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China 2014 Retail Report

Approved By:

Morgan Haas

Prepared By:

Staff

Report Highlights:

China has one of the most lucrative, dynamic, and rapidly growing retail markets in the world, which continues to grow at a double-digit pace despite a GDP expected to grow just over 7% in 2015 and per capita urban household disposable incomes which grew only 9% in 2013. China's retail growth is underpinned by not only rises to urban household incomes but also by the growing number of urban households themselves. That said, where and how Chinese shop is undergoing a significant transition.

Post:
Chengdu ATO

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EXECUTIVE SUMMARY

China has one of the most lucrative, dynamic, and rapidly growing retail markets in the world, which continues to grow at a double-digit pace despite a GDP expected to grow just over 7% in 2015 and per capita urban household disposable incomes which grew only 9% in 2013. China's retail growth is underpinned by not only rises to urban household incomes but also by the growing number of urban households themselves. That said, where and how Chinese shop is undergoing a significant transition.

- Emerging city market consumers are becoming ever-more important with increasing buying power and access to imported foods.
- Wet markets and small, independent store fronts are on the decline.
- Hypermarkets and supermarkets continue to grow in the aggregate, albeit cautiously and with repositioning, to counter increasing costs and increasing competition.
- eCommerce, convenience stores, and specialty/boutiques are on the rise.
- Mobile and cross-border eCommerce are tidal wave trends not to be ignored.

Market Overview

China is the world's second largest retail market of all merchandise after the United States. Accounting for enterprises with annual sales over \$80,000, China's total retail sales in 2013 from integrated supermarkets was \$155 billion while specialty retail of food, beverage, and tobacco totaled \$44 billion. Both grew 12% over 2012.

The strongest driver of China's retail growth is urbanization, coupled by rising disposable incomes. Despite a relatively stable total population at 1.36 billion, urban populations are steadily increasing 3% annually, which ultimately added almost 20 million urbanites in 2013. There remains significant room for growth as urban dwellers still represent just 54% of the total population. Supported by higher disposable incomes, the average urban household in 2013 spent \$1,035, compared to \$990 in 2012 and \$409 by the rural households in 2013. Nevertheless, China's growth is slowing as evidenced by real GDP, which slipped to 7.7% in 2013, estimated at 7.4% in 2014, and forecast to reach 7.1% in 2015.

Beyond urbanization, various government policies also continue to demonstrate a recent direct impact on China's retail market:

- China's market access for imported foods and beverages is ever-changing. Non-tariff barriers effectively prohibit imports of certain products, such as U.S. beef, strawberries, fresh potatoes, and significantly restrict imports of other U.S. products, such as pork and apples.
- The Ministry of Commerce of China is encouraging retailers to establish direct procurement bases across China to increase traceability and supply fresh produce to local residents.
- China's Green Household Appliances Subsidy in June 2012 fueled sales of high-efficiency inverter fridge-freezers. The subsidy ended on May 31, 2013, and has since resulted in a slowdown of such sales.
- China's regulatory responses to food safety concerns are many. For example, the "Further Supervision of Baby Milk Formula Quality" policy in June 2013 resulted in many local milk formula manufacturers exiting the market and later applied both antitrust legislation as well as price controls on the industry. The retail sale of unpackaged oils and fats as well as bulk dry fruits and nuts is also now banned in most locations.
- The Ministry of Commerce's scheme to introduce modern retailing to rural areas since 2006 is designed to provide those residents with high-quality products at competitive prices in clean and tidy shopping environments, in an attempt to move grocery shopping away from wet markets and small, independent outlets.

While the traditional lines of market segmentation in retail are becoming increasingly blurred, most entities can still be categorized as hypermarkets, supermarkets, convenience stores, specialty/boutique stores, wet markets, and eCommerce. In earlier years, most imported products have found their greatest success in high-end "lifestyle" supermarkets within first and second-tier cities. While this segment remains important, eCommerce is the fastest growing and now most important segment to market high-quality and imported food and beverages, especially among the young, affluent consumers throughout China. That said, growing opportunities

for imported products also exist in fast expanding convenience chains and specialty/boutique stores. Meanwhile, among brick-and-mortar alternatives, hypermarkets continue to provide the greatest opportunities for national coverage while also providing good reach into China's emerging middle class in 3rd and 4th tier city markets.

Leading Food Retailers in China: 2013						
Chinese						
Rank	Rank Company Name	Ownership	Business line	Sales* Volume (unit: million Dollors)	Store Count	Growth Rate of Store Number (%)
1	CR Vanguard (CRV)	China SOE**	Super/Hypermarket/Convenience	16,405	4637	4.8
2	Lianhua Group	China SOE**	Super/Hypermarket/Convenience	13,092	5604	-3.4
3	Yonghui Superstores Co., Ltd.	China Pvt	Super/Hypermarket/Convenience	5,729	292	17.3
4	Nonggongshang	China SOE**	Super/Hypermarket/Convenience	4,902	2644	-3.3
5	Wu Mart Holdings Co., Ltd.	China Pvt	Super/Convenience	3,548	547	1.7
6	Beijing Hualian	China Pvt	Super/Hypermarket/Convenience	2,402	140	7.7
Multinational						
1	RT-Mart	Taiwan	Super/Hypermarket/Convenience	13,092	264	20.5
2	Wal-Mart China	U.S. JV	Super/Hypermarket/Convenience	11,800	407	3
3	Carrefour	France	Super/Hypermarket/Convenience	7,632	236	8.3
4	Tesco	U.K.JV	Super/Hypermarket/Convenience	3,350	144	29.7
5	Metro	Germany JV	Super/Hypermarket	2,859	75	19
7	LOTTE Mart	Korea	Super/Hypermarket/Convenience	2,533	110	11.1
8	Auchan China	France	Hypermarket/Convenience	2,466	59	9.3
9	Lotus	Thailand	Hypermarket/Convenience	2,247	77	2.7
*Food and non-food sales *SOE=State-Owned Enterprise						
Source: China chain store & franchise association						

Hypermarkets

Hypermarkets in China tend to be somewhat smaller than their western counterparts, and very few (excepting Metro) follow the big-box format faithfully. In large cities, they are typically multi-story operations. Most act as small shopping malls, setting aside a large amount of space for independent boutiques and eateries, a habit that tends to reinforce the perception of hypermarkets as places for occasional shopping expeditions rather than daily shopping. For the hypermarket itself, the food sales area typically accounts for about half of the total area.

The hypermarket is well accepted by China's emerging mass-middle class due to large parking facilities, multiple stores and numerous restaurants and coffee shops that enable consumers to combine shopping and leisure activities. Most hypermarkets in China draw heavy traffic to the store, but this also drives away some affluent consumers who desire a less-crowded environment and more concentrated product display. Hypermarkets face competition for affluent consumers from local department stores, lifestyle supermarket stores, and – especially for the millennial generation – online retail.

The hypermarket format is much more concentrated than other traditional retail channels and is dominated by foreign operators. Particularly well-known names such as Carrefour, RT-Mart, Auchan and Wal-Mart, are recording higher value growth than independent small grocers, thanks primarily to the continuing urbanization trend. Hypermarkets benefit from their reputation for offering better quality products than most domestic retailers. This is due to their perceived strict quality control in a country where food safety is a major concern. As such, an increasing number of Chinese consumers visit hypermarkets instead of independent food stores for

grocery shopping. As recent as 2009, the proportion of grocery products in hypermarkets was steadily increasing and had reached 60%.

International retailers generally have a high level of familiarity with imported brands and products, and recognize the value of bringing new products to market and promoting them. Hypermarkets are a major sales venue for imported food products, due to international retailer's familiarity with imported products and better management and organization skills. Despite this, imports rarely constitute more than 5% of total SKUs even in high profile stores.

Most hypermarket chains vary the proportion of imported goods they carry in individual stores depending on the income level and foreign population that the store serves. Meanwhile, the urbanization trend in lower-tier cities has also stimulated leading retailers' expansion into less developed regions, to seize the opportunity in third and fourth-tier cities. In such locations, hypermarkets are the best traditional sales channel for imported goods.

Supermarkets

Domestic players have a strong presence in the supermarket sector. Companies like Beijing Hualian Group Lianhua (BHG), China Resources Vanguard, Parknshop, and Yonghui are some of the best recognized names. Department stores like Ito Yokado and Parkson generally compete in this space. The market segment remains quite fragmented and major players within a particular region and city-to-city within a region are highly variable. The most successful supermarkets for imported foods are the upscale "lifestyle" outlets, including but not limited to the following:

- *Great, Taste, and Treat* by ParknShop
- *Ole* by China Resources Vanguard
- *Market Place* by BHG
- *Bravo* by Yonghui Superstores
- *City Shop*

There are also a large number of regional supermarket chains in third- and fourth-tier cities, and many have recently introduced limited imported food sections. Products that do well in this sector tend to be products already widely available in China, such as fresh fruit and affordable snack foods. The sparse selection of imports is rooted in the customer base of these stores, which have traditionally focused on working class shoppers, who are notoriously price-sensitive and less inclined to try new products than the more well-heeled customers in first and, to some extent, second-tier cities. Distribution is also a problem, as stores tend to source from local distributors, directly from manufacturers, or from local wholesale markets. These regional supermarkets rarely source from importers and almost never import directly.

Specialty/Boutique Stores

These stores have multiplied in the last few years. Built to attract upscale consumers in neighborhoods of

international influence within first and second-tier cities, they have a high proportion of imported food products – ranging from 50 to 80 percent of products. While sales are often small with high mark-ups, they can offer imported products not elsewhere found and highly sought out by expatriates and also affluent Chinese.

Some high-end and specialty products first enter the Chinese market through these types of outlets before moving on to larger venues. Some of these companies also include import/distribution operations, and can assist exporters with issues such as labeling and product registration.

Because of the small scale and highly varied nature of this market segment, interested exporters should contact the relevant ATO for a list of potential venues and importers/distributors.

Convenience Stores

Convenience stores offer speed of service to time-starved consumers who want to get in and out of the store quickly. These shoppers recognize this channel of trade for its convenient locations, extended hours of operation, one-stop shopping, grab-and-go foodservice, variety of merchandise and fast transactions. Convenience stores' layouts are highly standardized, although some chains have developed more complex system that customize product selection to the particular location based on past sales patterns, and neighborhood income levels/spending habits. Despite small operating areas, the product range is still quite broad.

Total sales revenues for convenience stores rebounded in 2012 after three consecutive years of decline, reaching \$431 million. However, among a survey of 25 cities in 2013, convenience stores sales grew 19.5 percent, higher than that of other traditional brick-and-mortar outlets. In 2012, 64.7% of convenience stores' revenue was generated from selling food, 34.6% from non-food items and less than 1% was derived from other value-added services.

The saturation level of convenience store on the China mainland still relatively low compared with Japan and Taiwan, where there is one convenience store for every 2,000 residents. In China, the average level is around one per every 5,000 people. High rents have become the biggest hurdle for convenience store in major cities. Beijing, Shanghai, Guangdong were the most advanced areas with the highest concentration of convenience stores in 2012. In Beijing or Shanghai, convenience stores stand just 100 meters apart, and two or three store at a downtown crossroad is not unusual.

Top 10 Convenience Chains in China, 2013:

Ranking	Coporate	Ownership	Number of stores	Store brand	Store location
1	Sinopec Group	China (Beijing)	23,300	Easy Joy	National
2	PetroChina Co., Ltd	China (Beijing)	14,000	uSmile	National
3	Dongguan Sugar & Liquor Group Meiyijia Convenience Store Co., Ltd.	China (Guangdong)	5,580	Meiyijia	Guangdong
4	Guangdong Tianfu Chain Business Co., Ltd	China (Guangdong)	2300	Tianfu	Guangdong
5	Zhejiang Gongxiao Supermarket Ltd.	China (Zhejiang)	2,123	Gongxiao; Jialian	Zhejiang
6	7-Eleven	United States	1925	7-Eleven	Beijing; Shanghai; Shenzhen; Guangzhou; Tianjin; Chengdu
7	Shanghai Lianhua Quik Convenience Stores Co, Ltd.	China (Shanghai)	1,905	Quik	Shanghai; Liaoning; Zhejiang; Beijing; Jiangsu
8	Shanghai Lianhua Quik Convenience Stores Co, Ltd.	China (Guangdong)	1,703	Sun-high	Guangdong
9	Nonggongshang Group	China (Shanghai)	1,700	Kedi; Alldays	Shanghai; Suzhou; Wuxi; Hangzhou
10	C&U Group	China (Shanghai)	1,491	Shizu; Zhishang	Zhejiang

Source: China Chain Store and Franchise Association

While foreign convenience chains are more actively expanding their business nationally, domestic convenience chain companies are mostly regionally focused. Foreign chains such as Lawson, mainly develops its business in Shanghai, Hangzhou, Beijing, Dalian and Chongqing; Family Mart, Japanese-owned convenience chain, established stores in Shanghai, Guangzhou, Suzhou, Wuxi, Chengdu, Hangzhou and Shenzhen. For major domestic players, such as Sichuan's Hongqi, headquartered in Chengdu with more than 1,000 outlets, expansions target Sichuan cities outside Chengdu. Guangdong's Tianfu and Nanjing's Suguo have similar business strategies.

In competing with other retail channels and the rise of e-retail, many convenience stores offer some value-added service to better serve consumers, such as bank account balance enquiries, payments of bills for credit cards and utilities, money transfers, prepayment for mobile phone and public transportations, movie ticket orders. Some of convenience chains have launched their own online platforms, such as 7-Eleven. Others are forming strategic partnerships with their would-be eCommerce rivals as part of the online-to-offline (O2O) movement to shorten delivery time by centralizing drop-off. For example, FamilyMart and Taiyuan Tangjiu are pickup locations for JD.com purchases to bring customers back into brick-and-mortar stores. Sharing sales data,

logistical, and distribution resources helps eCommerce players and convenience store operators widen their customer base, measure customer preference knowledge, and reduce transportation costs.

eCommerce

The predominant trend in all regions of China in 2014 and moving forward into 2015 is and will be the growing importance of eCommerce, and particularly mobile eCommerce, as a vehicle to drive sales among a young affluent consumer base with growing buying power. In 2013, China's internet retail market reached \$308 billion. According to Alibaba's IPO filing, online retail sales in 2014 should grow 45 percent to \$447 billion. Earlier projections by AT Kearney, suggested the market would grow from \$390 billion in 2014 to \$718 billion in 2017. Increasing numbers of internet users and the convenience of online shopping is supporting strong growth. According to the China Internet Network Information Centre (CNNIC), the number of internet users in China reached 681 million by the end of 2013, compared with 564 million at the end of December 2012. Among internet users, there were 302 million online shoppers in 2013, which means each online shopper spent \$1,020. As earlier forecast, the number of online shoppers was to increase to 380 million by the end of 2014, with per shopper sales increasing to \$1,163. Consumers, especially young consumers, increasingly prefer shopping online because of lower prices, the expedient, door-to-door delivery service, extensive product ranges, ease of payment, and confidence in the vendor for delivering safe, high-quality products. Online vendors have also made regular investments to continually improve the online shopping experience.

eCommerce is changing not only shopping habits but also the retailer's understanding of the consumer as well as fast advancing China's distribution system. The accumulation of big data and buyer tendencies within eCommerce has brought about sophisticated promotions, including pre-order sales. To ensure quality control while expanding customer base, eCommerce companies are building out China's new, modern distribution network. While access to perishable products can be still somewhat limited, especially outside Shanghai, this barrier will be drastically reduced over the next couple years.

Most eCommerce transactions for retail food and beverages take on business-to-consumer (B2C) platforms, built for vendors to sell to consumers. To a lesser extent, consumer-to-consumer (C2C) platforms, such as Alibaba's Taobao, are also utilized by independent or small operators. However, unlike B2C platforms, platforms are generally not considered reputable and a breeding ground for fake products, including name brand food and beverages. As a result, there has been a trend within the eCommerce since 2013 to shift from Taobao.com to Tmall.com. Business-to-business (B2B) platforms are not yet widely used to retail products in China. Of the leading companies, only Alibaba's 1688.com and globalsource.com have limited food and beverage offerings.

2013 China B2C Online Shopping Market Share			place direct
Rank	Brand	Market share	
1	Tmall	50.10%	C2C
2	JD	22.40%	
3	Suning	4.90%	
4	Tencent	3.10%	
5	Amazon China	2.70%	trade
6	Yihaodian	2.60%	
7	VIP Shop	2.30%	
8	Dangdang	1.40%	
9	Guomei	0.40%	
10	Vancl	0.20%	

Within eCommerce, a couple key movements are taking hold.

- **Going Mobile:** The popularity of smartphones and tablets and innovation of various convenience online

payments, such as AliPay, Wechat, and Tencent are making it ever-more easy to shop online. Moreover, vendors have begun to partner directly with social media platforms such as WeChat to sell products directly to consumers. In total, mobile devices account for one-third of China's eCommerce transactions. Traditional brick-and-mortar stores have also increasingly crossed into the eCommerce space; however, most are still in the early stages of developing their online business. Also, an increasing number of mergers, acquisitions, and strategic partnerships being announced are those linking traditional retailers with eCommerce platforms.

- **The Cross-border eCommerce Revolution:** Faced with fierce competition, eCommerce players need to broaden their customer base and provide more unique or custom products and services. "Cross-border" business is a new area for eCommerce players, which the Chinese government has been experimenting with since 2012. In 2013, total cross-border eCommerce trade increased 30% to more than \$500 billion. The most attractive advantage for merchandizing/purchasing foreign products in this manner are lower costs and expanded access to products not otherwise available in China. For food and beverages (excl. alcohol), the import duty and 17% VAT are waived, and its place, a flat 10% percent customs duty is charged, while calculated duties under RMB 50 (\$8) are waived altogether. Moreover, products on such platforms need not conform with all Chinese regulations associated with labeling, standards, certification, and registration. Currently, five free trade/bonded zones are facilitating cross-border trade:
 - Shanghai: Kuajingtong, www.kuajingtong.com
 - Ningbo: Kuajinggou, www.kjb2c.com
 - Zhengzhou: Wanguoyoupin , www.wgyp.com
 - Hangzhou: Tianmaoguoji, www.tmall.com.hk
 - Chongqing : Chongqingdianshang, www.cqkjs.com

Key eCommerce players smell the opportunity and have joined the battle on all fronts to increase market share quickly.

- **Alibaba Group Holding Ltd** is the largest eCommerce company in China whose growth almost single-handedly pushed China to become the world's second largest online market in 2013. Among all retailers in China, Alibaba holds a 4% market share in 2014. Its C2C platform, Taobao holds a 95% market share within that space. Its B2C platform, Tmall also leads its space but *only* with a 50% market share in 2013, down one percentage point from 2012, reflective of an increasingly competitive environment. Alibaba customers pay using AliPay or credit/debit card.
 - During China's largest shopping holiday of the year – November 11 aka "Singles Day" – Alibaba Group sales reached \$9.3 billion in 2014, smashing its \$5.7 billion record set in 2013. According to Alibaba, over 10 million users visited Tmall during the first minute of the sale and 213 million in total logged on during the day. Smartphones played a vital role in boosting traffic and sales to the site, with 43% of the holiday sales placed on mobile devices.

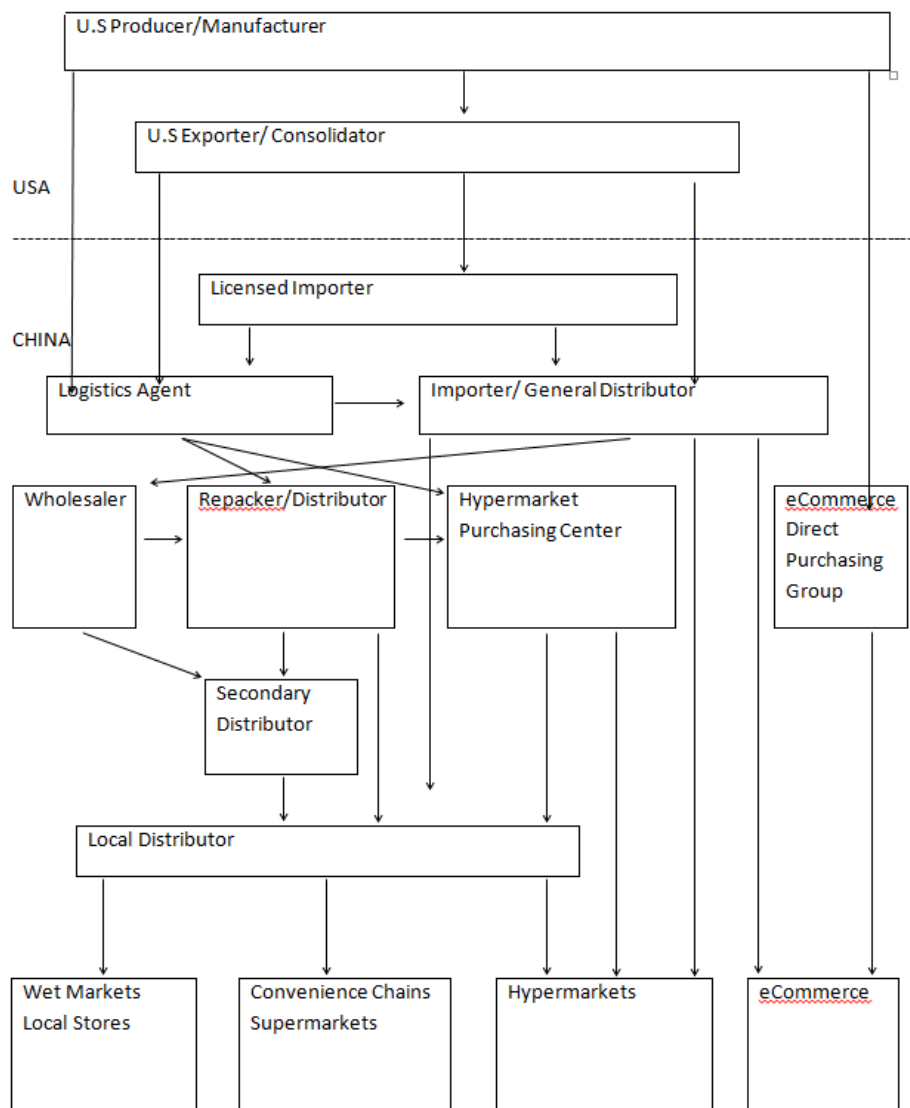
- Alibaba Group launched Tmall online supermarket in 2012, which both showcases and delivers purchased goods from multiple sellers simultaneously. While exact figures are not available, Tmall Supermarket's sales reportedly grew 400% in 2013, and Alibaba estimated sales would grow at least as fast in 2014. According to ALOG research firm, daily transactions from Tmall Supermarket's warehouses in Guangzhou have topped 10,000.
- In February 2014, Alibaba launched Tianmaoguoji or "TMall International" to sell foreign goods direct to Chinese consumers. Reportedly, the platform already markets 5,400 foreign brands with more than 100 global companies, including top ten supermarkets in the United States and Europe in the process of signing up.
- **JD.com** is the second largest B2C platform and best known within the industry for its logistics, providing next day delivery service for its own customers. The platform underwent an overhaul in 2013, including a name change (formerly 360buy.com), opening up to third-party vendors, and most importantly, and introducing its online supermarket in May 2013. By the end of 2013, total listings of food products topped 10,000 SKU, double the number from the launch. According to the company, it had 170 million registered users at the end of April 2013. JD.com continued its advancements in 2014, including:
 - Partnering with WeChat – China's largest social media platform – for payment services. Users can also pay using credit/debit card or cash-on-delivery.
 - Partnering with Taiyuan Tang Jiu so customers can order products on JD.com and pick them up at Tang Jiu stores in Taiyuan at lower prices compared to in-store shopping.
 - Testing a new eCommerce selling model in Beijing called "JD Hurry". The model is designed for positioned community delivery within 2 hours and features dairy, frozen product, fresh fruit and vegetables, snacks, beverages, liquor, cleaning products, grains and cooking oil.
- **Yihaodian** is a also prominent B2C platform, majority-owned by Wal-mart.
 - Yihaodian reported sales of imported goods during its Chinese New Year promotion rose from 37% in 2013 to 40% in 2014. Imported wines (150%), imported fruits and nuts (90%), and imported biscuits confectionaries (60%) were the best performing imported foodstuffs compared to 2013.
 - Yihaodian made multiple movements into the online-to-offline (O2O) space in 2014. In its latest move in July, it partnered with convenience chain Family-mart to begin pick-up service at 300 Family-mart locations in Shanghai. This effectively allows customers 24-hour pick-up convenience as well as not having to pay until the time of pick up.
 - In September 2014, Yihaodian launched www.higou86.yhd.com, creating the first platform to integrate Kuajingtong into a mainstream platform. The portal is open to foreign retailers to sell directly to consumers and bypass otherwise burdensome taxes and regulations, with customers able to receive deliveries two days following purchase.

- **Amazon.cn** launched its first operation office in Shanghai's Free Zone in August 2014, to provide cross-border services for Chinese customers. In the past, their largest online promotion was 11/11 when customers order products from Amazon's websites in the U.S., Germany, Spain, France, UK and Italy then shipped directly to China.

Wet/Traditional Markets

Wet markets continue to have a strong yet fading presence throughout China. Wet markets specialize mainly in and are generally the low-cost option for fresh fruits and vegetables, meat, poultry and live seafood, eggs, and some staple foods. However, due to regular avian influenza outbreaks, live poultry has disappeared altogether from some remaining markets in major urban areas. Officials generally regard wet markets as an eyesore, as well as a source of both food safety problems and unregulated (i.e., untaxed) commerce.

Chinese Distribution Channels



Best Prospects

Overall, U.S. products enjoy a high image in the China market. Rising incomes and growing concerns over food safety among Chinese consumers after numerous episodes of food contamination mean there will be continue to be opportunities for a wide swath of U.S. products. On the other hand, price is still one of the barriers for U.S. products to reach the masses of China's emerging middle class. Other challenges include labeling regulations, distribution, and limited product knowledge. The following table provides further details:

Advantages and Challenges for U.S. Products	
Advantages	Challenges
U.S. products are regarded as high in quality, and manufactured with high safety standards.	Many U.S. products are more costly than their local counterparts.
Urban Chinese consumers spend 36% of their income on food.	Overall incomes remain relatively low, with imported products selling mainly to higher income groups
Consumers are interested in new tastes.	Consumers are very price sensitive, and often unwilling to risk spending money on unfamiliar products without trying them first.
Many U.S. brands are widely recognized and respected in China's major urban markets	Many U.S. companies have established plants in China, manufacturing their products in China with Chinese ingredients.
Incomes are growing rapidly in second and third tier cities, creating a whole new range of opportunities	Distribution and logistics remain underdeveloped outside of the largest urban centers, making distribution of imported products to interior cities difficult
Western foods are more widely available than ever, and growing in popularity with consumers.	Lack of knowledge about U.S. products and how to prepare them properly makes consumers hesitant to buy
China's entry into the WTO reduced tariffs on a wide range of imported products.	Regulations: (1) labeling regulations and sanitary restrictions limit access to the market and (2) enforcement is haphazard, creating confusion for exporters
The number of qualified distributors for imported food on the mainland is growing, along with the volume of direct exports	Many U.S. exporters continue to rely on gray market channels, reducing their level of contact with end users and understanding of the market.
Rapid growth in retail chains has created the potential for bulk sales, with consequent improvement in pricing and handling	Purchasing by most foreign-invested chains remains decentralized, preventing them from sourcing in bulk. Close relationships between store managers and local distributors help to reinforce this tendency.

Key Products and Competitors	
<u>Selected U.S. Imported Products</u>	<u>Main Foreign Competitors</u>

Red Meat	Canada, Denmark, New Zealand, Australia
Poultry: chicken paws & wing tips	Brazil, Argentina, Russia
Oranges	New Zealand, South Africa
California Table Grapes	Chile
Washington Apples	Chile, New Zealand
Cherries	Chile, New Zealand
Pear	Asia
Breakfast Cereal	United Kingdom, Australia, EU
Cheese and Dairy	New Zealand, Australia, EU
Frozen Processed Products	Canada, New Zealand
Wine	Australia, France, Italy, Spain, Chile
Spaghetti sauce/tomato products	Italy, France, EU
Coffee	Japan, France, Asia, South Africa
Candy and Chocolate	Switzerland, Italy, France, Belgium, Japan
Nuts	Iran (pistachios), Mongolia, Korea (chestnuts) Russia
Seafood	Russia, North Korea, Canada, Norway, Japan
Ginseng	Canada, Korea
Dried fruit: prunes and raisins	France and Italy (prunes)
Baby food/infant formula	New Zealand, Switzerland, Australia
Premium Ice Cream	France, New Zealand

Products Already in the Market with Significant Quantities and with Good Sales Potential	Products Not Present in the Market with Significant Quantities but with Good Sales Potential
Nuts and dried fruit (prunes, raisins)	Fresh fruit (pears)
Seafood	Processed/dried fruit (blueberries, cranberries)
Poultry meat	Ready-to-cook and ready-to-eat foods
Red meat (U.S. beef and related products are currently not permitted entry into China)	Natural and Organic foods (niche market)
Frozen vegetables (esp. sweet corn)	Functional foods
Infant formula	
UHT milk	
Baby food	
Dairy products (cheese and butter)	
Baking ingredients and bread bases	
Cereals	
Frozen potato products	
Fresh fruit (oranges, apples)	
Premium ice cream	

Convenience

The food industry's revenue growth is now being driven by consumers moving from traditional fast food to healthy convenience food. Urbanization, small households, rising incomes and a growing number of working women expedite the development of this trend. Convenience stores have been offering fresh, prepared foods for years. For hypermarkets and supermarkets, both are employing more ready-to-eat, delicatessen options offering on-site consumption for time-conscious consumers. For example, the ParknShop's *Great Food Hall* now generates roughly 70 percent of its sales revenue comes from its food court.

Health & Wellness Foods

Food safety scandals have long been an issue in China and a strong driver of consumer willingness to pay premium prices for products perceived to be high-quality and trustworthy. Consumers generally have little trust in domestically-produced food. Furthermore, poor diets and ultimately health problems generated by exhaustion and pressure are commonplace in China. As a result, more and more people are in search of not only convenient but also healthy diet options.

The preference for health and wellness foodstuffs to regular food and beverages is strongest in first- and second-tier cities. However, as hypermarkets and eCommerce continue to penetrate into lower-tier cities, more local residents are shifting to these outlets from independent small grocers due to not only competitive prices but also diversified options for health and wellness products.

Fresh Foods

Demand for fresh food is rooted in Chinese food culture. Chinese consumers tend to shop for food frequently. For the elder people, they prefer to shop on a daily basis. For other consumers with increasing disposable incomes and growing health awareness, the trend of trading-up to fresh food has increased.

While fresh food eCommerce was not new in 2013, significant change occurred as integrated cold chain logistics strengthened. Leading B2C players such as yihaodian.com and JD.com began offering a wide range of fresh food products (e.g., fruits, vegetables, meat, and seafood). In addition to the large B2C platforms, there are also platforms that specialize in bringing fresh foods to consumers, such as Yiguo.com, which actively promotes U.S. products, as evidenced below:



Fruits and Vegetables

In general, market access for fresh fruits and vegetables is currently limited to the following:

- Apple: Red delicious and golden delicious (Washington and Oregon)
- Cherry (Washington, Oregon, California, Idaho)
- Citrus: Orange, pomelo, and lemon (California, Florida, Arizona, Texas)
- Grape (California)
- Pear (Washington, Oregon, California)
- Plum (California)
- Basil, Brussels Sprouts, Carrot, Cowpea, Endive, Garlic, Garlic sprouts, Ginger, Celery, Kale, Kidney bean, Lettuce, Onion, Pea (with pods), Radish, Soybean, Yam (Rhizoma Dioscoreae)

Please refer to the USDA/Animal and Plant Health Inspection Service for details on eligibility.

Red Meat, Poultry, and Processed Eggs

Of all types of meat, pork enjoys the biggest consumer base in China, accounting for 63% of total meat volume sales in 2013. With per capita pork consumption of 36.9kg, China registered almost triple the global average (12.5kg) in 2013, and nearly double the per capita intake (19.3 kg) in the United States. Fuelled by a steadily growing middle-class in China and rising incomes, pork volumes rose by 16% over the 2008-2013 compared to 12% globally. Despite a series of food safety issues surrounding Chinese pork in recent years, consumption has continued to rise. Sales are being supported by strong demand from the rural population, supplied by numerous wet markets. In urban areas, consumers' quest for safer products has translated into the growing popularity of branded pork. However, branded meat distributed through supermarkets/hypermarkets and specialist stores in the major cities of Guangzhou, Shanghai and Beijing remains a small niche in China.

In general, market access is currently unavailable to all U.S. beef, sheep meat, processed meat and poultry products (excluded canned products), and processed eggs. Please refer to the USDA/Food Safety Inspection Service for details: <http://www.fsis.usda.gov/wps/portal/fsis/topics/international-affairs/exporting-products/export-library-requirements-by-country/peoples-republic-of-china>.

Entry Strategy

There is no defined formula for market entry. China is not a single amorphous market, but a jigsaw puzzle of small, overlapping markets separated by geography, culture, cuisine, demographics and dialects. As such, there is no single formula for success in China. The best approach to marketing a product will vary depending on the

product and the specific market (geographic and demographic) being targeted. Nonetheless, there are some basic guidelines that can be applied to most cases. Exporters are advised to consider open discussions directly with retailers to identify products with potential, and ensure that packaging meets their needs, as packaging is often as important as the product itself. If the retailer cannot import directly, the exporter will need to identify at least one local distributor that can handle the import paperwork and labeling issues.

General Guidelines

- 1) **Conduct market research as much as you can.** Accumulated recourses and research may help you to properly localize your products for the China market. China is a surprisingly diverse place. Tastes, customs, culture, business practices and government regulations vary from place to place. Experience in other markets will not necessarily help in China, and some aspects of the market need to be witnessed to be fully understood. Good market research also help you find any potential barriers to market (competitive, legal or regulatory) and identify any weaknesses in a company's product or service offering.
- 2) **Visit the place you are going to have market access.** The best strategy is to target a specific place and get to know it well. The scope of your effort will determine whether you select a single city or a whole region. Travel to China is highly recommended to evaluate partnerships, build guanxi (see above), and identify new opportunities and potential obstacles. (Partners are frequently hesitant to mention problems in formal communications, but will be more forthcoming over informal events like dinners). FAS market briefs offer a good source of information on the market, and are available for free on the FAS website noted above. One way of getting to know the market is to visit the two international food shows in China which are endorsed by USDA. These include The FHC and SIAL show. ATO Shanghai hosts USA pavilions at these shows which will be attended by most professionals from China's food sector. Understand the importance of relationships. China's legal system is developing, but remains inconsistent. Enforceability of contracts varies widely, but is generally weak. Business in China instead relies heavily on personal contacts and influence (referred to as 'guanxi'). For companies with a serious interest in China, no investment will be more important to their success than the network of relationships that they establish in China. For more pointers on the role of guanxi in Chinese business culture, please see report CH4835, Chinese Business Etiquette.
- 3) **Find a local partner and/or distributor.** For smaller companies without the resources to directly market their products in China, a good distributor is critical to success. Distributors provide the network of relationships with buyers, regulators and others, that is essential to doing business in China. Unfortunately, these tend to be in short supply. ATOs keep lists of well-known distributors. Keep in mind that contract arrangements with retailers tend to place most of the market risk for new products onto the distributor, so they may require some convincing before they will take on an unfamiliar product. Specialized distributors also exist for certain product categories, most notably wine, seafood and fruit. Be careful in selecting a partner and in establishing an incentive structure: partnerships gone sour are the most common cause of business failure in China. Paying close attention to payment terms can be an important aspect of this (confirmed letters of credit are standard).

Hypermarkets in China tend to develop groups of favored distributors. They dislike working with unfamiliar companies unless they can offer a large number of SKUs, strong marketing support or some other incentive. Distributors tend to be very conservative in introducing new products, due to the high level of market risk. As a result, exporters with a limited product range need to work both ends of the problem at the same time: identifying a retailer that is interested in the product, and identifying a distributor that either has an existing relationship or is willing to work with the retailer. That said, more and more retailers are moving toward centralized purchasing departments as well as direct procurement from exporters.

- 4) **Know the rules.** Chinese regulations are often vaguely worded, arbitrarily enforced and opaque. Your distributor can (and should) handle this for you. However, weak enforcement has made short-cutting a common practice, and exporters that rely entirely on Chinese partners for this are often unaware that their products do not conform to the rules until a problem arises. To defend against the unexpected, exporters should try to be reasonably familiar the actual regulations. Product registration, labeling and product expiry dates are the top concerns in this area. To enter the retail market, food products must receive a hygiene certificate from the local government where the product will be sold. Food products must also be labeled in accordance to Chinese government standards, with the labels pre-approved by the government. Functional or health foods must obtain a health-food certificate, and claims of health benefits on packaging or in advertising are strictly regulated. Foods containing GMO ingredients may be subject to additional labeling requirements, as are organics. There are also a wide range of concerns related to China's new Food Safety Law. Please see the FAS FAIRS reports for China on the FAS website for details (www.FAS.USDA.gov; attaché reports) or the website for China's Administration for Quality Standards, Inspection and Quarantine (AQSIQ) at www.AQSIQ.gov.cn.
- 5) **Get to know the market.** As noted above, China is a surprisingly diverse place. Tastes, customs, culture, business practices and government regulations vary from place to place. Experience in other markets will not necessarily help in China, and some aspects of the market need to be witnessed to be fully understood. The best strategy is to target a specific place and get to know it well. The scope of your effort will determine whether you select a single city or a whole region. Travel to China is highly recommended to evaluate partnerships, build guanxi (see above), and identify new opportunities and potential obstacles. (Partners are frequently hesitant to mention problems in formal communications, but will be more forthcoming over informal events like dinners). FAS market briefs offer a good source of information on the market, and are available for free on the FAS website noted above. One way of getting to know the market is to visit the two international food shows in China which are endorsed by USDA. These include The FHC and SIAL show. ATO Shanghai hosts USA pavilions at these shows which will be attended by most professionals from China's food sector.
- 6) **Find your market niche and focus on it.** China is a very, very big place. The mass market may be huge, but it is driven entirely by price and dominated by lowest-cost local producers. Better returns are to be had from targeting a specific niche. The country has a nearly infinite number of niche markets, some of them quite large. Examples include the high-end gift market, where margins are high but packaging is crucial (wine, ginseng); the expatriate market (famous brands from home like Kraft, Betty Crocker and Post); or health-conscious young parents (prunes, almonds, fresh fruit and organic/natural products.)

- 7) **Invest (wisely) in consumer research.** To outsiders, Chinese tastes can seem fickle. Tastes poorly received in the U.S. may prove successful in China, while products targeted to one market niche may end up finding their greatest success in a completely different one. To avoid unpleasant surprises and find new opportunities, exporters with a long-term interest in China are advised to research the market and test new products directly. Be careful how you invest research money, however. The quality of research by international market research firms is often not much better than that of much less expensive local companies. ATO-sponsored activities offer good opportunities to field test new products or packaging.
- 8) **Adapt your products.** Exporters should be prepared to adapt their products to the demands of their Chinese consumers. This includes flavors, packaging, prices and labeling. Small changes to flavors or packaging, based on market research, may make the product more viable in China. For example, Chinese consumers are often unwilling to buy unfamiliar products if they can't actually see them, so including a transparent window in the box or offering free samples can help sales. Products that are marketed as gifts, such as wine, should place extra emphasis on the packaging, as this is considered an important part of any gift. Many exporters seeking to break into the gift market have special packages manufactured in China, which can also help to address labeling issues.
- 9) **Be flexible.** Things don't always work as expected in China. This can be a good thing, provided you can take advantage of opportunities when they arise. Exporters who enter the market with preconceived notions of how to market their products often miss out. ATO activities routinely turn up unexpected opportunities: for premium boneless pork in Chengdu; for d'anjou pears and cherries in Shanghai; for Mexican food in Wuhan. By the same token, a product may find its best niche in an unexpected place. Washington State apples have done quite well in China despite tough competition from local products, because superior appearance and consistent quality made them the top choice for gift baskets.
- 10) **Pursue gradual but sustainable growth.** A common pitfall is the temptation to pursue explosive growth, focusing on geographic penetration rather than sustainability. This may produce impressive short-term results, but exporters with limited means may find themselves overextended very quickly. If the exporter is unable to meet the expectations of their customers, they may turn to other sources (such as local copycats or counterfeiters) or demand may collapse. Alternatively, the exporter may find themselves overly reliant on local agents that they do not know well, and who have little interest in the long-term success of the product. The go-slow approach gives exporters time to learn the markets, accumulate customer feedback, and build their distribution channels.
- 11) **Invest in market promotion.** Once in the market, an exporter's product will be competing with tens, if not hundreds, of similar products. Domestically made products will often have advantages on price, familiarity and local brand recognition, while imports can be aided by aggressive promotional campaigns. Lacking the massive marketing budgets of multinationals like Nestle or Kraft, most exporters must design and implement their marketing campaigns carefully. Attending only quality, focused trade shows for your particular market segment is a good way to start. In-store promotions are also a cost-effective way to support your product and build relationships with distributors and retailers. Above-the-line media advertising should be carefully planned, as TV and radio time is expensive and has limited

reach. Exporters are strongly advised to explore joint marketing opportunities with ATOs or with a State and Regional Trade Groups (such as MIATCO, WUSATA, Food Export USA/NE, or SUSTA). These events tend to be cost effective and draw more attention than stand-alone promotions. Please check out following websites to learn more about SRTG generic and branded programs: www.susta.org, www.wusata.org, or www.feusa.org.

The most decisive component in hypermarket food promotion for imported goods is free sampling. Consumers are cautious rather than impulsive buyers, and will rarely spend money on a product they have not had a chance to try.

Hypermarket promotions also come with many strings attached. Some charge listing fees, most demand that promoters be provided at the distributor's expense (some even charge fees to have the promoters on their premises). Some require two months' credit, while others pay up front. Other conditions include accepting returns of unsold products at the end of the promotion. Although these problems are usually handled by the distributor, they will affect your sales.

Concern about slotting and other fees caused five government ministries and committees to issue joint plan regulating the fees big retailers can charge suppliers on Dec/19th 2011. From Dec 2011 until June 2012 only a promotion fee is allowed. All other fees such as delivery fee, slotting fee, holiday fee, new store opening fee, sales check and new account opening fee, etc. are illegal. This new regulation caused a lot of argument and confusion. Most retailers have not signed new contracts with suppliers yet and are following last year's contract. The regulation is supposed to protect the interest of small and medium sized suppliers and regulate retailers' behavior, but cutting off all the other fees arbitrarily has caused problems. For instance, in order to streamline logistics, most retailers built their own distribution centers, thus suppliers don't need to send goods to every store. Retailers are responsible for delivering to stores and they charge a delivery fee to suppliers. But according to the new regulation, it's illegal to charge such a fee now. Even the allowed promotional fee is unclear. Retailers usually charge different promotional fees based on the store location, but right now do they need to charge the same level of promotional fees regardless of location? At the moment retailers don't know what to put in the contract.

Regional Perspective

North China

The Chinese retail industry declined with the slowing of the general macro-economic situation and income growth in urban cities. Per capita disposable income continued to drop with per capita disposable income for the first quarter of 2014 of nearly 7% and lower than GDP growth for the same period. Traditional retailers face multiple pressures from heavy competition with eCommerce players, stricter anti-corruption policies, and rising labor and rental costs. In addition the traditional retail industry was more affected by eCommerce trade in second and third tier cities where retail distribution channels for imported food products are underdeveloped. Also, sales growth of the 100 key retail players in China dropped to a single-digit 9.9% in 2013, the lowest in 5 years. Major retail players also are slowing new store expansion, and have closed poor performing stores in Tianjin and Xi'an.

Province/Municipality/city*	Populations (Million)	Urbanization Rate	GDP (USD Billion)	Per Capita Disposable Income of Urban Residents (USD)	Per Capital Expenditures for food of Urban Residents (USD)	Total Retail Sales of Consumer goods (USD Billion)
Beijing	21.15	86.30%	318.12	6577.65	1332.83	136.62
Tianjin	14.72	78.28%	234.42	5268.12	1295.77	72.93
Qingdao in Shandong Province	8.96	67.72%	130.61	5746.66	1313.54	48.72
Xi'an in Shaanxi Province	8.57	71.51%	79.68	5399.67	905.55	34.78
Shandong Province	97.33	52.17%	892.08	4610.78	917.77	363.7
Inner Mongolia Province	24.98	58.71%	274.59	4159.33	998.03	83.43
Hebei Province	73.33	46.51%	461.69	3683.57	718.59	171.56
Shanxi Province	36.3	52.56%	205.58	3663.23	991.12	83.84
Xinjiang Province	22.64	44.47%	136.38	3242.06	868.43	34.39
Henan Province	94.13	42.40%	524.57	3653.83	801.61	202.72
Shaanxi Province	37.64	51.31%	267.62	3728.94	991.12	81.56
* Source: Statistical Year Book 2013 \$1=6.12 RMB						
*City : with 4-5 million populations or above						

Logistical capacity is still a large issue for many retailers with expanding regions and increased number of outlets to manage. Central distribution centers to improve operational efficiency and maintain appropriate inventories continue to develop yet remain a challenge for many retailers. Direct purchasing is another industry trend and has further squeezed out distributors and middlemen while providing increased profits for retailers and competitive product prices to consumers. BHG and Jenny Lou in Beijing both operate their own trading companies. In addition, retailers based in Tianjin, Xi'an and Qingdao work closely with direct importers in sourcing high volume products. In addition, distributors based in second and third tier cities have started to directly source products from overseas.

Beijing Municipality

Beijing's retail market is near saturation. It is difficult to find store locations downtown given the rising and high cost of property and rent. The retail industry has slowed with the economy and anti-corruption policies being implemented by the Central Government. The 2013 growth rate dropped to 8.7% from 11.6% in 2012. International hypermarket operators in China have established outlets in Beijing such as Carrefour, Wal-Mart, Jusco, Ito-Yokado, RT-Mart and Metro. However, facing the dampened economy and high property costs most have slowed expansion in the city.

Convenience stores, however, are attracting new interest in the market and based on China Store & Franchise Association (CCFA) data, there are 20,000- 30,000 consumers on average for every convenience store in Beijing yet in Tokyo the average is 2,800 consumers per convenience store. Thus, great potential exists for convenience store expansion in the market given changing lifestyles, rising rents, and high demand for take-out food. 7-11 is the leading convenience store operator in Beijing with 76 stores throughout the city followed by Family Mart and Hao Lin Ju.

Competition is very intense in Beijing as the number of stores grows and standards rise. Local consumers increasingly demand greater diversity and higher quality foods at competitive prices although price is not necessarily the driving determinant for many consumers. Imported food products are easily sourced in Beijing hypermarkets with special aisles featuring European and U.S. foods. By contrast products from Southeast Asia

and Korea only make up a small percentage of the high-end market. Sales of Japanese products cannot compete well with the market in Shanghai due to historic anti-Japanese sentiments, and local consumption habit.

Qingdao, Shandong Province

Total retail sales of consumer goods in Qingdao reached over \$48 billion with an 11.8% increase last year. Consumers have shifted from wet markets to supermarkets because of a booming economy and higher per capita incomes. The competition in Qingdao's retail sector includes Jusco, Carrefour, Wal-Mart, Metro, Maykel, Parkson, RT-Mart, Hisense Plaza and the Liqun Group. Ole, the high-end supermarket format under Hua Run (CRV) plans to open its first store in Qingdao in 2015. Major Chinese retailers are paying more attention to coastal ECM cities in North China. Most retailers have outlets located downtown and local and multinational retail competition is expected to intensify as Qingdao-based Liqun Group and Hisense expand and defend their considerable market share. The upscale supermarket owned by Hisense Plaza offers a range of over 1,000 SKUs of U.S. product including seafood, fresh fruit, snack food, frozen product and wine. Given a geographical advantage, Korean and Japanese food imports are very popular in the market. Compared with the customers in in-land cities, Qingdao consumers are more receptive to new food products and flavors.

Tianjin Municipality

Tianjin is one of the key emerging markets for ATO Beijing in North China. In 2013 per capita GDP in Tianjin was \$15,383, surpassing Beijing and Shanghai to achieve the number one spot in China yet per capita disposable income is lower than in Beijing, Shanghai and Qingdao. As a result, a large number of consumers shop in wet markets since they are price sensitive. The city continues to be under the shadow of Beijing with imported food distribution channels underdeveloped. High-end supermarkets in upscale department stores and eCommerce are the major source for imported food products. Southeast Asian and Korean food products are very popular in the market with their competitive prices. European and U.S. products are in limited supply in some upscale retail outlets such as Hisense Plaza, Ole, and Lotte. The Binhai New Area is increasingly a good place to sell imported product due to a large number of white-collar workers employed by multinational companies and expatriates living there.

Zhengzhou, Henan Province

Based on its geographical location, major rail hub, and large urban population, Zhengzhou's retail base has developed rapidly. Consumers enjoy shopping in hypermarkets and supermarkets for high quality and safe products with multinational retailers such as Carrefour, Wal-Mart, Metro and RT-Mart all established in the city. Domestic retailer, Hua Run (Vanguard) has been expanding in the city and Province since setting up their Northwest headquarters in Xi'an. In addition, the regional retailer, Dennis, attracts high volumes of customer traffic. Competing with Carrefour and Wal-Mart, Hua Run and Dennis are more popular and active in the city. The majority of imported food products carried by retailers are from Korea and Southeast Asia. Group purchasing is the primary channel to sell imported food products, and Zhengzhou is also an imported food distribution center for inland third tier cities in the surrounding provinces given its convenient transportation links.

Shijiazhuang, Hebei Province

Hebei Province's retail business developed quickly despite nearly complete dominance by local Chinese retailers. In the provincial capital, Shijiazhuang, mature and well-managed local retail outlets have established prime locations and consumer loyalty. This has made Shijiazhuang a challenging market for international retailers. However, in 2010 Carrefour entered the market by cooperating with a local retail partner operating 6 stores. In addition, Wal-Mart opened its first store in Shijiazhuang in 2012. The booming retail business is characterized by a large number of upscale retail outlets with special imported food sections or shelves. It's easy to source U.S. and European food products in Shijiazhuang. Bei Guo is the leading retailer, operating over 20 outlets with 10 of these offering imported food products. Imported food products can also be sourced in third tier cities such as Tangshan and Qinhuangdao although products are somewhat limited to cookies and snack food originating from Korea and Southeast Asia. Outside Shijiazhuang, international retailers such as Taiwan-based RT-Mart have made inroads operating the most popular retail outlet in Tangshan. Carrefour opened its first store in Tangshan in 2010, and Tesco launched its first 'life space' shopping mall in Qinhuangdao in January 2010.

Xi'an, Shaanxi Province

The capital of inland Shaanxi Province is considered the gateway to Northwestern China and over the last five years its retail sector has developed rapidly. China Resources Vanguard (CRV) dominates the retail market in Xi'an and Shaanxi Province with 37 stores in Xi'an and 43 stores in the province. In addition, CRV's northwest regional office is located in Xi'an covering China's 5 Northwest Provinces (Shanxi, Ningxia, Gansu, Henan, and Qinghai). CRV is eager to attract more upper middle class consumers in the region offering a greater variety of imported food products. Wal-Mart operates 6 hypermarkets in Xi'an. Metro operates two stores in the city and is the top destination for HRI operators and upper middle class consumers to source wine, meat, flavorings, and cooking equipment. One store ranks in Metro's top 5 China stores in terms of sales. Xi'an customers have limited knowledge about U.S. products and are normally sensitive to price. However, demand for U.S. products has increased rapidly year by year according to CRV's purchasing manager. Major retail players in China are keenly aware of the market opportunities in Xi'an and are scrambling to open high-end stores in the market. CRV opened its first Xi'an Ole store in 2012. However, logistics continue to be a barrier to market expansion although the situation is improving given more regional distribution centers established by major retail operators. Based on these distribution improvements and direct relationships with importers, imported food products are being distributed further inland to second and third emerging market cities in Northwest China.

Key Retailers in the Region

North China Major Food Retailers						
Retailer Name	Ownership	Store Type	Beijing	Tianjin	Qingdao in Shandong Province	Xi'an in Shaanxi Province
Carrefour	France	Hypermarket	18	5	3	0
Metro	Germany	Hypermarket	3	1	2	2
Ito Yokado	Japan	Hypermarket	6	0	0	0
Jusco	Japan	Hypermarket	2	2	4	0
Wal-Mart	USA	Hypermarket	12	2	1	6
Sam's Club	USA	Hypermarket	2	0	0	0
BHG	China	Supermarket	17	0	0	0
RT-Mart	Taiwan	Hypermarket	1	2	4	2
E-Mart	Korea	Hypermarket	0	5	0	0
*Year End 2013						

- **Wu-Mart** is a major retail chain based in Beijing operating more than 700 stores throughout China including hypermarkets, supermarkets, and convenience stores and targeting middle class as well as lower-end consumers. The retail outlets are mainly located in Beijing, Tianjin, and Zhejiang and Ningxia Provinces. According to the company's financial reports total revenues were up more than 10.3% at about \$5 billion in 2013. Wu-Mart entered into a shared purchasing agreement with Lotus in October 2013, and acquired Lotus's retail businesses in East and North China. Wu-Mart operates its own central distribution center in Beijing.
- **AEON-Jusco** opened its first North China hypermarket in Qingdao in 1998 with 40,000 square meters of retail space and parking for 1,000 cars. The format linked shopping and leisure destination by offering supermarket, restaurants, coffee shops, etc., all under one roof. Sales reached over \$400 million in 2013 from the operation of 9 outlets in Shandong Province (4 in Qingdao and 1 each in Yantai, Weifang, Weihai, Zibo and Jining). In addition, the retailer has increased market share by expanding into the convenience store market segment. The company opened its first convenience store, MINISTOP, in Qingdao in July 2010 and now operates 52 MINISTOP shops in Qingdao. The rate of expansion is much lower than the company's previous plan. The high cost of commercial retail space rents is a primary factor impeding the expansion of new shops.

The company established a subsidiary company in Beijing in 2007 focused on the Beijing and Tianjin markets with the first hypermarket located in suburban Beijing targeted at high-end consumers from surrounding upscale communities who use private cars to shop on weekends. In 2010, the company opened its second outlet in Beijing in Chaoyang District and also entered into an agreement with Teda Promenades in Tianjin where the company opened its first store in the Tianjin Economic Development Zone. By the end of 2014 the company operated two outlets in Tianjin. Facing significant competition from eCommerce retail players, Qingdao Jusco launched its own shopping website in 2011. Customers can utilize rapid delivery service within the city. Orders placed by 12 p.m. will be delivered the same day. In addition, customers can order lunch boxes from the website and orders placed by 9 a.m. will be delivered at 12 noon.

- **Jenny Lou's** is a retailer of imported food products for expatriates, upper-middle income Chinese consumers and others who have lived or studied abroad. The company established in 1995 split into two

companies in 2011 – Jenny Lou’s and Jenny’s Store. Currently, Jenny Lou’s has 11 stores and Jenny’s Store has 8 stores in Beijing mostly located in high-income and/or upscale communities, often near diplomatic compounds and missions. More than 90% of the products offered in the small supermarkets are imported with about 50% from the United States. In particular breakfast cereals, seasonings, dairy products and wine make up the focus of their offerings. In 2013 Jenny Lou’s sales revenue grew about 20%, reaching more than \$90 million.

Jenny Lou’s set up its own trading company, Beijing Guo Rui Wo De Trading, in 2012. The company sources over 1,000 SKU in imported products from the United States for its own stores, and distributes products to other retailers and distributors as well.

- **Beijing Hua Lian High-End Supermarket (BHG)** is under the Hua Lian Group targeting elite Chinese and expatriate consumers in Beijing. Over the past ten years the company expanded rapidly in Beijing and now operates 17 high-end stores, up from 5 in 2010. BHG accelerated its expansion of emerging city markets during the past four years opening its first store outside Beijing in Huizhou in Guangzhou Province in June 2011. The company currently operates 8 stores outside Beijing, and BHG is developing distribution centers to service stores in China’s emerging urban markets.

BHG stores in Beijing are located in high-income areas or near diplomatic compounds with most shoppers upper-middle class Chinese consumers rather than expatriates. A wide range and selection of international products is offered with over 25% of the products from the United States. BHG sales data show they sold over \$20 million and 4,000 SKU’s of U.S. products in 2013 in Beijing. Snack foods, fresh and dried fruit and nuts, and soft drinks are the most popular products. In addition, BHG set up a direct sourcing office in Canada in 2013 to source imported products from Canada and the United States including private label and other fast-moving and popular consumer goods.

Given its rapid expansion over the past five years BHG has also faces growth issues and completely withdrew from the Tianjin market in 2012 by closing both its two stores. As well, the store opened in Jinan in Shandong Province in 2012 continues to struggle.

South China

The South includes five provinces. Guangdong, Hunan and Fujian are the leading retail development and consumption centers, while Guangxi and Hainan are catching up in recent years. Food on average in South China accounts for 35 percent of the total retail figure. The emerging “middle-class” living in urban areas are paying more attention on healthy life and their spending power has increased. With increasing disposable incomes, the capacity to buy higher value goods and services means imported products need to take note of the significant market of the future. Promising U.S. food categories in the South include frozen meat, seafood, fresh fruits, dried fruits, nuts, crackers, juices, wines, fluid milk, other dairy products, baking ingredients, and snacks. While traditional supermarkets and hypermarkets had to face new challenges from the on-line business channels, convenience stores and specialty stores have gaining ground in South China, especially in Guangdong province. More high-end single specialty stores for fresh fruits, frozen meat and seafood were opened in 1st tier

cities such as Guangzhou and Shenzhen.

South China at a Glance (2013)

Province	GDP (US\$ billion)	Total Population (millions)	Total Retail Sales (US\$ billions)	Per Capita Disposable Income (US\$)
Guangdong	1002.6	106.4	410.5	5337
Fujian	350.9	37.7	133.5	4970
Hunan	395.2	66.9	145.5	3777
Guangxi	231.9	47.2	82.8	3759
Hainan	50.7	8.95	16.0	3698

(Source: 2014 China Yearly Book)

Guangdong Province

Guangdong continues to be a pioneer in retail development. In the past five years, rivalry was fierce as retailers competed aggressively to win prime location as an anchor tenant status in new shopping mall. To avoid high rental fee and operation cost in the first tier cities, many retailers have already aggressively opened up their outlets in other cities of Pearl River Delta including Foshan, Zhuhai, Zhongshan and Huiyang. Emerging new markets such as Jiangmen, Yangjiang, Shantou and Zhanjiang are also picking up for retail development. One-stop shopping with multiple entertainment options in comprehensive shopping malls attracted teenagers and young working adults living in **Guangzhou and Shenzhen**. However, the saturation in downtown area in the past two years allured retailers to explore new business opportunities in satellite cities near Guangzhou and Shenzhen. **Longgan, Buji and Nanshan** in Shenzhen and **Panyu** in Guangzhou have been developing quickly. With higher disposable incomes, these consumers living in Guangzhou and Shenzhen are willing to pay premium price at high-end food stores such as Ole and BLT (Better Life Together) as well as Sam's Club and seek for innovative and nutritional imported food items. **Dongguan** consumers living in various counties such as **Songshanhu, Houjie, Humen and Kuancheng** possess the highest per capita disposable income in Guangdong. Their demand for high-value imported food items helped facilitate the imported food distribution. Membership stores such as *Metro* provide discount to their members, mainly small and medium enterprises, on large package and bulk volume sales. **Foshan** is close to Guangzhou and benefits from the "Guangzhou-Foshan Same City Project". Lotus, Tesco and RT-Mart, as well Yonghui (a local Fujian retailer) as the new comers in Guangdong have targeted this market with over 7 million population. In addition to the three key players in Huizhou (Carrefour, Metro and AEON), a high-end chain store BHG from North also joined this market share competition by opening its flagship store in **Huiyang**. Guangdong Yihua Group, a leading domestic retailer in Zhongshan, started to gain market share in Jiangmen, Yangjiang and Shaoguan. During the past two years, ATO Guangzhou did several successful marketing activities, which include In-store Promotions and Product Awareness Panel, in **Zhongshan, Zhuhai and Jiangmen**.

Fujian Province

Fuzhou and Xiamen are two leading markets in the retail food sector as well as for imported food distribution. Fuzhou is the capital city of Fujian province with a population of 6.6 million. In 2012, the per capita GDP was

\$9,388 and the per capita disposable income of urban citizens in Fuzhou has grown 13 percent. Xiamen is about 1.5 hours away from Fuzhou by express train. The total population of Xiamen is 1.9 million. Xiamen had a higher per capita disposable income, which was \$12,474. Food consumption in two cities respectively accounts for over 38.8 percent of the total per capita consumption in **Fuzhou** and 35.6 percent in **Xiamen**. Affluent customers are less sensitive about pricing and are willing to pay 15-20 percent higher premiums to purchase higher-end and branded imported products. As local consumers regards family gathering an important issue, holiday sales (especially during Chinese New Year, Dragon Boat Festival, and Lantern Festival) help promote high-value imported food. Gift package become popular. Emerging online business helps some small and medium chains to purchase food items from first tier cities. Younger generation of Fujian consumers tend to try this new pattern of purchase for the purpose of convenience and at a lower price. Fancy specialized stores carrying imported food are gaining ground. Fierce competition in the first tier cities has expanded into secondary and third tier cities. Emerging markets in Fujian include **Zhangzhou and Quanzhou, Putian, Ningde, Longyan, Sanmin, and Nanping and Jingjiang**. Currently in Fujian market, Wal-Mart, Carrefour, Metro, Yonghui and New Huadu as well as RT-Mart have a strong presence.

Hunan Province

Changsha is the capital city of Hunan province and Changsha's GDP accounts for almost one third of Hunan's total. Changsha has long been an important battle ground for national and local grocery retail chains. It has become a logistical and transportation hub during central-South China's development campaign and has a population over 7 million. Local consumers have larger disposable incomes and are aware of food safety concerns associated with domestic food and beverage items and many aspire to live healthy lifestyles. Consumer demand for high-quality imported food and drink items are on the rise especially imported fruits, dairy products and snack foods. The **Changsha- Zhuzhou-Xiangtan's** (the distance of each city from another is within one- hour) strategic mega city project will increase trade within the province. In addition, a recent government report revealed that the three cities (Changsha, Zhuzhou, and Xiangtan) will be acting as focal points, with five satellite cities: **Yueyang, Changde, Yiyang, Lodi and Hengyang** as the next emerging markets in the region. All of these cities are within 1.5-hour transportation distance from one another. Changsha's retail food sector has been in continuous development as massive infrastructure construction projects have been beneficial to the local economy and tourism industry. In addition to multinational grocery retail chains such as Metro, Wal-Mart, and Carrefour, regional players such as Better Life and Jiarunduo Hypermarket boasted the largest market shares in **Changsha**. RT-Mart and Lotus also have a solid presence in the market. The Japanese retailer Ping He Tang also enjoys a favorable reputation in promoting high-end packaged food items mainly from Japan, Germany, France, Australia, and Canada although this supermarket format's sales floor is much smaller than the larger chains.

Guangxi Autonomous Region

Guangxi is one of the growing emerging markets for food processing and retail distribution in South China. Major cities in Guangxi include **Nanning** (the Capital city), **Guilin** (a tourism hot spot), **Liuzhou** (an industrial city) and **Beihai** (an important port city). **Nanning** is in the center of South and West China and serves as an important trade, logistics and distribution center. It has recently attracted significant foreign and domestic investment since the signing of China's free trade agreement with the ASEANs. The retail sector has developed

rapidly with 15 Likerrong, 10 Nancheng Department Stores, five Hualian, four Renrenle, two Wal-Marts, two Dream Island Department stores, one CR-Vanguard supermarket, plus a newly opened Mix-City Olé high-end outlet in 2012. All of these supermarket chains carry varying amounts of imported food items. In addition, Post noted with interest that a local supermarket chain “Fengrunjia” has opened a special imported section with a 300-square meter sales floor and over 300 SKUs from the United States displayed on their store shelves.

Hainan Province

Hainan is located in the South China Sea between Guangdong Province and Vietnam. Hainan’s retail sales are growing at a rapid pace with new chains, outlets and products flourishing within the last year. 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. 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.

Key Players in the Region:

- **Wal-Mart (China):** Currently with over 400 stores nationwide, operating under various formats including supercenters (hyper market format), Sam’s Club (membership retailer), and Trust Mart (smaller store format). In the past two years, Wal-Mart faced several management challenges such as frequent top management personnel changes and an expansion slow-down. Although Wal-Mart opened around 30 new stores, this is relatively slow pace when compared with previous 40 plus new store which opened in 2011. This was due in part to having to close down several stores with lower profit margins due to poor sales performances. For example, in Shenzhen, three “smart-choice” (community store format) outlets and one of the first supercenters opened in China were all closed in 2012. The Wal-Mart “Everyday Low Price” strategy seems to be challenged by innovation and value-added services. Demand for quality food and new varieties are growing. According to industry insiders, there are plans to close down over 100 Wal-Mart outlets that are underperforming by 2015, although Wal-Mart claims the chain will open 30 new outlets and upgrade another 55 outlets this year. According to some traders who have been in business with Wal-Mart, imported fresh fruit, for example, will be strengthened in *Wal-Mart* superstores to attract ongoing customers.
- **Sam’s Club:** In addition to *Wal-Mart* supercenters, *Sam’s Club* (membership warehouse stores) is another *Wal-Mart* format targeting middle class families and small businesses. *Sam’s Club* has an entirely independent and separate purchasing division and operation section than *Wal-Mart*. Selected brands in larger packages have made *Sam’s Club* a unique place to find family-size imported foods. The average per ticket sale in *Sam’s Club* is much higher (on average around 30 percent higher) than that of conventional supermarket competitors. Starting from April 2013, Sam’s Club’s online store

(www.samsclub.com) started providing chilled and frozen foods delivery service in Shenzhen, Guangzhou, Shanghai, and Beijing.

For many local distributors, placing their products in Sam's Club shelves brings their products higher status and credibility in the trade, because purchasing teams are quite particular about the performance of an SKU. To date, there are eight *Sam's Clubs* outlets in Mainland China, including two in Shenzhen, one each in Beijing, Fuzhou, Dalian, Guangzhou, Suzhou and Shanghai. And it will compete with Metro for market share to source to small local restaurants (with no centralized purchasing departments).

With more new outlets opening in China, Sam's Club has begun direct sourcing for certain products from overseas. Products with prospect include seasonal fresh fruits and snacks.

- **CR-Vanguard:** By mid-2014, there are a total of 4,425 outlets under CR-V's brand. Last year alone, 782 outlets were opened, including 82 hypermarkets with sales floor space of (8,000-15,000 square meters). The acquisition of Tesco China last year encouraged CR-V to launch its new online business model recently.

Under the umbrella of *CRV Corporation*, *Olé* and *BLT* targets upper-middle income shoppers and white-collar workers. These supermarkets are usually located inside fancy shopping malls. The stores have been successful at introducing a wide assortment of imported food items such as cheeses, chocolates, coffee, wine, liquor, biscuits, and fresh fruits albeit at higher prices.

- **AEON:** The Japanese retail giant has various retail formats in China, previously known as Jusco. So far, in China there are six separate regional offices including: Shenzhen, Guangzhou, Qingdao, Beijing and two newly opened offices in Suzhou and Wuhan. Each has separate and independent purchasing divisions. In March 2013, all stores were renamed *AEON* as part of the chain's new strategy. It is expected that the re-organization of renamed *AEON group* will bring a brand new image to its consumers-- offering better service and a standardized procedure to its suppliers. *AEON* enjoys a favorable reputation in promoting imported food items, mainly from Japan, Korea and other countries. However, according to traders, the image of *AEON/Jusco* in the past two years has been downgraded from what it was in years past.
- **Pagoda:** is a leading specialized fresh fruit community chain store with the head office in Shenzhen. *It has over 800 outlets in Guangdong and Hainan provinces. It started about a decade ago with a franchise strategy. Pagoda mainly targets residential communities and families. Recently Pagoda established a branch office in Guangzhou for directly purchasing fresh fruits from overseas. It is said that by the end of this year, 200 more outlets will be opened.*
- **Corners' Deli** is one of the fast growing specialized imported food stores. It has over 11 outlets in Guangdong and Hainan, all featuring a wide range of imported food items. With focus in Guangdong and Hainan, more specialized imported food shops will be opened in the coming year.
- **Watson's** is also expanding rapidly with over 300 stores offering selected imported food items. The

purchasing office in Hong Kong is in charge of imported merchandise assortment selection.

- **7-Eleven** is a 24hour business model that made 7- Eleven a pioneer in Guangdong's convenience store sector. It has over 800 outlets concentrated in six cities including Guangzhou, Shenzhen and neighboring cities in the Pearl River Delta like Foshan, Dongguan, Zhongshan and Zhuhai. The chain targets young and office white collar customers. Recently, 7-Eleven opened the door to franchising. With small sales floor (only 200 to 300 square meter), small packaged imported chocolates, candies, and biscuits are often available in store. It is also noted that some stores have displayed imported drinks and wine for sales. These products were supplied by various distributors.

Southwest China

Southwest consists of Sichuan, Yunnan, and Guizhou Provinces, the Chongqing Municipality, and the Tibet Autonomous Region. The region is also home to an above-average consumer of food and beverages as the population chooses to spend a large portion of their disposable income in this category. Consumer preferences for imported foodstuffs are similar as other parts of China. Imported products, especially those from developed countries, provide the consumer innate assurances of safety and quality as well as the sense of an elevated lifestyle.

Southwest China's major urban centers (in ranked order of importance) are Chengdu, Chongqing, Kunming, and Guiyang, all of which are considered second-tier cities and offer reasonable access to imported retail food stuffs. These cities also serve as distribution hubs, including for imported products, in their respective provinces. In recent years, improved living standards have resulted in imported products beginning to penetrate deeper into Southwest China's 3rd and 4th tier cities, where a significant number of local retailers also now have devoted imported food sections. However, where supply chain constraints in brick-and-mortar retail continues to limit choices for Southwest China urbanites – and especially for the 75 percent of Southwest China urbanites who reside outside Chengdu, Chongqing, Kunming, and Guiyang – consumers are increasingly turning to eCommerce to purchase food and beverages.

Province/Municipality/ city*	Populations (Million)	Urbanization Rate	GDP (USD Billion)	Per Capita Disposable Income of Urban Residents (USD)	Per Capital Expenditures for food of Urban Residents (USD)	Total Retail Sales of Consumer goods (USD Million)
Sichuan Province	81	43.53%	390	2,459	992	151,448
Chengdu	14	68.44%	133	4,345	537	54,399
Mianyang	5	43.64%	22	3,391	410	9,469
Nanchong	6	39.34%	19	2,815	389	7,647
Chongqing Municipality	29	56.98%	186	2,708	1,123	65,910
Guizhou Province	35	36.41%	112	2,056	816	33,131
Guiyang	4	-	28	3,561	-	11,163
Yunnan province	47	39.31%	168	2,269	893	57,379
Kunming	5	-	49	-	-	24,408
Qujing	6	-	23	-	-	5,420
Tibet	3	22.75%	11	1,828	902	4,160
* Source: Statistical Year Book 2013 \$1=6.12 RMB						
*City : with 4-5 million populations or above						

Sichuan Province

Chengdu, the capital and cultural center of Sichuan province, is a prime target for U.S. agricultural exports as an emerging city market in China's heartland. It is the wealthiest and most advanced city in Southwest China. Even though Chengdu accounts for only 14 percent of Sichuan's population, it made up 31 percent of the province's GDP in 2013. Chengdu residents are very open-minded and like to try new foods. They are willing to pay a premium for quality, reliability, and safety food products. As an interior emerging city market, Chengdu's market has less import penetration than more developed port cities. New imports face less foreign competition than in the developed port cities. Chengdu upscale department stores include Ito Yokado, Isetan, Renhe Spring, and Wang Fu Jing. High-end supermarkets include Ole', Great, and Treat. These stores, along with Carrefour, Metro, have the highest concentration of imported products. Other hypermarkets and supermarkets such as Wal-Mart, Beijing Hualian Group (BHG), and Ren Ren Le have considerably less selection. Convenience stores are developing rapidly in Chengdu. Hongqi, Wowo, Wodongfeng, Huhui are major Chengdu-based convenience chains and expanding business to surrounding areas.

Chongqing Municipality

Chongqing is the largest of the four municipalities as well as one of the fastest growing economies in all of China. The Chongqing consumer is typically considered old-fashioned and less welcoming to imported products. State-owned retailers Chongqing Department Store and CBest supermarket dominate the region but with limited imported food product selection. The best retailers for U.S. food products are Ole' and Far Eastern.

Yunnan Province

Like Chengdu, Kunming offers a similar openness to international products and culture. The best retail outlets for U.S. products are Parkson and Gingko. The penetration of US products in Yunnan reach to 3rd and 4th tier cities, such as Qujing, Chuxiong, Dali, Baoshan, Mangshi (Dehong), Ruili and Yuxi. Kunming acts as a distribution point for the province with most U.S. products being sourced from South China ports in Guangdong and Guangxi. Yunnan has significant volumes of imported products from Southeast Asia, as it maintains active over-land border crossings with Vietnam, Laos, and Burma.

Guizhou Province

One of China's poorest and least developed provinces, Guizhou features a per capita GDP half that of China's national average. However, pockets of wealth are present and are demonstrating demand for U.S. retail food and beverages. The greatest opportunity is in the provincial capital Guiyang, where the city center holds 2.5 million urban residents. Guiyang's city center total retail sales are 24% the size of Chengdu's. High-end retail outlets are limited to Xingli Department Stores. At the end of 2014, Ole's opened the first store in Guiyang. Opportunities in Guizhou's 3rd and 4th tier cities are very limited, with best prospects likely in Zunyi via major retailers Vanguard and Xingli. Imported food and beverages are sourced into Guizhou not only from China's coast but also through sub-distributors in Chongqing, which lies just to the north.

Tibet Autonomous Region (Tibet)

Tibet offers U.S. food and beverages very few opportunities in the retail sector. Tibet is China's most remote and almost certainly smallest retail market for imported products. Tibet has only 70,000 urban residents. Imported food and beverages destined for Tibet flow through Chengdu distribution.

Key Players in the Region

Southwest China Major Food Retailers						
Retailer Name	Ownership	Store Type	Chengdu	Chongqing	Kunming	Guiyang
Carrefour	France	Hypermarket	14	7	8	1
Metro	Germany	Hypermarket	1	2	1	0
Ito Yokado	Japan	Departement Store/Supermarket	6	0	0	0
Isetan	Japan	Departement Store/Supermarket	1	0	0	0
Auchan	France	Hypermarket	4	0	0	0
Wal-Mart	USA	Hypermarket	2	10	6	3
Wang Fujing	China	Departement Store/Supermarket	4	2	1	0
Far Eastern	Taiwan	Departement Store/Supermarket	3	3	0	0
CR-Vanguard	Guangzhou	Hypermarket/Supermarket	2	5	0	0
Red flag	Chengdu	Convenience Store	700+	0	0	0
Wowo	Chengdu	Convenience Store	300	0	0	0
RT-Mart	Taiwan	Hypermarket	6	2	2	2
Cbest	Chongqing	Departement Store/Supermarket	5	70	0	1
Renhe	Chengdu	Departement Store/Supermarket	2	0	0	0
Renrenle	Shenzhen	Hypermarket	19	8	0	0
ParknShop	Hong Kong (Shenzhen)	Supermarket	5	0	1	0
Lotus	Thailand (Shanghai)	Supermarket	0	4	0	0
BHG	Beijing	Supermarket	3	1	0	1
Ole'	Guangzhou	Supermarket	1	2	0	0
Yonghui	Fujian	Supermarket	9	82	0	6
Jingko	Kunming	Departement Store/Supermarket	0	0	2	0
Parkson	Malaysia (Shanghai)	Departement Store/Supermarket	5	4	2	3
Xingli	Guiyang	Departement Store/Supermarket	0	0	0	5
Hongyan	Chengdu	Convenience Store	100+	0	0	0
Wudongfeng	Chengdu	Convenience Store	400+	0	0	0
Huhui Supermarket	Chengdu	Convenience Store	600	13	0	0
7-Eleven	Japan ()	Convenience Store	80	0	1	3
Lawson	Japan (Shanghai)	Convenience Store	0	83	0	0
Honghuabianli	Guiyang	Convenience Store	0	0	0	75+
Momo	Chengdu	Convenience Store	6	0	0	0
Family Mart	Japan/Taiwan	Convenience Store	26	0	0	0
*Year End 2013						

- **Watson Group** is Hong Kong-based retailer with a strong portfolio in Chengdu, including: *ParknShop*, *Treat*, and *Great* Supermarkets. *Treat* & *Great* have a large share of imported food products (about 70 percent) and *Great* is the company's flagship store in Mainland China. *Watson* personal care convenience stores are numerous in Chengdu and cater the mid- to high-end consumers and feature a good selection of imported health products, such as dried fruits and nuts.
- **CR Vanguard** continues to expand operations under its three brands: *CR Vanguard Hypermarket*, *blt Premium Supermarket*, and *Ole' Premium Supermarket*. The latest *Ole' Premium Supermarket* just opened in Taiguli, the most luxurious shopping center in Chengdu, comparable to Beijing's Sanlitun and Shanghai's Xintiandi neighborhoods. In addition to a presence in Chengdu, Chongqing, and Guiyang, the company is also represented by one CR Vanguard hypermarket in Zunyi, Guizhou.
- **Ito Yokado** is the largest middle-class retailer in Chengdu.
- **Far Eastern** department stores display mixed performance. The Chongqing outlets are better

performing and hold a higher reputation among the local competition.

- **Parkson** management and priorities are highly variable from city to city and not all house in-store supermarkets. Parkson runs a high-end supermarket in its Kunming outlets but has relatively poor performance in other areas.
- **CBest** is a state-owned supermarket often attached to their parent company Chongqing Department Store. CBest has roughly 70 supermarkets in the Chongqing Municipality, five in Sichuan, and one in Guizhou (Zunyi). It has a large market share in Chongqing but offers few imported products.
- **Wowo** is a Chengdu-based convenience store chain with more than 300 stores currently in Chengdu, and plans to expand operations to Chongqing and Kunming in the near future. In May 2014, the store appeared to carry only a few imported beverages and snack foods but has expressed interest in increasing the presence of imported products. The average customer of these stores is usually middle class individuals from the ages 25 to 35. Most of these stores are open 24 hours a day.
- **Hongqi (Red Flag) Chain Store** is a Chengdu-based convenience store chain with more than 1,400 stores in Sichuan – primarily in Chengdu. Founded in 2010, it already ranked as the 11th largest convenience chain in China in 2013. The company operates a chain of medium-sized convenience store that sell packaged food, cigarettes, wines, fresh produce, etc. A vast majority of the products at Hongqi are domestically produced. Hongqi's average customer ranges from 25 to 50. Prospects for U.S. goods in this chain store are limited as it caters to more price-sensitive Sichuan consumers.
- **Momo** is a fast-growing specialty/boutique chain store specializing in imported foods. They currently have six stores in Chengdu, but plan to open 20 by the end of 2015.