

Market Intelligence Digest

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What's Trending in China: Ready-to-Drink Coffee and Tea (1 of 2)

China's RTD tea and coffee markets are highly competitive and brands that offer natural, better-for-you products will find better traction with consumers.

Highlights

✓ *Local consumer trends*

Consumers are increasingly concerned about what goes into the products they consume, and brands that focus on natural goodness without added sugars will reap the benefits.

✓ *The market*

The two markets are in different parts of their life cycles with RTD tea mature and slowing (CAGR of 4.0%), while RTD coffee is expected to continue growing (18.1%) from 2018 to 2023.

✓ *Key innovation trends*

In these highly competitive markets, brands that focus on consumption experience, whether it is using texture to activate another sense or sharing knowledge to pique consumer curiosity, can stand out.

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Local consumer trends impacting China's RTD tea and coffee markets

Increased scrutiny of the ingredients list

As consumers become more concerned about what they consume, the ingredients list of RTD tea and coffee products will come under increasing scrutiny. In particular, brands need to manage [sugar](#), artificial additives and fat contained in their products if they want to keep up with increasingly savvy consumers.

With additives, there's a growing preference for natural ingredients. Part of the reason is quality, and another is food safety. For example, instead of non-dairy creamer, products that use real milk have been seen to be more explicit in communicating that.

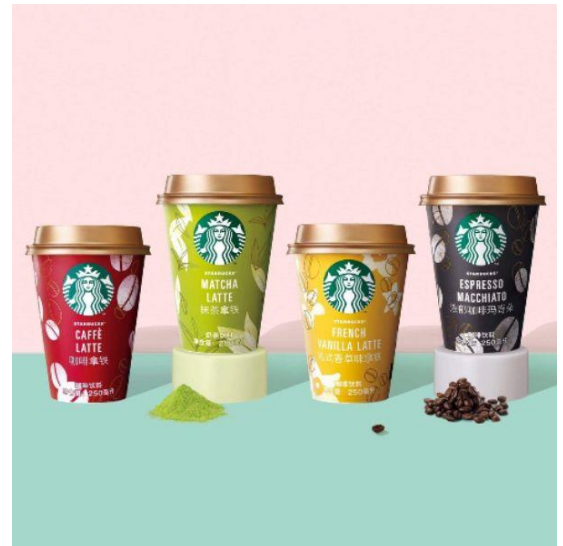
With sugar, it's more complicated. While consumers are aware of the issues, they are uncertain about artificial sweeteners despite these containing low/no calories, largely due to a lack of understanding, causing them to be more conservative. This has created a sweet spot for natural sweeteners that are not refined sugar, eg honey.

Premiumization of RTD categories

In the RTD tea and coffee categories, products can become premium by being closer to their natural versions by using organic, high-quality ingredients, and with an emphasis on less or no artificial additives.

With coffee, organic has been rated the [top feature](#) consumers will pay more for. As a global example, Coca-Cola recently launched premium RTD coffee, [Honest Coffee](#), in the UK, which also touts ethical and sustainable sourcing as a proposition.

With tea, the key is high-quality water sources, with [58%](#) of consumers associating it with a premium beverage. Beyond water, brands can look at not having any additives (second top attribute). In addition, looking around the globe, brewing techniques like [cold brew](#) are emerging as upscale taste and quality descriptors in RTD teas.



Starbucks Chilled Cup, made with ground coffee and fresh milk



[New Zealand Style Original Fermented Yogurt Drink](#)

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Potential to layer on functional benefits

Consumer preference for their food and drinks to 'do more' has also been a driving force behind the rise of functional products and this trend extends to RTD beverages.

With increasing consumer awareness of probiotics and their relevant functions, it's not exactly a big surprise that RTD coffee that offers probiotics has been found to be the third most popular feature for coffee premiumization. While the pairing may seem odd at first, it has potential for increased traction within the market.

Likewise in RTD tea, functional ingredients, like dietary fibre and collagen provide an additional layer of proposition for brands to target specific segments, consumption occasions and impart premiumness. For example, [Cestbon's recent premium RTD tea](#) with added fiber is described as best enjoyed while having heavy meals.

China's RTD tea market value



The news isn't good for RTD tea – retail market value for this saturated category is plateauing in growth and unlikely to experience explosive growth spikes. Mintel estimates retail market value stood at [RMB107.3 billion](#) in 2018, and predicts a CAGR of 4.0% between 2018 and 2023 to reach RMB130.7 billion.

Outlook on the retail market volume is even more pessimistic with shrinkage due to competition from other categories like coffee or freshly made tea drinks, and the slide will likely continue. Mintel predicts a negative CAGR of -3.9% between 2018 and 2023.



[Cestbon's RTD tea with added fibre](#)

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China's RTD coffee market value

Despite being a predominantly tea-drinking nation, China's coffee market has seen steady growth over the years.

Looking ahead, the RTD coffee sub-category's retail market value is expected to outperform the category with an estimated CAGR of 18.1% to reach RMB11.5 billion by 2023. The entire category, buoyed by expected growth in RTD and fresh coffee, is expected to have a CAGR of 12.3% to reach RMB29.2 billion by 2023.



Three factors that will likely drive growth in the RTD coffee sub-category are growing interests in coffee consumption, demand for "fast solution" to save time in preparing and consuming coffee, as well as premiumization of products.

Market challenge: competition from established brands in other categories

New entrants, particularly established brands from other categories, are blurring the boundaries of the RTD tea and coffee categories.

It's not hard to see how spring and mineral water brands can pose a threat. For example, Nongfu Spring has leveraged its association with premium-quality water sources to enter the tea market with its '[Tea π](#)' and 'Oriental Leaf' product brands.

Other entrants may enter with a functional angle. For example, snack brand Three Squirrels launched their first beverage product Second Brain with medium-chain triglycerides (MCTs), protein and dietary fibre, which are said to be good for the brain. The positioning around the hot topic of brain health ensured attention during its launch in 2019.



Three Squirrel's [Mixed Nuts Double Protein Milk Coffee Drink](#)

The key question is whether the entrance of other players will increase and stimulate consumption, thereby growing the pie for everyone.