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Foodservice Profile

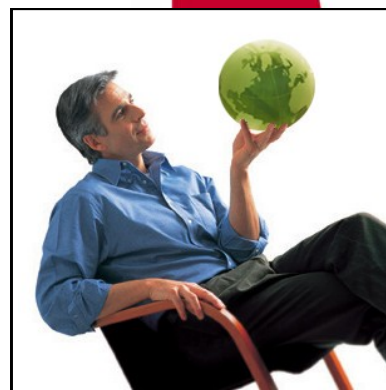
China



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Foodservice Profile

China



► EXECUTIVE SUMMARY

The Chinese economy has grown at a tremendous rate, reaching a value of US\$5.9 trillion in 2010. This expansion has stimulated growth in the country's large foodservice market, valued at US\$333 billion in 2010.

While independent operators dominate the sector, global chains have gained a foothold in recent years and are expanding rapidly. As consumer incomes rise and tastes change, so does the demand for foodservice. Indeed, the sector's focus is expanding from the country's most-developed cities to its emerging second- and third-tier cities. Moreover, tourism is expected to rise significantly over the next decade, offering more foodservice opportunities.

The growth of the market presents Canadian exporters an opportunity to supply China's foodservice providers and capitalize on their growth. Challenges remain, however, since most foodservice companies source locally and price competition is not uncommon. As such, the opportunities awaiting Canadian exporters are moderated by these issues.

► COUNTRY PROFILE

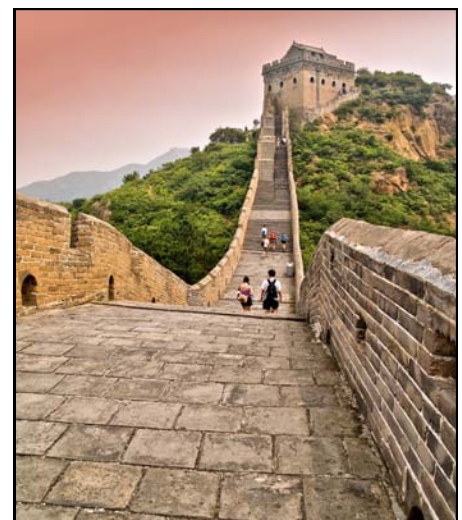
China is an Asian country of 1.3 billion people and is made up of twenty-two provinces, four direct-controlled municipalities (which have status equivalent to that of a province), and five autonomous regions. Income is unevenly distributed as the wealthiest cities line the coast, while the least-wealthy cities inhabit the northwest and southwest regions. The majority of China's middle class lives in the urban areas around Beijing, Shanghai and the Yangtze River, as well as Guangzhou and the Pearl River Delta.

Gradual market liberalization over the past three decades has transformed China into a global economic power. In 2010, the country had a gross domestic product (GDP) of US\$5.9 trillion, a GDP growth rate of over 10%, and exports valued at US\$1.6 trillion, largely destined for the United States, Japan, South Korea, and Germany. China maintains a labour force of 815 million workers and is a world leader in the manufacture of industrial and consumer products.

China's extraordinary growth has increased its GDP by 70% since 2005, and consumer expenditure and disposable income have simultaneously risen by 58% and 67%, respectively. Future growth is expected to maintain this trajectory.

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► FOODSERVICE SECTOR OVERVIEW

China's foodservice sector was valued at over US\$333 billion in 2010 (Table 1). Independent operators were the prevalent foodservice providers and accounted for US\$306 billion. Foodservice subsectors consist of full-service restaurants, fast food, cafés and bars, street stalls/kiosks, and 100% home delivery/takeaway. With sales of US\$241 billion, full-service restaurants was the dominant subsector in 2010, making up three-quarters of the market. The top companies in the sector include Kentucky Fried Chicken (KFC), McDonald's, Dico's, Pizza Hut and Little Sheep.

Between 2005 and 2010, the Chinese foodservice market grew at an annual rate of 9.2% and is expected to grow at a rate of 8.2% until 2015. The fastest growing subsector was 100% home delivery/takeaway, which increased its sales from US\$4 billion to US\$18.1 billion during this period. Future growth in this subsector is expected to be 13.2% per year, such that by 2015 it will be 50% larger.

Table 1: Market Values and Growth of the Chinese Foodservice Subsectors

Subsector	Market Value (\$US Millions)		CAGR*	
	2005	2010	2005-2010	2010-2015
Full-Service Restaurants	157,137	240,771	8.9%	7.9%
Fast Food	48,874	80,585	10.5%	9.1%
Cafés/Bars	4,537	6,189	6.4%	9.7%
Street Stalls/Kiosks	3,880	5,822	8.5%	5.2%
100% Home Delivery/Takeaway	4	18	35.2%	13.2%
Total Foodservice	214,432	333,384	9.2%	8.2%

Source: Euromonitor, 2011. *CAGR = compound annual growth rate.

Food makes up three-quarters, or US\$122 billion, of Chinese foodservice inputs, while beverages account for US\$31 billion. Fresh food is the largest food segment at US\$32.4 billion, and consists mainly of pork, vegetables, and fish. Frozen and chilled foods are the next largest in value and account for a combined US\$30 billion. Many segments have meat products as their most valuable purchases. Alcohol products account for the majority of drink inputs.

In 2010, the Chinese foodservice sector had over 5.9 million outlets and 116 billion transactions; independent operators accounted for 5.8 million outlets and 111 billion transactions (Table 2). By subsector, full-service restaurants had the most outlets at 4.4 million, while fast food had the most transactions at 71.2 billion. The 100% home delivery/takeaway subsector had the fewest outlets and transactions in 2010.

A typical foodservice outlet earned US\$56,200 from 19,500 transactions, or US\$2.88 per transaction in 2010. Compared to independent outlets, chained outlets had more transactions, higher sales, and a higher average transaction value. Pizza foodservice, a subset of the full-service restaurants, fast food, and 100% home delivery/takeaway subsectors, had the highest sales per outlet by far at US\$861,000 and the highest average transaction value at US\$19.24. These values reflect pizza's higher price point compared to other foodservice options. Also, pizza is only available in first-tier cities, targeting mostly high-income consumers.

Table 2: Outlets and Transactions of Chinese Foodservice Subsectors, 2010

Subsector	Outlets	Transactions (Millions)	Average Sales per Outlet (\$USD)	Average Sales per Transaction (\$USD)
Full-Service Restaurants	4,362,388	34,943	55,192	6.89
Fast Food	1,230,827	71,237	65,472	1.13
Cafés/Bars	20,641	625	299,835	9.90
Street Stalls/Kiosks	318,055	9,105	18,306	0.64
100% Home Delivery/Takeaway	129	2	140,310	9.50
Chinese Foodservice Sector	5,932,040	115,912	56,201	2.88

Source: Euromonitor, 2011.



► FULL-SERVICE RESTAURANTS

China's full-service restaurants primarily serve Asian cuisine and are largely independent, family-owned businesses. Hot pot cuisine is the most prevalent Asian style, although Cantonese, Sichuan, Bejingese, and Shanghainese cuisines are popular as well. It has been difficult for chains to replicate Asian cuisine on a large scale, due to regional taste differences, numerous cooking techniques, and the need for fresh materials. In recent years, Western cuisine has grown in popularity.

This subsector was valued at US\$241 billion in 2010, with independent operators accounting for US\$227 billion (Table 3). Asian cuisine dominated with a value of US\$238 billion, while European cuisine made up US\$355 million. Pizza restaurants were valued at US\$1.2 billion and were entirely chain operated. Between 2005 and 2010, the full-service restaurant subsector grew at an annual rate of 8.9%, and future growth is expected to be at 7.9% to 2015. The top companies in this subsector include Pizza Hut, Little Sheep, Xiao Wei Yang, Dezhuang, and Taoranjin.

Table 3: Market Values and Growth of the Chinese Full-Service Restaurant Subsector

Segment	Market Value (\$US Millions)		CAGR* 2005-2010
	2005	2010	
Asian Restaurants	156,056	238,345	8.8%
Pizza Restaurants	600	1,226	15.3%
Other Restaurants	412	798	14.1%
European Restaurants	34	355	59.5%
North American Restaurants	34	59	11.5%
Total Full-Service Restaurants	157,137	240,797	8.9%

Source: Euromonitor, 2011. *CAGR = compound annual growth rate.

There were 4.4 million full-service restaurants in China and 35 billion transactions in 2010. Per outlet, this works out to US\$55,200 in sales and over 8,000 transactions. The average transaction value was US\$6.89. Outlet and transaction numbers grew at annual rates exceeding 7.0% between 2005 and 2010.

► FAST FOOD

Independently-operated Asian cuisine dominates the fast food subsector, even though chained restaurants hold the largest individual market shares. Busier lifestyles and the resulting demand for convenience have driven growth in fast food sales. However, fast food is generally expensive and aimed at middle-income consumers. Similar to full-service restaurants, the popularity of Western cuisine has grown in recent years.

The fast food subsector was valued at US\$81 billion and consists primarily of Asian cuisine, which accounted for US\$71 billion in 2010 (Table 4 on page 5). Sales at burger and bakery restaurants were valued at US\$1.9 billion and US\$547 million, respectively. Between 2005 and 2010, the subsector grew at an annual rate of 10.5% and future growth is expected to be at 9.1% until 2015. Top companies in this subsector include KFC, McDonald's, Dico's, cnHLS, and Ajisen Ramen.



Source: Shutterstock.



► FAST FOOD (continued)

Table 4: Market Values and Growth of the Chinese Fast Food Subsector

Segment	Market Value (\$US Millions)		CAGR* 2005-2010
	2005	2010	
Asian Fast Food	44,019	71,053	10.0%
Chicken Fast Food	2,951	6,500	17.1%
Burger Fast Food	1,304	1,950	8.4%
Bakery Products Fast Food	395	547	6.7%
Ice Cream Fast Food	137	384	22.9%
Convenience Store Fast Food	86	148	11.5%
Total Fast Food	48,874	80,596	10.5%

Source: Euromonitor, 2011. *CAGR = compound annual growth rate.

There were 1.2 million fast food restaurants in the Chinese market and 71 billion transactions in 2010. Between 2005 and 2010, outlets grew at an annual rate of 6.0%, while transactions grew at 7.3%. Per outlet, fast food saw sales of US\$65,472 and 57,877 transactions. The average transaction value was only US\$1.13.

► CAFÉS/BARS

This subsector is dominated by traditional teahouses, since coffee houses and bars are new to China. However, coffee culture is quickly gaining popularity, particularly among young, affluent Chinese consumers. Specialist coffee shops, such as Starbucks and UBC Coffee, have experienced exceptional growth in recent years. At the same time, this subsector is challenged by street stalls/kiosks, which sell a large number of beverages.

The cafés/bars subsector, which includes pubs and specialist coffee shops, was valued at US\$6.2 billion in 2010 (Table 5). About three-quarters of sales came from independent businesses. Cafés/teahouses made up US\$3.4 billion, while bars and pubs accounted for US\$2.5 billion. The remainder came from specialist coffee shops, most of which were chained. Between 2005 and 2010, this subsector grew at an annual rate of 6.4%, and is expected to grow even faster at 9.7% until 2015. Top companies in the Chinese cafés/bars subsector include UBC Cafe, Starbucks, C Straits Cafe, DIO, and SPR Coffee

Table 5: Market Values and Growth of the Chinese Cafés/Bars Subsector

Segment	Market Value (\$US Millions)		CAGR* 2005-2010
	2005	2010	
Cafés/Teahouses	2,722	3,362	4.3%
Bars/Pubs	1,669	2,469	8.1%
Specialist Coffee Shops	146	358	19.6%
Total Cafés/Bars	4,537	6,189	6.4%

Source: Euromonitor, 2011. *CAGR = compound annual growth rate.

There were over 20,600 cafés and bars in China and 625 million transactions in 2010. Outlets and transactions grew at annual rates close to 9.0%. A typical outlet earned US\$299,800 and had about 30,300 transactions in 2010. The average transaction value was US\$9.90.



► STREET STALLS/KIOSKS

This subsector relies on beverages for 71% of its sales. There are few entry barriers to the street stalls/kiosks market, but rising costs for rent, wages, materials and fuel have constrained growth. Furthermore, with higher incomes, some consumers are trading up to fast food restaurants.

The street stalls/kiosks subsector (which is not broken into further segments) was valued at US\$5.8 billion in 2010. Independent stores accounted for US\$4.2 billion, or about three-quarters of the market. However, chains have grown at the expense of independents in recent years. Between 2005 and 2010, the street stalls/kiosks subsector grew at an annual rate of 8.5%, and is expected to see an average annual growth of 5.2% until 2015. Top companies in the Chinese street stalls/kiosks subsector include Jack Hut, CoCo, Tea Storm, Da Ka Si, and Happy Lemon.

In 2010, there were over 318,000 street stalls/kiosks and over 9.1 billion transactions in China. Between 2005 and 2010, outlets and transactions grew at annual rates of 7.4% and 7.9%, respectively. The average street stall/kiosk earned US\$18,300 from 28,600 transactions in 2010, or just US\$0.64 per transaction.

► 100% HOME DELIVERY/TAKEAWAY

Pizza dominates the home delivery/takeaway subsector in China. It is available only in the large metropolitan cities and is pricier than other subsectors, appealing predominantly to the high-income residents and more sophisticated consumers who are interested in foreign cuisine. However, this relatively new format is quickly expanding and attracting competitors with its popularity and high margins.

The 100% home delivery/takeaway subsector (which is not broken into further segments) is the smallest subsector in the Chinese foodservice market, was valued at US\$18.1 billion in 2010, and is entirely comprised of chains. This sector is constrained by China's infrastructure, which makes car deliveries almost impossible. Most deliveries are made by bicycle or motorbike, so many outlets will restrict their delivery range to within 1 km of their location. Despite these challenges, between 2005 and 2010, this subsector grew at an average rate of 35.2%, making it the fastest growing subsector. Future annual growth is expected to be at 13.2% until 2015, as the primary chains expand into smaller cities. Pizza Hut is the leading company, followed by Domino's and Papa John's.

In 2010, there were just 129 outlets in the 100% home delivery/takeaway subsector, and 1.9 million transactions. However, outlets and transactions grew at annual rates exceeding 33.0% between 2005 and 2010. A typical outlet earned US\$140,300 from 24,800 transactions, or US\$5.66 per transaction.

► MARKET STRUCTURE



Source: Shutterstock.

The market concentration of the top five brands in the Chinese foodservice sector was 29.1% in 2010, which is slightly lower than the 30.6% recorded in 2007 (Table 6 on page 7). This is not a very high concentration, since the sector is largely made up of independent operators. However, concentration varies across subsectors; it is low in full-service restaurants and street stalls/kiosks, yet relatively high in fast food and cafés/bars. Higher concentrations are mainly due to the presence of multinational chains, like Yum! Brands and McDonald's, both of which hold significant leads over their local competitors. In recent years, the rising number of independent competitors has reduced market concentration in the sector as a whole, and in several subsectors.



► MARKET STRUCTURE (continued)

Table 6: Concentration Ratios of Chinese Foodservice Subsectors

Segment	Concentration Ratio*		Change 2007-2010
	2007	2010	
Full-Service Restaurants	18.8%	16.9%	-1.9%
Fast Food	72.3%	70.3%	-2.0%
Cafés/Bars	61.9%	59.6%	-2.3%
Street Stalls/Kiosks	9.8%	14.9%	5.1%
100% Home Delivery/Takeaway	87.8%	92.6%	4.8%
Total Foodservice	30.6%	29.1%	-1.5%

Source: Euromonitor, 2011. *The total market share of the top five brands.

► LOCATION

The majority of China's 5.9 million foodservice outlets are standalone locations, which accounted for five million outlets in 2010 (Table 7). Between 2005 and 2010, the total number of outlets grew at an annual rate of 7.3%. The top growing subsectors were lodging and travel at 13.4% and 12.8%, respectively. Fast food outlets are most likely to be in retail establishments, while cafés and bars are likely to be found in lodging establishments.

A typical lodging outlet earned US\$62,400 in 2010, which is higher than foodservice locations in general at US\$56,200. Lodging outlets also had the fewest transactions at 8,480 per outlet and the highest average transaction value at US\$7.35. At the same time, a typical leisure outlet earned only US\$43,800 from 37,000 transactions, which is equivalent to US\$1.18 per transaction.



Shanghai, China. **Source:** Shutterstock.

Table 7: Market Values, Outlet Numbers and Growth of the Chinese Foodservice Sector by Location

Location	Market Value (\$US Millions)		Outlet Numbers		Outlets CAGR*	
	2005	2010	2005	2010	2005-2010	2010-2015
Standalone	183,396	275,087	3,612,229	4,962,961	6.6%	5.1%
Retail	19,938	36,841	361,094	603,203	10.8%	8.9%
Lodging	7,584	14,269	122,080	228,702	13.4%	9.4%
Travel	2,858	5,875	58,651	107,196	12.8%	9.0%
Leisure	656	1,314	17,315	29,980	11.6%	8.2%
Total Foodservice	214,432	333,384	4,171,366	5,932,040	7.3%	5.7%

Source: Euromonitor, 2011. *Compound annual growth rate.



► TRADE

China imported US\$71.8 billion of agri-food and seafood products in 2010, primarily from the United States, Brazil, and Argentina (Table 8). Between 2005 and 2010, imports grew at an annual rate of 20.2%. The top import commodity was miscellaneous grains and seeds at US\$27.1 billion, or 38% of all agri-food and seafood imports (Table 9). It was also the fastest growing commodity import, with an annual growth rate of 27.1%. Canada was China's sixth-largest supplier in 2010.

Table 8: China's Top Suppliers of Agri-Food and Seafood

Country	Market Value (\$US Thousands)		CAGR* 2005-2010
	2005	2010	
United States	6,717,229	18,622,086	22.6%
Brazil	3,010,793	10,704,594	28.9%
Argentina	2,992,231	5,685,113	13.7%
Australia	2,404,699	3,928,938	10.3%
Malaysia	1,338,286	3,429,085	20.7%
Canada (6th)	1,149,306	3,002,443	21.2%
World	28,621,756	71,834,949	20.2%

Table 9: China's Top Agri-Food and Seafood Commodity Imports

Commodity	Market Value (\$US Thousands)		CAGR* 2005-2010
	2005	2010	
Miscellaneous grains and seeds	8,159,002	27,058,697	27.1%
Cotton	3,192,720	5,658,155	12.1%
Palm oil	1,778,329	4,710,346	21.5%
Fish and seafood	2,890,266	4,371,049	8.6%
Food waste	1,305,156	3,231,333	19.9%
Total Imports	28,621,756	71,834,949	20.2%

Source for both: Global Trade Atlas, 2011.

*CAGR = compound annual growth rate.

Canada exported US\$2.9 billion of agri-food and seafood products to China in 2010 (Table 10). Exports grew at a phenomenal annual rate of 23.5% between 2005 and 2010. Canada's top exports matched several of China's top imports, indicating that Canada is fulfilling the fervid demand of the Chinese market. Rapeseed, colza, mustard oil and miscellaneous grains and seeds accounted for over 60% of Canada's exports. While Canadian agri-food products are increasingly present in China, the amount entering the foodservice value chain is not precisely known.

Table 10: Canada's Top Agri-Food and Seafood Commodity Exports to China

Commodity	Market Value (\$US Thousands)		CAGR* 2005-2010
	2005	2010	
Rapeseed, colza or mustard oil	74,916	933,771	65.6%
Miscellaneous grains and seeds	108,469	824,225	50.0%
Fish and seafood	257,452	281,586	1.8%
Food waste	1,263	189,804	172.5%
Vegetables	43,370	170,901	31.6%
Total Exports	1,003,305	2,881,538	23.5%

Source: Global Trade Atlas, 2011.

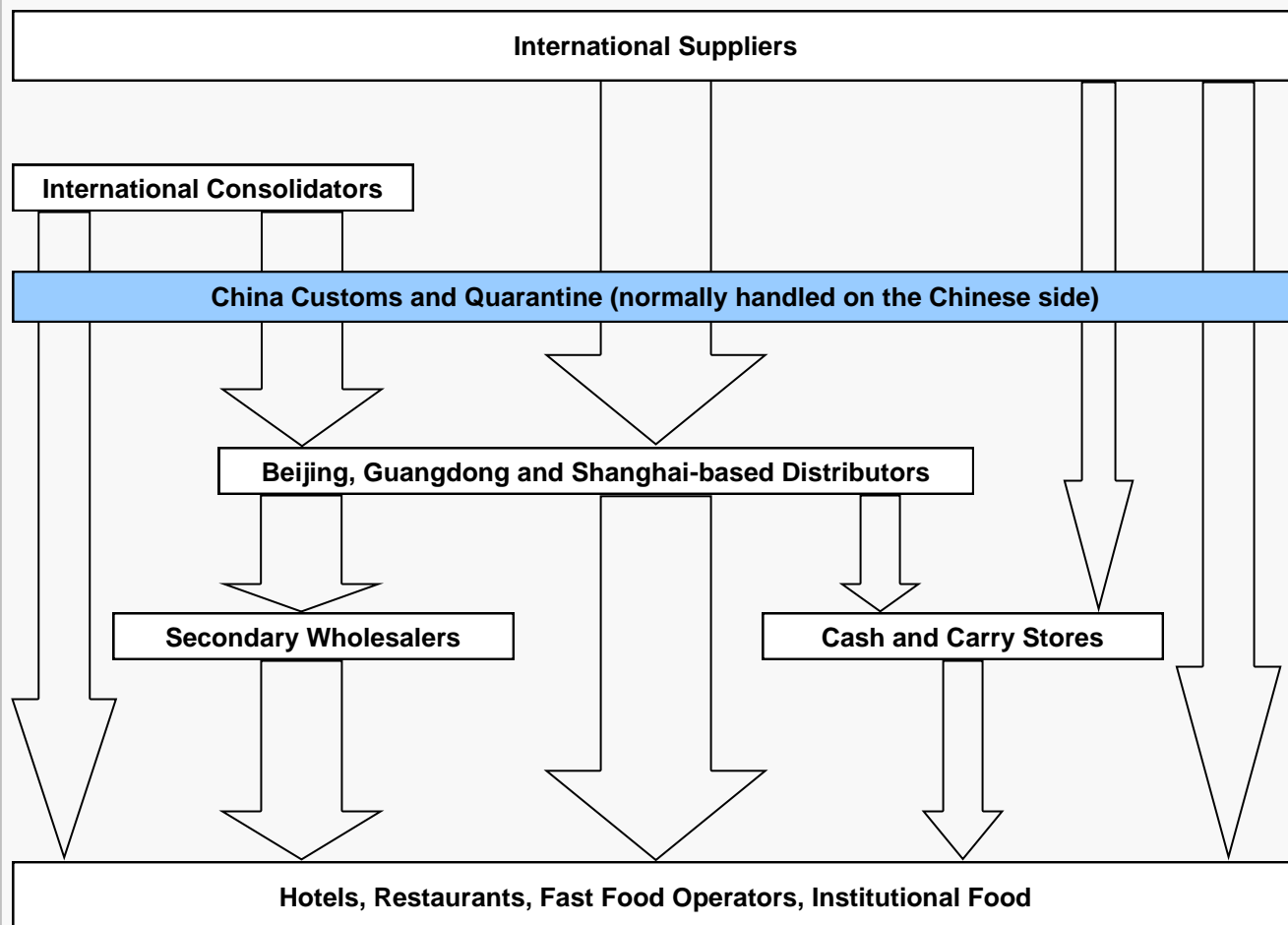
*CAGR = compound annual growth rate.



► **DISTRIBUTION**

China's key shipping ports are Shanghai, Tianjin, Qingdao, Xiamin, and Dalian, but many goods also pass through Hong Kong. In recent years, the Chinese government has invested heavily in developing the country's expressways, ports, and cold chain infrastructure. Canadian exporters have several options for distribution, including: the employment of full-service distributors, third- and fourth-party logistics firms, Canadian consolidators, and Hong Kong distributors; selling to Chinese cash and carry companies; and selling directly to customers. Figure 1 provides an overview of China's foodservice distribution system.

Figure 1: Foodservice Distribution System in China



Source: Adapted from the United States Department of Agriculture, 2009.



▶ MARKET ANALYSIS

The following section identifies current strengths and weaknesses of the Chinese foodservice sector, and provides a future outlook by outlining potential opportunities and threats to the industry. All of these aspects would be faced by agri-food exporters upon entering the Chinese marketplace.

The key strengths within the industry include China's strong economic growth and its interest in Western cuisine, both of which are beneficial for Canadian products. The main weaknesses include the prevalence of local sourcing and price competition within the sector. Future opportunities exist in China's expansion into lower-tier cities and its booming tourism industry. However, threats remain from the consolidation of foodservice companies and the entry of new competitors; both of these aspects would reduce the bargaining power of agri-food suppliers.

Strengths

- **Economic Growth:** China's extraordinary growth is expected to continue generating business opportunities. With an average annual growth of 11.2% for GDP and 9.5% for consumer expenditure in recent years, China has maintained a robust economy in the face of the global downturn. GDP is expected to grow by 8% or more through 2015 according to the Economist Intelligence Unit and, as such, China's rising affluence will likely produce greater demand for foodservice.
- **Western Cuisine:** While Asian cuisine dominates the foodservice sector, there is growing demand for Western cuisine that is driven mostly by younger, more affluent Chinese, who are attracted to Western lifestyles.
- **Competitive Market:** The Chinese foodservice sector consists mostly of independent operators and is highly fragmented. The leading companies are chain operators, and while their market shares are growing, the sector remains relatively free of entry barriers. Thus, the sector remains competitive and open to entrants with innovative concepts.

Weaknesses

- **Local Sourcing:** Most foodservice providers source locally, including global chained operators. Independent operators prefer to use fresh, local ingredients and avoid having to maintain distribution networks. Chained restaurants, such as McDonald's and Yum! Restaurants, source over 90% of their ingredients locally, while their beverages come from multinationals, such as Nestlé and Coca Cola. Some local chained foodservice providers, such as Little Sheep and Inner Mongolia, are vertically integrated and have their own food processing factories.
- **High Buyer Power:** The foodservice sector occasionally engages in price competition, especially in fast food. Facing numerous competitors and low prices, KFC and McDonald's reduced their prices in 2009 and 2010. This trend is reflected in the fall of the average transaction value for chained restaurants from US\$6.56 in 2005 to US\$5.20 in 2010. However, foodservice providers that target middle- and upper-income consumers are generally immune to this. Given the competitiveness and the high degree of choice within this sector, Chinese consumers have considerable buyer power.



Source: Shutterstock.



► MARKET ANALYSIS (continued)

Opportunities

- **Lower Tier Cities:** Multinational chains are looking to expand into China's emerging second-tier cities. Second-tier cities have over five million inhabitants, lower costs of doing business and higher rates of economic growth, but are less developed than China's first-tier cities (Beijing, Shanghai, Guangzhou, and Shenzhen). The Chinese government is also investing heavily in their industry and infrastructure.
- **Food Safety:** In recent years, the Chinese government has increased its vigilance regarding food safety measures. Food scandals and rising consumer power have led to demands for stricter safety standards, and a newly introduced law now regulates the production and handling of food. However, it has been reported that some independent operators have cut corners on hygiene and food quality in response to regulation costs. Safety concerns generally benefit global chains, since their reputations for safety and quality are attractive to many consumers.
- **Tourism:** China has a vibrant tourism sector. The number of Chinese vacationers has risen to 750 million and the number of domestic trips has increased to 1.2 billion. The largest demographic of vacationers is the 15-34 age group, which accounts for over half of domestic tourists. The Chinese government is investing heavily in infrastructure and recreational areas to create international tourist destinations. By 2020, China is expected to be the world's most popular destination, attracting 130 million international tourists each year.

Threats

- **New Entrants:** The high margins in some foodservice subsectors have attracted competitors. Pizza Hut's success, with its higher prices and transaction values, has drawn substantial attention among China's domestic competitors. In general, there are low entry barriers to this sector and many potential entrants, both domestic and international, are eager to capitalize on China's rapid growth. As such, profit margins could fall as the competition increases which, in turn, would put downward pressure on supplier margins.
- **Consolidation:** There is a trend toward firm consolidation, primarily amongst chained operators, as national companies are acquiring smaller, local chains to become more competitive, access greater funding, and diversify their product mix. For instance, Yum! Restaurants is in the process of acquiring Little Sheep to increase its number of outlets and enter the Asian-style fast food market. Chained operators have increased their market share from 6% in 2005 to 8% in 2010, and are expected to reach 9% by 2015.

► TOP COMPANIES

Yum! Restaurants

Yum! Restaurants, the owner of KFC and Pizza Hut, is the leading company in China's foodservice sector, with sales of US\$4.8 billion in 2010, and more than 4,100 outlets in over 500 cities. The company operates in chicken fast food, full-service restaurants, and 100% pizza home delivery/takeaway. It has doubled its sales and number of outlets since 2005, and has a goal of expanding to 20,000 outlets, primarily in lower-tier cities. It sources 90% of its materials from local suppliers.

McDonald's

McDonald's is the second-largest foodservice company in China, with US\$1.6 billion in sales in 2010 and over 1,300 outlets in mostly first- and second-tier cities. It operates burger and chicken fast food restaurants and specialist coffee shops. McDonald's has adapted its menu to include more chicken, as beef is not as popular in China. The company plans to double its outlets over the next three years. McDonald's sources 95% of its materials locally.



► TOP COMPANIES (continued)

Ting Hsin

Ting Hsin is a Taiwanese-owned, Chinese-based company that operates Dico's and Master Kong Chef's Table. With sales of US\$935 million and more than 1,100 outlets in 2010, the company is prominent in lower-tier cities. It serves Asian cuisine and chicken fast food, and also operates in retailing, real estate, and packaged food manufacturing. The company sources from leading international packaged food and beverage suppliers to maintain a reputation for safety and quality. For example, McCain Foods supplies Ting Hsin with frozen processed potato products.

Little Sheep

Little Sheep had US\$566 million in sales in 2010 and maintains over 490 outlets, making it the fourth-largest foodservice company in China. It is an Asian full-service restaurant chain that specializes in hot pot cuisine. Little Sheep also manufactures packaged food and has its own lamb-processing and sauce-making factories. It plans to expand with outlets in first- and second-tier cities. Yum! Restaurants currently owns 20% of Little Sheep and is expected to fully acquire the company.

Inner Mongolia

Inner Mongolia operates Asian full-service restaurants that offer hot pot cuisine, and registered US\$468 million in sales through over 480 outlets in 2010. The company is vertically integrated, with production facilities for lamb processing, as well as frozen food and sauce manufacturing. It is most prevalent in the Inner Mongolia region, but also has outlets in China's first-tier cities. Inner Mongolia sources from domestic suppliers.

► CONCLUSION

China's economic growth represents a significant opportunity for Canadian agri-food exporters. In recent years, the foodservice sector has grown dramatically, due to rising incomes and higher consumer expenditures. In turn, this has fuelled demand for agri-food products and led to an emerging interest in Western cuisine and food products. Indeed, Canada is currently well-positioned as a top agri-food exporter to China, and growth is expected to continue with the expansion of foodservice chains into lower-tier cities and the emergence of China's tourism industry. However, Canadian exporters must compete against other foreign suppliers and face potentially low margins as result of rising price competition and buyer consolidation in the foodservice sector.

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Foodservice Profile: China

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