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China's Coffee Hit: Starbucks and Nestle Dominate, but the Market Is Still Growing

By **DAVID HONG** JUL 19, 2013 1:10 PM

How the coffee market was created in China.

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Coffee has been in China since the 1980s, when **Nestle** (OTCMKTS:NSRGY) began selling it in China, without gaining much traction. Less than 20 years ago, people said that China would never be a coffee-drinking country. Today, the coffee market in China is booming. In fact, the Chinese coffee consumption level is increasing at [a rate of 25 to 30%](#), which is 10 times more than the average world growth rate. In the past, China was traditionally a predominantly tea-drinking culture. Despite this history, as can be seen with other beverage types (for example, wine), Western products and trends, if marketed correctly, can prove to be a hit in China.

The success and growth of coffee is no doubt a result of a number of different factors. Many people [recall](#) first hearing about coffee in the early 1980s, when Nestle aired its first coffee commercial with the slogan "the taste is good." Writing for [The World of Chinese](#) magazine, Stuart Eunson, a founder of Arabica Roasters, suggests that "Nestle laid the groundwork for increased knowledge and awareness of coffee" in China. Today, Nestle controls about 80% of China's coffee market. **Starbucks** (NASDAQ:SBUX) [entered the Greater Chinese market](#) in 1999, an ideal time, 'piggybacking' off Nestle's marketing efforts, but also entering the market when China began to adopt more liberal economic policies, making it easier for foreign companies to set up shop.

Starbucks' Role

Regardless of the foundations laid by Nestle, Starbucks has played a significant role in creating a coffee culture in China and, in particular, associating coffee with part of an aspirational lifestyle. Today, the younger generation of Chinese have a growing purchasing power and are willing to pay more for new experiences and better quality services and products. To them, Starbucks has become a brand that represents a gourmet, luxury, and fashionable experience. According to *Forbes*, some people are [more attracted to the Starbucks image and experience](#) than to the coffee itself.

Today, Starbucks has more than 500 stores in China and [is expanding rapidly](#). One of the reasons that Starbucks has succeeded is because it has constantly tried to adapt its products to the Chinese market. In the beginning, Starbucks focused its marketing campaign on the "third place" concept; meaning that Starbucks was to be seen as a place where people can meet outside [the home or office](#). While this is Starbucks' approach worldwide, the company found a way to tailor the idea to suit the Chinese market.

In 2005, the Seattle PI [reported](#): "Mostly eschewing to-go coffees and foods -- and certainly music purchases -- [Starbucks is] opting for in-situ dining..." Stores are also larger "to accommodate all of the lollygagging chatters." In China, coffee is about socializing, not speed.

Additionally, Starbucks has included menu items such as a Green Tea Frappuccino and Dragon Boat dessert, which are unique to China and provide familiarity to the Chinese consumer. Accordingly, Starbucks not only created a new market for existing coffee drinkers, but also introduced non-coffee drinkers to the concept of coffee.

Local Production

Today, China is not only a coffee consumer, but also a coffee producer. Coffee is being grown in various places in China, including Yunnan. The Arabica Yunnan coffee has grown in popularity and has attracted the attention of various international companies. [According to China Daily](#), coffee grown in Yunnan now accounts for approximately 99% of China's total coffee production.

Continued Development

In addition, coffee pods (one-time use coffee capsules) are now becoming increasingly popular in China. The Asian marketing director for Nespresso has [acknowledged in Asia Times Online](#) that Chinese consumers now have more disposable income and as a result, an increased ability to acquire more high quality Westernized home appliances, including coffee machines. In the past, coffee machines were a luxury owned only by the very rich. Today, however, coffee pods and coffee machines are becoming a part of everyday life in China.

Interestingly, Nespresso, owned by Nestle, has gained popularity by establishing high-end flagship stores and by marketing the brand as part of a sophisticated lifestyle. The growing popularity of coffee pods in China presents an opportunity for coffee makers to adapt to the China market by creating products based on Chinese "tea pods" or other non-coffee drink pods.

What About Tea?

Given the longstanding tradition of tea drinking in China, it's unlikely that coffee will replace tea as the drink of choice. Nevertheless, there is clearly huge potential for coffee in China. In fact, China is [Starbucks' biggest market outside of the USA](#), and there is plenty of potential for other Western brands. In addition, according to [Caijing.com.cn](#) the coffee-drinking culture has not yet reached its "tipping point" in China, and the coffee market occupies a relatively low market share per capita in China, compared to Western countries. However in the near future it is [expected to rise steeply](#).

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