

# Compass

# Healthy Living

Understanding What Functional Benefits  
Matter Most to Chinese Consumers





# Foreword

New year, new you.

With increasing amounts of stress, especially over the past three years, most of us want that little bit extra to be healthier in our everyday lives. For some, this means pumping iron at the gym or going on a run. More and more, though, people are focusing on what they're putting into their mouths as a way to feel better. Functional ingredients – those that offer health benefits to users – include foods and nutritional supplements rich in antioxidants, nutrients, and gut-healthy probiotics.

Across Asia, and especially in China, moves towards healthier living are no different. What, though, are consumers in the region specifically looking for when it comes to functional ingredients? In this edition of the TSI Navigator™ Compass, the team use our in-house data and first-hand consumer interviews to dive deep into this timely question.

**Andrew Kuiler**  
**Founder & CEO**

# Contributors



## **ANDREW CAMERON | DIRECTOR/PARTNER**

Andrew leads TSI's Insights and Strategy Team and heads the consultancy's healthcare portfolio. From securing accurate data collection to producing strategic stories from the data that's collected, he works with clients to identify the most effective strategies to propel their brands forward. At TSI, he leverages his wide expertise to help clients prosper within the local Chinese and broader Asian markets.



## **EVELYN HUSSAIN | DIRECTOR/PARTNER**

Evelyn heads TSI's Design and Innovation team and heads the consultancy's sustainability projects – focusing on transforming data and human-led insights into tangible executions that are methodological, meaningful, and measurable. Her academic background in Sustainability Design, and an MBA, means she easily straddles the creative and commercial divides.



## **TIM BINNION | DESIGN LEAD**

With a passion for sustainability and circular design, Tim is an integral part of TSI's design and innovation work. He has a diverse background across product design and branding, working to expertly distil user insights into concrete design recommendations that help brands and products connect with customers.



## **JOHN PABON | MARKETING COMMUNICATIONS**

John is one of the world's leading voices on private-sector sustainability. He's had the privilege of working with the United Nations, McKinsey, and A.C. Nielsen. He advises the U.S. Green Chamber of Commerce, is Programme Director for The Conference Board's Asia Sustainability Leader's Council, and author of "Sustainability for the Rest of Us."



## **QI ZHANG | CLIENT MANAGER**

Along with her deep understanding of the food and beverage industry, Qi has a unique passion for linguistics. She helps guide clients through the proper approach to brand conceptualisation to ensure positioning is on point in today's China. With a Master's Degree in Applied Translation from the University of Leeds, she is also confident in providing professional suggestions regarding brand localisation.



## **TAYLOR CHEUNG | ASSOCIATE CONSULTANT**

Taylor is an analyst with The Silk Initiative. She has a strong passion for FMCG marketing, especially in the food and beverage industry, and has developed a deep understanding of consumer-based strategic marketing in China. Before TSI, Taylor played a brand development and promotion role for a well-known French alcohol brand under the Carlsberg group.

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***“Covid-19 put jet packs on the way functional foods were already headed.”***

**Kim Palmer Berry**  
Editor for Australia-based  
Food & Drink Business

## What are consumers looking for?

Way back in the early 1980s, the Japanese Government began looking for ways to improve the health of their population. Over the next decade, and through extensive research and policy-making, they devised the world’s first [legally approved](#) regulatory category for “food for specified health use.” These would come to be known as functional ingredients by some. Other similar names floating around the category include nutraceuticals, designer foods, superfoods, and personalised medicine. No matter what one calls them, their popularity is unquestionable. The global functional

food industry has a current [market size](#) of nearly US\$259 billion. Bolstered by the pandemic, the sector is predicted to grow to almost US\$530 billion by 2028.

Functional ingredients range from run-of-the-mill healthy options like fresh fruits and veggies, green tea, and honey, to the more obscure like algae, placenta, and snail mucus. Beyond being trendy, functional foods and ingredients have been shown to potentially provide other health benefits. This includes protection against diseases, preventing nutritional deficiencies, and promoting proper

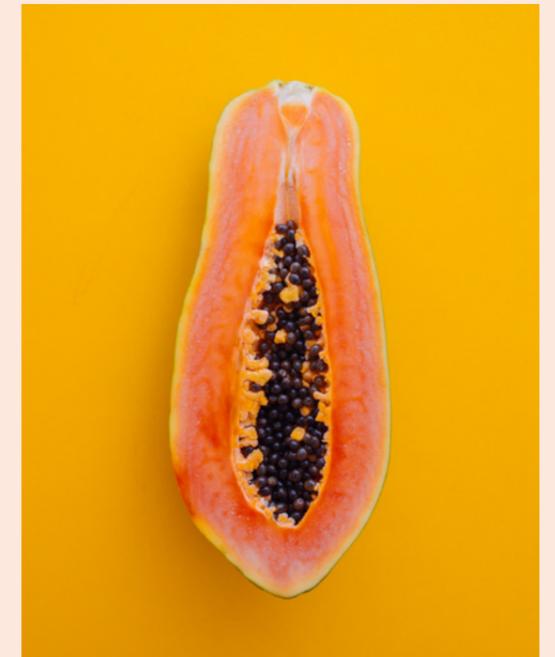
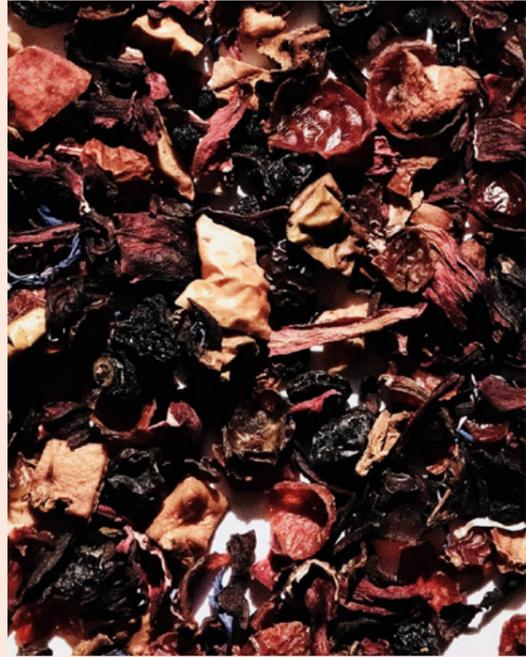
development especially for children and older persons.

The category is seeing a renaissance across much of Asia-Pacific. In speaking with Kim Palmer Berry, editor for Australia-based Food & Drink Business, consumers are more discerning than ever before. In her words, “Covid-19 put jet packs on the way functional foods were already headed.” In particular, there is a dynamic rise in the use of functional foods that help ensure strong mental health.

**Emerging markets, like China, are also getting into the functional game. China alone **accounts** for over **US\$31 billion** in global functional ingredient sales.**

What, though, are Asian consumers looking for? In spending so much in the category, are there specific functions they want these ingredients to have? To dig down into these questions, we explored proprietary data from TSI Navigator™ for markets like China, Indonesia, Japan, and Thailand. The TSI team also spoke to consumers and trusted experts on-the-ground across APAC. We tapped into our deep knowledge of functional ingredients, nutraceuticals, and futures to better dissect the specificities of the category. The results predominantly reflect what's happening in the region's largest market, China, but are also representative of much across the region in general.





*Functional foods are wide-ranging, including these ingredients and many more*

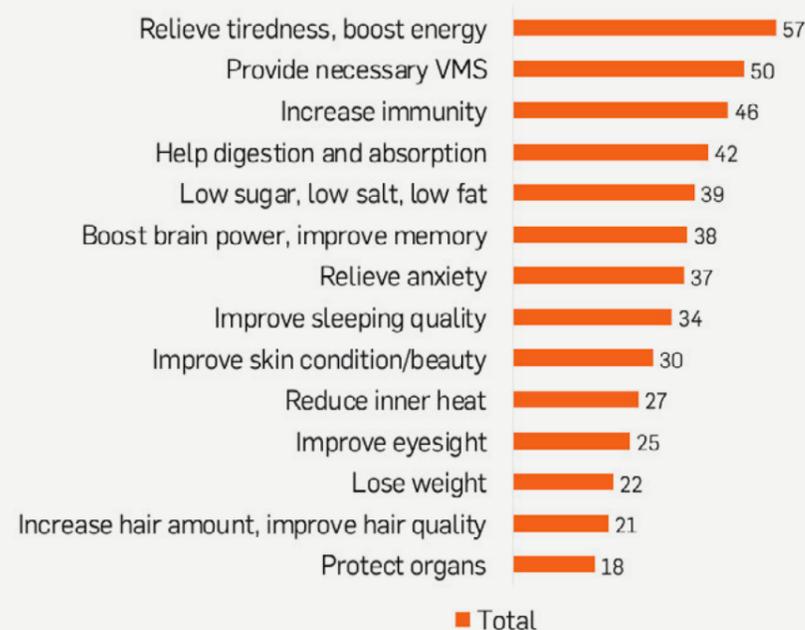
# How Different Categories Can Address Consumer Needs

For anyone who's spent a bit of time walking the streets of cities like Shanghai and Guangzhou, you can't go a block without running into the newest boutique gym, organic market, or health food store. A decade ago, these would have been an oddity. Today, they're as common as Starbucks. That's because health and wellness has taken China by storm.

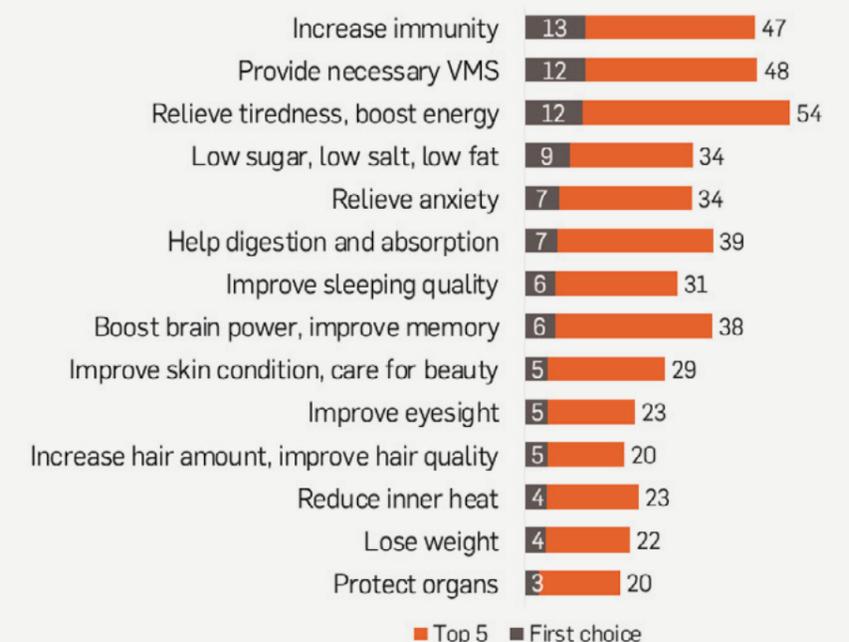
According to the China Health Care Association, annual health food sales in China were at around RMB200 billion (US\$31 billion) before the virus. This includes organic foods, where China has grown to become one of the top four organic markets worldwide. Dietary and nutritional supplements were also on the rise. Nearly half of all urban consumers purchase some form of nutritional supplement, contributing to the RMB100 billion (US\$15 billion) market. In the drink sector, Forbes reports nearly 90% of Chinese consumers now drink some form of plant-based beverage – juices, soybeans, or grains. In Shanghai, for example, the HeyJuice brand of fresh juice stores have grown exponentially in popularity.

Digging even deeper, it's interesting to look at what consumers are paying the most attention to. Based on TSI Navigator™ data, the most telling functional needs Chinese consumers care about involve increasing immunity, improving sleep quality, boosting brain power, as well as dealing with inner heat and anxiety. Consumers are also willing to spend more on these items.

What functional benefits do you expect from products?



What functional benefits are you willing to pay more for?



Source: TSI Navigator™ data

***In the drink sector, Forbes reports nearly 90% of Chinese consumers now drink some form of plant-based beverage – juices, soybeans, or grains***

Forbes

*While these speak to the overall trends across all functional ingredients, what's even more interesting is how different categories show up. Consumers might expect tea to do one thing, but dairy to do something entirely different. **For brands working in the region, these subtle differences are important.** They can impact everything from how you position product benefits all the way through development, research, and formulation.*

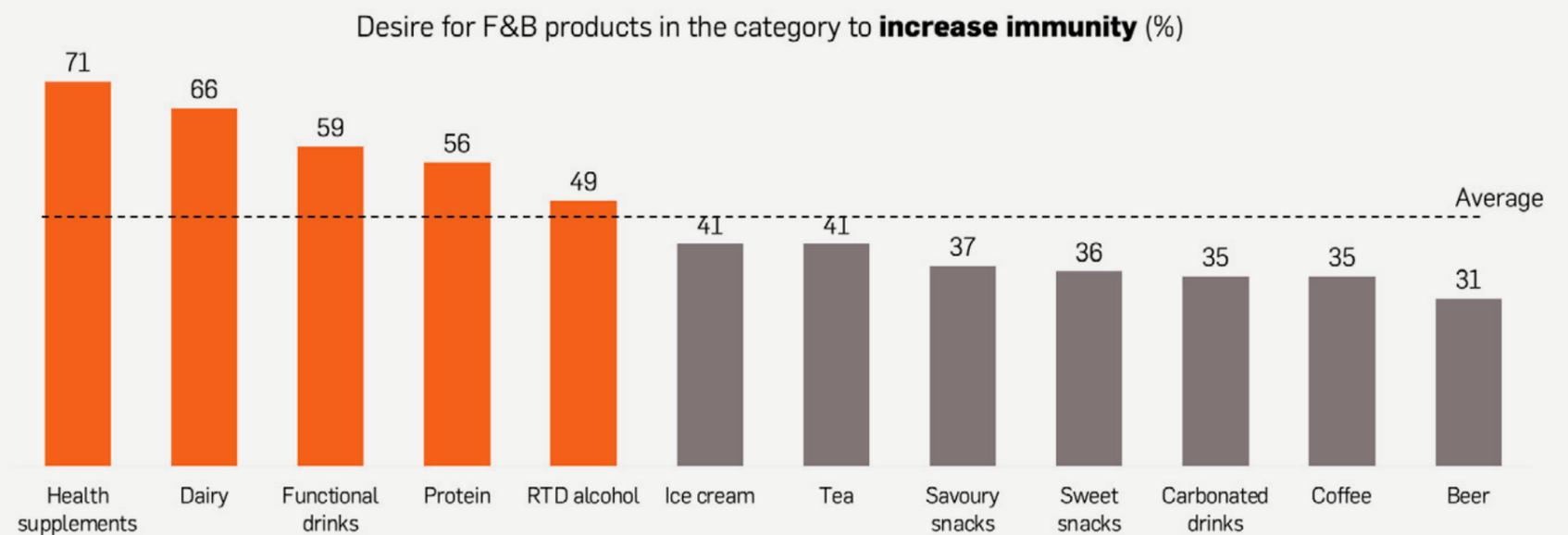


### Increasing immunity

It goes without saying, functional ingredients should help improve overall health and wellness. This is the same in China, where immunity is the functional benefit that most consumers are willing to pay the most for. Not all categories, though, are seen equally.

- 66% of consumers want dairy products to increase immunity
- 71% of consumers expect health supplements to increase immunity
- 56% of consumers expect proteins to increase immunity
- 59% of consumers expect functional drinks such as energy drinks to increase immunity

For brands, especially those in the dairy, supplement, and protein categories, consider doubling down on messaging around increasing immunity. It's clearly something consumers are looking for in their purchase decisions. Be sure, though, to have data to back up any product claims.



Source: TSI Navigator™ data



### Improving sleep quality

Nearly **40%** of Chinese adults suffer from insomnia. It's no wonder, then, consumers are looking for products to improve their quality of sleep. Fifty-seven percent of survey respondents said boosting energy levels was wanted from functional ingredients, while 31% said they would pay more for products that could improve their sleep quality.

- 49% of respondents said RTD alcohol should help with improve sleep.
- While in the west we often view tea as a way to wind down after a long day, only 25% of respondents would pay more for teas that helped with sleep.
- Interestingly, beer is seen as a product that can potentially help boost energy, while wine is often associated with improving sleep.

The biggest takeaway for brands is to be ready to ditch common connotations of which products serve what purpose. Although alcohol has been shown to disrupt sleep patterns, for example, Chinese consumers may not believe this to be true. Consider how you position your brand in a way that blends statistics with consumer sentiment.

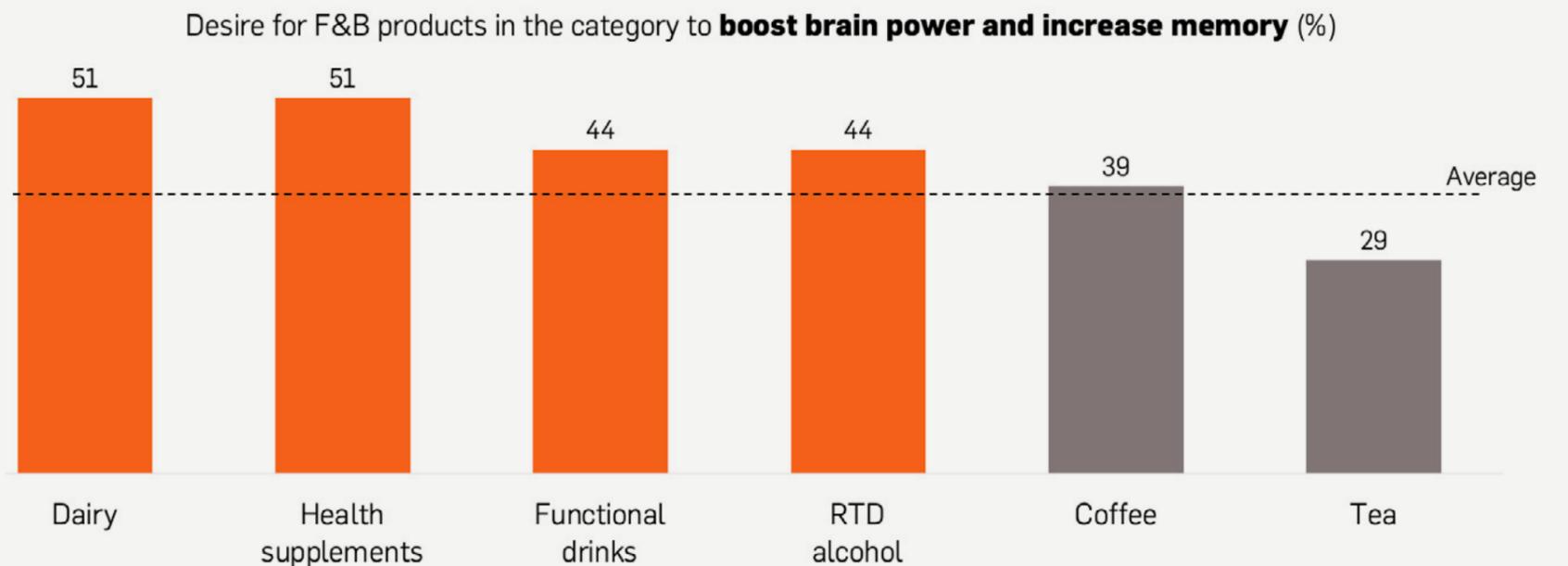


### Boosting brain power

Some of our most interesting work recently has been around products that can boost brain power and memory. This applies as much to childhood development as it does to healthy aging. Over a third of respondents would be willing to pay more for products with this benefit.

- Hydration is seen as key to a healthy brain, with 44% of respondents wanting sports drinks to boost brain power.
- Dairy also outperforms the total average when it comes to boosting brain power.
- Health supplements to boost memory and brain power are desired, but previous TSI studies suggest there are few brands in this space currently
- While many have a tea or a coffee to get going in the morning, these are not strongly linked to boosting brain power

We've seen a marked increase in improving brain power as a functional driver for this market. For those brands in relevant categories, especially dairy, sports drinks, and supplements, have you teased out all the proven ways your product can help with healthy brain development?



Source: TSI Navigator™ data

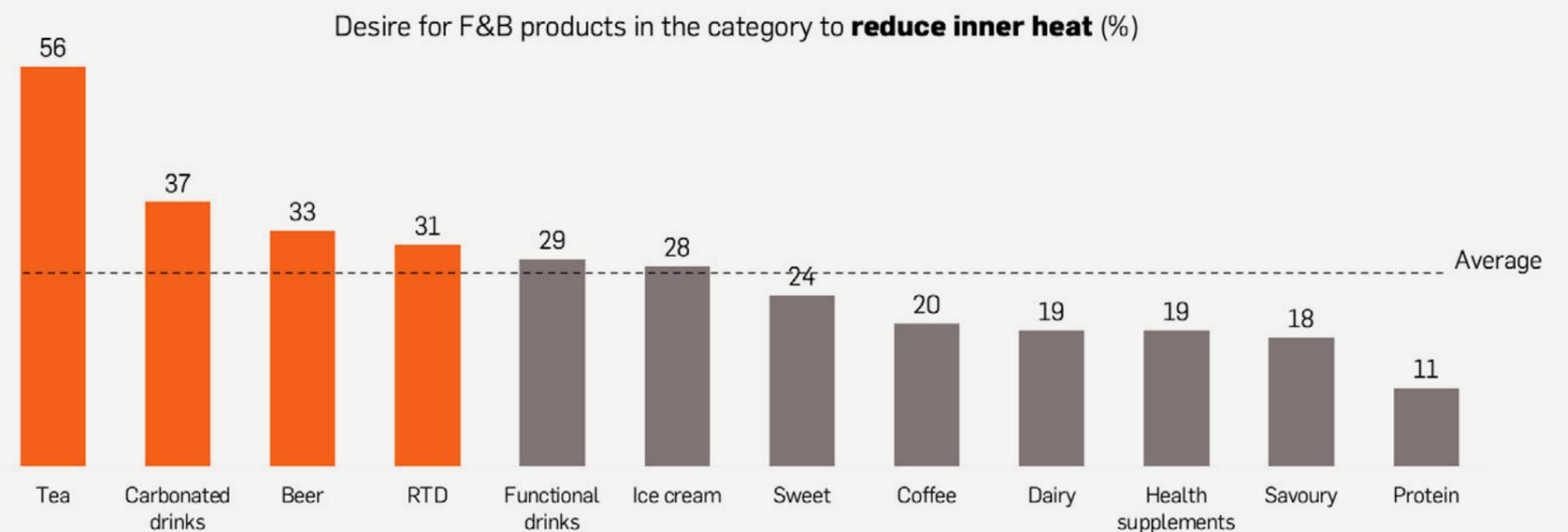


### Inner heat

Inner heat might be a strange term for someone not well versed in Chinese traditional medicine. But, it's a concept that's so engrained in consumers' minds it directly impacts their purchase decisions. Essentially, excessive inner heat can throw the body's internal functions off balance. This can then lead to a slew of ailments. While inner heat was not one of the top five functional benefits that came out of our research, it did place high within particular categories.

- Where we see inner heat showing up strongest is with tea. 56% of consumers expect tea to address issues of inner heat, and 39% are willing to pay more for this.
- For beer, carbonated drinks, and sports drinks, addressing inner heat as a functional benefit outperformed the total average consumer response.
- Controlling inner heat was not, however, something most respondents considered an important benefit from supplements.

In the rush to develop and position products for Chinese consumers, don't forget the importance of traditional concepts to modern preferences. This includes more than just inner heat, encompassing occasions, flavour profiles, and even naming propositions.



Source: TSI Navigator™ data

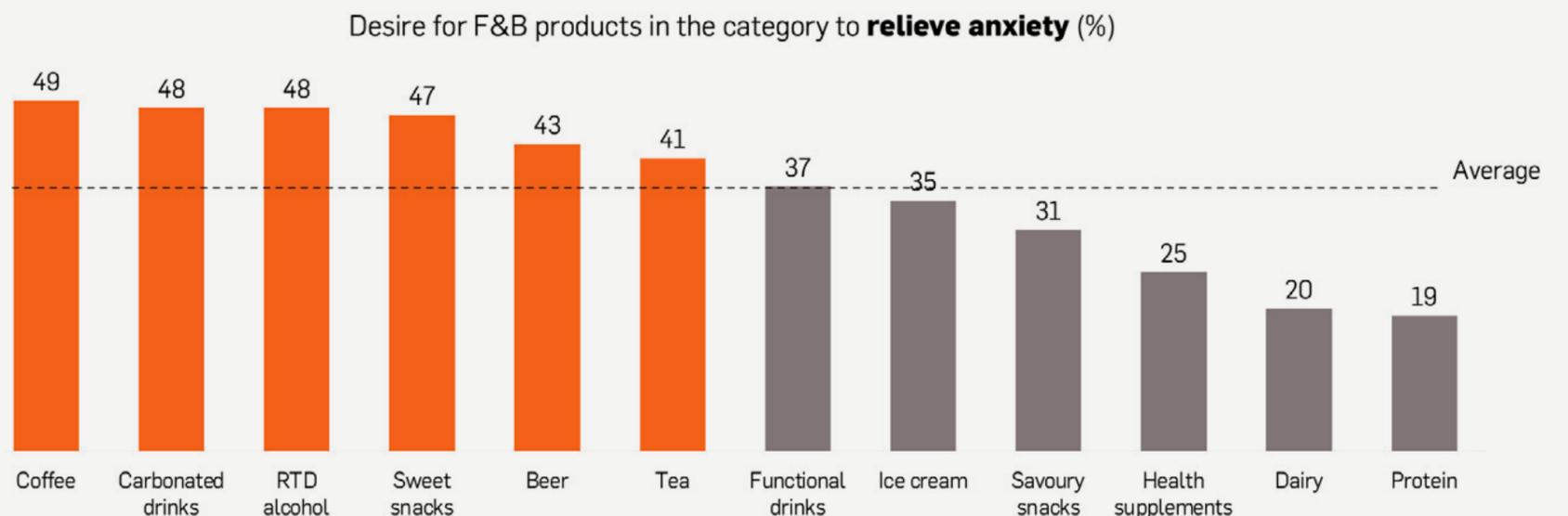


### Anxiety

China is no stranger to increasing levels of anxiety. As the country grows, prices increase, and wages stagnate, more and more people are trying to find ways to reduce their levels of stress. A recent [study](#) found 19% of Chinese suffer from anxiety in some form. 37% of respondents wanting products to directly address anxiety, and 34% willing to pay more for them.

- Escapism appears a factor for anxiety – 48% of consumers turned to RTD alcohol to help with need, while 47% said they'd expect sweet snacks like confectionery for anxiety relief.
- Counterintuitively, nearly half of respondents said coffee was as a product that might help relieve anxiety.
- On the other end of the scale, dairy, supplements, and proteins were not widely considered categories consumers expected to see addressing anxiety.

Overall, what we're seeing here are consumers asking for occasions to relax and wind down. Whether that's enjoying a ready-made cocktail in the comfort of their homes, or relaxing at their favourite café over a cup of coffee, addressing anxiety as a functional and practical need could not be more pronounced.



Source: TSI Navigator™ data

*Consumers are increasingly making conscious choices aligned with their well-being and personal values. Recognising this trend, a leading wine brand came to TSI looking to develop an innovation pipeline targeted at these consumers across the globe.*

# Innovating wine-based beverages for globally conscious consumers

**Consumers are increasingly making conscious choices aligned with their well-being and personal values. Recognising this trend, a leading wine brand came to TSI looking to develop an innovation pipeline targeted at these consumers across the globe.**

## The approach

To find opportunities and winning spaces, TSI firstly identified regional market trends and consumer attitudes. Using a Design Thinking approach, we began ideating product concepts with stakeholders in multiple regions, evaluating these with cross-functional client leadership through a commercial viability workshop. We then fleshed out selected ideas and brought them to life with digital prototypes, testing the concepts with consumers across key markets.

At the end of the engagement, TSI was able to provide the client with NPD and design of 30+ product prototypes for consumer testing, as well as 3 brand concepts. This led to a final 10 product concepts to feed into the client's global pipeline.

## Points of difference

- Brought concepts to life, in-house
- Facilitated virtual workshops (US, EMEA, China, Australia)
- Multi-country, iterative qualitative approach all under one roof
- Rapid turnaround of key insights and concept optimisation after each stage of study



### Immersion:

Category understanding and analogous research

### Ideation:

Developing consumer-centric NPD solutions

### Shortlisting:

Commercial viability, feasibility and scalability workshop

### Design:

Bringing ideas to life with digital prototypes

### Concept development:

Extending winning concepts and brand conceptualisation

### Consumer validation:

Measured concepts qualitatively with consumers, followed by refinement

# TSI Navigator™ Compass

TSI strongly believes in the importance of quantitative data when analysing and determining consumer trends. That's why we created TSI Navigator™, the industry's first dynamic data intelligence platform that collects, analyses, and visualises the food and beverage landscape across various Asia-Pacific markets. TSI Navigator™ explores 12 F&B categories across 6 key cities in China, as well as in Indonesia, Japan, and Thailand, to understand drivers and trends in real time. The tool is designed to help companies make smarter decisions in food and beverage across the region, particularly when it comes to innovation.

TSI Navigator™ Compass is based on TSI Navigator™ trend analysis, quantitative analysis, literature reviews, and qualitative interviews with industry leaders. It also draws on TSI's expertise across industry sectors. This research is part of The Silk Initiative's continued examination of consumer trends throughout the region.

This edition was written by John Pabon, with contributions from members of the TSI China team. The authors wish to thank external interviewees and other TSI colleagues who provided feedback. Any errors that remain are those of the authors. Please direct comments or questions to John Pabon at [john@thesilkinitiative.com](mailto:john@thesilkinitiative.com).

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# The Silk Initiative

**Data in. Assets out. Measurable results.**

**We are the future-focused insight, strategy, and innovation people.**

The Silk Initiative is one of the world's few Asia-based consumer goods brand consultancies sitting at the intersection of foresight, strategy, innovation, and creative development. From our base in Shanghai, we help clients make smarter brand and product decisions.

Combining an in-house Insights and Strategy team along with a Design and Innovation team, TSI's approach of data in and assets out means we can provide end-to-end solutions for our clients' brands.

**Want to learn more about healthy living in China? Connect with one of TSI's experts today.**

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