



Are the Major Dairy Exporters to China Overlooking a Key Feature of the Market?



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Quick read

- The vast majority of the Chinese population are lactose intolerant with little evidence that exporters have tapped into this important dietary need
- Despite that fact, the country is viewed globally as a major opportunity market for dairy products as illustrated in the chart below.
- The demand for dairy is increasing due to increasing incomes, more westernised diets and perception of dairy's place in a healthy diet
- Key opportunities will emerge from Increasing awareness surrounding the relationship between lactose intolerance and dairy consumption and the production of lactose-free products
- Increased motivation from foreign companies is needed to adapt their dairy products to the needs of the Chinese consumer, ultimately maximising their presence in this huge market

Introduction

The opportunity for exporters of dairy products to China is huge. However, the vast majority of the population are lactose intolerant with little evidence that exporters have tapped into this important dietary need

A Paradox...

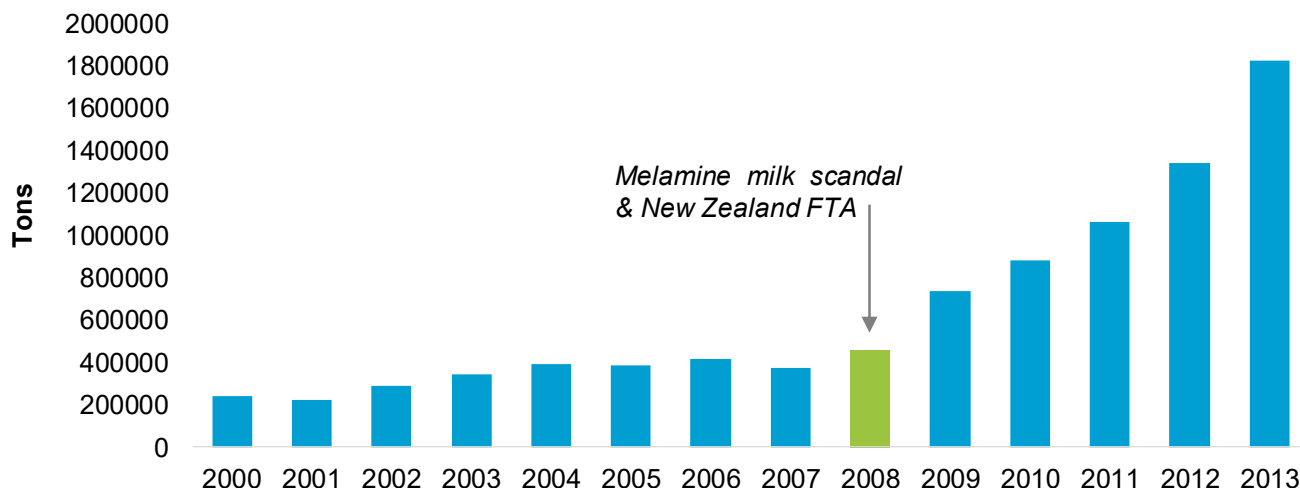
We are presented with a paradox of information in which the ability for many Chinese people to digest dairy appears to be limited, with approximately 92% of the adult population suffering from lactose intolerance. However, the country is viewed globally as a major opportunity market for dairy products as illustrated in the chart below.

Lactose intolerance is an enzyme deficiency in the small intestine, which hinders the body's ability to digest lactose. The prevalence of the condition increases with age, with about 12% of children between 3 and 5 years old affected, and about 33% of children between 7 and 8 years affected.

The fundamental drivers of an ever-increasing demand for dairy in China include:

- Increasing per capita income and population
- Westernising diets
- Growing perception and promotion of dairy as a healthy inclusion in the diet

Figure 1 Dairy Product Imports to China (2000 - 2013)



Source: USDA



Innovation Opportunity...

Capitalising on a relatively untapped market may require some adaptation and innovation.

Taking the following points into consideration, it is fair to assume that there is significant scope for further demand increases for imported dairy in China:

- The population of China is huge at about 1.4 billion people
- The rate of dairy consumption in urban areas is approximately 4 times that of rural dwellers
- Faith in domestically produced dairy is volatile following a series of food safety scandals

Assuming that the rural population tends to adhere to a more traditional diet - which largely does not include dairy products compared to their urban counterparts, capitalising on this relatively untapped market may require some adaptation and innovation.

Our research shows that some key opportunities will include:

1. Increasing awareness surrounding the relationship between lactose intolerance and dairy consumption:

Many sufferers from lactose indigestion are under a misconception that they cannot consume dairy without definite subsequent symptoms. However, this is not the case and with careful management dairy can be included in the diet without any repercussions.

2. Production of lactose-free dairy products:

Imported dairy is widely perceived as being of a higher quality than domestically produced equivalents, yet the lactose free market is currently being served almost exclusively by local produce. There is a niche opportunity available for exporting companies to carve a competitive position in the lactose free market in China.

Finnish dairy giant 'Valio' comprehensively recognises the prevalence of lactose intolerance in China and have actively sought out ways to adapt their products in dealing with this issue. In 2016, the company became a pioneer for the provision of lactose free milk powder in China – a progressive step towards maximising their reach in the country.

3. a2 milk production:

The a2 Milk Company of New Zealand very much operate in a niche market in their production of milk that lacks a form of β -casein proteins called A1 and instead has the A2 form. The company, which is present in China, Australia, Singapore, the U.K and mostly recently the U.S, recognises the ability of their product to reduce gastrointestinal symptoms consistent with lactose intolerance. The production of a2 milk involves the use of cows who naturally produce milk containing only the a2 protein (rather than cows who produce both a2 and a1 proteins). The product has been proven to eliminate the symptoms of lactose intolerance following milk consumption, suggesting an intolerance to the a1 protein rather than a deficiency in the lactase deficiency.

Going Forward...

The future of the Chinese dairy market is bright from the perspective of export opportunities to the country. However, there is "an elephant in the room" in that the majority of the population is supposedly intolerant to lactose. We believe more research needs to be undertaken to identify the impact this may have on dairy exports to China. Similarly, increased motivation from foreign companies is needed to adapt their dairy products to the needs of the Chinese consumer, ultimately maximising their presence in this huge market.



Conclusion

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