MARKET ANALYSIS REPORT

“EXPORT OPPORTUNITIES FOR BC’S FOOD PROCESSORS IN CHINA & HONG KONG”

Canada

Growing Forward

A federal-provincial-territorial initiative

BRITISH COLUMBIA
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EXECUTIVE SUMMARY

B.C.’s food and beverage processing industry generated nearly $7.2 billion in sales in 2010, making it the largest manufacturing industry in the province. More than 90% of these processors had less than 100 employees, highlighting the important contribution that B.C.’s food and beverage processors have made in support of a strong, diversified economy. The purpose of this report is to help B.C.’s smaller-scale food processors understand the market for packaged food products in China and Hong Kong so that they can make informed decisions about whether or not to target these export markets. This report covers the following product categories: baked goods, biscuits, cookies, breakfast cereals, sauces, dressings, condiments, snacks and spreads. These categories were chosen based on feedback from two surveys conducted by B.C.’s Small-Scale Food Processors Association of its membership in 2011.

As one of the world’s rapidly growing consumer markets, China offers incredible opportunities for B.C.’s food and beverage exporters. China accounts for 20% of the world’s population, with 1.3 billion people spread across an area more than ten times the size of British Columbia. Over the past ten years China’s economy grew seven times faster than the U.S.’s economy (316% vs 43% growth), allowing China to finally surpass Japan in 2010 to become the world’s second largest. If China’s economic growth maintains its current pace, some analysts expect that the country will surpass the U.S. to become the world’s largest economy by 2020 or 2030. China’s domestic food production system is unable to provide food self-sufficiency for the country, which has created a growing demand for safe, high-quality food imports. B.C. exporters are well-positioned to take advantage of emerging opportunities in China. B.C. has a transportation advantage over most of North America and strong cultural and economic ties to China as a result of the province’s large immigrant population.

Hong Kong is a hub of international business and one of the most liberal trading areas and densely-populated cities in the world. It is home to the world’s busiest airport for international cargo and the world’s third busiest container port, and is considered the world’s freest and most competitive economy. Its unique location provides access to half of the world’s population within a five hour flight, making it an ideal gateway for exporters looking to access multiple Asian markets without having to deal with importers in each country. With virtually no modern commercial farming and a population of 7.1 million people living in a space less than one tenth the size of Vancouver Island, Hong Kong depends on imports for about 95% of its domestic food requirements. The average Hong Kong consumer spends eight times more on food and fifteen times more on non-alcoholic beverages per year than the average Chinese consumer, highlighting the sharp consumer-wealth differences in these two markets.

Several key trends are currently influencing consumer purchasing behaviour in China. In urban areas, where there is a lack of leisure and recreational space, shopping has now become a common recreational activity for young families, couples and groups of friends. This trend has had a considerable impact on consumption in China, as purchasing decisions that would ordinarily be made by one member of the family have now become a much more inclusive process which may involve friends and colleagues, as well as prior research among all members of the family. Urban consumers are also becoming more multi-dimensional shoppers as a result of growing income levels and concerns for food safety. They are becoming more interested in aesthetic appeal, innovative design and implied status of products, as well as how specific products target their own personal needs. Shopping is also being greatly influenced by the spread of broadband internet, which has opened the door for more e-commerce and the development of online retailers such as Taobao.com. There is also a booming demand for healthy foods, such as reduced-fat food products and fortified drinks, but consumers are still choosing to purchase most fresh foods and juices from street vendors instead of supermarkets.
The food trends affecting demand for food and beverage products in Hong Kong are more closely aligned with those experienced in most developed countries today. Consumers are more image-conscious than their mainland Chinese counterparts, so are looking for products that make them look and feel good; they are more concerned about the environment, so are seeking out eco-friendly food and beverage products; they are becoming more knowledgeable about premium food and wine, so are purchasing more high-value, imported food and beverage products; and they are becoming increasingly concerned about food safety and quality, so providing information on how products were produced and how they can contribute to a healthy diet is increasingly important. Hong Kong is also on its way to becoming the post-secondary education hub of Asia, which is attracting young people from all around the world and creating a demand for familiar food products from North America and Europe to serve this growing market of foreign students.

Based on information gathered from Euromonitor – an independent provider of market intelligence – B.C. exporters should consider the following when deciding whether or not to compete in the packaged food market in China and Hong Kong:

**Baked Goods** – Chinese consumers prefer sweeter baked goods, such as pastries, as they typically consume these products as a light desert after meals. B.C. exporters may find it difficult to compete in China’s baked goods market because domestic manufacturers benefit from substantially lower costs of production and have a better understanding of the taste preferences of local consumers. In Hong Kong, where taste preferences are heavily influenced by a century and a half of British rule, consumers are more accepting of western-style baked goods. As a result, B.C. exporters of innovative bakery products may find opportunities to supply dry mixes to independent and in-store bakeries, where the majority of consumers purchase baked goods.

**Biscuits/Cookies** – Chinese consumers are increasingly moving away from traditional favourites, such as plain sweet biscuits and cookies, towards products that provide better taste or perceived health benefits, such as filled biscuits and fortified/functional biscuits. B.C. exporters of natural, premium biscuits that offer additional health benefits (i.e. biscuits filled with antioxidant-rich berries) may be able to find a market for their products in Beijing, Shanghai or Guangzhou. In Hong Kong, cookies and plain biscuits have experienced the fastest sales growth over the past year, as many consumers increasingly indulged in more expensive imported cookie brands, such as Kjeldsens, while others chose plain biscuits as a less fattening alternative to other snack foods. In both China and Hong Kong, B.C. manufacturers should focus on delivering products in innovative packaging that highlights their Canadian origin and health-promoting ingredients. By leveraging the Canada Brand to market B.C.-produced products in Hong Kong, marketers will also be able to differentiate their products from those imported from China, as consumers are conscious of the poor safety records of China’s food manufacturers and are seeking out higher-quality imported products.

**Breakfast Cereals** – Although many consumers in China’s small and medium-sized cities still prefer eating local cuisine for breakfast, a market for breakfast cereals has developed in the larger cities of Beijing, Shanghai and Guangzhou. However, B.C. exporters will likely find it difficult to compete in China’s current cereal market as consumers are only just beginning to make the shift from traditional Chinese breakfast foods towards cereals and large international players, such as Nestle, Quaker and Kellogg, are making it difficult for smaller manufacturers to get shelf space in supermarkets. Compared to China, Hong Kong’s market for cereals is much more developed and may provide better opportunities for B.C.’s cereal exporters in the short term. In particular, products made from natural ingredients, such as granola and berries, are best suited for competition in this market as consumers are looking for healthy products that can be consumed on the go and provide lasting energy to maintain them through busy work days.
Sauces, Dressings and Condiments – Due to the infancy of the market for foreign sauces, dressings and condiments in China and the strong competition from local and international manufacturers, B.C. exporters will likely have difficulty competing there at this time. Although there are opportunities to serve foodservice chains looking for specialised sauce packs, the size of orders may be beyond the production capacity of most of B.C.’s manufacturers. In Hong Kong, the sauces, dressings and condiments market is fairly fragmented, with manufacturers and retailers focusing on both flavour and packaging innovations in order to build a solid and loyal consumer base. It is expected that the major growth in this sector will be driven by wet/cooking sauces, as consumers look for easy meal solutions and move away from traditional soy-based sauces towards all-in-one cooking sauces. B.C. manufacturers that produce unique, naturally-healthy cooking sauces may be able to carve out a share of the market in Hong Kong as consumers are looking for new flavour variations that can enable them to easily cook tasty dishes in a short amount of time.

Snack Foods - Due to rising obesity problems in China, the Chinese Government is educating parents regarding the sugar and calorie intake of children, which should result in a general move away from high-sugar foods towards healthier snack alternatives. The most popular snack foods in China include cup jellies, seeds, nuts, fruit snacks and rice snacks. Snack bars remain a niche category, as most consumers have never even heard of this kind of product. In Hong Kong, the most popular snack foods include tortilla/corn chips, nuts, potato-based extruded snacks, rice crackers and prawn crackers. The snack bar market in Hong Kong is much more developed than in China, but consumers have yet to begin purchasing breakfast bars and fruit bars in any significant quantity. B.C. exporters of premium snacks that offer superior health benefits, organic and natural claims, exotic tastes or sophisticated packaging are likely to be most successful in the Hong Kong market. Hong Kong consumers are willing to spend more to experience new and interesting tastes that offer a combination of healthier attributes.

Spreads - Due to the increasing adoption of Western-style breakfast foods, such as plain bread slices, the demand for spreads is growing strongly in China. Nut-based and chocolate spreads saw the strongest growth over the past couple of years as young consumers, especially children, are consuming them with bread and milk in place of traditional Chinese breakfast foods. The leading flavours for jams and preserves include strawberry, apple, orange, mixed fruits, blueberry, hawthorn and peach fig. B.C.’s spread exporters may find opportunities to introduce premium nut-based or chocolate spreads into China’s larger markets (Beijing, Shanghai, Guangzhou) by targeting imported food stores and retailers catering to higher-end consumers. In Hong Kong, chocolate spreads are also popular among young people; however, many consumers there are opting for healthier alternatives due to concerns about high-sugar content. Most of the recent sales growth in Hong Kong’s spread market has been driven by honey, jam and preserves. The leading flavours for jams and preserves have remained unchanged over the last five years, with strawberry, blueberry and apricot continuing to be the most popular in 2011. B.C. spread exporters may find opportunities in the Hong Kong market to supply products with innovative, natural flavour combinations that can provide consumers with greater health benefits than the spread products being offered by larger manufacturers.
PURPOSE

The B.C. Ministry of Agriculture, with support from Agriculture and Agri-food Canada, conducted this study to identify market opportunities for B.C.’s packaged food in mainland China and Hong Kong. This report covers the following product categories: baked goods, biscuits, cookies, breakfast cereals, sauces, dressings, condiments, snacks and spreads. These categories were chosen based on feedback from two surveys conducted by the Small-Scale Food Processing Association of its membership in 2011.

The purpose of this report is to:

- describe the differences and similarities between Hong Kong and China’s food markets;
- explain the current trends affecting demand for packaged foods in China & Hong Kong;
- describe how current trends may affect consumers’ eating and shopping habits; and,
- provide sector-specific information on market size, top competitors and popular products.

INTRODUCTION

This report begins with a brief overview of B.C.’s food processing industry, before moving into a detailed comparison of opportunities for B.C.’s packaged food products in China and Hong Kong. The report explains how Hong Kong became a Special Administrative Region of China and why it is considered a separate market in terms of international trade, then provides a macro-comparison of China and Hong Kong’s economies and demographics. It then provides information on household profiles, shopping habits, eating habits and some of the major trends influencing general consumer behaviour in each market. The report concludes with sector-specific market intelligence to help B.C.’s food processors understand which products are most popular, who the top competitors are, how big each market is and where the greatest opportunities may exist.

This study was funded through the Growing Forward Trade and Market Development for the Canadian Agri-food and Agri-based Products Sector Program. This program aims to facilitate industry success in global and domestic markets. Through industry-led marketing strategies, a Canada branding strategy, market intelligence and services for exporters, and actions to maintain and improve market access, the program helps equip the sector to seize market opportunities and address emerging challenges.

B.C.’S FOOD AND BEVERAGE PROCESSING INDUSTRY

B.C.’s food and beverage processing industry ranked third largest in Canada in terms of number of establishments and people employed in 2010, with 27,300 people working in over 1,400 small- and medium-sized companies. B.C.’s processors generated nearly $7.2 billion in sales, making it the largest manufacturing industry in the province. More than 90% of these processors had less than 100 employees, highlighting the important contribution that B.C.’s food and beverage processors have made in supporting a strong, diversified economy.

The B.C. Small-Scale Food Processors Association represents food and beverage processors from all across the province who produce an impressive array of products that meet the diverse tastes of consumers in Canada and around the world. There are currently over 200 processors listed on the B.C. Small-Scale Food Processors Association’s Speciality Food Directory (www.bcspecialtyfood.ca).
CHINA & HONG KONG: ONE COUNTRY, TWO SYSTEMS

The first Anglo-Chinese wars fought between the United Kingdom and China in the 1800’s paved the way for opening the lucrative Chinese market to merchants in Europe and North America. These wars resulted in the creation of a new British colony in Asia, covering Hong Kong Island, Kowloon and the New Territories (see Figure 1).²

First developed as a warehousing and distribution centre for U.K. trade with China, British Hong Kong eventually developed into a global hub of economic activity. After 150 years of British colonial rule, China finally resumed the exercise of sovereignty over Hong Kong in 1997. In order to integrate Hong Kong back into China without compromising the established open-market economic system that made Hong Kong a global centre for finance, tourism and trade, the Government of the People’s Republic of China decided to make Hong Kong a Special Administrative Region. As a result, Hong Kong is granted a high degree of autonomy in all matters except foreign and defence affairs.³

Although Hong Kong and mainland China have made great strides to integrate their two economies over the past 15 years, Hong Kong still retains its political, economic and judicial systems, and continues to be heavily influenced by its 150 years of British rule. In the context of international trade and commerce, the two markets are very different. For the purposes of this analysis, the term “China” is used to refer to mainland China and does not include the Special Administrative Regions of Hong Kong or Macau (see red dots at the bottom of Figure 2).⁴
CHINA & HONG KONG: GENERAL MARKET OVERVIEW

ECONOMY AND DEMOGRAPHICS

China
As one of the world’s larger and growing consumer markets, China offers incredible opportunities for B.C.’s food and beverage exporters. China’s domestic food production system is unable to provide food self-sufficiency for the country, which has created a growing demand for safe, high-quality food imports. B.C. exporters are well-positioned to take advantage of emerging opportunities in China. B.C. has a transportation advantage over most of North America and strong cultural and economic ties to China and Hong Kong as a result of the province’s large immigrant population.

B.C.’s agriculture, fish and seafood exports to China grew by 45% between 2006 and 2010, rising from $81.5 to $118.5 million. Seafood products – such as crab, geoduck clams and salmon – account for the majority of B.C.’s food and beverage exports to China, but increasing quantities of pork, wine, blueberries, nuts, fruit juice and food preparations are now being shipped to this growing market. With the provincial and federal government’s current focus on expanding trade relationships with China, it can be expected that opportunities to sell B.C.’s food and beverage products in this market will continue to increase.

Since first opening its markets to the world over three decades ago, China’s economy has experienced steady annual growth of approximately 9.5%. In a series of economic reforms between the late 1970s and 1990s, China opened itself up to foreign investment, privatized state-owned industries, allowed entrepreneurs to start businesses and lifted price controls, protectionist policies and regulations. Over the past ten years China’s economy grew seven times faster than the U.S. economy (316% vs 43% growth), allowing China to finally surpass Japan in 2010 to become the world’s second largest. If China’s economic growth maintains its current pace, some analysts expect that the country will surpass the U.S. to become the world’s largest economy by 2020 or 2030. Most of China’s economic growth has traditionally been driven by exports, but the government is now trying to encourage more domestic consumption to drive growth.

China accounts for 20% of the world’s population, with 1.3 billion people spread across an area more than ten times the size of British Columbia. The overall population density across China is currently about 143 people per square kilometre, which is almost 40 times the population density in Canada. However, about half of the population lives in urban areas – such as Beijing, Shanghai and Shenzhen – where the population density can reach 11,000 to 17,000 people per square kilometre in some places.

Since the government of China implemented their one-child policy in the late 1970s, it is estimated that up to 400 million births have been prevented. While this has enabled the country to control is rapidly growing population, it has also led to a massive gender imbalance because of the general preference towards having a male child. The China Family Planning Association reports that 119 boys are born for every 100 girls in China and estimates that “by 2020, males between the ages of 20-45 will outnumber their female counterparts by 30 million.” As this equates to roughly 88% of the total population of Canada, it’s easy to see that there will be many opportunities to develop and sell products to this large market of young men. As well, with so many more men than women it can be expected that the population of single males will increase, which should lead to increased purchases of healthy foods and beverages that enable male consumers to feel and look better.

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* B.C. export data to China for 2010 has been revised downwards from $328.2 million due to a discrepancy that is under investigation by Statistics Canada
† Food preparations includes pastes, powders and syrups used in food and beverage manufacturing
China’s one-child policy controlled a population explosion in the 20th century but has now also left the country with a rapidly-ageing population that is expected to put massive strain on the country’s social and economic systems. China’s population is expected to shift from the normally-shaped population pyramid of today – with the majority of people at the bottom and fewer and fewer people with age – to a more inverted-shaped population pyramid by 2050 (as shown in Figure 3). As the age-composition of China’s population begins to look more like what is shown in the 2050 pyramid, the majority of food consumption will be driven by those people over the age of 30. Editor of Forbes, Paul Maidment, reports that “by 2050, China’s seniors alone will likely constitute a larger nation than all Americans today.” As well, according to the U.S.-based Center for Strategic and International Studies “there will be just 1.6 working-age adults to support every person aged 60 and above [in 2050], compared to 7.7 in 1975.” As China’s population ages and puts more strain on the country’s social system, it can be expected that more consumers will be increasingly responsible for their own health and will be seeking out natural, healthy products that can offer superior nutritional benefits.

Figure 3: Chinese Population Pyramid  
(Source: Medscape.com)

**Hong Kong**
As one of the most liberal trading areas and densely-populated cities in the world, Hong Kong is a hub of international business. It is home to the world’s busiest airport for international cargo and the world’s third busiest container port, and is considered the world’s freest and most competitive economy. Its unique location provides access to half of the world’s population within a five hour flight, making it an ideal gateway for exporters looking to access multiple Asian markets without having to deal with importers in each country.

Hong Kong’s overall population density sits at about 7,100 people per square kilometre, but with only 25% of its total land developed the actual population density in some downtown areas is estimated to exceed 80,000 people per square kilometre. With virtually no modern commercial farming and a population of 7.1 million people packed into a space less than one tenth the size of Vancouver Island, Hong Kong has to depend on imports for about 95% of its domestic food requirements.

Hong Kong also has a large expatriate population that purchase western-style foods and are looking for familiar foods from North America and Europe. Hong Kong has imported more than $50 million of B.C.’s seafood, fruit, meat and processed food products annually for over a decade, making it B.C.’s fourth largest export market behind the U.S., Japan and China. B.C.’s agriculture, fish and seafood exports to Hong Kong increased by 17% between 2006 and 2010, rising from $59.9 to $70.3 million, as B.C.’s food and beverage exporters increasingly focused on this market.
Hong Kong benefits from a strong economy where the average disposable income per person is more than ten times as high as the rest of China. After a successful transformation from a manufacturing centre to the world’s most service-oriented economy over the past ten years, Hong Kong’s economic growth is now driven mostly by trading, logistics, financial services and tourism. Tourism expenditures rose by 33% in 2010 to reach US$27 billion, as more than 36 million people visited Hong Kong (equivalent to five times the local population). Over 60% of all tourists visiting Hong Kong come from mainland China.

Hong Kong was the world’s third largest recipient of foreign direct investment in 2010, attracting US$68.9 billion, and was home to over 3,700 regional headquarters and regional offices of multi-national companies doing business in Asia. About 80% of these companies were doing business in the Chinese mainland, showcasing the important role that Hong Kong plays as a gateway for getting products into China.

About one-third of Hong Kong’s population speaks fluent English, which makes it considerably easier for B.C. exporters to conduct business than in China, where only about one percent of the population speaks the language. As one of the two official languages alongside Chinese, English is widely used in the government and by the legal, professional and business sectors. Although 92% of the population is of Chinese descent, many of them have been heavily influenced by British culture and have a much greater understanding of western business practices and communication techniques than their mainland Chinese counterparts, making it a great destination for B.C.’s agri-food exporters to target as an entry point into the greater Asian market.

HOUSEHOLD PROFILES

China
As a result of increased migration from rural to urban areas, the number of one- and two-person households in China has grown steadily over the past five years while the number of multi-person households has experienced a steady decline. As more young people accept the urban lifestyle and are influenced by other cultures and experiences, the structure of the traditional Chinese household will continue to change. Where in the past a typical Chinese household would see many generations all working off the same land and living under the same roof, the Chinese household of tomorrow will see smaller dwelling sizes shared with fewer people as large extended family habitation is unfeasible in the more expensive urban environment. As a result, one- and two-person households are expected to be the fastest growing segment in China until at least 2020, while three-person households are to remain the most popular. Today, 75% of China’s 400 million households have three or more occupants. With an increasing number of smaller households, particularly in urban areas where cooking and storage space is a luxury, food consumption habits can be expected to continue to shift towards more convenient, ready-to-eat foods served in smaller package sizes.

Hong Kong
The average Hong Kong consumer spends eight times more on food and fifteen times more on non-alcoholic beverages than the average Chinese consumer, highlighting the sharp consumer-wealth differences in the two markets. As a result of a steady rise in disposable incomes in Hong Kong, from an average of US$21,733 per person in 2006 to US$25,225 in 2011, more people are now able to live independently. This has resulted in a trend towards smaller households as many individuals are choosing professional and career-focused lifestyles over family-oriented lifestyles. Unlike in China, where it is still common for young people to live with their parents well into their late twenties, young people in Hong Kong are choosing to move away from their family home much earlier. These younger consumers are living in very tight quarters, often with a friend or partner, and are looking for easy-to-cook foods that require minimal preparation. They are also typically the most accepting of new global trends and foreign products, and are expected to become heavy users of e-commerce to purchase food products.
SHOPPING AND EATING HABITS

China
Although the increasing prevalence of supermarkets and hypermarkets is changing the way many urban Chinese consumers shop for food, the norm across most of China is still to conduct daily trips to the market to purchase the food required for each day’s meals. This is a result of strong consumer preferences towards fresh food, a plethora of open-air food markets and a lack of storage space within the household. Consumers demand high quality at competitive prices and will almost always choose the freshest products available when shopping or eating out. This can be seen within restaurants, where live fish are brought to the table before being cooked for guests to prove they are fresh, or in supermarkets, where live cages full of seafood are on display for consumers to choose the freshest product before being processed and packaged on the spot. Consequently, processed food products are not generally as popular with consumers, although this is slowly changing. Analysts at Euromonitor* – an independent provider of market intelligence – expect that more consumers will be forced to choose processed foods in the future as increasingly hectic lifestyles in urban areas will reduce their ability to shop for and cook fresh foods daily.27

Packaged and processed foods have traditionally been seen as inferior and lacking in freshness, but this attitude is slowly changing as the younger generation moves into the city and seeks out convenient, cheap food products that can be stored for several days without the need for refrigeration. This attitude shift is also being accelerated by new technological innovations related to freshness and efforts by Chinese marketers to promote organic foods through supermarket and hypermarket retail channels. As consumers are becoming increasingly concerned about the food-safety practices of local manufacturers, they are learning more about the food they consume and how to identify the healthiest and safest packaged and processed food products.28

With most parents only allowed to have one child, shopping is greatly influenced by the demands of their children. About 30% of household income is dedicated to spending on children between birth and the age of 14 and parents will usually buy the best they can afford when purchasing food for them. As quality is paramount to Chinese parents, they will usually favour well-known domestic brands over any foreign brand that fails to market itself as being of superior quality.29

The biggest challenge for Chinese consumers is a lack of space. Although 73% of households have a refrigerator, they are generally smaller and lack the space required to stock up like Western consumers do. As well, with only 4.5% of households owning a freezer the majority of frozen food purchases are consumed within a few days of purchasing, if not the same day.30 In addition to a lack of space, consumers usually walk several blocks (if not kilometres) with their groceries so are usually looking to only buy what they can carry in both hands. Only 5.5% of Chinese households owned a car in 2011, while 41% of households owned a motorcycle and 73% owned a bicycle.31 Successful manufacturers address these realities by providing consumers with products in smaller, easy-to-carry packages that are sufficient for making only one or two meals.

With increasingly hectic schedules, a lack of storage space within the household and the challenges of carrying food long distances between the market and home, most consumers choose to eat at least one or two of their three daily meals in a restaurant or on the street. Although many rural families still eat most of their meals within the home, most urbanites are opting for more convenient and labour-saving options. With a massive array of street stalls selling everything from corn to dumplings to pastries, most people consume several snacks throughout the day and then join friends after work for a larger meal in a social setting. Chinese consumers usually eat a traditional Chinese meal for breakfast, such as congee, dim sum or noodles, while lunch and dinner

* Euromonitor is the key source of information provided in this report – visit http://www.euromonitor.com/ for more information about Euromonitor
meals consist of different combinations of fish and meat, vegetables, soup, rice and steamed bread. Unlike in the west, cooking as a leisure activity is virtually unheard of in China.\textsuperscript{32}

**Hong Kong**
The hectic, fast-paced Hong Kong lifestyle doesn’t leave much time for meal preparation, so consumers are now looking for easy-to-cook or ready-to-eat foods to meet most of their nutritional needs. Major supermarkets are tailoring their product offering to meet this demand by including more pre-prepared, semi-prepared, ready-to-eat and deli sections. Although consumers hold fresh food in high regard and still use local markets to source fresh ingredients, better cleanliness, air-conditioning and convenient locations have ensured that supermarkets continue to be the most popular distribution format in Hong Kong. With over 250 stores combined, Wellcome and ParknShop are the top two supermarkets. Due to a rising number of supermarkets and increasingly busy lifestyles, consumers are now conducting fewer shopping trips and purchasing more processed, frozen and packaged foods.\textsuperscript{33} In 2010, 99.8% of households owned a refrigerator and 37.9% owned a freezer.\textsuperscript{34}

Although more than 80% of total packaged food purchases are made through grocery retailers, supermarkets and hypermarkets, convenience stores also play an important role in the Hong Kong food market. With over 1,300 convenience stores strategically located in and around subway stations and other transport hubs, consumers have plenty of options for purchasing food products on the go.\textsuperscript{35} Convenience stores accounted for 11.1% of packaged food sales in Hong Kong in 2011, which is about four times higher than in China (2.8% of total packaged food sales) and ten times higher than in Canada (1.3% of total packaged food sales).\textsuperscript{36} Due to challenges with the timely delivery of goods in Hong Kong, internet food shopping has not yet taken off in this market.\textsuperscript{37}

The nutritional value of food products has become a top priority in the purchasing decisions of many Hong Kong consumers, which has driven growth in organic fruits, vegetables, eggs, meat and baby food. Organic products are currently priced between 20-40% higher than non-organic products. Other food products that market themselves as being low on the Glycemic Index or high in anti-oxidants are also doing very well in Hong Kong, while those that contain genetically-modified foods are generally avoided due to perceptions surrounding their safety. It is expected that more specialist food stores offering nutritional products, such as organic produce stores, will expand their distribution share in the future as demand for these food products from affluent consumers continues to grow.\textsuperscript{38}

Cantonese cuisine is at the base of Hong Kong’s proud culinary tradition. It is a lighter cooking style than other Chinese styles and involves short cooking times and shallow frying or steaming. Although the majority of young consumers are becoming more heavily influenced by the international flavours available in Hong Kong, many older consumers are still choosing to cook Cantonese-style dishes for their families. This is especially evident in those houses with young children, as nutritional content is of high importance to parents and serving fresh, traditional, home-cooked meals enables them the ability to control their children’s nutritional intake. Hong Kong parents are well-known for the importance they place on giving their children the best chances for success, particularly via the best education and extra-curricular activities available. This attitude also extends to the supermarket, where parents are willing to pay extra to purchase naturally-healthy food products.\textsuperscript{39}

Most Hong Kong consumers consume the majority of their meals outside the home. They typically work until late in the evening, they don’t have the space in their homes to entertain guests and dining out is a key aspect of Hong Kong culture and the primary way of socializing. For lunch, consumers will either eat traditional Cantonese snacks such as noodles or rice with fish balls, Western fast food such as Subway or McDonalds, or other easy-to-consume dishes such as meatballs, vegetable sides or pre-made sushi. For more social lunch gatherings, consumers will go to dim sum restaurants where small steamed or boiled snacks are served in wicker baskets for
customers to share among themselves. Although there has been a recent flourish of Hong Kong-owned fast food ventures that have proven popular, such as Café de Coral, Fairwood and Maxim MX, there is still a large unmet need for healthier lunchtime options among younger consumers in their twenties and thirties.  

Compared to China, where coffee shops are just beginning to be popular outside of urban areas with high concentrations of foreigners or affluent consumers, the café culture in Hong Kong is much more developed. Students, young professionals and busy office workers are Hong Kong’s main café consumers, as they are looking for places to have a chat with friends, meet clients and get a caffeine fix to help them through busy days. In addition to independent chains, such as Xen Coffee and Kitamura Coffee, there are also more than 100 Starbucks venues that are scattered throughout the city. While these shops are typically visited for their hot, caffeinated drinks, they are also important distributors of baked goods, healthy snacks and frozen drinks.

**MAJOR TRENDS IN CHINA**

**Shopping as a Recreational Activity**
Due to a lack of leisure and recreational space in China’s cities, and the experience of shopping being new to so many middle-class Chinese, shopping has become a common recreational activity for young families, couples and groups of friends. This new trend is being driven by the rise of multi-format retail spaces in Chinese cities, which has created comfortable, climate controlled retail environments that not only contain shops that cater to every taste, but also include adjoining recreational spaces such as coffee shops, internet cafes, video arcades, restaurants and cinemas. This trend has had a considerable impact on consumption in China, as purchasing decisions that would ordinarily be made by one member of the family have now become a much more inclusive process which may involve friends and colleagues, as well as prior research among all members of the family. These shifting habits highlight the importance of providing consumers with easily-accessible information while they are making purchasing decisions about where products come from, how they are produced and what nutritional benefits they can offer as part of a healthy diet.

**Multi-Dimensional Shoppers**
Whereas in the past consumers were most concerned about the basic functional attributes of a product, their growing income levels and concerns for food safety have increased the attention they pay towards various other dimensions of appeal that are more in line with sophisticated consumer habits commonly found in developed countries. In the past consumers made a lot of purchasing decisions based on recommendations from social equals, or those higher up the social pecking order, but today consumers are more able to use personal choice in their spending and are purchasing independently and intelligently as opposed to dictatorially. They are becoming more interested in aesthetic appeal, innovative design and implied status of products, and how specific products target their own personal needs. Although this trend is currently concentrated in the more developed urban centres, it is quickly spreading across China. As this trend spreads, Euromonitor analysts predict that there will be striking growth beyond the psychological dimensions associated with status and prosperity towards conservation, ecology, health and well-being. This is expected to drive an increasing demand, from consumers, for more information about how food and beverage products are produced, and the internet is expected to play an integral role in disseminating information.

**E-Commerce and the Rise of Taobao.com**
E-commerce has seen massive triple-digit growth over the past few years, as China has now officially become the country with the highest number of internet users. Retailers are moving aggressively into the market to capture emerging opportunities to serve the country’s growing middle-class. Internet retailing offers Chinese consumers greater choice, more convenience and the ability to properly research items and shop around for the best deal. Official statistics from China Internet Networking Information Centre indicate that China’s online...
user population reached 485 million in June 2011, which accounts for over a third of the country’s total population and is equivalent to about fourteen times the entire population of Canada.\textsuperscript{45}

The leading online retailer in China, Taobao.com, accounted for 36% of China’s US$25.7 billion in internet retail sales in 2011. The second largest online retailer, 360.com, accounted for 16% of total internet retail sales. Taobao.com is expected to continue to be the leader in this market because it offers consumers a broad product offering at competitive prices and provides smaller retailers with online space to cost-effectively set up a customized web-shop that includes secure online payment and a chat messaging service. Although consumer electronics, apparel and consumer appliances are currently the top product categories driving sales in China’s online marketplace, many urban consumers are now looking to the internet for convenient ways to save time on their grocery shopping. As a result, online food and beverage sales have experienced particularly strong growth over the past five years, rising nearly 900% in total retail value from US$45.3 million in 2007 to US$439.6 million in 2011. As internet security continues to grow stronger, distribution systems become more integrated and consumers become more comfortable with online grocery shopping, it is expected that many more urban Chinese will be making online food and beverage purchases in the near future.\textsuperscript{46}

**Booming Demand for Healthy Foods**

China’s rapidly ageing population, and the government’s increased emphasis on preventative healthcare, is driving demand for healthy foods. Euromonitor reports that increased consumption of healthier food and drink is noticeable in China, with fortified drinks performing well against competitors and organic and reduced-fat food products seeing greater demand in supermarkets. The increased emphasis on preventative health care has also led families to focus on maintaining a balanced diet for their young children. This is driving demand for naturally-healthy products, such as berries, that are believed to facilitate cognitive function and disease prevention in seniors while providing the nutrition necessary for proper development in children.\textsuperscript{47}

**Street Vendors Still Seen as Freshest Option**

If provided with the choice between fresh fruit or fruit juice from a street vendor and the same products sold from a supermarket, most consumers would choose the former. The fresh food industry lacks a solid framework in China and is dominated by small businesses. As a result, almost all fresh food traditionally consumed by the Chinese came either directly from the farmer or from a small distributor that works with the farmer. The abundance of small streetside vendors and local markets selling fresh fruit and fruit juices year round is limiting demand for pre-packaged fruit and vegetable products in China.\textsuperscript{48}

**Income Disparity – Rich vs Poor**

As a result of the massive concentration of growth in very focused areas of China’s geography and social strata, the country has experienced a growing gap between the rich and poor. Although it is widely accepted that income disparity in China is underestimated by official figures, the information the government publishes indicates that the level of income disparity is higher than the point identified by the World Bank as the level where there is potential for wide-scale civil unrest.\textsuperscript{49} The impact of this widening income gap is that there will be an increasing number of very wealthy Chinese living in major cities that will continue to push the trend for high-end luxury purchases and big-ticket items. It can be expected that these consumers will also drive demand for high-value foreign food imports in Beijing, Shanghai and Guangzhou’s top restaurants. This may open the door for some food products from Canada that are new to the market and require higher price points to make the opportunity profitable for B.C. exporters, such as fresh bison meat.
Specialist Pragmatist Consumers
Chinese people have long been known for the pragmatic way they think about themselves and the world, but it has never been so evident in consumer habits than it is today. China is fast becoming an economy of specialist consumers, as there is a trend towards spending in areas thought to best maximize utility by sacrificing spending in other areas. Examples of this trend include young professionals that would rather spend his or her entire paycheque on the latest electronics, fashions and cosmetics instead of purchasing essential food items, or the health-conscious ageing Chinese who spends proportionally much higher amounts on health and wellness products than anything else. This trend has created demand for high-end, luxury goods in almost every single corner of the market, including foreign foodservice outlets and imported alcohol. B.C. exporters of niche, high-end food and beverage products may find success in the Chinese market by targeting a consumer group based on their specialist consumption habits.

MAJOR TRENDS IN HONG KONG

Image-Conscious Consumers
As an international hub of trade, finance and tourism, Hong Kong’s consumers are heavily influenced by culinary tastes and fashion trends from around the world. This has led to an explosion in the market for luxury consumption over the past decade, as boutique stores and foreign retailers established themselves in Hong Kong and began bombarding consumers with media campaigns highlighting the latest “must haves” from Europe and North America. Along with this growing market for luxury goods has come an increased appetite for products that make consumers feel and look good, such as dietary supplements, weight-control products and healthy foods and beverages. Consumers are increasingly looking for premium food and beverage products that will provide them with the energy they need to get through their busy days, while also suppressing appetite and contributing to a healthy lifestyle.

B.C.’s exporters of healthy food and beverages looking to capitalize on the trend towards higher-end products that offer superior nutritional benefits will likely be most successful if they target Hong Kong’s wealthier, image-conscious consumers. These consumers have money to spend and are very open to innovative products and flavours. One example of how this can be accomplished is by showcasing how specific product attributes can allow consumers to feel full longer, which can reduce the need to eat unhealthy snacks throughout the day and can help contribute to a healthy-diet strategy. These image conscious consumers can also be targeted through specific distribution channels, such as health spas and gyms.

Green-Marketing
Eco-friendly consumerism is a growing trend affecting food purchases in Hong Kong, leading many manufacturers to adjust how their products are produced and marketed to target consumers who are choosing to live “green” lifestyles. The younger generation of consumers in their twenties and thirties are the driving force behind demand for environmentally-sustainable products, such as organic food and beverages, and are expected to be the main consumers over the next five years. B.C.’s food and beverage processors can capitalize on this trend by offering products in eco-friendly packaging; creating a brand image that is connected to Canada’s abundant, unspoiled natural resources; and by linking consumers to information on where ingredients were sourced from and how the product was produced. With so many tech-savvy consumers in Hong Kong, marketers can convey this information to consumers through innovative mobile technologies, such as Quick Response codes, which can be scanned with a mobile phone while the consumer is making their purchasing decision in the grocery store.
Food Safety and Mainland Chinese Visitors
Since China regained sovereignty over Hong Kong nearly 15 years ago, newly-affluent, brand-conscious consumers from China have been flooding over the border to purchase tax-free luxury goods from around the world. Over the past few years, these visitors have also increasingly been crossing the border in search of premium food products that can provide a better guarantee of food safety and quality than those produced in China. This is particularly evident in categories such as baby food, where food-safety scandals have scared Chinese mothers away from domestically-produced goods towards products from established global brands.55

Following the 2008 melamine milk scandal in China, which caused the death of several infants, about 50% of baby food sold in Hong Kong the following year was sold to mainland Chinese visitors. These visitors are continuing to cross the border in search of the highest-quality food products because of Hong Kong’s mandatory nutritional labelling and stringent food-safety standards. In July 2010, a mandatory nutritional labelling scheme for packaged foods was implemented which dictates that all pre-packaged foods must specify energy and nutritional content levels, and all health claims found on packaging must be supported by details on the nutritional label. Alongside the new labelling regulations, the government also began a three-year long campaign to educate consumers on how to read food labels and how to control their diets to ensure balanced nutrition.56 As a result, B.C. food and beverage products that are destined to compete in the Hong Kong market should include enough information on the label to reassure consumers that the product was safely produced and inform them about how it can contribute to a healthy diet. As consumers are sometimes unable to quantify a product’s nutrition based on its label, one possible strategy for highlighting the nutritional benefits of a product is to include a visual representation of the nutritional content in marketing materials (i.e. a visual of a half-filled rice bowl and an orange to represent the nutritional value of a snack bar).

Hong Kong as a Premium Food and Wine Hub
The market for premium food and beverages in Hong Kong is growing. With the arrival of the Michelin Guide in 2008 – which ranks the best restaurants in Hong Kong annually – and the government’s nationwide push to propel Hong Kong into a food and wine hub in 2009, consumer sophistication towards food has been driven upwards. This has resulted in increased demand for high-value, imported food products from North America, Australia and Europe that can be paired with wine, such as cheeses and preserves. This trend towards premium products is also driving demand for organic and fair-trade foods, which have been increasingly able to command a higher unit price compared to standard products. Some supermarkets, such as Wellcome, are capitalizing on this trend towards premium food and wine by increasing the size of their imported food sections, while others, such as V’ole, are specifically targeting this growing market for imported foods by sourcing over half of its products from Europe and the U.S. It can be expected that in the future this trend will also drive demand for better grades of product in the foodservice sector, as restaurants use premium ingredients as a crowd drawer and menu attraction.57

Education Hub for Foreign Students
One-quarter of public expenditures have been pumped into education over the past five years, as the Hong Kong government continues towards its goal of becoming Asia’s post-secondary education hub. This move towards a more knowledge-based economy has resulted in a large increase in the number of foreign students living and studying in Hong Kong. These students are driving demand for familiar food products from North America and Europe, which has resulted in the expansion of foreign food sections in university cafeterias and nearby supermarkets.58 B.C.’s food and beverage exporters may be able to capitalize on this growing demand from international students by targeting companies that service university cafeterias or by targeting grocery retailers, health clubs and cafes that are located near Hong Kong’s eight different universities. Many of these organizations are serviced by the same import brokers and food distributors, so conducting further research into how food is distributed is important before attempting to target this segment of market.
PACKAGED FOOD MARKET OVERVIEW

The following section provides insight into some of the packaged food categories in China and Hong Kong, including information on market size, distribution, popular products, current trends and top competitors. The categories covered in this analysis were chosen based on feedback from members of B.C.’s Small-Scale Food Processors Association that indicated there was interest to understand the market for these products in China and Hong Kong.

BAKED GOODS*

China

The baked goods category experienced rapid growth in 2011, as consumers’ disposable income increased and manufacturers launched more products with higher quality and better taste. Baked goods sales increased by 15% in current retail value terms in 2011, rising from US$11.9 to US$13.7 billion. Currently, about 60% of baked goods sales are generated by bakery specialists, while the other 40% are generated by supermarkets. Cakes led this category in 2011, with sales of US$5.8 billion, followed by pastries (US$5.4 billion) and bread (US$2.4 billion). In volume terms the baked goods category increased by 8.2% in 2011, rising from 5.9 to 6.4 million tonnes. The fastest growing products in 2011 included unpackaged/artisanal pastries, rising 9.3% from 2.4 to 2.7 million tonnes, and unpackaged/artisanal bread, rising 9.0% from 0.85 to 0.92 million tonnes.

The retail unit price of baked goods in China increased significantly in 2011, as rising labour, marketing, transportation and input costs put tremendous pressure on manufacturers. To maintain profitability and competitiveness manufacturers focused on health-oriented products which appeal to higher-income consumers, such as whole-wheat, no-sugar, high-fibre and low-fat products. Chinese consumers tend towards sweeter baked goods, such as pastries, as they typically consume these products as a light desert after meals. The market for scones is almost non-existent in China as consumers are unfamiliar with these products and typically need to add another traditionally-unfamiliar ingredient, such as jam, to make it sweet enough to appeal to their palette.

Orion (China) Co Ltd led the baked goods category with a two percent retail value share (US$190.4 million) in 2010. Orion achieved impressive sales growth, up 20%, as the company upgraded all of its products to zero trans fats and engaged in extensive promotional and discounting activities to build upon its already well-recognized brand image. Bakery specialists, such as 85 Café, accelerated the pace of expansion in 2010. Since entering the market in 2007, 85 Café opened 158 outlets in the Yangtze River Delta and Pearl River Delta regions. The company plans to expand into Western China with the goal of increasing the number of stores in China to 1,000 by 2015.

It is expected that in the future the health and wellness trend will be the key growth driver in China’s baked goods market, which is predicted to reach a market size of US$20 billion by 2015. Euromonitor expects that an increasing number of consumers will prefer fresh baked goods as breakfast alternatives by purchasing from bakery specialists, such as Holiland and 85 Café. It is also expected that manufacturers will increase use of the internet as a distribution channel as it can reduce operating costs and increase access to young consumers. Although internet retailing is not currently a key distribution channel for food products, this is expected to change as internet connectivity continues to spread throughout the country. Over the past five years the percentage of Chinese households with an internet enabled computer increased by over 80%, rising from roughly one in ten households in 2006 to one in four households in 2010.

* “Baked Goods” includes all bread products, pastries and cakes
B.C.’s baked goods manufacturers may have difficulty competing in this market, as domestic manufacturers benefit from lower costs of production and a better understanding of the taste preferences of local consumers. However, as western-style breakfast foods become more popular, consumers become more concerned about food-safety practices of local manufacturers and international coffee shops, such as Starbucks, spread their reach further into China, the opportunities for imported bakery products may increase in the future.64

Hong Kong
Baked goods sales in Hong Kong grew six percent in 2011, rising from US$356.1 to US$377.0 million in current retail value terms. Consumers living the fast-paced Hong Kong lifestyle appreciate the highly-portable and easily-mixable characteristics of baked goods, which enable them to get through busy workdays when preparing a meal is not an option. Bread led the baked goods category in 2011, with sales of US$179.2 million, followed by cakes (US$137.4 million) and pastries (US$39.5 million). Currently, 42% of baked goods sales are generated by supermarkets, 36% by bakery specialists, 20% by convenience stores and two percent by independent small grocers. In volume terms the baked goods category increased by 3.5% in 2011, rising from 71.1 to 73.6 million tonnes. In contrast to China, the fastest growing products in 2011 included packaged/industrial bread, rising four percent from 41.8 to 43.4 thousand tonnes, and packaged/industrial pastries, rising 3.5% from 2.0 to 2.1 thousand tonnes.65

Domestic manufacturers dominate the baked goods market in Hong Kong, with The Garden Co Ltd continuing to be the leading player at the end of 2010 with a 46% share of total retail sales (US$163.8 million). Artisanal bakers accounted for a 42% share of retail sales (US$149.6 million), while AS Watson Group (ParknShop), Hong Kong Yamazaki Baking Co Ltd (Yamazaki) and Dairy Farm International Holdings Ltd (7-Eleven) each accounted for approximately two percent (US$6.4 – US$7.8 million). The Garden was one of the first Chinese-owned businesses created to sell Western-style food products in the territory in 1926, and has since grown to offer an array of baked goods such as scones, egg rolls, cakes, speciality breads, buns and snacks. With its well-established brand image and reputation for quality, The Garden sets the standard for baked goods in Hong Kong. The company has maintained its production of fresh food for the Hong Kong market everyday for over 80 years, except on three occasions when a fire, a riot and WWII halted production.66

The cake market in Hong Kong is expected to experience healthy sales growth over the next five years as demand for multi-portion unpackaged/artisanal cakes for celebrations and special occasions is expected to increase and in-store bakeries are set to expand into more supermarkets. Euromonitor predicts that the market for unpackaged/artisanal cakes will grow approximately 8.5% between 2011 and 2016, rising from US$99.1 to US$107.5 million.67

Unlike in China where some western-style bakery products, such as scones, are not well known by consumers, Hong Kong’s history of British influence has created a market for these products in fresh bakeries and high-end supermarkets. B.C. exporters of innovative bakery products may find opportunities to supply dry mixes to independent and in-store bakeries in Hong Kong, but the intense competition in this market requires products to be price-competitive with those produced by local manufacturers, such as The Garden.

BISCUITS/COOKIES*

China
China’s biscuits/cookies market grew by 12% in current retail value terms in 2011, rising from US$4.9 billion to US$5.5 billion. Supermarkets/hypermarkets generated 73% of sales, followed by independent small grocers

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* “Biscuits/Cookies” includes all sweet biscuits/cookies, savoury biscuits/cookies, crackers and bread substitutes
(14%), other grocery retailers (5%), forecourt retailers (5%) and convenience stores (3%). Savoury biscuits and crackers accounted for 50% of retail sales in 2011 (US$2.7 billion), plain biscuits accounted for 25% (US$1.4 billion), sandwich biscuits accounted for 14% (US$0.77 billion), cookies accounted for nine percent (US$0.51 billion) and filled biscuits accounted for two percent (US$0.13 billion). In volume terms the biscuits/cookies market grew by 6.4% in 2011, rising from 2,578.3 to 2,743.2 thousand tonnes. The fastest growing products in 2011 included: filled biscuits, rising 9.8% from 12.4 to 13.6 thousand tonnes; savoury biscuits and crackers, rising 8.2% from 1,109.2 to 1,200.1 thousand tonnes; and sandwich biscuits, rising 7.5% from 257.0 to 276.2 thousand tonnes.68

The leading company in the Chinese biscuit market is Kraft Foods China Inc, which accounted for 14% of total retail market value at the end of 2010 (US$0.77 billion). Kraft’s extensive distribution network and brand awareness has allowed the company to pull ahead of the second largest biscuit company, Donguan Hsu-Fu-Chin Food Co Ltd, by a market share gap of 11%. Kraft Foods China Inc owns many famous brands within the top fifteen, including Oreo, Pacific, Tuc, Prince, Uguan and Chips Ahoy. Due to increasing competition in the biscuit/cookie market in China, international players have stepped up efforts to compete for market share through promotions in supermarkets/hypermarkets and by delivering products in innovative packaging, while domestic manufacturers have struggled to survive.69

Chinese consumers are increasingly moving away from traditional favourites, such as plain sweet biscuits and cookies, towards products that provide better taste or perceived health benefits. Filled biscuits benefit from the diversity of flavours and product innovations, and are very attractive to young students, white-collar workers and children as daily snack food. Shanghai Glico Food Co, one of the leading producers of filled biscuits in China, has captured a large share of the market through extensive TV advertising and uniquely-designed products that are attracting young female consumers looking for an alternative snack food.70 Naturally-healthy and fortified/functional biscuits are also becoming more attractive as consumer awareness of food safety and health in China continues to increase.71

Looking forward, the increase in personal disposable incomes and the process of urbanisation in China is expected to support a compound annual growth rate of nearly five percent in volume terms and six percent in constant value terms over the next five years.72 As more consumers start to see biscuits not just as snacks but also as smaller meal replacements, Euromonitor expects that more consumers will purchase mid-priced and premium products instead of low-end cheap biscuits. In particular, they expect demand for filled biscuits, sandwich biscuits and savoury biscuits to continue to be strong in the future.73 Driven by the increasing health concerns of Chinese consumers, it is also expected that whole-wheat biscuits will become a key growth engine.74

B.C. exporters of natural, premium biscuits that offer additional health benefits (i.e. biscuits filled with antioxidant-rich berries) may be able to find a market for their products in Beijing, Shanghai or Guangzhou. In order to differentiate their products from locally-produced biscuits, B.C. manufacturers should focus on delivering products in innovative packaging that highlights their Canadian origin and health-promoting ingredients. Although there may be opportunities to supply these products to major supermarkets that have imported-food sections, B.C.’s smaller manufacturers may find greater opportunities targeting imported-food speciality retailers, such as CityShop*, which cater to higher-end consumers.

* For more information on CityShop, visit: http://www.cityshop.com.cn/webapp/wcs/stores/servlet/TopCategories1_10601_10551_1
Hong Kong

Hong Kong’s biscuits/cookies market grew by nearly seven percent in current retail value terms in 2011, rising from US$134.2 million to US$143.1 million. Supermarkets/hypermarkets generated 58% of sales, followed by convenience stores (31%), non-grocery retailers (9%) and independent small grocers (2%). Savoury biscuits and crackers accounted for 44% of retail sales in 2011 (US$63.1 million); plain biscuits accounted for 15% (US$22.1 million); filled biscuits accounted for 14% (US$20.1 million); cookies accounted for 13% (US$19.0 million); sandwich biscuits accounted for nine percent (US$13.3 million); and chocolate coated biscuits accounted for four percent (US$5.5 million). In volume terms the biscuits/cookies market grew by 4.5% in 2011, rising from 17.4 to 18.1 thousand tonnes. The fastest growing products in 2011 included: plain biscuits, rising 5.5% from 2,315.9 to 2,443.3 tonnes; cookies, rising 5.5% from 1,470.5 to 1,551.4 tonnes; and savoury biscuits and crackers, rising 4.5% from 9,040.1 to 9,446.9 tonnes.

The leading company in the Hong Kong biscuits market is Kraft Foods Hong Kong Ltd, which accounted for 37% of total retail market value at the end of 2010 (US$52.9 million). Kraft Foods’ continued success in Hong Kong is a result of its range of top-performing brands, including Ritz, McVitie’s Digestive, Chips Ahoy and Oreo. Using social media sites, such as Facebook, Kraft has expanded its online marketing reach in Hong Kong in an effort to increase exposure for new product launches, such as the new Chips Ahoy Chewy Gooey cookies. Kraft’s top competitors in the Hong Kong market include the local manufacturer of “Garden” branded biscuits and crackers, The Garden Co Ltd (18.5% of total sales); the manufacturer of “Kjeldsens” branded butter cookies, Kjeldsens & Co Hong Kong Ltd (8.3% of total sales); the manufacturer of “Four Seas” branded flavoured crackers, Four Seas Mercantile Holding Ltd (5.5% of total sales); and the manufacturer of “EDO” branded crackers, wafers and biscuit sticks, Haitai Confectionery Co Ltd PT (4.2% of total sales). The most well-known local bakery company in Hong Kong, The Garden Co Ltd, maintains its competitive edge in the face of foreign competition by leveraging its strong brand image, attractive pricing and the ability to make constant improvements in the taste of its products to meet local preferences.

Cookies experienced the fastest sales growth of 10% in 2011 as consumers increasingly indulged in more expensive imported brands, such as Kjeldsens, and retailers regularly offered discounts in the early months in order to drive demand during the Chinese New Year. Plain biscuits also experienced strong sales growth of nine percent, as many consumers saw them as a less fattening alternative to cookies, which have a high butter and oil content. To meet the needs of consumers looking for healthier snacks that can be consumed on the move, manufacturers are increasing the availability of reduced-fat, reduced-sugar and added-fibre varieties.

As manufacturers make their products more nutritious, Euromonitor expects that biscuit/cookie sales in Hong Kong will experience a compound annual growth rate of two percent to reach US$156.4 million in 2016. During the same period, it is expected that the category will grow by a compound annual growth rate of nearly four percent in volume terms. The majority of this growth will be seen in the plain biscuit and cookie categories, as the popularity of consuming these foods as a snack is set to increase.

B.C.’s biscuit/cookie manufacturers looking to access the Hong Kong market may find success by marketing innovative, naturally-healthy products that can offer better nutritional value than those found on the market today. By leveraging the Canada Brand to market B.C.-produced products in Hong Kong, marketers will also be able to differentiate their products from those imported from China, as consumers are conscious of the poor safety records of China’s food manufacturers and are seeking out higher-quality imported products.
BREAKFAST CEREALS

China
As a result of the increasing penetration of western culture in China and a greater awareness of the health benefits from consuming grain food, such as oats, a breakfast cereal market has emerged. Nestle and Kellogg, the two leading international players in China, have implemented marketing campaigns for several years which have been effective at informing and educating Chinese consumers about the benefits of starting the day with a bowl of cereal.

The breakfast cereal market in China grew by 15% in current retail value terms in 2011, rising from US$153.0 million to US$176.3 million. Hot cereals led the category in 2011, with sales of US$95.3 million, followed by ready-to-eat children's breakfast cereals, at US$51.1 million, and ready-to-eat family breakfast cereals, at US$30.9 million. In volume terms, the breakfast cereal market grew by nine percent in 2011, rising from 31,540 to 34,394 tonnes. Children’s ready-to-eat breakfast cereals led volume growth in this category over the past five years, rising over 90% from 2,700 tonnes in 2006 to 5,137 tonnes in 2011.

Nestle, the leading company in breakfast cereals, was responsible for 28% of retail value sales in 2010 (US$49.4 million) thanks to its well-recognized brand image, extensive distribution network and strong collaborative relationships with major distributors. Top products sold by Nestle in China include Cheerios, Trix, Nestle Stars, Koko Krunch and Fitness branded cereals. Nestle has been successful at attracting new breakfast cereal consumers by providing free samples in supermarkets. Other top competitors include the manufacturer of “Seamild” branded cereals, Guilin Sea Mild Biology Technology Development Ltd (10.9% of total sales); the manufacturer of “Quaker” branded cereals, PepsiCo China Ltd (6.0% of total sales); the manufacturer of “Rice Krispies” and “Coco Pops” branded cereals, Kellogg China Ltd (5.5% of total sales); and the manufacturer of “Zaozaomai” branded cereals, Shanghai Tenwow Food Co Ltd (3.8% of total sales). The majority of breakfast cereals are sold through supermarkets/hypermarkets (84% of retail value sales), with the remainder sold through independent small grocers and convenience stores.

Although many consumers in China’s small and medium-sized cities still prefer eating local cuisine for breakfast, a strong market for breakfast cereals has developed in the larger cities of Beijing, Shanghai and Guangzhou. Demand from these first-tier cities is expected to continue to drive growth in this sector, with children’s breakfast cereals expected to be most promising as parents seek to improve the quality of their children’s breakfast meal in the face of increasing health concerns. Euromonitor analysts forecast a compound annual growth of nearly six percent in volume terms and nearly seven percent in constant retail value terms in the breakfast cereal sector over the next five years.

B.C. exporters will likely find it difficult to compete in China’s current cereal market. Consumers are just beginning to make the shift from traditional Chinese breakfasts towards cereals and large international players (Nestle, Quaker and Kellogg) are making it difficult for smaller manufacturers to get shelf space in supermarkets/hypermarkets, where the majority of cereals are currently sold.

Hong Kong
The instantaneous nature of breakfast cereals has made them very popular among Hong Kong consumers, who are also drawn to the added benefits of extra vitamins and fibre available in some products. The breakfast cereal market in Hong Kong grew by over six percent in current retail value terms in 2011, rising from US$28.9 to US$30.7 million. Hot cereals led the category in 2011, with sales of US$12.9 million, followed by ready-to-eat family breakfast cereals, at US$12.3 million, and ready-to-eat children’s breakfast cereals, at US$5.5 million. In volume terms, Hong Kong’s cereal market grew by nearly seven percent, rising from 5,039 to 5,371 tonnes. Hot
cereals led volume growth in this category over the past five years, rising over 50% from 2,323 tonnes in 2006 to 3,493 tonnes in 2011. Hot cereals are seeing strong growth in Hong Kong due to the wide range of products that appeal to different tastes, making them attractive to both adults and children. Microwaveable products have seen the strongest growth among hot cereals, as consumers lack the time to prepare food in the morning. Other products, such as muesli, have also seen strong growth as marketers continued to educate adult consumers about how grain-based cereals can promote weight loss by keeping consumers full longer.83

Pepsi Co, manufacturer of “Quaker” branded cereals, generated 35% of total retail value sales in 2010 (US$10.7 million) and accounted for a 78% share of hot cereal retail value sales (US$10.0 million). Quaker cereals are very popular among working professionals, busy parents and elderly consumers because of their ease of preparation combined with a relative lack of flavour, which makes it a suitable base for consumers to add their own ingredients to create unique breakfast dishes. Kellogg, the second leading player in the Hong Kong’s breakfast cereal market, generated 30% of retail value sales in 2010. Kellogg had the widest product line of all competitors with ten of their products included in the top twenty cereals, including: Mueslix, Frosties, Corn Flakes, Special K, Coco Pops, Just Right, Raisin Bran, Rice Krispies, All Bran and Nutri-Grain. Other top competitors include the manufacturer of “Alpen”, “Weetabix” and “Weetos” branded cereals, Weetabix Ltd (9.6% of total sales); the manufacturer of “Koko Krunch”, “Honey Stars” and “Fitness” branded cereals, Nestle Hong Kong Ltd (9.3% of total sales); and the manufacturer of “Wellcome” branded cereals, Dairy Farm International Holdings Ltd (4.2% of total sales). Due to a strong consumer preference for international brands, local manufacturers have found it difficult to compete and have essentially been edged out of the breakfast cereal market in Hong Kong. The majority of breakfast cereals are sold through supermarkets/hypermarkets (86% of retail value sales), with the remainder sold through independent small grocers, convenience stores and non-grocery retailers.84

With increased emphasis on health and wellness, it is expected that breakfast cereals that are marketed as an integral part of a healthy lifestyle and balanced diet will be the most successful in the future. Euromonitor expects the category to grow by a compound annual growth rate of three percent in constant value terms and five percent in volume terms over the next five years. To appeal to parent’s health concerns about their children’s high-sugar diets, manufacturers of children’s cereals are expected to promote their products nutritional value while continuing to employ extensive promotions, such as gifts with purchases, to appeal to children.85

To reach more consumers, Euromonitor believes more marketing campaigns will also shift into social media platforms, such as Facebook and Twitter. In an attempt to boost brand loyalty, more promotional campaigns are expected to target health-conscious consumers by linking their breakfast cereal to fashion and fitness goals. Kelloggs succeeded at this in 2010, with its “Love Slim Jeans, Love Special K” marketing campaign targeted at young, health-conscious women. Kelloggs connected with these consumers by encouraging them to participate in the Shape Management Challenge, which saw each participant being assigned a fictional online avatar that appeared slimmer and was awarded more clothes over a two week period as participants answered questions about adding Special K to their diets. Each participant that completed the challenge was given a ticket for a lucky draw for a free pair of skinny jeans. The marketing campaign also included the distribution of product samples at fitness centres and the decoration of bus shelters in key fashion areas to showcase Special K models wearing the latest slim jeans.86

Compared to China, Hong Kong’s market for cereals is much more developed and may provide better opportunities for B.C.’s cereal exporters in the short term. In particular, products made from natural ingredients, such as granola and berries, are best suited for competition in this market as consumers are looking
for healthy products that can be consumed on the go and provide lasting energy to maintain them through busy work days.

**SAUCES, DRESSINGS AND CONDIMENTS***

China
Due to rapid economic development, consumers’ rising interest in travel and tourism, and increased availability of foreign ingredients as a result of the increasing number of imported-food supermarkets in China, the variety of foreign dishes served in the country is expanding. This expansion is leading to increased demand for a variety of sauces that were not traditionally consumed in the country, such as barbeque sauce, salad dressings, mayonnaise and ketchup.  

China’s sauces, dressings and condiments market grew by 10% in current retail value terms in 2011, rising from US$7.49 billion to US$8.21 billion. The majority of sales in this sector were driven by soy-based sauces (US$4.2 billion), monosodium glutamate (US$1.5 billion), spicy chilli/pepper sauces (US$0.53 billion) and bouillon/stock cubes (US$0.53 billion). An increasing share of sauces, dressings and condiments are now being sold through supermarkets, climbing from 63% of total retail sales in 2007 to 71% of total retail sales in 2011. Independent small grocers accounted for 24% of sales in 2011 (down from 31% in 2007), while convenience stores and other grocery retailers each accounted for almost three percent.  

In volume terms, China’s sauces, dressing and condiments market grew by 3.6% in 2011, rising from 3,650 to 3,780 thousand tonnes. The fastest growing products included: horseradish sauce, rising 24% from 0.4 to 0.5 thousand tonnes; salad dressings, rising 14% from 3.9 to 4.5 thousand tonnes; mayonnaise, rising 12.5% from 1.9 to 2.2 thousand tonnes; bouillon/stock cubes, rising 13% from 99.1 to 111.8 thousand tonnes; and oyster sauce, rising 10% from 130.8 to 143.3 thousand tonnes. Glass bottles and flexible packaging are the major pack types in this sector, and new launches of sauces are now commonly being packed into smaller presentations than previous years. This has enabled manufacturers to indirectly increase unit prices, which has helped them to cover rising ingredient costs and increase or maintain profit margins.  

Foshan Haitian Flavouring & Food Ltd, the most well-known sauce manufacturer in China, accounted for 10.6% of retail sales at the end of 2010 (US$0.87 billion). The company has utilized its national distribution network, broad product offering and strategy of focusing on dynamic product categories to consolidate its position as the leader in the industry. Other top competitors include the manufacturer of “Lee Kum Kee” branded sauces, Lee Kum Kee Food Co Ltd (4.7% of total sales); the manufacturer of “Lotus” branded MSG products, Henan Lotus MSG Group Co Ltd (2.9% of total sales); the manufacturer of “Knorr” branded sauces, Unilever China Ltd (2.8% of total sales); and manufacturer of “Totole” branded sauces, Shanghai Totole Flavouring Food Sales Co (2.8% of total sales). Private label manufacturers generated less than 0.1% of sales, while smaller manufacturers (each with less than 0.2% of total sales) accounted for 49.1% of total sales combined.  

Euromonitor predicts that the sector will continue to grow in volume terms by nearly 20% over the next five years, driven mostly by increased sales of horseradish, bouillon/stock cubes, oyster sauce, salad dressings, mayonnaise and wet/cooking sauces†. With the increased emphasis in China on food safety, it is also expected

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* “Sauces, dressings and condiments” includes: table sauces, pasta sauces, wet/cooking sauces, dry sauces/powder mixes, dips, pickled products, herbs/spices and other condiments such as ketchup, mayonnaise and mustard.

† “Wet/cooking sauces” include: char siu (Chinese BBQ pork sauce), black bean, sweet & sour, seafood paste, chilli bean, black pepper and curry sauces
that restaurant chains with a reputation for safety and quality will likely win out against smaller food service establishments that don’t have the same reputation. As a result of the growing number of restaurant chains, foodservice chain operators will require more specialised sauce packs in order to offer their customers unique flavours.

B.C.’s sauce manufacturers will likely be challenged in the Chinese market at the present time due to the infancy of the market for foreign sauces (limited to China’s biggest cities) and the strong competition from local and international sauce manufacturers looking to take advantage of emerging preferences for foreign foods. Although there are opportunities to serve foodservice chains looking for specialised sauce packs, the size of orders may be beyond the present production capacities of most of B.C.’s sauce manufacturers.

**Hong Kong**

Hong Kong’s sauces, dressings and condiments market grew by three percent in current retail value terms in 2011, rising from US$163.5 million to US$168.6 million. Supermarkets and hypermarkets generated 66% of sales in 2011, followed by independent small grocers at 19%, other grocery retailers at 12%, convenience stores at 2% and internet retailing at 1%. The majority of the sales in this sector were driven by bouillon/stock cubes (US$41.8 million), herbs/spices (US$30.9 million), soy-based sauces (US$26.6 million), oyster sauces (US$13.7 million) and salad dressings (US$11.5 million).

In volume terms, Hong Kong’s sauces, dressings and condiments market grew by over three percent in 2011, rising from 38,104 to 39,413 tonnes. The fastest growing products included: wet/cooking sauces, rising 6.0% from 1,077.0 to 1,141.6 thousand tonnes; pasta sauces, rising 5.5% from 451.1 to 475.9 thousand tonnes; bouillon/stock cubes, rising 4.6% from 10,163.0 to 10,632.4 thousand tonnes; salad dressings, rising 3.9% from 1,728.0 to 1,794.6 thousand tonnes; and soy-based sauces, rising 3% from 16,125.6 to 16,609.4 thousand tonnes.

The sauces, dressings and condiments market in Hong Kong is fairly fragmented, with manufacturers and retailers focusing on both flavour and packaging innovations in order to build a solid and loyal consumer base. Domestic brands in Hong Kong are losing market share to international players that have the ability to innovate and market their products aggressively. Particularly in the condiment sector, consumers are seeking out products from foreign cultures and are often looking to international brands to deliver. However, in more traditional categories like soy-based sauces, domestic brands have performed well as a result of their strong understanding of local taste preferences and a well-developed customer base. In the wet/cooking sauce category, manufactures are putting a lot of emphasis on claims around superior flavours, authentic taste, attractive packaging and competitive pricing. Some of the more sophisticated manufacturers are also focusing on the health attributes associated with organic and natural products.

Unilever Hong Kong Ltd, manufacturer of “Knorr” branded sauces, accounted for 19.6% of the market at the end of 2010 (US$32.0 million). Other top competitors include the manufacturer of “Lee Kum Kee” branded sauces, Lee Kum Kee Food Co Ltd (14.8% of total sales); the manufacturer of “Amoy” branded sauces, Amoy Food Ltd (9.0% of total sales); the manufacturer of “Kraft” branded sauces, Kraft Foods Hong Kong Ltd (8.4% of total sales); and the manufacturer of “Swanson” branded sauces, Campbell Soup Asia Ltd (8.4% of total sales). Private label manufacturers accounted for less than 0.1% of sales in 2011.

Euromonitor expects that the majority of the growth in this sector will be driven by wet/cooking sauces, as consumers look for easy meal solutions and move away from traditional soy-based sauces towards all-in-one cooking sauces. Due to the quickening pace of the typical Hong Kong lifestyle, working-class consumers are left with less time to prepare their own meals and are spending more time eating out. This has resulted in an
increased demand for wet/cooking sauces in smaller, convenient packages. All-in-one sauces served in smaller pack sizes are more suitable for these consumers because they don’t cook enough meals at home to warrant the purchase of larger quantities and generally lack the culinary skills and knowledge to create their own sauces. A reduction in pack size has also opened up the opportunity for companies to target convenience store shoppers looking for just enough sauce to cook one meal. Amoy Food Ltd has taken advantage of this opportunity already by launching small dim sum mixes that are exclusively distributed through convenience stores like Circle K and 7-Eleven.97

In the future, manufacturers are expected to continue to work towards reducing negative attributes of their products, such as high salt, sugar, fat or MSG content, and seek to add value to their products by claims of better taste, organic attributes and natural ingredients. B.C. sauce manufacturers that have unique, naturally-healthy cooking sauces may be able to carve out a share of the market in Hong Kong as consumers are looking for new flavour variations that can enable them to easily cook tasty dishes in a short amount of time.98

**SNACK FOODS**

**China**

Snack bars* remain a niche category in China, as most consumers have never even heard of this kind of product. Large-scale companies have only just begun to cultivate a test market in first-tier cities such as Beijing and Shanghai, but have not yet achieved success in terms of consumer education. Sales of breakfast bars, fruit bars, and granola/muesli bars have been negligible over the past five years, while sales of energy/nutrition bars have increased 95.5% from US$1.9 million in 2007 to US$3.7 million in 2011. Euromonitor analysts report that the flavour of snack bars is unfamiliar in China and does not currently appeal to the majority of local consumers. However, as more players enter the market and increasing numbers of consumers understand the benefits of consuming snack bars as a part of a healthy-diet, it can be expected that the category will see stronger growth over the next five years. This growth is expected to be led by energy/nutrition bars thanks to the expanding consumer base serviced by gyms and health specialists. Currently, about 90% of the energy/nutrition bar sales in China are generated through non-grocery retailers while the remainder is generated through internet retailing.99

Sales of sweet and savoury snacks† (excluding snack bars) increased by 12.1% in 2011, rising from US$9.0 billion to US$10.1 billion. Cup jellies led this category in 2011, with sales of US$1.7 billion, followed by seeds (US$1.3 billion), nuts (US$1.1 billion), fruit snacks (US$1.0 billion), rice snacks (US$1.0 billion), potato-based snacks (US$0.86 billion) and beef/fish jerky (US$0.85 billion). Reducing unhealthy ingredients was the focus of manufacturers in 2011, as low-salt snacks which claim to reduce the prevalence of diseases such as hypertension and obesity are selling well in China. In an attempt to attract younger consumers, manufacturers are also launching more new flavours. PepsiCo, manufacturer of Lay’s potato chips, launched ‘boiled fish with Sichuan pickles’ and ‘spicy hot pot’ flavoured chips in 2011, which were well-received by Chinese consumers.100

Want Want Group, manufacturer of “Hot-Kid” branded baby foods and “Want Want” branded rice crisps and crackers, led the Chinese sweet and savoury snacks market at the end 2010 with a retail value share of 10% (US$899.1 million). Want Want’s strategy of developing rural areas to support growth has continued to be successful, but the company’s position in urban areas is facing competition from other key players such as Guangdong Strong, PepsiCo and Orion, which are very active in product development and marketing in Chinese

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* “Snack bars” includes granola/muesli bars, breakfast bars, energy bars, fruit bars, yoghurt bars and other non-cereal bars (i.e. sesame).
† “Sweet and savoury snacks” includes fruit snacks, chips/crisps, extruded snacks, tortilla/corn chips, popcorn, pretzels, nuts, seeds, peas, fruit and nut/trail mixes, seaweed snacks, meat snacks (i.e. beef jerky), fish snacks, pork scratching and non-dairy based cup jellies.
cities. Domestic manufacturers currently have an advantage over foreign competitors in terms of distribution networks, but the popularity of internet retailing is creating opportunities for foreign manufacturers to target young consumers and office workers who are too busy to purchase food and drinks in outlet-based stores. Euromonitor forecasts that internet retailing of sweet and savoury snacks will be seven times greater in 2016 than it was in 2011. Internet retailing accounted for only 0.3% of total sales in 2011 (US$0.03 billion), while supermarkets/hypermarkets generated 79.2% (US$7.9 billion), independent grocers generated 14.5% (US$1.5 billion) and convenience stores generated 4.6% (US$0.46 billion).

The lower-calorie content of sweet and savoury snacks compared to most other impulse foods, such as confectionary and ice cream, has provided this category with strong growth prospects. Due to rising obesity problems in China, the Chinese Government is educating parents regarding the sugar and calorie intake of children, which should result in a general move away from high-sugar foods towards healthier snack alternatives. Sales of naturally-healthy snacks, such as dried fruit, are expected to grow as consumers become more educated about the benefit these products can provide as part of a healthy, balanced diet.

Due to recent coverage by the Chinese media about the manufacturing processes of snacks in the country, an increasing number of Chinese consumers are avoiding consumption of products produced by smaller manufacturers. These media reports have exposed many operations where manufacturers are adding illegal chemical ingredients to processed fruit snacks, or using unhygienic environments to store product. Snack manufacturers in B.C. that target the Chinese market need to differentiate their product from domestically-produced goods in China by highlighting why their products are safe and healthy to eat. Use of innovative marketing technologies, such as Quick Response Codes, are great tools for providing reassurance that products were produced safely using healthy ingredients because they can quickly connect China’s tech-savvy consumers with information about the manufacturer and supply chain while they are making purchasing decisions.

Hong Kong
The snack bar market in Hong Kong is much more developed than in China, but consumers have yet to begin purchasing breakfast bars and fruit bars in any significant quantity. Total snack bar sales grew by 23.9% between 2007 and 2011, rising from US$1.3 million to US$3.1 million in current retail value terms. Energy/nutrition bars accounted for 69% of total sales in 2011 while granola/muesli bars made up the remaining 31%. Supermarkets/hypermarkets accounted for 50% of sales in 2011, convenience stores accounted for 30% and non-grocery health and beauty retailers accounted for the remaining 20%.

Most of the growth in Hong Kong’s snack bar market is being driven by the younger population, which is looking for healthier alternatives to confectionery and other unhealthy snack foods. The snack bar market is dominated by Otsuka Pharmaceutical, a well-established pharmaceutical company that also produces SoyJoy, an all-natural product baked with whole ground soybeans that contains real fruit and nuts. Consumers trust the Otsuka brand, which has helped drive this product’s success in the market. During the next five years it is expected that granola/muesli bars will see negative growth as the market reaches maturity, while energy/nutrition bars will see moderate growth as Otsuka Pharmaceutical launches more health campaigns to educate consumers on how Soy Joy products are compatible with leading a healthy lifestyle.

Sales of sweet and savoury snacks (excluding snack bars) increased by five percent in 2011, rising from US$104.7 million to US$109.9 million. Tortilla/corn chips led this category in 2011, with sales of US$14.7 million, followed by nuts (US$14.1 million), potato-based extruded snacks (US$9.3 million), rice crackers (US$3.6 million), prawn crackers (US$3.4 million), corn-based extruded snacks (US$3.1 million) and fruit snacks (US$0.32 million). Euromonitor reports that the market for other sweet and savoury snacks – including fruit/nut mixes, cup jellies, jerky and seaweed snacks – reached US$2.4 million combined in 2011. Almost half of all sweet and savoury

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snacks are sold through supermarkets/hypermarkets, while the majority of the remainder are sold through convenience stores, independent small grocers and other grocery retailers.

Calbee Four Seas (Hong Kong) Co Ltd, Japanese manufacturer of “Calbee” branded chips and crisps, accounted for 24.8% of retail sales at the end of 2010 (US$27.3 million). Calbee has been able to maintain its position as leader of Hong Kong’s sweet and savoury snack market by conducting aggressive in-store promotions, offering highly-innovative product offers and leveraging its well-established brand name to acquire generous shelf space in major supermarkets. Other top competitors include the manufacturer of “Doritos” and “Lays” branded chips, Pepsi Co Inc (21.9% of total sales); the manufacturer of “Jack ‘n’ Jill” branded chips, URC HK Co Ltd (12.1% of total sales); the manufacturer of “Pringles” branded chips, Procter & Gamble HK Ltd (6.3% of total sales); and manufacturer of “Planters” branded nuts, Kraft Foods Hong Kong Ltd (4.6% of total sales). Smaller domestic manufacturers are starting to become outmuscled in Hong Kong’s snack market by international brands that benefit from stronger supermarket distribution chains, higher advertising budgets and larger economies of scale. Although there has been an influx of lower-end products from China into Hong Kong recently, resulting in a wider variety of offerings and intensified competition in a highly fragmented category, consumers see snacks as treats and small indulgences and so tend to opt for well-known branded products. Private label brands have seen limited value and volume growth over the past five years.

Hong Kong consumers are willing to spend more to experience new and interesting tastes that offer a combination of healthier attributes. B.C. exporters of premium snacks that offer superior health benefits, organic and natural claims, exotic tastes or sophisticated packaging are likely to be most successful in the Hong Kong market in the near future. Euromonitor expects that Hong Kong’s sweet and savoury snack market will grow by a compound annual growth rate of two percent in both volume and value terms over the next five years. It is expected that nuts and fruit snacks will perform well as they are convenient, healthy and are considered less processed and artificial than chips and crisps.

**SPREADS**

**China**

The market for spreads in China grew by 10% in current retail value terms in 2011, rising from US$657.4 million to US$723.7 million, and five percent in volume terms, rising from 157.9 to 165.6 thousand tonnes. Supermarkets/hypermarkets generated 75% of sales, followed by other grocery retailers (14%), independent small grocers (10%) and convenience stores (1%). Honey accounted for 58% of retail sales in 2011 (US$419.6 million); jams and preserves accounted for 28% (US$203.0 million); nut-based spreads accounted for 13% (US$92.1 million); and chocolate spreads accounted for one percent (US$8.9 million). Nut-based spreads led volume growth in the spreads category in 2011, rising 5.3% from 582.3 to 642.5 thousand tonnes.

Due to the increasing adoption of Western-style breakfast foods, such as plain bread slices, the demand for spreads is growing strongly in China. Nut-based and chocolate spreads saw the strongest growth over the past couple of years as young consumers, especially children, are consuming them with bread and milk in place of traditional Chinese breakfast foods. Many parents like nut-based and chocolate spreads because they are perceived to provide more energy for their children than other spreads, such as honey and jam. On the other hand, honey still accounted for more than half of sales in 2011 as it is traditionally well-accepted among many Chinese consumers. Many elderly people in China consume honey with hot water in the early morning, as they believe that it is beneficial to digestive health. The leading flavours for jams and preserves include strawberry, apple, orange, mixed fruits, blueberry, hawthorn and peach fig (see Table 1).

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* “Spreads” includes: jams and preserves, honey, chocolate spreads, nut-based spreads and yeast-based spreads
Table 1 – Ranking of Most Popular Flavours for Jams & Preserves in China

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<tr>
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Wang’s Bee Garden Co Ltd, manufacturer of “Wang’s” branded honey, accounted for 11.6% of the spreads market at the end of 2010 (US$83.9 million). As a result of its well-established brand image, Wang’s is often considered to be the generic name for honey in China. Other top competitors include the manufacturer of “Guan Sheng Yan” branded honey, Guan Sheng Yuan Group (4.8% of total sales); the manufacturer of “Kewpie” branded jams and preserves, Beijing Kewpie Food Co Ltd (4.5% of total sales); the manufacturer of “Bai Hua” branded honey, Beijing Bajiu Bee Product Co Ltd (3.2% of total sales); and the manufacturer of “Yinger” branded peanut butter, Shandong Yinger Food Co Ltd (2.3% of total sales). Over 60% of total sales were generated by smaller manufacturers in 2010, but it is expected that large domestic and international companies will attempt to further consolidate their positions over the next five years, making it more difficult for these smaller players to compete.¹¹⁰

The rising popularity of Western-style breakfasts, combined with consumers’ accelerating lifestyles and increased attention to health issues, is expected to drive stable growth in China’s spread market in the future. Euromonitor expects compound annual growth to be about 3.5% in volume terms between 2011 and 2016, rising from 165.6 to 196.6 thousand tonnes. The chocolate-spread niche will likely remain the most dynamic of all spreads’ categories, as young children and consumers look for tasty products to consume with white bread. B.C. spread exporters may find opportunities to introduce premium nut-based or chocolate spreads into China’s larger markets (Beijing, Shanghai, Guangzhou) by targeting imported food stores and retailers catering to higher-end consumers.

Hong Kong

The market for spreads in Hong Kong grew by seven percent in current retail value terms in 2011, rising from US$35.8 million to US$38.3 million, and three percent in volume terms, rising from 3,657 to 3,768 tonnes. Supermarkets/hypermarkets generated 85% of sales, followed by convenience stores (9.5%), independent small grocers (4.5%) and non-grocery retailers (1%). Honey accounted for 51% of retail sales in 2011 (US$19.5 million); jams and preserves accounted for 32% (US$12.2 million); chocolate spreads accounted for nine percent (US$3.6 million); and nut-based spreads accounted for eight percent (US$3.1 million). Jams and preserves led volume growth in the spreads category in 2011, rising four percent from 1,309.1 to 1,361.5 tonnes.¹¹¹

Most of the recent sales growth in Hong Kong’s spread market has been driven by honey, jam and preserves, as health-conscious consumers migrated towards more natural products. Many jams and preserves were marketed as containing more natural ingredients and reduced sugar content, while honey was increasingly sought after for its perceived health benefits. The leading flavours for jams and preserves have remained unchanged over the last five years, with strawberry, blueberry and apricot continuing to be the most popular in 2011 (see Table 2). Consumers prefer these flavours over sweeter citrus flavours, such as orange and lemon, and this is not expected to change in the near future.¹¹²
Po Sang Yuen Bee Farm, manufacturer of “Po Sang Yuen” branded honey, accounted for 18.4% of the spreads market at the end of 2010 (US$7.0 million). Po Sang Yuen is able to offer customers fresher products at lower prices than international companies, which has enabled them to remain the leader in this category. Other top competitors include the manufacturer of “Smucker’s” branded jams and preserves, The JM Smucker Co (12.5% of total sales); the manufacturer of “Beehive Pak Fa” branded honey, Tick Shing Hong Industry Co Ltd (10.4% of total sales); the manufacturer of “Robertson’s” branded jams and preserves, Premier Foods Plc (8.3% of total sales); and the manufacturer of “Nutella” branded chocolate spread, Ferrero Asia Ltd (8.3% of total sales). The “Smucker’s” and “Nutella” brands are synonymous with jams and chocolate spreads, respectively, in Hong Kong.

Although chocolate spreads remain popular among young people, many consumers are opting for healthier alternatives due to concerns about high sugar content. As a result, demand for chocolate spreads has declined by over 12% in volume terms since 2006. Ferrero has implemented a new marketing campaign to quell such concerns, which involves an educational component informing consumers how Nutella can form part of a healthy breakfast when consumed with other foods, such as milk and fruit. Despite these efforts, high sugar spreads such as Nutella are not expected to do as well in Hong Kong over the next five years compared to those products that can balance taste and good nutritional value. B.C. spread exporters may be able to carve out a share of the Hong Kong market by offering innovative, natural flavour combinations that can provide consumers with greater health benefits than the spread products being offered by larger manufacturers. Euromonitor expects Hong Kong’s spread market to achieve a compound annual growth rate of about 2.1% in volume terms between 2011 and 2016, rising from 3,769 to 4,175 tonnes. The majority of this growth will be driven by jams and preserves, while chocolate spreads and nut-based spreads will experience the slowest growth.
CONCLUSION

With a domestic food production system that is unable to provide food self-sufficiency for the country, China is in need of safe, high-quality food imports to help feed its growing population. Of the processed food products analyzed in this report, the greatest opportunities for B.C. food exporters in China likely exist in the biscuits/cookies, snack foods and spreads categories.

Natural, premium biscuits that offer additional health benefits are expected to be successful in China, especially when targeted towards higher-income consumers through imported-food specialty retailers, such as CityShop. There is also a growing demand for naturally-healthy snacks, such as dried fruit, which is an area where B.C.’s food processors may be able to compete strongly. In order to successfully capitalize on these opportunities, it is important for B.C. processors to differentiate their products from domestically-produced products. This can be accomplished by using innovative, Canadian-branded packaging and by leveraging marketing technologies that communicate how the product was produced, what makes it healthy and why it is safe to eat. Opportunities may also exist for B.C. exporters to sell nut-based or chocolate spreads into China, particularly through imported-food specialty retailers in Beijing, Shanghai and Guangzhou.

Although China is one of the largest consumer markets in the world and shows promising growth opportunities for B.C.’s agri-food products, there are many challenges facing B.C. exporters looking to expand into this lucrative market. Chinese consumers speak a different language, work in a different time-zone, conduct business differently and have very different eating habits, which requires manufacturers and marketers to tailor their product development and export strategies to meet the needs of the market. For smaller manufacturers, this commitment can often be too cost prohibitive. As well, due to the large size of the Chinese market, Canadian suppliers can sometimes be overwhelmed by the size of the orders delivered by partners in China which cannot be met due to limited production capacity.

Taking these challenges into consideration, it is still possible to capitalize on the opportunities in this growing market if B.C.’s exporters develop the right export marketing strategy. The first step to developing a successful strategy is to collect market intelligence and conduct a solid analysis of the opportunities, threats and challenges in the market. The information provided in this report is intended to provide the foundation for this analysis, while further sector-specific research should be completed before deciding whether or not to compete in this market.

If B.C. exporters have a product that they think will succeed in China, often the best strategy to confirm that assumption is to test market the product here in Canada before committing substantial resources to developing an export market overseas. With over 400,000 ethnic Chinese living in the Province, B.C.’s food processors have access to an excellent resource for fine tuning flavour profiles and developing successful marketing strategies to ensure that the product will have better chances of success once exported to China.115

Once a product has been test marketed in B.C. and shows promise for success among Chinese consumers, a good first step to getting product into the Asian market is by connecting with a buyer in Hong Kong who also does business in mainland China. Hong Kong is often the perfect stepping stone for new exporters looking to access multiple Asian markets or test market new products. The majority of the population speaks English, there are a large number of B.C. companies with established links to the market, and Hong Kong is an international trading hub with access to half of the world’s population within a five hour flight. New exporters often find it easier to find compatible buyers in Hong Kong than in China, as Hong Kong businesspeople tend to

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have a much better understanding of western business practices and a stronger ability to communicate in English.

In addition to being a gateway into China, Hong Kong is also in need of high-quality food products from abroad as it depends on imports for about 95% of its domestic food requirements. Of the processed food products analyzed in this report, the greatest opportunities for B.C. food exporters in China likely exist in the biscuits/cookies, breakfast cereals, sauces, snack foods and spreads categories. B.C. exporters of innovative, naturally-healthy biscuits, cookies and snack foods may find success in Hong Kong by leveraging the Canada Brand to market their products. By differentiating Canadian products from those imported into Hong Kong from China, B.C. exporters will have an advantage over lower-cost Chinese competitors who are having trouble regaining the support of Hong Kong consumers because of poor food-safety records over recent years. Breakfast cereals that contain naturally-healthy ingredients, such as berries, will likely also be successful in the future, as well as all-in-one sauces that provide consumers with new, innovative flavour combinations.

Once B.C. exporters have developed an export strategy and are ready to connect with a buyer in Hong Kong or China, they can attend tradeshows in the market, participate in a government-led trade mission, or reach out to federal Trade Commissioners at the Canadian embassies and consulates. The key food tradeshow in Hong Kong, HKTDC Food Expo*, occurs every summer and offers a trade hall and a public hall so products can be targeted to both commercial buyers and consumers. The public hall at HKTDC Food Expo is a great place to test new products before committing to the market. More information on key tradeshows and how the Federal Government can assist B.C.’s food and beverage processing industry in taking advantage of emerging export opportunities can be found on AAFC’s Agri-food Trade Service Website (http://www.ats.agr.gc.ca/intro/index-eng.htm).

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* For more information on the HKTDC Food Expo visit http://www.hktdc.com/fair/hkfoodexpo-en/HKTDC-Food-Expo.html