



The modernization of fresh food retailing in China: The role of consumers



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ABSTRACT

Since 2002, the Chinese government has initiated the “Wet Market Transforming into Food Supermarket (WMTFS)” program that aims to transform the traditional fresh food retailing system into a more efficient system that adopts a supermarket operation mode. However, after years of effort, the process of implementing the WMTFS program has been painfully slow. In addition to several supply side factors, this paper focuses on the consumer demand side using survey data in three large Chinese cities to identify the factors affecting consumers' decisions to buy fresh food from traditional vs modern retail formats. It further explores regional differences in consumers' shopping behavior. We find that freshness, accessibility, and whether buyers can bargain are influencing factors and the effects of socioeconomic factors such as income and storage facility are very limited. In addition, we find regional difference exists in consumers' retail format preferences. We suggested that managers of fresh food supermarket should enhance product freshness and safety in the future. Meanwhile, since traditional retail formats are still preferred by many consumers, the policy-makers should give a further thinking on the specific way of transformation.

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1. Introduction

Since the 1980s, “wet markets” (also called free markets or open-air markets) have been the main channel for Chinese residents to buy fresh food and they have played an important role in the fresh food distribution system. With the arrival and development of supermarkets, the Chinese government has actively attempted to create modern national supply and logistic systems because they were considered to be more efficient than the traditional market system. Since 2002, the Chinese government has been implementing the “Wet Market Transforming into Food Supermarket” (WMTFS¹) program, which has been carried out in several large cities. However, after years of effort, the implementation of WMTFS programs has been painfully slow (Anqing Evening News, 2012; Quanzhou Evening News, 2013). This has happened due to a number of reasons: high cost of transformation (estimates indicates that a 1000-square meter market will need an investment of millions of Chinese yuan just for remodeling and infrastructure configuration), how to arrange the sellers in the

original market, and the high cost of fresh products operation (fresh products operation are characterized by high costs that associated with processing, sorting, packaging, refrigeration, and specialized store facilities, etc.) (Daily Business, 2003; Haikou Evening News, 2005; Chutian Golden News, 2006). Apart from the above supply side reasons, on the demand side, the problem with the WMTFS program also relates greatly to consumers' attitudes and patronage decisions. For example, evidence shows that there are still many consumers who prefer to shop at traditional wet markets rather than modern supermarkets (e.g., Maruyama and Wu, 2014).

The importance of consumers' choice behavior between modern vs traditional retail formats for the diffusion of modern retail formats has been highlighted in numerous studies; for instance, Goldman et al. (2002), Goldman and Hino (2005), Maruyama and Trung (2007), D'Haese et al. (2008), Hino (2010, 2014), Amine and Lazaaroui (2011), and Gorton et al. (2011). These studies have analyzed the role of consumers in the food retail revolution process from the consumer's perspective. Despite some studies appearing in the early stage of supermarket diffusion in China (Goldman et al., 1999; Goldman, 2000; Goldman et al., 2002; Hu et al., 2004; Ho and Tang, 2006; Bai et al., 2008), to our knowledge, no systematic research has been conducted to address retail format choice of Chinese consumers after years of supermarket diffusion in China. Therefore, the first purpose of this paper is to

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¹ In Chinese, it is called “Nong Gai Chao”. There may be other translations for this term.

identify the factors affecting consumers' decisions to buy fresh food from traditional vs modern retail formats in three large Chinese cities (Beijing, Shanghai, and Guangzhou).

China is a large country with considerable regional variation. These regional differences have fostered a retail evolution distinct from that occurring in developed countries such as the United States. Given this, policy makers and retailers are faced with the challenge of adjusting policy or strategy to local conditions. Consequently, a systematic analysis should cover a number of cities and regions. The second purpose of this study is to examine whether differences exist between the factors that influence consumers' choice of modern vs traditional retail formats in the three large Chinese cities.

2. Background and literature review

2.1. A brief introduction to WMTFS program policy in China

In China, 'wet market' usually refers to place that sell fresh produce in the open space or in a building. It mainly consists of a number of individual stalls that offer fresh fruit and vegetables, poultry, live fish, and fresh meat (Goldman et al., 1999; Ho, 2005). For decades, wet markets have been the main channel of fresh product distribution and are the main places for Chinese consumers to buy fresh products. Wet markets have several competitive advantages such as providing fresher products at a low price. Moreover, residents can satisfy their own preferences from a wide variety of fresh products and they can bargain over the price of the products, which for some consumers is enjoyable.

However, as a traditional business format, the disadvantages of wet markets are becoming increasingly apparent with the development of the modern retail system. For example, in wet markets, stores are cluttered, dirty, and disorganized (Goldman et al., 1999), which not only results in a poor shopping environment, but also causes food safety issues because of the difficulty of supervising food sources. In contrast, over the last few decades, the modern retail format of supermarkets has diffused into developing countries. This new modern retail system provides substantial benefits through scale economies, the adoption of self-service, and has long been supported by researchers in this field. Some researchers have suggested the strengthening and improvement of traditional markets (Bucklin, 1977; Ho, 2005).

In China, the authorities have also supported the development of modern supermarkets, and local governments have implemented relevant policies regarding the upgrade, adjustment, or transformation of wet markets. In September 2001, it was reported that the Beijing municipal government had decided to move wet markets out of the Third Ring Road within three years, and close down the open market. In a similar vein, in December 2001, the Guangzhou municipal government also advised they would advance the supermarket-style provision of fresh food (namely, "fresh food supermarkets" in China) in the next phase. Following changes by Fuzhou City in 2002, other cities such as Wuhan, Shenzhen, and Nanjing started to change the wet markets to fresh supermarkets. Hence, a WMTFS program has been implemented in China.

The basic objective of the WMTFS program is for governments to encourage large enterprises to participate in the investment and transformation of traditional wet markets, aiming to transform wet markets into fresh food supermarkets that adopt the supermarket business mode that is highly organized with standardized products and services. Among them, Fuzhou, Shenzhen, and Wuhan are the best examples. For example, the Fuzhou municipal government has introduced a large retailer, Shanghai Hualian, and nurtured local retailers such as Yonghui to develop fresh food

supermarket chains. The government encouraged and supported these large retailers to build their own fresh food production base. Thus, the process of purchasing fresh food has been considerably simplified. In addition, as supermarket chains usually adopt centralized bulk purchasing, the cost of purchasing fresh food has been reduced greatly and fresh food prices are even lower than in the traditional wet markets. Among the newly built fresh food supermarkets, some of them have been transformed directly from old wet markets; for wet markets that were not suitable for direct transformation into fresh food supermarkets, the government upgraded or built a fresh food supermarket nearby to force the old wet market to close because of market competition. It is reported that up to the end of 2013, 84 wet markets have been transformed to fresh food supermarkets in Fuzhou City (Zheng, 2013).

Even though actively encouraged by the government, after ten years of attempts, the process of WMTFS program is not without challenges (Anqing Evening News, 2012; Quanzhou Evening News, 2013). For example, in 2002, Guangzhou began the transformation of 80 wet markets. However, only around 10 had begun operation in 2003; similarly, Fuzhou, Wuhan, Hangzhou, Suzhou, and other cities have all experienced difficulties. Problems and challenges that WMTFS program is facing come from several aspects, such as its high cost but slow return; how and where to relocate the retailers working at the old wet markets etc. Besides these important factors, undoubtedly, how consumers make their choices between traditional wet markets and supermarkets will also influence the success or failure of WMTFS program. In this study, we focus on this demand side factor by analyzing the influencing factors of Chinese consumers' choice between traditional wet markets or supermarkets.

2.2. Factors that influence consumers' use of supermarkets in developing countries

The expansion of modern retailing formats represented by supermarket diffusion in developing countries—sometimes referred to as the "supermarket revolution"—has attracted the interest of many researchers (e.g., Lo et al., 2001; Cerviño and Boonache, 2005; Maruyama and Trung, 2007; D'Haese et al., 2008; Paswan et al., 2010; Suryadarma, et al., 2010; Amine and Lazaaroui, 2011; Gorton et al., 2011; Sehib et al., 2012; Amine and Tanfous, 2012; Maruyama and Wu, 2014). From a macro perspective, the rapid diffusion of supermarkets in developing countries is driven by trends such as rapid income growth, urbanization, and a reduction in the regulations for foreign direct investment, etc., in the developing countries (Reardon and Berdegue, 2002; Traill, 2006).

Some studies (e.g., Goldman et al., 2002; Goldman and Hino, 2005; Hino, 2010) have investigated empirically the components driving the supermarket diffusion process by analyzing consumers' usage behavior. The authors suggested that the diffusion of supermarkets can be divided into consumer segments and product categories dependent diffusion. Correspondingly, they identified factors such as travel time, socioeconomic factors (e.g., income and car ownership), and retail outputs as the main factors that impact consumers' use of supermarkets.

Supermarkets are firstly viewed as the rich consumer's place to shop (Hu et al., 2004; Goldman and Hino, 2005). As supermarkets make one-stop shopping possible, wealthy consumers who are able to transfer to modern formats through their car ownership and their large storage capacity are more likely to switch to one-stop shopping (Goldman and Hino, 2005). Fundamentally, they also have a much stronger incentive to do so as they are likely to suffer higher opportunity costs when doing multistop shopping at traditional small stores (Goldman et al., 2002; Goldman and Hino, 2005; D'Haese et al., 2008). On the other hand, consumers also perceive supermarkets as a place for the upper and middle classes

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