



**MARKET ACCESS SECRETARIAT
Global Analysis Report**

Health and Wellness Series

**Functional Foods and
Beverages**

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EXECUTIVE SUMMARY

Fortified/functional (FF) foods and beverages are products with ingredients that are added for specific health benefits that are beyond basic nutrition. These types of products are gaining popularity in China as lifestyles move at a faster pace and consumers have less time to prepare healthy meals from scratch.

While Chinese consumers are becoming increasingly aware of health and nutrition, rising incomes mean that they can also splurge on the products with attributes that they value. Examples of attributes that Chinese consumers seek include: rich in protein, and immune or energy boosting.

Canadian manufacturers of FF products may also have an advantage in the Chinese market seeing as many consumers have low trust in the Chinese food supply and prefer purchasing imported products.

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INTRODUCTION

China's population was 1.36 billion in 2015 and is expected to increase 2.9% by the year 2020, reaching 1.4 billion people. The population growth and increase in income, combined with rising awareness of health and nutrition, are contributing to the popularity of healthier foods and beverages.

Fortified/functional (FF) foods and beverages are products that contain added ingredients which have a potentially positive effect on health, beyond basic nutrition. In China, using such familiar ingredients could increase consumption as there is a long history of using herbal medicine.

MARKET CHARACTERISTICS

Recent food scandals in China, such as the melamine in milk products scandal, have pushed consumers toward imported products. Imported products are not only perceived to be more trustworthy, but also to be of higher quality and to have more advanced key functional ingredients.

FF baby food was the largest category within FF foods and beverages in 2015, representing almost 50% total market share. The growing value of this category may be due to the relaxation of the one-child policy by the Chinese government. As incomes rise and consumers become more aware of health and nutrition, there is also a trend towards premiumisation, especially within the FF baby food category.

It is important for Canadian companies to know that the updated Advertising Law in China requires companies not to actively advertise baby formula on any occasion, and prohibits marketing baby formula as a substitute for breastfeeding. According to Euromonitor International, official websites must state that breastfeeding is best, and that the World Health Organization suggests breastfeeding for at least six months. Additionally, the Baby, Infant and Toddler Milk Formula Registration Regulation became effective in October 2016, requiring companies to manufacture products under a maximum of three brands and terminate the production of the rest of their brands. There is also increased scrutiny of baby food from the China Food and Drug Administration.

Retail sales of FF beverages grew 7.1% in 2015. This growth may be due to increasingly busy lifestyles and awareness of health and nutrition. Consumers are seeking more nutritious beverages that are also convenient to replenish their energy and nutrients, such as vitamin C-fortified water, instead of plain water in an attempt to boost immunity. Students have also been turning to energy boosting FF beverages when studying, and drivers during long journeys. Plant-based hot drinks such as cereal drinks, oatmeal drinks, and soybean powder drinks offer protein and/or fibre. Given the popularity of energy boosting beverages, there may also be an opportunity for plant-based hot drinks that also contain caffeine. The only relevant national standards are General Standards for Beverages.

As consumer's are increasingly suffering from eye health concerns due to the use of smartphones and tablets, products positioned as boosting vision health may see strong new product development. Additionally, the aging population may create an opportunity for products positioned as beauty from within and anti-aging.



RETAIL SALES

Retail Sales of Fortified/Functional (FF) Packaged Foods in China, by Segment

Historic Retail Value in US\$ Millions

Current Prices – Fixed 2015 Exchange Rates

Categories	2011	2012	2013	2014	2015	% *CAGR 2011-15
FF Baby Food	10,097.0	12,256.6	14,797.3	17,053.7	19,801.4	18.3
FF Dairy	8,196.1	9,565.9	11,207.7	12,893.9	15,144.7	16.6
FF Confectionery	1,431.4	1,678.3	1,912.7	2,158.5	2,417.0	14.0
FF Biscuits and Snack Bars	478.9	554.1	648.6	899.8	1,076.7	22.5
FF Breakfast Cereals	569.1	648.6	730.6	814.1	903.1	12.2
FF Oils and Fats	122.9	148.0	171.9	178.9	186.6	11.0
FF Bread	107.8	120.2	131.8	144.1	155.4	9.6
Total FF Packaged Foods	21,003.1	24,971.8	29,600.6	34,143.0	39,684.8	17.2

Source: Euromonitor International, 2016.

*CAGR: compound annual growth rate

Retail Sales of Fortified/Functional (FF) Packaged Foods in China, by Segment

Forecasted Retail Value in US\$ Millions

Current Prices – Fixed 2015 Exchange Rates

Categories	2016	2017	2018	2019	2020	% *CAGR 2016-20
FF Baby Food	23,322.8	27,826.5	33,057.0	39,061.0	45,959.1	18.5
FF Dairy	17,427.7	19,988.8	22,930.9	26,123.7	29,606.0	14.2
FF Confectionery	2,691.1	2,992.9	3,326.3	3,685.1	4,072.3	10.9
FF Biscuits and Snack Bars	1,277.3	1,507.9	1,767.3	2,053.6	2,365.9	16.7
FF Breakfast Cereals	989.0	1,083.7	1,187.2	1,299.2	1,419.2	9.4
FF Oils and Fats	199.4	214.8	232.7	253.3	277.1	8.6
FF Bread	167.3	179.8	192.6	205.4	218.3	6.9
Total FF Packaged Foods	46,074.5	53,794.3	62,694.0	72,681.4	83,917.9	16.2

Source: Euromonitor International, 2016.

*CAGR: compound annual growth rate



Retail Sales of Fortified/Functional (FF) Beverages in China, by Segment
Historic Retail Value in US\$ Millions
Current Prices – Fixed 2015 Exchange Rates

Categories	2011	2012	2013	2014	2015	% *CAGR 2011-15
FF Fruit/Vegetable Juice	4,558.6	5,439.9	5,992.3	5,974.4	5,810.3	6.3
FF Energy Drinks	1,545.9	2,072.2	2,713.4	3,399.9	4,093.6	27.6
FF Other Hot Drinks	1,941.7	2,071.5	2,204.0	2,275.2	2,378.1	5.2
FF Bottled Water	737.8	907.7	1,101.5	1,408.8	1,606.0	21.5
FF Sports Drinks	888.3	969.8	1,120.9	1,340.6	1,494.9	13.9
FF Carbonates	5.1	5.0	4.9	598.2	686.9	240.7
FF Concentrates	170.0	180.4	191.0	201.5	208.5	5.2
Total FF Beverages	9,847.4	11,646.4	13,328.1	15,198.6	16,278.2	13.4

Source: Euromonitor International, 2016.

*CAGR: compound annual growth rate

Retail Sales of Fortified/Functional (FF) Beverages in China, by Segment
Forecasted Retail Value in US\$ Millions
Current Prices – Fixed 2015 Exchange Rates

Categories	2016	2017	2018	2019	2020	% *CAGR 2016-20
FF Fruit/Vegetable Juice	5,763.7	5,797.7	5,870.5	5,976.5	6,117.6	1.5
FF Energy Drinks	5,011.9	6,185.9	7,634.4	9,399.2	11,555.4	23.2
FF Other Hot Drinks	2,511.8	2,667.3	2,841.0	3,032.0	3,241.8	6.6
FF Bottled Water	1,848.4	2,131.0	2,455.5	2,824.5	3,243.2	15.1
FF Sports Drinks	1,680.9	1,893.5	2,131.9	2,396.3	2,689.1	12.5
FF Carbonates	788.0	891.3	991.0	1,081.7	1,158.5	10.1
FF Concentrates	217.8	228.1	239.0	250.1	261.4	4.7
Total FF Beverages	17,822.4	19,794.8	22,163.2	24,960.2	28,267.1	12.2

Source: Euromonitor International, 2016.

*CAGR: compound annual growth rate



KEY FUNCTIONAL FOOD AND BEVERAGE CATEGORIES IN 2015

The following section provides information for the three key categories within FF packaged food; baby food, dairy, and confectionery; as well as the three key categories within FF beverages; fruit/vegetable juice, energy drinks, and other hot drinks. The information in this section has been sourced from Euromonitor International (2016).

FF Baby Food

FF baby food is the most significant product area in fortified/functional packaged food and accounted for 49.9% value share in 2015. In 2015, the FF baby food category had US\$19.8 billion in retail sales, representing a 96.1% increase over the past five years. Due to growing income levels and increasing focus on infant nutrition, it is expected that this category will continue to see growth over the next five years at a compound annual growth rate of 18.5%, reaching a retail value of US\$45.9 billion by 2020. The growing demand for FF baby food may also be due to relaxation of China's one-child policy, permitting families to have a second child and boosting birth rates from 12.1 births per 1,000 people in 2013 to 12.6 births per 1,000 people in 2015 (Euromonitor International, 2016).

Main Sub-Categories

- The FF baby food category is entirely made up of milk formula.

Main Brands

- The S-26 brand (Nestlé) led FF baby food in 2015 with 7.6% market share, followed by Beingmate (Hangzhou Beingmate Group Co Ltd) with 6.6%, and Yili (Inner Mongolia Yili Industrial Group Co Ltd) with 5.8%.
- Of the top three brands, S-26 saw the most growth from 2014 to 2015 with a 17% increase in retail sales, followed by Yili (12%), and Beingmate (11%).

Forecasts for 2016-2020

- Due to the relaxed one-child policy and growing number of newborns, infants, and toddlers, retail sales of FF baby milk formula are expected to increase 97.1% from 2016 to 2020, reaching a value of US\$45.9 billion by 2020 (54.8% of total FF packaged food market share).

FF Dairy

As consumers become increasingly aware of the benefits of probiotics for digestive health, retail sales for FF dairy continue to grow steadily. The retail value of FF dairy has increased by 84.8% since 2011, reaching US\$15.1 billion in 2015. FF dairy-based yoghurt has been performing well as it is gaining more popularity as a natural weight loss food. It is expected that FF milk for the elderly or for children will also be successful during the forecast period (2016-2020), particularly reduced fat options. According to Euromonitor International, prenatal milk or milk to aid student concentration are examples of new FF products that could emerge in the near future.

Main Sub-Categories

- FF dairy-based yoghurt was the largest sub-category within the FF dairy segment in 2015 with a retail value of US\$7.7 billion. While all areas of FF dairy-based yoghurt experienced strong growth, probiotic plain yoghurt was the most dynamic performer with 59% value growth in 2015. The second largest sub-category was FF flavoured milk drink with a retail value of US\$5.9 billion, followed by FF powdered milk, worth US\$1.1 billion.
- Of the top three sub-categories, FF dairy-based yoghurt saw the most growth, increasing 181.2% over the last five years, at a compound annual growth rate of 29.5%. Probiotic plain yoghurt saw the strongest value growth in 2015, increasing by 59%.
- FF flavoured milk drinks experienced the least growth with a compound annual growth rate of 7.4% from 2011 to 2015.



Main Brands

- The Wahaha brand led the FF dairy category in 2015 with 20.3% market share, followed by Wang Zai (15.3%), and Momchilovtsi (12.1%).
- In 2015, Momchilovtsi saw the most growth with a 48.9% increase in retail sales, while Wahaha saw a 2.6% decrease in retail sales during the same year.
- From 2011 to 2015, Momchilovtsi grew at a compound annual growth rate of 84.2%, followed by Wang Zai (12.1%) and Wahaha (0.2%).
- While multinational brands benefit from brand awareness in first- and second-tier cities, domestic brands remain more popular in third-, fourth-, and fifth-tier cities and villages due to lower prices and wide regional distribution.

Forecasts for 2016-2020

- FF dairy-based yoghurt is expected to grow 110.1% in retail sales by 2020, at a compound annual growth rate of 20.4%
- FF flavoured milkdrinks are expecting to grow 15.1% in the next five years, at a compound annual growth rate of 3.6%. This decelerated growth rate is expected because consumers are seeking more natural foods, and flavoured milk drinks are increasingly perceived as being high in sugar and artificial ingredients.
- FF powdered milk is expected to grow 29.5% in the next five years.

FF Confectionery

Retail sales for FF confectionery increased 68.9% from 2011 to 2015 at a compound annual growth rate of 14%, reaching US\$2.4 billion. This segment is expected to continue experiencing growth, but at a slower rate of 10.9% from 2016 to 2020.

Main Sub-Categories

- FF chewing gum represented the most significant sub-category with a retail value of US\$2.0 billion in 2015, followed by FF sugar confectionery with a retail value of US\$382.2 million.
- Over the past five years, FF chewing gum grew by 101.7% at a compound annual growth rate of 15.1%, and FF sugar confectionery grew 85.1% at a compound annual growth rate of 13.1%.
- The most common functional ingredient for FF chewing gum in 2015 was xylitol, and for sugar confectionery was herb extracts.

Main Brands

- The Extra brand led the FF confectionery category with 27.7% market share in 2015, followed by Stride (12.4%) and Orion Xylitol (11.3%).
- Extra saw a 65.6% market share increase from 2010 to 2015.

Forecasts for 2016-2020

- It is anticipated that FF sugar confectionery will see a slightly larger increase of 57.3% in retail sales over the next five years, compared to FF chewing gum, which is expected to increase by 50.2%.
- FF confectionery in general is expected to increase by 51.3% from 2016 to 2020 at a compound annual growth rate of 10.9%.



FF Fruit/Vegetable Juice

FF fruit/vegetable juice grew by 27.5% from 2011 to 2015, at a compound annual growth rate of 6.3%.

Main Sub-Categories

- FF juice drinks was the leading sub-category with 5.7 billion in retail sales in 2015, followed by FF nectars, which had retail sales of US\$112.9 million.
- FF nectars experienced the most growth from 2011 to 2015, increasing by 65.8%, followed by FF juice drinks which grew by 26.9%.

Main Brands

- The Minute Maid brand led FF fruit/vegetable juices with 34.9% market share, followed by Master King (13.6%), and Uni-President (9.7%).
- The Hui Yuan brand led the FF nectars sub-category with 36.1% market share in 2015.

Forecasts for 2016-2020

- The FF fruit/vegetable juice category is expected to increase by 6.1% from 2016 to 2020 at a compound annual growth rate of 1.5%.
- FF nectars are expected to experience the most growth over the next five years, growing 68.1%, followed by FF juice drinks, which is expected to grow by 4.7%.

FF Energy Drinks

Retail sales for FF energy drinks in China experienced 164.8% growth from 2011 to 2015. From 2014 to 2015, retail sales increased 20.4%, reaching US\$4.1 billion.

Main Sub-Categories

- This segment does not contain sub-categories.

Main Brands

- The Red Bull brand led functional energy drinks in 2015 with an 80.1% market share, followed by Hi-tiger (5.5%) and Eastroc Super Drink (5.3%).
- Of the top three brands, Eastroc Super Drink experienced the most growth in retail sales from 2011 to 2015 with a 255.5% increase.

Forecasts for 2016-2020

- Functional energy drinks are expected to see continued growth in retail sales over the forecast period (2016-2020), increasing by 130.6% to reach US\$11.6 billion in retail sales by 2020.

FF Other Hot Drinks

The FF other hot drinks segment experienced a 22.5% increase in retail sales from 2011 to 2015, reaching US\$2.4 billion in 2015. This trend is expected to continue as lifestyles in China become busier and consumers are replacing the traditional breakfast of congee (rice porridge) and noodles with quicker and more convenient options, such as plant-based hot drinks marketed as healthy breakfast drinks.

Main Sub-Categories

- FF plant-based and malt-based hot drinks was the largest sub-category representing 98.6% of the FF other hot drinks segment in 2015. This sub-category had a retail value of US\$2.3 billion and represent 42.6% of the entire non-FF plant-based and malt-based hot drinks category.
- FF chocolate-based flavoured powder drinks saw moderate growth of 21.8% over the past five years, but only had US\$34.1 million in retail sales in 2015.



Main Brands

- The Wei Wei brand led FF other hot drinks in 2015 with an 11.4% market share, followed by Yashili (2%) and Ovaltine (2%).
- From 2014 to 2015, Ovaltine saw the most growth with a 7% increase in retail sales, followed by Wei Wei (6%), and Yashili (3%).

Forecasts for 2016-2020

- This segment is expected to grow over the next five years by 29.1%.
- The FF plant-based and malt-based hot drinks sub-category is expected to grow at a compound annual growth rate of 6.6%, while the FF chocolate-based flavoured powder drinks sub-category is expected to grow at a compound annual growth rate of 4.2% from 2016 to 2020.

TOP COMPANIES

With increasing distribution in smaller cities and strong new product development, Inner Mongolia Yili led FF packaged food in 2015 with 9% value share. Hangzhou Wahaha, which specializes in FF flavoured milk drinks and FF dairy-based yoghurt, saw the worst performance among the leading players in FF packaged food, dropping from a 10% lead in 2014 to an 8% second place in 2015.

Red Bull (TC Pharmaceutical Industry Co Ltd) gained two percentage points from 2014 to reach 20.1% of FF beverages market share in 2015.

HEALTH CLAIMS

Claims found on FF products are controlled by the Food Safety Law. The National Food Safety Standard for the Usage of Nutrition Enrichment and the National Food Safety Standard for Food Additive Use ensure that any food additives used across food and beverages are not harmful to health or used to disguise poor quality or counterfeit products.

According to the Mintel's Global New Product Database, the top functional health claims made on food and beverage packages in 2015 related to digestive health, bone health, and brain and nervous system health.

RETAIL OUTLETS

In 2015, 77.8% of FF baby food sales were in store-based retail outlets and 22.2% were in non-store retail outlets. Although Internet retailing is gaining popularity in most categories due to the convenience it provides when researching brands and comparing ingredients and prices, baby food remains a category that is less likely to see online sales. Consumers appreciate the expertise provided by store-based baby specialists. Independent small grocers dominated the retail distribution of FF beverages, with 50% value share in 2015.

CONCLUSION

As incomes rise in China, consumers are upgrading their food to higher-quality products that have added nutritional benefits, creating opportunities for manufacturers of FF food and beverage products. Because of low trust in the domestic food supply, Canadian companies have the added advantage of a positive image regarding quality.



It is expected that there will be growing opportunities particularly for the FF baby food category in China, as the birth rate increases and parents become more concerned with nutrition. Plain dairy-based probiotic yoghurt is also expected to see continued success as consumers are increasingly incorporating it into their diets for digestive health. Urbanisation and increasingly busy lifestyles are also creating more opportunities for FF beverages that are convenient, high in protein, and boost energy. As many young Chinese adults no longer have the time to prepare a traditional breakfast, there may be particular opportunity for beverages that are marketed as breakfast drinks that also contain caffeine. Young Chinese adults are also increasingly using smartphones and tablets, which are creating eye health concerns and a demand for products positioned as boosting vision health. Manufacturers may find that using ingredients that are familiar to Chinese consumers could increase sales, as there is a long history of using herbal medicine in China.

FF flavoured milk drinks, which are perceived to be high in sugar and artificial ingredients, are expected to see a decreasing growth rate as consumers seek more natural products during the forecast period (2016-2020).

FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

- **Overview of Trade Commissioner Services in Japan**
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RESOURCES

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Health and Wellness Series

FUNCTIONAL FOODS AND BEVERAGES IN CHINA

Global Analysis Report

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