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Report Highlights:

In July 2021, FAS China staff attended the 7th Food and Beverage Innovation Forum (FBIF). This report includes information and noteworthy trends as presented and discussed at the FBIF, not FAS China's official data or position. Presenters and attendees shared insights on food trends in China that may be worth considering when crafting trade promotion strategies for U.S. food products, beverages, and ingredients. Main takeaways from the show include the importance (and definition) of 'light food'; demand and trends in dairy and related beverages; and various hotel, restaurant, and institutional (HRI) trends. The conference revealed opportunities for non-GE soybeans, poultry, nuts and dried fruit, and beans and specialty crops.

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Observations from the FBIF: General Recommendations

The concepts of *being healthy, being light, and being functional* are growing in popularity in China, particularly among young, fitness-interested men and parents who aim to instill nutritious dietary habits in their children. It is important to be aware that these two consumer groups have relatively high earning capacities and spending habits. Increased sales of U.S. nuts, dried fruits, beans, and specialty crops in these areas could be especially profitable. Additionally, it is important to note that these types of products depend heavily on innovation.

Young people are increasingly interested in convenient cooking culture. They pursue a sense of participation as well as speed. For example, products such as mulled wine kits make it easy to enjoy a festive winter drink at home.

Manufacturers should consider providing detailed information on ingredients. For example, if one beverage contains melon, it will be more appealing to customers if the manufacturer can list the exact name or origin of this type of melon. It helps to engage consumers. Seasonal batches, festive packaging and marketing focusing on "natural" aspects of a product are also good approaches.

Updates as of December 2021 have been added in italics in this version of the report to reflect on earlier projections and the latest market developments.

Discussion: China's Food-Related Economy Remains Weak

One speaker at FBIF explained how China's food and beverage sector remains weak despite signs of strong economic growth overall. The first COVID outbreak in the world was in China, and by the beginning of 2020 the pandemic had already seriously impacted China's economy. Financial indices plummeted sharply. However, due to exceptionally strict COVID-related control measures, the impact of the pandemic on China's economy has been limited in comparison to other countries. China achieved over 20 percent growth in most food-related sectors in the first half of 2021. For instance, the Hotel, Retail, and Industrial (HRI) sector grew 26 percent since 2020.

However, the discussion at FBIF centered around the fact that China's food and beverage sector remains weak, and poor baseline figures from 2020 account for exceptionally impressive 2021 growth figures.

Taking the HRI sector again for example, the two-year average growth is only 1.4 percent. As a matter of fact, in the HRI sector, 2021 gross sales to July remained smaller than in the same period of 2019.

Retail Market

According to a speaker at FBIF, in May 2021, China's industrial output grew by 8.8 percent, services increased 12.5 percent and retail sales increased 12.4 percent from the same period one year prior. Retail sales growth is down from previous months, but still significantly outperforming industrial output. The high growth rate is due to a low baseline during the pandemic in 2020, when both industrial output and services both dropped double digit and online sales recorded negative growth.

In terms of the previous two-year average, industrial output increased 6.6 percent, exports increased 9.3 percent and retail sales were up 4.5 percent; not considered large increases. During this initial recovery period, food and beverage slightly outperforms the others.

From January to May 2021, online sales reportedly grew at a slower rate than the previous year. Interestingly, in-store or offline sales beat out online sales for the first time. Online sales account for approximately 20 percent of retail sales and as a percentage of all sales have a flat growth rate.

December 2021 Update: Hindsight reveals that FBIF projections, which were built on statistics from the first quarter of 2021, were a bit less optimistic than the outcome. Consumers in China are now gradually resuming activities at levels before the pandemic, for instance, more dining out and more recreational activities.

Areas of Rapid Recovery in the Economy

According to the FBIF, retail sales in China reached RMB 40 trillion (about $625 million USD). Among these, urban consumption reached RMB 34 billion with an increase of 12.3 percent, and rural consumption reached RMB 7 trillion, with an increase of 13.2 percent. 2-yr average growth rates for urban and rural consumptions are 4.5 percent and 4.7 percent respectively. Rural consumption grew by 0.5 percent more than urban consumption (average of 2016-2020), boosted by many factors including e-Commerce, home appliance and vehicles subsidy program to rural area, well-established infrastructure, increasing purchasing power and the strategy of rural revitalization. Rural market will enjoy a faster growth rate.

Retail sales consist of two components: consumer goods and catering, with a 9 to 1 split. Catering is more severely impacted by the pandemic while consumer goods are more resilient. Catering is up 26.6 percent in May 2021, but the 2-year average is only 1.4 percent, versus 4.9 percent for consumer goods.

Trends

According to the FBIF, retail sales continue to grow on both annual and monthly bases. Exports reportedly increased by 100 percent and imports over 50 percent, year-on-year. Exports in May reportedly grew by 27.9 percent, down slightly from April. The overseas market is recovering and competition from Southeast Asia is a central theme again. Import in May increased by 51.1 percent, 8 percent higher than April. Domestic demand is improving. Commodity trades were reported to be slowing down, with iron ore prices declining.

December 2021 Update: Year-end views of the HRI sector appear to be more positive. The sector reached RMB 4.7 trillion (USD $738 billion) in 2019, then shrank down to RMB 4 trillion (USD $629 billion) due to the COVID pandemic. Over the past two years, the market has gradually regained the loss and according to some projections is likely to bounce back to its peak. Additionally, some industry contacts believe the sector will grow to RMB 6.6 trillion (USD $1.04 trillion) by 2024 at an annual growth rate of nearly 13 percent.

Consumer Expectations

China's food industry was already in the midst of transition prior to the COVID pandemic, upgrading from having enough to eat to eating well, and transitioning from consuming more animal protein to a more balanced diet. Consumers now want to buy clean and delicious food; these are basic requirements. Additionally important is whether a new product appears eye-catching and exciting.

According to the FBIF, the outbreak of the pandemic was a catalyst that accelerated the process. To summarize, some of the major consumer expectations of food include the following:

Being healthy

In times of global health crisis, it is not surprising that healthy eating has become a prominent theme and a top concern for consumers. An Ipsos Group survey for example reported that 89 percent of consumers care about health-related aspects of food, which is 4 percent higher than a year previous and a new all-time high.

Being light

The concept of "being light" contains multiple layers. It refers to light meals or replacement meals, normally a salad or an energy bar, which substitute the typical heavy full meal; it suggests "light tasting" food, meaning fewer flavorings such as oil, salt and sugar; it means small in terms of portion size, or just enough to be called a meal; and it even stands for a light-colored meal, to help reduce consumers' appetite. Being light implies a modern lifestyle, a pursuit of being mild, neutral, and natural; less aggressive and extreme than is often the norm.

Being functional

Consumers' understanding of functional foods varies widely in China, from fitness-related, beneficial in terms of skin care, eye care, protection against hangovers, aiding sleep, to strengthening digestive function, and so on. An Ipsos survey showed that 37 percent of consumers care about functional features of food, 23 percent higher than a year ago.

New Food Sectors

Plant-based Meat Alternatives

Plant-based meat alternatives represent consumers' new product interests and expectations with regard to health. Although the idea originated from concerns about food security, it happened to work well with consumers' growing preference for more plants in their diets. That was why, according to discussions at FBIF, the concept exploded in China immediately when it was initially promoted in 2020 and remained a hot topic at the forum a year later.

Over the past year, large food corporations have been mostly manufacturing in China already, for instance, Unilever, Nestle, Wilmar, and many Chinese domestic producers. It is getting easier for consumers to buy plant-based meat products at fast-food chains such as KFC and Starbucks, online, or convenience stores. While consumers have not yet fully accepted plant-based meat products and integrated them into their diets on a regular basis, few people in the industry would deny that acceptance of plant-based meat is inevitable.

Out of the 350 or so Food Innovation Show exhibitors, there were around ten plant-based meat manufacturers, including Beyond Meat and The Vegetarian Butcher, a plant-based meat brand of Unilever.

Note: Based on FAS China's research and outreach, interest in plant-based meat alternative products currently surpasses demand for them. More information is available in the August 2020 GAIN report: Market Overview of Plant Based Meat Alternative Products, January 7, 2021

Vegan Yogurt

Vegan yogurt also represents some consumers' interest in reducing animal products in their diets. Compared with plant-based meat, vegan yogurt is much more flexible in terms of ingredients. U.S. food ingredients supplier International Flavors & Fragrances Inc. (IFF) developed a range of formulas with plant-based ingredients such as coconut, pistachio, and oat; all of these alternative sources are already on the market and selling well.

Soy and bean milk

The popularity of soy- and bean milk reflects consumers' interest in plant-based products; the sector is attracting more and more investment and competition is fierce. Soymilk is a traditional Chinese drink enjoyed in both North and South China. The market for soymilk is enormous in scale and value due to the size of the population of China.

Traditional market leaders such as Vitasoy and Weiwei are losing market share and newcomer subsidiaries of large food corporations are connecting with the older brands' customers. Some leading brands are Soymilk under Daliyuan, Plant Selection under Yili, and Chengshidou under Unifood.

Notably, soymilk is never only soy, and the variety of crops used in soymilk is constantly expanding to include for example various beans, wheat, walnuts, and other ingredients.

Replacement meals

Light meals and replacement meals are increasingly popular among young people, especially young women in higher tier cities. Replacement meals are a mixed concept. It can be a sandwich, or a salad, or an energy bar, or simply some type of biscuit. The common point shared by these food products is less fat, less salt, and more plant. Plants used for meal replacement are typically beans, wheat, fruits, nuts, dried fruits; animal proteins include fish and chicken.

Beverages

Alcoholic beverages

Today, China's low-alcohol content alcoholic beverage market is around 15-20 billion RMB ($2.3-3.1 billion USD), and there is huge room for development. It is worth noticing that with the entry of young consumers, the alcohol industry has multiple segmentation opportunities.

Young people are attracted to low-alcohol drinks. By contrast, in Chinese culture, never refusing a toast or an offered drink is the tradition in China, which would tend to support more robust wine culture. With the change of mindset, the purpose of drinking has become more about pleasing oneself rather than pleasing others.

China's per capita alcohol consumption is relatively low on the international scale. Chinese baijiu accounts for half of China's alcohol consumption, but recent years show greater diversity in alcohol consumption. For example, craft beer Founder Jiuhuaer noted that, surprisingly, beer prices are higher in lower tier cities like Guiyang, Lanzhou, Wuhan, Chengdu, Xi'an, and cities in Yunnan, and there are over 60 local breweries brands in Chengdu alone. Relatively speaking, drinkers in Zhejiang and Guangdong provinces (where Hangzhou, Guangzhou and Shenzhen are) are more sophisticated and price sensitive.

Currently, the proportion of online alcohol sales is only 4 to 10 percent, with the main sales channel in the food service industry. Trends in hard seltzer as a beer competitor are also appearing. Beer and seltzer are more for social gatherings, and consumers are mostly motivated to drink at parties, bars, and clubs.

"Ready to drinks" are a type of pre-mixed cocktail sold in convenience store displays with other beverages. This type of product was first created in Europe and America in the 1990s, and after transformations in Japan, has become a popular drink for men and women in China. It's also popular because young people are less interested in typical spirits such as *baijiu* and the recognition of traditional liquor is gradually decreasing.

Major manufacturers have begun following the lead of Rui Ao RIO and focusing more attention on packaging and taste. However, the rise of a new generation of beverage brands such as Jiang Xiaobai indicates that products should enhance the social experience of young people and resonate with them emotionally.

Children's Drinks

The children's beverages sector is growing, and nutrition is the primary factor that affects parents' purchasing behavior. Market demand for children's dairy products has also become stronger. Children's beverages remain mainly sweet and sour in taste, with insufficient innovation.

Market intelligence shows that premium water will be the next dominant children's drink if there are additional vitamins in it. From the marketing standpoint, manufacturers should indicate how these types of beverages are beneficial to oral health, bone development, and stress levels.

Plant-based Drinks

Plant-based food is considered a solution to cope with the global climate change and resources challenge, while aiming to substantially reduce the negative environmental impacts of raising livestock. Sources posited that oat milk companies can play an important role in China's rural revitalization strategy and sustainable development target. Oat milk has potential in healthy food market. However, there is much room for improvement in processing technology, such as with non-thermal processing, renovating enzymatic hydrolysis technology, supplementary enhancement, and improving the oat milk formula.

Dairy

Overview

Diverse dairy products are flourishing despite the fast-changing industry landscape. Goat milk is quickly taking market share typically belonging to cow's milk, and new plant-based milk products are appearing in the market – coconut milk, oat milk, nut milk, to name but a few. However, of animal milks (ie goat or camel milk) only cow milk has a national standard for manufacturing facilities and industrial criteria are well established. Producers are reinforcing innovation in the increasingly competitive environment. The whole industry is shifting from a seller's market to a buyer's market and changing tastes and health trends are leading to segmentation.

Insights from Bright Dairy

Pasteurized milk growth has surpassed Ultra-high Temperature (UHT) milk growth in recent years. Given that per capita milk consumption in China is lower than in many other countries, both pasteurized milk and UHT milk will likely maintain growth in the next 10 years. Covid-19 increased awareness of the importance of protein consumption. Additionally, government and academic endorsements of pasteurized milk elements such as immunoglobulin, lactoferrin, and peroxidase that are key to milk's nutritional benefits have further enhanced sales in China.

In 2021, China began expanding student milk SKU offerings from UHT milk to also include low temperature milk. This government subsidy program largely promotes pasteurized milk in public schools.

Although low-temperature sterilization technology improved required heating from 95℃ to 75℃, consumers lack understanding about the differences between low temperature milk and UHT milk; many appear together on display in chilled refrigerators. Consumer education could improve sales for low-temperature milk. Moreover, rapid development of cold chain logistic facilities and e-commerce channels has greatly contributed to growing sales of pasteurized milk.

Advantages of National vs. Regional Dairy Enterprises

National dairy enterprises such as Yili, Mengniu, and Bright have strong supply chains and economies of scale in production of UHT milk. On the other hand, regional dairy enterprises such as Guangxi Huangshi and Guangzhou Fengxing have local customer bases and relationships, and they focus on valued-added products like yogurt drinks.

Innovation of Dairy Products

High protein demand continues to increase, including toward double protein options – dairy protein mixed with plant-based protein (for example, hydrolyzed protein isolate plus wheat protein isolate cookie; milk protein concentrate mixed with pea protein isolate). The European and China markets have steady growth while the U.S. market is in decline due to the plant-based protein gains more market share.

Niche market and consumer-oriented products increasingly satisfy various consumer groups' demand for dairy products. In additional to traditional dairy consumption, mainly milk for breakfast, consumers also seek more value-added dairy products marketed to support fitness, beauty, and dietary goals such as low sugar, low fat, no additive dairy products. Young consumers pay more attention to ingredient labels during purchasing than in previous years.

Yogurt and Cheeses

Probiotic yogurts marketed as supporting healthy digestion are popular with Chinese consumers. Regional dairy enterprises invest research & development (R&D) funding in probiotics dairy products to meet the market demands.

Processed and fresh cheese products in the market in China rely on imports. The recognition of the nutritional benefits of cheese has been expanding in first tier cities and interest in a variety of products is increasing.

<u>Other U.S. Product Opportunities</u>

Non-Genetically Modified (GM) Soybeans

Soybeans are one of the most common food ingredients in China. As plant-based meat and soymilk grow in popularity, demand for non-GM soybeans will likely increase. U.S. non-GM soybeans are not yet common in China due to the government's zero tolerance for GM soybean imports.

Poultry

Poultry is increasingly popular in China. People are cooking chicken at home more frequently, more chicken burgers are sold every day, and typical light meals with protein such as chicken salad are becoming more common among white collar workers. Poultry consumption has been trending upwards for years, most recently refueled by the outbreak of African Swine Fever (ASF), despite a pork production increase that lowered pork prices considerably. In the near future, interest in consuming more white meat and less red meat will likely further increase demand for poultry, and U.S. poultry is highly likely to continue to benefit.

Nuts and Dried Fruits

Nuts and dried fruits appear mostly in daily snacks, energy bars, breakfast, dairy drinks, and vegan yogurt in powder or concentrate forms. The prices of these types of food products are typically high, and manufacturers receive significant margins from processing and packaging. Therefore, it is essential for these manufacturers to use only the best ingredients and ensure high quality. The U.S. food ingredients supplier International Flavors & Fragrances Inc. (IFF) for example sourced China-domestic ingredients for a time due to rising import prices and political tensions, but most of their clients insist on buying U.S. ingredients.

Beans and Specialty Crops

China recently transitioned from being a major exporter of beans and other specialty crops to being a major importer. Peas for example used to be imported only for making vermicelli, but food developers found more and more ways to use them. While pea starch still goes into vermicelli, pea protein goes into ham and sausage, garlic flavor pea snacks are widely available in China, and broken peas have become a favorite feed of pigeon owners. More importantly, with plant-based meat growing in popularity, pea products are becoming a good substitute for soybeans due to price differences. Another example is garbanzo, which has become popular in China among young people and exists in a variety of snack foods.

China produces both pea and garbanzo, but production is far from self-sufficiency. For these and many other beans and specialty crops, that is likely to continue to be true.

Attachments:

No Attachments.