

The Frozen Dumpling Economy

Sales of frozen foods are soaring in China, but rising input costs threaten a nascent industry

by MARK GODFREY

Chances are you didn't know that Syneer (思念) is the official dumpling supplier to the Beijing 2008 Olympics. Or, for that matter, that the Olympics even have an official dumpling supplier. The Olympics are the ultimate symbol of China's lightning-fast development, and with more economic opportunity comes less time to cook. As a result, more and more of the country's harried — and increasingly affluent — citizens are opting for the convenience of a late-night bag of frozen dumplings, or other easy-to-make frozen foods, in lieu of the fresh ingredients that have for centuries been the mainstay of the Chinese diet.

Local firms like Syneer currently dominate the industry in China, attracting investment and expanding fast. Some locals are even doing a brisk business exporting their products to overseas markets. However, the industry is plagued by a fragmented market, distribution problems, and, of course, the ever-present threat of competition from hungry internationals.

MARKET LEADERS

Syneer, along with another Chinese company called Sanquan (三全), both based in the central Chinese city of Zhengzhou, were the frozen food industry's top performers

in 2007, according to market research firm Euromonitor. Both were enthusiastically received by investors in their initial public offerings. Syneer raised RMB 640 million (USD 90 million) on the Singapore Stock Exchange in 2006. And Sanquan's massively oversubscribed listing on the Shenzhen Stock Exchange last February brought the firm RMB 500 million (USD 70 million).

Syneer in particular has expanded dramatically. The company is putting RMB 1.1 billion (USD 155 million) from its April 2006 share issuance towards expansion, including new plants in Sichuan, Zhejiang, and Guangdong, which will add 660,000 tons of extra production capacity by the middle of 2008. A new plant planned for Shenyang will supply the three northeastern provinces of Heilongjiang, Jilin, and Liaoning as well as Inner Mongolia.

In 2007, net profits at Syneer rose 17.2% to RMB 475.8 million (USD 67 million) on revenues of RMB 2.2 billion (USD 309.5 million). The rise was driven by an average 8% rise in retail prices on premium products, says company vice president Yap Soo Eng. Sales from frozen dumplings delivered RMB 1 billion (USD 140.6 million), followed by glutinous sweet dumplings, which totaled RMB 774 million (USD 108.9 million).

Yap credits an enlarged distribution network as a contributor to 2007 earnings. By the end of last year 604 distributors were selling its products across 20 provinces, up from 515 distributors in 2006. The company will "further expand" distribution, she says. To drive 2008 sales the company will also increase spending on TV and billboard adverts around the Beijing Olympics, said Yap.



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DUMPLING DELIGHTS

US food giant General Mills is marketing frozen dumplings to cash-rich, time-poor Chinese

EXPORT AMBITIONS

Some Chinese frozen food processors are already exporting their wares. Frozen dumplings and pork chop ship from the Chinese mainland to Japan, Korea, and the US. North America has proved an especially valuable market for Chinese frozen seafood products. Over 90% of Guangdong-based Yuanteng's (跃腾) packs of frozen squid and shrimp go to the US, according to company trade specialist Chen Yan. Frozen squid she says, accounts for 50% of Yuanteng's US sales.

Some Japanese companies, like Katokichi, have set up joint ventures in China to supply Japanese supermarkets with favorites like shrimp dumplings. And Polish company Iglotex has reportedly sought sites for a factory in



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the western Chinese city of Kunming. A company spokesperson refused to discuss plans but the company, which sources mushrooms for its frozen pizzas in Kunming, already has made a key market of Russia, a neighbor of both China and Poland.

FOREIGN CHALLENGE

Given all the obvious promise in the industry, you'd think that international frozen food firms would be flooding China. But the internationals have moved slowly in the Chinese market.

US-based General Mills is represented in China through its local brand called Wanchai Ferry. The brand targets the upper tier of the market, with products like gourmet dumplings and ready meals of chicken with shiitake mushrooms,

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and racked up sales of RMB 130 million (USD 18 million) in 2006. That's nothing to sneeze at, but consider on the other hand that General Mills is first in the industry worldwide, but only sixteenth in market share in China.

Foreign firms have struggled to compete against locals in traditional Chinese food lines, explains Joy Huang, a re-

search analyst at Euromonitor's Shanghai office. "It's not easy for foreign companies to enter the market," says Huang, and the market for western-style products such as potato chips remains "negligible."

Partnership with a Chinese firm has worked for some. Japanese food conglomerate Katokichi partnered with Taiwan's Long Fong Group, which has a 2.9% market share on the mainland. The partnership allows Katokichi to distribute its chicken and seafood products from its Chinese plants through the distribution network built by Long Fong, which in turn gets access to the Japanese firm's extensive sales network in its home market.

The arrival of foreign retailers has expanded the frozen food product range. UK-based Tesco, currently rolling out supermarket and convenience stores across China, brings a track record in convenience and frozen foods from its home market. Yet Tesco's frozen pizzas, fries, and waffles, drawn from the its vast European supply chain, have been slow to move. Frozen dumplings, *tangyuan* (glutinous rice balls), and steamed bread are the top three selling frozen products at Tesco's Chinese outlets, according to Bill Zhou, buyer manager for the company's Shanghai stores.

Chinese customers are keen to try Western-style frozen foods, with meatballs and ice cream top western-style performers at Tesco stores, but "only young people are willing to buy it frequently," said Zhou. He also added that consumption of ice cream remains low compared with Western countries.

Aside from dumplings, frozen balls of beef and pork are the best sellers in China. And for dessert, sticky rice cake and pumpkin buns were both top sellers in a 2007 ranking

of Chinese frozen dessert sales compiled by Euromonitor.

Most disappointingly for frozen food manufacturers, sales of ready meals, a staple of the international frozen foods industry, accounted for less than 1% of frozen food sales at Tesco China. In the US frozen cooked meal kits are a USD 2 billion per year industry according to the American Frozen Foods Institute, with frozen meat and seafood in second place, followed by pizza.

Market share for Western-style frozen foods would grow faster if foreign retailers such as Tesco didn't have to do their own sourcing, says Zhou. "Reliable agencies capable of sourcing frozen foods abroad are still hard to find in China," says Zhou.

"GREAT HARDSHIP"

As it turns out, the internationals are not the only ones having trouble in the China market. Chinese frozen food companies face their fair share of problems. For one thing, market share is fragmented. Last year industry leader Synear had 9% of the market share based on retail sales, followed by Sanquan, with 6.8%. Shandong-based Zhucheng Foreign Trade Group (诸城市对外贸易) and the Shandong Liuhe Group (山东六和) took 4.4% and 3.3% respectively in 2007.

Logistics pose another problem. China's still-patchy logistics industry means shipping frozen foods across the country's vast terrain can be costly and inefficient. Synear is now building new plants to ease distribution bottlenecks, the main barrier to growing market share.

And though the export market is rife with potential, rising costs are already squeezing the competitiveness of Chinese exporters. The price of most agricultural products rose last year and will likely