Implementing a China Strategy: A Report from FIC Shanghai 2011

Why it's not too late for SMEs to jump into the Asian marketplace

Trevor Rahill, Focus International, LLC

In this third of an occasional series, Focus International president Trevor Rahill, an expert in advising new businesses in the flavor and fragrance and food ingredients sectors, provides his insights into the Chinese and North American markets and thoughts on the execution of international expansion.[a]

Western companies should now start to seriously consider what their international strategies are for Asia, and in particular China. It is definitely not too late. While many small and medium enterprise (SME) companies may not yet be thinking about China or Asia, there is an excellent chance that their customers are, as well as the potential customers they are looking to win business with in the future. The SME sector of the industry has built its business model on excellent customer service, responsiveness and product innovation as the largest competitors increasingly turn their resources towards their largest customers. My question for anyone at an SME is: What do you say to your customers when they tell you they are expanding overseas and need your support?

FIC 2011

Food Ingredients China (FIC; *www.chinafoodadditives.com*) is the largest show of its kind in Asia, and while it continues to grow, it has been hampered by lack of space, which anyone who has attended FIC can attest to—especially exhibitors. Next year, for the first time in its seven years of existence, FIC will be held under one roof in the new exhibition center at the former site of the 2010 World Expo site in Pudong.[b] (To provide a sense of scale, the World Expo has welcomed more than 77 million visitors over a six-month period.)

This year, the statistics for FIC are very impressive:

- 31,282 registered visitors; an increase of 4% over 2010 (excludes exhibitor staff)
- 82,920 visitor trips, an increase of 8% over 2010
- 3,088 registered overseas visitors
- 1,102 exhibitors—860 domestic Chinese companies and 242 overseas companies

In the Gold Coast booth: Jim Sgro, president, and Tony Chan, China general manager.

In the TasteMaster booth: Trevor Rahill, Focus International, and Olivier Kapetanakos, general manager of TasteMaster.

Mark Miller, Savannah Ingredients; Jan Olof Lundberg, Culinar; and Gordon Trethowen, Savannah Ingredients.

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[a]The Chinese Flavor and Fragrance Industry—Local to Global?, **36**(1), Page 22; First Person: West Meets East, **36**(5), Page 46; *www.perfumerflavorist.com/magazine/pastissues*

[b]FIC 2012 will take place March 28–30 at the Shanghai World Expo Exhibition & Convention Center.

- 212 exhibitors, or 20%, of the total were exhibiting flavors and aromas
- 40% of exhibitors selling natural materials or extracts

It should be noted that 280 companies could not exhibit due to lack of space, which should not be a problem in 2012, and is a good indicator of the unmet demand for such a trade show for the industry in China. Just to put some perspective on FIC, the 2010 Institute of Food Technologists (IFT) trade show, held in Chicago, had an attendance level of 21,500, including both visitors and exhibitors.

FIC is organized by the China Food Additives & Ingredients Association (CFAA) and the China Council for the Promotion of International Trade Sub-Council of Light Industry (CCPITSLI). The CFAA, established in 1993, is the only registered nationwide food additive and ingredients industry organization approved by the government to contribute to the development of the food and food additives industry, and to the safe and healthy life of consumers.

It was difficult to ascertain the level of new product introductions being made, especially at the Chinese companies, as they tend to reserve the new products for their best customers in a closed meeting room. There is very little in the way of applications to show, and the booths displayed row after row of small sample bottles of flavors. With everyone so close it was explained to me that showing new innovation out front can only lead to copying by one's competitors.

As per last year, the top 10 companies of the flavor industry remained absent from this substantial industry gathering. However, the likes of Cargill, Wild Flavors and Doehler attend every year, signaling the importance of this show in building their brands in China and the wider region. There is a small but visionary band of Western companies that have taken the plunge in China and have established a successful presence in this huge, diverse and rapidly growing market. To gain some insights into their experiences from this business adventure, I interviewed four Western companies that exhibit at FIC and have taken their own paths to invest in China.

What do you say to your customers when they tell you they are expanding overseas and need your support?

First-person Insights on F&F in China and Asia

Jim Sgro: Gold Coast is a privately held company based in Commerce, California, that develops and manufactures flavors, colors, extracts and baking ingredients. The company has been exhibiting at FIC since 2004.

"FIC is on par with IFT in size, but it has a much larger attendance," says Jim Sgro, president of Gold Coast. "However, at FIC they are probably less focused."

Gold Coast established its China labs and production facility six and a half years ago to offer world standard flavors to the domestic and Asian markets. While Sgro has been happy with the company's achievements in China, he would like to devote more time to developing opportunities, as the market is so large.

"Having the home field advantage also makes it a lot easier," he says.

Gold Coast has benefited enormously from the experience of engagement in China, Sgro adds:

"It has allowed us to gain knowledge of new markets and products … and ultimately will provide us with the experience and knowledge that will give us a competitive advantage. On the flip side, it turns out there are also many Chinese customers who are looking to the West for growth and need support from us to supply products for the Western markets."

Peter Calabretta, Jr.: Comax, a family owned business, started in 1977 and now employs 90 people in the United States.

Calabretta, the company's CEO, says, "We have developed an extensive range of special effects flavors such as sweetness enhancers, salt reduction and masking flavors, which have all been developed by our R&D team at our facility in Melville, New York."

Due to the growing demand for natural flavors, Comax started doing business in China in 1989, beginning with a joint venture with a local Chinese chemical manufacturer

The US pavilion.

Tim Webster, vice president, global business development, David Michael Flavors, at the company's booth.

to produce natural aromatic chemicals using Comax's technology. The move provided the company a strong position in supplying natural flavors to the food and beverage industry, as well as natural materials for formulators. In 2001, Comax opened a facility in Shanghai to complement its facilities in Sao Paulo and Milan, and to service the growing Chinese and Asian markets. In 2008, the company's Chinese partner became a wholly owned subsidiary. Operations moved into a 30,000-sq-ft facility in Pudong. Today, Shanghai Comax employs 35 people and has its own R&D laboratories and production facility. Comax has exhibited at FIC annually since 2005.

"Doing business in China is not easy," says Calabretta. "I thought that because we were a Western company that the Chinese customers would want to buy from us right away, but that did not happen. After two years and very little growth I learned that you need to follow what I now call the three P's for doing business in China: patience, persistence and deep pockets. As a result, we are now reaping the benefits of doing business in China."

Olivier Kapetanakos: TasteMaster is a relatively new player in the Australian flavor industry, and, beginning with China, has quickly established a strong position at home and within Asia.

"We needed to quickly get our bearings," says Olivier Kapetanakos, the company's general manager. "Our entry into China was our first step out of Australia. We had a Chinese national working with us in Adelaide, Australia and we came to China to support our Australian customers and to provide a sourcing competitive edge."

Once the company was settled, it established a factory and now employs a staff of 18.

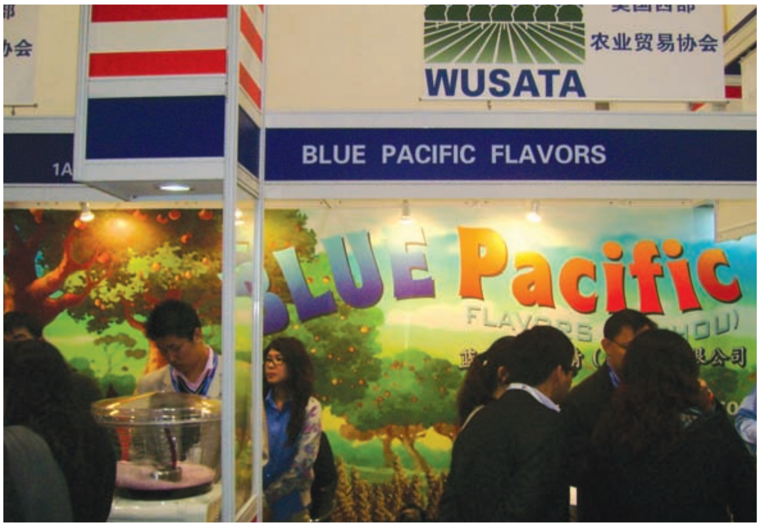
"Following on from this experience we have now established ourselves in India and Indonesia," he added. "We've spent the past three years developing an encapsulation system, 'Flavour Shells'… to deliver flavor profiles in a fresh and stable manner." FIC served as the occasion for the technology's launch, an interesting contrast to the more secretive strategy of the Chinese exhibitors.

"FIC is a must for us," says Kapetanakos. "Not only are we able to promote ourselves, but it's an ideal venue to gauge the industry, its issues and its players, giving us more insight and helping us guide our own strategy not only for China but for the region.

"I believe that our industry … needs to be in China. Our customers are here and they appreciate us for that.

"I learned that you need to follow what I now call the three P's for doing business in China: patience, persistence and deep pockets."

—Peter Calabretta, Jr., Comax



The Blue Pacific booth.

The Wild Flavors booth.

Our suppliers are here and we need to work with them to deliver the quality and materials our industry requires."

Donald Wilkes: Donald Wilkes, president of Blue Pacific Flavors & Fragrances, is well known in the flavor industry and entered the Asian market well ahead of most others.[c] Blue Pacific has been in China since 2000, when it appointed its first China agent. The company set up its own wholly foreign owned enterprise (WFOE) in 2005 and started manufacturing in 2007.

"We started exhibiting at the European-owned FI Asia in 1997 in Hong Kong, which later moved to Shanghai," he says. "After the split between FIC and FIA, we saw the growth of the FIC show and have focused on this show primarily for China. Being here is about building image and establishing *guangxi*, or relationships. We got the exposure we needed and also met many of the agents who now represent us.

"My only regret was that we did not start it earlier," Wilkes continues. "However, there were many lessons learned that should not be underestimated—local contacts and guangxi are critical to doing business in China, and local image is very important, i.e., size of facility, number of skilled flavorists, application technologists, etc. We did this one step at a time. If we had the opportunity to do it again, we would consider going in with much bolder steps, like having more staff, having a larger facility and greater sales coverage across the various provinces in China."

[c]Online exclusive: Donald Wilkes discusses business strategies for various Asian markets. Download the free white paper at *www.PerfumerFlavorist.com/Free-Interview*.

Implementing a China Strategy

The growth being achieved in China is likely to continue for many years. The Chinese flavor industry is growing in excess of 10% per annum, and combined with the Asia region is about to overtake Europe as the second largest regional market for flavors.

In addition, China is estimated to exceed the United States as the largest grocery market by 2014. This is a direct result of the fact that China's population grew by 42 million during 2005–2010, while the United States only added 14 million in that time. Of course population size alone is not the driver for this growth. The increasing urbanization of a large population and the growing wealth of the middle class are also fueling the country's economic status. China's urbanization rate in 2010 reached 48%, compared to 17.4% in 1975, which is a scale unprecedented in human history and a rate comparable to the United States in the early 1900s. Many countries in Asia have large young populations; these markets are aspirational and are willing to experiment with new products. Growth in the region will continue with further urbanization and higher incomes for the foreseeable future.

The Cargill booth.

The TIC Gums booth.

Meanwhile, one must remember that China and India are the only markets that offer four different realities. They are mega markets for almost every product and service; they are platforms upon which to dramatically reduce a company's cost structure; they are potential hubs to transform a company's technology and innovation base; and they will be springboards for the emergence of new global competitors. Companies that want to build effective strategies for these two markets need to deal with each of these realities.

To be successful in China it is important to remember that this is not a one-size-fits-all market. Companies need to be able to consider multiple options to be successful. There is a good chance that what worked for an organization in the United States or Europe will not work in China without some major changes—it is crucial to realize this early on.

Finally, as evidenced by the small, but growing, band of Western companies reaping rewards by investing in China, the market is not only for the top 10 flavor and fragrance companies. However, it is important to have the right strategies in place to build long-term success.

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