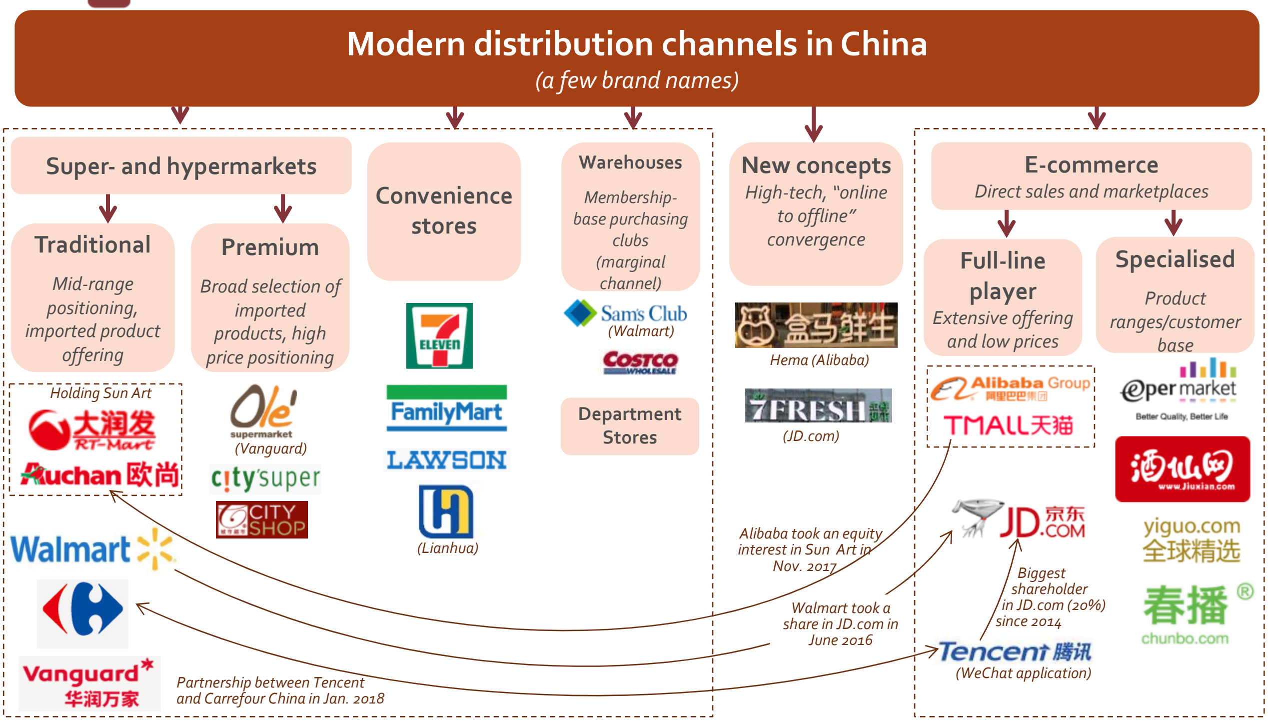
Unigrains – In Brief
Food products in China
A dynamic, changing market

In January 2018, Unigrains conducted a mission in China to investigate changes in the food product market. In the course of this mission, organised with the support of Business France, contacts were made with a number of players: manufacturers, importers, traditional retailers, internet giants (Alibaba and JD.com), distributors specialised in online sales, advisors, investment funds, and an M&A firm. This summary will be completed by the publication of a study on the dynamics of this changing market and the different ways of approaching it.

Food products in China: a dynamic, changing market



Source: Unigrains study

Dynamic consumption driven by a growing middle class, increasingly eager for imported products

It is estimated that 130 million Chinese people had income exceeding $10,000 per year in 2015 and that this number is set to double by 2022 and more than triple by 2030. This growing middle class is also very aware of health risks. Against a backdrop of recurring food scandals, these consumers are eager for more foreign products (or products manufactured according to stringent Western standards), which they see as more reassuring in terms of food security, and they are prepared to pay more for these products.

This has notably led to a boom in high-end supermarket chains (Olé, City Super, City Shop, Jenny Lou's, etc.), which are developing in large cities, among which Shanghai and Beijing, and are now frequented more by Chinese customers than by the expatriates they initially targeted. It has also resulted in the development of imported product sections at traditional modern retailers (Auchan, Carrefour, RT-Mart, Metro, etc.).

Author: Eric Porcheron - Tel.: +33 1 44 31 16 12 - eporcheron@unigrains.fr – **Date of Publication**: February 2018

Purchasing behaviours are changing with widespread smartphone use and the boom in e-commerce

More than half of the Chinese population has internet access and nearly 95% of connections are made via a mobile phone. In just a few years, smartphones have become an essential feature of everyday life: to make online purchases, as a payment instrument (mainly with Alibaba's Alipay and Tencent's WeChat Pay applications), and even to swap business cards. China is moving fast: in a country where laptops and credit cards are not very widespread, online retailers took a gamble on smartphones at a very early stage, and consumers were quick to adopt the latest technologies for everyday uses.

All products combined, China is the biggest e-commerce market in the world: $681bn in B2C (2017 estimate), i.e. 12% of retail sales, ahead of the United States ($438bn). E-commerce has become a part of everyday life and common practice among consumers, including for food purchases and even fresh produce.

In large cities, home delivery has also become the rule in just a few years, benefiting from high population densities and low labour costs, two decisive advantages given the difficulty of managing "last-mile" logistics.

Developments that are changing the retail distribution landscape

The boom in e-commerce is disrupting retail distribution's traditional brick & mortar channels. E-commerce players meet consumers' new expectations (notably their desire to save time) and put pressure on prices. They offer an extensive product range and customised services, building on fine-tuned consumer knowledge acquired from exploiting their powerful databases.

Online sales are driven by the national champions that emerged over the past 15 to 20 years: Alibaba (created in 1999 in Hangzhou) and JD.com (created in 2003 in Beijing), whose biggest shareholder is the Tencent group, well known for its WeChat messaging app (850 million active users) and its WeChat Pay payment solution. In recent years, these groups have applied their expertise to other businesses to become internet giants, now positioning themselves as digital players. Alibaba and Tencent have market capitalisations of €390bn and €420bn, respectively (as at early February 2018), and the two groups are arch rivals.

Other fast-growing players have also emerged in the Chinese online sales arena in recent years, some of which are focused on food: Epermarket (very much centred on products imported for wealthy expats and Chinese customers), Jiuxian (wines and spirits), Yiguo (fruit), Chunbo, etc. These sites are positioned as specialists in terms of customers, product ranges and geographical coverage. In practice, consumers typically switch between multiple applications for their purchases.

This landscape is constantly evolving along with acquisitions, partnerships or cessations of activity. For the Chinese internet giants, the time has come to make big moves, set up positions in growth markets, occupy the ground and consolidate their brand.

Food at the heart of current movements

Recent movements have shown that the internet giants are taking a close interest in food, seeing this segment as a source of huge profits because it involves everyday products. Given the power these groups wield, long-established retailers are seeking to forge alliances with them, while e-commerce specialists rely on the interaction between "online" and "offline", offering brick-and-mortar retailers their expertise in process digitalisation, or even taking an interest in the retailers' supply structures.

For example, Alibaba recently acquired a stake in Sun Art, a holding company controlled by Auchan that operates the RT-Mart and Auchan brands. Previously, Walmart had contributed its e-commerce business to JD.com and acquired an equity interest in the group. More recently, Tencent entered into a partnership with Carrefour's subsidiary in China.

In parallel, Alibaba and JD.com are developing their own high-tech store concepts (Hema for the former, 7 Fresh for the latter), combining on-site sales with a preparation centre for orders placed online.

Opportunities for France

This interest in food also manifests itself in the desire to offer Chinese consumers more foreign products and in the recent internationalisation (since 2015) of Alibaba and JD.com's activities: setting up offices abroad, investing in logistical tools, etc. In January 2018, JD.com even announced its commitment to achieving €2bn in sales of French products on its platforms over the next two years. Smaller e-commerce players are also involved in this trend.

The Chinese market is a source of opportunities and France enjoys a good image. French exports of agricultural and food products to mainland China reached €2.4bn in 2017 (8th export destination, 2nd outside the EU behind the United States). France exports mainly wine and spirits (€1.3bn), dairy products (€600m, up 80% year-on-year), meat and pork offal (close to €200m), as well as other products: mineral water, biscuits, pastries, delicatessen, condiments, chocolate, honey, jam, frozen delicatessen, etc.

Unigrains' opinion

The Chinese e-commerce market is changing rapidly and in many respects is regarded as a trendsetter. What happens in this market is all the more interesting in that Chinese giants Alibaba and JD.com are now expanding their international operations. Food is part of this trend: online sales have become an important, flourishing and highly-coveted channel.

The preferred channel for entering the Chinese market is the export market. Several French brands are available on supermarket shelves and online sales platforms (Evian, Badoit, Perrier, Président, Bel, Paysan Breton, Elle & Vire, Isigny, Malo, Brocéliande, Bastides, Saint Michel, Jacquet, Lesieur, La Tourangelle and Lune de Miel, amongst others), some of which are enjoying strong growth. France is competing however with countries in other regions (EU, Oceania, other Asian countries, North America), and price levels can be a disincentive. E-commerce opens up new opportunities, as it is more easily accessible than supermarket shelves, but it requires a significant marketing budget to gain visibility and build up a brand. Lastly, China's import regulations are still evolving and complex, with restrictions on products and ingredients.

Working with an importer remains the most commonly-used way of entering the market. Apart from providing logistics support, an importer can help with understanding the Chinese business culture, which is very different from ours, and with handling the red tape. An importer is also a privileged intermediary to get into e-commerce, a channel that requires mastering the logistics as well as having local resources to set up and maintain the website pages, monitor sales, and manage marketing, promotions and communication on social media. Another export channel is cross-border e-commerce, i.e. shipping parcels directly to customers without customs clearance (subject to conditions).

There are fewer cases of companies setting up industrial operations in China. Although this strategy enables a company to be more in touch with the market to benefit from its growth and fully tap its potential, it is also very demanding and remains the preserve of large companies. B2C players include: Pernod Ricard, Moët Hennessy, Castel, Danone, Lactalis, Savencia, Andros, Cooperl and Euralis/Rougié. These are companies that have a real strategy for China, with the capacity to mobilise the necessary financial resources and to take the long view. They can also rely on a local, multicultural, highly-experienced team.

In addition to B2C, there are also opportunities in supporting the local industry's development, working in B2B for intermediate products. Companies having set up operations in China include: Lesaffre, Neovia (InVivo), Cooperl, Grimaud, Tereos, Roquette, Malteurop (Vivescia) and Vilmorin & Cie (Limagrain), amongst others.