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Global Agricultural Information Network

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Changsha Field Visit and Trade Networking

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Approved By:

Jorge Sanchez

Prepared By:

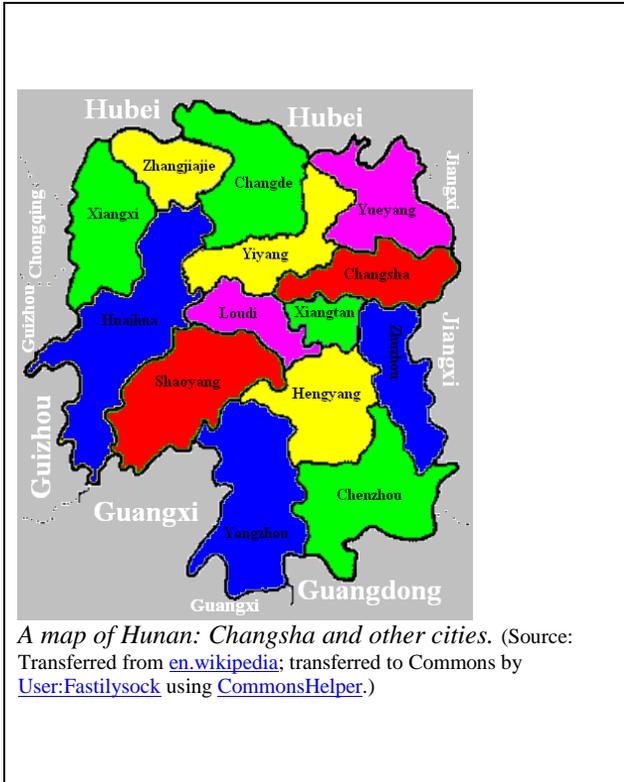
May Liu

Report Highlights:

On July 25, 2012, ATO Guangzhou Director and staff visited Changsha with financial support from the Distribution Development Program (DDP) funds of the Emerging Market Program. ATO Guangzhou organized market visits and a trade networking gathering with around 40 attendees to maintain existing relationships with local retailers and the trade and explore new business cooperation opportunities. This report provides updates on market intelligence gathered on this visit.

General Information:

Background on Changsha:



A map of Hunan: Changsha and other cities. (Source: Transferred from [en.wikipedia](http://en.wikipedia.org); transferred to Commons by User:Fastilysock using CommonsHelper.)

Changsha is the capital city of Hunan province and 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. Changsha's GDP accounts for almost one third of Hunan's total. Food consumption accounts for over 35 percent of the average family expenditure, according to Changsha 2012 Year Book. 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, Ludi and Hengyang as the next emerging markets in the region. All of these cities are within 1.5-hour transportation distance from one another. The total population is around 41

million, which means this region will have a large consumption market given the relatively high per capita GDP and traditional consumption patterns.

What's more, the opening of the high speed railway between Guangzhou and Changsha reduced the average transportation time between South China's trade epicenter and Changsha to only two hours. In addition, its connection with other cities in central China, such as Wuhan and Nanchang has also strengthened the important role of Changsha in the retail sector these past two years. 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, 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. (For further information on Changsha, please kindly refer to GAIN report: CH1806, CH12806, and CH11873)

Hunan becomes a transportation economy:

In 2012, Hunan Province invested \$13 billion (RMB81 billion) in transportation infrastructure construction projects enabling the province to have a road system that would connect it to the other major cities and regions in Mainland China. The province expects to add another 1,000km expressway by the end of 2013, and by 2015, its expressway will reach 7,273km. By the end of 2030, according to the Province's plans, Hunan will increase the number of airports from four to 21. Upon completion, connections with other regions and cities in Hunan will be strengthened and we expect to see noticeable improvements to the condition of the distribution channels from East and South China into Changsha. This is good news for both retailers and traders since the entire supply chain can be managed more efficiently.

Fierce retail competition: 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'.

U.S. fresh fruit gaining ground: U.S. fresh fruit is gaining ground in all of the above-mentioned retail chain stores and in other local supermarket chains such as Jiarunduo and BetterLife (Bubugao). In addition to

Local retailers with support from the trade develop a Northwest Cherry promotion campaign entitled "Love Season" in the summer of 2012





Pinghetang, the ten-day promotion of U.S. Northwest cherries was also available in the Jiarunduo outlets. Post observed a special U.S. cherry display promotion prepared by a local retailer. A local fruit trader developed a creative design to promote U.S. Northwest cherries. Special gift boxes with various container sizes were designed to sell 5kgs, 2.5kgs and 1kg cherries. In addition, this trader also created an innovative design which encouraged consumers to purchase “sweet” cherries from the United States as a special gift item for their loved ones during summer months.

During the ten-day promotion, a total of 1,200 kgs of cherries valued at \$28,892 were sold.

In addition to traditional supermarkets, specialized and community stores are growing. During the trip, Post paid a visit to a high-end fresh fruit store named *Fruit-mate*. The small store format (with

an area of about 200-300 square meters), features various high-end imported fruits including Washington apples, Northwest cherries, Sunkist citrus, California table grapes, kiwi (both domestic as well as imported), Thai durian, etc. Coolers and special designed fruit stands were used to maintain fruit fresh and with a good appearance. According to a store manager, the appealing displays attract many consumers. Other benefits to consumers include convenience, comfort, and better quality products when compared with the larger supermarkets and street peddlers. Sales in the first flagship store were as good as expected; to date four high-end stores have opened in Changsha. By the end of 2013, another three stores will open. The manager explained that his team will only select high-quality Grade A fruit to sell in his fruit chain, therefore, the selling price for certain varieties is about 10 to 15 percent higher than those displayed in traditional supermarkets.

Post also met with the general manager of another local fresh fruit retail chain named *Greenery* and later paid a visit to three outlets in Changsha. This local Changsha chain is similar to Guangdong’s *Pagoda* fruit chain, which features various high-end imported and domestic fruit. Imported seasonal fruit such as table grapes, cherries, apples, oranges, lemons, and other varieties are transshipped from Guangzhou’s Jiangnan market (largest importer wholesale market for fresh fruit in Mainland China) to Changsha. So far, he has over 40 outlets and in the coming months, he expects to open 35 new outlets on his own in Changsha, mostly in communities with small sales floors (90–150 square meters).

Trade gathering (PMA trade show promotion & U.S. wine tasting/promotion):

Following the successful ATO Guangzhou 1st Commodity Awareness Panel in Changsha held on Nov 30, 2010, Post visited Changsha and held a similar trade gathering in a local Changsha hotel on July 26, 2012. Around 40 select retail chain representatives and traders were invited to attend the gathering. Post also invited a local wine trader (a distributor of a Guangzhou-based U.S. wine company named “Meiwei”) to promote California wines (under the U.S. brand of “Two Dogs”) at the event.



Director Sanchez explaining ATO’s role at the gathering event

At the event, Post learned from both retailers and traders the following comments about the market trends:

- Demand for imported fruit is growing as a result of years of successful in-store promotions. Hypermarkets and supermarkets are the main retail formats local consumers have chosen to purchase imported fruit items. However, the trend for specialized fruit stores and online purchasing reflects consumer interest in quality and convenience over price. Imported fresh fruit supplies largely depend on Guangzhou’s Jiangnan Fruit Market. U.S. fresh fruit is welcomed by various retailers; however, according to Metro store manager, the supply remains unstable.
- Changsha still lacks large-scale cold storage facilities or transportation infrastructure to support an unbroken cold chain for fresh fruit. Therefore, it is difficult for any trader any given time to place a large order of perishable imported fruit (especially higher valued cherries) directly from overseas suppliers. Shipments typically enter the Jiangnan Fruit Wholesale Market and are then transshipped to Changsha. Policy makers have taken notice of the significance of the cold chain integration and decided to provide support by offering subsidies to encourage traders to build cold facilities on their own.
- With continuous urbanization in rural areas, specialized fresh fruit stores in newly built communities will likely increase rapidly. Convenience stores carrying packaged food items will also be popular in the near future.
- In general, the sales growth rate (on average 10 percent) of traditional retail formats slowed down in 2012, when compared with previous year’s growth. Competition for ultra heat treated (UHT) milk is growing.
- However, retail managers mentioned that they are facing multiple challenges in achieving higher sales targets for new items, compared with the last two years. Innovation and differentiation is where many retailers are investing the greatest amount of resources into.
- Consumers are more demanding of food quality due to continuous food scandals and negative media



Organic soymilk on grocery retail shelves in Changsha (Source: ATO Guangzhou, 2012)

reports in China. The problems seem to have no end in sight. Therefore, a certain group of consumers are looking for imported food items which have a better quality reputation than most domestic products. Baby food, for example, will become one of the categories that consumers pay close attention to and are willing to pay a premium for such as domestic product (including international brands produced in China many with imported ingredients) and imported products.

- In the future, retailers will work closely with suppliers to place greater attention to the traceability of food items such as dairy products including UHT milk, milk powder, and soymilk. In Pinghetang, one U.S. *Westsoy* organic milk retails at \$8 per 1liter package (twice as high as in most Guangzhou, Shenzhen or Shanghai supermarkets).

Prospects for U.S. Food and Agricultural Items: Other than the above-mentioned categories (fresh fruits and dairy items) with greatest potential in Changsha, Post also noticed with interest that other U.S. food items available in Changsha's retail market includes cheeses, butter, baby food, condiments, 100% natural juices, dried fruits, coffee, chips, crackers, and nuts. Post learned from local retailers that they see potential sales growth in dairy (such as baby formula, fluid milk, cheese and butter etc.) and snacks (such as packaged chips and dried fruits). In general, the retail prices of a number of imported U.S. food items sold in Changsha is about 10 to 15 percent higher than that in Guangdong due to the higher transportation costs incurred.

Currently U.S. wine accounts for a small fraction of all imported wines at this moment. Wines from France, Chile and Australia still dominate the market. According to most retailers we met with mentioned the need to strengthen the brand building efforts of new food and drink items. In the coming years, ATO Guangzhou will be working closely with U.S. Cooperators in Changsha and other cities in Hunan to enhance consumer awareness and to promote various food items, especially on fresh fruits, dairy products, snacks, and wine.