EXPORT: THE COMPASS POINTS EAST (AGAIN)

AFTER OVERCOMING THE PANDEMIC-INDUCED SLOWDOWN, CHINA IS EXPERIENCING GROWTH ONCE AGAIN, MAKING IT AN ATTRACTIVE DESTINATION FOR ITALIAN EXPORTS. IT IS A MARKET THAT DEMANDS A SUITABLE OFFER IN TERMS OF TASTE AND REQUIRES COOPERATION WITH LOCAL OPERATORS.

Manuela Falcherò

L Geopolitical tensions with the US, the ever-sensitive issue of Taiwanese independence and the microchip war are just some of the factors that make macroeconomic relations with China potentially fragile and suggest caution when approaching this market. Nevertheless, the country remains an extremely attractive commercial opportunity for European industry, particularly for Italian companies. This is clearly confirmed by **data compiled by Porsche Consulting, which outlines at least seven compelling reasons to venture beyond the Great Wall**. The first reason is the dynamism of China's economy: projections based on data from the International Monetary Fund and the Chinese National Bureau of Statistics suggest that Beijing's GDP will grow by 4.2% by 2025. This is a more than robust pace, given that the EU is expected to grow by only 1.1% and the US by 0.8%. The second reason is purchasing power: during the Covid pandemic, the citizens of the People's Republic saved a substantial $2.6 trillion, a significant 'treasure chest' now available for new purchases.

SOME FACTS

- The numbers speak for the Land of the Dragon: GDP is expected to grow 4.2% by 2025. Consumer
- The purchasing power of consumers can rely on savings accumulated during the Covid-19 period amounting to $2.6 trillion.
- E-commerce, direct presence, and distribution agreements all represent valid access routes, especially when combined.

Thirdly, it's important to note that the Chinese market offers excellent development prospects, as half of consumption in the highest income bracket - the most relevant for exports - comes from the younger Gen Z demographic. But that is not all.

It is estimated (and this is the fourth reason to consider a presence in China) that 41.2 million households will enter the upper income bracket in the next three years. This massive market cannot and should not be ignored and should prompt consideration of the opportunity to enter it. Another clear indicator supports this direction: 82% of luxury consumption (with Italian food occupying the high end of the market in China) takes place in stores in the country. Purchases made during overseas trips have a minimal impact.

Finally, it should not be overlooked that Chinese shoppers show a strong preference for environmentally friendly products: 72% say they prefer green products when shopping, compared to a global average of 54%. In this respect, Italian products have a significant advantage over local products. Italian offer also stands out on another key factor: quality. This is particularly important for higher-end consumers, 68% of whom say they are looking for premium products at affordable prices.

BEYOND QUALITY

Quality can indeed serve as a lever for Italian companies to look beyond the Great Wall. But it's important to recognise that this is only a starting point - solid, valuable and indispensable, but still only a beginning, a necessary condition, but it may not be enough. That's because gaining a foothold in this market is far from easy. China's unique characteristics differ significantly from those of the Western world and require a tailor-made approach.

Giulio Busoni
Porsche Consulting Partner

"To succeed in this market, it's crucial to adapt products to the specific needs and expectations of local consumers," explains **Giulio Busoni, Partner at Porsche Consulting**. **"This involves more than just translating brand messages; it requires a deep immersion in the country's culture, coupled with the effective application of innovative strategies." This critical step can also pave the way for broader commercial developments.**

The resilience of the Chinese economy

CRITICAL FACTORS	DRIVERS OF GROWTH
With the outbreak of the Covid 19 pandemic, China's economy experienced a significant slowdown, with GDP growth falling to 2.2% in 2020, its lowest level since 1976.	However, the gradual easing of pandemic-related restrictions unleashed pent-up demand in various sectors, particularly tourism and entertainment, providing a vital boost to the economy. As a result, there was a turnaround: in 2023, China's GDP grew by 5.2%, with a further increase of 4.6% expected in 2024.
The real estate crisis, exemplified by the collapse of the Evergrande Group, has shaken China's economy: the sector accounts for up to 30% of national GDP and 80% of household wealth.	However, the stabilisation of the property market and increased investment in infrastructure projects are now leading to a significant boom in the construction sector.
Geopolitical tensions, compounded by pandemic-related uncertainties, led to a sharp decline in investment from Europe by 36.7% in 2022 and from the US by an impressive 57.9% in 2022.	While export growth is expected to be moderate, prudent monetary policy management and stimulus measures have started to have a positive impact, countering the currency depreciation trends observed in 2022 and stabilising capital flows.
China's ageing population is a long-term challenge for its economy. Currently, 18% of the population is over the age of 60, but this figure is expected to rise to 40% by 2050. This demographic shift will lead to a number of interrelated problems, including a shrinking working-age population, escalating healthcare costs, unsustainable pension expenditure and shifts in market demand dynamics.	China is experiencing a rapid expansion of its middle class. Over the next three years, an additional 41 million households are expected to join the burgeoning upper-middle income household segment, bringing the total to over 320 million.

Source: Porsche Consulting

"Adapting to Chinese culture can serve as a valuable entry point into neighbouring countries with similar cultures (such as Japan, South Korea, Vietnam, Singapore and Taiwan), thereby expanding the market potential to an additional 362 million consumers.", Busoni notes.

In short, the stakes could be high, provided we play by the right 'rules'. There's no room for improvisation. Instead, we need to examine the most effective ways forward, assessing specific objectives, risk tolerance and long-term vision. We must evaluate the pros and cons of the various viable models.

E-COMMERCE

First and foremost, we need to focus on the digital ecosystem. This is an important avenue to explore. **"Internet penetration in China has now reached 76.4% of the population, over 1.09 billion users", notes Busoni.**

Jiawei Zhao
CEO of Porsche Consulting in China

These figures naturally influence the performance of social media, which boast 1.06 billion users, or 74.2% of the population, and mobile connections, which reach 1.76 billion.

Given this context, it's no surprise that e-commerce dominates. "In 2023, the channel generated $2.9 trillion in sales, accounting for almost half (46%) of all retail transactions in the country", Busoni says. But that is not all.

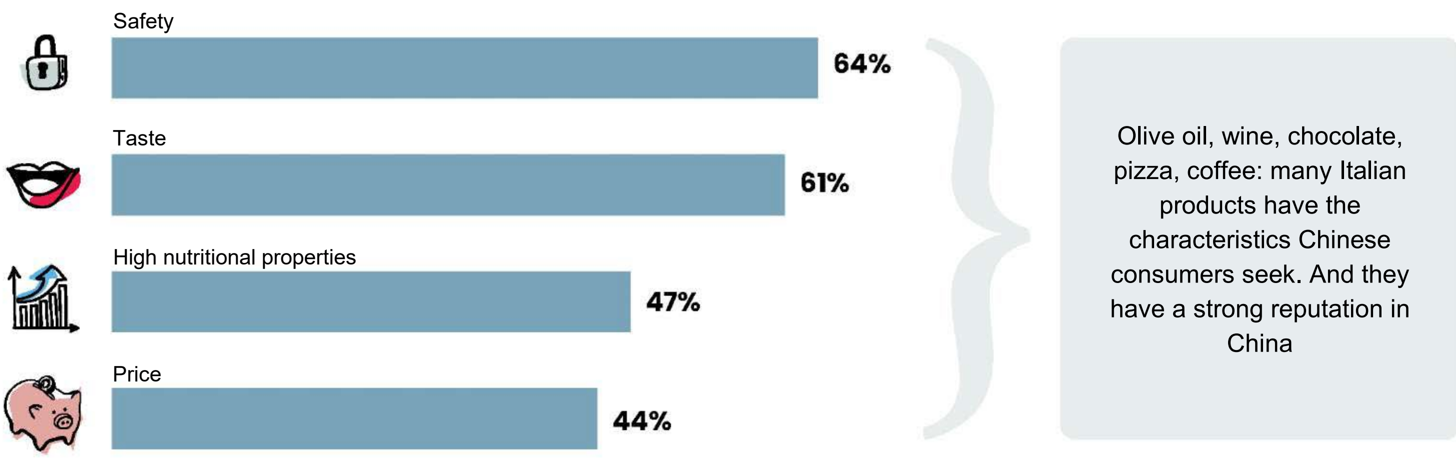
"It should also be noted that in the incredibly short period of four years, from 2018 to 2022, spending on apps alone has increased by more than 500 times in the People's Republic." The phenomenon involves the food sector, too. **"E-commerce accounts for around 13% of total food and beverage sales in China, a good 10% more than in Italy", adds Jiawei Zhao, CEO of Porsche Consulting in China.** These figures reflect significant volumes, indicating specific and highly innovative purchasing behaviour, driven by the significant impact of Generation Z in China. "Our food industry must therefore evaluate the potential [of the Chinese market] by building or integrating into a digital ecosystem", Busoni concludes.

DIRECT PRESENCE: THE CASE OF COFFEE

Direct local presence is an option that could appeal to the food industry, especially given the Chinese people's strong tendency to eat out compared to the West.

Factors driving food purchasing in China

Multiple answers

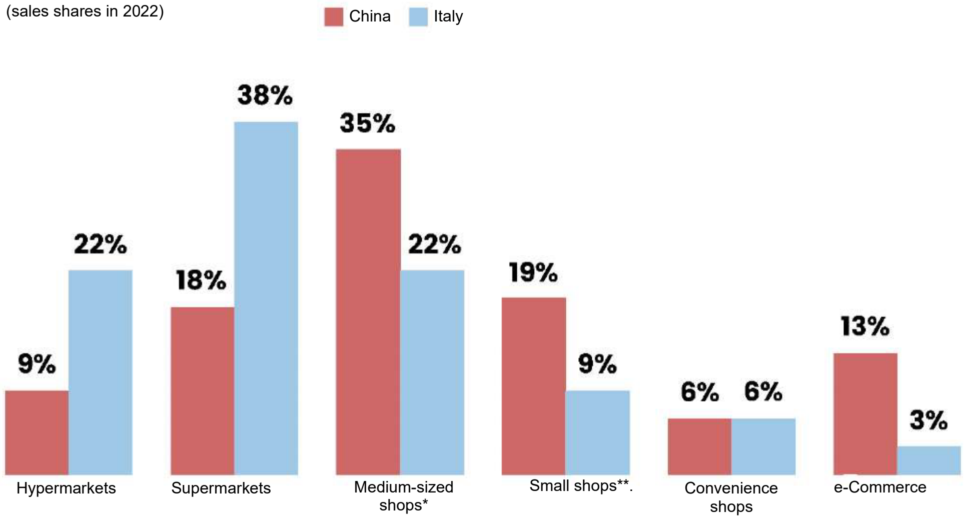


Source: iResearch, 2023

Direct presence is proving to be a successful business model, as demonstrated by the case of the **coffee market, a sector with annual growth rates in excess of 30% in China.** The potential is therefore huge, prompting major Italian players to take the challenging step of establishing a physical presence in the country. This is the case of **Lavazza, which in 2020 set up a joint venture with Yum China**, a Chinese fast-food chain with a network of 13,600 restaurants and a turnover of $11 billion, in order to make its debut in the country. The results are significant: by 2021, Lavazza quintupled its number of stores beyond the Great Wall, while sharing know-how and operational risks. The inauguration of Lavazza's first store in Shanghai marked the beginning of a rapid expansion, fuelled by an initial investment of $200 million. **In less than three years, the company has opened over a hundred cafés, extending its reach to around ten Chinese cities.**

Comparison of distribution channels: Italy and China

(sales shares in 2022)



*shops between 20 and 40 sqm - **shops <20 sqm - Source: Nielsen IQ, Porsche Consulting

This seems to be just the beginning, as the company aims to open a thousand cafés by 2025, a milestone that Lavazza intends to reach by relying on the three pillars of its Chinese market strategy.

"The Lavazza group has focused primarily on adapting its offerings to local tastes, incorporating Chinese ingredients and flavours into its Italian-style coffee offerings. This strategy has attracted a large local clientele, attracted by new coffee experiences while still honouring their cultural heritage", Busoni says. "Secondly, the company has forged partnerships with local hospitality brands and strengthened its presence on digital distribution platforms, adopting a modern approach that is aligned with local consumption trends. This approach has proven successful, with mobile and delivery sales accounting for 70% of total sales. Finally, the company has prioritised enhancing the customer experience by creating an ambience that combines Italian elegance with contemporary design. This lays the foundation for a unique and distinctive customer experience, which is increasingly important in the premium coffee market."

China's global food imports in 2023

Category	Imports (in US $)	Var. 2023 vs. 2022
Global imports	**235 bn**	**100%**
Cereals	84 bn	+35,6%
Meat	27.5 bn	+11,5%
Fish products	19.7 bn	+8°%
Fresh and dried fruit	17.5 bn	+7.4°%
Dairy products	12 bn	5,1%
Vegetable oils	12.9 bn	5,4%

Source: ICCF calculations based on Chinese customs data

THE STRATEGIES OF ILLYCAFFÈ AND SEGAFREDO

Lavazza is not the only name worth mentioning. There are two other examples that could become a model. The first is Illycaffè. The Trieste-based company has focused on the integration of local tastes and Italian tradition, and in 2023 signed an agreement with Hangzhou Onechance Tech, an e-commerce giant listed on the Shenzhen Stock Exchange with a capitalisation of 800 million. The agreement leverages the digital expertise of the partner with the aim of tripling the initial turnover (see box below).

Francesco Bosso
Illycaffè Global Sales Director

The second case worth noting is Caffè Segafredo, a brand belonging to the Massimo Zanetti Beverage Group. MZB Services, the franchising division of the MZB Group, announced in June 2023 the opening of the first Segafredo Caffè in China at Shanghai's Satellite S2C-40 Pudong International Airport, in partnership with Tour Gourmet United (Shanghai) Catering Management Co. As stated by the company, the venue aims to offer a rich and global coffee experience.

Illycaffè's tailor-made offer

A single figure is enough to show just how valuable China is for the coffee roasting industry: in 2023, Shanghai was confirmed as the world's leading city in terms of the number of coffee shops, which reached an impressive 8,530. It is therefore not surprising that a leading brand such as **Illycaffè** has decided to turn the spotlight on China. Its recent agreement with **Hangzhou One- chance Tech** has opened the doors of this immense market to the Trieste-based company, allowing it to embark on a business adventure that seems to have all the makings of a very satisfying one. "Being present in this area allows us to spread the culture of quality Italian coffee in a very demanding market", says **Francesco Bosso, Illycaffè's Global Sales Director**. "Although we are still in the early stages of mass consumption of the drink, people are getting closer to the product, as evidenced by the birth of successful local brands. Of course, it is important to remember that a direct presence, while necessary and advantageous in many ways, does not come without criticalities. For example, **global brand communication or global product launches are not easy to apply in China**. **This is a market that requires in-depth knowledge of local consumers and the adoption of precise marketing and storytelling strategies**, while respecting local regulations."
Illycaffè seems to have understood this point very well, judging by the peculiar formulation of its offer designed specifically for China.

"In this market, too, Illy is best known for its iconic products, which are already widespread worldwide, and in particular for the 'Illy blend' coffee bean variety, which is successfully distributed both in the home and in the HoReCa [hotel, restaurant and catering] channel. **Here we have launched a specific 100% Illy blend variety called Drip-on**", Bosso explains. "**It is a peculiar product that involves extracting the coffee by percolation**, a process that involves slowly pouring hot water over the ground coffee and then collecting the resulting beverage through a filter in a cup underneath." But that is not all. Bosso continues: "As soluble coffee consumption remains high, we have recently launched a 100% Illy blend instant coffee in mini-doses in three-gram tins on the Chinese market. This is in response to a significant widespread trend, especially among young people, who like to consume coffee-based drinks that are easy to prepare away from home." The company's next products will also fit into this perspective. "We are developing **a 100% Illy blend soluble product in 2.5-gram mini cans with totally sustainable packaging made from natural fibres**", says Bosso.
The company is banking on a dynamism that must be the hallmark of any business strategy in China. "Thanks to the proximity of our partners and the knowledge of end consumers, we are building an offer that meets local needs", says Bosso. "Above all, we are organising ourselves to be able to respond extremely quickly to a demanding market that is changing and developing at a pace unmatched in the rest of the world."

But that is not all. Italian pasta and hamburgers are also included. Without forgetting to satisfy the Chinese consumer's palate by including popular local dishes on the menu.

AGREEMENTS WITH RETAILERS

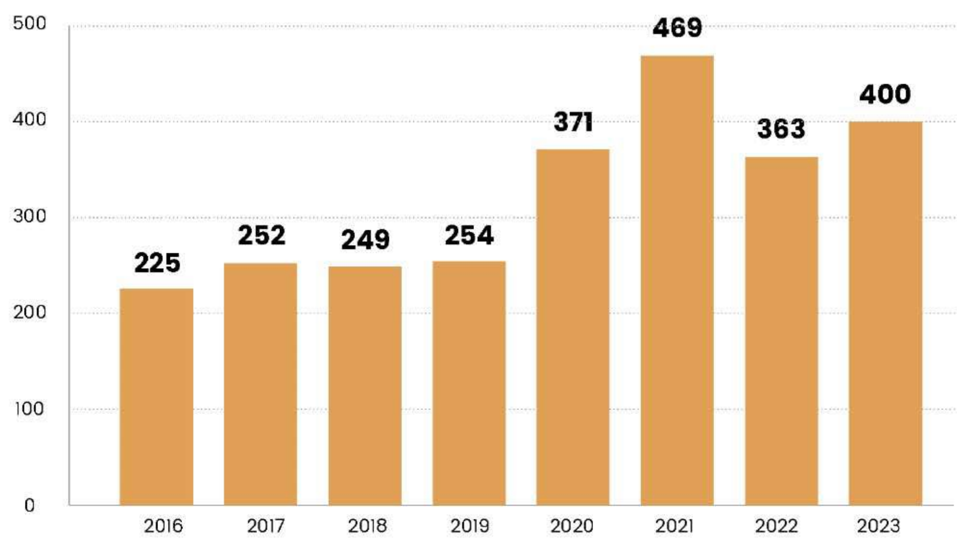
Last but not least, those who want to enter the Chinese market must of course consider the key lever of agreements with distributors. This is a mixed bag. In recent years, more than a few players have decided to leave the country: in 2019, Carrefour sold the majority of its stores to Suning, as did Metro, which passed the baton to local retailer Wumart, also following the exit strategy already adopted by Teseo and Dia. On the other hand, other players have bet on the country: the American Costco, which debuted in the People's Republic in 2019 and now operates six stores; the German Aldi Sud after an initial online experiment carried out in 2017 through **Alibaba's Tmall** platform, tested the market in 2019 with two pilot stores in Shanghai, reaching seven by 2023.

Segafredo Caffè at Shanghai Satellite International Airport S2C-40 Pudong

Nor should we forget the case of Walmart, which, according to the findings of Statista.com, will achieve net sales of $17,011 million in China in 2024, up from just over $10,000 million in 2019. A clear sign that the potential for growth is not lacking. “Despite the pressure from the digital channel, it is reasonable to expect that in-store shopping will remain dominant in China for many years to come”, says Zhao. “In general, however, **companies would do well to consider that Chinese consumers tend to prefer smaller outlets to the large supermarkets and hypermarkets that play a leading role in Europe.**” The numbers speak for themselves: Porsche Consulting's analysis of the NIQ surveys shows that the former account for 54% in China, compared with a much lower 31% in Italy. The latter, on the other hand, stand at 27%, a far cry from the 60% of the Italian market.

Italian food exports to China

(in mln €)



Sources: Istat, calculations by the ICCF Research Centre

ICCF: the bridge between Made in Italy and Beijing

Business support, training and information. These are the three cornerstones on which the **Italy China Council Foundation (ICCF)** relies to guide and support Italian companies wishing to enter the Chinese market. Founded in 2022 through a merger of the Italy China Foundation and the Italy China Chamber of Commerce, the ICCF brings together around 400 Italian and Chinese companies and international organisations with a combined turnover of over 70 billion euros. It is therefore a privileged reference point for Italian industry looking to the East. It offers them a range of services aimed at a single objective, that of facilitating trade. In operational terms, therefore, the ICCF (which, in addition to its Milan headquarters, has a correspondence office in Guangzhou, in the Nansha district, and three training offices in Beijing, Chengdu and Chongqing) is first and foremost a support organisation for its members and companies. **"We offer 360° support," explains Managing Director Marco Bettin, "which includes guiding companies to the most important trade fairs**, for example the China International Import Export in Shanghai, which will open its seventh edition on 5 November, and China International Supply Chain in Beijing, which will be held from 26 to 30 November. We also provide strategic support by organising meetings between Chinese and Italian companies based on specific needs, such as the recent meeting promoted at the request of a Chinese delegation interested in meeting Italian organic oil producers."

Marco Bettin
ICCF General Manager

The ICCF's remit also includes a wide range of initiatives aimed at creating culture and education concerning China. "We organise meetings and congresses that highlight the country's specific features and show the most effective ways of dealing with them," Bettin explains. "**We also promote knowledge of Italy among the Chinese business community, and we do it with concrete actions**: at the moment, for example, we are welcoming in Milan about 150 students who have come to learn our language with the help of the University of Siena. These young people are coming into contact with Made in Italy today and could help promote it in their country in the future." Finally, the ICCF monitors the Chinese market. "Our research centre publishes monthly updates on the most useful indicators for those involved in exporting to China," Bettini explains. "In addition, we publish an annual report in May, which is intended to serve as a timely and effective compass for those doing business in the country."

HYBRID MODELS

In addition to traditional distribution channels, the Italian food and beverage sector should also consider exploring other models, including (why not?) leveraging the restaurant industry as a powerful gateway for introducing Italian cuisine to international markets. The case of **Fico Eataly World,** which has announced its intention to open a park in the Hangzhou area, could be worth monitoring. For the moment, the company, which was contacted by *Food,* has remained tight-lipped about the initiative, but the fact remains that the project in itself is something to be carefully taken into consideration, without getting carried away with too much enthusiasm.

"Several large local retailers have opened shops that present themselves as the Chinese equivalent of Eataly", Zhao observes. "They aim to be a high-profile adaptation of the concept created by Farinetti". And the formula seems to be catching on. "Among these 'imitators', it is worth mentioning **Green & Health**, a brand launched by local retailer **CentryMart**, which has opened five stores in Hangzhou since 2017, all inspired by a format similar to that of the Italian player in terms of consumer experience and proximity to the restaurant sector. The point, however, is that the focus of the offer here has become increasingly concentrated on domestic products, so much so that the share of imported SKUs in the range has fallen from 90% to 30%. This clearly suggests that the key to successful food supply chains in China is not so much the origin of the products, but rather sound supply chain management, the ability to provide consumers with a high quality of experience and the ability to adapt quickly to market demands."

Digital, direct presence and distribution deals are all viable options. However, it may not be a good idea to pursue them exclusively. “Italian brands that are mainly active in the premium segment and in larger cities,” Zhao points out, “can and must **move towards a combination of different formats, where, for example, distribution in suburban hypermarkets is combined with the presence in restaurant chains**, without forgetting direct online sales or e-shops hosted on major e-commerce platforms.”

NO TO ON-SITE PLANTS, YES TO TEAMWORK

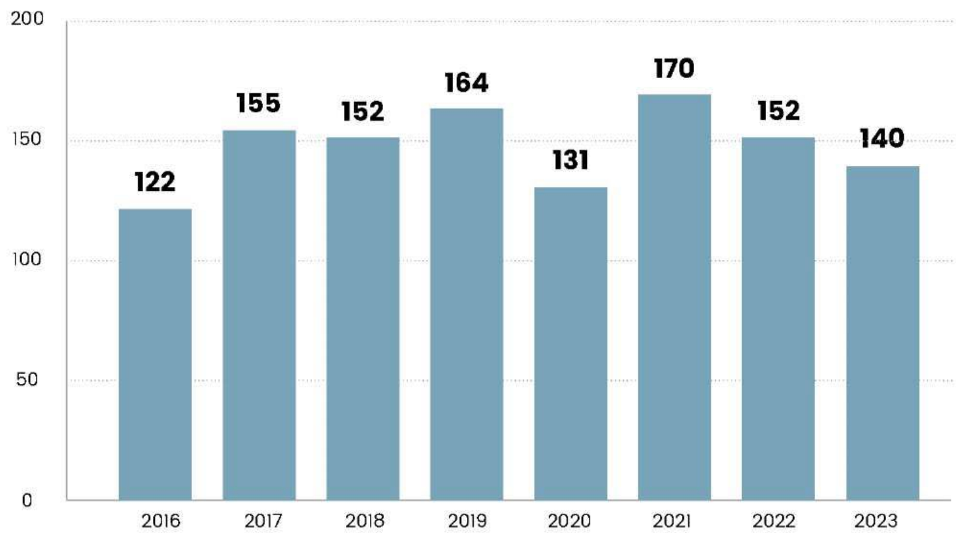
Setting up on-site industrial plants seems to be a very bad idea. “It's a trend that food companies are following in the US market,” notes Busoni, “but it doesn't seem to work in China. There are several reasons for this: **labour costs have also become significant in this country and, above all, the Made in Italy label is more valuable here than elsewhere.** Not being able to boast about it, because production is not within our borders, could backfire.” What is certain, however, is that whichever path is chosen, the golden rule of local partnership must be followed: those who play alone will hardly be able to sustain the rapid development of a market as vast as China, and the considerable costs that this entails. It is therefore necessary **to be able to rely on local collaborations that can help approach the country operationally and facilitate understanding of its cultural specificities**, which inevitably have an impact on business. Otherwise, there is a risk of stumbling through trial and error.

Italian wine on show in Shenzhen

The potential of the Italian food and beverage sector in China is reflected in the figures of the second edition of **Wine to Asia, the leading international wine and spirits fair**, which was held in Shenzhen from 9 to 11 May. Organised by Veronafiere in partnership with Shenzhen Pacco Communication, the event attracted more than 500 brands (+11% compared to 2023). The range of participants was diversified: no less than 30 countries of origin, from California to Eurasia, from Argentina to the Balkans and Italy, the latter represented by 50 companies in the pavilion promoted by Ice Agenzia. According to the findings of the 2024 edition of the annual report prepared by the research centre of the Italy China Council Foundation, **Italy ranks third in the list of wine exporters to China, with a share of 10.1%, penalised by a decrease of 13.5% compared to 2022.** Ahead of Italy on the podium are Chile with 19.3% and France with 48.2%. However, Italy’s competitors are also suffering, with a decline of 31.4% and 15% respectively. And the future might not have better scenarios in store. In the background, Australian competition could reassert itself. Prior to the introduction of anti-dumping and countervailing duties on wine by China in 2021, Australia held second place in the wine market (39.1% share), according to China Customs data. In the following years, its share fell to 26.6% in 2021 and 0.3% in 2023. However, from March 2024, the Chinese Ministry of Commerce abolished these measures.

Italian beverage exports to China

(in mln €)



Sources: Istat, calculations by the ICCF Research Centre

"We need partners who can explain to our managers and entrepreneurs the tastes of local consumers, who do not always appreciate Western flavours", says Busoni. "We need partners who can guide them in choosing the products that will work best in this country. **We also need partners who can identify the right ways to communicate with the Chinese public,** which are not always the same as those used in Europe or the United States."
It must be said, however, that the definition of a partnership does not depend on a single option. "Depending on the desired degree of control over the market and the hypothetical time to market," Busoni explains, "one can choose to use licensing to local companies in exchange for commissions or create a joint venture, which implies a partnership between two or more companies to achieve a common goal. Two other options should also not be overlooked: the acquisition by merger of a company already operating in the market, or the creation of a wholly owned subsidiary."
These are all valid options, but they must converge on the same objective: to create and strengthen brand awareness. This is always a crucial asset, and one that is particularly important in China, as the case of Lacoste shows, which, thanks to effective brand positioning, has managed to increase the price of its classic polo shirt from around 130 euros in Italy to 210 euros in the People's Republic.

BARRIERS TO ENTRY

Once a local partner has been found, the road to export may not be entirely smooth. Some headaches might come from the issue of barriers to entry.

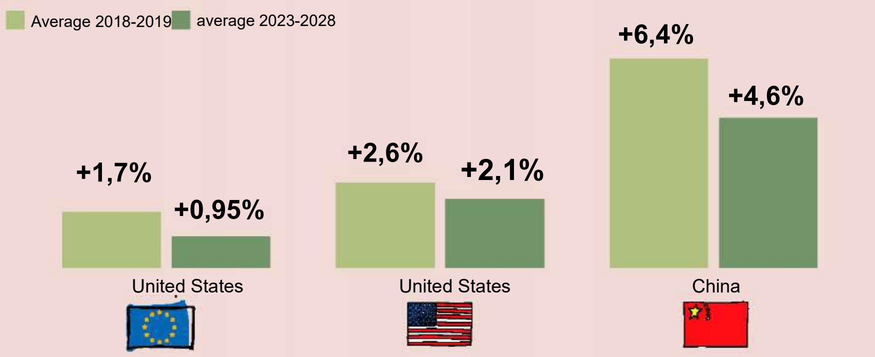
Trade relations: a stable outlook

"In a scenario characterised by slowbalisation, i.e. a slowdown in globalisation that has marked the last few decades, Beijing appears to be strong. But it hides a significant weakness, which may turn out to be a reassuring factor for European markets." The analysis of the Chinese market presented by **Marta Dassù, Senior Advisor for European Affairs at the Aspen Institute**, to the audience of the conference 'Il contesto di riferimento e le prospettive per il largo consumo' [The reference context and prospects for consumer goods], promoted by IBC, is moderately optimistic. "The risk that Xi Jinping will resort to the military to deal with Taiwan's independence aspirations, at least in the short term is fairly limited", Dassù says. "There are two main reasons for this. On the one hand, the People's Republic needs to maintain a high level of exports, and an armed conflict would certainly jeopardise the commercial peace it has painstakingly built up with Washington. On the other hand, it must be remembered that the US has managed to forge a strong network of alliances in the South China Sea - the recent news of a joint missile defence system with Australia and Japan is a recent example - which could prove to be an effective deterrent."

Marta Dassù,
Senior advisor for European affairs
The Aspen Institute

In the short to medium term, therefore, we can expect considerable stability on the import/export front. This is an encouraging prospect for Italian companies, which may well be tempted to invest beyond the Great Wall by the prospect of GDP growth: the World Economic Outlook (WEO) forecasts an acceleration of +4.6% over the four-year period 2024-2028. This is much higher than the US (+2.1%) and Europe (0.95%).

GDP trends: 2024-2028



Source: Weo, October 2023

This is confirmed by the figures highlighted last April by **Luigi Scordamaglia, CEO of Filiera Italia**, during the Italy-China Business Dialogue Forum promoted by the association together with Coldiretti. "Italian agri-food exports to China, which recorded an increase of +4.1% in 2023, amount to €579 million, while agri-food imports amount to €875 million, despite a decrease of 21.4%. **This imbalance is also due to the persistence of sanitary, phytosanitary and customs barriers**, particularly in the fruit and vegetables, meat and wine sectors."

It cannot be denied that these barriers exist. The **Italy China Council Foundation** also recalls that the Chinese government has imposed restrictions due to the outbreak in Europe of swine fever and bluetongue, an infectious disease which mainly affects the sheep population. Furthermore, since 2022 China has required all food products to be registered with the General Administration of Customs. However, this registration is only valid for five years. There is also a requirement for all exported goods to be labelled in Chinese.

A practical guide to the Chinese digital market

As mentioned at the outset, China's digital ecosystem is frequented by over one billion users. Navigating this landscape is therefore a significant challenge. This guide provides an overview of the main communication, e-commerce and entertainment platforms to help you find the most appropriate information for your needs.

WECHAT: ONE APP, ENDLESS FUNCTIONS

Launched by Tencent in 2011, WeChat, known as Weixin in China, is a unique phenomenon in the global app landscape. Today, it is one of the most integrated and powerful digital ecosystems in the world, an all-encompassing platform that goes beyond the boundaries of a simple messaging app to address all the digital and social needs of the Chinese population. The range of functions is vast: from social media services with the 'Moments' feature to mobile payment solutions with WeChat Pay, one of the most popular in China, from financial services to booking taxis, cinemas, flights, hotels and medical appointments, from e-gaming to augmented reality, and from business functions with the customised WeChat Work version to e-commerce. Thanks to Mini Programs, small applications embedded in WeChat, users have access to a world of online shopping without ever leaving the app.

TENCENT QQ: BEYOND MESSAGING

Tencent QQ, commonly known as QQ, has redefined instant messaging in China. Since its launch, it has established itself as a cultural phenomenon, surpassing global platforms such as Skype and MSN. With more than 800 million users and 300 million simultaneous online presences every month, it has evolved beyond its original function as a messenger to become a comprehensive digital ecosystem, including online games, ringtones and much more.

ALIPAY: A REVOLUTION IN ONLINE PAYMENTS

Launched in 2004 by Alibaba Group and Jack Ma, Alipay has revolutionised the online payment landscape in China. It is conceptually similar to Apple Pay, WeChat Pay and PayPal in that it uses traditional payment systems, such as credit or debit cards, along with additional services (QR code payments, peer-to-peer transfers, bank account management, etc.). However, Alipay is more than just a payment platform: it offers an escrow service that allows buyers to verify goods before finalising payment, thus meeting consumer protection needs in a regulatory environment that is less developed than in the West. It works with over 65 financial institutions to provide secure and versatile payments for a wide range of e-commerce services, including Taobao and Tmall.

TAOBAO: THE C2C GIANT

Launched by Alibaba Group in 2003, Taobao Marketplace has established itself as the undisputed leader of C2C (customer-to-customer) e-commerce in China. It is comparable with global platforms such as eBay, Amazon and Rakuten and offers small businesses and individual entrepreneurs a vast and dynamic arena for online commerce.

The numbers speak for themselves: it reached 892 million monthly users in 2023.

Beijing imposes regulations, rules and bans that inevitably cause delays and challenges for Italian companies.
The good news, however, is that Italian food and drink products are not among the sectors currently being targeted by Chinese authorities in terms of tariffs.

"At the moment, the Chinese customs do not have any tariff barriers specifically targeting food products from Italy or the main categories of Italian food exports," says Zhao. "And we don't expect any developments in this direction, as Beijing has an open attitude and welcomes the growth of international trade with Europe." Just words? Far from it.

"China has adopted a policy of openness to high-quality international products", confirms **Marco Bettin, General Manager of the Italy China Council Foundation.** "This policy has had a significant impact on the food and beverage sector, so much so that **in 2023 the Chinese government approved the import of 146 agricultural and food products from 51 countries and regions**."
And that may not be the end of the story.

With around 760 million product listings, it is not only one of the most visited websites in the world, but also the beating heart of Chinese e-commerce.

TMALL: THE B2C SHOWCASE FOR ESTABLISHED BRANDS

Born from the evolution of Taobao, Tmall stands out for its B2C (business to consumer) business model, offering an exclusive platform for brands and retailers. It positions itself as a portal of high quality and authenticity, capable of attracting more than 200 premium and luxury brands and reaching 877 million monthly active users and 380 million daily active users by 2023.
It is reinventing the concept of traditional retail selling by putting brands in direct contact with consumers through customised virtual stores that display products directly and interactively.

BAIDU: THE CHINESE GOOGLE

Founded in 2000 by Robin Li and Eric Xu, Baidu has established itself as China's leading search engine, earning the nickname "China's Google". It dominates the country's search engine landscape with around 667 million monthly active users as of December 2023. In 2022, it generated revenues of around $17 billion.

JD.COM: ALIBABA'S RIVAL

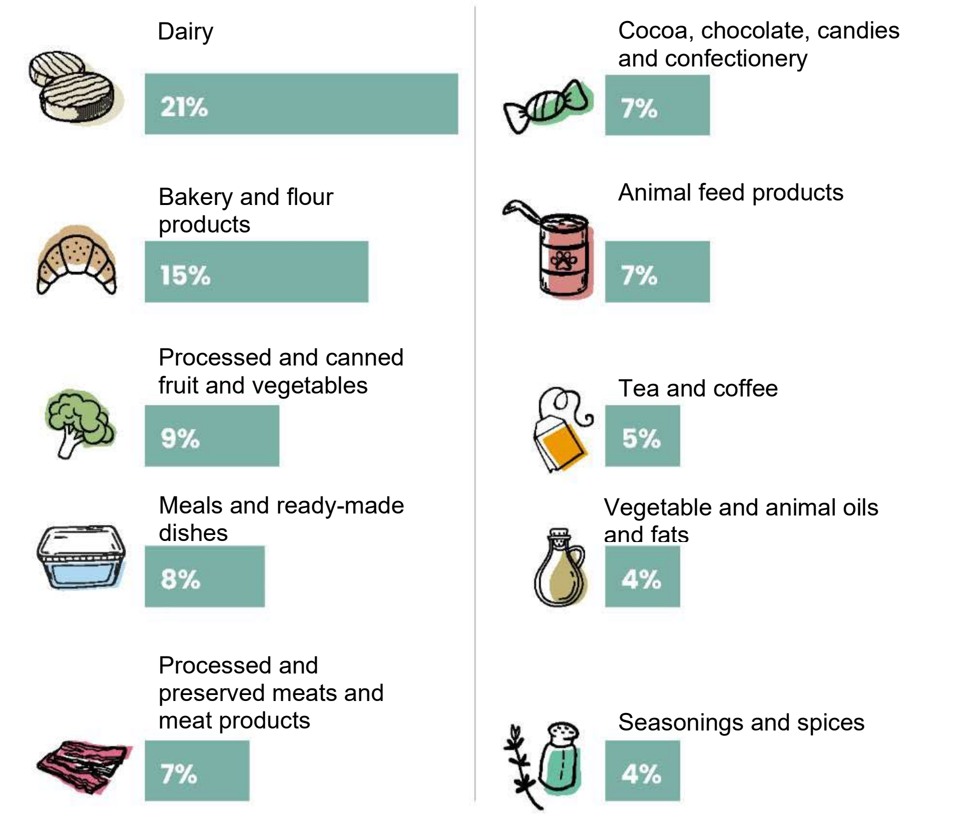
Founded in 1998 by Liu Qiangdong, JD.com has rapidly grown from a small electronics kiosk to a global e-commerce leader.

It is the second largest e-commerce platform in China, behind Alibaba Group and ahead of Pinduoduo. Unlike other platforms that act as intermediaries between sellers and consumers, JD.com sells directly to customers, controls the entire supply chain and guarantees product authenticity and quality.
This model, similar to that of Amazon.com, requires a significant commitment to logistics and warehouse management, recognised strengths of JD.com.

THE OTHER PLATFORMS

- **DOUYIN**: The Chinese version of TikTok, popular for sharing short videos.**SINA WEIBO**: A microblogging platform that combines Twitter and Facebook functions, widely used for news and trend discussions.
- **MEITUAN-DIANPING**: Known for restaurant reviews, reservations and e-commerce of local services, similar to Yelp.
- **ZHIHU**: A question and answer platform similar to Quora that allows users to share knowledge and experiences.
- **BILIBILI**: Popular among young people, it is known for its entertainment videos, games and live broadcasts.
- **YOUKU**: A video sharing platform similar to YouTube, offering a wide range of content from movies to TV programmes.
- **PINDUODUO**: An e-commerce platform based on a shopping model that allows users to get bigger discounts by buying in groups.
- **KAISHOU**: A short video and live streaming platform, a competitor to Douyin, popular for its authentic content and connection to people's daily lives.

Italian food exports to China by product category



Sources: Istat, calculations by the ICCF Research Centre

The results of the work, by now ongoing, of the **Italy-China Joint Economic Committee** (CEM), which met in Verona last April in the presence of **Antonio Tajani**, the Italian Minister of Foreign Affairs and International Cooperation, and **Wang Wentao**, the Chinese Minister of Trade, has shown positive signs. It is also supported by the contribution of the **Forum di Dialogo Imprenditoriale** [Business Dialogue Forum], which brings together **ICE, Confindustria and CDP** and their Chinese counterparts, with the aim of promoting exchange and cooperation between the two countries in priority sectors for economic and trade cooperation. Agri-food is one of them.

GEOPOLITICAL RISKS

However, tariffs and countertariffs could be an unknown factor. On a broader scale, the macro-political scenario that could emerge in the coming months is also an uncertain variable that could change the cards on the table, even to the extent of profoundly affecting diplomatic relations, and therefore trade, between Beijing and Washington. And, in a cascade, between Beijing and Brussels. This is a possible prospect, but one that does not worry analysts too much (see box, p. 67), especially when it comes to food and beverage. "This sector is not one of the most likely to be targeted first and hardest in a tug-of-war over export levies", says Busoni.

And this puts it in the fortunate position of being able to benefit more than others from the potential of a country that has shown great resilience, as evidenced by its ability to bounce back from the crisis caused by the Covid pandemic and the Evergrande property bubble." Turning to the Chinese market could therefore prove to be a winning move. "After all, the made-in-Italy food sector can rely on the uniqueness and non-replicability of its offer. These advantages are rare in other sectors," says Busoni. He warns: **"We have to be ready to act according to different approaches, providing specific answers to the strong demand for multichannel that characterises this market and the demand for continuous innovation in terms of new variants.** Chinese consumers appear to never be satisfied with novelty. To take just one example, in the textbook case of the coffee sector, as mentioned above, there is an expectation of 10 new flavours every month."

LOCAL 'COMPETITORS'

This is a sore point at the moment.

Airmeter is a Chinese start-up founded in 2019

"Italian companies have yet to learn how to adapt to the local market, i.e. to give a new meaning to 'Made in Italy'", notes Zhao. This weakness could prove costly, as it could open the door to local competitors. And this is not just theory. The coffee market, for example, has already attracted the interest of many Chinese operators: just look at **HeyTea**, a chain that has expanded its offer from tea to coffee, opening 3,500 new stores. By comparison, Starbucks in the UK has only opened 1,300 stores.
And let's look at the emblematic case of **Airmeter**.

"It's a Chinese startup founded in 2019 that, thanks to its pasta, has managed to achieve a turnover of around 570 million renminbi (Rmb) in just two years, significantly surpassing Barilla's turnover in China, which is around 170 million Rmb", Zhao says. There are two main reasons for this success. The first is the product. "Airmeter's offer combines Italian taste with low prices", Zhao notes. "It is a perfect example of how Italian food can be innovated in China." It offers a complete meal solution, combining pasta with perfectly portioned packets of sauce or condiment. It is a combination that meets the demands of the young, fast-paced generation for convenience and quality in a single package." The second factor is distribution and marketing. "Taking advantage of China's advanced e-commerce ecosystem, Airmeter strategically focused on digital sales, with more than 80% of its business conducted via the Internet. This targeted approach quickly increased brand awareness and attracted early potential pasta consumers due to the ease of purchase." Zhao says. Take notes.

Key takeaways: four rules for winning in the Chinese market

Agile and intelligent go-to-market strategy

This market approach requires a customised go-to-market model that balances control and speed of entry. Being 'smart' about the level of control to maintain and 'agile' about the timing of entry are key factors in successfully navigating the Chinese competitive environment.

Exclusive positioning

Success goes beyond offering high quality products. It is essential to tailor the offering to specific local needs and to clearly differentiate from the competition. Meeting the technology and price standards of the local market is essential to building a strong and recognisable brand and thus gaining and maintaining a leadership position.

Keeping up with technology

Competing in the Chinese market requires adopting new technologies and focusing on innovation in terms of product, customer interaction and business management. This is essential to stay ahead of the competition and to meet and anticipate the needs of a market characterised by high and widespread technological standards.

Betting on growth

Betting on expansion can be a winning strategy, even if it means sacrificing short-term profitability. This approach, known as capital-driven game, is effective in high-growth sectors, provided you remain dynamic and ready to adapt quickly to market changes.

Source: Porsche Consulting

EATING TRENDS IN CHINA: CONFIRMED PATTERNS AND NOVELTIES

THE 2024 EDITION OF ICCF'S ANNUAL REPORT HIGHLIGHTS EMERGING FOOD AND BEVERAGE TRENDS IN CHINA: INCREASE IN THE CONSUMPTION OF DAIRY PRODUCTS, WHISKY, COGNAC AND UNSWEETENED TEA DRINKS

Manuela Falcherò

NThe results of the 2024 edition of the Annual Report, compiled by the Research Centre of the **Italy China Council Foundation - ICCF**, confirm the solidity of the emerging trends in the food and drink sector in China. But they also reveal some new trends worthy of note. Let's start with the first. First of all, the survey shows the continued expansion of the food e-commerce segment, which grew by 10.8% in 2023, driven by the intensifying digitalisation process underway in the country. This has also encouraged the introduction of innovations in the agricultural sector, the development of online food shopping platforms and more effective supply chain management, all supported by the use of blockchain technology. The research also highlighted **Chinese consumers' growing preference for healthy food, with sales rising by 3% to Rmb 394.7 billion in 2022**, driven in particular by the strong performance of vitamin and mineral supplements, which alone accounted for 30% of total sales.

And the growth trend does not seem to end here: it is estimated that this segment could reach Rmb 423.7 billion by 2027.

Finally, **the report highlights the growth in coffee consumption**.

According to data provided by the International Coffee Organization, consumption of this beverage in China grew by 15% in 2023 and by 57% between 2019 and 2023, thanks mainly to the appreciation of university students in large cities such as Beijing and Shanghai, as well as in medium-sized cities. These are optimistic figures that lead analysts to predict that this market will be worth more than $140 billion by 2025. The ICCF report also suggests that this growth could be supported by the ability to enrich the range of products on offer in a fiercely competitive market, by introducing coffee-based drinks flavoured with alcohol, fruit and spices, or using variants of vegetable milk to go with coffee.

TRENDS TO BE MONITORED

As mentioned above, China shows not only confirmed patterns, but also a few interesting emerging trends. The first is **the significant introduction of dairy products into the diet of the population, to the extent that the country is now the second largest dairy market in the world** after the United States, with an estimated value of $69.6 billion.

This trend does not only involve the consumption of milk, whose production in 2023 also grew by 6.7% compared to 2022, but is also supported by the success of completely innovative categories such as children's snacks and cheese lollipops.

And that's not all. The **chocolate market is also promising, with purchases often linked to special occasions such as Chinese New Year, Qixi, Valentine's Day or weddings**. Dark chocolate takes the lion's share, accounting for 61% of total consumption in 2023.

And there are the **emerging trends on the beverage front**. **In particular, the whisky market deserves close attention**. It generated sales of around $2.8 billion in China in 2023, of which $584 million from imports.

Other trends to watch include the growth of e-commerce in the food sector, the focus on healthy eating and the appreciation of coffee.

This segment looks set to increase further. It is expected to record the highest growth rate in China, with forecasts of +88% over the three-year period 2023-2026. However, the report cautions that interest in whisky among Chinese consumers remains a niche phenomenon, predominantly confined to exclusive settings such as luxury hotels and restaurants offering Western cuisine.

Finally, in the spirits market, **the positive performance of cognac, the most widely consumed foreign distilled beverage in China**, with sales estimated at $9 billion, of which $650 million are imports, should also be noted. Here too, we need to make some distinctions: the popularity of this product is mainly limited to wealthy consumers in southern regions such as Guangdong, where the tradition of baijiu, the country's best-selling alcoholic beverage, is not particularly strong. There are several new trends also in the **non-alcoholic beverage segment, which is benefiting from growing popularity among younger consumers**. In particular, the rapid expansion of unsweetened tea drinks, which are expected to exceed Rmb 10 billion by 2025, stands out.■