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**Brands target parochial Chinese buyers**

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A rise in Chinese nationalism in certain consumer segments means Australian brands have to work hard to prove their points of difference, says a top Credit Suisse analyst.

Charlie Chen, head of the investment bank's China consumer research, said younger and more wealthy Chinese are more discerning than ever, and just because a brand is from offshore it does not mean they will buy it.

While the massive Chinese consumer economy provides a major opportunity, he said there was a climb in confidence in domestic brands in certain sectors, such as phone handsets and home appliances, while in other areas such as infant formula international brands still rule.

"What we have found in the younger generation in China, [it] is getting more wealthy, they have more money to spend," Mr Chen said on the sidelines of the Credit Suisse FNZC Dairy and Food and Beverage Conference in Sydney.

"They don't spend randomly. A foreign brand does not mean a higher-quality product. They spend more wisely and more personally. They prefer some Chinese brands more. They need to see special functions or characteristics to buy these international brands."

Mr Chen said following an overhaul to the baby formula industry by the Chinese government from January 1, premium international infant formula brands will take greater market share of the $20 billion sector, as more than 1000 products will be removed from shelves.

He said Beijing is looking to eliminate low-quality price competition, regulate food safety and quality, and eliminate improper marketing schemes.

"What we will see over the next few years is, as the number of product offerings reduces, competition will also be reduced.

"The more well established brands will be able to take more market share from newer brands," he said.

While Chinese consumers have more money to spend, a declining birth rate is a major headwind for infant formula players. The birth rate spiked in 2016, two years after the one-child policy changes. But by 2017 the birth rate dropped.

Mr Chen said impacts from a fall in the birth rate may be offset by increased pricing activity by the formula makers, while a further fall in breast-feeding rates also may provide a boost.

According to Euromonitor, China consumed more than 29 million tones of dairy product in 2017, including yoghurt, flavoured milk drinks, butter, cheese and milk powder. Rising awareness of health and wellness means products such as fresh milk and yoghurt are big sellers.

While there is a natural connection to Australia and New Zealand dairy, he said Chinese consumers are also buying products from the US and Europe. Mr Chen warned that underdeveloped infrastructure is a hindrance to growth in the dairy sector, given the need for cold logistics, but this has also spawned local innovation, such as room-temperature yoghurt.

"That product innovation, this will continue as Chinese understand the market and know which products will be sold at the mass product level given the underdeveloped infrastructure. Some of the foreign companies may not appreciate enough the underdeveloped situation in China. While in tier-one cities, yes, they are developed, but tier-2/3 cities are not."

Baby food supplier Bubs Australia presented at the conference and said recently acquired goat milk product maker NuLac Foods helped boost its third-quarter sales by more than 400 per cent to $5.2 million.

Key points

China's younger generation is becoming more discerning with offshore brands.

There has been a rise in confidence in Chinese brands in certain sectors.

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