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Hong Kong

Retail Food Sector Report

1999

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Report Highlights:
In 1998, Hong Kong's food retail market amounted to $6.97 billion. Supermarkets and convenience stores accounted for 46 percent of total food retail sales. With the expansion of "wet market" concept for fresh foods and produce, supermarkets are expected to be able to capture a larger market share in the future. There are three different ways for U.S. exporters to get into the competitive Hong Kong market: through agents; direct to supermarkets; or through consolidators.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
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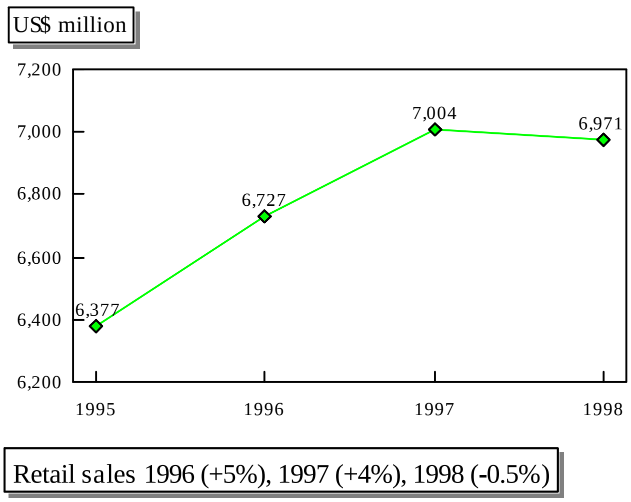
I. Market Summary

- Hong Kong has a population of 6.8 million and per capita GDP of US$24,653 in 1998.

- The total retail sales of food and drinks in Hong Kong for 1998 reached US$6.97 billion, declining 0.5 percent from US$7 billion in 1997. The decline was ascribed to the economic deflation which started in late 1997 following the South East Asian economic crisis.

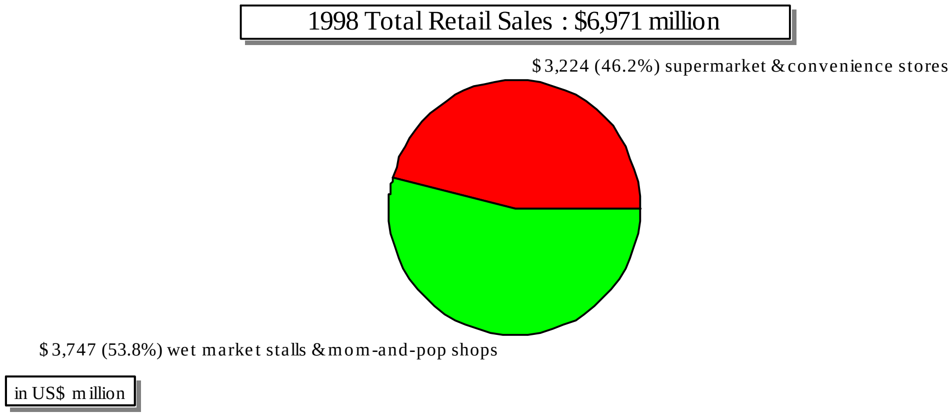


- In 1998, sales in supermarkets increased 3.7 percent, contrasting to the 3.8 percent drop of food and drinks sales in retail outlets other than supermarkets. One possible reason was that when the economy suffered a setback last year, people tended to cut expenses by not eating out, and instead cooking at home. The people who usually eat out are more likely to shop in supermarkets rather than traditional markets.

- Economic indicators showed that the Hong Kong economy is in a slow recovery trend with real GDP growing by 0.5% in the second quarter of 1999, reversing the downward trend since the first quarter of 1998. For January - June 1999, retail sales of food, alcoholic drinks, and tobacco for traditional markets increased 1.4 percent, while that for supermarkets decreased 0.7 percent, compared with the same period last year.

- Retail outlets in 1997 amounted to 16,787, which included 1) supermarkets and convenience stores (124 establishments excluding branches or 1,200 retail outlets) and 2) wet market stalls and “mom and pop” shops (16,663).

- Although the supermarket category constituted a very tiny number of Hong Kong’s total retail outlets, its share in terms of retail sales is significant : 44 percent of total sales in 1995, 45 percent in 1996, 44 percent in 1997 and 46 percent in 1998.



- Different retail outlets have their own features. Wet markets are still very strong in "fresh food" retail such as meat, seafood, fruit and vegetables. "Mom-and-pop" shops sell conventional snacks and drink products. Convenience stores are characterized by a round-the-clock operation. Food products available mainly include snacks and beverages. In the past, Hong Kong supermarkets mainly sold canned food, snacks, biscuits (cookies and crackers), and beverages. In recent years, meat and produce also have become available in supermarkets. It seems that supermarkets are consciously planning to expand their fresh meat and produce sections in order to capture additional market share from traditional wet markets. There are 23 department stores in Hong Kong that have supermarkets in them. Most of these are Japanese department stores and they're supermarkets tend to carry novelty products, particularly those from Japan.

- The 1999 Hong Kong retail market has been characterized by a price war initiated by a home delivery service run by adMart starting in June 1999 (HK# 9094). adMart is associated with a newspaper. It advertises its products through the newspaper. Orders can be placed by phone, fax, over the Internet, or through one of its small retail showrooms, and the goods are delivered the following day. Without extensive retail outlets, adMart can keep cost down and margins low. The emergence of adMart has raised awareness of the home-delivery concept. Both ParknShop and Wellcome, two major supermarket chains in Hong Kong, have revamped their own home delivery services to be more competitive with adMart.

- Although many local companies have already set up their corporate websites, primarily for promoting their products and services, Internet retailing is still at an early stage of development in Hong Kong. Presently, it is available in the retail outlet of some supermarkets and adMart. Supermarkets providing Internet shopping service include Wellcome, ParknShop, CitySuper, and Market Republic.

- Despite Hong Kong's love of a bargain, discount shopping in warehouse store has not worked well in Hong Kong. The main reason is that most people do not have cars and there are very few parking spaces in shopping malls and parking fees are expensive. In addition, Hong Kong families generally have very limited living space. As such, it is inconvenient both to bring the goods home and to store them. The GrandMart Warehouse Club, launched in 1992, initially did well, opening seven stores. But when it was forced into liquidation last year (apparently due to internal management problems), no similar operation took its place.
- Food products can be imported to Hong Kong duty free. As for technical import requirements, the

basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. Yet U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.

- The retail market for 1999 and 2000 is forecast as follows: 1) supermarkets will carry more groceries and meat and fish provisions; 2) sales of ready-to-cook food in supermarkets will rise slowly; 3) it is difficult to say how long the price war among supermarkets and adMart will last, but one thing for sure is that profit margins for retail and wholesale business will drop. 4) The increase in sales volume will be higher than that in value. 5) Traditional markets (wet markets) will face increasing competition from supermarkets.

Advantages	**Challenges**
World's freest economy (Heritage Foundation's 1999 Index of Economic Freedom);Open economy, consistent free trade and free enterprise policies.	Severe competition between different supplying countries, fueled in part by weaker foreign currencies.
No import duty except on liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate custom territory from China.	Importers' buying decision depends largely on price.
No foreign exchange controls. H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
Foreign and local businesses operate on a level playing field	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European processed foods, due to previous colonial ties with the U.K.
As one of the most affluent economies in Asia, a market leader for new products.	Subsidized exports of EU eggs and pork.
International city; residents have ample travel experiences and are receptive to western and novel food	
Port facilities are world-class, making Hong Kong a regional trade center and entrepot.	

II. Road Map for Market Entry

A. Supermarkets

Entry Strategy

To set up a representative office in Hong Kong is one of the most effective means that U.S. companies can use to sell their products to this market, but it is very costly. Apart from this entry strategy, there are three different ways for new-to-market exporters to get into the Hong Kong market:

Through agents : U.S. exporters may consider hiring an agent. There are several factors to consider when hiring an agent. 1) Does the prospective agent already have an account with major supermarkets? Supermarkets will more readily accept new brand products when that the agent already has an account with the supermarkets. 2) Does the prospective agent have a good marketing record and widespread distribution network?

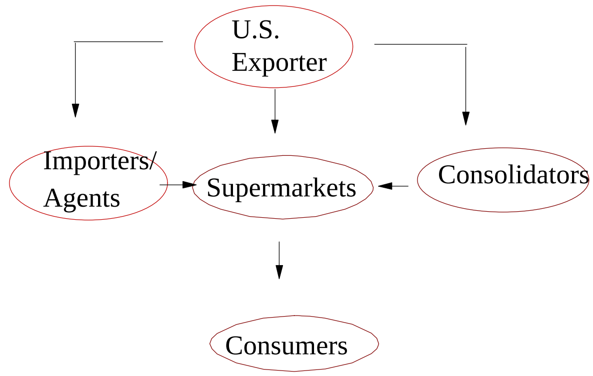
The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well established companies have extensive distribution networks not limited to one or two supermarkets but to very extensive distribution outlets.

Direct to supermarkets : For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if dealing directly with retailers.

Through consolidators : Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. Their purpose is to introduce new products, which have already been very popular in overseas markets, to Hong Kong.

Market Structure



- ATO Hong Kong provides lists of supermarkets and importers/wholesalers to U.S. exporters and we are happy to line up appointments if U.S. exporters come to Hong Kong exploring the market.

Major Supermarket Profile

Name of Retailer	Ownership	Food Sales US$	No. of Outlets	Location	Type of Purchasing agent
Wellcome	Hong Kong	over $1 billion	221	Hong Kong	Importers/Agents Direct Consolidators
ParknShop	Hong Kong	over $1 billion	180, 18 of which are superstores*	Hong Kong	Importers/Agents Direct Consolidators
China Resources Supermarket	China	not available	58	Hong Kong	Importers/Agents Direct Consolidators
Guangnan (KK) Supermarket	China	not available	45	Hong Kong	Importers/Agents Direct Consolidators
Dah Chong Hong	Hong Kong	not available	37	Hong Kong	Importers/Agents Direct Consolidators
Carrefour Hypermarket	France	not available	4	Hong Kong	Importers/Agents Direct Consolidators
City Super	Hong Kong	not available	2	Hong Kong	Importers/Agents Direct Consolidators
Market Republic	Hong Kong	not available	1	Hong Kong	Importers/Agents Direct Consolidators

- * The definition of superstore for Hong Kong is supermarkets over 10,000 sq. ft.

- Sources show that ParknShop and Wellcome account for about 70 percent of the supermarket turnover.

Both supermarkets are able to work closely with real developers to open stores in strategic locations, thus maintaining their significant market share.

- ParknShop's first ever superstore was introduced in 1996. In addition to an expanded fresh food and grocery selection, this retail format incorporates live seafood, sushi and sashimi departments. The superstore is a replication of the traditional wet market in a modern and hygienic environment. In 1998, ParknShop continued to expand its "wet market" concept for fresh foods and larger format superstores and increased its trading area 20 percent to 1,343,000 sq. ft.

- Wellcome has the largest number of stores in Hong Kong, holding 18 percent market share of total retail food sales in Hong Kong. The chain handled over 13 million transactions per month in 1998. According to Wellcome's published information, on average each person in Hong Kong shopped in Wellcome stores twice a month and spent HK$1,200 (US$155) during the year. Taking into account that Hong Kong has a population of 6.8 million, the annual turnover of Wellcome should amount to over US$1 billion.

- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop which have many branch stores have expensive listing fees. A product with five product ranges is expected to pay $26,000 to $39,000. On the other hand, Carrefour charges $130 - 650 for each product per store, Jusco, a supermarket in a Japanese department store, charges $150 for all its stores. The agent will not bear this cost, which is transferred to the principal.

- U.S. exporters are prepared to face trading terms such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to rebated to the major supermarkets and 8 percent to small ones.

- In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only supermarket in a Japanese department store that requires a listing fee.)

- All supermarkets except Sogo (a supermarket in a Japanese department store) have trading terms.

- In general, importers or agents have 20 percent mark-up from C.I.F. prices for food with a net profit margin of about 12 to 14 percent. The supermarket chains will mark up about 18 to 23 percent. The mark-up for different products inevitably varies. One example is that a C.I.F. Hong Kong price of a drink is HK$9 and the retail price is HK$17.

B. Convenience Stores

(Note: Gas marts are not included in this section because they are not significant in Hong Kong because this is a small city and there are not any real long driven.)

Entry Strategy

- Convenience stores buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

- Listing fees are also required for convenience stores.

Market Structure

U.S. Exporters → Importers/Agents → Convenience Stores

Company Profiles

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established	Monthly transactions	Clients' age
7-Eleven	Hong Kong	350 (194 of which are franchised)	HK	Importers Agents	1981	16 million	15-35
Circle K	Hong Kong	110	HK	Importers Agents	1985	6 million	15-35

- Convenience stores are characterized by a round-the-clock operation. Since only limited choice of brand names is available and prices are generally less competitive, the buying pattern of their customers tends to be a "fill-in" type, whereby goods are normally bought in small quantities for immediate consumption. There are two major operators of convenience stores in Hong Kong : 7-Eleven Food Store and Circle K Convenience Store. These are ideal outlets for drinks and snacks.

- The average store size of a convenience store is 1,000 sq. ft.

- In 1999, 7-Eleven introduced a series of programs. Included in this was a new Appetizer bar concept that provides a wide variety of freshly cooked food. This will be expanded to 150 stores in 1999.

C. Traditional Markets

Entry Strategy

- U.S. exporters who wish to capture this market segment have to make sure that their importers/agents have good distribution networks to the traditional markets through wholesalers.

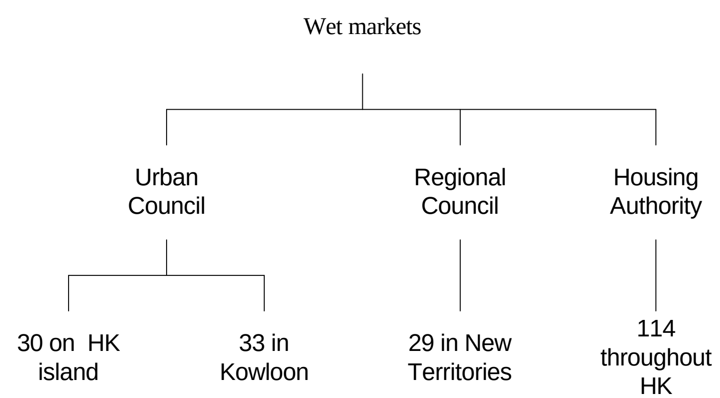
Market Structure

U.S. Exporter → Importers/Agents → Wholesalers → Traditional Markets

Sub-Sector Profile

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. According to Hong Kong government statistics, traditional markets occupied consistently around 54 percent of total retail food sales in the past four years. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets particularly for seafood, meat and groceries. Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods.

- Wet Markets in Hong Kong are owned by different government departments



- According to the Hong Kong government's town planning requirements, each district and public housing estate must include at least one wet market. Each wet market houses tens of stalls depending on the population it intends to serve. With the establishment of more new towns in Hong Kong, wet markets under the Housing Authority have increased slightly from 110 in 1997 to 114 in 1999.

- Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones.

- Some but not all stalls in wet markets have freezers and chilling equipment which is necessary to maintain food quality.

- One feature of traditional markets is that stalls are small, but the service they offer is personal.

III. Competition

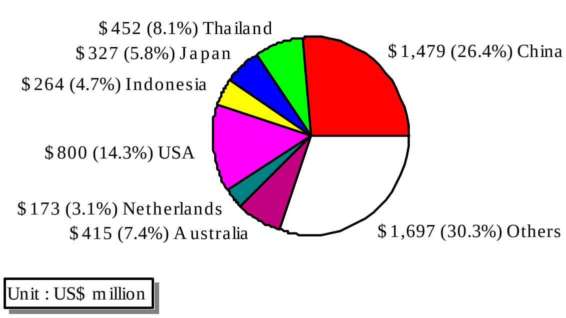
- Food production in Hong Kong is not significant. Food supplies rely mainly on imports. China and the U.S. are the two major suppliers, occupying a market share of 26 percent & 14 percent, respectively. In fact, the market share of U.S. style products is even higher because U.S. branded products manufactured in China are also classified as imports from China.

- Hong Kong is a free port and imports from all countries including domestic products compete on a level playing field. The key factors affecting procurement decisions are price, quality and packaging. U.S. products are highly regarded in Hong Kong because of their good quality and consumers' confidence in U.S. food safety. China, due to its geographical vicinity, has the advantage of lower transportation costs.

- Countries like Australia and Canada are very aggressive in promoting a wide-ranging variety of their products in Hong Kong. In addition to the efforts of their consulates to promote products, many provinces also have representative offices in Hong Kong to promote their own provinces. In-store promotion, menu promotion, trade shows and buyer missions are their usual marketing tools. In contrast to a multi-product approach, the French have focused primarily on the promotion of wine, and Norway on salmon.

- The market share of retained imports (total imports minus re-exports to mainland China and other destinations) from the U.S. and its key competitors is contained in the table in the "Best Product Prospects" section.

1998 Retained Imports
$5,607 million



IV. Best Product Prospects

A. Products Present in the Market Which have Good Sales Potential

Products	1998 Retained imports of US Origin (US$ thousand)	Market Share of Retained Imports from the US (%)	Market Share of Major Competitor
Poultry	147,939	49%	Brazil, 13%
Pork	6,683	4%	Brazil, 41%
Fresh Fruit	250,563	35%	Thailand, 10%
Milk	4,510	3%	Netherlands, 24%
Processed Swine Meat	7,285	11%	China, 59%
Beef	35,695	32%	New Zealand, 19%
Vegetables, fresh/frozen	56,410	42%	China, 19%

B. Products Not Present in Significant Quantities but Which have Good Sales Potential

- Health food
- Fruit juices
- Honey
- Ice cream
- Live lobster
- Wine
- Barbecue/Chili sauces
- Seabass
- Scallop

C. Products Not Present Because They Face Significant Barriers

Not applicable because Hong Kong is a free market with no trade barriers. Also, the Hong Kong government does not provide any subsidy to its food manufacturing industry.

V. Post Contact and Further Information

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American Consulate General
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Hong Kong

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Internet Homepage: http://www.usconsulate.org.hk/ato

Foreign Agricultural Service homepage: http://www.fas.usda.gov. It includes:

- Hong Kong Food and Agricultural Import Regulations and Standards (Gain Report #9078)
- Reports from ATO, Hong Kong
- Information on exporting U.S. agricultural products to other countries, etc.