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China's coffee industry is starting to stir

By Patti Waldmeir in Shanghai

Nestlé and Starbucks are converting a nation of tea drinkers

Coffee in China used to be tarred with the same brush as capitalism. But as capitalism has caught on in China, so has coffee: the mainland market for retail packaged coffee has grown at a compound rate of 18 per cent a year since 2007, and could rise another 75 per cent to Rmb16bn (\$2.5bn) by 2017, according to research firm Mintel.

It must be the marketing coup of all time: the transformation of China from a tea leaf nation to a country of coffee drinkers – in spite of the fact that most Chinese still abhor the taste of the bitter brew. Western coffeehouse chains are stumbling over each other to open up in China, and Starbucks – which has a shop on every major street in China's biggest cities – expects the mainland to be its second largest global market by 2014.

Nestlé, the food group, already sells two out of three cups of soluble coffee on the mainland. Last week, the Swiss company chose China to release its nine-month global sales – announcing organic growth in emerging markets of 11.7 per cent for the first nine months year on year, compared with 2.4 per cent in developed markets and a full-year global forecast of 5-6 per cent.

Nestlé China's food and beverage sales have risen by a 16 per cent compound annual growth rate since 2008, and coffee sales have grown faster than that, says Roland Decorvet, head of Nestlé China. With China's per capita coffee consumption only four cups per year compared with 400 in Japan, the potential is obvious, he says. "Contrary to what you might expect, the biggest instant coffee cultures in the world are all tea cultures" like Japan and the UK.

So how did Nestlé and Starbucks persuade the Chinese to buy a product the taste of which they dislike? "The short answer is that when the Chinese drink Nescafé, they are not drinking coffee but a sweet concoction of water, milk powder and sugar," says Torsten Stocker, partner at Monitor Group consultants.

"Coffee is an alien taste for the Chinese," says Rebecca Lian, head of Nestlé R&D in China. "They don't like the bitter taste because it reminds them of traditional Chinese medicine."

Black coffee may not be a hit but coffee drinks are. Starbucks, one of the most successful western brands in China, has adjusted its products to deal with the Chinese distaste for coffee. "There is very little pure coffee sold at Starbucks," says Shaun Rein of China Market Research in Shanghai. Many mainland Starbucks customers prefer milkshake-type drinks, teas, juices and localised flavours like the green tea latte. Chinese go to Starbucks for the culture, not the coffee.

In China, Starbucks is a dine-in, not a take-out destination. Customers are invited to linger, log into the free WiFi and use its coffee houses the same way that earlier generations used tea houses: to socialise and do business.

Xu Lu, general manager of the Cocoa & Coffee Division of China Tea Co, says she felt "drunk" when she tasted her first cup of coffee. Now she thinks more people are "enjoying the coffee in Starbucks, as well as the culture".

But when Nestlé recently changed the recipe for Nescafé in China for the first time in 15 years, it made Nescafé taste less like coffee, rather than more. The end result was a drink with a texture and consistency closer to chocolate milk. Mr Decorvet says Nestlé does not believe in "food neo-colonialism". "Why should we tell the world what coffee should taste like?" he asks.

Coffee drinks are more and more popular all the time in China – as long as they do not taste too much like coffee.

Additional reporting by Yan Zhang

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