



# **Exporting to Asia: Australian Complementary Medicines**



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## Introduction

The demand for Australian complementary medicines in Asia in 2016 and beyond is expected to grow, and our industry is in the privileged position of being able to capitalise on this growing demand. In just two years, our industry has gone from revenues of \$2.3 billion to \$4.2 billion, and we have seen formal exports of Australian complementary medicines grow by 36 per cent.<sup>1</sup> South Korea has now overtaken New Zealand as our top export market. Exports to the Asian region have doubled, and there is continued healthy demand for Australian products, driven by our industry’s reputation for products that meet the highest standards of quality and safety. The importance of Asia to Australia as a market for our goods and services in the decades ahead is without question. It is a potential \$40 billion market in the vitamins and dietary supplements category alone.<sup>1</sup>

Reporting Total Export Statistics Commodity: Vitamins and Supplements							
Australian Dollars - Year Ending June 2015							
Partner Country	Australia Dollars			% Share			% Change 2015/2014
	2013	2014	2015	2013	2014	2015	
<b>World</b>	<b>144543638</b>	<b>158497868</b>	<b>196942718</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>24.26</b>
Korea South	17938708	25219436	28758731	12.41	15.91	14.60	14.03
New Zealand	20680236	18434981	26677536	14.31	11.63	13.55	44.71
Hong Kong	9731550	6284750	13930401	6.73	3.97	7.07	121.65
Hungary	2056267	6062180	13740366	1.42	3.82	6.98	126.66
Malaysia	13120575	15885308	12181540	9.08	10.02	6.19	- 23.32
Singapore	6229599	7060445	12047152	4.31	4.45	6.12	70.63

Austrade (2015) Annual Export Statistics: Vitamins & Supplements. Year ended June 2015

Our products have been celebrated as sitting perfectly within the consumer demand ‘sweet spot’ by contributing to two basic human needs, health and beauty. Growing middle classes and increasing discretionary incomes are supporting consumers to choose their desired lifestyle.

In order to assist our members to capitalise on the opportunities to our north, CMA has conducted a series of interviews with those that are realising success in exporting complementary medicines to Asia, in order to share advice, experiences and tips for success.

Our thanks go to those individuals and companies that have shared their expertise to help our industry to build on successful exporting and on the concept of ‘Brand CM Australia’.



<sup>1</sup> Osborne, P. (2015). Regional engagement a pep pill for business. The Australian. 11 December 2015.

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## Australian Branding

Consumers, whether located in Asia or here in Australia, are very interested in provenance, where the material or product comes from. A strong country reputation or ‘brand’ has been described as the best gift a country can give its exporters and we are very fortunate that Australia is seen by Asian consumers as holding a clean, green image, and as having a solid quality system. Asian consumers are prepared to pay a premium for the reputation and quality of Australian brands.

As a broad statement, Australia’s high quality goods and services are in strong demand in Asia, particularly among the rapidly growing middle class. Sales of Australian products in Asia are also supported by a number of other global trends, such as developments in digital and communications technologies.



Whilst people within industry recognise the high standard of our regulatory environment, the average Asian consumer likely does not. They do, however, see Australian products as very safe and of an exceptionally high quality.

*“Have a clear story/proposition about your company, your products and who you are.”*

## Opportunities & Consumer Drivers

It has been projected that by 2030 there could be close to 3.2 billion middle-class consumers in the Asia Pacific region.<sup>ii</sup> By 2030, it is expected that Asia will be home to the majority of the world's middle class; an increasingly wealthy and mobile group of people that will account for about 60 percent of global middle class consumption. A large demand is expected in the areas of health and aged care, natural preventive care and high-quality food products.

As one example, Indonesia's 'consuming' class numbers 45 million and is forecast to increase to 135 million by 2030.<sup>2</sup> Indonesia is projected to be the world's 7<sup>th</sup> largest economy by 2030.

*"If an Australian sitting in Brisbane looks south there's about 25 million people; if they look north there's close to 250 million just in Indonesia, ten times as many. As an industry, we need to fish where the fish are, where there is a lot more opportunity than here in Australia."*

Products offered by the Australian complementary medicines industry, including herbals, vitamins and minerals, and nutritionals and functional foods, align with a number of the top global consumer trends for 2016,<sup>iii</sup> which include:

- challenging ageing for an optimal mature lifestyle;
- consumers shopping for control over their lives, more time;
- creative single spenders fusing luxury with counterculture;
- mental wellbeing matters;
- a better world as a mainstream goal; and
- greener food to cut waste and feel safer.

### Factors Driving Growth in the Asia Pacific Region



Cox, E., 2015. *Consumer Health Global Overview*. Sydney, Euromonitor International.

<sup>2</sup> Austrade (2014) Exporting Consumer Health Products to Indonesia: Tapping Indonesia's growing consumer health industry

Drivers of sales to China include:

- Confidence in Australian brands that they are manufactured by established and reputable businesses.
- Urbanisation – As the proportion of China’s population living in urban centres continues to grow at a rapid pace, so too do consumer spending habits. City dwellers enjoy greater discretionary incomes and appreciate Western lifestyle products.
- Population growth – China has 1.36 billion people and is the world’s most populous country. The population is growing at a rate of about 700 000 people a year.

Consumers in China in particular are very keen on authenticity. Many Chinese company websites include a large number of certificates to show the pedigree of the products on offer. Perhaps it is not surprising that the ‘suitcase trade’ has blossomed and that a copy of the sales receipt is often sent home with the product to show that it is genuine and purchased in Australia. Consumers purchasing via e-commerce also want to buy authentic product, which means that in many cases they want to buy the identical product to what is available here and with exactly the same packaging.

**Suitcase trade:** a grey market area where Chinese consumers (or their family and friends) buy bulk quantities of favoured products on trips to Australia.



## Importance of a Pull Strategy

The high-quality reputation of Australian products provides a solid foundation but does not guarantee success in international markets. Now, more than ever before, products also need to stand out, have a strong and genuine narrative, be authentic – and let’s not forget they need to be relevant and desirable to the consumer. Your packaging and marketing materials may need to be created specifically for the chosen market – to suit customer tastes, be in the relevant language, and to adhere to regulations in that market.

A brand strategy must be planned, taking into consideration that markets in Asia are diverse. Using China as the example, while branding needs to be developed and adjusted according to local regions, social media, such as WeChat and Sina Weibo, is widely used for personal communication and information sharing throughout China. WeChat and Sina Weibo attract 438 million and 157 million active users a month respectively, and two-thirds of these users interact with brands to learn about the latest products, receive special offers and access customer services.

User product reviews play an important role in the purchase-making process for customers. According to a 2012 Boston Consulting group study, more than 40% of Chinese online shoppers rely on online product reviews and this number is expected to grow. In fact, user reviews on social media is regarded as the best information channel by Chinese consumers, followed by friends/word of mouth and e-commerce websites. Another well received tool for branding in China is a website that has mobile-friendly Mandarin language pages or a stand-alone website hosted in China. Many Chinese consumers are concerned about product

safety (only 57.8% of goods were identified as authentic) and having a website or specific pages dedicated to Chinese customers aids in building brand trust.

## Understanding the Markets

*“Really understand the market. People go in thinking ‘I’ve got a great product, I’ll go in and everyone will buy it.’ You will not understand a market in five minutes. You will not understand it in five months. It’s about getting in there and really engaging and learning about the market.”*

Austrade has developed over 80 different specific marketing plans for the markets throughout Asia because no two markets are alike. Even within country, there can be a number of discrete markets. China, for example, is not one country for business purposes.

*“Shanghai is its own country, Beijing is its own country. Regional areas operate quite differently. It’s the same as in the US – you would never go with a national distributor because they wouldn’t cover it well. You’d work with a west coast distributor, a mid-west distributor...”*

When looking at a market, understand the consumer drivers and the culture as well as you can. Look at consumer research and try to develop an understanding of why consumers are motivated to have a desire for certain products. Understanding the market means being able to develop and produce the products that the consumer needs, and that may mean considering a product that would not be produced for the Australian market – sheep placenta for example. There has been a trend in Australia for larger tablets and capsules and for larger ‘value packs’, better value for money, but this approach doesn’t necessarily work in other markets. Dose size may also differ in other markets because of price point.

*“Take the time to understand what you want to do with your brand and don’t try to rush it – which might be a temptation when you see the dollar signs at the moment.”*

In China, people currently see Australian brands as an opportunity to make money quickly – is that what you want? If e-commerce changes substantially down the track, have you chosen the right partner to help you navigate remaining in China. Consider long term market strategies.

Once you have a picture of what you want to do with your brand and have a clear understanding of your target market, act.

*“Spend time on planning, but then get in there and have a go. Expect to make mistakes, but that is how you’ll learn.”*



## Relationships

*“Doing business in Asia is like walking across a river – feel each stone under your feet, one at a time.”*

You do need to put a lot of time in a market, and also with a potential partner, so that you both really understand each other and your business goals; you need to be prepared to build understanding with each other before you have a business relationship. As with any relationship, putting the time in will help to build strong ties that will help you both to work through issues as they arise.

### ***Finding the Right Partners***

*“Find the right partner who understands your brand.”*

Work with partners and agents that fit with your company culture and align with what you want to do in the market. Ensure that they are reputable; it is recommended that you have multiple reference points when you are considering a potential distribution partner or agent to validate their business and the services offered. Check with Austrade, consulates, other advisors, industry colleagues and networks to confirm that a firm is legitimate and trustworthy.

*“There are so many options (in China in particular) and 98 percent won’t necessarily be able to help you in a way they say they can. Understand that you may be promised a lot – be wary.”*

There are a lot of people in China who have been educated in Western societies, so key executives are often in a great position to understand both eastern and western culture. Make sure you have a partner who speaks the language, understands the market well, and is someone you can trust.

*“You really do just have to spend the time to pick the right partner and then working to have a strong relationship with them. There is no real secret in it.”*

It is immeasurably valuable to have a staff member who can speak the language and help you navigate the culture and through negotiations with potential partners. If not, always make sure you have a translator with you. Austrade may assist in this area.

### ***Culture as a Challenge: different mindsets***

Western people who visit China often think they have an agreement or a certain understanding and it is not actually the case. ‘Yes’ in China can often mean ‘I’ve heard you’. Until you better understand the differences in worldview you may feel frustrated that discussions appear to be going in circles. With any question that you ask, if the response is ‘yes’, you then need to delve into more detail to see what is meant by that response.

*“It’s better to ask open questions – if it is an open question that is difficult to answer they start talking in riddles. When someone is going around in circles they probably know the answer but don’t want to give it.”*

With one-on-one discussions you can have a robust discussion with someone from China. However, in teams you must be aware of the issue of a person not 'losing face'.

Meals are an important part of relationship building, and you should expect to dine for several hours before discussing business. Make sure that you have the right senior people meeting the right senior people to be taken seriously. Often smaller companies do well here because the CEO is the person who visits.

Western business is often much more structured – written agreements and documents, step-by-step process planning. In China, agreements are often more informal in terms of structure and are left open on purpose. Even when a contract is signed, the way it is treated may be different. In the West a contract is an obligation, in the East it is more likely to be seen as a guide and may not be implemented as written on paper.

*"I naively thought the Chinese would want to do business the Western way. They don't. They want you to do business the Chinese way."*

Never try to predict how long something is going to take.

*"In India, for example, even if timelines are written into legislation they are treated more as a guideline. Don't be impatient."*

## Channels

Once you have an understanding of market needs, then you need to understand the channels to get your product to consumers. This is where Asia is interesting at the moment; there is a variety of channels and rapid growth in the digital spheres. A multi-faceted approach is recommended.

*"Be patient and don't give up. There is a whole world of opportunities, but to reach them will take some perseverance."*



## eCommerce

Global trends supporting the growth of our industry include developments in digitisation and communications technologies. China is the world leader in take-up of smart phones, which has helped to create the largest online shopping market. China is not alone in the trend of digital connectivity – it is expected that India will be next, followed by South America. The online market is just going to get bigger as communications improve and trust is developed in relation to effective payment systems.

Reasons why Australian companies should be selling online<sup>3</sup>:

- Capitalise on market growth

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<sup>3</sup> Austrade (2015) e-commerce in China for complementary medicine (Webinar)

- Mature technology enables buyers and sellers
- Online shopping is increasingly a way of life in Asia
- Australian products are in demand
- Influence and understand your consumers

*“Getting stuff into a channel is fine but you still have to sell it.”*

E-commerce, as a single level marketing model, has been successful because of people’s networks. For smaller businesses, a partner in your target market is a necessity – ideally, a partner who knows e-commerce well and who understands your brand and corporate culture.

The value of China’s cross border e-commerce market had been predicted to reach 6.5 trillion yuan (Aus \$1.32 trillion) this year, up 18 per cent from 2015. Under this channel, goods come into one of 14 free trade zones across China and are then purchased via websites based in Hong Kong. In April 2016, China levied a new tax of 11.9 per cent on goods bought via foreign websites, designed to eliminate the advantage held by offshore websites which were previously not subject to the same taxes as traditional retailers or domestic sites. There is still a lot of uncertainty regarding the level of impact that the changes to taxes and to China regulations will have upon cross border e-commerce in both the medium and long term.

### **sCommerce**

Social media is an enormous part of Asian culture now – digitalization is very advanced and is advancing faster in Asian markets. This is a trend that companies outside the region need to try to understand. It also has a very local focus and can be hard to understand. Ideally, firms should have people on the ground who know how it is developing locally.

### **Offline to Online selling**

While better online merchandising and product visualisations have enhanced the e-commerce experience in recent years, it’s still far from replicating the feeling of interacting with products in a physical store.

The concept of an integrated showroom or storefront with online retailing is a global trend but building quite rapidly in China and other Asian markets where rental costs are high. The store holds a small number of products and the customer can scan the QR code and then have the product shipped home.

## **Brand Protection**

The registration of any key trademarks and logos (both in English and Chinese) is extremely important and should be done as soon as possible for any company looking to enter the Chinese market. Intellectual property (IP) violations are common in China, and include the misuse of similar domain names and website styles. A trade mark offers little protection without pre-registration.

For foreign companies in China, registration of IP rights with the trademark bureau of the State Administration for Industry and Commerce (SAIC) costs RMB 800. In addition, companies are required to entrust a trademark agency for handling the registration process, resulting in an added cost of between

RMB 500 to RMB 1000. The examination of the application is expected to be completed within nine months from the date of receipt of the required documents. In the case of a violation, companies in China can contact the National Copyright Administration or the Intellectual Property Office. It should be noted that there are differences in IP rights between Australia and China.

## Role of CMA

CMA's role in supporting our members in exporting is one of facilitation and promotion:

- Engagement with Austrade and DFAT;
- Support for free trade agreements and raising awareness of behind-the-border issues;
- Support for greater regulatory harmonisation and recognition of Australian standards;
- Engagement with industry associations in other countries to help understand the markets and regulatory requirements, and to work on joint projects;
- Information networking – seminars, webinars, papers, commissioning of reports;
- Provision of contacts and networks;
- Promotion of 'Brand Australia'.

CMA will also continue to work with the TGA to increase the availability of ingredients, as this is an area where Australian exporters are placed at a disadvantage.

## Austrade & DFAT

Australia is well represented across Asia through our diplomatic missions and the services of the Department of Foreign Affairs and Trade and Austrade.

In the last few years, Australia has signed a number of free trade agreements with countries in Asia, and with the signing of the Trans-Pacific Partnership Agreement the expansion of business activities in the region will remain a strong priority.



Austrade conducts a number of activities to help Australian businesses: arranges trade delegations; provides advice on doing business in international markets; generates market information and insights and helps with market selection; and makes connections through an extensive global network of contacts.

*“Austrade is very good at facilitating but they must apply a generic approach as they are not experts in your industry. However, they understand exporting and they have lots of tools to help you – but you have to shape those tools to meet your needs.”*

## Other Resources

### China Market - Third Party Service Providers:



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## Complementary Medicines Australia

Complementary Medicines Australia (CMA) is the peak industry body for the complementary medicines industry, representing members across the supply chain, including manufacturers, importers, exporters, raw material suppliers, wholesalers, distributors and retailers. CMA promotes appropriate industry regulation and advancement to ensure consumers have access to complementary medicines of the highest quality.

CMA is the principal reference point for members, the government, the media and consumers to communicate about issues relating to the complementary medicines industry.



*Join us*

***Together we are Stronger***

*For membership enquiries call +61 (2) 6260 4022*

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<sup>i</sup> Austrade (2015) Annual Export Statistics: Vitamins & Supplements. Year ended June 2015

<sup>ii</sup> Australian Government. (2015). 2015 Intergenerational Report: Australia in 2055

<sup>iii</sup> Kasriel-Alexander. D. (2016). Top 10 Global Consumer Trends for 2016. Euromonitor International.