



CHARTING A PATH FOR GLOBAL GROWTH :

5 REASONS WHY CHINA OFFERS UNPRECEDENTED OPPORTUNITIES FOR CANADIAN AGRI-FOOD COMPANIES





“You should be there.”

Andrew Wu

During a presentation to Canadian agri-food stakeholders on August 8, 2013, sponsored by the Canadian Agri-Food Policy Institute, Export Development Canada, the Ontario Ministry of Agriculture and Food, and MNP LLP, Andrew Wu shared his insights about China, the largest consumer market in the world. Mr. Wu, who is LVMH Group President for Greater China and one of the country's foremost retail marketers, also offered suggestions for Canadian processed food companies to achieve successful market entry and growth.

Mr. Wu presented an exciting picture of a progressive marketplace that welcomes North American businesses, and presented his ideas in three broad themes: **branding, how to connect to retailers and the need for a value proposition.** For the benefit of all expansion-minded leaders of Canadian processed food and beverage companies, below is a summary of his comments – and five reasons why China offers unprecedented opportunities for global expansion and success.

1. THE PACE OF CHANGE IS UNRIVALLED, WITH OPPORTUNITIES EMERGING EVERY DAY

What you've heard or read about China has already changed. As a developing nation, this country's marketplace evolves much faster than our own. In order to visualize the possibilities, it's necessary to challenge assumptions and continuously get updated on China knowledge. Here are some examples.

- A.** Business connections are no longer inherited or taken for granted from the past. Foreign companies are now able to conduct business without going through government representatives and instead by establishing direct and localized approaches to where businesses actually take place.
- B.** As China strives to attain more stable long-term growth, its government also is attempting to shift the country's economy away from investment and toward consumption. In 2012, for example, the size of China's domestic consumption market already reached an estimated \$3.3 trillion.
- C.** Demographic changes are spurring a massive shift in wealth. In 1978, per capita income in China was less than US\$100, but in 2012, this average climbed to about US\$4000. By 2022, more than 75% of China's urban population is expected to have purchasing power comparable to average incomes in Brazil and Italy.¹
- D.** The profile of the Chinese purchaser is rapidly evolving – more buying power, rising consumption, increasing sophistication. Currently, Mainland Chinese consumers already account for more than 20% of some key international luxury brands' global market, combining their purchases inside and outside China, clearly showing their high propensity for quality goods. This pace of change offers new opportunities every day for Canadian processed food companies – selling goods to the country's consumers as well as integrating China into global manufacturing and supply chains.

2. A MARKETPLACE WITH AN APPETITE FOR INTERNATIONAL PRODUCTS, INCLUDING FOOD FROM CANADA

Due to expanding consumption and resource constraints, China is expected to become the largest importer of agriculture and food products in the world.²

As traditional tastes evolve and concerns regarding food safety amplify, Canadian food is increasingly appealing with its reputation for quality. The Chinese also have gained greater exposure to western foods, as promoted by many North American chains in the country since 1980s. Canadian agri-food exports to China rose from \$1.6 billion in 2008³ to \$5.1 billion in 2012.⁴

\$US Billion **RETAIL SALES OF FOOD AND NON-FOOD ITEMS**⁶



There's increasing demand for imported canned items, fresh fruits and meat as well as convenience foods. Wine is also rapidly growing in popularity. Last year China was Canada's largest export market for wine. Nearly 40% of our total 2012 total wine exports - \$16.6 million - were shipped to China.⁵

Higher incomes and living standards and changes in diet are contributing to another trend: rising rates of obesity, heart disease and diabetes. According to the World Health Organization, the percentage of Chinese adults who are overweight was almost 39% in 2010.⁷ Consequently, food and beverage products that support health and wellness are becoming popular.⁸

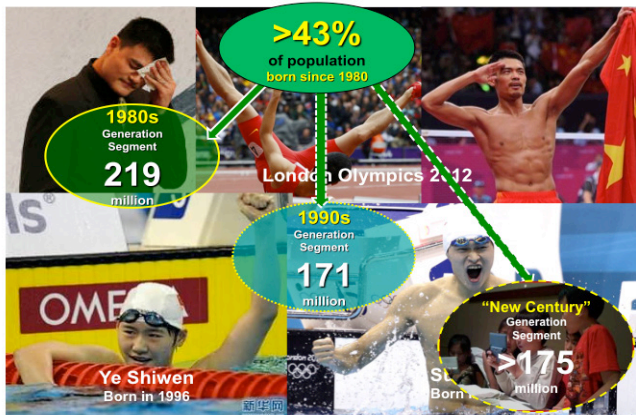
Market entry tip: Pay increased attention to what is happening at the retail level in China. Andrew Wu suggests that, as the retail feel precedes other channels of information, frequent visits to China with an eye on what is happening in the retail market could be most helpful, and establishing relationships with that knowledge in hand would be more effective in building a sustainable entry business and in focusing your limited resources.

3. HIGHLY SEGMENTED CONSUMER MARKETS WITH YOUTH DRIVING BRAND DEMAND

When it comes to buying preferences, there are vast differences throughout China and there are different consumer targets even within the same cities. China's consumer market is much more fragmented than North America's, not just in terms of geography, dialects, regional sub-culture, local tastes and demographics, but also in terms of economic diversity and development. In addition, the revolutionary transformation of China since 1949 has divided the consumers into different generation groups dramatically different from each other, which makes the market change unprecedentedly exciting.

43% of China's population today has been born since 1980. They have seen nothing but economic growth and are now a powerful force of consumer spending. Among this group, for example, just those who were born in the 1980s already number around 219 million consumers.⁹ They are completely opposite their parent generation in behavior for consumption and nowadays most demanding about food safety. This segment alone is leading with more sophisticated buying habits, preferences for quality, authenticity, healthiness, and environmental impact.

Year of 2012: Accelerating Generation Shifts



Further, those born in the 1990s, for example, have grown up with more prosperity and more mentoring by their parent generation. They are technologically highly skilled and have a proclivity for connecting globally.¹⁰ These 171 million upcoming consumers will be driving demand for international brands differently too. Many of them travel outside China to attend school. They experience an array of products and brands and share their preferences when they return home, thereby building awareness of what the world has to offer.

Presently, the notion of “Canada” as a brand is not sufficiently compelling in this “New China” for the increasingly exacting consumers to meet their updated personal needs and evolved expectations

In order to persuade Chinese consumers to buy their brands, Canadian companies must be able to identify the specific factors that appeal to distinctive buyer segments. Since the Chinese have so much choice from all over the globe emphasizing great brand experience and points of differentiation are essential.

Market entry tip: Leverage connections with Mainland Chinese youth studying in Canada. These are potential brand ambassadors who not only can take the “tastes of Canada” home and build demand in China for Canadian brands, but also may work for the Canadian marketers inside China.

4. A FOCUS ON CATCHMENT AREAS CAN DETERMINE COMPATIBLE RETAIL LOCATIONS

When it comes to geographic location, how do you access 1.34 billion people populating a land mass that’s nearly as immense as Canada?

In fact, China’s predominant consumers are concentrated in urban areas. As they become wealthier, the country’s rural Chinese are moving to cities, many of which are becoming increasingly cosmopolitan.

TOP 10 CITIES IN CHINA FOR RETAIL SALES



Today, with 122 cities having populations exceeding one million, multinationals are now expanding into second-tier cities with lower costs of doing business and higher rates of economic growth.¹¹ Certain areas also have special economic zones with incentives for foreign investors. But for domestic consumption and retail market of imported products in particular, unlike businesses of industrial sectors, the focus should be major cities, not everywhere.

Essentially, establishing a successful retail location requires focusing on specific urban catchment areas, understanding the relevant consumer characteristics and localizing offerings to appeal to local tastes.

Market entry tip: Select one appropriate city and focus on it. Andrew Wu suggests that targeting even just one small chain of retail supermarkets in Greater Shanghai, for instance, may be sufficient to initiate a Canadian food business and access to potentially millions of potential customers.

5. E-COMMERCE IS FACILITATING GROWTH OF IMPORTED FOOD PRODUCTS



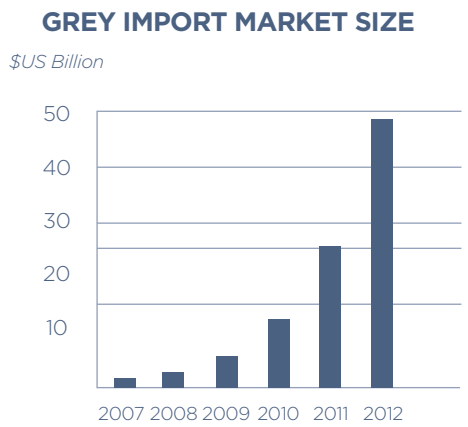
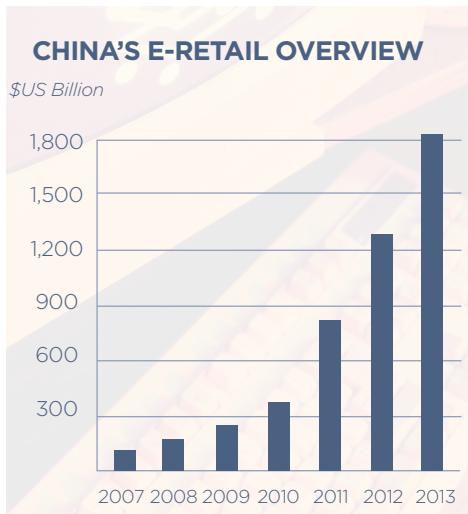
Interestingly, even the biggest physical food retailers in China have very low market shares; the market is extremely fragmented in coverage, with the top-10 players each at less than 1%.⁹ Meanwhile, in the last few years, e-supermarket development has notably caught on and growing explosively in major cities, especially marketing imported food products.

Currently, 193 million Chinese people regularly shop online, although the average spend still remains low in value. Within two years, this number is expected to reach 350 million – more than the US, India, Japan, Russia and Indonesia combined.¹² As demand grows for imported products such as luxury items and infant formula, many “buy-on-behalf” websites have sprung up to fuel global shopping and provide one-stop portals for online shopping, shipping and payment (also referred to as the grey import market).⁹

The good news is – food is a most popular shopping category with growth primarily driven by e-supermarkets or dedicated “food channels” of all top e-commerce sites; in fact, China’s top five retailers have all launched such “food channels” since 2008. In 2012, Walmart has also become the majority owner of one of the biggest e-supermarket in China called “Yihaodian” (YHD.com), which has seen double digit growth in recent years.

There’s another important advantage to e-commerce in the Chinese marketplace – sellers can reach consumers who would otherwise be difficult and expensive to service. More than 35,000 courier companies quickly and inexpensively deliver products throughout the country.¹³ An individual can order a pint of milk online in the morning and receive it fresh from New Zealand that afternoon.

For Canadian companies, e-commerce can therefore simplify both the time and infrastructure required to access buyers and distribute products.



FOOD - A MOST POPULAR CATEGORY FOR E-SHOPPING in all major Chinese cities since 2008

Rank	Top E-Retailers - all with “Food Channel”	2012 Total Revenue (% Y - O - Y GROWTH)
#1	天猫 TMALL.COM www.Tmall.com (since 2008)	US\$ 33 billion (+328%)
#2	JD.COM www.JD.com (since 2004)	US\$ 10 billion (+186%)
#3	Suning.com 苏宁易购 www.Suning.com (since 2005)	US\$ 3 billion (+210%)
#4	亚马逊 amazon.cn www.Amazon.cn (since 2004)	US\$ 1.6 billion (+75%)
#5	一号店 www.YHD.com (since 2008)	US\$ 1.1 billion (+154%)
#5	易佰网 www.51buy.com (since 2006)	US\$ 1.1 billion (+196%)

Market entry tip: Andrew Wu reminds exporters that the popularity of e-commerce in China may address one of their key market entry challenges – finding the right distributor – because e-commerce essentially integrates this channel.

“China is where the world competes.”
Andrew Wu

THINKING ABOUT GROWING GLOBALLY?

Maybe you should be thinking about China: a rapidly evolving marketplace. A population with an increasing appetite for international products, and more sophisticated and younger consumers driving brand demand for quality, not just quantity, and thriving e-commerce.

Seeing is believing, and seeing often is imperative because of the pace of change. Perhaps it's time to visit the world's largest marketplace soon to reassess opportunities available to your company today.

The Canadian Agri-Food Policy Institute (CAPI) would like to express our appreciation to Andrew Wu for his informative insights and advice regarding these opportunities for Canadian processed food and beverage companies in China.

The information and ideas presented in this document are part of CAPI's ongoing research to identify ways to strengthen the competitiveness and success of Canada's processed food companies.

For information regarding export assistance provided by the sponsors of Andrew Wu's presentation, Are You Ready for China?, please visit:

Canadian Agri-Food Policy Institute - www.capi-icpa.ca

Export Development Canada - www.edc.ca

Ontario Ministry of Agriculture and Food - www.omafra.gov.on.ca

MNP LLP - www.mnp.ca



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