

# Observation Report Summary: The Environmental Performance of Online Snack Brand Supply Chains

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According to the 2017 China Online Snack Consumption Trends Report, snack foods account for approximately 30% of all food sold online in China.<sup>1</sup> On Singles' Day 2019, three online snack food giants – Three Squirrels, Be & Cheery, and Bestore – each surpassed RMB 100 million in sales within the first two hours.<sup>2</sup> All three companies have grown rapidly due to the expansion of e-commerce platforms in China in recent years.

In contrast to traditional snack manufacturers, e-commerce snack brands rely on a franchise model, selling different snacks produced by different suppliers under a unified brand image, assuming the role of both brand owner and retailer. These companies follow an asset light business model, which uses quality control and product development to manage the upstream supply chain, rarely or without directly contributing to production. However, the environmental impact of these brands is concentrated in their supply chains, among food processing factories in particular. To assess the environmental performance of online snack brands, the Institute of Public and Environmental Affairs (IPE) investigated suppliers of the top three brands, Three Squirrels, Be & Cheery, and Bestore. A quick search on the [Blue Map database](#) found the following:

## (1) Supplier Environmental Management

- a) All three brands were found with a large number of supplier environmental violation records, including excess pollutants in wastewater and exhaust emissions, and even polluted rainwater or nearby rivers. All three brands also had suppliers with recent violations records from the past three years (2016-2019);
- b) Some suppliers with environmental violations supply to several snack brands at once;
- c) Suppliers in almost all categories, including dried fruit, nuts, biscuits, bread, seafood, meat and dairy snack products, have environmental violation records;
- d) None of the companies that violated environmental regulations have publicly explained or responded to their violations via public channels.

## (2) Environmental Information Disclosure

Among the top three brands, only the parent company of Be & Cheery, Haoxiangni Health Food Co., Ltd., acknowledged its own environmental impacts. In its 2019 semi-annual report, Haoxiangni identified itself as a key polluting entity and disclosed some information.<sup>3</sup> Neither Three Squirrels nor Bestore have publicly disclosed any environmental management information.

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<sup>1</sup> <https://www.cbndata.com/report/118?isReading=report&page=1&readway=stand>

<sup>2</sup> <https://news.sina.com.cn/c/2019-11-11/doc-iicezuev8569453.shtml>; <http://www.3songshu.com/about-us.html>

<sup>3</sup> <http://www.szse.cn/disclosure/listed/bulletinDetail/index.html?47305548-bcf4-4e8c-93b8-a87b9bdad9b7>

## **Analysis of the Environmental Management of Online Snack Brands**

Data from the National Bureau of Statistics show that in July 2018, China hosted 8,923 food manufacturing companies with total annual revenues greater than RMB 20 million.<sup>4</sup> Among them, companies manufacturing snack foods (candy, chocolate, dried fruit, etc.) far outweighed dairy and condiment manufacturers. In preceding years, from 2011 to 2017, the number of snack manufacturing companies grew steadily, suggesting increased industry competition and the attractiveness of an industry with high profits and low thresholds to entry.

The characteristics of the snack food industry – diversified products, low production thresholds, short manufacturing life-cycles and small variations between brands – allow manufacturers to be mostly small-scale and low-investment, with relatively simple production processes. Unit prices are not high and have no clear quality indicators, which means that if a manufacturer receives a complaint regarding the quality of their product or an environmental issue, the factory can simply switch to another retailer – in this case, a different snack brand.

From a production perspective, the lack of direct environmental management for manufacturers poses a high risk of regulatory noncompliance. From a procurement perspective, Three Squirrels, Be & Cheery, and Bestore have yet to make environmental compliance requirements for their food manufacturers or disclosed any environmental management information regarding their suppliers, even in prospectus offerings or annual reports.

In response to its findings, IPE sent formal letters to Three Squirrels, Be & Cheery, and Bestore in April 2019, inquiring if the companies were aware of their suppliers' environmental violations and requesting corrective actions and public disclosures from noncompliant suppliers. As of December 2019, however, none of the three brands have responded.

The snack industry is ushering in a period of rapid development. By 2020, the industry is expected to close on a total of three trillion yuan, riding the explosive wave of e-commerce across China. By operating as retailers, snack brands avoid answering looming questions regarding the environmental impact of their products, especially at such immense scales. We hope that snack food brands such as Three Squirrels, Be & Cheery, and Bestore will soon assume their environmental responsibilities to track their suppliers' regulatory compliance, stabilize their supply chain by identifying environmental risks, reduce their overall impact, and set procurement standards for their suppliers, as dozens of reputable global brands already have.

Three Squirrels, Be & Cheery, and Bestore can join the ranks of Apple, Dell, Huawei, Adidas, Nike, INDITEX, Primark, IKEA and more than 60 other major brands, who have collectively pushed more than 10,000 Chinese suppliers to rectify and disclose information regarding their environmental violations. Dell, Huawei, INDITEX, Primark and Adidas have even written supplier environmental compliance into their procurement standards. We urge all brands operating through online retail and e-commerce giants themselves to consider the supply chain impacts of their products and to make use of the available data to move toward truly sustainable economic development.

*Note: To read the full report, please refer to the [Chinese version](#) on the IPE website.*

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<sup>4</sup> [https://www.sohu.com/a/272927069\\_800248](https://www.sohu.com/a/272927069_800248)