

ZESPRI 2025



Introducing ZESPRI



- ⦿ The world's most successful horticulture marketing company, based in Mount Maunganui, New Zealand, with export earnings of \$1.07 billion
- ⦿ 100% New Zealand-owned, with all shares held by current or previous kiwifruit growers
- ⦿ Coordinates the global supply chain for New Zealand kiwifruit growers, managing the marketing of all New Zealand-grown kiwifruit outside New Zealand and Australia
- ⦿ Manages the marketing of a small amount of foreign-grown kiwifruit in order to ensure year-round supply, all of which meets ZESPRI's stringent standards and carries its brand
- ⦿ Focuses on the market, therefore doesn't own any orchards, packhouses, coolstores, foreign distribution and logistics companies, or retail outlets. These are all competitive industries in their own right
- ⦿ Key brands are ZESPRI® GREEN, ZESPRI® GOLD and ZESPRI® ORGANIC, with additional brands currently in development
- ⦿ Established in its current form in 2000 by the Kiwifruit Export Regulations 1999



Head Office – Mt. Maunganui, New Zealand



- ⦿ With offices in 14 countries, including Japan, Europe and China, ZESPRI employs more than 130 staff in New Zealand and another 100 offshore
- ⦿ Competes with other Southern Hemisphere kiwifruit producers, especially Chile, as well as growers and marketers of other horticulture products such as apples, oranges and bananas
- ⦿ Works on collaborative marketing programmes with other New Zealand kiwifruit marketers (independently approved by Kiwifruit New Zealand), who wish to expand their operations beyond New Zealand and Australia, to improve overall returns to New Zealand kiwifruit growers and to the country
- ⦿ 90% of kiwifruit growers express strong support for the current industry structure
- ⦿ Under ZESPRI's guardianship, the New Zealand kiwifruit industry has achieved the fastest annual growth of any New Zealand primary industry over the last decade

The ZESPRI Promise:

Message from the Chairman and CEO



“The ZESPRI Promise is to triple our export earnings by 2025, to at least \$3 billion.”

The New Zealand Government has reconfirmed its objective of closing the country’s income gap with Australia by 2025. As a 100 percent New Zealand-owned company, ZESPRI, along with the wider New Zealand kiwifruit industry, shares that ambition.

Moreover, as New Zealand’s fastest-growing and most innovative primary industry exporter, ZESPRI and the industry have more to offer in percentage terms than perhaps any other when it comes to increasing New Zealand’s external economic performance and rates of growth – and thereby helping drive towards the Government’s goal.

The ZESPRI Promise is to **triple our export earnings by 2025**, to at least \$3 billion.

This booklet outlines ZESPRI’s historic performance, how it has been achieved, our future goals, how we’ll achieve them and what we need from the Government to make it happen.

It has been written for the Government and all those with an interest in New Zealand’s future.

A handwritten signature in black ink, appearing to read 'John Loughlin', written over a horizontal line.

John Loughlin – Chairman



A handwritten signature in black ink, appearing to read 'Lain Jager', written over a horizontal line.

Lain Jager – CEO



Unique Features of the New Zealand Kiwifruit Industry

The position of kiwifruit in the world market, and the particulars of its production in New Zealand, make the industry quite unique.

The product has found its natural home in New Zealand, with the country's geography, climate and soil ideally suited to kiwifruit production.

Internationally, kiwifruit makes up a relatively small proportion of total fruit sales – just 0.5 percent of the global fruit bowl.

Because New Zealand is a First World country, distanced from our markets, the industry here faces high costs of production in land and labour, and high distribution costs. The product is seasonal, with a limited shelf life and a narrow selling window. This means that in order for the New Zealand kiwifruit market to be competitive with Chile, we must offer a better quality product, backed by a reputable brand.

However, balancing some of these challenges, the growing environment is one of the best in the world, giving New Zealand the potential for kiwifruit with high yields, superb taste and high quality. This provides the platform for ZESPRI's branded premium offering.

The industry is also unique in New Zealand in that it is unified, through the grower-appointed Single Point of Entry model. This is crucial to the success of the industry.



The kiwifruit industry in New Zealand faces challenges such as relatively small scale internationally, and high production and distribution costs

These challenges are balanced to some extent by advantages gained through New Zealand's premium kiwifruit-growing conditions

What has the New Zealand kiwifruit industry, led by ZESPRI, achieved?



New Zealand has Built the Global Kiwifruit Category

There has been a significant increase in the global production of kiwifruit, built on ZESPRI's success in growing consumer acceptance and consumption of kiwifruit.

Global production of kiwifruit has more than doubled in the past 20 years, reaching 1.8 million tonnes in 2009. Approximately 60 percent of global production is exported and traded on the international market. While ZESPRI has a 30 percent share of the globally traded volume, it achieves a far greater share of value. Of the three largest exporting countries (New Zealand, Italy and Chile), New Zealand captures over 70 percent of the net market value in globally traded kiwifruit.

ZESPRI has succeeded in maintaining a high, steady price for New Zealand kiwifruit over the last 10 years, and a premium over its competitors. The value generated by ZESPRI's sales supports its considerable investment in branded marketing and research and development. This drives the overall category growth and confirms ZESPRI's position as the category leader in kiwifruit.

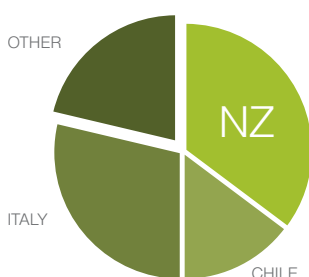
Competitors overseas have also gained from ZESPRI's presence, with category returns supported due to the pricing and promotion umbrella provided by the ZESPRI® Brand.



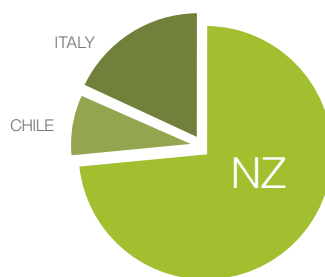
ZESPRI has a 30 percent share of globally-traded kiwifruit volume, but achieves a share of more than 70 percent of the value generated by the top three exporters

New Zealand has built the global kiwifruit category, through marketing and innovation

Globally Traded Kiwifruit – Volume Share



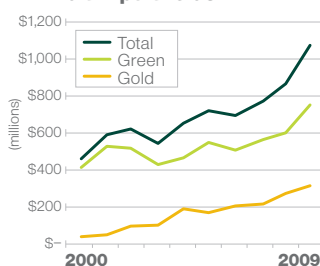
Big 3 – Value Share



A Decade of Growth



Kiwifruit Export Value



Source: Statistics New Zealand, ZESPRI

Growth has been largely due to significant productivity gains in the GREEN and GOLD varieties

ZESPRI's export earnings have more than doubled in a decade, with a **compound annual growth rate (CAGR) of 9.88 percent**, due largely to a dramatic expansion in production of both GREEN and GOLD, while maintaining the highest prices in kiwifruit globally.

ZESPRI's 9.88 percent CAGR places the kiwifruit industry ahead of all other primary industries in New Zealand in terms of growth.¹

Within the figures below, there is a clear message: those industries that cooperate domestically are better able to invest in R&D, innovation and productivity growth in order to compete successfully offshore.

Product	Revenue 2000 (000's)	Revenue 2009 (000's)	CAGR 2000-2009
Kiwifruit	458,964	1,071,679	9.88%
Dairy Produce	3,894,690	8,969,160	9.71%
Other Fruit and Nuts	971,536	1,608,141	5.76%
Meat	3,379,382	5,525,721	5.62%
Forest Products	3,290,540	3,526,786	0.77%
Seafood	1,229,666	1,299,822	0.62%
Apples	404,494	395,673	-0.24%
Wool	801,938	569,754	-3.73%
All merchandise goods	26,111,197	43,015,197	5.70%

Source: Statistics New Zealand

¹ This does not take into account the wine industry, which can be seen as part of the manufacturing sector, rather than the primary sector.



How has the New Zealand kiwifruit industry been so successful?



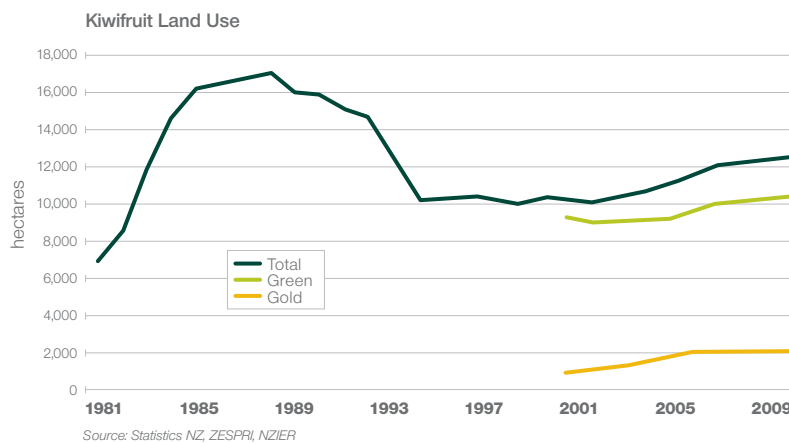
Increased Land Use and Productivity

The growth of the New Zealand kiwifruit industry is not simply a result of using more of the New Zealand economy's resources. It has been achieved primarily through driving strong productivity gains. We have produced more fruit and made more money for New Zealand for every business input than we were achieving a decade ago.

The main input into kiwifruit production is land, yet land use has risen at a far slower rate than total export earnings: over the last decade land use increased by around 25 percent, while export earnings grew more than 100 percent. The environmental impact of this growth is very low, with concentrated use of land and other resources.

Kiwifruit's massive leap in productivity, for both GREEN and GOLD varieties, is well ahead of similar industries and of the economy as a whole.

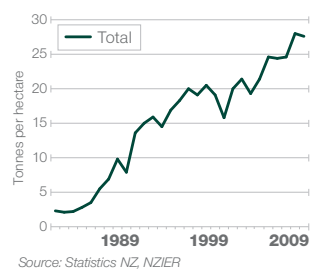
At all levels of our industry, the scale of productivity gains is a strong focus, as we understand that the only way New Zealand can ultimately become richer is by raising productivity.



The 1980s and early 1990s saw a proliferation of new GREEN orchard plantings, and early 2000s for GOLD, with the subsequent growth in production as the vines reached maturity.

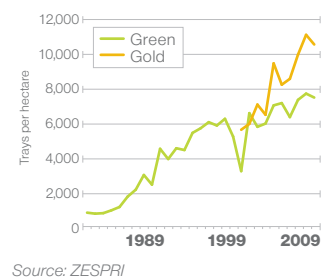


Kiwifruit Export Yield - per hectare



Kiwifruit's massive leap in productivity is well ahead of similar industries and of the economy as a whole

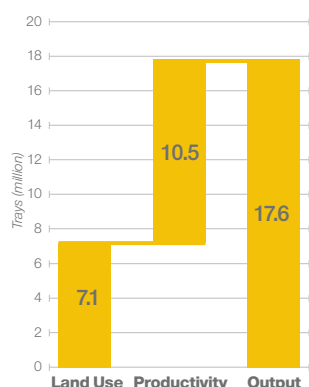
Kiwifruit Trays - per hectare



Innovation with ZESPRI® GOLD



Gold Kiwifruit Production Increase 2000-2009



Source: ZESPRI, NZIER

New cultivars face strict criteria, to ensure that they will not merely divert sales from existing varieties

ZESPRI® GOLD fulfilled all of ZESPRI's criteria for a new cultivar, and has been overwhelmingly successful

As mentioned, the launch of ZESPRI® GOLD has been an important driver of productivity growth.

The decision to launch a new cultivar is not taken lightly, and requires a delicate balancing of the following criteria:

- ⦿ It must broaden consumer appeal
- ⦿ It must be more productive per hectare than existing varieties
- ⦿ It must have excellent storage and shelf life
- ⦿ It must deliver a strong return on investment

If a new variety cannot meet these criteria, then it is questionable whether it will create real value for the industry, rather than just divert sales from an existing cultivar.

ZESPRI® GOLD was launched in 1999 after years of development, and has been hugely successful globally. It was the result of a revolutionary partnership between Plant & Food Research, entrepreneurial growers, and ZESPRI marketing. In the last decade, no other horticultural marketer has successfully launched a new variety with the success of GOLD.

ZESPRI® GOLD is significantly more productive than GREEN. The dramatic expansion has come about partly from increased inputs such as land, but mainly from productivity gains.

Innovation Focus from Soil to Spoon

The ZESPRI approach to innovation is to:

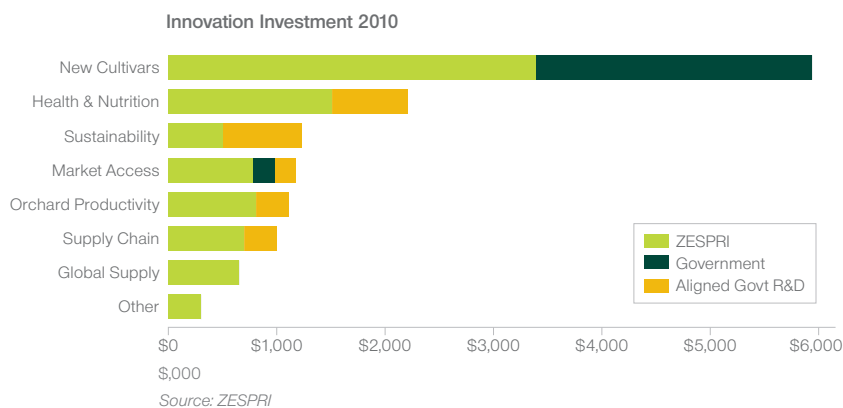
- ⦿ Optimise core performance
- ⦿ Build competitive advantage
- ⦿ Pursue growth horizons

Careful consideration is essential in the decision to launch a new product. ZESPRI will make the decision to do so when it can demonstrate to its growers that it will meet strict criteria and provide long-term benefit to the brand.

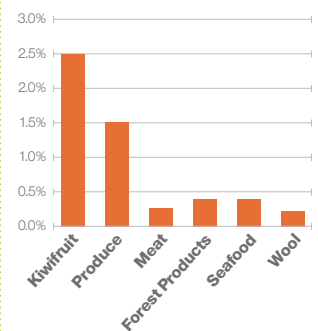
The experience of New Zealand horticulture shows that companies have often been willing to pursue short-term gains with new cultivars at the expense of long-term brand strength and category development.

The New Zealand kiwifruit industry invests more in innovation as a percentage of revenue than any other New Zealand primary industry, with a total of 2.5 percent.

In continued partnership with the New Zealand Government and Plant & Food Research, ZESPRI currently has an extensive innovation programme underway, mainly targeted at producing new cultivars. The number of seedling plants being evaluated and tested is approaching 100,000. At most, only a handful will be suitable for market.



Innovation Investment (as a percentage of revenue) (2008)



Source: Statistics New Zealand

ZESPRI is adamant that launching any new cultivar must be of long-term benefit to the brand

Outstanding Track Record as Marketer



ZESPRI has established itself as the most successful horticultural marketer in the world

ZESPRI builds market position through consumer brand marketing and distribution management

ZESPRI can be confident in its ability to successfully launch new cultivars, given its track record with the global kiwifruit market, which makes it the most successful horticultural marketer in the world. No other company can boast of having built a category, remaining the brand leader, and launching a new variety which has commanded an even higher premium than existing varieties.

An important part of the strategy has involved researching, understanding and explaining the unique health benefits of kiwifruit, which is one of the most nutritious fruits in the world. In a market willing to pay premiums for health benefits, marketing the health and nutrition properties of ZESPRI® Kiwifruit will grow the total category.

Sustainability also forms a key part of ZESPRI's innovation programme and marketing strategy, recognising that global consumers are taking a greater interest in where their products come from and the impact of their purchases on the planet. ZESPRI® ORGANIC Kiwifruit is an important extension of our product range.

Across the world, ZESPRI's investment in brand marketing is now approaching \$90 million annually, and will surpass \$100 million in the coming years.

In addition to brand development, ZESPRI ensures that it allocates to the highest-value markets first. In the highest-earning kiwifruit market in the world – Japan – our annual average market share is over 65 percent, and over 90 percent in our seasonal window.

In addition, our collaborative marketing partners assist with supplying specific programmes in cases where overall return to kiwifruit growers can be enhanced.

Why the Single Point of Entry (SPE) is Essential

The SPE system is a crucial element to the success of ZESPRI, and the Government has stated that it will support the system as long as it has grower support. Growers do support the single desk, with a February 2010 Colmar Brunton poll showing 90 percent of growers believe the SPE system is critical to the future success of the industry.

The SPE system was chosen by growers to allow them to work together to market their fruit, rather than competing with each other and reducing their profitability by driving the price down. The system allows ZESPRI to focus on market demand rather than on procurement. It also allows for long-term planning and investment – in the brand, in category expansion, and in research and development.

As a result of the greater cohesion and flexibility through the supply chain that the SPE system provides, ZESPRI has an ability to control the introduction of new products, and manage market allocation and phasing. The single desk allows ZESPRI to maintain high-quality production systems, and to capture maximum value from the market, which is returned to New Zealand growers.



The New Zealand kiwifruit industry's achievements would not have been possible without the SPE system

Why the Single Point of Entry (SPE) is Essential



ZESPRI recognises the need for oversight of the single desk, which is incorporated into legislation

To ensure that the SPE system does not lead to complacency and inefficiency, there are a number of checks on the single desk, which Parliament has appropriately built into the legislation:

- ⦿ Most importantly, **collaborative marketing procedures**, which have seen more than 20 other companies export kiwifruit beyond New Zealand and Australia in a way that increases overall returns to New Zealand
- ⦿ **Active growers and grower representative body New Zealand Kiwifruit Growers Incorporated**, with whom ZESPRI is open and transparent
- ⦿ **International competitive pressures**, from other kiwifruit producers, and also producers of other fruit varieties
- ⦿ **Competitive domestic post-harvest services**



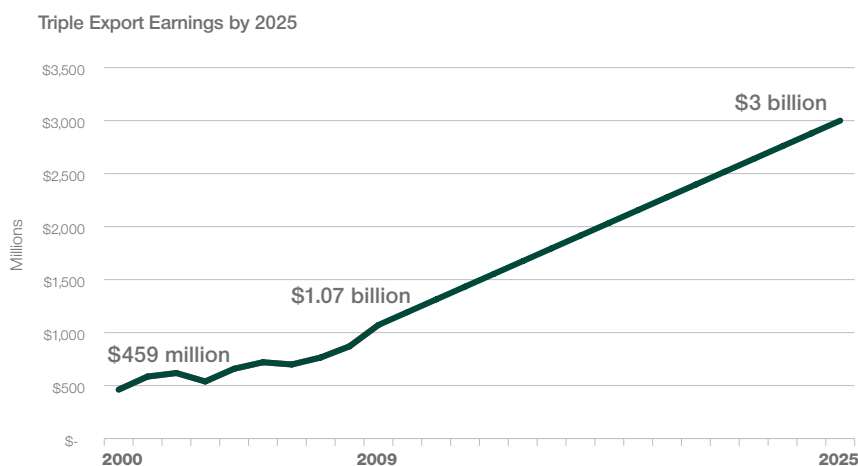
The future of ZESPRI



What is Required to Triple Export Earnings by 2025

In order to achieve its growth target of \$3 billion in export sales by 2025, ZESPRI will do the following:

- ⦿ Increase productivity performance for both GOLD and GREEN, building on the productivity gains that have been made to date
- ⦿ Continue to broaden the product portfolio from a predominance of GREEN to higher-value GOLD, and offer new cultivars
- ⦿ Continue to invest in marketing and innovation
- ⦿ Increase land used by the kiwifruit industry by about 3,200 hectares; a similar level of total land used for kiwifruit in the 1980s
- ⦿ Maintain current marketing arrangements, in particular the stability that the SPE system allows



Source: ZESPRI



Our Goal: to Triple Export Earnings by 2025

ZESPRI's Business Plan



The precise details of ZESPRI's business plan to 2025 are commercially sensitive. The information is shared internally, and also with our growers and post-harvest partners during industry meetings. However, in broad terms, ZESPRI will look to build on the successes of the past decade.

The overriding goals are to grow the kiwifruit category globally, to increase kiwifruit's share of the global fruit bowl, and to maintain differentiation of the ZESPRI® Brand to command a price premium.

In order to achieve these goals, ZESPRI will continue finding ways to add value to its products, particularly in terms of benefits in health, nutrition and taste. Research will be dedicated to developing innovative new cultivars, and to improving productivity.

As a significant source of future growth, ZESPRI will focus strongly on Japan and Asia, while continuing to serve our key European market.

ZESPRI will ensure that our grower shareholders continue to own and control ZESPRI.

The Government's Role

ZESPRI's goals cannot be achieved by the New Zealand kiwifruit industry alone and there is a vital role for the Government to play through to 2025.

ZESPRI is seeking support from the Government through the following:

- ⦿ An ongoing commitment to the SPE system, without which ZESPRI would not have made the market gains that it has to date
- ⦿ Continued collaboration and funds towards research and development and innovation initiatives
- ⦿ Increased market access and the removal of trade barriers internationally
- ⦿ Maintaining New Zealand's international reputation as a producer of safe and natural food
- ⦿ Domestically, a regulatory environment that promotes business and investment confidence
- ⦿ Continued labour availability in kiwifruit production through the Recognised Seasonal Employer (RSE) scheme and immigration policies
- ⦿ Investment in transport, rural water and communication infrastructure, to support the growth of the kiwifruit industry
- ⦿ Collaboration and financial support for kiwifruit industry training requirements



Thank you for your support to date.

We look forward to delivering
the ZESPRI Promise to growers,
shareholders, post-harvest
operators and to New Zealand.

