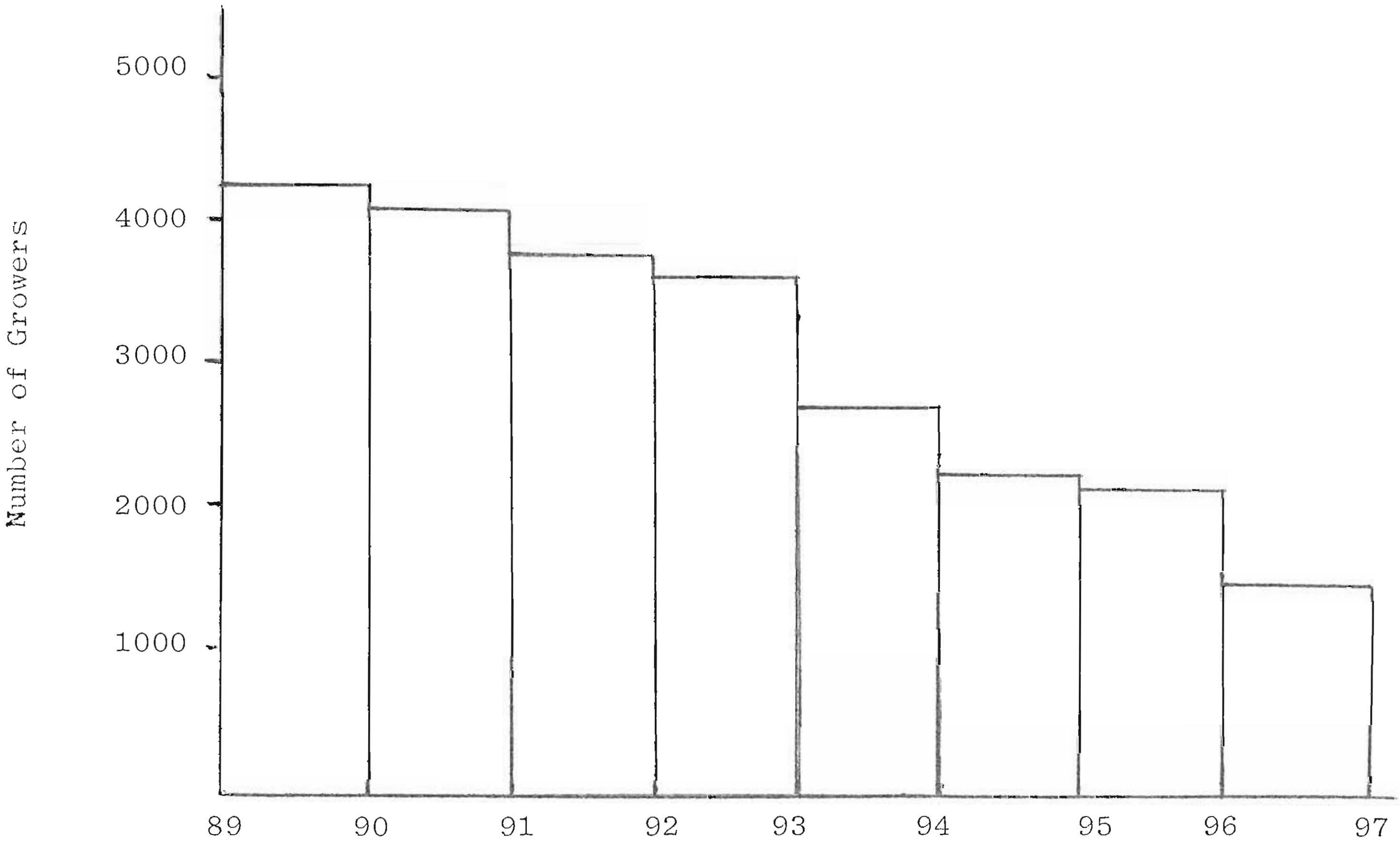


Table 1. Percentage of Farms with Off-farm Work.

As the number of orchards reduced so did the number of growers. See graph number 3.



Graph No. 3 Number of Growers

Growers had to weather a further blow from the US market also in this 1992 - 1993 season.

A shipload of kiwifruit was redirected from Japan, under orders from the then CEO Murray Higgs, to a new destination, America. This move was interpreted by the US International Trade Commission in May 1992 as Fruit Dumping. They imposed an anti-dumping order on all NZ kiwifruit imported into the United States which included a requirement to post cash deposits pending eventual duty assessments being undertaken on fruit dumped. This had and is still having a major impact on NZ kiwifruit accessibility into the lucrative US market and at the same time it was a wonderful opportunity for Chilean fruit, now coming into production, to deliver fruit to this large market. The US market was meant, according to the KMB to absorb 10-20 million trays at prices probably only second highest to Japan. By so doing it would also keep that 10-20 million trays out of other markets the resultant lower supply holding the rest of the world higher than has been the case.

2.1 HOW DID THE KIWIFRUIT INDUSTRY ARRIVE AT THIS PARLOUS STATE?

Kiwifruit growing began from small beginnings in the mid-1960's when 295 acres were planted and 13 growers were producing 40,000 trays of export quality kiwifruit. By 1970 the number of export trays had risen to over 100,000 and a group of growers formed the Kiwifruit Export Promotion Committee in which an attempt was made to levy growers and exporters in order to promote the sale of kiwifruit in overseas markets.

From only three exporters in 1970 the number had grown to thirteen exporters in 1977, which included some very small companies and a few growers exporting their own fruit.

To rationalise the export sector of the industry in November 1977 the Kiwifruit Marketing Licensing Authority was formed to control quality, distribution, promotion and export pricing. The Licensing of the thirteen exporters stopped newcomers from under-cutting prices on the export markets.
Two further licences were issued in 1978.

About this time a significant number of plants were being sold overseas. See Table 2.

Table 2. Kiwifruit Plantstock Exported Overseas.

	1979	1980	1981	1982
No. of countries supplied	7	9	11	10.
No. of plants exported	704,300	745,100	430,400	741,600
Main purchasing countries				
Argentina			38,000	
Chile			32,400	36,200
Japan	623,800	618,400	83,200	226,600
Korea		26,800	66,900	145,100
USA	58,800	62,000	188,600	319,900

These plant sales would have a major impact on the viability of the whole New Zealand kiwifruit industry in future years.

By 1982 there were only six Exporters which proved to be a workable number through the 1980's.

Continued increases in the size of the export crop necessitated the Kiwifruit Marketing Licensing Authority to consider medium and long term planning for the entire industry and as a result in April 1982 the Kiwifruit Marketing Planning Committee was formed, mainly consisting of the six licensed exporters of the time. It began as an advisory committee to the Kiwifruit Authority but as time went on the exporters on the committee became closer to the Authority and growers had concerns that the two groups were becoming too close. The Kiwifruit Authority by this time had full responsibility for licensing exporters, promoting the crop, setting and controlling fruit quality, grading and packing standards.

Production of kiwifruit had reached a level of 9 million trays in 1984 and growers felt the need for changes to keep the Exporters from becoming too blase about their position in the overseas markets, and talk of a "closed shop" was heard for the first time in the industry.

By now with volumes increasing, kiwifruit no longer an exciting new premium fruit, exporters were undercutting each other to gain overseas market share. In effect they were ratcheting prices downwards.

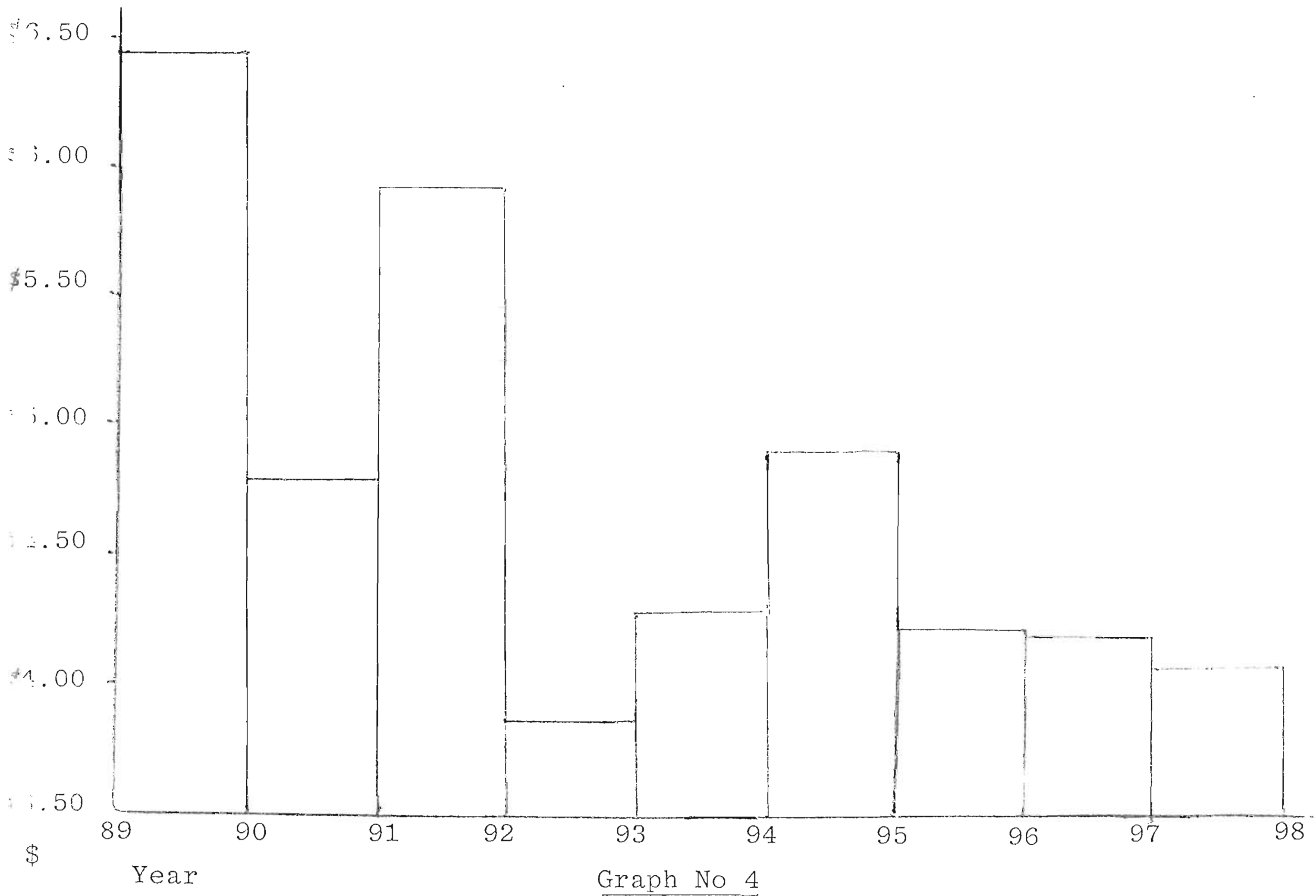
In 1988 the Kiwifruit Marketing Board was created through Government legislation to be the sole seller of New Zealand kiwifruit which has been the governing body of the industry up until last year, 1996, when the Kiwifruit Marketing Board began calling itself Kiwifruit New Zealand and created ZESPRI International Ltd. as its marketing subsidiary.

Throughout the early 1990's the KMB's marketing emphasis was placed on gaining a position in the world markets.

A joint venture was entered into with David Oppenheimer in America, a subsidiary company was opened in Antwerp and representatives were established in Dubai and Singapore. Further expansion of representatives were in Indonesia, Malaysia, Philippines, Thailand and South Africa.

All these expansionist policies were good for the KMB to broaden their marketing base, but growers were realising that future competition from the previously sold plant material (see previous Table No 2, page 6) was now coming into the markets, our window of selling was therefore narrowing, and we had lost the advantage of the Northern Hemisphere selling season as fruit from that Hemisphere was now available.

Gross returns to growers took a significant drop in 1992, due to the larger than expected volume of crop and the average size of the crop being smaller than expected. See Graph No 4.



Graph No 4

Gross Income to Growers - per tray

By the end of the financial year March 1993 there was a \$74.46M trading loss and the equivalent amount in overpayments to growers.

Banking confidence in the industry was sorely shaken.

The Government as agent for the Board's statutory authority, played an important role by guaranteeing the Board's status for 1993 and for as long as it was the wish of the growers for it to remain. It was entirely due to this that the banks extended finance to enable operations to continue in 1993 and beyond.

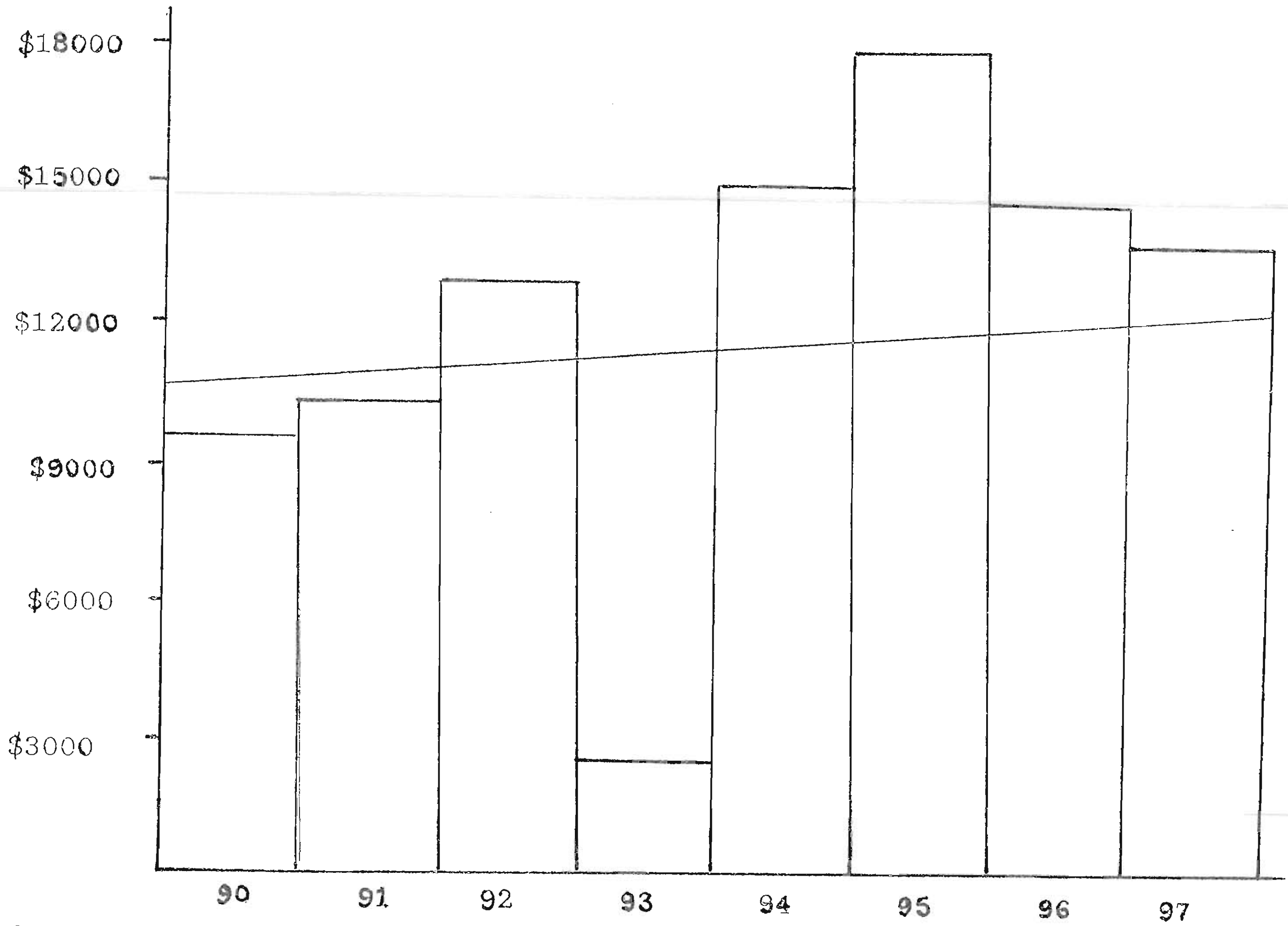
It was at this point that many growers left the industry and returned to their previous careers, sold, subdivided or took on new careers, (see previous Graph No 2, Number of Orchards page 3 and Table 1. Farms with Off-farm Work, page 4).

This also marks the point when many growers began leasing their orchards mainly to packhouse operators. While many growers failed or were forced to change direction the packhouse operators continued to prosper with their very high service charges against the industry.

The then Minister of Agriculture John Falloon instigated a three part Industry Review, which resulted, amongst other things, in the creation of a new representative body for growers - The New Zealand Kiwifruit Growers Inc. (NZKGI) - to be used as a forum for discussion and decision making on grower issues.

There are currently thirty eight members on the NZKGI thirty five of those members having an involvement with a post harvest facility. Growers are feeling disenfranchised with the capture of their supposed organisation - the NZKGI - by the post harvest sector.

Clearly while there is little growers can do about market demands and the influences upon it such as availability of other fruits, exchange rate, consumer taste etc. without the correct structure within the industry it's long term survival is not guaranteed. The overseas market has also changed considerably since the early shipments of kiwifruit in the 1970s. The overseas buyers no longer pay a premium price for the novelty of our produce. Most growers are now producing kiwifruit at breakeven or below cost and cannot continue in this way, see Graph no. 5.



Graph No. 5 Year Orchard Gate Return per Hectare (Bars)

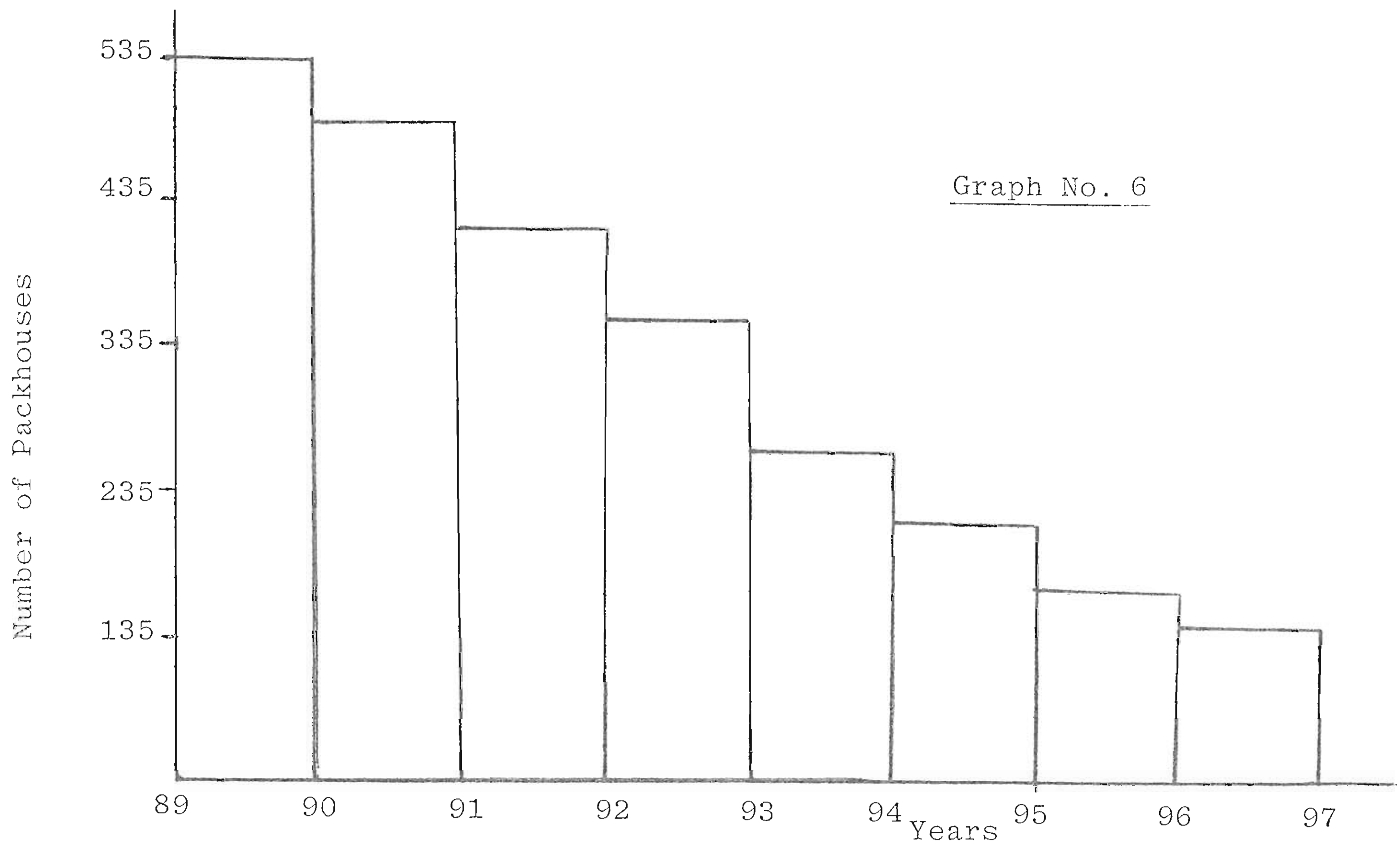
Line represents growing cost trend.
Above line represents nett return/ha.
Below line represents nett loss/ha.

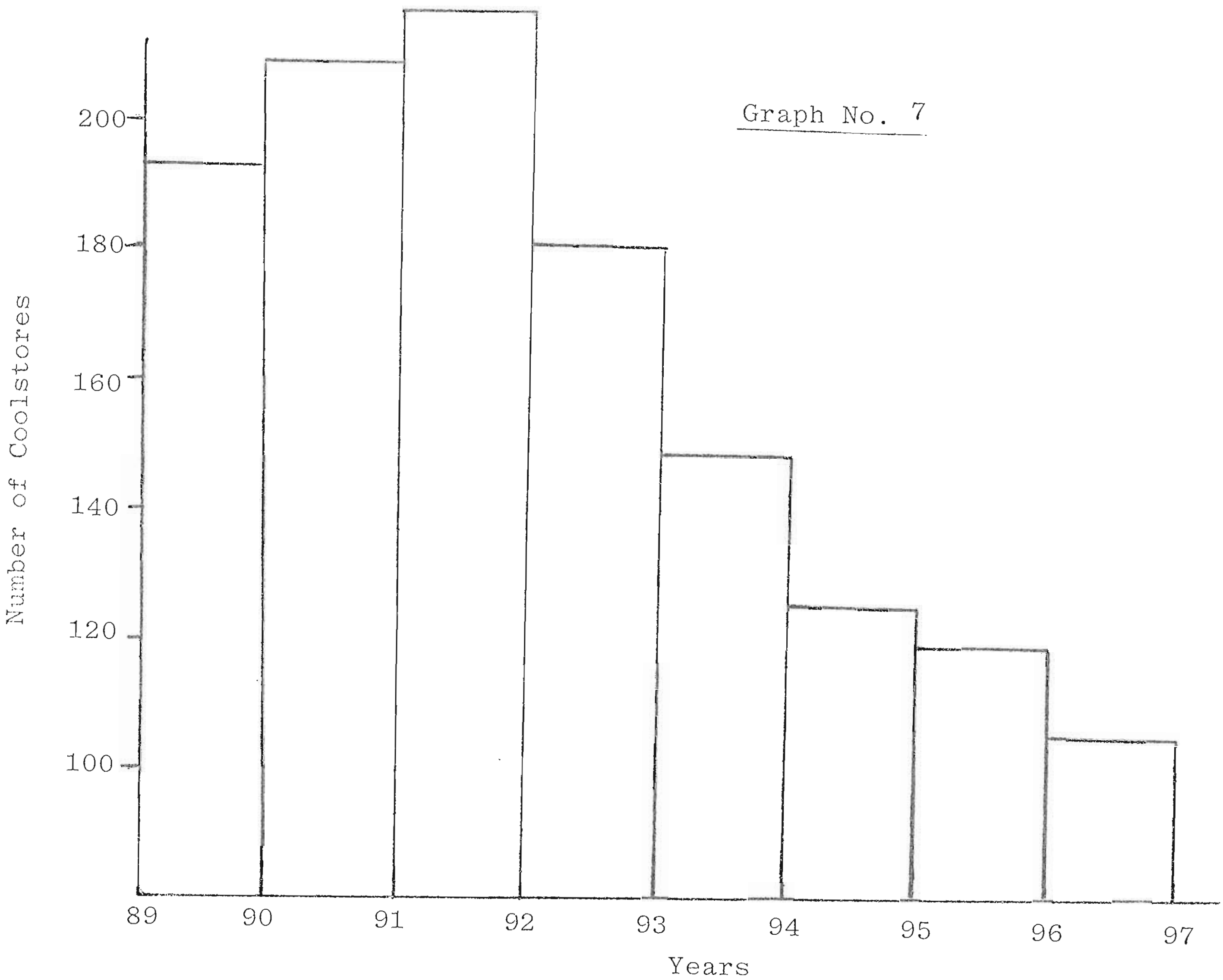
By 1994 all outstanding debts had been repaid and the third part of John Falloon's review - the marketing structure - had been completed and certain sectors of the industry were keen to get it implemented.

The post harvest sector is stuck in the middle of growers on one side and Kiwifruit New Zealand on the other. The post harvest operators are forever trying to get rid of more growers from the equation by leasing more and more orchards as the growers leave the industry.

The post harvest operators have been able to lease these orchards from profits realised from packing and coolstorage revenue. In many cases the post harvest operators are so desperate to lease orchards to keep their packhouses operable that they have actually made losses on the leasing side of their operations, just to retain throughput in their packhouse and coolstore facility.

Leasing is now a very highly competitive field with many packhouses employing staff to go out each season and procure crop - using methods such as undercutting prices charged for packing and coolstorage, offering shares in the packhouse facility and even trips abroad for bringing in new growers to the facility. With the payout to growers so close to costs even a few cents is now enough to turn growers from the loyalty of supplying the same packhouse each year if there is financial benefit to them to change. New technology and up to date equipment is essential for packhouses to woo growers from one packhouse to another and grower numbers gets smaller. It is not only the number of growers that is diminishing but also the packhouse and coolstore facilities see Graphs 6 & 7.





The packhouse operators are aware of their diminishing number of grower suppliers and are using their position on the NZKGI to influence industry policy before the growers know that any changes have been made. They have influence how grower payments are made, what payments are made to whom and when during the season. It is no longer a grower run industry but a post harvest run industry, the bulk of which are run privately and for profit.

While yet another review to be held in October 1997 seems unnecessary there is no doubt that if the kiwifruit industry was not in trouble there would be no need for a further review. The unremitting sequence of reviews of the industry shows that many people who are involved in the industry are aware of its parlous state.

2.2 CURRENT POLITICS

The Minister of Agriculture, John Luxton, has initiated as part of coalition policy this latest review. He claims to be a free marketer and does not see the single desk marketing structure lasting forever.

Luxton (1997) states:

"There is an increasing need to be competitive at the marketing end of the chain".

Kiwifruit New Zealand has already started this process by creating its marketing subsidiary ZESPRI International Ltd. to distance itself from any marketing failures, leaving itself with just two full time staff and one part timer to undertake the industry governance, while the majority of the staff - 144 people, both on and offshore, are now employed by ZESPRI International Ltd.

The third part of the industry review suggests that corporatisation of the industry is the most enlightened way for the industry to evolve. Corporatisation cannot be undertaken without legislative changes but what has been done up to now has been the transformation of The Kiwifruit Marketing Board into Kiwifruit New Zealand and the separationof ZESPRI International Ltd. A further independant committee has been set up to consider any collaborative marketing proposals and any new onshore arrangements and responsibilities.

These onshore responsibilities were to include any Supplier Entity groups of either packhouse operators or grower groups joining together to negotiate with Kiwifruit NZ coolstorage rates, despatch dates for their fruit to overseas markets and any other volume benefits that may ensue.

One such group has already been formed - Southern Kiwi - which serves about 700 growers, controls about 40% of the crop from the Bay of Plenty and the estimate for next years crop submission is 17 million trays. The idea being to gain savings and concessions through the sheer size of the entity.

The review also suggested that a number of marketing strategies for building kiwifruit business. For example: global sourcing of kiwifruit, selling on a year-round basis to maintain ongoing relationships with retailers and distributors. This will spread all costs of importing, storage, supply and marketing operations. Collaborative marketing between other fruit marketers and in the market place has also been implemented. A working party has also been established to look over proposals for any such marketing initiatives that eventuate.

Given all of this it is no wonder that Katikati Fruitpackers Co-operative Ltd's Board of Directors and Management are struggling to come up with survival strategies of their own.

3 KATIKATI FRUITPACKERS CO-OPERATIVE LTD. HISTORY

Katikati Fruitpackers Co-operative Ltd (Katipak) was incorporated as a co-operative in Kaitkati in 1980. An area of land in Katikati was purchased and a packhouse and coolstore were built. 1982 was the first year of operation. In 1983 a further coolstore was added and as more fruit was produced the packhouse was enlarged, a dry store and covered areas added, and a cafeteria and amenities block erected.

In 1988, the coolstore capacity was doubled with the building of a new coolstore designed to hold fruit under controlled atmosphere (CA) conditions. Controlled atmosphere storage capacity has been increased in subsequent years.

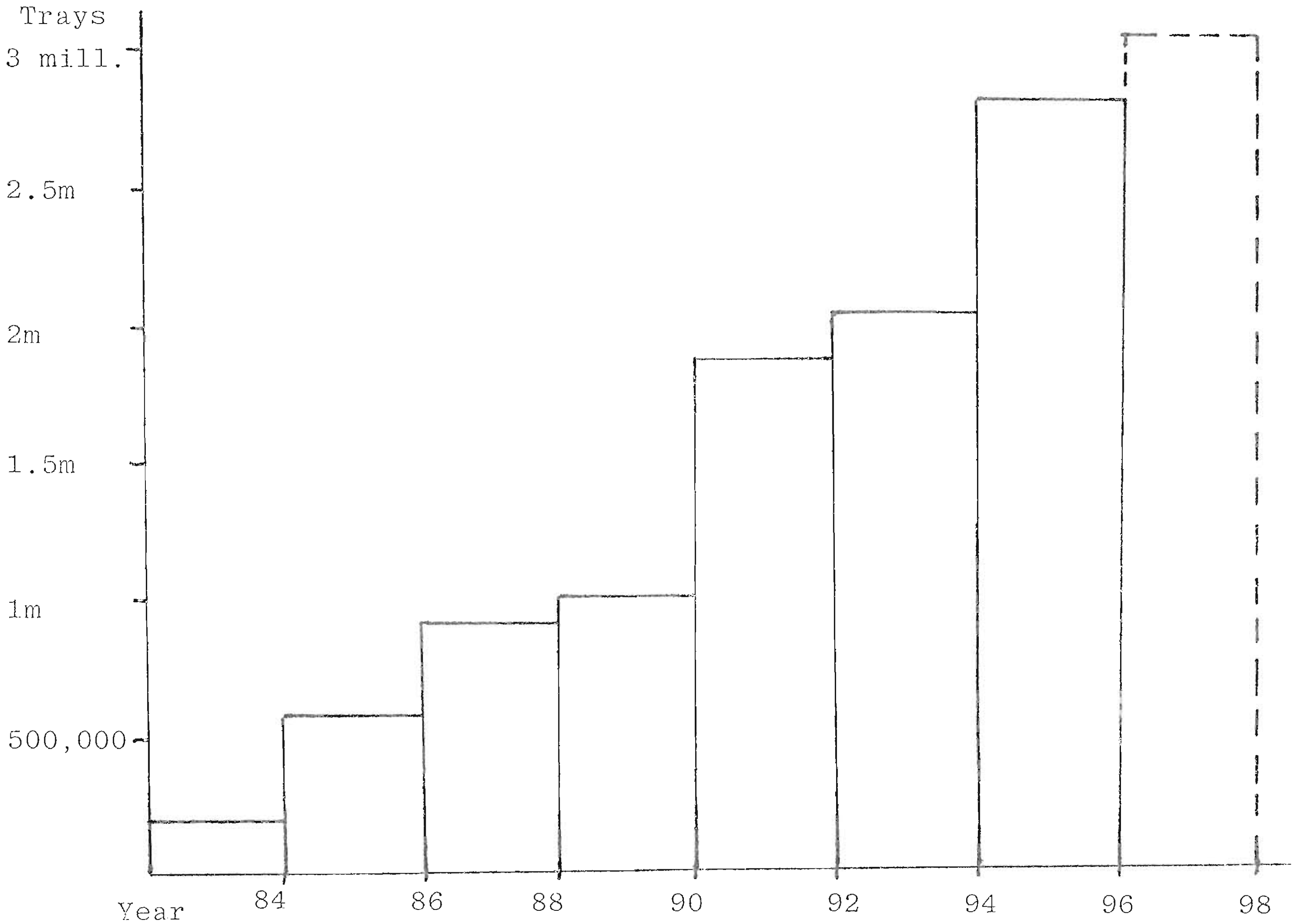
In 1990 a second packhouse and coolstore complex was purchased. This complex is known today as Katicool. A third packhouse and coolstore complex, Ashdelle, located in Tauranga was purchased in 1994.

Katipak prides itself in offering grower services with the best available equipment to maximise packouts, minimise losses and to have sufficient storage capacity for curing.

All equipment is up to date and Compaq graders are installed in all packhouses which provide high accuracy in sizing, flexibility in packaging and uniformity of management. In addition to the equipment sufficient bins are available to accommodate bulk bin storage and CA bin storage in excess of 900,000 trays.

In 1997 a laboratory was set up to service the early harvest programme requirements. It is anticipated that activities will be extended into areas that will enhance storage keeping performance.

Throughput in tray equivalents has increased every year since it's foundation, see Graph 8.



Graph No. 8 Katipak's Annual Throughput in Trays

The company now has the capacity to pack and coolstore in excess of 3 million trays of kiwifruit. New technology and excellent staff account for the increases in efficiency over the years.

With good staff and accurate equipment Katipak has been able to maintain its position as one of the top 20% of packhouse/coolstore facilities since its inception.

The co-operative business model makes the company people orientated. However this does not stand in the way of a commercially focused attitude to business. Profits over and above those deemed necessary for the company to maintain a sound financial position are returned to grower shareholders as rebates apportioned on the export trays packed in the year concerned.

Shares are issued at a rate of 1.2 shares per export tray packed and have a value of $1.00 each. The number of export trays is based on the average of the last 4 years. Capital payments are sourced through Withholding Rebate payments until fully paid up. No "up front" or cash payments are required. Shares are allotted, relative to crop volume to establish voting rights.

Refund of paid up capital when exiting the kiwifruit industry is usually made at the end of the year after the rebates are set. If growers elect to discontinue to supply their fruit to Katipak, notice of non-supply needs to be given to the packhouse in writing by December 15, and paid up capital will be not be refunded until 5 years after the date of notice. Late costs and/or notice can result in the company seeking to recover lost profits.

Grower members are obliged to supply; the company is obliged to accept the kiwifruit produced.

The grower is a co-owner of the company in proportion to his share numbers - his liability is the unpaid capital on his shares which is linked to tray numbers.

Great efforts are made by the company to not only remain highly competitive with charges, but also to obtain rebates equalling a commercial return on investment.

The company has a board with a minimum of 6 grower directors of which 2 rotate annually. A further 2 directors can be co-opted onto the board. Sub-committees of different sizes cover varying areas of activity, with or without participation of grower shareholders and/or staff.

The management team has more than 40 years of combined experience in the kiwifruit post harvest operation. This vast experience in combination with a very efficient management structure has created a well controlled but also very flexible organisation. The company began with a staff of about 50 people, one four lane machine and a small coolstore. Now there are 3 Compaq grading machines, 3 Controlled Atmosphere rooms and coolstorage capacity for 3 million trays of kiwifruit There are 8 permanent staff and a seasonal staff of 450 people, including a high percentage of those who return annually, having a strong committment to the company and pride in the combined achievements of Katipak.

Because the industry voting system for NZKGI and KNZ (note that NZKGI seconds to the board of KNZ two directors) is based on trays produced it is weighted against smaller volume growers, particularly in recent times when the number of leased orchards has increased and those votes tied to the leased orchards have gone to the leasee, the post harvest operator, making the smaller volume grower feel even more disenfranchised from his/her industry. Obviously by joining Katipak this situation is totally removed as each shareholder becomes a co-owner of the company, and therefore effectively a post harvest operator.

4. KATIPAK SURVIVAL STRATEGIES

Survival strategies have already been acknowledged by the Katipak Board of Directors. It has recognised that there is precedence and expertise available. The Katipak Board has realised that in order to do its rightful job of appraisal, goal and strategy setting it has to distance itself from the infighting in the industry that occurs amongst the growers and the NZKGI. Nevertheless it has representatives on NZKGI to keep a watching brief and to be aware of industry strategies.

All of the industry review research shows that to survive Katipak has to expand. So the next step is to set the goals.

In the kiwifruit industry this is hard to do as the statistics as previously shown indicate downward or at best static trends.

If the industry were in a 'sunrise' phase it would be very easy to set grand goals just by projecting expansion and or growth trends into the future. As all the graphs in Section No 2 "Setting The Scene" the industry is not in a "sunrise" phase and therefore the projections would indicate that downsizing is the answer.

However, Katipak cannot downsize. There would be no market for it's surplus plant and buildings if the company downsized. The shareholder base would evaporate as they left to escape higher charges as the economies of scale diminished.

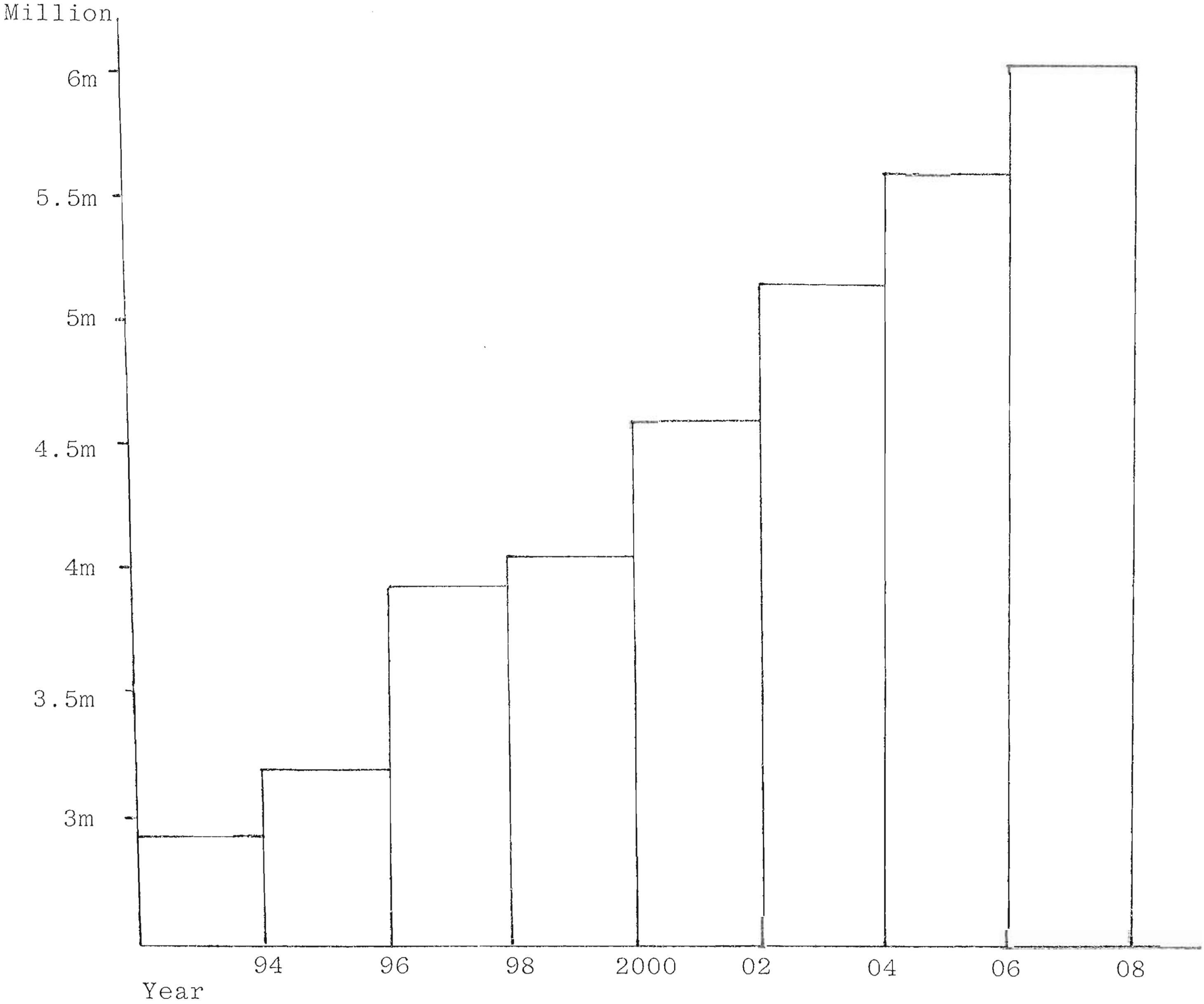
Katipak cannot stay the size it is today. Natural attrition from orchard sales, amalgamations and old age together with predatory raids from competing packhouse operators would soon see it downsizing into oblivion.

To survive Katipak must expand so the goals must reflect this.

The goals should be set high enough so that if they are achieved then Katipak will have a great strength within the industry.

The goal should be 6,000,000 trays by the year 2005 (Double The Size by 2005).

That is only 3 million trays more than it packs and coolstores now, which could be a takeover of three small 1 million packhouses, merged or absorbed over a period of one every 2½ years or one large 3 million facility soon, see Graph No. 9.



Graph No. 9 Projected Katipak Tray Throughput

The figure of 6 million trays translates to 10% of the total industry volume, keeping Katipak up with the biggest packhouses in the business, see Table 3.

Table 3. Biggest Packhouse/Coolstores by Tray Numbers, 1997 Season.

	Trays/Million	Ranking
Baypack	6	1st
Seka	4	2nd
Apata	3	3rd equal
East Pack	3	3rd equal
Katipak	3	3rd equal
Te Puna Pack N Cool	2	4th equal
Waimapu	2	4th equal
The next 15 packhouses with 1 million tray throughput		

If the single desk system collapsed the 10% critical mass would give Katipak the ability to either remain independent or determine for itself who should market it's fruit, and the overall marketing strategy it would adopt.

The increase in size and marketing strength would reduce the influence that Kiwifruit NZ and NZKGI has on Katipaks abilities and total industry control would revert back to being more in the control of the growers where it should be.

Having set these goals Katipak needs to ensure it achieves them.

5. RECOMMENDATIONS INTO THE NEW MILLENIUM

Katipak needs to use blunt language in hard hitting publicity to drive home the unpalatable facts facing the industry - to emphasise to growers that supplying privately owned packhouses is short-sighted in the extreme and is a move guaranteed to hurry their own demise.

Emphasis must be used to indicate that by belonging to Katipak, even if the single desk structure fails to survive, Katipak will continue through its own collaborative marketing structure to sell Class 1 export kiwifruit.

Shareholder/grower viability will be asured regardless of size. Every shareholders fruit will be sold, providing it meets the required standards.

Growers will be building up an asset in shares in the post harvest facility as have the private pack house operators who are already wealthy. Dividends as well as rebates can be offered on shares, a further financial benefit to shareholders. As long as the operation remains profitable the assets have a value.

Katipak management has to be clear in the way in which comparative figures are used, between itself and other packhouse facilities. Currently, private postharvest operators 'fudge' many of their figures, particularly performance- related figures on which the growers judge their abilities. For example: charges may be quoted low for packing but not include Class 2 returns, which is fruit graded, rejected as Class 1 and sent to supermarkets in Australia.

Katipak should move as close to the edge of libel as it dares in its advertising policy pointing this out.

As part of the strategic plan for expansion policies will have to be developed for growing, handling and marketing organic fruit and the new varieties of kiwifruit now available.

It should endeavour to be the industry leader in these areas rather than letting the private operators into this role by default as is currently the case.

Katipak should also venture into the area of other crops - apples, avocado, persimmon, nashi, tomatoes, passion fruit, citrus, onion, potatoes, kumera, beans, garlic and nuts - handling and marketing.

This would be to provide utilisation of capacity and diversification. But also and most importantly it would enable Katipak management and shareholders to build up national and international relationships and marketing expertise which would play a vital role should the kiwifruit single desk marketing end. With New Zealands increasing urbanisation and the growing conurbation of Auckland on its doorstep processing for local markets must not be ignored.

To do all of these things requires a courageous and forceful Board of Directors. They will need to have the courage to seek answers, to be well informed, to look ahead and to plan.

Growers must be forceful enough to push the plan ahead, to encourage management to employ the right people and to accept the occasional setback.

The shareholders have to have the courage to accept that there is risk in an expansionist policy but less than the certainty of total failure if the Board and management does nothing.

The shareholders prime responsibility is to ensure they elect the right people for the Board. This may mean looking harder at the qualifiications of candidates than has been done in the past. At present only three of the current Directors out of the six hold tertiary qualifications.

For the new millenium forthright people with courage and foresight are required on the board rather than 'more of the same' - a trap that co-operatives in particular seem to fall into, when selecting Directors.

6. CONCLUSION

Professor Michael Cook states in the *National Co-op Update* (1997)

"That co-operatives must go on the offensive or perish."

If Katipak can set goals and employ such a strategy as the foregoing it will burn off the opposition and take it's rightful place as leader of the New Zealand Kiwifruit industry beyond the new millenium.

Encouragingly Katipak undertook a SWOT analysis in 1996 which, after being presented to the Katipak Board was presented to the Katipak shareholders. This presentation forced the shareholders to look out from their isolationist position under their vines and consider the predicament their industry is in.

It forced them to realise that many of Katipak's problems are not necessarily of the Board of Director's and management's making.

Slowly, with the purchase of the third packhouse facility, Ashdelle, in Tauranga, and by advertising, pricing and crop purchase policies Katipak is moving away from being perceived as the sleeping giant, safe and secure at the North end of The Bay of Plenty.

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