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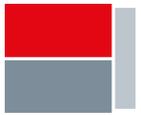
Canback

MANAGEMENT
CONSULTING
THROUGH
SCIENCE

**CHEESE IN CHINA: UNCOVERING
UNTAPPED MARKET POTENTIAL**
Case Example

June 2016

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EIU Canback is an elite management consulting firm anchored in science, predictive analytics, and consumer market knowledge.

We serve clients through five practices: Strategy, M&A Due Diligence, Growth, Operations, and Organizational Performance.

We operate globally with the world's largest companies as clients. This has taken us to 77 countries since our founding in 2004.

We also offer analytic services with the Canback Global Income Distribution Database (C-GIDD) as our cardinal product.

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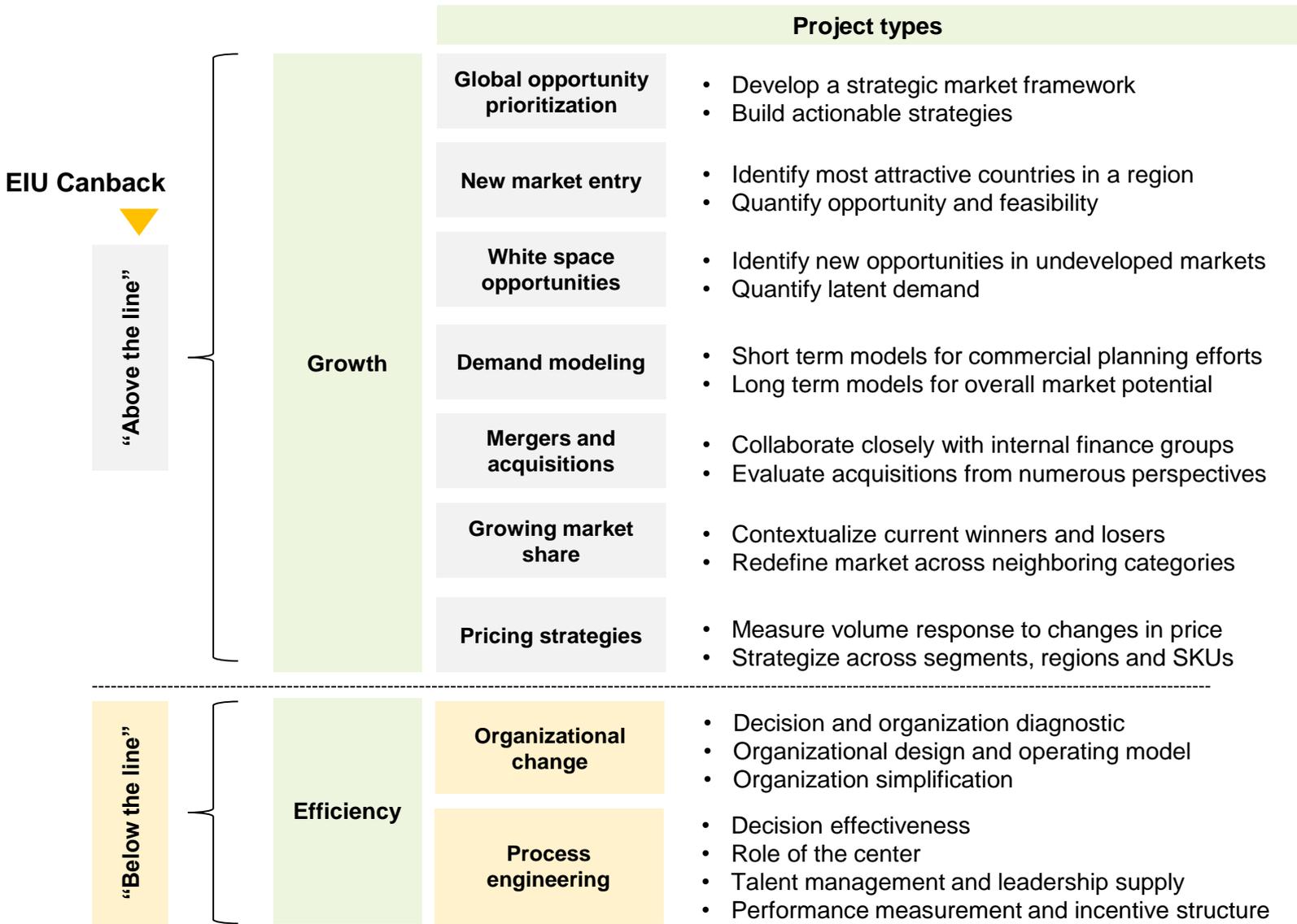
Introduction and project background

Approach and analysis

Recommendations and outcomes



EIU Canback’s consulting business is built on unlocking our client-partner’s growth potential, we consider ourselves to be growth engineers and focus primarily on the “above-the-line” projects



In 2005, Canback worked on a project to assess the opportunities for cheese in China. We estimated 30% annual growth over the next 10 years. Today (2016), actual growth since 2005 is almost exactly this and way above consensus estimates made in 2005



ORGANIZATION

The client is a public FMCG company with over \$30 billion in revenue. It is the largest US food company

OPPORTUNITY

Cheese demand has always been low in China, and the client wants to know if the country's interest in cheese will be large enough to be worthy of investment



KEY CONSIDERATIONS

- Perceptions that Chinese people do not like cheese
- Significant regional economic, demographic, and consumer preference differences
- There is an informal cheese market in Northern China with little available data



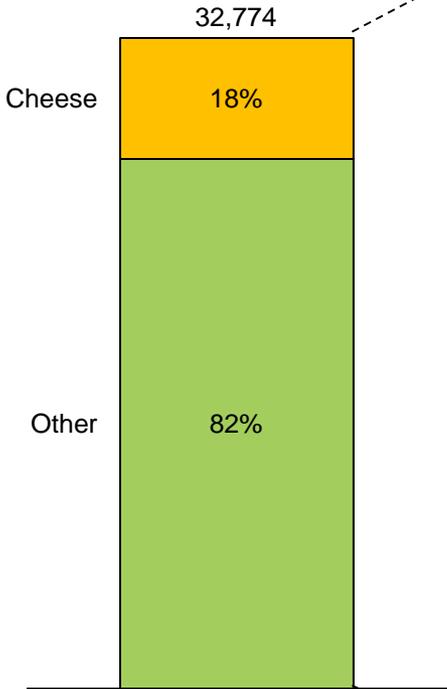
OUTCOME

Cheese in China is likely to grow around 30% per year from 2005 - 2015; there is significant opportunity for cheese products in the country

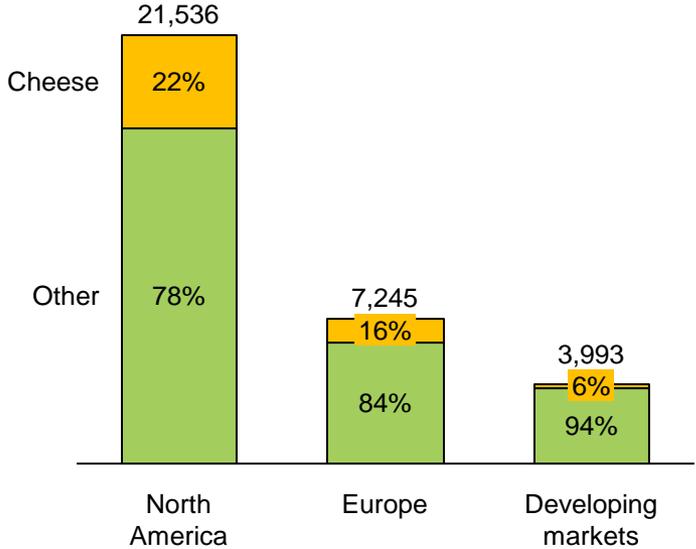


While cheese makes up nearly a fifth of Food Co's sales, the company has had limited success with cheese in emerging markets and wants to find where to grow cheese in these markets

FOOD CO REVENUE
Millions of dollars, 2005



FOOD CO REVENUE BY REGION
Millions of dollars, 2005





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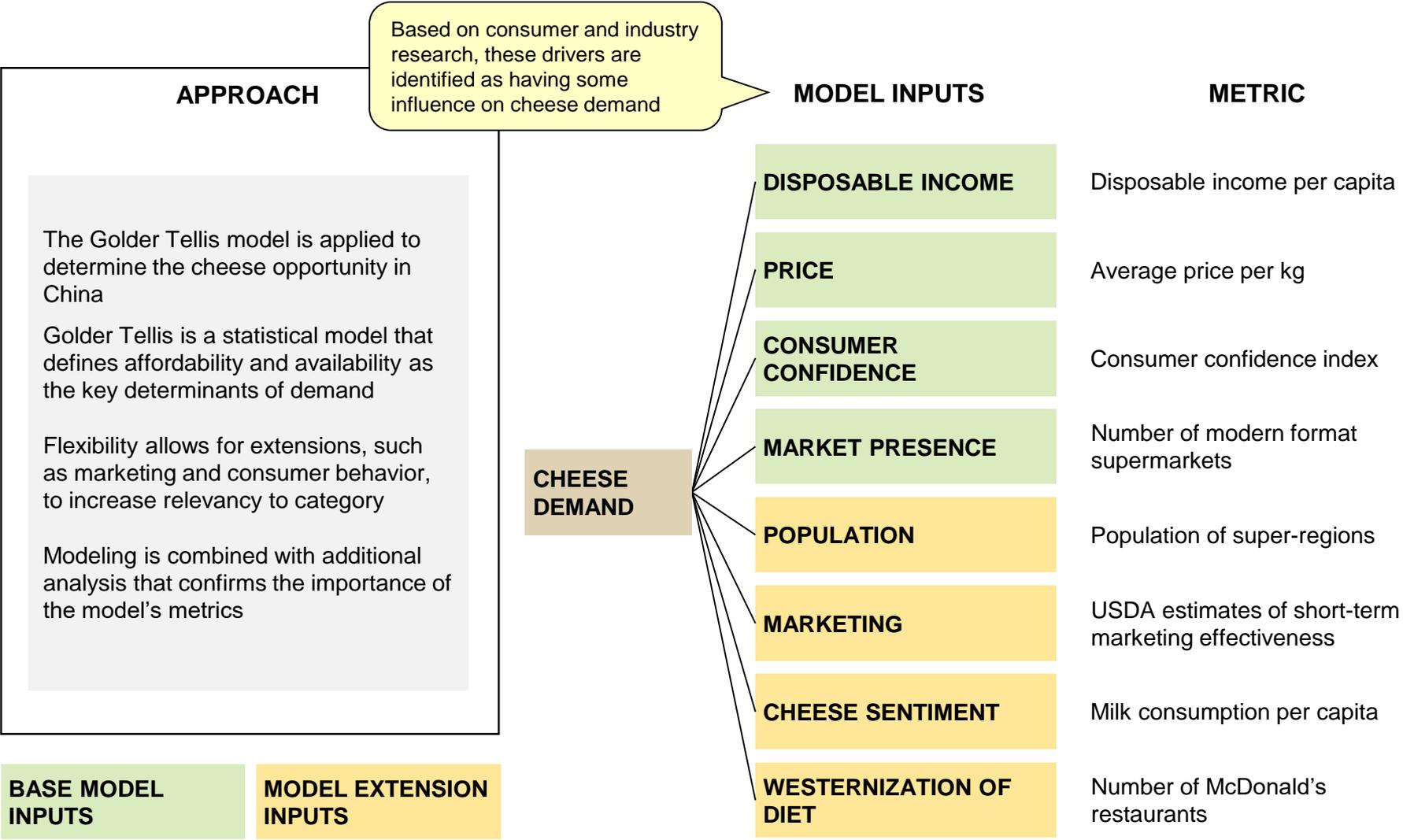
Canback began the effort by developing a holistic view of the cheese market in China. Canback did this by identifying and gaining a perspective on the key market drivers

TOPIC	AREAS OF FOCUS
Consumers	<ul style="list-style-type: none">• Studies of similar markets:<ul style="list-style-type: none">• Japan• Taiwan• South Korea• First-generation Chinese immigrants on the US west coast• Studies of similar categories (milk)• Canback-designed consumer surveys• Fieldwork interviews with consumers
Industry	<ul style="list-style-type: none">• Industry expert interviews• Production facility sizing
Macroeconomics	<ul style="list-style-type: none">• Macroeconomic research• Study of 2008 Olympics

A full understanding of the market and how it behaves is necessary before creating a model



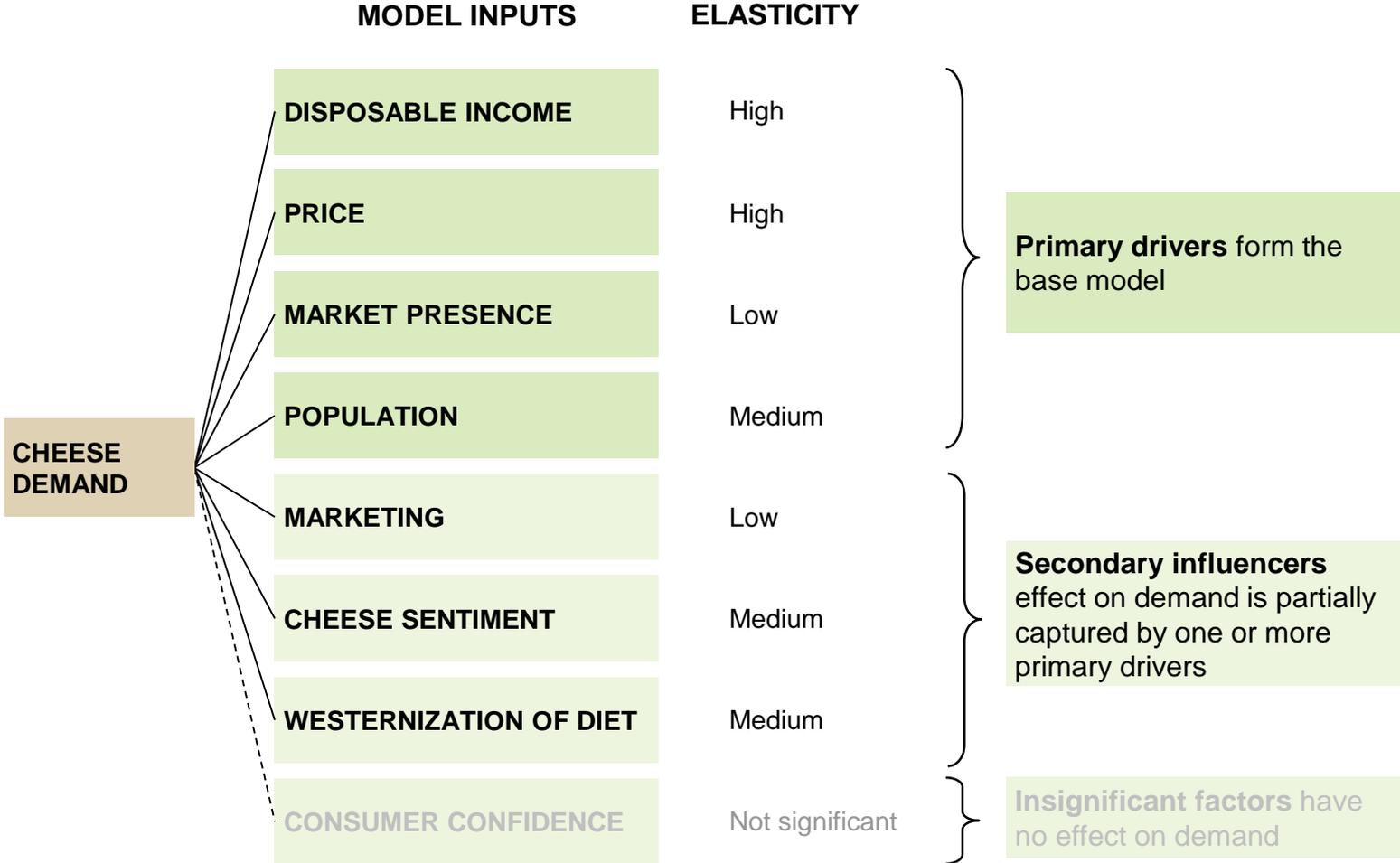
After studying the cheese market in China and recognizing the importance of affordability and availability, Canback chose to use the Golder Tellis model as the framework to size the market





Model inputs that are most related to cheese demand are incorporated into the forecasting for cheese

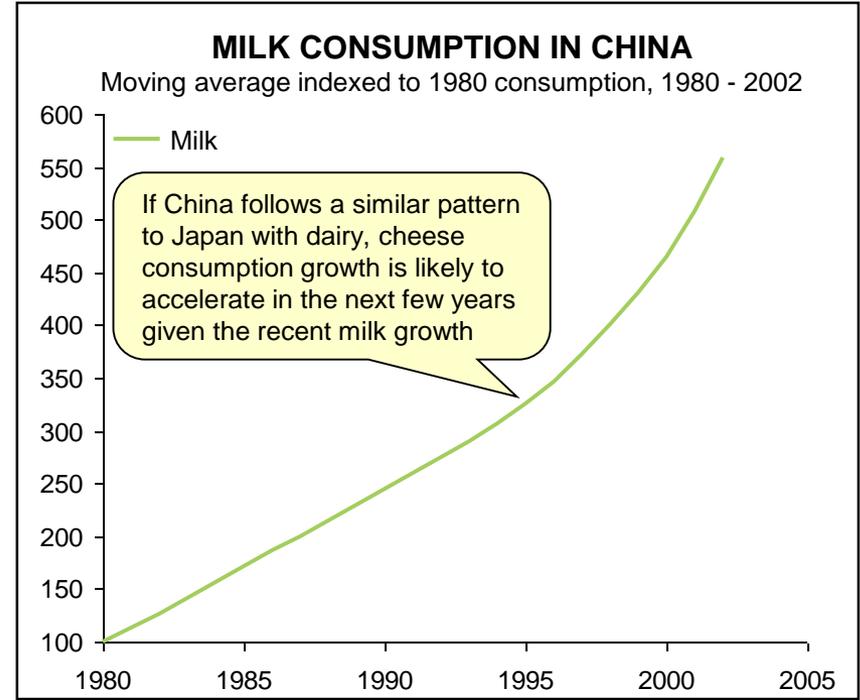
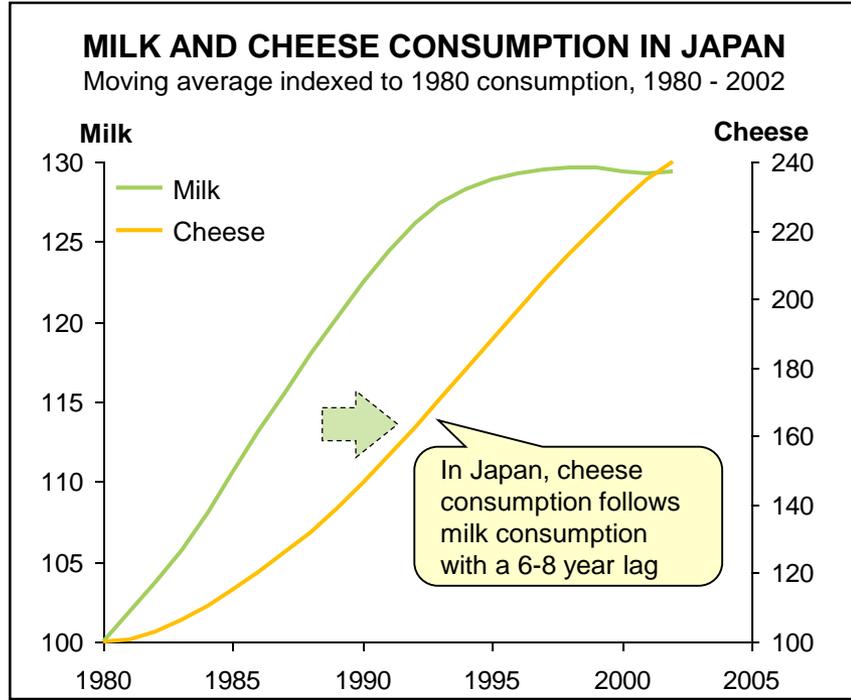
Model inputs are tested for statistical significance and grouped into three categories based on how they interact with cheese demand and each other



(Example analysis) Canback researched Taiwan, South Korea, Japan, and US west coast immigrants from China to understand how cheese consumption may grow. These related markets showed cheese consumption would accelerate in the next 5-10 years



Countries with similar dairy heritage have seen consumers trade up dairy products from milk to cheese as dairy consumption grows and cheese prices become more affordable



Chinese milk consumption in 2002 = 13kg per capita
Japanese milk consumption in 1960 = 18kg per capita

Milk consumption in China has further potential, since its current stage of market development is comparable to Japan's over 40 years ago

RECOMMENDATIONS

Invest in cheese in China in the next 5 years so the infrastructure is in place as consumption begins to accelerate



(Example analysis) Market entry should occur in the super-regions where there is higher wealth and more modern format supermarkets

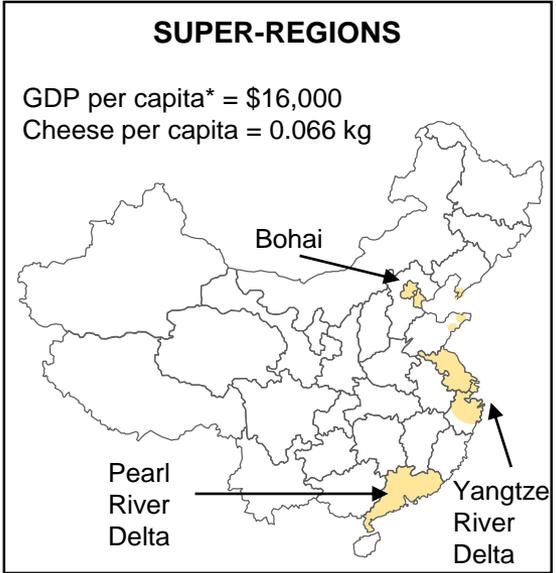
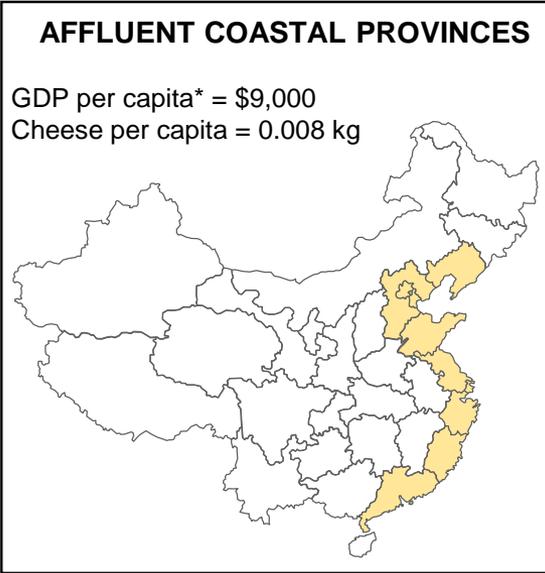
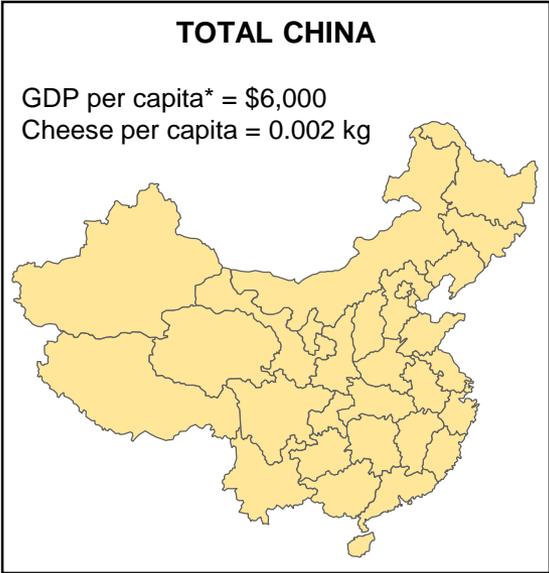
DETERMINING THE MARKET

Most people in China do not have the income that allows them to purchase cheese

10 coastal provinces have the affluence to provide a large consumer base but many areas have few or no modern format supermarkets

A few “super-regions” fit the criteria to be attractive cheese markets:

- Large affluent population
- Infrastructure (modern format supermarkets)
- Strong growth prospects



RECOMMENDATIONS

Until other parts of China are more advanced, focus only on super-regions where nearly all cheese is expected to be consumed

* PPP adjusted with urban price level adjustment



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POTENTIAL FOR CHEESE MARKET IN CHINA

1. China will be a sizable cheese market within 10 years
2. Consumers who are interested in and can afford cheese are concentrated in only a few geographical locations

RECOMMENDED ACTIONS

1. Make China a priority market for developing markets in the Cheese division
2. Business planning should focus only on the super regions until other areas show more economic development
3. Examine ways to cut costs to make cheese more accessible to consumers
4. Pack sizes must be small





Canback projected a 32% annual growth rate, with granular demand projections to show that income growth and increased market presence would drive cheese consumption growth

EXAMPLE MODEL DESIGN

		2005	Projected	
			2010	2015
Volume (000s tonnes)	High growth	5.2	25.4	82.1
	Mid growth	5.2	24.1	76.0
Annual growth from 2005	High growth		37.5%	31.8%
	Mid growth		36.1%	30.8%

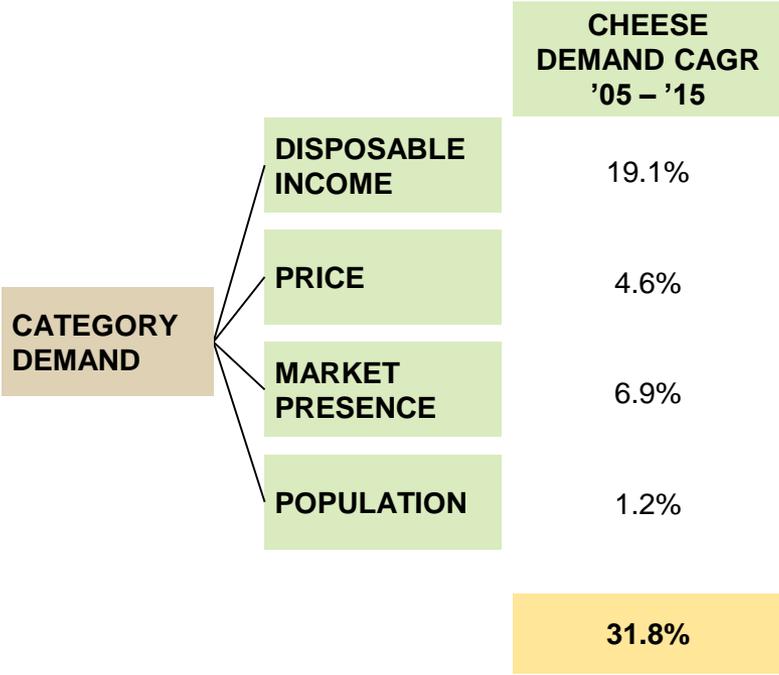
GOLDER TELLIS BASE MODEL

Disposable income per capita - High	2.10	26,061	41,796	62,140
% change		15.3%	9.9%	8.6%
Price (real price)	-1.78	11.09	10.64	11.07
% change		-2.7%	1.1%	2.1%
Population (MM)	1.00	88.7	94.1	99.9
% change		1.2%	1.3%	1.3%
Modern format Supermarkets	0.40	4,722	9,252	15,589
% change		21.3%	13.8%	10.6%

ADDITIONAL CONSUMER VARIABLES

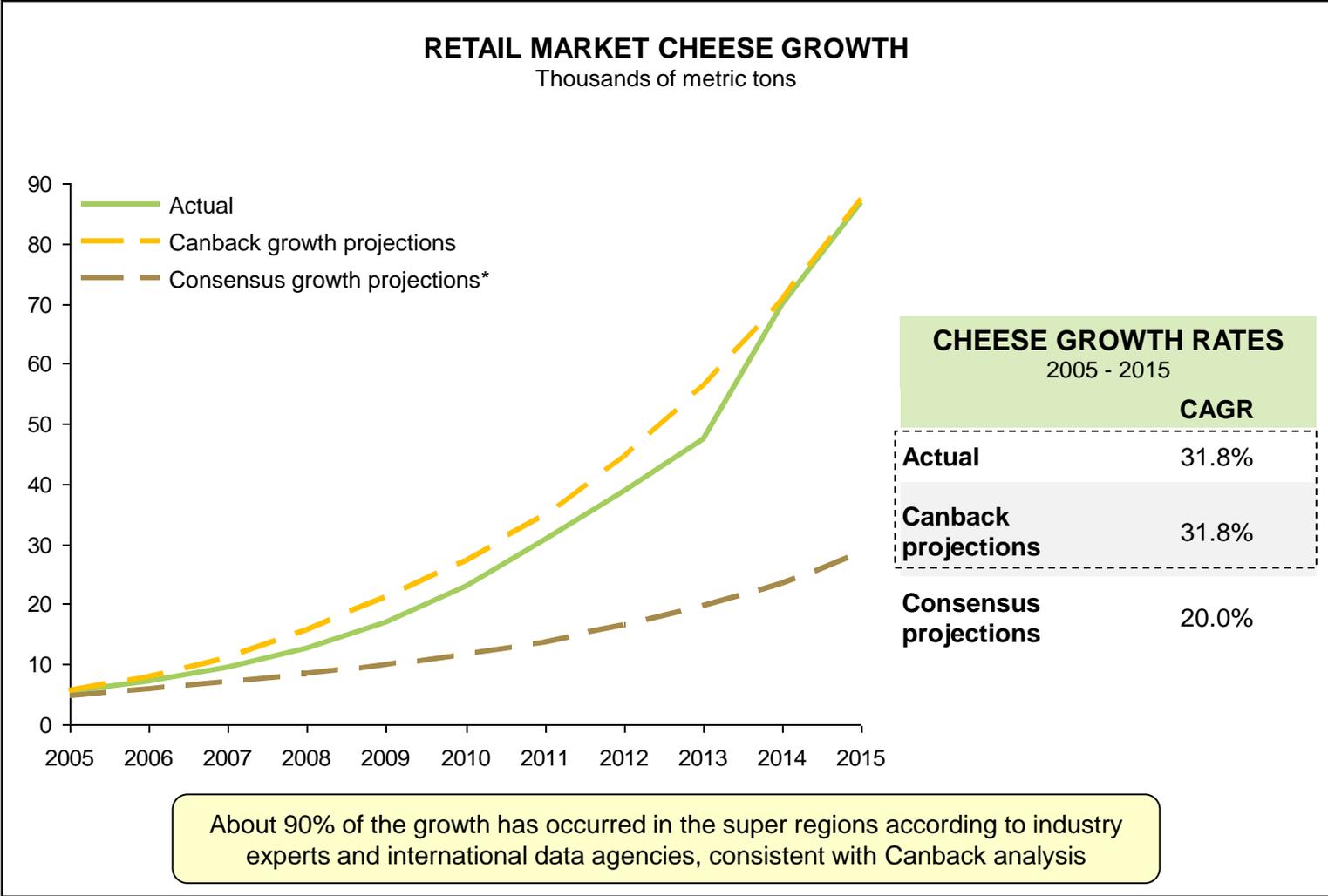
Fast food development	0.29	665.52	1,072	1,726
Base case - % change		10%	9%	9%
Assumed - % change		10%	14%	14%
Dairy sentiment	1.03	20.9	40.2	64.8
Base case - % change		14%	9%	9%
Assumed - % change		14%	9%	9%
International influence	0.52	49,722	123,725	307,867
Base case - % change		25%	19%	19%
Assumed - % change		25%	19%	19%

GROWTH IN DEMAND DUE TO EACH DRIVER





Canback projections have closely tracked the actual market growth and far exceeded consensus projections at the time



* Consensus projections from global data providers, region-specific data providers, and industry experts



Canback was asked to evaluate whether cheese in China would be worthy of investment

Canback showed that cheese in China was a worthwhile investment in 2005, and in doing so:

- Found a \$500 million ten-year opportunity that experts had not recognized
- Accurately projected the size of the market in 2015
- Identified the three key regions where nearly all growth would occur



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