



Department of
Primary Industries and
Regional Development



Partnering for Customer Value

Case Study: Zespri International Limited

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Business
Zespri International
Limited

Owners
2435 growers

Location
Mount Maunganui,
New Zealand

Product
Kiwifruit



Developing global export markets for New Zealand kiwifruit

Kiwifruit is one of the world's healthiest foods yet its production accounts for less than 1 per cent of global fruit production. A native to China, it was not commercialised until it reached New Zealand in the early 20th century. The Bay of Plenty's rich volcanic soils and mild climate provided the perfect environment for commercial production and the development of the Hayward variety that is now grown and exported all over the world.

Since the first exports of kiwifruit from New Zealand to England during 1952, the industry has expanded rapidly. Together, growers packed and exported fruit overseas while competing for markets. The first step towards a joint marketing effort saw the establishment of the Kiwifruit Export Promotion Committee (KEPC) in 1970, followed by the Kiwifruit Marketing Licensing Authority (KMLA) in 1977. The KMLA had the right to establish standards for fruit size, quality and the packaging of kiwifruit for export markets and gave growers some control of licensing exporters.

The rapid expansion of orchards led to large crop volumes, but insufficient global demand caused market prices to fall and competition between growers and exporters reduced grower returns. To regain profitability and stability in the industry the New Zealand Government sanctioned the establishment of the Kiwifruit Marketing Board (KMB) during 1988, a single desk marketing organisation controlled by growers, with statutory powers to buy all kiwifruit destined for exports outside of Australasia.

It was another decade before the KMB was re-named Kiwifruit New Zealand (KNZ), tasked with regulating the export of kiwifruit, whilst its commercial operations were transferred to Zespri Group Ltd (ZGL), a new grower-owned, for-profit company with the exclusive rights to export New Zealand kiwifruit.

Fifty years after the first step towards a joint marketing effort, in the face of growing competition overseas and a disease outbreak in 2011 that decimated more than half of New Zealand's kiwifruit orchards, Zespri stands tall as one of the most resilient, innovative and profitable agri-food co-operatives in the world.

Today, Zespri is owned by 2435 growers, producing a third of the world's exported kiwifruit by volume, the bulk of which is exported to 56 countries, worth \$2.94 billion in 2018/19, generating an average return of \$96,033 per hectare and surpassing wine, apples and pears as New Zealand's largest horticultural export. An exemplar of best practice in horizontal co-operation and vertical co-ordination, Zespri has set itself the 'audacious goal' of increasing global kiwifruit sales revenue to \$4.5 billion by 2025, through sustained investment in global marketing and the world's largest kiwifruit breeding programme.

"Our goal is to be increasingly attuned to consumers' needs, to build strong value-added relationships with customers, and to take what we learn from our customers back through our supply chain, to the way we grow and pack. Our two most important stakeholders are consumers and our growers, and Zespri is the bridge between them."

Dan Mathieson, CEO, Zespri

A single desk and proprietary R&D—the fundamental enablers to building the bridge

In commodity markets the relationship between primary production and consumption is invariably broken as bulk delivery of undifferentiated products is broken down by a myriad of marketing agents servicing diverse distribution channels, each one of which has distinct needs and wants that are rarely communicated effectively upstream. The result is that primary producers are ‘price takers’ and final consumers take ‘pot luck’, in the hope that what they seek is what they get, with guarantees rarely extending beyond the minimum legal requirements of the regulators or the due diligence requirements of retailers.

In such markets there is only a commodity race to the bottom that primary producers can enter, in terms of production efficiency and the price they receive, with light relief for those who stretch the boundaries on level and consistency of product quality. In response, primary producers the world over have sought to co-operate, to capture economies of scale that reduce unit costs and balance their bargaining power of large retailers and trade customers. The examples of producer-controlled organisations that have succeeded are hard to find, fewer still are the examples of producer-controlled organisations who have sought to break the mould. Zespri is one, with a dual focus on innovation and influence at both ends of the value chain, made possible by the statutory rights it has over the marketing of New Zealand kiwifruit, and investment in the development and commercialisation of new cultivars.

The single desk is a critical enabler to Zespri’s success for four reasons: first, it gives Zespri significant scale and the ability to invest in building the brand and long-term infrastructure; second, it provides Zespri with control over the quality of fruit that is exported and the markets that are prioritised; third, it prevents the fragmentation of supply that is a characteristic failing of agri-food marketing co-operatives the world over; and fourth, it provides the means and the motivation for their investment in proprietary research and development (R&D).

“The single desk is so important in underlining our ability to maximise value for the grower. The producer generally gets the lowest share in the value chain so Zespri exists to ensure that growers capture a larger share of the value and the brand ensures that they receive a premium price in a commodity market.”

David Courtney, Chief Grower & Alliances Officer, Zespri

Each year, Zespri and its government R&D partner, Plant & Food Research, invest the equivalent of about 1.5% of New Zealand kiwifruit revenue to study orchard management and supply chain practices, health and nutrition properties and new cultivars.

“Production efficiency, supply chain resilience and taste are the three core pillars of the breeding programme. So, we are primarily consumer driven because we produce a premium product and the consumer is front of mind for us, but we can’t ignore the context of production and we can’t ignore the context of the supply chain. So, all three have to work together.”

Bryan Parkes, Cultivar Innovation Manager, Zespri

Plant & Food Research uses an open innovation model, applying new technology to the existing proprietary genetics, to improve the accuracy with which traits are identified in potential new cultivars, reduce the time to market and improve the likelihood of success. Zespri exclusively commercialise the discoveries that Plant & Food make with respect to kiwifruit.





“The aim is to ensure that consumers get the best kiwifruit rather than 20 different variants which confuses them and inhibits market development.”

Bryan Parkes, Cultivar Innovation Manager, Zespri

Zespri Gold

The first major breakthrough from the plant breeding programme came in 2000, with the discovery of Hort 16A (branded Zespri Gold), the first gold fleshed kiwifruit on the global market. There was a degree of good fortune in that the genetics that delivered taste also delivered yield and supply chain resilience, relative to the green Hayward variety that everyone was able to grow. However, the commercial fortune that the new variety offered had to be realised in the orchards.

“The application of technology resulted in an increase in yield from 5,000 trays per hectare to 15,000! We had major issues with yield, fruit size and storage but all of those were overcome through the application of technology to the base genetics.”

Bryan Parkes, Cultivar Innovation Manager, Zespri

The discovery and commercialisation of Zespri Gold was ground breaking for Zespri and cemented its position at both ends of the value chain. Grower returns soared and Zespri’s market status was elevated as the first and exclusive supplier. It also helped Zespri build relationships with its retailers, who started to see Zespri as more than (simply) a large supplier of high quality kiwifruit, as it was now offering a portfolio of products and a mechanism for growth in a category that was lacking innovation.

SunGold

The second major breakthrough came a decade later, when more than half of the orchards growing Zespri Gold were devastated by a deadly kiwifruit virus, *Pseudomonas syringae* pv. *actinidiae* (PSA). With 50% co-funding from the Government, Zespri contributed significantly to the \$50 million of industry investment to study and implement a biosecurity and containment strategy. It also accelerated the commercialisation of Gold3, a new cultivar which early field tests had shown to be potentially more tolerant to PSA and 30% more productive. Within a year of PSA’s emergence growers began

grafting Gold3 onto their cut vines. Few could have predicted the recovery that followed.

The newly-branded SunGold variety proved to be robust, resilient and even sweeter than Zespri Gold. From 2014 to 2017 production grew from 8,000 per hectare to 12,000 per hectare and sales grew from 10.6 million trays to 52.1 million, resulting in average grower returns of \$114,345 for SunGold and \$59,981 for green. In less than a decade Zespri, in partnership with Plant & Food Research and with co-investment from the New Zealand government, managed to turn a crisis that threatened the very future of the kiwifruit industry in New Zealand into an unprecedented success story which few, if any, of Zespri’s competitors could have achieved.

“Our competitors don’t have an in-house breeding programme or a single-desk marketing organisation, which makes what we do very difficult, if not impossible, to copy. Our scale and technology creates a virtuous cycle which enables us to stay ahead of the competition. Entry into plant breeding is a challenge as you need to be in for a decade before you can get anywhere! New Zealand has the best growing conditions for kiwifruit and Zespri has the world’s best kiwifruit producers, so the foundations are perfect for ‘dialling up’ additional attributes.”

Bryan Parkes, Cultivar Innovation Manager, Zespri

Zespri’s commitment to innovation is unwavering, as is its investment in R&D, which is unrivalled in the global kiwifruit industry. The identification and commercialisation of new cultivars is a ‘numbers game’ and Zespri has the scale and a genetic smorgasbord that is the envy of its competitors. The next breakthrough could be just around the corner, with a new red-fleshed variety (Zespri Red) being trialled domestically in 2019.

“20 years ago 99% of Zespri production was green and they were not interested in new cultivars. The client was telling us taste, taste, taste and then we moved to other attributes. New varieties become redundant when 10 years down the line priorities change. So, the search for new cultivars with unique attributes is on-going and never ends.”

Luis Gea, Team Leader Kiwifruit Breeding, Plant & Food Research

The 'Zespri System': co-ordination, collaboration and control, from orchard to spife

Producing kiwifruit in New Zealand is estimated to cost around double the cost of production in Chile. This means Zespri cannot compete in global markets on price. Its model is to offer a consistent, high quality, branded product that attracts a premium price. It also strives to offer retailers a higher level of service, matching fruit size and quality to their needs and investing in store level merchandising and promotional activity.

“What is behind the Zespri brand is the consistent high quality, which we work really hard to deliver. So, there are no issues with Zespri products — they always deliver on time in full. That is the key reason why, most of the time, the relationships we have with distributors and retailers are strong and the model works. The retailer knows that if the customer is paying a premium price for a Zespri fruit they will not be disappointed. They know that we are working so hard on the quality of fruit.”

Bert Barmans, General Manager, Zespri (Europe)

To help achieve this, Zespri has developed a comprehensive set of standards, processes and practices — the 'Zespri System' — designed to control quality throughout the supply chain (Figure 1).

New Zealand kiwifruit is harvested from March to June and marketed from April to December. Prior to harvest, growers are visited by an independent sampler to assess fruit quality, maturity and taste, and harvesting only starts once a grower receives 'clearance to pick'. The harvesting process is labour intensive and the New Zealand production is heavily dependent upon seasonal labour, including backpackers from all over the world.

Kiwifruit is a sustainable crop and sustainability is an important part of the brand story. Irrigation is only necessary for new plantings as mature vines are deeply rooted. Nitrogenous fertilisers are necessary to maintain yields but investment in precision agriculture and the adoption of sustainable orchard management practices, through a programme called 'Kiwi green', has helped to reduce the use of agro-chemicals, which is closely monitored as it constitutes a threat to market access.

Growers are paid according to quantity, quality and timing, with premiums paid for early and late season supplies designed to extend the season for NZ fruit. Two primary attributes determine the return to growers, size and sweetness, as these are the attributes most highly valued by consumers.



FIGURE 1. The 'Zespri System'



The introduction of the fruit dry matter sampling program was initially met with some resistance from growers and marked another critical step in Zespri's evolution from a producer-driven to a consumer-led business. It was initially introduced to address the declining demand for New Zealand kiwifruit in Japan, one of the largest markets with the highest willingness to pay, around the turn of the century and was designed to identify high taste lines of green kiwifruit suitable for marketing in Japan (Banks, 2003).

Based on several consumer sensory trials it had become apparent that the eating quality of NZ grown kiwifruit was variable and often below that of the main fruit types grown and consumed in the Japanese market (Harker et al, 2009). Within Japan, significant government innovation investment had been directed at producing fruit with very high cosmetic appearance and eating quality. This included the use of sophisticated grading systems that used non-destructive near-infrared spectrometers to grade fruit based on sugar content (Kawano, 1998). A combination of payment premiums for high quality fruit and access to novel orchard management practices resulted in a process of continuous improvement for fruit grown by Japanese producers. In contrast, New Zealand growers had been primarily focused on improving the yield, cosmetic appearance, early supply, long storage life, low chemical residues and the input costs of kiwifruit. However, it was at this time when Zespri was also developing its Zespri™ retail brand based in part on the taste as well as the nutritional and health attributes of fresh kiwifruit (Beverland, 2007). Zespri embraced the learnings from Japan and a successful pilot program became TasteZESPRI™, which was subsequently extended to other markets and varieties.

The analysis of dry matter characteristics across orchards has enabled Zespri to raise the eating quality of New Zealand kiwifruit and more closely align production with the diverse preferences of consumers. It has also facilitated investment in orchard innovation that has enabled growers to more reliably grow high quality fruit, while maintaining orchard productivity and profitability (Patterson & Currie, 2010).



Adoption of best practice is facilitated by extensive communication through newsletters, reports, orchard visits, face-to-face meetings and a call centre. Zespri also operates an on-line portal through which growers can enter production information (e.g. spray applications) and access industry news, technical advice and payment data. The detailed information captured through the portal also helps Zespri to fine-tune the balancing of supply and demand and the relationship between product quality and grower returns. It also organises periodic grower visits to key export markets.

The grading, packing and storage of harvested fruit is outsourced to specialist operators in New Zealand. Growers chose which ones to use and fruit is graded into three taste bands, based on dry matter percentage, then packed into pallets (retail packaging is done in the destination markets). The pallets are tagged electronically to indicate the taste band and then allocated to different markets.

Growers retain ownership of the fruit in New Zealand, with Zespri taking ownership at the port of departure. The bulk of the on-shore logistics, from storage at the port to loading onto vessels and freight forwarding, is handled by Tauranga Kiwifruit Logistics. 40% is exported by container ships on a pre-set route and schedule and 60% by specialised reefer vessels chartered by Zespri,



which gives it greater control over timing and routes and can also result in lower costs. The fruit is ripened in transit using modified atmosphere (temperature control and ethylene gas), to ensure the fruit is ready to eat on arrival in store.

Zespri exports to over 50 markets, of which 8 (EU, Japan, China, Taiwan, Korea, USA, Australia, Hong Kong) accounting for over 90% of sales (Table 1). Zespri sells primarily to distributors and holds stock on-shore in order to give it as much control as possible over the distribution and sale of fruit available. The goal is to move towards a more direct model, through which the retailers gain more from the support that Zespri provides than from the lower costs that they may be able to negotiate with importers.

Sales and marketing are controlled through five regional business units including sales teams in 21 countries. In addition to serving customers these teams capture and communicate market insights (consumer demand, taste preference and stock availability) upstream.

Zespri seeks to grow all of its markets but can only do so in partnership with distributors and retailers. Although Zespri can allocate volume to meet demand, the distributors and retailers can choose to invest and support the growth plan or not.

TABLE 1. Distribution of Zespri Exports (2016)

Country	Volume (%)	Value (%)
European Union (EU)	36.8	26.0
Japan	19.1	23.4
China	17.2	22.3
Taiwan	7.3	9.2
Republic of Korea	4.0	3.4
United States of America	3.5	3.5
Australia	3.2	2.5
Hong Kong	1.4	2.1
India	0.9	0.8
Malaysia	0.9	1.0
Canada	0.8	0.7
Singapore	0.7	0.9
Indonesia	0.7	0.8
Brazil	0.5	0.4
Thailand	0.5	0.5
Other	2.6	1.0

Source: Statistics New Zealand

Aligning demand with supply is a delicate balancing act, occasionally resulting in Zespri having to prioritise some markets over others, risking a degradation of trading relationships and creating opportunities for the competition. This has intensified the drive to build closer, stronger relationships with both distributors and retailers.

“I am happy to talk about logistics and pricing and quality with our distributors but I want to talk to retailers about our long term plans, our strategy and our product development. I want to make sure our products and brand are presented to consumers in the best possible way.”

Bert Barmans, General Manager, Zespri (Europe)

“I am happy to talk with the retailer and discuss ways in which we can help them grow their market share but I would rather have the importer/distributor in the room because I don’t always know what they (the retailer) are capable of delivering. So, I could agree to x or y without knowing that these targets were unachievable.”

Susan Barrow, Market Manager, Zespri (UK)



To support the process of developing relationships with retailers, Zespri has hired staff with experience in market research and CPG marketing and set up two specialised units in Singapore: the Consumer and Shopper Insights & Analytics team, which studies consumer perceptions and behaviours to inform marketing decisions; and the Marketing and Sales Centre of Excellence, which develops key-account management programs to improve service to retailers.

“It has been a journey of discovery over the last decade. We had been working with distributors and we realised we needed to get closer to the retailers and then we discovered we needed to get a better understanding of consumers. It wasn’t that we were stumbling along but as we made progress along the value chain we realised the necessity for a consumer-centric approach. We have got faster through those steps as we have progressed and as we have brought new talent into the business, who have more of an FMCG background.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

What makes Zespri different is the focus on quality at the high end of value, with significant investment in brand advertising, marketing and promotions to raise brand awareness (emotional availability) and create the pull to match the push. This in turn supports the goal of developing stronger relationships, with retailers who see the benefit of working more closely with Zespri and giving the brand more shelf

space and distribution to grow its business, for mutual benefit.

“Kiwifruit is an under-developed category, and therefore most retailers really appreciate our investment in driving awareness of the category and the brand.”

Dan Mathieson, CEO, Zespri

Zespri’s investment in emotional engagement, through targeted marketing and advertising, is designed to ensure consistency regarding the global messages about the brand. So, all of the messaging seeks to communicate the same core values — dynamic and self-assured but grounded with humility and playfully charming.

“The aim is not only to engage in the decision making factors that are ‘above the surface’ and rational, but in the 70% of factors that drive peoples’ decisions that are below the surface and emotional.”

Oliver Broad, Communications Manager, Zespri

The development of the ‘Zespri System’ has both driven and been driven by Zespri’s evolution from being supply focussed — “here is the crop please sell it” — to distribution focussed — increasing sales through a diversity of markets and distribution channels — to consumer focussed — understanding what consumers want in order to develop added value and emotional engagement. The development of robust systems and processes has facilitated the transition and enabled Zespri to capture more insights and build collaborative relationships along the supply chain.

Production and distribution are critical pillars, which is why Zespri has focussed on excellence in the orchards and maintenance of quality through the supply chain, but it is its engagement with the consumer for the development of the brand, which creates the demand pull and enables Zespri to avoid competing purely on price.

“At the end of the day what differentiates Zespri is the downstream relationships with distributors, retailers and consumers and the IP upstream with the growers, the plant breeding programme and the systems we have in place to support all of this.”

Giunn Shih, Chief Marketing Officer, Zespri (Singapore)





A framework for market development—optimising the return on marketing investment

Balancing demand and supply is a real challenge and the strategic goal of Zespri's sales and marketing team is to grow demand ahead of supply. To achieve this Zespri invests around \$150 million annually on consumer advertising to build awareness, promotions and retail merchandising to encourage trial purchase. The potential for growth in global demand is almost unlimited and the growth targets that Zespri has set itself are ambitious. This means the sales and marketing team have to make tough decisions every year about where to allocate resources.

"We found out that we were allocating too much resource (time and/or money) in small markets where we were not getting the traction. It is about optimising our (sales & marketing) spend whilst recognising that even the smallest markets need a minimum spend."

Bert Barmans, General Manager, Zespri (Europe)

In 2017, Zespri started work on a market development framework, to help the sales and marketing team with their planning and decision-making, and ensure it achieved the best possible return on its investment in promotion and advertising. The framework was rolled out in 2018 and the definition of targets and metrics is still a work in progress but the framework is another critical step in Zespri's journey of building a global business, adding structure and process to the capacity for innovation and helping it identify the appropriate marketing investment to make in the diversity of markets that Zespri serves.

"All markets are important but the framework helps us to understand their respective roles and allocate resources accordingly. We have always had priority markets — those that return the highest value — but the framework will help us to identify the nature of investment as well as the level of investment to drive growth."

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)



Two key variables were used to evaluate markets opportunities — headspace (room for growth) and category development — and a number of key metrics were used to measure performance: penetration, purchase frequency, willingness to pay, size of category and Zespri market share. The result was the identification of distinct market categories with distinct characteristics requiring different types and levels of marketing support.

‘Explore’ markets are those in which Zespri is still prospecting — unsure as to when and how they will take off. They have lots of headspace but little category development and, in some cases inadequate market infrastructure (e.g. poor cool chain distribution). They have the potential to become future key markets but do not have the readiness for growth, so these are not current priorities and receive minimal investment.

“These markets have future potential but we need to develop them in conjunction with the necessary infrastructure or category development.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

‘Launch’ markets are those with low current sales base but significant growth potential. These markets are targeted for heavy investment, and the primary focus is on increasing distribution. Once a market enters the ‘launch’ phase the expectation is that they will pass through the next stages of development. The major barrier then becomes the scale of the marketing investment required.

“Once we identify a market with readiness and infrastructure that has the headspace and we can see the potential then we make a business case for them to become a ‘launch’ market, which involves a significant step-change in resource allocation. The main job to be done in a ‘launch’ market is to build distribution and penetration. You cannot build penetration without distribution.”

Jiunn Shih, Chief Marketing Officer, Zespri (Singapore)

‘Establish’ markets are those that already have strong sales but have the potential for growth through increased per capita consumption and purchase frequency, i.e. giving consumers more reasons to purchase kiwifruit for different meal solutions.

“Once you have reached a certain level of penetration then the market may be categorised as ‘establish’ — penetration continues to drive growth but you also need to encourage repeat purchase with different meal occasions. Once you have established the distribution and grown the penetration you can then consider the introduction of added value products in the ‘enhance’ markets.”

Jiunn Shih, Chief Marketing Officer, Zespri (Singapore)

‘Enhance’ markets are already well established, with high penetration and purchase frequency, so the returns are high. In these markets the main objective is to capture more value by extending the product range and developing new products.

“Our ‘establish’ and ‘enhance’ markets are those in which we have been operating the longest, where we would have had the greatest cumulative marketing spend over time. So, it’s not an accident that they are well developed because that is where we have focussed.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

The principles of market segmentation are well established — targeting resources to greatest effect by positioning the brand and adapting the marketing plan to meet the distinct needs of customers and consumers. In Zespri’s ‘establish’ and ‘enhance’ markets this is working well, with strong consumer demand helping Zespri to forge strong relationships with retailers and distributors. However, no two markets are identical and Zespri faces different challenges in different markets, even if they are categorised as similar in terms of their performance.

“In some markets we may have the pull from the consumers but a lack of capacity or capability with our distributors. In other markets we might have excellent distributors supplying some retailers but are not meeting all potential demand, so the distribution is a challenge there. These problems can be fixed but they take time, effort and a degree of financial investment.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

The relationships Zespri has with its distributors and retail customers are critical to the successful implementation of its marketing strategy, and the market development framework is designed to support the process of relationships development by targeting resources in tune with the needs, wants and capabilities of the supply chain partners. The process works because the benefits are shared along the value chain — everyone has an interest in growing the market for kiwifruit and Zespri's share thereof.

“We try to select suitable distributors aligned to our business objectives and while we have had some changes in distribution over time we have many long-term relationships. You might find new distributors as you continue to grow, with new customers, but existing relationships are likely to endure and strengthen over time.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

Zespri's aim is to treat all of its customers fairly, whilst acknowledging that the outcomes will not always be the same and can be dependent on its partners' willingness to invest.

“We treat customers the same way but we have customers with different willingness to collaborate. Everybody has access to the same fruit under the same terms but some customers do believe more than others in the benefits of investing in the brand. If they invest in promotions, they will sell more and the kiwi category will grow its share.”

Bert Barmans, General Manager, Zespri (Europe)

The benefits to distributors of investing in the development of the Zespri brand are twofold: first, they have the potential to earn higher margins, as Zespri offers a premium product at a premium price; second, they have the potential to grow category sales, which means faster offtake and higher turnover for shelf space, as Zespri provides an extension to the range and brings 'theatre' to the fruit category.

“When you don't have enough fruit you look after your priority markets — where you want to be in the long run. We prioritise markets (geographies) and distribution channels (retail vs wholesale) not customers. If you prioritise customers and let some of them down it can take years to win them back.”

Sophie de Lantsheere, Sales Manager, Zespri (Europe)



This is still a work in progress, not least because demand forecasting is notoriously difficult and dependent upon the quality of information used to build the forecast. Zespri's long term goal is to model from sales data where customers share their sales data to enable a more accurate demand forecast. This is already happening with many of their retail customers in 'establish' and 'enhance' markets, enabling Zespri to forecast demand with greater confidence.

“There will always be annual challenges because supply is not fixed or known but we need to start with establishing what is the level of demand and to do this we need to our customers to share information with us, so we can forecast demand and plan future supply with greater precision.”

Jiunn Shih, Chief Marketing Officer, Zespri (Singapore)



Global supply—the final frontier?

New Zealand may provide the perfect climate for growing the world’s best kiwifruit and Zespri might have the perfect strategy and organisational structure for developing the global market for kiwifruit but the capacity for expanding domestic production falls way short of the opportunities for growing sales. For this reason and to maintain momentum in brand awareness and consumer engagement and to avoid the challenge of renegotiating access to retailers’ shelves every year, Zespri took the decision in 2001 to licence the production of kiwifruit under the Zespri brand outside of New Zealand.

Outsourced volumes are projected to increase to 40 million by 2023/24 mainly driven by SunGold, giving outsourced fruit a projected 25% share of total supply (see Figure 2).

Italy, France, Japan and South Korea are the main countries in which Zespri has invested, to identify and develop growers with the desire and capability to adopt the Zespri system in order to raise product quality and consistency. It’s a challenging process — with variations in growing conditions, production practices, the small scale of production and business culture presenting significant barriers to growth.

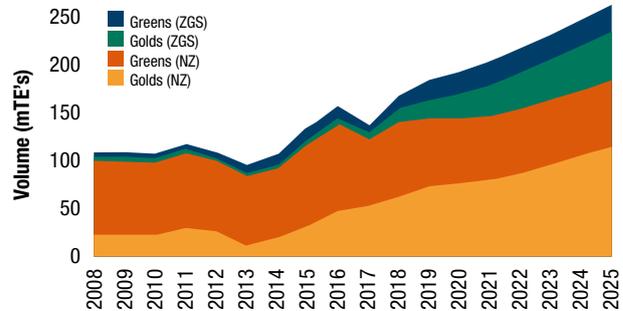


FIGURE 2. Projected sales growth to 2025

“We thought we could take exactly what we were doing in NZ and apply it anywhere else in the world. It took us a while to realise that was not going to happen because of cultural differences, different soils, different environments, land ownership rules, etc. Then PSA came along and that stopped us just as we were starting to gain some momentum. However, it is also probably true to say that at the outset we did not put as much resource into it as we should have, because we assumed it would work in just the same way as it had in NZ. In time, as you learn, you invest accordingly and we are making good progress again now.”

David Courtney, Chief Grower & Alliances Officer, Zespri

As demand for 12-month supply of premium kiwifruit increases, and with it increased competition, Zespri is likely to come under increased pressure to recruit more growers outside of New Zealand and spread the net further. In 2018 it declared plans to explore other supply locations such as China and North America and expand production in existing locations, such as Japan and South Korea. Maintaining the integrity of the Zespri system as global demand and supply from overseas continues to grow will present Zespri with new challenges and test its resilience. The evidence thus far suggests it has the strategy, organisational structure and systems in place to succeed.





Key insights and lessons learned

Zespri has come a long way in the 20-years since its formation, which has seen it capitalise on the discipline and scale that would have been very difficult, if not impossible, to achieve without the enabling legislation that created the single desk. Resisting the temptation to grow its share of a niche market by competing on price, Zespri chose instead to grow the size of the niche by developing a global brand, through sustained investment upstream (in plant breeding and production technology), downstream (in marketing and brand development) and along the value chain (in quality management systems and supply chain co-ordination).

In 2018 the Deloitte Top 200 judges selected Zespri as New Zealand's Company of the Year and identified the kiwifruit industry as an exemplar of innovation:

"Zespri lifted its profits by 38 per cent to \$101.8m in 2018 on \$2.4b of sales, and it expects higher returns still in 2019. These returns represent the culmination of its long-term strategy and dedication to innovation. Over the past

five years, Zespri's total shareholder return has increased at a compound average rate of 80 per cent per annum. The kiwifruit industry is a great example of how to add value to primary sector exports and a classic New Zealand innovation success story."

Fran O'Sullivan, NZME Editorial Director — Business

This has not happened by chance and is the result of a clear, compelling and long term strategy and a fundamental belief in the virtues of co-operating along the value chain.

"In trying to replicate what Zespri have achieved I think the first step is to understand deeply the value that can be created through co-operation, both strategically and commercially. If the numbers and the story are significantly better than the status quo then you will definitely generate interest. The challenge is to maintain the discipline when the going gets tough, as it surely will at some stage. You need a strategic vision that growers collectively buy into so that they see the lows as a blip in the longer term scheme of things."

David Courtney, Chief Grower & Alliances Officer, Zespri



Zespri's strategy is focussed on the two most important stakeholders in the value chain — consumers and growers — and the relentless desire to build stronger connections between the two. Zespri's strong marketing orientation is evidenced by the emphasis it places on exciting and exceeding the expectations of consumers the world over and its strong learning orientation is evidenced by its recognition that consumers are as heterogeneous as the orchards and growers that produce the fruit and its search for precision in the positioning of the Zespri brand in the markets it serves and continuous improvement in the orchards, packhouses and distribution channels.

“Zespri started out as a marketing organisation but it became apparent that the ability to manage the quality of the fruit and capture more of the value through product differentiation required a degree of control of the plant variety. Plant Variety Rights are one material source of control, at one end of the value chain and at the other end there is branded supply. Zespri has the scale and the time horizon for investment necessary to bring these two control points together.”

Bryan Parkes, Cultivar Innovation Manager, Zespri

The willingness and ability to innovate not only helps Zespri to differentiate the brand from its competitors but also creates a strong sense of resilience, the evidence of which was most apparent in its successful handling of the PSA crisis, which some people, within and outside the organisation, were able to frame as a positive opportunity for change.



“PSA was very bad for the industry but brought the two organisations closer together, through a shared purpose and an understanding that they needed each other more than they realised. Research often provides a solution that is not taken up by industry but PSA created the opportunity for a research solution to an urgent industry problem that was needed by everyone.”

Luis Gea, Team Leader Kiwifruit Breeding, Plant & Food Research

“PSA now seems a blip in our history, albeit a major event at the time. We were fortunate that we had the breeding programme that enabled us to find some alternative varieties, from which we rolled out SunGold. I have charts that run from 1971, before Zespri was formed, and the PSA was a blip in the long term development of Kiwifruit sales from NZ, but it did give us the opportunity to re-set our marketing strategy because we suffered from such a shortage of supply.”

Linda Mills, Chief Market Performance Officer, Zespri

The organisation's strong learning orientation leaves it open to new ideas but hungry for insight and evidence before committing resources.

“We have very good visibility of consumer data, retail data and distribution data in our key markets, which makes it more likely that whatever investment we make is going to be efficient and effective.”

Jiunn Shih, Chief Marketing Officer, Zespri

Supply chain visibility is an essential component of Zespri's success and is also a testament to the care and attention it gives to the development of long term collaborative relationships, with its distributors and, wherever possible, its retail customers. Zespri does not employ a sales force in the conventional sense and does not use commission-based selling with its distributors. Market managers work with the distributors and the retailers to build demand and develop the category, by demonstrating the benefits to everyone of having (more) space allocated to Zespri within the fresh fruit fixture.

“We have some long term relationships with distributors and we don't chop and change very often. We have been working with some of our distributors for over 20 years. However, we are trying to accelerate the process of joint planning and joint growth, which ideally involves Zespri, the distributor and the retailer. In the markets where we

are strongest this works really well — strong consumer demand, forging strong relationships with retailers and good relationships with distributors.”

Linda Mills, Chief Market Performance Officer, Zespri

Many (if not most) businesses give up on collaboration prematurely, having invested some time, some effort and even some cash without what they perceive is just reward. However, Zespri has persisted with the collaborative model for two reasons: first, it allows it to focus on and allocate more resources to the parts of the value chain where it can capture the greatest value — primary production and consumption; second, it enables Zespri to gain commitment from its value chain partners, without which it would be much more difficult and costly to maintain product quality and build brand awareness. Consequently, at no stage has Zespri departed from its belief in supply chain collaboration and the imperative of ensuring that every partner is adequately rewarded for their commitment to building the brand and growing sales.

“It may be an old cliché but it has to be a win-win-win-win. You need to have the win with consumers to create the pull, consumers looking for kiwifruit and searching for the brand. Once you have that win it is much easier to sit down with the retailer and explain what’s in it for them and the role that Zespri can play in their category, driving traffic and margin. If you have that win it’s much easier to get a win with the distributor because you are making their lives easier as they have the pull from their customer. If we can get all of those wins then we win.”

Jiunn Shih, Chief Marketing Officer, Zespri

However, the reality is that not all relationships are collaborative and often for good reasons. This makes the segmentation of markets, distributors, retailers and consumers all the more important, given the limited availability of marketing resources. An annual marketing spend of over \$150 million sounds impressive but when you divide that between over 50 countries, hundreds of distributors, thousands of retailers and millions of consumers it can soon become very thinly spread. Thus, the adoption of a more structured, analytical approach to Zespri’s market development framework is an important stepping stone towards sustaining sales growth and the

development of the brand ahead of the growth in production that is planned, domestically and across the growing network of international growers, whose share of production is expected to reach 25% by 2025.

“We have always had priorities — those that return the highest value — but the framework helps us to identify the nature of investment as well as the level of investment to drive growth. We have always focussed on markets with the greatest future headspace. All our markets are important but the framework helps us to understand their respective roles and allocate resources accordingly.”

Linda Mills, Chief Market Performance Officer, Zespri (Singapore)

Serendipity plays a part in most (if not all) successful businesses but, more often than not, rewards those most willing to challenge the status quo, most open to new ideas, most willing to take risks and most determined to succeed. In Zespri’s case, perhaps the greatest stroke of luck was the discovery of SunGold, the PSA resistant variety without which it is hard to imagine such a rapid recovery from the disease that decimated more than half the kiwifruit orchards in New Zealand. Plant breeding is a ‘numbers game’ but you have to be ‘in it to win it’ and the fact that Zespri had invested so much for so long in its plant breeding programme with Plant & Food Research meant the probability of finding a cultivar with PSA resistance was all the greater. What it could not have expected was that such a cultivar also had the potential to deliver superior eating quality and outstanding performance, in the orchard and the supply chain.

Zespri is in transition from a large grower-controlled marketing organisation to a multi-national business. Over half of its 600 employees are located overseas and in recent years it has recruited several people to senior positions from outside of New Zealand and outside of the kiwifruit industry, bringing new perspectives that are transforming the business structure and the way it does business. The ability to achieve its ‘audacious goal’ of \$4.5 billion in sales by 2025 is largely contingent upon its ability to leverage the corporate systems and processes it is in the process of embedding.



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Partnering for Customer Value

The Agribusiness Food and Trade (AFT) directorate of the Department of Primary Industries and Regional Development (DPIRD) works to enable growth in the value, competitiveness and diversification of the WA agrifood sector through facilitation of value adding, investment and export for the benefit of the community.

As part of this work, Partnering for Customer Value is providing research and business intelligence on practices that lead to international competitiveness and improved export capacity. A portfolio of cross-sector case studies shows real world examples of how businesses can build strategic relationships by delivering true value to their customers.

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