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**Date:** 10/22/2013

**GAIN Report Number:** CH11885

## **China - Peoples Republic of**

**Post:** Guangzhou

### **China's Convenience Store and HBC Market Intelligence Report**

**Report Categories:**

Retail Foods

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**Report Highlights:**

With a total population of over 105 million (the largest in China), Guangdong Province has continued to hold the highest GDP in China over the last decade. This large population and dynamic economy are driving food consumption and are being fueled by rising consumer disposable incomes and greater awareness of healthy lifestyles and food safety issues. In addition to supermarkets and hypermarkets, 24-hour operated convenience store formats aim at providing superior shopping convenience and value-added services to their customers. Health and beauty care (HBC) product stores are targeting a segment of consumers who are willing to pay higher prices for the convenience. Although consumers visit supermarkets on a weekly basis, it is estimated that the average consumer enters a convenience two to three times a day.

In mid June/July 2011, ATO Guangzhou launched the first-ever national "American Snack Food Promotion" with one of the leading HBC (health and beauty care) store chains which resulted in \$140,000 in new sales within a three-week period. The promotion served as a litmus test for assessing the viability of this brand new retail channel and as a platform for the marketing of U.S. food and beverage items. This report provides insight gained through interviews and marketing activities initiated by ATO Guangzhou.

## General Information:

### I. Convenience Stores

**Overview:** Guangdong Province has been the pioneer for convenience store development with an estimated 2,000 plus chain outlets. Value-added 24-hour services provided by convenience stores differentiate this retail format from others. 7-Eleven leads the sector followed by OK, C-Store and Family Mart. The industry remains overwhelmingly concentrated in first tier cities such as Guangzhou and Shenzhen, which host more than half of the convenience stores in South China. According to the traders and retail managers, the number of outlets is expected to double in the next five years. With continuous development of this sector, many industry-insiders believe the sector is ready to bring to market high-value imported food items into the stores to match with the growing demand for healthier food choices as the Chinese middle class keeps increasing. U.S. brands have been slowly penetrating this sector since 2011, particularly snack food items. A recent interview with one of the distributors revealed that the sales in 2012 for U.S. brands were up 50 percent compared with that in 2011. U.S. snack food brands sell well in the sector.

**Target consumers:** Convenience stores are located inside, adjacent, and near residential enclaves and commercial districts. Public transportation centers such as subway and train stations or airports are other ideal locations for convenience stores. Nearly every housing and community development in major cities including business districts has at least one convenience store outlet in the vicinity. Convenience store sales floors vary in size from 50 to 150 square meters. These stores target young urban consumers, mostly students, white collar workers and tourists, aged from 16 through 40, leading a busy lifestyle or in greatest need for convenience.

Table 1: Major cities in Guangdong Province

City	Guangzhou	Shenzhen
Population	12.8 million	10.5 million
GDP	\$199.4 billion	\$ 184.7 billion
Per Capita disposable income	\$5,528	\$5,860

*(Source: Guangdong Statistical Yearbook 2012)*

**Services provided:** Value-added 24-hour services differentiate some convenience store chains from supermarkets or other retail formats. Stepping into a convenient store, a customer can make payments on utility bills, credit card, and on-line shopping as well as send express mail. Some outlets even serve as pick-up points for products purchased online. While the convenient locations and services lure consumers into outlets, other promotions and advertisements keep customers in the store.

**Major players:** 7-Eleven remains the leader of the sector followed by OK, Family Mart, and C-Store, all offering costumers 24-hour services seven days a week. Although previous years' convenience store sales performance slowed down over weekends, consumers have opted to purchase a number of daily household items in convenience stores in an effort to avoid long queues and traffic congestion as a result rapid urbanization in China.

Table 2: Major convenience stores in key consumption cities

City	7-Eleven	Family Mart	OK	C-Store
Guangzhou	400	170	66	170
Shenzhen	200	0	1	20
Foshan	40	0	0	15
<b>Total in Guangdong Province</b>	<b>700</b>	<b>170</b>	<b>80</b>	<b>210</b>

(Source: ATO Guangzhou survey, 2013)

- 7-Eleven:** In South China, 7-Eleven is one of the most dynamic retail formats in Guangdong Province with approximately 700 outlets, mainly in Guangzhou, Shenzhen, Dongguan and Foshan. The first outlet in Guangzhou opened in 1995. An average 7-Eleven outlet is around 80 square meters in size and features snacks, wine and liquor, cigarettes, drinks, hot and cold delicatessen food items and non-food items as well as magazines.
- OK:** Also known as “Circle K”, this retailer has over ten years in Guangzhou and now operates around 80 stores. OK introduced the “Hot and In” VIP guest concept to attract loyal customers and provide fast food item options during breakfast and lunch hours. The concept offers customers special promotions, discounts, and rewards loyalty with daily prize giveaways. Most of the stores are located in Guangzhou. Compared with the other three major chains, OK is more conservative with regards to expanding new stores. However, according to the trade, this Hong Kong based convenience store has the highest single store daily sales turnover among the four major chains.
- Family Mart:** This Taiwanese convenience store chain entered Mainland China in 2004 with presence mainly in Shanghai. In Guangzhou, the first Family Mart opened in 2007. It has over 1,000 outlets nationwide. Since 2012, it has increased the pace of its store openings and now owns 170 stores in Guangzhou. Under the motto “Service, Quality and Cleanliness”, this chain has increased per ticket sales by offering consumers a friendly and cleanly shopping environment. Recently, it signed an agreement with Amazon China to serve as its logistical distributor for consumers picking up products (such as fashion and household items) purchased online. By providing additional self-pickup services at Family Mart outlets, it is expected that this will stimulate in-store consumer traffic and drive an increase in sales.
- C-Store:** Entered Guangzhou in 2003 and now expanded to some 210 stores in Guangdong. Recently, it signed an agreement with T-Mall (the leading B2C online sales company in China) to serve as a pick up point for consumers who ordered goods on-line. T-Mall is the largest on-line sales platform in Mainland China dominating the sector in major cities with a market share of over 65 percent.

**Franchising strategy:** Convenience store chains consider operational costs in order to maintain profit margins in a competitive environment. Large-scale operations provide an opportunity for multiple stores to share purchasing orders and uniform marketing standards, which trim some costs further. Leveraging the cost savings from a scaled procurement model has allowed chains to expand outlets at a faster pace. This is particularly true in secondary cities given purchasing power is lower but pricing for a number of products is higher than in first tier cities.

**Merchandise selection:** Due to limited space and high rental fees in large cities, effective merchandise

assortment will bring variety to consumers and higher profit margins. Convenience stores mainly focus on five high-profit yielding product categories: cigarettes and alcoholic beverages (15 percent profit); ready cooked and delicatessen food items (35 to 40 percent profit); beverages (with sales increasing sizably in the summer months), (30 percent profit); candies and packaged snack food items (30 percent profit); and non-food items (30 percent profit).

**Distribution system:** Convenience stores largely rely on local distributors for product delivery especially fresh or frozen and ready-to-eat products. Many chains require local distributors to provide door to door deliveries as each has multiple outlets in various locations. These chains also rely on their distributors to introduce new items, especially imported brands, to avoid the trouble of dealing with local officials as well as going through all of the required legal formalities and paper work. Distributors are also mitigating the risk of direct financial commitments that could impact credit lines for payments with overseas exporters. Some distributors that used to supply hypermarkets and supermarkets have now started to establish accounts with convenience stores.

**Entry Strategy:** To promote the entry of new products into the convenience store channel, it is recommended that U.S. exporters identify a partner in China to facilitate import procedures and leverage the relationship with government officials as well as retailers. Local distributors normally have first-hand sales information (know what the convenience stores need and understand the customer well) and have experience in dealing with the chain stores since they have an established working relationship with each chain. It is also critical to first calculate profitability, merchandising of a convenience chain, and work closely with food distributors to identify the most sellable items and make an appropriate promotion plan. ATO Guangzhou could provide assistance in linking up the resourceful importers and distributors to launch marketing activities with retailers at a larger scale.

**Opportunities for U.S. food:** Convenience stores are mainly looking for products in smaller package formats, with appealing flavors. Retailers generally prefer well-known brands since these tend to have the fastest turnover and customer acceptance. There is an increasing demand for snack food items and other food products with the rapid expansion of convenience stores and chains. It is estimated that in the next five years, the total number of convenience stores outlets in Guangzhou, will double. Promising items in the next five years include **chips, candy, mints, dried fruit, nuts (pistachios and almonds above other tree nuts), instant noodles as well as other products such as yogurt, coffee, milk, beer, and chewing gum.** Existing U.S. brands available to local consumers in convenience stores include *Sun-Maid, Sun sweet, Andes, Snyder's, Starbucks* and *Pepperidge Farm*. To a lesser degree other brands are also available such as *Lay's, Hunt's, Swiss Miss* and *Sunkist* candies. The preferable retail price for each item should be between \$1.8 and \$5. **Wine** is another promising category with preferred retail prices around \$15 per bottle (750ml). Currently, wines from Australia dominate with few U.S. origin varieties available mainly in 7-Eleven outlets. Some available brands include *Carlo Rossi* from California, and 7-Premium (a private label California wine brands developed by 7-Eleven).

## II. Health and Beauty Care (HBC)

**Overview:** There are two major Hong Kong owned health and beauty care chains (HBC): Manning and Watson's. Although HBCs have a different emphasis from traditional convenience stores, they also endeavor to provide convenience and fast service to the urban consumers. HBC store sales floors are larger

(approximately 200-300 square meters), the per ticket sales in HBC stores are also higher (\$4.0 to \$4.8, around \$1.5 higher than in convenience store); HBC consumers group are more focused and with a different merchandise assortment.

**Target consumers:** Most HBC stores target young urban white collar professionals; this includes office ladies (“OL”) as well as young male customers under the age of 35. Female urban residents between the ages of 18 through 40 are also the targeted consumers.

**Merchandise assortment:** Healthy supplements and imported food items are new trends in many HBC stores. Currently, imported food items available in a HBC stores are limited to snacks and drinks. Though no imported food section is available in each store due to the limited in-store display space, there are some promising categories such as dried fruits, crackers, mints and nuts which are the most popular ones.

**Per ticket sales:** Per ticket sales in HBC stores vary from \$3.5 to \$4.8 (RMB20 to 30), approximately \$1.5 to \$2.0 higher than normal convenience stores.

**Major players:** Mannings and Watson’s are two leading players in South China, particularly in Guangdong.

- *Mannings* entered Mainland China in 2004 and currently has over 180 outlets in South China. Among them, 100 outlets are located in Guangzhou. Together with 7-Eleven, Mannings chain is under the large umbrella of the corporate Dairy Farm Group, but focusing more on health and beauty products. Its main competitor is Watsons in HBC retail sector. Fujian has three outlets. Other outlets are located in Shanghai, Zhejiang and Jiangsu and Sichuan provinces. In Guangdong Province, Mannings outlets are mainly located in shopping centers, train stations, and subway exits. Some outlets have an imported food and beverage section.
- *Watson’s*: As a division of the Hong Kong-based A.S. Watsons Group in Mainland China, Watson’s Personal Care store own a total of 426 outlets in South China, among this, 394 outlets are located in Guangdong Province. Watson’s are located in many shopping malls, near commercial buildings and close to subway entrances. Food supplements, vitamins and healthy beverages (such as functional drinks) as well as dried milk powder are major food items available in Watson’s personal care stores.

Table 2: Mannings and Watson’s presence in South China’s 1<sup>st</sup> tier cities

	Mannings	Watson’s
Guangzhou	43	75
Shenzhen	24	43
<b>Total in Guangdong Province</b>	100	394

(Source: ATO Guangzhou survey, 2013)

**Standard formats make shopping easier:** One of the most useful facts Post learned through our discussions with both the distributors and the chain stores was about the rigid purchasing plans that HBC chains have in place. Chain stores’ individual outlets are all carefully calibrated to demographic indicators such as income levels, property values, and age. Many even use scientific formulae (a linear equation) to determine which products perform best given the environmental/demographic conditions of the market segment. Unlike supermarket chains stores, most individual outlets are not allowed to substitute product on shelves, conduct independent promotions (including discounts), or modify product displays. Standardization is meant to ensure easy shopping experiences in every outlet.

**In-store promotions:** In 2011, ATO Guangzhou launched an American Snack Food Festival in-store promotion with Mannings which was highly successful with regards to driving sales and increasing new the array of U.S. food and beverage items in one of the largest HBC store chains in Mainland China. ATO Guangzhou was informed that a total of \$140,000 in new sales was generated within a three-week period. The promotion not only allowed ATO Guangzhou to introduce U.S. snack foods to middle income consumers through a brand new channel (HBC chain) for the first time, but it also created an opening for U.S. producer associations and exporters to enter into an entirely new sales channel previously viewed as impenetrable. What's more, the promotion allowed ATO Guangzhou to develop better relations with traders and learn at greater length how HBC and convenience stores can become future partners for U.S. agricultural products. As a result, imported food items displays have become a new highlight inside select HBC stores. Five SKU categories have become regular items available in Mannings after the promotion. Per industry-insiders, the sales of U.S. products has continued to increase 50 percent in 2012 as a result of rising consumer awareness for new items as well as the distributors' continuous marketing efforts. It is also expected that in the coming three years, it is likely more new SKUs of U.S. brands will enter into this brand new distribution channel as regular selling items and meantime, the existing displaying SKUs will attract more consumer traffic. As such, the sales of U.S. food items will continue to grow at a 20 percent rate in 2013. (*For additional information, please see GAIN report CH11669*)

**Opportunities for U.S. exporters:** Several U.S. snack food brands were introduced for the first time to Mannings chains, such as *Sunmaid, Snyder's, Pepperidge Farm, Wonderful, Blue Diamond, Cow Tales, Ligo,* and *Andes*. The most popular items sold during the promotion were Pepperidge Farm Milano cookies (package size 170g at \$4.00 per pack); Snyder's bread slices (package size 56.6g at \$1.20 per bag); Blue Diamond almonds(smoked 150g package at \$6.00 per unit); Andes double deck chocolate (132g package at \$3.15 per package) and Sun maid raisins (198g package at \$3.15 per unit). According to the traders and HBC managers, in the future, high value imported crackers and nutritional food supplements will also be promising categories in HBC stores.

**Challenges faced:** Management at HBC stores is less familiar with handling imported food items than their counterparts in the supermarket sector. Many of the prices for specific goods are evaluated at the corporate headquarter level in order to predict sales performances of a particular product throughout the chain and isolating demographics of the market. New product entrance into this sector tends to be relatively slower than in supermarkets. Another challenge faced by imports is limited shelf display area. HBC stores mainly focus on personal care items and food only accounts for a fraction of total sales. It is recommendable to first identify local partner(s): importer and distributor. This local partner can deal with retail management and import clearances. In many occasions, food suppliers for convenience stores also deliver food items to HBC chains.

**Recommendations:** Local consumers respond well to products with new flavors and attractive packaging designs. As both convenience and HBC chains are fairly inflexible with some product characteristics such as size, packaging and pricing, proper marketing activities designated for certain products are necessary. On-the-spot tastings of items on display at select stores and a decorative American atmosphere will help enhance the shopping environment and in turn help the product image, ultimately boosting sales. Social media platforms such as micro-blog sites can also be used to increase consumer awareness and enter into a direct dialogue with local consumers. This is sound advice especially when considering word-of-mouth has a strong influence on consumer behavior in South China.

**Conclusion:** In the next five years, convenience stores and HBC stores will continue to grow by doubling the number of outlets in China. With the increasing consumer demand and continuous marketing efforts made by food distributors and chain managers, per industry representatives, sales of U.S. imported food items are expected to be on the rise at an average 20-percent per year particularly for snacks, breakfast and impulse-purchase items since these are key pushing items convenience stores and HBC chains prefer. Major potential categories of snacks, breakfast and impulse-purchase items include chips, candy, wine, crackers, nutritional supplements, juices, drinking water, mints, dried fruit, nuts (pistachios and almonds above other tree nuts), instant noodles as well as other products such as yogurt, coffee, milk, beer, and chewing gum.

The challenges of door-to-door distribution, insufficient knowledge of U.S. brand marketing know-how in China, plus the complexity of bringing various SKUs (each at limited volume) into Mainland China hinder the retailers (both convenience and HBC chains) from purchasing directly in the States. As such, working closely with reliable local importers and/or distributors may be an inevitable entry strategy for most U.S. brands.

ATO Guangzhou will provide assistance to U.S. exporters and USDA Cooperators in connecting with importers and distributors to further promote U.S. food in convenience and HBC stores.