

China

Food Retailing

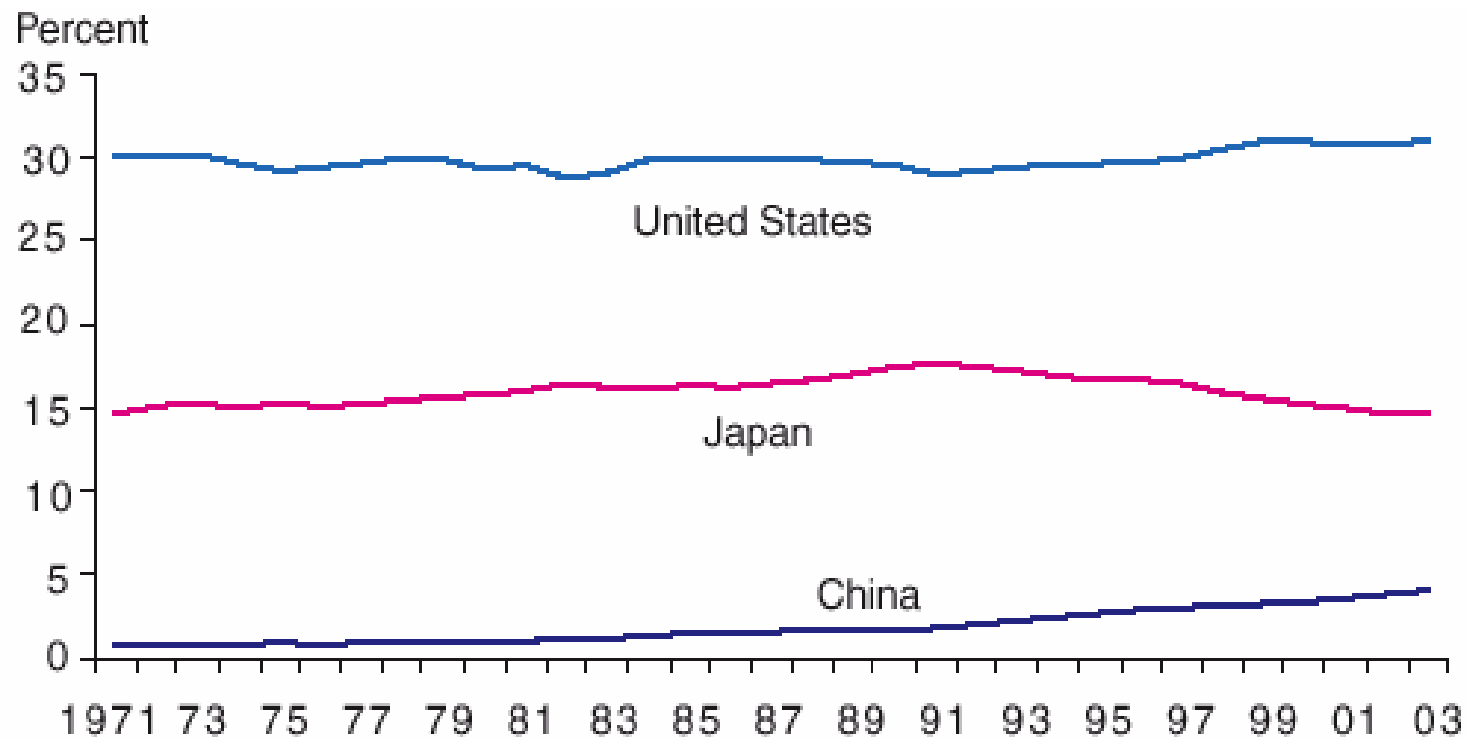
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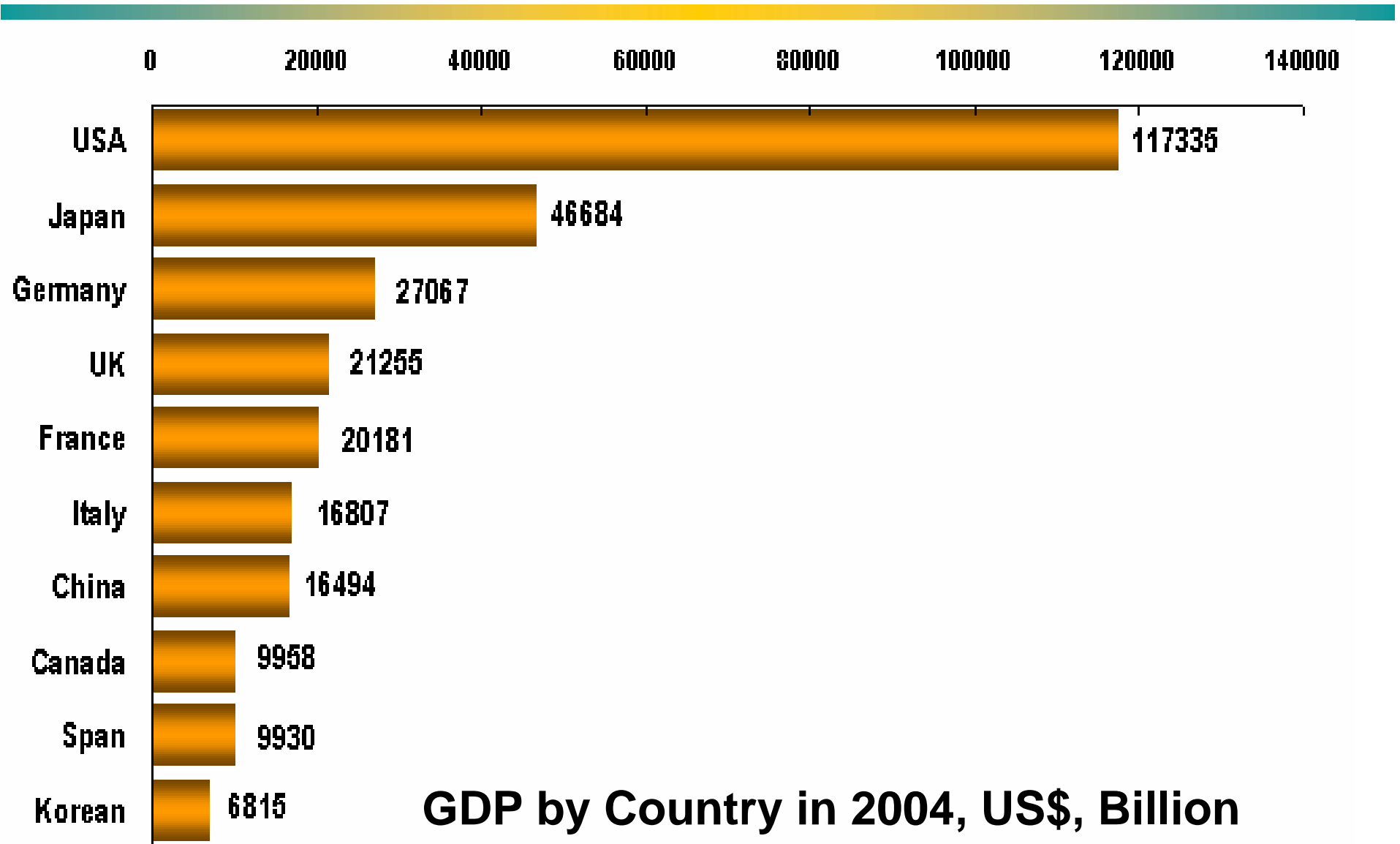
Economy & Industry

China's Economy Sustained Growing

- China's spectacular growth translates into an increasing share of world GDP



Source: USDA's ERS long-term macroeconomic dataset.

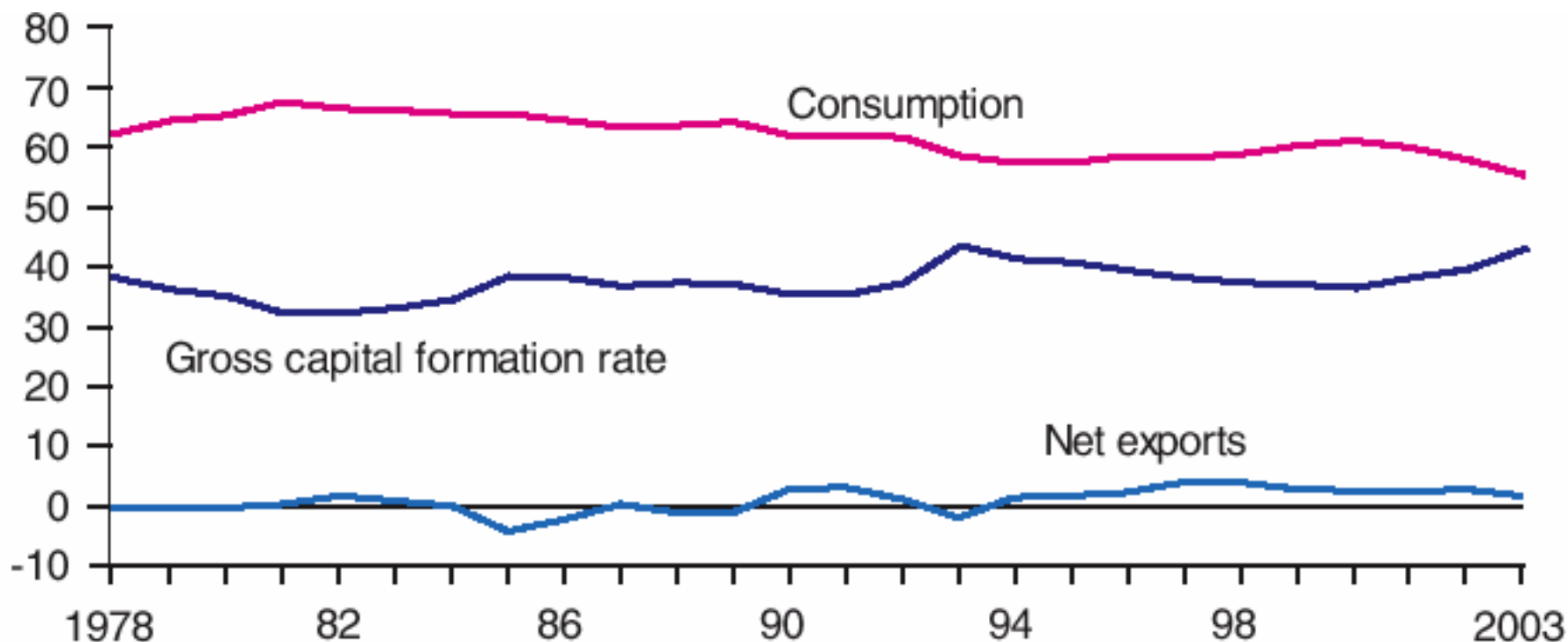


GDP by Country in 2004, US\$, Billion

Source: Ministry of Commerce, China

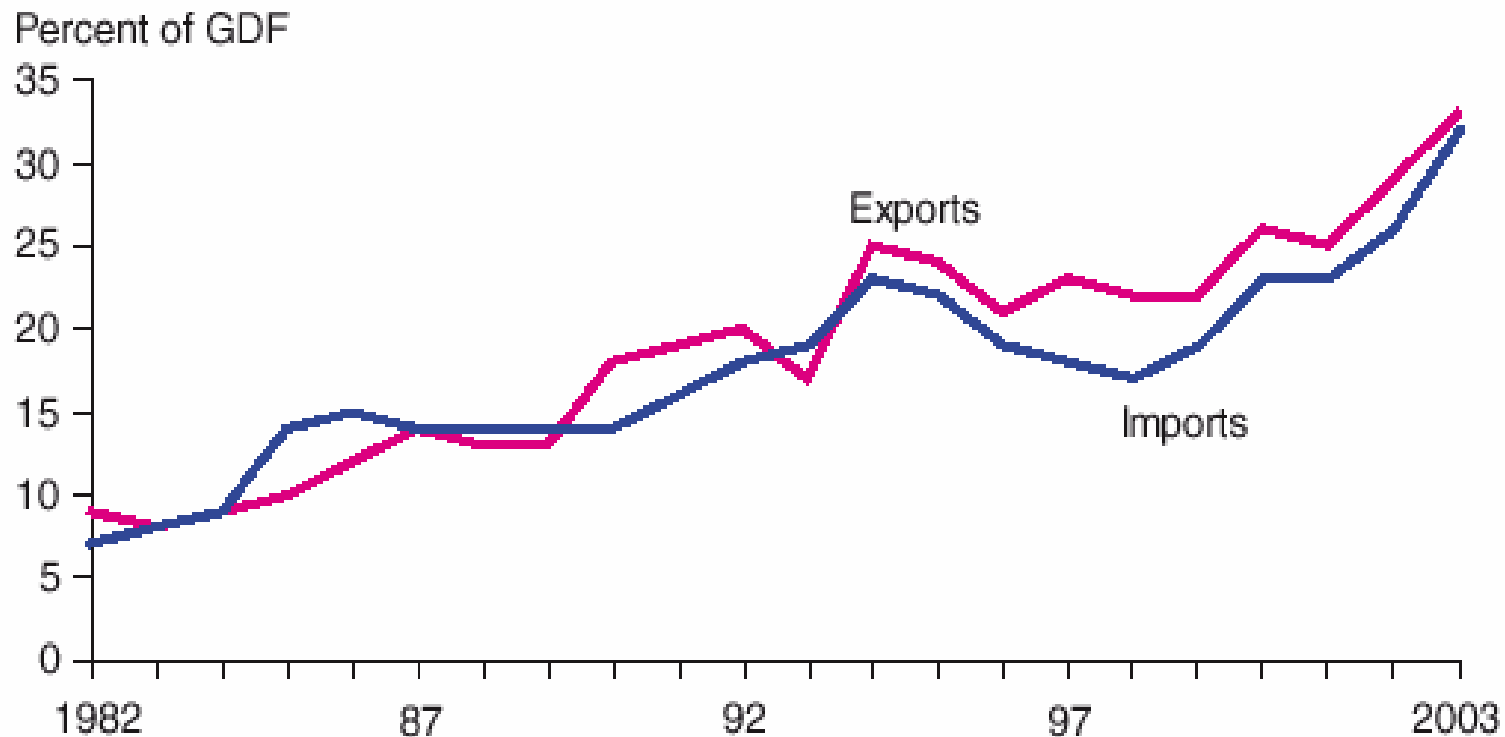
■ China's substantial gross capital formation (Investment) contributed to its high growth rate

Percent of GCF



Note: Chart shows spending as share of gross domestic product.
Source: China National Bureau of Statistics.

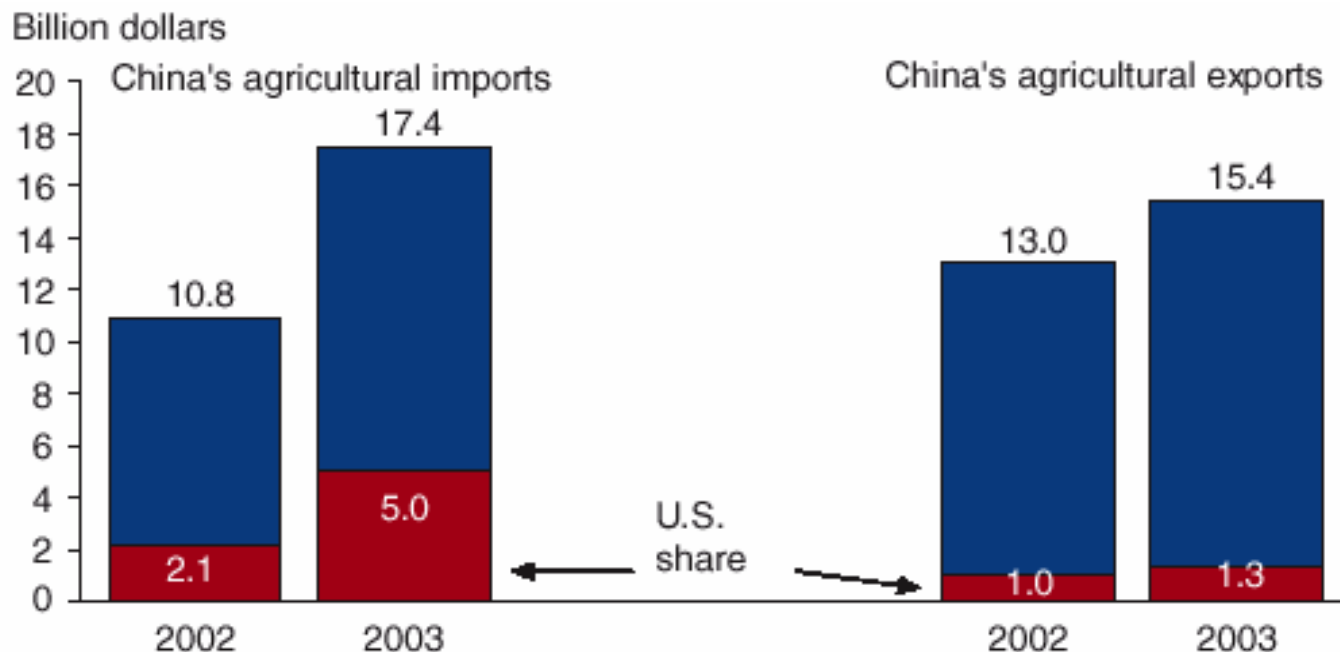
- **China has a trade surplus every year since 1990 except for 1993.**



Note: Chart shows exports and imports as percentage of gross domestic product.

Source: World Bank World Development Indicators.

- But Agriculture is one of the few sectors where China has a deficit in international trade.



Source: Calculations by ERS using China customs statistics and USDA's Foreign Agricultural Service trade data system.

Retailing Revenue Contribution to GDP

China vs. America

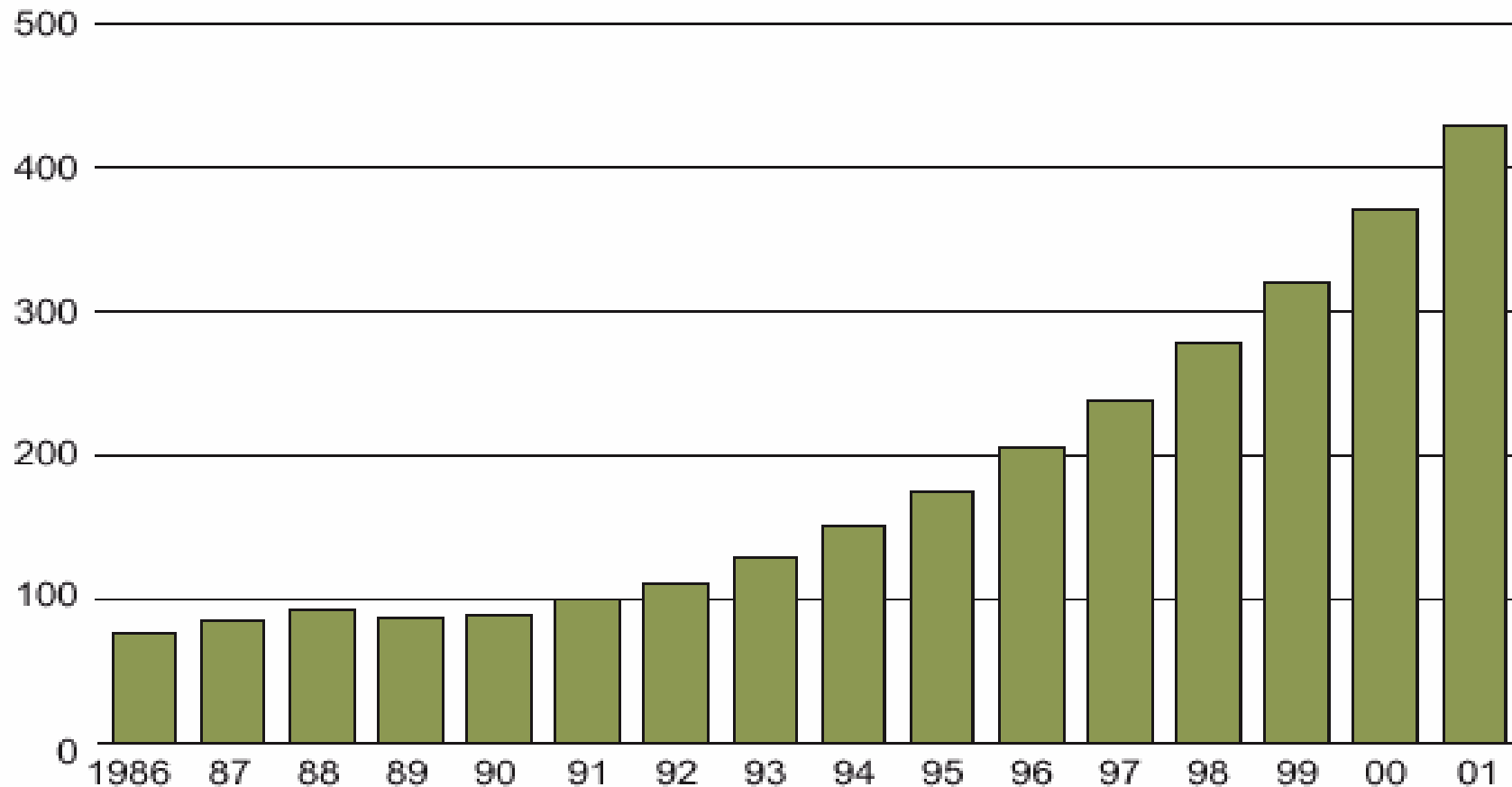
	China		America	
	2003	2004	2003	2004
<u>Area</u>	9.6 million		9.63 million	
<u>Population</u>	1.3 billion		0.29 billion	
<u>GDP</u>	1.45 trillion \$	1.65 trillion \$	10.99 trillion \$	11.73 trillion \$
<u>GDP(per capita)</u>	1090 \$	1268.7\$	37,312 \$	39,934.3\$
<u>GDP growth rate</u>	9.3%	9.5%	3.1%	4.4%
<u>Retailing revenue</u>	0.55 trillion \$	0.65 trillion \$	2.5 trillion \$	
<u>Contribution to GDP</u>	39.2%	39.4%	22.75%	
<u>Super store number</u> (>8000squ. Shopping area)	400		Walmart: 1396 Kmart: 1056 Target: 956 Price Cosco: 312 Sam Club: 469 Total: 4190	

Remark: 2002 information from commercial website

China Food Industry Accelerated from Mid-90s

China food industry sales took off in the mid-1990s

Billion yuan



Note: Food and beverage services industry (*can yin ye*) retail sales converted to constant 1999 yuan using the China urban price index. 1 U.S. dollar = 8.27 yuan.

Source: China National Bureau of Statistics, *China Statistical Yearbook*, 2002.

Urban Households Consume Vs. Rural Diets

China's urban households consume less staple food and more poultry, seafood, oils, and dairy products

Food item	1990	2001
<i>Pounds per person</i>		
Grain	289	176
Vegetables	306	256
Red meat	49	42
Poultry and eggs	24	35
Fish and shrimp	18	22
Vegetable oil	13	18
Dairy products	11	26
<i>Number</i>		
Refrigerators owned per 100 households	29	82

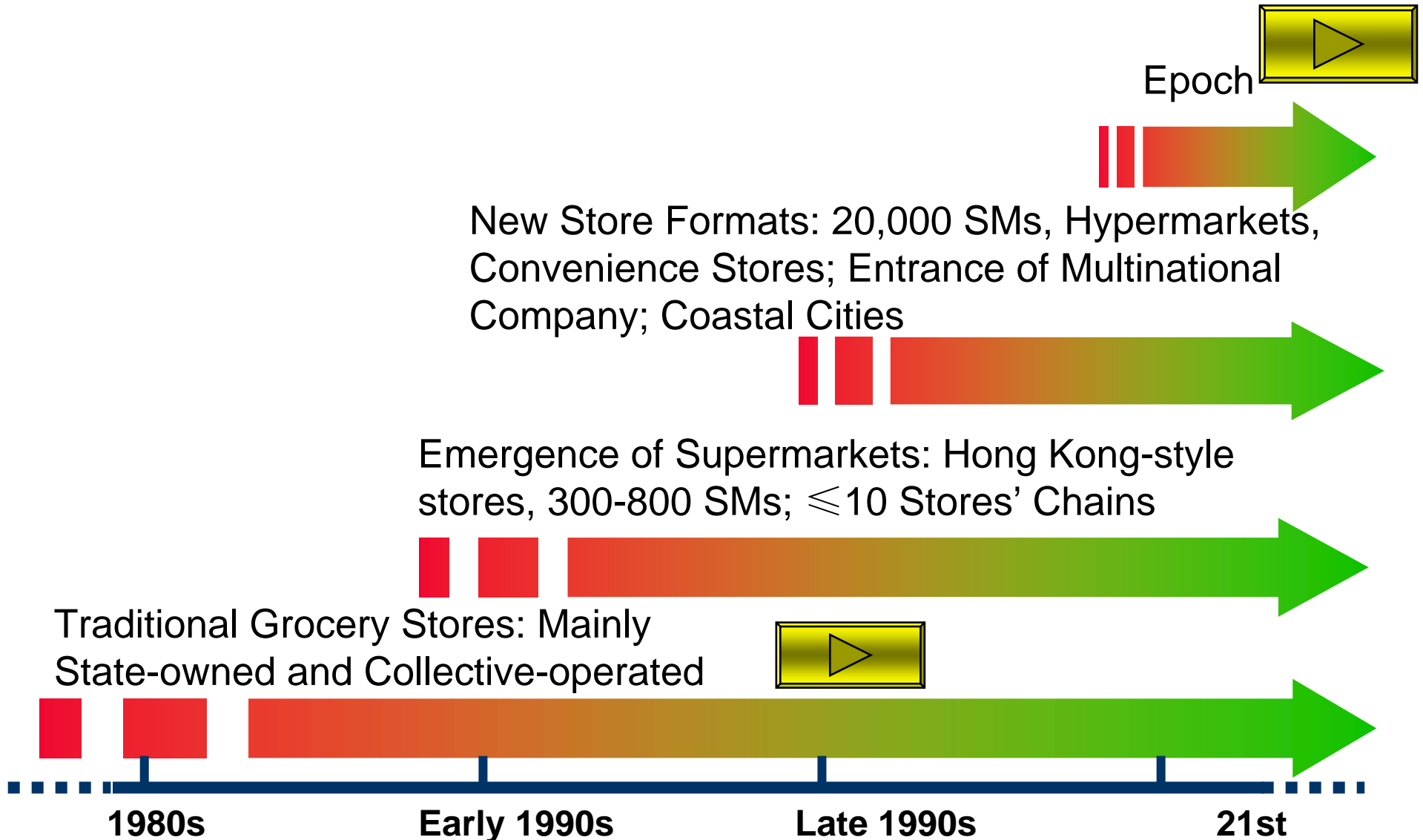
Source: China National Bureau of Statistics, *China Statistical Yearbook*.

Rural diets still rely heavily on grains

Food item	Rural residents	Urban residents
<i>Pounds per person</i>		
Grain	524	176
Vegetables	240	256
Red meat	32	42
Poultry and eggs	17	35
Fish and shrimp	8	22
Vegetable oil	12	18
Dairy products	3	26
<i>Number</i>		
Refrigerators owned per 100 households	14	82

Source: China National Bureau of Statistics, *China Statistical Yearbook*.

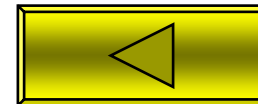
Food Retailing Development in China



Traditional Wholesale & Retail Market in Operation...



...and Will Continue.



China Retailing's “Supermarketization” in 21st

- More New Formats

- ✓ European-style Discounters
- ✓ Warehouse Clubs
- ✓ Mini-marts



- Retail Chains Expand Outside Home Provinces

- Merchandise Structure Has Wider Variety of Items

- Supermarket Chains Merged With Different Forms of Ownership, Domestic & Foreign

- Displace Traditional Stores

Food Retail Sector Situation Analysis

- **China's retailing industry growth tops in Asia in 2003.**
 - ✓ **According to the Asia retail industry Index Research Report , in the second half of 2003, China's annual retailing ranked first among 12 major countries in Asia.**

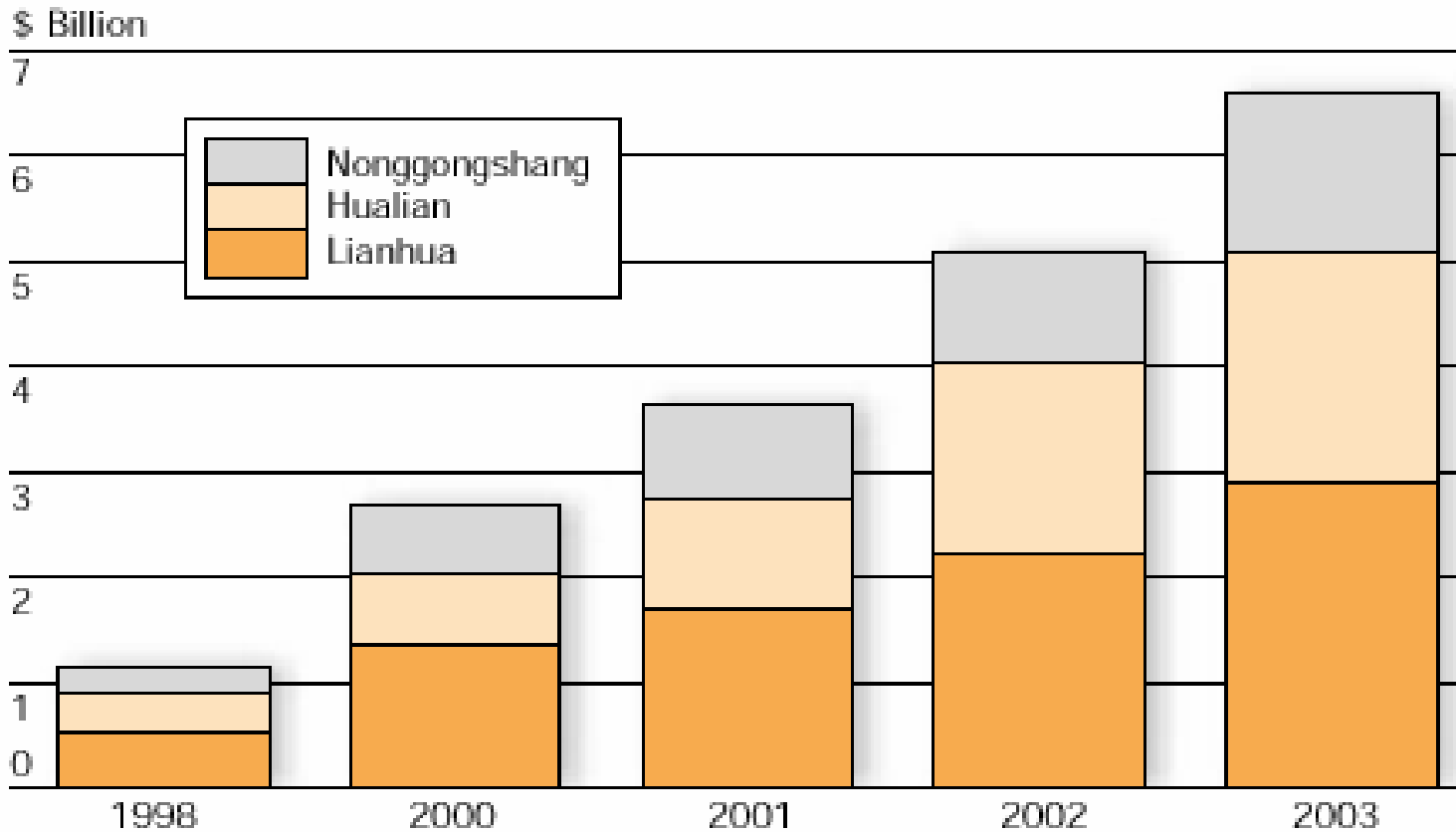
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- **Modern retail formats dominated the sector.**
 - ✓ **China's Modern Retail Formats captured an estimated 30% of the urban food market, growing at rates of 30-40 percent annually.**
 - **Modern Retail Formats : Supermarkets, convenience stores, hypermarkets and warehouse clubs**
 - **Nearly nonexistent in China in the early 1990s**
 - ✓ **Top 100 retailers annual turnover estimated \$60.6 billion in 2004, stores reach 30416.**

The largest Chinese supermarket chains started out as Government-operated stores.

Company Name	Forms of Ownership	Turnover (Million Yuan)	Growth Rate (%)	Stores
Bailian Groups	State-owned	67627.14	22	5493
Beijing Guo Mei	Private	23878.86	34	227
Dalian Da Shang	State-owned	23084.92	27	120
Su Ning Electronics	Private	22107.64	80	193
Carrefour	Joint Venture	16240.50	21	62
Beijing Hua Lian	State-owned	16000.00	18	70
Shanghai Yong Le	JV	15849.10	62	108
Su Guo	JV	13880.00	45	1345
Nong Gong Shang	State-owned	13703.00	11	1232
Beijing Wu Mei	Private	13276.74	56	608

Source: China Chain Store & Franchise Association, 2004

For China's Largest Supermarket Chains, Sales are Booming

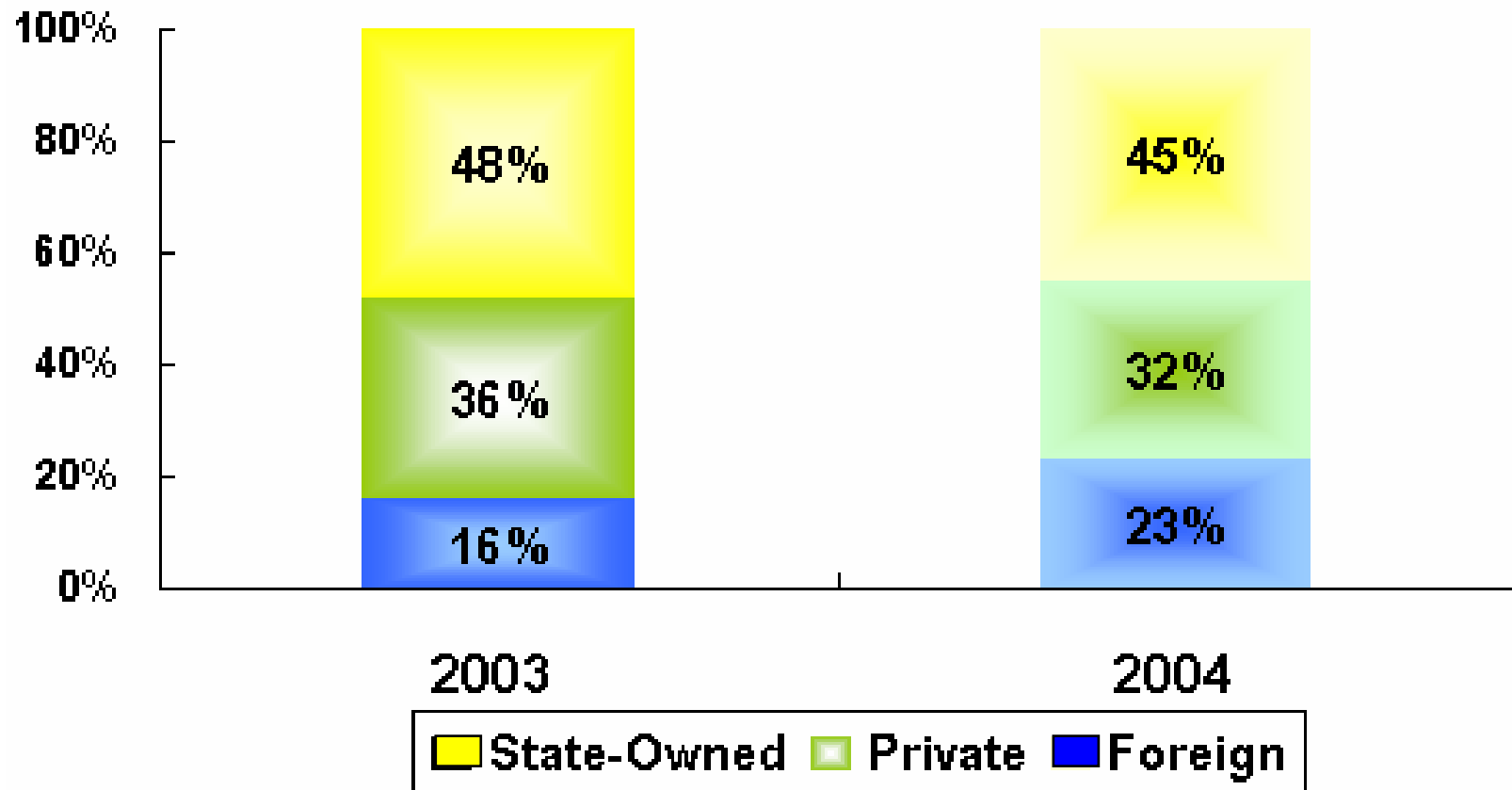


Data for 1999 not available.

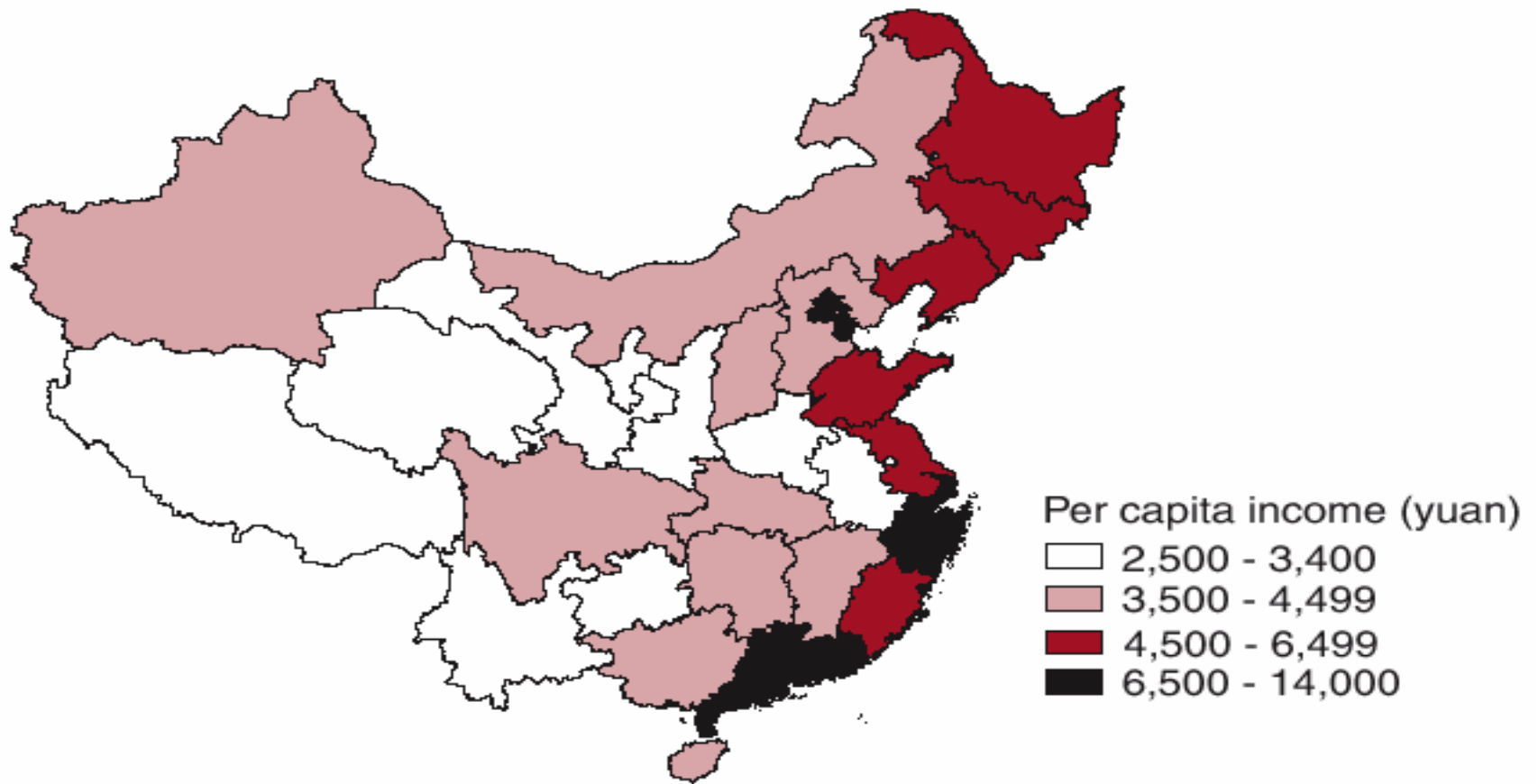
Source: Shanghai Statistical Yearbook.

Multinational chains from Europe, Japan and U.S provided a second major impetus.

Top 100 Retails' Forms of Ownership



- About 80% of China's supermarkets are in the eastern region, because...



China's estimated per capita income by provinces, 2003

Sector's SWOT Analysis

Strength of China Food Retail Sector

- Familiar with domestic regulation, good relationship with government
- Good at location selection
- Bargaining power for local retailers will likely increase over time
- Better understanding of consumer behaviors, such as stimulus of promotion
- Lower expenditure
 - ✓ labor cost
 - ✓ Rent expense

Weakness of China Food Retail Sector

- **Lower sector concentration, in 2004**
 - ✓ **China's C_{R0} : about 10%**
 - ✓ **US/Europe: about 60%**
- **Small business scale**
 - ✓ **Top 100 retailers' turnover in 2003 account for only 9% of China's consumption**
 - ✓ **While Wal-mart's turnover in 2003 account for 7.8% of US's consumption**



■ Lack of core competence

- ✓ Brand value
- ✓ Clear positioning
- ✓ Modern management system and experience
 - Sales force team
 - Rent seeking managers

■ Under constructed Information and Distribution Systems

Opportunity for China Food Retail Sector

- **By population and purchasing power**
 - ✓ **1.3 Billion People**
 - ✓ **Per Capita GDP: 1268.7 US\$ in 2004**
 - ✓ **The emergence of the middle class in China with an annual income of between RMB25,000 to 30,000**
 - ✓ **Urbanization continues to drive retail sales growth in 2004**
 - ✓ **China General Chamber of Commerce estimates the country's total retail revenue to exceed 730 billion US dollars in 2005**
 - **urban sector: US\$490 billion**
 - **rural sector: nearly US\$250 billion**

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- **By effective and efficient governor.**
 - **By Increasing of Investment**
 - ✓ **Central government decided to use public debt capital to fund fledgling projects for interested local retailers**
 - ✓ **Over 5130 millions US\$ foreign investment in China retail sector in year 2004**




■ By retailing revenue

- ✓ **Global total retailing revenue reached 6.86 trillion USD In 2002, America share 35%, ranking top 1. China share about 5.5%, ranking top 3 after Japan.**

America: 2.4 trillion USD, 35% market share;

Japan: 1.0 trillion USD, 15% market share;

China: 0.38 trillion USD, 5.5% market share

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- Food safety issue hit consumer's table in 2004.
 - ✓ According to the investigation of China's food safety situation in distribution sector in 2004, MOC revealed that consumer recognized supermarket as a reasonable place 9 times than wet market.

Threats for China Food Retailing

- More foreign hypermarkets escalate competition
 - ✓ Having entered into the post-transitional period
 - ✓ 304 foreign retailers with 3915 stores
- There are no truly "national" brands in China
 - ✓ As provincial/city governments want to protect their local businesses.
- Food safety detecting instruments, application, operation management, organization structure are far behind world class benchmarking.


China Food Retail Sector in the Future

Developing a Global Vision

- **Global market strategy**
- **Global procurement, supply chain management, and financial operation**
- **Executing modern management**

Government's Supports Towards the Sector

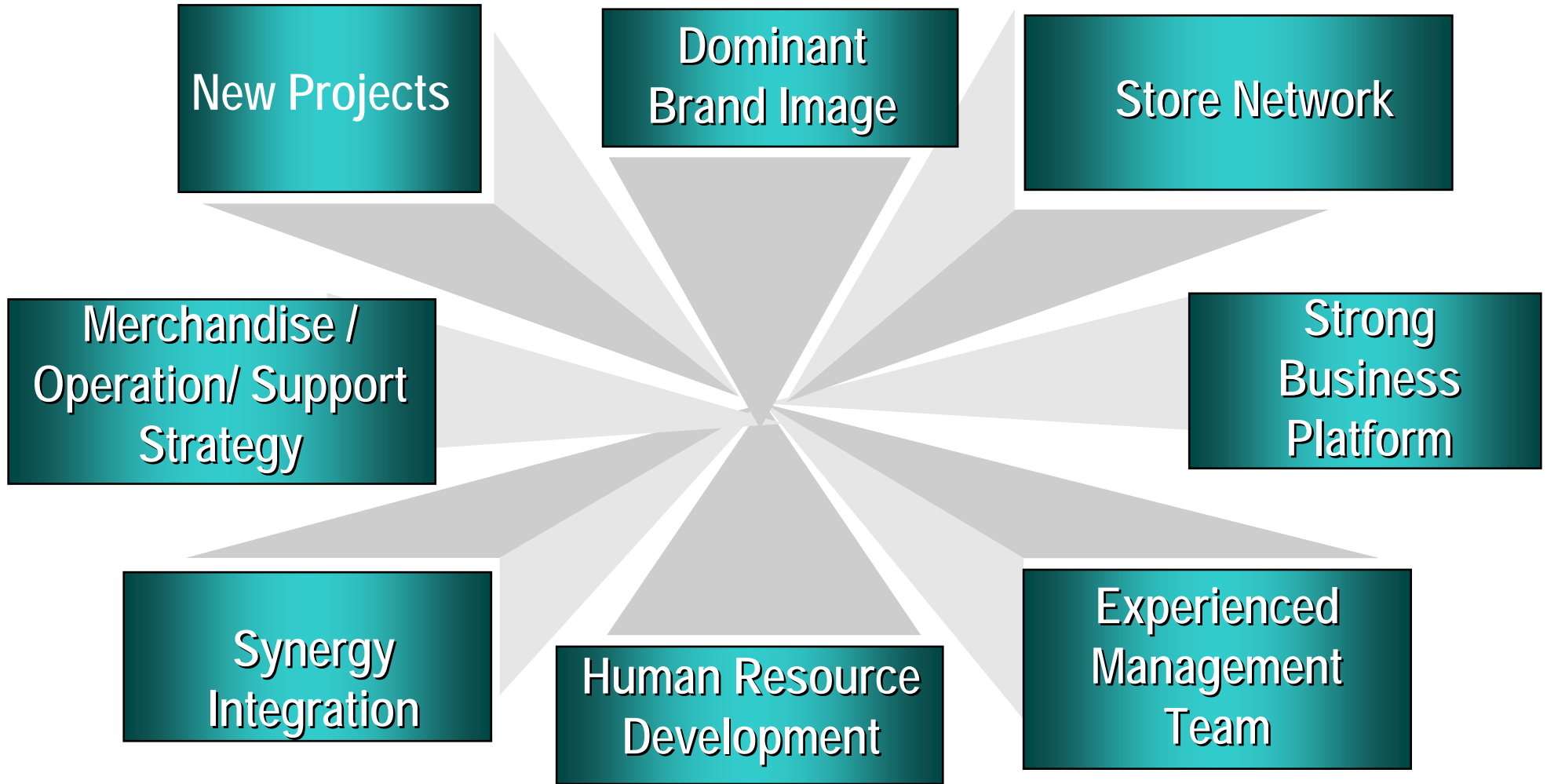
- **Encouraging healthy competition.**
 - ✓ **Allowing Mergers & Acquisition between different forms of ownership.**
 - ✓ **Permitting foreign retailers to franchise their brands and outlets on a national basis**
 - ✓ **National government is likely to amend tax regulations in the medium term to allow businesses to expand into other regions within China**

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- **Constructing a clear regulatory structure that would offer a reasonable regulating environment**
 - ✓ **Market access**
 - ✓ **Food safety**

Industry Efforts

- **Set Industry Information flat together with national government**
- **Construct industry self-discipline**
- **Help domestic retailers to improve core competence**
 - ✓ **Specialist supply chain technologies**
 - ✓ **Customer relationship management (CRM) software**
 - ✓ **Best practices from global logistics companies**

Retailers' Business Strategy



Thank You!

