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## Hong Kong

## Retail Food Sector

### 2000

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#### **Report Highlights:**

The total retail sales of food and drinks in Hong Kong for 1999 reached US\$6.359 billion, rising 0.7% from US\$6.314 billion in 1998. Retail establishments in 1998 amounted to 16,112, which included (1) 125 supermarket and convenience store establishments (excluding retail outlet branches, estimated at about 1,200) and (2) 15,987 wet market stall and “mom and pop” shop operators. Although the supermarket category constitutes a very tiny number of Hong Kong’s total retail outlets, its share in terms of retail sales is significant : 44% of total sales in 1995, 45% in 1996, 44% in 1997 and 54% in 1998 and 1999.

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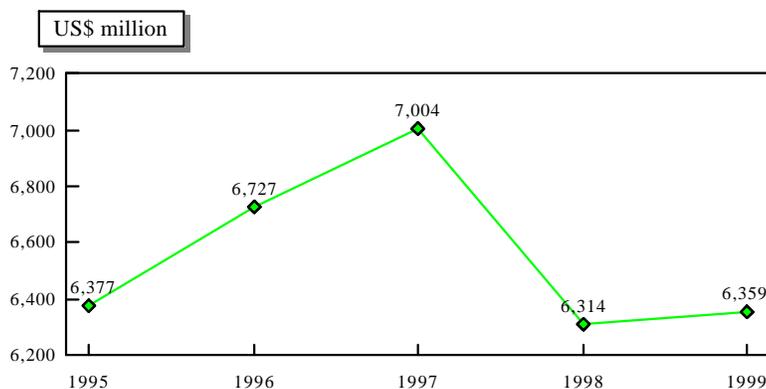
Includes PSD changes: No  
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## I. Market Summary

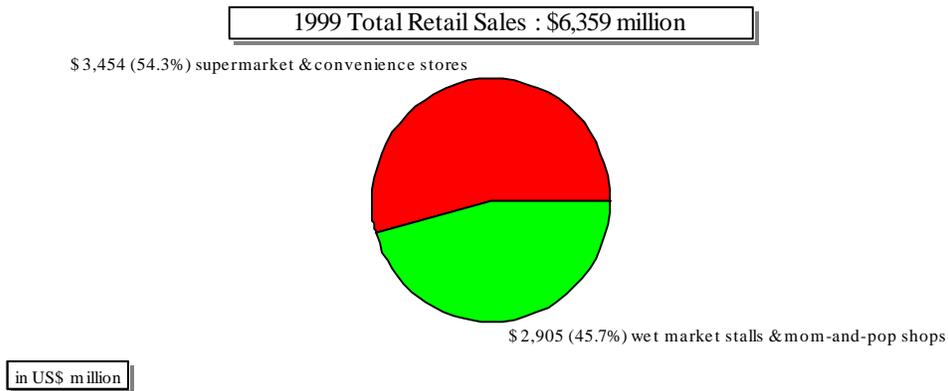
- Hong Kong has a population of 6.8 million with an annual growth rate of 2.5%. It had a per capita GDP of US\$23,201 in 1999.
- The total retail sales of food and drinks in Hong Kong for 1999 reached US\$6.359 billion, rising 0.7% from US\$6.314 billion in 1998. For January - July 2000, retail sales of food, alcoholic drinks, and tobacco for traditional markets increased 3.8 %, while that for supermarkets increased 5.3%, compared with the same period last year. In terms of volume, retail sales increased 2.3% and 14.5% for traditional markets and supermarket markets respectively. Evidently, the increase in volume far exceeded that in value for supermarkets. This could well illustrate the fact that supermarkets have been pushing down the prices, partly as a result of price competition by the large retail chains and partly in an attempt to lure more business away from traditional markets.



Retail sales 1996 (+5%), 1997 (+4%), 1998 (-9.8%), 1999 (+0.7%)

- Retail establishments in 1998 amounted to 16,112, which included (1) 125 supermarket and convenience store establishments (excluding retail outlet branches, estimated at about 1,200) and (2) 15,987 wet market stall and “mom and pop” shop operators.
- Different retail outlets have their own features. Wet markets are still very strong in “fresh food” retail such as meat, seafood, fruit and vegetables. “Mom-and-pop” shops sell conventional snacks and drink products. Convenience stores are characterized by a round-the-clock operation. Food products available include mainly snacks and beverages. In the past, Hong Kong supermarkets sold mainly canned food, snacks, biscuits (cookies and crackers), and beverages. In recent years, meat and produce also have become available in supermarkets. It seems that supermarkets are consciously planning to expand their fresh meat and produce sections in order to capture additional market share from traditional wet markets. There are 17 department stores in Hong Kong that have supermarkets in them. Most of these are Japanese department stores and they tend to carry novelty products, particularly those from Japan.
- Although the supermarket category constitutes a very tiny number of Hong Kong’s total retail outlets,

its share in terms of retail sales is significant : 44% of total sales in 1995, 45% in 1996, 44% in 1997 and 54% in 1998 and 1999. The significant jump since 1998 may indicate that supermarkets have taken much business away from traditional wet markets.



- AC Nielsen recently conducted a survey on household expenditure . Findings revealed that the average Hong Kong household makes over 30 food shopping trips each month, visiting a wet market 16 times and the supermarket 14 times. The average household spent roughly

HK\$98 per shopping trip with 80% going to food and beverage. About 45% of the food and beverage budget goes to fresh food products, where wet markets dominate with a 76% share of all sales. The survey also found out that 33% of the population still buy all their fresh foods from their local wet market. In addition, the higher the income group, the larger portion of their fresh food budget is spent in supermarkets.

- Percentage of Fresh Food Purchases Made at Wet Markets and Supermarkets Varies According to Household Income

Place	Monthly household income below HK\$12,000	Monthly household income between HK\$12,000-29,999	Monthly household income above HK\$30,000	Average
Wet market	82%	79%	64%	76%

Wellcome Supermarket	3%	4%	6%	4%
Parkn Shop Supermarket	8%	7%	19%	11%

Source: A.C. Nielsen survey

- Some significant supermarket highlights in 2000 included the closure of Carrefour and Market Republic, as a result of severe competition. In contrast, the major supermarket chains keep on expanding. ParknShop continues to materialize its “superstore” concept by converting more and more of its stores to superstores. One significant feature of the superstores is that they provide fresh provisions, thus taking much business away from wet markets.
- Although many local companies have already set up their corporate websites, primarily for promoting their products and services, Internet retailing is still at an early stage of development in Hong Kong. Presently, it is available in the retail outlet of some supermarkets and adMart. Supermarkets providing Internet shopping service include Wellcome, ParknShop, and CitySuper.
- Food products can be imported to Hong Kong duty free. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. Yet U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.
- “Resale Price Maintenance” (RPM) is a widespread practice in Hong Kong. RPM is a mechanism by which a supplier offers recommended retail prices for his products and he will stop supplying the products to any retailers who do not follow the recommended prices. In HK, most branded products are represented by exclusive agents. Being an exclusive agent in the market, the supplier can easily control the product supply and enforce RPM. In other words, he can prevent retailers from offering goods to customers at a price lower than the recommended resale price by means of RPM. ( For details, please refer to GAIN report #HK0060).
- The Hong Kong Government initiated legislative amendments to legalize the importation of parallel goods this year. In the past, legislation was ambiguous on this subject, though parallel import trade has existed in Hong Kong all the time. The objective of the Hong Kong government’s move is to provide more choices for consumers.
- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 1999, local production contributed only 12% of fresh vegetables, 18% of the live poultry, 22% of the live pigs and 57.5% of the marine fish consumed in the same year.
- Hong Kong’s GDP grew by 10.8% in the second quarter of 2000. The government revised upward its GDP forecast for 2000 from 6% to 8.5%. This shows a gradual recovery from the general economic downturn of the last few years. Hong Kong is currently experiencing relatively high unemployment of 4.8%. Despite the gradual economic recovery, the downturn in the past few years and present high unemployment have affected consumers’ eating and shopping habits. Whereas most people used to eat out frequently, now more are shopping for groceries and preparing more meals at home, or eating more

meals at low-end or fast food restaurants. Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. Demand for grocery store products, meats, poultry, eggs, and fresh fruit continue to be very strong.

Advantages	Challenges
World's freest economy (Heritage Foundation's 2001 Index of Economic Freedom). Consistent free trade and free enterprise policies. No import duty except on liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from China.. No foreign exchange controls	Severe competition between different supplying countries, aided by weaker foreign currencies.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates.	A very price sensitive market; importers' buying decisions depend largely on price.
Foreign and local businesses operate on a level playing field	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food	A virtual duopoly in food retailing allows retailers to change high slotting (shelf space) fees.
Port facilities are world-class, making Hong Kong a regional trade center and entrepot.	

## II. Road Map for Market Entry

### A. Supermarkets

#### Entry Strategy

To set up a representative office in Hong Kong is one of the most effective means that U.S. companies can use to sell their products to this market, but it is very costly. Apart from this entry strategy, there are three different ways for new-to-market exporters to get into the Hong Kong market:

Through agents : U.S. exporters may consider hiring an agent. There are several factors to consider when hiring an agent. 1) Does the prospective agent already have an account with major supermarkets? Supermarkets will more readily accept new brand products when the agent already has an account with the supermarkets. 2) Does the prospective agent have a

good marketing record and widespread distribution network?

The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well established companies have extensive distribution networks not limited to one or two supermarkets but to very extensive distribution outlets.

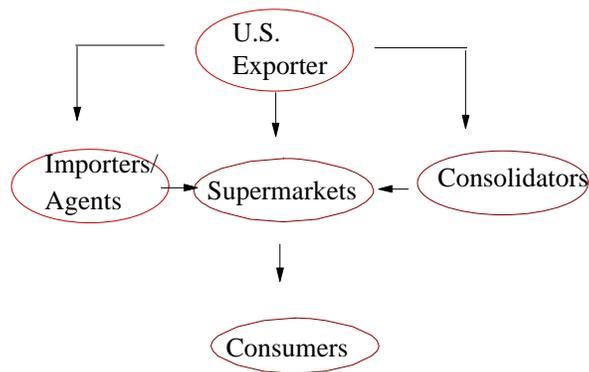
Direct to supermarkets : For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if dealing directly with retailers.

Through consolidators : Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. Their purpose is to introduce new products, which have already been very popular in overseas markets, to Hong Kong.

## Market Structure

- ATO Hong Kong provides lists of supermarkets and importers/wholesalers to U.S. exporters and we are happy to line up appointments if U.S. exporters come to Hong Kong exploring the market.



**Major Supermarket Profile**

<b>Name of Retailer</b>	<b>Ownership</b>	<b>Food Sales US\$</b>	<b>No. of Outlets</b>	<b>Location</b>	<b>Type of Purchasing agent</b>
Wellcome	Hong Kong	over \$1 billion	239	Hong Kong	Importers/Agents Direct Consolidators
ParknShop	Hong Kong	over \$1 billion	187, over 30 of which are superstores*	Hong Kong	Importers/Agents Direct Consolidators
China Resources Supermarket	China	not available	68	Hong Kong	Importers/Agents Direct Consolidators
Guangnan (KK) Supermarket	China	not available	39, of which 2 are superstores	Hong Kong	Importers/Agents Direct Consolidators
Dah Chong Hong	Hong Kong	not available	43	Hong Kong	Importers/Agents
Jusco Stores (HK) Ltd.	Japan	not available	7	Hong Kong	Importers/Agents Direct Consolidators
City Super	Hong Kong	not available	2	Hong Kong	Importers/Agents Direct Consolidators

\* The definition of superstore for Hong Kong is supermarkets over 10,000 sq. ft.

- Sources show that ParknShop and Wellcome account for about 70 percent of the supermarket turnover. Both supermarkets are able to work closely with real developers to open stores in strategic locations, thus maintaining their significant market share.
- ParknShop's first ever superstore was introduced in 1996. In addition to an expanded fresh food and grocery selection, this retail format incorporates live seafood, sushi and sashimi departments. The superstore is a replication of the traditional wet market in a modern and hygienic environment. In the past few years, ParknShop continued to expand its "wet market" concept for fresh foods and larger format superstores. The number of superstores has increased from 18 last year to over 30 this year.
- Wellcome has the largest number of stores in Hong Kong. The chain handled over 13.5 million transactions per month in 1999. According to Wellcome's published information, on average each person in Hong Kong shopped in Wellcome stores twice a month. It is estimated that the annual turnover of Wellcome should amount to over US\$1 billion. Wellcome added 21 new stores to its chain in 1999 and is expected to open 20 new stores in 2000. Although falling behind ParknShop in the number of superstores, Wellcome appears to be following the superstore trend. It has announced that it will be opening a 57,000 square foot store in a luxury residential and retail complex in the fourth quarter of 2001. While grocery and household goods constitute the bulk of the business, fresh meat and produce are becoming increasingly important. The opening of the US\$50 million Fresh Food

Processing Centre has facilitated fresh food supplies to all its stores. The Centre can handle 2,000 different products and has a capacity for two daily deliveries to the entire Wellcome network.

- Hong Kong witnessed the closure of Carrefour and Market Republic earlier this year. Market Republic sold premium food products, a wide variety of which were sourced from the U.S. The collapse of Market Republic eliminated one good retail outlet for U.S. products. Nonetheless, we have noticed that other retail outlets have indicated ever increasing interest in U.S. foodstuffs catering for the demand of the expatriate community and younger generation. For more information on Hong Kong consumers' preference for western food, please refer to Gain Report #HK0056.
- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop which have many branch stores have expensive listing fees. A product with five product ranges is expected to pay \$26,000 to \$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges \$150 for. The agent will no cost, which is transferred to the principal.
- U.S. exporters are prepared to face trading terms such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to be rebated to the major supermarkets and 8 percent to small ones.
- In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only supermarket in a Japanese department store that requires a listing fee.)
- All supermarkets except Sogo (a supermarket in a Japanese department store) have trading terms.
- In general, importers or agents have 20 percent mark-up from C.I.F. prices for food with a net profit margin of about 12 to 14 percent. The supermarket chains will mark up about 18 to 23 percent. The mark-up for different products inevitably varies. One example is that a C.I.F. Hong Kong price of a drink is HK\$9 and the retail price is HK\$17.

## **B. Convenience Stores**

(Note: Gas marts are not included in this section because they are not significant in Hong Kong because this is a small city and there are not any real long driven.)

### **Entry Strategy**

- Convenience stores buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.



## Market Structure

U.S. Exporter → Importers/Agents → Wholesalers → Traditional Markets

## Sub-Sector Profile

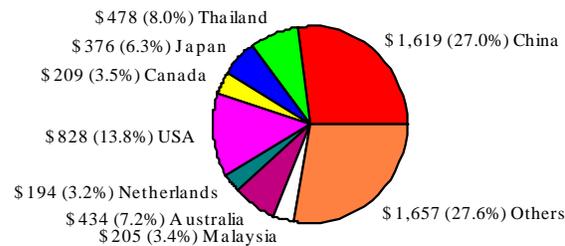
- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. According to Hong Kong government statistics, traditional markets occupied consistently around 54 percent of total retail food sales several years ago. Yet the market share decreased to 46% in 1998 and 1999. The traditional market is facing ever increasing competition from the big supermarket chains which offer fresh meat, seafood and groceries. These fresh products used to be available in wet markets only and much of the business has been taken away by supermarkets once they become available in more and more of the supermarkets. Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods.
- According to the Hong Kong government's town planning requirements, each district and public housing estate must include at least one wet market. Each wet market houses tens of stalls depending on the population it intends to serve. There are about 250 wet markets in Hong Kong.
- Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones.
- Some but not all stalls in wet markets have freezers and chilling equipment which is necessary to maintain food quality.
- One feature of traditional markets is that stalls are small, but the service they offer is personal.

## III. Competition

- Food production in Hong Kong is not significant. Food supplies rely mainly on imports. China and the U.S. are the two major suppliers, occupying a market share of 27 percent & 13.8 percent, respectively. In fact, the market share of U.S. style products is even higher because U.S. branded products manufactured in China are also classified as imports from China.
- Hong Kong is a free port and imports from all countries including domestic products compete on a level playing field. The key factors affecting procurement decisions are price, quality and packaging. U.S. products are highly regarded in Hong Kong because of their good quality and consumers' confidence in U.S. food safety. China, due to its geographical vicinity, has the advantage of lower transportation costs.
- Countries like Australia and Canada are very aggressive in promoting a wide-ranging variety of their products in Hong Kong. In addition to the efforts of their consulates to promote products, many provinces also have representative offices in Hong Kong to promote their own provinces. In-store promotion, menu promotion, trade shows and buyer missions are their usual marketing tools. In

contrast to a multi-product approach, the French have focused primarily on the promotion of wine, and Norway on salmon.

**1999 Retained Imports  
\$6,000 million**



Unit : US\$ million

**Import Market Share of U.S. Products versus Major Competitor (1999)**

Product	U.S. Import & Market Share		Major Competitor & Market Share		
	US\$ million	Market Share %	Competitor	US\$ million	Market Share %
Poultry	537	59%	Brazil	96	11%
Grapes	84	51%	Chile	49	30%
Beef	49	35%	Brazil	26	18%
Oranges	36	28%	South Africa	31	24%
Potato chips	26	74%	Japan	3	9%
Almonds	23	88%	China	3	12%
Frozen Potatoes	20	95%	Netherlands	0.26	1.23%
Cheese	3	11%	Australia	9	33%
Prunes	2	50%	France	2	50%
Breakfast Cereals	9	35%	Malaysia	4	15%

## IV. Best Product Prospects

### A. Products Present in the Market which have had Significant Growth Rate for the Past 5 Years

Products	1995 Retained Imports* of US Origin (US\$ thousand)	1999 Retained Imports of US Origin (US\$ thousand)	Growth Rate between 1995 & 1999
Grapes	52,292	61,129	17%
Beef	37,702	44,784	19%
Salty snacks	6,924	14,233	106%
Processed Red Meat Products	6,583	8,760	33%
Almonds	2,731	7,088	160%
Breakfast Cereals	2,618	3,457	32%
Processed Poultry Products	1,117	2,605	133%
Cheese	588	1,653	181%
Prunes	1,148	1,529	33%

\* "Retained imports" are the difference between Hong Kong's total imports and its re-exports, which are significantly large with certain products in high demand by mainland China. Retained imports are used to estimate demand for imports within Hong Kong borders.

### B. Products Present in the Market Significant Quantities

Products	1999 Retained Imports (US\$ thousand)	1999 Retained Imports - U.S. Origin (US\$ thousand)	Market Share of U.S. Origin Products
Poultry	339,076	161,062	48%
Oranges	102,822	27,640	27%
Ginseng	84,940	26,907	32%
Apples	50,867	12,056	24%
Ice Cream	18,840	9,027	48%
Frozen Potatoes	9,276	8,877	96%
Fruit & vegetable Juices	18,822	8,264	44%

- Hong Kong has a very small market for organic products, but the market is growing. According to a recent survey conducted by the Hong Kong Agriculture, Fisheries and Conservation Department, 90% of the Hong Kong consumers will opt for organic vegetables provided that the prices are similar to conventional products. AFCD is planning to set up an accreditation system for locally produced organic vegetables. It is expected that Hong Kong consumers will be getting more receptive to organic products.

## V. Post Contact and Further Information

Foreign Agricultural Service (FAS) Home Page: <a href="http://www.fas.usda.gov">http://www.fas.usda.gov</a>	
Hong Kong Contacts	
Agricultural Trade Office of the American Consulate General - Hong Kong 18 A, 33 Garden Road, Central, Hong Kong Tel: (852) 2841-2350 Fax: (852) 2845-0943 E-mail: <a href="mailto:ATOHongKong@fas.usda.gov">ATOHongKong@fas.usda.gov</a> Home Page: <a href="http://www.fas.usda.gov">http://www.fas.usda.gov</a> OR <a href="http://www.usconsulate.org.hk/ato">http://www.usconsulate.org.hk/ato</a>	
(Food safety control policy) Food & Environmental Hygiene Department Food and Public Health Branch 43 <sup>rd</sup> floor, Queensway government offices 66 Queensway Hong Kong Tel: (852) 2867-5511 Fax: (852) 2893-3547 E-mail: <a href="mailto:enquiries@fehd.gov.hk">enquiries@fehd.gov.hk</a> Home Page: <a href="http://www.fehd.gov.hk">http://www.fehd.gov.hk</a>	(Importation of plants & live animals) Agriculture, Fisheries and Conservation Department 5 <sup>th</sup> to 8 <sup>th</sup> floors, Cheung Sha Wan Government Offices 303 Cheung Sha Wan Road Kowloon Hong Kong Tel: (852) 2708-8885 Fax: (852) 2311-3731 E-Mail: <a href="mailto:afcdenq@afcd.gcn.gov.hk">afcdenq@afcd.gcn.gov.hk</a> Home Page: <a href="http://www.info.gov.hk/afcd">http://www.info.gov.hk/afcd</a>
(Trade Statistics) Census and Statistics Department 16 <sup>th</sup> -22 <sup>nd</sup> and 25 <sup>th</sup> floors, Wanchai Tower, 12 Harbor Road, Wan Chai, Hong Kong Tel: (852) 2582-4807 Fax: (852) 2802-4000 E-mail: <a href="mailto:genenq@censtatd.gcn.gov.hk">genenq@censtatd.gcn.gov.hk</a> Home Page: <a href="http://www.info.gov.hk/censtatd">http://www.info.gov.hk/censtatd</a>	(Licence for imported dutiable commodities) Hong Kong Customs & Excise Department Office of Dutiable Commodities Administration 6-9th floors, Harbor Building, 38 Pier Road, Central, Hong Kong Tel: (852) 2852-3027 Fax: (852) 2581-0218 E-mail: <a href="mailto:customeq@customs.gcn.gov.hk">customeq@customs.gcn.gov.hk</a> Home Page: <a href="http://www.info.gov.hk/customs">http://www.info.gov.hk/customs</a>

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<p>(Hong Kong Travel Information) Hong Kong Tourist Association 9<sup>th</sup> - 11<sup>th</sup> floors, Citicorp Center, 18 Whitfield Road, North Point, Hong Kong Tel: (852) 2807-6543 Fax: (852) 2806-0303 E-mail: <a href="mailto:info@hkta.org">info@hkta.org</a> Home Page: <a href="http://www.hkta.org">www.hkta.org</a></p>	