Branded foods in China – forecasts to 2013

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Chapter 1 Introduction

Aims and objectives of the report

This exclusive just-food report is part of a new series considering five countries known as the ‘BRICM’ economies – Brazil, Russia, India, China and Mexico – from the perspective of the branded/packaged food industry. The five countries are widely regarded as the ultimate emerging destinations for manufacturers and retailers prepared to invest now in order to reap the rewards once the countries ‘come of age’.

There are many advantages for food companies to target the BRICM economies if they are seeking global expansion; however, the countries are also fraught with problems, as they continue to be regarded as developing markets often burdened with antiquated regulations and complicated entry and merger and acquisition (M&A) procedures. There are many differences between each country, and internally within each country, particularly considering the incredible size of China, Russia and India. Local market conditions can change quickly and regulations are often swiftly passed that directly impact foreign investors.

The local food production industry is starting to thrive in each of the five key markets and represent credible competition for all foreign investors over the forecast period (to 2013). Multinational retailers and producers/brand owners are present in the entire BRICM region and many are performing well. This report focuses on activity in the People’s Republic of China (from here on known as China). The other four countries are addressed in detail in individual reports.

Report methodology

It is impossible for the BRICM region to be addressed as a single entity – there are many differences between each country: from consumer attitudes to shopping; attitudes to shopping in supermarkets and hypermarkets; and, of course, varying spending power. This series of just-food reports provides analysis and insight into the potential of the food sector in Brazil, Russia, India, China and Mexico by considering the best-practice strategies employed by leading multinational and domestic manufacturers alongside trend analysis.
Chapter 2 The Chinese food and drink market

China is the world's leading source of consumer goods. Chinese manufacturers produce an estimated quarter of the world's toys, one-third of the world's suitcases and handbags, more than half of the world's microwaves and almost two-thirds of the world's bicycles. China's contribution to the global food market is also growing. In 2007, the Chinese packaged food market was valued at around US$xxxxbn and is expected to rise to more than US$xxxxbn by 2013. According to official national statistics, China's grain output in 2007 was xxxxxxm tonnes, growing by xxxm tonnes compared with 2006 and up xxx%.

The country is an industrial hub across the fast moving consumer goods (FMCG) sector, attracting manufacturers from around the world who are keen to lower costs and wages, and make the most of the plentiful employment opportunities and manufacturing capabilities. However, infrastructure and logistics facilities can be lacking in many parts of the country, red tape and regulatory restrictions continue and supplier capabilities and commitments can vary dramatically from company to company. Despite this, it is estimated that on average retail and consumer goods manufacturing companies can save between x% and xx% annually by sourcing/producing items in China compared to elsewhere in the world.

According to just-food estimates, one-third of all food consumed by the Chinese is processed, with the majority purchased and consumed in urban regions. The popularity of processed and Western-style food in urban China is starting to be mirrored in parts of rural China, and will grow dramatically as major retailers such as Carrefour seek to expand out of saturated 'first-tier' cities into other regions over the next five years. It is the increasingly sprawling urban population that will drive strong value and volume growth in processed and packaged foods; by 2050 an increase of xxx% to xxxm is anticipated in the urban region, up from the xxxm 'urban-dwellers' found in China in 2000.

China's urban areas are divided into tiers. There are four first-tier cities. Shanghai is the main business centre, Shenzhen and Guangzhou are cities of
Chapter 3 Mass grocery retail market in China

China is attracting a lot of interest from global retailers and will become a focus of investment from major multinational multiples such as Tesco, Wal-Mart and Metro over the next five years. The grocery market in China has attracted foreign investment since the early 1990s but until December 2004, the Chinese government restricted the expansion of international retailers. While the first-tier cities (Shanghai, Beijing, Tianjin and Guangzhou) are occupied by larger domestic and foreign players, the rest of the country is fragmented and led by smaller domestic companies. Until 2004, domestic retailers dominated the supermarket sector. However, this was all to change with the introduction of Carrefour's Champion supermarket in 2004, which encouraged international retailers to invest in the establishment of the hypermarket format. The early success of hypermarkets with Chinese consumers prompted leading domestic players to jump on the larger store format bandwagon. The Bailian Group and Beijing retailer Wu-Mart have both since introduced a sophisticated and modern hypermarket offering to compete against the multinationals, which continues to prove popular in the major cities. In 2008 and through to 2013, hypermarkets will continue to develop and grow quickly in thriving urban areas such as Shanghai, Guangzhou and Shenzhen. They appeal to consumer interest in low prices, promotional offers, a convenient shopping experience and location.

Table 6: Top ten retailers in China by sales value, 2006

<table>
<thead>
<tr>
<th>Company name</th>
<th>Primary category</th>
</tr>
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<tbody>
<tr>
<td>Gome Electrical Appliances Holding Ltd</td>
<td>Non-food</td>
</tr>
<tr>
<td>Shanghai Bailian Group</td>
<td>Non-food and food</td>
</tr>
<tr>
<td>Suning Electronics</td>
<td>Non-food</td>
</tr>
<tr>
<td>CR Vanguard</td>
<td>Food</td>
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<td>Dalian Dashang Group</td>
<td>Food</td>
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</table>
Chapter 4 Category analysis

The Chinese food market reached an estimated value of US$xxxxbn in 2007 according to just-food. Dairy is the highest value category contributing xxxx% to the total market value in 2007. Dairy is followed in value terms by bakery and cereals contributing xxxx% of total value.

Table 8: China packaged food market value by selected categories, 2001-2007 (US$m and %)

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<tbody>
<tr>
<td>Bakery and cereals</td>
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<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
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<tr>
<td>Confectionery</td>
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<tr>
<td>Dairy</td>
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<td>xxxx</td>
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<tr>
<td>Savoury snacks</td>
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<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
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<td>Total market value</td>
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<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
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</tbody>
</table>

Source: just-food estimates

By 2013, the food market value is expected to reach US$xxxxbn and dairy will continue to be the most valuable category in China according to just-food estimates. Many medium-to-large-scale manufacturers in China are choosing to invest in improving production facilities or constructing new factories, processing and packaging plants to increase volumes and enhance the product quality and safety. In July 2008, for example, construction began on a xxxxxxx tonnes/second pig slaughtering and fresh pork processing production line in the Zhongyuan Foodstuff Industrial Park. Funded by Henan Chuying Animal and Poultry Development Company with CNYxxxm, it will be the biggest in the city producing an annual product value of CNYxxxxbn.
Chapter 5 Domestic company focus

China’s stock market flourished in 2007 – encouraged by the central government – benefiting domestic food companies. Domestic-listed companies such as Inner Mongolia Yili Industrial Group Co Ltd, Shineway Group, Beijing San Yuan Foods Co Ltd and Bright Foods (Group) Co Ltd all benefited. The strong stock market is encouraging domestic companies become more competitive against international brands such as Kraft and Nestlé. The Chinese central government has also encouraged other state-owned enterprises to go public.

Company profile: Inner Mongolia Yili Industrial Group Co, Ltd

Background
Inner Mongolia Yili Industrial Group Co, Ltd. is the leading Chinese dairy company by value of sales. Established in 1993, the Group is divided into five divisions: liquid milk, ice cream, milk powder, yoghurt and raw milk. There are more than xxxx Yili brand products including functional and fortified products, those aimed at children and others aimed at adults and senior consumers.

The product portfolio comprises:
- breakfast milk;
- butter;
- cheese slices;
- flavoured milk;
- fruit-flavoured yoghurt drink;
- functional milk;
- low-lactose milk;
- milk;
- milk for children;
- milk powder;
- milk-based chilled pouch pack drinks;
- school milk;
- soft cheese;
- U-sour milk beverage;
- yoghurt;
Chapter 6 Trends analysis

Introduction

It is difficult to generalise trends across a country or group of countries such as the BRICM economies because there are so many differences on a regional basis. Purchasing habits, food culture and shopping patterns vary within each country, particularly for more developing/emerging markets, where rural regions still dominate. It is typical to find a more developed retail market and a higher spend on packaged food and drink in first- and second-tier cities in China than in the surrounding areas. Rural regions offer a very different perspective and fewer opportunities for branded foods due to lower levels of disposable income to spend on food. Income, spending power and consumer tastes differ by region within each of the BRICM markets.

Premiumisation

The premiumisation of food brands in China is happening, as consumers seek to trade up to higher quality, added-value, status-boosting products. The growing middle class in China has become a strategic focus for consumer goods companies. According to consultants McKinsey, by 2011 the lower middle class will total approximately xxx people, which is equivalent to xx% of the urban population. The lower middle class is defined as households with annual incomes of CNYxxxxxx to CNYxxxxxx. By 2021, the upper middle class, with annual household incomes of CNYxxxxxx to CNYxxxxxx will reach around xxx people.

In 2006, Nestlé launched its premium ice cream brand Movenpick in China, having spotted a gap in the market for luxury food products and surging demand for indulgent premium items. The product was originally distributed in high-class hotels and restaurants in Shanghai.

China will more than double its share of global consumption of luxury goods by 2016 to almost one-quarter of world demand, according to research company TNS. Research published in 2008 shows that the sales value in China of luxury brands is growing at between xx% and xx% each year. Luxury brands are currently the preserve of the extremely rich upper-class consumers, but
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(if applicable)

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(your ref)

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Credit card expiry date:

Name on credit card:

Security code on credit card:

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