

Beverage Sector in China Market

August 1997

Department of Foreign Affairs and International Trade

Much like any other markets in the world, the beverage sector in China can be separated in the two main categories: non-alcoholic and alcoholic.

Non-Alcoholic Beverages

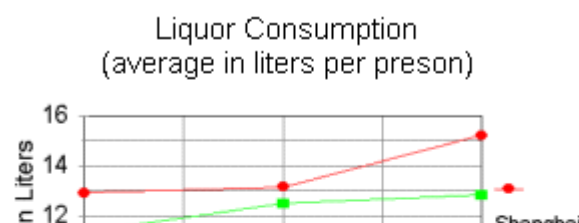
There is a great variety of non-alcoholic beverages available in the China market, with soft drinks taking a prominent share of this market. According to China Beverage, a magazine which is distributed within the drinks sector, Coca Cola has a 26% share in the non-alcoholic beverage sector, more than any other single firm within the industry. Soft drinks are particularly appealing to the younger generation (18 - 35), who also happens to have the biggest spending power among all age groups in China.

Chinese people are traditionally tea drinkers, thus making tea-based drinks a popular alternative to soft drinks. Most of the popular tea-based drinks are produced by either local Chinese firms or Taiwanese, who have a better understanding to the consumers' taste than companies from other regions.

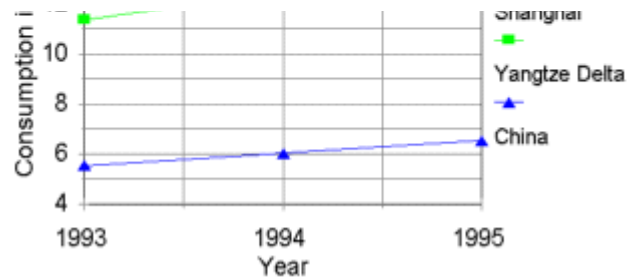
The tap water in Shanghai and almost all of China is not directly drinkable, thus making the demand for drinking water very high. There are two main types of drinking water available in the Shanghai area: domestic spring water (locally called mineral water) and imported water from overseas. Domestic spring water is much cheaper in comparison to imports (about 7 RMB, or CDN\$ 1.17 for 1.5 L, at least double for imported water), yet the quality is acceptable at best. A recent article stated that almost half of the local spring water failed the quality test that was ran by the Shanghai Quarantine Bureau.

As for imports, many of the world's famous brands, such as Perrier and Evian, have established themselves as a household name for quality drinking water. However, due to the high tariff charged on all imported drinking water (65%), their prices are too high for regular Chinese consumers. Currently imported water are mostly catered to the overseas community, hotels and some restaurants.

Besides soft drinks, tea and drinking water, juices and other non-carbonated drinks are also sold in the China market. With regards to juices, local Chinese prefer juices such as coconut and watermelon over the "traditional" apple



and orange juice that North Americans are used to. The so-called "sports drinks", such as Gatorade, was a trendy drink among the youngsters several years ago, but its popularity has decreased significantly in the past year.



Alcoholic Beverages

Beer is becoming a popular drink in most casual social gatherings, particularly in major Chinese cities. Beer consumption in China has more than doubled since 1990, from 6.9 billion liters in 1990 to 16 billion liters in 1996. While domestic brands such as Tsing Tao, are among the most popular brands for Chinese consumers, many foreign firms, such as Budweiser and Carlsberg, have their own facilities and production in China through various joint ventures.

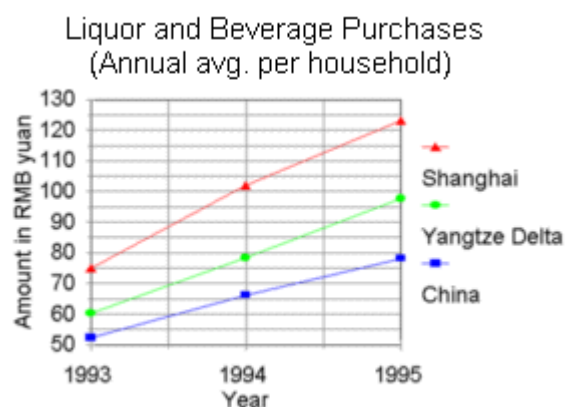
Wine has been relatively new to the China market but with the media reporting about the health benefits derived from drinking wine, many people have switched from drinking hard liquors such as whiskey to wine. While hard liquor has traditionally been a symbol of rich and power for party serving it, many businesses are now replacing hard liquor with wine as the most common alcoholic beverage when dealing with business clients.

While local Chinese brands "Imperial Court" and "Dynasty" are leaders in terms of wine sales, their qualities are very inconsistent and until they can maintain a good quality standard, imported wines will continue to capture the upper class and expatriate communities, who considers quality a much more important issue than price.

Consumer Behaviour

When it comes to purchasing decisions, most Chinese consumers consider price as the most important factor. Most of the successful firms, such as Coca Cola, have their own bottling and production plants in China in order to avoid the high tariffs that are put on imported drinks. Import tariffs for drinks can go from anywhere to 50 - 100%.

After price, taste is the next important factor for the consumers. Many foreigners find the Coca Cola in China sweeter than in North America because the Chinese' preference for sweeter drinks. As mentioned previously, many Asian companies have an edge over its counterparts in the west in China's beverage industry because they are more familiar with the consumers' tastes in China.



As most of the customers have little knowledge about the quality of both non-alcoholic and alcoholic beverages, it will be necessary for firms to educate their target audiences about quality when introducing new products.

Barriers to Entry

For non-alcoholic beverage, new companies will have to keep their prices competitive in order to become competition in this field, where there are many firms with similar market shares. By producing locally, companies can avoid the high tariffs and keep their products at a competitive price.

Labelling requirements must also be considered as another barrier for new companies. As of September 1, 1996, imported food items must have a Chinese language label approved by the China Health Inspection Bureau with the following information:

- Chinese name of the product
- Date of production
- English name of the product
- Ingredients
- Net weight
- Country of origin
- Shelf life
- Method of Storage
- Importer
- Address

Similar to non-alcoholic beverages, alcoholic drinks are also subjected to high tariffs. In 1996, the tariff rate for importing wines and spirits is 70%. Due to the high tariffs, many importers will try to evade them by shipping their goods to Hong Kong, then smuggle the products into mainland China. This method is used very often in order to reduce costs but companies suffer stiff penalties if they are caught. The company may be fined and furthermore, may be forbidden to deal business in China for an extended period of time.

Also, the sales of imported wines and liquors is still controlled by the Chinese Wine and Cigarette Monopoly Bureau which issues a very limited number of domestic whole sale license to the Chinese Wine & Cigarette Corporations at the provincial and municipal level. On overseas company with operations in China are eligible to apply for such licenses for distributing imported liquor.

Conclusion

Despite some limitations and restrictions within the drinks sector in China, the demand from a population of 1.2 billion is just simply too large for most companies to ignore. Success will fall on those who are dedicated and has the right "niche" in the market.

Some Importers for Non-Alcoholic Beverages

1. Mr. Michael So, Manager
Wellcome Supermarket Shanghai
1376 Nanjing Xi Lu, Suite 568
Shanghai 200040
Tel: (86-21) 6279-8018
Fax: (86-21) 6279-8610
Wellcome supermarket is mainly catered to the overseas community in Shanghai, with most of their import products coming from their headquarters in Hong Kong.
2. Mr. Yang Fu Xiang, General Manager
Shanghai Dah Chong Hong Food Industries Ltd.
15 Lane 345, Shi Long Lu
Shanghai 200232
Tel: (86-21) 6470-6919
Fax: (86-21) 6470-1055
The DCH is one of the largest importer of Canadian food products in the Asia region. Its headquarters is located in Hong Kong and has previously expressed interest in importing Canadian bottled water.
3. Mr. Tu Heng Hua, Manager
Shanghai Orient Shopping Center Supermarket
8 Cao Xi Bei Lu
Shanghai 200030
Tel: (86-21) 6487-6323
Fax: (86-21) 6487-0888
A prominent local supermarket dealing with high quality imported food products, with license for direct importation from overseas suppliers.
4. Mr. Le Jia Ji, International Trade Officer
Shanghai No. 1 Yaohan Co. Ltd.
6th Floor, Food Department
501 Zhang Yan Lu
Pudong, Shanghai 200120
Tel: (86-21) 5830-1111
Fax: (86-21) 5830-3878
A leading Japanese store in Asia, Yaohan department store sells high quality food products, with a license for direct importation from overseas suppliers.

5. Mr. Cai Hai Min, Manager
Shanghai Yan Zhong Drinking Water Co. Ltd.
396 Chang Ping Lu
Shanghai 200040
Tel: (86-21) 6256-8400
Fax: (86-21) 6217-5028
A prominent drinking water manufacturer who also deals with imported bottled water.
6. Mr. Zhang Bin, Assistant General Manager
Shanghai Zheng Guang He General Corporation
400 Tong Bei Lu
Shanghai 200082
Tel: (86-21) 6541-7717
Fax: (86-21) 6545-5876
A large local drinking water manufacturer with various water products; also deals in trading with foreign companies.

Some Licensed Wine Importers & Distributors

1. Mr. Yu Mei Zhong, Manager of Wine and Beverage Department
Shanghai Foodstuffs Import & Export Corporation
26 Zhong Shan Dong 1 Lu
Shanghai 200002
Tel: (86-21) 6321-6233
Fax: (86-21) 6329-1730
The largest importer of foodstuffs in Shanghai who also cover parts of the East China region.
2. Mr. Guo Ming Xiao, General Manager
Shanghai Jie Qiang Group Co. Ltd.
626 Chang Ning Lu
Shanghai 200042
Tel: (86-21) 6252-5038
Fax: (86-21) 6252-2005
A large trading company which deals with imported wines and cigarettes
3. Mr. Zhang Pei Zheng, General Manager
Shanghai Sugar, Cigarette and Wine (Group) Co. Ltd.
460 Han Kou Lu
Shanghai 200001
Tel: (86-21) 6322-4190
Fax: (86-21) 6351-7167

4. Mr. Steven Chao, General Manager
Shanghai Majestic Eagle Trading Co. Ltd.
462 Chang De Lu
Shanghai 200040
Tel: (86-21) 6215-1994
Fax: (86-21) 6279-0373
An American trading company in Shanghai dealing with beer and other alcoholic beverages.
5. Mr. Shen Jian Min, General Manager
Shanghai Friendship Foodstuffs Supply Corporation
501 Wu Zhong Dong Lu
Shanghai 200233
Tel: (86-21) 6439-0764
Fax: (86-21) 6439-1307
A large local food distributor supplying to major hotels and restaurants in the Shanghai area.
6. Mr. Paul Clark, Manager
Montrose Food & Wine Co.
2402 Victory Mansion
2200 Ki Xuan Lu
Shanghai 200030
Tel: (86-21) 6468-6758
Fax: (86-21) 6468-3293
Another American trading company; specializing in importing various wines and spirits.
7. Mr. Benjamin Tang, Managing Director
Shanghai Seagram Ltd.
2 Nan Ya Road
Minhang, Shanghai 200240
Tel: (86-21) 6430-2880
Fax: (86-21) 6430-2860
A Canadian liquor company with their own production plant in Shanghai.

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Department of Foreign Affairs
and International Trade

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