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## China - Peoples Republic of

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### Deyang Emerging City Market Report

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Exporter Guide

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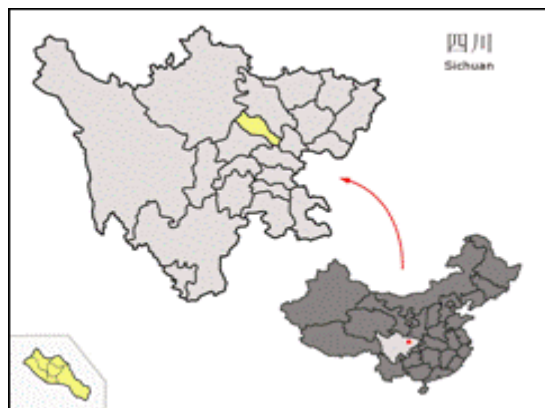
Hannah Postel

**Report Highlights:**

Deyang, an industrial city located in the northeast part of Sichuan province, has recently demonstrated rapid growth and currently ranks as the province's third largest economy. With a population of almost four million and per capita income above the provincial average, Deyang is a largely untapped market for American products. People are starting to try new imported food products for better quality and safety; however, increased market access could be difficult. Retail procurement is highly centralized and the HRI sector purchases the majority of their imported products from nearby provincial capital Chengdu.

## ***Deyang City Briefing***

The city of Deyang, established in 1983, covers an area of approximately 6,000 square kilometers and is home to 3.9 million residents. Located in northeastern Sichuan province, Deyang boasts the third highest GDP in the area at \$18.05 billion. [1] However, in comparison to neighbor and provincial capital Chengdu, Deyang is solidly a second tier city with less than one fourth of the population size and less than one fifth of GDP. [2]



Deyang has recently experienced rapid economic growth, with a 15.6 percent increase in GDP and a 1.2 percent growth rate increase from 2010.

Deyang's per capita disposable income is higher than the provincial average at \$3,075, an increase of 15.8 percent over the previous year. Deyang's unemployment rate remains low, at 3.8 percent. [3]

Total retail sales increased by 17.3 percent over the past year, implying greater food and beverage purchases. [4] Global Insight estimates that the Sichuan province's food expenditures as a whole (currently at 39.5 percent of total consumption) are expected to rise 61 percent by 2020. As incomes increase, citizens are likely to be willing to try new products for better quality and safety.

Manufacturing is the largest productive sector in Deyang, accounting for 60 percent of total GDP and demonstrating 21 percent growth over the past year. Major products include pharmaceuticals, chemicals, food, construction materials, equipment manufacturing, and textiles. The Deyang branches of Erzhong Heavy Machinery Company and Dongfang Electrical Company are the major industrial companies in the area. Expected 2012 sales for China Erzhong are expected to reach \$2.4 billion, while Dongfang Electrical expects sales of \$7.2 billion in 2012. [5] The growth of large manufacturing supported by these companies is one of the main contributors to Deyang's recent growth. However, total product yield has also increased dramatically over the last year, with output increases from 15 percent to 53 percent across industries. [6] Tertiary industry contributes 24.4 percent of total economic output, while primary industry adds 15.6 percent. [7] The latter's revenue stems from Deyang's rich reserves of phosphorite, natural gas, coal, and limestone as well as agricultural production.

Deyang relies on two railways and one highway to link it to Chengdu, 58 kilometers away. Commercial water access is limited to nearby ports Chongqing, Leshan, and Luzhou, all accessible by highway. The city was devastated by the May 2008 Sichuan earthquake, which left approximately 86,000 people dead and hundreds of thousands more homeless across the province. Located near the epicenter, Deyang was

<b>Deyang City at a Glance 2011 (USD calculated at 12/30/11 rate)</b>	
Province	Sichuan
Population	3.9 million
Land Area	6,000 km <sup>2</sup>
Gross Domestic Product (GDP)	\$18.05 billion
GDP per capita	\$5,009
Per capita disposable income	\$3,075
Growth in per capita disposable income	15.8%
Total Retail Sales of Consumer Goods	\$5.6 billion
Tourism Revenue	\$821 million
Foreign Direct Investment	\$190 million
Total Imports	\$1.5 billion
Total Exports	\$1.4 billion
<b>Source:</b> Deyang Economic and Social Development Report 2011	

supposedly the second most damaged area [8] but in 2011 completed all of its planned reconstruction projects. Agricultural productivity has surpassed its pre-earthquake levels and fixed asset investment has skyrocketed, with a 56 percent investment increase in real estate since 2010 alone. [9]

Tourism to Deyang is limited though growing. Nearby historical sites such as Sanxingdui Museum and Mt. Yinghua draw visitors interested in the ancient Shu civilization and natural scenery. Tourism revenue has increased by 26.9 percent over the past year, but still remains fairly low at \$820.6 million. [10]

In 2011, the city's total foreign trade value equaled \$2.91 billion, an increase of 30.3 percent over the previous year. Imports rose 19 percent to \$1.51 billion while exports skyrocketed 48 percent to \$1.4 billion. Exports reflect Deyang's industrial composition, with machinery and electronic products being the major goods sent abroad. Foreign direct investment (FDI) has also demonstrated a marked increase (26.3 percent) over the previous year, with total FDI now totaling \$190 million. [11]

## ***Market for Imported Products***

### **Retail Sector**

Wal-Mart and Centurymart are the two major food retailers in Deyang stocking imported products. Wal-Mart dominates the imported food sales in the city, due to limited local competition especially compared to the number of foreign retailers in Chengdu. The selection of foreign-sourced products at Wal-Mart is both larger and more diverse than that at Centurymart, though the two stores feature a similar number of American products. The most widely stocked imports at both locations were candy, beer, wine, cookies, juice, fresh fruit, and canned products. In general, imports from other Asian countries including Korea and Japan generate the highest sales because they exhibit a taste profile similar to local products. (Photo right: Imported food section at Wal-Mart).



At Wal-Mart, the only products with visible U.S. origin labels were Health Valley soup, Captain Morgan rum, Red Delicious apples, Starbucks Frappuccino coffee drinks, and Haagen Dazs ice cream. The store also sells American chicken feet, livers, and hearts, but their origin is not advertised. Imports as a whole are a marginal source of profit, accounting for less than 0.1 percent of total sales (totaling approximately \$100 thousand per month). Wal-Mart hopes to raise this figure by half again over the next year. The best selling imported products are olive oil (Spain), nuts (various), and biscuits (mainly other Asian countries). The general manager said that Wal-Mart may begin to import U.S. nuts to satisfy increased demand around certain special holidays. The best selling U.S. import is the Starbucks Frappuccino bottled beverage, which sells for approximately \$4 but accounts for only 0.025 percent of all import sales. As this figure indicates, profit from American imports is extremely low, even within the already minimal total import sales. In the imported produce section, U.S. products compete with those from New Zealand and Chile. Most citizens of Deyang still purchase their produce at wet markets due to convenience; however, imported fruit is competitive in the supermarket. Even though products such as apples and kiwis are grown locally, customers still consistently purchase imported fruit despite the price gap (the price is usually 2-3 times higher) out of curiosity. (Photo left: imported wine selection at Centurymart).



Though Centurymart offers a much smaller import selection, it is able to compete with Wal-Mart on the U.S. import front by stocking U.S. nuts, chicken feet, apples (Red Delicious and other varieties), oranges, and wine. Though most of these products are similar to those offered at Wal-Mart, sales of U.S. wine is a notable difference. The wine selection at Centurymart was both more extensive and inexpensive than that at Wal-Mart; also, it featured U.S. brands Carlo Rossi and Stone Cellars by Beringer. However, Centurymart's import sales are markedly lower than those at Wal-Mart and have not demonstrated strong signs of growth over the past few years.

### **Hotel, Restaurant, and Institutional (HRI) Sector**

Deyang is now home to nine starred hotels and a number of upscale restaurants; these locales are the most likely to utilize imported products. However, even these establishments still tend to buy from Chinese producers due to wide availability and the need to cater to local tastes. Some well-known products such as Australian beef, Italian spaghetti, and Japanese ribs are featured on the menu at Tian Di Ren He, one of the top restaurants in Deyang. The origin of these products is advertised on the menu, and they are selected specifically for their name value. Tian Di Ren He serves U.S. salad dressing and Alaskan crab; according to their manager, most American products do not yet have the fame or name value to significantly contribute to increased sales. As American products become more widely known, the restaurant will be more likely to incorporate them onto their menu. Trade barriers also contribute; for example, the restaurant believes Angus beef could be very popular and generate high sales, but American producers remain unable to legally export to China. Most hotels and restaurants in Deyang buy their imports from the wholesale markets in Chengdu because the desired products are unavailable locally. This pattern will likely not change because of Chengdu's proximity, larger population, and lower prices. Even if more imports were to become available in Deyang, they would likely not be competitive with those sold in Chengdu.

### **Low Market Saturation**

As an interior emerging city market, Deyang's market has less import penetration than more developed port cities. This provides several advantages, namely lower competition and more cost-efficient marketing. However, Deyang's proximity to the relatively import-rich Chengdu undermines some of these benefits as it is unnecessary for Deyang to increase its own import stock.

### **Centralization**

The first step to entry into the hypermarket sector is to ascertain the degree of centralization of the purchasing department. In general, it is necessary to work with the retailer's national import manager, their principal importers, and individual store purchasing managers. However, Wal-Mart's procurement is computer-controlled with a single central control facility in Shenzhen that controls the orders for all of China. Individual store managers can only influence 5-10 percent of total stocking decisions. In addition, there is a single distributor (Pingli) for all Wal-Mart stores in Southwest China. These characteristics make it more difficult for external actors to control what products are imported and thereby increase market share.

### **Challenges and Opportunities**

*Opportunities/Advantages:*

- Growing market with demand potential for imported products
- HRI sector receptive to imported food and beverage products
- Increasing awareness of U.S. food products and less competition than in developed cities
- Local residents are interested in trying new food products
- Increasing focus on eating healthily; U.S. products are valued for safety and quality

#### *Threats/Challenges:*

- Limited importers/distributors or suppliers of U.S. food products
- Proximity to Chengdu and ease of purchasing imported products there
- Strong competition from both local products and imported products from other countries
- Limited consumer knowledge of U.S. products
- Limited infrastructure and distribution; distance from port cities
- Lack of importer and retailer knowledge and training in purchasing, handling and merchandising U.S. products

### ***Market Entry Strategy***

An effective way to promote U.S. products is focusing on their quality, safety, and value as compared to both local products and foreign competitors. This differentiation of U.S. products based on their superior quality and safety is critical when competition is strong. The Wal-Mart general manager stated that if customers had to choose between nearly identical products, the perceived higher quality of the American variety would prevail. For this reason, it is important that the integrity of imported products be maintained throughout the distribution chain from port city to emerging city markets. Also, a growing number of affluent consumers in Southwest China are willing to pay a premium for superior products. The Wal-Mart managers stated that if a customer wants to buy a product, he/she will purchase it no matter the price differential. They also believe that to the local population, buying American food products confers an elite status akin to that of wearing designer clothing.

In response to recent safety and quality concerns in China, the presence of “green food,” viewed by some consumers as equivalent to organic, in the supermarkets has exploded. This is seen as the largest consumer trend over the past few years, and has enormous continued growth potential. However, most of these “green” products are locally sourced. Combined with the perception of the high quality and safety of American products, this sector shows significant growth and profit potential.

### ***In-Store Promotions***

In-store promotions such as sampling, recipe cards, video, and chef demonstrations are critical to introduce products, especially new-to-market imported products. Consumers are eager to try new, unfamiliar products, but if they are not shown uses for the product from the start, they are unlikely to purchase it again. Wal-Mart stated that every time they introduce a new product, they first set up a trial section, give out samples, and ask salespeople to explain the product’s characteristics to possible customers. If the product seems popular, they will then consider adding it to their permanent stock. According to the Wal-Mart general manager, in-store promotion is the most effective strategy to help imports sell better, ahead of price and packaging.

### ***Retailer Fees***

Some retailers are known to increase the cost of doing business by charging slotting fees, shelf fees, and festival fees. Some retailers charge promoters fees to have promotions in their stores, while others



simply ask that the promoter provide the product to be given out in samples. This can complicate the crucial promotion process.

### **Distributors and Customs**

Selecting the most suitable distribution method with regard to the type of product and target market is essential. There are three main channels for distributing food products to Southwest China: 1) local distributors that purchase their product from port cities and then sell their products to retailers, 2) regional distribution centers, normally associated with a single chain retailer, and 3) importer direct, when retailers often work with a referred importer to bring products directly inland from the port.

Products directly purchased from port city importers and shipped directly to retailers or their central distribution centers are largely cash transactions. A significant quantity of imported products is purchased by local distributors from port city importers to then sell to retailers; most of these transactions are carried out on a credit basis. Local distributors take on some of the retail risk by agreeing to returns of expired or unsold products.

It is imperative to determine that distributors have good cold chain facilities and shipping practices to ensure that product quality is maintained during shipping. Marketing U.S. products in China requires exporters to make certain that distributors are familiar with proper handling of unfamiliar imported products. Some local distributors have older-generation cold chain storage facilities that lack sufficient moisture and temperature controls necessary to consistently maintain product quality. Building close relationships with reliable distributors is highly beneficial, especially with the emphasis Chinese business culture places on relationships.

The importer (agent, distributor, or joint-venture partner) is usually responsible for the customs clearance, which entails gathering necessary documents and submitting them to Chinese Customs.

Documents required may include a bill of lading, invoice, shipping list, customs declaration form, insurance policy, and sales contract as well as other safety or quality licenses or certificates.

### **Labeling and marking**

Based on China's Food Safety Law of June 1 2009, imported pre-packaged food should have labels and instructions in Chinese. The State Administration for Quality Supervision, Inspection, and Quarantine (AQSIQ) also requires imported food items such as candy, wine, nuts, canned food, and cheese to have labels verified and products tested for quality.

(Photo right: Chinese labels on California nuts at Centurymart). According to the Food Labeling Standards of China, imported foods should have clear markings that indicate the country of origin, in addition to the name, address and contact information of the general distributor or agent registered in China. For more information on import requirements to China, please see the annual [Export Certificate Report](#) published by the Office of Agricultural Affairs in Beijing.



## **Trade policy**

Import tariff rates in China are divided into six categories: general rates, most-favored-nation rates, agreement rates, preferential rates, tariff rate quota rates and provisional rates. As both China and the United States are World Trade Organization (WTO) members, U.S. imports are assessed at the most-favored-nation rate. According to China Customs Order 954, the Administrative Regulation on Examination and Determination of the Dutiable Value of Imported and Exported Goods, the Chinese Customs authority is tasked with assessing a fair valuation to all imports. On top of normal tariff duties, both foreign and domestic enterprises are required to pay value-added taxes and business taxes. Food items containing certain additives the Ministry of Health deems harmful and products from high-risk food contamination areas are banned from entry.

## **Best Product Prospects**

Interest in health, safety, and high-end gourmet products has increased directly with higher income levels. ATO Chengdu finds that these trends have led to market entry opportunities for specific products. Health conscious products have lately been especially popular with the Chinese consumers, while red wine and olive oil have been widely accepted. Though there is strong local competition for meats and produce, there is demand for specialty, organic, and “green” products. This green and health-foods sector is largely untapped by U.S. companies; however, sale of these products would only capitalize on the perception of the higher safety and quality of American imports. U.S. imports could be more successful if they are successfully marketed as high-value, high-quality, and health-conscious products.

Some of the most successful U.S. imports are chicken feet, hearts, and livers, sold for even lower prices than their domestic equivalents. These products are not consumed in the United States and would be discarded if not shipped abroad. This is an important strategy to observe and perhaps emulate. The Chinese generally consume a wider range of food than do Americans; thus, products considered inedible in the U.S. could garner successful sales in China.

Imported meats and produce face the strongest competition from domestic products as many provinces in Southwest China are highly agricultural. U.S. wine is not as widely known or well-regarded as numerous European and Latin American wines already present in the market. American processed products such as cookies and candy are not as attractive to customers as imports from other Asian countries due to their flavor profiles. The United States seems to dominate the import market in coffee beverages and ice cream, though product selection in these areas remains extremely limited. However, these areas can still demonstrate significant growth potential if American products are price-competitive, differentiated as higher quality, and exhibit a different yet favorable taste profile. U.S.-produced hard alcohol is available in limited quantities; expanding this selection could also be profitable.

Public knowledge of U.S. products is low. Increased exposure to different American products would help sales in both the retail and FDI sectors. Supermarkets in nearby cities Chengdu and Kunming successfully stock American brands of breakfast cereal, dairy products, frozen processed products, beef, and seafood. These products are not yet available in Deyang; however, based on experience elsewhere, they could be a relatively safe starting point for increasing U.S. import diversity in Deyang.

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<sup>[1]</sup> Deyang Economic and Social Development Report 2011

<sup>[2]</sup> Sichuan Statistical Yearbook 2011

<sup>[3]</sup> Ibid.

<sup>[4]</sup> Deyang Economic and Social Development Report 2011

<sup>[5]</sup> Reuters.com

<sup>[6]</sup> Deyang Economic and Social Development Report 2011

<sup>[7]</sup> Ibid.

<sup>[8]</sup> [sichuanearthquake.org.uk](http://sichuanearthquake.org.uk)

<sup>[9]</sup> Deyang Economic and Social Development Report 2011

<sup>[10]</sup> Ibid.

<sup>[11]</sup> Ibid.