Vitamins & Supplements

Attractive growth opportunities across Asia's consumer markets

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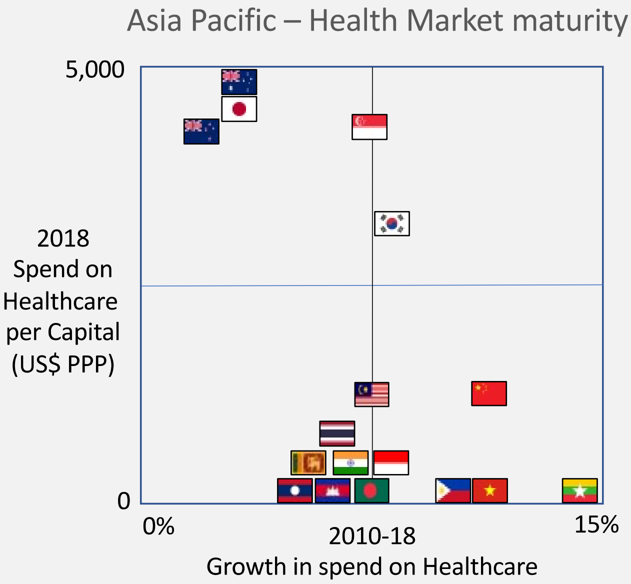
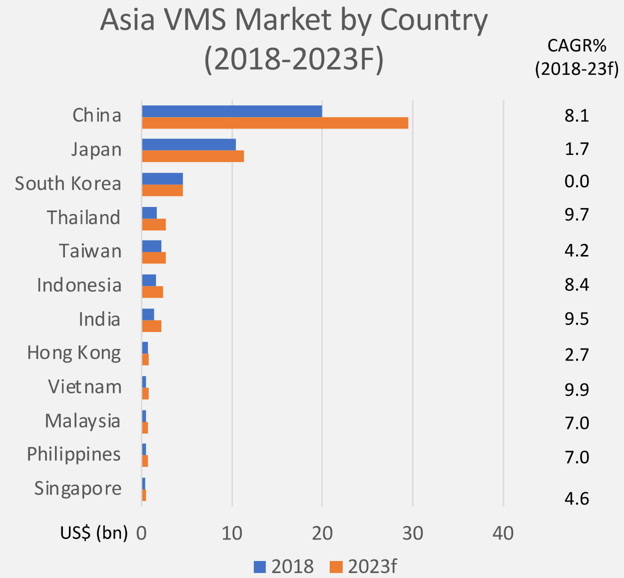
By Michel Brekelmans

Asia share of the global Vitamin, Minerals and Supplement (VMS) market has grown to 45% vs 28% for the US and 15% for Europe 15%. Asia's largest market, China, is rapidly approaching the size of the US market at US$20bn vs US$28bn with China growing at a much faster clip. It's no wonder many global VMS players are looking to enter the region or expand their footprint. In this paper we share perspectives on the market and some strategic considerations based on previous work in the industry.

Attractive growth outlook in Asia – key drivers

To start off, Asia is really an amalgamation of vastly different markets in terms of size, growth outlooks, demographics and consumer attitudes towards VMS products. China is the largest



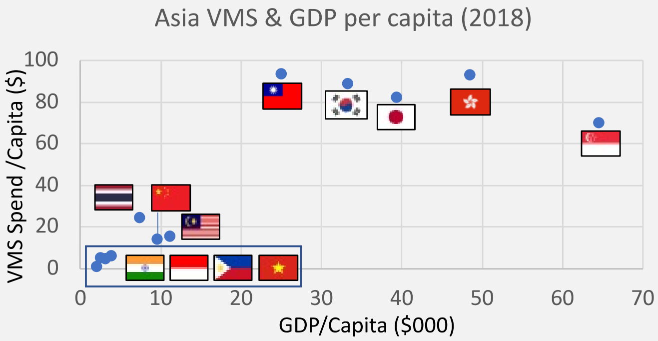


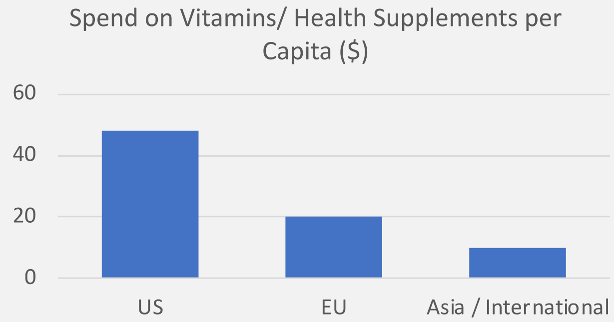
Source: WorldBank, Euromonitor, SCP/Asia Research & Analysis market and experiencing rapid growth. Smaller markets like Singapore and Hong Kong are much more mature but with very high spending power are very attractive to premium brands targeting specific customer needs with sophisticated solutions. In between these extremes are large and mature markets like Japan and South Korea and many rapidly developing economies including large countries such as India, Indonesia, Vietnam and The Philippines.

We'll discuss the dynamics in some of these markets below but first discuss some common characteristics witnessed across many of the markets in Asia that help propel growth of the industry.

Culture and Tradition. For people across the region, from China and India to Southeast Asia use of herbal products and focus on wellbeing and preventive care is a big component of health management early in live: you take these products because it is good for your health. In Western markets it is more about the science and the data. People in Asia on the other hand are accustomed to certain foods being therapeutic. For instance people grow up with the knowledge that for eye health you take goji berries and that you can take this in supplement form.

Increased Penetration. Despite these favourable consumer attitudes, usage per head in Asia is still much lower compared to the US, ANZ or UK. But rising incomes across the region are an important growth driver across many countries providing consumers with the spending power to buy products for different needs or trade-up to premium brands.





Source: SCP/Asia Research & Analysis

Changing life styles. Across the region, increasing urbanisation, ageing of the population, and increasing air pollution is contributing to a rise in stress levels and age related ailments. As a result we see increased demand for VMS products such as eye supplements and products for the liver as there is more drinking for career development.

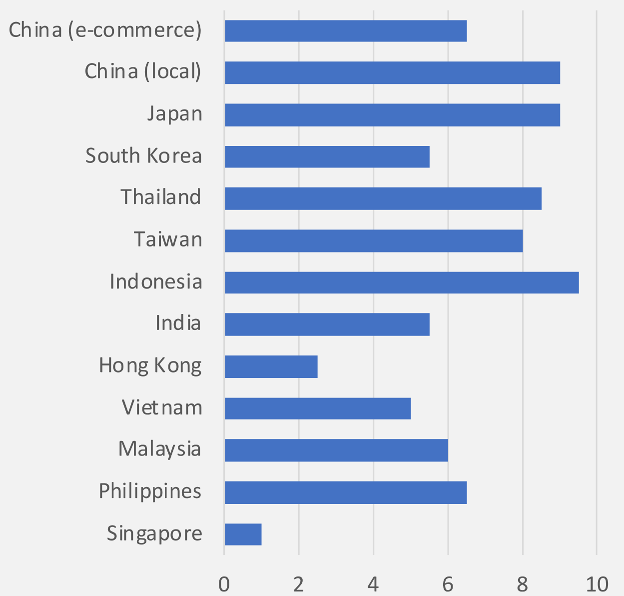
Challenging Regulatory Environment

Looking at US and EU markets, there is one set of regulations covering the health and pharma industry. In Asia there are 20 markets and 18 different regulatory regimes making things a lot more complicated.

Countries like Singapore and Hong Kong are relatively straightforward from a regulatory perspective – launching a product is a breeze. Indonesia, China and Japan are very complicated in terms of product registration. Registration can take up to 2 years and companies are looking at alternative methods, including international e-commerce, to bypass these hurdles.

Most countries fall somewhere in the middle in terms of regulatory complexity:

Asia Regulatory Complexity Index
(1= very easy, 10 = very hard)



Source: SCP/Asia Research & Analysis

Registration Observations

China: local registration is hard; alternative approach is to enter the market through cross-border e-commerce

Japan (as well as SEA countries like Indonesia, Philippines and Vietnam have raised regulatory hurdles and try to promote local manufacturing rather than imports)

Taiwan regulatory complexity depends on classification

India market is not that tough to enter from a regulatory perspective. Challenge will be affordability and competition from local brands

Registration in Malaysia is challenging, even for basic products like Vitamin C. Registration is similar to pharmaceuticals and requires halal certification

Singapore and HK markets are easy to enter from a registration perspective. Markets are relatively small, but with consumers with high disposable income

To illustrate, in India the Food Standard Safety Act defines various product classifications based on the ingredients and claims you make in the market. When you make curative claims you have to follow the route of pharmaceutical products. You then look at the ingredient classifications and are required to do clinical trials and if successful the product are to be sold through pharmacies.

But VMS companies may also sell products under the preventative category (e.g., nutraceuticals, health supplements). The product claims determine the classification. For instance, scientific evidence exists that oat fibre will improve heart health and so you can make this claim and classify the product as a nutraceutical. Largely FSSAI regulations stipulate what you can and cannot do in terms of sales channels and communication messages.

Asia Market Entry Strategies - First Stop: Hong Kong

Factors for determining to Asia growth strategy sequencing

For VMS companies that are new to the region, they need to decide on a market prioritisation and sequencing. Several factors should be considered, including regulatory complexity discussed above:

- Brand positioning and customer affordability, especially when targeting more affluent consumers with premium products. These are more likely found in countries like South Korea, Taiwan, Japan, China and Singapore.
- Target demographics. Are your products targeting the elderly population or families with young kids? Countries with ageing populations will be attractive for categories such as bones and joints; the brain and preventative supplements to prevent chronic diseases

Hong Kong and Singapore are typical entry points for foreign brands entering the region given their attractive demographics, spending power and straightforward regulatory environment. Japan and Korea also have a large pool of wealthy and ageing consumers but the regulatory considerations are more difficult for international players. They often use different standards and all the documentation needs to be in the local language. Places like Japan, Indonesia, Philippines and Vietnam are also trying to encourage local manufacturing rather than import creating additional hurdles.

With Hong Kong a natural entry point, let’s take a closer look at the market and consumer dynamics there. The Hong Kong VMS market is well established: of the 7 million people living in Hong Kong an estimated 1 million people taking different kinds of supplements on a regular basis. The acceptance to supplement is very high and from a young age people are aware of the benefits of taking fish oil or vitamin C. With the growth of the economy and more concern on health issues it is very common for Hong Kong consumers to take health supplements. Covid-19 has resulted in increased focus on supplements for strengthening the immune system.

Consumers are accepting of chemical ingredients as they understand that fish oil and vitamin C have chemicals. As long as the product is good for your health they will use it. Hong Kong consumers are generally open and interested to explore and learn about new products and brands. If the benefits are better they are willing to try. It’s not so much about the ingredients but more about the benefits of the product.

Hong Kong consumers open to try new products with increased benefits

Customer loyalty for Hong Kong consumers is not particularly high. Many customer will enquire about new versions or explore new brands. They understand that the technology is improving so they will occasionally review what else is out there. Customers are willing to listen if you have new ingredient but this is not the main reason to switch. They will look at the health benefits and whether the product gives more or better benefits. Ingredients per se are not a big driver to switch brand. If customers have loyalty to a specific brand, like GNC with its enormous portfolio, they will try and use that brand to tackle their specific health issues.

Generally, for products like vitamins and minerals, Hong Kong consumers trust international brands like GNC as well as brands form Germany, Switzerland, Australia and New Zealand. Customer believe these countries have higher standards. For beauty products (e.g., collagen, probiotics) the trend is to buy products from Japan and more recently from South Korea. Collagen drinks and products from brands such as Fancl, Yamada Miyura and Meji are doing well.

Kids supplements is a category that has been very popular in recent years and many new products such as kids probiotics and fish oil for kids have been introduced by players from the US, Switzerland and Australia. Brands from these countries are well regarded in producing kids products as parents are concerned about the source and reputation of the products.

How to tackle China?

China's VMS market developed later than Hong Kong and the potential is very large. Similar to consumers in Hong Kong, Chinese consumers are not showing a particular interest in the specific ingredients. More important is the brand credibility and benefits of the product. Using the ingredient format as a lead to sell in China may not be that effective, except for things like cordycepts or lingzhi mushrooms which have long been accepted. Western plants don't have much credibility in China and brands should instead emphasise on the health benefits and safety aspects.

China has a complex regulatory environment for marketing health products and there two main routes: cross border e-commerce or through official registration as a supplement in the market. Regulations are different depending on which route you chose.

Cumbersome product registration process in China. International e-commerce a viable alternative for international brands

If you want to sell products in local pharmacies or your own stores, local registration of products is required which involves a lot of testing and paperwork. Overall the process is rather ambiguous and the timeline is uncertain and may take up to 2 years. Working with local registration parties can help you better understand the process and push things forward. But typically the procedure will take a long time with frequent personnel and policy changes along the way. They may ask you to change papers and you'll need to have your documentations ready fast to keep the momentum.

Barriers to entry are much lower when you do cross border e-commerce. You don't have to register the product and hence it is easier to use cross-border e-commerce to carry the product into China market. This model is especially good for international brands. GNC and Blackmores are selling the same products as in their home markets on T-Mall and other on-line stores in China.

In China, there are many consumers who can afford to buy foreign brands, including a top segment that is willing to splurge on very expensive products as long as the story is convincing and effectively amplified through word-of-mouth and KOL's. Price is less of a barrier for these consumers, especially in first tier cities.

Foreign brands are well perceived in China but effective promotion needs to involve local partners

Like in Hong Kong, China consumers like the image of foreign brands to elevate the prestige and perceived value of the products. However, you need to strike a fine balance. It's good to establish yourself as premium foreign brand but you need to work with local celebrity KOL's to make your products accepted. Chinese consumers generally don't recognise international KOL's.

The complexity of the China market is there are many tiers. You can't go all across. Most western brand when they first enter focus on Tier 1 cities. Players need to evaluate the strength of distributors including their coverage and network. Do they have access to the right channels? Is it pharmacies or online or medical channel that the brand is focussing on?

Global Brands increasingly active in Asia

International players are increasingly active across the region. **Umbrella Brands** include GNC (owned by China's Harbin Pharma) operates on a franchisee basis with various partners across the region (e.g., Dairy Farm holds franchise rights in Hong Kong and Macau; in Singapore and Malaysia there is a different franchisee). Other umbrella brands include SWISS, an Australian brand (owned by HNH from China) and Blackmores (Australia).

Category Specialists include Redoxon from Bayar which is more pharma based using an FMCG route to entry and marketing strategy. They are an immunity specialist offering many category products including effervescent tablets and vitamin C. Centrum is another category specialist focussed on multi-vitamins. They are successful across many markets in the region. These category specialist generally have smaller portfolios and registration is easier and more cost effectives given the lower SKU count.

Challenge for these players are **copycat brands** which are popping up around the region. Redoxon is doing well across the APAC region with vitamin C and zinc products. They are concentrating large volumes in a few SKU's which is perfect for copycats. Looking instead at umbrella brands like GNC and GNC, the products are easy to copy but there are so many products that few people would copy given the relatively low volume per SKU.

Cumbersome product registration process in China. International e-commerce a viable alternative for international brands

Some **local innovative players** are emerging as well. In China, BYHEALTH is the biggest local brand. They are the local equivalent of GNC with a huge product range. In Singapore and Hong Kong you don't find many large local brands since the local market is small. You have more distribution brands. If they see brands in other markets that are doing well they can import easily. In Hong Kong, Catalo is an example of a local brand that is doing well. Malaysia has more local brands partly because registration is hard which deters international brands. Local players work with ingredient houses and develop local products. Also, Malaysia has a solid manufacturing base where brands can find contract manufacturers supporting the launch of local brands. Kordel's is a local Malaysia brand, the local equivalent of GNC.

Channel Dynamics

The main channels for selling VMS products in Asia are drug stores or para-pharmacies for self-selection. Supermarkets typically don't have many products. On-line sales are taking off and there are also many players operating other direct-to-consumer models (the 'Amway-model').

The profile of the online consumer is typically younger and more savy and digitally driven. There is an opportunity for players targeting these demographics and they will need to determine what supplements they want to target for this audience. Female beauty is attractive in this respect but also highly competitive. By checking Taobao in China or 1mg in India, players can see what products are available. Some products are really expensive but there is actual demand for it.

In a subsequent paper we will dive deeper into the channel and consumer dynamics across the region, especially the shift from traditional models using promotors or pharmacy sales to various on-line channel strategies.

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