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Taizhou - The Cradle of Private Enterprise in China

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Report Highlights:

Taizhou is a coastal city to the south of Shanghai situated in the middle of Zhejiang Province. As the origin of the private enterprise system in China, it has developed dramatically in the past 10 years. Over 96% of businesses in Taizhou are privately owned, and family car ownership ranks the highest in China. It is the national leader in canned food processing industry, and has become an important manufacturing bases of automobiles, motorbikes, pharmaceutical medicine, plastic molds, textile machinery, and household electronics. Although Taizhou enjoys high consumption levels of luxury goods, more education and promotional efforts are needed to make Taizhou a strong market for American food and beverage products.

General Information

Introduction

Taizhou is a coastal city situated in the middle of Zhejiang Province to the south of Shanghai. It lies between the cities of Ningbo to the north and Wenzhou to the south. Taizhou has jurisdiction over three regions (Jiaojiang, Huangyan and Luqiao), two cities (Linhai and Wenling), and four counties (Yuhuan, Tiantai, Xianju and Sanmen). The municipal government is located in Jiaojiang. Taizhou is linked to Ningbo by the Yongtaiwan Expressway with the port cities of Ningbo to the north and Wenzhou in the south. The Huangyan Airport has several daily flights to Beijing and Shanghai Hongqiao airports, and regular flights to other Chinese cities. In October 2009 three stations were opened in Taizhou (Wenling, Sanmen and Taizhou City), creating the Hangzhou-Ningbo-Taizhou rapid-train connection. In addition to Mandarin, a majority of people in Taizhou speak Huangyan Hua, a type of Chinese dialect common in Zhejiang.



Zhejiang
port cities
Taizhou
Huangyan
counties

by the
Ningbo in
Luqiao

Many believe Taizhou is the origin of private enterprise in modern China. Private enterprise certainly has a foothold, as over 96% of the businesses in Taizhou are privately owned. Successful business has led to strong growth in the standard of living and consumption. Twenty-six out of 100 Taizhou households own cars, giving Taizhou the highest rate of car ownership in China. Like Americans, Taizhou people spend a great deal of time in their cars, which changes their buying habits and lifestyle. Roughly 40% of the luxury goods (cars, watches, bags and cloth) sold in Zhejiang province are purchased by wealthy Taizhou people.

Taizhou Economic Data	
1. Land area/ Urban Area	9411/1527 square kilometers
2. Population	5.46 million
3: GDP	US\$ 28.9 billion
4. GDP Growth Rate (2008)	9.6%
5. Per Capita GDP (2008)	US\$ 5055
6. Urban Household Expenditure (2008)	35.7 % on Food
7. Major Industries	Automobile and motorbike manufacturing; chemical medicine, plastic molds, textile machinery; household electronics and products; ship manufacture; canned food processing
8. Star-rated Hotels	1 five-star, 20 four-star and 21 three-star
9. Major Food Retailers	Auchan, Tesco, Century Lianhua
10. Key Agricultural Products	Aquatic food products, fruits (orange & waxberry), vegetables

Source: Taizhou government statistics 2008

Taizhou has a large and diversified industrial sector. In addition to ship manufacturing, it is also the

largest automobile and components manufacture and exporting base in China. *Geely Group* of Taizhou was China's first private car-making enterprise, and has a production capacity of about 300,000 vehicles annually. *Qianjaing Group* is a large-scale motorbike manufacturing enterprise. Its products are well recognized as the best-selling motorcycles in China. Taizhou is also called "the home of molds" thanks to a yearly output of plastic products and parts that exceeds 3,000,000 tons. Taizhou accounted for over 30% of the nation's plastic raw material consumption. In addition, with about 2,000 enterprises in the pharmaceutical industry, Taizhou produces a large quantity of medicines. There are 8 major categories of medicines, including anti-tumor medications and antibiotic medicines. Finally, Taizhou is also a large exporting base for specialty chemicals, textile machinery, and household electronics.

Taizhou used to be an "inaccessible" area due to the poor network of roadways connecting to other major cities. This situation changed dramatically due to large infrastructure projects in the late 1990s and early 2000s. Presently, Taizhou has full access to sea, land and air transportation systems. The road network extends in all directions, linking with national highways and connecting to the Southeast China route. Huangyan Airport has direct routes to major domestic cities. In October 2009 the Hangzhou-Ningbo-Taizhou-Wenzhou rail line was opened. Rail travel from Taizhou to Hangzhou and Shanghai takes only 2 hours and 4 hours, respectively, by the China Railway High-speed (CRH) train. The development of infrastructure and facilities has stimulated the growth of the transportation sector and the local economy.

Agriculture

With 260,000 square kilometers of sea area and a 6486 kilometer coast line, Taizhou has the largest seafood production sector in Zhejiang province. Taizhou is an important fishery with abundant resources, and harvests fish, shellfish, shrimp, crabs, turtles, and 106 other kinds of aquatic products. Seafood and farm raised production reached 6.5 million tons and 450,000 tons respectively in 2008. 30% of the total productions is exported to African countries.

Annual fruit production reached 750,000 tons, valued at over 369 million USD in 2008. This makes Taizhou the largest fruit production area in Zhejiang province. The well-known Huangyan sweet oranges are the main raw materials for its food processing industry. Taizhou is also the largest broccoli export area in China. With annul output of 165,000 tons in Taizhou accounted for 60% of Zhejiang production and 25% national production.

In 2009, Taizhou's exports of agriculture products reached 646 million due to constant promotion, and foreign investment. products, fruits and vegetables account for most of its

Sector Analysis

HRI Sector & Cuisine

Attracted by the booming car and textile machinery businesses



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Taizhou, increasing numbers of foreign visitors and expatriates are driving the growth of the hotel industry. Surprisingly, post found that there are no international hotel chains in the city. There is only one privately-owned five-star hotel, together with about 20 four-star hotels. The five-star hotel, named Taizhou International Yaoda Hotel, is a joint venture of the Hong Kong Jiaxing Group Ltd and Hong Kong Huafeng Enterprises Ltd. It is located close to the municipal government buildings in the new zone. The hotel owner said that his hotel is managed like a Hong Kong property and provides a variety of local and western cuisines. The Yaoda Hotel opened in 2005, and sister properties under construction in the Huang Yan and Wen Ling districts will be opened in 2010.



Yaoda Hotel contains The Fortune, a Guangdong restaurant which serves seasonal aquatic foods. Australia lobsters are very popular here and play an important role in wedding banquets. Western cuisine and Asian cuisine are available at the Café, and the Gourmet Restaurant offers desserts, including chocolates, cakes and cookies. Imported seafood would do well at the Fortune restaurant, and other imported goods such as breakfast items, coffees, desserts, or spirits could be introduced at the Café

and Gourmet Restaurant.

Taizhou traditional cuisine is marked by its special way of preparing seafood. The cooking style is similar to Cantonese. The general taste is not as strong as Sichuan style, because local chefs believe that adding fewer ingredients can preserve seafood's sweetness and freshness. Because of continuous social and economic development, and rising living standards, the food and beverage industry has developed rapidly. According to the president of the Taizhou Cuisine Association, local young people are enthusiastic about trying different cuisine. Oversea Taizhou businessmen and students are also coming back to their hometown, bringing new ideas and preferences. As a result, increasing numbers of western style restaurants and bars can be found in the downtown area.

The KTV business (karaoke-style clubs) is flourishing in Taizhou, but the wine market is disorganized. KTV is the most fashionable nightlife activity and a popular form of entertainment for business occasions. Beverages, mainly alcoholic drinks, are selling well in bars and KTVs. A western restaurant chef, who is also partner in a local KTV, told us that the local wine market is poorly regulated. Roughly 90% of the wines sold at bars and KTVs are counterfeit. High and low quality wines are often mixed together and sold at high-quality wine prices. This phenomenon is not officially discussed but it profoundly affects the ability of authentic wines to enter this market. Brand sponsorship cost is also quite high and for a relative short period of promotion time, usually less than six months, since a KTV needs to transform its decoration and business concept in every 18 months to catch up with the market demands and trends.

Wholesale imported food channels are not well developed in Taizhou. Star-rated hotels and upscale restaurants source individually from importers and distributors in Shanghai and Guangzhou, and use express delivery services. Obviously, with small orders, buyers do not get low prices. Poor logistics also reduces import food quality. In order to increase bargaining power, the Taizhou Cuisine

Association has considered consolidating all the orders of hotels and restaurants, but finds this project is very challenging. Post believes the situation will change gradually, using commercial channels. We also met a distributor who frequently purchases U.S. potato products from Ningbo and Wenzhou. The company only sold 20 boxes (12kg /box) in 2007. Now sales have reached 3,000 boxes annually, and the company is willing to carry more U.S. potato and meat products.

Food Processing

Zhejiang Huangyan Canned Food Group is located in district in Taizhou. It was established in 1958, and to a privately owned enterprise in 2007. With a oriented management, total production capacity has to 200,000 tons annually. The group has developed biggest canned food processing enterprise in China, of the annul output exported to Japan, America, South Africa and European countries. About 75% of canned oranges. Other products include a variety of fruits: peaches, grapes, loquat, strawberries, waxberry and cucumber. Since 2007, Huangyan has set up two canned seafood factories, and now produces 1,000 tons of canned sardine and tuna.



Huangyan converted market-increased into the with 95% Canada, output is canned



Post observed that the production lines in Huangyan factories are still quite labor-intensive. Thousands of workers were employed for cleaning, peeling, selecting and packing by hand. Factory managers said that in order to achieve higher profits, technological innovation is now the top priority. The company has won awards as the leading agricultural enterprise in Zhejiang province.

Retail

Due in part to the flexible local government policy, the industry has developed rapidly. Retail sales of 105 USD accounted for 12.8% of GDP in 2008. There are supermarkets with over 5000 square meters of floor have been opened in the past 5 years, and 6 out of the 17 hypermarkets are over 10,000 square meters in size. Due policies for foreign retail investors, international food such as Auchan and Tesco have entered this market. shopping habits have changed significantly.



retailing million 17 space that to incentive retailers Consumer'

The traditional wet-markets are disappearing and are being replaced by supermarkets and hypermarkets.

This is occurring because supermarkets reduced their profit margin from 12% to 7-8% to become more competitive in fresh meats and vegetables, and increased their budgets for seasonal promotions. Many people in Taizhou prefer to go shopping by car. They want a supermarket or hypermarket that provides convenience, a wide variety of products, and at least 600-1000 parking spaces.

Table 1. Taizhou Major Food Retailers		
Name	Format	Number of outlets
Auchan	Hypermarket	1
Tesco	Hypermarket	3
Century Lianhua	Hypermarket	7

Source: Taizhou Commercial Bureau

Century Lianhua

There are seven Century Lianhua outlets in Taizhou. attract more potential customers from traditional wet 20% of the floor spaces in the Taizhou Century hypermarkets are used for the “fresh food” display According to a shop manager, while local people “fresh hot meat”, it requires a lot of labor and management expenses. They realize that a cold-system is cost-saving, and chilled meat products are “hot meat” (fresh meet without chill), but “chilled” are not accepted by most consumers. Operational managers felt that further education is needed to change buying habits.



In order to markets, Lianhua area. prefer

chain safer than products

Over 2,000 imported food SKUs are present at the 20,000 square meter outlet we visited. It is located at City Avenue, and daily sales of imported items reach 4133 USD. About 90% of the total imported items are European products, and only a few U.S. products can be seen at the outlets. Popular items such as tree nuts, cookies, chocolates, and fruits, olive oil and wines and fruits are trendy holiday gifts.

The store manager is confident about increasing imported food items and U.S. products in particular. Potential consumers are those with higher disposable income levels who can afford premium products, and people who pay a great deal of attention to food nutrition, or who are enthusiastic about trying something new. Century Lianhua Taizhou conducted many promotions in the past two years and achieved positive results. The manager believes the sales of imported foods will double in the upcoming year. However, imported item sourcing is centralized at the headquarters in Hangzhou. This leaves limited flexibility for sourcing managers in Taizhou. ATO Shanghai will meet directly with Century Lianhua’s HQ sourcing manager in order to increase U.S. food items in the future.

Auchan

Auchan opened its first hypermarket in Taizhou in 2008, with about 400 imported items. U.S. products for 15% of the total imported food products. Daily imports reached 295 USD. The store is organized differently than Auchan stores in Shanghai. A combination of factors, including store location and buying habits, led the store to provide a larger parking fewer imported foods. Although Auchan's decentralized management structure has made the strategy easier, the purchase manager is still very conscious about increasing imported SKUs. The Taizhou store currently has a 20,000 square meter business area. Food sales account for approximately 40% of total sales, but imports represent less than 5 % of this total. Key imported products include frozen desserts and snacks from the U.S. and a larger selection of imported wines. Auchan reports that the Taizhou store actually has a larger French wine selection than other retailers in town.



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Tesco

British-based retail chain Tesco opened its first store on December 2008, and a total of three stores have opened in 2 years. The newest store has a business 20,000 square meters and 19,000 product SKUs. imported products accounted for roughly 0.5 % of Cookies and hot chocolate drinks are the good sale Washington apples and Sunkist oranges were the popular American food items in the store. Alaska Norwegian salmon are presented in the store occasionally. According to the store manager, all commodities were sourced by Tesco headquarters in Shanghai. Theoretically, the Taizhou store manager can make a proposal to the head office if he wants to increase the selection of the imported goods. But he is hesitant to make such a proposal and assume responsibility for future sales and extra promotional efforts.



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Prospects of U.S. Product in Taizhou

Generally, Taizhou consumers enjoy high consumption levels of imported luxury goods. More awareness and education can make Taizhou a stronger market for American food and beverage products. Some products such as apples, oranges, grapes and potato products already have a good reputation in the market. However, purchases for these products can be sensitive to price fluctuations. The HRI sector is open to more beef and pork products, if a quality supply can be arranged, as well as condiments. Wine and seafood are growing markets that require marketing efforts to make consumers more aware of the products.

Products	Markets	Notes
1. Frozen potato products	HRI & Retail	Potato is commonly used in fast-food and Western style restaurants and hotels; distribution channels have improved rapidly in recent years. There is great potential for market expansion.
2. Beef + Pork	HRI	U.S. beef is being used by local restaurants, even star-rated hotels. Although legal market access is not allowed, it is distributed through gray channels via Hong Kong and Guangzhou. Local chefs complain that the quality is wavering from suppliers. Pork ribs are appreciated by chefs, but supply consistency is low. It is a matured and promising market for U.S. meat products when the ban lifted.
3. Snacks	Retail	Cookies, sweets, and tree nuts (with retail package prices between 20-40 RMB) are especially popular in all second tier cities,
4. Fresh fruits	HRI & Retail	Sunkist oranges and Washington apples are present at all supermarkets and fruits wholesale markets and enjoy a significant market share. Market expansion potential should be high during the holidays. Both U.S. red and black table grapes are visible in supermarkets. However, the market is price-sensitive, and distribution and logistics pose a major challenge.
5. Condiments	HRI & Retail	Tabasco and Heinz products are already present in local supermarkets, generally purchased by hotels and restaurants. They have considerable market expansion potential. Western style sauces with local seafood can be very creative.
6. Wine	Retail & HRI	The retail section is currently dominated by French wines. The local wine market is disorganized and open to counterfeits. U.S. brands (such as Carlo Rossi wines and Jack Daniels whiskey) are already present in the market, and hotel chefs and retailers indicate a high potential for California wines as gifts items in star-rated hotels. More education for consumers and purchasing managers is needed.
7. Seafood	HRI & Retail	Alaska and Norway salmon are already present in the market, and have huge potential. Wealthy customers with health concerns make this a large potential market for U.S. natural codfish and other seafood products.

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