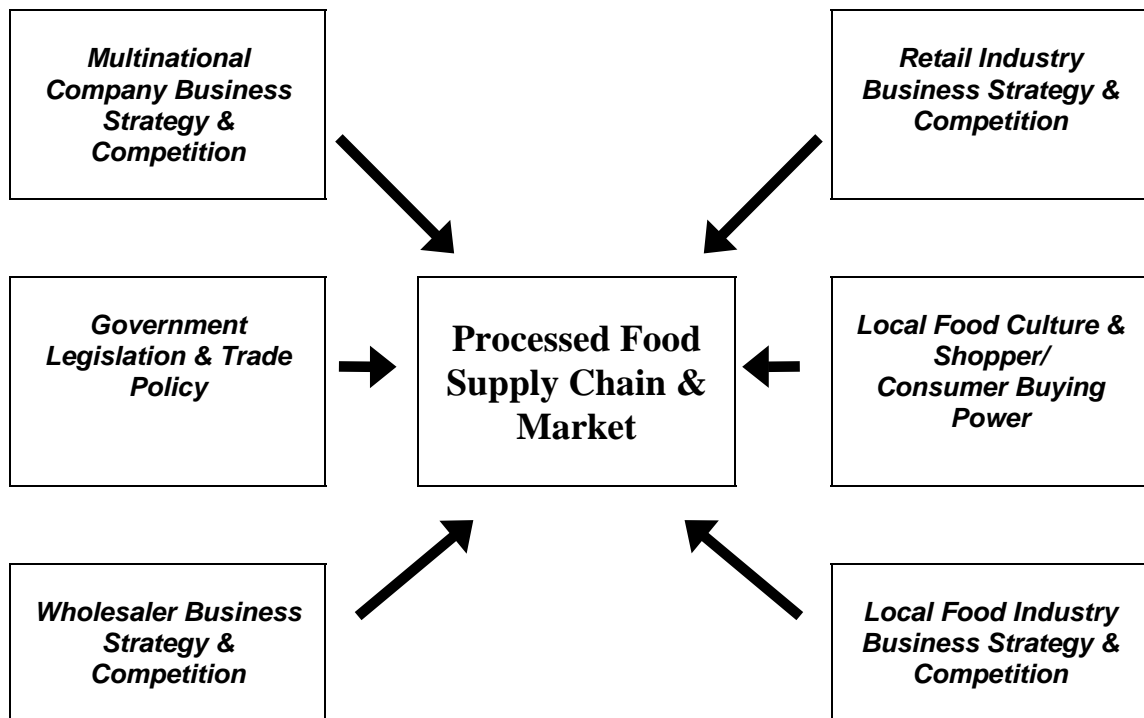


# **Beyond The Asian Economic Crisis: Marketing Processed Foods Under New Scenarios in the Region's Food Supply Chain**

*A Strategic Analysis of Future Opportunity and Threat for Suppliers of Processed Food to Developing East Asia*



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### ***East Asia returns to growth and sees improved consumer confidence***

This study covers Developing East Asia, a region of over 1.5 billion persons comprising the countries of China, Hong Kong, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. This region's population is forecast to grow to around 1.8 billion by the year 2010. Indonesia (Population: 210 million), which is currently facing significant problems arising from a complex range of local political and social factors, is not considered by this report.

Most of the countries that were affected by the Asian currency crisis and economic downturn of 1997 to 1999 are now reporting economic growth. Analysts and governments across the region are forecasting economic growth in excess of 5% for all countries, except the Philippines where growth of between 2% and 4% is forecast. For countries such as South Korea and Malaysia, most analysts consider that economic growth could reach as high as 7% or 8% in 2000.

The processed food market in these countries is estimated to be worth between US\$ 95 billion and US\$ 105 billion today. With the economic turnaround, major food manufacturers, distributors and retailers are reporting increasing sales as consumer confidence returns to much of the region. Demand for, and consumption of, processed food is expanding again to include more than the basic range of products that many consumers reverted to after the downturn of 1997/1998.

Today, growth is being reported in the sales of a broad range of processed foods, including locally manufactured products that do not have a solid "fit" in local food culture, e.g. products introduced from the West such as foreign confectionery items, snacks and dairy products, higher-priced items that have been considered "luxuries" for close to three years and imported processed foods, especially those items that had become popular prior to the onset of the downturn in 1997/98.

### ***Dramatic changes are occurring in ownership of the food supply chain***

The improvements being seen in Developing East Asia's processed food demand are occurring at a time when change is affecting the supply chain for such products. Big changes have taken place in the ownership of region's processed food supply chain, including local food and beverage manufacturers, distribution businesses and retailers.

While the GATT Uruguay Round/WTO process and localised efforts, e.g. the ASEAN Free Trade Area, started the liberalisation process, it was the currency crisis and economic downturn that proved to be the ultimate catalyst for change. The Asian currency crisis, subsequent economic downturn and consequent local business failures or near-failures speeded up liberalisation of the investment laws across the whole region. This has stimulated high levels of foreign investment into the region's processed food supply chain since 1997.

In most countries, the dramatic changes were made in a very short period of time to allow foreign capital to rescue large sections of Developing East Asia's industry, including processed food manufacturers, distributors and retailers. This wave of foreign investment has seen new or increased investments being made by some of the world's leading corporations including:

- Leading food processors such as Nestlé, Campbell Soup, Heinz, Groupe Danone (France), Kellogg's, Hormel (USA), Pepsico Foods/Fritolay, Unilever, New Zealand Dairy Board, Sara Lee, Friesland Coberco (Netherlands), Del Monte and Pillsbury.

- Leading retailers such as Carrefour (France), Royal Ahold/Tops (Netherlands), Casino (France), Metro (Germany), Tesco (UK), DFI (Hong Kong) and Jusco (Japan).
- Other leading distribution and logistics companies such as Makro (Netherlands), Booker (UK), Li & Fung (Hong Kong), Exel Logistics (UK) and ASG (Sweden).

Most of the above companies have invested large sums of money, as well as significant amounts of senior management time, in their new and/or expanded East Asian businesses. This activity has occurred as a result of new or improved and largely unbridled opportunities to:

- Take-over the equity shares of long-standing joint venture partners.
- Develop new joint ventures, strategic alliances and partnerships.
- Expand local operations at lower capital costs.
- Take-over existing retailing operations.
- Develop new hypermarket, supermarket or convenience store chains.
- Establish new regional marketing and distribution operations.
- Develop and support the distribution and logistics needs of the new businesses that entered the region's food supply chain.

These trends are continuing, especially in the region's retail sector and in South East Asia's food processing industry that will ultimately be affected by a broad based ASEAN Free Trade Area in the short to medium term.

The changes in government policy, consumer behaviour and the structure and way in which distribution channels operate is creating opportunities for existing players and new entrants alike. These opportunities will see new markets develop, new brands and products introduced and increased business for a range of processed food businesses and suppliers that target development of the region's markets.

### ***Ownership change will lead to change in control of the food supply chain***

Developing East Asia's processed food supply change is now on the threshold of dramatic change in the power-base that exists throughout the supply chain. New investment, especially that over the past 3 years, has set in motion a power struggle that will ultimately see key retailers, food manufacturers and some distributors all attempting to gain the upper hand in controlling the profits that are to be made throughout the supply chain.

The stronger players in the processed food supply chain will play on the weaknesses of other players to further strengthen their own position in the supply chain. Ultimately, this power struggle will see which entity or group of entities has the strongest bargaining power in the chain and so power to control the brands and products that flow through the chain.

This power struggle will impact on almost all manufacturers, distributors, importers, wholesalers and retailers that handle processed foods in the region. Additionally, its impact will also extend offshore to affect the operations of non-Asian food manufacturers and exporters that target East Asia as a market.

### ***Why was this study undertaken?***

This study has been conducted following requests that we:

- Update our 1994/95 reports that considered future strategic opportunities and directions in Developing East Asia's food markets and supply chain.
- Consider the following series of questions that have been posed to us by senior management from a broad range of food manufacturing companies, both in Asia and overseas:
  - ◆ *"How has the Asian economic downturn impacted on the processed food supply chain? If there are impacts, what are they and how will they affect my business in future?"*
  - ◆ *"How is market and industry liberalisation in East Asia affecting the food markets and is there any impact on distribution channels for processed foods? How will this affect my business in future?"*
  - ◆ *"Press reports indicate that there has been a lot of new investment in East Asia's processed food industry as well as the region's retail and distribution channels. How will this affect my business in future?"*
  - ◆ *"Are there any other changes that have affected East Asia's processed food market and industry since the onset of the economic downturn in 1997/98? If so, what are the changes and are they permanent or temporary? How will they affect my business in the region in future?"*
  - ◆ *"How can I benefit from the changes that are now taking place in the East Asian processed food markets and supply chain? Who will have the opportunities in the market tomorrow and how can best prospects be exploited?"*

The study was specifically designed to consider the changes that have affected the region's processed food supply chain over the past 5 years. Special emphasis was placed on analysing the significant changes that have occurred during the past 3 years, i.e. since the onset of the Asian currency crisis and economic downturn.

### ***Who was the report written for?***

This report has been written for senior management and analysts working with processed food manufacturers, exporters, importers, distributors and other organisations requiring insight into how the changes taking place in Developing East Asia's processed food supply chain will affect their organisation's business opportunities, prospects and strategies in the region tomorrow.

### ***What does the report provide?***

This report analyses the changes that have been taking place in Developing East Asia from the point of view of processed food manufacturers and suppliers, including exporters, and provides essential information on:

- The region and its processed food market and supply chain.

- The impact that changes in the region's supply chain will have on the business of manufacturers and suppliers in future.
- The opportunities that will exist for processed foods in the region tomorrow.
- The challenges that will face manufacturers and suppliers in the region tomorrow.
- The business strategies needed to deal with tomorrow's supply chain and maximise opportunities in the region's market tomorrow.

The report is written by senior consultants with many years specialising in advising processed food companies about market and industry development in East Asia. The management team includes key personnel who researched and wrote our earlier reports titled:

- "The Food Chain in South East Asia 2003: Strategic Directions & Opportunities for Food Businesses";
- "Vietnam Food and Beverages 2005: Strategic Directions and Scenarios for the Future of Vietnam's Industry and Markets";
- "China's Food Market 2000: An Analysis of Future Strategic Directions and Opportunities for Food Businesses".
- "Soft Drinks in South East Asia 2002: Strategic Directions and Opportunities in the Market Tomorrow".
- "Beer in China 2005: Strategic Directions and Opportunities for Development of the Beer Market and Industry Tomorrow".
- "Beer in South East Asia 2005: Strategic Directions and Opportunities for Market and Industry Development in the ASEAN Countries".

Unlike reports produced by other Asia-based research companies and consultants, this report is not just a catalogue of statistics. Being specifically written for busy senior management and their analysts, it analyses the statistics, facts and underlying market drivers to provide the reader with real insights into market opportunities tomorrow.

It provides a balanced view of opportunities and threats to assist food manufacturers and other suppliers, including exporters, in the development of their business plans for involvement in, or with, Developing East Asia's processed food market tomorrow.

### ***What does this report cover?***

The study considers the processed food market, industry and supply chain in China, Hong Kong, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The following products have been considered by the study:

- Dry and shelf-stable packed foods:
  - ◆ Biscuits.
  - ◆ Canned foods, i.e. meat, fish/seafood, vegetables and fruits.

- ◆ Cereal products, ready-to-eat.
  - ◆ Chocolate confectionery.
  - ◆ Cooking oil, vegetable.
  - ◆ Infant foods, including formula.
  - ◆ Jams and jellies.
  - ◆ Noodles.
  - ◆ Pasta, European style
  - ◆ Retail packed milk powder.
  - ◆ Sauces and seasonings.
  - ◆ Snack foods (non-indigenous) based on potato, cereals and nuts.
  - ◆ Soups, retail packed.
  - ◆ Sugar.
  - ◆ Sugar confectionery.
  - ◆ Tea and coffee, retail packed
  - ◆ Stable packed ready-to-eat and ready-to-cook food products.
- Chilled and frozen foods
    - ◆ Butter.
    - ◆ Cheese.
    - ◆ Chilled processed meats
    - ◆ Liquid milk.
    - ◆ Margarine.
    - ◆ Noodles, chilled.
    - ◆ Chilled ready-to-eat and ready-to-cook products.
    - ◆ Chilled soybean products.
    - ◆ Yoghurt.
    - ◆ Frozen baked products.
    - ◆ Frozen fish/seafood.
    - ◆ Frozen meat.
    - ◆ Frozen potato products
    - ◆ Frozen poultry.
    - ◆ Frozen ready-to-eat and ready-to-cook products.
    - ◆ Frozen vegetables.
    - ◆ Ice cream and flavoured water ice products.

### ***Why do you need this report?***

All processed food manufacturers and suppliers that are active in the East Asian market or are considering targeting development of the market in future must "take on board" the new scenarios that will exist in the region's food supply chain tomorrow.

There are a multitude of different positive and negative forces that are impacting on the food supply chain today. These will bring about real change in future that will affect most, if not all, processed food manufacturers and suppliers. This report analyses these forces and their strategic implications for manufacturers and suppliers and provides you with:

## Marketing Processed Foods Under New Scenarios in Developing East Asia's Food Supply Chain

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- First hand knowledge and insight into the changes that are taking place in Developing East Asia's food supply chain and the reasons for these changes.
- An understanding of the impact of change on manufacturers and suppliers and their business strategies.
- An appreciation of the risks arising for manufacturers and suppliers in Developing East Asia's processed food markets and supply chain.
- A practical and realistic assessment of prospects for processed foods in Developing East Asia tomorrow.
- Identification of opportunities that will be available for manufacturers and suppliers in the market tomorrow.
- Insight into business strategies that will be needed to:
  - ◆ Deal with the new scenarios that will present themselves in the processed food supply chain over the next 5 to 10 years.
  - ◆ Maximise the opportunities that will exist for processed foods in tomorrow's markets.

Sample pages from the report are attached to this brochure.

### *How to order this report*

This report is available in the following volumes:

Volume 1: Dry and Shelf-Stable Packed Foods - Price: US\$ 3,800 (Available on 31 July 2000)

Volume 2: Chilled and Frozen Foods - Price: US\$ 3,800 (Available on 15 August 2000)

To order the report, simply complete the order form on the following page and fax/mail it to us at the following fax number/address. Upon publication, a copy of the report will be sent to you securely wrapped and by courier.

**Marketing Processed Foods Under New Scenarios in Developing East Asia's Food Supply Chain**

Should you have any queries about the report, please do not hesitate to contact either Mr Anthony L. Emms or Ms Cindy Sia at the telephone/fax number listed on the order form below.

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## ***Stanton, Emms & Sia - Capability Statement***

Stanton, Emms & Sia (SES) is a specialist food and beverage market research and consultancy business. The firm is based in Singapore with research and consultancy resources in all South East Asian countries as well as in Australia, New Zealand, Hong Kong, India, Japan, South Korea and Taiwan.

SES focuses on the international industry and markets for food and beverages in our region. We offer our clients a full “food chain” consultancy service ranging from analysis of farm input usage to the strategic planning of business strategies in the international agricultural, food and drinks sector. Our experience covers the complete spectrum of food types from commodity to highly value added, generic to branded, fresh to processed.

SES maintains an on-going research programme, analysing and assessing key markets and underlying food, beverage and agribusiness issues that affect the Asia Pacific region now and in the future. Much of our work for clients is forward looking and interpretative. We have been monitoring the region’s processed food markets since the late 1980s.

We actively produce a number of multi-client studies each year as part of this research work. As a result, we regularly interview food manufacturers and processors, food importers and wholesalers as well as key decision makers in some of the main retail groups. SES’ advantage is that our research consultants actually know and understand how the local food industry actually operates and thinks.

Past multi-client studies have included:

- The Food Chain in South East Asia: Strategic Directions & Opportunities for Food Businesses.
- Our *Asian Dairy Series* of reports, which includes forward looking opportunity identification studies on the markets in Taiwan, Indonesia, Malaysia, Singapore, South Korea and Vietnam.
- Beer in Developing East Asia and China: Strategic Directions & Opportunities for Brewers.
- The Singapore Market for Meat, Poultry and Game.
- The Philippines Food and Beverage Industry.

The real value delivered to our clients is in the interpretation of what the research is telling us. The lack of skilled synthesis, analysis and interpretation is often the aspect which undercuts good market research performed by our competitors who operate without having a tangible presence in our region. Having researchers who are based in the country and aware of the trends and tone of the market is therefore invaluable. We believe our team has this proven track record.

We undertake assignments for a wide range of clients, drawn from both the public and private sectors. Our client base includes the following types of entities:

- Offices of multinational companies located in Asia, Australia, Europe and North America.
- Large national companies from Australia, United Kingdom, USA, South Africa, Japan, Germany and the Philippines.
- Smaller companies based in countries such as Australia, Malaysia and Singapore.
- Governments, government organisations and embassies of European and North American countries and Australia located in Asia and their home countries.
- Other entities, including marketing organisations, co-operatives and societies, operating in Australia, Netherlands, Denmark, the USA, Germany and France.

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