

Food and beverages - China

Summary of findings related to international market opportunities for Norwegian food and beverage products to China

Date: 31 July, 2016

Contact person: Lin Song, Jiwu Zhang, Qin Shi, Thomas Egger Sørensen.

1. Brief facts about the Chinese market

Share of household budget spent on food and beverages

Due to the large gaps of family incomes in China, shares of household budget spent on food and beverages are quite different. There were no authoritative statistics found on this figure of shares but generally speaking, low income families in urban regions spent most disposable incomes on food, some families have to use more than half of family incomes on food, middle range income family spent 10-30% on food. High income families spent much less than 10%. For those families living in rural areas, it's hard to figure out total family incomes, thus shares on food is hard to calculate. But it would not be surprise to guess that the share is over 30%, unless they produce some food themselves.

Please be aware of the quality and price differences of food products in China. Middle range income families and high income families are those who can really afford high quality products. Low income families usually choose lower quality food, even so, their spending on food has largest share of family incomes.

Consumer preferences, habits and trends of growth

Just like the huge difference of income level in China, consumer preferences are also varies a lot. Chinese grown rice, vegetables, meat and beverages are for sure the main products in the market. Housewives in China prefer fresh, local grown season vegetables and fruits but sometimes also pick "exotic" products transported from other parts of the country and even from abroad.

Younger, and unmarried consumers do not often cook at home. Eating outside, ordering takeaway are so convenient and inexpensive. These are the groups of people who are will to try new flavor and easy to be influenced.

One of the trends of China's food consumption has been the continuous increase of imported food. The main categories of food and beverage products that China imports are commodities include cereals, cotton, sugar and edible oil and oil seeds. Fruits, vegetables and animal products import are increasing significantly in recent years.

China's imported agriculture products have been increased substantially after its participation in WTO, at an average annual growth rate of 23%. Major imported agriculture goods include oil seeds, edible oil, fruits, animal products, and aquatic products. Meat and dairy products are the most important imported agricultural consumer products, for which New Zealand, Australia, USA, and Germany are the top export countries.

Growing import of meat and fruits indicated strong demand for foreign agricultural products now that Chinese average living standards have been improved continuously, and strong Chinese currency RMB made imported food affordable.

Increasing buying power also stimulated appetite for food diversification, and increasing concerns of food safety made Chinese in favor of foreign products.

All of these increasing demands were also met by means of more FTAs (Free Trade Agreement) with different countries, in addition to WTO, which triggered more suppliers from all over the world to sell their agricultural products towards China.

One of the most important reasons for more and more food import to China is believed to be due to food security and safety issues, and due to the consumers increasing incomes and expectations for more varieties of food and beverages.

2. Opportunities for Norwegian companies in China

China is Norway's No. 9 largest export market, where consumes 2.3% of its total export value. Up to 2014, the largest value of export is seen in machinery and electronics, followed by chemical products and animal products (mainly aquatic products).

In the food categories, Norway's seafood products are by far the largest. Norway also has very small exports some animal products, beverage and spirits, and other miscellaneous edible preparations.

There are still different trade barriers in different sub-sectors, for instance, it's relatively simpler to export beverage and spirits into China than meat or dairy products, although we consider much higher market demand for the latter.

In addition to trade barriers, Chinese market is generally very competitive in almost every sector given the huge market size and strong ambition of numerous suppliers.

Therefore, we perceive the most significant areas of opportunities for Norwegian food and beverage producers are probably:

- Chocolates, sugar and candies (HS code 18.06, 17.02, 17.04);
- Beverages and spirits (HS code 22.02, 22.03, 22.04, 22.06, 22.07, 22.08)
- Cereal products (HS code 11.);
- Meat products that have less strict import control;

Because trade barriers are relatively low in these segments while market demand is huge and diversified which invites competition.

Generally speaking, what would be the main strengths for Norwegian food exporters to your country? (e.g. quality, Norway's reputation, specialties, etc.)

3. Challenges for Norwegian companies in China

Chinese regulations and laws

Chinese government pays high attention on food safety issue. Laws and regulations had been strengthened a lot in the last decade. Norwegian companies shall be aware of relevant governing laws and regulations. In addition, always check out terms on import of agricultural goods of different categories.

China takes very strict control on importing meat products. Rules and practices are similar as importing aquatic products and dairy products, Chinese food safety authority demands and mandatory implements registration procedure on these 3 categories imported products. To fulfil the registration procedure, the first step is to sign a bilateral agreement/protocol between national food safety authorities in Norway and China. So far, there's only such protocol on aquatic products, but no agreements on dairy products and meat products yet between Norway and China. We know the current situation and challenges between two governments, and we understand how difficult and time consuming to have such new official agreement. Without this, any practical commercial activities on these products should be pended. Otherwise it will be illegal.

Market competition

In a huge size of market like China, demands on consumer products are developed imbalanced and geographically separated. Imported products are often crowded in first tier cities where highest consumption power in China is located. However, tier 2 cities with their rapid growing income but still less attention became eager to try new foreign products. It's important to identify the most important target market segment and plan for heavy competition.

Chinese culture and local consumption habits

Chinese culture and local consumption habits are essential elements to take into account of a marketing plan. Meanwhile, they are no less important to evaluate whether an imported food product will be received by Chinese consumers. Good education campaigns are inevitably critical for an unconventional food product or an absolutely new food concept. Norwegian companies have to evaluate what products are out of the question in China and what products may boom after good marketing.

Distribution channels

Distribution scheme can be so different from one product to another or from one region to another in a rapidly developing country like China. It's important to firstly understand that the prevailing distribution system may be more sophisticated and changing than well developed countries, and then identify most relevant channels for your particular products in your targeted region. Sometimes it's efficient and effective to obtain a good local partner.

4. Recommendations to Norwegian companies considering export of food and beverages to China

Be aware of Chinese law and regulations on the import and export of food and agricultural products

China is not a “free market” nation. Many foreign products are regulated by food safety and quality inspection laws and regulations during import and export. Many food products, including dairy products, health food etc. are subject to commodity supervision (quarantine and certification) at the customs during import and export.

Norwegian food suppliers and exporters shall check with Norwegian food safety authorities – *Mattilsynet* and Innovation Norway office in China for relevant laws and regulations before conducting business plans of exporting to China.

Select your partners and sales channels carefully

Usually most Norwegian exporters adopt “supplier-distributor” model when they do business in China. This is also a popular model for all other foreign food producers selling into Chinese market. Identifying and selecting capable local partners become the most important success factor especially in the introduction phase.

Chinese market has multiple segments, accessing to your target group will require careful analysis of proper sales channels. On-line shopping for consumer products is very popular and competitive business, comparing with traditional whole-selling and retailing models.

Branding for the long run and be market-oriented

A common mistake many foreign food exporters make are “going for the quick money”. This may work in the past when there were not much foreign brands sold in Chinese market. But now, branding is the key to the survival and to gain consumers attention and confidence which will turn into profit in the long run.

Although Norwegian products are generally perceived high quality and environment-friendly in Chinese market, it’s important to be aware of local culture and consumption habits. Therefore, it’s important to recognize the market requirements and identify the distribution scheme.

Branding and marketing are important even for world well-known products in China. It’s necessary for Norwegian companies to involve themselves in marketing efforts, based on a good understanding of market segments and requirements.