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THE CHANGING GLOBAL MARKET PLACE

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GrandMart was first established in January 1993 in Hong Kong and was the first warehouse wholesaling/retailing type of outlet ever found in the territory. Within 3 short years, GrandMart expanded into 7 outlets in Hong Kong, and on an international scale had also moved into Malaysia with a new store in Kuala Lumpur as well as built up strong distribution network in Macau and Southern China. With a total membership of over 60,000 at the end of last year, GrandMart has become a household name in the local community symbolising quality US products at a real bargain.

The GrandMart Revolution

Prior to the establishment of GrandMart, retailing of processed food items was very much in the hands of a duopoly who owned chains of over 400 supermarkets and 300 convenience stores. Shelf space was limited and slotting fees were very high which offered little chance for medium- and small-sized suppliers to try their products in the market.

GrandMart adopted a totally different approach. No slotting fees were levied and the customers alone decided what ought to stay on GrandMart's shelves. As such, the GrandMart buyers took a positive view towards products that had never appeared in the local market before. Products were sold in bulk and quite contrary to the local practice margins were kept to the lowest to induce fast turnover.

There were, however, skepticism about GrandMart's approach based on:

- the small size of Hong Kong's residential units and hence limited storage space at home;
- the low rate of private automobile ownership;
- local customers not being familiar with many of the US brands and labels.

In spite of such skepticism, GrandMart's insistence on selling quality products at the lowest possible prices and stocking a wide range of American-made products had worked. A recent survey conducted by the Hong Kong Economic Times, one of the top financial newspapers in Hong Kong, indicated 11% of the surveyed customers had shopped and would continue to shop at GrandMart. In addition to that, 1995 had seen a growing phenomenon of other Hong Kong retailers also actively sourcing products from the United States, a diversion from their normal merchandising practice. Today, the name "warehouse distribution/retail store" is becoming more prominent and popular in both Mainland China and Malaysia.

The Market Environment

The market areas in which GrandMart operates in fact offers many opportunities for US products.

Population is high and very concentrated. Fast economic growth in the past few years, coupled with GDP growth of over 5% per annum consistently, has led to the development of a sizable middle class income group with fairly high personal income and enough disposable cash in their pockets to pay for higher quality products.

Two other characteristics of this population are worth mentioning here. One, education is on the rise and, two, through tourism, media, education or overseas connections, this population is quite well in touch with the outside world. This means they can appreciate quality and understand value better than they used to, and are also already exposed to imported goods.

Food has always been the number one seller in these countries. In GrandMart's stores, 61% of the total sales in 1995 were in food and confectioneries. This pattern had been quite consistent in the past 3 years.

The Magic Label

What do customers look for when they come into a GrandMart store? This is a question often asked by ourselves, but many answers point to the "Made in USA" label.

Customers in Mainland China are particularly fond of American products. Even the better-educated Hong Kong and Malaysian customers tend to associate the "Made in USA" label with an assurance of high quality. This image has in GrandMart's experience fostered the sales of many US products in Hong Kong and China, even though the customers are not entirely familiar with some of the brands.

In the long run, we believe future market potentials depend very much on the ability to preserve, or even enhance, this image that the "Made in USA" label has so created. This will require conscientious decision and commitment from both the retailer and the manufacturer to not compromising quality for price and to offering the best value for money to end-users.

Bridging the East and the West

Information link between the product source and the market area is equally important. One problem GrandMart had gone through during the first year of its operation was finding the US suppliers. At the same time, many US suppliers particularly the medium- or small-sized ones and those used to targeting their business in the domestic US market only had no idea of how to start marketing their products in the Asian countries. This had resulted in a lot of lost opportunities for both sides.

GrandMart overcame this hurdle by utilising the network built inside and outside the United States by the FAS. The local Agricultural Trade Office became the key man in this linkage. They in turn directed us to the appropriate co-operators and regional trade groups such as WUSATA, MIATCO. The regional trade groups then extended their antennas into the business community either directly as well as through the State Departments of Agriculture to obtain information on suppliers for the potential

retailer. This networking system had proven to be high efficient and generally speaking effective. It is important that US suppliers are also aware of the existence of such a network and are willing to become part of it. When that being the case, US suppliers will be in a better position to access the vast potential Asian market.

The MPP Program had also assisted many US products in gaining a firm footing in our market. For new products that were not known to our market, the MPP Program provided an opportunity whereby the supplier and GrandMart could draw customers' attention to particularly the quality and taste of the product they were introducing. Without the support of MPP funding, some of the best-selling food items in GrandMart might not be doing so well today. This would be a short-term investment but a long-term gain for both business and the country.

Obstacles

1. Tariff - No tariff is levied on food items in Hong Kong. However, tariff in Malaysia can be up to 30% and is even higher in Mainland China. High tariff will place some US products not competitive in the market. However, current trend indicates that we shall expect to see tariff coming down in the next few years to a much more acceptable level.
2. International Competition - Asia is as close or even closer to Australia and Europe than to the United States. This implies that US products are not only in direct competition with local-made products but also with European and Australian imports. It is therefore important for US suppliers to maintain both a practical short-term view and a long-range view of the market.
3. Culture and Religion - Local culture and religious beliefs often help or hinder the sale of certain items. For instance, Hershey's Kisses are selling extremely well in the Chinese market because of their gold-wrapping, and on the contrary few high-quality US meat makes its way into the Malaysian market because of the 'Halal' requirement.
4. Labelling Law - The general trend is for labelling regulations to become more and more sophisticated in order to protect consumer interests.
5. Internal Obstacles - Many obstacles come from within. One common observation is that some US suppliers are not willing to get their hands messy in a market they are not too familiar with and to hold a more long-term view of the market. In our opinion, flexibility will always be the key to success in the ever-changing Asian market.

An Experiment Worth Continuing

GrandMart had begun as an experiment in Hong Kong. Today, this experiment is still going on in two directions. One, the platform has moved outside Hong Kong into Mainland China and Malaysia. Two, the search for new quality US products has not stopped. The genuine belief that the market for quality US products will be even larger in the next few years has perpetuated this commitment which includes finding 3 new stores in Hong Kong, 1 new one in Kuala Lumpur and another in Johore Bahru, Malaysia within the next 12 months.

GrandMart Warehouse Club, Hong Kong
Store Sales by Category, 1995

