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CBBC Research | Snack Foods in China

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INTRODUCTION

Snacking has always been a beloved pastime in China when socialising. Family and friends traditionally consume vast amounts of sunflower seeds, nuts, and dried fruits at parties whilst chatting or playing games; this tradition continues today, however the snacks consumed at these gatherings are changing, with many new (and imported!) snacks entering the scene. China's evolving snack-scene offers many tempting opportunities for UK snack companies wishing to enter this dynamic market.

MARKET SNAPSHOT

The snack food market in China, and therefore the online snack food market, is growing, and this growth is predicted to continue into the next decade. In 2015, the snack food market in China was worth GBP 46.5 billion (RMB 400 billion)[1], with GBP 2.3 billion (RMB 20 billion) worth of online purchases of snacks.[2] However, by 2020 it is predicted that the total snack food market will be worth GBP 75.6 billion (RMB 650 billion), with the value of snack foods bought online at least trebling to a total of between GBP 7.6 billion (RMB 65 billion) and GBP 9.1 billion (RMB 78 billion).

Within the Chinese market for imported snacks, the three products in most demand online are biscuits, chocolates, and confectionery; when combined these products made up 64% of online imported snack sales in China in 2016.

Online stores are an important retail channel in China and are a platform on which imported snacks have become increasingly popular, although sales and popularity of imported snack foods show variation across these channels. A parallel trend to the rise of online shopping in this industry is the increasing popularity of boutique supermarkets, which are more likely than traditional Chinese shops to stock foreign foods and imported snacks.

Chinese consumers are increasingly interested in foods which they perceive to be healthy and 'safe', a trend which has been identified by many analysts as the most important when it comes to shaping the market for snacks in China today[3]. Other key trends include the continued fragmentation of the market, the importance of festival-based seasonal demand, and the demand for suitable packaging.

OVERVIEW OF THE DOMESTIC AND IMPORTED SNACK MARKET IN CHINA

China's snack food market continues to grow: a report by China Industry Information, a data analyst, shows that between 2011 and 2016, the sales volume of snacks in China increased from 13.54 million tonnes to 16.19 million tonnes; a compound annual growth rate (CAGR) of 3.6%. At the same time, the sales value increased from GBP 36.2 billion (RMB 310.9 billion) to GBP 52.2 billion (RMB 449.3 billion); a CAGR of 7.7%.[4] This indicates that not only are consumers in China purchasing more snacks, they are also purchasing more expensive snacks.

The same report also predicts that the sales value of snacks will rise with a CAGR of approximately 10% in the five years from 2016, which means by 2021 it would be worth approximately GBP 84.1 billion (RMB 723.6 billion). This positive outlook presents an opportunity for international investment in the Chinese snack food market, as when the snack market as a whole grows, so too does the market for imported snacks. China Industry Information also points out that since 2003, the growth rates of "western style" snacks have tended to outpace those of more traditional Chinese snacks, noting that in this time the market for crisps has grown by an annual average of 10.1%, a higher figure than that for Chinese-style rice chips (1%).

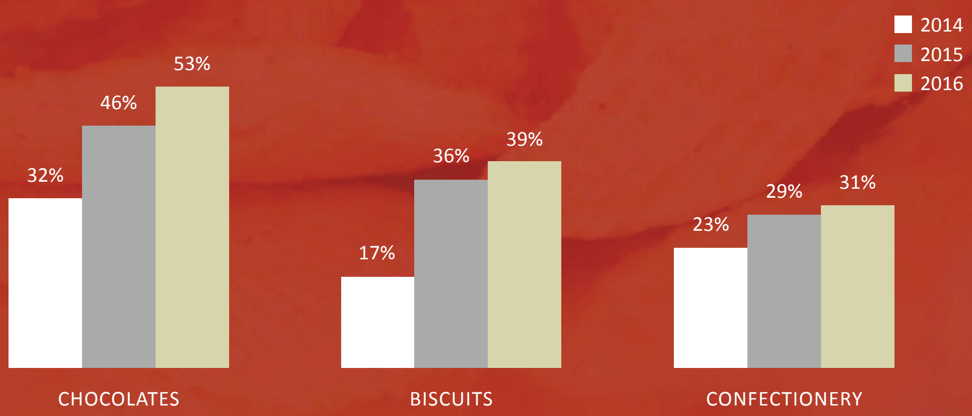
Consumers in China are known to be sophisticated online shoppers, and benefit from a well-developed internet infrastructure to support this behaviour. The market for food is no exception to this, and within this online market it is snacks that occupy the largest market share, at 33% of the total online food market in 2016, according to research by CBNData using data gathered by Alibaba, an e-commerce and technology conglomerate, from January 2014 to June 2017.[5]

The online market for snacks is dynamic and is growing quickly, as the case of online snack producer and retailer, Three Squirrels (三只松鼠), demonstrates. Three Squirrels offers a comprehensive range of snack products, with a particular specialism in the sale of nuts[6/7]. Three Squirrels' success reflects the buoyancy of the Chinese snacks market, in its second year of business, in 2013, it recorded revenues of GBP 34.9 million (RMB 300 million), and only three years later in 2016 this figure exceeded GBP 581.4 million (RMB 5 billion).[8]

Some of the snacks sold in China are imported, and in turn, some of these are sold online. The three types of imported snack that recorded the highest online sales figures in 2016 were biscuits (33% of total online sales of imported snacks), chocolates (18%), and confectionery (13%).[9] Concentrating on these three broad types of snack, which are likely to be a mainstay of many international snack producers based in the western world, CBNData's report also shows that the proportion of these three types of snack food which are imported varies, as Figure 1 shows. When buying chocolate online, consumers in China are more likely to buy imported products than Chinese brands, but this is a recent phenomenon: until 2015, only 46% of chocolate bought online was imported, and it is still true that the majority of biscuits and confectionery bought online are not imported. However, as with chocolate, consumers in China are quickly moving away from buying Chinese biscuits and confectionery online, and are moving towards imported varieties.[10]

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/201705/523705.html
3 http://www.mintel.com/press-centre/food-and-drink/urban-chinese-consumers-report-eating-more-nuts
4 http://www.chyxx.com/industry/201705/520218.html
5 http://www.cbndata.com/report/118?isReading=report&page=5
6 https://www.forbes.com/sites/fredawan/2014/06/09/three-squirrels/#2649d0e14c4e
7 http://www.mintel.com/press-centre/food-and-drink/urban-chinese-consumers-report-eating-more-nuts
8 http://www.chyxx.com/industry/201705/520218.html
9 http://www.cbndata.com/report/399/detail?isReading=report&page=22
10 http://www.cbndata.com/report/118?isReading=report&page=23

Figure 1: Proportion of Three Key Types of Imported Snack Purchased Online, 2014-2016 (%)



Source: CBNData

Aside from online platforms, which, as Figure 1 suggests, are selling more imported snacks with each passing year, other important sales channels for imported snacks include boutique supermarkets such as Olé, BHG, Bravo, City Super, City Shop, and BLT, all of which are supermarkets with a more international flavour and a product range to match.[11] In line with this, on 15th July 2016, Tmall Global, a large Chinese online retail platform, set up a strategic alliance with international supermarkets including Sainsbury's, Asda, Costco, Dia, Albert Heijr, The Co-operative and Fiesta.[12] This trend of online retail and boutique supermarkets coincides with the relative decline in traditional small Chinese neighbourhood shops, which, due to their size, are less likely to stock international snacks.[13]

Alongside these developments in retail channels, a study conducted by Kantar shows that out-of-home consumption of food and beverages in 2016 totalled GBP 13.7 billion (RMB 118 billion), which exceeded at-home consumption at GBP 12.3 billion (RMB 106 billion).[14] Given that consumers eating outside of their home are relatively more likely to eat snacks in place of standard meals, or are simply more likely to pick up a snack as they are browsing in a shop, this also suggests that the market for snacks, and therefore for imported snacks, is strong.

Given China's scale and diversity, regional differences still exist across the Chinese snacks market, and the imported snack market is no exception to this.

However, with the development of online retail these differences are becoming less and less pronounced.

11 http://www.sohu.com/a/115469348_465519
12 http://www.cbndata.com/report/399/detail?page=17
13 http://www.chyxx.com/industry/201705/520218.html
14 http://www.199it.com/archives/608287.html

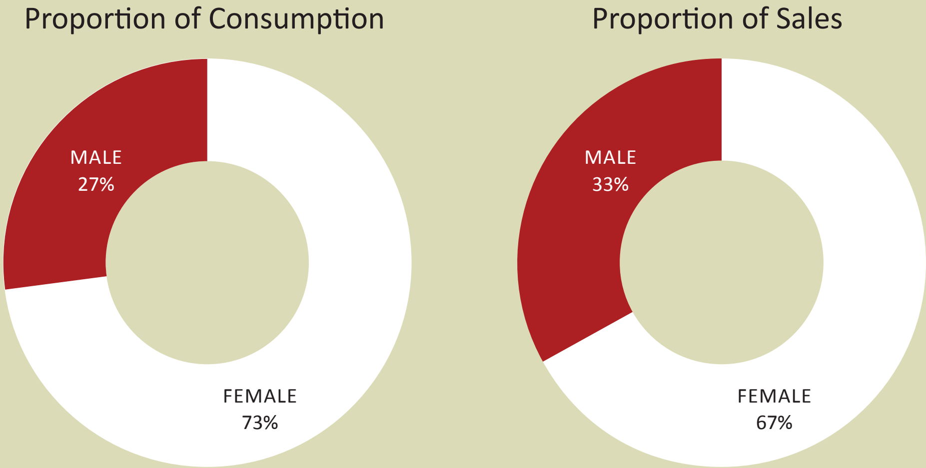
DEMANDS OF CHINESE SNACK CONSUMERS

The main consumers for online snack foods are those aged between 18 and 35.[15] Research by Ipsos in 2017 shows that consumers in China, particularly younger ones, are paying more attention to their overall health and to food safety, with 63% saying the latter is something they consider when purchasing products, up from 55% in 2016.[16] Consumers in this demographic, who already comprise 40% of China's urban population aged between 18 and 70, are developing a taste for natural foods to counteract the negative effects (for example exposure to environmental pollution) of modern urban life in China. As the proportion of these consumers in cities increases—it is predicted that they will make up 46% of city dwellers aged 18 to 70 by 2021[17] —so too will the demand for healthy snacks free from food safety concerns.

They also exhibit self-control when faced with products they deem unhealthy, and are willing to pay more for those which they view as being of a higher quality. The Ipsos report further suggests that these trends are propelling demand for imported food, which includes imported snacks, among younger consumers with relatively high incomes in China, pointing out that 85% of this group had bought imported snacks in the year leading up to the survey.

It is the move towards healthy snacks that both Ipsos and CBNData identify as perhaps the defining trend in today's snack food market in China; it is not the only trend though. As a result of intense competition within the Chinese snack foods market, consumers are becoming increasingly segmented, resulting in more products being developed to satisfy different consumer needs. Some of the main consumer groups include: children, women, men, and white-collar workers.[18] Women are the main buyers and consumers of imported snacks, as can be seen in Figure 2, suggesting that this demographic is an obvious target for snack producers wishing to export products from the UK. Although men buy fewer imported snacks than women, they spend more per purchase than women, making up 33% of total spending on imported snacks, despite only accounting for 27% of their consumption.

Figure 2: Proportion of Consumption and Sales of Imported Snacks by Gender (%)



Source: CBNData

[15] http://i.aliresearch.com/img/20170523/20170523171542.pdf
[16] http://www.sohu.com/a/211292423_749026
[17] http://i.aliresearch.com/img/20170523/20170523171542.pdf
[18] http://www.cbndata.com/report/399/detail?isReading=report&page=1

SEASONAL TRENDS

China's snack market shows signs of seasonal variation. In particular, it is notable that the colder months are the peak season for snack consumption.

Increased purchases and consumption of snacks during this time are largely the by-product of China's major annual shopping festivals - 11.11 'Singles' Day' (on 11th November)[19] and to a lesser extent, 12.12 (on 12th December) - which fall at this time. These predominantly online events see Chinese shoppers snap up heavily discounted products on offer across a range of ecommerce platforms.

Sales of snacks have also soared during these periods. For example, Three Squirrels saw its Singles' Day sales rise from GBP 930,000 (RMB 8 million) in 2012, to reach GBP 50.6 million (RMB 435 million) in 2016. [20]

In addition, Chinese New Year, which falls in January or February of each year, drives demand for the purchase of snacks which families and friends share to celebrate the New Year.

PACKAGING OF SNACKS

Packaging of snack food products is an important consideration both for Chinese consumers of snacks, as well as for UK companies wishing to successfully export snacks to China.

According to a 2017 market survey from Ipsos, 43% of Chinese consumers would be willing to pay more for a product that has individually packed servings in order to better preserve the product, as well as help control the portion size consumed: two factors particularly relevant to health-conscious consumers.

Whilst when it comes to considerations of design, 59% of Chinese consumers would be willing to pay more for snack foods with aesthetically pleasing packaging.[21]

In addition, Chinese consumers display a strong interest in customisation of snack food products, with 80% of Chinese participants in a 2016 survey agreeing with the statement 'I prefer to buy food that can reflect my personality' (almost double that of UK respondents, at 43%).[22]

Family-size products and gift-packs of snack products are also enjoyed by Chinese consumers. With demand for these products peaking over China's ecommerce shopping festivals – 11.11 and 12.12 – as well as Chinese New Year, during which time consumers enjoy these products shared amongst family, friends, and colleagues.

CONCLUSIONS

For UK snack producers seeking to enter the Chinese market, it is important to know that international snacks, and correspondingly, Chinese versions of international snacks, are becoming increasingly popular in China, therefore there is plenty of scope for growth in this area. However, not all snacks will be equally suitable for consumers in China, as there is a strong preference amongst consumers towards those that are seen to be healthy and safe; so international producers can be advised to concentrate on these qualities, adjusting the ingredients, packaging and marketing of their products, if necessary, to emphasise these qualities.

International producers should also try to target young and urban consumers through online retail channels, as these groups are more likely to consume international snacks and purchase them online. Female consumers are also an influential consumer group in the purchase and consumption of snacks.

19 http://www.cbbc.org/news/cbbc-insights-retail-chinese-e-commerce-industry-c/
20 http://www.chyxx.com/industry/201705/520218.html
21 http://www.sohu.com/a/211292423_749026
22 https://www.ipsos.com/sites/default/files/2017-07/Trends_in_Food_Beverage_China_2016_E.pdf