WHEN EAST MEETS WEST

Canadian exporters hoping to cash in on the Chinese market must start slow for long-term success • BY DOUG BURN

China has incredible potential as a market for Canadian foods and beverages. But anyone imagining quick success will be disappointed. Current opportunities arise from two developments: In 2001, China joined the World Trade Organization and began lowering its trade barriers. At the same time, rapidly rising incomes in China began making foreign consumer goods more affordable for Chinese consumers. Thirteen years ago Chinese incomes were on a par with those of Kenya and Pakistan. Today, they match those of Lebanon and Venezuela. At current growth rates Chinese incomes in 2010 will be equal to current incomes in Mexico and Russia.

Despite the lessening of trade barriers, exporters to China still face numerous challenges. Aside from the significant costs of transportation, logistics and distribution, exporters must compete with domestic competitors offering much lower costs in a market where consumers are acutely price sensitive. A 2004 KPMG survey found that nearly a quarter of the 136 executives surveyed agreed they had over-estimated the potential of the Chinese market. Yet although 30 per cent of the respondents reported losses on their Chinese operations, 93 per cent expected to be profitable in the next five years. Alfred Lau, the Vancouver-based national leader of KPMG's China practice, explains: "Be prepared to make a long-term commitment. Our survey last year showed that those that take a trial-and-error approach do make it."

St. John's, Nfld.-based Fishery Products International and Canada's other major Canadian seafood companies entered

the Chinese market in the late 1990s. As cod and other species were in short supply, they purchased seafood from Russia and other fishing nations for processing in their East Coast plants. But the high cost of purchasing and processing made them increasingly uncompetitive in world markets. Instead they contracted plants located in the Bo Hai Sea ports of Dalian, Qingdao and Tianjin in northeastern China to process snow crabs and other seafood to their specifications primarily for re-export to Japan.

"There is considerable growth potential for coldwater shrimp in the Chinese market, but currently these are sold frozen without further processing under our FPI Ice Shrimp brand to major markets such as Guangzhou, Beijing and Shanghai," says Randy Bishop, FPI's vice-president of International Sales and Marketing. Looking ahead, Bishop sees potential for value-added products. "It would be a great leap for us to cook and shell them and sell the shrimp meat. That would be a tremendous opportunity," he says. "That will come eventually as tariffs come down and consumption patterns evolve."

Lethbridge, Alta.-based Canbra Foods Ltd. also entered the Chinese market in the late '90s, and today its margarines can be seen on Chinese retail shelves and in kitchens of the country's leading hotel chains, while its Canola Harvest branded canola oil will soon be introduced to the retail market. Gerry Skura, manager of International Markets, is targeting the health- and quality-conscious market based on the superior cooking and health benefits of refined canola oil. Canola oil is also very versatile, and can be used in salads, marinade, frying or baking. Because Canbra's oils and margarines cost more than the domestically produced and widely used rapeseed oils that most Chinese consumers use for

THINKING OF TAKING THE LEAP?

Barriers to exports began falling when China joined the World Trade Organization in 2001. Those opportunities surged in December 2004 when China lifted restrictions on foreign-owned wholesalers, distributors and retailers. This means that western retailers can now implement their high-efficient distribution infrastructures and logistics to greatly simplify the movement of imported products to store shelves.

Exporters initially focus on Shanghai and Beijing, the most populous, affluent and geographically accessible urban markets, with a combined population of 30 million people. They soon expand into other major centres. CTR Market Research, China's leading market research company, identifies Beijing and Shanghai, as well Guangzhao (in the south) and Chengdu (1,350 km inland from Shanghai), as Tier 1 cities in terms of population and income levels. CTR also classifies six other cities, with a combined population of 40 million, as Tier 2, with incomes above the national average but 25 per cent below those of the Tier 1 centres. The middle class, identified as consumers having US$18,000 to US$36,000 in assets, is the most sought after consumer demographic. Almost half of urban households in China are classified as middle class.

The preferred retail market channels in China are supermarkets, hypermarkets and warehouse clubs, particularly those operated by multinationals such as Wal-Mart and France's Carrefour. In the foodservice channel the prime prospects are the major hotel chains as well as multinational restaurant chains such as KFC and McDonald's. Consumer trends favour processed foods offering greater convenience, variety, healthier choices and higher quality. In a report released in September, the Foreign Agricultural Service of the USDA identified dairy products, baby foods, oils and fats, meats, poultry and seafood as the fastest-growing categories in Chinese food consumption.

Jump-start your entry into the Chinese market by researching your product category via Agriculture and Agri-Food Canada's (AAFC) Agri-Food Trade Service, and export-oriented industry associations. Joining a trade mission to China will help you save money on travel and accommodation, while allowing you to learn from the experiences of other participants. Trade shows are also a good option, but allow time to visit supermarkets that stock goods in your product category. And remember to check in with the AAFC's trade specialists at the nearest Canadian embassy or consulate to discuss your plans.

You will also need a local representative in China. Bill Coleman, a 35-year veteran of Canada-China trade, recommends the following selection criteria upon which to make a choice: What are your prospective partners' assets in distribution and marketing? Can they work within your budget? Are their relationships applicable to your products and regions of interest? Do they have the ability and drive to follow through? Coleman, president of West Vancouver-based Coleman Associates Consulting Limited (CACL), notes that it can take up to five years to become firmly established in China, so find a partner you can work with over the long term. CACL represents two-dozen Canadian food and beverage clients exporting to Asia.

cooking, educating customers has also been an essential marketing tool.

Skura is now focusing on further development in the hotel, restaurant and institutional markets. "Many of the chefs at Beijing and Shanghai hotels were trained in Europe or North America and are familiar with canola oil," he says. "They want the high smoke point and neutral flavour of canola oil, and are less price sensitive. We'd need 12,000 consumers to purchase a container-load of our 32-oz. bottles of oil, but orders from just three hotels would take an equivalent amount in our 35-lb Jug-In-Box [of either 100 per cent pure canola oil or creamy, pourable shortening that is partly hydrogenated]."

Biscuits Leclerc Ltd.'s export strategy in its overseas markets is targeted to the growing appetite for snack foods in general, and for its granola, fruit and cereal bars in particular. Exports to the U.S. and overseas markets now account for 40 per cent of the St-Augustin-de-Desmaures, Que.-based biscuit maker's $210 million in annual sales. The company entered the Chinese market a year ago after participating in the Food and Hotel China Show in Shanghai. According to Julie Therrien, Biscuit Leclerc's Vancouver-based export manager, China is a particularly tough market due to the presence of multinational brands produced in China at much lower costs. To offset this competition, Therrien is considering the option of producing in China directly or in partnership with local biscuit makers. She is also planning to modify Biscuit Leclerc's recipes to accommodate local tastes.

Canadian Iceberg Vodka won't be modifying the recipe of its award-winning vodka when it enters the Chinese market in May 2006. Vodka made from harvested icebergs and triple distilled natural grain spirits – made from Ontario-grown sweet corn – is its primary advantage in markets such as China, where me-too products proliferate at cheaper prices. "Most vodka is made with neutral grain spirits and treated water, so why bring in an imported vodka unless it is truly unique?" says president and CEO David Sacks. "Competing on price simply isn't an option because the cost of shipping container loads by ship adds $7 to the $18 price of a case." In any event, premium prices shouldn't be a major obstacle in this case, as Sacks is targeting the wealthiest Chinese consumers. "Two and a half per cent of the population is classified as wealthy, and that amounts to 30 million people, or the same population as Canada," he says.

Producers still pondering the Chinese market are looking

Canada's Exports of Food and Beverages to China (by sector)

Sector	Exports 2004 $ Millions	Change from 2000 Per cent
Seafood Preparation	$318.7	162%
Grain and Oilseed Milling	$170.0	43%
Meat Manufacturing	$159.2	36%
All Others	$46.1	104%
Total	**$691.3**	**83%**

Source: Statistics Canada, NAICS classifications

Canadian goods line the shelves in a Hong Kong supermarket.

to government for information on taking that first step towards exporting. The federal and provincial governments now offer a wealth of information and assistance to food and beverage manufacturers seeking to expand their sales to China. Canada's Agri-Food Trade Service (ATS) is the lead agency in these efforts, providing centralized access to market information, trade counselling and export activities, which take the exporter from initial enquiry to foreign market.

In August ATS rolled out "How to Conduct Business in China," a series of seminars for food and beverage companies seeking to capitalize on the Chinese market. Anita Lum, marketing and trade officer for China at Agriculture and Agri-Food Canada's Edmonton branch, noted that participants at the Alberta seminars arrived with "lots of questions. Many felt overwhelmed by the challenges," she said, "but in the evaluation reports filled out after the seminars 90 per cent said they would be increasing their activities in China." The series will be repeated in other regions throughout the fourth quarter.

Blair Gowan, national co-ordinator of the series and senior international market development officer (China) for Agriculture and Agri-Food Canada, strongly recommends prospective exporters visit the ATS website for news, analysis, market information, trade statistics, market access, export assistance and trade events. The site, http://ats-sea.agr.ca, also links to ATS regional offices, trade and agri-food related federal and provincial departments, and a range of industry associations offering assistance.

As incomes rise and the proportion of the Chinese middle class expands from 19 per cent today (250 million) to 40 per cent (520 million) by 2010, the market for imported food and beverages will double. However, it generally takes companies up to five years to get established in China, so get started now.

The consensus among the exporters, government agencies and consultants heading to China is that the rewards of becoming established in such a vast market may well be worth the considerable long-term investment.

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