Zespri 5 YEAR OUTLOOK

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A. Introduction

Purpose of this communication

This outlook provides a summary of Zespri’s rolling Five Year Plan, which is updated and reviewed by the Zespri Board annually. The outlook provides a snapshot of how Zespri’s medium-term strategy will be implemented by category, and sets out some of the challenges and opportunities that lie ahead. Inevitably, the Outlook relies on certain assumptions and the further out we look the plan becomes more ‘directional.’ The intent is to provide information for growers to inform their business decisions, whether that is investing, divesting or changing their variety mix.
A. Introduction

Our Strategy

Zespri’s long-term strategy is to deliver the world’s leading portfolio of kiwifruit 12 months of the year. After emerging from the impact of Psa, the industry is now in a period of strong growth. As well as growth, Zespri is committed to preserving its position as the category leader through delivering a high quality product and is committed to a premium, branded strategy. Through Zespri, the industry has created one of the most recognised fruit brands in the world.

Zespri’s Five Year Plan charts a strong growth outlook for New Zealand supply. Gross supply increased by a record level, rising from 94 million trays in 2014 to 121 million trays in 2015. New Zealand volumes are expected to reach around 150 million trays in 2020 – a compound average growth rate of around six percent a year. This is driven by productivity improvements, vines coming into full production and potential greenfield plantings of Green. Above all, the growth is driven by Gold3, with NZ volumes projected to increase from 27.5 million trays in 2015 to over 60 million trays in 2020. Non-NZ supply is also growing significantly, supporting Zespri’s position in the markets all year round and contributing to shareholder returns in the future.

A challenge over the next five years is to build demand ahead of supply. For Gold3, the strategy involves finding the premium price where the fruit will move in each market, and driving sales strongly using promotion and other non-price levers. Green volumes from NZ supply are expected to plateau, although the 2015 season has been exceptionally high-yielding, and Zespri will focus on preserving market share in core mature markets and will work to ensure strong differentiation from competitor Green kiwifruit through great taste.

On the market side, China is set to rapidly expand in volume and value to become our largest individual market. Our rapid growth will be supported by significant investment in resource and change to an importer of record business model.

More broadly, Zespri will continue to work to grow the kiwifruit category through marketing the health, taste and convenience of kiwifruit. Zespri will stay ahead of the competition through innovation and investment in the brand. We will focus on consistently delivering premium quality and taste, growing productivity, developing our supply chain and service offering, and leading the category in our commitment to food safety and sustainability.
Opportunities

A number of trends will shape Zespri’s operating environment in the mid-to-long term. These include:

- **Ageing population**: Older consumers generally eat more fruit, are wealthier, and respond to health messaging.

- **Rising middle class**: Rising middle class and urbanisation in new and developing economies will support spend on protein and high quality fresh food.

- **Health and wellness**: An increasing focus of governments and populations particularly as obesity and diabetes become ever more significant concerns.

- **Focus on food safety and sustainability**: Governments, retailers and consumers are demanding greater compliance on the complex issues of food safety and sustainability. The scale of the New Zealand kiwifruit industry offers growers a competitive advantage through offering major retailers secure supply and safe, socially-responsible food production systems.
**Challenges**

The industry faces a number of challenges to achieve a sustainable competitive advantage in the global market. These include:

- **Distance to market and cost to serve:** The average distance to service our key markets is 11,000km and kiwifruit production costs are around two times greater than in Chile.

- **Niche product:** Kiwifruit remains a niche product in the global fruit bowl, which brings challenges for winning shelf space and consumer attention in markets.

- **Commodity category:** Around 70 percent of the global volume of kiwifruit is grown and sold within the same continent, with over 80 percent of globally-traded kiwifruit consumed in the Northern Hemisphere.

- **Competition:** The global kiwifruit industry is evolving with a strong focus on quality improvements, increased use of storage technology lengthening selling windows, and increased volumes globally putting pressure on pricing. Competitors are slowly improving their quality offering, through a focus on maturity and quality standards. New cultivars, such as red and berries, aim to capture market space. The growth in volumes in China and increasing numbers of new varieties means China is on track to become an exporter of kiwifruit and competitor to all kiwifruit-growing countries.

- **Market access requirements:** Suppliers need to be able to work with changing market access requirements and to ensure that their compliance systems keep pace with the challenge of doing business in new and complex markets.
B. Industry Context

Challenges (continued)

There are a number of more specific potential challenges over the next five years, including:

• **Global economy**: There remains concern that the global economy is facing an extended period of volatility and lower growth. Demand for food and fruit is reasonably robust through recession but Zespri has major markets in mature economies. The implication is that we should invest strongly in developing demand across all our strategic markets.

• **Psa**: Volumes rebounded strongly from the devastating impact of Psa. The New Zealand kiwifruit industry has become the world leader in Psa-V management, with support from the New Zealand government. However, Psa-V still causes production losses in unfavourable conditions unless actively managed.

• **Foreign exchange**: Unfavourable foreign exchange rates can have a major impact on grower returns.

• **Competing gold cultivars**: We are yet to see significant volumes of high quality competing gold products in the market. Competitive gold cultivars would make product differentiation more difficult and provide consumers with alternative gold products at different price points, taste and quality.

• **Recovery in Hayward supply**: Volumes of Hayward supplied from Chile will recover rapidly, following the significant frost damage to the 2014 crop. In the shorter term, the reduction in demand from Russia means that supply will be higher for other global markets.

• **Supply**: the potential for higher than expected New Zealand volumes and lower than desired taste.

While we are confident in a positive Five-Year Outlook, the fruit business is high risk and there are dynamic factors than impact seasonal outcomes.

Source: International Monetary Fund World Economic Outlook – October 2015
C. Category Updates

Green (Hayward)

Situation and challenges

- There is uncertainty as to what level production will stabilise at because of ongoing improvements in yield per hectare. Volumes reached a level of approximately 73 million trays in 2010/11 and had been expected to plateau at or around this level over the next five years. The volume for the 2014/15 season was nearly 70 million trays, but a leap in Green orchard productivity has led to a significant increase in supply to over 80 million trays in the 2015/16 season.

- The growth in supply to 2011/12, combined with the commercialisation of Hort16a from 1999, saw Green OGR per tray fluctuate between $3.00 and $4.00 (at 7 year FX rates) for most of the decade.

- The need to rebuild Green profitability saw Zespri and New Zealand kiwifruit growers rebalance the product portfolio between Green and Gold. This led to firmer pricing and less Green being sold late and in marginal markets.

- Green profitability should remain reasonably robust through the next five years. However it is important to note that returns, as always, will be significantly impacted by exchange rates and seasonal demand and supply dynamics.
Green (Hayward)

Marketing and market development

Hayward remains the core product and has a strong future. Point of sale material, advertisements and campaigns will continue to promote the umbrella Zespri Brand and all varieties within the mix. The level of marketing investment on Green kiwifruit will stay at a steady level per tray in most markets for the first three years of the plan. Increased promotion of Gold3 will also have a benefit for the overall category penetration and brand image, including Zespri Green.

With stronger Green volumes, Zespri’s focus is to:

• Rapidly develop the Green product in some key developing markets and plan for strong growth in China.
• Continue to have a strong early focus on Green.
• Serve distribution and retail customers with an optimal balance of Green, Gold and Zespri Organic products.
• Continue to work with growers and distribution partners to optimise Green taste, quality and convenience to support our premium positioning.
• Develop and refine the supply chain to remove waste wherever possible and reliably deliver ready-to-retail fruit globally.
• Focus strongly on health communication to recruit more regular users of kiwifruit to the category, particularly around the digestive health properties of Green Kiwifruit.
**C. Category Updates**

**Green (Hayward)**

**Points ahead**

- In the longer term, the growth in supply of green kiwifruit, including from Chile which has recovered from extensive frost damage in 2014, will put downward pressure on pricing.

- Competition may come at the beginning and end of the New Zealand season as China domestic production increases and quality improves, and as supply continues to expand in Europe.

- The impact of foreign exchange as Zespri’s hedging arrangements expire will also impact green returns. Zespri will work to maintain grower returns at $5.00 per tray, and for guidance is forecasting a range of $4.80 to $5.80 for the 2016/17 season. Zespri will focus on driving optimal return through allocation, price and promotion, with Europe collectively continuing to take the largest share of Green.

- Up to 96% of the Green volume is allocated to Zespri’s 27 core strategic markets.

- Zespri has consulted with growers on changing the taste standard for green to ensure taste signals continue to be targeted to incentivise growers to deliver the fruit the consumer wants. The Green Taste Review put forward recommendations to lift the Minimum Taste Standard and modify the TZG range, with consultation ending in December and changes being introduced in 2016.
C. Category Updates

Green (Hayward)

Distribution of performance across orchards

Based on the December 2015 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is $91,395.

The average yield is 11,044 trays per hectare which is up from 8,972 trays per hectare in 2014/15. The average size per tray is 32.5, compared with 33.5 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (63 percent), which comprises a submit payment of $2.25 per tray and progress payments of $2.82 per tray. The Taste Zespri Grade contributed $1.22 per tray on average, down on the 2014/15 season, and taste contributed 15 percent of the overall Fruit and Service Payment.
C. Category Updates

Green (Hayward)

Orchard Gate Return

The December 2015 forecast shows the Zespri Green average OGR per hectare at $53,765, which is close to the record set in the 2014/15 season. The result on a per hectare basis reflects the exceptional yield of large-sized Hayward. Looking ahead, Zespri currently expects per tray returns to be within a range of $4.80 to $5.80 for the 2016/17 season, with downside risks, particularly higher Green yields leading to high supply volumes, and including market supply and foreign exchange conditions. The projected OGR range per hectare, based on Zespri’s Five Year Plan, is shown opposite.

On-orchard costs per hectare are estimated to have averaged $26,700 in 2014/15, based on Zespri’s annual industry survey of growers and orchard managers. Our estimate for the 2015/16 season is $31,056, an increase that reflects costs associated with the very large increase in average yields. This figure excludes any management fees and debt servicing costs. The projection assumes a two percent inflationary increase year-on-year.
**Green (Hayward)**

### Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the December forecast for 2015/16.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of $3.22 per tray for post-harvest costs and an average of $31,056 per hectare for on-orchard costs were used.
C. Category Updates

Gold

Situation and challenges

Gold volumes are expected to rise from 32 million trays in 2015 (all varieties combined) to over 60 million trays by 2020 with the bulk of this being Gold3. Total Gold volumes were back to pre-Psa levels in 2015.

For the 2015 season and beyond, a great deal of consideration of the implications of this incremental Gold volume has been necessary. Resulting outcomes include; a change to the weight bands for Gold3, a KiwiStart programme being introduced for Gold3, and a taste sensory testing programme that has expanded our knowledge of consumer preferences by variety.

Zespri has reviewed the structure of the Gold pool to ensure it continues to deliver in regards to its key principles of accurately reflecting market signals and optimising grower value by sharing risk and reward. When determining whether a combined pool is still appropriate for all Gold varieties, consideration is given to factors such as product attributes, market differentiation, market allocation strategy and supply strategy.

The Zespri Board approved recommendations by the industry Taste Review Committee to move the Gold Minimum Taste Standard (MTS), reduce sampling variability and modify the Taste Zespri Grade. The changes come into force during the 2016 season, although the MTS will be adjusted over a two-year period.
C. Category Updates

Gold

Marketing and market development

For the next two to three years we are continuing a market building phase for Gold3. Success with Gold3 looks like:

- Achieving excellent sales rates in the major markets right through the sales season. This requires a good supply of fruit early, great tasting fruit and extended logistics capacity.
- Preserving the price premium relative to Green with a targeted range of 20 to 40 percent.
- Rapidly building distribution and consumer demand in developing markets.
- The tools we will use are: price, promotion investment, investment in marketing resources, distribution expansion and focus on taste.
- Relatively high per tray rates of marketing spend are expected to be required through the rapid growth phase of 2015 through 2017 to increase consumer awareness of and familiarity with Gold3 as we expand product penetration.
- For Hort16a, supply will be optimised in future years to mitigate complexity and consumer confusion as volumes of Gold3 rapidly increase.
C. Category Updates

Gold

Points ahead

• Zespri has emphasized the importance of delivering high dry matter Gold3 to optimise the potential of this great variety. The new Gold taste settings, to be introduced during 2016/17 and 2017/18, will help the New Zealand kiwifruit industry to supply kiwifruit unrivalled in taste to our customers around the world.

• Gold3 is still a relatively new variety and we are still learning about issues such as early supply, optimal conditioning regimes, and storage. We need to learn quickly because volumes are growing rapidly and that means we need to be able to supply optimal quality right through the season.

• Gold3’s performance in the markets during the 2015/16 season was very positive. The largest-ever volume was sold in excellent time with positive customer and consumer feedback.

• The release of additional Gold3 licenses will be considered depending on the performance of the product across a range of factors, including consumer uptake, grower returns, productivity, taste and storage – to help inform any future decision on additional license release.
Gold

**Distribution of performance across orchards**

Based on the December 2015 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is $102,530.

The average yield is 8,647 trays per hectare which is up from 7,543 trays per hectare in 2014/15. The average size per tray is 30.8, compared with 29.7 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (45 percent), which comprises a submit payment of $2.80 per tray and progress payments of $2.38 per tray. The Taste Zespri Grade contributed $4.49 per tray on average, down on the 2014/15 season, and taste contributed 39 percent of the overall Fruit and Service Payment.
Gold

Orchard Gate Return

The December 2015 forecast shows the Zespri Gold average OGR per hectare at $68,807, which is down from $73,890 in the 2014/15 season. This is partly explained by the Gold3-led recovery in volumes and the consequent impact on pricing in the market as supply increases. Modelling suggests per tray returns for 2016/17 should be somewhere in the range of $7.70 to $9.00, depending on seasonal factors, such as volume, taste and market conditions. The projected OGR range per hectare, based on Zespri’s Five Year Plan, is shown opposite. We note that this is based on current hectares and yield assumption of over 13,000 trays per hectare on average by 2019.

On-orchard costs per hectare are estimated to have averaged $26,700 in 2014/15, based on Zespri’s annual industry survey of growers and orchard managers. Our estimate for the 2015/16 season is $33,028. This figure excludes any management fees and debt servicing costs. The inflation in cost is assumed to be greater than for Green during the year 2016/17, with an increase to an average of $39,326 per hectare in 2020/21. This estimate assumes an increase in costs of harvesting, thinning and related costs due to an increase in crop load.
Gold

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the December forecast for 2015/16.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of $3.88 per tray for post-harvest costs and an average of $33,028 per hectare for on-orchard costs were used.
Organic

Situation and challenges

• The sales of organic food around the world is a positive trend with strong growth rates underpinned by broad consumer desire for healthy, nutritious, safe, and good tasting foods.

• The core markets for Zespri organic kiwifruit remain North America, Europe and Japan, which account for around 81 percent of global sales by volume. Organic sales in China, Korea, Taiwan and South East Asia will grow rapidly but off a low base.

• Organic Green volumes are forecast to reduce from around 3.9 million trays in 2015/16 to stabilise at around 3.5 million trays in 2020/21, while Organic Gold3 will increase from 0.5 million trays to 2.3 million trays over the same period.
C. Category Updates

Organic

Marketing and market development

Zespri market and onshore teams are seeking to maximise the returns for organic supply through:

- Developing organic market opportunities outside of the traditional markets.
- Optimising specialist organic distribution and targeted marketing to pursue growth in organic sales in Japan and optimise value captured in Europe.
- Taking a lead role with organics within the product portfolio in North America.
- Developing a customer base at premium pricing for Organic Gold3. Organic Gold3 Kiwifruit is an exciting new product for the organic business. Zespri introduced this offering across a range of markets as a platform to generate future growth in organic volumes.
- Open communication with organic growers and technical support.
C. Category Updates

Organic

Points ahead

• Factors that limit earnings for organics include less exposure to the higher returning Asian markets – at this stage.

• Organic Green average productivity jumped from 5,973 trays per hectare in 2014/15 to 7,398 trays per hectare in 2015/16 – although this was still around a third lower than conventional. Small fruit size is eroding the organic premium and leaving money on the table.

• As a percentage of total supply, Organic Green and Organic SunGold are expected to make up around four percent in 2020/21.

• China has begun to develop a niche organic customer base through online and premium retail channels.
**Organic**

**Distribution of performance across orchards**

Based on the December 2015 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is $72,939.

The average yield is 7,398 trays per hectare which is up from 5,973 trays per hectare in 2014/15. The average size per tray is 34.5, compared with 35.6 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (63 percent), which comprises a submit payment of $2.25 per tray and progress payments of $3.85 per tray. The Taste Zespri Grade contributed $1.95 per tray on average, down on the 2014/15 season, and taste contributed 20 percent of the overall Fruit and Service Payment.
C. Category Updates

Organic

Orchard Gate Return

The December 2015 forecast shows the Zespri Organic Green average OGR per hectare at $50,752, which is up from $43,996 in the 2014/15 season. This large increase was driven by yield, with the per tray return based on the December forecast at $6.86 – down around 50 cents on the previous year. The total volume of trays supplied was 3.9 million trays – up by around 375,000 trays on 2014/15.

Looking ahead, Zespri currently expects per tray returns to be within a range of $6.30 to $7.30 for the 2016/17 season. The projected OGR range per hectare, based on Zespri’s Five Year Plan, is shown opposite.

On-orchard costs per hectare are estimated to have averaged $21,400 in 2014/15, based on Zespri’s annual industry survey of growers and orchard managers. Our estimate for the 2015/16 season is $28,218, an increase that reflects costs associated with a very large increase in average yields this season. This figure excludes any management fees and debt servicing costs. The projection assumes a two percent inflationary increase year-on-year.
C. Category Updates

Organic

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the December forecast for 2015/16.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of $3.08 per tray for post-harvest costs and an average of $28,218 for on-orchard costs were used.
Sweet Green (Green 14)

Situation and challenges

- Green14 volumes were around 0.9 million trays in 2014/15 and increased to 1.4 million trays in 2015/16. This was driven by an increase in yield as orchards mature.

- The future for this product remains unclear. Zespri communicated to growers in September 2015 that the product positioning remains work in progress and we have been working with the G14 Grower Representative Group to develop a 2016/17 season plan to that end.

- There are challenges with Green14 in-market and on-orchard. Retailers are reluctant to provide incremental shelf space for an additional Green product and consumers often cannot tell the difference unless we are sampling the product in-store, so substitution from Hayward is high. Where we do sample the product, the consumer response is positive.

- On the orchard we are still learning how to deliver better size and yields to deliver a commercially sustainable crop and work continues to better understand what causes and how to minimise fruit drop.

- The proposed plan for 2016 is to supply and sell the crop as early as possible. The ideal is to begin Green14 sales at least a week ahead of Hayward and complete sales by week 27.
C. Category Updates

Sweet Green (Green 14)

Marketing and market development

- During 2016/17, Green14 sales will be focused in Japan and China, with a short, clean sales window. This focus will allow for better quality management and focused promotional activity.
- We will work to create strong demand for Green14 by selling though controlled channels where we can more easily isolate it from Hayward. TV and Internet home shopping in China are two examples of where we plan to focus.
- Zespri will also continue with in-store sampling to educate consumers on the difference.
C. Category Updates

Sweet Green (Green 14)

Points ahead

• Zespri is committed to understanding the full potential of Green14 and overcoming its challenges. We plan to continue our assessment in the 2016/17 season, then conduct a thorough review of Green14’s commercial viability following the selling season.

• We are very focused on finding a sustainable position for Green14 in an early market window where we hope its advantages will deliver value, especially its strong ready-to-eat characteristics.
Sweet Green (Green 14)

Distribution of performance across orchards

Based on the December 2015 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is $63,896.

The average yield is 6,140 trays per hectare which is up from 4,190 trays per hectare in 2014/15. The average size per tray is 35.9, compared with 37.1 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (62 percent), which comprises a submit payment of $2.80 per tray and progress payments of $3.48 per tray. The Taste Zespri Grade contributed $3.34 per tray on average, down on the 2014/15 season, and taste contributed 33 percent of the overall Fruit and Service Payment.
Sweet Green (Green 14)

Orchard Gate Return

The December 2015 forecast shows the Zespri Green14 average OGR per hectare at $42,644, which is up from $29,682 in the 2014/15 season. This is mainly due to the significant increase in average yield as orchards come into full maturity.

Looking ahead, Zespri currently expects per tray returns to be within a range of $7.00 to $8.00 for the 2016/17 season. The projected OGR range per hectare, based on Zespri’s Five Year Plan, is shown opposite. Zespri is not providing a full forecast of the range over five years as at this point limited market and orchard data precludes being able to present a robust model of our estimate of future ranges beyond 2017.

On-orchard costs per hectare are estimated to have averaged $25,900 in 2014/15, based on Zespri’s annual industry survey of growers and orchard managers. Our estimate for the 2015/16 season is $30,020. This figure excludes any management fees and debt servicing costs. The projection assumes a two percent inflationary increase year-on-year.
C. Category Updates

Sweet Green (Green 14)

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the December forecast for 2015/16.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of $3.50 per tray for post-harvest costs and an average of $30,020 per hectare for on-orchard costs were used.

ZESPRI® GREEN 14 Kiwifruit
Net Orchard Return (NOR) 2015/16 per Hectare
(based on December Forecast)
D. Non-New Zealand Supply

**Situation and challenges**

Non-New Zealand supply through the Zespri Global Supply business is a source of Zespri’s competitive advantage and a key part of Zespri’s “category management” work stream. Non-New Zealand supply is poised for strong growth in the five year planning horizon, driven predominately by Gold3 recovery in Italy, and our ability to procure Zespri Green from Italy to meet rising global demand.

There are a number of risks to profitability:

- Material changes in FX rates, taking into account that ZGS does not hedge its sales versus other currencies;
- Logistical issues in terms of whether the parties (Zespri, suppliers, shippers) can cope with the large increase in container volumes, particularly around documentation, shipping, sales structures and internal/external systems;
- Failure to achieve the supply that is currently forecast. Largely for Green which is purchased in a buy/sell basis;
- Not having the right human resources in place;
- Other diverse events e.g. disease, weather, financial disasters.
- Hayward supply globally continues to grow, adding to competitive pressures particularly in Europe develops a supply surplus.
D. Non-New Zealand Supply

Marketing and market development

- The European Green market is a mature market in the non-New Zealand supply space, having built programmes over a number of years. The European Northern Hemisphere sales window is extremely competitive with significant volumes of Italian, French and Greek kiwifruit in the market place.

- The next two years show strong increases driven by Gold3 coming into production in Italy. This will support the market focus on migrating more customers to the 12-month supply programme.

- Asian demand for Non-New Zealand supply of Green is forecast to increase strongly to 2020. Over time China will potentially be Zespri’s biggest single market and therefore provides an enormous opportunity for Zespri to fill the market with premium Zespri branded product for 12 months of the year.
Points ahead

• Gold market demand is forecast to grow from 3.9 million trays in 2015/16 (supply constrained) to around 17.4 million trays in 2020/21. Green market demand is forecast to grow from 9.7 million trays in 2015/16 to around 14 million trays in 2020/21.

• Over the next 12 months the business will be focused on technical transfer to ensure the success of Gold3; ensuring a premium Green product offering; ensuring robust compliance systems are in place that are consistent with our global framework; resourcing the business to manage the growth; and apply expertise and systems to effectively manage the supply chain.

• The strategic focus of ZGS is to consolidate non-NZ supply as a fundamental pillar of Zespri’s competitive strength, underpinning its position as a leader in the global fruit industry. We aim to unlock value in our business by leveraging the brand, our intellectual property and our supply chain expertise.

• An important potential development is to source supply from within China. Zespri is continuing to assess the capability to supply a premium quality Zespri kiwifruit grown in China, including through developing supply partnerships to underpin a sustainable long-term business.
Marketing
Marketing development and marketing

Zespri is now one of the top-five most-recognised fruit brands in many of our leading markets and is seen to represent quality, great taste, sustainability and food safety.

Consumer preference is supported by:

- Recognizable and consistent quality through the Zespri Brand.
- Great tasting products that are convenient – ready to eat or easy to ripen.
- Brand attributes: “pure vitality from within”.
- A belief and understanding of the health benefits that kiwifruit delivers, with the quality and taste trusted in the Zespri brand.
- Availability for purchase, with a range of products – sizes, flavours, organics etc.
- New Zealand origin and Zespri’s global quality standards provides reassurance of a safe and genuine quality product.
- Integrity around Zespri and the New Zealand kiwifruit industry’s sustainability story.
Marketing

Points ahead

Zespri will invest strongly in marketing over the next five years. We will sustain the advertising and promotion investment to successfully market and position Gold3 as the premium gold kiwifruit, and build consumer demand and trade acceptance and confidence ahead of volume growth through to 2018. The increase in Hayward volumes has required additional investment driven primarily by volume growth. Concurrently, we will increase relevance of the Zespri brand and consumer engagement in the category.

Zespri’s marketing strategy aims to rapidly grow demand ahead of supply. It includes attracting new customers to the category, building penetration among fruit eaters and increasing consumption among occasional and trial users. We are also focused on increasing the overall frequency of consumption.

In addition to the focus on growing the overall level of Gold demand, the consumer marketing objectives over the next five years aim to:

• Increase awareness and consumption through promoting the great taste, quality and health benefits of Zespri kiwifruit.

• Activate kiwifruit consumption through a focus on digestive health benefits within the context of a positive halo of health and vitality.

• Build high brand and preference by consumers for the Zespri Brand, underpinned by a taste and quality premium position and supported through emotive brand values of vitality, trust, enjoyment and care.
E. Marketing & Innovation

Marketing

Points ahead (continued)

With trade marketing, the objective is to rapidly build trade confidence in Gold3 as the new vehicle for growth and category profitability, and to maximise the return on investment of marketing investment through deep distribution into main sales outlets (modern retail and traditional markets).

Market development will focus on:

- Successfully extending penetration (depth and breadth) within 27 core strategic markets to ensure solid growth ahead of volume.
- Supporting the proactive collaborative marketing process.
- Resourcing the management of marketing spend in market to ensure sales and marketing initiatives are implemented well.
- Resourcing the management of Gold3 in market to ensure an optimal quality product is presented to customers and consumers.

Convenience is one of the top three global factors influencing purchase decision-making for kiwifruit. Zespri’s convenience programme aims to give the best eating experience across all Zespri varieties by ensuring the consumer can eat their kiwifruit at optimal ripeness and optimal taste.

Marketing to support ZGS sales is expanding, keeping the brand active and maintaining shelf space in preparation of the coming NZ supply season.

Zespri’s health strategy is focused on communicating the digestive health, Vitamin C and nutrient benefits of kiwifruit, which is underpinned by a continued R&D programme.
D. Non-New Zealand Supply

Situation and challenges | Marketing and market development | Points ahead

Innovation
Innovation

The success of the New Zealand kiwifruit industry will be reflected in its rate of innovation as compared to that of its competitors. Zespri’s innovation investment aims to create value across the supply chain from breeding to consumer. To do this Zespri invests across four innovation platforms:

• New cultivar development (breeding and advanced selections)
• Sustainable production systems (on-orchard productivity, crop protection and bio-security)
• Sustainable delivery of fruit (food safety and market access, fruit physiology, taste and quality, engineered supply chain)
• Value addition and creation (health and nutrition, convenience, consumer understanding)

Research investment in Psa management tools and techniques continues, integrated across the on-orchard productivity and crop protection portfolios.
Innovation

Points ahead

Zespri will continue to invest around $20 million a year in kiwifruit research and innovation.

Continuing investment in developing new cultivars is critical. Around half of Zespri’s innovation spend is on new cultivars. The development of new and proprietary kiwifruit cultivars will provide a fundamental platform on which to ensure Zespri can achieve higher returns and have a stronger market influence than other current and future kiwifruit producers.

Our programme, in collaboration with Plant and Food Research will propagate and grow approximately 100,000 elite seedlings, evaluate approximately 50,000 fruiting seedlings, and clonally propagate and test approximately 200 selections.

As new cultivars are released to the industry, an increased emphasis on research to support their establishment, sustainable production and market differentiation will be required to maximize the return on investment.

The focus on sustainable production systems is on optimising kiwifruit production and improving grower returns. The portfolio includes research into orchard management practices to optimise yield, size, taste and quality across new and existing varieties. It also includes crop protection and biosecurity – optimising biological, chemical and management controls of pests and diseases. This portfolio is an important new addition to the Innovation programme in order to ensure the Zespri kiwifruit community is prepared for future biosecurity risks.
Innovation

Points ahead (continued)

Future investment in the sustainable delivery of fruit space has three main areas of focus, spanning food safety and market access; engineered supply chain, and fruit physiology, taste and quality.

Supply chain efficiency is expected to unlock significant value for the industry in future years; many opportunities exist in the supply chain design space with the application of new supply chain management processes and technologies for improving product quality attributes.

For any horticultural industry to be successful and grow it must also have an understanding of its existing and future consumers, so ongoing investment in this area is essential.

Zespri’s Global Health strategy focuses on three proposition areas; ‘Digestive health’, ‘Vitality’ and ‘Everyday good health’. To achieve the goals of the health strategy, investment has a major focus on scientific research into digestive health benefits of Zespri kiwifruit. Scientific research is an essential part of proving functional efficacy and there are regulatory requirements that must be met in certain markets to justify communication messages and health claims.
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