Wellness & Convenience driving new growth in Food Retail

Ipsos Hong Kong
Thought Piece
2014

10% of the Chinese population suffers from Diabetes

OVERVIEW

A perfect storm of awareness, concern and rising disposable income continues to drive Asia-Pacific's consumers to natural food choices. The Asia Pacific region's food industry is one of the fastest growing and is expected to reach a 33% market share in the global food and beverage market in 2014. Although Asia has many different cultures, cuisines, languages, per capita income and other habits that impact food choices – the food industry has seen consistent growth throughout the region.

Despite traditionally healthy diets and lifestyles, globalization along with a rapidly westernizing diet has resulted in record levels of obesity among children, along with a host of chronic "lifestyle" conditions previously unheard of outside Western Europe and North America. According to the International Diabetes Foundation, China is leading the world, with the disease now affecting more than 98 million people or about 10% of the population - a dramatic increase from about 1% in 1980.

The growing consumer concern for wellness and convenience is also driven by Asia's rapidly aging population. According to the United Nations, the population 65+ across Asia Pacific will increase by 314 percent - from 207 million in 2000 to 857 million in 2050.

As countries have become more developed and affluent, chronic non -communicable diseases replace malnutrition and infection as the major causes of mortality. While traditional diets consisting largely of homemade meals featuring fruits and vegetables is quickly being replaced by processed convenient food - physical labor has been supplanted by sedentary desk work resulting in higher risk for chronic conditions including: obesity, hypertension, hyperlipidemia, diabetes mellitus and systemic inflammation.

Key Trends within Asia Pacific
Organic clearly on the rise

Scandals over environmental and food-borne toxins, and increasing access to new, trusted, non-governmental sources of health and safety information, are prompting many Asian consumers to re-think the health implications of their consumption. Little wonder that consumers are showing interest in recognized, natural and traditional health and wellness. For 80% of Chinese and 75% of Indian millennials, pollution is a stress factor.

Meanwhile Japan, Australia, China and India dominate the organic food market. The organic food and beverages market in Asia Pacific region has grown by 12.4% with China alone growing 14.7%. As well as a consumer demand for natural products there is now an added to expectation that enhanced functionality should also be delivered, either in the form of additional supplements or free from (eg. Lactose, for those Asian consumers who don't tolerate lactose as well). The continued global focus on protein is expected to continue – relying increasingly on new and processed alternatives to boost protein in snacks and meals (particularly breakfast). This means the re-emergence of legumes and traditional protein sources (ie. Garbanzo beans), but incorporated into newer convenient formats for eating on the go or eating while at work.

The continued global focus on protein is expected to continue

Updated & expanded tradition

Much of the current dietary prescriptions for managing chronic conditions sound very much like a return to more traditional eating habits in Asia: more servings of fruit and veg, less processed food, less red meat, less sugar… more home cooked, raw and natural food.

The difference is that when food is processed, consumers expect it to deliver something functional by way of a health and wellness benefit.

Despite lackluster growth in the rest of the world, Asian consumers consumed 16% more pro and pre-biotic yogurt compared to last year.

Growing consumer awareness of digestive wellbeing along with the re-introduction of traditional pro and pre-biotic drinks popular in many markets in Asia Pacific will help drive continued growth of this sector.

Manufacturers are responding in different ways

Faced with the demand for health, and realization that recent western eating habits may be unhealthy, major manufacturers are stepping up in producing alternatives, many resorting to traditional Asian ingredients.

Coca-Cola Thailand has introduced a soft drink infused with cooling herbs. In August 2013, Coca-Cola launched habu: the brand's first herbal beverage.

The soda is intended to provide reprieve from hot weather and fast -paced lifestyles. It's infused with traditional cooling herbs: roselle, luo han guo, licorice and cogon grass. Nestlé has provided 53 billion servings of iron, 102 billion servings of iodine, 35 billion servings of vitamin A and 14 billion servings of zinc in 2011.

Researchers from the Winterthur Institute of Health Economics in Switzerland studied 5,000+ children and found micro-nutrient fortified milk and cereal product consumption could reduce anemia.

PepsiCo's Chairman and CEO Indra K. Nooyi is currently the chair of the Healthy Weight Commitment Foundation (HWCF), a U.S. effort designed to help reduce obesity - especially childhood obesity - by 2015. It is a first-of-its-kind coalition that brings together more than 150 retailers, food and beverage manufacturers, restaurants, sporting goods and insurance companies, trade associations and NGOs and professional sports organizations.

Additionally, in 2012, PepsiCo signed a one-year strategic partnership with the Asian Football Development Project (AFDP) to encourage people across Asia, particularly women and young people, to play a greater role in society through a range of football-focused activities.

The strategic partnership, "Kick for Hope," between PepsiCo and the AFDP will include a range of football activities in more than 40 Asian countries with a special focus on 11 countries in the Middle East, in addition to India.

China in a category by itself

Environmental degradation, on-going food contamination scandals and rising disposable incomes means that China's consumers are voting with their wallet. In a recent study by Mintel, 90% of urban female consumers in China prefer products with natural ingredients, rising to 94% of those who earn over RMB10,000.

Rising incomes have improved purchase choices for mainland Chinese consumers. Last year, China's B2C marketplace Tmall (天猫) offered flash sales of U.S. cherries (168 tons sold) and Alaska seafood (50 tons).

This May, Tmall's 7-day online promotion for US Pork gave thousands of Chinese consumers the opportunity to learn about U.S. pork through videos and recipes developed by master chefs, and to order U.S. pork for home delivery. Within the first five days, the three participating U.S. suppliers had sold nearly 3,000 one-kilo orders (6,600 pounds) of U.S. pork. Within five more days, total orders jumped to 7,000 kilos (15,000 pounds).

At a 17% annual growth rate, the health food market in China is expected to be worth USD71bn by 2015, with primary purchasers younger (aged 20-40), urban and well educated. 87% are more likely to spend on foods labelled "all natural".

Emphasis on less meat, traditional Chinese Medicine ingredients and additional functionality seem poised to become more critical for these health-savvy consumers.

PepsiCo is developing Traditional Chinese Medicine drinks and snacks as part of USD2.5bn expansion into China.

Hong Kong, despite small size, still key market for functional foods

According to Markus Scherer, Associate Director for Ipsos Business Consulting "Changing lifestyles and the ageing population will continue to be the two main drivers for growth in this sector in the future. As the actual ingredients in processed foods become an increasingly important purchase consideration, manufacturers will need to convince consumers that what they are eating, not only tastes good but is also beneficial to their health".

Recent research has found that:

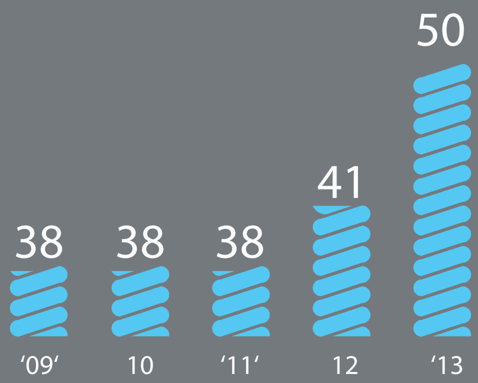
- Fortified/functional packaged food posted 8% growth in retail value terms to reach HK$3.9 billion in 2012. Fortified/function baby formula and dairy products are the largest segments accounting for 46% and 31% of total sales respectively.
- Fortified/functional beverages experienced a 6% current value growth to reach HK$1.2 billion in 2012. Soft drinks was the largest category in 2012 accounting for 70% of total sales value.

These new trends have seen an explosion of interest in Hong Kong for health related products.

Ipsos research indicates that the proportion of residents who are prepared to spend money to stay healthy has increased from 38% in 2011 to 50% in 2013 (see chart with data from Ipsos Media Atlas Hong Kong).

According to Clare Lui, Executive Director Media CT- Ipsos Hong Kong, "Even the Hong Kong government plays a role in enhancing general public's awareness of healthy eating.

There are websites, campaigns and monthly e-magazines dedicated to teaching people about the



% of Hong Kong residents "willing to Spend More on Health"

Source: Ipsos Media Atlas Hong Kong 2009-2013, amongst aged 15-64, % who agree or strongly agree

importance of a balanced diet, how to read nutrition information labels, recipes for smart cooking and tips on understanding genetically modified foods. All these are a reflection of the population's increasing health concerns and need for more functional foods"

Hong Kong residents have always been keen to try new foods and ingredients. Close to 95% of all food in Hong Kong is imported, and its role as a bridge between western and Asian cultures has made it a unique place where manufacturers have been willing to experiment with new foods and ingredients. The multitude of food fairs within the city attest to the willingness to experiment. This is now becoming evident in the growing popularity of functional foods and supplements.

According to a survey conducted by the University of Hong Kong in 2008, about 35% of the Hong Kong population consumed health supplement products, compared to 28% in 2000. General wellbeing will remain the key driver of fortified/ functional food as awareness for sustaining a healthy lifestyle amongst the general public remains high. This is being driven by the Hong Kong government's various campaigns promoting healthy lifestyles, as well as by the ageing population in Hong Kong, leading consumers to take a proactive attitude towards their health.

Hong Kongers spend on organic and natural despite the price premium over mainstream food products.. Organic packaged food posted an 8% retail value growth to reach sales of HK$139 mn in 2012.

Organic rice was the fastest growing category in terms of current value growth in 2012, while organic soy milk posted the second highest retail value growth in 2012.

Sales of organic beverages recorded a 5% growth in retail value to reach just under HK$ 18 mn in 2012. Organic coffee is the largest category accounting for just under 60% of all organic beverage sales.
"The growing prevalence of organic

foods in major supermarkets and not only the premium organic outlets has helped drive this category's growth. Strong media coverage and increasing focus on health and maintaining vitality paint a rosy picture for the future growth of organic food in Hong Kong," notes Peter Snell, Global CEO for Ipsos Business Consulting.

How should manufacturers respond

Health concerns and the trend for more functional foods is creating demand and opportunities for new ingredients. The challenge for manufacturers is to understand these demands, identify opportunities for manufacture and educate consumers of product benefits.

Manufacturers should therefore focus on:

- Understanding which consumer segments within each market are most concerned and most open to healthier food options

- Use innovation in food and ingredients to devise products that are relevant to target consumers and which are highly differentiated to other products in the market

- Explore and optimize how well the products will be received in the market

- Understand how to use traditional and new media to help educate consumers of the benefits of these products.

Food manufacturers are in a difficult position in having to provide consumers with foods that they say they want (which are often unhealthy) and foods that customers actually do eat (which is increasingly unhealthy).

It is only through proper customer understanding that those two needs can be reconciled.

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