Supermarket Development in China

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Supermarket Development in China

Contributing Factors:
- Government Policy Shifts
- Pent up demand – high savings
- Falling inflation – more spending power
- Emerging middle class (~23%)
- Commercial history
- Urbanization – (working women/refrig.)
- Quest for all things modern
Supermarket Development with Economic Development

Formerly State Controlled Economy – (FSCE)

Under state control in China, trade and commerce not destroyed as in East EU.

• Policy Regimes changed to favor SM

• Chinese went to school on foreign partners
Supermarket Evolution in China

1949 = communism

’52-’58 some state shop for basics

’59 state urban stores

Stage I

1979 private urban shops

Stage II

1991 start foreign joint ventures

Stage III

1979 Economy Revolution

Open Market to foreign investment

Supermarket

Oversea supermarket came into China

Fresh Agri. Product is added in grocery supermarket

Before 1956

Private owned grocery store

1956 nationwide capital merger

Government owned grocery store

1979 Roadside Free Market (majority in Food, minor in grocery)
Supermarket Evolution in China

1990 Had variety of types of retail food outlets

A: Basic Foodstuffs – packaged and staple goods
   • State stores in med/large cities
   • State stores – department – nonfood

B: Greengrocers
   • State greengrocers
   • Collective greengrocers – no govt.control
   • Wet markets – farmers’ markets - private

C: New traditional stores
   • Mom & pop – counter service
   • Street stands, kiosks
Supermarket Evolution in China

FDI started in 1900’s

1991 Allowed Joint Ventures with foreign companies: 
   11 economic zones and with 49% FDI

2002 Allowed joint ventures with 65% FDI

2004 Allowed wholly owned foreign retail and wholesale companies
## Supermarket Evolution in China

<table>
<thead>
<tr>
<th></th>
<th>State Owned</th>
<th>Collectives</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>41%</td>
<td>28%</td>
<td>20+%</td>
</tr>
<tr>
<td>1995</td>
<td>30%</td>
<td>19%</td>
<td>30+%</td>
</tr>
</tbody>
</table>
## Supermarket Development 1994-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Annual increase (%)</th>
<th>Sales</th>
<th>Annual increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>2500</td>
<td>-</td>
<td>0.38</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>6000</td>
<td>140</td>
<td>0.96</td>
<td>167</td>
</tr>
<tr>
<td>1996</td>
<td>10000</td>
<td>66.7</td>
<td>3.61</td>
<td>275</td>
</tr>
<tr>
<td>1997</td>
<td>15000</td>
<td>50</td>
<td>5.06</td>
<td>40</td>
</tr>
<tr>
<td>1998</td>
<td>21000</td>
<td>40</td>
<td>12.05</td>
<td>138</td>
</tr>
<tr>
<td>1999</td>
<td>26000</td>
<td>23.8</td>
<td>18.07</td>
<td>50</td>
</tr>
<tr>
<td>2000</td>
<td>32000</td>
<td>23.1</td>
<td>26.51</td>
<td>47</td>
</tr>
<tr>
<td>2001</td>
<td>40500</td>
<td>26.6</td>
<td>37.11</td>
<td>40</td>
</tr>
<tr>
<td>2002</td>
<td>53100</td>
<td>31.1</td>
<td>55.13</td>
<td>49</td>
</tr>
</tbody>
</table>
Supermarket Evolution in China
Local Companies ‘97-’98 (2002)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5 (3)</td>
<td>2000M ($1.1B)</td>
<td>115%</td>
<td>94 (720)</td>
<td>65%</td>
</tr>
<tr>
<td>2 (1)</td>
<td>3300 M ($2.2B)</td>
<td>62%</td>
<td>360 (1920)</td>
<td>45%</td>
</tr>
<tr>
<td>1 (2)</td>
<td>3800M ($1.8B)</td>
<td>38%</td>
<td>359 (1200)</td>
<td>56%</td>
</tr>
</tbody>
</table>

All officially merged in 2003; managed by govt. of Shanghai
Supermarket: Hualian - Shanghai
Supermarket: Hualian - Shanghai
Supermarket Foreign Entry

1992: Foreign involvement needed Chinese partner (51%) in 11 economic zones

<table>
<thead>
<tr>
<th>Year Entered</th>
<th>City for 1st shop</th>
<th># of shops</th>
<th>Strategy</th>
<th>World Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrefour(France)</td>
<td>1995</td>
<td>Shanghai</td>
<td>44 Big market</td>
<td>2</td>
</tr>
<tr>
<td>Wal-Mart (USA)</td>
<td>1996</td>
<td>Shengzhen</td>
<td>34 sale everyday, satisfactory service</td>
<td>1</td>
</tr>
<tr>
<td>Metro (Germany)</td>
<td>1996</td>
<td>Guangzhou</td>
<td>20 Serve small and medium enterprise</td>
<td>3</td>
</tr>
</tbody>
</table>
Supermarket Expansion Carrefour’s

1992: Foreign companies needed Chinese partner (51%) in 11 economic zones

<table>
<thead>
<tr>
<th>Year</th>
<th>City</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Wuhan</td>
<td>Hanshang Group</td>
</tr>
<tr>
<td>2000</td>
<td>Shanghai</td>
<td>LianHua</td>
</tr>
<tr>
<td>2002</td>
<td>Kunming</td>
<td>Kunming Department Store Co.</td>
</tr>
<tr>
<td>2002</td>
<td>Xi’an</td>
<td>Jin Hua Group</td>
</tr>
<tr>
<td>2002</td>
<td>Guangzhou</td>
<td>Guangzhou Department Store Co.</td>
</tr>
<tr>
<td>2002</td>
<td>Liaoning</td>
<td>Liaoning Chen Da</td>
</tr>
<tr>
<td>2002</td>
<td>Harbin</td>
<td>Harbin Dong Li</td>
</tr>
<tr>
<td>2002</td>
<td>Tianjin</td>
<td>Tianjin Quan Ye</td>
</tr>
</tbody>
</table>
Supermarket Development Changes the Supply Chain

- Private standards & contracts
- Preferred suppliers – organized farmers and cooperatives to meet standards
  Consolidates & Coordinates the supply chain
- Purchase large amounts of local product
  - enhances modern food manufacturing
Supermarket Development Changes the Supply Chain

- Import products -- enhance int’l. trade
- Helps prepare agriculture/food industry for exports

- Logistics systems/distribution
- Information technology/supply chain management
Food Logistics? - Shanghai

Mixed Methods Prevail
Supermarket Development Changes the Supply Chain

Retail food chains “make markets.”

(Petrovic & Hamilton)
“超市和农产品产销”国际研讨会
International Forum “Supermarket & Agriculture Development: Challenges and Opportunities”
中国·上海

支持单位:
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加利福尼亚州立大学（Fresno分校）

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Shanghai Carrefour Supermarket (Carrefour)
California State University at Fresno

Shanghai Chain Enterprise Association
Shanghai Agricultural Industry Commerce Supermarket
National Natural Science Foundation of China
Department of Management Science
“Supermarketization” and the Agri-Food System Globally

Rise of a middle class in newly developing countries

• Incomes of about $6,000 GNI per capita for about 20% + of the population (China: 23% with GDP/capita of $5,000)

• Urbanization, Transportation, Home Cooking (China: planned urbanization, 90% have refrigerators, stores provide transportation to consumers. Distribution??)
“Supermarketization” of the Agri-Food System Globally

Foreign Direct Investment (FDI) policies:

- Capital for development of private sector

- Where FDI in retail & distribution allowed, investment increased 9000%, 1980-2003 in Asia and Latin America. (Reardon)

(China – yes; India – no)
"Supermarketization" of the Agri-Food System Globally

Ramifications for Agri-food network in local Countries and for trade:

*In-country sales of processed foods increased to 500 x greater than processed food exports from the U.S. to the rest of the world.*

⇒ More local supply

⇒ More possibilities for export from these processors

⇒ Standards of food safety & quality set by supermarkets
“Supermarketization” of the Agri-Food System Globally

Private Standards:—Chosen When BUYER:
• Needs consistent and high quality product
• Needs consistent, reliable quantity (logistics, service)
• Needs differentiated product
• Investment in a “Brand”
• Product is important to sales
• Needs to signal suppliers - critical
“Supermarketization” of the Agri-Food System Globally

Private Company Specifications/Standards:

• Bargaining power with suppliers

• Develop trust along the supply chain

• Reinforces demand driven chain

• Layered on top of government standards.
Private specifications build on public standards

ELITE MARKET

STORE OR RESTAURANT BRAND

PRIVATE BRAND

PUBLIC G&S

CODEX
Supermarket Development with Economic Development: China

Macro-economic variables that help may explain the rapid rise of supermarkets. (1994-2002)

GDP:   $+ 8.88\%$ avg.

CPI:   $- 28\%$ between ’94 & 2002

FDI:   Net inflows + after 2001

HH total consumption expenditures: $+8\%$ avg.

Urban Population: $+3.5\%$ avg. increase (482m)

Engel Index: $-1.53\%$ avg. decline
Supermarket Development with Economic Development: China

Variables that are significantly correlated with the % Increase in # of Stores. (1994-2002)

GDP increases 1% → # stores increases 14.6%

FDI increases 1% → # stores decreases 23.7%

Engel Index increases 1% → # stores increases 18.5%

(buy non food a well)
Supermarket Development with Economic Development: China

Variables that are significantly correlated with the supermarket sales revenue. (1994-2002)

CPI decreases 1 unit → sales increase $750 M

FDI increases 1 unit → sales increase $0.15

Engel Index increases 1 unit → sales increase $1.38 B

Urbanization increases 1 person → sales increase $648
Supermarkets: Consumer Acceptance in China – Why?

- New shopping style – self-service (leisurely)
- Sanitation – food safety
- Quality guaranteed – predictable
- Customer service always available
- Cheaper
- Transportation provided in some places
- New products from outside China – “It excites the eyes.”
Global Prevalence of Underweight and Obesity in Adults for Year 2000, by Level of Development

Children around the world are Supersizing

17-20% of China’s urban children are overweight!

The downside?
Supermarket Development in China

Thank You, Jean Kinsey

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