

50-year-old Brand Takes on \$100-billion Oat Milk Market

The Swedish food company Oatly has sparked a worldwide trend for oat milk, and its trend has quickly made its way to Taiwan, with major café chains and convenience stores offering oat milk lattes. Now, alongside international brands like Oatly, Taiwanese brands are starting to get in on the oat milk craze, launching their own version of the product.

Oatly made its market debut on NASDAQ in late May, and its stock price surged nearly 40% in just seven days, closing at US\$23.71 on the 28th, giving it an implied valuation of US\$14 billion. It is clear that the oat milk craze has been recognized by the international capital market.

Oatly market share soars, international and local brands want in

“It’s like milk, but made for humans.” With this slogan and a call for health and sustainability, Oatly has successfully appealed to vegetarians and environmentalists to get on board to replace dairy milk with oat milk. Although it was once derided as “unsellable” when it entered the U.S. market in 2016, Oatly used a self-deprecating, sassy and witty marketing strategy to catch the attention of trendy people, its target audience. Finally, they even got Starbucks and Blue Bottle Coffee Company to use their products. With its rapid rise to success, Oatly has rewritten the old recipe that only dairy milk goes in coffee.

Different from the traditional oatmeal drinks with a chewy texture and a strong taste served in local breakfast places in Taiwan, oat milk is popular for its smooth mouthfeel and creamy nature that makes it perfect for coffee. The best part is that, unlike other alt-milk products, oat milk does not overpower the coffee taste.

According to business consulting firm Grand View Research, the global oat milk market reached US\$4 billion in 2020 and continues to grow at an annual rate of 9.8%. The staggering market growth attracted global food industry leader Danone, the world’s largest yogurt producer Chobani, and one of the largest dairies on the east coast of the U.S., the century-old milk provider Elmhurst 1925 to jostle for the market share.

The most significant factor in oat milk's surge in popularity is that it meets the needs of people with lactose intolerance, vegetarians, and environmentalists. Later, oat milk further gained popularity by symbolizing a fashionable and trendy lifestyle.

Today, the trend made its way to Taiwan. Oatly oat milk was imported to Taiwan in 2019 by Tait Co., Ltd., a subsidiary corporation of Uni-President. According to the company's financial reports, the annual revenue in 2019 increased by 7.79% YoY. Tait particularly noted in the report that "the rise in revenue was due to the addition of Swedish Oatly oat milk." In the following year, Starbucks became a leader to promote oat milk among Taiwan's coffee chains by encouraging the public to select oat milk in milk-based beverages as part of their "Starbucks Veggie Life Style" marketing campaign.

In fact, domestic manufacturers such as Taiwan's largest cereal supplier Standard Foods, Uni-President, and Lianhwa Foods had already launched their own more traditional oatmeal drinks in the past. It was not until recent years that oat milk made for coffee emerged. And the trend has finally caught local suppliers' attention after the success of Oatly.



(Chen Guanghan proudly displays all AGV's oat-related products. Photo Credit: Business Today)

AGV Products, a leading Taiwan-based food manufacturing company, first launched a local oat milk product last October. Chairman of AGV Products, Chen Guanghan told us “Young people care about sustainability and they are willing to try vegetarian diets for the sake of animal welfare, so they really buy into oat milk.” Chen is optimistic about the market as he sees the demand for alt-milk products among young people will increase in the next few years.

Chen said, the oatmeal drink market in Taiwan was originally worth between NT\$1.8 billion to NT\$2 billion. And for the oat milk that goes with coffee, the market size is expected to reach NT\$1 billion in two years. That is to say, compared to Taiwan’s highly competitive “red ocean” beverage market, the fast-growing demand for oat milk provides a promising “blue ocean” market. As more consumers embrace the trend for oat milk around the world, the market in Taiwan will undoubtedly continue to boom.

AGV now focuses on the B2B market, selling its oat milk to the two coffee chains that have the largest number of branches in Taiwan, Louisa and 85°C. Chen expects oat milk products to reach 30% of AGV’s total sales in the future.

Of course, retailers did not miss their chance to hop on the oat milk train. Not only coffee chains, tea shops like Cha for Tea, and even convenience stores such as Family Mart and 7-Eleven, launched their oat milk products. A spokesperson for 7-Eleven said, “Since oat milk hit the store in May, the sales number is four times higher than other flavored coffee. It clearly shows the public craze for oat milk.”

Coffee chain Louisa initiated a marketing campaign that encourage consumers to switch to oat milk for free, and it soon showed a result. Chairman of Louisa, Huang Mingxian told us, “We have soon received a positive market response, and the percentage of the consumer choosing oat milk over dairy milk now reaches 20%.”

However, Chen Guanghan’s ambition is not limited to coffee chains. “Unlike other countries in the world, Taiwan has a huge tea shop market.” He said. Oat milk can be served as an alternative to milk not only in coffee, but also in milk tea. Hence, AGV has cooperated with chain tea shops such as Cha for Tea.

Now, about 3,000 partner stores are collaborating with AGV, and this number is expected to grow to 7,000 by the end of this year. Chen is optimistic about the market

prospects and said, “Our goal is to build partnerships with more than 10,000 stores.” In the past, AGV’s best-selling products in the B2B market were green tea and wheat tea, but when Chen saw the international trend of consumers rushing for alt-milk, he believed that the oat milk market has great potential, and expected oat milk to become the top-selling B2B product for AGV.

The golden hydrolysis ratio

AGV is indeed a very experienced company in making oatmeal drinks. However, it still took Chen Guanhan almost two years to find the perfect oat milk that goes well with coffee, and he could not have made it if it were not for Huang Mingxian. As early as a decade ago, Huang noticed the needs of vegetarians, so he took up the challenge to try various milk substitutes for lattes. From soy milk, almond milk, and oat milk, he tried everything available on the market at the time, but “back then, for whatever reason, they all had unappealing tastes.” He recalled. He then realized, the rich oatmeal drink overpowers coffee, and the taste and texture of oat milk is related to its degree of hydrolysis.”

- *Hydrolysis: Refers to the process of breaking down starch sugars during the production process. Through hydrolysis, the fiber and sweetness of the oat itself can be retained, and barista oat milk can achieve a smooth taste close to milk through efficient hydrolysis.*

In the past two years, the two companies, AGV and Louisa have worked together to develop the best oat milk for coffee. AGV customized oat milk for Louisa, while roasters from Louisa tested the taste. Huang recalled the challenges of this joint research and development: “Hydrolysis is a highly specialized process, and it requires the multiple of the hydrolysis ratio to be extremely precise.” After four months of trial and error, they finally discovered the golden ratio of hydrolysis

Chen is also proud of the product. He said, “AGV has been deeply involved in the oat industry for 13 years, and we’re the local manufacturer with the largest investment in oat products in Taiwan.” He emphasized that the years of investment are why they can produce such a successful product with cost advantages and large production capacity this time.

“To be honest, anyone can make oat milk at home or in a laboratory, but not everyone can make 20,000 to 30,000 boxes a day using exclusive patented hydrolysis

technology,” Chen said. What sets AGV apart from others is that it can produce high-quality products at scale. Chen revealed that the AGV production line can produce more than 600 bottles of oat milk per minute, and such large-scale production has realized cost advantages.

Although there are many overseas competitors in the oat milk market, Chen is not worried since the local brand has a competitive price advantage. Without tariffs and international shipping costs, the oat milk produced by AGV can be 20% to 30% cheaper than the imported ones, like Oatly. Thus, the only thing Chen has to worry about is whether the quality of local production can keep up with the imported ones.

Now, Chen is ready to sell his product abroad. AGV aims to enter the markets of China, Northeast Asia, and Southeast Asia in the next six months. While developing new markets, Chen has not overlooked the importance of improving the competitiveness of his products. AGV is now applying for health food certification for their oat milk. Also, they are trying to customize flavors for different distribution channels. Chen concluded that “Whether you want to drink it straight or mix it, from a health perspective or a flavor perspective, AGV will find a way to satisfy you.”