

BABIES:

Good quality, innovative products cater to a fast-expanding market

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The total number of births at hospitals in China was around 18.5 million in 2016, the highest level since 2000, according to the National Health and Family Planning Commission. Though the number dropped to 17.58 million last year, Xinhua reported that over half of the newborns were second children, a 5 percent rise from 2016.

The sales value of infant products in China reached 123.2 billion yuan (\$19.2 billion) from September 2016 to August 2017, an increase of 11 percent, according to Nielsen's data. The sales value of key infant fast-moving consumer goods like infant food supplement, diapers and infant formula milk, all have recorded double-digit growth.

In another report, released jointly by China e-commerce giant JD.com and a research institute under the *21st Century Business Herald* in January, nearly 80 percent of people surveyed are willing to have a second child as long as they can afford to have one. Driven by the rising population and consumption upgrade, the report said China's mother-infant market will continue to grow, exceeding 4 trillion yuan by 2020.

Foreign brands remain major players in the market, said Bali from Nielsen China. In 2016, foreign brands accounted for up to 65 percent of the total market share in China for offline sales of milk powder and diapers, according to Nielsen.

This is because consumers' trust in the quality of foreign brands still exceeds that of local brands, Bali said.

Bloom & Grow, a Hong Kong-based distributor of international baby, children's and maternity brands to Asia, now considers the Chinese mainland its "most important market" because of the huge business potential in growing families.

Founder Alexandra Dickson Leach said the company records growth in almost all categories as Chinese parents search for products with a design edge or unique functionality, despite higher prices compared to local brands.

Among the company's best-sellers are baby carriers by American brand Ergobaby, which increased fivefold in online sales on Amazon China in 2016, as reported by *International Business Daily*.

Toys "R" Us, the popular US toy retailer that operates more than 135 stores in China, still plans to open more stores in China despite the company's financial restructuring at home.

In May 2017, Roy Sammartino, managing director of Toys "R" Us China, said China is the company's fastest-growing market.



A storefront of Annil, a children's wear company based in the southern city of Shenzhen. Even though the brand ranks second in China's children's wear market, it accounts for only about 1 percent market share, reflecting the sector's intense competition. PROVIDED TO CHINA DAILY ASIA WEEKLY

Local companies are making improvements in terms of innovation, development toward the high-end market and expansion of distribution channels, according to Bali.

Annil, a children's wear company based in the southern city of Shenzhen, targets the middle- and high-end market with products that adhere to an environmentally friendly design philosophy. Last year, the company became the first of its kind to be listed on China's A-share market.

Even though the brand now ranks second in China's children's wear market, sharing the same ranking as foreign giant Adidas, both take only about 1 percent market share, according to Annil's annual report.

"The child-wear market is still in a growth stage. It grows fast but is relatively fragmented," said Cao Zhang, chairman of Annil. He noted that more domestic and foreign companies are entering the market.

H&M from Sweden, Gap from the US, Zara from Spain, Uniqlo from Japan, as well as luxury brands like Burberry, Dior and Armani, have all rolled out children's wear products in the Chinese market.

Last year, US toy manufacturing giant Mattel announced a strategic partnership with the Chinese clothing brand Three Gun Group, which will enable both companies to launch their first codeveloped product line of clothing for newborns and infants.

Cao Chunxiang, deputy man-

ager of Three Gun Group, said the company will be able to break new ground in the infant and toddler industry.

Cao from Annil pointed out that domestic brands have yet to take a high market share at home, and competition will intensify with the entering of more foreign brands.

"For domestic brands, winning trust from consumers with high-quality products is of great importance. At the same time, we need to expand our distribution channels to improve the brand's influence," he said.

With more than 1,400 stores nationwide, Annil also runs its own e-commerce center and online service team while partnering with major e-commerce platforms in China like Taobao, Tmall, Vip.com and JD.com. In its annual report, online purchases accounted for around one-fourth of its total sales.

Online channels have become a key way for brands to reach consumers as nearly 80 percent of families purchase mother-infant products online, according to research company iResearch.

Wang Huainan, founder and CEO of the Chinese parenting website Babytree, said that along with the second-child policy, young mothers - whom he categorized as "network generation" consumers - are driving the online sales boom in the mother-infant industry.

"Mothers even *haitao* for quality

products," said Wang, referring to the Chinese term for domestic consumers shopping overseas or paying third parties to buy products and ship them to China. Cross-border shopping is an important component for mother-infant e-commerce platforms.

The Nielsen report showed that over half of the surveyed mothers make purchases on overseas sites as foreign products are thought to be of better quality.

According to Wang, millions of users visit Babytree every day to check for mother-infant products, learn and exchange pregnancy or child-care experience, and document their children's growth, making it one of the best-known websites for Chinese mothers online. The company also announced monthly revenue of tens of millions of dollars since 2016.

"All consumers are more likely to trust experienced big brands," said Wang.

Babytree adopts a strategy of community-based e-commerce to analyze what is being discussed in its online forum, to recommend suitable products from its e-commerce platform, and even to develop goods in response to demand.

For example, in July 2017, noticing that mothers in its online community were concerned about possible allergies caused by baby tissues, Babytree partnered with a local paper company to create a product

using special weaving techniques instead of potentially harmful preservatives.

"This product was greatly welcomed (by our users)," said Wang, who believes that catering to consumers' needs can achieve good results.

Bali from Nielsen said that demand for a better quality of life will be a strong industry trend. This will see brands putting more emphasis on health, safety, convenience and innovation, he added.

Wang said that "new retail" online and offline integration will develop to help brands and companies answer this demand.

"Users can gain knowledge and communicate with others while enjoying personalized shopping recommendations supported by big data analysis. On the other hand, offline (stores) can provide experience-oriented and scenario-based membership shopping services," said Wang. "Just like Amazon Go and Apple Stores."

While companies expect more growth to stem from the second-child policy, Bali stressed that the potential demographic dividend would present a major challenge for the mother-infant industry.

"Despite the boost from the second-child policy, changes in people's lifestyles caused by increasing living expenses may lead to a lower birth rate, which means a possible downturn for the industry."