

nielsen
.....

CHINA ROAD
GROUP

OCTOBER 2017

BREAKING BORDERS

EXPLORING THE DAIGOU OPPORTUNITY



EXECUTIVE SUMMARY: NEW GAME, NEW RULES

The Australian retail landscape is in a time of major change. New players have stepped on the pitch and the sequence of play has blurred, changing the rules of the game and challenging existing business models. Locally and globally, the known illustration of both the shopper journey and the marketing and sales process is no longer representing reality, or enough to survive.

Shoppers are deciding where to buy and how to buy in a very different way now, driven by new technologies and lifestyles. The factors influencing their shopping decisions are exploding. And, the opportunity for Australian brands to 'break borders' and reach a customer base far bigger than the Australian population is real. One way some Australian brands are tapping into a significantly larger customer base is through a relatively new export and e-commerce ecosystem, which directly reaches the mainland Chinese shopper – Daigous.

A Daigou is a person who facilitates the buying and selling of international products on behalf of a customer in mainland China. The phrase Daigou means "buying on behalf of". The Daigou industry is well-developed and is mostly run by international students or new immigrants who have friends or connections in China. The industry is built on trust, with consumers in China placing their trust in their network in Australia and New Zealand to source authentic products.

It's estimated that there are anywhere between 100,000 to 200,000 operating Daigous in Australia. And, some commentators are estimating sales of up to \$100 billion annually across the retail sector. There are significant opportunities for Pacific companies to leverage this channel as a way to access the scale of the Chinese population.

To better understand the Daigou opportunity and ecosystem, Nielsen and China Road (a full service solution for premium brands entering China) invited a core group of Australia's Daigous for a dinner in Sydney. The goal of bringing together this group was to develop a point of view on the potential opportunity and watch-outs for Australian brands, and to glean a better understanding of how the Daigou ecosystem and logistics actually works.

This paper reflects some of the key learnings and fascinating insights that were shared in this discussion. It also provides guidelines on how brands can best leverage this new way of doing business – should they wish to be agile and open to playing the game according to some new rules.



SCALE AND DEMAND: THE OPPORTUNITY IS REAL

Australia has a population of 24 million. China has a population of 1.4 billion. And, the Chinese consumer wants Australian products.

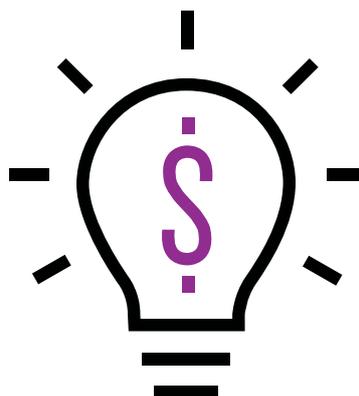
There are now over 300 million upper-middle-class consumers in China – and this is growing rapidly. Almost half (46%) of Chinese consumers say they are willing to trade up to purchase premium products.

Alongside the improving living standards of Chinese consumers, comes the increasing demand for high quality and genuine branded products. These brand-driven, convenience-seeking consumers want to purchase directly from overseas markets.

Big opportunities are emerging for marketers and manufacturers around the globe to act on these blurring borders and be a part of China's e-commerce and import growth story.

Close to 2 million Chinese tourists visit Australia and New Zealand every year, and spend big while visiting. The Daigou opens up new channels and new ways for Australian brands to continue this fruitful relationship with Chinese consumers when they return home. Ultimately, the Daigou can help companies who have been struggling to manage the complexities surrounding export logistics; and of course, help them to better understand the Chinese consumers' nuances and needs.

Will the channel decline, as more Australian brands/retailers sell direct to Chinese consumers via Tmall, kaola.com? The Daigou laugh at this..... there are more than enough potential Chinese consumers to go around, they say.



“

**YOU NEED TO BE READY.
WAITING FOR A NEW WAY
OF DOING BUSINESS TO BE
AS PROFITABLE AS YOUR
TRADITIONAL BUSINESS
BEFORE PLACING BIG
BETS IS NOT A STRATEGY.
WAITING IS NOT A BUSINESS
PLAN. IT'S ALMOST
GUARANTEEING FAILURE.**

”



THE DAIGOU PROCESS REVEALED: IT'S ALL ABOUT PERSONAL CONNECTIONS

A Daigou is a person who enables an export and e-commerce ecosystem through purchasing commodities such as luxury goods and grocery items for a customer in mainland China.

There have been many articles written in the Australian press about the Daigou business model. The Daigou believe 95% of the media they receive (often negative) is not accurate. They want to de-mystify the channel, and build engagement with more producers.

In its simplest form, Daigou purchase products in supermarkets, pharmacies or specialist stores, package them up and send them to their customer in exchange for a commission on the purchase. Most of the transactions are facilitated via the Chinese social media platform WeChat and, it's underpinned by the Daigou's personal contacts and networks.

The Daigou ecosystem and logistics networks are becoming increasingly sophisticated. For example, a Chinese consumer can now sit at home and directly bid and order live lobster in New Zealand via a webcam on a boat. The Daigou then, through new logistics channels offered by China Road, can export that product directly to the buyer's front door. This ability to deliver fresh, quality and safe produce directly to a Chinese consumer is transformational.

There are different layers to the Daigou ecosystem - from grassroots to full-blown professionals. While unknown to many, the Daigou industry is mature and incredibly well organised. The industry is built on trust, with consumers in China placing their trust in their network to source authentic, quality and safe products.

The professional Daigou are typically not touching the products - they are simply facilitating orders between their customers, the producer, and their logistics provider. Daigous simply sell, sometimes promote, and are the insurers of quality and authenticity for the product.

Dedicated Daigou stores exist to facilitate this trade. Generally speaking, the Daigous believe that Chinese consumers know the brands and products they want. They research online and they have an incredible network of in-person influencers.

The Daigous we spoke to, however, believe there is increasing opportunity for them to play a role in the introduction and promoting of brands and products directly to their Chinese consumer network.



TRUST AND QUALITY IS IMPERATIVE TO THE CHINESE CONSUMER

A start-point for many consumers in China is whether the product is genuine or safe. Food safety in China is a growing concern and the majority of the rising middle-class are willing to spend more on products that have a perceived higher quality. This is a very different mind-set to an Australian consumer. When it comes to safety and quality, the Chinese consumers will not make compromises – even for price. It's believed that a Chinese consumer will pay up to a 100% premium on a product if there is an underlying quality assurance and a trusted person sourcing and delivering the product. The Daigou plays the role of guaranteeing authenticity and a quality product, which in turn helps ensure a price premium and margin in the supply.

Trust is also a critical component of not just the product selection, but also underpins the ability to stretch the cost of goods. Why is trust so important? Chinese consumers are looking to avoid potentially counterfeit or tainted products – especially when it comes to food products. The decision tree for an Australian consumer buying, Baby Formula, for example, might be: 1. Trusted Brand; 2. Price; 3. Availability. For a Chinese consumer that decision tree might be: 1. Will this product potentially harm my baby? Is it from a reliable source; 2. Trusted Brand; 3. Availability; 4. Price.

And while we might see Australian retailers as a trusted source, this trust does not necessarily apply to Chinese consumers when they see these Australian retailers on Tmall or Kaola.com – Australian retailer names are unknown to them. The Chinese believe it is much better to buy from a personally trusted source in Australia – even if there is a price premium.

If someone – in particular someone they know in their social network – says something is good, this word-of-mouth promotion is so much stronger than any advertising channels available to brands.

'Word-of-Mouth' marketing is by far the most powerful form of advertising for Chinese consumers who generally distrust advertising from large corporations. For example, having a mother in Australia making a recommendation of what their child eats, this can have enormous impact.

Therefore, when it comes to driving brand awareness and influencing brand decisions, the Daigou can be an incredibly sharp tool in your toolkit.



FROM INCREDIBLE TO CREDIBLE

An exact number is not yet clear but it is estimated that there are between 100,000 and 200,000 Daigou shoppers in Australia who directly connect Australian goods to eager Chinese consumers. Most Daigou are believed to be small-time operators who are students or mums looking to make a few extra dollars. However, there is a growing group of big-time Daigou emerging in Australia with notable business turnovers. And, 'Master' Daigous are increasingly developing relationships direct with manufacturers.

As businesses learn more about this emerging transaction and promotional channel, the legitimacy and trust of the Daigou network will naturally follow.

“THE ANZ COMPANIES THAT HAVE BEEN SUCCESSFUL IN CHINA HAVE EMBRACED THE DAIGOU AND WORKED WITH THEM TO BUILD THEIR BUSINESS. WE THINK THIS IS THE FIRST STEP TO BUILDING A SUSTAINABLE BUSINESS IN CHINA ACROSS MULTIPLE CHANNELS.”

(CHINA ROAD)





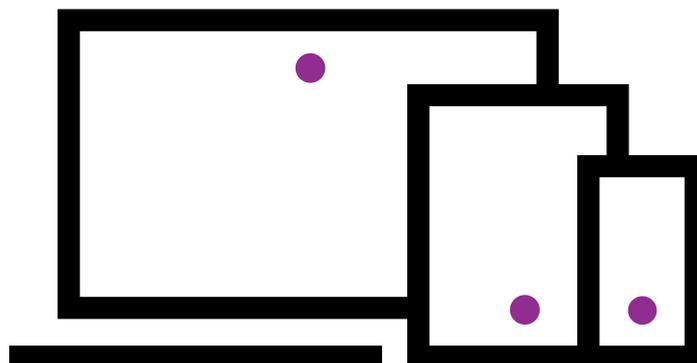
ALL ENABLED BY TECHNOLOGY AND SMART LOGISTICS

Using communications app, WeChat, which has a direct payment feature, the Daigou have regular and instant conversations with their customer base. The purchasing and logistics process is also instant and automated through this app. It's an incredibly efficient and seamless process for a brand to reach a consumer.

A Daigou based in Australia can have anything between a few hundred to hundreds of thousands of personal contacts in their WeChat network. This enables a personal recommendation of a brand or product to an incredibly wide network - with instant results. For example, a Daigou can connect directly to a group of Chinese mothers who want to understand different brands or ingredients used in a skincare ranges. This can be followed up with an offer to purchase the product, complete the transaction and initiate the logistics and delivery process - all within the WeChat app.

In addition, there are more ways to complete a transaction, such as through 'gift shops'. Daigou-specific-built gift shops have the ability to handle all the logistics needed to promote, buy, sell and send. And, many Daigous have accounts with them to ensure an easy and seamless process.

When it comes to shipping and transport, the options are more than you might expect and certainly not the standard postage and shipping companies that come top of mind. Numerous shipping and logistic companies have emerged off the back of the Daigou trends, and these companies have the knowledge needed to easily ship straight into China.





WHICH BRANDS WORK?

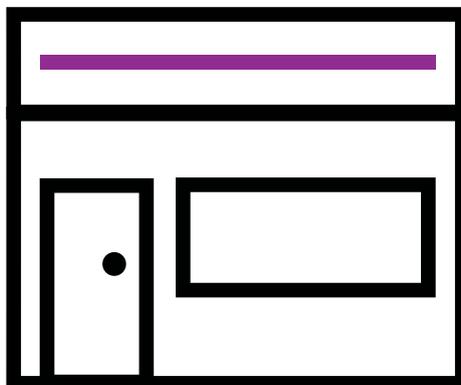
Chinese shoppers show strong demand for Australian goods: however to date, there have been very few companies who have proactively engaged with Daigous. We see this as a huge opportunity. A Daigou can play an incredibly important role in introducing brands, and in building brand confidence in the Chinese market.

Australia is famous for its quality health-conscious food and products. Any Australian brand with a reasonably long history and a good reputation, such as Weet-Bix, has the opportunity to work well in the China market.

Health-related products such as vitamins and beauty products, as well as fresh food such as dairy, beef and seafood certainly seem to be in high demand. However, there appears to be no simple formula on which brands or categories will be next!

The level of knowledge a Daigou needs to know about a brand they are selling/promoting is minimal. A simple engagement opportunity where a Daigou can have a genuine experience with a brand to share with their Chinese consumer networks, such as taking a photo with a winemaker or at a factory where a product is being produced, can literally go viral.

Ultimately, the products or brands selected by a Daigou and promoted to their Chinese networks could be anything. The only common thread that we picked up during the conversation is that the Daigou simply needs to get a good deal from the brand/product owner to make it worth their while.





FORGET EVERYTHING YOU KNOW

The fact is, for a manufacturer to explore the Daigou channel and the potential to break into the Chinese market, there is very little investment required. There is, however, a significant mindset and business model shake up required.

Working with Daigous is certainly not the way that Australian companies are used to doing business and certainly not the 'normal' way for a product or brand to enter a new market, but the Daigou provide a way into the Chinese market that would otherwise be impenetrable for many businesses.

It's also important to keep in mind that Australia is only one of many countries selling quality products. And, Daigous are also in existence in other markets such as NZ, Italy, Korea and the U.S. Brands and marketers in Australia are no longer playing with just our backyard competitors, there are entire markets now on the playing field.



HOW DO YOU WANT TO PLAY?

There are many ways to think about the implications and opportunities of this new reality. But overall, there appears to be minimal risk and little investment to give the Daigou opportunity a go - compared to the potential reward.

Here are a few points to help you get started:

- Aim big, start small.
- Challenge your organisation to learn a few new rules and new plays.
- Be prepared to rethink and pivot based on what’s happening in the market today.
- Consider new ways to engage the consumer. Both locally and abroad.

BUILDING YOUR BRAND THROUGH A PHASED APPROACH



Horizon 1: Seed the brand into the market through the Daigou giving you maximum flexibility and cost effectiveness

Horizon 2: When you reach a certain scale and have built enough brand equity transition into a focused e-commerce platform

Horizon 3: The third step is to create a ‘retail experience’ through concept stores that allow consumers to experience your product

Nielsen and China Road will continue to work explore and understand the Daigou channel and opportunities on behalf of retail companies in Australia. We look forward to continuing this conversation with you and supporting you as move outside the norm, flex through the discomfort of the unknown and ultimately grow your business in new ways.

ABOUT CHINAROAD

Chinaroad is an integrated advisory and full service regulatory sales & logistics company that partners Australian and New Zealand premium food producers looking to establish their brands for long term success in the Chinese market. For more information, visit www.chinaroad.com.au.

ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Nielsen Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.



nielsen
.....

CHINAROAD
GROUP