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Breakfast Cereal: A Market Full of Opportunity in China  
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## 1. INTRODUCTION

Cereal, in its many forms, is a firm favourite for breakfast amongst consumers in the UK; however in China cereal for breakfast remains a less familiar concept to many. Whilst Chinese consumers traditionally reached (and continue to reach for) traditional breakfast options including wontons (馄饨 húntun), jiānbǐng pancakes (煎饼), soy bean broth (豆浆 dòujiāng), and deep fried dough sticks (油条 yóutiáo), breakfast cereal is steadily growing in popularity.

Within this report the terms cereal and breakfast cereals will be used interchangeably. The definition of both terms refers to 'a type of food made from a cereal plant and commonly eaten at breakfast'<sup>1</sup>.

<sup>1</sup> <https://www.collinsdictionary.com/dictionary/english/breakfast-cereal>



## 2. CHINESE CONSUMERS' GROWING APPETITE FOR BREAKFAST CEREAL

Spending on breakfast in China is predicted to rise from RMB 1.334 trillion in 2015 to reach RMB 1.948 trillion in 2021<sup>5</sup>. The Chinese breakfast market remains heavily dominated by local options, with 65% of Chinese consumers preferring to eat a local-style breakfast<sup>6</sup>, and market penetration of breakfast cereal coming in at only 3%; significantly lower than in other Asian countries and regions, such as Japan (35%), Korea (45%), India (22%), and Hong Kong (35%).

However, the number of Chinese consumers opting to eat cereal for breakfast will continue to rise. In 2015, breakfast cereal sales were valued at RMB 2.8 billion; a figure that is expected to more than double by 2022 to reach RMB 6.2 billion.<sup>7</sup> Although market penetration of breakfast cereal remains relatively low, the vast scale of China's consumer market and steady predicted

growth of the breakfast cereal indicate that China's breakfast cereal market is far from being saturated and therefore offers many opportunities for growth and development to international companies.<sup>8</sup>

Breakfast cereals' growing appeal amongst Chinese consumers lies in a number of key contributing factors, summarised as follows: Firstly, in comparison to traditional Chinese breakfast dishes, breakfast cereal is a relatively simple dish to prepare and this ease of preparation is appealing to busy urban households without much time to spare in the morning. According to a 2016 consumer survey by Mintel, when questioned about which type of breakfast is most convenient, 50% of respondents stated that a western-style breakfast is more convenient, whilst 42% believe a Chinese-style breakfast is more convenient.

In addition, breakfast cereal, particularly international imported breakfast cereals, is perceived by Chinese consumers to be "safe and trustworthy". Breakfast cereals, which are often fortified with vitamins and minerals, are also perceived by many Chinese consumers to offer health benefits<sup>9</sup> - an appealing prospect to Chinese consumers who are amongst the world's most health conscious<sup>10</sup>.

Furthermore, the growth of China's breakfast cereal market can be seen to be complemented by the growth of other related industries. It is estimated that China will overtake the United States as the world's largest dairy market by 2022.<sup>11</sup> With milk and yoghurt providing the perfect accompaniments to breakfast cereal the growth of China's dairy market can bolster Chinese consumption of breakfast cereal as an accompaniment to dairy products.

<sup>5</sup> <http://www.chinairn.com/scfx/20161020/172604999-2.shtml>

<sup>6</sup> <http://www.chinairn.com/scfx/20161020/172604999.shtml>

<sup>7</sup> <http://daxueconsulting.com/cereals-market-in-china/>

<sup>8</sup> [http://www.sohu.com/a/161530273\\_115495](http://www.sohu.com/a/161530273_115495)

<sup>9</sup> [http://www.360doc.com/content/15/0902/12/21321265\\_496434898.shtml](http://www.360doc.com/content/15/0902/12/21321265_496434898.shtml)

<sup>10</sup> <https://www.bcg.com/publications/2014/center-consumer-insight-globalization-insight-action-capturing-share-chinas-consumer-health-market.aspx>

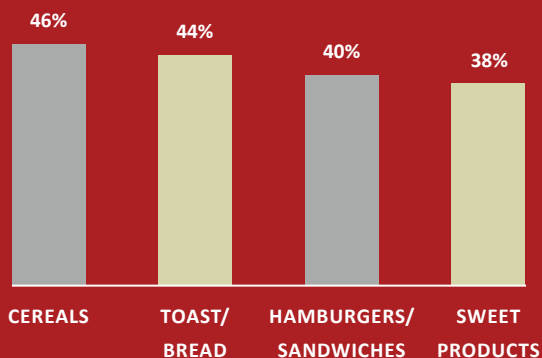
<sup>11</sup> [http://www.clii.com.cn/zhhyllm/201410/t20141013\\_3860192.html](http://www.clii.com.cn/zhhyllm/201410/t20141013_3860192.html)

### 3. KEY DEMOGRAPHICS FOR THE CONSUMPTION OF BREAKFAST CEREAL – CHINA’S GROWING MIDDLE CLASS MARKET

The key consumer demographic for breakfast cereals is China’s growing middle class (defined as households with an annual income between RMB 106,000 and RMB 229,000<sup>12</sup>). According to McKinsey, 46% of middle-class consumers prefer to eat cereal for breakfast rather than other alternatives. The majority of these middle class

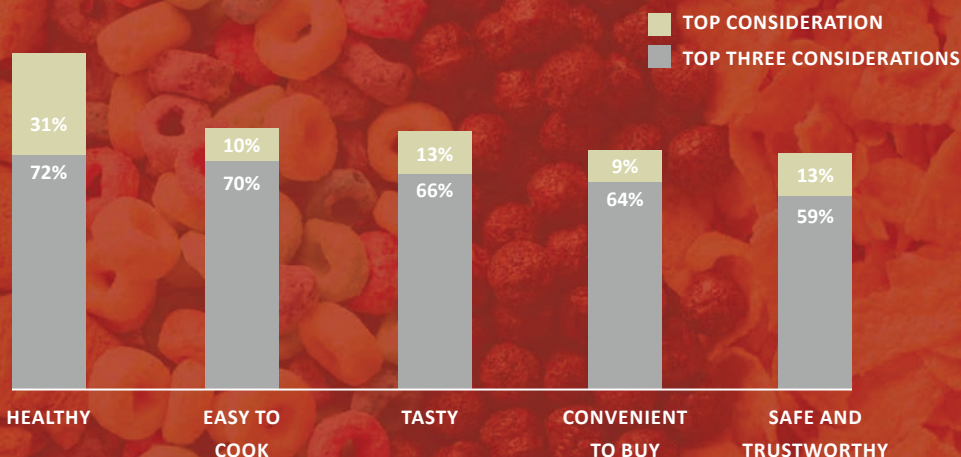
consumers can be found in China’s First and Second-Tier cities. These consumers have a growing disposable income available to them and are therefore willing, and able, to pay a premium for more expensive imported and international breakfast cereal products.

**Figure 1: Preferred Items for Consumption at Breakfast amongst Middle Class Chinese Consumers (McKinsey, 2016)<sup>13</sup>**



According to the Shanghai Nutrition society middle-class consumers in First and Second-Tier cities want their breakfast to be “healthy”, “easy to cook”, and “tasty”, as can be seen in Figure 2<sup>14</sup>.

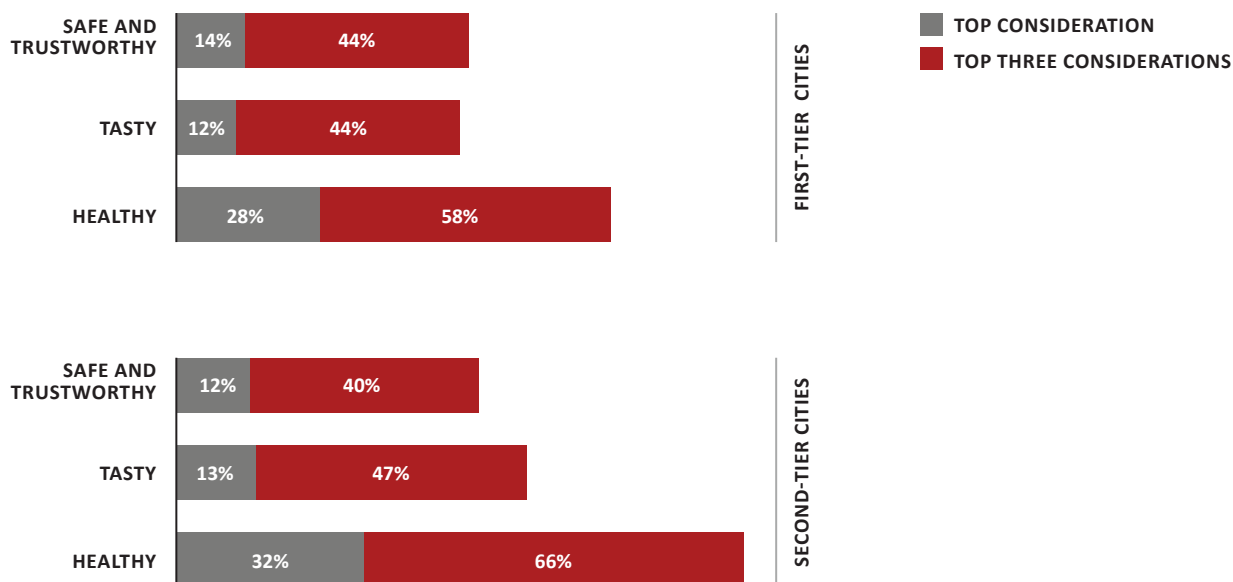
**Figure 2: Middle Class Consumers’ Top Priorities in the Chinese Breakfast Market (Shanghai Nutrition Society, 2016)<sup>15</sup>**



As Figure 3 shows, in 2016, consumers in Second-Tier cities surpassed those in First-Tier cities to become the consumer group most likely to prioritise the health benefits of their breakfast. Second-Tier cities can therefore be seen as the next frontier for breakfast cereal companies exporting, and selling to, China.

<sup>12</sup> <http://www.mckinsey.com.cn/mapping-chinasmiddle/>  
<sup>13</sup> <http://www.chinairn.com/scfx/20161020/172604999-2.shtml>  
<sup>14</sup> <http://sh.qq.com/a/20160621/014419.htm>  
<sup>15</sup> <http://sh.qq.com/a/20160621/014419.htm>

**Figure 3: Priorities of Consumers' in First-Tier and Second-Tier Cities in the Chinese Breakfast Market in 2016 (Mintel, 2016)<sup>16</sup>**



#### 4. CHINESE CONSUMERS' BEHAVIOUR IN THE BREAKFAST MARKET

According to McKinsey, in 2013, 77% of Chinese consumers had breakfast at home two- or three-times per week; however this figure had fallen to 66% by 2016. From this data we can conclude that the majority of Chinese consumers continue to prefer to have breakfast at home, although over time this choice is becoming less popular perhaps due to the greater convenience and ease of eating breakfast outside of the home in order to save time.

Chinese consumers are willing to pay a premium for a good dining environment and high quality service, therefore the cost of breakfast depends on the vendor. In 2016, 70% of consumers spent RMB 3-9 at breakfast bars, 36% of consumers spent RMB 10-29 at convenience stores, and 35% of consumers spent over RMB 30 at cafes or bakeries.<sup>17</sup>

#### 5. HEALTH CONSCIOUS CONSUMERS

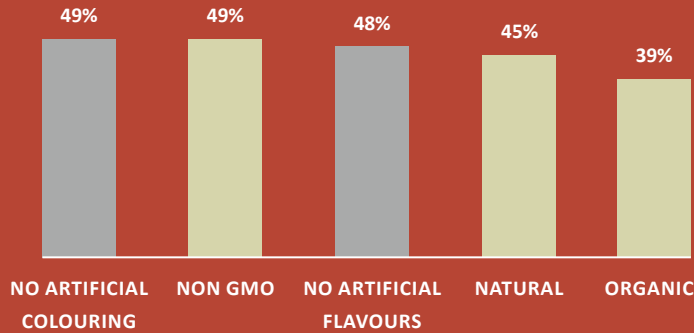
According to research conducted by Nielsen in 2015, **“fresh”**, **“natural”**, and **“unprocessed”** are the three key factors influencing global consumers' buying decisions<sup>27</sup>.

Compared with consumers in developed countries, those in developing countries, such as China, are more willing to pay a premium for healthy products. This preference often stems from health concerns amongst the populations of developing countries – for example over environmental pollution and the subsequent contamination of food.

Three quarters of Chinese respondents are willing to pay a premium for food with health benefits; of which 30% are strongly willing, and the remaining 70% somewhat willing, to pay. In China, **“no artificial colouring”** and **“non-GMO”** are the most important features of food for respondents, followed by **“no artificial flavours”**, **“natural”**, and **“organic”**, as Figure 4 illustrates.

<sup>16</sup> <http://sh.qq.com/a/20160621/014419.htm>  
<sup>17</sup> <http://www.chinairn.com/scfx/20161020/172604999.shtml>  
<sup>27</sup> <http://www.useit.com.cn/thread-13478-1-1.html>

Figure 4: Key Factors Influencing Chinese Consumers' Buying Decisions<sup>28</sup>



Breakfast cereals, already perceived to be a “healthy” and “light” choice amongst Chinese consumers, are at an advantage when it comes to Chinese consumers’ growing health consciousness. International producers of breakfast cereals would be well advised to take note of the key factors above when marketing and exporting their products to China.

## 6. KEY PLAYERS IN THE CHINESE CEREAL MARKET

Multinational companies occupy a key position in the breakfast cereal market in China. With a 27.9% share of the market value, Cereal Partners Worldwide is the leading player, Standard Food Corporation accounting for 8.3%, PepsiCo Inc 5.1%, Kellogg Company 4.5%, and others 54.1%.<sup>29</sup> An overview of the market strategies, key demographics, and product offerings of three leading breakfast cereal competitors within the Chinese market can be found as follows:

### Nestlé

Nestlé’s market strategy in the Chinese breakfast cereal market has seen it focus on the children’s market. The brand has invested heavily in products and marketing strategies targeting children, for example in 2010 Nestlé offered regular discounts on its Nestlé Stars brand in southern China, in order to drive sales of its products.<sup>31</sup> Its products targeting children feature popular cartoons and illustrations and the brand offer multipacks of breakfast cereal mini-packs for children.<sup>32</sup>

Nestlé’s cereal product range targets health conscious consumers with its ‘Fitness’ range<sup>33</sup>, as well as ‘family’ breakfast options, which include ‘Cheerios’ and ‘Cornflakes’.<sup>34</sup>

Nestle also targets elderly consumers with its breakfast cereals, with its “Nesvita” product range<sup>35</sup> which provides fortified porridge oats drinks which are served hot and be consumed for breakfast. The product range contains oats imported from Australia. Nesvita is available in gift boxes suitable for families to gift to their elderly relatives.<sup>36</sup>

### Calbee

Japanese brand, Calbee has its flagship store on Tmall Global, and seeks to actively expand its presence and activities within the Chinese market, forecasting that one third of its global sales will come from China in the future.<sup>37</sup>

Calbee’s breakfast cereal market strategy targets Chinese female Millennials, encouraging them to consume its breakfast cereal products not only with milk, but also with yoghurt as snacks.

Perceptions amongst Chinese consumers of Japanese products as being of a high quality and pure has also boosted the brand, with its products – and in particular its yoghurts - seen as a “must-buy” for Chinese tourists to bring back from Japan<sup>39</sup>.

### The Kellogg Company

US multinational, The Kellogg Company (“Kellogg’s”) also focuses on Chinese female Millennials, and has launched Granola (four kinds of grains and five kinds of fruits, made with freeze-drying technology) into the Chinese market.

Kellogg’s offers Granola in a variety of product formats, including in a small 35g bag that is suitable for convenient ‘on-the-go’ consumption, for example this mini-pack can be easily transported by white collar workers for consumption in their workplace.



<sup>31</sup> [https://www.just-food.com/analysis/the-boom-continues\\_id116942.aspx](https://www.just-food.com/analysis/the-boom-continues_id116942.aspx)  
<sup>32</sup> [https://www.nestle.com.cn/brands/cereal\\_products/cpw/child\\_series](https://www.nestle.com.cn/brands/cereal_products/cpw/child_series)  
<sup>33</sup> [https://www.nestle.com.cn/brands/cereal\\_products/cpw/adult\\_series](https://www.nestle.com.cn/brands/cereal_products/cpw/adult_series)  
<sup>34</sup> [https://www.nestle.com.cn/brands/cereal\\_products/cpw/family\\_series](https://www.nestle.com.cn/brands/cereal_products/cpw/family_series)  
<sup>35</sup> <http://daxueconsulting.com/cereals-market-in-china/>  
<sup>36</sup> [https://www.nestle.com.cn/brands/cereal\\_products/nesvita](https://www.nestle.com.cn/brands/cereal_products/nesvita)  
<sup>39</sup> <https://www.kantarworldpanel.com/global/News/The-next-breakfast-icon-in-China-cereal->



## 7. KEY TRENDS IN THE MARKETING AND DEVELOPMENT OF BREAKFAST CEREAL IN CHINA

From reading the market overviews of Nestlé, Calbee, and The Kellogg Company above, a number of key trends in the marketing and development of breakfast cereal in China by international players are made apparent.

Firstly, players are seeking to carve out additional space in the market and increase demand for breakfast cereal amongst Chinese consumers by marketing cereals as suitable for consumption beyond breakfast. Cereals are being promoted as the ideal option for a snack or light meal. In addition, brands are promoting the consumption of cereal not just with milk, but also with other accompaniments such as yoghurt and ice cream.

In addition, the promotion of breakfast cereals targeting niche consumer groups and

demographics is a key trend within China's breakfast cereal market. The perceived health benefits of breakfast cereal make it particularly suitable for groups such as the elderly, young children<sup>40</sup>, and diet and health conscious consumers, such as young women.

International players can be seen to be sensitive and reflexive to uniquely Chinese consumer habits and preferences in the marketing and development of breakfast cereal products. An example of this can be found in the Chinese practice of gifting breakfast cereal:

Breakfast cereal is not typically given as a gift in the UK, however within China, the perceived health benefits of breakfast cereal and the prestige of imported breakfast cereals sees consumers gifting breakfast

cereal; a trend which is growing most quickly within First-Tier cities.<sup>41</sup> Kantar Worldpanel's research in 2016 found that up to 25% of the total volume of breakfast cereal in Chinese households was received as a gift<sup>42</sup>, indicating significant market potential for international players to develop 'gift-friendly' packages of their breakfast cereal products.

In addition, international players can be seen to have adapted their cereal products to suit traditional Chinese consumption preferences. These preferences include a preference for the consumption of a hot meal for breakfast, as well as the more unusual preference for the consumption of black cereals, with dark coloured products perceived to be healthier by Chinese consumers<sup>43</sup>.

## 8. CONCLUSIONS

China's breakfast cereal market is still in its infancy however offers international companies plenty of room for growth and opportunities for development. Market sectors with clear potential for growth include: products targeting children, the elderly, young female consumers, health conscious consumers, and consumers in Second-Tier cities. Brands can focus on encouraging consumers to consume cereal in a variety of ways, reaching beyond the breakfast table, to include light meals and snacks. Localisation of products to suit the needs and preferences of Chinese consumers remains key to success within the Chinese market, and international brands can look to promote their place of origin to appeal to Chinese consumers seeking imported products. In short, China's appetite for breakfast cereal remains for now small, but looks set to continue to grow.

<sup>40</sup> <https://www.kantarworldpanel.com/global/News/The-next-breakfast-icon-in-China-cereal->

<sup>41</sup> <https://www.kantarworldpanel.com/global/News/The-next-breakfast-icon-in-China-cereal->

<sup>42</sup> <https://www.kantarworldpanel.com/global/News/The-next-breakfast-icon-in-China-cereal->

<sup>43</sup> <https://www.bakeryandsnacks.com/Article/2014/05/05/Breakfast-cereal-China-Black-cereal-trending-Datamonitor>