

### Velexco – New Zealand's deer velvet marketing cooperative

by Ross M. Chambers

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Operating in a highly competitive environment, the Velexco Cooperative Group Ltd was formed in September 2003. It developed out of Velexco Ltd, a private company set up in 1999 to investigate and evaluate the viability of a producer-owned entity being involved in the marketing of New Zealand deer velvet.



The goal of the cooperative is to provide its transactor shareholders with a sales and marketing structure that strengthens their position in a marketplace which is renowned for its complex and esoteric nature by generating better returns and, ultimately, greater price stability.

After 2,000 years, deer velvet remains a key ingredient in traditional Chinese medicine, continuing to be very popular in China, Taiwan and, in particular, Korea. It is prescribed for young and old in combination with herbs for a wide variety of ailments. What is changing is the demand from Oriental Medical doctors for proof of efficacy and safe handling along the supply chain.

While New Zealand is a latecomer to the market with only 30 years' involvement, over this period our farmers have made spectacular gains in production capability. We are also well placed to provide a verifiable, quality product preferably in a branded form.

Unfortunately to date the New Zealand industry has not invested in marketing initiatives, with the majority of velvet traded largely as a faceless commodity with neither branding nor country-of-origin recognition.

Trading velvet remains highly seasonal; production is from November to January, requiring buyers to speculate on their purchases often months in advance of eventual sale to suppliers from the Oriental medicine trade, whose consumption is primarily September to June.

Since its inception, Velexco has worked to develop a superior understanding of the important Korean market via its representative office in Seoul, expand the range of sales options, better match sales to a broader customer base and rep-

resent the interests of the members on industry matters. Additionally a consumer brand has been registered in Korea.

Velexco has also been at the forefront of efforts to combine the highly individual and disparate groups that make up the industry, often encountering stiff resistance to the proposition of investment in structures designed to have long-term benefit.

Acknowledging that in a difficult industry there is strength in numbers, Velexco has steadily increased its membership with transactor shareholders now spread from Kaikohe to Invercargill. Deer farmers, however, have a number of choices and the cooperative must compete aggressively with other options.

Because of this, maintaining and enhancing shareholder support is critical with the best form of advertising being word-of-mouth from satisfied members. To achieve this Velexco is required to balance short- and long-term objectives, i.e. provide a return that is superior to other options while continuing to work on market and product developments that have a longer horizon.



While returns have been consistently better than the industry average, at approximately 10% of the market, the cooperative is still not sufficiently large to be truly influential.

From the 2006/07 season, Velexco has sought to differentiate itself by introducing new collection, grading, sales and payment initiatives. We are now working more closely with our shareholder suppliers and are developing specific sales opportunities that match the velvet supplied. Returns to suppliers are averaged for each grade across the entire season, reducing risk in a volatile market.

The biggest challenge facing deer velvet producers is to match production capability to market demand. While prices are currently at a four-year high, there remains a pressing need for Velexco's disciplined, cohesive approach to marketing to be adopted by the wider industry. ●

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