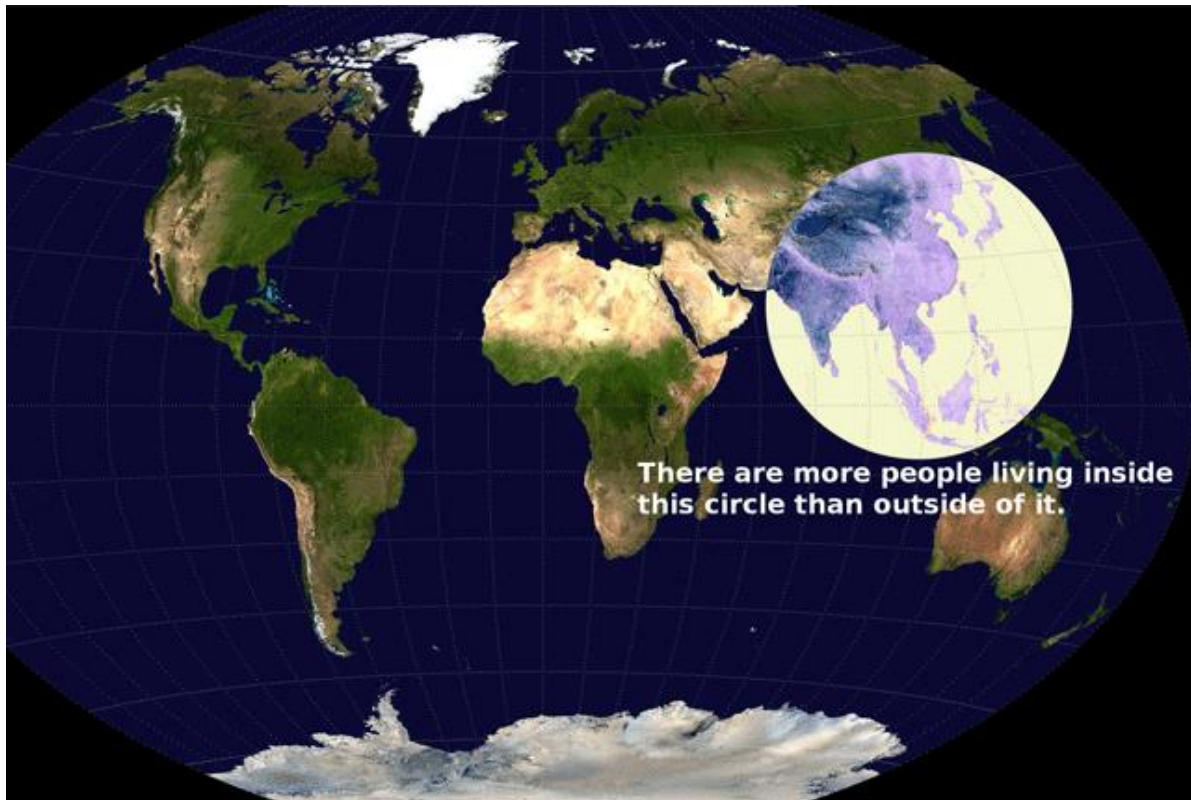


Opportunities and Challenges for Export of Australian Food Products to China

Insights from Craig Katz, Founder of Purus Group and CEO of the Australian Produce Collective



Craig Katz, Founder of Purus Group, has amassed a wealth of knowledge regarding the opportunities for marketing and promotion of Australian fresh food and manufactured food products in China. He is also very aware of some of the risks involved for Australian food producers and food manufacturers when taking their products to the Chinese market.

Based in South Australia, The Purus Group provides connections to South East Asia, and China in particular, linking food producers and manufacturers with buyers and consumers through securing distribution channels, providing logistics support and other on-the-ground services, such as building brands. These direct connections ensure that Australian food products reach the right retail platform to best market these brands and introduce a range of products to market at the best possible price points.

Born in South Africa, Craig and his family moved from Scotland to Australia for better lifestyle options four years ago. At that time, Craig had never been to China before, but saw an opportunity for 'clean' food there. His background in international trade and marketing branding led him to think about ways to find export opportunities for fresh food and packaged food products from South Australia to various destinations in China. Since founding The Purus Group, he has travelled dozens of times to China and other destinations in South East Asia and the Middle East.

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Craig feels you need a 'can-do' attitude to be successful in this type of business venture. There are many opportunities in the China market, with Chinese consumers increasingly interested in issues such as healthy diet, 'clean and green' foods, sustainability, fair trade and environmental concerns. Moreover, the Australia- China Free Trade Agreement is likely to make Australian food products more affordable and hence more accessible to much larger numbers of Chinese consumers.

He established Purus Group in 2013, which currently employs six people in Adelaide and three design team members based in Melbourne. Craig is now involved in a new partnership venture as CEO of the Australian Produce Collective (APC). The APC is the export arm of the South Australia Produce Market, South Australia's main fresh produce wholesale market. Craig spoke with us recently and outlines his thoughts on some of the supply chain issues that may affect Australian food producers and manufacturers interested in moving into the Chinese export market. Here are some things for potential food exporters to consider:

Capacity

Craig considers capacity to be a big issue, as Australian producers can only produce a finite amount of food for export. There is always the risk that they can't supply enough product for the China market with its huge demands. Unless producers can create a niche market, it can be difficult to meet demand. Companies must be asked the question: 'Do you have the capacity to expand and grow? Going into China is always a risk because you may lose customers if you don't expand quickly enough.

Technology

It is important for Australian producers to invest in technology and innovation, as the investment will pay off in the end. With fresh produce, technology plays a relatively minor role, as the bulk of technology is in packaging and labelling. Technology to support tracking and traceability are especially important with food products. It is important to bear in mind that the Chinese are very good at counterfeiting, but the more you can control the food supply chain, the less chance it can be tampered with. As far as IT is concerned, Craig says this is inescapable, you've got to have it. Craig invests a lot in his IT platform, but feels he needs to get more out of it. Having information at hand is important, especially regarding cost dynamics, markets and legislative change, what other suppliers are doing in the market place.

Process Choice

Craig recommends that Australian producers engage in constant scanning of the environment, since product preferences and product ingredients are changing all the time, and everyone is looking for something new, different - a differentiator. Product differentiation comes from innovation, so investment in innovation is a must for Australian producers.

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It is important to understand which products you can get in to China, and what restrictions there are on raw materials and the content of manufactured food products. They do a lot of testing of products in China – Australian food producers need to understand the processes undertaken for food testing, and what substances are banned in food products.

Make or Buy?

Some Australian manufacturers of food products consider manufacturing their products in China as a means to cut costs. Others partially manufacture their goods in Australia and then finish them off in China. Craig feels there is not really a cost advantage any more in finishing off goods in China, as things have changed a lot in this regard over the past ten years. Increasingly, Chinese consumers are exhibiting a preference for food that is fresh from the source. As such, there is an increasing market resistance to goods that are packed or finished off in China, as the Chinese know factories in China are often not high quality and this may impact the product negatively. Moreover, finishing off in China increases the risks of counterfeiting.

Push or Pull?

In terms of marketing, the question is often raised as to what extent one should 'push' a product versus whether to allow 'pull' from the consumer end. Craig advocates that Australian food producers must understand the market in China before committing to an export plan. Once a commitment is made, it is important to remember that there are different strategies for different products. You need to build a brand and then build awareness of that brand. 'Pull' creates a demand and a market presence in consumers' mind. You have to 'push' first to get the product into the country, but then you have to 'pull'. This is why he looked for a retail strategy to get products in-store in China.

Distribution and Inventory Management

In terms of supporting distribution and inventory management, Craig feels that a critical question for Australian food producers to consider is 'who do you partner with?' It's all about understanding the channels in the market – retailers, wholesalers, sub-distributors – and Tier 1,2 and 3 cities require different procurement strategies. In addition, with regard to warehousing or distribution of goods, it is also important to ask the question 'do you have a reliable on the ground facility?' and 'do you have a reliable partner on the ground in China?' Inventory management is linked to both raw materials and finished goods, and some of the questions Australian producers need to ask include 'where is the product at any given time?'; 'do we have a real-time supply?'; and 'where should the product be stored?' When distributing food products in China, the 'last mile' (to the consumer) is extremely important – if you can't get the last mile right, the quality is compromised. It is also important to bear in mind that the last mile gets trickier outside the large Tier 1 cities in China.

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Risk

Finally, we asked Craig about his views on major risks relating to supply chain matters for Australian food growers and food manufacturers. While no business venture is without risk, Craig recommends approaching supply chain risk in the sense of taking a calculated risk. If you do that, risk is more balanced and better understood. Working on their own, individuals carry more risk, but working with trusted partners can often mitigate risk.

For Craig, if Australian food producers and manufacturers are not willing to invest in the supply chain in China, there is a serious risk that the export process will not be successful. Australia has a reputation for simply wanting to ‘dump’ products in China, without investing in the supply chain on the China side, and this may harm Australian brands in the longer term. If we consider the perspective of Chinese suppliers, they will be much more inclined to develop enduring distribution channels in China if Australian producers are willing to establish partnerships and work long in long term invest in the market in China.

Craig feels that another serious risk for Australian food producers and food manufacturers is that China will bypass Australia as a supplier. This could easily happen as all other countries in the world deal with China, and from China’s perspective, it is a buyer’s market. It is easy to develop a perception that perhaps Australia is too small, cannot handle the necessary volume, and Australians have the wrong attitude and don’t invest. Dealing with aspects of

Chinese culture is another risk element, reflected by differences in language, business approaches, ethics and a strong focus on relationships, known as ‘guanxi’. Australian food producers seeking export success in China need to build relationships and trust in order to do business successfully – for Craig, the question becomes, how much time should a food exporter invest in this? In order to mitigate against the risks associated with cultural differences, Craig hired a Chinese person to provide context and help him to understand the nuances of doing business in China.

As Craig says “Everyone says I’ve got to go to China – but can you sell your product there? Do you understand the market? Just because it sells here means nothing.” As far as doing business in China, and in order to minimize risks, Australian food producers and manufacturers need to understand if there is a market for their products.

But it is not all bad news, and there are many opportunities in China for food producers with the right product, the right partners, distribution channels and marketing thrust. There is a lot of competition, but if you have the right product, understand the market, understand the channels, and can market it successfully, then you have a good chance of realizing those opportunities. As Craig advises, Australian food producers need to be prepared and to persevere – this can lead to a confluence of opportunity and timing (luck) that leads to success.