



# **A systematic analysis of the market potential of foreign infant powdered milk brands in China**

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<p>Abstract</p> <p>After the scandal of Chinese infant milk powder products, consumers have gradually lost confidence in the domestic brands, which provides a good opportunity for foreign milk powder brands to open up markets in China. The ultimate purpose of this research was to ensure and analyze the potential of the foreign branded milk powder in the Chinese market.</p> <p>The main objective could be achieved by analyzing the Chinese market environment and the Chinese consumer behavior. Since the author was not able to be in China to collect the data in person, therefore, in order to ensure the quality and the quantity of the research data to make it qualified for analysis, the sample was taken by following the sampling method of snowball sampling by using the author's social network. In this marketing research, two main data collection methods, such as desk research and questionnaire, were applied.</p> <p>The research result indicated that the development of the Chinese milk powder industry has been rapid. However, at the same time, relative to the whole milk powder market, the development of Chinese milk powder industry is still behind the general level of world milk powder industry. Meanwhile, the development of these markets would bring new market opportunities for infant formula manufacturers, especially to foreign brands. If online marketing channels mature, it would be a huge blow to the market share of domestic brands.</p>			
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## 1 INTRODUCTION

The widely known Chinese dairy product incident happened in 2008, which involved infant formula and dairy products of other types. The famous milk producer domestically well noted, Sanlu Group, was trying to cut the cost by diluting the milk with melamine – a chemical element not permitted to use in food products. In the end, hundreds of people were affected and diagnosed with kidney damage and six infants died from kidney stones. Later in the same year, two more milk producers were exposed to have the same food safety issue. The series of quality issues of dairy products made the consumers gradually lose confidence in the domestic brands and what's worse was that over ten countries stopped importing milk-related products from China. (Naka Hide Research Center 2011.)

Today when online shopping becomes an attractive option for Chinese consumers, the parents of newborn babies tend to procure infant milk powder from foreign websites. According to the data demonstrated in the research carried out in the last few years, the market share of the foreign branded milk powder is on an increasing trend in China, especially in the cities where large number of population resides. The foreign brands that have been favored by parents are the ones such as MeadJohnson, Dumex, Wyeth, etc.

On the other hand, the main material of Chinese infant milk powder is component 'whey'. The raw material has been short in supply in recent years. Therefore, the price of domestic brands has been increasing, which contributes to another cause for consumers to resort to foreign brands by online shopping, as the difference in price between domestic and foreign brands does not remain a huge gap. (Naka Hide Research Center 2011.)

In China, it is well admitted that the infant milk formula and the production line are significantly behind the ones from the US and the European countries, especially when the foreign product designs are very thoughtful and healthy for infant babies. Therefore, it makes the Chinese consumers are fond of the foreign brands instead of the domestic ones.

## 1.1 Research questions

The ultimate purpose of this research is to ensure and analyze the potential of the foreign branded milk powder in Chinese market. The main objective could be achieved by analyzing the Chinese market environment and the Chinese consumer behavior.

The challenging part of this research is to locate the research sample since the author can not be in China to collect the data in person. Therefore, in order to ensure the quality and the quantity of the sample to make it qualified for analysis, the sample are taken by following the sampling method of snowball sampling by using the author's social network. It is because most of the friends and colleagues back in the home country are married and have babies, and parents tend to socialize with parents. Drawing on the experience of themselves and their friends, the research result is qualified for analysis.

In order to achieve the purpose of the research, two research questions are developed for this thesis as follows:

1. What is the marketing environment situation in China? How does it affect the potential of foreign branded milk powder?
2. What are the Chinese consumer behaviours? What are the Chinese consumers' attitudes toward foreign branded milk powder in China?

## 1.2 Thesis structure

The thesis is divided into 7 chapters. The first chapter offers a general picture of milk powder situation in China, as well as presents the main theme of the thesis by clarifying the research objective and the research questions to be solved.

The 2nd chapter is developed to present the theoretical background of the research, mainly focusing on the literature of Chinese marketing environment and Chinese consumer behaviours. The chapter provides the theoretical basis for the whole study. It serves as a platform where the theoretical information is connected with the practical situation of the Chinese market.

The market research process is introduced in the 3rd chapter, including the research methods, data collection and analysis. A combination of qualitative and quantitative methods is used in the research process. Data are collected via desk research and questionnaires. Both chapter 2 and 3 laid a very solid theoretical foundation for the market research.

The 4th chapter focuses on the detailed information of the Chinese milk powder market environment, where three essential marketing environmental factors are described and analyzed in the chapter.

Chapter 5 leads to the trend analysis and forecast based on the combination of literature data collection and theoretical study.

Chapter 6 reveals the findings from the research, and unveils the attitudes and means how Chinese parents make their decision on choosing the right infant milk powder for their babies.

Chapter 7 draws the conclusion for the whole thesis. The chapter renders a brief overview of the research findings and meanwhile a series of recommendations are made to both domestic and foreign milk powder producers who are targeting their products on Chinese consumers. In the end, the thesis work process is described in a form of timeline as a closure of the project.



## 2 MARKETING ENVIRONMENT AND CONSUMER BEHAVIOR

### 2.1 The marketing environment

Businesses don't exist in a vacuum, the market environment includes the participants and forces outside marketing which affect the products' ability to serve its customers. Analyzing the marketing environment can help with developing a clear picture of the products' value in the target market, therefore, to understand the market potential of a new product. In the meantime, as the environment continues to change rapidly, we need to get a sense of the environmental changes and trend, to meet new market place challenges and opportunities.

The marketing environment for a certain product can be divided into microenvironment and macroenvironment. The level of environmental analysis needs to be determined as the relevance for designing the marketing research appropriately. The microenvironment refers to the certain industry, customers, competitors and competency. The macroenvironment refers to the larger societal forces, which affect the microenvironment, such as demographic, political/legal, economic and socio-cultural forces. (Kotler & Armstrong 2010, 90.)

#### 2.1.1 Microenvironment

A successful business requires good relationships with customers by creating customer value and satisfaction. Therefore, in order to be successful, the marketers must provide greater customer value and satisfaction than its competitors do. Accordingly, the marketers can not simply attempt to meet the need of target customers, but also gain strategic advantages by providing the best offer in opposition to their competitors in the consumers' minds (Kotler & Armstrong 2010, 90 - 91). There is no single strategy that can fit all the products, but large companies, with a dominating position in an industry, can use certain strategies that the competitors can not afford.

For a long time, the consumer markets and business markets are considered as two separate parts of the target market group. Consumer markets buy goods and services for personal consumption and business markets buy goods and services for further processing or production (Kotler & Armstrong 2010, 91). However, the division of the market segments is blurred for consumer goods such as infant milk powder products. No matter the individuals or the organizations consume, the ultimate purpose is to serve

the infants for better growth and development. The chart below shows the actors in the microenvironment.

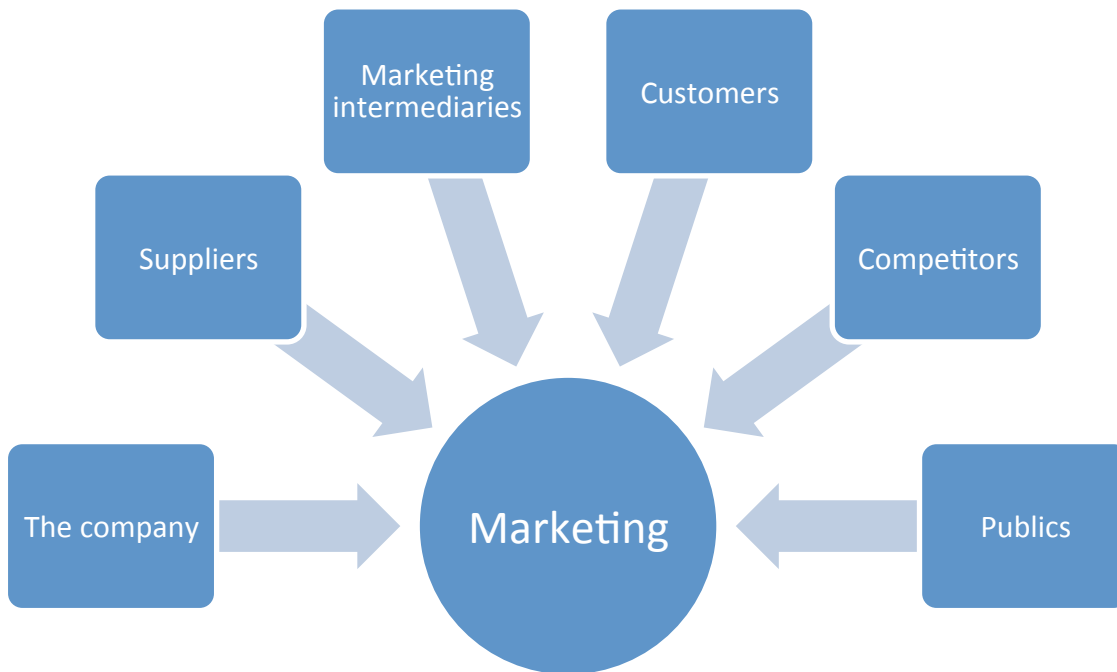


FIGURE 1. Actors in the microenvironment

### 2.1.2 Macroenvironment

The macroenvironment is made up of many forces that affect the product development, but not directly link to the products. The forces create opportunities and threats for the products, and examine a certain industry as a whole.

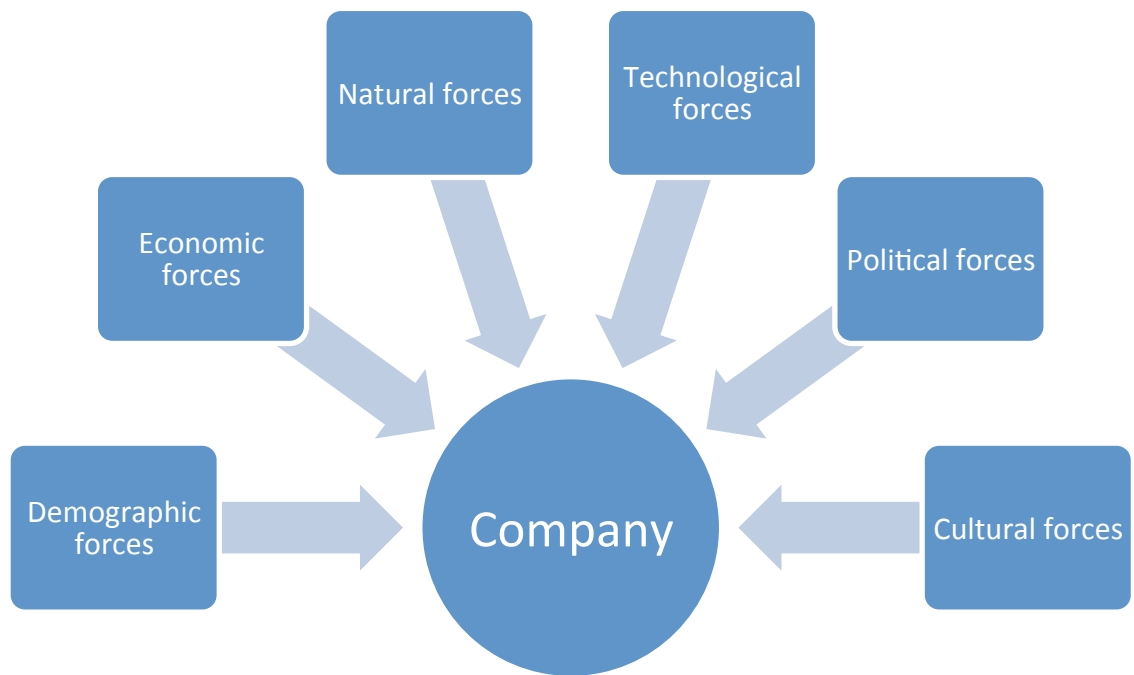


FIGURE 2. Major forces in the macroenvironment (Kotler & Armstrong 2010, 95)

### *Demographic environment*

Demographic environment is the human population environment based on the statistics of size, location, age, gender, occupation, etc. (Kotler & Armstrong 2010, 94). Changes of demographic environment have a strong impact on business because the demographic environment mainly involves people, which determine the market situation. The overall size of the population is an important factor affecting the consumer scale. Generally, without considering the status of income conditions, the more population a country has, the larger scale of the consumption is. From a practical point of view, it is also in accordance with this law (Kotler & Armstrong 2010, 94). For example, China is the most populous countries in the world with a population of 1.3 billion, although the level of per capita income is low, however, the scale of consumption is the first in the world.

### *Economic environment*

The economic environment is the totality of economic factors that affect the consumer purchasing capacity and spending patterns (Kotler & Armstrong 2010, 103). It influences a corporate survival and development, including the national economic policies, changes in income, changes in consumer spending patterns, etc. If the economy is going through a recession, apparently the business generally will not be doing well due to the low demand. On the other hand, a flourishing period will lead to a better revenue and profit

for the businesses (Dineshbakshi 2012). However, it is necessary to consider individual product value and the class of consumers when evaluating the market, especially for certain products.

Income is the most important factor that affects the market potential. It directly determines the market size and the purchasing power. The upper class consumers, who have huge consuming capacity, may encounter little negative effect from the economic environment. The middle class consumers need to care about the spending more or less when the working class and under class are pressed for money even with basic purchases. (Kotler & Armstrong 2010, 103 – 104.)

### *Political environment*

The political environment consists of laws, government agencies and lobbying groups that influence or limit individuals or organizations in the society. It strongly affects the marketing situation and trend beyond the control of human beings, especially in some countries that controls the economy with relative policies. (Kotler & Armstrong 2010, 108.) For example, for years the China's family planning policy has made Chinese children the "little emperors and empresses". Considering the only child in the families, most of the parents are willing to provide the best condition for their children to grow up, and this trend has created a huge potential of children's products.

### *Social and cultural environment*

The social-cultural environment is made up of institutions and other forces that affect the whole range of behaviours and relationships in which individuals engage in their personal lives, including the basic values, preferences and perceptions. Businesses are made by people whose values and attitudes are shaped by the culture and society, and therefore, the social-cultural environment has a deep effect on consumers spending pattern and consumption behaviour (Oxford University Press 2012).

In China, the core social and cultural value is the importance of the family, as the core member of the family in Chinese traditional concept. Children are the hope of the families' future. The way of raising a child is always what the parents care most. For a better growing environment of the children, the other members in the families strive to provide the best.

## 2.2 Consumer behaviour

Consumer behaviour refers to the mental and physical activities that consumers look for, purchasing, using and evaluating the goods and services to meet their needs (Sheth & Mittal 2004, 12). Consumer behaviour includes the following three aspects:

First, consumer behaviour involves the thoughts and feelings people experience and the actions they perform to search for, select, purchase, use, and evaluate the goods and services activities. Also, it includes all the factors that influence the thoughts, feelings and actions. (Peter & Olson2010, 5.)

Second, consumer behaviour is a complex process. No matter what happens, any stage, even the most important purchase stage, can not be equal to the whole process of consumer behaviour. Consumer behaviour must include the psychological process of 'before purchasing', 'purchasing' and 'purchased'. (Peter & Olson2010, 5.)

Third, basically, consumers play three different roles in a marketplace transaction: user, payer and buyer (Sheth & Mittal 2004, 14). In some cases, a person may only serve as one role. In other cases, a person may act as a variety of roles.

### 2.2.1 Consumer behaviour's role in marketing

Consumer behaviour is a critical ingredient in developing and implementing successful marketing strategy. It refers to the study of buying tendencies of consumers. Normally, an individual who goes shopping does not necessarily buy products. Marketers need to analyse and understand the consumption behaviour of their customers for their products. It is very important to get to know what influences consumers to purchase a particular product and what stops them from buying it (Management Study Guide 2012). With deep understanding of the behaviour of target customers, a company can successfully develop and implement strategies, not only to attract more customers and keep the benefit, but also to improve consumers' perception on the company and their products. (Peter & Olson2010, 13.)

### 2.2.2 Characteristics affecting consumer behaviour

Consumer behaviour trends, is the result of the factors influencing and determining the consumers decisions in terms of a variety of internal factors and the external environment.

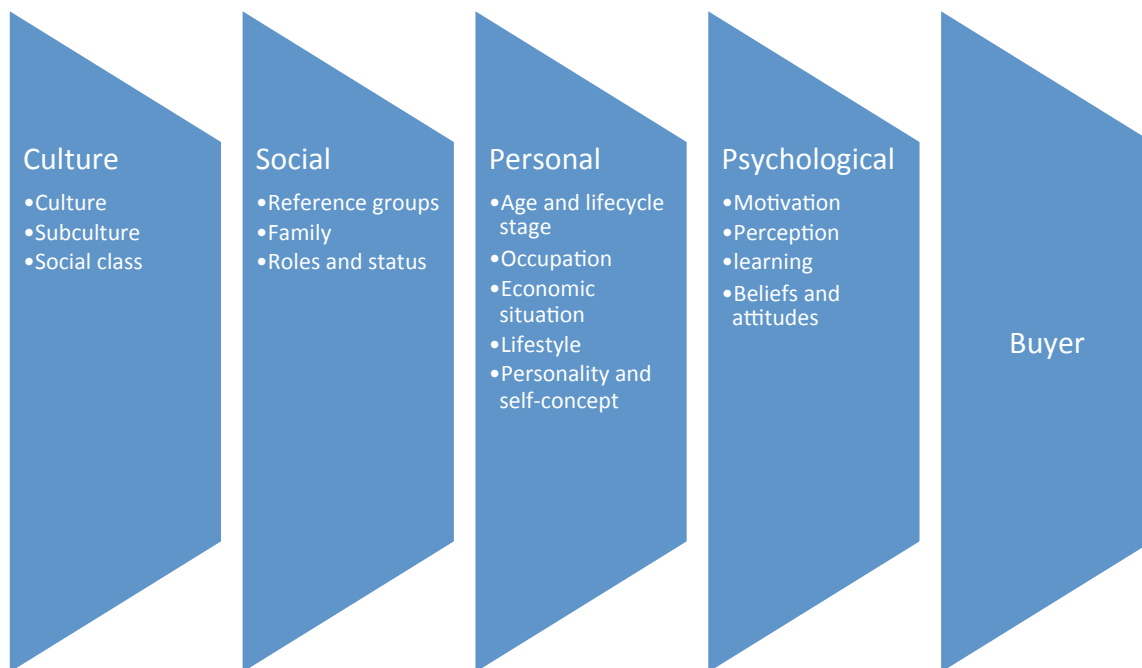


FIGURE 3. Factors influencing consumer behaviour (Kotler & Armstrong 2010, 161)

### *Cultural factors*

Culture, subculture and social class are very important factors that influence consumer buying behaviour. Culture is the fundamental determinant of consumers' want and behaviour. It sets basic values and perceptions, which are learned by a member of society from family and other social situations. (Kotler & Keller 2012, 175.)

Each culture is made up from smaller subcultures or groups of people with same value systems based on common life experiences and situations. Subcultures consist of religions, racial groups, nationalities and geographic regions. When subcultures grow strong, particularly strong enough to affect the market, companies may design specialized products or services to serve their needs. (Kotler & Armstrong 2010, 131.)

Social classes refer to groups of people who share similar values, interests and behaviours relatively homogeneous divisions in a society (Kotler & Keller 2012, 175). Generally social classes can be divided into four levels: upper class, middle class, working class and lower class (Kotler & Armstrong 2010, 134). Different social class member may show distinct performances and preferences on consuming behaviours in many areas.

### *Social factors*

Reference groups have great potential in influencing the attitude and behaviour of a person at direct or indirect points (Kotler & Armstrong 2010, 135). Usually, a person is often affected by reference groups to which he doesn't belong, especially on the visible products such as milk powder. Reference groups also include opinion leaders such as doctors, experts, etc (Ezine Articles 2012).

Family members can strongly affect the buyer behaviour and decision making process. The family is the most important consuming organization that market researchers need to extensively analyse (Kotler & Armstrong 2010, 138). As the core member in some culture, children have a potential strong influence on family buying decisions and trends, especially when the products are concerning the growth and development of the next generation.

An individual belongs to many groups such as family, organizations in the society. The position in the groups can be defined in terms of both role and status depending on which group he belongs to. People usually choose and buy products according to their role and status. (Kotler & Armstrong 2010, 139.)

#### 2.2.3 Characteristics of Chinese consumer behaviour

Preferences and behaviours of Chinese consumers are becoming increasingly complex. Non-price factors such as brand are becoming more and more important in purchasing process. Consumers are led to the high quality of imported products, good service and valuable brand. In addition, growing consumer personality reflected in their purchase choices, because the people seek to stand out of the crews. (Roland Berger Strategy Consultants 2010.)

In specific industries, brand is the most important factor when making a purchase. Quality is also increasingly aware among Chinese consumers, especially the quality defect exposed as the threat to public health and safety. While the price is no longer in the first place, however, value for money is also an important factor affecting the Chinese consumer choices and they are willing to pay more for better quality and services. (Roland Berger Strategy Consultants 2010.)

Families are the social groups most closely related with traditional Chinese culture, since the one-child policy implementation carried out by the Chinese government, the later generation has been influencing the market revolution and leading a great leap forward to the consumption of children products. The parents and grandparents in China focus on striving to provide the later generation a better life than the one they experienced. The one-child policy also increases the Chinese families' disposable income and ensures that the resources would be focused on a single child instead of many, for the elder generations to invest heavily in their single child for their growth and development. (Appalachian State University 2012.)

The number of Internet users in China presents the explosive growth only in the past decade. This means that the normal buying behaviour, which western consumers have developed from generation to generation in open markets, does not apply to the consumers in China. Therefore, it is much easier for Chinese consumers to adopt online purchasing than western consumers because there is no entrenched buying behaviour to be replaced or stepped over. It is also the same for the consumption of brand information and for Chinese consumers to learn about products and brands. (DocIn 2011.) However, E-commerce is young industry in China, trust appearing to be the primary issue that holds the online shoppers back. (Mashable 2012.)



### 3 RESEARCH PROCESS AND METHODS

#### 3.1 Research objectives

According to Wilson's theory, the objective of business research is to assist the decision making in business by gathering information. Business research can be defined as the systematic and methodical process of collecting, recording, analyzing and interpreting data to develop knowledge, in order to assist companies in resolving business problems (Wilson 2010, 3). Without satisfactorily enough information, it is more difficult to make decisions in business.

The ultimate purpose of this research is to ensure and analyze the potential of foreign branded milk powder in China. The research questions developed for this thesis are as following:

1. What is the marketing environment situation in China? How does it affect the potential of foreign branded milk powder?
2. What are the Chinese consumer behaviours? What are the Chinese consumers' attitudes toward the foreign branded milk powder in China?

#### 3.2 Research methods

There are many ways to get information. The most common research methods are qualitative research and quantitative research. Qualitative research can be divided into several approaches to test hypothesis, interpret and analyse data (Eriksson & Kovalainen 2008, 5).

#### 3.3 Data collection

In the business research, empirical data collected by researchers themselves are called primary data, already existing data collected by someone else rather than researchers are called secondary data (Eriksson & Kovalainen 2008, 77). Business researchers always use various types of methods to collect data for their own purpose. In this marketing research, two main data collection methods were applied.

### *Desk research*

As depicted by name, desk research is the research method, which is mainly acquired by sitting at a desk. It is involved in collecting data from existing resources. Desk research is very effective in fetching data for most of the basic information that can be conducted as benchmark in the research process, and therefore, it is adopted in the starting phase of this marketing research. (Management Study Guide 2012.)

There are two approaches applied to look for the relevant information from Internet. Specific industrial, marketing and business websites such as Chinese Milk Powder Business Union, Chinese Mother and Baby Care Centre, etc. were visited and useful information was extracted. In the meantime, various search engines like Google, and Baidu that is one significant search engine widely used by Chinese netizens, were used for modulated searching. Therefore, relevant articles, reports and secondary data were found for this topic.

Government data published online are prominent and easy to fetch. The Chinese statistics bureau website contains a vast range of official statistics and information, which covers most areas of business and social life. Relevant sources and information were picked up during the research analysis.

### *Questionnaire*

Questionnaire is a general term of data collecting method, which fetches data through asking each person to respond to the same set of questions in a predetermined system. (Saunders, Lewis & Thornhill 2007, 355.) There are a few factors to be followed as common sense but often overlooked:

- A questionnaire should ask questions related to the research purpose and follow a logical sequence
- Long, difficult or unnecessary questions cost more to collect and analyse
- Ask questions with pre-coded answers and be prepared for unexpected effects
- Assessing validity and testing for reliability of the questionnaire

(Waters 2011, 95-96)

In this marketing research, a questionnaire was designed based on the Chinese market environment and Chinese consumer behaviour study, intending to understand the Chinese consumers' preference and decisions when buying milk powder products. The subjects concern the Chinese consumers' consumption of infant milk powder, the consumers' knowledge of infant milk powder and the related purchase channels. This questionnaire had been published online for two months, the link was sent to the author's friends who have babies and further spread to their friends or relatives who also have babies. In the questionnaire, eight questions were chosen closely related to the sale status of Chinese milk powder market and the purchasing options of Chinese young parents. Five questions with specific stated options were embedded with an open-ended option in an aim to avoid the stated options were too restricted to reflect the real situation for respondents. Eventually, 84 completed questionnaires were received.

## 4 THE ENVIRONMENT ANALYSIS OF MILK POWDER MARKET IN CHINA

In recent years, along with the rapid development of China's dairy industry and the infant food industry, the demand in infant formula market in China continues to move forward. The growing market attracted the continued escalation of competition, particularly the intense competition in the infant formula market. High-end milk powder market became dominated by foreign brands. In order to further consolidate the market, foreign brands are devising a formula upgrade war depending on their R&D strengths. (Naka Hide Research Center 2012.) For example, the new meadjohnson products for toddlers feature specialized children's nutrition including the DHA and iron to help support healthy growth and development, and is clinically proven to benefit infants in the areas of brain and eye development.

Although the biggest advantage of domestic branded milk powder is the infant milk powder market sales channels, but the recipe is always the most competitive element. The direction of the development of the foreign brands is constantly transforming, adjusting to make their products closer to breast milk, so it can be said that at this stage, domestic infant formula weathervane still rests in the hands of foreign brands. (Naka Hide Research Center 2012.)

### 4.1 The policy environment of milk powder market in China

Dairy food is an integral part of consumers' daily lives. In recent years, China's dairy consumption has rapidly risen, accompanied by the rapid development of the dairy industry, and become one of the important food industries. The dairy safety, especially infant dairy food, is directly related to consumers' health and socio-economic stability.

The state attaches great importance to the healthy and sustainable development of the safety of dairy products and the dairy industry. The state council established policies such as "dairy quality and safety supervision, management and regulations", and "revitalization of the Milk Plan and policy consolidation" requiring the integration of dairy safety standards. (Sina 2013.)

After the Sanlu infant milk powder scandal, the National Standardization Management Committee has immediately launched an interim dairy standard. As the infant milk powder incident occurred, it provided a rare opportunity for the dairy industry to move to a higher level. At the same time, the level of per capita consumption of dairy products in

China is still relatively low. There is still a lot of room and potential for further development.

#### 4.2 The community environment of milk powder market in China

At the end of 2011, total population in mainland of China (included 31 provinces, autonomous regions and municipalities, excluding Hong Kong SAR, Macao SAR, Taiwan Province, and overseas Chinese) was 1,347,350,000 persons, increased 6.44 million persons as compared with the end of 2010. The annual birth stood at 16.04 million persons, birth rate was 11.93‰, increased 0.03 thousandth points over the previous year; the death stood at 9.6 million persons, death rate was 7.14‰, increased 0.03 thousandth points over the previous year. (National Bureau of Statistics of the People's Republic of China 2012.)

From 2005 to 2011, China's birth rate has been maintained at a fairly stable level of growth. According to Euromonitor International, the 0-36 monthsold infant population increased from about 37.1 million people to 38.9 million people (National Bureau of Statistics of the People's Republic of China 2012). The expected growth number of infants in China in the next few years will remain fairly at a consistent level.

#### 4.3 The marketing environment of milk powder market in China

##### 4.3.1 The analysis of the high-end infant milk powder market

The consumption in high-end infant formula market has been under developed. The market concentration is low. Infant formula accounted for one-third of the total, the proportion of high-end infant formula is far less than one-third. In contrast, in the economically developed regions and countries, the market concentration of infant formula is much higher (Sina 2013). With the rapid growth of the domestic infant formula market, some of the best infant formula brands will gradually improve their market share, thereby changing the present situation of the domestic market concentration.

For a long time, about 80% of the high-end milk powder market is dominated by Abbott, Nestle, Wyeth, Dumex and other foreign brands. In the end of 2006, the domestic dairy giant Mengniu, in collaboration with the international dairy giant Danish Allah Mahfouz company, spent 540 million RMB to launch their first high-end infant formula. Sanlu also launched a new high-end milk powder brand in 2007. In addition, in the domestic market, a certain well-known brand Dumex has bought the flagship brand “prebiotics” from

NUTRICIA, a Dutch dairy brand, and spared no effort to promote. With Australia milk powder products entered Chinese market in 2007, the domestic brands and foreign brands of high-end milk powder market battle has just began. (Naka Hide Research Center 2012.)

#### 4.3.2 The analysis of the middle-end infant milk powder market

The sales of middle-end milk powder take 30% in the first-tier cities, 70% of sales are in the second, third tier cities and rural markets. With many years of experience in the operation of the milk industry, Dumex has a quite good market share. Especially when Dumex uses medical marketing strategy and strong advertising-driven model, the products expand from east China to the whole country, making the first brand position unshakable. (Naka Hide Research Center 2012.) In addition, domestic brands operate mostly in the mid-end market, to form a pattern of domestic brands and foreign brands.

#### 4.3.3 The rapid growth of the high-end infant formula market

Although high-end infant formula market has many of the characteristics of ordinary infant formula market, but also has its own peculiarities:

1. Consumer groups: The high-end positioning of the products determine that the target consumers are not mass consumers, but in the developed coastal areas in China, central cities of urban residents and medium sized cities with high income earners. The high-end milk powder products price is generally more than 300 RMB per 400 grams; the average monthly milk powder consumption is more than 300 RMB. The target consumer groups are more reasonable to be locked for the family monthly income of 2500 RMB or more (Naka Hide Research Center 2012).
2. Consumer characteristics: The purchasers of the products are mainly young parents, most of them are well educated, and attach great importance to children's nutrition and health. Once the selection has made to a particular brand, unless the baby is in adverse reactions after using, they generally will not replace the choices with the brand loyalty. The relatives, friends and doctors' recommendations have a great impact on consumers' choices for the first purchase.

3. Consumption channels: the purchase of high-end milk powder is mainly concentrated in the large and medium sized stores, such as large shopping malls, supermarkets and chain stores (Sina 2013).

#### 4.3.4 The analysis of rural milk powder market

Poverty causes the farmers can only choose the cheap milk powder. After the incidents of domestic milk powder brands during recent years, the government has increased the rural market supervision, investigated and dealt with a lot of illegal milk powder production enterprises.

Affected by the fake milk powder incidents, some of the well-known milk powder companies' sales have declined. But in the long run, with the exit of fake milk powder products from rural market, it is an opportunity to open rural market. (Naka Hide Research Center 2012.) In the cities, milk powder companies are competing against each other in the battlefield of stock exchanges, while the competition itself has reached the saturation point, and on the other hand, the rural market remains the milk powder incremental potential space.

## 5 THE TREND ANALYSIS OF CHINA'S MILK POWDER BUSINESS

### 5.1 Analysis of the characteristics of China's milk powder market

The China's milk powder market is attracting more and more attention since a few years ago, after a fierce price war, the domestic milk powder companies and the foreign milk powder companies all have an effect on China's milk powder market with perceived quality and cost advantages. However, the milk powder and liquid milk market consumption structure are very different; a greater separation exists between the consumers and buyers of milk powder market, and this is precisely why the liquid milk market is difficult to see foreign brands, but the high-end milk powder market is dominated by foreign brands (Naka Hide Research Center 2012). Differences in consumption structure is a direct result of the different marketing strategy, especially in China, which the family structure, consumption structure and buying patterns are special, leading the milk powder marketing very special.

#### 5.1.1 Market share

To the milk powder brands, the significance of the market share is special. Milk consumption by a baby is quite dependent on the first milk brand chosen, which is the so called 'effect of first milk', making the infant milk powder brand seldom replaced in the process of usage with an aim to prevent discomfort for infant babies. This is an important reason for a lot of milk powder brands competing for hospital channels, because once the child is accustomed to the use of a certain milk powder brand, it is unlikely to replace the brand halfway, so many children use only one brand of milk powder in the entire growth period. (Babyschool 2013.) In other words, milk powder consumption brands switching is relative to high costs. In this case, the larger market share often leads more competitive advantages.

Following points are the factors that market share represents:

1. Market share represents the consumption foundation. The more market share means more opportunities for consumers to contact the products and become potential long-term consumers (Naka Hide Research Center 2012). We know that the development cost of a new customer is much higher than the cost of maintaining an old customer, which makes the market share very important.



2. Market share represents a certain channel recognition and recommendation (Naka Hide Research Center 2012). A lot of milk powder consumers are not professional on dairy products, their purchase choices are by the great impact of the retail terminal, especially in many second and third tier cities and rural markets.
3. Market share represents a certain market barriers. Market share directly influence the display and recommendations of the terminal stores, and moreover, the concerns and purchase choice of consumers make the new entrants to pay a high price. (Naka Hide Research Center 2012.)

### 5.1.2 Brand value

Milk powder consumption, to a greater extent, is investment in babies' future health, which makes the consumers focus not only on the product itself, but also the brand value that the products provide. Usually the consumer groups are middle-aged parents. They are not professional, but very easy to believe the experts, believing that expensive price proves better quality on instinct. Buying milk powder is a kind of hope, and investment, the more money they spend, the more ease they feel. This makes their concerns rarely focus on the product level, but the price and the brand value. A survey shows that the main factors to consider when consumers buy milk powder, the brand has been ranked in the first or second position. (Naka Hide Research Center 2012.) Factors such as recipe, taste, quality, packaging, price, publicity, promotion and shopping guide have followed.

One of the important reasons that foreign branded milk powder can dominate the high-end market is that they consistently adhere their brand marketing strategy to providing consumers with high brand value. By contrast, the marketing of domestic milk powder brands mostly focus on the product level, such as adding special functional elements, to open up markets. However, on the contrary, too many functional elements make consumers puzzled and take time to consider avoiding choosing the wrong products (Sina 2013). The strategy that treats consumers as experts yet helps the foreign brands, because consumers often turn to choosing a relatively guaranteed product when they are in perplexity.

### 5.1.3 High-end products

The popularity of China's milk powder market has stepped into high-end level. Almost all of the domestic milk powder manufacturers have launched high-end products, but they take it so simple to believe that the high-end milk powder is nothing more than to add some functional elements such as DHA, AA or bifidus-factors and then tell consumers these products can make babies smart and healthy. (Naka Hide Research Center 2012.) Many domestic milk powder manufacturers only blindly follow the profitable product, with the same strategy for the low-end market to do the high-end milk powder market.

Almost all industries around the world in the fierce price competition tend to reduce the prices, but the milk powder is an exception. Prices are rising all the time. Though consumers always judge the milk powder products quality based on the prices. Manufacturers can only invest more resources in the channel, promotion, exhibition and advertising after obtaining high profits. Most of the domestic milk powder manufacturers don't consider providing consumers with the integrated value of the brands, but greater profit margins to the distribution channel.

### 5.1.4 Advertising

The enthusiasm of Chinese people on the advertisement may never decrease. They are well aware of the significance and value of advertising. Of course, for a young and rising industry, plenty of advertising is a must. The consumers' psychology is immature, the understanding of milk powder consumption is still relatively limited, and therefore, advertising is a significant part of the powdered milk marketing. Many Chinese companies are good at doing the low-end product marketing advertising, but not high-end product marketing. (Naka Hide Research Center 2012.) To market high-end products with low-end products' advertisement is also the main reason that a lot of domestic milk powder enterprises are less successful in entering the high-end product market. The high-end milk powder advertising is different from that of the low-end milk powder's. The main features of advertise are as follows:

1. Advertising purpose: the high-end milk powder brands' core purpose is to try to improve the customers' purchase rate and product quality recognition, unlike the low-end milk product where awareness is the first aim.

2. Advertising object: the low-end milk powder products often require a certain degree of fuzzy and appropriate expansion, so that a wide range of market awareness could provide a foundation for large sales. However, the high-end milk powder products just need to target the decision makers and the buyers, but not the real consumers. (Brooklyn College 2013.)

#### 5.1.5 Sales promotion

Chinese companies love to do sales promotion. Once stagnant or declining sales takes place, the first reaction is to do promotions. Domestic milk powder companies' promotions are always lack of intimacy or cultural atmosphere, which greatly limits the promotional effect or even has a negative impact on their brand image. The reasons are as below:

1. On promotional designs, many companies simply try to use the psychology that consumers want to take advantages. However, consumers need more humane care. The companies should guide them to purchase the product they need. Consumers need cheap products, but a great number of them need a good brand worthy to be loyal to.
2. On promotion execution, although only a few defects could make the promotion effect greatly reduced. For example, most of the brands rely on billboard advertising. However, some topics are too old, while some positions are not prominent, and images are not vivid to give customers a deep memory, so it leads customers a feeling that billboard advertising is for the sellers to see, not for the consumers. At the end, money is spent without achieving good results. (Naka Hide Research Center 2012.)

#### 5.1.6 Public relations activity

Many milk powder companies have wrong understanding of public relations activities and event marketing, and even believe it is purely a waste of market resources. A strong impression has it that if these resources are used for promotion, sales will be increased. Some of the companies have unreasonable expectations of the public relations activities, believing they have immediate effect on sales. (Naka Hide Research Center 2012.) However, the high-end milk powder products popularization need more brand loyalty and public praise, which takes time before taking effect.

## 5.2 Dominating foreign brands vs. rising-up domestic brands

China's milk powder market has been occupied by foreign brands, which is a great threat to domestic brands, especially in the high-end market. The product quality problem is of great concern to consumers and the industry. In recent years, China's milk powder manufacturers pay the most attention to the quality, trying to change the pattern that foreign brands occupy a larger dominant position in China's milk powder market, which achieved some success in 2006. Large well-known companies now have high-end milk powder market force and good results in the product development and marketing. In July 2006, Dumex, Wyeth and other foreign brands raised the prices, but domestic milk brands did not follow up, which describes that the domestic milk companies treat the market share they won hard very carefully. (CCTV 2011.)

## 5.3 Formula milk powder becomes the hotspot in the market competition

From 2006, formula milk powder, as the focus of the competition in the market, is favored by the manufacturers and the consumers. Nutritional elements such as DHA, AA and choline advancing the infant brain development become the bargaining chip for the competition between foreign brands and domestic brands. The formula milk powder manufacturers subdivide formula varieties to meet market demands, the popularity of formula milk powder are bound to make regular milk powder less and less. With the further improvement of consumers' requirements on quality and function, depending on age, gender and body mass, the formula milk powder with ingredients such as iron, zinc, calcium, sulfur acid and DHA will be the front-runner of the market.

## 5.4 The market potential of infant milk powder

Children of 0 – 1 year old are considered infants. Infants grow very rapidly and have special nutritional requirements that are different from other age groups. Infant nutrition is designed to meet the special needs of very young children and give them a healthy start in life. Children under one year old do not have fully mature organ systems. They need nutrition that is easy to digest and contains enough calories, vitamins, minerals, and other nutrients to grow and develop normally. Infants also need the proper amount of fluids for their immature kidneys to process. In addition, infant nutrition involves avoiding exposing infants to substances that are harmful to their growth and development. (Diet 2013.)

Infancy is a time of incredibly rapid growth and development. Getting the right kinds of nutrients in the right quantities and avoiding the wrong kinds of substances give infants the best chance at a healthy start for life. Parents are responsible for seeing their infant's nutritional needs being met. In the recent years in China, instead of blind patriotism to defend flawed domestic brands, young parents are willing to accept the advanced and high-quality milk powder products, no matter it is domestic brands or imported brands. From the consumers' point of view, after the incidents of domestic milk powder brands, it is nearly impossible to get the general acceptance and affirmation for the domestic milk powder products anymore. After all, in the traditional concept of China, children are very valuable to the family. Parents do not take the children's future to bet on the untrusted domestic milk powder brands. The rational selections of Chinese young parents encourage the development of the foreign brands in Chinese market.

The market potential also appears in the population of China. The birth rate of China has been increasing in the last three years, reaching 12.31 per 1000 persons in the population at mid-year. (Index Mundi 2013.) Premium infant formula market in the annual sales rate of China is on the double-digit growth, the market capacity is about 150 thousand tons, but the actual output of milk powder products are only 100 thousand tons. Plus the high birth rate, China will become the world's second largest infant formula market after the U.S.

### 5.5 Diversification of the milk powder

China's milk powder market is developing towards the direction of diversification. Goat's milk products have a rapid development in domestic milk market. According to the report, in the past few years, due to the consumers' becoming aware of nutritional value and functional superiority of goat's milk, the demand of goat's milk products is growing and becomes very popular in southern region of China. In some European and American countries, goat's milk has become the necessities of life. Although the price of goat's milk products is double higher than cow milk products, the market share has been high. In addition, the donkey milk and other milk products are rising up considerably. (Dairy News 2013.)

## 5.6 The rise of overseas purchasing

Excise taxes, customs duties, value added tax plus each batch of milk powder imports are subject to reporting to the Food Quality Inspection Bureau, the milk powder from formal channels will only be stationed in the large shopping malls or supermarkets. Due to the various costs of the imported milk powder from formal channels, prices of foreign branded milk powder in foreign markets are much lower, even plus the shipping cost and purchasing commission, which makes the overseas purchasing very popular.

Overseas purchasing already exists in China for ages, but only after the melamine incident came to public in 2008, this industry started to grow rapidly. Chinese consumers' recognition on foreign milk powder brands and the crisis of confidence in domestic milk powder brands are also the reasons that overseas purchasing is thriving. (Dairy News 2013.)

## 6 THE MARKET INVESTIGATION AND STUDY OF INFANT MILK POWDER BRANDS IN CHINA

The growing China's milk powder market leads to a continued escalation of competition, especially in the infant formula market. An online questionnaire was designed in order to find out how Chinese young parents would manage their choices on selecting infant formula products for their babies. In this questionnaire, questions 3, 4, 5, 6 are multiple choice questions and questions 1, 3, 4, 5, 6 are with open-ended options. The questionnaire was published on the website "Survey Monkey", the link was sent to the author's friends including the ones working in hospitals. The same questionnaire was also published on the social networking websites. The respondents were asked to take responsibility for ensuring that all sections were completed. Questionnaires were distributed and completed during September and November of 2012. At the end, 84 completed questionnaires were received.

### 6.1 User-feeding way of infant formula

A majority of users select mixed feeding way, and that in the minds of most parents, the status of breast milk is still important. However, may due to reasons such as work or living environment, etc. breast milk cannot be provided to babies any time in a day, users select a combination of two modes to provide the adequate nutrition.

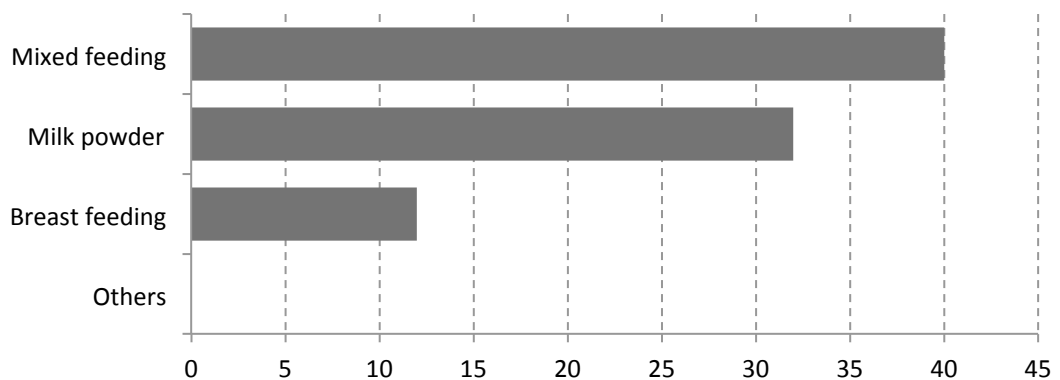


FIGURE 1. Responses regarding the customized ways of baby feeding

## 6.2 The consumers' knowledge about the nutrients extracted from the milk powder formula for infants

Most parents have a certain degree of understanding of milk formula nutrients, very well prepared for milk powder purchasing. However, still nearly 1 percent of the users have no related knowledge at all, may only be introduced by friends or self-attempt.

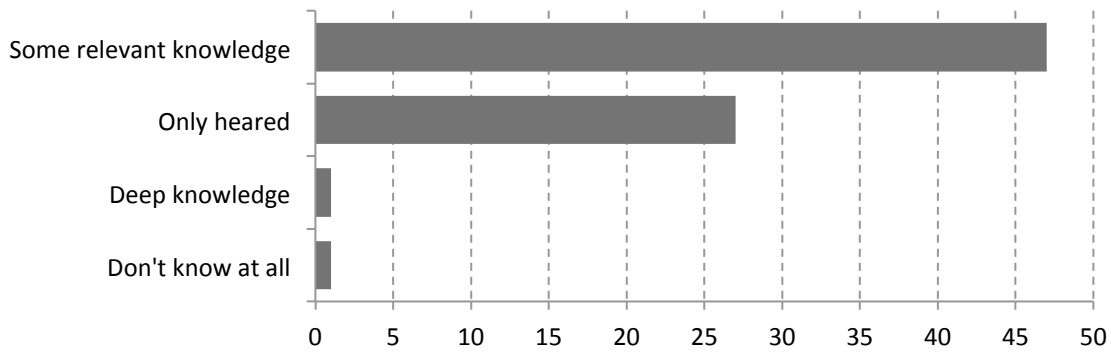


FIGURE 2. Responses regarding the consumers' related knowledge about infant milk powder nutrients



### 6.3 Consumers' options about milk powder for infants

In this question, 15 most common milk powder brands were offered as options. The responses show that foreign brands still have absolute advantages in Chinese infant milk powder market, where Wyeth, Dumex, MeadJohnson, Abbott take a great market share.

No matter which brand has been chosen, babies' healthy growth is the most important issue. As a matter of fact, as long as babies have no adverse reactions after using the milk powder with normal growth, the experts do not recommend frequent replacement of milk powder brands, because different manufacturers have different source and consistency of milk. Improperly changing of milk powder brands can easily lead to the babies' diarrhea, constipation, allergies and other symptoms, eventually affecting babies' growth. (China Com 2009.)

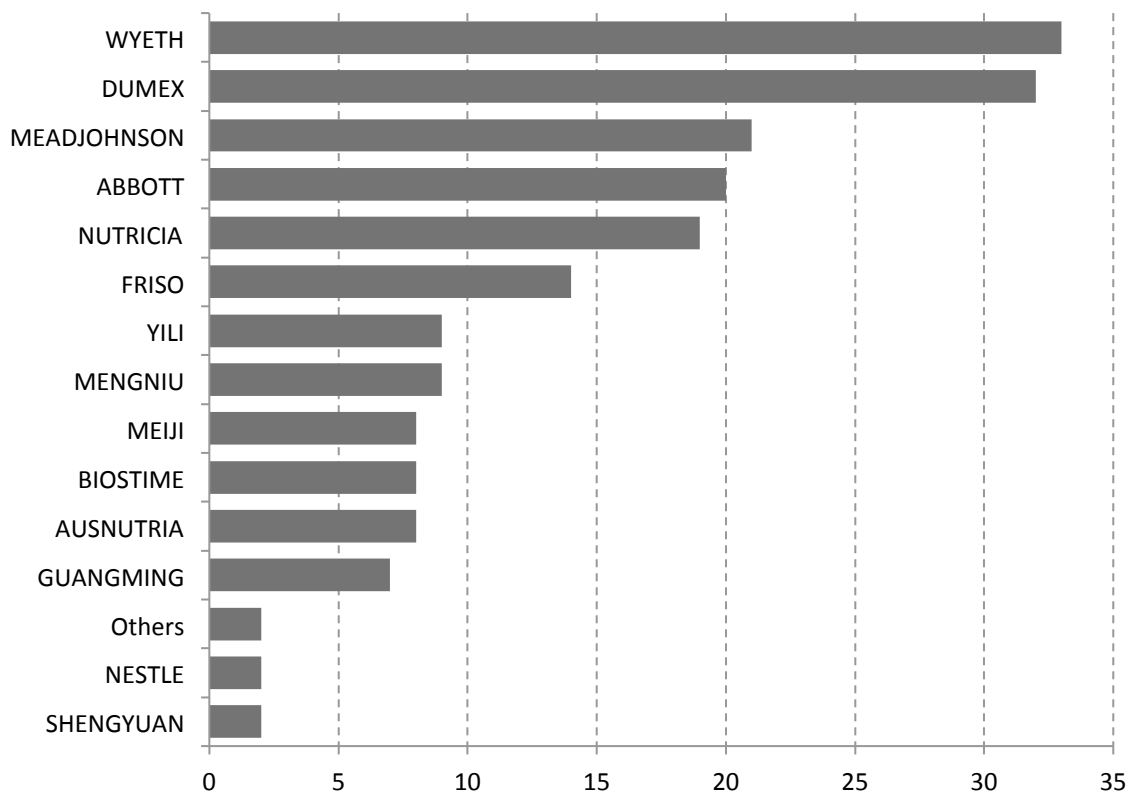


FIGURE 3. Responses regarding the chosen brands

#### 6.4 The factors affecting the consumers' choices of the milk powder products

After the incidents of domestic milk powder brands, parents are more concerned about the quality of the milk powder brands, which is also an important reason that the sales of foreign brands is far greater than domestic brands. Nutrient value is following after the quality option as an essential factor in the choices. There are two reasons may lead to this condition: first, compared to the babies' body immune system development and intellectual improvement, the importance of nutrient value may gradually decrease, but the quality of the milk powder, which concerns babies' health, still can not be ignored; second, the market is flooded with a variety of fake nutritional milk powder products and bombastic promotions, the parents may eventually form a psychological conflict. The responses also show that the location factor of the products has little or no effect to consumers' choices.

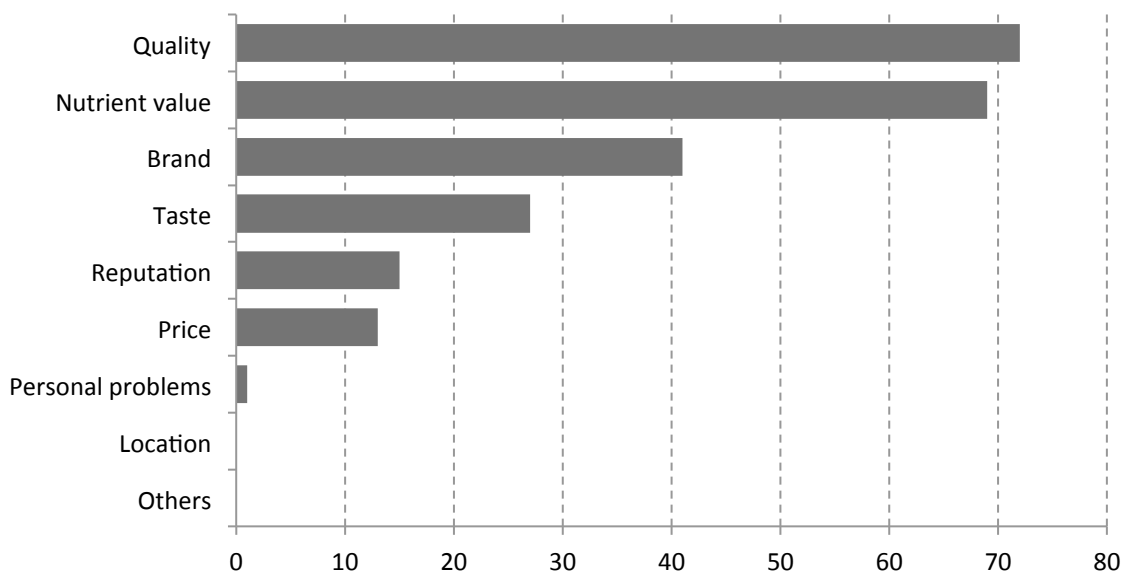


FIGURE 4. Responses regarding the factors consumers concern in the choices of milk powder products

## 6.5 The purchasing channels of the infant milk powder

With the increasingly diversified sales forms, foreign channels are becoming the parents' favorite. Exclusive shops and supermarket, which guarantees higher quality, are also the regular options. All three channels remain equivalently important in consumers' purchasing process. Meanwhile, it also demonstrates that the importance of web stores is gradually increasing.

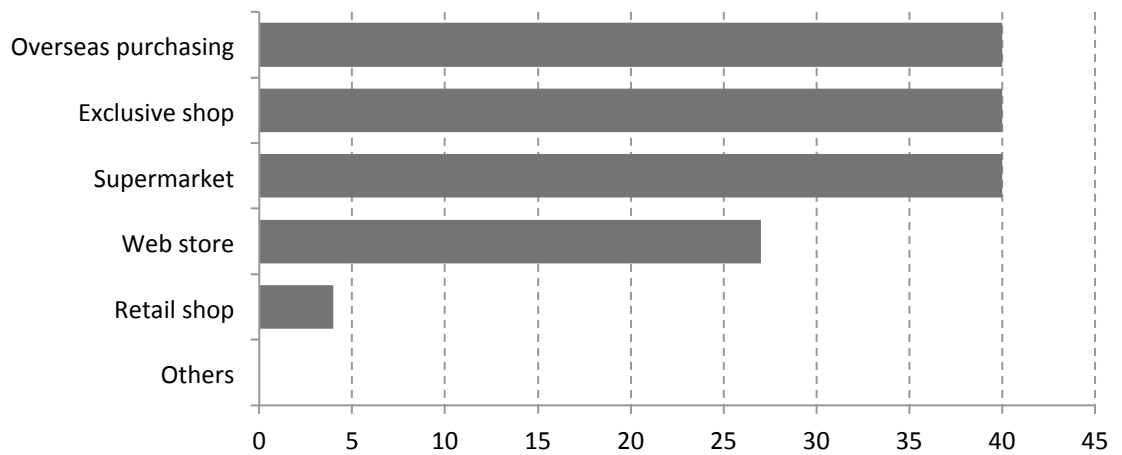


FIGURE 5. Responses regarding the consumers' purchasing channels of the infant milk powder

## 6.6 The consumers' learning channels of the infant milk powder

Of all the respondents, 72 parents take friends and relatives' recommendations as credible references. Public praise and supports attract more and more consumers and effectively establishes a stable ground for continuous development of the brands. Like the other ordinary consumer goods, TV commercial, networks, newspapers and magazines advertising are also the main promotion channels. The limited ability of Chinese companies' sales promotions leads to the distrust of consumers, eventually making it more difficult to local sales promotions.

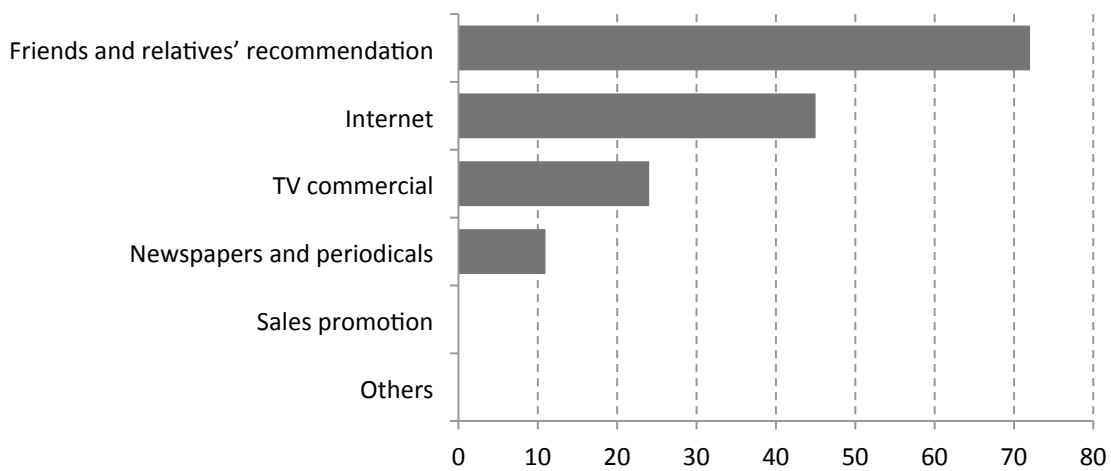


FIGURE 6. Responses regarding the consumers' learning channels of the infant milk powder

### 6.7 The consumption situation on infant milk powder

A healthy baby with only milk powder feeding can digest a total of 3600g of milk powder within a month. Currently, there is a certain extent of price gap between domestic brands and foreign brands with a difference of 3 – 4 times in price. According to the survey, on the top of the list, 51 respondents spend over 800 CNY per month on milk powder. Meanwhile, 21 respondents spend 500 – 800 CNY monthly. Both groups remain the majority of the total respondents. This consumption situation promoted the formation of the market size.

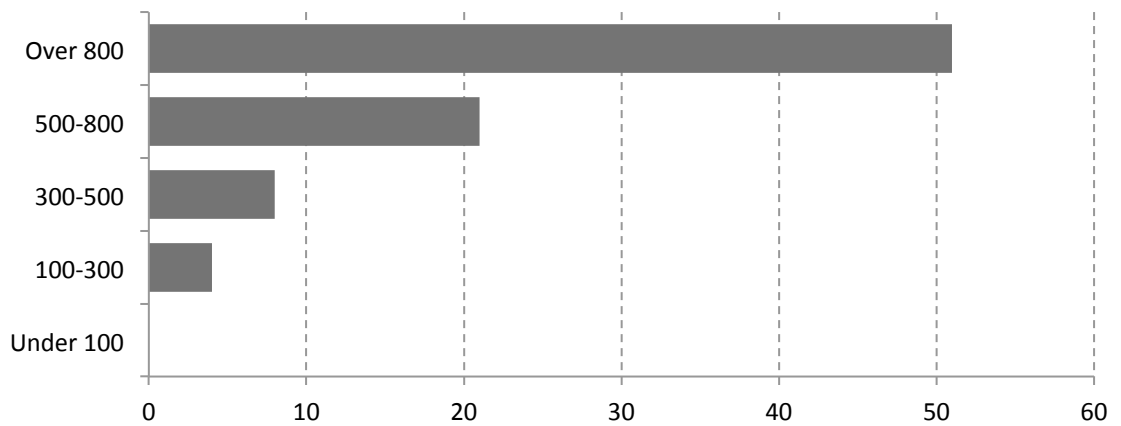


FIGURE 7. Responses regarding the consumption situation on infant milk powder per month (monetary unit: CNY)

## 7 CONCLUSION

### 7.1 Research summary

According to the research, the development of the overall situation of the Chinese milk powder industry is rapid. However, at the same time, relative to the whole milk powder market, the development of Chinese milk powder industry is still behind the general level of world milk powder industry. Lacking of strong domestic brands, long term occupying by foreign brands, chaotic market competition, product quality customs, etc., greatly reduce the credibility of the domestic milk powder brands. The solution of these problems for domestic milk powder brands requires not only speeding up the milk powder technology research and development, but also the need to strengthen mutual cooperation between industry restructuring and enterprise.

The room of infant formula market is still much for growth. Because of Chinese residents' income in recent years and the increase in the purchasing powder, more and more Chinese consumers can afford formula milk powder. With more consumers recognize the importance of formula milk powder to those babies can not be breast fed, there will be more consumption of formula milk powder. In addition, although the formula of the first tier markets is competitive, but many second and third tier markets have yet to be developed. The development of these markets will bring new market opportunities for infant formula manufacturers, especially to those foreign brands. If the online marketing channels mature, it will be a huge blow to the market share of domestic brands.

### 7.2 Suggestions for further research

The suggestions presented here are related to the problems and difficulties I confronted during the research.

As I published the questionnaire in the website and passed it to the people around me, the reliability and validity of the feedbacks can be ensured. The results of the questionnaire reflect a general perspective of the milk powder market situation in China. However, due to the deficiency of related professional knowledge and personal experiences, this research relies mainly on desk research.

The overall situation of domestic milk powder market has drawn the attention of Chinese government. Related policies are introduced gradually for regulating and controlling the milk powder market. For example, the quantity limit of overseas purchase of formula milk powder takes effect. Since the large-scale intervention from Chinese government, the outlook of Chinese milk powder market may become difficult to predict.

### 7.3 Summary of thesis work process

The thesis topic was decided in May 2012 and the work was planned to be finished in May 2013. However, due to the distraction from work and the time spent on searching for the resources, the thesis process went quite slowly. In table 1 below it shows the overview of the thesis work process.

TABLE 1. Thesis work process

May 2012	Thesis subject decided and topic plan presented in the thesis seminar
June – August 2012	Writing up thesis – theoretical part
September – November 2012	Processing the data collection and analysis – questionnaire and interview
November 2012 – April 2013	Writing up thesis
May – Dec 2013	Finalizing the thesis process

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## Appendix: Questionnaire

1 现阶段您是怎样喂哺您的宝宝？

- A 母乳
- B 奶粉
- C 母乳加奶粉混合哺喂
- D 其他\_\_\_\_\_

1 How do you feed your baby at the present stage?

- A Breast milk
- B Milk powder
- C Mixed feeding
- D Others\_\_\_\_\_

2 您对婴儿配方奶粉营养成份了解情况？

- A 非常了解
- A 有一定程度了解
- B 只是听说过
- C 完全不了解

2 How well do you know about infant formula milk powder?

- A I have deep knowledge
- B I have some relevant knowledge
- C Only heard about it
- D I don't know at all

3 您会经常选用哪个品牌的奶粉？（可多选）

- A 雅培
- B 美赞臣
- C 惠氏
- D 多美滋
- E 美素
- F 雀巢
- G 合生元
- H 明治

- I 牛栏
- J 澳优
- K 蒙牛
- L 光明
- M 伊利
- N 圣元
- O 其他\_\_\_\_\_

**3 Which brands of milk do you always buy?(You can choose one or more.)**

- A ABBOTT
- B MEADJOHNSON
- C WYETH
- D DUMEX
- E FRISO
- F NESTLE
- G BIOSTIME
- H MEIJI
- I NUTRICIA
- J AUSNUTRIA
- K MENGNIU
- L GUANGMING
- M YILI
- N SHENGYUAN
- O Others\_\_\_\_\_

**4 您在选择奶粉的时候会受到哪些要素的影响? (可多选)**

- A 口味
- B 质量
- C 品牌
- D 价格
- E 名气
- F 地点
- H 营养功能
- I 个人问题
- J 其他\_\_\_\_\_

**4 What factors would affect your choice? (You can choose one or more.)**

- A Taste
- B Quality
- C Brand
- D Price
- E Reputation
- F Sales Location
- G Package
- H Nutrient value
- I Personal problem
- J Others \_\_\_\_\_

**5 您购买奶粉的途径? (可多选)**

- A 超市
- B 零售店
- C 母婴专卖店
- D 网购
- E 国外代购
- F 其他 \_\_\_\_\_

**5 Where do you usually buy these products? (You can choose one or more.)**

- A Supermarket
- B Retail store
- C Exclusive shop
- D Web Store
- E Oversea purchasing
- F Others \_\_\_\_\_

**6 您了解奶粉的途径是? (可多选)**

- A 电视广告
- B 奶粉公司促销
- C 网络
- D 报刊杂志
- E 亲友推荐
- F 其他 \_\_\_\_\_

**6 What are the ways you get to know the milk powder products? (You can choose one or more.)**

- A TV commercial
- B Sales promotion
- C Internet
- D Newspapers and periodicals
- E Friends and relatives' recommendation
- F Others \_\_\_\_\_

**7 您平均每个月在奶粉产品上面的开支是多少？**

- A 100 以下
- B 100 到 300
- C 300 到 500
- D 500 到 800
- E 800 以上

**7 On average, how much do you spend on the milk powder products per month? (monetary unit: CNY)**

- A Under 100
- B 100-300
- C 300-500
- D 500-800
- E Over 800

**8 您更偏向选购国产奶粉还是进口奶粉？**

- A 国产
- B 进口
- C 都一样

**8 Would you prefer the domestic brand milk powder or foreign brand milk powder?**

- A Domestic brands
- B Foreign brands
- C No specific preference









