

China's Modernizing Supermarket Sector Presents Major Opportunities for U.S. Agricultural Exporters

By Fred Gale and Thomas Reardon

The lightning-fast emergence of supermarkets over the past decade may be the final piece of the China market puzzle. Rising incomes and an expanding urban middle class are setting the stage for China's development as a market for imported foods.

Until recently, many exporters eyeing the Chinese market came away in frustration after encountering a fragmented market made up of thousands of mom-'n'-pop shops, old-style, open-air markets and labyrinthine, antiquated wholesale and logistics systems. The old marketing system, controlled by various provincial and city marketing bureaus, consisted of small, fragmented wholesale and retail segments selling local produce; multiple layers of small brokers, wholesalers, distributors and government-licensed importers; and government-run retail outlets.

The good news for food suppliers is that "supermarketization" is transforming China's food sector into a modern retail system. Modern supermarkets, convenience stores, hypermarkets and warehouse clubs—retail formats nearly nonexistent in China in the early 1990s—have now captured an estimated 30 percent of the urban food market and are growing at rates of 30-40 percent annually.

Chinese supermarkets skyrocketed from just one outlet in 1990 to approximately 60,000 stores with an estimated \$71 billion in sales by 2003, according to the Chinese Chain Store and Franchise Association. Growth in the industry that



Photos by Fred Gale, USDA Economic Research Service

took several decades in the United States and Europe has occurred in a single decade in China. Supermarket sales in Shanghai alone during 2003 were estimated at \$5 billion, equivalent to half of Shanghai's retail food sales.

Supplier Benefits

The new supermarket sector is a boon to exporters for two reasons:

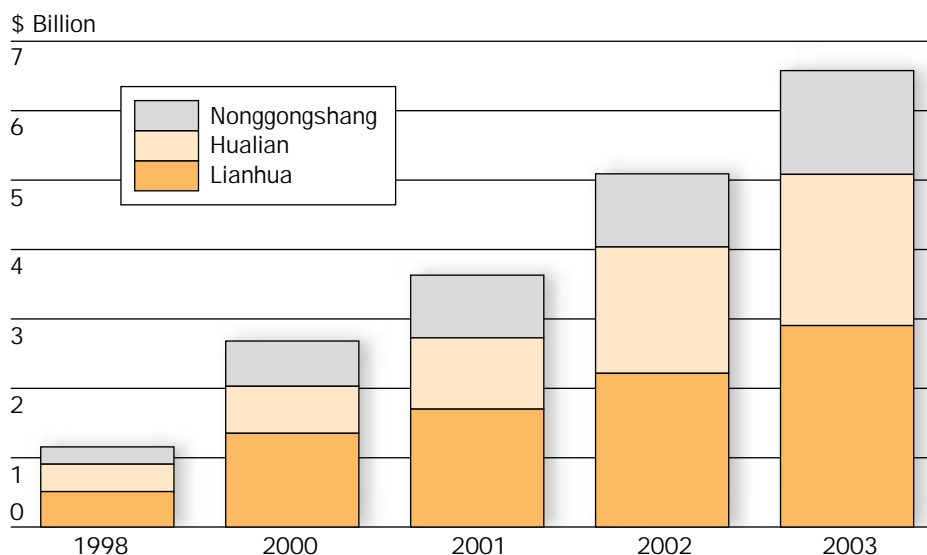
- **The way they sell to consumers.** Supermarkets, engaged in fierce competition with other types of outlets for the Chinese consumer's dollar, are eager to carry new products to meet consumer demand for quality and product diversity. Some advertise exotic products to get customers in the door.
- **The way they buy from suppliers.** Supermarket chains employ central-

ized, high-volume distribution systems that give exporters a larger target with fewer distribution layers to navigate. Procurement modernization is increasing the advantage of suppliers that can deliver quality products in a timely and price-competitive fashion. These factors should give foreign food suppliers a better chance to compete in the Chinese marketplace.

Sources of Supermarket Sector Momentum

The sector includes a number of different store formats: small chain convenience stores selling primarily canned goods and beverages and/or snack and convenience foods; standard supermarkets; hypermarkets that sell a full range of consumer goods, from clothing and elec-

For China's Largest Supermarket Chains, Sales Are Booming



Data for 1999 not available.
 Source: Shanghai Statistical Yearbook.

tronics to bicycles; and large warehouse clubs. The large formats account for the lion's share (95 percent) of sales in the modern retail sector; convenience stores garner only 5 percent. These market shares are expected to continue for the foreseeable future.

Supermarkets began developing in the early 1990s in Shanghai and several other major cities where they were encouraged by local governments. The largest Chinese supermarket chains started out as government-operated department stores and marketing bureaus in Shanghai.

Multinational chains from Europe, Japan, Hong Kong and the United States provided a second major impetus in the development of the sector in the mid- to late 1990s in most prosperous coastal cities, including Shanghai, Guangzhou and Shenzhen. Supermarket development took off in other large cities such as Beijing in the late 1990s.

Although about 80 percent of China's supermarkets are in the eastern region, all major chains have aggressive expansion plans targeting medium and small cities,

central and western provinces, and rural areas. And while multinational companies at present have about 40 percent of the sector's sales, domestic companies such as Lianhua and Hualian have developed quickly.

Local governments are actively encouraging the transition to supermarkets by shutting down wet markets (traditional street markets) and in some cases converting them into supermarkets. In 2004, China's Ministry of Commerce announced a five-year plan to develop a rural retail network of chain supermarkets and express stores in small towns, pushing the supermarket format into China's vast rural hinterland.

Supermarkets Displace Traditional Markets

Supermarkets enjoyed initial success with packaged foods and processed food staples like rice, flour and cooking oil. Supermarkets and convenience stores have also played a key role in boosting





consumption of milk products, other beverages, snacks and convenience foods.

Chinese consumers have traditionally bought most of their fresh foods—vegetables, fruits, meats—from wet markets. Vendors in wet markets sell generic produce grown on local farms or purchased from wholesale markets. Before the supermarket explosion, they usually purchased canned and packaged foods from small

mom-‘n’-pop stores, roadside kiosks or the food product sections of government department stores.

Supermarkets are rapidly gaining a competitive edge over these traditional retailers. They offer a cleaner, more comfortable and convenient shopping environment. Quality is generally better and more standardized. In the case of packaged foods, shoppers do not have to hag-

gle over prices, and they can trust product measures and units. Supermarkets offer a wider array of products than do traditional shops. Refrigerated, frozen and ready-to-eat foods are available; almost 90 percent of urban Chinese households have home refrigerators.

However, many shoppers continue to purchase fresh produce from wet markets while making weekend trips to the super-

History of Supermarket Development in China

Time period	1980s	Early 1990s	Late 1990s		
Developments	Traditional grocery stores	Emergence of supermarkets	New store formats	Foreign investment	Coastal cities
Description	Mainly state-owned and collective-operated. Some are privately owned and operated.	Hong Kong-style stores of 300-800 square meters; mostly packaged foods and items for daily use; few fresh items. Chains had fewer than 10 stores.	Super stores as large as 20,000 square meters, hypermarkets, convenience stores.	Entrance of multinational companies like Carrefour, Wal-Mart, Makro and 7-Eleven.	Development was most rapid in wealthy coastal cities like Shanghai and Shenzhen.

Adapted from Geping Guo, "Development of Supermarkets in China," presented at Supermarkets and Agricultural Development Conference, Shanghai, May 2004.



market for other items. They prefer the freshness, low prices and personal interaction at wet markets for fresh vegetables and fruits.

Nevertheless, supermarkets are quickly taking over the fresh produce segment of the market as well, by matching wet

market prices and offering superior quality and sanitation. An important measure of their initial success is that Chinese supermarkets now sell roughly \$4 billion worth of fruits and vegetables to Chinese consumers—about twice China’s exports in that category to the rest of the world. That is, the internal “supermarket market” is already large and dynamic, rivaling exports from China, and a dynamic market for imports to China.

Imports Arrive

Imported foods, until recently a rarity in China, are now widely available in Chinese supermarkets. Washington apples, California oranges and wines, lychees from Thailand, butter from New Zealand and cheeses from France are commonly found on supermarket shelves. Supermarkets feature many international food brands, such as Kellogg’s cereals, Hormel sausages and hot dogs, Lay’s potato chips, Nestlé and Danone milk products, McCormick jellies and Skippy peanut butter, many of which are manufactured locally, albeit sometimes with imported ingredients.

China’s growing middle class (estimated at 200-300 million persons, out of a population of 1.3 billion) has the purchas-

Contacts

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More information on the Chinese market can also be found in the Economic Research Service’s China Briefing Room, available on the Web at:

www.ers.usda.gov/briefing/china

In addition, FAS has information on China and several offices in that country to help U.S. suppliers. To find that information on the Web, start at www.fas.usda.gov, and select **Countries**. Scroll down to **Attaché Reports** for the latest information from those offices, and **Embassies** to view their contact information.

ing power to afford imported foods, but this crucial market segment has been kept largely out of the reach of food exporters by the combination of China’s antiquated marketing system and high trade barriers.

China has cut tariffs, import licensing requirements and state trading monop-

21st century

More new formats	Geographic expansion	Merchandise structure	Mergers	Reform of traditional stores
European-style discounters, warehouse clubs and mini-marts.	Retail chains expand outside their home provinces.	Wider variety of items, including more fresh produce and organic foods. Private-label store brands emerged.	Chinese supermarket chains merged with both domestic and foreign partners.	Traditional stores, including mom-’n’-pop groceries, state-owned grain and oil shops and kiosks were transformed into small supermarkets and convenience stores. Small, independent supermarkets also emerged.



lies as a result of its entry into the WTO (World Trade Organization) in 2001. Lower trade barriers are a first step to opening the Chinese market at its borders and ports, but a competitive, efficient domestic marketing system is necessary to get imported products from entry points to the Chinese consumer. That's where supermarkets come in.

Supermarkets are bringing world-class procurement systems into China, giving potential exporters a bigger target to aim for and knitting together market segments fragmented by geography and other factors. Supermarket chains are establishing large, centralized distribution centers that draw products from throughout China, and from elsewhere in Asia, Oceania, the Americas and Europe. Multinational logistics firms are now operating in China, whose WTO commitments mandate that the country open its market to foreign companies engaged in wholesaling and distribution in 2004.

The integration of China into multinational retail chains may open more avenues to its market. The world's largest food retail chains—such as Wal-Mart,

Carrefour, Metro and Tesco—are now buying from and selling to China. The amount of Wal-Mart's procurement from China exceeds the gross national product of many countries, and Wal-Mart's sales in China are increasing as well.

The largest Chinese food retailer, Lianhua, has started to open stores in Europe with the intent of developing into a retailer that can buy and sell in both domestic and foreign markets. Suppliers able to establish themselves in the procurement system of a multinational chain may have easier access to the China market. ■

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