Emerging Markets for Health Foods and Natural Health Products – China

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Introduction

In Canada, natural health products (NHP) are defined as vitamins and minerals, herbal remedies, homeopathic medicines, traditional medicines such as traditional Chinese medicines (TCM), probiotics, and other products like amino acids and essential fatty acids. NHP in Canada can be used for the diagnosis, treatment, mitigation or prevention of a disease, disorder or abnormal physical state or its symptoms in humans; restoring or correcting organic functions in humans; or modifying organic functions in humans, such as modifying those functions in a manner that maintains or promotes health.[1]

In China, health foods, a category that includes functional foods, dietary supplements and many NHP, refer to foods with a dietary component providing particular preventive heath benefits beyond basic nutrition. Health foods have specific health functions for regulating the body functions. They are not intended for treatment of diseases. Health foods usually include NHP except some of those intended for the treatment of specific diseases.[2]

The NHP market in Canada is estimated to reach CAD 2.75 billion in retail sales this year according to the Leverus and Inter/Sect Alliance study commissioned by three sponsoring NHP industry associations in 2005. The NHP sector in Canada at the time included at least 10,000 retail establishments and more than 800 suppliers, manufacturers, importers and distributors with over 25,000 employees.[3]

According to a survey of 576 NHP companies sponsored by Agriculture & Agri-Food Canada in 2003, over 50% of all firms exported NHP in the previous year of 2002.

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[1] The Natural Health Products Directorate, Health Canada (www.hc-sc.gc.ca/dhp-mps/prodnatur/index-eng.php)
[2] *Health Food: New Innovation to a Therapy*. NDRI 2009; Agriculture and Agri-Food Canada
[3] *Natural Health Products State of the Industry Report 2005*. Canadian Health Food Association

Among these exporters, more than 75% of them exported to the US. Japan was the second most popular export destination, followed by North and South Korea, Taiwan, Australia and/or New Zealand, the Hong Kong Special Administrative Region and China. About 11% of the companies reported export revenues of more than $5 million, 18% between $1 million to $5 million, while the remaining firms had less than $1 million in export revenues back in 2002. It is believed that there should be much growth potential for Canadian firms to increase their business in export sales.[4]

China has emerged to become one of the fastest growing health food markets in the world. In a recent 2010 global survey conducted by Nutrition Business Journal (NBJ), China has been identified to become the No. 1 ranked country, followed by the US, which will offer the greatest opportunities for companies in the NHP and health food industry in the next 5 years (Figure 1).[5]

Figure 1.

This report is aimed at giving a quick overview of the health foods market in China, including its regulatory requirements, and to discuss some of the market entry issues and strategies as initial guidance for companies that want to embrace the opportunities in connection with the China emerging market.

Market Landscape, Opportunity & Development Trend

Fueled largely by rapid economic growth, increasing health awareness and healthcare cost, as well as the growing aging population, the health foods market in China has grown tremendously over the last 20 years. It is estimated that retail sales of health foods in China has expanded to RMB 91.1 billion (USD 13.7 billion) in 2009

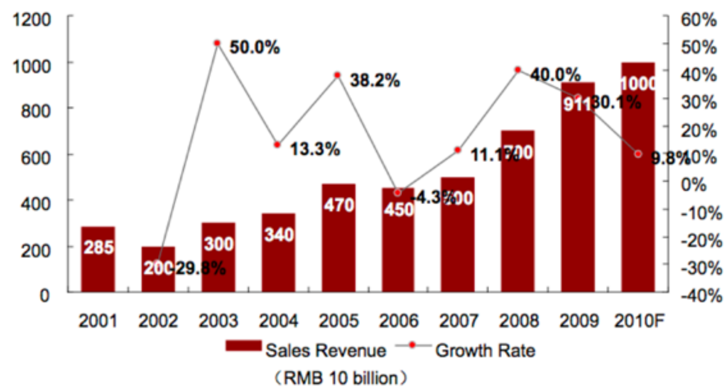
[4] *Functional Foods and Nutraceuticals Survey 2003*. Agriculture & Agri-Food Canada

[5] *Global Supplement & Nutrition Industry Report 2010*. Nutrition Business Journal

from 2001 (Figure 2) surpassing Japan's USD 12.9 billion sales placing China as the second biggest health foods market in the world after the US.

The health foods industry in China is believed to have a huge growth potential. Currently, China's consumption of health foods is far below that of many developed countries. Chinese consumers' expenditure on health foods accounted for only 0.07% of gross expenditure as compared to 2% of that in western nations, being roughly 1/29 of those nations'. The annual per capita consumption of health foods is a mere RMB 31 (USD 4.7), which was 1/17 of that of the US and 1/12 that of Japan.[6]

Figure 2. 2001-2009 Sales Revenue of Health Foods in China (in RMB 10 billion)



The low penetration of health foods in China has been in part due to the relatively high cost of health foods. However, it is expected that health food prices will fall as a result of increasing competition by a rising number of entrants into the industry. On the other hand, a significant increase in disposable income levels in consumers due to economic growth will likely increase affordability of health foods. Therefore, consumption of health foods in China is expected to increase significantly. These data suggest that the potential for China's health food market to further expand is huge. Industry experts forecast that the health foods industry in China will continue to expand at a compound annual growth rate of 20-30% in the foreseeable future. The health foods market in China is projected to reach USD 19 billion by 2010 and USD 65.9 billion by 2020.[7, 8]

According to China customs statistics, China imported more health foods than it exported in value in 2009. In 2009 China import of health foods totaled USD 110 million, while export amounted to USD 89.1 million, an increase of 3.9% and 2.2% respectively from the previous year. Fish oil, algae and bird's nest are some of the products regularly imported to China mainly from North Europe, Latin America,

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[6] www.chinahealthcare.net and *Research Report of China's Health Food Market*. Sunfaith China. May 2010

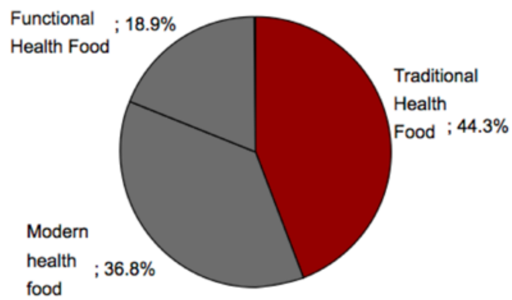
[7] *China Health Foods Industry Brief*. The U.S. Commerce Service. August 2009

[8] *Market Hit by False Claims, Fraud.* China Daily. June 2009

Malaysia and Indonesia. The US and Japan were the two largest export destination nations for China's health foods accounting for 61% of China's total export in 2009. Other countries recorded significant increase in health foods export from China in 2009 including Vietnam, Canada, Russia and the Netherlands.[9]

In China, health food products can be basically categorized into three types – traditional, modern and functional (Figure 3). Although traditional health foods have had the largest in market share (accounting for 44.3% in 2008), they have been gradually losing ground to modern health foods (accounting for 36.8% in 2008).[10]

Figure 3. Market Share of Various Health Foods in China Domestic Market 2008



Market concentration in the health foods market in China remains relatively low. The market is fragmented as distribution varies widely throughout the nation depending on geography, product and retail infrastructure. Health food companies usually enjoy high profits since the pricing of health food is often much higher than conventional foods targeting high-end consumers. Nevertheless, there has been a downward pressure on the price of health foods, particularly in some remote and undeveloped rural areas, due to increased competition and cost.

Currently, sales of the Top 10 health food companies in China are still less than 25% of gross output. There were some 3,000 health food enterprises in China in 2007, and among them 61% were small and small-to-medium sized domestic companies with investment of smaller than RMB 50 million (USD 7.5 million).[11] Some 50% of the overall health food enterprises are located in the capital and five well-developed coastal cities and provinces – Beijing, Shanghai, Guangdong, Shandong, Jiangsu and Zhejiang. Less than 20% of all health food enterprises in China have sales reaching national level.

The rapid entry of foreign companies into China's health food sector has contributed to the increased competitiveness and dynamic growth of the health food market in

[9] *2009 China Import and Export Summary*. China Chamber of Commerce of Medicines and Health Products Importers and Exporters, February 2010

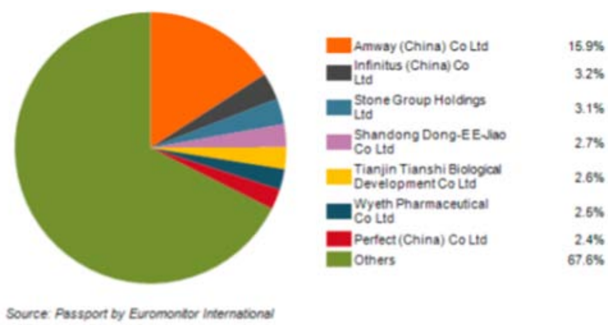
[10] Hong Kong Trade Development Council

[11] Medicine Economic News

China. Foreign health food players, especially the multinational companies, take advantage of the opportunities and strengths in finance, original R&D, production, marketing capability, sales mode and the generally perceived high quality of products by consumers in China over those of Chinese domestic enterprises. Out of the 4,600 registered health food in China in 2007, 800 were imported products and among them over half were products from the US. The sales revenue of foreign health foods in China is reported to enjoy an annual growth rate of 10-12% over the last eight years. Sales of foreign health foods occupied over 40% of the market share with only 7% of the total health food brand shares in China in 2007. It is expected that more foreign health food companies and brands will enter China to capitalize on the growth opportunities.

Amway led the market in China with a 15.9% market share by value in vitamins and dietary supplements in 2009 (Figure 4). The vitamins and dietary supplements, a subsector of health foods and NHP, recorded total sales of RMB 56.9 billion (USD 8.6 billion) in China in 2009.[12]

Figure 4. Company Shares (by National Brand Owner) Vitamins & Dietary Supplements – China – Retail Value RSP - % 2009



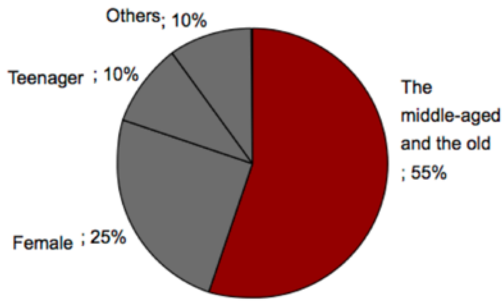
Very few Canadian firms have significant presence in the health food market in China. Jamieson Laboratories, one of Canada's leading firms in NHP, entered the Chinese market in 1999. Jamieson reportedly sells through agents and distributors in China. Its sales revenue and market share in China are not publicly reported. It is not included on the list of companies with market share of at least 0.3% in China in 2009.[13] In general, Canadian heath foods have relatively low awareness in China due to limited product exposure, narrow distribution channels and insufficient product promotion.

[12] *Sector Capsule: Vitamins and Dietary Supplements – China*. Euromonitor International. July 2010

[13] *Vitamins and Dietary Supplements – China.* Euromonitor International. July 2010

With respect to market segment by consumer group in China, over half (55%) of the market share is taken by the middle-aged and the elderly, followed by females at 25%, and teenagers at 10% (Figure 5).[14]

Figure 5. Health Food Market Segmentation by Consumer Group 2008



For health food products in China, women are often the key decision makers and purchasers. In addition, gift buying is a chief sales driver. Presenting health food gifts to seniors, supervisors and government officials especially during holiday seasons is common in Chinese custom. Thus, attractive packaging design and strong brand awareness are extremely important for marketing health foods in China.

The population in China has been growing, of which substantial growth is projected among people aged 60 and over. In 2009, 12% of the overall 1.335 billion people in China were over the age of 60. By 2050, it is estimated that the Chinese population will grow to 1.42 billion of which the percentage of people of age 60 and over will jump to 31%.[15] Thus, products specifically targeting the heath conditions of the middle aged and the elderly, such as cardiovascular, bone, digestive, vision and memory health, will be in major and greater demand.

It is worth to point out that because of the one-child policy in China, parents often are very willing to spend money for their "little emperors" generally in favor of imported products for perceived higher safety and quality. Further, children and teenagers tend to be more brand conscious as trend followers for foreign brands. Foreign health food products positioned specifically for this group with functions such as healthy growth promotion and study ability enhancement are believed to have great potential in China.

Nowadays, function rather than price has become the major factor influencing consumers' purchasing decisions on health foods. Consumers pay more attention to product functionality and efficacy instead of advertising and promotional materials. A recent health food consumption survey in China revealed that 77% of consumers

[14] Consumption Survey of Health Food by Hong Kong Trade Development Council, 2008

[15] UN Statistics

value and rank “immune enhancement” as the most import function, followed by “nutritional supplement” and “anti-fatigue”, equally ranked by 49% of the consumers. Females tend to prefer body nourishment and beauty skin care functions, while males tend to focus more on improvement of bone and joint health.[14] Over the last four years, bone, immune system, beauty and general health have been consistently occupying the top ranks of retail value among dietary supplements in China.[13]

Regulations & Registration Process

Health foods in China are mainly governed by the State Food and Drug Administration (SFDA). Health foods must be manufactured in a GMP certified facility and need to be registered with SFDA before being sold in China. SFDA will assess safety, efficacy, quality and labeling of the product. There are 27 functions that have been predefined by SFDA for health foods (Table 1). Each registered product can only claim up to two of these functions. No other function claims are allowed beyond these 27 approved functions for health foods.

Table 1. SFDA’s 27 Functional Categories for Health Foods

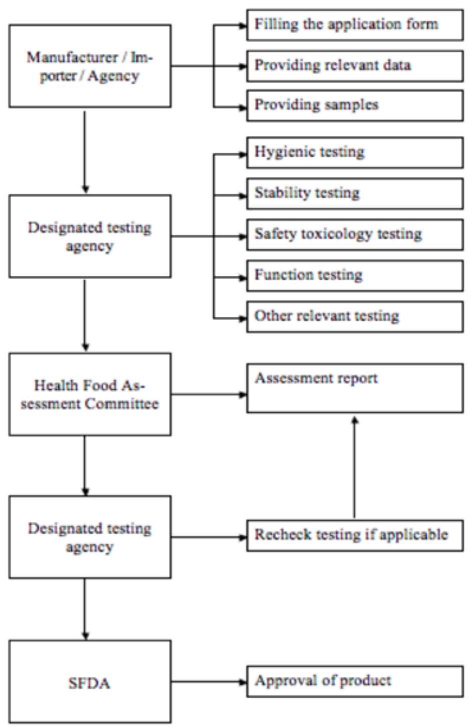
No.	Function/Claim	No.	Function/Claim
1	Enhancing immune function	15	Controlling obesity
2	Assisting blood lipids reduction	16	Improving growth and development
3	Assisting blood sugar reduction	17	Increasing bone density
4	Anti-oxidation	18	Improving nutritional anemia
5	Assisting memory improvement	19	Assisting protection against chemical injury to liver
6	Improving tired eyesight	20	Eliminating acne
7	Facilitating lead excretion	21	Eliminating yellow-brown spot
8	Moistening and cleaning throat	22	Improving skin moisture
9	Assisting blood pressure reduction	23	Improving skin oil content
10	Improving sleep	24	Regulating intestinal micro flora
11	Increasing milk secretion	25	Facilitating digestion
12	Alleviating physical fatigue	26	Improving constipation
13	Improving endurance during anoxia	27	Assisting protection against gastric mucosa damage
14	Assisting protection against irradiation		

For vitamins and minerals that are considered nutritional supplements in health foods, their doses have to be in compliance with SFDA’s preset minimum and maximum daily dosage limits. This can sometimes present challenges for foreign health foods as they may have been formulated with dose amounts in accordance with the regulations of their home countries – which may be different from those of the SFDA. For example, SFDA’s daily dose limit for Vitamin D supplement is 60-400 IU. However in Canada, the daily dose limit for Vitamin D supplements set by Health Canada for vitamin supplements, varying by age groups, is 8-1,000 IU, while in the US, the dietary reference intakes (RDI) of Vitamin D are 200-600 IU, with a tolerable upper intake of 2000 IU per day.[16] Therefore, foreign products may need to make modifications, including reformulation, in order to gain premarket approval for the Chinese market.

[16] Food and Nutrition Board, Institute of Medicine of The National Academies (USA)

Depending on the ingredient(s) and the function(s) intended to be claimed, products have to undergo various animal tests and/or human clinical trials in SFDA designated testing laboratories in order to verify safety, efficacy, stability and hygiene. Each product registration with SFDA typically takes 12-24 months and often costs USD 30,000-100,000. However, it can take 3-5 years and as much as USD 200,000-500,000 if the ingredient and/or product is considered novel to the Chinese market. An outline of the registration process is depicted in Figure 6.

Figure 6. The China SFDA Health Food Registration Procedure



Closing Remarks

The NHP and health food industry is often regarded as the "Sunrise Industry" around the world. China as the second largest and the fastest growing health food market in the world has presented great opportunities for foreign entrants. Canada already has a good image in China for its natural beauty, clean environment, rich natural resources, and friendly people. Many Canadian agri-food and natural health products such as wheat, flour, fish, geoduck, maple syrup, ice wine, ginseng, seal oil, etc. have long been well received by Chinese consumers. It is believed that Canadian firms should be in a very good position to take advantage and enjoy the tremendous potential in the health food and NHP markets in China.

About the author: ***Michael Z.C. Li*** *is managing director of Wellgenex Sciences Inc, a professional consultancy firm specialized in market development, scientific/regulatory affairs and product* *commercialization. Li has over 20 years of experience in medical, nutrition, and natural health in China, Canada and the US. He has worked as a general physician and held other professional positions, including product development at H.J. Heinz, R&D director at Chai-Na-Ta Corp., new product director and chief scientific officer at Zuellig Group North America. Li earned his medical degree with honors from the Jinan University. He also holds an MSc in human nutrition from the University of British Columbia and an MBA from Sauder School of Business.*