



OATLY for the Earth, Leading the Transformation of Green Consumption and Plant-Based Industry

Company/Organization

Oatly (Shanghai) Beverages Co., Ltd.

Author of this report

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Abstract

OATLY, the oat milk brand that has swept through European and American markets, officially entered China in 2018. At the outset, its core brand philosophy of environmental protection and sustainable development faced challenges in resonating with local consumers. However, leveraging its “Three Ones” strategy—One City (Shanghai), One Market (coffee), and One Product (OATLY Barista oat milk)—the brand successfully penetrated thousands of boutique coffee shops and became a star product. Building on this foundation, OATLY expanded collaborations with coffee and tea beverage brands nationwide. By forging alliances within its category in China, the brand aims to raise consumer awareness, foster sustainable consumption patterns and green lifestyle, and drive the transformation of the plant-based industry.

Keywords

plant-based protein beverage, sustainable consumption, new product category branding, consumption scenario innovation, market education

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Case Introduction

Background

Plant-based protein beverages have a history of over 2000 years in China, like soy milk being a crucial part of the daily diet and considered a nutritious and healthy beverage. The market for plant-based protein drinks in China can be traced back to the introduction of almond milk in the 1970s. In recent years, consumers are more aware of oat products' health benefits, and are increasingly concerned about lactose intolerance symptoms. At the same time, the coffee and tea beverage industry are developing, and the plant-based diets are on the rise. These trends have led to the rising popularity of new plant milk categories such as oat milk among Chinese consumers. In 2018, OATLY entered the Chinese market, marking the beginning of China's Plant-Based Milk 2.0 era. OATLY not only represents a trendy and healthy beverage but has evolved into an independent category with multiple product types, functionalities, and applications for various scenarios. It has introduced new concepts and interpretations in terms of product functionality, scenario application, and value propositions.

OATLY's development in China was not without challenges. When first entering the market in 2018, plant-based milk was not a mainstream dietary choice for Chinese consumers. Compared to animal-based beverages like cow's milk, consumers had a lower acceptance of plant-based milk due to a lack of awareness of the concept and unfamiliarity with its taste. Initially, OATLY attempted to market its products alongside different categories like beverages, dairy, and soy milk, but the sales were not

satisfactory. Even with the deployment of promoters and retail channel specialists, achieving sale targets proved challenging.

To address these issues, OATLY adopted a series of strategies, shifting its development focus to "creating a new product category." Through collaborations with boutique coffee shops, OATLY successfully combined its oat milk with coffee and created an outstanding flavor. The alignment with sustainable development principles and an appropriate pricing strategy gained favor among numerous coffee shops, making OATLY the preferred plant-based milk base product. Subsequently, through continuous negotiations, OATLY established a multi-level cooperation network with boutique coffee shops, leading coffee chains, convenience stores, and large supermarkets, utilizing a B+C dual-track sales channels to meet the needs of both online and offline consumers, enabling its products to penetrate the Chinese market more widely.

Currently, against the backdrop of China actively promoting carbon neutrality goals, consumption upgrades, and the development of "business for good", the "Plant-Based Protein Beverage Alliance" founded by OATLY is driving the transformation of the plant-based food and beverage industry in China, injecting new vitality into it. OATLY's story not only tells the success of a brand but also pertains to the potential of the Chinese market, the future of plant-based protein beverages, and the evolution of China's food and beverage industry and consumer culture.

Case story

Sailing from Coffee Shops: Innovating Scenarios for New Opportunities

In 2018, when OATLY first entered China, the plant-based market was still in its early stages. Although China's traditional diet revolves around plant-based foods, and protein beverages like soy milk and almond milk are not new dietary choices, the market landscape and awareness were not mature enough at that time. The general consumers were not familiar with plant-based categories, and it took a while for the translation of the product's sustainable philosophy into consumer decision-making. Consequently, plant-based milk had a limited market share during that period.

In this context, OATLY faced two challenges in formulating strategies: firstly, there was limited awareness in the market, necessitating education and promotion to make consumers aware of the benefits of oat milk; secondly, the taste, quality, and value propositions of the product had to align more with the preferences of Chinese consumers [1].

OATLY's development story from zero to one in the Chinese market is a journey marked by challenges yet infused with innovation. One pivotal focus of this process was how OATLY forged partnerships with numerous coffee shops, solidifying its market position. When OATLY first entered the Chinese market, it faced challenges in the retail channel because there were no similar products to benchmark against in China. Faced with this situation, OATLY's Asian team devised a unique "Three Ones" strategy, choosing Shanghai as the pilot market, boutique coffee as the breakthrough, and focusing on promoting its product "OATLY Barista oat milk". Initiated with difficulty, this strategy gained traction as the exceptional taste of OATLY's oat milk in coffee captivated baristas, ultimately establishing partnerships with

thousands of boutique coffee shops and gradually fostering brand visibility [1].

OATLY's brand characteristics resonate well with consumers in boutique coffee shops who are willing to pay a higher price for OATLY's oat milk. Through the promotion of the "premiumization" strategy, OATLY successfully integrated its product with sustainable development and environmental concepts, further raising consumer awareness and leading the wave of sustainable drinking. This strategy opened up the market for OATLY, attracting an increasing number of partners.

Developing Chain Collaborations: A New Era in the Plant-Based Market

In 2019, leveraging the successful "Three Ones" strategy, OATLY secured collaboration opportunities with well-known coffee chain brands. Internally, OATLY recognized that establishing partnerships with "industry-leading brands" was the optimal long-term strategy. However, the company's fragile international supply chain posed new challenges: faced with substantial order opportunities, the team had to balance meeting the demands of leading brands and maintaining the flexibility of the supply chain. Despite enticing collaboration requests from various coffee brands, the team adhered to the decision to collaborate with leading brands, sacrificing numerous order opportunities first to protect the brand image.

Ultimately, the OATLY team chose the Hong Kong market of a leading brand in a certain industry as a breakthrough point. Through an in-depth understanding of the coffee brands in the Hong Kong market and close communication with local baristas and executives, OATLY successfully established collaboration with the leading brand in the China-Hong Kong region. This collaboration

not only marked OATLY's rise in the Asian market but also propelled successful partnerships with chain brands in other regions [1].

OATLY achieved success not only in the Chinese market but also gradually expanded to markets across various countries, including Thailand, Singapore, Malaysia, Indonesia, and beyond.

With the expansion of collaborations, OATLY established partnerships with numerous large chain brands in the Chinese market, including convenience stores, large supermarkets, coffee industry leaders, major restaurant chains, and e-commerce platforms such as Taobao and Tmall. This model allowed OATLY to go beyond its target market, leading a trend that, in less than five years, numerous plant-based brands were developing rapidly. Plant-based products became an emerging consumer trend and the plant-based milk industry gradually expanded. New brands like OAKIDOKI, CEREAL PLANET, OATOAT, DAILY BOX, and Plantag mushroomed in the oat-based sector in China. At the same time, traditional well-known brands in categories like almond milk, coconut milk, soy milk, and walnut milk also experienced renewed vitality following the concept of "plant-based"[2].

Building Sustainable Development: Brand Education and Green Expansion

Simultaneously, OATLY promoted sustainable development philosophy through initiating environmental and social activities. Environmental initiatives such as the "Box and Bottle Program" and "Yellow River Rehabilitation" which facilitated the recycling of used bottles and boxes, along with business-for-good projects like the "Silent Barista" Development Project, all exemplified OATLY's commitment to cooperate social responsibility. In ongoing sustainable practices, OATLY triggered emotional resonance among young audiences for beauty, goodness, and sustainable development,

gaining consumer recognition and achieving brand education in the market[3].

In the post-COVID-19 era, consumers placed greater emphasis on green and healthy choices. China, as the world's largest plant-based milk market and a crucial part of OATLY's global strategy, presented ample opportunities for plant-based consumption upgrades. Therefore, OATLY introduced globally consistent material selection standards, production processes, and quality standards into the Chinese market synchronously.

In 2022, OATLY completed its first factory in Ma'anshan, Anhui province in China, symbolizing an enhancement in Asian production capacity and independent research and innovation. Notably, the OATLY oat milk produced in the factory uses FSC-certified paper-based composite packaging to ensure responsible sourcing. Simultaneously, the factory implemented a series of projects, including purchasing and using 100% green electricity, developing water-saving processes, disclosing carbon footprints, and tracking carbon reduction, to achieve carbon reduction goals.

Starting in 2021, OATLY, in collaboration with Plug and Play China, initiated the Oat Your Future innovation program, focusing on innovation throughout the entire oat value chain. This involved addressing supply chain issues from breeding and cultivation to food research and development, utilizing oat by-products for energy production and non-toxic bio-adhesives to reduce resource waste. Besides, the brand is also committed to exploring new technologies and processing methods, improving protein properties, promoting sustainable development throughout the entire value chain.

Looking to the Future: Integration of OATLY and the Chinese Market

With the introduction of more foreign brands and the rise of local enterprises, the plant-based product sector in the Chinese market is experiencing a noticeable increase in specialization and technological sophistication. This refers to the application of specialized knowledge and skills in the manufacturing process across various aspects such as product categories, distribution channels, innovation in processing and consumption methods, and consumer education. It also includes the use of advanced technology, equipment, and processes to enhance product quality and production efficiency[2]. This trend of specialization and technological development is promoting widespread progress in the plant-based product sector in the Chinese market, elevating various stages from production

to consumption. According to the 2023 White Paper of China Oat Milk Industry, the overall sales of plant-based beverages in China showed a 2% year-on-year growth compared to the previous year in 2023. Since March of 2023, the month-on-month growth rate of oat milk beverages has exceeded the overall growth rate of plant-based beverages. China will continue to be a significant market for plant-based product consumption.

Organically integrating society, communities, and consumers into account, OATLY will continue to promote and create new plant-based categories, seamlessly integrating products with sustainability to contribute to carbon reduction and carbon neutrality goals.

Addressing the Good Food Pledge



Plant Forward:

OATLY continuously drives innovation and category development of plant-based products, while collaborating with peer brands, industry associations, and experts to build a new plant-based ecosystem.



Healthy Eating:

OATLY provides more nutritional and healthy choices for lactose-intolerant consumers through its oat-based products. By promoting a plant-based diet, it advocates for consumers to improve their dietary structure and achieve a healthier lifestyle.

Results and Impacts

- OATLY achieved widespread penetration of the full product line in various channels in China, including retail, coffee shops, and restaurants, building diverse consumption scenarios and raising consumers' awareness of plant-based products.

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- OATLY conducted various environmental and social activities, actively advocating for a sustainable lifestyle.
 - In 2022, OATLY's oat milk secured the top spot on the iiMedia Ranking of China's Oat Milk industry with a high score of 93.67. Data shows that as a representative of oat milk, OATLY surpasses other similar brands in terms of quality, reputation, and other aspects.

Future prospect

OATLY's development in China over the past five years has driven changes in the country's new plant-based market. Multiple market surveys show that with more domestic and international brands entering the market competition, the price of plant-based products remains the primary factor influencing consumer purchasing behavior. Therefore, based on its brand positioning, OATLY needs to innovate its interaction strategies with consumers, strengthen consumers' brand awareness, and gain recognition for core brand values such as environmental protection and sustainable development.

Discussion

In summary, OATLY's success in the Chinese market tells us that continuous innovation in product categories and the integration of brand core values with consumer values are key factors that set it apart in the industry. By revealing its highlights in market strategy, sustainable practices in the supply chain, and value construction among consumers, this case study focuses on OATLY's theory of change in the Chinese market to provide inspiration and empirical guidance for professionals in the food industry.

Case Analysis

OATLY'S Theory of Change

Innovating Consumer Scenarios

Initially facing obstacles in retail channels, Mr. David Zhang, President of OATLY Asia, and his team conducted a systematic evaluation of consumer groups, consumption scenarios, and OATLY products. They decided to focus on the coffee scenario using the "Three Ones" strategy. First, OATLY chose Shanghai, an international metropolitan with a large population of expatriates and returning overseas Chinese, as the market entry point[1]. This consumer group already had an understanding of oat milk products, so extensive consumer education is not necessary. Secondly, to create consumer demand for this group, OATLY aimed to shape a lifestyle and sought consumption scenarios that aligned with this mission. Therefore, boutique coffee shops in Shanghai became the first potential focus. Finally, from the perspective of the product itself, OATLY's team collected product-related information such as supply conditions, product characteristics, and historical sales records to establish collaborations with boutique coffee shops. The exceptional taste of OATLY Barista oat milk combined with coffee and its positive attributes during the coffee brewing process made it the preferred choice for baristas. The brand's alignment with sustainability and appropriate pricing strategies earned favor from boutique coffee shops, ultimately creating a win-win partnership that ensured the successful promotion of the product.

Building on the success of creating a boutique coffee shop scenario. OATLY actively explores

various new scenarios, including milk tea, baking, retail, and ice cream, to meet different consumer demands, provide more product choices, and achieve growth in multiple scenarios. This diversified strategy has helped OATLY expand its market share[1].

Successful market education

Successful market education is a key factor for OATLY in promoting the development of new plant-based categories in China. OATLY, through continuous trendy marketing campaigns, emphasizes the health benefits of its products and their environmental friendliness to Chinese consumers. This aligns with the current trend in the Chinese market towards popularizing healthy diets and sustainable lifestyles. OATLY allows consumers to unconsciously demonstrate care for themselves and the planet while experiencing joy, and pursuing fashion, and aesthetics. By collaborating with companies from different industries to roll out environmental actions, OATLY deeply integrates its brand image with the concept of sustainable development. The eco-friendly attributes of its products, along with a series of social activities demonstrating environmental and humanitarian care, create emotional value for consumers, which in turn drives consumption behavior and fuels its business growth.

Jointly promoting Plant-based categories building

Additionally, OATLY calls on other food and

beverage brands to join the construction of the sustainable diet industry, establishing the “Plant-Based Protein Beverage Alliance” to promote market education. This initiative also provides upward momentum for OATLY's brand development. In 2021, OATLY, in collaboration with authoritative institutions and experts in the food and nutrition sectors, released the first 2021 White Paper of China Oat Milk Industry, introducing industry standards, category definitions, and other industry norms. This push

aimed to form industry standards, and convey the characteristics, advantages, and development direction of plant-based products to the market, leading the plant-based industry towards orderly competition and positive development. In conclusion, OATLY's success in the Chinese market is the result of comprehensive considerations of market selection, brand construction, product characteristics, partnerships, industry standards formation, and a focus on sustainability.

Dimensional analysis: levers of change employed in the case

Food production and supply	Production	With nearly 30 years of production technology and formulation development, coupled with its unique enzymatic hydrolysis technique, OATLY not only restores the rich and smooth taste of oats in its oat-based products but also preserves the nutritional essence of oats, β-glucans. OATLY's Chinese factory adopts end-to-end in-house production management, utilizing information technology, water-saving processes, and 100% green energy to enhance production efficiency and reduce carbon emissions [4]. Additionally, OATLY focuses on the entire value chain of oat, continually exploring new technologies and processing methods, reducing resource waste through by-product reuse, and driving product innovation.
	Conservation	Compared to traditional animal protein beverages, the production of oat milk by OATLY results in lower carbon emissions, land use, and water resource consumption, contributing to environmental sustainability and biodiversity protection. The brand strives for transparency in its carbon footprint through reducing transportation carbon emissions and enhancing the recycling and reuse of packaging materials. At the societal level, through initiatives such as the "Box and Bottle Recycling" program, collaboration with the Golmud Ecological Protection Center of Yangtze River Source, and initiative of "Yellow River Rehabilitation", OATLY encourages consumers to engage in environmental actions

		and actively practices sustainable development concepts in a transparent and impactful manner[6].
Food environment	Policies and Regulations	OATLY collaborates with authoritative institutions and experts in the food and nutrition sector, releasing the White Paper of China Oat Milk Industry in 2021 and 2023 to collectively promote the development of new plant-based categories. This effort contributes to guiding the plant-based product industry towards orderly competition and healthy development.
	Accessibility	OATLY's current product range includes oat milk, oat coffee, oat milk ice cream, yogurt, cream, etc. Through collaborations with various brands and platforms, OATLY is determined to build diverse sustainable consumption scenarios. It employs multiple channels, including dining, offline retail, and e-commerce, to encourage consumers to practice sustainable diets.
	Affordability	OATLY's products price higher than similar brands, potentially limiting the purchasing power of some consumers, so future strategies may involve improving production efficiency and adjusting brand positioning to enhance price competitiveness.
Food demand	Information and education	OATLY has successfully built the association in consumers' minds that "OATLY oat milk = green consumption". In addition to initiating numerous environmental and public welfare activities, OATLY ensures transparency across the entire production path, from the production site and supply chain to product manufacturing, sales, recycling, and corporate culture. Through product packaging design, OATLY guides consumers to focus on issues such as energy consumption and carbon emissions. The brand's commitment to sustainability attracts consumers to establish an emotional connection with the brand, encouraging them to practice a green lifestyle starting from their dietary choices[6].

Addressing the pillars of sustainable development

PEOPLE Nourishing everyone for health and wellbeing	OATLY's oat milk is rich in nutrients, and provides more nutritional and healthy choices for lactose-intolerant consumers. OATLY's vision of
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	environmental protection and sustainable development encourages consumers to contemplate the reciprocal relationship between a healthy diet and nature, promoting an aspiration for sustainable living.
PLANET Producing in harmony with nature	Compared to traditional animal protein beverages, the production of oat milk by OATLY results in lower carbon emissions, land use, and water resource consumption. Since successfully entering the Chinese market, OATLY has continuously pursued a transparent and effective approach, actively engaging consumers in practicing the concept of sustainable development.
PROSPERITY Inclusive, transformative and equitable recovery for the 2030 Agenda	Beyond the realms of health and the environment, OATLY also focuses on human sustainable development. Initiatives like the "Silent Barista" project, and the "Green River" activity, all aim to arouse shared concern among people for both human and ecological environment.

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