



China – The Homeland of Tea to a Coffee drinking Nation

Industry Trends

The rising coffee culture as well as the popularity of coffee shops in the first and second tier cities helped to boost the performance of coffee in the last few years. Instant coffee already has fixed consumer groups in developed cities due to long-term consumer education by leading companies, but lacks opportunities for further growth because of its high maturity. Thus, leading coffee companies are penetrating into third and fourth tier cities as well as rural areas, because they see great potential in these areas. Meanwhile, fresh coffee is usually chosen by loyal coffee fans.

“Mainland predicted to be the World’s largest coffee market within 10 years.”

The mainland market for retail packaged coffee has grown at a compound rate of 18% a year since 2007 and could rise another 75% to RMB 16bn (\$2.5bn) by 2017.

(Source: Mintel, Euromonitor)

Competition

The Chinese coffee market is highly consolidated with multinationals controlling the market. Western coffeehouse chains are stumbling over each other to open up in China. Nestlé remained the leading player in coffee in 2013. As the pioneer in Chinese coffee, Nestlé enjoyed very high awareness and also extended its distribution network nationwide, which penetrated into the rural market as well. On the other hand, Starbucks – which has shop on every major street in China’s biggest cities – expects the mainland to be its second largest global market by 2014.

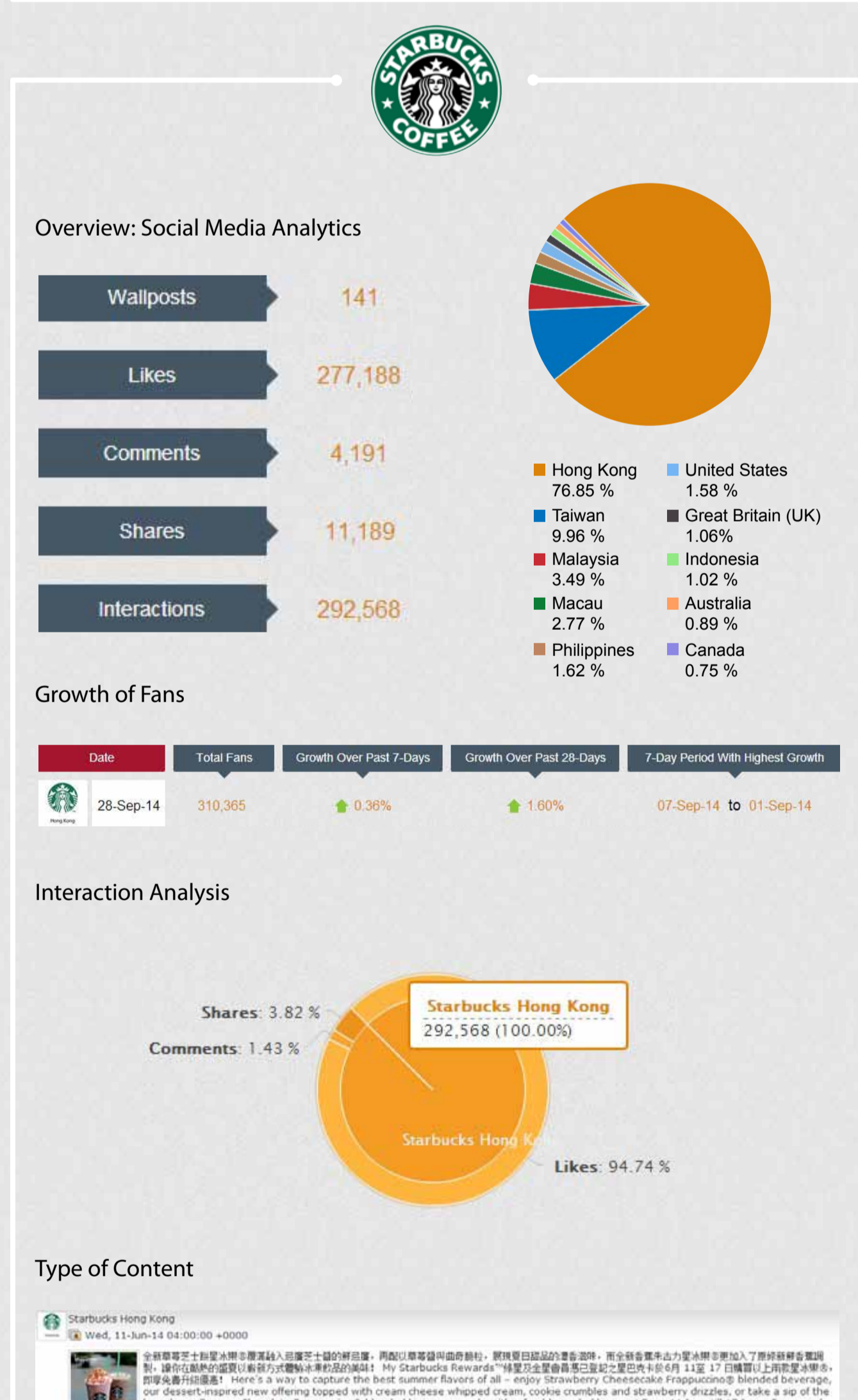
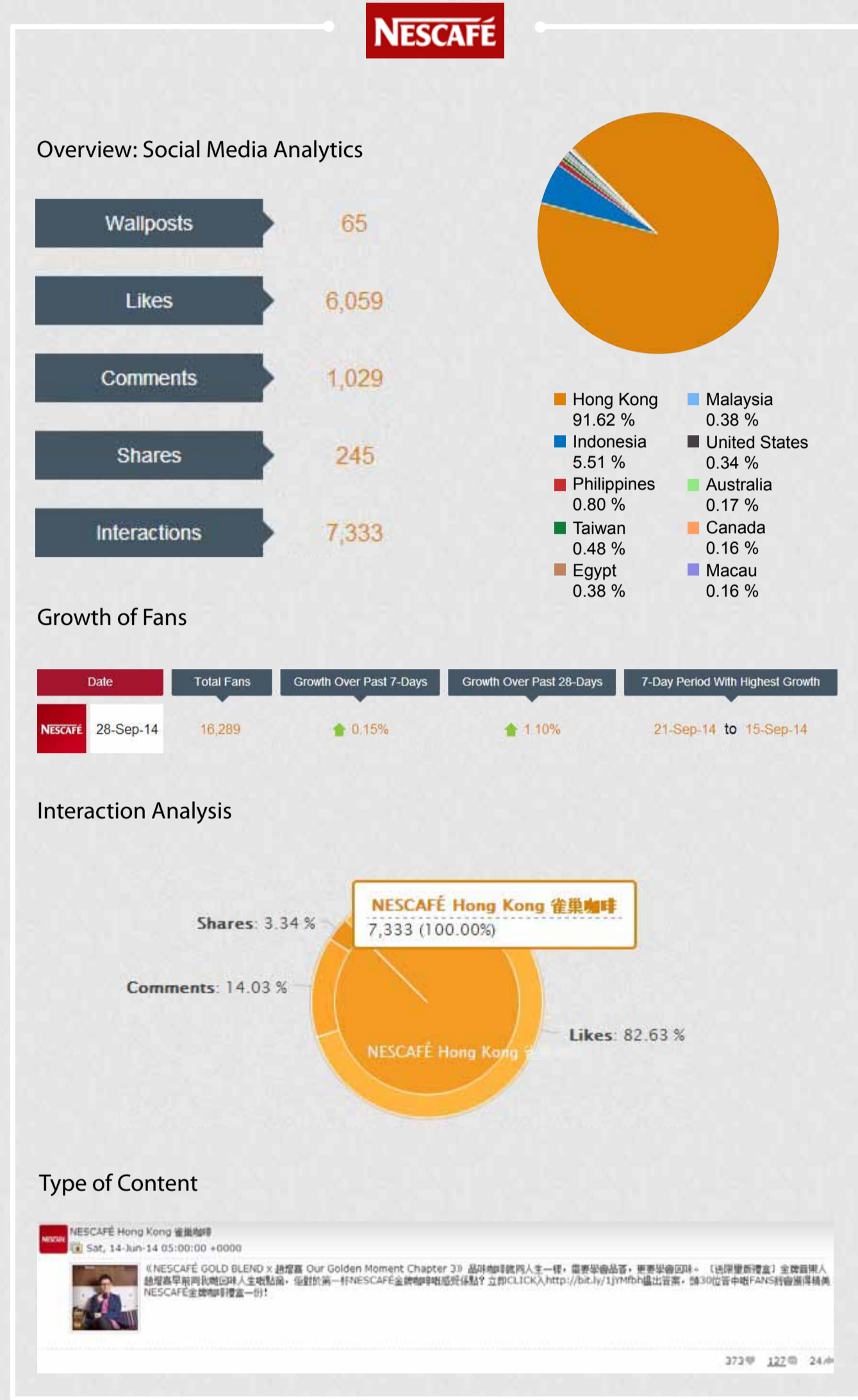
(Source: Euromonitor)

Market Localisation

Roland Decorvet, Head of Nestlé China says, “With China’s per capita coffee consumption only four cups per year compared with 400 in Japan, the potential is obvious”.

“Coffee is an alien taste for the Chinese,” says Rebecca Lian, head of Nestlé R&D in China. “They don’t like the bitter taste because it reminds them of traditional Chinese medicine.”

How active is Nescafe HK & Starbucks HK On Social Media



Something to think about ...

How did Nestlé and Starbucks persuade the Chinese to buy a product with a taste they dislike?



Answer to that is when the Chinese drink Nescafe, they are not drinking coffee but a sweet concoction of water, milk powder and sugar,” says Torsten Stocker, partner at Monitor Group consultants.

Starbucks, one of the most successful western brands in China, has adjusted its products to cater to the taste of Chinese consumers. “There is very little pure coffee sold at Starbucks,” says Shaun Rein of China Market Research in Shanghai. Many mainland Starbucks customers prefer milkshake-type drinks, teas, juices and localised flavours like the green tea latte. Chinese go to Starbucks for the culture, not the coffee.

Coffee drinks are more and more popular in China as long as they do not taste like coffee.

For instance, Nestlé recently changed the recipe for Nescafe in China for the first time in 15 years. It made Nescafe taste less like coffee which resulted in a drink with a texture and consistency closer to chocolate milk.

What’s next???



Country of origin of the coffee beans is expected to be emphasised in the forecast period. Taking coffee consumption habits from Western countries as references, people choose coffee more by its original country and flavour instead of the coffee brand. The market is showing a sign that Chinese consumers care more about these factors with more people enjoying drinking a cup of coffee.

For instance, McCafé emphasizes that the beans they use are Arabian beans.

(Source: Euromonitor)

Conclusion

China’s coffee industry is starting to stir in the right direction where the market offers boundless potential, tremendous promise and certainly China will play a pivotal role in the world coffee industry’s future strategies.

Source: <http://economists-pick-research.hktdc.com/business-news/article/International-Market-News/Mainland-Predicted-to-be-World-s-Largest-Coffee-Market-within-10-Years/imm/en/1/1X308LSH/1X09Z787.htm>
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