



MEDIA RELEASE

10 May 2017

CCS'S FINDINGS FROM THE MARKET INQUIRY INTO THE SUPPLY OF FORMULA MILK

1. The Competition Commission of Singapore ("CCS") has released its findings from a market inquiry into the supply of Formula Milk¹ in Singapore.²
2. The inquiry examined the Formula Milk industry in Singapore and the nature of competition at each level of the supply chain, in order to understand the reasons for the significant increase in the prices of Formula Milk in Singapore in recent years. According to the Singapore Department of Statistics, the average retail price of formula milk has more than doubled over the past nine years. Based on the findings, CCS also made recommendations to improve competition in the supply of Formula Milk in Singapore.

Market Inquiry Findings

Reasons for the increase in retail prices of Formula Milk

3. The increase in markup of wholesale prices over manufacturing costs³ by Formula Milk manufacturers was the main contributor to increases in the retail prices of Formula Milk. The increase in markup of wholesale prices over manufacturing costs was likely driven by the heavy investment into marketing and research & development activities undertaken by the Formula Milk manufacturers. Driven by strong consumer brand loyalty and a preference for "premium" brands in Singapore, Formula Milk manufacturers compete mainly on building a premium brand image through aggressive marketing activities and reinforcing this image by engaging in research & development to develop

¹ The inquiry focused on formula milk products for babies, infants and young children up to six years old (collectively "Formula Milk").

² CCS engaged stakeholders in the Formula Milk industry between October 2015 to August 2016 to obtain information for the purpose of the market inquiry. The report was finalised in December 2016. As part of its market inquiry, CCS exercised powers under section 61A of the Competition Act (Chapter 50B) to request documents and information from the relevant stakeholders.

³ This refers to the costs directly related to the production of the Formula Milk, such as costs of raw materials, packaging and logistics. While there was some increase in the manufacturing costs of Formula Milk over the period of study, especially when new products or additional ingredients were introduced by the manufacturers, the increase in price due to the wholesale markup was more significant.

and introduce new ingredients contributing to attributes desired by parents, rather than on price. Such “premiumisation” strategies further strengthen consumer perceptions and entrench consumer purchasing behaviours, which in turn give the Formula Milk manufacturers the market power to increase wholesale prices, in the face of limited volume growth prospect due to low birth rate and rising breastfeeding rate. CCS has observed that Formula Milk prices in Singapore were higher than most benchmarked economies, along with China and Hong Kong (see **Annex A**).

4. However, these investments in marketing and research & development activities also increased the overall costs for Formula Milk manufacturers. CCS found that total marketing expenditure by all major manufacturers increased by 42.4% between 2010 and 2014.

Why non-price competition is more prevalent than price competition in the supply of Formula Milk in Singapore

5. Industry reports and feedback revealed that brand name, nutrition and safety are the top three considerations when consumers purchase Formula Milk. Majority of parents tend to continue with the brand of Formula Milk that their babies are exposed to at birth in the hospitals. They do not readily switch to competing brands of Formula Milk unless there is a medical need.
6. Furthermore, insufficient understanding of the nutritional content of Formula Milk and the dietary requirements of infants and young children have often led parents to perceive that the more expensive or premium products are of higher quality. For example, parents may not be aware that all infant formula milk products (0 to 12 months)⁴ sold in Singapore, including standard brands which typically cost less than half the price of the premium brands, are required to meet the safety standards and nutrient composition requirements under the Singapore Food Regulations, which is administered by the Agri-Food and Veterinary Authority of Singapore (“AVA”). Despite the similarity in nutritional standards with other countries, manufacturers often choose to bring in premium formulation into Singapore. To strengthen the premium image, some manufacturers also import their Formula Milk products from Europe, Australia and New Zealand as Singapore consumers have a preference for products from these countries.
7. The aggressive marketing by incumbent Formula Milk manufacturers, coupled with existing consumer preferences, also raised the barriers to entry and limited competition from new brands and other existing brands. To build a premium brand image for their products and entrench brand loyalty, Formula Milk manufacturers devoted significant resources to a wide range of marketing activities. These included hospital sponsorships and milk rotation

⁴ “Infant” is defined in Food Regulations, Sale of Food Act (Cap. 283) as a person not more than 12 months of age.

programmes in order to encourage early adoption by new parents.⁵ Manufacturers provide sponsorship and/or payments to the private hospitals to participate in private hospital milk rotation programmes. The level and quality of support provided by Formula Milk manufacturers to the private hospitals can affect the duration of the milk rotation period allocated by these hospitals. Given that majority of parents who use Formula Milk in hospitals do not have a preferred brand and tend not to switch brands of Formula Milk after leaving the hospital, manufacturers have invested significant efforts and resources into the marketing activities in the hospital channel to gain a ‘first-mover’ advantage.

8. The resulting brand loyalty and the limited effectiveness of price competition in encouraging parents to switch to a new brand can present significant barriers to entry for new brands or barriers to expansion for existing brands which do not engage in such efforts. It may be challenging for a new entrant to gain traction among consumers in a short period of time as awareness and trust in a brand takes time to build up. Manufacturers who wish to enter the market must devote significant resources to convince consumers of the ‘premium’ status of their products through a combination of marketing and innovation.
9. In turn, retailers⁶ were keen to stock what consumers demanded. They also assess the manufacturers’ marketing plans when making decisions on what Formula Milk brands to stock, which might further reinforce the brand loyalty displayed by consumers, making it difficult for new brands to enter, or for existing less popular brands to expand, in the Singapore market.
10. CCS also found that there is a negligible presence of parallel imports in Singapore which could be due to the Formula Milk product labelling and import documentation requirements which are challenging for parallel importers in Singapore to comply with.⁷ The lack of alternative sources of supply of Formula Milk products besides the authorised distributors of Formula Milk manufacturers in Singapore limits the extent of price competition for the same brand in the market.

⁵ If Formula Milk is required or requested, and parents did not indicate a preference for any particular brand of Formula Milk, both restructured and private hospitals provide the “default” brand for that particular period, which is established through a “milk rotation” programme.

⁶ Such as supermarkets and pharmacies.

⁷ These include the requirements under the AVA’s Food Regulations under the Sale of Food Act (Cap. 283) and import requirements of specific food products, as well as the Code of Ethics on the Sale of Infant Foods in Singapore formulated by the Sale of Infant Foods Ethics Committee Singapore (“SIFECs”). The labelling requirements effectively prevent a parallel importer from importing Formula Milk from countries where the labels are not in English or where the labels do not comply with the Food Regulations. In addition, parallel importers must submit documentation from the manufacturers or overseas distributors they are obtaining their supplies from in order to import their supplies.

Recommendations to Improve Price Competition and Encourage Entry of New Players

11. CCS made three broad recommendations to lower barriers to entry and improve the level of price competition particularly between manufacturers:
 - a. Educate consumers on the nutritional content of Formula Milk and the nutritional requirements of infants and young children, and to improve consumer awareness of the availability of a variety of Formula Milk products at different price points. This will allow consumers to understand the choices available in the market and to make more informed decisions rather than relying on perceptions such as “more is better” or “more expensive means better quality”. This would help to increase price competition over time;
 - b. Encourage price competition (i) within the same brands by reviewing parallel importation rules while still maintaining food safety and security, as well as (ii) between brands through exploring the introduction of private labels⁸. Both measures will help to widen the pool of Formula Milk suppliers in Singapore; and
 - c. The sponsorships and payments that Formula Milk manufacturers provide and their impact on the milk rotation programmes in the hospitals could be reviewed. This can help to reduce a barrier to entry and expansion for new and existing brands.
12. The recommendations complement each other as a wider pool of Formula Milk suppliers will provide more options to consumers, while more informed consumers who are able to exercise their choices wisely will incentivise suppliers to price competitively and improve price competition in the market. The full report is available on CCS’s website.⁹

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⁸ These refer to house brands of retailers.

⁹ www.ccs.gov.sg

About The Competition Commission of Singapore (CCS)

CCS is a statutory board established under the Competition Act (Chapter 50B) on 1 January 2005 to administer and enforce the Act. It comes under the purview of the Ministry of Trade and Industry. The Act empowers CCS to investigate alleged anti-competitive activities, determine if such activities infringe the Act and impose suitable remedies, directions and financial penalties.

For more information, please visit www.ccs.gov.sg.

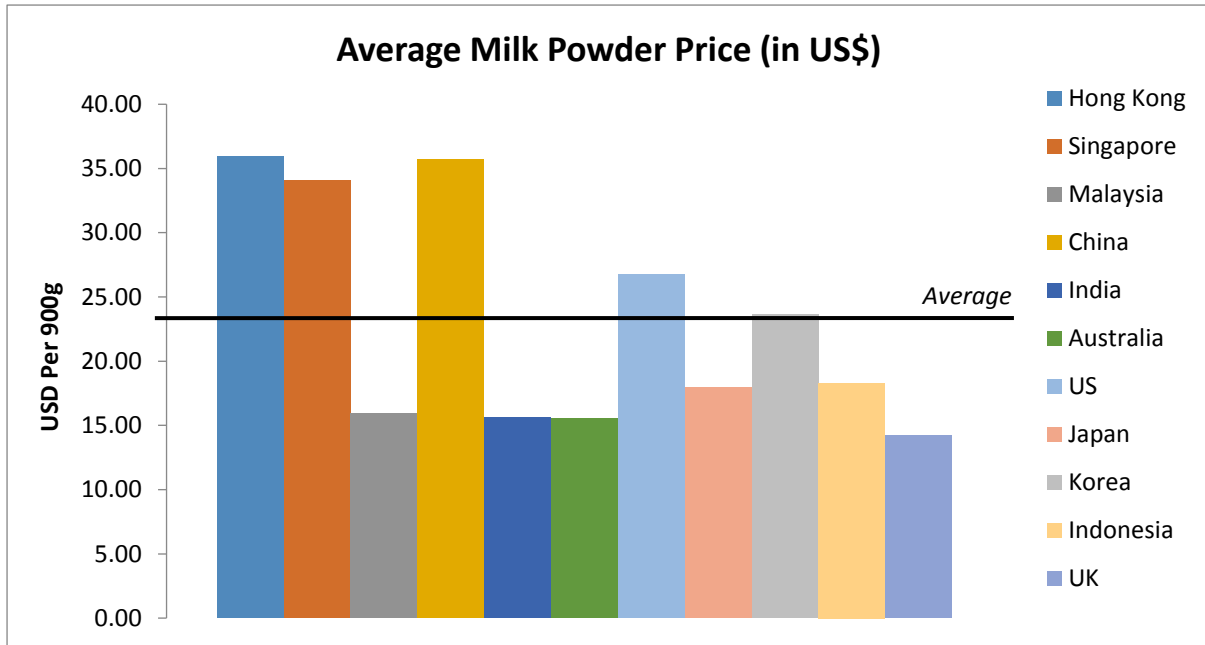
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International Comparison of Formula Milk Prices in May 2016

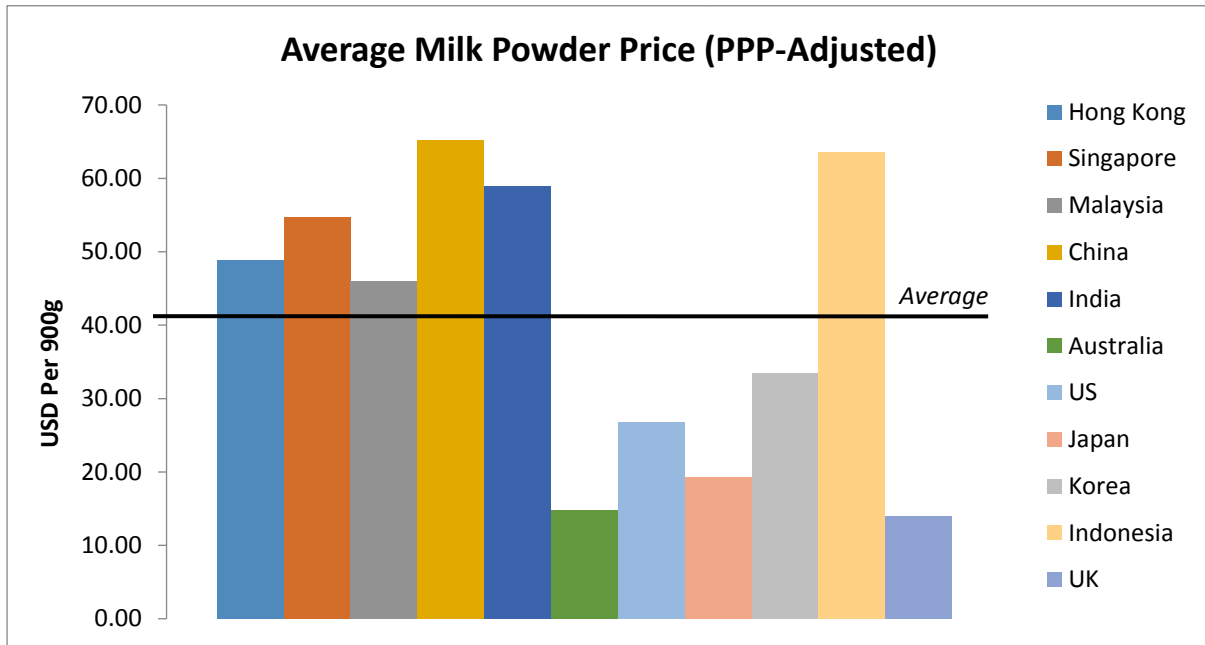
Chart 11¹⁰: International Comparison of Formula Milk Prices using Market Exchange Rates



Source: CCS's survey of prices on overseas supermarkets' websites

¹⁰ Chart numbers refer to that in CCS's market inquiry report.

Chart 12: International Comparison of Formula Milk Prices using PPP-adjusted Exchange Rates¹¹



Source: CCS's survey of prices on overseas supermarkets' websites

¹¹ Purchasing power parity (PPP)-adjusted prices derived using Economy Watch 2014 Implied PPP Conversion Rate, taken from the International Monetary Fund (http://www.economywatch.com/economic-statistics/economic-indicators/Implied_PPP_Conversion_Rate/). PPP is a theory in economics that approximates the total adjustment that must be made on the currency exchange rate between countries that allows the exchange to be equal to the purchasing power of each country's currency (<http://www.investopedia.com/terms/p/ppp.asp>).