China’s agricultural supply chain

Primary production
- Seedlings
- Fertilizers
- Farm management
- Agriculture supplies
- Species planning

Processing & manufacturing
- Grade classification
- Preservation processing
- Food processing
- Commercialization
- Packing processing
- Storage

Distribution
- Cold chain distribution
- Channel planning
- Distribution network

Retail
- Product planning
- Marketing
- Last mile delivery

Source: compiled by Fung Business intelligence Centre
Issues in China’s agricultural supply chain

- Upstream suppliers tend to control all core and non-core processes
- Multiple layers of distribution channels
- Poor collaboration among stakeholders along supply chain
- Incompetent temperature control along the entire supply chain
- Low traceability of food products

Source: compiled by Fung Business intelligence Centre
Internet + agricultural industry

- Natural entry barrier of agricultural industry is very high, due to the complexity of traditional agricultural supply chain and multiple layers of fresh food distribution channels.
- However, with the popularization of the internet, cloud computing, internet of things and mobile internet, the distribution channels of farm produces have undergone tremendous changes.
- More and more enterprises enter the traditional agricultural industry through e-commerce or adopting O2O business models.
New channel: fresh produce e-commerce

- Food products currently accounted for 10% of online shopping in China, in terms of number of shoppers
- Food products will become the third largest online shopping category in 2017

Market size of fresh produce e-commerce in China, 2011-2017
(yuan, % annual growth)

Source: www.analysis.cn, compiled by Fung Business Intelligence Centre
Buying practices in China

- Most shoppers buy fresh produce from supermarkets/hypermarkets.

### Buying channels of fruit (%)*

- Supermarkets/hypermarkets: 87%
- Fruit specialty stores: 73%
- E-commerce: 51%
- Food markets/food stall: 40%
- Fruit wholesale markets: 33%
- Convenience stores: 24%
- Grocery stores: 13%

* Allow multiple selection
N=1227

### Buying channels of vegetable/ meat/ seafood (%)*

- Supermarkets/hypermarkets: 76%
- Food market: 63%
- Fresh produce specialty stores: 47%
- E-commerce: 38%
- Fresh produce wholesale markets: 34%
- Food stall/hawkers: 16%
- Convenience stores: 15%
- Grocery stores: 11%

* Allow multiple selection
N=1224

Source: Neilsen (2015), compiled by Fung Business Intelligence Centre
## Buying practices in China

- Freshness, convenience and price are the major factors affecting the shopping behaviour when buying fresh produce.

### Factors Affecting Shopping Behaviour

<table>
<thead>
<tr>
<th>Factor</th>
<th>Total N=1615</th>
<th>E-commerce N=1040</th>
<th>Supermarkets/ hypermarkets, convenience stores, dairy products specialty stores N = 1513</th>
<th>Grocery stores, food market/ food stall, fruit/ fresh produce specialty stores, wholesale markets, etc. N = 1406</th>
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</thead>
<tbody>
<tr>
<td>Freshness</td>
<td>79</td>
<td>46</td>
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<td>Convenience</td>
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<td>Cheap</td>
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<td>Quality guaranteed</td>
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<td>Food safety guaranteed</td>
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<tr>
<td>Variety of choices</td>
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<td>Promotion and discount</td>
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<td>Multiple grade of goods offered</td>
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<td>Different sources of goods offered</td>
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<td>Good reputation of the selling channel</td>
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<td>Allow tasting before order</td>
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<td>Imported goods</td>
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<td>After sale service guaranteed</td>
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<td>Environmental-friendly packing</td>
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<td>Good consumer services</td>
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</tbody>
</table>

Source: Neilsen (2015), compiled by Fung Business Intelligence Centre

* Allow multiple selection
Buying practices in China

- In Shanghai, more people shopped for fresh produce online than those in other China’s cities

Survey
Q: What kind of fresh produce did you shop online in the past three months?

A:
- Dairy products
- Fruit
- Seafood
- Meat and eggs
- Vegetable

Source: Neilsen (2015), compiled by Fung Business Intelligence Centre
* Allow multiple selection
Buying practices in China

- Door to door delivery is the most preferred delivery method provided by fresh produce e-commerce companies.
Latest trends in fresh produce market

• Intelligent operations in fresh produce industry is gaining attention, such as intelligent animal feeding, social marketing, smart logistics, etc.

• More and more companies are taking vertical integration approaches. Some may merge with their suppliers upstream, while some may integrate with their downstream distributors/retailers. By then, they can control product quality, standardization and cold chain logistics with lower costs.

• E-commerce has gradually blurred the delineation between fresh produce wholesale and retail.
Latest trends in fresh produce market

• More and more fresh produce e-commerce platforms start with serving local communities, and then gradually expand their scope to other regions.

• Apart from door-to-door delivery, more and more fresh produce e-commerce players explore new offline solutions in the communities, for instance, O2O experiential stores, smart lockers, cold storage, convenience stores pick-ups, etc.

• Household storage like refrigerators are getting bigger in size and volume nowadays, enabling shoppers to keeping more fresh produce at home.
Strategies deployed by the fresh produce industry

1. Differentiate from market competitors by identifying a market niche in a particular product category, a targeted group of buyers or regions, etc.

2. Extend control to upstream and downstream operations, and the control of cold chain logistics in particular.

3. Collaborate with other players, such as forming strategic alliance with regional leaders or local logistics operators.

4. Enhance shoppers’ experiences by allying with offline players in setting up offline channels.

5. Apply Internet of things. Examples are tracking and tracing system of fresh produce, along the entire cold chain, intelligence refrigerators, drone delivery, order via virtual wall, etc.

6. Standardization of operational workflows, logistical procedures, regulatory requirements, market entry mechanism, etc.

7. Employ professional cold chain operation and management techniques, and invest in developing cold chain logistics technology.
Forthcoming

China’s Fresh Produce Industry (2)

E-commerce Business Models
Contacts

Management Theories and Business Models

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