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Growing U.S. Export Opportunities in Lanzhou’s HRI and Retail Sectors

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Report Highlights:
Lanzhou is a rising second-tier city in Northwest China that is now increasingly able to provide U.S. food and agricultural exporters opportunities in the retail and hotel, restaurant and institutional (HRI) sectors. Retail sales of consumer goods increased 7.6 percent to reach $21 billion in 2017. Due to the fierce competition in major east coastal cities, national retailers are expected to turn their attention west to second-tier cities, such as Lanzhou. The HRI sector is also growing, led by domestic tourism and the robust mining and energy sectors in the region. By the end of 2019, new construction is expected to double the number of five-star hotels in Lanzhou. This report discusses retail and HRI developments, and potential market entry strategies for U.S. exporters to expand their reach into Lanzhou and Northwest China.
**Introduction to Lanzhou**
Lanzhou is the capital of the Gansu Province and is considered one of two principal cities (the other, Xi’an) linking commerce and trade between the Northwest and the eastern half of the country. The downtown area is located in a narrow valley along the banks of the Yellow River. The city is situated nearly 5,000 feet above sea level in a semi-arid climate with hot summers and cold dry winters. Approximately 3.6 million residents live within the city and its outlying suburbs. The region is home to several ethnic groups, and Muslims (and their traditional dietary preferences) have a significant effect on Lanzhou consumer patterns. The region’s main industries include textiles, energy production and refining, mining, and tourism. Lanzhou is also a major distribution hub for domestic agricultural products including vegetables, wheat, fruit, tobacco, horticulture (roses), beef (yak), and lamb. It is served by the Lanzhou Zhongchuan International Airport 40 miles to the north, and high speed rail serving several destinations including Guangzhou, Shanghai, and Beijing. Lanzhou is within the U.S. Department of Agriculture, Foreign Agricultural Service’s, Agricultural Trade Office (ATO) in Beijing marketing and promotion region (Figure 1).

Figure 1. Lanzhou and ATO Beijing’s regional coverage (in blue)

Lanzhou is one of the Northwest’s largest and fastest growing second-tier cities. With now more than 3.6 million people, improving environmental (air quality) conditions, several major HRI and retail establishments under construction, and its reputation as a domestic tourism hub, the city could become a significant connection to expand exports to the Northwest region’s middle class. Lanzhou’s residents are proud of their unique ethnic diversity and laid back lifestyle, but are also eager to taste imported foods that are all too commonly found in Shanghai and Beijing. U.S. exporters could consider making contact with distributors and importers in Lanzhou, as part of a larger “Go west” strategy targeting many of China’s fastest growing second-tier cities whose citizens are just beginning to form lasting opinions about imported food products.

Table 1. Comparing Lanzhou and Beijing’s Economy at a Glance
<table>
<thead>
<tr>
<th>City</th>
<th>Lanzhou</th>
<th>Beijing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>3.7 million</td>
<td>21.7 million</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>$38 billion</td>
<td>$414 billion</td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>$10,270</td>
<td>$19,078</td>
</tr>
<tr>
<td>GDP Growth Rate</td>
<td>5.70%</td>
<td>6.70%</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>$21 billion</td>
<td>$183 billion</td>
</tr>
<tr>
<td>Exports</td>
<td>$1.1 billion</td>
<td>$62.5 billion</td>
</tr>
<tr>
<td>Imports</td>
<td>$0.8 billion</td>
<td>$284 billion</td>
</tr>
<tr>
<td>Per Capita Annual Disposable Income</td>
<td>$4,974</td>
<td>$9,027</td>
</tr>
</tbody>
</table>

Source: China’s 2017 Lanzhou, Beijing Statistical Year Book

Retail Overview
Retail sales of consumer goods in Lanzhou increased 7.6 percent reaching $21 billion in 2017, which accounted for nearly 40 percent of Gansu Province’s retail sales. The key retail businesses are China Resources Vanguard (CRV) (华润), RT-Mart (大润发), Beijing Hua Lian (北京华联) and Ya Ou (亚欧). CRV opened its high-end supermarket mode, V+ in Lanzhou in 2014. Metro (麦德龙) will open its first store by the end of 2018.

Retail Food Market
Imported foods grew in earnest from 2010 to 2013. Since 2014, imported food sales have steadily declined due to the government’s anti-corruption campaigns, which punish conspicuous consumption, and the prohibited use of stored-value cards issued by retailers that facilitate group purchases. In addition, e-commerce has also impacted traditional retail sales. Local distributors noted that most imported foods are purchased by single people under the age of 35 and young parents. Unlike in first-tier cities, imported food products are not purchased out of habit, but are more special occasion purchases. The most popular imported foods in the market are children’s food such as cookies, candy, and beverages.

Post observed U.S. beverages, cereal, and snack foods for sale. There is a seasonal consumption pattern for imported food products. Consumers tend to purchase more cereal products in the winter and less in the summer, and more alcohol and other beverages in summer and less in the winter. The peak sales seasons are National Day in the autumn and the Spring Festival, which usually falls in late January or February. The top destinations to source imported food products are currently V+ operated by CRV and Ya Ou operated by a local retailer. Metro is expected to introduce more competition among the three largest food importers when it enters the market in late 2018. The proportion of imported food in the new Metro stores are expected to be over 20 percent. Ya Ou may add two new stores by the end of 2019.
Fresh fruit sales are brisk in Lanzhou. Wholesale fruits are mainly sourced from Guangzhou’s Jiang Nan market. Local supermarkets, traditional wet market vendors, and chain fruit stores source products from Lanzhou’s main fresh fruit wholesale market, Yi De (毅德). 90 percent of fresh products that sell in the market are domestic. Table grapes, apples, citrus, avocados, durian, and jackfruit are popular. Like other North China cities, customers in Lanzhou prefer large, appealing fresh looking imported fruit. The top destination for local customers to purchase fresh fruit products are the chain fruit stores near their residences. The key chain fruit store businesses are Guo Guo Jia(果果家) and Guo Wei Yi(果唯伊).

Due to Lanzhou’s high altitude and arid climate, vegetables are mainly produced in spring and summer. Customers enjoy shopping at wet markets in the spring and summer. In fall and winter, most vegetable products are sourced from outside Lanzhou. Therefore, customers generally shift purchases from the traditional wet markets in the spring and summer to supermarkets in the fall and winter. Most fresh vegetable products sold at supermarkets have not been processed. Local customers are not accustomed to purchasing packaged fresh vegetable products that have been selected and cleaned.

**HRI Overview**

Lanzhou’s HRI scene is expanding due to rising regional incomes, the strength of the mining and energy sectors, and domestic tourism. There is now a steadily growing base of consumers with the means and tastes for imported meats, seafood, alcohol, and bakery items. Many restaurants are just beginning to train staff and purchasing managers about designing sensibly paired menus with imported foods. Contacts employed by one international hotel noted their chain expects to double the number of its five-star hotels in Northwest China within five years, because most east coast cities are saturated with international five-star hotels.
A recently opened “ethnic flavor street” (left) in downtown Lanzhou will promote regional ethnic minority foods, culture, and goods. View of Lanzhou’s downtown eastern edge (right).

While salaries are relatively low in Lanzhou, locals are not hesitant to spend disposable income on imported foods in hotels and restaurants. HRI operators are aware of consumer sentiments about food safety. Hotel chains utilize proprietary food safety standards, some modeled in part after U.S. Food Safety and Inspection Service regulations. HRI establishments compete with each other, and they are always searching for new food and beverage items that can help differentiate them from competitors. Contacts note a lack of reliable suppliers, owing to Lanzhou is relatively far from eastern ports and first-tier cities, which makes it difficult for HRI businesses to source good quality products in acceptable quantities from local distributors. Purchasing managers are interested in making contact with more east coast distributors, and also working through cross-border and other specially designated free-trade zones.

**HRI Opportunities for U.S. Exporters**

Meats and seafood are two of the most needed products that U.S. exporters could supply Lanzhou. Beef is seen as relatively harder to promote than seafood, because Northwest Chinese consumer tastes prefer yak, goat, and lamb. Many consumers consider yak meat to be more organic than beef, because herds are generally grass fed on highland steppes. Lamb consumption is high in Lanzhou and surrounding areas. Exporting sheep/lamb to high-end HRI establishments would be another opportunity when China approves market access for U.S. sheep/lamb exports. Meats are supplied to Lanzhou hotels by a limited number of local distributors who do not have a lot of cold storage capacity, so it is hard for the hotels to get a consistent supply of meat. Most imported beef are low- to mid-priced cuts from Brazil. As the HRI sector expands, greater economies of scale should provide U.S. beef exporters with more opportunities. Cooperators and other U.S. exporters should consider working with local distributors and importers from Beijing or another east coast city to expand Lanzhou HRI access for U.S. meats and seafood.

As an inland city, imported seafood in Lanzhou is very much in demand, since current offerings are usually not fresh (i.e., frozen), hard to source, and expensive. Consumers view seafood as a luxury item, and HRI businesses are interested in sourcing more of these products to attract customers. High prices currently limit live and fresh seafood; domestic live fish are generally purchased from Guangdong Province. Imported frozen fish is imported from Jinan, Beijing, and Xi’an. Most seafood (and meat) products arrive to Gansu Province and Lanzhou via truck from the Tianjin port. Air shipments are available to Lanzhou, however they are viewed as too expensive for this market.
Alcohol is another area for U.S. exporters to explore. Consumers and HRI purchasing managers know relatively little about how to choose imported wines. Exporters could invest in promotions providing education and a marketing platform to showcase U.S. wines. Craft beer is also becoming more popular. Exporters would need to educate consumers and the purchasing managers about this new product, and work with hotels since there are not too many restaurant and bar establishments serving craft beer. U.S. whiskeys and other spirits would have the least opportunity for success, since most prefer China’s traditional white liquor.

Lanzhou’s HRI sector must import the majority of its bakery ingredients including wheat flours, butter, dried fruits, nuts, chocolate, and confectionary items. The city does not have a café culture like most Chinese first-tier cities, which combine hot beverages with baked goods. Most of the demand for bakery products are currently in high-end hotels, and some restaurants, however the country’s rather rapid uptake in café consumption is bound to make its way to Lanzhou in the future.

**Recommendations for U.S. Exporters**

Unlike first-tier cities, Lanzhou’s chain hotels and some restaurants is responsible for making their own food and beverage purchases. Executive chefs in these hotels (instead of a management company) make purchasing decisions. Due to the lack of local food import distributors, HRI establishments welcome more direct contacts with east coast-based distributors. Advertising and market promotions are important. Promotion examples include using well known chefs and bakery demonstrations to promote in demand products, such as beef, seafood, wine, and bakery ingredients. In-store retail promotions could also target wine, confectionary items, snack foods, nuts, fresh fruit, and beverages.

Lanzhou is Gansu Province’s commercial hub, and it attracts traders, businesspersons, and distributors from smaller cities in Gansu Province, the nearby Ningxia autonomous region, and Qinghai Province. U.S. exporters and trade associations should search for, and include, contacts from these regions in any market development activity in Lanzhou. Retail and HRI contacts are both interested in sourcing new products that can differentiate themselves from competitors, and welcome meeting new distributors from Beijing or other established east coast areas that can more directly facilitate imports. When holding promotions in Lanzhou, it will be helpful to invite and/or provide these east coast distribution contacts.

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U.S. agricultural producers and exporters seeking assistance in North and Northwest China may contact the Agricultural Trade Office (ATO) in Beijing:
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Regions include: Beijing, Tianjin; Hebei, Henan, Shanxi, Shaanxi, Qinghai, Xinjiang, Gansu, and Ningxia Provinces.