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MARKETING FLORIDA CITRUS IN CHINA

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Marketing Florida Citrus in China

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Introduction

China is the world's most populous country with a population exceeding 1.2 billion people. It has achieved remarkable economic development in the past 23 years since the initiation of the Reform and Opening Up policy in 1978. The GDP increased 6.4 times during 1978-1999. The productivity in many industries has been greatly improved because of the transition from the old economic style and the introduction of market competition. The Chinese people's living standard continues to improve with the acceleration of economic growth. Per capita annual income, especially in the urban areas, has been increasing at an impressive rate. The favorable economic environment and continuous income growth of the Chinese people have encouraged many foreign exporters and investors to seek potential market opportunities in the Chinese market.

Ranked 3rd in the world, China's citrus output has grown at a rate of 10% annually from 1952 to 1997 and production reached 10.1 million tons in 1997. However, the domestic supply cannot meet the domestic demand due to China's limited production area, limited harvesting time, poor variety structure, less technologically advanced processing as well as lack of infrastructure. It is projected that there will be a supply shortage of citrus products in the Chinese market for the next 20 years, which creates an exciting opportunity for foreign citrus exporters.

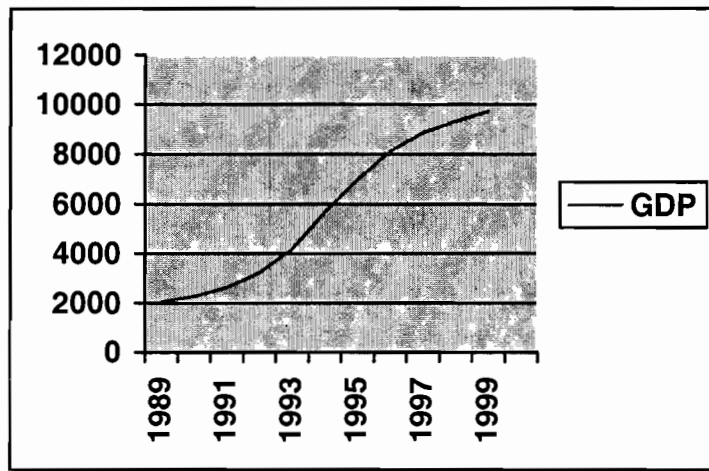
As one of the world's leading producers of citrus products, Florida has been the main domestic supplier of citrus in the U.S for the past 20 years. In addition to domestic market sales, Florida producers and exporters are also seeking new markets and China offers considerable potential. This paper will suggest overall marketing strategies for the Florida exporters. A SWOT analysis identifies the internal strengths and weaknesses of the Florida citrus industry and the external opportunities and threats of the Chinese citrus import market. Competitive strategies are recommended based on analysis of competitive advantage. Geographic and a demographic market segmentations of Florida citrus products in the Chinese market are discussed, which lead to recommendation for market positioning. Also, entry products are identified based on market analysis. Short-run and long-run distribution channels are recommended. Pricing strategy and suggested promotional activities in the Chinese market are discussed in detail at the final part of this report.

Overview of Chinese Economy and Citrus Industry

Chinese Economy Overview

China has implemented Reform and Opening-up policies since 1978 and in the past 23 years, it has made great achievements in economic construction and social development. Between 1993-1999, the annual average economic growth was 11%. In 1999, the gross domestic product (GDP) was \$989.79 billion; an increase of 6.4 times over 1978. GDP grew by 7.9% in the first half of 2001. **Exhibit 1** shows the China GDP growth from 1989 to 1999. It is predicted that China will become the world's largest economic center by the year 2020.

Exhibit 1: China GDP Growth from 1989-1999 (Unit: 100 million USD)



Source: China Council for the Promotion of International Trade

The economy is in transition, cautiously moving from Soviet-style central planning and gradually adopting market economy mechanisms and reducing government's role. Private business has been increasing dramatically in the past two decades and is playing a very important role in the Chinese economy today. State-or collective-owned enterprises are becoming more market-oriented and are making progress on increasing technological advancements and productivity. China is now among the world leaders in the production of some major industrial and agricultural products, such as coal, steel, grain, cotton and meat.

Since China initiated reforms and a more open economy, the focus of the state investment has been gradually shifted to eastern coastal areas. Most of the reform measures formulated since 1978 were tried out first in the eastern region. As a result, these regions have faster economic development than other regions. Furthermore, the eastern region has all the special economic zones, most open cities in China and more than 85% of foreign direct investment. Therefore, the eastern region has been the most developed area in China and has accounted for more than 50% of China's GDP. In contrast to the eastern coastal region, the level of the central and western region's economic development is relatively low. Its infrastructure is less developed particularly its transportation and telecommunications. However, the central government started to implement the "Development Strategy for the Central and Western region" at the end of the last decade and has invested heavily to improve local infrastructure and investment environment. A new set of preferential policies was introduced at end of 2000. Economic development of the Central and Western region will be one of the priorities of the Chinese government in the next decade.

Benefiting from fast international and domestic economic growth and domestic policies targeted to expand exports, China's foreign trade maintained high growth. In 2000, China's external trade surged by 31.5% to \$474.3 billion, ranked seventh in the global economy. Both exports and imports rose sharply by 27.8% and 35.8% to \$249.2 billion and \$225.1 billion, respectively. **Exhibit 2** demonstrates the growth of China's foreign trade from 1995 to 2000.

Exhibit 2: China Foreign Trade Growth (1995-2000) (Unit: USD billion)

	Imports	Exports
1995	132.1	148.8
1996	138.8	151.1
1997	142.4	182.7
1998	140.2	183.8
1999	165.8	194.9
2000	225.1	249.2

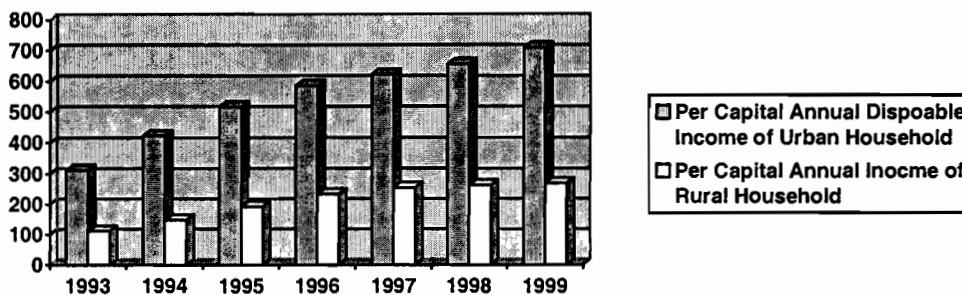
Source: Government Publication Beijing Review Vol.43 No.14, 2000

In 2000, China's top ten trading partners were Japan, the U.S, the EU, Hong Kong, the ASEAN (Association of South East Asian Nations), South Korea, Taiwan,

Australia, Russia and Canada. China's trade with these ten countries and regions amounted to \$405.5 billion, 86% of China's total external trade in 2000.

As the world's most populous country, China has a population exceeding 1.2 billion, which makes up 22% of the world total. The living standard of urban and rural households continues to improve. With the acceleration of economic growth, the government has implemented policies to raise the wages for the staff and workers in administrative units and institutional agencies. Thus, the income of urban households increased noticeably. Due to the low prices for most farm products and decline of grain output, the growth of farmers' income is relatively low. **Exhibit 3** shows the per capita annual income of urban and rural household from 1993-1999.

Exhibit 3: Per Capita Annual Income of Urban & Rural Household from 1993-1999 (Unit: USD)



Source: China Council for the Promotion of International Trade

Chinese Citrus Production

China's citrus acreage and output increased by a factor of 20 during the past 50 years. Total output rose from over 200,000 tons in 1952 to 10.1 million tons in 1997 with an average annual growth rate of 10%. At present, China citrus output ranks 3rd in the world behind Brazil and the U.S. It is also estimated that, if the weather is favorable, the annual output of citrus is expected to exceed 12 million tons in 2003. The fast production growth is based on 2 reasons:

1). Farmers are especially motivated by a set of government regulations regarding multi-channel management operations, free-market pricing, free-market buying and selling.

2). Growers are encouraged to learn advanced technologies to increase the yield and quality.

Citrus production is mainly scattered along the reaches of the Yangtze River and the south of the River valley. The statistics show that the citrus production of the top five producing provinces of Zhejiang, Fujian, Hunan, Sichuan and Guangxi was 7,429,821 tons in 1999, which is about 68.9% of the total. If Hubei and Guangdong are included, the seven provinces produce 9,259,414 tons of citrus, accounting for 85.8% of the total. Citrus production in these areas is based on small-scale household cropping. **Exhibit 4** highlights the main citrus production areas in China.

Exhibit 4: Map of China Citrus Production Area



Legend		
(9)= Zhejiang Province	(11)= Fujian Province	(17)=Hubei Province
(18)= Hunan Province	(19)=Guangdong Province	(20)=Guangxi Province
(22)= Sichuan Province		

Source: China Ministry of Agriculture

About 55% of the citrus are loose-skin mandarins, 30% sweet oranges, 10% pomeloes and 5% for others. The existing variety structure is not sufficient to satisfy the domestic demand.

Due to climatic conditions, citrus in China mature mostly from October to January and the peak season is from late October through December. So most domestic citrus products appear on the market during a period from October to March, which indicates a supply shortage exists in the citrus market for about 6 months.

The quality of Chinese citrus is good, but post-harvesting handling (graded, washed, waxed, color-added and packed in cartons) are rarely available throughout the country. It is not uncommon to find fresh citrus on the shelves of the supermarkets without being washed and properly packaged. Many fruits are simply packed in bamboo baskets and some are still in bulk. Lack of infrastructure and facilities such as transportation, storage and adequate refrigeration has hindered products being sold all over the country.

Chinese Citrus Export

Most of China's citrus products are sold domestically, only 2% of fresh fruit is exported. Export volume increased by a factor of three times from about 70,000 MT to 200,000 MT from 1985 to 2000, and the export value reached \$46.51 million in 2000. In terms of destination, 18.6% of total exports went to Hong Kong, 17.0% to Singapore, 15.2% to the Philippines, 13.3% to Malaysia, 10.7% to Vietnam, 4.0% to Indonesia, 8.5% to Russia and 11.2% to Canada. Exports to these countries and regions account for 98.3% of the total. (*Import & Export of China's Citrus Fruit and Its Products: Current Situation and Future Prospect-Xiuxin Deng*)

Chinese Citrus Import

China has steadily increased its imports of citrus. In 1999, China imported 29,685 MT citrus fruit, 80% were sweet oranges, 8.3% lemons, 5.3% grapefruit and 6.4% others. In 2000, import volume increased to 61,861 MT. The main origins are the U.S, New Zealand and Thailand, accounting for 96.5% of total imports. Furthermore, there has been

a sharp increase of imports from the U.S, which mainly resulted from the conclusion of Sino-USA Agriculture Agreement. The U.S has become China's main source of imported citrus. According to China Customs Statistics, China imports 24,293 MT of oranges from the U.S, which is 58% of the total orange import. Besides fresh citrus, orange juice is a major import commodity.

Foreign citrus in the Chinese market originates from two sources: one is the direct import from the foreign producers or the exporters; the other is indirect import from Hong Kong. Hong Kong has been a major entry point for a wide range of produce into China, given China's high tariffs and phytosanitary restrictions. **Exhibit 5** summarizes the direct and indirect citrus import volumes in 1999 and 2000.

Exhibit 5: China Citrus Import: 1999-2000 (unit: MT)

	Oranges	Lemons	Mandarins	Grapefruit	Total
<u>1999</u>					
Direct	23,640	2,481	1,968	1,573	29,662
HK Re-export	31,684	1,364	652	1,412	35,112
Total	55,324	3,845	2,620	2,985	64,774
<u>2000</u>					
Direct	46,205	3,989	3,876	2,365	56,425
HK Re-Export	26,230	1,650	318	1,587	29,785
Total	72,435	5,639	4,194	3,952	86,220

Note: 2000 Direct oranges: Jan-Oct, Others: Jan-Jul; HK Re-export: Jan-Sept
Source: China Customs, Hong Kong SAR Census and Statistics

China's citrus import pattern currently appears to be shifting. Official trade numbers in every major category were higher than Hong Kong re-exporting in 2000. The reason for this change probably was the citrus import agreement, which was part of World Trade Organization (WTO) accession accord between the United States and China and signed in 1999. Before this agreement, China restricted U.S and other countries' imports based on phytosanitary conditions, thus citrus imports had to use unofficial channels in order to enter the Chinese market. (*People's Republic of China Citrus Annual 2000-Foreign Agriculture Service, USDA*)

All fruit, including citrus products, imported must comply with the requirements of China. Phytosanitary certification is required for all citrus shipped into China. The products must be shipped in closed containers. Each container must be clearly labeled with the place of origin. Documentation needs to reflect the packinghouse and it will be checked at destination.

Currently, China's import tariff rate on all varieties of fresh citrus is 40%. In addition, importers must pay a Value Added Tax (VAT) of 13% on the total value of the fresh citrus after the import tariff has been included. The import tariff rate is slightly lower for citrus juice, which is 35%, but the VAT on orange juice is 17%. According to the U.S-China WTO accession agreement, China's tariff on fresh citrus should drop to 12% by the year 2004. VAT rates will remain unchanged.

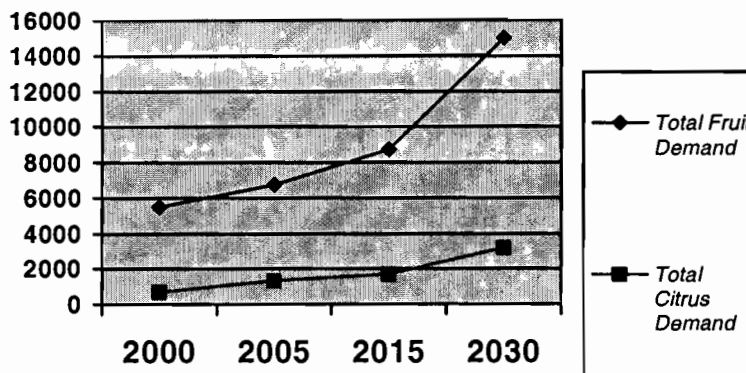
Chinese Citrus Consumption

Chinese consumers prefer fresh fruit. Over 90% of China's citrus crop is consumed fresh every year. Fresh fruit in China, including citrus, remains popular as a snack, gift and concluding dish at end of restaurant meals. Fresh fruit purchases remain sizeable and are expected to increase as the Chinese standard of living rises. Households with higher income buy more fresh fruit than those with lower incomes. In the past 15 years, China has experienced a rapid growth of fresh fruit consumption. According to statistics from the State Statistics Bureau, between 1985 and 1998, per capita consumption of fresh fruit swelled from 5.12 kg to 47.86 kg in urban area and from 2.0 kg to 19.24 kg in rural areas. Fresh fruit has become an important item in the Chinese daily diet. Fruit purchases as a percent of total food expenditures increased from 3.2% to 6.5% in urban areas and from 2.4% to 5.1% in rural areas during 1985-1998. (*China Statistical Yearbooks, 1985-2000*)

Citrus is one of the major fruits consumed in China and there has been a rapid increase of consumption of citrus products due to the residences' income growth and awareness of the health quality of citrus products. According to forecast (please see **Exhibit 6**), in 2005, 2015, 2030, the total demand of citrus consumption will be 13.15 million tons, 16.99 million tons and 25.65 million tons respectively. These estimates are based on a study of agricultural products' supply and demand conducted by the China

State Development and Planning Commission. The same study shows that after 2002, there will be supply shortages, which are 3.28 million tons, 3.73 million tons and 4.62 million tons in 2005, 2015 and 2030. The supply shortage creates a market opportunity for overseas citrus exporters.

Exhibit 6: Projection of Fruit Demand in China, 2005-2030 (unit: 10, 000ton)



Source: Strategy of China Agriculture Development in the early 21st Century

When domestic citrus is available in the market, consumers prefer to buy the domestic fruits because the price of the imported citrus is usually 100% higher. However, unlike domestic citrus, imported citrus is available throughout the entire year and is quite varied. More than 250 million Chinese have enough disposable income to afford imported fruit now. It is this “middle-class” that is changing the purchasing habits and consumption trends of the country. Besides, most Chinese prefer citrus with high juice content.

Similar to Europeans, the Chinese often go to the market to replenish the food supplies in order to buy fresh. Most of the Chinese go to the market by foot or on bike. For food storage, many households in rural areas still do not have refrigerators. Even though refrigerators are common in urban households, the electricity capacity is limited and the refrigeration unit is relatively small compared to Western standards. Most of the Chinese exhibit a “buy little, buy often” mentality. They buy fruits almost everyday with the other food purchases and consume shortly after they purchase it.

Long holidays and important festivals are the golden time in the citrus market: Labor Day (May); National Day (October); Mid-autumn Festival (September); New Year (January) and Spring Festival (January or February according to Lunar Calendar). It is a tradition that Chinese visit their relatives or friends during these holidays with some fresh fruit as an appropriate gift.

Florida Citrus in Current Chinese Market

On April 8, 1999, the U.S Trade Representative's office announced that an agreement had been reached with China to open its market to citrus from Florida as well as California, Texas and Arizona. This has been a piece of exciting news for Florida citrus producers and exporters. In March 2000, the first official shipment of three 40,000-pound containers of Florida citrus packed by DNE World Fruit Sales of Fort Pierce was sent to China. During 1999-2000, Indian River, St.Lucie, Martin, Palm Beach, Collier, Hendry and Lee counties were allowed to sell citrus in China according to the protocol certification and specific packaging requirements. Currently, the majority of Florida citrus mainly enters through the ports of Guangzhou and Shanghai. More than 80% goes through Guangzhou.

In 1999, the Florida Department of Agriculture and Consumer Service established an office in Beijing for the following purposes: (*Florida Department of Citrus: <http://www.floridajuice.com>*)

- To develop long-term relationships with the Chinese government for successful trade development.
- To work with Chinese government officials on the implementation of the trade agreement and to identify the distribution channels for Florida citrus products.
- To make Florida's citrus known to the local consumers, assist in trade education and serve as a liaison to establish contact with wholesalers and retailers.

Many promotions were carried out by the Florida Department of Agriculture and Consumers Services in China, such as multi-faceted media campaigns, trade seminars and product merchandising activities to familiarize the importers, wholesalers, retailers and foodservice operators with Florida products. The department is offering exporters a uniform logo for Florida citrus- the "Fresh From Florida" logo translated into Chinese in order to build the brand identity and loyalty among Chinese consumers. At present,

Florida citrus is appealing to many Chinese consumers because of its good taste and juiciness.

Research conducted by the Florida Department of Agriculture and Consumer Services and the Florida Department of Citrus indicates that China could ultimately represent Florida's largest overseas citrus market with up to 300 million potential consumers. According to industry estimates, the Chinese market for Florida grapefruit could rise as high as \$40 million in the coming years.

Competitive Analysis of Florida Citrus in the Chinese Market

In order to identify the growth opportunity of Florida citrus products in China, a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis will be carried out in this section, and a competitive analysis will be followed so as to gain insight into the nature of competition in the Chinese citrus market. Competitive strategies will then be recommended.

SWOT Analysis

SWOT analysis is used here to identify the growth opportunities for Florida citrus products in the Chinese market. Strengths and weaknesses are internal to the organization and relate to competitive position. Opportunities and threats are external and come from the market environment.

Strengths

Strengths are something that an organization or decision maker does well relative to the competition. The main strengths of the Florida citrus industry relative to the Chinese citrus market are:

- Florida is the world's leading producing region of grapefruit and second to Brazil in orange production. The citrus production advantage of Florida can provide sufficient supply to meet the demand of the Chinese market. According to estimates, there will be a domestic supply shortage in the next 10-15 years in China due to the increasing consumption of citrus products.
- Florida citrus products have a good taste and high juice content, which can satisfy Chinese consumer preferences. The local citrus tends to have less juice and more pulp and pales in comparison to juicer Florida citrus.

- The Florida citrus-producing season aligns with the time frame of China's yearly increase in market demand. China's growing season comes to an end in early or mid-January and China lacks of technology to extend the shelf life of locally produced citrus, but fruit consumption actually increases due to the biggest festival-Chinese New Year. Florida is at its peak and ready to meet the demands of the consumers at this point in time.
- Many growers and exporters in Florida have years of experience in marketing citrus products in the Japanese market, which have many similarities with the Chinese market, especially in packing, labeling, consumer purchasing habits and preferences. It will take exporters a shorter period of time to identify the characteristics of the Chinese market and determine the needs of the Chinese consumers.
- Realizing the great potential for the Florida citrus industry, the Florida Department of Agriculture and Consumers Services and the Florida Department of Citrus have organized seminars, helping producers and exporters learn how to capitalize on this huge new export opportunity. A wide range of topics was covered, such as Chinese culture and demographics, packaging and shipping requirements, phytosanitary certification, consumer preferences, trends and distribution channels. This will provide Florida citrus producers and exporters an advantage when making market decisions.

Weaknesses

Weaknesses are something an organization or decision maker does that put the Florida citrus industry at a disadvantage relative to the competition in the Chinese market.

- It has been only one year since Florida's citrus products made their first official entry into China, thus, solid and reliable distribution channels have not been established which could transfer to higher distribution costs. Higher distribution costs could lead to higher selling price for end consumers compared to other citrus products in the market.
- Many Florida producers and exporters lack experience and specific market knowledge about the Chinese market since it is a rather new market for them. This could affect optimization of market decisions.

Opportunities

Opportunities are events outside the control of Florida citrus exporters, which, if taken advantage of, could lead to an improvement in competitive position.

- China has restricted market access for U.S agricultural products for many years through various means. WTO accession negotiations concluded in November 1999 between the U.S and China resulted in a broad market opening for agricultural products once China becomes a WTO member. China's market opening commitment on S.P.S. (sanitary and phyto-sanitary) measures for wheat,

meats and citrus are specific to the U.S. "These agreements would provide opportunities to the U.S. producers to compete with other agricultural exporting WTO members for potentially larger shares of China's markets for agricultural products." According to Charles E Hanrahan, senior specialist in Agricultural Policy Resources, Science and Industry Division. (*Agriculture and China's Accession to the World Trade Organization*) Currently, there are only 4 states in U.S approved to export citrus to China. Florida is one of them.

- China will significantly reduce tariffs to an average of 17.5%, and as low as 12% for citrus products by January 2004. U.S agricultural producers will soon be allowed to export and distribute inside China without going through the Chinese state-trading enterprises or middlemen. A portion of distribution cost of imported citrus products can be eliminated, and the profit margin improved accordingly.
- China citrus harvest time is very centralized and it is hard to secure throughout the whole year due to domestic less developed processing technology, which creates a good opportunity for overseas citrus products. The supply shortage of domestic citrus products lasts almost 6 months.
- The total demand of citrus will increase enormously in the next decade due to the constant increase in Chinese consumers' income. According to estimates, per capita annual demand for citrus will increase from 5.0 kg in 1998 to 11.7 kg in 2015. In addition, there will be a supply shortage in the domestic citrus market in China.
- The "middle-class" consumer, which has been considered the major imported citrus consumption group, is growing rapidly in China. It is predicted that the middle-class could reach 445-580 million by the year 2005. This group mainly consists of private business owners, well-educated professionals or technicians. They are more adapted to Western styles and more willing to pay for higher-priced imported citrus.

Threats

Threats are events outside the control of Florida exporters, which, if not corrected could lead to a weakening in competitive position.

- The Chinese government is making great efforts in adjusting the citrus variety structure and producers are encouraged to use advanced technology to improve the quality of citrus. This will improve the competitiveness of the local citrus and take some market share from the imported citrus product by taking advantage of lower price since the processing, transportation and labor costs remain low in China.
- More citrus exporters will enter the Chinese market in the next 5 years trying to capture the market potential. Southeast Asian countries, Australia and New Zealand are the major exporters to China now. They have a significant price advantages due to lower transportation and labor costs, especially countries in Southeast Asia.
- Even though the U.S is the major citrus exporter to China, a large portion of imports comes from California through either direct or indirect channels.

California citrus products have remained the Chinese market for along time and have established product awareness and recognition among Chinese consumers. Many consumers would take “Sunkist” as the symbol of American citrus and “Sunkist” becomes their first choice when they purchase imported citrus.

- The longer shipping time from Florida to China (26-29 days) increases the shipping cost as well as the cost of maintaining the product appearance and quality. Florida shipping options include Miami and Port Canaveral. The U.S west coast has more avenues to ship to China, however, the additional cost of transporting Florida shipments to the west coast for departure to China further erodes the profit margin.

Strategic Initiatives

Florida’s large annual production of citrus products can be a sufficient supply resource for the growing demand of the Chinese market. Also, product recognition and brand loyalty can be established among Chinese consumers by reinforcing Florida citrus’ superior quality and high juice content.

However, lack of reliable distribution channels in China could be an obstacle for Florida exporters to make an aggressive move in the market at an early stage. If it is not improved in a short period of time, the market can be taken over by local citrus producers and other foreign exporters.

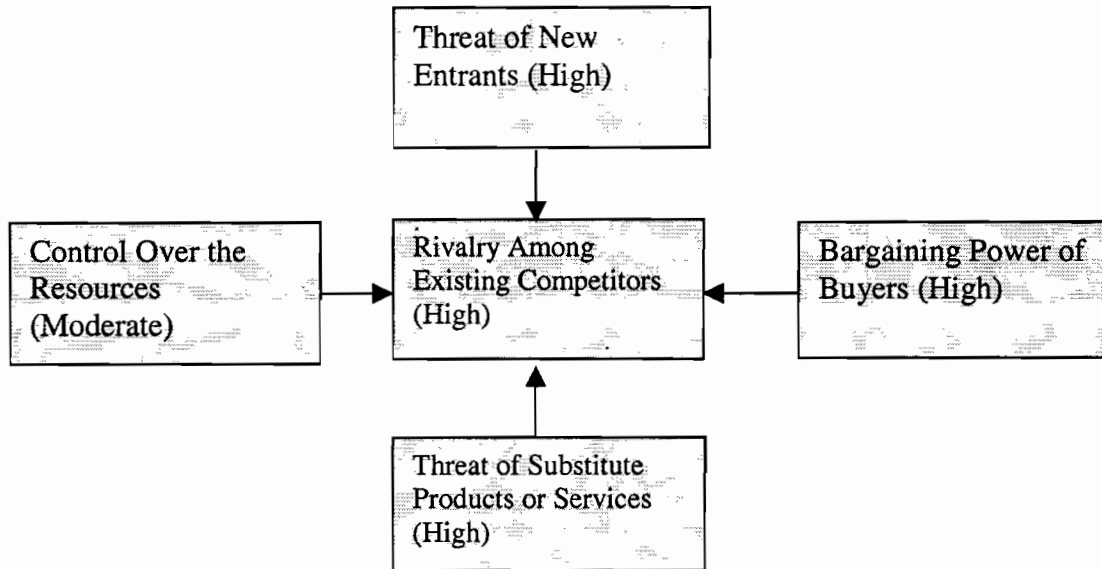
Competitive Analysis

Exporting Citrus to China is a very competitive business. Despite the potential, competition is intense. The following analysis may help the Florida citrus producers and exporters to identify competitive advantages and disadvantages, and thus allow for the greatest possible rate of return from the Chinese citrus market. The analysis will apply the Five Forces Model by Michael E. Porter of Harvard University—a leading theorist of competitive strategy (Please see **Exhibit 7**).

Threat of New Entrants—Many countries and regions with citrus production have decided to enter the Chinese citrus market, attracted by the increasing market size. By meeting the consumers’ needs, they gain certain market share. According to the Hong Kong Re-export Statistics from Hong Kong Department of Census, Chile, Ukraine, Malaysia and the Philippines have newly entered the Chinese market during 1999-2000.

These new entrants could push the prices of imported citrus downward in the Chinese market; resulting in reduced profitability for Florida exporters.

Exhibit 7: Forces Influencing Competition for Florida Citrus Exporters



Source: Adapted from Michael E. Porter, Competitive Strategy (New York: Free Press, 1980)

Threats of Substitute Products—Chinese consumers can easily switch to other fruits such as apples, if citrus products are priced too high. As a matter of fact, China consumes more apples than citrus; in 1998 the annual per capita demand of apples was 15.6 kg, which was 3 times as much as the demand of citrus products. In addition, given the diversity of the market, Chinese consumers have a wide selection from which to purchase.

Control Over Resources—Florida, one of the largest and best citrus producers in the world, has the capacity of providing sufficient citrus products to the Chinese market. However, unexpected weather conditions and diseases decrease production, and make it difficult for the Florida exporters to ship product to the Chinese market.

Bargaining Power of Buyers—Obviously, the citrus distributors, wholesalers and retailers in the Chinese market have a wide range of choices to select the products from

different foreign exporters. They will bargain for low prices to achieve the highest possible profits.

Rivalry Among Competitors—All foreign citrus exporters will make every effort they can to improve their citrus product images in the Chinese market, including price competition and advertising battles, as well as other promotional activities. Florida citrus exporters need to implement effective strategies to maintain the products' position and maintain the profit margins for the Chinese market.

Looking at the above competitive analysis, we can find that the considerable threat of new entrants into the Chinese citrus market, high bargaining power of the Chinese customers, moderate control over the resources as well as a significant threat of product substitution place considerable pressure on Florida citrus exporters' profit potentials. However, opportunities are still great, so competitive and market strategies need to be identified.

Recommended Competitive Strategies

Based on the above competitive analysis, specific activities need to be carried out by Florida citrus producers and exporters in order to create unique value for the Chinese consumers and maximize the possible rate of return.

Product differentiation—Florida exporters need to differentiate their products from competitors in order to establish product recognition and long-term gains. As mentioned previously, holidays are associated with increasing consumption of citrus products. Florida exporters can deliver unique special holiday citrus packages to the Chinese market with traditional greetings to friends, parents, families or co-workers etc. A logo showing the origin of the product, e.g. "Greetings from the U.S Sunshine State " and a fancy picture with shining colors will be very attractive to those consumers looking for holiday gift ideas.

Access Consumers in the Northern Area— Most imported citrus products go through the ports of Southern China, e.g. Guangzhou, Shanghai, Haikou etc. Southerners have a

wider range of selection and easier access to the imported citrus products based on the perception by many foreign exporters that consumers in the South have higher average income than those in the North. Many foreign exporters have ignored the market in Northern China. However, Northern cities such as Beijing and Dalian are cosmopolitan with increasing number of high-income consumers. If Florida exporters take advantage of entering the Northern cities before other competitors, product awareness and recognition can be established in a relatively shorter period of time. Currently, there is less competition for imported citrus products in Northern areas. Profits can be achieved by gaining a high market share. The approved ports of entry in Northern China are Tianjin, Dalian and Qingdao.

Market Strategies for Florida Citrus Products in the Chinese Market

In this section, overall market strategies for Florida citrus in the Chinese market will be discussed including market segmentation, market positioning, product entry, distribution channels, pricing, as well as promotional activities.

Market Segmentation

Successfulness to the Chinese citrus market can be achieved by meeting the needs of the various market segments.

Geographic Segmentation

Chinese have diverse purchasing and consumption habits based on their location. Florida exporters can start by reaching the consumers in those cities with the fastest economic growth and the highest income, or consumers of unique consumption habits. Shanghai, Chengdu, Guangzhou and Beijing are the four cities selected for first entry markets from East, West, South and North of China respectively.

Shanghai

Shanghai is the port city at the mouth of the Yangtze River and the gateway to Eastern China's 200 million consumers. Shanghai has approximately 13 million residents and is still expanding. It is probably the most international city of all the mainland

Chinese cities and the Shanghai people often set the dining, fashion, and lifestyle trends for China. Per capita income is higher in Shanghai than all other Chinese cities except Guangzhou and Shenzhen. In addition to Shanghai residents' selection of food products, places to shop are also well beyond the norm. According to a recent survey, about 11% of the Shanghai consumers shop regularly for groceries in supermarkets, the place where most of the imported citrus products are available. The number of Western style supermarkets in Shanghai is expanding rapidly. While the first supermarket opened in Shanghai in 1994, the total number of supermarkets rose to about 1000 in 2000. Bringing Florida citrus product to the shelves of these supermarkets is the best way to reach local Shanghai consumers. As the economic growth continues at a spectacular rate in Shanghai, Shanghai consumers will likely expand their buying preferences and potentially, citrus consumption.

Approaching the Shanghai market can also bring Florida citrus exporters long-term

benefits. By establishing reliable distribution channels and good contact with the local wholesalers and retailers, Florida citrus can further access markets in cities close to Shanghai such as Huangzhou and Suzhou. These cities combine to represent one of the fastest growing economies in China because of the large foreign direct investment.

Chengdu

Chengdu is a city with over 2000 years of history in West China. It also enjoys another name of "Land of Abundance". The lifestyle of the people in this city is quite unique. Unlike the majority of Chinese in other areas and cities, Chengdu people live with very low savings. They will spend most of their income on improving the quality of life, especially on high quality food. Chengdu people are known for their special interest in tasty food and their impressive skills in identifying good food. Western imported fruit is well received and considered a fashion there. With high quality and juicy taste, Florida citrus products can satisfy consumer preferences in Chengdu.

As mentioned previously, the Chinese government started to implement the "Development Strategy for Central and Western Region" in 2000 and has invested heavily to improve the local infrastructure and investment environment. Chengdu, the

center of science and technology, trade, finance as well as the leading hub of transportation and communication in Western China, will be a hot investment location for many foreign firms, which will bring potential economic growth in this area.

Guangzhou

Guangzhou is one of the first cities that opened to the outside world after the initiation of Reforms and Opening up policy in 1978. It has become one of the most developed cities in China and one of the major ports of entry for most of the foreign citrus exporters. The life style and consumption pattern of the local Guangzhou people are more westernized than most cities in China. Guangzhou people have the highest disposable income and they are usually less price sensitive, as long as the products are of superior quality. So it could be a market for Florida citrus exporters to pursue the highest possible rate of return in Chinese market.

Beijing

Beijing is the capital city of China and the most developed city in north China. Many well-educated professionals are attracted to work and live here. They are considered potential consumers of imported citrus due to their high income. Besides, employees of foreign embassies, representative offices and foreign companies are centralized in Beijing. This group of people represents an existing market for Florida citrus products, with minimum market promotional expense to establish product awareness and recognition among these consumers.

High Income Segment

China's economy has grown steadily at a rate of about 13% annually since the late 1980's. However, growth has not been uniform, incomes for the 300 million urban residents are growing much faster than those remaining 900 million living in the countryside. Even in the urban areas, income disparity is becoming larger and larger. A group of "middle-class" has appeared in the past decade. The "middle-class" usually has the following characteristics:

- Married with one child
- 36-45 years old

- Well-educated, most of them are college graduates and some of them have overseas degrees or learning experiences
- Professionals, such as engineers, business managers or private business owners

Currently, middle-class people are the major consumers of imported citrus products in the Chinese market. They are more willing to pay for the quality of the products and are usually the early adopters of the newly introduced products. Making them aware of the Florida's citrus products is essential for the Florida exporters. Their purchasing habits have strong influences on the other consumers in the market.

"Little Emperors" segment

China implemented a Family Planning policy in the late 1970's for the purpose of population control. In the past 20 years, a unique "Little Emperor" group has appeared in urban cities in China. The only child becomes the center of the whole family. Parents and grandparents will do everything they can to keep the child healthy and happy. It is quite common that over 50% of the family income goes to the only child.

By being exposed extensively to American culture, these young consumers have the similar desires, needs and fantasies as U.S teenagers and it is really "cool" for them to have some American products. Florida citrus exporters can fully exploit this country specific advantage to gain the market share of this group of consumers.

Florida Citrus Product Positioning

Positioning is the location of the products in the consumer's mind. Florida citrus products can be positioned as gift ideas, healthy daily consumption and a symbol of fashion.

Gift Ideas

Five times every year, the Chinese people focus for a short period on one of the things they do best: giving gifts. Based on tradition that goes back hundreds of years, social and business etiquette requires that each person give gifts to family members, friends, co-workers and particularly business relations as a sign of appreciation for help and guidance received. The main holidays in China are listed as follows:

New Year-- It is the first day of January, people usually have one day off for this holiday. Many young Chinese go out for parties with friends. Having a good meal at a restaurant and send gifts to each other are quite common.

Spring Festival (Chinese New Year)--It is sometime in January or February depending on the Chinese Lunar Calendar. It is the most important holiday for the Chinese people. Most of the Chinese have 15 days off for this holiday and they will visit their parents, brothers or sisters as well as other relatives during this time. Family members will buy good food beyond the norm to treat guests. Guests often buy gifts. Those gifts that are healthy with pretty packages will become their first choice. A healthy and happy gift represents the best wishes for family members.

Labor Day--May 1st to 7th. Many families will go to the parks or some attractions. At the same time, people will visit their friends or co-workers with some gifts. They will usually select the gifts that look “big” and in fashion.

Mid-Autumn Festival--It is sometime during September or early October according to Chinese Lunar Calendar. It is considered a holiday for family gatherings. Like Spring Festival, gift buyers welcome gifts that are healthy and good for the family’s daily consumption.

National Day--October 1st to 7th. Like Labor Day, lots of Chinese usually have big budget for gift expenses. They usually visit co-workers or close friends with gifts during this time.

The holiday economy has been booming in recent years and the domestic demand for good quality food and holiday gifts are increasing. Florida citrus exporters can position their citrus products as a gift idea during the holiday seasons. Fresh citrus can be made into gift packages with various sizes. Greeting cards with different greetings according to tradition can also be attached to the package. In addition, Florida citrus exporters can also make a small label indicating the origin of the citrus and a brief introduction of Florida citrus products on the package, which can be an effective way to establish consumer recognition and loyalty to the products. Citrus packages will likely become one of the hottest choices since the buyers will feel proud when purchasing a package of fresh imported citrus and send it to family members or friends. Therefore, gift

citrus packages can be sold for a higher price during the holiday season when the domestic citrus supply is limited.

Healthy Daily Consumption

Chinese consumers are health conscious and many people in urban cities have the habit of eating at least one or two kinds of fruit each day due to the fact that fruit is fat and cholesterol free, high in fiber and vitamins. Most of the population realizes the benefits of eating citrus products and they select citrus as a solution for their healthy diet. Florida citrus exporters can aim at those middle-class consumers in urban cities as the first adopters of their products. Family packages for 3 or 4 people's daily consumption can be provided at supermarkets or retail chain stores. The package needs to be easy to carry since most of the Chinese buy daily food on bike or by foot. To sell in relatively low price and high volume instead of high price is a way to succeed.

A Symbol of Fashion

Generally, most Chinese people would view U.S products as superior in quality and a leader of fashion. Many consumers make buying decisions by following the trend and fashion, especially, the young professionals with high incomes and teenagers. They are usually willing to pay higher price to buy "A symbol of fashion". Florida citrus exporters can tie this to the product package design and promotional activities when facing this group of consumers in order to fully use the advantages of specific country image and satisfy the special demands of this particular consumer group.

Recommended Citrus Products for the Chinese Market

The ultimate profitability of Florida citrus exports to China depends on the products offerings. Finding out the real needs and wants of the Chinese consumers and identifying the products to meet their demand will help the exporters to achieve long-term gains. It is recommended that fresh grapefruit, navel oranges and orange juice be the products introduced to the Chinese market at early stage.

Grapefruit

It is known to many U.S exporters that Chinese consumers do not like the taste of grapefruit. However, more and more Chinese are beginning to change their preferences by realizing the rich content of Vitamin C in grapefruit and the possibility of reducing heart-disease. In many big urban cities, it has become a fashion to send a basket of fresh imported grapefruit to friends as a gift. According to China Customs Statistics, China imported 12 MT grapefruit from U.S during 1998-1999 and the volume increased to 479 MT during October 1999 to August 2000.

China will be a new market for Florida grapefruit producers while the per capita consumption of fresh grapefruit in the U.S is declining. A taste test conducted by COFCO Corporation among Chinese school children in Beijing showed a clear preference for the juicier taste of “Western fruit”, more specifically, Florida grapefruit. The market size and consumer preference provide the Florida exporters a great advantage in realizing market share and profit margins in the Chinese grapefruit market. Besides, the successful promotion of grapefruit in Japan by the Florida Department of Citrus gave many exporters valuable experiences, which can be used in the Chinese market.

Navel Oranges

Chinese consumers prefer sweet and juicy fruit. Imported navel oranges are preferred by the consumers with the impression that imported navel has shining skin and better taste. Florida exporters can put the navel oranges on the shelves of supermarkets and retail chain stores for the daily consumption of those “middle-class” consumers. Relatively large selling volume is expected for this product.

Orange Juice

Although the citrus production in China increased at an average annual rate of 10% during the past 20 years, the citrus processing industry did not record parallel growth. At present, annual processing of citrus accounts for only 5% of total citrus production in China, including 10,000 tons of citrus juice. The main reasons for low citrus juice supply are: (1) insufficient raw material, nearly 60% of the total production is loose mandarin. This type of citrus is not a good source for making juice; (2) less developed technology and poor quality. Many processing plants do not have advanced

processing facilities and they often buy cheap off-grade citrus with poor quality in order to reduce the production cost.

Despite the supply shortage and poor quality of domestic citrus juice, the demand is increasing dramatically. It is estimated that the annual per capita consumption of orange juice will rise from 0.1 kg to 2-3 kg and the total annual consumption will reach 2-3 million tons. So orange juice is expected to be a major import commodity among the imported citrus products.

Attracted by the superior quality of U.S orange juice, China imported about 1,871 MT frozen and not-from-concentrate orange juice during 1998 –1999. It is no doubt a great opportunity for Florida citrus exporters. Orange Juice can be a product that penetrates the China citrus market since the Chinese consumers can easily accept it as a gift idea during the holidays, part of the breakfast for “ little emperors” or a healthy drink solution for customers who eat at restaurants.

Distribution Channels for Florida Citrus in the Chinese Market

Distribution channels link exporters to consumers. The key to success for Florida citrus exporters is to establish effective and reliable distribution channels with Chinese trade partners based on mutual trust and mutual benefits. Main distribution channels are suggested below for the short- run and long- run.

Short-run Channels

Trade Companies: Generally, foreign companies are not permitted to directly engage in trading in China, with the exception of the direct marketing of a portion of the products manufactured in China, or the establishment of wholly owned foreign trading companies in some free trade zones with limited access to markets outside these zones. So, Florida citrus exporters need to use domestic agents for both importing into China and marketing within China. Only those trading companies authorized by the central government to handle exports and imports are permitted to sign import and export contracts. Establishing initial contact with these trading companies is the first step to entering the market.

Exporters also need to have careful selection, training and constant contact with the trading companies. The role of the Chinese partner in the success or failure of marketing Florida citrus product in China cannot be over-emphasized. A good partner will have the connections to overcome obstructive bureaucrats and provide faster payments upon the shipment from exporters. Given transportation and communication difficulties, as well as regional peculiarities, most of the trading companies cannot provide diversified coverage throughout China. According to the geographic segmentation of the market mentioned previously, Florida citrus exporters can find a trading company in Shanghai, Chengdu, Guangzhou and Beijing. To reach these cities, the products enter through the port of Shanghai, Guangzhou and Tianjin.

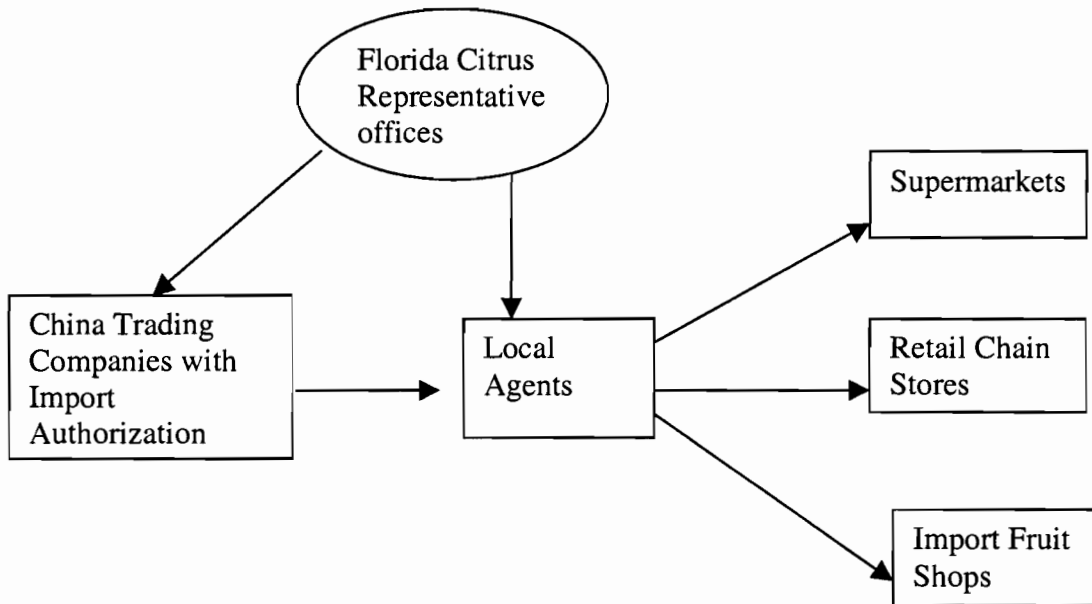
Local Agents: Local agents usually handle internal distribution and marketing. They are the next layer down the distribution chain, buying imported products from those trading companies with import authorization. They may be representatives of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional networks. Florida exporters can engage several agents to cover different areas of the country due to China's size and diversity.

Retailers: Retailers have direct contact with the consumers. Establishing direct contact with the retailers will help the Florida citrus exporters achieve the first-hand information about consumers' real needs and consumption patterns. Supermarkets, retail chain stores and imported fruit stores are the main buyers of imported fruits due to the relatively high price. Western style supermarkets and retail chain stores are increasing rapidly in China, especially in big cities like Shanghai, Beijing and Guangzhou since more and more Chinese consumers are looking for convenience in their food purchases. Supermarkets have the largest refrigerated space and usually 2/3 of freezer space is devoted to imported food. On the other hand, privately owned small import fruit shops are the places many consumers would go for gift ideas during holidays. These shops are usually located in downtown areas or high-income residential areas.

Representative Office: This is the easiest type of office for foreign firms to set up in China. They are limited by Chinese law to perform "liaison" activities. However, it would be a great advantage for Florida exporters to have representative offices in each major market so that the exporters can have a direct control over the marketing activities,

monitor the sales and help the agent to carry out the promotional activities. **Exhibit 8** demonstrates the short run distribution channels:

Exhibit 8: Short-run Distribution Channels for Florida Citrus Products in China



Long-run Channels

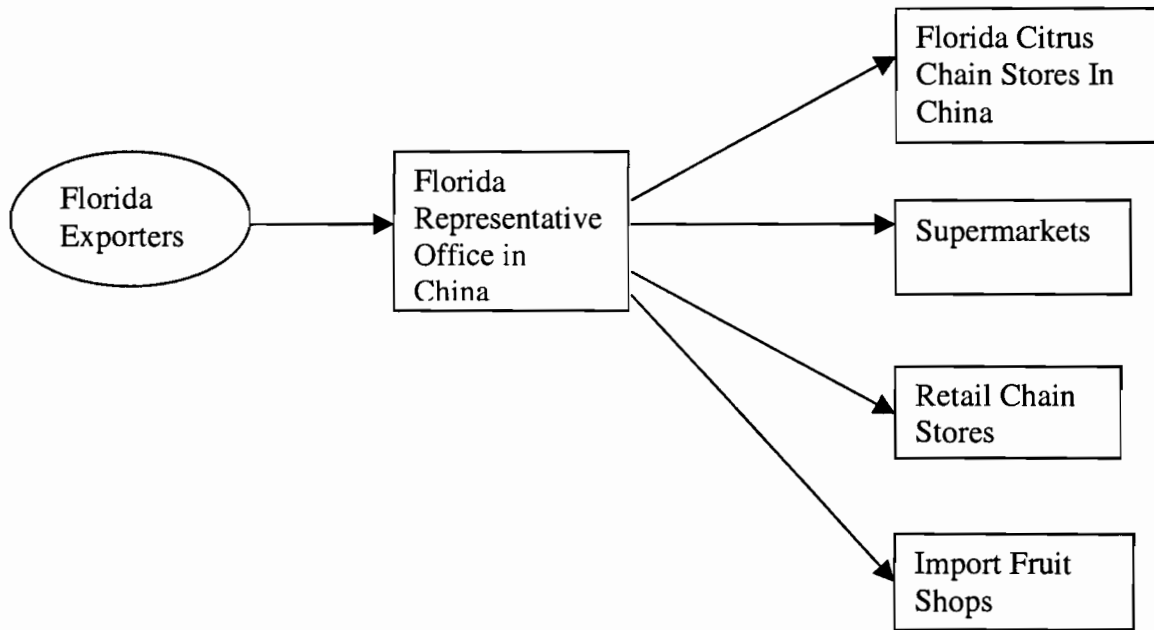
In the coming five years, U.S agricultural products will be allowed to export and distribute directly in China without going through the Chinese State-trading enterprises or middlemen. By that time, Florida citrus exporters can market citrus products directly in the Chinese market. By eliminating part of the distribution fee, the competitiveness of the products in the Chinese market will be improved. A Florida Citrus Chain store with standardized label and similar image can be established in major cities in China. Or the exporters can provide the products directly to the local retailers including supermarkets, retail chain stores, and imported fruit shops. **Exhibit 9** demonstrates the long-run distribution channels:

Product Pricing

Good pricing strategy is essential to Florida citrus exporters to provide value for Chinese consumers, enhance product image, and maintain price stability in the market as

well as to achieve the overall goal of maximizing return. Premier pricing and direct pricing are the strategies that would be recommended.

Exhibit 9: Long-run Distribution Channels for Florida Citrus Products in China



Premier Pricing

This strategy is used for citrus gift package available during the Chinese holiday seasons. Due to the high expenditures on holiday gifts in China, consumers are willing to pay a premium price for a high value gift. Florida exporters can set a relatively high price for their citrus gift packages to reinforce customers' perceptions of high product value and maximize revenue on limited volume.

Direct Pricing

Generally, citrus exporters can add up all the costs required to get the products to final Chinese market, including handling fees, transportation fees, duties, distributor margins, taxes etc. This mainly aims at "middle-class" consumers who purchase citrus for daily consumption. Bundling the products of 3 or 4 into a family package for daily consumptions or buy two, get one free sales can also be used in supermarkets. High volumes of sales are expected by using this strategy.

It is also important for Florida citrus exporters to know the prices of the competitors in the market, so exporters will be able to compare the prices with similar products. **Exhibit 10** shows the local retail prices of citrus products of different origins in Carrefour supermarkets in Wuhan, China. It can be a reference for Florida exporters when setting market price.

Exhibit 10: Retail Price of Citrus Products in Wuhan, China

Product Name and Category	Product Origin	Price
Dole Orange Juice	Joint Venture-Guangdong and U.S	\$1.56/500L
Huiyuan Orange Juice	Beijing Huiyuan Food & Beverage Co.,Ltd	\$2.03/2L
Great Lakes	Tianjin	\$3.60/2L
Parmalat Orange Juice	Joint Venture-Tianjin and Italy	\$1.17/L
Fresh Grapefruit	U.S.A	\$1.31/500g
Fresh Grapefruit	Thailand	\$1.21/500g
Fresh Grapefruit	Taiwan	\$2.30/500g

Source: Carrefour Supermarket-Wuhan, China, June, 2001

Promotion Strategy

The purpose of promotional activities is to deliver the benefits and values to the Chinese consumers and to establish product recognition. According to the experiences of some U.S companies that have been quite successful in China, localizing the promotional activities based on specific social and culture environment is considered more effective. Some promotional activities are suggested below:

Trade Shows

Hundreds of trade shows and exhibitions are held annually in China. Most are sponsored or co-sponsored by government agencies or professional organizations. Participation costs are usually high but it is a good business practice for Florida citrus exporters to attend, especially those exhibitions specialized at imported agricultural

products. Many domestic trading companies, agents and retailers usually attempt to find overseas partners at the exhibitions.

Supermarket Promotions

Florida exporters can also carry out supermarket promotions in major supermarkets. For example, in return for the purchase of grapefruit, consumers receive a free Chinese language booklet featuring grapefruit in quick, healthy meal ideas, or sending a Disney cartoon picture for free when the teenagers purchase a box of orange juice. The more they buy, the more different pictures they get.

Newspaper or TV advertisement

Newspaper and TV advertisements are the traditional ways to create product awareness among potential consumers and are still very effective with Chinese consumers. Advertising in a local newspaper can help the Florida exporters to reach the local market quickly. The cost is usually low. For example, it costs only about \$400 for a 13x8 cm advertisement on the most popular newspaper-Changjiang Daily in Wuhan, which can reach about four million readers in the city every day.

It is also worthwhile to buy few minutes of TV advertisement at the end of popular T.V programs. A popular TV program in China can reach an incredible number of potential consumers, as an example, there are 800 million people watching the special New year program broadcast by Central China Television at the Chinese New Year Eve every year.

Conclusion

China has the potential to become a world economic center in the coming years and will have a significant demand for imported citrus products due to the constant improvement of the Chinese people's living standards. This market can provide Florida citrus producers with opportunities to significantly increase citrus export sales to the world's most populous country.

In the analysis presented in this paper, it has been suggested that Florida citrus productivity, quality and processing technology can yield competitive advantages for Florida citrus producers and exporters in the Chinese market. By implementing the

proper strategies including market segmentation, positioning, distribution, pricing as well as promotion, Florida citrus producers and exporters will benefit substantially from this fast growing market.

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