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Fujian Field Visits Report

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Report Highlights:

Fujian Province has the second per capita disposable income after Guangdong in South China.

The total population of Fujian is over 37 million. In addition to the fishery and food processing industry, the retail sector has developed quickly in recent years in Fujian. Total retail sales for consumer goods were up 18 percent in 2011 from the previous year according to 2012 Fujian Year's Book. Rising incomes, food safety concerns, and expectation for a better life all contributed to the demand for high quality imported food items. Fujian has a strong link with East China and is both a distribution point as well as an important retail base for imported grocery items. On June 18th, Post paid a visit to Fuzhou and Xiamen, for the purpose of understanding the recent changes in the market and increases our knowledge of the food distribution channels. This report provides the market updates gained from this trip.

General Information:

Fuzhou and Xiamen at a glance:

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. Xiamen is about 1.5 hours away from Fuzhou by express train. The per capita disposable income of urban citizens in both cities has grown over 14 percent in the year of 2011 from last year. Each city's GDP increased respectively at a rate of 13 percent (Fuzhou) and 15 percent (Xiamen). Both are port cities. Both are close to Taiwan and as such play an important role on cross-strait business and international trade. Multiple flights and railways from Fuzhou and Xiamen connect the two cities with Guangdong and other provinces in the South and East. Although both cities are co-located in Fujian Province, the two

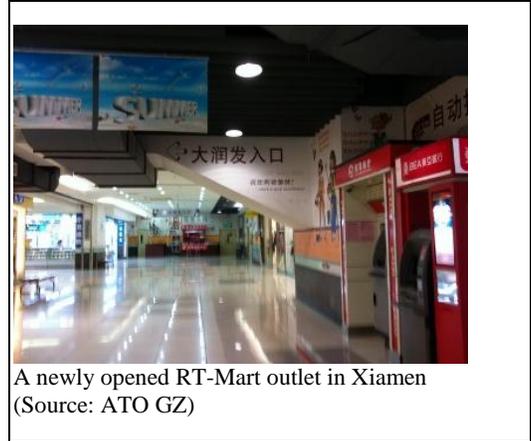
cities have distinct cultures and local languages. Fuzhou residents for example prefer lighter tastes and soup in their meals, while Xiamen consumers have higher per capita consumption expenditure and tend to prefer slightly salty and sour tastes. Food consumption in two cities respectively accounts for over 37 percent of the total per capita consumption of urban house in Fuzhou and 35 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. Online purchase 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.

(Source: ATO Guangzhou field visits and Fujian Year Book 2012; for further information about Fujian, please refer to the GAIN report CH XXX and CHXXX).

Overseas retail players in Fujian: Multinational chains are challenged in sales achievements and are facing competition from both local supermarkets and fancy food stores. Adaptability and the value-added services such as home delivery, in-depth advice on product application, membership discount, fast line cashier, VIP waiting room and free car parking services are essential to survive in the fierce competition.

The first overseas retailer which entered Fuzhou was *Carrefour*, in the year of 2001. To date, it has three outlets. *Wal-Mart* opened its first Fuzhou store in 2003 and now has seven supercenters and one *Sam's Club* in the city. *Metro* also selected Fuzhou to open its first store in South China. Then a new *Metro* store was opened in Putian in 2012. Besides, *Tesco* has one outlet in Fuzhou. Compared with Fuzhou, Xiamen has a more condensed presentation of retail players. After upgrading the previous *Trust-Mart*, *Wal-Mart* now owns 10 outlets in Xiamen alone. *Tesco* has two outlets in Xiamen and it is said that by the end of year 2013, another new outlet will open. *RT-Mart* has over seven stores in Fujian.

Domestic retailers are picking up: While the overseas brand retailers seemed relatively conservative in opening new outlets in the year of 2012, local players kept growing by opening new outlets nationwide and purchasing the smaller chain in third and fourth tier cities. Their fast increasing outlet numbers is a strong contrast to the slowed down in pace of the overseas giant players in the market.



A newly opened RT-Mart outlet in Xiamen
(Source: ATO GZ)

Yonghui, for example, has been aggressive last year in opening new stores in various regions of China, especially in the province of Zhejiang, Jiangsu, Guangdong, Fujian, Sichuan, Hebei and Liaoning. By the end of 2012, *Yonghui* has 249 outlets in China, including 104 in Fujian. *Yonghui* supermarket has 47 newly opened stores nationwide. Fujian alone opened 15 new outlets in Fuzhou, Jingjiang, Zhangzhou and Quanzhou and Xiamen. In the year of 2013, it is said that *Yonghui* will continue the expansion by opening 111 new stores. Among them, three stores in Guangdong will also be opened, one each in Foshan, Guangzhou, and Shenzhen. In addition to the traditional supermarket format, *Yonghui* opened two fancy food stores “*Bravo YH*” in Beijing and Dalian and it also plan to open a new high-end resort food store format.

Penetration into 3rd and 4th tier cities: The continued urbanization in 3rd tier and 4th tier cities has made cities such as *Quanzhou*, *Putian* and *Zhangzhou* as well as *Jingjiang*, *Ningde*, *Nanan*, *Shishi*, *Nanping* and *Sanming* new emerging markets for retail food development. In the past two years, local players like *Yonghui* and *Xinhuadu* rapidly entered into 3rd and 4th tier city markets including *Quanzhou*, *Zhangzhou*, *Longyan*, *Sanmin*, and *Nanping*. In the year of 2012, *CR-Vanguard*, for the first time, entered Fujian province by opening a hypermarket in the city of *Ningde*.

Imported food available in the market:

All multinational retailers carry imported food items; imported fruits from all over the world are available year-round in the Fujian Province retail market. Washington apples, California seedless table grapes, and Sunkist oranges and lemons are available in almost every supermarket outlet including local retailers such as *Xinhuadou* and *Yonghui*. However, in many instances the condition of cold chain maintenance remains in need of improvement.

Some retailers such as *RT-Mart* and *Wal-Mart* even established a special “imported food” section displaying various kinds of packaged food, for example, is one of them. Imported grocery items such as canned soup and vegetables, seasoning products; olive oils, cereals, syrups, cookies, infant formulas, dried raisins, almonds, jams, and instant-coffee are also available on the shelves.

Sam’s Club and *Metro* sell some organic and natural food (food without adding any additives). Post noticed that the selling prices in general are 10 to 15 percent higher than in other formats. Few U.S. wines could be found in retail stores and are facing keen competition of wines from France, Chile Australia and South Africa. California *Carlo’s* wines, for example, are selling at a price range of \$12 to \$19 per bottle. According to a sales girl in *Sam’s Club*, Post learned that price is one factor but not the most important one. Mass media promotion and educational tasting in the long run is the key.

Fancy food stores – a new emerging retail format in Fujian:

Recently, in Xiamen a specialized fancy food store “*Merry Season*” opened in one newly opened high-end shopping mall. The store design looks similar to a CR-Vanguard Ole store, but with a smaller sales floor. According to a trader, this kind of fancy food store attracts many wealthy customers who do not care about the price of goods, but prefer the comfortable shopping environment and high quality products. Organic and natural products such as 100 percent natural juices, pancakes mix, cereals, chocolates, and energy bars with various flavors are becoming the new highlights. Baking ingredients could also be found on shelves. What’s more, with the development of Hotel and Restaurant Industry (HRI) sector in Fuzhou and Xiamen, alcoholic drinks such as wine, beer, champagne will also see the sales



Merry Season - High-end Fancy food store in Xiamen (Source: ATO GZ)

growth in the near future, according to a trader who supplies to HRI sector.

During the trip, Post also paid a visit to a luxury shopping mall in Fuzhou downtown area and learned that a fancy food store was under remodeling. The shopping mall manager mentioned that the affluent consumers were looking for high-end imported food items. He expects the fancy food store inside the shopping mall could provide convenience and comfort to his customers including the tourists.

Conclusion: With the retail food market kept changing, Post will need to work closely with U.S. Cooperators as well as food traders to explore the cooperation with Fujian retailers in the near future. Face-to-face visits with Chinese clients are essential for the successful marketing of U.S. food products. Brand building and cultural promotion will enhance the image of U.S. quality products. These contacts will not only help exporters understand the regional and city markets, which vary from one to another, but will also create opportunities to establish and maintain reliable business relationships. ATO Guangzhou is eager to provide additional information when marketing U.S. food products including packaged items and perishable fruits:

1. Work with reliable Chinese partners including: importers, logistics providers, and retailers in each region,
2. Assist and educate Chinese partners on brands, proper product application and handling;
3. Provide ideas for promotional activities; Take advantage of high consumption seasons during major holidays;
4. Understand consumer preferences, which vary from city to city sometimes;
5. Strengthen the supply chain concept and especially on cold-storage management.
6. Enhance the image of U.S. products to differentiate from others by organizing on-the-spot demonstration and tasting