



# ENTER THE DRAGONS' DEN

# CHINA TOP 50 FMCG COMPANIES

| Rank | Company                    | 2010 Est. Grocery Revenue (RMBm) | Category   | Key Brands   |
|------|----------------------------|----------------------------------|--|--|
| 1    | Wahaha                     | 49,500                           | Non-alcoholic Beverages, Dairy, Packaged Food                                    | Future Cola, Shuang WaiWai, AD Calcium Milk, Wahaha  |
| 2    | Tingyi                     | 45,244                           | Non-alcoholic Beverages, Packaged Food, Bakery & Snacks                          | Kang Shi Fu (Master Kong)  |
| 3    | P&G                        | 31,707                           | Beauty & Personal Care, Home Care  | Safeguard, Olay, Crest, Tide, Whisper, Pampers   |
| 4    | Coca-Cola                  | 31,380                           | Non-alcoholic Beverages  | Coca-Cola, Sprite, Minute Maid Pulpy   |
| 5    | Mengniu                    | 30,265                           | Dairy, Ice-cream   | Telunsu, Mengniu Suan Suan Ru, Mengniu Ice-cream   |
| 6    | Yili Group                 | 29,162                           | Dairy, Ice-cream   | Jindian, Yili Ice-cream, Yili Milk Powder  |
| 7    | China Resources Enterprise | 27,815                           | Beer, Non-alcoholic Beverages, Packaged Food                                     | Snow Beer, C'estbon Water, Ng Fung Hong  |
| 8    | Amway                      | 22,000                           | Consumer Health, Beauty & Personal Care, Home Care                               | Amway, Artistry  |
| 9    | Shuanghui Group            | 21,311                           | Packaged Food  | Shuanghui Meat Food  |
| 10   | Tsingtao Brewery           | 19,614                           | Beer   | Tsingtao Beer  |
| 11   | AB InBev                   | 19,482                           | Beer   | Budweiser, Harbin Beer   |
| 12   | SABMiller                  | 18,029                           | Beer   | Snow Beer  |
| 13   | Nestlé                     | 17,822                           | Non-alcoholic Beverages, Dairy, Bakery & Snacks, Packaged Food                   | Nescafe, Nestlé  |
| 14   | Yihai Kerry Oils & Grains  | 16,617                           | Packaged Food  | Arawana (Jinlongyu) Edible Oils, Rice & Flour  |
| 15   | Want Want                  | 15,196                           | Dairy, Bakery & Snacks   | Hot-Kid Milk, Want Want Rice Cracker   |
| 16   | Mars                       | 15,178                           | Bakery & Snacks  | Dove Chocolate, Twix®, Mars®, M&M's® Chocolate, Pedigree, Whiskas                          |
| 17   | Wuliangye Group            | 14,081                           | Spirits  | Wuliangye  |
| 18   | Dali Group                 | 13,000                           | Non-alcoholic Beverages, Bakery & Snacks   | Heqizheng Herbal tea, Daliyuan, Copico Chips, Haochidian Biscuits, Daliyuan Pastries       |
| 19   | Bright Food                | 12,841                           | Dairy, Bakery & Snacks, Packaged Food  | Guangming Milk, Yoghurt, Cheese, Big White Rabbit Candy, Maling                            |
| 20   | PepsiCo                    | 12,686                           | Non-alcoholic Beverages, Bakery & Snacks   | Pepsi, 7-Up, Mirinda, Tropicana, Lay's, Cheetos  |
| 21   | Uni-President              | 12,591                           | Non-alcoholic Beverages, Dried Processed Food                                    | Uni-President  |
| 22   | Liby                       | 12,000                           | Beauty & Personal Care, Home Care  | Liubizhi Oral Care, COGI Cosmetics, Liby Detergent, Chaowei                                |
| 23   | Hengan                     | 11,704                           | Tissue & Hygiene   | Cnice Toothpaste, Diao Brand, Chaoneng Detergent   |
| 24   | Kweichou Moutai            | 11,633                           | Spirits  | Kweichou Moutai  |
| 25   | Nice                       | 11,329                           | Home Care, Beauty & Personal Care  | Nice   |
| 26   | Jinmailang Food            | 11,000                           | Dried Processed Food   | Jinmailang   |
| 27   | China Food                 | 10,507                           | Wine, Bakery & Snacks, Packaged Food   | Great Wall Wine, Le Conté Chocolate, Fortune Blended Oil                                   |
| 28   | Beijing Yanjing Brewery    | 10,298                           | Beer   | Yanjing Beer   |
| 29   | Unilever                   | 10,138                           | Non-alcoholic Beverages, Dairy, Packaged Food, Beauty & Personal Care, Home Care | Dove, Clear, Lux, Hazeline, Zhonghua, Pond's, Omo, Comfort, Wall's, Lipton, Knorr          |
| 30   | Jiaduobao                  | 10,000                           | Non-alcoholic Beverages  | Wang Lao Ji  |
| 31   | L'Oreal                    | 8,987                            | Beauty & Personal Care   | L'Oreal Paris, Garnier, Maybelline New York, Lancome, Kiehl's, Biotherm, Shu Uemura, Vichy |
| 32   | Shandong Luhua             | 8,560                            | Packaged Food  | Luhua Peanut Oil   |
| 33   | Longliqi                   | 7,000                            | Beauty & Personal Care   | Longliqi   |
| 34   | Amore Pacific              | 6,938                            | Beauty & Personal Care   | Mamonde, Sulwhasoo, Laneige  |
| 35   | Groupe Danone              | 6,407                            | Non-alcoholic Beverages, Dairy   | Yili Water, Evian, Volvic, Dumex   |
| 36   | Shiseido                   | 6,221                            | Beauty & Personal Care   | Shiseido   |
| 37   | Pernod Ricard              | 6,182                            | Alcoholic Beverages  | Absolut, Havana Club, Martell, Chivas, Jameson, Mumm                                       |
| 38   | People's Food              | 5,543                            | Packaged Food  | Jinluo Meat  |
| 39   | Kraft Foods                | 5,000                            | Bakery & Snack, Non-alcoholic Beverages  | Oreo, Pacific, CA!, Ritz, Tuc, Prince  |
| 40   | Johnson & Johnson          | 4,912                            | Tissue & Hygiene, Beauty & Personal Care, Consumer Health                        | Johnson & Johnson  |
| 41   | Yinlu                      | 4,878                            | Non-alcoholic Beverages  | Yinlu  |
| 42   | Baixiang Food              | 4,665                            | Dried Processed Food   | Baixiang Instant Noodles   |
| 43   | APP                        | 4,653                            | Tissue & Hygiene   | Breeze, Virjoy   |
| 44   | Mead Johnson               | 4,542                            | Packaged Food  | Mead Johnson (Enfagrow)  |
| 45   | Hsu Fu Chi                 | 4,307                            | Bakery & Snack   | Hsu Fu Chi   |
| 46   | Colgate-Palmolive          | 4,140                            | Beauty & Personal Care   | Colgate, Palmolive   |
| 47   | Beingmate                  | 4,028                            | Packaged Food  | Beingmate  |
| 48   | Kingstar                   | 4,000                            | Beer   | Kingstar, Chunsheng Beer   |
| 49   | JALA                       | 4,000                            | Beauty & Personal Care   | CHCEDO   |
| 50   | Haitian Flavouring & Food  | 3,930                            | Packaged Food  | Haitian  |

Note: List excludes tobacco



# THE DRAGONS ARE DOMINANT

## GLOBAL RANK

## CHINA RANK



1. Would rise to #8 if stakes in Hsu Fu Chi and Yinlu are included
2. Includes full system revenue including bottling

The Chinese dragons dominate the top end of the 'OC&C China 50' study of the largest 50 FMCG companies in China - 7 out of the top 10 companies are from China or Taiwan and 60% of the list as a whole is occupied by the local players.

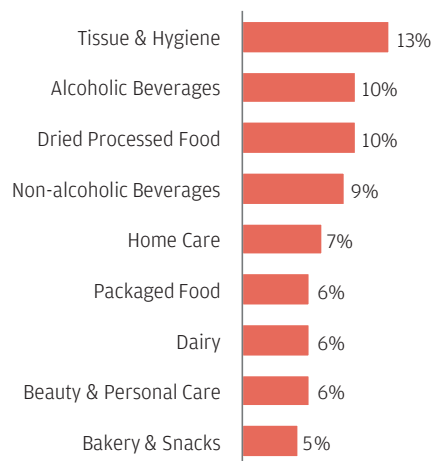
The leading two players Wahaha and Tingyi, with sales nearing RMB 50 billion (€6bn) will in all likelihood break into the Global Top 50 FMCG companies next year. Indeed if the recently announced Tingyi deal to acquire Pepsi's bottling operation in China goes through then they will enter the Top 40 leapfrogging the likes of Beiersdorf, Campbell Foods and LVMH in the process, and it seems unlikely their ambition will stop there.

Looking at the top of the 'Global 50' list you can see the extent of the challenges the multinational companies have had in successfully leveraging their power in the Chinese marketplace - with only really P&G featuring as high as you would expect (after discounting Coca Cola's non-owned bottling operations). Indeed 8 out of the top 20 global players don't even feature within the China 50 list at all (see 'Knocked Out' below).

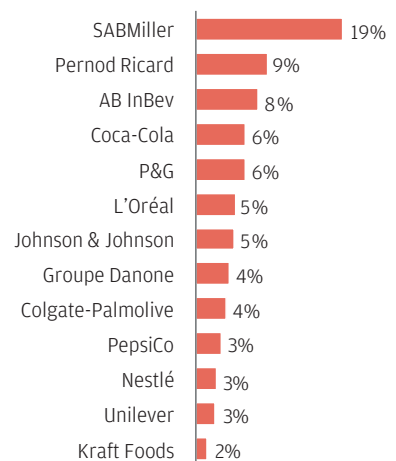
When you look at the picture in terms of the share of total revenue derived from China (see exhibit below) the picture looks even more bleak for the multinationals with none of the top Global Players punching their weight (with the exception of SAB Miller who achieve their position via a

## Percentage of Global FMCG Sales in China

### By Category



### By Leading Global FMCG Company



## KNOCKED OUT

- #10 Heineken
- #11 JBS
- #12 Asahi
- #13 Kirin
- #15 Diageo
- #16 Kimberley Clark
- #17 General Mills
- #20 Tyson

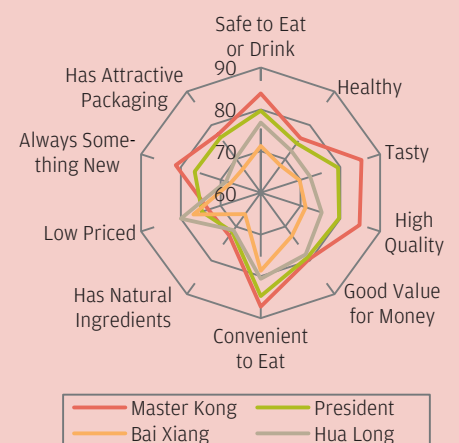


## A Leading Dragon: Tingyi

Tingyi is an incredible and impressive story. Created by two Taiwanese brothers who, when travelling in China, observed the difficulty in preparing noodles on the move and set about fixing the problem. They came up with the breakthrough innovation of instant noodles, spawning a now RMB 75bn category at retail sales value in which Tingyi's Master Kong brand holds a 34% share.

The brand outperforms its competitors on almost every dimension (see exhibit on right) and in a recent OC&C study of brand strength in China, was ranked #2 across all the FMCG brands in China for its position in noodles - but also #8 for its tea range and #10 for its fruit juice - the leading master brand in China.

## Consumer Ratings of Instant Noodle Brands %



# WHERE ARE THE GLOBAL GIANTS WINNING THE BATTLE?

Whilst the Chinese dragons hold sway over the global giants overall, and in the vast majority of categories, there are exceptions - particularly in health and beauty. Here the technical nature of the product allied to the sophisticated R&D machines and advertising expertise of the companies from the US, Europe and Japan have converged to squeeze out the local players, with P&G and L'Oréal being the leaders.

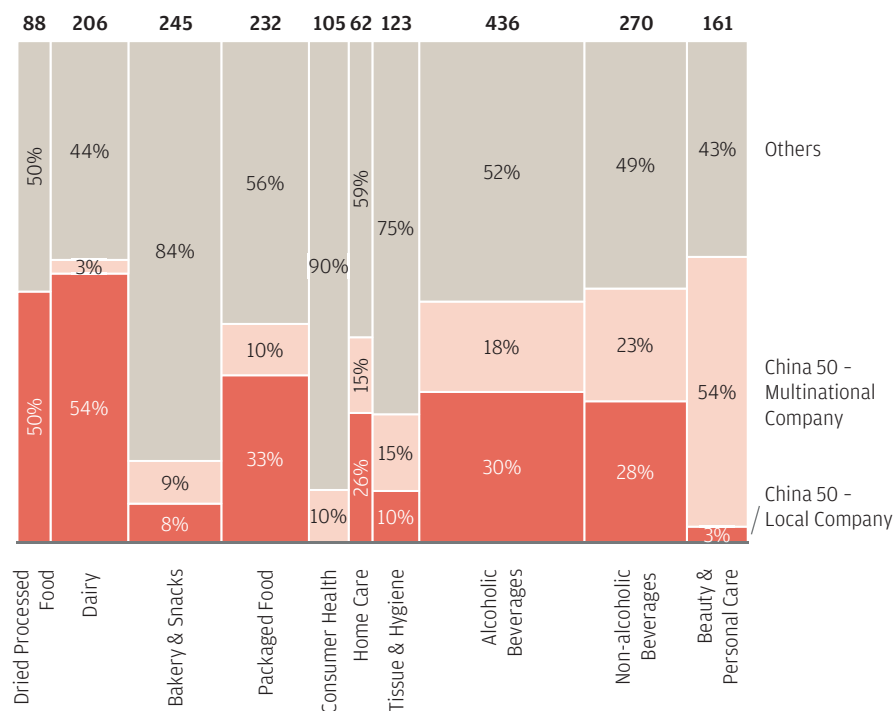
On the flip side in food and dairy the multinationals have seen very little traction, and have largely failed to adapt to local tastes, with the likes of Mengniu and Yili dominating in the fast moving dairy sector and Tingyi (initially via Master Kong instant noodles) and Want Want (via rice crackers) leading in what remains a very local food market.

Drinks sit somewhere between the two with a very regional marketplace in beer being slowly tackled by multinationals via acquisition (ABInbev) or joint venture (SAB Miller alongside China Resources through the Snow brand). In spirits the picture divides by the origin of the spirit with the likes of Pernod Ricard winning in Western spirits such as whisky (through Chivas) and local players such as Wuliangye winning in Chinese white spirits (Baiju).

Soft drinks has a very different make-up to the Western world with carbonates of much lower importance and ready-to-drink tea and water much more so.

In more commodity foodstuffs such as meat, grain and oils, the global players have almost no material presence and there remains a long tail of smaller regional players.

**Share of Local and Multinational Companies by Category**  
RMB billion, %



# CHINA REMAINS AN IMPERATIVE (DESPITE THE CHALLENGES)

Despite fears of an impending slowdown in the marketplace, the overall Chinese FMCG market continues to grow at close to 10% per annum in value terms and that seems unlikely to abate in the near term. Further potential for consolidation coupled with a (slowly) maturing retail sector provides a substantial opportunity for above market growth.

Given the anaemic nature of the market in Europe and the US it is likely that China alone will deliver somewhere between 15% and 25% of the world's growth in FMCG in the coming few years - something the biggest companies in the world can not afford to ignore.

It's not impossible to trade successfully either, with examples of both multinational and domestic operators that are delivering strong margins to go with the double digit growth. However many businesses have suffered due to the complex and fragmented marketplace that has:

- Which combine to create a very fragmented network of distribution with many tiers of distributors before product reaches the shelves in stores
- Multiple consumer segments across a wide range of affluence leading to a requirement for a complex brand architecture
- Fragmented retailers (the leading hypermarkets have significantly less than 10% share of sales compared to anything up to 70% in Western markets)
- Vast scale and huge regional diversity

# SO WHAT DOES IT TAKE TO WIN?

## 1. ADAPT THE PRODUCT TO SPECIFIC CHINESE CONSUMER NEEDS

Chinese consumer tastes are often unique, and indeed, very varied. Not only are the tastes unique, but also the consumer association of particular foodstuffs or ingredients with health and efficacy properties are often linked to traditional beliefs within Chinese culture.

On the whole, it is the local dragons who have harnessed these factors effectively.

In yoghurt, Mengniu together with Yili and Bright, have rapidly developed a range of pouring and drinking yoghurts which would be almost unrecognisable as traditional yoghurt to Western consumers. As an example Mengniu launched a red date yoghurt which combined a very rich flavour liked by consumers with a strong health association due to the traditional view of dates being a very nourishing fruit.

Despite a failure to adapt overall (in food in particular), the global giants have shown that they are capable of doing so. Kraft made their Oreo biscuits significantly less sweet than in rest of the world after testing with consumers, and have subsequently achieved the strongest consumer ratings and commensurate share position within the biscuit market. Similarly in Shampoo, the global giants have successfully adapted their products to Chinese hair through leveraging their R&D strength (and their existing presence in Asia).

## 2. DEVELOP A PRICE ARCHITECTURE TO REACH BEYOND HIGHER CLASSES AND CITY TIERS

Adopting Western product formulations and packaging materials together with Western production models will result in pricing levels that restrict products to only the very richest consumers.

In juice, Coca Cola has been very successful with the Minute Maid Pulpy juice product through heavy adaptation of the original Minute Maid product. They realised that 100% juice products were too expensive for Chinese consumers and they needed to reduce the juice content to around 10% to succeed. However the drink didn't taste sufficiently like a fruit drink - adding orange pulp solved the problem without adding cost. The success of the Minute Maid Pulpy brand has recently resulted in it becoming Coca-Cola's first billion dollar brand to emerge from China (and it grew to that scale from nothing in only 5 years).

## 3. OVERPLAY TO CONSUMER CONCERNS ABOUT PRODUCT SAFETY

In categories as diverse as milk and snack food product safety is the most important purchase criteria for consumers in China.

Nowhere is this more important than in the infant milk formula category where a baby's health is at stake. In 2008 the melamine scandal where excess melamine was added to impure milk led to widespread health issues for new born children.

Whilst in aggregate the foreign players, untainted by the scandal, were very successful and grew market share significantly, the local player Beingmate was the biggest individual winner. It has combined a production location in Heilongjiang which offers reputedly the world's best pure milk, with strict production controls to avoid pollution or contamination. It has supported these fundamentals with a strong communication programme focusing on its positioning and record. This has led to a consumer rating for safety (and quality) at the top end of the category, above that of other leading players such as Mead Johnson, and has helped to deliver a market leading growth rate.

**Consumer Perception of Beingmate (size of word = frequency of response)**



# SO WHAT DOES IT TAKE TO WIN?

## 4. RAPIDLY RESPOND TO CHANGING CONSUMER CONSUMPTION BEHAVIOUR

China is a market in fast forward – leading the innovation race, or at least being able to be a fast follower is critical in staying on top of this.

Wahaha is a company that has constructed its business model around this dynamic. They essentially open source innovation, with ideas generated by distributors and suppliers, and those ideas simply observed in the marketplace going together with those created internally. Crucially they then short circuit the typical product development cycle and rapidly release a wide array of products into the market place using consumers as a testing ground. They often flood the market with 30 new SKUs at a time and every year deliver up to 30% of their sales from NPD.

Future Cola, an effective value brand cola innovation that ‘followed’ the entry of Coca-Cola and Pepsi into China but focused on lower tier distribution regions, and Nutri-express, a milk-juice crossover product which tapped into a consumer desire to maximise nutrition (and was the first to launch a multi-service pack size that facilitated penetration into the catering trade) represent examples of the Wahaha innovation model in action.

Having a ‘fast follower’ mindset is crucial in responding to this high volume of innovation. This means developing local market antennae across China and backing this up with a simplified innovation and incubator process driven by a local, rather than central R&D function that leverages knowledge from the centre but is not constrained by it.

## 5. DEVELOP DIFFERENT DISTRIBUTION MODELS TO REACH LOWER TIER CITIES WITH CONTROL

With supermarkets having such a small share of the grocery market, and centrally controlled chains an even smaller subset of that, gaining access and some degree of control over distribution is critical.

There are two ways to think about this – the first through creating a large field force capability in-house, and the second is through partnering with other suppliers.

The confectionery player Hsu Fu Chi has developed a ‘hands on’ model that enables it to create distinctively merchandised fixtures across its 17,000+ points of sale. To do this they directly control all elements in-house from account management through to merchandising and indeed even assisting customers in store for their top 3,000 outlets via a fleet of in store promotional assistants (SPGs).

For the remaining outlets Hsu Fu Chi uses its 110 branch sales offices and a vast fleet of thousands of sales personnel to more actively manage and control distribution than other operators are able to achieve – thus cementing their #1 position in the market. Since a majority stake in the business was acquired by Nestle earlier this year, it has been operated in a separate structure reflecting the strength of its distribution capability.

### Approach to Supermarket Distribution

|                                  |                              | Hsu Fu Chi | Typical Multinational Brand |
|----------------------------------|------------------------------|------------|-----------------------------|
| <b>Before Reaching the Store</b> | Account Activation           | ✓          | ✓/X                         |
|                                  | Terms Negotiation / Contract | ✓          | ✓/X                         |
|                                  | Ordering                     | ✓          | X                           |
|                                  | Delivering                   | ✓          | X                           |
| <b>After Reaching the Store</b>  | Fixture Design               | ✓          | X                           |
|                                  | Replenishment                | ✓/X        | X                           |
|                                  | Fixture Tidying              | ✓/X        | X                           |
|                                  | Weighing                     | ✓/X        | X                           |

✓ Completed by Brand

X Not Completed by Brand

Building this kind of infrastructure from scratch is very time consuming and costly – and may never pay back if the level of sales don’t reach the critical scale to support the infrastructure. Finding partners with existing distribution capability to carry your products, or combining forces with other players and merging distribution networks can help to rapidly unlock wider access to the marketplace – a logic recently followed by Pepsi in the tie up with Tingyi.

# ROOM FOR MORE DRAGONS?

China is already a crowded marketplace with multinationals entering from all corners of the world to compete with the local Dragons. That doesn't necessarily mean there isn't space for more dragons - they're just going to have to play smart.

Following insurgent 'David' strategies (see the OC&C publication 'Size isn't Everything') coupled with creative distribution strategies are clearly the starting point - but there are some specific areas of opportunity that budding entrants can play into:

- **Develop natural brands:** A burgeoning segment in multiple categories with the rapid growth of the likes of the herbal focused brand Inoherb in health and beauty showing that consumers have evolved to the stage where international brands such as Burts Bees could flourish
- **Create heritage brands:** Aspirational stories with real (or at least perceived!) Western heritage can resonate with consumers and show real traction
- **Offer value brands:** an underplayed segment in China - the opportunity exists for classic or indeed captive value brands across a number of categories
- **Deliver real convenience:** Chinese consumers are increasingly in a hurry with the success of everything from instant noodles to individually wrapped snacks to ready to drink tea and yoghurt drinks demonstrating the consumer desire for convenience. If a brand can find a convenient twist on a traditional product category the idea should have potential
- **Win the guerrilla marketing war:** Consumer purchases are increasingly influenced and activated via a plethora of digital media to an even greater extent than in Western countries, yet brands haven't caught up. Exploiting the power of the huge consumer audiences on the likes of Weibo, Kaixin and RenRen through engaging with (rather than preaching to) them could help fuel a launch
- **Be creative about partnering:** Gaining distribution without incurring massive setup costs is a key challenge. For new entrants partnering is likely to be the right approach - this could be with local players, or this could indeed be with multinational companies who are competitors in other markets

## ARE YOU EQUIPPED TO WIN IN THE DRAGONS' DEN?

1. Have you positioned your product in line with local consumer needs?
2. Are your brand portfolio and cost structure configured to access all consumer groups?
3. Do you understand how to make your brand stand for safety?
4. Can your business model and processes keep pace with consumers?
5. Have you explored all options to optimise your distribution?

If you would like to develop a winning position in the Dragons' Den, then please get in touch with us and we'd be delighted to discuss how we can help you succeed

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