China E-Commerce & Fresh Food Sales Online

Mar 8th, 2016
Seafood Expo North America
Boston, USA

For Seafood Expo North America 2016 only.
Agenda

01 | The Market & Potential Opportunities

02 | Understanding Consumers

03 | Market Trends & Challenges

04 | Yiguo & Fresh Food Sales and Marketing Online

For Seafood Expo North America 2016 only.
The Market & Potential Opportunities

For Seafood Expo North America 2016 only.
Size of Online Fresh Food Market: Currently ~1% of Total 1 Trillion Fresh Food Market

- High Profitability
- High Stickiness
- Counter Cyclicality
- Huge Market Potential

Source: Baidu 2015 Fresh Food Industry Research Report

For Seafood Expo North America 2016 only.
Urbanization leads to continuous growth of urban population, enhancing **affordability** and the **condensity** that enables economy of scale in delivery.

**By 2020 China is expected to have:**

- **Urban Population**: 779,388,000
- **Urban Household**: 430,280,000
- **Household w/ One Child**: 204,411,000

*For Seafood Expo North America 2016 only.*

Source: National Statistical Bureau, Euromonitor International Consumer Lifestyles
Potential for Growth: Larger # of Wealthier Households

- # of high-income households expected to double by 2020.
- These households are mostly concentrated in the coastal areas and Tier one and two cities.
- Yearly disposable income continues to grow, with households earning 24k – 72k USD growing fastest.

Source: National Statistical Bureau, Euromonitor International Consumer Lifestyles

For Seafood Expo North America 2016 only.
Potential for Growth: Large Internet User Base

*Now*

**650 million** (~ half of population) are internet users

**560 million** w/ mobile access

**300 million** w/ online purchasing experiences.

*Future*

Source: Iresearch; 2015 China Fresh Food Online Business Development Report

Source: Iresearch; www.guancha.com

For Seafood Expo North America 2016 only.
Potential for Growth: Mobile Shopping Surpassing PC-End Purchase

PC vs. Mobile Sales in Online Retail Sales 2011-2018

Source: Comprehensive corporate financial statement and expert interviews. Verified by Iresearch statistical models.

For Seafood Expo North America 2016 only.
Potential for Growth: Growing Concerns on Food Safety

Due to serious pollution and frequent food safety scandals, consumers started to pay more attention to healthy lifestyles, traceable sources and appropriate processing, willing to pay more for reliable food, esp. imported food.

Source: Iresearch: 2015 China Fresh Food Online Business Development Report

For Seafood Expo North America 2016 only.
Potential for Growth: Government Support for E-Commerce

- Both central and local governments like BJ, SH, GZ, and Zhejiang issued specific policies to support e-commerce development years ago.
  - Supports are mainly cash rewards for opening e-businesses, achieving growth targets, attracting talents, tax reduction, office renting support, etc.

- More recently, the #1 central government policy release declared that the government would strongly support the development of e-commerce for agriculture products, as well as related logistics and financing instruments.

For Seafood Expo North America 2016 only.
Understand Consumers

For Seafood Expo North America 2016 only.
The 80, 90ers Became Main-Stream Consumers. Online Shopping Grows Into a Habit.

Young consumers **aging 20-29** make up over half of total digital shopper population. Over **one third** of digital shoppers hold a bachelor’s degree.

PwC reports show that each day **1/7 of Chinese consumers are doing online shopping.** This goes up to **60%** for each week.

Traditional retailers are facing pressure of customer loss and lower shopping frequency. **32% of urban households** buy FMCG through internet, a **44% growth** from two years ago.

For Seafood Expo North America 2016 only.

Source: Kantar Retail, FAS, Iresearch
Voices of Chinese Urban Households About Food

Eating outside everyday is not safe and healthy. Most wet markets are closed after work. And it’s not feasible to visit supermarkets everyday. (working families)

Air is so polluted. Food safety issue is raised everyday on TV. I really don’t know where to find safe food. (families with kids)

Imported food certainly is safer. But prices in supermarkets are too high to afford for daily needs. (housewives)

Wet markets are dirty. Too time-consuming to visit supermarkets. Don’t know what to do for myself. (working singles)

So many people to serve at home. Changing menu every day is so hard. Don’t know how to cook them even though new ingredients are seen in wet or supermarkets. (households with kids & elderly)
Yiguo Customer Profile

Yiguo Customer Age & Gender

- Age 30-45: 55%
- Age 20-30: 30%
- Above 45: 15%
- Under 20: 9%

Gender:
- Female: 75%
- Male: 25%

Source: Yiguo internal research

For Seafood Expo North America 2016 only.
Online Fresh Food Consumer Data by Baidu Research

Gender
- Female: 57%
- Male: 43%

Age
- 19岁以下
- 20-29岁
- 30-39岁
- 40-49岁
- 50岁以上

Life Status
- Single
- Couple w/o Kids
- w/ Kids
- Expecting

Location

Source: Baidu 2015 Fresh Food Industry Research Report
For Seafood Expo North America 2016 only.
Online Purchasing Frequency and Category

Have you ever purchased fresh food online?

- Yes 24.5%
- No, but interested 48.1%
- No, and not interested 27.4%

What frequency if yes?

- >= Once a week 12.4%
- Bi-weekly 11.1%
- Monthly 10.8%
- Rarely 65.8%

What food are you buying?

- Imported fruit 40.3%
- Seafood 33.2%
- Domestic fruit 25.2%
- Dairy 23.5%
- Meat 13.3%
- Vegetable 6.3%
- Others 11.3%

Source: China E-Commerce Research Center: 2015 China Fresh Food Industry Research Report. Sample size: a total of 9645 samples randomly selected based on Chinese internet user structure published by CNNIC.
## Consumer Incentives for Online Fresh Food Purchasing

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Non-students (%)</th>
<th>Students (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenient, saving time to go to supermarkets</td>
<td>66.1%</td>
<td>58.3%</td>
</tr>
<tr>
<td>Cheaper than offline markets</td>
<td>56.1%</td>
<td>52.4%</td>
</tr>
<tr>
<td>More variety</td>
<td>43.2%</td>
<td>48.2%</td>
</tr>
<tr>
<td>More imported goods</td>
<td>32.1%</td>
<td>32.1%</td>
</tr>
<tr>
<td>More organic food</td>
<td>27.2%</td>
<td>30.7%</td>
</tr>
<tr>
<td>Better quality than offline markets</td>
<td>26.3%</td>
<td>34.4%</td>
</tr>
</tbody>
</table>

Sample size: N(non-student) = 2645, N(student) = 355. Research done through the Click online community of Iresearch.

Source: Iresearch: 2015 China Fresh Food Online Business Development Report

For Seafood Expo North America 2016 only.
Market Trends & Challenges

For Seafood Expo North America 2016 only.
Current Eco-System for Online Fresh Food Retailing

Integrated Platforms
- Ali Cai Niao
- JD Self-Operated

Vertical Platforms
- Self-operated Networks by vertical retailers
- 3rd party distribution contracted

For Seafood Expo North America 2016 only.
Tmall Takes Majority Share of PC and Mobile Shopping in China

2014 Q1 Online B2C Retail Website Shares in China

2014 Q1 Mobile Retail Market Share in China

Notes: 1. Only online sales value is counted for online operators with comprehensive sales channels in B2C market. 2. Jingdong, QQ Net Sales, and Yi Xun Net are separately valued.
Source: Comprehensive corporate financial statement and expert interviews. Verified by Iresearch statistical models.

Notes: Historical data is adjusted based on Alibaba’s IPO files and corporate financial statements.
Source: Comprehensive corporate financial statement and expert interviews. Verified by Iresearch statistical models.

©2014.5 iResearch Inc.  www.iresearch.com.cn
Key Challenges for Online Fresh Food Business

- Building top-notch cold chain system and getting related funding
- Cold chain quality control, esp. for chilled and live products
- “Last mile delivery” a challenge, esp. in smaller cities
- Direct sourcing still a challenge to most online retailers given limited scale and lack of state-of-art storage and distribution capabilities
- A general “wholesaler mindset” of many suppliers, the lack of ready-for-consumer packaging, and the complexity to arrange domestic processing make direct sourcing hard
- Lack of quality standards for goods and services, and quality cannot often be ensured with current supply and logistics capabilities.
- Consumer understanding of many imported goods is weak and it will take time and efforts for the market to be educated and become mature
- Many consumers still expect lower prices online

Source: IResearch: 2015 China Fresh Food Online Business Development Report; Yiguo internal research
New Trends: O2O

Online retailers are seeking for offline partners (convenience stores, supermarkets, self-built offline stores, etc.) to test the O2O model, enhancing customer experiences in product and delivery speed.

Still hard to tell how successful the model will be in the near term.

Source: Baidu E-Commerce Graph Collections

For Seafood Expo North America 2016 only.
Yiguo & Fresh Food Sales & Marketing Online

For Seafood Expo North America 2016 only.
Yiguo’s 10-Year Exploration

Founded in Shanghai, Started with Fresh Fruit

Opened Beijing Office

Started expansion into multi-categories, incl. seafood

Revenue breaking 100 M RMB

Kicked off Partnership with Alibaba

Multiple Upgrades

2005

2007

2010

2011

2013

2014-

For Seafood Expo North America 2016 only.
Company Facts

- **SEVEN categories of fresh produce**, including fruit, vegetable, seafood, meat, poultry & eggs, pantry & beverage, and desert.
- **3200+ products** for sale around the year.
- Now the largest online one-stop shop specialized in high-quality fresh produce with self-owned logistic capability.
- Over **5 million** registered users.

For Seafood Expo North America 2016 only.
Seafood Sales @ Yiguo

#1 sales for most seafood products @ Tmall, the largest B2C platform in China

High-Quality Chilled/Frozen

Sashimi  |  Shrimp  |  Fish  |  Crab/Shellfish

For Seafood Expo North America 2016 only.
Sourcing footprints in 6 continents, 22 countries, 150 featured production bases

**Asia:** China, Thailand, Vietnam, Malaysia, Japan

**Oceania:** New Zealand, Australia

**Africa:** South Africa

**Europe:** Norway, France, Spain, Denmark, Germany, Greece, Belgium, Faroe Island

**North America:** United States, Mexico, Canada

**South America:** Chile, Peru, Uruguay

For Seafood Expo North America 2016 only.
Cold Chain Capability

Sourcing
In the forms of direct sourcing, joint operation, and trading. Long-term relations with government agencies, associations, suppliers, and im/exporters in various countries

Quality Control
Standardized QC and processing: 5 procedures + 18 sets of QC standards for specialized products

Storage
Self-operated DCs in SH, BJ, GZ, CD, WH, & JN. Four temperature areas for storage. Large order-processing capacity.

Distribution

For Seafood Expo North America 2016 only.
# Yiguo’s Multiple Sales Channels Targeting Different Consumers

<table>
<thead>
<tr>
<th>Major Sales Channel</th>
<th>Yiguo Role</th>
<th>PC Platform</th>
<th>Mobile Platform</th>
<th>Telephone Platform</th>
<th>TV Platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yiguo Official Website</td>
<td>Owner &amp; Operator</td>
<td>yiguo.com</td>
<td>Yiguo APP, Wechat Store</td>
<td>Individual VIP phone sales, text messages</td>
<td></td>
</tr>
<tr>
<td>Tmall Supermarket (Fresh Produce Section)</td>
<td>Exclusive Operator</td>
<td>chaoshi.tmall.com</td>
<td>Tmall App</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yiguo Flagship Store @ Tmall</td>
<td>Owner &amp; Operator</td>
<td>yiguoshengxian.tmall.com</td>
<td>Tmall App</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OCJ</td>
<td>Collaborator</td>
<td>ocj.com.cn</td>
<td>OCJ App</td>
<td>OCJ TV</td>
<td></td>
</tr>
<tr>
<td>Enterprise Client Websites</td>
<td>Operator/Collaborator</td>
<td>various enterprise client websites like ICBC.com</td>
<td>Enterprise client Apps</td>
<td>Enterprise phone sales</td>
<td></td>
</tr>
</tbody>
</table>

For Seafood Expo North America 2016 only.
Creativity in Marketing – The Apple Analogy

Analogy between the electronic “Apple” concepts and designs to that of the fruit apple

Sold 60,000 apples in the first hour, and 150,000 in two days

Fun, cool, and fashionable – creating passion among younger generation consumers

For Seafood Expo North America 2016 only.
Creativity in Marketing – Ignition of Avocado Passion

First online retailer introducing avocado to Chinese consumers and the largest so far

First online retailer making direct sourcing for avocados

Sold containers of avocados in one week through ‘pre-sales model’

Collaborated with Mexican Trade office to do large-scale consumer education online, which led to immediate embrace and passion for avocados by Chinese consumers (from a nearly no-awareness status)

Delivering culture, and lifestyle in addition to product

What is Guacamole? 😊

Ease, Cool, Leisure, Friendship, Caring for Self & Family
**Creativity in Marketing – Cherry Mania**

**First Launch of US Northwest Cherries in 2014**

<table>
<thead>
<tr>
<th>Partners</th>
<th>US NW Cherries Association &amp; American Trade Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>User Traffic</td>
<td>100k+ UV daily+ mobile phone PUSH</td>
</tr>
<tr>
<td>Sales</td>
<td>250 tons</td>
</tr>
<tr>
<td>Promotions</td>
<td>Diamond lucky drawl, Cherry delivery by US General Consul, Extensive media coverage</td>
</tr>
</tbody>
</table>

For Seafood Expo North America 2016 only.
Sales of New Zealand live seafood (green mussel, black foot abalone, sweet clam, and parrot clam) increased by 100 times during the promotion.

Cool and mouthwatering design; highlight of clean environment and food tracebility - raising passion and desire towards pure natural beauty and lifestyle (first time for many Chinese consumers to learn such products).

Recipes provided for cooking convenience.
• Collaborated with Zespri to promote an H5 mobile game featuring cute Zespri kiwi characters, subtly indicating product benefits in the game.

• Use Wechat to spread the game quickly among friends (e.g. encouraging score competition between friends and getting rewards when friends achieving higher scores.)

• Use social media to introduce the product and the game, covering 2.6 million target consumers (mostly white-collar females) within four days.
Creativity in Marketing – Co-branding


* Promotional Areas:  Cities Where Wei-Quan has sales, including Shanghai, Wuxi, Suzhou, Changzhou, Changshu, Kunshan, Nanjing, Yangzhou, Hangzhou, Ningbo, Jiaxing, Tianjin, Beijing, Guangzhou, Shenzhen, etc.

* Promotional Method:  Display Yiguo and Zespri info. on the bottle of each Wei-Quan (a total of 35 million bottles sold in all Wei-Quan channels); Consumer getting the chance of scanning barcode and getting free kiwi from Yiguo
Unique Sales & Marketing Advantages Online

1. Telling stories, show-casing traceability, and providing value-added services like recipes through words, pictures and video

2. Information reaches wide range of customers instantaneously

3. Direct interactions with consumers and getting quick feedbacks

4. Ability to collect and analyze consumer data to launch targeted marketing campaigns – particularly useful for new product introduction

5. Ease to use “event marketing” to boost sales and brand awareness

6. Able to use tools like “pre-sales orders” to learn consumer preferences ahead and reduce pressure on logistics

For Seafood Expo North America 2016 only.
THANK YOU

For Seafood Expo North America 2016 only.