

3.1 GENERAL ENVIRONMENT ANALYSIS

The 1990s are bringing major and rapid changes to the food industry. As summed up by Geoff Tansey et al (1995), six societal changes world wide will have great influence on the food system namely increasing longevity, increasing urbanizations which fused to the rise of consumer monoculture, the globalisation of the food market, increasing technology changes, changes in attitudes and values and the decline in the traditional housekeeping roles.

The feature of consumer behaviour in the global economy has been the internationalization of food habits with the increased importance of imported processed items such as canned fruits, vegetables, cereals and breakfast foods both in the food consumption patterns in developed countries as well as a large section of population in many developing countries. Factors such as international migration, evolution of communication and international tourism have contributed to this phenomenon (Prema 1998, Claire 1998). This in turn provides opportunities for the developing countries as a significant demand side impetus to the growth of processed food export to the other countries.

Improvement in food technology, refrigeration facilities and transportation has made processed food items easily tradable across national boundaries.

Besides these social economic conditions, which can influence the business environment, the dynamics of the industry itself will have impact on the firms. Some of the factors noted are the higher cost due to production of higher processed food, the need for constant innovation in a competitive environment, the need to incorporate new technologies, pressure from larger scale distributors whose market power has now become stronger and the greater competition in the international market concurrent with increasing protectionist

3.1.1 Socioeconomic factors

Population growth, age structure and the fertility rate are the socio factors that can determine food demand. In addition to demographic aspects, economic trends and conditions greatly affect how much food people consume as well as how much there is available. One very important factor is income level. As income rises, people consume greater amounts and a greater variety of food.

Current world population is at 5.9 billion with 75 percents of the developed countries population in urban area compared to 38 percent in the case of developing countries (World review 1998). As urbanization increased, the demand for processed food also increased.

Some of the issues facing the food industry in US are related to demographic changes. The population only grows at 1 percent annually, immigrants constitute about one-fourth of this increase, population is continuing to age as the US household shrinks. More women are working and a higher number of single households caused redistribution toward the food and beverage towards away from house outlay.

3.1.2Industry Trends/Structural Analysis

The key trends have been concentration. The numbers of firms that have been supplying the different products have reduced, their size has increased and the market power has concentrated at fewer and fewer hands.

The original boundaries have changed, firms today are no longer the meat or milk companies, and they are now the food or drinks companies. Their expansion across market boundaries has enabled them to develop their business overseas at a faster rate.

The bigger international companies are focusing on a limited number of branded products and market in areas where the sales could be built on. More firms today are not manufacturing their products but are sourcing them from other firms who offer more competitive pricing and capability. They in turn only concentrate on marketing them. This approach allows a wider myriad of new and innovative products to be offered by them.

E-commerce is starting to affect the way food businesses are being run in the more developed countries creating an alternate point of sales.

3.1.3 Dynamics between food processors and upstream and downstream market.

What we are seeing is the revolution in food shopping. The future of retailing is likely to be associated with superstores. Competition between big retailers has become more intense which works to the advantage of consumers. The competitive environment will lead the food producers, food retailers and their allied industries to look increasing to economics of scales, leading to further industry consolidation and putting more pressure on the small operators.

The future environment is also one of international one. There will be increasing need to deal with different cultures and worldwide sourcing. Economics pressure will lead to increase in strategic alliances in areas such as retailing, distribution, manufacturing and research.

3.1.4 Legal and food safety

In the recent years, there has been growing pressure on the regulatory process to ensure a safe food supply. This is likely to result in tighter controls in such areas as pesticides residues, biotechnology, novel ingredients, agricultural and trade policy, health and nutrition, hygiene and food safety and labeling. This will have great impact as food today cross border everyday and

changes in the food law scene will affect the trade of certain products and from certain countries that are not able to meet the requirements.

3.2 INDUSTRY ENVIRONMENT IN DEVELOPED COUNTRIES.

3.2.1 The food industry in Europe

The food sector of the 15 member states of the European Union (EU) is the largest industry within the EU. Global sales of food product produced in the EU increased by 40% bringing food sales to about 15% of all sales on the continent. There are 21,004 food companies within the 15 countries in EU comparing to 49,032 in the USA. (Fran Katz, 1999).

The internal consumption have remained almost static but the choices of food purchased have changed greatly over the past five years. Germany has the largest food industry producing about 22% of the food manufactured, France at 19% and United Kingdom at 13.7% in 1996.

The highest rate of growth in Europe is ready-to-eat frozen food with 13.3 % growth, cereals 10.1% and frozen dessert 10.9%. Other trends are Cost containment, strategic alliances, shortened life cycles, luxury items, poultry popularity, foods for demographic groups. (Fran Katz, 1999).

Recent work undertaken by marketing consultants Promar Internationals indicates that the convenience foods in Western Europe will grow to US \$ 650 billion over the next decade from US\$ 400 billion today. (Claire Smith, 1998).

The European food industry operates within the context of matured market. Volume growth of many sectors is static at best and in certain areas declining. Food manufacturers see meeting the consumer need for convenience as a key means of achieving benefit and stimulating value growth.

New products introduction is lower in EU than in US and the emphasis are different. The concept of eating healthy to balance a declining medical system

produce a need for convenience food that nourishes, heals and fortified. Despite the need for convenience, the top trend in EU is authenticity and the second top trend is healthy in EU.

The food service in Western Europe was valued at US\$293 billion in 1999. This equates to approximately one third of the total food market in the EU, which is estimated to be worth around US\$900 billion. By contrast, in US the foodservice sector is almost equal to that of retail in terms of sale value. (Michelle Gibson, 2000).

European foodservice is growing at a rate of 2.75 percent year on year, compared to the growth of 0.5 percent in retail. Forecast indicated that the sector would equal the retail by the year 2025.

This suggests that Foodservice has immense profit potential for companies in the food industry and significantly more than the otherwise stagnant retail sector.

3.2.2 The food industry in US

The United States food manufacturing industries contribute to about 2.3% of GDP or about 10% of the manufacturing value.

The processed food and beverage industry sector is the nation largest manufacturing sectors, in 1995 the value of food and beverage shipment valued at US\$448 billion up more than 4 percent over 1994.

Expenditures outside the home increased more than in home food purchases in the United States. The average America spends US\$2200 on food every year or less than 10% of the disposal income. The food business is growing at under 2.5 % annually so it is a tough market. It is reported to have 29,900 supermarkets and 775,000 foodservice outlets.

The number of carry out meal in US increased from 48 meals per capita per year in 1965 to 65 meals in 1996, indicating a growing market in home meal replacement (HMR).

Foodservice is growing and increasingly taking the chunks of food business up from 45% in 1985 to an expected 55% in 1999 in the United States. There is a difference between the United States and Europe in this case. In United States, there is a bias towards providing foodservice meal solutions while European meal solution shows much greater emphasis towards retail (Appendix 1). Most of Europe foodservice is "occasion" focused while foodservices in United States are seen as a commodity in the US. (Yasmeen Khan, 2000)

The number of home delivery meal has increased although the most popular food consumed in United States is generally the same as those of 20 years ago (Appendix 2) but the way the food are consumed has changed. (A. Elizabeth Sloan, 1998)

Grazing or snacking is fast becoming a way of life for Americans, there are 40 billion more eating occasions in 1995 than 1985, the importance to eat regular meal has declined to the consumers whereas forty percent of the consumers eat four or more times a day. A study by Leatherhead Food RA puts the total snacks market in the US, Japan, Australia and leading European market such as France, UK and Germany to have increased over one-third over a period of three year to US\$14.4 billion in 1999 compared to under US\$11.2 billion in 1996 (Moira Hilliam, 2000). A separate report by Snack Food Association (SFA) indicated the snack food constitute a US\$19 billion in United States with savory having almost US\$15 billion. This is as shown in Appendix 3 (Richard F. Stier, 2000).

The US food and beverage industry is matured and developed. Additional growth is likely to come from international markets. Foreign demand for US produced higher value products such as processed fruits and vegetables, alcoholic beverages, ready to eat meals, bakery items and candy products

increased significantly in 1993. Many US food and beverage processors emphasize export sales because of slow domestic market in 1995.

The distribution channel for food has also changed. Since 1985, private label shares has been increasing consistent to more than 19 percent total grocery food and beverage sales in 1992. This could be due to consumers are still searching for the best combination of price and value especially during the recession.

3.2.3 The food industry in Japan

Japan is the third largest food ingredients market in the world. Despite the recession, Japan remains a critical consumer of agricultural goods in Asia (James Giese, 1998). One third of Thailand export of processed food valued at US\$5.1 billion in 1994 is export to Japan.

Japan is the world's second largest economy with GDP of about US\$5 trillion. While Japan has only half the population of USA, its GDP is 70% of USA and the largest importers of the USA agricultural products (James Giese, 1998).

A convergence of various social and economic factors has liberalized the Japanese Food Market in the past five to six years. Deregulations, internationalization, change of consumer attitudes have broken the traditional economic and social relationship in Japan. United States exporters who offer cost competitive and high quality products add up to the opportunities for export of value added products to Japan.

The same trends of a desire for convenience, advances in food that promotes health and increased emphasis on quality without sacrificing in price that drives the US consumer also drives the Japanese.

According to the Ministry of Trade report in Japan, home delivery sales of food in Japan in fiscal 1997 increased compared to previous survey in 1994, there is a steady growth in frozen food and home meal replacement (HMR). The statistic on the growth is limited but the values of HMR market in Japan in 1997 is at approximately US\$45 billion. (James Riese, 1998)

The aging population in Japan demands food that emphasis on health and well being, similar to the US and Europe.

3.3 MARKET TRENDS

3.3.1 Strategies taken by major food company

Some of the strategies taken by the major food companies in the world from 1998 to 1999 as researched by Prepared Foods are as follows.

Nestle, the world number one in the food business in 1998 had focused on organic development and maintaining strong competitive position. Prepared food had helped them to propel ahead in their food sales. The food sales turnover in 1998 was at approximately US\$45 thousand.

Unilever, the second largest food company in Europe had focused on acquisitions in emerging market to increase their market growth, they have reinforced logo recognition of the differently named operating units as a branding strategy.

Diageo had focused on merger of Grand Metropolitan and Guinness and developing presence in North America.

French food giant, Dannone had relied on their beverages, biscuits and dairy products as the pillar of growth. They had disposed off their non-core businesses and centered their product development on both child and adults on diary desserts.

3.3.2 Product Trends

From the analysis of the developed market, the food market trend can be summed up to be moving towards **convenience foods, snacking, foodservice, ethnic foods and healthy foods**. These sector has been stressed as potential of value-added business and one that will drive the business of an already mature market in USA or in the Europe countries.

Businesses need to understand, reposition, and offer products that are able to meet the needs of the current consumers.

3.3.2.1 Snacking As A Meal

Snacks have been repositioned into near meal opportunities. It is no longer a narrow scope of only candy or chips but it includes sandwiches, pudding, yogurt and soups. They will come in small portion. Consumers will no longer be tied to the eat three times a day formula.

This is a group of product that can be sophisticated, traditional or cosmopolitan. It provides lots of variety and choices and it is fun.

Growth in this areas will be driven by meeting consumer demand for products which can be bought and consumed anytime, anyway, anywhere and meeting the a variety of needs such as the need for fun, indulgence, comfort, health and functional.

Food suppliers play a central role in coming up with novel food and facilitate the needs to achieve the needs of the market.

Global snack consumption is set to increase by 30% or 11 billion tones, by 2010 with most of this growth to be concentrated in the Asian markets. (Michelle Gibson, 1999).

The increasing role of snacking dictates that snacks companies will need to be increasingly aware of the needs to compete across snacks categories thus overcoming the mental barrier of sweet and savoury, and even between fresh and ambient products packaged snacks and foodservice.

3.3.2.2 Convenience

This is a group of products that give ease of handling, timesavings, ready and prepared.

The drivers for the demand of these products lies with the fact that more consumer today are lacking in cooking skills yet are looking for greater choice and variety. The increasingly busy lifestyle, which created "cash rich" and "time poor" consumers, creates the demand as well.

It is estimated that 60% of the woman in US now works full time and the average time spent in the Supermarket how fallen to 20 minutes. (Pat O'Caroll, 1998)

There are two categories which can be addressed here, ready to eat meals and Home Meal replacements. It can come in the format of ambient stable, chilled or frozen.

Ready to eat Meals

It is forecasted that in the future, the overall ready meals market is likely to grow by about 25% and reaching US\$7.2 billion by 2002, chilled is expected to grow ahead of frozen and dried with canned being best static. (Moiria Hilliam , 1998).

The European ready meals market was worth over US\$5.6 billion in 1997, equivalent to a volume of over 1 million tones. The largest and most

established market is the UK with total sales of US\$2 billion in 1997, followed by France and Germany.

Within the ready meals market, frozen is the biggest sector in value terms with over US\$2 billion, followed by canned and ambient meals with over US\$1.6 billion and then by chilled meals and dried meals.

The UK prepared chilled foods market totaled at US\$1.6 billion in 1997 is the fastest growing category up by 13% from 1996. It is now purchased by 95% of the households and ready meals represent 40.5% of the market value (Ronald Klont, 1998). This category also tops the growth table in Belgium, Germany, French and Spain. Chilled foods tend to be perceived as higher quality than others are and consumers are willing to pay the higher price for it. In French the bulk of the market had been confined mainly to the catering sectors traditionally.

Meal Solutions/Home Meal Replacements

This is an extension of the convenience factors, Some example of the foods under this category are packaged food sold in supermarkets that can be purchased and take away for home consumptions.

It means, simply that the industry will have to intensify development of the whole meals or meal components that allow consumer to almost instantaneously prepare meals or meals components that allow consumer to almost instantaneously prepare meals, no special preparation, no protracted cooking time. Food companies today are reinventing their product lines to accommodate these needs.

3.3.2.3 Food Service

Foodservice comprises of food outlets such as fast foods, fine dining, institutional dining, restaurants or hawker stalls. This sectors sell goods as

well as the service to satisfy the instant need for labour elimination and more experimental opportunities in their eating habits. Foodservice is reported to be growing in importance and increasingly taking the market shares from retail.

Percentage of food dollars eating out in America is 52.7% in 1999 having risen from 39.2% in 1997, while eating out market for UK is about 25 years behind that in US, it is expected that within the next few years Briton will be in the same position

The drivers for this group are also similar to convenience. It is also related to occasions, variety, and choices.

3.3.2.4 Ethnic flavours

Ethnic's foods such as Chinese, Indian and Thai have played a critical role in the development of the ready to eat market as well. Ethnic's food now represents 41% shares, continental (42%) and traditional (17%) (Moir, 1998) in the Europe countries. The interest in this category could be due to the fact that consumer are less well versed on preparing the ethnics foods but yet they would like to have it.

The drivers for the demands are the effect of globalizations that resulted in internationalization of foods. As goods and people cross more boundaries and the interest for variety increases the potential of ethnic flavour foods, as people would like to recreate the experience they had.

The availability of this product is not only in the ready meal segment or also in dry mixes that needs minimum preparation.

3.3.2.5 Nutraceutical and functional foods

This category emphasize on Fitness and Health. It can be products that are light and slimming, functional and have medical benefit it can be nutritious, natural and organic.

It is hard to define the true potential of this fast growing category but the rising health awareness will enhance the growth of this sector. Datamonitor placed the market at more than \$16.7 billion last year

The increase concern of health has also in a way affect the decision making process on the consumption of foods. The availability of information technology, the higher levels of awareness are driving people to be more conscious of the food that they are eating. The aging population in the developed countries may have also contributed to the popularity of this segment. This creates the demand for healthy food.

3.4 ASIA AS THE TARGET MARKET

Most of the developed countries are seeing the great potential in the Asia market which houses 60% of the world population or at 3.7 billion. While the market in their home country has matured, a much bigger and lucrative market is developing in the East and South Asia. The affluence of this area is spreading from countries such as Japan, Hong Kong and Singapore to Malaysia and Thailand, although the distribution is far from even.

The average age of these region, which has a population of about 1.9 billion people without the India subcontinent, is 23 years as compared to 38 in Europe and 31 in USA and Mexico.

The region has very high economic growth rates averaging 7 percent implying a doubling of GDP every decade until the economic crisis hit Asia in 1997.

During the period of 1996-2005, consumers in East Asia and Pacific can expect per capita income to increase by 6.8% per year, a figure three times the global average.

Table 3.1: Growth per capita income in Asia and other regions of the world 1996-2005

Regions	% Change
OECD	2.4
East Europe and Central Asia	3.7
Latin America and Caribbean	2.2
Middle East and North Africa	0.4
Sub Saharan Africa	0.9
East Asia and Pacific	6.8
South Asia	3.7
World average	2.0

Source: World Bank

Table 3.2: The percent of private consumer expenditure spent on food and drink in 1995

Country	Food and drink (%)	Total expenditure (US\$ Billion)
China	47.3	319
Hong Kong	14.0	85
India	46.8	186
Indonesia	40.0	92
Malaysia (c)	34.5	42
Pakistan	47.1	42
Philippines (c)	38.4	74
Singapore	17.7	30
South Korea (c)	27.2	241
Sri Lanka	60.0	9
Taiwan	25.9	140
Thailand	28.1	90

Source: Central Statistical Organizations/Central Banks/Euromonitor

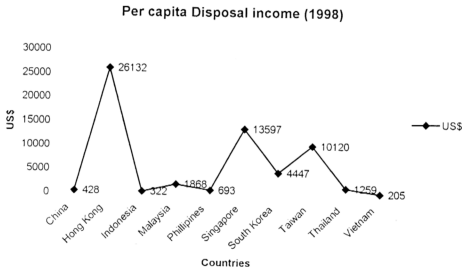
(c) Data includes tobacco

The number of potential consumer base on the economics achievements and the steady additions to purchasing power are making them the prime target for today's foreign investors.

3.4.1 Where are the target markets

China is the potential market of developed country products due to its large population base of 1.2 billion. Only a small proportion of China population live in urban areas and of these only 25 percent are of middle and upper income living standards (Food Chain Asia, July 2000). The marketers should not overlook the huge potential offered by nearby market, which has high per capital disposal income such as Hong Kong, Singapore and Taiwan.

Figure 3.1: Per capita Disposal Income 1998



Source: food Chain Asia July 2000

3.4.2 Distributions

Asia's recent economic crisis has speeded up the growth of European multinationals (MNC) retailer through acquisitions and opening of new outlets as they take advantage of their stronger home currencies.

Major MNC retailers who have already established strong presence in Asia include Carrefour, Makro, Royal Ahold among others. Most of these MNC retailers already have strong distribution networks and usually set up either a hypermarket or a Cash N Carry business due to their large availability of capital. (Food Chain Asia July 2000)

Table 3.3 : MNC retail presence in Asia regiona

MNC retailer	China	HK	Indonesia	Malaysia	Philippines	Spore	Thai
Carrefour/Promodes	X	X	X	X		X	X
Makro	X		X	X	X		X
Dairy Farms	X	X	X	X		X	
AS Watson	X	X		X		X	X
Casino					X		X
Royal Ahold				X			X
Walmart	X						
Costco							
Tesco							X
Jusco		X		X			X
Delhaize			X			X	X
Boots							X
Auchan							X

Source: Food Chain Asia August 2000