



Who Is Feeding China?

Agricultural Outlook Forum – February 19, 2010

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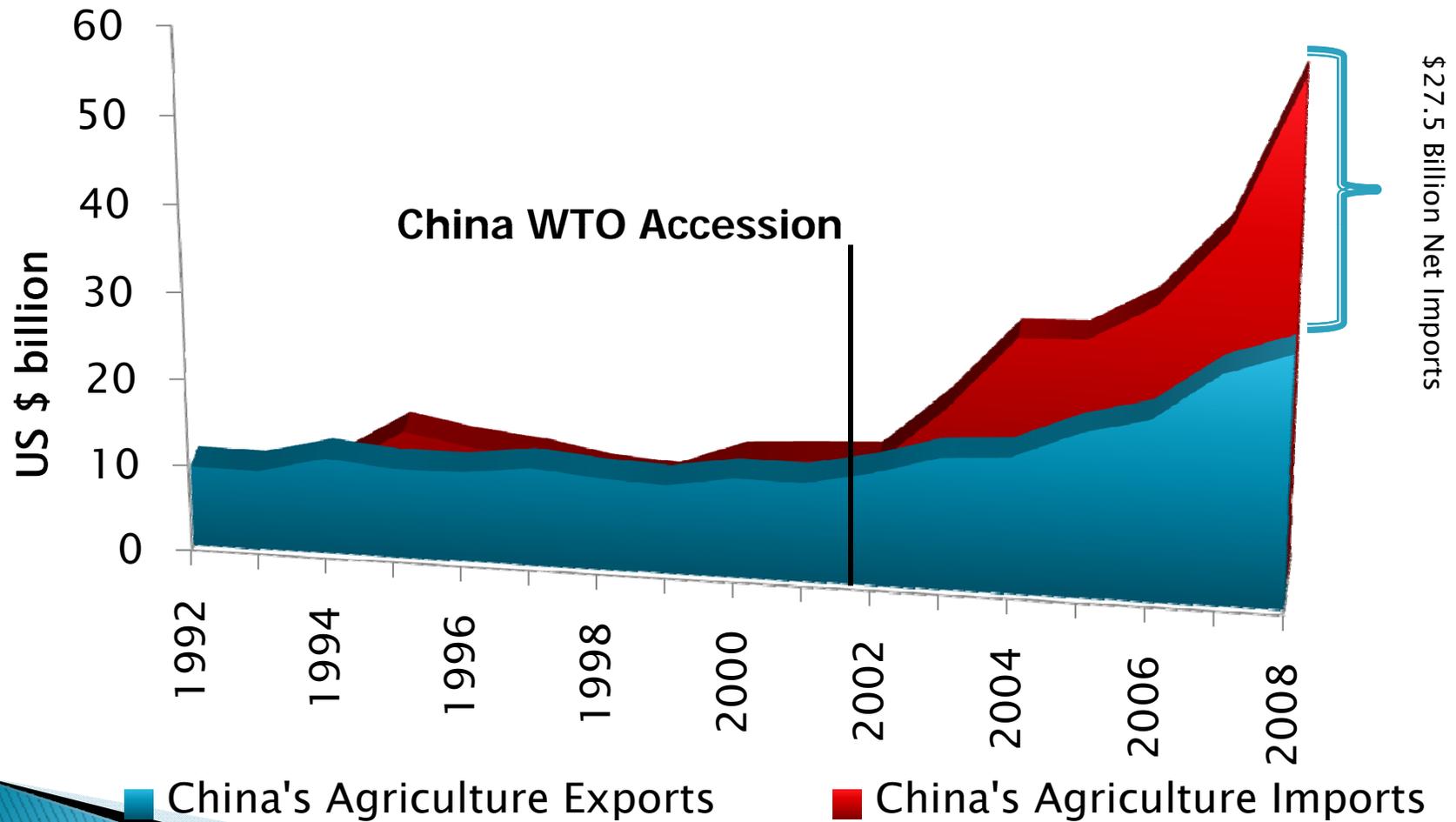
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Takeaways

- ▶ China will continue to be a 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



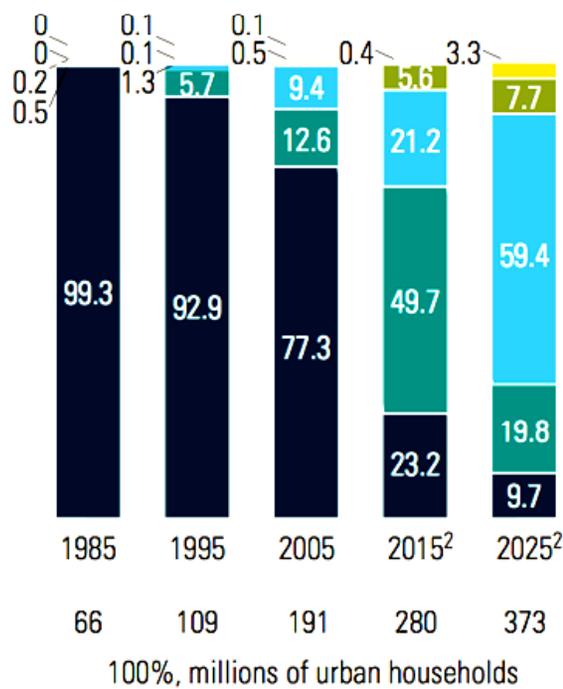
China is Increasingly Hungry



Income Demographics

Spending power is on the rise

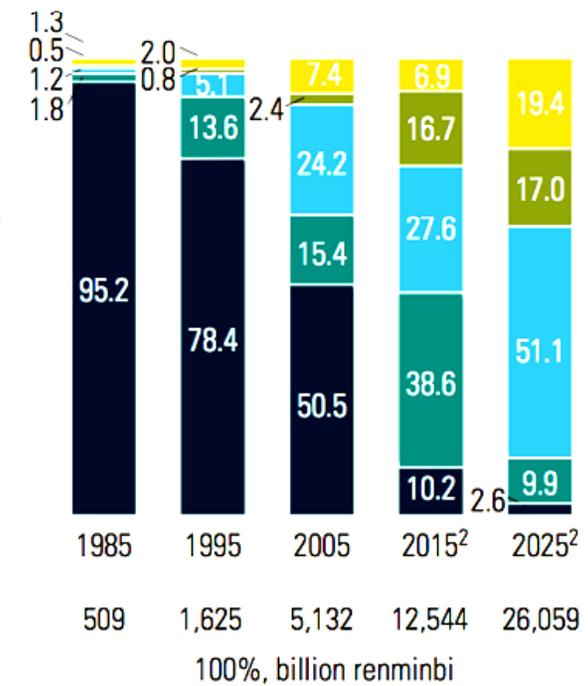
Share of Chinese urban households,¹ %



Share of total urban disposable income,¹ %

Segments by annual income

- **Global affluent**
(>200,000 renminbi)
- **Mass affluent**
(100,001–200,000 renminbi)
- **Upper middle class**
(40,001–100,000 renminbi)
- **Lower middle class**
(25,001–40,000 renminbi)
- **Poor** (≤25,000 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

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
- ▶ Dairy Products
- ▶ Vegetables and Products
- ▶ Fruit and Products
- ▶ Drinks
- ▶ Bean Products

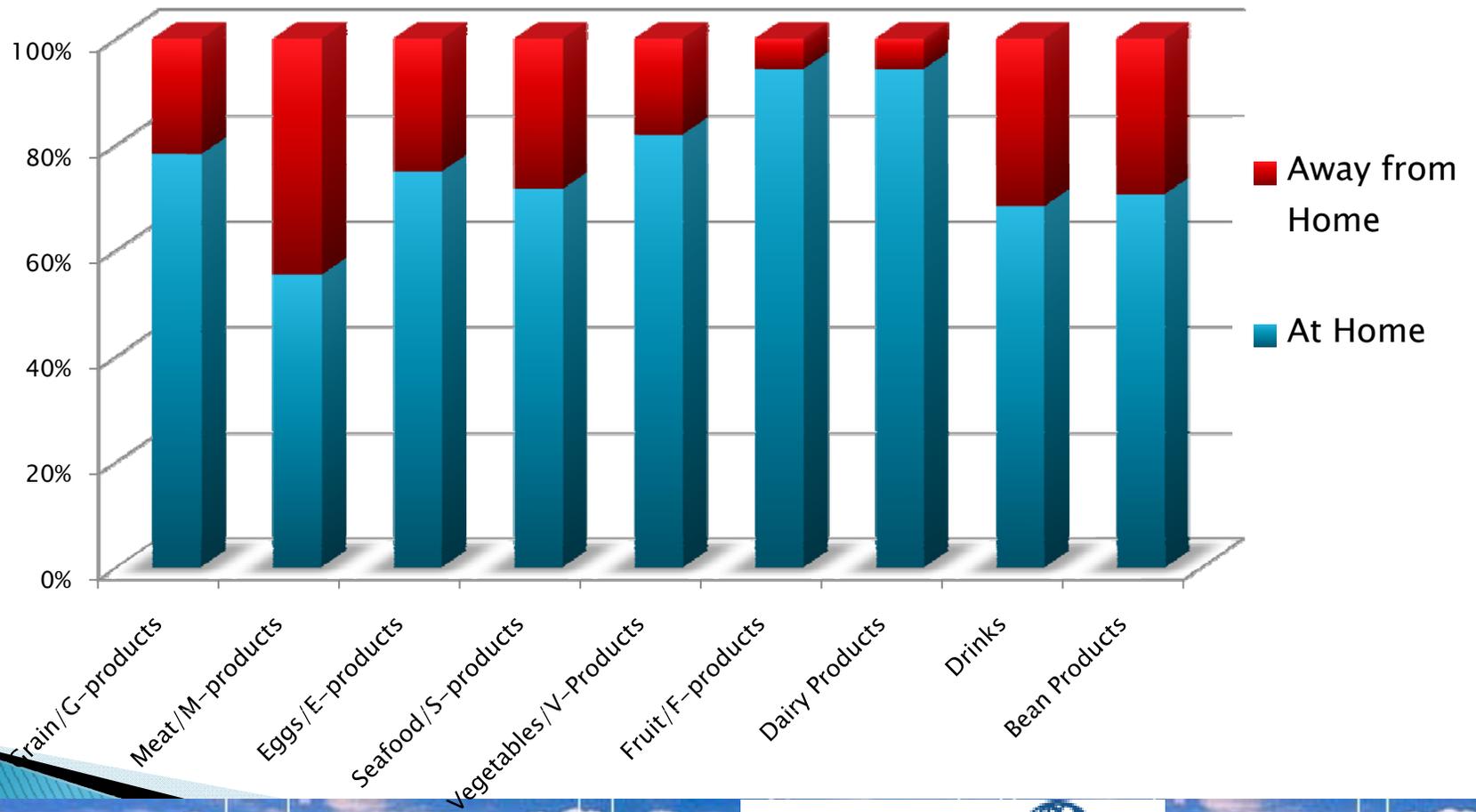


Research Categories

- ▶ Substantive Issues
 - Traceability
 - Biotechnology
 - Food Safety
- ▶ Demographics
 - Family Size
 - Household workers
 - Children



Where Food is Consumed

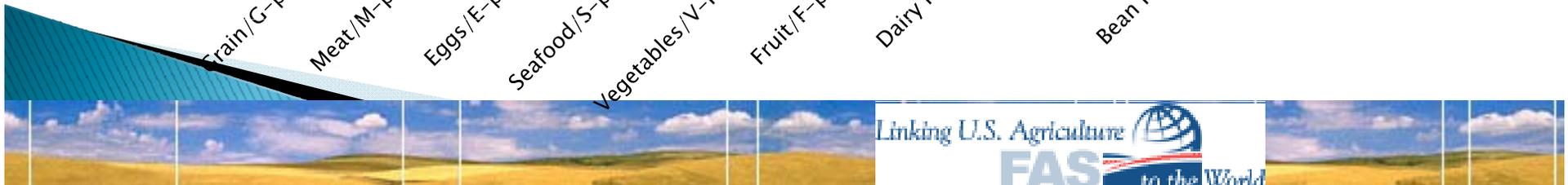
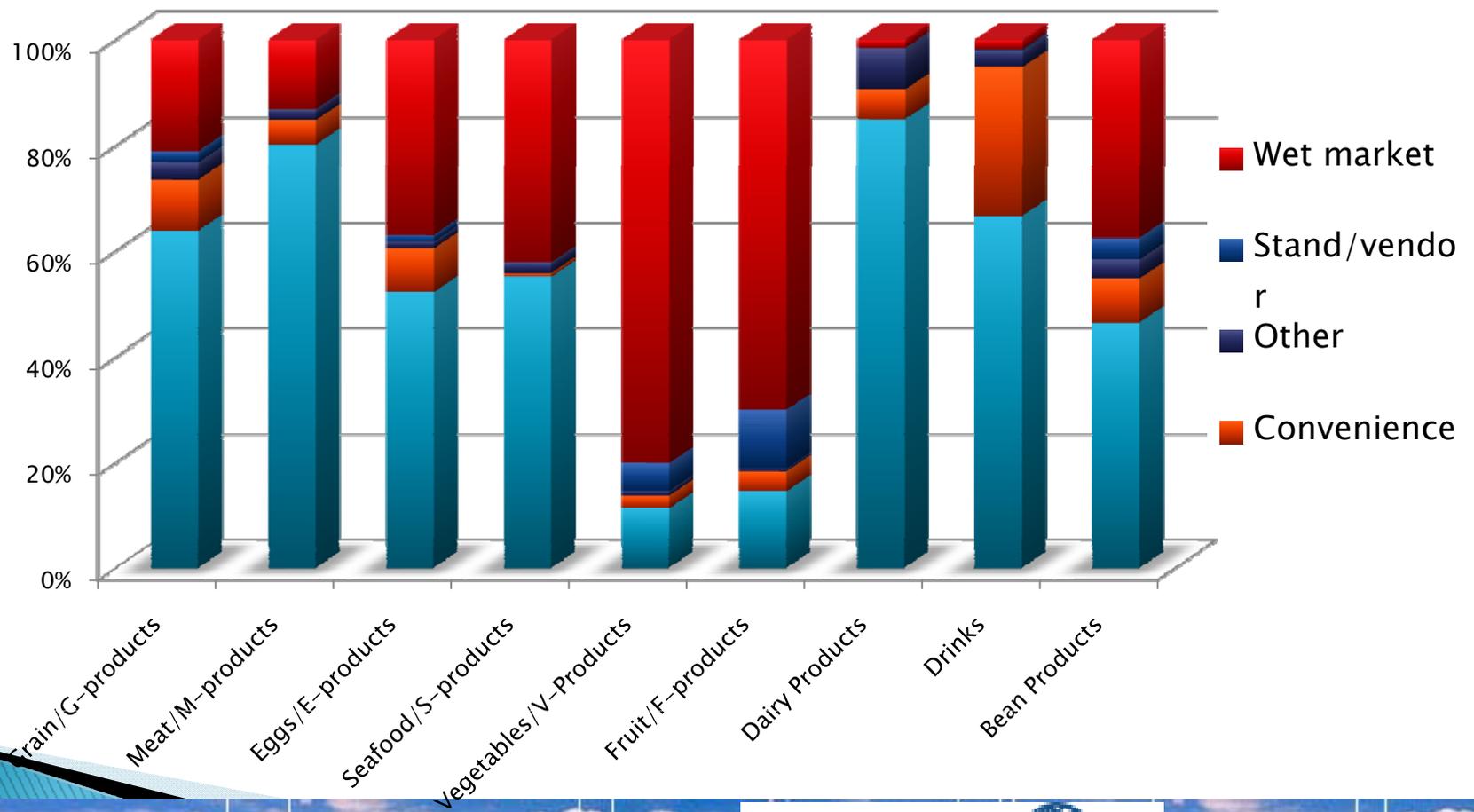


Food Consumed at Home

- ▶ 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 retailers 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

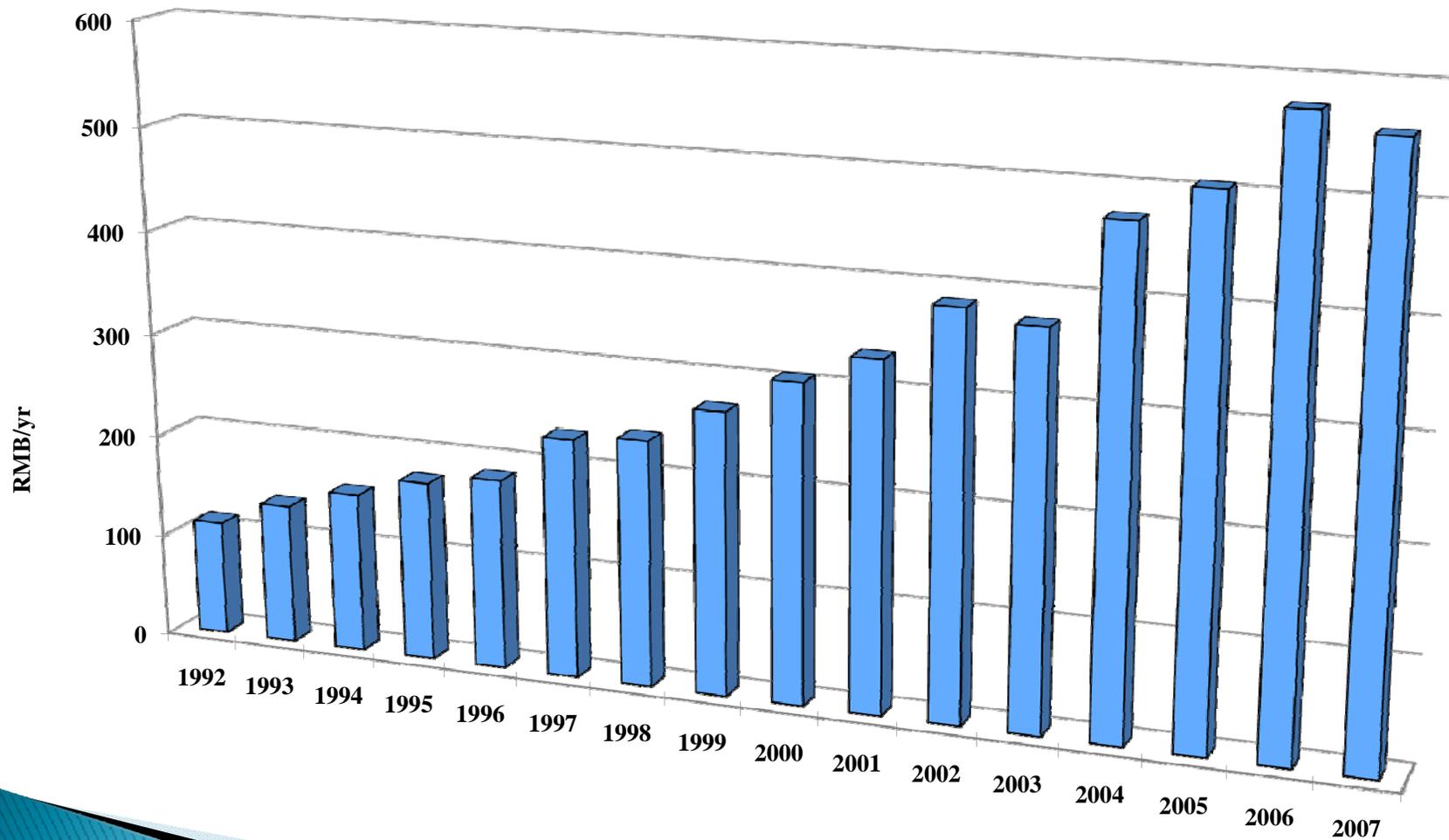


Food Away from Home: Trends

- ▶ 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

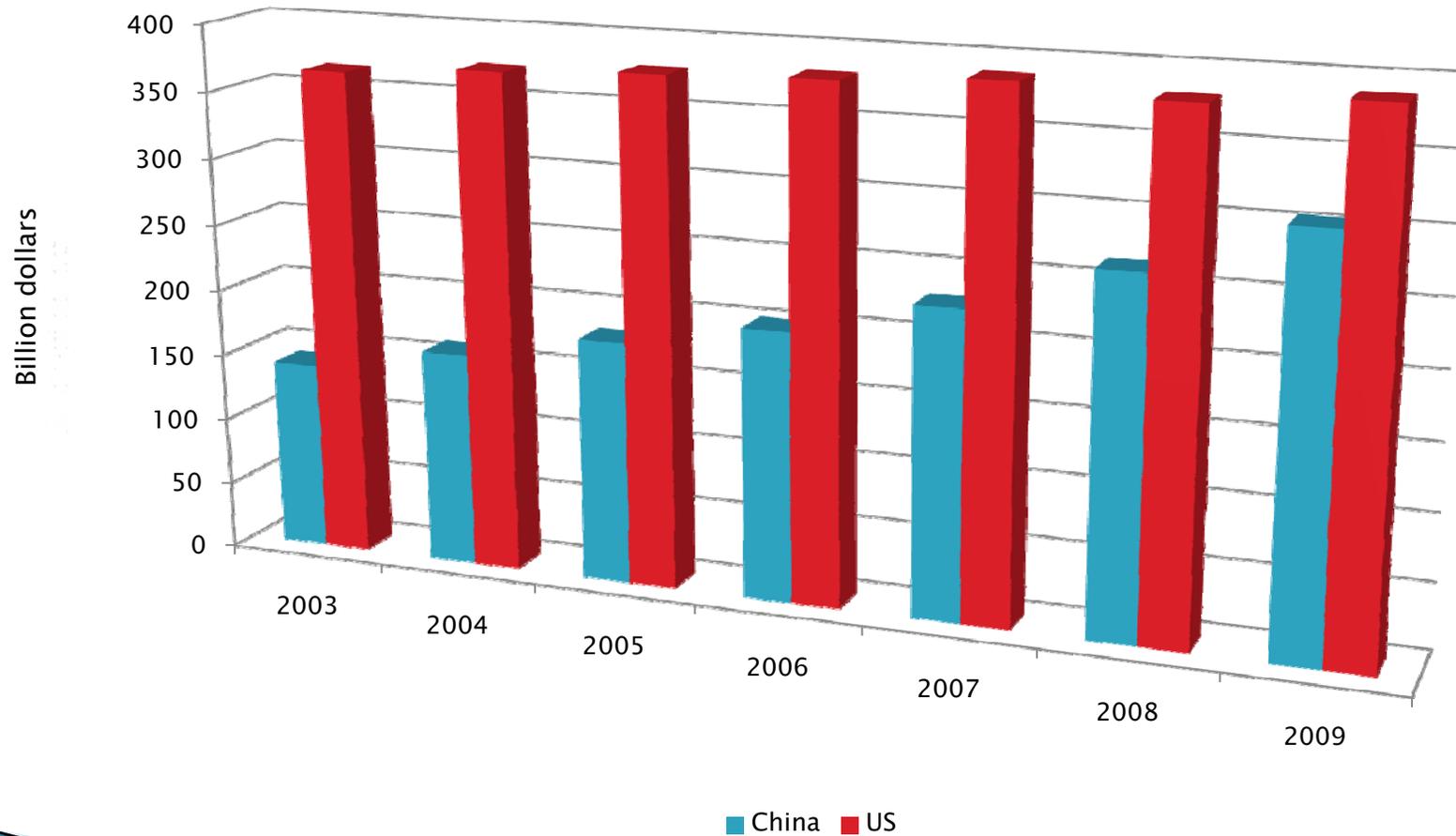


Food Away from Home: Average Expenditures



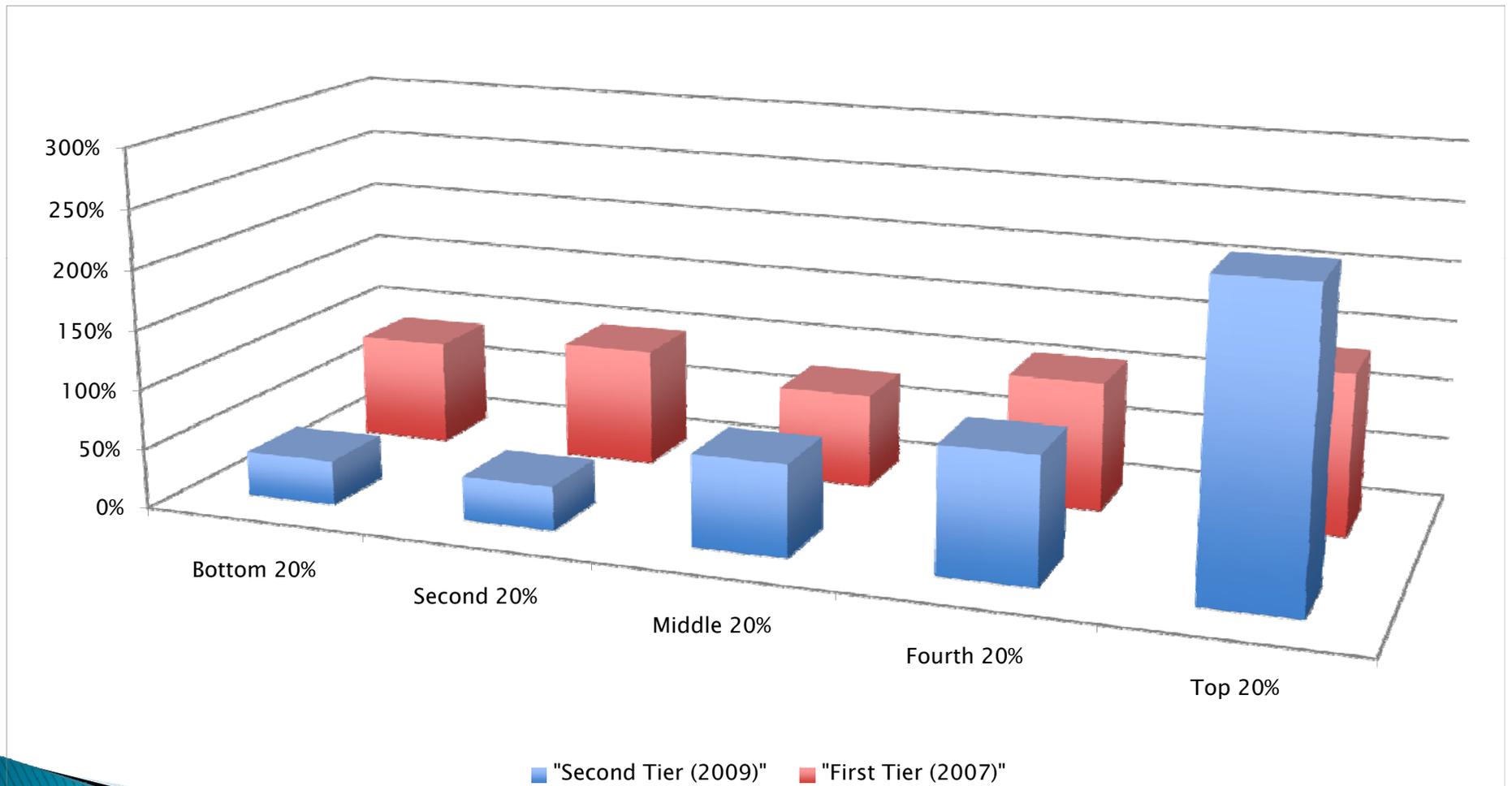
Source: National Bureau of Statistics of China

Food Service Growth

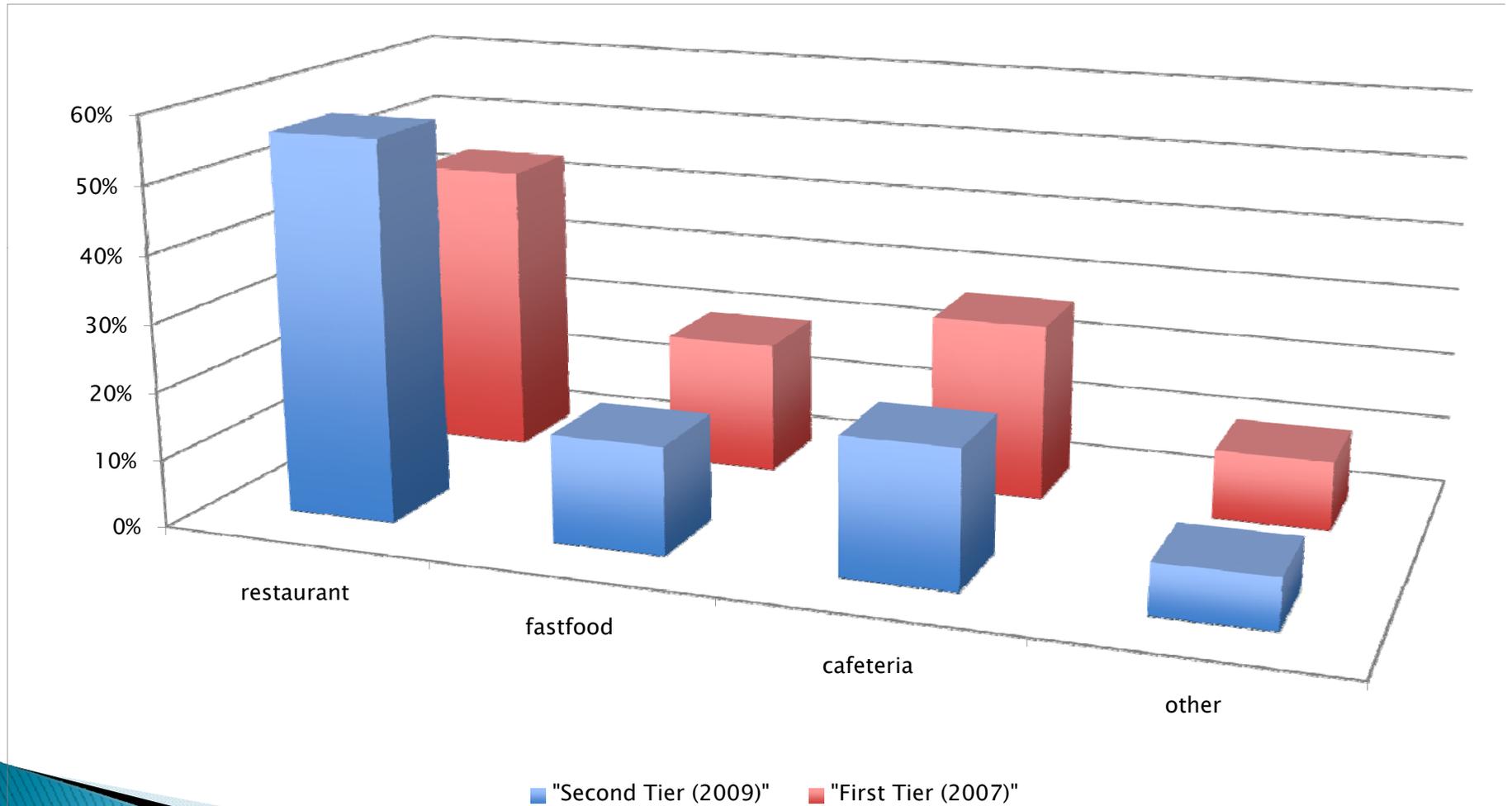


Source: Global Insight

Food Away From Home: Finding Your Consumers



Food Away from Home: Where Your Consumers Eat



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

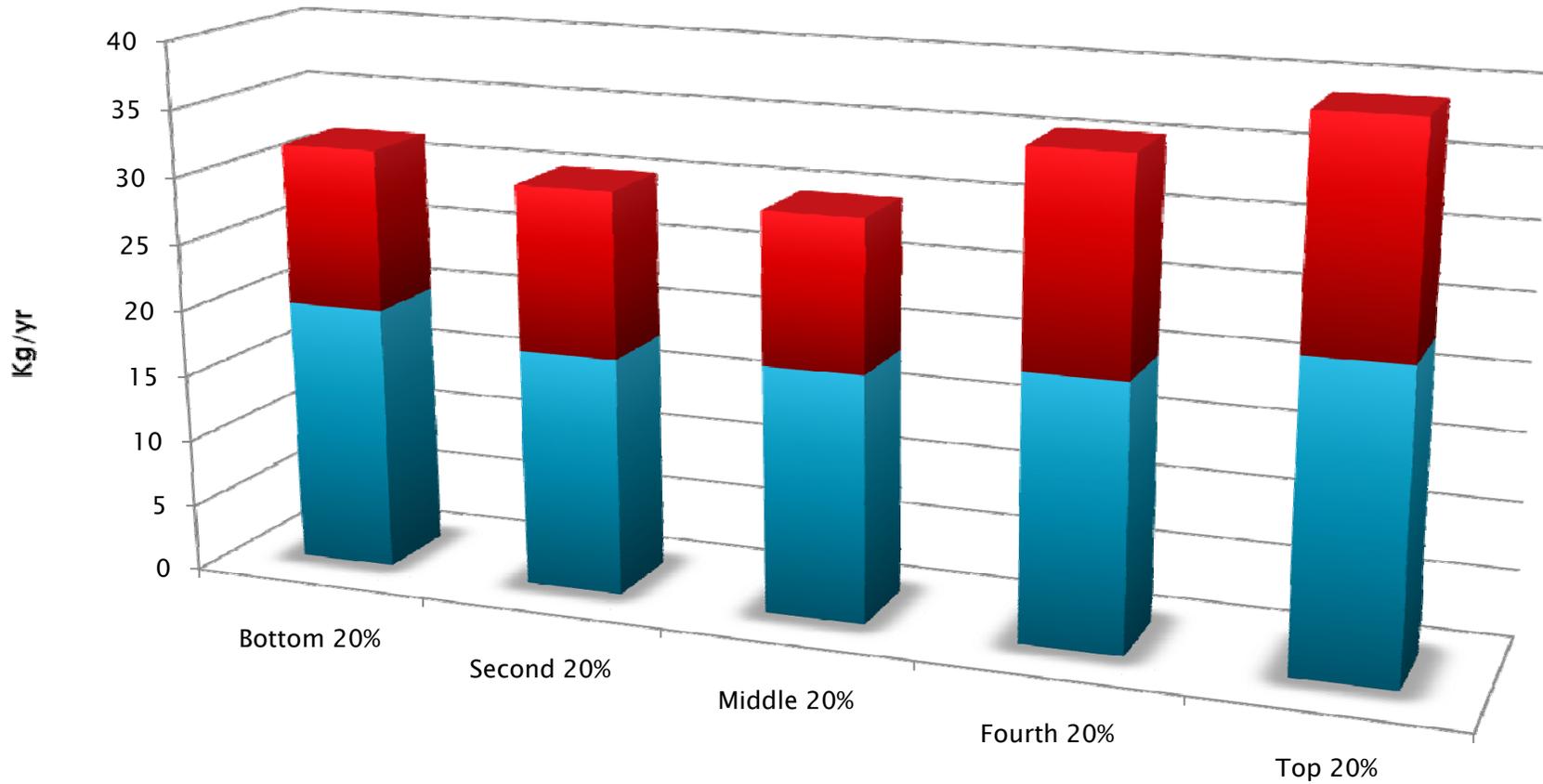


Parsing the Data

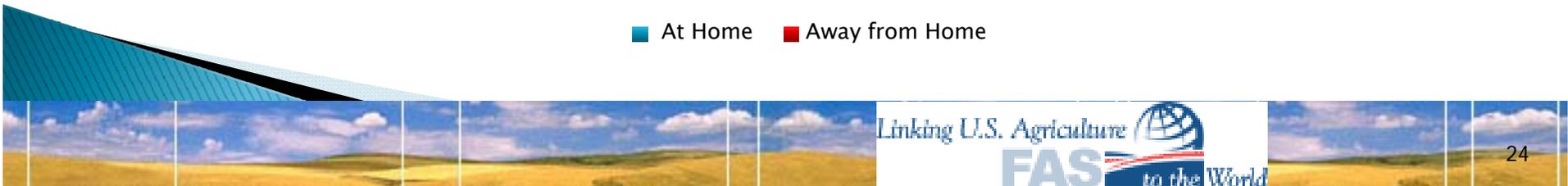
- ▶ Pork consumption increases as incomes increase
- ▶ Grain consumption declines as incomes increase
 - This does not mean grain-related consumption decline
 - This does mean consumption moves up the value chain
- ▶ Willingness to pay for traceable food products increases as incomes increase

▶ Concerns about biotechnology in food

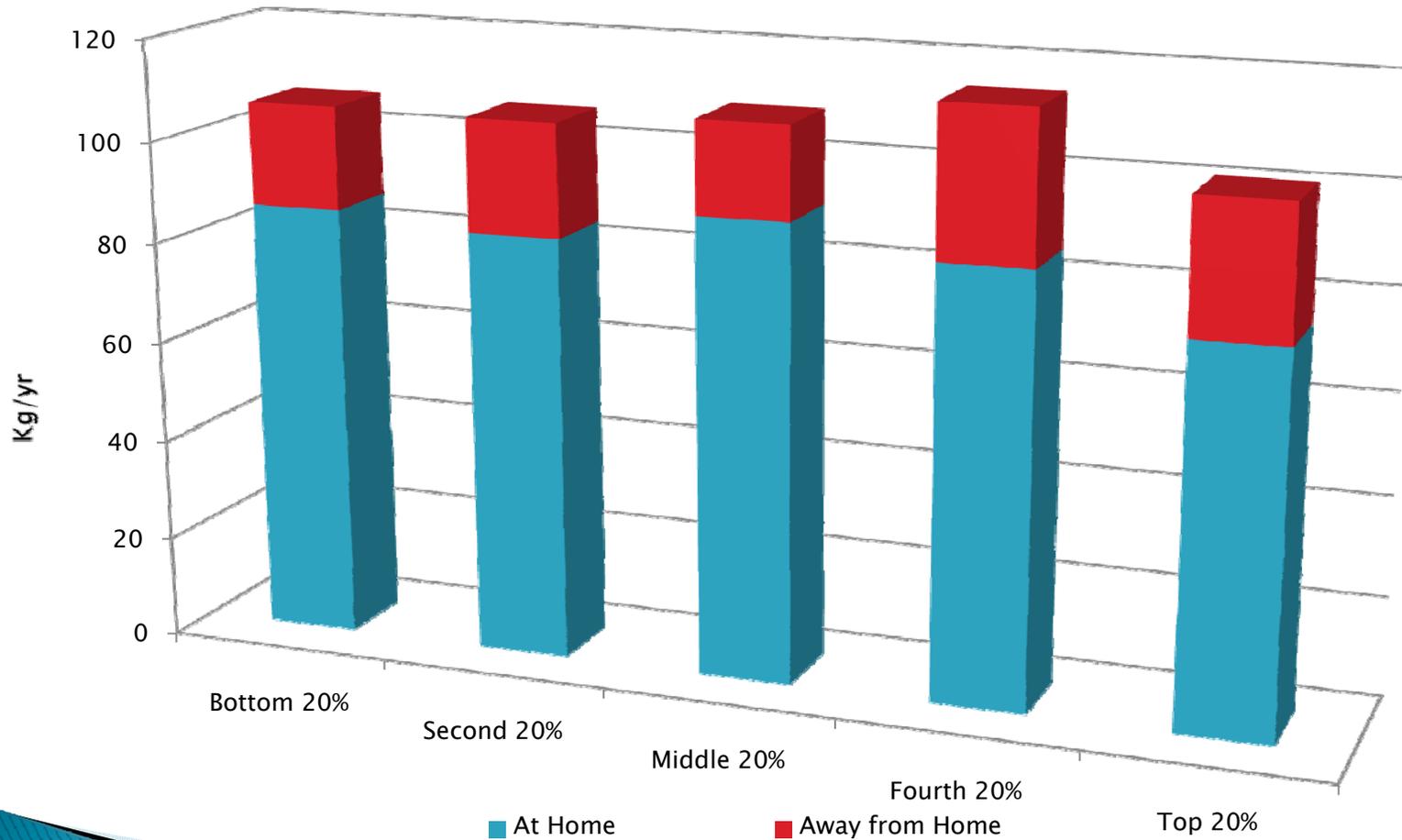
Pork Consumption



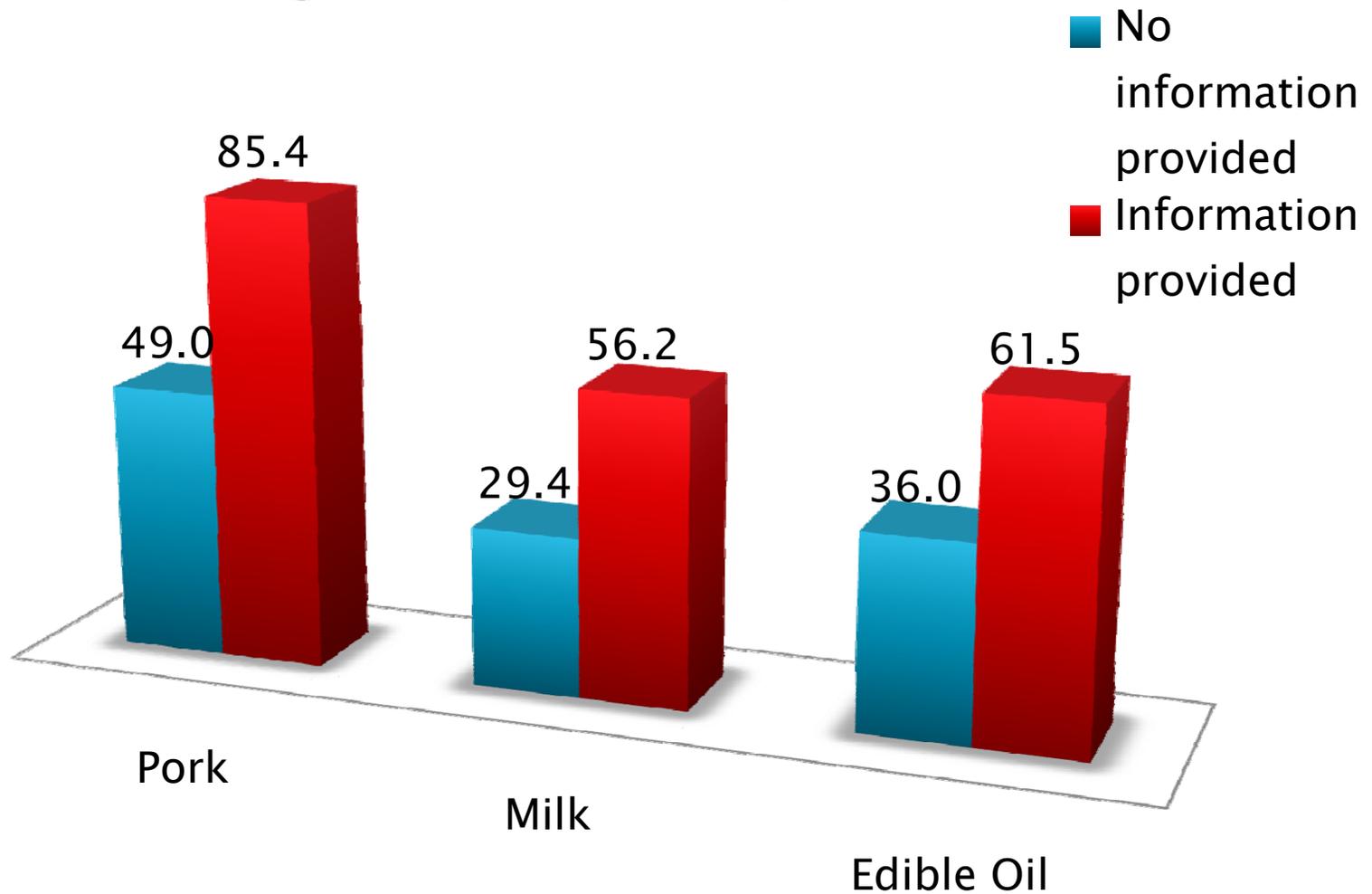
■ At Home ■ Away from Home



Grain Consumption

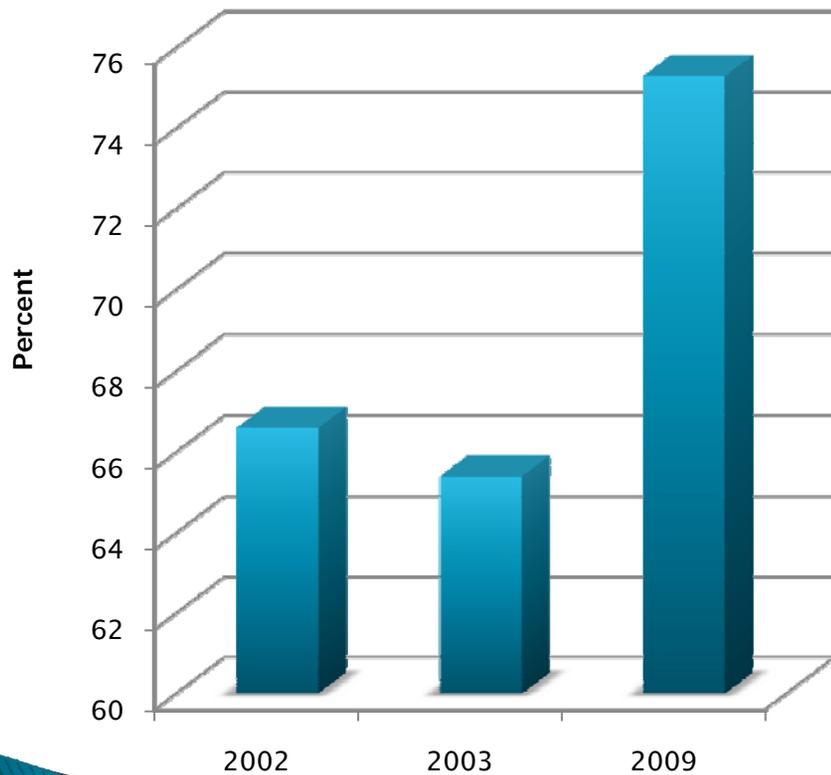


Traceability: Consumer Education Ups Willingness to Pay

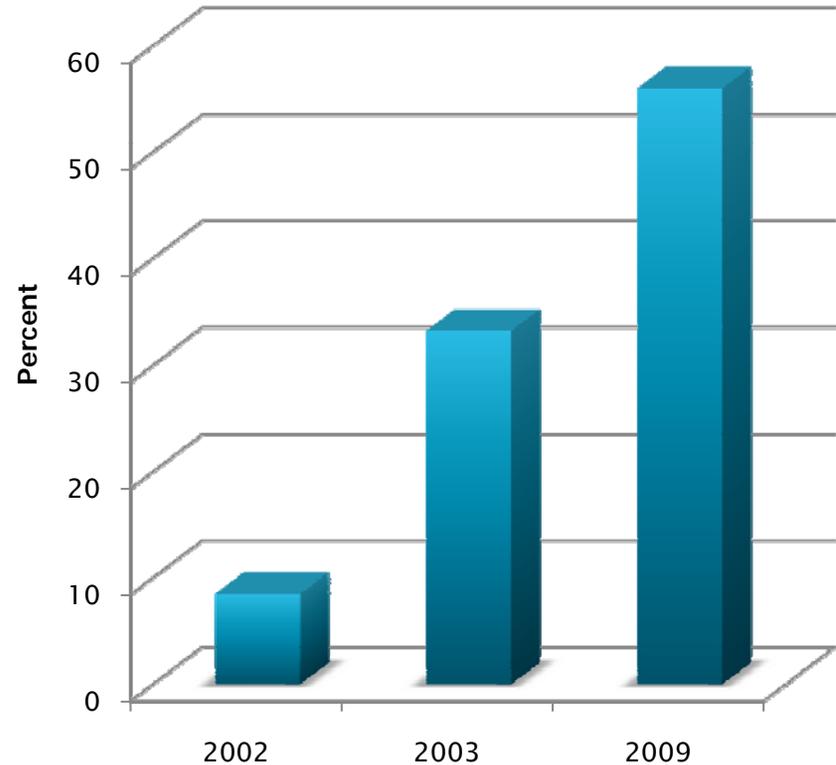


Consumer Awareness Improved

Awareness of Biotechnology

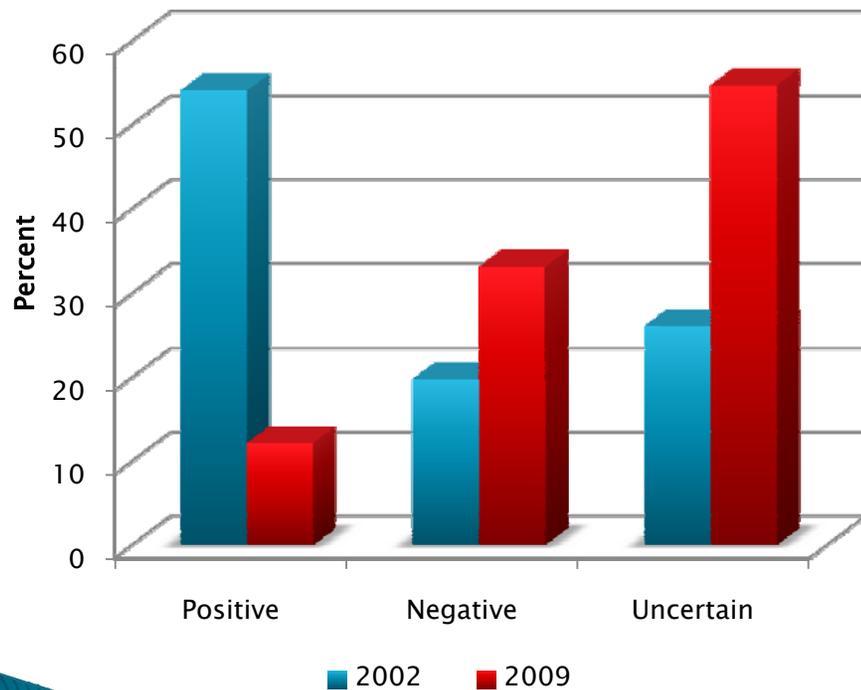


Awareness of Biotech Soy Oil

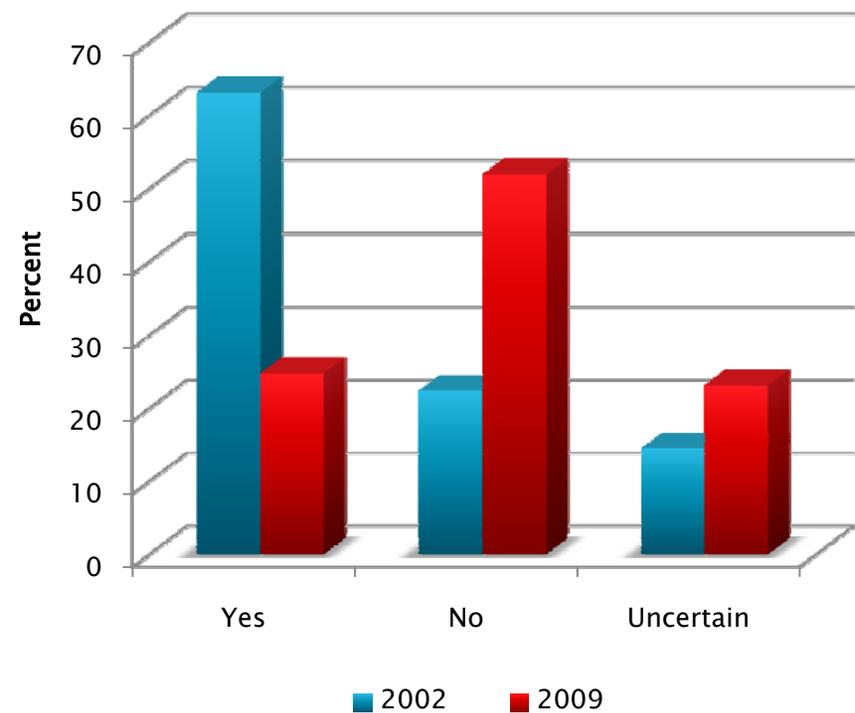


Attitudes Increasingly Negative

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



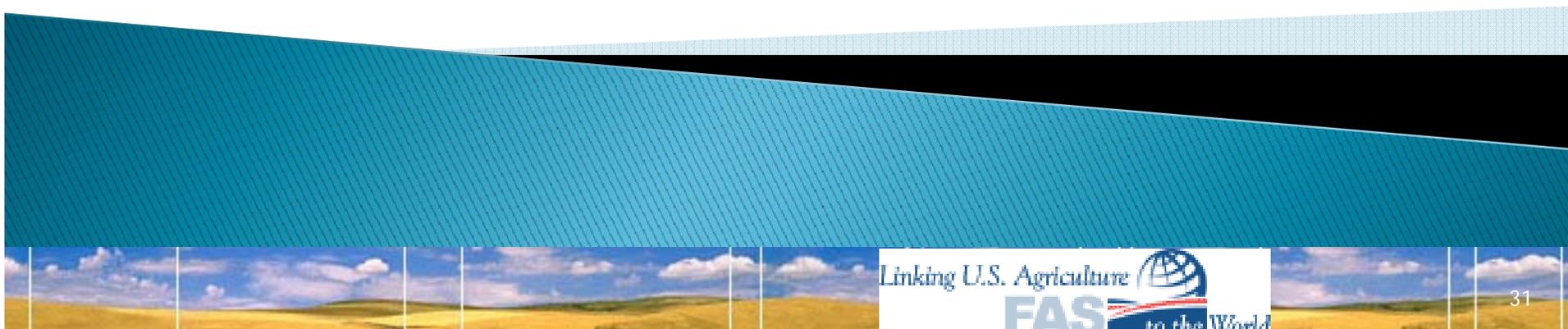
Conclusions

- ▶ 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

Center for China Agricultural Policy, Chinese Academy of Science
Economic Research Service, USDA
Washington State/North Dakota State College
University of Florida





Thank You

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