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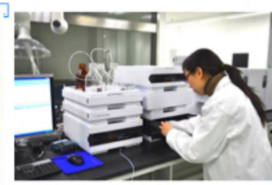


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Wal-Mart Cries Foul on China Fines

Over the past three years, Chinese authorities have fined Wal-Mart Stores Inc$9.8 million, sanctioning the retailer for using misleading pricing, selling poor-quality products and even peddling donkey meat that turned out to be fox.

Wal-Mart has increased testing and inspections. Food testers at Wal-Mart distribution centers in China check more than 600 products daily to catch flaws before the food is sent out to stores. After Wal-Mart found the fox meat labeled as donkey in January, the company said it would start testing its products' DNA.

But Wal-Mart is also doing something rare for a Western company: Telling Chinese authorities they need to clean up their own act.

In the U.S. and most other countries, it is usually manufacturers, rather than retailers, that have primary responsibility for the quality of the products they sell, whether it is ketchup or dried beef. But in China, the manufacturers "aren't accountable. We're accountable," says Greg Foran, Wal-Mart's China chief. And while China's domestic companies are often criticized by local media for subpar quality, regulators seldom call out local retailers for faulty products or food-safety problems.

Analysts agree that Wal-Mart's cries of unfair treatment have some validity. "When the Chinese government wants to make a point on food safety, they go after a multinational rather than a Chinese company," says Christian Murck, former president of the American Chamber of Commerce in Beijing. Other people say Chinese authorities and state media focus on foreign companies because their operations are often bigger, their names are better known and such an approach can help set an example.

Wal-Mart executives have met in recent months with China's Food and Drug Administration, urging officials to step up their inspections of all food purveyors. They plan to meet again this month. The agency didn't respond to requests for comment.

The Bentonville, Ark., company's pushback runs counter to what experts say is the safer strategy—keep your head low—for foreign companies in China: "It's not something you see often in China," says Ben Cavender, a senior analyst at consulting firm China Market Research Group. But Wal-Mart's combative approach may have an up side: "Wal-Mart is letting consumers know that there are other companies and players who should be involved in food safety, not just the retailer."

Four local Chinese grocers said regulators don't frequently visit their stores or issue fines. State-controlled Bright Food (Group) Co., which operates 2,200 outlets of Shanghai Nong Gong Shang Supermarket, regularly inspects its fresh products and faces surprise food-safety checks on occasion, but in the past few years the chain hasn't been fined, a spokesman says. China's largest grocery retailer by number of stores, China Resources Enterprise Ltd. , declined to comment.

Both the Chinese government and the food industry face rising pressure from the country's growing consumer class to clean up the food supply. In a survey last year of more than 3,200 Chinese people, 38% said food safety is a "very big problem," up from 12% in 2008, according to Pew Research.

Experts say the government has improved food safety since 2008, when six infants died and more than 300,000 fell ill because dairy producers added the industrial chemical melamine to watered-down milk. Last year the country created the China Food and Drug Administration, a superministry that consolidated tasks previously handled by nine different bureaucracies into one. Officials have pushed agricultural consolidation as well, attempting to create bigger farm operations that mirror those in the U.S. and are easier to supervise.

China's food-safety laws say responsibility and accountability should be shared at every step of the food chain. But experts say those laws aren't well enforced. (Source: WSJ)

Almost 20% of China's Arable Land Is Polluted

Almost one-fifth of China's arable land is polluted to various degrees, according to a national soil quality report released on Thursday.

The report, based on seven-years' worth of tests on 6.3 million square kilometres of land, also found that 16% of the country's soil is contaminated, with 1% heavily polluted.

"The national soil situation offers no cause for optimism," said the report from the Ministry of Environmental Protection and the Ministry of Land and Resources. "The quality of arable land is especially worrying and the pollution problem from industry sites and mining is prominent."

According to the report, major pollutants found in the country's farmland include heavy metals such as cadmium and arsenic as well as organic pollutants associated with widespread pesticide use.

Beijing has previously refused to disclose details of the country's soil pollution data, saying in April 2013 that the statistics were a "state secret".

Its decision to make the information public comes at a time of rising public fears over the potential impacts of environmental degradation, including health effects. Recent food safety scandals, including the discovery of cadmium-tainted rice, have triggered public outcries.

According to the survey, China’s southern parts, home to major rice production sites, are more polluted than northern provinces. (Source: China Dialogue)

Retailers Misunderstand Their Shoppers

It appears official that Tesco Plc, the United Kingdom's largest food retailer, won't continue in China under its own brand name.

According to an agreement signed last October with China Resources Enterprise Ltd, Tesco will retain a 20 percent stake in a joint venture but, as suspected, CRE's Vanguard brand name will replace

the Tesco name.

But is this the right move for Tesco and CRE, or does it represent a massive misunderstanding of the needs and wants of the Chinese food retailer market?

China's burgeoning urban middle-class shoppers are motivated very much by "prestige", "status" and "elitism". That's why China is fast becoming the largest market in the world for luxury goods.

Many Western brands have found that repositioning themselves more emotionally for the Chinese market leads to market share gain and an increase in profit.

For example, BMW, Ikea and even Pizza Hut and Starbucks are perceived as far more emotional and status-enhancing experiences in the minds of the increasingly affluent urban Chinese public, in comparison with North American and Western Europeans.

It appears that CRE and Tesco and others have overlooked this defining feature of Chinese consumer culture and aim to continue with a combination of "low cost" and "value for money" approach where food retailing is concerned.

This oversight is even more astonishing given that the Tesco brand originates from the UK, where Waitrose occupies just such a niche, that of a slightly exclusive brand of food retailer targeting the middle class.

In the UK, Waitrose shoppers are not just attracted by the higher quality and more exclusive and innovative nature of the range of goods stocked. They also perceive the Waitrose experience as status-enhancing. Shopping at Waitrose is part of being middle class.

Currently all food retailers in China, even the United States-based Wal-Mart Stores Inc and France's Carrefour SA, and including CRE's Vanguard, compete on "convenience" and "low cost" with a "value for money" range of goods.

Simply replacing the Tesco brand name with CRE's Vanguard is thus a massive missed opportunity to establish a "Chinese Waitrose" brand. Built on "exclusivity" and "status enhancement", such a brand would resonate with China's aspirational shoppers.

To achieve such an exclusive brand position in the minds of the Chinese, it is not only essential that higher-quality goods are on offer at a higher price but that all aspects of the stores and shopping experience communicate style and elegance.

The size of the stores, for example, should be slightly smaller than those of the mass market, bargain basement food retailers. This is also a quite deliberate design feature of a typical Waitrose store in the UK.

Not only slightly smaller stores but appreciably more spacious environments will also contribute to a superior, more refined image. Larger stores, which lead to greater economies of scale, lower costs and prices, aren't necessary for such an exclusive brand.

The name is also important. The Chinese are very familiar with CRE's successful Vanguard brand and are also aware of the Tesco brand name, which launched in mainland China in 2004.

However, the Tesco name does not represent "success" in the minds of the Chinese and no effort has been made to communicate any sort of superior image.

To build such an image of superiority and exclusivity, therefore, CRE's Vanguard brand name should be retained but another, secondary name should be added to differentiate from the current Vanguard offering and build an image of "luxury".

Such a dual name approach will capture attention, with the very well-known Vanguard name and, at the same time, convey a far superior brand with a new name, which has obvious associations with "status" and "exclusivity" and "luxury".

Such a pioneering move would probably allow for a second brand name that simply communicates "luxury" or "prestige" with no major competitors at present. (Source: China Daily)

China Health Investor BVCF's Zhi Yang on Why He's Sick of Hospitals

Having recently secured just under $200 million for a new fund to invest in China's health-care and life sciences industry, BVCF Managing Partner Zhi Yang talked to Venture Capital Dispatch on how the sector is getting too hot and why his firm is avoiding hospitals.

Shanghai-based BVCF closed a $188 million third-dollar fund earlier this month to target early- and growth-stage companies in sectors that include pharmaceuticals, biotechnology, traditional Chinese medicine, medical technology, health-care services, and industrial and environmental biotechnology.

BVCF is one of a few firms that solely focuses on the health space, in contrast to the majority of China's investors that are more generalist. But in the last few years, an increasing number of generalist venture firms have started to turn their hand to the health industry as China's government pumps billions of dollars into the sector in a bid to modernize and reform.

Firms like Sequoia Capital in China and CDH Venture are active investors in the health-care sector, as well as other industries.

Mr. Yang said there are currently too many investors in the health industry, which is frothing up the sector by pushing up valuations. He warned that investing in hospitals could disappoint– hospitals' growth tends to be slow and steady, relative to the quicker and more explosive returns that private equity and venture firms like, he said.

The number of private hospitals in China has increased over the last few years and currently account for just over 40% of all hospitals, according to The South China Morning Post, citing official government figures. As of last year there were roughly 9,800 private hospitals, up from 5,400 in 2008, the report said.

Instead, BVCF sees more value in smaller, specialized clinics, such as those in specific fields like oncology or neurology.

Private hospitals and smaller clinics are growing in popularity on the back of demand from China's growing middle class, who have more cash to spend and demand better services.(Source: WSJ)

Online Beauty Products Retailer Claims 22% Market Share

Jumei International Holding Ltd, China's largest online retailer of beauty products by volume, filed over the weekend with the US securities regulator to raise up to $400 million in an IPO.

Operating through its website jumei.com, the Beijing-based retailer sells beauty products and perfumes.

Jumei boasts of having a market share of 22.1 percent in China's online beauty products retail segment, as well as 10.5 million active customers and 1,700 suppliers in 2013, according to its prospectus filed with the US Securities and Exchange Commission (SEC) early Saturday Beijing time.

The retailer plans to raise up to $400 million through its IPO for general corporate purpose, without specifying how many shares it is going to issue.

"It is now a good time for Jumei to get listed in the US, especially ahead of Chinese Internet giant Alibaba, to woo the American investors," Huang Yuanpu, founder of iyiou.com, an e-commerce market intelligence provider, told the Global Times on Sunday.

The appetite of American investors for Chinese technology stocks has resumed since 2013 after a raft of accounting scandals drained Chinese technology firms' US listings in 2011.

Alibaba said in mid-March that it will go public in the US with an IPO expected to exceed Fackbook Inc's $16 billion offering in 2012. Alibaba has not filed the application with the SEC yet.

Jumei outperforms jd.com, China's second largest online retailer by sales volume in terms of profit. Jd.com, which reported a net loss of 50 million yuan ($8.13 million) in 2013, already submitted an IPO filing with the SEC on January 30 and plans to get financing of up to $1.5 billion.

Jumei made a $4 million loss in 2011, but managed to turn a profit in 2012 with $8.1 million, and more than tripled the net profit to $25 million in 2013, according to its prospectus. The marketing expense of the beauty products retailer is about 12.2 percent of its sales revenues in 2013, much lower than the e-commerce average of 20 percent of marketing expenses, he noted.

Jumei's smaller rival lefeng.com had a gross profit margin of about 30 percent, higher than Jumei, yet it reportedly made a loss of 150 million yuan in 2013, as a result of loosely controlled marketing and management expenses, according to iResearch Consulting Group. (Source: Peoples.com)

China's Foodie Evangelists

A shift in power is taking place in the food industry led by a group of increasingly influential consumers who want to impact how food is grown, packaged and sold.

Public relations agency Ketchum has released results from its latest global Food 2020 survey, which sheds light on a newly identified vocal subset of food influencers called "Food e-Vangelists" and their impact on marketing strategies.

Across the globe, Food e-Vangelists generate up to 1.7 billion online conversations about food every week. In Greater China, this represents about one quarter of the total population – a whopping 324 million people. One of the reasons for these significant numbers is the high level of smart phone penetration. At 87% and 71% in Hong Kong and China respectively, compared to 53% in the United States and 38% in Germany, these figures are the highest across countries surveyed, suggesting that the Greater China group has more access to information and more opportunity to push information via the digital space.

In Greater China, Food e-Vangelists are typically young females under 35 years old who are active online, financially secure and are parents – a group that is commonly targeted in food marketing. However, what is unique is that this group is not defined by its demographic profile but instead by its like-mindedness. In short, typical marketing practices are simply not effective when it comes to Food e-Vangelists.

Jane Morgan, director, consumer brand practice at Ketchum Greater China, said the Food e-Vangelists are the single most important group in the food industry today, but they don't fit typical marketing demographics.

"Yet, food companies are allocating budgets on marketing programs that don't reach them. This group will eventually change the food industry forever, but at the moment they represent a hugely missed opportunity," Morgan said.

Key findings include

- 24% of total population and 324 million in Greater China are food e-Vangelists.
- 33% of Greater China e-Vangelists regularly critique food brands and push their message out to friends, family and followers.
- 87% of Greater China e-Vangelists are buying more fresh foods than the previous year.
- 29% of Greater China consumers claim they need greater transparency from companies about ingredients in order to purchase more of their food.
- 63% of Greater China consumers say they consider where the food came from when making purchases and 66% consider how the food was grown or raised.
- 55% in Greater China say making healthy food more available should be the top priority for

food companies.

The report highlighted several key characteristics of a Food e-Vangelist have distinct, saying they were highly active about food education and are changing their purchasing behavior toward fresh food.

Implications for food companies

Food e-Vangelists are shaping the conversation about food and brands, the report stated.

More than one-third of Food e-Vangelists regularly take the time to recommend and critique food brands and products and share their opinions with others – both online and offline.

In addition to using blogs and social media to share their opinions about food issues, Food e-Vangelists expect companies to engage with consumers via social media as a tool for direct and open communication. (Source: marketing-interactive.com)

New Arla Lab to Bring Cheese to the Chinese

Chinese taste preferences and food habits are different to those of most Arla consumers in Europe and the rest of the world. Arla now seeks to tap into the unique needs and trends in China with a new innovation lab in Beijing, where Danish and Chinese dairy- and innovation specialists will develop cheeses and other dairy products that can win the hearts of Chinese consumers.

In recent years, China has begun to acquire a growing appetite for cheese, and a unique taste for cheese is developing quickly in China.

Arla's business in China is based on the export of high-quality dairy products from Europe, in-cluding milk powder, UHT-milk, and cheese. A new innovation lab in Beijing is now set to ensure that Arla can launch brand new products over the coming years, which are exclusively developed and produced for Chinese consumers.

"It's all about developing the next blockbuster product for the Chinese dairy market. Our first focus will be to create the right kind of cheese products that will make more Chinese consumers love cheese in new and different ways. But it must be done in a way that respects and contributes to the food trends developing in China, and therefore we are placing this innovation lab in Beijing," says Senior Vice President Frede Juulsen, who is responsible for Arla's business in China.

A royal opening

On Saturday the Prince Consort of Denmark will officially open the new innovation lab, which will reside in the new physical surroundings of the new "China-Denmark Milk Technology Cooperation Centre" in Beijing. Here Arla is working together with China's leading dairy company – Mengniu Dairy Group – to strengthen the Chinese dairy industry when it comes to milk quality, food safety and quality control on the dairy farms based on the principles in Arla's European quality programme, Arlagården.

To begin with the innovation lab will employ four people, including cheesemakers and innovation specialists with Danish or Chinese background. They will work together with customers and consumer groups as well as with Arla's strategic business partner in China, Mengniu.

"These years more and more Chinese consumers are experimenting with food, wine and tastes, and that creates new opportunities for a food company like Arla. We are striving to be as close to the Chinese consumer as possible in order to create taste experiences that suit their diets and taste profiles, thereby bringing health and inspiration to China. We aim to take the lead in the cheese category in China, and building a cheese lab is a key step in creating long-term collaborations with our customers and consumers – a place where we can co-create and innovate in an agile and dynamic manner," says Frede Juulsen.

Initially Arla will invest approximately 10 million

DKK in the establishment and development of the new innovation lab in Beijing. It will be part of Arla's global strategic innovation efforts, which are coordinated from Aarhus, Denmark where Arla currently is building its new global innovation center inside Agro Food Park. (Source: Arla Foods)

Chinese Internet Giants Need to Give Shoppers 'Total Retail' Experience

If you're an ecommerce company in China, you should be on a shopping spree right now. Studies show that more than anywhere else in the world, Chinese customers want a "total retail" experience.

And that's exactly what Alibaba Group and Tencent Holdings Limited are doing with their billions of dollars of acquisitions in recent months. Over the past year, Alibaba has bought everything from financial services to offline sectors. Most recently, the internet giant bought a quarter of Intime Retail a department store chain, and then 20% of Wasu Media Holding Co, a Chinese internet TV company.

Tencent has also been snapping up companies. In its case, the firm's purchases have aimed at enhancing its core business of mobile games as well as increasing its positioning in social media. In March, the company, which boasts a 980 billion Hong Kong dollar ($126.4 billion U.S. dollars) market value, bought a 20% stake in Youku Tudou, a Chinese video website, and a $500 million stake in South Korean mobile gaming firm CJ Games.

"It is critical (for retailers) to bring the benefit of ecommerce, Online to Offline (O2O) in bricks-and-mortar environment, and use of social media together to create more engaging shopping experiences," said Dr. Colin Light, a partner in Price Waterhouse Cooper's China consulting division.

Consumers want access to product information, trusted opinions, and deals while they are both shopping online and in a store. By combining digital technologies with in-store shopping experiences, online-to offline approaches can bring customers closer to a "total retail" experience.

In a PWC survey published earlier this month, 81% of respondents used smartphones to access the internet and 71% used smartphones to purchase merchandise. In the U.S, in contrast, just 32% bought products using their mobile devices. The U.S. is home to ecommerce companies like Amazon and eBay who have also been buying into more companies, albeit at a much slower pace. The volume of transactions handled by the shopping sites of both Amazon and eBay combined are still smaller than those by China's Alibaba.

PWC surveyed 15,000 online shoppers in 15 territories, with 900 respondents from China.

Chinese consumers are also close followers of brands. Just 49% of the respondents in the U.S. follow brands on social media accounts, compared with 93% in China, the survey notes. And 86% of Chinese surveyed bought products through social media compared with just 29% in the U.S. (Source: WSJ Blog)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and the nutritional / functional ingredients industry. The association's major focus is the continued development of China's dietary supplement and nutritional ingredient industry as well as offering business services to global companies wishing to enter the China Market.

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