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U.S. export opportunities in Haikou

Report Categories:

Exporter Guide

Market Development Reports

Market Promotion/Competition

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Report Highlights:

Summary: Hainan is located in the South China Sea between Guangdong Province and Vietnam. In 2012, the Hainan government issued a favorable departure tax refund policy within the island province to support international tourism. Real estate investment from other provinces also helped economic development and growth. As a result, Hainan's GDP had a 12-percent increase in 2011. This year, ATO Guangzhou staff visited the province with support of the Distribution Development Program of the Emerging Market Program and met with distributors and retailers to understand new business opportunities for U.S. food items.

General Information:

Hainan background: In 2011, Hainan's population reached 9 million with a per capita GDP of \$4,445. Agriculture production remains stable and maintained rapid growth. The output of both fishery products and fresh fruit was estimated to have grown by 7 percent. Holiday season sales, especially in the winter and spring are popular themes for Hainan's food retailers. Airlines have nearly doubled the amount of flights they offered to Hainan within the last two years. The Hainan government claimed a total of 30 million overnight tourists in 2012, up 16 percent. Overall infrastructure development projects have largely improved the transportation conditions although cold chain storage and transportation is mostly limited to seafood products destined for export.

Retail booming in Hainan: Hainan's retail sales are growing at a rapid pace with new chains, outlets and products flourishing within the last year. Retail sales for consumer goods reached nearly \$2 billion, up 19 percent from the previous year. Of which, 85 percent of total sales were generated by retail sales, while 15 percent came from catering services. Imported food items were found in both Haikou and Sanya supermarket store shelves. Tourism is the main driver fueling consumer demand for high quality imported food items. Although competition is strong, there is still plenty of potential for U.S. snacks, beverages, and fresh fruit. And, even though tourists prefer the locally produced seafood and poultry, they also prefer imported wine and spirits over domestic products and ATO Guangzhou believes there is a great need to explore opportunities to increase the sales of U.S. wines, beer, and spirits.

Haikou: The capital of Hainan Province has a population of 2 million. Post visited several retail stores and met with the store managers. Currently there are two RT-Mart outlets and three Carrefour outlets, plus a local supermarket chain named "Champion". Additionally, three state-owned department stores are also local players. One of them is owned and managed by the Hainan Airlines Group. Just within one year, the remodeled store brings a brand new image and carries a wide range of imported food items such as condiments, crackers, biscuits, honey, and wine. Post found on shelves three U.S. branded wines with a unit price range of \$47.7 (RMB300) to \$79.5 (RMB500). The store manager informed us that local consumers are mostly from local government and large companies. Local consumers still lack U.S. or other foreign products brand awareness. This means U.S. producer associations should support local traders' efforts to kick-start this market with ongoing promotional campaigns.

A specialized imported food store chain headquartered in Guangzhou "Corner's Deli" recently opened a Haikou outlet. Corner's Deli enjoys a high reputation in Guangdong with nine well stocked outlets located in high-end residential areas. Corner's Deli first targeted overseas customers their top quality food items including imported cheese, wine, cold cuts, drinks, milk, snacks, cooking condiments and baking ingredients. However, they are becoming even more popular with local consumers, and especially families. According to the chain's general manager, when compared with the first store in Sanya, *Corner's Deli* the Haikou store carries more high-end brands from the States that would be purchased by residents as opposed to tourists. Several years ago, the store was targeting foreign consumers who visited the island occasionally; however, in recent two years, Chinese long-term tourists are playing a more prominent role in purchasing imported items due to their concern for food safety and interest in new products. The average weekend per customer expenditure in the Haikou outlet ranges between \$60-\$90. Post is considering entering into a promotion with Corner's Deli in the coming months if funding is available.

Compared with two years ago, Post noticed many more foreign brands are available in the *Corners' Deli* outlets in Haikou and Sanya. Popular categories include chips, milk, crackers, rice cake, coffee, wine, breakfast cereal, ready-to-eat meat and sausages, beers, drinks, cheese, as well as other snacks. On average, the unit selling prices are even higher than any of the other supermarkets and even then in the Guangdong outlets. For example, several crackers for example are priced about 20 percent higher. According to the Haikou store manager, their consumers do not really care about the price as long as the product is in good shape and with good taste.

Post was also led by a local distributor to another smaller-scale imported convenience food chain outlet. This chain is smaller in size, but focusing more on snacks and wines. Five store stalls are conveniently located inside the city's major shopping malls.

Opportunities and challenges for U.S. food and beverages: The supermarket, convenience stores and imported food kiosks are the top retail formats for promoting U.S. food and beverage items in Haikou. Promotional support is required as the average consumer lacks basic knowledge about imported products. Some consumers think they know, but in reality they have made their own determinations on what they like and dislike. To this end, it is important that U.S. producer associations to hold periodic tastings and seminars supporting retailers' marketing of U.S. products. Public advertisement would also help develop a broader awareness of products. This secondary city has received little marketing support or attention from USDA Cooperators in the last four years.

During the trip, Post noticed that all supermarket outlets carry **U.S. fresh fruit** such as Washington apples, Sunkist oranges and lemons, and California table grapes, even though Hainan itself produces plenty of tropical fruits such as banana, pineapple, and mangos.

There is an increasing market trend for **specialized stores**. In addition to the traditional supermarkets, specialized fruit stores (Pagoda, for example) and specialized imported stores are opening quickly in Hainan. The main reason for this trend is because specialized stores require less investment. They are also easy to establish and offer the flexibility and customer service that local consumers expect in a smaller city (of 2 million residents). According to the managers of two local specialized store chains), most imported products come in through Guangdong Province. Single store operations will increase the per unit transportation cost though, so the more stores open, the more this cost can be spread out.

Wine sections in all supermarkets are dominated by French selections with few U.S. varieties available. The price range varies from \$20 to \$700 per bottle. The most popular ones average \$25-\$32. Tasting events and promotions for **U.S. wine** are essential to build up a reputation. Though consumer willingness to pay may not be as high as in Guangzhou, Shenzhen or Xiamen, Haikou's relaxed business cultural is more amenable to greater consumption on volume.

Five-star hotels and high-end restaurants are looking for high-quality wines. Currently, wine from France, Australia and Chile are widely available in most menus, with a potential market for U.S. wines in the near future if traders keep up with the competition. Some of the hotels also built their own specialized convenience stores and sell high-quality imported food items to their consumers. U.S. wine exporters might consider partnering with a U.S. branded hotel in Haikou to cross promote their brand with that of the U.S. hotel chain. While some hotel chains are developing wine clubs for their local customers, these types of educational opportunities have yielded tremendous results for individual

traders Post has had contact with in Haikou.

Conclusion: Post will continue to work closely with the existing retail players and the distributors in Hainan to identify the possibility of further cooperation. In-store promotions, chef seminars and other training and consumer education programs will help increase the awareness of U.S. food items and sales.