

McKinsey Greater China Consumer & Retail Practices

Catering to China's diverse appetites: An interview with Kang Shi Fu CEO James Wei

The company has maintained a competitive edge by catering to the diverse and hyperlocal tastes of Chinese consumers.

In China, few snacks retain the ability to surprise in quite the same way as instant noodles. The array of sauces, flavorings, and dried ingredients that combine with steaming hot water to create the perfect no-hassle snack seem to grow more outlandish by the year. But the tendency to tempt your taste buds with new and previously unthinkable flavorings is underpinned by economic fundamentals.

While the market for instant noodles in China runs into billions of dollars, the industry is facing headwinds as a result of shifting consumption patterns, including the rise of food-delivery apps and faster journeys that leave less time for passengers to eat on the go.

Data from the World Instant Noodles Association suggest that Chinese consumers wolfed down a staggering 39 billion packets of instant noodles in 2017, but sales have generally declined over the last few years, prompting market leader Kang Shi Fu to reimagine its product offering.

Under the leadership of CEO James Wei, Kang Shi Fu, otherwise known as Tingyi Cayman Islands Holding Corporation (Master Kong), has elevated the status of the humble instant noodle to appeal to China's growing demand for premium products.

The company has also demonstrated a canny knack for catapulting its brands into the consciousness of China's burgeoning middle class, not least by becoming the exclusive sponsor of NBA China in June 2015.

Speaking to McKinsey senior partners Daniel Zipser and Udo Kopka, Wei explains how his company maintains its leading edge, fending off competition from domestic challengers and multinationals alike, by catering to the increasingly diverse and hyperlocal tastes of Chinese consumers.

Daniel Zipser: As Kang Shi Fu CEO, how have you seen the tastes of Chinese consumers change over the years, and how has this affected your business?

James Wei: Typically, we see China's defining characteristic as its size, but it is also the most

demanding market in the world. I often tell people from overseas that they need to look at China as a continent. Each province has a population bigger than some European countries. I also say that China has "five Ds." The first is increasing income disparities. We are beginning to see large differences between the haves and have-nots, and between the regions. The other four Ds I describe as "diversities." We see huge diversity in terms of the weather, culture, and also diversity of regional cuisines, not to mention drinking cultures and taste preferences. The final diversity is in the go-to-market strategies: the various channel retail formats, including e-commerce and on-premise consumption—things are getting more diverse and you cannot have a one-size-fits-all solution.

Udo Kopka: What trends in food and beverage consumption have you seen develop in recent years in China, and what do you think the future holds?

James Wei: In food and beverage, as in everything else, we see a lot of talk about "premiumization." However, premiumization is not homogenization. We still have the characteristic of diversity, and premiumization means different things for different income brackets. Speaking simply, people I'll call affluent have been looking for healthier, better ingredients. They're looking for taste coming out of a natural-flavoring system. But working-class people are looking for higher CP—cost performance—value, and they're looking for different varieties. And everyone wants product safety.

Daniel Zipser: How has Kang Shi Fu adapted to cater to Chinese consumers' growing demand for premium products?

James Wei: This issue has three different elements: one is product development, another is go-to-market strategy, and the third is how we communicate with consumers. In terms of product development, we need to have differentiated pricing across our product offering. We cannot have one product for everybody. The days of mass production are over. It's about giving the right product at the right time to the right consumer in the right place.



James Wei

Vital Statistics
Age 61

Education

Holds an MBA from the University of Chicago Booth School of Business and a BSEE from National Taiwan University

For tier one, or the affluent class, we introduced a new product called “E Noodle Place,” with the aim of competing with the home-delivery business. You can get delivery almost like you’d eat in noodle shops: similar size of beef, similar noodle type, but in a more comprehensive range. We then gather consumer data on whether the portion of noodles was large enough or if the flavor was too salty, etc. In the old days, you’d have to go through waves of research and then bring out a mass product. Now, we leverage e-commerce capabilities for instant feedback, allowing us to form a granular understanding of our consumers and what they are looking for.

Soup-base flavoring provides another insight. A quarter century ago, when we started in China, the diet didn’t have enough nutrition. So, we gave people meat cooked in palm oil, and they said, “Wow, I’m getting real food.” Even having grease floating on the soup was considered good. But

Career highlights

Tingyi Cayman Islands Holding Corporation
CEO
(2015–present)

Led food business
(2013–14)

Beiersdorf Aktiengesellschaft
Headed Asia operations; oversaw expansion of group’s China business

CVC Capital
Served as senior advisor

Avon Cosmetics
President, Asia–Pacific

Procter & Gamble
Held various senior-executive positions over a 19-year career, in Asia and United States, including general manager of P&G Greater China Beauty and Health, helping to develop the Pantene brand

25 years later, urban, affluent consumers are thinking, “Oh, am I taking in too many calories? Is this the lifestyle I want?” They want a soup that is gently cooked with bones. The flavor profile is very different, and the soup is not as greasy. But the working-class still hanker for the old days. They want food that gives them calories; they need the energy for physically arduous work.

When it comes to the go-to-market strategy, we used to just sell through one channel: mom-and-pop shops. Now, we have several on-premise channels. You have to be where people will eat and drink, where they travel, and where they consume entertainment. You have QSR [quick-service restaurants], theme parks, train stations, and restaurants. All these places are not necessarily on the go. They’re sit-down places. The channel fragmentation is here to stay. In addition, there’s e-commerce, and within that you have B2B commerce and B2C commerce.

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The third element is communication. We know the affluent have an emotional need to showcase their status with flashy packaging. But working people also have emotional cravings, though these tend to be more about family values. We will see other profiles emerge as technology helps us develop deeper insights into consumer preferences.

Udo Kopka: Are you thinking about further improving distribution in rural areas?

James Wei: Yes. As the Chinese economy grows, we are seeing new consumers emerge in northern, lower-tier cities who are able to afford branded goods. This is a huge opportunity, but we are aware we have to supply them with products with high CP value. We compete with local competitors in low-tier cities. Our positioning is rather premium in those markets, but we do need to offer a good product and good value, and then communicate that through media that is going to reach these new consumers. We also have to have infrastructure partners that develop the mobile technology platforms to serve people with information, while also collecting data on the best way of serving these local stores.

Udo Kopka: A lot of innovation in the digital space is driven by Chinese tech companies. How are these innovations impacting the food and beverage industry here in China?

James Wei: A lot of people say that e-commerce enables niche brands to prosper. But on the other

hand, e-commerce players still prefer to work with a big company that has the scale and capability to take maximum advantage of the opportunities. In product development, it's about data mining, and working together with either Alibaba or Tencent to develop insights on consumer preferences.

Of course, we'll also offer a broader range of pricing tiers for certain mass, and even niche brands, which if we didn't offer, would be served by our competitors. On communication, alongside data mining, you can pair big data with programmatic ad buying, tailoring and targeting your messaging to specific audiences.

The biggest opportunity, one which few have realized so far, is to fully realize the link between content, media, the shopping experience, and the manufacturers themselves. No single manufacturer or e-commerce operation can do that alone. We have to develop an ecosystem where we can work together and satisfy consumers based on our adage of getting the right people at the right time in the right place with the right offer or message.

Udo Kopka: Let's talk about you as a person. You've worked in prestigious multinational consumer-goods companies such as P&G and Beiersdorf. How is life different now in your role as CEO of Kang Shi Fu?

James Wei: I was very fortunate because the development of Asia's economy made my career.

I went to the United States in the early 1980s, studied for an MBA, and then joined a multinational. They hired me because of China's rise, and I'm grateful to have this opportunity. I guess my generation was in the right place at the right time.

Now it's time for me to give back to society. That's why I wanted to join an Asian company and replicate the two aspects in which any bottom-to-top multinational excels: professional business-management know-how, in terms of systems and templates that allow a company to operate on an international scale, and a talent-development structure that allows these companies to enter a new market and thrive. That is something I admire in successful multinationals. Of course, there are drawbacks. Sometimes, the capital market forces managers to be too short term. You manage by quarters. This presents an opportunity for Chinese companies, many of which are funded by entrepreneurs and have much longer horizons that enable them to do the right thing for the company.

However, if a local company can get the systems and talent development right, then one day it will be able to compete. I want Kang Shi Fu to be more professional than my local competitors. But, I hope our competitive advantage versus multinationals is that we are more local. We can be more in touch with consumers, and that's really our internal goal: to make Kang Shi Fu competitive in this global, demanding market.

Daniel Zipser: Most Chinese companies put a strong focus on growing their domestic business. Do you see Chinese consumer companies expanding globally going forward?

James Wei: Yes, I see quite a few Chinese companies going global, but at Kang Shi Fu, we are pragmatic: our priority is China, China, China, for a couple of reasons. First, we say we are in the food and beverage business, and local tastes,

local cultures, are exactly that—local. I mentioned China as a continent, so if we are successful here, it already gives us a huge market to work on.

Udo Kopka: Kang Shi Fu is starting to promote Chinese food culture outside of China. Can you tell us a bit more about the progress of that initiative?

James Wei: Our short-term China focus doesn't mean we won't have global ambitions one day. When we study big multinational companies, in their first maybe 25 to 50 years, they tend to focus on one continent. Nestlé in Europe or Procter & Gamble in North America. You need to have a strong home base.

Their emergence on the international stage was also a cultural phenomenon. We believe that with China's rise, the Chinese economy will become more affluent and more Chinese consumers will travel overseas. When they travel, we want them to bring our instant noodles along, and we sponsor some programs, like running Berlin marathons and throwing "pasta parties." But what is Chinese pasta? Kang Shi Fu instant noodles. When we attend NBA events in the United States, and NBA legends celebrate Chinese New Year, what do they drink? Kang Shi Fu iced tea.

If we continue to develop our domestic market—teaming up with multinational players such as the NBA, international marathons, and sports teams—we will be business partners, but I like to think we'll also be sharing Chinese culture. Last, we also have collaboration with Tencent and Alibaba, and we sometimes do programming. Eventually, I think the aim would be to produce content that is popular internationally, say in Africa, where they watch Chinese soap operas, and they will see people eating instant noodles and drinking Kang Shi Fu tea. Over time, that will set a foundation for our future global business. But, everything has to start from winning first in China, getting our system right, getting our talent right, and ensuing sustainable development.

James Wei is CEO of Kang Shi Fu. This interview was conducted by **Udo Kopka**, a senior partner in McKinsey's Hamburg office, and **Daniel Zipser**, a senior partner in the Shenzhen office.

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