CHINA UPDATES

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

U.S. – China HPA Health Products Association 美中健康产品协会

ISSUE 110

September 25, 2014

In this Issue

CFDA Warns Fake Beauty Product in Local Market

CFDA noted that the local regulators have spotted a chain of cases involved using of illegal drugs and medical equipment by beauty salons.

The cases are scattered in different provinces across the nation, from Zhejiang province in the south the Hebei province in the north. The suspects are importing pirated products with the brand including BOTOX. The investigator found over 50,000 bottles of beauty products are fake or unapproved drugs.

CFDA said that a number of beauty salons are now operating without gaining official approval. They use substandard beauty products that claim to be produced abroad. These products are branded without Chinese instruction book. Those beauty salons buy these products at a very low price from illegal production houses. (Source: Beijing Daily)

90% of Chinese Public Cannot Tell Health Product From Drug

According to a survey conducted by China Radio, the Chinese public have a hard time to secure the drug safety, as a majority of them cannot tell health product from drug.

The survey says that 90% of the respondents don't know the basic knowledge of buying and storing drugs, the no-no's in taking drugs or how to use health product to treat oneself. The survey shows that this problem is even more severe among senior citizens and kids. For example, 31% of parents are serving kids the amount of drug that only applies to adults.42% of parents fail to notice the colliding elements in different drugs when serving their kids these products.

“Some health products claim to be able to treat diabetes like drugs in their ads, and many patients are taking these health products without having extra drug to cure their diseases,” said Zhang Jichun,a senior doctor in a local hospital in Beijing. “This kind of situation always leads to a terrible result.”

A number of local governments across the country are launching “health month” recently to educate local residents about how to buy drugs and health products properly, and also recycle the drugs that are out of their shelf life. (Source: China Radio Net)

Alibaba Vows to Combat Counterfeits as Luxury Brands Open Online Shops

At least a dozen of luxury companies have set up official marketplaces with Alibaba Group as the e-commerce giant is trying to build itself into a comprehensive platform that includes individual vendors and well-established retailers and brands.

At the same time, Alibaba is also beefing up efforts to remove counterfeit goods as it moves closer to a highly anticipated initial public offering in the United States, which could be one of the largest listings in history.

In the past few months, Tmall has teamed up with luxury and fashion accessory group Burberry, liquor vendor Diageo and cosmetics giant Estee Lauder Group in its bid to attract large brands and retailers.

An Alibaba official said the company's attitude toward fake goods and counterfeit brand-name products has always been consistent and it is working hard to protect intellectual property rights for brands from home and abroad.

More than 4,000 foreign brands from 45 countries have opened official marketplaces at Tmall and

Wang Yulei, general manager of Tmall, had said that he hoped the platform will become the ultimate destination for fashion shoppers.

Asia Pacific will be the fastest growing region in terms of luxury goods sales volume, with compound annual growth rate estimated at 6.2 percent through 2018, according to the latest research report by Euromonitor International.

China's luxury retail sales volume added 11.22 percent in 2013, slower from the 14.7 percent growth in 2012 as anti-corruption campaign curbed extravagant spending.（Source: Shanghai Daily)

McDonald's overhauls Food-Safety Strategy in China

McDonald's Corp. is overhauling its food-safety strategy in China after problems with a supplier hit the fast-food chain's image and eroded its sales in the country.

The Oak Brook, Ill.-based company said in a statement that it will review surveillance video from meat-production sites in China and boost audits of suppliers. More than half of the added audits will be unannounced and conducted jointly by third-party auditors and McDonald's management teams, the statement said. The others will be conducted by suppliers' corporate auditors, it added.

Other steps include the creation of anonymous hotlines for suppliers and their employees to report unethical or noncompliant practices and the dispatching of quality-control specialists to all of McDonald's meat-production facilities in China, the statement said.

The company also said it created a new head of national food safety position in China that will report directly to the chief executive officer. The company is appointing Cindy Jiang--currently senior director of McDonald's global food safety, quality and nutrition--as interim head.

The moves come as McDonald's looks to restore operations in China, where it has more than 2,000 stores, following problems that began in late July with meat supplier Shanghai Husi Food Co., owned by U.S.-based OSI Group LLC.

Authorities accused the Shanghai plant of intentionally selling expired meat to restaurant companies after a television station ran a report alleging the practice. They also launched an investigation into the company, which has yet to be completed, according to China's food and drug regulators. On Friday, six employees of the Shanghai plant were arrested for "selling substandard products."

Sheldon Lavin, chief executive and owner of OSI, apologized to Chinese consumers in July for the problems and said he would focus on overhauling the company's China business.

McDonald's also said in its statement that it is evaluating California-based Golden State Foods Corp. as a potential new supplier in China. The supplier's China division is taking over management of OSI's produce plant in the southern Chinese city of Guangzhou, OSI announced Monday.

A successful evaluation of the Guangzhou plant's new management would reignite a partnership with OSI that has been at a standstill since the July report.

McDonald's said last week it was reconsidering its relationship with OSI, its largest supplier, from which it suspended orders in China after the expired-meat allegations. McDonald's said it has in the last six weeks replaced OSI with companies such as Cargill Inc., Hormel Foods Corp., Trident Seafoods Corp. and Fujian Sunner Development Co.

The supplier switch has taken a toll on McDonald's business. The company faced a near three-week shortage of meat products in many of its stores in the region, limiting menu options and crippling sales in China, Hong Kong and Japan. Lettuce still isn't available for hamburgers in China, though McDonald's said Tuesday it signed Creative Food Group as a new produce supplier.

McDonald's said earlier this month in a Securities and Exchange Commission filing that its global comparable sales forecast for 2014 "is now at risk" because of the issue.

OSI, based in Aurora, Ill., has been an important partner to the U.S. fast-food chain. OSI helped McDonald's lay the groundwork for its expansion in China in the early 1990s. McDonald's is also one of OSI's largest customers in China, according to a Harvard Business School report.

China is a critical growth market for McDonald's and the company has already made moves this year to boost sales, which fell last year amid the country's slowing economic growth as well as negative publicity tied to avian flu and alleged overuse of antibiotics in chicken. McDonald's responded in April by announcing store remodeling and an advertising blitz. It also added new local items, such as green tea ice cream and rice dishes, to its menu.

Experts say the fallout with OSI has taught companies to take a more proactive role in operational management. "Key lesson here is if you're a foreign company and you set up operations in China, you have to manage the operations," said Ben Cavender, a senior analyst at China Market Research Group. Food companies have to play close attention to what their operations and partners are doing to maintain standards, Mr. Cavender said.(Source: WSJ)

China's Fast-Moving Consumer Goods Market Saturating, Less Room for New Products

China's fast-moving consumer goods market is becoming saturated with a wide variety of good products for consumers and it was more difficult for new product launches to achieve incremental growth, a latest research has found.

Fast-moving consumer goods (FMCG) refer to food and non-food everyday consumer products that are sold quickly and at relatively low cost.

FMCG brands should aim for innovations that can bring incremental growth, rather than launch the biggest seller in the market, according to the research, sent to Xinhua on Saturday.

The research was jointly conducted by research company Kantar Worldpanel China and pollster TNS, which analyzed 210,000 new products launched in 77 categories over the past three years in China.

Growth of the FMCG market continued to slow in China over the last 12 months. With the growth of disposable income also decreased, China's consumers are being more tight-fisted with their money.

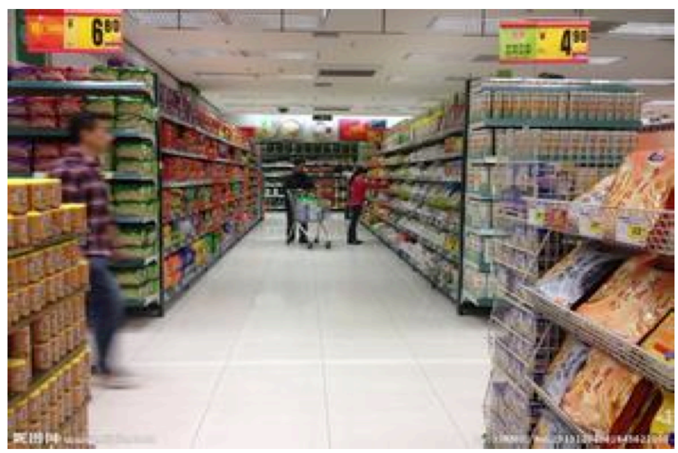
Almost all categories are introducing new products, just over half of them in the premium range. New product launches used to contribute about 8 percent of a company's overall growth.

But by 2013, that contribution had fallen to 6 percent. It's increasingly harder for marketers to get growth from innovation, according to the research.

That is particularly true for multinational companies. The research found they are having more difficulty achieving incremental growth, even in premium sectors, and they are struggling more than local companies in China.

The success ratio of local companies' new premium goods is 30 percent higher than those of multinationals. That's because local players tend to have a better understanding of the market, and they're launching products that fit the needs of Chinese consumers better, it said.

One new product launch strategy commonly seen in multinational companies is "search and re-apply." That means simply introducing products from other countries into China.



"The problem is that China is so unique that simply copying the success from another market often doesn't work," it said.

Chinese consumers are willing to try new products, but they want trusted recommendations from friends and family.

The research showed that 45 percent of new products launched in China stayed on the shelf after three years, 19 percent brought incremental volume of which only 4 percent would be big winners.

New FMCG products don't necessarily need to have the biggest sales volume. "Bigger is better" seems to be losing some of its appeal when it comes to splashy product debuts, it said.

It's crucial to measure the potential incremental growth and the potential cannibalization with existing products rather than simply going after being the biggest seller on the market, according to the research.(Source: Xinhua)

Desperate Chinese Seek Medical Care Abroad

When Lin Tao was diagnosed with a lethal spinal tumor in 2012, doctors in Hangzhou told him he had one option in China—surgery that would replace two sections of his vertebrae and might leave him paralyzed.

Mr. Lin and his wife pursued a second option.

The couple flew to San Francisco and paid $70,000 out of pocket at UCSF Medical Center, where doctors recommended that Mr. Lin try radiation therapy rather than surgery. Now, his family says his tumor is gone and he can still walk.

Mr. Lin thus joined an emerging group of Chinese going overseas in search of treatment that is either unavailable or ineffective in China. It is next to impossible to pin down the number of such "medical tourists."

The majority of such travelers go on tourist visas, often not stating the purpose of the trip in the visa interview, according to Saint Lucia, a Beijing-based consultancy on overseas care.

Over the past decade, middle-class Chinese have flocked to South Korea for plastic surgery and to Hong Kong and the U.S. for child birth. Japan and Singapore are common destinations for medical checkups.

Increasingly, Chinese patients are traveling abroad to treat life-threatening diseases, according to accounts from U.S. hospitals and businesses that help find treatment overseas.

The Mayo Clinic, in Rochester, Minn., said the number of ts patients from China has more than doubled over the past year. It now has a Web page in Chinese and has put interpreters on staff.

"China, probably of all countries, is the one where we see the greatest growth right now," said Mikel Prieto, the medical director of the Mayo Clinic's international office. He declined to provide specific figures.

UCSF Medical Center says its Chinese patient population has grown by more than 25% in each of the past few years. Massachusetts General Hospital is expecting Chinese patients to more than double this year from last year's 40.

Chinese hospitals struggle to make money. Low-paid doctors are paid for each service and commonly receive kickbacks for drug prescriptions, which can lead to exploitation of patients, said William Hsiao, an economics professor at Harvard University and the co-author of a study of China's overhaul of its health-care system published last week.

A reliance on surgeries, the mark-up of drug sales and the prescription of sophisticated diagnostic tests lead to a continuous rise in medical bills—as well as to a rise in patient-doctor disputes, with a number of patients resorting to violence over perceived mistreatment by doctors. Many Chinese doctors say they have been threatened or verbally assaulted by patients, according to a 2013 survey by the Chinese Hospital Association.

"Some medical procedures are not completely for the patient's benefit, but are done for economic reasons," said John Cai, director of the Centre for Health Care Management and Policy at China Europe International Business School in Shanghai. "A system that emphasizes serving the patients is not yet established," he said.

China ramped up health-care spending more than 13% last year to 820 billion yuan, or around $133 billion. That accounted for 5.8% of overall fiscal spending, according to the Ministry of Finance. Health spending in China is expected to reach $1 trillion by 2020, says consultancy McKinsey & Co.

But the funding barely scratches the surface for a population increasingly plagued by chronic diseases such as diabetes, heart disease and cancer.

As China gets wealthier, people are willing to spend more to get better treatment. Health expenditures per capita in China have more than doubled since 2008, according to the World Bank. But while rich Chinese can buy most luxury products, high-end medical care isn't easily accessible.

Under a complicated rating system, some 1,000 hospitals—including the one Mr. Lin and his wife turned to—are classified as top-ranked, but the rating is no guarantee of good treatment.

Mr. Cai said a significant portion of funding for the top-ranked hospitals goes to special all-expenses-paid wards for government officials. "This is a real problem," he said.

"Unless you are a very powerful person, you will not get the best medical service in China," said Cai Qiang, CEO of Saint Lucia, a Beijing-based consultancy on overseas care. "If you just have money, and you want to be treated by a top doctor in a top-ranked hospital, you still need to pull some strings. Even so, the time and care the doctors can give you is very limited."

Mr. Lin, a businessman, and his wife, Zhu Yuguang, said they waited five hours to spend five minutes with a doctor, who suggested a surgery that might have cost them hundreds of thousands of yuan.

Mr. Cai said in 2011 Saint Lucia had only a couple of clients; in 2012 there were almost 100, a number that doubled last year.

To be sure, only those with significant resources can enlist Saint Lucia or a similar company in Shanghai, Mega Health Care, which both charge around $10,000 to find an overseas match. That doesn't include any of the medical costs, which are paid directly to the overseas hospitals, nor does it cover plane tickets or lodging. Mr. Lin and his wife said they ended up spending another $50,000 on such costs in connection with their trip.(Source: WSJ)

Authorities Caution Consumers Against Lard Oil

The nation's quality watchdog has advised consumers to stay away from food products that are shipped into the mainland market from channels other than official imports as they may be contaminated with Taiwan's gutter oil.

Initial checkups have shown that the lard oil in Taiwan found to contain gutter oil is not on the list of imported items of the mainalnd, the General Administration of Quality Supervision, Inspection and Quarantine said Saturday in a statement on its website.

But the administration published a list of 235 downstream food producers which might have used the tainted lard oil and advised consumers to be cautious if they buy products of these companies.

The tainted lard oil has met hygiene standards, the island's public health authority said Monday, but the products will still be banned from sale.

The scandal, which erupted a few days before the Mid-Autumn Festival falling on Monday, comes after the Taiwan authorities announced on Friday that at least 240 tons of gutter oil mixed into lard oil is now circulating on the market, and affected products range from dim sum to dried meat floss.

Kaohsiung-based Chang Guann Co, a producer of the tainted lard oil, is found to have supplied lard oil to importers in Hong Kong, which in turn have sold the products to some local bakeries and coffee shops, the South China Morning Post reported Monday.

Wei Chuan Foods Corporation in Taiwan has ordered a recall and refund for 12 types of possibly contaminated products including dried meat floss, meat sauce and meat crisp Thursday.

The Hangzhou branch of Wei Chuan Corp has denied any use of edible oil imported from Taiwan in a statement Sunday, the Beijing Times newspaper reported Monday.

Taiwan coffee shop chain 85C Bakery Cafe also posted a statement on its website on Friday claiming that none of its products in the mainland are made from either imports from Chang Guann Co, or from lard oil.

The scandal was uncovered on September 1 when police raided an unlicensed factory in south Taiwan's Pingtung county. As of Sunday, the number of potentially affected companies has exceeded 900, said Taiwan authorities.

While sources from both food safety watchdog and certain food producers have excluded the possibility that the gutter oil has found its way into the mainland market, consumers could still buy products made from the oil through online shopping platforms.(Source: Global Times)

The Age of Online Medicine

Internet facilities have made online shopping the ultimate trend in almost all industries, and the pharmaceutical industry is no exception. Pharmaceutical companies are now starting to shift their business online, and the industry is still adapting to this transition.

According to a Science and Technology Daily's report in June, the market scale of the pharmaceutical industry in the US reached $247 billion in 2013, with online retailers contributing to 30 percent ($74 billion) of this figure. These figures show the potential of the online market, but in China in 2013, online pharmaceutical sales only produced $68 million out of the overall 41 billion pharmaceutical sales.

Although the Chinese online pharmaceutical business is still in its infancy, there are some domestic pharmaceutical companies that have taken measures to stay ahead of the market. Of them includes Kangmei Pharmaceutical Company, a private firm that manufactures and sells pharmaceuticals and medical devices primarily in China. As one of the largest producers of medicine in China, its total revenue reached 13.3 billion yuan ($2 billion) in 2013, which includes both the online and offline markets.

Kangmei's initiative in the online pharmaceutical market started in 2011, when they sold their products online to other businesses, and later progressed to sell them directly to customers in 2012. In the company's 2013 fiscal report, building e-commerce was taken as their core market strategy in their future growth.

In April 2014, they established their own online pharmaceutical selling platform, which will support the company's other platforms for selling their products such as taobao.com.

Despite Kangmei's advancements in the online pharmaceutical business in recent years, it still only accounts for a minor percentage of the company's overall sales when compared to its offline business. Currently the monthly revenue of Kangmei online business is 10 to 14 million yuan, which only amounts to one percent of sales.

During an interview with Liao Kaiji, the general manager of e-commerce sector of Kangmei in late August, he told Metropolitan the reason why they chose to enter e-commerce was because of the growing popularity for online shopping among domestic consumers.

Liao said that there are some barriers still affecting the growth and expansion of online pharmaceutical stores. According to media reports, in order to conduct online selling, pharmaceutical companies have to gain two certificates from the China Food and Drug Administration: the Internet Drug Information Service Certificate, and the Internet Drug Trading Services Qualification.

"The issue of whether pharmaceuticals bought online can be covered by medical insurance will also impact on a consumer's decision," said Liao.

Although some argued that the expansion of the pharmaceutical industry from offline to online makes it harder to supervise the products' sources and quality, Liao has a different opinion.

"The online stores are easier for the government to supervise, since the online platform is more open and transparent," said Liao.

Despite these existing issues, more and more pharmaceutical companies are making the change by going online in the face of huge market potential.

Zhang Yongjian, director with the Research Center for Development and Regulation of Food and Drug Industry at the Chinese Academy of Social Sciences, has extensive experience and a good insight into the online pharmaceutical business.

"Hospitals and pharmacies are the two major ways for Chinese people to buy medicines. As the online shopping trend pushes the industry towards change, more pharmaceutical companies are going online," said Zhang. "The advantages for online stores are that they are convenient and their medicines are available at more affordable prices." (Source: ecns.cn)

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. 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

If you want to learn more about the association and how it can help your business, contact us at: **info@uschinahpa.org**

If have China related news that you would like to share with the association for publication contact us at: **news@uschinahpa.org**


China International Nutrition and Health Summit 2014
2014中国国际营养与健康产业峰会
Organizer 主办方：
U.S.- China Health
Products Association
美中健康产品协会
CCPIT CHEM
中国对外贸易促进委员会
化工行业分会
Date: November 3rd and 4th, 2014
Location: Beijing, China
Venue: Renaissance Beijing Capital Hotel
2014年11月3日– 4日
中国北京
北京市朝阳区富力万丽国际酒店
HPA
Enzymotec
Delivering Lipids
TSI
NSF
LALLEMAND