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GMP Pharmaceuticals Limited



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1. The Company

GMP Pharmaceuticals Limited (GMP) is a leading Australasian contract manufacturer of life care products, health foods and supplements, nutraceuticals, complementary medicine, and dairy products. Founded in 1994, GMP partners with and continues to evolve alongside New Zealand businesses large and small. Over the years, GMP has achieved significant growth of its export market opportunities in particular by centralising the supply chain of its products and investing in the training and capability development of its workforce.

GMP recognises the growing trend in customer need for convenient one-stop-shop services, which include providing solutions for product formulation, label design, packaging, shipping, and regulatory issues, which GMP offers through its expansive AUNEW® brand. By focusing on architecting a better and smarter supply chain, it has maintained valuable customer engagement to date and continues to build and adopt bespoke approaches with its key customers as it matures.

GMP established its first manufacturing facility in Girraween, Australia, in 1994. Today, this facility and the company's Global Head Office in Sydney boasts a team of over 500 employees. Building on its success in Australia, the company expanded to the New Zealand market in 2001 with the opening of its Auckland facility, and since the inception of its dairy operation, the number of employees in New Zealand has grown to a total of more than 250. In addition, the company employs over 40 import-export specialists in Beijing and Tianjin, China and regularly engages top industry consultants throughout its organisation.



With production and business facilities across three different countries, GMP has built a global logistical network of customers and suppliers. In the early days, GMP's focus was on exporting to Japan and South Korea, before also setting its sights on China in the early 2000s. At this time China underwent significant economic growth which inherently drove demand for imported goods, and the Chinese market now accounts for about half of GMP's exports. GMP is now also rapidly increasing its presence in South East Asia, including Malaysia and Thailand. Products with New Zealand origins and brandings are especially sought after in this part of the world.

Taking a proactive approach to innovation and a commitment to constantly improving product quality has earned GMP a strong reputation within the industry, culminating in multiple awards over the years, including repeatedly winning New Zealand Exporter of The Year titles and NZTE Excellence in Operations and Supply Chain Awards in recognition of its innovative logistics solutions.

2. The Challenges

Despite its extensive international experience, GMP has had to overcome a number of challenges in its Asian operations. This section discusses some of the key challenges around regulatory uncertainty, logistics, and the rise of the *daigou* cross-border channel.

2.1 Regulatory uncertainty

Mr Ye notes that his customers often ask “Why don’t Chinese consumers buy our product, even though it is supposed to be very popular?” The reason, he believes, is in large part the regulatory complexity involved. Exporters to Asia often face expensive duties and demanding regulations. Compliance plays an especially significant role in tightly regulated industries, such as infant formula. As Ye notes, “some countries are very protective. Even China has really high hurdles that our products need to pass to get in.” The regulations may vary considerably from country to country and change unexpectedly, creating considerable frustration. “Just last week, a new standard was introduced for the infant formula. And it will be hard for a lot of players, including us.”

In addition, according to Ye the difficulty of interpretation can add to regulatory uncertainty in the region, as “sometimes it’s like gambling because the regulations are so grey, leaving the interpretation to you and port officials, and different ports or different officials may have different views.”

Regulatory transparency may also differ greatly across the Asia region. While Singapore and contemporary China may be more transparent today, other countries remain challenging for exporters. Ye explains that “in Malaysia and Indonesia, it is all about the acquaintances and connections, like 10 or 20 years ago in China.” Building a local network of partners is integral to entering such markets, and this can prove to be insurmountable for many SMEs with limited resources. Furthermore, a discrepancy in the interpretation of regulations may lead to costly consequences, such as exported goods being denied entry into the country at the ports.

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2.2 Logistical difficulties

Having a reliable supply chain system is another challenge that exporters have to overcome. All industries are impacted by this, especially in the current climate, but it is critical when perishable goods are involved. Ye notes that “temperature and humidity are critical for our products. If you send goods to somewhere really hot, like Guangdong, it can melt or leak. If you go to Tianjin Port or Dalian Port, it can freeze.”

Setting up such complex logistical systems requires considerable investments and expertise that may be beyond many New Zealand businesses. According to Ye, “a lot of Australian and New Zealand SMEs do not have the resources but are determined to enter China.” It is therefore essential for Kiwi exporters to find alternative logistical solutions to enter new markets.

2.3 Daigou channel

The past decade has seen the rapid emergence of an alternative exporting channel called *daigou*, whereby individual or syndicated shoppers purchase goods overseas for customers in China. While *daigou* has served as a cheap and quick way to access customers in China, the over-reliance on this channel has proven costly for some businesses, such as A2 Milk, whose sales were severely impacted by Covid-19 disruptions. Reliance on *daigou* channels also keeps the producing firm at a distance from its consumers, making it harder to build market knowledge and maintain any control over the condition of the product before it reaches the consumer.

By relying on *daigou* trading, businesses not only lose control over the supply chain, but also increase their exposure to regulatory uncertainty. Due to such risks, GMP does not deal with *daigou* traders directly, despite being one of the first to explore this channel in the early 2010s. “We did have plans for *daigou*, and we even had a trademark registered. We also started a franchise in China”, Ye recalls. However, changing regulations in this area impeded many products from entering China and forced GMP to close its *daigou* shops one by one. Today, Ye and GMP prefer to “deal with brand owners, who sell through their channels, and their channels sell to *daigou* people.”



3. Strategy

3.1 Local presence

Karl Ye believes that GMP's success can be largely attributed to its decision to build a local presence in China, the largest export market in Asia. Exporters are often met with both the challenge of understanding and complying with the local standards as well as keeping up to speed on all relevant regulations. Having a local presence at destination countries allows exporters to stay on top of any changes in the regulatory environment. "We employ an official to have a better understanding of the regulatory framework. This way, we can mitigate that risk", Ye notes.

Local presence also gives exporters tighter control over their supply chain. Many businesses, particularly those involved in producing perishable goods like GMP, are exposed to significant risk from potential logistical disruptions. Having staff at the destination countries allows the exporters to respond to any logistical issues on the ground quickly and effectively. "To have a better understanding of the logistics, we have our own bonded warehouses in the Port of Tianjin, which we renovated to make sure temperature and humidity control can simulate the standards over here [in New Zealand]. Now when our products arrive in China, they are immediately put into our warehouse, where they are kept safe while waiting for the testing results to get back", Ye says.

Building a local presence in the export markets can help businesses mitigate challenges around regulatory uncertainty and logistics, however it is not an easy feat to accomplish. Finding a local office and employing local talent can be particularly difficult for New Zealand SMEs with limited resources.

3.2 Realising economies of scale for SMEs

As an alternative solution to building your own supply chain to export to Asia, businesses can take advantage of specialised services provided by companies such as GMP. Having dealt with their own exporting challenges for many years, GMP has gradually built up its expertise regarding import-export matters that it can now share with other exporters. As Ye recalls, "the initial idea was very simple; we just wanted to release the exporting bottleneck for our customers [...] but once we started this, we talked to NZTE, and they thought this is a great idea and they asked why we limited the service to our own customers. Other industries, like cosmetics and wine, have similar demands. That's why later we opened up, not only serving our own customers but also focusing on other products."

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Making use of such services allows other New Zealand businesses to avoid duplication of efforts and resources that are already scarce. At the same time, import-export specialists such as GMP can focus on improving the services they provide, including the award-winning traceability features. As consumers are increasingly focussed on the origin of the products they buy, many businesses have started building traceability into their logistical systems. While it is merely a desirable feature in some industries, for the pharmaceutical and nutraceutical industry, traceability is critical. If something goes wrong, producers need to be able to identify quickly which batch to recall. “We now have a patented black box system that allows us to trace each can of infant formula. We can trace back to individual cans, what conditions it was produced under, so we can say if it is an individual can problem or a batch problem, and if we need to recall or not”, a process which Mr Ye explains can be critical in minimising extra costs and delays.

3.3 Immigrant talent

Another critical factor contributing to GMP’s success over the years is the optimisation of immigrant talent. According to Ye, central to GMP’s business philosophy is the concept of *guo*, which can be roughly translated into ‘crossing’. Being immersed in more than one culture gives immigrant workers the ability to recognise business opportunities arising from cross-cultural value differences. For GMP, this could mean identifying ingredients and products that may have carry more value in some countries and not others. “For example, nobody likes Koi carp in New Zealand. It is regarded as a pest, and the government actually pays you money to get rid of it. In the meantime, in China and Japan Koi carp are seen as a symbolic animal that brings you good fortune. It is also used for medicine. There is a big cultural difference, and GMP can take advantage of it”, Ye says.

In addition, employers may benefit greatly from the connections and local networks that immigrant talent can bring. As Ye puts it, “the migrant community plays a very big part because they have connections, they know the culture.” By tapping into the resources of their immigrant employees, businesses can access a larger pool of customers and improve their marketing projects with culture-specific knowledge.



4. Conclusion

As can be seen in the experiences of GMP, international trading is full of challenges. However, with persistence and local knowledge informing business decisions, this company has continued to grow and develop in the face of difficult market conditions, from the Global Financial Crisis of 2008 to the outbreak of the Covid-19 pandemic from 2020, and become one of the leading contract manufacturers in Australasia in a highly competitive industry. GMP has carved a valuable business niche for itself within the New Zealand business ecosystem, as well as playing a role in supporting a range of fellow Kiwi companies to access markets in Asia and beyond.



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