China Updates

Your Trusted Source for Market Intel on China's Natural Health Product Industry

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Lipstick Effect Hits China

When the economy declines, some people will start to buy inexpensive lipsticks or makeup that are not high-end items to make themselves feel good. It's a phenomenon known as the "lipstick effect".

China Updates is a service provided by U.S.-China Health Products Association. The Newsletters are issued approximately three times a month. China Updates provides news on regulatory environment, new legislation, association activities and any information related to China's natural health products industry.

Sales of cheaper cosmetics, such as lipsticks, haven't been affected much by the slowing economic growth. L'Oreal Group, for example, saw its market share in China grow 11.2 percent in 2012 from 10.8 percent a year earlier. People are more willing to spend on small indulgences such as cosmetics

Fang Jinqi, 32, said the most urgent thing for her at the moment is to develop a more thrifty lifestyle because her job as a property agent business is stagnating.

The big fan of Hermes bags who used to buy a new one almost every two months said she has not done so for at least six months. To make up for the loss of her hobby, Fang is now turning to cheaper cosmetics, such as lipsticks, which she said "can be easily picked up from chain stores such as Sephora".

Leonard Lauder, chairman of Estee Lauder Companies, noticed the sales of lipsticks experienced an usual rise during the economic deflation after the Sept 11 terrorist attacks in the US in 2001. Lauder said when the economy sours people are more willing to spend on smaller indulgences such as lipstick rather than splashing out on expensive luxury bags. It's a phenomenon known as the "lipstick effect" and has been recognized historically.

Professor of sociology Juliet Schor wrote in her book The Over Spent Americans, published in 1999, that anti-wrinkle cream, moisturizers, eye shadow and powders, lipsticks and facial makeup can provide "hope in a bottle" for people, especially women, who are "looking for affordable luxury, the thrill of buying at the expensive department store, indulging in a fantasy of beauty and sexiness".

In short, "Cosmetics are an escape from an otherwise all too drab everyday existence," she wrote.

But is the same thing happening in China?

China's GDP rose 7.8 percent in 2012, the first time that the country's growth rate fell to less than 8 percent since 1999. Its economy grew 7.7 percent in the first quarter of this year.

The country's Purchasing Managers' Index dropped to a nine-month low at 49.2 points in August last year. A figure below 50 indicates a contracting economy. Fan Junlin, an economics researcher at the Agricultural Bank of China, said in an interview with the Xinhua News Agency: "Weak external demand remains the biggest factor dragging down China's economic growth."

But as the industrial and manufacturing sectors declined last year, fast-moving consumer goods and fashion brands soared. According to the market research firm Euromonitor International, the entire retail value of the beauty and personal care sector in China grew from 184.1 billion yuan ($30 billion) in 2011 to 202.1 billion yuan in 2012. L'Oreal Group saw its market share grow 11.2 percent in 2012 from 10.8 percent a year earlier. Shiseido Co and Unilever Group have both seen a 0.1 percent increase in terms of market share.

A survey of the global retail market released by the consulting firm A.T. Kearney showed China moved up from sixth place in 2011 to third place in 2012. It predicted the growth rate of China's retail sales revenue will double by the end of this year despite rising labor costs and rents.

The German retail and wholesale group Metro AG opened 12 new stores in China last year to bring the total number to 64. It plans to have about 100 stores by 2015. Wal-Mart Stores Inc opened 30 new stores in China last year. Carrefour S.A. opened 18. Tesco Plc opened 13. Auchan S.A. opened 10.

Zara, a leader in the fast fashion industry, opened 31 more stores in China in 2012 to bring the total number to 123. Uniqlo Co, an overseas fast fashion brand in China, opened 71 more stores in China in 2012, bringing the total number to 184 by the end of last year.

Conversely, luxury brands saw their growth slow down in China in 2012 after years of astonishingly rapid rises in sales. According to the US consulting firm Bain & Co, the growth rate in the Chinese luxury market fell to 7 percent in 2012 from 30 percent in 2011.

Italian brand Gucci said at the beginning of this year it would maintain the opening of new stores in China at three to four a year. At its height it was opening 10 to 15 stores annually. Bernard Arnault, chairman and CEO of luxury brand LVMH, said on Jan 31 that Louis Vuitton will not open boutiques in second- and third-tier cities in China in an attempt to avoid over-exposure.

According to Nick Debnam, Asia-Pacific chairman of consumer markets at KPMG China, the lipstick effect is an economic phenomenon where even when luxury spending slows, the spending on cosmetics tends to hold up pretty well. Cosmetics are relatively affordable compared with other luxury items and while people delay their bigger ticket luxury purchases, for cosmetics there is less deferral, or "switching of buying habits".

People are less likely to stop buying fast-moving consumer goods because they are seen as daily necessities. Debnam added that it does not necessarily mean the money saved by not buying luxury goods will be transferred to the purchase of daily necessities.

He added when the economy declines, some people will start to buy "relatively less expensive lipsticks or makeup to make themselves feel good".

But he said he witnessed an improvement in the situation in the latter part of last year with sales gradually returning to normal, especially in Hong Kong. In the Chinese mainland market, he said things will get better probably in the second half of this year. *(Source: China Daily)*

Aker BioMarine Wins NBT's 2013 'Most Effective Marketing Campaign' Award

Small, Red and Powerful

Aker BioMarine won Nutraceutical Business & Technology's (NBT) "Most Effective Marketing Campaign" award at Vitafoods Europe held May 14 – 16, 2013. The company was recognized for its Superba(TM) Krill oil launch in the UK, where the challenge was to introduce an entirely new category of omega-3s to the market and support the launch of Aker's customers' new krill oil products. This winning campaign focused on three key messages: Small, Red and Powerful.

The launch came at the perfect time, as market research revealed that a large percentage of UK consumers were looking for alternatives to current omega-3 offerings. In addition, retailers were looking for new products to revive growth in a maturing omega-3 category. Since the July 2012 launch, the Superba(TM) Krill campaign has delivered results above expectations - i.e., four new consumer products, several new marketing partnerships, and millions of media impressions - resulting in increased sales for Aker's customers.

This most recent award achievement also comes on the heels of new research out of Europe's leading supplement markets showing similar sentiments toward omega-3s - that consumers are most definitely looking for alternatives to current sources. According to Discovery Research Group, this was the case for 55% of consumers in France and 66% of consumers in Germany.

"We are excited to have won NBT's Most Effective Marketing Campaign award because it gives us the added confidence to approach other European markets," said Matts Johansen, Chief Operating Officer, Aker BioMarine. "As a vertically integrated company, we take full responsibility of our supply chain from sea to shelf and remain willing to make the necessary investments to support growth in key markets." *(Source: Aker BioMarine).*

Chinese Investors Look Overseas

A survey conducted by HSBC Bank (China) Co in March showed that Chinese consumers have a strong desire to embrace a global vision. Among the more than 1,000 people surveyed in eight cities, including Beijing and Shanghai, 80 percent anticipated that their lifestyles will become more internationalized and their connections with the outside world will be strengthened through overseas education, travel, financial management services and investment.

According to the survey, exploiting global investment opportunities is a common trait of those with connections with other countries. Deposits in foreign currency still remain the leading form of overseas investment, according to more than 30 percent of respondents. Meanwhile, other vehicles, including direct overseas investment and investment in foreign markets via qualified domestic institutional investors, domestic funds and bonds, each attracted 12 percent of respondents.

Looking to the future, 70 percent of the respondents expressed their willingness to invest overseas and said the international financial services they most require are access to personal foreign exchange, cross-border remittance transfers, and free withdrawals from ATMs worldwide.

"Our survey found that a growing number of Chinese residents are more willing to set development goals in a global perspective when formulating their life plan. They hope to realize their dreams by taking the opportunities and advantages offered by different markets," said Li Feng, director of retail banking and wealth management business at HSBC China.

"However, we also noticed that for many people, there is still a gap between their financial plans and their life goals. They need the assistance provided by professional financial service institutions to make a rational self-evaluation of, and scientific plans for, their wealth," he said. *(Source: China Daily)*

Danone Invests in Mengniu

Danone, owner of Activia yogurt and Evian water, will spend about 325 million euros ($417 million) to form a joint venture and invest in China's biggest dairy producer to expand its brands in the most populous nation.

Danone will have an initial indirect interest of about 4 percent in China Mengniu Dairy Co., with the aim of increasing that in the future, the Paris-based company said in a statement today. It will also set up a venture with Mengniu for yogurt products in China. Mengniu shares surged the most in four years.

The tie-up will help Danone boost sales in China's yogurt market, which Euromonitor International estimates will grow 57 percent to 71.6 billion yuan ($11.7 billion) by 2015. Mengniu gains the investment as food scandals including contaminated baby formula, rat meat sold as mutton, and excessive antibiotics in chicken have fueled demand for better quality control in the world's second-largest economy.

"The deal will help strengthen the research and development and capability of Mengniu's yogurt business, and potentially help them increase market share in China," said Charlie Chen, a Hong Kong-based analyst at BNP Paribas Securities Asia. "Through its ventures with Arla and Danone, Mengniu is also building a better brand image among consumers."

Market Share

Mengniu closed 10.4 percent higher at HK$27.05 in Hong Kong trading today, the biggest gain since April 14, 2009. It formed a strategic partnership with Danish dairy firm Arla Foods in 2012 to improve quality inspection techniques and explore further co-operation. Danone shares were little changed at 58.03 euros as of 12:16 p.m. local time.

Today's agreement is the first partnership for the French company in China since the end of the one with Chinese drinks maker Hangzhou Wahaha Group Co. in 2009, Agnes Berthet- d'Anthonay, a spokeswoman for Danone, said today. The companies were embroiled in more than 30 lawsuits as Danone accused Wahaha Chairman Zong Qinghou, now China's richest man, of unlawfully selling Wahaha-branded juice and tea outside their partnership.

Mengniu and Danone first disclosed plans to form a venture to sell yogurt products in China in 2006, the Danone spokeswoman said. The companies terminated the tie-up a year later due to "administrative reasons" and left the door open for future collaboration, she said.

The local partnership will increase the reach of Danone brands in China, the Paris-based company's Chief Executive Officer Franck Riboud said in a statement today. It will own 20 percent of the yogurt venture with the rest owned by Mengniu, according to the statement.

Market Share

Mengniu had a 16.8 percent market share in China's yogurt market in 2012, with Danone holding a 1.6

percent share, according to Euromonitor.

Danone will benefit from Mengniu's extensive distribution channels in China, and also possibly gain access to the Chinese dairy company's production bases there, said Olive Xia, an analyst at Core Pacific-Yamaichi International Ltd. in Shanghai.

Danone, which sells Activia yogurt under the brand Bio and Dumex infant formula in China, operates 22 factories and employs about 10,000 employees in the country, according to its official website. The Asian nation formed about 6 percent of the group's consolidated sales in 2012, its fourth-largest market after Russia, France and the U.S., according to the company's 2012 annual report.

Food Safety

Danone Chief Financial Officer Pierre-Andre Terisse said last month that its first-quarter baby-nutrition revenue jumped 17 percent led by a need for "safety" in China and that exporting more from Europe to China isn't sustainable.

Food quality and safety incidents affected consumer confidence and sales, Mengniu said in a March 27 statement. In 2008, Mengniu was among the 22 dairy companies found to have sold products containing melamine, a toxic chemical used to make plastics. The tainted milk killed at least six babies.

In 2011, the company said moldy cattle feed led to excessive toxin levels in its milk. Since then, the Hohhot, Inner Mongolia-based company has run marketing campaigns emphasizing product quality to draw consumers back.

Under the agreement announced today, Prominent Achiever Ltd., a venture 49 percent owned by Danone, will acquire an 8.3 percent stake from Mengniu's biggest shareholder COFCO, according to a filing to Hong Kong's stock exchange today. COFCO, the Chinese state-backed agricultural and food industry supplier, owns 51 percent of Prominent Achiever.

Mengniu sells liquid milk products including UHT milk and yogurt under its namesake brand in China. It also produces ice cream and other dairy products such as cheese and milk powder. The company has the biggest share in China's drinking milk market, controlling more than 34 percent share in 2012, according to Euromonitor International.

Mengniu this month agreed to buy 26.9 percent of China Modern Dairy Holdings Ltd. for HK$3.18 billion ($409 million) to gain greater control of milk supplies amid food safety concerns in the country. *(Source: Bloomberg)*

Nordic Naturals Launches EPA Elite

Nordic Naturals®, the leading manufacturer of omega-3 supplements, now offers EPA Elite™, one of the most powerful EPA-only concentrates available without a prescription. With 1600 mg of the omega-3 eicosapentaenoic acid (EPA) in each serving, EPA Elite provides high intensity, therapeutic support for healthy triglyceride levels and heart health, while promoting key anti-inflammatory pathways.

EPA Elite is an EPA-only formula that contains a similar dose of fish oil to a much-studied ethyl-ester EPA formulation. This dose of EPA has been demonstrated in clinical studies to be beneficial in reducing triglycerides and other cardiovascular risk factors. EPA Elite differs from the study product in that it is formulated in the more bioavailable triglyceride form.

EPA is an omega-3 essential fatty acid that is required for optimal health, but cannot be produced by the body. Fish oil is considered one of the best sources of the essential fatty acids EPA and docosahexaenoic acid (DHA). While most fish oil products contain both EPA and DHA, research shows therapeutic benefits from an EPA-only formula, particularly for supporting normal triglyceride levels and heart health. *(Source: Nordic Naturals)*

UNDP pilot pushes chemical-free drive in China

UNDP China Country Director Christophe Bahuet addresses the launch workshop of the "National IPM Promotion Plan" in Beijing

The Ministry of Agriculture launched a new national plan on Monday in a bid to replace a DDT-based pesticide – Dicofol – with an eco-friendly alternative technology for agricultural use by 2015.

The plan is based on a pilot project run by the Ministry of Environmental Protection and United Nations Development Program, or UNDP, which has been initiating relatively safer alternative methods that employ green techniques to ward off agricultural pests.

"This inspiring project is an outstanding example of work for sustainable development, as it contributes to China's efforts in both poverty reduction and environmental protection," said Christophe Bahuet, UNDP

China Country Director at the launch event.

To date, a total of 100,000 farmers in Shaanxi, Hubei and Shandong provinces have joined the pilot program, and have been trained to use the environmentally-friendly Integrated Pest Management techniques to provide alternative habitats for pests.

The country has stepped up its efforts to tackle environmental problems such as pesticide pollution and air quality, as these problems have been escalating in recent years.

"In addition to boosting farmers' incomes by raising the production of crops and fruit, the project has a positive impact on the environment by cutting down DDT-related emissions and DDT-contaminated waste," said Ding Qiong, director of the Foreign Economic Cooperation Office under the Ministry of Environmental Protection.

According to Ding, some Dicofol production lines have been shut down as the project was pushed forward, which led to DDT production in China being cut by 2,800 tons, DDT-related emissions falling by 350 tons and DDT-contaminated waste reduced by 1,350 tons.

Consumers Abandoning Brick and Mortars?

Just as cash-strapped consumers in the developing world bypassed so-called landline phones in favor of mobile devices, so China's lower-income consumers are skipping physical stores in favor of e-commerce sites.

A recent report by McKinsey & Co. shows that e-commerce sales in China reached an estimated $190 billion last year, almost equaling the U.S. market as largest in the world. China's online retail industry is expected to grow to at least $420 billion by 2020 -- which would total more than the U.S., Japanese, U.K., German, and French markets combined. China will overtake the U.S. for the top spot next year, if it hasn't already.

In an economy known for astonishing growth, e-commerce stands out. China's market has grown at a 120% annualized clip since 2003 compared to the U.S.'s 17% growth rate. It shows no signs of stopping.

What interests McKinsey isn't just the massive growth -- it's the potential for e-commerce to drive the government's goal of increasing domestic consumption and diversifying the world's No. 2 economy from a reliance on infrastructure projects. The authors of the report, titled "China's E-tail Revolution," conclude that consumers are more than replacing what they might buy at the mall. E-commerce is driving consumers to buy new stuff, especially in the so-called lower-tier, lower-income cities where physical retail stores, if they exist at all, don't have anywhere near the same selection as online marketplaces.

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"China remains an under-retailed country, and customers' needs are very strong overall," says Peggy Yu Yu, co-founder of Dangdang, a Beijing-based e-commerce site that competes with Amazon China. "I live [in] downtown Beijing, and I drive any direction, and one hour later, still within Beijing, I don't see good stores anymore, be it supermarket or clothing store."

More than 70% of China's e-commerce business is consumer to consumer. eBay-like (EBAY) auction sites called Taobao, Tmall, and Paipai host hundreds of millions of listings. But Amazon (AMZN) wannabes such as 360Buy are setting up operations in second-tier cities, and analysts believe they'll eventually start moving into third- and fourth-tier cities.

While the ordering process on many e-commerce sites is done via mobile phones and apps, distribution is often a combination of high-tech and old-fashioned customers service -- which suits Chinese consumers just fine. 360buy, for example, offers same-day delivery (depending on when the order is placed) often via bike messenger.

Consumers in smaller cities like to pay via cash on delivery; one upside is that the customer can try on their wares before making payment, employing what's been called the "mobile fitting room" option.

MORE: The only Fortune 500 company that's grown faster than Apple

What's surprising in the McKinsey report is that consumers in China's lower-tier cities actually spend as much online as higher-tier cities even though their consumers have far less disposable income. In the small and mid-size cities dotting the countryside, e-commerce sites are proving a revelation. Many consumers can now buy books, movies, clothes, and other goods for the first time.

That means lower-income consumers who shop for newly available goods online are increasingly propelling the economy forward, even as some are skeptical that China can transition into a consumption economy. For China, as it becomes the e-commerce capital of the world, that might be the best news of all. *(Source: CNNMoney)*

Comvita Buzzing Despite Tough Year

Health products maker Comvita's profit is down 10 per cent but has still had good sales despite a tough year.

Comvita, a New Zealand based company, produces health products from manuka honey and olive leaves, posted a 10 per cent decline in full-year profit, beating its own guidance as it coped with a shortage of honey and higher costs.

Net profit fell to $7.37 million, or 24.52 cents a share, from $8.2m, or 27.85 cents, a year earlier, the company said in a statement.

Sales rose 8 per cent to a record $103.5m, exceeding its February forecast of about $100m.

Comvita shares last traded at $3.75 and are little changed this year. In 2011, the company held off a hostile takeover offer of $2.50 a share, which was below an independent valuation of the company at the time of $3.40 to $4.

The company said strong demand from Asian markets China, Hong Kong and Korea helped insulate it from a shortage of honey and increased costs. That helped offset "challenging trading conditions" in the UK, Europe and Australia and the impact of a high kiwi dollar that pushed down earnings before interest, tax, depreciation and amortization by 5 per cent to $14.7m

Honey supply is now returning to normal levels following an above-average summer flowering season, it said.

"We have taken steps to shore up our manuka honey supply with long term supply contracts, and acquisition in October of another large manuka honey apiary business and the expansion of hive numbers," said chairman Neil Craig.

"The 2013 manuka honey harvest has been much better than the prior year and we expect the raw material supply to return to normal this year," he said. He didn't give a forecast for the current year.

Comvita will pay a final dividend of 9 cents a share, making 13 cents for the year, down from 14 cents a year earlier. *(Source: nzcity.com.nz)*

Cardinal Health Expands in Sichuan

A boom is on the horizon in the market for medical products in the southwestern Chinese province of Sichuan, said the CEO of a firm that specializes in the field.

Chen Zhiliang, general manager of Cardinal Health (Sichuan) Pharmaceutical Co Ltd, said the region's ever-growing medical infrastructure is certain to create a large demand for his company's products.

The province is home to 91 Grade A hospitals, including West China Hospital, the largest in the country in terms of beds, and 392 classified as Grade B, Chen said. Each year, hospitals above the county level purchase about 25 billion yuan ($4.1 billion) worth of pharmaceuticals, he added.

The 48-year-old's rich knowledge of medical information in Sichuan province is the result of his almost 10 years of work experience in the industry.

A native of Shijiazhuang in North China's Hebei province, Chen established a company in 2004 after he obtained an MBA from Chengdu-based University in Electronic Science and Technology in the same year.

He has remained as the head of the company, even after it was taken over by the US-based Fortune 500 medical enterprise Cardinal Health Inc in September 2011.

"Thanks to the acquisition, we now have a much more diversified product range," Chen said.

The company is experiencing faster growth now that it offers more than 2,000 products, ranging from pharmaceuticals and medical equipment to cosmetics and plastic surgery products.

"In 2012, we had a revenue of 320 million yuan ($52 million), registering an annual growth rate of some 40 percent, double the average rate nationwide," Chen said.

In sales, it ranked 15th out of 1,200 companies in this field in Sichuan province in 2012, according to a list released by the provincial health department.

The company has set a goal to make it to the top five in five years, and Chen said it can definitely achieve it.

In addition to an expanded product range, the company is now working in cooperation with such industry giants as Smith & Nephew, Allergan and Avene to seize a larger market share.

Swiss healthcare company Roche is building a surgery center in Chengdu, and the government is also encouraging the two to establish a cooperative relationship, Chen said.

"Meanwhile, our clients are now mainly concentrated in Chengdu. In other words, there is a lot of room for us to expand our presence in the province," he said.

Indeed, Chen said his company has a series of advantages over its rivals in making inroads deeper into the market.

"Most companies do nothing more than delivering products from pharmaceutical manufacturers to hospitals," Chen said.

"But we do regular analysis of their products' destinations, market shares as well as the performance of rival products and feed the analytical results back to manufacturers. And this appeals to them."

And for hospitals, the company has another "magical tool", Chen said.

Currently, it is common at Chinese hospitals for nurses to manually prepare surgical instruments and deliver drugs to patients.

However, the short supply of nurses might result in delivery errors or poor punctuality, a major cause of medical incidents, Chen said, adding that the parent company Cardinal Health has accumulated a lot of experience in addressing this problem in the US.

"It has developed an information-control system that can remind the nurses of things they will do - what time to deliver what drugs to which patient as well as what instruments to prepare for which doctor at which operating room," he said.

When coupled with a pharmaceutical or instrument cabinet, this system will help reduce human error, Chen said. It is used at most US hospitals but none of their Chinese counterparts have tried this, he said.

It is something revolutionary because it will benefit everyone, Chen said. Many local hospitals have expressed interest in the program, but the details have yet to be discussed, Chen said.

"We will launch it in Chengdu no later than the first half of 2014, probably starting from one department before it is widely adopted," he said. *(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:

news@uschinahpa.org