

CHINA UPDATES

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Ms. Xu asked about China's current dietary supplement industry development and its potential. The radio segment can be heard on the association's website in the association news section.

The World Health Conference was followed by the International Health and Nutrition Industry Expo also held in Beijing. Crowther gave another presentation during the expo focusing on regulatory change and industry development for dietary supplements. (Source: USCHPA)

USCHPA Presents at World Health Conference

On April 7, 2013 the association's executive director Jeff Crowther gave a presentation at the World Health Industry Conference in Beijing. Crowther's speech focused on the great potential of China's dietary supplement market with appropriate regulatory changes. In contrast, he introduced the U.S. dietary supplement market environment and regulatory system as an example of a transparent system that encourages investment, research and development and is currently the most successful in the world.

Following the presentation, Crowther was interviewed by Ms. Xu Fei from China Radio International (CRI).



Healthcare Special Report

Liu Zhanglin has been working in China's pharmaceutical industry - especially the consumer healthcare and traditional Chinese medicine segments - for nearly three decades.

The industry veteran forecasts the nation's consumer healthcare sector will grow at a steady 10 percent over the next three to five years.

Bruce Liu, a strategy consultant with equally rich experience in the international pharmaceutical industry, is even more optimistic.

He suggests that by 2015, the sector will be worth more than 100 billion Yuan (\$16.01 billion) from its current 60 billion Yuan, and will be growing at around 20 percent annually.

But both professionals share one view - that the sector is likely to become one of China's most lucrative.

Liu Zhanglin, vice-president of China Chamber of Commerce for Import & Export of Medicines & Health Products, is slightly more conservative with his growth forecasts, but predicts the sector will accelerate at a higher rate than the nation's GDP growth, given the country's aging population.

Bruce Liu, a partner and co-head of the pharma and healthcare practice at Roland Berger Strategy Consultants, said one of the most striking aspects of China's fast-growing consumer healthcare sector is the number of multinational pharmaceutical companies competing in an attempt to cash in on market.

Pfizer Inc, the world's largest drug maker by sales, for instance, announced at the end of January that it planned to target the China healthcare market with launch of a new supplement series.

"Pro-nutrients" is an advanced line of Pfizer's famous multivitamin brand "Centrum" and has been promoted to China only after its launch in the home market, the United States.

Pfizer now has several mature supplement brands in China, another being "Caltrate".

Entering back in 1993, Caltrate is now the country's biggest multivitamin supplement brand by sales, excluding direct-selling supplements.

Keith Choy, the regional general manager of Pfizer Consumer Health China and Hong Kong, told China Daily that considerable resources will be put into advertising, branding, product innovation and quality control to expand its sales in the consumer healthcare sector.

UK-based pharmaceutical giant GlaxoSmithKline Plc, meanwhile, is tackling the China market with what it calls an "umbrella brand" strategy, referring to a group of products being sold and marketed under the same brand name, which it claims saves costs and increases efficiency.

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GSK is using its first anti-cold brand "Contac NT" to cover a series of consumer healthcare products, such as anti-congestant nose paste and throat-soothing herb drops.

Another global industry heavyweight, US-based Abbott Laboratories, officially split its nutrition and pharmaceutical sectors at the start of the year, to make each business more focused and independent.

In China, its nutritional business is dominated by milk powder, with more products such as food alternative powder and nutritious supplements, expected to be introduced soon.

Abbott is building a new \$230 million dairy powder manufacturing facility in Jiaying, Zhejiang province, and is introducing its top-selling consumer healthcare products from developed markets to China, especially those targeted at helping people cope with the aging process.

The China Health Care Association claims that China has overtaken Japan as the world's second-largest consumer of health supplements, such as vitamins, minerals and other natural products, only after the United States.



"International pharmaceutical companies have rich experience of healthcare supplement R&D and production, as many have been in the business for many years and own many major branded products," said Bruce Liu, highlighting Johnson & Johnson and GSK as the biggest players.

Industry figures suggest that around 20 percent of those two's revenues now come from the consumer healthcare sector.

Liu Zhanglin from the China Chamber of Commerce added that Chinese consumers are already strongly associating with well-known, highly successful international brands, and are increasing their spending on them.

In general, he said, global pharmaceutical companies have a reputation for high-quality, reliability and trustworthiness, backed-up by strict manufacturing standards and quality control

Pfizer's Choy said: "We are a pharmaceutical company that does healthcare supplements, and we are developing and producing those in accordance with rules that are just as strict as they are for making medicines."

Liu and Choy both agree, however, that no matter the quality of the product, success in the Chinese healthcare products sector also depends heavily on being able to operate a mature distribution network.

Choy says Pfizer is focused on expanding its distributor network, and has set up a retail network across the country based on its medical sales network.

In addition to hospitals, pharmacies and supermarkets, it has a strong e-commerce presence and sells through cosmetics chains, such as Watsons.

He said its new supplement series will be mainly promoted in pharmacies, but network expansion and diversified channels are also planned to make it available in more cities across China.

Experts say the Chinese consumer healthcare market is far from fragmented, but there are already a large number of brands competing in many categories, such as traditional Chinese medicine, Western-styled supplements and natural herbs.

There are more than 20 Chinese and multinational brands attracting sales of more than \$100million in China, according to a recent report by McKinsey & Co.

Those include "Daktarin", a medicine which is used in certain types of fungal infections, sold by Xian-Janssen Pharmaceutical Ltd, Pfizer's Caltrate, "Sidashu", a gastric medicine combining Chinese and western techniques produced by China's Xiuzheng Pharmaceutical Group, and Sanjiu Medical & Pharmaceutical Co Ltd's famous "999" branded products.

Liu Zhanglin highlights the success, in particular of traditional Chinese medicine company Beijing Tongrentang Group, which said last month it will open another 100 self-operated pharmacies around China and 10 stores overseas this year.

The maker of traditional Chinese medicine has more than 1,500 self-operated pharmacies in China and more than 70 in overseas markets, including the United States, the United Kingdom, Australia, Singapore and Hong Kong.

Its products include TCMs, consumer healthcare products and health food and medical cosmetics.

Half of its profit is contributed by its consumer healthcare business, which covers herbal supplements, TCM nourishment and diet products, and cosmetics. The Chinese medical company's 2012 profit is estimated at 562 million yuan.

However, Liu points out that some Chinese products still tend to be sold using overly extravagant advertising and packaging.

"The high prices of some Chinese goods also scare some consumers, while Western products are, in general, priced reasonably," said Liu.

Chinese companies are good at TCM-related products, while multinational companies are the masters of Western-styled supplements, but both presenting different challenges, he added.

China's consumer healthcare market features lower entry barriers, but can see larger variances in quality and improper sales practices as a result.

Bruce Liu said that all multinationals have to get used to China's idiosyncrasies, but that their expertise in health products is a particular strong selling point.

One of the biggest differences being felt by multinationals is in marketing.

Selling consumer healthcare products can be highly different to selling pharmaceutical products, especially in retail chains.



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In recent years, retail pharmacies have become an increasingly important channel for the sale of consumer healthcare products and now represent 25 percent of sales.

Direct sales and modern trade channels such as hypermarkets, supermarkets and convenience stores are playing a bigger role.

To cover these new channels, drug makers have to invest more in branding, promotion and advertising, above and below the line, say experts.

"Many think the consumer healthcare sector provides fat profits. However, when we take marketing and advertising activities into account, profits in China are not as high as consumers think," said Liu Zhanglin.

That's maybe the reason that Pfizer has always said that to expand market share and consolidate its presence in China, to launch any new product, it has to be prepared to lose money for at least three years.

Liu said domestic and foreign players have to clearly identify their target groups.

Older Chinese people remain the typical buyers of TCM-related products, and TV and newspaper advertising remain powerful promotional tools.

For young and middle-aged people, interest in foreign-made supplements is growing, and e-commerce and supermarkets are proving the most effective channels. *(Source: China Daily)*

**If you have China related news that you would like to share with the association for
publication in its newsletter please contact us at:**

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