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## NZ Velvet & Co-product Industry Strategy 2005-2010:

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### **1 Introduction**

This document is written as an industry strategy. It provides strategies, action and measurements that the NZ velvet industry should undertake to achieve its goal of being a sustainable and profitable industry.

The strategy is industry based rather than a Deer Industry New Zealand strategy. It is founded on the principle of industry partnership as described by the 3 Partners: 1 Vision agreement where the industry collectively is in a stronger position to achieve sustainable profitability with all partners – producers, processor/exporters and their customers - working together towards common agreed goals, and where individual companies also compete.

While the strategy distils a direction and a set of agreed targets common to industry participants, individuals and companies will also have their own commercial initiatives. The strategy aims to ensure efforts are aligned behind common agreed goals but must avoid stifling competition and innovation.

It is not intended to be a completely new strategy. It builds upon current strategies as well as raising new areas to develop markets and tap potential growth.

### **2 Background**

In the space of 35 years, New Zealand has grown to become the largest producer and exporter of deer velvet in the world. It has a strong supply base and a reasonably large number of processors of both traditional and non traditional product forms.

New Zealand velvet's predominant market is the Republic of Korea which has an essentially robust economy with good long term growth prospects (acknowledging geo-political risks, eg from North Korea). Consumers value the benefits that velvet provides, and as a product with good margins, oriental medicine doctors are motivated to prescribe it.

As a health-related product, the longer term prospects for velvet are also positive as demand for health products will grow as the population ages, lives longer and therefore requires more health care.

However over the longer term, production tends to be rising while per kilo returns are decreasing as shown in Figure 1 below.

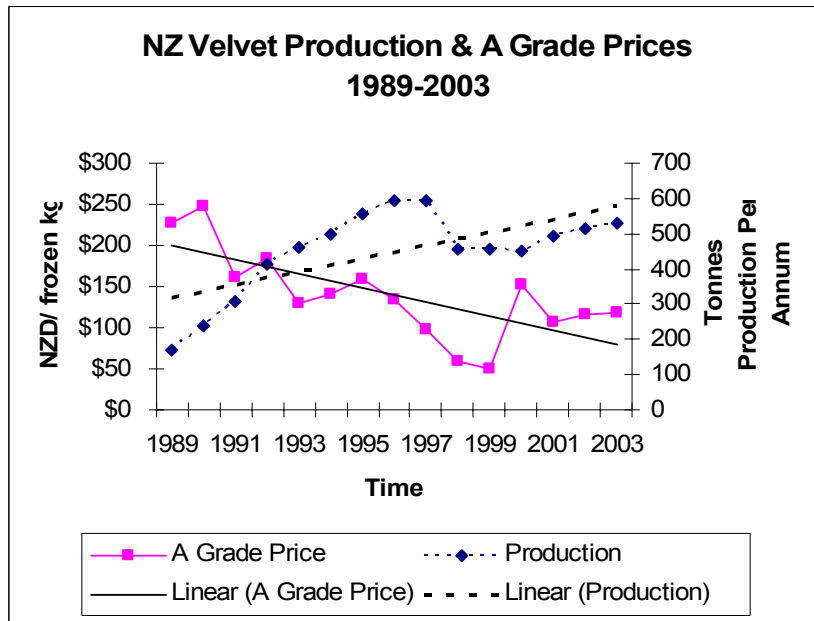


Figure 1

This occurs where velvet producers are motivated by returns to increase supply, however supply increases at a rate faster than demand causing a reduction in prices. This logically continues until the price is low enough so that producers are no longer motivated to supply additional velvet.

The challenge is to:

1. Grow value and demand in Korea for increased production;
2. Grow value and demand in other markets so that volumes available to Korea are lowered and to reduce reliance on Korea; and
3. Manage supply in line with market needs as much as possible.

It is contingent that the higher value and benefits of increased demand can be captured by the New Zealand industry.

The New Zealand velvet industry also faces challenges to ensure that welfare obligations are met while also providing a safe, effective product.

### 3 A Framework for Considering Markets

The industry uses the framework below to consider possible markets and products for New Zealand velvet that is helpful when considering opportunities:

		PRODUCT FORMS	
		Traditional	Non-traditional
MARKETS	Traditional	<b>TRADITIONAL ASIA</b>  <i>Traditional markets in Asia (Korea, China, Taiwan)</i> <ul style="list-style-type: none"> <li>• <i>Whole Stick/Sliced</i></li> </ul>	<b>NEW ASIA</b>  <i>Younger market segments in Asian markets (Japan, Korea, China, Taiwan)</i> <ul style="list-style-type: none"> <li>• <i>Further processed product forms</i></li> </ul>
	New	<b>ASIAN IMMIGRANTS/VISITORS</b>  <i>Asian immigrant populations in Canada and USA</i> <ul style="list-style-type: none"> <li>• <i>Whole Stick/Sliced</i></li> </ul>	<b>WESTERN MARKETS</b>  <i>Non traditional markets, eg USA &amp; NZ</i> <ul style="list-style-type: none"> <li>• <i>Dietary supplement (incl. pets and performance animals)</i></li> <li>• <i>Other velvet derived products which provide health benefits</i></li> </ul>

Table 1

### 4 Goals, Strategies and Key Performance Indicators (KPIs)

#### 4.a Traditional Asia

<p><b>Goal: Increase sales of NZ velvet in traditional markets<sup>1</sup>:</b></p> <p><b>Korea:</b> 45 tonnes frozen equivalent in markets other than the whole piece pharmaceutical category by 2010</p> <p><b>Taiwan:</b> 50 tonnes frozen equivalent by 2010 (currently 20 tonnes frozen equivalent)</p> <p><b>China:</b> 55 tonnes frozen equivalent by 2010</p>
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#### Strategies

##### *Korea*

Building demand and creating value in Korea requires:

- Reasonable access to the market
- Reasonable border costs to make the product economically viable
- That the product maintains its origin and integrity.

Therefore:

- Ensure unofficial trade becomes less economic by having the Special Excise Tax (SET) on velvet removed (in progress)
- Gain full access to the Korean market by:

<sup>1</sup> Issue with measurement. Exports show the country where the velvet is exported to, not necessarily where the velvet is consumed. Possibilities: make assumptions re on-shipping (eg, 80% to Korea), or use import statistics rather than export.

- Gaining access for sliced NZ velvet (in progress) and making the most of new access
- Gaining the option of selling NZ velvet as an agricultural item (not started)
- Gaining access for further processed product (FPP) eg, capsules, tonics and extracts.
- Work collaboratively with commercial partners using joint promotional funds that have aligned goals (in progress) that includes identification of country of origin
- Undertake generic campaigns to support partners' promotional activities
- Investigate employing a Korean staff member.

*KPIs*

- Percentage size of SET
- Quantity of sliced velvet exported to Korea
- Quantity of NZ velvet exported as an agricultural item
- Quantity of velvet FPP exported to Korea
- Company spend on joint promotion in Korea
- Industry investment in generic Korean promotion.

*Taiwan*

- Gain better access to Taiwan for frozen velvet by lobbying the Council of Agriculture and if necessary the farming lobby. Possible angles:
  - Pay surcharge to ROC farmers for their own industry development, or generic promotion of velvet, in return for support on removal of quota
  - Further investigate grounds for WTO action
  - Retain assistance in market to begin a lobbying effort (similar to SET in ROK).
- Undertake generic and/or joint promotions.

*KPIs*

- Size of frozen velvet quota to Taiwan
- Quantity of frozen velvet exported to Taiwan
- Company spend on joint promotion in Taiwan
- Industry investment in generic Taiwanese promotion.

*China*

- Information gathering on any access issues for both traditional and modern velvet product forms
- Identification of ways to solve any issues identified eg:
  - Collaborate on an industry brand that is a channel to get velvet into PRC. That is, form a company made up of industry participants interested in PRC business. Operate a single brand that has access to PRC. Companies then act commercially with their own distribution arrangements. Joint brand would make promotional spend more efficient
  - Co-fund an industry member to gain access to China and use the process as a template for others to gain access.
  - Support and encourage bi-lateral and multi-lateral efforts to improve access conditions.
- Information gathering on potential sales and market development opportunities
  - Categories (gifts, TCM etc)
  - Distributors (importers, wholesalers, retailers)

- Possible collaborators (Chinese deer industry, Kiwi-Chinese, Other deer industries)
- Product forms (whole piece, sliced, further processed).
- Develop further medium and long term strategy.

*KPIs*

- Number of companies participating in a co-branded company
- Quantity and value of velvet sold through the company.

#### 4.b Velvet as a Dietary Supplement in Western Markets

**Goal: Increase sales and distribution of NZ velvet in western markets in the area of sports nutrition.**

##### Issue

At first glance, velvet appears well suited as a nutritional supplement for athletes because:

- NZ research has shown signs that velvet provides some benefit to athletes (although the research is not unequivocal)
- Previous Russian research has indicated some positive benefits
- Consumers of nutritional athletic performance supplement have:
  - a male skew and velvet is perceived as a product more for males
  - less price sensitivity – they are willing to spend for perceived benefit (velvet is an expensive raw material)
  - less animal welfare concerns given the male skew and focus on efficacy
  - a perception that velvet is about 'virility' - and it's a relatively short step to 'vitality'.

But, velvet is more highly priced, it's an animal-derived supplement, there is a lack of consumer and trade knowledge of the product, a lack of market empathy with the product and there is a need to confirm velvet's safety. Therefore, it is fundamental to show strong efficacy and benefit from taking velvet. It is unclear whether the research conducted and being conducted is strong enough to convince trade and consumers to carry and consume velvet.

Also, there is a risk that velvet could be deemed a banned substance rather than a nutritional supplement.

## Strategy<sup>2</sup>

- Get an independent assessment of the strength and 'market-ability' of the athletic performance research conducted to date
- If strong, bundle and present athletic performance data to key manufacturers and distributors in sports nutrition and get opinion of whether it is a banned substance
- Provide distributors with a product supplier
- Provide sales support material to distributor
- Undertake generic brand building campaign and JP support for distributor promotion.

## KPIs

- No. of distributors to pick up product
- No. of NZ companies to have relationship with US distributors
- Export stats: quantity and value.

## Issue

Regulations relating to dietary supplements around the world are tending to become stricter, less flexible and consider dietary supplements more as a medicine than a food. This has the potential to place regulatory impediments in the way of market development for velvet products.

## Strategy

Through research, ensure deer velvet as a supplement is accepted as a safe ingredient with efficacy in Australia, New Zealand under harmonisation, plus Canada, USA, and other places this is an issue and where there are market development opportunities that can be realised.

### 4.c Velvet as a Wound Healing OTC

<b>Goal: Market velvet antler, or a product originally derived from velvet as a product for wound healing by 2010.</b>
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#### Strategy:

- VARNZ undertake product development to an agreed stage
- Licence the IP to a new company responsible for product development and commercialisation
- Offer NZ deer industry the opportunity to buy shares in that company.

#### KPIs:

- Net Asset Value of company.

### 4.d Research

#### Issue

Velvet has some unique physical characteristics, a tradition of use for a wide range of benefits and biological activity. However, to be accepted in new, non traditional markets, it must have proven benefits using clinical research.

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<sup>2</sup> A scan of the quantity of velvet sold through FPP is required.

- Undertake research on additional health benefits velvet is purported to provide
- Understand velvet's mechanism's of action as required
- Gather basic safety information as required.

#### 4.e Industry Standards for Velvet Products

**Goals:**

10 companies regularly using the Industry Standards  
10 companies using VAI™

**Issue**

By its nature, there can be widely varying quality from one velvet product to the next that is not easily recognisable to the consumer.

**Strategy:**

- Continue to support the operation of Velvet Quality New Zealand's Industry Agreed Minimum Standards
- Support the adoption and use of the Velvet Activity Index™ as an effective means of product comparison
- Investigate whether the VAI™ could be incorporated into the VQNZ Industry Agreed Minimum Standards
- Make VAI™ available for NZ industry use.

**KPIs**

- Number of companies using the industry standards
- Quantity of velvet qualifying.

#### 4.f Welfare

**Goals:**

Maintain welfare integrity of NZ velvet  
Maintain pragmatic velvet removal practices

**Issue**

The NZ deer industry must meet its obligation of proper animal welfare (including welfare during the removal of velvet) while still providing a safe product.

**Strategy:**

- Continue to support the operation velvet removal programme (accreditation, auditing, monitoring and enforcing)
- Continue velvet removal studies that ensure animal welfare while meeting residue requirements.

#### 4.g Other possible strategies/opportunities:

Where companies have a particular area of expertise or opportunity, undertake market development through individual company initiatives and joint promotion with Deer Industry New Zealand. Possible areas include:

- Pet market
- New Asia
- Asian immigrant populations, eg in Australia, Canada and USA
- Asian visitors to New Zealand.

#### **4.h Deer Co-Products**

Consider co-products in two groups:

- Co-products used in TCM (tails, pizzles and sinews)
- Other co-products not currently productively used (liver, blood, kidneys, hearts, lungs, glands).

There are currently reasonable, well established markets for TCM co-products. The bulk of these products are exported frozen. Some are dried by local processors. There appears to be little motivation to change this.

Other co-products that are currently predominantly rendered may present opportunities for product development.

##### **Issues**

- There has been little compositional analysis or basic research on co-products that is available generically to the NZ industry (although individual companies may have conducted some)
- There is reasonable business selling dried sinews to Korean visitors. However, there are constraints on the export of sinews directly to Korea
- There has been industry comment that joint promotional funds are available to support velvet industry good promotion, but not for co-products.

##### **Strategies:**

- Undertake compositional analysis and basic research into co-products' attributes to support company initiatives where there is industry good benefit and the work is seen as a priority by DEEResearch. Work must not duplicate or compete with commercial initiatives
- Solve issues that prevent the export of sinews to Korea
- Support industry good components of co-product promotion with funding from velvet and venison joint promotion budgets.

##### **KPIs**

- Compositional analysis complete on tails, pizzles, sinews and blood
- Work conducted on other co-product to assess opportunity
- Access for NZ sinews to Korea achieved.

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## Velvet Industry Strategy: 2005-2010 – One page summary.

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### *Introduction*

- The industry Strategy is founded on the principle of industry partnership where the industry collectively is in a stronger position with all partners working together towards common agreed goals and where individual companies also compete.
- In the space of 35 years, New Zealand has grown to become the largest producer and exporter of deer velvet in the world. It has a strong infrastructure. But it faces significant challenges.

### *The Challenges*

- Long term, velvet supply is increasing while per kg returns are decreasing
- The industry is reliant on Korea which means:
  - a) less competition for NZ's velvet
  - b) the market is over-supplied as production increases
  - c) if there is a problem in Korea, NZ velvet has few options.

### *The Strategy: 6 key objectives that lead to a sustainable NZ velvet industry*

1. **New channels and NZ velvet products in South Korea.**
  - Gain good **access** to the Korean market for finished product, eg sliced velvet, tonics and other further processed product. Be able to distribute as local Korean velvet. Have lower border costs through **removal of the SET**
  - Assist companies selling NZ velvet through **joint and generic promotion**
2. **New sales of NZ velvet in Taiwan**
  - Gain good access for NZ **frozen** velvet to Taiwan
  - Assist companies selling NZ velvet through **joint and generic promotion**
3. **New sales of NZ velvet in China**
  - Have good **access to China** for traditional (whole piece, sliced) and non-traditional (tonics, capsules, sprays etc)
  - Assist development of **distribution** arrangements (eg, single brand, range of distributors)
  - Assist companies selling NZ velvet through **joint and generic promotion**
4. **Wound healing product derived from NZ velvet**
  - Revenue from a **wound healing product** with benefits flowing back to the NZ deer industry (eg royalties and/or product sales)
5. **Athletic performance product derived from NZ velvet**
  - Industry sales from an **athletic performance product** with benefits flowing back to the NZ deer industry
6. **New product development opportunities for NZ deer velvet**
  - Have a pipeline of new velvet **product development opportunities** flowing from research (eg, cartilage growth, anti-aging benefits, blood health)

### *Other 'Non Negotiables'*

- The NZ velvet industry must be meeting its **welfare obligations** (and shown to be)
- The products the NZ velvet industry sells must be **fit for intended purpose**, and shown to be so. Eg Industry Agreed Minimum Standards and Velvet Activity Index™.
- **Existing market access** must be reasonable (NZ/AUS harmonisation and USA regulations)