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China Retail Annual Report

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Retail Food Sector

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Report Highlights:

With increased disposal income, urbanization and food safety concerns, Chinese are consuming more U.S. food products; this is partly due to the excellent quality and safety reputation of American food products. While the Chinese economy has slowed this past year, it is still growing faster than any other major economy. This fact and Chinese customers' growing taste for imported products, makes the Chinese market very attractive to many U.S. food producers.

Executive Summary

In response to rising inflation and food safety concerns, more Chinese people are cutting back on eating out and are now cooking more and more at home. Consumers of imported food are generally expatriates and high and upper –middle income locals. They are least affected by inflation and pay great attention to food safety. Consumption of western style products continues to grow as they generally are regarded as good quality, nutritious and safe. Some products, such as fresh fruit, frozen vegetables and nuts, have much deeper penetration, and some supermarkets and convenience stores are becoming more interested in imported products. Rapid economic growth has caused the total U.S. dollar sales value of food and beverages to rise by 26.2% to USD132 billion in 2008.

International hypermarket retailers generally have a high level of familiarity with imported brands and products, and recognize the value of bringing new products to market. Hypermarkets frequently source high-volume merchandise directly from manufacturers but rarely do so with imports. Hypermarkets in China tend to develop groups of favored distributors. They dislike working with unfamiliar companies unless they can offer a large number of products, strong marketing support, or some other incentive.

Specialty supermarket stores include those targeted to expatriates, upscale and upper-middle Chinese consumers and shoppers that want organic foods, wine, cheese and similar high-end products. These stores have proliferated in recent years, not only in first tier cities such as Shanghai or Beijing but also in some second tier cities. Originally designed for expatriates, these stores are becoming more and more popular by Chinese consumers. Some stores market more than 70-80% imported goods.

Retail distribution channels have not grown to match the number and quality of retail outlets. China does not have a nationwide network of trucks, highways and cold storage warehouses that can efficiently deliver supplies from the manufacturer or importer to the store shelf. A lack of appreciation for the value of maintaining the cold chain creates special problems for temperature sensitive items. With some notable exceptions, distribution is handled on a store-by-store or city-by-city basis, with stores receiving most imports through a local distributor, often even when alternatives exist. Because of their relative size, stores are able to effectively pass all market risk onto the distributor. Distributors, in turn, tend to be very conservative about new products. If goods do not sell, the distributors are unable to return imported products.

Distribution varies widely throughout China based on geography, product type and retail sector. As a general rule, the three cities of Shanghai, Guangzhou and Beijing have the best infrastructure and the largest number of experienced distributors. Increasingly, those systems are being extended to the large webs of satellite cities surrounding Guangzhou, Shanghai and Beijing. Other major cities along the eastern seaboard, beyond the reach of the ‘big three,’ generally have good logistics infrastructure, but most still rely on one of the ‘big three’ as an entry point for imports. Farther inland, there are a number of large cities with good market potential. Logistics can be problematic, but improvements in the national highway system have made trucking direct from Shanghai or Guangzhou far easier

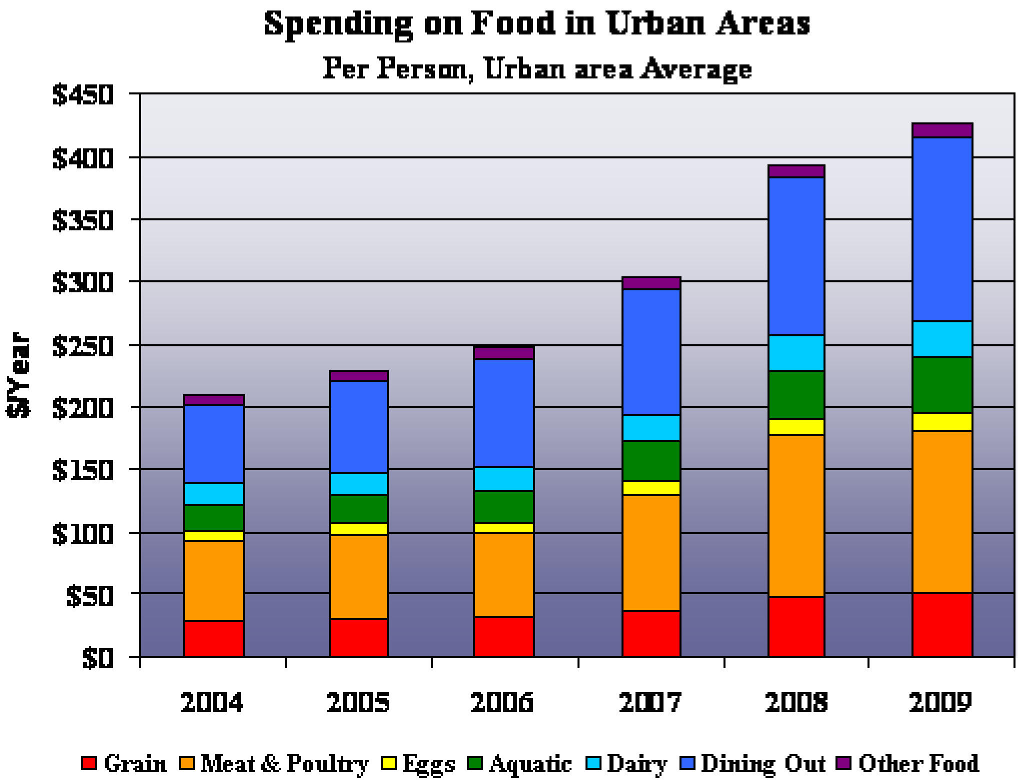
than it was just a few years ago. As a result, high value and temperature sensitive products shipped by truck directly from the importer to a local distributor do surprisingly well. Currently, many secondary cities have only a single distributor for imports, particularly for high-value or temperature-sensitive products. Multi modal refrigerated rail transportation to inland cities may become viable over the next several years. Several international companies are currently developing local partnerships to create modern cold chain and distribution systems across China.

The most serious competition for U.S. food exporters comes from local and joint venture food producers and processors. The quality of fruit and vegetables in particular has increased rapidly, and many local traders now contend that the best of China's fruit is similar in quality to imports. While some firms are trying to lower the price of imported products, the general trend to date has been for local manufacturers to push imports out of the price-driven mass market and into niche markets where quality and novelty are more important than price. The United States remains the largest single exporter of consumer-oriented food to China, and is the only exporter with a presence in most categories.

China is not a single market but a jigsaw puzzle of small, overlapping markets separated by geography, culture, cuisine, demographics and dialects. As such, there is no single formula for success in China. The fragmented distribution and logistics systems help to reinforce existing divisions. While smaller emerging cities are still relatively small consumer markets compared to Shanghai, Beijing, and Guangzhou, they are starting to grow faster than the major markets and many would be considered large cities in countries other than China and India.

Consumer Spending Patterns

In responding to rising inflation and food safety concerns, more and more Chinese people are reducing the number of times they eat out each week and are cooking more often at home. Imported food consumers are generally expatriates, and high and upper –middle locals. They are least affected by inflation and pay great attention to food safety. Consumption of western style products continues to grow as they generally enjoy a reputation for good quality, and being nutritious and safe. Industry sources told post more local consumers are buying imported food products due to health and food safety concerns. Convenience is also an import factor due to increasingly fast paced lifestyles. Chilled processed food and frozen processed food will see relatively rapid growth in the near future. As a result of the melamine contamination scare, many consumers in China switched to soy milk or soy drink as an alternative dairy protein source.



Source: China Statistical Yearbook 2010

Strong and continuous economic growth caused urban Chinese to increase their spending on food by almost 30% from year 2004 to 2009 when measured in U.S. dollars. While average annual food purchases for all cities was slightly more than $600 per year, per person food consumption in Shanghai was slightly more than $1,000 per person, and that in Beijing and Guangdong was about $800 per person. This compares with U.S. food purchases per person of about $2,300/year. Urban food purchases per person in Sichuan, a province in Western China that contains the city of Chengdu, come in at the national average for urban areas - demonstrating the potential of markets in western China. While there are some smaller cities where per capita income is about equal to that of Shanghai (such as Ningbo), the population and wealth of the three largest urban areas - Shanghai, Guangdong, and Beijing - lead most exporters to concentrate on at least one of those markets.

Even some of the wealthiest rural areas in China - those in the commercial province of Zhejiang south of Shanghai - have a lower level of consumption than urban areas in poor provinces. Disposable income in these areas is rising rapidly however. If the current consumption data is correct, the rural population in Zhejiang province may achieve Shanghai's current level of consumption in 15 years. The population in most urban areas will likely still be more wealthy.

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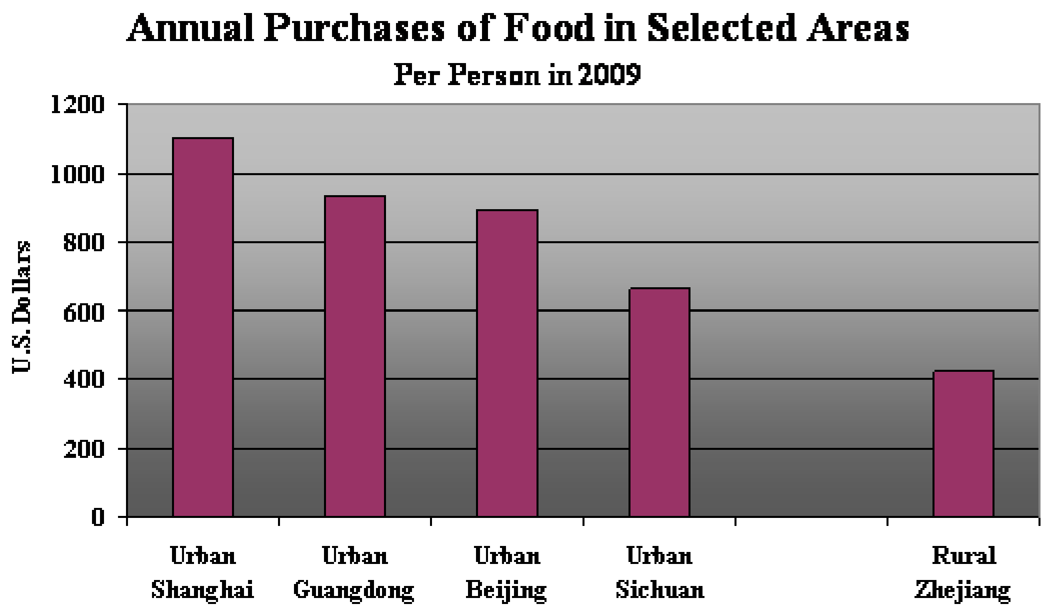


Source: China Statistical Yearbook, 2010

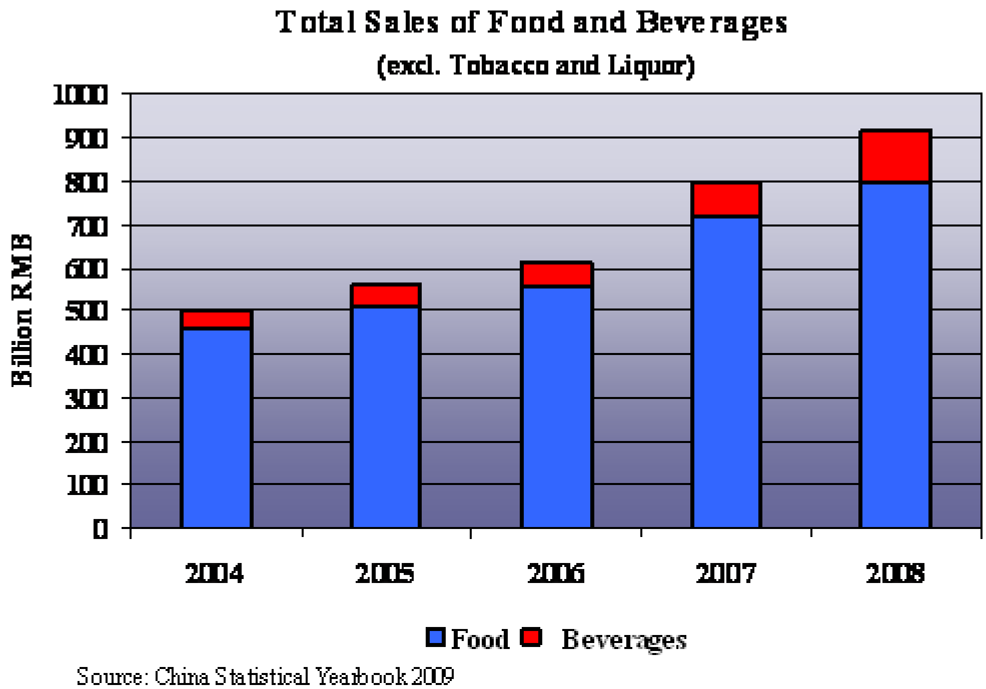
China is a very large country and different parts of China are at different levels of development. However, there are large variations of income and pockets of wealth in all large urban areas, and Chinese cities are no exception. The variation of wealth in China is illustrated in Table 1 in the Appendix. The wealthiest areas in China are Beijing and Tianjin in the north, Guangdong and Fujian in the south, and the Shanghai, Jiangsu, Zhejiang area in eastern China.

There are many urban centers in China that westerners have not heard of. Even a "small" city by Chinese standards may have millions of people. These are becoming much more prosperous, and their growth rates are starting to exceed those of the three large urban areas. It would be a mistake to overlook these markets and the potential to develop strong market positions in them. While there are certainly opportunities in these secondary markets, the number of distributors handling your type of product may be very limited. Given differences in regional tastes, logistical difficulties, and the size of China, many exporters choose to focus in a particular region of China first rather than try to develop the entire market at once. The Chinese Central Government is promoting aggressive policies to develop these interior regions and many multinational companies are racing to establish an early presence in many of these major urban centers. Opportunities are waiting to be found, but require resources and patience.

Market Size and Segments

Determining the size and rate of growth of Chinese purchases of food and beverages is complicated. The official data does not attempt to pick up the smallest enterprises, and the usual concerns about data quality in a developing country are compounded by China's legacy of central planning.

The Yuan also rose by about 9.5% against the U.S. dollar from 2007 to 2008. This gave an added boost to Chinese expenditures when measured in dollar terms. According to China's 2009 Statistical Yearbook, the total sales value of food and beverages rose by 15.3% in 2008, from 793 billion RMB in 2007 to 914 billion RMB in 2008. If you are a U.S. exporter, however, the change in U.S. dollars may be more useful to look at. Using average annual exchange rates, we find that the total sales volume in U.S. dollars rose by 26.2% in 2008, from $104 billion in 2007 to $132 billion in 2008.



Market Segments

While 2008 sales data for the major retailers is available, it is of limited use when discussing market segments. This is because retailers in China often cross several market segments. Some domestic players have hypermarkets, supermarkets, convenience stores, and specialty stores. However, we can say that most imported products have found their greatest success in the hypermarkets and in specialty supermarkets. Some products, such as fruits and snacks, have much deeper penetration, and some supermarkets and convenience stores may be becoming more interested in imported products.

Hypermarkets: The hypermarket format is much more concentrated than other grocery channels. While some domestic retailers (including CRV-China Resources Vanguard and Lianhua) have a significant presence, this format is dominated by foreign operators including Carrefour, Wal-Mart, Metro, Lotus, Auchan and Tesco. In Shanghai for example, the 82 foreign hypermarkets accounted for 78.6% of the total hypermarket sales volume in 2008. Other retail channels, most notably supermarkets, are highly fragmented and controlled by domestic players.

With the strong and sustainable development of China’s macro economy, the urbanization process continued its stable growth, and hypermarkets benefited from the urbanization trend. In contrast to people in rural areas, urban inhabitants are more willing to buy branded daily necessities from well-known hypermarkets, supermarkets and shop in department stores, rather than purchase products through traditional channels such as independent small grocery stores (xiao mai bu) or wet markets. Consequently, hypermarkets/supermarkets, particularly well-known names such as Carrefour, Auchan and Wal-Mart, recorded higher value growth than independent small grocers, thanks primarily to the urbanization trend.

In addition, they also benefit from their reputation for offering better quality products than most domestic retailers, thanks to stricter quality control in a country where food safety is a major concern after several disturbing food scandals in recent years. In food products, especially fresh food, hypermarket retailers benefit from better hygiene controls and a higher volume flow rate, and are thus able to ensure better food safety for consumers. As such, an increasing number of Chinese consumers visit hypermarkets instead of independent food stores for grocery shopping. The proportion of grocery products in hypermarkets continues to increase, rising from 54% in 2005 to 60% in 2009. As a result, hypermarkets are trying to provide more food categories in order to meet the demands of consumers. Among them, fresh produce has become an attractive section to draw in Chinese consumers.

International retailers generally have a higher level of familiarity with imported brands and products, and recognize the value of bringing new products to market and promoting them. Hypermarkets are also the major sales venue for imported food products, due to international retailer’s familiarity with imported products and better management and organization skills. Most are experienced in promoting new products, and Shanghai flagship stores like Carrefour’s Gubei store or Lotus’ Superbrand Mall store in the Pudong area have it down to a science. Despite this, imports rarely constitute more than 5% of total SKUs even in high profile stores. Nevertheless hypermarkets are the single best retail venue for imported products.

Most hypermarket chains vary the proportion of imported goods they carry in individual stores depending on the income level and foreign population that the store serves.
Meanwhile, the urbanization trend in lower-tier cities has also stimulated leading retailers’ expansion into less developed regions, to seize the opportunity in second-and third tier cities.

The hypermarket has been well accepted by affluent customers due to large parking facilities, multiple stores and numerous restaurants and coffee shops that enable consumers to combine shopping and leisure activities. Most hypermarkets in China offer free shuttle bus service to nearby communities and constantly offer promotional items to attract consumers. These measures successfully draw heavy traffic to the store, but some consumers go to the store to buy the promotional items only, reducing the purchase per customer. This active promoting may also drive away some high-end consumers who desire a less crowded environment and more concentrated product display. As a result, specialty supermarket stores such as City Shop in Shanghai and Wuhan Life & Theatre supermarkets, both targeting high and upper-middle class clients, have successfully attracted customers from the hypermarkets.

The most decisive component in hypermarket food promotion for imported goods is free sampling. Consumers are cautious rather than impulsive buyers, and will rarely spend money on a product they have not had a chance to try. Hypermarket promotions also come with many strings attached. Some charge listing fees, most demand that promoters be provided at the distributor's expense (some even charge fees to have the promoters on their premises). Some require two months' credit, while others pay up front. Other conditions include accepting returns of unsold products at the end of the promotion. Although these problems are usually handled by the distributor, they will affect your sales.

In addition to the major chains, hypermarkets often face competition (especially in Northeast and Central China) from local department store operators with one or two locations and specialty supermarket stores. Department stores have evolved in the direction of hypermarkets, adding large food stores, while many hypermarkets have taken on some attributes of department stores.

Hypermarkets in China tend to be somewhat smaller than their western counterparts, and very few (excepting Metro) follow the big-box format faithfully. In large cities, they are typically multi-story operations. Most act as small shopping malls, setting aside a large amount of space for independent boutiques and eateries, a habit that tends to reinforce the perception of hypermarkets as places for occasional shopping expeditions rather than daily shopping. For the hypermarket itself, the food sales area typically accounts for about half of the total area.

Management within the stores tends to be quite good, but distribution has not kept pace. Hypermarkets in China tend to develop groups of favored distributors. They dislike working with unfamiliar companies unless they can offer a large number of SKUs, strong marketing support or some other incentive. Distributors tend to be very conservative in introducing new products, due to the high level of market risk. As a result, exporters with a limited product range need to work both ends of the problem at the same time: identifying a retailer that is interested in the product, and identifying a distributor that either has an existing relationship or is willing to work with the retailer.

Supermarkets: Domestic players dominated in supermarket sector. Companies like Lianhua**,** China Resources Vanguard, and Suguo are the major players in the market. But it's still quite a fragmented market; there are a large number of regional small chained or independent supermarkets in the country, especially in many second and third tier cities. But some international retailers have started to enter this market in recent years. For example, Tesco launched a new brand called Tesco Express in mid 2008 in Shanghai, which was designed as an outlet mainly selling fresh food and daily supplies to nearby communities. In 2009, Wal-mart also opened its neighborhood market outlets. Post believes more international retailers will enter this market in the future.

Imported food is relatively rare in Chinese supermarkets. Products that do well in this sector tend to be commodity products already widely available, such as fresh fruit, frozen vegetables and nuts. Supermarkets rarely if ever import directly, or even buy directly from an importer, tending instead to rely on wholesale markets and local manufacturers or distributors. Stores with a significant expatriate community nearby are likely to carry imported breakfast cereals and a perfunctory selection of imported sauces (especially pasta sauce) and seasonings. The best possibilities are in the smaller, privately held chains, which are more likely to see the value of high-margin imports and tend to have better integrated distribution systems. Such chains may carry products as varied as wine, exotic fruit (avocados, in one case) or confectionery, but only in low volumes and on an irregular basis. Even so, price will remain a consideration. State-owned supermarket chains generally have less integrated management and distribution. Opportunities exist, but only on a limited basis with a small number of stores, and only for products already present in the market. For either state-owned or private supermarkets, direct contact with company managers is the best means of introducing a new product.

Import penetration is lower in supermarkets than other modern retail venues. U.S. food products in these venues are typically limited to frozen corn and mixed vegetables, frozen potato products, some packaged goods and occasionally fruit (apples or oranges). Other items tend to appear on a haphazard basis: past checks have turned up breakfast cereals, low-end wines and Washington state apples. The sparse selection of imports is rooted in the customer base of these stores, which focus on working class shoppers, who are notoriously price sensitive and less inclined to try new products than the more well-heeled customers that frequent hypermarkets and upscale convenience stores. Distribution is also a problem, as stores tend to source from local distributors, directly from manufacturers, or from local wholesale markets. Supermarkets are often franchised in China and can have much smaller footprints than is common in the United States.

In order to compete with hypermarkets, Shanghai's supermarkets are putting more efforts into enlarging their fresh section, catering to the tastes and demands of local consumers. The local government is also encouraging supermarket chains to create 'fresh' supermarkets, expanding the floor space dedicated to fresh products from less than 1/3 to over 1/2. Over 300 stores in Shanghai have finished the change. And sales of fresh produce are gradually increasing. Supermarkets throughout the region (including Suguo, a unit of CRV) appear to be moving in this direction, but are being slowed by problems in sourcing large quantities of quality product. This could also indicate trend away from low cost, traditional "wet markets" which are often unable to match hygiene standards of supermarket/hypermarket chains. However wet markets still dominate sales of those fruits and vegetables.

Specialty Supermarket Stores and Boutique stores: These stores have multiplied in the last few years. They are often located adjacent to high-end department stores or upscale business centers. Built to attract upscale consumers in first and second-tier cities, they have a high proportion of imported food products – ranging from 10 to 80 percent of products. They are not only present in first tier cities such as Shanghai but also in some second tier cities like Wuhan or Hangzhou.

Some high-end and specialty products first enter the Chinese market through these types of outlets before moving on to larger venues. Some of these companies also include import/distribution operations, and can assist exporters with issues such as labeling and product registration. Otherwise, exporters will need to identify a good distributor. In the case of high-end and specialty products, HRI-focused distributors (who are familiar with the products but may lack experience with labeling issues) may be as helpful as larger retail-oriented distributors (who often lack experience marketing high-end products), particularly in emerging city markets. Because of the small scale and highly varied nature of this market segment, interested exporters should contact the relevant ATO for a list of potential venues and importers/distributors. China is well covered with ATOs in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang.

In Shanghai, many retailers have entered this sector to capture opportunities. City Shop Supermarket continues to be one of the best single venues for imported food, and now does significant business as a distributor of imports to other stores. Hong Kong based City-Super opened its first outlet and CRV's Ole opened two stores in Shanghai. Trade sources indicated another Hong Kong based high-end retailer is coming soon. Product assortment and service are key to be successful in this segment.

The leading boutique retailers in northern China are BHG (Beijing Hualian Supermarket) and Ole in Beijing, Hisense Plaza in Qingdao and Jin Bou Da in Zhengzhou. Specialized imported food supermarkets also target high-end customers and expatriates in Beijing, Qingdao and Zhengzhou. BHG has several stores in Nanjing.

Convenience Stores: Management in convenience store chains is probably the best of any retail sector. All stores have refrigerator and freezer sections, microwave ovens, and most have a selection of hot snacks (mostly meatball, tea eggs or tofu on skewers). Store layouts are highly standardized, although some chains have developed more complex systems that customize product selection to the peculiar location based on past sales patterns, and neighborhood income levels/spending habits. Stores are providing more and more services of “convenience” such as payment services and delivery services.

The concept of trading higher prices for convenience will take time to be accepted by Chinese consumers. Competition also tends to make convenience stores conservative about pricing, though ATO Shanghai’s experience indicates that chain managers are more price sensitive than their customers.

The convenience store sector is relatively saturated in major cities especially in Shanghai. It is said that the average number of convenience stores per thousand people in Shanghai is even higher than the number in many developed countries. However, International brands still wants to gain a foothold in this highly populated and prosperous market in China, 7-Eleven, the World' largest convenience store chain, entered the market in Shanghai in 2009, and is very strong in South-China.

Import penetration in this sector tends to be relatively low, despite a high level of interest on the part of several chains. Being largely domestic companies, management at convenience store chains tends to be less familiar with imported products than their counterparts in the hypermarket sector. A second difficulty faced by imports is packaging: convenience stores typically require smaller package sizes, being focused mainly on single-serving products. However the foreign players in the market, such as 7-Eleven and Family-Mart, have introduced more imported products into their stores. But these are mainly from Japan and south-east Asian countries. Exporters are advised to open discussions directly with chain officials to identify products with potential, and ensure that packaging meets their needs.

Then the exporter will need to identify a local distributor that can handle the import paperwork and labeling issues. One alternative to this is to work with an importer/repacker, who can import in bulk, then package the products in China with Chinese labels and packaging appropriate to the convenience market. This strategy has proven extremely successful for U.S. prunes. One U.S. distributor in Beijing is directly importing products from the U.S. and is managing his own paperwork and packing.

Managing logistics for convenience stores is very challenging. Limited shelf and storage spaces make convenience stores heavily reliant on sophisticated logistic systems that should provide delivery 2 or 3 times a day. But in Shanghai most convenience stores are guaranteed just one delivery per day. This adversely affects the ability of these stores to offer the fresh and ready-to-eat products that are among their most attractive offerings. In addition, the need for small package sizes limits their set of suppliers.

Traditional Markets: These continue to be a presence throughout China, although they are no longer the dominant factor in the larger cities. Traditional markets fall into three general categories: wet markets, variety stores (xiaomaibu), and fruit stands. Wet markets specialize mainly in fresh vegetables, meat, poultry and seafood (Mostly sold live), eggs, tofu and to a lesser extent, fruit and staple foods. Sanitary standards are extremely low, particularly for meat. Officials generally regard wet markets as an eyesore, as well as a source of both food safety problems and unregulated (i.e., untaxed) commerce. The SARS epidemics of 2003, followed shortly by avian influenza outbreaks, provided more impetus to efforts to reform or close these markets. Nonetheless, they persist. The main reason for this is a lack of alternatives for buying fresh vegetables and, to a lesser extent, meat. With local government support, however, supermarkets' efforts to expand the fresh section, and especially with consumers' growing concerns over food safety, these traditional markets will gradually be phased out.

The other traditional formats are small variety stores (xiaomaibu) and fruit stands. The typical xiaomaibu is much smaller than even a convenience store, family owned, and stocks an eclectic mix of products. Although they face a serious challenge from convenience stores, the xiaomaibu persists even in Shanghai. While convenience chains follow standard formats and target key sites (train and bus stations, schools, hospitals, etc.), xiaomaibu are infinitely adaptable. Small size and independent ownership allows these shops to adapt to individual sites such as apartment complexes, and adapt their product selection even to match individual consumers. Like convenience stores, xiaomaibu also offer a range of services such as bill payment and IP telecommunication card sales.

Fruit stands fill another gap left by the convenience stores, which rarely carry more than one or two types of fruit. Sales are boosted by the tradition of giving gifts when visiting friends, and most fruit stands will wrap fruit baskets to order. Fruit stands frequently carry imported fruit, usually for inclusion in fruit baskets. However, they are generally regarded as poor venues for imported products, as they are generally price driven, poorly regulated and lack the means to store fruit properly. Counterfeiting is widespread in these markets, and where a brand name adds value, it is certain to be copied. As a result, there is little room for marketing and promotion of imported products. While both xiaomaibus and fruit stands will likely continue to decline in numbers relative to convenience stores, China's high urban population densities are likely to support their continued existence for many years. Recently, there are new companies engaging in on-line sales of high quality imported fruits with next day delivery as incomes rise and internet usage increases, online sales may become good alternative to traditional fruit stand sales in the future.

Product Distribution

Retail distribution channels have not grown to match the number and quality of retail outlets. Roughly the size of the continental United States., China does not have a nationwide network of trucks, highways and cold storage warehouses that can efficiently deliver supplies from the manufacturer or importer to the store shelf. With some notable exceptions, distribution is handled on a store-by-store or city-by-city basis, with stores receiving most imports through a local distributor, often even when alternatives exist.

Because of their relative size, stores are able to negotiate highly favorable terms that include free return of unsold products, high listing fees for new products, and credit terms, effectively passing all market risk onto the distributor. This gives store managers a powerful incentive to favor the local distributor over alternatives that offer less generous terms. In at least one case, an international retailer's effort to establish single-desk distribution of imports failed when their own stores refused to work with the selected distributor.

A second reason for reliance on local distributors is the tendency of international retailers to expand rapidly nationwide rather than focusing on a single city or region, creating large numbers of isolated stores that lack the volume to support a dedicated distribution network.   A final reason has to do with the role of relationships in Chinese business: local distributors can provide a store with a network of business and government contacts that are useful in resolving problems with minimal fuss.

Fragmentation among suppliers of locally sourced products, particularly of vegetables and meat, helps to perpetuate the dominant role of the local distributor. This is changing slowly, as the government encourages direct sourcing and farmers' professional associations become more common, giving producers the ability to supply larger quantities from a single source and at a more consistent level of quality.

International retailers have recognized the problem and put a greater effort into improving the logistics system. Right now, Wal-Mart is focusing on building a nationwide distribution network, and has a recently built distribution center in Tianjin. The German retailer Metro has a centralized distribution system for many imported products, and a few large distributors have negotiated more favorable terms with retail chains at the national level, in some cases waiving listing fees. Carrefour also contracted with a third party logistics company to handle most of its imported grocery items. Tesco also can provide national distribution and purchasing. But fresh and frozen items still rely on importers or distributors to deliver to the stores themselves. The role of the local distributor in handling imports is declining. Nonetheless, for now, distribution remains the key obstacle to sales of imported processed foods in China's retail sector.

Because of the high level of risk they are expected to absorb, distributors tend to be very conservative about new products, particularly imports. As a result, penetration of imported foods into the retail sector is low. Even in relatively affluent cities, international retailers typically carry less than 1% imported SKUs. Notable exceptions include stores in Shanghai, Beijing, Guangzhou and nearby boomtowns, which are home to both large expatriate communities and to a large number of Chinese with overseas experience. Products that are already in the market but being sold mainly through gray channels or sub-distributors tend to be the most attractive to distributors. However, these products are most likely not labeled properly and are not available in market on a consist basis.

Farther inland, distribution problems are complicated by China's heavily fragmented logistics systems, which makes it difficult to transport products directly from the coast to deep inland cities. One survey in Chengdu found that temperature sensitive items, such as imported poultry and meat, changed ownership as many as five times within China before reaching the final user.

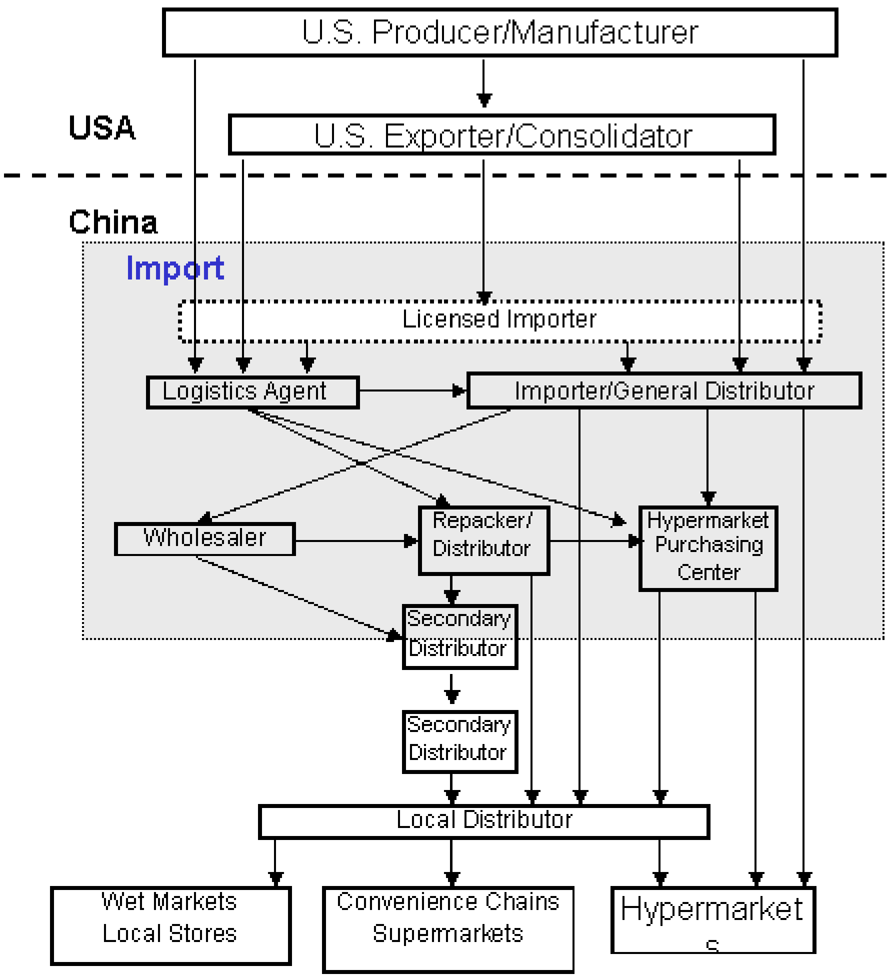
A lack of appreciation for the value of maintaining the cold chain creates special problems for temperature sensitive items. Even if cold storage is used at the port of entry and the retailer maintains the appropriate environment, getting drivers to maintain the correct temperature during transportation has proved difficult. While this is certainly true in secondary markets, where frozen products often have a frosty covering, it is also true in the major costal markets.

Distributors generally fall into one of two categories. The largest distributors tend to have longstanding relationships with the major retail chains, and can source in larger volumes and place products in a larger number of stores. However, they also tend to carry a large number of SKUs, and cannot dedicate resources to marketing any one particular item. Specialty distributors tend to be focused on one area or product type. Although they sometimes lack the volume and connections of larger distributors, they tend to be more aggressive in marketing products and better at identifying and selling into specific niches. The quality of these smaller distributors varies widely, however, and exporters need to be very careful in selecting a partner.

A handful of retailers also act as distributors. Although they tend to provide less marketing support, they can be an effective means of getting product to retailers that have already expressed an interest, but cannot handle the import formalities themselves. One major importer in Shanghai who is familiar with several large grocery consolidators in the United States has opened two retail outlets showcasing these products, one in Nanjing in Central China and the other in Tianjin in China's northeast coast. The company distributes products to specialty stores as far west as Lanzhou and Kunming and hopes to buy certain snack foods directly from U.S. manufacturers in the future.

Geographic Differences in Distribution

Chinese Distribution Channels



Source: ATO/Shanghai research

Distribution varies widely throughout China based on geography, product type and retail sector. As a general rule, the three cities of Shanghai, Guangzhou and Beijing have the best infrastructure and the largest number of experienced distributors. Increasingly, those systems are being extended to the large webs of satellite cities surrounding Guangzhou, Beijing and Shanghai. Ports in these cities offer a growing array of services, including bonded storage (with temperature controlled facilities, if needed) and online inventory tracking. Some have duty-free industrial zones where products can be repackaged or further processed, with duty paid only on the original import value, and only after products leave the zone.

Other major cities along the eastern seaboard, beyond the reach of the 'big three,' generally have good logistics infrastructure, but most still rely on one of the ‘big three’ as an entry point for imports. The number of distributors handling imported products in these cities is usually limited. These tend to be good markets for commodity products such as meat, poultry, fruit and seafood, as well as sauces, condiments and wine.

Farther inland, there are a number of large cities with good market potential. Logistics can be problematic, but improvements in the national highway system have made trucking direct from Shanghai or Guangzhou far easier than it was just a few years ago. As a result, high value and sensitive products shipped by truck directly from the importer to a local distributor do surprisingly well, while lower value and shelf-stable products that ship on local roads through conventional distribution chains face more difficulties. Distribution in these cities is generally underdeveloped. Many cities have only a single distributor for imports, particularly high-value or temperature-sensitive products. Products going through conventional distribution channels typically change hands numerous times before reaching their final destination. Distribution channels for HRI tend to be better developed, and may be the best place to start for exporters seeking to develop new markets.

Distribution by Product Type

Distribution also varies widely by product type. Channels for shelf-stable grocery products tend to be the most heavily fragmented and the most dependent on the good graces of local distributors. This is partly because market risk is perceived to be higher: although shelf stable, the number of SKUs tends to be high and turnover low compared to other product categories. Hence the risk that a product will not sell (and the distributor will have to accept a return) is higher. Meat, poultry and seafood also face fragmented distribution, but the combined demand from HRI and retail venues is sufficient to warrant special arrangements for these high-value products. Fresh fruit appears to have the best distribution, working through a patchwork of wholesale markets and specialized distributors that works better than it should. Imported frozen corn and mixed vegetables are almost universally available, reinforcing the notion that the problem is less one of logistics than of distribution. Wine deserves special mention, due to the presence of a community of specialized distributors, some of whom act as exporter, importer and distributor all in one, taking product directly to retailers and food service venues.

New Trends in Retail

Merger and acquisition deals have been quite active in recent years and will continue in the near future. The whole market will become more consolidated and integrated. For example, Lotte group, the largest retailer in south Korea, purchased Jiangsu Times Supermarket chain. And Carrefour just finished its acquisition deal of a local retailer in Hebei province. With the increasing maturity and sophistication of Chinese consumers, the importance of brand awareness and loyalty will be more and more evident in the future. The current leading companies, such as Carrefour, Auchan and Wal-mart, will benefit from expansion of the urban market, while relatively small and regional companies will be phased out of the market.

Direct sourcing of food and agricultural products from farm cooperatives has been adopted by many retailers in Shanghai and is growing elsewhere. This allows retailers to address consumers' concerns about food safety, reduced cost, and possibly improve product quality. On the imported product side, more and more retailers especially those in the specialty supermarket section are looking for direct sourcing channels. But not all of them are successful. Post heard from industry that one high-end retailer in Beijing purchased a consolidated container of goods directly from the United States and ended up selling at a heavy loss, due to product selection problems. International players have also moved in this direction. Wal-Mart started to directly source and import U.S.cherries. Metro established its own Hong Kong trading company to deal with direct sourcing, but decision making is still done by its buyers based in Shanghai.

Neighborhood Supermarkets opened by Wal-Mart, Carrefour and Tesco have reinforced their expansion into the supermarket format. These outlets offer low prices and fresh food as their selling points. The prices in Tesco Express are as competitive as in Tesco Hymall (hypermarket). Seventy to eighty percent of the products in Carrefour's trial express neighborhood outlet are also fresh and chilled products. Making use of Carrefour's purchase and logistics system, its operating cost is much lower. These express outlets may turn out to be a way for supermarkets to survive the fierce competition from hypermarkets and convenience stores. Such outlets can better cater to consumers' daily needs due to their convenient location.

Private label products are a new development in China. Each hypermarket, supermarket and convenience store chain in China has a unique private label offer: Carrefour, Great Value, Metro's IKA, Tesco and Lianhua are private label lines from leading players. In terms of imports, more private label products are coming on the market here. Metro has moved ahead of the pack in this regard - it imports salmon from Norway by itself, and then packs it and sells in under its private label brand IKA. Carrefour is expanding the "O" organics brand which is a Safeway private label product and sells well in coastal cities.

Several **specialty wine retail** outlets have opened in Shanghai. These sell a selection of imported and domestic wines and are not to be confused with state-owned liquor and tobacco stores. The most notable is Napa Reserve, which features a wide range of wines from that region of California. (Please see CH8802 Shanghai Retail Wine Show.) The Chinese wine market is more completely analyzed in the National Wine Market Report CH9808.

Retailer Profiles

Domestic retailers generally have an advantage over foreign retailers, and China is not an exception to the rule. Lianhua and the Suguo - Vanguard combination are easily the largest food retailers in China. The three largest multinational chains - Auchan, Carrefour, and Wal-Mart - have not been in a position to challenge the local incumbents for sales leadership. If you look at the hypermarket channel, or imported products however, the situation is different. Most of the Chinese domestic retailers focus on a clientele that is more representative of the Chinese population than that of the multinational retailers. They also have store base that is often older, partly franchised, and has large numbers of smaller properties.

While the domestic retailers are becoming more interested in imported products, importers have traditionally focused on, and gotten better results from, the multinational hypermarket retailers. The number of hypermarkets by retailer in selected cities and the total number of stores by retailer in Shanghai are presented in the appendix.

The table below gives a snapshot of the relative competitive position of some of China's leading food retailers. The data is for the year ending December 31, 2008.

Leading Food Retailers in China: 2008

Company	Ownership	Business Line	Stores	Sales* ¥ billion
Chinese				
Lianhua	China SOE**	Super/Hypermarket/ Convenience	3932	74.0
Wumart	China Pvt	Supermarket/ Convenience	726	31.0
Suguo (CRV)	China SOE***	Supermarket/ Convenience	1802	45.0
Nonggongshang	China SOE	Super/Hypermarket/ Convenience	3330	39.0
Vanguard (CRV)	China SOE	Super/Hypermarket/ Convenience	2698	49.1
Xiuyijia (A. Best)	China Pvt	Department	105	25.0
Wuhan Zhongbai	China SOE	Super/Hypermarket	626	16.0
Multinational				
RT Mart	France	Hypermarket	101	49.4
Carrefour	France	Hypermarket	134	49.7
Wal-Mart	U.S. JV	Hypermarket	290	41.0
Metro	Germany JV	Hypermarket	38	18.5
Tesco	U.K. JV	Hypermarket	61	19.9
Auchan	France	Hypermarket	37	11.9
Lotus	Thailand	Hypermarket/Convenience	76	19.1

* Food and non-food sales
** SOE= State-Owned Enterprise
*** Joint venture with China Resources Vanguard

Source: China Chain Store & Franchise Association 2009-2010

Hypermarkets

Auchan was the number one company in the Hypermarket sector in 2009 by sales value. The company currently has two major brands, RT Mart and Auchan. RT-Mart mainly targets the mid-and low-end market in second-or third-tier cities, Auchan is mainly designed for the high- and mid-end market in first tier cities.Auchan has 37 stores in overall China with 5 stores in Shanghai, another new store will open in Shanghai soon. It stocks about 1000 import product SKUs, about 15% are from the U.S. Its main clientele are young people and high income locals. Auchan has a centralized system for import distribution. Its purchasing and distribution department are located in Shanghai.

RT Mart has 102 stores in China at the end of 2008; at the end of 2010 it had 10 outlets in Shanghai alone. Although overall store numbers lag behind Wal-mart and Carrefour, RT-Mart single store sales are the highest.

Wal-Mart: Currently Wal-Mart has over 290 stores nationwide, including three independent operations (Wal-Mart supercenters, Trust Mart stores, and Sam's Clubs). Wal-Mart set up its headquarters and opened its first store in Shenzhen in Southern China 13 years ago. It's "Everyday Low-Price" strategy helps Wal-Mart attract traffic, and it continues to aggressively open new stores to penetrate Mainland China's second- and third-tier cities. After Wal-Mart's acquisition of Trust-Mart three years ago, Wal-Mart now has full management control of all three retail formats. Wal-Mart is looking to further expand in the coming years.

In order to promote more U.S. products in these three retail formats, a strong buying team and operational team will be built. Wal-Mart claimed that their buying teams now have the capacity to purchase U.S. food items directly from the States, instead of contracting through Hong kong brokers. Last year, for example, Wal-Mart (China) purchased 2,000 cartons of Northwest cherries directly from the States. Post also sponsored an "American Food Festival" with Sam's Clubs in South China in November of 2009 which generated a total of USD1 million worth of sales.

Compared to the other international retailers Wal-Mart may be more willing to open stores in secondary cities and in suburbs. In 2005, Wal-Mart made an entrance into Shanghai with the opening of a large suburban outlet. It has established a second company in Eastern China to manage its expansion in the Shanghai area.

Sam's Club: In addition to *Wal-Mart* supercenters, *Sam's Club* (membership warehouse store) is another Wal Mart retail format. *Sam's Club* has gained a favorable reputation by introducing a greater amount of imported foods to local consumers than other competitors. To date, five *Sam's Clubs* have opened, including stores in Shenzhen, Beijing, in Fuzhou, Guangzhou and Shanghai. The Shenzhen store is reported to be one of the most profitable *Sam's Club* stores in the world. This coming November and December, ATO/Guangzhou together with several cooperators will work closely with three *Sam's Club*s in South China to conduct a regional promotion featuring various snack foods and fresh items. A new Sam's Clubs opened in Shanghai in Dec 2010 and more in the coming months in Zhejiang and Dalian.

Trust-Mart: With over 100 stores in Mainland China and 38 in the south, Trust-Mart is one of the largest retailers in the country. Trust-Mart sold a 35 percent stake in its China business to *Wal-Mart*. This Taiwanese company has 17 stores in Guangzhou, four in Shenzhen, three in Dongguan and one each in Zhongshan and Zhanjiang in Guangdong. It has 10 stores in Fujian province, covering five in Fuzhou, four in Xiamen and one in Quanzhou. It also has a presence in Changsha, Hunan.

French Carrefour, the World's 2nd largest retailer**, recently** acquired a regional supermarket chain in Hebei province demonstrating its determination to expand into second tier and third tier cities in China. Its recent decision to centralize purchasing created internal discord. Many store managers who used to make purchasing decisions by themselves chose to leave. Import product purchasing has not changed; decisions are still made by buyers based in headquarters.

While Carrefour continues to dominate at the high end, with 19 hypermarkets presently in Shanghai alone, its single store sales lag behind RT-Mart.

Carrefour China current CEO has a finance background. Since his arrival, Carrefour has paid more attention to profitability and has become more conservative in terms of new product sourcing and merchandising. This has impacted the introduction of new imported products. Carrefour's internal organizational structure and policy has changed to favor people with a finance background and a volume sales-oriented strategy.

Thai-Lotus Chain has a target of 100 stores in the next few years. It has quietly expanded and has 21 stores in Shanghai, although turnover for these stores is lower than for Carrefour stores. Imported products have a relatively small presence in its stores compared with other retailers. And it has changed its marketing slogan from "Everyday Low Price" to "Freshen Your Life", indicating an attempt to stand out from its mass positioning. It recently renovated its flagship store located in Super brand mall in Shanghai, with reduced overall space. And wider aisles. It intends to build different corners based on countries. A newly hired purchasing team from Japan is going to make purchasing decisions for imported products. An industry source told Post that another similar format store will be set up in Shanghai soon.

AEON-Jusco Jusco opened its first North China hypermarket in Qingdao in 1998 with 40,000 square meters of retail space and parking for 1,000 cars. The format links shopping and leisure by offering a supermarket, restaurants, coffee shops, etc., all under one roof to have become the number one expatriate and middle class Chinese consumer destination. Sales reached $0.2 billion in 2010 and the also retailer operates 6 outlets in Shandong Province (3 in Qingdao; 1 each in Yantai, Weifang and Weihai (opened May 2010). In addition, the retailer has increased market share by expanding into the convenience store market operating 9 convenience stores in Qingdao alone. Based on Jusco's development strategy, they plan to open 3 new hypermarkets and 90 convenience stores over the next two years.

The company established a subsidiary company in Beijing in 2007 focused on Beijing and Tianjin markets with the first hypermarket located in suburban Beijing targeted at high-end consumers from surrounding upscale communities who use their cars to shop with the family on weekends. In 2010, the company opened its second outlet in Beijing in Chaoyang District, as well as entering into an agreement with Teda Promenades in Tianjin where the company will open its first outlet in the Tianjin market.

The German based, cash and carry Metro chain relies on its niche-market strategy of targeting small and medium sized restaurants, effectively positioning itself as an HRI wholesaler and distancing itself from its competitors. To this end, Metro has added a training kitchen to its facilities in Shanghai. Historically it has opened stores more slowly than other international retailers, but it recently announced plans to open stores at much more aggressive pace. Depending on the opening dates of 4 new stores, Metro may currently have 42 stores throughout China.

Metro has the widest selection of imported products of any of the key retailers, and 10 percent of their sales revenue is from imported products. Metro has a membership system similar to that of Sam's Club or Costco. Their large section of frozen processed foods, including desserts, frozen vegetable mixes, and frozen potato products, is easy to use and open to U.S. products. This meat case carries a large variety of both frozen and chilled beef and pork. Metro's main competition is the local wholesale market, not other high-end hypermarkets.

Its import company previously intended to import volume-sales products directly, but now more focuses on importing its own private label products from Europe. Its import department has been dismantled, and the staff has been re-allocated to product categories departments. Its import manager told Post it's still determined to import directly in the future and plans to set up its own trading company in Hong Kong. Imported product purchasing decisions are still conducted at the headquarters.

British Tesco moved its headquarters to Shanghai in 2009 and has 19 stores in metro Shanghai. It opened a new retailing format in Shanghai in 2008. Called the "Express", which has fresh food as its core offer. Recent interview with its import manager disclosed Tesco ambitious investment plans in mainland China and may invest about USD7.5 Billion in the next three years to expand its current presence in China. Import products penetration, including American products in Tesco is rather low, concentrating on a few condiment and sauces and several SKUs of wine.

***China Resources - Vanguard (CR*V**): As one of China's leading retail chain operators in China, its first store was opened in Hong Kong in 1984. It entered the supermarket business in Shenzhen in 1991, Suzhou in 1995, and Beijing in 1998. Acquisition helped CR Vanguard to become the national number one retailer in terms of number of outlets and total sales. It acquired Suguo supermarket in 2004, then continued to purchase Tianjin Yuetan in 2005 and Jia shijie in 2007. In 2008, CRV completed the acquisition of Aijia supermarket in Xi'an. This year, CRV entered Wuxi by acquiring a 100 percent stake in Yongan supermarket. This Hong Kong operator manages hypermarkets, supercenters, and superstores under the Vanguard brand name.

Currently, CRV has over 3,000 stores (up 500 from 2007) in China. This includes 400 hypermarkets, 2,500 superstores, over 80 community stores, as well as 14 high-end Ole stores that focus on large percent of imported products. The total sales have reached $10 billion. In Guangdong, there are around 300 stores, including 44 hypermarkets. Recently, the new format “Vango 24hours” convenience stores and Better Life Together (BLT) stores opened in Shenzhen. Generally speaking, Vanguard targets customers likely to buy local produce; however, in some selected stores, special imported food sections have been opened to promote imported food items and according to our contact, consumers are showing greater interest in expanding their selection of imported food items. CRV also opened two upscale “Ole” stores in Shanghai.

Century Lianhua is the hypermarket brand of the state owned Balian group. This group’s food retail side is dominated by supermarkets, but it has substantial number of hypermarkets in East China. While it is still small, they are focusing on improving their selection of imported products in both Hangzhou and Shanghai. In Shanghai they are also starting to import directly.

Department Stores

Ito Yokado and **Isetan** are high-end, Japanese-owned stores that target upper class consumers. These retailers’ emphasis on expansion in to these second-tier markets suggests that there is easier access for high-end retailers in the second-tier markets. China wide, Ito Yokado has two stores in Beijing and one store in Chengdu. Isetan’s Chinese stores are in Shanghai and the second-tier cities of Jinan, Tianjin, Chengdu, and Shenyang. Depending on the market, higher end grocery stores in a department store may carry a large selection of imported products, or a section of a store that specializes in other types of merchandise may be dedicated to imported dry goods. There are many other examples of department stores containing a high end grocery store or supermarket.

Specialty Supermarkets and Boutique Stores

Jenny Lou’s is a major retailer of imported food products for expatriates, upper middle income Chinese consumers and others who have lived and studies overseas. The company, established in 1995, operates 13 supermarkets in Beijing located in high-income and/or upscale communities – often near diplomatic compounds and missions. More than 98 percent of the products offered in the small supermarkets are from overseas with 60 percent from the United States. In particular, breakfast cereal, seasonings, dairy products and wine make up the greatest focus of offerings. Jenny Lou’s states that their business has recovered from the economic crisis of the last few years but gradually. Sales have returned to average levels prior to the financial crisis and are on the increase.

Beijing Hua Lian High-End Supermarket (BHG) is under the Hua Lian Group targets elite Chinese and expatriate consumers in Beijing. The retailer operates 5 outlets in Beijing located in high-income areas or near diplomatic compounds. The most famous is located in the basement of the Xing Kong Plaza and is often considered to be the most high end department store in Beijing, offering a wide selection of luxury brands. The store's sales results were more than $29 million for 2009. The retailer provides a wide selection of imported food products of which more than 40 percent are from the United States. BHG also runs a high end supermarket in Nanjing and based on current plans will add 3 new supermarkets in Beijing over the next year. In addition BHG is considering accessing the Shanghai and Guangzhou markets in the very near future.

City Shop sells an extensive range of imported foods. Over 85% of City Shop's products are imported. City Shop carries nearly 3,000 American food and non-food products, which make up 1/3 of total product SKUs, while contributing 50% of overall sales. Started as a corner shop by a former Cochran fellow, City Shop now has 9 retail outlets in Shanghai and one in Beijing. And another store will open in Beijing soon. It has developed its own system of retail and wholesale services. It maintains its own farms with internationally recognized organic farming and logistics systems. It produces 140 different organic vegetables and herbs, and produce is transported daily via temperature-controlled trucks to City Shop outlets and other wholesale business partners.

Ole: operated by CRV, targets upper-middle income shoppers and white-collar workers. Its 10 Beijing stores are all located in business or shopping centers. There are two stores in Shenzhen, one in Dongguan with another set to open in Guangzhou. Imported food product sales are approximately 50 percent or more of total food sales. The stores in Shenzhen have been successful in introducing imported foods such as cheeses, chocolates, coffee, wine, liquor, biscuits, and fresh fruits at higher prices. Undermining this early success is an unstable supply chain and lack of promotion to support further demand growth. Ole has opened two stores in Shanghai.

Supermarkets

Lianhua, Hualian and Nonggongshang are three large state owned supermarket chains. These, and other domestic firms, dominate the supermarket sector. Although Lianhua and Hualian were nominally merged three years ago to form the behemoth Bailian, the largest retailer group in China, they continue to operate as distinct (and competitive) chains. Bailian appears to be more focused on rationalizing its diverse portfolio, and developing its shopping mall management component. Both Lianhua and Hualian have expanded aggressively through acquisitions of other chains, leaving both companies with the challenge of incorporating them into already weak state owned management structures. Inspired by foreign-invested companies, the Chinese chains are paying greater attention to branding, and most now carry a substantial number of house brands.

All three have also opened branded hypermarkets in and beyond Shanghai, and Lianhua is putting a particularly strong effort into its Century Lianhua hypermarkets. Although Nonggongshang's market share has slipped, it is attempting to expand its reach to match Lianhua and Hualian, opening NGS hypermarkets in distant cities like Nanchang, with mixed results.

The state owned supermarket chains also play another role – that of the local partner of international retailers. The international players had to agree to this to enter China. So Lianhua, for example, owns a large minority position in both Carrefour and Metro.

China Resources Vanguard also has a large number of supermarkets. It acquired with Suguo, a regional giant headquartered in Nanjing in 2004. The brands continue to operate independently.

Wu-Mart is a major retail chain based in Beijing operating over 700 stores throughout China including hypermarkets, supermarkets, and convenience stores targeting middle class and low end consumers. The outlets are mainly located in Beijing and Tianjin, and Zhejiang and Ningxia Provinces. According to company financial reports, total revenues reached $99 million for the first half year of 2010 or an increase of 17.7% over the previous period of last year. The high revenues were achieved thought strong older stand alone outlet sales as well as new outlets which opened in the second half of 2009. In addition, PE firms TPG and Hony Capital (investment companies) input $212.9 million to help the retail further expansion and acquisition in China market.

Advantages and Challenges for U.S. Products

Overall, U.S. products enjoy a high image in the China market. Rising incomes and growing concerns over food safety among Chinese consumers after numerous episodes of food contamination mean there will be more opportunities for U.S. products, which are largely perceived as safe and wholesome. On the other hand, price is still one of the barriers for U.S. products to reach more Chinese consumers; other challenges include labeling regulations, distribution, and limited product knowledge. The following table provides further details:

Advantages and Challenges for *U.S.* Products

Advantages	Challenges
U.S. products are regarded as high in quality, and manufactured with high safety standards.	Many U.S. products are more costly than their local counterparts.
Urban Chinese consumers spend 36% of their income on food.	Overall incomes remain relatively low, with imported products selling mainly to higher income groups.
Consumers are interested in new tastes.	Consumers are very price sensitive, and often unwilling to risk spending money on unfamiliar products without trying them first.
Many U.S. brands are widely recognized and respected in China's major urban markets.	Many U.S. companies have established plants in China, manufacturing their products in China with Chinese ingredients.
Incomes are growing rapidly in second and third tier cities, creating a whole new range of opportunities.	Distribution and logistics remain underdeveloped outside of the largest urban centers, making distribution of imported products to interior cities difficult.
Western foods are more widely available than ever, and growing in popularity with consumers.	Lack of knowledge about U.S. products and how to prepare them properly makes consumers hesitant to buy.
China's entry into the WTO reduced tariffs on a wide range of imported products.	Labeling regulations and sanitary restrictions limit access to the market. Enforcement of regulations is haphazard, creating confusion for exporters.
The number of qualified distributors for imported food on the mainland is growing, along with the volume of direct exports.	Many U.S. exporters continue to rely on gray market channels, reducing their level of contact with end users and understanding of the market.
Rapid growth in retail chains has created the potential for bulk sales, with consequent improvement in pricing and handling.	Purchasing by most foreign-invested chains remains decentralized, preventing them from sourcing in bulk. Close relationships between store managers and local distributors help to reinforce this tendency.

Competition and Best Prospects

The most serious competition for U.S. food exporters comes from local and joint venture food producers and processors. The quality of fruit and vegetables in particular has increased rapidly, and many local traders now contend that the best of China's fruit is similar in quality to imports. The general lack of coherent marketing systems continues to plague China's industry, however, making it difficult to source significant quantities of products with consistent quality. While oranges similar in quality to U.S. navel oranges are available, the transaction costs of dealing with large numbers of small farmers, then sorting and packing raises the final market price to levels similar to imports. The formation of farmers' voluntary organizations such as the Zhejiang Pear Association has the potential to reduce these problems, but such organizations are still relatively new.

Competition is equally intense for processed foods, although differences in taste mean that the primary competition comes from third country competitors or joint venture manufacturers. Shelves may appear to be stocked with famous foreign brands such as Kraft, Lays and M&Ms, but close inspection reveals that most of these products are manufactured locally or in Southeast Asia. This allows manufacturers to cash in on brand identification, take advantage of low labor costs in China, and adapt their products to Chinese tastes and labeling regulations, all at the same time. Years of food adulteration scandals have made Chinese consumers cynical, however, and most will attribute a higher level of quality safeguards to food products that are genuinely imported.

The general trend to date has been for local manufacturers to push imports out of the price-driven mass market and into niche markets where quality and novelty are more important than price. This has already happened to varying degrees with pet food (Mars' locally manufactured Pedrigree and

Whiskas labels dominate the middle market), wine (Chinese labels dominate at the low end), apples (Washington State apples sell extremely well in gift markets) and confectionery (Mars). Growing local competition has emerged for table grapes, and domestic sweet cherries, lemons and almonds appear to be improving in both volume and quality, albeit from a very low base. Certain products, particularly western-style prepared foods, face little or no competition from local manufacturers, constituting a niche unto themselves. Improvements in quality and increased efforts at brand development are allowing Chinese companies to compete more effectively for some niche markets, but local manufacturers face the same distribution problems as imported products, as well as a high level of skepticism among consumers.

Third country competition comes in two distinct areas: commodity-type products such as frozen meat, poultry, seafood and fresh fruit, and western-style niche products such as canned and prepared foods and ethnic cuisines and ingredients. Competition in the fresh and frozen meat, fruit and vegetables arena, as well as dairy, comes primarily from Pacific rim neighbors, including Thailand, New Zealand, Australia, Canada and Chile, as well as South Africa and Brazil. Competition for western-style prepared foods is much more global, with competitors playing to their strengths in individual products such as olive oil, wine, pasta and pasta sauces.

The U.S. remains the largest single exporter of consumer-oriented food to China, and is the only exporter with a presence in most categories. China is attracting a growing level of interest from other countries, however, and has signed or is negotiating bilateral trade pacts with many of its neighbors. The following is a brief outline of key products and competitors:

Key Products and Competitors

Selected U.S. Imported Products	Main Foreign Competitors
Red Meat	Canada, Denmark, New Zealand, Australia
Poultry: chicken paws & wing tips	Brazil, Argentina
Oranges	New Zealand, South Africa
California Table Grapes	Chile

Washington Apples	Chile, New Zealand
Cherries	New Zealand
Breakfast Cereal	United Kingdom, Australia, EU
Cheese and Dairy	New Zealand, Australia, EU
Frozen Processed Products	Canada, New Zealand
Wine	Australia, France, Italy, Spain, Chile
Spaghetti sauce/tomato products	Italy, France, EU
Coffee	Japan, France, South Africa
Candy and Chocolate	Switzerland, Italy, France, Belgium, Japan
Nuts	Iran (pistachios), Mongolia, Korea (chestnuts) Russia
Seafood	Russia, North Korea, Canada, Norway, Japan
Ginseng	Canada, Korea
Dried fruit: prunes and raisins	France and Italy (prunes)
Baby food/infant formula	New Zealand, Switzerland
Premium Ice Cream	France, New Zealand

Best Products Prospects

Products Present in the Market Which Have Good Sales Potential

- Nuts and dried fruit (prunes, raisins)
- Seafood
- Poultry meat
- Red meat (U.S. beef and related products are currently not permitted entry into China)
- Frozen vegetables (esp. sweet corn)
- Infant formula
- Baby food
- Dairy products (cheese and butter)
- Baking ingredients and bread bases
- Cereals
- Frozen potato products
- Fresh fruit (oranges, apples)
- Premium ice cream

Products Not Present in Significant Quantities, Which Have Good Sales Potential

- Fresh fruit (cherries, pears)
- Processed/dried fruit (blueberries, cranberries)
- Mexican, Indian food
- Ready-to-cook and ready-to-eat foods
- Natural and Organic foods (niche market)
- Functional foods

Guidelines for Entering the Market

China is not a single amorphous market, but a jigsaw puzzle of small, overlapping markets separated by geography, culture, cuisine, demographics and dialects. As such, there is no single formula for success in China. The best approach to marketing a product will vary depending on the product and the specific market (geographic and demographic) being targeted. Nonetheless, there are some basic guidelines that can be applied to most cases.

1) Understand the importance of relationships. China's legal system is developing, but remains inconsistent. Enforceability of contracts varies widely, but is generally weak. Business in China instead relies heavily on personal contacts and influence (referred to as 'guanxi'). For companies with a serious interest in China, no investment will be more important to their success than the network of relationships that they establish in China. For more pointers on the role of guanxi in Chinese business culture, please see report CH4835, Chinese Business Etiquette.

2) Find a local partner and/or distributor. For smaller companies without the resources to directly market their products in China, a good distributor is critical to success. Distributors provide the network of relationships with buyers, regulators and others, that is essential to doing business in China. Unfortunately, these tend to be in short supply. ATOs keep lists of well-known distributors. Keep in mind that contract arrangements with retailers tend to place most of the market risk for new products onto the distributor, so they may require some convincing before they will take on an unfamiliar product. Specialized distributors also exist for certain product categories, most notably wine, seafood and fruit. Be careful in selecting a partner and in establishing an incentive structure: partnerships gone sour are the most common cause of business failure in China. Paying close attention to payment terms can be an important aspect of this (confirmed letters of credit are standard).

3) Know the rules. Chinese regulations are often vaguely worded, arbitrarily enforced and opaque. Your distributor can (and should) handle this for you. However, weak enforcement has made short-cutting a common practice, and exporters that rely entirely on Chinese partners for this are often unaware that their products do not conform to the rules until a problem arises. To defend against the unexpected, exporters should try to be reasonably familiar the actual regulations. Product registration, labeling and product expiry dates are the top concerns in this area. To enter the retail market, food products must receive a hygiene certificate from the local government where the product will be sold. Food products must also be labeled in accordance to Chinese government standards, with the labels pre-approved by the government. Functional or health foods must obtain a health-food certificate, and claims of health benefits on packaging or in advertising are strictly regulated. Foods containing GMO ingredients may be subject to additional labeling requirements, as are organics. There are also a wide range of concerns related to China's new Food Safety Law. Please see the FAS FAIRS reports for China on the FAS website for details (www.FAS.USDA.gov;

attaché reports) or the website for China's Administration for Quality Standards, Inspection and Quarantine (AQSIQ) at www.AQSIQ.gov.cn.

4) Get to know the market. As noted above, China is a surprisingly diverse place. Tastes, customs, culture, business practices and government regulations vary from place to place. Experience in other markets will not necessarily help in China, and some aspects of the market need to be witnessed to be fully understood. The best strategy is to target a specific place and get to know it well. The scope of your effort will determine whether you select a single city or a whole region. Travel to China is highly recommended to evaluate partnerships, build guanxi (see above), and identify new opportunities and potential obstacles. (Partners are frequently hesitant to mention problems in formal communications, but will be more forthcoming over informal events like dinners). FAS market briefs offer a good source of information on the market, and are available for free on the FAS website noted above. One way of getting to know the market is to visit the two international food shows in China which are endorsed by USDA. These include The FHC and SIAL show. ATO Shanghai hosts USA pavilions at these shows which will be attended by most professionals from China's food sector.

5) Find your market niche and focus on it. China is a very, very big place. The mass market may be huge, but it is driven entirely by price and dominated by lowest-cost local producers. Better returns are to be had from targeting a specific niche. The country has a nearly infinite number of niche markets, some of them quite large. Examples include the high-end gift market, where margins are high but packaging is crucial (wine, ginseng); the expatriate market (famous brands from home like Kraft, Betty Crocker and Post); or health-conscious young parents (prunes, almonds, fresh fruit and organic/natural products.)

6) Invest (wisely) in consumer research. To outsiders, Chinese tastes can seem fickle. Tastes poorly received in the U.S. may prove successful in China, while products targeted to one market niche may end up finding their greatest success in a completely different one. To avoid unpleasant surprises and find new opportunities, exporters with a long-term interest in China are advised to research the market and test new products directly. Be careful how you invest research money, however. The quality of research by international market research firms is often not much better than that of much less expensive local companies. ATO-sponsored activities offer good opportunities to field test new products or packaging.

7) Adapt your products. Exporters should be prepared to adapt their products to the demands of their Chinese consumers. This includes flavors, packaging, prices and labeling. Small changes to flavors or packaging, based on market research, may make the product more viable in China. For example, Chinese consumers are often unwilling to buy unfamiliar products if they can't actually see them, so including a transparent window in the box or offering free samples can help sales. Products that are marketed as gifts, such as wine, should place extra emphasis on the packaging, as this is considered an important part of any gift. Many exporters seeking to break into the gift market have special packages manufactured in China, which can also help to address labeling issues.

8) Be flexible. Things don't always work as expected in China. This can be a good thing, provided you can take advantage of opportunities when they arise. Exporters who enter the market with preconceived notions of how to market their products often miss out. ATO activities routinely turn up unexpected opportunities: for premium boneless pork in Chengdu; for d'anjou pears and cherries in Shanghai; for Mexican food in Wuhan. By the same token, a product may find its best niche in an unexpected place. Washington State apples have done quite well in China despite tough competition from local products, because superior appearance and consistent quality made them the top choice for gift baskets.

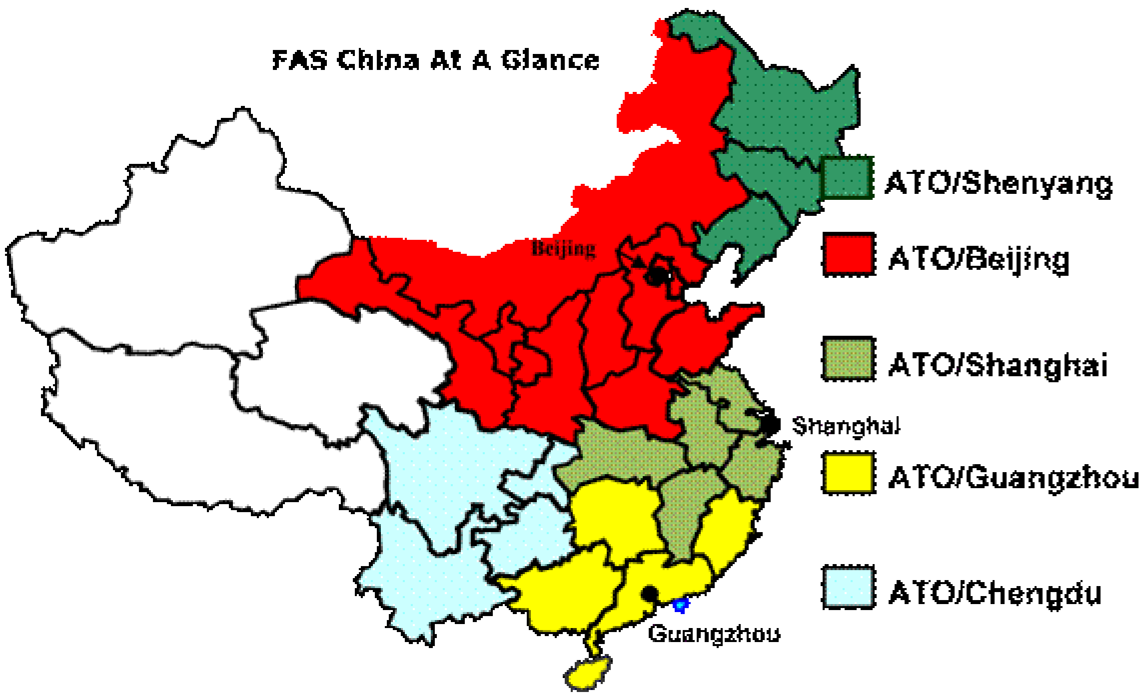
9) Pursue gradual but sustainable growth. A common pitfall is the temptation to pursue explosive growth, focusing on geographic penetration rather than sustainability. This may produce impressive short-term results, but exporters with limited means may find themselves overextended very quickly. If the exporter is unable to meet the expectations of their customers, they may turn to other sources (such as local copycats or counterfeiters) or demand may collapse. Alternatively, the exporter may find themselves overly reliant on local agents that they do not know well, and who have little interest in the long-term success of the product. The go-slow approach gives exporters time to learn the markets, accumulate customer feedback, and build their distribution channels.

10) Invest in market promotion. Once in the market, an exporter's product will be competing with tens, if not hundreds, of similar products. Domestically made products will often have advantages on price, familiarity and local brand recognition, while imports can be aided by aggressive promotional campaigns. Lacking the massive marketing budgets of multinationals like Nestle or Kraft, most exporters must design and implement their marketing campaigns carefully. Attending only quality, focused trade shows for your particular market segment is a good way to start. In-store promotions are also a cost-effective way to support your product and build relationships with distributors and retailers. Above-the-line media advertising should be carefully planned, as TV and radio time is expensive and has limited reach. Exporters are strongly advised to explore joint marketing opportunities with ATOs or with a State and Regional Trade Groups (such as MIATCO, WUSATA, Food Export USA/NE, or SUSTA). These events tend to be cost effective and draw more attention than stand-alone promotions. Please check out following websites to learn more about SRTG generic and branded programs: www.susta.org
www.wusata.org
www.feusa.org

Regional Profiles

China is a diverse place, and fragmented distribution and logistics systems help to reinforce existing divisions. To assist exporters in dealing with these regional differences, FAS maintains six offices in

China, with Agricultural Trade Offices (ATO) in Beijing, Shanghai, Guangzhou, Chengdu and Shenyang , and an Agricultural Affairs Office(AAO) in Beijing. The ATOs are those to help U.S companies enter the market and to support local importers/distributors of U.S. products. The AAO in Beijing is responsible for trade policy and market access issues. Individual market profiles for each region are offered in the following sections, written by the respective ATO offices.



Eastern China - Shanghai and Yangtze River Delta

The city of Shanghai is a massive market unto itself, with a population estimated at more than 20 million, and incomes among the highest anywhere in China. As costs in the city have risen, the economy has begun to shift away from manufacturing and into financial and management services. Manufacturers seeking to escape high costs in the city while taking advantage of the infrastructure and massive consumer base have created an economic boom in the surrounding region. The city 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 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 will be reduced to 30 minutes to Hangzhou, the capital of Zhejiang province and 1 hour to Nanjing, the capital of Jiangsu province. The opening of the

Yangshan deepwater port facility is expected to make Shanghai the world's largest container port within the next few years. Shanghai's large expatriate community (estimated at 500,000) is dominated by Taiwanese, who bring with them a familiarity with foreign brands and a taste for U.S. and Japanese foods. Taiwan companies dominate the baking sector and also hold more than 50% of the dry noodle market in China.

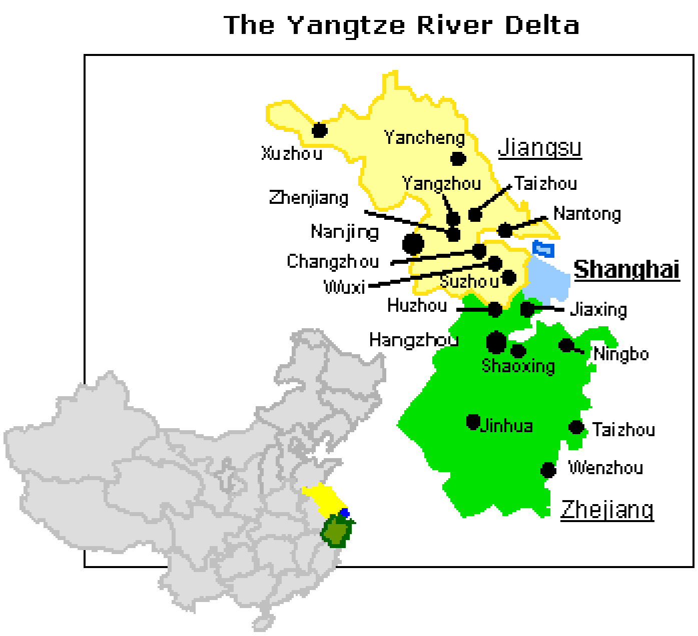
Shanghai's retail sector is increasingly saturated, and home to a large number of supermarkets, hypermarkets and an extremely strong convenience store sector. Supermarkets remain the dominant, and oldest, modern retail format, with relatively weak management and infrastructure. Supermarkets are losing ground to hypermarkets and convenience stores. This loss in market share, however, is counted in growth not captured; new stores continue to open. 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 a small supermarket within walking distance of virtually any place in the city.

The global financial crisis had a slightly negative impact on the sales of import food in East China in early 2009. But since the income base in Shanghai and the YRD area is much higher than the national average, people did not change their consumption patterns drastically. Following the melamine scandal in September 2008, consumption of imported dairy-based food and soy products such as soymilk and soy drink are increasing, as people lost confidence in domestically produced products and soy products are regarded as an alternative protein sources.

Shanghai and East China's retail performance quickly picked up in the latter half of 2009 and showed strong increase in 2010. With the World Expo opening in May and lasting till October, retailers are geared up to take advantage of the 70 million expected visitors. More high-end retailers entered the Shanghai market in 2010, Ole, a high-end retail format of China Resources Vanguard, opened its first store in Shanghai at the end of July, 2010. Earlier, Ole opened two stores in Ningbo and Hangzhou. One more new store will open in Shanghai by the end of 2010. Imported products make up more than 70 pct of their total SKUs. Before Ole's grand opening, Hong Kong based City Super opened its first store in May, and has plans for four more over the next three years. Industry sources have told ATO, that Taste another Hong Kong based high-end retailer, will enter the market soon. Product assortment and service will be key for these high-end retail formats to be successful in Shanghai and YRD markets.

Beyond Shanghai

The immediate area surrounding Shanghai (the Yangtze River Delta, or YRD) is a beehive of industrial and commercial activity. 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 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 either Lianhua, Hualian or Nongongshang, but with a preponderance of independents (with the notable exception of Nanjing's Suguo).



The capital of Zhejiang Province, **Hangzhou** hosts Carrefour, Metro, Lotus, Auchan, Wal-Mart, Lianhua, and Hymall, among other super- and hypermarkets. Hangzhou's retail market is doing far better than expectations: in an ATO-organized nationwide retail promotion involving 24 Carrefour stores, the Hangzhou store ranked 7th in sales: ahead of Guangzhou and following stores only in Shanghai (4 stores) and Beijing (2 stores). In addition, the Hangzhou store was extremely aggressive in recruiting distributors and products for the event, and ultimately carried far more items than originally agreed. (Please see CH7819). In a departure for a state owned chain, Lianhua is actively promoting imported products in Hangzhou and plans to open a specialty supermarket concentrating on imported products.

Suzhou's 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, and a light rail system is in place. (Please see CH7816).

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.

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. (Please see CH7814).

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. In 2007 08, and 09 ATO Shanghai conducted multilevel campaigns to promote U.S. food products in Wuhan. These events have exceeded our expectations, and we have succeeded in introducing several hundred SKUs to consumers in Wuhan. 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. (Please see CH7815, and CH9801.)

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.

Beijing and North China

The northern China retail market has only gradually recovered from the financial crisis. Beijing retail sales increased 15.1% for the first two months of 2010, 2.4% higher than the same period in 2009. Retail food sector sales reached $3.95 billion, an increase of some 10.3%. Thus, by most indications consumer confidence has returned with urban city dwellers returning to the marketplace in search of high quality products.

Competition is still fierce in Beijing with the retail market near saturation. Operating costs have increased rapidly due to high property prices and increasing labor costs.
With multinational retailers moving their focus to second-tier emerging cities, competition is intensifying, particularly in richer coastal areas in North China such as Tianjin, Qingdao, Weihai, Yantai and Qinhuangdao. The economic or financial downturn has not stopped multinational retailer expansion and in fact has had the opposite effect, as government stimulus benefits realized by retailers accelerated the addition of new outlets.

(Source: China Statistical Abstract)

Beijing consumers are gradually changing where they shop for food with demand shifting from "wet" or open air markets to supermarkets and convenience stores with retail consumer sales totaling more than $78.1 billion in 2009 or 14.3% over 2008. Market penetration is good for the hypermarket and medium-to-small supermarket formats. Convenience stores, however, continue to lag Shanghai and Guangzhou. Competition is extremely intense in Beijing as more stores with higher standards are built and local consumers demand diverse and higher quality food at competitive prices.

International hypermarket operators are active in Beijing including Carrefour, Wal-Mart, Tesco, Jusco Ito-Yokado and Metro. RT-Mart successfully opened its first store in Beijing in 2010 and with RT-Mart on board all major multinational retailers in China have outlets in Beijing. In addition, Sam's Club is working on opening its second store in Beijing. In order to lure more consumers most hypermarkets provide free parking and shuttle bus service to adjacent shopping and entertainment complexes. Special aisles dedicated to imported food products are often arranged by country of origin. A large variety of imported foods such as cheese, butter, and other dairy products, breakfast cereal, cookies, coffee, candy, beverages, wine and snack food are represented in such hypermarkets. Products come from a diversity of origins with the United States, Spain, Germany, Switzerland, France, Canada, Italy, Australia, Japan and Korea the most dominant. Imported products are much more scarce in medium-small supermarkets, with offerings typically limited to a few wines and a few durable packaged goods such as cookies, generally packaged for the gift market.

Facing the current fierce competition, upscale retailers are sourcing unique and high quality U.S. food products to attract upper middle level customers. Retailers active in promoting U.S. food products include those organized by ATO Beijing such as successful American Food Festivals with Parkson (CH0402) and the Beijing Hua Lian High-End Supermarket (BHG) during the past fiscal year.

Customers in **Qingdao** have shifted from wet markets to supermarkets because of a booming economy and high per capita incomes. The competition in Qingdao's retail sector includes Jusco, Carrefour, Wal-Mart, Metro, Maykel, Parkson, RT-Mart, Tesco, Hisense Plaza and Liqun Group. Most have outlets located downtown and the local and multinational retailer competition is only expected to intensify as Qingdao-based Liqun Group and Hisense expand and defend market shares. Hisense Supermarket partnered with ATO Beijing in holding a U.S. Food Promotion in July 2009 showcasing over 600 SKUs of new seafood, dairy, snack, fruit and pet food products. As a result of the event as well as Hisense Plaza's market position it is now known as the top destination to source high quality American Food Products in Qingdao. Other efforts undertaken by ATO Beijing were promotions in Qingdao and Shandong Province such as the American Food Festival with Jusco in its 5 outlets in Shandong July 2010 (3 in Qingdao and 1 each in Weihai and Yantai) featuring more than 300 SKU of American Food Products.

Tianjin's per capita GDP is much lower than Beijing and Shanghai. As a result, more consumers shop in wet markets since they are very price sensitive. Imported products are available in limited supply in some upscale retail outlets located downtown, such as E-Mart and CRC. E-Mart of Korea entered into a joint venture with Tianjin TEDA and has five supermarkets targeting upper middle class customers and Korean expats. CRC has become the city's top local retail operator in terms of sales after taking over its rival Home World. The acquisition also gave CRC a significant market share in the city. Now the company runs 20 hypermarkets and over hundred supermarkets in Tianjin. Outside the center, by far the best market for imports is in the Binhai New Area because of the large number of white-collar workers employed by multinational companies and expatriates living there.

The Tesco store located in the Binhai New Area offers a wide selection of imported food products. In addition, Jusco signed a contract with Tianjin TEDA and will open its first hypermarket in Tianjin in September, 2010. However, supplies of imported foods are significantly constrained by poor distribution channels, especially for U.S. products. Distributors in town have limited contact information about U.S. food importers and have trouble getting them interested in the local market because of the presence of the richer nearby Beijing market. This is despite that fact that Tianjin consumers are interested in high quality food products from the United States, especially cereal products, snack foods, frozen products, diary products, fresh fruit and tree nuts.

Zhengzhou – Based on geographical location and its advantage as a major rail hub and population center, the retail base has developed rapidly in this major inland city. Consumers enjoy shopping in hypermarkets, and supermarkets for high quality safe products. Multinational retailers such as Carrefour, Wal-Mart, Metro and Dennis (a regional chain) have all established outlets in the city. The novelty value of imports is high here, and young consumers in the city are curious to try new products – especially imported food products – even if their incomes are lower than peers in Beijing and Qingdao. At this point, this curiosity has not yet resulted in a long-term market for imported food products although this seems to be poised to change soon. Organic food products are scarce in market given high prices and a lack of awareness. Group purchasing is the primary channel to sell imported food products. In addition, Zhengzhou is also a distribution center for imported foods to inland second and third tier cities in surrounding provinces given its convenient transportation links.

The retail business in Hebei Province has developed quickly despite near complete dominance by local Chinese retail companies. In the Provincial Capital, **Shijiazhuang,** the mature and well-managed local retail outlets have prime location and consumer loyalty. This has made Shijiazhuang a challenging market area for international retailers. Despite this the city's retail market is booming and many upscale retail outlets are being established, including special imported food sections or shelves to attract upper and middle class consumers. Imported food products may be sourced in third tier cities such as Tangshan and Qinhuangdao, although products are mainly limited to cookies and snack food originating from Korea and South-East Asia. Outside Shijiazhuang international retailers have made some inroads such as Taiwan-based RT-Mart which operates the most popular retail outlet in Tangshan. Wal-Mart, Carrefour and Jusco are now in the process of also entering the market and developing outlet locations and operations. Tesco just secured its first location in the new Life Space Shopping Mall in Qinhuangdao this past January.

Xi'an, the capital of Shaanxi Province is considered the gateway to northwestern China. Over the last 4-5 years the retail sector has developed rapidly and for the 2004-2009 period the total number of hypermarkets grew from 25 to 65. China Resources Vanguard (CRV) dominates the hyper market sector in Xi'an with 24 stores. The highest-end retail store is Century Jinhua which operates four department stores in Xi'an and offers the most diversified imported food product selections in Xi'an.

South China Regional Profile

South China had an official population of 252 million in 2008, and approximately 19 percent of China's total population lives in the South China region (includes Guangdong, Guangxi, Hunan, Hainan and Fujian provinces). Guangdong province had the highest GDP of any province in China for the previous three years, while Fujian province's GDP in 2008 was up13 percent from the previous year and four percent higher than the national average. Moreover, Guangdong ranked first in per capita annual food consumption expenditure at $863.

Substantial investments in construction and infrastructure such as ports and railways are underway in preparation for the 2010 Asian Games. The Hong Kong-Zhuhai-Macau Bridge project is under construction, and Guangdong province and Hong Kong reached an agreement on a range of co-operative issues to "build the most vibrant and competitive city cluster in the Asian-Pacific region". These projects help fuel greater economic development in the Pearl River Delta region as well encourage trade and the retail sector. Meanwhile, Guangzhou and Foshan municipal governments encouraged the "same city partnership" project (cooperation in various aspects such as transportation, services, culture, technology, and financial services etc.) which is expected to help stimulate consumption for imported retail food items.

Economic ties between Fujian and Taiwan have strengthened helping Fujian weather the economic storm. Guangxi province has also been increasing economic ties with Taiwan. On July 3rd, a handover ceremony was held in Xiaolun Village, Nanhua Town of Tainan County in which Guangxi purchased 246 tons of 4 kinds of fruit from Southern Taiwan, namely pineapple, guava, papaya, and mango, with a total value of $600,000 (4 million RMB). Last year, Guangxi purchased $300,000 (2 million RBM) worth of Taiwanese fruit, which reportedly sold well. The purchase not only benefited fruit growers but also enriched the fruit market in Guangxi and will likely prepare consumers for greater acceptance for U.S. food retail items.

South China is a vibrant imported food market with tremendous growth potential. Food consumption accounts for 35 percent of Southern consumers' total expenditure. Continued urbanization has resulted in higher disposable incomes and the creation of middle class consumers that are open to new tastes and higher quality imported foods from the States. Well-off consumers in wealthy cities are less price sensitive than others. Therefore, South China plays an important role in marketing imported food items such as almonds, pistachios, pecans, walnuts, candies, juices, wine, dairy, condiments, as well as fresh deciduous fruits: especially imported apples, oranges and table grapes. U.S. cherries have also gained ground in recent years.

Women have become a major target consumer group for many retailers. It has been reported that 55 percent of women in first tier cities (Beijing, Guangzhou, Shanghai and Shenzhen) tend to seek out and follow lifestyle and nutritional information accessed through the internet, as compared to 35 percent of women living in second tier cities. In addition, traditional media (TV, newspapers, magazines, public transportation advertising, and direct mail) continues to play a significant role in advertising and providing information to female consumers.

Chinese holiday celebrations and group purchases for special events are the highlights of retail sales. It is noteworthy that gift-packaged fresh fruits are frequently available on retail shelves. Private label and special package designs have also become popular. In order to maintain the high value of imported fruit, cold chain logistics have developed rapidly and training has been given to many distributors and retailers.

City Profiles

In 2009, South China's GDP reached $8.3 trillion. Guangdong had the highest GDP of any single province in China at $525 billion, up 15 percent from the previous year, and with retail sales valued at over $156 billion, up 29 percent from 2007.

Key consumption markets for U.S. imported foods are Guangzhou and Shenzhen and other second tier cities in the Pearl River Delta region. Many retailers have already opened stores in satellite cities around Shenzhen such as Longgang and the Nanshan district. Supermarkets continue to be the most common retail format, but hypermarkets are gaining popularity and have become present in most medium and large-sized cities.

Emerging markets include cities in the Pearl River Delta such as Dongguan, Foshan, Zhuhai, Zhongshan, and Huiyang as well as Zhanjian and Shantou in Guangdong. In nearby provinces such as Fujian and Hunan, Fuzhou, Xiamen, and Changsha are also seen as attractive locations for retailers. In the near future, Quanzhou, Zhangzhou, Jinjiang in Fujian, and Chenzhou, Loudi, and Yueyang in Hunan will also be recognized as high potential markets.

Changsha is a dynamic consumption market with the presence of both multinational retailers and many established local players. Changsha has a population of 7.1 million, among which 4.5 million are urban residents. In 2009, the GDP in Changsha was $55 billion, accounting for one fourth of the total GDP in Hunan province. The per capita GDP was $2,688. Changsha has grown in recent years and this growth: it has been linked to Zhuzhou and Xiangtan by expressway, and the Chang-Zhu-Xiang business circle which are all within one hour's ride of each other. With the completion of the Wuhan-Guangzhou express railway, Guangzhou is now within two hours travel time. Changsha has long been recognized as a key mid-South market with great potential. Metro and Carrefour first entered this market in 2001, followed by Wal-Mart in 2003. In the past nine years, the competition has become fiercer. There are now three Wal-Marts, three Carrefours, three RT-Marts, one Metro, one Trust Mart, one Japanese Hemito (Ping He Tang) store, and one Lotus supermarket. In addition, there are several local players: five Xinyijia stores, six Jiarunduo, and four Hyper Market stores (a local retailer previously known as Better life).

Locals prefer hot spicy, sour, and heavy flavors. However, increasing consumer awareness of healthy lifestyles is fueling a growing demand for high-quality imported food items. The most popular of such items includes biscuits and chocolates (from Germany, Britain, Italy, Japan and Korea), olive oil (from Spain), wine (from France, Chile, Australia and the States), fresh fruits (from the United States, Canada, Australia and New Zealand as well as Southeast Asia countries such as Thailand and Vietnam), cheese (from France and United States), one liter packaged milk (from New Zealand and Australia), as well as seasoning and condiments (from United States, Korea, Japan, Germany and Italy). Popular U.S. brands include Hunt's, Heinz, Swiss Miss, Del Monte, Planter's, Land O' Lake's, and Starbucks coffee.

Local consumers prefer fresh food items. There is a tendency for retailers to pay greater attention to cold chain management and freshness maintenance in the Changsha retail market. Carrefour and Better Life Hypermarket as well as RT-Mart all have set up in-store coolers for displaying frozen food items. Better Life Hypermarket even set up a special refrigerated fruit display area to maintain freshness. Most retailers have an imported fresh fruit display area in their stores. Out of all of the foreign retail chains visited in Changsha, Wal-Mart was the least competitive.

Fuzhou is the capital city of Fujian province. It has over 2,200 years of history and is the hometown for many Chinese living abroad. This gateway to Taiwan has attracted substantial investment and plays an important role in cross-strait trade. As an important port city, it recently had ambitious expansion plans for infrastructure and logistic development. It is estimated that 80 percent of Taiwanese are Fujian decedents. Fuzhou is one of the key markets for imported foods as many have relatives living abroad and are more open to western life-styles. Existing key retailers in Fuzhou include three Wal-Marts, one Sam's Club, two Carrefours and one Metro. Carrefour was the first to open with two supermarkets in Fuzhou. Wal-Mart opened its first Fuzhou store about 10 years ago and then opened two more stores and one Sam's Club. Metro also selected Fuzhou to open its first store in South China. All carry imported food items, especially imported fruits from all over the world. U.S. Washington apples, seedless table grapes, and Sunkist oranges are available in almost every supermarket including local retailers such as Xinhuadou and Yonghui. U.S. imported grocery items such as canned soup and vegetables, seasoning products; olive oils, cereals, syrups, cookies, infant formulas, dried raisins, almonds, jams, and instant-coffee are also available. Organic and natural products such as 100 percent natural juices, pancakes mix, and energy bars with various flavors are becoming the new highlights on shelves. In addition, Tesco is also aiming at this market.

Xiamen retail sector is highly competitive and booming. It has several international retailers, including three Wal-Marts, one Carrefour, four Trust-Marts and one Metro. Local retailers New Huadu and Minkelong also have found niche markets. In addition to hypermarkets, the city has several convenience stores and community stores such as Beatrice, Tunnel 88, and Yes. A select group of Xiamen consumers are willing to pay a 10 – 20 percent premium to try imported products. However, typically only a limited amount of imported food products like Sunkist lemons, Red Delicious and Granny Smith apples from Washington state, Thai rice, and Italian olive oils are found on shelves since retailers are more interested in offering competitively priced products to cost

conscious customers.
Imported alcoholic beverage items and selected snack foods are considered to have good potential. With the rapid expansion of the retail, restaurant, hotel and tourism sectors as well as higher income levels, the Xiamen market is expected to present more opportunities for U.S. agricultural products in years to come. However, the market is highly competitive and so U.S. products need to differentiate themselves from competitors through pricing, unique attributes and/or strong product support. A well-defined market plan plus commitment to long-term strategy and market promotion are key.

Nanning is the land of imported food opportunities with a total population of around 6.5 million, among which 2.5 million are urban residents. The city has a medium-sized integrated iron and steel complex, a sugar refinery, other food-processing plants, and factories involved in fertilizer, machine tools, paper, cement, and farm machinery production. The high volume of liquidity in Nanning has driven greater demand for increased spending in imported retail food items.

The city is connected to the Hunan-Guangxi railway to Vietnam and is the regional headquarters for trade with Southeast Asian countries. A high-speed rail line from Nanning to Guangzhou began construction in 2008 to link the Pan-Pearl River Delta and southeast China with members of the ASEAN (Association of South East Asian Nations). The travel time between the two cities would be cut from thirteen hours to three hours upon the railway's completion. The food retail industry has developed with rapid growth and there are now 15 local Likerong, 10 Nancheng Department Stores, five Hualian supermarkets, four Renrenle, two Wal-Marts, two Dream Island Department Stores, one Parkson plus one newly opened CR-Vanguard, and a Mix-City (high-end Shenzhen-style mega mall) under construction.

U.S. fresh fruit can be found in almost every supermarket store though there is still room for packaged food items. This market is still in its infancy and requires in-depth research and analysis as well as continued efforts to nurture the market. For many U.S. imports, Nanning is a new market full of curious customers who have became affluent, but lack knowledge of foreign foods.

Guilin is where tourism and U.S. food can be enjoyed together. It is a national tourism hotspot with a population of 4.8 million of which 1.8 million are urban residents. Guilin's per capita GDP was estimated at $2,858 in 2009, which ranked as a middle class city (125th among 659 Chinese cities surveyed by China's Ministry of Statistics). In 2008, Guilin received 1.2 million visitors among which 814,409 were foreigners, thus making Guilin one of the most visited cities in China. The key retailers include Niko Niko Do, Nancheng Department Store (with 2 outlets), Renren Le, and Wal-Mart. Guilin could be a potential market for U.S. imported food items.

Niko Niko Do is a Japanese department store that has been the market leader in food retail sales since it opened its doors to the public in 1997. There are over 20,000 SKUs neatly displayed in the supermarket shelves. Among them, imported biscuits, candies, condiments, cheese, juices and wines as well as fresh fruits mostly from England, France, Chile, and Australia are arranged in designated sections for imported foods. These products strongly compete with U.S. food items. Because of Niko Niko Do's convenient location in the city center, most tourists will shop on there on their way to Yangsuo. With daily sales during peak months at about $2 million, Niko Niko Do is as high of a performer as some of the multi-national stores located in Shenzhen or Guangzhou. After 13 years of operation, Niko Niko Do will soon merge with a Dalian Company. The merger is expected to be complete in two years. The Japanese manager expressed great interest in promoting U.S. food and culture in the near future.

After two store openings in Nanning, Wal-Mart finally opened its first store in Guilin last September. The Guilin store is located in the northern city quadrant where the local residents have relatively lower income levels and the average per ticket sale is around $5.50. Nevertheless, Wal-Mart is building brand recognition for many U.S. food items. While most of the imported items are currently coming from Japan, Korea, and Malaysia, U.S. food items are comparatively few including some snacks (Sunsweet Prunes, Del Monte sauces, and Heinz Vinegar), a decent U.S. cheese section (various flavors of Land O' Lakes cheese products), and fresh fruits (Washington apples, Sunkist oranges and lemons). However, the Guilin Municipal Government plans to move part of its institutions into the northern part of the city within two years. This move would immediately triple the property values in the area and certainly increase Wal-Mart's market share.

Nancheng Department Store strategically moved its operation from the Shenzhen market into Guangxi in 2002. According to industry insiders, Nancheng earned a favorable reputation amongst local consumers for its maintenance of fresh produce items and free parking areas, since many local high-income consumers drive to the store. After eight years in operation, the company now boasts over 23 stores in Guangxi Province alone and four in Shenzhen. Nanning was the first strategic market and there are now over 10 Nancheng Stores in Nanning and two stores in Guilin. Liuzhou, Guangxi province's industrial city located between Nanning and Guilin, also has over four retail outlets. The first Guilin Nancheng Store opened in 2004 offering over 350 free parking areas. The Nancheng group is aggressively expanding with five to six new stores opening by the end of the year.

Food accounted for over 55 percent of the total sales. In addition to U.S. fresh fruits such as Red Delicious, Gala, Granny Smith, and table grapes, there are U.S. prunes, raisins and cranberries as well as Hunt's ketchup and other brands on the store shelves.

Dongguan is a key manufacturing base in South China. In the past 20 years, Dongguan has held a steady annual growth rate of 20 percent and is known as China's economic powerhouse of foreign investment. It has gained a large number of expatriots and well-to-do residents. Dongguan is 56 miles north of Shenzhen, 31 miles south of Guangzhou, 47 miles from Hong Kong, and 48 miles from Macau. Its transportation systems connect to five ports, Shenzhen-Guangzhou railways, and inter-town freeways. The city occupies 952 square miles with a population of 1.7 million locals and 5.24 million migrant workers from all parts of China. Both multinational and domestic retailers are fighting to capture the best commercial sites and gain or expand market share. In Dongguan, there are four Wal-Mart, three Trust-Mart, three Carrefour, four Tesco, one Metro, and one Jusco as well as eight CR-Vanguard stores. More new stores are set to open.

Zhuhai is touted as a romantic coastal city in the western band of the Pearl River Delta. It boasts 94 hotels and ranked third in tourism development after Guangzhou and Shenzhen. In recent years, Zhuhai has made progress in economic development due to its advantageous geographical location to Hong Kong and Macau. Zhuhai retail is currently booming.

At present, there is one Jusco and four CR-Vanguards. Imported food consumption is increasing. Wine shops and specially designated imported food areas attract many expats as well as local consumers and residents from Macau. Substantial investments in transportation projects are expected to help further facilitate the trade.

The biggest project to be undertaken this year is the 18-mile Hong Kong-Zhuhai- Macau Bridge, which would be the world's longest sea link. It is said that four new container berths will be built by 2011. Upon completion, Zhuhai will become a more critical logistics hub for Hong Kong, Macau, Western Pearl River Delta (Zhongshan, Jiangmen and Zhanjiang) and Southwest China (namely in Guangxi Province).

Chengdu, Chongqing and Southwest China

One in every 33 people on earth lives in Southwest China. With a population of over 207 million and the highest gross domestic product (GDP) growth rate in the world, 17 percent in the first half of 2010 (USD 330 Billion), the area is twice the size, six times the population, and three times the GDP of Central America. The economic growth the region is experiencing is raising incomes and increasing the market for foreign products. The region is also known for its passion for food. Consumers are keen to try imported products and are willing to pay a premium for a quality product. According to some estimates, middle-income consumers now represent almost 35 percent of urban population and at current growth rates will exceed 50 percent by 2010 and 70 percent of the total population by 2015. Economic growth in the provinces of Southwest China is some of the highest in the world, averaging between 12.0 and 14.3 percent in 2009. Growth in the regions two largest emerging city markets (ECMs) in the region, Chengdu and Chongqing, accounting for 20 percent of the region's population, remained in double digits in 2009. The Chengdu Statistics Bureau reports that the total investment in fixed assets in 2008 USD 43.38 billion. Domestic investment was USD 26 billion, an increase of 23.5 percent from 2007. The total amount of foreign direct investment reached USD 2.25 billion, an increase of 97.3 percent from 2007.

The markets of Southwest China are less saturated with imports than developed port cities, providing several advantages to marketing products in the region. There is less foreign competition despite burgeoning demand. In addition, marketing dollars go further because of the lower level of foreign competition in Southwest China compared to more developed markets. Finally, Sichuan food plays a leadership role in food trends. It is held in high esteem across China and influences both the national market and other regional markets.

There are three main channels for distributing products to Southwest China: local distributors which purchase their product from port cities and then sell their products to retailers; regional distribution centers, normally associated with a single retailer; and importer direct, when retailers often working with a referred importer bring products directly from the port. Regional distribution centers are responsible for purchasing and logistics for regional and national stores. Importer direct tends to exercised by chains with less national presence, like Ito Yokado or Renhe Springs, or with highly perishable products.

Products directly purchased from port city importers and shipped directly to retailers or their central distribution centers are largely cash transactions. A significant quantity of imported products is purchased by local distributors from port city importers and then sold to the retail market. Most transactions with local distributors are carried out on a credit basis. Local distributors take on some of the retail risk by agreeing to the returns of expired or unsold products.

The higher-end hypermarkets tend to use national distribution systems, often using national purchasing managers. Metro uses this model. Retail chains with more centralized purchasing systems give local store managers less control over which imported products are on their shelves. The less centralized retailers give their local managers more control of what products are in stores, but often what is available is still determined by regional or national hubs. Carrefour and Auchan fall into this model.

Lower-end hypermarkets and supermarkets tend to use local distributors for their products. Local distributors provide more favorable terms with retailers, including paying slotting fees and selling products on credit. As a result, local distributors are reticent to offer unfamiliar foreign products with unknown market potential. This, combined with the reduced purchasing power of low end retail consumers, makes breaking into the lower-end segment of the retail sector difficult. Wal-mart follows into this model.

The majority of imported meats are purchased by retailers or their distribution centers directly from port city importers. Most imported meat is frozen. Imported fresh fruits and vegetables frequently are handled by local wholesalers. While produce is generally locally purchased, some is directly purchased from importers. Imported processed foods are the most likely to go through local distribution channels, especially when there is no central distribution system. These local distributors will often arrange more favorable terms of agreement than central distributors in port cities, for example return of expired or unsold products. They often work on commission. In addition, local distributors tend to promote imported products through retailers to increase product sales.

Key obstacles include logistics and knowledge of how to use new-to-market products. The distance from major port cities such as Shanghai, Guangzhou, and Shenzhen is a challenge for some U.S. imports. Except for air transport, port to retail transportation time is from two to five days, and the cold chain is not always reliable.

Differentiating U.S. products' quality, safety, and value capitalizes on their reputation with consumers. The growing number of affluent consumers in Southwest China is willing to pay a premium for a superior product. In response to safety and quality concerns, the presence of "green food," the Chinese equivalent to organic, in the supermarkets has exploded. Superior quality and safety helps to differentiate U.S. products from their domestic counterparts. This is critical when competition is strong, as it is for meats, fruit, and vegetables. For this reason, it is important that the integrity of imported products be maintained throughout the distribution chain from port city to emerging city markets. Further development of the cold chain in many ECMs is essential for maintenance of refrigerated product quality. For example, a market currently exists for premium non-muscle meat poultry products, like chicken paws and wing tips.

Chengdu, the capital of Sichuan province, is the wealthiest and most advanced city in the region. Chengdu currently has the largest market for imported products.

Chongqing is growing rapidly, but incomes have not risen to the levels of Chengdu yet, so it has a smaller consumer base. Metro in Chongqing has large contracts for imported products with Yangtze riverboat tours.

Kunming and **Guiyang** are not as developed yet.

Intellectual Property Rights

We would like to encourage you to sell quality products in China and to market them exceptionally well. Of course those who intend to copy your product encourage you to do so as well. The fact that you have a quality product means that your brand has value. Counterfeit products deprive you of that value by competing for sales with your products and harming your reputation. Counterfeit products may also be exported from China, affecting you in other markets. Protecting intellectual property is a critical part of doing business in China. Avoiding infringement requires patent, copyright, or trademark registration with the appropriate Chinese registration office. Companies must also be proactive in pursuing enforcement mechanisms available to halt infringers.

Ideally, IPR protection should begin prior to when companies or trade associations begin exploring the China market for their food or beverage goods. Interested parties should also recognize the importance of registering and protecting trademarks in both English and Chinese languages, including obtaining collective marks for U.S. collective organizations and USDA Cooperators or certification marks. Interested parties are strongly encouraged to review the U.S. Embassy's "China

IPR Toolkit” and FAS Beijing on-line reports CH7028, containing information on China’s patent, trademark and copyright legislation and enforcement and CH4078 and 7088, on plant variety protection.

Appendix

Table 1:

Income, Spending, and Population by Province

Values converted to U.S. Dollars at Current Exchange Rate

(Data is Latest Available)

	Urban Disposable Income	Urban Consumption Expenditures	Rural Consumption Expenditures	Population
Data year:	2006	2005	2005	2007

	USD	USD	USD	Millions
Shanghai	$3,336	$2,014	$1,064	18.6
Beijing	$3,279	$1,937	$777	16.3
Zhejiang Province	$2,918	$1,792	$795	50.6
Guangdong	$2,592	$1,727	$542	94.5
Tianjin	$2,263	$1,412	$444	11.2
Jiangsu Province	$2,230	$1,261	$522	76.3
Fujian Province	$2,209	$1,286	$482	35.8
Shandong	$1,934	$1,091	$400	93.7
Chongqing	$1,835	$1,261	$313	28.2
Liaoning Province	$1,642	$1,078	$410	43
Hunan Province	$1,630	$1,098	$403	63.6
Hebei Province	$1,592	$980	$317	69.4
Yunnan Province	$1,587	$1,023	$262	45.1
Inner Mongolia	$1,581	$1,013	$358	24.1
Shanxi Province	$1,579	$928	$275	33.9
Guangxi Zhuang	$1,554	$1,029	$344	47.7
Anhui Province	$1,547	$931	$321	61.2
Hubei Province	$1,541	$985	$355	57
Henan Province	$1,512	$883	$277	93.6
Jilin Province	$1,498	$994	$337	27.3
Sichuan Province	$1,480	$1,008	$333	81.3
Hainan Province	$1,474	$867	$288	8.5
Jiangxi Province	$1,465	$894	$363	43.7
Ningxia Hui	$1,463	$937	$306	6.1
Shaanxi Province	$1,454	$974	$277	37.5
Qinghai Province	$1,434	$913	$289	5.5
Heilongjiang	$1,422	$904	$372	38.2
Xinjiang Uygur	$1,417	$908	$281	21
Gansu Province	$1,402	$955	$266	26.2
Tibet	$1,395	$1,260	$252	2.8
Guizhou Province	$1,381	$901	$227	37.6

Source: China Statistical Yearbook, 2009
Converted at 6.8374 RMB = 1 USD (interbank exchange rate from Oanda.com on Sep. 16, 2009)

Table 2:

Selected International Retailers in Regional Markets

Number of Hypermarkets and Supermarkets by City

East China

	Shanghai	Suzhou	Nanjing	Hangzhou
Carrefour	19	6	4	2
Wal-Mart	4	1	1	3
Metro	4	4	1	1

Tesco	19	2	0	3	
RT-Mart	10	9	3*	2	
Auchan	4	3	3	1	
Lotus	21	1	1	1	

* Known as Ce Mart, a joint venture with Lianhua

North China

	Beijing	**Tianjin**	**Qingdao**	**Zhengzhou**	**Xian**
Carrefour	13	5	2	2	1
Wal-Mart	7	2	1	2	3
Sam Club	1	0	0	0	0
Metro	2	1	1	1	1
Jusco	1	0	2	0	0
RT-Mart	0	1	2	0	0
Tesco	2	5	0	0	0

South China

	Guangzhou	**Shenzhen**	**Dongguan**	**Fuzhou**	**Xiamen**
Wal-Mart	0	18	4	4	3
Trust Mart	17	4	3	5	4
Sam's Club	1	1	0	1	0
Carrefour	5	8	3	2	1
Metro	1	1	1	1	1
Tesco	2	1	4	0	1
Jusco	3	6	1	0	0

Southwest China

	Chengdu	**Chongqing**	**Kunming**
Carrefour	5	4	4
Metro	1	1	1
Ito Yokado	3	0	0
Isetan	1	0	0
Auchan	3	0	0

Source: FAS China Research

Table 3:

Top Players in Shanghai Retail
Total Number of Locations, Year End 2009

Company	**Number**
Lianhua	3,308
Carrefour Hypermarket	19
RT-Mart	12
Nonggongshang	2,215

Hualian	969
Lotus	21
Metro	4
Hualian GSM	20
Shanghai Homegain	139
Jieqiang Tobacco, Sugar & Wine	205
Auchan	4
Watson	68
Jiajiale	30
Tesco	19

Source: Shanghai Statistical Yearbook, 2010