

THE WORLD OF TISSUE

China changes the face of the Asia-Pacific tissue market

Reaching US\$12.8 billion in 2009 on the back of value growth of almost 5%, the Asia-Pacific region remains the third largest retail tissue market globally, behind North America and Western Europe.

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However, the region is steadily gaining importance on a global scale – during the past decade the region has gained a full percentage point of the global market, while over the same period North America has lost almost three percentage points in share and Western Europe almost five percentage points.

JAPAN SUFFERS WHILE CHINA GROWS. At a country level, China and Japan dominate. In 2009, China grew by almost 9% in value terms to reach US\$7.2 billion. In marked contrast, Japan registered the lowest growth in the region, declining by 3% to US\$3.7 billion. Strong growth rates in China have changed the face of the Asia-Pacific market in only a decade – in 2000 Japan was the larger force at US\$3.4 billion, while China stood at US\$3.3 billion. While there can be no doubting that China, with its vast size and continued levels of strong growth, is the current powerhouse of the Asia-Pacific region, emerging and frontier markets are also providing plenty of opportunity, with India, Vietnam, Indonesia and Thailand all registering growth higher than the regional average. This shift in importance from the more mature established markets, such as Japan and Hong Kong, to the newer markets of China and India, is in turn influencing the region's competitive environment.

LOCAL MANUFACTURERS POSITIONED TO PROSPER. Kimberly-Clark continues to lead the way in the Asian-Pacific tissue market, currently commanding almost 13% of value sales. The manufacturer is by far the largest Western-based presence in the region, with the closest international rival being SCA, which accounts for less than 1% of the market. In second place is Oji Paper Co, with a 9% share, while Daio Paper lies in fourth place with 5%. These three manufacturers are also the top three players in Japan, and although all do have a presence in other countries in the region, their reliance on the slowing Japanese market is impacting their regional importance. Despite its global strength, Kimberly-Clark is by no means unchallenged in Asia-Pacific and the company has lost four percentage points in share since the start of the decade, with manufacturers local to the region being the ones to benefit. Hengan International Group, in particular, is benefiting from value growth in the region, particularly in its native China – the manufacturer has gone from having a minimal presence to taking 5% of the Asia-Pacific market in a decade, and is now the third largest regional manufacturer.

CHANGING PROSPECTS REQUIRE A SHIFT IN TACTICS. Going forward, the big challenge for Kimberly-Clark and other manufacturers which have traditionally gained their regional strength from sales in Japan and Hong Kong, such as Oji Paper and Daio Paper, will be to raise their game in the wider Asia-Pacific region to avoid the risk of losing further share to local, and in particular, Chinese manufacturers. Specifically, Kimberly-Clark needs to secure its position in key first-tier bases such as China, where it currently holds 3% of the market, while simultaneously concentrating on a variety of second-tier zones, such as the smaller markets of Thailand and Indonesia, where the manufacturer currently holds around a 6% share. While regional expansion no doubt involves expense and an element of risk, with prospects in the region changing fast, manufacturers must look further afield for growth opportunities.

TOILET PAPER CONTINUES TO DOMINATE. At a category level, toilet paper continues to dominate and accounts for 75% of sales in the region. In addition, the category grew by 8% in 2009 – the strongest performance of all tissue

products – to reach US\$9.6 billion.

In particular, growth was driven by India and Pakistan, which registered value growth of 22% and 14%, respectively, in 2009, driven by increasing urbanisation that brings with it rising numbers of Western-style toilets. Vietnam, South Korea, China and Indonesia also registered strong growth. In addition, the increased penetration of supermarkets, which carry several brands and pack sizes of toilet paper, has also increased the product's exposure. Kimberly-Clark's Kleenex™ takes the top spot in toilet paper in the region, with a 5% share of sales. It is followed closely by Oji Paper's Nepia, which trails by only a fraction of a percentage point. In joint third place are Vinda Group's Vinda and Hearttex from Hengan, which are both gaining share year-on-year thanks to their strengthening presence in the fast-growing Chinese market. With both manufacturers planning to expand their presence further in Northern China in the coming year, their market share is likely to continue its ascent, strengthening both companies' regional importance and reflecting wider trends in the competitive environment.

In terms of innovation, the more mature markets of Japan and Singapore have seen little activity of late in toilet paper, with manufacturers focusing on promotions to retain sales during the difficult economic times. In emerging markets, manufacturer focus remains primarily on growing volume sales outside of cities, with product innovations likely to come slightly further down the line as primary consumer concerns currently remain quality and price.

CHINESE BUY INTO KITCHEN TOWELS. As a result of its necessity status, toilet paper is always likely to dominate the tissue market in Asia-Pacific; however, the much smaller kitchen towels category (US\$512 million) also posted extremely strong growth of 7% in 2009. The product is particularly finding favour with consumers in China, registering a 38% increase in 2009.

Although the Chinese market is currently a niche concern, manufacturers in the country are convinced of the category's potential as incomes rise and younger consumers demand more convenience, and as a result are focusing on raising awareness. In particular, manufacturers such as the country's leading player in the category, Hengan, have bundled kitchen towels with toilet paper or tissues to build consumer awareness – a strategy that appears to have paid off given the category's level of value growth.

Although few new products were launched during 2009 as manufacturers focused on pushing the category, in Japan, where kitchen towels was the only category not to record a value decline, Nippon Paper Crecia launched Kleenex Paper Towel Hyper Dry Nibai-maki, a double-length roll that saves space in the home – a primary concern for Japanese consumers.

INNOVATIONS FAIL TO SPUR GROWTH IN TISSUES. The second largest category, tissues, which stands at US\$2.6 billion, suffered a slump in 2009, registering growth of just 2% – the slowest in the overall tissue market and significantly down on the 23% increase registered in 2008. In Japan, in particular, the category faltered, falling from 19% value growth in 2008 to a 10% decline in 2009 – the worst performance in the region. Unit price fell as a reaction to price hikes in 2008 and this made growth in the already saturated category, where tissues are often regarded as cheap, commodity products, even more difficult. Despite this, the category saw plenty of innovation as manufacturers tried to reinvigorate value growth. Daio Paper launched Elleair Virus Block Tissue in November 2009 and Nippon Paper Crecia launched ultra-premium product Kleenex Shikou as well as Kleenex Aroma Tissue, a scented tissue. However, the negative performance in Japan should not distract from the category's growth in China, India, Pakistan and Vietnam, where rising health awareness prompted by swine flu fears aided value sales.

PAPER TABLEWARE REMAINS A NICHE NON-NECESSITY. Paper tableware remains a niche concern, with the category registering 2% growth in 2009 to reach US\$78 million. Again, the developed markets of Hong Kong and Japan saw negative value growth that hampered the category as a whole, while steady growth continued in China and India – albeit from a small base. As consumer living standards rise and convenience further drives sales, the category is expected to register steady growth, although as the product is by no means a necessity, it is likely to remain a niche concern for the foreseeable future.

PLENTY OF POTENTIAL IN A CHANGING MARKET. Looking ahead, Asia-Pacific is expected to drive global tissue product growth over the forecast period, with a 6% CAGR forecast to 2014, the highest of any region. In addition, the region has some of the lowest levels of per capita sales globally, with an average spend of only a little over US\$3 in 2009, compared to a global average of US\$8 and a North American average of US\$46, indicating that the region retains vast potential for further value growth. With prospects varying wildly between the mature and emerging markets, manufacturers which have traditionally held strong in the region as a result of sales in developed markets must adapt to the changing face of the region or risk losing out altogether. •