

Harnessing Brand NZ in China

A “Clean & Green” Story

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EXECUTIVE SUMMARY

With the world rapidly growing in population, and New Zealand's land resources remaining finite, it is crucial to ensure that our agricultural produce has a comparative advantage in our export markets.


China currently has a population of 1.3 billion people, and growing, and recently has been plagued with a number of food safety scares particularly in the infant formula sector. Consumers place food safety as an extremely important factor in purchasing decisions for their families, especially due to the one child policy, therefore there is a huge market for New Zealand to leverage of our good reputation in this space. New Zealand has many features that make up its brand which appeal to the Chinese consumer, including the "clean green" image. It is estimated that \$18 billion is generated from this image including our exports and tourism, therefore it is important to harness this image when exporting our primary value added products to China.

The purpose of this report is to understand the current Chinese market, identify opportunities and challenges for the New Zealand brand in food products, and propose recommendations based upon successful case study examples and literature research.

Currently, where New Zealand produce is known the reputation and perception of those products is positive due to its 'clean and green' image and good food safety standards.

There are several challenges however:

1. New Zealand products are small in a large diversified market. Our reach can only get so far through single sellers, and China should be viewed in a business sense, as a multitude of countries rather than one country on its own.
2. Relationships are long and partnering is important in China because the market requires not only cultural understanding, but also patience.
3. Time and resources are required to strengthen the brand
4. A strong business case is required to ensure that our products are appealing to Chinese business partners.

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5. There is an increased presence of counterfeit products in the market, which are competing against New Zealand products, and are risking our reputation.

Three case studies that were discussed are good examples of New Zealand organisations mitigating some, or all of these challenges for successful outcomes.

Pure NZ Greenshell Mussels is the product of collaboration between four New Zealand companies operating in the same market. The business is run from China so strong relationships can be built, commitment to the market is shown and they leverage off the strong clean green brand.

In the infant formula space, both the Dairy Goat Co-operative and Pure Canterbury products are also leveraged off the clean green brand, and maintain good relationships with people in China. Counterfeit products in this space however are still a large problem.

The opportunities that are recommended are:

1. Collaboration between New Zealand producers is important to ensure that we make a mark in the Chinese market. Producers shouldn't be competing against each other.
2. Environmental standards must be maintained and improved, whilst being economically viable for the farmer, to strengthen the New Zealand brand into the future and uphold our reputation on an international scale. More updated research is required to accurately gauge the value of our clean green image.
3. Social media may play a greater role in the future with connecting to our consumers and telling our brand story. More investigation is required on the impact of this in the Chinese market.



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INTRODUCTION

With the population of the world growing ever so quickly, and the land available used to produce food to feed those people being finite, New Zealand has a massive opportunity to export our agricultural products to the world. With agriculture contributing approximately \$30 billion to the economy, and 25% of our export revenue, it is crucial that we identify solutions to further protect our future.


But with more countries in the world becoming more efficient at producing low cost produce;

- Will a small country like New Zealand be able to keep up?
- Will we be competitive on the commodity market or should we be enhancing our competitive advantage catering toward the luxury premium end of the market?
- What are we doing to ensure New Zealand farmers remain competitive on the world stage, and keep New Zealand at the forefront of technology and innovation?

Furthermore, with the CAP's coming off in the European markets in the next few years, farmers in those nations are going to face similar prospects as New Zealand farmers did when deregulation occurred in the early 1980's. It is going to be a situation of becoming more efficient and innovative or exiting the market completely. It is more relevant than ever that New Zealand farmers and the industry ensure its products have a place in the markets in the future, or ensuring we are differentiated enough to be successful.

The land available in New Zealand for increased production is limited due to the limited resource of land, therefore future growth and innovation needs to come from adding value to our raw commodities (Saunders, McDonald, & Driver, 2011). Given the cost of environmental sustainability is becoming greater through regulation across the country, it is even more imperative to gain greater value from the final products.

“Our land is now expensive and in dwindling supply, just like China's labour is. If we, like them, plan to become a high income country by 2030, we will have to figure out



how to generate much greater value and sophistication from our key resource'
(Oram, 2012, p.D24).

At the beginning of this year I read an article by O'Sullivan (2012) entitled "Fonterra must be a champion in China". This article was written prior to Fonterra announcing their new strategy, however discussed the inherent need for high quality brands to be launched into the Chinese market. Shanghai Pengxin (the company that has acquired the high profile Crafer Farms) has already recognised its value, reserving two brand names "Nature Pure" and "Pure 100" which it will utilise in the marketing of dairy products back to China from New Zealand once the acquisition is complete.

If we are going to take advantage and deliver high quality brands to the Chinese market in the future, I think it is inherently important to understand what Brand New Zealand means, and how our consumers and partners in the Chinese market currently view it.


With no prior knowledge on this area of study, when I first started my project I thought our comparative advantage in value added products largely hinged on the brand of New Zealand itself; the 100% pure, clean, green image. I thought everyone one in China would know all about our country, and these characteristics.

Before I took a two week trip to China, I knew a few things about the country, mostly from the media and news headlines, and generally they included the following key words:

- Growth
- Food
- Demand
- People
- Money

I wondered, why do we focus on commodities when everyone should want food products from New Zealand due to our image, or brand? Why is this market not huge in China when that's where all the action is?

I visited Scott Brown, Redfern Consulting China who helps businesses enter the tough but lucrative Chinese market on a daily basis.



In a blunt but honest way, Scott told me it's because we don't understand China. We haven't done our homework properly and we haven't spent the man hours on the ground getting ourselves known. From the viewpoint of the Chinese businessman, why put New Zealand wine on your shelves when you know Chilean wine will fly straight off the shelves and you are guaranteed to make a profit from it. In general, Chinese consumers do not know enough about our story to pay a premium for our products (but due to food safety scares, is starting to improve). If you ask the Chinese whether grain fed or grass fed beef is better, and they will tell you grain fed is because the American and Australian producers have spent the time and money telling the Chinese market that story. So here we are thinking grass fed beef is better, but consumers have no reason to believe it! The New Zealand story needs to be developed and built upon to make more of an impact.

WHY IS IT IMPORTANT?

The KPMG Agribusiness Agenda 2012 discussed the major priorities in terms of challenges and opportunities for our primary industries, as identified by approximately 100 New Zealand primary industry leaders. There are many themes in this report, which directly correlate to this project, and help support the relevance and importance of keeping this topic front of mind.

The 2nd equal biggest priority discussed was “Robust practices to support NZ’s clean green image”, and “All parties on the value chain working towards a common goal”. The 10th priority was “Creating brands to tell NZ’s provenance story” – differentiating our products on food safety and quality, unique flavours our farming systems create and the efficiency in which they are created.

It has obviously been identified by industry leaders that our clean green image plays a huge role in the effective marketing of our agricultural produce; therefore maintaining environmental and animal welfare standards is of the utmost importance.

If New Zealand is better able to identify and redefine its comparative advantage and leverage from it, the economic viability of farming may improve along with it.

STUDY OBJECTIVES

1. Understand the current environment in China and how their consumers view New Zealand products.

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2. Identify the Opportunities and Challenges New Zealand primary producers face when entering the Chinese marketplace
 3. Identify organisations in New Zealand that are successfully using a Brand NZ strategy (Case Studies).
 4. Discuss opportunities for New Zealand producers to increase value of Brand NZ

METHODOLOGY

Literature review of relevant data and materials was employed, taking relevant findings and referencing appropriately. Newspaper articles, scholarly journals, organisation publications and website searches were utilised.

Interviews were conducted with a NZ organisation involved in selling primary produced products overseas to understand reasons for success.

Interviews of consultants in China took place to understand the Chinese market environment.

A case study approach has also been included for three organisations.

BACKGROUND

THE CHINESE MARKETPLACE

With a population of approximately 1.3 billion people, and continuously growing, there is no doubt that the Chinese market is crucial to the success of New Zealand agriculture. China is forecast to be the 2nd largest consumer market in the world by 2015 therefore where there are mouths to feed; our products need to be there.


In terms of current New Zealand Trade data, China is New Zealand's second largest destination for exports (making up 12.3%) behind Australia. Dairy products are New Zealand's largest export to China delivering returns of approximately \$2.3billion in 2011, up \$380 million from the previous year. In terms of China's imports, New Zealand dominates the dairy space by supplying 82% of total milk powder imports into China and 80% of butter and other fats (NZTE, 2012)

New Zealand exports of agricultural products⁽³⁾
By country/economic group
June years (NZ\$(000) fob)

Rank	Country/economic group ⁽²⁾	2006	2007	2008	2009	2010	2011	% change (2006-11)
Country								
1	China, People's Republic of	1,013,561	999,533	1,211,332	2,000,950	2,591,181	3,548,647	250%
2	Australia	1,600,306	1,717,201	2,091,630	2,172,153	2,414,162	2,604,074	63%
3	United States of America	2,425,306	2,615,559	2,271,463	3,150,687	2,239,855	2,487,383	3%
4	Japan	1,512,985	1,490,309	1,557,222	1,776,565	1,491,651	1,607,893	6%
5	United Kingdom	1,056,717	1,215,262	1,180,829	1,373,077	1,264,681	1,173,753	11%
6	Taiwan	556,257	552,671	551,828	597,120	634,605	704,998	27%
7	Korea, Republic of	539,848	612,212	618,139	528,344	509,091	661,025	22%
8	Indonesia	377,687	477,679	701,622	764,878	644,176	638,976	69%
9	Malaysia	355,019	406,661	620,922	642,544	558,320	638,621	80%
10	Saudi Arabia	360,413	389,866	633,109	502,733	470,833	636,811	77%

Table 1: Source: Statistics New Zealand (2011).

The above graph shows the trends in agricultural trade by country over the last 5 years. Exports to China have increased 250% in the last five years alone, with half of the top ten countries that our agricultural produce is being exported to being within the Asian region. There is no doubt therefore that the future of our agricultural trade will rely heavily on meeting the needs of our consumers in Asian markets, particularly China.




Over the next ten years the number of Chinese households which will have an annual disposable income of over \$10,000US a year would have quadrupled to 222million (NZTE, & MFAT, 2012). China is also ranked the second biggest consumer nation of luxury brands, which has increased over 20% in the last few years, and is set to take over Japan in this space (NZTE, 2012).

With the number of medium income households growing, and the effect of the one child policy in China, parents are even more concerned about food safety. China food processors (particularly in the space of infant formulas) have an overall bad reputation with food safety and there appears to continuously be scares in relation to food safety in dairy products particularly.

A more widely publicised example of this is the 2008 San Lu scare in which melamine was found in infant formulas to apparently increase the protein content of the formula (Hurley, 2012). Melamine in high levels can lead to kidney stones and renal failure in young children and approximately 300,000 children were affected, including six deaths, due to the contamination (Yan, 2011). Fonterra was a 43% shareholder in the San Lu group, and whilst Fonterra got bad press in New Zealand, was hardly mentioned in local media therefore there was little damage to New Zealand's brand. Internationally produced products therefore began to be perceived as being safer than locally produced products, increasing demand for foreign produced products and reducing demand for locally produced formulas dramatically. This is the space New Zealand agriculture really has the opportunity to take advantage of. In 2010, New Zealand was only 18% of the infant formula imports in the Chinese market, with Singapore being our biggest competitor with 37% of total imports in the infant formula space (NZTE, 2012).

17 million babies are born in China every year; therefore the demand for infant formula is set to continue to rise. The advantage of this market space is that it is generally less price sensitive as parents will pay a premium for greater assurance of food safety, which foreign imported products have, especially New Zealand (NZTE, 2012).

China is continuing to rapidly develop and consumers are concerned about soil and water toxicity, but in general education about environmental impacts is relatively low.



Their traditional culture set also underpins the way consumers live and eat, but western influence is slowly becoming more of a necessity (NZTE, 2007).

The Market Profile for Food & Beverage in China compiled by NZTE (2012) discussed some of the main market drivers in China to be:

1. The economy & increasing consumer affluence
2. Urbanisation
3. Food safety concerns
4. Health consciousness
5. Convenience
6. Internet savvy – educating themselves (Online shopping is growing at a rate of 35-50% in recent years).

New Zealand was the first Western country to formulate a bilateral trade agreement with China after its introduction to the WTO, and was also the first OECD country to have a free trade agreement with China in 2008 (NZTE, & MFAT, 2012). Our trade relationships are therefore strong and this puts our country in a unique position compared with other countries around the world.


WHAT IS NEW ZEALAND'S BRAND?

30% of the world's top brands leverage their country of origin (Gautier, & Owens, 2003). It is readily accepted that New Zealand's key factors which are iconic and widely recognised are things such as our clean and green environment, nature and adventure. But is it a strong brand image in China, and across the world?

Through my research it is clear that within New Zealand we think it is very strong. However in China our brand isn't as strong as we would like to think it is given the scale of the whole market (J. Bierman, personal communication, July 12, 2012).

Clean & Green

A study was completed by the Ministry of Environment (2001) to put a price on the value of our clean green image. They investigated the dairy industry, tourism and the organic food market to see what our image is really worth to our economy. For dairy products a survey was completed in Malaysia (the assumption was made that results would be typical of most Asian countries), in which it was concluded that if the environment was perceived to be degraded, consumers surveyed would purchase



54% less products from our country. This would then potentially result in lost revenue of \$241m if some product could be redirected to countries where the environmental perception wouldn't matter, and that is only dairy products; the figure could potentially be much greater with meat, seafood, wine and horticulture included. This data is also over ten years old therefore the losses are potentially far greater now. Approximately 17% of New Zealand's GDP hinges on our dairy industry, and the economic value of New Zealand's clean green image including tourism could value in total up to \$18 billion (Mills, 2011).

Environmental factors that our image is derived from which makes our "clean and green" includes:

- *Water quality*

Water quality determines a large part of the perception of positive environmental recognition as New Zealand lakes and rivers are a key part of our marketing material. In the last 150 years with the development of intensive agriculture, water quality has declined partly due to diffuse pollution and associated leaching from intensive farming. In 2002 Fish and Game NZ launched a "Dirty Dairying" campaign, which led to the voluntary creation of the Dairying, and Clean Streams Accord by Fonterra, Ministry of the Environment, MAF and regional councils. Several regional councils in New Zealand are tackling this issue head on and enforcing tough rules on farmers to abide by. One example of this is the Horizons Regional Council's One Plan. This has caused a lot of controversy amongst farmers and environmentalists, as some believe the conditions of the plan are too rigid and will make it uneconomical to farm. Particularly the tools recommended for monitoring nutrient limits which are not accurately proven by scientific means. Regulation of environmental standards in combination with incentives have been recommended as the best approach to dealing with water quality issues in the future that will satisfy both our environmental standards and farmer uptake (Waugh, 2011).

Although this decline hasn't affected consumer perception in China yet, it must be front of mind to keep environmental standards at a good level not only to uphold the brand, but also for New Zealand's sake.

- *Genetic Modification*

Genetic modification in food is a very emotive issue as it involves the modification of an organism's genetic material to enhance certain characteristics. Even though genetic modification has been used in various forms in New Zealand since the 1970's, currently no fresh produce originating from New Zealand is genetically modified. (Some processed foods however may contain genetically modified ingredients sourced from other countries. These ingredients must pass strict food safety standards before being used in New Zealand (Ministry for Environment, 2012). Genetic modification in our fresh produce could potentially affect the "Pure" image of our products.

- *Animal welfare*

The humane treatment of animals is crucial to promoting a pure image of New Zealand. It is also an emotive issue, as consumers may morally choose to eat food product from a country, which has safe practices around animal welfare. The Animal Welfare Act 1999 is in place to ensure safe practices are followed.


"Green Growth"

Pure Advantage (2012) defines green growth as "the aggregated economic benefit that comes from minimising waste and the inefficient use of energy, reducing pollution and greenhouse gas emissions, enhancing natural resources and biodiversity".

New Zealand's environmental standards are being noted worldwide as moving backward on an international scale. Yale University (2012) completed a study that had New Zealand dropping from 1st to 14th on the Environmental Performance Index. New Zealand's carbon emissions per capita are the 5th worst in the OECD, and New Zealand's native biodiversity is still under threat. Meanwhile New Zealand's economic indicators are also under threat; currently ranked as 22nd out of the 30

Rank	Country	EPI
1	Switzerland	76.69
2	Latvia	70.37
3	Norway	69.92
4	Luxembourg	69.2
5	Costa Rica	69.03
6	France	69
7	Austria	68.92
8	Italy	68.9
9	UK	68.82
10	Sweden	68.82
11	Germany	66.91
12	Slovakia	66.62
13	Iceland	66.28
14	New Zealand	66.05
15	Albania	65.85

Table 2: Environmental Performance Index Rankings. Source: Yale University (2012).



countries in the OECD for GDP per capita (Pure Advantage, 2012).

Are these two factors linked? Can New Zealand's economic performance improve along with the environmental standards?

Deriving additional value from raw products and leveraging from the New Zealand brand image would certainly suggest so. However, in the Chinese market, there are many things to consider before we reach ultimate success.

DISCUSSION

BUILDING BRAND NEW ZEALAND

Advantages

1. Where New Zealand is known in China, perception is good

NZ Trade & Enterprise (2007) researched the perceptions of New Zealand in China from a business and food industry perspective. As expected, of those who knew of New Zealand the imagery of the land (clean and green, pure and unpolluted) stood out as a key perception of the country. It was also noted that people are friendly and honest, and the political & economic climate was relatively stable.



Perceptions of NZ

- Peaceful Paradise
- Clean & Green
- Pure Land
- Unpolluted
- Plentiful & benevolent
- Stable political climate
- Environmentally sensitive
- Friendly and Honest

With the food safety scares becoming more and more common in China, foreign produced products such as ours have an extremely good reputation. Price premiums in the Chinese market for infant formula are approximately \$50 NZD per can greater than what it retails for in New Zealand, indicating strong demand for our products. Cows and milk products tend to be the most common food products Chinese are aware of if they have heard of New Zealand and our food safety standards are recognised as being (J. Bierman, personal communication, July 12, 2012). It is extremely important that New Zealand capitalises on “Our Story”. International branding is generally quite unfamiliar; therefore the ability of a product to convey a story through visual cues can be very powerful. Given China’s cultural heritage, using a powerful story that is emotive and connects with the consumer can also give products a comparative advantage (Rare HQ, 2012). Tools such as social media

and Internet shopping are becoming more popular in China therefore there are avenues that are open to us that could be of potential benefit.

It is important that we do not rest on our assumptions of having a strong international brand when marketing our products. The challenges below suggest the reasons why this is the case.

Challenges

1. *New Zealand products are very small in large, diversified and competitive market*
 NZTE (2012) discusses that within consumers there is still very little brand recognition of New Zealand in China overall. Given our size and scale versus the Chinese market, our products can have limited impact (J. Bierman, personal communication, July 12, 2012).

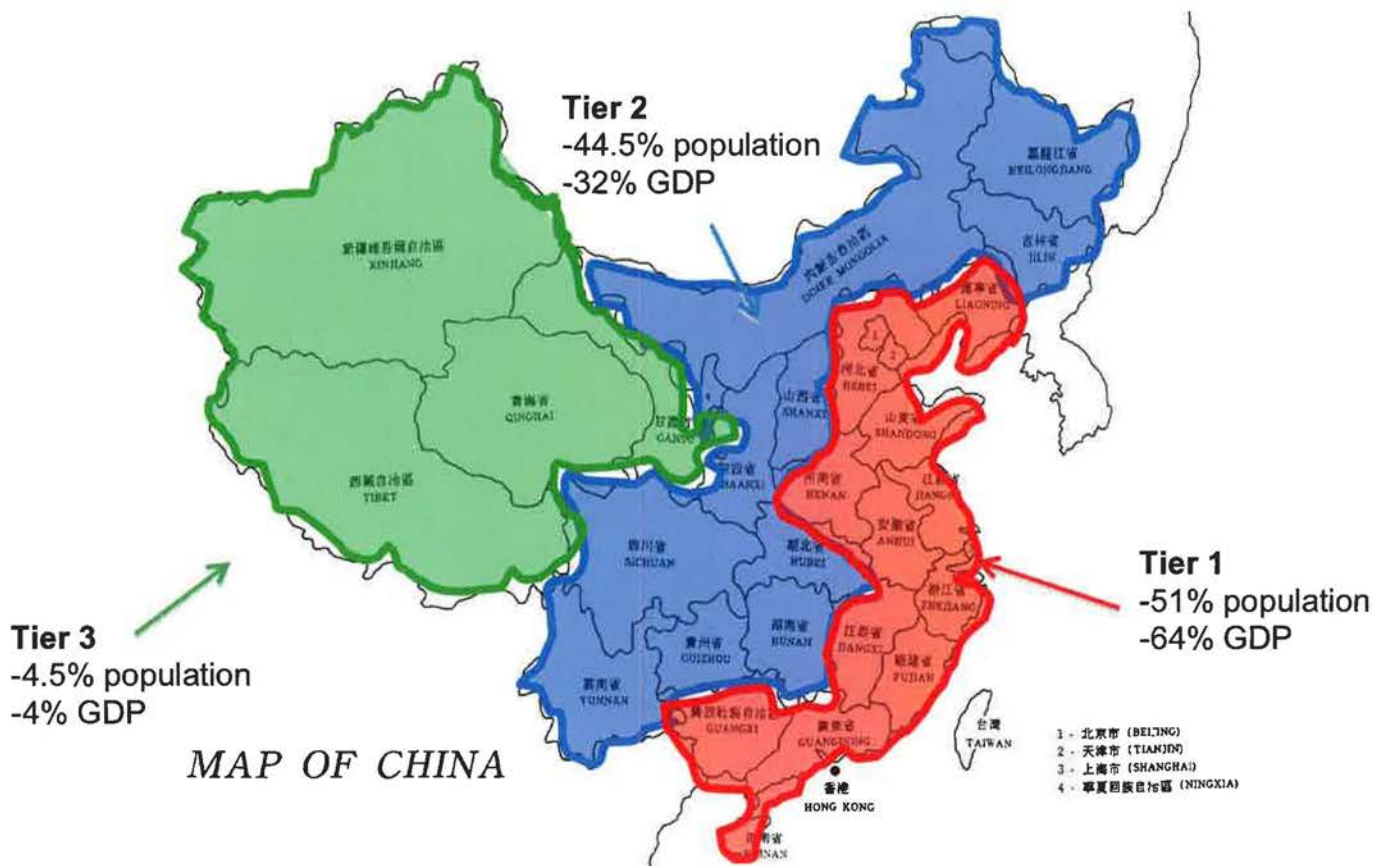



Figure 1: Demographic of Tier 1,2 & 3 provinces in China. Source: WPP

It is naive to view China as one market; each region can be considered as diverse and fragmented with different consumer values (just like different countries would). This can be seen in figure 1 above, the eastern provinces are much more developed



than Western provinces and account for a larger proportion of GDP (NZTE 2012). The eastern provinces of China account for approximately half the population and 64% of the GDP, however only account for less than a third of the land area. The scale of China's market therefore cannot be underestimated.

It is not only local producers we are competing against in this market, but also against strong markets such as Australia and the US. Given time and resources enable greater marketing impact, these have already done a lot of work in this space creating a reputation. As discussed, a collaborative approach to marketing would have more impact at connecting to consumers in certain regions and give New Zealand products a greater footprint, whilst remaining cost effective overall. A good example of this is Pure NZ Greenshell Mussels (see case study).

2. Relationships are long term, partnering is important

Given that the culture, language and values in China are vastly different compared to New Zealand's culture, it is important to partner with companies in China that are experienced and developed in importing, distributing and marketing our food products. Language barriers can be significant because direct English translations may translate into something completely different in the Chinese language. There are also many different dialects for different regions; therefore engaging with a partner that understands the language is crucial (Campbell, 2011). Working closely with these people to develop solid business relationships is important to understand the market and the requirements of the final consumers (NZTE, 2012). Trust is therefore built upon years of relationship building, and joint ventures may not be finalised until many years have past.

Trust with Chinese business partners is also built when we remain in the market even in the lean times, showing our commitment to the market (NZTE, 2010). However, you can't build a brand in China from a computer in New Zealand. It is very important to have people on the ground in China to ensure the Chinese distributors are sending the correct message about our products (J.Bierman, personal communication, July 12, 2012).

3. Time and resources required

Becoming successful in any market, particularly China requires significant amount of time, and more importantly resources. In a market as large as China's, an exorbitant

amount of money could be spent marketing our products and Brand New Zealand. However our resources and capital are not infinite, therefore the way our resources are used should be spent wisely.

4. Strong business case also required

When it comes to doing business, our country's image is important in the awareness and consideration stages, but for a final decision to be made it has to have a strong business case. Chinese will not buy on image alone. Fortunately, New Zealanders are viewed positively in terms of doing business due to our nature; however believe business acumen is still relatively low (NZTE, 2012). When doing business in China it is important that long term relationships are understood as being crucial to success and having strong partnerships is beneficial. International brands are more important than country of origin.



5. Increased presence of counterfeit products

Due to the strength of the New Zealand brand where known, and the reputation for safe food products, we are increasingly seeing more counterfeit products leveraging off the New Zealand brand. In the infant formula space, around 20 Chinese manufacturers at the recent Mother and Baby Expo in Shanghai attempted to sell their product as New Zealand produced and made (Hurley, 2012).



Figure 2: Infant formula company 'abid' using John Keys image to promote counterfeit product. Source: nzherald.co.nz

The above image is an example of the company 'abid' using New Zealand's Prime Minister John Key as part of their promotional material. This company did not produce its product in New Zealand, nor did they get authorisation to use John Key's image however to the unwitting consumer, it appeared New Zealand made and produced. The New Zealand Trade and Enterprise logo was even utilised on the product.

This is a serious issue as the credibility of New Zealand's brand could be adversely affected if any products result in food safety scares. It is very difficult manage, however once identified can be followed up on.

6. Environmental practices need to be upheld

The processes that are in place currently to uphold the environmental quality need to be maintained and improved upon. Negative media and images of a degraded environment are going to have an impact on the perception of food products from New Zealand. It is the responsibility of all stakeholders (including farmers and industry) to take responsibility in their part in the process.

After travelling overseas, it has become more apparent that our clean and green standards are not as good as we would like to think; therefore it is crucial that regulators and farmers work together to reach a solution that meets both economic and sustainability goals.

Opportunities

1. Engaging Social media

The social media platform provides a huge opportunity for New Zealand food producers to connect to the consumer in typically western countries, but is there any opportunity in a country like China?

Chinese social media operates on a different platform than in western countries. Common platforms such as Facebook, Twitter and YouTube are blocked by the Chinese Government which has led to the development of Social networking sites within the country. The main platforms include SinaWeibo, TencentWeibo, Qzone, Renren, Kaixin001 and Youku (Rare HQ, 2012).





The way consumers are choosing to shop is continuously evolving with social networking, online platforms and mobile technology becoming more commonplace (Rare HQ, 2012). 25% of the world's social media users are in China, therefore it would make sense that New Zealand producers are active in this space especially if our consumers are making purchasing decisions online before buying. We need to ensure we tell our own story, instead of it being told for us.

This does not come without its challenges however. Given there are language differences and interpretations, it is extremely important that the message sent on these platforms translates in the correct manner. It is very important to engage with a local partner to ensure the correct message has been sent. Collaboration therefore is very important to this process as well. Similarly, managing social media requires an investment of time to ensure that there is responsiveness when users interact, as well as regular use and interaction with consumers to build the positive connection. There is risk that if not managed correctly, it could do more damage than provide competitive advantage.


This area is seen as a potential opportunity; however the author believes social media use in this space (particularly China) requires more research to provide definitive conclusions.

2. Should co-operatives brand?

In an increasingly volatile market environment, it is important for co-operatives to continue to look at a market centric approach to selling their product (Beverland, 2006). Success can occur with co-operative models that have support of a long term approach, whereas failure occurs if the ownership structure prevents the marketing programmes from succeeding in the long term.

Zespri is a successful example of this approach, ensuring collective marketing on behalf of all growers which helps achieve long term success in the international arena.

The nature of co-operatives (in the fact that they are owned by the farmers/growers) can potentially lead to decisions that have a short term focus due to politics as farmers generally demand increased returns, and this can come at the expense of a long term strategy and relationships, such as branding (Beverland, 2006).



We have examples of co-operatives in New Zealand that effectively using branding as part of their product strategy (Including the Dairy Goat Co-operative). There has been a suggestion that perhaps Fonterra could have a larger space in this market.

There is risk that focusing attention on the commodity market allows others to control the destiny of our products. Controlling the whole supply chain, and leveraging off Brand New Zealand has proven successful in several examples (Zespri, Infant formulas, Greenshell mussels), and has scope to do so in other markets.

3. Creating a strong NZ brand story

The 100% Pure brand campaign has been around for ten years now, proving extremely successful. Initially produced by Tourism NZ to promote our country as a perfect holiday destination, our export market has also benefited from the imagery that was portrayed in the marketing material.

However I believe there is still space for a brand story to reflect our primary exports that we are trading to China. The government has recently commissioned three government agencies to commence work on developing a new export promotion agency to develop the New Zealand story in an export market context. The Building Market Export Report released in August discusses the need for a toolkit which enables exporters to have access to consistent branding, messages and the Fern mark which will give more creditability to products.

Our challenges include having a far wide reach to our consumers in a large, diverse market. Collaboration from industry with a strong New Zealand story would help build the brand. Limitations of creating an industry wide branding approach includes funding issues (who pays?) and a huge level of time and resources required. This could be mitigated by contribution from all industry sectors; including government however some parties may view replication in use of funds given the 100% Pure Campaign.

CASE STUDIES

DAIRY GOAT CO-OPERATIVE

The Dairy Goat Co-operative was established in 1984 and is based in Hamilton, New Zealand and has approximately 48 suppliers from around the Waikato. The co-op develops, manufactures and exports branded niche consumer products (primarily infant formulas). Some of the key brands in the infant formula space are Karihome, Capricare and Nanny Care.

The business fundamentals of the Co-op include:

- World leading dairy goat co-operative
- Producer of consumer packaged nutritionals; own brand
- Export focused
- NZ origin; premium market.

On the Singapore Karihome website, the key features of food safety are highlighted using videos showing how the product is manufactured and tested in New Zealand before being shipped overseas.




Figure 3: Karihome Packaging

“New Zealand’s dairy goats are mainly fed green and lush pastures. The high quality of milk corresponds directly to the quality of feed that the goats consume. In most other countries of the world, goats are fed on processed meal and grain”

Karihome website <http://www.karihome.com.sg/>

Suppliers of the goat co-op feed their goats mainly from pasture-based forages. Any supplementary feed that is fed must be sourced from New Zealand or Australia, which excludes the use of PKE (palm kernel expeller). This is not only to prevent the risk of aflatoxins from being present in the infant formula products but also due to the fact that PKE feed has negative connotations around the environmental sustainability in deforestation overseas. Removing this feed from approved supplements fed to the goats helps promote the products clean and green image. Consumers therefore are



willing to pay a premium above that of domestically supplied products for better food safety.

Challenges infant formula producers are having presently include the increased number of counterfeit products being marketed as NZ produced using logos from the NZ Trade and Enterprise, and even using John Key's picture to promote the products (Hurley, 2012).

The branded products produced by the goat co-operative **leverage off our reputation and image** being produced in New Zealand, and promote the goats being fed mainly from a pasture based system. Given their nutritionals are different from other infant formulas due to being produced from goats, there are limited other New Zealand competitors in this space at present. This organisation maintains **good partnerships and relationships** with people on the ground in China, and agrees relationships and trust are long term.


PURE NZ GREENSHELL MUSSELS

The mussel industry has come through some significant changes to enable their products are in the best position in the Chinese market.

- In the past the industry had problems with Chinese counterfeit products leveraging off our reputation for high food safety. There were even examples of Chinese selling these counterfeit products to other important markets such as the US (MFAT, 2012). This was very dangerous to the industry as it had potential to scar New Zealand's reputation if the products had issues with food safety, taste and quality.
- There was previously intense competition between New Zealand producers, which resulted in prices being driven down.
- The industry is now working **collaboratively** under brand Pure (which includes Sanford Ltd, Sealord, Kono NZ Ltd, and NZ Greenshell). These companies share the risk and resources to market product for greater value for each, mainly focusing on the food service sector.
- Price has risen from US\$4.50/kg to \$4.85/kg in 2011 (MFAT).
- Having members of the "Pure" group visit China regularly shows **commitment to market** by connecting to customers. The brand has people based in China on the ground with strong Chinese business acumen working with its distributors and customers to ensure the product is placed most effectively. (MFAT)



Figure 4: Packaging for Pure New Zealand Greenshell Mussels (English & Chinese version).
Source: www.purenzgreenshell.com



The language used in this exert off the Pure NZ Greenshell Mussels website highlights that fact that New Zealand's clean and green image is a key selling product for our food products.

Specifically:

- New Zealand's isolation
- Natural home
- Pristine waters
- Nurtured in NZ's clear, sunlit waters
- Unspoiled coastline
- Fresh flavour
- Food integrity

This case study highlights a number of key factors that enable its current strategy to be a success based on previous discussion.

Firstly, Pure NZ Greenshell Mussels identified issues with the competition between New Zealand organisations in the market and the structure of the Chinese market in which they operated. Given they now work under one brand, they have greater reach and resources behind the brand. A **collaborative** approach has ensured greater success.

They connect with the market by having experienced people on the ground in China running the business, as well as maintaining a connection to the market through Kiwi visits promotes the **strong relationships**.

Finally, the website information clearly utilises the clean green image to promote the product. If these aspects of the New Zealand **environment** are seen to be degraded, the power of the marketing will be reduced.

PURE CANTERBURY¹

- “Pure Canterbury” is a recent product addition to Synlait Milk product line, **utilising the “clean green” image** of the Southern Alps and the Canterbury Plains on the infant formula cans
- Shanghai’s Bright Dairy (which is currently the third largest dairy company in China) has a 51% shareholding in Synlait.
- Pure Canterbury is selling for approximately \$85-\$95NZD in China, compared with infant formulas in New Zealand supermarkets retailing for \$15-\$30. Consumers are willing to pay a premium for product from our country, mainly due to **high food safety reputation**.
- Bright Dairy has invested approximately ¥20 million in marketing Pure Canterbury, with expected revenue of ¥3-4 billion of over the next few years and wants the venture to return strong profits, proving a **strong business case** is important.
- **Good relationships and strong communication** are key to they success of the Joint Venture. Having local knowledge and government relationships enables a better understanding of the Chinese market.



Figure 5: Pure Canterbury packaging. Source: www.nzherald.co.nz

¹ O'Sullivan, F. (2012).



CONCLUSION

DOES BRAND NZ MATTER?

The short answer to this is yes; it does matter. Given food safety is key driver of consumer behaviour in China (particularly in infant formulas); without a good reputation in this brand image New Zealand holds, we would have poor uptake of product consumption.

With the highlighted food safety scares in China, and current positive brand perception when known, it is important we utilise these features when selling our food products and creating a story that connects with consumers. There is a real opportunity to add value to our raw commodities in this space and provide additional returns to farmers rather than being solely exposed to the volatile commodity market.

However, there still are a lot of challenges that need to be mitigated to ensure that we take full advantage of Brand New Zealand in our food products in China.

These include

- New Zealand products are small in a large, diversified & competitive market
- Relationships are long term and partnering is important
- Time, resources and a strong business case is required
- There is an increased presence of counterfeit products leveraging off our brand
- Environmental practices within NZ need to be upheld

The three case studies discussed all are good examples of New Zealand organisations mitigating some, or all of these challenges for successful outcomes.

Pure NZ Greenshell Mussels is the product of collaboration between four New Zealand companies operating in the same market. The business is run from China so strong relationships can be built, commitment to the market is shown and they leverage off the strong clean green brand.

In the infant formula space, both the Dairy Goat Co-operative and Pure Canterbury products are also leveraged off the clean green brand, and maintain good relationships with people in China. Counterfeit products in this space however are still a large problem.



This report has discussed the opportunities the Chinese market offers New Zealand exporters of agricultural produce, and if the current challenges are addressed, we will be in a better space to tackle this market head on to ensure New Zealand holds its comparative advantage, increasing farmer returns whilst upholding environmental sustainability.



RECOMMENDATIONS

HOW DO WE HARNESS BRAND NZ MORE EFFECTIVELY?

1. Collaboration is key

To hold a greater presence in the Chinese market, or even just the Tier 1 provinces and cities, New Zealand must work together collaboratively to promote our products. In China, consumers are not going to recognise individual brands due to the diverse and large population, and intense competition, but some sectors/tiers may recognise the New Zealand brand in total if marketed collaboratively.

- Adopt a marketing approach and create a story that consumers can connect to ensure our agricultural exports have greater placement in the market.
- Engage industry leaders to work together, not against each other, to facilitate discussions around collaboration in the Chinese market.
- Build strong relationships with Chinese business partners so we have a strong level of understanding of the market, on which trust can be built upon.

2. Maintain & Improve Environmental standards

Environmental standards must be maintained, and improved to ensure our brand is not compromised. The steps being put in place by farmers across the country in terms of nitrate leaching levels, riparian planting, and keeping stock from waterways all play a part in maintaining a clean and green image.

- Good communication between all stakeholders is required, including farmers, to ensure every party is driving toward the same goals, enabling better uptake.
- Regulation and incentives would be a good mix to ensure uptake from farmers around environmental practices.
- Green growth could be a key driver to our future, and better understanding our economic performance and how it links to environmental sustainability would be valuable. Updated research is required into the value of clean, green image so farmers and industry can better understand its potential and the part they play in invigorating the process.



3. Social media

If consumers are going to actively purchase or recommend our food products, we need to be able to connect to them effectively. Understanding how social media could work in the Chinese environment could enable us to connect and tell our story better given 25% of social media users in the world are in China.

- Organisations entering the Chinese market should investigate social media use by collaborating with Chinese experts who can provide advice.
- This area is seen as an opportunity, and the author believes social media use in this space requires more research to provide definitive conclusions.

“Don’t let someone else tell our story”



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