



THE NEW TREND OF CHINESE BEVERAGE INDUSTRY IN 2016H1

In recent years, Chinese beverage market has shown not very good and its growth rate fell by 70% from 13% in 2014 to 4% in 2015. From 2016 to 2020 is the reconstruction time of Chinese food and beverage industry, the mainstream consumers will change from the past 70s and 80s to 90s, 00s and 10s. In the face of the changed consumers, manufacturers and merchants need to constantly update the marketing strategy. For production volume, data from NBS (National Bureau of Statistics of the PRC) show that the production volume of soft drinks in China in 2016Q2 was 47.2 million tons, with year-on-year growth of -3.1%. Total production volume in 2016H1 was 89.8 million tons, with year-on-year growth of 2.7%.

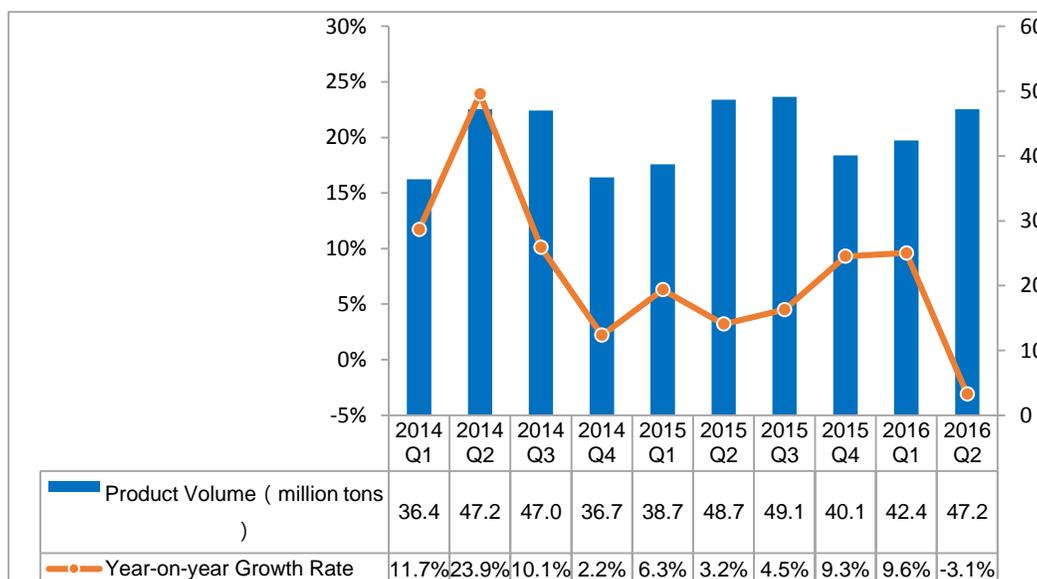


Chart 1. 2014-2016 China Soft Drinks' Production Volume

For advertising promotion, the total advertising volume of beverage industry has begun to enter into rapid growth stage since 2011, the annual volume grew from RMB 58.41 billion in 2011 to RMB 85.21 billion in 2015. As of May 16, 2016, beverage industry ranked first of advertising promotion with advertising volume of RMB 26.22 billion. At the same time, the key point of beverage industry advertising has changed from terrestrial channels to satellite TV station since 2011. In 2015 and 2016Q1, satellite TV station accounted for about a half and has become the main target of beverage industry advertising.

For advertising promotion, beverage industry ranked the first during all industries. The promotion peak appeared in Jun to Sep. For beverage category segment, the liquid beverage accounts for more than 60%. The fruit and vegetable juice, lactic acid bacteria beverage and infant milk powder are the key categories.

TEN KEYWORDS OF CHINESE BEVERAGE INDUSTRY IN 2016 H1



1. LIGHT DRINKS

Domestic and foreign food and beverage giant launched a lot of new light drinks in recent one or two years, such as Sea Salt Lemonade, Suiyue of Danone, 'Gently' series of Wahaha, Menton of Jinmailang, etc. So the light drinks market in 2016 is still hot.



2. BEAUTIFUL PACKAGING

These two years, many food companies put a lot of effort on product packaging, such as Classmate Xiaoming, high-end bottles water from Nongfu Spring, Uni-president TEA LA TOUR, Nongfu Spring Tea 茶π, Lemon tea of Tingyi and crystal diamond bottle of Wahaha, all of which have beautiful packages.



3. CELEBRITY ENDORSEMENT

Celebrity endorsement of food companies is also popular, such as Uni-president TEA LA TOUR corporated with Zhang Tianai, Hu Ge represented Minute Maid, Wang Kai corporated with Bright Dairy and Alkaqua of Uni-president, etc. The power of fans economic should be reckoned with.



4. COCONUT WATER WARMING UP

In 2014, Reignwood Group introduced Vita Coco into China. After nearly two years, Coca-Cola with its ZICO coconut water entered Chinese market. After category preheating, domestic food companies, such as Tenwow Food, also launched a coconut water brand and many imported coconut water brands entered Chinese market. Chinese coconut water market will usher in a new round of development boom.



5. CHANNELS CHANGED TO 'SMALL'

In recent years, small modern channels provide more convenience to consumers and obtain an explosion development. In 2016, the growth rate of convenience store channels is expected to reach 9.8%. At present, consumers spend more and more in small retail stores and convenience stores, which will also become an important factor to affect Chinese retail pattern.



6. HIGH-END ORIENTED

Luo Zhixian from Uni-president said in 2016, they will positively develop high margin products. At the same time, in the first half of this year, Uni-president has successively introduced many high-end products, such as 'Keep Sweet' with price of RMB 19.9 and 'REVIVE' plant energy drinks. As can be seen from the new actions of large enterprises, the high-end trend of food and beverage industry has been formed



7. ENTERTAINMENT MARKETING

Recently, 'Angry birds' attracted attention from all walks of life, especially food and beverage industry. Mengniu, Jiaduobao, BESTORE, Biostime, Evergrande Spring and Stride all joined the development of 'Angry birds'. In addition, food enterprises also keep interest in sponsoring popular columns and implanting film and TV show.



8. CELEBRITY E-COMMERCE

From Wang Sicong to Papi Jiang with an advertisement of RMB 22 million, and also, Liu Yan and Wu Zun sell food and milk powder by live broadcast, all of which showed that from goods shelf to live broadcast, the e-commerce of food industry opened another door.



9. CAPITAL MERGER

Since this year, there have been many capital m&a events in Chinese beverage industry and also presented the high-end trend, such as Reignwood Group purchased more than 50% of the equity of a senior bottled water manufacturer from Norway for \$105 million, Sanyuan purchased 90% of the equity of Baxi for RMB 1.3 billion, etc.



10. INDUSTRY RESTRUCTURING

China chairman of Mondelēz and Nestle both reflected that enterprises can't keep up with the changing speed of Chinese consumers. Young state of subdivision brands of leading enterprises, expert-type and fashion sense leading brands and niche brands from segmentation community will constitute the mainstream brand pattern of Chinese food industry.

THE NEW POLICY OF CHINESE MILK POWDER INDUSTRY PROMOTE INDUSTRY RESHUFFLING

'The Product Formula Registration Management Approach of Infant Formula Powder', known as history's most severe policy, officially promulgated on June 6. The new policy required that all the product formula of infant milk powder that producing, selling in China and imported should manage the registration. Also, the new policy made a specification in view of the current situation of Chinese infant formula milk powder with too much and too disorderly formula, which clearly stipulated that every enterprise should not exceed three formula series with nine product formulas in principle to reduce the malignant competition and the misleading to consumers.

At present, there are 103 infant formula powder production enterprises obtained production licenses and 73 imported milk powder production enterprises registered in China. After the implementation of the new policy, the 103 enterprises can at most hold 927 formulas (about more than 300 brands), so that more than half of the existing formula products will be pulled from the shelves in 3 months. Also, 73 foreign milk powder enterprise with import qualification will compress their production line in China. At present, the domestic milk powder market competition pattern is steady and with high concentration in first and second-tier cities, so the new policy is difficult to have a material impact on this level. But for three or four-tier cities and rural areas, due to the small and medium-sized dairy enterprises' product quantities sudden contraction and even forced to withdraw from the market due to operating pressure, will run out of a big market space and will become the future key battleground for foreign milk powder enterprises and domestic leading enterprises to compete for.

On the other hand, the new policy of cross-border e-commerce has begun to implement since April 8, which banned the importing of unregistered milk powder products, increased the cost of imported milk powder by 11.9% VAT, blocked the cross-border e-commerce channels that had the most impact on domestic milk powder industry in recent years and implemented the comprehensive regulation on online and offline, production and sales of milk powder industry.

PERFORMANCE SUMMARY FOR MAJOR FOOD AND BEVERAGE PLAYERS IN 2016H1



In 2016H1, Coca-Cola's net profit grew by 5.7%. Its revenue was 21.82 billion dollars, fell by 4.6%. The drops of revenue was mainly trapped with Asia Pacific, especially Chinese market. In 2016Q2, the sales revenue of juice drinks of Coca-Cola in China fell by double-digit.



In 2016H1, PepsiCo's revenue fell by 3.1%, without consideration of exchange rate, the organic growth was 3.4%. Its net profit was 2.94 billion dollars, fell by 8%. In 2016Q2, PepsiCo's revenue was 15.4 billion dollars, fell by 3.3%, which slightly higher than market expectations. Its net profit was 2.01 billion dollars with year-on-year growth of 1.3%. PepsiCo said that the main reason for the drops is exchange rate and the withdrawing from Venezuelan market. Its organic growth of revenue in emerging market was 7%, especially in China, Mexico and Egypt.



In 2016H1, Nestle's sales revenue was CHF 42.84 BN, fell by 0.3%. Its net profit was CHF 4.25 BN, fell by 2.5% than 2015H1. These two indicators were slightly lower than analysts' expectation.



In 2016H1, it is predicted that Beingmate's net profit attributable to shareholders will loss RMB 210-230 million. But in its performance report in 2016Q1, it predicted that it will gain RMB 70-100 million.



In 2016H1, Abbott's gross profit was 615 million dollars, fell by 21.6% due to cost raising. Its sales revenue grew by 3.2% and without considering the effects of exchange rate, its revenue grew by 6.4%.

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