VALIDATING THE "BRAND" FOR NEW ZEALAND'S TARGET DAIRY CONSUMERS IN CHINA.

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Executive Summary

The New Zealand dairy industry, like many other primary industries, fuelled by market volatility is at a pseudo crossroads in its evolution. Does it look to secure its past dominance in global dairy commodity trade and optimise its investment into established commodity infrastructure? Or does it forego past heritage and investments, adopting a more singular focused strategic migration into revenue dominance from consumer value-add exports and secure the perceived provenance value of our dairy products?

Anecdotally, the view of the majority of industry stakeholders is a push for the latter. New Zealand's dominant dairy exporter, Fonterra has made a genuine contribution in this direction to date, but by its own acknowledgement, still has a long way to go[7]. Other dairy exporters are now re-aligning strategies to secure their share of the potential prize and as a result, considerable media and industry discussion has evolved on what needs to be done and the urgency behind the industry need.

I saw an opportunity to understand this subject better and apply a critical analysis of existing research, market participation and industry support initiatives to understand just what focus our industry needs in order to brand our products successfully.

China is an export market that has dominated export revenues for the New Zealand dairy industry in recent years and its demand for dairy with attributes like those associated with New Zealand is forecast to continue to grow[17]. Fonterra have recently stated the strategic importance of the Chinese consumer market within its strategic goals[7]. With growing attention and market penetration within China from competing dairy export nations, there is no better time for New Zealand to form a plan, which includes identifying a target market.

A review of existing literature and research identified that the current Chinese dairy market considers food safety, freshness and authenticity when making their consumer choices for food and beverage consumables. Existing New Zealand exporter marketing had not challenged the market with anything other than satisfying these key consumer needs.

The report proposes that the target market should be the emerging upper-middle-class demographic within Chinese consumer society. These consumers had been found to be young, adventurous, well-travelled, independent thinking, while maintaining traditional Chinese benevolence and health/wellbeing values[20]. They display much of the same behaviours observed within their western "lifestyle consumer" peers and combined with an empowerment to now establish a generation identity, are likely to be attracted to a brand purpose rather than more sterile functional attributes.

Existing literature points toward an opportunity for either the New Zealand industry as-a-whole or individual exporters to develop a story to support product differentiation. This has been partially accomplished through the national NZ Story Group and quality assurance platforms such as inSight, but to date the story does not appear to be compelling enough to draw the market demand and premiums the industry seeks.

Past research such as that by Lincoln University's AERU has identified generic Chinese consumer feedback on the importance of many of New Zealand's credence attributes but fell short of being specific to dairy, the identified target market, and did not challenge survey respondents to make trade-off selections to simulate the actual rapid product-purchase process. I conducted a quantitative survey of over 500 upper-middle-class Chinese consumers using basic milk powder as a sample product and asked participants to prioritise factors I predicted would determine their purchase decision.

The results confirmed that historically understood consumer needs of Food Safety and Freshness still dominated consumer priorities, but that attitudes towards genetic modification had changed to a more negative perception. New Zealand's traditional credence attributes of environmental stewardship and Animal Welfare best practice continued to rank as important but not critical and that what value these attributes did provide, stemmed from an association with health benefits.

It appears that the "NZ Story" New Zealanders are familiar with and associate much of their industry pride with, is either not fully understood by the target market or does not resonate. It was identified that only those consumers that associated environmental attributes with food safety benefits provided a willingness to pay a premium. My recommendation for future research is to better understand the factors within the potential NZ story that will engage the interest of these target pioneering consumers, thus creating a value behind a desire to be associated with New Zealand.

There certainly needs to be energy directed at establishing a robust channel of current market intelligence within both the Chinese retail and e-commerce markets across all aspects of consumer needs and attitudes. Such information will need to feed brand development and future functional innovation focuses.

A word of caution though, as it may just be a matter of time before this ever-modernising and westernising consumer demographic simply "catch up" with their western peers and evolve an appreciation (outside of personal health benefits) for our existing ethical product value all on their own.

Acknowledgements

I would like to thank foremost my wife Jenny for her patience and understanding over the past sixteen weeks since I initiated this project. This was made more testing by the arrival of our third son William during the first week following Phase 1 of the Kellogg Programme which marked the start of the project. I cannot think of a better example of the interdependence of marriage towards mutual success. Thank you.

I would also like to thank my employer Miraka Limited for supporting me through the Kellogg Rural Leadership journey, both by providing opportunity to develop my skills as a leader and providing me the freedom to explore this new area of interest, quite outside of my day to day role. Acknowledgement must also be made to my team within Miraka, who I am sure have inherited some level of independence from the reduced direction I have provided over the past month in particular.

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1.0 Introduction

New Zealand is an export nation. Relative to its population, it competes globally on productivity and as such has an economy dependent on export revenue. In fact, exports make up approximately 30% of Gross Domestic Productivity (GDP) at NZ$67b [1].

The New Zealand environment is particularly conducive to primary produce production due to its generally fertile land and consistent temperate climatic conditions. In addition, it has one of the most liberal free-market trading mind-sets in the OECD[1] which has assisted its ambitions to establish and in fact pioneer significant free-trade arrangements with many significant global trading partners, in particular, China.

Most pertinent to New Zealand's export dollar is the dairy industry, accounting for 32% of export income alone in the 2013/14 year[2]. Notably though, with the introduction of the Global Dairy Trade auction in 2008, the dairy market has experienced significantly greater volatility as trading parties attempt to use this renewed transparency on dairy commodity trade to their advantage.

In the 2014/15 year New Zealand experienced this volatility heavily with a drop in dairy export revenue to just 26% of national export revenue under relatively consistent export volumes to previous years[2]. This dramatic drop in dairy revenue had a significant impact on heartland New Zealand, both socially and economically.

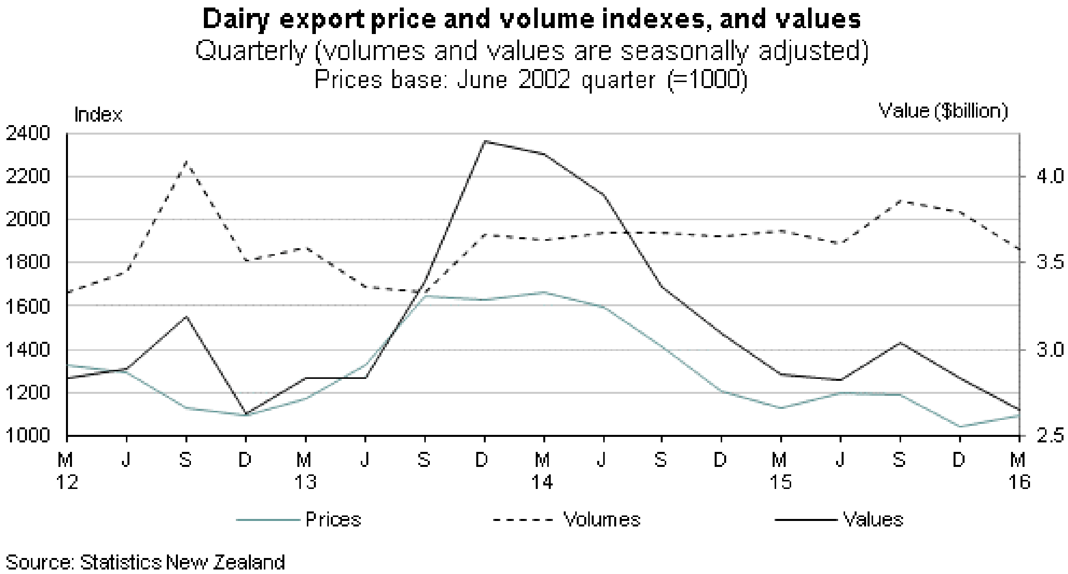


Figure 1: An illustration of the Dairy Commodity Market volatility in Values since 2012 [2]

The New Zealand dairy industry is made up of just over 5 million milking cows, producing over 21 billion litres annually, sourced from 11,970 dairy businesses[3]. During the 2014/15 year, the average New Zealand farmer made a cashflow deficit of 6.5c/litre (75c/kgms) or NZ$120k for the season, generally against strong equity positions following a period of steady gains in dairy land values. In the 2015/16 season, things worsened as the global price of dairy commodities failed to recover. In fact in the 2 ½ years between December 2013 and the end of the 2015/16 season the value of dairy exports fell by 37% or NZ$1.5b[2]. The average sized dairy farm business lost over $210k that season[4] against weakening equity positions.

The impact of the GDT on New Zealand's dairy income is significant due to the fact that the vast majority of domestic dairy produce is processed and exported as commodity products such as Whole and Skim Milk Powder, Butter and Anhydrous Milk Fat. While New Zealand might be perceived to have a controlling stake in global dairy trade, accounting for 34% of traded volumes[5], it is facing increasing pressure from the US and EU dairy markets due to volume growth from these regions and evidence of the past few seasons would suggest that control of the dairy commodity market has been lost, particularly as New Zealand dairy production is fairly stable (and therefore predictable) despite income volatility.

This loss of control has been due to a growing global dairy consumer base being easily supplied its commodity or ingredients needs by an ever more nimble world market, particularly the EU and US. This has built a strong inertia within New Zealand that future dependency on dairy commodity export revenue is unsustainable and not only not in our best interests, is actually farcical based on the perceived "value" associated with our national brand globally.

The impact of the $1.5 billion referenced above has been significant on farmer stakeholder apathy for how their industry was being run and its strategic future. In addition, domestic urban awareness of environmental sustainability needs and land and water stewardship rapidly established inertia and fuelled the requirement for a "social licence to farm". This has been largely demonstrated through media and governmental focuses aimed at highlighting the need for more responsible farming practices. In addition, many of New Zealand's traditional export markets for value-add products such as the EU and the US were demanding traceability of such origin attributes, as many of their own domestic value add consumer products were meeting this increased consumer demand for ethical origins.

The combined economic and community pressure on dairy farmers has been immense and New Zealand's industry was at risk to loosing significant volume as farmer motivation and financial sustainability models became tested. The farming community turned their frustration on dairy giant and co-operative Fonterra to remove the economic burden associated with the downside of market volatility and provide more stable and more assured incomes in the form of dairy payout through reduced reliance on dairy commodities.

Fonterra, New Zealand's largest dairy processor and exporter at approximately 84% of export volumes[42], has for some time had a strategy to move the ratio of commodity to value-add revenue dependency but is constrained by the capital required to do so[7]. This has spawned the emergence of smaller independent dairy processors such as Synlait, Guardians and Miraka, attempting to do what Fonterra aims to with current ownership structure providing more options to source capital.

An obvious focus for New Zealand dairy exporters seeking growth in consumer "value-add" sales is China. China has a rapidly growing middle class population with incomes now facilitating discretionary purchasing power. China also has a strong trading relationship with New Zealand, having partnered with New Zealand with its first Free Trade Agreement in 2008. The two nations are also used to dealing with each other, with China the second largest export destination[1] and the largest dairy export destination for New Zealand[6].

While China may not be New Zealand's only target market for its growing ambitions in the value-add consumer market space, it is a logical location to focus your resources given existing business relationships and governmental co-operation. There are significant challenges present, such as the obvious language barrier and the historical labyrinth that are the traditional distribution channels within China, but there are a growing number of Chinese commercial organisations there to assist, so the target is not unobtainable.

Currently New Zealand produces only enough dairy produce to feed 40 million people annually[41]. The current capping of the local environmental footprint associated with farming domestically, has restricted growth in New Zealand's dairy produce volumes. New Zealand has to now decide who it will feed in the future. Many of the current exporters have already looked to target the growing affluence in China, most notably Fonterra[7]. It stands to reason that to ensure these exporters are market led, a clear understanding of what the target market is and what their purchasing drivers are is essential for success.

What I will attempt to do in this report is theorise just who this target market should be and provide some clarity as to how New Zealand dairy processors will need to effectively brand their consumer goods in order to make the market inroads they desire, and importantly need to achieve for the sustainability of this country's dairy industry future prosperity.

2.0 Aims/Objectives

Validate Chinese target market for NZ Dairy Industry in order to meet value add growth objectives

Define purchase drivers for dairy for these consumers

Validate these drivers through original research/survey

Compare existing NZ brand marketing and NZ Dairy marketing to these drivers

Provide recommendations for future focuses

3.0 Literature Review

3.1 Traditional Chinese consumer values and beliefs

The objective of this section is to provide some context to understanding the Chinese market by looking at the traditional values that provide the foundation of Chinese consumerism, including a judgement call on their continued influence amongst a highly modernised Chinese consumer today. At this point I wish to state that the writer has never actually visited China himself, having a relationship with this subject matter based only on literature and discussions with third parties with greater experience with mainland Chinese lifestyles. My aim is to provide adequate commentary to at least provide support for the writers predictions presented later in this report.

Fundamentally people's values are driven by the desirability of a construct and this desirability or level of importance is highly influenced by one's society and/or culture as well as personal experiences. The same applies to beliefs, which link a value with an object or concept. Norms then propagate as preferred actions from a belief position[8].

Traditional Chinese values and beliefs have evolved over a long history of philosophical influences such as Taoism, Confucianism, Yin and Yang and Buddhism[9].

Taoist beliefs underpin a faith in the strength of external controls such as "mother nature", luck, fate and chance. This has been traditionally seen as a tendency to place an initial trust in a consumer brand, much like they do for government. Taoism principles lead Chinese to believe that humans should be in harmony with nature. To achieve health, an individual must be fit, walk outside and "fit within the natural rhythms of the universe"[9]. This has significant implications on consumer preferences for food and beverages and their association to individual health and wellbeing.

The Confucian emphasis is more on the individual, with a guiding belief that each individual has equal opportunity in which to be successful and that individuals should be entrusted to exercise their own self-control[8]. The fundamentals of Confucianism are benevolence (kindness), righteousness (morally correct), loyalty, filial piety (respect of ones elders) and virtue (high moral standards)[9]. These provide norms such as the need to take care of themselves in order to obtain respect from their group peers. In addition, the concept of bao xiao (retribution and reciprocity) motivates daughters to have a sense of obligation to care for their elderly parents. Traditionally though, ill health was also associated with misdeeds from their ancestry (a philosophy related to the Taoist themes of external influences). The focus may be on the choices of the individual but expressed with collectivism, or the view that the well-being of the individual also depends upon the harmony and prosperity of the collective group, usually a family.

Yin and Yang philosophies again support beliefs that there is an intertwined relationship between oneself and one's environment, particularly the relationship between one's body/health and their food intake.

Buddhism provides the traditional Chinese beliefs that living a life of purity, with compassion, humility and efficiency will resonate in your health and wellbeing. My interpretation of this is that if an individual makes the correct moral decisions, particularly towards lifestyle decisions such as diet choice, and is guilt free, this will promote their health. The value of modesty is demonstrated by a tendency to attribute failure rather than success to effort (a value shared also by Confucism).

A common theme behind most of these philosophies is a greater reliance on external influences or controls to determine outcomes (particularly benefits or successes), including a strong tendency to trust. There is a greater view to internal influences when relating to negative outcomes. In other words, unlikely to claim good health but likely to claim poor health related to dietary choices. Western cultures have a weaker belief in external control than their eastern peers. Interestingly, Hong Kong Chinese demonstrate greater internal control views[8] which is more than likely due to western colonialization influences and education within their society.

Younger mainland Chinese are growing up in an environment with greater education and empowerment to critique and think for themselves. There is less of a reliance on Taoist complacency, and the Confucian theories of attributing ill health to past misdeeds. There has been a swing towards greater internal control and self-determination of an individual's health outcomes.

3.2 Traditional Chinese food "consumer/consumption values"

In general, consumption values can be divided into five distinct categories: functional, social (benefit linked to a social group association), emotional (capacity to arouse feelings), conditional (attractiveness dependent on set of circumstances) and epistemic (curiosity/novelty)[10].

Food consumerism, and particularly dairy food consumerism, irrespective of culture, is closely attributed by consumers to their own welfare. Therefore emotive values play a far more influential role alongside functional ones during purchasing decisions compared to purchasing technology goods such as a television.

Another point to consider is that while consumer needs may be universal (for example the need to adequate nutrition), the attributes, motivations and expressions of these needs vary based on the influence of personal values. In a study carried out in 2013 within the Chinese city of Hangzhou, the traditional Chinese values and beliefs discussed above were found in the following priority when purchasing healthy drinks: 1. Security (food safety), 2. Hedonism (pleasure/taste), 3. Benevolence (to family), and 4. Self direction (self empowerment)[12]. Note the correlation or lack-of, of many of these values to traditional Chinese philosophies. Consider also how a New Zealand beverage consumer might prioritise their consumer values.

While some of these values are shared across cultures, the order of these priorities will be distinct to Chinese consumers based on the values and beliefs discussed above, as well as personal experiences. I have focused on the importance of the personal values behind Chinese consumer decisions for dairy for a very good reason; in recent times, dairy has been promoted by the Chinese government through education and school milk programmes as a favourable nutrition option[13]. As the Chinese society modernises and its middle class grows (see later), the greater the demand and influence of dairy as a solution to individual and family wellbeing needs.

In a discussion document published in 2002 on Asian consumerism lifestyles and identities, the author discusses the element of "anti-westernisation" that influences almost all Chinese consumer values to some degree with respect to products linked to American ideologies specifically. While this may be challenged by younger Chinese consumers, traditional Chinese consumers may see foods marketed using westernised attributes as undermining local social cohesion. A key factor of consumption theory is that in addition to functional and hedonistic value, artefacts give meaning and identity to people's lives[11].

3.3 Who are New Zealand's target Chinese consumers and how do their consumer values vary?

Since 1978 and the economic liberalisation policies introduced by the late Deng Xiaoping, China's mean standard of living have increased many times over. This has changed the very social constitution of the country and most notably consumer behaviours. A major consequence of economic reform and the establishment of private enterprise has been a net migration from rural to urban areas for much of the population to take up new employment opportunities. The resulting affluence has created a significant middle class or "Xiao Kang" across almost all Chinese urban centres. Fortune magazine quoted this year that China's middle class has reached 146 million, or 11% of the entire population and 19% of China's working population, earning 78k renminbi (US$11,700) per annum on average[15,19]. China's "rich" (earning in excess of 3.3m RMB or US$500k accounts for only 0.2% of the population at 1.4 million.

Engels Law states that typically as incomes improve the proportion a population spend on food usually decreases. This has not been the trend seen in China as food volumes have been maintained but the appetite for variety and premium quality has increased[14]. China's new middle class is maintaining an average 35% of their spending income on food, significantly higher than the US at just 17%[15].

An interesting feature of this growing middle class is that it is disproportionately made up of younger, educated urban Chinese whose modern education, confidence, independence and open-mindedness is deemed more attractive by employers[14,16]. The common theme across all literature sourced for this report is a strong health and well-being focus within this population and that of the "wealthy class". They prioritise value over cheapness across all consumer items with a particular emphasis on organics and nutrition quality in food consumption[17,19,20,21]. Health and wellbeing awareness, while deep rooted in the traditional Chinese beliefs of their up-bringing, evolved an enhanced importance within dairy consumption in particular following the Melamine incident of 2008 and an influx of false foreign FMCG brands in China, causing a new mistrust in dairy products. These personal experiences prompted a greater internal control approach when purchasing dairy, specific to food safety.

An awareness of health and life "balance" has been fuelled by the overwhelming adoption of and access to social media by this middle class. The number of active runners in China exceeds that currently in the US[17]. A survey by McKinsey and Co in 2016 found that 51% were happy to purchase the most expensive/luxury Fast Moving Consumer Goods (FMCG) brands, compared to just 32% in 2011, showing the rapid change in consumer attitudes occurring. In fact Bloomberg claims that the majority of purchases by this population occur online, using social media such as WeChat for peer referrals and endorsements to provide confidence in trying new products. China's US$615b e-commerce market is the world's largest[18] and it is predicted to eclipse the rest of the world's total spend by 2018, half of which takes place on mobile devices.

So we know that this Xiao Kang population is a dominant player in the Chinese consumer market, they are health focused, they maintain a family focus (from their Confucian heritage)[18,20] and have a mistrust of unknown food brands, particularly dairy, but what are they purchasing? I was surprised to see in a relatively recent survey in 2013 by Yang et al conducted within the rapidly modernising urban areas of Heilongjiang, that the dairy products dominating this population's appetite are fresh milks and yoghurts at 73.7 and 69.4% of respondents having purchased. It does not state frequency of consumption though or satisfaction levels. The survey did clearly show though that the traditional first dairy product of choice for the new middle class populous, Milk Powder was significantly lower at just 19.6%. The authors of this paper were not clear though on respondent size or demographics, only that they were dairy consumers, with various dairy foods making up approximately 3.6% of total food consumption[21].

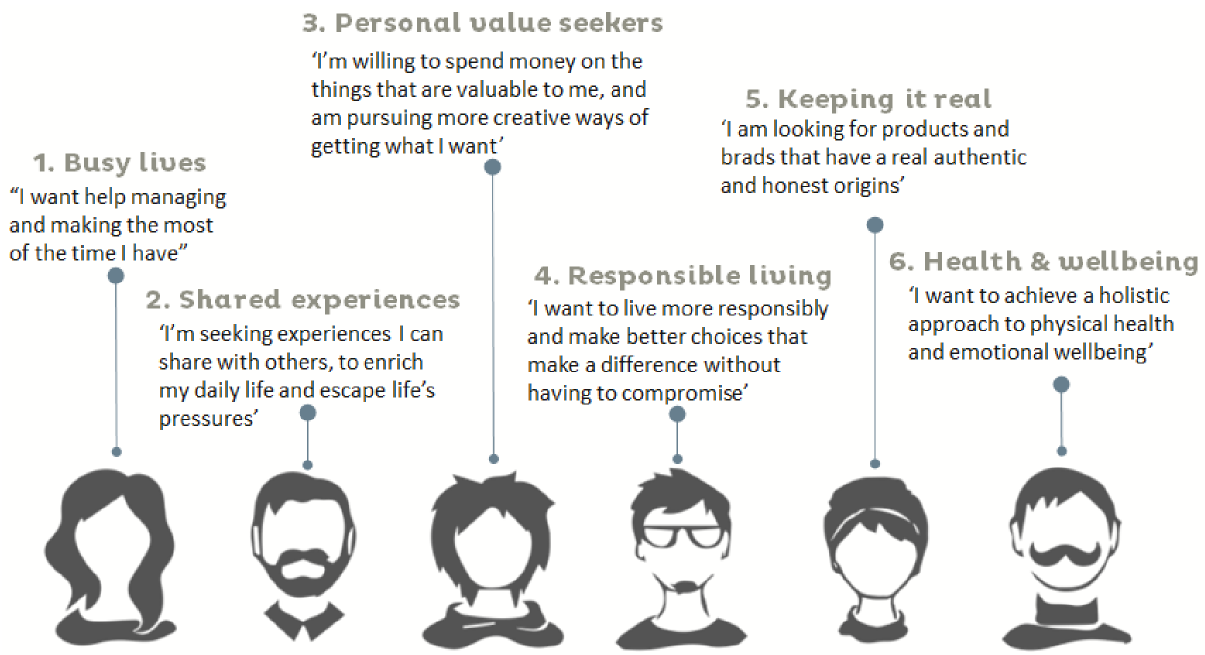
Much of China's ongoing increased spend on healthcare and health related products (which had already doubled between 2004-2011[19]) is attributed to the government's 12th 5 year development plan introduced in 2011, but what does the future look like?

A report by McKinsey and Co this year talks about the new emergence of a "wealthy-middle class" as the Chinese internal economic growth continues and the mean household income forecast to double by 2022[16]. Where the established middle class earnt between 60-106 RMB annually, the new upper middle class (earning 106-229 RMB/yr) is already becoming a recognisable entity and poised to become the new principal consumer engine of the future. This sector has a clear preference for premium and luxury brands. They are more westernised, well-travelled, happy to try new things, and like niche rather than mainstream brands[16]. China is already seeing this growth in premium health food consumption impact fast food chains, which are decreasing in number and being replaced by organic or healthy restaurants[17,20]. The growing influence of these wealthier Chinese consumers can be seen on the luxury goods market. Their desire to convey personal success and prestige is displayed by the purchasing of luxury and/or premium products[26]. I am curious if the increase in westernisation will translate to a continued benevolence attitude towards immediate family groups as is currently shown by the current mass-middle class? I suspect that the elevated appetite for luxury brands within McKinsey and Co's survey is the result of this upper populous of the middle class rather than the mass-middle class and if so, is there evidence of a greater epistemic focus in their consumer values similar to that of their western peers?

If New Zealand is limited to only produce enough food to feed 40 million people after its own domestic needs, surely we should be unbiasedly targeting the 40 mil consumers that recognise the value provided by New Zealand's provenance and are willing to pay a premium for that value? My view is that this emerging upper-middle class in China are very likely to fit that criteria. We know that New Zealand is one of the most trusted sources of Infant Formula[44], a product whose purchase carries significant emotional attachment due to purpose. In fact New Zealand is already the third largest origin of imported food into China, an impressive fact for a country of New Zealand's modest size[22] and supports our reputation position.

While the level of risk associated with targeting only one market would be generally perceived as unpalatable, there are plenty of reasons for China to play a very key role in our export revenue aspirations. The most notable of which is the established and supported Free Trade Agreement New Zealand pioneered with China.

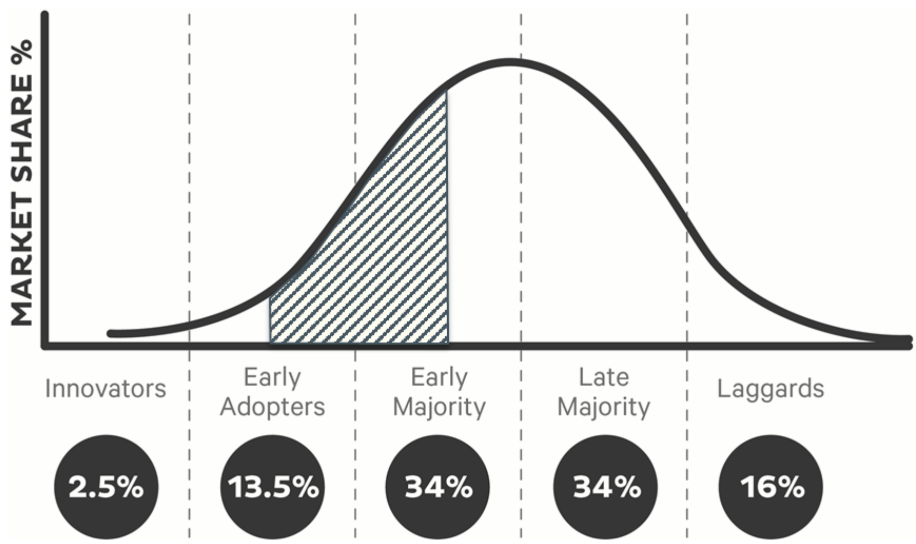
For the purposes of this report, I shall refer to these upper-middle-class target consumers as "lifestyle consumers". In my view, within the Chinese economy this group closely fit the generic term. The six distinguishable attributes of the lifestyle consumer are as follows[24]:



Source: The Irish food Board 2015 [24]. Illustration: K Perera

Figure 2: An illustration of Consumer Lifestyle Trends

By definition, lifestyle consumers look for brands that are novel and reflect their values. They are early adopters and look for innovations to define their identity as trendsetters. World renown thought leader Simon Senik sums this category up well with the quote “people don’t buy what you do, they buy why you do it”. To me this seems to share strong affinities with the consumer behaviours of the emerging upper middle class described above as the internet and social media establish a common community worldwide, even if on top of a foundation of traditional cultural-value influences. Chinese lifestyle consumers, driven by epistemic (self-determination) values are looking for a purpose or story to help them define their identity.



Source: The Healthy Marketing Team 2015 [43]

Figure 3: Rogers and Shoemaker Consumer Adaption Curve

New Zealand has a distinctive story behind both its national brand and a potential dairy brand. Physical attributes such as clean air, access to fresh water in abundance and adequate space to facilitate cows to graze freely could be seen as obvious features in which to base a story. In addition, a relatively clean slate supports a strong national history of trade and negotiation integrity. New Zealand has the canvas now to develop a strong, compelling “Why” brand to target these upper middle class lifestyle consumers in China before others.

The Irish government funded Bord Bia (Irish Food Board) has already taken a step towards establishing just such a brand called Origin Green, based on selling their national brand in the first instance.

Source: www.bordbia.ie

Figure 4: Origin Green marketing material example

3.4 What is New Zealand's current "brand" identity?

New Zealand has been exporting food and in particular dairy products for over one hundred years with general success. Of late though, as global trade opens up and becomes more competitive, our traditional European markets have been reduced to a minority position behind alternative markets. The NZ Dairy Board, and now Fonterra have some globally recognisable brands such as Anchor and Anmum and their associated marketing conveys a very traditional value proposition of purity, cows grazing fresh grass and harmony. Unfortunately NZ now shares many of these brand characteristics with competitor dairy exporter nations Denmark, Ireland, Australia and the green belts of the US.

Source: www.fonterrafoodservices.com

Figure 5: Fonterra Anchor and Anmum branding examples

New Zealand needed a new focus on differentiation and in 2002, this was assisted by the formation of The NZ Story Group, a body co-funded by NZ Trade and Enterprise and Tourism NZ. They established a NZ Story based on what makes this country different to trade with; Open Spaces, Open Hearts and Open Minds. They built an auditable licence programme called Fernmark, underpinned by what was identified as New Zealand's three shared, identity values: Kaitiaki, Integrity and Resourcefulness[25].

A great initiative but limited by its all-encompassing focus, covering off all aspects of value generated by New Zealand and its people. The NZ Story relies on the inference that our Kaitiaki values, synonymous with caring for the land implies that we put equal care into the foods we produce[45]. The story could be considered to be spread too thin. While building interest and a layer of credibility, it does not sell a "why" story specific to New Zealand food particular to dairy. Questions the NZ dairy industry needs to answer are; does the New Zealand Dairy Industry need to evolve its own "Why" brand? Or should this be left to private enterprise/individual exporters themselves?

Source: www.fernmark.nzstory.govt.nz

Figure 6: NZ Story Fernmark brand example

3.5 Do we need a specific NZ Dairy Brand for these target consumers?

I think there is real opportunity for the creation of a new dairy brand from New Zealand to draw the attention of this influential target market. Simply put, what brand would appeal to consumers with:

1. Busy Lives
2. Needing to meet both physical and emotive health and wellbeing needs
3. Seek products with defined values such as integrity and authenticity

4. Live ethically and responsibly (in terms of community and environment).
5. Share experiences, particularly on social media.

The question that needs to be asked is what specifically needs to be told to gain firstly the attention, and then the loyalty of this target market in China? Once that has been determined, one can then consider whether existing initiatives such as historical branding and The NZ Story/Fernmark fulfil this role or can at least contribute. Alternatively, if the demand for a New Zealand dairy goods story is so specific due to its association with consumer health and wellbeing that there needs to be a re-think and fresh approach, there lies a key opportunity from this report.

Some of the most comprehensive research done on this particular subject has been Lincoln University's Agribusiness and Economics Research Unit's (AERU) work on Maximising Export Returns since 2014. This series of reports highlighted the well understood Chinese consumer demand for food safety and the need for a recognisable traceability certification to back up food safety claims. They also noted the likelihood of credence attributes such as Animal Welfare, Environmental Sustainability origins, Organics, GM Free and Socially Responsible origins to attract premiums from the growing affluent sector of Chinese society.

The importance of a strong and credible Food Safety position within a dairy brand within China is paramount, particularly following the Fonterra Botulism scare in 2013 and others. Numerous consumer surveys carried out over the past six years identify this as the priority attribute, above price, functional attributes such as taste and flavour and credence attributes within purchase decisions [27,28,29,31,32]. The New Zealand government recognised this factor early on, firstly establishing the Food Safety Cooperation Agreement between this countries Ministry of Primary Industries and China's Food and Drug Administration in 2013[34]. In addition, and following the recommendations of the Whey Protein Concentrate Inquiry that evolved from the 2013 false Botulism scare, the New Zealand government is looking to further bolster its dairy export reputation with the initial passing of the Food Safety Law Reform in August this year[35].

In another initiative, state-owned-enterprise Asure Quality, the New Zealand governments Food Safety and Assurance service provider developed the "Insight" tool to support primary product exporters validate food traceability claims[33]. The insight tool provides consumers with a QR bar code they can scan with a "smartphone" device and immediately receive information on the audited supply chain process the product has undertaken before reaching the shelf, a validation, frequently demanded by Chinese consumers following numerous counterfeit product experiences [27,28].

A Theland UHT Milk carton, sourced from a NZ processor, retailed in China with the support of the inSight QR code.

Source: AsureQuality

Figure 7: An example of the inSight QR code on the packaging of a Theland UHT carton.

While food safety is currently a strong asset within a New Zealand dairy exporters branding war-chest, initiatives such as the AsureQuality/PWC/COFCO cooperation agreement to develop food safety standards within COFCO (China's largest agricultural food products supplier)[36] means it may be only a matter of time before countries such as New Zealand and Australia loose this as an advantage with their national brand[26].

Dairy products are more closely related to health and wellbeing than many other foodstuffs. Whether it's the direct association humans have with the maternal origins of milk or the fact that milk is a naturally formulated compact nutrition source or a combination of the both, there is no doubt emotive consumption values are linked closely with functional values for people of almost all cultures considering dairy products[13]. The traditional importance of health within a Chinese consumer's self-awareness and family group benevolence brings particular intricacies that need further exploration in my view. The target market I have identified is looking for the "why" and this could well be cohesively linked to that maternal association described above.

The first consumer gateway a brand needs to pass is an acceptable food integrity standard, through an accredited quality assurance scheme such as the inSight programme. The substance following that is the key to this market in my view. This country's existing credence attributes are a likely go-to. AERU's series of investigations identified that general Chinese food consumers have an awareness and concern of pesticide and preservative content, linking their inclusion to adverse impacts on their wellbeing. The artificial natures of such chemicals distance the consumer's connection with dairy's natural origins – critical for a consumer with Taoist or Yin and Yang values underpinning their consumption values. While New Zealand farmers may view their on-farm practices are comparatively natural, future dairy processors may need to dis-incentivise current chemical use or at least better understand consumer tolerance levels.

Unfortunately, these investigations are specific only to food in general and surveys are conducted across the general Chinese middle class consumer. Survey participants were required only to have purchased food and beverages within the last month, be aware of New Zealand as a country and as the survey was online, obviously be computer literate. Respondents appeared to be in the middle-class or wealthy sectors in Chinese society (supported in part as well by the high level of respondents with tertiary education), but were also equally male and female[31]. My expectation is that the majority of dairy product consumers in China will be female with an ambition to provide the best nutrition for both themselves and their household dependants, being her children, parents or parent in-laws[20]. I also expect that they will have very different motivators underpinning their purchase values than would a male purchasing a case of beer on the way home from work.

Nevertheless, the findings from AERU's investigations provide valuable insights to a New Zealand dairy exporter to China in the absence of anything more dairy specific. One investigation in 2014, specific to milk, established a very strong "willingness to pay" (WTP) for Freshness and Traceability as well as moderate WTP premiums for New Zealand origins (49% premium), Animal Welfare standards (26%) and various Environmental Sustainability factors (16-25%). Another point of relevance was that this report identified that the level of demand and WTP for such attributes as Environmental Sustainable origins, and Organic were greater in China than the UK. The reverse was the case for Animal Welfare attributes. Their theory was that the demand for organics or "green" origins was motivated predominately by a perceived association again with food safety and quality. They concluded that 75% of respondents were motivated to purchase Green foods (being Organic or Environmentally Sustainable) by egoistic reasons (Health 40%, Fashionable 35%) and only 25% were motivated by empathy for environmental protection. It would be advantageous for New Zealand exporters to understand just how big this latter 25% population is within China. Could it be 40 million?

Another investigation in 2015 further identified a WTP premium of 40% for sustainable milk only if the consumer perceived a link between sustainable production and food quality. This paper also found that the majority of those willing to pay a premium had children and were driven by maternal/paternal instincts[37].

Other observations from these investigations include: a low concern for risks associated with GM foods and Fair Trade origins. Animal Health far outweighed Animal Welfare as an influencer when food shopping, again likely due to perceived link with food safety[31]. During a later 2015 survey, it was recognised that Social Responsibility (76%) was also a potential purchase driver alongside Animal *Health* (79%) and Environmental Sustainability (88%). Unfortunately specific WTP's were not investigated and respondents were not asked to rank importance of these attributes within a "trade-off" situation to gauge priorities within the purchase process.

So how do these investigations relate to our target market and do the existing marketing tools provided by The NZ Story and Fernmark or those of individual processor/exporters hit the mark?

We have identified that they are younger, educated, more westernised and early adopters/late majority adopters. They then are likely to fit into the following demographics: Urban upper middle class mother either with or without parental dependents and teenage to 30 year old single career orientated urban professionals looking for convenience. Both groups are either Gen X, Y or Millennials and the latter two in particular are demanding the "Why" behind a brand…. What is the story, how does it "define" me and what experience will I have.

These early-adopters pioneer and redefine food culture across the world, and they fulfil the same role in China. Progressive health and wellbeing consumers pave the way by sharing their enthusiasm for a brand or experience with the mass market who seek direction[38].

These past investigations have relevance now but are likely to become outdated and less relevant very quickly. As these lifestyle consumers further evolve and likely westernise, they will adopt more global views and perceptions with regard to the importance of ethical attributes behind their foods in general (they may even de-emphasise the importance of food integrity). I am curious as to how environmental stewardship, organics, GM Free, social responsibility and Animal Welfare will evolve as attractive features of a brand as China further modernises.

The NZ Story provides a compelling "story" behind New Zealand's national brand, particularly in terms of credibility for food safety assurance. They have clearly set out to establish a national brand of competency and integrity. This is supported by the Fernmark accreditation. Secondly, the NZ Story sells a local culture of innovation, resourcefulness, style, responsibility and lifestyle that could be recognised as a position of global leadership and therefore attractive to be associated with/be defined by. There is very little in regards to the specific on-farm story or supportive material for Dairy but the industry could utilise this resource to establish Chinese "lifestyler" perception of New Zealand as on-trend and fashionable.

Fonterra products marketed in China; Anmum, Anchor and Anlene are marketed entirely on functional attributes and food safety assurance backed up with subtle claims of the purity of its origins through cows in pasture imagery. The same focus is shared by Synlait/Bright Dairies with their Pure Canterbury infant formula brand.

Boutique exporters such as Ata Milk provide the "Why", a story likely to be attractive to our target consumers. They have built a brand on old-fashioned values and authenticity which then infers a range of attributes such as purity, wholesomeness, natural, untampered and product integrity.

Source: www.atamilk.co.nz

Figure 8: An example of the current marketing of the Ata Milk brand exported to China

Westland Dairy's butter and UHT milk brand in China, WestGold is built on a similar but more conventional platform of food safety assurance, free-range/grass fed cows and family owned farming business origins. The later is an interesting focus given AERU's findings that Chinese consumers placed greater trust in food safety claims from larger scale corporatized origins[26].

Source: www.westgold.co.nz

Figure 9: The current Westgold butter brand exported to China by Westland Milk Products

3.6 Opportunity?

The vast majority of dairy imported into China is in the form of Whole Milk Powder, which in turn is used by local dairy companies to create local consumer products such as UHT milk, yoghurt and infant formula. New Zealand exporters of consumer dairy goods need to compete with these local products that generally do not use the New Zealand connection within their marketing due to the inconsistency of the powder source. More importantly within the target lifestyle consumers, New Zealand products need to be perceived as the premium product against a growing presence from countries such as Ireland, Denmark, Bulgaria, Australia and green-belt US states, all of whom share similarities in their provenance.

Existing research highlighted above has looked at consumer behaviours either across the general Chinese consumer base in regard to dairy, or in respect to the AERU surveys, investigated consumer preferences and WTP across food and beverages in general, while isolating a respondent group very likely similar to the target market I have proposed. There is an opportunity resulting from my investigation to date to better understand the consumer needs and preferences within <u>this specific society demographic and specifically in relation to dairy</u>, on the basis of the unique emotive perception and association dairy consumers have with this product sector.

The research outlined above showed that middle class and upper middle class Chinese dairy consumers purchase a range of dairy FMCG’s ranging from the more vanilla milk powder options to the more value-add drinking yoghurts and Infant formula products. I decided to have a go at surveying this target market in mainland China for the reason specified above as well as a desire to test if consumer attitudes towards product attributes would vary under “trade-off” questioning.

For the sake of eliminating the potential disruption to results from product-specific functional/ attributes such as taste experience, I sought feedback from the respondents on basic consumer milk powder only. In my view this also meant results would be more comparable to past investigations.

4.0 Investigation

When considering my objectives for a survey I hypothesised that I was launching a milk powder brand in China targeting lifestyle consumers and sought to acquire what attributes I would need to associate with a successful brand. Due to budgetary constraints I have not sought intelligence on functional attributes such as convenience and taste appeal. Nor have I looked at communication forums such as social media.

I sought the assistance of Hester Cooper from Brilliant Reflections Ltd and Duncan Stuart of Kudos Organisational Dynamics to create and analyse the survey, who in turn contracted market research organisation Research Now to provide the community of survey participants. Detail behind Research Now's recruitment protocol, ethics and approach to meet my targeted respondents can be found within their public document *Panel Value: our values*[40]. Adequate survey invitations were sent out to Research Now's pool of contacts in China under instruction that we were targeting 1000 respondents. A copy of the survey can also be found in the attached appendix.

4.1 Survey Architecture

Firstly I thought it essential to create a "screener" at the beginning of the survey to ensure that only respondents considered with the results evaluation fulfilled the target market demographic. Based on my understanding of this socio-economic group, respondents under 25 years and over 49 years of age were screened out. I did allow for a limited participation from the 50-64yo sector as long as the remaining criteria were satisfied. I sought a 50:50 split between the urban upper middle class mothers and the urban lifestyle professional by screening on children under 15yo. Successful respondents would need to be at least tertiary educated, have an appetite to be adventurous in their food decisions, have travelled out of mainland China and have purchased dairy products in the two months with a lean on respondents having purchased milk powder specifically. I also attempted to screen on affluence by requiring high-end lifestyle purchases such as a home, iPAD or car rather than risk offending respondents with a direct income enquiry.

Once past this gateway, the second step was to understand their current dairy consumption, including individual products and frequency and of those purchased frequently, how are they perceived? Perceptions consisted of statements such as "Authentic-trusted?", "Fully natural", "Good for healthy bones" and "Good for brain development". I also sought to understand how they were perceived regarding priority against alternate food options with statements like "A treat", "I'm consuming these more often lately" and "A bit expensive".

I then attempted to group successful respondents based on the key influential values outlined above of Security (food safety), Hedonism (pleasure), Benevolence (beneficial to family) and Self Direction (self-choice and definition). Eight randomised statements were used to segment the population around those key drivers.

The next step was to then understand which product attributes, both functional and credence are of the greatest priority to these consumers. To do this and following on from my discussion of the surveys conducted to date, I wanted to force respondents to choose between statements, indicating the one they liked best and the one they liked least. Participants were asked to do this seven times from nine randomised statements. Many of the statements will sound appealing to all respondents, but only when faced with the need to make a single decision will we understand a true priority, or rank of importance. Respondents saw four statements at a time. A desire to keep the survey completion time to within 15 minutes to add steel to the results and due to a restricted budget to fund the survey, I choose not to go to the level of depth within credence attributes as the AERU team had done in their investigation in 2015. Had the above circumstances been different, I would have liked greater depth.

The statements were related to the following criteria:

1. Animal Welfare – "All cows free-range with world class welfare standards"
2. Food Safety – "No GMO feed used to feed cows"
3. Freshness – "Milk packaged within 12 hours of milking"
4. Food Safety and Integrity – "World class food quality and safety"
5. National Brand – "milk comes from New Zealand"
6. Social Responsibility – "First class employment standards throughout supply chain"
7. Environmental – "Environmentally responsible, sustainable farming"
8. Traceability – "You can visit our farms and factory via your smartphone"
9. Authenticity – "packages at source – not repackaged by importers"

Results will be analysed using the Max-Difference methodology for a clear ranking (see methodology section below).

Lastly, respondents were again asked to choose. This final section looks at the Trade-off consumers make when choosing a product with different attributes. This time respondents were presented with a pseudo milk powder FMCG and asked to choose the preferred product from three options, supported by a selection of randomised propositions which included three randomised attribute factors. Attribute factors included Provenance, Price, Imagery, Quality, Brand Commitment, and Recommendation. Each factor had up to six potential options that were randomly selected to represent that proposition.

Results from these Trade-off questions will be analysed using Conjoint methodology.

4.2 Methodology

Maximum Difference Scaling (MaxDiff) was selected as the format for the first choice questioning because it is simple, both for the respondent and the researcher. Receiving valuable data using this method does depend on a critical mass of responses, but it does avoid the scaling bias issues often associated with the alternative Rating Scales methodology and the attractiveness for me was the need to force respondents to make a trade-off choice. The respondent simply makes a choice of the preferred and least preferred options.

When choosing milk powder...

Considering only these 5 features, please choose the least appealing and the most appealing.

Least Appealing		Most Appealing
○	Comes from New Zealand	○
○	No GMO feed used to feed cows	○
○	Packaged at source – not repackaged by importers	○
○	You can visit our farms and modern factory via your smartphone	○
○	Milk packaged within 12 hours of milking to ensure freshness	○

Click the 'Next' button to continue...

Figure 10: An example how the MaxDiff questioning was presented to survey participants

Firstly we analysed results using a simple “count analysis” of the raw data and secondly we attributed “attractiveness points” to each preference based on their percentage likelihood of being chosen.

Conjoint Analysis was used to more closely emulate a realistic shopper decision process. Respondents were given three randomly generated milk powder propositions as well as a “none of these” option. They make the choice and repeat this eight times. The key to conjoint data, also known as “part-worth’s” is how you interpret the value of each part-worth. In short, a sensitivity analysis of each attribute is undertaken by running a market simulation repeatedly where we change the description of an attribute one at a time, maintaining all other attributes within the proposition. Once all options have been tested, we return the attribute to the original status and move the next attribute and repeat the process. What you are left with is an indication of the relative preference for each of the options within each attribute and the importance of each of the attributes themselves. For example, the markets preference for vehicles may be divided into three attribute categories; Diesel, Petrol and Electric, from which we can identify the market preference as well as the specific makes within each category (attribute).

Duncan from Kudos undertook the analysis for me by identifying the importance of each of the six attribute categories listed above within the total preference decisions. He also analysed the relative value of each of the attribute options by translating the frequency of choice inclusion into a conceptual “utility score” where the total of the options add up to zero.

4.3 Results

532 respondents completed the survey; exactly half came from each of the two major cities surveyed; Beijing and Shanghai. There were a number of filters applied – one of these related to recent purchase of dairy products and this tended to favour female respondents (Figure 11).

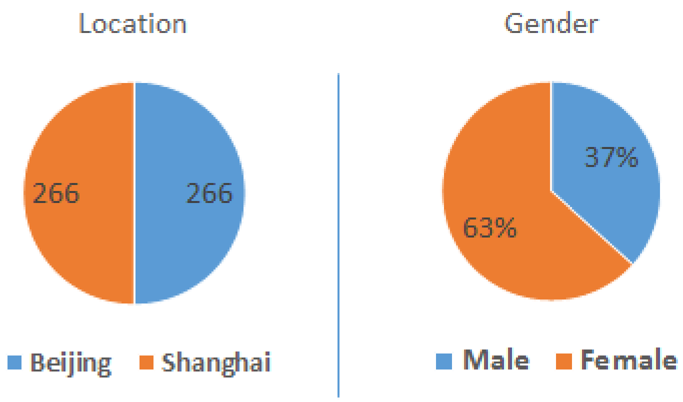


Figure 11: Summary of survey respondent demographics

Unsurprisingly, due to China’s single child social policy since the late seventies, over 90% of parent respondents only had one child. In line with my expectations for the age demographic for the target market, over 60% were between the ages of 25-34 years (Figure 12).

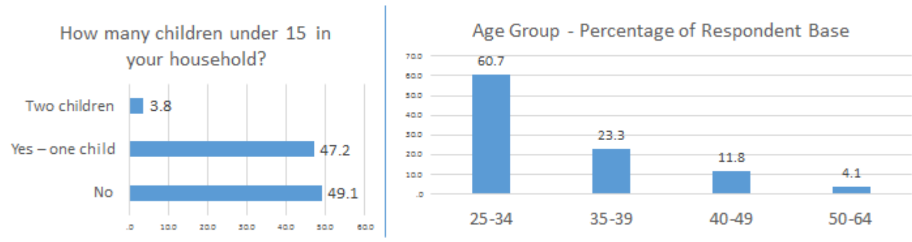
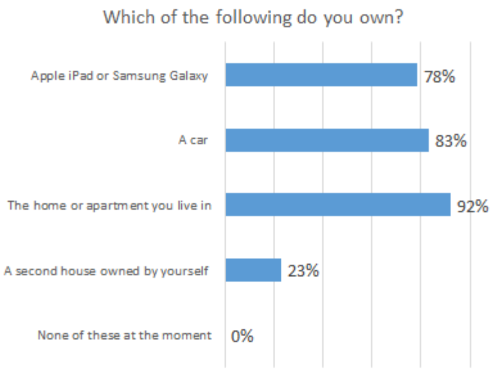


Figure 12: Further demographic features of survey respondents

Research Now’s initial pool screening identified the ideal participants up front with no respondents failing the prosperity screening based on assets, but at least 79% of initial participants fulfilled the travel screen, having travelled at least to another Asian country.



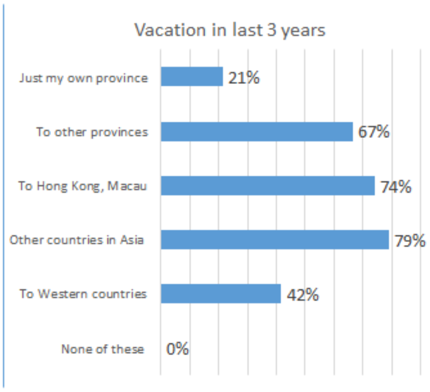


Figure 13a: Affluence, education and adventurism of survey respondents

And as a measure of adaptiveness, we excluded those who regarded themselves as later adopters. Of those remaining, 89% considered themselves adventurous in their attitudes towards new foods (Figures 13a+b).

Figure 13b: Adventurism of survey respondents

We then screened for dairy purchasing within the last two months and followed up with a question on purchase frequency of each dairy product. What we found was that the dominant products of choice purchased in the last two months were Liquid milk and Yoghurt, followed by Drinking Yoghurt and Milk Beverages. Milk Powder was only purchased by 52% of the final respondents (Figure 14).

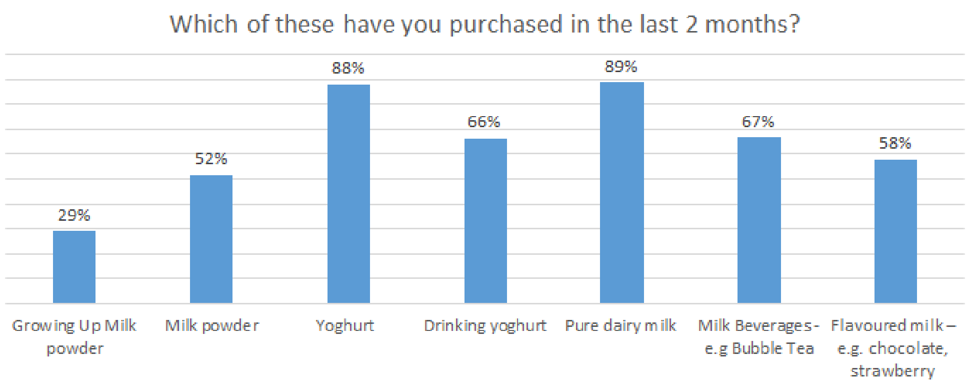
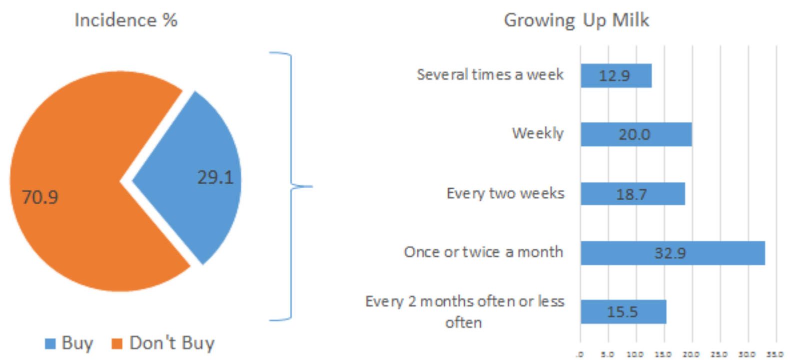
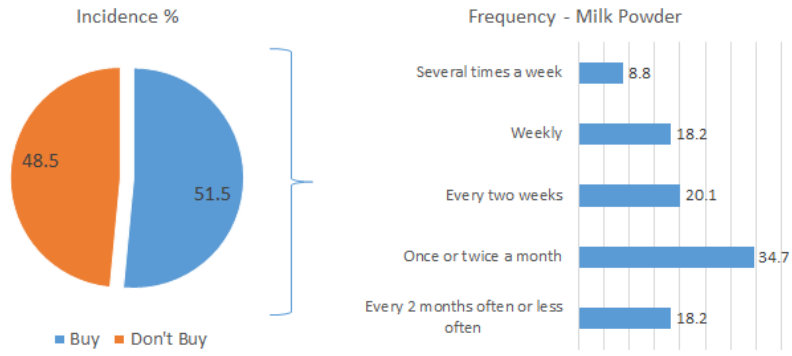


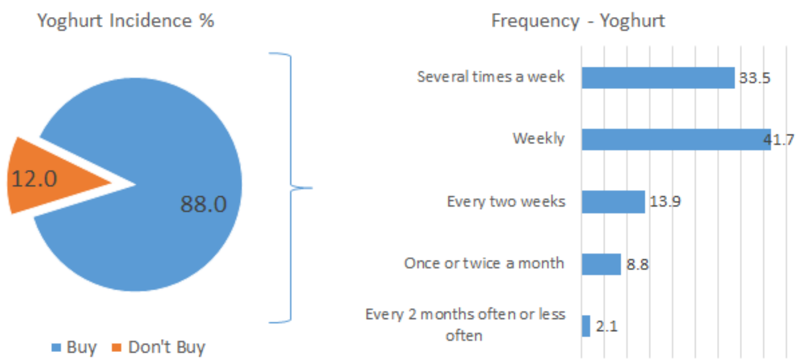
Figure 14: Dairy product consumption of survey respondents

Following the screening process we were left with primarily a young generation of well-heeled urban consumers, who are open to new foods and ideas and likely overseas brands and had recent experience with dairy products. Due to the scale of this survey, unfortunately we are unable to contrast their attitudes to the average Chinese urban dweller.

When surveyed for product frequency (Figure 15), unsurprisingly Growing up milk powder (GUMP) trended relatively low due to the final age demographic of the respondents. Of the 52% who had purchased milk powder in the past two months, the frequency of purchase was fairly well spread. Consumers of yoghurt, drinking yoghurt and liquid milk stood out as true FMCG's with purchase frequency generally at least weekly.







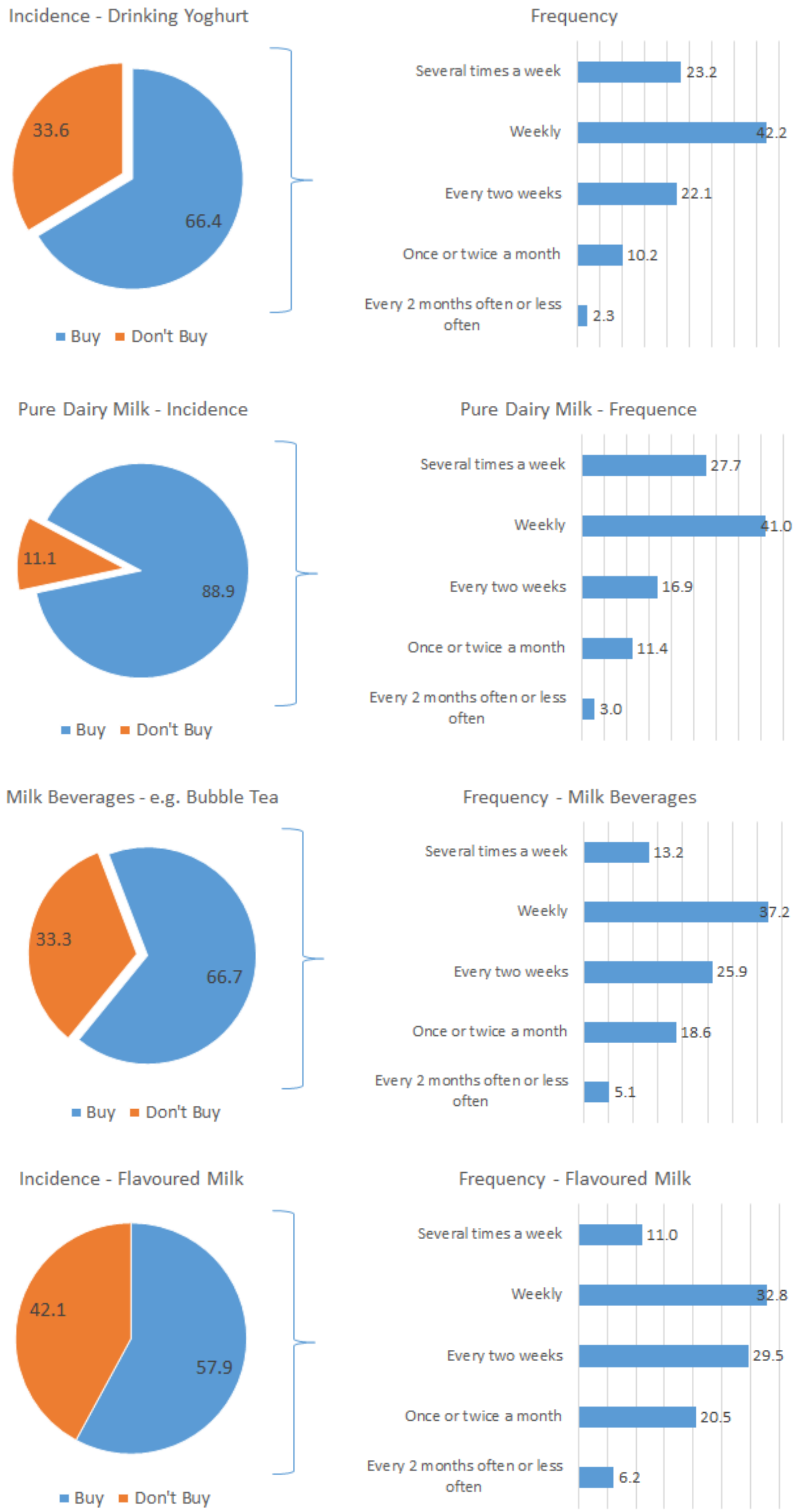
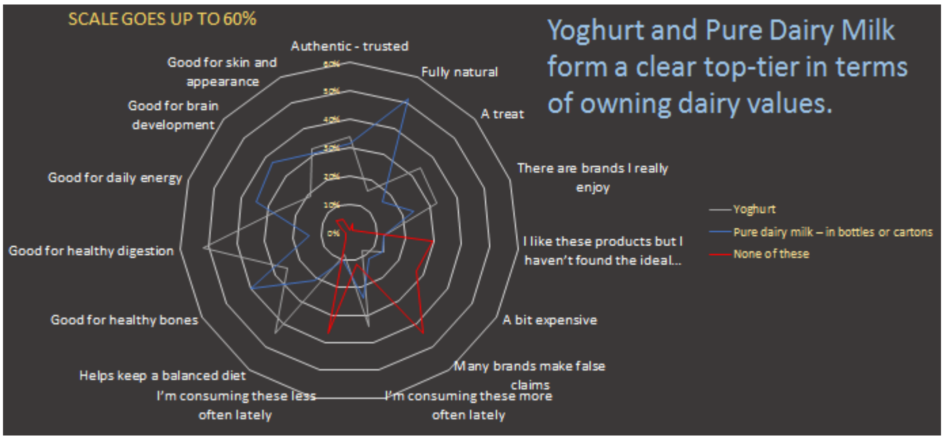
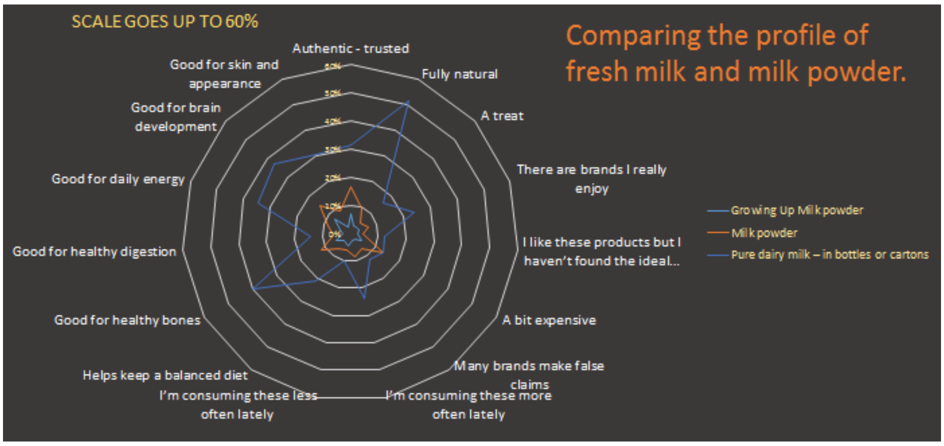


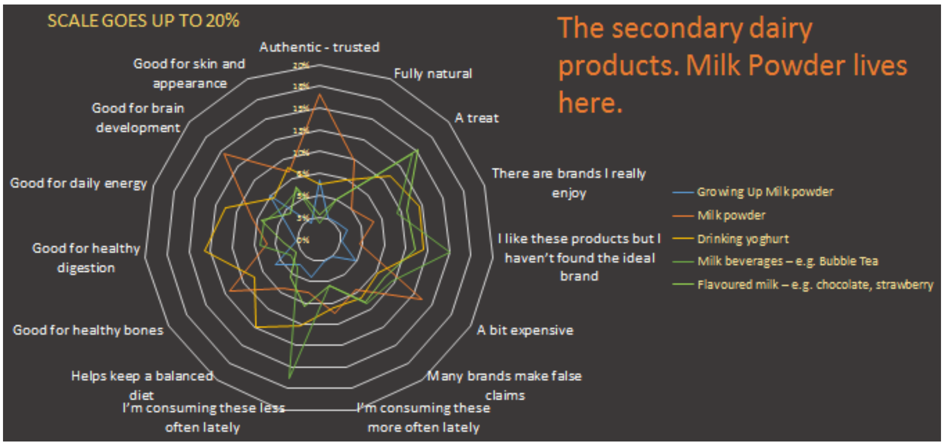
Figure 15: Dairy product purchase behaviours of survey respondents

15 statements were then presented to respondents to nominate which dairy product most belonged to each statement. These included two negative options (expensive and brands make false claims). The results (Figure 16) showed that two of the products own most of the territory and that milk powder had relatively weak ownership of the key values we associate with New Zealand dairy. Comparatively, the powders products joined Drinking

Yoghurt, Milk Beverages and Flavoured Milk with weaker associations to the statements. The two strongest products were Yoghurt and Liquid Milk.







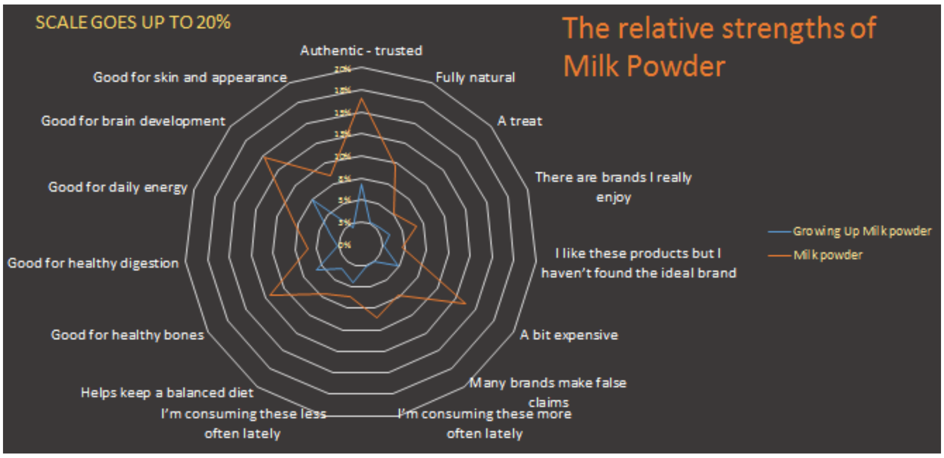


Figure 16: Statement/Attribute association to various dairy products by survey respondents

We then asked the respondents to agree or disagree with statements linked to the four key consumer drivers of Security, Hedonism, Benevolence and Self Direction. The aim was to identify with further segmentation was required within our screened target consumers based on these four categories (Figure 17).

The results were that all respondents displayed strong alignment with the values;

- I have my own goals regarding fitness and appearance
- I get real satisfaction seeing my family really enjoy a meal
- I like to provide lots of healthy food for the family – I buy for them really

There is moderate alignment with the following values;

- I've been buying more little luxury snacks and drinks lately
- I would describe myself as quite anxious about food safety
- I often try adventurous foods – foreign tastes, new flavours

There was strong disagreement between respondents over the following values;

- I'm relaxed about what I eat – I don't care where it comes from just so long as it tastes great
- Food to me is simply a fuel – so long as it gives me energy and nutrition I'm happy

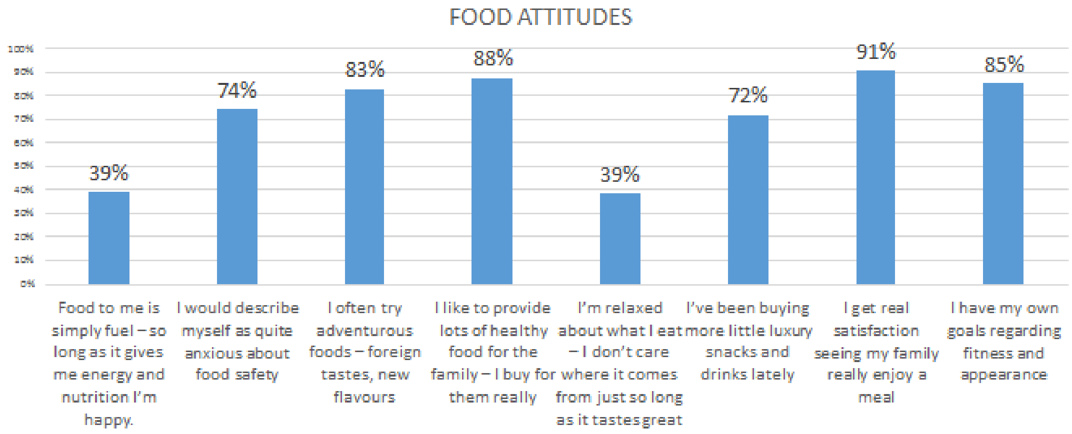


Figure 17: Survey respondent attitudes towards dairy consumption

MaxDiff choice modelling results provided prioritisation between most product attributes, with Food Safety and Quality a clear favourite. This was followed by Freshness, GMO and Animal Welfare. Traceability, or familiarisation with milk origin was the least important (Figure 18).

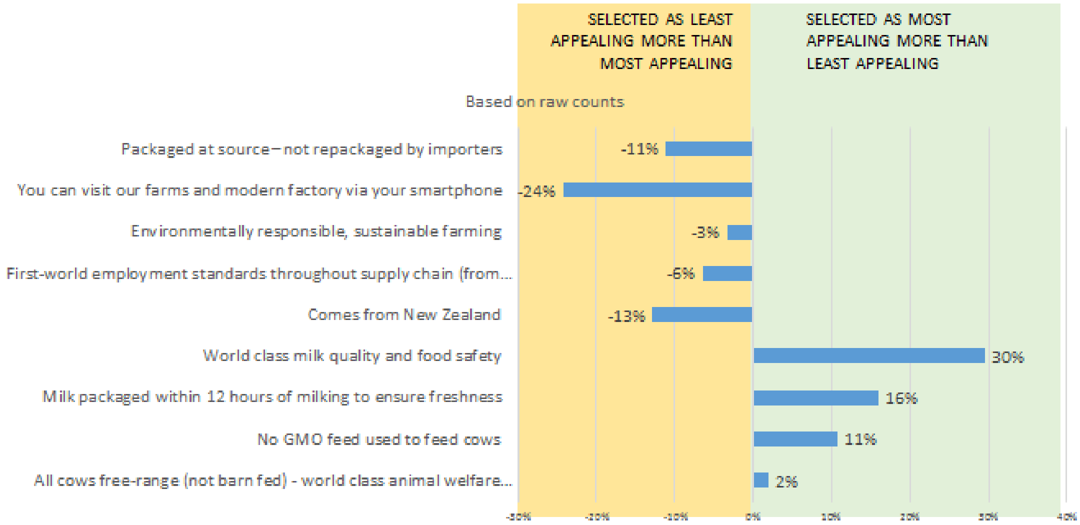


Figure 18: Results of Trade-off questions on attributes associated with dairy by survey respondents

The Conjoint analysis results of milk powder showed a strong level of importance for where a product comes from, as well as peer/community recommendations and therefore confidence in the product rather than marketing claims when making their purchasing decision. Branding features, such as imagery (The label) and credence attributes (Our Commitment) played more minor roles in the decision making process (Figures 19 and 20).

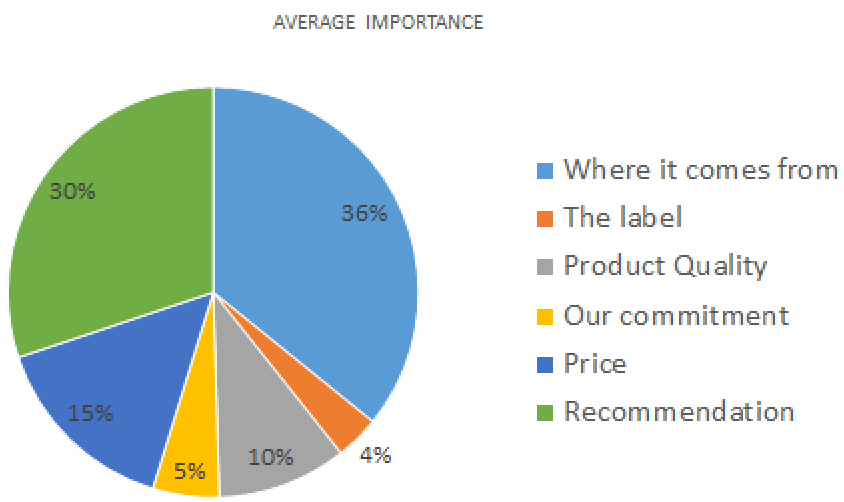


Figure 19: Importance of branding factors associated with dairy by survey respondents

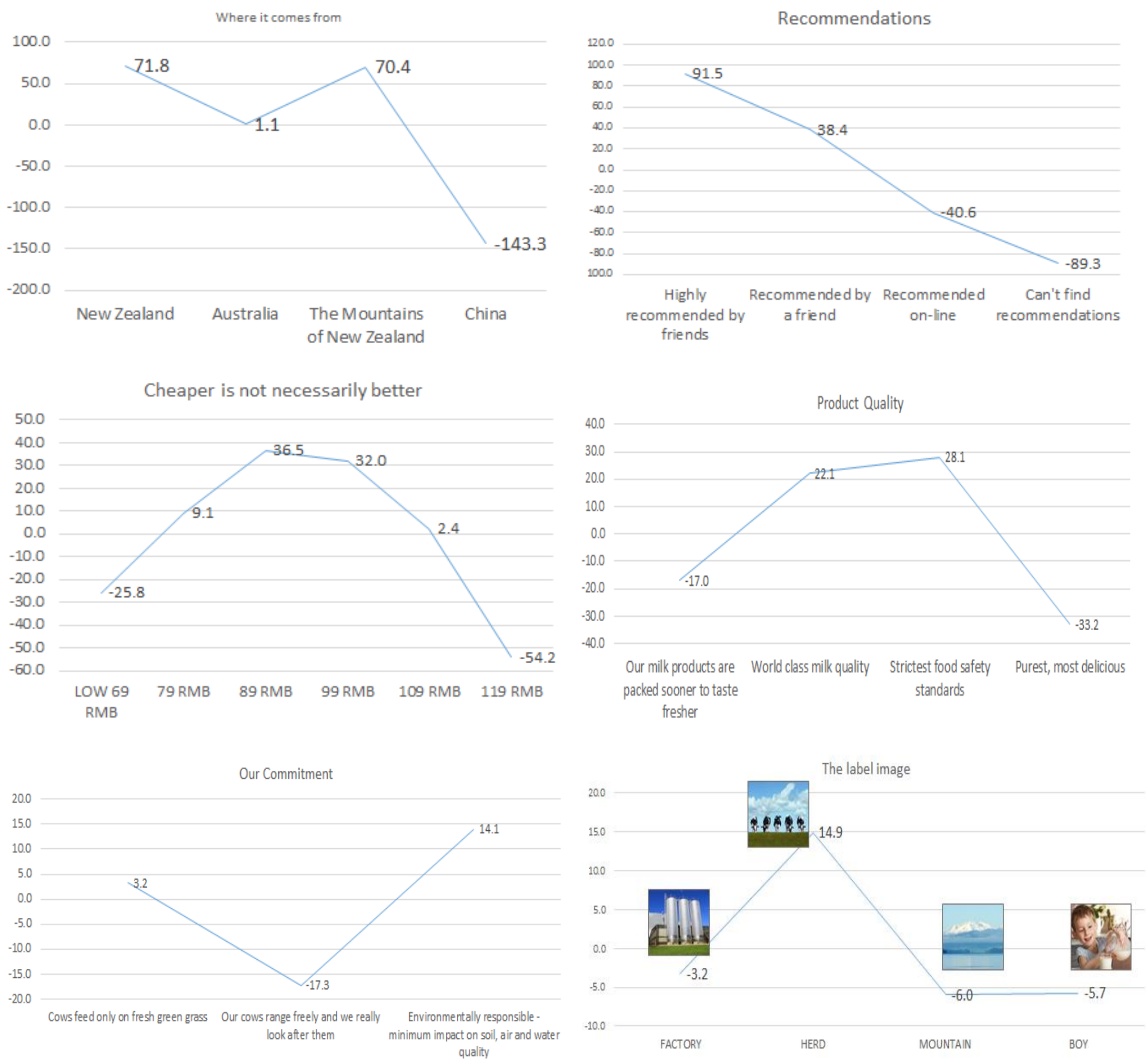


Figure 20: A breakdown of the relative importance of the options within each attribute category from Conjoint Analysis of a purchase situation simulation.

4.4 Discussion

The first thing I learnt from my survey results was that the product purchase choices from this sample of respondents mirrored that identified in recent research of the same demographic in 2013. In hindsight, while it now appears the target market has migrated to more conventional premium dairy products such as liquid milk (fresh and UHT) and yoghurts, it would have been interesting to gauge purchase trends for a more premium product such as an “all in one” consumable which would also be considered premium in western markets. It is likely that the Chinese lifestyle market has evolved ahead of where the author had foreseen. New Zealanders often still associate the Chinese market as being milk powder dominant. At least one result from this investigation has been to put that perception to bed for this market.

There was clear alignment between respondent’s view of product-association with the traditional dairy functional/conditional values of providing healthy digestion, healthy bones and a balanced diet, and those products most purchased: liquid milk and yoghurt. It was pleasing to see a good level of trust across all products, including powder, but I suspect that the epistemic and hedonistic value of powder has been surpassed now for this demographic, particularly when higher value alternatives are affordable.

The consistency of results across this respondent pool (leaving little room for further segmentation on this basis), may be as a result of the brevity of this survey, with only eight statements due to budgetary constraints. It may be due to the homogeneity of the survey sample (young, prosperous, well-travelled, early adopters), but certainly appears to support no further need for segmentation and that this lifestyle market can be considered in its entirety. I suspect though that convenience will be the significant variant between the parents and singles within this market.

What has come out of both this literature review and my survey is that the traditional family benevolence consumption value remains a strong driver for the parents within the group. Likewise, epistemic values, or self-determination behaviours come through very clearly with the appetite to try new things, seek new experiences, supported by the social validation acquired from friends/peer referrals and endorsements (validated in the Conjoint results). The Max-Diff and Conjoint results showed that the market is all about <u>them</u> (meeting their food safety, freshness and non-GMO needs) and less about <u>us</u> (NZ’s credence attributes and localisation). That is, until we make New Zealand “cool”, rather than just reliable, the current New Zealand story will not provide adequate consumer compulsion.

The results did show that New Zealand has an advantage already over both Australia and China as the origin of choice. In hindsight, I need not have separated the two NZ options as compounded, they are very dominant.

A further opportunity not covered by my survey is to ask the market what will trigger this markets fulfilment of social and epistemic needs. The key is establishing a “Why” story to accurately meet the markets attention.

The tested credence attributes gave us mixed results. Benevolent interest in Animal Welfare (particularly compared to western markets[31]), moderate interest in Grass feed origins, and a polarised view on environmental sustainability (as many respondents prioritised this attributes as those that least prioritised it) - clouded by the assertion that those attracted to this attribute do so out of perceived association with food quality.

One noticeable factor that varied from the survey results conducted by AERU was the change in perception and attitudes towards Genetic Modification. GMO feeds fed to cows was clearly of low priority in these 2014 investigations but my survey established it as the third most important factor following Food Safety and Freshness. This may be as a result of further westernised influences in this demographics evolution.

Another highlight was the respondent attitude towards price. The powder priced too cheaply was viewed with suspicion and mistrust, but it is equally important not to over-price and exceed value perception. Gauging the value behind a value-add brand, either differentiated with a story or with functional innovation, will be challenging initially.

There certainly appeared to be either a mistrust or low affinity for branding and imagery on the pack of a New Zealand powder product but I suspect that is likely due to the low complexity behind the product, not demanding significantly more than a functional need in the view of this lifestyle consumer. What they did respond to though was imagery that provided the association with the origin the respondent expected – cows. To me this shows that the consumer doesn’t want too much detail or subjective association when purchasing something as vanilla as milk powder.

The key learning for me from this investigation has been the level of mistrust the sample pool has for product marketing and branding – looking for validation of authenticity, food safety and quality/freshness, much of which was provided by the New Zealand national brand already. Credence attributes that did not link to either of the above were of low importance. If I were to conduct a further survey, I would target only responses to a new and innovative value add product and test various New Zealand centric story attributes for response/attractiveness using the same trade-off methodology (which I think worked well in this case).

5.0 Conclusions

The Chinese consumer is evolving in line with the rapid modernisation of its economy. As with all markets, the behaviours of the mass market will follow that of the early adopters, the progressive consumers who lead the way with their adventurism and motivation to establish their own identity. The current early adopters throughout the world, shared by western and an increasingly westernised Chinese market, are the young, educated, independent minded lifestyle consumers. These are generally found within the upper middle class of Chinese society.

This discussion paper has highlighted several key factors:

- Despite rapid modernisation, Chinese consumers, including lifestyle consumers, still prioritise food safety and quality needs following past brand integrity issues with food.
- There is a continued strong focus on health and wellbeing.
- There maintains a strong benevolence focus on family groups despite growing individualism (self-determination).
- The evolution of the consumer's individualism is an opportunity for niche products with an attractive differentiation (either functional or credence attribute)[39].
- This market seeks validation of new brands from family and friends and trusted celebrities – usually via social media.
- Past premium brands are now conventional (such as fresh milk) and it is likely that more complex value-add products have replaced them.
- Consumer value associated with traditional New Zealand credence attributes such as environmental sustainability and social responsibility and grass-feed cows are generally linked to food safety and quality benefits by the majority of consumers. This may well change as lifestyle consumers become more affluent (evolve up Maslow's hierarchy of needs) and worldly-educated.
- While there are tangible premiums available from a brand supported by such credence attributes, they are only associated with WTP for food safety and only for a sector of the market. There is reference to a minority of the market that motivated by environmental empathy but the scale of this market needs to be investigated.
- New Zealand's dairy presence in the Chinese consumer market in general to date has been fairly sterile and conservative. Our marketers may need to be more courageous and pioneering to develop "edgy", innovative brands that may hit the mark with progressive lifestyle consumers or fail attempting.
- Existing national brand attempts such as NZ Story have not been widely utilised to date by mainstream dairy exporters and could be a

valuable asset if the brand is to be developed around establishing New Zealand as fashionable trend-setting leaders in the eyes of this westernising group of Chinese consumers.

- Chinese consumers remain focused on value despite elevated incomes – with the main consumer needs being safety, convenience and nutritional benefit/freshness.

In addition to identifying unique and attractive credence attributes to support a story, New Zealand is also well placed to lead dairy product innovation to meet China's changing consumer functional needs such as convenience and taste adventurism. A combined approach could provide new "experiences" that attract the attention and premiums from this lifestyle market.

To accomplish this, New Zealand dairy exporters and marketers need to get the communication right, a topic not discussed in this discussion paper, but the importance of social media and family/peer/celebrity referrals has been repetitively raised across all literature reviewed.

I proposed that New Zealand's key differentiation in the dairy consumer category would be its provenance story. What is essential, is that the aspects of any story chosen by either the industry as a whole or by an individual marketer satisfies this target markets specific interest with our "why". Currently, our story has either focused only on product integrity or on credence attributes of greater importance to "us" rather than "them". New Zealand dairy needs to find a story or iconic New Zealand innovation that provides a memorable experience for them.

6.0 Recommendations/Next Steps

New Zealand dairy consumer product exporters need to be market led, meaning they need to stay at the cutting edge of new trends and fashions within China's early adopter consumers. Whatever brand is established, be it a national dairy brand or a one specific to a more localised source, it must resonate with this market and be re-enforced through continuous consumer validation. As a result of this paper, I feel that a new project should be to review how to gain the greatest benefit in the emerging Chinese e-commerce and social media environment. Specifically, what needs to be considered is how to stay ahead of trends and create brands that remain attractive and relevant to establishing either a positive memory or identity for this target market. In addition, an experience they are compelled to share.

Market feedback will also need to drive a strong emphasis within manufacturers for functional innovation specific to this evolving Chinese market to maintain the desirability and novelty of any New Zealand brand. What are the evolving consumer needs of this market and how does our industry establish a reliable channel of market intelligence ahead of being "on-trend"?

What I also learnt from my results was that purchase priorities may well have varied, prompted by deeper consideration towards the value of product attributes (other than food safety and freshness) had the product under consideration been more complex and carry much greater claims on health benefits. This would be an natural second focus of a new investigation.

I would like to see our established credence attributes tested with this market again in five years' time. I predict that the "lifestyle" market's desire for ethical products with responsible environmental and social and animal welfare claims will build. As we saw with the changing attitude towards GMO feed within these results, as the gap between western and eastern consumer views erodes, fuelling the ever-evolving new social identity and ethical awareness of these progressive consumers, so will the value of these credence attributes emerge.

Lastly, my initial inference was that based on current trading affinities and recent trade history, China was an attractive market in which to focus much of our value-add revenue aspirations on. Until it is better understood just how big the consumer population is within China that are WTP for national credence attributes not associated with food safety, this investigation does potentially question the legitimacy of the target market in the short term. It may be more productive for New Zealand dairy consumer product manufacturers/exporters to target on-trend western lifestyle consumers. Yet still establishing the robust and current market intelligence channels in China as detailed above in anticipation?

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8.0 Appendix

Welcome to our survey.

Q 1. Your gender	Male	1	
	Female	2	

Q 2. Your age	Under 18	1	SCREEN OUT
	18-24	2	SCREEN OUT
	25-34	3	
	35-39	4	
	40-49	5	
	50-64	6	QUOTA NO MORE THAN 20% OF SAMPLE
	65+	7	SCREEN OUT

Q 3. Do you have any children aged under 15 in your household?	No	1	QUOTA 50%
	Yes – one child	2	QUOTA 50%
	Two children	3	
	Three or more children	4	

Q 4. What level of Education have you attained? TICK ANY THAT APPLY	Primary School	1	SCREEN OUT
	High School	2	SCREEN OUT
	University up to/including Bachelors	3	
	University beyond Bachelors – e.g. Masters	4	
	Technical College	5	

Q 5. Which statement best describes you? TICK ONE	I love trying new foods and beverages – there's always new things worth trying.	5	
	When new foods or beverages are introduced, I'm probably among the first to try	4	
	I will try something new if a friend recommends it	3	
	When a new food or beverages are introduced, I'm probably one of the last to try	2	SCREEN OUT
	I don't waste my time trying new foods – I know what I like and stick to that	1	SCREEN OUT

Q 6. Which of the following do you own? TICK ANY THAT APPLY	Apple iPad or Samsung Galaxy	1	
	A car	2	
	The home or apartment you live in	3	
	A second house owned by yourself	4	
	None of these at the moment	5	SCREEN OUT

Q 7. Where have you been on vacation in the last 3 years. TICK ANY THAT APPLY	Just my own province	1	SCREEN OUT
	To other provinces	2	SCREEN OUT
	To Hong Kong, Macau	3	
	Other countries in Asia	4	
	To Western countries	5	
	None of these	6	SCREEN OUT

Q 8. Which of the following have you purchased for yourself or household in the past two months? SELECT ANY THAT APPLY	RANDOMISE		
	Growing Up Milk powder	1	
	Milk powder	2	QUOTA NO LESS THAN 200
	Yoghurt	3	
	Drinking yoghurt	4	
	Pure dairy milk – in bottles or cartons	5	
	Milk beverages – e.g. Bubble Tea	6	
	Flavoured milk – e.g chocolate, strawberry	7	
	None of these	8	SCREEN OUT

PIPE THROUGH THOSE SELECTED

	RANDOMISE	Every 2 months often or less often	Once or twice a month	Every two weeks	Weekly	Several times a week
Q 9. For each of those you have purchased lately – how often do you normally buy these?	Growing Up Milk powder	1	2	3	4	5
	Milk powder	1	2	3	4	5
	Yoghurt	1	2	3	4	5
	Drinking yoghurt	1	2	3	4	5
	Pure dairy milk – in bottles or cartons	1	2	3	4	5
	Milk beverages – e.g. Bubble Tea	1	2	3	4	5
	Flavoured milk – e.g chocolate, strawberry	1	2	3	4	5

PIPE THROUGH THOSE SELECTED – FOR THE BUCKETS

Q 10. Here are 15 descriptors – to which products do they most belong?

Authentic - trusted	Fully natural	A treat	There are brands I really enjoy	I like these products but I haven't found the ideal brand
A bit expensive	Many brands make false claims	I'm consuming these more often lately	I'm consuming these less often lately	Helps keep a balanced diet
Good for healthy bones	Good for healthy digestion	Good for daily energy	Good for brain development	Good for skin and appearance

THE BUCKETS

Growing Up Milk powder	Milk powder	Yoghurt	Drinking yoghurt	Pure dairy milk – in bottles or cartons	Milk beverages – e.g. Bubble Tea	Flavored milk – e.g chocolate, strawberry	None of these

	RANDOMISE	Strongly Disagree	Disagree	Neither Agree/ Disagree	Agree	Strongly Agree
Q 11. How strongly do you agree with the following?	Food to me is simply fuel – so long as it gives me energy and nutrition I'm happy.	1	2	3	4	5
	I would describe myself as quite anxious about food safety	1	2	3	4	5
	I often try adventurous foods – foreign tastes, new flavours	1	2	3	4	5
	I like to provide lots of healthy food for the family – I buy for *them* really	1	2	3	4	5
	I'm relaxed about what I eat – I don't care where it comes from just so long as it tastes great	1	2	3	4	5
	I've been buying more little luxury snacks and drinks lately.	1	2	3	4	5
	I get real satisfaction seeing my family really enjoy a meal	1	2	3	4	5
	I have my own goals regarding fitness and appearance	1	2	3	4	5

MAX/DIFF

Q 12.

Much food comes from animal products and people can be quite choosy when it comes working out if these products are worth buying.

We're going to show you four criteria for judging milk products and will ask you to choose the most important criterion, as well as the least important. We'll do this 7 times.

		MAX/DIFF LIST. SHOWN IN GROUPS OF FOUR, 7 TIMES.
Choose the least important and the most important criterion. **(SHOW 4 OR 5 AT A TIME – 7 TIMES)**	*1*	All cows free-range (not barn fed) - world class animal welfare standards
	2	No GMO feed used to feed cows
	3	Milk packaged within 12 hours of milking to ensure freshness
	4	World class milk quality and food safety
	5	Comes from New Zealand
	6	First-world employment standards throughout supply chain (from farm to shelf)
	7	Environmentally responsible, sustainable farming
	8	You can visit our farms and modern factory via your smartphone
	9	Packaged at source – not repackaged by importers

Next we'll do another choice exercise.

CONJOINT

Q 13.

PROVENANCE	1	New Zealand
	2	Australia
	3	The Mountains of New Zealand
	4	China
PRICE PER KILO	1	69 RMB
	2	79 RMB
	3	89 RMB
	4	99 RMB
	5	109 RMB
	6	119 RMB
IMAGERY (SEE BELOW)	1	Stainless modern dairy factory
	2	Taupo and Mountain
	3	Friesian cows – green grass
	4	Child who loves milk
PRODUCT QUALITY	1	Our milk products are packed sooner to taste fresher
	2	World class milk quality
	3	Strictest food safety standards
	4	Purest most delicious
OUR COMMITMENT	1	Cows feed only on fresh green grass
	2	Our cows range freely and we really look after them
	3	Environmentally responsible – minimum impact on soil, air and water quality
RECOMMENDATION	1	Highly recommended by friends
	2	Recommended by a friend
	3	Recommended on-line
	4	Can't find recommendations

Four images.




That's all we have today.

Many thanks for taking part in this survey