Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 8/6/1998

GAIN Report #CH8817

China, Peoples Republic of

Market Brief

Shanghai Consumer Food Purchasing Habits

1998

Prepared by:
Scott Reynolds
U.S. Consulate General
Drafted by:
Jack Marr

Report Highlights:
Shanghai is quickly reclaiming its place as China's premier city, and local citizens are undergoing a revolution in food attitudes and shopping habits. In a mere five years, food distribution and retailing have been modernized, and with rising incomes Shanghai consumers are purchasing ever more convenient, high-quality foods.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2], CH

I. Executive Summary

Shanghai Statistical Profile:

Population:	**17m Total**	**14.6m Residents**
Average Household Income:	**RMB 2,291/month**	
1997 Total # Tourists:	**1,650,000**	
1990 Total # Tourists:	**890,300**	

Lifestyles:

< Women are more commonly the main food purchasing decision makers in Shanghainese households by a ratio of 2.4:1.

< 93% of Shanghainese reported that their purchasing habits are at least somewhat different than their parents.

< 57% of Shanghainese reported owning a can opener, low by Western standards but high by Chinese.

Shopping Habits:

< Food remains the leading source of expenditure for Chinese consumers, and spending per household per month has doubled since 1996 from US $22.10 to US $44.30 in 1998-- a major gain even when analyzed in real terms.

< 93% of Shanghainese now report shopping in supermarkets regularly, up from 73% in 1996. Wet market and food store shopping remains unchanged.

< Many Shanghainese now purchase frozen dimsum, snacks, and beverages in 24-hour convenience stores.

< Shanghai leads the nation in frozen and chilled purchases, with 75% frequently purchasing frozen dimsum, 62% frequently purchasing yogurt and milk products, and 55% frequently purchasing frozen meat products.

< 53% of Shanghainese say that they, given the same price and freshness as wet markets, would prefer to buy produce in supermarkets.

< 61% of Shanghainese have now purchased beef up from 17% in 1996, while 91% have purchased poultry up from 54%.

< Seafood is the biggest consumer food export to China, averaging US $788 million from 1994-96. 98% of all Shanghainese now report having purchased seafood, equal to pork.

< 7% of Shanghainese describe themselves as imported red wine drinkers compared to 63% domestic red wine drinkers. Also, men consume more red wine and women more white.

Food Preferences:

< Our study shows a strong correlation between income and convenience and income and quality orientation, but not necessarily a correlation between high income and interest in imported/Western foods.

< Integrity of food freshness remains the number one Shanghainese food sanitary concern.

< 97% of Shanghainese now at least skim food labels, up from 82% in 1996.

< On average, Shanghainese are willing to pay up to 24% more for healthier foods.

< Purchases of imported food have shown major across the board growth since 1996.

< 63% of Shanghainese have not dined in non-fast food Western restaurants.

< 66% of Shanghainese expressed an interest in preparing Western food at home from a clear recipe.

Food Market Profile: Shanghai

As the “Head of the Dragon,” Shanghai has risen once again after a somnambulant forty year hiatus to vie with Hong Kong for the title of China’s greatest city. Shanghai’s and its easily accessible neighboring provinces’ 121 million people form “East China” (Shanghai, Zhejiang, and Jiangsu) which along with Guangdong province, are the two wealthiest areas in mainland China. Shanghai itself is China’s financial and business capital, and East China leads the nation in light manufacturing and high-tech enterprises. Shanghai, furthermore, is a fast-paced city that is embracing modern values and business practices with head-spinning speed, and as long as China herself stays afloat, Shanghai is almost certain to prosper. In fact, central government planners in Beijing have invested millions of dollars into the Pudong New Area, the nation’s new financial district, and have ordered Pudong to be great. Shanghai’s city flower is the white and light blue magnolia, and thus light blue will represent Shanghai 1998 in many graphs in this report.

Shanghai leads East China and the Yangtse River delta in food distribution on many levels. Supermarkets, in particular, have flourished in recent years, growing from one in 1991 to well over 1,000 today with perhaps 400 stores of the “major players” led by Tops (Holland), Park ‘n Shop (Hong Kong), and Hualian and Lianhua, both state-owned chains under the city government. Furthermore, these supermarkets are featuring an ever wider variety of frozen and chilled products in addition to a wide assortment of imported dry goods. Shanghai is also home to several large-scale “hyper-mart”/discount clubs led by Metro (Germany) and Lotus (Thailand) which offer a large-scale variety of imported and domestic food products to the public at near wholesale prices. Another new trend is the proliferation of 24-hour Western style convenience stores. Led by Lawson (Japan) and Basics (Hong Kong), these shops offer a variety of convenience foods in both downtown and neighborhood locations. Inventory for larger chains is usually provided from their warehouses in and around the city.

Shanghai has a world class selection of four and five star hotels which include the Ritz-Carlton, Hilton, Westin, Shangri-La, Garden (Okura Group), Nikko, and two Holiday Inn’s. Each has restaurants offering everything from Sichuan to Indian to Italian, and these restaurants cater both to foreigners and well-heeled Chinese alike. KFC reigns supreme in fast food, with over 50 outlets in the city followed by McDonald’s and a number of imitators. These are overwhelmingly frequented by average Shanghainese consumers, especially the abounding “little emperors.” Shanghai has a quickly multiplying number of foreign restaurants led by the hard Rock Cafe, Tony Roma’s, TGI Friday’s, and the Pauliner Brauhaus, along with a large number of Japanese and Korean venues. Additionally, Shanghai is home to a vast number of high-quality Chinese restaurants and chains, led by The Gap with ten outlets.

Shanghai, located on the East China Sea at the mouth of the Yangtze river, is the major distribution point for most goods into and out of East China. Furthermore, it is linked to the Nanjing corridor as well as southernly Hangzhou by highway, rail, river, and sea. Due to high tariff barriers, however, many food products are still brought up from Guangdong through its more porous ports. Increasingly, though, containers with paperwork signed in Hong Kong are sent directly to ports in or nearby Shanghai. Although the Port of Shanghai has a reputation for strictness in tariff calculations and clearance procedures, other East China ports such as Zhangjiagang, Nanjing, and Ningbo offer increasingly attractive terms for direct importation from overseas.

Background and Methodology

This market brief is largely based on the findings of four separate but related studies:

1. The February 1995 Gallup China Nationwide Consumer Purchasing Habits Study
2. The March 1996 ATO-Gallup China Shanghai Food Purchasing Habits Study
3. The November 1997 Gallup China Nationwide Consumer Purchasing Habits Study
4. The March 1998 ATO-Gallup China Shanghai/Dalian Food Purchasing Habits Study.

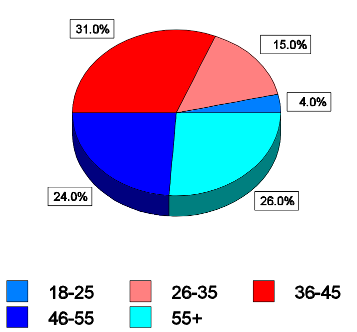
Throughout this report we will refer to these studies by their respective years.

In 1996, the U.S. Agricultural Trade Office Shanghai commissioned Gallup China to conduct a survey among 404 randomly selected Shanghai consumers on consumer food attitudes and purchasing habits. That survey was specifically food-oriented and referred to the 1995 Gallup China nationwide consumer purchasing habits survey which had a limited section on food related questions.

This report is the result of ATO Shanghai's further cooperation with Gallup China (Gallup) in 1998 and reflects the food purchasing habits and attitudes of 308 Shanghai primary food purchasers and builds on Gallup's own 1997 China nationwide follow-up. Respondents were chosen randomly according to Gallup's model. The survey itself was designed through joint efforts by ATO Shanghai and Gallup, and reflects some of the exact questions used in the 1995 survey in addition to some timely and emerging topics we believe to be of interest to U.S. exporters. Shanghai is a city of rapid change, and this survey has been designed to reflect how this is apparent in food purchasing habits.

The 1998 ATO survey screened potential respondents to ensure that they were the primary food purchasing decision maker for their household. All interviews were taken between December 8, 1997 and January 1, 1998. All interviews were in-person and conducted by trained and monitored Gallup employees. Based on the sample size, Gallup states a confidence interval of plus or minus 5.7% for each response.

1. Respondent Age



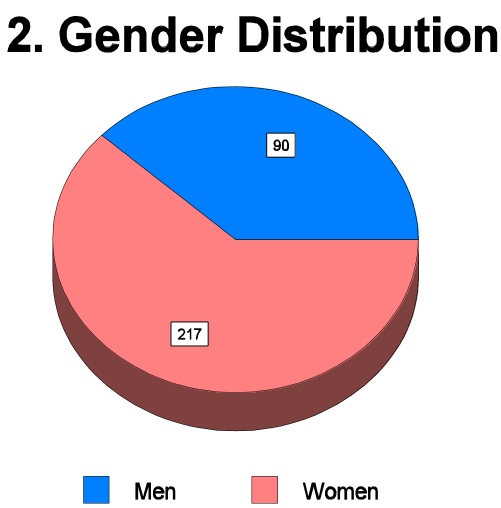
II. Consumer Profile

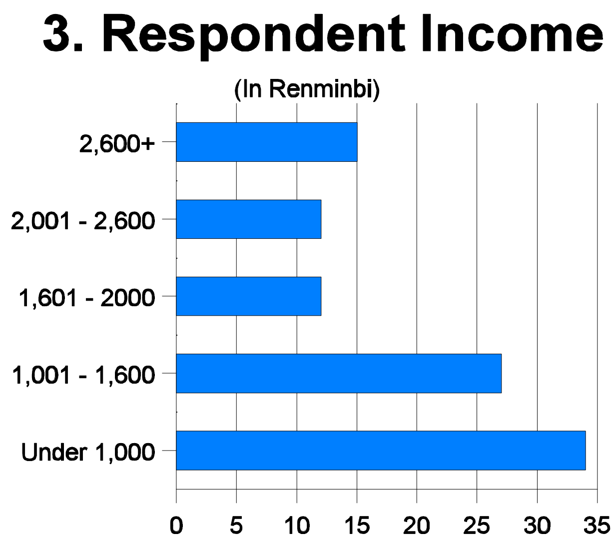
Age Breakdowns of Primary Food Purchasers

These results indicate that the great majority (81%) of food purchasing decision makers are over age 35. In Shanghai society, young people in the first age group usually live with their parents or in university or work unit housing. Thus, meals are supplied to them. This pattern usually continues until marriage age in their late 20's and even then couples may continue to live with their parents due to housing scarcity. It is important to note, however, that although these demographic groups may not be the main decision makers, they and even younger groups often exert a strong influence on purchasing decisions.

Gender in the Sample

Among respondents defining themselves as the main food purchasers of Shanghai households, 90 were men and 217 were women. This suggests that women play a much more important role in





food purchasing decision making in Shanghai as this is a ratio of 2.4 females to each male decision maker.

Income

Shanghainese in 1997 had a RMB 2,290 (US $235) monthly income, which is more than double the nationwide average of RMB 867 (US $104) and still vastly above the urban average of RMB 1,167 (US $141). Furthermore, Shanghainese consumer income has nearly doubled in two years from RMB 1,225 (US $150) per month in 1995. The chart on the left shows the income distribution of the 1998 ATO sample.

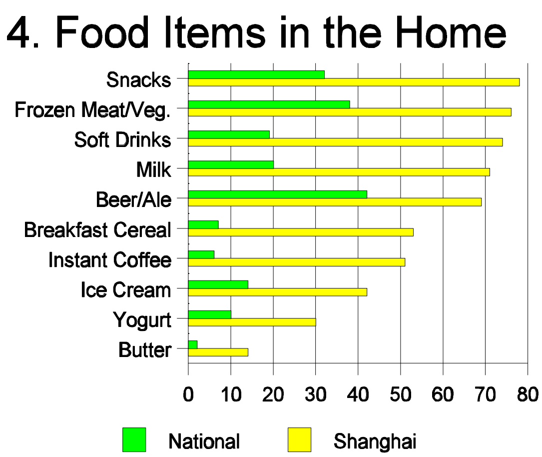
Food remains the leading source of expenditure for the average Chinese consumer. Nationwide, Chinese families in 1997 spent an average of 368 RMB (US $44.30) per month on food, up from 192 RMB (US $22.10) in 1995. Meanwhile, nationwide mean pre-tax incomes have risen by about 43% since 1994. When analyzed and adjusted for inflation, one can conclude that, nationwide, Chinese are consuming more and also better quality foods.

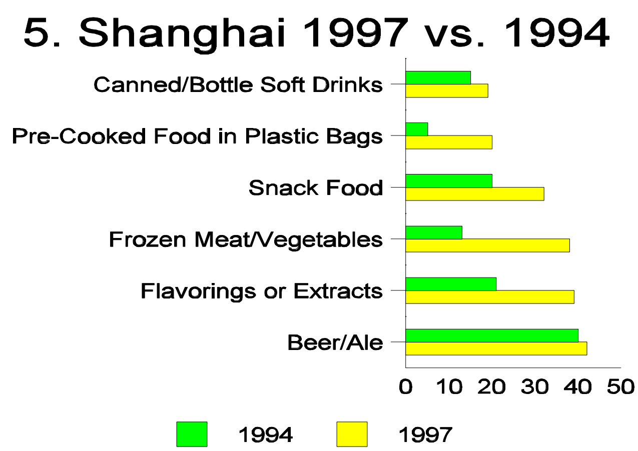
III. Shopping Preferences

Where Do Shanghainese Shop?

Shanghai has experienced a supermarket boom in recent years, mushrooming from 1 in 1991 to approximately one thousand today. Our survey reflects that more and more Shanghainese are shopping in supermarkets. Today 93% of survey respondents make frequent supermarket purchases, up from 73% in 1995. The number of Shanghainese shopping in wet markets (98%) and food stores (47%) is virtually unchanged since the 1996 ATO survey, indicating that although these venues are still popular, their importance is not growing. Also of interest is that 8% of Shanghainese reported shopping in 24-hour, Western-style convenience stores, a recent development in Shanghai. The majority of these shoppers were between the ages of 26 and 45. Furthermore, women showed higher propensities to shop in supermarkets than men although they showed similar propensities to shop in other outlets. This may be because, just like in the West, supermarket shopping has an added social element for non-working mothers.

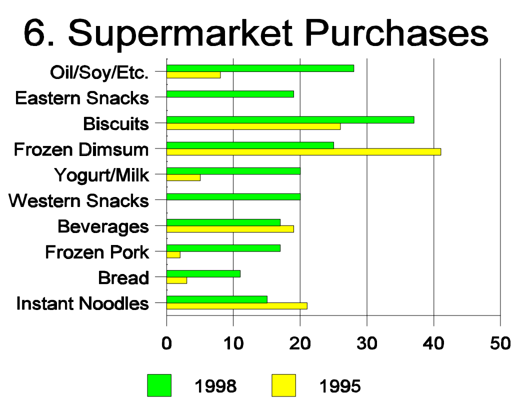
Shanghainese still make far more frequent visits to wet markets (averaging 23.5 visits per month) than to supermarkets (7.8 per month) and convenience stores (4.4 per month). This is because Shanghai consumers use many fresh vegetables and meats in their cooking which are still not widely available in supermarkets and are cheaper in wet markets. One may assume, though, that shoppers spend more per trip in supermarkets and August 7, 1998 convenience stores as premium products are more often purchased there.

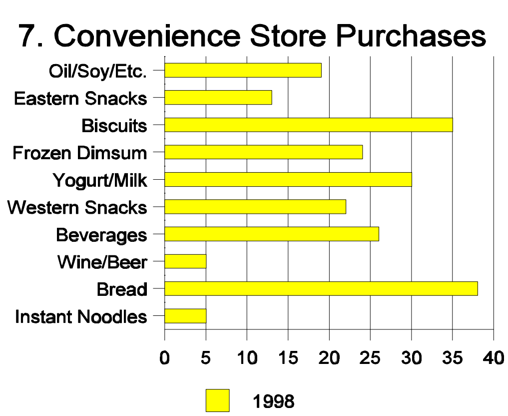




What Food Items Do Shanghainese Have in their Homes?

Chart 4 shows how far ahead Shanghai is compared to most of China in these food categories. Notice in particular that Shanghai has a strong lead in all of the chilled and frozen categories, reflecting infrastructure as well as taste and income advances. Chart 5 also reflects this, along with expressing Shanghai's growing market for snack foods, drinks, and ingredients.





What Do Shanghainese Purchase and Where?

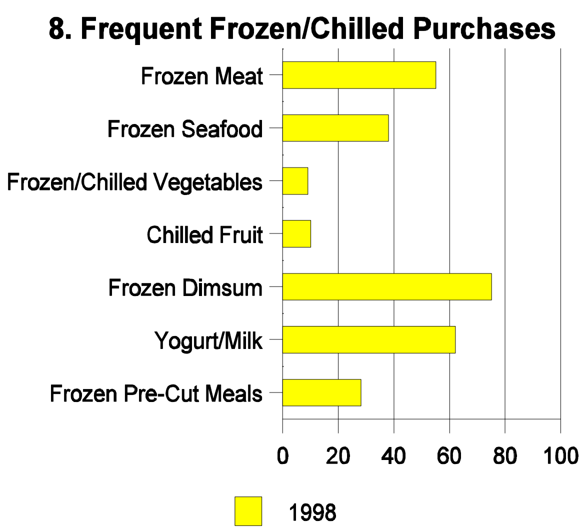
In supermarkets, purchasing of most dry goods and particularly of basic ingredients (e.g. cooking oil, soy sauce, vinegar, and hot sauce) has climbed steadily since 1996. This not only reflects that traditional oil and grain shops are losing market share to supermarkets, but also that these traditional retail venues are themselves being transformed into supermarkets. Large state-owned chains, such as Hualian and Lianhua, facilitate their own growth by converting these increasingly obsolescent relics into modern supermarkets. Purchases of dairy products, frozen imported beef, and local chilled pork (especially among the upper-income brackets), meanwhile, have risen sharply and mirror the steady development in Shanghai's cold distribution chain.

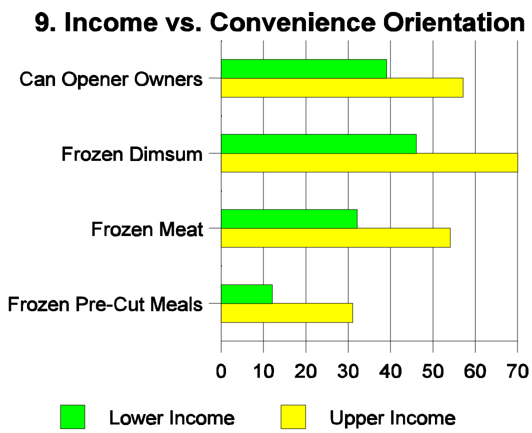
It is interesting to compare supermarket with convenience store purchasing patterns. Note that purchases of frozen dimsum (usually eaten as a quickly prepared TV Dinner-type meal) have fallen notably in supermarkets and have apparently begun to shift to convenience stores. Additionally, Shanghainese are taking advantage of convenience stores to purchase snacks and breads (also usually sweet or salty and consumed as a single-portion snack) and yogurt, yet another popular snack.

Fresh Vegetable Purchasing Preferences

In the past several years in Shanghai, major supermarket chains such as Park'N Shop, Tops, Metro, and Carrefour have begun to offer fresh fruits and vegetables along with dry and frozen goods. Concurrently, U.S. exports of fresh fruits and vegetables (especially celery, grapes, apples, and oranges) have grown steadily. As U.S. exporters begin to form distribution alliances with retailers, it is also important for them to make marketing efforts to convince the public to buy their produce in supermarkets rather than in traditional wet markets.

According to our survey, 33% of Shanghainese have previously purchased fresh vegetables in supermarkets. More notably, however, is that 56% of survey respondents said that they definitely or probably intended to purchase supermarket vegetables in the future. When asked where they would prefer to purchase their produce given comparable price and freshness conditions, 53% of Shanghainese said they would prefer supermarket produce compared to 37% with a wet market preference. All of these trends correlate closely with age and income: both consumers over 55 and consumers with a monthly income of less than RMB 1,000 showed a strong inclination towards wet market purchasing. The higher income brackets, conversely, showed a bias towards the convenience of supermarkets.





What Kinds of Frozen/Chilled Products Do Shanghainese Purchase Most?

As previously mentioned, the cold distribution chain has grown much stronger in the past several years. Indeed, in the 1997 survey, 38% of all households reported having purchased frozen meat and vegetables, up significantly from 13% in 1994. This figure continues to rise along with China-wide improvements in distribution.

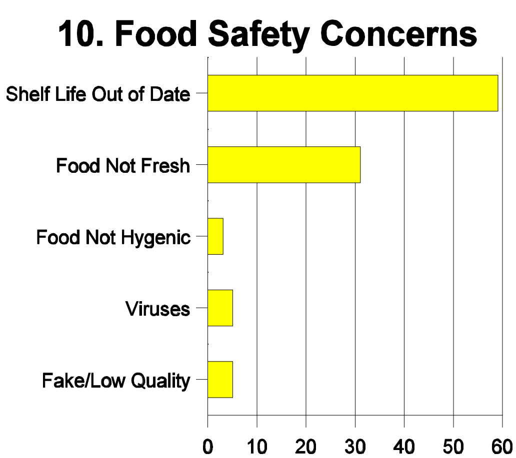
More and more commonly, constant temperature warehouses and refrigerated vans and trucks are used to distribute goods to increasingly professional retailers and major fast-food chains and restaurants. The result in Shanghai has been a wider variety of frozen and chilled products available to consumers. Please notice on Chart 4, "Food Items in the Home" that 76% of Shanghai households purchase frozen meat and vegetables compared to 38% nationwide. Moreover, there is again a strong relationship between income, age, and the likelihood to purchase frozen or chilled meat and aquatic products, dumplings, dairy, precut meals, and fruit. For more information on this topic, please refer to the ATO Shanghai's August 1997 Market Brief "Frozen Foods in Shanghai."

Income Versus Convenience Orientation

Chart 9 emphasizes the finding that as incomes grow, so does the interest in convenience foods. Just like their counterparts throughout the world, the growing Chinese middle class has less time to spend on food preparation and purchasing. As their salaries go up, they are more willing to spend a bit more money in order to save time.

Do Shanghainese Own and Use Can Openers?

57% of Shanghai respondents reported owning and using a can opener. Common uses include opening tomato sauce (53%), fruit (39%), meat/fish/meals (36%), and drinks (18%). This can lead to two possible conclusions. The first would be that increased promotions of canned foods and their uses are necessary to expand this market. Perhaps, however, China may "leapfrog" the canned food stage and move directly into high-tech frozen and chilled plastic packaged foods. Indeed, this seems a much greater possibility with recent improvements in distribution and investment in the food packaging sector. The "Leapfrogging" phenomenon, moreover, is common in developing markets. A good example of this is the immediate success of cellular phones and pagers in a society which had low home telephone ownership rates and a long and tedious bureaucratic installation process for traditional telephone lines.



IV. Food Preferences

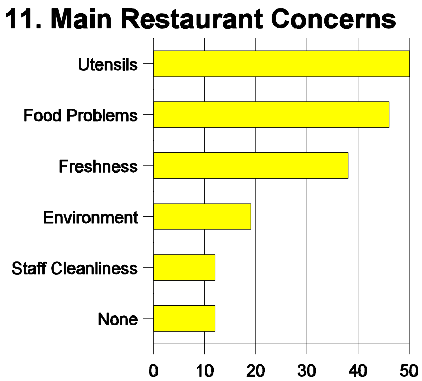
This section will examine some of the more psychological aspects of Shanghainese consumer food purchasing patterns.

What is Important to Shanghainese in a Food Product?

The 1998 response to this question was almost identical to the response to the same question in the 1996 ATO survey. Once again, Shanghainese clearly stated that a food product's being imported was the least important among seventeen choices. This must be read for what it is, however, and not as a death sentence to potential exporters. Brand name ranked closer to the middle in terms of importance, and clearly the increasing dominance of products such as Coca-Cola and KFC show that the importance of consumer loyalty should not be underestimated.

The top four concerns were proof of passage of a food sanitary exam, good quality, high nutrition, and a taste that the family wants, respectively. This, again, is the spitting image of the 1996 response. This reflects that Shanghainese consumers are increasingly concerned about food safety issues, and a major concern is product being sold beyond its freshness date. In this sense, imported food products without clearly dated Chinese labels are often looked upon with apprehension because the consumer has no way of judging its freshness. U.S. exporters would be wise to promote the safety and quality of their products in a clear and understandable manner to local consumers. By understanding local needs, tastes, and culture, U.S. exporters can make their products be known to the Chinese consumer as sanitary, high-quality, healthy, tasty, and imported from a reputable foreign company. In turn, Chinese consumers may very well turn these products into winners.

Top Food Hygiene Concerns



This table once again emphasizes Shanghai consumers' concern with freshness and shelf-life issues. It should be noted that this is also a reflection of past experience, and thus it is important for exporters to train and keep tabs on their distributors to continually refresh product stocks.

Restaurant Food Sanitation Concerns

The greatest concern in restaurants is about the cleanliness of utensils. This is most likely the result of several recent real and imagined Hepatitis-B epidemics in the Yangtze river basin. The disease is often spread via used, unsanitary chopsticks through many people eating Chinese-style out of a shared dish. Food-related concerns include improperly washed food, improperly cooked food, and related handling problems. Freshness again is a major concern. In China's chaotic, polluted, and often unsanitary environment, one place for U.S. food exporters and restauranteurs to make possible inroads is in teaching and practicing modern methods of food sanitation.

What's In a Label?

Nearly every Shanghai respondent (97%) reported that they at least skim food labels when purchasing products, a large increase from 82% in 1996. Chinese consumers consistently favor labels that are printed in Chinese, clearly state the expiration date, contain nutrition information, describe the contents of the package, and state the manufacturer's name and trademark.

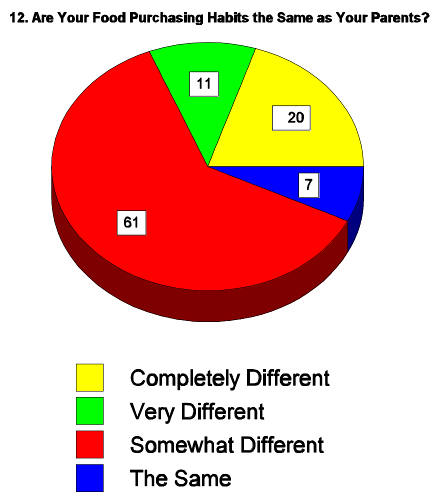
Furthermore, our 1996 survey found that only 1% of Shanghainese consumers prefer to have consumer food labels printed solely in a foreign language such as English, while 67% prefer both Chinese and foreign languages. Although the 1996 Chinese Food Labeling Law is still not being strictly enforced, this consumer preference should indicate the importance to importers of branded consumer food products of having a Chinese label. For more information, please refer to ATO Shanghai's August 1996 Market Brief "The Chinese Food Labeling Law" and the November 1997 labeling update.

How Much More Will Shanghainese Pay for Healthier Foods?

On average, respondents stated that they would pay about 24% more for foods they believe to be good for their health. To take advantage of this, however, U.S. food marketeers should realize that Chinese concepts of health and nutrition are often significantly different from those in the United States and often draw on Chinese traditional medicine as a source. Furthermore, at incomes below RMB 1,000 per month, 40% of respondents were unwilling to pay anything additional for healthy foods. This may be an indication of a sustenance wage category at which people become unlikely to purchase value-added goods, whether they be health, convenience, or import oriented.

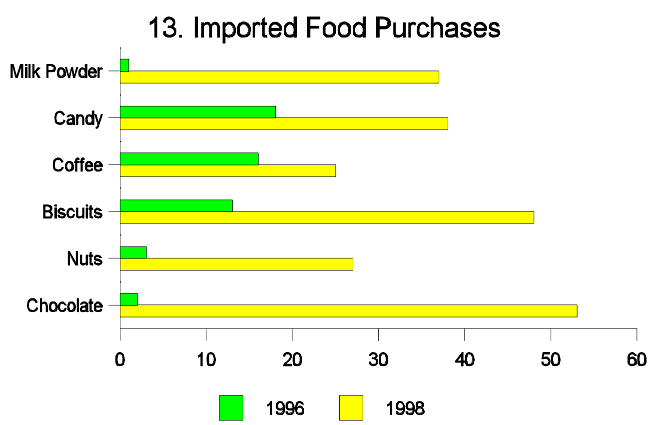
Generation Gap

93% of Shanghainese responded that their food purchasing habits were somewhat, very, or completely different than their parents. This reflects the staggering changes that have occurred in China over the past generation. It is also interesting to note that this survey covers at least two generations of food purchasers who would most likely find themselves different from each other. And, perhaps most importantly, it does not include the youngest generation of Shanghainese who have been raised on supermarkets, fast food, and advertising.



Who Actually Does the Food Purchasing in Shanghai?

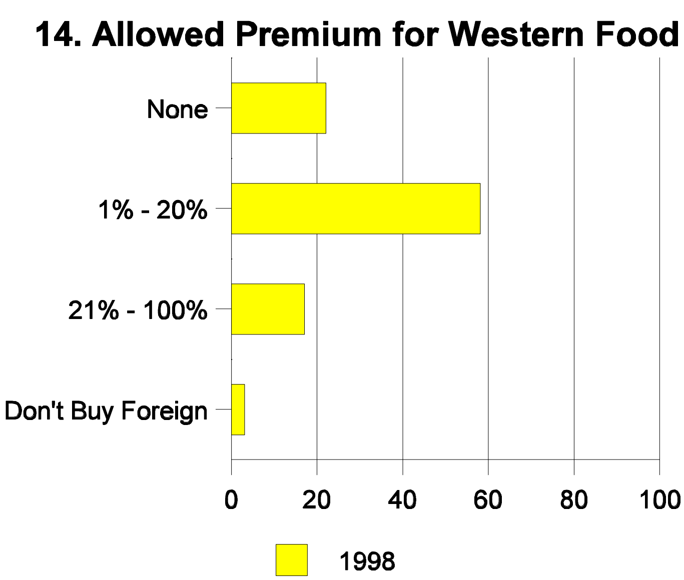
Our results indicated that 2% of Shanghainese households had an “aiyi” (a person employed to help with household tasks) to help them with their shopping and often cooking. This may be significant when marketing to the top income brackets as well as to well-off new parents.



V. Shanghainese Consumer Attitudes Towards Western Foods

What Imported Foods Do Shanghainese Purchase?

This question exactly mirrored a question asked in the 1996 survey, and it is interesting to note the major leaps in each category. It should be pointed out, however, that it is difficult to gain exact information on these categories as many of these products are also produced by locally-based Sino-Foreign Joint Ventures and usually sold at a much lower cost than truly imported packaged foods. These figures do clearly show, however, that Shanghainese consumers are increasingly open and willing to try foreign-style foods. Imported chocolate purchases were highest among the three top income groups, while respondents over age 45 reported below-average purchases of candy, biscuits, and chocolate. Similarly, respondents over age 55 reported fewer purchases of milk powder and nuts.

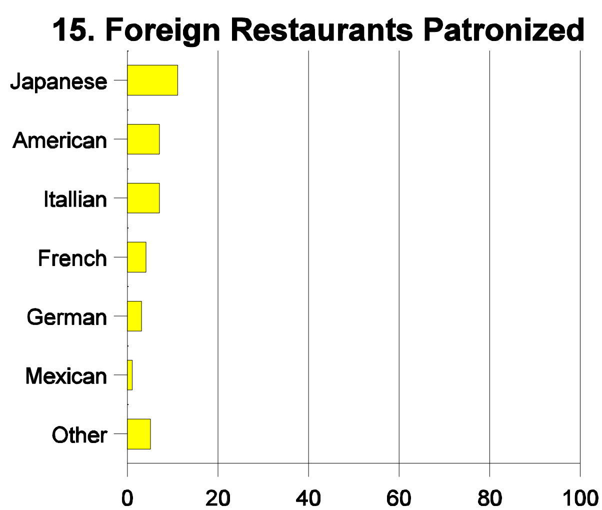


When asked whether they intended to purchase Western foods on their next shopping trip, 50% of Shanghainese responded that they are either very likely (3%) or somewhat likely (47%) to do so. This is up slightly from 46% in 1996. Not surprisingly, 67% of households earning under RMB 1,000 per month said that they were not at all likely to purchase Western foods during their next shopping trip. Interest in purchasing Western foods does go up along with income, but not as dramatically as one might expect. This possibly accentuates the point that Chinese interest in Western foods remains somewhat limited and that among the rich the premium is on convenience.

How Much More Are Shanghainese Willing to Pay For Foreign Foods?

The majority of Shanghainese respondents (58%) are willing to pay between 1% and 20% more to purchase foreign foods. Twenty percent, similar to the willingness to pay more for healthy products, may be a sort of psychological barrier beyond which consumers are unwilling to pay more for a specific quality in a product. Furthermore, the 17% figure of consumers willing to pay between 21% and 100% more on chart 14 is down significantly from the large numbers of Shanghai consumers (34%) surveyed in 1996 who expressed a willingness to pay an additional 40% or more for foreign foods. This is perhaps a reflection of the quickly rising standard of domestically produced food products, particularly products from new joint-venture manufacturing plants such as Nabisco Oreos, Budweiser Beer, and Gatorade.

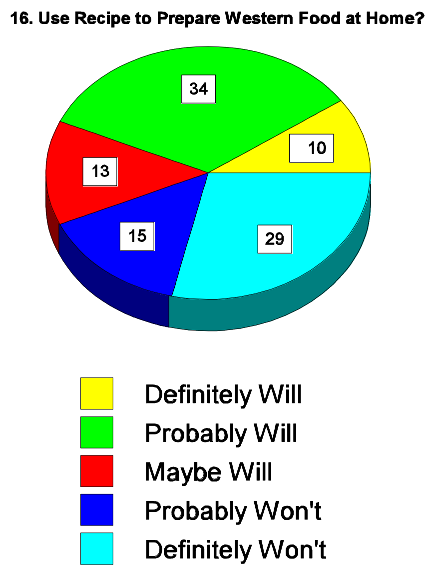
Again, 40% of households earning under RMB 1,000 per month were unwilling to pay any more for foreign foods. Above this benchmark, though, respondents in other income categories stated that they were willing to pay a similar premium for foreign foods. This research once again suggests that as incomes break the RMB 1,000 barrier it is not necessarily economic factors which attract Shanghainese consumers to foreign foods. More likely, it is more related to the cosmopolitanism, urbanity, and personal taste of the individual.



Which Kinds of Foreign Restaurants Do Shanghainese Eat At?

When asked a similar question in 1996, we learned that 80% of respondents listed KFC as one of the Western restaurants they had patronized and 46% listed McDonald’s. Moreover, other ATO research has concurred that Shanghainese often immediately associate Western food with KFC and McDonald’s due to their widespread availability and affordability. Because of these previous results, in the 1998 survey we specifically wanted to learn about non-fast food foreign dining patterns and hence excluded fast-food restaurants.

Of all Shanghai respondents, only 37% had actually dined in a Western restaurant, but this also shows great potential for growth. Japanese restaurants lead, probably due both to their relative familiarity taste-wise and to the dominant number of restaurants in Shanghai. There is also a close correlation with income-- above RMB 1,600 per month, the number of patrons of foreign restaurants begins to increase incrementally with each rising income division. This does not necessarily contradict the previous statement about income versus willingness to try foreign tastes, however. Prices in these restaurants can be extremely prohibitive and are often more expensive than in developed cities such as New York, London, or Hong Kong. Thus, even though there is probably a willingness to try in the overall RMB 1,000+ per month category, the price of a meal makes this unfeasible for all but the wealthiest of Shanghainese or those on an expense account.



Are Shanghainese Willing to Prepare Western Food at Home?

Shanghainese seem to be quite willing to experiment with cooking foreign dishes, provided that they have a clear recipe that would be easy to follow. Willingness to try, as with other responses, is lowest among the lowest wage earners.

This could provide a great opportunity to the innovative marketer of both branded and commodity products. By attaching a Chinese recipe using many familiar ingredients in addition to the less familiar offering of the exporter, this research indicates that Shanghainese may be willing to try to cook a new dish and hence try a new ingredient. Other effective methods are in-store sampling, price discounts, lucky draws, and demonstration chefs on retail premises.

VI. Shanghai Seafood and Wine Purchasing Habits

Up to now, we have been trying to paint a general picture of Shanghai food purchasing habits and attitudes. Here, we will examine two specific sectors in which China is experiencing large growth and in which United States exporters are making major inroads. Total world seafood exports to China from 1994-1996 averaged US $788 million, and this does not account for much of the foreign seafood brought in by Chinese state-owned fleets. Of registered seafood imports during 1994-1996, however, the U.S. had only a 6.4% market share of US $70 million per year, far behind Russia's US $217 million in annual seafood exports to China. In 1997, U.S. seafood exports to China rose 24% from 1996 to US $111 million, a record high.

The U.S. Foreign Agriculture Service also sees wine as a major potential U.S. export to China. Wine imports to China soared in 1997, with worldwide direct imports bounding nearly 500% to US $35.5 million. Although a precise number for total exports is difficult to reach (due to rampant smuggling and under-reporting), we roughly estimate that the value of the total import market for wine was at least US $70 million in 1997.

Shanghai Seafood Purchasing Habits

Seafood now accounts for 23% of total Shanghai food purchasing expenses. Seafood-- and in particular shrimp, crab, and grouper-- is popular among Shanghai consumers and is regularly prepared and eaten in both the home and restaurant markets. Furthermore, 38% of Shanghai reported frequently purchasing frozen seafood. In terms of all meat and seafood purchased by the average Shanghai household, seafood is equal to pork as the main staple meat. 98% of Shanghai consumers reported frequently purchasing both seafood and pork in average quantities of 1.5

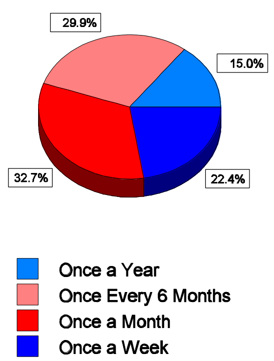
kilos per week each.

Our survey also revealed that when Shanghainese eat in restaurants, they order seafood 31% of the time. Shanghai consumers reported spending an average of RMB 48 (US $5.78 per dish) on restaurant seafood purchases. This is clearly the most expensive of restaurant fare, with other pork, beef, and chicken dishes usually selling for between RMB 20-30 (US $2.40- $3.60) in better restaurants. Shanghainese often dine with business associates as well, and ordering high-quality seafood dishes gives the host a good deal of "face" in Chinese culture. This presents U.S. seafood exporters with an extremely large and enthusiastic market. One must bear in mind, however, that East China has the world's most developed farm aquaculture industry, and river fish as a cash crop provides hefty competition to more expensive imported seafood. For more information on seafood, please read the ATO Shanghai's May 1996 "Seafood" Market Brief with the January 1997 update.

C'est la vin

Purchases of grape wine (putaojiu) in Shanghai account for 5% of the average grocery bill. This, according to the results of our study, is a heavily income-dependent decision. Grape wine purchasers jumped significantly between the "under RMB 1,000 per month" to the "RMB 1,000 to 1,600 per month" group. Marketers can safely assume that this group is primarily buying the locally-produced or joint-venture produced varieties that retail from between RMB 30-60 (US $3.60- US $7.23) per bottle. Purchasing falls slightly within the middle to upper middle income groups, and then soars once again in the highest income category. These consumers are probably the main purchasers of high-quality imported wines.

17. Frequency of Wine Consumption

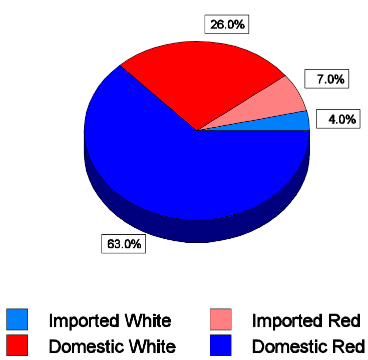


How Often Do Shanghainese Drink Wine?

From our survey, we can see that 55% of Shanghainese wine consumers drink wine at least once per month.

What Wines Are Shanghainese Drinking?

18. Type of Wine Consumed



Domestic red wine has a substantial lead in market share in Shanghai. Purchasing of domestic wines, based on other ATO research, is primarily a function of price. The higher incidence of red wine purchasing is probably due to image factors from abroad (also, it is said that Chinese President Jiang Zemin enjoys drinking red wine with cola). Many Sino-French Joint Ventures such as Dynasty and Dragon Seal offer good tasting wines at a reasonable price. U.S. exporters looking to enter the mainstream of consumption would be wise to export attractive, tasty wines that can retail in the 60-85 RMB (US $6.00- $10.25) range.

Shanghainese predominantly drink wine at home. Indeed, 58% of Shanghai wine drinkers reported drinking in the household. Following that, 26% of Shanghai consumers said that they drink wine when friends or relatives are visiting. Interestingly, only 6% said that they drink wine at business functions. Finally, men were more inclined to purchase red wine while women tended to prefer white. U.S. exporters would be wise to understand this market before engaging in business, but the potential nonetheless looms large. For more information on wine, please refer to the ATO Shanghai's February 1998 "Wine" Market Brief.

VII. Conclusion

As is clear from this survey, the dragon head is continuing to rise and consumer attitudes are changing rapidly in Shanghai. Major changes have occurred across the board in only two years, and Shanghainese are flocking in ever greater numbers to supermarkets, convenience stores, and restaurants. They are purchasing more and more imported foods, frozen and chilled products, and non-staples such as beef, seafood, and wine.

Changing consumer attitudes in many ways are reflective of the macroeconomic changes that are driving Shanghai and East China into the twenty-first century. Large-scale improvements in distribution and frozen handling and warehousing have helped to bring in an ever greater variety of products from around the world, increased foreign investment in food processing has brought high-quality and affordable products to the average consumer while stimulating the demand for imported ingredients, and quickly rising consumer income in real terms has allowed millions of Shanghai consumers to enjoy these improvements.

A dominant trend in our survey results has been a desire for ever greater convenience. This desire is both a reflection and a product of such major changes, and as young Shanghainese continue to enter the workforce and attempt to become more competitive, their time will increasingly be at a premium. We encourage U.S. exporters to continue to find ways in which their products can add value and convenience to the lives of ever busier and ever more sophisticated Shanghainese consumers, while at the same time respecting and catering to local needs and tastes. This includes training seminars for Chinese distributors, recipe development, and active market research about consumer attitudes in your speciality.

It is important to realize that along with all of this change there comes an increasingly competitive business environment. Important players in major food categories, such as beef, wine, poultry, chocolate, beer, and snack foods have been developing these markets for some years already, and as much as Shanghai may be a cash cow for one firm, it may be a money sink for another. Many markets still offer great opportunities, such as mid-priced foreign restaurants, specifically in food ingredients, and new seafood and fruit/vegetable/nut varieties. However, it must also be reiterated that China is a vast country comprised of many regional markets, and some who are late to arrive in Shanghai may more easily find a market niche in a less developed regional market.

Many additional ATO Shanghai market briefs can be downloaded free from the Foreign Agricultural Service's homepage. Visit our homepage at http://www.fas.usda.gov and select the Attache Reports button. Then choose China, all commodities, and the period from May 1, 1996 - today's date. There you will find more than 100 reports relating to China including those mentioned in this brief.