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Evaluation of the potential to expand horticultural industries in Northern Australia

Second International (China) Field Study Report

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Purpose of the second field study

The second field study in China follows on from the field study conducted in China, Singapore and Hong Kong between April and May 2019. This second field study aims to identify market opportunities for Australian mangoes, avocados and lychees, to define further actions, strategies and improvements required to expand direct exports and improve market share, particularly in China. This study complements our previous field study by providing a more comprehensive understanding of the Chinese market. This market is changing rapidly and is driven by consumer preferences, marketing, supply chain logistics and innovative programs and approaches by international competitors that are extensive, diverse and well resourced.

1. Field study design

The field study comprised face-to-face interviews and in-field observations. Open-ended questions were employed under the following themes: (a) import and sales performance; (b) direct import growth; (c) value-adding with disruptive technology; (d) market development; and (e) market outlook for mangoes, avocados and lychees.

2. Data Collection

The second field study was conducted in China from 26 November to 1 December 2019. A total of seven companies were interviewed and two wholesale markets were observed in Guangzhou and Shanghai. Table 1 provides the profile of organisations interviewed and observed in Guangzhou and Shanghai and time spent with each organisation.

Table 1 Profile of organisations interviewed and observed in China

No	Business type	Company location	Data collection method	Time (m)
1	Importer and wholesaler	Guangzhou	Interview	40
2	Importer and wholesaler			30
3	Import agent and distributor		Interview & observation	30
4	Import agent and distributor	Shanghai	Interview	35
5	Import customs broker			40
6	Online and offline retailer			60
7	Import business developer			35
8	Guangzhou Jiangnan market	Guangzhou	Observation	120
9	Shanghai Huizhan market	Shanghai		90

3. Analytical results

3.1 Import and sales performance

3.1.1 Challenges for direct imports of Australian mangoes into China

- Quality degradation and unpredictable shelf life due to the Vapour Heat Treatment (VHT)
- A lack of VHT capacity in Australia and large distances between farms and VHT facilities.
- Australian suppliers can not meet the importers' quality requirements, such as blush ratio. Two wholesalers indicated that blush ratio for Class 1 fruit, hardness and colour are required quality characteristics. However, suppliers cannot ensure what they get. Generally, they just receive 30-40% of Class 1 fruit.
- Retailers are unable to import directly due to minimum order quantities. They cannot absorb the costs when they order a shipment.

- Australian suppliers' lack of collaborative spirit with Chinese importers was noted. It seems that the procurement with Australian suppliers is a one-off transaction rather than strategic partnership building.

3.1.2 Sales performance of Australian mangoes against competitors over the last year

- Australian mangoes compete largely with mangoes from Peru, Vietnam, and Cambodia as well as local Chinese produce.
- Australian mangoes are well-accepted in China as they outperform other mangoes in terms of flavour, colour and size. In contrast, Peruvian mangoes are less sweet and have a less attractive colour.
- Australian mangoes do not have a cost advantage compared with other mangoes due to production costs.
- Although Australian mangoes are normally available from November to March, the sales period for Australian mangoes is mainly around Chinese New Year which drives significant consumption increases, which is often in January or February.
- Australian original boxes are changed for a couple of reasons:
    1) Fruit cannot meet importers requirements and need to be re-graded;
    2) Mangoes from the grey channel don't want to reveal their import channel;
    3) Original Australian boxes are not appealing for gift-giving purposes. Chinese packages are designed for their market, in terms of numbers of fruit and weight.
- Australian mangoes are often regraded into two grades (i.e. Grade 1 and Grade 2 – See Table 1) and repacked with attractive boxes to fetch a better price, while Peruvian mangoes are generally sold with the

original boxes. Repacking and handling can cost about RMB 30 per box, which creates a disadvantage for Australian mangoes and may indicate a lack of market knowledge that is hampering export growth.

- Australian mangoes are often sold at the same price as Peru Sun mangoes at retail outlets but with narrower margins. Figure 2 shows Australian mangoes displayed for sale in two premium supermarkets in Shanghai.

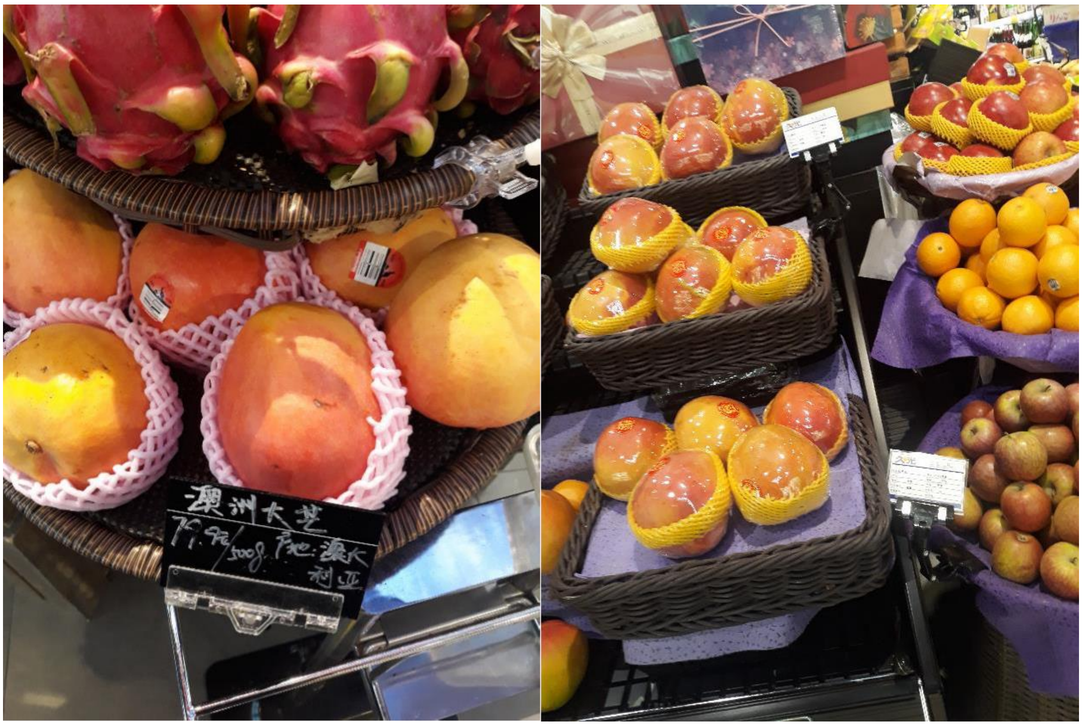

Figure 2 Australian mangoes displayed for sale in two premium supermarkets in Shanghai
(Left: Manbullo Mangoes in Ole at $15.98/500g; Right: Big Tiger Mangoes in Fresh Mart at $25.6/500g; exchange rate: 1AUD =5 RMB)

3.1.3 Comparative sales performance of Australian mangoes over the last year

- The sales volume in the wholesale markets, including Guangzhou and Shanghai, was lower compared with the same period last year. This is mainly due to the strict regulation of the Hong Kong supply chain by the central government. In the context of the trade war with the USA, Chinese authorities have strictly monitored the Hong Kong supply chain to control imports of American products into China. The strict regulation has also concerned many importers who move Australian mangoes into China via the Hong Kong.
- The first shipments of Australian mangoes generally sell well, and then market demand weakens (See Table 2). Generally, importers who deal with the first shipments can earn excellent returns, but importers can suffer from losses for ensuing shipments.

Table 2 A snapshot of Australian mango wholesale prices in Guangzhou and Shanghai

Market	Date	Brand	Variety	Grade	Size count/per box	Price (AUD)
Guangzhou Jiangnan market	9/11/2019	Big Tiger	R2E2	Class 1	10	110
					11	106
					12	100
				Class 2	11	86
					12	80
		Phoenix	Calypso	Class 1	9,10	80
				Class 2	10	80
					11	58
		Koala	Kensington	-	9,10,11	80
	13/11/2019	Big Tiger	R2E2	Class 1	11	100
				Class 2	11	80
					12	76
		Sun Phoenix	R2E2	Class 1	11	-
				Class 2	10	60
	16/11/2019	Big Tiger	R2E2	Class 1	9,10	106-108
					11	100
				Class 2	10	84
					11	76-80
		Sun Phoenix	R2E2	Class 1	10	80
				Class 2	10	70
					11	62
	19/11/2019	Big Tiger	R2E2	Class 1	9,10	100
					11	96
				Class 2	9,10	60
Shanghai Huizhan market	29/11/2019	Manbulloo	R2E2	-	M6	72
		Big Tiger/ Phoenix	R2E2	Class 1	9-12	84
				Class 2	9-12	80
		Gogofruit	R2E2	Class 1	11-13	74-80
				Class 2	11-13	64-72

Note: Exchange rate: 1 AUD= 5 RMB.

- The sales of Australian mangoes in November were generally not as good as expected. Two reasons could be:
    - China's economic downturn has weakened consumer's purchasing power
    - Sales windows are outside of the high demand period (Chinese New Year)

3.2 Growth of direct imports

3.2.1 Likelihood of increasing direct mango imports from Australia and barriers

Given risks and unofficial imports (generally known as grey imports in which the branding is removed and provenance obscured) via Hong Kong over the last two years, wholesalers interviewed expressed their strong willingness to be involved in the direct import of Australian mangoes.

- Wholesalers would like to import directly if:
  - Mango shelf life can be more controllable and predictable following VHT;
  - Their suppliers can conduct VHT;
  - They have reliable suppliers in longer-term, less transactional and more collaborative relationships.
- Retailers would like to import directly once they have established procurement modes to supply their customers. However, they still intend to buy from their local suppliers, the wholesale market or both.

3.2.2 Forecast of direct imports of Australian mangoes into China over the next five years

- Direct imports unlikely to change if the issue with short shelf life due to VHT cannot be addressed.
- Other international competitors are investing largely in the Chinese market at the national, industry and individual supply chain levels. A particularly good example of this is the high level of coordination by Peru.

3.2.3 Efforts in expanding direct imports, and who is in the best position to assist this

- Work to address issues affecting shelf life incurred by VHT
- Develop closer relationships with importers, provide the necessary support and potentially share risk and profits with importers. The reality is that Chinese importers currently cannot consistently profit from Australian mangoes –largely due to inconsistencies in fruit quality and scale.
- The Australian government could increase the level of collaboration with China’s quarantine authorities to change or upgrade existing VHT methods. Importers don’t like unofficial supply chains due to higher costs.
- Develop an in-depth understanding of the exact market requirements and assess the reasons why Australia cannot meet import specifications. For example, the requirements for the Chinese market are different from Australia’s local market.
- Segment the market demand, and work with potential Chinese importers to open market channels and identify customers for both Class 1 and Class 2 fruit to drive the demand for Australian mangoes.

3.3 Value-adding with technology

3.3.1 Direct imports of Australian mangoes assisted by new technologies

To augment efforts through bi-lateral and multilateral trade negiotiations and agreements, are efforts to increase the visibility of the progress of products through their entire supply chain. The desired effects are increases in the depth of trade relationships and responsiveness of growers to consumer needs, supported by:

- Increased transparency in the supply chain, potentially using blockchain to distinguish official imports from unofficial imports.
- Fruit must go through official channels if a full traceable logo is to be provided. This may increase direct imports – although direct imports also depend on the improvement of VHT.

3.3.2 Sales performance of Australian mangoes benefited from supply chain traceability

- Wholesalers argue that a traceable supply chain cannot offer them a competitive edge; however, it could be a good selling point and help online and offline retailers to distinguish between and promote the fruit.
- Retailers maintain that traceable information can add extra value through provenance but recognise that this is not the key element driving sales and pricing.
- Consumers are concerned about food safety and security but do not know much about the full traceability of the products. But, providing full traceability could add extra costs to supply chain partners.
- Chinese consumers have not yet displayed a desire to know from which regions within a supplying country the fruit is produced. For Australian fruit, it is sufficient to know the purchased fruit comes from Australia. Also, some consumers don't know how to use the system to trace fruit. As the traceability system provides information in English, the majority of consumers don't understand the information given, hampering consumer awareness and education.
- Demand and competitiveness could be increased with the improvement of VHT methods, traceable logos and consumer education. Consumer education and promotion are essential in both wholesale markets and retail outlets.
- After improving VHT, it could be feasible and economical to supply customised small packages supported by educational and promotional materials targeting premium market segments. Consumers cannot afford a large box of fruit, which is very expensive; however, they can afford a small package of 2-6 fruit, which is tailored to family consumption.
- Using traceable information may not increase volume. However, if traceability is linked with high quality and consistency, this could greatly improve the sales and competitiveness of Australian mangoes. For example, product tagged with a QR code, which can be scanned to trace its production and quality attributes. This is already in place for other horticultural industries.

3.3.3 Whether Australian mango brands could be protected by a traceable supply chain

All companies interviewed strongly agree that Australian mango brands could be protected by a traceable supply chain.

Two trends could negatively impact the reputation of Australian grown mangoes.

1. Australian mangoes (R2E2) planted in China, Vietnam and Thailand are available in China. Although their availability is different from Australian R2E2, Chinese retailers call them "Australian mangoes" and do not indicate their production regions/countries. As the Chinese R2E2's flavour and colour are somewhat different from the Australian fruit, this may make consumers think Australian mangoes are not high quality and deter purchases of original Australian mangoes. A solution is branding, traceability, awareness and education, and a complete marketing effort to fully differentiate the fruit. This would be aided by the distinctive packaging of small numbers of fruit and targeted at appropriate market segments.

2. Online retailers very often give inaccurate or misleading information when they sell Australian mangoes. This may also tarnish the reputation of Australian mangoes. Greater control of markets through traceability and branding will help reverse these negative effects. Strategic partnerships with Chinese importers, wholesalers and retailers would be an effective way to justify the additional cost of distinguishing Australian fruit.

3.4 Market development

3.4.1 Efforts to improve the distinctiveness and competitiveness of Australian mangoes

- Offer competitive pricing via direct channels– Australian mangoes are too expensive compared with local produce and mangoes from Vietnam, Peru and Cambodia
- Enter risk-sharing agreements with Chinese importers
- Support importers, including wholesalers and retailers, to promote Australian mangoes
- Maintain quality consistency – Australian mangoes are well-received by Chinese consumers for their appearance, strong sweet flavour and size when quality can be guaranteed
- There are no substantially different requirements among different cities and regional markets in China. Quality is the key element that determines if the fruit can be sold at a higher price
- Australian suppliers need realistic expectations about the Chinese market. High expectations of the Chinese market leads to unrealistic assumptions about gaining higher sales prices with poorer quality fruit. Greater market experience and knowledge should help remove these assumptions
- Invest in the necessary support for importers to promote Australian mangoes. Without support from exporters and industry associations in Australia, importers cannot achieve the success that exporters are looking for, especially as there are no incentives to move beyond a transactional relationship.

3.4.2 Efforts to increase the demand for mangoes in the Chinese market

- Work to achieve production and grading standardisation and ensure quality consistency – link excellent quality and consistency with traceability
- A box of Australian mangoes is sold at RMB 400-500, which is very expensive for an average family. Demand primarily comes from a niche market which can be appropriately targeted with extensive and effective marketing, data and effective cold chains to maintain the quality of the fruit as they progress along their supply chains.
- Work with chain store retailers to promote the fruit. Calypso mangoes did not sell well in the wholesale market last year. This year, the Perfection Fresh import agent has worked with chain-store retailers to promote the mangoes to achieve larger sales volumes.
- New Zealand and Chile are two successful suppliers. Firstly, they have used China-based marketing and research groups to analyse Chinese consumer preferences and buying behaviours and using this information launched appropriately targeted promotion strategies to capture consumers' attention. This strategy is successful because of the time and investment taken to know the market and target their fruit sales accordingly. This then creates market efficiencies that provide margins that reinforce

their export strategies. A national approach should be taken as fragmented approaches between states and territories are not going to be effective.
- Calypso's agent model is successfully established and should be profitable in the long term. To date, very few Chinese importers have worked closely with their Australian suppliers to configure supply chains for efficient operations.

3.4.3 Competitive import models Australia can learn from

- The import of Chilean cherries into China is the most competitive model
  - The Chile industry association is heavily involved with Chinese wholesalers and retailers to promote Chilean cherries across regions in China. The Chile cherries industry has a budget of USD500 Million to be invested in the Chinese market to promote their cherries. This year they will increase their exports to China. Promotional events can help boost demand to some extent, however, these are just a part of a much wider well-resourced strategy. The recognition of Chile cherries among Chinese consumers is increasing year by year.
  - In contrast, the promotion of Australian fruit in the Chinese market is rather weak, with limited investment in marketing, logistics and long-term market building.
- Explore market potential based on a good understanding of markets and consumers
  - The apple case – Even though Australian apples cannot be legally exported to China as yet, Australian apples entered the Chinese market much earlier than New Zealand apples. However, given the status of trade negotiations, Australian apples are understandably rare. New Zealand's success in opening up the China market, opened the door to exporters eager to send more apples to China. More volume coming in, supported by effective marketing and cold chains, also disturbed the market and reduced sales prices, making it difficult to compete for new entrants.
  - Australian cherries are not competitive with importers preferring New Zealand cherries over Australian cherries. Tasmanian cherry suppliers experienced high demand from China over many years, but did not invest in the market and were overtaken.
  - Australian citrus and table grapes are relatively successful cases. Table grapes and citrus have a market portfolio and do not rely just on the Chinese market.

3.5 Market outlook for mangoes, avocados and lychees in the next five years

3.5.1 Chinese market outlook for mangoes, avocados and lychees

- **Mango market outlook**
  - There is a strong demand for Australian mangoes but market competition will increase due to increasing domestic production and market access to more supplying countries. However, there are still niche markets for Australian mangoes. If full marketing, strategic partnerships, education, awareness, and responsive production and logistics practices can be further developed, demand will increase.
  - The export of Australian mangoes, including R2E2 and other new varieties, will increase if more suppliers can export via the official channel.
  - More importers will enter the fruit import industry if volumes and returns increase.

- Although market competition is fierce, it could be profitable if Australia can build and improve its
- National brand with the help of government, industry bodies, and rural Research and Development Corporations.

- **Avocado market outlook**
  - China's imports of avocados will be continuing to increase thanks to the growing recognition of this exotic fruit.
  - The avocado market in China will be continuing to increase if demand is generated from consumers in second and third-tier cities.
  - The competition in the Chinese avocado market will be intensified with more supplying countries gaining market access to China. As of 29 November 2019, the Philippines has become an avocado supplier to China after Mexico, Chile, Peru, New Zealand and Kenya.
- **Lychee market outlook**
  - China's lychee market will be still dominated by domestic production, albeit with imports from Thailand and Vietnam.
  - China's lychee market will be growing due to the high recognition of this fruit among consumers.
  - There will be strong demand for Australian lychees if they are approved for market access given Australia's counter-seasonal production to China.

3.5.2 Opportunities for Australian mangoes, avocados and lychees in China

- **Recognition and acceptance**
  - Australian mangoes (R2E2) are well accepted in the Chinese market. The quality of mangoes from Peru and Ecuador cannot compete with Australia. In the winter season, there is a limited selection of fruit, excluding cherries and mangoes.
  - Lychees are a well-recognised fruit in China.
  - Consumers have become increasingly familiar with avocados thanks to promotional activities from South American countries. Despite this, the average consumption is still very low and there is substantial room to increase market demand and size.
- **Changing consumer behaviour, shifts in diet and health**
  - An increasing number of consumers have shifted their consumption to more healthy and nutrient-rich foods. Meanwhile, consumers have a higher requirement for food safety and prefer ready-to-eat foods.
  - Many young consumers would like to eat exotic and new food products.
- **Changing urban patterns**
  - Increasing demand for quality foods from 3rd and 4th-tier cities.
- **High quality and/or new foods or varieties**
  - For example, City shop currently only sells Mexican avocados as their quality is superior to avocados from Chile and Peru.
  - Opportunities exist to exploit niche and differentiated markets based on quality and provenance.

3.5.3 Challenges for Australian mangoes, avocados and lychees in China

- **Competition from other countries**
    - As of 29 November 2019, China has approved imports of *Hass* avocados from the Philippines, which will join Mexico, Chile, Peru, New Zealand and Kenya in the Chinese market.
    - Australian avocados are similar to New Zealand's in terms of quality and price and therefore it is hard to break into the Chinese market with large quantities currently.
    - Year-round supply from other established suppliers, particularly Mexico, gives them an advantage.
- **Export-orientation**
    - Strong domestic market performance limits Australian grower appetites for fruit export. Only a small number of growers will be export-oriented.
    - The support from the Australian government in export development needs to be compared with other southern hemisphere countries. In some cases such as Chile, it is the industry association that is driving the opening of the China market.
    - Australian exporters compete with each other and do not display an intention to work closely with Chinese importers. Those from other countries do, so there are market benchmarks in place that can be learned from.
- **Growth in Chinese production**
    - Locally produced mangoes are available throughout most of the year.
    - Locally produced avocados are available, depending on variety form July to the mid-October.
- **Changing consumer behaviour/shifts in diet and health**

  More consumers are concerned about ensuring they have a healthy diet. One aspect of this is a trend that leads many consumers to choose less sweet fruit as they are perceived to have lower sugar levels.
- **Inconsistent procurement**
    - Most Chinese importers cannot gain consistent returns from importing Australian mangoes. Commonly, importers will earn one year and lose the next year. Because of this, most importers do not have a purchase program with their suppliers. Their purchases are mainly based on market performance and expectation.
- **Quality expectations**
    - Probably due to the economic downtown in China this year, retailers often have higher requirements when sourcing Australian mangoes from the wholesale market.
    - Secondary wholesalers and retailers tend to ask for longer shelf life. However, due to current VHT methods, mango maturity is hard to control and the shelf life tends to be shorter. Mangoes are too mature to sell after two days of transportation from Shanghai to the north of China. Because of this, secondary wholesalers and retailers do not want to purchase Australian mangoes. Direct import into northern cities may offer a partial solution to this dilemma.
    - It is hard to control the quality of Australian mangoes, particularly from VHT
    - The brand distinction, copying (fruit fraud), misleading information and levels of promotion from retailers remains an issue that requires deeper long term relationships rather than transactional ones to

remedy.

4. Ongoing strategies from the second field study

4.1 Industry perspective

1. **Build a nation-wide fresh fruit association or coordinate existing fruit associations to launch promotion and sales campaigns, to attract consumer attention and build strong awareness and acceptance of premium Australian fruit. For example, the "Super Fruit Bowl" campaign conducted by the Chilean Fresh Fruit Association.**
   - Australian Horticultural Exporters and Importers Association or Australian Fresh Produce Alliance may take a role in launching sales promotions and campaigns in export markets.
   - To build consumer awareness and demand for Australian fruit through various media.
   - Work closely with all industry segments along the supply chain, giving retailers and wholesalers the support they need to drive sales as well as export directly.
   - Australian suppliers to meet with Asian customers, creating business opportunities.
2. **Develop a digital knowledge (data) hub in the big data era**
   - Provide regular crop and market sales reports to better inform those involved in the sales and distribution of Australian fruit can make informed decisions based on the latest updates.
   - Global innovation database to measure and monitor incremental and disruptive innovations both domestically and globally.
   - Understand the trends in Asian markets through working with market-based marketing and research groups to analyse Chinese consumer preferences and buying behaviours and then launch the right promotional strategies to capture consumer attention.
3. **Implement market-focused grading guidelines to ensure consistent supply of consistent quality fruit**
   - Conduct research to understand market requirements.
   - Develop industry-led export grades based on specific market requirements .
   - Educate Australian suppliers to follow market-focused export grading guidelines.
4. **Protect the Australian brand by using disruptive technology at the industry-level**
   - A more transparent supply chain, to ensure fruit is imported legally.
   - Linking traceability with quality consistency to improve the sales and competition of Australian mangoes.
   - Raise consumer awareness in distinguishing Australian produced mangoes with the same variety (eg R2E2) produced in Vietnam, Thailand and China as online retailers generally give inaccurate or misleading information when they sell Australian mangoes, which confuses Chinese consumers and may damage the reputation of Australian produced mangoes.
5. **Conduct end-to-end supply chain research to ensure longer shelf-life and provide proper education to importers and retailers**
   - Conduct cold chain analysis to ensure mango shelf life is more controllable and predictable after VHT.
   - Conduct supply chain monitoring in the Chinese markets to assess mango shelf life given that secondary wholesalers and retailers have requested longer shelf life.

- Improve understanding of the factors that result in quality inconsistency and provide information on how to properly handle the fruit to ensure longer shelf life. This is essential in both wholesale markets and retail outlets.

4.2 Value chain perspective

1. Production and supply innovation

- Lead varietal innovation and development through increased investment in research and development.
- Ensure varieties being bred to meet consumer demand and preferences.
- Increase collaborative marketing, led by the industry associations and or other supply chain focussed groups to coordinate growers in export development. This effort can not only ensure supplies in a larger volume but also extend supply windows throughout the year.

2. Supply chain innovation

- Backward and forward collaboration – collaborate with growers to mitigate risks in quality and ensure high consistency in quality from the start of the supply chain; develop close relationships with importers and provide necessary support and potentially share risk and profit with importers, given that Chinese importers cannot consistently earn money from importing Australian mangoes.
- Adopt new technologies and good supply chain practices to improve supply chain transparency, provide accurate supply chain details in production and harvest, which can support Asian wholesalers and particularly retailers to make optimal decisions on how to handle and sell the fruit.
- Develop supply relationships with large, reliable regional distributor/wholesalers in China or even nominate a national/regional sales agent to move fruit and offer assistance to regional customers for chain-wide quality control. This can help avoid oversupply in a region and potential competition among different customers.

3. Sales and marketing innovation

- Bolster international sales teams to be closer to customers and understand the market. The resourcing for this would need to be clearly articulated, as it cross industry body, RDC and government roles.
- Work with Chinese importers to supply customised small packages attached with educational and promotional materials, given that small boxes of 2-6 fruit are affordable for the average family.
- Segment market demand, and work with potential Chinese importers to open market channels and identify customers for both Class 1 and Class 2 fruit which would drive demand for Australian mangoes
- Build and promote individual or collaborative brands through collaborative marketing companies, rather than using a generic Australian brand, and work to raise brand awareness through the assurance of quality consistency.

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