Dr Benjamin Punchard of Euromonitor International examines how the Chinese boom has resulted in a move away from traditional unbranded goods, to Western-style consumer markets, which can only be good news for the packaging and converting industry.

CHINA'S PACKAGING REVOLUTION

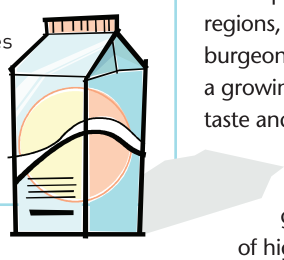
China represents the world's largest packaging market, fuelled by its population and a dynamic, fast-growing economy. Euromonitor International's research shows that total unit packaging consumption has risen 47 per cent since 1998 to reach a staggering 704 billion units in 2005, over 200 billion units more than the world's second biggest market, the US.

Consumer demand for FMCG products has grown as Chinese consumers find themselves with increasing disposable income and access to an improving retail environment. As China's economy develops, Chinese consumers are increasingly turning to packaged goods, which offer convenience, quality, aesthetics and lifestyle branding.

In order to maintain China's booming economy and to fuel future growth, Chinese consumers are increasingly encouraged to shift towards more consumption-led lifestyles. Development, particularly in the coastal regions, has seen the emergence of a burgeoning middle class, which places a growing importance on matters of taste and appearance. This increasing consumer sophistication is satisfied in part by packaged goods, which offer the promise of higher quality as well as status. Well-known Western brand names or branding that uses Western influences have been particularly well received, as consumers aim to emulate Western lifestyles, which have long been viewed as 'aspirational'. These influences have greatly benefited the packaging market, as consumers are trading up from unpackaged goods, a traditional and large market in China, to branded and packaged alternatives. Growth in the Chinese packaging market is therefore largely consumption-led, as opposed to packaging-led.

EAT UP!

Food is one of the biggest drivers of the Chinese packaging market, with milk topping the liquid carton market and snacks, such as noodles and preserved meat, driving production in flexible packaging.



RETAIL ENVIRONMENT

Modern Chinese consumers are making more purchases in supermarkets, to the cost of traditional wet markets and independent food stores. For example, Euromonitor International's research shows that the amount (in value terms) of packaged food purchased from supermarkets grew from 31 per cent in 1998 to 52 per cent in 2005.

Despite this significant growth, the retail sector in China is still highly fragmented and underdeveloped. Modern retailing formats, which favour packaged goods, are still very much limited to cities, particularly in the developed coastal regions. However, as increasing the pace of urbanisation is one of the government's key policies (in order to maintain the growth in consumption), modern retailing formats will continue to provide strong growth for packaging.

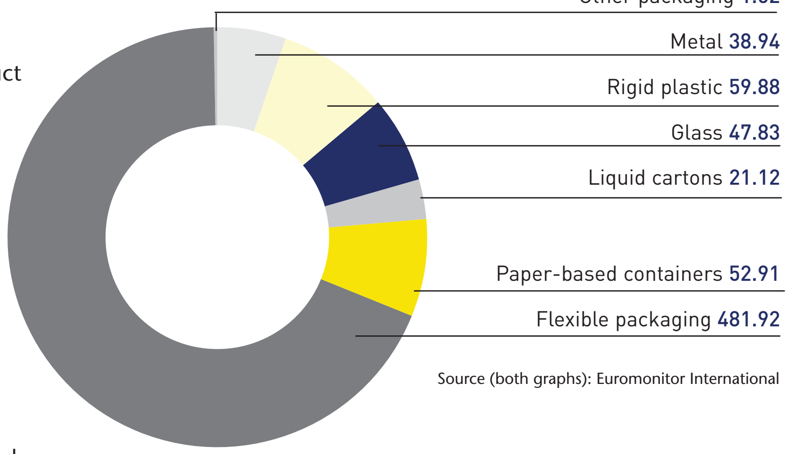
FLEXIBLE PLASTIC FAVOURED

Unsurprisingly, and following the global trend, flexible packaging holds the dominant position within the Chinese market. As well as being present in high-volume categories such as packaged bakery products and staples such as noodles, this pack type has benefited from a number of local products that favour flexible plastic. The most dynamic of these, according to Euromonitor's research, is preserved meat products, which, thanks to the popularity of Huo Tui Chang (air-tight-sealed ham sausage), saw flexible plastic unit volumes rise from 61 billion units in 1998 to 91 billion units in 2005 in this sector alone.

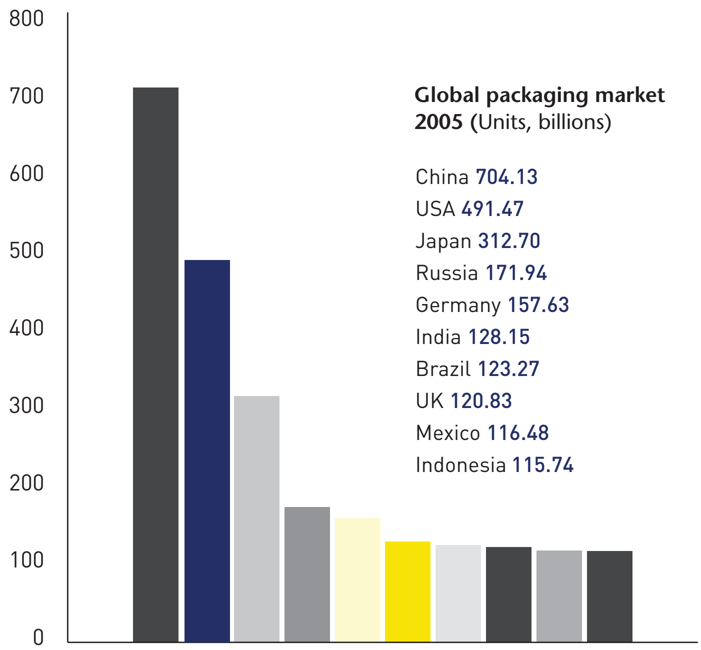
Flexible plastic also benefits from use as secondary packaging, most notably in tobacco, where flexible plastic accounted for nearly 90 billion units. Flexible aluminium/paper also benefits from this large and growing tobacco market, bucking the trend of numerous other countries where smoking is declining.

An additional trend that impacts on flexible packaging is the growth, concentrated in the more affluent urban regions, of indulgence foods such as confectionery, impulse

FMCG packaging market in China, 2005
(Packaging units, billions)



Source (both graphs): Euromonitor International



ice cream and sweet and savoury snacks. These product types have gained popularity among consumers, buying for self-indulgence as well as for gifts for friends and families.

READY MEALS

Increasing urbanisation means that more people are leading ever-busier lifestyles, with less time spent on cooking. Whereas in the West this trend has catalysed the growth of ready meals, the ready meals sector in China is still at a developing stage, owing to local established dieting habits and a lower purchasing power. The only exception is in canned ready meals, which mainly consists of mixed congee, a canned substitute for local traditional congee, which has been long favoured by the Chinese. Thanks to this product, metal food cans registered 71 per cent unit growth in the 1998 to 2005 period. Sales of other ready meals such as frozen ready meals, dried ready meals, chilled ready meals and prepared salads, despite having achieved some presence in big cities, remain negligible.

PACKAGING SIZE

Pack size has become increasingly important in the Chinese packaged food market, initiated by changes in household size and consumption occasions. For instance, when consumers purchase ham or sausage, it may not be for consumption in one single meal, but consumed at breakfast or eaten as a snack, a few pieces at a time.

TETRA PAK DOUBLES CHINESE PRESENCE

In August 2006, carton manufacturer Tetra Pak announced it would meet growing demand in the Chinese dairy market through doubling production at its Beijing plant. A €30m investment will see annual factory capacity increase from eight billion to sixteen billion packages.

Announcing the company's expansion plans, Tetra Pak CEO Dennis Jönsson said: 'The Chinese dairy market has witnessed an average growth rate of 26 per cent from 1993 to 2004. We believe that it will continue to grow at an average rate of around 15 per cent for the next five years.'

Since arriving in 1972, the Swedish firm has invested CNY2bn in China and boasts a majority share in the country's aseptic beverage market.

DAIRY GROWS LIQUID CARTONS

Liquid cartons have been the most dynamic pack type in China, benefiting from usage in high growth categories such as Asian speciality drinks, fruit/vegetable juice and RTD tea. The most significant growth, however, has been in dairy products, partly due to efforts by the Chinese Government to promote dairy products as healthier foods, and to deal with a calcium deficiency in Chinese cuisine, which has created a high occurrence of osteoporosis in the population.

Due to the absence of refrigerators in Chinese homes, and chiller cabinets in retail outlets, the UHT milk sector, where liquid cartons are the dominant pack type, has been a major beneficiary. Significant investment is taking place among liquid carton suppliers in China in recognition of the potential of the market, and in order to tap into high demand for fruit/vegetable juice and Asian speciality drinks.

GROWTH EXPECTED TO CONTINUE

Euromonitor International forecasts strong growth for the packaged food and soft drinks markets in China, and all packaging types are anticipated to benefit greatly from the fast pace of economic growth. Flexible plastic is forecast to continue to dominate, thanks to its relatively low cost and versatility in terms of its adaptability for use in a wide variety of categories in both food and non-food.

Key to the growth of packaged goods is the development of the retail environment, and this is expected to strengthen, albeit slowly, with development in rural areas bringing packaged goods to a wider market. Rising disposable incomes and the continued Westernisation of consumer lifestyles will continue to fuel demand for higher quality branded packaged products, at the expense of unpackaged products. **pci**