

Growth in China: a remedy for flagging western markets

Although growth in the wider Chinese economy has cooled somewhat in 2012, the outlook for the tissue and hygiene industry continues to look promising, as a greater number of Chinese consumers move into the market and also up the value chain.

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Whilst other major markets in North America and Western Europe continued to see value growth difficult to maintain, the Chinese tissue and hygiene market in 2011 posted a 16.5% increase, a half percentage point up on a year earlier. With value sales topping US\$22 billion, the size of the Chinese market is vast, a measure of which saw the country single headedly driving almost a third of global sales growth since 2006. Rapid economic development has been key since 2006, along with the sheer weight of numbers in its population, but China still represents the past, present and future of the industry. Other territories in southern Asia (India) and across Africa (where a further two billion consumers reside) remain longer term prospects due to much lower incomes per capita along with major differences in lifestyle and consumption culture which will require some time to overcome. The health of the global tissue and hygiene market is then still very much dependent on China.

FEATURES OF MODERNITY. Developments within the Chinese market over the last five years have also begun to place China in a different category in terms of its overall market development. Industry restructuring has been most evident in the tissue industry, a category once dominated by a mass of small- to medium-scale local businesses that has been transformed into a much more modern industry which has become increasingly consolidated through the introduction of larger integrated production sites. A mixture of competition, developing retail landscape, the introduction of pollution controls and increasing raw material costs, have all contrived to spelling out the beginning of the end for local production and the emergence of a truly national industry.

Larger operators have clearly benefited from their economies of scale and taken this gilt-edged opportunity following the demise of local players to enhance their market position, with large investment in equipment which has served to expand production capacity. Manufacturers have been so successful in developing capacity that - in terms of tissue - there is a danger of overcapacity in 2013, something which will help drive household penetration through lower pricing.

While inward investment has come in the shape of Kimberly-Clark, UniCharm, Asian Pulp & Paper and Procter & Gamble all continuing to invest heavily in developing new facilities, especially in the east of the country, the domestic market is led by a domestic player. Hengan Fujian wrestled leadership from Procter & Gamble in 2009 and although the two companies are neck-and-neck, there are few local manufacturers which can claim to have been able to hold off international interest, especially during this market development phase. Where Hengan has led, other Chinese manufacturers such as Vinda Group have also looked to invest heavily in new plant technology, the company expanding out of pure tissue and into nappies/diaper production in 2011 in an attempt to secure the higher margins which are more prevalent in the hygiene category.

RETAIL STRUCTURES AND AVAILABILITY. Hypermarkets were recorded as the most significant distribution channel in tissue and hygiene throughout China and continued to gain market share in 2011. Hypermarkets appeal to Chinese consumers and benefit from frequent price promotion and larger value pack sizes, which have scored well with Chinese consumers across income ranges. Although incomes are on the increase, Chinese consumers do still have a penchant for economy products and have used bulk buying in retail to offset their preference for global brands, particularly in hygiene.

These factors resulted in an on-going shift from independent small grocers to hypermarkets in urban areas and also exposed Chinese consumers to much greater brand choice. For manufacturers also, the migration to more modern and

more formal retail channels has allowed them to maintain margins by improving the efficiency of their distribution operations, which are less reliant on the middle men and agents typically required to get product access to the less formal side of the Chinese retail system.

Whilst 'bricks and mortar' retailers in their modern hypermarket guise continue to drive sales across tissue and hygiene, there is also something of an upturn in specialist internet retailers. Both domestic and multinational companies have expanded into internet retailing and marketing, particularly for premium products that target well-educated mid- and high-income consumers. Many manufacturers thus launched internet retailing, whether via their own site or via a branded shop on Taobao's www.tmall.com, one of the most popular business-to-customer websites in China. With wider ranges, including import lines, and the opportunity to purchase in bulk for lower pricing, online specialist sites have continued to develop rapidly in China, with redbaby.com -- China's leading child specialist online retailer, ranking as the country's second largest by value sales in 2011.

KEY HYGIENE CATEGORIES 2012; SANPRO, NAPPIES AND INCONTINENCE. Although there are still a wide range of products available on the Chinese market in terms of price point, it is still noticeable that sanitary protection, which tends to be a category that develops most rapidly in emerging markets, has reached a more mature stage of development. In 2012 there is little difference in the number or format of products used by female consumers in China and in western markets. The use of ultra-thin towels is very much the mainstream, as are international brands such as Whisper (Procter & Gamble) or Space 7 (Hengan).

Sales of nappies/diapers are expected to see strong growth in 2012, as a spike in the Chinese birth rate associated with the auspicious year of the dragon in 2012, has led many Chinese couples to plan children. Although the birth rate has been kept artificially low by the one-child policy, 2012 will see nappy sales jump, with a further 2-3 years of accelerated growth. Manufacturers' efforts to introduce greater variety in age-range products will likely pay dividends with the newborn category in particular, predicting its strongest sales ever through 2012.

After three decades of the one-child policy, China now faces a difficult demographic model, with fewer children and a boom in the over 65 age group. A reversal, or at least a broader liberalisation, of the one child policy, would stimulate nappy/diaper sales whilst the country is already considering how it will look after greater numbers of elderly Chinese who are more commonly living into extreme old age. With caring for the elderly and social care a key plank of China's latest economic five-year plan (invoked in 2011) the future would also appear to be bright for incontinence products producers.

CHINA'S KEY GLOBAL ROLE. The tissue and hygiene market is expected to see positive growth over the medium to long term, despite economic cooling. For modern urban Chinese consumers, tissue and hygiene products are widely available and have become ingrained in consumption culture; these modes of living have filtered from the most developed cities in the east such as Shanghai and look set to follow through into third and fourth tier cities and even into rural areas before the end of the decade. Although there is a possibility that the tissue market will see prices slump due to overcapacity, it will be the hygiene categories that will really drive sales and ultimately the global hygiene market for the next decade.

For global players, success in China has been substantial but if similar success is to be recreated in India and territories around Africa and the Middle East, then manufacturers will have to invest even more heavily in developing a latent consumption culture which is less aligned to using disposable hygiene products than the one they found and ran with in China. •

