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China FTA Implementation Project  
**Health Foods in China**

**Abstract**

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## Executive Intelligence Summary – Background

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The objective of this project is to assist New Zealand companies in identifying market entry opportunities in the Health Foods market in China.

The two Key Intelligence Questions asked were:

- (1) How attractive is the health foods market in China?
- (2) How best can New Zealand companies compete?

The following briefly summarises key findings of the research under each of the nine categories used to gather and analyse information:

### **Government**

China has introduced significant regulatory changes in an effort to modernize its food and drug industry, bring it in line with international standards and deal with concerns regarding product quality and safety. This rapidly evolving regulatory environment has inevitably led to uncertainty as both regulatory and businesses struggle to understand and work within the new requirements. Rules vary depending on local officials and there are plenty of companies operating outside of the regulatory framework.

### **International Shifts**

The liberalisation schedule for China under the World Trade Organisation (WTO), the Kyoto Protocol, rise in energy costs and appreciation of the renminbi will all have an impact on the industry. However these impacts are not expected to cause major challenges for participants at this stage.

### **Social and Consumer Attitudes**

The Chinese have a long established habit of using food and nutrition to maintain or improve health. They are experiencing “diseases of affluence” such as obesity and diabetes and the population is also aging. Consumer confidence in domestically produced products has decreased due to exaggerated product claims and health scares which have made foreign produced health products increasingly attractive.

### **Technology**

Even though standards and the use of technology vary between Chinese health food manufacturers, in general the technology used by Chinese is becoming more advanced than New Zealand companies.

### **Industry Rivalry**

The health foods market in China is an extremely competitive environment. There are many players in the market and they are directly competing with each other in the various product categories. Domestic manufacturers are at an advantage in certain respects over international companies due to greater access to regulatory and market networks, however foreign manufacturers have strong R&D capability and the investment in making quality products and expanding a product range is a key success factor.

### **Buyers**

The Chinese market is complex and suppliers are well advised to use a domestic Chinese agent for both importing into and marketing within China. Local distributors can handle customs, quarantine and licensing procedures, recommend channels to market and pricing of products. Foreign retailers such as Tesco and Carrefour and expanding rapidly into the Chinese retail market and the number of hypermarkets is increasing.

### **Consumers**

Chinese consumers are diverse, although generally speaking they are not willing to pay a high price on preventative healthcare and brand loyalty is low. They do however want to purchase a product they feel has a positive reputation and is of a high quality. Convenience,

brand equity and awareness have been highlighted as key factors to obtaining success with consumers.

### **Suppliers**

There are many suppliers of raw materials in the Chinese health foods market (with the exception of key dairy ingredients), and pricing is very sensitive to international pricing and demand. The quality of raw materials for health foods from Chinese suppliers is questionable in many cases, however government-backed quality controls and international firms partnering with suppliers means quality is improving.

### **Potential Entrants**

Barriers to entry are relatively low in this market and this has led to an increase in small and medium-sized domestic manufacturers as well as more foreign multinational companies entering. Additionally with the opening up of direct sales in China it is expected even more players will enter.

### **Substitutes**

Dietary supplements compete directly with Traditional Chinese Medicine (TCM), and within the TCM industry, there is consolidation occurring with a number of leading companies modernizing facilities and producing standardized products. However Chinese consumers are very willing to adopt western style remedies in addition to TCM and prescribed pharmaceuticals therefore substitutes are not seen as a large threat.

## **Executive Intelligence Summary – Implications and Options**

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Industry has acknowledged that the Chinese market for health foods is not an attractive market at this point in time due to the power of Government forces, lack of entry barriers for domestic players and intense industry rivalry.

The relationship of least resistance within the 9-Forces model is that between industry competitors and suppliers. This illustrates a key option of entry into the marketplace for New Zealand companies, for example forming a relationship with a key supplier who already has a distribution chain.

Highlighted in this industry analysis was the power of the relationship between the buyers and industry competitors. Forming a good relationship with a reputable distributor is seen as a key option of market entry.

Overall however, the identification of options will vary depending on a company's strengths, weaknesses and strategic direction.

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