China

China: Our largest trading opportunity

When Helen Clark's Labour Government signed the Free Trade Agreement (FTA) with China in 2008, New Zealand's export fortunes took a significant turn for the better.

New Zealand's export trade to China – a nation of 1.4 billion people – doubled from 2009 to 2014. It has almost tripled in the past decade, and is showing no signs of slowing down.

Total two-way trade in goods and services rose from $8.2 billion in the year ended June 2007 to $23 billion in the year to June 2016 (*Source: Statistics NZ*).

It is fair to say that the impressive growth in New Zealand's total global exports since 2008 is largely due to our trade with China.

So what are the opportunities in this vast market?

Damon Paling, the trade commissioner in Shanghai for New Zealand Trade and Enterprise (NZTE), says success for New Zealand exporters in China typically starts with success at home. Tourism numbers here continue to flourish and should exceed 400,000 in 2017. A strong tourism sector, coupled with approximately 30,000 Chinese students studying in New Zealand and 500,000 Chinese immigrants, supports the building of trust and brand with mainland Chinese consumers through word-of-mouth and social media, he says.

"Studies have shown that mainland Chinese who have visited New Zealand are five times more likely to purchase 'Made in New Zealand' products."

Slowing economic growth in mainland China could be cause of concern for New Zealand exporters. However, the reality is that China remains a highly attractive market, says Paling.

The upper-middle class and upper class, the focus of most food and beverage sales, numbered 60 million in 2015 and is forecast to grow to 189 million by 2025.

Third-party distributors continue to appreciate the benefit of the 2008 FTA as top-down margin tree costings exclude customs duties from the landed cost – presenting New Zealand with a competitive advantage over other trading nations.

While the large Tier 1 cities are growing ever more competitive and mature, new opportunities are emerging in Tier 2 cities. 2017 should see direct flights to Auckland from the south-western cities of Chongqing and Chengdu, which will help open new regional markets for New Zealand exporters.

Regulatory change, particularly in the much publicised cross-border e-commerce space, will keep companies in the wellbeing and skin care sectors on their toes, predicts Paling.

But there are many positives. New market access protocols for certain organic products and, hopefully, avocado serve as positive signals. At the time of writing, Wellington and Beijing are also advancing formal negotiations for upgrading certain aspects of the FTA.

Marketing: It's all in the approach

When first approaching the China market it's wise to look beyond talk of 'millions and billions' and realise that even the biggest foreign brands in China only capture a small share of that market. For example, says Mark Tanner, managing director of marketing agency China Skinny, the top 100 'bricks and mortar' retailers account for just eight percent of China's total retail market, with the vast majority made up of regionalised and family-owned stores.

He says most successful exporters initially focus on one city, region or cluster of similar cities to launch their products, and agrees that, in many instances, it is wiser to focus on less known, fast growing lower tier cities which still have five to ten million people. For more sophisticated and unfamiliar products, which many New Zealand exports are, consumers beyond tier 1 and some tier 2 cities often aren't ready for them.

Target demographics is another important consideration. Whilst many New Zealand brands may target cashed-up Baby Boomers in their home market, older generations in China are often a tough sell. Chinese millennials (aged 18 to 30) are the highest earning group in China. Someone born in the 90s is seven times more likely to have a university degree to one born in the 70s, says Tanner. "They're also more likely to live in the city, where incomes are three times greater than rural areas."

Millennials are much more liberal spenders – they haven't grown up in austere times and therefore aren't programmed to save.

"Most importantly, they are much more open minded about foreign products and less price-focused than older generations," adds Tanner. "These consumers are very digital savvy – more than any Kiwi demographic – and less responsive to traditional marketing techniques."

Branding: Some fundamentals

Around 500 new products are launched every day in China, according to Tanner. Therefore brands must have