

Deer Industry Conference FGM
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Good morning everyone.

It is my pleasure to be here today in my home town to present to you the latest update on velvet marketing.

The cornerstone of my position as Velvet marketing manager is to implement the Velvet and co product strategy. The first paragraph of this document outlines the main goal of achieving a sustainable and profitable industry. The obvious lesson learnt from this and previous years are that our market is not immune to the simple fundamental economic concepts of supply and demand. What we do have good control over however is the marketing of our deer and velvet products.

Expansion of existing markets can offer diversification such as the velvet as a healthy food concept in Korea.

Development of new markets such as the athletic and pet markets in the USA not only begin to reduce our dependency on Korea but also exposes new opportunities, new consumers and new competition for our products.

Good access to our markets is essential and a real break through for NZ deer products was achieved last year with the signing of the bilateral trade protocol between China and NZ. Ok so this all sounds good on paper right? Well now its time for you to see with your own eyes exactly what the strategy looks like after implementation... ..

Firstly let's take a look at our traditional markets.

In line with the goal of increasing sales of NZ velvet into markets other than whole piece pharmaceutical, the velvet as a healthy food concept has sparked interest and offers the industry potential to develop a new product within an already well established market.

The first event was held this time last year at the Imperial Palace Hotel and provided valuable information on consumer's perception and acceptability of the new concept. The second event held in December last year stepped it up a level and the 9 day promotion held at the Seoul Millennium Hilton not only created a buzz within the hotel industry but even inspired a visit from the former Korean President during a famous Gourmet Circle event. During the promotion over 1800 guests sampled the velvet dishes including top food writers and executive chefs from leading Seoul hotels. The success of the event has since prompted other hotels to request assistance in running similar velvet promotions. The next will be a month long affair held at the COEX Intercontinental in June, with the Chosun Westin also lined up to follow early next year.

We have been very fortunate to have gained the support of Korean famous, Executive Chef Park from the Hilton Hotel who has been instrumental in helping to develop the velvet as a healthy food concept. Now instead of releasing a product, marketing it and trying to gain consumer demand and market share were decided to do it backwards!

Because this way is far more cost effective and we capture interest and create demand first. Firstly we trialed the concept on consumers through the hotel promotions and feedback was positive, and then we put on a special lunch for food writers and journalists, and had good feedback including articles in food newspapers and magazines. Next we held a special Gala dinner for Food and Beverage directors and executive chefs, who all showed a real interest and have indicated that they would like to learn more about how to incorporate the velvet into Korean cuisine. Our next steps will be to hold an event for food manufacturers and to aid in the development of a commercial food additive - more than likely a velvet sauce.

Now let's focus on our large traditional market of Oriental medicine. It takes time to change a 2000 year old tradition including the mis-perception that Russian velvet is better than our own. However we can educate oriental medicine doctors and their patients about the high quality characteristics New Zealand deer velvet has to offer. The quality assurance and NVSB programs together with the numerous other robust quality requirements that are met along the value chain give our New Zealand velvet products a competitive advantage few can easily replicate. And in the wake of numerous issues surrounding the legitimacy and quality of velvet in the market, Oriental medicine doctors are looking for a product they can trust. You only need to compare the environment in which some Chinese, Taiwanese, and Korean deer are raised in comparison to our deer to recognize one of our biggest advantages before even looking at velvet removal, food safety and traceability. New Zealand's point of difference has been one of the main points communicated during attendance at trade shows and is also the theme in a newly developed Korean language website that offers viewers information on NZ, our farming systems, quality assurance programs, promotions and NZ supplier contact details.

Here is an example of a company in Korea that has recognized the need for more trust and transparency in the oriental medicine market. As a result they promote their oriental medicine ingredients (including NZ deer velvet) to doctors based on the fact that they have exceptional traceability of their products and in some cases they can trace back to the exact paddock from which a product was grown. This company is not only gaining market share, respect and loyalty from doctors but is also receiving a premium price for their products. Together with a NZ exporter the company is exploring ways to further develop the traceability story for their NZ velvet products.

The Korean Deer Breeders Association can be very influential when it comes to NZ velvet issues in Korea and the year when they burnt effigies of NZ velvet on parliament steps certainly wasn't seen as positive! However since then DINZ has worked hard to strengthen relations and this has definitely been achieved.

The abolishment of the special excise tax could not only discourage smuggling by potentially making it uneconomic but it could also encourage new importers to be involved in the industry as opposed to the small number who currently control the market.

At the end of March, 13 members of parliament proposed a revision of the SET. We are aware that this legislation is being considered at Committee level, and will be

discussed and subject to a vote during their June meeting. If it is accepted it will be sent to the National Assembly for approval or rejection later in 2007.

As expected the Korean Deer Breeders Association opposed the revision, however recent talks with the KDBA have further clarified our respective positions, opened up communication lines and improved understanding of related issues.

The Korean Custom Service in October last year advised that it would be enforcing regulations that required all products being imported into Korea to be labeled with its country of origin. Therefore at present all DINZ/NVSB tags or other appropriate exporter applied tags must remain on individual sticks until the consignments are cleared through Korean customs. Identification of NZ velvet would not only address issues such as these but also provide our velvet with an identity further up the value chain enabling us to successfully raise awareness, tell the NZ story, build trust and develop market driven demand

DINZ has investigated several methods of physically branding velvet including, tattooing, heat and freeze branding and food dye stamping. The most successful method was heat branding and a stick of velvet is currently being processed to ensure it retains integrity throughout the cooking and drying process. Please note however that this is just an idea and consultation with industry would occur before any branding methods were encouraged.

Now let's look at Taiwan

Taiwan's 5 ton quota continues to be a limitation into this market for frozen velvet. We continue to raise the issue at government level and will be putting a case together for discussion at the upcoming informal economic consultation in August this year.

The Council of Agriculture which is the equivalent to our MAF argues that it is complying with its WTO obligations and openly admits to protecting the interests of local Taiwanese farmers. Taking this into account DINZ is making efforts to build relations with the deer farmers association as a means to learn more about our respective industries, and potentially gain their support for removal of the quota by showing them how doing so would benefit their local industry. We had an opportunity to do this when we joined with New Zealand's Special Agricultural Trade Envoy in March where we presented to Government officials, academic institutes and farmer groups, including members of the Taiwanese deer industry.

The pictures here show Alastair Poulson the NZ SATE and Mark O'Connor speaking at the seminar in Taiwan which attracted over 200 people. It also provided a good opportunity for discussion between DINZ and members of the Taiwanese Deer Farmers Association. Media were involved in the event and following an extensive interview a positive article in Taiwan's second largest business magazine has since been published.

The headline reads:

New Zealand and South Korea join hands to expand the South Korean Deer Velvet Market.

By replacing competition with cooperation, the market for deer velvet has expanded five-fold

Is this something Taiwan can replicate?

Although Taiwan is a traditional market, diversification of velvet products has opened up a whole new channel.

Taiwan's Eastern TV is the largest home shopping network in the country with 16 different channels being watched by an estimated 4.3 million people. Recently Eastern TV has taken on 3 NZ products one of which is a velvet based supplement. As part of the marketing for the velvet product a Taiwanese Film crew flew to NZ in January and captured scenes of the New Zealand velvet industry which was used to make a 40 minute infomercial that is aired twice weekly.

Here is a snapshot of the footage.

Valued added velvet products are also the current focus in China.

Through joint promotion we are involved with a very professional company who has undertaken a nationwide marketing campaign of 9 different NZ further processed deer products. The company currently has the products in over 240 different retail stores throughout China, with the aim of achieving 500 stores by January 2008. The beautifully presented products are on display in the some of the largest retail chain stores in the world including Wal-Mart, Carrefour, China resources, Sam's Club, and Nepstar. In addition the products are being marketed on China Central TV's home shopping network and 2 large internet home shopping websites. The company has also been successful recently in gaining registration of the products in Hong Kong and will be attending the Natural Products expo there in June.

Here is a candid interview with some staff from the Chinese company:

Now let's have a look at the western non traditional markets!

The goal to increase sales and distribution of NZ velvet in western markets in the area of sports nutrition has had a great start but is proving challenging.

A joint promotion with a New Zealand based company has seen the velvet athletic supplement be stocked on the shelves in the multimillion dollar GNC health store chain, the largest supplement retailer in the world. While sales have been lighter than hoped, the product is still selling sufficient quantities to remain on the shelves. The company has been approached by a TV marketing company and is considering also selling the products on cable TV. Recent communication with American scientist Dr Craig Broeder indicates that his scientific paper could be just the PR boost the velvet product needs and is expected to be published by the end of the year.

Attendance at Supply side East, west and the GNC franchise expo's also hoped to increase awareness and boost the number of outlets stocking the product.

The adventure racing team Powered by velvet.org.nz has continued this year and consists of some new internationally experienced athletes. The main goal for this year's campaign is to place in the International Mountain Sports Quest held in China this August. The Chinese company alluded to before will also be promoting their New Zealand Deer Products during the three day race.

Other athletes that have been sponsored with velvet supplements this year have included long time user Jonathon Collett who recently won the Marlborough triathlon, Morgan Foster who won Gold at the National Surf League finals and visiting Korean Rugby Team from Yang Jung High School in Seoul.

DINZ has invested in two joint promotions in the pet market, one focusing on NZ and the other on the overseas market. The latter company's first milestone was achieved in Israel where over 60% of the veterinarian clinics now stock the deer velvet product. The next step was to approach the multi billion dollar US pet market and this was accomplished by attending the North American Veterinarian Conference in January. While the majority of products and services exhibited could be classified as mainstream, the vets who we spoke with showed real interest in the velvet products and the science behind them. As a result of the conference the company has since had requests for product from Romania, Italy and the Netherlands and is in formal negotiations with a US distributor. Attendance at the holistic veterinary conference in October will be the company's next focus.

One problem NZ velvet faces in the Asian market is mis-representation. In order to be in a position to address this issue when it arises, DINZ is working with a Dunedin based company to explore the concept of developing a unique "Iso-topic signature" for New Zealand velvet. This technique would be based on measuring the ratio of light iso-topes within the velvet matrix, the same technology used to trace the origin of imported seafood and to determine the eradication of the painted apple moth. If successful this could provide the industry with a tool that would be able to differentiate between NZ grown velvet and velvet from competing countries. Unlike DNA testing this technique will be able to differentiate between velvet that is grown in different countries but is from the same genetic stock. Samples are currently being sought from other countries and further samples will be collected in NZ during the next velvetting season.

Looking ahead into the future the focus remains on diversification of existing markets, access and development of new markets, and maintaining the integrity of our New Zealand velvet products. Increasing awareness, further education of consumers, continued leadership and development of food safety and traceability programs and vigilance in animal welfare are all critical to maintain and grow demand for our velvet products.

In summary successful execution of the strategy together with the support of all stakeholders will point us in the right direction for achieving a sustainable and profitable velvet industry.

Thank you.