



# IN NEED OF FRESH IDEAS

China's big-box grocery needs to think fresh and fun  
to turn-around performance

# BIG-BOX GROCERY HAS ENDURED A TORRID PAST 18 MONTHS

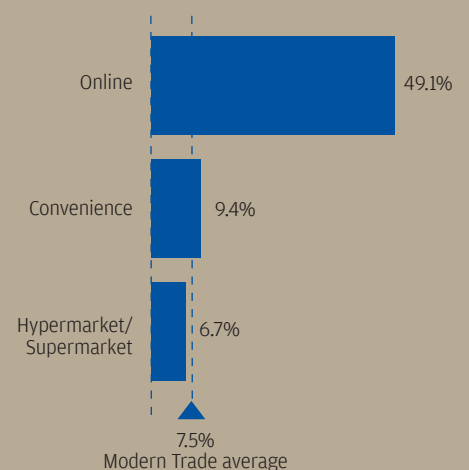
China's big-box grocery retailers (supermarkets and hypermarkets) were among the darlings of Chinese retail for much of the past decade. They expanded rapidly throughout the late 2000s and offered consumers a one-stop venue for all their grocery and non-grocery needs, even including a sit-down meal from the attached mini-malls. The rental from the attached malls also provides grocers with an attractive additional revenue stream

Today though, the glory-days seem over as they have come under attack from all sides and in particular from online. Online offers a more convenient and often cheaper

way to buy packaged grocery, consumer electronics that make up over three quarters of a typical hypermarket's sales. Meanwhile, shopping malls offer a far superior day-out experience for consumers with wider ranges of F&B, entertainment and apparel retail than the hypermarket-attached malls

The results are chilling, with negative like-for-like sales across nearly all the major players and ongoing growth supported almost entirely by new store openings. Overall growth rates have also fallen well behind convenience stores and online channels

Grocery market value growth by channel, 2013 - 14  
YoY % Modern Trade Only

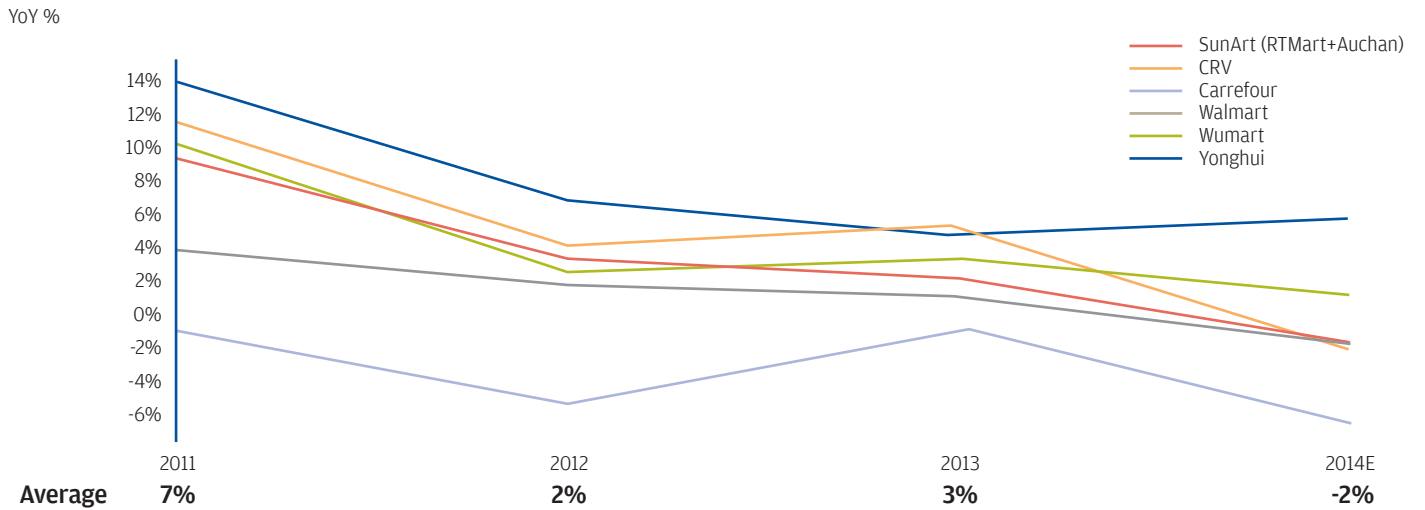


Source: Euromonitor, OC&C analysis





Same stores sales growth of selected grocery retailers in China, 2010 - 2014E



Source: Company accounts, analyst reports, OC&C analysis

# WITHOUT CHANGE, CONSUMERS WILL CONTINUE TO TURN AWAY FROM BIG-BOX GROCERY







One perhaps unexpected potential survivor from the impact of online is the traditional wet market. Consumers will always need to buy fresh food and, despite strong efforts from the online players to develop these areas, it remains principally the domain of

offline grocery. At a high level there are two categories of offline grocers: first the modern trade, including hypermarkets, supermarkets and convenience stores, and secondly the traditional trade including wet markets and fruit stands. Many shoppers

will use a combination of modern trade outlets and wet markets for their weekly shopping; the latter used primarily for fresh meat, fish and vegetables

## Example grocery shopping diary - venue and category shopped

40 year old housewife, Tier 2 city

	Mon	Tue	Wed	Thu	Fri	Sat	Sun
Fresh - Meat & fish							
Fresh - Produce	 						
Food grocery	 						
Non-food grocery							

Source: Customer shopping diary, OC&C analysis



Supermarket/  
Hypermarket



Convenience store



Wet market

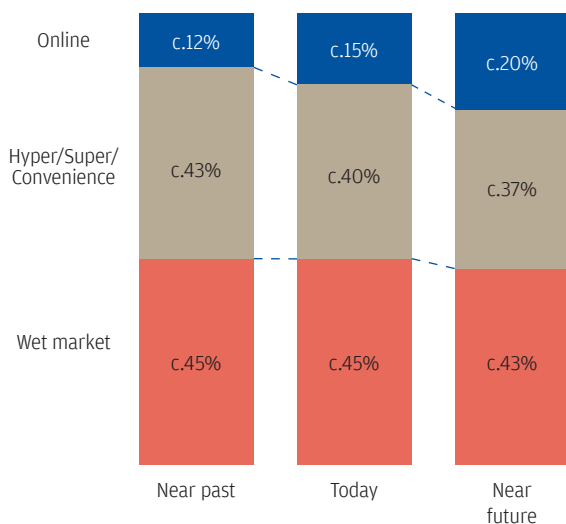
When consumers migrate online the first things that typically move are expensive durable goods, often followed by packaged grocery. This has made offline shopping increasingly focused on fresh food, the core of the wet market proposition. We see visiting frequency to big-box modern retail declining far more rapidly than for wet markets as consumers stay loyal to the best fresh food propositions

An extreme bear-view would imagine a future where the consumer base bypasses much of the modern big-box offline trade. In the same way that large electricals have already largely disappeared from hypermarkets, so packaged goods may do the same. Consumers would buy packaged goods either online or in convenience stores and then fresh food largely from the wet market where the choice, price and

perceived freshness tends to be better. This would see the remaining 80% of non-fresh spend in super/hyper-markets as easy pickings for online, pointing a bleak future indeed for store like-for-likes

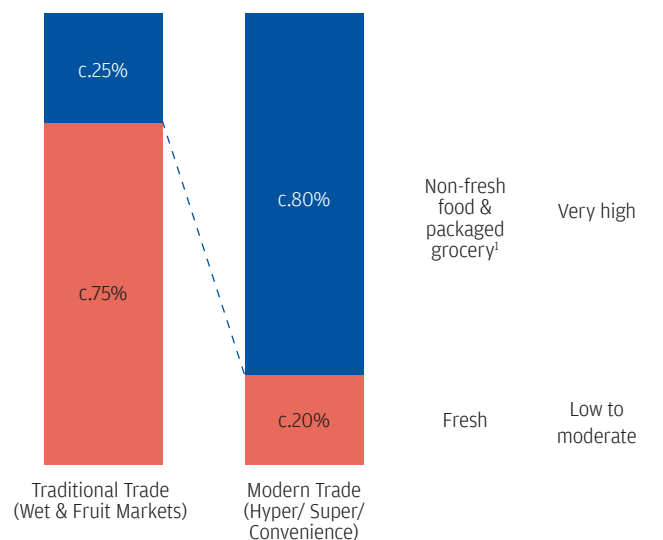
## Online is taking share of visits directly from modern offline grocery

Share of # visits in one month  
% of # visits in one month, N=815



## Modern offline grocery's sales mix is still highly exposed to online

Share of spend per customer, 2014  
% of spend



Q. How often do you currently shop grocery in each of the following channels?  
Source: Consumer survey, OC&C analysis

Q. Since you started to shop grocery online, how has your frequency of shopping in each of the channels changed?  
1. Including staple food, RTE, packaged food, non-food grocery  
Source: Consumer survey, OC&C analysis

# BIG-BOX GROCERY NEEDS TO THINK FRESH TO REDISCOVER ITS DESTINATION STATUS

Abandoning big-box stores would be both premature and expensive to say the least but grocers do need to focus on re-vamping their propositions. We see four areas that the big grocers must act on in order to survive:

## 1. Further investing in fresh produce to drive loyalty

Even more so than before, fresh food is the key offline battleground. Grocers must be prepared to further invest in their propositions to drive customer loyalty. With fresh food typically low-margin or loss-making for the majority of grocers this will be an unpleasant, but essential, option for many to win back customers. The key opponents here are not necessarily other supermarkets and online but the traditional wet markets. It is no coincidence that in OC&C's annual retail proposition index customers typically rate grocery chains with the best fresh produce offering the highest

## 2. Reviving large-formats as destination venues by revamping co-located shopping malls

Including more and/or better quality F&B and entertainment in the associated malls will help recover some of the destination element to

big-box venues. This is a similar trend to that highlighted in OC&C's previous publications on the shopping mall landscape. While unlikely to ever rival a full-scale mall as an entertainment venue, there are still significant gains to be made for rising traffic, both to grocery sales and tenant income

## 3. Building online, notably multi-channel, capabilities

Trying to win against online operators in long shelf-life, easy-to-deliver, packaged goods is a challenge many have tried and failed in other markets. Grocers need to compete online but the key is not to simply try and take on the likes of YiHaoDian and JD.com at their own game. Grocers are late starters in the online space but can leverage their brand trust to attract online shoppers as well as using their regional store networks to deliver multi-channel shopping experiences such as click-and-collect

Several grocers have already begun to build online. RenRenLe are trialing ordering kiosks in its smaller stores to allow customers to order products not available in that store; these can be picked up in-store next day or sent for home delivery. Sun-Art Group (Auchan and RT-Mart) has Feiniu.com which already boasts over 400,000 active

members; the group is showing clear intent here to take online seriously with over 500Mn RMB of capital already invested by the end of 2014

## 4. Developing smaller / more focused store formats

As bulk buying packaged goods becomes less important to weekly shopping so convenience becomes more important. As in many developed markets, China's grocers should start to develop their smaller store portfolios. This can be both expanding the current network of mid-sized community stores or developing and piloting smaller format local stores. There are significant operational challenges for a big-box operator moving into smaller stores, notably around logistics and margin management, making it important to test the waters first rather than to dive straight in





## Big-box grocery retail is unlikely to continue to grow strongly in its current format in China

The future will likely see many players forced into modest store closures where declining like-for-likes are unrecoverable from improvements to the local store

As this plays out we may see consolidation of the offline landscape as players look to drive scale efficiencies. China's modern trade grocery remains relatively fragmented; its top 10 players represent only around 15-20% of modern trade spend compared to 80-95% in many Western European markets

This said it's not all doom and gloom for the big hypermarket groups and it would be a mistake to write them off. Even before they begin to adapt, they retain the strongest buying scale in many categories, and hold prime shopping locations they can leverage

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