SURVEY ON THE COFFEE AND COFFEE MACHINERY MARKET IN CHINA

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THE EXTRAORDINARY ITALIAN TASTE

Premise and Disclaimer

This report's primary goal is to provide Italian coffee brands and machinery manufacturers with a better understanding of China's coffee market, by underlining the strengths and weaknesses of Italian brands and show the opportunities and strategies to increase their presence in the Chinese market. The primary aim of the paper is to highlight the coffee industry landscape, trends, and consumer profile and preferences in China.

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The majority of the data in the paper comes from secondary research conducted utilizing a variety of sources, including paid databases, annual reports, surveys, and media releases. Many legitimate sources, including Deloitte, Daxue Consulting, and Statista, provided the data and statistics. Another part of the data was directly provided by the sector experts of Espresso Academy. Please, take note that the case studies contained in this report may or may not represent the situation of the whole coffee industry.

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Espresso Academy China

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Italia

Introduction

Objectives

Key goals for this study report are as follows:

1. Give an overview of the market for coffee and coffee-related machinery, paying special emphasis to the Chinese market.
2. Examining trends, customer preferences, key sales information, and sales strategies related to the coffee market in China.
3. Analyze the competitive environment, highlighting the rise in local Chinese coffee companies and the fierce competition in China's market for non-alcoholic drinks.
4. Outlining current laws, regulations and policy in China related to coffee and coffee machinery import, while also providing the necessary documentation.
5. Highlighting possible threats and opportunities for Italian coffee and coffee machinery manufacturers to approach and/or increase their presence in the Chinese market, as well as showcasing the strengths and weaknesses of Italian brands in relation to the latest major market trends.

Methodology used in conducting market research in China

Because of the country's size, diversity, and incredibly fast changes that impact the people social and economic standing, conducting market research in China might differ greatly from conducting research in other countries.

Therefore, the study report's methodology draws from a variety of sources, both from inside and outside of China:

1. Primary research, which includes talking to industry experts and attending expos and trade exhibitions.
2. Secondary research using paid databases, annual reports, surveys, and media releases (in Chinese, English, and Italian), among other sources.
3. All pertinent background data, including any currently accessible information, etc.

Report’s format

Different levels of information is organized in different places, such as a table of contents, summary, paragraphs, SWOT analysis and multiple annexes, are organized in this report. In order to facilitate reading and comprehension of the report in its entirety, bullet points, graphics and tables shall be used on all reports.

Information sources

The method described below was used to collect the information in this report. However, in some cases, the experience of the company may differ from the information mentioned in this report, as well as from the experience of some local people with regard to coffee preferences or purchasing strategies.

1. This report is based on the following main sources of information:

- Conversations with industry experts
- Participation to import products expos and trade exhibitions held in China
- Various secondary sources, including annual coffee reports previously published
- All background information provided by Espresso Academy sector experts

2. Sources for charts, tables, as well as key data are mentioned throughout the report, and information are collected from secondary sources that includes Chinese sources (General Administration of Customs of the People's Republic of China, Daxue Consultuing, Mersol & Luo Insights etc.), as well as foreign sources (Volza, Deloitte, CBI Ministry of Foreign Affairs, Stellar Market Research etc.), including specific Italian sources (HostMilano, Comunicaffe etc.).
3. The key to crosscheck data and information and to identify key industry dynamics and trends is continuous analysis and revision of all data collected.

Note for 2023 edition

- Exchange rate: wherever necessary, the exchange rate used was that of USD 1=7.14 RMB.

- This report is meant for those Italian coffee and coffee machinery companies which already operate or intend to enter the Chinese market, to provide them with an overview of China's coffee market with a significant amount of key information on the country's coffee sector. It focuses on:
  - Sharing updated data on the coffee industry market in China
  - Showing the latest coffee trends and coffee consumers tendencies
  - Suggesting possible useful strategies to apply in order to better promote products on the Chinese market

EXECUTIVE SUMMARY

Coffee Industry market

Overview of the Coffee Industry Market

- In 2021, the size of China's coffee drinks market reached 60.8 billion yuan, a 30.8% increase compared to 2020. According to Meituan's estimates, the market size in 2022 was 2,007 billion yuan, and it is expected to grow to 3,693 billion yuan by 2025.
- The number of coffee consumers in China has surpassed 300 million, with a significant rise in the willingness to pay higher prices; 34% of consumers are willing to spend over 36 yuan per cup.
- The penetration rate of coffee machines in Chinese households is less than 0.03 machines per household, compared to 0.14 in Japan and 0.96 in the United States. Although low, this suggests substantial growth potential.
- Automatic coffee machines are highly favored by consumers, accounting for nearly 60% of sales due to their convenience. The market is currently dominated by international brands like De'Longhi, Nespresso, and Philips.

Import and Export Trade Data and Analysis of the Coffee Industry Market

- The Americas have a long history of coffee production and a strong coffee culture. The U.S. has also made significant strides in the international coffee machinery market with brands like Slayer, Synesso, and Aeropress(a brand for brewed coffee).
- Europe represents a significant portion of the global coffee market, consuming about one-third of the world's coffee. It is also the largest importer of unroasted coffee beans.
- The Italian coffee industry, a key player in Italy's food sector, generated 3.8 billion euros in revenue. Italy is the second-largest importer of green coffee in Europe.

Sales Data and Market Status Analysis of Coffee Chains in China

- China hosts both international and local coffee chains, including Starbucks, Tim Hortons, Peet's Coffee, and Lavazza from abroad, and Luckin Coffee, Lucky Cup, Manner, and Pacific Coffee domestically.
- Cross-border collaborations are popular, involving packaging, coffee cups, and shop design, leaving lasting impressions on customers. Luxury brands like Dior, Fendi, and Maison Margiela have also opened coffee shops in China. Recent entrants to the market include China Post, Li Ning, and Huawei.

Introduction to the Coffee Industry in China

- Coffee cultivation, particularly in Yunnan, plays a vital role in China's coffee industry, with exports reaching many countries.
- Both international and domestic brands are increasingly engaging in the entire coffee supply chain, from beans to cup, to reduce costs and build their brand presence.
- The growing interest in coffee has led to the rise of coffee associations and championships across the country.

Analysis of Coffee Consumers

- The primary coffee consumers in China are white-collar workers in first-tier cities, aged 20-40, most with a bachelor’s degree or higher. Higher income levels correlate with higher coffee consumption.
- In 2021, medium roast was the preferred choice among Chinese coffee enthusiasts, accounting for 45.7% of consumption. Lattes made up 54% of Meituan's cafe sales, followed by Americanos at 23%. Black coffee is gaining popularity over milk-based options.
- Post-pandemic, there is an increasing focus on health among Chinese coffee consumers, reflected in preferences for low caffeine, zero sugar, and alternative milk options like oat, soy, and coconut.

Data and Analysis of Coffee Products and Machinery in China

- With 8,530 cafes, Shanghai became the city with the most cafes globally in 2023. About 70% of chain coffee shops in China are in first-tier and new first-tier cities, while third-tier and lower-tier cities hold only 13.7% of the market.
- Popular coffee bean brands include Sinloy(辛鹿咖啡), M2M, TASOGARE COFFEE(隅田川咖啡), and Beam Timer(治光师). Ground coffee brands include Nescafé, Ajinomoto AGF, G7, and SATURNBIRD Coffee. The main coffee machine brands are De'Longhi, Philips, Nespresso, Barsetto, and Petrus.

Common Marketing Methods and Sales Channels in China's Coffee Market

- China's advanced e-commerce platforms enable consumers to purchase coffee products both online and offline. From January to April 2023, coffee shop group buying orders increased by 250% year-on-year.
- Marketing strategies include consumption vouchers and brand activities that enhance customer loyalty.
- Luckin Coffee's pricing strategy of 9.9 yuan per cup made coffee more accessible to price-sensitive consumers, expanding the market.

Current Laws, Regulations, and Policy Documents in China Related to Coffee and

Coffee Machinery

- Starting January 1, 2023, China implemented a provisional import tax rate lower than the most-favored-nation rate on 1,020 goods, including coffee machines.
- This section covers China's industry regulations, policies, and standards for imported coffee and machinery, along with case studies on rejected bean batches.

Market Analysis of Non-Alcoholic Beverages in China

- Since 2021, online orders for coffee have grown by 178.7% year-on-year, outpacing tea and snacks.
- The coffee and milk tea markets serve different consumer needs. To appeal to Chinese consumers, coffee brands are increasingly adopting a localized approach. Some Chinese milk tea brands have also introduced coffee drinks.

Italian Coffee Industry in China

Market Analysis of Italian Coffee and Coffee Machinery Industry in China

- The rise of Chinese coffee brands has led to a preference for local products. However, Italian espresso remains a valued product, with many local brands marketing "Italian espresso blend."
- Italian coffee machines, known for their design and durability, are popular in China, with De’Longhi, Barsetto, and La Marzocco among the top brands.

Analysis of Italian Coffee and Coffee Machinery Exports to China

- Italy exports coffee beans worldwide, with China ranking 30th in 2023 for imports. The total value of Italian coffee exports to China in 2023 was 17,752,078 euros.
- In 2023, China was the sixth-largest importer of Italian domestic-use coffee machines, with a total import value of 37,907,277 euros. Italy's exports of commercial coffee machines to China reached 51,510,704 euros.
- In 2022, Italy was a major supplier of roasted coffee to China, surpassing many coffee-producing countries, with exports worth 52,527,259 USD.

Analysis of Italian Coffee and Coffee Machinery Sales in China

- Italian coffee brands establish their presence in China through various channels, including offline retail, partnerships with local distributors, and e-commerce platforms.
- To expand market exposure, Italian brands may open local factories, participate in events and competitions, and enhance online marketing strategies.

Opportunities and Challenges, Trade Shows, Exhibitions, and Barista Training Centers

- Italian products face challenges in China, including the need for innovation and competition from international and local brands.
- To overcome these challenges, Italian brands should increase their presence on Chinese social media and e-commerce platforms.

SWOT Analysis of Italian Coffee and Coffee Machinery

- The SWOT analysis assesses the strengths, weaknesses, opportunities, and threats facing Italian coffee and coffee machinery.
- Italian coffee brands should leverage their reputation for high-quality products while embracing new market trends. The recent success of cultivating coffee in Sicily positions Italy uniquely outside the traditional coffee-growing regions.
- For coffee machinery, Italian brands are known for design and durability. However, they may need to offer more affordable options to stay competitive.

INTRODUCTION OF COFFEE AND COFFEE MACHINERY MARKET IN CHINA

With the growing coffee market in China, coffee is becoming an indispensable part in Chinese people’s daily lives. Official data shows that in the first quarter of 2023, China added 11,700 new coffee-related enterprises, an increase of 98.11% compare to 2022. As of May 18, China's existing number of coffee-related enterprises is 187,600.

Coffee culture began to surface in China in the 1980s, experiencing instant coffee era, coffee chain stores era, ready-to-drink coffee era, Internet e-commerce coffee era, specialty coffee and multiple competitors era(specialty coffee chains using high-quality coffee beans are booming). From the perspective of the global coffee drinking structure, freshly ground coffee accounts for 87% of the total consumption, and instant coffee is 13%. In China, instant coffee accounts for 84% of total coffee consumption, and freshly ground coffee accounts for 16%. With the improvement of consumption level, the market of freshly ground coffee is expected to account for 70% in the future.

According to official documents, from January 1, 2023, China implements a provisional import tax rate lower than the most-favored-nation rate on 1,020 goods such as coffee machines. Currently, freshly ground coffee owns rapid and sustained growth, enjoys an average annual increase more than 40%. Instant coffee sales have dropped significantly. At present, the mainstream coffee consumers in China are concentrated in female users, 22-32 years old with a certain educational background. The ratio of male to female users of fresh coffee is basically stable at 3:7. The post-90s generation is the core user of current freshly ground coffee in China, accounting for about 50%. Urban consumption levels are clearly differentiated in China, third-tier cities and first-tier cities own more than 15% growth rate year by year.

At present, the coffee machine industry in China is going through a period of rapid growth, which is mainly due to the continuous affirmation of coffee consumption culture in China, and consumers' consumption habits of coffee are gradually turning into necessities. In this context, the demand for ground coffee has also ushered into development.

Generally speaking, the number of coffee machines in China is less than 0.03 machine per household, which is much lower than that of 0.14 in Japan and 0.96 in the United States. Although the rate of penetration is low, this also means that the space for development is huge.

Italy exports coffee beans to numerous countries worldwide, with a significant portion going to various European nations. Among these exports, China ranks 30th in terms of importing Italian coffee. Between 2022 and 2023, Italy's exports of coffee to China, including roasted or decaffeinated varieties, coffee husks and skins, and coffee substitutes (HS code: 0901), decreased by 35.26%. According to GACC, China's imports of coffee from all sources saw an increase, with Italy ranked 7th in supplying the market. Italy's market share dropped from 7.24% in 2022 to 3.46% in 2023, reflecting a 49.07% decrease in coffee imports from Italy.

Rank (2023)	Country	January - December (Value:EUR)		Market Share (%)		Change 2023/2022	
		2022	2023	2022	2023	Amount	Percent
	World	2.252.972.716	2.391.899.091	100	100	138.926.375	6.17
1	Germany	345.690.613	364.648.852	15.34	15. 25	18.958.239	5.48
2	France	228.336.866	234.308.197	10.14	9.8	5.971.331	2.62
3	Poland	163.372.869	172.652.468	7.25	7. 22	9.279.599	5.68
4	United States	121.195.918	121.915.795	5.38	5.1	719.877	0.59
5	Greece	100.402.640	117.334.844	4.46	4.91	16.932.204	16.86
6	United Kingdom	90.518.503	102.615.340	4.02	4.29	12.096.837	13.36
30	China	27.419.464	17.752.078	1.22	0.74	-9.667.386	-35.26

Source: EUROSTAT, Espresso Academy China

Rank (2023)	Country	January - December (Value: EUR)		Market Share (%)		Change 2023/2022	
		2022	2023	2022	2023	Amount	Percent
	World	693.291.748	740.035.028	100	100	46.743.280	6.74
1	Brazil	75.200.755	204.514.152	10.85	27.64	129.313.397	171.96
2	Ethiopia	183.301.152	133.447.443	26.44	18.03	-49.853.709	-27.2
3	Colombia	84.969.585	102.623.788	12. 26	13.87	17.654.203	20.78
4	Malaysia	60.077.755	75.458.042	8.67	10.2	15.380.288	25.6
5	Vietnam	47.223.115	34.290.107	6.81	4.63	-12.933.008	-27.39
6	Indonesia	31.231.321	32.797.663	4.51	4.43	1.566.342	5.02
7	Italy	50.217.209	25.575.002	7.24	3.46	-24.642.207	-49.07

Source: GACC, Espresso Academy China

Italy is also a leading country in the coffee machinery sector.

In the realm of coffee machinery for domestic use, China ranked 6th in 2023 for Italian exports of electro-thermic coffee or tea makers (HS code: 85167100), with Italy capturing a market share that increased from 3.88% in 2022 to 4.77% in 2023. Export growth in this category was notable, rising by 29.69% between 2022 and 2023.

According to GACC, Italy holds a prominent position in China's imports of electric coffee or tea makers for domestic use (HS code: 851671), ranking 2nd with a market share of 31% in 2023, up from 22.71% in 2022.

Rank (2023)	Country	January - December (Value: EUR)			Market Share (%)			Change 2023/2022	
		2021	2022	2023	2021	2022	2023	Amount	Percent
-	World	790,206,722	753,745,843	795,210,517	100	100	100	41,464,674	5.5
1	Germany	157,717,365	160,022,208	150,878,739	19.96	21.23	18.97	-9,143,469	-5.71
2	United States	81,766,866	105,879,048	106,641,583	10.35	14.05	13.41	762,535	0.72
3	Poland	46,941,504	46,555,833	55,947,831	5.94	6.18	7.04	9,391,998	20.17
4	Spain	36,456,359	35,203,331	47,229,669	4.61	4.67	5.94	12,026,338	34.16
5	Belgium	58,414,610	36,299,906	39,760,624	7.39	4.82	5	3,460,718	9.53
6	China	29,887,736	29,228,606	37,907,277	3.78	3.88	4.77	8,678,671	29.69
7	France	41,430,013	23,391,427	34,377,021	5.24	3.1	4.32	10,985,594	46.96
8	Australia	26,507,875	31,832,915	31,945,103	3.36	4.22	4.02	112,188	0.35
9	Austria	25,573,735	24,050,594	26,455,260	3.24	3.19	3.33	2,404,666	10
10	Romania	18,604,349	17,938,080	18,907,698	2.35	2.38	2.38	969,618	5.41

Source: EUROSTAT, Espresso Academy China

Rank (2023)	Country	January-December (Value: EUR)		Market Share (%)		Change 2023/2022	
		2022	2023	2022	2023	Amount	Percent
	World	119.705.920	90.921.052	100	100	-28.784.868	-24.05
1	Romania	36.596.917	31.582.465	30.57	34.74	-5.014.452	13.7
2	Italy	27.187.856	28.186.364	22.71	31	998.508	3.67
3	Slovenia	7.815.260	4.961.969	6.53	5.46	-2.853.291	-36.51
4	Ukraine	10.279.279	4.152.522	8.59	4.57	-6.126.757	-59.6
5	Switzerland	6.979.117	3.419.428	5.83	3.76	-3.559.689	-51
6	France	2.131.008	1.131.229	1.78	1.24	-999.779	-46.92
7	Hungary	1.597.532	1.089.170	1.34	1.2	-508362	-31.82

Source: GACC, Espresso Academy China

Lastly, in the realm of coffee machinery for commercial use, China stands out as a significant buyer, ranking 2nd with a market share of 6.59% in 2023. However, there was a decrease of 25.38% in exports to China of percolators and other appliances for making coffee and other hot drinks (excluding domestic appliances) (HS code: 84198120) between 2022 and 2023.

Examining China's imports from the world of machinery for making hot drinks, cooking, or heating food (non-domestic) (HS code: 84198100), Italy is the 2nd largest supplier with a market share of 13.96% in 2023, a significant decrease from 28.19% in 2022.

Rank (2023)	Country	lanuary-December (Value: EUR)		Market Share (%)		Change 2023/2022	
		2022	2023	2022	2023	Amount	Percent
	World	810.633.624	781.981.910	100	100	-28651714	353
1	United States	73.073.697	58.287.584	9.01	7.45	-14786113	-20.23
2	China	69.033.250	51.510.704	8.52	6.59	-17522546	-25.38
3	South Korea	48.017.906	49.857.050	5.92	6.38	1839144	3.83
4	Germany	60.733.019	48.476.974	7.49	6.2	-12256045	-20.18
5	France	36.082.435	38.872.561	4.45	4.97	2790126	7.73
6	United Kingdom	41.978.098	38.869.278	5.18	4.97	-3108820	-7.41
7	Australia	39.831.447	37.684.788	4.91	4.82	-2146659	-5.39
8	Netherlands	18.326.532	28.164.886	2.26	3.6	9838354	53.68

Source: EUROSTAT, Espresso Academy China

Rank (2023)	Country	(Unit Value:EUR)	(Unit Value:EUR)	Market Share (%)		Change 2023/2022	
		2022	2023	2022	2023	Amount	Percent
	World	254.088.345	434.823.850	100	100	180.735.505	71.13
1	Switzerland	81.247.461	274.973.740	31.98	63.24	193.726.280	238.44
2	Italy	71.614.951	60.700.549	28.19	13.96	-10.914.401	-15.24
3	United States	23.921.499	24.377.550	9.42	5.61	456.051	1.91
4	Germany	19.472.003	23.979.379	7.66	5.52	4.507.376	23.15
5	Netherlands	12.089.847	13.521.372	4.76	3.11	1.431.525	11.84
6	Japan	13.829.331	5.799.496	5.44	1.33	-8.029.834	-58.06
7	Philippines	2.132.880	5.364.807	0.84	1.23	3.231.927	151.53

Source: GACC, Espresso Academy China

Italian coffee has always been recognized by people around the world, and Italian coffee is equated with a high standard of coffee quality. However, with the exposure of Chinese coffee consumers to coffee products from various countries and Chinese coffee brands in recent years, the types of coffee drinks and appliances have also undergone great changes. Captain George(乔治队长), a Chinese popular coffee been brand among Chinese young people and baristas, has launched two Italian blended beans products that are light roast instead of dark roast, these two products together equate to monthly sales of more than 10,000 on Taobao .With the Chinese modern coffee consumers start to drink the pour-over, cold drip or cold brew coffee, Aeropress coffee, etc. For the technologies and diversities of Italian coffee bean products, the consumer also began to put forward some new customer demands.

Coffee beverage

1. The speed of research and development of Chinese chain brand products is accelerating, and the era of popular products is approaching

According to the latest financial statements, the total net income of Luckin Coffee in the second quarter of 2023 was 6.201 billion yuan, an increase of 88% year-on-year. Starbucks' revenue in the Greater China region is 822 million US dollars, equivalent to approximately 5.89 billion RMB. As it can be seen, Luckin Coffee has for the first time surpassed Starbucks in revenue in China. Luckin puts on the Chinese market approximately 100 coffee products every year, and among these 100 products, there will be explosive sales. Luckin product's choices are 1.7 times richer than Starbucks, 2.4 times richer than Lucky Cup (another Chinese coffee brand), and 3 times richer than MANNER.

Every year, the Chinese coffee market, especially freshly ground coffee, will see the appearance of new coffee beverages. When new drinks become popular, other coffee brands will immediately launch the same or similar coffee drinks to meet consumers' demand for popular styles at that time. For example, Dirty, a typical Chinese coffee with coffee and dairy products, grew by 106% in search on the Meituan platform in 2021, becoming the number one takeaway order and one of the most popular coffee drinks in coffee shops after lattes.

2. 9.9 yuan coffee era

The average price of freshly ground coffee is quite high, ranging from 30 to 40 yuan, but it has been heavily hit by Luckin's price strategy of 9.9 yuan per cup a day, a strategy that the brand plans on implementing for two years. According to the data, in the first week from the launch of the 9.9 yuan coffee strategy, Luckin sold 39 million cups and in the same month exceeded 50 million members. Luckin also used this 9.9 yuan coffee to bring the overall price of chain brand coffee into the market within 10 yuan. For example, COTTI Coffee launched an 8.8 yuan coffee strategy, Lucky Cup launched a 5 yuan Americano, and so on. All these strategies also lowered the price of the Canadian brand Tim's products from 19.9 yuan to 9.9 yuan. Before Luckin, KFC had also launched a similar strategy to attract customers with low-priced coffee and to compete for the market share. In 2019, KFC Coffee had also launched a monthly coffee card priced at 28 yuan, which could provide customers with one cup a day of customized coffee for 30 days. Since then, coffee monthly card activities have been continuously launched, making coffee a standard "traffic entry point". To summarize, one could say that thanks to Luckin, a specialized coffee brand with 10,000 stores, that 9.9 yuan coffee is now a prominent symbol of China's coffee price war.

Through low-prices offers they can attract some price-sensitive consumers, and increase their private traffic, while also keeping the costs within a reasonable range. Low prices have also become a weapon adopted by coffee brands to fight an increasingly competitive market in which there is no much innovations and differentiation of the coffee beverages offer. Moreover, by lowering the price of coffee, coffee brands make sure to also compete with milk tea brands for market share. Through low-prices, these brands are able to make coffee a daily drink for the general public, and increase both the number of the coffee consumers and annual per capita coffee consumption.

But using low-prices to attract more consumers also brought some shortcomings. On the first hand, low-prices will make the consumers equal low-quality. Some chains were reported the quality-control and labour shortage problems. Quality-control requires the company create an environment where management and employees strive for perfection, low-prices will affect the environment to some degree. On the other hand, low-price may reducing the consumers' loyalty and retention, if consumers are only loyal to the low-price and not to the brand. It can lead to a race to the bottom where no one can make a profit.

3. Cross-border coffee marketing era

From 2022 to 2023, many cross-border but very well-known competitors entered the Chinese coffee market, such as China Post, Li Ning, Huawei. For example, Sinopec launched Yijie Coffee, SiSYPHE Bookstore launched Sisyphe Up Coffee, Li Ning Sports launched Ning Coffee, Times Commercial launched TIMES·C CAFE, and so on. As the main coffee customer age is between 20 and 35, many brands hope to attract young consumers through coffee. There are also foreign luxury brands opening coffee shops in China, such as Dior, Fendi, Maison Margiela, and so on. In 2023, Chinese coffee brand Manner collaborated with French luxury brand Louis Vuitton. After, two brands decided to launch a series of Yayoi Kusama-style polka dot coffee cup. Cross-border cooperation can create a young consumer group and capture more consumers. Using social media to help the brand get marketing attraction or marketing flow.

4. The coffee delivery market has determined the changes in chain brand store models

The rapid development of technology in Chinese online e-commerce has enabled consumers to purchase and experience coffee products not only through offline coffee shops or while shopping at stores and supermarkets, but also through online platforms, such as group buying, live streaming, and deliveries. According to data from Chinese e-commerce platforms, from January to April 2023, the group buying order volume of coffee shops increased by 250% year-on-year, making it the fastest-growing category among various beverages. Meituan(美团) takeout data show that during the period from January to February this year, coffee takeout orders increased by 101.9% compared to the same period last year, and the search volume of coffee products also increased by 78.1% compared to last year, all of which have become top1 in the food and beverage categories.

A strong e-commerce purchase platform is always paired with a variety of marketing methods, such as consumption vouchers, half price of the second cup, friends can be introduced to buy concessions, points redemption and so on. It increases the stickiness of customers to brand activities, and also provides tools for brand drainage.

The growing power of delivery systems and e-commerce services has even changed the model of coffee series shops in China. For example, Luckin and Manner, they choose two main types. Type A they opened shops in office buildings, always on the first floor or building hall, only several tables and small areas, mainly for easy take out and supply simple meal. Type B is small stores, only for take away and order-online. In order to occupy more market share and quickly distribute points, some brands create a new franchisee model that if people already had small shops they can apply for brand franchisee.

5. Development of the entire industrial chain

With the continuous growth of the coffee market in China, well-known international coffee brands and domestic coffee brands have started to engage in the development of the whole industrial chain from coffee beans to cup, and even to machines in order to reduce the costs, and also to make coffee an industry under their own brand.

For example, On August 18, 2023 Starbucks announced the creation of the Starbucks China Innovation and Technology Center (SITC) in Shenzhen. The center will be located in Futian district and is scheduled to be operative in September. The total amount of investment was about 1.5 billion yuan ($220 million). At the same time, Starbucks, with a total investment of 1.5 billion yuan ($220 million), opened its Starbucks China Coffee Innovation Park in September 2023, marking the complete development of Starbucks' industry chain from raw beans to coffee in China. The park is located in Jiangsu, covering an area of 80,000 square meters, with coffee roasting factories, logistics centers, and coffee trip experience centers. Furthermore, Starbucks has trained a roasting team group of 20 local Chinese.

The reason why Luckin is confident in continuing the 9.9 yuan promotion for two years to increase its share in the Chinese coffee market is because the brand has signed procurement plans with coffee beans producing areas such as Ethiopia, Brazil, and Indonesia. In 2022, Luckin's total purchase of coffee beans from Ethiopia reached nearly 17,000 tons, with a purchase volume of 4,000 tons for premium coffee beans. Now, Yunnan, China has also become an important production area for Luckin. In terms of coffee roasts, Luckin established its first coffee roastery in Fujian in 2021, and began building a second roastery in Jiangsu in 2022. Moreover, it plans to establish a self processing and roasting supply network with an annual output of 45,000 tons in the future. These 45,000 tons can be expected to be used to provide products to 16,000 Luckin stores. In addition, Luckin has developed its own customer system, inventory management system, supply chain system, and so on.

Faced with the trillion-yuan level coffee consumption market, since the beginning of 2023, industrial capital, listed companies and PE/VC(Private Equity/Venture Capital, private equity and venture capital offer two paths for business owners to obtain funding to run or grow their companies) have increased investment in the China's coffee industry chain. Investment segments involve multiple links of the industrial chain, such as coffee machine brands, coffee brand management services, upstream raw materials, etc.

6. Combinations of coffee and tea beverages will become a major trend in the future

Coffee brands tend to make drinks more appealing to the Chinese consumers by making them more Chinese-oriented. Many famous Chinese milk tea chain brands such as NAIXUE(奈雪的茶), HEY TEA (喜茶), Alittle Tea (一点点), and MIXUE Ice Cream & Tea (蜜雪冰城) have now launched their own coffee drinks. For example, NAIXUE launched NAIXUE Pro in 2022 and launched its coffee business. In 2017, MIXUE Ice Cream & Tea launched a chain of freshly ground coffee named "Lucky Cup", and in 2021, it also sold Yunnan Arabica freshly extract coffee products under the MIXUE Ice Cream&Tea brand.

7. County-level market is becoming the next hot coffee market

In the last two years, the number of China's coffee shops enjoyed a rapid growth from 101,500 to 132,800. There are more than 4,000 cafes in each of the five cities (Shanghai, Guangzhou, Beijing, Chengdu, Shenzhen), and Shanghai has 8,530 cafes in 2023, becomes the city with the largest number of cafes in the world. About 70% of chain coffee shops in China are located in first-tier and new first-tier cities, and the vast third-tier and lower-tier cities only share 13.7% of the coffee market.

In addition to the lively coffee market in these first-tier cities, a number of well-known chain brands have begun to enter third-tier and fourth-tier cities to seize market share. In addition to more than 300 prefecture-level cities across the country, Starbucks will focus on nearly 3,000 county-level markets in the next few years. In 2022, coffee orders in the county-level market increased by more than 250% year-on-year. Luckin, Manner, Lucky Cup, these brands pay more attention to these county-level markets. The rapid increase and rapid growth of coffee consumers in the county-level market has attracted the influx of a number of affordable coffee brands.

Perhaps due to the disadvantage of standardization and cost control, the independent coffee brands that open in the county town seem to be born to be "new media experts" (social media influencers and KOLs) and will be the ultimate in characteristics. The space provided by coffee in the county town can have more connotations, they provide consumers with coffee, but also provide many elements including natural environment, human environment and so on, which is a different kind of immersive consumption experience.

Coffee machine

It is expected that by 2025, China’s coffee machine market will reach about 4 billion RMB. At present, the coffee machine market in China is dominated by overseas brands, such as De'Longhi, Nespresso, Philips. According to the functional needs of the freshly ground coffee market, coffee machines are divided into two categories: commercial coffee machines and coffee machines for home use. Commercial coffee machines are usually priced at more than 10,000 yuan, equipped with multiple boilers, which allow baristas to make multiple cups of coffee at the same time. Coffee machine for home use's price range can go from one thousand yuan to nine thousands yuan with a variety of products. According to the different extraction methods, coffee machines for home use can be divided into drip filter, pump espresso machine, steam espresso machine and so on.

In 2022, De'Longhi, Philips, Donglim, Xiaomi, Nespresso and BEAR Electric Appliance were the top six brands for market share in China.

The automatic coffee machine is favored by consumers because of its convenient and fast characteristics. The semi-automatic coffee machine has high technical requirements for users, requiring manual operation of grinding beans, pressing powder and other steps, but its flexibility and personalization also attract some consumers. In addition, capsule coffee machines hold a place in the market with their portability and price advantages.

With the diversification of coffee consumption, consumers demand for coffee machines has also shown a diversified trend. On the one hand, consumers have higher and higher requirements for the quality of coffee machines, the pursuit of better taste and aroma; On the other hand, consumers' intelligent function demand for coffee machines has increased, such as automatic cleaning, intelligent control, etc. In addition, consumers also have increased demand for personalized and customized coffee machines, hoping to customize coffee according to their own tastes and preferences.

China's unmanned retail terminals have just developed, and there is no absolute leading enterprise in the industry. With less than 200,000 self-service coffee machines in China, the market is huge. Brand expansion generally adopts the model of lease, buyout, self-management and city partner.

Leasing: The partner pays the leasing fee, the manufacturer provides the vending machine to the partner, and makes profits from the supply of raw materials, and provides regular maintenance and repair services for the partner.
Buy out: The partner buys out the sales rights of the self-service coffee machine manufacturer, and carries out independent material selection, market pricing and sales.

Self-management: self-service coffee machine manufacturers operate themselves, from raw material purchase to commercial network layout and later maintenance.
City partners: They are divided into equity partners, no-cost city partners, and margin partners. The first kind of enterprises share their own model resources with partners; the second kind is equivalent to the informal staff hired by the enterprises themselves, and the income of the partners is linked to the sales performance. The third option requires a deposit similar to the second option.

Consumers coffee demand and market changes in the post-pandemic era

1. In the post pandemic era, Chinese coffee consumers are more concerned about healthy products

With the end of the pandemic, Chinese coffee consumers, as well as other food consumers, are increasingly valuing health, and this is reflected in various aspects such as low caffeine, zero sugar, low-fat milk, oat milk, soy milk, coconut water, and other new "coffee companion" products (products that can be paired up with coffee) that are favored by coffee consumers. Tim's has added a new low caffeine option in China, Starbucks has launched new coffee products made with green coffee, Blue Bottle launched low caffeine coffee beans "Night Light Decaf", and Yongpu(永璞) launched low caffeine espressos. The trend of Chinese coffee consumers and global coffee culture for what concern coffee companion dairy products is somewhat consistent. According to a report by research and markets, it is expected that the global oat milk market value will reach 2.6685 billion yuan by 2026. A good example of oat milk presence on the market is represented by Starbucks that launched oat milk lattes in 1,300 stores in the United States, showing a high growth which has also led Starbucks to add "Iced brown sugar oat milk shaken espresso" and "honey oat milk latte" to its coffee menu. Chinese coffee chain brands such as Luckin, Manner, M Stand, etc., added options such as oat milk and low-fat milk to their online delivery and ordering systems for consumers. Moreover, in the past two years there are certain coffee beverages that have been very popular in China made with some milk substitute, such as tender coconut water iced americano, orange juice americano, and so on. In 2021, Luckin launched a coconut latte, quickly making coconuts an important ingredient for coffee. According to Luckin's 2021 report, in April

2021, they launched the "coconut latte" drink, which was a popular online product that contributed 1.26 billion yuan to Luckin Coffee in just 8 months. This single product alone sold over 70 million cups of coffee throughout the year. By April 2022, one year after Luckin Coffee launched its coconut latte, official data from the brand shows that the sales of coconut lattes have exceeded 100 million cups. With an increasing number of Chinese coffee and tea beverages brands choosing to advertise the calories in drinks to consumers, some brands even advertise protein, tea polyphenols, caffeine, sugar clearly on the products. Through a recent official report shows that, nearly more than 70% Chinese young consumers born after 1990 put healthy as the first consideration when they buy drinks. Meanwhile, more and more cities introduced laws and regulations, for example Shenzhen as the first Chinese city introduced Shenzhen Special Economic Zone healthy regulations. It is mentioned that food service operators and group dining canteens are encouraged to label the calories and main nutrients of the food provided; encourage stores, supermarkets, etc., to open low salt, low fat, low sugar food counters.

In addition, functional coffee drinks have added value to the purchase and consumption of coffee, and coffee products containing functional ingredients such as protein, probiotics, and vitamins are more often purchased by consumers. They mainly focus on weight loss, beauty, and antioxidant functions.

2. Coffee consumption scene transformed from indoor to outdoor

The pandemic had temporarily stopped many gathering activities for Chinese consumers, but with the end of it activities such as outdoor camping, community leisure, driving caravans, and coffee markets are becoming new forms of leisure. Thanks to the switch in leisure activities, coffee consumption has become no longer limited to coffee shops, and camping coffee is becoming a new way to drink coffee, that includes exercise and leisure, socialize, and being young. China has started to bundle coffee shops with the tourism industry, with foreign brands such as Blue Bottle and Starbucks choosing to open coffee shops at tourist attractions in well-known tourist cities in China. In addition, Chinese brand Manner has opened coffee shops at the top of the two snowy peaks of mountains Songhuahu(松花湖) in Jilin and Aranya （阿那亚) in Chongli. Manner also hopes to deepen the brand image and get closer to young people through the location and decoration of some special stores. Similarly, in 2023, Arabica and Peet's also opened coffee shops on Chinese SKI resorts or snow capped mountains, targeting the Chinese skiing population and establishing the brand value. So, in addition to the rapid growth of coffee shops and coffee consumption in first and second tier cities in China, coffee in tourist cities such as fourth and fifth tier cities in China has also started to stir up a wave of coffee. For example, Yanji City in Northeast China, as a fourth tier city, currently has nearly 1,000 coffee shops, and Luckin has opened 5 stores in Yanji.

In the post-pandemic era, there are several opportunities and methodologies for Italian coffee and coffee machinery companies to capitalize in the Chinese market. The idea of coffee has changed from that of a "trendy drink" to that of a "daily drink". The book “The 4th Wave Coffeelogy” mentions that coffee processing technologies such as anaerobic fermentation, cold ferment, hot ferment, supplements, etc., and coffee farmers, baristas, cupping tasters, coffee roasters, bean seekers, etc. all bring the modern society to a new different coffee industry era.

There is a wide opportunity for Italian coffee brands to expand their market share by offering a wide range of high-quality coffee products and catering to different taste preferences. Italian coffee brands can leverage their expertise in producing high-quality coffee and position themselves as providers of premium and specialty coffee offerings. This includes promoting single-origin coffees, aromatic light roasts, specialty blends, and unique brewing methods to cater to the discerning tastes of Chinese coffee enthusiasts.

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, and so a SWOT analysis is a technique for assessing these four aspects of Italian coffee and coffee machinery. Italy is famous for its espresso culture, which has become a symbol of Italian lifestyle and socializing. Italy's vibrant coffee culture attracts tourists and coffee enthusiasts from around the world, contributing to the demand for Italian coffee products. The focus on espresso and its preparation has created a unique market for Italian coffee. Italy is home to several well-established coffee brands that have gained global recognition. These brands have built a strong reputation for their products, providing a competitive advantage. However, Italian coffee and coffee machinery brands need to be updating their choices of products to cater the different taste of a different types of consumers.