International

Food products in China: a dynamic, changing market

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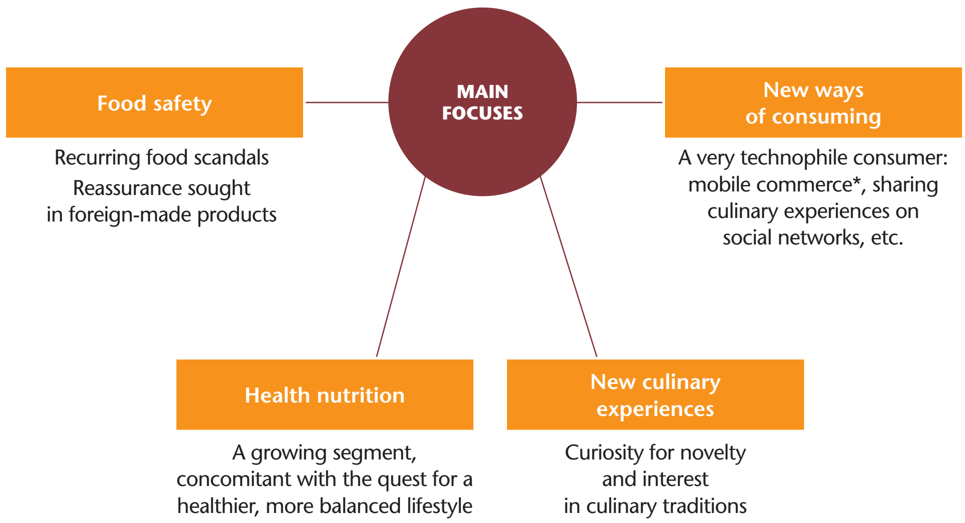
A growing middle class, increasingly eager for imported products

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 (430 million). Against a backdrop of recurring food scandals, this upper middle class is highly aware of health risks and is eager for more foreign products (or products manufactured according to stringent Western standards), and they are prepared to pay more for these products. They are also keen for new culinary experiences and this spurs their interest in imported products.

This trend is not limited to Shanghai and Beijing or the mega-cities of the East Coast. It is also progressing in Tier 2 cities and the central regions (Chongqing, Wuhan, Chengdu, etc.), a number of which are enjoying an economic boom related to the development of the New Silk Road.

"More than half of the Chinese population has internet access and nearly 95% of connections are made via a mobile phone."

MAJOR TRENDS IN CHINESE FOOD CONSUMPTION



SOURCE: UNIGRAINS STUDY
* COMMERCIAL TRANSACTIONS ON MOBILE DEVICES

> *"Recent movements have shown that the internet giants are taking a close interest in food and banking on interactions between 'online' and 'offline'."*

New technologies have revolutionised purchasing behaviours

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, share culinary experiences on social media, and as a payment instrument with Alibaba's Alipay and Tencent's WeChat Pay applications.
China is the biggest e-commerce market in the world.

In this country where relatively few people have PCs and credit cards, e-commerce has benefited from the creation of a whole mobile-based ecosystem and has become a part of everyday life. It has become a common way of consuming, including for food purchases. The main architects of its development are two Chinese groups created less than 20 years ago, which have grown into giants and between which there is strong rivalry: Alibaba and JD.com, whose biggest shareholder is the Tencent Group (which has become a leader in messaging and social networking with "WeChat"). Alongside these two full-line players, smaller, more specialised sites have emerged in recent years.

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. Two players dominate the market and are engaged in a fierce price war: Ele.me, owned by Alibaba, and Meituan, backed by Tencent.

LEADING FOOD HOME DELIVERY SERVICES IN CHINA

No.1: Ele.me
(Alibaba subsidiary)

No.2: Meituan
(backed by Tencent)

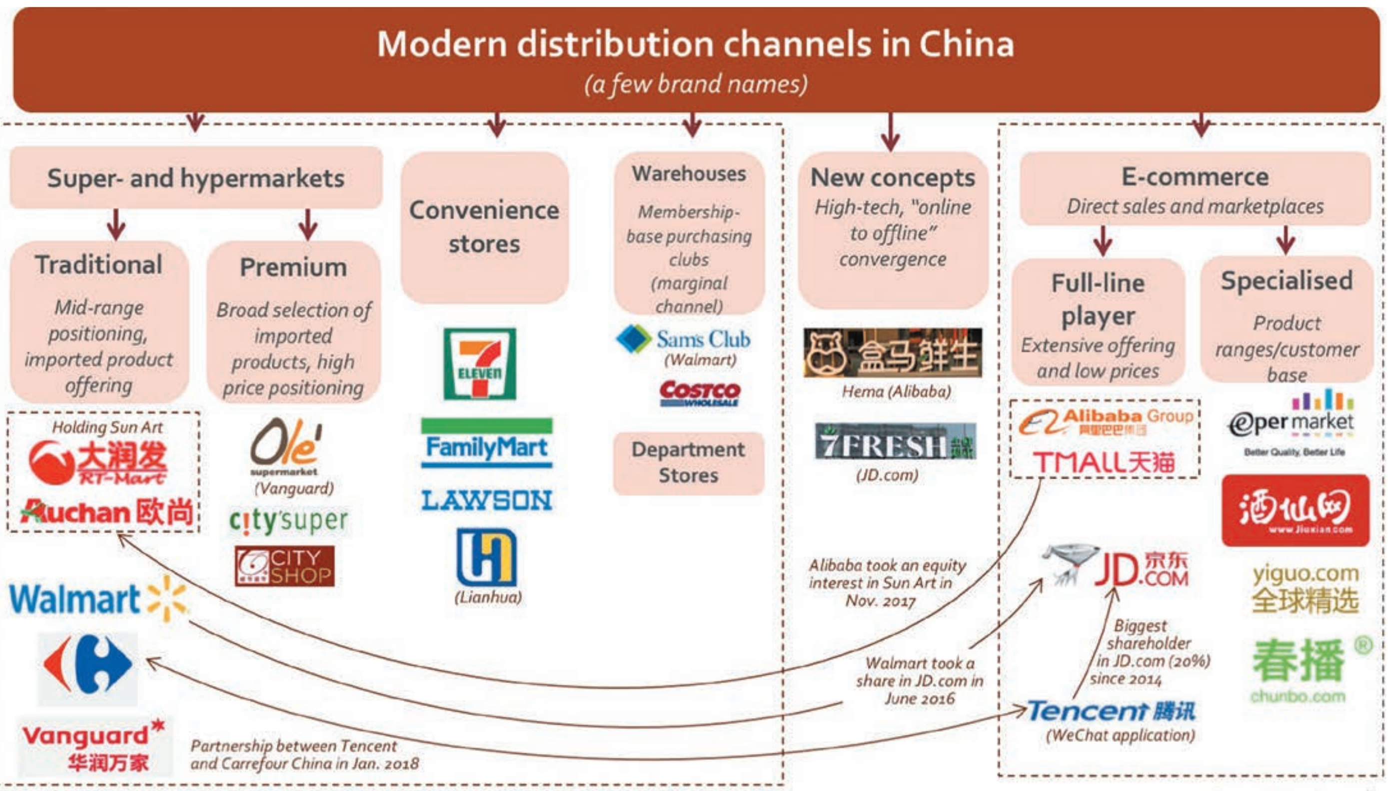
SOURCE: UNIGRAINS STUDY

Food at the heart of current movements in retail distribution

The boom in e-commerce is disrupting traditional brick & mortar retailers, which have forged alliances to stand up to the giants Alibaba and JD.com. In this context, Walmart was a precursor, contributing its e-commerce activities to JD.com in 2016 and taking a stake in its capital. Since then, Alibaba has acquired an interest in Sun Art, Auchan's holding company in China, and Tencent has teamed up with Carrefour. JD.com and Tencent have also recently made a joint investment in two other supermarket chains: Yonghui and Better Life.

Recent movements have shown that the internet giants are taking a close interest in food and banking on interactions between 'online' and 'offline'. They bring brick & mortar players their technology in process digitisation and data processing. In return, they are interested in acquiring their partners' expertise in sourcing, as well as in the potential support provided by their physical stores. 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.

MODERN FOOD DISTRIBUTION CHANNELS IN CHINA



Source: Unigrains study

Opportunities for France

This interest in food also manifests itself in Chinese digital giants' determination to offer more foreign products in their country. Alibaba and JD.com started going global in 2015 and opened offices abroad (including in France) to develop imports. In January 2018, JD.com announced it intended to sell €2 billion worth of French products (food and non-food) on its platforms in the next two years. Smaller e-commerce players are also involved in this trend.

Unigrains' opinion

The Chinese market is changing rapidly and food is part of this trend. Online sales have become an important, flourishing and highly-coveted channel.

The preferred channel for entering this market is the export market. Several French brands are present in supermarkets and on e-commerce sites and some of them are enjoying strong growth. That said, France is competing with countries in other regions and price levels can be a hurdle.

Using an importer remains the most commonly-used channel and it is also a preferred way to start up in e-commerce where, in addition to logistics, marketing follow-up is also a crucial element. There is also another export channel: crossborder e-commerce, by international mail or via bonded warehouses in Chinese free zones, which benefit from simplified procedures.

Setting up an industrial presence in the country is less frequent and highly demanding, mainly the preserve of large groups. It requires having a real strategy for China, with the capacity to mobilise the necessary financial resources and to take the long view, while relying on the support of a local, multicultural, highly-experienced team.