Dairy in China

A consumer assessment of the market size and relative pricing premiums of product claims in various categories.

Ministry for Primary Industries
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Contents:

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Overview

Dairy consumption in China is changing. Retail volumes of dairy and dairy alternatives are expected to grow at 1 percent per year until 2023, reaching 23 kg per person. Whilst this is a significant rate for China, it is less than a third of the US market. As a result, we expect China's dairy consumption to continue to grow steadily over the long term as the level of disposable income per capita increases.

Within the dairy category, consumption trends in China are affected by a diverse range of consumer drivers. An understanding of these drivers can help products achieve maximum impact in this changing market.

This report explores four key dairy product categories (fresh milk, shelf stable milk, milk powder, drinking yoghurts) as well as dairy alternatives to identify trends at both a category and individual product level. This is intended to assist New Zealand dairy companies seeking to grow market share in these categories in China.

The EIU developed a model to effectively analyse and filter over 10,000 dairy products in China, with each product containing over 384 data points. The findings of this report are based on this model.

Notes:

All prices in are un US dollars unless stated otherwise.

Key Findings

Drinking yoghurt - the largest prize but with strong competition.

The largest dairy category by retail volume, and second largest by value after infant formula, this category is expected to grow by 56% to a market size of $26.3 billion in the next five years. Retail volumes are expected to grow 50% over the same timeframe to around 11.4 billion litres.

Brands will need clear messaging to resonate with consumers. Competition will be tough. Over 775 product rebrands or launches have occurred in the category since 2017, with each trying get a slice of a market where the ten largest brands control 76% of the market.

Milk Powder – an opportunity for new high value brands.

Milk powder is expected to grow in value rather than volume. Retail value is expected to increase by 14% over the next five years to $3.3 billion. Retail volumes are likely to remain stable. This market is diverse. 50% of the market is controlled by brands outside the top 15 in 2018. With less product activity than in other categories (only 92 rebrands / new products since 2017), new brands with innovative offerings may gain more traction with consumers.

High value products are the likely reason for this value growth. Our research indicates these products offer many variations to different demographics, particularly expectant mothers and the elderly. Messaging which focuses on how additives to the powder improve the individual’s total health, rather than where, and how the product is made, are common. Milk Powder is one of New Zealand’s largest exports. With the addition of vitamins and minerals and an effective marketing strategy that demonstrates the health benefits of these additions to the consumer, the products value to consumers could increase.

Fresh Milk – proven success with niche high value products.

Fresh milk is expected to grow 29% over the next 5 years to a market size of $6.4 billion, in part from increases in consumers disposable income and a continued increase in trust of non-UHT products and domestic dairy suppliers. The category is the most diverse, with 52% of the market controlled outside of the top 15 brands. High value, air freighted products largely from Australia and New Zealand such as Oravida and A2 milk are still listing at significant premiums. These premiums are likely to be over and above the associated increase in logistic costs.

Shelf Stable Milk – limited opportunities in a stabilising market with strong established brands.

The shelf stable milk market (the third largest category by value) is expected to remain stable in the next five years. Retail volumes are expected to decrease by only 7% from 2018 levels in 2023 (to 6.8 billion litres) and a small percentage increase in total value (increasing 6% to $15 billion). The market is highly concentrated with four brands controlling 72% of the market share. Many brands are seeking to make an impact in this market, with 270 products being launched or rebranded since the start of 2017. New Zealand brands seeking to export liquid dairy products would likely find more success in other liquid formats such as drinking yoghurt.

Overall personal health the most important to consumers.

Consumers are interested in a complete health product. Individual health claims such as eye health are not promoted in isolation, rather among a collection of health claims that benefit the consumer in a variety of ways. These claims were usually linked to an associated vitamin or mineral. Products that used this strategy were often listed at high unit prices.

To make this ‘whole health’ messaging clear as opposed to a collection of claims, successful brands would likely need to create a brand that consumers can easily recognise as a high-value, total health product that they can trust. Categories like milk powder demonstrate how using product varieties to target specific demographics (in particular expectant mothers and the elderly) can further this messaging via a tailored health product.

Brands that have incorporated health claims which competitors cannot easily replicate are proving successful. The A2 Milk Company is an example of this strategy.

GMO free claims remain an untapped opportunity.

Chinese consumers demonstrate a strong aversion to GMO products. Research indicates 47% of Chinese respondents had a negative opinion on GMO foods (only 12% had a positive opinion)[1], yet less than 1% of shelf stable milk products claimed to be GMO free, and no products contained GMO free claims in the fresh milk category. This is due to Chinese requirements strictly controlling the promotion of labelling around ‘free from’ products, in this case GMO free. Promotion of New Zealand's GMO free-image in a way that is approved by Chinese regulators could create a new claim that delivers good value. A study of how milk alternative products have managed to promote GMO free soybeans in China may be worthwhile.

Little quality control on the use of pasture and grass-fed claims.

Descriptions from products that claim to be fed pasture are varied. Many do not include what percentage of the diet is pasture, or whether the pasture is consumed free range or in a barn. The result is messaging that is inconsistent and likely confusing to the consumers as it is promoted by both high value and low cost products. As a result, it was difficult to determine if the promotion of pasture-fed claims resulted in a premium price.

These variations suggest that consumer opinion of a pasture-fed product would be difficult to determine without additional research. Products seeking to promote free range New Zealand cows with a predominantly grass-fed diet will need to clearly articulate this to the consumer, to avoid association with low-price, pasture-fed products. Linking these claims to any associated health claims would also be of value.

New Zealand products have greater potential with specific audiences

Internet searches for New Zealand milk were three times more likely to be by females. 85% of these searches occurred between the 30 – 50 age group bracket. Searches from Shanghai province in particular were significantly higher than expected. These findings could be used for targeting products into China where a large nationwide launch may be unfeasible.

Promoting New Zealand's reputation as a trusted and safe food source, where all dairy is GMO free, and sourced from free range, grass-fed cows via a common health focused brand could work well for the Chinese market. This would reduce the risk of having individual claims becoming diluted by low cost brands. This strategy would however increase New Zealand's brand risk should the product experience negative brand image (i.e. from a food safety scare).

Notes: 1: Nature NPJ science of food: *Public perception of genetically – modified (GM) food: A Nationwide Chinese Study*. Jun – 2018.

Dairy Overview

The low per capita consumption relative to western markets and growing disposable income indicates dairy is set to be a promising category.

Unit Price Observations

Some cases of unit price growth due to falling retail volumes.

As demand for dairy products in China continue to increase[1], most dairy categories are expected to see positive volume and value growth. This is good news, as ideal markets are often where both retail volume and values are increasing, specifically with value growing at a higher rate, and not related to an increase in forecasted cost of production.

Three major categories however have strong unit price growth from declining volumes.

Flavored milk drinks:

- Retail volumes of flavored milk drinks in 2023 are forecast to decline by 64%, compared to only 60% for the total value. This has led to strong unit price growth, despite a shrinking category value.

Shelf stable milk:

- Falling volumes but growing values is creating unit price growth. Please refer to page 31 for more information.

Powder milk:

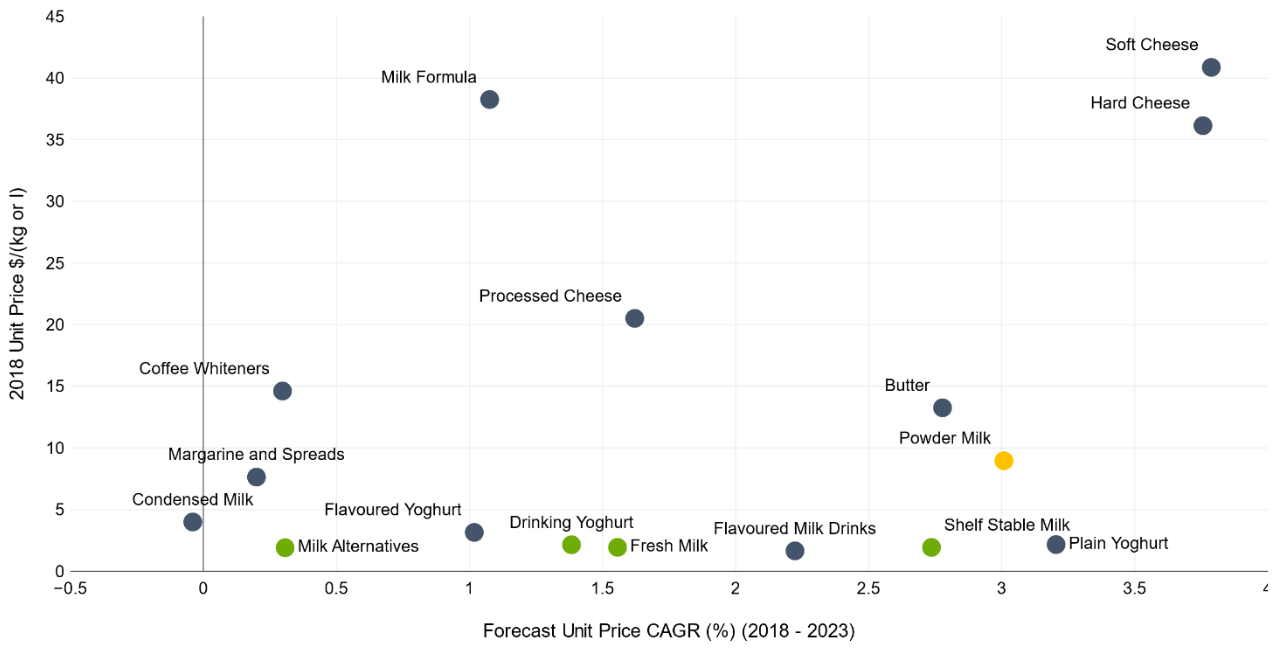
- Stable volumes and strong value growth is creating unit price growth. Please refer to page 39 for more information.

Liquid dairy consumption drivers unlikely to be based on price.

Product price point and convenience are two of the most established consumer drivers for selecting food products[2]. Liquid based dairy and dairy alternative products are priced at similar levels (between $1.65 and $2.14 per litre) and are stored in similar ways. This makes switching between liquid dairy categories relatively easy when more subtle consumer trends change. Trends we believe are contributing to changes in how liquid dairy products are consumed include:

- A movement towards products with greater perceived health benefits rather than taste. *Result:* Products such as drinking yoghurt and fresh milk becoming more popular than flavored milk. This is confirmand in consumption trends of these categories.
- Growing trust in the local food safety system. *Result:* Local production (which is often in chilled formats) will grow relative to imported products, which are often in shelf stable formats.

Figure 1: Unit price and forecast unit price growth forecasts for dairy products in China.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Notes: 1: 2017 China Dairy Consumption Trends Report – Mintel, 2: Deloitte, *Capitalizing on the shifting consumer food value equation.* - 2016

Retail Volume Observations

Shelf stable products look set to remain one of the largest dairy categories.

Drinking yoghurt, with 2018 retail volumes of 7.6 billion litres, (often in a shelf stable format), and shelf stable milk (7.4 billion litres in 2018) are set to remain key categories in the next 5 years.

There is a real opportunity in drinking yoghurt. Retail volumes are expected to increase by 50% to 11.4 billion litres by 2023, with the total retail market size expected to be $27 billion, the largest value after infant milk formula.

Shelf stable milk retail volumes are likely to fall 7% by 2023 to 6.8 billion litres yet will still remain the second largest category by volume.

Despite an increase in chilled dairy products and a decline in volumes of some shelf stable dairy, it is apparent that shelf stable milk and drinking yoghurt products still have a strong place in the market. Their easy to drink packaging (often being sold in small 250ml cartons with a straw[(1)]), reputation as a safe food source (due to the ultra high temperature (UHT) production system) and ability to keep outside the fridge make them a consumer snack favourite now and into the future.

Liquid dairy consumption trends look set to change significantly in the next five years.

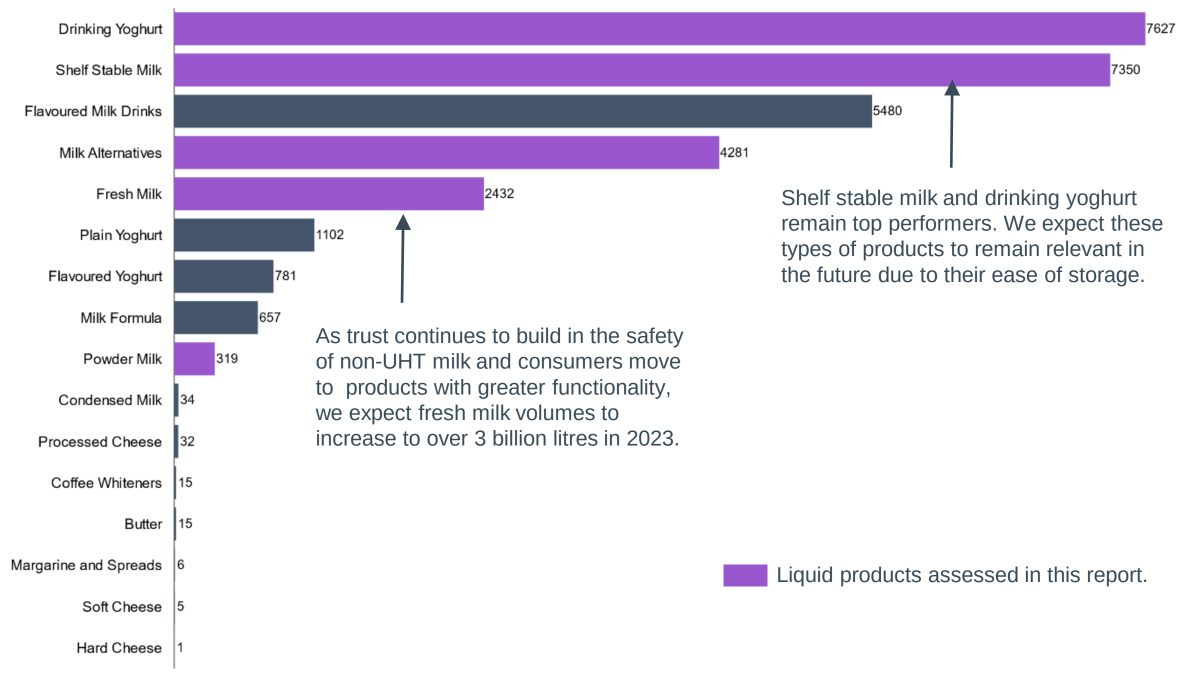
Chinese consumers are moving towards products with greater perceived health benefits, such as drinking yoghurts. As a result, non-functional categories such as flavoured milk look set to continue to decline in retail volumes. 2018 retail volumes are down 39% from a high in 2014, while 2023 volumes are predicted to be down 66% from 2014 levels.

In the next five years, consumption of fresh milk is set to grow by over 3 billion litres. This is likely due to increased trust in non-UHT products from a food safety perspective, a greater portion of basic milk needs being met by chilled rather than shelf stable products and its perceived health benefits over flavored milk.

Due to these consumption trends, we expect fresh milk consumption to overtake flavored milk consumption in approximately five years.

After a 19% reduction in the retail volumes of milk alternative products from 2013, the category is expected to stabilise, with forecast 2023 volumes of 4.2 billion liters similar to 2018 levels.

Figure 2: 2018 Retail volume of various product categories in China (in million litres or kilograms).



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Notes: 1: Based on Mintel GNPD analysis.

Drinking Yoghurt

One of the most promising categories. Value growth potential is high but competition will be tough.

Drinking yoghurt reflects a healthy and growing market.

It is estimated the market size for drinking yoghurt will be over $26 billion USD in 2023, with retail volumes of over 11 billion kg. This growth is already off a large base as the category is the second largest by value after infant milk formula.

One factor for this growth is the high proportion of Chinese who are lactose deficient[1]. Yoghurt products are often recommended as an option for mild lactose deficient consumers due to the fermentation process[2] used in production.

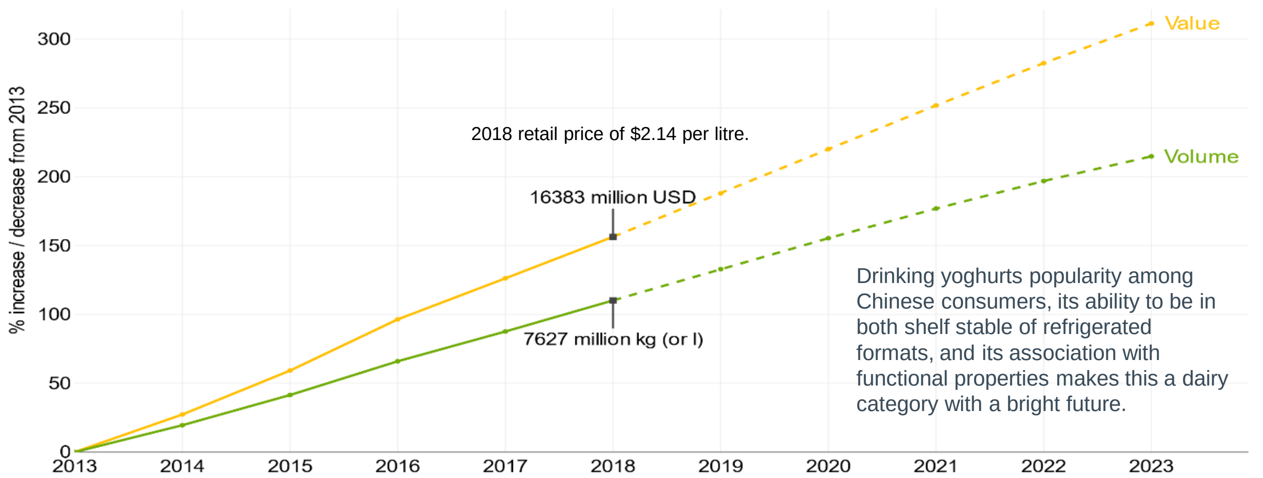
The product can be offered in shelf stable and chilled formats, so the category can easily adapt if the trend towards chilled products becomes more pronounced.

Companies are releasing products at increasing unit price points to try capturing this value growth.

A number of companies believe successful products will receive a premium over the $2 per kg average retail volume expected by market researchers. Product launches and rebrands have more than tripled from 2013 to over 370 products launched in 2018 (as of October). These products are also increasing in unit price.

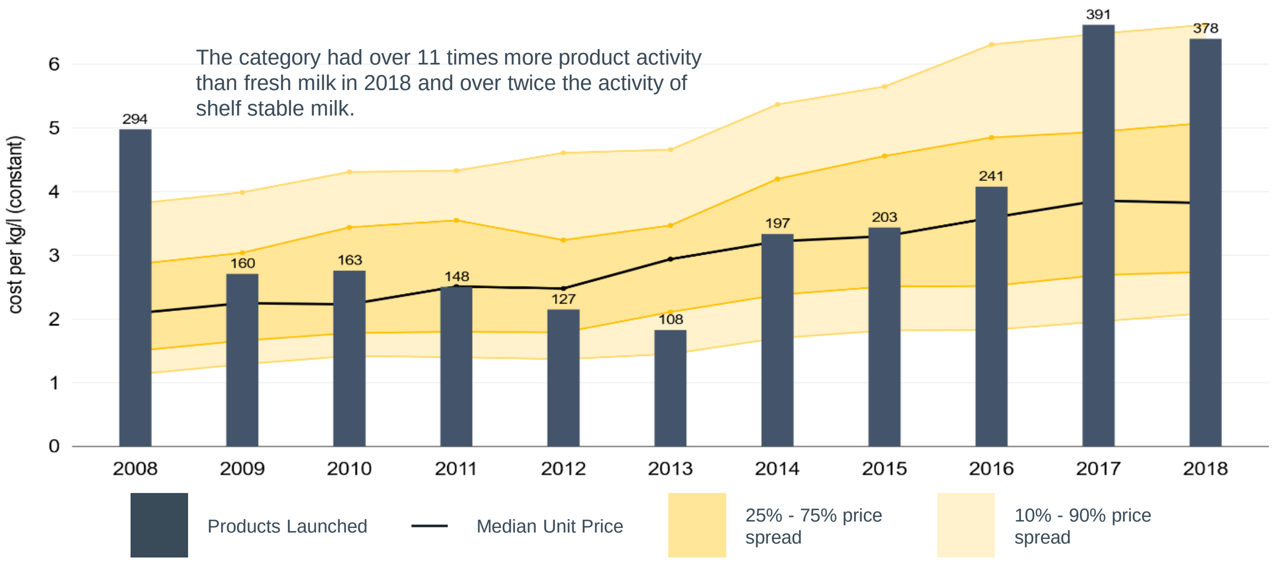
The quantity of new product launches in 2018 is over two times higher than other categories assessed. This is a good indication of the high level of competition in this category, likely due to the large potential rewards should a brand become successful in this category.

Figure 3: Percentage increase from 2013 of drinking yoghurt in China.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Figure 4: Drinking yoghurt and sour milk products launched / rebranded and unit price spreads.



Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Notes: 1: Sources include a 2001 article in the Chinese medical journal titled The prevalence of Lactose Deficiency and Lactose Intolerance in Chines Children of different ages. 113(12):1129-32). 2: Examples include the 2014 paper titled *Lactose digestion from yogurt: mechanism and relevance* in the American Journal of Clinical Nutrition.

KEY BRANDS BY MARKET SIZE

Overview

Consolidation under a handful of companies with multiple brands.

In 2009 the market was made up of many small brands. Wahahah was the only brand to have over 10% market share, and controlled around one third of the market. 49.4% of the market consisted of brands that held less than 5% market share. By 2018 this fell to 36.4%.

Around 73% of the 2018 market share is controlled by three companies.

Yili Group[1], with a market share of 35.4% own the Ambrosial and Changqing brands, while Mengniu Dairy[1] (a market share of 28.9%) own brands Just Yogurt and Champion. Bright Food Group[1] (10% market share) have the Bright and Momchilovtsi brands. The Wahaha brand only managed a market share of 4.2% in 2018 and half the 2009 retail value.

Yili Group's brand Ambrosial - a major success.

In 2011, Yili Group held a market share of 13.3%. Since then they have introduced a new brand to the market every year to grow this share to 35.4% in 2018.

Its top performing brand Ambrosial is an example of a new brand achieving strong growth. The brand is now the clear market leader with a market share of 22%, over twice the share of any other brand.

Released in 2014 with a brand share of 2% Ambrosial achieved NZ$220 million in revenue in the same year. This sustained growth was achieved in part by association with the popular TV show "Running Man" which stars two of the Ambrosial brand ambassadors.

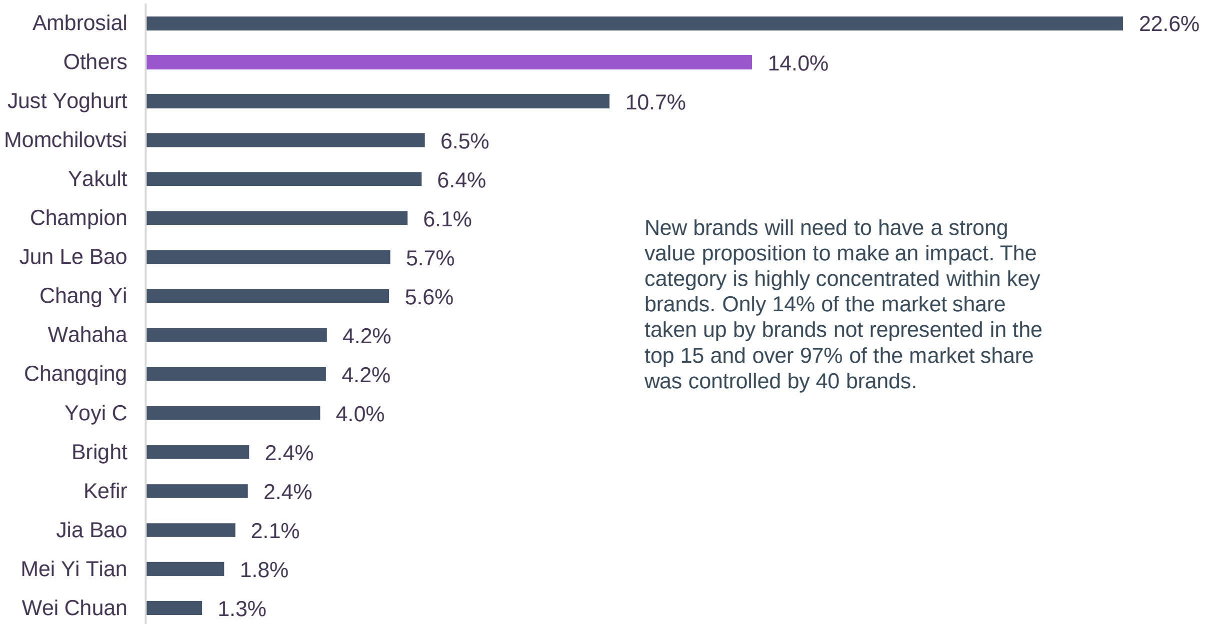
Mengniu and Just Yoghurt.

Brands owned by Mengniu Dairy have 28.9% of the 2018 market share. Its top performing brand, Just Yoghurt was released in 2013 and now holds 10.7% of the market share. Like most drinking yoghurt products, they are often offered in small drinkable (250ml) serving sizes, making them convenient to consume on-the-go.

Bright Food Group struggling against competitors.

In 2014, Bright's brands, Momchilovtsi, Changyou, and Bright held the largest portion (25.2%) of the market share. Each year its brands have been losing ground, losing between 10% to 30% of its brand share each year. In 2018 these brands held 9.7% of the market share. Possible reasons for this include the massive success of the Ambrosial brand, or French competitor Danone selling a stake in the company in 2007 and focusing its China effort with the Menginu in which is holds a 9.9% stake and began a partnership with in 2014.

Figure 5: 2018 market share for drinking yoghurt brands.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Notes: 1: Full names are - Inner Mongolia Yili Industrial Group, China Mengniu Dairy Co Ltd, Bright Food (Group) Ltd.

PRODUCT EXAMPLES FROM LARGE BRANDS

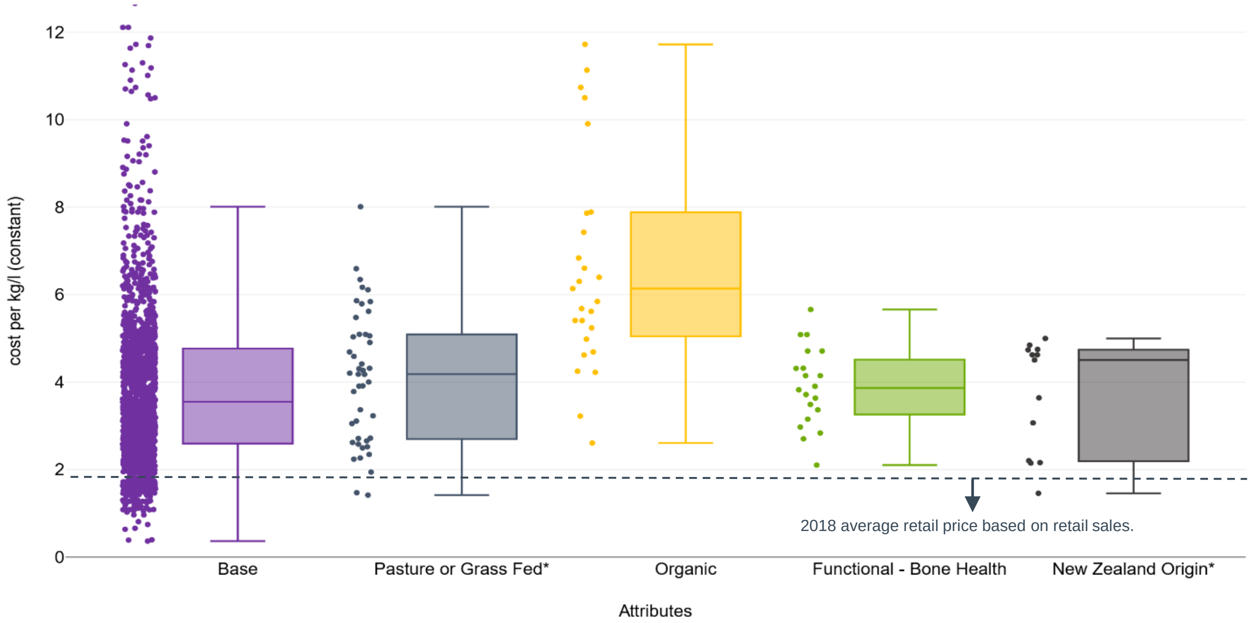
Figure 6: Key drinking yoghurt products from top brands in 2018.

Brand: **Price:** **Repackaged:** **Weight:** **Packaging:**	Ambrosial $10.99 May 2018 12 x 205g Plastic bottles		This shelf stable product uses imported blueberry puree. The product claims its milk is from a farm ranch which may show the company is trying to associate the product with grass-fed without having to claim it. The product promoted probiotic cultures as well as 35% more protein than the national standards.
Brand: **Price:** **Released:** **Weight:** **Packaging:**	Just Yoghurt $10.20 August 2018 12 x 200g Plastic Bottles		This shelf stable product is made using 'quality pasture milk source', and imported Denmark Lactobacillus. It bears the WeChat code and the 2018 FIFA World Cup Russia and FSC (Forest Stewardship Council) logos. Note the lack of a grass-fed claim and presence of 'quality pasture milk source'.
Brand: **Price:** **Repackaged:** **Weight:** **Packaging:**	Momchilovtsi $7.48 December 2017 12 x 200g Plastic bottles		The company units bearing a QR code to win prizes. It is fermented using Momchilovtsi's probiotics.
Brand: **Price:** **Repackaged:** **Weight:** **Packaging:**	Yakult $1.90 New Packaging 5 x 100ml 5 plastics bottles		The product has been repackaged. It contains calcium, high vitamin D and less than 5g sugar per 100ml serving, According to the manufacturer, calcium is the main ingredient for bone and teeth, and helps aid in maintain bone density. vitamin D promotes the absorption of calcium.
Brand: **Price:** **Repackaged:** **Weight:** **Packaging:**	Bright $2.18 Sep 2018 950g Carton		Bright fermented milk has been repackaged with a new design. The fresh product is made using selected ingredients, fermented with patented probiotics Lactobacillus casei, processed in an advanced facility and transported in a cold chain system.
Brand: **Price:** **New Variety:** **Weight:** **Packaging:**	Wahaha $0.71 Feb 2018 450ml Plastic bottle		Wahaha (Mango Yogurt Drink) contains 20g of mango puree per 1 litre serving, and as well as greater than or equal to 35% yogurt and greater than or equal to 5% juice. This yogurt drink is fermented using lactobacillus and a quality milk source.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT CLAIMS ASSESSMENT

Figure 7: Attribute claims for drinking yoghurt products released or rebranded in China from 2014 – 2018.



Source: MPI, Euromonitor International, Mintel GNPD (2018) © all rights reserved.

Claims Overview

Many products and product claims.

The multitude of product claims assessed appear to demonstrate limited potential for increasing the unit price of the product. Of the products that had a large enough sample size to assess, organic was identified as a attracting a significant premium over the baseline category.

Only three products contained grass-fed specific claims and no GMO free claims. GMO free claims are difficult to obtain in China, however with Chinese sentiment towards GMO products often being negative(1), exploring marketing techniques that may cause association with the GMO free without promoting that attribute could be effective. Further testing of grass-fed claims would be recommended to ensure there is positive resonation of the claim with Chinese consumers.

Organic Claim Assessment

Organic products deliver a high premium.

Of the 1500 products either being launched or rebranded from 2014 only 27 products were listed as organic. Compared to this base, the median listing price was $6.10 per kilogram compared to $3.60 for all products (listed as 'Base' in figure 7). This shows that companies assess that products will receive a premium price point when maintaining an organic supply chain. Further study would be required to see if this would offset the cost of maintaining an organic supply chain.

Organic products are likely to have a low association with other raising claim properties.

The organic claim has low association with other raising claims such as hormone free, grass-fed and GMO free. This indicates that Chinese consumers may not associate these attributes to each other, which is often the case in markets like the United States. Alternatively they may simply have limited concern with animal raising claims and be more interested in the personal health benefits of organic products. Targeted survey work would be recommended to address theses questions to ensure organic claims are properly positioned.

Figure 8: Claims associated with organic.

Claims (all products)(2)	%
Halal	30
No Additives / Preservatives	26
Children (5 – 12)	15
Environmental Friendly Package	11
Social Media Presence	11

Source: MPI, Mintel GNPD (2018) © all rights reserved.

Notes: 1: Nature NPJ science of food: *Public perception of genetically – modified (GM) food: A Nationwide Chinese Study.* Jun – 2018. 2: Normally the top 25 % of products are isolated to assess what claims are promoted by top performers however due to the small sample size this was not included.

New Zealand Origin and Bone Health

Limited products and premiums promoting Bone health.

Only 20 drinking yogurt products promoted a bone health claim. The median unit price for products promoting this claim ($3.90 per litre) is similar to the $3.60 median price for all products. Nearly all drinking yoghurt products can make claims promoting bone health with little to no product changes due to the presence of calcium. This makes it difficult for products with a superior bone health claim to resonate with consumers. Premiums may be obtained by focusing on extra protein instead, as the median price of that claim is $4.60 per litre.

Figure 9: Claims associated with bone health.

Claims (top 25% of products)(3)	%
Functional - Other	60
Children (5-12)	60
Vitamin / Mineral Fortified	50
Added Calcium	45
Halal	35

Source: MPI, Mintel GNPD (2018) © all rights reserved.

New Zealand origin products yet to demonstrate a premium.

Note: Of the 13 drinking products listed with some New Zealand origin claims, half of the products were from one brand (Jelley Brown) which are now promoted under a new brand (Jelley Crown), without New Zealand origin claims. Because of the strong presence of one brand in this claim search we were unable to confirm that using New Zealand claims lead to a premium price.

Most claims associated with products promoting New Zealand origin emphasise a lack of negative attributes (such as low cholesterol) rather than promoting a greater presence of positive claims (such as added calcium).

Products with low unit pricing often use New Zealand milk that was reconstituted from products such as milk powder and are combined with products such as vegetable and fruit juice.

Figure 10: Claims associated with New Zealand origin.

Claims (top 25% of products)(3)	%
No Additives / Preservatives	54
Low/No/Reduced Cholesterol	46
Low/No/Reduced Transat	46
Social Media Presence	15

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Pasture and grass-fed claims

Claims involving pasture-fed used often and ambiguously.

Our research indicated 45 products promote ‘pasture fed’ in some way. Many brands with large sales use claims relating to the fact that the cows are fed pasture. They do not mention how much of their diet is pasture compared to other feed or whether this is by free range or barn feeding systems.

This may explain why pasture-fed centric companies such as Fonterra often use the claim “graze outdoors year round” in conjunction with a grass-fed claim to emphasize this point of difference.

Nonetheless, the median price for products with a grass or pasture-fed claim did achieve a unit price premium of 18% more than the baseline median price. Companies that can clearly articulate the benefits of New Zealand pasture-fed systems over others may be able to build on this premium with no change in product.

Figure 11: Claims associated with pasture fed.

Claims (top 25% of products)(3)	%
Halal	50
No Additives / Preservatives	50
On – the - go	33
Probiotics*	25
Convenient packaging	25

Source: MPI, Mintel GNPD (2018) © all rights reserved.

PRODUCT EXAMPLES WITH ORGANIC CLAIMS

Figure 12: Key drinking yoghurt products with organic claims.

Brand: Sassy Lassi Kids **Price:** $1.49 **New Product:** Jun 2018 **Weight:** 103ml **Packaging:** Innovative bottle			The product is made only with three ingredients and contains live active cultures and only 85 calories per pack. The gluten free product retails in a 103 ml pack featuring the USDA Organic, Twitter and Facebook logos.
Brand: Herun Golden Time **Price:** $2.94 **New Product:** Jul 2018 **Weight:** 255g **Packaging:** Plastic bottle			The product contains 100 million CFU (colony forming units) bifidobacterium per 1g serving, and is made with organic raw cow's milk, organic white granulated sugar and Danish probiotics. This product is said to be creamy and smooth.
Brand: Sheng Mu Saiyinsu **Price:** $1.66 **New Product:** Jul 2016 **Weight:** 200g **Packaging:** Glass bottle			The product is made using milk from an organic farm in Inner Mongolia. This product is free from additives, thickener and flavouring, and retails in a 200g pack featuring two QR codes.
Brand: Yili QQ Star **Price:** $ 1.37 **New Variety:** Jun 2015 **Weight:** 200g **Packaging:** Plastic bottle			The product targets children aged over 3 and is made with 100% organic raw milk, processed according to their strict production technique. It contains bifidobacterium lactis and bifidobacterium longum. This halal certified product also bears the Pleasant Goat cartoon character.
Brand: Sanyuan **Price:** $11.75 **New Variety:** Nov 2017 **Weight:** 12 x 200g **Packaging:** Plastic bottles			The product is made using 100% organic milk source. And has a QR code.
Brand: Yili Chang Qing **Price:** $1.43 **New Variety:** Feb 2017 **Weight:** 250g **Packaging:** Plastic Bottle			The product contains 100 million A+BB active lactic acid bacteria per 100g serving. The product uses a QR code and has a simple front package with key logos on the rear. The halal product also has a QR code.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT EXAMPLES WITH NEW ZEALAND ORIGIN CLAIMS

Figure 13: Key drinking products with New Zealand origin.

Brand: Jelley Brown
Price: $2.05
New Variety: May 2015
Weight: 4 x 100ml
Packaging: Plastic bottles

The product is made using selected milk from New Zealand, Danish Danisca exclusive bacteria, and Howaru NCFM bacteria. The drink is free from cholesterol, trans fat, preservatives and artificial sweeteners.

Brand: Makouou
Price: $1.76
New Product: Jun 2017
Weight: 4 x 100ml
Packaging: Plastic bottles

The product is made from milk sourced from New Zealand and contains Bifidobacterium, Lactobacillus bulgaricus, Streptococcus thermophilus and Lactobacillus fermentiumIt. The product is free from artificial colourings, and contains greater than or equal to 1% protein.

Brand: New Hope V Mei
Price: $1.09
New Pack: Jan 2018
Weight: 300ml
Packaging: Plastic bottle

The product contains 10% juice content, 25% reconstituted milk from New Zealand, three types of vegetables and six types of fruit.

Brand: Xiao Tiao Pi
Price: $1.39
New Product: Jun 2017
Weight: 5 x 100ml
Packaging: Plastic bottles

The product contains zero fat, and is fermented for 72 hours with probiotics. This product is made using 100% New Zealand imported milk.

Brand: Niu Chi Cai
Price: $0.90
New Product: Nov 2017
Weight: 450ml
Packaging: Plastic bottle

This hybrid product contains 12 vegetables including: carrot, tomato, cabbage, wax gourd, spinach, pumpkin, broccoli, celery, beetroot, lettuce, cucumber and asparagus. This product is made using New Zealand imported milk.

Brand: Wei Chuan
Price: $0.57
New Pack:: Nov 2017
Weight: 420ml
Packaging: Plastic bottle

The product is made using New Zealand milk powder, fermented using European strain Lpc-37 (a probiotic) and uses an instant freezing technique to offer a fresh and sweet taste. The company claims dietary fibre helps maintain a normal gastrointestinal function.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Fresh Milk

Growing demand for fresh milk is likely to continue into the future without impacting prices.

Strong volume and value growth expected.

Fresh milk has significant potential with 2018 fresh milk retail volumes in China a third of shelf stable milk. This is expected to increase to 45% by volume and 40% by value in 2023. The value of the product is likely to remain strong, with a predicted increase from a 2018 market size of $4.7 billion to over $6.4 billion in 2023. Chinese consumers are likely increasing their intake of this dairy product due to its functionality benefits over other dairy products such as flavored milk.

Despite fresh milks promise, product launches and prices in the category remain stable.

The median unit price over time for products launched each year has increased steadily from $2.30 per litre to $3.30 per litre since 2008 (see figure 15). This analysis suggests this is in part due to the increase in air freighted products. Brand activity is relatively limited in comparison to other dairy categories such as drinking yoghurt.

Figure 14: Percentage increase from 2013 of fresh milk in China.

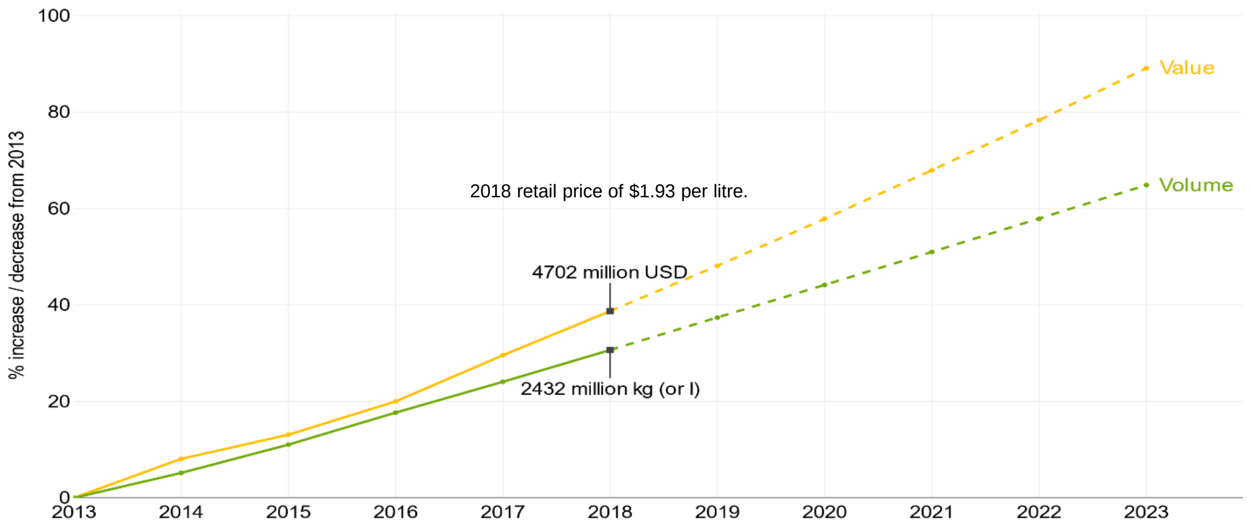

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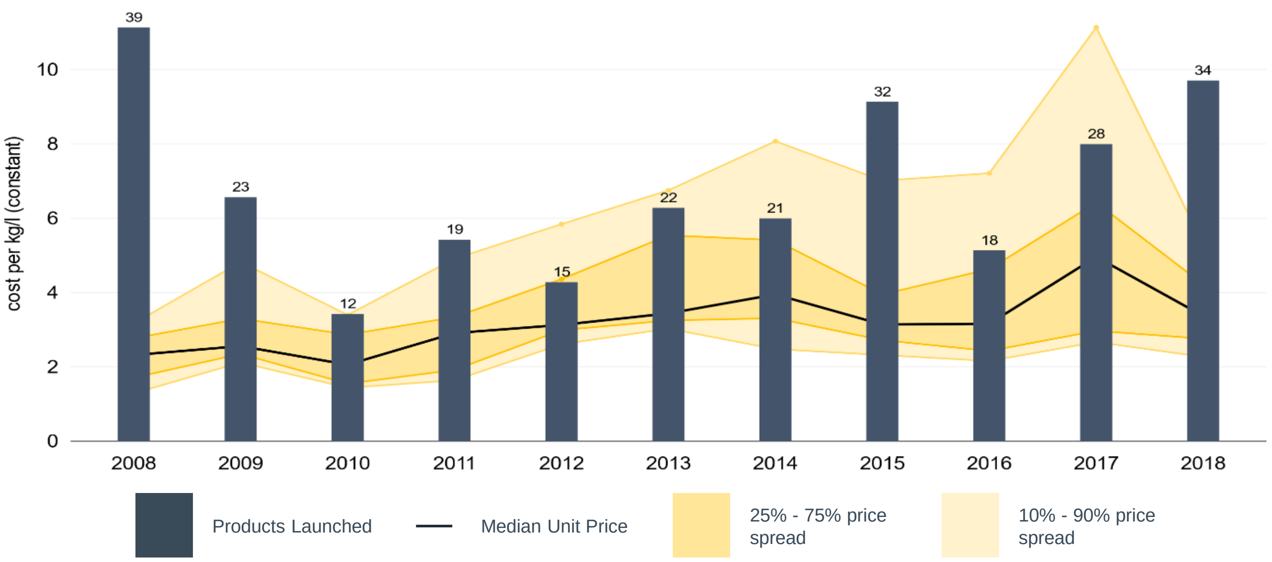
Figure 15: Liquid Fresh Milk products launched / rebranded and unit price spreads.



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KEY BRANDS BY MARKET SIZE

Product diversity reflects a stable and competitive environment

Slow movement over the past 10 years.

Excluding movement within the Bright Food Group brands, there has been no large gains or losses in brand share over the past 10 years. The largest gain was made by Jia Bao, which increased from 1.3% in 2009 to 4.4% in 2018.

Diversity of brands apparent, with limited brand concentration.

The fresh milk category is highly diverse. No single brand holds more than 9% of the brand share and New Hope Dairy and Bright Food Group are the only companies that hold more than one brand in the top 15.

Movement within the Bright Food Group.

The Bright Food Group held 12.6% of the brand share in 2009, the largest of any company. This has declined to 12% in 2018. The company's two major brands are Bright and U Best with 2018 market shares of 6.1% and 5.2% respectively.

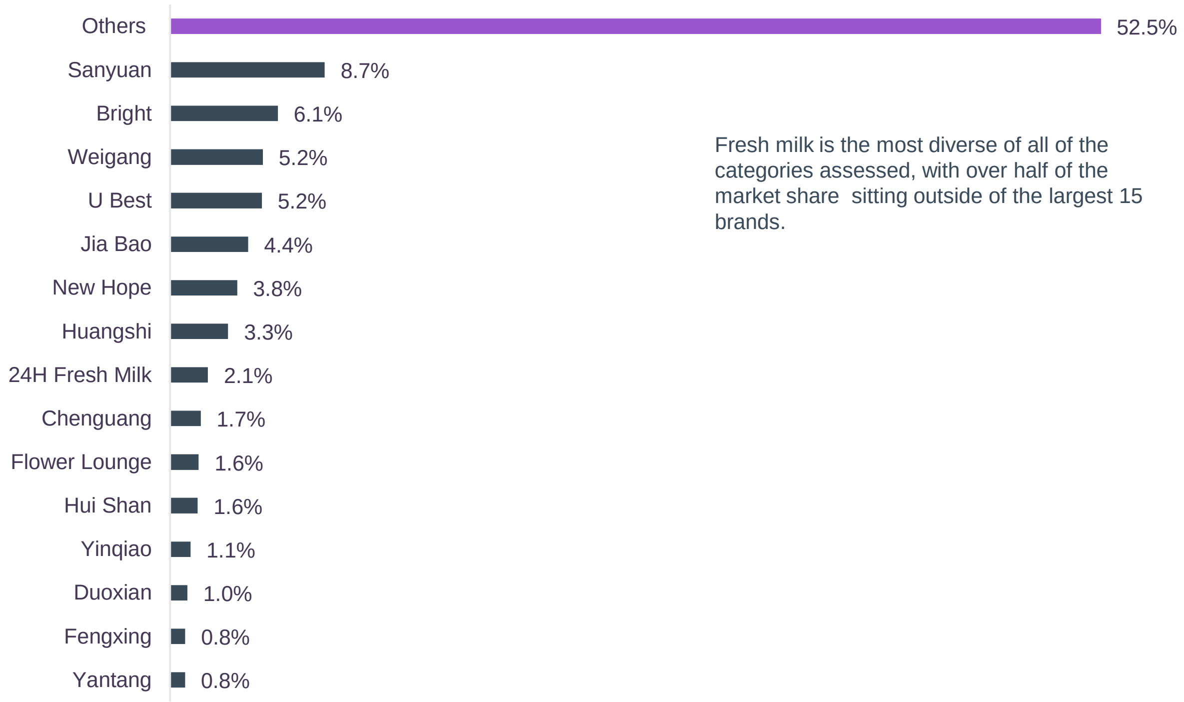
Brands should be aware of mistakes made in fresh milk markets in developed countries.

Fresh milk markets such as the United States show an emergence of private label brands taking significant market share (over 50%) with limited sales of non top 15 brands (less than 20%). This reflects consumer satisfaction with product functionality of a more general product. There is a risk that this trend could occur in the Chinese market as fresh milk consumption in China establishes itself further and large retailers test their influence on supply chains. Companies should be aware of this when developing their fresh milk marketing strategies, to ensure their brands are able to withstand this risk.

Major companies in other dairy categories do not feature in the fresh milk category.

Yili Group and Mengniu Dairy, who control large brand shares in other markets do not feature as part of the top 15 in the fresh milk category. This may be due to a market structure with regional suppliers supplying local markets due to the shorter shelf life of the product and logistic demands.

Figure 16: Brand share for fresh milk products in 2018.



Fresh milk is the most diverse of all of the categories assessed, with over half of the market share sitting outside of the largest 15 brands.

Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

PRODUCT EXAMPLES FROM LARGE BRANDS

Figure 17: Key fresh milk products from top brands by market size in 2018.

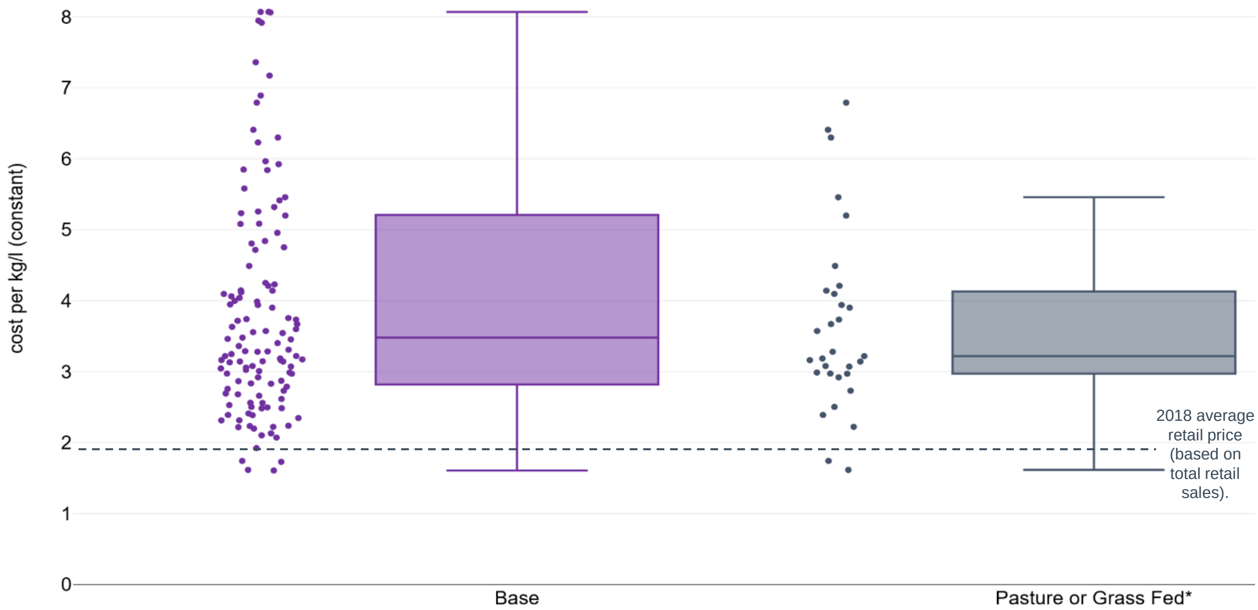
Brand: Sanyuan Nong Ken Mu Chang **Price:** $2.62 **New Variety:** May 2018 **Weight:** 980ml **Packaging:** Milk Carton		The milk is processed according to an international pasteurization technique to retain more nutrients, and is distributed by cold-chain system to retain freshness. This product promotes its accreditation listing ISO9001, HACCP, ISO14001 and GAP+ certification.
Brand: Bright **Price:** $2.89 **New Pack:** Jul 2018 **Weight:** 1.5 litre **Packaging:** Milk bottle		This common product has been repackaged. With minimal descriptions, it simply states the product is nutritious.
Brand: Weigang **Price:** N/A **New Product:** Aug 2007 **Weight:** 950ml **Packaging:** Carton		Milk is produced on an ecologically friendly farm. According to the company, every 1,000g serving of this product contains 34g of high quality milk protein. The company has not updated any of its chilled milk products since 2009(1).
Brand: U best (a bright food brand) **Price:** $3.14 **New Pack:** May 2018 **Weight:** 950ml **Packaging:** Carton		The product has QR, WeChat and Sino codes. It uses pure Holstein cow's milk. The cows are fed using the total mixed ration system to ensure their health and the quality of their milk. The brand then promotes the food safety aspects of the milk by outlining its cold chain logistics and pasteurisation process.
Brand: New Hope Dairy **Price:** $2.96 **New Variety:** Jun 2018 **Weight:** 950ml **Packaging:** Milk carton		The milk is processed and brought to market within 24 hours from milk collection in pasture. It contains 3.5g milk protein and zero additives, and is said to have a mellow and pure taste.
Brand: Flower Fresh **Price:** $1.41 **New Variety:** Jan 2018 **Weight:** 250ml **Packaging:** Milk Carton		The product contains greater than or equal to 3.3g milk protein per 100g serving. This product is sourced from organic pasture, and retails in a 250ml pack bearing a QR code.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Notes: 1: Based on Mintel GNPD. Company may have released more that have not been picked up from the database search.

PRODUCT CLAIMS ASSESSMENT

Figure 18: Attribute claims for fresh milk products released or rebranded in China from 2014 – 2018.



Source: MPI, Euromonitor International, Mintel GNPD (2018) © all rights reserved.

Claims overview.

Limited launches since 2014.

Only 133 products were launched between 2014 and 2018 that were in the fresh milk category. Because of this, the sample size for products at an individual claim level were often too small to analyse. Analysis of this category will instead focus on individual products. It also may indicate that there is currently little demand (or supply constraints) for a variety of niche products in this category compared to other products.

No products advertised New Zealand origin, grass fed, or GMO free claims.

This may be due to the fact the getting fresh milk to China from New Zealand is logistically challenging as well as some issues with product translations. For example, New Zealand based company Green Valley dairies exports fresh liquid milk through Oravida which often sells in a New Zealand showcase store. In spite of this, the product itself has a description not associated with New Zealand.

A2 milk demonstrates a product premium.

The A2 milk company sells it's fresh milk product at $10.20 per litre, an outlier compared to other products. The cost to airfreight to China is estimated to be around $3 NZD per kg, which still comfortably puts the price of A2 milk in the top 25 % of fresh milk products offered once this is adjusted for. This is discussed further on the following page.

Pasture-fed products unlikely to receive a premium.

23% of fresh milk products contained a pasture related claim. Surprisingly, median prices for these products were 30c per litre less than the $3.50 per litre of fresh milk products.

Figure 19: Claims associated with pasture fed.

Claims (all)	%
No Additives / Preservatives	35.5
Environmentally Friendly Package	19.4
High / Added Protein	9.7
Social Media Presence	6.5

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PRODUCT EXAMPLES WITH THE HIGHEST UNIT PRICES

Figure 20: Outlier products (product with an exceptionally high unit price).

Brand:	Oravida		The product is described as a pasteurized whole milk which also has a QR code. Note: The product is from New Zealand yet does not disclose this in the product description.
Price:	$3.78		
New Product::	Dec 2017		
Weight:	225ml		
Packaging:	Plastic Bottle		
Brand:	Yonsei Milk		Limited product description. The product claims a rich taste that is high in calcium.
Price:	$2.62		
New Variety:	Nov 2015		
Weight:	223ml		
Packaging:	Plastic bottle		
Brand:	Sada		The product is described as premium food from a clean environment. This pasteurised product retails in a 1 litre pack.
Price:	$10.90		
New Product:	Apr 2017		
Weight:	1 litre		
Packaging:	White plastic bottle		
Brand:	A2 Milk		A2 Milk is imported from Australia. The product retails in a 1 litre pack.
Price:	$10.30		
New Product:	Jul 2017		
Weight:	1 litre		
Packaging:	White plastic bottle		
Brand:	Vdlvan		The milk sourced from healthy Australian cows farmed in Tasmania. This “premium, pure and natural product” retails in a 1 litre pack featuring a QR code and the WeChat code.
Price:	$11.35		
New Product:	Feb 2018		
Weight:	1 litre		
Packaging:	Milk carton		
Brand:	Kyvalley Farms		This Nassa organic certified product retails in a 1 litre pack bearing a QR code.
Price:	$10.47		
New Product:	Aug 2018		
Weight:	1 litre		
Packaging:	Plastic container		

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PRODUCT EXAMPLES WITH HIGH UNIT PRICES

Figure 21: Key products priced in the top 25% of all fresh milk products.

Brand:	Pauls
Price:	$7.33
New Pack:	Jul 2017
Weight:	1 litre
Packaging:	White plastic bottle

It is described as creamy and best quality 100% Australian milk with full cream goodness.

Brand:	Norco
Price:	$7.46
New Product:	Oct 2016
Weight:	1 litre
Packaging:	Clear plastic bottle

The Australian 100% Fresh Whole Milk is processed by pasteurisation. The product retails in a 1 litre pack.

Brand:	Lin Hai Xue Yuan
Price:	$7.20
New Product:	Sep 2018
Weight:	1 litre
Packaging:	White plastic bottle

The product is made using milk sourced from Forest Organic Farm and Factory. This pasteurised milk has been delivered using an air transport with a cold chain system. The product retails in an 1 litre pack bearing a QR code and several organic certified logos.

Brand:	New Hope Shuangfeng
Price:	$2.16
New Variety:	Jun 2015
Weight:	300ml
Packaging:	Plastic Bottles


The product is pasteurised and contains 3.5g protein. It contains natural and pure milk from an ecological farm, and is free from additives. This product retails in a 300ml pack.

Brand:	Seoul F&B; Eannae
Price:	$5.79
New Variety:	Mer 2017
Weight:	1 Litre
Packaging:	White plastic bottle


The product is made using South Korean 1A Grade raw milk which is mellow and nutritious. Promotes premium and natural claims.

Brand:	Anchor
Price:	$3.08
New Variety:	Jan 2018
Weight:	750ml
Packaging:	Clear plastic bottle


Sourced from SQF (Safe Quality Food) certified pasture, this pasteurised product is said to be sweet.

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PRODUCT EXAMPLES WITH PASTURE / GRASS-FED CLAIMS

Figure 22: Key products with pasture-fed claims not already included in figures 19 and 20.

Brand:	Yonsei Milk Talk			Minimal claims but the product describes itself as pasture milk. This may be a translation issue, with “pasture milk” actually referencing “pasteurised milk“.
Price:	$6.24			
New Pack:	Mar 2017			
Weight:	1 L			
Packaging:	Plastic bottle			
Brand:	Yili QQ Star			Yili QQ Star Organic Milk is made using a organic pasture milk source. It contains 3.6g lacto protein per 100ml serving and fortified vitamin A and vitamin D combination. The product then describes how these ingredients improve an individuals health.
Price:	$0.99			
New Variety:	Nov 2017			
Weight:	195ml			
Packaging:	Carton			
Brand:	Chun Yuan			Chun Yuan is sourced from an exclusive organic pasture and provides 3.3g active milk protein per 100ml serving. The full cream product contains zero additives.
Price:	$1.32			
New Variety:	Sep 2018			
Weight:	260ml			
Packaging:	Carton			
Brand:	Chen Guang			Chen Guang (No.1 Hong Kong Supply Fresh Milk) is sourced from “Holstein cows raised in their own pasture, and contains greater than or equal to 3.3% protein”.
Price:	$1.10			
New Variety:	Feb 2018			
Weight:	236ml			
Packaging:	Carton			
Brand:	Meiji Chin Yi			The product only promotes how the milk is processed stating “the milk is made using selected quality raw milk from pastures, which have strict control over dairy cows in terms of health status, feed supply, growing environment and the hygiene of breast pumps…”
Price:	$3.77			
New Pack:	Oct 2018			
Weight:	950 ml			
Packaging:	Carton			
Brand:	Bai Te / Better Milk 35			“The product contains 35g of fresh and active milk protein per 1 litre serving, which is 18.6% higher than national standard.” and “According to the manufacturer, their Holstein cows are fed with natural grass that is high in minerals.”
Price:	$3.70			
New Variety:	Nov 2015			
Weight:	1000ml			
Packaging:	Carton			

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Milk Alternatives

Substitution of liquid dairy products with milk alternatives unlikely in the short term.

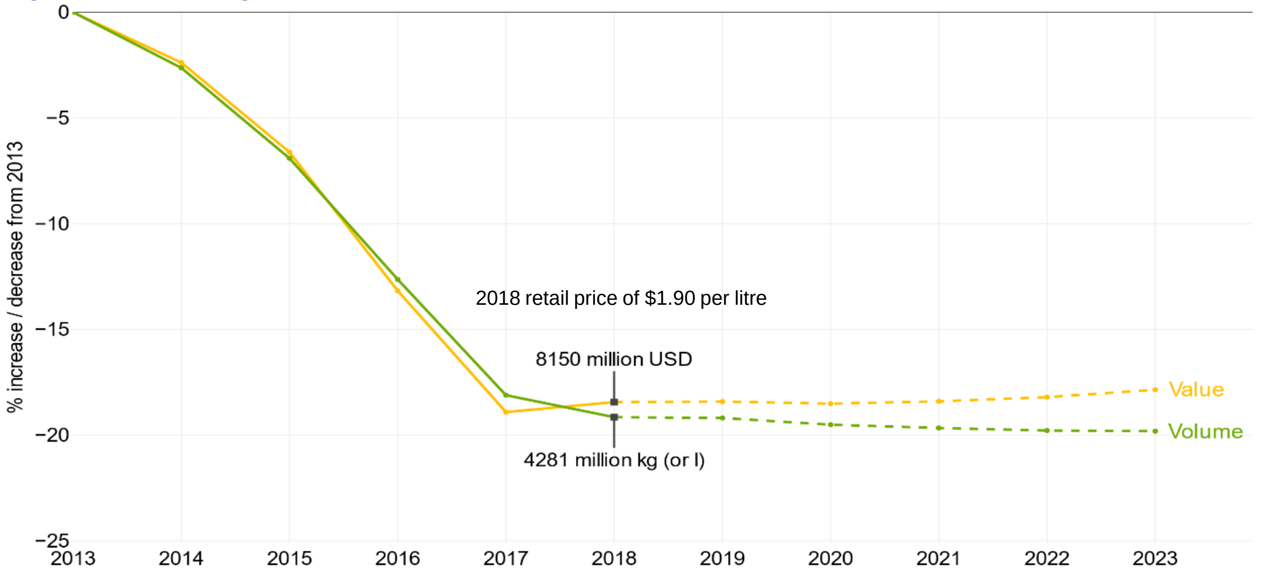
A history of decreasing volume and value which looks to stabilise in the future.

After a 470% surge in the sales of milk alternative products from 2004 to 2013 (where it peaked at $10 billion in retail sales), the milk alternative market has declined to its current level of $8.1 billion in retail sales and 4.3 billion litres retail volumes. This market is expected to remain stable in the next 5 years. Research suggests the reduced consumption of shelf stable milk in China has been, and will continue to be, substituted by fresh milk, rather than dairy alternatives in the future.

Product launches and unit pricing have remained stable for the past 7 years.

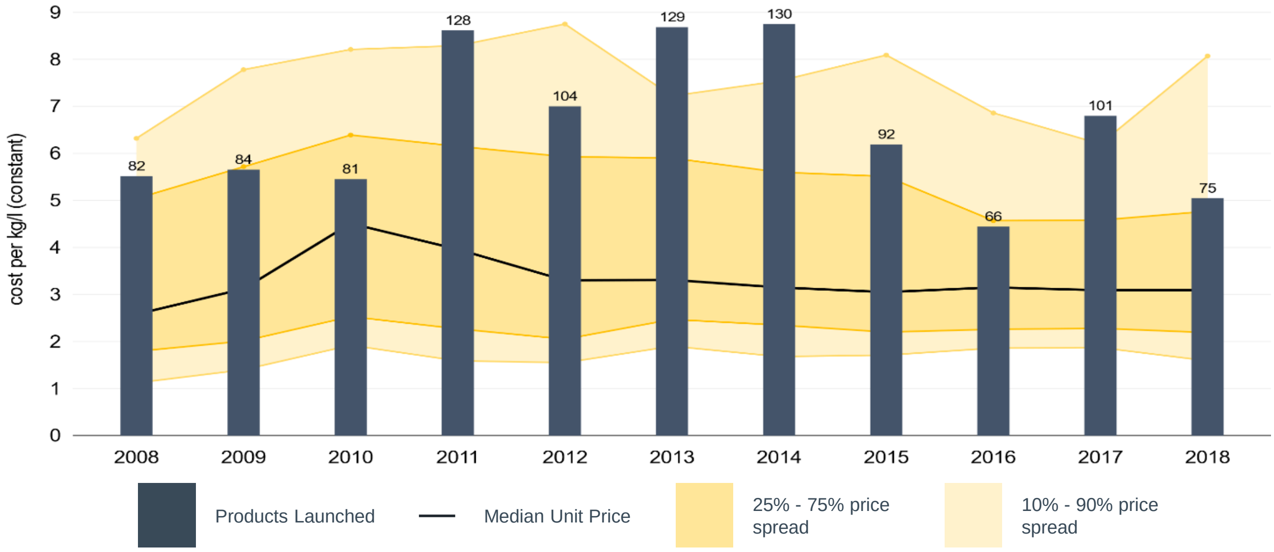
The pricing spread and new product activity for the last ten years in this market has remained subdued. Pricing has remained flat since 2012 with a median price varying between $3.10 to 3.30 per litre. This is 63% higher than the average unit price of total retail sales. This indicates that most products launched into this category are attempting to achieve a significant premium over the average sale unit price of milk alternatives.

Figure 23: Percentage increase from 2013 of milk alternatives in China.



Source: MPI, Euromonitor International Ltd (2018) © All rights reserved.

Figure 24: Milk Alternative products launched / rebranded and unit price spreads.



Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

KEY BRANDS BY MARKET SIZE

Top 5 brands control over 50% of brand share.

Over half of the brand share is held by 5 companies, Hebei Yangyuan Zhihui Beverage (Yangyuan)[(1)] , Vitasoy International Holdings (Vitasoy), Coconut Palm Group (Coconut Palm), Nestlé SA (Yinlu), and Wanxiang Sannong (Lolo).

Multinational companies present.

The growing multinational presence is a recent phenomenon with key investment moves occurring in the last ten years. Vitasoy, Nestlé, and Coca-Cola (with Culiangwang) are all present in the alternative milk space. Nestlé acquired the brand Yinlu from Xiamen Yinlu Food in 2011, and Coca-Cola acquired the Culiangwang from China Green in 2015.

Coconut Palm has one of the largest diversified product mixes.

The company offers alternative milk products using soy, walnut, rice, vegetable and five grain formats (however many products have not been updated since 2009). This diversification suggests it will likely remain a relevant brand should milk alternative ingredient preferences change in the future.

Yangyuan's walnut based products beat out soy rivals.

Hebei Yangyuan Zhihui Beverage holds the largest brand share of 26.2% for milk alternatives. The walnut milk product has twice the brand share of its next largest competitor, Vitasoy which uses a variety of plant ingredients for its products.

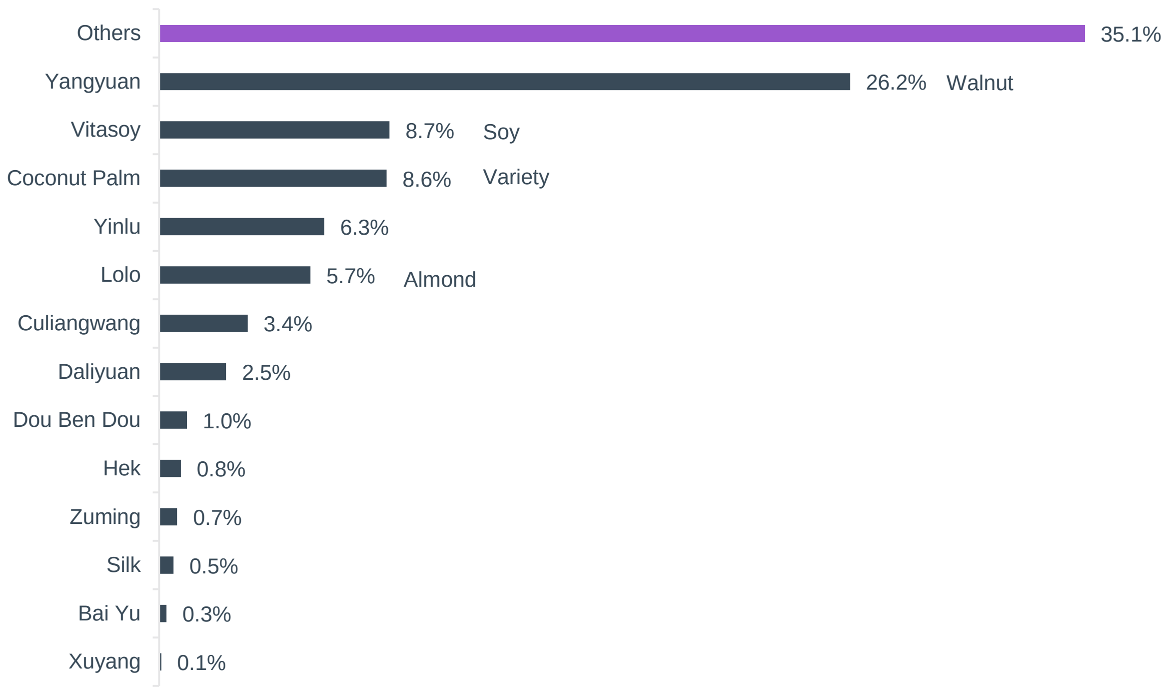
Strong growth from established Soymilk brand Vitasoy.

Vitasoy, owned by Vitasoy International, doubled its brand share in the Chinese market between 2009 and 2018. The Hong Kong based brand originally made Soymilk as an alternative to milk due to the high number of lactose intolerant Chinese. Vitasoy International now have nineteen different products with a range of ingredients including rice, coconut, almond and oat milks.

Smaller number of brands.

The alternative milk category has a small number of brands, only two new brands over 10 years gaining 0.5% or more of the brand share. These include Silk Food's (Shanghai) brand Silk (0.5% brand share) and Fujian Dali Food's brand Dou Ben Dou (1% brand share).

Figure 25: Brand share for milk alternative products in 2018.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Note: 1: While Euromonitor lists Hebei Yangyuan Zhihui Beverage Co's product as Yangyuan, most media reports use the name 'six walnuts'.

PRODUCT EXAMPLES FROM LARGE BRANDS

Figure 26: Key milk alternative products from top brands by market size in 2018.

Brand:	Yangyuan
Price:	$4.63
New Pack:	Jan 2018
Weight:	12 x 180ml
Packaging:	Cans

This shelf stable walnut milk product is low in sugar, and contains prebiotics.

Brand:	Vitasoy
Price:	$0.45
New Pack:	Dec 2017
Weight:	250ml
Packaging:	Drinkable carton

The UHT treated soymilk is low in fat, contains zero cholesterol and is aimed at children.

Brand:	Coconut Palm
Price:	$0.81
New Pack:	Jul 2015
Weight:	245 ml
Packaging:	Carton

The drink is made using walnut kernel and processed according to a specific grinding technique. This product is free from flavourings.

Brand:	Yinlu
Price:	$0.77
New Product:	May 2012
Weight:	320g
Packaging:	Aluminium Can

Limited product description. Notable use of an aluminium can to deliver the product. There appears to be little activity by this brand in general, likely due to the brands takeover by Nestle in 2011.

Brand:	Lolo
Price:	$8.12
New Pack:	Mar 2017
Weight:	12 x 145ml
Packaging:	Cans

The almond based product contains 1.2g of plant protein per can. It promotes various vitamins, dietary fibres and trace elements to support child growth, with a specific target demographic of mothers. The pack also reflects a child friendly motif.

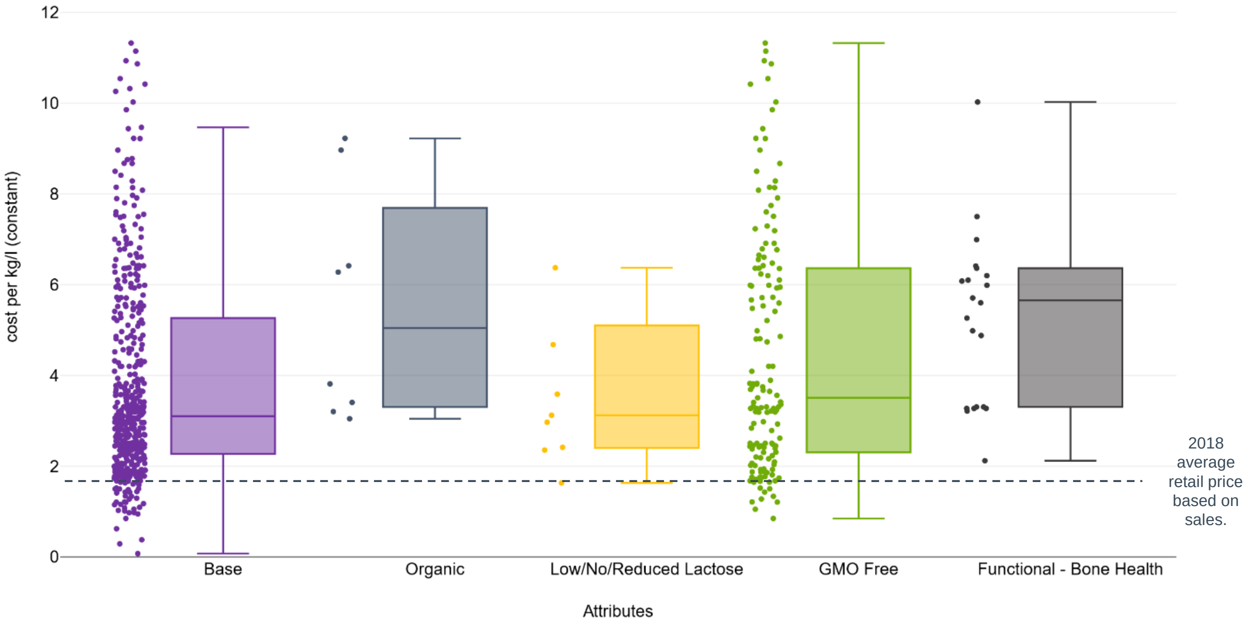
Brand:	Dou Ben Dou
Price:	$2.77
New Pack:	Jul 2018
Weight:	1.25 litres
Packaging:	Plastic bottle

The brand has recently had a major rebranding exercise and is now available in a newly designed 1.25 litre pack bearing a WeChat QR code. It promotes GMO Free as well as many other health related claims associated with soy bean products.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT CLAIMS ASSESSMENT

Figure 27: Attribute claims for milk alternative products released or rebranded in China from 2014 – 2018.



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GMO Free

GMO free claims significant due to presence of soy products.

48% of all milk alternative products launched into China since 2014 claim GMO free. This is significantly higher than in other drinking milk formats. There were no products with GMO free claims in the fresh milk category and less than 1% of shelf stable milk products claimed to be GMO free.

This trend is primarily due to Chinese food labelling regulations. Product claims in China often only allow a product to promote attributes that are from an included ingredient such as added calcium. Seeking approval to promote a product because it does not contain an ingredient is difficult. As a result, there is very little to GMO free labelling in dairy products. Products like soy milk often use GMO soy, so promoting non GMO soy milk is much easier to obtain if the product uses non GMO soy varieties.

GMO free labelling is important. Chinese consumers are sensitive to the use of GMO foods. A 2018 study in Nature on the public perception of genetically modified foods in China showed 47% of respondents having a negative opinion on GMO foods and only 11.9% having a positive opinion(1).

Milk alternative products promoted GMO free claims heavily due to the use of GMO free soy. Despite this, there is little indication that promoting this claim would lead to an increased unit price for milk alternatives (the median unit price for GMO free products launched was only 40 cents per litre higher than the baseline median of $3.10 per litre).

Figure 28: Claims associated with GMO free.

Claims (top 25% of products)(3)	%
No Additives / Preservatives	47
Time / Speed	47
Social Media Presence	24
vitamin and Mineral Fortification	21
Halal	16

Claims (all products)(3)	%
No Additives / Preservatives	52.3
Low / No / Reduced Cholesterol	26
Time / Speed	19
Social Media Presence	18
High / Added Protein	18

Source: MPI, Mintel GNPD (2018) © all rights reserved.

There are few distinctive claims that are associated with GMO free products. However it should be noted that 1 in 5 of product being priced in the top 25% of Milk Alternative products are promoting vitamin and mineral fortification.

Notes: 1: Nature NPJ science of food: *Public perception of genetically – modified (GM) food: A Nationwide Chinese Study.* Jun – 2018

Bone Health

Premium prices but a small sample size.

Since 2014 only 22 products across 11 brands have promoted bone health as a product claim. The median unit price for a product with this claim was $2.55 per litre higher than the baseline price. Interestingly, 65% of the products listed were in powder format which is the likely reason for the premium price. These products also heavily promoted the use of added calcium and Vitamin / mineral fortification. A dairy and non dairy blended product could meet many of these claims, however with many milk alternative consumers choosing milk alternative products due to a desire to not consume any dairy at all, ensuring there is a large enough consumer segment interested in this product would be critical.

Figure 29: Claims associated with bone health.

Claims (top 25% of products)(3)	%
Functional - Other	73
GMO free	55
Vitamin / Mineral Fortified	50
Added Calcium	41
Time / Speed	40.9

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Organic

Four brands promote organic claims. Three of which are soybean products.

Eight products (seven of which are soy based) across four brands promote organic claims. The two products with the highest unit prices are soybean tea powders from, the brand Ibuy. Topmost and Dou Ben Dou (a brand with 1% market share) make up the remainder of the organic soymilk products. Both brands launched organic products within the last year and seek to establish and grow the organic soymilk market.

Figure 30: Claims associated with organic.

Claims (top 25% of products)(3)	%
GMO Free	63
Social Media Presence	38
Environmentally Friendly Product	38
Halal	25
Time / Speed	25

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PRODUCT EXAMPLES WITH GMO FREE CLIAMS

Figure 31: Key products with GMO Free claims.

Brand: Yon Ho Wu Gu
Price: $4.59
New Product: Jul 2018
Weight: 7 x 30g
Packaging: Large pack

The product uses selected GMO free soybean and grains which are processed according to a modern technique. It is free from trans fat and cholesterol, and is said to be nutritious and tasty.

Brand: Bing Quan
Price: $3.91
New Pack: Jun 2017
Weight: 400g
Packaging: Flexible pack

It is made using GMO free soybeans from Northeast China, and provides the body with calcium, zinc, iron, vitamins, minerals, trace elements and oligofructose. The soy drink contains quality plant protein, and is said to be mellow, smooth and tasty.

Brand: Pulmuone
Price: $0.73
New Pack: Sep 2018
Weight: 220ml
Packaging: Flexible pouch

The new pouch package has been designed to preserve freshness. The product demonstrates its ISO (International Organisation of Standardisation) and HACCP (Hazard Analysis and Critical Control Points) certifications. It is made using selected GMO free soybeans and processed according to a homogenization technique.

Brand: Dou Ben Dou
Price: $10.46
New Variety: Jul 2018
Weight: 12 x 250ml
Packaging: Drinkable carton

The GMO free product uses green soybeans and contains 3.6g plant protein per 100ml serving. Despite the organic claim this part is not mentioned in the product description.

Brand: Topmost
Price: $2.93
New Pack: Jun 2018
Weight: 450ml
Packaging: Plastic bottle

Limited product description however uses a QR code and the China Organic Logo.

Brand: Plan N Ci Fang
Price: $1.71
New Variety: Jun 2017
Weight: 350ml
Packaging: Plastic bottle

The product claims that it will provide a sense of fullness and is free from artificial colourings, artificial sweeteners, preservatives and trans fatty acids.

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PRODUCT EXAMPLES WITH BONE HEALTH CLAIMS

Figure 32: Key products with bone heath claims.

Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Dongjian $2.72 May 2017 12 x 25g Box with sachets		The instant and microwavable product is made using GMO free soybean from Northeast China and processed according a to Swiss atomisation technique to retain the nutrients of the whole soybeans. It contains greater than or equal to 26% protein, and is free from sucrose. The product description then discusses many positive health attributes associated with the Soymilk product.
Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Vitasoy $0.80 Sep 2018 250ml Carton		The product has the FSC (Forest Stewardship Council) logo and WeChat code. It is made using selected GMO free soybeans. The product notes its health claims including bone health.
Brand: **Price:** **New Product:** **Weight:** **Packaging:**	Gu Li Gu Li Goldoats $0.55 Jan 2015 250ml Drinkable carton		The product is made from oatmeal sourced from Australia. It contains dietary fibre which is said to promote promote a healthy body shape, fatty acids to nourish the body, protein to provide nutrients, minerals and active calcium to strengthen bones.
Brand: **Price:** **New Variety:** **Weight:** **Packaging:**	Chuhe $2.14 Jun 2015 350g Soft package		The product, like many others links the nutrients to specific functions. For example, iron to aid the formation of red blood cells, and calcium to enhance bone density.
Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Weiwei $3.84 Mar 2016 760g Soft package		The product, like many others links the nutrients to specific functions. For example, vitamin D to help in the adsorption of calcium and calcium to help maintain bone density.

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MEILLEUR AVANT ▲ BEST BEFORE

Shelf Stable Milk

Declining volumes indicate high volume, low cost liquid consumption in this category may be declining.

Good value growth despite declining volumes.

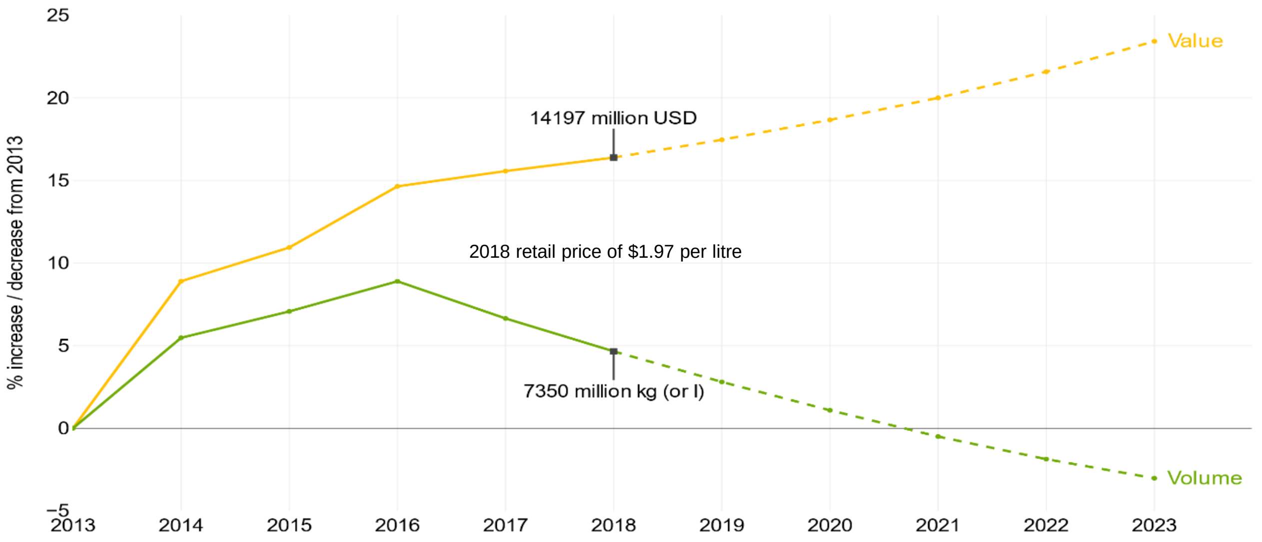
Shelf stable milk is the second largest dairy category by volume in China after drinking yoghurt. Forecast volumes are predicted to decline by 8% from 2018 to 2023. This loss will likely reflect the expected increase in consumption of fresh milk.

We conclude one of the reasons for increasing market values is that as fresh milk becomes more convenient and affordable relative to shelf stable milk, the average consumer may switch their basic milk supply to fresh milk. This would result in a greater concentration of high value products being offered in this category. These will likely be in convenient delivery methods similar to drinking yoghurt (i.e. 250ml cartons).

Increasing rates of new product launches.

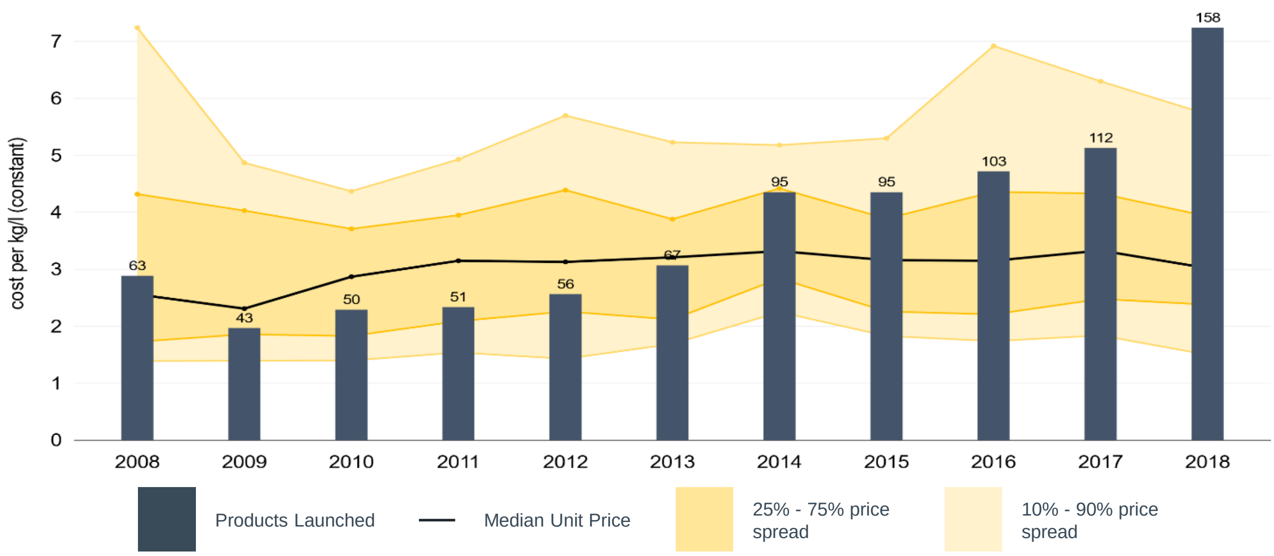
The number of new product launches have increased to 158 in 2018 from a low of 43 in 2009. Unit prices have remained steady over this time indicating the prices consumers are willing to pay for basic and premium products are likely well established.

Figure 33: Percentage increase from 2013 of shelf stable milk in China.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved

Figure 34: Shelf stable milk products launched / rebranded and unit price spreads.



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KEY BRANDS BY MARKET SIZE

Overview

Yili and Mengniu dominate the market.

71.8% of the 2018 market share is controlled by brands owned by Mengniu Dairy or Yili Group. Mengniu Dairy owns Jun Le Bao (0.7%), Deluxe (17.7%) and Mengniu (20.1%). Yili Group owns Satine (15.4%) and Yili (18.6%).

China Mengniu Dairy Overview.

Mengniu Dairy holds 38.5% of the shelf stable brand share. This has grown over the past 10 years from a 2009 market share of 29.5%.

The distribution of the brand share within the company has changed over time. In 2009 the brand Mengniu held 30% of the shelf stable category's brand share while its secondary brand, Deluxe only held 5%. By 2018 the Deluxe brand had grown significantly, holding 17.7% of the brand share while Mengniu held 20.1% of the total brand share.

Yili Group Overview.

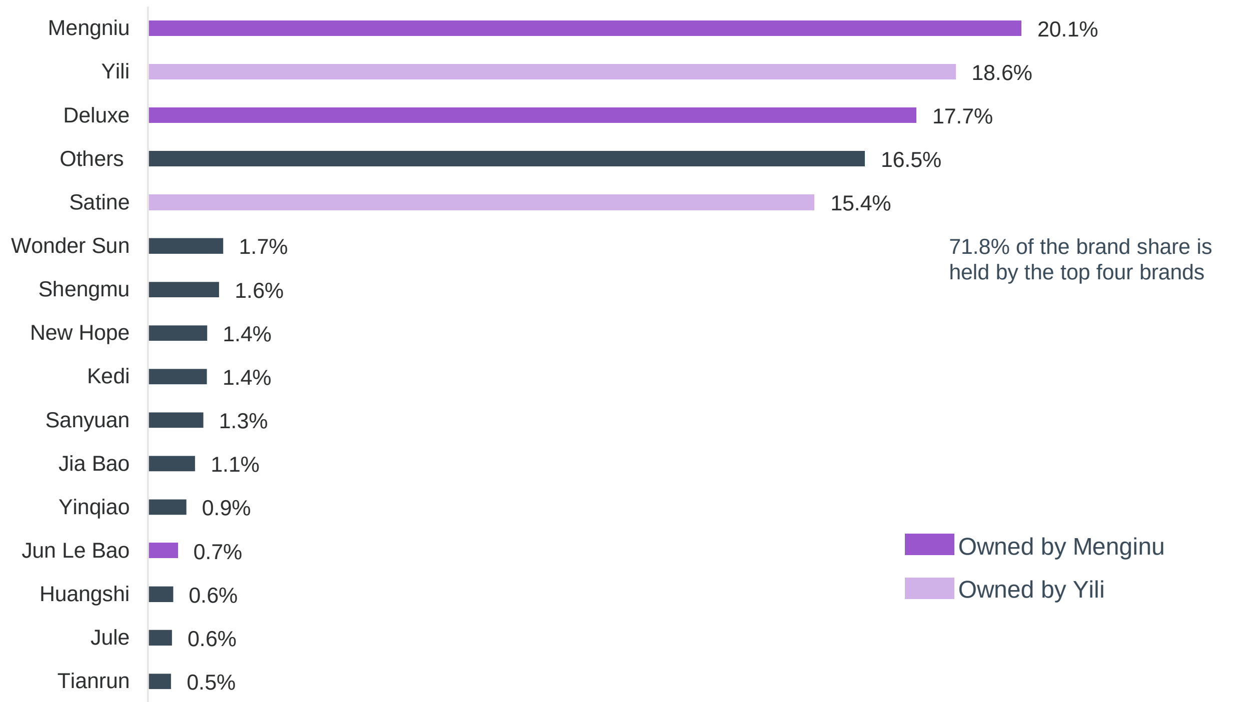
Brands owned by Yili Group have increased their market share from 23.7% in 2009 to 34% in 2018. The group have two main brands: Satine and Yili. Satine has been the fastest growing brand in the category, increasing from 2.1% in 2009 to 15.4% in 2018. The Yili brand peaked its brand share in 2012 (29.3%) and has since dropped to 18.6% in 2018.

Loss of small player brand share over 10 years.

The success of large companies in this category has come at the expense of smaller brands. In 2009, brands outside of the top 15 occupied 32% of the total brand share, by 2018 this fell to 17%.

This is important for companies who are considering entering this market. Volumes of shelf stable milk are expected to decline in the next 5 years, and the evidence of smaller brands or new entrants succeeding by growing brand share is limited. Brands will likely need to have strong differentiation to succeed in a market with stagnating volumes and entrenched incumbents.

Figure 35: Market share of shelf stable milk product brands in 2018.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

PRODUCT EXAMPLES FROM LARGE BRANDS

Figure 36: Key shelf stable products from top brands by market size in 2018.

Brand: Mengniu / Monmilk
Price: $6.25
New Pack: Jul 2018
Weight: 10 x 250ml
Packaging: Drinkable cartons

This pure milk product promoted its good protein levels of 3.3g per 100ml serving as the only claim in the product description.

Brand: Yili Satine
Price: $10.27
New Pack: Dec 2017
Weight: 12 x 250ml
Packaging: Drinkable cartons

The low fat pure milk product contains 50% less fat, 3.6g quality protein and 120mg high calcium per 100ml serving. The new product package includes a QR code and the FSC (Forest Stewardship Council) logo.

Brand: Deluxe
Price: $21.70
New Pack: May 2018
Weight: 12 x 330ml
Packaging: Drinkable cartons

Minimal product description only stating that the "high quality milk is sourced from an exclusive dairy farm".

Brand: Yilie – QQ Star
Price: $1.43
New Pack: Sep 2018
Weight: 4 x 125ml
Packaging: Drinkable cartons

The product is targeted at growing children. Unique ingredients include 20mg of fish oil extract per serving with docosahexaenoic acid that enhances intellectual development. The product also promotes that it is free of cane sugar.

Brand: Wondersun
Price: $8.22
New Pack: Mar 2018
Weight: 20 x 250ml
Packaging: Box with cartons

The basic product has a list price of $1.64 per litre with minimal product descriptions.

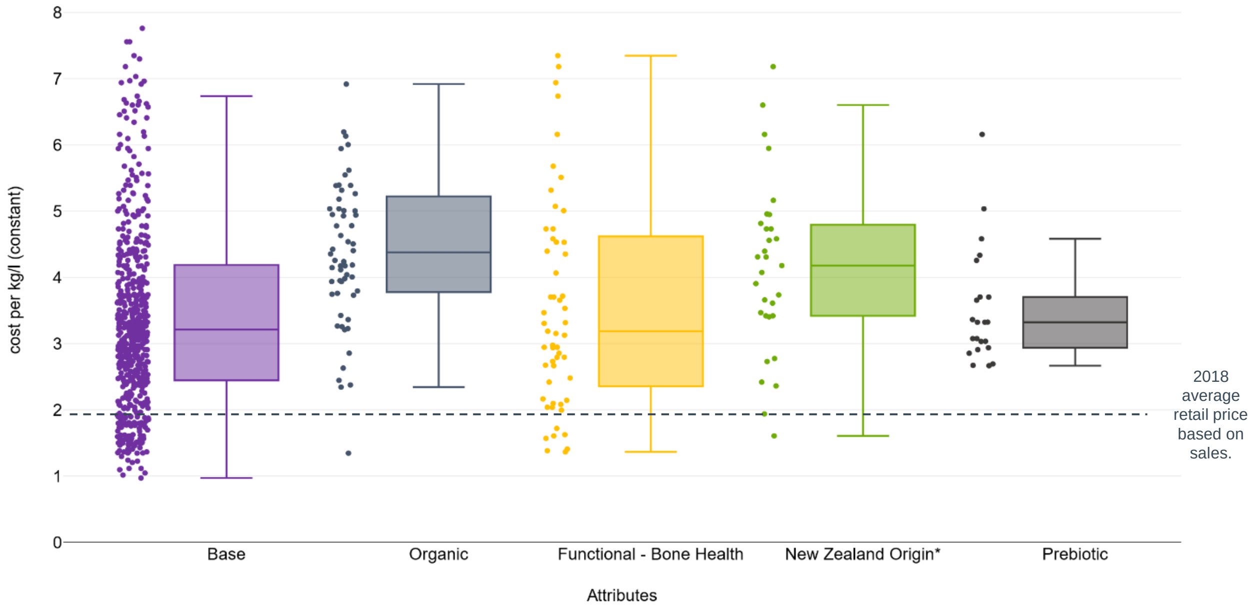
Brand: New Hope
Price: $9.46
New Variety: May 2018
Weight: 24 x 250ml
Packaging: Drinkable cartons

This product promotes itself as having 3.3g protein per 100g.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT CLAIMS ASSESSMENT

Figure 37: Attribute claims for shelf stable milk products released or rebranded in China from 2014 – 2018.



Source: MPI, Euromonitor International, Mintel GNPD (2018) © all rights reserved.

New Zealand Origin

Of the 563 products assessed from 2014 to 2018, only 31 products had claims relating to New Zealand. 15 of these products are from the Anchor brand, owned by Fonterra.

These products (with a median price of $4.20 per litre) are priced higher than the baseline (median price of $3.20 per litre). Many of the products promote the free range nature of the New Zealand farming system however only a few products discuss the cows diet, instead preferring to focus on the products health benefits to the consumer such as high protein and calcium.

Two brands featured the New Zealand country outline on their product covering, indicating some companies believe this outline may be familiar with Chinese consumers.

Figure 38: Claims associated with New Zealand Origin.

Claims (All)	%
Environmentally Friendly Package	52
Ethical - Animal	32
Bone Health	29
Free range*	26
Low / No / Reduced Fat	23

Source: MPI. Mintel GNPD (2018) © all rights reserved.

Pasture-fed and Grass Fed

Grass-fed claims may be confused with pasture fed.

There are 61 products assessed from 2014 to 2018 that use the term pasture fed. Many of the products do not mention how the cows are fed, either via a barn style system or by foraging the grass themselves.

Further work would be required to determine the following questions:

- Do consumers realise that pasture-fed may mean the cow is not free range?
- Would this change their opinion of pasture-fed products?
- What are the perceived benefits of grass-fed pasture to the animal and consumer?

At this stage, our analysis indicates there is no evidence that pasture / grass-fed products are a reason for a product to be priced higher than the baseline level in this category.

Companies looking to promote pasture-fed shelf stable products into China as a high value claim may need to create strong messaging to support the free range nature of the product in a way that other pasture-fed products cannot replicate.

Figure 39: Claims associated with pasture / grass fed.

Claims (All)	%
Environmentally Friendly Package	52
Ethical - Animal	32
Bone Health	29
Free range*	26
Low / No / Reduced Fat	23

Source: Mintel (GNPD) © all rights reserved.

Organic and Associated Raising Claims

Organic Shelf Stable Milk Products have high associations with other 'natural' claims.

Unlike other categories, organic shelf stable products are often linked with hormone-free and antibiotic-free product claims. This is due to the strong presence of the Sheng Mu Organic brand. Over 80 percent of the hormone-free, antibiotic-free and pasture-fed claims stem from this one brand.

The brand is the largest organic dairy company in China. The company is vertically integrated with all farms self-owned. Companies that are interested in promoting grass fed, and antibiotic claims in China should study the brand closely as the company's products will likely have significant impact on consumer perception of the entire organic category.

Figure 40: Claims associated with organic.

Claims (All)(1)	%
No Antibiotics*	33.3%
Hormone Free	32
Pasture or Grass Fed	30
Environmentally Friendly Package	25
Environmentally Friendly Product	25

Source: MPI Mintel GNPD (2018) © all rights reserved.

Notes: 1: Claims associated with grass-fed and pasture-fed as separate search terms were not included.

PRODUCT EXAMPLES WITH NEW ZEALAND ORIGIN CLAIMS

Figure 41: Key products with New Zealand origin claims.

Brand: Anchor - Live Up **Price:** $16.67 **New Formula:** Jan 2017 **Weight:** 10 x 250ml **Packaging:** Carton		The new formulation now has 50% more protein and calcium due to a membrane filtration technique. It is made using selected New Zealand milk sources. It promotes the health benefits of the product instead of its food safety or raising claims.
Brand: Mengnui – Monmilk Milk Deluxe **Price:** $18.09 **New Pack:** April 2016 **Weight:** 12 x 250ml **Packaging:** Cartons		This product is made with “100% imported milk from free range cows in New Zealand” and contains 3.6g high quality milk protein per 100ml serving. This milk is said to be pure and mellow. There are no claims relating to the products grass-fed nature.
Brand: Meadow Fresh – Walking Cow **Price:** $15.53 **New Variety:** May 2018 **Weight:** 12 x 250ml **Packaging:** Cartons		The UHT milk is sourced from free range pure bred cows that are fed on the natural grass meadows of New Zealand. This product contains 4g protein and 5g fat per 100ml serving to offer a healthy and nutritious support.
Brand: Yili Satine **Price:** $12.18 **New Pack:** Jun 2018 **Weight:** 12 X 250ml **Packaging:** Cartons		The product is “sourced from its own production base in New Zealand and the whole process can be traced”. The product contains 4g protein per 100ml.
Brand: Theland **Price:** $9.29 **New Product:** Apr 2017 **Weight:** 10 x 250ml **Packaging:** Cartons		The product is “direct from a farm in New Zealand” and contains 3.5g of protein per 100ml serve.
Brand: Nestle **Price:** $19.43 **New Variety:** Nov 2017 **Weight:** 24 x 250ml **Packaging:** Carton		The product uses “100% fresh cow's milk imported from New Zealand”. It also uses high calcium and low calorie claims for managing weight.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT EXAMPLES WITH PASTURE-FED CLAIMS

Figure 42: Key products with pasture-fed claims.

Brand: Sheng Mu
Price: $12.89
New Pack: Sep 2018
Weight: 12 x 250ml
Packaging: Cartons

Sourced from organic pasture in the Ulan Buh Desert, Inner Mongolia. The product is free from antibiotics and hormones and fed with grass that is free from pesticides and chemical fertilizers. The product contains greater than or equal to 3.5g high quality protein per 100ml serving.

Brand: Australia's Own
Price: $18.82
New Pack: Sep 2018
Weight: 15 x 200ml
Packaging: Cartons

The product features the FSC (Forest Stewardship Council) logo and a QR code, with milk sources from non-polluted natural pasture. It contains calcium, iron and vitamin D.

Brand: Anchor Natural Up
Price: $11.49
New Product: Feb 2017
Weight: 10 x 250ml
Packaging: Cartons

The product claims it is taking milk from the top 1 percent of cows. The milk is selected from New Zealand cows that are living in a pasture with no synthetic chemicals including pesticides, chemical fertiliser or growth regulating agents.

Brand: Meadow Fresh
Price: $13.44
New Pack: Dec 2017
Weight: 12 x 250ml
Packaging: Cartons

The product has the FSC (Forest Stewardship Council) logo and promotes high calcium and protein levels. The product is “sourced from free range pure bred cows fed on natural grass in a natural pasture”.

Brand: Weidendorf
Price: $11.54
New Pack: Jul 2018
Weight: 12 x 200ml
Packaging: Cartons

This product is imported from Germany and made using selected high quality milk from pastures by the Rhine river. The product claims good protein and fat levels.

Brand: Sheng Hu
Price: $0.76
New Variety: Oct 2017
Weight: 200ml
Packaging: Carton (single)

The company uses the term pasture in its brand (Highland Pasture Pure Milk). The only claims described are that the product is halal.

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Milk Powder

Value growth amid plateauing volumes may indicate high value powder products which are difficult to replicate in liquid form may find success.

Milk Power moving from volume to value.

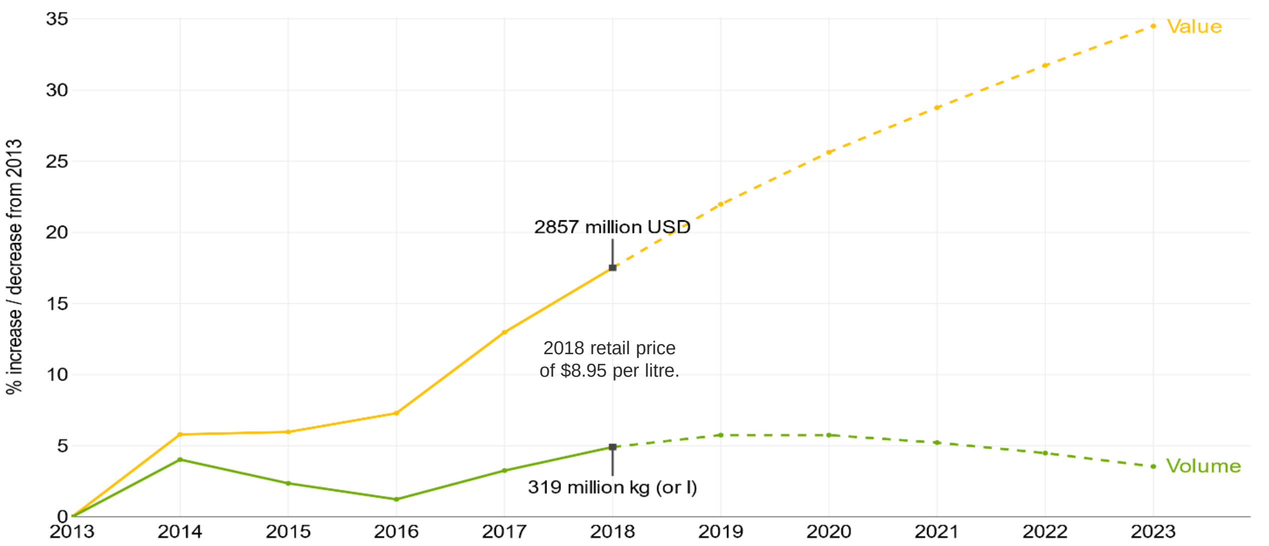
Stable forecast volumes are expected in the future from this category. This is likely due to a continued increase of consumers disposable income in China which has doubled from 2008 levels[1]. This has allowed more consumers to have the option of moving their base milk supply to liquid milk forms such as fresh milk.

We expect high value milk powders to fill the volume gap left by any reduction in basic milk powder products. This underpins the higher expected values of this category despite similar historic volumes.

Increase in product launches and rebranding.

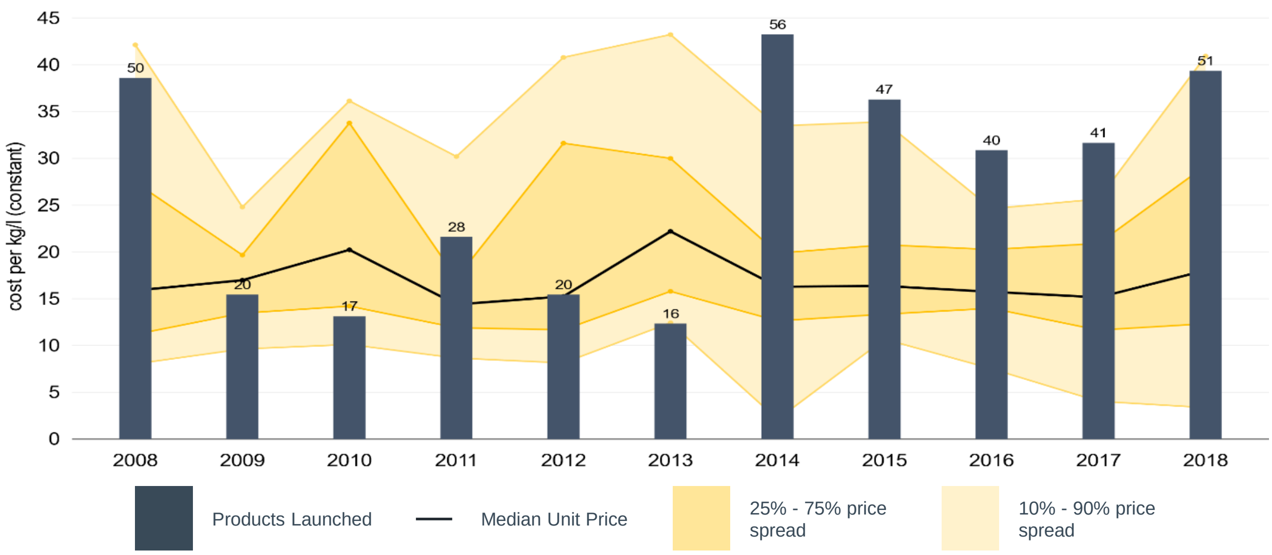
Many brands are actively introducing products seeking to achieve a strong premium in this category in the future. The 2018 median listing unit price for these products is 66% higher than the total average retail sale price of milk powder in 2018.

Figure 43: Percentage increase in volume and value from 2013 of milk powder in China.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

Figure 44: Milk powder products launched / rebranded and unit price spreads.



Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Notes: 1: National Bureau of statistics of China 2018.

KEY BRANDS BY MARKET SIZE

The milk powder market is one of the least concentrated by brand presence.

No single brand has a market share greater than 15%, and the top 15 brands in 2018 have lost 3% brand share since 2009, falling to 50% of the market share in 2018.

This is good news for companies seeking to enter this market. Large brands have not been successful in consolidating the milk powder sector compared to other dairy categories. New brands seeking to enter this category will need to ensure that their marketing strategy is clear to engage consumers in a market likely to have a larger number of prominent brands and competitors.

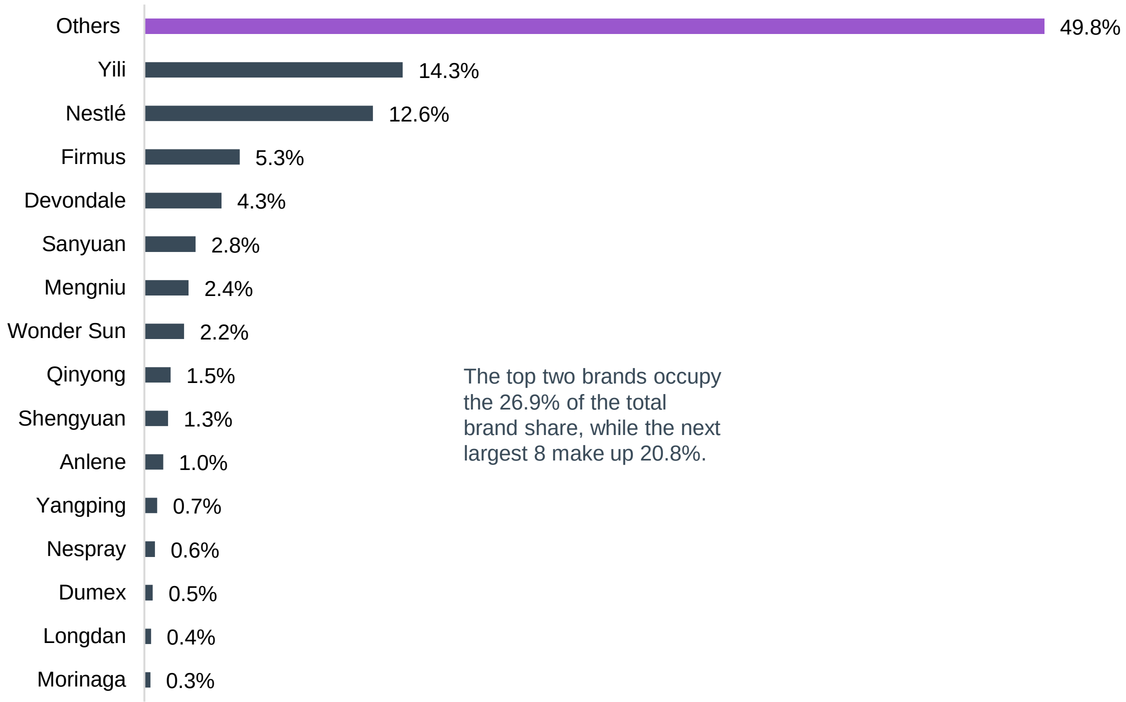
Yili (domestic) and Nestle (International) remain the top brands by market size.

Chinese based Yili remains the top brand with a 14.3% market share in 2018. While its brand share diminished in 2012 (it dropped to 12.6%), it has been steadily gaining over the past 5 years. Nestlé has slowly grown its brand share through its name brand Nestlé, from 11.4% in 2009 to 12.6% by 2018. Its other brand Nespray has remained steady over the same period.

Australian brand Devondale a brand growth success story.

The Devondale brand owned by Murray Goulburn Co-operative achieved the largest growth out of the top 15 brands. Beginning in 2012, the brand has steadily increased its brand share each year and now occupies 4.3%. In 2018 Murray Goulburn Co-operative was sold to Canadian dairy giant Saputo.

Figure 45: Market share of Milk Powder product brands in 2018.



Source: MPI, Euromonitor International Limited (2018) © all rights reserved.

PRODUCT EXAMPLES FROM LARGE BRANDS

Figure 46: Key products offered in a sachet format from leading brands by market size.

Brand: Yili
Price: $5.76
New Pack: October 2018
Weight: 400g
Packaging: Sachet

The high calcium and multi-vitamin milk powder is targeted towards middle and senior aged groups. The product claims to use hydrolyse latose to provide relief for lactose intolerance.

Brand: Nestle (an Liac)
Price: $9.23
New Variety: August 2018
Weight: 16 x 25g
Packaging: Sachets

This high calcium skim milk product is made using imported milk and claims to be a good source of calcium, vitamin D and quality protein.

Brand: Firmus Jing Dian 1962
Price: $4.28
New Product: Dec 2016
Weight: 16 x 25g
Packaging: Sachets

The product promotes added zinc and iron as well as being high in calcium. The product is made "using quality milk from its own pasture" and processed according to advanced technology.

Brand: Devondale
Price: $14.02
New Variety: Aug 2017
Weight: 1 kilogram
Packaging: Single sachet

Limited product description, simply stating it can make 'seven delicious litres of full cream milk'. The product also contains a QR code.

Brand: Sanyuan
Price: $7.05
New Variety: Aug 2018
Weight: 16 x 25g
Packaging: Aug 2018

The company has many segmented products (i.e. child, adult, senior, female). The product has 40% fat reduced milk with added vitamin D, C, E, folic acid, iron and calcium and also has a QR code.

Brand: Mengniu - Monmilk
Price: $4.71
New Variety: May 2018
Weight: 16 x 25g
Packaging: Sachets

The company has many segmented products (i.e. child, adult, senior, female). This product is targeted towards students and contains high calcium, high zinc, taurine, lecithin and various vitamins. It also outlines a range of health and food safety standards which the company meets.

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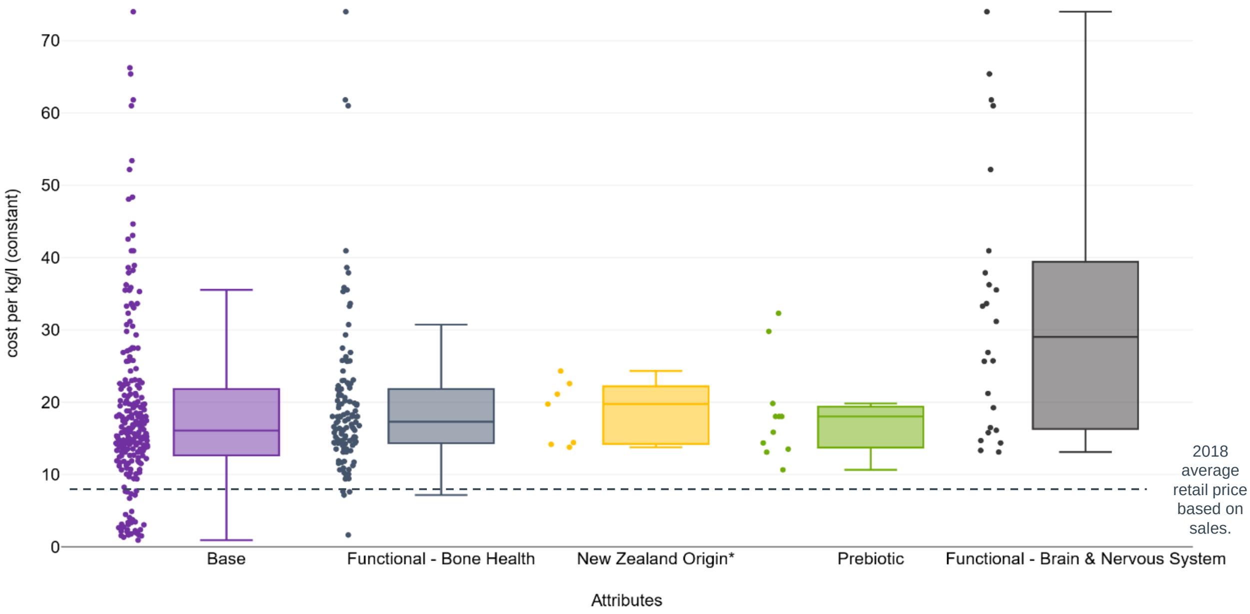
CLAIMS ASSESSMENT OF MILK POWDER SACHETS

Figure 47: Attribute claims for milk powder products released or rebranded in China from 2014 – 2018.



Source: MPI, Euromonitor International, Mintel GNPD (2018) © all rights reserved.

Functional health claims

Bone health – a common claim with limited potential.

Bone health claims are common. 38% of the 152 products assessed have this claim, the highest of the 85 claims that were searched. The median price of products promoting bone health were only 20c higher per kilo than the baseline median which was $14.28 per kg.

The promotion of bone health appears to have limited correlation with higher list pricing. Promotion of this claim would likely only add value if it could be proven that it would result in increased sales.

Brain and Nervous system development is a small but high value claim.

Ten sachet based milk powder products (6.6% of the totals) promote improved brain and nervous system functions. Three quarters of these products are priced above the baseline median price which is $17.90. Due to the small sample size, assessment of products promoting brain and nervous system claims should be made on a product by product basis.

Eye health claims are used in partnership with other functional claims, not as a stand alone claim.

11 products were found that promoted eye heath. These products focused on how the use of vitamin A promotes improved vision at night.

None of these products have specific focus on eye health, with most including eye health benefits within a large range of other health claims from other vitamins and minerals. These products advertise how the health of the entire person can be improved by consuming their product rather than just a single body component.

Figure 48: Claims associated with the top 25% of all milk powder sachet products.

Claims (Top 25%)(x)	%
Functional - Other	
Functional – Bone health	
Vitamin / Mineral Fortified	
Low / No / Reduced Fat	
Added Calcium	

Source: MPI, Mintel GNPD (2018) © all rights reserved.

Pasture-fed and New Zealand origin claims

Limited products and varying descriptions make promoting pasture-fed claims difficult.

11 out of the 19 products that mention pasture in their product description are from two brands (Firmus and Zhong Xing). Pricing spreads for pasture-fed products were similar to the base, with a median unit price of $13.80 per kg, 45c less than the baseline median.

Many of the products that promote ‘pasture fed’ claims simply state that the product is sourced from pasture, with no mention of how the cows are fed the pasture (i.e. by barn or free range). New Zealand brand Anmum was the only product of the six sampled that attempted to promote the free range nature of their product with a more descriptive definition. The Anmum product states that the milk is ‘sourced from free range cows that roam in natural pastures’. This product was the second highest priced product of the 17, retailing at $33.60 per kg.

There are few products promoting pasture-fed claims. Correlations between grass fed, organic, and GMO free are not apparent. Companies seeking to launch milk powder products with grass-fed claims should undertake further research to ensure that the promotion of this claim attracts a premium.

Figure 49: Claims associated with grass-fed from milk powder sachet products.

Claims (All)	%
Functional - Other	35.3
Functional – Bone health	29.4
No Additives / Preservatives	29.4
Vitamin / Mineral Fortified	23.5
Halal	23.5

Source: MPI, Mintel GNPD (2018) © all rights reserved.

PRODUCT EXAMPLES WITH EYE HEALTH CLAIMS

Figure 50: Key products with eye health claims.

Brand:	Urbetter		Urbetter Lactobacillus Goat Milk Powder promotes the following ingredients: active lactic acids, acid bacteria and taurine, protein, amino acids, dietary fibre, vitamin A C and E, iron and zinc. Each ingredient also describes how it helps with the health of the person with vitamin A being related to eye health.
Price:	$14.98		
New Variety:	Jan 2018		
Weight:	16 x 25g		
Packaging:	Box with sachets		
Brand*:	Firmus Jing Dian		This product targets middle aged and senior groups. It is high in calcium and multi-vitamins. It promotes the claimed health benefits of many of its ingredients with vitamin A claimed to improve vision at night.
Price:	$7.27		
New Product	Sep 2016		
Weight:	16 x 25g		
Packaging:	Sachets		
Brand*:	Yili (Yang Sheng Yi Zu)		The product is targeted towards middle aged and senior citizens. The product promotes many claims based on the products ingredients including vitamin A which "helps maintain vision at the dark environment".
Price:	$4.87		
Relaunched:	Mar 2017		
Weight:	400g		
Packaging:	Single pouch.		
Brand:	Wondersun		The product has no specific demographic target in mind. It promotes many product ingredients including vitamin A which "makes eye see better at night".
Price:	$5.39		
New Pack:	Mar 2016		
Weight:	400g		
Packaging:	Single pouch.		
Brand*:	Da Qing		The product is targeted towards middle aged and senior groups with the promotion of many vitamins and minerals including vitamin A for eye health.
Price:	$6.79		
New Product:	Jan 2015		
Weight:	16 x 25g		
Packaging:	Carton		
Brand:	Da Qing		The product uses "milk from a farm with a big prairie". The product is said to be designed for Chinese people. And promotes a variety of vitamins including vitamin A for eye health.
Price:	$6.46		
New Product:	May 2015		
Weight:	16 x 25g		
Packaging:	Carton with sachets.		

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Notes: * Indicates products that also promote functional improvements to the brain and nervous system.

PRODUCT EXAMPLES WITH PASTURE-FED CLAIMS

Figure 51: Key products with a pasture-fed claim.

Brand*: **Price:** **New Pack:** **Weight:** **Packaging:**	Anmum $10.72 March 2018 300g Single carton		The product is designed for postnatal and pregnant women. It features a 'Nuelipid' formula with added Dr10 (a Fonterra patented bacteria) and DHA (a fatty acid used to promote brain development). The product is rich in folic acid which aids in the development of baby's brain and nervous system. The product uses "milk sourced from free range cows that roam in natural pastures."
Brand*: **Price:** **New Variety:** **Weight:** **Packaging:**	Firmus Jing Dian 1962 $7.66 Mar 2018 16 x 25g Sachets		The company states that "the milk powder is made using quality milk from its own pasture and processed according to advanced technology" Unlike other varieties of this product, it does not have such an emphasis on the benefits of the ingredients, likely due to the lack of added vitamins and minerals.
Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Zong Xing $5.08 Feb 2018 350g Pouch		Zhong Xing's milk powder with Iron, Zinc and Calcium. The only product description other than the presence of a QR code is that the product "contains milk that is from a natural pasture at 51 degrees north latitude"
Brand: **Price:** **New Product:** **Weight:** **Packaging:**	Cowala $14.34 April 2016 1 kilogram Pouch		The product is made "with pasteurised fresh milk sourced from pure and natural pastures in New Zealand, then spray dried to powder". It contains high calcium, low fat, essential vitamins and minerals and provides 28% of the daily recommended dietary intake of calcium.
Brand: **Price:** **New Variety:** **Weight:** **Packaging:**	Muncayo $16.02 Sep 2018 16 x 25g Sachets		This goat milk powder is sourced from free range goats raised in premium pastures. The product promotes its food and health & safety certifications. It has no mention of personal health benefits.
Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Qimei Pasture $4.45 Apr 2015 16 x 25g Sachets		This high calcium milk powder product is designed for middle aged and senior groups. The product promotes the health benefits of its added vitamins and minerals.

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

PRODUCT EXAMPLES WITH BRAIN / NERVOUS SYSTEM CLAIMS

Figure 52: Key products with a brain / nervous system functional claim.

Brand: **Price:** **New Pack:** **Weight:** **Packaging:**	Abbott Similac $10.93 Dec 2015 300g Carton		This imported product includes 20 nutrients including folic acid with added FOS (a new type of prebiotic compound) to support foetal brain and spinal development.
Brand: **Price:** **New Product:** **Weight:** **Packaging:**	Beningmate Ai (Private label) $13.00 Apr 2014 15 x 27g Carton		The product is designed for pregnant women who are in their first trimester of pregnancy. It contains vitamin B1, iron, zinc, calcium, folic acid to promote brain development and nervous system of a fetus and dietary fibre to maintain healthy digestive functions.

Note: The following products already listed in figures 49 and 50 also promote Brain and Nervous system improvements:

- Anmum
- Firmus products for Students and Middle Aged + Senior demographics
- Da Quing
- Wondersun
- Yili

Source: MPI, Mintel GNPD Limited (2018) © all rights reserved.

Search Interest

Females show strong search interests towards New Zealand milk.

Search interest by gender indicates little separation between males and females when searching non-GMO and Pasteurized / pasture-fed milk products.

A significant finding was that females were three times more likely to search for New Zealand milk than males. This does show that positioning New Zealand products towards females will likely get better brand resonance.

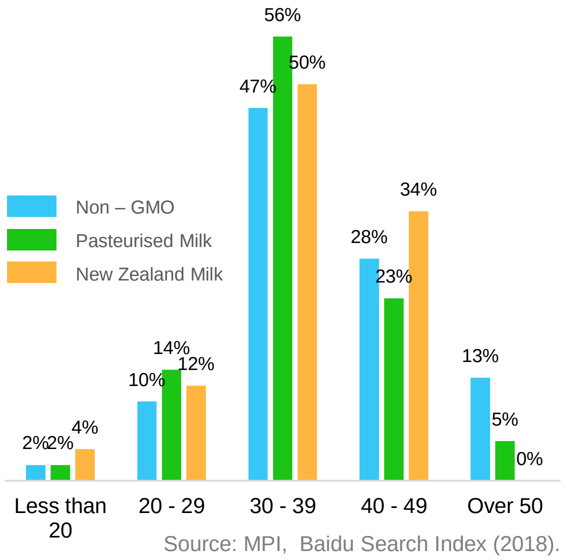
Strong growth of non-GMO search terms over past 5 months.

Search interest for non GMO products was the highest of the four assessed. This makes sense due to the broad nature of the search term.

A significant finding was the approximately 30% increase in searches relating to 'Non – GMO' in the last 5 months, with large spikes almost three times higher than 2018 baseline levels. Sentiment against GMO products remain high in China despite government initiatives to help promote the technology as safe(1). Promotion of the non – GMO claim looks likely to resonate with consumers, despite the lack of promotion of the claim in existing product launches in China due to labelling restrictions.

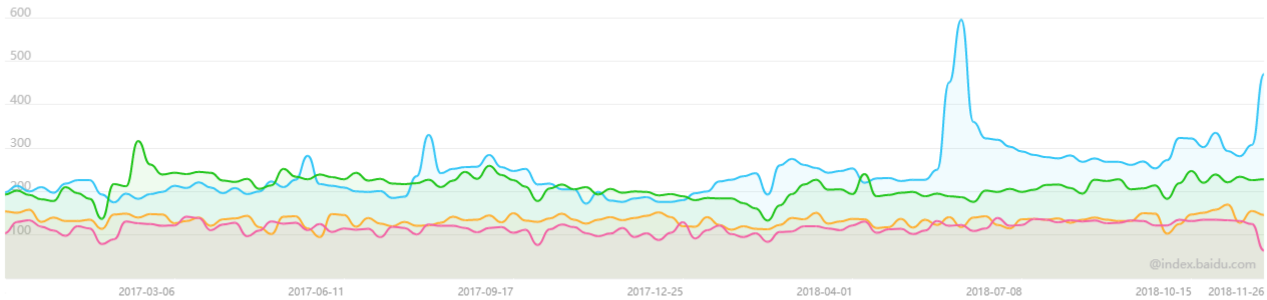
Age dispersion similar over all search terms. Dispersion of search terms over age remains similar. One noticeable difference was the increased concentration of searches for New Zealand milk from consumers aged between 40 - 49. This indicates that it may not be mothers with any extra interest in New Zealand milk products, but perhaps grandparents reflecting cultural norms with an increased role of grandparents in childcare.

Figure 54: Distribution of searches by age.



Source: MPI, Baidu Search Index (2018).

Figure 53: Consumer search interest trends for dairy related products.



Key words	Overall daily average	Moving daily average	Overall year-on-year	Overall ring ratio	Moving year on year	Moving ring ratio
Non-GMO	312	224	71%	2%	102%	-
Pasteurized milk	231	146	14%	6%	17%	2%
New Zealand milk	149	92	10%	12%	13%	8%
Eye care	129	66	twenty four%	-1%	2%	-1%

Source: MPI, Baidu Search Index (2018).

Notes: 1: See notes section on page 5 for details.

AGE AND LOCATION BASED METRICS

Subtle regional differences apparent.

Searches for A2 difficult to associate with milk.

Baidu search interests for 'A2' was significantly higher than the four search trends (in some cases over 5 times higher). Unfortunately at this stage we were unable to split this search into components searching for A2 milk and the A2 drivers licence.

Shanghai a strong search location for New Zealand Milk and Pasteurized Milk .

This market is disproportionally interested in short shelf life milk (pasteurised) as well as New Zealand milk. Shanghai ranks second highest for searches of these two terms despite only having the 24th largest population of all the regions assessed.

Shanghai may be a strong first product launch destination in China for New Zealand milk products and new product formats such as air freighted fresh milk as the region already appears engaged with New Zealand products.

GMO free concerns and Eye health relevant across all geographical locations.

Companies seeking to promote these health claims would likely gain little with targeting messaging at a geographical level. A national strategy would likely be just as effective.

Figure 55: Distribution of searches by province.

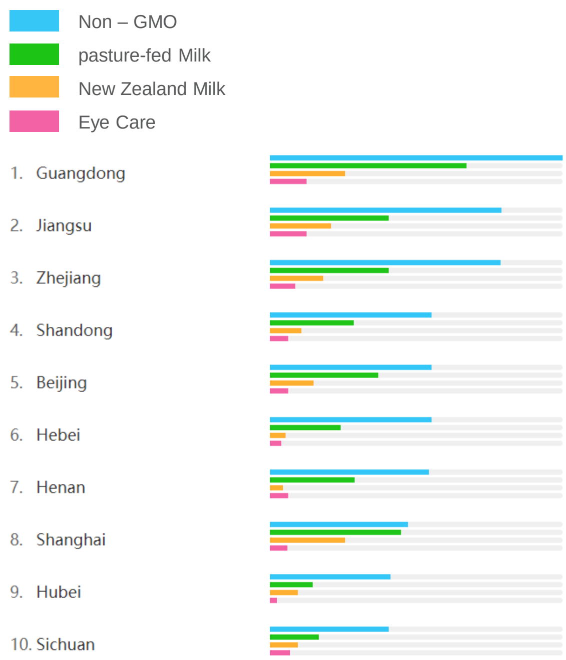
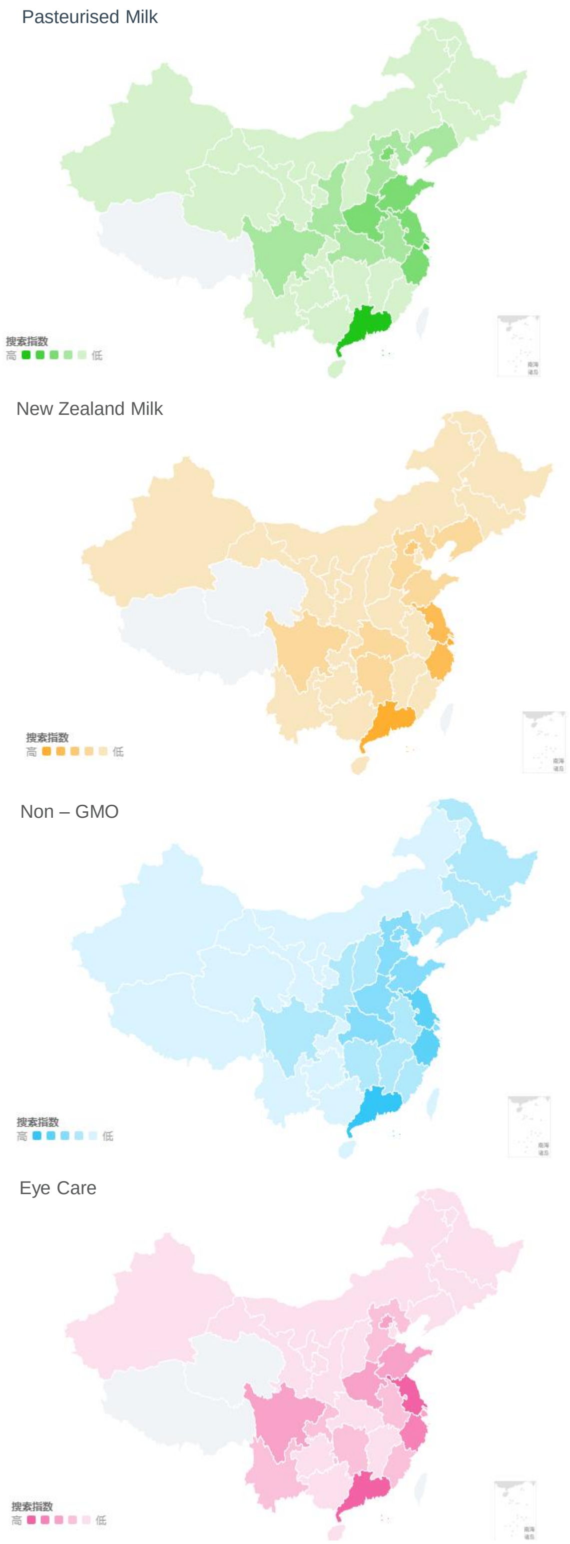


Figure 56: Distribution of searches by province.



Source: MPI. Baidu Search Index (2018).

FINAL THOUGHTS

This report assessed dairy products in China with a focus on Drinking Yoghurt, Fresh Milk, Milk Alternatives, Shelf Stable Milk and Milk Powder.

Drinking Yogurt was the largest category studied, with a growth rate of over 50% over the next 5 years. **Milk Powder** displayed interesting volume to value forecasts, with retail values climbing 14% while volumes remains stable. The most diverse of all the categories was **Fresh Milk**, perhaps previously due to an underdeveloped refrigerated supply chain and previous distrust in local food safety systems.

Studies show that the fresh milk category will grow by 29% by 2023 as attitudes towards non-UHT products evolve. The **Shelf Stable** category is well established with over 70% of the brand share occupied by two companies, and a small number of successful new products signalling difficulty for additional/new entrants. The **Milk Alternative** category has stabilised after the large surge between 2014 and 2013, with a small increase in price forecasted over the period.

The report assessed the claims that products were making and which claims resulted in a higher price point. This analysis saw health functionality as the most important feature likely to cause a product to be listed at a premium price. GMO free was also a feature that was highly valued by customers, but not promoted by dairy brands due to labelling restrictions.

The study identified some mixed messaging around 'pasture fed' with some unclear definitions around how the animals were raised and what they were fed. We see that defining the amount of time spent outside as a way to assure customers of the quality.

Finally, consumer search interest indicates a stronger engagement towards New Zealand dairy products by females and in the Shanghai province.

These findings should inform New Zealand dairy brands in developing a successful branding and market entry strategy into China.

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The Economic Intelligence Unit develops market information for the primary industries. Use our reports and data to further understand the primary sector now and into the future. These insights can be found at mpi.govt.nz/eiu.

OTHER

Model Assumptions

- Prices sourced for individual products have be adjusted for inflation using the Chinese consumer price index for food products for each year from the Chinese bureau of statics. All prices are in 2018 USD pricing unless specified otherwise.
- Claims marked with an * in box plot figures do not use existing allocated claims by the data supplier but are searched for keywords relating to the claim and allocated that claim if the are identified.
- Fresh Milk products were determined by filtering white milk products that were chilled and in liquid format.
- Shelf Stable products were determined by filtering white milk products that were Shelf Stable and in liquid format.
- Milk powder products were determined by filtering white milk products that were Shelf Stable and in powder format.
- Prices presented with an individual product and description are based on the price released to market and have not been adjusted for CPI inflation.

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