

**Deer Industry New Zealand**  
**FORMAL GENERAL MEETING**  
**INVERCARGILL, 2008**

Velvet Report: Rhys Griffiths

*(Velvet Marketing Services Manager)*

Good afternoon ladies and gentlemen. As you are aware I am new into this industry, which can give me the benefit of seeing it from the outside. My background is predominantly sales and marketing, particularly in agribusiness, and what I see in the velvet industry is passion and opportunity. **A great combination!** Particularly with the ownership and innovation I have recently experienced throughout the value chain.

Today I am going to review our activities over the past year. I will cover the markets as they relate to the 5-year strategy. Firstly we look at the traditional product forms of whole stick or sliced velvet into Asia. Next we see the traditional market of Asia with its traditional product or further processed forms (we will cover a couple of case studies on this later); and finally the new market and new product forms which covers the health, sports and pet supplements.

The role I am tasked with is to help grow sustainable value for the velvet industry. As the strategy points out, we need to diversify to ensure this sustainability occurs. We are in challenging times though wherever there are challenges there are opportunities!

In my first two weeks at Deer Industry New Zealand, I was fortunate enough to travel to our key market, Korea. In Korea, as you are all aware, there is a perception that the Russian velvet is the best, followed by Chinese, then New Zealand. It takes a while to change 2000 years of ingrained beliefs, but it seems to be happening! I will cover this in a little more detail later.

Let's look at Korea. It's our premium customer resulting in approximately 80% of our sales and despite the long-term need to diversify we must ensure these guys are happy at all times!

The main challenges as I can see are:

Firstly; developing new channels and sales of New Zealand Deer Velvet in Korea.

Secondly; removing incentives and opportunities for unofficial trade. This includes activities like lowering border costs so that trading through the front door is economically sensible. The key opportunity here is removal of the Special Excise Tax. A Free Trade Agreement in Korea would be significantly beneficial. In addition, it is ensuring that opportunity to misrepresent or adulterate New Zealand Deer Velvet is minimized. This may be achieved through initiatives like the isotopic signatures for NZ Deer Velvet which Lindsay will discuss later. Finally; undertaking further promotional activity in the traditional Oriental Medicine Doctor sector where possible.

In our traditional market there are innovative companies doing well within their segments. I have chosen two of these organizations as case studies which are successfully using NZ Deer Velvet as primary ingredients and obviously fit well in the conferences theme of positive action! I raise these two examples, not so much to focus on the companies themselves, but rather to illustrate the types of behaviors and actions that we want to see in Korea. The first operates in the Traditional Product Form and invests into branding (to regain consumer confidence). The second are branching out into the new product form (to meet a modern Korea).

The first case study – OmniHerb - offer traditional product forms to Oriental Medicine Doctors. As you can see, they are using Deer Industry New Zealand images – identifying the Country of Origin and staying traditional by emphasizing the cold imagery. They are using new packaging, presenting themselves as young and innovative, while retaining the traditional style of deer velvet.

A critical success factor in their business is providing unbiased and accurate information to Oriental Medicine Doctors. This helps to build up a trust which will be key when changing perceptions of velvet superiority.

A key aspect is "QUALITY CONTROL!" They are not confident with Russian and Chinese velvet when it comes to consistent quality. While they are convinced NZ is the best, they accept that there is a mind set to change the Oriental Medicine Doctor's perceptions.

Their current promotional work includes:

Hiring more "pharmacy" reps (7).

Printing 10,000 posters.

*And* utilizing the Korean of the DINZ brochure for clinic waiting room tables.

This organisation has a premium pricing strategy and has grown market share.

The second innovative company, called BOGO, is launching into new product forms to meet modern markets. It has been recently established by three senior executives from leading pharmaceutical companies. When they decided on the product form they first visited Russia (expecting to source their velvet). They found the Russian business style didn't suit their requirements. Then they visited China and found their quality control systems not at the level that they wished for. Finally they sourced New Zealand velvet when they saw a clean, green image with a standardised quality control process.

They designed the product, an energy drink, to be sold through home shopping channels. The drink contains 3.75gms/80mL New Zealand Deer Velvet with vitamins and apple juice added and tastes great! I actually have a few samples with me if any of you would like to try one during the next break. Each box contains 10 drink sachets effectively giving a short course of 37.5gms deer velvet. Their target audience are primarily (but not limited) to older children and young adults in their mid, high and senior schools and early working career. The motivation for establishing this product is a recognition that the traditional market is changing. They want to improve and professionalise product offering.

This close up of the product show quality packaging. It looks like the Korean version of Mac's Gold! Each energy drink retails at over NZD6.00/sachet.

Staying in Korea, the next initiative I wanted to present is "Traditional Market; New Delivery". This leads on nicely from the energy drink. Last December the Seoul Millennium Hilton Hotel Ran our 3rd Velvet as a healthy food promotion.

As a new person I get to ask why do we do this, what value is it deriving for our stakeholders? Part of our strategy to diversify our markets is to give us stability. The velvet as a healthy food promotion is a great test case and fits in well with the Korean cuisine.

The December promotion is perfect timing, settling into winter and leading to Christmas with increased desire to spend. Velvet sauce is also a premium product, but it can deliver key health benefits Seoul Millennium Hilton Events Manager and Head Chef (Park) say it is among their best promotions (they run a lot) and they are keen to re-run it again.

Some slides from last Decembers Velvet as a healthy food promotion. During the campaign a competition was run where the patrons had to answer simple questions about NZ Velvet. Included are also some pictures of a hamper, prepared at thanksgiving (a time of high quality gifts) featuring beef and New Zealand Velvet Sauce made by Chef Park. This promotion was also a success.

The “Velvet as a Healthy Food” promotion has been going through several phases. We wanted to test the market, build on the response, appeal to processors and increase public awareness. It is completely new in Korea, so this initiative is a bit of a “look and see”. It is not a large project and will take some time to gather momentum.

We do have some great work conducted by NZ exporters, aimed at the value added market. This particular display was in Korea’s premium department store, Hyundai during March. New Zealand Velvet was featured prominently.

Next we move onto traditional markets new opportunities, China. The challenge in China is their lack of recognition of NZ deer velvet as an ingredient by Oriental Medicine Doctor. While they recognise their own breed (*Cervus elaphus linnaeus*), they fail to see the similarities between theirs and NZ breeds (*Cervus elahpus elaphus*). This could be a non-tariff barrier argument and one which the new Free Trade Agreement may assist us with.

The New Zealand/China Free Trade Agreement signed on 7 April 2008 will offer good benefits to New Zealand farmers, including the deer industry. The velvet tariff will reduce from 20% by 4% when the FTA comes into effect in Oct, and then another 4% every year until 2012.

Non-tariff barriers will also result in benefits through the special status New Zealand achieves with China. Simply put, we will be better placed to address issues such as recognising our breed in similar vein to the Chinese and approval as an ingredient for Oriental Medicine Doctor.

As in Korea, there are innovative companies in China. The one featured here sells to over three hundred stores and are increasing their distribution rapidly. They have created their own brand of New Zealand Deer Velvet products positioned at the upper-end with high quality packaging.

They attend trade shows all over China and use innovative techniques to draw the public to their stand.

Other promotional activity includes billboard advertising. This one is outside a department store and features New Zealand Deer Velvet; however this particular example is overshadowed somewhat!

Moving onto Taiwan. one thing I have had to come to grips with rapidly in my new position are the acronyms! CIO, MFAT, NZTE, KFDA, KDBA, COA and TDFA, coming from a farming background the only one I was really at home with was MAF!

The big issue with Taiwan, as I am sure you are aware, is their 5MT quota limit. There is good potential if we can unlock the quota. We have had meetings with MFAT and MAF locally and are in discussion with MFAT in Taiwan to set up a meeting with the Taiwan Deer Farmers Association (TDFA) The idea is to get closer to their industry to break down barriers and try to grow the market. But to do this we need to lift the Quota levels.

In the interim, ongoing work includes advertising in the Taiwan Chinese Medicine Association Directory, just released. This advert will remain for 10 years until the next issue is published.

This next section is looking at new markets, specifically western markets promoting velvet as a sports supplement. This seems to be gaining momentum. Deer Industry New Zealand has been involved in sponsoring a number of sporting initiatives. We received an email last week from PBV tri-athlete who said: *"I saw the ad in the Adventure magazine for the deer velvet, it was cool. My trainings are getting harder and I think its (deer velvet) keeping me feeling good and I don't seem to be catching as many colds when I'm on it which is awesome."*

Another area getting great recognition is the Adventure Race Team.

The Adventure racing team at Wulong Mountain Quest late last year.

Powered by Velvet ART won the Southern Traverse a few weeks ago, one of the more premier extremes adventure racing in New Zealand. The team is never shy in giving us great exposure.

DINZ have been involved with a local exporter producing a low level advert for the US market This advert will air in the coming months on Discovery and ESPN Channels in New York and California. Here is the very Americanised advert!

Following on from Sports and health supplements for humans, the companion animal market poses a lot of opportunity. This can be divided into Asian and Western markets.

Firstly lets look at the traditional markets. Numbers of pets are growing as disposable incomes grow in China and Hong Kong. There is over 345,000 millionaires in China alone! This is an educated market in the benefits of deer velvet for humans. In any market (worldwide) it has been proven that people spend emotively on their pets, in a lot of cases they treat them as one of the family. An example of one person we deal with who has three dwellings. Their Hong Kong (main) residence has five dogs, and their Beijing and Shanghai residence has two each. They have maids to look after these pets (full time)!

Case study: Western vet practice with registered vets in Shanghai. The head vet we spoke with (German) was very skeptical on the use of velvet. However she was struggling with long-term use of (modern) Non Steroid Anti-Inflammatory Drug's so she swapped one patient over to NZ Deer Velvet and had remarkable results. Over a short space of time, she has swapped 15 patients over all with excellent results. She feels that, for a similar price, the dogs not only manage their arthritis, they have the added benefit of healthy skin/coat, increased immune function, better blood flow and is not dependant on long term pharmaceuticals. This mimics the positive feedback we are getting from Israel.

Deer Industry New Zealand helped with a bus advertising campaign during March, which ran on 33 buses covering 70% of the roads through Hong Kong. We were fortunate enough to see one in action during recent travel. At a local pet trade show at the end of March, the company said they received comment from most people passing by that they had seen the advert. Here is a brief video of New Zealand Deer Velvet Capsules selling in Hong Kong.

With the local or western markets we have to educate the audience. There is not the cart blanche acceptance yet of velvet as a supplement. Deer Industry New Zealand has done some great work to date on this, but there is a lot more we need to do.

In my experience, the NSAID market is huge, but to become a serious player will require significant resource, the level of funding we do not have. Therefore we need to have realistic expectations. However if we can crack it, even 1%, the payoff for the industry will be great. A recent article in Business Week suggests the pet industry in the US is valued at over USD41billion dollars, and nearly half of that in vet or OTC products!

Over the past few months we have been running adverts in domestic pet magazines to increase awareness.

The last activity I wanted to briefly highlight is the new velvet website which is a lot more user friendly and offer significant advantages over the previous site. There is also a Korean Website Deer Industry New Zealand has just launched aimed at the Oriental Medicine Doctor market.

Finally, the industry has challenges (like all industries) but overall is really exciting, with lots of opportunities. There has been some good work done. We have the building blocks of diversification, and with effective work, reliance on one market will diminish. This will lead to sustainability.

Thank you.