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Report Highlights:

China's economic growth rate has dropped for the fifth consecutive year; it however continues to be a huge potential food market that U.S. exporters should not ignore. Food consumption accounts for 31% of the annual urban household expenditure. There are multiple challenges in such a complicated and changing market. Demand for imported food and beverage is expected to remain resilient. The major drivers of China's retail growth include continuous urbanization and rising number of middle class as well as the increasing per capita disposable incomes. In addition, innovative business models such as internet and mobile business have created vibrant marketplaces and shopping tools.

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Executive Summary:

China's economic growth rate continues to drop for the fifth consecutive year; however, it is still a huge potential food market that U.S. exporters should not ignore. Food consumption accounts for 31% of the annual urban household expenditure in China. Despite the economic slow-down, consumption of imported food and beverage is expected to remain resilient.

China's annual retail trade sales valued \$1.76 trillion in 2014 with the **total retail sales of consumer goods** valued at \$431.5 billion, **up 12%** from 2013. If calculated by sector, China's **total integrated retail sales** reached **\$413.8 billion** in 2014. While offline retail sector is undergoing a critical transition phase, **online** retail business is growing dramatically and accounts for over **11.4%** of the total integrated retail sales in the first half of 2015.



(Source: dreamtime.com)

With a much complicated economy climate and a diversified and segmented retail market in China, earning profit has become much harder for retailers. As a result, offline retailers seek ways to differentiate themselves. With a huge population of 1.367 billion, consumers have demonstrated very different purchasing habits. Therefore, tailored marketing plans should be implemented to target different consumer group and for specific distribution channels.

Key words for consumers:

- Convenience: easy to buy, easy to pay, home delivery, online and mobile, we-chat
- Value: brands, status, nutritious benefits, freshness, safety, traceability, price
- Fun: do-it-yourself, innovative packages, group purchase

Key words for retailers:

- Integration: supply chain, distribution, multiple formats, merger and acquisitions
- Digitalization: internet plus, online-to-offline, cross-border, mobile, Ali-pay, We-chat
- Specialization: Fancy grocery, Specialty fruit, Frozen meat stores
- Penetration: Merger and acquisition, 3rd and 4th tier cities

Key words for U.S. food exporters:

- Products: packaging design, brands, price, market position, taste,
- Partner: regulation, distribution channels, marketing strategy, promotions
- Service: adaptability, the quick learning, fun-entertainment elements

Section 1: Overview

In the year of 2014-2015, China's GDP grew at single-digit rate. As a matter of fact, 2014 was the fifth consecutive year that China's retail sales growth rate dropped, mainly due to the economy slow-down as well as the increasing operational cost and labor salary. However, with a population of 1.367 billion, China is still a huge potential retail market. The major drivers of China's retail growth include continuous urbanization and rising number of middle class as well as the increasing per capita disposable incomes. Besides, innovative business models such as internet and mobile business have created vibrant marketplaces and shopping tools.

In 2014 China's annual retail trade sales was valued at \$1.76 trillion. The total retail sales of consumer goods reached \$431.5 billion, up 12% from 2013. In China, there is a saying “民以食为天 (min yi shi wei tian in pinyin)”, which means “food is the most important in one's life”. On average, in 2014, food consumption accounts for 31% of the annual urban household expenditure in China.

If calculated by sector, **China's total integrated retail sales reached \$413.8 billion in 2014.** Among which \$233.1 billion sales was from general merchandise retail stores and \$160.5 billion from retail supermarkets. The specialty retail sales of food, beverage and tobacco totaled \$ 4.88 billion, up 10% from 2013. **In the first half of 2015, internet retail sales accounts for over 11.4% of the total integrated retail sales.** This is a great break-through record ever since the first online transaction in China back in 1998.

Multiple business models and distribution channels have emerged in China's retail sector. Integrated supply chain and expanded distribution channels are the new practice. Small sized convenience stores and specialty stores are in favor. Merger and acquisition make the strong players even stronger in both supply chain and distribution channel consolidation. Direct sourcing and multiple retail formats are the new focus in the coming year.

Despite the economic slow-down, consumption of imported food and beverage is expected to remain resilient. Imported foods are sold to a range of different demographics. Expatriates and returned Chinese used to form the high end of the market, but this are now occupied by wealthy Chinese and an increasing number of middle-class. However, with a much complicated economy climate and a diversified and segmented retail market in China, there are some challenges for U.S. food exporters. Higher import tariff and longer period of shipment plus concerns on Chinese currency (RMB) depreciation may have some negative impact on potential traders' purchasing decision on imported items. Tailored marketing plans and consumer analysis should be implemented in different region for specific distribution channels.

In short, 2015-2016 is a year composed of opportunities and challenges.

1.1 Economic Situation

In 2014 and 2015, China's GDP consecutively grew at a single-digit rate. Although the economic growth (6.9% year on year) in the third quarter of 2015 was better than expectation, it is likely that China's economic slowdown will continue. There are concerns that China may enter a path of **prolonged low growth**.

As a matter of fact, this economy **slow down** began in 2010. After five years of over 10% economic growth (2003-2007), China's GDP growth rate was weakened in 2010-2011. This year, the situation becomes more obvious. Chinese growth was averaged 7.8% during 2011-2015, compared with a 7% average growth target in the 12th FYP. China affirms economic target requiring 6.6% average growth during 2016-2020, to double the GDP and average incomes from 2010 to 2020. In real terms, China's GDP increased by 66% during 2011-2015, providing a head start on the 2020 target.

Consumption contributes to growth rate shows a distinct increase: accelerate growth of registered urban residents. The private consumption share of GDP rose from 34.4% in 2010 to 36.4% in 2015.

China's GDP at a glance (2011-2015)

GDP	2011	2012	2013	2014	2015
Growth rate %	9.5	7.7	7.7	7.3	6.9

(Source: China Yearly books)

China is the world's second largest retail market after the United States. In 2014, China's average per capita urban household's disposable income was 28,843.9 yuan (\$4,578), up 8.9% from 2013. China National Statistical Bureau released that in 2014 urban income was approximately three times as that in rural areas. Top five areas include Shanghai, Tianjin, Beijing, Zhejiang, and Guangdong.

Top Urban Consumption Market of Food

2014 Per capita Urban Household consumption Expenditure of food, tobacco and drinks (yuan)	Shanghai	Tianjin	Beijing	Guangdong	Zhejiang
	9438.6 (\$1,498)	8069.5 (\$1,281)	8,007.4 (\$1,271)	7850.2 (\$1,246)	7705.0 (\$1,160)

(Source: 2015 China Statistical Yearly Book)

The average consumption expenditure on food, tobacco and drinks was 6,000 yuan (an equivalent to **\$952**). Per capita consumption of major foods nationwide include: unprocessed grain (141kgs), oil and fat (12.3kgs), vegetable and mushroom(96.9kgs), products of meat (25.6kgs), aquatic products (10.8kgs), eggs (8.6kgs), milk and dairy products (12.6kgs), as well as dried or fresh melons and fruits (42.2kgs) and sugar(1.3kgs).

Top five urban markets of food, tobacco and liquor include: Shanghai (\$1,498), Tianjin (\$1,281), Beijing (\$1,271), Guangdong (\$1,246), Zhejiang (\$1,160), followed by Fujian, Jiangsu, Hainan, Chongqing and Sichuan.

If taking several factors such as population, GDP, per capita disposable income and consumption expenditure into consideration, four mega cities including Shanghai, Beijing, Shenzhen, and Guangzhou are also the key retail consumption markets in China.

Shanghai – Shanghai has the highest population as well as the highest per capita disposable income \$7,753 in China. The urban household food expenditure was around \$1,498.

Beijing – The capital city of China has a population of 21.5 million. Beijing’s per capita disposable income in 2014 was \$7,703, slightly after Shanghai. The per capita urban household expenditure on food, tobacco and drinks was \$1,271, after Shanghai and Tianjin.

Four Mega Cities at a Glance

2014	Shanghai	Beijing	Shenzhen	Guangzhou
Permanent Population (million)	24.26	21.52	10.78	13.08
Per capita GDP (yuan)	97,370 (\$15,456)	99,995 (\$15,872)	149,495 (\$23,729)	128,478 (\$20,393)
Per capita urban household disposable income (yuan)	48,842 (\$7,753)	48,532 (\$7,703)	40,948 (\$6,450)	42,954.6 (\$6,818)

(Source: 2015 China Statistical Yearly Book)

Guangzhou – The capital city of Guangdong province has a long cultural history and strong per capita urban household disposable income (around \$6,818). In 2014, Guangzhou’s per capita GDP was around \$20,393, higher than Shanghai and Beijing.

Shenzhen - One of the major consumption markets in Guangdong. This first “special economic zone” established in 1979 has 100% urban permanent population. Today, Shenzhen has 10.8 million permanent residents, with an average age at 29. Shenzhen has the highest per capita GDP among above-mentioned four mega cities and its urban per capita disposable income was \$6,450, which is higher than Zhejiang provincial average.

1.2 Demographic development

China is a vast country with a huge population of 1.36 billion people by the end of 2014. The national urban population is about 54.8%. If we look at the regional proportion, urban Chinese population is mostly in Shanghai (90%), Beijing (86%), Tianjin (82%), Guangdong (68%), Liaoning (67%) and Jiangsu (65%). By 2014, 55% populations are living in urban areas, up 5% from 2010. Urban population growth average 2.8% during 2011-2015. Internal migration and a rapidly increasing urbanization rate as rural migrants, move towards the Eastern and Southern cities.

In recent years, China’s major demographic concerns include: gender imbalance, longer life expectancy, lower birth rate and an aging population. As a sequence, China’s dependency ratio (number of dependents) is projected to increase. Older populations characteristically tend to consume more and produce less. By the end of 2014, China has over 10% population aged above 65 years old.

With the lack of efficient labor power in the next two decades, there are increasing concerns about

consumption power in the long run. By October 2015, China cancelled the one-child policy. The end of “one-child” policy is considered as a useful tool to leverage the aging problem that challenges China in the coming decades. However, it is unlikely to have a significant impact on birth rate or macroeconomic outlook in short term.

China’s demographic development (2011-2014)

Population	2011	2012	2013	2014
Total (billion)	1.347	1.354	1.360	1.367
Age above 65 (%)	9.1	9.4	9.7	10.1

(Source: Historical data from China’s Statistic Yearly Books)

Small-sized convenience stores and supermarkets in the neighborhood mostly satisfy the daily needs of non-working family members living in the community.

Targeted consumers:

Expatriates are typically seeking familiar products that are not available in local markets (such as well-branded products), but are somewhat price sensitive and sufficiently familiar with the product to accept generic or off-brand versions. Specialty retailers such as *Jenny Lou’s*, *City Super* and *Corner’s Deli* to these communities are well-established.

Wealthy Chinese born in 70’s and 60’s are seeking both a guarantee of quality and prestige when they buy imports. High-end retail chains such as *Ole’*, *Sam’s Club*, *Taste*, *Great*, *Treat*, and *BHG* have emerged to cater to these buyers, and tend to focus on products with special health claims and high prestige value. As a result, famous brands are especially desirable, even if somewhat more expensive.

Middle-class consumers are more demanding. They pay closer attention on food safety and request a healthy diet. They intend to be price-sensitive and would compare several brands before they make a final purchase decision. Some of them are looking for fresh, easy-to-prepare, reliable products at reasonable prices and value-added services.

Younger generation tend to purchase less in wet market and more through hypermarkets and supermarkets. They are more flexible and adaptable to new technology and healthy lifestyle. Many have experience to buy through online or mobile shopping applications such as *We-chat* and the *Ali-pay* which could make purchase and delivery much easier.

Single family members are increasing. This group of consumers has more freedom in making purchasing decision and look for efficient and convenient lifestyle. Online business platform such as *TMall*, *Jingdong*, *Taobao* and *Yihaodian* specifically target the consumers in single group by creating single’s day promotion on November 11. For the group of singles, small and innovative packaged products are in demand.

In addition, **consumers with higher education** or overseas experience tend to prefer try new products and also find pleasure in do-it-yourself.

More **office clerks** enjoy lower discount price offered through **small group purchase** among their colleagues and friends. Ready-to-cook packages and baking ingredients with recipes are becoming

popular, especially for those time-saving consumers. More office clerks prefer to have discount price by organizing small group purchase among their colleagues and friends. With over 650 million mobile-users in China, mobile shopping applications are gaining popularity.

Old fashioned department stores are no longer in favor. Instead, during week-end, many **shoppers with family** would visit one-stop modern shopping malls (which combine the shopping experience with various entertainment options such as movie, skating and children’s playground together at the same time) together with their families. More **female** consumers find entertainment and fun in do-it-yourself practice. Innovative packages and ready-to-cook food ingredients with recipes become popular.

Chart 1: National Average Per Capita Consumption of Major foods (2014, Unit KG)

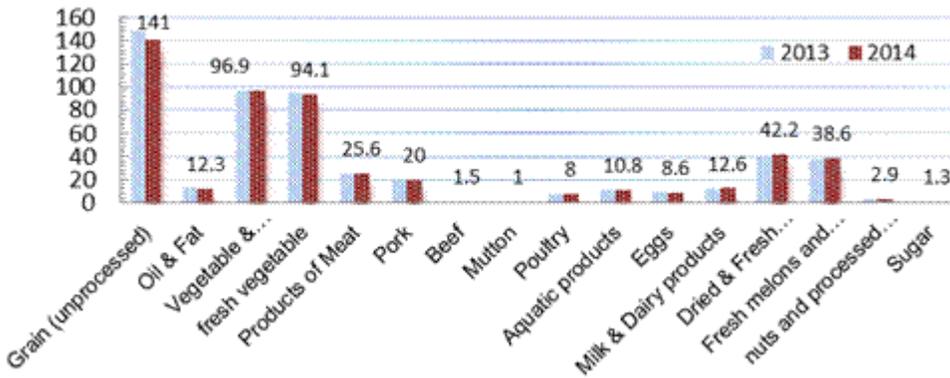
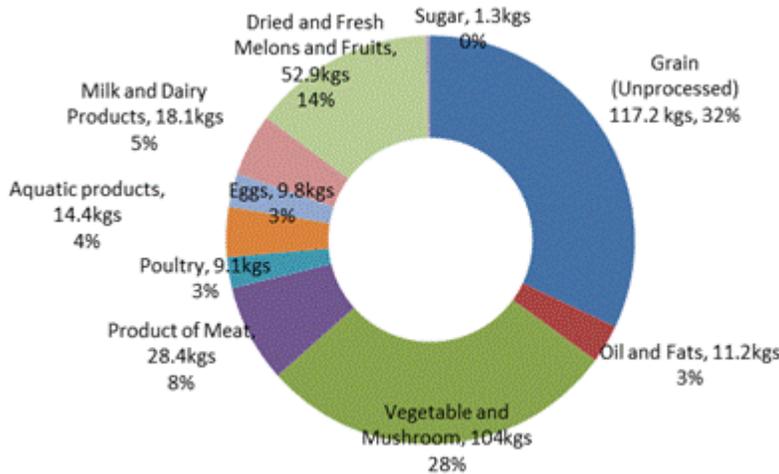


Chart 2: Urban Households Per Capita Consumption of Major Foods (2014)



(Source: 2015 China Yearbook, National Bureau of Statistics of China)

Section2. Retail Market Updates

2.1. Food Retail Updates

China's food retail market can be divided into five regions geographically, including north, east and south, plus south and southwest, each covered by one Agricultural Trade Office (ATO). In addition to the four mega cities (Shanghai, Beijing, Shenzhen and Guangzhou), the strongest consumption markets are in the east and south regions such as Zhejiang, Guangdong, Fujian and Jiangsu.

In general, both offline retailers and online shopping tools are undergoing a challenging transition phase and tend to combine the traditional retail operation with the new digital technology. Department store era has been gradually replaced by one-stop shopping mall era. Offline food retailers include a wide range of hypermarkets, supermarkets, specialty stores, discount stores, community stores and conveniences stores. Meanwhile, Internet plus, O2O (online to offline & offline to online), We-chat and mobile marketing are the hot topics and new trial practices in the market.

Hypermarkets and supermarkets seek ways to differentiate themselves from their competitors Large hypermarket and supermarket chains seek ways to differentiate themselves from others by launching multiple marketing activities such as in-store promotion as well as on-site demonstration, and meanwhile, leveraging the operation cost and sales/profit target achievements. The higher rental fee and the lack of labor power in first tier cities have forced many retailers to adjust their strategic expansion plans by closing the weak stores in downtown areas and penetrating into third and fourth emerging cities.

Convenience retail sector keeps growing. Most of the convenience stores and community stores are located inside, adjacent and near residential enclaves and commercial districts. Public transportation centers such as shopping center subway and train stations or airports are also ideal locations. 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.

Major retail formats at a glance (2014)

	Number of stores (unit)	Employees by year-end (10,000 persons)	Total sales of commodities (100 million yuan)	Total Purchases value (100 million yuan)	Centralized purchase and delivery (100 million yuan)
Hypermarket	9481	56.2	4647.2	4079.8	2925.5
Supermarket	33,202	44.5	2981.8	2707.1	2241.1
Department Store	4689	25.8	3806.1	2917.2	1389.7
Convenience store	16832	7.8	346	294.7	221.8
Warehouse club	108	1.5	240.9	234.4	31
Specialty store	108809	94.3	23345.8	19513.6	16520.2
Discount store	377	0.2	29.5	25.8	N/A

Franchised store	22854	14.6	1400.3	1151.4	979.7
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(Source: 2015 China Yearbook, National Bureau of Statistics of China)

New trends:

New business models emerge. With central government’s encouragement on “Internet plus”, many retailers tend to combine the traditional operation with the new technology. Meanwhile, major e-commerce platforms start to join hands with traditional offline retailers. New models include **O2O** (online to offline), **B2B** (Business to Business), **B2C** (Business to Consumer) as well as **B2B2C** (Business to Business to Consumer).

Mobile marketing is gaining ground. By July 2015, China has over 4 million websites and **668 million internet-users**. In addition, there are **650 million mobile owners** and **250 million are using 4G network mobiles**. This group of consumers has demonstrated very different purchasing habits and they are the target consumers of the “click and collect” digital retail business. China sets five-year targets for express delivery industry over 2016-2020, which implies target of online sales CAGR exceeding 20% through 2020.

Cross-border duty free warehouse and global direct sourcing are the new concepts that both trade and retail players pay close attention. The concept is to establish an integrated supply chain, sourcing imported items directly from overseas. Tracing back to the origin of food production area is no longer impossible.

Leading retailers continue to develop their **integrated supply chain and distribution system**.

Direct farm program and **global sourcing** helped the retailers to cut off the cost and tracing back the origins by purchasing directly from growing areas.

Cold storage development in first tier cities has been largely improved. However, there are still rooms for improvement in second and third tier cities where often cold chain was broken

Multiple retail formats. In addition to traditional large size supermarkets, retailers such as *China Resource Vanguard* and *Carrefour* started to operate small-size convenience stores and community stores, in addition to the traditional supermarkets and hypermarkets.

Merger and acquisition hit the record high in 2014-2015 and made the strong players even stronger in both supply chain and distribution channel development.

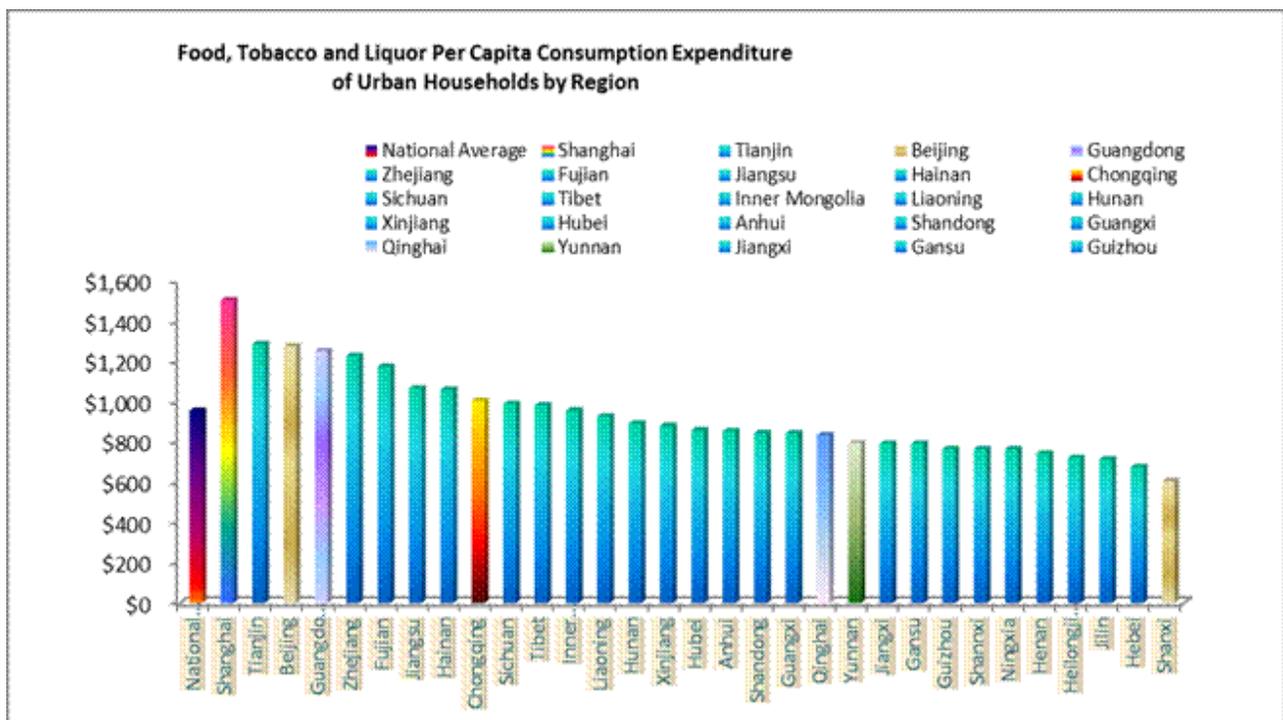
Private label is a new tool to differentiate retailers from their competitors.

Franchise stores are in favor. As convenience store sector is growing with smaller sales floor and lower operation fee, franchising is the practical expansion strategy to increase new outlets and penetration into new areas quickly.

Specialized fruit shops are competing fiercely with online fresh fruit stores. Specialized fruit shops such as *Pagoda* offer a wide range of high-end products with premium and fresh quality, while online fresh fruit stores such as *Benlaishenghuo.com* and focus more on particular varieties and offers cheaper price.

Specialized online shopping platform such as *Fruitday.com* and *Yiguo.com* are also gaining ground in online fresh fruit and frozen food business. Consumers pay close attention on price, quality and delivery service.

Fancy grocery store chains are new highlights, targeting particular groups of consumers with higher disposable income in the first tier cities. For example, specialized fresh fruit stores and frozen meat were opened in mega cities such as Shenzhen, Guangzhou, Shanghai and Beijing.



(Source: China Yearly Book 2015)

2.2. Hypermarket and supermarket

International players such as *Wal-Mart*, *Carrefour*, and *Metro* are facing keen competition from leading domestic chains like *China Resources Vanguard* and *Yonghui*. Most chain stores carry imported food. In 2014, the leading retailers selling consumer packaged products include *China Resources Vanguard*, *RT-Mart*, *Wal-Mart*, *Lianhua*, *Carrefour*, *Yonghui*, *Nonggongshang*, *Haihang*, *Bubugao*, *Wumart*, *Metro* and *AEON China*. High-end chains include *Ole'*, *BLT*, *Sam's Club*, *Bravo*, as well as *BHG*.

- **China Resources Vanguard:** First established in 1994 in Hong Kong and initiated the brand “CR-

Vanguard” in 2003. In 2014, China Resource Vanguard acquired Tesco China. After years of merger and acquisitions, China Resources Vanguard now has over **5,000** outlets under multiple brands including *Vanguard, Suguo, Vivo, Ole’, Legou Express, Vango, BLT, Voi_la!, Lenonardo, Huanleshong, Zhongyi, Huarun Tang*. Its annual sales turn over reached 104 billion yuan (\$16.5 billion) in 2014. In June 2015, China Resources Vanguard launched its online www.ewj.com platform as well as a cross-board shopping experiment zone named as *EWJ Zone*. (www.crvanguard.com.cn)

- **Ole’ & BLT:** Currently there are over **50** Ole’ and BLT stores in China. These two brands are under CR-Vanguard group but operated separately, targeting high-end consumers in first and second tier cities. Ole’s sales floor is larger, including full range of brands and categories from overseas, while BLTs most likely concentrate on food and daily usage products.

- **RT-Mart:** By September 2015, RT-Mart had **318** hypermarkets in mainland China. This retail chain (originated from Taiwan) opened its first store in Shanghai in 1998. In 2011, RT-Mart joined hands with Auchan and later re-organized a new company named *Gaoxin Retail*, which was listed in Hong Kong stock exchange market. Unlike other retailers, **68%** of RT-Mart and Auchan are in **third and fourth tier cities**, only 9% stores are located in first tier cities. In January 2014, RT-Mart proactively launched its “Feiniu” online platform and recently started its “feiniu global sourcing” project, aiming at international food and beverage items as well as other products. In 2014, RT-Mart sales reached 85.7billion yuan (approximately \$13.6 billion), **up 6.9%** from 2013.

- **Wal-Mart China** (www.wal-mart.com.cn): As the largest international retailer, Wal-Mart entered into Shenzhen, China in 1996 and owns **436** stores in **166 cities** by July 2015. In 2015, Wal-Mart opened nine distribution centers for dry goods and 11 for fresh and frozen products. Wal-Mart’s main retail formats include Wal-Mart supercenters and Sam’s Club membership stores. After its acquisition of 100% Yihaodian.com share in July 2015, Wal-Mart launched its mobile shopping application, providing home delivery service in Shenzhen area. With a slogan of “Everyday low-price”, Wal-Mart supercenters focus on community consumer business. By the end of 2014, Wal-Mart China’s total annual sales turnover was 72.4 billion yuan (\$11.5 billion), with a slight **0.2 percent increase**. Wal-Mart invested in Yihaodian.com in May 2011 and by October 2012 acquired 51 percent share of Yihaodian.com. The company expects to open 115 new outlets within three years. - **Sam’s Club** (www.samsclub.cn): Currently there are **12** Sam’s Clubs in China, mostly in first tier cities and cities with higher disposable incomes such as Shenzhen, Guangzhou, Shanghai, Dalian and Hangzhou. Sam’s Club stores target more on high-end consumers who have stronger purchasing power. The first flagship Sam’s Club in Shenzhen ranks Best-selling store among all Sam’s Clubs in the world in terms of sales figure. Sam’s Club has opened its online shop since 2010, providing home delivery services in 1st tier cities.

- **Lianhua:** Yonghui now becomes Lianhua’s second largest shareholder. Currently there are **4,325** Lianhua stores in various retail formats, mainly located in the east region. In 2014, the sales revenue was 6.17 billion yuan (approximately \$0.98 billion). Lianhua’s top management change and the poor operation in certain stores resulted in a large-scale store closure. Therefore, Lianhua had a consecutive drop in sales and negative profit since 2012. In 2013, Lianhua opened its online platform “Lianhua Yigou”, providing home delivery mainly in Shanghai area.

- **Carrefour** (www.carrefour.cn): This second largest international retailer from France opened its first store in China 20 years ago. Currently Carrefour has **240** stores, located in 73 cities. To maintain its

traffic, Carrefour initiated its new Easy Carrefour small format trail by end of 2014. There are two mini convenience stores in Shanghai. In June 2015, Carrefour also launched its online website, but still in experimental phase. Further plans to cooperate with We-chat are under discussion.

- **Yonghui (www.yonghui.com.cn)**: Among all, Yonghui is the most aggressive retailer in the year of 2014-2015. With its first fresh vegetable and fruit supermarket opened in 2000 in Fujian, currently Yonghui owns **500** supermarkets in **144 cities**, mostly in Fujian, Zhejiang, Jiangsu, Sichuan, Shanghai, Guizhou, Chongqing, Henan, Shanxi, Hebei, Beijing, Tianjin and cities in Northeast. Yonghui is also a pioneer for O2O commercial business. Early in January 2014, Yonghui set up its first “YH Wei store”, providing home delivery in Fuzhou. By the end of 2014, Yonghui achieved a total turnover at \$5.8 billion, **up 20%**. In August 2015, **JD.com** invested **4.3billion yuan to acquire 10 percent of Yonghui’s stock share**.

- **Bravo YH**: In 2015, Yonghui speeds up the deployment of its high-end brand. Currently there are **47** premium Bravo YH stores in China. To cope with the ever changing commercial environment, it is said that it has plan to upgrade some of its stores into “Bravo YH”.

- **Nonggongshang**: The chain was established in 1994. Now it has over **2,500** outlets, mainly in Shanghai, Zhejiang, Jiangsu. The retail formats include Nonggongshang supermarket, Haode convenience stores, and Kedi convenience stores. In 2014, its total sales reached 29.4billion yuan (\$4.67billion), **down 2.1%**. It started its convenience website in 2013, but only with limited distribution network in the east.

- **HaiHang Commercial**: There are multiple brands under Haihang (under Hainan Airline Holding): Jiadeli (Shanghai), Minsheng(Xi’an), Jiarunduo(Hunan), Goubaole, Baoshang Meijiajia, Minshengjiale. It is said that over **500** retail stores belongs to Haihang Commercial, with a total sales of 27.9 billion yuan (approximately \$4.4 billion). Back in 2011, Haihang launched its online platform” Youyue shenghuo” but only survived one year.

- **Bubugao (Better life)**: This chain has **452** offline stores, mostly in Hunan, Guangxi, Jiangxi, and Sichuan. In 2014, the total sales revenue overpassed 27billion yuan, approximately \$4.3billion. From 2008, this chain became a public-listed company in Shenzhen Security Exchange. In December 2013, Bubugao officially launched its online platform named as“Yunhou”, selling all kinds of products including imported food.

- **Wu-Mart**: Established in 1994, Wu-Mart has over **700** stores, located in Beijing, Tianjin, Hebei, Ningxia, Shanghai and Zhejiang. Wu-Mart has various retail formats including hypermarkets, supermarkets, convenience stores and department stores. It targets middle to lower- end consumers. In 2014, the total sales revenues reached \$3.3 billion, **up 13.6%** from previous year. An agreement was made between *Lotus* and *Wu-Mart* end of 2013 to acquire Lotus’ retail business in the north and east regions.

- **Metro: (www.metro.com.cn)** This Cash & Carry membership chain from Germany has **80** stores in 59 cities. Its target consumers are small and medium restaurants and members who have higher income. **Half** of the Metro stores are **in the east** such as Shanghai, Jiangsu, and Zhejiang. In the south, there are

nine Metro in Guangdong, four in Fujian and three in Hunan. On average, imported food section (cheese, milk, chocolate, crackers, and wines) sales **grow by 20% to 30%** each year, accounting for 55% of Asia Pacific region total sales. Private labels include *Aka, Fairline, Horeca, Fine Food, Fine life*, as well as *Rioba*. Metro has also launched its online mall and the website is www.metro.com.cn/online-mall

- **Beijing Hualian BHG:** This high-end brand under Beijing Hualian has total 27 outlets in China, half in Beijing. Around 15% imported products are from United States. Snacks, fresh and dried fruits as well as soft drinks are the most popular products in stores.

2.3. Convenience Stores and Specialty Stores

Convenience retail sector keeps growing. Convenience stores and community stores could be easily found in public transportation centers such as shopping center subway and train stations or airports. 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.

Specialty retail market, mostly target wealthy Chinese. The stores are either located inside downtown commercial buildings or close to high-end shopping centers or living communities. The number of specialty supermarkets and boutique stores has increased in number over the past three years. The consumers in the specialty stores have growing concerns about food safety and shopping environment. They are less price-sensitive, looking for premium quality products.

Opportunities for U.S. food: In the convenience sector, retailers generally prefer well-known brands in small packages with appealing flavors and the demand for snacks are on the rise. Chips, candy, mints, dried fruits, nuts, instant noodles as well as other products such as yogurt, coffee, milk, beer, and chewing gum are the promising products. Specialty community stores put more focus on particular category,

Leading national convenience stores and specialty stores include *7-Eleven, Corner's Deli, Jenny Lou's as well as Pagoda (fresh fruits)*. In addition, other 24-hours operated brands convenience stores such as *OK, C-store, Family Mart* are also available in both southern and eastern regions. Emerging regional specialty meat stores such as *Bester* are growing fast in Pearl River Delta.

7-Eleven: Currently there are over 1000 outlets nationwide providing 24-hours value-added services. An average 7-Eleven outlet is around 80 square meters in size and featuring snacks, wine and liquor, drinks, cigarettes, hot and cold delicatessen food items and non-food items as well as magazines. Franchise is the popular expanding strategy.

Corner's Deli: One of the fast growing specialized imported food stores. Now it has **12** outlets in Guangdong and Hainan, all featuring a wide range of imported food items. U.S. cheese, condiments, breakfast cereal and other packaged products such as dried fruits, snacks, and nuts are selling well.

Jenny Lou's: A major specialty imported food chain in Beijing with over **17** stores. Target consumers include expatriates, upper-middle income Chinese consumers. Half of the products sold in this chain are from United States. Popular items include breakfast cereals, dried fruits, nuts,

Pagoda: in 2015, this leading specialized fresh fruit community chain owns **1,000 plus** outlets and recently acquired Beijing-based *Guoduomei*'s share. With the head office in Shenzhen, Pagoda aggressively opened new stores in Beijing and Shanghai this year. Seasonal U.S. imported fruits such as table grapes, cherries, apples, pears and citrus are often displayed on shelves.

2.4. Digital Shopping Tools

Online retail business is growing dramatically and accounts for over **11.4%** of the total integrated retail sales in the first half of 2015. In the year of 2014-2015, E-commerce business continues to boom in the four mega cities including Beijing, Shanghai, Shenzhen and Guangzhou. Especially, consumers in the north prefer to purchase through online tools. Retail sales in Beijing increased 12 times over the past five years reaching \$23 billion in 2014. Nearly 80% of the consumption growth was a result of e-commerce in Beijing in 2014.

Mobile shopping, cross-border, and fresh home delivery are the hot buttons for e-commerce in 2014. Major digital shopping tools include: *TMall.com, JD.com, Amazon.com, Shunfeng Best.com*. There are also multiple regional online platforms, providing home delivery services on a limited logistical distribution network. *Fruitday.com and Yiguo.com and benlai.com* are the three major shopping tools for purchasing perishable fresh and frozen products online. All these shopping applications could be easily found on internet and downloaded by 4G mobile users.

Tmall.com: This leading online shopping company is based in Hangzhou. As both E-commerce and m-commerce in China is booming, Tmall successfully created Single's Day (Double 11) as a major shopping holiday in addition to Chinese Lunar New Year season, targeting younger generation and single family members. Besides, it sets TMall global cross-border e-commerce by proactively encouraging overseas merchants to open stores on TMall Global. There are three types of stores available on TMall Global: Flagship store, specialty store, franchise store or monopolized store.

Yihaodian.com: Early 2015, Wal-Mart (China) took full control of Yihaodian.com. In 2012 Wal-Mart (China) upped its stake in Yihaodian. Based in Shanghai, Yihaodian started seven years ago in introducing imported food items to online consumers. However, in the past two years, its personnel change and the strategic conflicts by new Wal-Mart management inevitably led to a slower growth.

JD.com: This second largest e-commerce players in China has a 21.2% market share followed by the Alibaba group. JD.com invested \$70 million and acquires fruitday.com (a specialized fresh fruit e-commerce player in China. Also, JD.com held a series of purchasing conferences in Hong Kong, Australia, the United States, Korea, and Germany in 2015 to source international supplies and products,

which further supported JD exposure at trade show country Pavilions, and widened its imported products offerings, and expand its brand globally. Recently, JD.com joined hands with E-Jiangnan to set up a self-operated cross-border warehouse, dealing with fresh fruits, dairy products and other products. It is expected that this new B2B2C business model could cut down the operational cost.

Amazon.cn: It accounts for 1.5% market share in China e-commerce business and has plans to expand its influence and secure more customer traffic. In 2015 Amazon.cn launched its flagship store on TMall.com featuring products sourced directly from overseas. Based on its global supply chain, and 96 large operation centers in the world, starting from 2015, Chinese customers can order products via amazon's websites in the United States, Germany, Spain, France, UK and Italy, which offer over 80 million SKUs' of imported items online with over 25 million SKUs from the United States. In order to attract Chinese customers, amazon's website in the United States slashed the international shipping fees and improved the delivery times for orders from China. Facing fierce competition amazon.cn launched its own 'fresh products' section followed by JD.com, TMall, and Sfbest.com in May 2015. The section offers over 300 SKUs and just about everything from seafood to fresh fruit and meat as well as fresh cheesecake.

NetEase, a leading China-based Internet technology company launched its cross-border e-commerce platform www.kaola.com early in 2015. Kaola.com sources products directly from overseas, and stores them at their bonded warehouse in China including baby food, and products, foods and supplements, cosmetics, household and personal care products, apparel and accessories, and consumer electronics. In less than a year kaola.com has become the leading cross-border e-commerce business with imported SKUs of over 10,000, and monthly sales of more than \$5 million as well as operating the largest bonded warehouse in China.

Although **SF Express** only accounts for a relatively small slice of the market pie (0.1%), the company is known for its good cold storage chain logistics. To expand its business, SF Express began a direct-sourcing business in 2014. ATO Beijing partnered with Sfbest.com to conduct a week long online American Food Festival to promote direct product imports from the United States May 5-13, 2015. The event carried more than 60 SKUs featuring coffee, snack food, dried fruit, nuts, fresh fruit, seafood and beverages.

Chunbo.com is a regional e-commerce player based in Beijing. It was founded in March of 2014, which runs its own organic farm in suburban Beijing offering fresh vegetables. Target customers are upper-middle level income customers, and young mothers living in Beijing. Customers can easily source fresh products, seafood, beverages, snacks, and health food on its website. In addition, Chunbo.com will launch a new operation in Shanghai in the near future to support the company's exploration of the market.

Section 3: Suggestions to U.S. Food Exporters

3.1. Opportunities and challenges

In 2015, there are both opportunities and challenges and the situation will continue in 2016.

Opportunities:	Challenges:
<ul style="list-style-type: none"> • China’s middle class is increasing • Eating better is a new concept • Online shopping is growing with 668 million internet-users • Mobile business is growing with 650 million mobile users • “Internet Plus” is encouraged by central government • Big data makes information sharing much easier • Social media helps enhance consumer awareness of U.S. food images • Consumers’ consumption confidence remain strong due to increasing disposable income • Cold storage warehouse development improved • Express delivery industry is growing • Cross-border business will be another new way to cut the cost • Private label is becoming popular 	<ul style="list-style-type: none"> • Uncertainty of global financial crisis • China’s economy continuous slow-down • Competition from other countries • Lack of official market access • Cultural background difference • Lack of national distributor • Lack of brand awareness • Price disadvantage due to higher import tariff • Short shelf-life due to long distance transportation from United States • Lack of cultural background information • Lack of handling know-hows • Package size too big for Chinese consumers • Not many brands have national distribution • Logistics for perishable products in third and fourth tier cities still needs improvement • Turmoil of currency exchange rate

3.2. Promising U.S. Food

China has huge internet-users population and the mobile users are increasing dramatically. The U.S. is one of the largest food exporters of consumer-oriented products to China and a wide range of U.S. food categories are available in China retail market. Several U.S. snack brands have been successfully introduced to Chinese consumers in the past few years in retailers such as *Sunmaid*, *Snyder’s*, *Pepperidge Farm*, *Wonderful*, and *Blue Diamond*.

Products Present in the Market Which Have Good Sales Potential are: Nuts and dried fruit (prunes, raisins); Seafood (especially live seafood); Poultry meat; Red meat (U.S. beef and related products are currently not permitted entry into China); Frozen vegetables (especially sweet corn); Infant formula;

Baby food; Dairy products (cheese and butter); Baking ingredients and bread bases; Cereals; Frozen potato products; Fresh fruit (oranges, apples, especially cherries); Premium ice cream; Wine and spirits.

Products Not Present in Significant Quantities, Which Have Good Sales Potential are: Fresh fruit (plums, pears); Processed/dried fruit (blueberries, cranberries); Ready-to-cook and ready-to-eat foods; Natural and organic foods (niche market); Functional foods.

3.3. Market entry tips

China is a jigsaw puzzle of small, overlapping markets separated by geography, culture, cuisine, demographics and dialects. Though there is no single formula for success in China, it is essential to identify the best cutting points. While China's retail business environment is changing fast, it will be smart to be adaptable for taking quick actions. Here are some basic market entry tips for U.S. food exporters who are willing to explore a risky but interesting market in China.

- Get to know the market by conducting some market research
- Understand the basic Chinese regulations and rules of practice
- Identify the right partner and decide on strategic plans
- Identify the distribution channel
- Adapt your products to the market
- Prepare your packaging design and exporting documents such as price list, packing list and certificate of origin
- Visit the food shows and meet with the industry-insiders
- Find the niche market and introduce your products/brands
- Attend Agricultural Trade Offices' marketing activities such as in-store promotions, seminars
- Invest in market promotions launched by USDA Cooperators
- Connect your products/brands with both online and offline retailers
- Try social media tools to enhance your products awareness

In addition, we encourage U.S. food exporters to approach several USDA Cooperators such as Food Export and WUSATA who have their in-country representatives based in China and for match-making and more value-added services. Also it is highly recommended that U.S. food exporters to approach the five Agricultural Trade Offices in Beijing, Shanghai, Guangzhou, Shenyang and Chengdu to get some latest information on local retail market.

Key words for U.S. food exporters:

- Products: packaging design, brands, price, market position, taste,
- Partner: regulation, distribution channels, marketing strategy, promotions
- Service: adaptability, the quick learning, fun-entertainment elements

Section 4: Regional Markets Profile

4.1. ATO Beijing: North China

The traditional retail industry continues to decline with a slowdown in China's macro economy as well as strong competition from e-commerce businesses. After taking into account e-commerce sales, the growth rate of sales volume of the top 100 retailers in China was only 5.6% in 2014, dropping 5.0% from 2013. It is the first time for the rate to be in the single digits in the past decade. In general the sales of key international retailers in China have also slowed with Carrefour, and Parkson even reporting negative growth.

Cross-border, mobile shopping, and fresh products were the key factors for E-commerce in 2014. Cross-border business is booming in the region given low tariffs and less certification required, etc. The leading e-commerce players in the region, JD.com and Amazon.cn both have special teams for this business. Kaola.com, the top cross-border player in China also has a purchasing office in Beijing. Zhengzhou, the pilot city for cross-border business is China's top performer in terms of total volume.

Beijing

Beijing's retail market is near saturation, and it is increasingly difficult to find store locations downtown given rising and expensive property and rent markets. The retail industry has slowed with the economy and recent anti-corruption policies implemented by the Central Government. In 2014, the growth rate of the retail business dropped from 8.7% in 2013 to 8.6%. Key international hypermarket operators in China have all established outlets in Beijing such as Carrefour, Wal-Mart, Jusco, Ito-Yokado, RT-Mart and Metro. However, facing the face a dampened economy, high property costs and other uncertainties most have significantly slowed expansion in the city.

Convenience stores, however, continue to attract new interest in the current market. Based on China Store & Franchise Association (CCFA) data there are 20,000-30,000 consumers on average for every convenience store in Beijing yet in Tokyo the average is 2,800 consumers per convenience store. Thus, there appears to be excellent potential for convenience store expansion in the market given changing lifestyles, rising rents, and high and rising demand for take-out food. 7-11 is the leading convenience store operator in Beijing with 174 stores in the city at the city at the end of 2015 up from 76 in 2014. Family Mart and Hao Lin Ju are also active convenience store players in Beijing.

Competition is very intense in Beijing as the number of stores has grown and standards rise. Local consumers increasingly demand greater diversity and higher quality foods at competitive prices although price is not necessarily the driving determinant for many consumers. In 2014, several new independent high-end supermarkets opened their doors in upscale areas of Beijing. In addition, imported food products are easily sourced in Beijing hypermarkets with specialty supermarket aisles that feature European and U.S. foods. By contrast, products from Southeast Asia, and Korea only make up a small percentage of the total high-end market.

Qingdao

Total retail sales of consumer goods in Qingdao reached over \$51 billion increasing some 12.6% over the previous year. Customers have shifted from wet markets to supermarkets because of the booming economy, and higher per capita incomes. Competition in Qingdao's retail sector includes Jusco, Carrefour, Wal-Mart, Metro, Maykel, Parkson, RT-Mart, China Resource Vanguard (CRV), Hisense Plaza and the Liqun Group. Ole, the high-end supermarket format under CRV opened its first store in Qingdao in 2015.

Most retailers have outlets located downtown, and local and multinational retailer competition is only expected to intensify as Qingdao-based Liqun Group and Hisense expand and defend market share. High-end supermarkets operated by Hisense Plaza, Jusco and CRV separately offer a wide selection of imported products. Given geographical advantage imported foods from Korea and Japan are very popular in the market. And, comparing Qingdao customers with those in in-land cities, the Qingdao market is much more receptive to new food products, new flavors, etc.

Tianjin

Tianjin is one of the key emerging markets for ATO Beijing in North China. In 2014, per capita GDP in Tianjin reached \$18,412 surpassing Beijing and Shanghai to become the highest average GDP city in China. However, average incomes are lower than Beijing and Shanghai and as a result local customers are very price sensitive. Tianjin is under the shadow of Beijing with distribution imported food channels still developing. High-end supermarkets in upscale department stores, and e-commerce (online) are the major sources for customers to purchase imported foods. Imported food products from Southeast Asia and Korea are popular in the market at competitive prices. European and U.S. products are in somewhat limited supply but available in some upscale retail outlets such as Hisense Plaza, Ole and Lotte. Also, the market in the Binhai New Area is a good place to market imported products due to large numbers of white-collar workers that work for multinational companies as well as expatriates living there. Given the slumping economy, and high operating costs, BHG closed its stores in Tianjin in 2014 and left the market. Followed by BHG, E-Mart, which is a Korean retailer and entered the market in 2005 closed all of its five stores in 2014 and withdrew from the market completely.

Zhengzhou – Based on geographical location and its advantage as a major rail hub and large population, the retail base has developed rapidly in this major inland urban center. Customers enjoy shopping in hypermarkets and supermarkets for high quality and safe products. Multinational retailers such as Carrefour, Wal-Mart, Metro and RT-Mart have all established outlets in the city. Domestic retailer – Hua Run (Vanguard) has been expanding in the city and the Province since setting up a Northwest Headquarters in Xi'an. In addition, the regional retailer Dennis attracts high customer traffic as well the first to launch in the market. The majority of imported food products carried by retailers are from Korea and Southeast Asian countries. Group purchasing is the primary channel to sell imported food products. Zhengzhou is also a distribution center for imported foods to inland third tier cities in the surrounding provinces given its convenient and available transportation links.

In addition, Zhengzhou is among the five pilot cities along with Shanghai, Ningbo, Chongqing, and Hangzhou for cross-border business in China authorized by the Central Government. The volume of cross-border business in Zhengzhou ranks number one in all of China. Total values were more than \$270 million and industry insiders forecast the number will reach over \$20 billion by 2017. With the

rapidly developing cross-border business, bonded stores are popular in the city with local customers enjoying imported products from overseas at highly competitive prices.

Xi'an, the capital of Shaanxi Province is considered the gateway to Northwestern China. Over the last 5 years the retail sector has developed rapidly with China Resources Vanguard (CRV) dominating the retail sector in Xi'an and the province with 43 stores in Shaanxi Province. In addition, CRV's northwest regional office is located in Xi'an and covers 5 provinces in Northwest China – Shanxi, Ningxia, Gansu, Henan and Qinghai. CRV is eager to attract more upper middle-class consumers in the region by offering a better variety of imported food products. Wal-Mart operates 6 hypermarkets in Xi'an. Metro runs two stores in the city and it is the top destination for HRI operators, and upper-middle income level consumers to source wine, meat, flavorings, and cooking equipment. To compete with other retailers in the market, and build a unique image major retailers in the city are scrambling to open high-end brand stores in the market. CRV runs one BLT (upper-middle level), and one Ole (high-end supermarket) in the city. However, logistics are still an impediment for expanding the market although the situation is improving gradually given more regional distribution centers established by key retail operators. Based on continuing distribution improvements, and direct relationships with importers, increasingly imported food products are and can be distributed further inland to second and third tier emerging market cities in Northwest China.

Yinchuan is the largest economy of **Ningxia Province** with GDP of \$22.5 billion at the end of 2014 increasing 9.5% over 2013 and accounting for more than 50% of Ningxia's total. Total wholesale and retail sales reached more than \$2.5 billion in 2014 based on a 14.1% increase over 2013, and a faster rate of growth than most of China's major urban cities. Compared to China's first and second tier cities, domestic retailers WuMart, CRV, and BHG dominate the city's retail market. The single Metro store that opened in 2011 is the only international (non-Chinese) retailer in the Yinchuan market. Metro is the top destination to source imported food products in Yinchuan and offering a wide selection of imported dairy products in particular as well as wine. WuMart is the leading retailer in terms of sales, which bought out local retailer Xin Hua Bai Huo in 2006. One high-end WuMart hypermarket in Yinchuan offers the largest imported food shelves in town in terms of physical space. Most imported products in these stores are predominantly of Southeast Asian, Japan, and Korea origin given significant (lower) price advantages. Most imported food products are sourced through retailers' distribution centers based in Shanghai and Beijing. Retailers in this region seldom source imported products locally. In addition, ATO staff recommends exporters and distributors seriously interested in exploring the market first secure Halal certification given the Muslims population makes up more than 30% of the total.

4.2. ATO Shanghai: East China

Shanghai is located at the center of a web of economic development that includes the provinces of Zhejiang and Jiangsu, and is collectively referred to as the Yangtze River Delta (YRD). This region accounts for nearly 1/3 of Mainland China's gross domestic product (GDP). Massive infrastructure investment has led to major improvements in logistics and drawn the region closer together. With the

upgraded high-speed rail network in the YRD, the travel time is reduced to 45 minutes to Hangzhou, the capital of Zhejiang province and 1 hour to Nanjing, the capital of Jiangsu province.

Often referred to as the Pearl of the Orient and situated at the mouth of the Yangtze River, Shanghai has been positioned as the main conduit between inland China and the world. Shanghai is a renowned international metropolis, which has emerged into an important center of finance, fashion, commerce and agricultural industry that attracts large groups of tourists and foreigners. Shanghai currently has the largest population of expatriates in China, which further indicates its importance as a leading financial and trade hub.

As home to a large number of supermarkets, hypermarkets, specialty stores, and an extremely strong convenience store sector, Shanghai's retail sector has become increasingly saturated. Supermarkets remain the dominant, and oldest, modern retail format, with relatively weak management and infrastructure. The supermarket format is quite durable, owing in part to Shanghai's high population density (the highest in China and one of the highest in all of Asia), which makes it possible to have smaller supermarkets within walking distance of virtually any place throughout the city.

Benefiting from increasing household incomes, retail in Shanghai has seen an upward trend to cater to the local consumers with upgrading consumption structure: from traditional local brands to more optional choices like nutritious food, organic produce and imported gourmet. More high-end retail shops opened in Shanghai in 2011 to 2015, not only from State-owned enterprises, but also from private companies or individual investors. **Ole'**, a high-end retail format of China Resources Vanguard, opened its first store in Shanghai at the end of July, 2010. Currently, Ole has five stores in Shanghai, one store in Wuhan, and one store in Hangzhou. In addition, some food importers opened their own retail stores as well; and investors, who used to be in real estate or hotel or export business, expanded their business portfolio to import food businesses and opened their own stores in Shanghai. For example, in 2015, **Greenland Group**, one of the most powerful real estate developers and finance investors in East China, opened **seven** G-Super stores in Shanghai with an anticipated 35 additional stores expected to open within the next few years. **G-Super Direct Import Stores** are a new approach of Greenland to bring foot traffic to their shopping malls. These new import product stores demonstrated that consumers in Shanghai are trading up to buy more high-quality grocery products for their daily meals.

Key Words for Food Retail Trends in Shanghai:

Nutrition, Safety, Fine-Packaging, and Novelty Snacks

Food scandals are another contributing factor to the prosperous import food products store openings throughout China. In 2015, the following products were disclosed by the media with quality problems: hot pot seasoning, oil and preserved meat. Food safety is undoubtedly a key factor that consumers are taking into consideration while shopping. Thus, consumers in Shanghai generally prefer to buy imported food if they can afford to do so. The local currency inflation has made the gap in prices of local food products and imported shrink significantly, however, there is still adequate space in Shanghai for high-end import product stores to introduce new SKUs, especially in high-end communities. Varied product assortments and services will be the key for these high-end retail formats to be successful in Shanghai and YRD markets.

Shanghai's **Convenience store** market is also highly saturated. The feature of such stores is high standardized shop design, strong in-store management and efficient operation. The 7-11 company, partnered with Taiwan based Uni-President, and is expected to open 300 stores by the end of 2015 in Shanghai. Another fast expanding player, Family Mart, partnered with Taiwan-based food enterprise Ting Hisin International Group. To date, Family Mart has about 1,000 stores in Shanghai and is planning to open more in Shanghai and throughout China.

At severe risk of being undercut by large volume e-Commerce discounters, the total sales in traditional hypermarkets are inevitably decreasing. According to MOFCOM, the first two quarters of 2015 saw 121 major retailers in China close retail stores, however, the small- scale retailers are going stronger. A survey on the top 55 ranking convenience stores showed that the number of convenience stores has grown by 7.8 percent, and the sales revenue growth is 17.7 percent, which is a record among all other retail formats.

The demand for imported food products available in convenience stores are generally for single serving, small packages. This constraint causes unrest for U.S. suppliers as most packages for exportation are usually not suitable for single servings and often times requires re-packaging; thus, increasing the overall cost.

Emergent New Retailers

The Shanghai Pilot Free Trade Zone (FTZ) was established on September 29, 2013 and has carried out institutional reform and innovation in the areas of investment, foreign trade, finance and post-filing supervision to form a legal framework for investment and trade within the zone.

Direct Import Group (D.I.G.) is an import products outlet established inside the Shanghai Pilot Free Trade Zone. D.I.G. has opened 13 outlets in Shanghai and more are coming in other moderately developed cities in YRD such as Wenzhou, Changzhou. The D.I.G Group works closely with 20,000 more food importers inside or outside Shanghai FTZ and cut the intermediate section and costs.

In June 2015, ATO Shanghai assisted with promoting U.S. Northwest cherries through China Eastern's seven chartered Boeing flights. D.I.G. organized the grand opening for the launch of the cherry season and received great responses and feedback. D.I.G. has plans to open 50 additional outlets in YRD and position itself as a hub of all sorts of imported goods.

Store Upgrade and Transformation

Traditional markets, such as wet markets, grocery stores and fruit booths, have a wide presence in Shanghai but are no longer in a dominant position. The low food safety standards have resulted in market share loss, especially among the younger generation and younger couples.

Yonghui, for example, has been aggressive and a pioneer in providing best practices for traditional wet market transformation. Yonghui Superstores and its core brands such as **YH Bravo**, has been an emerging retailer in Shanghai. Approximately 60 percent of total SKUs of YH Bravo are food, among

which 3,000 kinds of food products are imported. YH also understands the importance of fresh produce, its importance of drawing consumer foot traffic, and how to sell it at a competitive price compared to wet markets.

Meanwhile, international brand retailers seemed relatively conservative in opening new hypermarkets outlets. Instead, they have been exploring new sales channels such as community groceries stores featuring fresh daily produce in Shanghai. For example CP Lotus with its **CP Fresh Mart**, operating 24/7, Tesco with its **Tesco Express**, Carrefour with its **Carrefour easy**, and RT Mart with its newly launched **RH Lavia** are all community-style stores opened in and around Shanghai.

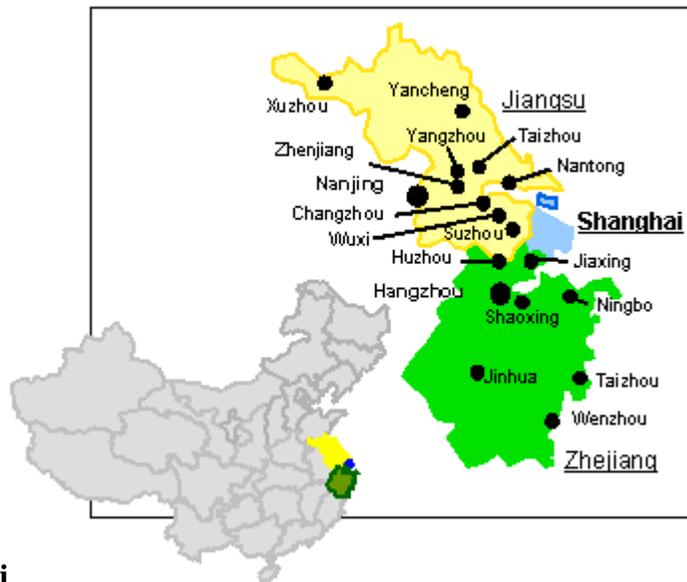
For example, compared with traditional convenient stores, CP Fresh Mart placed two additional freezers displaying packaged chilled meat, fruits, and fresh vegetables. Food items account for almost 50 percent of total store items. This type of community stores provides a fresh and very easy shopping experience for frequent purchases in a Metro city like Shanghai.

China's E-commerce Market: A Market Too Big to Ignore

China's E-commerce market surpassed the United States to become the world's largest E-commerce market in 2013. The E-commerce market for food and beverage includes almost all major online retailers and platforms, such as Amazon, JD, Tmall, Womai and YHD. Other niche retailers target fresh fruit, imported wine and spirits, cakes and nuts. For more information, please see [GAIN report CH13803](#) on food and beverage E-commerce market in East China.

ATO Shanghai supports American Food Festival promotion with E-commerce Benlai.com: On April 23, the ATO Shanghai Director filmed a video with the team from Benlai.com, a leading E-commerce company featuring cold chain food products distributing to over 100 cities in China with refrigerated logistics. Among Benlai's 6,000 products on its E-commerce platform, there are about 400 U.S. products available for purchase. In addition to introducing importers/suppliers to the sourcing team of Benlai, the ATO Director participated in a video discussing the quality and health benefits of the American food and drinks. This video will also be used to promote American Food Week. ATO also participated in various E-commerce Retail promotions with **Tmall, Yihaodian and SuNing**.

The Yangtze River Delta



Beyond Shanghai

The immediate area surrounding Shanghai (The Yangtze River Delta, or YRD) is a clustered region of industrial and commercial activities. In the key cities, retail development is already well advanced. Suzhou and Hangzhou are home to Carrefour and other hypermarkets, as well as convenience stores. Hypermarkets throughout the region tend to source imports through Shanghai, taking advantage of the region's outstanding logistics and Shanghai's large community of experienced food importers. The supermarket sector in these cities is typically dominated by Lianhua, Hualian or Nongongshang, but with a preponderance of independents (with the notable exception of Nanjing's Sugo).

ATO Shanghai has reached out to various East China cities in the past. After the evaluation together with U.S. Producers' Associations, five cities have been selected as priority cities for next three years' marketing work and promotion. They are: Hangzhou, Suzhou, Wuxi, Ningbo and Nanjing.

Hangzhou is the birthplace and hometown to the prosperous Tmall.com and Taobao.com, owned by Alibaba Group. **Choice**, is a new format of retail shop operated by Yintai shopping mall and Alibaba Group. In this certain shop, it sells only the best selling products online and also a marketplace to demonstrate new-to-market overseas brands. Many of the brands have no importers and cannot be found in traditional retailers because they are imported to China through Cross-Border trading.

The capital of Zhejiang Province, **Hangzhou** hosts Carrefour, Metro, Lotus, Wal-Mart, Lianhua, and Hymall, among other super- and hypermarkets. Hangzhou's retail market is doing far better than previous expectations; in 2013, ATO Shanghai worked with **Hangzhou Tower and its LSE import supermarket**, a leading local retailer, which promoted all kinds of U.S. products available in the market and increased exposure for new U.S. products in Hangzhou city. In addition, the Hangzhou store was aggressive in recruiting distributors and products for the event and received good feedback from distributors and U.S. producers associations.

In a departure for a state owned chain, Lianhua is actively promoting imported products in Hangzhou and opened a specialty supermarket concentrating on imported products.

Hangzhou Lianhua is a joint venture by Zhejiang Lianhua HuaShang Group and Shanghai Bailian Group. Currently in Hangzhou city only, they own more than 200 outlets, including hypermarket, comprehensive supermarket, standard supermarket, shopping malls and CITYLIFE. A typical HZ Lianhua store carries 10%-15% imported food products. **CITYLIFE** of Hangzhou Lianhua is a lifestyle store featuring imported goods and fresh foods. There are currently 4 CITYLIFE stores located in HZ city.

Hangzhou Lianhua is already a partner with several U.S. Producers' Association such as California Prune, Pistachio Growers and etc. The procurement team is aggressive in working with overseas consolidator and is willing to try new-to-market products in their lifestyle stores.

Suzhou, a prefecture level city next to Shanghai, is both the second largest industrial city in East China and the second largest city among the cities in the Yangtze Delta. Suzhou's retail market is steadily growing, and a privately-owned cold chain already exists, with temperature-controlled warehouses and delivery trucks. **Metro** has established itself in Suzhou as the destination for one-stop shopping, and its membership is already 130,000 strong. To further stimulate market growth, the city's infrastructure is developing at light speed. Several new highways were built recently; bridges cross the Yangtze River. With the high-speed rail in use, Suzhou now is just within an hour distance from Shanghai, some community based high-end gourmet stores opened in Suzhou catering to expatriates and Chinese consumers' needs.

Development is now moving on to a third tier of cities. Particularly notable are **Wuxi**, which has become a major distribution center for seafood and meat products in the YRD area (see the recent report [CH8806](#) for more information); **Ningbo**, which has average incomes on par with Shanghai but a less well-developed retail sector; and **Nanjing**, the capital of Jiangsu province.

Nanjing's market and imported product consumption have increased substantially. In ATO Shanghai interviews, major retailers including Metro, Walmart and Carrefour stated that the higher the percentage of imported food items in their store, the better their sales - indicating the high potential for imported food in Nanjing. Nanjing is also home to Suguo, a retail giant that holds more than fifty percent of the city's market.

ATO reached out to major real estate developer groups and participated in the American Food Festival at Golden Eagle supermarket in Nanjing in June 2015. The in-store promotional activity which ran from June 27 – July 10, featured over 300 SKUs of American packaged food and beverage products, fresh fruits, and processed sauces in Golden Eagle's flagship store in the capital city of Jiangsu province.

Although **Wenzhou** is one of the richest cities in China, its market for foreign imports is still relatively underdeveloped. Wenzhou was only opened to international retail giants in 2006. While the market was slow to open, the retail sector is growing quickly. According to the Wenzhou Retail Association, a "Sourcing Alliance" consisting of all the important retailers in Wenzhou was organized in 2008 to consolidate the sourcing of imported food products, to strengthen the bargaining power of Wenzhou retailers against food importers.

Wuhan, in Hubei province offers a mid-range prospect. It has a reasonably well-developed retail

sector, with Metro, Carrefour and Wal-Mart all represented. As income levels rise throughout urban areas in China, potential markets are emerging in growing cities everywhere. The city seems receptive to American products, and with the rapid increase of supermarkets, hypermarkets and convenience stores, as well as more than 40,000 restaurants, it has a reasonably developed retail sector.

American Food Festival in Wuhan: In September 2015, ATO Shanghai launched multi-level marketing activities in Wuhan to promote more than 500 SKUs of American food ingredients from September 18 through October 12. The promotion featured American wine, fruit, pork, seafood, dairy, sauces, confectionery, cereals, dry fruits and nuts, and other snack products in their local supermarkets. In collaboration with the U.S. Consulate General in Wuhan, the various promotional events included in-store promotions with local supermarkets Wushang Liangfan and Ole', on-line promotions with e-commerce platform Yihaodian, and a media release and product display promotional event.

Northwest Cherries Promotion in Wuhan: In June 2015, ATO Shanghai Directors kicked off a Northwest Cherry promotion at Wuhan Sam's Club on June 26. About 35 member consumers of Wuhan Sam's Club and media reporters participated in the opening ceremony and tasted Rainier and Bing cherries from Northwest, U.S.A.

Wal-Mart's remarkable success in **Nanchang**, the capital of Jiangxi province, provides a good case study for retail in China. Nanchang was not generally regarded as a retail market in the same class as Kunming or Chengdu. However, close cooperation with local officials netted Wal-Mart a prime location, just as the city launched a major redevelopment effort, making for a major success. The success of this venture is all the more striking given the relatively weak performance of Nonggongshang's NGS hypermarket, established several years earlier in the same city, and demonstrates the value of local market knowledge.

4.3. ATO Guangzhou: South China

The retail sector has encountered a critical period of **transition** after several years' rapid expansion in large cities. This situation becomes more obvious in the year of 2014-2015. While traditional supermarkets and hypermarkets had to face new challenges from the on-line business channels, convenience stores and specialty stores have gaining ground in South China, especially in Guangdong province. More high-end single **specialty stores** for fresh fruits, frozen meat and seafood were opened in 1st tier cities such as Guangzhou and Shenzhen. The ever increasing operational cost in first tier cities encouraged retail giants to shift their strategic



Guangdong and Fujian are leading in consumption markets South China.
(Source: China culture.com)

focus to target the huge potential markets in new emerging cities since secondary markets grow fast with the continuous urbanization. There is also a tendency that both international and national retailers would open more outlets with **small** sales floor and explore new retail formats opportunities such as **convenience stores, community stores** and specialized **fancy grocery stores** in the coming year. In addition to the giant **online** shopping platforms such as *JD.com, Alibaba.com, Taobao.com, TMall.com* and *Yihaodian.com*, specialized on-line shopping platform such as *Fruitday.com* and *Yiguo.com* are also gaining ground in online fresh fruit business. “Internet plus” encourages more traditional retailers to join hands with online companies. **O2O** (online to offline) is a new practice to combine the traditional operation resources with the new technology online shopping experience.

Food on average in South China urban households accounts for **33%** of the total consumption expenditure. The emerging “middle- class living in urban areas are paying more attention on healthy life and their spending power has been increased. With increasing disposable incomes, the capacity to buy higher value goods and services means imported products need to take note of the significant market of the future.

Major consumption cities include: **Shenzhen, Guangzhou, Fuzhou, Xiamen, Changsha, Sanya** and **Haikou** as well as multiple cities in Pearl River Delta. Promising U.S. food categories in the South include breakfast cereals, condiments, frozen meat, seafood, fresh fruits, dried fruits, nuts, crackers, juices, wines, fluid milk, other dairy products, baking ingredients, and snacks.

Consumers tend to purchase less in wet market and more through hypermarkets and supermarkets. In addition, more and more consumers have experience to buy **online** or through **mobile** shopping applications. New technology such as Ali-pay and We-chat pay make the payment faster and easier. They are looking for fresh, easy-to-prepare, reliable products at reasonable prices and value-added services. Young and female consumers find entertainment and pleasure in do-it-yourself practice. Ready-to-cook packages and ingredients with recipes become popular, especially for time-sensitive consumers.

Five provinces in South China

ATO Guangzhou covers five provinces in the South. Guangdong and Fujian are the leading retail development and consumption centers, while Hunan, Guangxi and Hainan are catching up in recent years.

Table 1: Major provinces in South China at a glance (2014)

Province	GDP (US\$ billion)	Total Population (in millions)	Total Retail Sales (in US\$ billions)	Per Capita Disposable Income (in US\$)
Guangdong	1077.8	106.4	451.9	5102.8

Fujian	381.8	37.7	148.4	4876.5
Hunan	429.2	66.9	170.2	4217.5
Guangxi	248.8	47.2	91.6	3886.7
Hainan	55.6	8.95	19.4	3915.7

(Source: 2015 China Yearly Book, exchange rate: 1\$ = 6.3 RMB)

Guangdong: Guangdong continues to be a pioneer in retail development in both traditional hypermarkets and supermarkets development but also in online consumption. With a 107 million permanent population in 2014, Guangdong continued to be the key consumption market in China with a stable GDP growth and consecutive increasing per capita disposable income. In 2014, Guangdong achieved \$1,077 billion GDP, up 7.8% from 2013 and 0.4% above China's average growth rate. The total sales of consumer goods reached \$451.9 billion, up 11.9%. In Guangdong, the consumers' confidence remained unchanged. In 2014, the per capita disposable income of urban residents was \$5,102.8, up 8.8%; meanwhile, the per capita disposable income of rural area residents was \$1,943.8, up 10.6%. **Wal-Mart, China Resource Vanguard, Metro, Parkn'shop and AEON as well as Carrefour** are the leading retail players in the region. High-end stores such as **Ole', Sam's Club, Metro, Taste, and BLT (Better Life Together)** carry most of the imported categories while specialty stores like **Corner's Deli** (grocery), **Bester** (frozen meat) and **Pagoda**(fresh fruits) concentrate more on particular categories.

In the year of 2014-2015, traditional retailers faced multiple challenges. One-stop shopping with multiple entertainment options in comprehensive shopping malls attracted teenagers and young working adults living in **Shenzhen and Guangzhou**. With higher disposable incomes, these consumers living in Shenzhen and Guangzhou are willing to pay premium price at high-end stores and seek for innovative and nutritional imported food items from online shops **such as Jd.com, Yihaodian, Shunfeng Youxuan and TMall**. It is said that on November 11 Single's day, Guangdong consumers' spending accounted for **60%** of the total **Alibaba's** sales figure. Baking chains such as **Bread Talk** also attracts many young generations.

The saturation in downtown area in the past two years allured retailers to explore new business opportunities in satellite cities near these two mega cities. Longgang, Baoan, Qianhai and Nanshan in Shenzhen as well as Panyu and Zengcheng in Guangzhou have been developing quickly. French retail chain **Auchan** also has a presence in Panyu. Membership stores such as **Metro** provide discount to their members, mainly small and medium enterprises, on large package and bulk volume sales.

Consumers living in various counties such as Songshanhu, Houjie, Humen and Kuancheng of Dongguan possess the higher per capita disposable income. Their demand for high-value imported food items

helped facilitate the imported food distribution. A Taiwan supermarket *Damaike* carries most of the imported items for Taiwanese living in Dongguan and local rich consumers.

To avoid high rental fee and operation cost in the first tier cities, many retailers have already aggressively opened up their outlets in other cities of Pearl River Delta including Foshan, Zhuhai, Zhongshan and Huiyang. Foshan is close to Guangzhou and benefits from the “Guangzhou-Foshan Same City Project”. *Lotus*, *Tesco* and *RT-Mart*, as well *Yonghui* (a local Fujian retailer) as the new comers in Guangdong have targeted this market with over 7 million population. In addition to the three key players in Huizhou (Carrefour, Metro and AEON), a high-end chain store *BHG* from North also joined this market share competition by opening its flagship store in Huiyang. Emerging new markets such as Jiangmen, Yangjiang, Shantou and Zhanjiang are also picking up for retail development. Guangdong *Yihua* Group, a leading domestic retailer in Zhongshan, started to gain market share in Jiangmen, Yangjiang and Shaoguan. This year, Yihua opened a brand new high-end store in Zhongshan.

Fujian: Currently in Fujian market, *Wal-Mart*, *Carrefour*, *Metro*, *Yonghui* and *New Huadu* as well as *RT-Mart* have a strong presence. Fancy specialized stores such as *Meishimeiji* and *Sungiven* (*yuanchu*) carrying imported food are gaining ground. **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 province with a population of 6.6 million. In 2014, the per capita disposable income of urban households in Fuzhou was \$5,151 and the consumption of food, tobacco and wines accounted for 32.5 percent of per capita consumption of urban households. *Yonghui*'s head office is based in Fuzhou and keeps expanding while many others are struggling to survive. In addition to opening new stores, Yonghui introduces its high-end brand “*Bravo YH*” in several major cities such as Beijing, Fuzhou, Chongqing, and Hangzhou. Xiamen is about 1.5 hours away from Fuzhou by express train. The total population of Xiamen is 1.9 million. Xiamen had a higher per capita disposable income, which was \$6,290. Food accounts for 33 percent of the total per capita consumption 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. Xiamen consumers consider 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. Emerging online business 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. Fierce competition in the first tier cities has expanded into secondary and third tier cities. Emerging markets in Fujian include *Zhangzhou* and *Quanzhou*, *Putian*, *Ningde*, *Longyan*, *Sanmin*, and *Nanping* and *Jingjiang*.

Hunan: 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. *Greenery fruits* and *Fruitmate* are two major specialized fruit chain stores. **Changsha** is the capital city of Hunan province and Changsha's GDP accounts for almost one third of Hunan's total. Changsha 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. 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. 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, Lodi and Hengyang as the next emerging markets in the region. All of these cities are within 1.5-hour transportation distance from one another. 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.

Guangxi: Guangxi is one of the growing emerging markets for food processing and retail distribution in South China. Major cities in Guangxi include Nanning (the Capital city), Guilin (a tourism hot spot), Liuzhou (an industrial city) and Beihai (an important port city). **Nanning** is in the center of South and West China and serves as an important trade, logistics and distribution center. It has recently attracted significant foreign and domestic investment since the signing of China's free trade agreement with the ASEANs. The retail sector has developed rapidly with 10 *Nancheng Department Stores*, 5 *Hualian*, 4 *Renrenle*, 3 *Wal-Marts*, 3 *Dream Island* Department stores, 2 *CR-Vanguard* supermarkets, plus a newly opened *Mix-City Olé* high-end outlet. All of these supermarket chains carry varying amounts of imported food items. In addition, Post noted with interest that a local supermarket chain "*Fengrunjia*" has opened a special imported section with a 300-square meter sales floor and over 300 SKUs from the States displayed on their store shelves.

Hainan: Hainan is located in the South China Sea between Guangdong Province and Vietnam. Tourism is the main driver fueling consumer demand for high quality imported food items. Imported food items were found in both **Haikou and Sanya** supermarket store shelves. On average, the unit selling prices are even higher than some supermarkets in Guangdong. Although competition is strong, there is still plenty of potential for U.S. snacks, beverages, and fresh fruit. Compared with two years ago, Post noticed many more foreign brands are available in the *Corners' Deli* outlets in Haikou and Sanya. Popular categories include chips, milk, crackers, rice cake, coffee, wine, breakfast cereal, ready-to-eat meat and sausages, beers, drinks, cheese, as well as other snacks. Even though tourists prefer the locally produced seafood and poultry, they also prefer imported wine and spirits over domestic products and ATO Guangzhou believes there is a great need to explore opportunities to increase the sales of U.S. wines, beer, and spirits.

4.4. ATO Shenyang: Northeast China

Northeast China consists of three provinces of Liaoning, Jilin and Heilongjiang. The heartland of the region is the Northeast China Plain. This region has 110 million people, accounting for about eight percent of China's total population. Major cities, such as Shenyang, Changchun and Harbin, each have a population of seven to ten million inhabitants, and there are more than 30 cities that have more than a million people. In 2014, the region's GDP was RMB 5.75 trillion (US\$ 912 billion), accounting for

about 9 percent of China's total.

From the 1950's to the 1980's, the region was China's prominent heavy industrial base owing to its abundant coal reserves, and was more urbanized than most of other areas in China. However, the Northeast lagged behind much of the rest of the country during China's large economic growth of the 1990's, and has only recently begun economic development in part due to China Central Government's focus on revitalizing the region.

In this region, standalone department stores used to be the major retail channels for most items, from apparel, footwear to snack foods starting about 15 years ago. Nowadays, a great number of modern shopping malls have replaced them, dominating the retail market with more entertainment choices such as F & B services, movie theaters, Karaoke and fun places for children, besides traditional retail function. And the supermarkets and hypermarkets in these malls have been the dominant distribution channels for groceries for over 10 years. Many of the major multinational retailers have set up stores here, including Wal-Mart, Carrefour and Metro. Carrefour was the first one setting up operation in this area. Along with some leading domestic retailers such as Chinese resources (CR), the international food retailers are increasing the retail coverage of the area. RT-Mart has deployed 10 out of its 19 stores in this region outside the four major cities, aiming at the potential in less developed areas.

Convenience stores are developing fast in this area with its closer access to customers, longer business hours and some value added services such as cell phone top-ups. The shelf share of imported food at the convenience stores in this region is still low, but distributors should not ignore this sector. There is much room to grow for imported food among this small format but sprawling retail sector.

City Profiles

Shenyang

Shenyang, the capital of Liaoning Province, is the economic, cultural, transportation, trade and financial center of northeast China. During China's Planned Economy era, Shenyang was well known over China for its developed heavy industry. The permanent resident population is currently 7.3 million, and has grown by nearly one million people over the past ten years.

Shenyang's GDP of 2014 was up six percent to RMB710 billion (US\$ 113 billion). Though its GDP growth rate in 2014 was lower than China's national level, which was seven percent, it has played a key role in the northeast revitalization in the past decade. Its average annual growth rate for GDP has been over 12 percent and the city's average disposable income has increased dramatically in the past ten years. In 2005, its urban per capita disposable income was RMB 10,098(US\$1600); by 2014, it has increased to RMB 31,720(US\$5,000). Shenyang hosted the national games of China in 2012, which further improved its infrastructure level.

Shenyang's retail market is mostly concentrated in the traditional downtown shopping areas, including Taiyuan Street and Zhongjie Street. Similar to many other second-tier cities in China, Shenyang's shopping mall construction has been booming since 2007. Many new shopping centers were constructed along the Golden Corridor, especially in Wulihe area and new districts like Hunnan and Shenbei in

recent years. The retail sales have been growing rapidly, increasing on average by 10 percent per year over the past five years.

A number of international chains have set up supermarkets in many of the city's major retail areas and these stores are now leading the development of local community retail markets. Carrefour opened its first store in the city in 1999 and now has 11 stores. Wal-Mart has opened four stores and Metro two. The first store of Lotte Mart was opened in 2011 and another one was set up in 2013.

Headquartered in Shenyang, Happy Family is the largest privately-owned retailer chain in northeast China, operating nearly 30 shopping malls in northeast China and has expanded its operations to surrounding regions such as Inner Mongolia, Hebei and Beijing.

Quick and large expansion of the retail space in Shenyang makes this city's retailers begin to feel the pressure of oversupply. And the homogeneity amongst retailers in terms of market positioning and tenant mix has made for fierce competition. However, food retailers are still doing good despite of the oversupply in the general retail market because people keep transitioning from shopping at street markets to supermarkets for groceries.

High-end supermarkets in Shenyang

Ole, the high-end supermarket under the Chinese conglomerate China Resources (CR) opened its first store in 2011 in the Mix-C, one of Shenyang's most prominent retail concepts. Its second store was opened in September 2012, in Forum 66(belongs to Hanglung Group) in the city center. The imported items in Ole account for more than 60 percent, others are premium domestic products.

Vanguard, another brand under CR, opened its first boutique store in Northeast China in 2013, trying to sell more imported food products at its traditional supermarkets.

YooHoo, a local high-end supermarket, opened at the end of 2010. With over 7,000 square meters, it is one of the largest high end supermarkets in northeast China. Many of the top management were recruited from Hong Kong and its imported items account for 70 percent of the total. It has planned on opening one more store by the end of next year.

Early this year, Happy Family opened its first dedicated imported goods store in Shenyang, called OK, with a large portion of food selection. Charter and Jiuguang are two other smaller high-end supermarkets in Shenyang.

Dalian

Dalian is a major city and seaport in southern Liaoning Province. It is the southernmost city of the Northeast and China's northeastern most warm water port. According to the world port ranking data of American Association of Port Authorities, Dalian is the 9th busiest port in the world in 2013 in terms of cargo volume. As the second largest city of Liaoning, next only to Shenyang, Dalian has had a

continuous annual double-digit percentage of GDP growth rate since 1992 and had the highest GDP in Liaoning in 2014, hitting RMB 765 billion (US\$ 121 billion), up 10 percent from 2013. Dalian Commodity Exchange is the only futures exchanges in northeast China, ranking the 11th out of the global leading derivative exchanges in 2013, according to the U.S. Future Industry Association. Apple just opened its latest retail store in Dalian this October, which is currently one of the largest Apple stores in the world. And Intel just announced its plan to build the second plant in Dalian.

Qingniwaqiao and Xi'an Road are the two most dominant retail areas in Dalian with various department stores and shopping malls. Dashang Group, headquartered in Dalian, operates Dalian market in central Dalian that includes New Mart department store, super markets, Jiajia Square, Dalian MyKal and Sheng 1000 and an online shop. Operating more than 150 retail stores in China, Dashang Group is the largest retailer in northeast China. Among the supermarkets it owns, the one at the flagship store of MyKal has the most imported food selection. Given the closer distance to Japan and Korea, the food imported from these two countries dominate the imported food shelves at these supermarkets, followed by those from southeast Asia and U.S.

Owning four stores and a Sam's Club, Wal-Mart has been developing very fast in Dalian, followed by four Carrefour stores and five Tesco stores. Metro has one outlet in Dalian at a close proximity to the Sam's Club and CR opened its first OLE outlet in Dalian this year.

It is reported that 15 new retail projects are scheduled to launch from 2015 to 2018 in Dalian, which sets up a bright prospect for the city's retail market in the years ahead.

Changchun

Changchun, the capital and largest city of Jilin Province, was designated to become a center for China's automotive industry since the 1950s. With a population of over seven million, Changchun achieved a GDP of RMB 538 billion (US\$ 85.43 billion) in 2014, representing a rise of 6.6 percent year on year.

Changchun Eurasia Shopping Center, with over 560,000 square meters, is the biggest standalone shopping center in the Northeast and among the largest in all of China. It has planned to increase the operation area by 700,000 square meters in the coming few years, which may make it the largest stand alone shopping center in the world.

Charter is another shopping mall in Changchun, with a high-end supermarket that carries over 20 percent imported items. The Charter stores in Shenyang and Harbin are all headquartered in Changchun.

Similar to Shenyang, the competition among retailers and supermarkets has been tense in Changchun.

Harbin

Harbin, the largest and the capital city of Heilongjiang Province, is famous for its cold winters. The annual Ice and Snow Festival has been attracting millions of tourists to this city since its beginning in 1985. Harbin achieved a GDP of RMB533 billion (US\$84.63 billion) in 2014, an increase of 6.6 percent over the previous year.

Besides seven Carrefour stores, five Wal-Mart stores and three Trust Mart Stores, Harbin has quite a few shopping centers, such as Yuanda, Songlei, Mykal and Charter. The supermarkets in these shopping centers carry approximately 30 percent imported food. Yuanda opened its second shopping mall in 2014 in Harbin's newly developed district and its high-end supermarket in the basement carries higher imported items than its first one in the downtown area. The more unique thing about the supermarket is it set up a professional kitchen right inside it and cooking demos are held here now and then to show customers more correct or creative ways to cook dishes with the raw material available at the supermarket. ATO Shenyang has conducted an American food promotion at this store last year and the cooking demo on the spot using American food material from the supermarket was very helpful to create and increase the awareness and sales of American food.

4.5. ATO Chengdu: Southwest China

The Southwest region consists of Sichuan, Yunnan, and Guizhou Provinces, the Chongqing Municipality, and the Tibet Autonomous Region. Southwest consumers choose to spend a large portion of their disposable incomes on food and beverages, putting regional consumption in this category above the national average. Consumer preferences for imported foodstuffs are similar to those in other parts of China. Imported products, especially those from developed countries, provide consumers with assurances of safety and quality as well as the sense of an elevated lifestyle.

Southwest China's major urban centers (ranked in order of importance) are Chengdu, Chongqing, Kunming, and Guiyang, all of which are considered second-tier cities and offer reasonable access to imported retail foodstuffs. These cities also serve as distribution hubs, including for imported products, in their respective provinces. In recent years, improved living standards have expanded the market for imported products in Southwest China's 3rd and 4th tier cities, where a significant number of local retail outlets have now added devoted imported food sections. However, supply chain constraints in brick-and-mortar retail continue to limit choices for Southwest China urbanites, especially the 75 percent of whom reside outside Chengdu, Chongqing, Kunming, and Guiyang. Thus, consumers are increasingly turning to e-commerce to purchase food and beverages.

Province/Municipality/ City	Population (Million)	Urbanization Rate	GDP (USD Billion)	Per Capita Disposable Income of Urban Residents (USD)	Per Capita Expenditures on Food for Urban Residents (USD)	Total Retail Sales of Consumer Goods (USD Million)
Sichuan Province	81	44.9%	420	3,579	1,035	168,983
Chengdu	14	69.4%	146	4,795	1,183	60,321
Mianyang	5	45.1%	23	3,696	1,032	10,528
Nanchong	6	40.9%	21	3,073	942	8,600
Chongqing Municipality	30	58.3%	202	4,035	1,159	73,596
Guizhou Province	35	37.8%	128	3,307	786	64,074
Guiyang	4	-	33	3,740	-	13,830
Yunnan Province	47	40.5%	188	3,718	919	64,576
Kunming	7	68.0%	55	-	-	27,236
Qujing	6	41.6%	25	-	-	5,973
Tibet Autonomous Region	3	23.7%	13	3,204	942	4,691
Source: 2014 Statistical yearbooks	238					
Note: \$1 = 6.25 RMB						

Chengdu, Sichuan Province

Chengdu is the wealthiest and most advanced city in Southwest China. Although Chengdu accounts for only 17 percent of Sichuan's population, it made up 35 percent of the province's GDP in 2014. As an emerging city market in China's heartland, it is a prime target for U.S. agricultural exports. Furthermore, Chengdu's inland, emerging status means the city has less import penetration than more developed port cities. Therefore, new imports face comparatively less foreign competition. Chengdu residents are also very open-minded and have the propensity to try new foods. They are willing to pay a premium for high-quality, reliable, and safe food products.

Upscale department stores and supermarkets, as well as certain hypermarket chains, offer the highest concentrations of imported products in Chengdu. Upscale department stores in the city include Ito-Yokado, Isetan, Renhe Spring, and Wang Fu Jing. High-end supermarkets include Olé, Great, Bravo and Treat. However, according to the industry insider, Treat may consider withdraw its presence in Chengdu by end of February 2016. Hypermarket chains Carrefour and Metro also offer a good selection of imported goods. Other hypermarkets and supermarkets such as Wal-Mart, Beijing Hualian Group (BHG), and Ren Ren Le have considerably less selection. Convenience stores are developing rapidly in Chengdu and may offer a future outlet for imported products. Chengdu-based convenience store chains Hongqi, Wowo, and Wudongfeng have a major presence in the city and are expanding business to surrounding areas.

Chongqing Municipality

Chongqing is the largest of the four municipalities as well as one of the fastest growing economies in all of China. The Chongqing consumer is typically considered old-fashioned and less welcoming to imported products. State-owned retailers Chongqing Department Store and CBest supermarket dominate the region but with limited imported food product selection. The best retailers for U.S. food products are Olé supermarkets and Far Eastern department stores.

Kunming, Yunnan Province

Kunming has long enjoyed a reputation as one of China's most livable cities. Like Chengdu, Kunming offers openness to international products and culture. The best retail outlets for U.S. products are Parkson department stores and Gingko supermarkets. The penetration of U.S. products in Yunnan

reaches to 3rd and 4th tier cities such as Qujing, Chuxiong, Dali, Baoshan, Mangshi (Dehong), Ruili and Yuxi. Kunming acts as a distribution point for the province, with most U.S. products sourced from South China ports in Guangdong and Guangxi. Yunnan also has significant volumes of imported products from Southeast Asia, as it maintains active over-land border crossings with Vietnam, Laos, and Burma.

Guiyang, Guizhou Province

One of China's poorest and least developed provinces, Guizhou has a per capita GDP half that of China's national average. However, pockets of wealth exist and are demonstrating demand for U.S. retail food and beverages. The provincial capital, Guiyang, offers the greatest opportunity, with a city center holding 2.5 million urban residents. High-end retail outlets were limited to Xingli department stores until the end of 2014, when Olé opened its first store in Guiyang. Opportunities in Guizhou's 3rd and 4th tier cities are very limited, with the best prospects likely in Zunyi via major retailers Vanguard and Xingli. Imported food and beverages are sourced into Guizhou not only from China's coast but also through sub-distributors in Chongqing, which lies just to the north.

Tibet Autonomous Region (Tibet)

Tibet offers very few retail sector opportunities for U.S. food and beverages. Tibet is China's most remote and almost certainly smallest retail market for imported products, with only 70,000 urban residents. Any imported food and beverages destined for Tibet flow through Chengdu distribution.

- Watson Group is a Hong Kong-based retailer with a strong portfolio in Chengdu, including ParkShop, Treat, and Great Supermarkets. Treat and Great have a large share of imported food products (about 70 percent) and Great is the company's flagship store in Mainland China. Watson personal care convenience stores are numerous in Chengdu and cater to the mid- to high-end consumers. They feature a good selection of imported health products, such as dried fruits and nuts.
- CR Vanguard continues to expand operations under its three brands: CR Vanguard Hypermarket, btl Premium Supermarket, and Olé Premium Supermarket. The latest Olé Premium Supermarket just opened in Taiguli, the most luxurious shopping center in Chengdu, comparable to Beijing's Sanlitun and Shanghai's Xintiandi neighborhoods. In addition to its strong presence in Chengdu, Chongqing, and Guiyang, the company also operates one CR Vanguard hypermarket in Zunyi, Guizhou.
- Ito Yokado is a Japanese retail brand which has a total of six stores in Chengdu. It has a good reputation among consumers because of its strict food quality control.
- Far Eastern department stores display mixed performance. The Chongqing outlets perform better and hold higher reputations among the local competition.
- Parkson management and priorities vary highly from city to city and not all Parkson outlets include in-store supermarkets. Parkson runs a high-end supermarket in its Kunming outlets but has relatively poor

performance in other areas.

- CBest is a state-owned supermarket often attached to their parent company, Chongqing Department Store. CBest has roughly 70 supermarkets in the Chongqing Municipality, five in Sichuan, and one in Guizhou (Zunyi). It has a large market share in Chongqing but offers few imported products.
- Hongqi Chain Co., Ltd. operates a chain of convenience stores and supermarkets in Sichuan. Founded in 2000, it was ranked as the 9th largest convenience store chain in China in 2014. After acquiring both Huhui & Hongyan convenience store chains in 2015, Hongqi has more than 1,600 stores in Sichuan – primarily in Chengdu. Prospects for U.S. goods in this chain store are limited as it caters to more price-sensitive Sichuan consumers. In March 2015, Hongqi launched the “Hongqi Kuaigou” (Hongqi Express Purchase) online platform. Through the integration of its more than 1,600 stores, Hongqi solved the problem of “last mile delivery”.
- Wowo is a Chengdu-based convenience store chain currently operating more than 300 stores. The company plans to expand operations into Chongqing and Kunming in the near future. In November 2015, the store appeared to carry only a few imported beverages and snack foods, although Wowo’s CEO has expressed on several occasions that the company would like to increase the presence of imported products. Most of these stores are open 24 hours a day.
- Wudongfeng is a state-owned convenience store chain based in Chengdu. Compared with Hongqi and Wowo, this store is relatively small, mainly targeting young consumers between the ages of 18-35. At the current time, it has more than 700 stores in Chengdu.
- Momo is a fast-growing specialty/boutique chain store specializing in imported foods. They currently operate eight stores in Chengdu and have good prospects for further expansion.

E-commerce:

Most Southwest cities operate as regional transportation hubs for big e-commerce platforms like JD.com and TMall. In August 2012, the National Development and Reform Commission and China Customs approved Chongqing as the seventh pilot city for cross-border trade e-commerce services. The other pilot cities are Shanghai, Hangzhou, Zhengzhou, Guangzhou, Shenzhen, and Ningbo.

The state-owned Chongqing cross-border trade e-commerce service platform <http://www.cqkjs.com/> subsequently began operations on January 28th, 2014. This platform provides one-stop service for cross-border e-commerce companies who are willing to do the registration in Chongqing and import products through Chongqing’s port. Consumers can search a directory of all cross-border e-commerce companies on this website.

Three additional start-up cross-border e-commerce companies started in Chongqing, all of which receive government support and have government backgrounds:

www.igetmall.com: Igetmall is owned by the Chongqing Free Trade Zone Committee. Relying on its existing warehousing and logistics resources, it provides customs clearance, warehousing, sorting, packaging etc.

www.sjgo.com : This e-commerce platform is operated by Chongqing General Trading E-Commerce Co., Ltd., which is a subsidiary of Chongqing General Trading (Group) Co., Ltd. As the biggest state-owned retail group in Chongqing and the 7th largest retail enterprise nationwide, Chongqing General Trading has high expectations for the development of this platform. At the current stage, the monthly sales revenue of sjgo.com is about \$ 2.3 million.

www.xgqqg.com : This platform is operated by Chongqing Yuou. Yuou is initiated by Chongqing Foreign Economic and Trade Group, with the support of the state council. xgqqg.com is a pure cross-border e-commerce platform and is not involved with general trading. Its current monthly sales revenue is about \$1.2 million.

Chengdu is not a pilot city of cross-border e-commerce. As such, general e-commerce dominates the e-commerce market. “Kuaijiankang” (www.kuaijiankang.com) is the only outstanding local food-related e-commerce platform in Chengdu. Kuaijiankang is operated by one local dairy company and, relying on its well-established delivery system, it provides one hour express delivery service to local customers.

Due to the limited cold chain system in Southwest China, selling fresh and frozen products on-line is quite difficult in this region. Delivery is the big barrier for most on-line platforms. Moreover, local e-commerce platforms lack price advantage because most imported food products clear customs in the coastal areas.

Section 5: Appendix

5.1. FAS China Contacts:

Organization name	Address/Post code	Telephone/Fax E-mail /URL
Foreign Agricultural Service, Office Of Agricultural Affairs, Beijing	U.S. Embassy, Beijing, No. 55 An Jia Lou Rd., Beijing, China, 100600	Tel: (86-10) 8531-3600 Fax: (86-10) 8531-3636 AgBeijing@fas.usda.gov www.usdachina.com
Agricultural Trade Office, Beijing	U.S. Embassy, Beijing, No. 55 An Jia Lou Rd., Beijing, China, 100600	Tel: (86-10) 8531-3950 Fax: (86-10) 8531-3974 ATOBeijing@fas.usda.gov www.usdachina.com
Agricultural Trade Office, Shanghai	U.S. Consulate General Shanghai, Shanghai Centre, Suite 331, 1376 Nanjing West Road, Shanghai, China, 200040	Tel: (86-21) 6279-8622 Fax: (86-21) 6279-8336 ATOShanghai@fas.usda.gov www.usdachina.com
Agricultural Trade Office, Guangzhou	43 Hua Jiu Road, Zhujiang New Town Tianhe District Guangzhou, China, 510623	Tel: (86-20) 3814-5000 Fax: 3814-5310 ATOGuangzhou@fas.usda.gov www.usdachina.com

Agricultural Trade Office, Chengdu	Suite 1222, Western Tower No.19, 4th Section Renminnan Road, Chengdu, China, 610041	Tel: (86-28)8526-8668 Fax: (86-28)8526-8118 ATOChengdu@fas.usda.gov www.usdachina.com
Agricultural Trade Office, Shenyang	Suite 1903, North Media Building, No.167 Qing Nian street, Shenhe District Shenyang, Liaoning China, 110014	Tel: (86-24)2318-1380 2318- 1338 Fax: (86-24)2318-1332 ATOShenyang@usda.gov www.usdachina.com
Animal And Plant Health Inspection Service, Beijing (USDA/APHIS)	U.S. Embassy, Beijing, No. 55 An Jia Lou Rd., Beijing, China, 100600	Tel: (86-10) 8531-3030; Fax: (86-10) 8531-3033 www.usdachina.com

5.2. Key retailers in Southwest China

Southwest China Major Food Retailers									
Retailer Name		Ownership &	Store Type						
		(China Headquarters)		Shopper Volume	Sichuan	Chongqing	Guizhou	Yunnan	Total
	Wal-Mart	US/Taiwan (Shenzhen)	Hypermarket	High	21	13	8	19	61
	Carrefour	France (Shanghai)	Hypermarket	High	19	7	1	10	37
	RT-Mart	Taiwan	Hypermarket	High	6	1	2	2	11
	Auchan	France (Shanghai)	Hypermarket	High	4	0	0	0	4
	Metro	Germany (Shanghai)	Wholesaler/Discounter	High	2	2	0	1	5
	CBest & New Century	Chongqing	Supermarket /Department Store	High	8	241	1	0	249
	Parkson	Malaysia (Shanghai)	Department Store	Medium	6	5	3	2	16
	Ito Yokado	Japan (Chengdu)	Department Store	High	6	0	0	0	6
	Wangfujing	Beijing	Department Store	High	2	3	0	1	6

	Xingli	Guiyang	Department Store	High	0	0	7	0	7
	Far Eastern	Taiwan (Shanghai)	Department Store	Medium	3	2	0	0	5
	Renhe	Chengdu	Department Store	Medium	3	0	0	0	3
	Jingko	Kunming	Department Store	High	0	0	0	4	4
	Isetan	Japan (Shanghai)	Department Store	High	1	0	0	0	1
	Vanguard	Hong Kong (Shenzhen)	Supermarket	High	5	5	1	1	12
	Ole's	Guangzhou	Supermarket	High	3	3	1	0	7
	BLT	Guangzhou	Supermarket	Medium	2	0	0	0	2
	Yonghui	Fujian	Supermarket	High	25	92	8	0	125
	Bravo	Fujian	Supermarket	Medium	5	2	0	0	7
	Renrenle	Shenzhen	Supermarket	Medium	21	6	0	0	27
	Great	Hongkong	Supermarket	Medium	1	0	0	0	1
	ParknShop	Hong Kong (Shenzhen)	Supermarket	Medium-Low	2	0	0	0	2
	Treat	Hong Kong (Shenzhen)	Supermarket	High	1	0	0	0	1
	BHG	Beijing	Supermarket	Medium	8	1	6	0	15
	Lotus	Thailand (Shanghai)	Supermarket	Low	0	4	0	0	4
	Hongqi	Chengdu	Convenience Store	Medium - Low	1600+	0	0	0	1600+
	Wudongfeng	Chengdu	Convenience Store	Medium - Low	700+	0	0	0	700+
	Wowo	Chengdu	Convenience Store	Medium - Low	300+	0	0	0	300+
	7-Eleven	Japan (Guangdong)	Convenience Store	Medium - Low	60	30	0	0	90
	Lawson	Japan (Shanghai)	Convenience Store	Medium - Low	0	110	0	0	110
	Honghuabianli	Guiyang	Convenience Store	Medium - Low	0	0	75+	0	75+
	Momo	Chengdu	Convenience Store	Medium	8	0	0	0	0
	Family Mart	Japan/Taiwan	Convenience Store	Medium - Low	39	0	0	0	39

5.3. Major Food Retailers in Northeast China

Retailer Name	Ownership	Store Type	Shenyang	Dalian	Changchun	Harbin	Other cities
Carrefour	France	Hypermarket	11	4	1	7	6
Wal-Mart	USA	Hypermarket	4	4	5	5	7
Sam's Club	USA	Hypermarket	0	1	0	0	0
Metro	Germany	Hypermarket	2	1	1	1	0
RT Mart	Taiwan	Hypermarket	6	0	1	2	19
Tesco	China	Hypermarket	7	5	0	0	9
Vanguard	China	Hypermarket	5	0	3	0	7
BHG(Market Place)	China	Hypermarket	1	0	0	1	0
Auchan	France	Hypermarket	1	0	0	0	0
Ole	China	Hypermarket	2	0	0	0	0
Watsons	Hong Kong	Convenience	30	20	23	21	95
Lotte Mart	Korea	Hypermarket	2	0	1	0	5
Yonghui	China	Hypermarket	4	1	2	1	4
Jiuguang	Japan	Hypermarket	1	1	0	0	0
Yoohoo	Shenyang	Supermarket	1	0	0	0	0

As of yearend of 2014