

## Risk and Uncertainty in Food Export to China - Insights from Premium Australia Foods –



There are certainly many reasons for Australian food growers and food manufacturers to consider exporting to China. China is now the world's largest consumer market for food and beverages, with an average growth rate for food and beverage imports of approximately 15% during the last five years. China's huge population growth and an increase in socioeconomic status means that food consumption patterns have changed dramatically over the last two decades. This change can be highlighted by the increased demand for fresh food products as well as high quality manufactured food products from countries such as Australia.

There is a strong perception in China that Australian products come from a 'clean and green' environment. Higher quality and higher levels of food safety in Australian products generates a high level of confidence in these products in China. Not only do Australian food products have a high level of credibility in China, they are easier to differentiate and brand. Another advantage for Australian food growers and food manufacturers is their traceability, which increases the sense of quality and safety associated with Australian products. The foreign 'heritage' and exotic nature of some Australian products (such as mangos, cherries, fresh abalone and wagyu beef) also makes it more difficult for imitators to copy these products.

The multi-tier economy in China offers a range of opportunities to market a variety of different food products. This has been accompanied by the rapid growth of e-commerce in China that can assist in the process of food export, especially in sales and marketing. In addition, the phenomenal rates of uptake and use of social networking and social media can assist with product marketing.

Despite this promising outlook, Australian food growers and food manufacturers face a number of obstacles in their quest to successfully export their products to China. Most would-be Australian food exporters are small to medium enterprises (SMEs), which means that they often lack sufficient resources to make the step into the export arena. This is often accompanied by a lack of experience in doing business in China, a lack of market knowledge, or language and cultural barriers. Indeed, the tyranny of distance and the lack of established relationships, networks and contacts (known as 'guanxi' in China) can often impede the best of intentions on the part of Australian food exporters.



## Risk and Uncertainty in Food Export to China - Insights from Premium Australia Foods –

While China's multi-tier market may offer opportunities for Australian business, the reality of a multi-tier environment means that China remains a single country characterised by many stages of development. Supply chain costs in China are high, with complex distribution channels that are often ad hoc or arbitrary in nature. This, in turn, can lead to difficulties relating to compliance and local logistics issues. As a result, in many parts of China there is a lack of ability to adapt or reconfigure supply chains in such a complex, rapidly changing environment.

Premium Australia Foods exports Australian food products to China and provides a range of services for food exporters including:

- Depot consolidation prior to shipment to China
- Aggregated shipping by container or air freight
- Customs clearance and warehouse storage in China
- Quality assurance checks and packaging compliance
- Product marketing and customer support

Given their experience in food export to China, we asked Chris Morley, Managing Director of Premium Australia Foods to list what he considers the top five risks of exporting food to China.

### **The external environment and the context of doing business in China can be highly uncertain.**

Increasing global uncertainty, turbulent trade and capital flows and increasing business complexity all pose significant risk for Australians doing business in China. Large scale change by government could be catastrophic. Changes to the trade relationship, including the roll out of the free trade agreement with Australia, could have severe implications. However, these issues are not confined only to China, so Chris advises that knowledge of the environment, a strong business strategy and a detailed marketing plan for export can all help to mitigate risk and capitalise on opportunities.

### **Your business could be targeted by the Chinese government for some reason**

In a complex and often turbulent global environment, political uncertainty is a risk that Australian exporters face on a continuing basis. Given the rapidly changing regulatory environment, and the many levels of regulatory frameworks or bureaucracy, there are many challenges to be faced by those trying to successfully do business in China. There are no guarantees that rules or regulations will remain stable. Licensing fees, tariffs and trade costs could change at any time, or the Chinese government might decide to target a certain business or sector and make life difficult for them.

### **Food may be tainted or damaged along the way**

This particular issue is a risk faced by Australian food exporters no matter where they are shipping goods. However, fresh food needs to be transported quickly under temperature controlled conditions. Transport delays or problems with paperwork allowing goods to be released means that in some cases containers might sit on docks or airport tarmacs in hot weather. Under these circumstances a shipment of food can be spoiled in a matter of hours. In other circumstances, equipment malfunctions across the cold chain can cause damage to food shipments. The final stage of the supply chain, the 'last mile', can also be problematic when perishable foods may be transported by motorbike or truck in less than ideal conditions. Such situations may result in possible safety or contamination incidents, as well as spoilage of food. Choosing reliable cold chain logistics providers and having good brokers on the ground in China can go a long way to mitigating the risks of damage to shipments of fresh foods, including imitation or counterfeiting of products by unscrupulous operators.



## Risk and Uncertainty in Food Export to China - Insights from Premium Australia Foods –

### **Chinese business partners may not be trustworthy**

As an exporter, navigating the Chinese system will always pose challenges. There are many dodgy operators looking to partner with overseas exporters seeking to bring their products to China. Without reliable business partners on the ground in China, the entire supply chain can be compromised, not only in terms of delivery of goods, but also in terms of streamlining government paperwork in order to release goods quickly for distribution. Business disputes can arise in many different contexts while doing business in China, and therefore choosing the right business partners will go a long way to reducing the risks associated with business ventures. In China, successful business relationships are built on firm foundations, strong networks and business relationships. Chris Morley recommends the careful selection of business partners and logistics providers, including checking out the company history, company owners and key individuals involved, the strength of their business networks and business performance. For instance, Premium Australia Foods spent a long time comparing various logistics providers and comparing their performance over a period of months before selecting the best for their 'last mile' deliveries.

### **IT infrastructure in China often poses challenges for food exporters**

The Chinese government maintains strict controls on IT infrastructure, and this may negatively impact those trying to do business in China. IT infrastructure in China is often changed, shut down or slowed down by government. Food exporters such as Premium Australia Foods are dependent on business to business (B2B) sales over the internet to move their products into the retail market. Slow-downs or shut downs of internet access and IT infrastructure can have a devastating impact on those trying to move perishable food products through the last stages of the supply chain. Moreover, lack of IT security may open up food exporters to various forms of commercial sabotage or manipulation from Chinese sellers. Internet based purchasing for perishable food products is very common, and in many cases is the most efficient method of connecting buyers and sellers. At the same time, opportunities arise for unscrupulous operators who may be involved in a variety of scamming activities, including undercutting prices or promising that shipping times or generous terms and conditions. In many cases, these offers are too good to be true. Choosing a reliable platform for selling food products online will reduce some of the risk associated with internet purchasing. Premium Australia Foods' experience has shown that partnering with established e-commerce providers such as Alibaba or Amazon provides a reliable means of connecting buyers and sellers. Finally, the company has found that providing strong customer service throughout the order and delivery stages is very important in terms of ensuring repeat business from customers.

China offers many opportunities for Australian food exporters wishing to enter this huge market. While it is inevitable that certain challenges will arise in the course of doing business in China, careful consideration of the above issues will go a long way to mitigating the risks and uncertainties involved.