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China, Peoples Republic of

Dalian Consumer Food Purchasing Habits

Market Brief

1998

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Report Highlights:

The Northeastern port city of Dalian presents a series of opportunities to U.S. food exporters with an entrepreneurial spirit and a drive to get ahead of the pack in China. Dalian consumers, although falling behind mega-cities like Shanghai, have made impressive progress in the past few years and a good infrastructure paves the way for a bright future. Caution is needed, however, especially with the drying-up of investment capital due to the economic woes of neighboring Japan and Korea.

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I. Executive Summary and Introduction

Executive Summary

Dalian Statistical Profile:

Population: 3.8m Total 1.6m Urban Residents

Average Household Income/Month: RMB 1258 (US \$152)

1997 Total # Tourists: 450,000

1990 Total # Tourists: 148,000

Lifestyles:

- < In Dalian, nearly 40% of food purchasing decision makers are under 40, showing that family food purchasers in Dalian are notably younger than in Shanghai.
- < The percentage of Dalian households earning over RMB 1,600 per month is only half that in Shanghai.
- < 53% of Shanghainese households own can openers, compared to only 33% in Dalian.
- < 48% of Dalianese reported that their purchasing habits were very or completely different from their parents, compared to 31% in Shanghai.

Shopping Habits:

- < 30% of Dalianese frequently shop in supermarkets.
- < Renovated farmers' markets remain the most popular food shopping venues in Dalian.
- < A new Dalian segment (7%) shops frequently in convenience stores.
- < Seafish in Dalian is second only to pork as a meat.
- < Dalianese will pay RMB 68 per seafood dish compared to RMB 48 in Shanghai.

Food Preferences:

- < Purchases of imported dry foods ranging from biscuits to milk powder are relatively strong in Dalian.
- < Dalian lists product freshness as their #1 food safety concern.
- < Only a small minority of citizens of both cities have dined in non-fast food foreign restaurants, led by Japanese cuisine.

Food Market Profile: Dalian

As the "Gateway to the Northeast" (including the major regional centers of Shenyang and Harbin), the port city of Dalian is a major hub in Northeast China. Dalian, originally built up on Japanese and Russian capital and technology in the early part of the century, now serves as a cheap high-tech manufacturing alternative especially welcome by neighboring Korea and Japan as well as functioning as a major port of re-export. Dalian has a high level of education and still is heavily influenced by its Japanese neighbors-- 3,000 Japanese expatriates live and work in the city compared to a mere 100 or so Americans. Also, Dalian has been named the "Green City" and chosen to showcase reforms by the central government's Park and Forestry Bureau. Thus, forest green will represent Dalian in many of the graphs in this report.

Dalian is a leading second-tier city in terms of food distribution. The supermarket revolution is slowly taking ground in Dalian, which now boasts a Malaysian-invested Parkson's supermarket in addition to a Friendship supermarket and a series of state-run food store/supermarket hybrids. There are also numerous Wanda and Mimimi "convenience" stores, which are actually smaller supermarkets with limited hours. Also, of particular interest is the massive, five aboveground and four underground storey Victory Square retail complex. Victory features five of its own convenience stores and several food courts, and has planned a supermarket on the bottom floor. Frozen and chilled food distribution remains limited, with only Parkson's and the Friendship store offering a good showcase of selections (including a variety of U.S. Meat Export Federation products). There are still no hypermarkets, and with regional economic troubles in Japan and Korea further investment may need to come from the West.

Dalian now has both a Furama and a Shangri-La hotel, each of five-star standard, and a Holiday Inn. Both offer a variety of Chinese, Western, and Japanese foods. The food and beverage manager at the Shangri-La estimates that 80% of restaurant guests are locals, indicating a sizeable top-end market. Although there are no large Western-invested restaurants, there are a variety of small Japanese restaurants and Japanese Sushi houses offering reasonably priced sushi and sashimi. Tiantian Yugang seafood restaurant leads the Chinese fare, followed by many similar seafood restaurants at all price ranges. Additionally, Dalian has six KFCs and four McDonald's. Based on casual interviews, Dalianese show a distinct preference for the Colonel.

The Port of Dalian provides access to China's Northeast, and Liaoning province is a leader in road construction. A 375 km expressway connects Dalian with Shenyang, and other four and six lane expressways will soon link Dalian and Shenyang with Beijing and Harbin in Northeastern Heilongjiang. Liaoning also has good rail networks originally built by the Japanese in the early part of the century. However, goods shipped out of Dalian must detour through Shenyang across overloaded lines, slowing distribution into the interior. Despite this infrastructure, most imported foods are still purchased through agents in Hong Kong and shipped by sea up to Dalian. If China's restrictive agricultural import policies were ever to open, however, it could position Dalian as an important importing center akin to Portland or Boston.

Report 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. Furthermore, this brief is intended to be read either together or separately with ATO Shanghai's May 1998 "1998 Shanghai Consumer Food Purchasing Habits" Market Brief.

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.

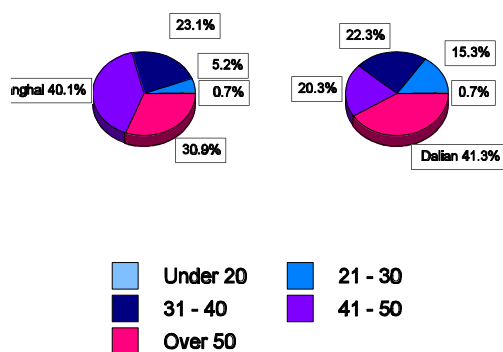
This report is the result of ATO Shanghai's further cooperation with Gallup China (Gallup) in 1998 and reflects the food purchasing habits and attitudes of 301 Dalian and 307 Shanghai primary food purchasers and builds on Gallup's own 1997 China nationwide follow-up. Respondents were chosen randomly according to Gallup's model.¹ 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.

II. Consumer Profile

Age Breakdowns of Primary Food Purchasers

1. Respondent Age



These results show an interesting demographic contrast between the two cities. Although the majority of food purchasing decision makers in both cities are over 40, Shanghai (71%) shows a markedly older population than Dalian (60.6%). Dalian, by contrast, shows a greater proportion of 20-40 year olds making decisions. This may be important to note, because as we will see in several instances, age is clearly a factor in food purchasing decisions. As these younger Dalianese become more affluent, they may help to fill some of the gaps in which Dalian lags behind Shanghai. Also, it is important to note that although the under 20 group may not be the main decision makers, they and even younger groups often exert a strong influence on purchasing decisions. Indeed, in our 1998 survey, 82%

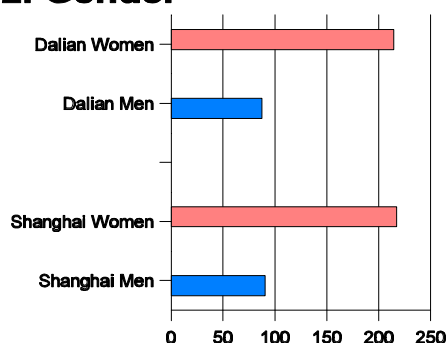
of respondents between 26-45 years of age (accounting for 40% of the sample) reported having children under 18 in their households².

¹In the November 1997 Gallup Survey, Shanghai was included as an "oversampled" city, but Dalian was not. As a result, we cannot offer a quantitative analysis of Dalian vs. Greater China in this report.

²In a separate survey, it was found that 75% of East China university students do not know how to cook.

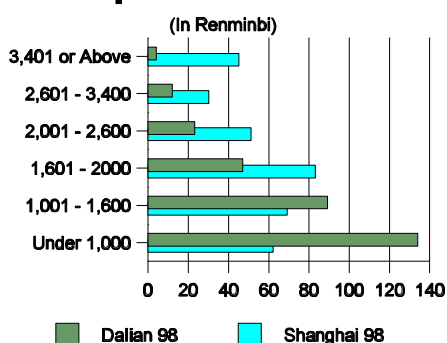
Gender in the Sample

2. Gender



Our sample shows that women play a much more important role in food purchasing decision making than men in both Dalian and Shanghai. Also of interest is that the ratios in both cities are nearly identical. This may be reflective of the case throughout China, which in many gender issues still follows a traditional model. Interestingly, however, many Dalianese men take pride in being the “cooks” of the family and, although not making purchases themselves, may exert influence over these decisions.

3. Respondent Income



Income

Dalian household incomes are well above both the nationwide average of RMB 867 (US \$104) and above the urban average of RMB 1,167 (US \$141). In comparison to wealthier Shanghai, however, Dalian falls behind (Chart 3) This fact alone helps to explain many of the findings of this study in which Shanghai shows greater purchasing power and propensity.

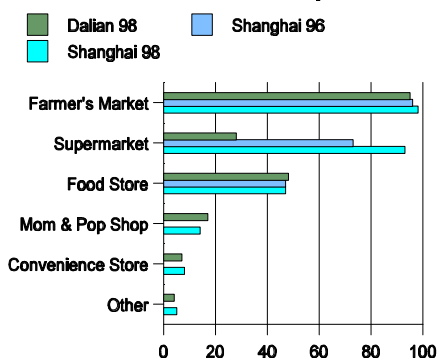
Cost of living expenses in Dalian, however, are approximately 20% less expensive than in Shanghai, which can compensate in terms of purchasing power parity. This is typical of many second-tier coastal Chinese cities-- citizens live in larger dwellings and often breathe cleaner air, yet can still afford many luxury items enjoyed by residents of the metropolises. In terms of imported food in Dalian, however, prices are often the same or higher than in Shanghai because they must be transshipped all the way from the southernly Hong Kong/Guangdong area, adding to distribution costs.

Cost of living expenses in Dalian, however, are approximately 20% less expensive than in Shanghai, which can compensate in terms of purchasing power parity. This is

III. Shopping Preferences

Where Do Dalian People Shop?

4. Where Do Consumers Shop for Food



From chart 4, it is clear that supermarket shopping in Dalian falls far behind Shanghai while other shopping habits are quite similar. This is largely due to the fact that, at present, there are vastly fewer modern supermarkets in Dalian than Shanghai. The first modern-style supermarket located in the Dalian Friendship Store downtown just opened in 1997, and has at present only been followed by Hong Kong's Parkson in addition to a number of scattered local supermarkets such as Aihua. Furthermore, monthly supermarket visits are less frequent in Dalian (5.8) than in Shanghai (7.8 in 1998, up from 7.0 in 1996).

In our survey, a supermarket was defined as a retail venue selling food arranged into aisles from which goods were selected by the individual shopper and then purchased at a centrally located check-out. A food store, by contrast, is arranged more haphazardly with a clerk usually selling selected products to consumers from behind a counter with no central check-out. Traditional food stores are, according to our survey, the norm for dry goods purchasing in Dalian. During the transitional period from state-run food stores to supermarkets in many Chinese cities, the Chinese term for supermarket tends to gradually change from “zixuanshichang,” or literally “self-selection market,” to “chaojishichang,” or a term almost identical to the English “supermarket.” Dalian is currently in the midst of this process, with many food stores billing themselves as supermarkets but lacking any kind of sophisticated inventory, cold-chain products, or modern management. This indicates that, in second tier cities such as Dalian, not only the retail venue format but consumer mentality has some ground to cover before catching up with modern retailing. There are a number of new stores currently under construction, such as the lower floor supermarket in the lavish five-underground storey Victory Plaza near the train station.

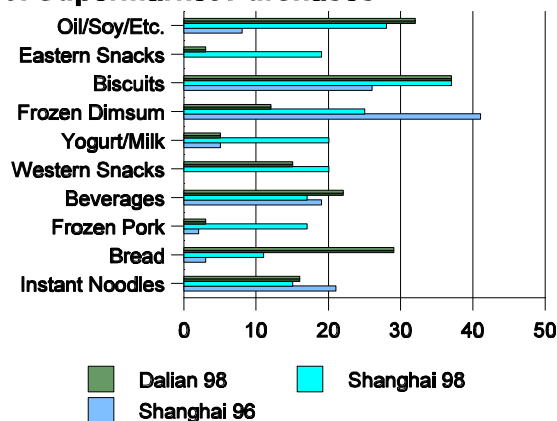
According to a major international supermarket chain, however, smaller cities such as Dalian may not be able to support the large numbers of smaller supermarkets common to Shanghai. Rather, two or three “hypermarts” which retail a vast range of food products and consumer sundries located strategically around the city may be enough to capture market share through their selection and low prices alone. This is because in smaller cities, making a trip across town might be worth the effort to save money, whereas in massive and congested Shanghai it often is not.

On other fronts, however, the Dalian survey results show strikingly similar habits to Shanghai. Farmers’ markets remain the most popular venue for purchasing agricultural products (especially meats, fish, and fresh fruits and vegetables). Dalian respondents reported visiting the wet markets 19.2 times per month-- near daily visits to purchase the basics of a homestyle Dalian meal. Following the behest of Dalian’s popular Mayor, Bo Xilai, Dalian residential farmers markets were ordered to construct large, overhead enclosures to protect them from the elements and to sell their produce in a more orderly fashion. The results have been good, with the markets offering high-quality meat and produce in conditions more sanitary than other Chinese cities. This should provide a good deal of competition to supermarkets intending similar offerings. The upshot for U.S. exporters is that it is important to forge relationships with large local wholesalers who distribute directly to both wet markets and supermarkets.

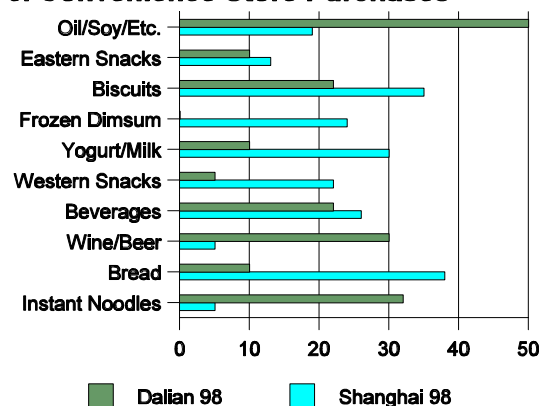
7% of Dalian respondents now report shopping in Western-style convenience stores. The majority of these shoppers were between the ages of 26 and 45. Unlike Shanghai, Dalian convenience stores have fixed operating hours and offer very few cold and convenience products. In fact, such “convenience stores” are actually just smaller supermarkets/food stores located in convenient downtown and residential locations. The two leading chains, Mimimi and Wanda are both locally invested. Five Day and Night (Shenglijia) outlets have recently opened in the Victory Plaza, however, and as the larger players such as Lawson or 7-11 enter the market the competition and product ranges are sure to expand.

What is Being Purchased Where?

5. Supermarket Purchases

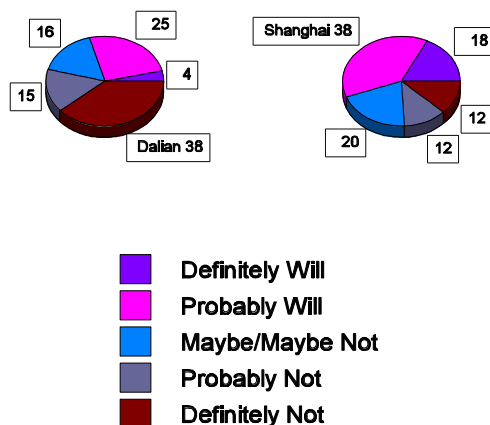


6. Convenience Store Purchases

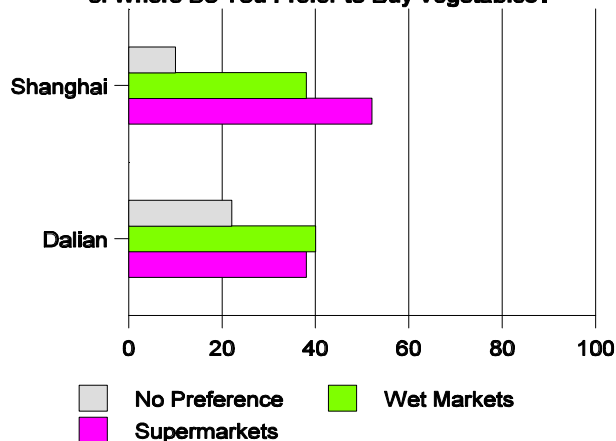


In supermarkets, Dalian consumers tend to purchase more dry essentials. This is another reflection of the previously discussed physical and psychological transition from food store to supermarket. In Dalian supermarkets, purchasing of basic ingredients, bread, instant noodles, and beverages is particularly high. Dalian lags somewhat behind Shanghai especially in terms of frozen/chilled capabilities. Many people lament that Dalian has already peaked in terms of foreign investment which is further exaggerated by the Asian economic crisis. Dalian’s natural investment partners (Japan and Korea) have seriously cooled off in terms of capital forays into the mainland, and further growth in North China in the near future will probably come from U.S. and European retail investment.

7. Probability of Supermarket Fresh Vegetable Purchasing



8. Where Do You Prefer to Buy Vegetables?

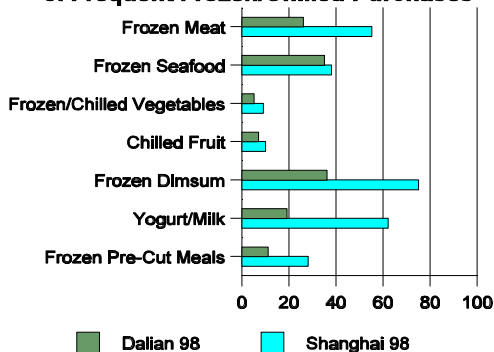


Fresh Vegetable Purchasing Preferences

According to our survey, 22% of Dalian food purchasers have previously purchased fresh vegetables in supermarkets compared to 33% of Shanghaiese. Furthermore, only 29% of Dalianese report a high probability of future purchasing, compared to 56% of Shanghaiese.

Again, this reflects Dalian’s lower incomes, fewer supermarkets, and better farmers’ markets. 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.

9. Frequent Frozen/Chilled Purchases



What Kinds of Frozen/Chilled Products Do Dalian Consumers Purchase Most?

The cold distribution chain throughout the PRC has grown much stronger in the past several years, and particularly in the coastal regions. Indeed, in the 1997 survey, 38% of all Chinese 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.

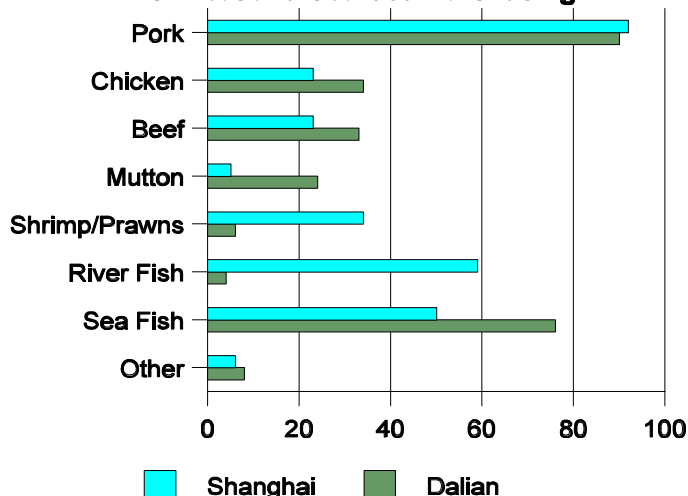
Dalian’s numbers on Chart 9 reflects not only consumer demand in Dalian, but also the reality of retail supply. As previously mentioned, the number of supermarkets in Dalian remains low at present, and convenience stores generally do not offer frozen and chilled products. Thus, this is perhaps better viewed as a snapshot of present conditions than of potential. Companies are moving in on this market, however. Yahui, a large local food conglomerate involved in manufacturing, distribution, and retail, is offering even a wider variety of “pre-cut meals”-- washed and chopped vegetables and meats ready to just drop in the wok and enjoy-- than can be found in Shanghai. Working with such distributors is one good way to get product into this market. For those more committed to developing their own niche market in the Northeast, however, a good deal of groundwork in developing a cold distribution network will have to be taken on, ranging from identifying warehouses to finding retail freezers.

In both Dalian and Shanghai there is again a strong relationship between income, age, and the likelihood to purchase frozen or chilled meat and aquatic products, dumplings, dairy, pre-cut meals, and fruit. For more information on this topic, please refer to the ATO Shanghai’s August 1997 Market Brief “Frozen Foods in Shanghai.”

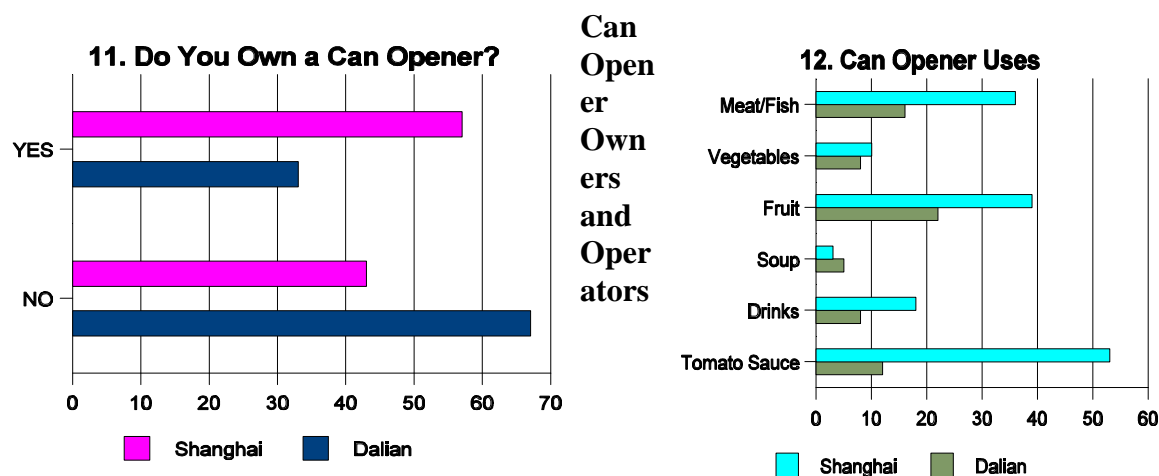
Fish and Fowl

Pork is king in China. This figure is mirrored nationwide, and pork tends to be the ubiquitous meat in Chinese cuisine. Dalian shows what is probably its largest potential market for U.S. exporters in seafood(described in detail in section VI). Dalian’s propensity towards seafood is partly relative to the abundance of oceanic fish still catchable

10. Meat and Seafood Purchasing



in the Northeast, to its proximity to other large fishing nations such as Japan and Russia, and to the pride and joy the Dalian people take in eating fine seafood. Dalian residents also consume more chicken and beef as a part of the traditionally heartier diet of the North. Efforts by the U.S. Meat Export Federation have already brought U.S. beef into fairly wide distribution in upper end markets. Mutton, a rarity in East and Southern China, is also fairly popular in Dalian and is eaten shish-kebabed and in Chinese hot pot. Purchasing of sea fish, shrimp, prawns, and live river fish is higher than average among consumers with incomes above RMB 1,600 per month.



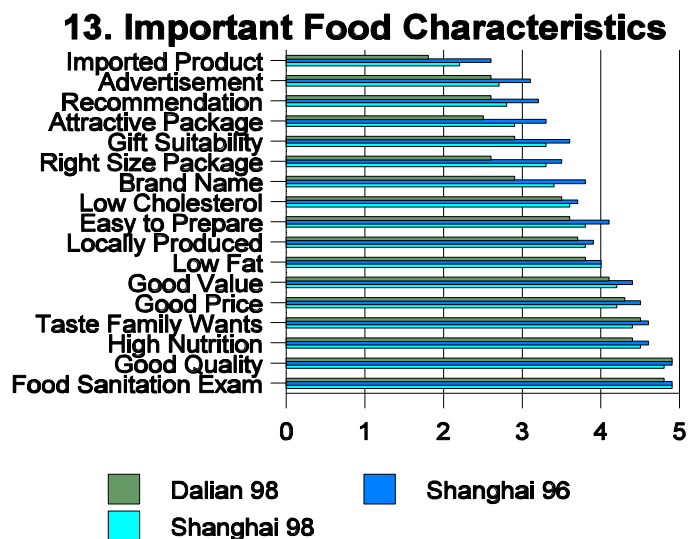
Can opener ownership is surprisingly low in Dalian (33%), and this clearly presents an obstacle to potential exporters. More than a development indicator, however, this shows the relative unimportance of canned food in Chinese society. Among canned foods purchased, canned fruits and meats lead in Dalian and are eaten as ingredients Chinese dishes and as snacks right out of the can. As supplies of high-grade, fresh fruit and meat have become widely available in recent years, however, canned goods are increasingly looked upon as substandard.

IV. Food Preferences

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

What is Important in a Food Product?

Food sanitation was the number one concern in Dalian 1998, Shanghai 1998, and in Shanghai



two years ago. Respondents in each survey were questioned on a scale of 1 to 5 (1 being least important and 5 being most important) about what they thought was most important in a food product. For the remainder of the top ten rated categories, all three surveys look surprisingly similar. In Dalian, a product's being of imported origin came in a distant last among seventeen choices, results that were closely echoed in Shanghai. 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.

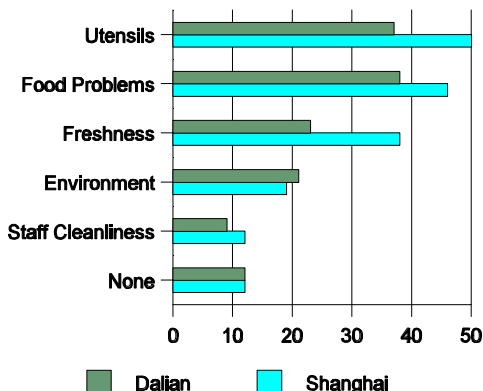
The top four concerns were, respectively, proof of passage of a food sanitary exam, good quality, high nutrition, and a taste that the family wants. This shows that consumers are increasingly concerned about food safety issues, and the major consumer concern is products being sold beyond their freshness dates. This can be a larger problem in second- and third- tier cities due to less experience in modern inventory management and to the sheer amount of time products take to reach store shelves. 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.

It is also interesting to note that, on the lower end of the scale, that Dalian consumers seem to place less emphasis on aesthetic/brand factors. Note that in each incidence between brand name and imported product that Shanghaiese considered these factors more important. This may be explained by the bombardments of advertising Shanghaiese are subjected to daily (China is now the world's largest advertising market) and by the prevalence of the materialistic attitude often used to describe the Shanghaiese people. In lower income Dalian, consumers seem to stop assigning importance beyond what are perceived as "essential" qualities, e.g. safety, value, good taste, and healthiness. This shows that Dalian, in comparison to Shanghai, is probably looking more towards sustenance and less towards luxuriance, at least for the bulk of consumers.

Top Food Hygiene Concerns

The contrast between common concerns in the Dalian and Shanghai is interesting to note.

15. Main Restaurant Concerns



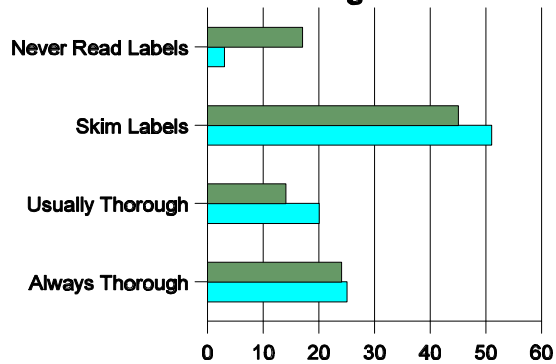
Although both cities rank shelf life and freshness issues as their number one concern (reflecting other results in this survey), Dalian consumers apparently have greater concerns about food transmitted illness. This is undoubtedly a result of poorer food handling and more prevalent disease outbreak in that part of the country. Although rarely reported in the Chinese media, tales abound of food related illness particularly as one moves away from China’s major cities.

Restaurant Food Sanitation Concerns

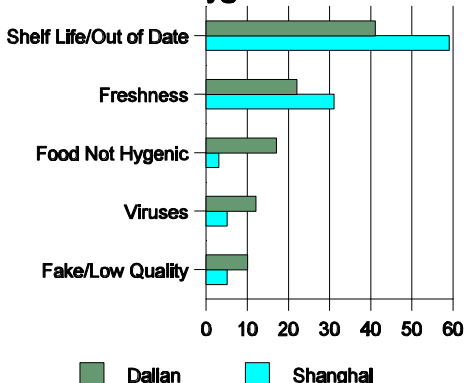
In Dalian, the greatest concern in restaurants are food related concerns (improperly washed food, improperly cooked food, and related handling problems) and the cleanliness of utensils. Both of these refer to the fear of food-related illness, and the severe lack of sanitation in the average restaurant in Dalian confirms this. Meat is often left unrefrigerated festering on unwashed

concrete floors, cleavers cut both uncooked chicken and raw cucumbers without a washing, and cooks often hover their dishes with a dangling cigarette ash hanging from their mouths. 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 restaurant and food sanitation. In Dalian, this may be particularly pertinent to seafood exporters whose products may be consumed as sashimi for which strict sanitation standards are crucial.

16. Label Reading Habits



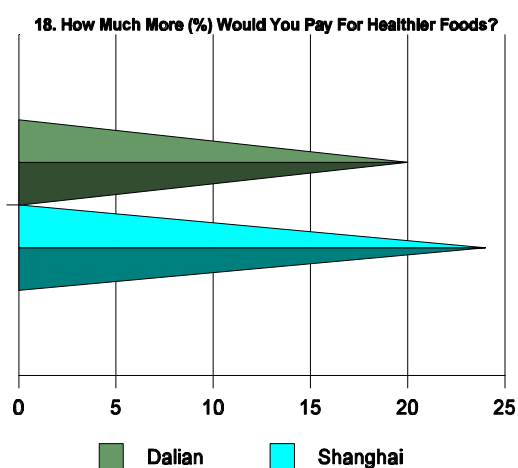
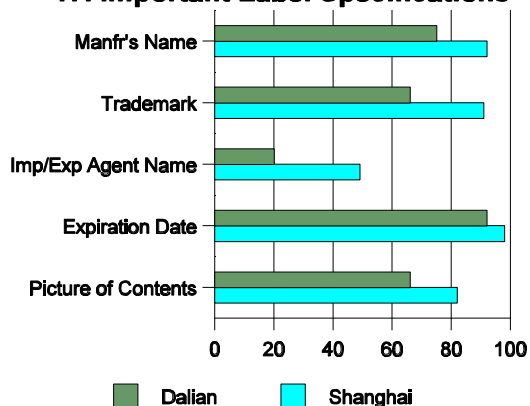
14. Main Food Hygiene Concerns



Food Label Reading in Dalian

From Chart 16, it is apparent that the number of consumers who read product labels thoroughly (24%) is quite similar to the number in more cosmopolitan Shanghai (25%). The Dalian numbers fall somewhat

17. Important Label Specifications



after this, and a full 17% or Dalianese³ report never reading food labels compared to just 3% in Shanghai. This reflects the education gap that exists in second-tier cities such as Dalian that is not always accurately reflected in economic statistics or photo essays of new development projects. Nor is it something that can be easily addressed. This being the case, it is important for U.S. companies targeting Dalian to focus on the high income and higher education part of the market which represents by and large the greatest number of potential consumers. Main concerns are, proportionally, about the same for both cities. Expiration date is once again the primary concern, followed by the manufacturer's name and trademark. In our 1996 survey, furthermore, we found that only 1% of Shanghai consumers prefer to have consumer food labels printed solely in a foreign language such as English, while 67% prefer both Chinese and a foreign language. In Dalian, which has historically looked to Japan for cultural imports and has the highest proportion of Japanese speakers in China, this is probably even more true. Although the 1996 Chinese Food Labeling Law is still not being strictly enforced, this consumer preference for Chinese labeling should stress the importance to importers of branded consumer food products of having at least partial Chinese labeling.

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 Consumers Pay for Healthier Foods?

Chart 18 shows that there is definitely an interest in healthier food products among Dalian consumers that is only marginally lower than in Shanghai. Indeed, in recent months the ATO Shanghai has been receiving steadily increasing requests for information on this market from both the U.S. and Chinese sides. To take advantage of this market, however, U.S. food marketers 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.

³Analysis of our survey data also showed that 15% fewer Dalian respondents reported having completed high school in comparison to Shanghai.

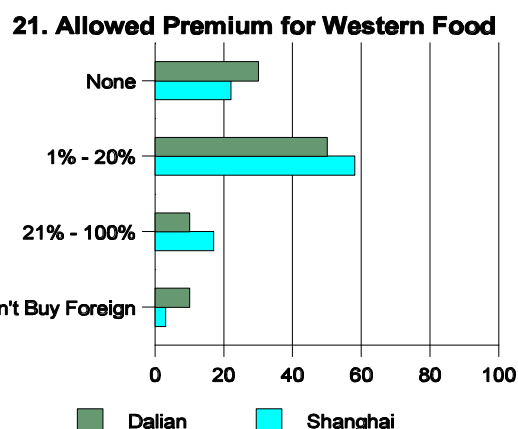
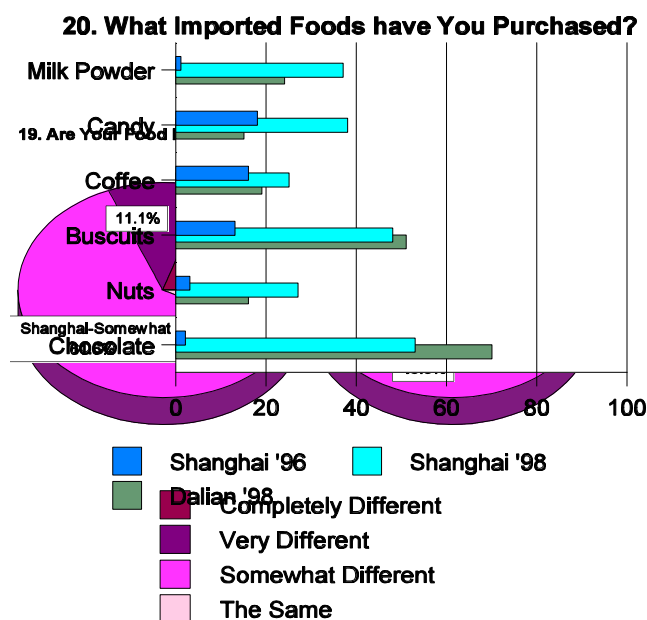
Generation Gap

Note here that 47.5% of Dalian respondents replied that their food purchasing habits were either completely or very different from their parents', compared with only 31.3% taking this view in Shanghai. This most likely reflects that changes in eating habits have come to Dalian much more suddenly-- Shanghai, with its more international and particularly Western-influenced history has in many ways handed modern ideas and attitudes learned in the early parts of the century down to the present generation. Modern Dalian consumers (and consumers from similar second-tier Chinese cities as well) see themselves as more different than their parents and grandparents who were raised in feudal and later socialist societies. As a result, the older generations have been exposed to fewer Western retailing ideas until the very recent present. It should also be noted that this survey actually encompasses nearly three generations of purchasers, one can assume that the 25 year olds surveyed would find themselves as unlike the 65 year olds as the 65 year olds do of their own parents.

Do Chinese Employ Servants for Shopping?

Our results indicated that 1% of Dalianese compared with 2% of Shanghainese households had an "aiyi" (a person employed to help with household tasks), taking advantage of low labor costs to help them with their shopping and often cooking. This may be significant when marketing premium products to the top income brackets as well as to well-off new parents.

V. Consumer Attitudes Towards Western Foods



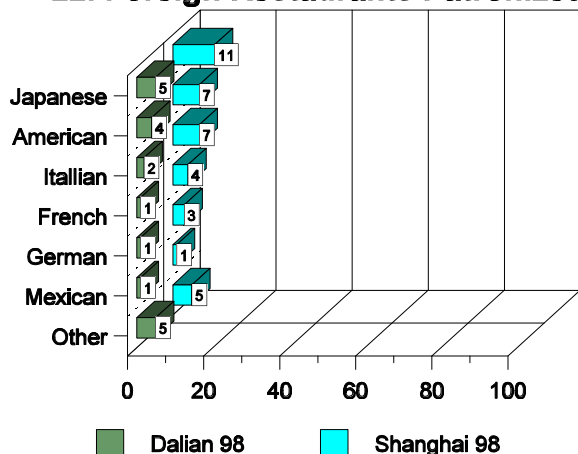
What Imported Foods Do Dalianese Consumers Purchase

An identical question was asked in the 1996 Shanghai survey, and it is fascinating to compare Dalian in 1998 with Shanghai in 1996. Note that current purchases of chocolate, milk powder, biscuits, coffee, and nuts are all higher in today's Dalian than in the Shanghai of two years ago. This is encouraging news, especially when

view alongside market research that Dalian was far behind Shanghai in 1996 and has apparently made up all of this ground over that brief time. These rapid gains in Dalian are in many ways the

fruit of both public and private investments in infrastructure and distribution in shipping, manufacturing, transportation, warehousing, and retail sectors as well as of reduced trade barriers. As long as these improvements continue and companies continue to get their products to the consumers, these numbers should keep on going up. For more information and analysis, please see the “1998 Shanghai Consumer Purchasing Habits” Market Brief.

22. Foreign Restaurants Patronized

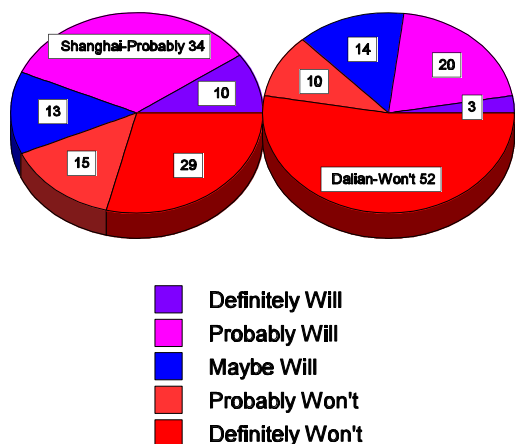


Which Kinds of Foreign Restaurants Do Consumers Frequent?

This question was designed to intentionally exclude fast food restaurants such as KFC and McDonalds, and the results are interesting. It is clear from Chart 22 that a very small percentage of the Dalian population as a whole have dined in foreign restaurants. This, in part, is a reflection of the paucity of foreign restaurants in the city. Outside of the top hotels, including the Shangri-La, the Furama, and the Holiday Inn, there are

only a handful of Japanese and other foreign restaurants. Hotel restaurants, presenting diners with checks of US \$20-50 per head, are needless to say beyond the budget of most consumers in second tier cities in developing markets.

23. Use Recipe to Prepare Western Food at Home?



What this should allude to, however, is the large market that likely exists for reasonably priced Western food. Because a majority of consumers earning over RMB 1,000 per month express interest in other forms of foreign foods, it follows that they would be willing to try affordable foreign restaurants. This is clear from other more developed Asian markets as well, including Japan, Hong Kong, Taiwan, and Bangkok. An expanded foreign restaurant market, in turn, would create a greater demand for a wide variety of imported

foods, beverages, and food ingredients.

Are Consumers Willing to Prepare Western Food at Home?

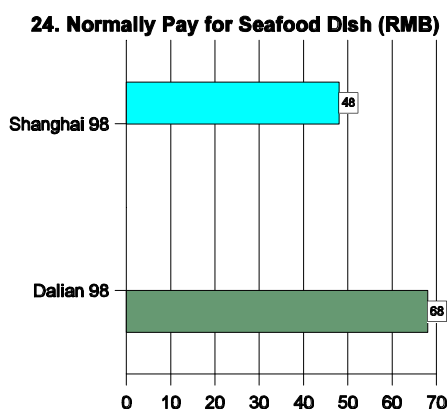
The number of consumers interested in preparing Western foods at home was quite low in Dalian (23%) in comparison to Shanghai (44%), and reflects other parts of this survey in which the upper-crust 25% or so of the market appears to have potential. Again, the strong Japan-looking

nature of Dalian probably also affects this, and it may be wise of U.S. exporters interested in doing menu or recipe promotions to look towards both local and Japanese cuisine to appeal to Dalian's tastes.

VI. Seafood and Wine Purchasing Habits

Up to now, we have been trying to paint a general picture of Dalian 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.



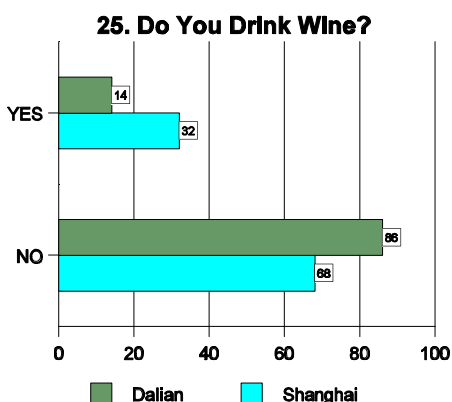
Dalian Seafood Purchasing Habits

Seafood now accounts for 18% of total food purchasing expenses in Dalian and is probably the market in which U.S. exporters currently have the greatest room for growth. The citizens of the port city of Dalian pride themselves on their wide array of seafood products and often purchase them when entertaining guests. Sea cucumber is the most renowned delicacy of Dalian, and can be purchased live, fresh, or dried in many parts of the city and can retail from \$10 to upwards of \$200 per kilogram. Other seafood, from the exotic to the banal, is sold and consumed in abundance. Furthermore, 35% of Dalianese reported frequently purchasing frozen seafood, and new species from the United States will likely be welcomed. In terms of all meat and seafood purchased by the average household, seafood is nearly equal to pork as the main staple meat. Dalian consumers reported frequently purchasing both seafood and pork in average quantities of about 1.5 kilos per week.

Our survey also revealed that when Dalian consumers eat in restaurants, they order seafood 24% of the time. Indeed, Dalian has a number of seafood restaurants famous throughout China, and other Chinese cities commonly sport a "Dalian Seafood City (Dalianhaixiancheng)" restaurant. Dalian consumers, moreover, reported paying significantly more (Chart 24) per seafood dish ordered than Shanghaiese. This most likely reflects Dalian consumers' preference for seafish

over the riverfish commonly consumed in Shanghai.

Seafood 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. Dalian diners often order high-price seafood dishes to give the host a good deal of “face.” This presents U.S. seafood exporters with an extremely large and enthusiastic market. Furthermore, market research in Dalian did not show a great deal of promotional activity by foreign organizations such as the Norwegian Fisheries Association, and U.S. cooperators such as the Alaskan Seafood Marketing Institute have only recently become active in the city. We recommend that potential exporters stay aware of industry trade shows such as the October 1998 China Fisheries and Seafood Expo in Dalian. For more information on seafood, please read the ATO Shanghai’s May 1996 “Seafood” Market Brief along with the January 1997 update.

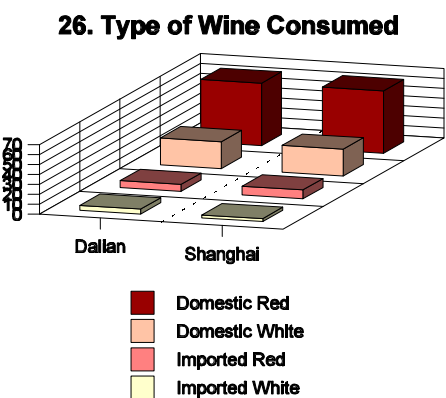


Heard it Through the Grapevine

Purchases of grape wine (putaojiu) , according to the results of our study, are heavily income-dependent. In Dalian, only 14% of respondents described themselves as wine drinkers. Frequency of consumption (Chart 27), however, is somewhat higher in Dalian, which confirms the stereotype of the “hard-drinking Northeasterner.” Although not specifically addressed in this survey, hard liquors such as bourbon may have a greater potential in this market than

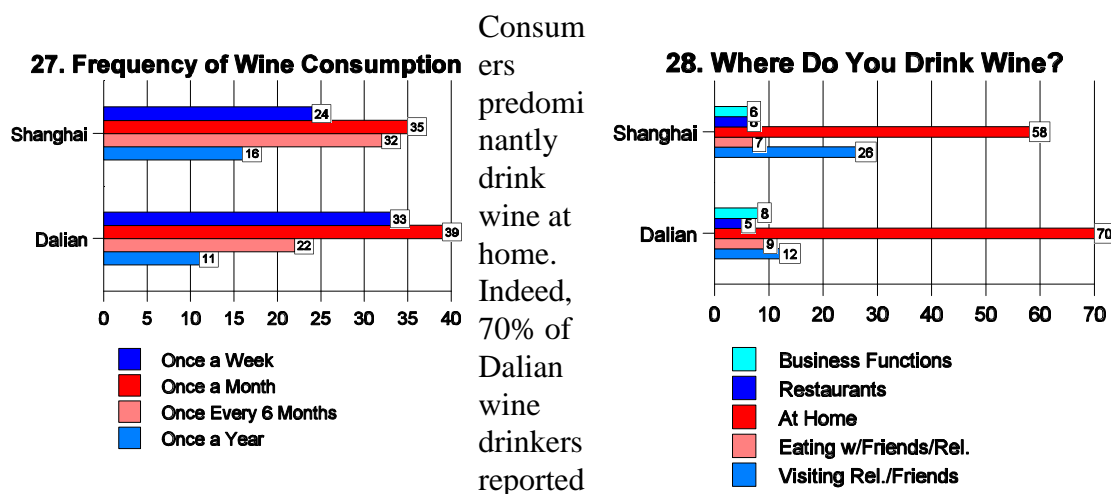
others. This is because premium spirit sales elsewhere in China (especially cognac and scotch whiskey) peaked around 1995 and have been steadily losing ground to wine and softer spirits ever since.

The number of 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.



What Wines Are Connoisseurs Drinking?

Domestic red wine has a substantial lead in market share in Dalian as well as in Shanghai. Purchasing of domestic wines, based on other ATO research, is primarily a function of price. 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 RMB 60-85 (US \$6.00- \$10.25) range.



Consumers predominantly drink wine at home. Indeed, 70% of Dalian wine drinkers reported

drinking in the household, significantly higher than 58% for Shanghai. Only 12% of Dalian drinkers said that they drink wine when friends or relatives are visiting. All of this also reflects the lower incidence of wine distribution in the Dalian HRI and bar/karaoke sectors, which, compared to “Sinful Shanghai” remain relatively small. Interestingly, only 6% in each city said that they drink wine at business functions. Finally, men were more inclined to purchase red wine while women tended to prefer white in both Dalian and Shanghai. U.S. exporters would be wise to understand this market before engaging in business, but the potential nonetheless looms large. Furthermore, larger U.S. wineries such as Wente are beginning to develop business partnerships in China and are representing a number of smaller vintners who do not have the resources to develop export markets alone. For more information on wine, please refer to the ATO Shanghai’s February 1998 “Wine” Market Brief.

VII. Conclusion

In this study, we have tried to look beyond the static numbers themselves for Dalian to see where the city actually is and where it is headed. Dalian clearly lags behind Shanghai on most fronts, but then again, Shanghai is often referred to as the “New York of China.” In this sense, perhaps Dalian is more akin to the Boston or the Portland of China. If your company wishes to develop extensive operations in China or to look for certain niche markets particularly suited to your products, however, Dalian is clearly a quickly developing city that stands out front among

China's "second-tier" cities.

Dalian, thus, still holds more allure for pioneering efforts in food marketing. Today there are still opportunities to open markets in Dalian that are quickly being saturated in Shanghai, both in terms of products and retailing. These include markets in seafood and beef, in frozen distribution, in food retailing, and in niche markets that could be anything from bourbon to candy bars. U.S. companies should also bear in mind that the Shanghai of our 1996 survey, a mere two years ago, is in many ways more similar to Dalian in 1998 than Shanghai in 1998. Although we did not sample Dalian in 1996, research proves that the city has come a remarkably long way over that period of time.

A word of caution is needed, however. Dalian's rapid growth and modernization from a quaint ex-colonial town to a growing port and investment center over the past few years has decidedly been fueled by Japanese and to some extent Korean capital. The Asian economic crisis has effectively halted further investments, and up to now there has been only limited interest among Americans and Europeans who tend to focus on East China. There is a feeling that growth rates may have peaked already, and there is no guarantee that the kind of capital investment in distribution infrastructure that has brought Shanghai '96 to Shanghai '98 will automatically bring similar growth in Dalian.

Finally, it should be pointed out that there are a number of strong second tier cities throughout China, each with its own local culture and differing levels of development, and each with its own number of business possibilities. These cities can include Nanjing and Hangzhou, Chengdu and Wuhan, Xiamen and Fuzhou, Shenzhen and Zhuhai, Xian and Zhengzhou, along with a long list of others.

Many additional ATO Shanghai market briefs can be downloaded free of charge 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.