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Taiwan

Retail Food Sector

Report

2001

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Report Hights:

With over 20 years of rapid growth, Taiwan's retail food sector has entered a new era -- strong competition, mergers, greater concentration, and globalization. In spite of an overall economic slowdown in Taiwan, retail stores continue to expand, albeit with more prudent strategies.

Taiwan is to further liberalize its markets and reduce import tariffs for both industrial and agricultural products after it becomes a full member of the World Trade Organization (WTO) in early 2002. With its accession to the WTO, there will be improved market access for U.S. consumer food products, such as high quality beef, fresh fruit and vegetables, seafood, frozen prepared foods, and other processed foods.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Taipei ATO [TW2], TW

Executive Summary

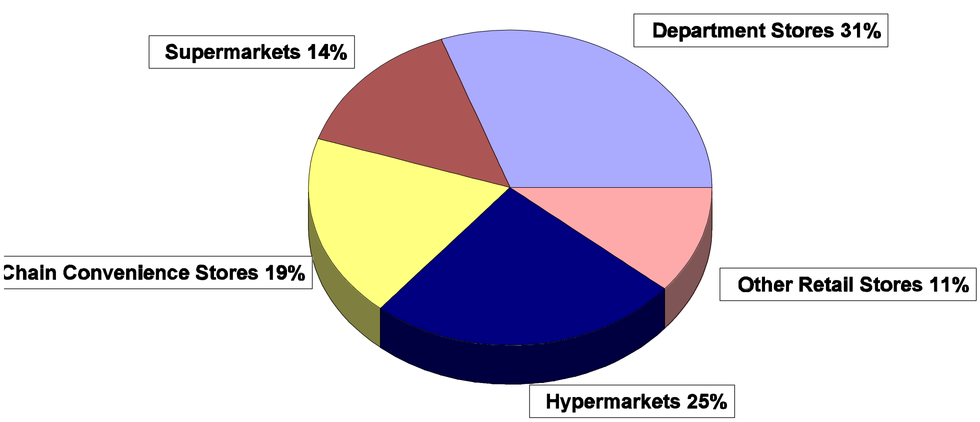
Section I. Market Summary

Modern western-style retail stores have been present in Taiwan for more than twenty years. With the explosive growth in convenience stores, supermarkets, and hypermarkets, food retailing in Taiwan has entered a new era--strong competition, mergers, greater concentration, and globalization. The Netherlands cash-and-carry chain Makro was the first foreign retailer to open a store in Taiwan in late 1989. Carrefour (France), currently Taiwan's leading hypermarket chain, arrived in the market almost at the same time. The latest arrivals include Auchan of France, Britains's Tesco, France's Geant, and Costco of the U.S. Industry sources predict that mergers and strategic alliances will continue to occur over the next few years.

In spite of an overall economic slowdown in Taiwan, retail stores are continuing to expand, albeit with more prudent strategies. According to the Ministry of Economic Affairs' statistics, Taiwan supermarkets, hypermarkets, warehouse stores, convenience stores, and department stores reported total sales of US$19 billion in 2000, a nine percent increase compared to 1999 figures.

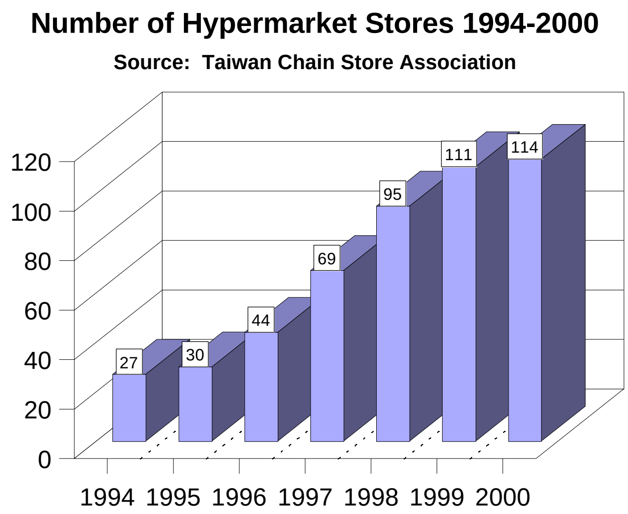
Retail Outlet Market Share

Total Modern Retail Sales $19 Billion



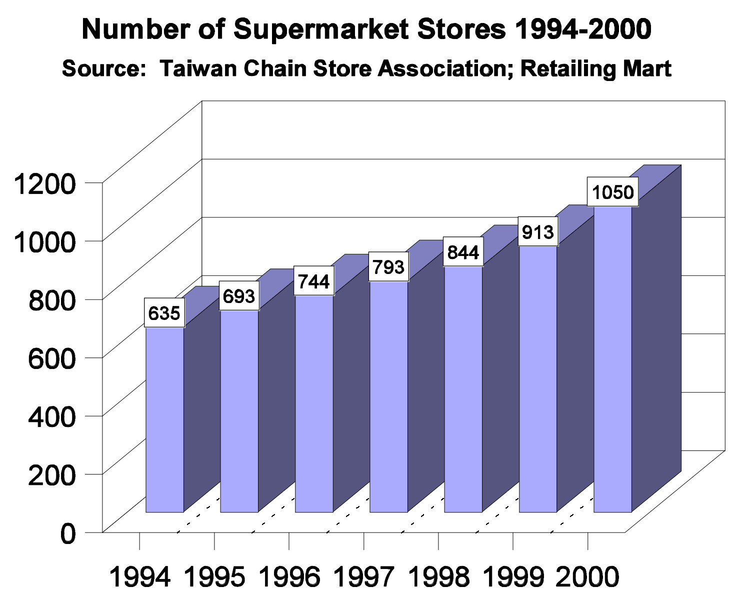
Hypermarkets

In 2000, hypermarkets were the fastest growing segment of the food retail industry, generating total revenues of nearly $4.9 billion, a 17 percent increase from the previous year. The annual growth rate for Taiwan's hypermarkets/warehouse stores over the past five years has averaged 16 percent. Total sales turnover for this sector is expected to continue to maintain this high growth rate over the next few years. There are now 114 hypermarkets in Taiwan, some foreign owned and some locally owned and operated. Foreign retailers in this sector are aggressively expanding. The current tendency is to compete with each other for positioning new stores in shopping malls (these being only recently introduced in Taiwan.) Also, recently opened hypermarkets have tended to be smaller in area. Industry executives estimate that Taiwan could support as many as 270 hypermarkets, almost three times the current 97.



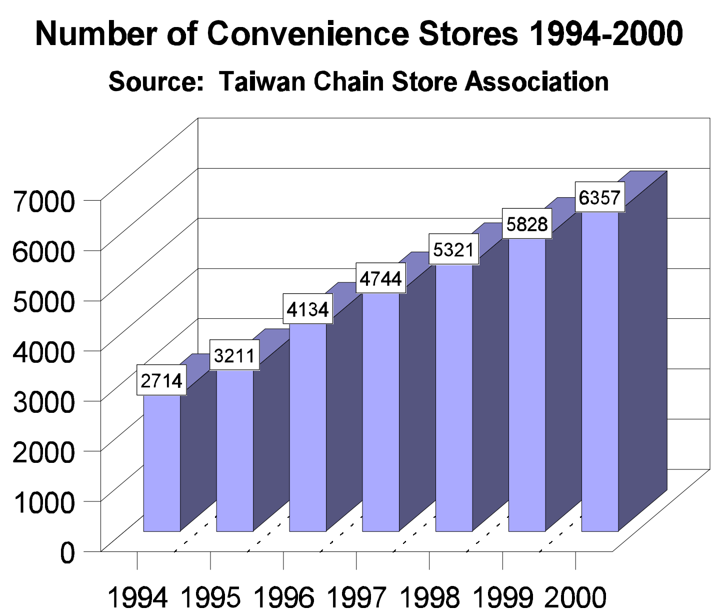
Supermarkets

Supermarkets, caught in a squeeze between hypermarkets and convenience stores, reported sales of over US$2.4 billion in 2000, a 0.1 percent decrease from the previous year. The previous rapid growth of the supermarket sector began slowing in 1996 because of strong competition from hypermarkets, convenience stores, and traditional wet markets. Currently, the development of Taiwan's supermarkets presents two extremes. The large chains continue to grow at a constant rate while small chains have begun to stagnate. Now, there are nearly 700 chain supermarket outlets in Taiwan. Major players in this sector include Wellcome, Kasumi, Sung Ching/Marukyu, and Sinon. In the face of growing competition from hypermarkets and convenience stores, these supermarkets have been undergoing a change of operation to compete with the former. Recent initiatives have focused on restructuring poorly performing stores instead of opening new venues. They have also begun to focus on expanding their fresh sections (fruit and vegetables, seafood, meat, and already prepared meals) as a way to entice customers. Increasing their selection and floor space allocated to fresh food items is but one way that supermarkets are hoping to compete with not only the hypermarkets but also with the traditional wet markets. Sung Ching/Marukyu plans to increase the number of fresh items carried, from the current 45% to 70% within 3-5 years. In order to address the needs of the nighttime shopper segment, some supermarket chains, such as Wellcome (31%), Sung Ching/Marukyu (35%), and Kasumi (33%), are now open 24 hours. More and more supermarket outlets provide home delivery for their customers in the neighborhood. Fresh fruit and vegetables, meat, and seafood are used by supermarkets to differentiate themselves from hypermarkets and convenience stores as well as to guarantee the profitability of a store and attract more customers. Industry executives indicated that in the 21st century, only those supermarkets which provide customers with "convenience," "reasonable prices," and "freshness" will survive.



Convenience Stores

Taiwan's top five convenience store chains, including 7-Eleven, Family Mart, Hi-Life, Circle K, and Niko Mart, together opened a total of 529 new outlets in 2000. This segment generated nearly US$3.6 billion in sales in 2000, an increase of 9 percent from the previous year. Total sales turnover of this sector in 2000 dropped below its annual 16% growth rate, mainly due to the overall economic slowdown and growing competition from competitors, i.e. department stores and foreign food retailers, such as Costco, Geant, Auchan, Costco, and Tesco. According to a recent study by Taiwan's Fair Trade Commission, 7-Eleven continued to lead other convenience stores as the largest convenience store chain, in terms of number of stores in Taiwan. As of June 2001, there were 6,238 chain convenience stores in Taiwan. 7-Eleven, with 2,813 outlets island-wide, accounted for 45 percent of the market, followed by Family Mart (17%, 1,077 stores), Hi-Life (11%, 696 stores), Circle K (10%, 608 stores), and Niko Mart (4%, 267 stores). Of the 2,813 7-Eleven stores, 42% or 973 stores are located in the Taipei area, Taiwan's largest metropolitan center.



Globalization and "faddism" are the defining trends in Taiwan's convenience store segment. With the age of the average convenience store customer 20 years old, management is motivated to source trendy and fashionable products--especially products in small and attractive packaging. 7-Eleven, Family Mart, and other chains have all set targets for expanding their imported product offerings. Also, these chains continue to research and develop new home meal replacement (HMR) items especially for lunches and dinners, as well as to extend service items. The main HMR items currently sold in Taiwan's convenience stores include sandwiches, hot dogs, buns, Japanese style rice rolls (sushi), lunch boxes, and fried noodles.

Department Stores

Most department stores in Taiwan have supermarkets in their basements. The main effect of these supermarkets is to draw customers to the store by carrying a wide range of gourmet products. In the past, these supermarkets were not profit centers for the store. However, recently they have become more popular and better revenue earners. This segment generated total revenues of nearly US$6 billion in 2000, compared to US$1.8 billion generated in 1993. The department store industry will continue to expand over the next few years.

Imported Food vs. Domestic Products

Currently, about 15-20% of the products sold in Taiwan's supermarkets and hypermarkets, as well as about 15% of the products sold in convenience stores are imported, and this is increasing.

After Taiwan's WTO accession in early 2002 and the resulting tariff reduction and further market liberalization, imports can be expected to increase.

Trends in services offered by retailers
Each food retail chain will continue to increase the number of products carried and services offered to attract more customers. With many women working, the eating-out population and single-person households are becoming more common. As a result, small packaged products and ready-to-cook dishes are becoming more popular. The percentage of convenience foods, microwaveable foods, vegetarian foods and health foods will continue to increase in retail stores. Retail stores will continue to extend their service items, such as home delivery and other service businesses inside their stores--examples include bakeries, restaurants, dry-cleaning, photo studios, and ready-to-eat hot and prepared food kiosks.

Private Label
To offer differentiation and to increase markups, many of Taiwan's retail chains, including 7-Eleven, Makro, Wellcome, Aimai-Geant, Costco, and Tesco, are aggressively promoting private label products (both imported and domestically produced). As the average selling price of private label products is 15-20% lower than branded items, they are increasing in popularity in the market.

Demographics
Taiwan is 13,900 square miles in area. About two-thirds of the island is covered with lushly forested mountains. 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 majority 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 2000

Units (Number)	North	Central	South	East	Total
Department Stores	59	43	39	7	148
Hypermarkets	41	31	33	9	114
Supermarkets	511	324	169	46	1,050
Convenience Stores	2,367	1,812	1,943	235	6,357

Source: Taiwan Chain Store Association
Retailing Mart

Advantages and Challenges Facing U.S. Agriculture in Taiwan

Advantages	Disadvantages
U.S. products are perceived by Taiwan consumers to be of high quality.	Lack of knowledge of U.S. brands by importers and retailers.
The majority of Taiwan consumers can afford imported food products.	Lack of brand awareness by consumers
Taiwan's WTO accession in early 2002 and resulting in further market liberalization and import tariff reduction will provide U.S. exporters with more market opportunities	Competition among major world agricultural and food exporters for a share of Taiwan's growing food import market will further intensify after WTO accession.
The growing modern retail industry is looking for new imported food products.	Lack of importer and retailer knowledge and training in purchasing, handling, and merchandising U.S. products.

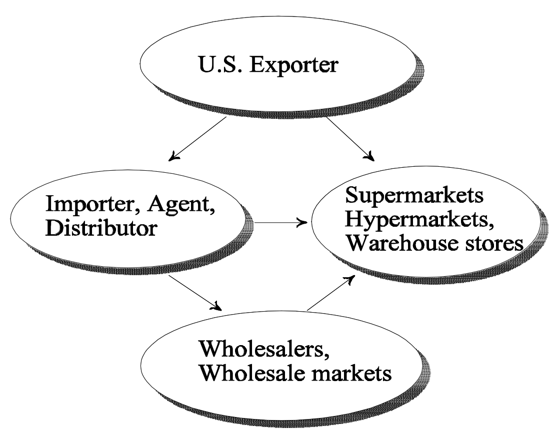
Section II. Road Map for Market Entry

A. Supermarkets/Hypermarkets/Warehouse Stores

Entry Strategy

Direct - The best method to reach Taiwan's retail buyers is to initially contact them directly via e-mails or faxes. Product catalogues and price lists are essential. Sample products are very helpful. U.S. suppliers can obtain a list of major Taiwan retail stores from the ATO, Taipei.

Indirect - U.S. companies may wish to concentrate on establishing their business relationships with a reliable and efficient importer and distributor, who in turn will sell the imports to retail stores. The ATO Taipei maintains listings of potential importers for U.S. suppliers.



A visit to Taiwan is an excellent way to start to establish a meaningful relationship with potential Taiwan buyers. U.S. suppliers are encouraged to bring product samples to Taiwan to provide to potential buyers as many importers and retailers rely heavily upon subjective factors when deciding on new products to represent.

On Line Procurement - Some retail chains, especially those with foreign joint venture partners such as Carrefour and RT Mart, currently purchase on line a very limited number of product items.

Market Structure

Imported Processed Foods Taiwanese buyers in retail stores tend to buy and import directly those products that are already well-known in the market. The reason according to purchasing managers is that they do not want to risk trying out a new product. Instead, stores prefer to buy new-to-market imported products from local suppliers. A trend for supermarkets/hypermarkets is to begin importing directly from a consolidator who can arrange one consolidated shipment for a variety of new and/or already in-the-market products. However, purchasing managers of these Taiwan retail stores state that they welcome offers with market potential from any reliable and dependable supplier. Carrying a wide variety of high quality products and new-to-market products is regarded as crucial to the profitability of a store. Industry sources estimate that currently up to 98% of imported processed foods are imported through importers. Direct imports by retail stores is anticipated to increase.

Imported Unprocessed Foods

-- Fresh fruit: Industry sources estimate that approximately 15 percent of imported fresh fruit is now imported directly by supermarkets, hypermarkets, and warehouse stores. The remaining 85 percent is imported by importers/distributors. Direct import of fresh fruit by retail stores is expected to continue to increase over the next few years.

-- Fresh and Frozen meat. On average, the ratio of direct and indirect beef imports by Taiwan's hypermarkets is 40:60. Supermarkets currently do not import beef directly but buy from local importers. Almost 100 percent of pork is purchased by supermarkets and hypermarkets from local pork processors/wholesalers.

-- Fresh and Frozen seafood. It is estimated that approximately 2% of seafood is imported directly by retail stores. The remaining is sold to retail stores through importers, wholesalers, and distributors.

Company Profiles

Major Hypermarket/Warehouse Store Profile

Retailer and Outlet Type	Ownership	2000 Sales US$Mil	2000 No.of Outlets	Locations	Purchasing Agent Type
Carrefour Hypermarket	French/Taiwan	1,387	24 (26)	Nationwide	Direct, importer, wholesaler, agent

RT Mart Hypermarket	French/Taiwan	574	16 (18)	Nationwide	Direct, importer, wholesaler, agent
Makro Warehouse	Dutch/Taiwan	445	8 (8)	Nationwide	Direct, importer, wholesaler, agent
Aimai Geant Hypermarket	French/Taiwan	423	10 (11)	Nationwide	Direct, importer, wholesaler, agent
Costco Warehouse	U.S./Taiwan	**	3 (3)	Nationwide	Direct, importer, wholesaler, agent
Tesco Hypermarket	UK	**	1 (2)	Nationwide	Direct, importer, wholesaler, agent
Dollars Hypermarket	Local	**	3 (3)	Southern Taiwan	Direct, importer, wholesaler, agent

Source: Distribution News
*Figures inside the parentheses represent number of outlets as of October 2001. ** Not available

– In 2000, Taiwan Makro restructured by shifting from a hypermarket format to a cash-and-carry niche. They switched their target customers from general consumers to the food service sector. Makro is now seeking products that are of interest to local hotels, restaurants, and other institutional buyers.

– The local Far Eastern Department Store Group's Aimai Hypermarket Chain formed Aimai-Geant Hypermarket with France's Casino Group in July 2000. This 50-50 joint venture between the Taiwanese and French retailers plans to open three new stores a year. Aimai-Geant targets families in the middle- to low-income brackets.

– Costco which targets middle class consumers, has adopted a unique marketing strategy of displaying not more than 5,000 items at its stores.

– Tesco, the largest retail chain in the U.K., opened its second outlet in Southern Taiwan in September 2001. Tesco inaugurated its first store in Northern Taiwan in June 2001. Tesco intends to set up approximately 20 outlets around the island within five years. Tesco Taiwan executives stress that the product items and service facilities that Tesco sells are different from other hypermarkets in Taiwan, adding that its private label items account for 20% of all products sold in Taiwan.

– RT Mart, currently the second largest and one of the most aggressive hypermarket chains in Taiwan, signed a contract with the French hypermarket operator Auchan SA to sell a 67% stake of its shares to Auchan. RT, which was established in 1996, currently has 18 outlets in Taiwan and 15 outlets in China.

– Established around 20 years ago, the Taichung-based hypermarket operator Fuyeung Hypermarket Chain with 12 outlets mainly located in central and southern Taiwan closed in May 2001 due to financial problems. The company is looking for potential buyers to take over the operation.

Major Supermarket Store Profile

Retailer and Outlet Type	**Ownership**	**2000 Sales US$Mil**	**2000 No.of Outlets**	**Locations**	**Purchasing Agent Type**
Wellcome	HongKong/ Taiwan	279	107 (110)	Nationwide	Direct, importer, wholesaler, agent
Sung Ching/ Marukyu	Local	90	54 (66)	North/central Taiwan	Direct, importer, wholesaler, agent
Kasumi	Local	59	17 (20)	Taipei	Direct, importer, wholesaler, agent
Taipei Agr.	Local	99	19 (19)	Taipei	Direct, importer, wholesaler, agent
Sinon	Local	**	24 (24)	Central Taiwan	Direct, importer, wholesaler, agent
Sun-Mart	Local	**	5(7)	Taipei	Direct, importer, wholesaler, agent

Source: Distribution News
*Figures inside the parentheses represent number of outlets as of October 2001. ** Not available

-- Wei Chuan Foods Group's two supermarket chains, Sung Ching and Marukyu, joined in a strategic alliance with each other in late 2000. The two chains formed a joint purchasing team. Team members meet weekly to discuss joint purchasing plans.

-- The two-year-old Sun-Mart supermarkets are concentrated in the urban Taipei Metropolitan area. Therefore, their products tend to be high-end items. Organic offerings and the high percentage of fresh produce (56%-58%) in the stores are its distinguishing characteristics. The company is committed to buying an increasing percentage of fresh produce directly.

B. Convenience Stores

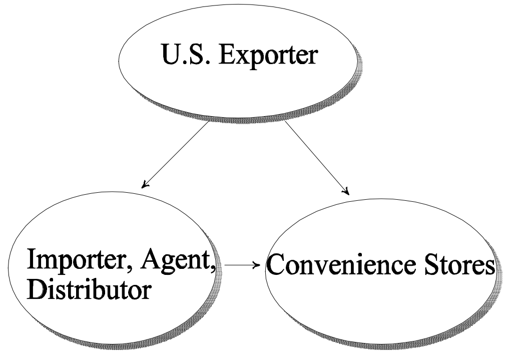
Entry Strategy

The same importers, wholesalers, and distributors that provide for the supermarkets and hypermarkets provide for the convenience stores. Taiwan convenience store chains either import directly or purchase from local importers and manufacturers. U.S. suppliers can sell directly to these convenience stores by contacting their purchasing managers. In addition, U.S. suppliers should locate a reliable and efficient agent/importer/distributor to ensure that products are consistently available in the market.

The ATO in Taipei maintains listings of major convenience store chains and potential importers/distributors. U.S. companies interested in expanding their businesses with these retail stores should contact ATO/Taipei for lists of potential buyers.

Market Structure

Major Taiwan convenience store chains import directly. They also rely on importers, agents, and distributors for products. Major Taiwan convenience store chains have their own distribution centers to distribute products, both dry and chilled/frozen goods, to each outlet. The other convenience stores have ties with other distribution centers.



Company Profile

Major Convenience Store Profile

Retailer and Outlet Type	Ownership	2000 Sales US$Mil	2000 No.of Outlets	Locations	Purchasing Agent Type
7-Eleven	Local	1,541	2,641 (2,891)	Nationwide	Direct, importer, wholesaler, agent
Family Mart	Japan/Taiwan	394	1,011 (1,148)	Nationwide	Direct, importer, wholesaler, agent
Hi-Life	Local	248	712 (713)	Nationwide	Direct, importer, wholesaler, agent
Circle K	U.S./Taiwan	186	622 (617)	Nationwide	Direct, importer, wholesaler, agent
Niko Mart	Local	112	261 (291)	Nationwide	Direct, importer, wholesaler, agent

Source: Distribution News
*Figures inside the parentheses represent number of outlets as of October 2001. ** Not available

-- Taiwan 7-Eleven is expanding its direct imports of new-to-market products. It imported directly over 20 items, including wine and popcorn, as of the end of 2000. It also imported directly 17 different types of soft drinks and snack foods from the United States, Australia, and Philippines. 7-Eleven sponsored a new product presentation for the media in July 2001.

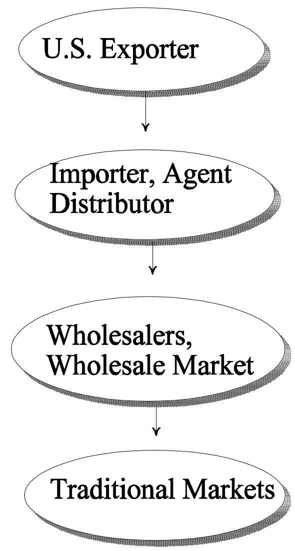
-- Family Mart, Hi-Life, OK and Niko-Mart jointly formed a new company, CVS.COM Co., Ltd., in October 2000. Part of the objective of this newly-established company is to seek new products to be sold in the four convenience store chains. U.S. companies are encouraged to contact the company directly.

-- Uni-President Dream Parks Co. was formed on May 1, 2000 by the Uni-President Group (Taiwan's largest food company which owns 7-Eleven and is Carrefour's joint venture partner in Taiwan). The company mainly looks for "trendy" products to be sold through 7-Eleven and other convenience stores.

-- Since 2001, Family Mart planned to increase import items, especially those from the United States and Japan. Trendy products are their major target items.

C. Traditional Markets

Entry Strategy



The importers, distributors and wholesalers are the same who supply the supermarkets, hypermarkets, and convenience stores. Unlike supermarkets, /hypermarkets, and convenience stores, the wholesalers and regional wholesale markets play the most important role in distribution of products for traditional markets. Sales of imported goods in traditional markets should not be overlooked. Industry sources estimate that around 55 percent of imported fruit from the United States is sold in wet markets island wide.

Market Structure

Traditional markets, including wet markets and mom & pop grocery stores, rely heavily on wholesalers for products. Currently, modern warehouse stores, such as Makro Warehouse Store and Costco Wholesale also provide products for traditional markets.

Grocery products are usually supplied by local wholesalers, although agricultural products are often purchased at regional wholesale markets.

Company Profile

Mom and Pop Grocery Stores: Mom and Pop grocery stores are still common in smaller towns on the island. Grocery products are usually supplied by local wholesalers. Although these 'mom and pop' grocery stores tend to be well located in the heart of residential areas, they are limited by the lack of shelf space and offer fewer varieties of products. Local consumers are increasingly turning to the greater product variety offered by supermarkets, hypermarkets, and convenience stores.

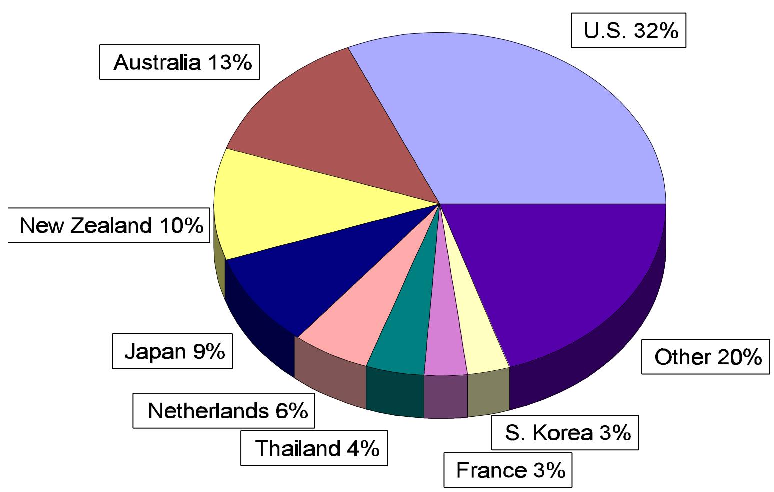
Wet Markets: According to statistics released by Taiwan's Ministry of Economic Affairs, there are 631 public/private wet markets and 639 street stall gathering places in Taiwan. These businesses generate nearly US$13 billion in annual sales. The major items sold in these traditional markets--meat, seafood, and fresh produce--account for over 50% of total wet market sales. Beginning in July 1999, Taiwan authorities have implemented a program to upgrade and remodel traditional wet markets.

Section III. Competition

In 1999, Taiwan imported US$1.8 billion worth of consumer food products from many different sources, of which 32% was imported from the United States. The United States was the number one supplier of consumer food products to Taiwan, followed by Australia, New Zealand, Japan, and Netherlands. The United States dominates the fresh fruit (62% market share), poultry meat (89%), prepared/preserved meat (72%), fresh vegetables (50%), and processed fruit and vegetable (58%) import markets and is very competitive in other consumer ready food products.

1999 Taiwan Consumer Food Imports

Source: U.N. Trade Statistics



Taiwan, the world's 14th largest trading country, secured admission to the World Trade Organization (WTO) on November 11, 2001, and will become a full WTO member at the beginning of 2002. Taiwan is to further liberalize its markets to the world including China. After the WTO accession, import tariffs for agricultural products will be reduced from a current average of 22.02 percent to 14.01 percent in the year following accession, and they will be gradually reduced to around 12 percent by the end of 2005. With Taiwan's accession to the World Trade Organization, there will be improved market access for U.S. high quality beef, fresh fruit and vegetables, seafood, frozen prepared foods, and other processed foods. However, competition among major world's food and agricultural exporters for a share of Taiwan's growing food import market will further intensify.

Section IV. Best Product Prospects

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

-- Fruit and Vegetable Juices
-- Ice Cream, cheese, yogurt and other dairy products

-- Edible oil, including sunflower oil, corn oil, and safflower oil
-- Frozen/microwaveable foods/other convenience foods
-- Fresh fruit and vegetables
-- Fish and seafood
-- Food ingredients
-- Meat and meat products
-- Baked products
-- Snack products
-- Nuts and dried fruit

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

-- Health oriented (low-fat, high-fiber, and low-cholesterol) snack foods
-- Organic/health foods

V. Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting to Taiwan, please contact the U.S. Agricultural Trade Office in Taiwan at the following address. Also, you are welcome to visit the ATO/Taipei homepage (http://ait.org.tw/ait/AGRI/ATO.htm) or USDA/FAS homepage (http:/www.fas.usda.gov) for information on exporting to Taiwan, including "Exporter Guide", "Seafood Market Brief", "Candy Market Brief", Pet Food Market Brief", and other market briefs relating to fresh fruits, dairy products, and more.

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