Milk Formula Scare Shakes up the Chinese Market

Contributed by Euromonitor International
Tuesday, 29 March 2005
Last Updated Thursday, 15 September 2011

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The future of the milk formula market in China lies with better product quality and greater brand loyalty, according to a new report from Euromonitor International â€“ "Packaged Food in China".

In 2004, some of Chinaâ€™s less developed areas reported the presence of fake milk formula with insufficient nutritional value for the healthy development of babies. This incident drove outraged parents to trade up to the highest quality brands they could afford. This, in conjunction with the growing affluence of the Chinese population, led to strong growth in the milk formula market. In 2004 Euromonitor International recorded value growth in milk formula of 16% over 2003. And between 2004 and 2005, the market is expected to grow by over 18%.

Image boost for reputable brands
The fake milk formulas incident emphasised the importance of brand reputation in the Chinese market â€“ a development that has significantly benefited established brands. Following the scare, the Chinese government stepped up investigations and product checks to ensure product quality. The State Food and Drug Administration now samples and tests products frequently and publishes a list of safe milk formulas. This has raised awareness of the importance of nutritional content in milk formula and the importance of proper nutrition in the first 12 months of a babyâ€™s life. As a result, Chinese consumers are now trading up to more reputable brands to ensure their babies have the nutrition they need.

Euromonitorâ€™s new research shows that foreign players are fairing particularly well in the Chinese market, as consumers generally associate foreign brands with higher quality. Multinational corporations such as Nestl? (China) Ltd., for example, have invested heavily in advertising and offer educational seminars for parents, which has helped to build strong product awareness and brand loyalty. Heavy investment in branding means that foreign players such as Nestl?, Bristol-Myers Squibb Co and Wyeth dominate the milk formula market. Euromonitor Internationalâ€™s research shows that in 2003 these players held a 17.4%. 13.6% and 12% share of the market, respectively.

Opportunities abound for domestic players
The Government crackdown on fake milk formula has also provided opportunities for domestic players. The dissolution of many unreliable manufacturers created a supply gap for affordable milk formula in less developed, rural markets. Domestic dairy players including, Sanlu Dairy, Inner Mongolia Yili Industrial Group Co Ltd and Xiâ€™an Yingiao, for example, are expected to step up efforts to develop their milk formula business and offer less expensive, reputable products in these markets. Euromonitor International expects less affluent consumers, who cannot afford to buy foreign brands, to trade up to these domestic brands.

Further, the expansion of distribution networks and supermarkets throughout less developed regions are creating opportunities for domestic players. Domestic players are now able to launch affordable milk formula products in rural supermarkets, making them accessible to a new set of consumers. Following the scare, Government investigations uncovered that fake milk formula was generally distributed through retail outlets designed for bulk goods, while better quality milk formula was found in large reputable supermarkets. This further strengthened the perception in China that goods sold through large supermarkets are likely to be authentic, with an assurance of quality. With better accessibility to less developed areas, domestic players now have the opportunity to build brand loyalty with a new and much larger consumer group.

Outlook for milk formula
Euromonitor International expects the market for milk formula to experience dynamic growth in the next five years. Between 2004 and 2009, Euromonitorâ€™s research shows that the market is expected to grow by 95% - a much stronger performance than the previous five years. This growth will largely be underpinned by further market penetration by domestic players and large domestic dairy players. The growing awareness for babiesâ€™ nutritional needs and the quality of products they require is also expected to have a positive impact on growth.

Packaged Food in China" is a new report from Euromonitor International. Its analysis presents an accurate picture of trends and developments impacting the national industry. This report includes detailed sector coverage confectionery, bakery products, ice cream, dairy products, sweet and savoury snacks, baby food, snack bars, soup, spreads, meal replacement products, ready meals, oils and fats, noodles, chilled food, canned/preserved food, pasta, frozen/processed food, dried/processed food and sauces and dressings and condiments.

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