



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/05/2003

GAIN Report #CH3607

China, Peoples Republic of

HRI Food Service Sector

Report

2003

Approved by:

Samuel Wong

U.S. Consulate General, Guangzhou

Prepared by:

Samuel Wong, Sharon Zhang, Susan Scurlock Theiler

Report Highlights:

This report is an update of GAIN Report #CH9634 on South China's HRI sector. The focus is on Guangzhou.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Guangzhou [CH3], CH

I. MARKET OVERVIEW

This report is an update of GAIN Report #CH9634 prepared by Susan Scurlock Theiler.

The Catering Services

The catering services of which hotels and restaurants are the major components are a vibrant business in China. The total national revenue of catering services in 1998 was RMB308.03 billion yuan (US\$37.27 billion). In 2001, it rose to RMB474.87 billion yuan (US\$57.46 billion), an increase of 54 per cent in a four-year period, or an average increase of 13.5 per cent each year (Table 1). According to a recent report, the total national business volume of catering services in 2002 had reached RMB509 billion (US\$61.6 billion), a 7.2 per cent increase over 2001. At this rate of increase, the total revenue of China's catering services will reach 545.65 billion (US\$66.02 billion). The official exchange rate is US\$1 is equivalent to RMB8.265 yuan.

Table 1: The Revenues of China's Catering Services, in RMB Billion Yuan

	1998	1999	2000	2001	Change
Total	308.03	355.48	412.33	474.87	54.16 per cent

Source: China Statistical Yearbook, 2002.

Table 2: The Chinese Urban Market Size, 2001

Political Divisions	Per Capita Disposal Income in RMB	Urban Population in thousands*	Market Size in Million USD	Per Cent of National Total
National	6,859.58	472,193	391,899	
Beijing	11,577.78	11,042	15,467	3.95
Tianjin	8,958.70	7,426	8,050	2.05
Shanghai	12,883.46	15,223	23,730	6.06
Jiangsu	7,375.10	31,786	28,363	7.24
Zhejiang	10,464.67	23,453	29,695	7.58
Shandong	7,101.08	35,535	30,531	7.79
Guangdong	10,415.19	48,956	61,692	15.74
Fujian	8,313.08	14,863	14,949	3.81

*calculated from the urban population of 2000, assuming a 3% increase from Year 2000.

The Chinese Urban Market

According to the China Statistical Yearbook, 2002, the per capita disposal income in urban China in 2001 was RMB6,859.58. There were 8 political divisions, namely, Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Shandong, Fujian and Guangdong, whose incomes were above the national average (Table 2). This report on the hotel and restaurant sectors will focus primarily on these political divisions.

Guangdong as the Leader

The urban market size of Guangdong is 1 1/2 times that of Shanghai, and almost 3 times that of Beijing. Not surprisingly, the catering services of Guangdong are ahead of that in Shanghai and Beijing (Table 3): In 1998, Guangdong's share of China's catering services was 4 1/2 times that of Shanghai, and 5 times that of Beijing. In 2001, the Guangdong's share had increased to 5 times that of Shanghai and 7 1/2 times that of Beijing.

Table 3: Relative Shares of China's Catering Services, in Per Cent

Political Divisions	1998	1999	2000	2001
National Revenue in Billion yuan (RMB)	308.03	355.48	412.33	474.87
Beijing	3.13	2.32	2.20	2.07
Tianjin	2.04	1.97	2.01	2.00
Shanghai	3.28	3.13	3.39	3.08
Jiangsu	6.60	6.20	6.40	6.45
Zhejiang	4.44	5.31	5.71	3.86
Shandong	7.10	7.57	7.56	7.56
Guangdong	15.80	16.20	15.88	15.57
Fujian	4.07	4.13	3.83	4.16

Guangdong Province and its capital Guangzhou (formerly known as Canton) has been a Chinese culinary Mecca for centuries. For many decades, Chinese cuisine in the United States was synonymous with Cantonese cuisine. People of Guangdong (Cantonese) are famous for their appetite for the exotic. Since China's economic reform in 1979 and the subsequent establishment of special economic zones in South China, thousands of migrants from the hinterland have moved to Guangdong bringing with them their traditional cuisines.

Western Influence

In addition, western food and food culture have come to China, and western influence has come in via the 5-star hotels, fast food chains, western restaurants, supermarkets, and departmental stores. Knowledge of Western food also has come through Chinese travels to Europe and America and overseas Chinese returning to China to do business. The proximity to Hong Kong, an international tourist attraction, is also a major factor in spreading new food trends to South China. In fact, the master chef for a recent American food festival in a local 5-star hotel is from Hong Kong.

However, South China's adoption of a western food culture will be a slow process despite the expansion of its catering services. Both Guangdong and Fujian have their own distinctive cuisines and they prefer their traditional fare. Even though foreign investments are high in South China, the number of non-Asian expatriates living in South China is relatively small. South China cannot count on the patronage of westerners to make a western style restaurant profitable. The successful café or coffee shops and western restaurants in 5 star hotels use a cosmopolitan (mixed) menu with diluted seasoning to suit the local tastes.

Table 4: The Revenues of China's Catering Services, in RMB Billion Yuan

Political Divisions	1998	1999	2000	2001	Per Cent Change 1998-2001
National	308.03	355.48	412.33	474.87	54.16
Beijing	9.65	8.24	9.06	9.84	1.97
Tianjin	6.28	6.99	8.29	9.47	50.80
Shanghai	10.11	11.13	13.99	14.64	44.81
Jiangsu	20.33	22.05	26.40	30.63	50.66
Zhejiang	13.68	18.88	23.56	18.35	34.14
Shandong	21.88	26.90	31.18	35.88	63.99
Guangdong	48.69	57.60	65.48	73.96	51.90
Fujian	12.54	14.69	15.81	19.74	57.42

Between 1998 and 2001, the catering business in most of the key municipalities and provinces, except Beijing, had 30 or more percent increase (Table 4). With China's continuing rising living standard and urbanization, and the increase of the urban population and disposable income, one might expect China's catering business to continue expanding and Guangdong leading in the expansion in the next five years.

Given the diehard food culture of a people, the gain will probably be concentrated in the traditional Chinese food sector. The demand of western food in South China, despite modernization, will be modest. The growth of western fast food may be the exception.

II. Market Entry & Market Structure

The Supply Chain

Generally, Chinese hotels and restaurants source their food products and ingredients from local suppliers. The chefs may propose new dishes and new ingredients but it is the head of food and beverage department or the purchasing manager of a restaurant who decide on what to purchase and from where. The suppliers are usually second level distributors who get their products from the wholesalers who either imported the food products and ingredients directly from abroad or through an importer indirectly.

To sell new products to a restaurant, US food exporters need to convince both the chefs and the purchasing managers that a sizeable number of customers are willing and able to try the new dishes created from their new products. They also need to work with suppliers and wholesalers to ensure import and distribution of products. The focus of this update is on introducing new dishes in hotels and restaurants and the role of the Agricultural Trade Office and US cooperators in promoting new food products in hotels and restaurants.

Menu Promotion

If a new dish is successful, the restaurant will make money. If it fails, the restaurant will lose money. Introducing a new dish requires extensive preparation and promotion. It also calls for sourcing of new ingredients. As a rule, chefs stay creative by offering new dishes to the public, especially in response to supplies. In South China, some Chinese dishes are seasonal. Of the endless varieties, a restaurant has the option of deciding what to offer to the public.

To offer a dish made with US food ingredients, a restaurant must have the incentive for it to take the risk and to incur the cost of sourcing the new ingredients. By sharing the cost of introducing a new dish, the US food exporters may be able to interest a local restaurant to promote the new dish. This joint venture is the rationale for having menu promotion in restaurants. It is also the rationale for holding American Food Festival on a regular basis.

Unlike a single commodity promotion, a menu promotion or an American Food Festival is a promotion of many commodities and many dishes of food. In a recent menu promotion in Guangzhou, the chef introduced 30-some new dishes using US beef, seafood, nuts, potatoes, vegetables and various food ingredients. Offering different dishes of American origin in a restaurant has the advantage of country recognition. The variety gives the customers the luxury of choice among American food instead of the monotony of tasting a single commodity prepared in different ways.

Menu promotion and American Food Festival are market development efforts best coordinated through the Agricultural Trade Office. US exporters might ensure their market promotional money is expended wisely through cooperative efforts rather than solo performance. While popularizing western cuisine (menu

promotion in western restaurants) may be the most visible way of promoting the use of US food ingredients, getting chefs of traditional Chinese restaurants to use US ingredients in their constantly changing menu might be more effective in moving a higher volume of US food products into the hotel/restaurant business.

The Cantonese Food Culture

The quality of Chinese cooking is judged on the basis of color, aroma, and taste of the finished product and Cantonese food is the ultimate expression of these three prerequisites. “Eat in Guangzhou” is a popular saying signifying the pivotal role of food in Guangzhou (and thus Guangdong) and the culinary excellence of Cantonese cuisine. An outstanding Cantonese dish is marked by the freshness of its ingredients, the elegance of presentation, and the retention of inherent flavor. Whether it is steaming, stewing, stir frying or deep frying, or roasting, the basic requirement is serving the dish in the “just right” mode – neither under nor over done. Sauces are to complement or enhance the main ingredients, not to hide their distinctive flavors.

A common saying in Guangzhou states, Cantonese will eat anything that flies except an airplane, anything that has four legs except the stool, anything that has feather except the feather-duster. Until the outbreak of the SARS epidemic in China, initially in Guangdong, Chinese restaurants displayed cages of live snakes, fowls and exotic birds, and tanks of fish and shrimps and other sea products and trays of edible worms in their lobby area to demonstrate the freshness of their products. Frozen and chilled western products are acceptable only when they are well seasoned with Chinese sauces or as an ingredient in the ubiquitous simmered Cantonese soup.

Many Cantonese believe in using food as an alternate medicine for curative and preventive functions. Specifically, they believe in the efficacy of animal body parts for strengthening or restoring the functions of human body parts. This centuries old belief accounts for the popularity of animal offal among many Southern Chinese.

Notwithstanding Cantonese people’s preference for traditional food, the more adventuresome among them are quite open to new taste. If one were to draw a number of concentric circles to represent Cantonese food preference, one might put in the innermost circle the traditional Cantonese food including the numerous provincial variations such as the Chaozhou and Kejia cuisines. As one moves to the next outer circle, one might put the popular dishes of other Chinese provinces such as those Sichuan and Hunan, Shanghai, Hangzhou, and Beijing. In the next outer circle, one might put the cuisine of Northeast Asia such as Japanese and Korean, the selections from Southeast Asia such as Thai, Vietnamese, and Malay. In the outer most circle, one would put western dishes. In other words, to enter the Chinese food market, western cuisine has to contend with many competitors. Besides, the higher cost of western food ingredients is keeping value-conscious Cantonese from adopting more western dishes.

Wining & Dining, Cantonese Style

Dining in restaurants is overwhelming popular in South China. At the height of the SARS scare, some Chinese restaurants in Guangzhou were still crowded with patrons. Cantonese people do not host dinner parties at home (partly due to the limited living space they have) but have get-together usually in a reserved private room in Chinese restaurants. Birthday parties, welcome or farewell parties, engagement or wedding

parties are occasions for celebration with a meal or a banquet. “Drinking tea” (having a snack) or “Night night” (having a night snack) are informal ways of doing business or occasions for catching up. Business relationships are often begun or ended with a banquet, with liberal consumption of wine and spirits. A more polished business transaction usually takes place at a meal usually as an apparent after-thought.

The occasions for business entertaining are many and are an essential part of the economy in China. As an expression of esteem for the honored principal guest, the host usually orders a number of uncommon dishes. The unwritten rule, until quite recently, is the necessity of left over. The amount of left over food was an index of the party’s lavishness. It showed the relative importance of the honored guest. It gave “face” to both the host and the honored guest. It showed the social standing of the host.

III. Sub-Sector Profiles

Hotel Sub-Sector

Most star-rated hotels in South China have at least one restaurant on their premise. The 5-star hotel next to the US Consulate has 7 or 8 eating and drinking spots of which the coffee shop offers a cosmopolitan menu and the exclusive grillroom offers a western continental menu. The other spots include a Japanese restaurant and a Chinese restaurant specializing in Sichuan and Shanghai food. Other 5-star hotels in Guangzhou have a similar configuration of restaurants. Due to high overhead cost, catering services in high class hotels face fierce competition from other restaurants especially the more elegant ones. Besides food, what the 5-star hotels offer their patrons are prestige and services. This is essentially a manifestation of the snob factor. For the younger nouveau riche, the ultimate show off is to host a dinner in an exclusive restaurant.

Guangdong Province has 28 five-star hotels: 10 in Shengzhen, 6 in Dongguan, 5 in Guangzhou, 4 in Zhuhai, 2 in Shantou, and 1 in Jiangmen. In addition, it has 86 four-star hotels and several exclusive golf and country clubs. These hospitality facilities are a big market for fresh or frozen and chilled products from local and international sources. Food and beverage are a significant source of income and expenditure. The Canton Trade Fair held in April and October each year is the pivotal event for Guangzhou’s hospitality business. According to Chinese trade papers, the business volume of catering services during the trade fairs is three to four times more than other days. April and October are the peak seasons for using imported food products.

The coffee shops of five-star hotels have made an enormous contribution to popularizing Western food in South China. In fact, the most successful western “café” chain in Guangzhou was initially a copy of a coffee shop in a 5-star hotel. The coffee shops usually offer all-you-can-eat buffets for breakfast, lunch and dinner. This format meets the wants of Chinese consumers, to dine in a fairly prestigious setting and to get the best value for the money. The buffets have introduced salads, raw vegetables, rolls, cheese, ice cream sundaes, avocados, pates, smoked salmon, and a great variety of western desserts. They also feature sushi, sashimi, roast prime rib of beef, US turkey, lamb chops, raw oysters, chilled cook shrimps, and other delicacies. In a recent menu promotion of US food in a 5-star hotel, the invited Chef introduced 30-some new dishes to the diners.

Restaurant Sub-Sector

Dining out has always been a priority for Cantonese people. With better living standard and more income, more people are dining out in more refined establishments. Restaurants as a whole are the dominant player in South China's catering services. Some have estimated they account for 70 per cent of the HRI market.

In 2001, Guangdong has 1243 units of catering services, an increase of 54 per cent from the total in 2000. Among the more successful Chinese restaurants are the Guangzhou Restaurant, the Taotao Ju Restaurant, the Panxi Restaurant, and the Lianxiang Lou Restaurant. Among the western restaurants, the Greenery Café, Green Islands, and Monte Carlo are more well-known, but there are numerous new comers.

Chinese Restaurants

For a Chinese restaurant to stay in business, it has to stay ahead of the industry by offering the best tasting food at the most reasonable price. It has to be constantly creative and yet consistent in its preparation and delivery. It has to acquire a name recognition or association. Using new food ingredients in traditional Chinese cooking is a continuing challenge for chefs. Getting Chinese chefs to create new dishes using US food ingredients is a singular achievement.

Specialty restaurants in South China famous for their exotic offering are in fact few in number. The more abundant ones are restaurants specializing in serving fresh seafood. They include established facilities and new establishments. Dongjiang (East River) and Nanhai Yucun (South China Fishing Village) are among the better known. Restaurants serving non-Cantonese cuisine are growing in large number. The more well-known ones are the Chaozhou restaurants (with their distinctive soy marinated dishes and plain rice porridge), the Sichuan restaurants (with their tongue numbing species), the Dongbei (northeast) restaurants (with their steamed dumplings and millet porridge), and the Hunan restaurants (with their spicy dishes). Xiaodongtian and Dongbeiren are two ethnic restaurant chains making a mark in Guangzhou.

Foreign Restaurants

In Guangzhou, 3,000 enterprises are classified as foreign catering establishment employing at least 100,000 people and many of them are apparently successful. These foreign restaurants offer a variety of cuisine ranging from American, French, Mexican, Italian, Indian, African, Australian, Korean, and Japanese. While they cater primarily to foreigners such as expatriates, business people and tourists, they also meet the culinary wants of higher-income young Chinese, especially those in whiter-collar professions and joint ventures. Foreign restaurants of necessity use foreign food ingredients more extensively. They are excellent prospects for U.S. food and beverage exporters.

Among foreign food, western desserts are unique. Instead of their traditional role as an end-of-dinner refreshment, cookies, cakes, pies, ice cream and other delights are often used in South China as specialty snack for special occasions such as birthdays and weddings.

Fast Food Restaurants

Western-style fast food restaurants such as McDonald's, Kentucky Fried Chicken (KFC) and Pizza Hut have gained a solid foothold in South China, thanks to the one child policy of China. Focusing on the child as the primary customer is the secret of their success in the South China market. Until recently, western fast food restaurants account for 82 per cent of the total turnover of the fast food sub-sector. In 2003, some western fast food restaurants are losing their market shares and McDonald's was among them.

Chinese-style fast food restaurants have been an integral part of Chinese restaurant business for many years. They are no nonsense food stalls, serving mainly inexpensive dishes and specialty snacks. They cater to wage and salary workers. Chinese fast food restaurants have no demand for U.S. food products. The traditional Chinese dishes have no use for the more expensive ingredients.

Institutional Catering

There are about 15.5 million students and 1.5 million teachers and staff in institutions of higher education, secondary schools, and primary schools in Guangdong. Most of them take at least one or two meals in the school or university canteens. Resident students usually take most of their meals in school. School canteens generally do not use foreign food products and most US products might not yet be price competitive. However, as noted earlier, China's one-child family policy is a key factor for the popularity of western fast food in Guangzhou. The effect of this policy is extended to the student years and Chinese parents are willing and able to provide their children with higher quality and more nutritious food. Getting US food products into this institutional sector will be a challenge similar to the initial introduction of western fast food and soft drinks to China. Healthy snack bars might be a starter. Partnering with catering companies would be a viable marketing option.

IV. Competition

The major competitors of US food exporters in South China are in-country joint-ventured food processing companies who can provide the HRI market with less expensive but comparable food products and ingredients. Products from these companies are enjoying a good share of the foreign food market.

The other major competitors of US food exporters are the exporters from Australia, Canada, France, Great Britain, Germany, Italy, New Zealand, Thailand and other Asian countries. These competitors can mount market promotion and implement other market development as effectively as the US Agricultural Trade Office and US industry/trade associations. Less encumbered with red tapes, the competitors are more agile and able to exploit the market.

V. Post Contact and Further Information

US Agricultural Trade Office
US Consulate General, Guangzhou
China Hotel Office Tower, 14/F
Guangzhou, 510015, China

Telephone: (8620) 8667-7553
 Fax: (8620) 8666-0703
 Email: info@atoguangzhou.org
 Website: www.atoguangzhou.org

VI. Appendix:

Business Volume of the Top 30 Catering Enterprise in Guangdong Province (2001)

In RMB Million Yuan

Order	Name of Enterprise	Business Volume
1	Shenzhen McDonald's Food Company Limited	489.87
2	Guangdong Sanyuan McDonald's Food Co., Ltd.	488.55
3	Shenzhen Kentucky Co., Ltd.	213.53
4	Guangzhou Restaurant Enterprise Group	209.94
5	Guangdong Kentucky Co. Ltd	188.50
6	China Hotel	168.98
7	White Swan Hotel	165.45
8	Guangzhou South Sea Fishing Village Co., Ltd	140.63
9	Shenzhen Mandlanwang Catering Ltd	129.09
10	Shenzhen Shaegli-Lai Hotel Co, Ltd	91.11
11	Guangzhou New Licheewan Catering & Entertainment Co., Ltd	83.45
12	Shenzhen Honey Lake Good World Seafood Market Co., Ltd	77.89
13	Guangzhou Lianxianglou Restaurant	74.94
14	Guangzhou Baiyunmeihua Seafood Restaurant	72.42
15	Dongguan Hotel	71.85
16	Shenzhen Yushi Industry Co., Ltd Pennian Hotel	71.74

17	Guagnzhou Pizza Co., Ltd	66.10
18	Panyu Xiangjiang Hotel	65.43
19	Dongguan Golden Palace Hotel	60.56
20	Shenzhen Hengfeng Hotel Co., Ltd	60.51
21	Guangzhou Dongfang Hotel	60.26
22	Foshan Hotel	60.08
23	Shenzhen Lidu Hotel	59.61
24	Guangzhou Taotaoju Catering Co., Ltd	59.29
25	Jiangmen International Finance Building	57.60
26	Guangzhou Luky Fellow Seafood Restaurant	57.21
27	Huadu New Century Hotel	57.00
28	Foshan Golden City Hotel	55.80
29	Shenzhen Guest House	53.57
30	Guangdong Sanyuan McDonald=s Food Co., Ltd Foshan Xinhua Branch	53.21
Source: Guangdong Statistical Yearbook, 2002		

Updated: June 4, 2003