

The coffee culture revolution in China

At the end of February 2022, the iconic Californian coffee shop chain Blue Bottle opened its first café in Shanghai. Curious and enthusiastic customers queued for over 8 hours to get a seat in the café.¹ Globally, international travel is still severely limited by the pandemic. But the high-priced Western coffeeshop chains seem to be betting heavily on their brands and appeal to Chinese consumers and the ever-growing Chinese coffee market. What makes coffee tick in China and what is the landscape of coffee shop chains in China?

a. What does the Chinese coffee drinker look like?

China, unlike Japan, has retained its preference for tea, but coffee consumption is growing by 20% a year.² China is now one of the largest coffee markets in the world. A major factor is the ever-expanding Chinese middle class. This is accompanied by a generally higher standard of living. Although instant coffee continues to dominate the overall market, consumers in China are now extremely spoiled and demanding, especially in urban areas. A veritable coffee and café culture has emerged. The yuppies have the largest share of coffee drinkers with an estimated 70%. Interestingly, female coffee drinkers are the clear majority among them, again with 70%.³

b. What are the preferences of Chinese coffee drinkers?

In terms of taste, the formula is relatively simple: milk, sugar and fat with coffee. Why? On the one hand, Chinese coffee drinkers demand high-quality beverages, and their interest in coffee specialties is growing rapidly. On the other hand, milk consumption is rising rapidly in China. Milk-based coffee drinks, such as latte or cappuccino, are therefore the most popular. Coffee blended with healthier ingredients and non-dairy substitutes (soy milk and oat milk) is also attracting consumer interest. The classic black coffees such as caffè espresso or caffè lungo tend to be at the lower end in terms of popularity.

Convenience is the key when buying coffee drinks in China. More than half of consumers order their coffee from convenience stores. Coffeeshops, on the other hand, are the mainstay for socializing, generally for middle-aged women and younger generations, and young couples. And still important in the urban environment are

coffeeshops as an outsourced "meeting room" for business meetings. The Chinese customer is placing more and more value on service and an appealing design.⁴

c. How much does a coffee cost in a Chinese café?

The price increases just implemented in February 2022 at many Western and local Chinese coffee shop chains have increased the price of most coffee drinks by CNY 2 per drink. Taking Starbucks China as a guide, a classic Americano Grande currently costs CNY 30, while flavored lattes now cost CNY 35.⁵

d. Who are the most important players in the coffeeshop business in China?

Starbucks made the entry into Western brands in 1999 with its first shop in Beijing. By 2021, more than twenty years later, Starbucks had 5,400 cafés in 200 Chinese cities. China is thus the second-largest market for the Seattle-based market leader after the USA.⁶

In 2019, the Canadian coffee shop chain Tim Hortons followed with the Chinese branding Tim's Coffee House, an upgraded version for China. More than 200 coffee shops have now opened in ten cities, with plans to grow to 2,760 cafés by 2026.⁷

As always in China, the local competition is big and aggressive. One dominant player is the Chinese chain Luckin Coffee (瑞幸咖啡). Founded as a homegrown startup in Beijing in autumn 2017, the chain had nearly caught up with Starbucks three years later with 5,323 cafés. And although Luckin initially filed for bankruptcy after an ambitious IPO in 2020, it is back and has signed Eileen Gu, probably the most popular athlete at the recently completed Winter Olympics in Beijing, as a super sports star brand ambassador.⁸

From June to October 2021, the local Manner (微辣) chain built more than 150 new coffee shops mainly in Shanghai, sometimes several in one day. Founded in 2015 as a boutique coffee shop, Manner now has more than 300 coffee shops. Influential Chinese specialty coffee roaster and distributor Seesaw Coffee was founded in 2012 and is considered a pioneer of modern Chinese coffee culture in China. Seesaw describes itself as the largest buyer of specialty coffee from China's coffee-growing region of Yunnan and had planned to operate 100 cafés by the end of 2021.⁹

e. How will China's coffeeshop market develop?

One should assume that the development will continue very dynamically. After the success of the international chains, first and foremost Starbucks, the local chains now seem to be increasingly setting the tone. As often experienced in China, they offer un-beatable prices compared to foreign competitors, undercutting them by up to 20%, with no compromises made in terms of the quality of the coffee beans. But the local founders are also extremely fast in crucial areas such as innovative products.

Investors seem to think very highly of China's coffee shop market and its fast-growing local companies. In any case, since February 2021, before Manner began its aggressive expansion, names like Temasek (Singapore Government Wealth Fund), Meituan and Bytedance have been in the door and invested heavily.

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Sources:

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