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Retail Food Sector Report

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Approved by:
Stan Cohen, Office Director
ATO Taipei

Drafted by:
Amy Hsueh, Marketing Specialist

Report Highlights: The growing modern retail industry in Taiwan is looking for new imported food products.

Includes PSD changes:No
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I. Market Summary

Food retailing in Taiwan has entered a new era. The supermarket industry has reached a plateau after approximately 20 years of rapid expansion since the first store opened in Taiwan in the early 1980s. The hypermarket and warehouse stores are now replacing supermarkets as the mainstream retail format of the market. Convenience stores, according to industry sources, continue to have a bright future in Taiwan.

Hypermarkets/Warehouse Stores--According to Taiwan Ministry of Economic Affairs' (MOEA) statistics, hypermarket/warehouse stores were the fastest growing segment of the retail industry, generating total sales revenues of approximately US$2.8 billion in 1998, a 20.5% increase from the previous year. The increase is attributed to 20 new stores being opened in 1998 and numerous promotional campaigns being conducted by these hypermarket/warehouse stores during 1998. The hypermarket/warehouse store industry will continue to expand over the next few years, with an additional 15-20 stores being opened annually.

Convenience Stores--Total sales generated by Taiwan's convenience stores grew 19.17%, reaching over US$1.94 billion in 1998. 7-Eleven was the market leader in terms of number of stores and sales revenue generated. The Family Mart Convenience Store Chain was, for the first time ever, ahead of Hi-Life as the second largest convenience store chain. Currently, there are 7,534 convenience stores in Taiwan. Both Taiwan authorities and the retail industry believe this sector still has room for expansion and can accommodate several thousand more stores. Currently, the development of Taiwan's convenience stores present two extremes. The large chains continue to grow at a constant rate while small chains have begun to stagnate.

Supermarkets--The supermarket sector--caught in a squeeze between hypermarkets and convenience stores--was in last place in terms of growth in number of stores and sales generated in 1998. The sector reported sales of $1.6 billion in 1998, a 9% increase compared with the previous year. This was slightly less than the average growth rate of 10% for Taiwan's retail industry. The supermarket sector is expected to continue to grow by 8-15% in sales for each chain. The number of new stores is projected to expand by 35 annually over the next several years. However, competition from hypermarkets and convenience stores has caused a number of chains to rethink their strategy. Thus for example, the Wellcome, Sinon, and Summit supermarket chains plan to open hypermarkets and at the same time restructure their poorly performing supermarket stores instead of continuing to expand.

Imported Food vs. Domestic Products--On the average, about 15%-20% of the products sold in Taiwan's supermarkets, hypermarkets, and warehouse stores as well as about 15% of the products sold in convenience stores are imported, and this is increasing. These retail stores purchase from local importers, wholesalers, and manufacturers. However, the trend is to increase the volume and variety of direct imports to avoid the higher cost of products purchased from local importers and manufacturers.

Trends in Services Offered by Retailers--With a 14.5% increase in the number of working women over the past eight years and a rise in single parent families as well, Taiwan women are wielding more power. Consequently, prepared and semi-prepared foods, and other convenience foods, as well as eating out are expected to become more popular. In addition, with an increasingly urbanized population, modern electric appliances have become more commonplace. This should stimulate the development of frozen prepared foods and microwaveable foods. The percentage of convenience foods, microwaveable foods, vegetarian foods and health foods will continue to increase in modern food stores. On the other hand, in order to attract more customers, larger stores may also offer other services, e.g. bakeries, restaurants, and ready-to-eat corners, inside their stores.

Advantages	Challenges
U.S. products are perceived by Taiwan consumers to be high quality	Lack of knowledge of U.S. brands by importers and retailers
Majority of Taiwan consumers can afford imported food products	Lack of brand awareness by consumers
The growing modern retail industry is looking for new imported food products	Lack of importer and retailer knowledge and training in purchasing, handling, and merchandising U.S. products

II. Road Map for Market Entry

A. Supermarkets, Hypermarkets, Warehouse Stores

Entry Strategy

(1) Direct Imports

Taiwan supermarket, hypermarket, warehouse store, and convenience store chains purchase from local importers, wholesalers, and manufacturers. However, the current tendency is to increase the volume of direct imports to avoid the higher cost of products purchased from local importers and local manufacturers. U.S. exporters now can sell directly to these stores by contacting their purchasing departments. Managers of these Taiwan food retail outlets state that they welcome offers from any competitive and dependable supplier.

(2) To establish relationship with Taiwan importers/distributors

U.S. companies who wish to export their products to Taiwan should concentrate on establishing a relationship with a reliable and efficient importer and distributor. A visit to Taiwan is an excellent way to start to establish a meaningful relationship with potential buyers. U.S. exporters can obtain a potential importer list from the ATO/Taipei and begin by contacting the companies before they make their trip. From previous experience, we have learned that U.S. suppliers who bring samples of their products to Taiwan have met with success. U.S. exporters may wish to join a trade mission, organized by the State Departments of Agriculture and/or U.S. market development cooperators to visit potential buyers in Taiwan.

Another way to approach potential Taiwan buyers is to participate in trade shows. The ATO/Taipei will organize the American Pavilion at the 2000 Taipei International Food Show to be held June 15-18, 2000 at the Taipei World Trade Center Exhibition Hall. It is the largest and most popular food show in Taiwan with excellent access to local food importers, wholesalers, distributors, retailers, and consumers. The 1999 event had a total of 510 participants from 30 countries and attracted more than 45,000 visitors.

(3) In-store promotions

With the assistance of the ATO/Taipei, many of Taiwan's supermarkets and hypermarkets organize in-store American promotions. U.S. companies interested in expanding their businesses with these retail chains are encouraged to contact them directly for these special American food promotions. The in-store retail promotion schedule is available from the ATO/Taipei homepage or from the USDA/FAS homepage (http://www.fas.usda.gov).

Distribution Channels

Currently, most importers maintain a team of in-house sales people who sell approximately 50% of their total confectionery imports, 20% of wines, 80 % of meat, 10 % of fresh produce, and 65% of seafood directly to the retail chain stores. The remaining are sold through regional wholesalers/distributors to retail stores. Domestic manufacturers either sell directly to retail stores or push their products through contracted wholesalers/distributors.

Company Profiles - Major Hypermarket/Warehouse Store Chains

Retailer and Outlet Type	Ownership	Sales 1998 (US$Mil)	No. of Outlets (as of Oct. '99)	Purchasing Agent Type
Carrefour Hypermarket	French/Taiwan	1,081	22	Direct, Agent, Importer
Makro Warehouse	Dutch/Taiwan	573	9	Direct, Agent, Importer
Dollars Hypermarket	Local	209	3	Direct, Agent, Importer
RT Mart Hypermarket	Local	418	12	Direct, Agent, Importer
Far Eastern Hypermarket	Local	337	7	Direct, Agent, Importer

Sources: Distribution News 1999

Hypermarkets/Warehouse Stores

There are two types of hypermarkets/warehouse stores in Taiwan-- the local stores, such as Far Eastern, RT Mart, Dollars, and Kao Hong, as well as the foreign stores, such as Makro (Dutch/Taiwan), Costco (U.S./Taiwan), and Carrefour (French/Taiwan). This segment of the retail food market generated US$2.8 billion in sales in 1998, a 20.5% increase from the previous year. The Carrefour Hypermarket Chain continued to be the leader of this industry, in terms of annual sales value generated and the number of stores. However, Makro Warehouse Stores achieved the highest average per store sales. Currently, Taiwan has a total of 97 hypermarkets and warehouse stores.

Most of Taiwan's warehouse stores are located in suburban areas where land and other operating costs are much lower. According to Taiwan's current ordinances, warehouse stores are not allowed to do retail business inside of an industrial zone. However, of the seven Taiwan Makro warehouse stores, six were located in industrial zones. This has resulted in a series of complaints by other warehouse stores. Currently, Makro has 9 outlets island-wide.

However, in 1997 the government passed a new law that allows companies to open hypermarket/warehouse stores in an industrial/commercial complex zone. Any warehouse store which attempts to establish stores in an industrial zone can now apply to the Taiwan authorities requesting that the land be rezoned "industrial/commercial," on the condition that the warehouse store pay a fee to the city/county government where the industrial zone is located. This action has had a positive impact on the development of Taiwan's hypermarket/warehouse store sector.

The local *Retailing Mart Magazine* compiled the following profile on Taiwan's hypermarkets/warehouse stores: 1) average number of hours open: 12; 2) average number of employees in a store: 207; 3) average number of product items displayed in a store: 14,300; 4) average number of parking spaces for a store: 397; 5) most dynamic: RT Mart, Carrefour, and Sinon. Generally, Taiwan's warehouse stores are open to the public if the customer has obtained a membership card which is free of charge. Costco, which is an exception, charges an annual fee of NT$1,000-1,200 (approximately US$31-38) for a membership card.

Carrefour - Carrefour Hypermarket Chain is a joint venture of French Carrefour and the President Enterprises Group, Taiwan's leading food company. Carrefour has been the most aggressive hypermarket chain in Taiwan since its first store opened in 1989 in Kaohsiung, Southern Taiwan. Currently, there are two types of Carrefour hypermarkets--14 general retail stores (blue stores) and 8 wholesale warehouse stores (green stores). In 1998, total annual sales were US$1,081 million. The Carrefour Hypermarket Chain has a target of opening 3-5 new stores annually.

Makro - Currently, Makro has nine warehouse stores island-wide. Two of Makro's warehouse stores were forced to close by the Taipei Country Government and Kaohsiung County Government in 1994 because of its violation of Taiwan's zoning laws. However, all of Makro's stores resumed operation in 1998 because of the promulgation of the new zoning law mentioned above. Reportedly, Makro is planning to open 6 new stores by year 2000.

RT Mart - The most important hypermarket news in 1998 was RT Mart's consolidation of the Trans Asia Hypermarket and the Save & Save Hypermarket. The RT Mart Chain has become one of the most aggressive hypermarket chains in Taiwan. In 1998, RT Mart reported sales of US$418 million. As of October 1999, the RT Mart Chain has 12 outlets island-wide.

Company Profiles - Major Supermarket Chains

Retailer and Outlet Type	Ownership	Sales 1998 (US$Mil)	No. of Outlets (as of Oct.'99)	Purchasing Agent Type
Wellcome Supermarket	Hong Kong/ Taiwan	263	96	Direct, Agent, Importer
Sung Ching Supermarket	Local	78	24	Direct, Agent, Importer
Kasumi Supermarket	Local	-	17	Direct, Agent, Importer
Taipei Agr. Marketing Corp Supermarket	Local	84	18	Agent, Importer
Sinon Supermarket Hypermarket	Local	105	26	Direct, Agent, Importer

Source: Distribution News 1999

Supermarkets

Taiwan's supermarkets grew moderately in 1998, a 9% increase in sales compared with the previous year. The supermarket chain sector reported sales of $1.6 billion in 1998. In 1998, the Wellcome Supermarket Chain continued to be the largest supermarket chain. Its 96 stores generated a total of $263 million in sales. Wellcome was followed by Taipei Agricultural Marketing Corporation Supermarket Chain (17 stores with $84 million in sales), and Sung Ching (24 stores with $78 million in sales). The progress of supermarkets has entered a bottleneck phase. To meet stronger competition from hypermarkets/warehouse stores, the following actions have been taken by these supermarkets: increase the number of fresh items carried; replace old equipment and remodel old stores; add service corners such as shoeshine, laundry, and photo studios. Also, some supermarkets have discontinued carrying low-profit items, maintaining a total of 6,000-7,000 items in a single store. To further reduce operational costs, these supermarkets are reducing the number of full-time employees in favor of part-time workers.

Approximately 80 percent of Taiwan's supermarkets have an average of 7,200-11,000 square feet of space, excluding parking lots. The frozen and chilled area for meat, fresh produce and other perishable foods account for about 30%-40% of the total area and this is expanding. These supermarket stores carry an average of 6,000-10,000 items in their stores, including food and non-food items. Initially, Taiwan's supermarkets were concentrated in urban areas. However, difficult traffic conditions, parking problems, plus high land prices in cities prevented them from expanding further in the urban areas. With urbanization accelerating, the suburbs--where the cost of purchasing/renting land and facilities is cheaper--have become the fastest area of expansion for supermarkets and other food retail stores.

Kasumi Supermarket - Kasumi Supermarket Chain is an affiliate of the Hsin Tung Yang Co. Ltd., one of Taiwan's leading food manufacturers. In 1998, it opened two stores. Most of Kasumi's supermarkets are located in downtown areas. Currently, ten of Kasumi's supermarkets are open for 24 hours a day.

Sung Ching Supermarket - Sung Ching Supermarket is an affiliate of the Wei Chuan Foods Corporation, one of Taiwan leading food companies. All of its stores are located in metropolitan Taipei. 5 additional stores were opened during 1998. Total sales generated for 1998 grew 23%, reaching US$78 million compared to 1997.

Wellcome Supermarket - Wellcome Supermarket is a Hong Kong based supermarket chain in Taiwan. Currently, there are 96 outlets island-wide. In 1998, Wellcome closed two stores which did not achieve the company's target and opened and remodeled some stores maintaining a zero growth. Reportedly, the Wellcome Supermarket has begun remodeling old stores and has renovated equipment in some stores since early 1998. Their marketing strategy focuses on increasing the number of fresh items carried as well as upgrading fresh handling techniques. The first Geant hypermarket, a joint venture of the Wellcome Supermarket Chain and the French Casino Group, opened in 1998. Currently, there are two Geant hypermarkets in Taiwan.

Sinon Supermarket/Hypermarket - Sinon Supermarket/Hypermarket Chain reported sales of US$105 million in 1998. Four of Sinon's outlets, located near the epicenter of the September 21 earthquake, collapsed. However, they will resume operations earlier next year. Mr. Yang Chung-Hsing, General Manager of the Sinon Supermarket/Hypermarket Chain said that the hypermarket format is becoming a major trend. Therefore, they will focus on expanding hypermarkets over the next few years. Sinon Supermarket/Hypermarket Chain is the largest retail chain in central Taiwan. Sinon is planning an in-store "American Food Festival" promotion in all 26 outlets from December 10-January 16, 2000. The company is planning to increase direct imports, especially fresh items such as produce, meat and seafood.

B. Convenience Stores

Entry Strategy

The majority of Taiwan's convenience store chains have their own logistics centers to distribute products, both dry and chilled/frozen goods, to each outlet. The others have ties with logistics centers. A typical convenience store carries approximately 1,300-1,800 items, of which food accounts for approximately 50.5% of total products stocked and this is increasing. Of the many food items sold in a convenience store, about 15% are imported. Taiwan convenience store chains either import directly or purchase from local importers and manufacturers. U.S. suppliers can sell directly to these convenience stores by contacting their purchasing managers. In addition, they should locate a reliable and efficient agent/distributor to ensure that products are consistently available in the market.

Company Profiles - Major Convenience Store Chains

Retailer Name & Market Type	Ownership	Sales 1998 (US$Mil)	No. of Outlets (as of Sept. '99)	Purchasing Agent Type

7-Eleven	Taiwan	1251	2221	Direct, Importer Agent
Family Mart	Taiwan	301	775	Direct/Importer Agent
Circle K	Taiwan	143	438	Direct/Importer Agent
Hi-Life	Taiwan	224	585	Direct/Importer Agent

Source: Distribution News 1999

The Taiwan convenience store sector grew significantly in 1998. Total sales were $2 billion, a 19% increase compared with the previous year. Currently, there are 7,534 convenience stores in Taiwan. 5,260 of the total are chain stores that belong to 12 major convenience store chains in Taiwan. 7-Eleven continued to achieve the highest performance among convenience store chains in 1998. 7-Eleven accounted for 65% of Taiwan's convenience store market, followed by Family Mart (16%), and Hi-Life (12%). According to the *Convenience Store Magazine*, a typical Taiwan convenience store is 900-1,100 square feet in area, carrying approximately 1,300-1,800 items. All 7-Eleven and several other convenience stores are open for 24 hours a day. On the average, each outlet attracts 786 customers a day and each customer spends approximately $1.85. Total daily sales generated for each outlet is around $1,543 while its margin remained at 23.1%.

Taiwan's "eat-out" market is valued at approximately US$6 billion and is growing significantly. This can be attributed to several factors, including an increase in urbanization, the education rate, westernized eating habits, leisure time and the number of working women. It is estimated that Taiwan's 7,534 convenience stores accounted for approximately sales of US$227 million in convenience food products, or 3.75% of the total "eat-out" market. The main items currently sold in convenience stores include sandwiches, hot dogs, buns, and Japanese style rice rolls (sushi) for breakfast or snacks. Most of Taiwan's convenience stores are making efforts to research and develop new convenience food items especially for lunches and dinners. Industry sources indicated the following products as the best sellers in convenience stores: convenience foods, bottled water, beverages, imported soft candies, and instant noodles.

7-Eleven - Taiwan 7-Eleven is an affiliate of the President Enterprises Group. 7-Eleven continued to lead other convenience stores in Taiwan in number of stores, sales volume, and profits generated in 1998. Its total annual sales reached US$1,251 million in 1998.

Family Mart - Taiwan's second largest convenience store chain, Family Mart, has grown to 775 stores as of September 1999. The total sales generated in 1998 was US$301 million. Most of the Family Mart outlets are franchises. The company's marketing strategy focuses on expanding and developing new convenience foods and services. Currently, Family Mart's own logistics centers distribute products to all their outlets island-wide.

Hi-Life - Hi-Life is an affiliate of the local Kun Chuan Dairy Farm. Its total sales reached US$224 million in 1998. Hi-Life will focus on developing and expanding its range of household appliances and health foods over the next few years. In addition to its existing dry goods logistics centers, Hi-Life established a new frozen/chilled logistics center in Northern Taiwan in 1998.

Circle K - Circle K Taiwan has been a franchise run convenience store since 1988. Taiwan Circle K has ties with several logistics centers to distribute dry and fresh/chilled/frozen foods to all their outlets island-wide.

C. Traditional Markets

According to official data, there are 744 registered traditional wet markets in Taiwan, generating a total annual sales of about US$3.3 billion. However, the competition from the traditional wet markets and mom & pop stores is decreasing. Cleanliness, wide range of products, freshness, and the lower prices of a modern food retail store serve as the tools employed to compete against traditional retail stores. Traditional stores offer limited opportunity for sales of imported foods.

III. Competition, Consumer-ready Foods

In 1998, Taiwan imported US$7.8 billion in food and agricultural products, of which US$2.4 billion was imported from the United States. The United States is the number one supplier of agricultural exports to the Taiwan market. While maintaining its position as a substantial supplier of bulk commodities, such as soybeans, corn, and wheat, the United States supplied 53% of Taiwan's imported fruits, 52% of its imported vegetables, 18% of its imported fish products, and 33% of its imported beef. The United States is the top supplier of most varieties of imported fresh fruits, such as cherries, apples, peaches, nectarines, table grapes, and oranges.

Competition is intensifying among major world agricultural and food exporters for a share of Taiwan's growing imported food market. The United States'main competitors are Australia, Japan, the EU, and New Zealand. Promotional campaigns by major competitors are on the rise. In addition to year-round country theme retail in-store promotions, and menu promotions in international hotels by these competitors, in 1999 the Taipei International Food Show brought together 1,050 booths displaying various food and agricultural products from a total of 510 participants from 30 countries.

IV. Best product Prospects

A. Products in the market, which have good sales potential, include:

- Convenience foods
- 100% Natural Juices
- Organic Foods

- Health Foods
- Snack foods
- Home meal replacements

B. Products not present in significant quantities but which have good sales potential:
With the increase in the standard of living and the current focus on healthy eating, food products that provide a health benefit, or that at least do not contribute to weight gain or cavities, have the best prospects.

V. Post Contact and Further Information

Agricultural Trade Office
54 Nan Hai Road
Taipei, Taiwan
Tel: (886-2) 2305-4883
Fax: (886-2) 2303-7073
E-Mail: ato@mail.ait.org.tw

For further information, you are welcome to visit the ATO/Taipei Homepage:
http://ait.org.tw/ait/AGRI/ATO.htm

VI. Taiwan Retail Stores and Taiwan Importers

As previously mentioned, the trend is for retailers to import directly. Therefore, U.S. food suppliers should contact the ATO/Taipei for a list of retail stores. A list of Taiwan food importers is also available from the ATO/Taipei, upon request.