Who Is Feeding China?
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Takeaways

- China will continue to be an export opportunity
- Chinese consumers are increasingly affluent, favoring high value and premium products
- Effective marketing is a prerequisite for market success
- Marketing dollars and policy efforts need to be aligned
China is Increasingly Hungry

China WTO Accession

$27.5 Billion

Net Imports

China's Agriculture Exports

China's Agriculture Imports
Income Demographics

Spending power is on the rise

Share of Chinese urban households, \(^1\) %

- 1985: 99.3
- 1995: 92.9
- 2005: 77.3
- 2015\(^2\): 49.7
- 2025\(^2\): 19.8

100%, millions of urban households

Share of total urban disposable income, \(^1\) %

- 1985: 95.2
- 1995: 78.4
- 2005: 50.5
- 2015\(^2\): 38.6
- 2025\(^2\): 26.0

100%, billion renminbi

Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis
Income Demographics

- **Upper middle income:** Over 100,000 people
  - Research estimates approximately 20 percent of urban population
  - Thirty percent in 2015: ~ 180,000
  - Seventy percent in 2025 ~ 400,000

- **Consumer Purchasing Power**
  - Earning more than 40,000 RMB/year
  - PPP equivalent of $6000/year (2008 WB)

Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis
Expenditures: Food

- Top expenditures by category
  - Food
  - Housing
  - Education
  - Transportation
  - Health Care
- Food Expenditures will remain the top 5 growth areas

Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis
Research Program

- Food at home
  - Traditional approach
  - Tracked product and value

- Food away from home
  - Tracked every meal
  - Converted each meal to commodity equivalent
  - Ingredients tracked for over 10,000 menu items
  - Food value away from home limited to aggregate numbers
Research Commodities

- Grains and Products
- Meat and Products
- Seafood and Products
- Eggs and Products
- Diary Products
- Vegetables and Products
- Fruit and Products
- Drinks
- Bean Products
Research Categories

- Substantive Issues
  - Traceability
  - Biotechnology
  - Food Safety

- Demographics
  - Family Size
  - Household workers
  - Children
Where Food is Consumed

The chart illustrates the percentage of food consumed away from home versus at home across various categories:

- Train/G-products
- Meat/M-products
- Eggs/E-products
- Seafood/S-products
- Vegetables/V-products
- Fruit/F-products
- Dairy Products
- Drinks
- Bean Products

The chart shows a significant portion of food is consumed at home, with only a small percentage consumed away from home in each category.
Food Consumed at Home

- Food consumed away from home is higher than previously reported and increases with income
- Meat and seafood are consumed in particularly high quantities
- Dairy and fruit are consumed principally at home
Food at Home: Purchasing Decisions
Food at Home: Key Factors

- Safety dominates at home purchasing decisions
  - Produce: Principally purchased at wet markets where freshness is a proxy for safety
  - Meat: Principally purchased at supermarkets where the retailer's reputation is a proxy for safety
  - Packaged Products: Brand name and brand reputation is increasingly a proxy for safety

- Price is also a factor
  - Among higher income groups, higher price is an indication of higher quality
Implications for Exports

- Market your country of origin
  - Food quality
  - Food culture
  - Food safety infrastructure

- Market your brand
  - Sell a lifestyle concept
  - Differentiate your product
  - Sell a premium product
  - DON’T Compete on price
  - DO protect your intellectual property

- Get your distribution channel right
Food Away from Home: Convergence of Consumption

- Overall increase in food expenditures by all categories of consumers

- Increase in the absolute number of upper middle consumers
Food Away from Home: Trends

- Food service industry is projected to be larger than the U.S. by 2012
- Upper middle income consumers spend two to three times the national average on food away from home
- Restaurants represent almost 50 percent of food away from home expenditures
- Fast food outlets account for 25 percent
Food Away from Home: Average Expenditures

Source: National Bureau of Statistics of China
Food Service Growth

Source: Global Insight
Food Away From Home: Finding Your Consumers

"Second Tier (2009)"  "First Tier (2007)"

- Bottom 20%
- Second 20%
- Middle 20%
- Fourth 20%
- Top 20%
Food Away from Home: Where Your Consumers Eat

- Restaurant
- Fastfood
- Cafeteria
- Other

What it Means

- Overall higher per capita incomes will raise quantity of food consumed, especially high quality protein and premium products

- Increased high income earners will increase total expenditures on higher value foods and beverages
Implications for Exports

- Get your distribution channel right – critical in the food service sector
- Develop service strategy to help end users
  - Make your product “easy to use”
  - Provide a “profit model” for them
- Market your brand
  - Sell a lifestyle concept
  - Differentiate your product
  - Sell a premium product
  - DON’T Compete on price
  - DO protect your intellectual property
Parsing the Data

- Pork consumption increases as incomes increase
- Grain consumption declines as incomes increase
  - This does not mean grain-related consumption decline
  - This does mean consumption moves up the value chain
- Willingness to pay for traceable food products increases as incomes increase
- Concerns about biotechnology in food
Pork Consumption

Kg/yr

Bottom 20%  Second 20%  Middle 20%  Fourth 20%  Top 20%

At Home  Away from Home
Grain Consumption

- Bottom 20%
- Second 20%
- Middle 20%
- Fourth 20%
- Top 20%

- At Home
- Away from Home

kg/yr
Traceability: Consumer Education Ups Willingness to Pay

- Pork: 49.0 vs. 85.4
- Milk: 29.4 vs. 56.2
- Edible Oil: 36.0 vs. 61.5

No information provided vs. Information provided
Consumer Awareness Improved

Awareness of Biotechnology

Awareness of Biotech Soy Oil
Attitudes Increasingly Negative

Overall Attitude Towards Biotechnology

Stated Willingness to Buy Biotech Rice
Threats

- Third Country Competitors
  - European marketers are outspending the competition
  - Australia, New Zealand, Japan, Korea have close, ready access
  - Chile, Argentina, South Africa are capitalizing on new market opportunities
  - ASEAN FTA has created a tariff-free zone
- Domestic competition has home court advantage and is increasing quality
- China has a special policy focus for the U.S. and is trading off agriculture for other sectors
Conclusions

- China’s overall growth will continue to make it an export opportunity
- Chinese consumers are increasingly affluent, favoring high value and premium products
- Effective marketing is a prerequisite for market success
- Marketing dollars and policy efforts need to be aligned
Research Partners

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Thank You

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