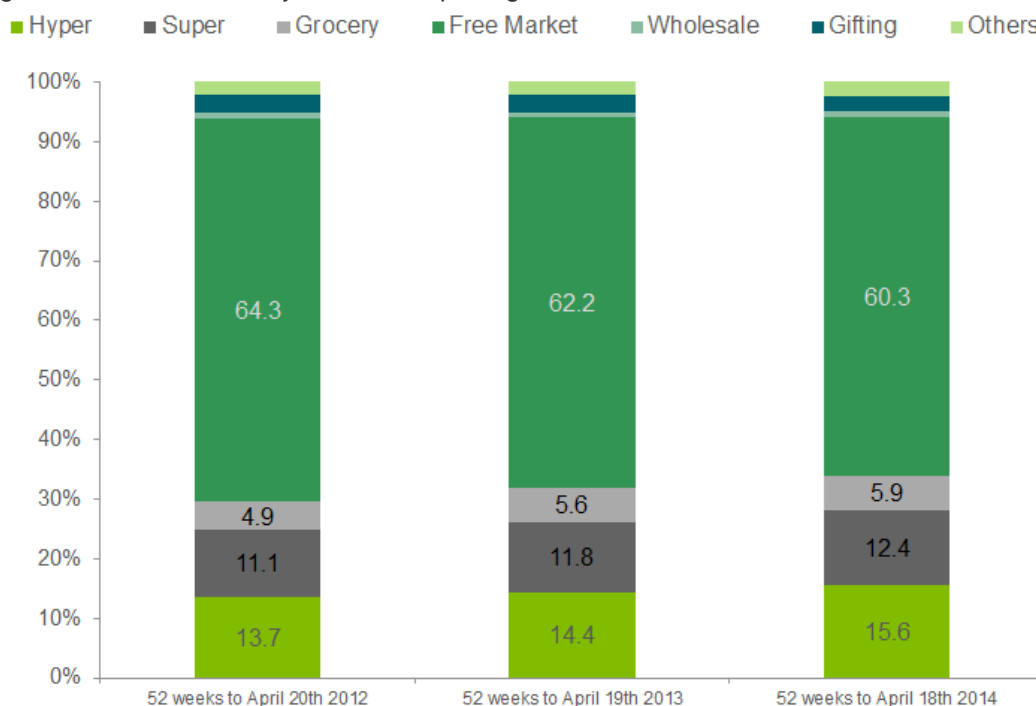


Fresh Food Market: A Breakthrough of Modern Trade

As the industry faces challenging times, retailers have turned their focus to the fresh food market. It is generally accepted that “fresh food” is vital to store traffic, and thus is key to a supermarket’s success. Due to its high purchase frequency, fresh food is often regarded as an effective approach to attract shoppers. According to Kantar World Panel, the world leading consumers researching institution, every 4 weeks a Chinese family will purchase fast moving consumer goods (FMCG) 20 times, while purchasing fresh food on 30 occasions. In recent years, consumers’ purchasing behaviour has been changing, with the rise of new purchasing channels, and many retail formats putting more emphasis on fresh food.

From Free Market to Hypermarket: Changing habits in fresh food

Because of distribution channel modernization, more and more consumers are moving from traditional free markets to hypermarkets and supermarkets for their daily fresh food purchasing. Although the major purchasing still happens in free markets, the modern channel is gaining importance. According to Kantar Worldpanel, comparing 52 weeks up to 18th April 2014 with the previous year, market value of fresh food went up 7.1%. Decomposing the total increase: fresh food market value of modern channel increased by 14.5%, and traditional channel only increased by 4.9%. At the same time, the proportion of fresh food in total sales of hypermarket and supermarket is also growing. All hints lead us to one conclusion: consumers’ purchasing behavior for fresh food is changing with the evolution of the modern channel, and for retailers, it’s getting more important to perform well in fresh foods. This trend is even more obvious in lower tier cities, where the lifestyle changes are affected more by new store openings.



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Source: Kantar Worldpanel

Among fresh foods, the share of modern channels peak especially during Chinese New Year, because shoppers tend to buy more premium fresh food products from hypermarkets and

supermarkets. This also indicates the importance of high quality fresh foods can't be neglected by modern retailers.

Food Crisis: New Opportunity for the Modern Trade

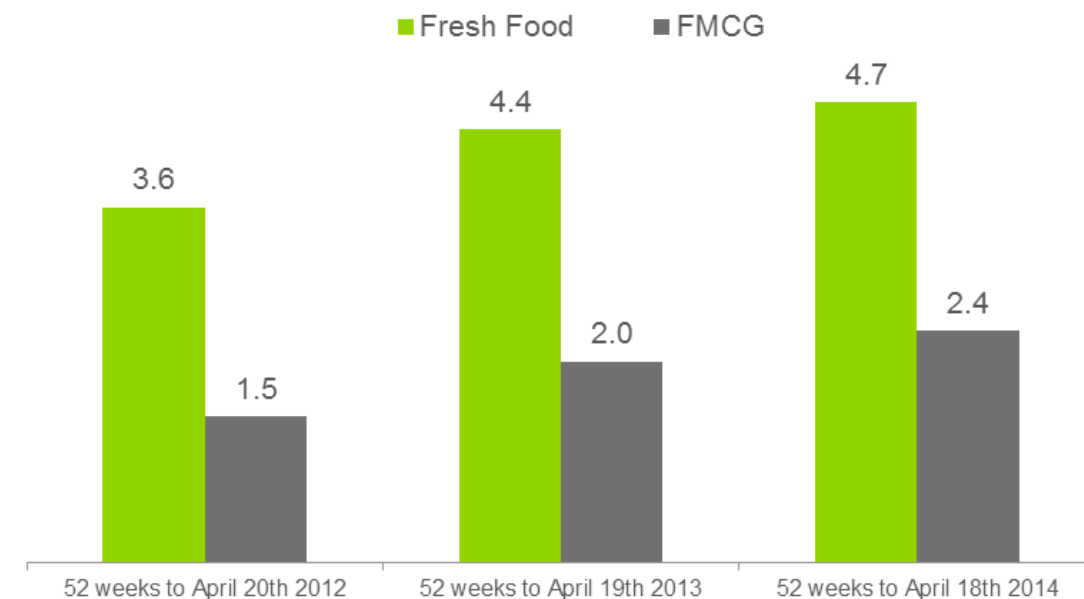
Affected by bird flu during 2013, "Poultry" is the only fresh food category that experienced a decrease in sales last year. Interestingly, compared to a 12.5% drop in traditional channels, modern trade almost maintain poultry sales. The strong performance of modern trade can be partly attributed to the prohibition of live poultry slaughter in free markets. On the other hand, consumers' confidence in the supply chain and quality control of modern retailers also contributed to the stable sales.

Therefore, hypermarkets and supermarkets should capitalise on this by attracting more fresh food consumers during these sensitive periods. In contrast to traditional free markets, hypermarkets and supermarkets have a clean and tidy shopping environment, systematic supply chain and sound service systems. All these can form a reliable food source for concerned shoppers. So right now, many retailers are aiming to promote the reliable fresh food supply chain as their competitive advantage to attract customers.

Fresh Food as Core Competence: Yonghui's Breakthrough

Local retail chain Yonghui uses fresh food as its core competence and has become a national leading retailer. According to Kantar Worldpanel, on average, fresh food accounts for 45% of sales in modern trade, while the number for Yonghui is 62.2%. In the past year, Yonghui accounts for 4.7% of the market and ranks 4th in modern trade fresh food market. Benefiting from its outstanding performance in fresh food, Yonghui's ranking in FMCG increased to 7th from 11th place 2 years ago. As Yonghui set a successful example for retail business, more and more retailers are starting to include fresh food as a core component of their strategy.

Yonghui Market Share, Modern Trade



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Source: Kantar Worldpanel

E-Commence: New Player on Fresh Food Market

Selling fresh food on the Internet is not a new concept, but the competition among online fresh food retailers is becoming extremely intense. Even the bricks and mortar retail chains are starting to sell fresh food online. Compared to offline retailers, fresh food e-retailers all build some unique features for themselves. For instance, Tony's farm provides organic fruit and vegetables, SFbest offers pre-order from originals and E-Tesco delivers fresh food by the truck with 3-compartment temperature control. Although online fresh food only contributes a small portion of total fresh food sales and various attempts have ended in failure, it is growing at an annual rate of 47%. Compared to the offline channel, fresh food shoppers in the e-channel prefer to acquire fruit and seafood from the Internet which is also driven by promotions.

Until now, more than 50% of online fresh food sales were concentrated in first tier cities. Also, the main buyers were young and high-income families. Considering the limitations of fresh food delivery and consumers' preference to see and touch products, online fresh food retailers still have a long way to go. But as the hot topic of "A Bite of China" and with key online fresh food retailers putting more investment in frozen supply chain development, online fresh food purchasing will soon become a part of daily life for the growing Chinese middle-class.

<End>

Notes to editor:

Kantar Wordpanel China continuously measures household purchases over 100 product categories including cosmetics, food and beverages and the toiletry/household sector. Its national urban panel covers 20 provinces and four municipality cities (Beijing, Tianjin, Shanghai and Chongqing).