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Taiwan

Retail Food Sector

2000

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Report Highlights:

Stong sales growth has boosted the number of new hypermarkets and convenience stores in Taiwan.

With Taiwan heavily dependent on food imports, the retail sector is always on the look-out for new and innovative food products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Taipei ATO [TW2], TW

Executive Summary

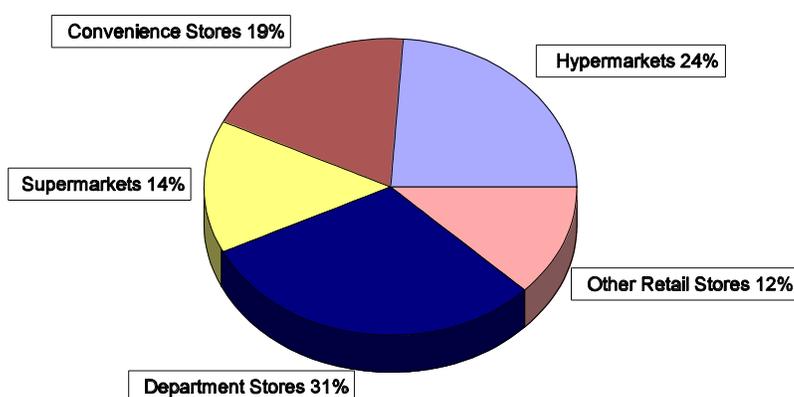
Section I. Market Summary

In years past, Taiwan's food retailing had been the domain of Mom & Pop stores, wet markets, and street stalls. This began to change in the early 1980s. 7-Eleven opened its first store in 1979, resulting in an unexpected boom for convenience stores. About 6,050 western-style chain convenience stores have been established in Taiwan by 2000. The modern supermarket industry was late in arriving to Taiwan compared to neighboring markets and was initiated in the early 1980s. Now, there are about 1,100 modern, western-style supermarket outlets in Taiwan.

Growth by large hypermarkets and cash-and-carry stores has been rapid since the first two stores, Kao Hong Wholesale World and Dutch/Taiwan joint venture Makro Hypermarket simultaneously opened in December 1989. There are now 111 hypermarket stores in Taiwan, some foreign owned and some locally owned and operated.

Retail Outlet Market Share

Total Modern Retail Sales \$17 Billion



Taiwan's modern retail stores, including supermarkets, hypermarkets, warehouse stores, convenience stores, and department stores reported sales of US\$17 billion in 1999. It accounted for 56 percent of Taiwan's food retail market share, compared with 22 percent, or US\$0.1 billion in 1986. Competition from the traditional wet markets and Mom & Pop stores is decreasing. The market share of modern food outlets is projected to continue to rise as a result of the growing popularity of modern food retailing.

Food retailing in Taiwan has entered a new era. The supermarket industry has reached a plateau after approximately 20 years of rapid expansion. Hypermarkets and convenience stores are increasing their market share of total sales at the expense of the supermarkets. Industry sources indicated that there is still much room for expansion of hypermarkets and convenience stores in Taiwan.

Retail Type	No. of Outlets	Estimated Market Size
Supermarkets	1,100	1,100
Hypermarkets	111	150
Convenience Stores	6,050	10,000

Source: *Retailing Mart*

Taiwan's retail industry is currently in a very strong competitive phase which is forcing mergers and greater concentration. Leading retail chains, such as RT Mart, Far Eastern Department Store's hypermarket chain, and Wellcome Supermarket have had merger or strategic alliances with other retail chains over the past three years. Mergers and strategic alliances are likely to continue to take place over the next few years. To reduce operating costs, retail stores are also expanding and promoting private label brands, both imported and domestic products. The percentage of private label products on the shelves of hypermarkets and supermarkets is expected to increase sharply. As average selling prices of private label products are 15-20% lower than other products, they are becoming popular in the market. In order to attract more customers, many larger stores offer other service businesses inside their stores--bakeries, cafes, fast food restaurants, and ready-to-eat hot and prepared food corners.

With the advent of convenience stores, supermarkets, hypermarkets, and warehouse stores, the effectiveness of the distribution system has been improving. The traditional distribution of imported foods in Taiwan was expensive and inefficient. Between the importer and consumer were multiple layers of middlemen, including importers, wholesale markets, wholesalers, and retailers, each adding their own margin to the product's price. However, since the introduction of modern retail stores in the early 1980's as well as the development of distribution centers, retail stores have reduced their reliance on middlemen. U.S. exporters now can sell their products directly or through importers, agents, or distribution centers to these retail stores.

With the increase in working women, more people eating-out, and the growth of single-person households, small packaged products and ready-to-cook dishes are becoming more popular. The percentage of convenience foods, microwaveable foods, vegetarian foods, organic foods, and health foods will continue to increase in modern food stores.

With Taiwan's accession to the World Trade Organization (WTO), there will be improved market access for U.S. high quality beef, fresh fruit and vegetables, seafood, frozen prepared foods, and other processed foods. Carrying a wide variety of high quality products and new-to-market products and obtaining cheap import prices are regarded as crucial to the profitability of a store. U.S. exporters now can sell directly to these stores by contacting their purchasing departments. Managers of Taiwan food retail outlets state that they welcome offers from any competitive and dependable supplier.

U.S. products carry a high quality image in Taiwan. Promotions or product samplings should be conducted to ensure that consumers are aware that their purchases are from the United States.

Advantages	Disadvantages
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U.S. products are perceived by Taiwan consumers to be high quality.	Lack of knowledge of U.S. brands by importers and retailers.
Majority of Taiwan consumers can afford imported food products.	Lack of brand awareness by consumers
The growing modern retail industry is looking for new imported food products.	Lack of importer and retailer knowledge and training in purchasing, handling, and merchandising U.S. products.

Section II. Road Map for Market Entry

A. Supermarkets/Hypermarkets

Entry Strategy

Taiwan's supermarket/hypermarket chains purchase from local importers, wholesalers, distributors, and manufacturers. To reduce the cost, the current tendency is to increase the volume and variety of direct imports to avoid the higher cost of products purchased from local importers and manufacturers. U.S. suppliers should contact these retail stores directly. A list of major Taiwan retail chains are available from the ATO/Taipei upon request.

Also, U.S. companies who wish to export their products to Taiwan should concentrate on establishing relationships with a reliable and efficient importer and distributor. The ATO in Taipei maintains listings of potential importers for U.S. suppliers.

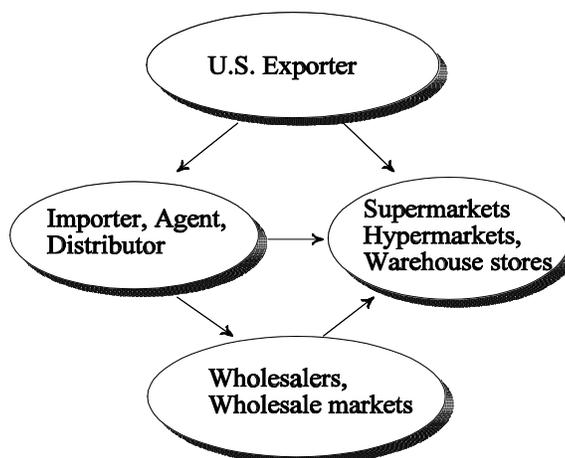
Another way to approach potential Taiwan buyers is to participate in trade shows. The ATO/Taipei will organize the American Pavilion at the 2001 Taipei International Food Show, the largest and most popular food show in Taiwan with excellent access to local food importers, wholesalers, distributors, retailers, and consumers to be held June 14-17, 2001 at the Taipei World Trade Center. The ATO in Taipei has other ongoing promotional activities that provide opportunities to meet the Taiwanese trade. For detailed information on these promotional activities, we suggest that you visit the ATO/Taipei homepage (<http://ait.org.tw/ait/AGRI/ato.htm>) or USDA/FAS Homepage (<http://www.usda.fas.gov>).

Market Structure

Imported Unprocessed Foods:

Traditionally, the majority of fresh produce and seafood are first purchased and imported by a Taiwan trading company, and then resold to local clients through a network of regional agricultural markets. However, current distribution of unprocessed foods (chilled and frozen foods) are handled by wholesalers and distributors who have the facilities and expertise to handle temperature controlled goods. Large retailers are increasingly purchasing fruit directly from importers, while they continue to purchase vegetables from wholesalers and wholesale markets.

Seafood products, although increasingly sold directly by importers to retailers, are for the most part sold through distributors and wholesalers specializing in the cold storage of chilled and frozen foods. The volume and value of unprocessed foods passing directly from importers to retailers has increased and will continue to increase in the near future.



Industry sources estimate that approximately 10 percent of imported fresh fruit is now imported directly by supermarkets, hypermarkets, and warehouse stores. The remaining 90 percent is imported by importers/distributors who in turn sell the products through wholesalers or retailers.

Generally, fruit importers sell 50 percent of their imports directly to retail stores and the remaining is sold through wholesalers/distributors.

Imported Processed Foods and Beverages: Processed foods include dry and canned goods, as well as fresh, chilled, and frozen prepared foods. Imported meat and meat products are also included as their distribution channels more closely resemble the distribution channels of processed foods. Traditionally in Taiwan, the importer of processed foods was separated from the retailer by one or more wholesalers who purchased, transported, and then resold the products. Now, it tends to be sold more frequently via direct channels from the importer/import agent directly through a distribution firm to the retailer.

Industry sources estimate that up to 98% of imported processed foods are imported through importers. Direct imports by retail stores account for only 2%.

Company Profiles**Major Hypermarket/Warehouse Store Profile**

Name of Retailer and Outlet Type	Ownership	1999 Sales US\$Mil	1999 No.of Outlets	Locations	Purchasing Agent Type
Carrefour Hypermarket	French/Taiwan	1,240	23 (26)	Nationwide	Direct, Agent, Importer
RT Mart Hypermarket	Local	744	14 (20)	Nationwide	Direct, Agent, Importer
Makro Warehouse	Dutch/Taiwan	558	9 (10)	Nationwide	Direct, Agent, Importer
Dollars Hypermarket	Local	217	5 (5)	South	Direct, Agent, Importer
Aimai Geant Hypermarket	French/Taiwan	409+	9 (14)	Nationwide	Direct, Agent, Importer
Costco Warehouse	U.S./Taiwan	-	2 (4)	Nationwide	Direct, Agent, Importer

*Figures inside the parentheses represent targeted number of stores for 2000

Hypermarkets: According to Taiwan Ministry of Economic Affairs' (MOEA) statistics, hypermarket/warehouse stores were the fastest growing segment of the retail industry, generating total sales of approximately US\$4 billion in 1999, a 16% increase from the previous year. The Carrefour Hypermarket Chain continued to be the leader, with annual sales of \$1,240 million and 23 outlets, followed by Makro Taiwan. Makro Taiwan recently restructured operations in Taiwan by shifting from a hypermarket format to the cash-and-carry niche. Makro Taiwan currently has nine stores but intends to increase its outlets to a minimum of 12 in the next five years and a maximum of 20 stores in the near future. The local Far Eastern Department Store Group's Aimai Hypermarket Chain formed Taiwan's second largest hypermarket chain with France's Casino Group in July 2000. This 50-50 joint venture between the Taiwanese and French retailers plan to open at least three new stores per year. In addition, Tesco, the largest retail chain in the U.K., announced in August 2000 its plan of opening 20 stores in Taiwan.

The annual growth rate for Taiwan's hypermarket/warehouse stores over the last five years has averaged 17 percent. Total sales turnover of this sector is expected to continue to maintain this high growth rate over the next few years.

Currently, about 15-20% of the products sold in Taiwan's supermarkets, hypermarkets, and warehouse stores are imported, with an exception of Costco Hypermarket. American products, which accounted for 35% of Costco's merchandise are reportedly the most popular items in the store. Imported food items carried in these stores are expanding.

The following is a profile of a Taiwan hypermarket: (1) average number of hours open: 12; (2) average number of employees in a store: 207; (3) average number of product items displayed in a store: 14,300; (4) average number of parking spaces for a store: 397; (5) most dynamic stores: RT Mart, Carrefour, and Sinon. Generally, Taiwan's hypermarkets are open to the public. Some stores require a membership card which is free of charge. Costco, which is an exception, charges an annual fee of NT\$1,000-1,200 (approximately US\$31-38) for a membership card.

Major Supermarket Store Profile

<u>Retailer and Outlet Type</u>	<u>Ownership</u>	<u>Sales 1999 (US\$Mil)</u>	<u>1999 No. of Outlets</u>	<u>Locations</u>	<u>Purchasing Agent Type</u>
Wellcome	HongKong/ Taiwan	279	95 (104)	Nationwide	Direct,Agent, Importer
Sung Ching	Local	90	28 (40)	Taipei	Direct,Agent, Importer
Kasumi	Local	59	17 (22)	Taipei	Direct,Agent, Importer
Taipei Agr.	Local	99	18 (21)	Taipei	Agent, Importer
Sinon	Local	-	15 (0)	Central Taiwan	Direct,Agent, Importer

*Figures inside the parentheses represent targeted number of stores for 2000

Supermarkets: The supermarket sector--caught in a squeeze between hypermarkets and convenience stores--was in last place among Taiwan's retail stores in terms of growth in number of stores and sales generated in 1999. The sector reported sales of 2.3 billion in 1999, a 5 % increase compared with the previous year. The previous rapid growth of the supermarket sector began to slow down in 1996 because of strong competition from hypermarkets and warehouse stores plus increasingly high rents. To meet stronger competition, supermarkets have been developing other effective strategies and the following actions have been taken by supermarkets: restructure their poorly performing stores instead of continuing to expand; increase the number of fresh items carried; and add service corners such as shoeshine, laundry, and photo studios. Also, some supermarkets have discontinued carrying low-profit items, maintaining a total of 6,000-7,000 items in a single store.

In September 2000, Wellcome Supermarket Chain announced a merger with the Mei Chun Supermarket Chain, boosting total outlets island-wide to 108. In October 2000, Sung Ching Supermarket Chain merged with Marukyu Supermarket Chain. Mergers and strategic alliances will continue to take place in the near future.

Approximately 80 percent of Taiwan's supermarket chains control an average of 7,200-11,000 square feet of space, excluding parking lots. The frozen and chilled area for meat, fresh produce

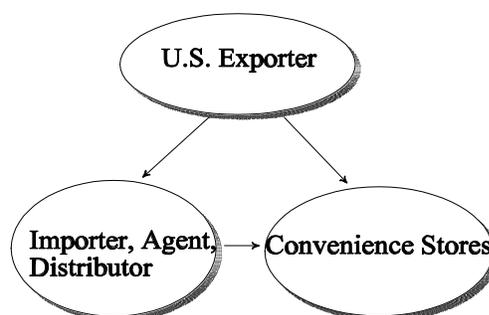
and other perishable foods account for about 30-40% of the total area and this is expanding. Supermarkets carry an average of 6,000-10,000 items in their stores--including food and non-food items.

B. Convenience Stores

Entry Strategy

The same importers, wholesalers, and distributors that provide for the supermarkets and hypermarkets provide for the convenience stores. Taiwan convenience store chains either import directly or purchase from local importers and manufacturers. U.S. suppliers can sell directly to these convenience stores by contacting their purchasing managers. In addition, U.S. suppliers should locate a reliable and efficient agent/importer/distributor to ensure that products are consistently available in the market.

The ATO in Taipei maintains listings of major convenience store chains and potential importers/distributors. U.S. companies interested in expanding their businesses with these retail stores should contact ATO/Taipei for lists of potential buyers.



Market Structure

Major Taiwan convenience store chains import directly. They also rely on importers, agents, and distributors for products. Major Taiwan convenience store chains have their own distribution centers, except Circle K, to distribute products, both dry and chilled/frozen goods, to each outlet. The other convenience stores have ties with other distribution centers.

Company Profile

Major Convenience Store Profile

Retailer and Outlet Type	Ownership	1999 Sales (US\$Mil)	1999 No. of Outlets	Locations	Type of Purchasing Agent
7-Eleven	Local	1,541	2,248 (2,550)	Nationwide	Direct, Importer, Agent
Family Mart	Taiwan/Japan	394	811 (1,005)	Nationwide	Direct, Importer, Agent
Hi-Life	Local	248	612 (740)	Nationwide	Direct, Importer, Agent
Circle K	Local	186	481 (750)	Nationwide	Direct, Importer, Agent

Niko Mart	Local	112	235 (260)	Nationwide	Direct, Importer, Agent
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*Figures inside the parentheses represent targeted number of stores for 2000

A typical Taiwan convenience store has 900-1100 square feet in area, carrying approximately 1,300-1,800 items of products, including general food (10-12%), fast food (6-8%), candies & cookies (10- 12%), periodicals (9-10%), soft drinks (23-30%), liquor & cigarettes (25-30%), service (3-4%), daily appliances (8-10%), and others (6-7%). Of the many food items sold in a convenience store, about 15% are imported.

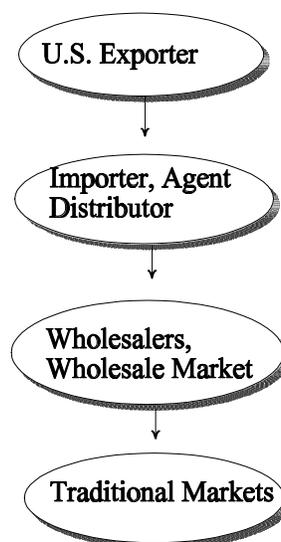
The number of frozen and microwaveable foods carried are increasing in Taiwan's convenience stores. With an average annual growth of 20%, industry sources anticipate that the next three years will be a period of strong competition and growth for convenience stores. Both Taiwan authorities and the retail industry believe this sector still has room for expansion and can accommodate up to 10,000 stores or more.

Taiwan's convenience store industry is expected to grow by over 1,000 new stores in 2000. Major Taiwan convenience store chains, including 7-Eleven, Family Mart, Hi-Life, and Circle K, have all set a target for high growth for 2000. According to a recent market research by the cabinet-level Fair Trade Commission, 7-Eleven led other convenience stores as the largest convenience store chain in terms of revenues generated and number of stores in Taiwan. 7-Eleven accounted for 42.6% of the market, followed by Family Mart (15.5%), Hi-Life (11.2%), and Circle K (10%). Also, 7-Eleven led other convenience stores, generating a 28.9% gross margin in 1999, followed by Family Mart (27.3%), Hi-Life (26%), President Bakery (24%), Niko-Mart (24%), and Circle K (23.7%).

C. Traditional Markets

Entry Strategy

The importers, distributors and wholesalers are the same who supply the supermarkets, hypermarkets, and convenience stores. Unlike supermarkets/hypermarkets, and convenience stores, the wholesalers and regional wholesale markets play the most important role in distribution of products for traditional markets. Sales of imported goods in traditional markets should not be overlooked. Industry sources estimated that around 55 percent of imported fruit from the United States are sold in wet markets islandwide.



Market Structure

Traditional markets, including wet markets and mom & pop grocery stores, rely heavily on

wholesalers for products. Currently, modern warehouse stores, such as Makro Warehouse Store and Costco Wholesale also provide products for traditional markets.

Grocery products are usually supplied by local wholesalers, although agricultural products are often purchased at regional wholesale markets.

Company Profile

Mom and Pop Grocery Stores: Mom and Pop grocery stores are still common in smaller towns on the island. Grocery products are usually supplied by local wholesalers. Although these 'mom and pop' grocery stores tend to be well located in the heart of residential areas, they are limited by the lack of shelf space and offer fewer varieties of products. Local consumers are increasingly turning to the greater product variety offered by supermarkets, hypermarkets, and convenience stores.

Wet Markets: According to statistics released by Taiwan's Ministry of Economic Affairs, there are 631 public/private wet markets and 639 street stall gathering places in Taiwan. These businesses generated nearly US\$13 billion in annual sales revenues. The major items sold in these traditional markets--meat, seafood, and fresh produce--account for over 50% of total wet market sales. Beginning in July 1999, Taiwan authorities have implemented a program to upgrade and remodel traditional wet markets.

Section III. Competition

Taiwan is a net importer of agricultural goods. In 1999, Taiwan imported US\$7.6 billion in food and agricultural products, of which US\$2.6 billion was imported from the United States. The United States (34%) was the number one agricultural supplier to Taiwan, followed by Australia (8%), Japan (8%), Malaysia (5%), Indonesia (4%), Thailand (4%), New Zealand (4%), Canada (3%), U.K. (3%), Germany (2%), France (2%), and Netherlands (2%). Australia dominates the fresh beef, mutton and wool markets. Indonesia and Malaysia dominate the Taiwan market for wood products. Japan dominates the swine skin and biscuit markets and is very competitive in other consumer ready food products. New Zealand ranks as the top supplier of dairy products.

While maintaining its position as a substantial supplier of bulk commodities, i.e. soybean, corn, and wheat, the United States supplied 50% of Taiwan's imported fresh fruit and their preparations; 57% of imported fresh vegetables and their preparations; 30% of imported chilled/frozen beef; 14% of imported fish and fish products. The United States is the top supplier of most varieties of imported fresh fruit: apples (75% or US\$62,120,000), cherries (82% or US\$17,840,000), peaches (87% or US\$29,793,000), oranges (92% or US\$8,286,000), grapefruits (99% or US\$9,760,000), plums (90% or US\$10,543,000), pears (71% or US\$1,793,000), and table grapes (97% or US\$17,034,000).

Competition is intensifying among major world agricultural and food exporters for a share of Taiwan's growing imported food market. Promotional campaigns, including in-store promotions in major retail chains and menu promotions in international hotels island-wide by country offices

in Taiwan take place year round. The 2000 Taipei International Food Show brought together 1,200 booths displaying various food and agricultural products with a total of 510 participants from 25 countries. There were ten national pavilions from Australia, Austria, Canada, Central America, Chile, France, Germany, Korea, New Zealand, and the United States.

Section IV. Best Product Prospects

With the increase in the standard of living and the current focus on healthy eating, products that provide a health benefit show the best prospects in Taiwan.

Following products are already present in the market and have good sales potential:

- Natural Fruit/Vegetable Juices
- Yogurt and other dairy products
- Edible oil, including sunflower oil, corn oil, and safflower oil
- Organic/health foods
- Frozen/microwaveable foods/other convenience foods
- Fresh fruit & vegetables
- Fish and seafood
- Health oriented (low-fat, high-fiber, and low-cholesterol) snack foods
- Food ingredients
- Meat and meat products

V. Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting to Taiwan, please contact the U.S. Agricultural Trade Office in Taiwan at the following address. Also, you are welcome to visit the ATO/Taipei homepage (<http://ait.org.tw/ait/AGRI/ATO.htm>) or USDA/FAS homepage (<http://www.fas.usda.gov>) for information on exporting to Taiwan, including "Exporter Guide", "Lobster Market Brief", "Candy Market Brief", Pet Food Market Brief", and other market briefs relating to fresh fruits, dairy products, and more.

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