

The Confectionary Market in the Yangzi Delta Region

Canadian Consulate General, Shanghai

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Introduction

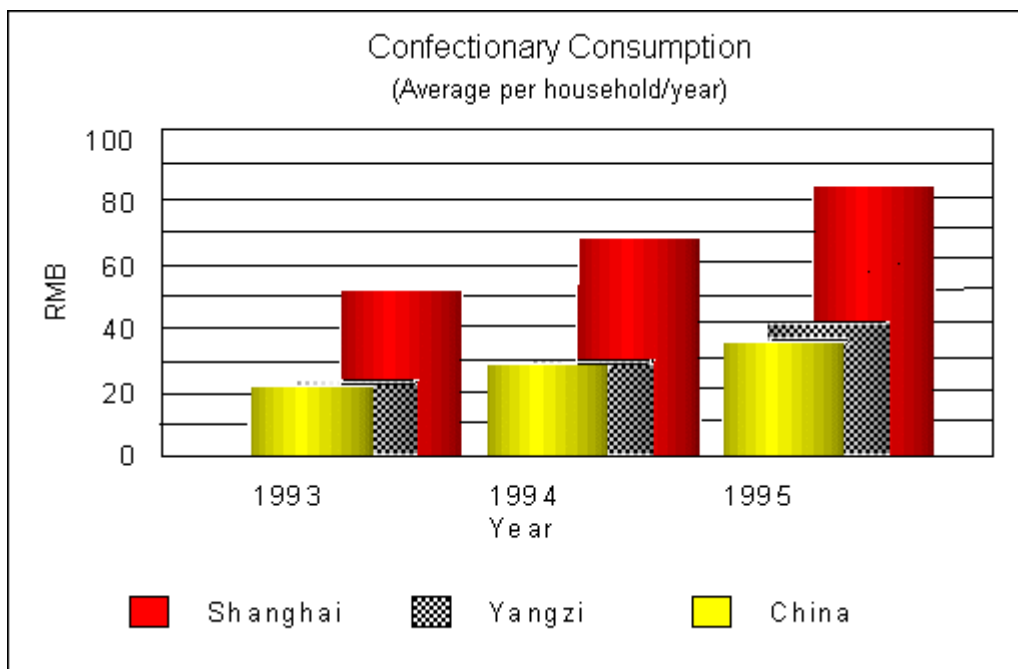
People from all over the world enjoy confectionary snacks and candies. Chinese people are no exception. Complimenting the rapid growth of Chinese personal incomes in recent years, there has resulted substantial shifts in consumption and demand from unprocessed to value-added food products including confectionary goods. In fact, in Shanghai, there is already a remarkable variety of snack food products.

Confectionary consumers come from different socio-economic backgrounds. There are diverse factors which determine their purchasing decisions. In general, the popular snacks tend to be inexpensive, well packaged, and suitable to local tastes. There are also expensive snacks which are popular but, in line with their price, they must be a brand name product and have established a reputation in the local market for their quality. In general, confectioneries in Shanghai are divided into 2 categories: the so-called "Eastern" and "Western" snacks.

Eastern Snacks

A lot of Eastern snacks are purchased for consumption at social activities. They include crackers, cookies,

hard-candy, dried fruits and seeds, chocolates, and potato chips. Another identifying facet of "Eastern" snacks, is they are often characterized by having some inedible waste product such as a shell or pit.



Western Snacks

Western snacks, on the other hand, are fully edible. Many Western snacks have gained a substantial market share, especially with the young who considers "new taste" an important snack trait. Imports of confectionery goods reached over U\$550 million in 1995, an 185% increase since 1991. Some Western brands that have entered the market include: Pringles Potato Chips, Wrigley Doublemint gum, Hershey's chocolates, Britain's Cadbury, France's Prince, and Japan's Oishi prawn crackers and rice puffs.

Consumer Behaviour

The Shanghainese are among the wealthiest citizens in China, earning 70% more than the average Chinese. Most residents live in low-cost, subsidized housing and are all subject to China's one child policy, which results in more disposable income. There are reportedly over 100 million people in the coastal cities of China (including Shanghai) with annual incomes of U\$10,000 to \$40,000. This number is expected to grow to 445 - 580 million people by the year 2005.

Also, China is experiencing the "Little Emperor" phenomenon in which one child receives the exclusive care of two working parents along with two sets of grandparents. This means children receive a considerable amount of allowance, much of which is spent on snack foods. Therefore, many advertisements of snack foods are targeted towards children, usually through an attractive packaging.

In general, people in the Yangzi Delta region (and China in general) prefers sweet confectioneries over salty ones. Even the popcorn available is of a sweet flavour. Sugar confectioneries accounted for over 97% of the total confectioneries consumed in China.

Critical Concerns

Shanghainese are diverse in their tastes and preferences. The younger generations of Shanghainese are more willing to try new products and purchasing methods while the older generations tend to be more conservative and base their purchases mainly on price. To ensure the success of product sales importers need to consider issues such as price, brand, flavour, packaging, and tariffs.

- **Price**

Snacks are not regarded as staple foods and therefore, people are often not willing to spend a lot for them. According to a survey done on twenty-one supermarkets, store managers responded that local customers in Shanghai use price as the main determining factor to purchase an imported or local snack.

Foreign snacks are more expensive than snacks made within the region. For example, many local consumers question why California prunes cost so much more than similar Taiwanese products with a nearly identical name and package but selling for one-fourth the price.

Some foreign companies intentionally set a higher price on their products to establish an "expensive and superior image" to local consumers. It is part of their marketing strategy. When the product's image is established the high price is reduced to generate sales.

- **Brand**

Brand recognition is the second most important factor for local consumers. Wealthy and young people are becoming acutely brand-conscious. This is particularly true in Shanghai because a variety of snack foods are already imported. But, there are still many foreign products which are unknown to local consumers. Store managers, when asked for their input, advised that companies must support their products by having more advertising and local promotion. This requires foreign companies to pay more attention to consumer education.

For example, Taiwanese snack brands are very well known in the Shanghai market because they are dedicated to advertising their snacks. Commercials for their biscuits, Wangwang and Kangshifu, are often seen on the local TV channels. They also enclose small toys in their snack packages for consumers. As a result, their products are well known and sought after in the local market.

- **Flavour**

This is one area which many companies overlook when they first enter the Chinese market. Products which deviate from regional norms carry with them a great deal of risk. Many foreign manufactures have to make small concessions to local taste. For example, Cadbury chocolates sold in China are less sweet than their overseas counterparts, as is Unilever-Walls with their ice cream. Neilson's Mr. Big chocolate, for example, was considered too sweet when it entered the Shanghai Market. As a result, the chocolate was not welcomed by local Chinese consumers and it had to be sold at a major discounted price. Extensive market and local taste research should be conducted before introducing any product with an unfamiliar flavour.

- **Packaging**

The size of food packages also need to be locally tailored. Most Chinese people do not own cars and live in small, crowded apartments with little storage space so, large western style economy packages are not desirable. Also Chinese people prefer individual packaged snacks in smaller packages, 30 grams of sweets is more suitable versus the 60 grams which are preferred in North America. Exceptions are made for gift packages which are commonly given to friends, relatives or business contacts. Such products are not marketed as economy packages but as gifts. They are very popular during the holiday seasons, especially during Chinese New Year and the Western Christmas holiday.

Also, many consumers have the believe that there is a relation between packaging and the quality of the product. Comparatively, the Chinese will think that the quality of a product is better when they are wrapped in an attractive package.

Labelling

On September 1st 1996, The Labeling Law took effect to regulate imports of packaged food products into China. As of this date, all food products (domestic and imported), at a minimum, must have a Chinese language label approved by the China Health Inspection Bureau with the following information:

- Chinese name of the product
- Food Ingredients
- Date of production
- Net weight
- Shelf life/Expiry date
- Method of Storage
- Country of origin
- Importer and manufacturer

Other information may appear on the label, such as the English name of the product, manufacturer's address and number, type of food, nutritional content and trademark. However the Chinese language requirements (all in simplified characters) must be met.

Labeling is necessary as a form of protection for local consumers. Local consumers can read package labels for nutrition contents and contact the distributors provided on the labels for product complaints, if necessary. This will also protect producers and retailers from fake, inferior, or expired food from entering the market.

Tariffs

Tariffs is a major barrier preventing foreign companies from being competitive in China. It ranges between 12% for chocolate to 15% for chewing gum. To avoid tariffs, some foreign companies may use grey channels to import products by importing through Hong Kong, then re-directed into China.

Retail Outlets

Snack foods can be purchased from a variety of venues. Most locations stock Western snacks like M& M's, Skittles, Dove chocolate bars and a variety of other foreign snacks. Some of these locations are:

- Shanghai Supermarkets

There are over 1000 supermarkets in 1998 and the number increases each day. Eighty percent of managers, surveyed, reported snack foods were among one of their most profitable products in the stores. To local consumers, supermarkets offer a good selection of foreign and local snacks and low prices. Western-style supermarkets and hypermarkets are new to China, and are developing rapidly. These markets provide a good entry point for confectionery products as they are geared towards the hip and more affluent Chinese consumer.

- **Convenience Stores**

Convenience stores resemble the Canadian 7-Eleven counterparts. They offer a wide variety of popular snacks and products and allowing customers to pick up products off the shelf. They are well lit and neatly organized into sections, and often provide 24-hour services. Local market and convenience stores are the most prominent retail outlet for bottled water, but this is expected to change as the younger generations in China have begun to shop almost exclusively at the new western style supermarkets and hypermarkets.

- **State-run Food Shops**

Before supermarkets started emerging in Shanghai, state-run food shops, such as the First Food Provision Company and the Friendship Store, dominated the retail sector. There are still many of these shops in Shanghai, especially in areas where supermarkets have not yet made inroads. In these stores, products are stocked into various sections behind counters staffed by service people who retrieve products from shelves at the customers' request.

- **Mom and Pop stores**

Mom and Pop stores are smaller retail outlets which are pervasive throughout the city and suburbs, located on small and large streets of schools, colleges, restaurants, and residential apartments and compounds where a dense population of people live. These stores keep longer hours than supermarkets and although

snack selection is limited the stores are visible and easily accessible.

Other retail outlets include specialty snack shops who offer a discriminating selection of Eastern snacks like dried fruits, seeds and similar products. Also, snacks are sold in a variety of entertainment locations like movie theatres, bars, karaokes and recreation centres.

Distribution

There are several ways that Canadian products enter Shanghai's confectionary retailing stores. The following is a general structure.

1) Import/Export Company: These companies have an import license to import products from overseas. Import licenses are issued by the local government foreign economic relations and trade commission.

Products are imported directly from overseas or commonly via Hong Kong and Guangzhou where there are numerous trading companies specializing in foods. If any import tariff is paid, the importer will pay for it on behalf of the distributors and/or retailers.

Import companies look after the documentation and labelling requirements. Products are transported to Shanghai by truck, train or ship and sold to distributors/wholesalers or local agents.

2) Distributors/Wholesalers/Agents: Most wholesalers do not have their own import licence so, they entrust a local import/export company the job of importing goods from overseas. Distributors who own their own import license import goods from overseas themselves. Most successful distributors have established local contacts and market intelligence. Once imported goods are in the country, wholesalers distribute the products to the retail outlets. Sometimes, a given product can have many wholesalers or a few.

Retail outlets can be supermarkets, buyers who have kiosks at the local wet markets, high-end restaurants or hotels. Some retailers, like Japan's Yaohan and China's Orient Shopping Centre, have their own import licenses but they do not use them very often to import products directly from overseas. Yaohan's management justified that it is cheaper to supply their products through distributors because these distributors deal in larger volumes than Yaohan is able to handle. In comparison, if Yaohan was to import goods directly from abroad, it would only be a small quantity which is enough to meet the needs of their own chain stores. So, in terms of cost, it is not economical for Yaohan to import the products themselves.

Also, supermarkets like Japan's Yaohan, Shanghai's Hualian and Lianhua and Hong Kong's Park N' Shop offer a large network of stores in Shanghai so, foreign snack manufacturers are assured the advantage of reliable and established distribution channels.

The unique characteristic about distributors or wholesalers is they can also market imported products with the assistance of retail outlets and financial support of the foreign company.

3) Converters: These are state-run enterprises with the import license in Southern China. They have the connections that allow them to bring products into the country, do whatever it takes to get the product cleared through customs, pay the tariffs, and then pass the goods back to the agent or distributor.

Converters can exchange currencies, get products into a warehouse, and accept payment for a shipment without need for outside financial entities. This used to be a very prevalent method of distribution. However it is less common now especially within the last two years, and is not encouraged due to new government policies enacted by Premier Zhu Ronji.

For more detailed information on distribution, please refer to our "Food Distribution Systems in the Yangzi Delta Region" detailed report, available through the Canadian Consulate General, Shanghai.

Buyers and Warehouses

Buyers determine what products a supermarket will put on the shelves. Larger chain supermarkets such as Yaohan have their own local buyers who choose products on the basis of appeal and cost. Smaller

supermarkets rely on their distributor's buyer. Managers interviewed say that different distributors often charge different prices, indicating there are no fixed pricing standards for products.

Larger supermarket chains have their own warehouses where their distributors keep their products in storage. Products are shipped to the supermarket by truck, bicycle for smaller operations, especially during crowded traffic conditions.

Marketing Support

Advertising, promotion and marketing support are very important to the success of a new product in the local Chinese market. Distributors and retailers are always ready to assist but, exporters need to invest financial resources and promotional materials to advertise their products. Many local Chinese people today are extremely influenced by the advertisements and commercials they watch on television and see around them, particularly on billboards, and banners in the stores. Given the current economic boom and willingness by local Chinese consumers to try new products, exporters can be very successful if they invest time and money to inform, persuade and convince local Chinese consumers regarding the quality of their products.

In-store product sampling/promotions are valuable marketing tools in China. Supermarket managers welcome foreign companies' in-store promotions for a small nominal fee. Companies are allowed to promote their products as they desire in the store, through "promotion girls" who hand out company brochures and advertisements or offer product samples to local consumers. Japan's Yaohan, for example, often offer cooking promotions and give away company recipe cards to help Shanghainese customers learn to prepare unfamiliar imported products.

Distribution Challenges

Distribution is considered the biggest barrier that confectionery companies face. Most local suppliers, distributors and transporters lack equipment to protect the goods. They do not have efficient and effective monitoring systems to track shipments between suppliers and retailers. Often goods are left under uncertain conditions before they are placed in proper storage facilities.

To minimize distribution problems supermarkets like Japan's Yaohan work through a few large suppliers as opposed to an array of small suppliers. On the other hand, companies like America's Conagra Refrigerated Foods International, minimize distribution headaches by selling their products through thousands of individually operated wholesalers--most of whom distribute the goods to wet markets. These processes seem to work most successfully for these two companies. For others, the effect may not be the same. Distribution processes work on a company by company basis. No uniform process has been discovered to work for every company.

Market Opportunities

Some analysts have suggested that the snack market is to some degree "saturated". This means that any new entry companies producing potato chips, dried fruits and chocolates, especially if the brand name is unknown, will find the process expensive and quite difficult. Nevertheless, a properly packaged and marketed product which appeals to the consumers' whims and changing needs can be successful.

For example, with economic development, and better living standards Shanghainese consumers are more conscious of healthy snacks so, they look for more nutritious snacks. As a result, many companies have taken advantage of the revised labelling laws to advertise the nutritional value of their food products.

For beauty conscious young women, calorie content has also become a rising concern. Marketing snack foods that addresses this concern is an area which is non-existent in this market. Innovative companies could use this opportunity to make major market inroads.

Conclusion

"Western" style snacks are capturing market shares from traditional "Eastern" snacks. To optimize success

in the Shanghai market Canadian snack food manufacturers need to conduct thorough research of local market conditions, local taste preferences and trends and connect with key contact people and agents to deal with the importation, promotion, marketing, and distribution of their products.

Importantly, in order to successfully penetrate the Shanghai market, Canadian companies need to be creative and persistent in their pursuit to build a profitable business which caters to local tastes, price and packaging preferences and labelling requirements.

Follow Up

The Canadian Consulate General's Agriculture and Agri-Food Office maintains ongoing relationships with local importers, wholesalers, agents and outlets. The office also organizes and participates in numerous promotional activities aimed at generating business for Canadian firms in this sector. Firms interested in taking advantage of these relationships and activities in their efforts to do business in this market would be well advised to stay in touch with us, as follows:

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