CHINA'S RAPIDLY GROWING CONSUMER MARKET FOR PREPARED FOODS

—MOVES BY CHINESE COMPANIES, THE PROBLEMS THEY FACE, AND THEIR EXPECTATIONS OF JAPANESE COMPANIES—

Mie Takahashi
China & East Asia Dept., Global Economic & Political Studies Div.
Mitsui & Co. Global Strategic Studies Institute
Fei Li
Economic Research Team, Corporate Planning & Strategy Div.
Mitsui & Co. (China) Ltd.

SUMMARY

- China's consumer market for prepared foods has been expanding against the backdrop of lifestyle changes and other factors. The COVID-19 pandemic further fueled consumer needs for such foods, and the market is estimated to reach 250 billion yuan (approximately 5 trillion yen) in 2025.
- Among the new players entering the market, restaurant operators are particularly noteworthy. Although current efforts by those companies are aimed more toward overcoming the difficulties brought by the COVID-19 pandemic, their initiatives could become a pillar for business diversification for future growth, and will likely bring about a revolution in the food service industry.
- The Chinese prepared food market, which is in the early stages of development, is currently not fully meeting the needs of consumers, and companies developing their food businesses are facing many challenges. There may be commercial opportunities for Japanese companies to help resolve these issues.

In China, prepared foods, such as canned foods, frozen and refrigerated foods, foods packaged in retort pouches, and meal kits, are known as *yùzhì cài,* or prepared dishes, and have been mainly supplied to corporate cafeterias, schools, and other commercial and institutional consumers. In recent years, however, general consumers' needs for such foods have been increasing. This report first provides a review of the current status of prepared foods for consumers in China, factors contributing to the growth of the market, and the leading Chinese prepared food producers, then presents a look at the potential for collaboration with Japanese companies.

1. TYPES AND MARKET SIZE OF CONSUMER-ORIENTED PREPARED FOODS IN CHINA

The types of prepared foods available to Chinese consumers include the following (Figure 1).

A report released by the China Chain Store & Franchise Association (CCFA) in August 2022[1] estimated that China's market for prepared food grew 24.1% year-on-year to approximately 310 billion yuan (approximately ¥6.2 trillion) in 2021, and forecasts the market will grow by over 20% annually to reach approximately 830 billion

[1] 2022 report on China's franchise food service industry

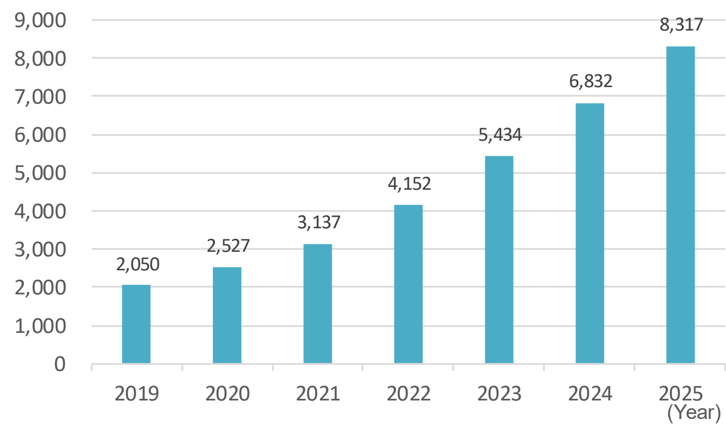
yuan (approximately ¥16.6 trillion) in 2025 (Figure 2). Of this total, the share of prepared food products for the general consumer market is expected to expand from approximately 10% in 2021 to 30% in 2025, to represent a market worth approximately 250 billion yuan (approximately 5 trillion yen).

Figure 1: Types of prepared foods available to Chinese consumers

Type	Features	Examples	Shelf life
Canned goods	Can be eaten immediately after opening the container	Eight treasure congee, sausages, etc.	6 months-2 years
Pre-cooked retort foods and frozen foods	Can be eaten after heating in a microwave oven or soaking in hot water	Fried rice, beef bowl ingredients, frozen dumplings	6-12 months
Semi-cooked refrigerated and frozen foods	Can be eaten after cooking with enclosed seasonings	Seafood, meat, and other local cuisine	1 year
Meal kits	Pre-cut, refrigerated fresh produce	Seafood, meat, pre-rinsed vegetables	1-7 days

Source: Compiled by MGSSI based on an article published by the People's Daily (http://health.people.com.cn/n1/2022/0615/c14739-32446547.html)

Figure 2: Size of China's prepared foods market



Note: Values for 2021 and later are estimates

Source: Compiled by MGSSI based on a 2022 report on China's franchise food service industry issued by the China Chain Store & Franchise Association's (CCFA)

There are two possible reasons for this market expansion. First, amid changes in consumers' lifestyles, the COVID-19 pandemic further increased consumer needs for prepared foods (especially for the types of foods indicated by the red outline in Figure 1), and second, prepared foods are now available in wider varieties and feature higher quality. In the following section, these factors are examined in detail.

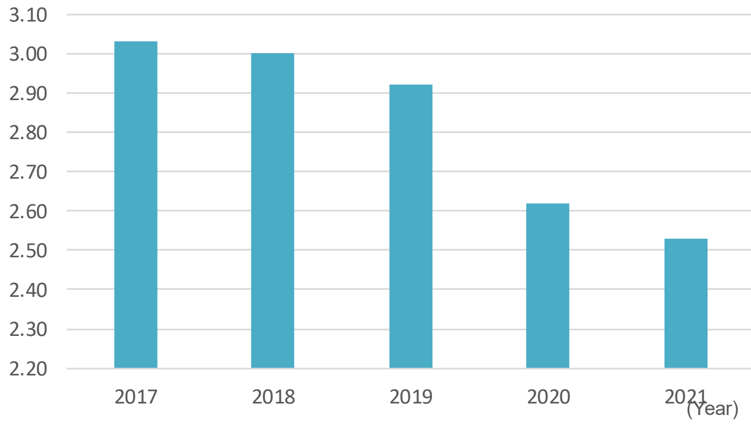
2. FACTORS CONTRIBUTING TO EXPANSION OF THE MARKET FOR PREPARED FOODS FOR GENERAL CONSUMERS

2-1. Transformation of society

According to a major Chinese state-run media enterprise, the profile of a Chinese consumer who buys prepared foods has the following characteristics. First, regarding the age of such consumers, the 22-40 age demographic accounts for approximately 80% of the market. By city, about half of the consumers are concentrated in the four major cities of Beijing, Shanghai, Shenzhen, and Guangzhou[2]. The next largest concentrations of such consumers are in other large cities[3] and small and medium-sized cities[4], with each respectively accounting for approximately 20% of the total. Consumers' main motivations for purchasing prepared foods are to save time (72%), for the good taste (37%), because they do not want to cook (30%), health reasons (27%), and not being able to cook (25%).

This consumer profile can be attributed to the transformation of Chinese society. According to the National Bureau of Statistics of China, the per-capita national average workweek at the end of August 2022 was 48 hours, up about 2 hours from 45.8 hours in 2017. It is likely that working consumers, especially in large cities, are buying prepared foods as a way to reduce the time they spend on household chores. In addition, the number of people per household in China is declining (Figure 3). As of the end of 2020, single-person households totaled 125 million, representing a quarter of all households and an increase of approximately 1.15 times since the previous census (2010). As the number of people per household declines, there are fewer opportunities to prepare meals for large groups of people as in the past, and meals are moving in the direction of "convenience, quickness, and no cleanup". This trend is said to be even more pronounced among single-person households. The second most common reason for not wanting to cook meals is "lack of time," followed by "preparation is a hassle", according to a report on a Chinese media platform[5]. Many of the prepared foods are single-serving portions or individually packaged, which serves the needs of these households well.

Figure 3: Number of people per household in China



Source: Compiled by MGSSI based on data of CEIC and LeadLeo Research Institute

The above social changes are also driving the growth of the food delivery market along with the prepared foods market[6]. Rather than competing with each other, companies in these two markets are responding to the different needs of consumers on the basis of their respective strengths and the characteristics of their products/services (Figure 4), and both of the markets are expected to continue to grow.

Figure 4: Comparison of prepared foods and food delivery companies

	Taste	Rich in variety	Food hygiene	Price	Convenience	Transportation time
Prepared foods	△Partially supported Taste varies depending on cooking experience and skill	△Partially supported Limited variety	○ Supported	○ Supported Cost can be reduced due to mass production	△Partially supported The food cannot be eaten as is and requires some cooking	○ Supported Items can be kept in stock
Food delivery services	△Partially supported The flavor of some items, such as noodle dishes, can deteriorate during transportation	○ Supported Can accommodate most restaurants	△Partially supported Sauces may leak or containers may fall over during transportation	△Partially supported Prices can be high depending on the restaurant/store	○ Supported	△Partially supported Depends on delivery capacity at the time an order is placed

Source: Compiled by an economic research team of Mitsui & Co. (China) based on locally acquired information

[2] *"Yùzhì cài" nián yèfàn huǒle, niánqīng rén ài chī de yùzhì cài shí me láitóu"* (Ready-prepared" New Year's Eve dinner sets are popular — What is behind the prepared dishes that young people love to eat?) https://baijiahao.baidu.com/s?id=1723435507587471966&wfr=spider&for=pc

[3] Cities that have a significant influence on the economy and society. They are relatively less influential, however, than large cities such as Beijing and are primarily cities with influence at the regional level. They include vice-provincial cities and coastal cities. Qingdao, Xiamen, Xi'an, and Changsha are examples.

[4] Relatively well-developed small and medium-sized cities. Zhuhai, Urumqi, Shaoxing, and Zhongshan are examples.

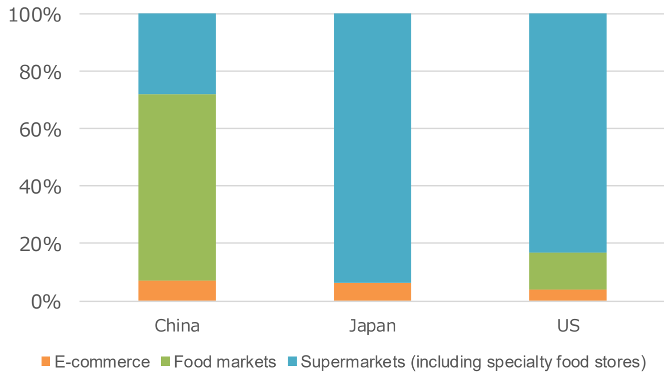
[5] *Zhōngcān, qiāoqiāo tuìhu*à (The slow degradation of Chinese food) https://36kr.com/p/1925960186460936

[6] The size of China's food delivery market in 2020 was approximately 30 times larger than in 2011, with an estimated value of 700 billion yuan (approximately 14 trillion yen).

2-2. Changing consumption patterns

In China in recent years, an increasing number of consumers have shifted to shopping for food ingredients at supermarkets (including food specialty stores) and on e-commerce platforms, instead of traditional food markets, against the backdrop of growing food safety awareness and other factors. Particularly since the COVID-19 pandemic began, some food ingredient markets have been closed or relocated, which accelerated this change in food buying behavior. Unlike traditional food markets, supermarkets are equipped with refrigeration and freezing facilities for food products and that readies an environment for selling prepared foods, many of which are frozen or refrigerated, and thus increases consumers' exposure to prepared foods. As a result, consumer awareness of these foods has risen and is translating into growing sales. However, a look at the channels through which Chinese consumers buy food ingredients shows that the percentage of purchases at supermarkets is still just under 30%, a significant difference compared to more than 80% in Japan and the US. This purchase ratio is expected to increase in the future, along with the volume of prepared foods sold to general consumers (Figure 5).

Figure 5: Comparison of shopping channels through which consumers buy food ingredients (China, Japan, the US)



Source: Compiled by MGSSI based on a 2022 report on China's franchise food service industry issued by the China Chain Store & Franchise Association (CCFA)

2-3. Improvement of logistics systems

With the expansion of supermarket operations, cold chain logistics networks are being developed. JD Logistics, which is a subsidiary of major e-commerce company JD.com, and SF Express are examples of leading companies in this field. SF Express, for example, can provide next-day deliveries of refrigerated and frozen goods within a 400 km radius in its service areas. In addition, in December 2021, the Chinese government announced its first plan for cold-chain logistics development spanning the period covered by the 14th Five-Year Plan (2021-2025), showing that its attention is turned to the development of cold chain logistics. According to the plan, China's refrigerated and frozen warehouse capacity and refrigerated vehicle fleet size in 2020 were estimated at 180 million m3 and 287,000 units, respectively, 2 times and 2.6 times larger compared to 2015. In addition, the government has set the goal of raising the cold chain distribution rates for meat, fruits and vegetables, and marine products to 85%, 30%, and 85%, respectively, by 2025, as well as establishing a cold chain distribution network covering the entire country. Policy support for development of cold chain logistics, which is fundamental to the distribution of prepared foods, will encourage further expansion of the prepared foods market for general consumers.

2-4. Growth in consumer demand for prepared foods accelerating due to the COVID-19 pandemic

The COVID-19 pandemic has rapidly bolstered consumer demand for prepared foods. The major e-commerce companies Tmall and JD.com reported that sales of prepared foods for New Year's Day in 2021 increased approximately 16-fold and 3.5-fold, respectively, from the previous year[7]. Meanwhile, supermarkets are also focusing on promoting sales of prepared foods by increasing display space and installing dedicated display shelves for such products.

Popular among consumers are local Chinese dishes containing meat and seafood, hot pot, and foreign specialties (Figure 6). These foods come in many serving sizes, ranging from 200 g to 900 g, to accommodate

---

[7] *"Rè yīxià jiù néng chī", yùzhì cài néng chēngbà fànzhuō ma"* (Just heat and eat, can pre-made dishes dominate the dining table?) https://baijiahao.baidu.com/s?id=1702732512532436121&wfr=spider&for=pc

single-person or family households as well as larger gatherings. The price range is around 20-100 yuan (400-2,000 yen). The Chinese have a custom of having a family dinner on New Year's Eve, and prepared New Year's Eve meal sets are very popular. The sets consist of approximately 8 to 16 local Chinese dishes and sell for 300 to 600 yuan (6,000 to 12,000 yen).

Figure 6: Examples of prepared foods popular with Chinese consumers

Product	Photo examples	Type	Reference price (yuan)
Crispy pork (fried pork sticks)		・Frozen ・Semi-cooked	Approximately 60 yuan (Approximately ¥1,200)/kg
Mongolian beef spare ribs		・Retortable ・Pre-cooked	Approximately 100 yuan (Approximately ¥2,000)/kg
Pickled fish (suan cai yu)		・Refrigerated ・Semi-cooked	Approximately 40 yuan (Approximately ¥800)/400 g
Hainan coconut chicken hot pot		・Refrigerated ・Semi-cooked	Approximately 166 yuan (Approximately ¥3,300)/kg
New Year's Eve dinner set (specialty cuisine set)		・Refrigerated ・Semi-cooked	Approximately 500 yuan (Approximately ¥10,000)/set (15 items)

Source: Compiled by MGSSI based on search results on https://global.jd.com/, accessed October 11, 2022

3. VARIETY OF COMPETITORS ENTERING THE MARKET

3-1. New players entering the market, other than traditional prepared food producers

A variety of companies are becoming suppliers of prepared foods to meet the diverse needs of consumers. In addition to companies whose mainline business is the production of prepared foods (including frozen food makers), restaurant operators, retailers, and agricultural and fishery products-related companies have entered this field, and are trying to capture a slice of the market by leveraging their respective strengths (Figure 7). The following section presents an introduction and analysis of the efforts of restaurant operators that have been particularly affected by the COVID-19 pandemic.

Figure 7: Comparison of various types of prepared food suppliers

	Prepared food producer	Restaurant company	Retail company	Agriculture and fishery enterprise
Leading companies	Suzhou Weizhixiang Food Guangzhou Zhenghuizhu Food Production Anjoy Food	HaiDiLao Hotpot (hot pot) Wangjiadu Foods (hot pot) TongQingLou Catering (Anhui cuisine) Guangzhou Restaurant (Cantonese cuisine)	Hema Fresh (Hema Xiansheng) Meituan	CP Food (Charoen Pokphand Group) Wilmar New Hope Group
Product line	Focus on developing hit products	Modeled after the food served at the company's own restaurants	Diverse, rich in variety	Extensive processing of company's own agricultural and fishery products
Production	Proprietary factories + OEM	Proprietary central kitchen + OEM	OEM	Proprietary factories
Brand	Brand development needed	Existing brands have established reputations	Existing brands have established reputations	B2B is the mainstay, brand development is not essential
Strengths	Marketing capabilities Sales channel development Brand development	Development capabilities Strength of existing brands Existing customer base	Consumer big data	Food ingredient resources Cost advantages Financial strength

Source: Compiled by an economic research team of Mitsui & Co. (China) based on a report issued by Huachuang Securities

3-2. Case studies of restaurant companies' forays into prepared food production

In the early days of the pandemic, many restaurant companies launched prepared food operations to compensate for declining sales at their eateries. According to a survey by the China Chain Store & Franchise Association (conducted at the end of 2020), 91.6% of the surveyed restaurant companies sell semi-cooked and prepared foods, and more than 90% had begun to focus on delivery services in the wake of the COVID-19 pandemic.

The popular hot pot chain HaiDiLao Hotpot is one example. HaiDiLao Hotpot launched its cooked food brand *"Kāifànle"* (Dinner's Ready) around the beginning of 2020, developing nearly 20 different products and selling them through delivery and e-commerce platforms (Figure 8). In addition to its standard products, HaiDiLao Hotpot continues to develop new products in response to changing consumer needs and trends, and in the summer of 2022, the company introduced a crayfish dish enriched with strong seasonal flavors and features.

Guangzhou Restaurant, a well-known Cantonese restaurant, entered the prepared foods business around 2020, turning its specialty dishes into dozens of prepared foods and selling them on e-commerce platforms as well as through brick-and-mortar stores (Figure 9). Quanjude, a long-established restaurant known for its Peking roast duck, launched a new prepared food concept in 2022. While Quanjude has been selling vacuum-packaged Peking roast duck for decades, the new product is a single-serving set that includes spring pancake, sauce, and vegetables, and features freshness and convenience to meet the “one-person” needs of general consumers (Figure 10). Restaurant companies produce prepared food in their own central kitchens and under OEM arrangements, and compared to food producers and retailers, they reproduce the flavors and tastes of their respective restaurant dishes relatively faithfully, which is welcomed by consumers. At the same time, these companies are facing the challenges of improving marketing effectiveness, packaging design, production capacity, and other issues. Some Chinese restaurant companies are embarking on nationwide expansion of their prepared foods operations. There is something for restaurant companies around the world to learn from these diversification efforts by Chinese companies in the wake of the COVID-19 pandemic.

Figure 8: Prepared food product of HaiDiLao Hotpot — Szechuan style fried chicken (310 g, approximately ¥600)

Source: 36Kr, https://36kr.com/p/dp1122366150380553 (accessed November 7, 2022)

Figure 9: Prepared food product of Guangzhou Restaurant — Braised spare ribs in sweet and sour sauce (270 g, approximately ¥600)

Source: Alibaba's Tmall app

Figure 10: Prepared food product of Quanjude — Peking roast duck (280 g, approximately ¥1,200)

Source: Alibaba's Tmall app

4. POSSIBILITY OF COLLABORATION WITH JAPANESE COMPANIES

Although China's consumer prepared foods market has great potential, it is still in the early stages of development and therefore has many issues needing attention. According to a consumer survey, consumer satisfaction is low when it comes to the “taste” and “variety” of prepared foods[8]. To rectify this, it is necessary to improve food technology and make the most of know-how related to cooking and product development. From China’s perspective, Japan is seen as an advanced country in the prepared foods market, and the high technological capabilities and excellent know-how of Japanese companies are being introduced through online media and other channels (Figure 11). Nichirei entered the Chinese market in 2007 and has provided support in a broad range of areas, including market research, product development, technical support, and factory construction, to food producers such as Sanquan Food and CP Group (Charoen Pokphand Group), as well as restaurant chains such as KFC and Xibei.

[8] “*Jiāngsū shěng xiāo bǎo wěi fābù yùzhì cài xiāofèi diàochá bàogào: Xiāofèi tòngdiǎn qīngxī shìchǎng jídài péiyù*“ (Jiangsu Provincial Consumer Protection Commission releases survey report on the consumption of prepared vegetables: Consumer pain points are clear, and there is an urgent need to develop the market) http://www.cnfoodnet.com/index.php?c=show&id=3288

Figure 11: Examples of Japanese prepared food-related companies' know-how and technologies that have been introduced in China for their "excellence"

Company	Example
Kobe Bussan (commercial supermarket operator)	・Secures low-cost, high-quality raw ingredients through the establishment of a global supply chain for raw ingredients and volume purchasing ・Franchising of sales network ・Well-established cold chain operations
Nichirei	Manufacturing technology for its long-selling fried rice product *"Honkaku-Itame Cha-Han"* (the rice grains are evenly mixed with the egg for a freshly prepared taste)
Kinrei	Manufacturing technology for a popular frozen noodle product (topping ingredients, soup, and noodles are frozen in one package that can be easily heated in a microwave oven)
ABI	The company's CAS (Cells Alive System) refrigeration equipment allows for maintaining a high level of food freshness and taste, while also increasing the efficiency of cold chain transportation

Source: Compiled by MGSSI based on reports accessed via Chinese online content providers Baidu and Sina

China's prepared food enterprises need to address not only production technology and product development capabilities, but also cold chain logistics and storage issues. If the companies can make up for their weaknesses through collaboration with Japanese companies that have solutions to these issues, they will be able to provide higher quality products that better meet the needs of Chinese consumers.

Any use, reproduction, copying or redistribution of this report, in whole or in part, is prohibited without the prior consent of Mitsui & Co. Global Strategic Studies Institute (MGSSI). This report was created based on information and data obtained from sources believed to be reliable; however, MGSSI does not guarantee the accuracy, reliability, or completeness of such information or data. Opinions contained in this report represent those of the author and cannot in any way be considered as representing the unified opinion of MGSSI and the Mitsui & Co. group. MGSSI and the Mitsui & Co. group will not be liable for any damages or losses, whether direct or indirect, that may result from the use of this report. The information in this report is subject to change without prior notice.