



# INTERCHINA INSIGHT

## A New Route-To-Market Opportunity for International Food & Beverage Brands Entering China

InterChina and Feast Creative Foods team up to explore how a fresh wave of international food and beverage brands are being attracted to China, capitalizing on new route-to-market models that have been pioneered in China over the past few years.

### Authors

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Strategy | Corporate Finance



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With the relaxation of zero Covid in China, global consumer brands have become cautiously optimistic about 2023. Indeed, we expect to see a surge in interest from international brands that have yet to enter China in response to the huge pent-up demand of consumers following the pandemic.

These trends are especially pertinent in the packaged food and beverage (F&B) sector where - despite the logistical challenges posed by Covid - a range of international brands have managed to start selling into the Chinese market for the first time. Among them are brands newly launched by multinationals, independent brands established in their home markets but new to China, and start-ups expanding internationally.

## Opportunities To Pursue

Over recent years, imports of packaged F&B products have been growing at twice the rate of total retail sales of packaged F&B products (see Chart #1). This is being driven by both demand and supply side factors (a) increasing purchasing power (b) younger generations, with more international exposure and open minds, taking an increasing share of consumption (c) improved availability through a myriad of offline and online channels down to smaller cities and towns (d) better logistics infrastructure, including cold chain and last mile delivery (e) streamlined trading regimes and reduced import tariffs.

Chart #1

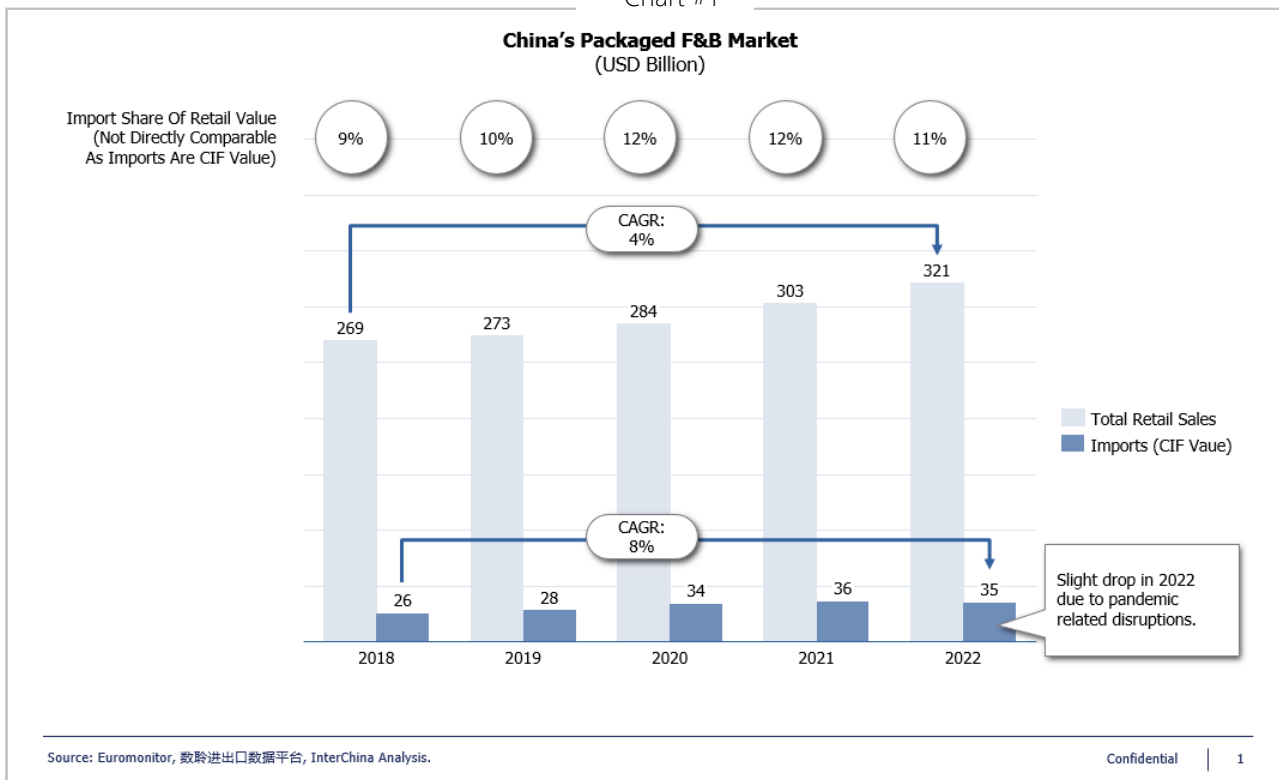
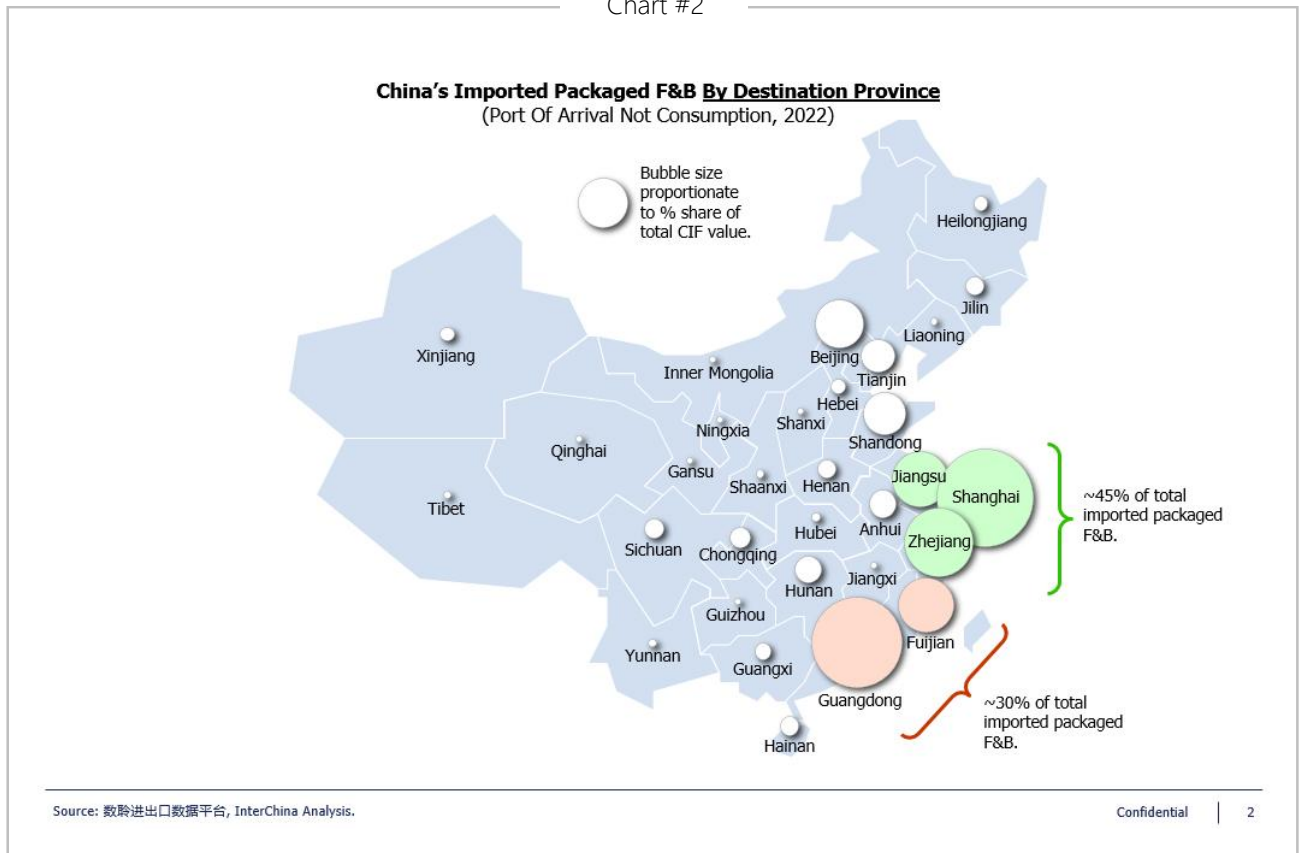




Chart #2



If we look at these demand drivers in more depth, it is clear that while China's consumer base is maturing it is also segmenting, producing groups with increasingly distinct needs and interests. Given the scale of the consumer base, even small niches can present significant demand. Nevertheless, the opportunity for international F&B brands is concentrated around a number of overarching themes.

### *Novel experiences*

China's Gen Z (born 1997 to 2012) are the current force driving many consumer trends, given their number and purchasing power. In particular, they have an insatiable appetite for novelty, looking

beyond China's borders for more innovative diet choices. Invariably this is not just from a taste and flavour perspective, but also from a food experience perspective as well. For instance, an exotic category that Chinese consumers have recently discovered is imported camel milk powder (e.g. Camelicious from Dubai, Saubota from Kazakhstan, Maxinatal from Australia).

### *Quality convenience*

Single people are set to account for a growing share of China's 500 million households from the current figure of 25% to more than 40% in the coming decades. In response to a quickening pace of life in China, they are cooking less

from raw ingredients at home, and turning instead to ready-to-cook, ready-to-heat and ready-to-eat foods. Among the convenient food solutions benefiting from this trend is imported frozen pizza (e.g. Dr. Oetker from Germany, Buitoni from Italy, Woodfired from the UK). Chinese consumers are not just seeking quality and tasty food, but also healthier dishes than they could order when dining out.



Product Page On Cross-Border E-Commerce Platform  
(Hairburst Chewable Hair Vitamins On Tmall Global)

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### Smart nutrition

Health is a priority for Chinese consumers who are seeking out F&B solutions that not only maintain their general health, but which also provide them with additional functional benefits. Health has become one of the most important purchasing consideration factors for consumers over the last few years, second only to taste, with international F&B brands regarded as particularly credible. Good examples are those that operate in the smart nutrition sector, especially in terms of functional foods in novel forms that replace supplements (e.g. Sourse from the US, Hairburst from the UK, Biocyte from France).

### Emotional sustenance

In response to the pressures of modern-day life in China, consumers are increasingly turning to F&B products for comfort, reward or indulgence. Dovetailing with the health trend, there are big opportunities for brands active in low sugar, low fat and low calorie snacks, sweets and chocolate (e.g. Bennis from Malaysia, ChocZero from the US, Neoh from Austria). But this trend also extends to gourmet F&B products, such as Iberian ham, Wagyu beef and New Zealand lobster.

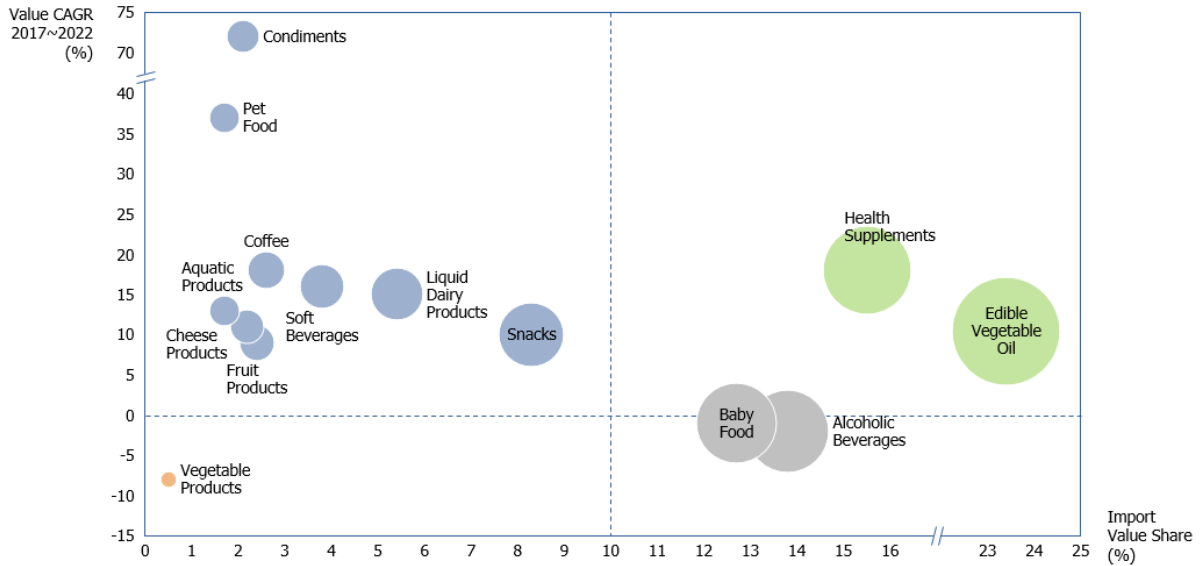
### Modern-day occasions

There is huge potential for F&B products that are suited to particular occasions. Whereas local F&B products have long served traditional celebrations such as festivals, weddings and birthdays, international F&B products are best suited to modern-day lifestyles, including nutritious breakfasts, sports and fitness activities, sharing snacks with friends, and entertaining at home. For instance, in the breakfast sector imported whole grain breakfasts are witnessing strong demand (e.g. Calbee from Japan, Freedom Foods from Australia, Alpen from the UK).



Chart #3

**China's Imported Packaged F&B Categories**  
(Major Categories Only, CIF Value)

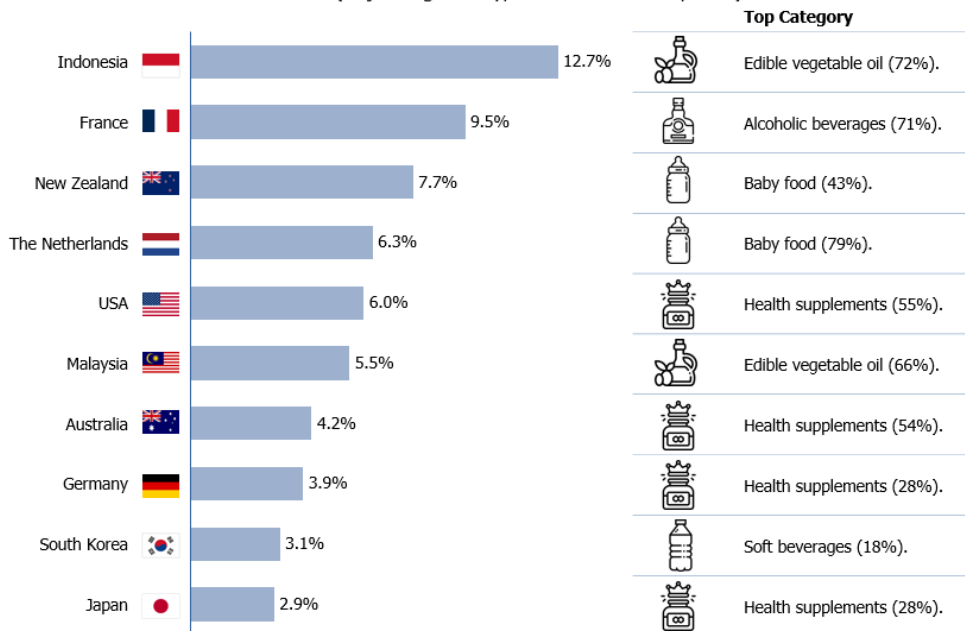


Source: 数聆进出口数据平台, InterChina Analysis.

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Chart #4

**China's Imported Packaged F&B By Country Origin**  
(Major Origins Only, Share Of CIF Value, 2022)



Source: 数聆进出口数据平台, InterChina Analysis.

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## Challenges Set To Persist

The pandemic posed a myriad of challenges for international F&B brands operating in China, some of which were particularly profound and are set to stay.

Successful market entry and development therefore depends on understanding and tackling these challenges.

### *Consumer sophistication*

Chinese consumers are becoming ever more sophisticated. During the pandemic they adjusted their consumption behaviour, becoming more cautious while seeking to maintain their quality of life.

They did this in two ways. Firstly, by budgeting and prioritising daily necessities (and therefore spending less on non-essential items). And secondly, by adapting their shopping across a full range of channels to seek the best value, such as by using group buying platforms.

As a result, not only are the needs and interests of Chinese consumers evolving rapidly, but they have also become genuine omnichannel shoppers in terms of how they search for and purchase products. Consumers therefore need to be tracked closely, so that both brands and retailers remain relevant.

### *Local competition*

As Chinese consumers were not able to travel overseas during the pandemic, their attention turned inwards. This created a huge opportunity for local brands, particularly given the swell in national pride during the

pandemic period, a phenomenon known as 'guochao' ('national wave').

In most categories gone are the days when being international provided sufficient kudos to drive demand from Chinese consumers. Instead, international F&B brands now need to compete on their own merits, which centers on having a great product which is relevant, differentiated and valued. This was already a trend heading into the pandemic and has only been accelerated since.

Premium Supermarket's Carrying Imported F&B  
(Olé In Shanghai)



The Power Of Social Media  
(Out of Oatly's KOLs on RED)



*Increasing costs*

Entering the Chinese market comes with a significant investment. From listing fees at local retailers, to generating traffic on e-commerce platforms and quality content creation efforts on social media platforms, success follows spend.

In particular, the cost of acquiring new consumers increased during the pandemic. Not only has the number of brands competing for attention proliferated, but also social media channels (where most acquisitions happen) have become more fragmented. Return on investment may take two to four years and cannot be guaranteed.

*Agile supply chains*

During the pandemic retail buyers and distributors became more conservative around their decision-making, and were particularly hesitant about building up inventories. They thus preferred suppliers with short supply chains who were able to provide supply upon demand, while they also relied heavily on promotional tactics.

For those brands exporting to China, that really meant having access to onshore warehousing to hold inventory. Although demand will pick up this year, retail channels and distributors will continue to prefer suppliers with agile supply chains.

Route-To-Market Options

There are broadly two route-to-market options for F&B brands - either cross-border e-commerce (CBEC) or general trade.

The former is a relatively fast and streamlined route, generally waiving the need for brands to seek pre-market approvals and conform to local standards, with orders placed online and fulfilled from bonded warehouses. However, the route comes with supply chain complexity and higher logistics costs, making it best suited to categories subject to strict regulatory regimes and enjoying bigger margins, such as health and nutrition.

As such general trade is the preferred route for most categories, opening up the full range of retail channels, and enabling rapid delivery from onshore warehouses. However, it does require a greater commitment, including the obligation to have a local subsidiary and/or distributor.

## Partner Options

In some cases a brand may also discover it has demand in China due to the Daigou channel. This is an unofficial channel, where goods are sourced by Daigou operators in home markets, then shipped to individual consumers in China.

If a brand seeks a more proactive and controlled approach to entering and developing the market, there are four specific types of route-to-market (RTM) partners to choose from. Some of these are better suited than others to tackling the challenges outlined above.

### *Brand's in-market team*

It simply wasn't feasible for brands to establish in-market teams during the pandemic given the restrictions on cross-border travel. This is now changing, but for new market entrants there are significant investments and risks involved that need to be compared with alternative RTM options.

### *Traditional importer/distributor*

These have long been the gatekeepers for international F&B brands entering China. Again, it has been difficult for brands to

establish new importer/distributor relationships during the pandemic. Even for those with existing relationships, communication and transparency have suffered, while switching distributors hasn't been feasible. Moreover, many have found that traditional importers/distributors lacked the capabilities to tap the consumer shift to a wider range of digital channels, and they will continue to have this drawback.

### *Tmall partners (TPs)*

These run online operations for brands, with specialist capabilities in China's marketing and retail platforms. They proved to be strong route-to-market partners during the pandemic. However, Chinese consumers are now returning to omnichannel shopping, and brands need to have an integrated strategy across all channels. That makes it difficult for brands to rely on TPs unless they have capable in-market teams to manage them well.

### *Brand partner*

These effectively function as the in-market team of the brand, an extension of the brand's own operation. They are well positioned to manage risk as firstly

they have overall market responsibility, simplifying China management of the brand. Secondly, they have core competencies in launching and building brands in China, and a full range of capabilities needed for the omnichannel environment. And thirdly, there are cost efficiencies in leveraging their infrastructure and capabilities across multiple brands.

Brand partners, many of which were founded in China by Europeans and Americans, tend to be focused on certain verticals, including some that are specifically focused on the F&B vertical. However it is worth noting that large brand partners tend to prefer to only work with big brands, while conversely small brand partners may not have the requisite range and depth of capabilities needed.

Interestingly, some established F&B brands in China, unhappy with their traditional RTM structure, have turned to brand partners as an interim step in their restructuring process.





## Comparison Of Route-To-Market Partners

	Brand's Own In-Market Team	Traditional Importer/Distributor	Tmall Partner (TP)	Brand Partner
Organisation & control	<ul style="list-style-type: none"> <li>Brand's own in-market team. Headcount often lagging market potential.</li> </ul>	<ul style="list-style-type: none"> <li>National mandate to manage channels (regional distributors also possible).</li> </ul>	<ul style="list-style-type: none"> <li>Manage only Tmall platform (in some cases other platforms too).</li> <li>Prefer brands that also have a subsidiary and team in China.</li> </ul>	<ul style="list-style-type: none"> <li>National mandate, with own in-market operation, managing omnichannel network including sub-distributors.</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>Often starting with home market strategy, with risk of making costly mistakes.</li> </ul>	<ul style="list-style-type: none"> <li>Limited transparency, as distributors seek to protect their own interests, leaving brands blind and disengaged.</li> </ul>	<ul style="list-style-type: none"> <li>Limited to e-commerce strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Jointly developed with the brand, then deploy using a test → learn → refine model.</li> </ul>
Core capabilities	<ul style="list-style-type: none"> <li>Depends on people hired (and service suppliers appointed).</li> </ul>	<ul style="list-style-type: none"> <li>Usually focused on offline or online channel (not CBEC).</li> <li>Limited brand building capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Optimising existing brands.</li> <li>E-commerce expertise.</li> <li>Often limited brand building capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Incubating new brands.</li> <li>End-to-end operations.</li> <li>Omnichannel sales.</li> <li>Brand-building and marketing.</li> </ul>
Speed to market/ iteration speed	<ul style="list-style-type: none"> <li>Slow as requires a lot of set up.</li> </ul>	<ul style="list-style-type: none"> <li>Medium speed to market due to contract negotiations.</li> <li>Slow iteration speed.</li> </ul>	<ul style="list-style-type: none"> <li>Medium speed to market and iteration speed.</li> </ul>	<ul style="list-style-type: none"> <li>A step-by-step market entry.</li> <li>Agile iteration speed.</li> </ul>
Communication	<ul style="list-style-type: none"> <li>Very close, given HQ relationships.</li> </ul>	<ul style="list-style-type: none"> <li>Limited communication, given language and cultural barriers.</li> </ul>	<ul style="list-style-type: none"> <li>Sales reports once a month, limited communication on execution of strategies.</li> </ul>	<ul style="list-style-type: none"> <li>Potential to be very close, given cultural ties, language capabilities, and home market presence.</li> </ul>
Business culture	<ul style="list-style-type: none"> <li>Often heavily dependent on HQ, and thus not sufficiently China-centric in decisions or speed.</li> </ul>	<ul style="list-style-type: none"> <li>Opportunistic, prioritising short-term sales growth over building long-term brand equity.</li> </ul>	<ul style="list-style-type: none"> <li>Opportunistic, prioritising short-term e-commerce sales.</li> </ul>	<ul style="list-style-type: none"> <li>Move at "China speed" but with diligence and discipline.</li> </ul>
Investment	<ul style="list-style-type: none"> <li>Very high: team and legal set up and operations.</li> <li>Iterations on marketing and sales support investment.</li> </ul>	<ul style="list-style-type: none"> <li>Low-medium: usually the marketing budget is shared between distributor and brand.</li> </ul>	<ul style="list-style-type: none"> <li>Relatively high: marketing and branding costs plus monthly retainer.</li> </ul>	<ul style="list-style-type: none"> <li>Flexible: ability to adjust (increase or decrease) budgets along the test → learn → refine model.</li> </ul>
Risk	<ul style="list-style-type: none"> <li>Relatively high, given financial and human investment involved, and time for strategic iteration within unknown market.</li> </ul>	<ul style="list-style-type: none"> <li>Relatively high, given no visibility into China strategy and operations, and no control over the brand.</li> </ul>	<ul style="list-style-type: none"> <li>Medium, as limited to one channel.</li> <li>But often have many big brands in their portfolio that take priority.</li> </ul>	<ul style="list-style-type: none"> <li>Relatively low due to local knowledge, shared platform, test and learn rollout.</li> </ul>

## Recipe For Success

If international F&B brands decide they want to start working with a brand partner, then what should they be looking for? According to brand partner Feast Creative Foods, there are four key ingredients to look for:

### Consumer empathy

Chinese consumers, and Gen Z in particular, are becoming increasingly selective. A good brand partner needs to be actively listening to consumers, seeking to address their specific desires. That means translating insights into a consumer-centric portfolio, positioning and innovation ideas for the brand.

### Omnichannel approach

Brands no longer can succeed only launching their products in one channel. Chinese consumers are true omnichannel shoppers, both when it comes to purchasing products and researching product and brand information. A good brand partner should thus be looking to compliment a brand's online presence with offline channels and activation.

### Test and learn

Consumer preferences are constantly changing, and brands need to evolve together with the market landscape. When launching a brand, a test and learn approach helps prevent many mistakes. A good brand partner will take a step-by-step approach, with the

necessary agility to iterate and adjust, and thereby avoid either over- or under-investing.

### 'China Speed' with diligence and discipline

Building a business in China takes time, effort and dedication. In order to be successful, a good brand partner will exercise diligence and discipline in their business practices, operations and financial planning. They will evaluate the investment, take a data-driven approach, and ensure full regulatory compliance.

Brand Partner: Feast Creative Foods

F&B Operational Platform For Building Innovative Brands Within Targeted F&B Verticals

### OUR MULTIFACETED ON-THE-GROUND TEAM





**MARC-ANTOINE OLIVE**  
CEO & CO-FOUNDER

22 years in Managing / Marketing Director roles across 7 mature and emerging markets with focus on China





**LANA KNOVRACHEVA**  
BUSINESS DEV & EVENTS

Experience in various F&B start-ups in Shanghai developing and executing business development strategies





**ANDY CHEN**  
E-COMMERCE & SALES

Various e-com platforms experience, served 4 years in a leading TP and 10 in marketing





**Rita Zhai**  
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Brand Design



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Accounting



## Your Next Step

Are you looking to bring your F&B brand into China's market, but finding it hard to make the first move? Maybe you have begun the process already, but need help to take that next step? Or maybe your brand is active in China already, but you could use a boost?

We suggest you start with this checklist of considerations before taking the plunge:

✓	Is your category in line with the new consumer trends in China?
✓	Does your brand or products have a point of differentiation, a unique story to tell consumers?
✓	What is your sales potential in China? To judge this, refer to the sales of competing brands that are already established in China.
✓	Does your country of origin have a positive reputation for your category among Chinese consumers?
✓	Do you know which RTM partners you wish to approach? How will you present the opportunity in order to best attract their interest?
✓	Are you ready to budget for a certain level of marketing spend in China to drive brand awareness and traffic? Are you prepared to be patient before you achieve breakeven?

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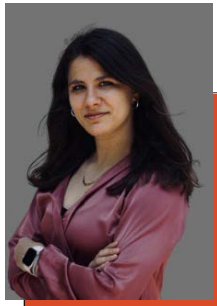
Marc-Antoine co-founded Feast Creative Foods to scout and raise global innovative food brands in China. He is also an investor and board member in fast growing nutrition, food and ag-tech players and a partner at Feast Ventures VC. He has served in general management, marketing and market expansion roles for 22 years within Danone, Pepsico and General Mills in China and across several mature and emerging markets.



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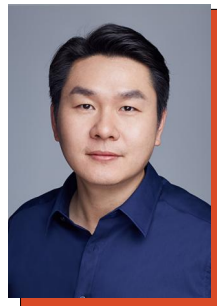
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Andy Chen is Feast Creative Foods' Head of Sales & E-Commerce. He has 15 years of marketing and e-commerce experience, focusing on the F&B space in recent years, working with global corporates such as Uni-President, Diageo and ABInBev.



## About InterChina

InterChina is a leading strategy and corporate finance boutique specialized in China. F&B is one of our core sectors of expertise with consultants and advisors dedicated to the space. Our multinational and Chinese clients choose to work with us because we provide real understanding, deliver practical results, and know how to get things done. We are a partner led firm and distinguish ourselves by the deep level of engagement partners have in client engagements.

## About Feast Creative Foods

Feast Creative Foods mission is to scout and raise innovative food brands with an emphasis on their positive health & sustainability impact. Founded in 2019, Feast is an operational platform for building innovative brands with focus on unique, healthier product propositions that meet the changing needs of the emerging, younger generation of Chinese consumers. Feast is driven by brand-building, social media data and omni-channel sales approach – connecting and operating its partner brands within the digital commerce platforms and influencer ecosystems in China.

Visit [www.feast-china.com](http://www.feast-china.com) to learn more.



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