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Product Brief

Sugar, Spice and Everything Nice: Sweet and Savory Snack Market in China

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Report Highlights: The Chinese sweet and savory snacks market continues to expand rapidly due to strong growth in disposable income, changing tastes and lifestyles including the emergence of indulgence foods. In 2006, combined sales revenue for sweet, savory, and chocolate confectionary snacks exceeded \$6 billion in China. In large part, the snack market is driven by growing demand for convenience and novelty often provided by Western-style candy, chips, and popcorn. In addition, as consumers become more aware of food safety, quality, and nutrition, fruit and nut snacks have become particularly popular. Thus, busy lifestyles and less time available for consuming traditional meals, the demand for snack foods is expected to continue to grow, and create excellent opportunities for U.S. exporters.

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Market Overview and Definition

Xiao chi or “little eats”, as snacks are known in Chinese, are an important part of traditional Chinese cuisine. Traditionally snacks were sold on the street by specialized vendors, but today snacks can largely be found in convenience stores and supermarkets. Additionally, the variety has multiplied significantly thanks to a vibrant import trade as well as prolific domestic production.

Snack sales in China have benefited from a dramatic change in customer lifestyles and consumption patterns, especially in large urban centers such as Beijing and Shanghai. Working professionals have considerably less time to cook, and a variety of snack products have emerged to fill the void normally occupied by more conventionally prepared meals. From single-package meat jerky to potato chips to candy-like jellies, snacking continues to be an essential part of the Chinese diet.

The snack market in China can be defined to include any number of products – from baked goods to yogurt drinks – which are normally eaten on the go or in lieu of a traditional sit down meal. However, for the purposes of this report the categories included are those believed to offer the greatest potential market opportunity for U.S. exporters: sweet and savory snacks, which consist of a wide range of diverse and often highly innovative and/or novel products.

The Chinese sweet and savory snack market sector, valued at over RMB 42 billion in 2006, continues to achieve average annual growth in excess of 8 percent.



Another satisfied young consumer.

Table 1

China Sales of Sweet and Savory Snacks by Sub-sector						
(values in RMB million)						
	2001	2002	2003	2004	2005	2006
Fruit Snacks	3,533.8	3,867.3	4,206.5	4,563.7	4,947.4	5,382.2
Chips	1,172.1	1,284.3	1,400.3	1,518.4	1,643.0	1,772.2
Extruded Snacks	7,679.7	8,374.0	9,144.1	9,894.2	10,667.3	11,472.5
Popcorn	17.9	20.5	23.3	26.4	30.0	34.2
Nuts	445.5	463.7	479.2	497.7	523.0	551.2
Other*	16,365.3	17,420.2	18,627.3	19,995.9	21,518.0	23,213.7
Total	29,214.4	31,430.0	33,880.8	36,496.2	39,328.7	42,426.0

Source: Euromonitor International estimates.

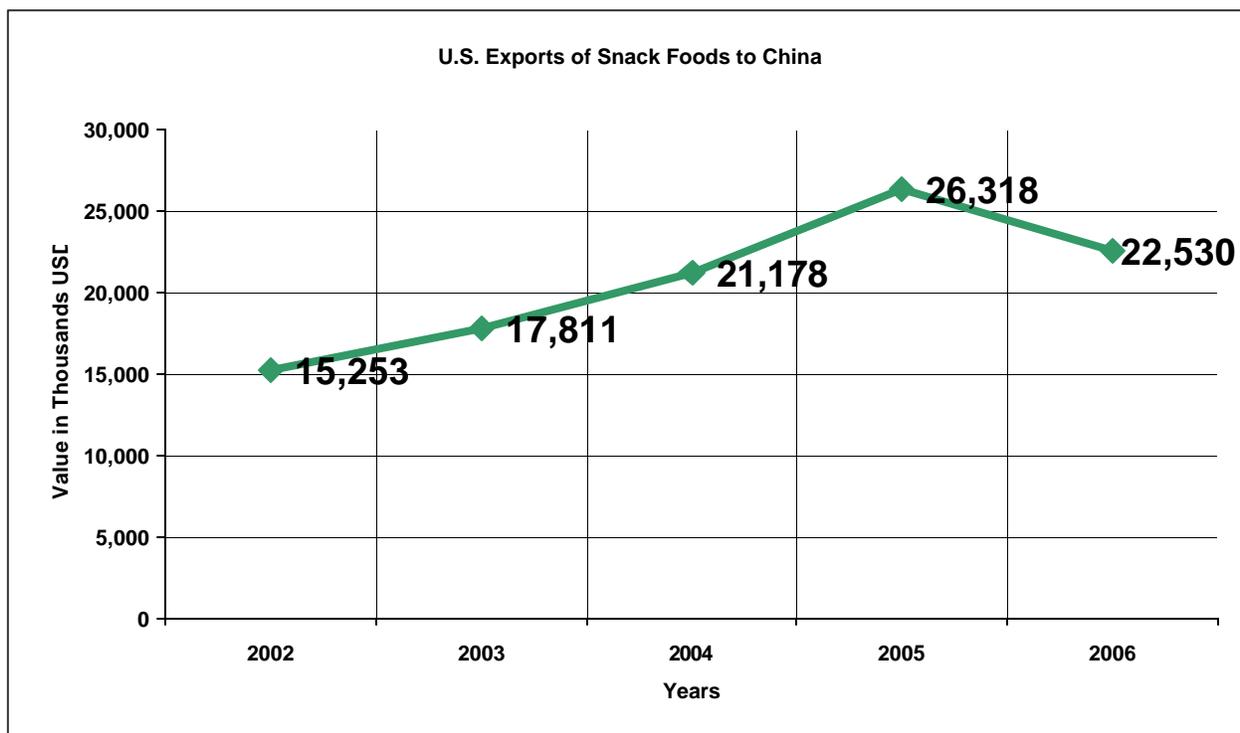
*For category breakdown, see Table 2 below.

In 2006, China imported sweet and savory products from the U.S. valued at over \$22 million, a slight drop from 2005. While imports from Europe, Japan, Korea and other Asian countries are also widely represented in the market, some industry players report that American products enjoy stronger brand awareness. U.S. exports of sweet and savory snacks face stiff import challenges due to extremely strong domestic competition, well-established Asian competitor suppliers, and significant tariffs on certain products.

Market Access and Trends: Buying on Impulse

The market for sweet and savory snacks in China continues to develop rapidly as a result of rising incomes and greater demand for indulgence products, particularly in urban areas. As with other food-industry sub-sectors, price and convenience continues to play an important role in determining the success of snack foods in the Chinese market. Major industry players are increasingly turning to easy-to-use, portable formats for their products, which is particularly important for impulse food purchases where on-the-go consumption is common.

In 2006, Chinese consumers spent US \$12.3 per capita on impulse products, making China the fourth highest per capita consumer of impulse products in the world, ranked below the U.S., Japan, and the UK. This number represents 5.6 percent of total sales worldwide. While this may seem small, compared to major indulgence consumers such as the U.S., China's impulse food market contributed the second highest incremental growth over the past decade, and its dynamism speaks for itself. China's growing prosperity, coupled with greater openness to imported products has primed consumer taste for international brands and especially Western flavors. Western-style snack products in particular have emerged as primary beneficiaries of conspicuous consumption, particularly among the young, to become both a status symbol and a fashion statement. U.S. food products enjoy an excellent reputation for quality and food safety, attractive qualities for wealthier consumers.



Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

As wider distribution through an array of retail outlets and growing disposable incomes make international sweet and savory snacks more available, consumer attitudes are slowly changing. In the past, consumers were less focused on the nutritional value of their snacks, but in light of the growing concerns over food safety and quality, Chinese consumers are now seeking healthier and more nutritious snack products. When choosing between lower prices and safety, consumers in China, particularly in urban areas, increasingly choose food

safety. Responding to this shift in consumer attitudes, many domestic manufacturers have invested heavily in improving the quality and nutrition of their products.

In terms of taste preference, Chinese consumers, especially the older generation, still favor traditional items. In fact in 2006, over half of all sales in the sweet and savory snack sector were attributed to candy or fruit based jellies, seeds, and meat or fish jerky. However, younger consumers, particularly young professionals and children born after 1980, are developing Westernized tastes and demanding imported, high quality food products in upscale and novel packaging.

Table 2

Shares of Other Sweet and Savory Snacks (breakdown by product type)	
	2006 Value Share (% of total)
Jellies	30
Seeds	32
Meat/fish jerky	25
Seaweed	3
NESOI	10
Total Value of Sales in 'Other' category	RMB 23,213.7 million

Source: Euromonitor International estimates.

Competition is tough in China's snack market, with domestic companies dominating sales. These local firms use well-established supply chains, solid distribution networks and insider knowledge of local consumer tastes and preferences to meet the growing demand for affordable snacks. Producers largely compete on the basis of price, fearing that premium pricing, especially of new products, may deter potential customers. Local manufacturers are also paying greater attention to packaging since presentation, portability, convenience, and food safety are all qualities increasingly valued by Chinese consumers.

There is also a marked difference in marketing and promotion strategies between local producers and imported product distributors. Where global companies focus on high-end urban consumers, utilizing celebrity endorsement and in-store promotions, local players usually target low-end, often rural, consumers, exploiting first mover advantages in second- and third-tier cities, and less-developed towns and villages.

Opportunities and Challenges Facing U.S. Snack Foods in China

Opportunities	Challenges
Busier lifestyles fuel growth in snacking.	Adapt U.S. products to Chinese consumer needs regarding taste, variety and packaging.
American producers offer a wide variety and diversity of products.	Asian competitors and local producers dominate the supply chain. Therefore, U.S. suppliers must offer high-quality, innovative alternatives at competitive prices.
Growing affluence in urban centers translates into increased demand for high quality, high value imported goods.	Lack of familiarity with U.S. brands among importers, retailers and consumers.
American products enjoy high levels of consumer confidence for their quality and safety.	Once an imported product proves successful in the market, domestic producers compete with inexpensive substitutes. Product cycle for any given snack item is short.
Current U.S. dollar-Chinese yuan exchange rates, coupled with rising Chinese food prices, make imports from the U.S. desirable.	Competition from European and Asian producers has greatly intensified, especially as they introduce products of comparable quality and packaging at competitive prices.

Snapshots

A quick look at some of the leading snack categories in the Chinese market.

Potato Chips: Can't Eat Just One

Potato chips continued to experience strong growth in 2006, with an over 9 percent increase in sales volume. In general, Chinese consumers like fried foods, and potato chips are filling a substantial snack niche, attracting consumers with crispy textures, diverse flavors, relatively low prices and easy-to-carry packaging. Major international players still dominate the market, while local producers offer a limited product variety and enjoy lower profits. Well-established brands, like Lay's and Pringles have cornered the chip market, adapting to local tastes with flavors like prawn and Korean barbecue for both fresh fried and dried potato chips. However, a growing number of customers, especially in affluent areas, are increasingly conscious of health drawbacks of deep-fried, salty food products, often treated with preservatives and artificial flavors, constraining sales growth in this particular segment. Manufacturers have responded by offering healthier alternatives such as chips baked or fried in pure oil minus artificial additives or flavors.

Imported chips, however, suffer from several drawbacks including difficulties in shipping due to the delicate nature of the product, their relatively short shelf life, and relatively expensive price. Therefore, most international players have shifted to domestic production, reserving imports for new to market product launches.

Popcorn, Nuts & Seeds: Waiting to Explode

Popcorn, the perennial American classic, emerged as the star performer during 2006, with an estimated growth of over 14 percent. Popcorn sales are driven mainly by the popularization of snacking in bars and entertainment venues and the increasing numbers of households owning a microwave, enabling them to prepare popcorn at home. In fact, 80 percent of all popcorn sold in China in 2006 was microwaveable, according to Euromonitor International. Unlike their American counterparts, Chinese consumers prefer sweet, not salty, popcorn. Different varieties of popcorn are available in the market ranging from common sugared to exotic strawberry-banana, watermelon, cherry, and chocolate-flavored.



Nuts and seeds are also an important part of Chinese cuisine, and although they are enjoyed as a traditional snack food throughout the year, the majority of nuts are sold between the mid-Autumn and Chinese Lunar New Year celebrations. Their popularity has grown dramatically with the discovery of the high nutritional value and health benefits of nuts and seeds. It is a common sight to see people snacking on sunflower seeds, pumpkin seeds or watermelon seeds, or enjoying flavored, roasted, boiled or fresh peanuts.

China is a major producer and consumer of walnuts, attributable to the fact that many Chinese consumers believe they are good for one's brain and kidneys. Major products are in-shell roasted and salted walnuts, honey-glazed walnuts, walnut candies, walnut oil and walnut powders. It should be noted that Chinese consumers respond well to the introduction of new varieties of snacks, especially nuts. China offers opportunities for increased pistachio and almond sales since domestic production of these nuts is limited. Walnuts and almonds, along with other nuts, have real growth potential as snacks for urban, middle-income consumers and in China's growing high quality baking, hotel, and restaurant industries.

Meat/Fish Jerky: A Tough Cut



Nutritious and delicious pork snacks.

Various pork, beef, poultry and fish snacks made of marinated, pickled or prepared meats are a favorite among Chinese consumers. These snacks are available in a wide array of flavors and packaging, from a whole bag of dried pork pieces to individually vacuum-sealed duck tongues. Domestic producers and other Asian competitors dominate the market for these types of snacks. American-type jerky is quite different both in taste and texture from its Chinese counterparts, and so far has received very limited exposure. Even if taste barriers can be overcome, Chinese sanitary requirements and the current ban on U.S. beef product imports are intractable impediments

for market penetration by U.S.-produced meat snack suppliers at this time.

Fruit Snacks: Not Quite Sugar Plum Fairies

The fruit snack sector has exhibited consistently strong growth, averaging over 8 percent growth annually. While traditional fruit snacks like seasoned dried plums and hawthorn fruit skewered on a stick and coated in toffee are persistent favorites, the market is constantly undergoing expansion through the introduction of new products. Fruit snacks are well suited for on-the-go consumption and are perceived to be a healthier alternative to fatty chips and meat snacks. The market is almost entirely dominated by domestic producers. For example, Guandong Strong (Group) Co. Ltd. is the producer of a highly popular brand of fruit jellies in single-serving plastic containers and has the second largest overall market share of the snack market.



Fruit jellies on display at a local supermarket.

In general, the Chinese fruit snack market can be divided into two major categories – fruit jellies and dried or cured fruit – both of which are generally quite different from what is

traditionally thought of as a fruit snack in the United States. The combination of sweet and salty flavors appeals to the Chinese palate, and dried fruit in particular are often more savory than sugary, tasting nothing like Western prunes or apricots. On the other hand, many jellies or candied fruits can be extremely sweet, layered with caramels, mousses and creams. At the same time, recent entrants to the market, like apple and banana chips, target consumers with their message of a new wholesome and healthy way to eat on the go by appealing to consumers sense of taste and texture with none of the disadvantages common in high-fat potato chips or similar snacks. As witnessed at the Sweets China show in Shanghai this year, major selling points for a new generation of fruit snacks are “no sugar, no additives, not deep fried”. While traditional fruit snacks like dried fruit have always been widespread in China, other processed forms, like canned fruit or jellies are only now entering the second- and third-tier cities, creating great potential for further growth.

Extruded Snacks: Oldies but Goodies

Extruded snacks are by far the largest category in terms of consumption in the Chinese market, largely due to the wide variety of products offered in this group. Processed rice crackers are the leading type of extruded snacks, accounting for a 28 percent share of the snack food market in 2006, although these snacks are experiencing strong competition from other rapidly developing snack types, like potato chips.

Table 3

Extruded Snacks			
(% breakdown by type)			
	2004	2005	2006
Prawn & Seafood crackers	12	14	13
Processed Corn	9	9	9
Processes Potato	15	16	16
Processed Rice	27	28	28
Others	37	33	34
Total Value of Extruded Snack Sales (RMB million)	9,894.2	10,667.3	11,472.5

Source: Euromonitor International estimates.

In order to keep up with competition, extruded snacks need to be innovative in their approach, introducing tastier, healthier alternatives to what is often a high-calorie, high-fat product. So far, health-enhancements for extruded snacks have been a relatively untapped area, and are therefore rife with possibilities and future potential.

Chocolate & Sugar Confectionary: China Wants Candy!

Perhaps no other snack food exemplifies China's growing demand for international indulgence foods like candy, and chocolate in particular. The rise in purchasing power enables consumers to trade up from inexpensive domestic sugar confectionary (or other alternatives like sweet red bean paste) to more sophisticated and expensive chocolate and related products. While chocolate can still be classified as a premium luxury product, its value sales grew by 12 percent in 2006, largely due to skyrocketing demand for boxed assortments. These are particularly popular as gifts for special celebrations, like the Mid-Autumn or Spring Festivals, Valentines Day, and Chinese Valentines Day, when the most chocolate is sold. Red gift packages are high sellers, as red is considered a lucky color for Chinese festivities. High-income consumers are increasingly willing to pay more for a big assortment packaged in a beautiful, lavishly decorated box. On the low-income end of the spectrum, consumers have turned their attention to smaller boxed packages that may have only a few chocolates, or chocolate squares, which are more easily affordable.

Table 4

Sales of Chocolate Confectionary by Sub-sector						
(values in RMB million)						
	2001	2002	2003	2003	2005	2006
Tablets	1,293.8	1,433.6	1,548.9	1,675.9	1,803.3	1,926.8
Countlines	478.0	501.3	521.2	555.4	627.4	754.1
Bagged selflines/softlines	571.0	632.2	681.1	733.7	798.9	882.7
Boxed assortments	1,093.1	1,238.6	1,542.8	1,742.5	1,969.6	2,252.2
- Standard boxed assortments	1,093.1	1,238.6	1,387.2	1,566.3	1,766.0	2,013.6
- Twist wrapped miniatures	-	-	155.6	176.2	203.6	238.6
Total	3,435.8	3,805.7	4,293.9	4,707.5	5,199.3	5,815.9

Source: Euromonitor International estimates.

As with most indulgence foods, chocolate consumption is particularly high in affluent urban centers like Beijing and Shanghai. However, the consumer base has been steadily expanding due to wider distribution channels and countrywide increases in income. Milk chocolate, with its mild creamy flavor and texture, is a particular favorite of Chinese consumers, most of whom prefer chocolate and sugar confectionary that is less sweet than varieties sold in the West. Children and young women are the primary consumers, and styles of packaging clearly reflect the trend: Bright and cartoonish to attract children, and themes of love and romance to attract women. However, more young men are also indulging in sweet impulse foods as consumption habits continue to evolve.

International brands Cadbury and Dove control the largest share of the market, due to rich taste, proven quality, and high visibility of their brand names and products. At the same time, domestic companies focus their sales regionally as opposed to nationally, due to their limited resources, but also because the presence of international heavy-hitters has significantly raised the bar in more sophisticated markets.

Future Outlook and Opportunities

The future for sweet and savory snacks lies with the manufacturers' ability to continuously innovate while using high quality, healthy ingredients, coupled with active marketing and emphasis on attractive, portable packaging. Consumers have more choices than ever, courted by domestic and international producers vying for attention with international staples like chocolate hearts and domestic specialties such as durian lollipops and sesame *niuzha* candies. Considering the recent explosion of contaminated food cases in China, quality and safety must be considered top priorities for production as well as marketing. One clear advantage of most U.S. brands is their solid reputation for providing products that are both safe and delicious, and future marketing efforts should focus on this quality. Additionally, as consumer tastes evolve and grow increasingly sophisticated, they will demand new, creative products, so innovation is vital.

While most impulse foods are by now a well-established item in the diets of upper-income consumers, producers can reach out to less affluent sectors by providing products in smaller, inexpensive packages or developing low-cost domestic alternatives to international premium brands. Advertising through tasting and in-store demonstrations, in addition to consumer education via lifestyle media campaigns, remain the most effective ways of reaching consumers. One problem frequently encountered by new entrants to the market is that consumers are not aware of the product or how to use it. Therefore, it is critical to establish

product and brand awareness among Chinese consumers, particularly as many imported and competitive products will be in the premium category.

Overall, following trends dominate the market for sweet and savory snacks:

- Demand for low-fat, healthy products with high nutritional value
- Quality/safety
- Delicious Taste
- Regional flavors and innovation
- Practical and easy-to-eat
- Smaller portion packaging

Counterfeiting

In the sweet and savory snack market, where building brand recognition and loyalty is very important, unscrupulous local competitors often quickly copy successful products and sell the imitations at a discount price, possibly sacrificing quality, which could damage the reputation of the rightful brand owner. Therefore, trademark registration should be one of the first steps taken when entering the Chinese market, although IPR violations are still rampant and regulation and enforcement erratic and lax. A manual on “IPR in China: Introduction to Trademark Registration in China” is available on the USDA China website (<http://www.usdachina.org/0521en/index.htm>). Exporters can also contact the FAS IPR helpdesk in Beijing for information at ChinaIPR@usda.gov. (For more information of IPR protection in China, please refer to GAIN 7023, 7027, 7028, and 7030, respectively dated March 22, April 10, April 9, and April 24, 2007)

Duties on Imports

Import taxes for imported sweet and savory snacks differ, depending on key ingredients that go into preparation. For example, meat and edible meat offal (salted, in brine, dried or smoked) faces a 25% MFN tariff and a VAT tax between 13% and 20%, depending on the type of meat. Similarly, the MFN tariff on corn varies between 1% (for in-quota imports) and 20% (for out-of-quota imports), with a VAT tax of 13%. Exporters are advised to research thoroughly tariffs, taxes and regulations for particular products prior to trading in China.

Labeling

China has a number of labeling requirements for all pre-packaged foods, including mandatory translation of ingredient lists and manufacturing information into Chinese. For more details, refer to the unofficial translation of China's drafted National Standard for Labeling of Pre-Packaged Foods (GAIN Report CH4026), which can be found here: <http://www.fas.usda.gov/gainfiles/200502/146118826.pdf>.

On March 27, 2006, China's General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) announced that, effective April 1, 2006 it would no longer require a separate approval process for labels used on imported and exported foods and cosmetics. Approval of the label will be conducted as part of the import inspection at the port of entry. For an unofficial translation of the “Adjustment of Import/Export Food and Cosmetic Label Examination System”, refer to GAIN Report CH6020 available here: <http://www.fas.usda.gov/gainfiles/200604/146187516.pdf>.

Further Reading and Contact Information

For in-depth information on markets for individual snack foods and other products, see the continuously expanding collection of USDA China's GAIN reports, available online at www.fas.usda.gov under Attaché Reports for China. For further information on FAS China and our upcoming events and activities, please visit our web site at www.usdachina.org or contact one of our offices directly:

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