CHINA UPDATES

August 16, 2016 – Issue 207

INSIDE THIS ISSUE

Huyan Province Made Law To Regulate Health Food Seminar

Recently, the lawmakers of Hunan province passed a regulation on food safety, which covers items that target at false advertisement by marketing and seminar of health food and the pricing issues.

According to relevant officials, illegal vendors who target at elderly groups often manipulate health food seminars, and it is difficult to spot them as they don't have a fixed venue to sell products. It is also difficult for consumers to protect their due rights after they buy these products.

The new regulation also clarifies on the legal responsibility towards those who sell at venues identified as illegal by regulators, or conduct false advertisement. The market authority is entitled to confiscate all products sold at circumstances identified as illegal by the regulation. (Source: China Pharmaceutical News)

Yantai Launched Online Drug and Food Info Platform

Local regulators of drug and Food in Yantai said that they recently launched an online platform that release food and drug info to the local public.

The platform covers information from 15 counties and districts of Yantai, and provides info of production and sales of specific products. The info can facilitate the local regulators to spot illegal conducts by vendors and companies.

The platform is also going to release knowledge about food safety and questionnaires to educate the local public about food safety and other knowledge of food and drug. Relevant information is also going to provide evidence and proof to decision-makers. (Source: Jiaodong online)

Pharmaceutical Companies Tap Into Health Food Market

An increasing number of pharmaceutical companies are investing in health food companies.

Earlier this month, Shanghai Pharmaceuticals Holdings said in a statement that it planned to spent 938 million yuan for 60% stakes of Vitaco, the Australian vitamin company. The company also said that the company aimed to bring in profits in the future by tapping into health food industry.

Besides Shanghai Pharmaceuticals, a number of major local pharmaceutical companies in the industry also has invested in the health food industry.

"Since two to three years ago, a number of pharmaceutical companies have started to tap into health food industry, "said Shi Licheng, director of a major local pharmaceutical consulting firm.

"Recently, policies in the pharmaceutical companies are getting tightened, which makes life harder for pharmaceutical companies," said Qu Rong, vice president of Holly High.

"On the other hand, regulations on health products are not that strict so profits are somehow guaranteed," said Mr. Qu. "As the local consumers are raising awareness of health and fitness, the prospect of health food is promising."

However, it should be noted that though the market potential of health food is huge, it is very difficult to produce a star product to stand out in the fierce competition of health food. (Source: Securities Journal)

Chinese Cosmetics Makers Eye Better Business Complexion Online

Chinese cosmetics makers are increasingly taking their battle with global competitors online, where digital marketplaces have been outpacing brick-and-mortar stores in selling cosmetics and personal products.

Earlier this week, Shanghai-based Jahwa inked a deal with online retailer JD.com in Beijing to sell and market its cosmetics and personal care products on JD's marketplace.

The deal will also see Jahwa working with the online retailer to figure out consumer preferences, tailor its own digital marketing program accordingly and participate in JD's programs to reach out to China's increasingly wired consumers.

It entered into a similar deal with JD's arch rival Alibaba last year, setting up its own shop on Alibaba's online marketplace Tmall and running digital campaigns from there.

Both international and domestic cosmetic brands have long regarded department stores and shopping malls as the primary sales channels in China. But as the country's e-commerce revolution sweeps brick-and-mortar stores, cosmetics and personal care products are chief among a list of consumer goods witnessing sales migrating online.

According to consulting firm Bain & Company, products ranging from biscuits and chocolate to shampoos and personal cleaning agents have experienced annual growth of no less than 30 percent in online sales over the past four years.

Jahwa, which traces its roots to a daily-use chemical products maker in the late 1890s, is a household brand in China for its mosquito repellent Liushen and hand cream Maxam.

The company has been seeking to break global brands' dominance of premium cosmetics in China with its own Herborist line, inspired by traditional Chinese medicine and herbal ingredients.

In recent years, Jahwa has sought to put a global spin on Herborist by selling it in Europe through cosmetic retailers Sephora and Douglas.

In 2015, Herborist was the only Chinese name to make the top 10 cosmetic brands by market share at department stores in China, at number eight, according to China Market Monitor.

But like its peers, Jahwa's reliance on traditional channels has weighed on its performance. Revenue growth in 2015 shed 5 percentage points from five years earlier to 9.58 percent. Excluding non-recurring items, profit growth slid for the first time in a decade.

Jahwa said the slowdown in its own business has come largely as a result of overall weakness in the cosmetics sector. Cosmetics retail sales growth moderated from 13.3 percent in 2013 to 8.8 percent in 2015, according to the National Bureau of Statistics.

For skin care products in general, growth at department stores has almost stagnated, Jahwa said in a response to an inquiry over its 2015 financial results by the Shanghai Stock Exchange.

As a result, domestic cosmetics brands including Jahwa have been the the most active in embracing e-commerce, where they see a chance in overtaking global titans that have been slow to adapt to China's increasingly digitalized retail scene.

Very few international cosmetics brands can make the monthly list of top 10 best-selling cosmetics on Alibaba's e-commerce site. Domestic brands such as Pechoin, Hanhoo, Chando and KanS lead cosmetics sales online.

As a result, foreign brands have been losing share in skincare and makeup to Chinese competitors, by roughly 2 to 5 percent during each of the past two years, according to Bain.

Jahwa is hoping that 20 percent of its sales of cosmetics and personal care products sales will be made online by 2018. Last year, its e-commerce revenue stood at 557 million yuan (about 83.3 million U.S. dollars), or 9.5 percent of the company's total.（Source: Xinhua）

Online Health Care Market Proving Tough Pill to Swallow

Leading players in the fledgling sector, including conglomerates Fosun and Alibaba, have already been forced to adapt to policy shifts by the government.

Chinese conglomerates Fosun and Alibaba are betting big on the country's expected reforms of the health care system, with their own bold plans to expand their online offerings to the sector.

But so far the country's rigidly-regulated market is proving a more bitter pill to swallow than expected, say experts.

"The internet health care sector in China is still in its infancy, especially when there is still no concrete regulatory guidance from the government on how they want to operate in future," said Joe Jin, a health care specialist and partner with German business consultancy Roland Berger.

So far the authorities have underlined that a core part of its new measures will be to transform hospitals' drug-prescription revenue model into one based on medical services, which in turn means pushing drug sales towards the retail market.

And it's that shift in policy which is expected to offer some game-changing opportunities to Chinese internet health care companies, as they carve out a share of a pharmaceutical market estimated to be worth US$115 billion.

Ali Health, Alibaba's health care offshoot with a foray already into online pharmacy services, is focusing its efforts squarely on Beijing's anticipated overhaul of that current overreliance by hospitals on drug sales, which consultancy Bain & Co estimates account for 80 per cent of revenues.

But its plans took an early setback in June when the government unexpectedly halted online drug sales by third-party platforms across the country, reportedly out of safety concerns.

That sudden change also pulled the plug on Yao.tmall, the country's largest online drug third-party marketplace operated by Ali Health, which had previously allowed verified vendors to sell over the counter (OTC) medicines to consumers.

The government move came just two months after Ali Health dropped its plan to exchange an online pharmacy operation with its parent Alibaba in a deal worth HK$19.4 billion, which it blamed on "substantial regulatory uncertainty in the health care industry".

"What the government is essentially aiming to do is get hospitals to stop selling drugs," said Damjan DeNoble, partner with the Rubicon Strategy Group, a US-based healthcare consultancy.

" And internet health care companies like Ali Health are well positioned to facilitate such as shift."

Shi Lichen, the founder of Dingchen Pharmaceutical Management Consulting, added: "Chinese food and drug watchdogs are tightening their grip on online drug sales, and the overall regulatory environment is becoming complex as the national health care reform is still evolving."

While Alibaba's health care vehicle is likely to depend on its huge e-commerce resources to establish an online drug sales platform, Fosun, controlled by tycoon Guo Guangchang has to take a slightly different approach to its digital health care push.

In early July, its offshoot Shanghai Fosun Pharmaceutical tied up with Alibaba's online payment service provider Alipay to form an alliance through both online and offline channels.

"The cooperation will connect Fosun Pharma's offline health care service system with Alipay's advanced online payment ability," a spokesperson for the Shanghai drugmaker said, adding that other potential collaboration areas including technology and media have been identified.

Meanwhile, despite the tightening rules, Alibaba's internet rival JD.com only launched its own online pharmacy channel two months ago, offering both prescription and OTC medicines to customers.

Instead of operating the platform itself, the Beijing-based e-commerce firm dispatches OTC drugs through an indirectly owned pharmacy subsidiary, which had obtained a C-license to run an online marketplace.

Its sales of prescription medicines will be handled by a venture under Shanghai Pharmaceutical Holding.

Chinese regulations require users to upload a photo of their prescription and personal contact details to place an order, followed by a phone discussion with a pharmacist before completing the transaction.

With this in mind, Ali Health has now joined hands with hospitals to create a channel for doctors to provide medical services and prescribe drugs online. Over the past two years, it has also created a mobile health consultation and appointment-booking app in partnership with Wuhan Central Hospital (WCH) and Beijing United Family Hospital, both top-rating medical establishments.

Users can pay online and make an appointment with a doctor through an Ali Health e-platform and engage in video-or image-based consultation, while a supply chain formed by Ali Health brings the prescription drugs to patients' homes.

"Hospitals can benefit as Ali Health can help screen patients, and that will actually bring more revenue to hospitals, and sort out which departments the outpatients should go to," DeNoble said.

"At the end of the day, Ali Health will be able to obtain a large amount of health data which it can then sell to pharmaceutical and insurance companies," he added.

At least 15 departments at WCH currently offer online medical appointments and videoconference consultation, while a group of doctors spend two hours daily interviewing patients online.

Some villagers in rural Hubei province are already enjoying WCH's services at Alibaba's Taobao centres, and have received prescription drugs with the support of Ali Health.

“This model helps alleviate the problem of uneven distribution of medical resources between urban and rural areas, and fulfil the growing pharmaceutical and health care needs of the rural population,” Wu Yongming, the chairman of Ali Health, outlined in its annual report.

However, the fact that only three hospitals have agreed to any formal internet health care ties with Ali Health, raises questions over the profitability of such a venture, and highlights a definite reluctance among public hospitals to partner on medical projects, say the experts.

“Given the current small scale, they are still burning money. Unless they get more than 100 hospitals involved, it will be hard to turn a profit by cashing in on the medical data they gather,” Dingchen’s Shi said. (Source: SCMP)

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 nutritional ingredients. The association’s major focus is the continued development of China’s overall natural health product industry as well as offer business services to its global members.

If you have comments, suggestions or would like to advertise, please contact us at:

news@uschinahpa.org