Beef Marketing Channels in China

Xiong Cunkai
Institute of Agricultural Economics
Chinese Academy of Agricultural Sciences

December 2000

Agricultural and Natural Resource Economics Discussion Paper 3/00

School of Natural and Rural Systems Management
University of Queensland
St. Lucia 4072
Australia

Beef Marketing Channels in China

Xiong Cunkai
Institute of Agricultural Economics
Chinese Academy of Agricultural Sciences

Abstract

Since the1990's, beef marketing in China experienced a great change from a monopoly operation by the state-owned companies to a diversified operation including various marketing channels and operators. In the first part, the paper outlines the structure of the beef marketing system in China. Then, it analyzes the major features of all these channels, and estimates their marketing volume, market share, beef quality and beef prices separately, basing on the investigation to the main production areas and consumption areas in Henan Province, Hebei Province, and Beijing.

1. An Overview of Beef Marketing System

Beef marketing in China has undergone massive changes during the last years since the market reform started in 1985. Before 1985, most food products, including beef, were distributed through the state-owned companies. Since the market reform was launched in 1985, the state monopoly of the circulation of livestock products has been abolished and replaced by a marketing system in which state, collective and private channels co-exist and compete with each other. Many new components have emerged in the cattle and beef marketing system. Among them, there are live cattle markets, cattle purchasing specializing households, individual slaughtering households, beef dealers, wholesale markets, butchers shops and supermarkets. Marketing channels are now made up of individual operators, firms (private and state-owned) and some institutions which are large in number and diverse in terms of ownership.

Figure 1 gives us a general outline of the structure of cattle and beef marketing system. The two upper squares are beef cattle producers. Cattle produced in cattle raising households are sold on the live cattle markets, or collected by the cattle feedlots, or purchased by some cattle purchasing specializing households. Then, the feedlots continue feeding and fattening the cattle collected from farmers and selling them later to the abattoirs. Other cattle are either sold indirectly by the cattle purchasing specializing households to individual slaughtering households and butcher shops, or bought directly by abattoirs and some individual slaughtering households from the live cattle markets. Beef processed by abattoirs are sold directly or indirectly through beef dealers to some star-hotels and restaurants, fast food chains, and some supermarkets. Beef processed by the individual slaughtering households are primarily sold through the beef dealers to the final consumers, including wholesale markets, institutional buyers, supermarkets, fast food chains, hotels, and restaurants. The peddlers buy beef from the wholesale markets to sell on the morning markets. And some institutional consumers also buy beef from the wholesale markets. As to the private consumers, they usually buy beef from morning markets, supermarkets and some small butcher shops on the street. (See figure 1)

2. Marketing Channels for Live Cattle

There are two important marketing channels for live cattle: live cattle markets and cattle purchasing specializing households.

2.1 Live Cattle Markets

The live cattle market is of very importance in cattle marketing. In China, the cattle production is usually small in scale and scattered in areas, therefore, establishment of live cattle markets facilitate the buyers' collecting of cattle, and at the same time, not increase too much of the costs and prices offered to farmers. In addition, live cattle markets can also serve as a place of information gathering for all participants of beef industry, particularly the individual farmers.

Most of the live cattle markets are organized by the township government. There are some simple facilities in these markets, such as stalls to hold cattle. Generally, the sellers in the live cattle markets are cow-calf producers and feedlots, and the buyers are some cattle purchasing specializing households, the individual slaughtering households, and some abattoirs. Sometimes cattle are purchased again by the feedlots or farmers to feed and sell at a later time and at a proper price.

The market size, operation ways, and organization methods of live cattle markets are of great difference among various regions. Depending on cattle density, the market generally operates every 3 to 5 days. The one-day sales volume ranges from 100 to 200 head in a small-scale market to more than 1,000 head in a large-scale market. For example, the average scale of live cattle markets in Dachang county, Hebei province is about 200 to 300 head, while the volume of cattle sold in a big live cattle market in Qipenshan township, Chengde City, Hebei province, can reach to 1,500 head one day. In Henan province, there were about 1,432 livestock markets operating in 1995, with an average annual sales volume of 2,160 head. In Henan, the total number of cattle traded in live cattle markets is estimated at 3.1 million head, which is about 70% of all cattle traded. The Hebei Animal Husbandry Bureau estimates that about 80% of cattle marketed locally are traded through live cattle markets (Agriteam Canada Consulting Ltd. 1996, *Background Mission Report*). It is no doubt that at least more than two third of cattle marketed in China are traded through live cattle markets. So the live cattle market is a major outlet for cattle-raising farmers.

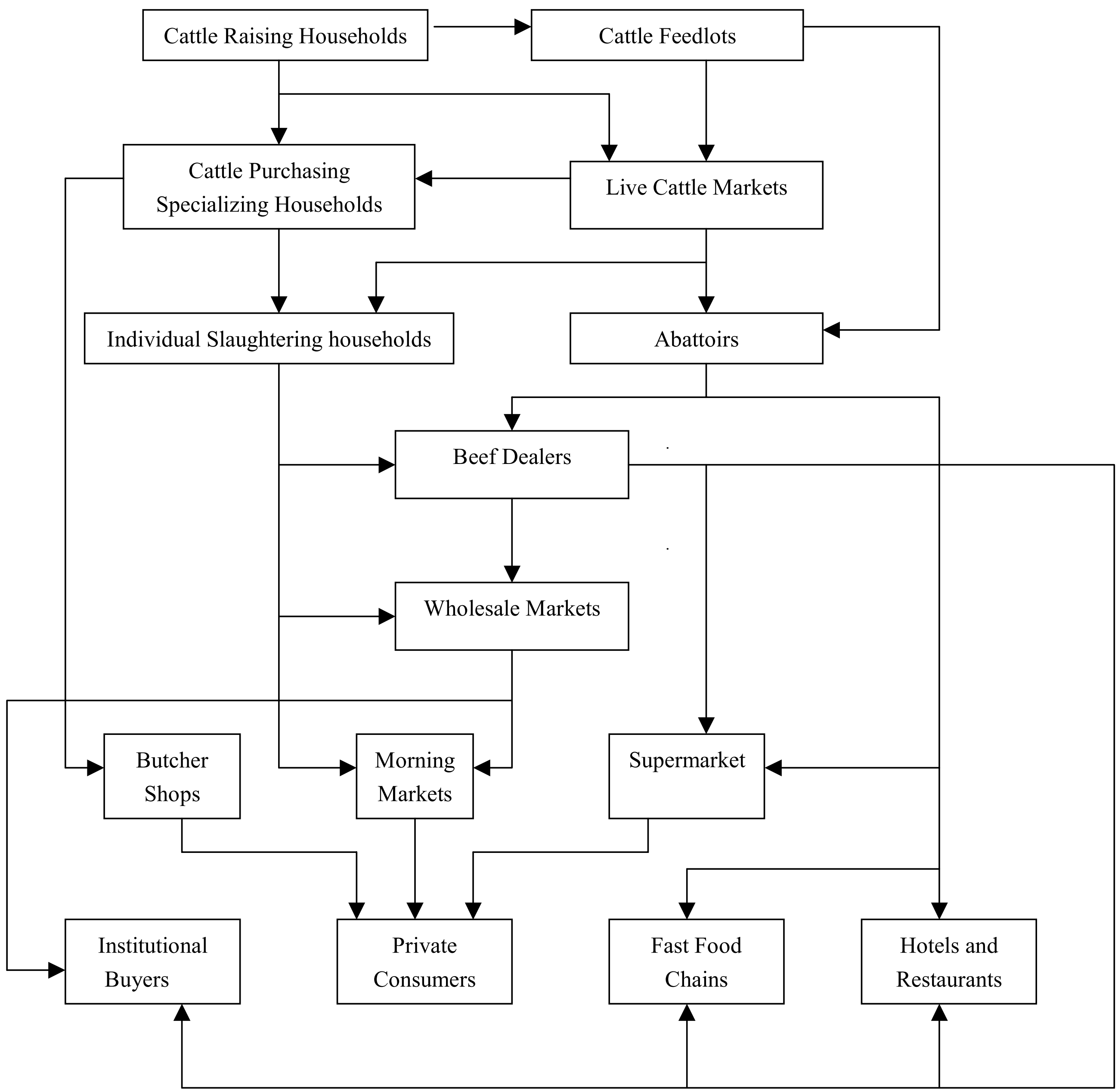

Figure1 Beef and edible-products sale channels in China

2.2 Cattle Purchasing Specializing Households

Cattle purchasing specializing households are independent operators who buy cattle from farmers or live cattle markets, and then sell the cattle to slaughtering households or the butcher shops for a profit. So they are important medium between cattle producers and slaughterhouses. Especially in places where live cattle market is not available, such as in mountainous areas, the cattle purchasing specializing households often play a very important role in collecting cattle. For instance, in Pu County, located in a mountain area of Shanxi, there are more than 70 cattle purchasing specializing households. They are licensed by the county Commerce Administration Bureau and usually charge 3% of the sale value for commission. The local Animal Husbandry Bureau estimated that they accounted for about one third of cattle marketed in 1995, roughly in the neighborhood of 4000 to 5000 cattle (Agriteam Canada Cnosulting Ltd. 1996, *Background Mission Report)*. According to our investigation in Henan Province, cattle purchasing specializing households also widely exist in cattle producing areas. The Nanyang Animal Husbandry Bureau estimated that about 20-30% of the cattle marketed locally was traded through cattle purchasing households. Mazhuang Township in Yiexian County, Henan Province is a big slaughtering township with 95% of its agricultural production value came from cattle slaughtering in 1997. The local abattoirs estimated that more than half of the cattle slaughtered locally (about 150,000 head in 1997), came from cattle purchasing households. And many cattle were purchased from other provinces, such as Hubei, Hunan, and Sichuan. Therefore, we can estimate roughly that cattle purchasing specializing households account for about one third of total live cattle marketing.

3. Abattoirs and Individual Slaughtering households

Abattoirs and individual slaughtering households are both producers and suppliers of beef. Since they are basic outlets of live cattle for farmers and major sources of beef for consumers, they play an important role in the chain of beef marketing. Moreover, many abattoirs and individual slaughtering households have their own marketing channels and they often sell beef directly to the markets. Actually they occupy a quite large share in beef markets.

3.1 Abattoirs

Abattoirs here mean those larger in scale and with modern slaughtering equipments, and have their own refrigeratories. Various kinds of ownership can be find in abattoirs. For example, some are state-owned abattoirs, some are joint venture abattoirs, some are private investment, and some are foreign investment. There are no official statistics of the exact numbers of the abattoirs. According to Lin Xiangjin and Ian Jarratt, there are 121 beef abattoirs and processing factories with slaughtering capacity of over 10,000 head in 1996. The total slaughter capacity of them is 2,470,000 head of cattle per year. Among them, only 8 abattoirs are large in processing scale, with an annual slaughter capacity of over 30,000 head of cattle, others are between 10,000 to 30,000 head (Lin Xiangjin and Ian Jarratt, 1997, *Beef Marketing in China.).* Anyhow, the number of abattoirs is much more than the above figures basing on our investigation to some provinces recently. For instance, in Lianing Province, there are 58 abattoirs. Most of them are for pig slaughtering, but many of them have a workshop for cattle slaughtering. In Beijing, there are 17 abattoirs now. Their slaughtering capacity ranges from dozens head per day to several hundred head per day. In Yiexian county, Henan province, there are 33 abattoirs by the end of 1998. The capital for each of them is over 5,000,000 Yuan, and all of them have their own refrigeratories.

Recent years, along with the rapid development of beef production, competition in beef marketing is becoming more and more acute, especially from the individual slaughtering households. In order to stabilizing their beef market share, many abattoirs, often the big ones, have organized marketing teams, established marketing agents in big cities and major export ports, set up their own marketing networks, and have a rather steady relationship with some institutional buyers. Some of them have been approved to export directly. Nanyagn Meat Processing Co., for instance, has got the right to export beef directly. More than 80% of its beef products are exported. Among those marketed domestically, 70% are sold outside Henan Province. The other 30% sold inside Henan province are mostly sold to Zhengzhou and other big cities. It has set up 6 sale offices in Shanghai, Guangzhou, and other large cities.

At the same time, to maintain cattle supply in low season and to guarantee beef quality produced, some abattoirs, especially those with larger processing scale and produce high-grade beef, have set up their own feedlots. Hua An Meat Co. Ltd., for instance, has invested 2 million Yuan to set up its own feedlot to guarantee cattle supply and beef quality. The feedlot can provide 6000-7000 head of cattle annually to the Hua An Abattoir. Most of their products are high-grade beef, and are often sold directly to the star-hotels, restaurants, and embassies by their own refrigerator cars. In order to enlarge its market share, it has also established its own marketing organization of more than 30 salesmen and set up branch marketing agents in many major beef consumption cities, such as Beijing, Shanghai, Guangzhou, Xian, and Chongqing.

3.2 Individual Slaughtering Households

Individual slaughtering households are allowed to operate business of cattle slaughtering since the market reform in the late 1980's only if they accept the food health standards provided by the government. Compared with the abattoirs, they are much smaller in operation scale, and major labors of the individual slaughtering households are often their family members and sometimes hire two or three workers. They usually maintain their own buying yards. In general, the prices of cattle to be slaughtered are either estimated at live weight, or at actual carcass weight. In the later method, by-products are usually priced separately and the farmer has an option to sell by-products himself. After slaughtering, they sell beef to rural fairs or city markets (if it is not far from the city markets). In the later case, the beef is mostly transported and sold to the wholesale markets or morning markets through beef dealers. Most operators of such small-scale individual slaughtering households are Muslim minorities. Gongmazhuang village near Zhengzhou, for example, is one of the special cattle slaughter villages. Nearly 90% of the villagers are Muslims and 60% of the villagers are engaged in cattle slaughtering. They buy cattle from the nearby farmers or live cattle markets in the neighborhood counties. They can kill about 50 head of cattle per day on an average, and sale the beef next early morning to Zhengzhou.

Since the number of individual slaughtering households is not available, we can only estimate roughly about their share in beef marketing.

We noticed during our investigation that in rural areas nearly all the beef consumed are supplied by individual slaughtering households, while in urban areas, beef market is formed by various kinds of suppliers. Therefore, it is better to estimate separately about the different level of beef markets.

(i) The level of town and township:

We know that rural residents in China often purchase meat, including beef, on local fairs. So if we know the beef marketing amount on such fairs, we could estimate how much beef are marketed through individual slaughtering households in these markets. In rural areas each town or township has a fair, with a few large ones have two fairs. We suppose each of them has 1.1 fairs on an average. These rural fairs open every 3 to 5 days. We suppose they open every 4 days on an average. According to the Animal Husbandry Bureau of Henan and Hebei, about 2 head of cattle could be slaughtered and sold on each fair day. In China there are 43,112 towns and townships by the end of 1996. Then, total slaughtering and marketing amount at the level of towns and townships could be 8,654,734 head of cattle annually.

(ii) The level of county

Also according to local Animal Husbandry Bureau in Henan and Hebei, about 7-8 head of cattle during winter and about 2-3 head during summer could be slaughtered and sold per day in each county averaged. There are 2,135 counties in China. Supposing 7.5 head/day in half an year and 2.5 head/day in another half year could be slaughtered and sold in one county, then the total amount of slaughtering and marketing at the county level could be 3,896,375 head of cattle annually.

(iii) The level of perfecture and perfecure city

The local Animal Husbandry Bureau also estimated that in a perfecture city, which usually has a population of about 300,000-500,000, about 50-60 head of cattle during winter, and about 15-20 head during summer could be slaughtered and sold. There are 332 perfectures or perfecture cities in China. Supposing on an average 55 head/day in half an year and 18 head/day in another time could be slaughtered and sold at the level of perfecture, the slaughtering and marketing amount of cattle at this level could be 4,423,070 head in the whole year.

(vi) The level of large city

Theoretically, apart from the above markets and those exported, the remaining production of cattle is sold in the large cities, including the municipalities directly under the Central Government and the principal capitals. The population in these cities is over 50,000,000. The total volume of cattle turned out in 1997 in China was 31,057,000 head. The export of live cattle in the same year was 65,455 head, and the export of beef was 31,511 ton, which equals to 235,861 head of cattle (at an official rate of 133.6 kg/head in 1997). That is to say, total beef exported in 1997 equals to 301,316 head of cattle. Therefore, we can roughly estimate that beef marketed in large cities equals to 13,781,505 head of cattle (which not include the imported beef).

It is also estimated, basing on our investigation, that nearly all the beef sold in rural areas, i.e. at the town and township level and at the county level, are from the individual slaughtering households, about 70-80% of beef sold at the level of perfecture cities and about 40-50% of beef sold in large cities are from the individual slaughtering households. Supposing 75% of beef in perfecture cities and 45% of beef in large cities are from the individual slaughtering households, then total amount of cattle slaughtered by them were 22,070,089 head in 1997, which accounted for 71% of total cattle turned out in 1997.

There is another estimation about the market share of the individual slaughtering households made by Lin Xiangjin. He estimated according to an investigation to 8 beef cattle demonstration counties, there are 8,318 individual slaughtering households in these counties in 1996. He estimated if each household annually slaughters for 180 days, and average sales are half a head of cattle per day during the slaughtering season, then the total sales of the year are 740,000 head, which account for about 56% of total cattle turned out in these 8 counties (which was 13,070,000 head in 1996). (Lin Xiangjin and Ian Jarratt, 1997, *Beef Marketing in China.)*

It is obviously from the above estimations that the individual slaughtering households have account for about two third of the Chinese beef market directly by their own marketing or indirectly through the beef dealers. The other one third of beef consumed domestically are directly or indirectly from larger abattoirs.

3.3 Beef Price Comparison between Abattoirs and Individual Slaughtering Households

Since the production and marketing costs for individual slaughtering households are lower compared with the larger abattoirs, beef prices sold by the former are much lower than that by the later. Table 1 gives us a price comparison between the beef processed by the Hua An abattoir and by the small individual slaughtering households in a special cattle slaughtering village in Henan Province. Obviously there is a big margin for the same parts of beef. The beef prices of Gongmazhuang are only two third or less than those of the Hua An Abattoir. Of course, the beef processed by the individual slaughtering households is often of lower quality and usually with high percentage of water, so it could hardly for them to enter the high-grade beef markets.

Table 1 Price comparison between Hua An abattoir and individual slaughtering households in Gongmazhuang village

(Yuan/kg, Dec. 1998)

Item	Abattoir of Hua An Co.	ISH in Gongmazhuang
Shin (raw)	21.00	14.00
Shin (cooked)		22.00
Flank boneless (raw)	20.00	11.00
Flank boneless (cooked)		15.00

Source: Hua An Meat Co. Ltd. and Gongmazhuang village.

4. Beef Wholesale Markets

Beef wholesale markets connect with beef producers at one end and beef retailers and consumers at the other end, therefore, beef wholesale markets play a very important role in the beef circulation since Chinese market reform after 1985. In the beef wholesale markets, there are two major components, one is the beef dealer, the other is the beef wholesale market.

4.1 Beef Dealers

Beef dealers are those who specialize in beef collecting and beef transporting for a profit. Some of them are individuals, some of them are partnership operation. Usually they have close relations with beef producers in beef production regions to maintain a reliable and steady supply of beef, and meanwhile they have a wide net of customers to guarantee beef marketing. Also most of them have their own transportation conveyances, such as tricycles, hand steered tractors, and refrigerator cars.

Generally they purchase beef according to customers' orders, then, they arrange their selling, and transport and deliver beef directly to their customers. Their customers include some institutional buyers, supermarkets, hotpot restaurants, hotels, and beef wholesalers. Though this kind of supply has no contract obligation, it could be a rather fixed relationship. The major measures that beef dealers maintain their supply networks are: (i) to supply beef promptly and in time; (ii) to keep a comparitive low price; (iii) to ensure beef quality accord with their customers' needs. There are two meathods of payment for the beef supplied. One is to pay immediatly after the delivery, the other is to pay monthly.

Since it is not available of the official statistics for the beef dealers, it is difficult to estimate of the exact number of them. Nevertheless, according to our investigation to restarants, hotels, hotpots, institutional buyers, and supermarkets in Beijing, Henan and Hebei, nearly half of them give us certain replies that all of their beef supply are come from beef dealers. So it is surely that the beef dealers are important components in the chain of beef marketing. And if roughly estimated, they could account for about one half of the fresh beef wholesaling in urban areas,

4.2 Beef Wholesale Markets

Beef wholesale markets emerged in China after the market reform in the 1980's. In large cities, such as Beijing and Shanghai, there are 3 to 4 fresh meat wholesale markets. In some provincial capital like Shenyang and Zhengzhou, there are 2 to 3 fresh meat wholesale markets. These wholesale markets mainly deal with pork and are rather limited in beef and mutton handling. The wholesale markets are often in operation in the early morning. In the wholesale markets the beef is sold by wholesalers or commissioned agents. The wholesalers buy fresh beef from beef dealers, individual slaughtering households, or abattoirs in the producing region. Many previous state-run slaughterhouses have converted into wholesale markets. Zhengzhou Beef and Mutton Processing Plant, for example, has been converted into a thriving wholesale market for frozen boxed aquiculture products, beef, and poultry.

The beef sold in the wholesale market is not of very high-grade, and it is quite often that beef injected with water. In the wholesale market, beef prices are lower compared with those sold in the supermarkets. The buyers in the wholesale markets are peddlers, small restaurants and hotels, and some institutional buyers, or in other words, the major consumers of the wholesale markets are the common residents with low or middle income.

In Beijing, there are three big wholesale markets which dealing with beef wholesaling. Dazhongsi wholesale market located in northwest Beijing is the biggest one. It has a hall with about 120 stalls specially for selling of beef and mutton. Among these stalls about 50 percent engage in beef operation. Most of the operators are farmers in the nearby counties. Beef marketed here comes from Hebei, Shandong, Inner Mongolia and other beef production areas. According to our investigation, each stall can sell about 170 - 250 kg of beef in low season (from April to September) and 600 - 680 kg of beef in high season (from October to March) on an average.

Therefore, the total volume of fresh beef sold in the wholesale markets in Beijing, according to the above investigation, is about 35-45 tons per day in low season, and 100-120 tons per day in high season. That is to say, approximately 30,000 tons of fresh beef, or about 35-40% of the beef consumed in Beijing in 1997 were marketed through the wholesale markets. (It is estimated about 78,000 tons of beef was consumed in Beijing in 1997.) Considering that about one half of the fresh beef comes from beef dealers, the remaining 10-15% of beef consumed may come directly from the abattoirs and individual slaughtering households, with a few imported from abroad.

4.3 Beef Prices in the Wholesale Markets

As for the market prices, there is no big difference between beef dealers and the wholesale markets, basing on our investigation. Also it is not observed great margin among different seasons, except for a few days before the Spring Festival, when the prices for nearly all kinds of meat and vegetables are the highest in the whole year.

Table 2 gives us the monthly prices for boneless beef in Henan province in the past six years. It indicates that the beef prices increased greatly from the middle of 1994, and to the highest in the early 1996, then dropped gradually in the last two years, and fluctuated around 13 yuan/kg.

Table 2 Beef prices in Henan province

(Yuan/kg)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**
Jan.	-	8.66	13.72	14.00	11.65	12.98
Feb.	-	8.58	13.45	14.54	12.63	12.31
Mar.	-	8.08	13.85	14.00	12.51	12.41
Apr.	7.23	8.78	13.52	13.56	11.99	12.98
May	7.23	9.86	13.38	13.60	12.81	12.70
Jun.	7.87	10.82	13.45	13.27	12.21	13.18
Jul.	8.02	10.56	14.20	13.24	12.07	13.11
Aug.	8.02	11.93	13.70	13.21	12.26	12.49
Sep.	8.19	12.07	13.72	13.24	12.50	13.12
Oct.	8.14	12.21	14.19	13.23	12.15	12.94
Nov.	7.93	12.40	14.08	11.78	12.53	12.67
Dec.	8.68	13.25	13.07	11.55	12.43	-
Average	**7.92**	**10.60**	**13.69**	**13.27**	**12.31**	**-**

Source: Henan Animal Husbandry Bureau.

Note: Beef prices here indicate the average market prices in the whole province for boneless beef.

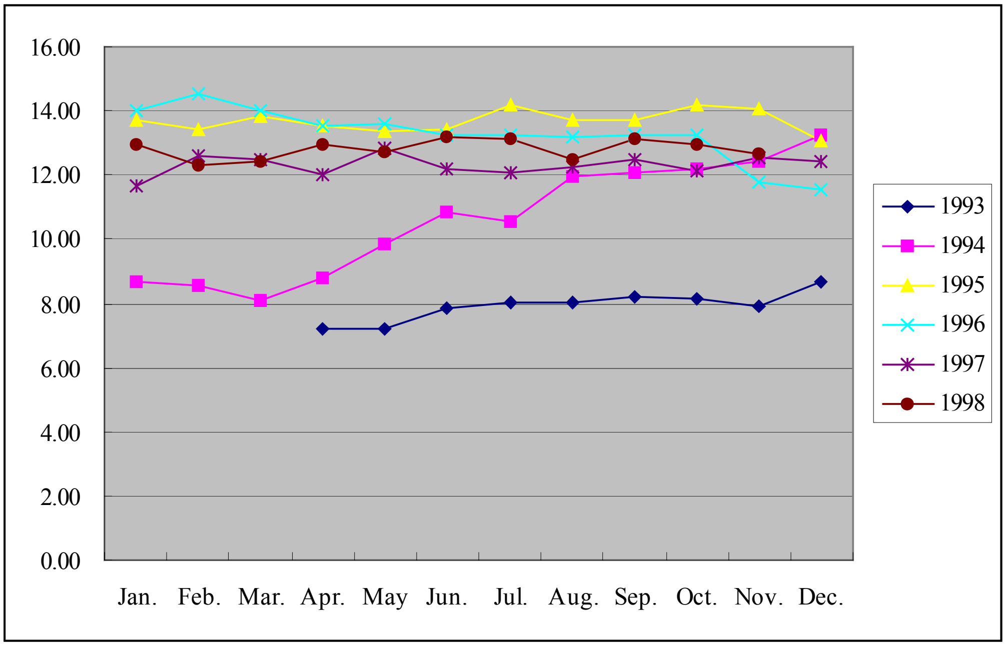

Figure 2 Beef prices in Henan province.

5. Beef Retail Markets

Beef retail markets include various kinds of markets and retailers. Among them, supermarkets, morning markets, butcher shops are the most important considering of their market share and wide spreading.

5.1 Supermarkets

In the past, urban residents in China used to purchase beef and other meat from the state-run food retail stores. But now their role has declined steadily due to competition from supermarkets, morning markets, butcher shops, and branch sale centers. It is estimated by the Commercial Management Commission of Henan Province that in the early 1990's, more than one third of meat (include of beef) was marketed through state-run food companies, but it dropped to less than 10% in 1997.

In beef retail markets, especially in some large cities, supermarkets have gradually replaced the state-run food retail stores to be the important source of beef. Supermarkets have now become popular in large cities in China. According to our investigation, the high season for beef marketing is from September to the Spring Festival, the volume of beef marketed during these months could double that in other months. However, the sell prices in the supermarkets usually keep steady among different months, though the purchasing prices are lower in summer and higher in winter.

The ownership of supermarkets is diversified. Among them, there are state-owned marketing groups, joint venture supermarkets, foreign investment supermarkets, and some private companies. Since they belong to different administration departments, it is difficult to calculate the exact number of supermarkets in each city. However, it is estimated that there are somewhat 150 supermarkets in Beijing, and about 80 percent of these supermarkets operate fresh or frozen beef. According to our investigation, the volume of beef sold in a supermarket in Beijing is averaged to 5-6 tons per month in high season (October to March), and 2-3 tons in low season (April to September). Therefore, we can estimate accordingly that the annual amount of beef marketed in supermarkets in Beijing is around 5,500-6,000 tons. And it accounts for about 7-8% of the beef consumed in Beijing in 1997.

Since Beijing is rather typical in beef consuming in Chinese big cities, we consider that, basing on the above investigation and estimation, in large urban centers, such as Beijing, Shenyang, Tianjin, and Shanghai, supermarkets may represent approximate 5-10% of beef sales.

5.2 Morning Markets

Morning markets have emerged in Chinese cities for many years after the market reform in the later 1980's. Though in previous years meat including beef could not be sold in morning markets in Beijing, it is now becoming common to buy beef and other meat in the morning markets for urban residents.

It is estimated that there are more than 100 morning markets in Beijing, and on an average, there are about 15-20 beef booths in each of the morning markets. According to investigation, each beef booth can sale about 40-50 kg of beef in high season and about 15-20 kg in low season. So the beef marketed per day in morning markets in Beijing is roughly 75-80 tons in high season and 28-33 tons in low season. Therefore, the total amount of beef marketed in morning markets in the whole year is approximate 20,000 tons and it accounts for about 25% of the beef consumed in Beijing.

5.3 Butcher Shops

Butcher shops are quite common in small and middle Chinese cities, especially in the northern part of China. The operators of butcher shops often sell fresh beef and some cooked beef. Normally butcher shops can sell 1-2 whole carcass a day in high season, and 0.5 carcass in low season. In most case the beef sold in the butcher shops is from local backyard slaughtering, with a few from the wholesale markets. According to our investigation in Henan Province, nearly 50% of beef sold in these shops went to low-grade hotels, restaurants, and institutional cafeterias. Since the butcher shops are scattered in the urban areas, it is difficult to estimate their shares in beef retail markets. According to some local people we visited, they probably account for 10-15% in the small and middle cities.

5.4 Beef Prices in the Retail Markets

Beef prices in the retail markets are usually differentiated between the following four parts: tenderloin, shin, flank boneless, and forequarter. But in some markets, for instance, the butcher shops, there is only one price for all cuts of beef. In table 3, it shows the prices for the major parts of beef sold in the three kinds of retail markets. It is clearly that beef prices in the morning markets and in the butcher shops are much lower than those in the supermarkets and sometimes lower than those in the wholesale markets. For example, price for the forequarter of middle quality, which is the main part of beef (equal to 45-46% of the whole carcass boneless), is about 12-12.5 yuan/kg in the morning markets, but it is 15-16 yuan/kg in the supermarkets, and 14-15 yuan/kg in the wholesale markets in Beijing by the end of 1998.

Table 3 Beef prices in the retail markets

(Yuan/kg, Dec. 1998)

	Supermarket in Beijing		**Morning Market in Beijing**	**Butcher Shop in Henan**
	A	**B**		
Tenderloin	92.00	22.00	14.50-15.00	
Shin	26.00	17.20	13.50-14.00	
Flank boneless	18.60		11.00-11.50	
Forequarter	21.00	15.60	12.00-12.50	10.00-11.00*

Source: Beef prices in supermarket are from Likelong Supermarket in Beijing, morning market prices are from investigation in Beijing and butcher shop prices are from investigation in Henan Province.

Note: a. Line A is beef purchased from Lifucheng Abattoir with small package of 1-2 kg, and Line B is beef purchased from Individual Slaughtering Households in Dachang county.

b. Beef price in butcher shop is for all cuts.

The major reason for the big margin among different markets is due to their marketing costs. For instance, the retailers in morning markets should only to pay a few fees instead of business tax (that is necessary for operators in the wholesale market) to the market managers (usually the street office). According to investigation, the marketing costs for a booth in Shiaoxitian free market in Beijing is only 22,000 yuan annually, which includes administration fee, refrigerator rent, electricity and energy, inspection fee, and so on. While the total marketing cost for operators in Dazhongsi wholesale market is 24,600 yuan annually, which includes 1100 yuan for stall rent, 300 yuan for business tax, 300 yuan for electricity, 50 yuan for inspection, and 300 yuan for sanitation per month. In addition, if renting a refrigeratory, it will cost another 1,500 yuan per month. As for the supermarkets, it is necessary for them to pay not only a huge amount of salary to their staff (which accounts for about 60-70% of the whole marketing costs), but also the depreciation charge (which is about 8% of the marketing costs). In table 4, we make a comparison of price margin between purchasing price and selling price in different markets. Since the prices are always fluctuating, we can only make a general comparison from the rate of margin. Obviously the rate of margin between purchasing price and selling price is highest in the supermarkets, and lowest in the morning markets, with the wholesale markets in the middle position. Also it shows that the rate of margin for the high-grade beef is higher than that for the low-grade beef.

Table 4 Comparison of beef price margin in the retail market

(Dec. 1998)

	Purchasing Price Yuan/kg	**Selling Price Yuan/kg**	**Rate of Margin (%)**
	1	***2***	***3***
Supermarkets:			
Low-grade Beef	13.40-13.60	15.00-15.20	12
High-grade Beef	30.00	36.00	20
Morning Markets:			
Low-grade Beef	12.20-12.40	13.00	6
High-grade Beef	13.60-14.00	15.00	9
Wholesale Markets:			
Low-grade Beef	10.60	11.40-11.60	8
High-grade Beef	14.00	16.00	14

Source: Likelong Supermarket, Dazhongsi Wholesale Market, and Xiaoxitian Morning Market in Beijing.

6. Other Channels

Apart from the above three channels of retail marketing, there are still some other channels which is at the end of the marketing chain.

6.1 Fast-food Chains

Recent years fast-food chains are becoming more and more popular in China, especially in some big cities. McDonald’s is the most important in such fast-food chains in China. At present McDonald’s has 190 outlets in China with an additional 100 outlets planned to open in major urban centers over each of the next five years.

McDonald’s has strict quality control standards and requirements for meat fat content, taste and color. According to Madeleine Varkay (*China Smallholder Cattle Development Project Marketing Study*, 1998), Sales to fast food chains (McDonald’s) by a major beef processor in Beijing amount to 6 tons per month. The annual requirements of McDonald’s are approximately 67 tons by outlet on average. (The shrink factor in hamburgers is approximately 20 percent given fat and water content).

6.2 Star-Grade Hotels and Restaurants

Five-star hotels and restaurants are the major consumers of high-grade beef. In previous years a large part of the high-grade beef are imported from abroad. However, recently the percentage of beef imported has dropped and that from domestic abattoirs has increased. It is estimated that less than 50% of the beef they consumed now is imported. Obviously, along with the gradual improving of beef quality domestically produced, its share in the domestic markets will continuously increase in the future. In Jianguo Hotel, for example, all beef purchased now are from domestic market. Mostly these high-grade hotels and restaurants have fixed purchasing channels, usually directly from some abattoirs with modern equipment.

According to Beijing Tourist Bureau, there are 16 five-star hotels and 30 four star hotels now in Beijing. On a monthly basis, beef requirement in a five-star hotel is about 1-2 ton. So the total requirement for beef of the four or five-star hotels in Beijing is around 50-80 tons per month, or 600-960 tons per year. There are about 500 high-grade restaurants in Beijing, the average consumption of beef in such a restaurant is about 1,200-1,500 kg per month in high season, and 300-500 kg in low season. So the overall consumption of beef in these restaurants in Beijing is about 500-600 tons annually, which is less than 1% of total consumption of beef in this city.

In Kempinski Hotel, the sub-primal cuts of beef they used per month are as follows:

Top side used in sausage for staff consumption (900kgs),

Tenderloin (400kgs),

Strip loin (150kgs),

Eye of the Round (150-200kgs),

Silverside (150kg).

6.3 Institutional Buyers

The institutional buyers include collective buyers from kitchens of government departments, institutes, factories, or universities. In big cities, it is quite normal for people to have lunch in the cafeterias of their units. Moreover, nearly all the university students have their three meals in the university dining halls. In addition, it is rather bothering to cook beef in the families since it takes a long time to cook beef, many people prefer to eat beef outside home. Therefore, it seems the institutional buyers are important consumers in beef market. Generally, beef bought by the institutional buyers are not of very high-grade quality and not of high prices. Mostly the institutional buyers purchase carcass divided into four parts. One reason for this is that most of their consumers are common people with low or middle incomes. The another reason is that the institutional buyers usually have direct and fixed channels to purchase the beef they needed. There are three channels for the university and institutional kitchens to purchase the beef they needed:

(i) To purchase beef on the whole sale markets;

(ii) To purchase beef from the individual slaughtering households of abattoirs through some beef dealers;

(iii) To purchase beef from their own cattle production bases (if they have).

On an average, beef purchasing by institutional buyers in Beijing, basing on our investigation, is about 2.0 kg per person annually, while in Henan it is about 1.5 kg per person annually. Given that there are 3,174,000 students in the universities in 1997 in China, total consumption of the university kitchens is around 6,000 tons annually. Also, we know that, according to our investigation, the average consumption of beef in the institutional cafeterias per person in Beijing is about 2.5-3.0 kg annually. But since it is not available of the number of various cafeterias, it is difficult for us to estimate the exact volume of beef consumed in these cafeterias. However, basing on a previous analysis (Zhang Cungen *et al.*, 1998, *Analysis of Beef Market in China*), we know that in 1997, about 62% of beef were consumed outside families. Obviously, it includes beef consumption in the units' cafeterias, though it also includes consumption in the restaurants, some fast-food chains, the hotpots of fat-beef and so on. Supposing all the institutional buyers account for about 20-30% of the consumption outside families, then this channel will purchase approximately 370,000-550,000 tons of beef annually.

7. Summary

It is clearly from the above analysis that diversified channels exist in Chinese beef marketing since the market reform started in the late 1980's. The major features in beef marketing channels are:

(i) The ownership of the marketing operation has transferred from the monopolized operating by the state-owned enterprises into a situation that various kinds of ownership exist simultaneously, with individual operators as the leading part.

(ii) The abattoirs with modern equipment and large in scale primarily face the large urban centers and also the export markets, while the small individual slaughtering households supply the rural markets.

(iii) The supermarket is now becoming a popular outlet for beef consumed in the large cities, where as the butcher shop plays an important role in the small and middle cities.

(iv) As the beef quality domestically produced has gradually improved, its share in domestic markets has increased and will further increase in a period of future. Therefore, it provides a great opportunity for the modern abattoirs.

(v) Along with the increasing of the people's living standard, the phenomenon of consuming beef outside families becomes more and more popular in China. So the marketing volume of beef to the restaurants and some fast food chains has been increased and will be increased further in future.

The following is a summary of the market shares of different channels in the beef markets.

Table 5 Beef marketing channels in China and their market shares

Marketing Channels		Shares of Various Channels in the Market
Live Cattle marketing:	Live Cattle Market	Account for about two third of live cattle marketing.
	Cattle Purchasing Specializing Households	Account for about one third of live cattle marketing.
Abattoirs and Individual Slaughtering Households:	Individual Slaughtering Households	Account for about two third of the Chinese beef market directly by their own marketing or indirectly through the beef dealers.
	Larger Abattoirs	Account for the other one third of the Chinese beef market.
Wholesale Markets:	Beef Dealers	Account for about one half of fresh beef wholesaling in urban areas.
	Wholesale Markets	Approximately 30,000 tons of fresh beef, or about 35-40% of the beef consumed in Beijing in 1997 were marketed through the wholesale markets.
	Abattoirs and Individual Slaughtering Households	Account for about 10-15% of the beef consumed in Beijing in 1997.
Retail Markets:	Supermarkets	Account for about 7-8% of the beef consumed in Beijing in 1997, or approximately 5-10% of beef consumed in large urban centers.
	Morning Markets	Accounts for about 25%, or approximately 20,000 tons of the beef consumed in Beijing.
	Butcher Shops	Account for 10-15% in small and middle cities.
Other Channels:	Four or Five-star Hotels	Purchase about 50-80 tons a month, or 600-960 tons a year (in Beijing).
	High-grade Restaurants	Account for less than 1% of beef consumed in Beijing, or about 500-600 tons consumed in a year.
	Institutional Buyers	Account for about 20-30%, or approximately 370,000-550,000 tons of beef consumed outside families in the whole country annually.
	Fast-food Chains	The annual requirements of McDonald's are approximately 67 tons by outlet on average.

References

1. Madeleine Varkay, 1998, *China Smallholder Cattle Development Project Marketing Study*.
2. Agriteam Canada Consulting Ltd. 1996, *Background Mission Report*.
3. Lin Xiangjin and Ian Jarratt, 1997, *Beef Marketing in China.*
4. Xiong Cunkai, 1998, *Live Cattle and Beef Trade in China*.
5. Zhang Cungen *et al.*, 1998, *Analysis of Beef Market in China.*
6. National Agricultural Census Office of China, *Abstract of the First National Agricultural Census in China,* China Statistical Publishing House.
7. *China Statistical Yearbook,* 1998, China Statistical Publishing House.
8. *Rural Statistical Yearbook of China,* 1998, China Statistical Publishing House.
9. *Animal Husbandry Statistics of China*, 1990, China Economic Publishing House.
10. *China Price Statistical Yearbook*, 1990 - 1998 China Price Publishing House.