

Convenience Retailing - China - December 2012

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– Lui Meng Chow, Research Analyst

In this report we answer the key questions:

- As the convenience store segment approaches saturation in some tier one cities such as Shanghai and Guangdong, is there further scope for store expansion for convenience stores?
- As Chinese consumers' shopping habits are slowly evolving, how can convenience stores extend usage by targeting local consumers' need?
- How can convenience stores entice more consumers despite the fierce competition with the foodservice outlets and consumers' growing health concerns?
- How can convenience stores make the most of the store environment to engage better with the Chinese?
- How can convenience stores expand their range of products and services to meet the demands of evolving consumer lifestyles?

While the convenience store sector in China has expanded rapidly in recent years, there remains marked scope for further growth. While there are approximately 10,000 people per convenience store in urban areas in China, this figure is much lower at 2,400 in Taiwan – the most fiercely competitive market, and in other major markets like the US. China's convenience stores grew at a compound annual growth rate (CAGR) of 15.9% from 2007-12 to reach a market value of RMB46.5 billion.

As China's economy is growing rapidly, lower tier cities too are increasingly benefiting from this growth, with more consumers starting to be exposed to modern retail formats. Meanwhile, rising average incomes and the spreading influence of Western trends are seeing Chinese consumers become more willing to experiment and try new retail formats. While in wealthier cities, working consumers are increasingly pressed for time, making them both willing and able to pay more for convenience.

Unlike relatively small and homogenous markets like Japan and Taiwan, China is vast and consumer tastes and buying patterns vary widely from city to city. Even convenience stores under the same brand could have a different set-up, product and services offering to suit the local needs. Such tailoring to local demand and exploring new product and services areas look to become increasingly important as rents have skyrocketed in the past few years, and labour costs are increasing, leading to rising operating costs and pressure on margins.

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