

China

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NHPNZ Summit
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NEW ZEALAND
TRADE & ENTERPRISE
Te Taurapa Tūhono

Agenda

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Consumption trends

02

Market access and online platforms

03

Viewing China through a Kiwi lens

04

Summary

Pop Quiz

Pop Quiz

How many million Chinese are affected by Type 2 diabetes

- A. 50 million
- B. 75 million
- C. 100 million
- D. 125 million

Pop Quiz

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Pop Quiz

What percentage of Chinese adults are classified as pre-diabetic?

- A. 30%
- B. 40%
- C. 50%
- D. 60%

Around 13% of Chinese medical expenditure is on diabetes.

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Pop Quiz

11 year olds that participated in a nutrition program were how many centimetres taller than the non-controlled group?

- A. 2cm
- B. 4cm
- C. 6cm
- D. 8cm

Pop Quiz

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Pop Quiz

China has approximately how many million smokers?

- A. 200
- B. 300
- C. 400
- D. 500

100,000 deaths per year linked to second-hand smoke inhalation

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Policy “Healthy China 2030”

- Aging population and increases in chronic diseases...
- Self-care for improved individual health and sustainable healthcare
 - *Healthy lifestyle choices, including physical activity and healthy eating*
 - *Effectively using pharmaceuticals*
 - *Self-diagnosis, which involves making an assessment of symptoms based on access to proper information and self-care learning tools and – when properly informed – maintaining health with the responsible use of self-care medicines*
 - *Access to tools that improve health literacy, nutrition, overall wellness, and the prevention and management of chronic diseases*
- Advance healthcare access and reduced hospital and emergency care costs

Policy “Healthy China 2030”

- Focus on the health of all citizens for all of their life
- 5 core pillars
 1. Health level
 2. Health life
 3. Health services and health security
 4. Environmental health
 5. Health industry
- Measurements of success
 - Life expectancy and infant mortality rates
 - Premature mortality as a result of non-communicable diseases
 - Number of registered doctors per patient

#1 Consumption Trends

Where is the growth coming from?

Class equivalent		Minimum material conditions	Defining spending category	2015	2025
Upper	Premium	Resources to plan and invest in future	Portfolio investment, tertiary education	20m	65m
Upper middle		All goods and services	PCs, smartphones, recreation, credit cards	40m	114m
Middle		Basic household facilities, comfortable living space	Cars, microwave ovens, DVD players	68m	151m
Lower middle	Mainstream	Minimum healthy living space and sanitation	Kitchen sinks, showers	205m	316m
Lower		Formal living space	Mobile phones, home flooring, washing machines	300m	325m
Marginalised		None	Food and beverage, utilities, public transport	748m	449m
Total				1,381m	1,420m



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Source: Economist Intelligence Unit

Te Taurapa Tuhono

Nutritional health – overview

- The Programme for Food and Nutrition Development (2014-2020) indicates that the State will actively raise the nutrient intake of its people, and will make the development of health food and nutrient fortified food one of the priorities.
- China Health Care Association research shows that more than 50% of health food purchases in China are by the middle-aged and the elderly.
- The current consumer market of China's elderly population is estimated to jump from RMB4 trillion to RMB106 trillion by 2050.
- Health food production in China is concentrated in the six coastal provinces/cities of Beijing, Guangdong, Shandong, Shanghai, Jiangsu and Zhejiang, accounting for half of the national total.
- As of June 2016, CFDA had approved a total of 16,573 health food products, of which 15,822 were domestic and 751 were imported

Nutritional health – overview

- Over 4,000 traditional Chinese medicine hospitals and 40,000 TCM clinics that had over 910 million visits nationwide last year.
- Can foreign brands build their product lines using TCM elements?
- An example of a foreign brand making a move in the TCM space is Blackmores. In 2016, the Australian Nutraceutical company acquired Global Therapeutics, Australia's leading Chinese herbal medicine retailer who owns the Fusion and Oriental Botanicals.
- Due to environmental contamination and soil pollution, many herbs that are farmed in China contain toxic levels of heavy metals and chemicals which has a detrimental effect on the exportability and medicinal properties.
- This trend is causing strong demand from big China based pharma companies for foreign grown/sourced raw materials.

Nutritional health – overview


- Rising consumer awareness in China has stimulated demand for Nutraceuticals as consumers become more health conscious and adopt a healthy diet routine
- The use of functional foods in China has seen strong growth, especially those that support **heart, sleep and digestion**.
- Health food market, which includes vitamins, dietary supplements, animal and herbal extracts and TCM is forecasted to grow 10% every year until 2025.
- Complementary medicines are seeing strong growth among China's large ageing population who seek to manage specific conditions and ailments.
- Product range diversification is another strategy leading nutraceutical companies are using to engage with more sophisticated and educated Chinese consumers.

Nutritional health – online insights

- Demand for **plant-based protein-enriched functional foods** and beverages seems to be driven by the **younger male Chinese**.
- Recent Mintel research reports that one third (31%) of Chinese consumers associate healthy snacks with 'high in protein', and that the demographic skews towards male consumers aged 25-29 (42%).
- According to a Taobao.com and CBN Data report women aged 22-50 account for about 60% of total health food sales, while the share of sales to young females (aged 18-28) is gradually increasing.
- **Beauty, weight loss, blood replenishment, bowel movements and detoxification** are the main benefits this group seeks.

VMS current online market-sizing...

In Terms of VMS...



**RMB 15 Billion
Online Market**

**21%+
Online Growth**

**37% of Online Sales
by Top 20 Brands**

Nutritional health – online insights

- Between January and July 2017, online nutritional health market sales revenue has been RMB 8 billion across Tmall, JD, Kaola, Tmall Global and Taobao with an average monthly growth rate of 14% month on month. Spike in sales is 6.18.
- **Protein powders, calcium, soybean extract, compound vitamins** most sales
- NZ sales of nutritional health products were stable H1, 2017, spike on 6:18
- Majority of **nutritional health products** (31%) are priced between **RMB 50 –100**.
- Compared to other categories' price range of nutritional health is spread.
- Common for nutritional health products to be sold as a multi-pack
- Discounting protein powders, capsules and tablets
- Most common nutritional pack sizes were 500g and 1000g
- Foreign brands pack-sizes were priced much higher than that of domestic

Search terms (Baidu)

- Consumers using 5 nutritional health key search terms:
 - “Nutraceuticals”
 - “Vitamins and Minerals”
 - “Proteins and Amino Acids”
 - “Dietary Fibre and Carbohydrate”
 - “Marine Biological and Extractions”
- Still searching from GD, BJ, ZJ, JS, SH & SD
- Still aged between 30-49.
- Still predominantly female, with some minor category exceptions...

Big data and modern retail...

Continuous Integration between Big Players



¥ 28.3 billion & 1.09% stake



Suning's:

- Offline resource
- Advantage in 3C categories

Alibaba's

- Huge traffic and ecosystem



5% + 5.8% Share



Walmart's:

- Advantage in supply chain & cat-man
- YHD's equity

JD's

- Huge traffic and distribution networks



Opens Electronics Store



RT-Mart's:

- Advantage in FMCG categories

Gome's

- Advantage in 3C categories

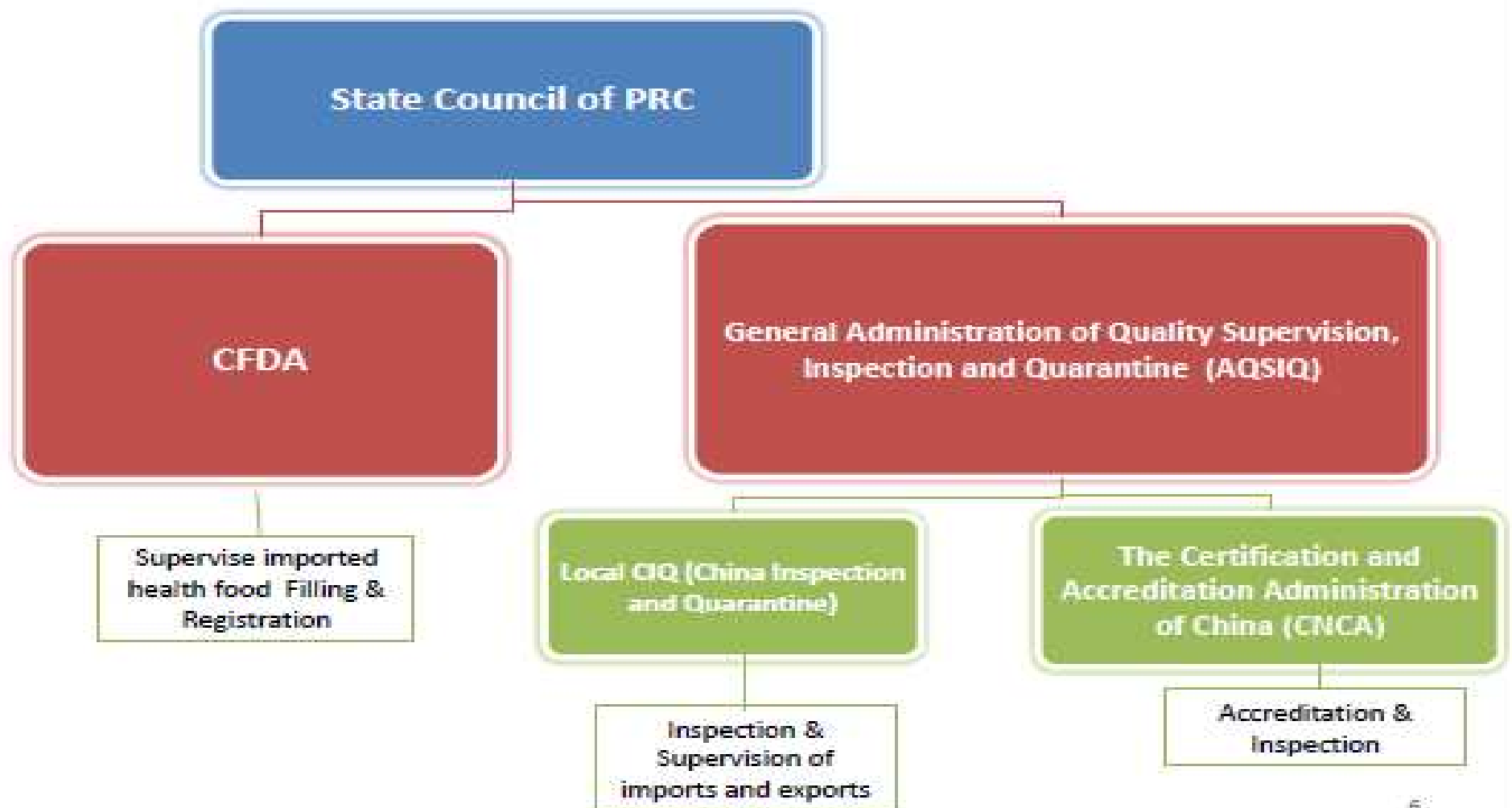
#2 Market access and online platforms

Regulations

- Health food regulations released in February 2016.
- Registration and record filing of health foods took effect in July 2016 with a twin-track system of registration and notification for different categories.
- List of pre-approved ingredients. If ingredients of a health-food product have been pre-qualified, record filing becomes sufficient for approval of that product. Previously there was a complicated registration approval procedure. All other health-food products will be subject to centralized registration through the CFDA.
- 13th Five-Year Plan the Chinese government made health a priority with a suite of national initiatives supporting complementary medicines.
- Health claims on nutraceutical products have become more standardized and credible, with regulations prohibiting products from claiming they can cure illnesses.

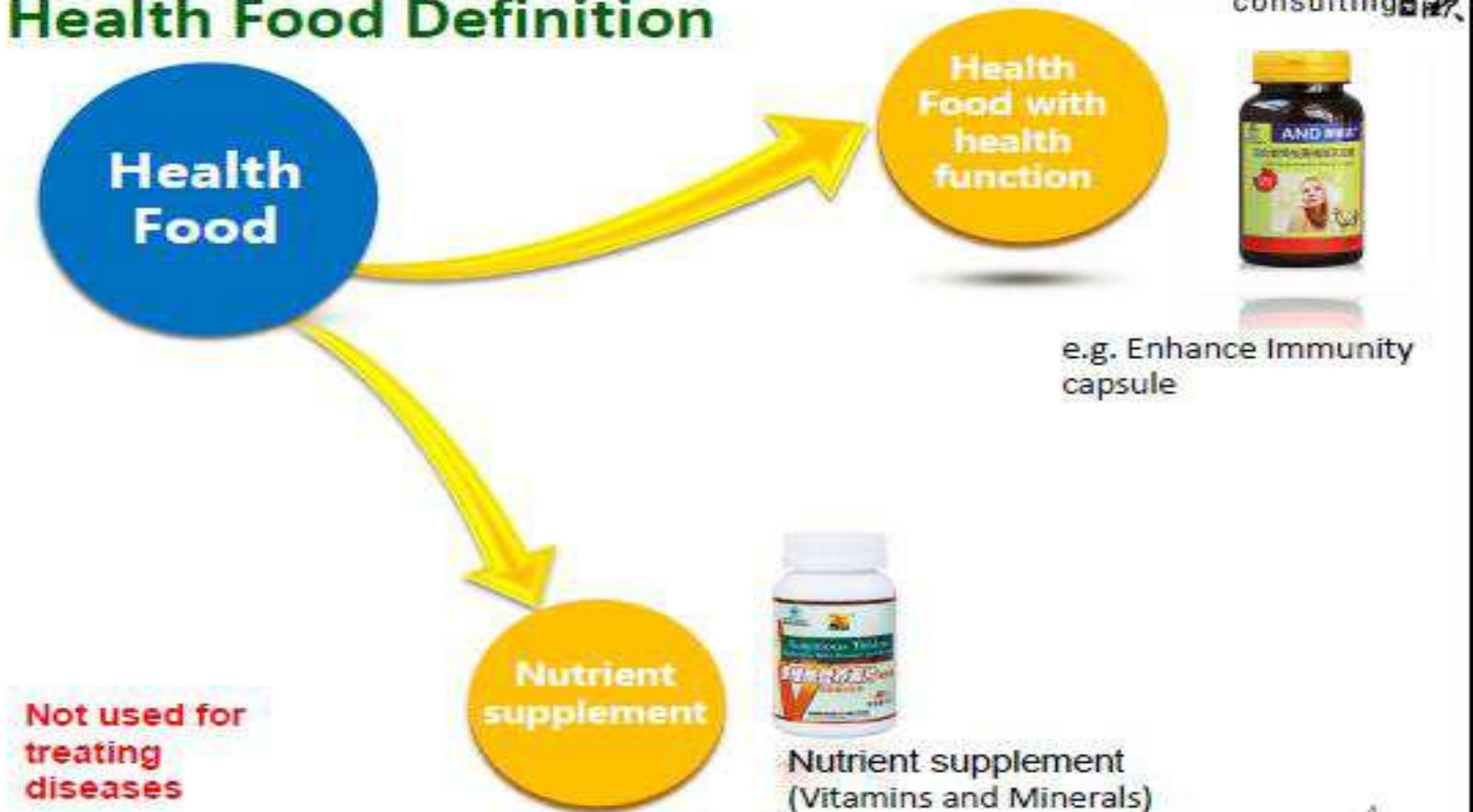
Agencies involved...

Government Bodies



With function or without?

Health Food Definition



Health food filing..

Filling- Raw Material Catalogue

22 categories (67 compounds) of nutrients:

- Vitamin C, Vitamin K, Vitamin B6, Vitamin B12
- Pantothenic acid, Folic acid
- Biotin, Niacin, Calcium, Magnesium , Potassium, Iron
- Others

Health food registration...

27 Functional Claims Catalogue

- | | |
|-------------------------------------|--------------------------------------|
| 1. Enhance immunity | 13. Reduce blood fat ★ |
| 2. Improve sleep | 14. Reduce blood glucose ★ |
| 3. Protect chemical liver injury | 15. Antioxidant ★ |
| 4. Increase anoxia endurance | 16. Improve memory ★ |
| 5. Increase osteoporosis | 17. Facilitate lead removing ★ |
| 6. Prevent from radiological hazard | 18. Throat clearing ★ |
| 7. <i>Relieve Physical Fatigue</i> | 19. Reduce blood pressure ★ |
| | 20. Facilitate lactation ★ |
| | 21. Lose weight ★ |
| | 22. Improve growth and Development ★ |
| 8. Relieve asthenopia ☆ | 23. Improve alimentary anemia ★ |
| 9. Remove acne ☆ | 24. Adjust intestinal flora ★ |
| 10. Remove chloasma ☆ | 25. Improve digestion★ |
| 11. Improve skin oiliness ☆ | 26. Relax the bowels ★ |
| 12. Improve skin moisture ☆ | 27. Protect Gastric Mucosa ★ |

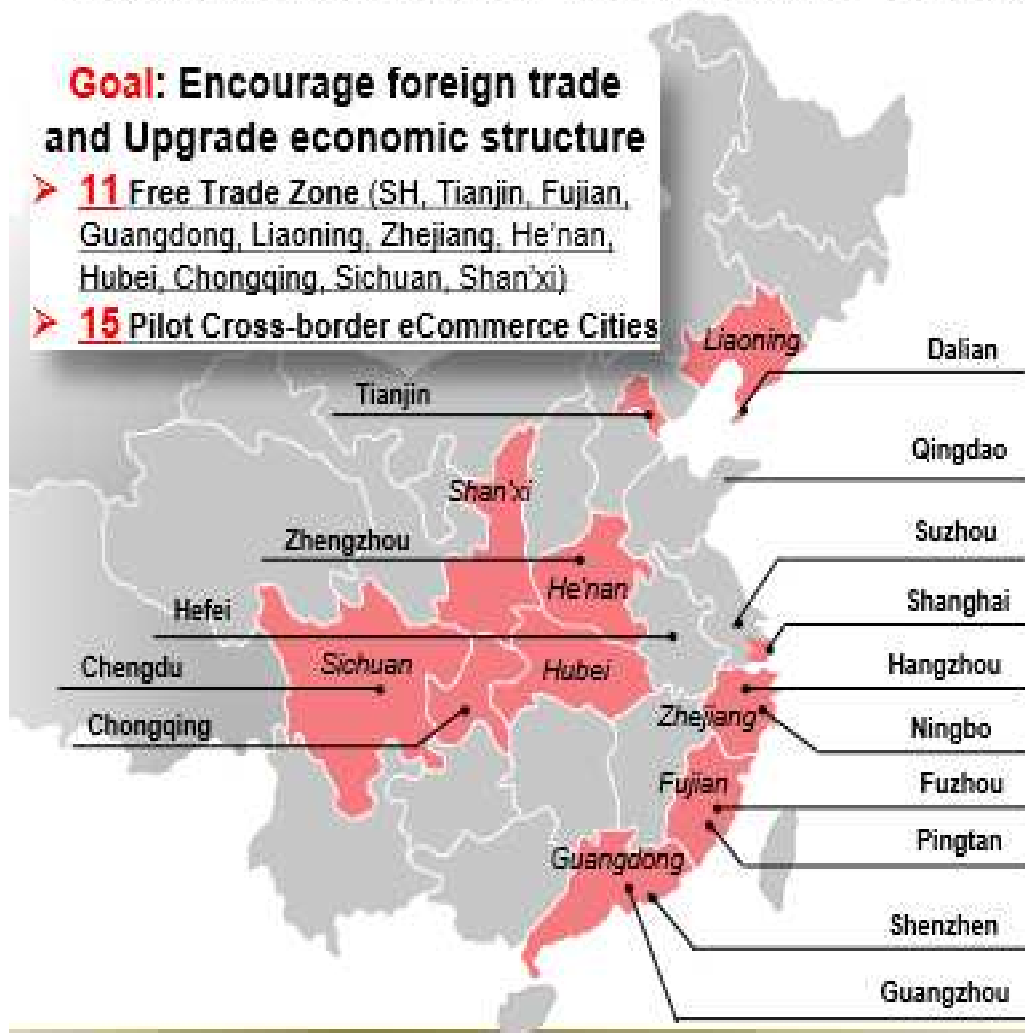
★ Animal functional test and human functional test
☆ only human functional test, no animal functional test
- All require animal testing

Seemingly good news but time will tell

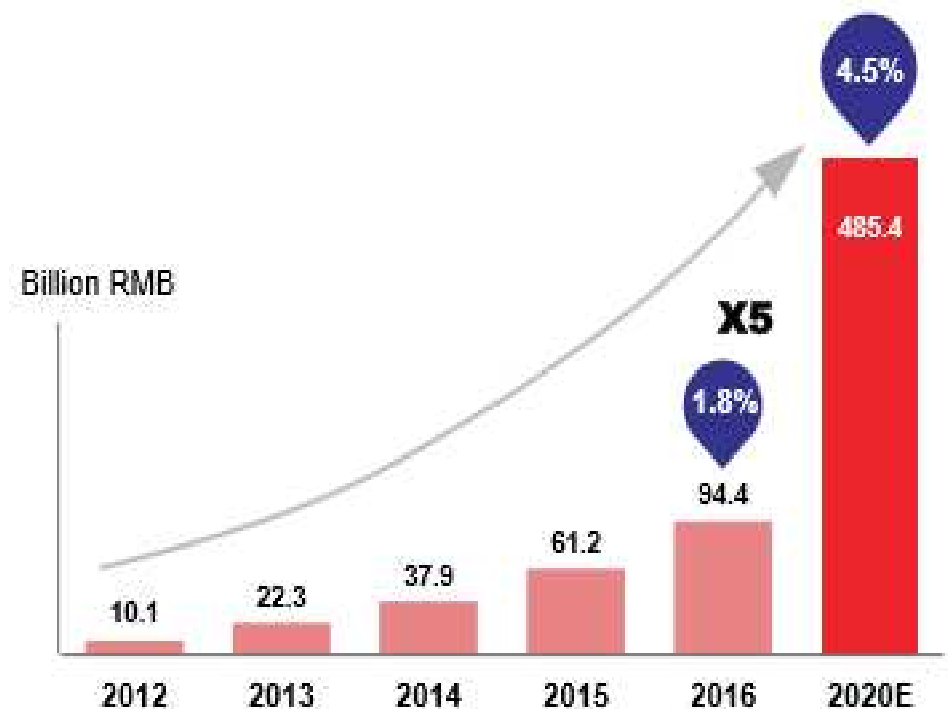
China Cross-Border eCommerce To Rise Five-Fold to 2020

Goal: Encourage foreign trade and Upgrade economic structure

- **11** Free Trade Zone (SH, Tianjin, Fujian, Guangdong, Liaoning, Zhejiang, He'nan, Hubei, Chongqing, Sichuan, Shan'xi)
- **15** Pilot Cross-border eCommerce Cities



Import B2C Cross-Border eCommerce GMV



CBEC policies: 8 & 15 April 2016

Positive Lists (Filing and Registrations)

- Two positive lists were co released by eleven ministries and commissions on 8th April and 15th April respectively and the two lists cover 1293 products/categories.
 - The interpretations of some of the products vary from bonded warehouse to bonded warehouses due to interpretation controversy and misunderstandings
 - The remarks made to “health food categories” and “skin care products” made a huge impact on the relevant exporters who solely rely on CBEC as the remarks imply that
 - The majority health foods and skin care products will not be allowed to trade through CBEC anymore.
 - Cosmetics which were never previously imported into China via General Trade and registered with the State Food and Drug Administration (SFDA) are not allowed to be traded via CBEC bonded warehouse mode.
- **Market disruption ensued. In early May 2016 it was announced that full implementation initially delayed until 11 May 2017.**

CBEC policies

Extended Transitional Period

17 March 2017

- Ministry of Commerce extend the “transitional period” for supervision of cross border e-commerce business to consumer imports to **1 January 2018**. **CBEC B2C imports would be temporarily “supervised” as being “personal parcels”**

20 September 2017

- Premier Li Keqiang, further extension of the “transitional period” for supervision of cross border e-commerce business to consumer imports to **31 December 2018**.
- Some stability...but nothing definitive...

Commentary

- Particularly frustrating for skincare and vitamin or health supplements companies. Breakfast cereals. Relates to the joint announcement in April 2016 to impose stricter measures on CBEC (Positive List and product registration and/or labelling). China is still reluctant to confirm its long-term position on how to manage the cross border e-commerce business, yet trying to avoid the market disruption that agencies caused in April 2016

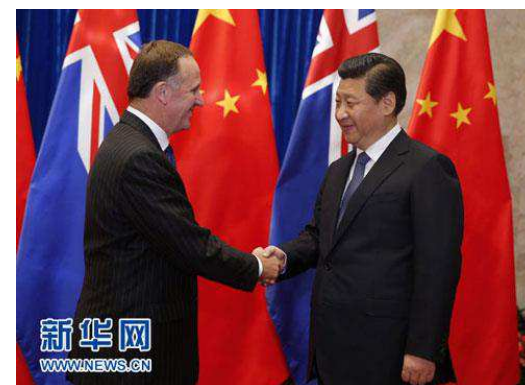
The answered question...

CBEC Policy Swings and Remains Uncertain after 2018



Can an upgraded bi-lateral FTA help?

- Ambitious two-way trade target of NZ\$30 billion by 2020
- Only around 60% of NZ exports to China were benefiting from tariff preference. In contrast, 100% of China's exports now benefited from tariff-free access to NZ
- 2017: R1 April in Beijing; R2 July in Beijing; R3 December in Beijing...R4 TBC
- 9 areas with working groups: technical barriers to trade, customs and trade facilitation, rules of origin, services, electronic commerce, competition policy, government procurement, environment, and agricultural cooperation
- Any mismatch in ambition? Substantive gains versus pragmatism.
- Credible upgrade? Addressing dairy safeguards...



The ecosystem still dominated by TWO large and highly competitive families

		
ECOMMERCE	 	
SOCIAL		 
VIDEO	 	
PAYMENTS		
Bike-Sharing		
Meal Delivery	 	

Several platforms to consider...



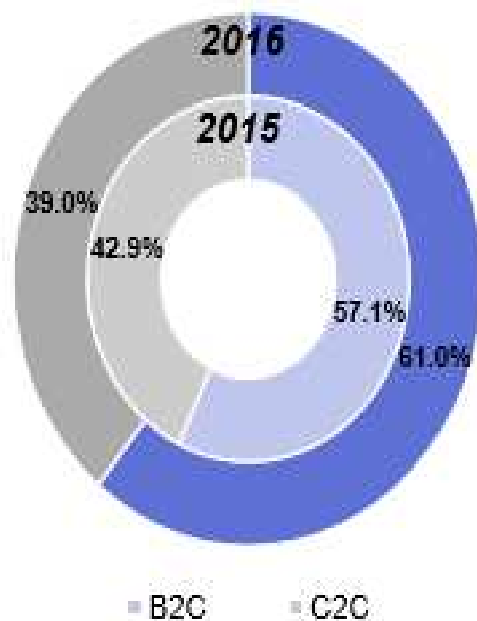
Cross-border E-commerce Key Players (Retailers) 2017 Q4



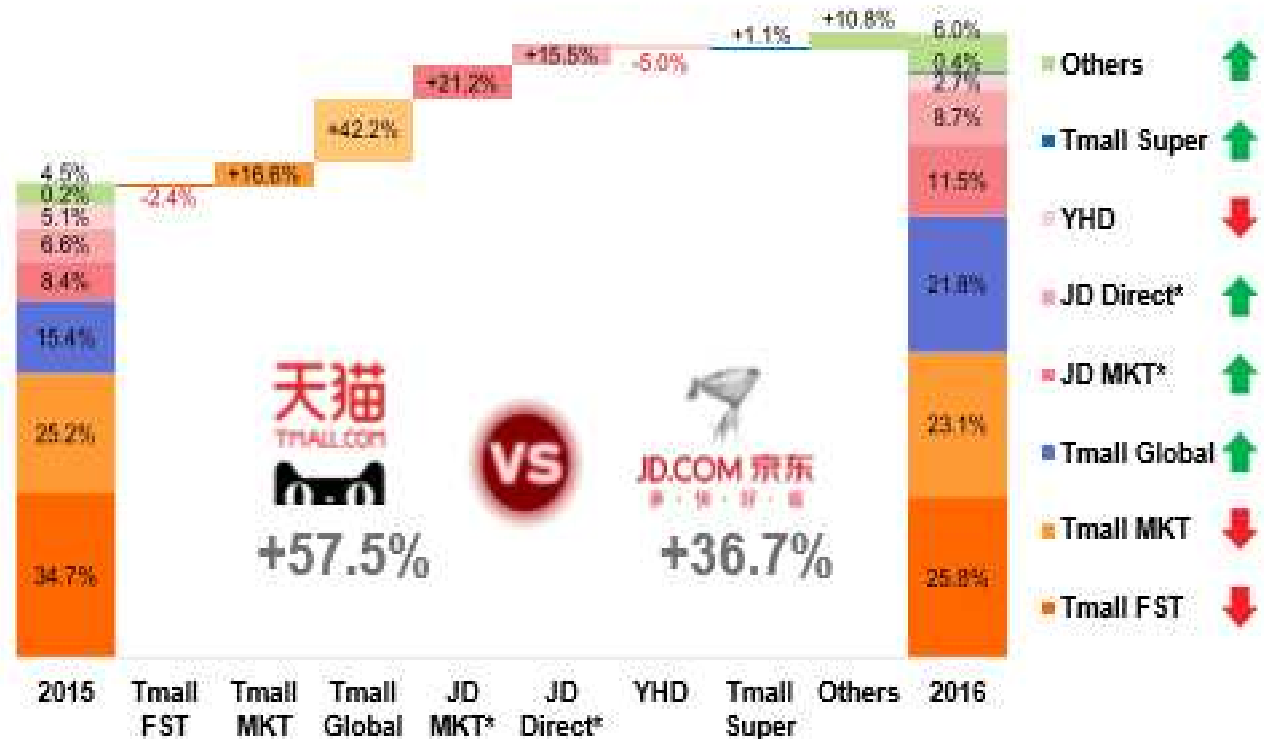
VMS and online market spaces

Online VMS B2C Market is Gaining Share and Mostly Contributed by Tmall

Total eCommerce Channel Distribution



B2C eTailer Distribution



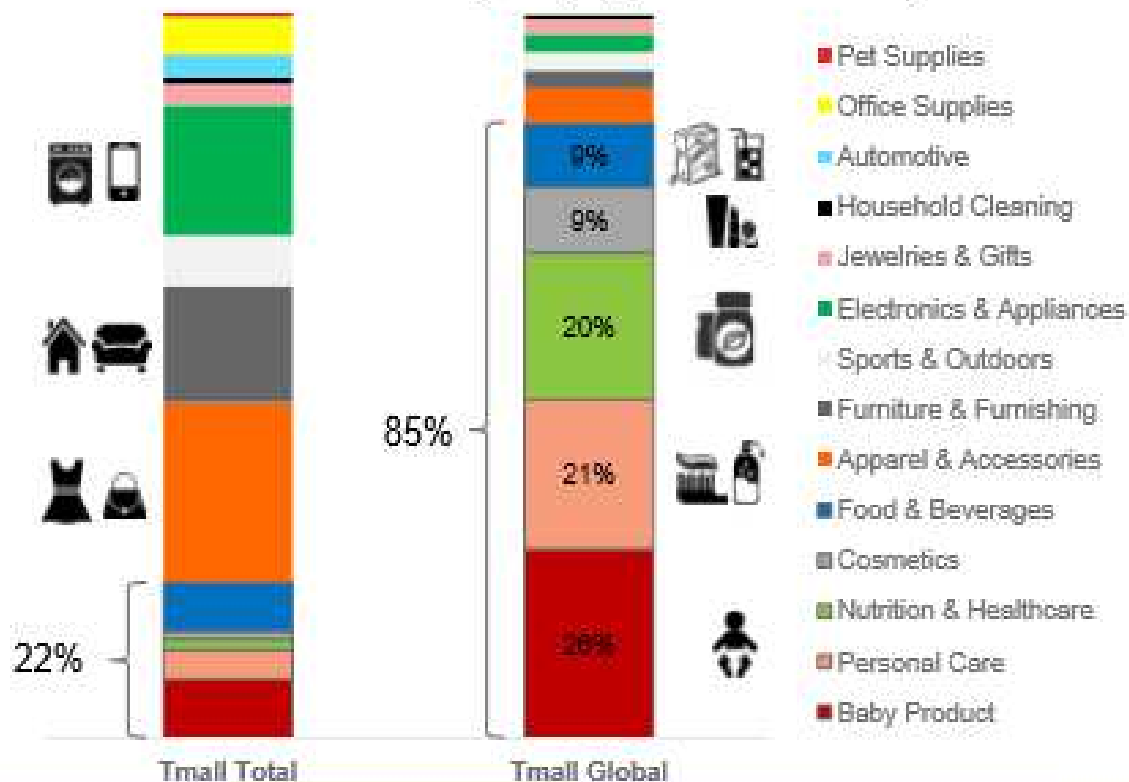
* JD Direct and JD MKT has included JD Global

Tmall and VMS growth

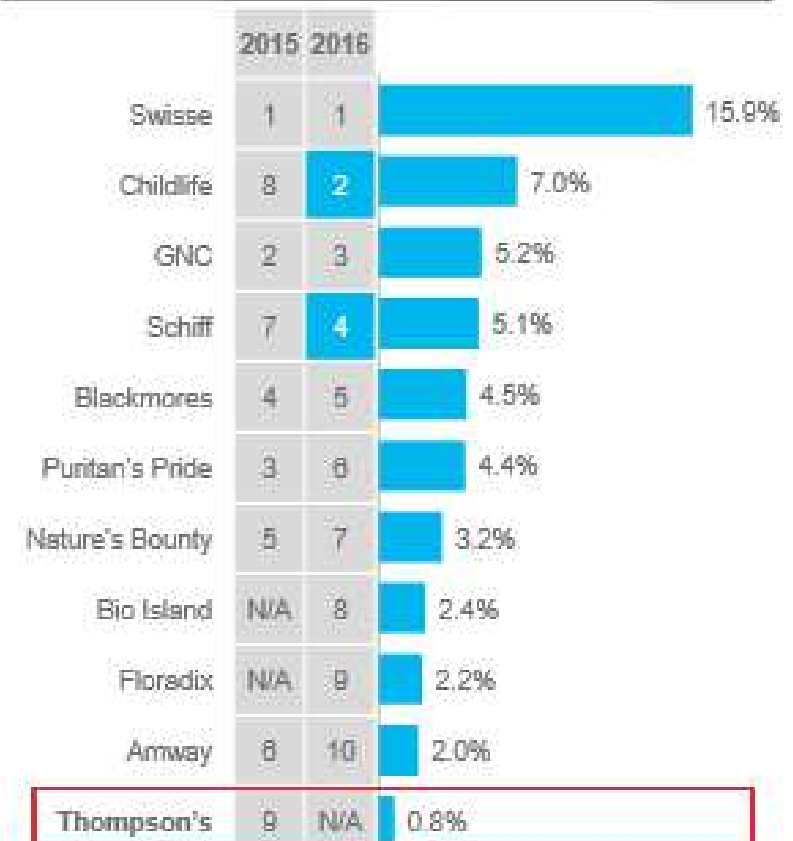
Tmall Global is a Main Driver for VMS Incremental Sales in Tmall

Nutrition as No.3 Category in Size on Tmall Global

Overall Sales Breakdown by Category (Tmall vs Tmall Global)

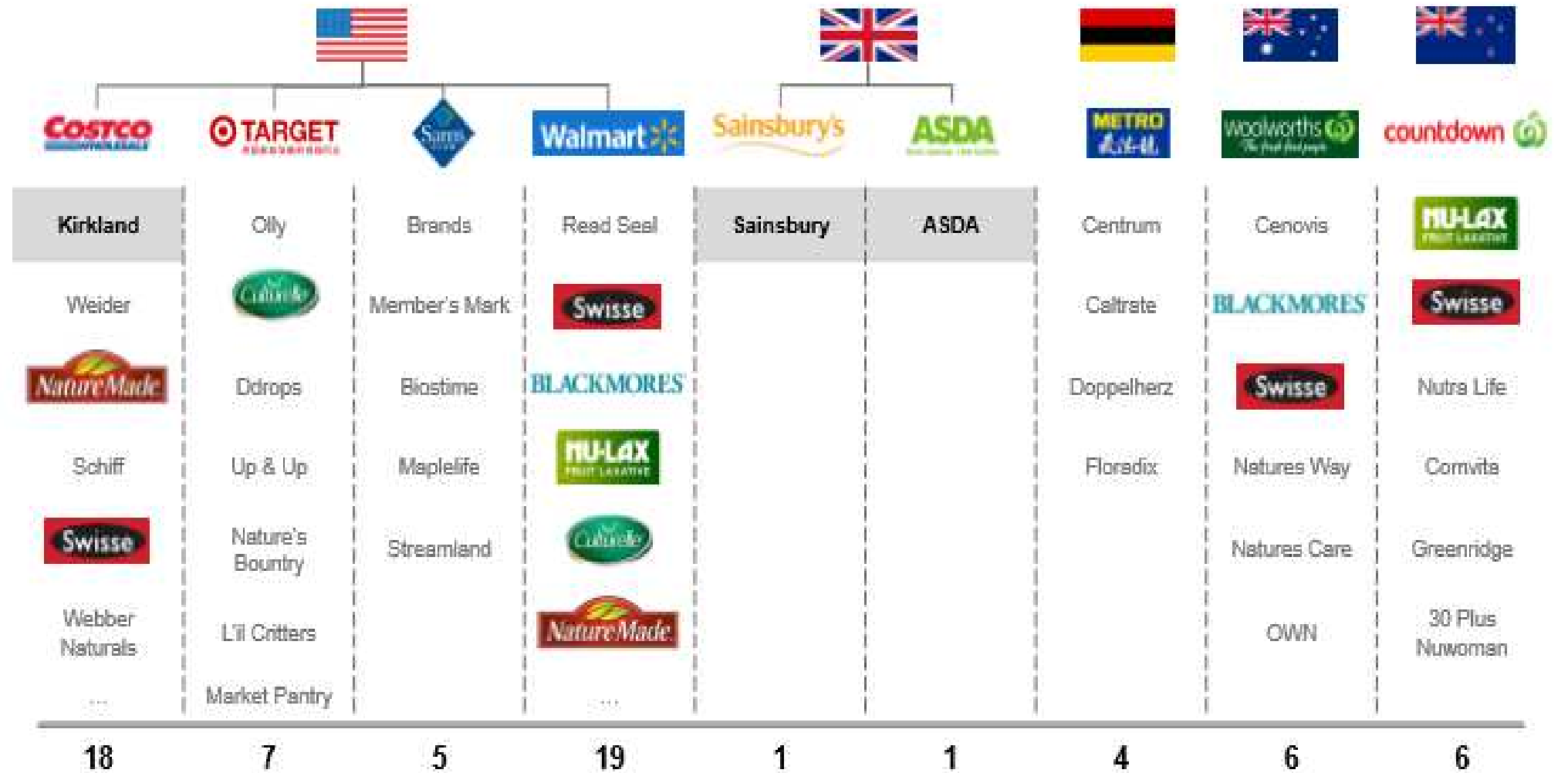


VMS Top 10 Brand Ranking in Tmall Global



International players online

Plenty of VMS Brands Sold in International Retailers



Retailers' Private Label

Content and social commerce

Contents → Content Relevant Products (Self-run eCommerce)



格格家

- Gegejia, is growing from famous food KOL to the largest cross-border vertical food eCommerce



100K



- Gegejia Has already set up cooperation with health food manufacturers



薄荷

- Successful stories of losing weight
- Knowledge of weight control



1.5 million



- Healthy diet food and beverage
- Intelligent hardware
- Sports gear



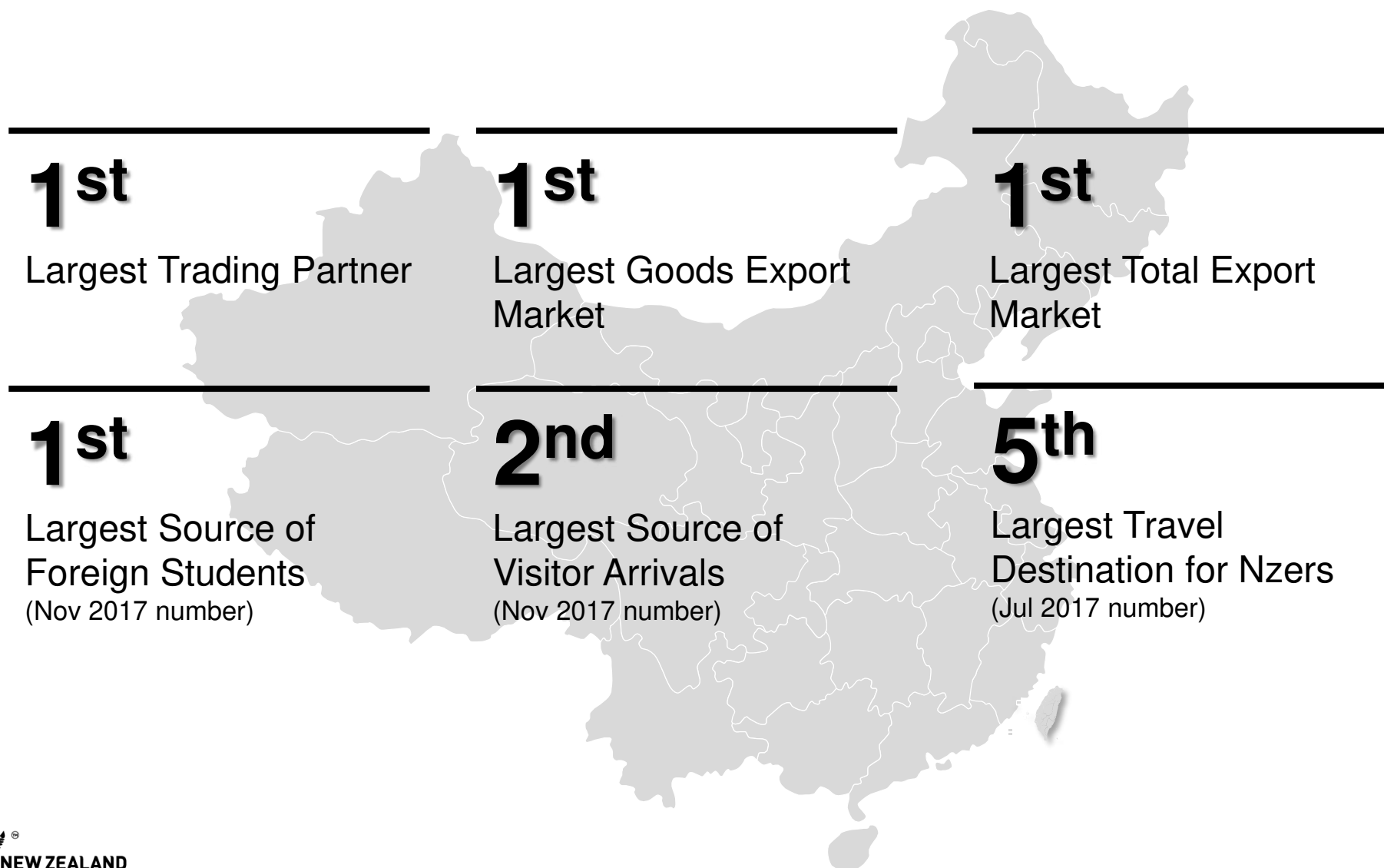
Summary: Market spaces and VMS

Market Space	Leading Brands	Remarks
Tmall.com	By-Health, Xiu Cheng and Muscletech	<ul style="list-style-type: none"> Swiss Collagen liquid, Calcium and Vitamin D tablets and Protein Powders are the most popular items across all platforms Kaola self-run store versus brand store Calcium has experienced the most sales over the past 6 months, which is followed by Vitamin E, Zinc and Vitamin D.
JD.com	By-Health, Swisse, Tong Ren Tang	
Kaola (CBEC)	Swisse, Blackmores and Floradix	
Tmall Global	Swisse, Move Free & GNC (Chemwarehouse was the top store, ahead of Swisse)	
Taobao.com	Swisse, Herbalife and Blackmores	

#3 Viewing China through a Kiwi lens

Trending positive...

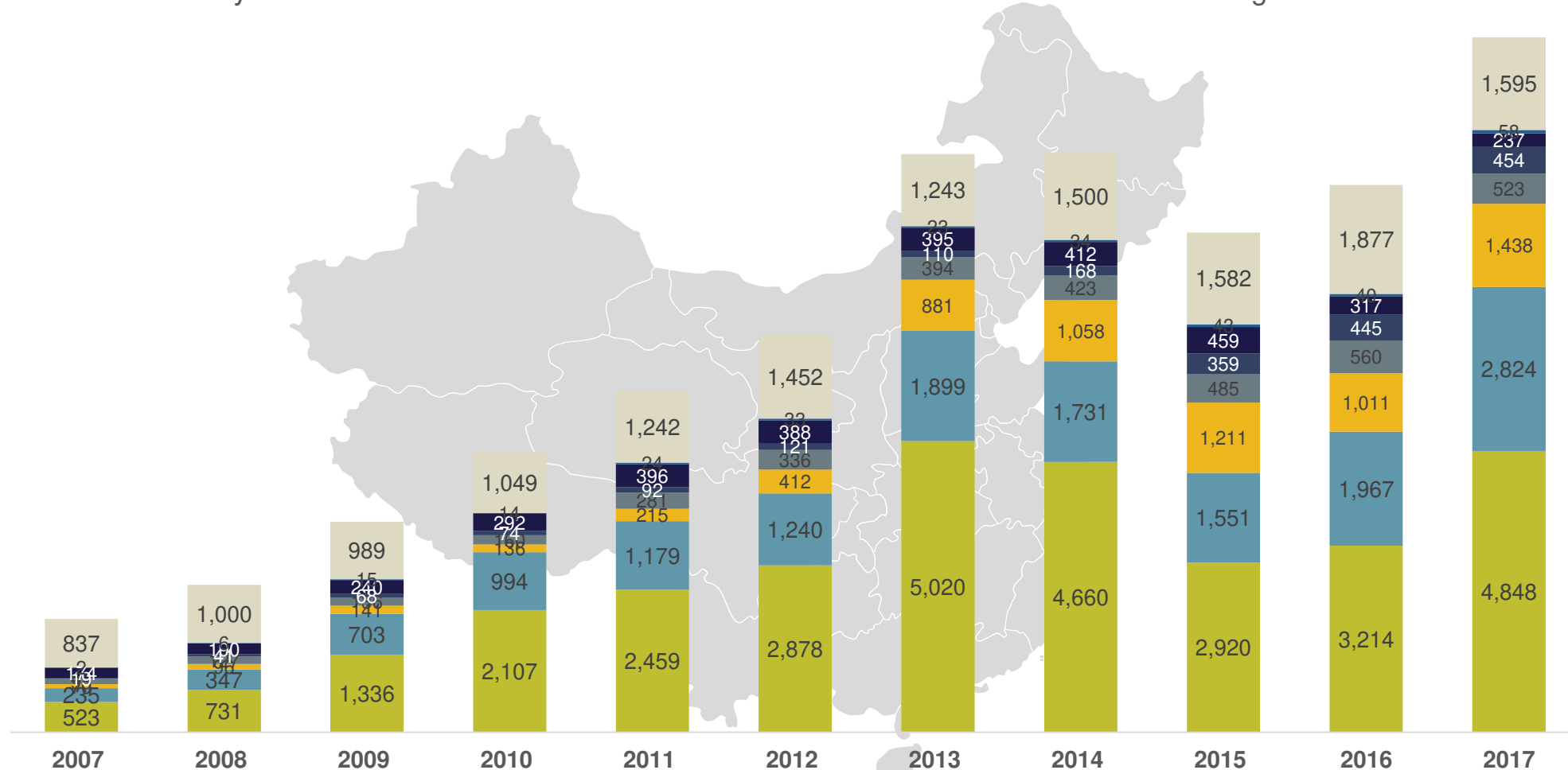
China is New Zealand's...



A primary sector story...but brand building

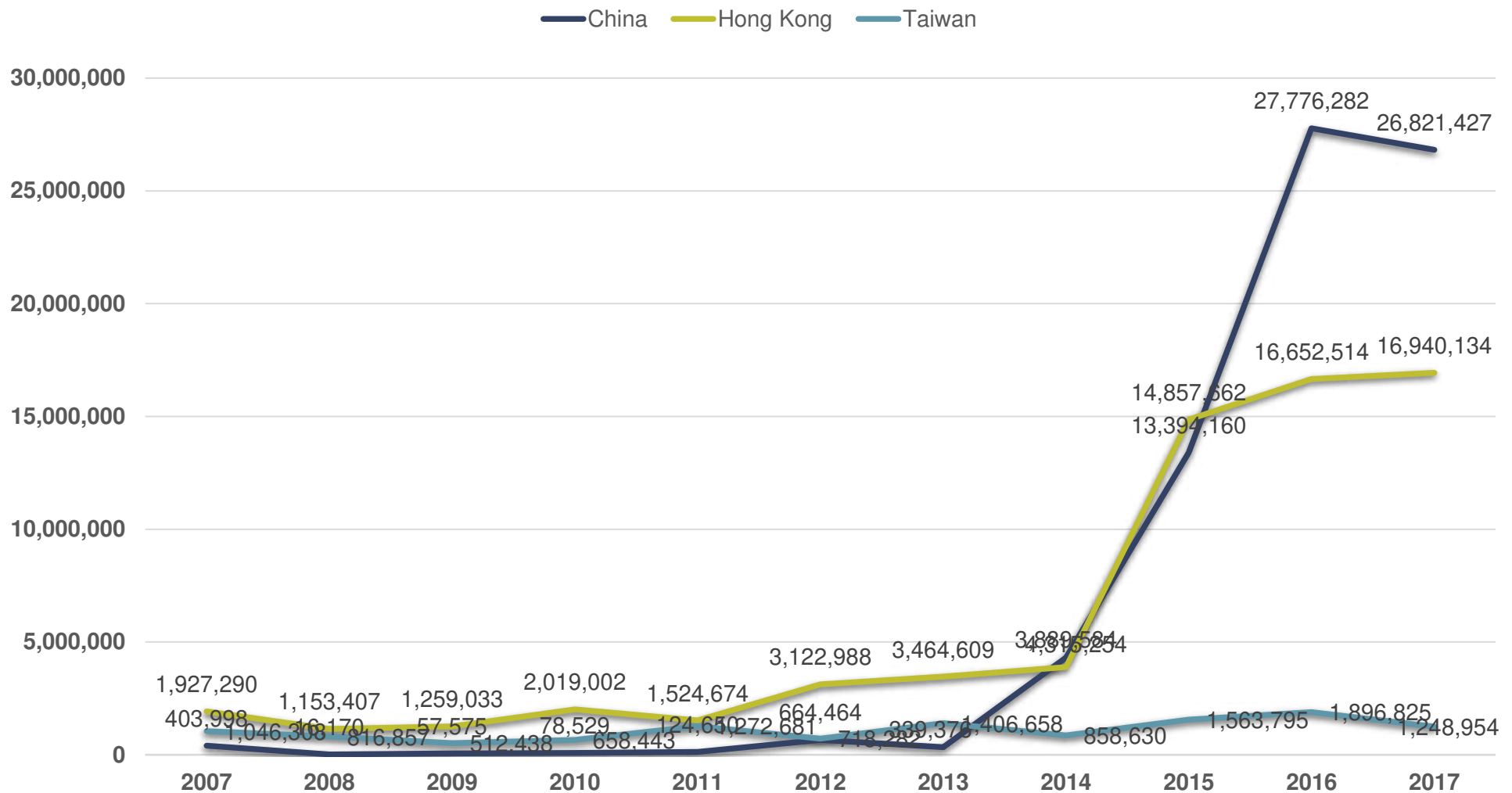
Goods Exports To China by Sector Trend (\$million NZD)

■ Dairy ■ Wood ■ Meat ■ Fish & Seafood ■ Fruit & Nuts ■ Wool ■ Beverages ■ Others



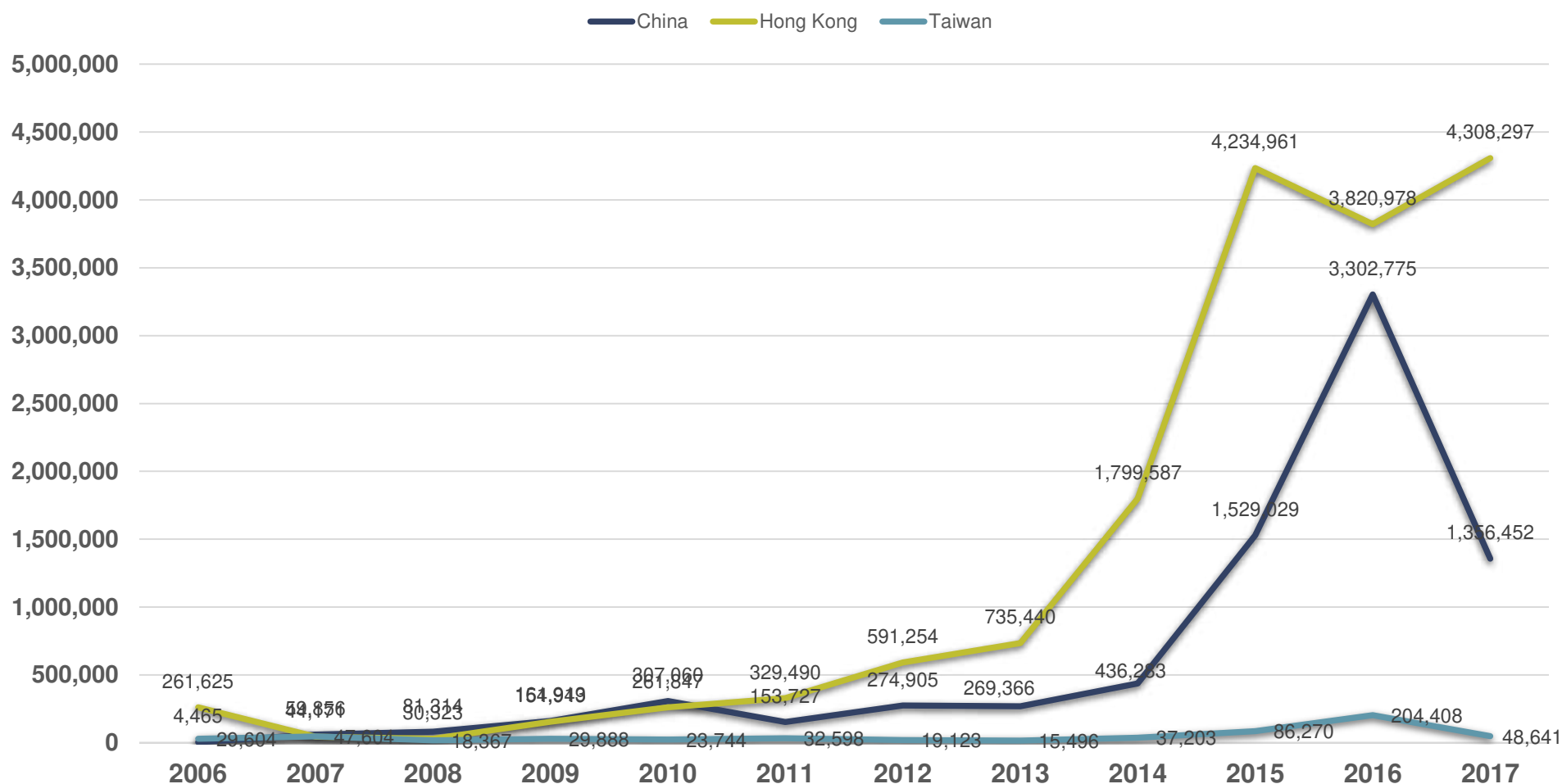
A meteoric rise, but now on pause?

New Zealand Export Statistics - **3304, Beauty Or Make-Up And Skin-Care Preparations**
(Value NZD - Year Ending: Dec)



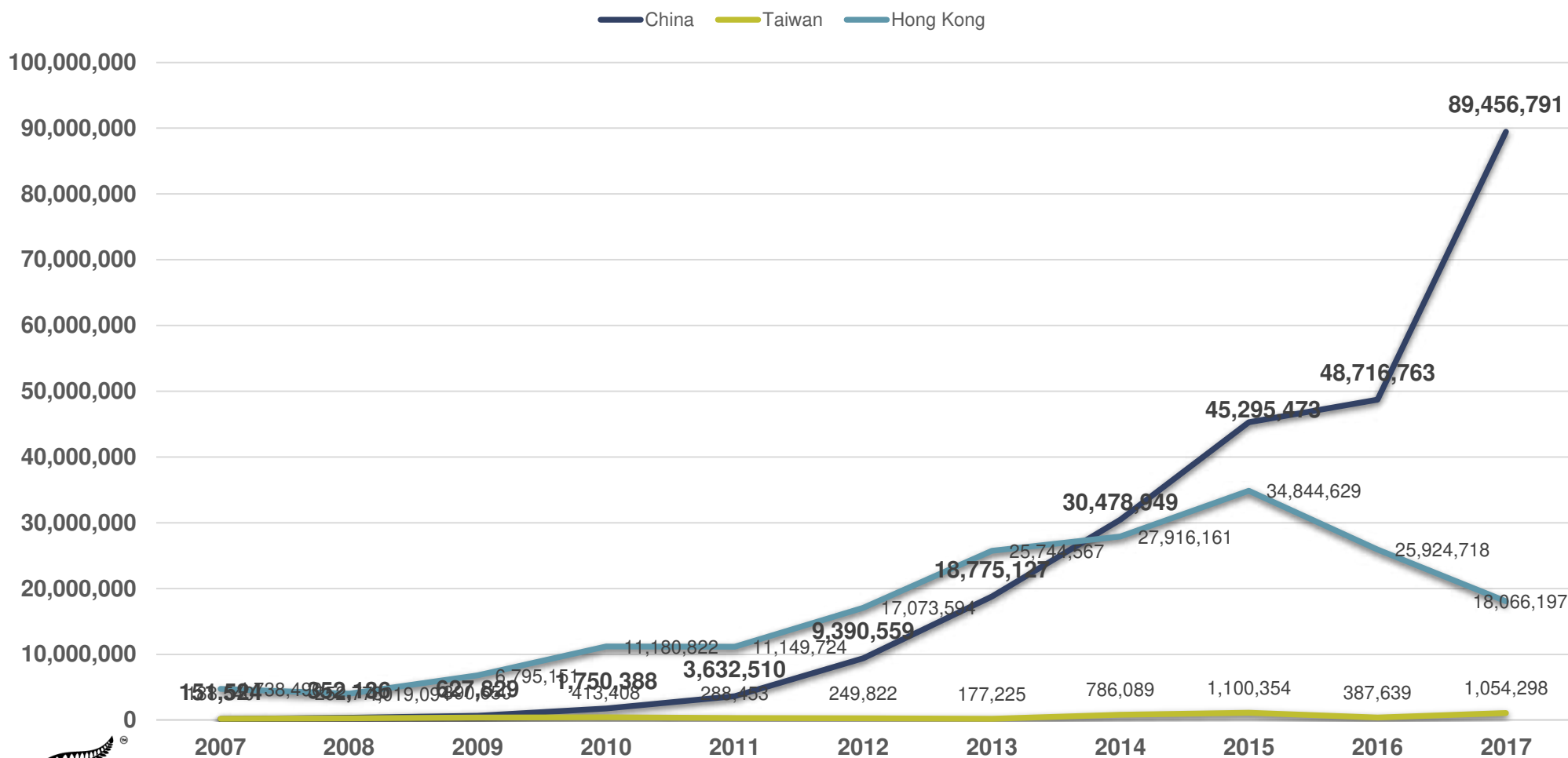
Fingers crossed for a rebound in 2018...

New Zealand Export Statistics - 3401, **Soap** (Value NZD - Year Ending: Dec)



Some busy bees...

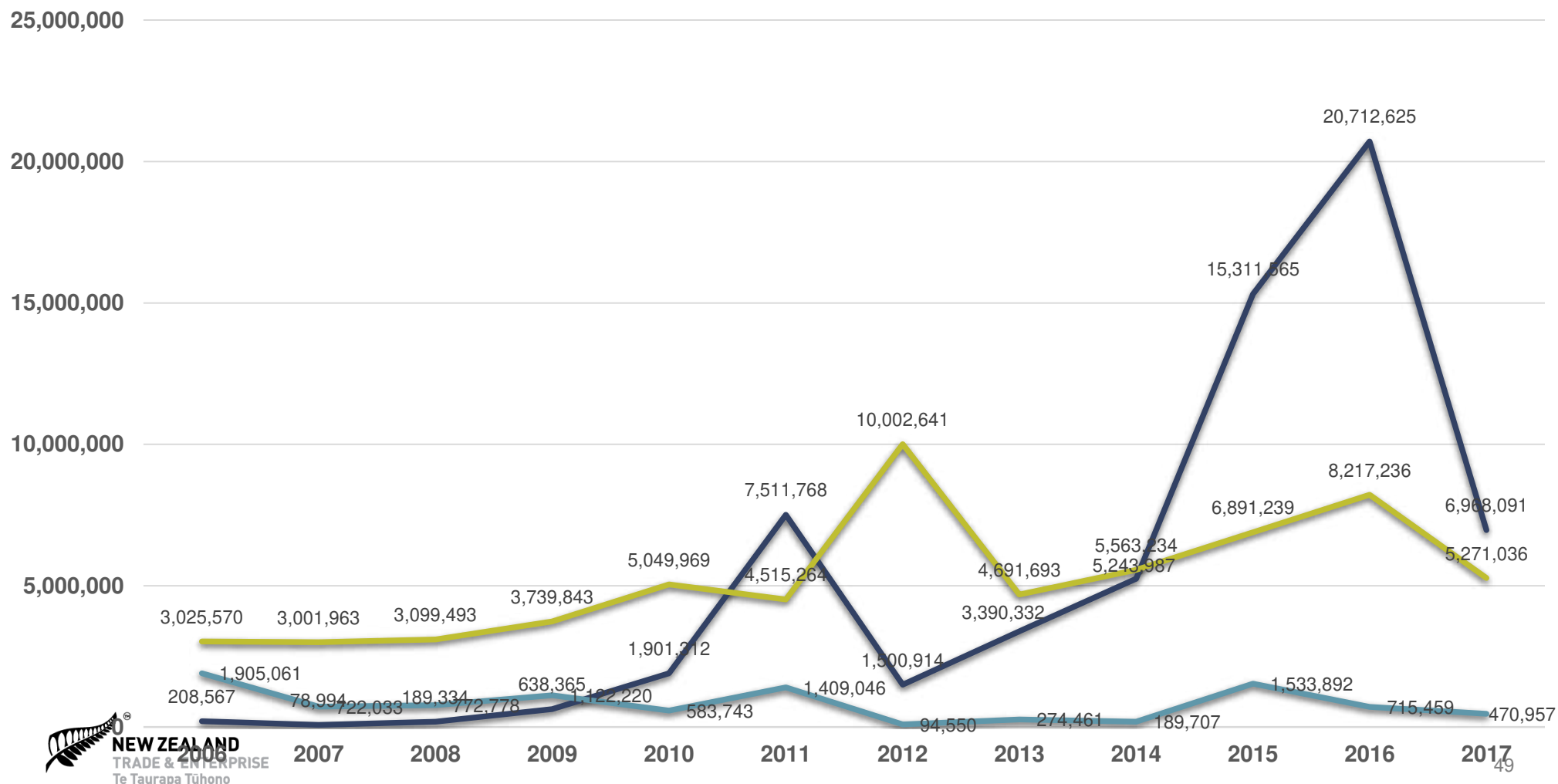
New Zealand Export Statistics - 0409, Honey, Natural (Value NZD - Year Ending: Dec)



Bad data or something more worrying...

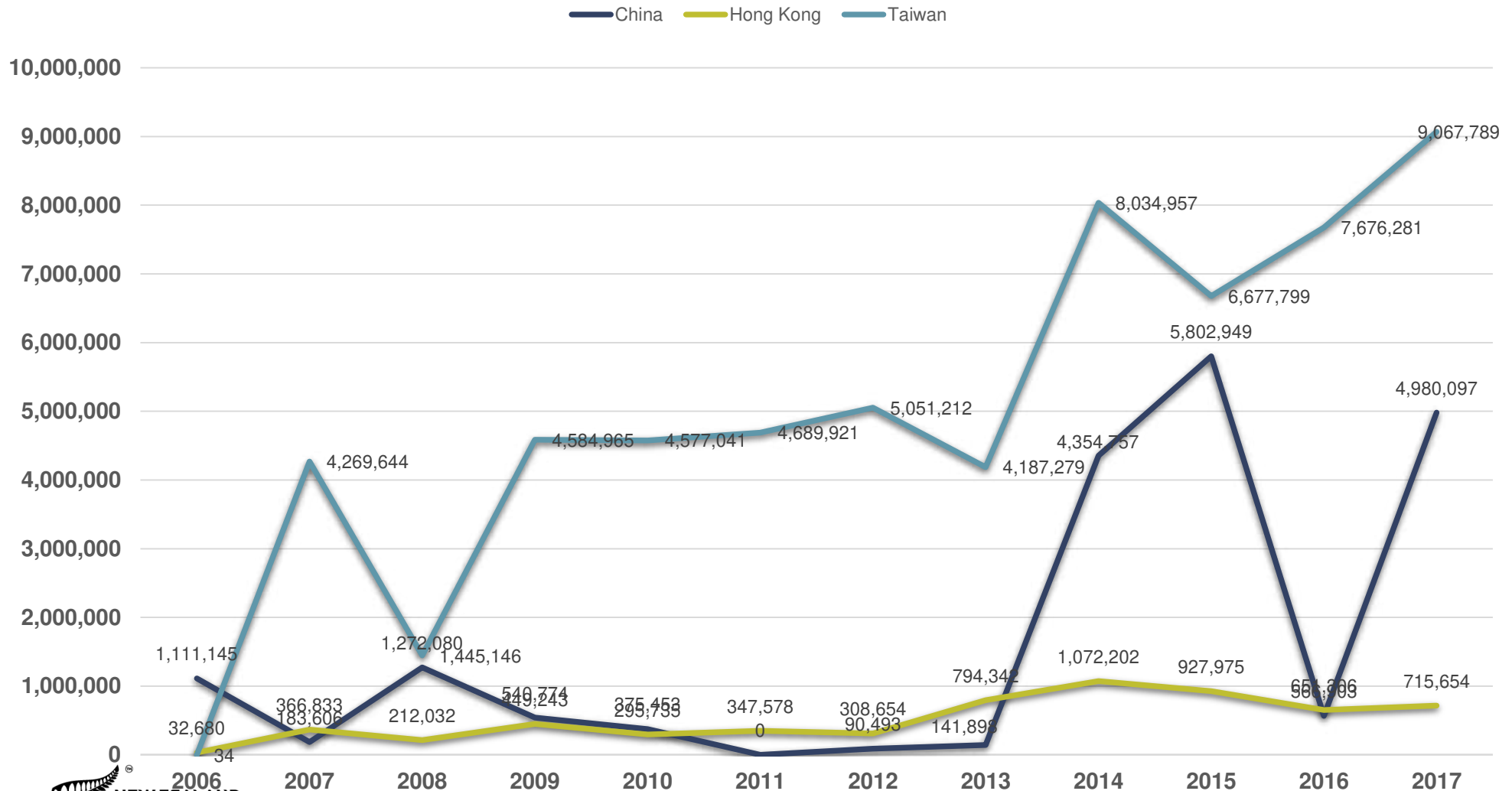
New Zealand Export Statistics - **3004, Medicaments** (Value NZD - Year Ending: Dec)

China Hong Kong Taiwan


























































A data correlation to the previous slide?

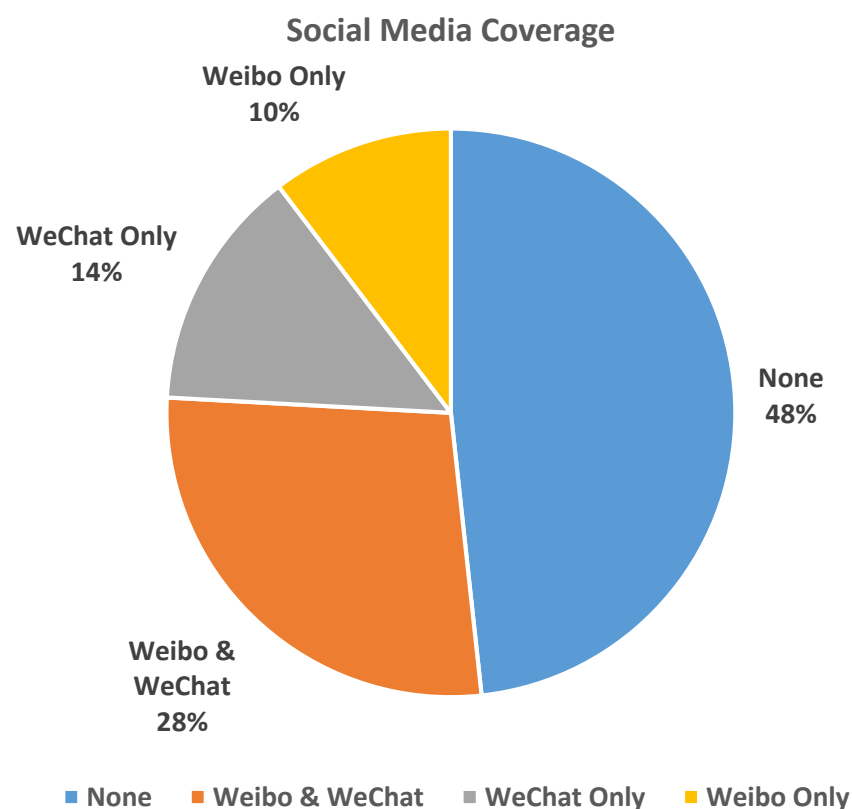
New Zealand Export Statistics - **293690, Vitamins** (Value NZD - Year Ending: Dec)



New Zealand brands and market spaces..

Platform & Sector	Tmall Global (Hangzhou)	Tmall Domestic (Hangzhou)	VIP.com (Guangzhou)	JD.com (Beijing)	Netease Kaola (Hangzhou)
Dairy	 	   		   	 
F&B	      	    	    	   	 
Wellbeing	  		 	 	  
Personal Care	    		 		 

New Zealand social media via Weibo...



Rank	Legal Name	Weibo Fans
1	Zespri International Limited	387,983
2	Easiyo Products Limited	194,847
3	Fonterra Brands (New Zealand) Limited	145,809
4	Comvita New Zealand Limited	53,396
5	Goodman Fielder New Zealand Limited	38,714
6	Vitaco Health Limited	29,430
7	Nouriz Limited	15,475
8	Villa Maria Estate Limited	14,361
9	New Zealand Health Association Limited	12,260
10	Antipodes New Zealand Limited	11,851
11	International Volunteer HQ Limited - IVHQ	9,339
12	Endeavour Consumer Health Limited	9,242
13	Oravida NZ Limited	7,614
14	Manuka Health New Zealand Limited	7,491
15	ecostore Company Limited	5,220
16	Healthpost Limited	5,183
17	ZEALONG TEA ESTATE LTD	4,998
18	Icebreaker Limited	2,957
19	Earthwise Group Limited	2,426
20	Smartfoods Limited	1,950

Social media and commerce in action

Healtheries Official WeChat Account

- ✓ Healtheries New Zealand have an official verified subscription account.
- ✓ The account links to a China optimized mini-site containing product information including videos and images.
- ✓ The account and links to the Healtheries Taobao Store, which cannot be accessed through clicking the link within WeChat as Alibaba sites are blocked. Consumers must manually copy the link and post it into a separate browser.



Healtheries®



Social media and commerce in action



Weibo Case Study 1: GoodHealth Corporate Weibo Account

Account Analytics:

- I. Good Health is following 89 other Weibo accounts
- II. 108 fans
- III. 61 posts

Verifying your Weibo account gives audiences and potential customers more trust in your brands legitimacy and ensures your identity is well protected by Weibo.

Company Information:

- I. Most recent account verification time
- II. Industry – F&B
- III. China entity details

Posting more information about good health products, which can engage more people to follow the account.



Social media and commerce in action

Daigou Case Study: Red Seal



Shoppers search for Red Seal in WeChat Search, with numerous article results appearing.

Article provides description of Red Seal product

Image above shows WeChat account responsible for publishing of articles

QR code placed at end of article that can be extracted.

When extracted, the QR code links directly to the personal account of the 'Daigou' seller.

Social media and commerce in action

BLACKMORES
THE BEST OF HEALTH

Case Study: Blackmores WeChat Account

- Blackmores is an Australia based nutritional health company that produces, markets and sells more than 250 vitamins, multivitamins, minerals, herbal and nutritional supplements.
- Please see below analysis of Blackmores' official WeChat account and e-commerce store integration.



Blackmores has a Verified Service Account



Account followers have the option to directly enter the Blackmores WeChat ecommerce store through extracting the QR code at the end of their WeChat posts.



Shoppers have the option to select from a variety of different types of Blackmores products.



Once the shopper has confirmed which products they wish to purchase they are taken through to an address form to fill out. Once address details have been filled in shoppers proceed to payment.



Shoppers are able to make payments instantly with their WeChat wallet and receive the goods in 2-4 working days.

Social media and commerce in action



Case Study 2: Blackmores Corporate Weibo Account

BLACKMORES
THE BEST OF HEALTH

Account Analytics:

- I. Blackmores is following 3 other Weibo accounts
- II. 326,056 fans
- III. 1,833 posts

Company Information:

- I. Industry – F&B
- II. Company introduction
- III. Link to Blackmores Official Tmall Store

Information about events are held by Blackmores, and the prizes should be Blackmores' popular products.



Blackmores has an verified Weibo account.

Slideshows provides various information and news about Blackmores, and it also directly link to Tmall Store.

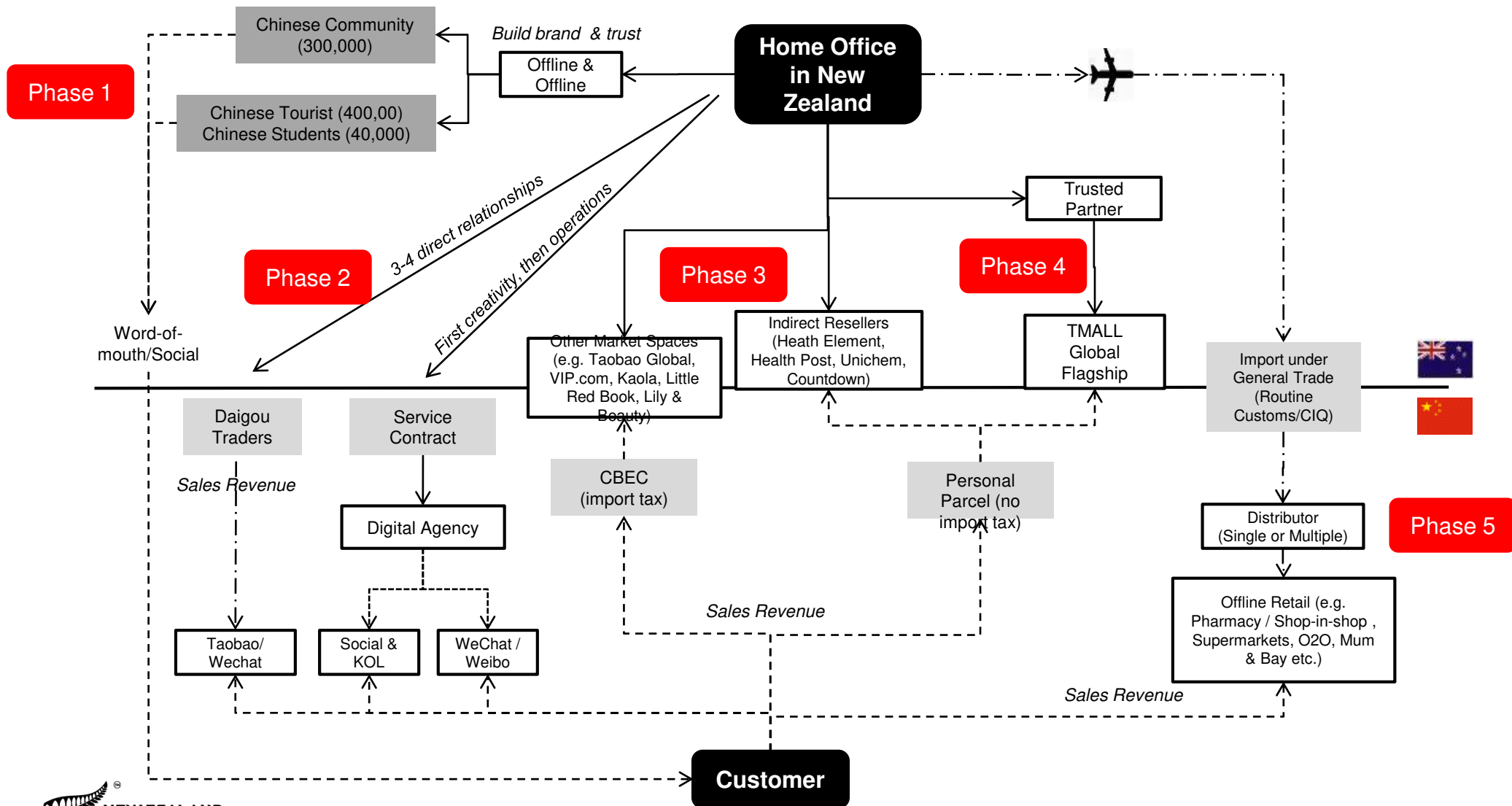
Articles published on the account:
Top article: "Inviting people to engage in the events which will be held in Shanghai Raffle"

Investment in content required to connect with Consumers' digital lifecycle



#4 Summary

What does success look like? And how is my growth journey shaping up?



Closing comments

What is my reason to be?

1. What is the relevance of New Zealand?
2. What is my uniqueness in China?
3. What is my connection with the Chinese consumer?

What resources have been aligned?

1. Creation of brand assets and NPD pipeline?
2. Digital marketing budget?
3. Chinese talent?
4. External business partners?
5. Strategic Chinese investment?



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