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Zeffler Cider Co: A KIWI BREWER EXPANDS IN CHINA

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THE COMPANY

Zeffer Brewing Limited traces its beginning to 2009 when founders, Hannah Bower and Sam Whitmore left their day jobs and began their cider making journey by crafting real New Zealand cider from freshly crushed apples in a shed in Matakana, New Zealand. They sold small batches of cider at the Matakana Farmers Market. The product established a reputation locally and positive reviews were widely shared about the cider. As Zeffer's cider production grew, they moved from their old cidery in Silverdale, north of Auckland, to the source of New Zealand's apples in Hawke's Bay, resulting in a state-of-the-art site with the capacity to produce over 2 million litres of cider per annum.

Zeffer Cider Co is now the leading craft cider brand and the largest independent, dedicated craft cider producer in New Zealand. It currently produces over one million litres of cider per year, around 6,000 bottles a day. It employs 15 people in New Zealand and abroad and has been experiencing revenue growth of around 50% per year in recent years.

The company's award-winning products can be found in more than 200 New Zealand supermarkets nationwide, in flavours that include red apple cider, crisp apple cider, hopper infused cider, alcoholic real ginger beer, two-point five low alcohol cider and apple crumble infused cider. Zeffer received global recognition at the International Cider Awards in London, considered the 'Oscars' of the brewing and cider industry and won the

award for being the World's Best Cider in 2017. In New Zealand, they won the 2018 New World Beer & Cider Awards and has a partnership with New Zealand Trade and Enterprise aimed at accelerating the company's growth in Asia.

The company is working towards a zero-waste production process and championing one of the most sustainable production methods in the world. The company also aims to develop the contract manufacturing arm of the business at a former Crossroads Winery site, whereby development and manufacturing of products for other beverage makers can take place.

Zeffer successfully raised a total of \$3.6 million in capital funding rounds in 2017 and 2018 through Snowball Effect crowdfunding platform to fund domestic and international expansion plans. As well as strong domestic sales, Zeffer's range of cider is now exported to countries such as China, Taiwan, USA, Australia, Thailand, Singapore, Germany, Hong Kong and Japan.

The cider market is experiencing rapid international growth with the global market estimated to grow from US\$10.7 billion in 2016, to US\$16.3 billion in 2023 with the Asian region being forecasted to grow rapidly in the coming years. Thus, Asia has become a major export focus for Zeffer, and within the region the company has most of its sales growth in China, where sales currently account for around 13% of total sales.

THE CHALLENGES

The company's market expansion into China only began a few years ago. While the company's business in China is continuing to grow, Zeffer's Chief Executive, Josh Townsend shares that the company has been 'constantly tweaking' their China business strategy weekly as a result of learning from the various challenges faced in the market.

Branding and lack of product awareness

According to Townsend, one of the key challenges faced while building up their business in China was related to branding and lack of product awareness, which subsequently led to a series of sales and marketing challenges, particularly when the Zeffer brand was new in the market and the general Chinese consumer lacked product awareness of cider as a drink. To target the market effectively, it was important to understand consumers' literal taste preferences. This was crucial for a new and culturally different market, where taste preferences might differ when compared to consumers in New Zealand. In an early attempt to identify a popular 'hero cider' flavour with consumers in the China market, the company began to trial several different flavours, but received inconsistent consumer feedback. This resulted in having the 'wrong flavours' in their portfolio of cider offerings and, according to Townsend, it took a long while and 'a lot of hard work to try and land on' one particular flavour called 'Red Apple' that was finally decided on for tap sales.

Capacity to oversee domestic and overseas market

Townsend shared that 'while we have had a decent start and we are seen a lot in China, we are still really, really small'. As a growing company with a small team of 15 employees, capacity in terms of time, money and people were key considerations that had to be taken into account while reviewing business op-

portunities and growth. The team needed to prioritise its efforts so as not to lose focus. Townsend explained that the effort to 'try and balance the attention we can give to export markets when there is so much going on in New Zealand is massively challenging'. From the production side, including marketing and sales in New Zealand, demands for attention were also growing in tandem with the attention that was needed by Zeffer's rapidly growing business in China.

Logistics and regulatory environment

As Zeffer's business involved the shipment of cider stocks into China, navigating the logistics process and the regulatory environment was a challenging process for Zeffer. Problems with logistics and delayed clearance for stocks into China have been a common phenomenon for many firms. Exporters, particularly of foods and beverages, often face delays in shipment clearance at ports and frequent changes in regulatory requirements by different Chinese government agencies. Each shipment is inspected and clearance certificates are a prerequisite before any of their products can be sold in China. Townsend shared a particular experience when the arrival of a large amount of Zeffer's product into a port in China was held up. Even though it was not the company's first shipment into China, stringent customs testing procedures resulted in Zeffer's stocks being categorized under the wrong product category code, resulting in the stocks being rejected for entry. As recalled by Townsend, 'they thought we were importing fake wine and all I got was a reject message saying customs say it is fake wine – no Zeffer allowed in China.' It was something of a crisis for a small company, given the value of the shipment which was at risk of having to be destroyed. Their sales outlets in China were out of stock and the initial message from the port did not offer any pathway out of the predicament.

STRATEGY

In-market validation process and partnering with investor-distributor

Townsend shared that the China market has clearly been a priority for Zeffer from the early days and the company 'decided to do it properly' by means of proper validation of the market. Six in-market validation trips were made before the company started selling into China as they 'wanted to get everything correct'. Equally important was the physical presence of being in China as 'getting there and understanding it' makes a huge difference in demonstrating to the market that the company was serious about the market and not just 'another brand trying to send products into a huge population base.' Language on the other hand, was not a particularly huge barrier in Shanghai where many people spoke English, but Townsend relied on translations from the company's local Chinese sales representatives when required.

According to Townsend, Zeffer's biggest opportunity came as a result of a rewarding partnership in China. A key asset for any company that relies on in-market channel partners is 'a distributor who is actually motivated to grow your brand, rather than just add you to their phone book of other brands'. A distributor also needs to be well-placed in terms of market knowledge and experience, and Zeffer found the right partner in a company that had prior experience with craft beer, including bringing New Zealand's Tuatara craft brews to China. The distributor eventually became the largest investor in Zeffer, a highly positive development that cemented a long-term set of mutual interests in growing the business and adding further value.

Market savvy 'on the ground team' in China

Townsend shared that Zeffer maintains an extremely active role in marketing and sales support in China in a manner where they aim to be 'quite clever and focused with where we invest marketing'. A fluent Mandarin-speaking New Zealander who has been living in China for 12

years was appointed to be the in-market China sales manager to oversee operations and to lead Zeffer's sales representatives who were based in Beijing and Shanghai. Having an on-the-ground team has enabled the company to gain better understanding of consumers in the market. It was particularly helpful with 'the constant information flow of what is going on' says Townsend. Having direct reports on the ground has been key. It means, says Townsend, that 'we have the constant information flow of what is going on. To try and get that from just working with a distributor would be incredibly challenging. Having a direct report on the ground also means that they can oversee what is going on there in terms of stock levels and delayed shipments. It's more than just sales: they basically work as a partner with the distributor to help them with their business, which ultimately helps us.'

Active stock control and the ability to deal with day to day problems as they arose has been important. With a local presence, stocks can be checked daily and four-month forecasts for China carried out to ensure that production schedules in NZ are aligned with requirements in China, as shipping can sometimes be affected by long booking time frames. Close collaboration and constant communication between the team in New Zealand, the distributor and the sales staff in China is necessary to develop sales forecasts, described as being 'crucial' by Townsend.

In-market relationships and knowledge are also key to resolving challenges that inevitably arise, given the tight logistics requirements and complex regulatory environment for port clearance. When that major shipment of cider was rejected by customs officers as 'fake wine', Zeffer was able to save the shipment through good local connections and rapid action. The episode demonstrated the benefits of having 'a good customs agent controlled by an importer, because they have a direct line with the customs officers.' The agent was able to let them know that they needed an official letter from the New Zealand government's Ministry of Primary Industries (MPI), certifying the product was cider and that Zeffer was a reputable company. With rapid action from the Zeffer team and MPI, 'we turned that around in 18 hours.'

Focused targeting and implementation of brand awareness marketing strategy

Staying focused and targeting by channels was one of the key strategies Zeffer adopted for the China market. The main emphasis was on the expatriate market, targeting bars with capacity for on tap sales at suburbs mainly within Tier 1 cities of Shanghai and Beijing, as well as in southern China cities of Xinjiang and Guangzhou. The company had a list of outlets that they aimed to capture on their first year and dedicated its focus to achieving this goal, rather than 'trying to spread ourselves really thinly', says Townsend, explaining that 'it was a detailed plan to win what we saw as low hanging fruit', from which the company could then build sales beyond the expatriate market by word of mouth and leveraging the cachet established through an initial limited set of sales points and brand differentiation.

Zeffer's marketing strategy was crafted with the objective of raising Chinese consumer awareness of Zeffer cider. Although the company has a 100 percent Chinese language WeChat (social media) page operated by their bilingual China manager, the company has both Chinese and English point of sale materials. The company recognized that there is still 'a large element of need for English materials because it gives brand authenticity' and as well as the maintenance of an 'English brand' image. This was important given Zeffer's premium positioning in regards to pricing in the market, being 'relatively expensive compared with really cheap imported ciders'. The company has also explored influencer marketing, and while it was difficult to measure the long-term impact of conversion into sales, it received good click-through.

In a new development, Zeffer has collaborated with the nascent Chinese craft breweries scene, stepping out to make cider together with selected local brewers. As a follow-up, the cider was launched into the existing networks of these breweries to help build further brand awareness among Chinese consumers.

Growing innovatively and leveraging support

In the earlier days of the business, hard work and minimal returns were part of the journey but lessons learnt along the way on how to invest money and time has seen returns on investment and avoided capital waste. Managing cash flows tightly has been essential to keeping control of rapid growth. Strong forecast growth in revenues led the company towards raising capital to fund business expansion through an unconventional yet innovative crowdfunding process through the Snowball Effect online platform. As a result, the company successfully raised \$1.2million in a first capital funding round, followed by another \$2.4million in the second round, bringing the total amount of raised capital to \$3.6 million.

Zeffer also works closely with NZ Trade & Enterprise (NZTE) to adopt a focused export model for Zeffer's growth into China. Zeffer has made use of partnership resources such as NZTE's China-based market managers who have local market knowledge in Shanghai, Beijing and Guangzhou. By attending the eight-day immersive 'Accelerate China' course that was conducted through NZTE, the Zeffer team was also able to gain valuable insights and better market understanding of China.

Recognizing the potential for growth in retail channels, the company is also launching their bottled range into retail outlets and supermarket chains in China. Zeffer credits NZTE for their help with its listing into Hema Fresh, Alibaba's new grocery-store network, which combines traditional shopping with a digital experience. Zeffer also works closely with the Ministry of Primary Industries (MPI) on exact testing requirements that their products will need to go through in order to ensure that they stayed within the acceptable limits for importation clearance in China, as the limits in China are often quite different from those of other countries.

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