Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Date: January 4, 1998
GAIN Report #TW9003

Food Retail: Taiwan

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-- In 1997, the total market value for Taiwan's food retail sector was approximately US$27.5 billion, a 7.91% increase from 1996.
-- Hypermarkets are the fastest growing segment of the retail industry, growing 56.82% in 1997.
-- More and more manufacturers are establishing their own logistics companies and distribution centers in an effort to improve delivery times and capitalize on economies of scale.
-- Current food distribution can vary according to two factors, the temperature of the product and the geographic region of the retail outlet.
-- Rural areas tend to rely heavily on wholesalers, due to the absence of large retail chains.
-- At the retail level, pricing tends to be closely related to country-of-origin quality perceptions.
--Challenged by foreign brands, Taiwanese suppliers are emphasizing more sophisticated products, new flavors, and improved promotional campaigns.

Includes PSD changes:
Includes Trade Matrix:

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Executive Summary: Food Retail Market

In 1997, the total market value for Taiwan's food retail sector was approximately US$27.5 billion, A 7.91% increase from 1996. Sales volumes in hypermarkets and convenience stores are increasing rapidly, primarily because they do an effective job of catering to the needs of a range of consumers. Hypermarkets provide a one stop shopping solution, whereas convenience stores provide immediate service. Despite these two growing market segments, supermarkets and department stores have also managed to maintain stable growth. However, the use of hypermarkets will become a growing trend in the retail industry over the next few years, because of low prices, wider selections and the convenience of one stop shopping.

Retail Outlet Structure
--Supermarkets

In 1997, there were 492 supermarkets on the island. Store expansion has been slow in recent years relative to other retail formats. This is primarily due to stringent competition from hypermarkets and convenience stores. In addition, the difficulty in finding suitable locations and increased operating costs have hampered growth. Competition between supermarkets and hypermarkets is expected to increase, as more hypermarkets move to suburban areas in closer proximity to urban shoppers.

-- Convenience Stores

Traditional mom and pop stores are losing their share of the market to chains (such as 7-Eleven and Family Mart), as Taiwan continues to become increasingly urbanized. An increase in the number of outlets has led to growth in total annual sales, but the performance of individual stores has declined due to fierce competition. Nevertheless, 500 new stores are expected to open each eyar, particularly in the eastern portion of the island and remote areas. This sector grew 14.76% in 1997.

--Hypermarkets

Hypermarkets are the fastest growing segment of the retail industry, growing 56.82% in 1997. A Taiwanese hypermarket is generally a large, clean, well organized wet market. This, coupled with vibrant and innovative promotional and product ideas, plus a one stop shopping format, has encouraged more and more consumers to frequent hypermarkets over traditional wet markets.

-- Department Stores

Approximately 15 new department stores will open in Taiwan over the next three to five years. Most of these stores will be located in the expanding suburban areas. This segment of the retail food market has become increasingly more concentrated with 140 stores belonging to only 22 companies. This segment generated US$429 million in sales in 1997, an increase of 8.3% from the previous year. Department stores generally tend to target consumers in the middle to upper economic classes.

Times of Usage
Taiwanese consumers tend to use all three retail formats: hypermarkets, supermarkets and convenience stores, at different times and for different purposes. For instance, consumers tend to visit convenience stores early in the morning, late at night, or when traveling. Consumers visit supermarkets for fresh foods or perishable frozen

foods every 1-2 days. Normal groceries or non-food items are purchased from supermarkets on an ad hoc basis. Hypermarkets are generally frequented once a week or once a month, towards the end of the week.

Demographics
People on the west coast spend more on food than people living on the east coast. Taipei and Kaohsiung have the highest expenditures for food. The bulk of all department stores, convenience stores, supermarkets, and hypermarkets are located in the northern portion of the island.

Taiwan: Number of Food Retailers by Region 1997

Units (Number)	North	Central	South	East	Total
Department Stores	67	32	33	4	136
Supermarkets	252	144	93	25	514
Convenience Stores	2,214	1,041	1,486	3	4,744
Hypermarkets	35	12	23	0	70

Notes: North includes the areas of Keelung, Ilan, Taipei, Taoyuan, Hsinchu
Central includes the areas of Miaoli, Taichung, Changhwa, Nantou, Yunlin
South includes the areas of Chiayi, Tainan, Kaohsiung, Pingtung, Penghu
East includes the areas of Taitung, Hualien
Source:Breakthrough Magazine (1998)

Distribution Channels
More and more manufacturers are establishing their own logistics companies and distribution centers in an effort to improve delivery times and capitalize on economies of scale. Most companies in the retail industry re small to medium sized, with fewer than 50 employees. However, any registered trading company with a capital base of US$175 thousand, can handle food items. Thus, there are many importers whose small size and tight profit margins almost compelled them to play the role of importer, distributor, wholesaler, and even retailer.

Unprocessed Foods
In the past, imported seafood, fruits and vegetable followed a distribution channel which revolved around agricultural wholesale market. Importers import and resell their products to local clients through a network of regional agricultural markets. However, over the past 15 years, the following changes have occurred in the traditional distribution system:
--Hypermarkets and supermarket have captured an ever increasing proportion of the fresh/chilled market and a recent trend is to increase the volume of direct imports to avoid the higher cost of products purchased from importers.
--Many of the larger food manufacturers have created their own distribution centers
--Many importers now sell directly to retail outlets/wholesalers, thus reducing the role of the wholesale markets.
--In general, large retailers are purchasing fruit directly from the importers and vegetables from the wholesale markets.

Processed Foods

In the past, importers of processed food items were separated from the retailer by one or more wholesalers who purchased, transported and then sold the product. Consequently, the products final retail price reflected the multiple firms handling the product throughout the distribution process. Recently there have been several developments which have increased the efficiency of the distribution system by providing the retailer with the incentive and ability to reduce the number of middlemen needed to obtain food products. These changes include:

--Development and growth of large retail operations, all of which have worked to lower prices and increase margins.

--Development and growth of distribution centers which are owned by either large retailers or major food manufacturers, and independent distribution firms. These changes have enabled retailer and local manufacturers to reduce the number of wholesalers required to service their operations.

--Development of direct sales channel between importers and large retail companies, which have enabled retailers to offer lower prices and increase their own margins on products.

Current food distribution can vary according to two factors, the temperature of the product and the geographic region of the retail outlet. Dry goods requiring storage at room temperature are generally handled by dry goods wholesalers and distributors. The choice of distribution system is largely influenced by the region in which the product is being distributed. Rural areas tend to rely heavily on wholesalers, due to the absence of large retail chains.

Factors Influencing Buying Decisions

General factors influencing the buying decisions of retailers and merchandisers are as follows:

-- Market Acceptance - will this product be welcomed by the market?
- what is the brand's reputation and recognition in the market?

-- Price

--Terms of payment

--Freshness

--Service (delivery, returns on purchase)

--Peripheral services (supplier's cooking "classroom," cooking demonstration, recipes)

--Promotional strategies

Pricing

Generally, in the wholesale market, pricing is very competitive. However, at the retail level, pricing tends to be closely related to country-of-origin quality perceptions. For example, many consumers tend to regard U.S. beef as top quality beef and are willing to pay higher prices for it. High price strategies have a tendency to discourage potential buyers while on the other hand low price strategies may actually devalue a product image. Therefore, product pricing should be done in accordance with consumers' perception of the good in question.

The following are rough estimates of mark-ups at different stages of the distribution process:

Taiwan Mark-Ups at Different Stages in The Distribution System 1997

Units (% mark-up)	% mark-up
Importers	5-10
Wholesalers	0-30
Distributors (Frozen) (Dry)	12-15 4-6
Retailers	
Hypermarkets	10
Supermarkets	17-23
Mom & Pop groceries	50

Source: AMI Agri-Food Research and Consulting.

What Retailers Look For in Judging New Products
The following points are generally what retailers look for in judging new products:

--Market trend
--Health
--Convenience
--Novelty

Competition
Freshness is the number one concern of local consumers when they buy pork or chicken meat, hygiene comes in second and price tends not to be a major factor. The vast majority of consumers still favor locally produced pork and chicken meat. Challenged by foreign brands, Taiwanese suppliers are emphasizing more sophisticated products, new flavors, and improved promotional campaigns. Producers are also planning to increase the product category range. It is difficult for local agricultural products to compete against foreign counterparts in terms of price, due to the limitations on farm size and production costs. Taiwan’s rice price, for example, is doubled the international average, but other factors apart from price affect the market. For example, it is difficult for imported product to meet customers’ expectations when it comes to freshness. Tea provides a good example. The price of domestically grown tea is much higher than that of imported varieties, but consumers are familiar with the product taste and are loyal. For this reason most U.S. products ill fact the stiffest competition from the domestic market. However, a sizeable portion of the competition based on price and novelty will be from Australia, New Zealand, Canada, Thailand, and the EU.

Trends
The domestic food industry is currently holding a wait-and-see attitude concerning the impact of WTO membership. Entry into the WTO could perhaps be a turning point for Taiwan in grabbing a larger slice of the world’s food market. Prices of imported raw materials are expected to be lower, as a result the introduction of

advanced biochemistry and recycling technology. This will in turn lower food processing costs, making the Taiwanese industry more competitive internationally. The umbrella that used to protect most of Taiwan's agricultural products has almost completely vanished, and the last major agricultural product still being protected, rice, is expected to be abolished in the next few years.

Opportunities for U.S. Exporters

In Taiwan, many frozen food manufacturers have begun developing the concept of "ready-to-eat" foods for consumers. Consequently, many foods can be presented to the end consumers in a totally different way, i.e. cooked, baked, or micro waved. In addition to traditional foods there appears to be channel openings for imported frozen deserts. Ice cream consumption has been increasing rapidly in recent years. Since building brand recognition in the short term can be very difficult in the Taiwanese market, using local manufacturers' existing product lines and distribution channels may be a more profitable route. Although imported snacks tend to have more elaborate and attractive packaging, they tend to be 20%-30% more expensive and offer flavors which require consumer education. However, this can be solved by additional advertising and promotion activities such as taste tests. During the past six months, Taiwanese importers have been adversely affected by the high dollar exchange rate. However, it is predicted that the NT$ will soon regain much of its purchasing power, thus making U.S. products once more attractive to the Taiwanese market.

Best Market Prospects

Hypermarkets

In 1997 the growth rate for hypermarkets was 56.8%. Hypermarkets have become increasingly popular as a result of their attractive pricing and the "one-stop shopping" format. Although the number of hypermarkets is growing rapidly, competition is severe and intensifying. By the year 2000, over 40 additional hypermarkets are expected to open on the island. Carrefour, a French/Taiwan joint venture, is the major market player in this sector, with 20 stores. Makro is the second largest with 6 stores. Together, Carrefour and Makro account for over 65% of the total market.

Convenience Stores

The growth rate for convenience stores in 1997 was 14.8%. Although the market is mature, it is still expected to grow at a steady pace for the next two years. The market leader, 7-Eleven, is on track to open an additional 261 stores by the turn of the century, thus bringing its total number of stores to 2000.