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Packaged food in China: Part II: Biscuit, instant noodles and edible vegetable oil

II. Biscuits

1. Biscuit consumption in China

According to the National Bureau of Statistics (NBS), sales of biscuits in China reached 24.9 billion yuan in 2005. Annual growth of biscuits sales has been exceeding 20% since 2001; yet, biscuit consumption level remains low in the country. According to industry estimates, average annual per capita biscuit consumption of Chinese consumers is only 1.05 kg while it is 25-35 kg in developed countries. And biscuit sales mainly concentrate in developed areas.

Great convenience offered by biscuits as staple food, as snack food or as hunger killer between meals, is most appealing to consumers with an increasingly hectic pace of life, especially in urban areas. The availability of small packaging has greatly enhanced on-the-go consumption. Besides, biscuits in boxed assortments are often given as gifts on festive occasions. The many functions of biscuits help maintain its stable demand.

Packaged and unpackaged biscuits both prevail in the country. Unpackaged products attract consumers with low unit price, variety of choices and freedom in mixing at the same unit price and paying by weight. Sales of unpackaged biscuits are huge in underdeveloped regions such as the Central and Northwest China. However, in tandem with the economic growth and growing disposable income levels, consumers are likely to shift to packaged products, which are usually more hygienic and in better quality.

While eastern-style biscuits include soy sauce and sesame biscuits as well as salted crackers etc, western-style biscuits include chocolate chips cookies and cream crackers etc. Despite the fact that local

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brands and traditional eastern-style products are more popular among customers, western-style and imported biscuits are fast in gaining popularity. In recent years, consumers enjoy a more diverse array of biscuit products. Different types of biscuits with a wide variety of flavors are now available on the store shelves, such as various types of cookies, cereal bars and biscuits with different fillings or toppings.

The competition in the biscuit market is stiff with more and more players entering the battlefield. In this regard, product innovation, effective marketing and extensive distribution network are the key winning strategies. Value-added products, such as biscuits fortified with vitamins or calcium, or biscuits with less sugar or fat have much room to grow along with the growing health-awareness of Mainland consumers. Besides, on top of the mass products, biscuit manufacturers are offering more “niche products” to meet the needs of specific market segments such as the youth, the elderly and children. For example, Qingshi Calcium Milky biscuits are fortified with calcium to cater to the needs of the elderly and children.

According to the 2005 CMMS survey, slightly more than a half of the respondents have consumed biscuits over the past year. They generally have biscuits 6.9 times per month. Shanghai, Chengdu and Guangzhou recorded the highest penetration; while in the Northwestern cities including Ha’erbin, Shenyang and Changchun, and Zhengzhou in Central China, penetration was far lower. Among the cities covered, biscuit consumers in Dalian, Qingdao and Kunming consumed biscuits more than 10 times per month, which is much higher than the country average.

2. Production of Biscuits

China’s biscuit production has shown a strong upward trend in recent years. According to the NBS, the country’s biscuit production reached 1.37 million tons in 2005, up by nearly 24% yoy. At present, there are about 1,000 biscuits manufacturing enterprises in China, according to the China Association of Bakery and Confectionery Industry. An average-size biscuit manufacturer typically produces dozens types of biscuits, and a large-size manufacturer can produce 200-300 types of biscuits. Biscuit factories mainly concentrate in Guangdong, Henan, Shandong, Sichuan, Fujian, Hebei, and Sichuan. Major cities such as Beijing, Shanghai and Tianjin, though have fewer biscuit manufacturers in the regions, have a high concentration of foreign-invested biscuit enterprises including Danone and Nabisco.

(1) Dominance of Sino-foreign owned biscuit manufacturing enterprises

Many foreign biscuit enterprises have entered the Mainland market by setting up local factories jointly with their domestic counterparts. Examples of Sino-foreign owned biscuit manufacturing enterprises include MasterKong from Taiwan, Danone from France and Nabisco (brand owners of Ritz, Oreo, Chips Ahoy!, etc.) from the US. These Sino-foreign enterprises, despite their short history in the Mainland market, are fast in gaining market share largely due to their production efficiency, good product quality and strong management know-how. Foreign biscuit enterprises have brought along with them advanced production technology and management know-how when they entered China, which has greatly boosted the development of China’s biscuit industry. The extensive product variety they offered has enriched the product offering in China and increased the product exposure of Mainland consumers. Learning from their foreign counterparts, domestic biscuit manufacturers have also made significant improvements in areas like production capability and product development.

(2) Problems in the biscuit manufacturing industry

Due to the fierce competition with the foreign biscuit enterprises, the overall profit margin of local biscuit manufacturers has been squeezed substantially. Many domestic biscuit enterprises have lowered their product prices hoping to recover the lost sales to foreign brands. A study in 2002 showed that the average price of products produced by the 16 largest local biscuit manufacturers has dropped by 30%, indicating that the biscuit industry is suffering from cut-throat competition and shrinking profit. Aside from price cuts, local biscuit manufacturers also focus on selling to the low-end to mid-range markets to avoid direct competition with the mid- to high-end foreign brands. With the increase in the number of new players outpacing the consumer demand growth, the problem of oversupply of low-end to mid-range biscuits has arisen, deterring the overall development of the biscuit industry.

3. Consumer behaviors

(1) Major consumer group of biscuits

The major consumer group of biscuits is female and the younger generation who aged below 35. The elderly rarely consumed biscuits. To tap the huge female market, some biscuits manufacturers are now tailor-making their products to cater to the needs of female consumers. Soda biscuits, in particular, are well received by female consumers.

(2) Purchasing considerations

As Mainland consumers becoming more affluent, price is no longer the sole determining factor affecting purchasing decision. Exhibit 8 shows that tastes and brands of the biscuit products now have significant bearing on Mainland consumers' choice of biscuits. Other market surveys also show that Chinese biscuit consumers are willing to pay more for better quality biscuits and products with special characteristics. In recent years, many enterprises have been active in developing new flavors to appeal to consumers.

Exhibit 8: Factors affecting consumers' choice of biscuits, 2004

% of biscuits consumers that regard the factor as important

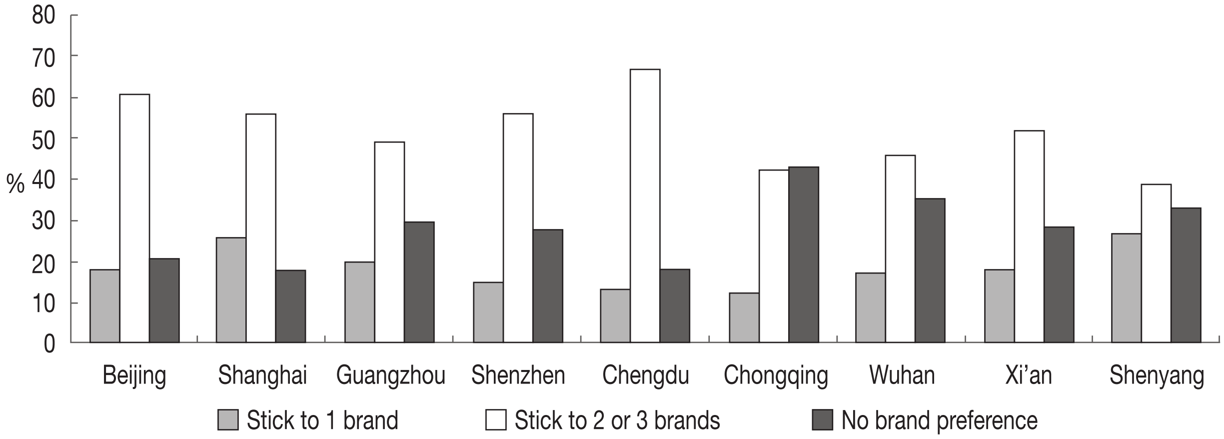
City	Weighted sample size *('000)*	Prices	Brands	Tastes	Buying convenience	Advertising	With special offer	Packaging	Production date	Out of habit
Beijing	3,648	37.8	30.0	75.7	18.2	6.8	7.8	3.3	18.2	9.8
Shanghai	5,856	42.2	38.5	78.1	25.9	9.9	7.0	3.7	18.2	9.6
Guangzhou	2,193	43.7	37.2	63.1	19.9	6.5	11.5	7.6	15.9	7.4
Shenzhen	2,525	25.5	37.2	75.0	18.8	4.6	7.5	6.9	14.4	12.4
Chengdu	1,382	40.8	38.4	72.2	14.7	7.7	6.3	5.9	18.4	6.0
Chongqing	1,142	33.4	15.8	72.7	23.0	4.3	4.7	2.2	20.2	5.0
Wuhan	2,142	42.4	35.0	70.6	14.5	6.3	5.9	3.5	30.3	5.2
Xi'an	1,232	39.8	31.8	73.3	13.5	8.2	3.0	4.1	25.5	12.1
Shenyang	1,847	45.0	0.3	67.8	22.5	2.9	4.5	3.1	24.3	9.7
Nanjing	1,703	29.8	31.1	68.1	16.6	4.5	4.6	3.2	20.2	5.5

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(3) Brand habits

As shown in Exhibit 9, consumers in Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Xi'an have relatively high level of brand loyalty to biscuits. Most of the consumers there indicated that they would stick to 2 to 3 brands. In comparison, Chongqing consumers show little brand preference. Over 40% of the respondents expressed that they have no brand preference. From Exhibit 8 above, it can also be found that consumers in Chongqing place little emphasis on brands when choosing biscuits.

Exhibit 9: Brand habits of biscuits consumers in selected cities, 2004



Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(4) The taste of consumers

Overall speaking, the traditional plain biscuits have witnessed a slowdown in growth and are giving way to other types of biscuits, such as sandwich biscuits, cookies and savory biscuits. According to the IMI survey, sandwich biscuit is the favorite in many cities (see Exhibit 10). Sandwich biscuits are appealing to consumers, due to its varied fillings. Lemon, strawberry, peanut butter, chocolate and cream are quite popular, to name a few. Cookies are also quite popular with its extremely rich flavor. Decently packaged cookies are decent gifts on festive occasions, especially in Chinese Lunar New Year. Savory biscuits and crackers, though still have relatively small volume sales, are fast growing as increasing health consciousness turns people away from sweet food to avoid obesity and diseases like diabetics.

To achieve differentiation and enlarge market share, some biscuit manufacturers have been developing products tailored to the needs of the “specialty groups”. For instance, there is a growing demand for healthier biscuits. As such, sugar-free biscuits for diabetics, digestive biscuits for adults, calcium-rich or vitamin-rich biscuits for children and high-fibre biscuits for the health conscious group have emerged in the market. Biscuit makers have been active in offering different kinds of health-oriented biscuits. New product launches in 2005 include the calcium and vitamin-enriched biscuits from Shanghai Danone Biscuits Food Co Ltd and Jinjianfeng Group's Youguo CC which is marketed as rich in Vitamin C as well as Vitamins B.

Exhibit 10: Top 5 popular types of biscuits in selected cities, 2004

Type and % of biscuits consumers

City	Weighted sample size ('000)	First	Second	Third	Forth	Fifth
Beijing	3,648	Sandwich (43.0)	Sweet (20.9)	Salty (18.9)	Soda (18.7)	Cookie (14.9)
Shangha	5,856	Sandwich (42.7)	Soda (32.8)	Cookie (22.8)	Salty (19.6)	Sweet (13.6)
Guangzhou	2,193	Salty (37.0)	Soda (29.8)	Sandwich (26.1)	Sweet (17.6)	Cookie (14.0)
Shenzhen	2,525	Sandwich (38.4)	Cookie (27.6)	Soda (22.3)	Sweet (13.7)	Whole wheat (9.0)
Chengdu	1,382	Sandwich (55.3)	Cookie (19.4)	Sweet (11.6)	Salty (10.7)	Whole wheat (9.8)
Chongqing	1,142	Sandwich (58.0)	Cookie (22.9)	Sweet (19.3)	Salty (6.7)	Soda (6.7)
Wuhan	2,142	Sandwich (56.7)	Soda (21.1)	Sweet (18.1)	Cookie (12.0)	Salty (10.7)
Xi'an	1,232	Sandwich (43.9)	Soda (22.6)	Sweet (21.6)	Salty (15.8)	Whole wheat (13.4)
Shenyang	1,847	Sweet (37.9)	Sandwich (34.0)	Cookie (19.6)	Soda (10.1)	Salty (9.9)
Nanjing	1,703	Sandwich (39.0)	Salty (23.6)	Soda (20.7)	Sweet (14.7)	Cookie (13.5)

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(5) Occasions of consumption

According to the IMI survey, consumers usually consume biscuits as a snack between meals, as breakfast and as late snack (see Exhibit 11). Analysts predict that as the travel industry in China continues to develop, the demand for biscuits by travelers will rise accordingly.

Exhibit 11: Occasions of consuming biscuits in selected cities, 2004

% of biscuits consumers

City	Weighted sample size ('000)	Breakfast	Dessert after dinner	When work overtime	Late snack	As snack	Outing/ traveling	Others
Beijing	3,648	30.2	8.8	10.2	12.3	66.9	10.2	1.0
Shanghai	5,856	32.4	5.7	18.5	21.9	64.9	6.9	3.7
Guangzhou	2,193	34.9	4.8	4.7	18.8	77.5	4.8	0.5
Shenzhen	2,525	20.6	9.4	7.7	11.6	79.8	7.8	0.4
Chengdu	1,382	27.5	6.3	6.6	6.8	75.2	8.5	0.3
Chongqing	1,142	21.0	3.9	4.6	14.9	73.2	5.8	1.2
Wuhan	2,142	12.8	8.3	4.4	12.4	78.7	10.9	1.1
Xi'an	1,232	33.7	8.4	5.4	11.9	72.4	9.4	0.8
Shenyang	1,847	37.0	9.8	8.8	9.5	63.5	5.5	2.0
Nanjing	1,703	18.9	3.4	8.8	11.3	74.0	9.0	1.5

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

4. Brand performance

(1) Foreign brands leading the mid-range and high-end market

The biscuit market is rather fragmented, with each manufacturer and its brand representing a small fraction of total sales. No single player has a dominating role in China's biscuit market. Biscuits manufacturers, Nabisco Food, Shanghai Danone Biscuits Foods Co Ltd, and Ting Hsin International Group stand slightly out among a pool of players.

Generally, multinational biscuit enterprises play the lead in the mid-range and high-end segments, while their domestic counterparts mainly target the mass consumers. Foreign players provide not only products, but also consumer education for Mainland consumers. Indeed, they are playing an active role in promoting biscuits and other bakery products in the country.

The domestic players hold the advantages of lower cost of production and distribution, competitive retail prices, local knowledge and network, but they are relatively weak in taste, variety, advertising and packaging.

(2) Aggressive efforts by foreign players to enter the low-end market

We have noted that, in recent years, some foreign players, after securing a strong foothold in the mid-range and high-end market, have been making aggressive efforts in exploring the mass market. They promote their products as "good value for money". Danone, for instance, have recently launched some low-priced products. These include the calcium-fortified series – Milk Susong, Milk Jiagai Qingcui and sandwich biscuits – with a recommended retail price at 1.5-1.7 yuan and some other 1 yuan small packaged biscuits. To keep the retail prices stable and at low-level, in some cases, the recommended retail prices have been printed on the packages.

(3) New players challenging the dominance of foreign players

While some foreign players are tapping the mass market, some new players have been making efforts to build brands, develop high-end products and increase public exposure in an attempt to improve profit margins and expand market share. For instance, Hong Kong based Fujian Gang Xing launched its high-end red tea and green tea flavored "Cheer Key" biscuits in September 2005. Massive advertisements have been placed on CCTV and Hunan TV. As a result, demand has been growing and this poses challenges to Danone and Nabisco. Another player, the Fujian Dali Group, has also succeeded in grabbing some share in the premium market with its "Hao Chi Dian" products by inviting famous stars and athletes as spokespersons.

On the other hand, some new players are also active in product development and innovation. Beijing Hongle Food Group, for example, has been working hard on developing the niche markets. The company has found that 55% of the Internet users in China have snacks 1.5 times per week while surfing the Internet; but they dislikes clearing the food bits from the keyboards. Thus, Hongle has launched its innovative keyboard-shaped "Internet Snack" targeting the Internet users. With its small size and tailor-made packaging, the "Internet Snack" allows Internet users to have snacks and surf the web at the same time without the troubles of falling biscuits bits.

(4) Key market players

Ting Hsin from Taiwan owns the famous brand MasterKong. According to CMMS, MasterKong was the most frequently consumed brands in 2005. One of the biggest advantages Ting Hsin has over its competitors is its extensive and efficient countrywide distribution network, which makes MasterKong a truly national brand. In recent years, MasterKong has embarked on a communication initiative that is youthful and edgy in personality. For example, MasterKong's sandwich biscuit product "3+2" targets on youngsters. The posters of "3+2" are widely placed in retail stores, especially in the stores closed to schools. Besides, to boost sales among youngsters, free samples of "3+2" were distributed in schools and small-scale promotional activities targeting the youngsters were often held in holidays. Together with other online promotional activities, "3+2" has become the priority choice of youngsters.

Nabisco is another prominent player in the sector, owning the brands Ritz, Oreo, Chips Ahoy!, Trakinas and Premium. The CMMS survey shows that Oreo was the second and Ritz was the forth most frequently consumed brands among the covered cities.

Another big player, Danone, positions itself as a mid-to premium brand and offers a wide variety of products. The product line of the company is extensive, ranging from mass to premium offerings. In an attempt to tap the large rural market, Danone launched its first low-end biscuit products in early 2005 – Danone Milk Jiagai Qingcui and Danone Milk Susong. On the other hand, to strengthen its position at the premium end of the spectrum, Danone launched its filled biscuit products in late 2004, called Danone Tiki Tartlet, with a relatively high unit price. Danone is also an active player in fortified and functional biscuit products. For example it has Danone Milky Crispy Biscuits, Danone Hi-Calcium Biscuit and Danone Sunny Breakfast Biscuits. With years of systematic and aggressive advertising of its product, Danone biscuits have been associated with healthy life among Mainland consumers.

III. Instant noodles

1. Instant noodle consumption in China

Sales of instant noodles reached 29 billion yuan in 2004, an increase of 34% over 2003, according to Chinese Institute of Food Science and Technology. The penetration of instant noodle has been growing steadily in China. According to the CMMS survey, the penetration rate of instant noodle is fairly high in the 30 surveyed cities. In 2005, two-third of the respondents indicated that they have consumed instant noodles in the previous year.. Instant noodle is particularly popular in Northern and Western cities such as Changchun, Tianjin, Xi'an and Taiyuan, with penetration rates close to 80%. In comparison, instant noodle is less popular in cities such as Haikou, Nanjing, Shanghai. On average, the consumers have 4.9 packages of instant noodles each month. Consumption quantity is the highest in Ha'erbin, Dalian and Hefei; consumers in these cities have 7 packages of instant noodles per month.

The strong growth of the instant noodle consumption is largely driven by the robust economic growth and the acceleration of urbanization. The quick pace of life has also prompted consumers to consume instant noodles to save time and alleviate cooking burden. Meanwhile, the rapid expansion of modern retail channels and increasing popularity of family pack sizes as well as frequent promotions by major manufacturers and retail stores also fuelled the sales of instant noodles. Despite its strong growth in China, instant noodle consumption in the country is still far below that of other cities like Japan and Korea. There is still huge room for growth in China's instant noodle business.

2. Cashing in the vast rural market

Currently, sales of instant noodles concentrates in urban areas. The vast rural market, with 57% of the country's population, still has plenty of room for growth. While sales growth in urban areas shows signs of slowdown, sales in smaller cities is expected to enjoy rapid growth. With the acceleration of the urbanization process, the rapid economic growth of the rural areas and the enhancement of rural retail network, it is expected that the rural market will soon become the next battlefield. In fact, some instant noodles producers have already set foot in this lucrative market. As a means of making inroads to low-priced noodles, which largely centres on rural areas, large-scale collaborations among high-profiled instant noodle companies have been taken place in recent years. For instance, MasterKong invested 300 million yuan in a joint venture with Zhongwang Group in 2003, pressing ahead with its plan to penetrate into the rural market. Nissin have acquired 1/3 of Hualong's stake with 20 billion yen in an attempt to expand to the low-end segment. President and Nissin formed strategic alliance in 2003 to leverage on each other's expertise in marketing and instant noodle production.

3. Sales in major department stores and supermarkets

Instant noodles are mainly sold in supermarkets, department stores and convenience stores. Exhibit 12 shows the sales of instant noodle in major department stores and supermarkets in 2005.

Exhibit 12: Sales of instant noodles in major department stores and supermarkets, 2005

Department stores/ supermarkets	Sales (million yuan)
Vanguard (華潤萬家有限公司)	47.72
Wuhan Zhongbai Group Co Ltd (武漢中百集團股份有限公司)	32.17
Chongqing General Trading Group (重慶商社(集團)有限公司)	20.72
Liqun Group Co., Ltd (利群集團股份有限公司)	13.00
China Shandong Silver Plaza Co., Ltd (山東銀座商城股份有限公司)	11.82
Renmin Shopping Centre (濟南人民商場股份有限公司)	11.57
Dashang Group (大連大商集團有限公司)	11.52

Source: China National Commercial Information Centre (CNCIC) [1]

1 China National Commercial Information Center (CNCIC) conducts monthly survey to over 260 major department stores and supermarkets across China to study the performance of different food brands.

4. Consumer behaviors

(1) Major instant noodles consumer group

The IMI survey revealed that young people consume instant noodles more frequently. Most of the heavy consumers (consumed at least once or twice per week) fell into the age group of 44 years old or below. The survey also indicated that those who consumed instant noodles every day are mostly those aged between 16 to 24 years old.

(2) Purchasing considerations

According to the IMI survey, consumers displayed similar purchasing considerations when buying instant noodles. Around 70% of the respondents indicated that taste was a key factor affecting their choice of instant noodles, followed by price and brand (see Exhibit 13). This shows that most consumers are willing to pay a premium for better products. As the urban consumers becoming more affluent, they are less price-conscious. They now put greater emphasis on quality and safety assurance rather than looking for low prices solely. Industry estimates found that the average price of instant noodles is up by 7.13% in 2005—indicating that the sector is shifting from price competition to quality competition. Another market survey revealed that while instant noodles priced between 1.1 yuan and 3.0 yuan are still most popular among Mainland consumers, more and more people are shifting to higher standard instant noodles. In the survey, 15% of the respondents indicated that they were willing to buy those priced above 3.0 yuan while only 14.6% reported they would consume those low-end ones with retail price below 1.0 yuan. The survey also showed that over 30% of the respondents were willing to pay around 4.0 yuan for a packet of instant noodle with additional nutritional value. It is foreseeable that, in order to win market share and improve profitability, instant noodle producers will increase their efforts in improving the taste, style, quality and nutritional benefits of their products. Buying convenience also has great impact on consumers' purchasing decision. In the regard, it is essential for players to establish extensive distribution network.

Exhibit 13: Key factors affecting consumers' choice of instant noodles, 2004

% of instant noodles consumers that regard the factor as important

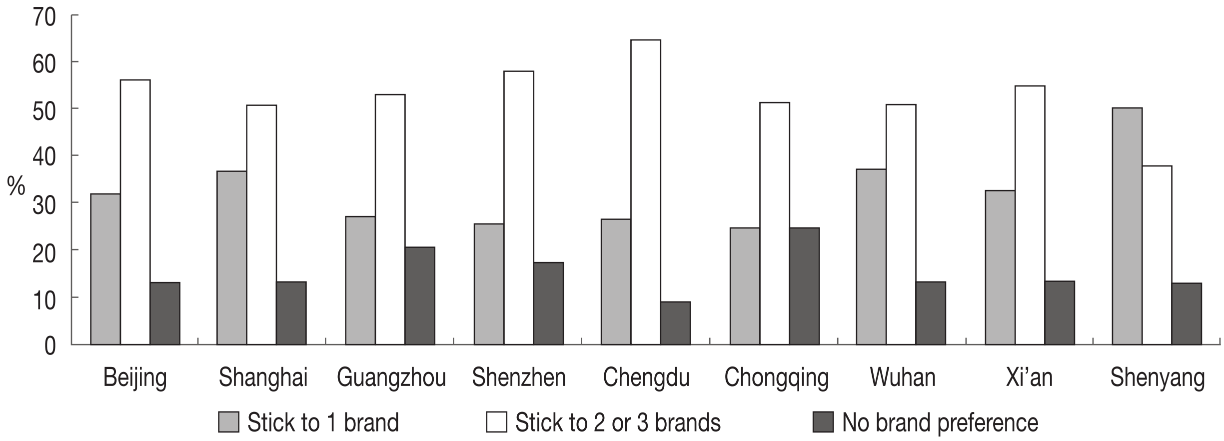
City	Weighted sample size (’000)	Prices	Brands	Tastes	Buying convenience	Advertising	With special offer	Packaging	Production date	Out of habit
Beijing	5,092	40.1	32.9	71.8	23.8	5.1	7.3	2.1	17.4	8.3
Shanghai	4,928	44.3	42.4	76.1	23.4	9.1	9.2	2.2	17.6	7.6
Guangzhou	1,806	44.4	40.6	60.0	19.5	7.1	8.8	9.5	14.4	4.8
Shenzhen	2,502	25.9	36.4	71.5	23.1	6.8	6.8	6.0	14.1	8.5
Chengdu	1,374	40.4	44.6	68.8	20.4	9.5	6.1	3.2	17.0	5.4
Chongqing	1,234	35.8	21.1	68.3	30.9	6.9	3.4	1.3	19.9	6.1
Wuhan	2,085	37.8	33.1	65.2	17.3	6.4	7.3	1.1	27.2	8.9
Xi’an	1,602	42.9	33.4	74.9	17.2	5.5	2.8	1.3	25.8	13.3
Shenyang	2,379	47.0	34.4	64.4	20.9	5.5	7.0	2.5	23.7	8.6
Nanjing	1,767	34.7	27.0	63.4	22.6	5.6	4.0	1.8	17.0	6.7

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(3) Brand habits

Compared with other food sectors, consumers in general exhibit high level of brand loyalty to instant noodles. According to the IMI survey, over 70% of the respondents stick to one to three instant noodle brands (see Exhibit 14).

Exhibit 14: Brand habits of instant noodle consumers in selected cities, 2004



Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(4) The taste of consumers

As illustrated in Exhibit 15, consumers' preference for instant noodle is rather consistent among major cities. Beef is the most popular flavor, followed by spareribs, seafood, and 3-flavoured.

Exhibit 15: Top 3 popular flavors in selected cities, 2004

Flavors and % of instant noodles consumers

City	Weighted sample size *('000)*	First	Second	Third
Beijing	5,092	Beef (69.8)	Seafood (22.1)	Spareribs (19.6)
Shanghai	4,928	Beef (74.7)	Seafood (25.4)	Spareribs (18.2)
Guangzhou	1,806	Beef (52.8)	Spareribs (32.1)	Seafood (28.7)
Shenzhen	2,502	Beef (57.7)	Spareribs (33.5)	Seafood (17.6)
Chengdu	1,374	Beef (68.3)	Spareribs (33.5)	Chicken (8.5)
Chongqing	1,234	Beef (76.7)	Spareribs (18.0)	3-flavoured (11.1)
Wuhan	2,085	Beef (84.5)	Spareribs (9.7)	3-flavoured (7.9)
Xi'an	1,602	Beef (66.7)	3-flavoured (32.4)	Seafood (12.8)
Shenyang	2,379	Beef (69.0)	Spareribs (21.0)	3-flavoured (15.5)
Nanjing	1,767	Beef (75.6)	Spareribs (16.5)	Seafood (13.6)

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

It is noteworthy that there are regional variations in taste. Therefore, instant noodles enterprises tend to have different product offerings in various regions across China to meet the local preference. MasterKong, for example, has launched the steamed-vegetable-flavored noodles "Zheng Hang Jia" in Central China, spicy noodles "You Po La Zi" in the West, stewed noodles "Dong Bei Dun" in the North East.

(5) Instant noodle package types

As shown in Exhibit 16, regular bag packaging is most popular. Big bag and bowl packaging are also well received by consumers. Cup noodles are the least popular.

Exhibit 16: The preferred package types in selected cities, 2004

% of instant noodles consumers

City	Weighted Sample size ('000)	Big Bowl	Regular Bowl	Big Bag	Regular Bag	Cup	Others
Beijing	5,092	10.4	9.2	26.2	67.3	2.9	0.2
Shanghai	4,928	24.0	20.6	30.0	43.6	5.3	1.4
Guangzhou	1,806	20.0	34.1	12.9	47.2	10.5	0.0
Shenzhen	2,502	19.8	42.3	14.0	40.3	5.2	0.1
Chengdu	1,374	19.7	26.5	22.4	39.6	3.3	0.4
Chongqing	1,234	10.7	17.3	18.0	66.9	3.8	0.0
Wuhan	2,085	28.9	20.0	24.4	47.6	4.1	0.0
Xi'an	1,602	10.0	8.0	20.8	72.6	2.3	0.0
Shenyang	2,379	9.3	9.0	31.2	62.9	1.6	0.1
Nanjing	1,767	18.6	12.1	25.5	56.2	1.9	0.4

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

(6) Occasions of consumption

From Exhibit 17, it can be found that in many cities, instant noodle is often served as breakfast and late snack. Instant noodle is also popular when working overtime, especially for Chengdu and Shanghai consumers. On the other hand, in China where railway transportation dominates, most passengers prefer to have instant noodles to the expensive food service on the train.

Exhibit 17: Occasions of consuming instant noodles in selected cities, 2004

% of instant noodles consumers

City	Weighted Sample size ('000)	Breakfast	Lunch	Dinner	Late snack	When work overtime	Others
Beijing	4,982	51.7	15.5	16.4	27.1	19.2	3.4
Shanghai	4,783	29.3	21.2	6.3	48.9	31.6	3.8
Guangzhou	1,794	67.0	12.2	6.2	55.9	6.5	1.1
Shenzhen	2,440	41.2	9.3	17.9	51.5	20.0	2.0
Chengdu	1,316	20.5	11.1	9.7	43.0	36.4	0.4
Chongqing	1,170	25.8	8.8	13.5	66.9	18.3	3.2
Wuhan	1,990	29.1	11.0	10.7	51.4	22.1	3.7
Xi'an	1,535	32.9	12.7	23.5	35.0	18.5	2.7
Shenyang	2,266	49.0	27.5	17.4	22.5	14.6	2.8
Nanjing	1,672	45.1	11.2	13.5	32.6	20.2	4.6

Source: IMI Consumer Behaviors & Lifestyles Yearbook 2004-2005

5. Brand performance and production

China's instant noodle market is highly concentrated, in which foreign brands occupy a significant share. The more affluent consumers usually have a strong preference towards foreign brands. As shown in Exhibit 18, over half of the top 10 brands belong to foreign enterprises. The top 2 brands, MasterKong and President, made up over 70% of the market share.

The two brands of Ting Hsin International Group from Taiwan – MasterKong and Fumanduo – have achieved overwhelming success in China. According to CNCIC statistics in Exhibit 18, MasterKong made up 46.21% and 49.85% of the total sales in 2004 and 2005 respectively. According to CMMS, MasterKong have attained dominant position in the instant noodle market. It was the most frequently consumed instant noodle brand in all major cities. Ting Hsin currently has production base in various cities including Guangzhou, Hangzhou, Wuhan, Chongqing, Xi'an and Shenyang with annual production volume reaching 5 billion packets. Its success is mainly attributable to its high brand popularity and extensive national distribution network.

President Group is another big player. Its brands, President and Haojindao accounted for a quarter of market share in 2005. CMMS survey also shows that President is the third most frequently consumed instant noodle brand in China. Over the past decade, President Group adopted the "T-investment strategy" that targeted the economic zones along the Yangtze River and the coast. In recent years, President Group began to shift its strategy to moving inland, targeting cities like Nanchang, Hangzhou, Ningbo and Zhengzhou.

There are a number of local instant noodle brands that are popular in China, but their presence vary among cities. Some of the popular local brands include Hualong and "Huafeng". While almost all the major players focused on the high-end market, Hualong aimed at the mass market. Its strategy is "to secure a large stake with the low-end products, to make money with the mid-range products and build brand with the high-end products". Hualong first focused on the rural market. After establishing a firm foothold in the rural market, it gradually expands to the urban market. To ensure the quality of wheat used in producing instant noodles, Hualong cooperated with 1,400 households in Longyao County to grow a variety of wheat strains for the processing of noodles of varying prices. In August 2000, Hualong invested 20 million yuan to establish a food research center with 10 departments and nearly 100 researchers. In early 2002, Hualong formally marketed the fruits of two years of research efforts with the Present Wheater series aimed at the high-end market. Present Wheater changed the perception of people that instant noodle is only for convenience and efficiency by making nutritional value as its selling point. It added microelements to the flour used and the essence distilled from meat and bones to its sauces and powders. These nutrients were authenticated by the Chinese Nutrition Society and meet national standards for daily nutrition. So far, Hualong has been quite successful in the vast countryside, especially in north China.

Exhibit 18: Brand performance of instant noodles: share of total sales and market coverage ratio, 2004-2005

2005			2004		
Brand	* Share of total sales (%)	# National market coverage ratio (%)	Brand	* Share of total sales (%)	# National market coverage ratio (%)
MasterKong 康師傅	49.85	18.04	MasterKong 康師傅	46.21	17.52
President 統一	25.22	14.99	President 統一	27.38	15.08
Hualong 華龍	7.24	6.23	Hualong 華龍	6.04	5.57
"Fumanduo" 福滿多	2.10	5.57	Nissin 日清	2.75	6.73
Present Wheater 今麥郎	2.06	7.16	"Fumanduo" 福滿多	2.45	6.38
"Huafeng" 華豐	2.03	2.92	"Huafeng" 華豐	2.37	4.76
Nongshim 農心	1.89	6.37	Nongshim 農心	1.42	5.10
Nissin 日清	1.82	5.97	Present Wheater 今麥郎	1.33	5.80
"Dong San Fu" 東三福	1.50	2.25	"Haojindao" 好勁道	1.18	3.94
"Haojindao" 好勁道	1.44	3.45	"Qiaomianguan" 巧面館	0.60	2.78
Others	4.85	27.05	Others	8.27	26.34
Total	100.00	100.00	Total	100.00	100.00

Source: China National Commercial Information Center (CNCIC)

** Share of total sales (%): Sales volume of the brand/ total sales volume*

(sales volume refers to the total quantity sold of the product category by the surveyed retailers)

 # Market coverage ratio (%): Taking into the consideration that China is not a single market but a highly fragmented market composing of many localized markets, CNCIC has compiled this ratio to measure the market coverage of a particular brand in the national market. For example, a brand with a low market coverage ratio is a regional brand instead of a national one.

Local manufacturers are having a hard time to compete with foreign instant noodle brands. The market dominance of MasterKong and President has driven out those small-sized, unprofitable local instant noodle manufacturers. For example, Michi, a once popular instant noodle brand in the Beijing and Shanghai market, closed down its business in February 2002 due to a loss of 50 million yuan. Another local brand "Huafeng", though with a long history in the Southern market, has experienced a decline in market share. In many cases, the failure and declining sales experienced by local instant noodles manufacturers are due to their lack of research and development (R & D) investment and over-reliance on price cuts and free gift promotions to attract consumers. Thus they can only enjoy short-term sales increase and are vulnerable to be ousted by those brands that continue to introduce new products in the market. In view of this problem, some domestic instant noodle companies such as Hualong have geared up to strengthen R & D, improve production efficiencies and product standards, intensify the efforts in brand building, etc.

On the other hand, facing decreasing profit margins, several instant noodles manufacturers have expanded their production capacity in various cities in 2005 to enjoy the proximity to local markets. By doing so, they can lower the distribution and transportation costs, as well as to better serve regional consumers as consumer taste varies across China. For instance, Ting Hsin has set up a new production centre in Zhengzhou which mainly manufactures its mid- to low-priced "Fumanduo" products for the Henan, Hebei and Shandong markets. It is hoped that the new production centre can boost the sales in these cities. President Group also has 5 new factories come into operation in 2005. Its aim is to have production base in every province and thus it can further penetrate the second- and third-tier cities.

6. Nutrition values drawing increasing attention

With consumers being more health-conscious, the demand for nutritious noodles is expected to shape the future development of instant noodles. Instant noodles, usually deep-fired and with strong use of MSG (monosodium glutamate), are viewed as being unhealthy and even as causing diseases. The health warning messages delivered by the mass media reinforced the health concerns of Mainland consumers. The more affluent consumers are willing to pay a premium for nutritious foods. To ride on the increasing health consciousness of Mainland consumers, some instant noodles companies have started developing healthier instant noodles such as Hualong's Present Wheater VIP series by improving the ingredients, flavors and production process. Another example is corn instant noodles. This kind of noodle, which is mainly made from corn and buckwheat and is rich in nutritious elements and anti-cancer substances, has received a very positive market response. Non-fried instant noodles launched mainly by Zhong Wang and Wahaha, occupying only 10% of the market share at present, are also fast in gaining popularity. Organic and fortified noodles such as high-calcium noodles have also emerged in the market.

IV. Edible vegetable oil

1. Unpackaged oil VS Packaged oil

Edible oil is essential in Chinese cooking. Edible oil in China can be broadly divided into two segments — packaged and unpackaged. In urban cities, backed by the growth in purchasing power and the rapid development of modern retail channels, packaged oil accounts for most of the sales, as they are of higher quality, more hygienic and convenient. Since Kerry Oil & Grains launched the first packaged oil in the Mainland in 1991, packaged oil has witnessed a robust growth of 30% per year on average over the past decade. Given the over-100-billion-yuan market size of edible oil, the market potential for packaged oil is immense. Indeed, according to industry estimates, annual growth of packaged oil sales is 20-25%, which is far higher than the overall sector's 5-6% growth.

In the less developed regions and rural areas where price plays a key role in people's purchasing decisions, there are numerous small-scaled, village-based processors producing low quality and generally low cost filtered oil, and the oil is sold loosely and unpackaged to consumers directly in a variety of containers. However, with gradual improvement in living standards, sale of packaged oil is likely to increase. To tap this market, enterprises are advised to focus on developing their distribution coverage and educating consumers on the health benefits and convenience of packaged oil over the loose unpackaged ones.

2. Edible oil consumption

According to the CNCIC, the per capita annual edible oil consumption is about 10kg, much lower than the level of 30-35kg in developed countries. The sales of edible oil grow by more than 5% yoy and the value sales exceeded 50 billion yuan in 2005.

As shown in Exhibit 19, soybean oil takes up the major share (41%) in edible oil consumption, followed by vegetable seed oil (23%), palm oil (17%), peanut oil (11%)and cottonseed oil (4%). Palm oil consumption witnessed large growth in the past year and is expected to surpass vegetable seed oil in future. Vegetable seeds and cottonseed oil consumption are decreasing. The consumption of other types of edible oil is steadily growing. As Mainland consumers diversify their oil consumption, sales of olive oil, camellia oil and corn oil is expected to rise.

Olive oil, mostly imported from Spain, currently remains a niche in China and its presence is confined largely to major cities such as Shanghai, Beijing and Guangzhou. Though olive oil is relatively more expensive, its sales is growing rapidly with an annual rate of 30%. The customs statistics also show that olive oils imports have surged by nearly 100% in recent years. With increasing living standards, Mainland consumers are expected to trade up to higher-end and more diversified products.

In 2006, China will eliminate all tariffs and quotas imposed on vegetable oils. Together with the increasing demands for diversified, sophisticated and quality oils, it is expected that oil imports will increase significantly hereafter.

Exhibit 19: Edible oil consumption, 2004-2005

in million tons

Types of edible oil	Consumption (Edible)		Production (Edible & industrial)		Imports (Edible & industrial)	
Year	***2005****	***2004***	***2005****	***2004***	***2005****	***2004***
Soybean oil	690	620	570	480	180	252
Vegetable seed oil	390	420	400	450	25	35
Palm oil	290	270	–	–	400	386
Peanut oil	190	185-190	230	220-230	–	–
Cottonseed oil	60	80	100	110	–	–
Others	73	68	110	100	–	–

“ * ” Estimation “ – ” data unavailable

Source: Grainnews and Li & Fung Research Centre analysis

There are regional differences in edible oil consumption as well. Soybean oil sold particularly well in the Northeastern cities including Ha’erbin, Changchun, and Shenyang according to CMMS. Peanut oil is particularly popular in the South and the Shandong province. Vegetable seed oil sells better in the West. Blend oil and salad oil tend to have a wider national coverage than other types of edible oils, but the former is less popular in the Northeast while the consumers in the South less welcome the latter.

3. Monthly sales

Packaged oil sells particularly well in certain months. The Lunar New Year (usually around late-January to mid-February) sees sales of food and drinks often rise by as much as 30%. People tend to cook a lot of dishes and make a variety of fired dim sums during that period, which greatly boosts the sales of packaged oil. The National Day Holiday (in October) also provides a good boost for September and October packaged oil sales. In December, packaged oil sales also witnesses significant increase as people celebrate for the winter solstice and the New Year (see Exhibit 20).

Exhibit 20: Monthly sales of edible vegetable oil in major department stores and supermarkets, 2004-2005

in kg

Month	2005	2004
January	14,575,801	15,772,123
February	12,844,129	6,732,895
March	6,869,062	6,800,808
April	12,014,564	13,014,129
May	8,641,833	7,870,091
June	8,846,822	7,542,658
July	9,388,212	8,071,211
August	9,641,390	8,258,583
September	14,410,617	11,929,984
October	11,771,224	11,575,683
November	11,277,821	9,363,052
December	12,653,424	10,453,130

Source: China National Commercial Information Center (CNCIC)

4. Brand performance

Currently, there are around 400-500 packaged edible oil brands in China. However, the packaged edible oil market is highly concentrated, with the top 5 brands making up nearly 70% of the total sales in 2005 (see Exhibit 21). The remaining market share is carved up by the strong regional brands.

Shanghai Kerry Oils & Grains Industrial Co Ltd is the largest player and the number one domestic producer in the sector. It owns five national brands – Jinlongyu, Yuan Bao, Hu Ji Hua, Xiang Man Yuan and Golden Carp – and a few regional brands. Its strong performance was largely driven by its flagship brand Jinlongyu, which was the most popular vegetable and seed oil brand in both 2004 and 2005. As shown in CMMS survey, Jinlongyu was the most frequently consumed brands in most major cities. Its impressive sales growth was largely attributable to increased market penetration in key markets such as Beijing and Shanghai, and even in the inland regions.

China National Cereals, Oils & Foodstuffs Corp. (COFCO) is in the second place after Kerry Oils & Grains. Its brands Fortune and Si Hai took up 10.41% and 1.38% of the total sales in 2005. Luhua, in which COFCO has a stake, ranked the third, constituting 7.61% of the total sales. To compete with Kerry Oils & Grains, COFCO has invested heavily in expanding its distribution network to boost its retail presence. The company also stresses packaging innovation and health promotion to differentiate its products, as exemplified by the launch of Fortune Vitamin oil A Cooking Oil in 2003. Unlike most packaged oil products, which have transparent packaging, the product Fortune Vitamin oil A comes in an opaque bottle with an eye-catching label showing that the product is certified by relevant authorities to contain vitamin A.

Exhibit 21: Brand performance of packaged edible vegetable oil: share of total sales and market coverage ratio, 2004-2005

	2005			2004	
Brand	* Share of total sales (%)	# National market coverage ratio (%)	Brand	* Share of total sales (%)	# National market coverage ratio (%)
Jinlongyu 金龍魚	33.64	17.73	Jinlongyu 金龍魚	39.68	17.48
Hong Qing Ting 紅蜻蜓	12.42	0.52	Hong Qing Ting 紅蜻蜓	13.24	0.47
Fortune 福臨門	10.41	13.04	Fortune 福臨門	10.11	11.77
Luhua 魯花	7.61	11.47	Luhua 魯花	7.66	11.07
Hu Ji Hua 胡姬花	4.05	2.48	Golden Gots 元寶	3.11	5.71
"Tian Li" 天利	3.94	0.13	Hu Ji Hua 胡姬花	2.82	2.21
Golden Gots 元寶	3.56	4.17	Golden Carp 鯉魚	1.40	1.52
Xiang Man Yuan 香滿園	2.21	4.56	Si Hai 四海	1.12	3.73
Fu Hong 富虹	2.15	2.09	Xiang Man Yuan 香滿園	0.99	3.96
Si Hai 四海	1.38	3.26	Jin Xiang 金象	0.56	1.98
Others	18.63	40.55	Others	19.31	40.10
Total	100.00	100.00	Total	100.00	100.00

Source: China National Commercial Information Center (CNCIC)

5. Higher value added – nutritional benefit and attractive packaging

In recent years, Mainland consumers are increasingly concerned about the quality of cooking oil due to the frequent food scandals. In order to improve consumers' confidence, leading brands such as Fortune and Jinlongyu have promoted themselves as "safer cooking oil", "recommended by government", "for big and healthy families", etc. with an aim to strengthen their brand images and reassure the consumers of the product quality. Both companies have also set up research centers to improve product quality and enhance product development.

On the other hand, along with the growing trends towards health and wellness food, to gain market share and meet the diversifying needs of Mainland consumers, players are focusing on developing healthier products, expanding their product portfolio, offering products with added nutritional value. For example, COFCO strived to set itself apart by launching the first fortified oil in China – the Fortune Vitamin A Cooking Oil – in 2003, with innovative packaging and added nutritional content. Since then, other players have developed other fortified products and enhanced the design of the packaging. Kerry Oil and Grains launched Jinlongyu AE Soybean Oil with vitamin A and E in July 2003, followed by Qiaochu Soya Bean Salad Oil in early 2004 and various new high-end products such as corn plumule oil, sunflower seed oil and Jinlongyu blend oil which is said to be able to help balancing dietary fatty acids.

6. Players pay increasing attention to the niche segments

Intensified price war has squeezed the profit margins of many edible oil enterprises, especially in the low-end to mid-range peanut oil, blend oil and salad oil markets. To improve profitability, market players are actively exploring opportunities in the high-end niche markets. The high-end oil products usually have unique ingredients with additional nutritional values. For instance, COFCO has launched its “VITOIL” safflower oil, walnut oil and camellia oil. Prices for the “VITOIL” products are higher for their materials scarcity and limited production origins; “VITOIL”, for instance, uses the high-quality safflowers from Xinjiang.

7. More regulated edible oil market

The market for packaged oil is now more regulated as the government launched a set of rules to regulate the labeling system of packaged edible oil in 2004. A number of substandard oil enterprises centering on the less developed cities are then eliminated, leaving huge potentials for growth in second- and third-tier cities. At present, blend oil production is loosely regulated in China. Most of the blend oil products are made from low-cost and poor quality oils. The government will soon launched a new set of labeling laws, requiring the manufacturers to state clearly the composition of each type of oil such as peanut oil, sesame oil and corn oil, etc in their blend oil products. The new rules will favor the bigger brands in the markets.

China National Commercial Information Centre (CNCIC)

中華全國商業信息中心簡介

China National Commercial Information Centre, formerly under the Ministry of Internal Trade of PRC, is a reputable national statistics centre in commercial area. Authorized by the State, CNCIC is responsible for collecting, compiling, analyzing and releasing market data; and producing magazines, reports and numerous publications. One of the important functions of CNCIC is to provide support for the government officials and bodies in formulating macro-control policies in the commercial area.

CNCIC possesses a powerful database and data tracking system. Over 260 large-scale retail enterprises report their sales data and other detailed information to CNCIC every month. Apart from that, CNCIC also has special access to more than 5,000 commercial enterprises' yearly statistical and financial data.

With a wealth of market data, comprehensive coverage and well-developed information system, CNCIC is known for excellence in providing information-based solutions for enterprises, such as formulating strategic expansion plan and conducting marketing research on the Mainland.

Li & Fung Research Centre Member of Li & Fung Group

利豐研究中心

The Li & Fung Group is a Hong Kong-based multinational company consisting of three distinct core businesses: export trading, distribution and retailing. Founded in Guangzhou in 1906, Li & Fung Group, with an annual turnover exceeding US$8 billion, operates in some 40 countries and regions and employs over 18,000 people worldwide. One of its core competency is Supply Chain Management (SCM).

Li & Fung Research Centre ("the Centre") researches and publishes reports on wide-ranging topics: Chinese economy, consumer market, retail sector, trade-related issues, and FMCG industries, etc. Apart from providing internal consultancy for the Group and its clients, the Centre also participates in formulating business strategies in the Mainland market.

The Centre has been actively promoting the application of SCM. In 2003, the Centre published the book "*The Orchestrator of Global Supply Chain Management*", which is regarded as a very useful reference among businessmen and academics in the Chinese mainland, Taiwan and Hong Kong.