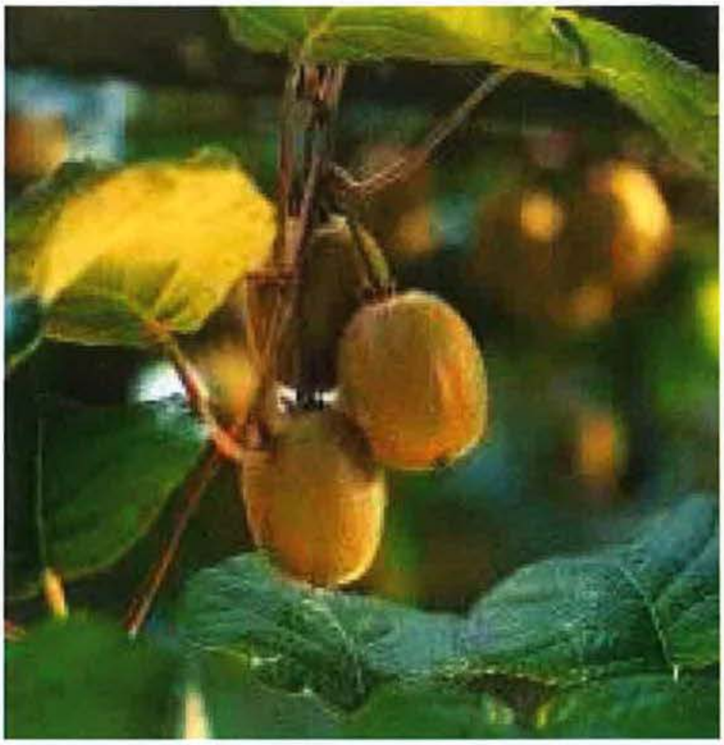
Class 2 Australia

Is the system Working



Sandi Clink

Kellogg Rural Leadership Programme

2012

“It is difficult to get a man to understand something if understanding it affects his Income”

“Knowledge is wasted without understanding”

Contents

Executive Report

Little did Isabel Fraser know, that when she returned in 1904 from Yangtze Province in China with Chinese Gooseberry seeds, that 100+ years on, those seeds would create a billion $ Kiwifruit Industry.

The examination of the past is essential for drawing lessons from previous experiences so that informed future decisions can be made.

Key decisions have been made by the New Zealand Government, Zespri International and its predecessors, Kiwifruit Growers Incorporated, Post harvest operators, and Orchardists. The business context for kiwifruit industry participants and industry structure has been characterised by significant change over the last three decades.

New Zealand is a major player in world kiwifruit markets.

Exporting is now dominated by Zespri International, the sole exporter to all counties except Australia. The sector has developed governance arrangements involving Zespri International and Kiwifruit Growers Incorporated and Kiwifruit New Zealand.

Success of Zespri International has been identified as industry champions and management conduct, innovation, industry structure, economies of scale and market power, branding, differentiation and strategy, value chain developments, market research with responsiveness and information dissemination.

Industry conduct and performance have evolved in response to legislative change, business opportunities and business capabilities.

Through the CER agreement New Zealand kiwifruit was unable to use the Zespri model adopted for the rest of the world. Consequently the Australia market remained with the multi-export regime of the past.

There is no comparison between the independent marketing of a dedicated export marketer using the Single Point of Entry model to that of multi exporters where kiwifruit is only but1 of their products.

Grower Orchard Gate Return is based on the returns provided by Class 1 export fruit marketed by Zespri. Very little attention is given to the value of non Class 1 fruit.

The past v the present is easily recognised when comparisons are drawn between the Zespri model used for 'rest of world' marketing and that of the Australian market.

The kiwifruit industry is complex, with many stakeholders and different agendas. Deliberation and strategic thinking needs to occur quickly so that the message of the market is not diluted to satisfy the needs of the lowest common denominator.

Kiwifruit Origins

1903

Mary Isabel Fraser (Lady Principal of Wanganui Girls' College) meet with her sister Katie in Japan and travelled to a mission in Ichang China – which lies on the banks of the Yangtze river, approx. 995 miles upstream from Shanghai.

1904

Isabel returned to New Zealand in January 1904, bringing with her the seeds of the "Ichang gooseberry". Known as 'Yang tao' seeds, she gave them to orchardist Thomas Allison who in turn gave them to his brother Alexander. Alexander was a Whanganui farmer with an interest in unusual plants.

Interestingly China also sent seeds to Chico, California in the United States that same year, however, trials were abandoned as horticulturalists had little success, as field trials involved mostly male vines, and both sexes are necessary to produce fruit.

1910

New Zealand's first kiwifruit vines were recorded as bearing fruit on Alexander Allison's property, south of Wanganai. The Chinese name Yang tao, was soon changed by locals, calling the furry fruit "Chinese gooseberries". This new, strange fruit attracted the interest of a number of nurserymen, including Duncan and Davies, Bruno Just, Hortons of Hastings, Frank Mason and Hayward Wright.

1920

By the 1920s plants were being sold at several nurseries with early horticulturalists selecting Chinese gooseberry plants grown from the original seed. Plantings were recorded in Auckland, Fielding, Wanganui and Tauranga.

1924

Hayward's cultivar

Most notable was Auckland nurseryman and gifted horticulturalist Hayward Wright, whose vines grew large fruit that kept well and had an excellent flavour. These plants were propagated by grafting and eventually became the preferred cultivated variety (cultivar) for both growers and consumers.

Chinese gooseberry's became increasingly popular in the 1930s and 1940s, but remained a novelty crop grown in private gardens and for local markets.

1937

Jim MacLoughlin - First Commerical Kiwifruit Grower and Explorer.

Jim MacLoughlin owned a property in No.3 Road, Te Puke, growing lemons and passion fruit, Jim bought two plants from a nursery in Te Kuiti and some seedlings from Auckland. The kiwifruit vines were just a novelty at first but, once they started producing and he found that people actually liked the fruit, Jim decided to plant more of his land in Chinese gooseberries.

The year was 1937, and this small beginning was considered the first commercial planting of Chinese gooseberries. The vines grew and fruited well on a six-foot wire fence, literally taking care of themselves.

By 1940, Jim's 7 acres were entirely planted in Chinese gooseberries, and he purchased more land in No. 2 Road.

In 1955, he purchased another 38 acres, and planted it all in Chinese gooseberries. As more vines were planted, and the fruit volumes increased, Jim realized that the obvious way for him to extend the market for his kiwifruit was to export. Until then, marketing had consisted of sending half-bushel cases of fruit with the stalks still attached, mainly to Wellington and Christchurch.

1952

Jim and Grahame Bayliss approached Stan Conway of the New Zealand Fruit Federation, who agreed to handle the shipping and marketing of the fruit offshore for local growers. At the same time a UK produce broker, TJ Poupart Limited, had also approached Stan to source the fruit, and the first export consignment of 13 tonnes of Chinese gooseberries from New Zealand was on its way.

Jim MacLoughlin carried the honorary title "Father of the Industry." and was also awarded the MBE for his services to the kiwifruit industry and pioneering of exports.

1956

Green kiwifruit cultivar was renamed "Hayward" by Dr Harold Mouat, as a fitting tribute to Hayward Wright. The cultivar was named Hayward as a tribute. By the late 1960s it was the standard cultivar of the kiwifruit export trade.

1959

The name Chinese gooseberry was changed to melonette by Auckland-based fruit packers Turners and Growers but American importer, Norman Sondag of the Ziel Company in San Francisco asked for a name change when he explained that both melons and berries attracted high import tariff duties at the time.
Jack Turner came up with the name 'kiwifruit' after New Zealand's national bird, the kiwi – small, brown and furry, like the fruit.

The first 100 cases of New Zealand – grown kiwifruit arrived in San Francisco, California.

1962

The Oppenheimer Group and Frieda Caplan of Frieda's Inc. began developing markets for kiwifruit in the US and Canada.

1970

The first successful California kiwifruit crop was harvested. Kiwifruit became a global culinary craze as the signature garnish of nouvelle cuisine.

1977

The New Zealand Kiwifruit Marketing Licensing Authority was created with Roly Earp as its first chairman.

1988

This organization developed to be a single desk operational and marketing organization, the New Zealand Kiwifruit Marketing Board (NZKMB), in 1988.

1992

Taste testing took place on an intriguing new gold kiwifruit variety – then called "Hort16A". The new variety was naturally bred from a vine at the Hort Research orchard in Te Puke. Seeds from a female plant, chosen for its yellow flesh and excellent flavour, imported from China in the late '70's, was crossed with a NZ male plant, proven to produce large, succulent fruit. The taste and flesh colour were so unique that rapid multiplication of the single vine was requested for further evaluation.

1994

In June 1994 NZKGI (New Zealand Kiwifruit Growers Incorporated) was culminated with the election of 38 members (executive of 8). Effectively, the formation of the NZKGI placed growers firmly in control of the future structure of the overall industry.

1997

The New Zealand kiwifruit industry decided to brand its fruit, so that everyone around the world could choose it by name. A good brand identity could help shoppers quickly find the fruit in a busy market, and be assured of its origin. The name needed to capture the essence of NZ kiwifruit, be able to be trademarked and have no negative connotations.

NZKMB trademarked the name 'Zespri', a computer generated word and established "Zespri International Limited" as its marketing subsidiary.

1999

"ZESPRI GOLD" variety was introduced to the world by ZESPRI International. The smooth-skinned, yellow-fleshed fruit, tropical sweet, with overtones of mango. Zespri Gold had qualities that were the key to new Asian markets. The introduction of a gold-fleshed kiwifruit has been a turning point in the industry's history. Zespri also rebranded Hayward fruit as 'Zespri Green'.

2006

Kiwifruit achieves new SuperFood status in a trendsetting book *SuperFoods Health Style* by Dr. Stephen Pratt. ZESPRI® Kiwifruit is available in North America June through October. Kiwifruit has twice the vitamin C of an orange, as much potassium as a banana and as much fibre as a serving of bran flakes Kiwifruit is also a good source of magnesium, is sodium free and a low-fat source of vitamin E.

Bite for bite, a kiwifruit contains more essential nutrients than 27 of the most popular fruits, as proven by a Rutgers University study, making it one of the most "nutrient dense' fruits in the world.' – Zespri Brand Website

2008

New Zealand production of Zespri Kiwifruit exceeds 100 million trays.

2010

November 5th, confirmation in Te Puke of Psa (*seudomonas syringae* pv. *Actinidiae)* a bacterium that only affects kiwifruit vines causing bacterial canker which at its worst can result in the death of vines. First identified in Japan in the 1980's, NZ strain is particularly virulent and is known as Psa-V. It is estimated the cost to the industry will be between $310 million and $410 million with a loss of up to 470 jobs a year between 2012 and 2015.

Regulations and Legislation

1970 - Kiwifruit Export Promotion Committee
Established in 1970 was the first attempt at overall coordination in kiwifruit export marketing. KEPC was a voluntary body.

1977 – The New Zealand Kiwifruit Marketing Authority (NZKA)
Established under the powers of the Primary Product Marketing Act 1953. The Kiwifruit Authority licensed a limited number of exporters to export kiwifruit and coordinated these exports. They also set quality standards for the industry, controlled marketing and packaging, and funded research and development. Overseas production and competition increased during the 1980s which resulted in price and income reductions for NZ growers. This dramatic downturn of the industry resulted in the government accepting the recommendation of the NZKA to transform itself into a marketing board.

1988 – New Zealand Kiwifruit Marketing Board (NZKMB)
Established after a major restructuring of the industry replacing the NZKA. Set up under the Kiwifruit Marketing Regulations 1977 – which stemmed from the Primary Products Marketing Act 1953. Under this act of 1953 the NZKMB was granted monopoly powers to purchase, distribute and market kiwifruit in all international markets except Australia. It was obligated to buy all fruit offered by growers that met export standards.

1999 – Kiwifruit Industry Restructuring Act and Kiwifruit Export Regulations
Passed in Sept 1999. These Act's established Zespri as a company with shares tradable among producers, and recognised Zespri Group Ltd as a single desk exporter with exclusive authorisation to export and market New Zealand kiwifruit overseas with the exception of Australia.

2004 – Amendment to the Kiwifruit Export Regulations 1999
Every exporter wanting to export to Australia had to apply for a license or exemption from the Horticultural Export Authority (HEA). This was done under the NZ Horticulture Export Authority Act 1987.

CER - New Zealand-Australia Closer Economic Relations
On 1 January 1983 the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), more commonly known as Closer Economic Relations (CER), took effect, replacing the earlier New Zealand Australia Free Trade Agreement. This CER Agreement between New Zealand and Australia is one of the most comprehensive, effective and WTO-compatible free trade agreements in the world. (CER rules of origin) This underpins substantial flows of merchandise trade, services, investment, labour and visitors between the two countries. One of the most important results of CER was the Protocol on the Acceleration of Free Trade in Goods, which resulted into the total elimination of tariffs or quantitative restrictions between the two countries by 1 July 1990, five years ahead of schedule.

ANZCERTA does not affect Australia or New Zealand's ability to impose quarantine measures to protect their animal and plant health.

HEA - The Horticulture Export Authority

- Has statutory authority and was created under the NZ Horticulture Export Authority Act 1987. It reports to the Minister of Agriculture and is funded 100% by its sector participants.
- The HEA Act's primary function is 'to promote the effective export marketing of horticultural products'.
- Export Licensing System – anyone wanting to export the product needs a licence and is required to meet the criteria.
- Sectors of the horticultural industry can apply to become a "Recognised Product Group" (volunteer) e.g. Kiwifruit Product Group (KPG)
- Export Marketing Strategy (EMS) is the Product Groups vision for the industry and rules for exporting to achieve goals. This is legally enforceable by the HEA.

HEA model in context of other marketing models

The HEA model fits mid-way between the Free Market where anyone can export any grade of fruit or vegetable product to any market, and the single desk where one exporter controls all exports of the particular product category.

Source: HEA 2012

HEA functions include;

- Working with product groups in the development of their Export Marketing Strategy
- Approves and enforces EMS requirements
- Export Licensing
- Trade access
- Lobbying Government on relevant issues.

NZKPG - New Zealand Kiwifruit Product Group to Australia

Formed and incorporated in 2003. The KPG to Australia is recognised as the product group for kiwifruit exported to Australia for consumption in Australia.

The Purpose of KPG under the HEA is to improve the quality and value of kiwifruit exported to Australia, facilitate industry programs in quality and marketing to maximise the on going viability and profitability of NZ kiwifruit. It has responsibility for monitoring and enforcing grower, pack house and exporter compliance with the EMS.

Executive Committee is made up of

3 x Growers Rep from NZ Kiwifruit Growers Inc (NZKGI),
3 x Supplier Rep from postharvest sector
3 x Exporter representatives appointed from Kiwifruit Exporters to Australia
(of the 9 only 2 are not exporters, 1 being a grower)

KETA – Kiwifruit Exporter to Australia
Any exporter of Green Kiwifruit to Australia must be granted a license under HEA and be a contract member of KETA.
KETA is responsible for all market promotion and development activities.
EMS – Export Marketing Strategy
Is a document that sets out the Kiwifruit to Australia industries collective marketing objectives and the means by which is has agreed to attain these objectives.
The EMS provides a framework, outlines the key strategic directions for the kiwifruit industry and the mechanisms by which these objectives will be met. The EMS is a critical document as it provides the basis for setting and enforcing industry standards and minimum requirements for the export of kiwifruit to Australia from NZ, with compliance by Growers, Packers and Exporters.

In Summary:

- To export Kiwifruit to Australia a licence must be granted by (by HEA).
- The HEA approve the Export Marketing Strategy (EMS) developed by the New Zealand Kiwifruit Product Group to Australia Incorporated (NZKPG).
- The export marketing strategy imposes grade standards, which are intended to improve the market price.
- The HEA also monitor the compliance of licensed exporters, and is able to take disciplinary action if the approved marketing strategy has been breached.
- Licenced exporters must belong to KETA and NZKPG.

Class 2 Australia

Single Point of Entry v Multi Exporters

History

- The kiwifruit industry expanded rapidly in the '60's & '70s. Growers banded together to pack and export their fruit overseas and competed against each other for markets.

- In the 1970's, the Kiwifruit Marketing Licensing Authority was formed to provide growers with control over their industry structure and regulate the activities of exporters. This structure enabled grade standards to be established and a coordinated approach to marketing undertaken. Exporter numbers reduced from 14 to 7.

- In the mid to late 1980's, the rapid expansion of orchards in New Zealand led to large crop volumes, above and beyond that of global demand. The New Zealand dollar was rising and interest rates were high. Exporter numbers increased and were competing against each other, driving prices, and grower returns down further.

- The NZKMB was established in 1988 as a single desk exporter under grower control. Kiwifruit growers wanted a grower-owned organisation with one aim only – to maximise returns to the grower.

- NZKMB did not have any capital investment in any post-harvest facilities.

- 1992 the European market crashed and NZKMB's prepayment of $3.50 plus two progress payments of 35c meant a final payment to growers of $3.85 down from $6.08 the previous year. This still was a significant overpayment to growers by the NZKMB and they would require heavy borrowing against future grower returns to continue operating or a clawback from growers against the $3.85 already paid.

- Two things occurred as a result of the price crash:
  Debt financing and government intervention to protect the NZKMB
  A debate on the future of NZKMB

- The 1992 crises ended with a Government review of the NZKMB and the industry in general. There were 3 elements to this plan:
  Grower representation/industry structure
  Marketing
  Strategic direction

- NZKGI was established in 1993 to represent New Zealand's 3,500 kiwifruit growers and give growers their own voice in industry and government decision making and was formed following the downturn in the kiwifruit industry in the early 1990's. NZKGI's VISION is to be a strong grower organisation that demonstrates industry leadership in which growers and other industry participants actively participate. NZKGI's MISSION is to represent, protect and enhance the commercial and political interests of New Zealand Kiwifruit growers. NZKGI's Grower Forum consists of 25 regional and district representatives and 13 industry group representatives.

- A complete review of the industry was undertaken in 1993. A marketing driven strategy was at the forefront of change. The continuity of a Single Export Entity (SPE) was endorsed by growers across New Zealand.

- In 1997 Zespri International Limited was formed as a global marketing organisation, providing a single point of entry for the export of New Zealand grown kiwifruit, except Australia.

- Zespri Group Limited became a public company in which eligible kiwifruit producers were issued shares. Kiwifruit Regulations established a statutory framework for the governance and regulatory oversight by Kiwifruit New Zealand of Zespri's operations, ensuring the New Zealand kiwifruit industry continues to lead the world in kiwifruit innovation, production and supply.

- Zespri markets approx. 90% of NZ grown fruit, 30% of world kiwifruit to over 60 Countries averaging 100m trays.

- With approval by KNZ, other exporters and marketers can export kiwifruit in collaboration with Zespri. In 2012 there were 13 companies exporting 2.8 million trays of kiwifruit from New Zealand to markets other than Australia.

Behind the scenes

- When the KMB was formed in 1988, there were 620 packhouses operating, many family orientated (Willis, 1994). In 2006, there were 83 packhouses and 85 coolstore facilities (Zespri, 2006). In 2012 there are?

- Consolidation of packhouse numbers increased operating capacity of postharvest facilities. Packhouses operated pest monitoring centres under the KiwiGreen programme which increased involvement of packhouses in orchard operations. Leasing also increase the certainty of throughput for postharvest operators.

- Links where strengthened between grower and packhouse operators.

- Economies of scale has been the major influence of postharvest consolidation and refers to the reduction in average costs that occur as the scale of a firm's output increases.

- NZKMB started changing requirements for market accountability, cool store facilities and capital equipment which required a greater volume of output for the postharvest operations to be economically viable.

- The NZKMB inherited a system of grower payments that was a clear legacy of competition between the licensed exporting companies. Prior to 1988, exporting companies competed for grower custom by making generous forward payments. This prepayment locked growers into one exporting company and allowed that company to use this fruit as security for the funds advanced to growers. The legal ownership of fruit was transferred to the exporter when the fruit entered the cool store.

- Today legal ownership of Class 1 fruit remains with the Grower but payments are still made via the postharvest facility having being paid by the exporter.

- Since 1994 - when kiwifruit exports to Australia came under the New Zealand Horticulture Export Authority Act 1987 – all exporters wanting to export kiwifruit to Australia needed to be licensed. In 1996, there were 63 licenses holders – including the NZKMB - and today this has decreased to 16 – including Zespri. Total kiwifruit exports to Australian of approx. 5 mill trays is worth 36.2 million FOB in 2011.

- Australia was originally the biggest export market.

- In the early 1980's the grower return on Class 2 fruit was as good as Class 1 fruit. However, in the late '80s when export competition heated up and more emphasis was placed on Class 1 fruit, the class 2 fruit price dropped away.

- As postharvest consolidation increased, so too did their influence within the industry. NZKGI was well represented by the postharvest sector and although Zespri Class 1 standards remained rigid, the gezted grade standards were not enforced on Class 2 fruit. As the fruit grade standards decreased, the price eroded.

- The early '90's saw increased competition between postharvest facilities. Strategies included having a nil charge for non-export fruit or rejects. This fruit was left in the control of the packhouse to deal with as they wished to help recover costs.

- Growers focused on Class 1 and lost identity of Class 2 fruit. Advocated and gave ownership of fruit to the packhouse.

- Total accountability from grower to market and back lost when compared to rest of world export. Still case today.

- Because of the emphasis placed on Class 1 export, Class 2 does not attract the same focus and accountability.

- Very few grower place value in their Class 2 fruit when considering their OGR.

- Australian exporters are not transparent on their market returns.

Kiwifruit Trade

Kiwifruit is New Zealand's largest single horticultural export by volume and value, with $962 million of exports.

Table 4.1.1 Kiwifruit industry statistics

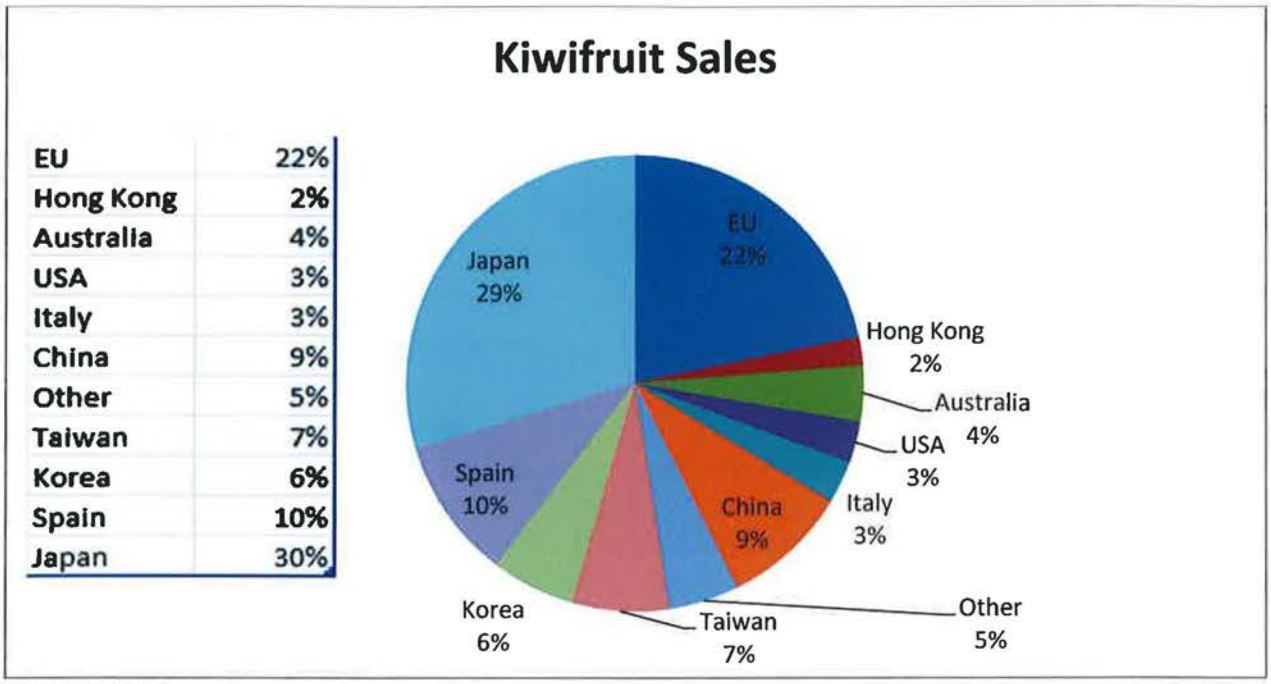
Season (to 31 March)	2004	2005	2006	2007	2008	2009	2010
Trays submitted (million)	66.1	85.8	87.8	89.9	102.0	109.4	107.0
Trays sold (million)	64.6	79.7	82.3	80.1	92.4	100.0	98.6
Yield (trays/ha)	6,247	7,847	7,655	7,514	8,371	8,866	8,546
Planting (ha)	10,580	10,934	11,464	11,967	12,186	12,337	12,525
Growers	2,703	2,760	2,748	2,754	2,727	2,710	2,711
Packhouses	98	88	83	80	75	71	71
Coolstores	86	89	85	87	83	92	77

Kiwifruit Export markets 2008-2010 (year ending June, tonnes and $NZ FOB)

	2008		2009		2010	
	Volume	Value	Volume	Value	Volume	Value
European Union	214,559	402,526,844	210,941	488,497,858	185,439	382,033,958
Japan	64,858	217,917,955	64,429	254,344,937	66,948	271,126,992
China	10,883	20,012,966	21,256	50,916,964	28,797	74,936,620
Taiwan	19,043	43,757,888	23,134	65,756,686	24,107	66,754,442
Korea , Republic of	27,894	63,069,975	28,125	73,767,130	24,162	64,159,018
Australia	18,905	33,761,959	15,358	29,060,925	16,421	34,394,967
United States of America	23,262	31,124,745	23,355	36,014,106	20,926	29,333,119
Hong Kong	9,627	20,945,248	8,431	25,182,474	7,183	20,607,885
Total	**411,423**	**$870,707,604**	**416,171**	**$1,071,800,223**	**400,000**	**$995,778,105**

New Zealand kiwifruit export markets (year to June 2011) Source: HEA 2011

World Sales distribution



Source: BRR 2011

Fresh Fruit Exports ($ million, FOB)

Horticultural exports ($ million, fob)
Fresh Fruit

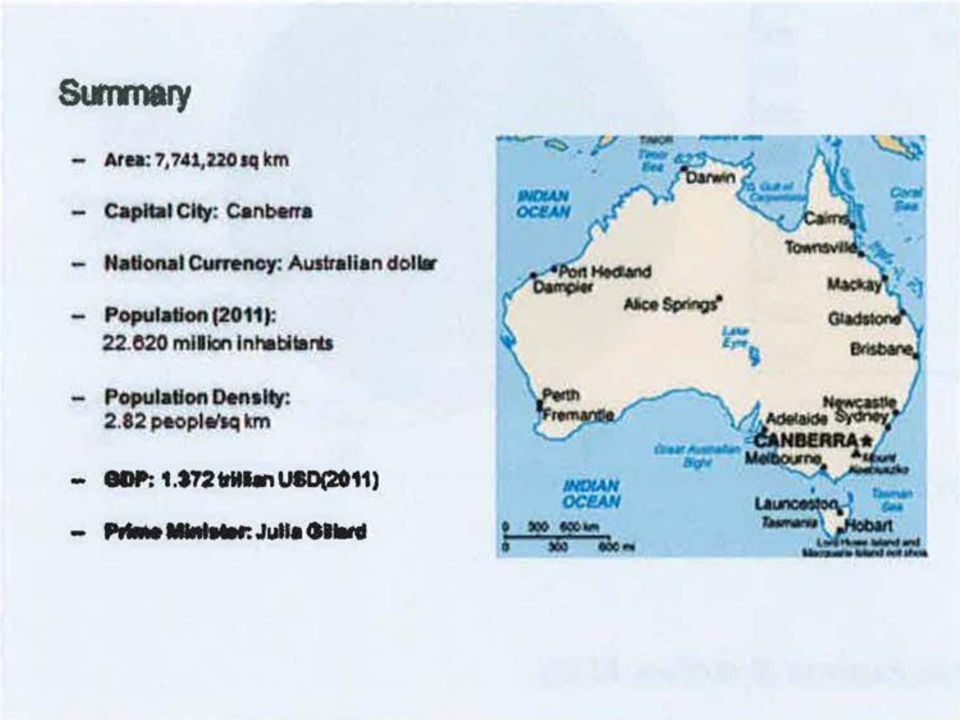
Year ended	1975	1985	1995	2005	2010	2011
Apples	19.3	108.2	343.6	387.6	324.6	363.3
Kiwifruit	2.9	171.9	320.8	720.2	995.7	962.6
Avocados	n/a	n/a	n/a	29.0	59.9	51.3
Other Fresh Fruit	0.8	28.4	57.6	51.5	74.7	79.7
Total	23.0	308.5	722.0	1187.7	1454.9	1456.9
Aust Kiwifruit					34.4	36.2

Source: Fresh Facts 2011 HEA

A significant export volume, Kiwifruit exports to Australia are New Zealand's 4th largest fruit export crop by value.

Australia

Australia, officially the Commonwealth of Australia, is a country comprising the mainland of the Australian continent, the island of Tasmania, and numerous smaller islands. It is the world's sixth-largest country by total area.

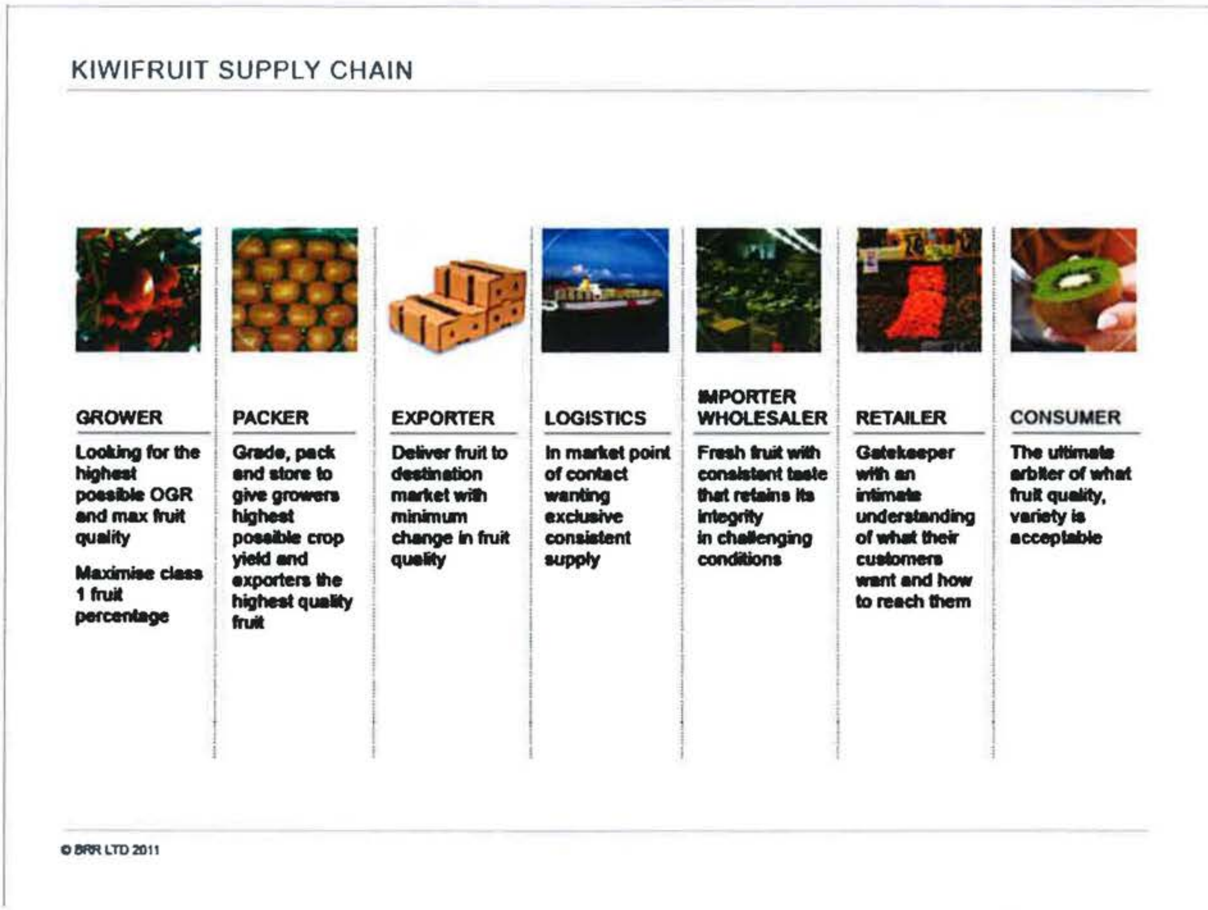


Total Kiwifruit Export to Australia

Kiwifruit to Australia	Kgs	NZ$ Fob
2006	16,163,322	$ 35,155,409
2007	15,996,887	$ 34,682,464
2008	17,179,892	$ 33,043,215
2009	14,176,905	$ 29,017,017
2010	15,292,560	$ 34,394,967
2011	14,978,873	$ 36,222,455
Yr on Yr % change	-2%	5%

Source: HEA Stats 2011

The Kiwifruit Value Chain

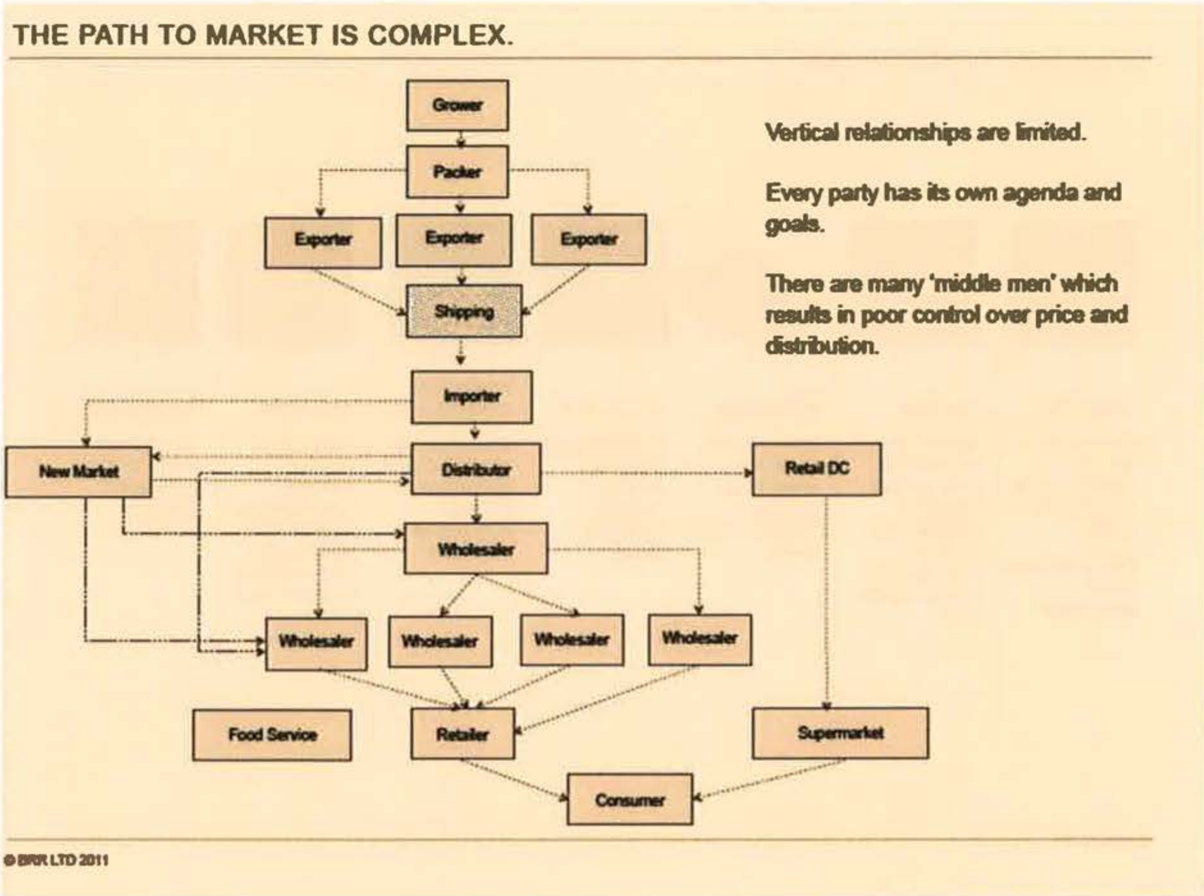


Total supply chain management is crucial.

Zespri

- The concentration of production, processing, distribution, and information sharing systems means that Zespri has a total supply chain management system.
- Careful management of Zespri's supply chain ensures that customers and consumers consistently receive kiwifruit of the highest quality.
- Best practices are demonstrated right through the supply chain, which includes Growers, Packhouses, Coolstores, Suppliers, Transport and Shipping, and represents every step in the journey from the vine to the customer.
- Fruit arrives to supermarkets in optimal condition due to temperature control along the supply chain.

The Supply chain used for export to Australia



- Poor control over Distribution can lead to price erosion as everyone clips the ticket along the way.
- Consumers pay top price while growers receive very little.
- The industry needs to work as an integrated cohesive unit.
- Fruit is moved up and down the supply chain line looking for a home.
- Retailers would pay more for consistent quality and supply
- The more fruit is handled, the greater deteriation

The Growers

- The grower is charged with providing the industry with high quality, great tasting fruit that is free of pest and diseases. There focus is on export quality fruit and grow to Zespri export standard. Once harvested, the fruit is transported in bins to the packhouse – postharvest facility.

- Growers focus on OGR (Orchard Gate Return), the amount of money returned to them from the marketer via the postharvest facility.

- Green kiwifruit is of marginal profitability.

Australia:

- Total accountability from growers to market and back was lost in early marketing days when compared to 'Rest of World' export .

- Growers focused on Class 1export and have lost identity of Class 2 fruit (Australian export).

- Growers own their fruit but have no control over their crop outcomes.

- There is low transparency for growers through the supply chain.

- Suppliers are in control.

- 2010 growers need OGR $2.89 to cover costs.

- 2010 Australian return $1.80 (overall $3.70).

The Pack house or Postharvest facility

- Key motivator for packers is volume.
- Their business is grading, packing and storing grower's fruit. To give growers the highest possible crop yield and exporters the highest quality fruit.
- Most of the large postharvest operators now also manage significant numbers of orchards to ensure supply of fruit for their operations.
- Postharvest revenue on packaging and Cool storage on Class 2.
- Postharvest facilities do not retain any fruit – therefore every piece of fruit must go.
    - Class 1 – Export
    - Class 2 – Australia and NZ

  Class 3 - NZ
  Process & Stockfood

Zespri
- Zespri liaises closely with suppliers to ensure that fruit is packed to meet customer demands and then works closely with shipping companies to plan optimal modes and timing of delivery to get the right fruit to the right market at the right time in the best possible condition.
- Strict grade standards are adherence to by Zespri audits.
- Quality control systems based upon market factors are crucial to the industry

Australia
- Attitude is not of a high standard – 'it's only Class 2'.
- Little discipline surrounding handling of fruit.
- Free agents to do as they want with fruit other than Class 1.
- Apart from grade standards, there is no other quality control requirements.
- Packers try move fruit early to clear storage space
- Fruit value to growers lost when pack houses marketed a nil reject charge in the early 90's. Many used the rejects to sell in a cost recovery programme with the funds being pooled and if any monies left, where then distributed back to growers. Not surprisingly costs almost always out way any profit.
- Class 2 used initially as a cash fund for pack houses – historical mentality continues today.

Exporters

Source: BRR Ltd 2011

Zespri

- Zespri International Limited is a global marketing organisation, providing a single point of entry (SPE) for the export of New Zealand grown kiwifruit, except Australia.
- Key Motivator for exporters is quality and volume.
- Early harvest class 1 green internationally delivers a premium.

Australia

- 15 Licenced exporters under HEA
- Australian market is of strategic importance but market management is haphazard and operators work in isolation to serve own interests.
- 5 exporters control 80% of the Class 2 volume into Australia.
- Although CER agreement allows for free trade, NZ fruit still need to pass a biosecurity clearance. A pre-clearance is obtained in NZ before export to Australia, this saves time on Australian wharfs and costs associated with failures.
- Consignment selling – shipped with no market. Price discussed but wholesale market rules price.
- Early harvest Class 2 green into Australia is exported at a discount.
- Class 2 kiwifruit is being treated as a by-product.
- There is little regard to the marketing challenge of Firm v Ready to eat.
- Exporters sell under their own brand name.
- Pack house not willing to co-operate as many have shares in export companies.
- Be prepared to go to the market quickly when climate disruptions occur resulting in price sensitivity – banana and pineapples.
- Each exporter files a weekly flow plan with NZKPG but don't have to stick to it.

Importers

- 'We don't buy anything from anywhere else in the world on consignment – only NZ kiwifruit'

Two types of Importers;

- Ready to eat fruit when dealing direct with Retailers
- Hard fruit (avoids wastage while holding large quantities)
- Some large importers look for as many distribution points as possible in bid to move fruit fast
- Small exporters hold fruit for long periods to manage supply
- Only quality importers have manageable programmes.
- Would pay set price for consistent fruit of good quality.

Distributor

- The objective for some is to move it through the maximum number of outlets, resulting in fruit spread far and wide in the wholesale market.
- Each time the fruit is moved quality goes down and price goes up.
- This leads to price cutting due to competition.
- Some distributors are losing interest in the current supply chain system
- Larger distributers can condition fruit for ready to eat fruit supply
- "No – one cares what the grower gets."

Wholesaler

- Unknown number of wholesaler receivers by region.
- Consignment selling – shipped with no market. Priced discussed but wholesale market rules price.
- Daily sales are vital for wholesalers – if everyone stocks the same fruit then price is compromised.
- Fruit often sold as lowest price.
- Wholesalers know they are dealing with NZ Class 2 fruit and treat it as such.
- Their business is based on strong relationships and trust and expect to be treated well by their suppliers.
- They want dependable supply so they can provide whole selection of fruit to their regular customers.
- The same fruit is available at multiple wholesalers in the same market, to the temptation and almost necessity is to undercut on price to move the stock, resulting in reduced prices for all.
- If supply is controlled they can reduce temptation to reduce the price on move stock.
- Asia re-exports out of Australia were a significant problem for Zespri – price to low

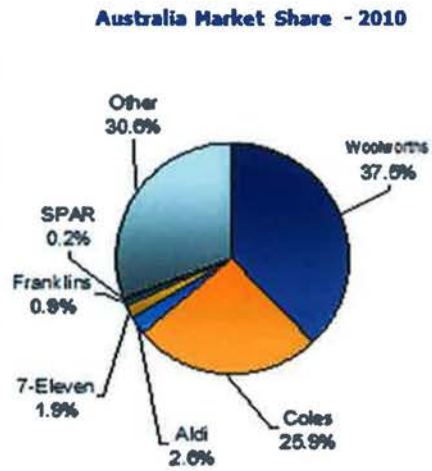
Retail

Two rival Supermarkets

- The two large supermarket chains control a large portion of the retail sector. The grocery retail market has become so consolidated and the buying power of supermarkets so extensive, that they can dictate terms and conditions, as well as prices to suppliers.
- Coles own 750 Stores Woolworths 826 Stores
- Coles purchasing criteria, Quality, Minimal wastage, Consistent supply, Taste, Price, Run rigorous quality control – would I buy it test (WIBIT)

Market Share - Australia

	2009	2010	2011
Woolworths	37.2	37.7	38.1
Coles	25.7	26.1	26.4
Aldi	2.5	2.6	2.7
7-Eleven	1.9	1.9	2.0
Franklins	0.9	0.9	0.9
SPAR	0.2	0.2	0.2



Source: IGD Market Share. The methodology is detailed at the end of this presentation.

- Supermarkets are continuing to consolidate leading to greater size and market power. They have significant influence on pricing and sourcing of product.

- Consumers are increasingly time poor and demanding convenience which is leading to increased large retailer strength.
- One major supermarket chain wanted to double sales volume, and reduce special pricing.
- New Zealand Class 2 fruit is still regarded as the best quality and taste.
- Need to maintain brand awareness.
- Although exporters maintain a set price for supermarket negotiations, the supermarkets also keep a very close eye on the wholesale market and react accordingly.
- Requires well managed promotion and supply.
- Supermarkets change their buyers every 2/3 years – prevent commercial relationships.
- In practical terms suppliers are faced with the prospect of capitulating to their demands or losing supermarket shelf.
- Like NZ season to last longer (supply Christmas period)
- Independents are different

- Independents want hard fruit that lasts longer
- New international budget chains like aldi & Costco are growing
- Wide variety in pricing
- Are under pressure due to dominance of retail chains
- Independent food markets are expanding
- Result – less buyers in the market – more competition amongst wholesalers to sell to them.

The Consumer

- Eating quality is fundamental.
- Wants ready to eat fruit
- Consumers prepared to buy more if it's ready to eat and, tastes good.
- Consumers respond to promotion and clear messages.
- Consumers would buy more if they understand the nutritional value.
- If the consumer loves the fruit they will come back for more, regularly.

Zespri

- Ensures the best quality is consistently delivered to the consumer backed by unrelenting customer support.
- Reacts to consumer demands e.g. ensuring high tasting fruit into Japanese market – consumer pays a premium price.

Australia

- There is little consumer engagement outside Zespri for NZ kiwifruit.
- Currently the system is designed around serving the middle men not the consumer.
- Industry needs to be committed to providing a steady supply of ready to eat fruit.
- Repeat custom is based around nutrition – an analysis of the ability of 27 most popular fruits to provide the recommended amounts of nine essential nutrients – Kiwifuit won.
- For repeat custom and increased price, customers' needs to know that Green Kiwifruit are rich nutritional powerhouses.

Marketing

- Successful modern brands are consumer led.
- Many industries in New Zealand do well at the production end but underestimate the importance of promotion and distribution.
- Kiwifruit supplies less than 1% of the global fruit bowl.
- Kiwifruit faces stiff competition from other summer fresh fruits in the markets such as bananas and apples.
- In this highly competitive environment, aggressive marketing is required to ensure that sales are made achieving the best results for NZ growers.
- When competitors enter in force, the importance of promotion and distribution dramatically increase.

Zespri

- Zespri Group Ltd, has sales revenues of $1.5 billion, Zespri is the world's most successful horticulture marketing company and the Zespri Brand is recognised as the world leader in premium quality kiwifruit.
- The main purpose of the SPE and collaborative marketing strategy is in effect to ensure that NZ Kiwifruit does not compete with NZ Kiwifruit. As a country we face stiff competition from other Kiwifruit growing countries mainly Chile and Italy and more recently China, on the shoulder of our kiwifruit season.
- An advantage of one key marketer is to achieve scale and to therefore be able to hedge foreign exchange, negotiate very competitive shipping rates have one kiwifruit focussed supply chain, a cohesive and consistent marketing strategy in each market, achieve consistent high-quality fruit and to promote and market kiwifruit
- Zespri's focus is on connecting the market and its requirements and translating those needs back to the people who grow and pack the fruit, ensuring the product is in the right market at the right time and within each market's specifications.
- NZ grows the best tasting green kiwifruit in the world and is marketed as such.
- Promotion spend green 6% of net sales over 70million trays, promotion spend gold 7.5% of net sales over 23 million trays
- In terms of ensuring regular consumption, health is also a big consideration. Sharing the health benefits of kiwifruit with the consumer.
- In Asia the ready to eat concept is already more advanced because customers are often buying fruit and vegetables daily.

Australia

- The Australian market is increasing in its importance to NZ Producers. Over the past decade exports to Australia have risen from NZ$159million in 2000 to $756million in 2011 in spite of market access issues for some produce.

- The Australian market is an example where we find that many exporters in a single country market result in a fragmented marketing strategy– price competition takes over with the inevitable price spiral downwards.

- Australia is a key market consumers come not just to trust, but to rely on high quality NZ product.

- Marketing of Kiwifruit to Australia is currently supplier led.

- New Zealand story for Australian consumers is non-existent.

- Activities are focussed solely on what is happening in New Zealand and not with Australian kiwifruit eaters.

- Not promoted to be the leading fruit offer in the Australian winter.

- Little or no promote of kiwifruit for its health benefits and value i.e. a delicious healthy snack at a great price.

- Other exporters with different varieties and different PVR are riding on the coat tails of Zespri's global marketing through promotion and Brand - that Zespri growers have paid for. Profit not coming back to Zespri growers.

- Sydney wholesale market – Friday 13 July Zespri Gold $34 a 5kg pack with other golds pack selling for about half.

- A consumer marketing programme is required to build demand which is critical do driving and maintaining a higher price

- Consignment selling is does not allow for effective marketing and promotion

- A lot of kiwifruit is exported to the Australian market without a dedicated customer and simply, put on the wholesale market in the hope a buyer will turn up. Supply and demand rules.

- New Zealand Kiwifruit into Australia does not have a generic brand. 'Taste the goodness' is dated and 15 exporters/suppliers cannot agree on a new one.

- Although the KPG can put in measures for grade standards and supply chain specifications it cannot control competition within the market.

Economies of Scale and Market Power

The co-ordinated size of the New Zealand industry provides economies of scale - not just in production and distribution, but also in promotion, and allows for effective integrated marketing communication planning which is central to the New Zealand strategy of differentiation.

- An advantage of one key marketer is to achieve scale and to therefore be able to hedge foregn exchange, negotiate very competitive shipping rates have, one kiwifruit focussed supply chain, a cohesive and consistent marketing strategy in each market, achieve consistent high-quality fruit and to promote and market kiwifruit

- Where Zespri has dominant market share in a market product category, advertising to increase per capita consumption levels is a strong option.

- The kiwifruit industry has, through Zespri, 'economies of scale' by having sufficient volume offed to establish a market.

The industry under a single structure enables many things to happen

- Production volumes and therefore market plans could be put in place and offered to customers

- Sufficient quantities of fruit could be assured to warrant big customers carrying the product.

- Buyers could only negotiate with one marketer out of New Zealand

- High quality could be assured by Standards set and enforced within New Zealand

- EOS in shipping to the other side of the World meant affordability

SPE has provided the New Zealand industry with the market power to counter the strength of the dominant retailers, the supermarkets.

Brand

The development of a credible branded product is critical for effective and profitable overseas marketing. Prior to the adoption of the Zespri label, promotional activities by the NZKMB were seen as being too restricted by the generic term kiwifruit, thus enabling other producers to 'free ride' on the promotional activities of the NZKMB.

- Brand equity – the value – quality/service/delivery
- Market unsure of other brands.
- Successful modern brands are consumer led.

Zespri

The integrity and reputation of the Zespri brand will continue to be integral to the success of the industry. Giving meaning to the brand through investment in promotional materials and point of sales collateral has resulted in Zespri being in a position where it now earns premiums above other kiwifruit producers.

- Zespri Brand – globally Zespri's trade focussed marketing strategy
- Zespri brand is recognised as delivering consistently superior quality and value to customers.
- It has been based on taste, health benefits and low pesticide usage and has lead to a successful price premium to support the promotional and branding efforts.
- 'Family Kiwi' is the Zespri brand name for Class 2 and non-standard supply fruit.
- The Zespri brand has been one of the most critical initiatives that Zespri has made.
- By having robust controls and processes to ensure Zespri kiwifruit is in the best quality when it reaches the market, the distributors and consumers have confidence in the brand and the fruit attributes and will often pay a significant premium over competitor fruits.
- Zespri spends significant amounts of money on promoting the fruit (in 2009 NZ$86m was spent in advertising and promotion) and this has built brand loyalty with distributors, retailers and consumers.

Australia

- New Zealand export kiwifruit brands are trade Brands, not consumer brands.

- Kiwifruit is available in Australia 365 days of year – no concept of seasonality
  Italy/France Nov – March
  Australian – Feb – July
  NZ – April – Nov

- New Zealand fruit is regarded as the best fruit but is only marketed under Trade Brands.

- A superb nutrition story, but it's not being communicated.

- A brand and marketing programme needs be developed.

- The industry needs to work together to create a powerful and consistent presence in the market.

- Recognition means consumers buy on trust and familiarity rather than price.

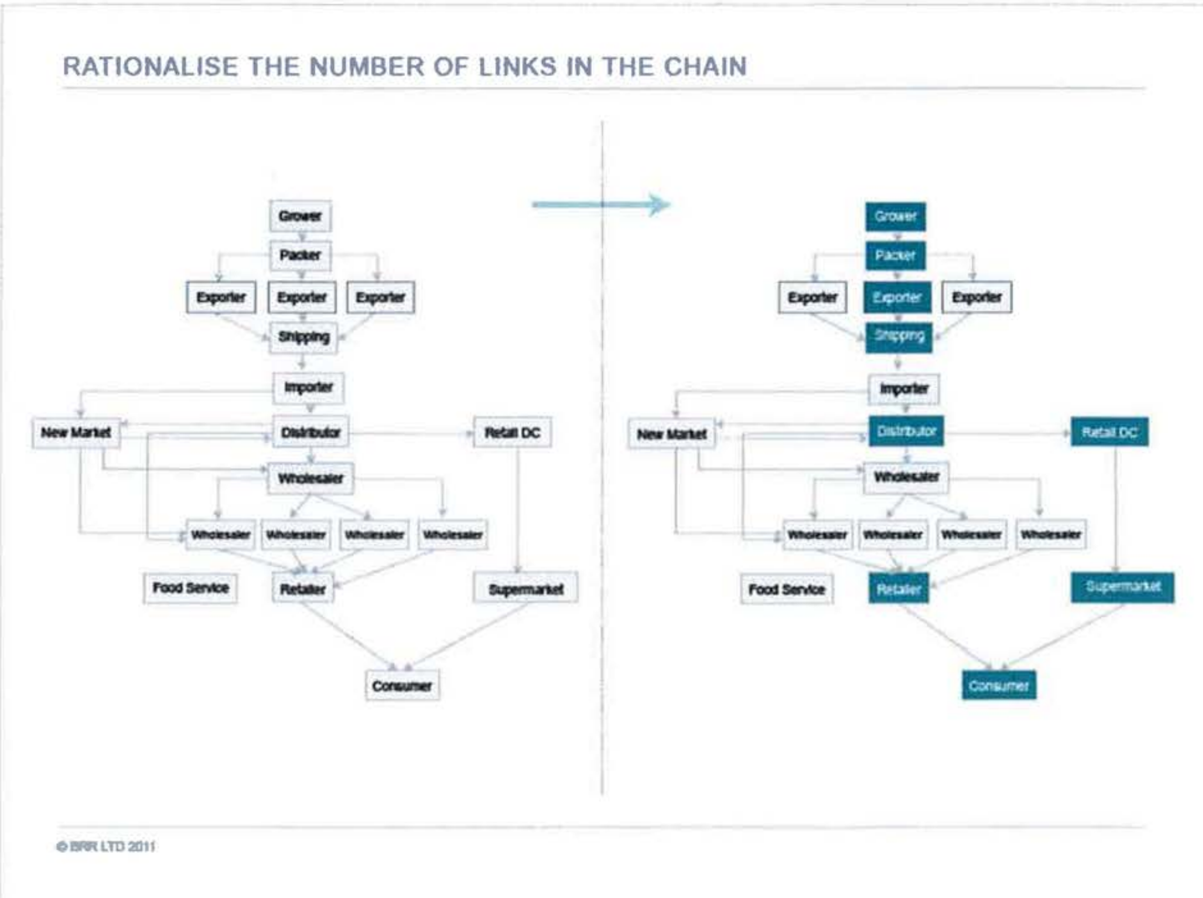
- Sought after e.g. Kellogg's, Watties, Charlies orange juice., Whitaker's choc.

- Better value alternative – but need to be ready with promotions at short notice.

- Australian regulations require fruit to state 'Country of Origin' by using trade brands, this is the only way consumers know they are buying NZ Kiwifruit.

- Market can take a higher price with a well communicated value proposition.

Rationalise the number of links in the Chain



Source: BRR Ltd 2011

Avoid the current self-destructive competition

- Reduce the number of players in the path to market
- Fruit availability at higher volumes
- Through less outlets
- Shift produce faster
- Improving quality and
- Avoid undercutting in the wholesale market.
- Reduce the number of exporters and wholesale outlets
- Control supply from NZ to smooth consumer demands and protect the retail price.

BRR was commissioned by the New Zealand Kiwifruit Product Group for an insight report on Class 2 Kiwifruit exported to Australia.

Below is their Viewpoint and Recommendations;

Australian Viewpoint - market

- Growers have no control over what happens to their fruit in the Australian market
- There is not good transparency for growers of the Australian supply chain
- The grower return being generated in Australia needs to increase to cover production costs – but noting that the majority of the fruit exported to Australia is class 2 green.

Growers are focussed on maximising their return from class 1 green sold in markets other than Australia.

NZ Summary Observations

- All agree that returns are not being maximised in Australia
- There is a collective desire to promote more effectively in Australia
- NZ industry structure is integral to returns
- There is some movement towards consolidation and vertical integration amongst the major exporters and packers.
- A single desk structure for Australia is not supported by some exporters
- Individual company ends can rule ahead of industry discussions

New Zealand Viewpoint

- Everyone agreed that returns are not being maximised in Australia
- The major packers and exporters do not support a SPE type of marketing arrangement for the Australian market and individual company agendas can rule ahead of industry discussions.

Australian Viewpoint

- New Zealand kiwifruit is the best kiwifruit in the Australian market
- There is a perception in Australian wholesale and retail markets that the NZ industry is disorganised and divisive.
- NZ kiwifruit is the only fruit being imported into Australia on consignment – however the Australian market is open to fixed price sales at the importer and retailer level.
- There is no responsibility placed on the Australia partners to drive product returns.
- Price erosion is due to industry structure not specific exporter behaviour

Australian Summary observation

- There have been multiple missed opportunities in recent years to expand the NZ kiwifruit presence in Australia when other fruit prices have spiked e.g. banana and pineapple.
- Promotion build value and consumption
- Major opportunity for NZ storytelling, and messages around nutrition and value.

BRR insights

- The Australia market is ready for NZ kiwifruit to step up, but this will require industry collaboration.
- Growers need to hold the value chain accountable for results, something they cannot do within the current model.
- Consignment selling is devaluing kiwifruit prices in the Australian market.
- There is a lack of price and distribution control in the market.
- NZ needs to look at supply volumes v's forecasts for market demand and adjust shipping rates accordingly.
- The NZ industry competes against itself at retail and wholesale resulting in reduced pricing for all.
- Eating quality is paramount – conditioning of RTE should be mandatory and supply of Ready to Eat kiwifruit needs to be mandatory.

BRR recommendation for change:

- Change from consignment to a set price model, under a brand that stands for something.
- Improve reporting to growers.
- Reduce distribution outlets to reduce price erosion at wholesale.
- Only use importers and distributors who have re-condition available in market.
- Adopt 'Would I buy it? Motto and standards among members to champion the consumers eating experience.
- Develop a new brand name and build a story around NZ Kiwifruit.
- Develop a marketing programme to communicate clear proposition, generate demand, maintain positive pricing and push through volume of supply.
- Be prepared to run short-term promotions with key retailers, to address any short-term over supply issues, or shortages of other winter fruits.
- Enter the market a month later to avoid competition with Australia kiwifruit to achieve a higher price point.

Source: BRR Ltd 2011

The Australian Export experience in other Industries

The Australian Pipfruit experience

- 'It's time the pipfruit industry learnt to supply fruit to the market when customers want it and not when it wanted to send it'
- The problems was 28 NZ exporters were operating in the region and generally had 'only one thing to compete with, and that's price', we need to do something to stop us competing and taking money off the table for growers.

The Australian Avocado experience

- 'We acknowledge that there was a lack of clarity over our accountability for monitoring and reporting marketing performance. Our exporters acted in dependently with respect to managing crop flows to our most valuable market (Australia) While the upper supply limit of 2.8m trays was agreed and discussed by exporters, the industry delivered 3m trays, arguably leaving $3.00 per tray of grower value behind'
- In terms of exporter performance, change was in growers' hands'.
- 2008 the AGA signalled the potential for increased trays – regardless of this there had been little new market development by exporters to absorb increasing crops. We reacted to slowly when the market became over supplied and kept hoping it would recover, but it didn't.

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Conclusion

Prior to Zespri, multiple exporters were competing to sell kiwifruit independently around the world. A large increase in crop volume meant that the overseas importers and retailers could put pressure on the industry to drive the prices right down, and in doing so, diminish the returns. As a result a decision was made to change from having a marketing board to having a corporate that would be responsible for the sales and marketing of the entire New Zealand crop with the exception of Australia.

Zespri's business revolves around the sales, marketing, procurement, and logistics of the kiwifruit brand. They manage grower relationships in New Zealand and also procure fruit from around the world as well. They are grower focused because they are grower owned and only deal in one fruit.

Growers focus is based around Zespri and the OGR derived from Class 1 export with little regard to the value of Class 2. Class 2 fruit has exactly the same attributes as Class 1 fruit. The taste, colour, nutritional value is exactly the same.

The CER agreements prevents a SPE marketing, however priority should be given to limiting the channels to market and selecting the best parties to work with.

Many exporters in a single country market result in a fragmented marketing strategy. Specialised marketing and promotion is essential for both new and repeat custom. A brand name fitting to the quality, taste and nutritional value and the fact that NZ kiwifruit really does taste the best in the world.

One of the key differences between SPE and multi-export is that Zespri has spent considerable time, effort and resources marketing and promoting kiwifruit to the extent that they can command a top price for their product. The multi-exporters for the Australian market are given exactly the same fruit on the inside but with a slight skin defeat or misshape and only return to the growers a very minimal price if any at all.

Because of the consignment selling philosophy, exporters accept that the fruit is only worth what the wholesale market will offer them but the retailers watch this market and are able to put pressure on exporters who try to negotiate a fixed price.

A small percentage of postharvest facilities supply a large percentage of non Class 1 volume providing the opportunity for them to 'collaborate' and limit supply of product to selected exporters who would be required to operate with strict KPI's. Exporters should remain independent of Postharvest facilities.

Zespri is a high successful marketing company with sales revenue of a billion dollars. They have used the power of a global brand, economies of scale, understanding of the market and the customer requirements by being Grower to Consumer focused.

There is enormous potential in the Australian market for the growth of both green and gold and new varieties in both volume and grower return, but the industry must come together as a cohesive unit and work together basing its strategies on the highly successful Zespri model.

If not, not only will opportunities and revenue be lost but the Zespri model itself will come under pressure. Instead of competition being based on quality and the health attributes of kiwifruit, price competition takes over and the inevitable price spirals downwards. This has already been shown with 4 competing gold varieties with Zespri Gold achieving twice the price of other gold in the July 13th Sydney market, Zesrpi Gold at $34.00 a 5kg pack – others selling ½ that. Some gold retailing at cheaper levels than green.

It is difficult enough competing against the global fruit basket and Kiwifruit grown in other countries, so the Industry needs to stop competing against itself.

The multi marketing system used for export in Australia is practically the same system growers voted out 20 years ago. Growers have the power through their organisations to change this system but it appears that they don't have the will.

Growers must take ownership of their non Class 1 volume and demand accountability and transparency from their postharvest operator with regards to the forecast and returns from the Australian market place.

All the systems are in place – it's the people running it that will not allow it to work.

The Australian market as a highly prized export market that has potential for increased NZ grower returns, but the Industry needs to work as an integrated cohesive unit. With service aspects that are all about distribution and ensuring the product is in the right place at the right time, in the right quantity and the right condition.

Growers have the power but not the will to change the current position.

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HEA

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