Market Overview: China’s health supplement market

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Vitafoods Asia
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A CLOSER LOOK AT THE CHINA MARKET
MR CLARENCE FONG
Agenda

- Speaker Profile
- Introduction to China
- Overview of China’s Health Food Market
- Opportunities and Challenges
- Common Mistakes by International Companies Entering China
- Winning Strategy
- Q & A
Speaker Profile

- 10 years working in the China Health Supplements industry

- Representing international companies and providing consulting services in assisting them with entry into the China market

- 90% of the companies are Small & Medium Enterprises (SMEs): Ingredients, manufacturers and Brands

- Witnessed first hand and experienced the changes that have been occurring for the past 10 years - Bigger Market, Tighter Regulations, Fiercer Competition
Introduction to China: Basic Facts

(All Statistics and figures quoted for the whole presentation are from online open sources)

- **1.379 Billion** People
- **18.46 Million** Birth Per year 2016
- **75.986 Years** Life Expectancy
- **GDP USD$ 11.199 Trillion**
- Country Currency: Renminbi RMB
- Spoken Language: Putonghua (Mandarin)
- Written Language: Simplified Chinese

(Source: https://data.worldbank.org/country/china)
Map of China
Introduction to China: Characteristics

- **Big** country
- **Big** population
- **Growing** economy
- **Rising** income and disposable income

- Great environment for businesses to grow, flourish and prosper.
- This is the case for domestic Chinese companies. **Is it the same for international companies?**
Overview of China’s Health Food Market: Health Food Classification

- According to the National Food Safety Standard - Health Foods, health food refers to food products which claim to have specific health functions or supplement vitamins or minerals intake. Health food is suitable for consumption by specific groups of people and regulates human body functions, but is not used for the purpose of treating disease. Furthermore, such food should not pose any acute, sub-acute or chronic hazard.
China’s Health Food Classification

- Classification of health food:
  - (a) Two categories
  - Food with specific health functions: Food that shares common properties with general food that regulates human body functions, but is not used for treating diseases and is suitable for consumption by specific groups of people.
  - Nutritional supplements: These products supplement nutrients, with vitamins and minerals as major ingredients. They include single-ingredient and multi-ingredient nutritional supplements.
China’s Health Food Classification

(b) Three types

- Traditional health food: This refers to products which are prepared using traditional Chinese methods based on the concept of regulation and balance in traditional Chinese medicine.

- Modern health food: This refers to health products, which use nutrients or supplements as major ingredients.

- Functional health food: These products include those used for specific health purposes, such as nourishing the heart and the liver, improving sleep or facilitating digestion.
Sales and Growth Figures

- **2010**: RMB¥ 260,000,000,000 (260 Billion) Approx. USD$ 39 Billion
- **2015**: RMB¥ 400,000,000,000 (400 Billion) Approx. USD$ 60 Billion
- Annual growth rate of 10-15% from 2015 onwards

(Source: China Health Care Association own computation)
In terms of geographic distribution, health food manufacturing enterprises are concentrated in the six coastal provinces: cities of Beijing, Guangdong, Shandong, Shanghai, Jiangsu and Zhejiang, which together account for about half of the total number of such enterprises in China.

These Six Coastal Provinces are very affluent.

In the western region, including Xinjiang, Ningxia, Tibet and Qinghai which are rich in traditional Chinese medicinal herbs, the number of health food production enterprises is very low.

Western Regions are relatively much less affluent than the coastal provinces.

(Source: HKTDC Aug 2017 China’s Health Food Market)
According to the Statistical Communiqué on the 2016 National Economic and Social Development issued by the National Bureau of Statistics, as at the end of 2016, the population of seniors aged 60 or above stood at 231 million, accounting for 16.7% of the total population.

It is projected that the mainland’s senior population will reach its peak at more than 400 million in 2050.

Aging Chinese Society- Osteoporosis- Population Older than 60, male rate of Osteoporosis is 56%, Female is 60-70%

(Source: Deloitte Consulting- Healthcare forecast 2020)
Market Growth Factors

- Growth in Disposable income - (One Child Policy) **Paediatric related products** (Dairy)
- Environmental factors - Poisons of Pollution
- Rising awareness - Health Conscious Behaviour: **Prevention over Treatment**
- Lifestyle Diseases - **Obesity** 70 to 200 million sufferers, **Hypertension** 160 to 170 million sufferers, **fatty liver** 120 million sufferers, **diabetes** 100 million sufferers.

(Source: Deloitte Consulting - Healthcare forecast 2020)
Government Influence on Growth

- 2016 Second Child Policy- Maternity and Pediatrics Products
- E-commerce and Free trade zones
- New Regulations

Healthy China 2030 Summary

- China promotes Healthy lifestyle, improve health services, optimize health industries and build a medical system that can provide basic health and exercise services to every citizen by 2020. Health indicators will reach the standards of high income countries by 2030.
- Expect to see government schemes that will eventuate business opportunities for health sector as the sector expands and people behaviors also continue to change.

Source: Healthy China 2030 Plan by Jiang Xingguang (en.nhfpc.gov.cn)
Current Hot Products

- Meal replacements
- Blood pressure, cholesterol
- Glucose control & Diabetes
- Regulating the immune system,
- Bone & Joint health
- Fighting fatigue/Energy
- Anti-ageing
- Sports nutrition
- Regulating blood lipids.
Technology and Innovation Factors

- **Internet** - Access to information: illness, product, company information
- **Mobile Apps** - Extra way to reach target market
- **Social Media** - Share experiences, Weibo, WeChat personal endorsement, overseas buying (Daigou)
- **E-Commerce Platforms** - greater market access, convenience, increase competition
- **Electronic payment systems** - Alipay, WeChat pay, easy cashless payment for transactions
Sales Channels

- **Direct Selling** - Amway, Herbal Life, Infinitus, Perfect China
- **Conference Marketing** - Database Marketing, targeted specific audience to attend conference/events with the aim of marketing and selling products during the conference.
- **Traditional Marketing** - Drug Stores, Supermarkets, shopping malls
- **Health Chain Operation** - New trend separation health foods from drug stores
- **E-commerce** - Own E Store/Website + Through Online Platforms: Tmall, JD, Amazon, etc.
- **Social Media** - WeChat direct and indirect (Overseas buyer)
As of July 2017, the China Food and Drug Administration (CFDA) had approved a total of 16,631 health food products, of which, 15,879 were domestically made and 752 were imported.

LOOK AT THE FIGURES AGAIN!!!!!

- 15,879 Domestic vs 752 Imported (International)
- Why is this the case? Regulations, Culture, Investment, Approach, Strategy
- What does this mean and how does this relate to your company?
Fiercer Competition

- The enormous market potential and development opportunities in China’s health food industry would not only induce more players in the pharmaceutical industry to undergo transformation, but also offer some pharmaceutical enterprises the chance of breaking out of their current situation. Given their existing R&D, production and marketing capabilities, pharmaceutical enterprises have an edge in moving into the health food industry.

(Source: HKTDC Aug 2017 China’s Health Food Market)
Chinese Companies’ International Activities

- 2010 Aland (Jiangsu) Nutraceutical Group bought International Vitamin Corp (IVC)
- 2016 IVC buys Perrigo (USA)
- 2017 IVC buys BioCare Limited (UK) + sister companies
- 2015 (83%) Swisse (Australia) Acquisition – 2017 (100%) Under Chinese Ownership Biostime International
- 2016 Natures Bounty (USA) Joint Venture with Company: BY-HEALTH (China) for China market
- 2016 Shanghai Pharma buys Vitaco (Australia)
- 2016 Iovate Health Sciences Announces Strategic Investment by Xiwang Foodstuffs
Why Preference for International Companies & Products

- **Better Quality** - Perception imported and foreign is better
- **Green & Clean** - Overseas environment + international marketing + country image
- **Value for money** - High mark ups in domestic China, Big price difference between China retail and International retail price
- **Safe** - Chinese domestic food scandal
- **Follow the money** - Overseas Buying (Daigou) and Shipment
Opportunities Are Massive, So Are Challenges

- **Regulatory environment**: highly regulated and frequently changing
- Foreign companies often neither understand the Chinese *culture* nor have *right connections*
- **Language** difficulties
- **High brand building and channel operating requirements**
- **High human resources requirements** and difficult to find and retain talent
Common Misunderstandings

- Successful Entry ≠ Successful Sales
- Serious ≠ Realistic
- Innovation New Products ≠ New Opportunities
- Local Partners ≠ Problem Solvers
Concept of ‘Guanxi’ and Over Promise

- ‘Guanxi’ means **Connections or relationships**
- Common Practice of doing business **with people you know** and building a network
- **Everyone in China** will claim they have connections and they know this person and that person.
- Since they know people **they can take care of everything for you** including distributing and selling. After the product enter China, sales will take off
- **DON’T BE TOO TRUSTING!!!!**
- Sales rely on **consumers ultimately buying the products** and not how many distributors or stores they claim they can get your products into.
- Try to **verify their connection claims** and think logistically on how and if the connections can actually benefit.
From my experience most companies view China as a gold mine, since it is a big market they expect big sales and big returns. Executives have seen it happened to other companies and insist sky high figures.

In most cases expected China sales are many times over their domestic sales.

People tend to forget how long it took the international companies to establish in their home market, the resources, the difficulties in the journey to build up from scratch.

The Chinese market is highly competitive with no shortage of products. Claiming to have the best product no longer helps to differentiate.

If approached by Chinese interest, do a reality check: What makes your products so special that attracts the interest??
Most industries and companies are very excited about innovation, new products.

Innovation in Health supplement industry: New Ingredients, New Products, New Claims, New manufacturing process, extra dosage, multi ingredients

Most believe these new innovations and products will be very popular and be introduced quickly into the market place.

However, in China due to the rule and regulations, innovations, new ingredients and products cannot be launched if they are not within the Chinese national standard or do not match the Chinese standard.

New can equal long wait and expensive and time consuming process of obtaining approval via registration or updating of regulations.
2 Current Common Misguided Solution

1) Not our Job to worry about all the arrangements. As soon as the goods leave our warehouse it is not our job or our problem. Our local partner will handle it. IT IS THEIR JOB –
   - Naïve and wishful thinking

2) Just sell on E-Commerce Platforms: China domestic rules and regulations don’t apply, the platforms will take care of everything. All we have to do is to deliver the stock –
   - Regulation Risks, Positive List 2016
   - Internet selling is growing but it will not work without a recognizable brand
Pricing Challenges

- For most products in China, the retail price are higher than overseas.
  - Reasons attributed to Channel Challenges, China Taxes, China related additional expenses, must have a certain level of mark up.
  - Buyers insist on lowest purchasing costs or they set extra high retail price.
  - Retail price in China should be similar to international prices.
Factors to consider for entering China

- **Ingredients** – Price, Regulations, National Standards, On site inspections and Registrations

- **Manufacturers** – Price, Quality, flexibility, Regulations, On site inspections

- **Brands** – Price, Marketing, domestic market position, international reputation, global sales coverage
Winning Strategy: Flexibility

- Successful International companies have a tendency to follow their overseas model and requirements.
- Executives claim there is no need to adapt to local cultures as business have been conducted in X amount of countries and have always followed the same model.
- Overconfidence is a key factor for failure.
- Especially when faced with ingredients or products that needs to be registered in China. Most popular quote: "Even the USA FDA does not require all these!"
- Accept local factors and adopt a local strategy even if it differs from normal practice
The brands that have been targeted by overseas buyer and acquisitions by Chinese companies are **locally well known and reputable**.

For brands targeting Chinese investment, export sales or increase in domestic sales via overseas buying, one should look at their domestic marketing and see how they can use the available tools and channels to **increase their publicity and brand image** to attract the Chinese market.

Critical to have a **social media strategy** and established relationships with social medial Key Opinion and overseas buyers **Daigou**.
Winning Strategy: Do your own homework

Most companies approach China without doing homework!

These actions and discussions should take place before approaching or negotiating with potential partners:

- Product portfolio review - Regulations
- Master formula analysis - Regulations
- Marketing plan review - Feasibility
- Implementation issues - Problem solving
Winning Strategy: Local Experts

- Local Representation Experts
- Regulation & Registration Experts
- Import & Logistics Specialists
Winning Strategy: Local Representation

- Local representative to help you explore and navigate the difficulties in establishing your company presence in China.

- Professional objective advice on the best way to implement your China Strategies

- Cost effective
Winning Strategy: Regulations & Registration experts

- Regulations experts- *Experts on all the laws and regulations relating to the food and health food industry.*
  - First port of call
  - **Professional advice** on your products whether they are compliant with Chinese regulations

- Registration experts- Turns the product into a **Registered Health Food under the Chinese registration system**
  - The products that comply with Chinese regulations then registered into Health Food
  - Professional advice on time, costs- *Useful for planning and budgeting*
Winning Strategy: Import & logistics experts

- Import process - Full of government regulations, government taxes and practices, **ability to handle**
- Laws and regulations universal across China but enforcement by local authorities - therefore **different airport and ports may have different results.**
- E-commerce bonded warehouse **knowledge and experience**
- How to deliver across China **cost effectively**
- Forward planning to **ensure continuous supply**
Winning Strategies: REMEMBER to Invest First! Harvest Later!

- Spend money to make money!!! Its all about money!!!
- Budget for government registrations costs
- Entry costs and expenses classified as INVESTMENT
- Companies entering China need to adopt a co-investment mindset. They can no longer expect a local partner to do all the work and pay all the costs.
- Budget for 12-36 months for entering China- Allocate funds for experts assistance
- Never expect or believe to break even or make money within 36 months
THE END

- Questions and Answers
Regulatory Overview: Introduction to China’s regulatory system for food and supplements

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Speaker 2: Lillian Fan, Sales Manager, Antion, China

Join the conversation on Twitter at: @VitafoodsAsia #VFA17
Introduction of China Imported Food Regulations
Main Contents

- Antion—Service Provider of Food Regulation Consulting
- Imported Food Safety Analysis under Current Situation
- Regulators, Regulations & Requirements of Imported Food
- Hot Issues
- Future Trends
- Imported Food Risks Analysis
- Response & Advice
Antion—Service Provider of Food Regulation Consulting
Company Overview

- Antion (Beijing) Information Consulting Co., Ltd. (‘Antion’) is established in 2013.
- Antion is a national high-tech enterprise, having eight intellectual property.
- Antion is engaged in consulting services for the food industry to provide all aspects of service.
- Our staffs own rich experience in the food industry and information services.
- Advisory Group is consisted of professional technicians.
- Chinese, English, Japanese, Korean
Main Services

- Food Safety Information
- Food Import Feasibility
- Formula & Label Review
- Regulation & Standard Consulting
- Government Affair Communication
Our Clients
Our Clients
Imported Food Safety Analysis under Current Situation
China’s Imported Food Sources Situation in 2016

- **Import amount (100 million USD)**
- **Import batches (10 thousand batches)**
China’s not Allowed Entry Food Origins Situation in 2016

- China Taiwan: 23.7%
- EU: 22.3%
- ASEAN: 13.6%
- USA: 6.5%
- Japan: 6.0%
- Korea: 5.3%
- Australia: 2.1%
- Russia: 1.3%
- Brazil: 1.0%
- Turkey: 0.1%
- Others: 1.6%
China’s Imported Food Species Situation in 2016

- **Meat**: High import amount and a moderate number of batches.
- **Seaweed**: Similar to meat, high import amount with moderate batches.
- **Oil**: Significant import amount and fewer batches than meat and seaweed.
- **Dairy**: Moderate import amount and a small number of batches.
- **Grain**: Lower import amount but a significant number of batches.
- **Alcohol**: Low import amount and a small number of batches.
- **Carbohydrate**: Similar to alcohol, low import amount and a small number of batches.
- **Beverage**: Low import amount and a small number of batches.
- **Nuts**: Lower import amount and a small number of batches.
- **Biscuit**: Lower import amount and a small number of batches.
- **Others**: Moderate import amount and moderate batches.

Legend: Import amount (100 million USD) and Import batches (10 thousand batches).
China's not Allowed Entry Food Categories in 2016

- Beverage: 19.6%
- Biscuit: 19.0%
- Carbohydrate: 8.9%
- Alcohol: 8.1%
- Dairy: 7.0%
- Tea: 5.1%
- Meat: 4.7%
- Nuts: 4.4%
- Seafood: 4.2%
- Grain: 3.1%
- Others: 17.4%

China’s not Allowed Entry Food Unqualified Reasons in 2016

- Food additives: 22.8%
- Microbial Contamination: 17.8%
- Quality: 16.5%
- Labelling: 14.8%
- Certificate: 10.0%
- Certification not match the goods: 4.8%
- Packaging: 4.5%
- Contaminants: 3.7%
- Not approved: 2.3%
- GM composition: 1.8%
- Others: 0.8%
Regulators, Regulations & Requirements of Imported Food
Food Safety Related Department

- **State Council – Food Safety Office**: Research, deployment, co-ordination, and guide food safety work.
- **CFDA**: Unified supervision food safety of production, circulation, and consumption.
- **NHFPC**: Food safety risk assessment and food safety standards formulation.
- **AQSIQ**: Food import and export management and food related product management.
- **MOA**: Agricultural product quality and safety supervision and management, GMO management.
- **MIIT**: Formulate and organize industrial planning and policies.
- **MOFCOM**: Circulation industry, chain operations, franchise (MGM)
- **SAIC**: Advertising & promotion material
The Regulators of Imported Food

**General Administration of Quality Supervision Inspection and Quarantine of China (AQSIQ)**
- Imported and exported food supervision, inspection and quarantine

**Certification and Accreditation Administration of China (CNCA)**
- Imported food production enterprise registration

**China Food and Drug Administration (CFDA)**
- Product registration, formula registration, domestic distribution supervision
Imported Food Regulations

- Food Safety Law of the People 's Republic of China and its Implementing Rules
- Import and Export Commodity Inspection Law of the People ’s Republic of China and its Implementing Rules
- Entry and Exit Animal and Plant Quarantine Law of the People ’s Republic of China and its Implementing Rules
- The Special Provisions of State Council on Strengthening Food Safety Supervision and Management
- Measures for the Administration of Import and Export Food Safety
- Regulations on the Administration of Registration of Overseas Food Enterprises for Imported Food
- Inspection and Quarantine Supervision and Management of Import and Export Dairy Products
- Inspection and Quarantine Supervision and Management of Import and Export Meat Products
- Inspection and Quarantine Supervision and Management of Import and Export Seafood Products
- Import and Export of Pre-packaged Food Label Supervision and Management Regulations
- GB 2760 National Food Safety Standard – Standard for Uses of Food Additives
- GB 7718 National Food Safety Standard – General Rules of Pre-Packaged Food Label
- ......
General Requirements of Imported Food

- Meet the requirements of national food safety standards
- Chinese label and instruction as regulation required
- Attached with qualification certificate
- Filing system for overseas production companies
- Audit system for overseas production companies
- Product recall
Categories of Imported Food

- **Normal Food**
  - Seafood, meat, dairy products, cubilose
  - Others
    - Enterprise registration
    - Compliance with China related standards and regulations

- **Special food**
  - Health food
    - Registration or filing
  - Infant and young children formula milk powder
    - Enterprise registration, formula registration
  - FSMP
    - Product registration
Current Regulatory Situation

- Revised Food Safety Law, implementation on Oct. 1st 2015
- Food Safety Law Implementation Rules (draft for comment)
- Related regulations (Revising)
- Related Secondary Documents (Revising)
# New Imported Food Regulatory System

## Before import
- Food safety evaluation for exporting country/region
- Hygiene registration for overseas enterprises
- Filing system for imported food overseas exporters or agents
- Filing system for imported food importers
- Imported food compliance certificate (official certificate)
- Approval system of quarantine inspection for imported food of animal and plant-origin
- Audit system for overseas food production enterprises

## Importing
- The system of importers compliance certificate
- Declaration system for imported food inspection and quarantine
- Imported food port inspection and quarantine supervision
- Imported food risk monitoring
- Imported food risk warning and rapid response system
- Imported food pre-inspection and pre-quarantine
- Designated ports for entry quarantine inspection of imported food

## After import
- Review examination for food safety system and enterprises in export countries/regions
- Importing record
- Imported food sales record
- Unqualified Imported food recall
- Overseas manufacturers and importers credit record
- Responsibility norm system of food importers
- Imported food subsequent market supervision
Ingredients

1. Normal food ingredients compliance problems
2. The future trends for CBEC
3. Buy food for the purpose of profit
4. Food Exported to China

Cross-Border E-Commerce

Consumer

Attached Certificate
Ingredients Compliance

**Able**
- Normal food ingredients
- Food additives
- Nutrition enhancer
- Novel food ingredients
- Approved as normal food ingredients
- List of bacteria that can be used for food
- List of bacteria that can be used for infant food
- List of medicine & food homology
- List of health food ingredients

**Disab**
- List of health food prohibited ingredients
- List of health food illegal added ingredients
- List of normal food prohibited ingredients
- Illegal added non-food substances
1. Normal food ingredients compliance problems
2. The future trends for CBEC
3. Buy food for the purpose of profit
4. Food Exported to China
1. Normal food ingredients compliance problems
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Ingredients

Cross-Border E-Commerce

Consumer

Attached Certificate

Normal food ingredients compliance problems

The future trends for CBEC

Buy food for the purpose of profit

Food Exported to China
Future Trend
Future Trends

- Government Reform
- Chinese Label
- Company Registration
- Single Window
- Risk Monitoring
Imported Food Risks Analysis
Challenges

- Enterprise
- Government
- Society
- Talented person
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