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### Ningbo Profile - An Merging City Market in East China

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#### Report Highlights:

Located in Zhejiang Province, Ningbo is a fast-growing coastal city and is world's 4<sup>th</sup> largest port. GDP was 421 billion RMB (62 billion USD) in 2009. Ningbo is an emerging consumer market where supermarket chains earned 15.5 billion RMB (2.3 billion USD) in revenue last year. Imported product penetration is small but growing. In retail stores, people buy imported products as gifts. The other growing sector is high-end hotel restaurants. Products such as seafood, fresh fruit, wine and liquor will do well as the number of high end five-star hotels continues to expand in Ningbo. There are more opportunities for American food ingredients, but promotion is needed to provide product knowledge so chefs and consumers know how to use the new ingredients.

## General Information:

### INTRODUCTION

#### Profile of the City



Ningbo is situated in the center of China's eastern coastline. Located in northeastern Zhejiang Province, the city rests in the southern portion of the Yangtze River Delta, the wealthiest region in China. The Zhoushan Archipelago lies east, protecting the port. Hangzhou Bay borders to the north, Shaoxing city is to the west, and Taizhou city lies south of Ningbo. Sometimes referred to as "Yong," Ningbo is a city divided into portions by three rivers, the Yao River, Fenghua River and Yong River.

#### Background and History

Ningbo traces its history back 7,000 years to the Hemudu Neolithic Culture. Ruins from the area suggest it was one of the first places to cultivate rice in the world. During the Xia Dynasty, around 2000BC, the city was referred to as Yin.

Ningbo is recognized for its distinguished scholarship. It boasts that 2,432 scholars passed the imperial exam from the Tang to the Qing Dynasty. Built in 1566, the Tianyi Pavilion is the oldest private library in China. It is the largest private library in Asia and third largest in the world. Ningbo was also home to

Huang Zongxi. His 1663 work, “Ming Yi Dai Fang Lu” was a treatise on civil society written 27 years before John Locke’s “Concerning Civil Government” and 100 years before “Du Contrat Social” by Rousseau.

## **Geography**

The city of Ningbo governs six districts (Haishu, Jiangdong, Jiangbei, Zhenhai, Beilun and Yinzhou), three county-level cities (Yuyao, Cixi and Fenghua), and two counties (Xiangshan and Ninghai), and covers an area of 9,817 sq. km on land.

Within Ningbo, there are 10 functional areas including a central business district in the new eastern downtown area, the Wantou tourism and recreation area, a downtown commercial area, a science and culture area, recreational and residential riverside areas, a southern business district, an urban cultural district, a railway area, the port area and the bonded harbor area.

Jiangdong contains many of the high and medium-end hotels and restaurants, including 3 five-star hotels and 5 four-star ones. The Shangri-La Hotel and Radison Hotel, Xiangyang Fishery Restaurant, Shipu Restaurant, Xincaihong Restaurant, and Hantong Restaurant are all located here. The district also holds many of the international shopping centers like Carrefour, Auchan, Golden Center, Trust-Mart, and New World Department Store.

In Jiangbei, there are several hospitals and luxury apartment complexes such as Beian Residential Area, Tianshui Residential Area, Jinjiang Residential Area, and Qinglinwan Residential Area. There are many colleges in the area, including Ningbo University, Ningbo Science & Technology College, Ningbo Broadcasting University, Ningbo Mechanical College, Ningbo Textile Vocational College.

Haishu may be the busiest and most commercial area in Ningbo. It includes the Hualian commercial building, Changfa commercial building, and City God Temple mall. Star-rated hotels such as Nanyuan, Xinyuan, Huajia and Jinlong hotel are here, as well as the city’s major financial institutions, departments of commodity inspection and customs.

Yinzhou, Zhenhai and Beilun are also part of Ningbo, but less populated than the three districts mentioned. Zhenhai is home to many international companies such as LG. Electronics Korea, Jingfeng Co.Taiwan, Toshiba Japan, N.V., and Arnhem Netherlands, There are more than 700 joint venture factories here.

Ningbo-Hangzhou Bay New Zone is a fast developing manufacturing area for the production of

automobiles, communications equipment, home appliances, and medicines. The Meishan Bonded harbor area opened in June 2010 and has favorable tax policies including VAT exemptions. These areas are helping make Ningbo a hub for regional distribution in the Yangtze River Delta area.

### **Transportation & Infrastructure**

Ningbo is a well-connected city, and travel time to Hangzhou, Jinhua or Wenzhou is less than two hours. The Tongsan Expressway extends from northeast China's Tongjiang city of Heilongjiang province to Sanya city in southern China's Hainan province, and crosses through Ningbo. Flights leave for more than 30 major cities, including Hong Kong, Macau, Seoul, Bangkok, and Singapore. The Xiaoshan International Airport is less than an hour away.

Very important is the direct link to Shanghai across the new, 36 km Hangzhou Bay Bridge, first opened on May 1, 2008. It is the longest sea-crossing bridge in the world, and ensures that Ningbo will be a vital hub for land and sea transportation and shipment. The bridge provides a fast link from Ningbo to Shanghai, cutting travel time to less than 3 hours.

### **Port**

#### **Hangzhou Bay Bridge**



Since 1989, the State Council has listed Ningbo Port as one of the four main ports in Mainland China for deep-water international shipping. The port's favorable location on the Pacific Rim makes it highly sought-after. Well-known international ports such as Hong Kong, Gaoxiong, Singapore, Pusan and Osaka are all situated within a radius of 1,000 nautical miles. Since Ningbo Port lies south of the Yangtze River Delta and receives shelter from the Zhoushan Archipelago, it has very favorable weather conditions for a shipping port. The harbor area is calm, and operates about 350 days annually.

Ningbo was the first port in mainland China to receive a vessel of over 400,000 tonnage. The port hosted the super tanker “TI Europe,” which was the largest tanker in the world when it was accepted at Ningbo Port in 2005.

In 2006, the UK’s Container International magazine listed Ningbo Port as one of the top 5 in the world. By 2009, the port was the second largest in mainland China and 4<sup>th</sup> largest in the world, with a throughput of 380 million tons. The year’s throughput of containers was 10.423 TEU. Now the port serves 216 shipping lines, including 113 ocean-going routes.

## **Economy**

With a population of 5.7 million, Ningbo is the second largest city in China’s wealthy Zhejiang province, second only to the capital city of Hangzhou. Its GDP increased 8.6 percent in 2009, reaching RMB 421.46 billion (62 billion USD). Urban disposable income climbed 9.2 percent to RMB 27,368 (4,041 USD) and rural income climbed 10.4 percent to RMB 12,641 (1,866 USD) in 2009. Food accounted for 35.4 percent of overall consumption expenses. Dining-out as a share of total expenditure on food was about 16 percent.

A key commercial center for thousands of years, modern Ningbo remains a vital economic and trade center. Ningbo has official State Council designation as a “separate planning city.” Like Shanghai, it enjoys local economic administrative rights similar to those of the provinces. The State Council approved the establishment of the Ningbo Free Trade Zone in 1992, and the construction of the Ningbo Export Processing Park in 2002. In 2004, Ningbo also opened its Bonded Logistics Park to facilitate business between the port and city.

Ningbo 2009 Major Economic Indicators		
		annual growth
Population	8.75 million	0.52%
GDP	<u>RMB</u> 421.46 billion (62 billion USD)	8.6%
Per capita GDP	<u>RMB</u> 73,998 (10926 USD)	5.7%
Per capita disposable income	<u>RMB</u> 27,368 (3987 USD)	9.2%
Per capita expenditure on food	<u>RMB</u> 6,450 (952 USD)	5.5%
Retail and Foodservice Sales Revenues		
Top 46 supermarket chains	<u>RMB</u> 15.5 billion (2.3 billion USD)	11.6%
Top 24 department stores	<u>RMB</u> 7.4 billion (1.1 billion USD)	7.6%
Foodservice*	<u>RMB</u> 15.6 billion (2.3 billion USD)	12.8%
Major Industries	Petro-chemical, energy, iron and steel, ship building, sea transportation, garment, stationery, machinery and electronic appliances.	
Information source: Ningbo Commerce Bureau * Ningbo Restaurant Association.		

Industrial production around Ningbo is highly developed. There are hundreds of large-scale projects. The five leading production sectors are petro-chemical, energy, iron and steel, paper making and ship building. These sectors contribute about one quarter to the city's total industrial output. Ningbo's fast economic growth is partly the result of its natural deep seaport and the prime location of this manufacturing platform to the world. Products shipped from Ningbo to the world include garments, stationery, injection machinery, hardware, and electronic/electric appliances.

In 2009, there were 114,400 private enterprises and 274,600 self-employed individuals in Ningbo. There was USD 3.42 billion in foreign investment. Foreign trade volume was USD 60.81 billion, putting Ningbo in 3rd place out of all sub-provincial level cities in China for 2009. In the first half of 2010, total foreign trade amounted to USD 39.07 billion. Today, the city is one of China's top commercial cities and a center for conferences and exhibitions. This year, Ningbo is home to the World Agriculture Convention (July), the Chian Fishing Festival (Sept), the China Food Exposition (November), China Internatioanl Consumer Goods Fair (June) and dozens of other events.

## **Ningbo Cuisine**

Ningbo cuisine is also referred to as “Yong ”or “Yongbang” Cuisine (甬帮菜). As in other wealthy parts of China, higher-income consumers tend to be health and nutrition conscious, from both a traditional Chinese and a Western perspective. Thus, it is no surprise that Yong cuisine favors healthy items such as steamed, roasted and braised seafood, and the cuisine emphasizes freshness.

## **SECTOR ANALYSIS**

### **1. HRI**

#### **Hotels**

Only five years ago, Nanyuan was the only five-star hotel in the city. Today there are over ten, including Shangri la, Westin, Park Hyatt, Radisson, Sofitel and Howard Johnson. By next year, there will be 17 or 18 five-star hotels in Ningbo. ATO spoke with the head chef at Nanyuan Hotel. In his experience, many restaurant customers are actually local people. Families enjoy dining out together. They are attracted by the good buffet prices, 138 RMB for lunch and 218 RMB for dinner. In fact, the hotel restaurants are more profitable than the rooms, which tend to have low occupancy.

At Nanyuan, about 30 percent of the revenue from hotel restaurants are Western-style, and the rest are Chinese. Most people favor buffets, but the a la carte menu is favored by some hotel guests. Foreign guests comprise about 30 percent of the overnight guests, and most of these people prefer the a la carte menu. Average spending on the a la carte menu is about 500 RMB per person. At the moment, there are not many western style “social restaurants” outside of hotels but the chef thinks they will grow. At the restaurants outside of hotels, the average per-person spending is 100-200 RMB.

For ingredients, the chef uses suppliers from Shanghai and Guangzhou, but quality is inconsistent. In his experience, quality products will be copied or faked. For example, Angus beef was a popular item



and the tables were all filled during that promotion period even though the beef price was very high. In another promotion, Kobe beef sold for 700-800 RMB per 120 grams. Based on such examples, he believes price will not matter if the quality of the product is very high. However, once businesspeople realized Angus beef was profitable, many counterfeits appeared on the market and lowered the quality and reputation of the product, also making real Angus beef much harder to find.

The head chef at Nanyuan is also head of the Western Food Association Ningbo Branch, which has 20 members, representing almost all of the high-end hotels. The chefs teach at the tourism school in Ningbo. Nanyuan's chef is willing to co-organize events at the tourism school, such as competitions or guest chef demos. The Nanyuan chef likes to do promotions through the consulates of various governments. They are more trusted when it comes to providing contacts or importers of ingredients. He has worked with the consulates of Norway, Mexico, France and Italy. So far, Nanyuan's only American promotion has been with Alaska seafood, which has been done within the last three years. When ATO visited Ningbo, Nanyuan Hotel was in the midst of its 3<sup>rd</sup> Alaska Seafood Festival. Imported ingredients included Alaska king crab, Alaska wild salmon, and different kinds of cod fish and halibut.

Seafood is the best promotional food product at Nanyuan Hotel. The chef thinks of the promotions more as a way to show changes in the menu and attract regulars, who he thinks comprise about 70 to 80 percent of the customers. Another interesting point is that other countries such as Thailand and Malaysia offer raffles for free tickets to their country during promotions.

**Old Bund (Lao Waitan) restaurant and bar area**



High end restaurants and hotels are popular for weddings, which contribute a large chunk of the food and beverage revenues. There are also banquets and receptions as well. One area of increasing popularity is the Lao Waitan. The "old bund" is a popular nightlife district. It is a modern re-creation,



similar to Shanghai's, with a number of Shanghai's popular chain restaurants and clubs chains in the area in anticipation of a foreign investment boom. Diverse cuisines are available here. There are also two big restaurants that could use imports: Xiang Yang Yu Gang and Shi Pu. Both emphasize seafood and freshness, since Ningbo cuisine is usually steamed or salted. At the moment, the five-star hotels and the two big restaurants get imports from South China, from a seafood wholesale/wet market (Da Si Jie) or through Metro.

There is not much tourism to the area since Ningbo does not have many tourist sites. Since the Hangzhou Bay Bridge and the fast train provide links to other major cities, many visitors only stay for a day to see the few sites and then leave. They do not stay at the hotels.

### Restaurants

According to the Ningbo Restaurant Association, growth has been leveling off in the last two years due to economic conditions. Before that, growth had been quite rapid. In Ningbo, 70 percent of revenue comes from mid and low-end restaurants, 20 percent from high-end restaurants, and 10 percent comes from small kiosks. In 2009, average restaurant growth rate was a bit lower than the national average. In part, this is due to global economic downturn. The top performers have been five big restaurant chains, which have seen a 70 percent increase in 2009. They have outlets all over east China, and each one has revenues of about 300 million RMB annually. The fast food format of these restaurants is a buffet-to-go, where customers pay for selections at the end of the counter. Growth for the high-end sector was lower, since there were fewer businesspeople, expats or visitors frequenting the hotels where these restaurants are located.

The head of the restaurant association also noted that spending patterns in Ningbo are different from many China's Emerging City Markets. Consumers spend the most on real estate and interior decoration, luxury cars, electrical appliances and gadgets like cell phones, education expenses, and financial investments. He estimates that mid and high income family's food expenditure is at less than 10 percent of total spending. People spend more money on a number of priorities. Having a nice home is most important, since it is an issue of "face" (reputation). Technology is important, and young people are very tech-savvy and like to upgrade their phone every six months. Quality education costs money in Ningbo, as it does in most of China. Parents invest a lot of money in their child's future, since they will depend on the child for support later in life. Because of the history and culture, people are more likely to save their money for an emergency rather than spend it, as more people would do in Shanghai. However, perceptions are changing and consumerism is growing. Ningbo, along with Hangzhou and Wenzhou, are all good emerging markets with far less competition than Shanghai.

### Past activities

According to ATO Shanghai's survey last year, 57 percent of HRI professionals believed U.S. products prices were very high. In response to the concern and to demonstrate the high quality of U.S. products, ATO held a chef seminar and menu promotion activity at the Ningbo Sofitel hotel from Oct. 14 -31, 2009. About 50 executive chefs and high end hotel representatives participated in the chef seminar. An American guest chef demonstrated dishes with U.S. salmon, cod, chicken and lentils. He had an interactive conversation with the audience on food trends and preparation in the U.S. as well as on topics such as food safety and imported ingredients supply. Representatives from U.S. food companies and U.S. products suppliers in Shanghai mingled with local HRI professionals and had active business discussions. More than 20 local media participated in the reception hosted by ATO on the same night. Sales during two weeks promotion totaled \$45,000. Media exposure of the event included 10 media reports and 3 TV programs. Guests learned new ways to prepare American food stuff, connected with American food suppliers, gained awareness of American food ingredients and planned to use American food stuff on a consistent basis in the future.

## **2. Retail**

Ningbo has about a dozen large grocery stores, including Century Lianhua, Metro, Auchan, Carrefour, E-Mart and Tesco. ATO visited Century Lianhua, which has the greatest variety of imported food products. The store opened on May 28, 2009 in Jiangdong district, one of the main four in Ningbo. The other well-established districts are Haishu, Jiangbei, and Zhenhai. In Ninghai and Xiangshan area outside of urban Ningbo, Century has also opened stores in the last three years. Imports account for about 4 percent of the revenues, and there are over 2,000 SKUs excluding imported fruit/ frozen foods and seafood. Central distribution is done through Hangzhou, but some fruit is imported directly from Shanghai. The average spending per customer is 80 RMB. The store has over 500 parking spaces, and attracts people from other districts of Ningbo.

Based on a store survey, corporate buyers account for one-third of revenues. They often provide employees and their clients with gift cards and coupons. The best-selling imported items are red wine, Evian water, and packaged snack products. Often they are used as gifts. The store manager believes that consumers think of imports as expensive but affordable luxuries, and shoppers will buy them for the better quality/packaging. The store manager predicts that they will continue to have a steady local consumer group, since businesses like their gift cards. They will open another store in Jiangbei next year. Another high end store opening is Ole, which is more high-end and a good prospect for more imported goods.

Similar to other emerging cities in China, as Ningbo's economy has grown and consumers have

matured, traditional wet markets are disappearing. Today, consumers shop at supermarkets seeking higher quality, consistency, sanitation and convenience.

Despite its outstanding economic position in East China, Ningbo market still remains somewhat underexposed to imported food and beverage products, often ignored by importers and distributors based in China's first tier cities.

Today, people are more accepting of imports compared to 2-3 years ago. People do recognize older brands that entered China early. In fact, such brands will likely maintain stronger market share as a result. This is because whoever enters the market first will be more recognizable to consumers. Overall impression of imports is still in the early stages, and there are still some customers too price sensitive to try imports. Also, some people don't know how to use certain imported products and there should be more demos or recipes provided. Others are willing to try new things and not too worried about prices. ATO has already done some promotion in Ningbo last year, but more is needed.

The other big issue from the store manager's perspective is the shelf life. With the transport, port clearance, and distribution time, products have a shorter shelf life when they reach Ningbo. Products must go through the central distribution system in Hangzhou. Imports are ordered based on sales from the previous period. Then, more of the best-selling products are requested from Hangzhou. Given this situation, it is harder to introduce new products into stores.

The Ningbo market still remains price sensitive and domestic substitutes for many imported products are available at substantially lower prices. However, the retail phenomenon may change over the next 2 – 3 years, as ATO's recent market tour to Ningbo found that high-end premium stores like Ole from Hong Kong opened outlets in downtown Ningbo. This will provide new shelf space to imported food, premium fresh and beverage products in the market.

## **Wine**

ATO's first marketing campaign in Ningbo started with the distribution development program for American wines in 2009. Although no official statistics have been available, the annual consumption of wines in Ningbo is reportedly in a range of 400 – 550 million RMB since 2006 and the market size is expanding by 25-30 percent year on year. Domestic brands are dominant, with about 15 percent market share for imported products. A limited variety of imported brands of French, Chilean, Argentina, Australian, Germany and American wines are moved to the market from Shanghai, Hangzhou, Guangzhou and other first tier cities. Local distributors know little about the source of imported wines from the first tier cities. In view of the market potential, ATO Shanghai launched a

major distribution development program in September 2009, designed to identify potential distributors for American wine in the market, establish and streamline distribution channels for U.S. wines. As a first step, ATO hosted one-on-one meetings in Shanghai for a key distributor who has strong interest in and just started distribution business with imported wines in Ningbo. Ten wine suppliers based in Shanghai had meetings with and exposed their products to the distributor.

According to the Ningbo Guide, wine imports are “skyrocketing.” The Bonded Wine Area, a part of the Ningbo Free Trade Zone (NFTZ), provides a location for trading imported wines. Services provided include quarantine, customs clearance, storage, and distribution. Over 150 companies will occupy the space, importing 10 million liters of wine per year to the rapidly growing Yangtze River Delta region, with a predicted annual turnover of RMB 3 billion.

### **Prospects**

Imported product penetration is small but growing. People prefer easily identifiable products and use them as gifts, rather than imported food ingredients. The greatest successes for high-end U.S. food products have been those aimed at hotels and restaurants (seafood and pork, for example), and high-end products given as gifts (fresh fruit, wine and liquor). Acceptance of imported products as guarantee of safety and high quality is common, and U.S. products in particular have benefited.

Western kitchen/cuisine restaurants are the primary end-users of imported food ingredients and condiments. Most of these western restaurants are located in high-end hotels. Future expansion of international luxury hotels implies more opportunities for American food ingredients. More product knowledge is needed, as chefs and consumers do not have all the information needed to use new ingredients. Promotion of newly introduced U.S. foods in the Ningbo market is critical.

<b>Seafood</b>	<b>Local cuisine favors seafood, so exporters should be attuned to this local preference when considering marketable products</b>
<b>Cheese</b>	<b>The demand for imported cheese by western style restaurants in 5-star hotels is on the rise</b>
<b>Fresh Fruit</b>	<b>These are popular as gifts, especially for special holidays such as Chinese New Year</b>
<b>Wine, Liquor</b>	<b>These are also popular as gifts</b>

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