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Market Development Reports

Hong Kong Food Service Market Brief

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Report Highlights:

Overall the economic crisis and the reduction in tourist arrivals in Hong Kong severely affected the food service sector, specifically the segment catering to high-end spending like hotels and restaurants. On the contrary, the market segment for fast food establishments and diners have been stable or even experiencing some growth. Currently the restaurant and other segments are undergoing a consolidation process where weaker players will be phased out. Recovery is expected in one year from 1998. The consumption of selected food products is expected to increase.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

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I. EXECUTIVE SUMMARY

Methodology

The goal of this report is to provide a brief on the food service sector in Hong Kong, as well as on future developments. Eastern Strategic Consulting has utilized a combination of primary and secondary sources of information, intelligence, and insights to document this study.

Food service industry as covered in this document comprises the following segments:

- Restaurants
- Hotels
- Fast Food
- Diners (Chinese)
- Pubs and Bars
- Night Clubs (Karaoke)
- Delicatessen
- Coffee Shops
- Airline Catering
- Ice-cream Shops

For Hong Kong currency figures, the exchange rate is US\$ 1 = HK\$ 7.78

Main Findings

Overall the economic crisis and the reduction in tourist arrivals in Hong Kong severely affected the food service sector, specifically the segment catering to high-end spending like hotels and restaurants. On the contrary, the market segment for fast food establishments and diners have been stable or even experiencing some growth. Currently the restaurant and other segments are undergoing a consolidation process where weaker players will be phased out. Recovery is expected in one year from 1998. The consumption of selected food products is expected to increase.

Despite the overall business decline, the food service sector remains key to sales and distribution of some food items in Hong Kong. They include red meat, liquor, cakes, fresh produce, and selected dairy products. Some opportunities are available in these food item markets (please refer to the individual reports) and market penetration for these food items should focus upon the food service sector.

II. MARKET SEGMENTATION

However, expectations of investment returns on market entry should be moderated as the poor economy and the high cost of business operation in Hong Kong will reduce margin levels.

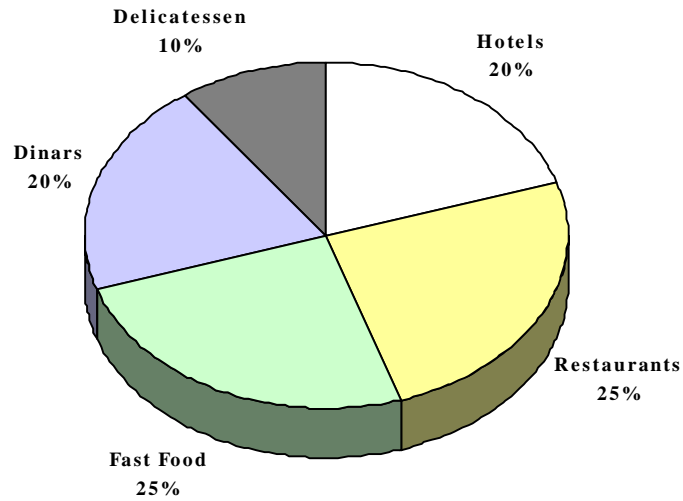
Segment	Description	Number of Seats	Market Share	Market Trends
Hotels	2- to 5-star hotels	30-300 (excluding ballrooms)	20%	ú
Restaurants	Chinese- and Western-style; Usually individually owned or chains; Some Western restaurants also include bar counters; Money paid at the table.	50-1,000	25%	ú
Fast Food	Mostly Chinese; Local- and Western-style; Money paid at the counter.	Western: 20-70 Chinese: 30-200	25%	ü
Diners	Chinese, local Asian; Individually owned; No chains.	10-30	20%	ü
Delicatessen	Mostly Chain outlets; Western-style sandwich bars.	20-40	10%	û

Segment	Description	Number of Seats	Market Share	Market Trends
Bars & Pubs	Western-style; Snacks offered; Frequented after work and on weekends	20-50	40%	ú slightly down
Clubs	* Karaoke * Dance Halls * Hostess Clubs; Snacks available.	100-500	60%	ú substantial decline

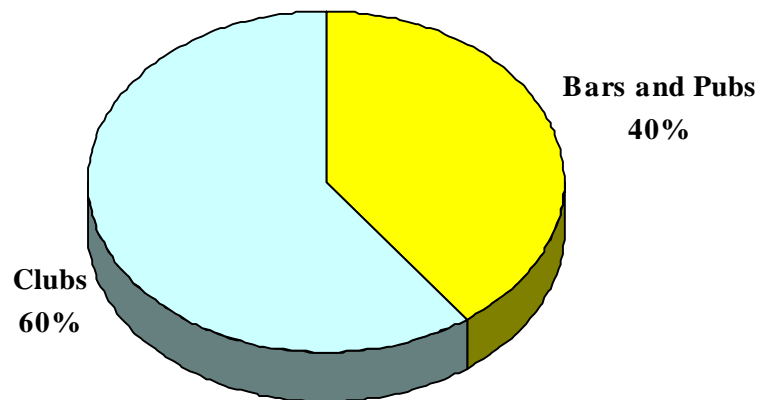
Segment	Description	Market Trends	Comments
Airline Catering	Chinese and Western Style food catering Centralized location (airport vicinity)	û	Steady increase as air traffic increased over the past 5 years
Ship Catering	Chinese and Western style, but focus more on Chinese. Several centralized locations	û	Ship traffic in Hong Kong has been on the increase.
Coffee Shops	Mostly Western-style cafes	ü	Explosive growth in recent years
Ice-Cream Shops	Predominantly by Haagan Dazs	ú	With consumers' disposable incomes falling, it is perceived as too expensive.

II-A. OVERALL SEGMENTATION

Food Outlet Segmentation



Beverage Outlet Segmentation



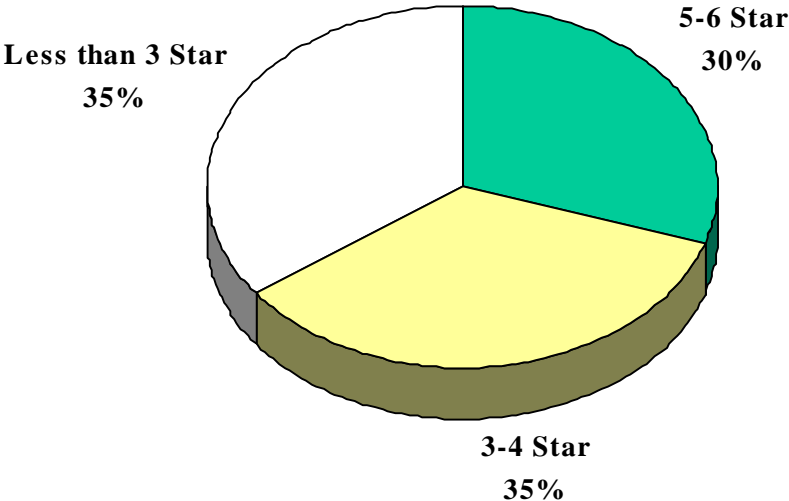
II-B. FOOD OUTLET SEGMENTATION

- As a consequence of the Asian economic crisis, 4- and 5-star hotels in Hong Kong have seen their revenues decline by as much as 30%-40% in recent months. The number of visitors from other Asian countries, particularly Japan, has fallen sharply.
- The drop has been less severe for 2- and 3-star hotels. The structure of visitors to Hong Kong changed drastically in 1996 and 1997, with an influx of Southeast Asian and Taiwanese tourists looking for affordable accommodation. Since the beginning of the economic recession in late 1997, the number of Southeast Asia visitors has also gone down, but the trend has been alleviated by tourism from mainland China (also boosted by Hong Kong's handover to China in July 1997).

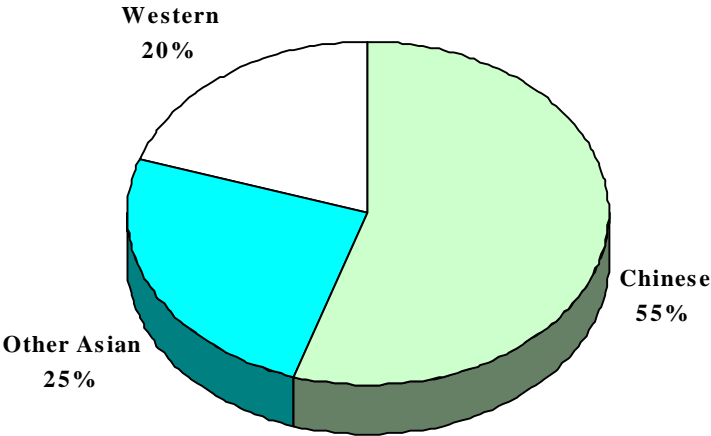
Segment	Market Share (by value)	Examples	Recent Occupancy Rates	Comments
5-6 Stars	est. 25-30% (About 30 hotels in Hong Kong)	<ul style="list-style-type: none"> • Marriot • Conrad • Peninsula • Grand Hyatt • Shangri-La 	<p style="text-align: center;">↓</p> down 30%-40%	With intensified efforts to market Hong Kong as a convention hub, the situation will probably improve over the next 2-3 years.
3-4 Stars	est. 35-40% (About 50-60 hotels in Hong Kong)	<ul style="list-style-type: none"> • Royal Pacific • New World • Regal Hotels 	<p style="text-align: center;">↓</p> less severe decline then in 5- and 6-star hotels	Considerable decline in revenues for 4-star hotels. 3-star hotels affected to a lesser extent, receiving a boost from the massive influx of mainland Chinese visitors.
Less than 3 Stars	est. 30-35% (Numerous guest and boarding houses)	<ul style="list-style-type: none"> • Garden Hotel 	<p style="text-align: center;">↓</p> slight decline	Expected to stabilize during 1999.

Segment	Average Length of Stay	Average Number of Meals Consumed	Food Outlets Available	Client Profile
5-6 Stars	2-3 nights	1.7	<ul style="list-style-type: none"> • Western • Chinese • Japanese • Other • (e.g. Italian) 	<ul style="list-style-type: none"> • Western • Japanese • Korean • Taiwanese • Singaporean
3-4 Stars	3-4 nights	2.2	<ul style="list-style-type: none"> • Western (4-star) • Coffee Shops (3-star) 	<ul style="list-style-type: none"> • Western • Mainland Chinese • Taiwanese • Southeast Asian
2 Stars and Boarding Houses	6-7 nights	2.5	<ul style="list-style-type: none"> • Local-style diners (2-star) • Usually no cooking facilities available at boarding houses 	<ul style="list-style-type: none"> • Mainland Chinese • Southeast Asian

Hotel Segmentation (by turnover value)



Restaurant Segmentation (by number of outlets)



	Segment	Number of Establishments	Examples	Market Share	Client Profile	Comments
A S I A N	Chinese	About 3,000	- Han Bao - Snow Garden - Lei Garden	Dominant Position	- Local residents - Tourists	Revenues down 30% because of the economic recession.
	Japanese	Total 700-800	- Shui-Sha-Ya	Severely Decline	- Japanese - Upper-class local residents	50% decline due to the drop in visitors from Japan.
	Thai		- Phuket - Lotus - Thai Kitchen	Declining	- Local residents - Expatriates	Down 20% as local consumers switch to home cooking.
	Korean		- Jodoo	Slightly Declining	- Koreans - Local visitors	Down 20% because of repatriation of many Korean residents.
	Indian		- Gaylord	Declining	- Middle/upper-class local residents - Expatriates	Down 20%
	Other (Vietnamese, Malay etc.)	--	- Banana Leaf - Satay Hut	Slightly Declining	- Local residents - Some tourists	Down 20% - 30%

Segment	Market Share	Example	Market Status	Client Profile	Comments
Continental	Total 400-500	- Restaurants in most 4 and 5-star hotels	Declining	- Expatriates - Local residents	Down 10%-20% due to the exodus of British expatriates following the 1997 handover of Hong Kong to China.
American		- Dan Ryan's - Hard Rock Café - Joe Banana's	Declining	- Expatriates - Local residents - Tourists	Down 25% as American professionals leave Hong Kong because of the Asian economic crisis.
Italian		- Tony's - Fat Angelo's	Slightly Declining	- Expatriates - Local residents - Tourists	Down 10%-15%. Still enjoys considerable market base. Expected to increase in the near future, with new outlets opening up.
Other (German, Portuguese, Spanish etc.)		- El Cid - Brezel Haus	Declining	- Expatriates - Local residents - Tourists	Down 20-30% affected by poor economy and reduced number of tourist

Offering convenient access and low-cost food to Hong Kong consumers, diners are located in all parts of the territory but particularly in residential areas. Their revenue growth in the 1990s has been very consistent.

Segment	Market Share (by Number of Outlets)	Client Profile	Comments
Chinese/Local	80%	<ul style="list-style-type: none"> - Middle- and lower-class residents - Office executives (in some areas) 	<ul style="list-style-type: none"> • Providing convenience and inexpensive food to the middle and lower class, diners have gone through a period of rapid growth in the 1990s.
Other	20%		<ul style="list-style-type: none"> • Driven by popular demand, Vietnamese and Pakistani diners have seen healthy growth in recent years. • Offering greater variety of products compared to local-style diners.

Segment	Example	Food Offerings	Client Profile	Comments
Sandwich Bar	<ul style="list-style-type: none"> - Oliver's Super Sandwiches - Big Apple - La Rose Noire 	<ul style="list-style-type: none"> - Sandwiches - Soups - Snacks - Baked goods - Coffee, tea, juice - Salads, fruits, vegetable 	<ul style="list-style-type: none"> - Local professionals - Expatriates - Young consumers 	Oliver's is the only chain store in this segment. Other sandwich bars are mostly run by individual owners. Most offer lunch-time delivery to offices.
Deli/Bakery	<ul style="list-style-type: none"> - Delifrance 	<ul style="list-style-type: none"> - Sandwiches - Tarts, pies - Baked breads - Hot food items - Salads, fruits, vegetable - Coffee, tea, juices 	<ul style="list-style-type: none"> - Local residents - Expatriates 	Delifrance is a chain. Overexpansion in 1996-1997 has hurt 1998 revenues. Also popular for take-away.
Supermarket Deli (Japanese)	<ul style="list-style-type: none"> - Seibu - Sogo - UNY 	<ul style="list-style-type: none"> - Hot foods - Japanese foods - Soups - Sandwiches - Noodles - Fresh fruits - Cakes - Baked goods 	<ul style="list-style-type: none"> - Local residents - Expatriates 	Originally brought to the market by Japanese supermarkets, this segment is now growing as consumers turn away from eating out at restaurants and prefer eating semi-prepared or prepared foods at home. Take-away popular.
Food Court	<ul style="list-style-type: none"> - City Super - Thousand Islands Food Plaza - Jusco 	<p>Variety of foods such as:</p> <ul style="list-style-type: none"> • Rice dishes • Noodles • Kebabs • Omelettes • Fruit drinks • Soyabean milk drinks 	<ul style="list-style-type: none"> - Young consumers, students - Southeast Asian residents 	Dominated by smaller, stall-type outlets. Providing quick meals to budget-conscious consumers. Offering a variety of Asian- and Western-style dishes and foods. Popular for take-away.

II-C. BEVERAGE OUTLET SEGMENTATION

Segment	Description/Market	Beverage Selection	Customer Base	Comments
Karaoke	--	<ul style="list-style-type: none"> • Soft drinks • Beer • Alcoholic beverages (low % of alcohol) 	<ul style="list-style-type: none"> • Local residents 	Used for social and family gatherings.
Low-End and Mid-Market Night Clubs	<ul style="list-style-type: none"> • 300-400 in Hong Kong • Largest segment in terms of revenue 	<ul style="list-style-type: none"> • Soft drinks • Beer • Alcoholic beverages (low % of alcohol) 	<ul style="list-style-type: none"> • Local residents 	Seriously affected by the economic crisis.
Luxury Night Clubs	<ul style="list-style-type: none"> • 8-10 in Hong Kong • Second largest segment by revenue 	<ul style="list-style-type: none"> • Focus on high-value alcoholic beverages • Beverages with lower alcohol content also available 	<ul style="list-style-type: none"> • Affluent local residents • Japanese, Taiwanese visitors 	Mostly used for business occasions. Affected the most by the economic crisis. Not expected to recover soon.
Bars	<ul style="list-style-type: none"> • 40-50 bars in Hong Kong 	<ul style="list-style-type: none"> • Beer-focussed • Alcoholic beverages with low % of alcohol 	<ul style="list-style-type: none"> • Expatriates 	Seriously affected by the economic crisis

II-D. OTHER OUTLET SEGMENTATION

Segment	Examples	Customer Base	Fast-Moving Food Items	Sources of Supply
Airline Catering	<ul style="list-style-type: none"> • Cathay Pacific Catering Services • LSG Lufthansa Catering 	Airline passengers	Meat & Poultry	USA, Brazil, China
			Seafood	Local, China
			Canned food	
Ship Handling	<ul style="list-style-type: none"> • Sim's 	Ship staff	Same as above	
Coffee Shops	<ul style="list-style-type: none"> • Pacific Coffee Co • Suzuki Co 	<ul style="list-style-type: none"> • Younger, middle-class local residents • Tourists • Expatriates 	Coffee	USA, Japan
			Pastry	Local
Ice-Cream Shops	<ul style="list-style-type: none"> • Haagen-Dazs • Double Rainbows 		Ice-Cream	USA
			Snacks	Local

II-E. FOOD/BEVERAGE TYPE AND TURNOVER

Segment	Fast-Moving Food Items	Major Supply Sources	Comments
Restaurants	<ul style="list-style-type: none"> • Seafood • Meat • Vegetables • Condiments 	Seafood : local, China	Seafood is consumed in exceptionally high quantities in Chinese/local restaurants. Hong Kong has one of the world's highest per capita consumption rates of seafood. Storage capacity varies (big chains use own cold storage facilities).
Hotels		Meat: China, Brazil, USA	A small portion of products is imported, especially by 5-star and 4-star hotels.
		Vegetables: China, USA	
		Condiments: Local, China, USA	Small storage capacity; very frequent delivery required.
Fast Food	• Poultry	Local, China	Very high turnover as Hong Kong people are avid fast food eaters. Big chain equipped with storage facilities.
	• Meat	USA, Brazil	
	• Vegetables	China, USA	
Diners	• Rice	Thailand, Vietnam	Focus on quantity. Low-value food items. Offering convenient access and low-cost food to consumers
	• Noodles	Local, China	
	• Poultry and Meat	Local, USA, Brazil	
Deli	• Bread	In-house	Use imported products (other than bread and noodles).
	• Pastry	In-house	
	• Potatoes and Green Vegetables	USA	
Bars & Pubs	<ul style="list-style-type: none"> Ⓒ Beer Ⓒ Gin, rum and vodka Ⓒ Some liqueurs 	Local, UK	Some decline in business in 1998 due to the poor economy
Night Clubs & Karaoke	<ul style="list-style-type: none"> Ⓒ Cognac Ⓒ Whisky Ⓒ Beer 	France (for cognac) UK (for whisky) Local (for beer) The Netherlands (for beer)	Severely declining business as spending on luxury clubs are largely reduced, especially by corporations

III SUMMARY, CONCLUSIONS AND CONTACTS

- # The recent economic crisis in Asia has also severely affected Hong Kong, coupled with a large reduction of tourist arrivals, the food service businesses in Hong Kong have been significantly affected.
- # Hotels and restaurants, catering to higher-end spending, have been affected the most in terms of business revenues. On the contrary, diners and fast foods, which are economical, have sustained business volumes, are even experiencing growth.
- # Overall the food service sector is in a period of consolidation (scaling down with elimination of outlets and weaker players). Recovery is expected to occur in about 1-2 years from 1998.

Food Service Sector	Impact by Crisis	Recovery Expectation	Comments
Hotels and Restaurants	Severely affected (on average 30-40% down)	In process of consolidation Initial recovery expected in 1-2 years from 1998	3 and 4-star hotels recover first as tourist from Mainland China increase
Fast Food, Diners	Slightly or not affected	Stable through year 2000	--
Other	Affected (on average 25-30% down)	Some consolidation, recovery within 1 year	--

- # Overall food service outlets are heavily promoted through television.
 - C Chinese Restaurants, fast foods and some hotels have been most aggressive in television advertisements

- # Of the three above categories, fast food chains have been the most aggressive in television advertising
 - C Large-scale Fast food chains like McDonald's, KFC, Café de Coral have been seen on television most frequently

- # Large-scale Chinese restaurant chains like Hanbow, East Ocean, etc, have also been aggressive in advertising set meals and special dishes at reduced pricing to attract customers, during the poor economic period.
 - C On the contrary, Western restaurants offer much less advertisements on television because of the high cost of television advertising

- # Other food service segments usually advertise in food and beverage magazines and newspapers instead of television.
 - C Hotels and Western restaurants offering specific food fairs and promotions often appear in food magazines and newspapers.

- # The United States Agricultural Trade Office in Hong Kong is available to American companies to more effectively promote their products by facilitating and organizing seminars, conferences and introducing alliances.

Agricultural Trade Office
American Consulate General
18th Floor, St. John's Building
33 Garden Road
Hong Kong
Tel: (852) 2841-2350
Fax: (852) 2845-0943
E-Mail: ATOHongKong@fas.usda.gov
Internet Homepage: <http://www.usconsulate.org.hk>

- # As Hong Kong is a free port, there are no import duties on food items.

However, other regulations apply, as follows;

C A health certificate from the country of origin is required for fresh produce, meat and seafood, and recommended for other food products, to certify that:

-- The products were manufactured and packed under proper hygienic condition as approved by the country of origin, and samples inspected by a method approved by that country.

Packaging requirements must comply with the Hong Kong Food and Drug Regulations, which includes proper labelling of item, ingredients, shelf-life, storage and care instructions, and other product specifications including volume and weight , and manufacturer's packer's name and address.

Details of import regulation can be obtained from the Hong Kong Government, Department of Health at Wu Chung House, 18/F, 213 Queen's Road East, Wanchai, Hong Kong.

C The Health Department also provides a hotline for import regulation enquires at (852)2380-2580.

Overall the economic crisis in late 1997 and 1998 has severely affected the food service sector in Hong Kong.

C Hotels and restaurants, specifically catering to high-end spending, are particularly hard hit, where as fast food and diners are almost not affected.

Despite the business decline, the food service sector is still the most important channel for selected food item distribution in Hong Kong:

C Seafood

C Red and white meat, except poultry

C High alcohol content liquor (e.g. cognac)

C Cakes and cookies

For some food items, the food service sectors , together with food retailing channels, plays an important role in sales and distribution:

C Fresh produce

C Beer

C Cooking oil and especially fat (lard)

C selected dairy products (butter/margarine, cheese, etc)

Overall the food service sector in Hong Kong is undergoing a consolidation where weaker players are phased out. Recovery is expected in one year from 1998. The consumption of selected food and beverage items is expected to increase from 1998 (particularly seafood, red meat, and liquor).

Health Department

Hygiene Division
Wu Chung House
Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2961-8807
Fax: (852) 2893-3547

Hong Kong Food Council

1/F CMA Building
64-66 Connaught Road
Central, Hong Kong
Tel: (852) 2542-8600
Fax: (852) 2541-4541

Fish/Vegetable Marketing Organisations

757 Lai Chi Kok Road,
Kowloon, Hong Kong
Tel : (852) 2387-8648
Fax : (852) 2728-7883

Customs and Excise Department

8/F, Canton Road Government Offices
393 Canton Road, Kowloon
Hong Kong
Tel: (852) 2733-2265

McDonald's Restaurants

Upper Ground Floor, Parkvale
1060 King's Road
Quarry Bay, Hong Kong
Tel : (852) 2880-7300

Angliss China Ltd

47-51 Kwai Fung Crescent,
Kwai Chung, Hong Kong
Tel : (852) 2494-2187
Fax : (852) 2489-8861

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Café De Coral Group Ltd

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Sha Tin, NT, HK
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Fax : (852) 2695-0245

Sim's Trading Company Ltd

1-11 Au Pui Wan Street,
Fo Tan, Sha Tin, Hong Kong
Tel : (852) 2699-6213
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Hong Kong Consumer Council

22nd Floor, Kah Wah Centre
191 Java Road
North Point
Tel: (852) 2856-3113
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Fairwood Fast Food Ltd

2/F, TRP Commercial Centre
18 Tanner Road, North Point, HK
Tel : (852) 2856-7111
Fax : (852) 2856-1966

Etak International Ltd

111 Hutchison House
10 Harcourt Road
Central, Hong Kong
Tel : (852) 2526-2371
Fax : (852) 2868-0055

List of Important Government Web Sites and E-Mail Addresses

Department	Web Site	E-Mail Address
Census and Statistics Department	http://www.info.gov.hk/censtatd/	genenq@censtatd.gcn.gov.hk
Company Registry	http://www.info.gov.hk/cr/	crenq@cr.gcn.gov.hk
Consumer Council	http://www.consumer.org.hk	cc@consumer.org.hk
Financial Secretary's Office Business and Services Promotion Unit	http://www.info.gov.hk/bspu/	bspuenq@bspu.gcn.gov.hk
Economic Services Bureau	http://www.info.gov.hk/esb	esbuser@esb.gov.hk
Trade and Industry Bureau	http://www.info.gov.hk/tib/	--
Department of Health Headquarters	http://www.info.gov.hk/dh/	dhenq@dh.gcn.gov.hk
Industry Department	http://www.info.gov.hk/id	industry@id.gcn.gov.hk
Trade Department	http://www/info.gov.hk/trade	dcsm@trade.gcn.gov.hk
Hong Kong Trade Development Council	http://www.tdc.org.hk	hktdc@tdc.org.hk