

## Rational trade up of toothpaste market

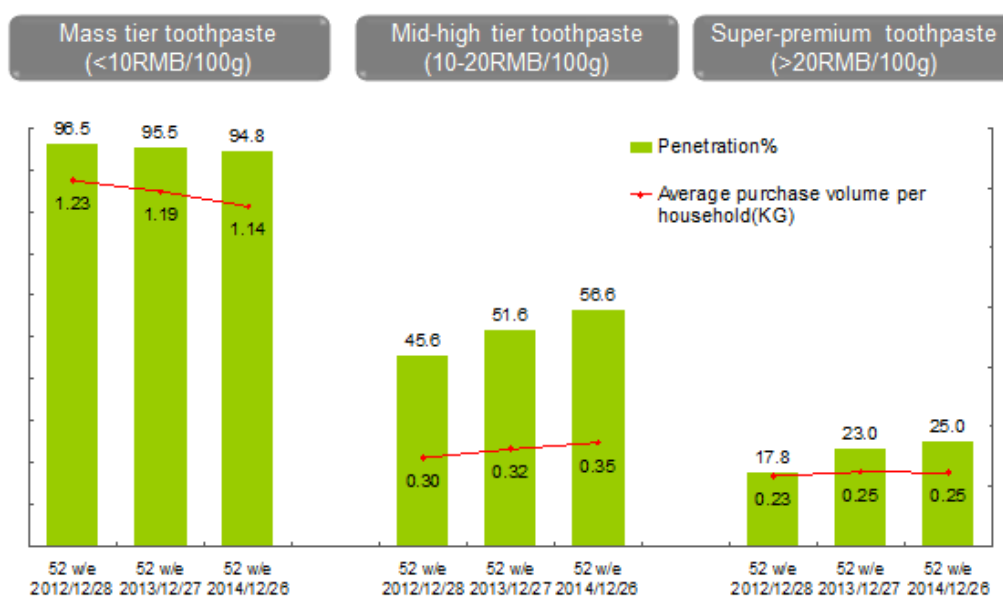
China FMCG market is slowing down; the growth rate drops from 13% in 2012's 5% in 2014. Despite this down turn, this new normal, some categories still show encouraging levels of growth. For the latest 52 weeks up to Dec 26<sup>th</sup>, 2014, Kantar Worldpanel reports 8% growth of the toothpaste market, primarily driven by consumers trading up. Understanding the rules that Chinese consumers follow when trading up provides useful lessons for us as Marketers. These rules are as follows;

### Consumers trade up step by step

Kantar Worldpanel finds that, the procedure of trading up is step by step, firstly from mass tier toothpaste (<10RMB/100g) to mid-high tier toothpaste (10-20RMB/100g), then to super-premium tier (>20RMB/100g). The study finds that consumers are purchasing less mass tier toothpaste, with penetration rate drops from 2012's 97% to 2014's 95%, and the average purchase volume per household also dropping from 1.23KG to 1.14KG (1.14KG roughly equals to 5-6 tubes of 200g toothpaste). Though mass tier toothpaste has declined, it remains the most widely purchased price tier with the highest consumption level. Thus, for those manufactures who own both mass tier and premium tier products, it's an opportunity, albeit a challenging one, to keep trading up consumers.

Nowadays, mid-high tier toothpaste consumer group is expanding. Mid-high tier toothpaste penetration grows from 2012's 45.6% to 2014's 56.6% while average purchased volume per household also grows. As a result, the sales of mid-high tier Toothpaste increased by 19.4% and became the key driver force of toothpaste market's growth.

### Consumers trade up step by step



Super premium toothpaste (>20RMB/100g) continues to attract new buyers. Kantar Worldpanel data shows that around 1/4 of the China urban households purchased super premium toothpaste in the past year, which is 7.3% higher than 2012. Despite this growth, super premium toothpaste is facing challenges in continuing to recruit new buyers. Increasing distribution beyond current levels is difficult while the high price remains a barrier for trial amongst those consumers not currently purchasing. However, Kantar Worldpanel observes some brands using specific SKUs (e.g. Sensodyne Freshmint) as an entry level product at a relatively lower price, successfully attracting new buyers and then trading them up to higher priced products. Another strategy is the offering of bundle packs to lower down the price aimed at attracting more budget-conscious consumers as well as enhancing consumers' loyalty.

#### **Added-value benefit focused while trading up**

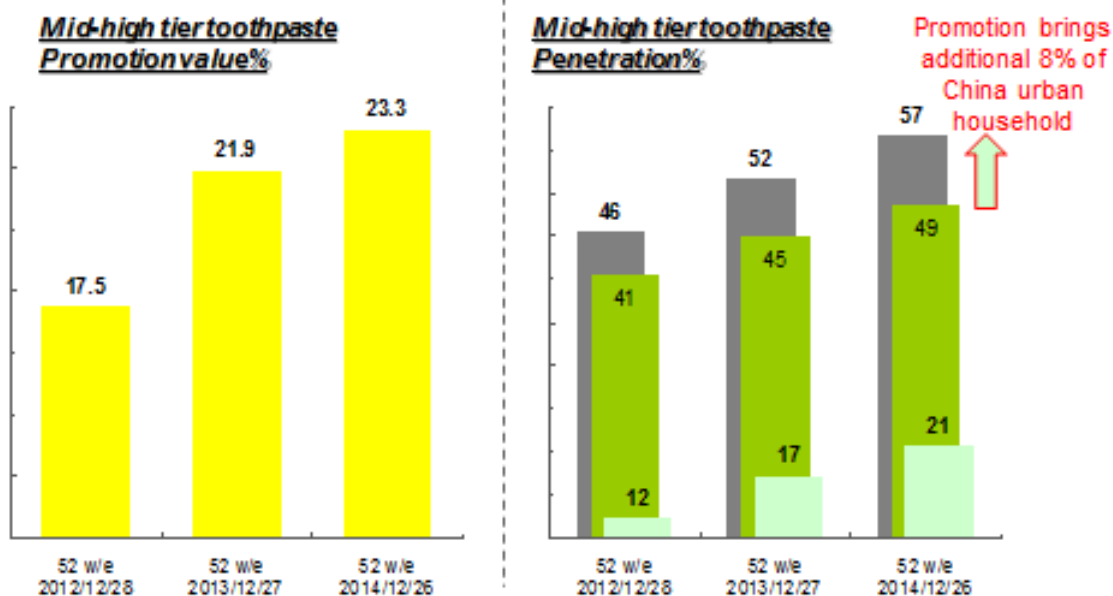
Nowadays, consumers' needs become more divers, with consumers becoming increasingly sophisticated. In toothpaste when consumers trade up, they focus more on added-value benefit products - so as to meet daily life's needs.

Kantar Worldpanel finds that, the new products which have added-value benefit have been particularly successful at attracting new consumers. For example, Colgate 360's added-value new product – 360 Professional Gum Care - contributes a lot to the brands fast growth. A year after it's launch, 360 Professional Gum Care recruits 2.3% of China urban households, which is more than double of an average new launch. Furthermore, 27% of them are Colgate's new buyer, higher than we would expect for similar launches. This finding is in line with Kantar Worldpanel's previous studies: premiumization couples with sophistication. The key for a brand's growth is to keep attracting new buyers which brings incremental sales.

#### **Seeking cost-effective products while trading up**

Along with the China economic slowdown, Chinese consumers are behaving in a more budget-conscious fashion. Even when trading up in toothpaste, value for money is an important consideration. Kantar Worldpanel finds that lots of consumers purchase mid-high tier and super-premium toothpaste while they're on promotion. In the past (2012), promotion accounted for 17% of the mid-high tier toothpaste sales. This number grows to 23% in 2014, which helps to bring an additional 8% of China urban household into mid-high tier toothpaste.

## Seeking cost-effective products while trading up -- Promotion



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Data source: Kantar Worldpanel

Through the integration of a mature online platform, payment system and logistics system, online sales have bloomed in recent years. Consumers now not only purchase books and clothes online, but also purchase FMCG products. Therefore, toothpaste has grown dramatically in online channel, with the growth rate reaching 55% in 2014. Many toothpaste manufacturers have sought to seize this opportunity and step in online market. Compared with brick-and-mortar stores, a same product's price is usually 15% lower at online channel with some of the toothpaste products' price even reaching a price 30-40% lower. Price positioning will become increasingly important as consumers continue to display an increasing sensitivity to price online.

From the development of toothpaste market, we can tell that consumers keep premiumizing while adhering to certain rules. Manufacturers should give a good reason for consumers to trade up, and maintain sustainable development by understanding the needs of Chinese consumers.