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Nanjing: An Emerging City Market in China's Heartland

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Report Highlights:

With a population of 6.5 million, an annual GDP growth rate of 15.2% and a strategic location in the Yangtze River Delta, Nanjing shows potential as an emerging market for U.S. exports. In 2006, a per capita income increase of 19.9% led to a growing consumer demand for higher quality products, including imported foods. Retailers inform ATO Shanghai that import sales have been on the rise and will continue to do so. To successfully expand U.S. exports to Nanjing, producers will need to raise brand awareness and educate consumers. Distribution channels will also need to be streamline for efficient delivery of goods. Best prospects for U.S. products are outlined in the report.

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A Strategic Transportation Hub

Nanjing, the capital of Jiangsu province in east-central China, is located on a bend in the Chang (Yangtze) River. The second largest city in the Yangtze River Delta (YRD) region with 6.5 million inhabitants, Nanjing plays a strategic role as the YRD transportation hub due to the intersection of three major railroad lines. Industry, which once centered primarily on “nankeen” cloth (unbleached cotton goods), has now vigorously developed and branched off into other specialties. The city now boasts an integrated iron-steel complex, an oil refinery, food-processing establishments, and hundreds of plants producing chemicals, textiles, cement, fertilizer, machinery, weaponry, electronic equipment, optical instruments, photographic equipment, and trucks. The city has the highest number of universities in China, totaling forty-three in all, which ensures a well-trained workforce unmatched by almost any other city.



Nanjing at a Glance

The Chinese capital for more than ten dynasties, including the epochal Republic of China founded by Sun Yat-Sen, Nanjing’s history spans more than 2,500 years. Sun Yat-sen’s mausoleum lies in the eastern mountain of Zhongshan, attracting millions of both foreign and domestic tourists each year.

In 2005, the GDP of Jiangsu province ranked third, comprising ten percent of total GDP in China, and per capita disposable income ranked

seventh nationwide. Additionally, it ranks second in the number of foreign-invested enterprises. Despite the fact that Nanjing is catching up quickly with first-tier cities like Shanghai, Beijing, and Guangzhou, living expenses in Nanjing still remain relatively low. Comparatively, Nanjing has an undeveloped consumer culture, suggesting that the potential buying power in Nanjing could be as strong or stronger than that in Shanghai. This rise in disposable income has further reinforced consumers’ preference for reliable, healthy food and a higher quality of life.

Nanjing Economic Data	
Population	6.5 million
GDP	241.3 billion (Year 2005)
GDP growth rate	15.2%
Annual per capita income/growth rate	US\$1,898.00 / 19.9%
Amount spent on food/growth rate	10.2%
Key agricultural products	Cotton, corn, tea, fruits, vegetables, feedstuffs, fish
Major food retailers	Suguo(supermarkets), Carrefour, Metro, Lotus, Walmart, Auchan

Source: Jiangsu Statistical Yearbook 2005 and 2006

Latest Consumer Trends Positive for U.S. Producers

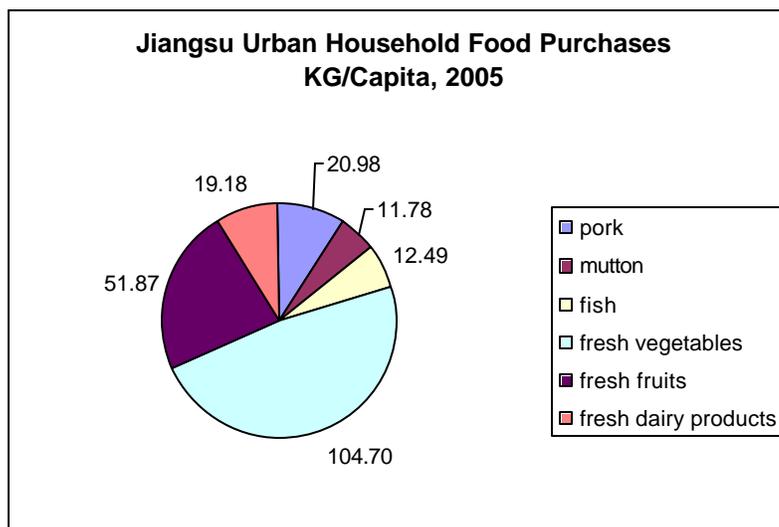
Nanjing consumers are taking advantage of their increased incomes to improve their lifestyles. They have become more demanding, and want better quality products than before, which means fresh, convenient, and healthy foods. Furthermore, they have the ability to indulge in a wider variety of products, including more imported goods.

- Fresh products are welcome

As consumers become more affluent and health conscious, they are displaying an increasing preference for fresh products. Fresh vegetables, melons, and other fruits are the top three commodity items in Nanjing urban household purchasing.

- Pursuit of convenient, healthy, reliable food

The quickening pace of life and rising disposable income in Nanjing has resulted in a growing demand for convenience. Consequently, dining out is also expected to increase in frequency. Healthy and reliable food choices are consumers' main concerns, especially after several food contamination scandals reported in newspapers throughout China.



Source: Jiangsu statistical yearbook 2005

- Increase in imported product consumption

Based on ATO/Shanghai interviews, major retailers including Metro, Walmart and Carrefour stated that the higher the percentage of imported food items in their store, the better their sales, indicating the high potential for imported food in Nanjing. Carrefour stated that although imported items are less than one percent of SKUs, they constitute ten to fifteen percent of total sales. The main consumer groups for imported food include expatriates, collage students, and white-collar workers between the ages of twenty and fifty. Carrefour and Metro told ATO/Shanghai that product sales often increase when expatriates or exchange students introduce their Chinese friends to new ingredients. Additionally, parents and grandparents frequently buy confectionary and beverage products for children in the family and prefer to buy them top of the line, imported items, creating a niche market. However, U.S. manufacturers have not effectively targeted children thus far.

- Meat consumption is on the rise

Meat and related products are the second largest imported food items in Jiangsu, which suggests an increasing consumption volume and market potential in Nanjing. U.S. beef is the most favorable item, although the ban on U.S. beef to China has not yet been lifted. People

regularly check with ATO when U.S. beef could re-enter into China, and continue to wait for a positive resolution.

- Gift market shows great potential

European confectionery products and wines are gaining quickly in comparison with their U.S. competitors. Metro, Golden Eagle, Carrefour, and Ivy Stores all pointed to product packaging and labeling differences, such as clear consumer understanding of the production date, as the main reason. European products are often similar in price, or even more expensive than American items, but the typical consumer of these luxury products is not price sensitive. Usually such items are given as gifts, so product packaging and prestige is more important than quality or price.

Retail Outlets Show Promise

An ever-expanding web of highways helps connect Nanjing to a number of important smaller industrial centers like Yangzhou, Chaohu, and Wuhu - all within an hour's drive. The close proximity has allowed eager shoppers from the surrounding areas to flock to Nanjing, which boasts the highest retail sales in the YRD region after Shanghai. Not surprisingly, all major international retailers in China have a presence in Nanjing: Carrefour, Walmart, Lotus, Metro, and Auchan, among others. Additionally, boutique specialty stores such as Ivy Food Stores and Golden Eagle target high-end consumers with imported products. However, the local retail giant Suguo dominates with more than fifty percent of market share. Suguo's main formats are supermarkets, convenience stores, small community supermarkets, shopping malls and discount outlets. Agricultural product sales make up more than sixty percent of overall sales at Suguo, but consist mainly of local produce. Foreign-invested stores like Walmart, Carrefour, and Metro show a greater willingness to promote imported and high-end consumer goods due to their familiarity with these products. During ATO/Shanghai interviews, all retailers expressed similar views concerning the prospects for imported items, reiterating that the higher percentage and variety of imported products, the greater their overall store sales.



European confectionery displays upscale packaging.

In spite of this, imports as a percentage of all store items remain small, typically accounting for less than one percent of SKUs, even at the larger international retailers. Distribution remains fragmented, creating a major problem. Retail distribution channels have not grown to match the number and quality of retail outlets. With few exceptions, distribution is handled on a store-by-store or city-by-city basis, with stores receiving most of their imports through a local distributor who is supplied by a first tier city. Because of their relative size, most stores are able to negotiate highly favorable terms that include free return of unsold products, high listing fees for new products, and credit terms with a two to three month payment period. This effectively passes the market risk onto the distributor, which makes many distributors less likely to introduce new products. Metro is moving in the direction of setting up a unified distribution center in Shanghai in order to distribute products to Nanjing, but most other retailers still rely on independent distributors in Shanghai. Various problems occur during this process: damaging of goods, (as some truck drivers turn off the refrigeration to reduce costs), improper

handling of imported products, and quantity disputes at the handling point. All of these problems potentially hinder penetration of imported products into the Nanjing market.

Another serious issue is product knowledge. Newly imported products often make it to the Chinese market because agents tell distributors they are well known in the U.S. According to Golden Eagle, many distributors find new products through trade shows and marketing campaigns initiated by the manufacturers. Obviously, a product's reputation at home does not always guarantee its success with Chinese consumers, and retailers often do not know how to promote these products for practical use. At both the Metro and Carrefour stores, ATO Shanghai noticed that many of the new products offered were condiments or ingredients for specific dishes, yet the necessary complimentary ingredients were not available, making it impossible to use the items correctly. There is little education about how products should be used, so items such as flour tortillas and salsas are not positioned near each other, as they should be for suggestive selling. Baking ingredients were sometimes spread among other condiments as well, clearly exhibiting a lack of product knowledge.

Nanjing retailers, importers, and consumers do not recognize many American brands. Nanjing consumers often buy a product as a gift because it is well known and prestigious. Currently, French wines and Belgian chocolates are preferred over American items, since European products enjoy more prestige in the Chinese mind. Japanese and Korean products have the advantage of a better understanding of gift-giving culture, and they have made more aggressive efforts to work with retailers for in-store promotions. Due to the mediocre packaging and a lack of promotion, the Nanjingese do not consider many well-known American brands that they have never heard of before. As a result, Golden Eagle reported that only about twenty percent of stock is imported from the U.S., compared with European imports which comprise fifty to sixty percent. Food festivals yielded an increase in sales for Golden Eagle, who recommended more samples and promotions to boost brand awareness and U.S. products' market share.



Adapting packaging to suit Chinese tastes

HRI sector

There are five five-star, over twenty four-star, and more than 200 three star hotels in Nanjing, with an average sales increase of thirty-three percent per year in the past three years. Additionally Jiangsu has over 100 three, four, and five-star resorts, 4,000 restaurants with seating for over 500 guests each, and thirty large chain restaurants. As per capita income in Nanjing catches up to Shanghai, consumers are increasingly lifestyle-focused and dining out has become a common occurrence in people's lives. The industry has reported fifteen percent annual growth. Chain and fast food restaurants are leading the way; with fast food restaurants comprising more than a fifty percent of market share. Western style cuisine or Chinese cuisine with Western ingredients is becoming more popular. The hindrance of further development remains a lack of new recipes, knowledge of foreign ingredients, and distribution problems.

Hotels and restaurants rely on Metro because it has the most comprehensive selection of imported products. Generally, hotels and restaurants experiment with a few new menu items, but the Jiangsu Chef's Association informed ATO/Shanghai that the chefs in Nanjing are often reluctant to modify their existing specialties to include new ingredients. However, the Jiangsu Chef's Association also pointed to the newer hotels and restaurants, many in the

surrounding areas of Nanjing, as good targets for U.S. ingredients, as they are still developing their menus to suit foreigners and Shanghainese who come to Jiangsu for weekend getaways and want a variety of cuisines.

Best sales prospects for U.S. products in Nanjing

Nanjing: Best Product Prospects		
Product	Market Segment	Notes
Fruits	Retail, Manufacturing	These products are usually distributed from Shanghai, and product damage does occur during the transport. Cold chain poses limitations to product quality.
Sauces	HRI and Retail	
Canned goods	HRI and Retail	Mainly canned vegetables such as U.S. mixed vegetables are very popular.
Beverages	Retail	Children and young people are the main consumption groups for beverages. Single child is the family focus; parents and grandparents are willing to spend money on him/her.
Condiments	HRI and Retail	
Cereals	Retail	With increasing health concern, cereals consumption is on the rise.
Wine	HRI and Retail	Wine consumption is on the rise, as consumer income increase. This is a common trend in China.
Snack Foods	Retail	Imported by major importers/distributors in Shanghai. Expatriates, exchange students from abroad led the trend and introduced the items to their friends.

Again, product varieties are limited and fewer than in Shanghai due to distribution problems and distributors being risk-averse to carry new products.

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