

Hypermarkets target customers who are price conscious as they offer competitive pricing. They usually provide a wide variety and assortments of food products. It is normally close to residential areas and has large parking facilities. These multinationals retailers brought with them influence of the developed countries in the way food are distributed.

Although the level of sophistication within the food processing industries varies from country to country in this region, common trends have been observed in Singapore and the major cities of Thailand, Malaysia and the Philippines.

Reports on trends in Asia from magazines and feedback from unstructured interview, indicated that some of the current trends. They are Calcium enriched products, probiotics healthy dairy products, convenience coffee beverages, flavoured non carbonated beverages, convenient and quick cook meat, localize or preference for ethnic foods, more chocolate snacks, a growing market for premium ice cream, functional foods, variety of flavours for instant noodles, use of natural versus synthetic ingredients, pre-pack ready to eat and to cook fruit and vegetable, halal food and individual servings frozen foods and ethnic flavour for microwave.

4.0 THE MALAYSIA FOOD MARKETS

The food and beverages industry in Malaysia encompasses a wide variety of products, ranging from very simple processing to complex ones. The products are classified into sub sectors under the Malaysia industrial classification as follows meat processing's, dairy products, fish products, edible oils and fats, cereal based products, fruits and vegetable processing, sugar and confectionery, prepared animal feed, coffee, teas, cocoa and spices manufacturing, beverages, miscellaneous products.

4.1 GENERAL ENVIRONMENT OVERVIEW

4.1.1 Demographics

Malaysia's ethnically diverse population of around 22.2 million in 1999 consists of three major races with 58% Bumiputras, 24.6 % Chinese 7 % Indian.

The population is relatively young. 33.5 % are below 14 years of age and 19.6% between 15 to 24 years old, 3.8% are above 65 years old. The median age of the population is at 22 years old. (DOS 1999).

56% of the inhabitants live in urban areas. Increasing urbanization, rising income has led change of lifestyle that are influencing consumer purchases. Urban household in Malaysia was at 1.6 times higher than the rural households and 1.2 times higher the national average (DOS, 1994).

A survey of estimate on food intake (Mohd Ghazali Mohayidin et al,) indicated that Malaysian intake is relatively higher than that of other developing countries and quite close to that of many developing countries.

There is also a discernible shift in food demand in Malaysia away from rice to wheat based products like flour, bread and various convenient and instant foods is in line with the rising affluence of Malaysia.(Nik Mustapha R Abdullah et al)

The estimated per capita income for 1993 was at RM13 932 or RM 1161 per month (DOS 1994) and for 1999 at RM 19,572 or at RM1631 per month (The Star, 2001). A separate report by Euro monitor indicated, the per capital expenditure in Malaysia is estimated around USD\$1868 or MYR7098 in 1998 and is considered among the highest in the ASEAN region.

Table 4.1: Per capita Disposal Income (1998)

Country	Per capita income US\$
China	428
Hong Kong	26132
Indonesia	322
Malaysia	1868
Philippines	693
Singapore	13597
South Korea	4447
Taiwan	10120
Thailand	1259
Vietnam	205

Source :Euro monitor

The percentage of household expenditure spent on food at home was at 23.4% and for food away from home at 10.3% (DOS 1994). In the recent released survey results on the food expenditures in 1999 by the Department of Statistic Malaysia it indicates that an average of 22.2 % are spent on food at home while food away from home has increased to 13%, an increase of 6 % since 1975.

Nearly 90% of the households in Malaysia have refrigerators and the number of households with microwave is estimated to be around 15-20% and is growing. (Malaysia Food Market reports 1996).

4.1.2 Sociocultural segment

Every individual is a potential food consumer and an opportunity for the food industry. The food processor needs to understand that religion and cultural attitudes play an important role in defining the eating habit of Malaysians.

Since Malaysia has a large Muslim population, the "halal" requirement is very important and it has been used as a marketing tool and strategic advantage over companies which does not have the certifications.

Asian still cling to the belief that gathering for a meal is important to help keep families together. Over 70 percent of Malaysian believes family should eat together but nearly 40 percent find it difficult to adhered to. (Maria Cheng, 2000)

Eating out is a passion in Malaysia. Hawkers and street foods are opened until the early hour in the morning.

Malaysian has embraced foreign foods but still prefer local taste. They are likely to eat western style fast food once a week but would eat local food either at the local coffee shops or hawker stalls three times a week.

Food court is one area with a lot of potential of business. They feature diverse menu, usually affordable local food although Western foods are also offered by some. They are usually cleaner, air-conditioned, have a fast turnover, operating on a fast service or self service basis and are usually privately owned. There are increasing numbers of food courts being established in areas such as office buildings, shopping centers, and hospital. (New Straits Times, Dec 3 2000).

In the modern food preparation at home, more consumers are relying increasing on processed ingredients yet 40 percent of Malaysian is not satisfied about it.

Only 10 percent of Asians think food manufacturers can come out with something authentic. Many of the consumers do not trust manufacturers, advertisement and shopkeepers as the source of information. Their mothers or friends are regarded as more trusting to provide them with truthful information.

Asian are adventurous in food with 68% indicating they will try new brands.

These attributes are of importance to Malaysian when they select grocery products, product appearance, product quality, product safety, product composition and product price (G. Tomas M Hult et al 2000)

4.1.3 Economics

Until 20 years ago, Malaysia industry is agro based. However after the industrial revolution the foreign investment moved to a more lucrative manufacturing sectors. The agricultural and food sectors were affected. In the recent five years, food imports to Malaysia accounted for 5% of the total imports and 3% of the total exports.

This increasing trend in the value of imported food is a major concern to the Malaysia government. The increased price of food accounted to 51.9% of the increase in Consumer Price Index (CPI). This is 28% higher than in 1991, when increase in food prices only accounted for 38.4% of the increase in CPI.

The Domestic Trade and consumer Ministry aim to trim prices of imported foods in Malaysia to curb inflation and the nations growing import bill. Food prices constitute 40 percent of the consumer price index (CPI) the barometer for inflation. In 1998, Malaysia bill for food imports stood at RM12 billion up from RM5.8 billion in 1993. (Food Chain Asia July 2000). The main exporters of food to Malaysia are Australia, followed by New Zealand, USA and Thailand. (MITI 1998 report)

The biggest forei /Ugn investors in food production are Singapore followed by Japan and Switzerland (MIDA's 1998 report).

There are growing emphases on nutritious, high quality and hygienic in this country. Today's consumers are willing to pay a premium price for hygienic

and healthy foods. The National Agricultural policy has identified food development as a priority area under the Research and development area. The gradual but distinctive switch by Malaysian towards prepared foods like precooked, instant foods, food snacks and meal packs has an important implication for the development of the local food industries. (Nik Mustapha R Abdullah et al).

4.1.4 Government Policies

In view of the growing domestic and foreign markets as well as its potential contribution to the development of the country in terms of employment and income generation, foreign exchange saving and value creation, food processing industry has been included as one of the six clusters under the post Industrial Master Plan Preview (FMM 1996).

In the Plan prepared by Malaysian Industrial Development Authority (MIDA), several high potentials sectors in the food processing business, such as processing of cocoa, fruits and vegetables, aquaculture and poultry produce were selected.

The fund for food Scheme was also introduced in 1993 with a total allocation of RM\$700 million from the government administered by Bank Negara which charges a maximum lending rate of 4 percent per annum. To be eligible, at least 50 percent of the total productions are to be sold in domestic market. As at 31 March 1999, 1851 applications worth RM533.8 million were approved under the fund for Food Scheme in Malaysia.

Table 4.2 Loans approved under the Fund for Food Scheme

Sector	Amount (RM Million)
Animal husbandry	277.3 (US\$72.99 million)
Vegetables and fruits	120.1 (US\$31.61 million)
Fisheries	83.1 (US\$21.87 million)
Food processing	44.1 (US 11.61 million)
Marketing and distributions	9.2 (US\$2.42 million)

Source Bank Negara (as in Business Times Malaysia)

In the 2000 Budget allocations, Government had provided various incentives for large plantation companies to venture into the production of food. However there were not a single takers perhaps due to the lack confidence in the potential profits that can be derived from the food industry. To further promote the industry, the government had increased its tax incentives in the 2001 allocation, which includes income tax exemption of up to ten years of profit. To promote the distribution and storage of food products, companies that provide cold chain will be given pioneer status as well.

4.1. 5 Technological

Development in Malaysia food industry is hampered by a lacked of local raw materials, limited technology and skilled employees.

Seventy percents of the raw materials used are imported (Food Tech Asia, 2000). Transportation, communication, banking and health services are relatively efficient.

Most of the food manufacturing companies here are small and does not have much investment in terms of machinery or research and development although there are bodies such as MARDI who offers technological consultancy.

4.1.6 Global

The biggest challenge that Malaysia food industry faces is that by 2003, the ASEAN market will further be liberalized. Import duties on a wide variety of food and beverages have been abolished or reduced to less than 5% over the past few years.

AFTA will give a tough competition to Malaysia agricultural and food products since labour and input costs are cheaper in countries such as Cambodia, Vietnam, Philippines or Thailand as compared to Malaysia. However, the removal of trade barriers will also be an opportunity to Malaysia as cost of raw materials will be lower.

The increasing stringent food law in the developed countries can also hamper the market growth for firms in Malaysia's that has not meet up with the world standards established. There is a disparity between the technological standards of the food processing companies in developed and developing countries currently, however with the opening up of borders and the effect of WTO, the developing countries would need to catch up soon or lost competitiveness in a global market.

4.2 THE PLAYERS

The players in the food system comprises of the food processors, the suppliers, the distribution channels. The discussion on distribution will be divided into retailers and foodservice operators.

4.2.1 The consumers

Much of the analyses of the Malaysia consumers have been elaborated in the general environment analysis under the demographic and socioeconomic segment.

Consumers spent about RM8.5 billion in the purchasing of fresh food, RM7 billion on processed foods and the RM6 billion of food consumed out of home. (Sieh et al 1999).

It is estimated that by the year 2007, the population in Malaysia will comprised of 2.4 million elite class, 18.8 million consumer class and 1.3 million pre consumer class. The purchasing priorities, product positioning and value added of the different consumer goods are different as well, with elite group having most emphasis on health, convenience and status and least on price/value and tradition or ethnic identity. (Lucy Tyler 1998).

4.2.2 The food processors

In Malaysia, the food processing market is expected to touch US\$4 billion in year 2000. (APFI Oct 99,)

As indicated earlier, the Malaysia food processing industry is dominated by small sized and family run enterprises. The small scale industries normally employ basic technology and limited marketing expertise.

They mainly produce food items such as curry powder, wet noodles, and bakery produce, tapioca chips that used less sophisticated equipments.

There are also sizable numbers of large and often foreign owned food processing manufacturers. They would normally use the modern technology and are mainly involved in dairy production, processed cereals, chocolate, confectionery as and beverage products.

Growth production in the manufacturing sector from 1989 to 1995 was at 14.7% whilst the average growth of production in the food manufacturing is estimated at 4.3 % per year. The total food processing industry grew by 10.2% from 1994 to 1995.

This growth is mainly accounted for by the following sub sectors namely dairy products, processed cereals and cereal preparations, sugar manufacture and animal feed. These four sectors amount to 72% of total output in the food industry in 1995.

In 1995, there were 4167 establishments within the food, beverage and tobacco manufacturing.

Sixty to seventy percents of the good .Us manufactured locally are for the domestic market. The balances are exported mainly to the ASEAN countries. The food processing industries employed about 6.5% of the total employment in the manufacturing sectors in 1993.

Growth rate of biscuit factories is the highest at 25.3 % between Jan-July 1995. (FMM 1996). The sales value of biscuit increase by 23.3 % in 1999 (Jan-Aug) as compared to 1998 of the same period. Other food products 15.2%, other dairy products (15.7%)

4.2.3 DISTRIBUTIONS CHANNELS

4.2.3.1 Food retailers

In Malaysia, traditional and modern channel of food retailing coexist side by side serving the broad needs of a population of growing in affluence and aspiration, yet retaining many older habits and preferences with regards to their culinary purchases.

The distributional channels of food products in Malaysia include wet markets, traditional provision shops, supermarkets, hypermarkets, and convenience stores.

The majority of supermarkets and hypermarkets are found in the capital of Kuala Lumpur or major states such as Selangor, Johor or Penang.

A universal phenomenal in the developed Asian countries is that supermarkets have achieved lower market shares of food retail sales compared to supermarkets in North America and Europe due to their weakness in fresh food (Arieh Goldman et al 1999). Supermarkets in Malaysia are found to be weak in fresh food area but they had substantial shares in non-perishable food categories (Othman 1990). Therefore wet market and neighbourhood grocery stores will remain the primary outlets of fresh and dry food sales.

Knowing their strengths, modern retailers are rapidly responding to greater demand for processed, value added food products and Western imports. They are trying to match and outdo traditional outlets in term of price and "freshness" by offering fresh produce in modern, hygienic shopping such as Carrefour a foreign owned retailer and Giant a local owned retailer in Malaysia. The supermarket and hypermarkets are expected to increase their market share especially in packaged foods, frozen foods and imported foods, as Malaysian gradually increase the consumption of such foods.

The number of Malaysia that shopped in supermarkets and hypermarkets has increased. The most significant change in the shoppers was the 50% increase in the number of shoppers in hypermarkets since 1995. There are 33 percents of housewives in 1999 that are regular supermarket shoppers compared to 13 percents in 1995 (APFI 1999)

The global retailers are bringing their core capabilities to the Asian consumer market. Their low cost position attributed to the scale of economies and efficient store formats, the usage of information technology to drive excess costs out of distribution system while improving speed and quality of decision making. The partnership created with manufactures allowing manufacturer and retailers to look for ways to meet or exceed ever-changing consumer needs. They carry a right assortment brands and private labels of goods consistent with their target market. (Arturo C Alli Jr, 1996)

The increasing purchasing power of the major supermarkets and hypermarket will increase their bargaining power against the food companies.

The government has made efforts to boost the retail sectors in future by raising the limit of foreign equity of companies in wholesale and retail trade from 30 percents to 51 percents to simulate foreign capital injections.

At the end of 1996, there were a total of 334 supermarkets and 16 hypermarkets in Malaysia. According to a 1998 AC Nielsen survey, there has been a 32 percent rise in the number of supermarket and hypermarket over the past the past two years. (APFI 1999)

4.2.3.2 Food service

In broad term, food service can be defined as " the provision " of meals, food and refreshments fully prepared away from home, mostly eaten away from home but include home delivery and take away.

The Malaysia foodservice market can be split into categories such as full service restaurant, Quick service restaurants or fast food outlets, coffee bars, street hawkers, hotels and resorts, social food service such as caterers and institutional

The estimated total number of foodservice outlets in Malaysia in 1997 is over 100,000. The commercial accounted to 82% while the institutional sectors comprises 18%. (BIS 1998). It is estimated that the value of food service in Malaysia is around RM15 billion valued at cost. The value of food and non-alcoholic beverages by the food service in Malaysia is estimated at RM\$7.5 billion.

The food and beverages purchased by foodservice outlets by product categories in 1998 (BIS report) are Meat, poultry and fish (35.4%), Beverages (19.4%), Bread, Pasta, Cereal (14.8%), Fruits and vegetables (10.6%), Dairy products (9.9%), Sauces and condiments (6.4%), fats and oils (3.0%), prepared meals, snacks (0.3%), spread and jams (0.1%)

Wet markets are the main source of supply of fresh meat while wholesalers are very significant in the distribution of some other products such as margarine, sauces and condiments.

There is a huge market potential for the catering business because an increasing number of working populations of 8.74 million were having most of their meals outside. (The star, Nov 17 2000).

The wholesale, retail trade, restaurants and hotel sub sectors expanded strongly during the 4th quarter of 1999 and first quarter of 2000 by growing at 13 and 10.1 percent respectively due to increased consumer spending and higher tourist arrival. (Bank Negara Bulletin Suku Tahunan Suku Pertama 2000)

The low-end hawker stalls and Malaysia style coffee shop dominate the commercial food service market. These outlets serve Malaysian and Chinese food. However, in bigger city, different regional cuisine such as Thai style, western breakfasts are also being served.

The format of many of the food outlets is changing as they become more sophisticated in their operation, driven by an increasing awareness of hygiene and expectations from customers. Food courts are mushrooming, taking over some of the hawker stalls. These operations though base on traditional approach of multiple stores each offering a limited range of products is moving towards mass catering.

Quick Service restaurants have exploded over the decades gaining popularity between the youngsters. The number of outlets has increased substantially since the beginning of 1990s. The market value is estimated at around USD 345 million in 1999 with KFC taking 40% of the share, McDonalds 20% and Pizza Huts 18%. (Vaea FERRER, 1999).

These chain are also under competition from local operations based on the same concepts such as Dave Deli and Marrybrown.

Quick Service restaurants managed to survive during the Asia's recent economic crisis recording a steady growth during the 1995-1999 period. The number of QSR units around the Asia region increased by 46.7% in the four years to 1999, with all countries except Japan recording double digit value growth within this period.

They remain strong as consumer traded down from expensive restaurants to such value options such as fast foods and street foods. They cater to the demand for swift, convenient meals in hygienic surroundings. This market is driven by heavy advertising among Western QSR and the operators target children and aspiring young consumers.

The supply chain flow for foodservice can follow two routes. The first is the Food manufacturer service direct account or the food service. The second route is the Food manufacturer service dedicated distributor. The dedicated distributors will then service foodservice operators or through wholesalers to food service operators.

Figure 4.1 Quick Service Restaurants units by country in Asia in 1998-1999

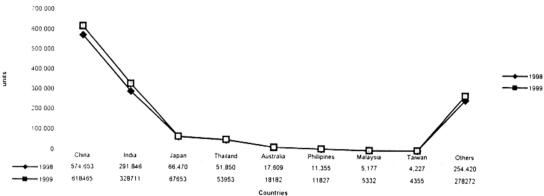


Figure 4.2 Quick Service Restaurants (QSR) market in Asia Pacific (US\$ million)

