

DOMESTIC, AND PREMIUM

+ How Foreign Brands are Catching On



Insights-based marketing, research & digital

Shanghai | San Francisco

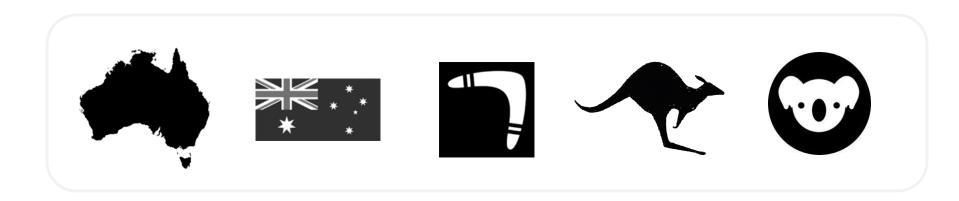
MARK TANNER, MANAGING DIRECTOR CHINA SKINNY

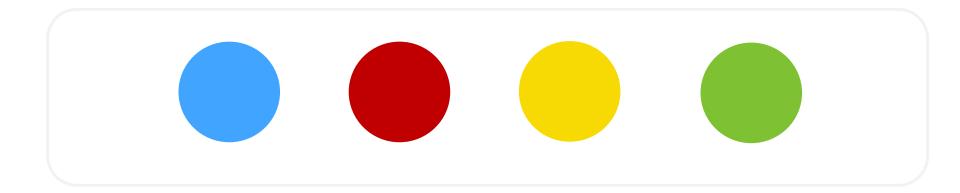
AMCHAM SHANGHAI FUTURE OF FOOD CONFERENCE MAY 24, 2017





How Chinese Consumers See The World







Breakdown of Consumption Expenditure, China, Korea, Japan and USA

	Japan	Korea	China	00/	
sportswear)	Clothes and footwear (ex-sportswear) Cosmetics and personal care	Clothes and footwear (ex-	Clothes and footwear (ex-	0% †	
nal care		sportswear)	sportswear)	-	
	Packaged food	Cosmetics and personal care	Cosmetics and personal care	10%	
d		Packaged food	Jewelry (incl. 50% as gold)	10 %	
	Fresh food	Fresh food	Packaged food	20% -	
	Non-alcaholic bayerage Alcoholic drinks	Non-alcohalic beverage Alcoholic danks			
	Financial services Utilities Household appliances	Financial services		30% -	
,68			Fresh food		
		Utilities			
		Household appliances Other household goods		40% -	
oods	Other household goods	Automobiles	Non-alcoholic beverage Alcoholic ériska		
	Automobiles		Alsohalic drinks Tobacco		
	Ground transportation incl. petrol Handset and telecom services Food services Out of town trips Others (mainly gaming, media and sports) Healthcare Education Insurance and social protection	patrol	Ground transportation incl.	Financial services	50% -
on incl.		F			
		Handset and telecom services	Utilities		
earvinee			Household appliances	60%	
services		Food services	Other household goods		
. -			Automobiles	F	
		Out of town trips	Ground transportation incl.	70% -	
ps		Others (mainly gaming, media	petroi		
and aparta)		Handset and telecom services			
,,			Food services	80% -	
		Healthcare .	Out of town trips		
			Others (mainly gaming, media and sports)		
		Education		0006	
			Healthcare	0070	
protection		Insurance and social protection Insurance	Education	ŀ	
	Others	Others	Insurance and social protection	00%	
protection	Education	nsurance and social protection	sports} Healthcare Education	90% -	

Source: Euromonitor, CEIC, Goldman Sachs Global Investment Research



high- & middle-end products: **阿里巴巴** 2012: **26.2**% 2016: **34.4**%



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Average Price of Liquid Milk Online

Foreign Brand: ¥11.63 / litre

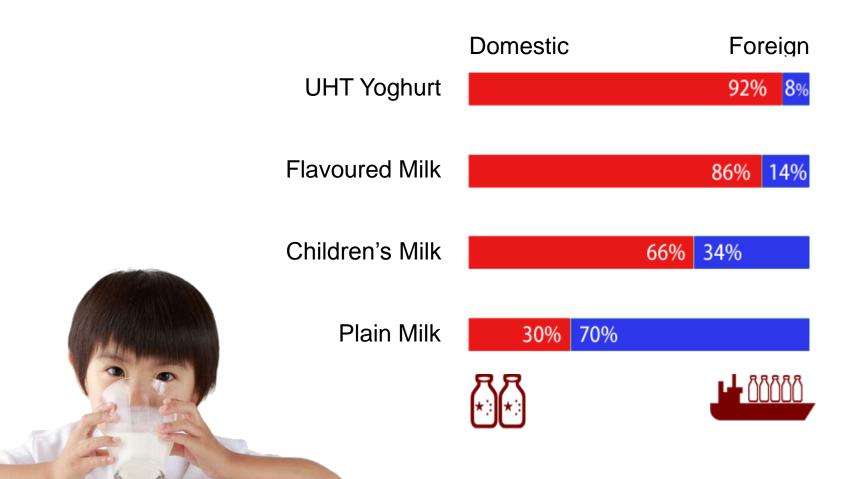
Domestic Brand: ¥16.01 / litre





Value-Added Occasions/Segments

Liquid Milk Sold Online by Type





chinaskinny



Mengniu Pure Milk



¥43.20 16 x 250ml

Milk Deluxe Pure Milk





¥81.70 16 x 250ml

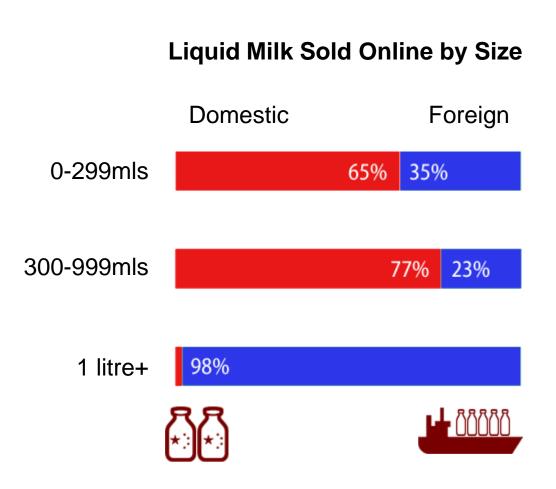


53% more gallons

189% more revenue



Packaging relevant to the Consumer







Packaging relevant to the Channel & Region







Perception of Premium



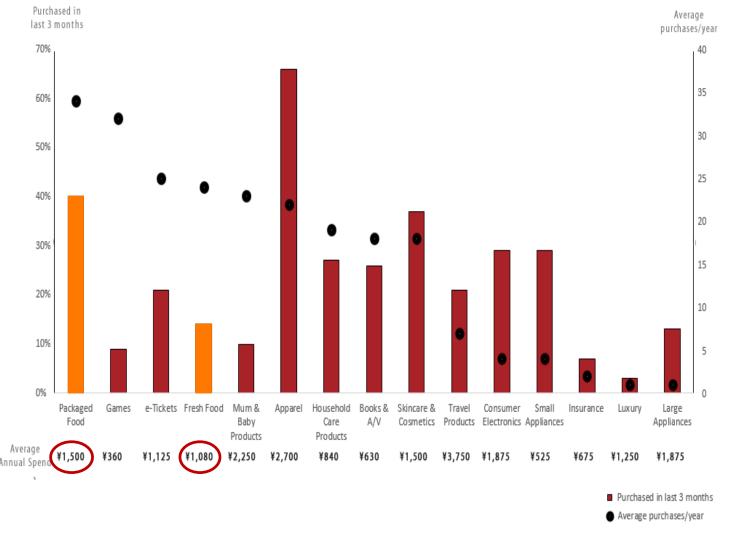


Perceived Uses of Products





Online Shoppers Purchase Behaviour



FMCG Online

2016: **5%**

2020: 13%

\$260 billion





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Tapping into China's Exciting Innovations











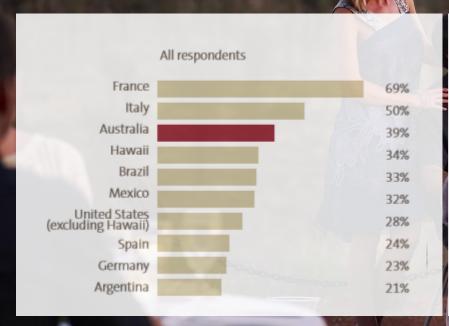






Thinking beyond traditional food channels

Good food, wine, local cuisine and produce





2.6 million Chinese visited the USA in 2015

US Customs data



To sum up

- Chinese consumers often perceive foreign attributes differently
- Chinese consumers spend a high share of their incomes on food, with affluent consumer spending growing rapidly as they trade up
- Brands are increasingly localising by city/region
- Domestic brands are usually quicker serving key trends that meet consumer needs:
 - Value added products
 - Segment specific products
 - Package sizing to appeal to Chinese consumer needs
- Perceptions of premium is often different in China than other markets
- Uses for products can often surprise
- Ecommerce is showing great hope for food & beverage particularly imported
- There are some exciting less traditional digital channels
- Thinking beyond traditional channels can be productive



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Questions























































































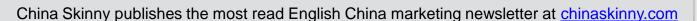














Panel 3

Food Fraud and Compliance

Presented by

David Ettinger, Keller and Heckman LLP

Brian Marterer, PwC

Leon Zheng, Starbucks















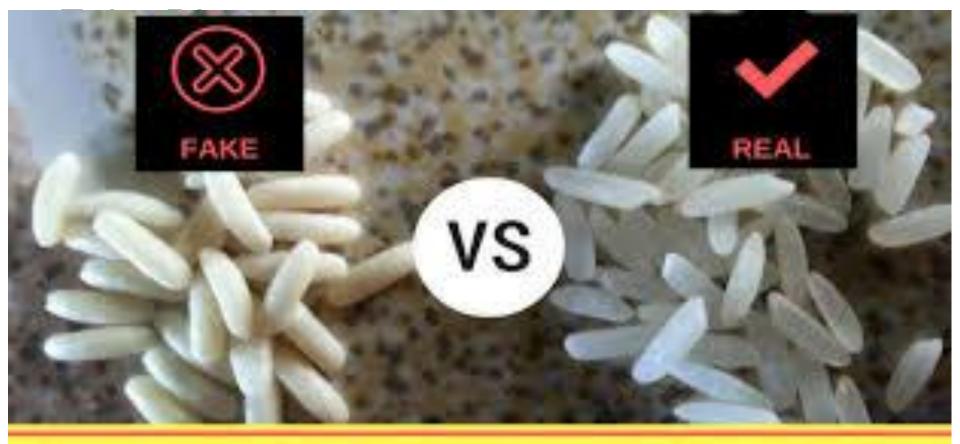
Figure 1: What Is Food Fraud?

Fraud in China

- ☐ In 2008, China investigated 76,500 fake food cases
- ☐ In 2012, China closed 147,000 fake food and drug sites
- ☐ Business fraud is a universal problem in China







CHINA PLASTIC RICE

ORIGINAL RICE

Fake news in China



KFC sues Chinese companies for online rumors about its food

Monday, 1 Jun 2015 | 11:58 AM ET



Bloomberg/Contributor | Bloomberg

 What is the difference between food fraud and food safety?

Simple definition of food fraud

intentional deception, using food, for economic gain.

7 types of food fraud

economic gain.

Most acts of food fraud include one or more of these



Sale of stolen or excess unreported

product.

Food safety management and food fraud prevention

Food safety management

- Prevent unintentional or accidental contamination of food by known pathogens or substances
- Food fraud vulnerability mitigation

Prevent intentional acts
 perpetrated for economic gain

What is your perspective regarding the scope of food fraud in China?

食品欺诈分类



- Product Fraud产品欺诈
- Food Production & Operation Fraud 食品生产经营行为欺诈
- Label & Specification Fraud标签说明书欺诈
- Food Publicity Fraud食品宣传欺诈
- Information Fraud 信息欺诈
- Food Test & Authentication Fraud 食品检验、认证欺诈
- · License Application Fraud许可申请欺诈
- Registration Fraud备案信息欺诈
- Report Fraud报告信息欺诈
- Report False Supervision Information 提交虚假监管信息



- Economically Motivated Adulteration (EMA)食品掺假经济利益驱动的食品 掺假
- Food Counterfeiting食品造假
- Misleading Information 虚假宣传

替代 Replacement 添加 Adding 调和 Blending 虚假成分标签声称 Misleading

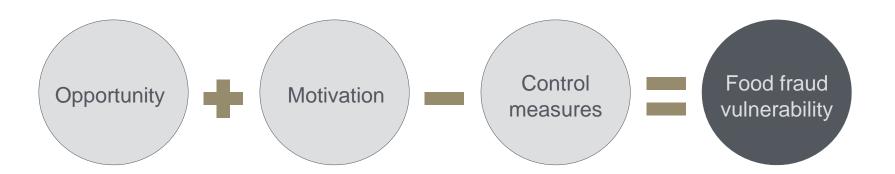
国际

*源自《食品安全欺诈行为查处办法(征求意见稿)》

 How can companies assess their vulnerability to food fraud?

Food fraud vulnerability assessment

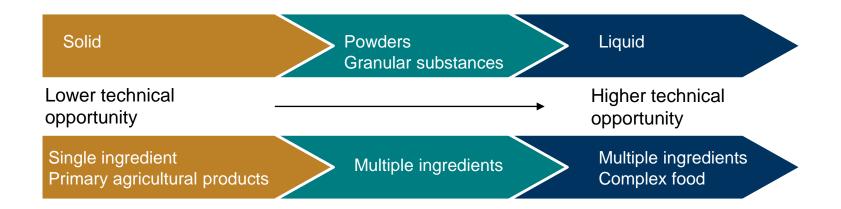
Think like a criminal.



Food fraud vulnerability assessment

Opportunity

- Physical characteristics and composition
- Detectability of fraud
- Technical difficulty of adulteration or modification
- Accessibility to production lines
- Complexity and transparency of the supply chain



Food fraud vulnerability assessment al characteristics and fraud opportunit

Opportunity



Fish fillets



Frozen fish blocks





Whole fish

Mislabelling
- wild caught

Mislabeling

Substitution

- species

Concealment

- coloring
- preservatives

Dilution

- added water

Mislabelling

Substitution

- non-fish materials

Fish powder

Concealment

- flavor additives
- coloring additives

Enhancement

- protein content

Counterfeiting

- label & packaging

Food fraud vulnerability assessment



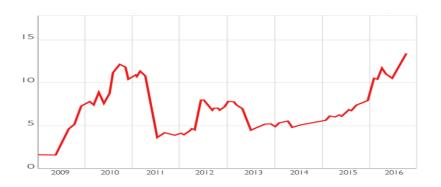


<u>Cultural & behavioural factors</u>

- Personal gains or desperation
- Ethical business culture
- Corruption level
- Victimization
- Blackmail

Economic and market factors

- Intense price competition
- Few buyers (monopsony)
- Supply disruption
- Special attributes that determine value
- Financial strains for suppliers
- Competitive strategy
- Economic health or conditions



Food fraud vulnerability assessment

Control Measures



- Tracking & traceability systems
- Mass balance control
- Contractual requirements
- Whistleblowing guidelines & protections
- Ethical codes of conduct
- Legal / regulatory framework
- Law enforcement
- Employee integrity screening
- Fraud monitoring and verification systems

New GFSI food fraud requirements GFSI Guidelines Version 7 (March 2017)

GFSI compliance will require

- A documented food fraud vulnerability assessment procedure to identify potential vulnerability and prioritize food fraud mitigation measures.
- 2. A documented plan that specifies the measures the organisation has implemented to mitigate the public health risks from the identified food fraud vulnerabilities.

































From a regulatory perspective, how is China Dealing with Food Fraud?



Practice and Strategy 现状与对策







完善中国食品欺诈相关的法律体系 Legislation



不断完善更新食品中可能违法添加的 非食用物质("黑名单") Non Food Black List

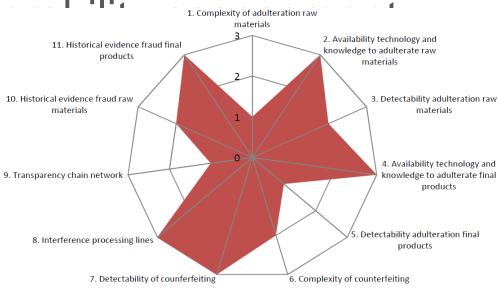


通过举报发现存在的食品欺诈问题 Whistle Blower



建立中文资料的食品欺诈数据库,寻找出与 国际食品欺诈的共同规律和独有特点 Data Base and International Sharing What results have you seen after companies implement food fraud vulnerability assessments?

Food fraud vuln result^{Qpportunity}



Motivation

