May 2018
Jewel Chen, Assistant Director Food and Drink, CBBC
Vikki Richardson, Copywriter, CBBC
Ben Rotheram, Copywriter, CBBC

China-Britain Business Council
英中贸易协会

CBBC Research

Beverages in China
CBBC Food and Drink Insight Series

INTRODUCTION

When we think of beverages in China, what springs to mind? For many, tea will be the most obvious choice – after all, the Chinese have a rich tradition and history of drinking tea. Others may think of traditional drinks, such as sour plum juice (suan mei tang 酸梅汤), soy milk (dou nai 豆奶), or a shot of fruit vinegar (guo nai 果醋) enjoyed as an appetizer. Whilst for others, kooky drinks, such as bubble milk tea (zhen zhu nai cha 珍珠奶茶) will be their first thought.

However the reality is that China's beverage market is increasingly diverse, with international players finding this vast market receptive to experimentation and localisation. Chinese consumers are enjoying drinks popular in the West, but as sophisticated consumers they are not afraid to place their own mark on these.

China's drinks market therefore offers many opportunities to UK beverage companies wishing to export and sell their products within this diverse and constantly evolving market.

DEFINITION OF TERMS

The term 'beverage' (commonly termed yǐnliào 饮料 in Mandarin Chinese) will be used within this report. The scope of this report does not include alcoholic beverages. The term 'beverage' will be used interchangeably with the term 'drink'.

This report focuses on six different types of beverage: carbonated drinks; bottled water; fruit/vegetable juice; tea; protein-based drinks (predominantly dairy-based drinks); and powdered drinks.

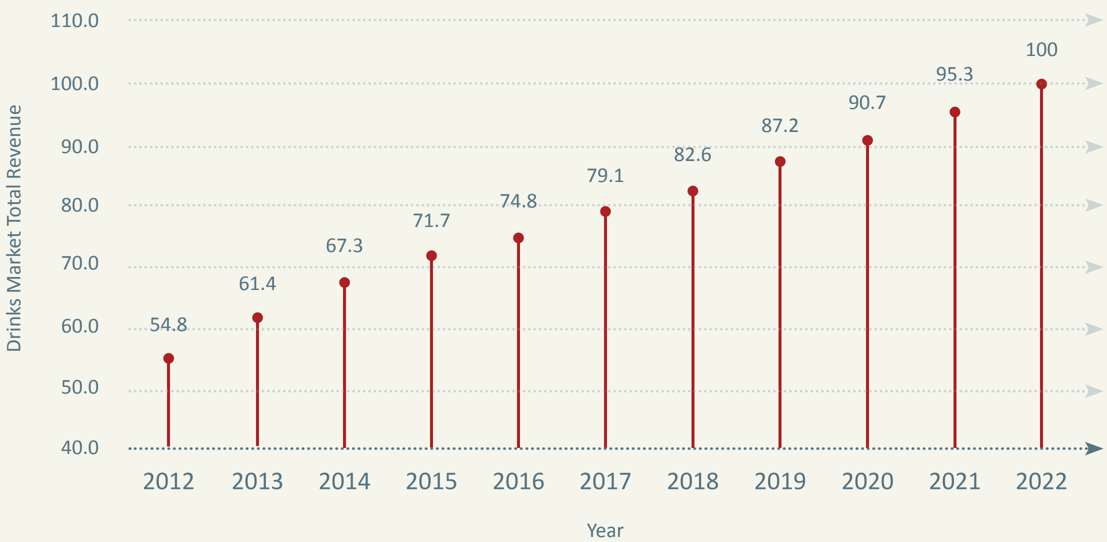
CHINA'S GROWING BEVERAGE MARKET

The market for beverages in China has been **growing in recent years and is predicted to continue to grow.** As Figure 1 shows, in 2012 the market was worth GBP 54.8 billion (RMB 471.6 billion),[1] which had increased to GBP 74.8 billion (RMB 643 billion) by **2016,** and by **2022,** this figure is **expected to further rise to GBP 100 billion (RMB 860 billion)[2].**

The **total profit** made in the beverage industry in China also **increased between 2012 and 2016,** albeit by a slowing rate. In 2012, total annual profit was GBP 4.4 billion (RMB 37.5 billion), which increased by 22.3% over the following year, and by **2016, total annual profit was GBP 6.5 billion** (RMB 56.0 billion), an **increase** from 2015 of **6%.**[3]

This growth has come in the wake of **three broad trends** in China, summarised as follows: a **growing economy:** China's GDP grew from GBP 628 billion (RMB 5.4 trillion) in 2012 to GBP 865 billion (RMB 7.44 trillion) by 2016;[4] **more discretionary spending:** by 2016 the average consumer in China had GBP 2,800 (RMB 23,800) to spend per year after all necessities had been paid for, up from GBP 2,100 (RMB 18,300 in 2013)[5]; and a **higher proportion of consumers living in urban areas:** in 2012, 53.7% of people in China lived in a city, which had increased to 57.4% by 2016.[6]

Figure 1: The Total Revenue of the Beverage Market in China (GBP billion)



[1] Please note that all figures within this report have been converted using the following exchange rate on 15th March 2018: RMB 8.6 – GBP 1 – USD 1.39: The source used was https://finance.yahoo.com/currency-converter/
[2] http://www.chyxx.com/industry/201708/551180.html
[3] http://www.chyxx.com/industry/201708/551180.html
[4] http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0201&sj=2016
[5] http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0A01&sj=2016
[6] http://www.chyxx.com/industry/201708/553670.html

VARIATION BETWEEN DIFFERENT SECTORS IN THE MARKET FOR BEVERAGES

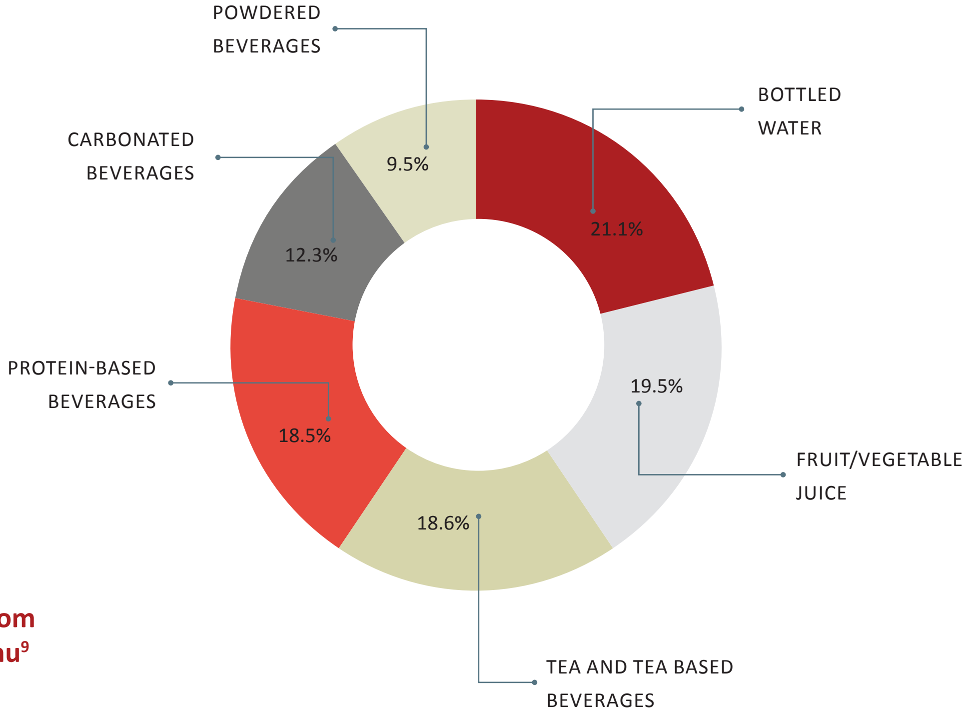
It is not true, however, that all parts of the beverage market are growing equally or, by some measurements, even growing at all.

We can divide the Chinese beverages market into **six sectors**[7]:

- **Bottled water**
- **Fruit/vegetable juice**
- **Tea and tea-based beverages**
- **Protein-based beverages (predominantly dairy-based beverages)**
- **Carbonated beverages**
- **Powdered beverages**

As Figures 2 and 3 show, in 2016 these sectors did not each account for an equal proportion of the market.

Figure 2: Contribution to Total Market Revenue of the Six Sectors of the Beverage Market, 2016 (%)



Source: Data is combined by CBBC from China Industry Information[8], and Sohu[9]

[7] http://www.sohu.com/a/165659312_723351
[8] http://www.chyxx.com/industry/201708/551180.html
[9] http://www.sohu.com/a/165659312_723351

Figure 3: Revenue and Profit of the Six Sectors of the Beverage Market in 2016 (GBP billion with RMB billion values in brackets)

Market Sector	Revenue	Change from 2015	Profit	Change from 2015
Bottled Water	15.7 (135.4)	+ 5.9%	1.5 (12.5)	- 2.2%
Fruit/Vegetable Juice	14.6 (125.3)	+ 4.7%	1.2 (10)	- 1.7%
Tea and tea-based Beverages	13.9 (119.9)	+ 1.5%	1.1 (9.1)	+ 3.6%
Protein-Based Beverages	13.9 (119.2)	+ 3.8%	1.9 (15.9)	+ 5.8%
Carbonated Beverages	9.6 (82.3)	+ 0.9%	0.5 (4.3)	- 15.1%
Powdered Beverages	7.1 (60.8)	+ 11%	0.5 (4.2)	+ 10.7%

*+ refers to % increase, - refers to % decrease.
Source: Sohu, '2017 China Beverage Industry Market Prospect Research Report' ('2017年中国饮料行业市场前景研究报告')

Bottled water made up the largest proportion of the beverage market in 2016, with a **market share of 21.1%** and a revenue of GBP 15.7 billion, which led to a profit of GBP 1.5 billion.[10] At the other end of the scale, **powdered beverages** made up just **9.5% of the market** in 2016 and made a **profit of GBP 0.5 billion.**

As Figure 3 demonstrates, there is not a straightforward relationship between the proportion of the market occupied by each sector and the proportion that its revenue increased by between 2015 and 2016, suggesting that it may not always be the case that each sector occupies the same market share ranking as it does now. The **revenue of powdered beverages increased by 11%** over this time period, **faster than all other types of beverages,** and in particular, significantly faster than the increases in revenue for carbonated beverages (0.9%) and tea (1.5%).

A similarly unpredictable relationship exists between the revenue and profit made within each sector: **protein-based beverages** achieved only the fourth-largest revenue of the six types of beverage, yet **made the most profit (GBP 1.9 billion).** While all **sectors made a profit in 2016,** it was not the case that all of them made more profit than in the previous year; indeed, fruit/vegetable juice (-1.7%), bottled water (-2.2%) and carbonated beverages -15.1%) all recorded a reduction in profit. Couple this with the 10.7% increase in profit by powdered beverage manufacturers and it could be said that the **future looks brighter for powdered beverages than their carbonated counterparts in China.**

As well as overall comparisons between different types of beverage, it is also useful to take a brief look at each one in turn, so as to pay attention to any notable trends or changes.

[10] http://www.sohu.com/a/165659312_723351

BOTTLED WATER

Although bottled water is the most popular type of beverage in China, a survey by the China Association for Quality shows that the **Net Promoter Score** (NPS) - a measure of consumer loyalty - for bottled water among Chinese consumers is just 24.6%, significantly lower than that for protein-based beverages (32.8%), although higher than that of tea (23.3%), fruit/vegetable juice (13.4%) and carbonated beverages (23.3%).[11] This suggests that there is not a lot of consumer loyalty towards water in China, which is unsurprising, given the difficulty in achieving product differentiation.

As Chinese consumers become increasingly health conscious, consumer spending power continues to grow, and fears of water contamination remain high[12], "healthier" types of bottled water are outperforming their sweetened or carbonated alternatives. In 2017, the volume growth of **still natural bottled water containing minerals** outstripped all other bottled water categories, according to Euromonitor[13].

FRUIT/VEGETABLE JUICE

A McKinsey study which surveyed 10,000 consumers in China living in 44 cities says that the proportion of respondents that consume fruit juice increased from **61%** to **63%** between 2012 and 2015.[14] This study also shows that **18%** of those surveyed had moved from buying mass-market juices to buying **premium juices** over the previous few years, as opposed to just 2% that had made the switch in the other direction.

In line with the shift towards premiumisation, Chinese consumers are increasingly interested in buying **fresh juice.** In particular, products containing **100% pure fruit juice** are particularly attractive to consumers.[15] Again consumers' growing preference for fresh pure juices over concentrated juices is reflective of consumers choosing to increasingly prioritise their health and wellness when purchasing beverages.

UK Juice companies wishing to sell their products in China would also be wise to consider the preferences for different flavours of juices amongst Chinese consumers, as shown in figure 4. Local flavours and seasonal trends are also important to consider as shown in figure five.

Figure 5 shows some seasonal preferences for different flavoured juices.

---

11 http://www.caq.org.cn/html/xhxw/zxxw/5082.html
12 https://www.economist.com/news/business/21645215-pollution-fears-are-driving-chinese-towards-expensive-branded-waters-spring-tide
13 http://www.euromonitor.com/bottled-water-in-china/report
14 https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/here%20comes%20the%20modern%20%20chinese%20consumer/2016%20china%20consumer%20report%20the%20modernization%20of%20the%20chinese%20consumer.ashx
15 https://www.beveragedaily.com/Article/2017/01/05/What-are-the-key-trends-of-the-Chinese-beverage-market-in-2017

Figure 4: Percentage of Popular Juice Flavours in the Chinese Market, 2016 (TetraPak)

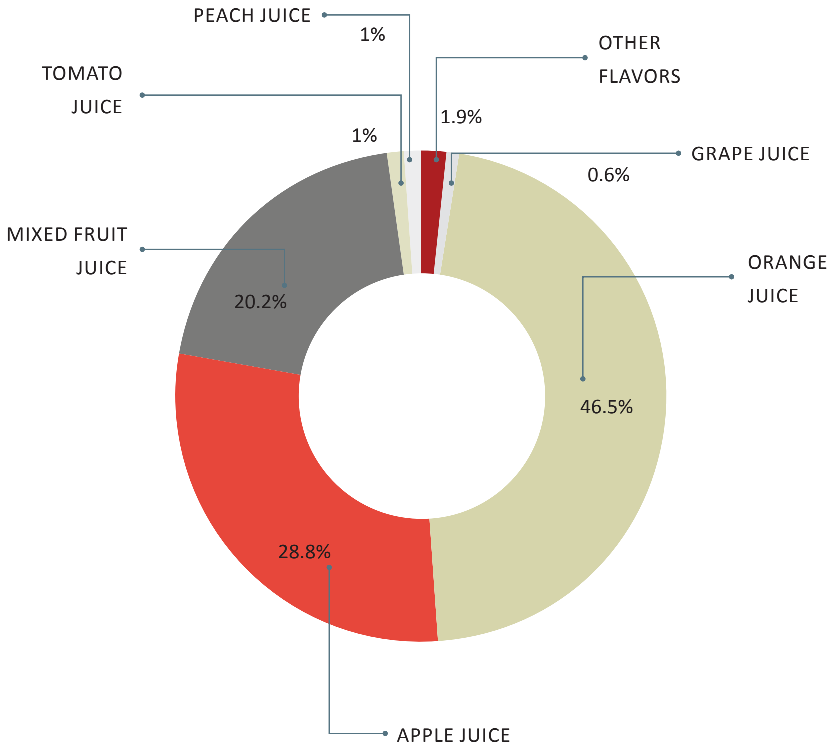


Figure 5: Seasonal Juice Consumption in China

Season	Juices
Spring	Water chestnut, dark plum, hawthorn, cherry, strawberry, citrus, kiwi
Summer	Watermelon, cantaloupe, apple, pineapple, grape
Autumn	Pear, sugarcane, water chestnut, loquat, papaya, peach, apple, grapefruit
Winter	Banana, orange, strawberries, mulberries, avocado

TEA AND TEA-BASED BEVERAGES

The **NPS score** for tea in the China Association for Quality's survey was also low **(23.3%)**, it is possible that, given tea's historical heritage in China, it is not always consumed in the same way as a beverage and instead is bought in loose-leaf form, so tea that is bought packaged as a beverage (for example, iced-tea) is not seen as being of the highest quality.

Despite tea's ancient tradition in China, the characteristics of China's future tea market look set to be characterised by **modernity and innovation** – as tea producers and brands seek to capture the interest and spending power of younger consumers via ecommerce channels, new packaging, and increasingly sophisticated flavour combinations;[16] a strong example of a company shaping this tea trend in China can be found with Starbucks' 'Teavana' line of tea drinks.[17] Changing government regulations and evolving standards relating to the loose-leaf tea market are also important to consider for companies seeking to sell these products in China. [18]

[16] http://www.euromonitor.com/tea-in-china/report
[17] https://www.bloomberg.com/news/articles/2016-09-12/starbucks-new-tea-line-chases-china-s-9-5-billion-tea-market
[18] http://www.blockchaingroup.com.hk/en/tea-production/

PROTEIN-BASED BEVERAGES (PREDOMINANTLY DAIRY-BASED DRINKS):

A 2017 Mintel survey predicts that **demand for healthy and functional products is expected to be a key driver of any growth in the food and beverages industry** up until 2021. The per-capita consumption of functional beverages in China increased from 0.8 litres in 2010 to 1.6 litres in 2015. Whilst this figure is significantly less than the average per-capita consumption in the United States, which reached 22.1 litres in 2015, the Chinese market is exhibiting continued growth in consumption and offers plenty of space for brands to grow.[19]

One type of product that is likely to benefit from this trend is dairy products, such as **yoghurt drinks and milk.[20]** This corresponds with the data in Figure 3, which suggests that protein-based beverages are enjoying reasonably high increases in revenues and profit at a time when this is not true of all types of beverage.

Specific products enjoying increased popularity in this category include **probiotic yoghurt drinks,** an example of which can be found in Yakult[21], which are becoming increasingly popular amongst young consumers as a means to protect their digestive health in the face of rising environmental and dietary stresses.[22]

CARBONATED BEVERAGES

Linked to the increasing importance of health and fitness amongst Chinese consumers, and the influence of this on consumer behaviour; McKinsey's consumer survey shows that the proportion of consumers consuming carbonated beverages fell by 21%, from 84% to **63% from 2012 to 2015.** Decreasing consumption of carbonated beverages can be seen to be linked to increasing awareness amongst Chinese consumers that these products are unhealthy.

POWDERED BEVERAGES

In China, powdered beverages can be composed from both natural ingredients, such as fruit or beans, as well as additives. Powdered beverages can be defined as those containing less than 5g of water per 100g of powder. They can be split into three categories: standard powdered drinks (including those made with fruit, beans and oats); protein-based powdered drinks; and powdered drinks made with roasted ingredients (such as coffee beans).

Across these three broad classifications, the most commonly consumed types of powdered drink in China are those made with dry tea, milk powder, soy milk powder, coffee granules and powdered oats. However, more **market diversification** is predicted in the coming years, and while the above types of powdered drinks will continue to sell well, as Chinese consumers' tastes move towards products that are healthier and of a **higher quality,** powder for making fruit-flavoured, peanut-flavoured and pumpkin-flavoured drinks, dry tea that helps with weight loss, milk tea, soy bean powder, and powder for making probiotic drinks are all predicted to occupy a larger market share.

A key selling point of powdered beverages amongst Chinese consumers is their **convenience;** these products are easy to store and carry, and therefore appealing to Chinese consumers in urban areas leading busy lives. Powdered beverages are often packaged in **individual serving sizes** – for example single serving sachets of Nestlé coffee are popular amongst Chinese consumers – and are a great way to introduce new products to consumers who, for example, may have little experience drinking coffee.

[19] http://www.sohu.com/a/110290162_276759
[20] http://www.prnasia.com/story/183895-1.shtml
[21] https://www.bloomberg.com/news/articles/2012-09-27/for-probiotic-drinks-asia-is-the-place
[22] http://www.euromonitor.com/yoghurt-and-sour-milk-products-in-china/report

CONSUMER TRENDS

Three clear consumer trends can be identified as shaping the beverage market in China.[23] Firstly, it can be observed that consumers' **tastes are changing,** moving away from goods and towards services, and away from mass market products and **towards high-end** ones.

For producers of fast moving consumer goods (FMCG), such as beverages, this poses a challenge, especially for those producers of products which are not likely to be seen as "premium", such as fruit juices with low fruit content, or beverages that are perceived to be low-quality imitations of famous brands. Given wider changes in the Chinese economy, this is not a trend that is likely to reverse any time soon. One further outcome of this change in tastes is that **volume growth of some types of products** in the Chinese market, including beverages, **is likely to be largely flat in the coming years,** meaning that if producers want to increase profits they will either need to **take consumers from competitors or demonstrate why their product can command a premium price.** This observation is backed up by research from Bain, which has also identified Chinese consumers' purchasing switching from goods to services as one of the significant trends in today's China.[24]

Secondly, consumers in China are becoming **increasingly loyal to brands that they know and like,** with **81%** of those questioned in 2015 saying that they would **only buy food and beverages within their 'consideration set'** (i.e. brands that they know about, either through personal experience or marketing), an **increase of 10%** from four years earlier. This will make it **more difficult** for new beverage producers to enter the market, thus any company wishing to do so will need to give more consideration to which strategy to use and what type of beverage it wishes to sell.

Finally, the **desire for healthy food and beverages is increasing** in China, and this is already creating a noticeable impact on the beverage market, as detailed in earlier sections of this report, with the rise in demand for fruit juice and the fall in demand for carbonated beverages. This focus on healthy eating and drinking can be attributed to the **high pressure** that consumers face in their daily lives - **45% expect to face more pressure in the future** - and to a succession of **food and drink safety scandals** which have made the headlines in China in the last few years. Health is important for Chinese consumers, they are not seeking the cheapest brand; instead, they are seeking the brand that can **provide the best value,** which is increasingly the more expensive one of a higher quality.

CONCLUSIONS

It is clear that the next steps any UK beverage manufacturer should take, whether it is already in the Chinese market, or just looking to enter it, need to be planned with the following three beverage market consumer trends taken into account, these are: **a move towards high end products, increasing consumer loyalty, and a desire for healthy beverages.**

This may be difficult for brands which are not perceived by Chinese consumers to be in line with these trends, however even brands which are generally associated with beverages which are not currently experiencing strong growth in China can turn this around by **branching out** into other areas of the beverages market which show greater potential for growth.[25] Beverage categories currently displaying the most potential for future growth can be found in: **fruit/ vegetable juices; powdered beverages; and protein-based (functional) beverages.**

In sum, China's beverage sphere is a dynamic, fast-paced, and constantly evolving market, which, although challenging, offers rich opportunities to UK brands which are adaptable and China-savvy.

[23] https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/here%20comes%20the%20modern%20%20chinese%20consumer/2016%20china%20consumer%20report%20the%20modernization%20of%20the%20chinese%20consumer.ashx

[24] http://bain.com/about/press/bain-news/2017/china-shoppers-rein-in-spending-on-cookies-to-pop-drinks.aspx

[25] https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/here%20comes%20the%20modern%20%20chinese%20consumer/2016%20china%20consumer%20report%20the%20modernization%20of%20the%20chinese%20consumer.ashx