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Nestle could step into Wong Lo Kat's trademark war

Posted on June 14, 2012 | Leave a comment

Source: Want China Times

The trademark war surrounding Chinese beverage brand Wong Lo Kat has escalated, as Guangzhou Pharmaceutical Holdings — who currently owns the trademark — is considering outsourcing production to Xiamen Yinlu Group, which has been acquired by Nestle, leading to rumors that the Switzerland-based company may step into the battle, reports our sister newspaper China Times.

Wong Lo Kat (Wang Lao Ji in Mandarin), a herbal drink brand founded in 1828 in the southern Chinese province of Guangdong, has two versions of its packaging — a green pouch and a red aluminum bottle. Like many companies after the Chinese civil war, Wong Lo Kat became divided into two entities, one operating on the mainland and one outside of it.

Guangzhou Pharmaceutical produced Wong Lo Kat as a state-owned enterprise in China and only produced green pouches before it announced sue to use the red aluminum bottle last year, which was being produced by JDB Group thanks to agreements between Hotfrog Group in Hong Kong, parent company of JDB, and the predecessor of Guangzhou Wanglaoji Pharmaceutical Company.

JDB said the agreements are in effect until 2020, which has been denied by Guangzhou Pharmaceutical, leading to the trademark fight.

Guangzhou Pharmaceutical launched new red packaging at a high-profile presentation June 3 in a bid to create sales of 30 billion yuan (US$139 million) within five years. Market analysts however, are dubious of the group's production capability.

Insiders said the group is likely outsourcing production for the red packaging to Yinlu Group and HEK Group in Xiamen, which are contract manufacturers producing the company's green pouches.

"We will not exclude the opportunity for cooperation with Yinlu," said

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Wu Zhanghai, chairman of Guangzhou Wanglaoji.

The situation might now be changing again. Swiss food and beverage giant Nestle acquired a 60% stakes in Yinlu last December, suggesting that international enterprise is going to intervene in the trademark dispute between Guangzhou Wanglaoji and JDB.

Wanglaoji in both of its packaging forms accounted for a 70% share of the Chinese herbal drink market in 2011, with total sales of 20 billion yuan (US$3.1 billion). The green packaging accounted for 1.9 billion yuan (US$298 million) of that.

Posted in China Bev Laws Regulations, China Functional Drinks, China Packaging, Nestle China

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Getting down and dirty

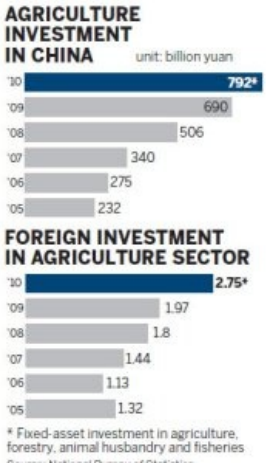
Posted on June 14, 2012 | Leave a comment

Source: By Zhong Nan (China Daily)

With more than 1.3 billion people to feed and expectations that demand for grain, fruit, vegetable, seafood, meat, dairy and beverage products will increase at least 10 percent every year for the next five years, China's government is placing a high premium on developing agricultural industries.

But challenges are mounting. The government must not only feed a soaring population but meeting the growing need for safer, higher quality foods. Inflation is rampant. Last year, food prices rose 11.8 percent from a year earlier, leading to a 5.4-percent growth in the consumer price index, according to the National Bureau of Statistics. Food consumption in the country also rose, with food imports up 30 percent to about $95 billion (76 billion euros) last year, compared with just $12 billion in 2001, according to the Ministry of Agriculture.

Fortunately there is an increasing number of international and domestic companies, some of which until recently were never in the agriculture business, that have begun to expand their investments in livestock breeding, dairy production, creating sweeteners and manufacturing other food products to meet the soaring domestic demand.



According to a report on investments in China's agricultural industries by Deloitte China, total investment in the nation's agricultural industries reached $2.56 billion between 2006 and 2011. The figure in 2011 alone was $1.1 billion.

The Deloitte report says food prices in China will continue to rise because of higher labor costs and poorer farm production, further taking a bite out of consumers' wallets.

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Source: National Bureau of Statistics
TIAN CHI / CHINA DAILY

Faced with those two major factors, foreign and domestic companies are finding major opportunities to expand their businesses in China. Nestle S.A., the world's largest nutrition, health and wellness company, is one prime example.

Founded and headquartered in Switzerland, the company sees major potential in the dairy market and vows to increase the quantity and quality of its milk produced in China in light of numerous milk scandals over the past few years.

Roland Decorvet, chairman and CEO of Nestle (China) Ltd, says the company currently has three dairy plants in Shuangcheng, Heilongjiang province; Ergun, Inner Mongolia autonomous region; and Qingdao, Shandong province.

Last month, Nestle signed an agreement with a county government of Old Barag Banner in the Inner Mongolia autonomous region to build a new dairy farm. The county government confirmed that it has signed a memorandum of understanding with Nestle to build a 2,000-cow dairy farm by the end of 2013 near the Hulunbuir grasslands, not far from Nestle's dairy plant in Ergun that was built in 2007.

According to the agreement, Nestle will not have ownership of the farm, but will help in operations. The company will collect milk from more than 25,000 farmers and herdsmen on its farm in Ergun to use in its dairy products, such as milk powders and creams.

Decorvet says the economic environment is changing quickly in China and in order to ensure the quality of its milk products, the company's dairy farmers will be given further training in safety standards.

In January, Nestle announced it would invest 2.5 billion yuan ($392 million, 316 million euros) over the next five years to train diary farm managers. The money will also be spent to operate its dairy farm in Shuangcheng and improve the milk quality there.

"We are moving toward more middle and large size farms. We are building a large dairy farming institute in Shuangcheng and we will teach the farmers to manage cows up to 5,000 as a business model," Decorvet says.

Nestle also has 32 factories in China producing instant coffee products, baby food products and bottled water with a total number of 45,000 employees.

Cargill Inc, an international provider of food, agricultural and risk management products and services based in the United States, has also begun expanding its investments in China.

Robert Aspell, president of Cargill Investment (China) Ltd, says the company intends to invest more in the sweetener business in Dongguan, in South China's Guangdong province.

"There is still a big supply gap for sweeteners in the Chinese market. The sweeteners will support China's needs for producing confectionaries, coffee creamers, beers, dairy products and

beverages," Aspell says. "The sweetener products will be in small packages to meet the government's requirement on food safety."

In February, Cargill established a sweetener manufacturing plant in Luohe in Henan province in a joint venture with longtime partner Coca-Cola Co. With a combined investment of $86 million, the manufacturing facility is expected to be operational in December.

Coca-Cola recently added $200 million to support its expansion in China's central region and invested another $4.7 million to establish an automated warehouse in Luohe.

Aspell says that any agricultural investments must be adapted to regulations in China.

Cargill's global sales and revenues reached $119.5 billion in 2011 with $2.69 billion in profit. The company's investments in China accounted for 15 percent of its total global investments last year. Cargill (China) currently has more than 7,000 employees across China at 47 plants.

One surprising turn of events from the government's plan to attract more companies to invest in agriculture has been the rise of corporations which previously had no hand in food products.

Wuhan Iron and Steel (Group) Co, or WISCO, is one of China's largest iron and steel makers and is based in Central China's Hubei province. Deng Qilin, general manager of WISCO, says that because the company has been affected by a shortage of iron ore and rising costs in logistics, it is putting more eggs in the agricultural basket. With a focus on wine, pork and vegetables, the company's highest aim is to build a farm that can hold 10,000 pigs in Wuhan this year.

"Our company is at an inflection point in the market," Deng says. "Even though steel production in China has increased over recent years, the margin (of profit) has slumped to less than 3 percent, far below the 6 percent registered by the industrial sector."

Deng adds that "the price of one kilogram of steel thread is cheaper than 200 grams of pork" and that with "a growing need for agricultural products our goal is to gain more money from agricultural sectors".

Since last year, WISCO has increased investment in non-steel businesses such as catering services and trading. This sector has created nearly 2.1 billion yuan in profit, accounting for 60 percent of the company's annual profit. Deng says this line of business has helped the company gain a 17.4-percent growth in profit.

The steelmaker is investing 39 billion yuan in non-steel businesses this year. WISCO will build vegetable and pig farms in Wuhan. Deng says the company is also ready to tap the agricultural logistics business by providing services to urban residents such as deliveries of vegetables and possibly meats.

"Over the next five years, the non-steel business will take 30 percent of company's output value. The agriculture investment would become a big part of it," Deng says.

Another Chinese company, Legend Holdings Ltd, parent company of the world's second-largest PC maker Lenovo Group Ltd, is also keeping a close eye on the nation's agricultural industries.

The company established its agricultural business department in 2010. The department's first target are fruits. It has established a Beijing-based fruit trade company, which set up two subsidiaries to grow kiwis in Shaanxi's Zhouzhi county and Henan's Xixia county.

"There are certain risks in the agricultural businesses," says Liu Chuanzhi, chairman of Legend Holdings and founder of Lenovo. "A good company should be able to make specific plans in analyzing the market and try it best to build up a brand. We have a long-term plan for the future investment in agriculture, but we are not in the hurry to rush it."

Liu says since consumers in China are focused on food safety, companies should realize that a developed industry chain must regulate the production of high-quality foods.

Posted in China Bottled Water, China Dairy, China RTD Coffee, Nestle China **→ Leave a comment**

Nestle To Create New Milk Source In Inner Mongolia

Posted on June 14, 2012 | Leave a comment

Source: China Retail News

The Swiss food and beverage firm Nestle has signed a cooperation agreement with local government of Hulunbeier, Inner Mongolia Autonomous Region, to establish a new milk source zone.

Based on the agreement, the two parties will jointly build a milk cow base in Old Barag Banner county. On its completion at the end of 2013, it will have 2,000 cows. The new dairy farm in Old Barag Banner is Nestle's second milk source region in Hulunbeier, following the construction of the first one in Ergun Banner in 2007.

By providing plenty of high-quality fresh milk, the new dairy farm will meet Nestle's growing demands for raw materials so as to help the company satisfy Chinese consumers' demands for dairy products.

The official website of Nestle shows that the company buys fresh milk from 25,000 Chinese dairy farmers and provides them with an overall income of around CHF500,000 per day. These farmers serve three Nestle factories in the country.

Nestle's milk factory in Hulunbeir, inaugurated in July 2007, is situated in an area of high-quality natural grasslands, on which 5,600 farmers graze their cows. The factory provides a reliable market for locally produced fresh milk, which is used to meet the rising local demand for milk powder and other dry, condensed and evaporated dairy products. Nestle also provides 54 collection centers in the milk district, 12 of which have chilling facilities, and aims to transfer milk from each chilling

center to the factory within two hours.

Posted in China Dairy, Nestle China → **Leave a comment**

Nestle opens Lausanne unit for global clinical trials

Posted on June 14, 2012 | Leave a comment

Source: Xinhua via Want China Times

Nestle is centralizing its global clinical trials to a new unit which opened Wednesday in Lausanne to ensure operational efficiency and scientific standards.

"Clinical trials provide a robust way of evaluating the impact of food and beverages on human health," said Werner Bauer, executive vice president of the Swiss food conglomerate.

The new Clinical Development Unit will be responsible for the design and execution of the clinical development programs for Nestle products worldwide, said Rafael Crabbe, head of the unit, at the inauguration.

He said the unit runs a broad spectrum of clinical trials, which will be related to Nestle products under development as well as existing products which could be improved, in order to evaluate the safety and the benefits to human health, according to Crabbe.

The unit has remote hubs in the US, Singapore and China, and has more than 100 ongoing clinical studies.

Posted in Nestle China → **Leave a comment**

Nestle Breaks Ground for World-Class Dairy Farming Institute in Shuangcheng

Posted on June 7, 2012 | Leave a comment

Source: PRNewswire

SHUANGCHENG, China, June 6, 2012 /PRNewswire– Nestle /quotes/zigman/323183/quotes/nls/nest NEST +400.00% today held the groundbreaking ceremony for the Dairy Farming Institute, which will support the sustainable development and the accelerated modernization of the dairy industry in China. The groundbreaking follows an announcement Nestle made in January, in which the company committed to transform Shuangcheng, one of its largest fresh milk supply bases in China, into the country's benchmark for dairy farming and management best practices.

The January 11th Memorandum of Understanding between Shuangcheng Municipal Government and Nestle engages the parties to jointly develop modern dairy farming practices. Under the agreement, a total

of RMB 2.5 billion will be invested between all parties in the milk district over the next five years through a partnership between Nestle, the local government, investors and farmers. The Dairy Farming Institute is an important next step to put the MOU into practice and will focus on training dairy farmers and technicians. The first construction phase of the institute will be completed by the end of 2012.

Training open to the whole dairy farming industry

The Dairy Farming Institute occupies 600,000 square meters and is supported by three different types of training farms, including one cow base with 1,520 cows, which provides practical guidance for farmers working alone or on small farms to relocate to a professionally managed farm; one large farm with 1,200 cows and one mega farm with 8,000 cows to help those who own larger farms scale up their facilities and use more modern practices.

The Institute demonstrates how modernized and professionally managed farms can improve efficiency in productivity. At the same time, it marks a new reference for an environmentally, socially and economically sustainable farming model, which will lead the direction of future dairy farming development.

The professional training will benefit the whole industry and eventually be open to all dairy industry members. It is a top-class training school for transferring know-how to many dairy professionals from Shuangcheng and all over the country.

Cooperate with first-rate partners

The Dairy Farming Institute is a platform for dairy business partners that will bring together experts in feed, genetics and other fields from around the world. It will offer dairy practitioners world-class training on dairy cow feeding and management. For example, the program will educate farmers on improving milk quality and output and raising healthier cows through the feed they are given. It will introduce farmers to world-class dairy breeds and the most advanced technologies. Farmers will also learn about medicating their herds, and will be offered specialized veterinary support when required. Over 700 attendees will be given professional training courses per year.

In a vote of confidence in the Dairy Farming Institute, cooperation agreements were signed between Nestle and some industry leaders including Land O' Lakes, Alta and East Rock Limited. All these partners are already well-established in China.

Confirming long-term commitment to China

"In line with the government's 12th five-year plan for animal husbandry, the Dairy Farming Institute groundbreaking is a very important step for Nestle to promote the modernization of the dairy industry in Shuangcheng and beyond. It also underscores Nestle's commitment to growing our dairy business in China in a long-term and sustainable way," said Mr. Heiko Schipper, Managing Director of Nestle Food & Beverage Division, GCR. "The emphasis will be on training the farmers, so that they are prepared to modernize their farms and deliver high quality milk in an efficient and environmentally responsible way. It all starts with the

skills of the farmer and that is our first priority. Nestle has a long partnership with China and from the start, and has worked diligently to develop the local dairy industry. We look forward to sharing our experiences, resources, technology and facilities with the dairy industry."

Nestle has been investing in Shuangcheng to develop its milk district since 1987, three years before the Nestle Shuangcheng dairy factory became operational. Since then, Nestle has promoted scale and modern dairy farming through free training and technical assistance. More than 7,000 farmers were trained in 2011 alone.

Source: Nestle

Posted in China Dairy, Nestle China → **Leave a comment**

Nestle to build dairy farm in Inner Mongolia

Posted on May 24, 2012 | Leave a comment

Source: Xinhua via China Daily | Photo: Nestle

HOHHOT – Swiss food and beverage giant Nestle has signed an agreement with a county government in north China's Inner Mongolia autonomous region to build a new dairy farm in the area.

The government of Old Barag Banner (county) confirmed on Tuesday that it has signed a memorandum of understanding with Nestle to build a 2,000-cow dairy farm by the end of 2013.

The county is located near the Hulunbuir grasslands, where Nestle built a dairy plant in Ergun Banner in 2007.

According to the agreement, Nestle will not have ownership of the farm, but will help the owners manage it.

The company collects fresh milk from some 25,000 farmers and herdsmen on its farm in Ergun to use in its products.

Nestle has dairy plants in the cities of Shuangcheng and Qingdao in addition to its farms in Inner Mongolia. The company announced in January that it would spend 2.5 billion yuan ($395 million) over the next five years to train managers and improve the quality of the milk produced at the plant in Shuangcheng.

Posted in China Dairy, China Production (Plants), Nestle China → **Leave a comment**

Dragon baby boom drives up infant formula prices

Posted on May 17, 2012 | Leave a comment

Source: By Wang Zhuoqiong (China Daily)

A baby boom in the current Year of the Dragon in the Chinese zodiac has led to an increase in the price of imported infant formula.

On April 1, Nestle SA raised some of its prices for milk powder shortly before acquiring Pfizer Inc's infant nutrition unit Wyeth milk powder.

That purchase is believed to have made Nestle the largest formula provider in China measured by market share, surpassing Mead Johnson & Co LLC, Dumex – a part of Group Danone – and other rivals, industry analysts said

Explaining the increase, Nancy He, with Nestle (China) Ltd corporate affairs, said the cost of both important raw materials used in the formula and of labor have increased significantly.

"To ensure healthy business development in the long run, we now have to apply a marginal price adjustment for our selected dairy products effective from April 1, 2012," she wrote in an e-mail.

She said the increases are not related to the acquisition of Wyeth.

Local retailers have responded to the higher prices by changing what they charge for goods on their shelves.

"About 70 to 80 percent of Nestle's products have become more expensive by about 8 percent since last month," said a spokesperson for Leyou, a retailer of maternal and baby products. The spokesperson asked not to be named.

Foreign formula brands have raised their prices on several occasions recently.

"They are all big brands," the spokesperson said. "Their prices have all been up."

Meanwhile, imported formula milk has become 10 percent more expensive year-on-year at stores operated by the Japanese supermarket chain Ito Yokado, according to Hou Zhanpeng, who works at one of the company's stores in Beijing.

The industry research company CIConsulting said Dumex had held the largest portion of the Chinese formula market as of July 2010, taking up 16.7 percent of it, followed by Mead Johnson, with 12 percent of the market, and Nestle, with 10.5 percent.

In the fourth position was Abbott Laboratories, which had 7.2 percent of the market, and Wyeth, with 4.7 percent of the market, was in the fifth position.

After the merger between Nestle and Wyeth, the five big foreign brands of infant and toddler formulas will together hold about 85 percent of the Chinese market for those products, said Song Liang, a

researcher with the Distribution Productivity Promotion Center of China Commerce.

“Nestle is going after the middle- and high-end formula market,” Song said. “It is a huge market for foreign brands to penetrate.”

To many Chinese parents, the Year of the Dragon is regarded as being auspicious. Song said the great demand generated by the current baby boom has given a boost to China’s market for baby food.

“High-end foreign formula milk has a great potential to become more popular in the light of the country’s recent food safety concerns and families’ increasing incomes,” he said.

Posted in China Dairy, Nestle China **→ Leave a comment**

Nestlé suffers from water woes

Posted on May 3, 2012 | Leave a comment

Source: Bloomberg News

Nestlé’s bottled-water business is struggling to regain momentum as twin concerns about the economy and the environment weigh on growth.

The world’s biggest food company has been losing ground since 2006 as consumers switch to tap and filtered water and as concerns over the environmental impact of plastic packaging and energy used in transportation deter some shoppers, said Hope Lee, an analyst at Euromonitor International in London.

Nestlé owns more than 60 water brands including Perrier, Vittel and Pure Life, the world’s best-selling label, and relies heavily on western Europe and North America. Its market share by retail sales value fell to about 10 percent last year from more than 12 percent in 2006, according to Euromonitor.

Danone’s share fell 0.6 percentage point to 10.4 percent over the same period as greater exposure to developing countries such as China and Indonesia offset weakness in more mature markets.

“Nestlé is really facing a challenge in developed markets because of the economy,” Lee said. “Even when the economy improves, some customers may not come back if they get used to tap water.”

Nestlé reported first-quarter revenue growth that beat analyst estimates as the Swiss company sold more Nescafe soluble coffee in China and Friskies pet food in North America.

Sales increased 7.2 percent excluding acquisitions, divestments and currency swings, Nestlé said Friday in a statement. That exceeded the 6.7 percent average estimate of 15 analysts surveyed by Bloomberg.

New products such as Maggi Juicy Roasting cooking aids and Dreyer’s smoothies have helped Nestlé counter weakening consumer sentiment

in the U.S. and Europe, while expanding in Asia and other emerging markets.

The company said 2012 has already proved itself to be “challenging” and that it didn’t see any “dramatic” change in growth patterns during the first quarter compared to the October-December period. Raw-material prices will rise at a “low to mid single-digit” pace.

Shrinking revenue

Water has shrunk as a percentage of Nestlé’s revenue every year for four years and made up about 8 percent, or $7 billion, of the Vevey, Switzerland-based company’s total revenue of 83.6 billion Swiss francs last year.

Water is about a third the size of its beverage business, made up of coffee labels Nescafe and Nespresso and products including Nesquik powdered drink.

Sales of bottled water at Nestlé increased 5.2 percent on a like-for-like basis in 2011, lagging 16 percent growth at Danone. The Paris-based company gets about 60 percent of its revenue from emerging markets, where it’s not always feasible for consumers to switch to tap water, compared to less than 30 percent at Nestlé, according to Deborah Aitken, an analyst at Bloomberg Industries in London.

Trailing Danone

“Nestlé is focusing more on value-bottled water in developed markets, but the alternative for cash-strapped consumers across parts of western and southern Europe is tap water and there’s no getting away from this,” she said.

Nestlé has been trailing Danone on the stock market this year, gaining 4.9 percent compared with 10.9 percent at the French company and 8.4 percent in the Stoxx 600 Food and Beverage Index.

While the bottled-water market in Asia Pacific is expected to grow to about $34 billion in 2016 from $24 billion in 2011, the market in western Europe may remain flat and North America may grow 17 percent over the same period, according to Euromonitor.

Nestlé also may be losing share in some developing markets such as China, where new entrants including Tingyi (Cayman Islands) Holding Corp. are making inroads, Lee said.

Tingyi’s share of the bottled water market tripled to 0.9 percent in 2011 from 0.3 percent in 2006.

Higher prices

Price increases contributed 3.8 percent to Nestle’s sales growth during the quarter, while exchange rate movements reduced growth by 3.3 percentage points, according to the analysts surveyed by Bloomberg.

Nestlé doesn’t disclose profit on a quarterly basis.

Danone, the world's biggest yogurt maker, said last week that like-for-like sales increased 6.9 percent during the first quarter. Revenue from its water business climbed 16 percent, helped by emerging markets, especially Indonesia and China, as well as increased consumption of flavored water.

The growing popularity of alternative drinks including flavored water and energy drinks also threatens sales of standard bottled water, Liberum's Zuanic said.

Companies such as Pepsico have expanded into such beverages, which offer greater profitability, he said.

"This may for now be more applicable to the U.S., but we are starting to see it also in Europe," Zuanic said.

Posted in China Bottled Water, China Functional Drinks, Nestle China **→ Leave a comment**

Nestlé Greater China

Posted on May 3, 2012 | Leave a comment

Source: Business Excellence

China espouses the concept of balance and in this it has a natural partner in Nestlé, a company that is finding its established philosophy of shared value and localisation appreciated in the world's fastest changing society.

It seems so recently that global interest in China was fixated on its manufacturing power —the realisation that it could produce, and indeed was already producing—everything that consuming nations needed at a fraction of the cost elsewhere. Now the focus has shifted to China as a consumer society. Despite the global turndown China continues to grow —and who wouldn't want access to 1.2 billion consumers?

The retail sector is rapidly modernising to cope with societal changes, not least the growth in per capita income. Due to the rapid pace of urbanization in China, the annual disposable income per capita for urban households climbed tenfold from RMB 1,701 (about $268 at current rates) in 1991 to RMB 17,175 in 2009. The retail market is still highly fragmented but hypermarkets are developing fast, particularly in the sophisticated cities like Shanghai and Beijing where the dominant players are Walmart/Trust-Mart, Carrefour, Tesco and Taiwan's RT-Mart. The competition between brands is intense, says Heiko Schipper, managing director of Nestlé Food & Beverage, Greater China Region. "The pressure on shelf space is intense. That will inevitably lead to some consolidation. There's a lot of pressure on food and beverage manufacturers to ensure their market position over the coming 10 years."

And every manufacturer in the world wants a piece of this action. "I don't know another market—I certainly have never worked in one —where you have all international players present as well as so many

local players. Even in the US, the largest market in the world, many companies are not there because they came too late or the cost of entry is too high." But all the major American, European and Asian companies jostle one another in China. The competitive intensity is unprecedented—and in the food and beverage sector, Nestlé is number five, behind four Chinese companies.

Unlike most of its competitors Nestlé is no newcomer to China, having entered the market in 1987 and starting production in its first factory in 1990, a dairy processing plant at Shuangcheng in Heilongjiang province, the heartland of China's dairy industry (though in those days that industry was not highly organised). "We started under an agreement with the Chinese government to develop a sustainable dairy supply chain. Nestlé's philosophy is to produce locally—we believe in the long term it is best to create as much shared value as possible in the country."

Before starting milk production Nestlé had to set up collection systems and a procedure to make sure the cows were being milked hygienically. "We set up collection points across the milk districts so the milk is chilled quickly: we started to train farmers to improve the quality and the yield per cow so it became more efficient for them," explains Schipper. "We are manufacturers but we started on the raw materials, the supply chain." The percentage of milk and other ingredients sourced locally rapidly increased until today, 90 per cent of everything Nestlé sells in China is sourced locally—and that, he stresses, means the entire value chain, not just assembly.

There are now three milk processing plants, including one at Hulunbeier in Inner Mongolia and another at Laixi in Shandong province. In 2011 through taxes, payments to local farmers and the like, the milk business alone contributed around $540 million to the Chinese economy, a powerful vindication of the local sourcing principle.

This is a young market, and one that is ripe for development. Milk may be the universal food for infants, but as soon as the child starts to be weaned, local preferences emerge. You can't sell Western infant food to Chinese mothers, says Schipper, and of course, China is no more a single market than Europe. Much less so: "There is more difference between northern and southern Chinese cuisine than between Spain and Sweden." And even a seemingly fundamental product like coffee needs to be customised for what is after all a tea-drinking culture.

Coffee is catching on, but unlike European customers who typically use coffee as a 'wake-up' stimulant, Chinese consumers favour a lighter, less bitter and more gentle cup of coffee. So that is what Nestlé gives them—Nescafé (or Bird's Nest Coffee as it is called in the China market, the only place in the world where the Nestlé brand is 'translated') is the number one instant coffee throughout this market, but that is because it was tailor-made for the market in Nestlé's R&D centres in Shanghai and Beijing. The company proposes to double its investment in the Chinese coffee market over the coming three years and is building a third RMB 600 million ($95 million) coffee factory in Laixi to supplement the existing plants in Dongguan and Shanghai. The coffee market is still comparatively small here, giving Nestlé plenty of scope to achieve its goal of growing its business in this one commodity at a rate of more than 20 per cent per annum.

If competition represents the first big challenge for Schipper, the second is people. “In one respect,” he says, “Nestlé is old-fashioned—we believe in developing talent from within the organisation. So training is not so much an HR issue as a management issue.” And this does not just mean training the direct employees—skills levels need to be raised right through the supply chain.

As we already noted, Nestlé started by setting up a workable supply chain: now the task is to catalyse a step change in the farming industry as a whole—not so much a revolution, he says, as a fast evolution. “The industry needs to increase the size of dairy farming units—but to manage a large farm takes a very different skill set from managing a small one. Large is good only if you are professional—otherwise it can be a disaster.” In April, once the winter freeze is over, work will begin on building a dairy farming institute in Shuangcheng.

The investments to modernize the milk district in Shuangcheng are very significant—RMB 2.5 billion, or about $400 million, shared by local farmer entrepreneurs, the government and Nestlé. “Our vision is to bring world class dairy farming knowledge to the region. There are 11,000 farmers in the province so for those with ambition to grow this is a fantastic opportunity.” Farmers will get free training and access to capital, and though they will run some business risk, they will have a secure supply contract, subject to quality. It is another example of the shared value concept, he says. The provincial government provides the land and infrastructure: for the farmers, it provides an opportunity to become entrepreneurs in their traditional occupation at a time when the attractions of industrial expansion are taking many people away from the land.

Nestlé’s global vision is to be the leading nutritional health and wellness food and beverage company, and its aim for China is no different. The expansion in coffee and the dairy institute mean there is no lack of major projects for 2012, which will also see the business settle down two major joint ventures entered in 2011: with the leading confectionery brand Hs Fu Chi and the health beverage manufacturer Yinlu, which has brought Nestlé into important new categories.

Schipper’s energy and enthusiasm are matched only by the potential of the China food and beverage market. What differentiates Nestlé is simple, he contends—it is having the whole spectrum of products for health and enjoyment, and for every stage of life from pre-birth to old age.

Posted in China Coffee, China Dairy, China Retail, China RTD Coffee, Nestle China

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Danone Infant Options Limited as Nestle Gets Pfizer Unit

Posted on April 26, 2012 | Leave a comment

Source: Bloomberg News By Dermot Doherty

Danone, beaten by Nestle (NESN) SA in an $11.9 billion contest to acquire Pfizer Inc. (PFE)'s nutrition unit, may have to scale back its expansion ambitions in the baby-food market after losing out on one of the industry's main prizes.

The maker of Activia and Actimel yogurts could try to buy parts of the Pfizer business that Nestle has to divest because of antitrust obstacles, though has few other alternatives, according to Jeff Stent, an analyst at Exane BNP Paribas in London. Mead Johnson Nutrition Co. (MJN), the baby-formula maker that Bristol-Myers Squibb Co. took public in February 2009, is a possibility, though with a market value of about $17 billion may be too large to swallow, even if it's available, he said.

"There's smaller baby-food businesses around, but this was pretty unique," Stent said of Pfizer's Wyeth unit. "Pfizer was almost bigger than ideal but it was still doable and a fantastic strategic fit. There isn't a Pfizer part two."

Danone (BN) lost out to Nestle by less than $250 million, or 2 percent of the final $11.9 billion bid, said a person familiar with the matter, putting in a bid higher than $11.6 billion. That price difference along with concerns Pfizer had about Danone's ability to get antitrust approval for the deal in China, gave the asset to Nestle, said two people familiar with the matter.

Pfizer also determined Nestle was a safer home for its employees, added another person familiar with the matter. Danone bid alone, said these people, as an agreement that would have pre-sold some assets to Mead Johnson fell through weeks earlier.

Fresh Dairy

Danone gets more than half its revenue from fresh dairy products, while infant nutrition accounts for only a fifth of its sales. Global sales of baby-food products are likely to gain 6 percent a year to 2016 from $30.9 billion in 2011, according to Euromonitor International, which says that growth is being helped by low private-label penetration and the importance of infant nutrition to consumers.

Nestle could have to sell 10-15 percent of the assets it just acquired from Pfizer, said people familiar with the matter, as antitrust concerns in countries in like Mexico and Australia could force divestitures.

The Vevey, Switzerland-based company may be instructed by regulators to sell some assets in markets where it already has a strong presence, according to Ildiko Szalai, a senior company analyst at Euromonitor International in London. A combined Nestle and Pfizer baby-food business would have a market share in Latin America exceeding 70 percent, she said.

Emerging Markets

"Danone would really like to enhance its American positions and if

Nestle auctions some assets, Danone could pick up some in Latin America," Szalai said.

The Paris-based owner of the Evian bottled-water brand, which generates about half its sales in emerging markets, declined to say whether it would be interested in acquiring any divested assets. It has said it plans to expand in markets such as China, India, Indonesia and Mexico as well as the U.S.

Danone shares rose 1.3 percent to 53.13 euros in Paris trading yesterday. Nestle advanced 0.6 percent after adjustment for the shares trading without the right to a dividend.

Danone may also seek to expand in the dairy market through acquisitions similar to its purchase in 2010 of a majority stake in Russia's OAO Unimilk, said Stent at Exane BNP Paribas. That purchase made the company Russia's biggest dairy producer.

"You might see another deal like Unimilk because there's a lot of the world where they don't have a meaningful presence in dairy, so they could definitely do something here," he said.

Bottled Water

Another possible avenue for expansion is bottled water, according to Stent. Revenue from the product group increased 16 percent last year and made up 17 percent of revenue in 2011.

"Danone's not a global player in water, so I can't see how they'd do a big waters deal, but they've been building up in markets like Brazil and they could seek to do some small bolt- ons," Stent said.

Danone may also be looking to expand its existing collaboration and investment in Japanese beverage maker Yakult Honsha Co. (2267) The company is in talks to increase its holding to 28 percent from 20 percent, the Nikkei newspaper reported April 21, without saying where it go the information. A Danone spokeswoman declined to comment on the report.

Yakult's probiotic and fermented milk drinks are similar to offerings from Danone. The two companies talk about increasing their collaboration "as part of daily communication," Yakult said, without providing additional information. Danone would make a tender offer to raise its stake to 35 percent should the talks fail, the Nikkei reported.

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