



August (Winter) 2010, 2 pages

VELVET MARKETING 2010-2011

By Andy Cowan

As outlined in the November 2009 issue of the 'Australian Deer Farming' magazine, Australian Deer Horn and Co-Products P/L now ships the velvet supplied to them to New Zealand. It is then marketed by New Zealand Velvet Marketing Co Limited (NZVM). Prior to this, ADH&CP product was graded and catalogued in Melbourne and then sold to the highest bidder. Due mainly to falling volume, and prices, as well as difficulties with getting payment from some buyers, it was decided to let the newly formed NZVM sell our pooled Australian velvet. Fourteen growers from Australia supplied product to NZVM in the first consignment and eventually 34 growers contributed to the second consignment. NZVM is a velvet broker and consists of four equal 25 percent shareholdings by PGG Wrightson, Tasman Velvet Processors, Veleco Co-operative Group Ltd and a producer co-operative known as the New Zealand Velvet Co-operative. Importantly, it is 50 percent owned by deer farmers.

The NZVM primary function is to focus on marketing New Zealand's quality deer velvet to world markets. In its first season, it was responsible for marketing over two-thirds of New Zealand velvet sales. NZVM provides two options for selling velvet. Producers can sell either using the Spot/Pool option (similar to what we here in Australia have done in the past) or they can utilise their "VSM" system.

The Spot/Pool option is a fully managed system with a mix of tender, private sale and contracts. Suppliers have no restrictions on either the quantity or the grades of velvet they wish to supply.

Through its "branded" sales option, Velvet Supply Management (VSM), a registered trademark belonging to NZVM, pursues greater efficiencies and marketing initiatives.

The VSM sales option is a contract and private treaty based selling system. Its function is to match quality product to committed long-term velvet buyers. This initiative has benefits for everyone involved in the production chain – both producers and buyers and the industry as a whole.

The benefits for producers are many. Producers send their product to NZVM whenever they wish. It will then be graded and insured. This reduces on-farm costs. It should also reduce the volatility of the market, as NZVM will have stock on hand which can meet any demand immediately. This system basically removes the risk for farmers who may have traditionally held on to their product while waiting for the "right price". The VSM suppliers will benefit from the niche and premium sales during the season. As the product is sold gradually over a period of time, there is a schedule of payments, outlined prior to the selling season, which even out the growers cash flow over the season. These scheduled payments are calculated so that 100% of the net revenue from completed sales is distributed at a pre-determined date.

The main benefit to the buyer is that they can be 100% sure that, even though they do not actually see the product, they are buying what they have asked for. The consistent grading standard is especially needed when committing to a contract for multiple future deliveries. Another benefit is that VSM restores buyers' confidence in taking a position without having to worry about prices running up or being undercut. VSM



allows the NZVM team to create consistent, quality packages that satisfy the individual buyer and market needs. That is to say – the right grades going to the right buyer in the right market at the right time.

The benefits for the industry are far-reaching. Long-term, sustainable investment from the farm-gate to the consumer chain will be the result of the confidence and stability instilled into the market because of the commitment of both producers and buyers. The elimination of speculators should reduce market volatility, making farm financial planning less of an art form. The end result of the VSM strategy is to improve returns for its suppliers.

The fact that NZVM accepted all types of velvet was a great relief to me personally. In this last season, I could not cut my velvet at the correct time. I was still re-building fences that had been burnt down in the February 2009 fires and could not get my velvet stags into the yards until February, 2010. Consequently most of the 'velvet' I cut was hard antler. On the down side, and for the Australian growers' future reference, incorrectly cut velvet, specifically late cut, dramatically increases the shipping cost for ADH&CP as it is so awkward to pack.

At the beginning of 2010, suppliers to NZVM requested the need for more information, particularly on price and payments. As understandable as this is, from an individual supplier's point of view, it is also critical that too much information is not disclosed to the competition. It is a delicate balance because of the nature of the marketing system that involves spot prices and the constant changing of demand for various grades from different countries. As a seller, you have to either believe in the system or find an alternative. I have not yet met anyone who can tell me the price of velvet in the near future. Any velvet seller has the same hurdles to jump. They have to be alert to buying-power shifting between, for example, Korea and China, the economic strength of each country



(especially at present), exchange rates and varying demand of particular grades etc, etc. It is with this in mind that everyone at NZVM is very aware of the need to deliver a result for VSM that justifies grower support.

At present there are a number of positives in the marketing of velvet. Although different buyers have different requirements (ie: China prefers Regrowth, Spiker and Manufacturing grades) from the NZVM point of view, there has been enough interest from four buying areas (local, China, Korea and Taiwan) to maintain momentum and competition for available stocks.

Velvet marketers seem concerned that unless they can take NZ deer velvet to the markets in a structured manner, with regular supply and consistent quality, the future of the velvet industry could be in doubt.

Given that most velvet buyers do not actually see the product they must be confident of exactly what they are buying. From a grower's point of view, I would have thought that the grading system we have been using for the last 20 or so years was set up to do exactly this.

Frozen velvet exported from New Zealand between 1st October 2009 to 30th April 2010 is apparently down by 105 tonnes on the same period last year. This is undoubtedly reflected by the continued high prices. It will be interesting to see how the market price is affected now that the North American, Chinese and Russian velvet is coming onto the market. It appears that, while global velvet stocks may be quite low at present, some countries (especially Russia), may start increasing production to try to take advantage of the higher prices. It will be interesting to see how much production is increased in the next year or so and when the price starts dropping again – I would think a good example of the Cobweb Theory.

References

NZVM Newsletters – January, February, April, May and June.
Nick Taylor – General Manager NZVM – Personal Communications.
Deer Industry News – Issue 42. June/July 2010.