



2019 WESTPAC AUSTRALIA-CHINA BUSINESS SENTIMENT SURVEY



AustChamShanghai



chinaskinny



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EXECUTIVE SUMMARY

The 2019 Westpac Australia-China Business Sentiment Survey is a barometer of Australian business sentiment in China. The second annual Survey was undertaken by 211 organisations (up 33%YOY). This year's Survey identified that the vast majority of Australian businesses remain optimistic in both the short and long term, with companies investing in China-oriented innovation experiencing further success, reporting that they are 32% more profitable than those not tailoring to the market.

Results also pleasingly demonstrate an increase in Australian businesses forecasting profitability in 2019 (78.9%, up from 62.5% in 2018). Business ease is stabilising; reflective of a more steady, mature market. Meanwhile, revenue forecasts indicate that Australian businesses are factoring slowing macroeconomic forecasts and rising costs into their planning and decision making.

Domestic consumption is deemed to be the most important opportunity for Australian businesses in 2019. With this in mind, businesses identified understanding customers as the most important information gap to consider. Results also reveal a clear prioritisation of customer-centric investment by Australian businesses, with 10.7% year-on-year growth of increased investment into market research and development.

Our competitive advantages signal that strong equity remains in "Brand Australia". Meanwhile, the key drivers of opportunity and change include changing consumer behaviours (driven largely by China's growing middle class); digital and technological innovations; and the globalisation of Chinese companies.

The implementation of the China-Australia Free Trade Agreement continues to benefit more Australian businesses year-on-year (3.6% increase from 2018 results). Increased concerns regarding the macrogeopolitical environment are likely attributed to the US-China Trade War and a slowing economy (11.5% increase from 2018 results). Despite this, recent policy changes in China have identifiably improved the business environment year-on-year, and there is a notable rise in the number of businesses identifying that China treats foreign and Chinese enterprises equally.

Under China's recent policy initiative, Made in China 2025, Beijing is striving to establish China as a global technological leader by actively nurturing competition to induce greater innovation. Australian businesses have responded accordingly, with a growing number adopting China-centric digital marketing and eCommerce strategies. Almost two out of three (59.7%) Australian businesses surveyed have a China eCommerce strategy in place or in development. The Survey also exposes a 26.5% year-on-year growth in the average number of eCommerce channels used per eCommerce-active business.

Almost fifty businesses surveyed are early adopters of China's New Retail business model (integrating the digital and physical shopping experience). Results found that 66% of these businesses are experiencing a 10%+ rise in revenue and 55.4% are also benefitting from increased brand and market insights.

Despite macrogeopolitical concerns, it is encouraging that Australian businesses are continuing to approach China's fast-paced, dynamic market with optimism and enthusiasm.

Westpac Banking Corporation

Westpac was established in New South Wales in the year 1817, making it Australia's first and oldest bank. For over 40 years, Westpac has played a pivotal role assisting Australian businesses to take advantage of the rapid transformations in China's immense market. Westpac is proud to support all businesses operating in the Australia-China corridor. It is our sincere hope that our research will equip Australian business and government with a deeper insight and understanding of China's competitive landscape. We hope you find this report to be of benefit to your organisational decision making.



Michael Correa
General Manager,
Asia Pacific



Paul Lai
Regional Head and Head of
Corporate & Institutional
Banking, Greater China

AustCham Shanghai

In October 2019, we will celebrate the 70th anniversary of the founding of the People's Republic of China. It is also an auspicious year for AustCham Shanghai, as we celebrate our 25th year of doing business in China. As the peak body for Australian business in China, we are proud to support Australia-China businesses through education, advocacy and business services. Whether your business is looking to enter the China market or increase investment, please reach out. Visit our website www.austchamshanghai.com for some useful resources and to start the conversation.



Craig Aldous
Chairman



Jack Brady
CEO & Executive Director

KEY FINDINGS

OUTLOOK & SENTIMENT



71.6%

of businesses reported optimistic twelve-month outlooks (81.5% for five-year)



53.5%

of businesses identified that business ease has remained about the same over the past twelve months, indicating that business is stabilising (▲ 14.2% YOY)



Key Opportunity Drivers



The Rising Middle Class & Evolving Consumer

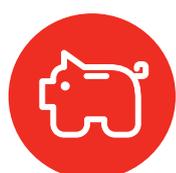


Digital & Technological Innovations



Brand Australia

REVENUE & INVESTMENT



78.9%

of businesses forecasted profitability for 2019, up from 62.5% for 2018



59.7%

of businesses expressed intent to raise their China investment in 2019



Tier two and three cities with smaller populations and GDP remain a significant and largely untapped source of growth opportunity



Customer-Centric Investment Shift



Sales, Marketing & Business Development
78.8%*



eCommerce & Digital
46.8%*



Market Research & Development
26.6%* (▲ 10.7% YOY)

*% rates reflect multiple choice frequencies

CHALLENGES & RISKS



The three top information gaps reflect the importance of developing localised expert connections

1. Understanding Your Customers
2. Legal, Regulatory & Policy
3. Branding & Positioning



Key Risks Identified



Unpredictable Govt. Policy

18.3%



New Competitors

17.3%



Increasing Costs

10.2%

MACRO ENVIRONMENT

Current Challenges

China's Slowing Economy



US-China Trade War



Current Opportunities



China-Australia Free Trade Agreement (CHAFTA)

58.3%



Belt & Road Initiative (BRI)

39.3%

DIGITAL ENVIRONMENT



59.7%

of businesses have or are actively planning/developing an eCommerce strategy



66.0%

of New Retail active businesses reported a 10%+ rise in revenue



Businesses increasing the number of products/services exclusively for the China market were **32.0% more profitable**



▲ 26.5%

YOY growth in the average number of channels used per eCommerce-active business (2.54 channels overall)

OUTLOOK & SENTIMENT





PART 1

OUTLOOK & SENTIMENT

This section provides a snapshot of the current state of commercial sentiment as well as the key trends and opportunities facing industry. Whilst we have undergone some slight adjustments in our outlooks and perspectives, the vast majority of us remain largely optimistic amidst an increasingly stable business environment. As China's rising middle class continues to drive significant industry change, there remains widespread opportunities for businesses to continue to build and leverage the Australian brand.

BUSINESS SENTIMENT OVERVIEW

We Are Still Largely Optimistic, Driven by Future Growth

This year was particularly interesting following a number of geopolitical shifts, immense technological innovations and signs of a slowing Chinese economy. Promisingly, **the vast majority of us remain optimistic** in our twelve-month and five-year forecasts.

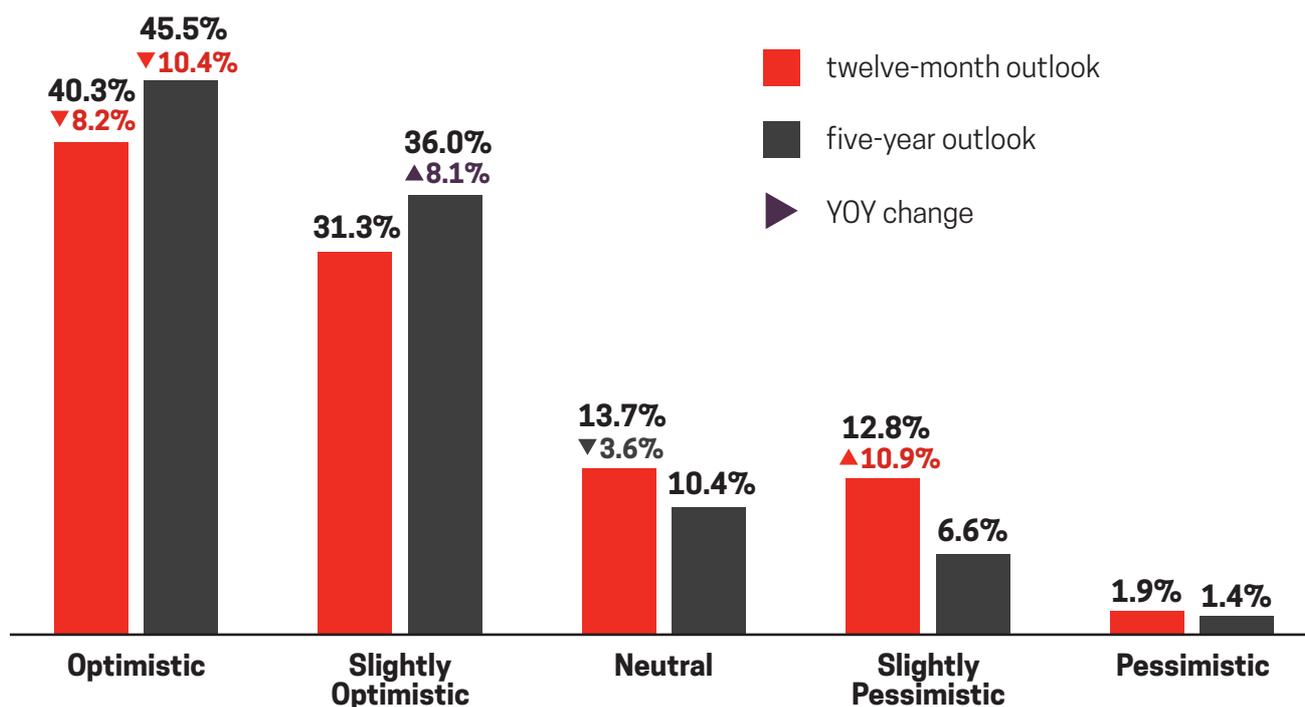
Like last year, the top cited factor contributing to optimism was growth potential, indicating that our **enthusiasm is tied to our future growth prospects**. It appears that the majority of us view China as a long-game, which is encouraging when considering the positive relationship between time spent in China and profitability, which was identified in last year's Survey.

Sentiment Appears to be Stabilising

Despite our long-term perspectives, it appears our short-term outlooks have waned slightly. Overall twelve-month optimism decreased by **6.7%**, while pessimism rose **10.3%**. Increasing competition remained the most cited pessimism driver this year; reflecting **increasingly sophisticated domestic enterprises** and a rising number of foreign market entrants.

We saw notable rises in concerns relating to government policies and regulation as well as **market stability**. This can undoubtedly be linked to China's trade war with the US; as the global media continues to speculate upon the future of China's economy and global political ties.

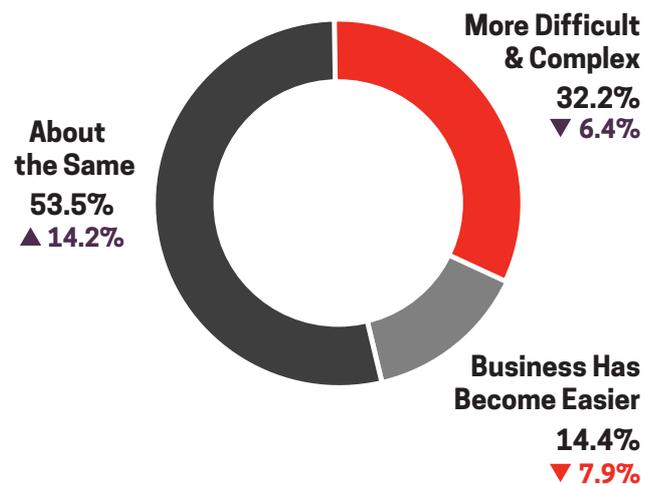
Industry Outlook



Business Ease Also Stabilising

We encountered a notable shift towards the **stabilisation of business ease**, with similar drops in companies identifying that business has become easier as well as harder. This is quite interesting given the scope of China's notoriously dynamic and complex commercial environment. It appears that as we become **increasingly mature in our approaches** to the China market, we are becoming better able to interpret and respond not only to opportunities, but also to challenges.

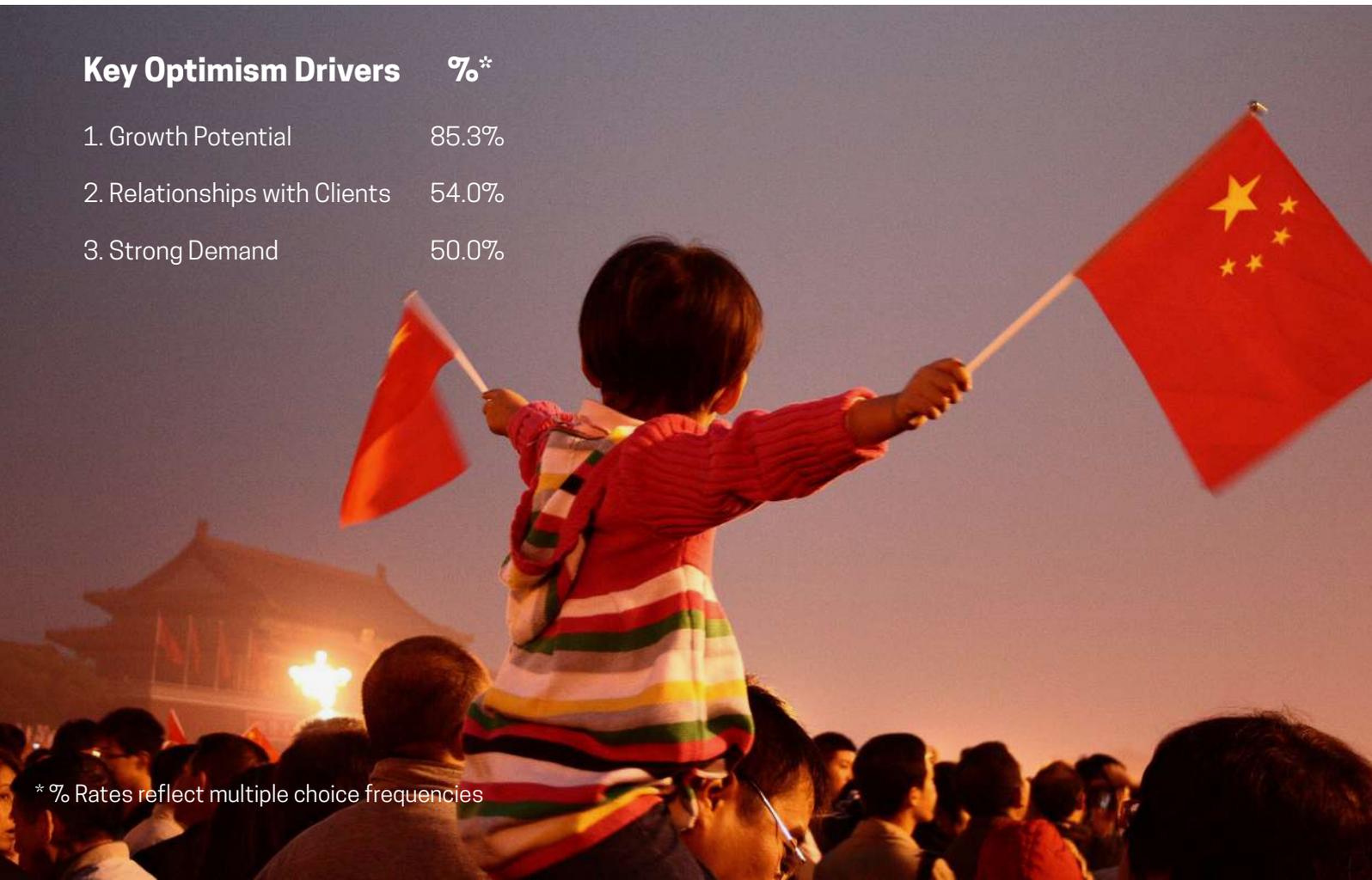
"How has the Ease of Doing Business Changed in the Previous 12 Months?"



Key Optimism Drivers %*

1. Growth Potential	85.3%
2. Relationships with Clients	54.0%
3. Strong Demand	50.0%

* % Rates reflect multiple choice frequencies



OPPORTUNITIES & TRENDS

Opportunities Driven by Consumption Shifts, Globalisation and Innovation

Domestic consumption was identified to be the most important current opportunity. This is not surprising given that it accounted for up to **76.2%** of China's GDP growth in 2018. The **rising purchasing power of China's middle-class** is best reflected by recent dramatic growth in the luxury goods and tourism sectors. This is one of the key reasons we are seeing a shift towards **customer-centric strategies**, including a **10.7%** increase in investment in market research and development.

Globalisation is also regarded to be a key driver of opportunity and change. Many Australian businesses are gearing up to ride the wave of China's expansion into new markets through projects such as the BRI.

January 2019 also saw a **40.9%** year-on-year rise in foreign capital invested into China's high-tech industry. As **China continues to further establish its global digital dominance**, digital and technological innovations will continue to drive major industry shifts - from consumer behaviours to economic and financial reforms.

Key Drivers of Opportunity and Change



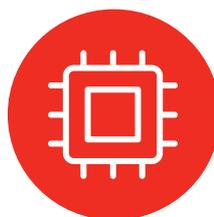
74.0%*

of businesses identified domestic consumption / rising middle class population to be amongst the most important current opportunities



46.5%*

of businesses identified the globalisation of Chinese companies to be amongst the most important current opportunities

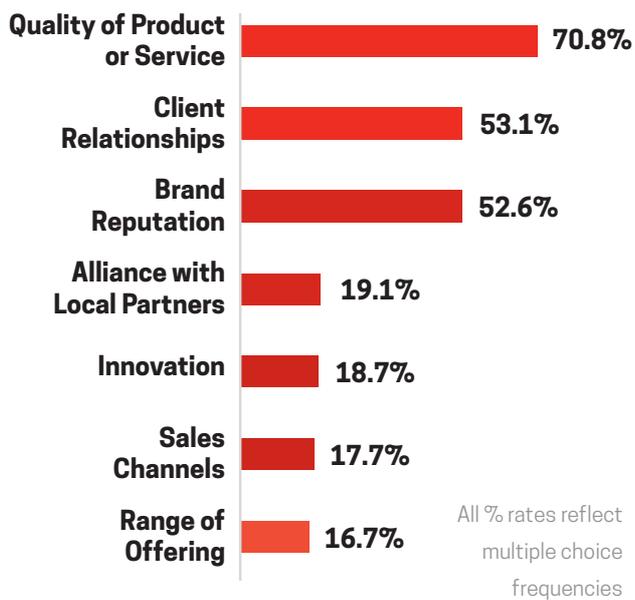


51.0%*

of businesses identified innovations in technology, media and telecommunications to be amongst the most important trends over the next 3-5 years

*% rates reflect multiple choice frequencies

"What Are Your Key Competitive Advantages?"



Leveraging the Australian Brand

The vast majority of businesses identify product/service quality and brand reputation to be key competitive advantages. This is likely a direct reflection of the intangible values associated with being Australian made. China perceives Australia as a global leader and supplier of high-quality fresh produce, goods and services. With approximately **500 new products launched in China each day**, Australian businesses should continue to not only leverage, but also build, the Australian brand together. That said, given the rising B2B competitive standards, it is increasingly important that products and services are delivered in a creative or innovative fashion. Over the coming years, Australian businesses should also seek to **leverage a greater diversity of competitive advantages**.



PART 1: CASE STUDY

Hamilton Island

Hamilton Island is one of Australia's most iconic tourist destinations. Located in the Whitsundays in Queensland, the premier resort provides a luxurious escape with breathtaking natural splendour in the heart of the Great Barrier Reef.

Hamilton Island CEO Glenn Bourke shares an optimistic view of the China market; having achieved a 30% increase in Chinese bookings over the past three years. The popular tourist destination typifies a business that has taken advantage of the key opportunities identified by this year's Survey, including consumption, globalisation and innovation.

With recent dramatic growth in China's outbound tourism industry (driven largely by China's rising middle class and the relaxation of visa requirements), Hamilton Island has become increasingly focused on providing unique luxury and adventure experiences via evermore innovative channels. Some of Hamilton Island's more recent initiatives included a VR tour of the island, an island-wide roll out of UnionPay, numerous Celebrity Key Opinion Leader (KOL) campaigns and a formal partnership with Tencent Weibo. Hamilton Island also ensured that they had the fundamentals right, such as Mandarin speaking staff, a Chinese-friendly map application as well as translated menus and Chinese cuisine.



A key trend noted by Mr. Bourke is that Chinese tourists are increasingly “more adventurous”. There has been a dramatic rise in Free Independent Travellers and multi-generational families opting to stay in houses over hotels and eat local food over traditional Chinese cuisine.

It is interesting to note however, that Hamilton Island has a finite volume of bookings and operates at 96% capacity at any one time. Unable to feasibly accommodate the ‘explosive growth’ many Australian businesses seek, their strategy has been to complement and supplement Chinese markets into the seasonal gaps encountered between existing domestic and international markets. For example, the previous annual sales lull in February is now a high seasonal month for the island, as affluent Chinese travellers chase ‘blue sky’ destinations over Chinese New Year.

“Four years ago, Chinese visitors made up 1% of visitation. Now that figure is around 8%. While this does not seem like a huge amount, the biggest hamstrings are our low stream windows. When they’re topped up by Chinese travellers - like in the Chinese New Year Holiday - that’s hugely helpful.”

As Hamilton Island flies closer to maximum capacity year-round, Mr. Bourke expects strong financial performance but stabilising growth over the coming five year period. Hamilton Island perfectly reflects the shift towards greater market maturity identified by this year's Survey.



KEY TAKE OUTS



Chinese consumer behaviour and preferences are changing and fast.



Working with partners such as Tencent Weibo has been a key contributor to building Hamilton Island's awareness and preference with Chinese travellers.



Localising services and marketing to China's unique tastes (i.e. Chinese-friendly maps, apps, menus, etc.), ensures a greater connection with customers. However, don't stray from what makes your offering authentically Australian and special.



REVENUE & INVESTMENT

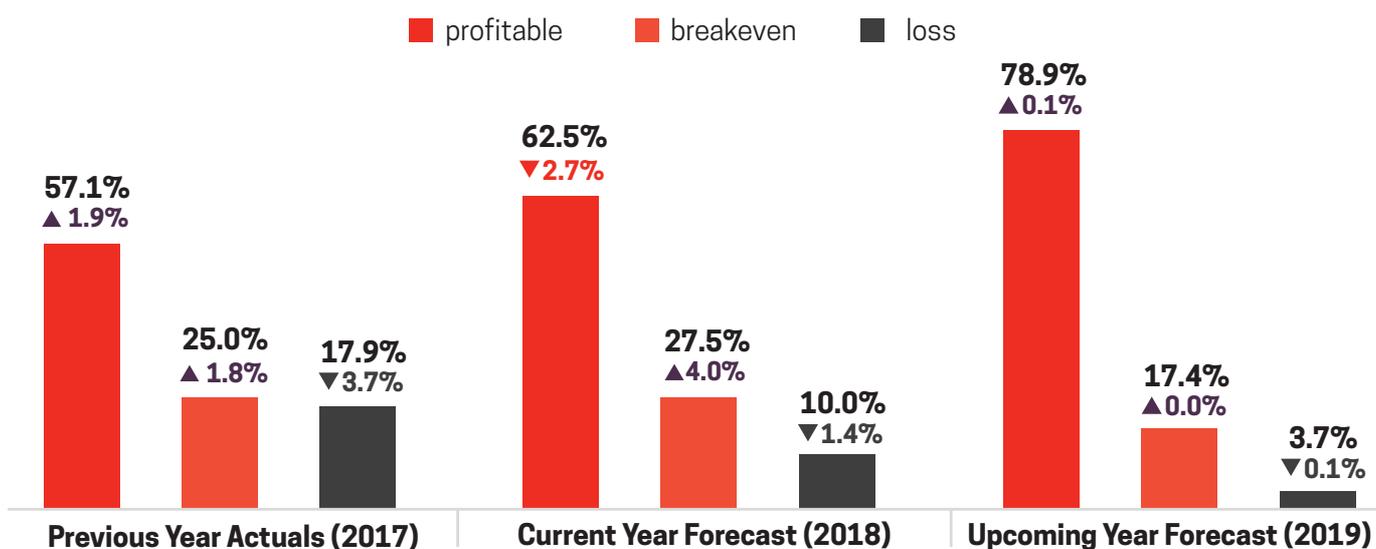
PART 2

REVENUE & INVESTMENT

This section aims to provide an insight into financial and economic health. Australian businesses continue to demonstrate strong financial performance. Despite signs of a slowing economy, Australian businesses continue to forecast strong profitability growth for 2019. We also saw signs of a maturing market, with a rise in breakeven forecasts as well as stabilising revenue forecasts. While our investment spending has become increasingly customer-centric, the largely untapped markets in China's tier two and tier three cities remain a vast opportunity.

FINANCIAL PERFORMANCE

Profitability Overview: Previous, Current and Upcoming Year



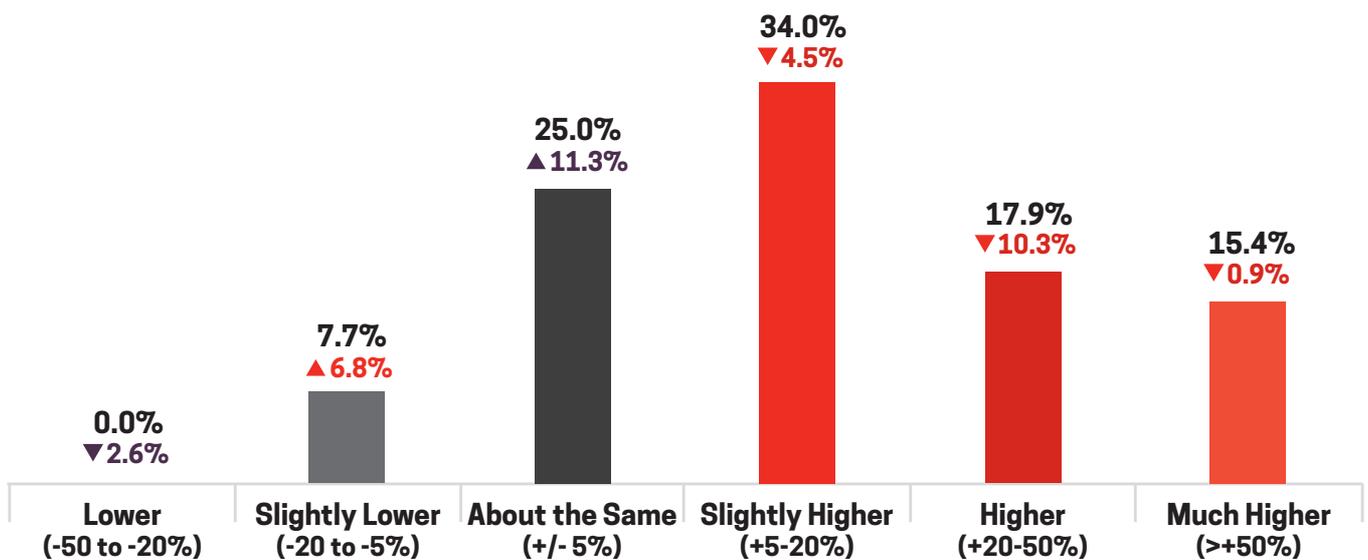
Steady Overall Growth in Financial Performance

In recent years, we've seen a **positive and steady growth in financial performance**; reflected by a decrease in previous year losses. While 2018 saw **62.5%** of us predicting a profitable year, there was a notable shift towards breakeven forecasts relative to last year's Survey. This is likely a reflection of businesses becoming more established and mature. It is a signal that markets are stabilising amidst a period of political and economic cooling. As a sign of our growing market maturity; Australian businesses were **11.6%** more likely year-on-year to identify that their **upcoming-year revenue forecasts for China will match their other markets** (39.7% overall).

78.9% of businesses forecasted profitability for 2019, up from 62.5% in 2018

82.1% of businesses either turned profit or broke even in their previous year (2017) actual performance (▲ 3.7% YOY)

Revenue Forecast: Upcoming Year (2019) vs Current Year (2018)



Revenue Forecasts Reflect a Maturing Market

Very promisingly, **67.3%** of businesses in 2018 forecast upcoming-year (2019) revenue growth greater than 5%. However, this figure represented an **18.8%** year-on-year reduction, which is particularly curious when taking into account the upcoming-year profitability forecasts, which remained virtually unchanged year-on-year. It appears that Australian businesses may already be **factoring in slowing economic forecasts into their planning and decision making**. This shift towards stabilising must be taken as a signal of a maturing market. It stands to reason that our deepening market understanding and capabilities, as well as our long-term optimism, appear to be offsetting our short-term geopolitical and economic concerns.

▲ **11.3%** YOY growth of businesses forecasting upcoming-year (2019) revenues about the same

45.0% of businesses forecasted their upcoming-year China revenue would outpace other markets

INVESTMENT SNAPSHOT

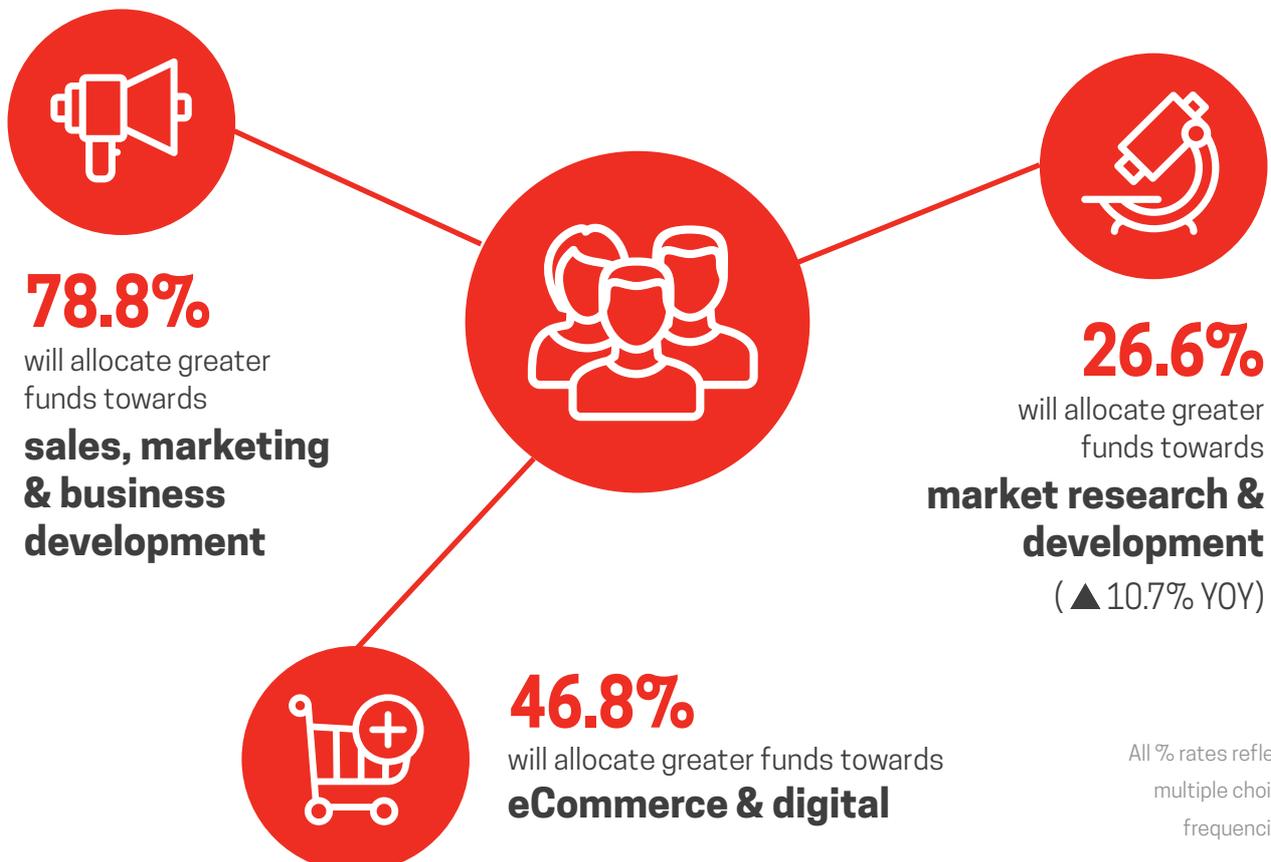
A Present Shift Towards Maintaining Investment Levels

Roughly half of businesses increased their investment levels during 2018. In line with continued optimism, 59.7% expressed intent to continue to raise their investment in 2019. In a further sign of market maturity, **the Survey identified that more businesses are choosing to maintain their current-year investment levels.** The most cited reason driving businesses to decrease their China investment budget was rising costs; an inevitability as China becomes a further developed country.

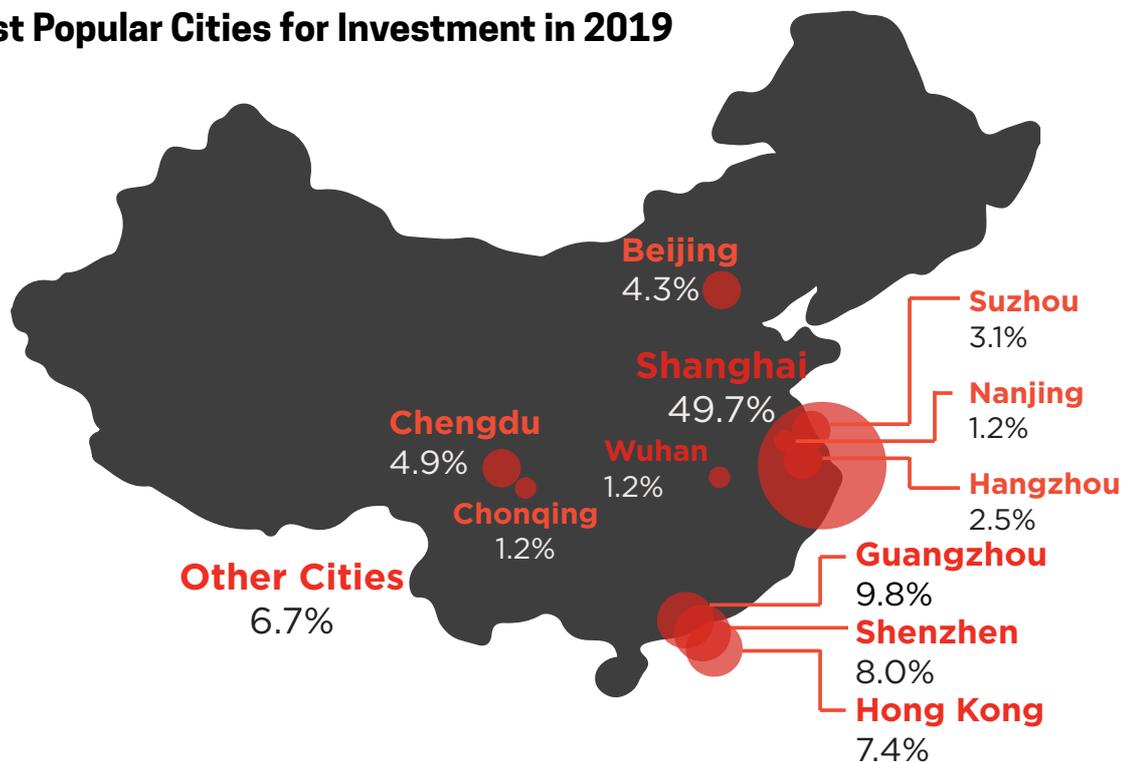
Sales, marketing and business development remained the most popular investment vehicle. Most noticeable, however, was the **10.7%** year-on-year growth of market research and development. **This reveals that businesses are prioritising customer-centric investment.** In an environment of perpetual and seismic shifts, businesses are realising the importance of not only understanding their customers, but also expanding and improving on their touchpoints across a range of channels.

Customer-Centric Investment Vehicles

Of businesses raising investment levels in 2019:



Most Popular Cities for Investment in 2019



Investment Shifting to Tier One Cities, Despite Untapped Opportunities

Not only did Shanghai maintain its ranking as the number one Chinese city for Australian investment, but investment rose by **14.5%** year-on-year. Deemed to be the most westernised and convenient Chinese city for business dealings, it is easy to understand Shanghai's appeal to Australian businesses.

Although there are several tier two and three cities in the mix, Australian businesses appear to be gravitating towards tier one cities. This is interesting given the untapped opportunities and growth potential of many lower tier cities that are largely uncontested and support populations of 5-10 million people. For example, in less than three years, eCommerce platform Pinduoduo has obtained 343 million users, of which 65% were in third tier cities or lower.

What is the Opportunity of Tier Two & Three Cities?

The allure of the more sophisticated and accessible tier one cities is understandable. However, the benefits are counterbalanced by intense competition and exorbitant operational and marketing costs. It is important to consider:

- 70% of the increase in Alibaba's active consumers in the last quarter came from third and lower tier cities
- Tier one cities make up just 5.1% of China's total population
- The cost of living in tier two and three cities is fractional compared to tier one cities. Disposable income is 27% higher in second tier cities like Hangzhou compared to first tier cities like Guangzhou and Shenzhen
- The government is eager to curb population growth in tier one cities, citing 'big city problems' and shifting focus to building lower-tier urban centres

CASE STUDY

Cochlear

Cochlear is the global leader in implantable hearing solutions, dedicated to helping people with moderate to profound hearing loss experience a life full of hearing. The company has provided more than 550,000 implantable devices, helping people of all ages to hear and connect with life's opportunities. We spoke to Kevin Kao - Manufacturing Site Launch and Integration Manager at Cochlear.

In February 2018, after more than 20 years in China, Cochlear announced plans to establish a manufacturing facility in Chengdu, Sichuan Province, effectively doubling its global production capacity. The project to establish Cochlear's first wholly owned manufacturing capability outside of Australia is part of its Global Supply chain strategy to ensure it has the capacity and capability to meet international customer demand.



What is most interesting about the project is the clear mutual benefit China stands to gain. It is part of Cochlear's endeavour to improve hearing awareness and improve hearing healthcare in China and globally. In a joint collaboration with the Sichuan Innovation and Entrepreneurship Promotion Association, Cochlear is also supporting the development of China's hearing-loss research and support industry via the establishment of the Sino-Australian Hearing Hub (modelled off of the Macquarie University based Australian Hearing Hub).

“Through the Sino-Australian Hearing Hub, there will be an investment in building local surgical, audiological and rehabilitation capacity and capability. This will further improve access to and delivery of local hearing healthcare and ultimately outcomes. This investment in local hearing healthcare has led to good support from the local and provincial government.”

Mr. Kao emphasises the importance of establishing good working relationships with local and specialised partners with industry knowledge and experience. This approach has improved Cochlear's understanding of the local design, construction and validation process and enabled better preparation for the later regulatory approval phase.

“We are taking it one step at a time because we understand that China is a very important market and we want to ensure a quality outcome. We want to focus on the Sichuan province and work closely with the local and provincial government to set up this Chengdu operation first.”

On the regulatory side, medical devices are amongst the most strictly regulated markets in China. Rather than view this as a challenge though, Cochlear is using its learnings from China's regulatory policies to set the standards and benchmarks for its new Chengdu operations.

“We are learning from the regulations and standards in China, which are helping us understand what we need to apply to a local operation.”

The key outcomes of the project are to demonstrate Cochlear’s strong commitment to Hearing Health in China, as well as expanding its global manufacturing capacity which is aided strongly by China’s multi-trillion dollar Belt and Road Initiative.

KEY TAKE OUTS



China requires a long-term strategy and commitment. Most Australian success stories are the result of many years of investment and hard work.



Be strategic in selecting the province and city you want to establish your presence in and foster strong relationships with localised partners and government. Cochlear's engagement with Sichuan officials has helped to minimise risks from ever-changing policies and regulations.



Collaborative, community-oriented initiatives such as the Sino-Australian Hearing Hub are a great way to develop engagement with local, provincial and central government and stakeholders.



CHALLENGES & RISKS





PART 3

CHALLENGES & RISKS

This section aims to provide a snapshot of the key concerns facing Australian businesses. The key risks identified predominantly relate to government policy, competition and rising costs. However, these risks have reduced year-on-year. Meanwhile, we saw a notable rise in concerns over slowing economic growth. Understanding customers was a key driver behind most of our information gaps, which explains the customer-centric shift in our investment spending. As we become increasingly mature in our China strategies, engaging with localised experts endures as an integral measure to achieving success.

KEY BUSINESS RISKS

Sizeable Shifts in Market

Whilst unpredictable government policy remains the key identified risk for most businesses, this dropped by **7.1%** year-on-year. We expect this concern to diminish further as Australian businesses continue to develop on-the-ground regulatory experience and expertise.

We also saw a **6.8%** year-on-year drop in concerns over increasing market competition and new business models. This is surprising given recent growth in foreign entrants and local Chinese competition. It will be interesting to see whether this concern continues to fall over coming years as we become increasingly mature with our China strategies, or whether the Made in China 2025 initiative will successfully foster an increasingly competitive and innovative trade environment (see part 5).

The daunting prospect of reducing revenue forecasts is exacerbated in **an environment of rising costs**. Rising manufacturing and raw material costs, as well as salaries, continue to place pressure on Australian companies. Furthermore, there are concerns that China's heavily depreciating yuan will reduce domestic appetite for imported goods and services.

"Identify the Number One Risk to Your Organisational Success"



18.3%

Unpredictable government policy

(▼ 7.1% YOY)



17.3%

New competitors / business models

(▼ 6.8% YOY)



17.3%

Slow market growth

(▲ 4.9% YOY)



10.2%

Increasing costs

* In a separate multiple choice question, increasing costs was identified by 49.3% of businesses as being in their top three risk factors

INFORMATION GAPS

"Identify the Key Information Gaps Undermining Decision Making"



58.3%

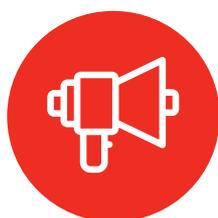
Understanding your customers

(▼ 10.5% YOY)



41.3%

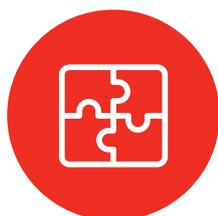
Legal, regulatory & policy



33.5%

Branding & positioning

(▼ 6.5% YOY)



29.1%

Market landscape

All % rates reflect multiple choice frequencies

Customer-Centric and Politically Vulnerable

Information gaps are amongst the biggest hurdle for any foreign enterprise making commercial decisions. The difficulties surrounding China's 'opaque', complicated and ever-changing commercial environment are exacerbated by intense language barriers and limited access to up-to-date market information. It is for these reasons that **local connections and on-the-ground experience is imperative for success.**

Reflecting what was witnessed in investment spending, many of the key information gaps can be tied back to understanding, reaching, servicing and converting the customer. Understanding your customers endured as the leading information gap. However, this dropped by **10.5%** from last year's Survey. Given the recent growth of investment in market research, it's reasonable to predict that customer-related information gaps may diminish over the coming years.

In line with the global political climate, 24.8% of businesses identified the political landscape as a key information gap (▲ 9.1% YOY), whilst legal, regulatory and policy related information endured as the second most identified information gap.

CASE STUDY

Tamburlaine Organic Wines

Tamburlaine Organic Wines in the Hunter Valley, NSW holds the rank as Australia's largest producer of organic wines. Launched in 1966, the brand has been led by Managing Director and Chief Winemaker Mark Davidson since purchasing the Hunter vineyard with several friends in 1985. Tamburlaine has enjoyed significant growth in China, with FY18 sales more than doubling from FY17.

Mr. Davidson reflects the sentiment of many Australian businesses who identified key challenges in understanding and connecting with Chinese customers, as well as managing regulatory hurdles. In order to better manage this, Mr. Davidson is a strong advocate for establishing long-term localised networks and connections with industry experts.



“Engaging with Chinese people in China so you understand where they’re coming from is the most important step. If you don’t do this, you’re making a mistake. Immersion in the culture is the number one rule.”

This rings true for the challenge of developing brand equity. China’s wine market, early in its growth cycle, is already flooded with competition. However, the bulk of consumers only recognise iconic and established brands (e.g. Penfolds). Just like growing a wine brand in Australia 40 years ago, Mr. Davidson notes that his success in China has not been overnight, but a bottle by bottle approach to build the brand from its grass-roots. Tamburlaine plays to the strength of the Australian brand, leveraging the associations with quality and environment preservation through organic practices in marketing and social media campaigns. While recognising that social media is paramount, Tamburlaine insists that their relationship with clients is their key competitive advantage.

“Our focus has been to develop relationships. We get things out on WeChat and over social media. I could spend a million dollars putting banners up all over China and it would barely be a drop in the ocean.”

In recent years, Tamburlaine has been actively networking in Australia and in China: via collaborations in key industry events such as the Hainan Earth Day Celebrations as well as through active participation in regional work, festivals and private dinner events.

Mr. Davidson places a strong emphasis on a two-way flow between Australia and China. He regularly invites and hosts Chinese visitors at the vineyard and emphasises the importance of regular visitations to China. This strengthens relationships, which pave the way for a greater understanding of the business and legal cultures, which ultimately benefit Tamburlaine's ability to manage China's regulatory environment. The company is setting up a Wholly Foreign Owned Enterprise to ensure it can genuinely support its growth in China.

“We’re in the business of exporting wine to China. You need to be across all regulatory requirements: customs, labelling, the way they’re packed, specific rules about distribution, not to mention the business of maintaining records if you’re setting up your own company in China. Regulations can change overnight.”

Planning for the future is also high on the agenda for Mr. Davidson. Currently, Tamburlaine is developing a platform to meet currently underserved tier two and three cities, a verification solution to address counterfeiting risks and ensure track and traceability, whilst simultaneously investigating ways to integrate blockchain payment technologies into their processes. Furthermore, as Beijing becomes increasingly serious about their Healthy 2020 policy, Tamburlaine continues to leverage their Certified Organic status to improve engagement with health-conscious consumers.



KEY TAKE OUTS



Spending time with Chinese partners/influencers in both China and Australia has enabled Mr. Davidson to maintain a strong grasp of his market and relationships.



Don't be fooled by the big numbers, growing a brand in China often takes a grassroots approach one customer at a time, much like building heritage brands in Australia of years gone by. Participation in community work and events such as the Hainan Earth Day Celebration have proven invaluable for developing and strengthening Tamburlaine's China business.



Staying on the forefront of digital and social innovation, but also exercising innovativeness yourself is paramount to staying competitive in China. Tamburlaine is currently developing their own platform to reach under-served tier two and tier three cities.

MACRO INFLUENCES





PART 4

MACRO INFLUENCES

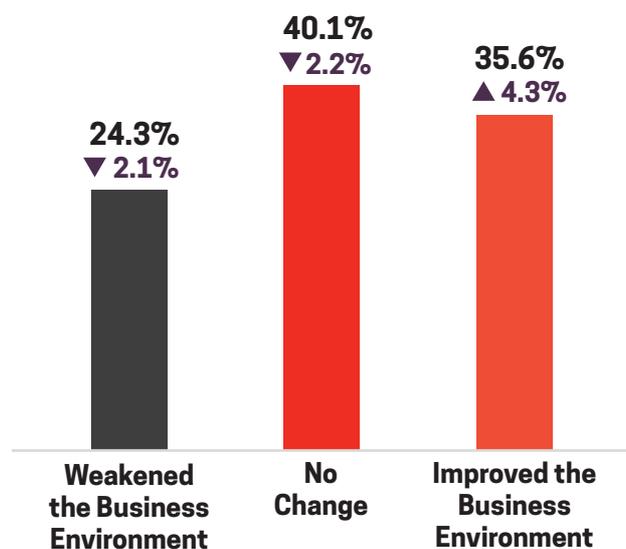
This section will delve into the key trends affecting China's political and regulatory landscape as well as its evolving commercial environment. Despite some clear concerns over geopolitical and economic tensions, it appears that Australian businesses perceive China's commercial and regulatory environment to be increasingly favourable and manageable. While CHAFTA continues to drive beneficial shifts, the potential of China's Belt & Road Initiative is yet to be realised.

POLITICAL LANDSCAPE

Domestic Policies Fostering Fairer Competition

It appears that concerns over China's policies and regulatory environment have reduced. This year's Survey identified a **4.3%** increase in businesses citing that government policy changes had strengthened the business environment. Simultaneously, we saw a **4.9%** increase in the number of domestic and foreign enterprises receiving equal treatment by regulators (24.9% overall). While **56.5%** of businesses believe that China's regulatory environment is not transparent, **less than half** of those find the lack of transparency to be a problem (25.1% overall). It stands to reason that Australian businesses are incrementally becoming more mature, capable and competent in managing China's bureaucratic administrative landscape.

Impact of Government Policies on China Business (2018)



Mounting Concerns Surrounding US-China Trade War and Slowing Economy

The US-China Trade War puts Australia in a tight position between our largest strategic partner and our largest trading partner. As the dispute continues to take its toll, so does the **risk of an economic slowdown**. For China, 2019 saw the World Bank officially lowering GDP growth forecasts. The key year-on-year shifts in perceived market risks reflect that we are becoming **increasingly concerned with macrogeopolitical and economic factors beyond our control**.



48.3%

of businesses identified economic slowdown as being amongst their top three risk factors (▲ 11.5%YOY)

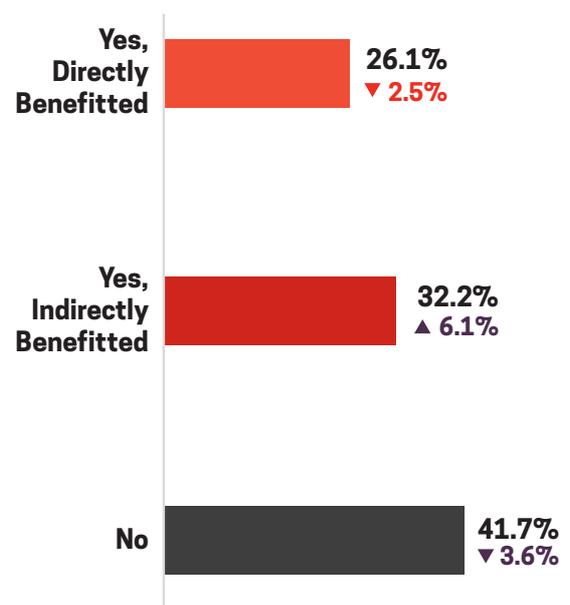
MACRO OPPORTUNITIES

CHAFTA Benefits Continue to Unfold

This year's Survey indicates that the benefits of the China Australia Free Trade Agreement (CHAFTA) are continuing to unfold, with 58.3% of businesses identifying they have benefited - a 3.6% rise from 2017.

Of those who considered themselves to have benefited from CHAFTA, two of the leading benefits were financial; citing the reductions and eliminations of tariffs. Overall, we saw **tariff-specific benefits rise 14.6%***. We also saw a **6.1%** rise in businesses identifying that they have indirectly benefitted from CHAFTA, most of whom cited improved market access and improved relationships with stakeholders.

"Has Your Organisation Benefited from CHAFTA?"



* In a separate multiple choice question, businesses identified the ways in which they had benefitted from CHAFTA, with reduction of tariffs at 43.9% overall (▲ 3.0% YOY) and elimination of tariffs at 25.2% overall (▲ 11.6% YOY)

Belt & Road Initiative Yet to Deliver

More than 100 countries and international organisations have signed up to the ambitious BRI since 2013, including the State Government of Victoria in October 2018. The number of businesses who identify the BRI to be a positive driver has dropped 3.5% year-on-year. It is evident that the BRI is yet to deliver for many Australian businesses. Interestingly, those indicating the BRI as a positive driver were 9.0% more likely to increase their unique products and services for the China market.

"Is the Belt & Road Initiative a Positive Driver for Your China Strategy?"



CASE STUDY

Wattle Health Australia

Wattle Health Australia (WHA) is a quintessential Australian company based in Victoria which specialises in the development, sourcing and manufacturing of natural and organic health and wellness products. They have been supplying nutritional dairy powders, including infant formula as well as mother and baby products to the Chinese market since 2014. We spoke with CEO Lazarus Karrasavvidis about the rise of Wattle Health Australia.

WHA is very supportive of the new and necessary regulatory changes the Chinese Government has implemented in order to protect the Chinese consumer. These changes include; the ratification of CHAFTA, updates to infant formula regulations, the consolidation of three regulatory bodies to form one governing body; SAMR and the recent eCommerce law changes.

“Everything we do at Wattle Health is based on three key principles; safety, quality and provenance. The changing regulatory environment in China has shown us that our principles are aligned with the Chinese market.”

The regulatory changes have had a significant impact and will continue to influence Australian (and global) businesses.

“The number of approved (dairy) manufacturing houses dropped from circa 35 to 5 and the number of brands dropped from approximately 780 to 30 in 2014/2015.”

Well before (China’s) regulatory changes, WHA had set about building a strategy to support a sustainable long-term business with all its key global markets.

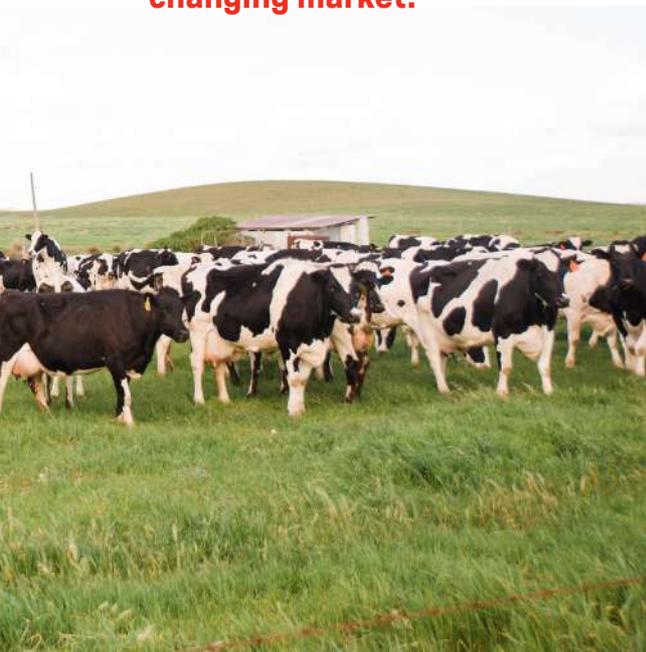
“You need to understand the consumer, their needs, the cultural differences, the changing regulatory landscapes and how to interpret them and incorporate into your strategy. I have been to China countless times but that doesn’t mean I am an expert. It is important to surround yourself with the right partners who understand the market intimately and know what is required to create an impact. Whether it is China or India, working with local experts who recognise and know the cultural differences is the key to building a successful, global brand.”

Staying ahead of the curve is always at the top of Karasavvidis’ corporate agenda. Wattle Health Australia has spent over \$100M developing a vertically integrated supply chain supported by decentralised blockchain technology to enable traceability back to the cow and confirm quality and authenticity of their product.



From securing their organic milk directly from the Organic Dairy Farmers of Australia, to a joint venture which will see them build the country's first dedicated organic nutritional dairy spray dryer and recently, an announced proposal to take its holding to 51% equity in Australia's largest independent manufacturing and packing facility, WHA is well positioned to service the needs of local and global markets. Best of all, WHA remains the only Australian organic dairy company with a vertically integrated supply chain giving unparalleled transparency to the consumer.

“Our commitment to the China market is evident through our significant investment in consumer research, product development and products specifically created for the Chinese consumer. We have also implemented a dedicated team in our Shanghai Office to ensure our customers receive the highest service and care. Our presence also allows for us to closely watch the market and consumer trends and remain adaptable to an ever-changing market.”



KEY TAKE OUTS



The Chinese consumer is well researched, has a thirst for knowledge and a keen interest in understanding the origins and the journey of a product prior to purchase. WHA's investment in blockchain technology provides consumers with peace of mind and full transparency of the product journey, from the farm to the store.



China's regulatory landscape is necessary to protect consumers. By embracing consumer-led changes and ensuring they are always well informed by localised industry experts, WHA remain dynamic and flexible, effectively allowing them to future-proof the company in an ever-changing market.



Continuous innovation is key to success. Chinese consumers have embraced a digital way of life faster than any other. This requires clear, clever and culturally relevant communication.

DIGITAL ENVIRONMENT





PART 5

DIGITAL ENVIRONMENT

This section dives into China's technological landscape. With China actively fostering competition as a means to drive innovation, it appears that we are increasingly adopting digital strategies. More and more of us are engaging in eCommerce across an increasing number of digital platforms. As China expands its bid to become a digital superpower, early adopters of new digital channels and technologies are realising heightened success, notably in the New Retail space.

DIGITAL INNOVATION

Fostering Technological Innovation, via Increased Competition

Under the Made in China 2025 initiative, China is taking active steps towards becoming a **world leader across all major tech categories**, from artificial intelligence and robotics to aviation and aerospace. Nurturing a competitive environment that forces enterprises to stay innovative in order to survive is the key.

This year's Survey identified technological innovation as one of the key factors driving industry change. Government funding and support for entrepreneurs was the leading driver of this.

Beijing is providing additional support for entrepreneurs through measures such as the relaxation of the company registration process. They are also providing fiscal support for entrepreneurial programs and ventures by **investing tens of billions of dollars into modernising schools and educational systems**. China is actively supporting private sector investment in R&D and talent, having signed numerous agreements with large pharmaceutical and medical device organisations to develop entrepreneurial programs and initiatives.



62.0%

of businesses identify that their China market is at least more advanced than their other markets (▲ 3.6% YOY)



74.9%

of Australian businesses have or are currently planning/developing a digital strategy (not including eCommerce)

Are we Innovative Enough to Stay Competitive?



61.1%

of Australian businesses plan to increase the number of unique products/services exclusively for the China market in 2019



These businesses were **32.0%** more profitable

ECOMMERCE

More and More Businesses Using More and More Channels

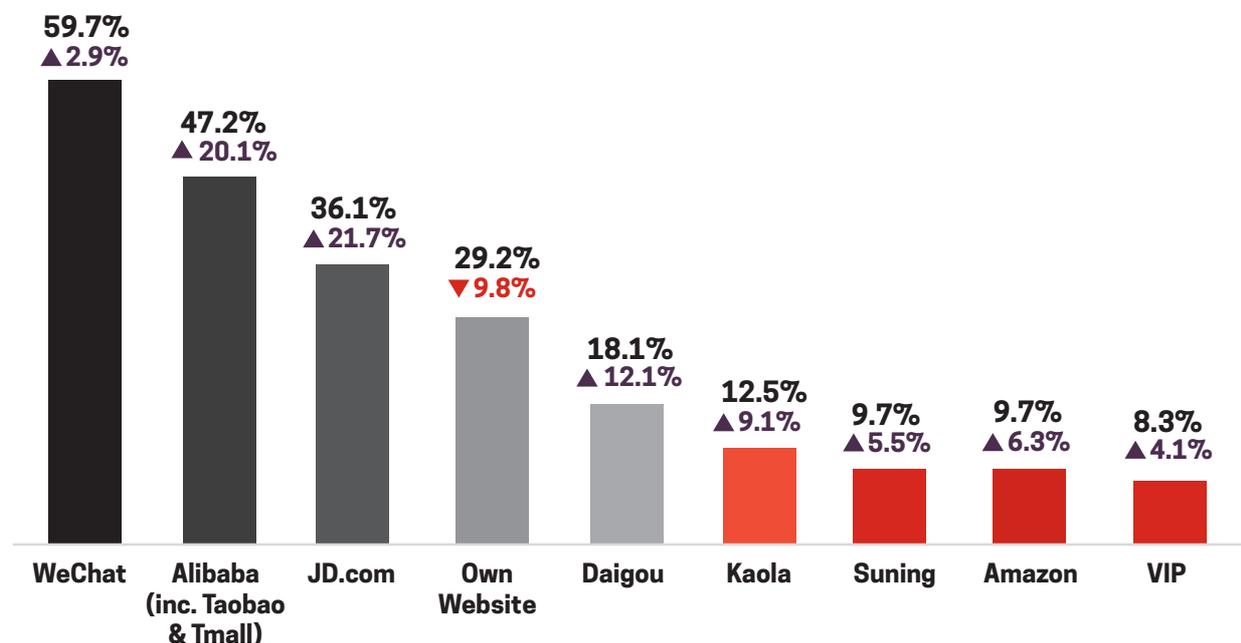
Almost two out of three (59.7%) Australian businesses surveyed have an eCommerce strategy in place or in development for China. Half of the businesses implementing an eCommerce strategy earn less than 10% of their total China revenue online. This indicates that eCommerce is rarely a silver bullet, but rather a marketing and sales aid to support brick and mortar sales.

Marketing/branding endured as the leading challenge for **72.9%** of eCommerce-active businesses. While its **4.0%** year-on-year drop is a signal that we're improving, we can expect these issues will continue so long as competition intensifies, costs rise, and consumer behaviours evolve.

The 2019 Survey results saw a **26.5%** growth in the average number of eCommerce platforms used per business. While we are adopting an increasingly diverse, multi-platform approach to eCommerce, **WeChat remains the most prevalent sales channel/tool for Australian businesses**; a further testament to the success of the social-eCommerce business model.

We also saw a rise in uptake of almost all major channels; notably JD and Alibaba-related platforms, both up more than 20% year-on-year. Company-owned websites were the only channel that saw a drop. Meanwhile, daigous saw their final growth period prior to the implementation of China's new eCommerce law earlier this year.

Most Identified Channels Supporting eCommerce Strategies



NEW RETAIL

What is New Retail?

In 2017, the term 'New Retail' was coined by Alibaba's Founder and Executive Chairman Jack Ma. New Retail aims to remove the distinction between online and offline retail and marketing experiences. Compared to traditional brick and mortar retail, New Retail shifts the '*product-push*' paradigm to '*demand-pull*' by focusing first on supporting the personal needs of the consumer. From there, the outlets are able to provide a **tailored and integrated physical and digital shopping experience**. Both the consumer and the merchant's utility is maximised with New Retail. Not only is the shopping experience more convenient overall, but the retailer reaps the benefit of data-driven efficiencies.

New Retail is best explained and seen through Alibaba's HEMA (or Freshippo) stores. HEMA is effectively a department store offering high-quality domestic and foreign FMCGs and produce. Every item on shelf is supported by a digital source of comprehensive product information and usually some other media. These could be educational videos, special promotions, track and trace tools or even augmented reality games and experiences. HEMA also offers home delivery in under thirty minutes to customers who live within a three kilometre radius of any given store. With 60% of sales in established stores being achieved online, HEMA redefines consumer convenience.



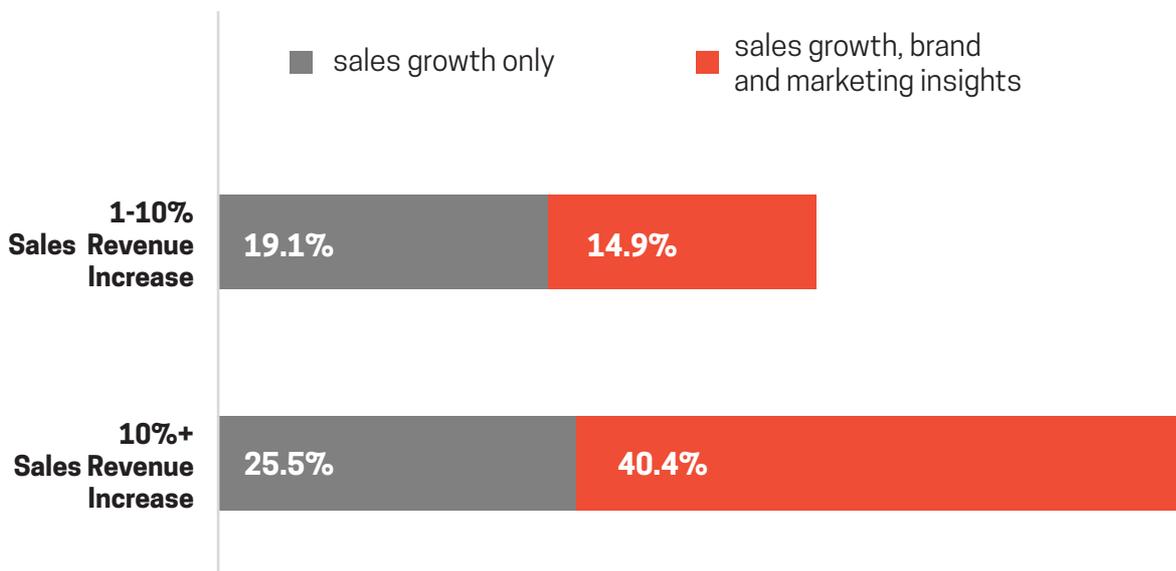
New Retail: Daunting but Fruitful

New Retail has taken a strong foothold in China over the past couple of years. Adopting such a novel and resource intensive approach to sales is still seen by many Australian businesses to be quite daunting. However, for the early adopters, it has been an incredibly effective tool for gaining market traction with real life consumers. This year's Survey showed that 22.3% of businesses have taken up New Retail in some form, with a notable uptake from the Agriculture, Food and Beverage, Logistics and Supply Chain sectors.

66.0%
of New Retail active businesses reported a 10%+ rise in revenue

55.4%
of New Retail active businesses also benefited from increased brand & market insights

Extent of Benefit from New Retail Initiatives



CASE STUDY

Simplot Australia

Simplot Australia is an Australian food manufacturer responsible for some of Australia's most recognisable food brands, including John West, Leggos, BirdsEye and Edgell among others. We spoke with David Malone - International Sales and Marketing Manager.

For most grocery categories to be commercially viable in China, brands need to be general-trade registered for brick and mortar retail. According to David Malone, one of the biggest challenges that Australian brands then face is market fragmentation.



"[In Australia] you go to one of maybe three big supermarkets and there are probably 3-4 brands in each of the categories. You go to China, and to have a really strong presence, you have got to be in 20-25 different retailers... competing with a multitude of brands; sometimes 8-10 or even more within your category."

The same level of fragmentation rings true for eCommerce. Rather than competing with a broad number of competitors across a number of platforms and a vast number of non-relevant consumers, Simplot's early strategy has been to focus on New Retail channels for John West.

"If you look at new retail, it's perfect. It's exactly our consumer walking through the doors and so we have a strong focus on winning in that environment."

5/11 母亲节
亲生母女 欢乐演绎

我 是 你 妈
I AM YOUR MOM

澳洲小绿盒
让妈妈更懂爱

JOHN WEST

One of the big differences for the tinned tuna category in China versus Australia: is the need for education. Thus, Simplot have focused their digital efforts on showing to Chinese consumers how John West can be integrated into their daily consumption habits with minimal disruption.

“[In HEMA], the consumer might not understand the product as they see it on the shelf, but they might find it interesting. They can scan a QR code and watch a video to learn more about it then and there on the spot. We are very much using digital to engage and also to teach the consumer about how to use our products.”

John West Tuna is currently the top selling product in HEMA’s canned seafood category. As one might expect, this has been achieved through a combination of best practices for traditional retail and digital marketing. Good relationships with the platforms, strong shelf positioning as well as customer engagement (via in-store tastings) have been important components of Simplot’s marketing mix. These have been complemented by innovative online marketing and engaging smartphone-friendly integrated experiences.

“Just in the last 12 months, Little Red Book* has become really important for us: to engage the consumer, teach them recipes and tell them about the benefits of the product in a more personalised environment.”

* Little Red Book is an online eCommerce platform that blends eCommerce with social media and supports a predominantly female user-base

Simplot has also engaged in more experimental offline initiatives to build John West’s associations with sport and health, as well as develop engagement with B2B distributors and customers. This included sponsorship of Australia’s national basketball team tour of China and support of the 2018 AFL match in Shanghai.

“The use of KOL’s and short videos to share recipes and articles are proving to be really important.”

Interestingly, 2018 also saw a dramatic rise in popularity of Leggos (pasta) which now accounts for 50% of Simplot’s eCommerce sales in China. This was a surprise to Mr. Malone, as Simplot had categorised it as a non-focus eCommerce-only brand. Malone puts this success down to a distribution partner, who has established the brand effectively over a seven-year period.

KEY TAKE OUTS



China’s market is fragmented. Pick winners that are likely to align with your overall strategy and target market. Simplot’s success is largely due to their focused efforts: building one brand across the key channels offering the best cut-through.



New Retail will present significant opportunity moving forward. However, the opportunity is greater for businesses who are able to provide their partners with support, exclusive marketing and promotions as well as integrated digital marketing campaigns and innovative consumer educational initiatives.



There is no tried and true digital marketing blueprint for China. Similar to Simplot’s sponsorship of the 2018 AFL match in Shanghai, you must be prepared to experiment and try fewer mainstream methods to effectively engage with customers.

DEMOGRAPHICS & METHODOLOGY





DEMOGRAPHICS

Number of employees in China

▪ 0	7.9%
▪ 1-10	34.5%
▪ 11-30	16.9%
▪ 31-100	18.1%
▪ 101-500	11.3%
▪ 501+	11.3%

Highest Earning Sectors (> \$100M Revenue) Relative to Overall Average

▪ Mining*	▲ 63.4%
▪ Government Agency	▲ 30.1%
▪ Manufacturing	▲ 27.0%
▪ Legal	▲ 20.5%
▪ Financial Services	▲ 17.9%

Lowest Earning Sectors (Earning <\$5M Revenue) Comparison to Overall Average

▪ IT & Technology*	▲ 39.5%
▪ Creative Industries	▲ 21.6%
▪ Education & Training	▲ 19.0%

Business Structure in China

• Wholly Owned	54.9%
• Foreign Enterprise	
• Joint Venture	15.2%
• Representative Office	10.4%
• Foreign Invested	3.0%
• Commercial Enterprise	
• Other	16.5%

Objectives in China**

• To Grow a Business	76.8%
• Clients are Located in China	46.4%
• To Manage Increased Demand	23.2%

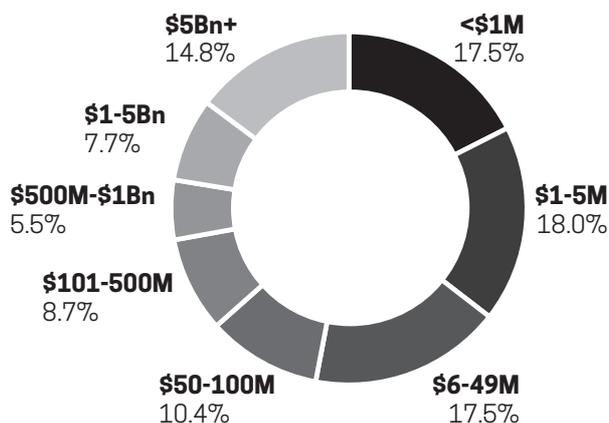
Public or Private

▪ Private Enterprise	79.0%
▪ Publicly Listed Company	20.0%
▪ IPO in Progress	1.0%

Industry Breakdown



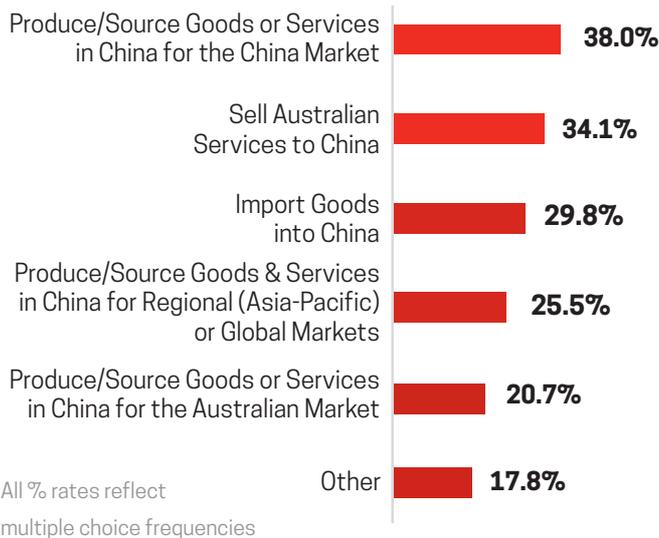
Global Revenue of Respondents



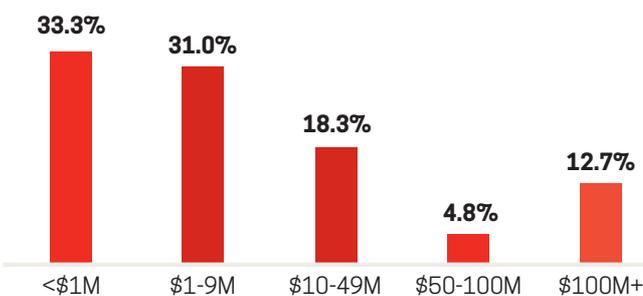
* Sample size <5

** % rates reflect multiple choice frequencies

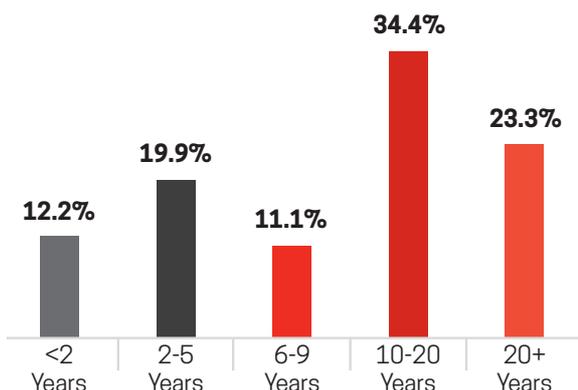
Goals in China



Current Year (2018) Revenue Forecasts



Time Spent in China



METHODOLOGY

This is the second business sentiment survey conducted by the Australian Chamber of Commerce Shanghai (AustCham Shanghai), in partnership with Westpac Banking Corporation.

The Wenjuanxing-hosted survey generated 211 valid responses across 65 questions. The respondents represented a broad range of companies by industry, size, and location. The Survey was open from the 15th of October until the 30th of November 2018.

It is worth noting that this survey is hosted by AustCham Shanghai. The information may be slightly skewed as businesses who are members of AustCham Shanghai would likely be more engaged with the China market. As a result, these businesses may be more profitable than other businesses operating in or with China.

'NA' and 'Prefer Not to Say' answers were removed from the data to provide more indicative results.

To be eligible to participate in the survey, organisations were required to meet at least one of the following criteria:

- Hold an Australian ABN/ACN
- Be a Chinese/Hong Kong entity with over 50% Australian ownership (by either an Australian individual or an Australian organisation)
- Distribute Australian products/services in China
- Federal, state or local Australian government entity
- AustCham Shanghai member

Shanghai-based market research and insights agency, China Skinny, analysed and presented the data on behalf of Westpac Banking Corporation and AustCham Shanghai.

