Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 8/30/2000

GAIN Report #HK0050

Hong Kong

Retail Food Sector

Carrefour to Exit Hong Kong, Further Thinning the Ranks of Foreign Retail Operations

2000

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Report Highlights: French-based retailer Carrefour announced August 29 that it will close its four hypermarket operations in Hong Kong on September 18 and exit this market altogether. Carrefour is the third supermarket operation with a distinctly foreign identity to either consolidate its operations in, or make its exit from, the Hong Kong supermarket industry since the beginning of this year, leaving the two local supermarket titans, Park'n Shop and Wellcome, with steadily growing influence over the variety of imported foods offered to consumers.

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

French-based retailer Carrefour announced August 29 that it will close its four hypermarket operations in Hong Kong on September 18 and exit this market altogether. Factors cited for the retreat from Hong Kong included continuing losses due to severe supermarket competition and the difficulty in obtaining large enough sites to fully develop its hypermarket style of retailing. Local media reported that Carrefour has lost around HK$1 billion in the Hong Kong market since commencing business.

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Market Republic, the American style supermarket located in the heart of the American expatriate community on the south side of Hong Kong island, closed its doors April 30 and has not yet announced specific plans to reopen. Market Republic's closing followed by just 2 weeks the opening of Park'N Shop's new store in nearby Stanley that contains the highest concentration yet of American foods. Also, Japanese department store operator Seibu entered into an agreement with Park'N Shop (PNS) earlier this year to allow PNS to take over the operation of two of its upscale supermarkets in Causeway Bay and Central.

Since beginning its operations in Hong Kong in 1997, Carrefour was unable to expand to the point of reaching critical mass. The company blamed resrictive urban development laws in Hong Kong which make it very difficult to obtain the large amounts of retail space. Furthermore, a vicious supermarket price war starting in mid-1999 put operating margins under severe pressure. While the Carrefour closure will mean the layoff of about 490 local staff, the company intends to continue expanding its retail operations in mainland China, where it runs 22 hypermarkets. In fact, Carrefour recently opened a new large scale hypermarket in Shenzhen, just across the border from Hong Kong.

Some supermarket retailers and suppliers are speculating that restrictive practices by Park 'n Shop and Wellcome, who together account for almost 80 percent of Hong Kong supermarket sales, also played a part in the demise of Carrefour's operations. Each of these two retail juggernauts has sister property development companies that control large amounts of prime real estate in Hong Kong. Over the years, one of the keys to the success of Park'n Shop and Wellcome retail operations was their ability to obtain favored locations in prime shopping areas. Even before Carrefour has vacated its stores in Hong Kong, those sites are being eyed for occupancy by Park'n Shop and Wellcome. In fact, Wellcome has confirmed that they will be taking up a portion of the Tuen Mun Plaza Carrefour space, where they will open up a Wellcome Supermart.

By international standards, Hong Kong supermarkets remain on the small size, rarely over 40,000 square feet, but they have been expanding in recent years. A Park'n Shop official recently informed the Agricultural Trade Office that it will be moving into the fourth phase of developing its SuperStore format with the opening of a 90,000 square foot store in Tseung Kwan O later this year. Coincidentally, the Japanese department store chain JUSCO - which has the largest remaining "foreign identity" supermarket presence in Hong Kong - maintains one of its largest stores in the same area. However, for the time being, it appears as though the development of hypermarkets will bypass Hong Kong, focusing instead on mainland China.

Hong Kong's two major supermarkets have significantly increased the scope of their U.S. food offerings in recent years, partly due to competitive pressures from foreign retailers like Carrefour, Market Republic and Seibu, who are now retreating from the scene. It remains to be seen whether the imported food components of Park'n Shop's and Wellcome's product lines have reached a critical mass of their own where product selection will continue to expand, or whether this increasingly dominant duopoly will chose to curtail product selection and boost profit margins in the absence of more competition from other retailers offering a different range of foreign products.