



February 2010 Newsletter

## Trading well, maintaining levels

### 1.1 Market Reports

A “mixed bag” with strong demand from Taiwan & China for selected grades but less strength from the important Korean market. With prices up significantly on last year, some buyers have looked for a price advantage through purchasing cheaper grades (e.g. OG and Damaged). We have had to balance the mixes offered to keep sales of all grades going and get the right price point.

The shift in buying power from Korea to China has continued this season. Everyone has hoped that Korea would “bounce back” from the 2008/09 season however this is a slow process and the reality is that with China’s economic growth averaging 10% p.a. they are providing the strongest demand.

This has positive and potentially awkward connotations for NZ deer velvet. Firstly, and most importantly, China has demand for much more Regrowth, Spiker and Manufacturing that we can produce. Secondly, with

production techniques geared toward maximizing weights per head, the trend in NZ is to heavier sticks meaning more and more Super grades best suited to Korea. Super is not yet of any serious interest to the Chinese buyers. While not yet a headache due to the lower volumes and consistent line taken on pricing, the reality is that production is out-of-sync with the preferences of the (new) main market.

Overall there has been enough interest from the 4 buying areas (Local, China, Korea and Taiwan) to maintain momentum and competition for available stocks. However, there is now **very** limited processing undertaken in NZ for the Korean market.

#### In summary:

The target price of \$100 / kg for a Korean mix is being achieved.

#### Korea

♦ Dried stocks remain low

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The target price of \$100/kg for a Korean mix is being achieved

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He works tirelessly to maintain good relations with our existing customers and “latent buyers”

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“bird in the hand versus two in the bush scenario?”

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## PROMOTION IN KOREA - JAN

On the left

David Kim, NZVM Representative in Korea

2nd from right

Graeme Solloway, NZ Trade & Enterprise, who kindly spoke on FTA progress



- ◆Consumption limited and winter is nearly over
- ◆Stable prices have reduced speculative buying
- ◆The fresh, direct-to-consumer market has almost disappeared, affecting Super and Elk grades

### China

- ◆Good competition for RG & SP grades
- ◆Strength evident from an increasing number of buyers
- ◆Limited interest in buying Korean grades

### Taiwan

- ◆Strong interest for good quality velvet in the SAT/SAP grades, Taiwan style first cut and short Regrowth

#### 2.1

### The Second VSM Payment

The second VSM payment brings the total paid out so far to a weighted average of \$40/kg for all velvet supplied. This will meet the expectations of some and perhaps not others. We are very aware of the need to be “cash positive” however payments are based on completed sales.

With prices up we have now distributed twice the value as at the same point last year.

A comment we hear regularly is that “buyers don’t have to buy in Nov / Dec as NZVM is prepared to sell over a longer period”. This is partially true as we seek to build long-term business however it ignores

the realities of the long seasonal supply cycle, the limited funding available and that the high margins of old have gone.

Currently, it is simply not possible to sell large quantities of velvet quickly and maintain a stable price at economic levels.

Note: If market conditions allow, the 3rd VSM payment currently scheduled for 31st May, will be brought forward.

#### 2.2

### Visit from David Kim

David Kim (NZVM Korean Representative) visited for a week in February. He works tirelessly to maintain good relations with our existing customers and “latent buyers”. His visit was an excellent opportunity to discuss balancing the demands of our supply situation with in-market realities as this requires considerable effort to understand buyer preferences and what is workable.

The efforts being made to stabilize prices are not universally popular as old habits around speculation die hard however we are certain that, over time, benefits that are already clear to our regular buyers will be accepted by others in a marketplace that is widely agreed as being “inelastic” on price.

There is no room to abuse the trust of our buyers and it is critical that they get an advantage from dealing with NZVM on a long term basis, a process

made harder by the very different viewpoints, paraphrased as:

**Korean thinking:**

- ◆NZ farmers can be easily persuaded to sell for cash
- ◆NZ always has a lot of unsold stock
- ◆Any price is OK, as long as I can buy for less than my competitors

**Kiwi thinking:**

- ◆Koreans always want to buy velvet, the only issue is price
- ◆Extending the selling season means we are banking the buyers
- ◆Any price is OK, as long as I can sell for more than my neighbour

Perhaps they aren't that different after-all!

### 3.1

#### **The effect of freedom of choice**

The issue of how best to extract maximum returns from off-shore markets is largely the same across all sectors of NZ agriculture and horticulture, with the + / - of combining resources to be efficient and to sell stronger into world markets being consistent topics for debate for all farmers.

While the argument for consolidation is hard to disagree with at a philosophical level, when it comes to the crunch, who is really happy to have their choices reduced down to one? Particularly when presented with the “bird in the hand versus two in the bush scenario?” which is so prevalent in the velvet industry.

Of course we are referring to the decision to support NZVM with its VSM plan or sell elsewhere to a buyer who will be purchasing on behalf of an in-market counterparty seeking to buy at the lowest possible price. We respect that a personalized service is powerful competition and that at the farm-gate we are operating in a “free world”.

However, the markets we deal in do not reciprocate the same level of freedom. Access is

significantly restricted which stymies promotion to consumers, development of new products and general market growth. It is not outrageous to suggest this is why the Korean market for velvet has stagnated; over protectionist policies have stopped the growth of demand. Growth which is vital to our industry.

Making constructive change is a long, slow process but we have to start somewhere. NZVM's consistent pricing and spread payment strategies are not necessarily appealing to everyone but are vital steps toward enabling importers and distributors to develop their businesses with YOUR product. With strong links to serious buyers we can make progress. Anything that undermines this is counterproductive.

Without the commitment of in-market distributors to develop new and better business for deer velvet, based on regular supply and stable prices, the passion of NZ's growers will be wasted. For NZVM, getting a successful commercial balance is complicated however the fundamentals are actually very straight forward.

As an industry we must develop better business than in the past, business that maximizes the return for a product that clearly reflects market signals - without the influence of speculation.

Note: we are always happy to discuss the facts in greater detail with suppliers.

### 3.2

#### **Summary**

There is enough strength in the combined markets to sell at a consistent price – but there is no nirvana of super high prices. THESE DAYS ARE GONE. A review of the historical averages suggests that we are currently in the right range and until a new innovation or similar boosts demand there is little or no headroom for major price increases.

We are trading well and maintaining existing levels. The best indication that we are on the path to success being relative stability of prices through the rest of this season – and into the next.

*“The freeway is quicker but the back roads are more interesting”*