Identifying Market Opportunities for Australian Vegetables in China

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Final Report

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The Project Findings on a Page

- **The 3 tier one cities (Shanghai, Guangzhou and Beijing) alone have a population of 56m people**, of whom roughly 1/3 have an income similar to average Australians

- **The target market for Australian vegetables is large and open to considering Australian produce.**

  The target market is defined as households with >15kRMB (2.5kAU$) per month household income, who currently shop from modern channels - approximately 11.6m people who consumed 3.3mT of vegetables in 2013

- **Consumer demand is driven by an acute lack of confidence in the safety and quality of Chinese produce – whilst Australian vegetables are perceived to be healthy and safe.**
- The following positioning concept was developed and evaluated and is rationally and emotionally compelling to target Chinese consumers

  "The freshest, safest, most nutritious and tasty vegetables, grown in the unpolluted soil and water of Australia. Complying with Australian government standards, they're perfect for your growing family"

- **Whilst there is an opportunity to sell individual species (most likely are Broccoli; Tomato; Sweetcorn; Carrot; Coloured Capsicum; Cucumber) the development and delivery of an Australian range proposition is likely to be easiest to sell through Premium Retailers and would benefit from economies of scale in delivery.**

  We have conducted high level value chain analysis and there does appear to be an opportunity to meet target consumers' demand for these species profitably

- **Target consumers are increasingly paying premium prices for product.**

  Sweet spot for Australian produce is likely to be between domestic (i.e. Chinese) Farm Branded produce and domestic Organic, the two highest price strata

- **Modern channels, such as Hypermarkets and Premium Retail, are addressable by Australian producers, are steadily replacing traditional wet markets ,and should be the primary target channels**

THIS SECTION:

EXECUTIVE SUMMARY

Executive Summary

There is a large and growing demand for premium vegetables amongst China's growing middle class

- The 3 tier one cities (Shanghai, Guangzhou and Beijing) alone have a population of 56m people, of whom roughly 1/3 have an income similar to average Australians
- Of these, Guangzhou is the smallest market, but may be easiest to address due to its proximity to Hong Kong, which enables easier market access
- In these cities the Premium Packaged vegetable segment, which is addressable by Australian producers, was at least 400kT in 2012 (cf Australian market ~4mT) – and is growing very rapidly (forecast to be >1.6mT by F18)
- Modern Channels, such as Hypermarkets and Premium Retail, are addressable by Australian producers, and are steadily replacing traditional wet markets

The target market for Australian vegetables is large and has a real need for safe, premium product

- The target market is defined as households with >15kRMB (2.5kAU$) per month household income, who currently shop from modern channels - approximately 11.6m persons consuming 3.3mT of vegetables in 2013. This group is most likely to buy premium, packaged and organic vegetables
- Chinese consumers eat a wide range of vegetables and are highly engaged with the category. Currently there are few imported vegetables in the market (in Guangzhou only), but there is strong latent demand for vegetables from Australia
- Demand is driven by acute lack of confidence in the safety and quality of Chinese produce – whilst Australian vegetables are perceived to be healthy and safe
- Australia (and New Zealand) are uniquely positioned to meet the needs of Chinese consumers – European or American vegetables would not be nearly as attractive. Regular Australian vegetables would be as favorably perceived as Chinese Organics
- Within the target market the consumer sweet spot is families with a young child and a willingness to spend extra on premium food – partly for nutrition for the child. The following positioning statement is rationally and emotionally compelling:

  "The freshest, safest, most nutritious and tasty vegetables, grown in the unpolluted soil and water of Australia. Complying with Australian government standards, they're perfect for your growing family"

- **Overall, this is a very promising market opportunity for Australian vegetable producers**

Executive Summary

Ideal Proposition and Priority Product Types

- An **Australia Branded** *range* of products will make most impact and best meet consumer and retailer needs, but there may also be "single product" opportunities for producers to pioneer the market
- The following products have greatest consumer demand, and a high probability of being able to be sold economically in the pricing sweet spot: Broccoli; Tomato; Sweetcorn; Carrot; Coloured Capsicum; Cucumber

Pricing

- The Chinese market has a huge price differential between the cheapest (loose product in the Wet markets) and the most expensive (Organic in premium Retailers) - up to 8x
- The pricing sweetspot for Australian product is between domestic (ie Chinese) Farm Branded produce and domestic Organic. A high proportion of consumers claim they would buy at this price level

Unique packaging needs

- It will be essential for Australian product to be packaged – preferably in Australia to avoid contamination
- Vacuum packaging is appealing, but consumers are pragmatic
- Small pack sizes are essential, as most shoppers buy small quantities of multiple types on an almost daily basis. Transparency is important and design should be simple, natural and modern
- Packaging design should immediately evoke AUSTRALIA, using the word, a map, or the kangaroo. It should be bilingual, and include a quality logo and QR code linking to a website to create a sense of traceability

Market Access

This project was principally intended to determine whether there is a market opportunity, and establish its nature. Market Access is the subject of a forthcoming project, but we can make the following preliminary observations:

- Only a handful of commodities are explicitly "permitted" access currently, but as a practical matter access via grey channels is almost certainly possible whilst "official" access is negotiated for more crop types
- "Grey" does not mean "illegal" – Chinese regulations are often not consistently understood, or enforced, even within Chinese officialdom, creating legal "grey" areas that are commonly exploited by experienced Chinese traders. In China precedent if often everything, once a product has gained entry 'acceptance' by officials may well take place. Cognition does not ever recommend illegal conduct
- Producers will have to be pragmatic and accept a level of ambiguity and risk to pioneer the market. There will be a learning curve, but the opportunity is there. Working with a knowledgeable import partner (ie an experienced Chinese wholesaler) is the practical way forward in the short term
- Hypermarkets, specialty retailers and wholesalers are willing to talk. Retailers are in a position to recommend how to proceed, including which wholesaler to approach

Recommended Next Steps

- The industry should focus on achieving "permitted" access for the priority product types. The opportunity is there
- The forthcoming Market Access Study should explore the options for the industry to create a single point of contact for Chinese customers to access a range of commodities, with a view to enabling Brand Australia to market a product range in China, and to sell directly to retailers
- In the meantime, producers could pioneer the market via partnerships with experienced Chinese wholesalers, subject to their own commercial and legal due diligence and understanding the ambiguity/risk of working via "grey" channels

THIS SECTION:

PART 1: MARKET OVERVIEW

Chinese economy and vegetable market
SUMMARY OF KEY INSIGHTS

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Economic growth is favourable for imports to Tier 1 cities

- Rapid economic growth and steady currency appreciation makes the Chinese market increasingly addressable for importers
- Tier One cities, especially Shanghai (pop. 23m) and Beijing (pop. 20m), are the primary opportunity for imported vegetables. The Guangzhou market (pop. 13m) is roughly half the size of Shanghai or Beijing
  - Wealthy satellite cities, especially in Yangtze River Delta area adjacent to Shanghai, are potential longer term target markets
- The top third of consumers in these cities have incomes of a similar order to average Australian households – and this population is in growth

Market for premium packaged and organic produce already substantial and fast growing

- The total market size in Tier 1 cities is approximately 14 million tonnes, compared to 4mT in Australia
- Of this, at least 3% or ~400kT in 2013 was in the packaged premium and organic vegetable segment – which sell for a price premium of 3-8x wet market pricing and hence is most likely to be addressable by imported vegetables
  - This segment did not exist a few years ago, and is forecast to grow by a factor of at least 4 over the next 5 years when it will be of the order of one-third the size of the total Australian vegetable market

The Chinese economy continues to grow strongly, creating an **increasingly favourable climate** for premium and imported products

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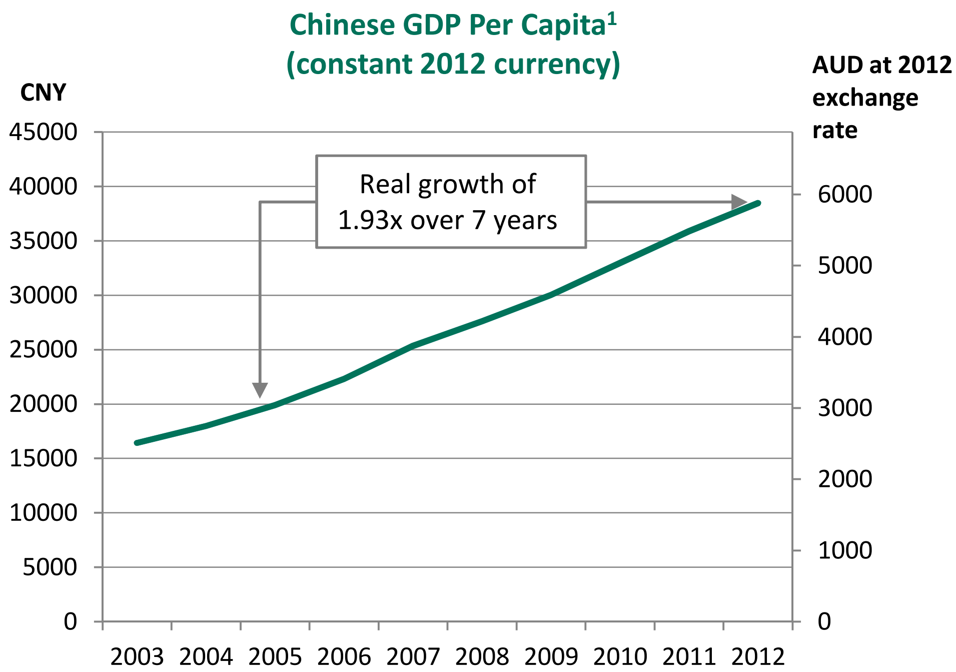

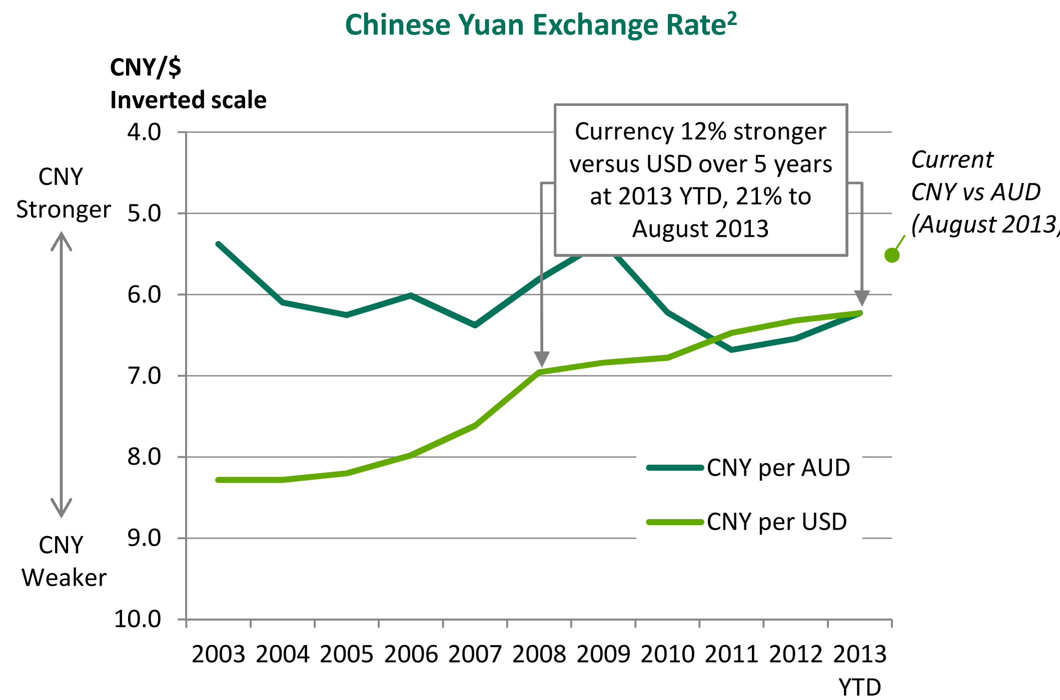

- Chinese GDP has grown at a compound rate (CAGR) of 8.7% over the last 5 years, driven by exports and investment in fixed assets. China is twice as wealthy in real terms as it was in 2005
- GDP growth has slipped to 7.5% in 2013/14 with the new government concerned about a property and debt bubble and hence taking steps to limit domestic liquidity
- The recent clamp down on corruption has also caused a slow down in some sectors, eg luxury goods and fine dining, but this has now cycled through

- Despite the widespread perception that China maintains an artificially low currency, the CNY has progressively strengthened against the USD benchmark
- Relatively high Chinese inflation over the same period means real exchange rates have strengthened more than this. Some commentators believe the CNY is now close to fair value versus the USD, while he IMF describes the CNY as “moderately undervalued”. On balance, continued moderate strengthening is likely
- For Australia, a weaker Australian dollar (likely to trade in the US85-90c range) over the next couple of years may also make exports to China relatively easier going forward, though exchange rate volatility is a risk for exporters

Sources: 1. World Bank 2013, 2. OANDA Forex data

Within China, **three Tier 1 cities stand out** as far more likely to buy imported products than other parts of China

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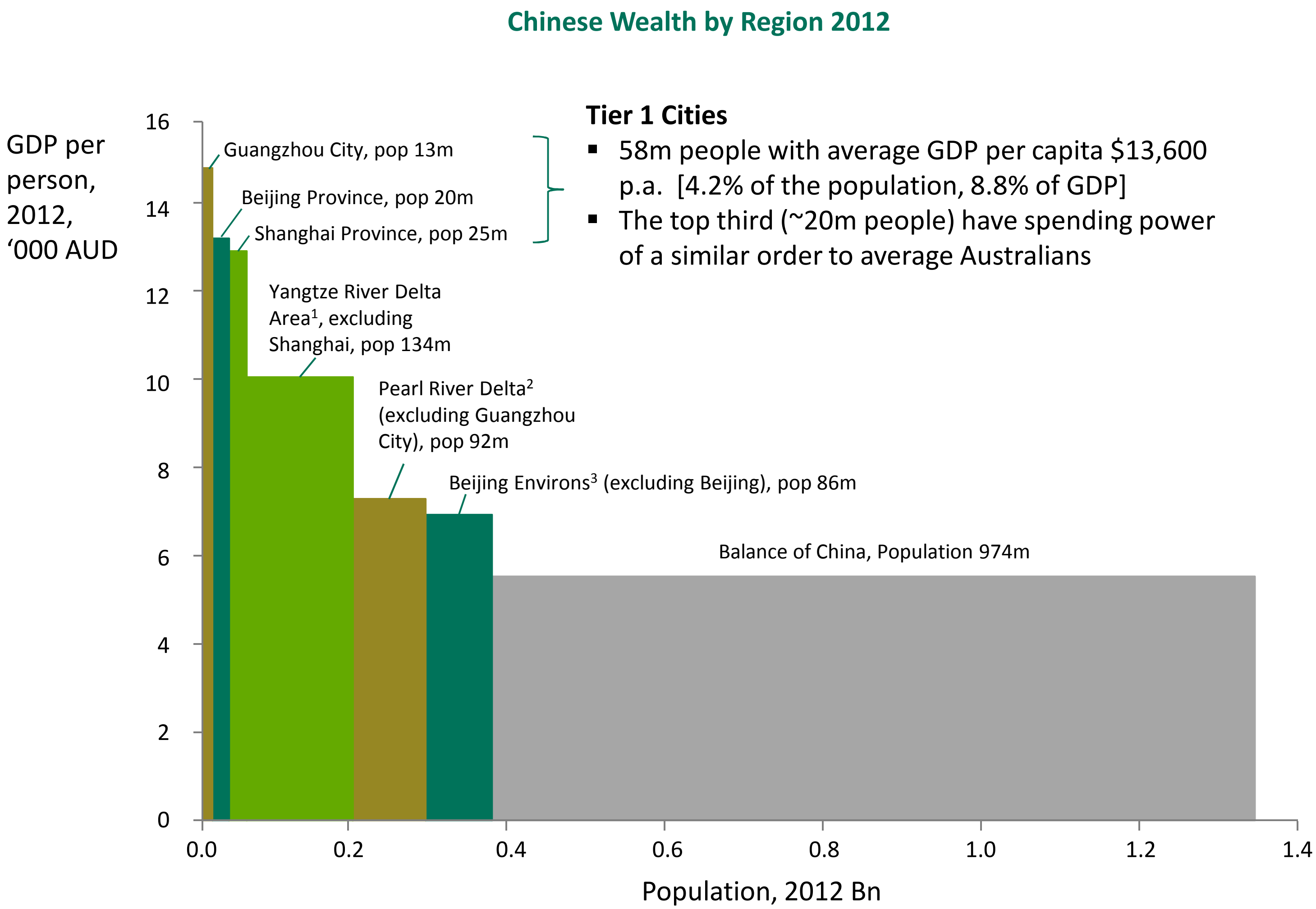


Tier 1 Cities

- 58m people with average GDP per capita $13,600 p.a. [4.2% of the population, 8.8% of GDP]
- The top third (~20m people) have spending power of a similar order to average Australians

Key Insight

- Shanghai and the YRD stand out as the most wealthy and internationally sophisticated part of China

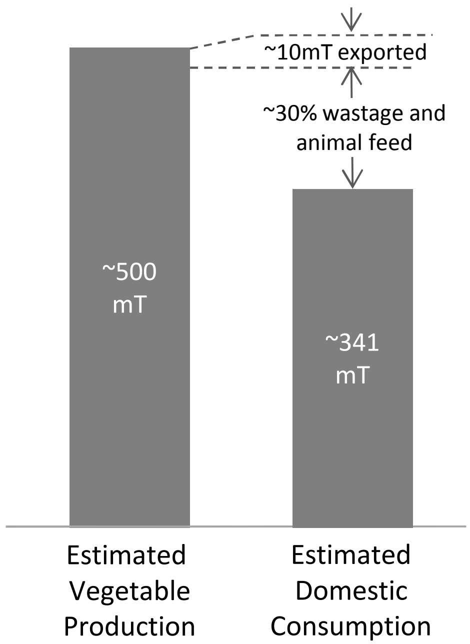
  "If imported vegetables don't work here they won't work anywhere" Head of Vegetables at Shanghai Ministry of Agriculture

- Wealth is concentrated in the three Tier 1 cities of Shanghai, Beijing and Guangzhou, plus wealthy satellite cities especially in the Yangtze River Delta (YRD) such as Suzhou, Hangzhou and Nanjing
- Each region of China has its own dialect, economy and food culture. In such a vast country, no foreign player can expect to address all markets at once

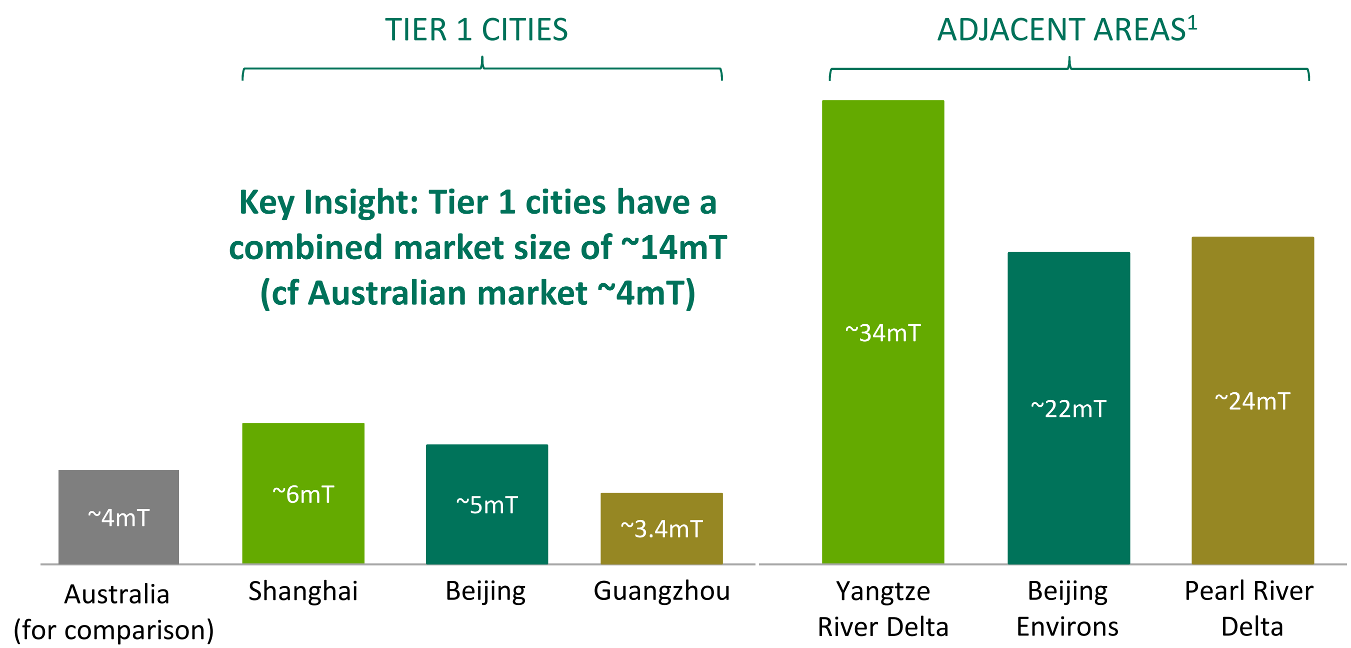
Sources: Chinese Census and data yearbook. 1. Includes Jiangsu and Zhejiang. 2. Guangdong excluding Guangzhou prefecture. 3. Includes Tianjin and Hebei.

The **Chinese vegetable market is vast**, with approximately 14mT consumed in the Tier 1 cities alone

Total China Vegetable Market 2012*



Fresh Vegetable Consumption: Tier 1 Cities & Adjacent Areas 2012



1. Excluding relevant tier 1 city

*Sources: estimates by senior officials from Shanghai and Beijing Ministries of Agriculture, cross referenced with presentations by Professor Hans Hendrischke (Sydney Uni) and Professor Fangqiao Meng to AusVeg conference 2013. Where sources are inconsistent, a lower estimate of total national production/consumption has been taken. Australian market size: ABS 2013

The market is shifting from "basic loose" vegetables to **more premium packaged options** – and this is where the opportunity lies for Australia

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Types of Vegetables Available in Tier 1 Cities by Channel

INCREASING PRICE

Basic Loose

Basic Packaged

Farm Branded

Low Pollution/Certified Organic

Packaged Premium & Organic Segment often priced 3-8x more than loose.

The wide range of prices currently in the market is strong evidence of the ability of differentiated/imported products to realise a price point which can work economically. Clearly many shoppers are just not that price sensitive.

Found in
- Community retail
- Wet markets

And also
- Supermarkets
- Hypermarkets

Found in
- Supermarkets
- Hypermarkets
- Premium specialty retailers
- Online retail

In Tier 1 cities the packaged premium segment is **substantial and fast growing**, creating an opportunity for Australia

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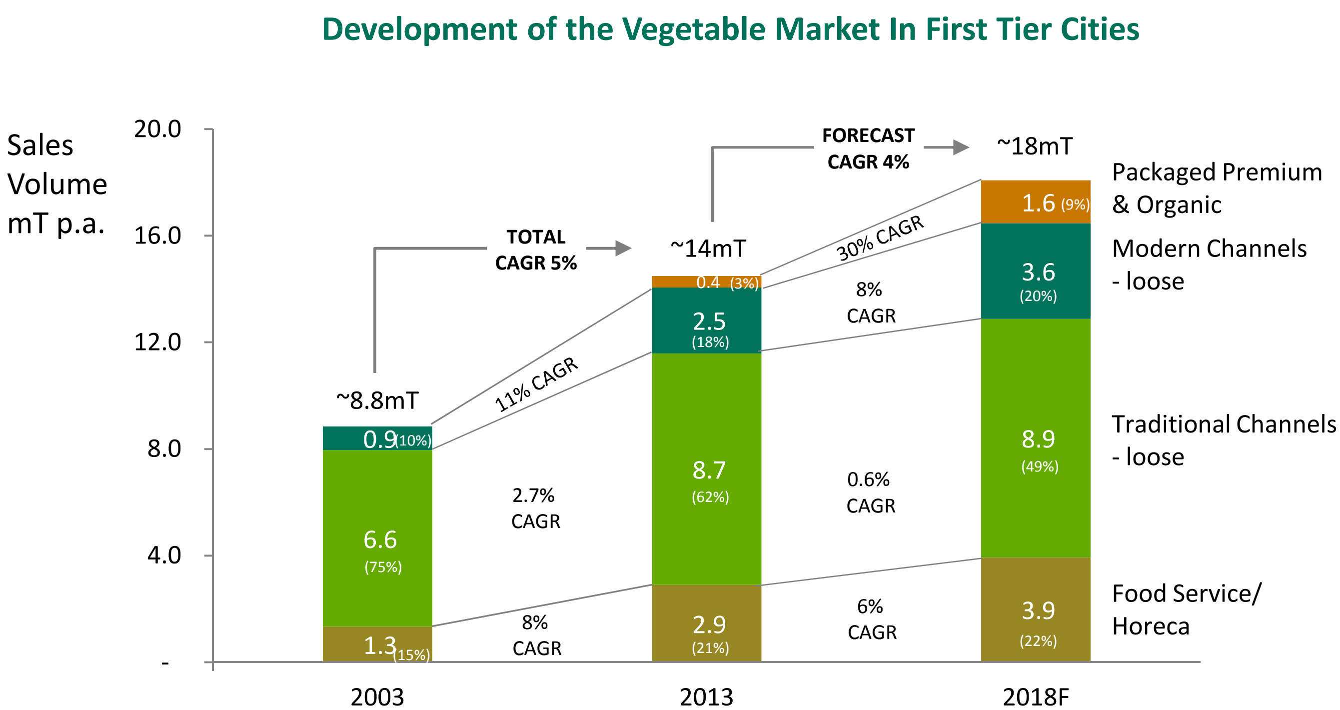

Growth Drivers

- Market growth driven by migration to Tier 1 cities (3.3% CAGR) and growing per capita consumption (1.7% CAGR)
- Channel shift to supermarkets, hypermarkets and online
- Emergence of premium packaged segment & organic

- Continued inward migration but slower growth of per capita consumption due to market saturation
- Continued shift to modern channels and rapid growth of premium packaged and organic segments

Key Insight: with its large price differential, the premium and packaged part of the market is the most likely to be addressable for Australian producers. This is small but growing fast

- Packaged Premium and Organic segment is already substantial (at least 400kT in 2013, = 10% of Australian total market size) and growing rapidly (forecast 30% per year growth; this may be conservative)
- Packaged and organic produce sold at a 3-8x premium compared to traditional channels (eg Wetmarkets)

However

- Outside first tier cities, the packaged premium and organic segment is currently smaller and confined to wealthy satellite cities such as Tianjin (near Beijing) and Hangzhou, Suzhou and Nanjing (near Shanghai)

Sources: In depth interviews with industry participants/experts; Cognition analysis and estimates

THIS SECTION:

PART 1:
CHINESE RETAIL CHANNELS

Chinese retail channels
SUMMARY OF KEY INSIGHTS

Modern channels are progressively replacing traditional wet markets

- The Chinese market has a diverse range of sub-channels
- Traditionally, vegetables were bought daily from local wet markets (traditional fresh food markets), however this pattern is changing as the country modernises
- Over the past 10 years the supermarket and hypermarket channels have grown massively, and specialty retail has emerged as a force in high income neighbourhoods
- Consumers fully appreciate the advantages of modern retail channels, and are becoming more western in their shopping habits, so this trend will continue

Specialty retail and hypermarkets should be the first cab off the rank for Australian exporters

- Specialty retailers and hypermarkets command a significant premium over other channels, and these are the channels where premium packaged and organic vegetables are found. They're clearly the best opportunity for Australian exporters
- Each retail banner has its own needs and business practice. In some cases, suppliers can sell directly, rather than working through a wholesaler, improving business economics. However other retailers operate on a "concession" model (similar to department stores), rather than a "trading" model. In this case, partnership with an established supplier/wholesaler would be necessary for any Australian producer
- Retailers see vegetables as a foot traffic driver – high frequency, high penetration. Hence they are very keen to differentiate their offer – leading to generally high interest in Australian vegetables

Online retailers and local supermarkets are longer term opportunities

- Online retailers are extremely popular in China, supported by very low cost local delivery networks. However, at the moment vegetables are a problematic category for them due to freshness issues in the warm climate. For Australian exporters, this is an opportunity area to watch for in the future
- Local supermarkets are in some cases quite premium, but their smaller range, generally mid-market positioning and reliance on wholesalers for supply make them harder to address for Australian exporters currently

The channel mix is **shifting to more modern and premium channels** where packaged premium and organics are sold

	Channel	Includes	Estimated Share in Tier 1 Cities 2012*	Estimated Share in Tier 1 Cities 2018 Forecast	Potential For Imported Products	
MODERN	Specialty Retail	Specialty organic stores High end department stores Premium grocery stores	1%	2%	Yes	
MODERN	Hypermarkets	Superstores >1000m^2 (many >10,000m^2)	15%	19%	Yes	
MODERN	Online & Direct	Online Supermarket Online Premium Grocery Farm Direct	1%	Up to 4%	Some	Potential is subject to online players establishing effective vegetable business model
MODERN	Local Supermarkets	Supermarkets up to 1000m^2 serving residential areas	4%	4%	Limited	Only addressable via wholesalers
TRADITIONAL	Community Retail	Selling direct to consumers from street side stalls or in large residential complexes	8%	10%	No	
TRADITIONAL	Local Fruit & Veg Shops	Large number of local in-line stores on residential streets – mostly focused on fruit	4%	3%	No	
TRADITIONAL	Traditional Wet Markets	Traditional daily food markets with multiple store holders	46%	36%	No	
OTHER	Horeca & Food Service	Diverse: minority of 5* hotels and fine dining through to vast number of low-end eateries	20%	22%	Limited	Price sensitive and only addressable via wholesalers

* Estimates based on expert and government interviews

Consumers have a clear view of the **strengths and weaknesses** of each channel, driving the shift to modern channels

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	Wet markets	Supermarkets	Hypermarkets	Online	Specialty Retail
✓	▪ Cheap ▪ Variety ▪ Customer service and personal relationships with stall holder	▪ Veggies clean ▪ Look safe	▪ Safer and more trustworthy ▪ Product looks good and is kept fresh due to air conditioning, refrigeration and water spays ▪ Range of premium products/organics ▪ Longer shelf life ▪ Lots of discounts towards the end of the day ▪ Loyalty rewards	▪ Safer and more trustworthy ▪ Direct from farm = quality	▪ Good store environment ▪ Clear labeling ▪ Variety ▪ Fresh ▪ May be from own farms (though some people don't believe this)
✗	▪ May use false weights ▪ Noisy, dirty, smelly environment ▪ Some produce not fresh especially by end of day – environment hot and produce not chilled ▪ Quality concerns – can't really tell where things are from	▪ More expensive than wet market ▪ Less fresh than other channels ▪ Less choice than other channels	▪ 40-50% more expensive than wet market	▪ Expensive ▪ Limited range ▪ Inability to choose ▪ Delivery an issue for some ▪ Freshness an issue on hot summer days	▪ Limited number of stores ▪ Very expensive

Increasingly confined to older, poorer more traditional shoppers – or emergency top-up shops

Progressive, higher income shoppers already do most of their vegetable shopping in modern channels

CHANNEL:
Specialty Retail

The specialty retail channel consists of 3 sub-channels, with different players serving each Tier 1 city

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Specialty Retail: Selected Participants

	Premium Grocery Stores	Department Store Food Hall	Organic/Healthfood Store
Shanghai	▪ **City Shopper** - market leader with 10 premium supermarkets focused on imported goods ▪ **Ole** – chain of 4 premium supermarkets	▪ **Sogo** – ultra premium departments store located at Jingan Temple (a high end business zone) ▪ **Parksons** – premium department store with 3 outlets in high end business zones	▪ **Haikele –** chain of 12 organic food stores ▪ **Tian Xian Pei Organic Vegetables**
Beijing	▪ **Jenny Lou's** - a chain of 8 small supermarkets focused imported goods – currently working to increase fresh offering ▪ **City Shopper** – 2 outlets ▪ **BHG Marketplace** – 19 premium supermarkets focused on imported goods ▪ **Ole** – 5 outlets ▪ **Green Leaf** ▪ **BLT**	▪ **Sogo** – one outlet in Beijing ▪ **Parkson** – 3 outlets in Beijing ▪ **Yan Sha**	▪ **Lohao City** – 24 stores in Beijing – expanding in Tianjin and Chengdu
Guangzhou	▪ **Corners Deli** - about 10 outlets focused on imported food and wine. Vegetables are a small part of the mix ▪ **Taste** – 2 outlets ▪ **Jusco** – chain of 11 stores with Japanese focus, often co-located with department stores	▪ **Taikoo Hui** – Department Store ▪ **Friendship Shopping Centre**	▪ **Yue Yi Organic Lifestyle** – features an organic vegetable farm ▪ **Lohao City** – 2 outlets

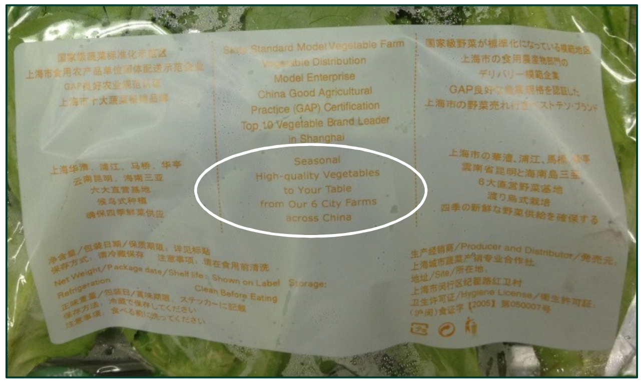
CHANNEL:
Specialty Retail
SUB CHANNEL:
Premium Grocery

Several chains of premium grocers have emerged in recent years, often starting by focusing on expats

Overview

- A handful of Premium Grocers serve each tier one city. This channel includes specialty supermarkets such City Shopper and Jenny Lou's
- Mostly small chains/groups with several outlets – experiencing rapid growth
- It is estimated there are 20-30 outlets of this type per tier-one city, located in the best residential neighbourhoods and premium office locations

Premium ambiance to stores (photo, BLT)



Back label articulates City Farms proposition (in 2 languages)

City Shopper Value Proposition: Organic, Imports, Quality, Service

Western Style washed salad leaves are a growth area

Example: Vertical Integration

- **City Shopper** is the leading specialty retailer in Shanghai with 10 stores in Shanghai plus 2 in Beijing. Started in the 1990s targeting expats, now focuses on wealthy white collar workers. Majority of goods are imported, with name brands from the US and Europe. Also ranges Australian meat and wine
- Sees vegetables as a high-penetration/high-frequency category – important for driving consumer foot-traffic – but claims to make little money from this category due to wastage
- Attempted to import vegetables from Europe in the late 1990s – especially types not then available in China – but logistical issues and wastage made it impractical. Therefore started **City Farm** subsidiary to provide quality vegetables locally
- **City Farm** now has 330 hectares at 6 sites including Kunming and Hainan for supply continuity. Production ~20kT p.a., of which ~10% certified organic. Produces >140 species through the year
- One third of produce is sold through own stores (the best quality); lower quality produce is off-loaded through 5 star hotels and community retail to recover costs
- Produce delivered to stores twice daily – unsold product given to Aged Care Homes as part of CSR program

CHANNEL:
Specialty Retail
SUB CHANNEL:
Department Store

Some high end departments stores now incorporate food halls

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Overview

- Several premium department stores now have food halls – notably Sogo and Parkson which are present in multiple cities
- They charge a large premium for small quantities of premium packaged vegetables, and do not stock much loose product
- Premium specialty foods and imported brands are well represented
- Often there is a food hall attached with western style bread, cheesecakes, ice-cream etc

The entrance to the Sogo food section is branded in English


‘No pollution’ and ‘organic’ certificates on display

Department wide use of ‘Organic’ logo may misrepresent ‘low pollution’ product – the next level down

A wide range of imported fruit available in a specific section. No imported vegetables found

Example: Sogo

- Sogo is a premium city centre department store akin to David Jones in terms of market positioning. Unsurprisingly Sogo price points reflect this. Very premium look and feel to the store
- The vegetable range is purely ‘no pollution’ and ‘certified organic’, with certificates displayed within the department. Therefore, two levels of price points exist
  - However, even in this super premium environment misrepresentation is evident. With the red ‘Organic’ logo being used across the vegetable section despite the bulk of the product not being certified organic – you have to read the fine print
- Virtually all the product is packaged; very little loose
- Sogo has a specific international fruit section

Sogo, Shanghai
Store tour video available at presentation

CHANNEL:
Specialty Retail
SUB CHANNEL:
Organic/Healthfood

A number of organic specialist stores are also in the market

Overview

- Specialist stores focusing on organic produce, including but not limited to vegetables
- Very like a western health food store
- Also sell some products that are non-organic but highly differentiated

"Authentic" look and feel to stores

Some own farms to ensure supply continuity

Also supplying western "deli" products

Wooden shelving reinforces "natural" positioning

Example: Lohao City

- Began as retail outlets for a state owned farm
- Now includes 4 farms in different parts of China
- Taiwanese management team
- Outlets in Beijing/Tianjin, Chengdu, Shenzhen and Guangzhou
- Opened 6 new stores since 2010

Example: Hai Ke Le Organic

- Chain of 12 organics shops in Shanghai
- Supplies vegetables, but also other categories including juice, chicken, olive oil and western delicacies
- Organic snack food is also popular
- Strong focus on educating consumers about the benefits of organic
- Affinity scheme rewards members with special discount to encourage loyalty

CHANNEL:
Hypermarkets

A large number of international and domestic brands vie for share of the growing hypermarket channel

Hypermarket Outlet Numbers by Chain[1]

CHAIN	BJ	SH	GZ[3]
Carrefour	19	22	~6
Walmart	11	12	~10
Lotus	9	24	~4
Trust Mart	-	-	~8
RT Mart	1	14	~6
Tesco	4	21	~2
Wu Mart	82		
Hua Ren	30		~10
Others[2]	4	11	~8
TOTAL	160	104	~54

1.Source: USDA Foreign Agricultural Service Report 12806 2012.
2.Including Auchan, Sams Club, Jusco
3.Estimate based on total Guangdong numbers

Key Insight

- Fresh vegetables are an important category for hypermarkets. Traditionally a daily purchase with very high penetration, they are vital foot traffic drivers – the Chinese equivalent of bread and milk
- For this reason retailers are keen to develop the category in order to
  - Create a point of difference
  - Drive consumer loyalty

The growth of the hypermarket channel

- Several factors continue to drive the growth of hypermarkets
  - Investment by western retailers such as Carrefour, Walmart, Tesco, Auchan
  - Growing car ownership, which is making bulk shopping and transport of heavy groceries viable for a larger proportion of the population
  - Superior shopping experience and convenience – Chinese consumers enjoy the range and choice of goods just as their western counterparts do – and modern merchandising in an air-conditioned environment is especially attractive in summer
  - An increasing proportion of produce is displayed in open-fronted chillers, improving storage life, and negating the need for daily shopping

CHANNEL:
Hypermarkets

Hypermarkets provide a selection of premium packaged and organics, though ~70% of volume is still sold loose

Overview

- Hypermarkets operate across the middle and upper end of Chinese grocery retail where they overlap with Premium Grocery Retailers. The channel is in rapid growth
- Fragmented mix of foreign owned brands (Carrefour, Walmart, Tesco) and locally branded (Lotus, RT Mart etc) with different regional footprints
- Produce is tiered: loose range is cheapest (priced at 30-50% premium to wet-market), plus premium packaged ranges including single farm branded ranges, “European” style, and organic

Loose display with misters to create sense of freshness (Lotus)

Various single farm brands available in premium packaging

Each branded farm providing a wide range of produce to meet consumer need for variety whilst establishing brand loyalty

Key Insights

- There are large price differences between the produce which is sold loose, and premium packaged products – which can be 3-8x more expensive than the wetmarket
- Organic produce is available in some but not all outlets (probably due to supply constraints) and is the most premium
- In recent years there have been labeling scandals, undermining consumer confidence in whether organic labeled product is truly organic. Regulatory effectiveness has improved, but consumer confidence is variable
- Larger farms with broad product ranges are able to supply a suite of products, enabling branded display areas and the development of farm brand equity
- Loose (unbranded) product is supplied direct from larger farms and via the wholesale network

CHANNEL:
Hypermarkets

Carrefour is the overall market leader in Tier 1 cities

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Example: Carrefour

- Carrefour is a market leader in Tier 1 cities, and has relatively premium positioning
- Stores are huge, usually covering two or three floors and incorporating a wide range of merchandise (discount department store combined with supermarket)
- The vegetable department offers products in 5 or 6 strata, each with different price points, eg loose, store brand wrapped, farm branded, 'European Style' (not imported), 'no pollution', farm branded certified organic
- Few suppliers can offer national reach in China, so much of the sourcing is done city by city instead of nationally
- Strong emphasis of 'English' and 'European' branding and positioning to communicate premium

Shanghai sells 'European' style vegetables (not imported) at a price premium in cellophane wrap

The Beijing store displays place of origin on all POS. Could Australia figure in this established format?

Branded (in English) prepared salads and meal solutions

'Tony's farm' branded organic mixed product box

Stores are multi level to reduce land costs

Carrefour
Store tour videos available at presentation

CHANNEL:
Hypermarkets

Lotus is the market leader in Shanghai

Example: Lotus

- In terms of price point, Lotus is in the middle of the range, somewhat below Carrefour
- As with Carrefour there are a number of strata of products available. Several different farm brands have dedicated chilled displays
  - Loose, store brand wrapped, premium farm branded, farm branded ‘no pollution’, branded certified organic
- Chinese consumers appear attracted to specific farm branded product. Clearly this provides quality cues and these farm often have names in English

Lotus still serve top quartile income, but is at the lower end of these segment


Store brand wrapped (same as loose) product already commands a price premium

Lotus
Store tour videos
available at presentation


Branded organic displayed in separate chiller

‘Premium farm’ branded product in dedicated chiller

Lotus also reckon they’re the fresh food people

CHANNEL:
Hypermarkets

Lifestyle is a premium Beijing chain (part of Lianhau group)

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Example: Lifestyle

- Lifestyle is a Beijing specific retailer (there is a different competitive set in Beijing)
- Positioned to serve the top quartile income
- Whilst there are different strata evident in Lifestyle, this is less than in the Shanghai supermarkets
- In Lifestyle the top strata of premium product is farm branded. The staff told us that these were ‘organic’, but there was no certification/labels evident
- English language branding again strongly evident in the communication of premium/quality cues

Vespri shows the way in international produce delivery with this impressive display

This brand uses English language and ‘Eco’ positioning to drive quality associations and a premium price point, but it is not certified organic

Lifestyle
Store tour videos
available at presentation

CHANNEL:
Online & Direct

Several distinct models compete within China's diverse and fragmented online space, leveraging cheap local delivery

24 hour home delivery networks can operate in tier 1 cities for as little as 10RMB per drop (~$1.60 Australian), making online shopping popular in many categories. Currently, perishability makes vegetables problematic

Online & Direct

Online Supermarkets

BUSINESS MODEL

Full range online supermarkets, similar to Woolworths or Coles Online (although vegetables a small part of the mix)

ORDERING & PAYMENT

Order online, payment via credit card or COD.

RELEVANCE TO AUSTRALIAN PRODUCERS

Could be interested in imported vegetables as a point of difference.

EXAMPLES

Yihaodian (National focus, backed by Walmart)
Womai.com (backed by Cofco)
Tootoo.cn (Beijing)

Online Retail Specialists

BUSINESS MODEL

Focusing on premium products including imported fruit. Order on an item by item or hamper basis for delivery within 24 hours. Vegetables a small part of the mix

ORDERING & PAYMENT

Order online or via call centre, payment via credit card or COD. Some companies focus on gift card business - often given by companies to employees/customers as gifts for New Year

RELEVANCE TO AUSTRALIAN PRODUCERS

These customers are always looking for a point of difference, and may be open to imported vegetables especially at Chinese New Year (Australian summer)

EXAMPLES

Shanghai Yiguo (Shanghai focus)
ZhengGu Organic and Beyond (Beijing focus)
CaiGuanJian(Shanghai focus)

Farm Direct

BUSINESS MODEL

Branded farms selling weekly box of vegetables direct to consumers by phone or internet to capture higher pricing. May be organic or conventional.

ORDERING & PAYMENT

Order online or via call centre, payment via credit card of COD.

RELEVANCE TO AUSTRALIAN PRODUCERS

Could be interested in Australian product to fill seasonal gaps.

EXAMPLES

Tony's Farm
Lee's Mum
Many others - fragmented

CHANNEL:
Online & Direct
SUB CHANNEL:
Online Supermarkets

China has several online supermarkets – unlike Australia the space is not dominated by bricks and mortar retailers

HAL
Horticulture Australia

Overview

- Online supermarkets are the online equivalent of hypermarkets, serving the mass market but in a more premium way than traditional wet markets
- Pricing is sharp – consumers expect this channel to be somewhat cheaper than going to a hypermarket
- Perishability (especially in summer) means that vegetables are a small and problematic category and only a limited range is offered
- Overall this appears to be a small opportunity currently for Australian producers

www.womai.com

www.yihaodian.com

CHANNEL:
Online & Direct
SUB CHANNEL:
Online Retail Specialists

Online retail specialists focus on premium and imported food – festival seasons could be the key opportunity for Australian producers

HAL Horticulture Australia

Overview

- Online retail specialists are the online equivalent of premium grocery retail, focusing on premium and imported delicacies such as Norwegian Salmon, Australian Beef, Organic Chicken
- A wide range of vegetables are advertised, but perishability (especially in summer) means that this is currently a small and problematic category for them

Shanghai Yiguo

Example: Yiguo

- Shanghai Yiguo is currently the leading online retail specialist, with a strong emphasis on premium and imported produce
- Yiguo sold approximately AUD22m of fruit in 2012, but less than AUD0.5m of vegetables (all domestic)
  - *"We've struggled to establish a successful vegetable business model… we need to find special varieties with clear differentiation"*
  - *"Vegetables could help drive customer frequency - we're planning to get our own farm so we can control the supply chain"*
  - *"We used to be able to get Japanese tomatoes with 5 different colours in one pack… they went quite well"*
- During off-peak periods they make 3-4,000 deliveries per day, rising to ~10,000 during festivals such as Chinese New Year
- They deliver from 12 local delivery hubs around Shanghai. Vegetables are delivered from farm to hub, bypassing the main warehouse. Goods are packed in insulated packaging with cold packs but freshness is still a challenge
  - *"We're not currently selling green vegetables – there are too many problems" [at the time of this interview, temperatures were above 35^{0}C]*

Reaction to Australian Vegetables

- *"I'm very confident a high proportion of our customers would be interested"*
- *"You should start by bringing in 3-5 highly differentiated items… we'd create a hamper to stimulate trial"*

CHANNEL:
Online & Direct
SUB CHANNEL:
Online Retail Specialists

Some online retail specialists focus on a gift card based business model

Overview

- A similar range of goods to other online retail specialists, but focused on selling high value gift cards, rather than cash or credit card sales

Organic & Beyond

Example: Organic & Beyond

- Organic & Beyond is the market leader in the premium hamper space, with 300 employees and presence in Beijing (focus), Shanghai, Guangzhou, Tianjin and Hangzhou
- Mix of organic and premium products including tea, grain, eggs, fruit and vegetables, meat, seafood, olive oil, wine
- Business consists largely of B-2-B sales of high value gift cards which are distributed to staff and as corporate "gifts", recipients then order by phone or website
  - Clever business model – consumers (referred to as "members") are not price sensitive when they get their card for free; however, current clamp down on corruption in business may dampen growth
- Claim to have 300k members and turnover of >AUD30m. However, vegetable volumes are small (2-300T per annum)
  - *"We started with vegetables, but we struggled to make money"*
- Vegetables are attractive to them as they create a point of difference in hampers, and have strong freshness associations
  - O&B has rented a small farm outside Beijing, and encourages members to visit to build trust and intimacy

Reaction to Australian Vegetables

- *"It would need to be something special like baby carrots, or things we cannot grow here"*
- *"You need to tell the story of the product – the key thing is consumers' trust"*
- *"It's hard to grow some things during our winter [in Beijing] – you'd have a counter seasonal advantage around New Year"*

CHANNEL:
Online & Direct
SUB CHANNEL:
Farm Direct

Each Tier 1 city has a number of farms delivering boxes of vegetables direct to consumers

HAL
Horticulture Australia

Overview

- Various small farms selling hampers of seasonal vegetables for direct delivery
- Becoming popular due to mistrust of larger producers and traditional retail
- Could be an alternative distribution route for Australian vegetables, but a fragmented landscape means volumes would likely be very small

www.tonysfarm.com (Shanghai)

www.leesmum.com Shanghai

CHANNEL:
Local Supermarkets

Local supermarkets are generally less premium than hypermarkets with a limited fresh range

Overview

- Diverse chains of supermarkets serve diverse local communities - IGA is the obvious Australian equivalent. For example
  - Chao Shi Fa : aimed at the mainstream urban consumer (Beijing)
  - Lianhua: mainly a supermarket chain, though a few flagship stores could qualify as hypermarkets (National)
- Some stratification of vegetables is evident, loose and store wrapped, to premium branded. However, compared to hypermarkets the range of produce overall and premiumness is much more limited. There is no organic available
- The potential for Australian premium product in this segment of the market is currently very small

Chao Shi Fa - Beijing

Lianhua - Shanghai

Chao Shi Fa
Store tour videos
available at presentation

CHANNEL:
Local Fruit & Veg Shops

Local fruit and vegetable shops are not premium enough to be an opportunity for imports

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Overview

- Mix of convenience stores and fruit and vegetables stores
- More focused on fruit than vegetables because the longer shelf life reduces wastage
- Often limited range, they are trumped by the wet markets in terms of quality and price
- Little opportunity for premium products
- Likely to be distress purchase driven

Local store outskirts of Beijing; limited range, mainly fruit

Local fruit shop, Shanghai

CHANNEL:
Wet Market

Each city has several thousand wet markets - still the main channel for fresh goods – but with no premium potential

Horticulture Australia

Overview

- Classic local food markets with the accent on daily shopping for fresh goods
- Traditional small stall format split between vegetables, meat and fish
- Many of the stall holders in direct competition and carry a similar range. Some specialise in green leaf vegetables
- Produce likely to be sourced from local wholesale markets
- Can be a very basic environment; little or no point of sale material/pricing
- Often strong personal service relationships with stallholders

Key Insights

- Still the main volume channel for fresh vegetables
- Produce is loose, there are generally no packaged, or premium propositions
- Price points are well below the supermarkets and hypermarkets
- Little opportunity for premiumisation
- Little ability to circumvent traditional wholesale channels

Classic small stall holders, many with small qualities across a broad range. Some focus more exclusively on green leaf vegetables

Classic Wet Market
Store tour videos
available at presentation

Local suburban wet market in Shanghai. There are countless markets across China

CHANNEL:
Community Retail

To circumvent the wholesale system some farmers sell some produce directly in the community – just as they have for thousands of years

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Overview

- Often single product based, direct from the producer
- Can be literally on the street, or in groups of small stalls in semi permanent locations
- In other instances producers/vendors will be mobile on cycles or simple motorised transport. It is common to see vendors of single products in the parks early in the mornings

Logics are low tech

Informal streetside markets are still common – even in cities

This farmer has brought her spring onions directly to consumers to make a few extra RMB

THIS SECTION:

PART 1:
SUPPLY SIDE INDUSTRY STRUCTURE

Supply Side Industry Structure
SUMMARY OF KEY INSIGHTS

The traditional supply chain is fragmented and inefficient

- The vast majority of domestic Chinese production is traded via a complex multi-tiered wholesale network. This is necessary because both the supply side and consumer channels are fragmented, but it is also costly
- Most everyday priced vegetables come from dozens of state farms and thousands of small-holdings. Each of these suppliers farms a range of commodities rather than following the specialisation model more common in Australia
- Most product is then trucked to large wholesale markets and sold to wholesalers in the early morning
- Wholesalers then undertake to offer continuity of supply to retailers
- Logistics is low tech, and usually not refrigerated. Wastage is high

If possible, producers should deal direct with retailers, but initially it is likely that Australian exporters should partner with a wholesaler to sell an Australian range to premium retailers

- Organic and premium packaged producers demonstrate that direct to retail sales are possible by focusing on modern channels such as hypermarkets
- Ideally, Australian producers trading in China would avoid selling through wholesalers in order to maximise their revenue, making partnership with one or more modern retailers the preferred option
- However, this may require a wide product range, continuity of supply and experience getting product through Chinese customs. Therefore, working with wholesalers who already sell to target retailers and have import experience may be the most workable option initially

There are few imported vegetables in the market currently

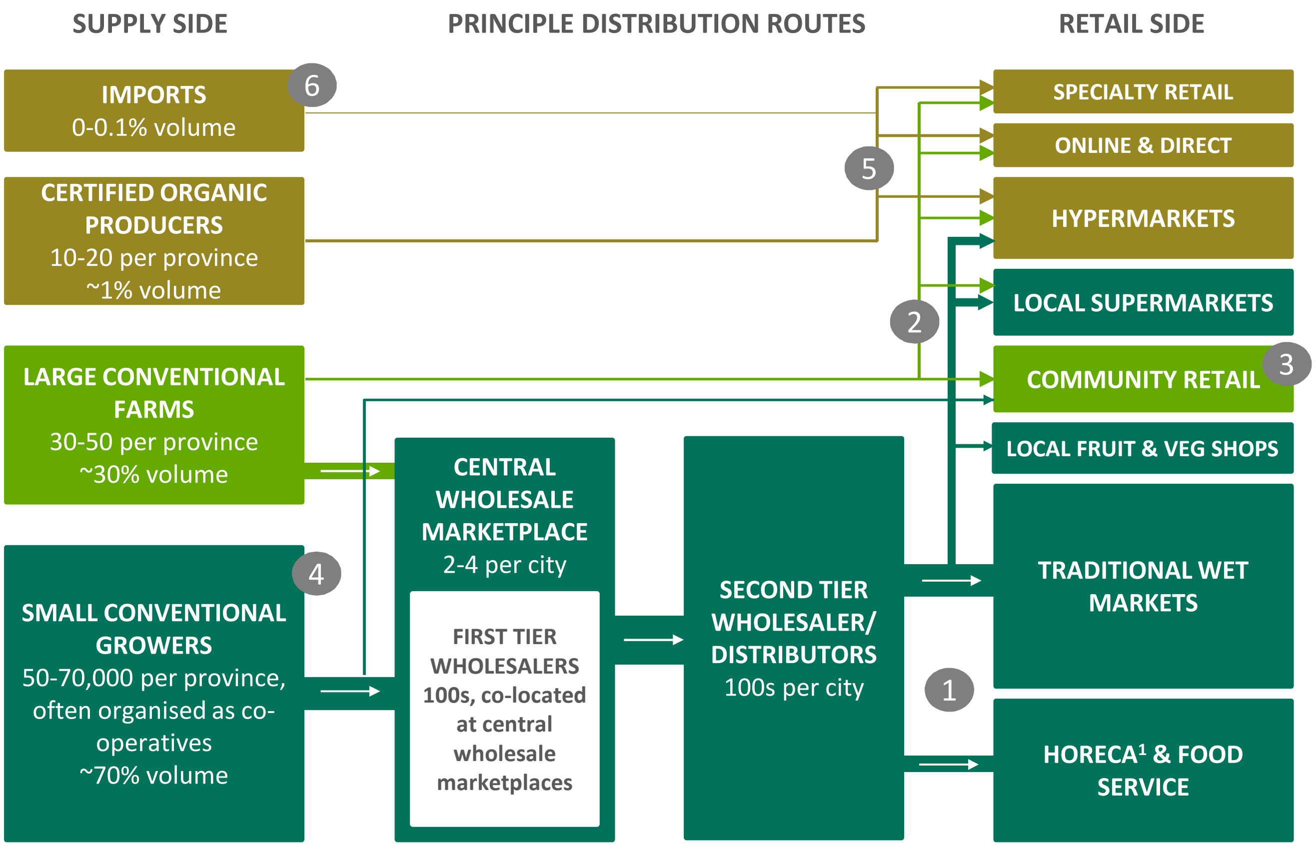
- We have seen a handful of examples in South China of vegetables imported from neighbouring countries
- We have not seen any examples of imported fresh vegetables in Beijing or Shanghai

The Chinese vegetable market is fragmented on both the supply and retail side, creating the need for a complex wholesale network

HAL Horticulture Australia

Key Insight: only premium retailers are likely to be addressable for Australian producers. Selling through the wholesale system should be avoided due to perishing/wastage and the chain of wholesale markups

Market & Distribution Map for a First Tier City



1. The large majority of produce goes through a network of wholesalers which aggregate products from different growers. *To reach some retailers, several layers of wholesale may be involved*
2. Larger conventional farms are also able to serve large customers direct – eg supermarkets and hypermarkets – much of this product is sold loose, but some is packaged and branded, realising much higher pricing
3. Another way to circumvent the wholesale system and capture more value is selling direct to residential communities from street side stalls
4. Small conventional growers – often around 0.2 hectares - struggle to become certified as “organic” or “low pollution” as certification is expensive
5. Certified organic producers, like large conventional farms, focus on premium packaged and branded product sold direct to premium retail channels
6. Imports are very small. We have seen very limited imported product in the market in South China, but none in Shanghai or Beijing

[1] Hotels, Restaurants and Cafes

CENTRAL WHOLESALE MARKETPLACES

Each Tier 1 city has a handful of central wholesale marketplaces where wholesalers and producers trade

Horticulture Australia

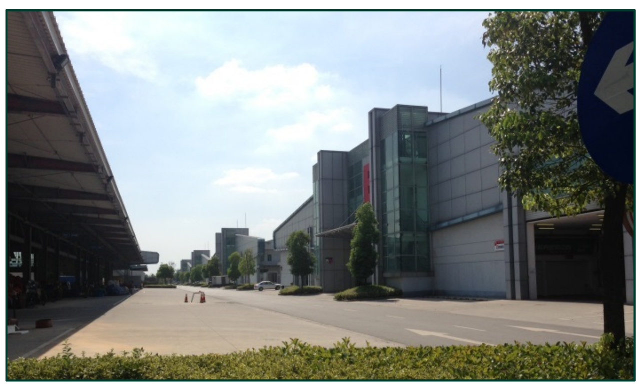
Overview

- 2-4 central wholesale marketplaces per Tier 1 city create a place for hundreds of farmers and wholesalers to trade
- More than 90% of vegetables are traded here
- Operates 24x7 – busiest through the night for morning delivery
- Vegetables delivered every night – often not refrigerated so freshness a major challenge

Large open trading areas where lorries bring the goods to be traded

SHANGHAI: dedicated motorway spur to facilitate transport

Commercial Units rented to numerous wholesalers



SHANGHAI: vast site – massive investment

Example

- Shanghai Xijao International Agricultural Products Trade Co. is China's biggest and most modern central wholesale marketplace. Located in western Shanghai, it opened in June 2013
- AUD 400m invested so far: phase 1 and 2 complete; 2 further phases planned
- Site area 133 hectares; dedicated motorway spur
- Covers vegetables, fruit, meat, alcohol, seafood and dairy. Revenue model is renting space to traders, but may ultimately switch to percentage of traded value
- On-site quarantine/food inspection team of 30-40 people
- On-site import agents capable of assisting with vegetable imports, **but they're not aware of any occurring at this time**
- Ultimately to be one of three wholesale marketplaces in Shanghai – Xijao will focus on high end product including international
- Massive chilled/frozen capacity available – but most vegetables currently delivered in ambient trucks and traded in open areas

Hundreds of wholesalers act as a conduit from fragmented suppliers to fragmented consumer channels

Overview

- 100s of wholesale enterprises of varying scale – but often surprisingly small, providing a reasonable family income but nothing more
- Often specialise in particular customer groups, (eg hypermarket, restaurant, wet market) or products (eg herbs, fungi)
- Wholesalers buy stock at central wholesale marketplaces, or from each other – multiple layers can be involved to reach a particular customer
- Vital role aggregating supply from fragmented producer base, ensuring continuity of supply to customers, and enabling wholesale price discovery

Each wholesaler rents a unit

Cool room provides storage for product not sold that day

Dress code is informal; snake melon a point of difference

Wholesalers with similar specialties often cluster together

Example

- Mr Dong specialises in products for high end and international restaurants
- Sells mainly to second tier wholesalers who take care of delivery to customers – but willing to sell to anyone who visits his unit
- At any time he stocks 60-80 species, including 30-40 herbs
- Rent for the unit is approximately AUD25k per year – including a commercial fridge – but excluding utilities

Reaction to Australian vegetables…

- *"Have you got anything we don't have, and if so, do my customers want it?"*
- *"My customers [i.e. restaurants] want quality – but they're businessmen so they're also very price sensitive."*

CERTIFIED ORGANIC PRODUCERS

A small number of certified organic producers serve each tier 1 city – but they're growing fast

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Overview

- 10 to 20 certified organic farms serving each tier 1 city
- Broad range of products enables direct to retailer delivery and consumer brand building
- Packaging shows farms branding with a seal indicating organic certification. Some farms encourage visits by the public to build engagement and trust
- Produce and pack on-site; chilled trucks deliver direct to premium retailers

Organic control of pests

Manual weed removal

Ranks of south facing greenhouses

Insulation/shade blankets

Example

- Beijing Beicaiyuan Cooperative employs 250 farmers at the main location, farming 186 hectares. Each farmer responsible for 1-2 greenhouses and paid 10 AUD per day
- **July 2013, monthly turnover of AUD100k – growing at 30% month on month. Expected growth of 2-300% per year for next 2-3 years**
- One-third of organic volume is via hypermarkets, two-thirds sold online or via hamper providers
  - Sells to Walmart on conventional basis
  - Sales through Hualien (another hypermarket) are via a dedicated concession counter with own staff – 10% commission to Hualien
- 20 hectares is certified organic; organic horticulture techniques used across all land – and certification pending for remaining land area as soil comes up to standard
  - A leader in the Beijing organic trade with ~1000T p.a. organic production. 6 refrigerated trucks make 3 runs per day to Beijing
- 13 hectare farm in Hainan Island to ensure continuous supply through Beijing winter
- **~50 species in production at any one time. Previously the farm produced narrow range of species, resulting in gluts being sold cheap at wholesale**
- **Range and year round supply enables direct to retailer distribution and brand building**

A key trend is for local producers and retailers to circumvent the wholesale network to capture more value and reduce wastage

HAL
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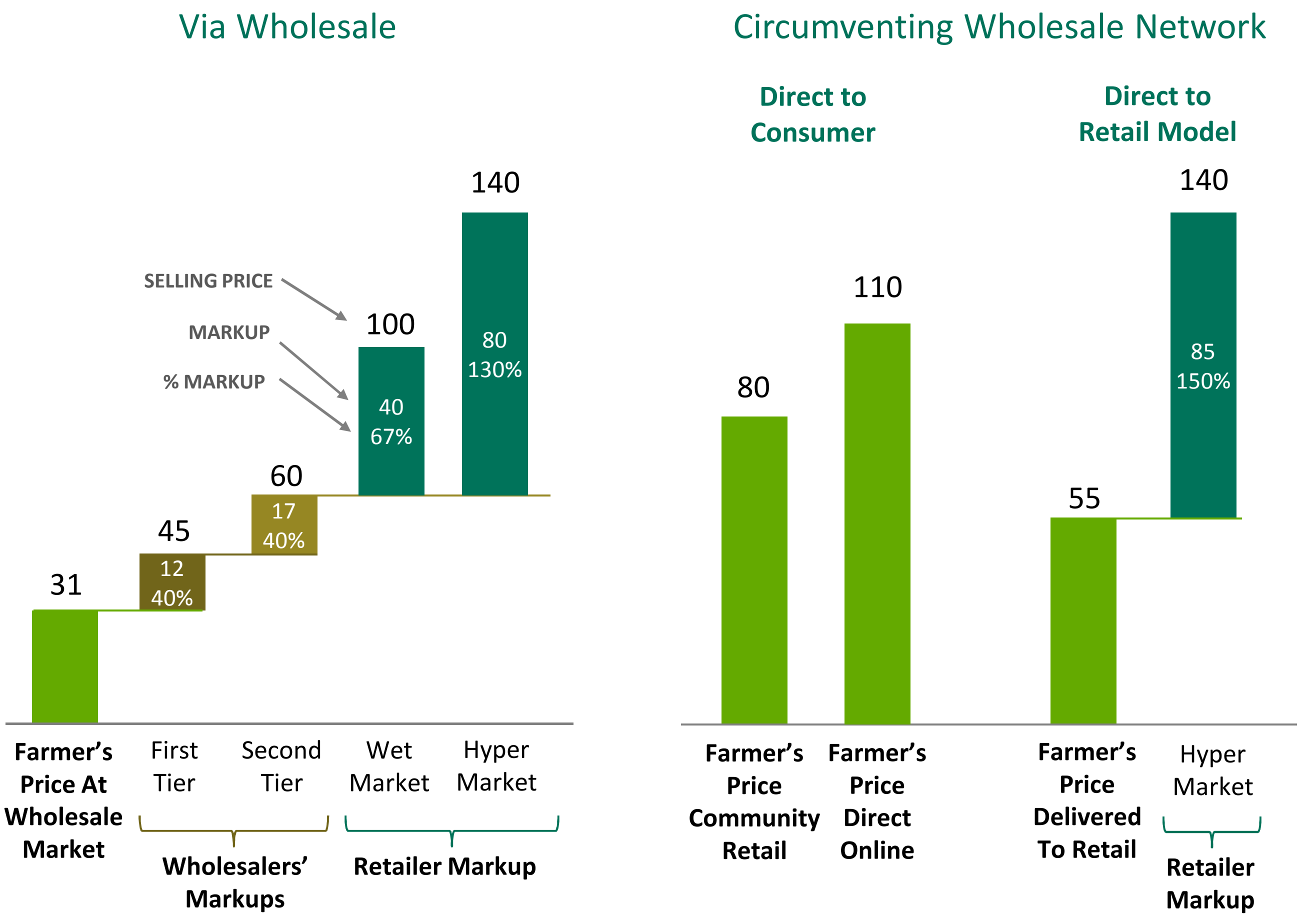
Local Value Chain Economics for Loose Product - Wetmarket Retail Price = 100



Key Insight: the ideal economic model is to sell directly to retailers and avoid wholesale if possible

Insight

- Local producers can increase revenue by 70-80% selling direct to retailers, and 3-4x by selling direct to consumer
- Packaged vegetables command a further premium (but also incur extra cost)
- Direct to retailer can only be employed by producers with a wide range, substantial volume (to be able to carry extra distribution fixed cost and meet larger customers' needs), consistent supply, and preferably a consumer brand
- Direct to consumer takes 2 forms: online (more sophisticated/premium) and community retail (kerbside stalls)

Key trends

- Models which **circumvent wholesale** are likely to continue to grow
- There are also several examples of specialty retailers adopting a **vertically integrated** model (ie renting farm land themselves) to enable customised packaging/branding, and ensure product quality/compliance with production standards (eg "green" or organic) – this indicates strong demand for reliable supply of quality differentiated product

Note: markups are indicative averages based on interviews with industry participants, and vary significantly by product, season, and even day to day

Horticulture Australia

THIS SECTION:

PART 2:
WHO ARE THE TARGET MARKET

Who Are The Target Market?
SUMMARY OF KEY INSIGHTS

Horticulture Australia

The target market are higher income consumers who shop from modern channels

- The original brief for this project focused on the market opportunity with China's "emerging middle class"
- In this report, the target market for Australian Imported Vegetables has been defined as follows:
  - Household income above 15k RMB per month: equal to top ~30% of households in tier one cities[1]
  - Must buy vegetables from modern channel(s)
- This builds on the insights from the previous sections
  - Imported vegetables are likely to be expensive compared to basic loose, and will not appeal to consumers with average or below average incomes
  - Only modern channels would be addressable for Australian exporters
- We surveyed ~3000 consumers who met these criteria. In this report we refer to this group as the **Target Market**

This group are a substantial and wealthy potential market – especially those with young kids

- The quantitative consumer research data for the target market, as cited in this report, is representative of ~11.6m middle class consumers who live in Shanghai, Guangzhou or Beijing
  - Of this core potential market for Australian exporters, 46% live in Shanghai
- 86% of target households consist of couples or multi-generational families with children
  - Despite the one child policy, the Chinese culture of living with the extended family means average household size (3.4 people) is much higher than Australia (2.15 people)
  - Living alone, sharing, and couples account for only 14% of target households
- Households that include children aged 10 or younger have the highest average household income, and account for 56% of target households

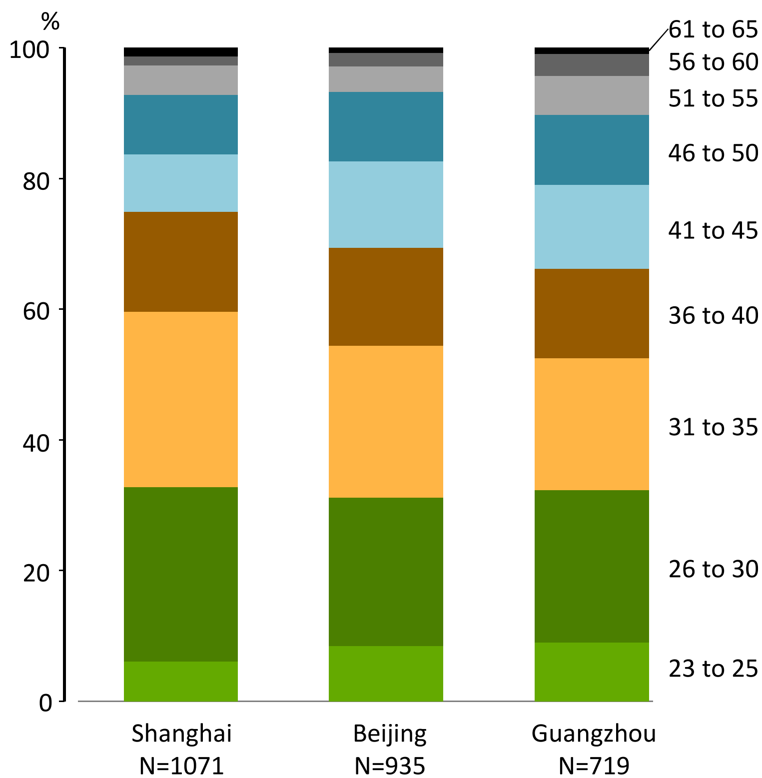
They shop regularly from target channels, and are likely to buy "premium" vegetable types

- Shopping for vegetables is an almost daily activity for most households, and 60% of shopping occasions for this sample are in the modern channels, eg hypermarkets, where Australian imports may be commercially viable
- Claimed consumption of "premium" types, such as Organics, is far higher for this group of respondents than the market average

1. China does not publish income distribution data, hence this is an estimate based on discussions with Chinese experts in marketing and research

44% of the target market is in **Shanghai**

Age & Location of Respondents



	Shanghai	Beijing	Guangzhou
Weighted Population:	**5.1m**	**3.9m**	**2.5m**
Population Share:	**44%**	**34%**	**22%**

Key Insights

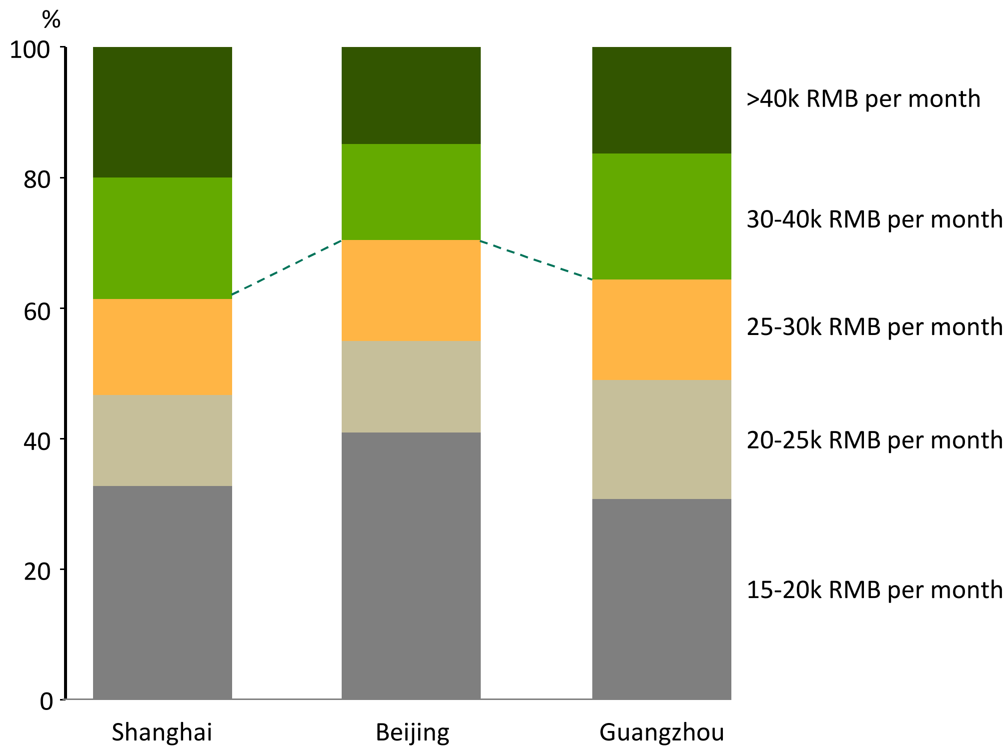
- Shanghai is the largest opportunity, with 5.1m consumers in the target market
- 44% of the target market is located in Shanghai
- The Shanghai population is biased towards the 26-40 age range, probably driven by inward migration of ambitious, upwardly mobile professionals
- In addition to the 11.6m consumers represented in this survey, there are clearly opportunities beyond this, ie certain households with lower income levels

Note

- 81% of qualifying respondents are female (skew driven by being “main vegetable buyer” for household)
- Gender differences between geographies are not significant

Business centres **Shanghai** and **Guangzhou** have a higher proportion of very high income households

Claimed Household Income & Location of Respondents



Key Insights

- Within this sample of households with >15k RMB per month household income, Shanghai has the highest average monthly income
- Beijing is the lowest, possibly reflecting the higher proportion of individuals with more modestly paid government jobs in the capital city
- Note that in China, claimed household income is only part of the story: many households are in fact wealthier than meets the eye
  - Undeclared (i.e. cash) income is substantial in many households, but may not be revealed by respondents
  - New Year bonuses are probably not included in this estimate: most Chinese receive a bonus equivalent to 1 months salary at Chinese New Year boosting effective income by 8%
  - Many households have substantial cash savings, but bank deposits generate a low return in China due to restrictive banking regulations. Consequently investment properties are very popular as a means of investing spare cash. Often they are held for capital gain and not rented out (hence do not generate income)

The vast majority of the target market live with their partner and children, or in multi-generational households

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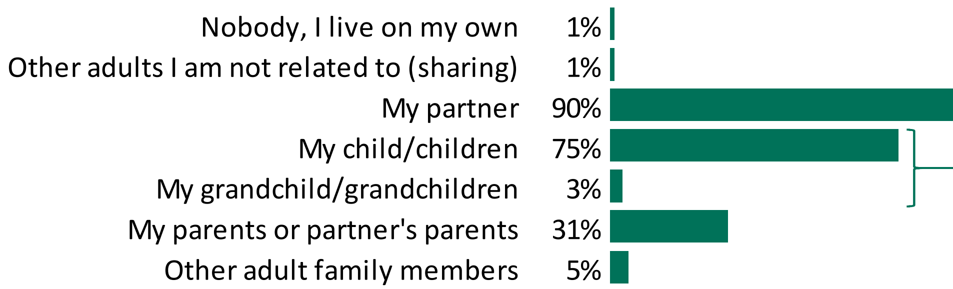
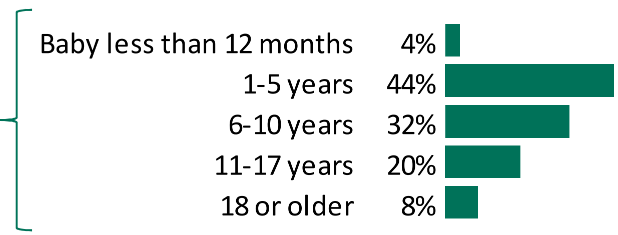
Who lives in your household, or eats there more than twice per week? (multi response)



- Very few middle class Chinese live alone, or share with other adults (though this is different for poorly paid migrant workers, not included in the survey)
- Living with the grand-parents or in-laws is far more common than in the west
  - Most Chinese people do not leave the parental home until they marry. Subsequently, some choose to live with grand-parents/in-laws to obtain help with child-care. Most women return to work soon after giving birth. A variation on this is to live near to grand-parents (eg in the same apartment complex) and eat dinner together most evenings

How old are your children/grandchildren? (only asked if selecting appropriate answer at previous)



- A high proportion of the target market have a child under 10
- Note that due to the one child policy and low fertility rates, multiple children to the same couple are uncommon in this generation in China. However, some couples do have more than one child, either because they are exempt from the regulation or have paid a fine to have more than one, or because of composite/step families. Cousins living in the same house are also a possibility. Consequently the average is 1.08 children per household in this sample
- The one child policy is currently being relaxed, though it is unclear how much difference this will make in Tier 1 cities where having one child is now the norm culturally

Target households can be grouped into 8 types

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8 Household Types

Living Alone: 1.0%

Aged between 23 and 35 – young professionals who've moved to the city and live alone

Average people per household: 1.0

Sharing: 0.9%

Aged between 23 and 30 – young professionals who've moved to the city and choose to share

Average people per household: 2.0

Young Couples: 9.7%

Aged between 23 and 40 – 70% are under 30 and the pressure to have that grand child is on.

Average people per household: 2.0

Older Couples: 2.6%

Aged 40 or over – empty nesters or childless couples: 80% are 46 or older

Average people per household: 2.0

Couples with child(ren) under 11: 36.5%

Mostly couples between mid-20s and 40 with 1 child; includes approximately 1% single parent families

Average people per household: 3.1

Couples with older or adult child(ren): 9.7%

Mostly couples between 36 and 50 with 1 child; includes <1% single parent families

Average people per household: 3.0

Multi-generational families with child(ren) under 11: 20.2%

Usually includes 1 child, 2 parents and 2 grandparents. ~10% also include other adult family members (aunts/uncles etc)

Average people per household: 5.2

Multi-generational families with no children under 11: 19.5%

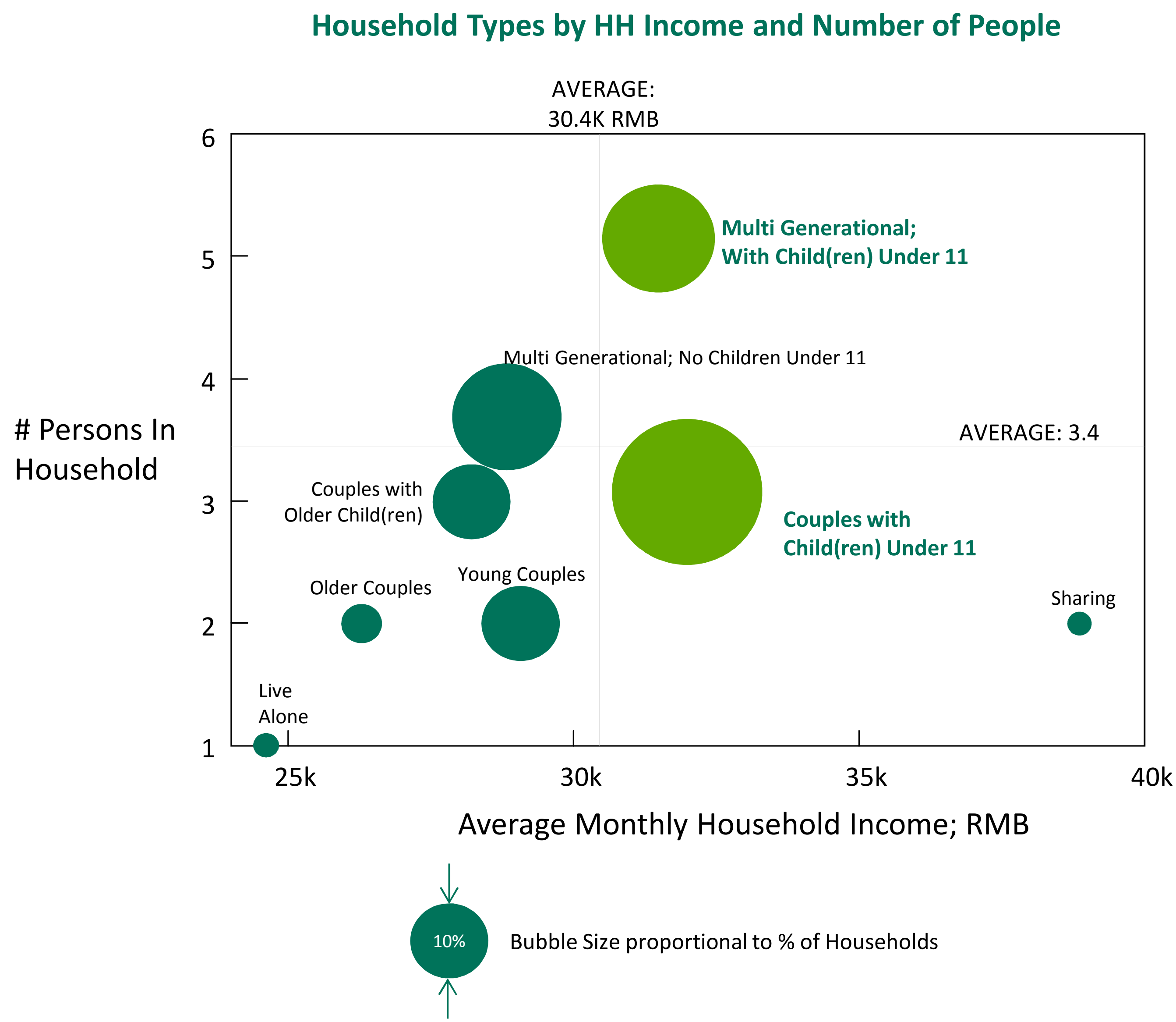
Older parents and their adult child, plus the child's partner, a grand-child 11 or older, or other adult family members

Average people per household: 3.7

Key Insights

- Despite the one child policy, average household size is 3.4 people – versus 2.15 in Australia (source: ABS)
- More than 56% of households in this target market include a child under 10. Around one-third of these include grand-parent(s)
- The empty nester phenomenon is rare in China: few people leave the family home until they are married, many still live with one set of parents after marriage, and the elderly are usually cared for within the family so few live alone or in aged care homes

Families with children under 11 are most likely to have high household income



- In China the vast majority of Mums with young children work – boosting the household income of these families
- Older people are less likely to have good qualifications and professional jobs than those in their 30s – leading to an “income inversion” – younger workers are often wealthier than older workers

On average, target consumers **buy vegetables >5 times per week**, and for this survey, **hypermarkets** are the number 1 channel

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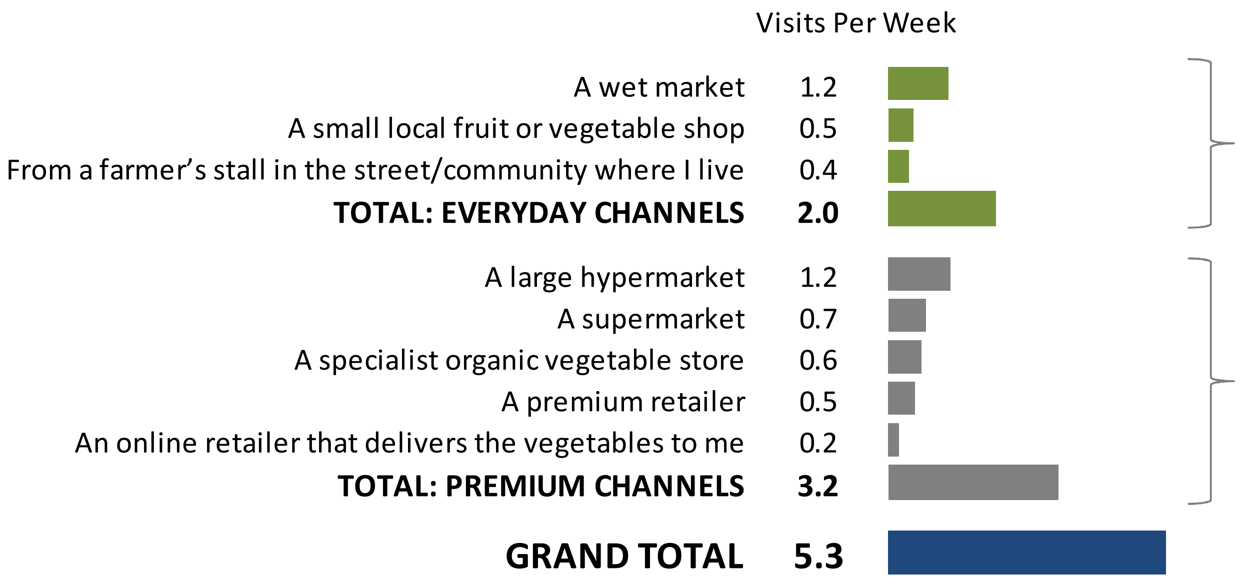
In the past 7 days, how many times did you buy vegetables from each of the following channels?

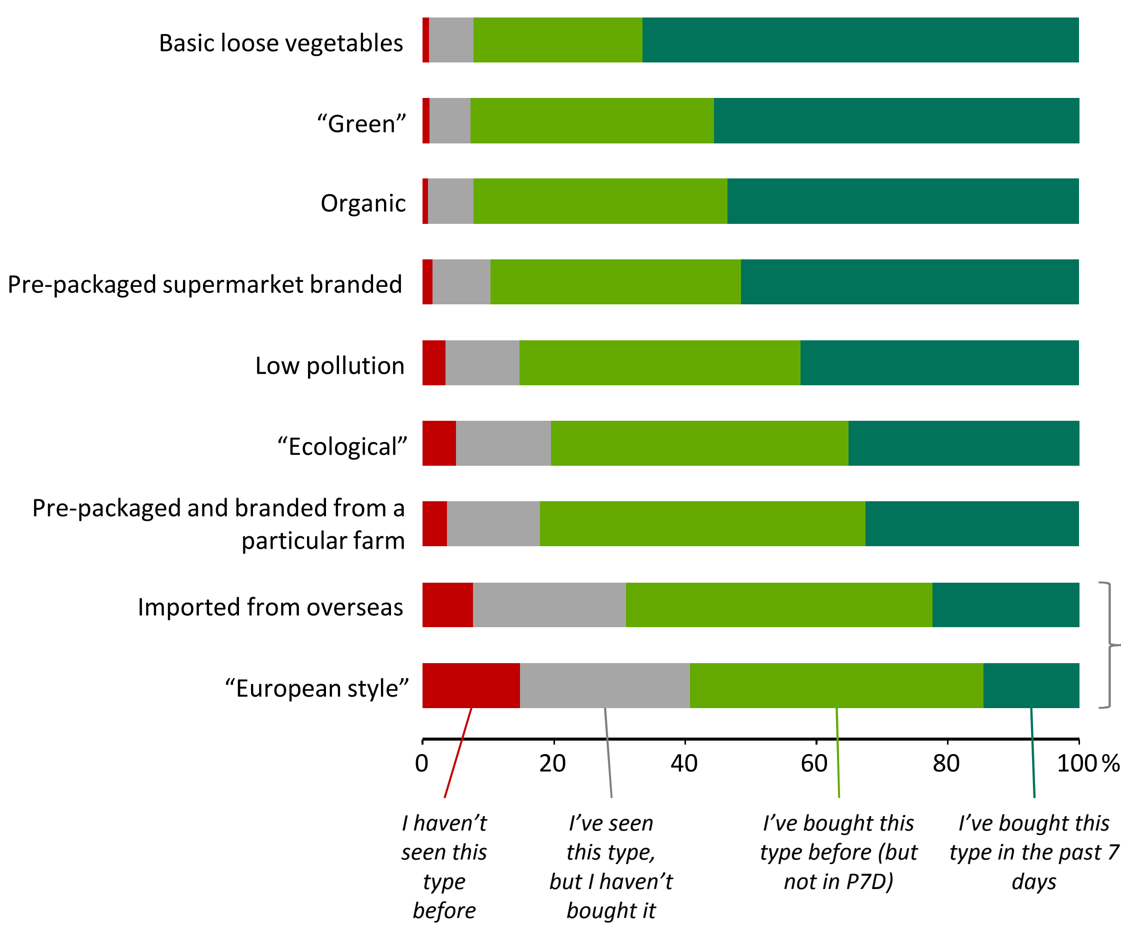


- 40% of vegetable purchase occasions for the target market are "traditional" channels – with wet-markets the most commonly used (see note)
- 60% of vegetable purchase occasions are in "modern" channels – especially hypermarkets such as Carrefour
  - Supermarkets, premium retailers and specialists are also commonly used
  - Online is less popular for fresh vegetables

Note: Respondents must have used at least one modern channel in the past 30 days to qualify for the survey. In the average population, especially lower income groups, use of wet-markets would be more prevalent

A large proportion of these consumers claim to be buying **premium vegetable types**

Some vegetables are grown with particular techniques or come from particular places. Which of these types have you seen or bought before?

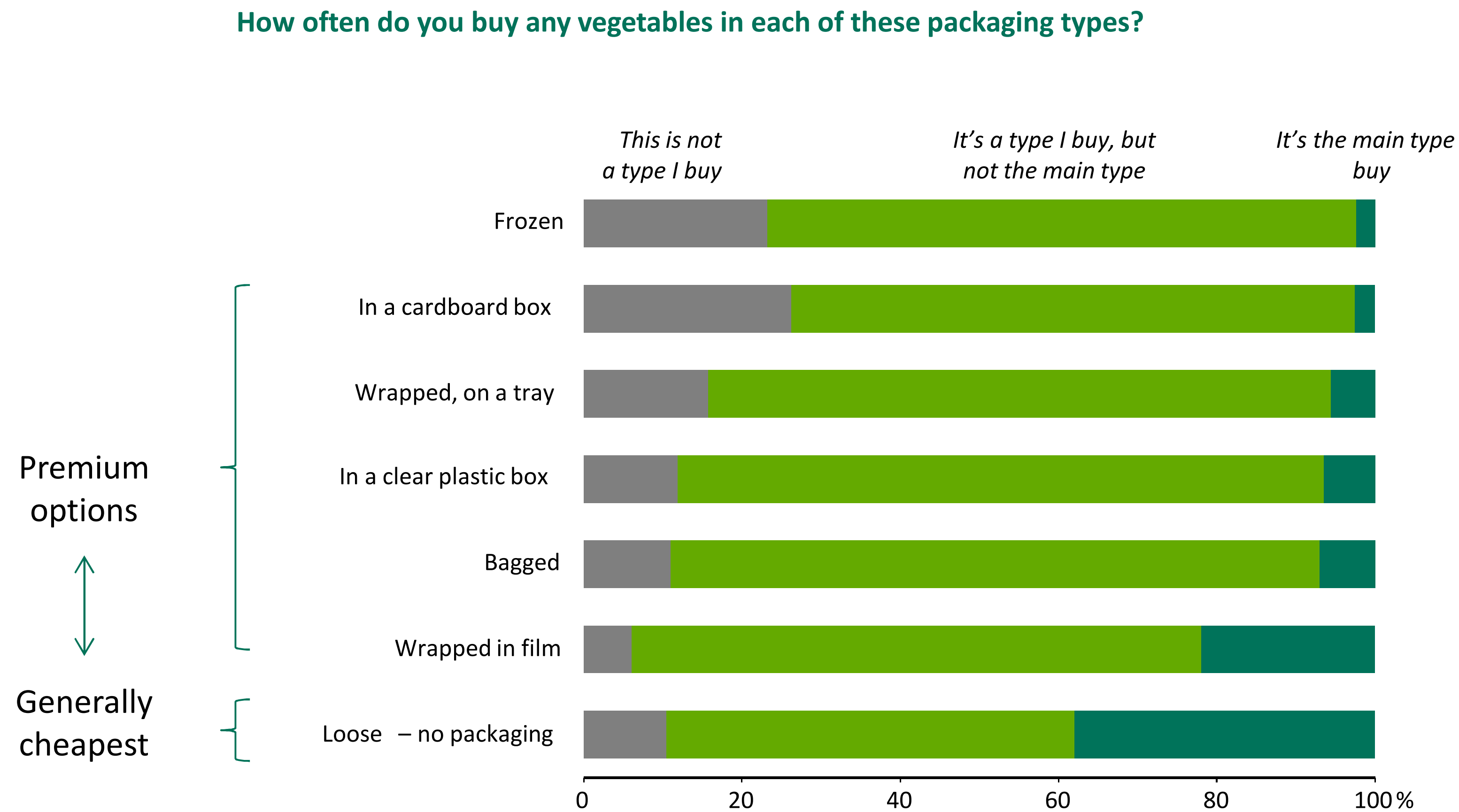


Key Insights

- Basic loose vegetables are the most widely bought, and account for the large majority of volume in the market as a whole.
- However, amongst the target market "green", organic and supermarket branded products have high incidence
- We should bear in mind there is some evidence of over-claiming or misattribution in this question. For instance
  - There are is very little "fully imported" vegetables available currently (though imported fruit is common)
  - "European Style" is a type sold in Carrefour hypermarkets (but some people *think* they're imported)

- It's safest to interpret this chart in terms of the relative rather than absolute incidence of different types

Premium packaged vegetables are the **main type** for many in the target market



THIS SECTION:

PART 2:
WHAT VEGETABLES DO THEY ACTUALLY BUY?

What vegetables do people actually buy?
SUMMARY OF KEY INSIGHTS

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The research provides a robust estimate of the different vegetable types consumed by the target market

- This survey suggests that target consumers (top 30% by household income, use modern channels) consume ~289kg per person per year, compared to an estimated per capita average for all consumers of 240kg (source: Government Data). The similarity of these numbers suggests that our data is robust

The target market is substantial, and consumes a wide range of varieties from day to day

- Target consumers (in Tier 1 cities only) eat approximately 3.3mTonnes of vegetables per year out of a total market size of approximately 14-17mTonnes
- This compares to a total Australian market of ~4mTonnes
- Average households use around 19 different vegetable types every week
- This may sound a lot but
  - Chinese are passionate about vegetables
  - Households are large
  - Chinese dishes (e.g. stir fries) often use multiple types
  - People shop >5x per week – buying different things on different days

The market is less seasonal than expected

- The relatively small seasonal differences reflects maturity of supply chain and growing methods for many crops, though the relative price and quality of out of season crops may still be a significant supporting factor for counter-seasonal import trade

In our survey, target consumers were asked whether they had purchased each of the following list of vegetables in the past 7 days, and if so, what quantity

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Vegetable consumption levels observed in the survey broadly match estimated average consumption in the market

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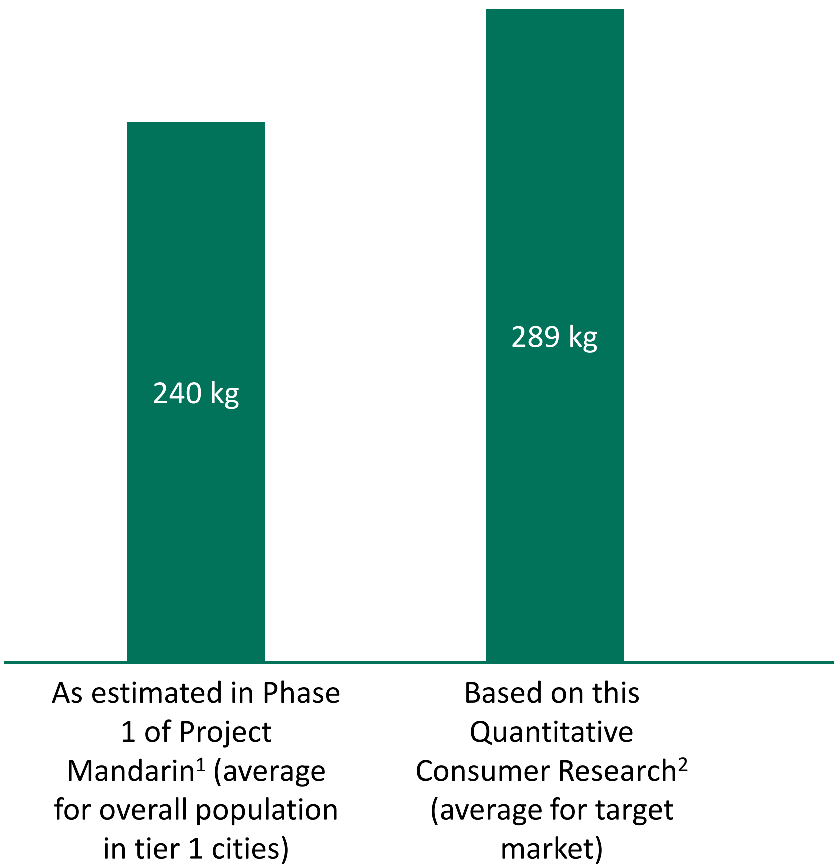
Average Vegetable Consumption Per Person Per Year



These 2 estimates are within the range of expected error. Differences may be caused by the following factors:

- Our survey is representative of the top 30% of households by income. They are likely to buy more vegetables than less well off families
- Government estimates used in Phase 1 may not be perfectly accurate: sources are not consistent, and their methodology is uncertain
- Possible experimental error: survey respondents categorized their purchase level of each of 43 vegetable types in bands and the mid-point of each band has been used to estimate total kg purchased. This may introduce a few percentage points of error

This indicates we can be confident in conclusions drawn from this data.

1. Estimate based on China Statistical Yearbook and estimates by senior officials from Shanghai and Beijing Ministries of Agriculture, cross referenced with presentations by Professor Hans Hendrischke (Sydney Uni) and Professor Fangqiao Meng to AusVeg conference 2013
2. Survey respondents claimed 18.9 kg purchased in past 7 days and average household size of 3.4 people. (18.9 x 52)/3.4 = 289

Target consumers eat about 3.3mT per annum of vegetables. Compared to Australia, squashes and leaf vegetables over-index

Annual Consumption of Target Consumers Only In Tier 1 Cities

BULKY	**kT p.a.**	**% Share**
ChineseCabbage	297.9	8.9%
Cabbage	213.8	6.4%
Cauliflower	187.3	5.6%
RedCabbage	105.0	3.1%
Celary	54.4	1.6%
TOTAL	*858.3*	*26%*

LEAF	**kT p.a.**	**% Share**
Broccoli	110.9	3.3%
BokChoi	102.2	3.0%
Spinach	66.1	2.0%
Sprouts	52.1	1.6%
OhngChoi	49.6	1.5%
JiMaoChoi	48.5	1.4%
ChineseChives	47.2	1.4%
ChoiSum	42.9	1.3%
GaiLan	29.4	0.9%
TOTAL	*548.9*	*16%*

ROOT	**kT p.a.**	**% Share**
Potato	145.1	4.3%
Carrot	98.5	2.9%
SweetPotato	83.5	2.5%
Yam	70.2	2.1%
WhiteOnions	60.6	1.8%
Leek	48.4	1.4%
Taro	38.5	1.1%
Beetroot	17.4	0.5%
TOTAL	*562.2*	*17%*

SALAD	**kT p.a.**	**% Share**
Tomato	140.0	4.2%
GreenCapsicum	126.3	3.8%
Cucumber	115.4	3.4%
ColouredCapsicum	71.4	2.1%
Bag/BoxSaladLeaves	64.8	1.9%
TOTAL	*518.0*	*15%*

SEASONING	**kT p.a.**	**% Share**
BunchSpringOnions	56.4	1.7%
Ginger	38.8	1.2%
Chilli	37.6	1.1%
TOTAL	*132.7*	*4%*

SQUASH	**kT p.a.**	**% Share**
Eggplant	91.5	2.7%
WaxGourd	74.4	2.2%
Pumpkin	69.3	2.1%
Laffa	53.1	1.6%
BitterMelon	48.0	1.4%
Zucchini	45.0	1.3%
TOTAL	*381.3*	*11%*

PULSE	**kT p.a.**	**% Share**
GeenBeans	65.5	2.0%
SnakeBeans	54.7	1.6%
SnowPeas	51.6	1.5%
BroadBeans	27.9	0.8%
TOTAL	*199.7*	*6%*

OTHER	**kT p.a.**	**% Share**
Sweetcorn	97.1	2.9%
BambooShoots	43.0	1.3%
Avocado	10.8	0.3%
TOTAL	*150.9*	*5%*

- Annual market size of 3.3 MTonnes in tier one cities is for the target market only
  [289kg per year x 20% x 57m population = 3.3mT per annum]
- If the remaining 80% of population are included, the total market size in tier one cities is estimated as 14 to 17 mT (suggested rule of thumb – multiply by 5)

- NOTE: despite extensive advanced analytics (eg cluster analysis) we have not been able to identify distinct clusters of vegetables that tend to be bought by the same individuals (ie typical household repertoires)

Chinese shoppers buy a **diverse range of vegetables** from week to week

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Weekly Repertoire of Types

Group		# Types Bought in P7D
All Respondents		18.8
Summer		19.6
Winter		18.0
Summer	Shanghai	20.0
	Guangzhou	20.3
	Beijing	18.5
Winter	Shanghai	17.9
	Guangzhou	18.7
	Beijing	17.6
# Persons In Household	1-2	14.6
	3-4	18.9
	5+	21.2
Monthly Household Income	<30k RMB	18.5
	>30k RMB	19.4

Key Insights

- Chinese consumers buy a surprisingly large range of vegetables each week. This is because
  - Consumers shop frequently, buying different things for dinner each evening
  - In many dishes, such as stir fries, several vegetables are used in one dish
  - Typical Chinese families consume several wok-cooked dishes at every meal. In smaller families 3-4 dishes is normal; in larger families 6-7 dishes is normal. Usually around half of these will be "vegetable" dishes – and of course many meat dishes also include vegetables (as well as ginger and spring onion – which are in almost everything)
- The variety purchased is only slightly narrower in winter
- In Beijing, where the cuisine is traditionally more centred on meat and noodle based dishes and the climate is less favourable to vegetable (especially in winter) the variety used is slightly smaller
- In larger households, a wider variety of types are used
  - There are more mouths to feed
  - More people to help with preparation

Seasonal variations in what people buy are smaller than expected, showing that year round supply of many crops already exists

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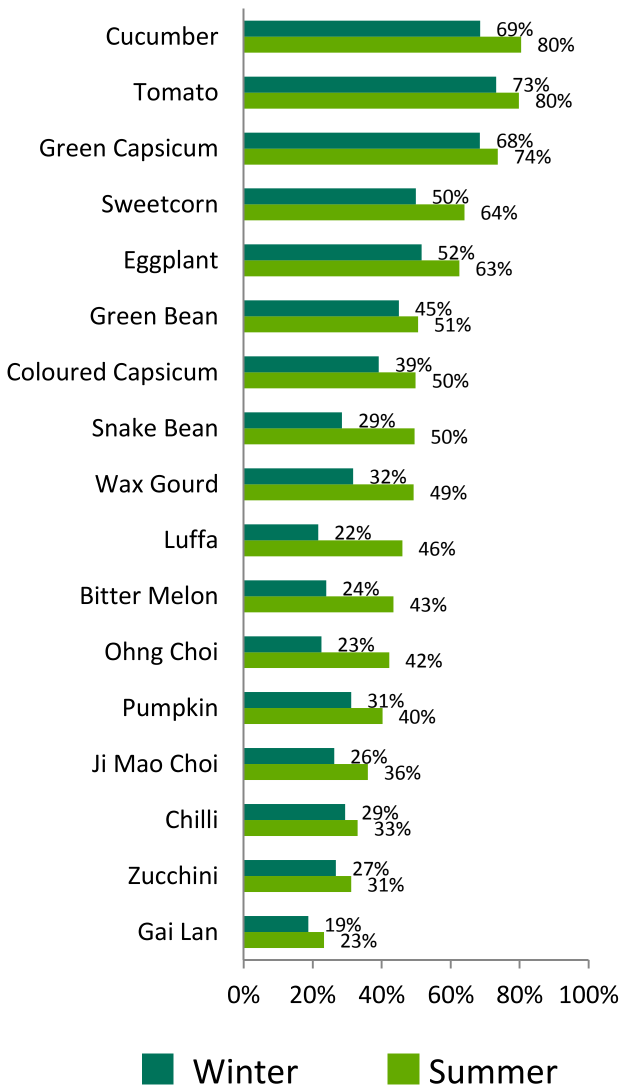
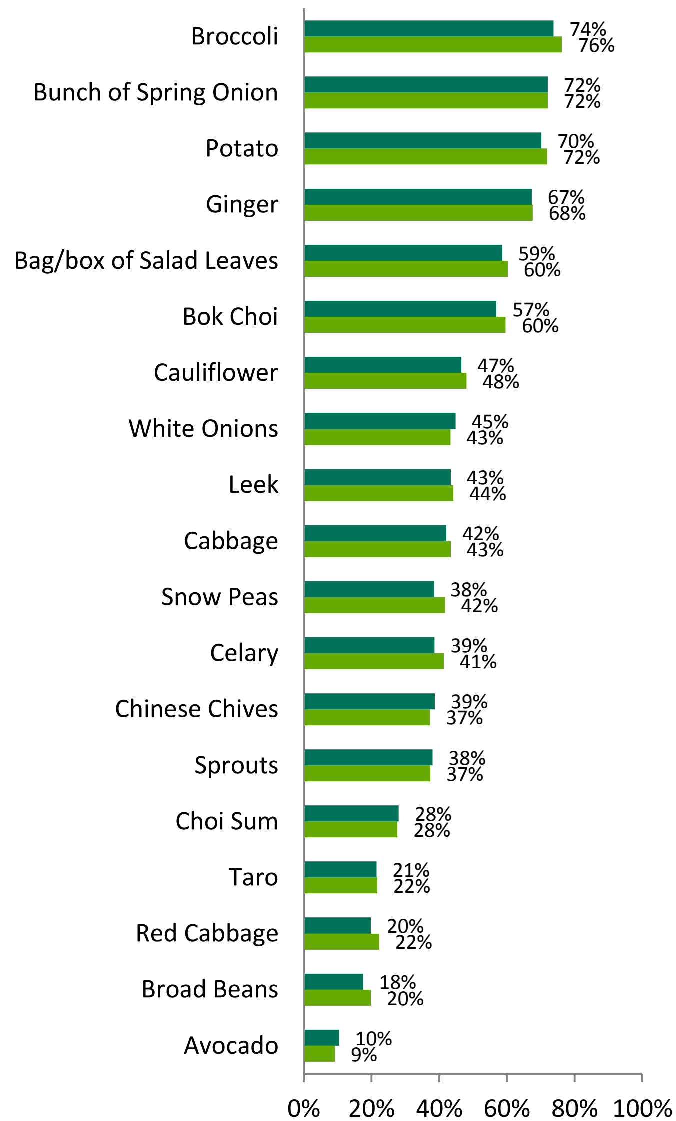
% of Households Purchasing Each Vegetable Type P7D

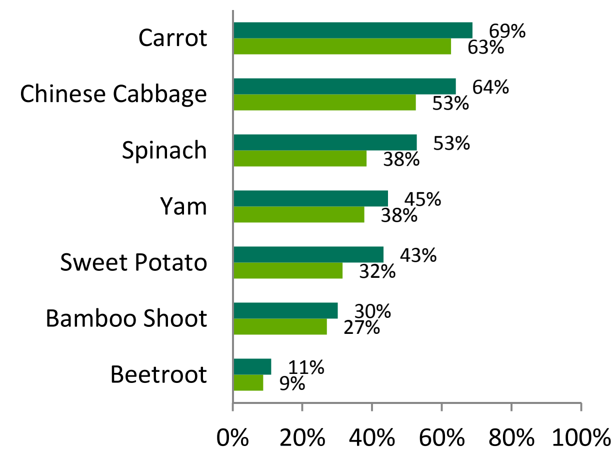
Summer Skew



No Significant Seasonal Skew



Winter Skew



Key Insights

- Cucumber, tomato, capsicum and especially squashes do better in summer
- Spinach, cabbage, bamboo shoots and root vegetables do better in winter
- However a large proportion of vegetables have little or no seasonal skew

Note

- Regional variations in type bought are small, and therefore not reported here

THIS SECTION:

PART 2:
WHY WOULD THEY WANT IMPORTED VEGETABLES?

Potential Demand for Imported Vegetables
SUMMARY OF KEY INSIGHTS

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- ***Consumers' reactions to the notion of imported Australian vegetables are very positive, driven primarily by health concerns***

- ***Consumers feel conventional Australian vegetables would be on a par with Chinese Organics - the current benchmark for safety***

DRIVERS

Acute lack of confidence in safety of Chinese produce
- Polluted environment
- Food safety scandals
- Lack of faith in regulation

Strong engagement with vegetables and openness to trying new things
- Vegetables seeing an increasing role for health reasons
- Consumers quite open to different cuisines and products

A general perception that 'The west is best'
- Western brands, images of Caucasians and use of the English language is an expression of aspiration, quality and trustworthiness

Australia has strong credentials
- A pure clean environment
- Australian wine, beef and seafood known and respected by consumers
- Trustworthy regulation

An audience that is willing to pay premium prices
- The notion of paying more for quality vegetables is already well established, either through premium farm branded or 'organics'

CHALLENGES

Freshness
- Some consumers, especially older people, expressed some skepticism that imported vegetables would be really fresh

Pricing
- Some consumers are uncertain if they could afford imported vegetables on a regular basis

It would be difficult to overstate the importance of **food safety** issues for Chinese consumers

Key Insights

- Food safety scandals and concerns are pervasive and not limited to vegetables – but they're highly relevant to vegetables given their intrinsic role in terms of dietary health
- There is a clear price stratification already established in the Chinese market – and this is based upon quality/safety issues
  - **Many are willing to pay a premium for products that they perceive to be better quality (meaning safe)**
- Consumers reach out to a range of quality and safety cues e.g. specific farm brands, POS on location of origin, no pollution/organic certification etc.
- Many shoppers are deeply engaged with evaluating food quality, and do appear willing to read labeling (unlike Australia)

Trust is key to commanding premium pricing, and this can be delivered by

- A real sense of place, eg farm branding, locally produced
- International credentials – especially around labelling, regulation and traceability

Target consumers are **acutely concerned** about a variety of **food safety** issues when they buy vegetables

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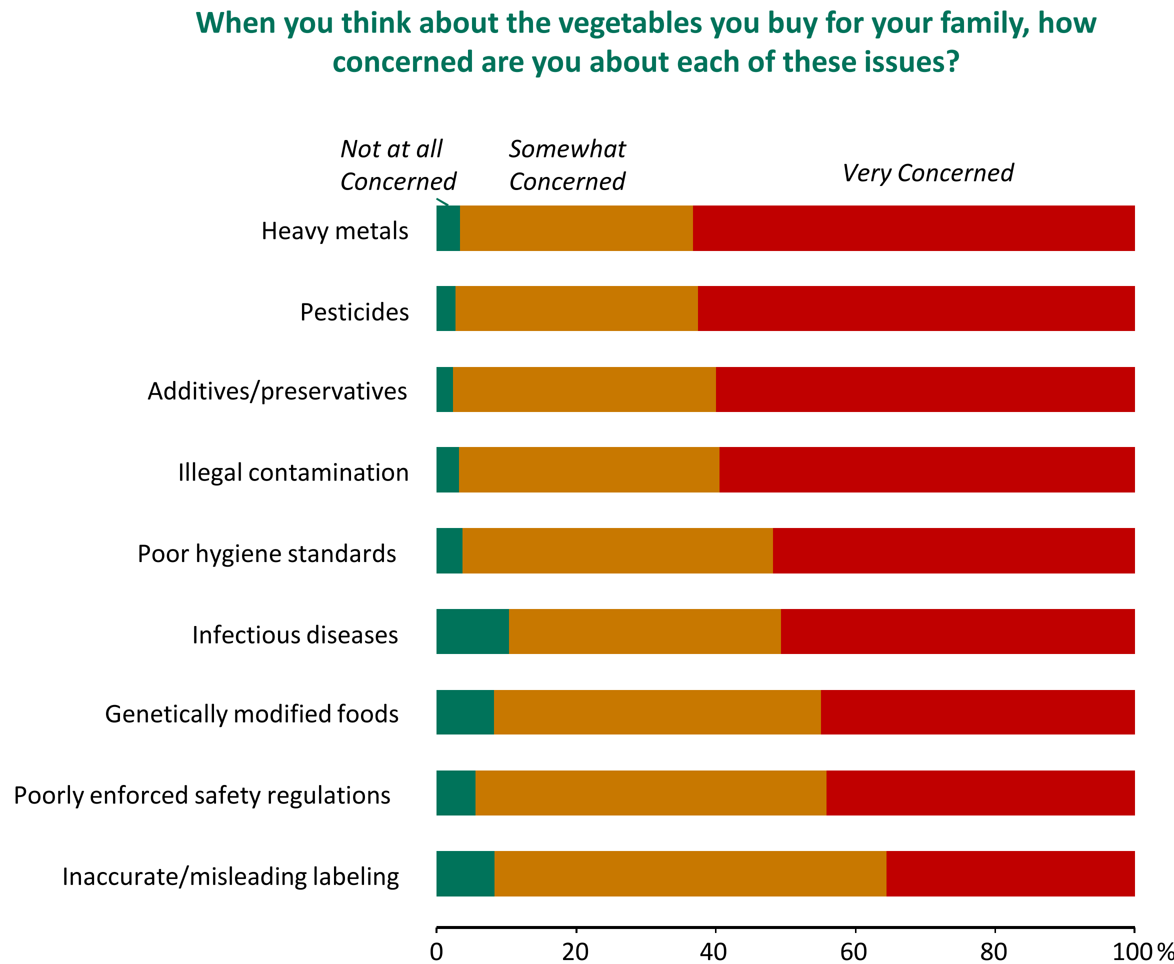

Key Insights

Heavy metals, pesticides, additives/preservatives, contamination and hygiene are the top safety concerns

Recent press reports (after this research) state that >20% of land is contaminated with heavy metals such as cadmium.

GMO and regulatory/labelling issues are less acutely concerning, but still major considerations for Chinese consumers

Whilst concerned about domestic food safety, vegetables are a **daily essential** and consumers talk earnestly about their importance

Vegetables are a core part of the Chinese diet

- The role of vegetables, seafood and poultry appears to be increasing and is linked to a move to a healthier diet. Meat is becoming relatively less important due to general health concerns
  - *"The more legs it had, the less healthy it is to eat"*
  - *"Vegetables are important for health and wellbeing, we all know that"*
  - *"Now vegetables are becoming more and more important in our diet"*
  - *"I usually do 6 dishes in one meal: 3 meat/fish and 3 vegetable"*
  - *"I'd rather eat healthily for my baby's sake"*

- Raw vegetable consumption is increasing and is seen as an international influence (salad consumption is increasing, especially amongst younger consumers). Being able to eat it raw is a benchmark of quality produce
  - Vegetable quality is most important when eaten raw. This is seen as the best way to absorb nutrition
- Older consumers have a real passion for food and interest in vegetables – possibly because their generation remembers a time when they had to go without
- Younger consumers regard them vital for health – especially for the kids
- Some men are more carnivorous than women – similar to Australia
- There is a shift from standard to premium branded and organic, though desire for and interest in premium vegetables greatly outstrips actual purchase for many consumers, due to cost

The combination of engagement with vegetables plus health concerns is **positive for imported vegetables**

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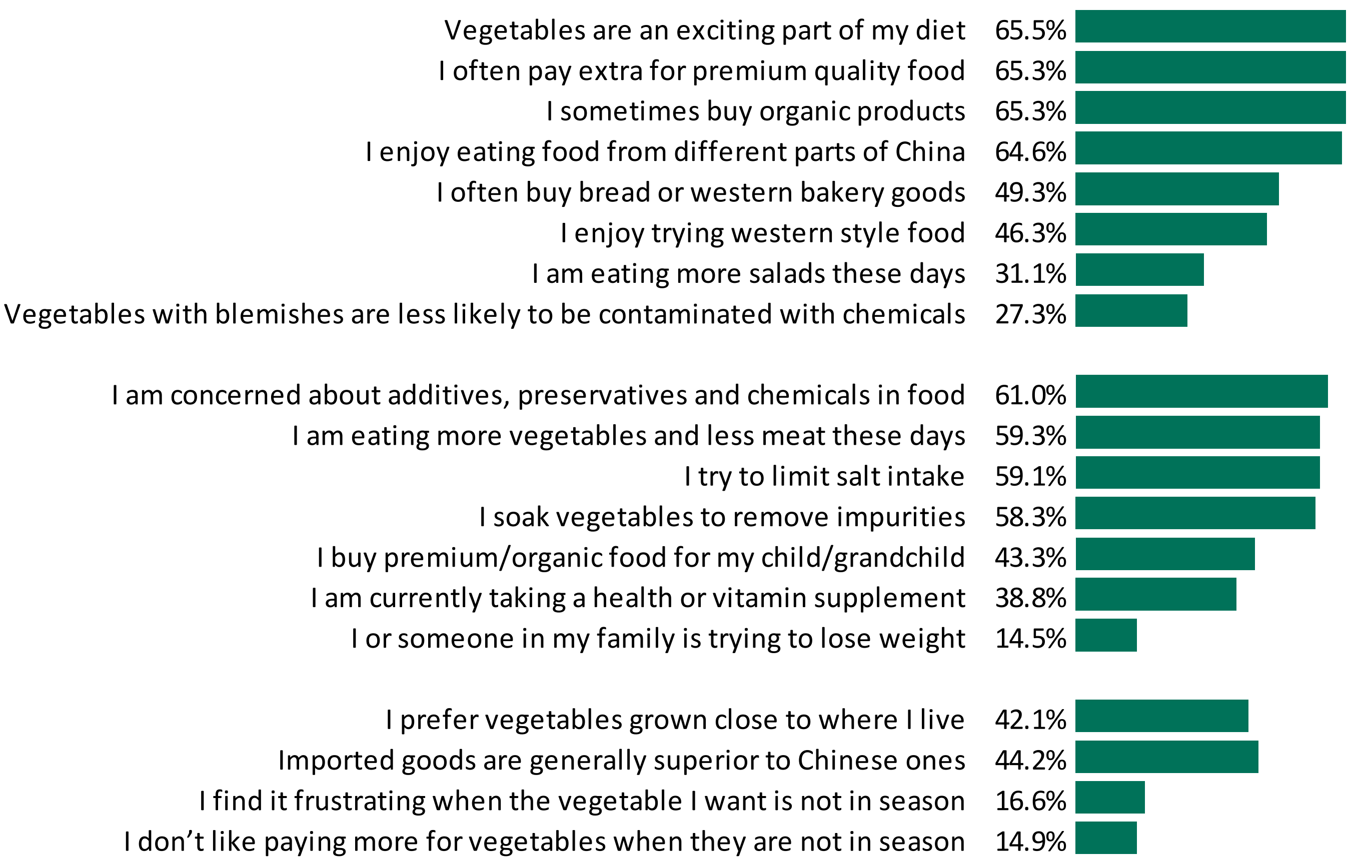
Which of these statements do you personally agree with?



Key Insights

Consumers are quite engaged with vegetables, and willing to pay a premium for quality and organics.

They are experimenting with different cuisines, including western food and in some cases salads.

Most are concerned about chemicals, salt, and impurities. Doing the right thing for the kids is a reason to buy “better” vegetables, and soaking vegetables to remove impurities is normal for most.

Some are cutting back on meat for health reasons, and in China nutritional supplements are popular.

Whilst some claim a preference for “local” vegetables, many think western goods are superior. Most *are* willing to pay extra for out-of-season vegetables, alleviating the frustration of seasonality.

People in the target market are **open minded**, **optimistic**, and **willing to spend**

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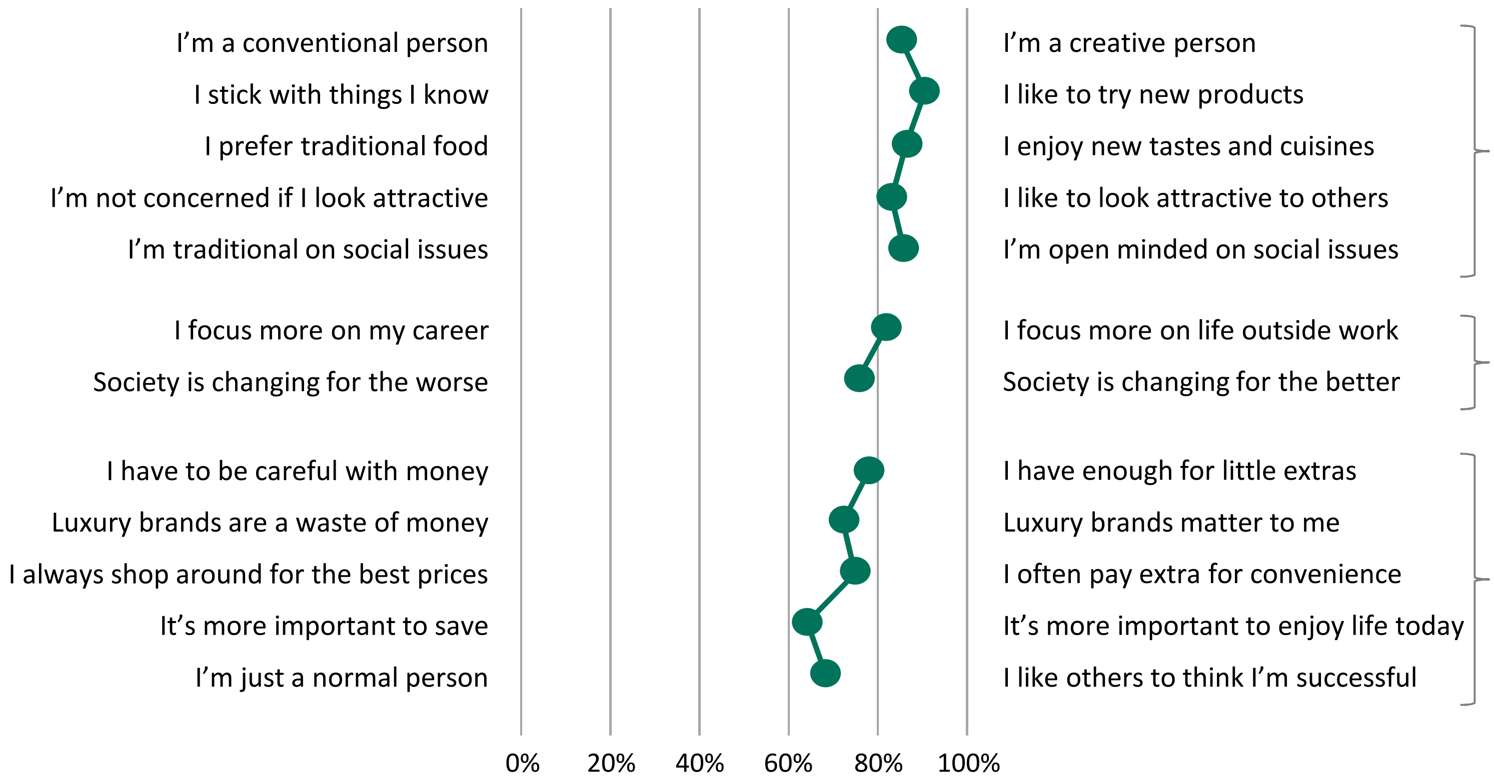
3 KEY ATTITUDE FACTORS

Which of each pair of statements is a better description of you?



Open minded, creative, open to new experience and foods

Optimistic, ready to enjoy life

Willing to splash out, for fun and for social status

Note: Pairs in the same group are highly correlated with each other. Statements were randomised and flipped left-right in the questionnaire

Their **propensity to pay a premium** is clear, and for some, imported product is already on their radar

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Overview

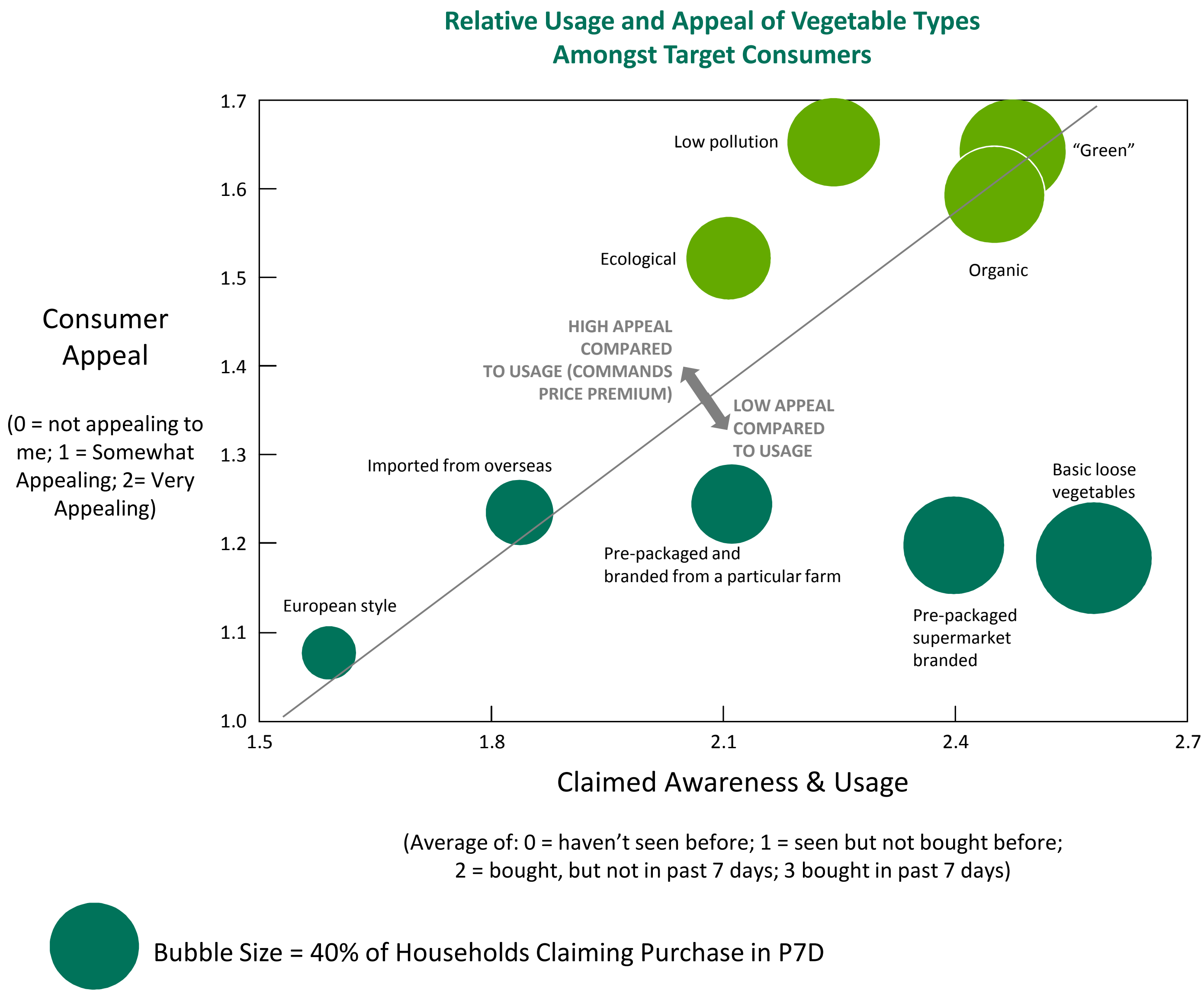
- The level of mention of ‘organic’, ‘pollution free’ and imported (especially Guangzhou) clearly illustrates that better off Chinese consumers are happy to pay premium prices if they believe they are buying safe, fresh produce

‘Organic’ & ’Pollution free’	Imported
▪ Farm direct and ‘organic’/’low pollution’ currently seen as the best solution to food safety concerns ▪ Purchase is claimed to be on the increase ▪ Competitive pricing for ‘organic’ was claimed to be driving the location of shop amongst a minority	▪ Most open to try imported product - the main concern is freshness ▪ Generally a very positive reaction: - Safe - No pesticides - Assumed stricter government standards overseas ▪ Premium price expectations exist and are linked to perceived quality ▪ In Guangzhou a number of imported vegetables were mentioned by consumers - Japan – cucumber - Korea – mushrooms, pickles, cabbage - Taiwan – capsicum, cabbage - Other imported varietals mentioned were pumpkin, tomato and lettuce - Park n Shop apparently have a specific ‘imported’ fridge. Imports also available in Tesco

“Imported would be more expensive, but makes me feel more safe ”

“Imported could be as good as the ones I get delivered directly from the farm. As long as they are healthy I don't mind where they’re from”

Claims related to **purity and naturalness** are the key driver of consumer appeal for premium priced vegetables…



Key Insights

- Basic loose vegetables are most widely used, but not that intrinsically appealing. People buy them because they're **cheaper**, but their market share is being eroded
- Ecological, low pollution, organic and "green" vegetables are highly appealing, but less widely used. Incidence is high, but volume is limited by **higher prices** and **narrower range/distribution**
- "European Style" and Imported Vegetables are less widely known – consumers aren't sure what to think of them, reducing their appeal
  - There are really no imported vegetables available currently, though fruit is common, so there appears to be a level of misattribution/over-claiming here

… plus western brands, faces and language communicate **quality and aspiration**

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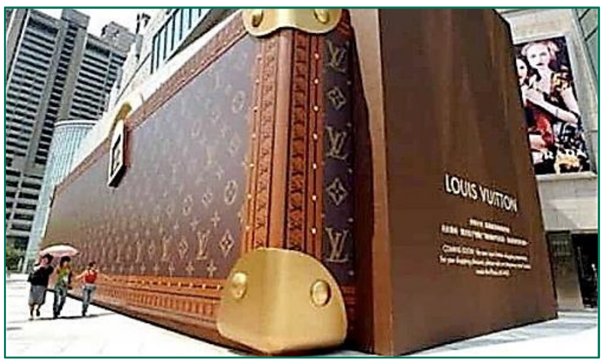
West Means Best

Western brands and iconography are everywhere



English positions retailers as premium

English labelling of vegetables already used to signify premium

Hence the reaction to Australia is very positive, driven by the **purity and naturalness** of the Australian environment

A well known aspirational western country

A vast, clean, pure, environment (no pollution or heavy metals)

Healthy
Happy Australians

Safe & regulated agriculture, ethical farmers, strict government

Key insight: Chinese consumers feel that standard Australian produce would be on par in terms of quality with Chinese 'organic' produce

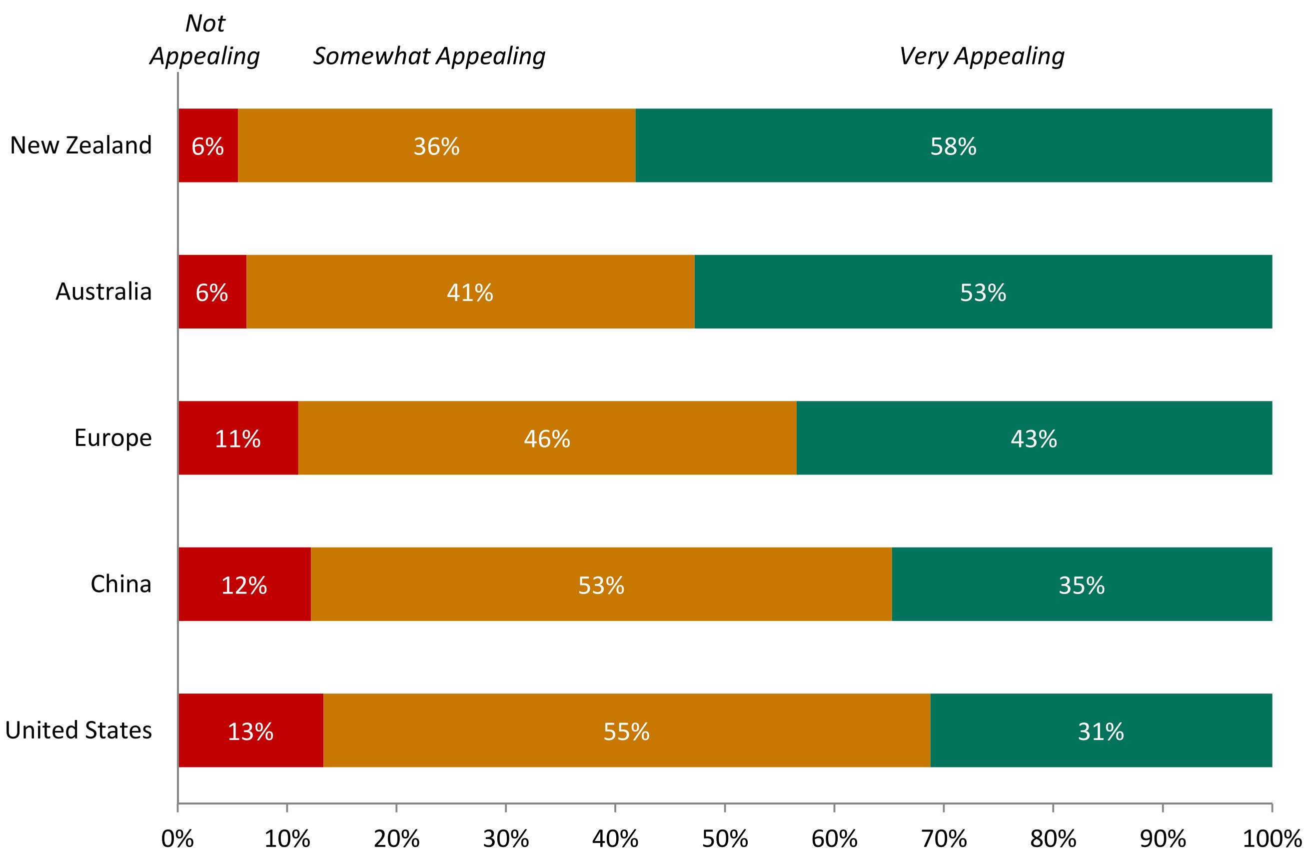
Australian vegetables
The product of a pristine environment
Pure
Fresh
Pollution free
Fast growing plants
Natural growing cycle (not forced)

Consumer Associations

- *"Natural and pure environment"*
- *"More Natural, low pollution"*
- *"Low pollution. I like the concept of Australian imported veggies, would like to try their veggies and see how they taste"*
- *"Good impression, but freshness will be the key"*

New Zealand is the most attractive country of origin for imported vegetables, **but Australia is close behind**. This is very encouraging for potential Australian importers

If you could buy imported vegetables from different countries, how appealing would each of these countries be?



Key Insights

- **Australia and New Zealand are found to be more attractive than Europe or the US – driven by perceptions of an unpolluted natural environment**
- **This is an outstanding finding: in aspirational categories such as wine and cars, Europe is much more appealing**
- The relatively low rating for the US (ever lower than domestic Chinese vegetables) is particularly striking as many consumers are familiar with fruit imported from the US
  - However, the US is subject to some negative PR in China, eg perceived widespread use of GMO, and support for Japan in regional territorial disputes

THIS SECTION:

PART 2:
WITHIN THE TARGET MARKET, WHERE IS THE SWEET SPOT?

Within The Target Market, What Is The Consumer Sweet-spot?
SUMMARY OF KEY INSIGHTS

Within the target market, we have identified a "consumer Sweet Spot" that has young kids, and is "willing to spend"

- The target market is defined as households in the top 30% by income (>15kRMB per month), who shop from modern channels. Together they buy about 3.4mT p.a. of vegetables in Tier 1 cities
- *Within this target market*, we can go on to identify the **Sweet Spot consumer type**:
  - They have a **child 10 or younger** in the family
  - Attitudinally, they're **more willing to spend money** on quality and enjoyment

Sweet Spot ***households are highly likely to buy premium/Australian vegetables from modern channels***

- This **Sweet Spot** type accounts 800kT per annum (~20% of total domestic Australian consumption)
  - 69% find the concept of vegetables imported from Australia "very appealing"
  - 70% claim to have bought organic vegetables in the past 7 days
  - 66% of their shopping occasions are from modern channels where Australian imports can potentially be commercially viable

Households that are "willing to spend" but do not have young kids are a smaller opportunity

- There are some households who have high willingness to spend but no kids under 11
- They only account 360kT of consumption, but 64% of these people find the idea of Australian vegetables "very appealing"

Households with young kids that are less "willing to spend" are a secondary target (imports might be too expensive)

- This is a big group, accounting for 36% share of surveyed consumption or 1200kT
- It's likely to have significantly lower rates of take-up of imported vegetables. Even so, it's important for Australian exporters to bear in mind as a **secondary target:**
  - 50% find the concept of vegetables imported from Australia "very appealing"
  - 51% claim to have bought organic vegetables in the past 7 days
  - 60% of their shopping occasions are from modern channels

The remaining households are lower priority

- Households that do not have young kids and are financially careful are the least promising part of the target market. They consume 1,000kT of vegetables, but only 39% find the idea of Australian imports very appealing and only 42% claim to have bought organic in the past 7 days

Attitudinal *willingness to spend* and having *young children*, are the attributes most predictive of **receptiveness to Australian imported vegetables**

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"Dependent" variables (the outcomes we want to predict)

To determine how best to segment consumers, we wanted to find the best way to predict the following:

- Interest in and purchase of premium types of vegetables
- Positive attitude to Australia as a source country
- Willingness to pay extra for Australian imported vegetables
- Likelihood of shopping from "modern" channels such as hypermarkets where Australian importers can potentially play

"Independent" variables (the ones we could use to predict the outcome)

To identify the most predictive variables, we tested all of the following:

- The three key psychological attitudes: attitudinal willingness to spend, openness to new/different food, optimism/readiness to enjoy life
- Tendency to agree with key statements – in particular statements regarding health concerns
- Household income
- Household type/structure
- Age
- Gender
- City of residence
- Overseas travel experience
- Education level

Based on this, we identified two variables that are most predictive of the desired outcomes:

- **Attitudinal willingness to spend**
- **Presence of children age 10 or younger in the household**

Several other variables were weakly predictive:

- Household income: this correlates to some degree with both of the above, making it unnecessary to include it for segmentation purposes. (Note: We often find that *attitude* to spending is more predictive than *actual income* – possibly because "thrift" is independent of income; possibly because people with bigger incomes often have heavy financial commitments such as mortgages)
- Openness to new/different food (however this was not as strong a predictor as willingness to spend)

The following variables were poor at explaining the desired outcomes

- Optimism/ready to enjoy life
- Presence of older children or old folk
- Age
- Gender
- City of origin
- Overseas travel
- Education

Based on these 2 attributes, we can segment our respondents into 4 groups

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4 Type Segmentation of Target Consumers (see note)

"Careful With Money" ↔ "Willing to Spend"

#1 TARGET

Higher
Average
Lower

Has a child age 10 or under in household

Thrifty Young Families

Share of HHs:	35%	Monthly HH income (kRMB):	30
Share of population:	38%		
Veg Consumption (mT p.a.):	1.2	Age of vegetable buyer:	35
Australian veg v. appealing:	51%		

Self description:
Of course we want to give our child the best start in life, but you need to keep a balance: it's not always easy financially to look after the extended family and you don't know what's around the corner. We try to save by shopping around and not wasting money on things that aren't worth it.

Cash & Young Kids

Share of HHs:	22%	Monthly HH income (kRMB):	34
Share of population:	25%		
Veg Consumption (mT p.a.):	0.8	Age of vegetable buyer:	35
Australian veg v. appealing:	69%		

Self description:
My partner and I both have good jobs. We enjoy treating ourselves to things we really want like luxury goods – life's to enjoy, and we're optimistic about the future! Our child is the centre of our family and it's important to give them the best start in life so we're very focused on nutrition.

No child age 10 or under in the household

Careful Conservatives

Share of HHs:	32%	Monthly HH income (kRMB):	28
Share of population:	27%		
Veg Consumption (mT p.a.):	1.0	Age of vegetable buyer:	38
Australian veg v. appealing:	39%		

Self description:
Things are getting so expensive these days – not like they used to be. We're not exactly hard-up, but it seems some people waste money on things they don't need! Some people are very materialistic. We're a bit more sensible about things and focus on making provision for our future.

Cash No Young Kids

Share of HHs:	11%	Monthly HH income (kRMB):	30
Share of population:	10%		
Veg Consumption (mT p.a.):	0.36	Age of vegetable buyer:	40
Australian veg v. appealing:	64%		

Self description:
As we've gotten older things have got easier for us financially – we've saved a bit and we don't have too many outgoings. Now we can enjoy the good things in life, and that includes decent quality food, and imported goods.

Numbers may not add to 100% due to rounding.
Note: since this survey only includes the top 30% of respondents by income, and they must use modern channels, less diversity in the segmentation is expected versus a full market study, and a smaller number of segments is preferred (ie there may well be a number of interesting, but low value segments, amongst the 80% of the population we did not sample)

Meet Candy, Lee and Kevin – a typical "Cash & Young Kids" family

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A portrait of middle class life in a first tier city – a family with top quartile income

Candy is 34 years old and works as marketing manager in a multinational company. Her husband Lee is in finance in a small engineering company employing 300 people. Their combined net income of AUD 6k per month puts them in the top quartile of households in Tier 1 cities.

As well as owning their own apartment outright, they save a large part of their salaries and are paying off an investment property.

Candy and Lee have been married for 7 years and have a 5 year old called Kevin. He started school this year and he also has music and English lessons – it's important not to fall behind!

After their son was born they bought a car, a VW Bora, but in the last 5 years so many metro lines have been built they don't use it every day. The traffic is dreadful. They both often work 10 hours a day, and travel regularly to other provinces, so the grand-parents do most of the childcare during the week. They often eat dinner with one set of grandparents who live in the same apartment complex as them.

Candy and Lee are optimistic, and willing to splash out on quality stuff as a reward for their hard work. They like to enjoy life.

At weekends Candy enjoys shopping for designer goods and spending some time with her son. They also eat out a good deal: spicy Sichuan food is a favourite, and they experiment with Western food. Kevin loves pizza and KFC, but Candy is starting to get into western style salads. It's something she wouldn't have thought of eating 5 years ago. Lee's office is near to Starbucks and he's become a bit of a regular – it's expensive though.

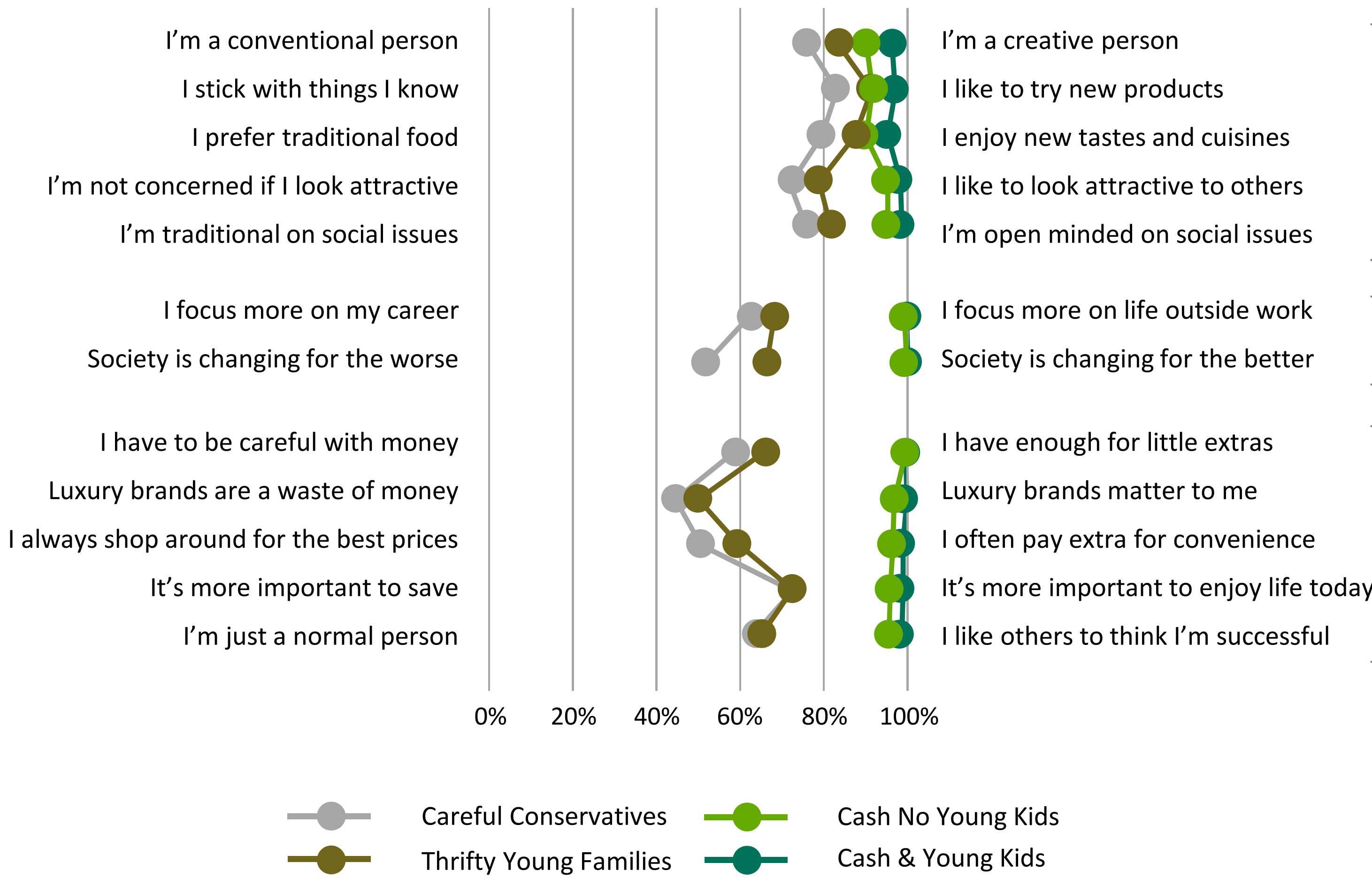
The family are very concerned about the quality and safety of food in China. There have been so many scandals, and they worry about the health of their son. They want the grand-parents to stay fit and healthy too. Candy often buys premium packaged vegetables or "organic" types – they must be better for you and they look so much cleaner!

She mostly shops in the hypermarket near home or the department store near her office.

She associates Australia with sunshine, high quality and a natural environment, and she'd definitely be interested in buying Australian imported vegetables.

The *Cash No Young Kids* and *Cash & Young Kids* types are significantly more optimistic, and willing to spend. They're also more open to trying new things

Which of each pair of statements is a better description of you?



Open minded, creative, open to new experience (and foods!)

Optimistic, ready to enjoy life

Willing to splash out, for quality and for social status

Note: Pairs in the same group are highly correlated with each other. Statement sequence was randomised and flipped left-right in the questionnaire

Household structure is different across the 4 groups by definition

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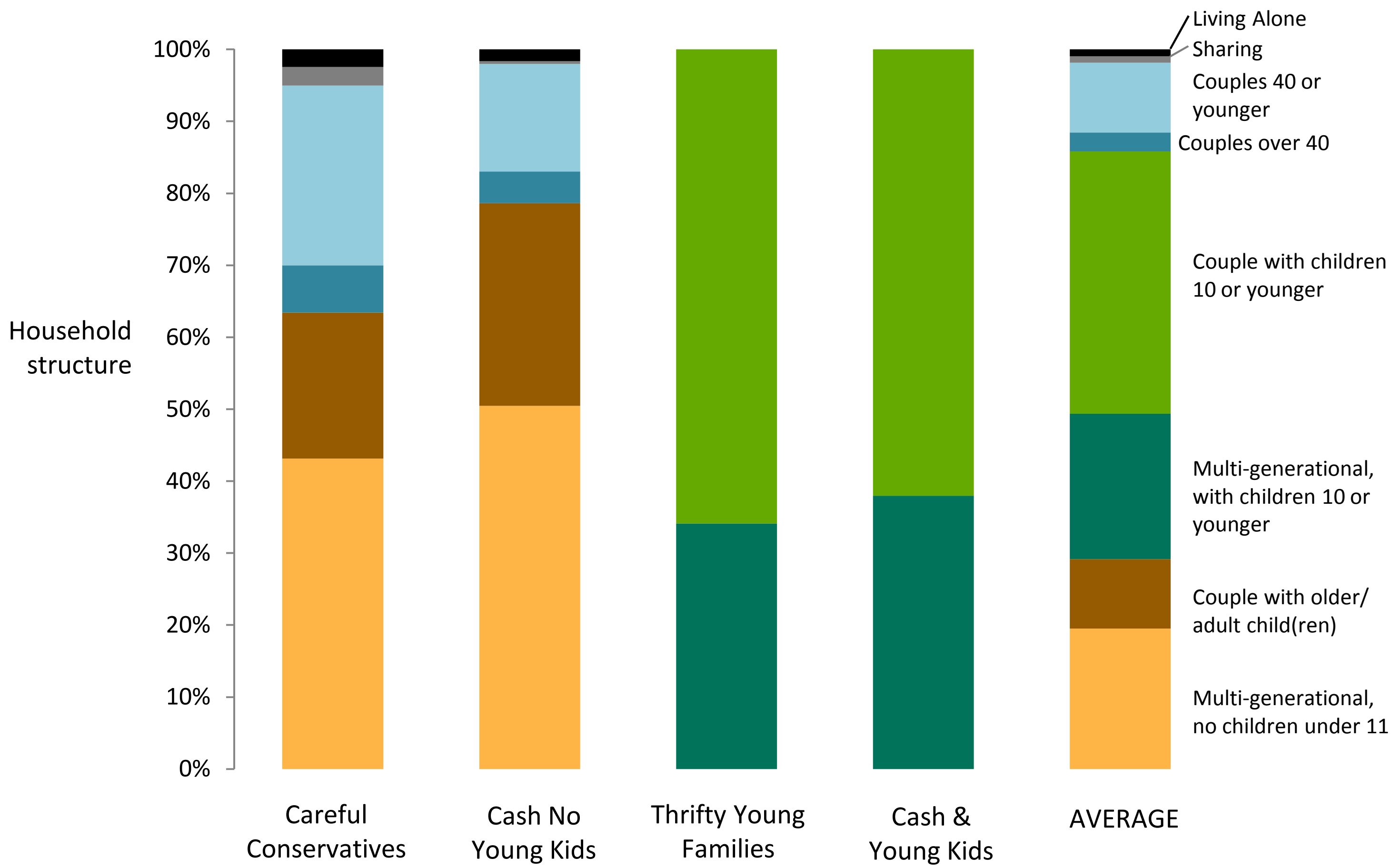
Household Structure of 4 Types & Key Metrics

	Careful Conservatives	Cash No Young Kids	Thrifty Young Families	Cash & Young Kids	AVERAGE
HH income, RMB:	**28k/month**	**30k/month**	**30k/month**	**34k/month**	**30k/month**
Average respondent age:	**38 years**	**40 years**	**35 years**	**35 years**	**36 years**
Persons per HH:	**2.9**	**3.1**	**3.8**	**3.9**	**3.4**



- The "Cash & Young Kids" group has higher monthly HH income, but the main difference is their attitude to spending – not their income
- Within the two groups with no children under 10, the financially careful are more likely to be couples, while the more "willing to spend" are more likely to have older/adult children

Buying better food **for a child** is a key driver when the kids are 10 or younger. For those who are *willing to spend* it's more about **quality**

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Which of these statements do you personally agree with?

	Careful Conservatives		Thrifty Young Families		Cash No Young Kids		Cash & Young Kids	
	% Agreeing	Index to Average	% Agreeing	Index to Average	% Agreeing	Index to Average	% Agreeing	Index to Average
I buy premium/organic food for my child/grandchild	19%	0.44	53%	1.21	37%	0.85	68%	1.57
I enjoy trying western style food	37%	0.80	46%	0.99	51%	1.11	58%	1.25
I often pay extra for premium quality food	55%	0.84	63%	0.97	75%	1.14	79%	1.21
Imported goods are generally superior to Chinese ones	36%	0.82	42%	0.95	57%	1.28	53%	1.21
I find it frustrating when the vegetable I want is not in season	14%	0.87	15%	0.93	20%	1.18	20%	1.21
I am eating more salads these days	27%	0.88	29%	0.95	36%	1.17	37%	1.18
I am currently taking a health or vitamin supplement	35%	0.91	36%	0.94	44%	1.13	46%	1.17
I sometimes buy organic products	59%	0.91	64%	0.97	76%	1.16	72%	1.09
Vegetables are an exciting part of my diet	63%	0.97	62%	0.95	72%	1.10	71%	1.08
I enjoy eating food from different parts of China	59%	0.91	65%	1.01	69%	1.07	70%	1.08
I am eating more vegetables and less meat these days	58%	0.99	57%	0.96	61%	1.02	64%	1.08
I often buy bread or western bakery goods	44%	0.89	53%	1.08	50%	1.01	51%	1.03
I soak vegetables to remove impurities	59%	1.01	57%	0.97	59%	1.02	60%	1.02
I am concerned about additives, preservatives and chemicals in food	61%	0.99	63%	1.04	61%	1.00	58%	0.95
I try to limit salt intake	59%	0.99	63%	1.06	56%	0.95	55%	0.94
Vegetables with blemishes are less likely to be contaminated with chemicals	29%	1.08	26%	0.95	29%	1.06	25%	0.93
I prefer vegetables grown close to where I live	48%	1.15	46%	1.10	33%	0.79	31%	0.73
I or someone in my family is trying to lose weight	17%	1.17	16%	1.07	13%	0.91	10%	0.68
I don't like paying more for vegetables when they are not in season	21%	1.42	17%	1.14	8%	0.52	6%	0.40

1 2 3

Key Insight: Young Kids

1 For both of the types with children 10 or under, buying premium or organic food for the child is a key driver

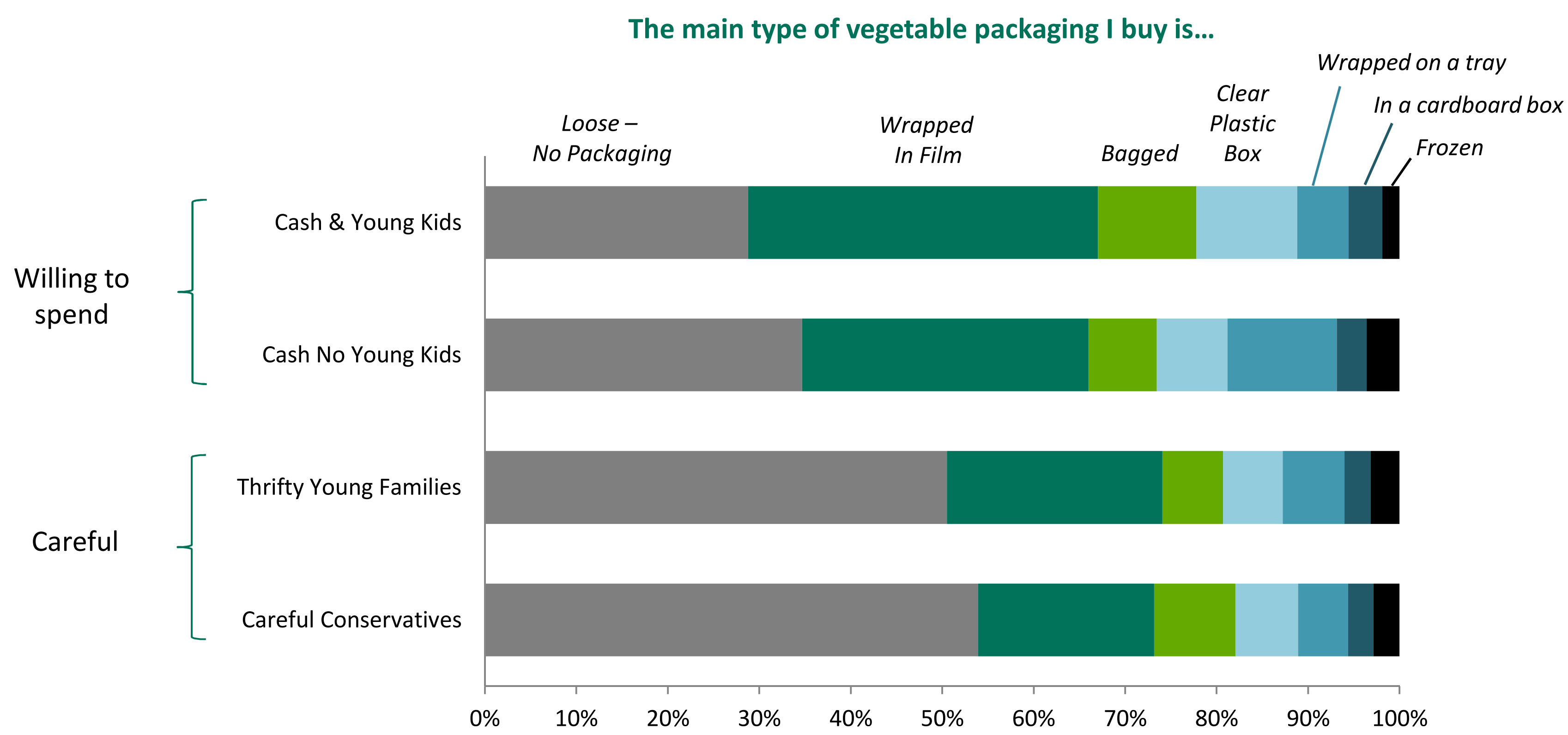
– Once the kid(s) are older than 10 years this effect fades quickly

Key Insight: Willing To Spend

2 For both of the *willing to spend* types there is strong interest in western style and imported food (including salads), and in premium quality

3 All groups are likely find vegetables an exciting part of their diet – but especially these two

The *careful* types are more likely to buy most of their vegetables loose – the cheapest format



The *Cash & Young Kids* type is most likely to buy **premium** vegetable types, and least likely to find basic loose veg appealing

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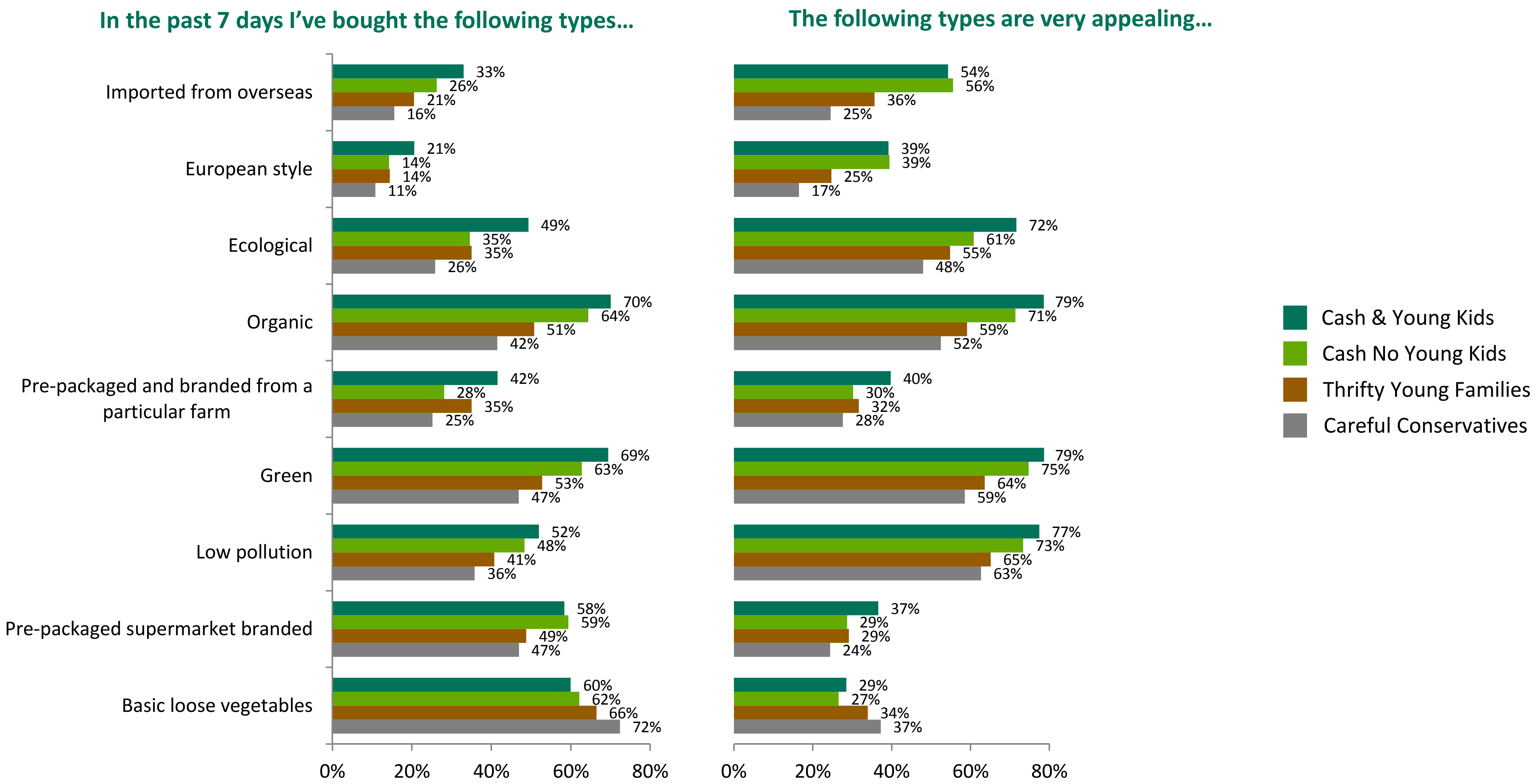

- The "willing to spend" groups, especially those with young kids, are far more likely to have bought Premium vegetable types such as "ecological", organic, "green" and low-pollution
- They find Basic Loose vegetables less appealing than others

69% of the *Cash & Young Kids* type find the idea of Australian vegetables **very appealing**

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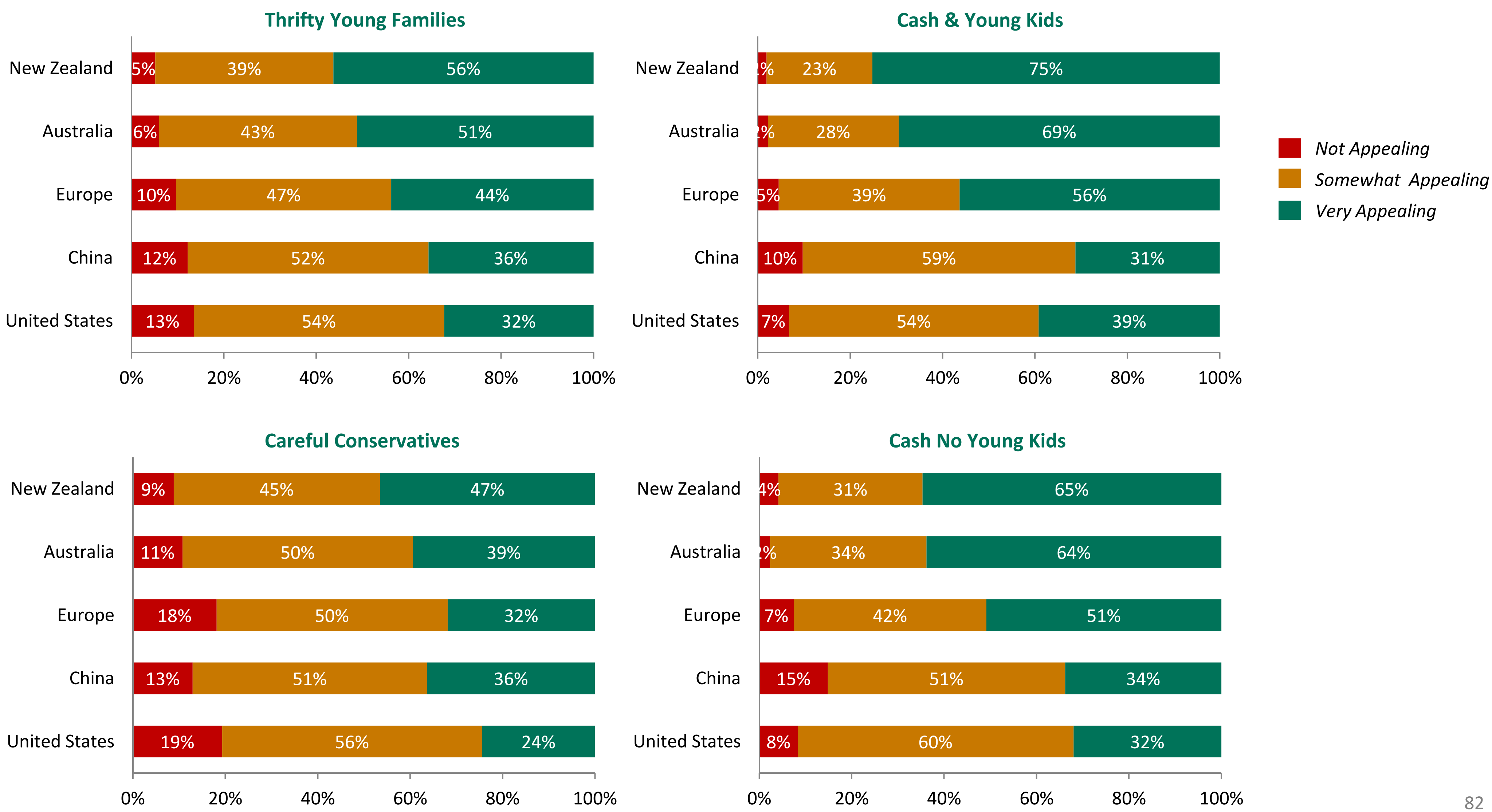
If you could buy imported vegetables from different countries, how appealing would each of these countries be?



The *willing to spend* types are significantly more likely to **trust** food bought from the Hypermarket…

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Overall, how confident are you that your food is safe and healthy?

		I'm very confident it is safe and healthy
Vegetables bought at a wet market	Careful Conservatives	12.6%
	Thrifty Young Families	11.2%
	Cash No Young Kids	10.6%
	Cash & Young Kids	12.9%
Vegetables bought from a hypermarket	Careful Conservatives	19.2%
	Thrifty Young Families	20.1%
	Cash No Young Kids	33.4%
	Cash & Young Kids	34.2%
Other food cooked at home	Careful Conservatives	39.1%
	Thrifty Young Families	37.6%
	Cash No Young Kids	45.5%
	Cash & Young Kids	43.6%
Food in restaurants	Careful Conservatives	8.5%
	Thrifty Young Families	7.9%
	Cash No Young Kids	2.8%
	Cash & Young Kids	6.9%

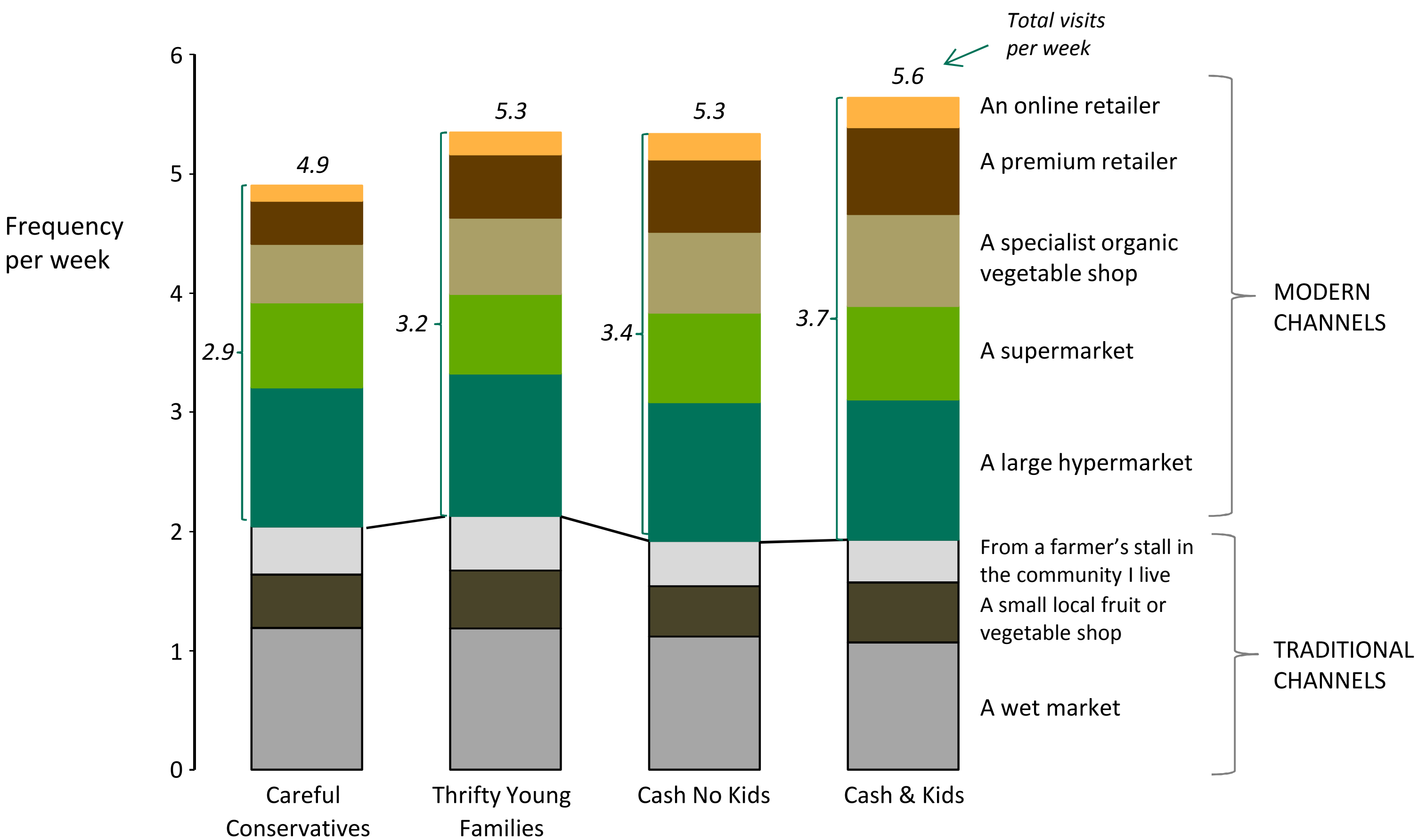
Key Insights

- Few consumers very confident in food from the wet market
- **"Willing to spend" types more trusting of Hypermarkets as a channel…**
- **…and more likely to believe the food they prepare at home is safe**
  - Because they're more likely to be buying "premium" and hypermarket products
- Everyone skeptical about restaurant safety – a recent scandal involved cooking oil being reclaimed from drains

Note: Respondents must have used at least one modern channel in the past 30 days to qualify for the survey. In the average population, especially lower income groups, use of wet-markets would be more prevalent

… and being *willing to spend* drives extra visits to **premium & modern channels**

In the past 7 days, how many times did you buy vegetables from each of the following channels?



	Careful Conservatives	Thrifty Young Families	Cash No Kids	Cash & Kids
Modern Channels Share of Visits:	**58%**	**60%**	**64%**	**66%**

Those who are willing to spend make a higher proportion of visits to buy vegetables from Modern Channels

Note: Respondents must have used at least one modern channel in the past 30 days to qualify for the survey which reduces the differentiation observed in this question.
In the average population (especially lower income groups like the thrifty and conservative shoppers) use of wet-markets would be more prevalent

THIS SECTION:

PART 2:
WHAT ARE THE NEEDS OF TARGET CONSUMERS?

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What Are The Needs Of Target Consumers?
SUMMARY OF KEY INSIGHTS

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Target consumers have 5 key vegetable needs

- In descending order of importance the needs areas are:
  - Nutritious and tasty
  - Safe and natural
  - Everyday affordability
  - Looks attractive
  - Special and premium

Loose Vegetables perform badly on key needs – creating the premium opportunity

- For target consumers, basic loose vegetables do not deliver well on the key needs **of nutritious & tasty**, and **safe & natural**. Many people think they are likely to be polluted
- Whilst they maintain strong share through **affordable pricing** and ubiquitous distribution, it's likely that other, more premium veg types will continue to grow share over time
- The emergence in recent years of **Premium Types** is a response to the opportunity created by the poor performance of basic loose vegetables on the core needs

Premium vegetable types fall into 2 groups

- **Differentiated High Appeal Types**: Organic, "Green", Low Pollution, "Ecological" are all highly appealing to consumers… but there's not much to choose between them. The various functional claims are not well understood, and may not be completely trusted (*"are the regulations properly enforced?"*)
- **Marketing Driven Lower Appeal Types**: Farm Branded, Supermarket Branded/Packaged, and so-called "European Style" are less appealing… consumers appear to intuitively understand that much of this is just fancier packaging and marketing puff

There's an excellent opportunity for Australian Imports to position themselves in the HIGH APPEAL premium section – and they needn't be organic

- **Australian Imported Vegetables have an excellent fit with the key needs**
  - Fit with needs is comparable to the current benchmark: domestic organic
- **It doesn't make that much difference whether Australian imports are organic or not**
  - Both have a very good fit with consumers' needs, so the extra expense of producing organic goods for China is probably not worth it

When consumers describe their **ideal vegetable**, 6 need areas emerge

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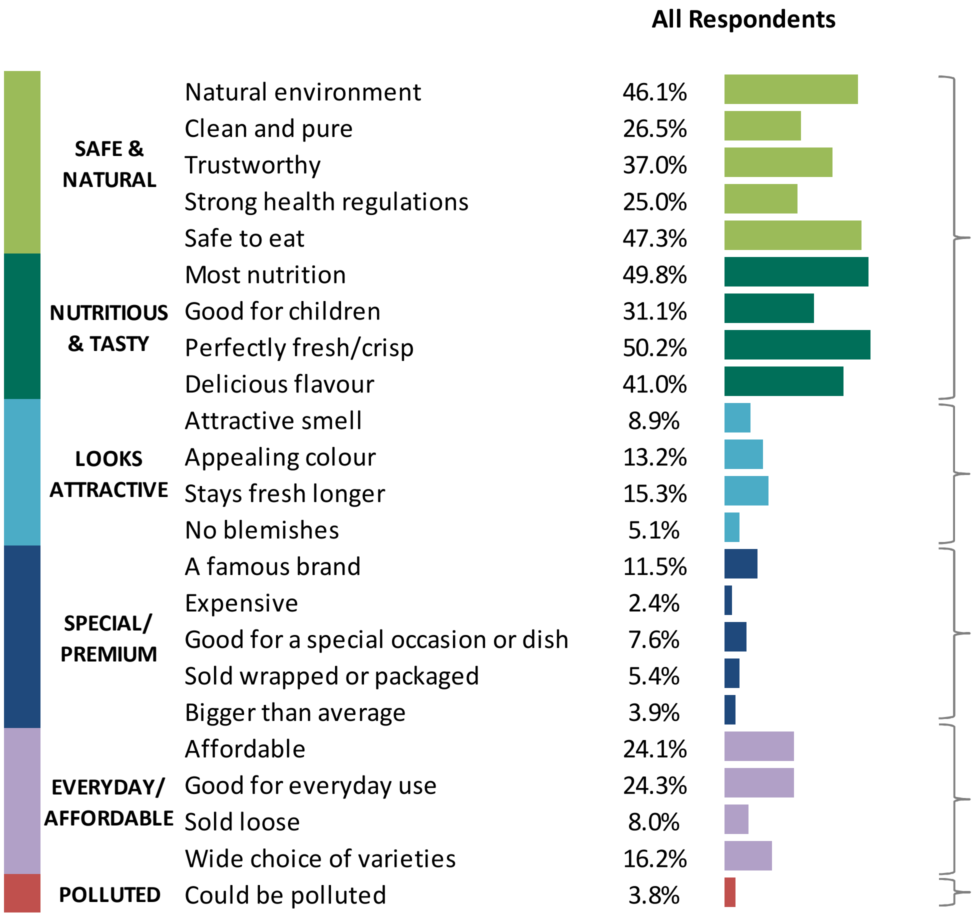
How would you describe your ideal vegetable, if everything was just to your liking?
Choose 4-6 attributes from the list (headings not shown).



Two need areas: **Safe & Natural** and **Nutritious & Tasty** are the need areas most commonly cited by consumers

KEY INSIGHT

Looks Attractive (including Stays Fresh Longer) is not claimed as much - but appearance is used as a key indicator of quality and freshness – see next page

Relatively few respondents say that **Special & Premium** is important to them …

…but **Everyday Affordability** is quite important

…Almost nobody says their idea vegetable should be **polluted** (see note)

Note: Polluted was included in the "ideal vegetable" question as we subsequently ask respondents to rate different types using the same scale. For comparability it is better to use an identical list of attributes. It may seem odd that anyone selected "polluted" or "expensive" for their ideal vegetable, but the cause may be as follows: "My ideal vegetable is very cheap, therefore I accept it may be polluted", or "My ideal vegetable is organic, therefore I accept that it will be expensive"

The appearance of vegetables is important as it is a **key indicator of quality**

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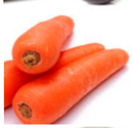
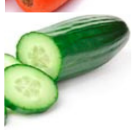
Quality Cues for Key Potential Australian Imports

	Vegetable	What Consumers Want	What Consumers Don't Want
	Broccoli	Rich green colour, shorter stem, fewer leaves, no insects, tight	Dry, yellow, with insects
	Tomato	Red colour, right size – not too large, weighty, thick and smooth pulp, plump, not too round	Bruised, scratched, too watery, sour, black inside
	Colored capsicum	Smooth, light, glossy, full, right size, thick flesh	Soft, wrinkles
	Sweet corn	Full, tender corn, silk, glossy, smells sweet, average size, leaves intact	Thick peel, not sweet, not well-grown kernels
	Potato	Smooth surface without holes, hard	Sprouts, green peel, black peel
	Eggplant	Dark colour, Smooth surface, bright color, firm, straight, fresh stem, no holes	With black dots on the surface, wrinkle, black & hard inside,
	Carrot	Crisp, straight, with some leaves, weighty, right size, smooth	Cracks, too bright in color, not red, wrinkles, black dots on surface, soft
	Cucumber	Straight, fresh green, bright color, right size	Bitter, overgrown, too many seeds, hollow, not crispy
	Snow peas	The peas should not be too full, fresh fragrance, not too curly, no white dots on the surface	Over-grown, have insects, cracks

We can compare the **ideal vegetable needs** of the 4 target consumer groups

See next page for summary of insights from this table

Ideal vegetables by Consumer Type

		All Respondents	Careful Conservatives		Thrifty Young Families		Cash No Young Kids		Cash & Young Kids	
			Actual %	Index to Average	Actual %	Index to Average	Actual %	Index to Average	Actual %	Index to Average
SAFE & NATURAL	Natural environment	46.1%	42.4%	0.92	46.2%	1.00	49.1%	1.07	49.7%	1.08
	Clean and pure	26.5%	25.9%	0.98	24.6%	0.93	30.8%	1.16	28.3%	1.07
	Trustworthy	37.0%	34.6%	0.94	36.8%	1.00	39.7%	1.07	39.4%	1.06
	Strong health regulations	25.0%	24.3%	0.97	22.8%	0.91	33.5%	1.34	25.1%	1.00
	Safe to eat	47.3%	45.5%	0.96	45.5%	0.96	48.6%	1.03	52.1%	1.10
NUTRITIOUS & TASTY	Most nutrition	49.8%	49.9%	1.00	48.2%	0.97	52.2%	1.05	51.0%	1.02
	Good for children	31.1%	23.6%	0.76	34.7%	1.11	29.9%	0.96	37.1%	1.19
	Perfectly fresh/crisp	50.2%	50.7%	1.01	50.1%	1.00	52.4%	1.04	48.7%	0.97
	Delicious flavour	41.0%	39.9%	0.97	39.9%	0.97	42.5%	1.04	43.5%	1.06
LOOKS ATTRACTIVE	Attractive smell	8.9%	8.9%	0.99	9.5%	1.06	5.3%	0.59	10.0%	1.12
	Appealing colour	13.2%	13.9%	1.05	14.3%	1.08	10.8%	0.82	11.8%	0.89
	Stays fresh longer	15.3%	14.9%	0.97	17.2%	1.12	12.1%	0.79	14.4%	0.94
	No blemishes	5.1%	6.1%	1.19	4.5%	0.87	5.8%	1.13	4.4%	0.85
SPECIAL/ PREMIUM	A famous brand	11.5%	7.4%	0.64	12.0%	1.05	18.3%	1.60	13.1%	1.15
	Expensive	2.4%	2.3%	0.95	2.5%	1.03	2.6%	1.09	2.3%	0.98
	Good for a special occasion or dish	7.6%	7.1%	0.93	8.0%	1.05	9.0%	1.19	7.1%	0.94
	Sold wrapped or packaged	5.4%	4.3%	0.81	6.0%	1.12	5.0%	0.93	6.0%	1.13
	Bigger than average	3.9%	4.8%	1.24	3.7%	0.94	2.8%	0.73	3.4%	0.89
EVERYDAY/ AFFORDABLE	Affordable	24.1%	33.7%	1.40	23.6%	0.98	14.2%	0.59	15.6%	0.65
	Good for everyday use	24.3%	27.0%	1.11	23.9%	0.98	23.2%	0.96	21.4%	0.88
	Sold loose	8.0%	11.1%	1.40	6.6%	0.83	8.2%	1.03	5.4%	0.67
	Wide choice of varieties	16.2%	16.7%	1.03	16.4%	1.01	12.6%	0.77	17.2%	1.06
POLLUTED	Could be polluted	3.8%	3.9%	1.01	4.8%	1.25	1.3%	0.34	3.5%	0.91

Good For Kids is a stronger need for those with young families, whilst **Famous Brand** comes through for the "willing to spend" types

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Ideal Vegetables by Consumer Type – key differences from average

Bottom 70% "less willing to spend" ⟷ Top 30% "willing to spend"

Has a child aged 10 or under in household

Thrifty Young Families

- Stronger preferences
  - **Good for children**
  - Sold wrapped or packaged
  - Stays fresh longer
- Weaker preferences
  - No blemishes
  - Strong health regulations
  - Clean and pure

Cash & Young Kids

- Stronger preferences
  - **Good for children**
  - **A famous brand**
  - Safe to eat
- Weaker preferences
  - Affordable
  - Sold loose
  - Good for everyday use

No child aged 10 or under in the household

Careful Conservatives

- Stronger preferences
  - **Affordable**
  - Sold loose
  - Bigger than average
- Weaker preferences
  - Good for children
  - Famous brand
  - Sold wrapped or packaged

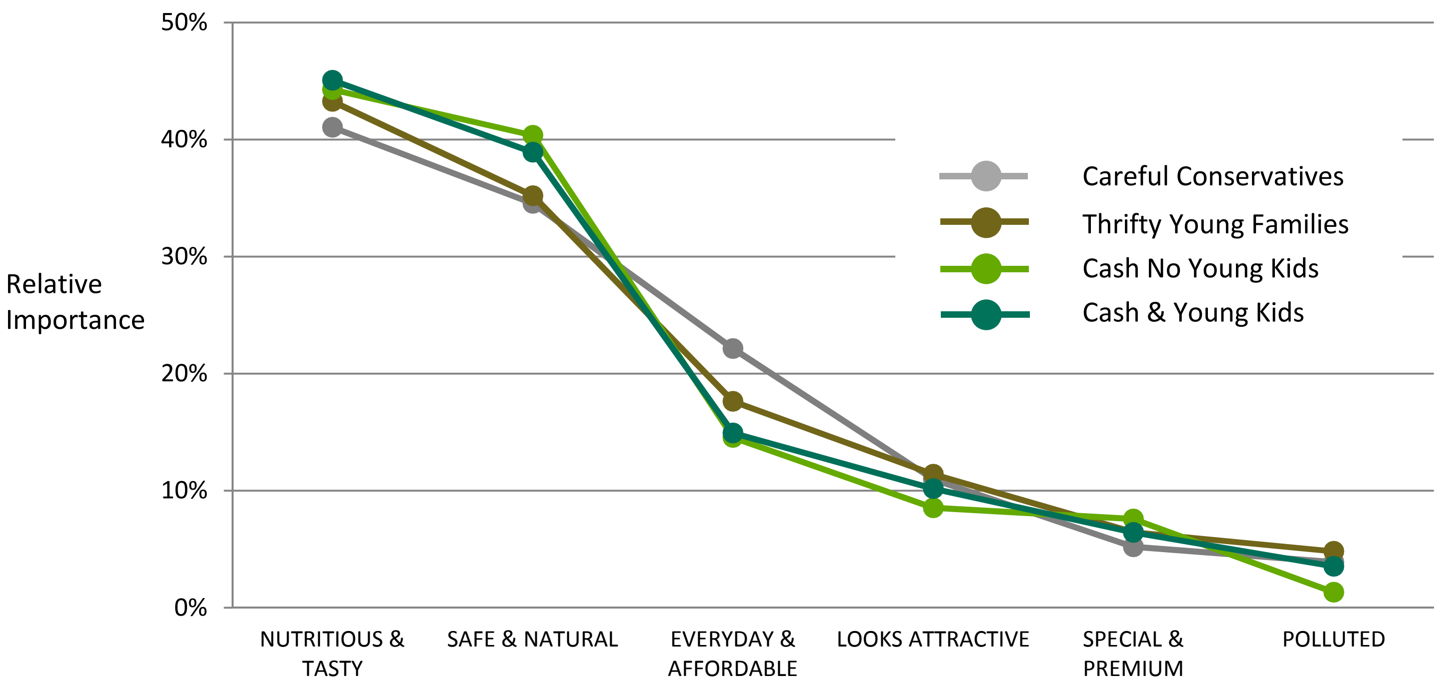
Cash No Young Kids

- Stronger preferences
  - **A famous brand**
  - Strong health regulations
  - Clean & pure
- Weaker Preferences
  - Affordable
  - Bigger than average
  - Wide choice of varieties

KEY INSIGHT: In China, a "famous brand" is key to generating trust in the quality. So a key question becomes, how can "Australia" act as that brand?

To simplify the needs analysis we can look at the **6 summary needs** areas at an average level

Ideal vegetables by Consumer Type – Summary Level



For the "willing to spend" types

- Safe & Natural is more important than average
- Nutritious & Tasty is somewhat more important than average
- Everyday & Affordable is less important than average

Note: data points are the average of the underlying attributes in each need area.

Green, Ecological, Low Pollution and Organic vegetables all perform well on the key need areas… and there's **little perceived difference** between them

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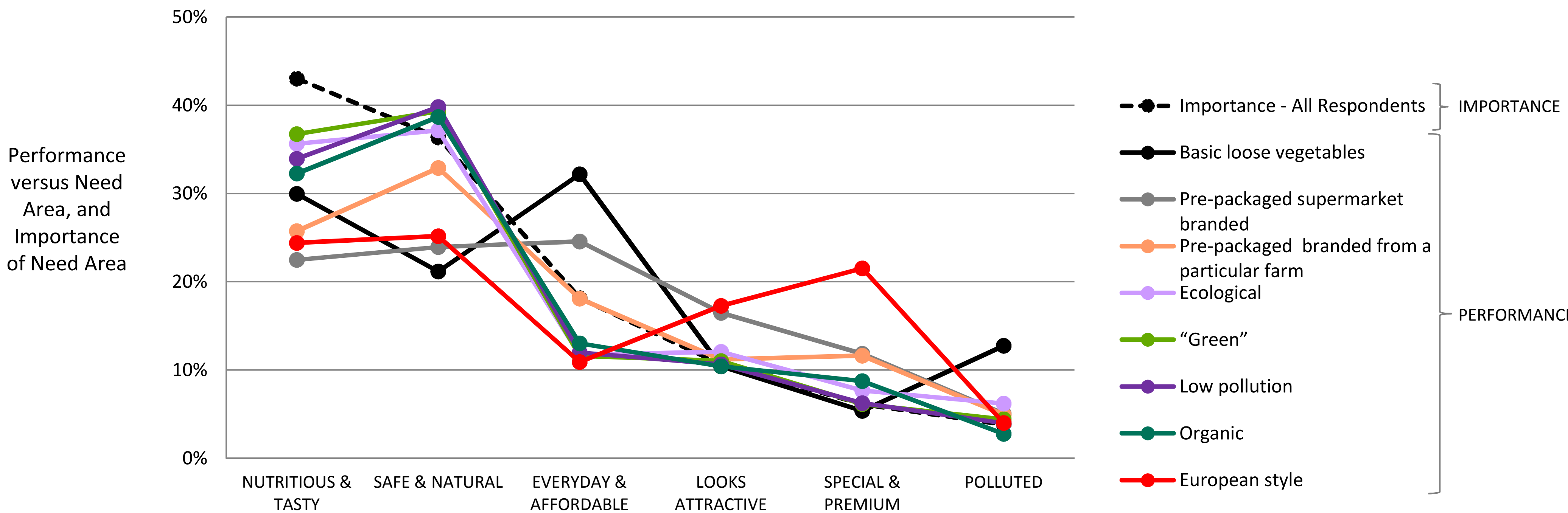
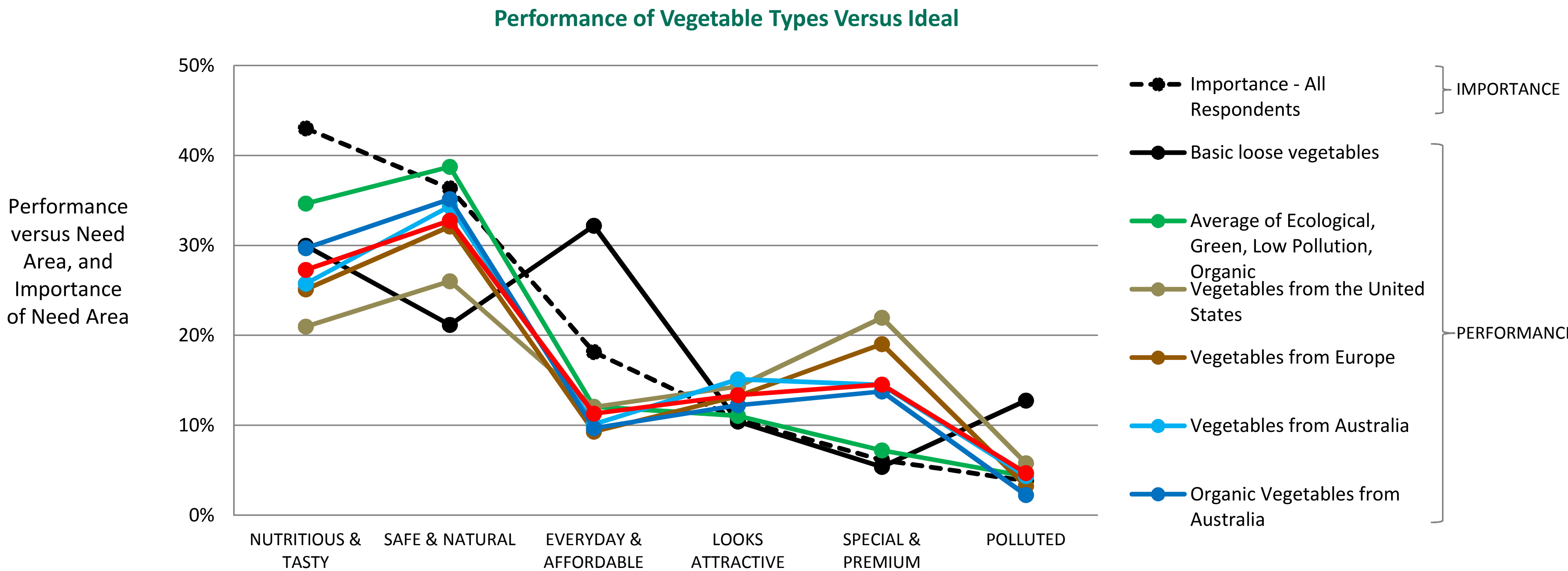
Performance of Vegetable Types Versus Ideal



- There's very little difference in performance between Ecological, Green, Low Pollution and Organic – consumers do not understand the difference between these 4 promises. However
  - All four are perceived to do well on Tasty & Nutritious
  - They're definitely thought of as Safe & Natural
  - But they are not necessarily affordable for everyone or appropriate for everyday use

- Basic Loose Vegetables, European Style and Pre-Packaged Supermarket product are all perceived to fall short on the key Tasty & Nutritious and Safe & Natural attributes. **This opens the door to other, more premium types to penetrate the market**
- Basic Loose veg are most affordable for everyday use, followed by supermarket branded, but there's a perception that loose vegetables may be polluted
- European Style may feel more Special and Premium to consumers… but this is of niche appeal given that this is not a widely desired attribute

Vegetables from **Australia** and New Zealand have a **good match to consumers' needs** – almost as good as organic and similar Chinese vegetables

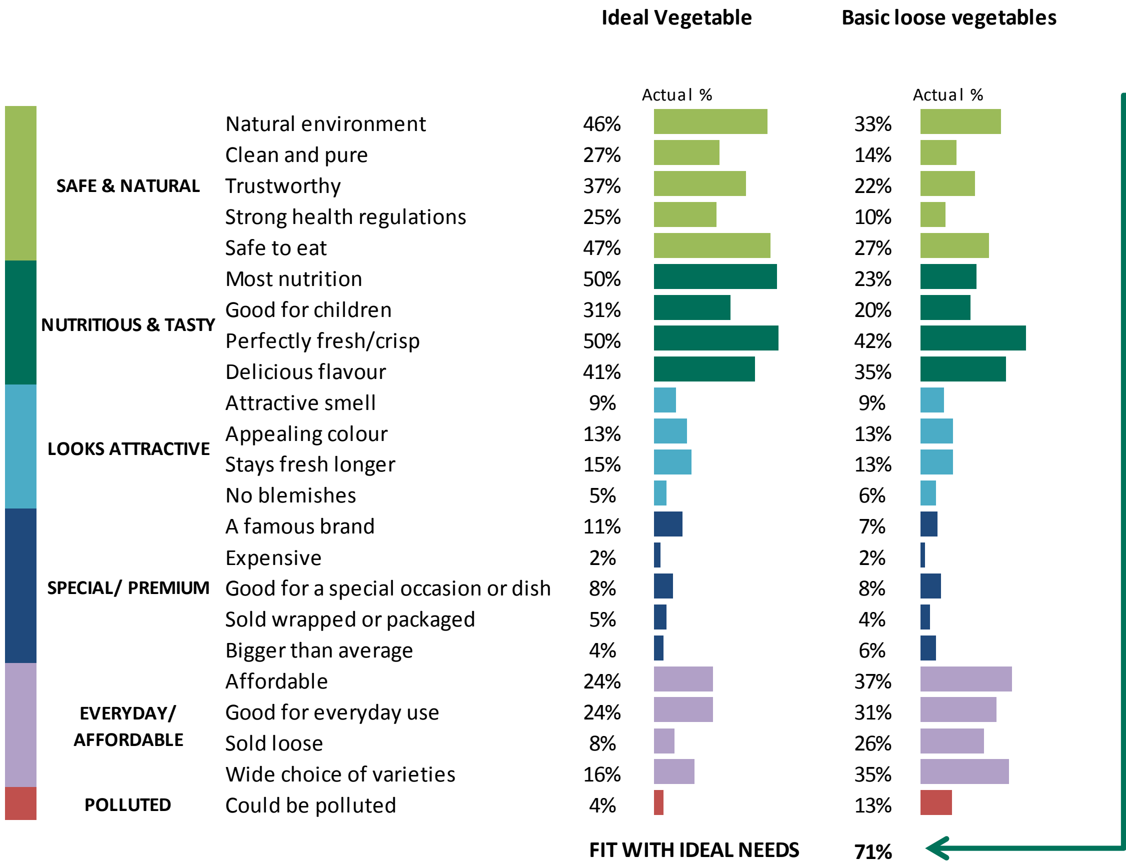


- There's little to choose between Australian, Australian Organic and New Zealand produced vegetables
  - It's the country of origin, not the production method, that drives perceptions for these countries
- All 3 of these would be perceived to be very safe and natural – almost as much as Ecological/Green/Low-pollution/Organic Chinese vegetables

- However, US produced vegetables would not be perceived in this positive way – they might not be tasty or nutritious due to GM
- The main barrier to adoption is obviously that veg imported from Australia might not be affordable for everyday use

Comparing the detailed profile of Ideal Vegetables and ratings of a specific type of vegetable, we can determine the "fit" of each type with consumers' needs

Example: Fit with Consumers' Needs



Introducing the concept of "fit" with consumers' needs

- If a product type perfectly meets consumers' needs, we would expect its performance profile to exactly match consumers' "ideal"
- Therefore the correlation of Ideal with Actual performance can be taken as a measure of fit
  - A perfect fit would be 100%
  - The worst possible fit would be -100%
- In practice it's rare to see "negative" fit (though it does happen!): from experience we can interpret the fit number as follows:

  >90% = Excellent

  80-90% = Very Good

  70-80% = Good

  50-70% = Average

  <50% = Poor
- Thus we can say that **Basic Loose Vegetables** are a good – but not very good - fit with consumers' needs
- This analysis can be run at various levels of detail (see next page)

Though expensive, Organic, Low Pollution, Green and Ecological products match consumers' needs for safe, nutritious and tasty vegetables

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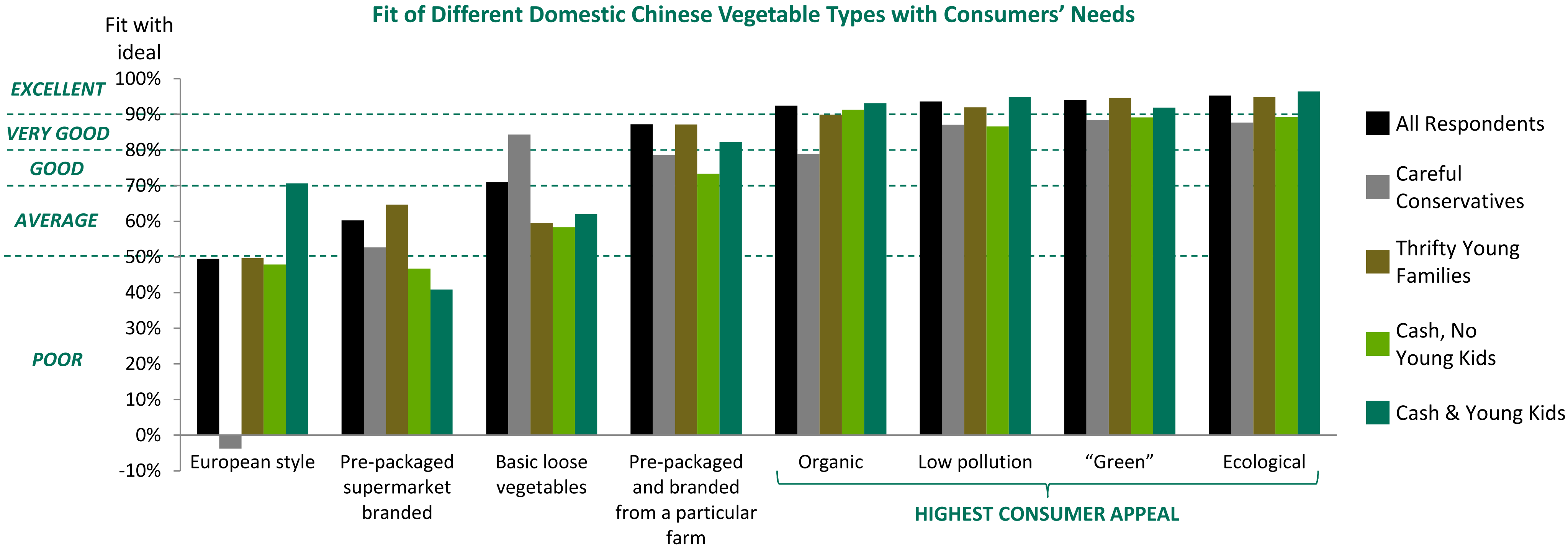
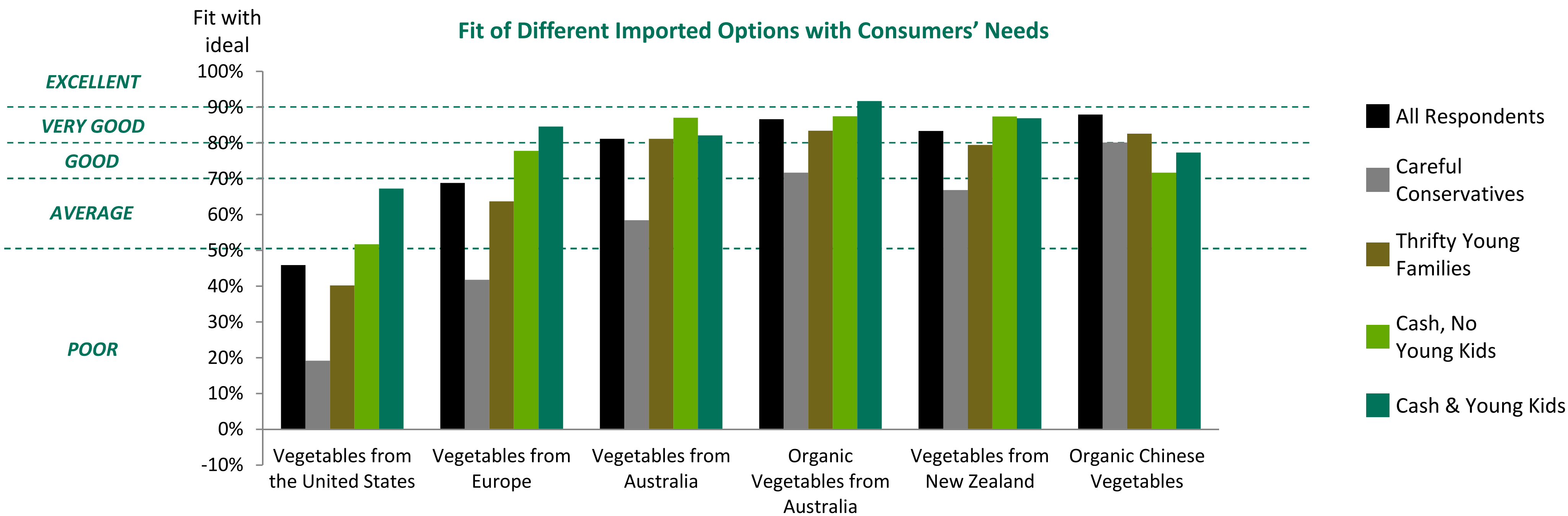


- **"European Style"** is the weakest overall – most consumers seem to understand that this is just a marketing ploy. The exception is the Cash and Young Kids type who are presumably most likely to buy
- **Pre-packaged supermarket branded vegetables** are a poor or average fit for most – seen as a bit of a rip off as there is little reason to believe the product is different from loose
- **Basic Loose Vegetables** are an average fit for most because of quality concerns – but are very good for cost conscious Careful Conservatives (and probably even better for the unsampled 70% of consumers with lower incomes)
- **Pre-packaged vegetables branded from a particular farm** are a very good fit for Thrifty Young Families as they represent a balance of value and quality
- **Organic, Low Pollution, "Green" and "Ecological"** types are a very good fit with almost all consumers' needs, though organic (the most expensive) is weakest with Careful Conservatives
  - Again we see that there's little to choose between these 4 types

NOTE: "Fit With Ideal Needs" is the correlation of actual perceptions with the description of "My Ideal Vegetables". 100% is a perfect fit, 90-100% Excellent, 70-90% good, 50-70% Average, >50% poor

Vegetables from **Australia** would be **well positioned**, with very good levels of Fit with consumers' needs



- Vegetables imported from Australia and New Zealand have a very good fit with the needs of "Willing To Spend" consumer types
- It doesn't make a great deal of difference whether Australian vegetables are organic or not
- The fit for Australia is almost as good as the fit seen for Green, Ecological, [Chinese] Organic and Low Pollution on the previous chart
- Again we see that imports from the US are less preferred, and European imports are not as strong as Australasian ones

- In the previous question we asked simply about "Organic" vegetables in the context of various Chinese types. In this question we asked about "Organic Chinese" in the context of international types. The only real difference is adding the word "Chinese"
  - This slight methodological difference caused the fit to be substantially reduced: the word "Chinese" appears to evoke concerns about the overall environment in the country and perceptions of weak regulation/trustworthiness

NOTE: "Fit With Ideal Needs" is the correlation of actual perceptions with the description of "My Ideal Vegetables".
100% is a perfect fit, 90-100% Excellent, 70-90% good, 50-70% Average, >50% poor

THIS SECTION:

PART 3:
HOW TO POSITION AUSTRALIAN VEGETABLES TO SUCCEED?

How to position Australian vegetables to succeed
SUMMARY OF KEY INSIGHTS

Australian vegetables are intrinsically well positioned. What does it take to go from very good to perfect?

- The basic concept of Australian Imported Vegetables is very appealing to the target market, and perceptions are already of a very good fit with target consumers' needs
- So the question is, what marketing positioning should be articulated in communications, packaging and point of sale, to maximise the chances of success in-market?
- In other words, what does it take to go from a very good to a perfect fit?

To achieve a perfect fit, consumers need to believe our produce is nutritious, fresh, tasty… and good for the kids

- Australia is already very strongly positioned as Safe & Natural
- We need to emphasise that our produce is also Nutritious & Tasty – to overcome skepticism about Freshness
- For the sweet-spot consumer type *Cash & Young Families* "good for kids" comes through as an area to emphasise, and this will also play well to *Thrifty Young Families*

Why would they believe us?

- The research shows that 2 functional claims can be particularly attractive and convincing to Chinese consumers
  - Nutritious and Tasty… because of Australia's unpolluted soil and water
  - Best for kids… because of our natural environment, strict safety standards, and culture of integrity

…and it goes without saying that the proof is also in the eating: the quality has to be there

Australian imports could perfectly match the needs of *willing to spend* consumers if they are positioned as **fresh**, **nutritious** and **delicious**… and **good for kids**

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What would it take to get to a perfect fit to consumer's needs?

(biggest gaps between Australian and Ideal by Consumer Type)

Bottom 70% "less willing to spend" ⟷ Top 30% "willing to spend"

Has a child aged 10 or under in household ⟷ No child aged 10 or under in the household

Thrifty Young Families

Position more like this…

- **Most nutrition**
- **Perfectly fresh & crisp**
- Good for kids
- Affordable

And less like this…

- **Expensive**

"Freshness and nutrition levels would suffer during the import process, and they could be too expensive for my family"

Cash & Young Kids

Position more like this…

- **Most nutrition**
- **Good for kids**
- Delicious flavour
- Perfectly fresh & crisp

And less like this…

- Expensive

"Would they be nutritious enough and would my kids like them? The flavour and freshness would have to be there. If so, I could afford them provided they're not too expensive"

Careful Conservatives

Position more like this…

- **Perfectly fresh & crisp**
- **Affordable**
- **Most nutrition**
- Delicious flavour

And less like this…

- **Expensive**

"They couldn't be fresh if they came from that far away – both the flavour and nutrition level would suffer. They'd also be far too expensive for people like me. I'm not sure if I'd buy them"

Cash No Young Kids

Position more like this…

- **Delicious flavour**
- **Perfectly fresh & crisp**
- Most nutrition
- Natural environment

And less like this…

- Expensive

"I'd just need to see that they were fresh and delicious given that they'd travelled so far. If so, I think I could afford them sometimes"

KEY INSIGHT: Achieving an "excellent" or perfect fit with the two *willing to spend* types is more realistic than with the "careful" types, who are more price sensitive and skeptical about freshness/nutrition issues associated with shipping

In quantitative research we tested an Australian Product Proposition, which demonstrates what *claims* best support these needs

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Please read the description and carefully choose the statements that are most appealing to you personally

"This wide range of vegetables is fully imported from Australia, where they are grown by traditional Australian farmers in accordance with strict government standards. Australia has clean air, pure water, unpolluted soil and abundant sunshine to grow the most nutritious, healthy and tastiest vegetables. They're so crisp and delicious, they're good enough to eat raw."

	Careful Conservatives	Thrifty Young Families	Cash No Young Kids	Cash & Young Kids
Nutritious and healthy	60%	65%	64%	70%
Unpolluted soil	63%	59%	72%	61%
Pure water	58%	57%	62%	63%
Tastiest vegetables	45%	50%	56%	59%
Clean air	47%	49%	57%	54%
Strict government standards	46%	47%	56%	54%
Abundant sunshine	41%	43%	48%	45%
Crisp and delicious	37%	41%	42%	45%
Good enough to eat raw	36%	36%	44%	40%
Wide range of vegetables	25%	32%	25%	33%
Fully imported	20%	26%	29%	32%
Traditional Australian farmers	20%	23%	27%	26%

Most appealing *attributes (needs)*

- Nutritious & Healthy
- Tastiest vegetables

Most appealing *reasons to believe*

- Unpolluted soil and water
- Clean air
- Strict government standards

In focus groups with target consumers we tested the following positioning concept – **the reaction could hardly have been more positive**

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Positioning Concept

"I like the soil and the water. The smog and pollution in China is so serious, but Australia is the opposite, it's associated with clean air and water"

"I'd be willing to pay for it"

Key insights

- **This is clearly a winning proposition which is engaging both rationally and emotionally - and it's compelling**
- **The concept was clear, easily comprehended and highly appealing. In all sessions, it was immediately accepted. No push back was evident**

Primary take out

- **Consumer believe that Australia's clean unpolluted environment will deliver safe product of the highest quality**
- **The direct linkage between the product and its source, the rich unpolluted soil, the pure water and clean air, is the core DNA of the proposition**
- **Consumption by children, especially of raw product, further underscores the safety message as well as delivering an emotional warmth to the proposition**
- Credible governance and the integrity of producers is also an integral part of the proposition - and it is largely assumed
- A generally positive, feel-good reaction toward Australia and Australians. It is a well known and well liked country

The positioning concept generates a **potent array of benefits**

Key insight

- Few FMCG or food brands benefit from such a positive palette of rational and emotional benefits that address real consumer needs, and are credible and compelling
- This concept appears to be a solid base from which to build a marketing and communications strategy for a range of Australian products

Rational Benefits	
Being Healthy	▪ **Being healthier (important in a country where medical costs are high)** ▪ **Active healthy body, good skin - looking good as well as feeling good**
Nutrition	▪ **Highly nutritious, many vitamins and trace elements**
Taste	▪ Expectation of a product with great mouth feel: crisp, sweet, tasty etc ▪ A notable minority mentioned that produce was losing its 'original' flavour and that Australian produce would deliver this
Aspirational	▪ Although more recessive, there was clearly a positive association with being able to afford a premium lifestyle
Curiosity	▪ An expectation of something different ▪ Different tastes and varietals

Associated Emotional Benefits	
Peace of Mind	▪ **Safety and security** ▪ **Not having to worry about what is being eaten**
Joy	▪ Sense of being carefree, but also the vitality that comes with health and well being ▪ The emotional warmth and joy of children
Love	▪ The sense of doing your best as provider for those you love ▪ Bringing pleasure to your family through delicious food
Excitement	▪ Trying and buying something new

Primary

Secondary

There were a **few low level concerns** with the positioning concept

Key insights

- There were a few questions and issues raised in regards to the proposition, but mostly appear to be addressable

Concerns and issues		Potential solutions
Is it Fresh?	▪ There is a question about the delivery of fresh product given Australia's distance ▪ As a result some were concerned that preservatives might be used to keep the product in good condition	▪ Appropriate packaging technology, eg vacuum packing ▪ 'Preservative Free' labelling ▪ Clear expiry date labelling ▪ Claims such as "packed and refrigerated the day it was picked"
Is it Fake?	▪ Always suspicious, the Chinese shopper always assumes someone may be misleading them	▪ Traceability – eg QR code ▪ Premium packaging ▪ Australian imagery on pack ▪ Australian certification
Will it be Too Expensive?	▪ Clearly a double edged sword ▪ Most expect and appear willing to pay higher prices, but price a barrier for more "financially careful" consumers	▪ Pricing strategy is key ▪ See next section: "What products and price points are needed to succeed?"
Would it Taste Different?	▪ A few more conservative respondents expressed concern about different products and potentially tastes	▪ On balance, differentiated products will be an advantage – consumers are likely to rationalise that "different" is "better"

Primary

Secondary

We have **optimised the positioning concept** based on feedback from consumers

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Potent positive imagery

- The imagery used in the concept test worked well, and elements which should be built upon in packaging/marcomms development are
  - The unspoilt environment: rich dark soil, clear blue sky and clean water
  - Appetising shots of product coming directly from the soil
  - Children - especially children eating raw product. The ability to eat vegetables raw is the highest acid test of safety and taste

Minor negatives and changes from original imagery

- Dark skies not appreciated
- Canberra of little consequence or interest
- Beach/surf not relevant
- We would also suggest the addition of aspirational lifestyle cues (eg designer kitchens/cookware) as befitting a premium proposition and to further aid engagement and relevance

Optimised Positioning Concept

THIS SECTION:

PART 3:
WHAT PACKAGING IS NEEDED?

What packaging and retail presentation is needed?
SUMMARY OF KEY INSIGHTS

Australian Vegetables must be packaged in a format appropriate to the type

- Consumers particularly like vacuum packing – they think it extends storage life
- But they're pragmatic, and accept that different packs are appropriate to different species
- The key thing is that Australian produce fits the paradigm of the "premium packaged" segment – packaged products (of any format) are less likely to be contaminated

Small pack sizes are essential

- Most consumers shop almost every day and then cook several different vegetable dishes for dinner
- Therefore, they only need a small quantity of each type
- Also, they perceive that vegetables have a short storage life

Packaging must instantly evoke "Australia"

- The word "AUSTRALIA", kangaroos and the map of Australia are all quickly recognised and relevant to the vegetable category

Pack should include bilingual text, QR Codes and a suitable logo

- English cues "premium" and authentic, Chinese is necessary for comprehension
- Traceability is very appealing, and a QR code linking to a website is a powerful way to deliver this
- An appropriate logo can also create trust in the provenance and safety of the product. The Australia Grown logo does the job - but could be optimised for China

Transparent packaging, with the appropriate look and feel

- Essential for the packaging to be largely transparent so that consumers can inspect the product inside and assess its quality visually
- Design look and feel should be simple, modern and natural looking

There’s a clear expectation that Australian vegetables would be **packaged** – the packaging type depends what’s appropriate by species

How would you prefer vegetables from Australia to be packaged? (Choose all that apply)

	Careful Conservatives	Thrifty Young Families	Cash No Kids	Cash & Kids
Vacuum packaged	55%	63%	68%	68%
Wrapped in film	44%	51%	51%	56%
In a clear plastic box	36%	41%	41%	40%
Wrapped, on a tray	20%	22%	27%	29%
Bagged	20%	21%	24%	25%
In a cardboard box	17%	21%	19%	22%
Frozen	14%	21%	18%	17%
Loose – no packaging	20%	22%	18%	17%

Preferred Packaging Types

Key Insights

- Currently, premium vegetables are sold wrapped, boxed or wrapped on a tray. The clear view of consumers is that Australian vegetables should be packed in these ways to fit into the existing premium and packaged market segment
  - They understand that different packaging styles are appropriate for different vegetables, eg structured packaging for fragile items, simple cling wrap for others
- Packaged products are preferred largely because consumers believe they are less likely to be dirty/contaminated. The idea that something was packed in Australia and not touched/contaminated since is central to “brand Australia” and should be stated on the packaging
  - “Hermetically sealed” packaging is the benchmark – from farm to plate
- Whilst Vacuum packaging came out very strongly in the quantitative research, from focus groups it is clear that consumers are realistic and pragmatic
  - They understand that not everything can be vacuum packed – but they do think it provides a longer storage life, which is very appealing and addresses freshness concerns around imported product

Because most consumers shop almost daily for the specific dishes they'll make that day, **small pack sizes are essential**

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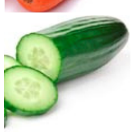
	Vegetable	Example Dishes	Optimum pack size
	Broccoli	▪ Steamed and served with thickened stock and garlic ▪ Vegetable stir fry	1 piece
	Tomato	▪ Tomato and egg soup ▪ As a salad – heavily sprinkled with sugar	3-4 pieces
	Colored capsicum	▪ Stir fried	1-2 pieces
	Sweet corn	▪ Steamed or boiled – often for breakfast ▪ Cut into 4 cm chunks in soup	2 pieces
	Potato	▪ Shredded and stir fried, with chilli, sichuan pepper & capsicum – eaten crisp ▪ In a meat stew	1-2 pieces
	Eggplant	▪ Braised in soy sauce, often with pork mince ▪ Fried	1-2 pieces
	Carrot	▪ Steamed or stir fried with other vegetables ▪ With braised beef	2-3 pieces
	Cucumber	▪ Cut into batons and served with garlic, rice vinegar and oil	1 large 2 small
	Snow peas	▪ Steamed or stir fried with other vegetables	250 grams

Key insights

- Consumers shop on an almost daily basis – and they want to eat different things each day
- The believe vegetables have a very short storage life
- A typical Chinese dinner includes several dishes (often 4-7 for family meals, depending on how many people are present)

- **Therefore, only a small quantity of each vegetable is purchased at one time**

- Many vegetables are used for different dishes in China from Australia – for example potatoes are normally prepared as a side dish not as a the main staple
- Note that almost all Chinese cooking is on the hob – typically steaming, or braising and stir frying. Chinese households do not have grills or ovens
- Stir fried dishes are often finished by glazing with a sauce – eg Oyster sauce, soy sauce or meat stock – which may be thickened with corn flour

Australia has positive associations: packaging should be designed to prompt “Australia” **as simply & quickly as possible**

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Key Insights

- “Australia” evokes an array of positive imagery. For packaging design the most relevant elements are Kangaroos, the word ‘AUSTRALIA’, and the shape of the country
- Chinese consumers understanding of Australia is stereotypical: sun, sea and surf lifestyle supported by a vast unspoilt hinterland which produces active, healthy, attractive Australians
- However, Chinese consumers’ understanding of Australia is shallow. For example there is little awareness and understanding of Australian geography other than it is ‘big’. Thus there is low awareness and less understanding of the various States as being in any way distinct. Consumers either have not heard of, or know nothing, of Tasmania, Victoria, NSW etc, so a “local provenance” strategy is not recommended

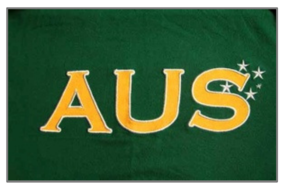
Most Relevant

- Instantly recognisable
- True Australian icon
- Evocative of nature, vitality and a natural healthy environment

- The word Australia is clearly recognisable
- Chinese consumers are used to premium brand names being written in English

- Chinese consumers do recognise the geographic shape of Australia

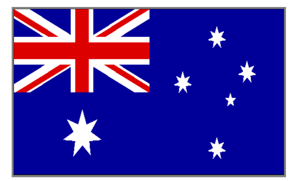
Somewhat Relevant



- Green & gold is appropriate because vegetables = green and gold = sun
- Consumers do not know these are Australian national colours

- Recognised, and perceived as cute
- Lacks the health and vitality cues of the kangaroo

Not Relevant



- The Australian flag is foreign to them. Many thought this was the Union Flag of the UK

- Classic Australian imagery, but lacks relevance to the proposition

Packaging should include **both English and Chinese** language, and **QR codes** are highly recommended

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Key Insights

- QR codes are much more commonly used by Chinese consumers than they are by Australians – the idea of being able to easily go to a website and find out more about the product, especially the farm it comes from, is highly appealing and creates trust in the authenticity of the product
- The presence of both English and Chinese language is essential – English conveys premium positioning, whilst Chinese is necessary for comprehension

Essential to include elements that build consumers' confidence that it is what it says it is…

- QR codes were viewed very positively and are commonly sought
- Linkage to a website and traceability are key benefits
- Even though most will not actually use the QR code, its presence would still be reassuring – it is a premium packaging cue in its own right

0 123456 789012

- Some consumers claim to use bar code numbers to confirm product origin (apparently the first digits are for country of origin)

Other key information for the packaging…

- Text/images reinforcing the Australian positioning concept
- "Packed in Australia" - the ideal is that it has not been touched since
- Expiry date and/or packaging date – to support the concept of "freshness". Or equivalent supporting statements such as "packed on the day it was picked"

Some sort of logo to symbolise the **provenance and safety** of the product is also desirable

Key Insight

- The "Australian Grown" logo could be optimised, but is basically effective for target Chinese consumers
- Ideally it should be modified to include the words in Chinese characters, and the colour could be brighter

Increasing Appeal

- Green appropriate to vegetables
- Attractive
- Looks natural

- Good stand out – but adding Chinese text would improve comprehension
- Green = vegetables – but the colour could be brighter
- Kangaroo = Australia

- Attractive
- But poor standout

- A simple and clear brand promise
- Many unsure what the leaf was

- Looks like a stamp of approval
- Unattractive, dark

"We can see if it's fresh, but for safety we need something to reassure us like a logo"

Consumer want **transparent packaging** so they can see the product, and a design style that's **accessible, modern, simple and natural looking**

Exploration of Packaging Look & Feel

The ideal packaging design would be:

- Modern
- Simple
- Natural
- Transparent: showcase the product

MORE PREMIUM & SPECIAL

- There was some interest in premium design and premium cues. However, these black packs took premium too far - too fancy and premium for most
- Black was not thought appropriate to vegetables
- Most wanted to see more of the actual product

MODERN, FRESH & NATURAL

- These modern designs were appealing
- Consumers struggled to understand how they might translate to vegetables – but this is probably a reaction to the yogurt pot rather than the design look and feel

MORE FOR CHILDREN

- Despite the research confirming the core audience was young mums, being overtly cartoony was seen as being too limiting
- However, point of sale imagery showing [Caucasian] children could still be useful

MORE EVERYDAY

- Consumers responded positively to these simple, unpretentious designs. Most vegetable packing in China is quite basic and so the current bar is not set very high

THIS SECTION:

PART 3:
WHAT PRODUCTS AND PRICE POINTS ARE LIKELY TO SUCCEED?

What products and price points are most likely to succeed?
SUMMARY OF KEY INSIGHTS

The crops with greatest consumer potential are ones Australia already does well

- Based on a combination of current market penetration (share of consumers already purchasing this crop) and willingness to buy Australian imports, we can identify which products have the best *consumer* potential
  - Broccoli
  - Tomato
  - Sweetcorn
  - Carrot
  - Coloured capsicum
  - Cucumber
  - Green Capsicum
  - Eggplant
  - Snowpeas
  - Cherry Tomato
  - Potato
- Consequently, we recommend that Australian exporters focus on crops they already do well – not on Chinese specialties

The consumer pricing sweet spot for each crop lies between Chinese Farm Branded and Chinese Certified Organic

- There was an exceptionally high claimed level of purchase intent for Australian vegetables
  - 50% of consumers claimed they would buy at a price point between Farm Branded and Chinese Organic
  - This fell to 36% at price parity with Chinese Organic, and 30% at a 40% premium to Chinese Organic

High level value chain modelling suggests a number of crops which may be economically viable for export from Australia

- It appears likely that the following crops could be sold economically at price points that are well within the pricing sweet spot (ie between Farm Branded and Certified Organic)
  - Broccoli
  - Tomato
  - Sweetcorn
  - Carrot
  - Coloured capsicum
  - Cucumber

Based on the number of people who buy each type currently, and consumers' willingness to buy Australian, **Broccoli & Tomato** stand out as crops with the greatest market potential

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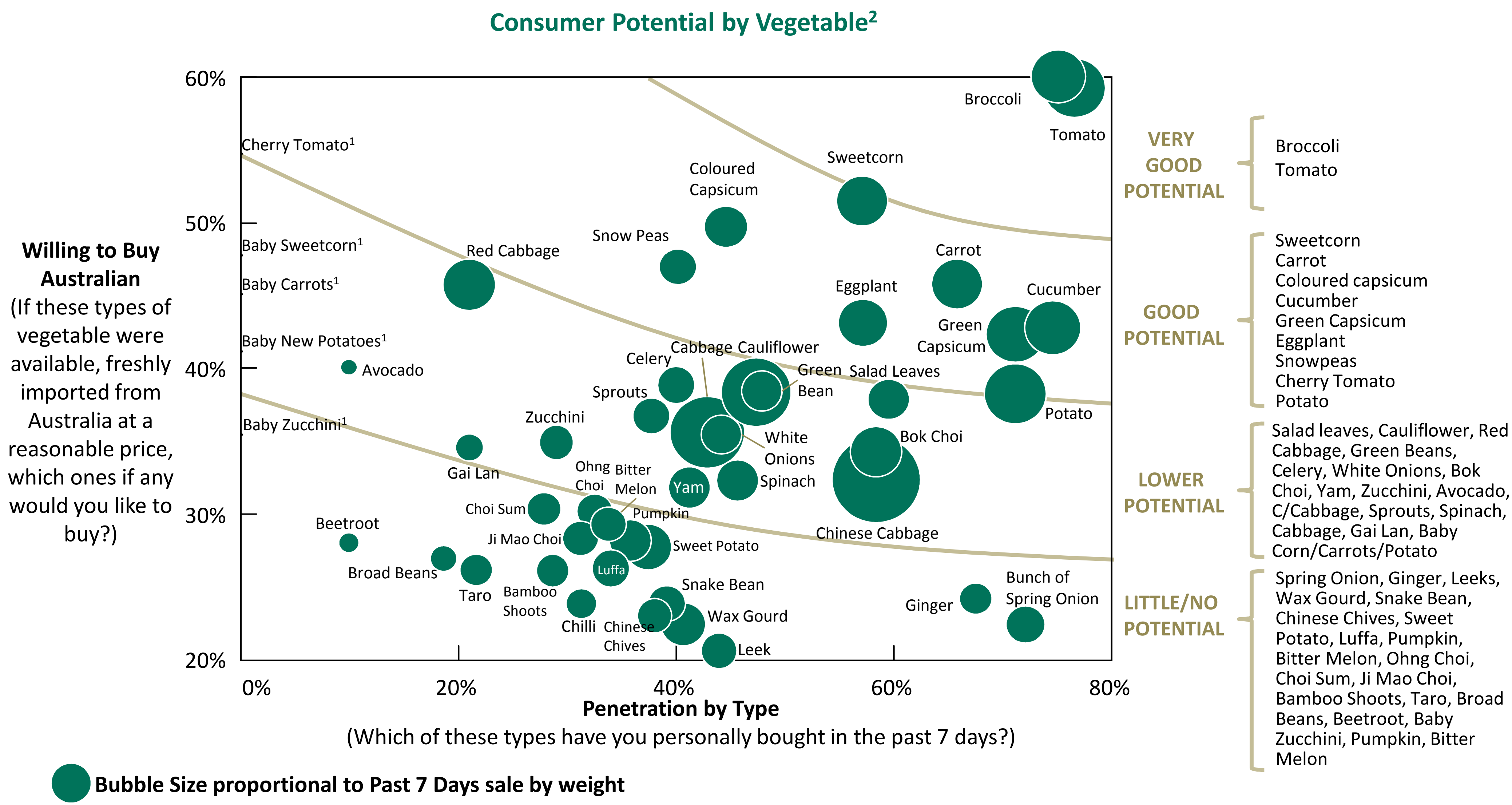

[1]These crops are not currently widely sold in China, so were not included in the "penetration by type" data
[2]The concept of consumer potential does not take account of practical/commercial potential – analysis of this issue will be included in Stage 3

The crops with high consumer potential are mainly **higher value** per kg and relatively **less perishable**

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Mainly less perishable salad vegetables and "western" specialties (see note)

VERY GOOD POTENTIAL

- Tomato
- Broccoli

GOOD POTENTIAL

- SALAD VEGETABLES: Coloured Capsicum, Cucumber, Green Capsicum, Snowpeas, Cherry Tomato
- PERCEIVED WESTERN SPECIALTIES: Sweetcorn, Carrot, Eggplant, Potato

KEY INSIGHT

Australian exporters should focus on what they do well, and not try to sell Chinese Specialties, Squashes or bulky everyday items in China

Mainly heavier or more perishable everyday vegetables

LOWER POTENTIAL

- HEAVY, EVERYDAY TYPES: Red Cabbage, Chinese Cabbage, White Onions, Cabbage, Cauliflower
- HIGHLY PERISHABLE EVERYDAY TYPES: Salad Leaves, Spinach, Gai Lan, Bok Choi, Green Beans, Celery
- NICHE TYPES: Yam, Zucchini, Avocado, Sprouts
- UNKNOWN IN CHINA: Baby Corn/ Carrots/Potato

Mainly Chinese specialties, squashes, and some root vegetables

LITTLE/NO POTENTIAL

- CHINESE SPECIALITIES (...SO WHY BUY IMPORTED?): Spring Onion, Ginger, Snake Bean, Chinese Chives, Ohng Choi, Choi Sum, Ji Mao Choi, Bamboo Shoots
- SQUASHES: Wax Gourd, Luffa, Bitter Melon, Pumpkin, Bitter Melon
- ROOT VEGETABLES: Leeks, Sweet Potato, Taro, Beetroot
- BULKY/LOW VALUE: Broad Beans
- UNKNOWN IN CHINA: Baby Zucchini

Encouragingly, a **high proportion of consumers claim they would buy Australian** imported vegetables… even at a **price premium** to Chinese Organics

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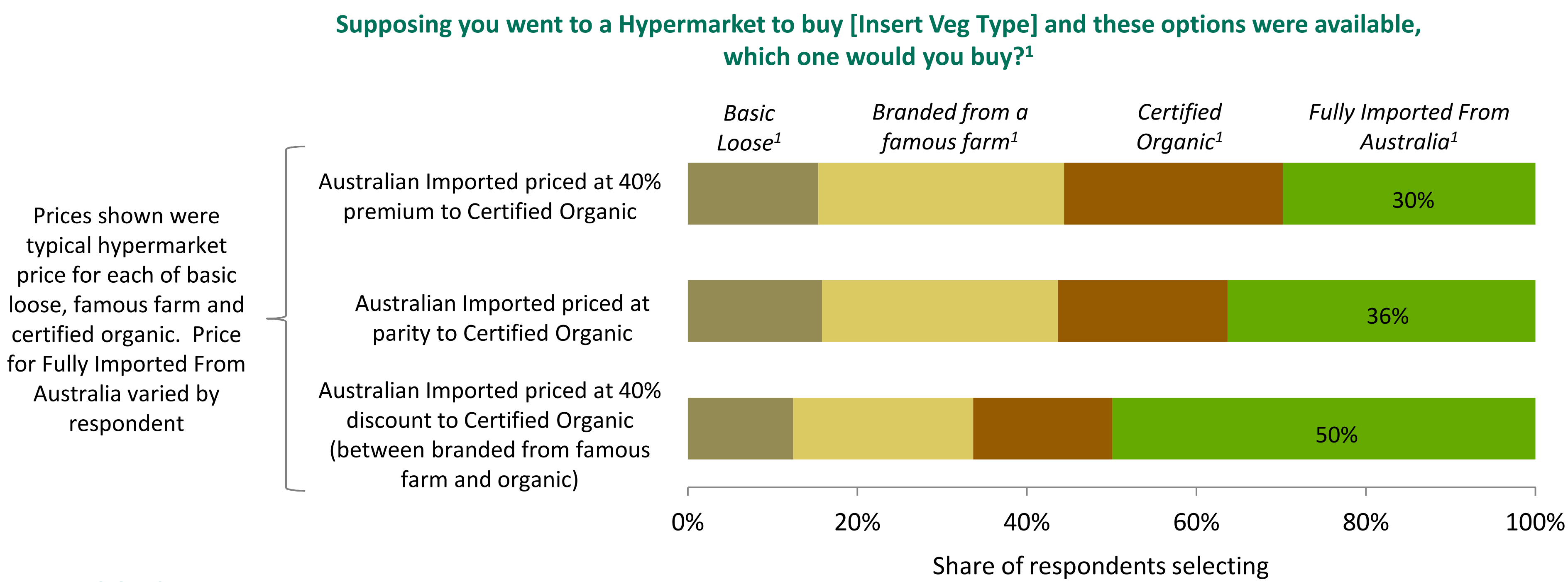

KEY INSIGHTS

- If Fully Imported Australian vegetables were available in hypermarkets, between 30% and 50% of consumers claim they would buy them, depending on the price relativity. The sweet spot is between Farm Branded and Certified Organic
- **This result looks extremely encouraging**, however
  - This question was asked at the end of the questionnaire, when the benefits of premium vegetables and imports, and safety concerns about loose vegetables, had been fully explored. In this context, the number of respondents choosing Fully Imported may be inflated
  - We know that in fact certified organic and farm branded vegetables are a minority of hypermarket sales volume (<20% overall) – so there appears to be substantial over-claiming in this answer. On the other hand, this survey only covered target market households so a bias to these types is expected
  - The result should not be interpreted as an indication of achievable market share, for 3 reasons: 1. many shopping trips are not to hypermarkets; 2. for large quantities the cost of buying Australian could be large; 3. to estimate share the result should be adjusted to reflect achieved share of facings – likely to be small
- **Even so, taking into account these adjustments, we can observe that significant sales of Australian vegetables at a price similar to, or even a bit higher than Chinese Organics, are likely in more premium channels**

1. See appendix for full details of how this question was asked

Focus groups also indicated that the ideal pricing is **between Farm Branded and Organic** – with some potential at higher price points

INCREASING PRICE

Low Pollution/Certified Organic

The Pricing Sweet spot

Farm branded

Basic packaged

Basic loose

To determine which products could most **likely be sold profitably** in China, we have conducted high level value chain analysis

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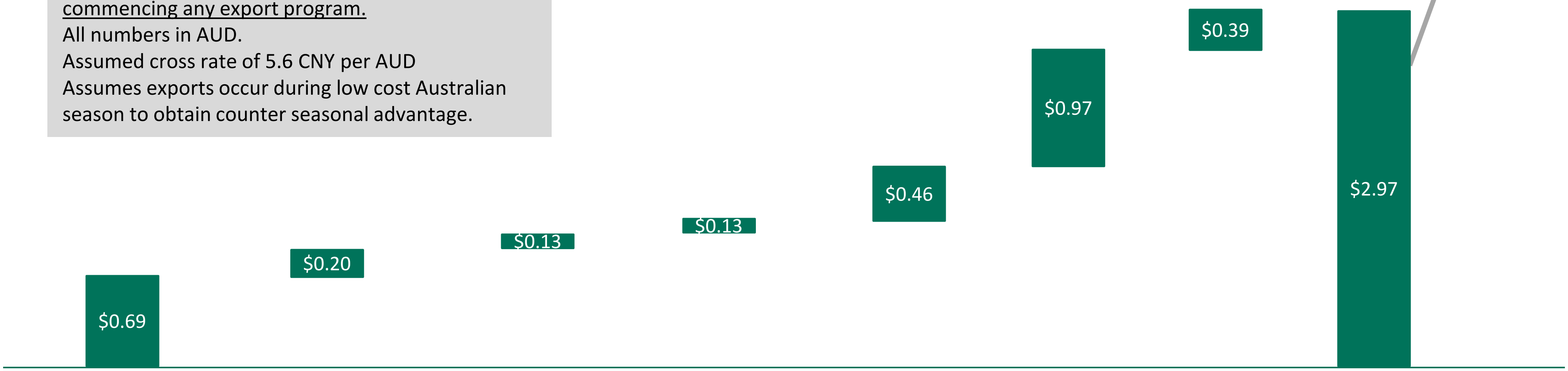
High Level Value Chain Methodology
Example – 400g Broccoli

Key Insight
In China, ~400g Broccoli from a Branded Farm costs ~$1.60, whilst Organic Broccoli may be around $4.46.
Therefore it looks as if Imported Broccoli could achieve the pricing sweet spot between the two.

General Notes
Value Chain Analysis is indicative and growers will need to review their costings carefully before commencing any export program.
All numbers in AUD.
Assumed cross rate of 5.6 CNY per AUD
Assumes exports occur during low cost Australian season to obtain counter seasonal advantage.



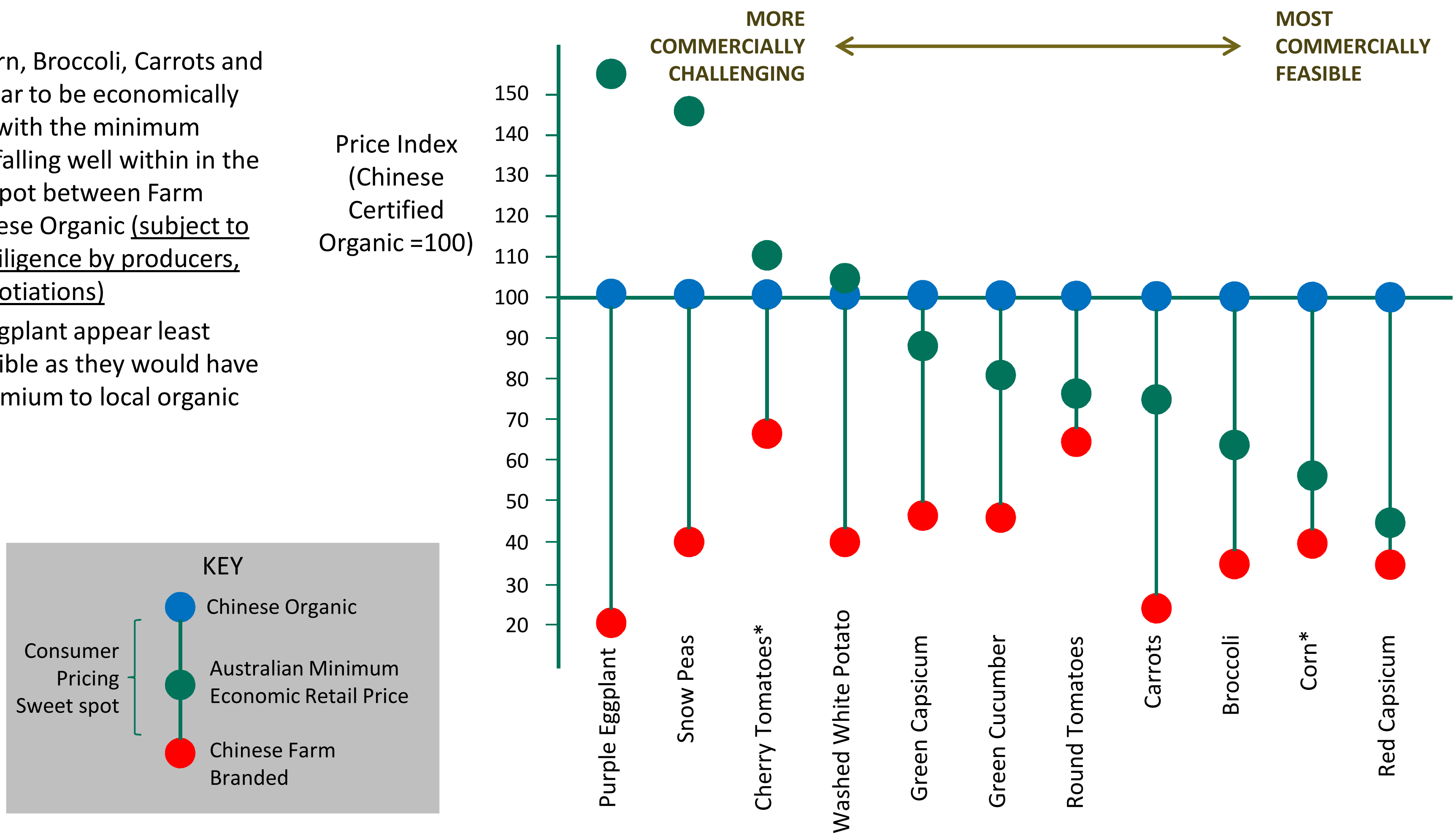
Australian Wholesale Price per 400g	Packaging Cost Per Unit	Sea freight, Inspection/Testing	Import Duty	Wholesaler Mark-up	Retailer Mark-up	Chinese VAT (ie GST)	Minimum Economic Retail Price
Based on average loose price per kilo during average of 3 months when prices were lowest (ie high season) during 2013.	Estimate only. Actual cost will depend on what packaging format is selected, and level of automation/ scale.	Estimate based on 20' container at typical 2013 rates. Allowance of $3000 per container for testing and customs clearance	Assumed to be 13% of wholesale value (same as fruit)	Assumption of 40%	Assumption of 60%	15% (mid-point of Chinese VAT range, 13-17%)	
Source: Sydney Produce Surveyors/Sydney wholesale markets data	Source: Cognition Estimate	Source: Freight forwarders and industry interview program	Source: Interviews with food import agents	Source: Industry interview program	Source: Industry interview program	Source: Industry interview program	

For Australian producers, Red Capsicum, Corn, Broccoli, Carrots, Tomatoes and Cucumber appear to be the **most economically viable to export**

Key Insights

- Red Capsicum, Corn, Broccoli, Carrots and Tomatoes all appear to be economically viable for export, with the minimum economic pricing falling well within in the consumer sweet spot between Farm Branded and Chinese Organic <u>(subject to commercial due diligence by producers, and customer negotiations)</u>
- Snow Peas and Eggplant appear least commercially feasible as they would have to be sold at a premium to local organic product

Minimum Economic Retail Price of Australian Vegetables Compared to Chinese Organic and Chinese Farm Branded



Notes: Australian minimum economic retail price is an estimate based on the assumptions on previous page.
*Australian market price included packaging, hence no further allowance for packaging costs is included.
Source for Chinese retail prices: store audits in Shanghai, Guangzhou and Beijing in July 2013 and Feb 2014. Approximate only as vegetable prices are volatile and seasonal.

THIS SECTION:

PART 3:
CAN WE GET PRODUCT ACROSS THE BORDER?

Can we get product into China?
SUMMARY OF KEY INSIGHTS

Note: this project was commissioned to determine the* market potential *for Australian vegetables in China. A separate project regarding* market access *is being worked on, and we were asked not to focus on this. However, for completeness we include our initial observations.

As a practical matter, export to China via Hong Kong is almost certainly feasible – though there will be a learning curve

- Doing business in China is less simple and clear cut than in other markets. In this case there are 2 possible perspective on whether we can export vegetables to China
  - On the one hand, only a handful of commodities already have officially agreed customs and quarantine protocols
  - On the other hand, there is evidence of a “grey” trade (via Hong Kong) and this is common in other categories
- As a practical matter, the grey channel can almost certainly enable a level of Australian supply to the Chinese market
- In either case, producers should expect their first shipments to be a learning curve about how to get produce through the border, and how to do business successfully in the Chinese market

Establishing “official” access should be a priority given the scale of the opportunity

- For the long term, establishing “official” market access for the commodities with the best consumer and commercial opportunity (see previous section) should be a priority for the industry
- “Official” access will enable exporters to potentially sell direct to retailers, which is the most economically favourable approach, and to sell a range of products consistently rather than single product batches

In the meantime, working through grey channels is a real opportunity that can help establish a precedent and build practical learnings

- Part of the difference between China and Australian business practice is simply cultural perspective: to succeed in the short term, Australian producers will have to be pragmatic and tolerate of a level of ambiguity/business risk
- However, if the industry waits for permission before pioneering the trade it may be waiting a long time. Starting small via grey channels, and building acceptance and familiarity amongst customs and government officials is more pragmatic
- Ultimately, this may support efforts to obtain “official” access. Precedent is powerful, and if the trade is already going on, and not causing any problems, this may help
- However, working through grey channels has disadvantages, hence “official” access would be the ideal arrangement
  - More difficult to co-operate as an industry to supply a range of products
  - Necessitates working through a Chinese wholesaler to manage the import process, with consequent loss of margin

The "legality" of importing vegetables to China is a grey area, with a difference between Australian and Chinese perspectives

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Australia

Generally believed that most products cannot be imported

- The following commodities **do** have market access according to a communique from Chinese customs
  - Lettuce
  - Radish
  - Asparagus
  - Yam
  - Komatsuna
  - Basil
  - Ginger

China

Generally believed that barriers are significant, but not insurmountable

- *"There's no regulation preventing vegetable imports – I'm just not aware of any actually happening" (*Government Official – Shanghai)
- *"We've asked for a list of what vegetables may or may not be imported – but there isn't one"* (Import Agent – Shanghai)
- *"If you find a decent wholesaler, they'll get it in [ie through customs] no problem via Hong Kong"* (Walmart)
- As one import agent with extensive fruit experience put it, *"do not expect to sell your first shipment – this will be the cost of your education in how to deal with customs"*

At this time, producers looking to export to China need to be comfortable with a level of ambiguity and risk. Lack of black and white "permission" does not mean this trade is impossible

Part of the difference may simply be a matter of cultural perspective

Culture of asking permission

Australians are used to dealing with a rigid and highly codified regulatory system

- Is it explicitly permitted? What exactly is the process?
- What paperwork will I need for it to go right first time?
- How long will everything take?
- What will the cost be?

Culture of making it happen

Chinese business people recognise that regulations are inconsistently understood and enforced on the ground – ask 3 officials, and you may get 4 different answers

- Can we find someone who will say yes?
- What relationships can we leverage?
- What approach the best bet?
- Maybe it won’t work the first time, but how can we build learnings and make it work in future?
- How can we build “acceptance” by the officials on the ground, regardless of the “regulations”?

“We sometimes don’t know what’s legal and what’s not”
Walmart China

As a practical matter, import probably is possible through so called "grey" channels whilst "white" market access is being established

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"White" Imports

What it is…

- Explicitly permitted commodities
- Just a matter of following the protocols… but note that initial shipments may still experience delays due to lack of experience at customs, and there will still be a learning curve for exporters

Implications for Australia

- Still requires use of an import agent to facilitate customs clearance
- Enables direct selling relationships with retailers, which are economically favourable
- **Arranging market access for the commodities with high consumer and commercial potential should be a priority for the industry**

"Grey" Imports

What it is…

- Bringing product via Hong Kong so that country of origin is less obvious
- Using ports in South China such as Shenzhen where officials are more relaxed
- Using relationships ("guanxi")and grey areas in regulation to find a way to make it happen

Implications for Australia

- Requires an import partner/ wholesaler with relationships in China – making direct selling relationships with retailers difficult in most cases
- **This is a sensible practical approach for exporters in the immediate term to pioneer the market, while "white" market access is being arranged**

"Black" Imports

What it is…

- Illegal smuggling of commodities

It's obviously inappropriate for Australian companies to be associated with this.

Grey channels are common knowledge, possibly indicating a level of official tolerance

- Anecdotally, some importers of Australian fresh goods to China (eg seafood) prefer to air freight to Hong Kong, cross the border in second tier cities like Dongguan or Shenzhen, then road freight to northern China
  - *"The customs in the south are more flexible, but if we air freight to Shanghai or Beijing it's too risky"*
  - *"We budget for 30% wastage partly due to the extra trucking time"*
- The presence of some imported vegetables in Guangzhou, but not the northerly cities, may indicate the import pioneers are working through "grey" import channels in South China – and this may be the best way for Australian importers to build experience

Officials are people too – given the widespread health concerns around domestic vegetables they may be personally sympathetic to the notion of Australian imports.

Import duty for vegetables is likely to be ~13%, and VAT around ~15%

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Duty & VAT

- Duty and VAT are levied on the estimated final wholesale value of the goods imported. Import agents can help advise "estimated" wholesale values that will be credible to customs
- Even the experts are uncertain what rate of duty would be payable (because nobody currently has experience with fresh vegetables) but for fruit the average rate is ~13%; VAT will be from 13-17%

Logistics

- A reasonable estimate of chilled air freight costs to China is $5-6 per kg; for sea freight ~15 cents per kg (assumes 40' equivalent)
- Inspections, testing, unpacking and storage could cost several thousand per container if issues are encountered with quarantine
- Within China the road network is good and a chilled supply chain can be maintained by specialist freight forwarders within and between major cities (though it's more difficult in less developed areas). Approximate drive times between major centres are as follows
  - Shenzhen to Shanghai: 20 hours
  - Shenzhen to Beijing: 30 hours
  - Shanghai to Beijing: 16 hours

Certification & Labeling

- Any products would need to be accompanied by paperwork to prove they meet standards and are pest free. Cleaning, packaging and preparation of the product off-shore will be beneficial in facilitating quarantine clearance
- Packaged products sold in China has specific labeling requirements
  - In particular, imported products may not claim to be organic unless their source is certified organic according to Chinese standards (which are different from Australian standards)

THIS SECTION:

PART 3: HOW SHOULD WE ADDRESS THE MARKET?

How should we address the market?
SUMMARY OF KEY INSIGHTS

Hypermarkets and specialty retailers are willing to talk – the first step is to get their input on how to proceed

- The premium packaged and organic segment, which Australian producers can potentially contest, is sold mostly through premium specialty retailers and hypermarkets – these should be the focus for producers wanting to export to China
- Retailers see vegetables as a foot traffic driver – high frequency, high penetration. Hence they are very keen to differentiate their offer – leading to a generally high interest in Australian vegetables. Retailers and wholesalers we've spoken to are willing to meet and talk with Australian producers
- At the same time, each account has its own needs, concerns and operational methods – and these need to be handled on a case by case basis. If they're interested, they can put suppliers in contact with suitable wholesaler partners to facilitate the import process as they're already buying imported fruit and domestic vegetables via wholesalers

A range of Australian products will do better at retail than single products

- Currently the paradigm is for different brands of vegetables to be merchandised in product ranges, each brand or supplier with its own display. Customers are used to interacting with multi-product suppliers, which match this display paradigm and preference for ongoing supply relationships
- In this environment, it is difficult (though not impossible) for single product displays to cut through and command share of store space, hence a "Brand Australia" range approach would be favourable
- However, single commodity propositions may also be possible and represent a first step. For instance summer vegetables such as tomatoes around Chinese New Year (January) are an obvious counter-seasonal opportunity and could create a seasonal point of difference for retailers

The industry should explore its options to create a single buyer point of contact capable of supplying a range of products

- However, supplying a range would be difficult for Australian producers
  - We understand that most producers focus on one or a few commodities – unlike their Chinese peers
  - Multiple commodities in the same shipment multiplies the risk of delays in the import process
- Therefore, in the context of the forthcoming market access study, the industry should assess different options for creating a single point of contact of Chinese buyers, capable of supplying a range of commodities. Different approaches could be
  - Creating an industry funded export office that acts as a broker to producers, and provides practical import expertise
  - Suppliers of the species with the best market opportunity forming a consortium to address Chinese customers
  - Identifying one or more leading Chinese wholesalers (eg one in each city) with appropriate import expertise, and having them act as agents for Australian produce in China

According to our interview program, **retailers and wholesalers are willing to talk.** Each one has particular needs

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Key Insights

- Retailers and wholesalers find the selling story and consumer research compelling – they believe there is an opportunity
- They recognize that getting the product through customs is the key barrier to overcome in the short term – and generally recommend partnering with a wholesaler with experience in this area in order to establish the trade

Walmart – VP Fresh

- "Sure I'd be interested in talking to people about Australian imports"
- "70% of our produce sales are loose, 30% packaged – but 50% of our space is given to packaged as that's where the growth is"
- "Because we're American owned we can't do anything 'grey' – multi-nationals get beaten up all the time – CR Vanguard [Lianhua] is government owned so they'd have no problem… the problem is sometimes we don't know what's legal and what's not"
- "If you find a decent wholesaler, they'll get it in [ie through customs] no problem via Hong Kong"
- "The desire is there, and the market is there… the challenge is release of papers at the port – we started bringing in fruit but release of quarantine papers can take up to 3 week" "We'd expect the supplier to carry the risk"

Shanghai Fruit Importer/Distributor – Managing Director

- "Overall I'd say my interest is more than 6 out of 10 – I'd be willing to talk"
- "It might be best to start with a specialty retailer… it might not be big enough for the major retailers initially"
- "The first barrier is customs consent – we have co-operative importers [ie agents] and they can help us with this"
- "We need a 30-40% markup – maybe more if there's wastage. Supermarkets need another 40%"

City Shopper – General Manager

- "I'd be happy to talk about it more, but I'm not sure if it's practical. It's not like, say, frozen beef"
- "You'd have to get through the customs issue, but I don't think it's impossible"
- "Sogo and Parksons only work with wholesalers – they have to take a concession counter – so I think you'd need to work with a wholesaler"

Parksons – Head of Fresh

- "It could be quite good in Parksons"
- "We don't really care what you sell here, we just rent you the space and take a 40% commission. If the turnover is too low, we find someone else"
- "Therefore, as an importer you'd need to work through a wholesaler in Parksons – you wouldn't be taking your own concession"

Shanghai Yi Guo (online supermarket) – Product Manager

- "I'm very confident a high proportion of our customers would be interested"
- "You should start by bringing in 3-5 highly differentiated items… we'd create a hamper to stimulate trial"
- This contact subsequently re-contacted us to pursue this opportunity

If Australia is to gain traction with consumers and retailers a **branded range approach would be preferable**

Range Based Approach

In vegetables, the prevailing convention in retail is for a branded range. Note the imagery of children on the POS

Better for Consumers

- Consumers find it easy to consider why they might buy from a **Brand Australia** range, in the same way that they might buy from a range from a branded farm, or an organic range
- The qualities that Brand Australia brings apply across the board
- A range display would have superior in-store impact to a single vegetable offer by occupying prominent space with appropriate point of sale materials
  - Successful premium farms supply a range of products which enables them to build a brand consumers can relate to – and be loyal to

Better for Retailers

- Retailers are used to dealing with one supplier for a number of products
- The stores/displays are set up with this in mind, but are not well set up to promote single vegetable products, which could get lost amongst the lose commodities

Superior Price Realisation/Lower Risk

- It's easier to maintain a price premium with a small quantity across multiple products – a single product in large quantity might end up marked down to sell

Single product imports may also be feasible as a starting point

Single Product Approach

Single product propositions can work, as illustrated by this Zespri POS in Beijing, but require a clear point of difference – everyone knows Kiwis are from New Zealand!

Could work if it addresses a specific need

- Still possible to create in store impact provided the product justifies sufficient stock weight
- Consumers felt they would need clear and specific reasons for buying a particular product
  - Not available in China
  - Higher nutrition
  - Better flavour
- The most obvious opportunity for single product plays is counter-seasonal products at a time of year when domestic products are inferior and demand is at a peak – for instance really excellent tomatoes around Chinese New Year (which is the Chinese version of Christmas in retail)

THIS SECTION:

APPENDIX: **METHODOLOGY, TEAM, TECHNICAL NOTES**

This project included 3 stages of research

Stage 1

- Australian and Chinese desk research
- Face to face in-depth interviews with Chinese industry experts and industry participants
- Market reconnaissance and store visits
- 2 x 2hr consumer focus groups in Shanghai and Beijing, and shopper vox pops
- **Delivered in September 2013**

Stage 2

- Development and testing of Chinese language quantitative research
- 2 waves of quantitative research at n=1500 per wave (questionnaire length up to 20 min)
- **Delivered in January 2014**

Stage 3

- 8 x 2 hour focus group discussions with target consumers in Shanghai, and Guangzhou covering 11 crops identified as highest potential in Stage 2
- Qualitative feedback from further meetings with customers and wholesalers
- **This document, which also includes output from Stages 1 & 2**

Stage 1 Methodology

Industry Participant/Trade Research

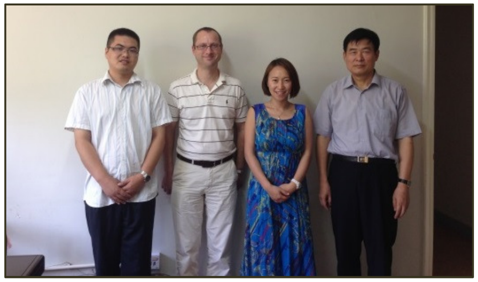
The objective of this work was to uncover the main industry dynamics and understand the industry structure

- We interviewed 20 individuals, including retailers, wholesaler, industry bodies, government officials, organic farmers and Chinese marketing experts

Consumer and Store Research

The primary aim of our initial qualitative research was to ensure that we had sufficient consumer insight to correctly frame the issues for the stage 2 quantitative research

- Focus groups
  - 2, two hour focus groups were conducted in Shanghai in July 2013
  - The sample comprised main grocery shoppers, with top quartile incomes, who shopped from a range of retail formats for vegetables
  - The session was run by a local moderator with the non-Chinese speaking members of the project team observing through simultaneous translation
- Vox pops
  - 15 in-street short vox pops interviews were also conducted in Shanghai
  - Local moderator interviewed respondents with project team members as cameraman guide question areas
  - *We have several hours of footage of Chinese consumers*
- Store tours & observation
  - We also visited a large number of retailers to conduct store tours and observation in both Shanghai and Beijing
  - *Again, photo and video material was captured*


Wide range of industry participants interviewed


Focus groups to identify issues


Vox pops provide a very spontaneous reaction to issues

Store tours: to where the action is

Stage 2 Methodology & Technical Notes

Fieldwork methodology

- The Phase 2 quantitative work built on Stage 1 qualitative work
- Phase 2 included 2 waves of 1500 online quantitative interviews to give a mix of summer and winter responses and check for seasonal differences
  - Wave 1: 1516 interviews were conducted between 12.9.13 and 25.9.13
  - Wave 2: 1512 interviews were conducted between 2.12.13 and 14.12.13
- Most interviews were between 20 and 25 minutes duration
- The fieldwork was provided by international research agency Ipsos China, which has the most suitable panel of respondents for this project, with higher income respondents well represented

Stratification and weighting

- In each wave, we collected 600 respondents in Shanghai, 500 in Beijing and 400 in Guangzhou. Respondents were all aged 23-65 years
- All respondents were the main vegetable buyer for their household (which resulted in a skew to female respondents, 81%) and they must have purchased vegetables from a hypermarket, premium retailer, specialist organic store or online retailer in the past 30 days in order to qualify. This was designed to eliminate the estimated 1/3 of consumers who only purchase from wet-markets/traditional channels as it is clear from Phase 1 of this project that these channels are not a commercially viable opportunity for Australian exporters
- All survey respondents have a net household income of greater than 15,000 RMB per month, effectively limiting the survey to the top 30% of households in these tier 1 cities[1]. Quotas were used to obtain 2000 respondents above the 20k RMB income level and >500 respondents above 30k RMB in order to ensure very high income households are strongly represented in the data
- 303 low quality respondents (those who had flat-lined on multiple questions, eg ticked all their answers from one column) were excluded from analysis, leaving a base of 2725 high quality respondents. This base is used in all charts in this report unless otherwise noted
- **Respondents were weighted by city (Guangzhou having been over-sampled to enable regional analysis) and income level[1]. Hence data in this report is representative of the behaviour and attitudes of 20% of main vegetable buyers in Tier 1 cities: equivalent to a target group of 11.6m middle class consumers who have top 30% household income AND shop regularly from modern retail channels**

1. China does not publish income distribution data, hence estimates are based on discussions with Chinese research colleagues and officials

Stage 3 Methodology

Eight 2 hour focus groups

- Issues explored
  - Further profiling of respondents key attitudes to spending, food and family
  - Deep dive on how to position Australia in communications, packaging and point of sale material, by comparing the attractiveness of several alternative concept boards
  - The effectiveness and appeal of different claims and signifiers, e.g. seal of quality, QR code linking to website
  - Check associations with different Australian symbols, eg Kangaroo, Koala, Uluru, Sydney Harbour Bridge
  - Detailed discussions of the identified higher potential crop types (not necessarily discussing the whole list in all groups) – why are they most appealing
  - Discussion of counter-seasonal opportunities e.g. winter and Chinese New Year (which fell just before these groups)
  - Focus on packaging appeal, in particular to close out the "vacuum packed" question
  - Explore the benefit of range (multi-crop) based initiatives versus single product initiatives
- Coverage
  - 4 groups in Guangzhou and 4 in Shanghai
  - In each city, 2 groups "Cash and Young Kids", 2 groups "Cash and No Young Kids"

Follow up discussions with 4 buyers/retailers in higher potential channels

- Issues explored
  - Test the effectiveness of selected highlights of the quantitative research in creating interest (i.e. is there a selling story?)
  - The best way for Australian producers to approach them
  - Further explore their pricing, margin and other commercial expectations
  - Explore the benefit of range (multi-crop) based initiatives versus single product initiatives

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Acknowledgement	Organisation
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Mr Cui	General Manager, City Shopper
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- Bill has more than 20 years experience in research, including 10 years as an international research specialist. Bill has worked on a range of Australian fresh products including Banana, Avocado, Apples & Oranges. Current clients also include Coles across fresh, meat, bakery, confectionary
- In China, Bill has previously worked on mobile phones, personal care and home care products.

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- Caspar has 15 years experience in strategy consulting, research, marketing and general management, including 3 years living and working in China. Expert in advanced quantitative consumer research, strategic planning, and financial modeling
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Technical Note: Methodology for price sensitivity test

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- Towards the end of the survey, consumers were asked:

  Supposing you went to a Hypermarket to buy [Insert Veg Type] and these options were available, which one would you buy?

- 12 vegetables covered in this question
  - Carrots
  - Broccoli
  - Coloured Capsicum
  - Zucchini
  - Salad Leaves
  - Potato
  - Yam
  - Snow Peas
  - Red Cabbage
  - Cauliflower
  - Bok Choi
  - Sweetcorn

- For each vegetable type, three price combinations could be shown (creating 12x3=36 permutations of the question)
- To avoid respondent fatigue, consumers were asked randomly about 2 different vegetable types (ie a similar question was asked twice) from the 27 possible permutations, creating a base size of ~150 per permutation
- The prices for each product type reflect typical hypermarket pricing, and the packaging and product quantity reflect SKUs commonly sold in the market
- The 4 possible answers to each question were shown in random sequence to eliminate bias to the first or last options in each case

Example screen as seen by respondents

Supposing you went to a Hypermarket to buy CARROTS and these options were available, which one would you buy?

Loose carrots
4.9 RMB per pound

Branded from a famous farm
2 wrapped carrots
5.6 RMB for 400g

Certified Organic
2 wrapped carrots
14 RMB for 400g

Fully Imported From Australia
2 wrapped carrots
8.4 RMB for 400g

Respondents asked about 2 out of 12 vegetable types in turn

Answer sequence was randomised to prevent sequence bias

Loose vegetables priced per pound (in Chinese "jin", the normal measurement of purchase for loose veg)

Packaged options priced per unit, with appropriate packaging description dependent on the vegetable type

Prices for the three "current" options reflect typical current hypermarket pricing

3 different prices for the "Imported" option were used (each respondent only saw one). One price (shown here) was a 40% discount to Certified Organic, one was at parity, and one was at a 40% premium