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Voluntary Public

Date: 4/16/2019

GAIN Report Number: GAIN0082

China - Peoples Republic of

Post: Beijing ATO

Will Convenience Stores be the Next Big Retail Space for Imported Food Products?

Report Categories:

Promotion Opportunities

Retail Foods

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Report Highlights:

Convenience stores are one of the most rapidly developing retail models in China with sales of more than \$28 billion in 2017. While this sector has traditionally focused on lower priced processed foods and beverages, many chains are now increasing their premium and imported food offerings. Single serve attractively packaged high quality products, perceived by customers as fresher and healthier than traditional convenience store fare, is especially sought after. While imported foods and beverages become more commonplace in convenience stores, purchasing managers are interested in sourcing U.S. snack foods, beverages, beer, frozen products, and fresh fruit. Sourcing products can be complicated for convenience stores since they carry more products, but within smaller spaces than hypermarkets, so exporters should focus on developing relationships with regional distributors to get their products carried in this growing retail segment.

Market Overview

In 2017, sales increased 23 percent for approximately 100,000 convenience stores in China, making this sector the fastest developing retail model, second to e-commerce. Second-tier cities are new growth ‘hotspots’ for major convenience store operators. In 2017, Xi’an, Kunming, and Chongqing are the fastest growing cities with new store openings increasing 25 percent, 24 percent, and 21 percent respectively. In meantime, the convenience store sector larger cities, such as Shanghai, Guangzhou, and Shenzhen, are

approaching saturation levels similar to mature markets in Taiwan and Japan. In 2017, Beijing convenience store openings increased reached 21 percent, which is fastest of all first-tier cities in China.

Convenience store expansion is limited somewhat by soaring rent, labor, and utility costs, especially in the higher cost areas of first-tier cities. Recruiting, training, and retaining workers has become difficult for operators, and as a result, more convenience stores chains are experimenting with self-checkout machines and unattended stores. Technologically, unattended stores and self-checkout machines may not be ready to be fully adopted by the industry. Contacts report that these new models have yet to sufficiently grapple with high theft rates and unrealized operating efficiencies. To improve profitability, large chain operators are seeking to increase the proportion of private label products, fresh and healthy offerings, and ready-to-eat meals.

The Convenience Store Segment in Beijing

Convenience store development in Beijing lags behind other first-tier cities. There is one convenience store in Beijing for every 7,158 consumers, yet in Shanghai there is one store for every 3,369 consumers, and in Guangzhou, one store for 3,076 consumers. The geographical distribution of convenience stores in Beijing is also uneven. The most economically active district of Chaoyang has the highest density of convenience stores, while the suburban district of Daxing has far fewer. Operators have invested heavily in Chaoyang district, due to residents

relatively high discretionary incomes, the daily influx of white collar workers, and numerous business visitors while mostly middle- and lower-income residents live in Daxing’s dispersed neighborhoods, which are relatively far from Beijing’s downtown.



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In response to the unequal distribution of convenience stores, the Beijing municipal government issued a convenience store industry policy in 2017 to encourage the development of more convenience stores in underserved communities. According to the plan, the number of convenience stores should increase from 1,200 in 2017 to 3,000 by 2020. The government is also encouraging convenience stores to “use highly limited space for unlimited services.” Additional services include postal, banking, utility payments, and regional distribution centers for neighborhood retailers. Customers with fast-paced lifestyles can use convenience stores to handle these daily chores while shopping. Convenience stores satisfies an important demand from young working parents who are faced with growing commutes in



Beijing and do not have much time to cook at home. Due to traffic and parking difficulties, customers have reduced the frequency of shopping in hypermarkets. We believe that convenience stores may become an important distribution channel for imported foods in the next three years based on the growing number of outlets and popularity with consumers.

Convenience stores in Qingdao

The convenience store industry developed rapidly in Qingdao. The key convenience store operators in town are 7-11 with 71 stores, You Ke with 330 stores, Ke Hao with 200 stores, and Mini Shop with 53 stores. In 2019, we expect the average store opening growth rate to be over 20 percent. While private label products are not widely carried, more operators are considering adding these products. The percentage of imported products carried by the convenience stores in Qingdao is relatively low. One major operator reported carrying relatively higher amounts of imported products compared to competitors, but they estimated imports only accounted for five percent of sales.

Convenience stores in Xi'an

In 2017, convenience stores were opening in Xi'an at one of the fastest rates in north China. The leading convenience store operators are Tang Jiu with 170 stores and Mei Yi Tian with 600 stores. According to industry contacts, 7-11 will enter this market through the acquisition of a local convenience store chain in 2019. While the industry is flourishing, we also noted that the average sales per store in Xi'an is much lower than peers in first-tier cities given the lower per capita disposable income for Xi'an consumers. To increase sales, convenience store operators will carry more ready-to-eat products, increase private label products, expand marketing from a customer base aged 18 to 35 to 18 to 40, and add more fresh, healthy, and diet-minded products.

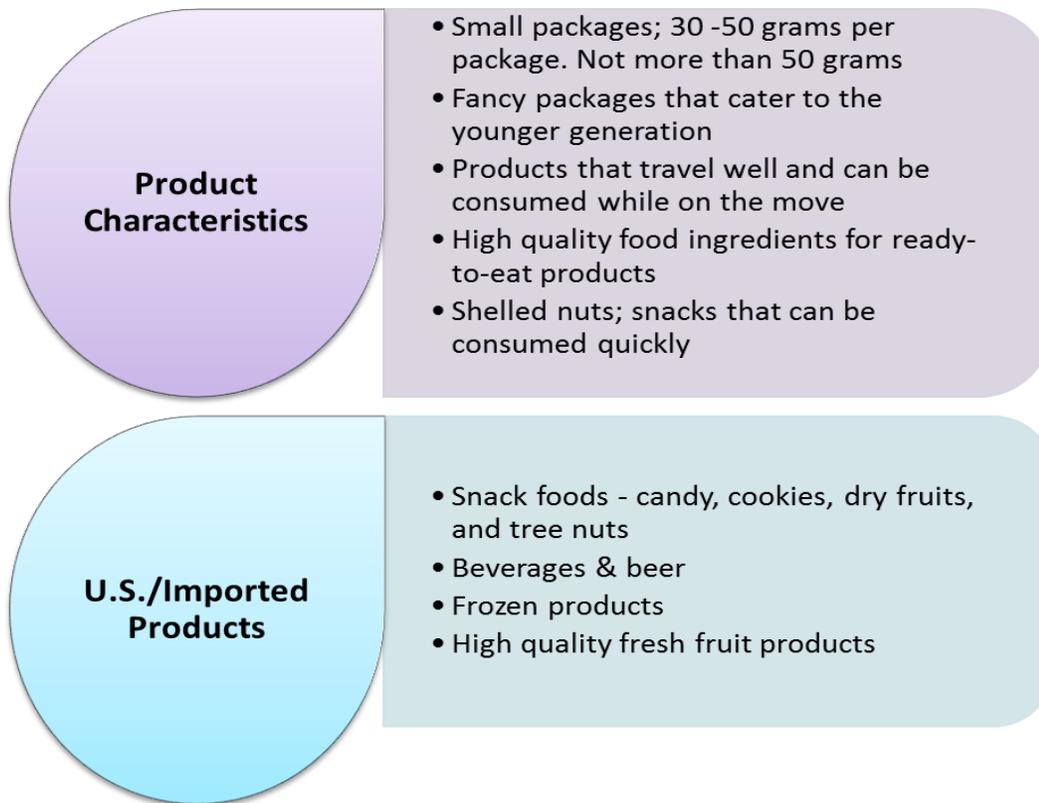
Xi'an is a northwestern city famous for its more than 7,000 years of rich history. Residents tend to be more traditional with respect to food choices, and the city has a unique culinary tradition combining ethnic minority and Han Chinese dishes. Convenience store distributors noted that these unique tastes play out in which products sell well in Xi'an's convenience stores. Products popular in Shanghai or Beijing may not be suitable for Xi'an. Convenience store operators rely on local distributors to help them select products, provide logistics, and after-sale service.

Market trends

Group purchasing is a profitable method for selling special order food items while controlling inventory and operation costs. Group purchasing involves stores offering a limited time opportunity for consumers to purchase special order products, such as imported cherries, wine, or Chinese New Year moon cakes. Individual orders are consolidated and grouped, and then the retail chain places a large order with a distributor, who delivers the products on a set date for consumers to pick up in their neighborhood convenience store. Some leading convenience store operators use this distribution channel to promote seasonal fresh fruit products and holiday gift boxes. This channel would be ideal to promote high value fresh fruit and tree nut imports.

China is quickly moving to a cashless society, and mobile payments are accepted at almost all convenience stores nationwide. Capitalizing on social media and mobile payment trends, an estimated 40 percent of convenience store operators are running their own online platforms. Online shopping accounted for only eight percent of convenience store sales, but this sales mode is expected to grow. Mobile payments significantly speeds up checkout, saves labor costs, and provides data for convenience store operators to use to better target customers.

Products Expected to be in High Demand



Recommendations and Conclusions

We expect the convenience store sector in north China to grow over at least the next three years given current store expansion rates and consumer demands for convenience. Consumers are typically looking for different types of products in convenience stores than they would in hypermarkets or supermarkets.

Smaller packaging, and attractively presented foods and beverages that can be consumed on the move are especially popular. Consumers are also increasingly looking for products they perceive to be fresher and healthier than traditional convenience store snacks.

Compared with other retail models, convenience store operators must rely on local distributors for stocking and logistical services. For this reason we suggest that interested U.S. exporters and food manufacturers work with local distributors rather than convenience store purchasing managers. Distributors usually cover most convenience store chains, and they are more capable of advising exporters on which products would be in the highest demand. U.S. exporters and food manufacturers are welcome to contact ATO offices for advice on meeting local distributors.

Convenience store operators are looking for bulk dried fruit, tree nut, and other food ingredients for their private label products. Food ingredient exporters and others are encouraged to consider attending the annual China Convenience Store Convention organized by China Chain Store & Franchise Association (www.ccfa.org.cn). This convention is an ideal platform to make direct connections with key convenience store operators and distributors.