



Spring (November) 2009, 3 pages

## NEW ZEALAND VELVET MARKETING CO LTD

By Andy Cowan

As outlined by Ross Lawrence on page 3, we have recently witnessed a momentous change in the way we sell velvet here in Australia. The letter from John Smith of Tasman Velvet Producers in the Autumn 2009 issue of the ADF outlined some of the reasons for the change in the New Zealand system and why the New Zealand Velvet Marketing Company Limited (NZVM) was created. It is still early days yet for Australian velvet producers. Perhaps there is still a little apprehension amongst growers as they wait and see how this first pool eventuates.

The NZVM's primary function is to focus on marketing New Zealand's quality deer velvet to world markets. It is responsible for marketing over 2/3 of New Zealand velvet sales and is pursuing greater efficiencies and marketing initiatives. The end result of this is to improve returns for its suppliers and maybe New Zealand's velvet producers overall.

As a supplier to the Pools this year, I was impressed by the small and efficient group of "workers" who were organizing the collection and packaging of the velvet. It was so much quicker and easier to repack velvet delivered into 20kg bags. I imagine that it would be possible to sort quite a large amount of velvet if necessary.

Although it is much more efficient, I think it is still very important to tell the organizers how much velvet you intend to deliver on the final day. More importantly, the supplier should make the effort to help repack their product and reduce the work-load for those volunteers that have to stay all day. Many hands make light work.

In casual conversation with Jim Moir and Ross Lawrence they conceded that, due to the awkwardness in packing velvet, more pallets were needed in order to send the product. The main limiting factor causing this was the 20kg bag limit. They ended up taking up a lot of room because of the difficulty of packing the labeled bags within the box-pallets. This all adds to the cost of shipping. I am sure that this and any other perceived short-comings in the system will be discussed at length in the near future. Maybe some sort of layering or division within the box pallet may be an option. If you have had any experience with transporting frozen goods, give Ross a call. All ideas are welcome.

Since its inception just over a year ago, New Zealand Velvet Marketing Co Ltd (NZVM) has made quite an impact. Developed by PGG Wrightson a few years ago, Velvet Supply Management (VSM) is a 'branded' sales option. It was originally designed to give individual producers the ability to set trigger levels or reserves on their product. Coinciding with the founding of NZVM last season, VSM was re-worked and re-emphasized as a collective, managed sales option. VSM is a registered trademark belonging to NZVM.

NZVM provides two options for selling velvet. Producers can still sell either using the Spot or Pool option or they can utilize the VSM system which is touted as "the way of the future". The Spot option is a fully managed system with a mix of tender, private sale and contracts.

The VSM contract system now controls a large portion of the NZ velvet produced. In fact, in their first year NZVM have collected 60%, graded 74% and exported directly to export markets 50% of the velvet produced in NZ. Of this volume, they sold 35% of their product into the Chinese domestic consumption market. They are optimistic that this will increase to 50% within two years.

VSM have a number of features for the 2009/10 season. There is no restriction on quantity or grades. The average price per grade is paid to the producer for the season and all their information is confidential.

Installments are payable on the following dates: 18<sup>th</sup> December, 26<sup>th</sup> February, 31<sup>st</sup> May and the final payment as soon as possible after May, hopefully by June 2010 at the latest.

There are a number of benefits to producers which result from dealing with larger volumes of product. In New Zealand, the infrastructure is in place so that farmers have no need to hold velvet on-farm while trying to pick the market. In that country, velvet can be collected any time. It is then graded, insured and stored until sold. VSM is intended to reduce price volatility, even out cash flow over the year and hopefully benefit from the niche and premium sales during the season.

The main benefit to buyers would be that the consistent grading standard would install confidence when buying sight unseen. This is especially needed when buyers want to commit to a contract for multiple future deliveries.

If the system continues to fulfill its commitments, the most obvious benefit to the industry will be that confidence in the future and stability of the market will lead to long term, sustainable investment right through from the farm-gate to consumer.

VSM have recently put out a flier highlighting some frequently asked questions that farmers seem to have of the VSM system. The following information is reprinted from this document with the permission of Nick Taylor, the General Manager of NZVM.

***(FAQ on next page)***

## Frequently Asked Questions

### **Does it matter when my velvet is collected and graded?**

All grades are accepted all season. The delivery date doesn't affect the final average result per grade. However, the sooner the velvet is into the system the sooner it is graded, insured and safely stored. The experienced team can then get about selling the VSM product the best way they can with the confidence of your support behind them.

### **Is there a cut-off date for delivery before the installments?**

Yes. Velvet should be in Christchurch no later than the following dates. Talk to your local agent (*Ross Lawrence for Australians*) for any further information regarding consignments.

### **Cutt-off dates**

Installment 1: Wednesday 9<sup>th</sup> December

Installment 2: Wednesday 17<sup>th</sup> February

Installment 3: Friday 14<sup>th</sup> May

### **How are the VSM installments calculated?**

100% of the net revenue will be distributed at each of the installment dates. Payment will be weighted per grade, based on sales made of each grade.

*Eg (figures exemplary only)*

### **DECEMBER Installment**

#### **DEC Example 1**

20,000kg (AS) graded up to the Dec cut-off.

5,000kg AS sold up to Dec cut-off, 25% sold, averaging \$100 net.

Producers who supplied AS will receive \$25/kg.

#### **DEC Example 2**

5,000kg B Short (BS) graded up to the Dec cut-off.

2,000kg BS sold up to Dec cut-off. 40% sold, averaging \$95 net.

Producers who supplied BS will receive \$38/kg.

### **FEB Installment**

#### **FEB Example 1**

25,000kg AS graded up to the Feb cut-off.

12,500kg AS sold up to FEB cut-off, 50% sold, averaging \$105 net.

Producers who supplied AS will now have received \$52.50/kg in total.

#### **FEB Example 2**

3,000kg Spiker 1 (SP1) graded up to the Feb cut-off.

2,000kg SP1 sold up to FEB cut-off, 66% sold, averaging \$110 net.

Producers who supplied SP1 will have received \$72/kg in total.

### **Can I supply VSM and the Spot/Pool option?**

Both options are available to all suppliers and for all grades. VSM is the way of the future, we encourage producers to support this option with as much product as they can. The Pool/Spot option remains available and is a fully managed system with a mix of tender, private sale and contracts. Just indicate which sale option you wish to sell under using a separate advice note for each.

### **If I miss the 1<sup>st</sup> installment, will the 2<sup>nd</sup> installment be a catch up from the 1<sup>st</sup> installment?**

Yes, each installment is re-calculated from the start of the season.