Navigating Cycles Activating Growth

2024 China Dairy Industry Thoughts Leadership

Data Period: Updated to 2412 Round

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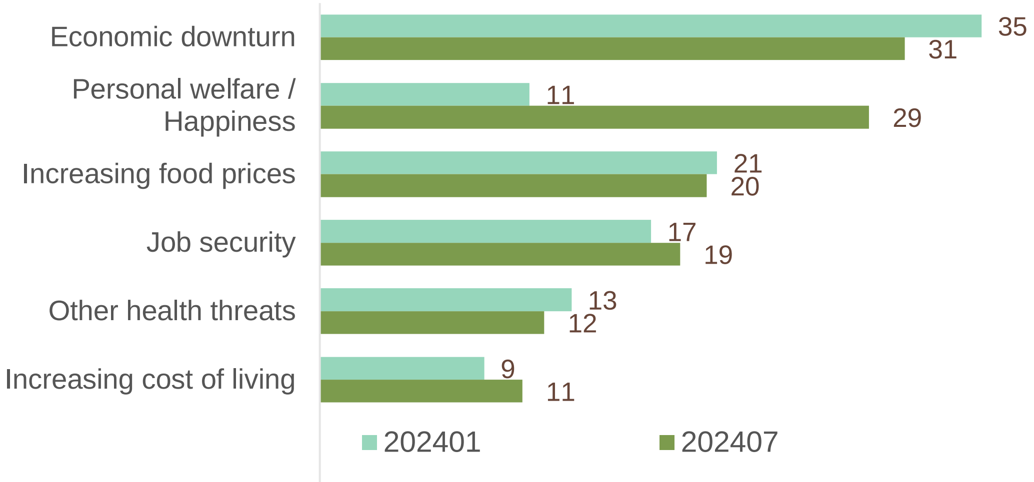
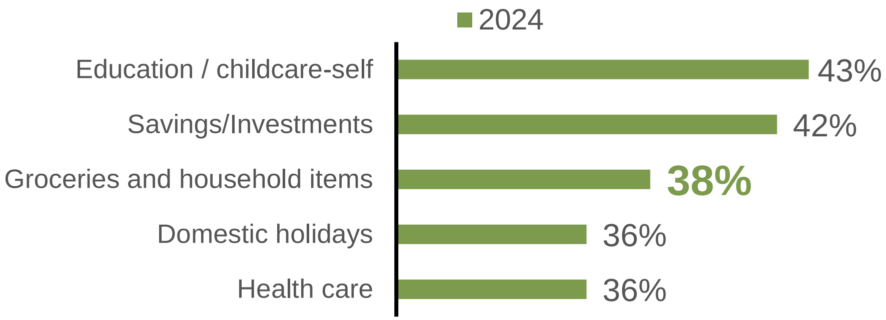
Chinese consumers keep cautious in spending, and make more purposeful consumption

The economic situation of consumers has improved. Consumers adjust their consumption willingness around the concept of family happiness, control their consumption basket, and tend to focus on the family consumption on essential/health/indulgent products

What consumers top concerns

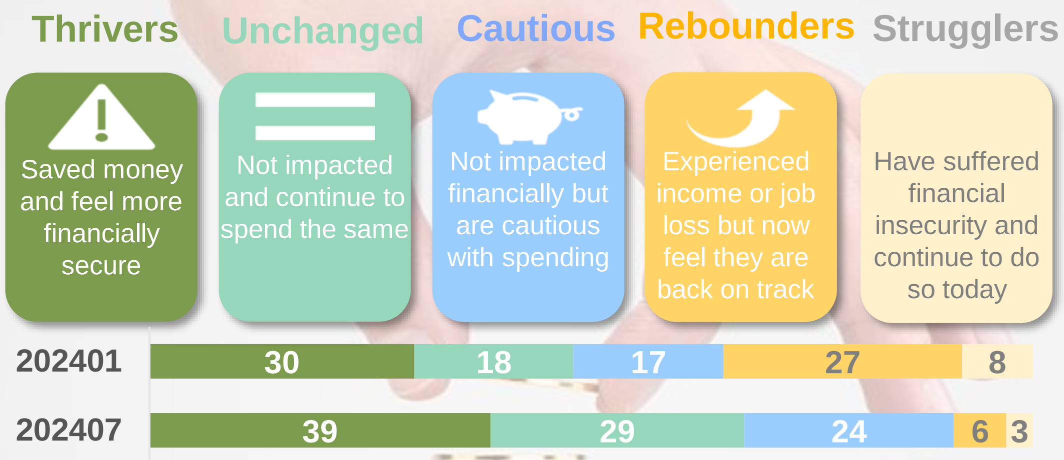


Where consumers spending more



Consumer economic divide

Overall household financial situation



▼ **Seeking additional income streams**

72%

Chinese consumers are **actively seeking additional income streams**

>> vs. Asia Pacific **69%**
>> vs. Global **64%**

▼ **Strict expenditure control**

47%

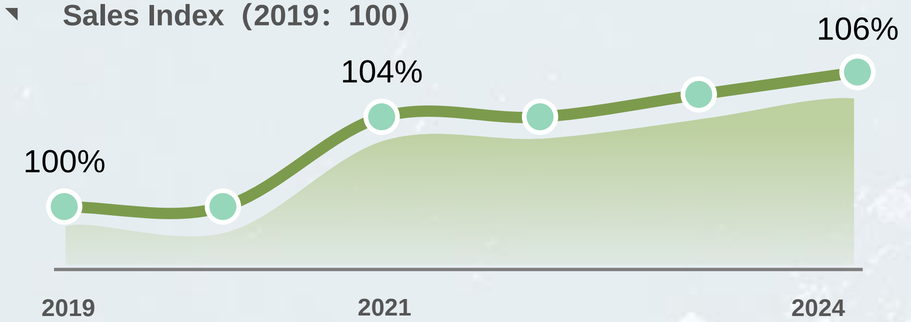
Avoid waste, only buying what will be used

vs. **+7%**, 202401

FMCG market shows resilience and steady growth, dairy industry faces growth challenges

FMCG Omni Channel Volume Change%

Sales Index（2019：100）



Spending intentions for the next 12 months

	China	vs. APAC
Health& Wellness	41	32
Dairy	39	28
House essentials (e.g. Cleaning, Paper, Storage, Outdoor products, etc.)	27	24
Personal and Beauty Care	23	23
Beverages (excl. Alcohol)	21	21
Snacks & Confectionery	18	21
Alcohol beverages	16	15
Prepared food & Meal Kits	13	20
Baby Products	13	16
Frozen Foods	13	18
Pet Products	11	15

Omni Channel Volume Change by Industry Y2024/Y2023

Sales Index（2019：100）

Beverage	122 / 113
Liquor	102 / 96
Snacks	138 / 126
Staple Food	91 / 88
Personal Care	138 / 126
Household Cleaning	112 / 105
Dairy	97 / 97
Baby	86 / 86

*snack discount store included

Data Sources：NIQ RMS Data 2412R，NIQ Consumer Research

China's dairy industry: market size remains at a high level, and entered an adjustment period

1997-2007 Golden decade

Economic boom & demographic dividends fueled China's dairy golden decade

Golden decade - 1997

UHT sterilization and **Tetra Pak packaging** disrupted cold-chain barriers, unlocking ambient milk production.

Golden decade - 2001

Post-**WTO** accession, government incentives and FDI attraction drove dairy player count from 377 to 736, achieving 10% CAGR.

Golden decade - 2005

2007 dairy sector gross output value surpassed *130 billion*.

In 2005, Mengniu partnered with "Super Girl" to launch its **yogurt drink** and premium milk brand **Telunsu**, cementing the "Big Two" dairy rivalry.

2008-2014 Quality Upgrade Period

Quality Upgrade Period - 2008

2008 melamine incidenr: A pivotal industry inflection point that shifted focus to product quality & safety. (Same year, Yili became Beijing Olympics sponsor.)

Quality Upgrade Period - 2010

2010 dairy sector gross output value exceeded *200 billion*

The dairy industry recovered from the melamine incident, Consumer trust in domestic dairy rebounded. Both Mengniu and Yili entering the "Global Dairy Top 20" that year.

2015-2019 Boom Cycle

Boom Cycle - 2015

2015 industry integration: Shift from volume growth to full-supply-chain integration, category diversification, and accelerated globalization. Post-2015, dairy players decreased from 800+ to 500, driving rising market concentration.

Boom Cycle - 2019

2019 dairy industry output reached *400 billion*

Low tier markets and e-commerce boom fueled dairy sales surge, shaping a "two superpowers and multiple strong players" landscape.

Both Yili and Mengniu ranked Top 10 in the 2019 Global Dairy Top 20.

2020-Post-Pandemic Recovery

Post-Pandemic Recovery – 2020-2021

Impact of the Pandemic in 2020: "The dairy industry initially suffered a setback due to the pandemic, but as COVID-19 heightened consumer focus on health foods, the sector quickly recovered and achieved counter-cyclical growth."

Post-Pandemic Recovery – 2022-2024

The total output value of the dairy industry is expected to reach *600 billion*.

The dairy sector supply-demand imbalance, with sustained growth in raw milk supply triggering steep price declines. The industry urgently requires production capacity optimization to alleviate oversupply pressures. The revised National Standard for Sterilized Milk, enacted in October 2024.

NIQ Data Sources：National Bureau of Statistics，Desk Research

Current supply-demand imbalances in China's dairy market require near-term resolution

Supply

Optimize dairy industry's geographic footprint and product portfolio mix to accelerate **high-quality development of the dairy industry**

- Short-term capacity reduction
- National Sterilized milk standards
- Portfolio optimization
- Production process innovation
- Quality compliance & standardization

Demand

Three-dimensional Strategy: Drinkable & Edible Dairy Product Development、Multi-scenario Consumption、B2C & B2B Hybrid Channels

- Demand Diversification
- Perception change
- Consumption scenarios expansion

"Drink" vs "Eat"

China's dairy industry needs to think about how to grab Chinese consumers' stomachs

Data Sources：Desk Research

In 2024, the phenomenon of “trading price for volume” occurred in China’s dairy market

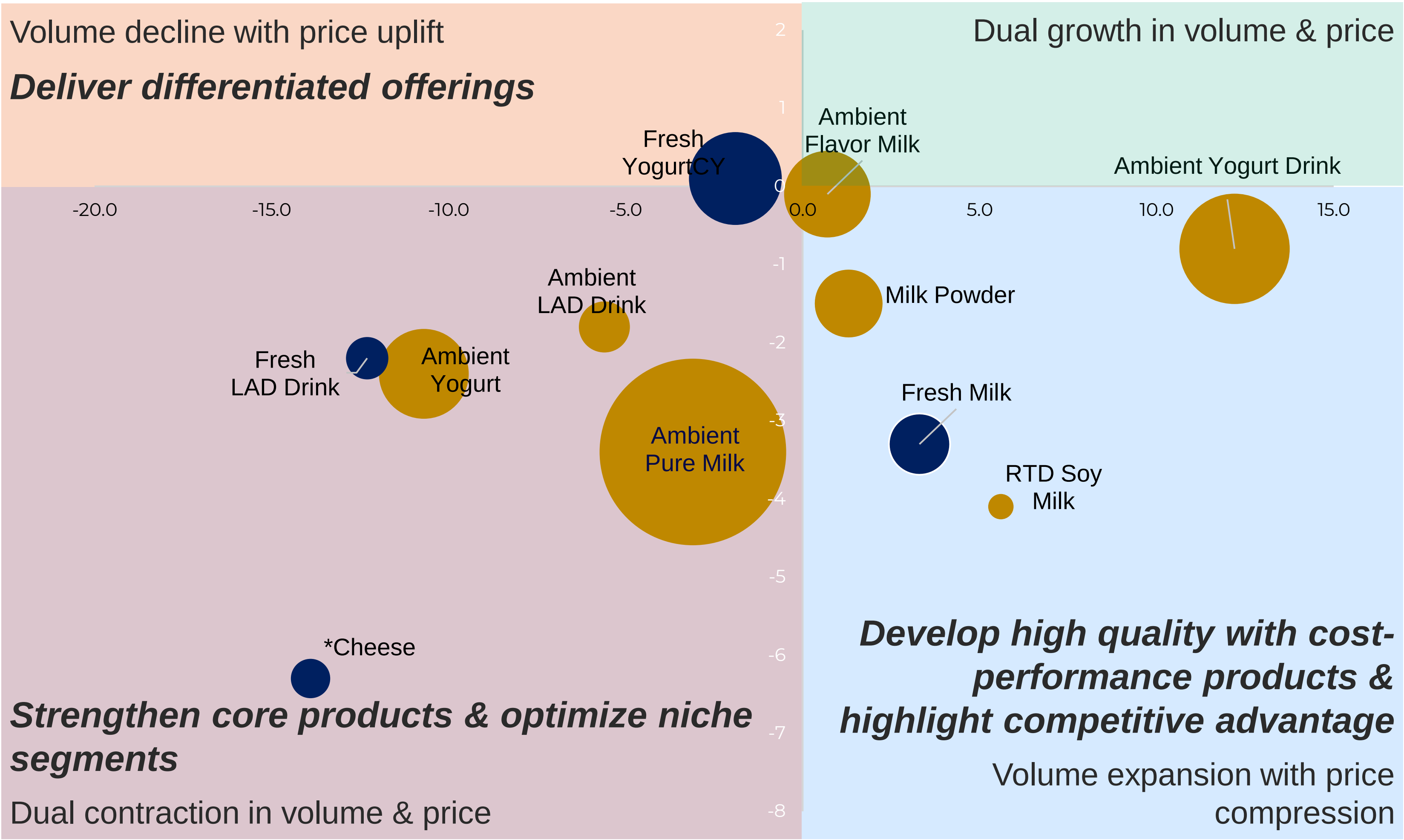
Dairy Industry value & volume growth rate% by Channel | 2021 - 2024

Data Sources：NIQ RMS Data 2412R。Dairy Includes: Liquid Milk （Omni）、Yogurt/Yogurt Drink/LAD Drink（Omni）、Milk Powder（Omni）、RTD Soy Milk（Omni）、Soy Milk Powder （Offline）、Cheese（Online）

In 2024, price sensitivity has intensified across dairy product categories, and it is imminent to stimulate consumer demand in response to the situation

Dairy Omni Channel (Offline+ B2C +TikTok) Category Value & Volume & Price GR. % 2024

X：Volume GR. % ; Y：Price GR. %



*Cheese non-covered TikTok

FRESH PRODUCT Ambient PRODUCT

Data Sources：NIQ RMS Data 2412R

More fragmented channels, with content Ecom and Snack store/Membership sore drive the growth

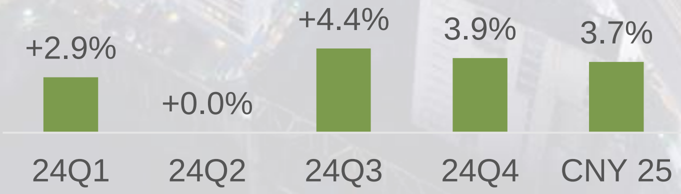
China FMCG Omni View

+2.8%

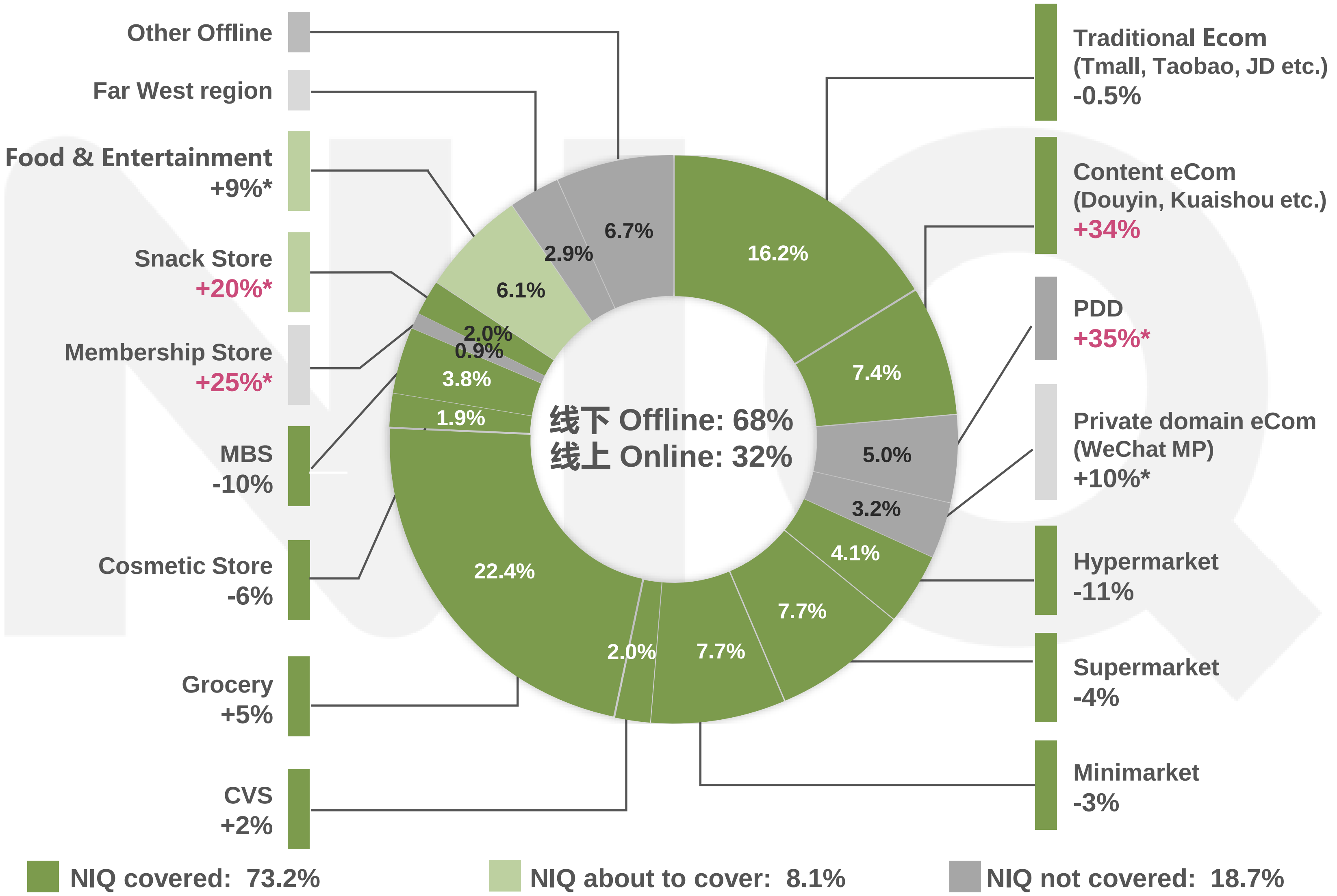
2024 China FMCG
Omni channel growth rate vs. YA

- Online：+10.2%
- Offline：-1.3%

2024 GR% by Quarter



FMCG Omni Channel Value Imp% and Growth Rate | FY2024 vs. FY2023

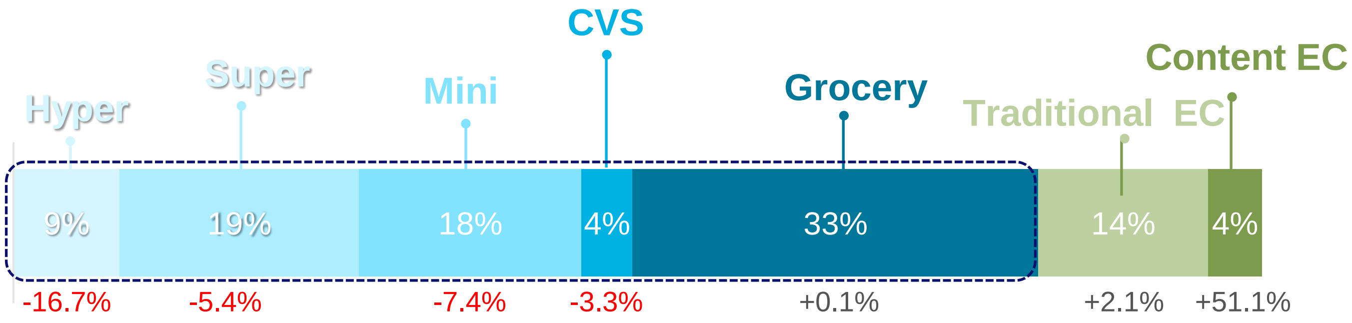


Data Sources：NIQ RMS Data 2412R

Different channels are seeking to break through the boundaries for growth

In the large number of groceries Dairy still maintain a slight growth in sales

Dairy | By channel | Channel Imp & Sales GR% | Y2024



Store number Chg% & Store number

Hyper
-7%
(2400+)

Mini
+5%
(410K+)

Grocery
+1%
(5M+)

Super
+1%
(40K+)

CVS
+4%
(110K+)

▼ Large format: cost reduction and efficiency improvement, differentiated experience

Hyper: upgrading store layout, emphasizing product selection guarantee
Membership store: targeting segmented customer groups, high-quality single product guarantee

▼ Small format: Ensure competitiveness with high turnover rate

Mini: near home, providing daily supplies to replenish stocks
CVS: long-time supply, to meet emergency purchases
Grocery: a small store at the doorstep, instant shopping, consumption in hand

▼ Traditional EC and discount stores: Tap the potential of existing stock.

Ultimate cost-effectiveness, shopping experience, creation of blockbuster products

▼ Content EC

Full-link integration from content marketing to purchase conversion

Data Sources：NIQ RMS Data 2412R，NIQ RMS Census 24 UU2

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More people consume

Focusing on the large lactose intolerant population and potential overseas markets to expand the dairy consumer base

Consume more times

Enrich product types, optimize consumption structure, and develop dairy products that meet more consumer needs and scenarios. Let consumers not only “drink milk”, but also “eat milk”.

Spend more each time

Both the government and the industry are promoting the increased use of raw milk to improve dairy quality and consumption. Big packs is also a way to increase single-time consumption volume

Consume more expensive products

To achieve sales growth through upgraded products that satisfy both the physical and spiritual needs of consumers. For example, products with better quality and functions; products that resonate with consumers, provide them with emotional value, and satisfy the “emotion-to-price ratio”.

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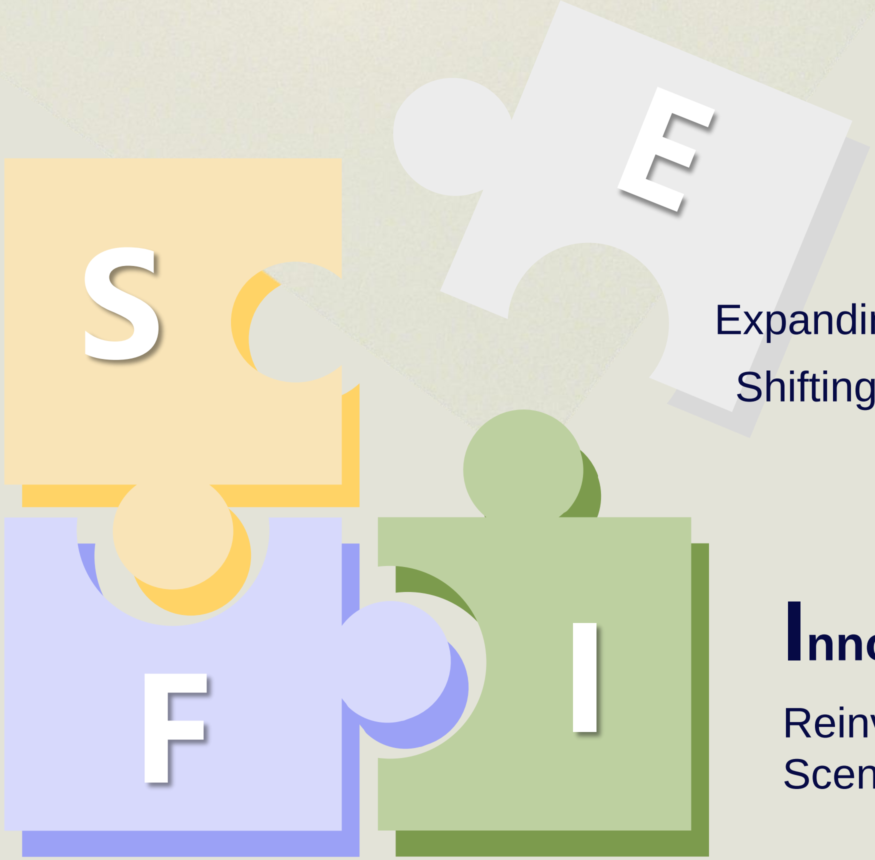
Inspirations from the Resilient Growth of Small Manufacturers

Penetrating the Dairy Oligopoly: How Small Manufacturers Triumph

Specialization

Concentrate on Product Vertical

Construct Core Competitive Ramparts



Expansion

Expanding from regional to national

Shifting from Spots to Ecosystems

Fast

Exploit Local Strengths for Rapid-Transit Freshness

Innovation

Reinvent Strategies via Product, Scenario or Marketing Innovation

Classy Kiss

卡士 CLASSY·KISS

National Omni | Value GR. %

+5.0%

National Omni | +/- Value Share

+0.1pt

*100% Share=Liquid Dairy

+0.4pt

*100% Share=Fresh Yogurt

Product lines | Number of Sub-brands

8 → 12

Price Index | vs 2024 Fresh Yogurt

186

*100% Share=Liquid Dairy

Consume more expensive products,
Consume more times, More people consume

Decomposition of the Growth Engines

——*What Contributed to Success？*

Specialization & Innovation

Focusing on the track：

Continuously enrich product lines and innovate bacterial strains.

Specialization & Expansion

Multifaceted Expansion:

From local to national presence,

from B2C to B2B.

Consume more expensive products
More people consume

Haihe

National Omni | Value GR. %

+8.8%

National Omni | +/- Value Share

+0.04

Ecom channel (TikTok) | GR. %

+32.7%

Expand area | GR. %, +/- Value Share

Shandong **+16.8%, +0.1**

Zhejiang **+57.6%, +0.2**

Beijing **+5.6%, +0.2**

Decomposition of the Growth Engines

——*What Contributed to Success?*

Fast & Innovation

Taste Revolution:

Pioneering Novelty in the Flavored Milk with Localized Taste Innovations. Create the brand impression that "Flavored Milk is Haihe"。

Specialization & Innovation

Channel Precision:

Cementing Cultural Roots in Home Markets, Expanding to Neighboring Provinces & E-commerce.

*100% Share=Liquid Dairy

Growth Principles for Small Manufacturers

Maintain Core Strengths

Replicable Success

Learning**1**: Classy Kiss
「Specialization + Fast」
Through "minor innovations + rapid IP deployment," establish temporary market moats in niche segments.

Learning**2**: Haihe
「Innovation + Fast」
Beyond giants' standardized products, create demand through "localization + quirky features".

How to Counter the Invasion of Large Manufacturers?

- **Focus on What Giants Neglect:** Deeply Cultivate Long-Tail Demands Requiring Rapid Response and Low Scale Efficiency.
- **Patent Guerrilla Warfare:** Adopt "Small-Step, Fast-Moving" Patent Filing for Key Innovations to Delay Giants' Replication Speed.
- **Precision Positioning in Consumer Perception:** Bind Brands to Categories through Regional Category Education (e.g., Haihe = Flavored Milk) to Resist Giants' Invasion.

Deepen Market Penetration

Hard-to-Replicate Success

Core Barrier**1**: Huishan
「Specialization + Innovation」
Local supply chain control and cost advantages formed through long-term dedication to the local market.

Core Barrier**2**: Jule
「Specialization + Fast」
The "time compounding" of user emotional connections.

How to Strengthen Advantages and Maximize Revenue?

- **Leverage Geographical Advantages:** Transform Local Resources into Precision Elements (e.g., Regional Logistics, Dialect Marketing).
- **Bind Generational Memories:** Strengthen Emotional Attachment through User Lifecycle Management.

Long-Term Sustainability

Breakthrough Attempts

Breakthrough**1**: Classy Kiss
「Expansion」
Use existing core capabilities as a springboard to enter adjacent markets.

Breakthrough**2**: Huishan
「Expansion」
Redefine product functional attributes, break through conventional dairy usage scenarios, and achieve omnichannel marketing coverage.

How to Break Through Regional Market Moats and Replicate Success?

- **Capability Migration Testing:** Extract Reusable Core Competencies from Core Business (Huishan Jersey Milk → Milk Powder).
- **Become Standard Setters:** Establish Norms in Sub-Niche Scenarios (e.g., Classy Kiss Collaborates with Coffee Shops to Launch Specialty Coffee Milk).
- **Peripheral Market Encirclement:** Prioritize Penetration into Giants' Blind Spots.

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Thank You