



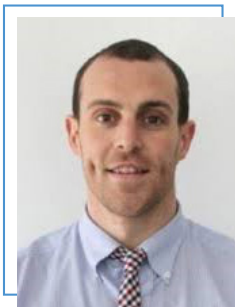
China Infant Formula Sector:

2019 Market Movement
& Growth Strategy


CHEMLINKED



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Foreword

2018 was an excellent year for China's domestic infant formula sector in terms of growth and profitability with Firmus and Junlebao exceeding 10bn and 5 bn RMB in revenue respectively. Organic infant formula and goat milk formula demonstrated excellent growth which we expect to continue. This growth was fueled by an increased awareness amongst consumers of advantages such as improved absorbability, low allergenicity, reduced contamination, improved nutritional profile and other benefits.

China's government domestic infant formula reform strategy is paying serious dividends and has paved the way for its domestic sector to claw back some parity with its international competitors who still dominate China's infant formula sector. In Jun 23, 2019, China National Development and Reform Commission issued The Promotion Action Plan of Domestic Infant Formula Milk Powder, aiming to "achieve a self-sufficiency ratio of 60%."

During the next phase of China's infant formula sector development roadmap manufacturers need to have a clear picture of the market status quo and maintain the flexibility to adjust to changes in consumer preference, sales channels, marketing strategies etc. In this report, ChemLinked analysts and experts will offer insight on the market, strengths, weaknesses, opportunities and threats and offer some strategies to help stakeholders navigate this market.



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Part 1 2019 China's Infant Formula Market Data

1.1 Market at a Glance

◆ Market share of domestic IF rebounded since 2016

China's infant formula sector is booming. Gross domestic product per capita has been climbing, and desire for reputable and quality products has been increasing. The longstanding dominance of imported dairy has been significantly eroded to the point where parity between international and domestic industry has almost been restored.

2007~2017 Foreign & Domestic Infant Formula Market Change

Year	Market share of foreign ownership enterprises	Market share of domestic ownership enterprises
2007	40%	60%
2008	48%	52%
2009	50%	50%
2010	52%	48%
2011	53%	47%
2012	55%	45%
2013	58%	42%
2014	59%	41%
2015	60%	40%
2016	58%	42%
2017	56%	44%
2018	55%	45%

(data source: 2019 CBME public speech by senior dairy sector analyst Song Liang)

◆ 2018 IF market valued at 222bn (RMB): stagnation or regression in 2019?

Since 2016, the market size of infant formula in China has grown from 157 billion RMB to 222 billion in 2018.

It is estimated that the market will continue to expand but at a slower pace than before. However, senior dairy industry analyst Song Liang noted "in 2019 the sales value of IF is likely to decrease by 10%, and the sales volume is expected to decrease by 7%."

2016-2020 IF Market Size and Growth

Year	Market size (billion RMB)	Growth rate
2016	157.1	17.7%
2017	187.3	19.2%
2018	222.1	18.6%
2019E	257.9	16.1%
2020E	295.5	14.6%

(data source: iiMedia Research)

◆ 2018 total infant formula consumption 900,000+tons, over 55% is imported

In 2018, China consumed in excess of 900,000 tons of infant milk powder, 45% of which was domestically produced. Of the over 500,000 tons of infant formula imported, 300,000 tons were imported through general trade and 200,000 tons were imported through cross-border e-commerce.

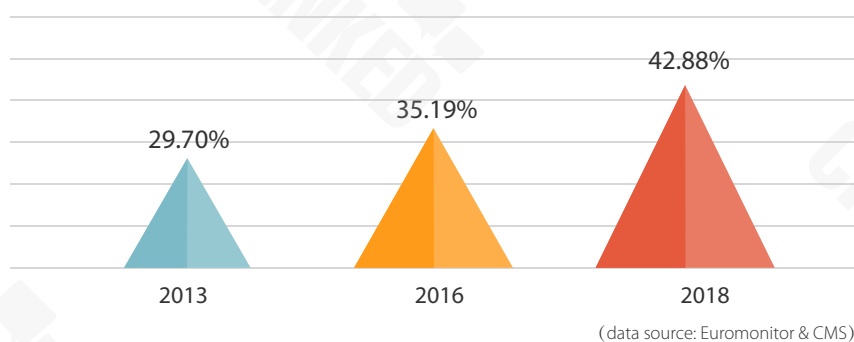
2018 Infant Formula Consumption Volume in China

	CBEC channel	General trade
Imported IF	200,000 tons	300,000 tons
Domestic IF	400,000 tons	

(data source: 2019 CBME public speech by senior dairy sector analyst Song Liang)

65,000 tons were produced by Junlebao, which saw its sales grow by 90% compared to the previous year. Another 65,000 tons were produced by FIRMUS and 60,000 tons were produced Yili. According to Song Liang, the Top 12 IF manufacturers account for over 80% of the market in 2018. The top 12 manufacturers were [Wyeth](#), [Mead Johnson](#), [Abbott](#), [Danone](#), [Friso](#), [Firmus](#), [Junlebao](#), [Biostime](#), [Beingmate](#), [Yashili](#) and [Ausnutria](#) (random order). Song Liang predicts further consolidation of the market in 2019 and expects the top 12 to account for 90% of the market. Ausnutria is expected to be the #1 domestic IF manufacturer in 2020 with revenues expected to top 10 billion RMB.

Market share taken by top 5 IF manufacturers in China



(data source: Euromonitor & CMS)

◆ Aptamil fared the best on Alibaba's ecommerce platforms

On Alibaba's two ecommerce platforms Tmall and Taobao, sales data collected from May 2018 to April 2019 show that Aptamil had the best overall performance online.

May 2018 ~ April 2019 Sales of Infant Formula on Tmall & Taobao

m=million

Brands	By volume/unit	By sales value/RMB
Total	23.86m	6,830m
Aptamil/爱他美	4.15m	1,173m
Yili/伊利	2.21m	395m
Friso/美素佳儿	2.11m	632m
Junlebao/君乐宝	2.11m	384m
Nutrilon/诺优能	1.86m	390m
Wyeth/惠氏	1.84m	562m
Mead Johnson/美赞臣	1.78m	561m
Firmus/飞鹤	1.51m	539m
Abbott/雅培	1.38m	379m
Beingmate/贝因美	0.91m	354m
A2	0.83m	444m
Nestle/雀巢	0.57m	161m
Biostime/合生元	0.48m	137m
HiPP/喜宝	0.43m	101m
Wondersun/完达山	0.42m	59m

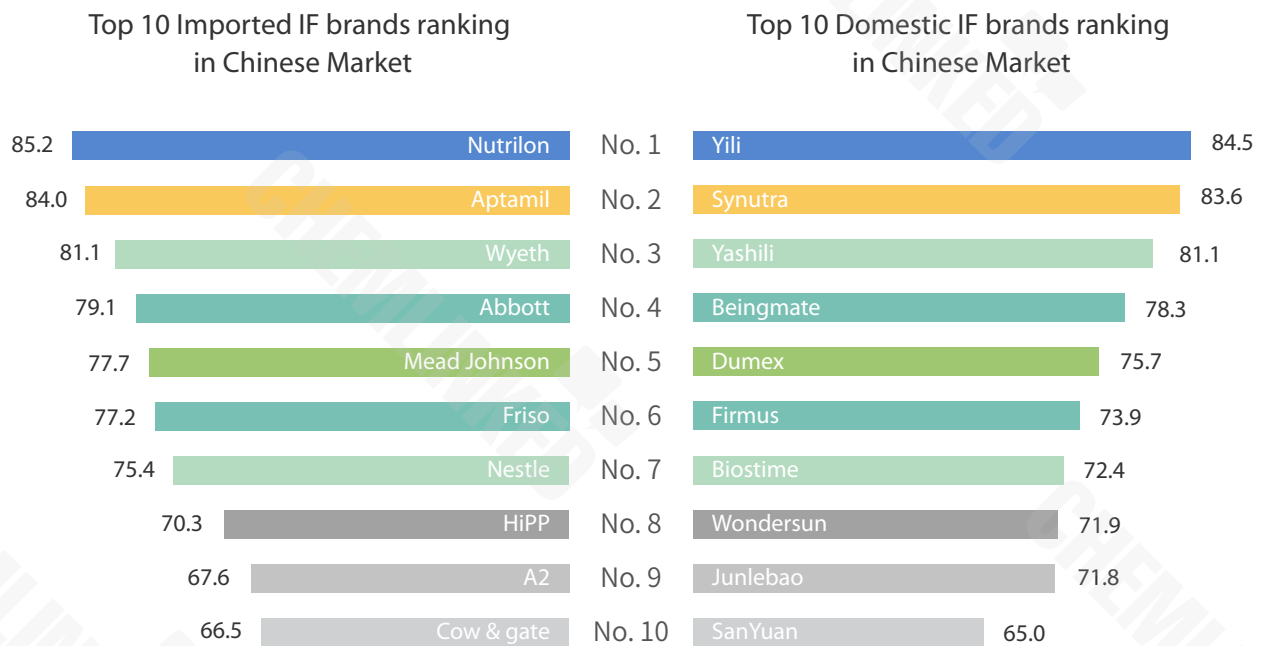
Nutrilon/诺优能	0.33m	98m
Synutra/圣元	0.26m	45m
illumina/启赋	0.25m	308m
Bellamy/贝拉米	0.24m	67m
Cow & gate/牛栏	0.20m	43m

(data source: QBTChina)

◆ Imported IF brands ranking, Nutrilon obtained the highest score

iiMedia Research evaluated both imported and domestic IF brands using multiple criteria including enterprises powder index, media attention index, brand reputation index, analyst evaluation index etc.

The results were:



(data source: iiMedia Research)

◆ Market of organic infant formula was valued at over 6 billion RMB

Organic Infant Formula Market Change

bn=billion unit: RMB

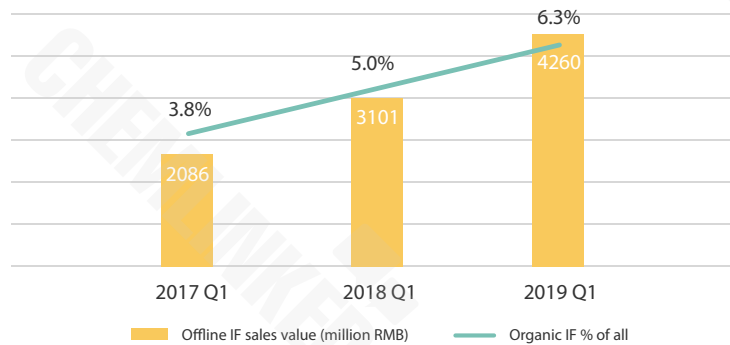
2008	0.3~0.5bn
2014	3.2bn
2017	5+bn
2018	6+bn
2020	≈10bn

(data source: 2019 CBME public speech by senior dairy sector analyst Song Liang)

◆ Organic infant formula market segment still relatively small but growing fast

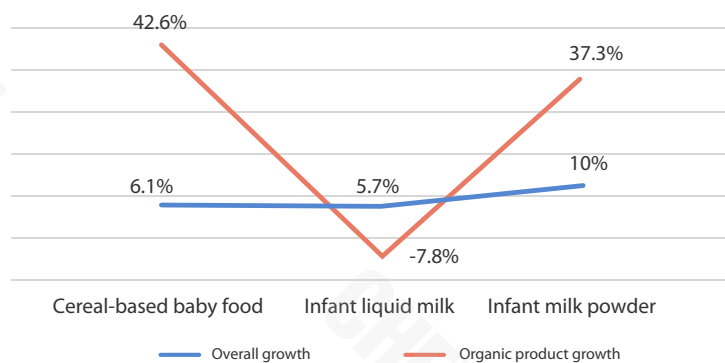
Seen from Nielsen's data, organic infant formula contributed only 6.3% to the sales value of total offline infant formula sales, up from 3.8%. Organic infant formula has been the fastest growing segment of the organic dairy sector, with sales exceeding both cereal-based baby food and organic liquid infant formula.

Proportion of Organic IF in all offline IF sales



(data source: Nielsen)

Growth of Organic Baby Foods



(data source: Nielsen)

◆ Two brands dominate 60% of the organic infant formula market

In the 2019 CBME (Children, Baby and Maternity Expo), Nielsen unveiled data on the market composition of organic infant formula in China.

Organic infant formula market landscape

A	39.6%
B	23.2%
C	6.7%
D	5.2%
E	5.1%
F	3.7%
G	3.0%
H	2.5%
I	2.3%
J	0.5%
Other brands	8.2%

(data source: Nielsen)

◆ Goat milk market will top 10bn RMB in 2020

The goat milk infant formula sector is similar in value and volume to the organic infant formula sector. The infant goat milk market accounts for less than 4% of all infant milk powder sales, however overall growth still outpaces cow milk infant formula.

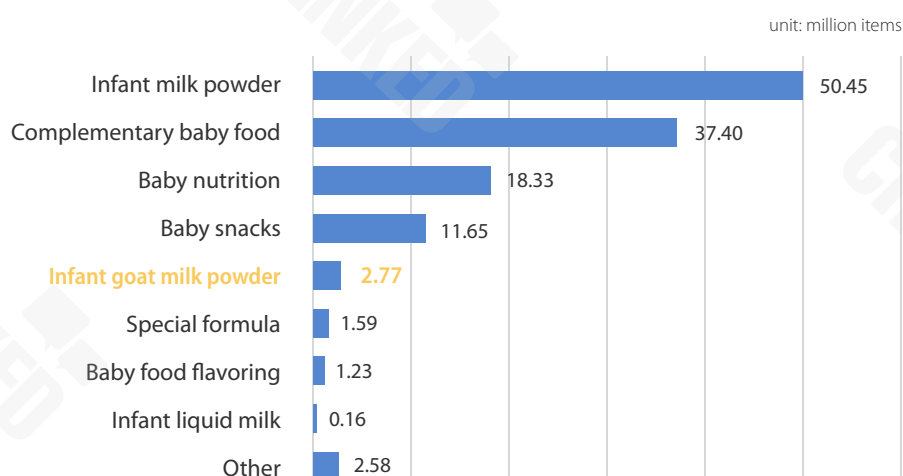
Infant Goat Milk Market Change

bn=billion unit: RMB

2016	3bn
2017	5+bn
2018	7+bn
2020	≈10bn

(data source: 2019 CBME public speech by senior dairy sector analyst Song Liang)

May 2018 ~ April 2019 Sales of Baby Food on Tmall & Taobao



(data source: QBTChina)

1.2 Sales Channel Analysis

◆ Contribution rate of ecommerce and supermarket dipped

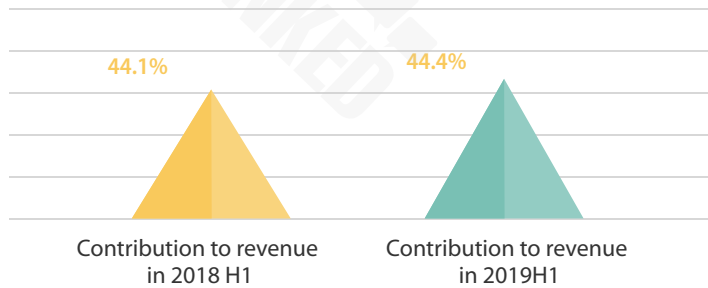
Supermarkets, baby & maternity stores and ecommerce platforms are the 3 major sales channels for infant formula. Though those three channels are all growing steadily, other statistics suggested baby & maternity stores grew at the expense of both supermarkets and e-commerce.

Sales Channels of Infant Formula from 2011 to 2018

	e-commerce	Baby & maternity store	Supermarket
2011	23%	33%	44%
2012	14%	42%	44%
2013	22%	42%	36%
2014	27%	46%	27%
2015	29%	49%	22%
2016	28%	51%	21%
2017	29%	52%	19%
2018	26%	56%	18%

(data source: National Bureau of Statistics, AC Nielsen)

Milk Powder Sales in Baby & Maternity Store



(data source: 2019 CBME public speech by Angel Nutritech)

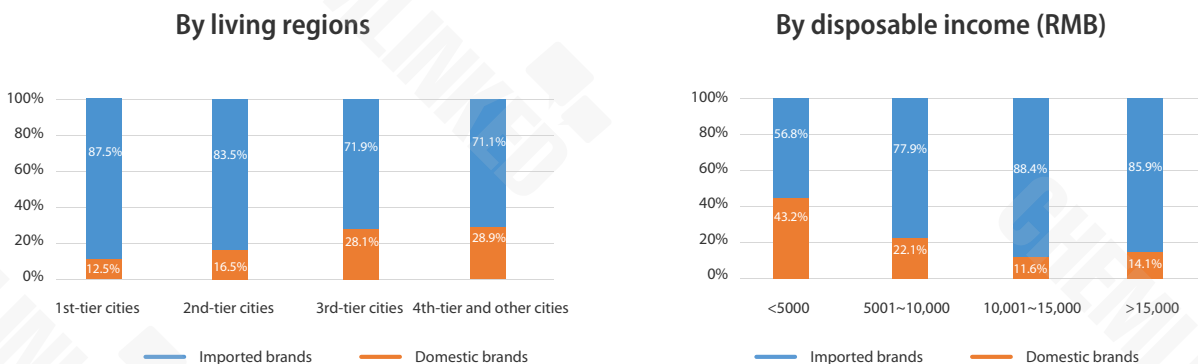
1.3 Consumer Profile

◆ Preference towards imported infant formula did not wane

According to iiMedia Research's report, Chinese consumers prefer imported brands to domestic ones, however this phenomenon varied based on demographics particularly in less developed 3rd and 4th tier cities.

Consumers living in first- and second-tier cities are more willing and capable of buying imported brands that are usually more expensive than domestic ones.

Chinese Consumers' Willingness to Buy Domestic/Imported Infant Formula in 2019

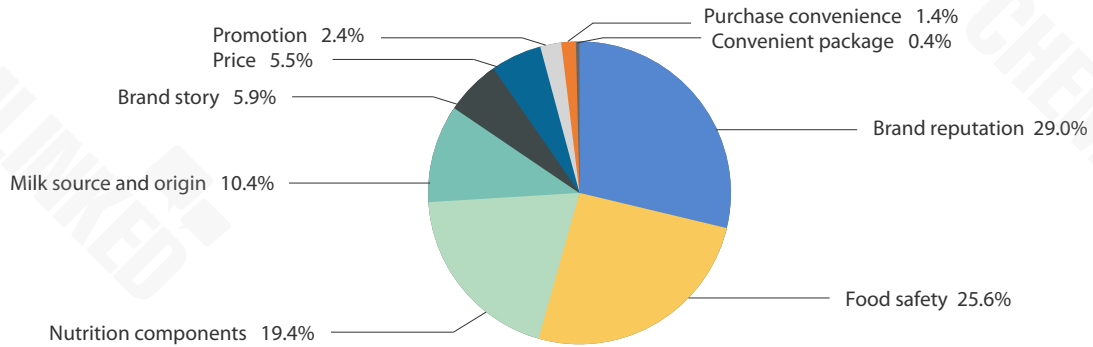


(data source: iiMedia Research, March 2019, N=1953)

◆ Reputation & food safety, top 2 factors influencing purchase decision

The report also showed that consumers pay more attention to brand reputation and food safety issues than to products' nutrients composition.

Elements that Chinese consumers pay the most attention to



(data source: iiMedia Research, March 2019, sample size=1953)

1.4 Compliance Data

As of Aug 14, 2019, a total of 1254 infant formula products have been granted approval by Chinese authorities (either former CFDA or current SAMR (State Administration for Market Regulation)).

	Imported	Domestic	Total approval
2017	209	743	952
2018	71	172	243
2019 (as of Aug 9)	24	35	59
Total	304	950	1254

Imported IF Registration

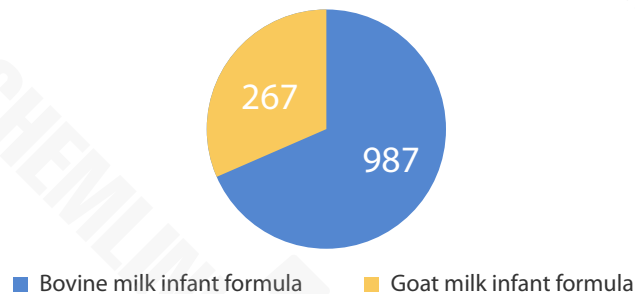
Country	Enterprise	Product	Brand
New Zealand	11	72	24
France	3	27	9
Netherlands	9	58	20
Ireland	3	18	6
Denmark	3	24	8
Poland	1	6	2

Germany	3	8	3
UK	1	6	3
Korea	4	36	12
Australia	5	27	9
USA	1	6	2
Finland	1	3	1
Spain	3	6	2
Switzerland	1	4	2
Singapore	1	3	1
Total	50	304	104

(data source: former CFDA database)

To date, 267 infant goat milk formulae have obtained certificates, accounting for roughly 21% of the total number of registered infant formula. 234 products are domestic and 33 are imported.

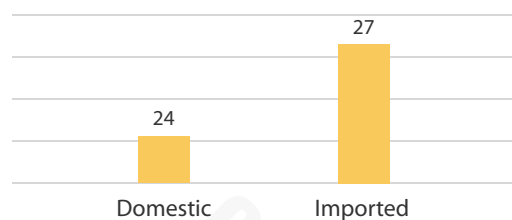
Goat milk registration



(data source: former CFDA database)

17 series and 51 products are certified as organic infant formulae. They are all made of bovine milk. Among them, 8 series and 24 products are domestic, the rest are imported. The combination of "organic" and "goat milk", will also be a future trend.

Organic Infant Formula Registration



(data source: former CFDA database)

For full registration list, please refer to f-list: [Directory Information of Infant Formula Recipe Registration in China](#).

Part 2 SWOT Analysis

This section will present as a SWOT analysis, from the perspective of enterprises which export their products to China's market.

<p>Strengths</p> <ol style="list-style-type: none"> 1. High quality; 2. Brand reputation, word of mouth; 3. R&D. 4. Milk source 5. Origin of place 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1. High price; 2. Channel; 3. Geographical issues.
<p>Opportunities</p> <ol style="list-style-type: none"> 1. CBEC 2. High-end consumption concept 3. Reduction of tariff 4. Amendment of Trademark Law 5. GAC releases ten measures to accelerate customs clearance 6. Two children has become a 'standard configuration' in Tier 3 &4 cities 7. New generation: 'Learning-style' mothers 	<p>Threats</p> <ol style="list-style-type: none"> 1. Stricter registration 2. Policy encourages and is beneficial for domestic brands 3. The limitation of advertising 4. Counterfeit/fake 5. Low birth rate 6. Increasing breast milking awareness 7. Top players of channels absorb a high commission, social media e-commerce plays multiple, diverse.

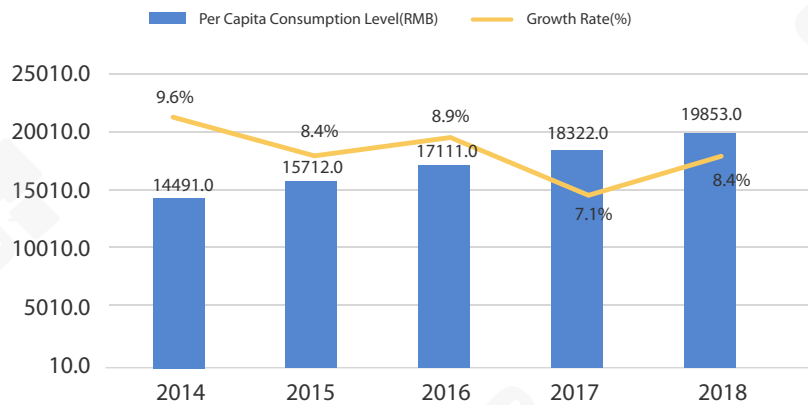
Favorable Conditions

2.1 Old Habits Die Hard, Premiumization and Further Upward Mobility

Chinese parents have never been stingy with investment in their babies. China has been implementing the one-child policy for 35 years. Under this policy, Chinese parents have been only allowed to 'invest' all their love in one child, so they are very willing to buy the best for their children, regardless of the price. However, this policy has led to a kind of inertia among the majority of consumers. Although China recently changed to a two-child policy, the thinking engrained in Chinese consumers during the one child policy years still prevails and shapes both family planning and purchasing behaviours today.

Meanwhile, as shown below, since 2014, the consumption level of Chinese residents has been improving, demonstrating a growth rate of 8%.

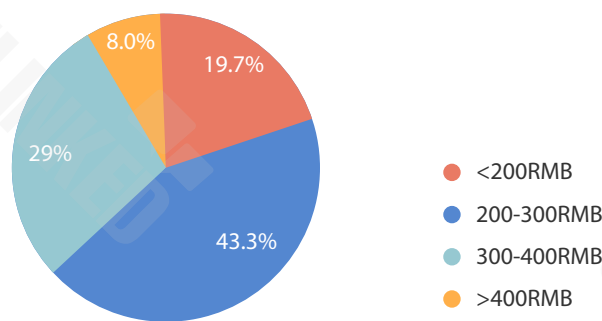
Per Capita Consumption Level & Growth Rate of Chinese Residents, 2014-2018



(source: National Bureau of Statistics)

According to iiMedia Research, in 2019 72.3% of Chinese consumers bought infant formula of price ranges from 200RMB to 400RMB (per 900 gram can). Generally speaking, infant formula milk powder exceeding 390RMB/kg is considered as ultra-high-end products. According to the data, in 2019 more than 8% of Chinese consumers can afford products of this price.

The Price Distribution of Infant Formula Purchased By Chinese Consumers, 2019



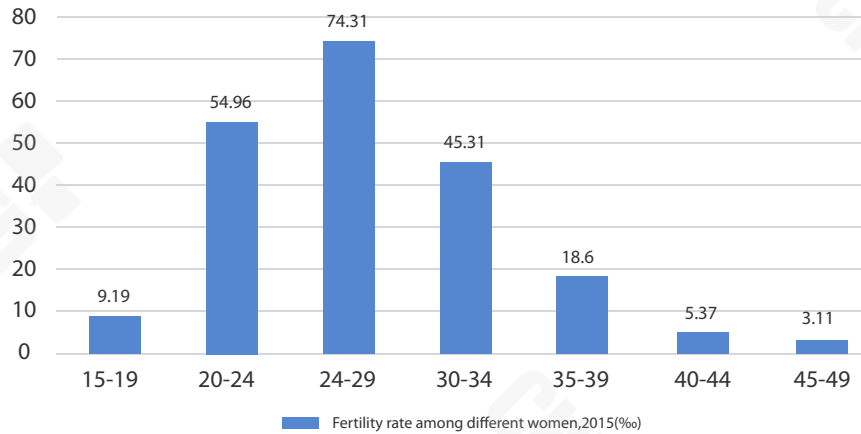
(source: iiMedia Research)

2.2 New Promotion Channels: The Emergence of Social Media

◆ Wechat official accounts: most influential social media channel

According to the data from National Bureau of Statistics, post-90s and post-85s (around 20-35 years old) mothers comprise the most influential consumer group.

Fertility Rate for Women at Different Age, 2015(‰)

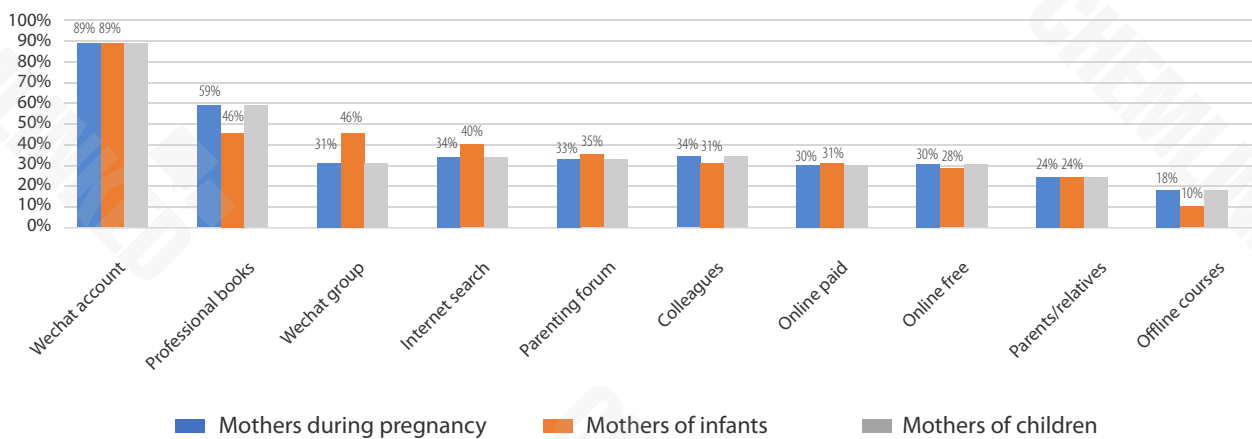


(Data from National Bureau of Statistics)

Accompanied by the development of the Internet and social media, this biggest mom group (post-85s/90s mothers) are influenced by both traditional and modern parenting concepts. According to the report from Dingxiang Mom^[1] (a subsidiary platform of Dingxiang Doctor, designed especially for mothers), these moms are much willing to learn and use scientific knowledge to help them and presumably guide purchasing decisions. For example, before purchasing an infant formula product, they'll "do research" or "investigate" the infant formula product carefully and also seek the opinions from other communities like wechat groups, online forums etc. before making the final decision.

Where do they get baby food or baby products information? According to Dingxiang Mom report, wechat official accounts is the most frequently consulted source of information.

Channels for Mothers to Get Parenting Knowledge



(Data from Dingxiang Mom Report)

By providing informative and professional articles, promoting popular science, etc. wechat accounts like Dingxiang Mom and Daddylab are really popular among moms and consumers. For example, Daddylab have tested lots of products, including infant formula, baby food, baby products, etc. and generated a large quantity of articles to analyze products' safety and quality based on evidence-based content provided by 3rd party testing agencies. With this testing data, it's much easier for consumers to choose a high-quality and safe product.

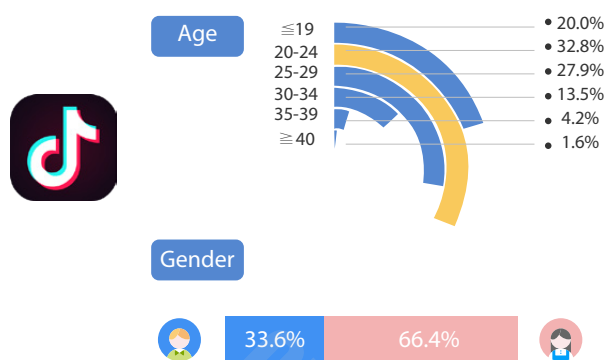
Overseas companies must be cognizant of the importance of leveraging their key advantages and key differentiations including milk source (grass fed etc), high quality, better reputation, etc. To these brands, especially small infant formula manufacturers that need to gain exposure and trust, they can offer samples and even testing fees to KOL accounts like Daddylab. With 1 billion views, a positive testing result will definitely help enterprises gain a lot of trust and good reputation. After all, brand reputation and food safety are the two most important drivers of consumer purchasing in China's infant formula sector. Besides, enterprises may also cooperate with these accounts and sell products on their e-commerce stores. (Read more at [Selling Safety in China: How Daddylab Addresses Deep-Seated Consumer Fears](#)).

◆ Short video apps: easy to reach consumers in tier 3 & 4 cities

Besides wechat accounts, enterprises may also take advantage of new social media apps such as Tik Tok and Kuaishou, which are new approaches for selling and marketing. KOLs can upload a short video/advertisement on those apps.

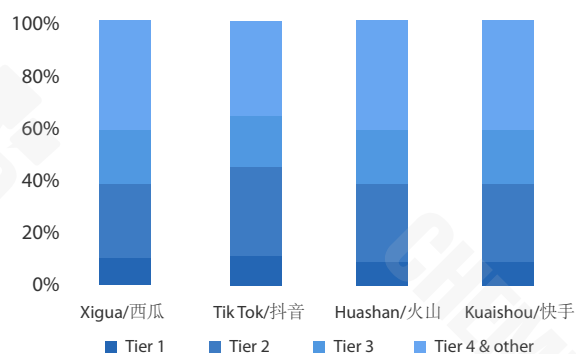
How many users do these apps have? According to the China Internet Development Report^[2], by the end of 2018, the number of short video users reached **648 million**. Tik Tok (called Douyin in China) has the most traffic, it has 500 million monthly active users (MAU) and a daily video broadcast volume of 20 billion. Therefore, it is naturally becoming the best place for brand marketing. In terms of age distribution, users aged 25-30 and 31-35 account for the highest proportion, accounting for 29% and 26% respectively. Most people in this age group have already had one or two babies.

Users Age & Gender Distribution of Tik Tok



(Source:iAPP)

Meanwhile, according to data released by 36Kr^[3], more than half of the users of popular social media come from tier 3 and 4 cities. Therefore, this emerging sales and marketing channel will be particularly effective for infant formula brands looking to target tier 3 and 4 cities.



2.3 Policy environment, crossborder ecommerce and market access

◆ CBEC — preferential policy for foreign traders

At the end of 2018, the government issued [several official files](#) to end the transitional period and pledge that China's CBEC policy will remain stable over the next several years.

Recommend reading

- [China Officially Extends Grace Period for CBEC Transition Policy \(Video\)](#)
- [Official Announcement and Interpretation of the Latest CBEC Policy in China](#)
- [GAC Releases Specific Implementation Methods for CBEC Supervision](#)
- [China CBEC Comprehensive Tax Further Reduced with VAT Reform](#)
- [Demystifying China e-commerce, Crossborder e-commerce and Daigou: Laws, Rules, Regs and Implications for International Stakeholders](#)

Stable CBEC policy environment opens doors to foreign enterprise

Usually, in general trade channels, depending on the product category, pre-market approval encompassing registration/filing/label inspection etc., can take anywhere from 1 month to 3 years. In the infant formula sector manufacturer registration is additionally required which involves onsite inspection of manufacturing facilities. Both the CNCA (now GAC) registration of overseas manufacturers and recipe registration is complicated, time consuming and relatively risky.



Cross-border ecommerce represents a much easier route to market. Under the new policies released in 2018, CBEC-traded special food (including infant formula) will no longer be subject to complicated pre-market approval, which will save overseas enterprises a lot of time to enter China's market. All overseas enterprises need to do is to choose appropriate CBEC platforms and post your products on these platforms. (Please note your products shall be listed in the [CBEC positive lists](#).)

As for the CBEC platforms, Tmall is undoubtedly the largest and most influential platform for CBEC. On June 26th, the Tmall Global English website was officially launched. Overseas enterprises now can visit the [English website](#)^[4] and apply to open a store on Tmall Global.

You can know the details about China's CBEC policy through [ChemLinked report: An Exclusive Interpretation of China's Cross-border E-commerce Policy](#).

◆ Customs policies facilitate imports

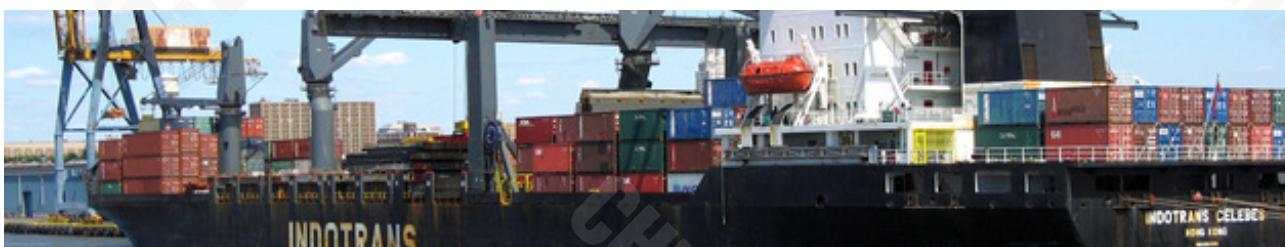
According to notifications issued by Ministry of Finance, the import tariff for partial infant formula food for special medical purposes dropped to 0 from previous 5%^[5] [27 Notification: 2018 Tariff Adjustment Scheme], including lactoprotein partially-hydrolyzed formula, lactoprotein deeply-hydrolyzed formula, amino acid formula, and lactose-free formula.

Additionally in Mar. 2019, Premier Li Keqiang stated in his government report that the added-value tax for infant formula will decrease from 16% to 13% (click here to read more). As the products' tax payable include tariff and VAT, these positive tax policies will make the final retail price of imported infant formula more acceptable to Chinese consumers.



Besides, on July 3rd, the State Council Information Office publicized new GAC policies during a routine press briefing^[6]. Before Aug. 31st, 2019, China's GAC will implement a trial of **'two-step declaration' customs clearance mode** in Huangpu, Shenzhen and Qingdao Customs. Under this system, goods are cleared immediately after customs authorities approve an elementary declaration document submitted by importers.

Please [click here](#) for more details about 'two-step' declaration.



◆ E-commerce law and IPR protection plan to focus on removing fake products

On Aug. 31st, 2018, the 13th NPC Standing Committee finalized China's [E-commerce Law](#) which took effect on Jan. 1st, 2019. The new legislation strengthens IP protection for brands and increases the responsibilities of online platforms particularly with respect to their accountability for the authenticity, safety and quality of goods sold on their platforms.



If the individual operators break the [Food Safety Law](#) they will be punished according to relevant provisions (10 to 30 times the value of the product for compliance violations and criminal proceedings for more serious violations). In Article 80, it regulates that platforms will be subject to fines of up to 500,000 RMB if they disobey some of the rules ([click here](#) for the detailed analysis of E-commerce Law).

Furthermore, in April 2019, China's SAMR and the Intellectual Property Office (IPO) jointly issued the 2019 'Iron Fist Action Plan'. Iron Fist aims to crack down on violations of intellectual property rights of trademarks, patents, geographical indications and special marks, focusing on strengthening law enforcement in the three major areas of e-commerce, key commodity trading markets and foreign investment.

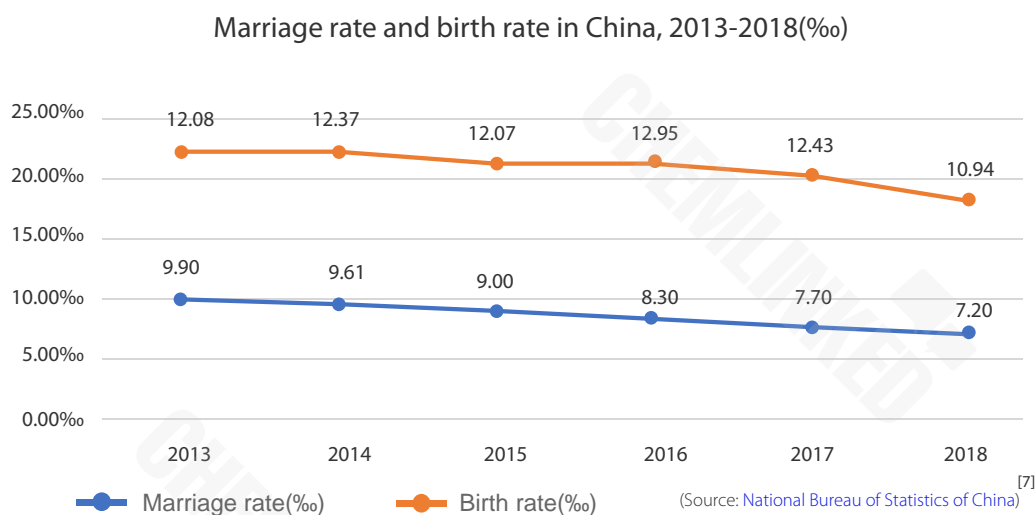
Undoubtedly these policies will benefit thousands of infant formula enterprises. To a large extent, this new regulation restricts infant formula which enter China's market by Daigou and CBEC illegally, so that overseas manufacturers could avoid negative impact to brand reputation caused by fake products.



Challenges

2.4 Combo Strike: Low Birth Rate and Increasing Breastfeeding Rate

According to the data released by national bureau of statistics of China, both the marriage rate and birth rate have reached the lowest level in decades. In 2018, the total number of newborns was 15.2 million, a decrease of more than 2 million compared to 2017. Liang Zhonghua, a prominent analyst working with Huatai Securities expects things to go further downhill and bottom out at 14 million in 2019.



China aims to raise the exclusive breastfeeding rate in the first six months of infant life to 50% by 2020, which is only 29.2% now in China, much lower than the global average of 43%, as revealed by a CDRF (China Development Research Foundation) report^[8]. On August 30, Guangzhou government opened its new breastfeeding promotion draft to public consultation. The ambitious plan aims to increase the breastfeeding rate. It is also the first case in China that government tries to use regulations to increase the breastfeeding rate. Once China achieves its goal, it will dramatically narrow down the stage 1 infant formula market.

2.5 Greater Competition for International Stakeholders

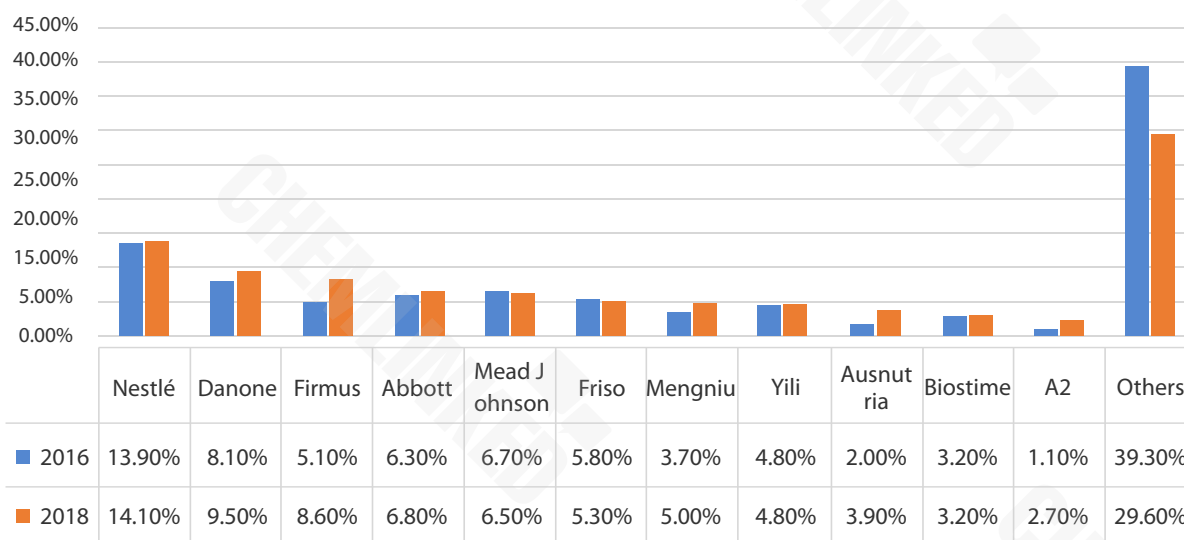
According to Nielsen data^[9] the market share of domestic infant formula surged from 40.7% in 2017 to 43.7% in 2018, and its sales value growth rate in maternal stores (the major infant formula sales channel) channel reached 25.4% in 2018, which is much higher than that of imported infant formula (10.1%).



Undoubtedly the positive market performance of domestic infant formula products is closely associated with the **government**' support and preferential policies. In June 2014, the former CFDA, MOF, MIIT and NDRC (National Development and Reform Commission) jointly issued the Work Program on Promoting Infant Formula Enterprises' Merger and Restructuring, which aimed to foster the development of 3-5 large scale infant formula enterprises with annual sales exceeding RMB 5 billion by 2018.

According to Euromonitor data, although foreign brands still occupied 4 of the top 5 positions in terms of sales volume and value in 2018, China's domestic brands like Firmus, Mengniu and Ausnutria are the brands that grew most quickly in the last 2 years. **Firmus** even jumped from the 6th position in 2016 to 3rd place in 2018 and became the first domestic infant formula brand whose sales value hit RMB 10 billion in China.

China Infant Formula Market Share Proportion, 2016 Vs 2018



On May 23, 2019, the National Development and Reform Commission of China (NDRC) issued the 'The Promotion Action Plan of Domestic Infant Formula Milk Powder'^[10], which aims to improve the quality, competitiveness and reputation of domestic infant formula. In general, the plan is designed to stimulate an increase in the overall production volume of domestic infant formula. A domestic self-sufficiency level of more than 60% is the goal. With the support from the country and industry updating, the market share of domestic infant formula is expected to keep expanding over the next several years. (Read more at [China's Domestic Infant Formula Enterprise Earmarked to Dominate Sector](#)).

2.6 Registration Measures Significant Barrier to International Stakeholders

In Sept. 2016, the [Administrative Measures for the Infant Formula Products Registration](#) were promulgated, and the policy of infant formula milk powder registration was implemented in 2018. Before the implementation of the [registration policy](#), there were more than 2,600 brands in China, among which 309 were foreign brands. But by the end of 2018, only 403 brands remained and had passed the registration system, 97 of which were from abroad.



On the other hand, on July 17th, 2019, China's SAMR issued [Onsite Inspection Work Procedures for Special Food Registration \(For Trial\)](#). This regulation applies to the onsite inspection of both domestic and imported special food registration.

Notice: Special food refers to health food, infant formula and FSMP (food for special medical purposes).



It is worth noting that during the overseas onsite inspection process, the official language is Chinese, so the inspection materials needed during the inspection shall be written in Chinese. Applicants shall also equip enough onsite interpreters and are responsible for any translation errors.

Thus, for overseas enterprises, they not only need to solve the problem of preparing registration materials, but also need to wait for the on-site inspection by relevant Chinese monitoring personnel, which requires a large amount of time and money.

Part 3 Diversified competition

As infant formula manufacturers are struggling with current market and regulatory challenges, it is increasingly important to create competitive differentiation for their products, which could mainly include the following 4 aspects:

3.1 Focusing on High-End Products

According to Nielsen data, the sales of stage 1 and 2 infant formula have suffered a sharp decrease by 10.9% and 3.8% respectively in the first half of 2019, and such market performance will further affect the sales of stage 3 products in the second half this year. Despite the stagnant market environment, we can still see the rapid growth of goat milk powder and organic milk powder.

◆ Goat milk powder

With reference to “China Goat Milk Powder Industry Development Research” issued by Chinese Academy of Social Sciences, the market sales of infant formula goat milk powder was only 300 million RMB in 2008, while it surged to 5 billion in 2016. During the recent 2 years, goat milk powder sector keeps rising with a CAGR of more than 20%.

Driven by the massive growth potential, more and more dairy enterprises embarked upon the business in this area, including Biostime, Firmus and Synutra. Currently Kabrita produced by Ausnutria dominates China’s the goat milk powder sector. Importation of Kabrita represents 62.5%^[11] of all goat milk powder importation in China. It has been the number 1 selling product for the last 5 years.



Other brands have also recorded impressive growth in recent years. The sales of Doraler, products produced by Yashili, numbered in the hundreds of millions of RMB just 8 months after it was first launched in 2018. Bekari, a brand under Yipin dairy, also saw a 200% increase in 2018, and it aims to reach 500 million RMB by 2019.^[12]

You can read more detailed analysis in [Goat Milk Powder: Next Growth Market for China’s Infant Formula Sector](#).

ChemLinked insights:

The development of infant formula goat milk powder is also restricted by multiple factors, especially the lack of major ingredients such as goat milk whey powder, which is stymied by the low industrial concentration rate and low milking rate. The huge demand has driven the price of goat milk raw materials to 10 RMB/Kg in China, which is almost two times higher than that of cow milk. It is highly suggested that the manufactures establish a whole supply chain to ensure ingredient supply.

◆ Organic milk powder

Organic milk powder is synonymous with ultra-premium products and extremely popular among Chinese consumers. Based on Nielsen data, the sales of organic baby food has increased by 32% from 2012 to 2017 (4.85 times the global growth rate), and infant formula milk powder represent 56.9% of this organic food category.

Currently China's organic infant formula sector is dominated by overseas products, such as Abbott and Wyeth. According to data revealed by Qiu Zhaoxiang, president of Abbott Nutrition business north Asia, the sales of "Eleva" (produced by Abbott) accounts for 50% market share in China^[13], making it the number 1 organic milk powder sold in China. The huge growth potential also attracts more and more enterprises to join in, including Nestle, Firmus, Ausnutria and etc. In July 2019, Yili launched a new organic infant formula named Sainamu ("塞纳牧" in Chinese), and is using the famous TV hostess Xie Na as the brand ambassador.



Generally speaking, most dairy enterprises are satisfied with the market performance of organic products. According to semiannual reports issued by Yashili International, the revenue and gross profits in 2018 H1 surged by 55.6% and 45.9% respectively, and this growth was driven by the sales of organic infant formula Rui bu en, Arla Baby & me (strategic cooperation) and its goat milk powder. In the first 3 quarters of 2018, sales of Healthy Times (organic infant formula brand produced by Biostime) grew by 202.4% compared with the same time last year.^[14]

ChemLinked insights:

Organic certification is the major access barriers for infant formula manufacturers, you could learn how to apply for organic certification through [ChemLinked online course: Organic Food in China: Overview and Regulatory Compliance](#)

3.2 Expanding Product Lines to Pregnancy Nutrition and Children Milk Powder

Recent years, dairy enterprises have increased their investment on milk powder for pregnant women and children. Despite the immaturity of these sectors, they are considered as offering great potential as these 2 product categories have lower entry barriers and offer excellent market opportunities.

◆ Milk powder for pregnant women

Dairy expert Song Liang states that the market size of pregnant women milk powder is less than 2 billion RMB, representing only 15% to 20% of the adult milk powder market. The current immaturity of the sector is mainly attributable to:

- Milk powder for pregnant women is only consumed in the pre-natal period and so is restricted in terms of when it is bought and who it is bought by.
- Sensory parameters are often influenced by the heavy fortification used. Taste is a major issue.
- Lack of education, especially in third and fourth tier cities is still holding back the sector.

Despite those restrictive factors, dairy enterprises still hold positive attitudes towards its development and more giant companies are introducing pregnant women milk powder to the Chinese market, including Nestle, Fonterra, Wyeth and etc. One of the leading factors is that it offers a higher margin when compared to other categories of adult milk powder.

◆ Children formula milk powder

Similar as maternal milk powder, children formula milk powder (milk powder products consumed by children aged at 3 to 6 years old) is a comparatively underdeveloped segment of the wider dairy sector, reaching a value of 1 billion RMB by 2018^[15]. However, according to AC Nielsen data, children milk powder is one of the categories boasting the most rapid growth and many industry experts predict that its market size will surge to 10 billion RMB in future.





As an extension of infant formula, we are predicting growth in the children milk powder segment, especially products targeted at special groups, such as children suffering malnutrition, eyesight problems, or young athletes requiring supplementary protein. Junlebao already released a children milk powder named “Xiaoxiaoluban” (小小鲁班 in Chinese) which uses advertisement and label claims purporting to aid cognitive development. This product got an unexpected market response and was sold out immediately after its launch in some areas. Later in 2019, northern European enterprise Mille launched its children formula milk powder using the advertising and labeling claim of aiding in eye health.

Children formula milk powder (dubbed stage 4) shall follow the product standard of [GB 19644-2010 National Food Safety Standard Milk Powder](#), and one thing manufacturers shall notice is that the claims you use for the products shall comply with nutrition claims stipulated in [GB 28050 General Rules for Nutrition Labeling of Prepackaged Foods](#), for example, it is permitted to say “Vitamin A helps maintain the scotopia (darkness visual acuity)”. However, if the product involves some health food functional claims such as improving memory, it shall be verified through clinical trial and the manufacturers need to apply for health food registration in China.

Despite the bright future of these 2 product categories, enterprises shall realize that there are huge R&D and advertising costs associated with creating demand and brand recognition in the initial launch phase. Additionally, as infant formula is still a more lucrative market, manufacturers should rationally allocate finances talents and R&D resources to children’s milk powder.

3.3 Product Innovation

Ingredient innovation is a significant approach to realize product differentiation. In 2016 Abbott introduced infant formula containing HMO (Human Milk Oligosaccharides, sugar molecules naturally occurring in human milk), which marked a milestone in the infant formula sector over the past decade ([click here](#) for the detailed). As breast milk is the gold standard for infant formula manufacturing, many dairy enterprises have established research centers to study the nutritional advantages of breast milk, including Mengniu, Yili and Firmus. Additionally, some renowned Chinese enterprises are researching sialic acid, oligosaccharide, human milk fat structure etc. However, regulations and national standards are still a major barrier hindering the use of novel ingredients. In China all new food raw materials must be registered with the competent authority and China is especially conservative in its approval of ingredients applied in infant formula. You could read more analysis [through Infant Formula Innovation under China’s New Regulations: Advice from Junlebao and Feihe](#)

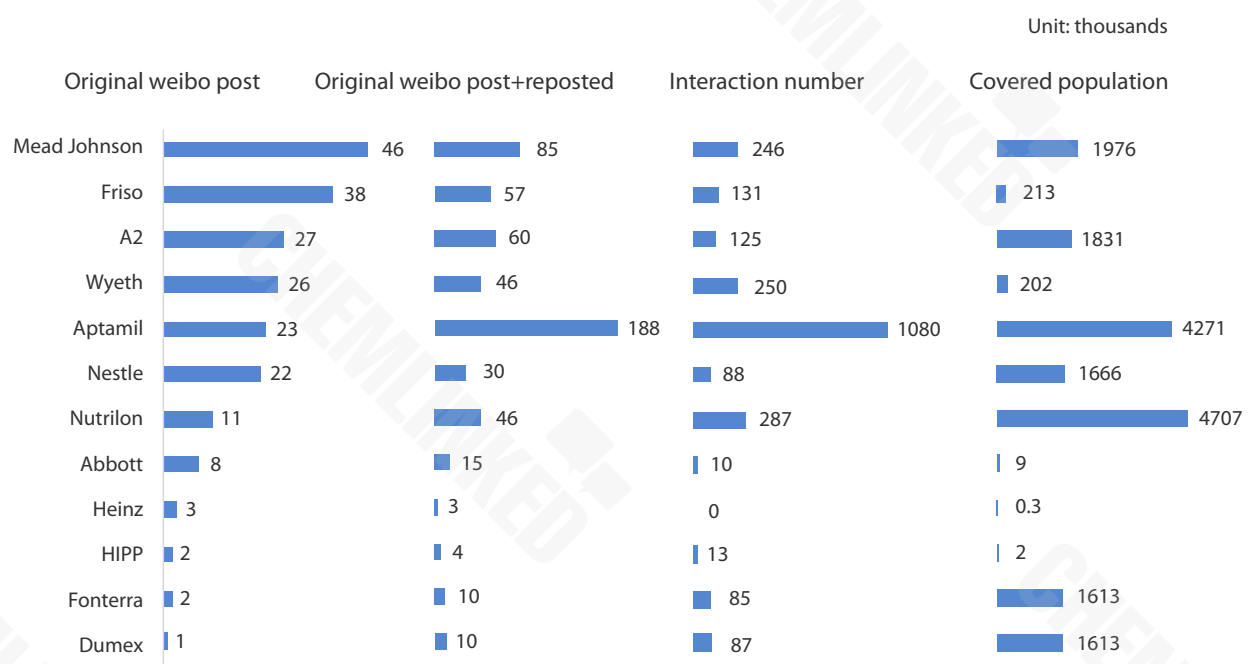


Apart from formula composition, product state is also a consideration. Liquid infant formula is currently a relatively underdeveloped segment of the infant formula sector in China, representing just 0.01% of the overall market. The sector benefits from lower regulatory barriers, in that manufacturers are not required to register products. For more information on liquid infant formula, please [read China Slow to Accept Liquid Infant Formula](#).

3.4 Improving Consumer Experience and Engagement

Nowadays consumers are easily affected by product reviews and online comments, therefore, infant formula manufacturers should have a designated customer complaints department to deal with online issues efficiently. The data shows that in Apr. 2019, there were 111 complaints made about Mead Johnson, Friso and A2 on Weibo. Complaints relating to imported products reached 10 million consumers in China^[16].

Complaints for imported infant formula milk powder on Weibo, Apr. 2019



Additionally, infant formula manufacturers could provide more parenting advice to young mothers, which helps to build a more reliable brand image among consumers. This is a tactic commonly used by many dairy companies, for example, Mead Johnson has “online mother school”^[17] to tell consumers how to feed and take care of their babies in different stages, and Abbott also have a “mother club” to help mothers learn vital parenting skills.^[18]



Conclusion

China is one of the biggest consumer goods' markets in the world. The central government is encouraging both import and export trade by means such as tariff reduction, stabilizing the business and regulatory environment, preferential policies and streamlined administration.

The market has been drastically reshaped over the last decade with the introduction of several highly significant pieces of legislation and regulation. Other important factors are a decreasing birth rate and a "breast is best" grassroots movement supported by high level government policies that is likely to translate to increased breastfeeding rates and declining use of Stage 1 and possibly stage 2 infant formula.

These significant stressors are offset by equally large opportunities ushered in by new retail models, new trade channels like crossborder ecommerce, improved logistics, consumers more receptive to innovative products and an overall trend towards premiumization. Future success will hinge on delivery of quality products by enterprise with a spotless track record and excellent reputation that offer consumers added value in terms of engagement and experience.

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