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# **China, Peoples Republic of**

## **Retail Food Sector**

### **Report**

### **2002**

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#### **Report Highlights:**

**Export opportunities exist in south China's retail sector for U.S. companies, but the demand for imports is not as great as in years past. Products with the best prospects include: infant formula, fresh fruit and nuts, candies, microwave popcorn, and many others. Companies can improve their market entry chances by working with the ATO Guangzhou.**

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Includes PSD changes: No  
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Guangzhou [CH3], CH

## Market Brief

### I. Market Summary

- The Guangdong retail industry's 2001 food and beverage sales were an estimated \$6.56 billion (RMB 54.15 billion).
- The number of supermarkets, hypermarkets, convenience stores, department stores carrying food and beverage items, and other related retail outlets in China's Guangdong province is approximately 1,920.
- Less than five percent of the food and beverage products sold in convenience stores, hypermarkets, and supermarkets are imported. The most popular imports include: milk powder/infant formula, candy, snack foods, canned goods, and cookies. Sino-overseas joint venture products (foreign brands produced in factories in China) account for a much larger share, in some cases over 40 percent.
- Product variety in local supermarkets is considerably lower than in the United States. The number of Stock Keeping Units (SKUs) in local supermarkets on average ranges between 3,000 to 10,000 per store, compared to 20,000 in a typical U.S. supermarket.
- Local supermarket managers say that their sales volume tends to be highest for products with a retail price below 30 RMB (\$3.63) per unit. U.S.\$1 = 8.26 RMB.
- The difference between local supermarket and hypermarket product purchase price and their own consumer retail price usually ranges from 8 to 15 percent. Their net profits after taxes, rent, labor, and other overhead costs often ranges between 0.8 and 1.5 percent.
- Centralized purchasing is the norm among convenience store, supermarket, and hypermarket chains in southern China. In the 1990s, each store in a chain tended to handle their own supplies separately.
- Consumer spending remains sluggish in comparison to pre-1997 levels.
- Food and beverage retail sales are usually their highest from Mid-Autumn Festival in September to Chinese New Year (January, February).
- The entry of overseas invested hypermarkets has had a great impact on the local supermarket industry. Local supermarket chains in order to meet the competitive challenge have either 1) increased store size and discounted prices, or 2) downsized and become more like convenience stores.

<b>U.S. Supplier Strengths and Weaknesses, Market Opportunities, and Competitive Threats</b>	
<b>Advantages</b>	<b>Challenges</b>
American products are regarded as high quality by local consumers	Continued slow economic growth has dampened consumer spending
China's recent entry into the World Trade Organization will mean lower tariffs over the next five years	Non-tariff trade barriers making greater appearances
The country's major urban centers have sizable populations of relatively high income consumers, especially in southern China	The average income of local consumers is much lower than in the West
Great interest in American products on the part of both local distributors and importers	Distribution tends to depend more on relationships than salesmanship
Continuing expansion of infrastructure to support the distribution of frozen foods and produce	Infrastructure to support frozen foods and produce still is limited
Often conscientious about maintaining good relations with overseas suppliers	Ignorant about international trade finance and its methods
Gift giving is essential, and luxury foods are preferred. Shoppers like new products for gifts, and for their pampered children	Stores often rely on the stock available from the distributors who have import rights
Superior packaging gives the impression of better quality.	Domestic production improving in quality and marketing
Some southern Chinese are very open to using American ingredients to modify traditional local cuisine	Some southern Chinese very close-minded about new and different cuisines from the outside world

## **II. Road Map for Market Entry**

### **A. Supermarkets, Hypermarkets**

#### **Entry Strategy**

- Recruit a local distributor. Most retailers only purchase imported food and beverage products from local distributors in order to avoid the bureaucratic hassles involved with the import process. Many distributors who handle imports and have national reach are located in Guangdong province. The most effective recruitment methods are: 1) Exhibit at local trade shows. Due to the difficulties in obtaining a U.S. visa, many distributors confine their import

buying to overseas companies that visit and learn about the local market. 2) Work with the local U.S.D.A. Agricultural Trade Office (ATO) which has over the years developed extensive local distributor/importer contact lists. Your local U.S.D.A. ATO oftentimes can help with business introductions and meetings.

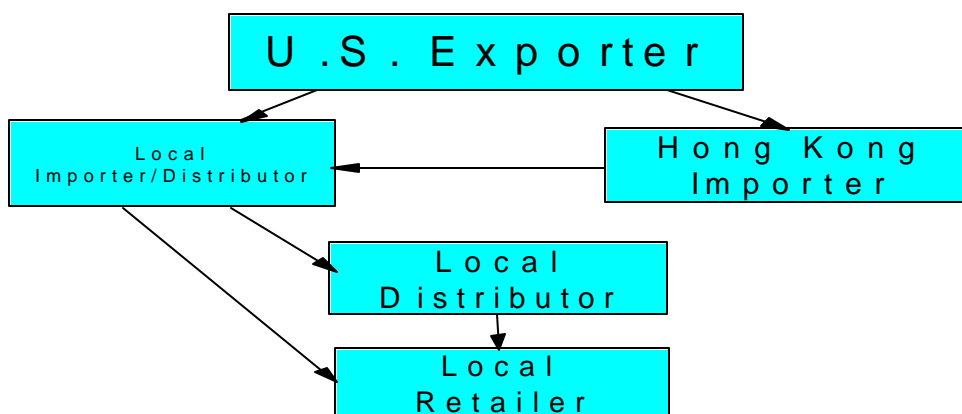
- Invest in promotion. Many supermarket and hypermarket managers feel that imported food and beverage products could be more popular in their stores if the manufacturers and distributors would spend more time and money on advertising and promotions in order to enhance consumer knowledge. Many of these same retail managers believe that television is the best way to increase consumer knowledge, but joint venture managers have claimed that Point of Purchase materials and sampling are much more effective in sales efforts.

### **Distribution Channels**

China's distribution system is complex and slightly confusing, especially in Guangdong province where unofficial import channels are numerous.

- Retailers rarely purchase imports directly from overseas suppliers, but some big name joint ventures do sell directly to retailers.
- The unofficial renting, selling, and trading of import rights has made it easy for many local companies to become imported product distributors. This system makes it difficult to assess whether a potential distributor would make a viable and reliable partner.
- Many distributors in south China rely on Hong Kong companies to be their supplier of imported food and beverage products.
- Although the application of continuous slotting fees (charging for shelf space) is rare, many retailers require special fees for product test marketing, getting good shelf space, in-store advertising, and other services.

**Chart: Distribution Flow of Imported Food and Beverage Products into South China**



<b>Company Profiles: Selected Supermarkets and Hypermarkets in Guangdong Province *</b>					
<b>Name of Retailer and Outlet Type</b>	<b>Ownership (Local or Foreign)</b>	<b>Food Sales Y 2001 (U.S. \$ estimates)</b>	<b>Number of Outlets (as of winter 2002)</b>	<b>Location</b>	<b>Relative Food Sales Efficiency per Outlet</b>
CRC	Chinese	\$103.02 million	140	Shenzhen, Dongguan, Huizhou	\$0.74 million
Park 'n Shop	Hong Kong	\$98.9 million	8	several Guangdong cities	\$12.36 million
Wal-Mart	U.S.	\$68.9 million	10	Shenzhen, Dongguan, Kunming	\$6.89 million
Trust Mart	Taiwan	\$63.3 million	11	Guangzhou	\$5.75 million
Daoneijia	Chinese	\$36.9 million	21	Guangzhou	\$1.76 million
Jusco	Sino-Japanese Joint Venture	\$24.6 million	2	Guangzhou	\$12.3 million
Hongcheng	Chinese	\$19.7 million	24	Guangzhou	\$0.82 million
Makro	Sino-Dutch Joint Venture	\$5.9 million	3	Guangzhou, Shantou	\$1.97 million
Yuexiu/Beatrice	Sino-U.S. Joint Venture	N.A.	12	Guangzhou	N.A.
* All Listed Supermarkets and Hypermarkets rely on Agents and Distributors for purchasing products.					

Local supermarkets and hypermarkets in recent times have begun to more closely resemble their Western counterparts. Approximately a decade ago, most only carried dry goods. Having frozen food and produce sections is starting to become the norm in these stores and an ever increasing number now have prepared food sections for customers to buy cooked food to take home. Food and beverage sales in supermarkets on average account for 60 to 75 percent of sales volume, but the percentages in

hypermarkets and department stores is usually lower at around 30 to 40 percent of sales.

The sales of imported food and beverage items is often less than five percent of these stores' total sales, but Sino-overseas joint venture products often capture a much higher percentage of the total in stores. In some stores, the percentage exceeds 50 percent of total sales, but the average is usually less than 40 percent.

Product purchasing is usually a passive exercise in which the retailers wait for manufacturers and distributors to come to them. However, retailers are often open-minded about trying out new products, allowing trial sales periods of one to four months before making a final decision, but many times charge a product introduction and marketing fee for initial sales in the store(s). In these cases, the product sales need to be above average in comparison with similar products in order to remain on the shelves. Seasonalities are usually taken into account. Generous payment of other fees can also keep products on the shelves for longer periods of time. Retailer private label products are rare and often only carried by retailers with ownership ties to one or more local manufacturers.

Supermarkets and hypermarkets require credit when purchasing most products from distributors and manufacturers. The re-payment period varies from chain to chain and from product to product, but 90 days is the average. Although many stores put specific re-payment periods in their purchasing agreements with distributors and manufacturers, not all stores abide by the terms and delay re-payment. These delays, unfortunately, have become common place in recent years and in turn has caused some distributors to cease distribution to supermarkets and hypermarkets.

Local supermarket and hypermarket customers on average tend to be younger, wanting greater convenience, and have higher incomes. These customers also are female more often than male. Supermarket customers spending per visit usually ranges between 20 and 30 RMB (\$2.42-3.63), and the range is higher for hypermarket customers. Although price remains the important factor when customers are considering whether to buy a product, brand and quality are assuming greater importance in customer purchasing decisions. In choosing a store, location relative to work or home is often important to customers.

Competition in the market has increased in recent years. In response, many chains are either making their stores larger to take advantage of economies of scales or converting to the smaller convenience store format. Those chains opting for making stores larger are closing many of their smaller stores (i.e. Park'n Shop). In addition, as a response to the more competitive retail environment, supermarkets and hypermarkets have been expanding customer services. For example, telephone/internet ordering and home delivery has been introduced by some retailers. Hypermarket and supermarket retailers are also inviting specialty retailers (i.e. bakeries, photo developers, coffee shops, etc.) to set up shop in the stores in order to attract more customers.

## **B. Convenience Stores, Mini- Marts, Kiosks**

Western-style convenience stores and gas station mini-marts started appearing in China during the late

1990s. As of 2002, 7-11 is the only Western-style convenience store chain with stores in south China. The am/pm convenience store chain closed its Guangzhou stores in March 2002 and transferred the locations to 7-11. Both Esso and British Petroleum operate mini-marts at many of their gas stations in south China. Convenience stores' and mini-marts' main competition is the thousands of kiosks that dot the cities, and not supermarkets and hypermarkets. As a matter of fact, some observers see their roles as complementary. One convenience store executive claims that locating near a hypermarket is good for them, because these large stores tend to generate more business than they take away.

<b>Company Profiles: Convenience Stores and Gas Marts</b>			
<b>Retailer</b>	<b>Ownership</b>	<b>Outlet Number</b>	<b>Location(s)</b>
7-11	President / Taiwan (Franchise Holder)	78	Guangzhou, Shenzhen
Meiyijia	Meijia Supermarket Chain	7	Dongguan
BP Service Station Convenience Stores	British Petroleum / PetrolChina	60	throughout Guangdong province

The customer base for convenience stores/urban kiosks and gas station mini-marts tends to be different. While convenience stores usually attract young people, gas station mini-marts tend to rely on vehicle drivers who tend to be much older. Differing customer bases has also led to differences in the products available in each type of store. While convenience stores will put a great emphasis on ready-to-eat foods and snacks, gas station mini-marts more often offer only traditional locally branded packaged products.

The market entry and distribution methodologies for convenience stores and mini-marts are about the same as for supermarkets and hypermarkets. These stores mainly stock imported candy, snacks, alcohol, and cigarettes. Convenience stores earn sizable revenues from prepared foods such as hot dogs, corn-on-the cob, and ice cream. The overseas invested convenience store chains usually buy products on credit, while kiosks often pay cash. Both convenience stores and kiosks generally sell the same types of products, except convenience stores have prepared food items and not fresh fruit while kiosks' situation is reverse.

The introduction of Western style convenience stores and min-marts has taken its toll on kiosk business in south China. Although thousands of kiosks still operate in nearly every Guangdong city, the numbers are lower than in years past. The lower numbers are particularly evident in Guangdong's main cities of Guangzhou and Shenzhen. However, many kiosks located near convenience stores and mini-marts have risen to the challenge and are more competitive than before by staying open longer hours, increasing product variety, and offering lower prices.

### **C. Traditional Markets, Small Independent Grocery Stores, and Wet Markets**

These types of stores and markets still are the most popular among the local consumers, but their numbers are diminishing. Wet markets, for example, remain the main source of their meat and produce. Some imported products find their way into these places, but by the time they reach this level all knowledge of their origin is usually lost. Any market entry strategy focusing on these places would be a waste of both time and money.

Despite wet markets' popularity, their numbers in the larger south China cities are decreasing. Local governments in an effort to improve overall urban sanitation are closing and consolidating these markets, copying efforts made by some Chinese cities in the north such as Shanghai.

### **III. Competition**

- U.S. exports of high value consumer food and beverage products in 2001 was \$58.5 million.
- Food and beverage products of U.S. origin are highly regarded by local consumer, but not necessarily regarded as the best quantity in some product categories. Local consumers rate certain products from other countries as the best (i.e., wine from France, dairy products from Australia and New Zealand).
- Many other countries have trade promotion offices in Guangdong province with staff working on food and beverage exports, but none of these offices specialize in food or beverage products. The most prominent are Australia, Canada, France, Great Britain, Italy, the Netherlands, New Zealand, Thailand, and the Philippines.
- China has a developed food and beverage industry and hosts a sizable number of food and beverage multi-nationals with production plants and distribution in south China. These companies include: Pepisco, Nabisco, Nestle, Quaker Oats, Kelloggs, President (Taiwan), and others.

### **IV. Best Product Prospects**

#### **A. Products in the market, which have good sales potential, include:**

- Snack foods, especially nuts and dried fruits
- Candy / confectionary
- Fresh fruit
- Cookies and other baked snacks
- Various Canned Products (i.e. corn, tuna)
- Frozen french fries and vegetables
- Milk powder / infant formula

#### **B. Products not present in significant quantities, but which have good sales potential, include:**



- Breakfast cereals, for consumption as snacks
- Baby foods, particular those made from fruits and vegetables
- Roasted ground coffee and coffee beans, the local market has had years of experience with instant coffee and some consumers are ready to graduate to a higher quality product
- Beef
- Chicken meat
- Microwave Popcorn

**C. Products not present because they face significant barriers include:**

- Rice: Thai and Australian origin rice is available at many local retailers, but its importation and distribution is strictly controlled

**D. Products present, but with poor sales potential, include:**

- Beer: once a popular import item, but now its imports are falling, because domestic production capacity has greatly increased within the last decade
- Wine: stiff competition from lowered priced domestic and overseas varieties, plus high tariff barriers (note: with China's entry into the WTO, alcohol tariffs are slated for decreases and import licensing for elimination)

**V. Post Contact and Further Information**

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