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The Growth of Chinese Bakeries Expand Opportunities for US Exports

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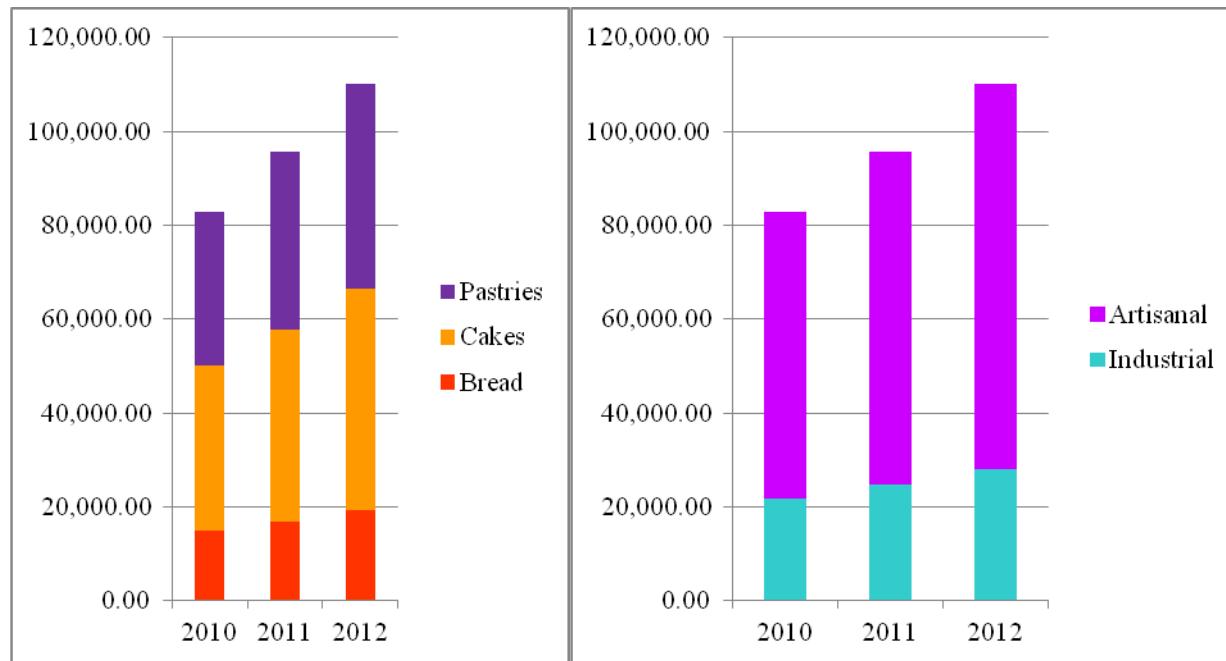
The bakery industry has turned out to be one of the unexpected stars of China's food and beverage world in the past decade or so. The field has seen year-on-year growth, with current value sales growing by 15% in 2012, to reach RMB 110 billion. As of 2013, pastries and cakes represent the vast majority of the baked products market – a trend which is expected to continue, especially well-stocked, well-decorated, and usually high-priced dessert shops popping up nearly daily in China's upper-tier cities. However, unpackaged/artisanal cakes and pastries comprise the group which is expected to see the fastest current value growth of 16% on average, per year.

General Information:

Overview: China's Bakery Market

The bakery industry has turned out to be one of the unexpected stars of China's food and beverage world in the past decade or so. The field has seen year-on-year growth, with current value sales growing by 15% in 2012 to reach RMB 110 billion. As of 2013, pastries and cakes represent the vast majority of the baked products market – a trend which is expected to continue, especially well-stocked, well-decorated, and usually high-priced dessert shops popping up nearly daily in China's upper-tier cities. However, unpackaged/artisanal cakes and pastries comprise the group which is expected to see the fastest current value growth of 16% on average, per year.

China's Sales of Baked Products by Value (millions RMB)



Luckily, bakeries of all shapes and sizes can benefit from ecommerce, as netizens flock to their sites in huge numbers. Artisanal bakers lacking the funds or human capital to invest in their own specialized platforms are able to benefit from China's well-established C2C marketplaces to sell their products. Experts recognize huge potential for growth in baked products oriented towards a health-conscious consumer. Chinese are increasingly concerned over health and nutrition, so products that promote low-sugar, vitamin fortified, or high-fiber qualities are likely to see rising sales in the coming years. Equally, market researchers have seen a growing demand for imported ingredients in Chinese bakeries' goods. As we will see later in this report, most of the popular online bakeries in China extensively promote the nutrition and taste benefits of their "premium" ingredients, which are often imported from overseas.

Euromonitor predicts that in China, the baked goods sector can expect to see a 8% constant value CAGR

in the next five years, to reach RMB 158.8 billion in 2017. Cakes and pastries are expected to be the key drivers of the growth, as Chinese tastes grow more accrued to delicious desserts, as well as quality cakes for all kinds of celebrations.

The Chinese company Orion has remained the leading market player for some years, controlling 2% of the total baked goods market (including artisanal bakeries), and retail value sales of RMB 1.2 billion (2012). Orion recently launched intensive promotional campaigns over social media, in conjunction with offline point-of-sale promotions and festivals to cement its reputation among Chinese consumers. These are all tactics that other domestic companies should mimic, if they would like to remain competitive on the national scale, at the level of mass consumption.

Demand for bread and other baked products has remained high and increasing at a robust rate, even despite weaker economic conditions in China since 2008. These goods have permeated Chinese food and restaurant markets very smoothly, and have almost become daily necessities for many urban Chinese. For these reasons, we expect to see continuing growth in the baked goods market in China – particularly geared towards the ecommerce side of the sector, which we will now go on to discuss.

For more general details of China's bakery market, see this [2009 GAIN report](#).

Online Bakeries in China

Advantages over Traditional Operations

All over the world, bakeries and dessert shops are setting up operations on line as a new business strategy to reach out to more customers and generate sales, with the added bonuses of quick and efficient service, around-the-clock open hours, and low running costs. Likewise, as any internet user can understand, shopping online is often the best, most transparent and efficient option, when shopping time is limited.

The bakery business model in particular lends itself well to ecommerce – once a recipe is perfected, it can be repeated over and over again (unless the company offers additional services, such as customized cakes). The main concern for bakery ecommerce is freshness assurance, which is of paramount importance to consumers, as baked goods spoil so quickly. This requires online bakeries to make significant investments in foolproof logistics and cold-chain technology, as well as operating enough distribution sites close to consumers.

In China, bakeries such as Ebeecake, Waffle Boy, and 21 Cake have all, in recent years, prioritized ecommerce as their main revenue-earning channel. All three of these bakeries are based in Beijing, which has seen somewhat of an explosion of bakery ecommerce ventures – most in direct competition with one another - launching in the past few years. However, as we will go on to see below, these companies all offer their customers distinct and unique experiences – a fact which contributes to their successes.

Marketing & Branding

Due to the high competition in the baked goods sector in China, companies must have strong brand positioning in order to succeed. This is even more so the case in online sales, where the only real interaction consumers have with the product is through the visual/audio materials on screen. Also, online sellers of baked goods have been wise to engage consumers in active participation with their companies, in order to drive up sales. The myriad group purchase websites and apps (like Groupon) have facilitated this trend in China. Examples include Tuanbabai, Meituan, and Dazhongdianpin – all of which are extremely popular among budget-conscious but quality-savvy Chinese online shoppers. The idea is to generate hype around a particular brand and/or product, encouraging web users to respond with comments and feedback, on wide-reaching platforms such as Weibo.

According to Euromonitor, the average consumer of bakery products in China is a middle to high-income urban family member, with well-educated young city dwellers, especially ladies, driving sales of the more expensive cakes and desserts. They are seemingly drawn to the idea of eating baked desserts as a symbol of a leisurely and healthy lifestyle. Upscale bakeries have used this to their advantage by promoting the “experience” of their brands just as much as the products themselves. For example, Singapore-owned brick-and-mortar market leader Breadtalk displays its baking kitchens in every store though grand, see-through windows, guaranteeing the freshness and top-notch expertise of its staff. High quality and health benefits are strong selling points for US ingredients in the China market.

Chinese Online Bakery Company Profiles

1. iYueCool



Beijing-based cake ecommerce startup iYueCool.com is perhaps one of the niche market's leading players in China. The site specializes in themed cakes of all varieties, for all occasions, with a slant towards cartoon-character-themed cakes.

A quick glance at their homepage makes it clear that their target customer is a parent looking to buy fun cakes for their young children – characters like SpongeBob Squarepants, Tellytubbies, and Dora the Explorer adorn their sharing-sized cakes. However, they also sell a large portion of more adult-targeted, mature, “European” cakes, which could be used for special occasions like weddings and other family gatherings. That said, most of the cakes themselves are relatively simple, and mainly consist of square sponge cakes incorporated with edible printing technology, with average prices for a large cake hovering

Niche Market: Wedding Cakes

- The wedding industry is flourishing in China, with an estimated 10,000,000 Chinese couples getting married every year. This creates an annual turnover of around RMB 13 billion. Interestingly, the wedding cake is not something Chinese couples try to save money on: with high pressure to leave a big impression on family and friends, couples are, in greater numbers, splashing out on extremely elaborate, expensive, and top-quality tiered cakes. This presents an excellent opportunity for China's ecommerce bakeries to match high demand for this highly-specialized product.

around RMB 250 (\$40).

iYueCool cites partnerships as Nickelodeon, Hasbro, BBC, and others all over its site, giving potential customers more reason to trust its products. On its website, the company claims to be the “only authorized provider” of such edible-printed images in China. Another selling point of its cakes is its frequent claims on the origins of its top-quality ingredients - chocolate from Belgium, cheese from France, cherries from Germany – assuring the authenticity of its “European” creations.

2. CCSweets

CCSweets is another Beijing-based bakery that has expanded operations online. CCSweets trumps iYueCool in terms of the functionality of its website, which is polished and easy-to-browse. But it also targets a slightly more affluent customer – one willing to spend as much as RMB 1,800 (USD 300) on its customized, elaborately decorated, and delicious “bespoke” cakes.



CCSweets has clearly taken advantage of the booming wedding market, and the desire for flashy and top-quality cakes at such special occasions. As such, the site sells elaborate, several-tiered, custom cakes of many kinds – cupcakes, cookies, and other pastries. It also offers the option of catering entire corporate parties and banquets, providing themed cakes and nibbles for guests, based on any theme. The site operates in both Chinese and English, further broadening the scope of its potential customer base.

According to Yahoo Finance, CCSweets has been successful in marketing by word-of-mouth testimonials on the high quality and superb tastes of its unique products. Its website further reveals how it operates by promoting exclusivity to its customers, whether by its subscription-only “birthday club”, its newsletter, or member points for active customers.

However, the company does not allow direct ordering through its site, and instead redirects visitors to its branch on Taobao.com (China’s enormous C2C marketplace), or to call its Beijing headquarters by phone to place an order.

3. Ebeecake



In 2009, Dianping.com – the most popular user-generated food/restaurant review aggregate website in China – cited Ebeecake as China’s number-one favorite few brand (China Daily). Yet another Beijing-based bakery, Ebeecake specializes in baked goods that they consider “works of art” for weddings and other occasions. The cakes are baked in the famous and trendy 798 Art District in Beijing, and its website offers 24/7 ordering services, and free delivery to any address within Beijing’s sixth ring road (although it also delivers to many locations outside of Beijing, too).

The company also benefits from having a relatively small inventory compared to other sites. This guarantees freshness of products upon delivery to customers (and thus, their satisfaction), and saves the company money. However, the Ebeecake still charges hefty prices: a 1.5-pound cake will cost the netizen around RMB 350, or around USD 60 – making its products significantly more expensive than those of its online competitors, as well as other physical storeowners.

4. 21 Cake

Founded in 2004, 21 Cake is one of the most popular online cake China, and is known as “China’s first luxury cake maker”. It was the first bakery companies in China to conduct sales predominantly through phone and internet orders. As such, it is a in the delivery/logistics aspects of online bakeries, and now orders as late as just five hours in advance (although it offers a 5% to cakes ordered 24 hours in advance).



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With its slick, easy-to-use interface, it is clear that the website targets young, trendy, affluent shoppers. The company goes to lengths to inform its customers of its “superior”, “pure”, imported ingredients, which it apparently sources from over 50 different foreign countries. 21 Cake is known for its real cream butter with no artificial colors, flavors, or additives, which is seen as healthier, tastier, and fresher than the traditional artificial whipped cream used on other cakes sold online in China. It is also praised for the clean aesthetics of its cakes, which are all square-shaped with creative presentations.



Chinese's go-to bakeshop, where they buy delicacies such as cakes, pastries, dumplings and other goods in large quantities. Xie Li, Holiland's general manager, reports that regular cakes, mooncakes, and sweet dumplings are the company's most-bought goods, making up 60, 20, and 10 percent of Holiland's revenues, respectively (China Daily).

The company has seen huge successes by offering its products for sale online – specifically, it has developed a line of baked goods available exclusively online, which has strengthened its customer base and their brand perception. Holiland recently introduced mooncakes in an effort to attract more high-spending customers. Even more interestingly, Luo Hong recently announced a new, RMB 10,000 swan-themed wedding cake, based on his own wildlife photography, and available only online. The cake comes complete with its own sterling-silver serving cutlery, as well as free delivery to your wedding in a Rolls Royce.

Whether or not anyone will actually buy the swan cake remains up for debate, but its introduction was a clever marketing trick for Holiland to draw customers to its website to make purchases online. Holiland is further able to benefit from the unique designs and decorations of its cakes, and its sturdy reputation among consumers as a top-tier bakery, with a reliable and efficient online platform to boot.

6. Waffle Boy

Waffle Boy is another online cake shop that is quick to promote its international sourcing of ingredients and recipes. Its website emphasizes that it chooses its cakes based on different local tastes from all over the globe – such as French layered cakes, “rich in taste and content,” thick specialty British puddings,

Italian cakes with cheese-based layers, butter-cream puddings from New Zealand, etc. However, Waffle Boy advertises the fact that its products are geared towards local Asian tastes as well. Cakes can be customized with text or any other kind of decoration, and discounts are readily available to frequent shoppers and Waffle Boy members.

From the Waffle Boy website, it is apparent that the company's logistics chain is well-established: it offers free delivery within and beyond the metropolises of Beijing and Shanghai, and a huge degree of transparency in terms of delivery process, product ingredients, storage instructions, and more. These are areas from which other online bakeries in China could learn.



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7. Weiduomei, Bread Talk (Singapore), Paris Baguette (South Korea), Panpan

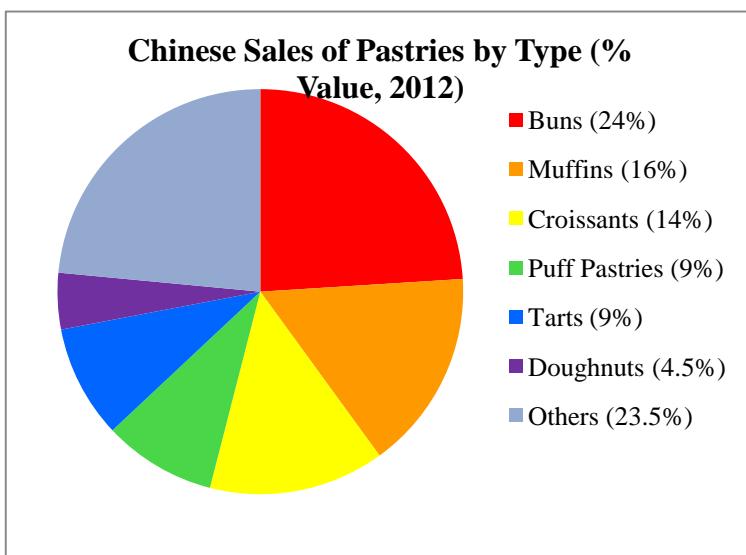
These are long-established traditional bakery brick-and-mortar retail chains, which are expanding their businesses into the online world (much like their competitor, Holiland – profiled above).



8. Cakes on Taobao

As mentioned above, the vast majority of the offline bakery industry in China, is dominated by artisanal bakers, who sell their products outside of retail shops such as bake shops and grocery stores. Interestingly, these artisanal sellers are also turning to the Internet in bids to increase their sales and access to large-scale markets.

Most notably, sellers are setting up accounts on Taobao.com (China's huge C2C marketplace), advertising homemade cakes, pastries, cookies, and bread to markets across China. A search for “cranberry biscuits” on Taobao reveals that many individual pastry chefs are selling their wares, using keywords such as “premium ingredients” and “custom made” to allude to the high-quality, freshness, and good taste of their baked goods.



Top Companies at a Glance

Company	Target Customer	Avg. Price of Medium Cake	Imported Ingredients?	Dir. Order Online?
iYueCool	Middle- to upper-class parents of young families	RMB 250	✓	✓
CCSweets	Trend-conscious urban dwellers (possibly female); corporations	RMB 500	✓	
Ebeecake	Those looking for cakes/desserts for special occasions, e.g. weddings	RMB 350	✓	✓
21 Cake	Health-conscious young people seeking “natural”, “luxury” foreign ingredients/tastes	RMB 200-300	✓	✓
Holiland	Brand loyalists to Holiland brick-and-mortar retailers	RMB 150		✓
Waffle Boy	Internationally-minded buyers; those who have visited Waffle Boy stores	RMB 200	✓	✓
Taobao	Bargain-conscious shoppers looking for one-of-a-kind cakes from artisanal bakers	Depends on seller – huge variety in prices	?	✓

Prospects for US Exporters of Bakery Foods & Ingredients

As illustrated in this report, there are huge areas of potential growth in China's bakery ecommerce market. US exporters of a wide range of baking ingredients, such as wheat flour, dairy ingredients, dried nuts/fruits, fruit jam, fillings, butter/cream, and premixed flour, can benefit from this expanding sector. In fact, the US imports around 30-40% of China's wheat (GAIN, 2009), and it is trusted for its quality and consistency. Imported wheat is an important asset for Chinese bakeries creating high-end types of bread, cake, cookies and crackers. Already, large international baking ingredient makers, like Rich's (USA), Bake Mark (USA), AB Mauri (UK), and Roquete (France), promote their products in the Chinese market. All kinds of niche sectors of the baked goods sphere can expect to see profits from participating in China's online bakeries.

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