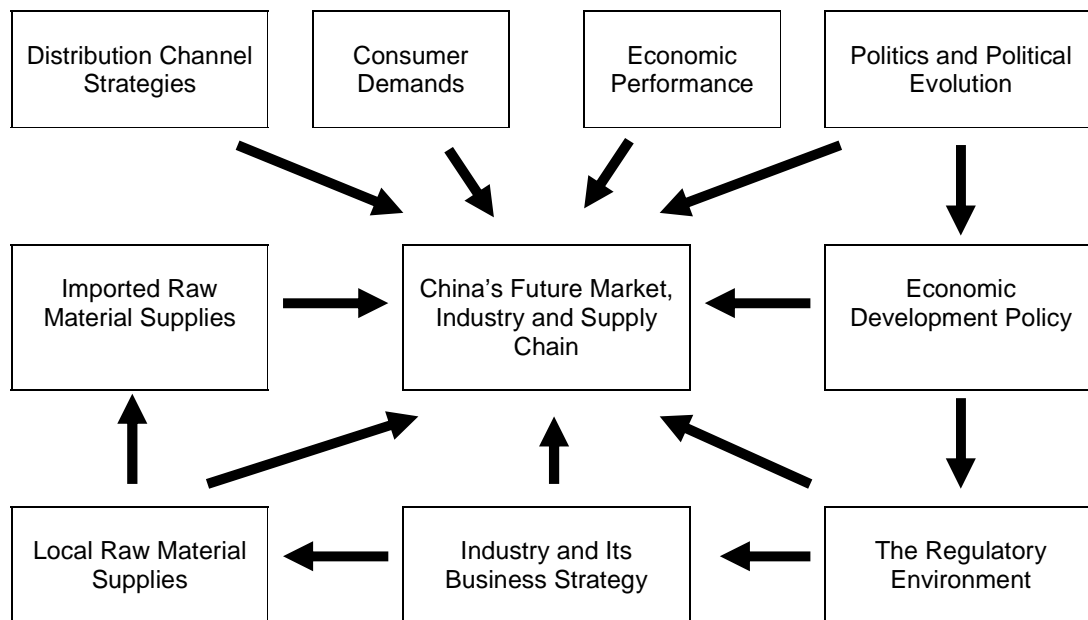


The China Food Industry, Market and Supply Chain: Visioning the Future – 2007 to 2017

*A Scenario Analysis and Strategic Review
of Opportunities for Food and Drink Businesses in Future*



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New report published on 23rd November 2007

On 23rd November 2007, we will be publishing the latest report in our long running *Asia Pacific Food Insight Series* titled: *“The China Food Industry, Market and Supply Chain: Visioning the Future - 2007 to 2017 - A Scenario Analysis and Strategic Review of Opportunities for Food and Drink Businesses in Future”*.

Stanton, Emms & Sia is a strategy consultancy that specialises in assisting food, drink and agrifood clients with their business and marketing strategy development in the East Asian region. We have been assisting clients, mainly multinational and international businesses, with their strategic research and business consultancy requirements in China since 1993. Our first multi-client study on China’s food and drink markets was published in 1994.

China and its contradictions for food and drink businesses today

China’s economy has been growing rapidly for well over 5 years and there are now forecasts of massive growth in the size of its consumer markets and booming demand for processed food and drinks in future.

Well publicised forecasts put out by international research organisations, consultancy firms and research agencies suggest that China’s middle income group will increase to over 600 million persons by 2015 and that the economy will eventually be larger than the USA’s. The Chinese government continues to “pump out” data that indicates booming growth in demand, even in sectors where foreign investors have been involved for over 10 years, e.g. beer and soft drinks. This high profile publicity is continuing to attract new investments from food, drink and food ingredient companies from across the world.

In contrast to this, major international companies such as Cadbury and, even, Nestlé have identified China as “problematic” and “not particularly profitable”. Other food businesses report that they are constantly making losses in China, and are having problems with their Chinese business partners, e.g. Danone, which is in the process of finding new partners. Very recently, some food businesses operating in China have reported that their China production costs (labour, raw materials and energy) are higher than those at their South East Asian plants.

A number of major food and drink businesses have become so unsatisfied with their investments that they have closed down and sold off some, or all, of their processing operations in China, e.g. Kraft, Friesland Foods and Fosters. Some U.S. businesses would “love” to enter China but dare not because of concerns that low margins and profits there would impact on their group’s bottom line, i.e. cause their China-based management to miss profit targets. Many sectors in the food industry are reported to have significant surplus production capacity and some market segments see frequent price wars.

Major retailers in China, although buoyant about the very long term, mainly operate discount stores, e.g. Carrefour, because they know that spending power and demand is generally weak in all of China’s cities. Experienced importers comment that the real market for imported processed food and drinks is less than 1 million persons (foreigners included), and that the broader based market for higher processed branded local foods involves a core target of somewhere between 20 and 50 million persons, and not the several hundred million persons that is regularly cited today.

Other challenges exist in China's market, including the widespread breach of intellectual property rights, raw material price manipulation, problems in freely accessing the raw materials needed to operate factories at viable production levels, variable enforcement of food regulations and reported bias towards state-owned enterprises, etc.

So, what is really going on in China today for investors and where is it all going for food and drink companies over the next 10 years? What opportunities will develop over this period? What challenges and risks will develop over this period? Strategically, where is China really going as a market for processed food and drinks and as a venue for foreign investment over the next 10 years?

This study has been developed to assist the senior management of food and drink companies with their own risk analysis, opportunity identification and strategic directioning of their businesses in, or with, The People's Republic of China over the 10 years to 2017.

The goals of the study are to provide realistic and commercially oriented answers to the following top line questions that have been posed to us by clients about China and its future:

- What is the real state of the consumer markets and demand for processed food and drinks in China today?
- What strategic impact does China's industrial development policies and food market and industry regulatory system have on food industry business opportunities today?
- What is the state of China's agricultural industries today and access to imported food ingredients and their strategic impact on processed food business opportunities today?
- What is the state of China's food supply chain and distribution channels and their strategic impact on food industry business opportunities today?
- What is the state of China's food and drink processing industry and its strategic impact on competition in today's market?
- What drivers exist that will impact of the future strategic shape and direction of China's food and drink industry, market and supply chain?
- What barriers exist to future change in China's food and drink industry, market and supply chain?
- What will be the impact of the drivers and barriers on China's food and drink industry, market and supply chain over the period to 2017?
- What are the likely future scenarios that will develop for China's food and drink industry, market and supply chain over the period to 2017?
- What opportunities and risks will exist for existing players in China's food and drink processing industry and new entrants over the period to 2017?

- What strategy implications will arise for food and drink processors from the likely future scenarios, opportunities and risks that have been identified in China over the period to 2017?
- What strategy implications will arise for food and drink exporters from the likely future scenarios, opportunities and risks that have been identified in China over the period to 2017?

While China has been “the place” to invest in, or trade with, over the past 8 to 10 years, we are now being asked how this scenario will develop in future.

China is still an extremely interesting market, but there are now increasing number of questions over the reality of its opportunities. An increasing number of businesses are starting to consider China as a disappointment, based on the outcome of their investments in, and marketing and trading activities with, China. There are also questions over what the complex range of factors that are now impacting on China mean for business opportunities and risks over the next 10 years?

The purpose of this study

This study has been specifically undertaken to assist clients with their strategic planning, business development and marketing activities in China over the period to 2017.

It is essentially a scenario planning exercise that analyses and assesses the key factors that will affect the food and drink industry, their markets and supply chain in China over the next 10 years, inclusive of the indicators of business opportunities and risks for existing businesses, and new entrants to the industry, over this period.

It is formatted in a manner that will facilitate its use in strategic planning by existing players in China and new entrants, whether they are to be new investors in China, or new entrants to the market, e.g. exporters.

Why you should buy this report

Unlike other reports, our study is not just a catalogue of statistics and facts. We analyse the statistics, facts and underlying market and industry drivers to provide you with real insights into China’s food and drink market opportunities, both today and tomorrow.

Practical scenarios for the future of China’s food and drink industry, market and supply chain are developed and explained to you in this report. Our analysis takes into consideration:

- The present state of China’s market for food and drinks and the underlying demand characteristics and developments.
- China’s food supply, consumption and development trends.
- The policy and regulatory environment for food, drinks and the raw materials that are used in such foods.

- China's food supply chain, distribution channels and their characteristics.
- China's food and drink industry, its characteristics, strategy and basis of competition.
- The role of imported food and drinks in China's market, including demand characteristics and trends.
- The forces for change on the food and drink industry, market and supply chain and their impact.
- The barriers to change, including barriers to entry, within the food and drink industry, market and supply chain scenarios and their impact.

The study provides:

- A scenario analysis based on a detailed review of the impact of the forces for change and barriers that considers the characteristics and status of:
 - China and its consumer market tomorrow.
 - China's food and drink market tomorrow.
 - China's food and drink industry tomorrow.
 - China's processed food and drink supply chain tomorrow.
- An analysis of the opportunities and threats for food and drink suppliers tomorrow.
- An opportunity scan on the future strategic directions for food and drink businesses in China tomorrow.

In doing this, it also provides a balanced view of opportunities and threats to assist food and drink companies to:

- Better understand the developing future scenarios in China.
- Develop their business, investment, marketing and export plans for involvement in, or with, China food and drink industry, market and supply chain in the period to 2017.

What markets are covered by this study?

This study covers the markets for the following products, whether locally produced in, or imported to, China. Frozen products are considered within the relevant categories.

- Beer.
- Bottled drinking and mineral water.
- Breakfast cereals.
- Canned foods.

- Carbonated soft drinks.
- Cereals and processed cereal-based products, including noodles, biscuits, bread and other baked products.
- Chilled foods.
- Chocolate confectionery.
- Edible vegetable oils.
- Fish and seafood, including aquaculture products.
- Fresh fruits and nuts.
- Fruit juices and fruit based drinks.
- Honey, natural
- Infant foods
- Jams, jellies and spreads.
- Meat, poultry and eggs, including beef, pork, chicken, mutton and other poultry.
- Milk, other dairy products and ice cream.
- Sauces, seasoning and spices.
- Snack foods
- Soft drinks, other.
- Spirits.
- Starch roots and vegetables.
- Sugar and processed sugar-based products, including confectionery and gum.
- Tea and coffee
- Wine.

Who can use this report?

This study was undertaken for board level and other senior management of businesses and other organisations and government officials that wish to obtain an up-to-date and detailed understanding of the future scenarios for China's food and drink market, industry and supply chain in the period to 2017.

It will also be useful to food, drink and food ingredient company analysts who require a better strategic insight into likely opportunities and threats for their business in future.

This study was researched by senior consultants who have many years specialising in advising the senior management of food and drink companies about business strategy and market development in Asia, including China. The project management team included Managing Consultants who have been managing food and drink strategy projects for clients on a regular basis in China since 1993.

Who we are

Stanton, Emms & Sia (SES) is an international strategy consultancy that specialises in assisting the senior management of food, drink and agrifood businesses to identify opportunities, develop their businesses, and develop markets for their products.

SES was formed in 1991, is headquartered in Singapore and has offices and associates located all across the East Asian region, including China. We have been working with a wide range of clients, including multinationals, international companies and other businesses and organisations, in China since 1993.

We also specialise in policy analysis on matters such as development and trade for foreign governments with an interest in obtaining better understanding of policies and regulatory environments that exist in East Asia, including China.

One of our key roles for clients in China since 1993 has been to assist their senior management with their risk analysis and “marketing due diligence”, and in providing them with second opinions on issues that are impacting on, or will impact on, their business in, or with, China in future.

Our past experience in China has covered a wide range of different industries and markets, including apples, barley, beer, biscuits, bread and daily baked products, canned foods, cereal products, chilled and frozen foods, chocolate confectionery, coffee, dairy products (both finished products and ingredients), fish and seafood (wide range of products), fruit juices, ice cream, infant foods, jams and jellies, meat (beef, lamb and game meats), mineral water, mustard, natural honey, new age drinks, noodles, oilseeds, pasta, pears, poultry, sauces and seasonings, snack foods, soybean products, soup, spirits, starch products, sugar confectionery, tea and wheat.

We have also published other multi-client reports on China, including a strategically oriented food chain study in the mid-1990s and other reports that have focus on specific subjects, e.g. the beer industry, the dairy products’ industry and market and the meat and poultry markets.

How to order this report

This report is available at a cost of US\$ 5,000 (US Dollars). To order the study, simply complete the order form below and fax/mail it to us at the following fax number/address. On receipt of your order, a copy of the report will be sent to you securely wrapped and by air courier.

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1. Introduction

1.1 Goals and scope for this study

This study has been performed for Board level and other senior managers who are key decision-makers in food, drink and agrifood companies. It has been developed to assist such persons with their own risk analysis, opportunity identification and strategic directioning of their businesses in, or with, The People's Republic of China over the 10 years to 2017.

This report has been formatted in a manner that facilitates the use of its contents in strategic planning by existing players in China and new entrants, whether they are investors in China or engaged in its market through marketing or trading strategies and channels.

It provides a full market and industry analysis and assesses the key factors that will impact on China's food and drink markets over the next 10 years. It takes a medium to long term view of China's food and drinks market and industry opportunities and identifies and considers the following matters:

- The target markets for food, drinks and agrifoods in China;
- The wants and needs of Chinese consumers;
- Viable product types;
- Strategic opportunities that will develop over the period to 2017; and
- The business and marketing strategies that will be needed to take those opportunities.

The goals of the study are to provide realistic and commercially oriented answers to the following top line questions that have been posed to us by clients about China and its future:

- What is the real state of the consumer markets and demand for processed food and drinks in China today?
- What strategic impact does China's industrial development policies and food market and industry regulatory system have on food industry business opportunities today?
- What is the state of China's agricultural industries today and access to imported food ingredients and their strategic impact on processed food business opportunities today?
- What is the state of China's food supply chain and distribution channels and their strategic impact on food industry business opportunities today?
- What is the state of China's food and drink processing industry and its strategic impact on competition in today's market?
- What drivers exist that will impact of the future strategic shape and direction of China's food and drink industry, market and supply chain?

In terms of PPP (purchasing power parity), its GDP per capita is reported at US\$ 9,900. This figure should, however, be treated with some caution as there is starting to be some doubt over the appropriateness of the basis of PPP calculations for China, i.e. in view of the highly diverse nature of its internal city and regional economies.

Some commentators believe that China's PPP GDP figure could be grossly overstated. Additionally, the PPP figure is not relevant when considered in terms of spending power in relation to imported processed foods.

A preliminary report released by the Asian Development Bank (ADB) in July 2007, but not well publicised, indicates that China's existing PPP GDP per capita figure is overstated by between 40% and 45%. If true, this would put China's PPP GDP per capita figure at close to US\$ 5,600 and not the officially published US\$ 9,900. Even at US\$ 5,600, the figure should be treated with some caution because the ADB's study only covered 11 key cities across China, and not the whole country.

The present government is committed to stimulating continued economic growth through its 11th Five-Year Guidelines (2006-2010), which is targeting growth at around 7.5% per annum over the five years ending in 2010. According to the outline of these guidelines, China's GDP per capita will reach RMB 19,270 or about US\$ 2,400 in 2010, up from US\$ 855 in 2000.

This five-year guideline places future economic development emphasis on:

- Building domestic demand as a future driving force for the economy;
- Improving the performance of all sectors of the economy to maintain a high level of balance in development across China, both in its urban and rural areas. Key targets for development action have been identified in:
 - Agriculture; and
 - Services, which are reported to be highly underdeveloped when compared to other countries in East Asia, e.g. Japan, South Korea, Malaysia and, even, the Philippines.

Agriculture is the top priority because of the growing disparity between urban and rural area incomes and due to China's growing demand for agricultural products and its internal food security into the long term.

The Chinese government sees major opportunities for its farmers in the new middle income group demand base that has developed and is continuing to develop in its cities. Consequently, its key policy focus is on developing a strong market-oriented agricultural sector by:

- Upgrading agriculture and agricultural management systems to meet the demands of China's middle income group consumers and, in some cases, the export markets.
- Building and stimulating modern marketing and distribution links between rural production bases and urban area markets.

Urban area spending on food has decreased significantly as per capita household incomes have increased (see Table below).

Overview of Changes in China's Urban Area Incomes and Spending on Food and Drinks – 1990 to 2005					
	1990	1995	2000	2004	2005
Average annual household incomes in RMB	1,516	4,279	6,296	10,129	11,321
Food and drinks as a share of total household expenditure	54.3%	50.1%	39.4%	37.7%	36.7%

Source: National Bureau of Statistics, PRC

According to the official data, in 2005 China's urban households spent an average of about US\$ 900 per annum out of their average incomes of about US\$ 1,290 per annum. Of this, about US\$ 330 per annum (37% of household expenditure) is being spent on food and drinks.

It should be noted that food and drink spend in China is still high, relative to that in more developed markets in Asia, e.g. 22% in Japan and 24% in South Korea..

This situation continues to reflect the weak overall state of China's household incomes in the urban areas, when compared to the more developed consumer markets in Asia today. Based on this, China continues to be an immature and developing market for processed foods and drinks today.

2.5 Consumer purchasing criteria in China

2.5.1 The fundamentals behind demand for food, drink and agrifoods in China today

Discussions with a range of different trade sources in China revealed that there are three key issues that impact of the saleability of food products in China today:

- Price and value-for-money;
- Whether the products has developed any cultural fit in the diet; and
- Whether the product is safe for consumption and the brand or supplier can be trusted by consumers.

Other issues, e.g. channels, brands, advertising and promotions, convenience, etc., are currently not as important as the above issues. Price, culture and safety are fundamental issues in determining demand at most levels in Chinese society today.

The 11th 5 Year Plan includes a policy section that sets out the policy goals and aims on the optimisation and upgrading of China's industrial structure. Within this section are policy statements, goals and objectives for China's light industry, which includes the food and drink industry.

The Table below provides the official translation of the policy statement that underpins the broad goal of upgrading China's light industry.

Overall Policy Statement on Upgrading China's Light Industries
<i>"Efforts will be made to build independent brands, improve quality, increase product variety, meet diversified demand, expand the share of the high-end market and consolidate and improve the competitiveness of the light industries".</i>
Source: 11 th 5 Year Guidelines for National Economic and Social Economic Development of The People's Republic of China (Official translation)

The specific policy areas under the goal of upgrading China's light industry are:

- Upgrading the light industries:
 - Encouraging the upgrading of manufacturing capabilities and facilities; and
 - Encouraging the increase in the industries' added value.
- Promoting information technology (IT) and its active usage:
 - Promoting IT usage in the manufacturing industries;
 - Further exploiting information resources.
 - Improving information infrastructure; and
 - Enhancing information protection and security.

Trade sources comment that the main issues that the government will attempt to deal with over the period to 2010 are:

- Infringements of food health and safety laws.
- Breaches of intellectual property rights.

Both of these have resulted in food scandals, scares and incidents, some involving deaths, over the past 5 years. These have undermined Chinese consumer confidence in locally manufactured food and drinks and in the government's ability to ensure that food and drinks that are available in the market are wholesome, healthy and safe for human consumption.

The bans on imports of Chinese food, personal care products and other sensitive products, e.g. toys, that have spread across the world over the course of 2006 and 2007, and have also added to the urgency that is needed in regulating the food industry. These bans are stimulating it to upgrade and operate in a manner that meets recognised global standards and best practices and, importantly, the demands of China's growing middle income group consumers.

3.3.2 China's WTO compliant tariff rate quotas in overview

The Table below provides an overview of China's WTO compliant tariff rate quotas (TRQ) today.

Overview of China's WTO Compliant Tariff Rate Quotas (TRQ)				
Product *	Date of Final TRQ Implementation	Final Quota in Metric Tonnes	State Trading Enterprises Share of Quota	In-Quota Tariff Rates
Wheat and flour, etc.	2004	9,636,000	90%	Grain: 1% Flour, etc: 6%, 9% or 10%
Corn (Maize) and its flour, etc.	2004	7,200,000	60%	Grain: 1% Flour, etc: 9% or 10%
Rice and its flour, etc.	2004	2,660,000	50%	Grain: 1% Flour, etc: 9%
Sugar	2004	1,945,000	70%	15%
*: The reader is advised to refer to China's official documents covering its WTO commitments to identify the actual HS codes to which these TRQs apply. Source: China's official submission of its commitments to the WTO				

It should be noted that the out-of-quota import duties are very high at 40% and 65%, depending on product. More information is provided in the following sections of this report.

According to the Ministry of Commerce, the key features of administration process for the TRQs on cereals and sugar is as follows:

- The National Development and Reform Commission (NDRC) is the primary administrator of the TRQ on cereals.
- The Ministry of Commerce (MOFCOM) is the primary administrator for the TRQ on sugar.
- On TRQ application and issuance procedures:
 - “For products under import tariff rate quota administration, the applicant should submit the application to entities with authorisation of either MOFCOM (sugar) or the NDRC (grain) to have the application verified. The entities will then transmit the application to either MOFCOM or NDRC”.
 - “The allocation of import tariff rate quota for grain and sugar is based on the number of applicants, historical import performance, production capacity and other relevant commercial standards”.

- A number of draft Food Hygiene Standards issued in the period since 2001 on products such as marine algae and algae products, salted fish, dried aquatic products of animal origin, fresh and frozen seafood products of animal origin, minced aquatic products, canned fish, and flavoring derived from aquatic products.
 - A draft maximum residue levels requirement on Polychlorobiphenyls in seafood, 2002
- Cereals, starches, sugar and their products, and natural honey:

This matter is dealt with by the following regulations, standards and administrative measures:

- Hygienic Standards for Grains, 2005.
 - Administrative Measures for Exit-Entry Inspection and Quarantine of Grain and Feed Stuff, 2003.
 - A number of draft Food Hygiene Standards issued in the period since 2001 on products such as sugar, natural honey, corn sweetener and starch products.
 - A draft maximum residue levels requirement on Deoxynivalenol in wheat and corn.
- Consumer protection:

This matter is dealt with by the Consumer Protection Law, which was enacted in 1994. This law provides a basic legal framework for matters covering consumers' rights, the obligations and legal rights of business operators and other matters such as dispute resolution processes.

- Dairy products:

This matter is dealt with through:

- A number of draft Food Hygiene Standards on products such cream and butter, milk beverages, cheese, whey powder, lactobacillus beverages, evaporated and sweetened condensed milk, pasteurized and sterilised milk and milk powders, which have been issued since 2002. None of them appear to have become finalised National Standards at the date of the research (September 2007).
 - A draft maximum residue levels requirement on Aflatoxin M1 in milk and milk products, 2002.
- Drinks:

This matter is dealt with by the following regulations, standards and administrative measures:

- The Soft Drink Classification Standard, 1996.

- Cash crops for the local market, e.g. meat, eggs, and vegetables; and
- Higher margin products for the export markets, e.g. fish, seafood and fruits.

It should be noted that more current data indicates that many of the sectors that grew rapidly over the period from 1990 to 2005 saw a slow down in their growth rates in more recent years. Trade sources comment that this situation has developed because of constraints that have been placed over continued expansion of these sectors by issues such as:

- Over-capacity in the industry, as a result of over-investment in it;
- Price wars between suppliers that are seeking to produce to their maximum capacity. This has led to a decline in profitability of certain sectors;
- Constraints over the availability of resources needed to produce more crops or products, especially available land.
- Food health scares, which have impacted negatively on smaller lower quality producers.
- Problems in the international markets as a result of products that do not comply with international food standards or food health and safety regulations in importing countries.
- Other problems such as the increased cost of animal feed. In some areas, there are also reported to be labour shortages and related challenges arising from the cost of available labour.

The more recent trends in food production output are considered in the following section of this chapter.

4.3 Recent trends in food supply, trade and consumption

4.3.1 Recent trends in local food production

China produced 1.46 billion tonnes of food in 2005, up from 1.32 billion tonnes in 2001 (see Table below).

Trends in Food Production in China – 2001 to 2005					
	2001	2002	2003	2004	2005
	'000 Tonnes	'000 Tonnes	'000 Tonnes	'000 Tonnes	'000 Tonnes
Total food production	1,317,971	1,387,573	1,378,354	1,447,092	1,486,960
% change	-	5.3%	(0.7%)	4.9%	2.8%
Source: Government of The People's Republic of China (Latest available data)					

4. China's food supply, trade and consumption

- Higher disposable incomes; and
- Government policies to stimulate growth in local production of crops, e.g. milk and fruits, or permit more imports, e.g. soybeans.

4.4 Review of per capita consumption and the structure of food consumption

The Table below provides an overview of the per capita consumption and the structure of food consumption in China in 2001 and 2005.

China's Per Capita Consumption of Food in 2001 and 2005				
Product Category	2001		2005	
	Kilograms	%	Kilograms	%
Cereals	313.3	29.3	330.0	27.5
Fruits, vegetables and other crops				
□ Vegetables	275.6		325.9	
□ Fruits	54.5		67.1	
□ Starch roots	148.6		140.4	
□ Aquatic plants, etc.	6.9		8.1	
□ Dry beans, pulses and lentils	3.6		3.3	
□ Nuts	0.9		1.3	
□ Spices and herbs	0.3		0.3	
□ Coffee and tea	0.5		0.6	
Sub total	490.9	45.8	547.0	45.7
Sugar and its products	80.2	7.5	82.8	6.9
Soybeans ** and edible oil crops	68.9	6.4	93.8	7.8
Animal, etc., products:				
□ Meat and poultry	53.5		62.2	
□ Fish and seafood	32.5		33.7	
□ Milk and its products	12.8		24.3	
□ Eggs	18.6		21.9	
□ Honey	0.1		0.2	
Sub total	117.5	11.0	142.3	11.8
Total	1,071.0	100.0	1,195.8	100.0

*: Local consumption includes human food, animal feed and non-food uses.
 **: Soybeans are a major traditional human food product in China.
 Source: Government of The People's Republic of China (Latest available data)

In 2005, China's population and food industry consumed about 125 kilograms more in food than it did on a per capita basis in 2001. The Chart below provides an overview of the composition of additional food consumption in 2005.

The China Food Industry, Market and Supply Chain – 2007 to 2017
China's food supply, trade and consumption

Product category	Consumption In '000 Tonnes (2005)	Introduction	Emerging	Growth	Mature	Declining	Commentary on Current Market Maturity and Development Trends
		Variable Performance	+ 11% growth	5% to 10% growth	0% to 4% growth		
Soybeans and soyfoods	54,000 (70% of consumption is imported)			✓			<p>The consumption of soyfoods has been growing on the back of increased household incomes all across China.</p> <p>A range of soyfoods, e.g. tofu and soybean milk (Chinese-style), are deeply entrenched in Chinese food culture and are known to be healthy and nutritious.</p> <p>As household incomes have risen, there has been a tendency for families to consume more soyfoods as part of a balanced diet, which is a feature of Chinese traditional food culture and belief systems.</p>
Soy sauce	2,000 (Only 0.6% of consumption is imported)				✓		<p>Soy sauce has a slow growing market in China. Demand is quite mature and is growing on the back of improvements in the household incomes of the lower income groups and population growth.</p> <p>Some segmentation is being seen in the markets of the more affluent cities where some producers, e.g. Kikkoman of Japan, which has a soy sauce factory in Shanghai, are marketing products that are of higher grade than the standard soy sauces that dominate the market.</p> <p>The markets for these higher grade products are still very small niches in the more affluent cities, e.g. Shanghai today. According to Kikkoman's senior management it will take many years, e.g. 10 years, to develop today's niches into markets of significant size.</p>

4.7.12 Chocolate confectionery

Product category	Consumption In '000 Tonnes (2005)	Introduction	Emerging	Growth	Mature	Declining	Commentary on Current Market Maturity and Development Trends
		Variable Performance	+ 11% growth	5% to 10% growth	0% to 4% growth		
Chocolate confectionery <input type="checkbox"/> 50% - Gift boxes; and <input type="checkbox"/> 50% - Countlines.	110 (7% of consumption is imported)	✓ (Problematic)					<p>Although chocolate products have been produced in China by state-owned enterprises for many years, the products never developed strong demand traits in China and a high proportion of production was exported.</p> <p>Even though foreign chocolate businesses, e.g. Mars and Cadbury, have invested in China, this situation continues to exist and now some foreign businesses, e.g. Mars, are using China as a base to export chocolate to other parts of Asia. The major local brand is Le Conte, which is owned by COFCO, a state-owned enterprise, and possibly the market leader today.</p> <p>The challenge for chocolate lies in the Chinese attitude towards chocolate, which is viewed as unhealthy, not nutritious. Under the traditional Chinese belief system, chocolate is a product that can unbalance the human constitution. As a result, if it is consumed, it will be on an infrequent basis and usually under indulgence conditions, e.g. as a gift or a treat. Most parents will try to discourage their children from consuming chocolate.</p> <p>For this reason, it is a problematic market for chocolate suppliers. Trade sources report that less than 2% of the Chinese population have tried chocolate in the recent past. Essentially, the product is still stuck at the introductory stage in its market development, largely as a result of cultural challenges, fads, and pricing, which is high, relative to other indulgent foods.</p>

These are mainly small to medium sized businesses that operate either as general distributors or, in some cases, as specialists handling a limited number of products. Some of these businesses are linked to local supermarkets by way of common ownership and management.

They distribute to limited geographical areas, e.g. individual cities and provincial areas, usually under some form of sub-contract arrangement. They distribute the products of all sizes of local processed food companies but will only handle imported products if they are close to the entry port.

5.2.6 Distribution, warehousing and logistics companies.

Although multinational companies in China are increasingly rely on timely information and reliable strategic advice to develop their sourcing strategies, supply chains and logistics, this is still one of the most underdeveloped area of the China's distribution channels.

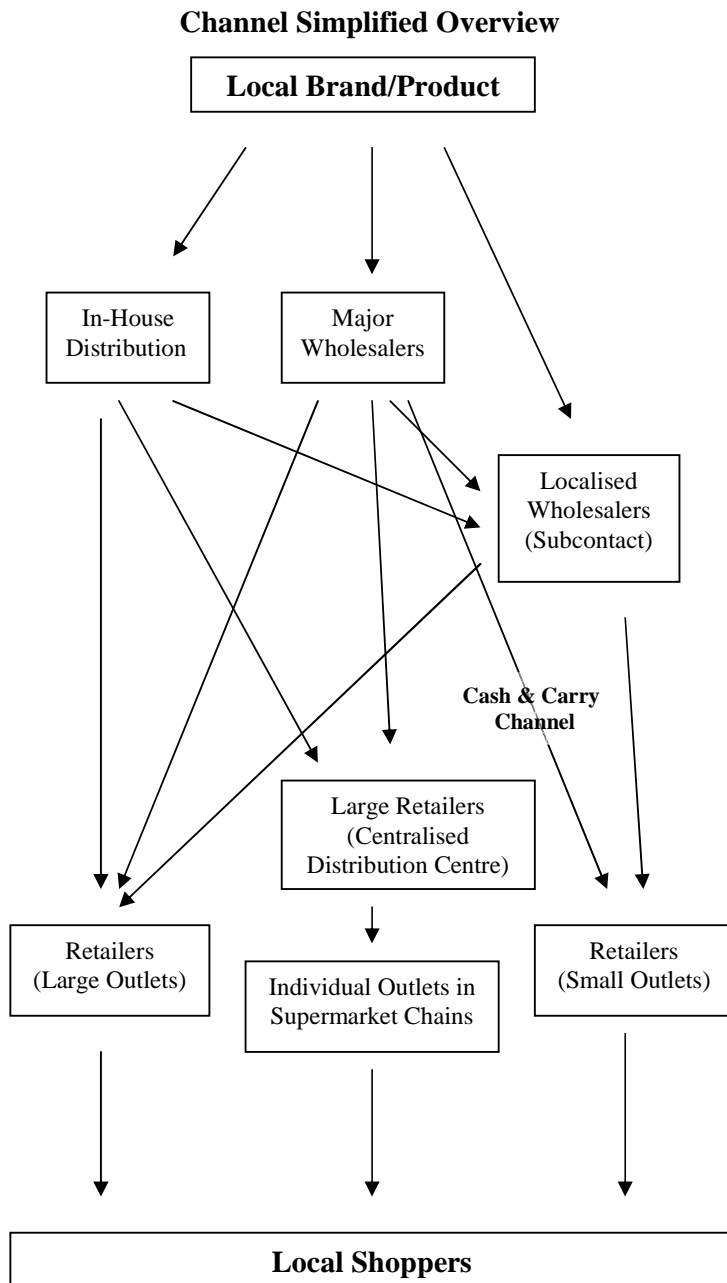
Trade sources comment that:

- Although the concept of trading (import-export) and freight forwarding is understood by the Chinese government, it does not, as yet, understand the concept of a logistics business. Consequently, there are very few independent modern logistics and distribution companies operating in China today. Some businesses that have invested from Hong Kong, e.g. Jardine and Li & Fung, are involved in China's logistics industry.

- China's distribution channels suffer weaknesses that result in the following major problems, which can occur in 30% and 50% of shipments today:
 - Damaged or poor quality products (a major problem);
 - Delayed or missed deliveries (a major problem);
 - Unexpected increases in supply costs;
 - Extended lead times; and
 - Constraints on supply capabilities.

These problems are extremely frustrating for businesses as they generally eliminate any cost advantage that may have come from negotiating prices with manufacturers or suppliers. Such problems arise from the current state of warehousing systems in China (see Chart below), including warehouse locations, which are generally within built up urban areas where traffic congestion has become increasingly worse over the past 5 years.

5.3 Distribution channels for local brands and products in overview



Notes:

- Major wholesalers include cash & carry warehouses that supply smaller retailers and food service operations. Some are nationally oriented but most are regional players.
- The channels to retailers operating in provincial cities, towns and rural areas often include more layers than are shown in the Chart above.
- "Supermarket Chains" refers to businesses operating supermarkets, hypermarkets and/or convenience stores.

Distribution Characteristics

- The channels used by local products are well developed but extremely fragmented. Local products include national brands and localised products.
- Although positive for future development of the supply chain, (1) the cash & carry wholesaling businesses and (2) centralised distribution centres by large retailers have made the channels more complex. (Note: Some cash & carry businesses have a focus on supplying the food service industry).
- A high degree of competition exists in these channels. Channel conflict exists, especially when national wholesalers "play suppliers off" against each other.
- The wholesalers (including companies with in-house distribution) generally control the channels. The above mentioned cash and carry retail trends are likely to alter the balance of power away from the wholesalers in future.
- Margins demanded are high from the fragmented channels. Promotion demands have been limited in the past. Demands for margin, other fees (listing, etc.) and promotional support are increasing from larger retailers operating supermarkets and hypermarkets. Generally, the manufacturers using these channels (except those with in-house distribution) are not able to control the retail price of their products.
- Local products are generally not distributed in a cost-effective manner, especially if they require widespread distribution via multi-layered channels.

7. China's food, drinks and agrifood processing industry

7.1 Overview of industry structure today

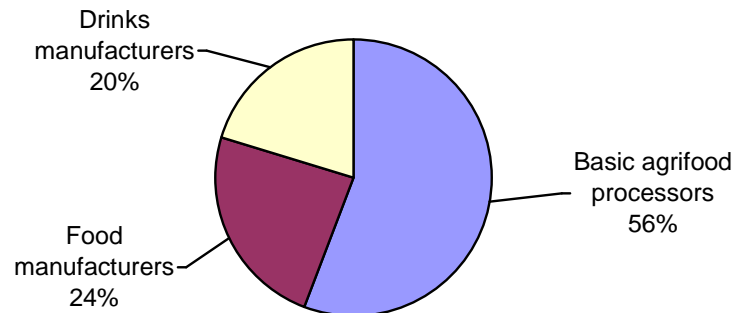
According to the National Bureau of Statistics, China has about 125,000 food, drink and agrifood processing businesses today. The industry's total sales and net profits are reported at about US\$ 180 billion and US\$ 8 billion (4.4% net profit margin), respectively. The industry is comprised of:

- State-owned enterprises,
- Collectives (Chinese-style co-operatives)
- Chinese privately owned businesses
- China-foreign invested joint ventures; and
- Businesses that are wholly owned by foreigners.

The official data on the industry indicates that only 9% of the businesses that are involved in this industry were privately owned by Chinese or foreigners in 2005. The balance of businesses are owned and operated by the State or local collectives.

The industry has three distinct sub sectors (see Chart below).

China's Food Processing Sector in 2005 – 125,000 Businesses



Source: National Bureau of Statistics

7.2 Basic agrifood processors

7.2.1 Industry structure

The basic agrifood processing sub sector is comprised of about 70,000 businesses in 2005. It is highly fragmented. According to official government data about 98.5% of all businesses involved were small businesses in that year.

7.3.3 Industry activity

China's food manufacturing industry is producing in an expanding range of products. Some industries where competition is high are seeing high levels of innovation in terms of new product development and launch. One of these is the milk processing industry.

Accurate information on the production output of China's food manufacturing industry is not readily available on a national basis. The information availability at a provincial level is also problematic because of different definitions and survey systems. Even between ministries, e.g. agriculture and commerce, there are differences in information systems and databases.

In addition to this, official reporting on the food processing industry is confusing and does not always cover industries that are involved in the higher processing of food.

At an official level, China's national data collection system regards "food processing" as an industry that is involved in a small number of products. These products are the agrifood products, namely milled rice and feed, vegetable oil, sugar, slaughtering, meat and eggs and fisheries products. These products were dealt with in the previous section of this chapter.

The size of the markets for the products that are manufactured by this sub sector were profiled in detail in a previous chapter of this report. As noted in that chapter, most markets are dominated by China-made products. These products are retailed under multinational, foreign and local brand-names.

7.3.4 Industry operations and profitability

Total industry sales of the food manufacturing sub sector were officially reported at around US\$ 38 billion or about 21% of China's food, drinks and agrifood processing industry sales in that year. Overall, the net profit margin for the whole sub sector was officially reported at 4.9% of sales in 2005.

The same survey revealed that private sector businesses involved in this sub sector were significantly more dynamic than the state-owned enterprises:

- As a group, the 2,300 private sector businesses, which accounted for 8% of all businesses in the sub sector, reported:
 - 25% of industry sales in 2005; and
 - 27% of industry net profits in 2005.
- The average annual sales turnover per private sector business was about US\$ 4.1 million in 2005. This is more than 3 times higher than the average sales per business for the whole industry at US\$ 1.2 million in that year.
- The average annual net profit per private sector business was about US\$ 215,000 in 2005. This is more than 3 times higher than the average sales per business for the whole industry at US\$ 62,000 in that year.

7.5.2 Unilever China

7.5.1.1 Operations and strategy

Unilever has introduced over twenty different brands to Chinese consumers since it re-entered China in 1986. Today, its China operations can be grouped into three divisions:

- Home and personal care products;
- Foods; and
- Ice cream.

Foods include soups, sauces, dressings, peanut butter, bouillon, retail packed tea and ready-to-drink teas.

It also has a China research and development base and a global procurement management office in China. 90% of all of its management team are now Chinese citizens.

Unilever's management team have a long history of building businesses in developing countries. They consider China to be 50 different markets and not a single country market. They also operate on the basis of having a short term strategy and the long-term vision for China. This is believed to be crucial as too much focus on the long-term will damage short term business development efforts. As an example, they have:

- Management focusing on long-term brand development in China; and
- Other management who focus on promoting brands to be sold in the immediate future.

Unilever China based management team are also very concerned about the economies of scale in its operations. Their main concern has been the China group's fragmented nature. The group operated as three different companies with a cost base that was considered to be too high for a developing market such as China.

In 2006, Unilever's China operations were integrated into one company. Its integration strategy was aimed at improving business efficiencies and reducing overhead costs. It also streamlined its distribution system into one channel, with the exception of the Wall's ice cream brand. Ice cream requires a unique distribution system to handle marketing and distribution conditions that exist across China.

Unilever China has a cautious strategy towards expanding its distribution coverage. Its management team of the opinion that if expansion is too fast, they will:

- Loose control over their brands; and
- Incur unnecessarily higher operating costs.

The broad aim is to expand distribution coverage to keep pace with competition and the forecast expansion in demand.

- Its aggressive advertising and promotional campaigns. Trade sources comment that these have been a key part of Wrigley's success in launching and expanding demand for its product. One of its "famous advertising campaigns" was based around "*Give your face some exercise*" and this idea really caught on with the younger Chinese consumers.
- The product's low unit pricing point, which is reported to be affordable to China's middle and upper income group children, teenagers and young adults.
- The profit margins that Wrigley chewing gum provides to its distribution channel members, especially the retailers. This is reported to be very high, when compared to the margins of its competitor, e.g. at around 20%. This has been very important to Wrigley because its brand is well known as profitable for retailers of all sizes to carry on their shelves. Consequently, there is significant "demand-pull" for the product from retailers.
- The "*coolness*" of the product in the eyes/minds of the young in China, its target consumers. This has been created through their interaction with Wrigley's advertising and promotional campaigns over the past 10 years or so.

7.5.6 Kikkoman

7.5.6.1 Operations and strategy

Kikkoman is a leading Japanese soy sauce manufacturer. Its total sales in 2006 was reported at US\$ 3.6 billion. No information is readily available on its sales in China. Today it has operations in number of countries around the world, including the USA, EU and Singapore and China. According to its senior management team, its China business is very small when compared to the rest of the group.

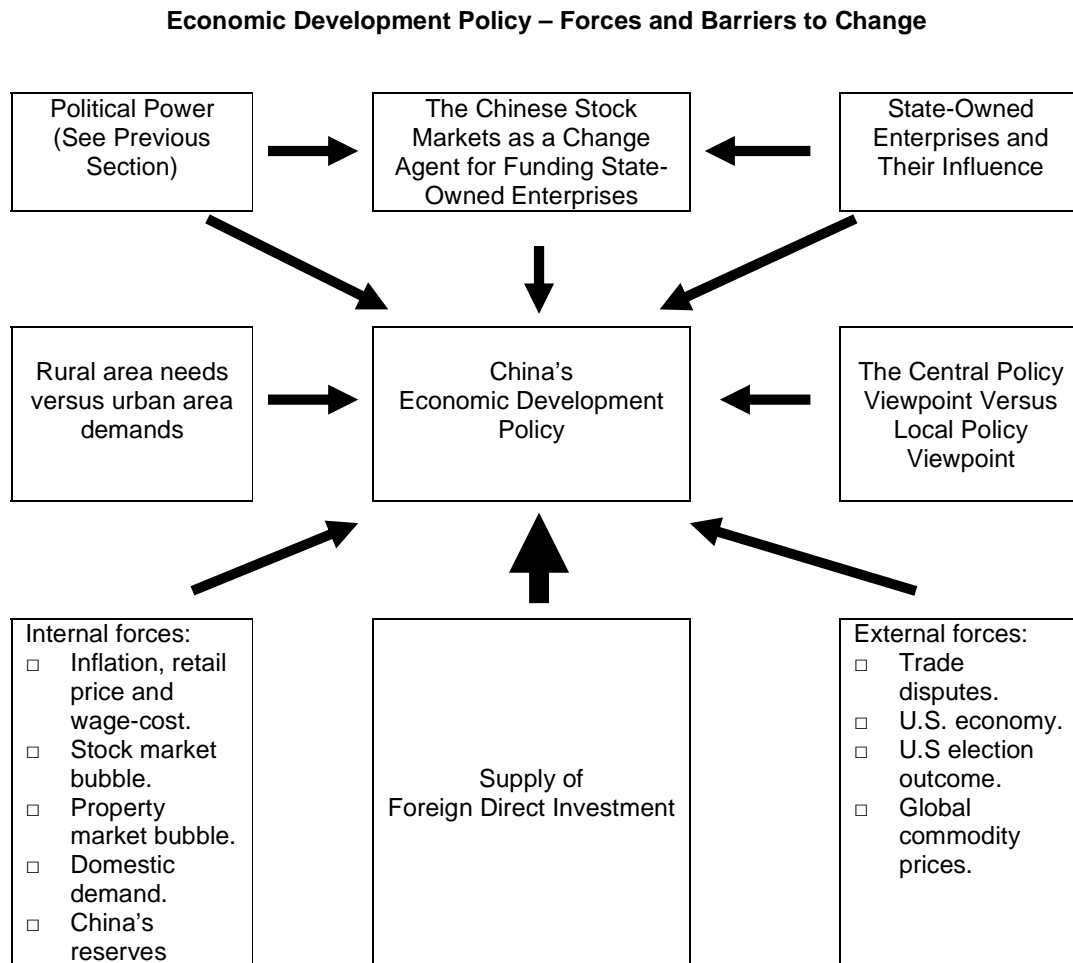
It entered China in 2002 by establishing a factory with a similar production capacity to its Singapore factory in partnership with Uni-President of Taiwan. Since entering the China, its sales have steadily grown on year-by-year basis. However, the marketability of its product to Chinese consumers is severely challenged by price competition and price sensitivity. Its soy sauce costs between five and six times that of a local soy sauce.

Currently, its main markets are in Japanese food service outlets and amongst expatriates and higher income group Chinese families.

Its senior management team has a long-term view of China. They see that the China market has the highest level of future sales potential for Kikkoman in Asia. In view of this, the company's strategy focuses on the long-term, i.e. 2015, when it believes that the scale of demand that will develop for a higher end soy sauce. This scenario will be sufficient for it to invest in a much larger scale production plant in China.

Its management believes that China will eventually become Asia's largest consumer of higher quality soy source. The strategy today is to maintain a developing presence in China, based on its small scale production facility in Shanghai.

The forces on economic development policy are complex (see Chart below) and they can act as a force for change or a barrier to change.



These forces involve a very important “insider interest group”, namely the state-owned enterprises. These entities can be a force for both positive and negative change, and also a barrier to change. For example, the state-owned enterprises have:

- Slowed down China’s progress towards becoming a WTO member;
- Shaped some of China’s WTO commitments, e.g. the tariff quotas on certain strategically important agricultural products and other food and drinks;
- Undermined China’s efforts to provide strong protection of foreign-owned intellectual property.
- Encouraged the Central Government to promotion of foreign investment in certain sectors as a means of saving state-owned enterprises from failure, e.g. the beer and dairy industries.

Most analysts believe that global supplies of agrifood commodities will remain tight and high priced over the short to medium term, i.e. over the next 5 years or so.

History shows that when agrifood commodity prices are high, new investment will be made by farmers into the production of those high priced crops. They will switch crops to take advantage of better financial returns. The end result of this new investment is usually oversupply and lower prices.

Based on past events, there should be an oversupply situation developing at some stage over the next three years or so. There are, however, a number of factors could reduce the size of the glut in supply that develops and could also maintain relatively high prices. These include:

- Demand for cereals for use in the production of biofuels, unless there is future change in the USA policy which is stimulating the use of corn as a biofuel feedstock.
- Strong and strengthening demand for cereals from rapidly growing Asian economies, if they continue to grow at the rates currently being forecast.
- Continued high oil prices and its continuing negative price on freight costs. (*Note: Some analysts believe that high oil prices could eventually slow the world's economy and so reduce the current pent up demand in the global commodities markets. If this happened, China's economy will slow and there will be more equilibrium in the commodity markets.*)

It is also possible that high pricing seen in the global commodity market could act as a stimulus for increased production in China, i.e. under circumstances where there are no major constraints over boosting production of agrifood commodities in China. Analysts in China tend to be of the opinion that not much additional production could be developed from within China's own cereal industry, so the impact of this stimulus may actually prove to be academic rather than practical.

- The value of local currency:

It is likely that the Chinese government will maintain the value of the RMB (local currency) at a competitive level, i.e. low value against Developed World currencies, in an effort to facilitate China's exports into long-term.

The area of uncertainty surrounding the RMB exists in the potential for unforeseen economic impacts arising locally, or from the USA (short to medium term), or from other globally important economies in future. A future negative economic event could result in the Chinese government restating its currency value against the Developed World currencies.

WTO membership will continue to be positive. There will be easier access for exporters that wish to sell agrifood commodities into China's markets in future. The state-owned enterprises influence on trade policy will probably start to weaken as efforts are taken by the government to professionalise and modernise the management of these businesses over the next 10 years.

9. The opportunities and threats for food businesses in China's "official future"

9.1 An explanation of China's "official future"

In the minds of China's current leaders, China has an "official future". This official version of the future has been "painted" and forecast by the government and is generally supported by the published output of most international research agencies and consultancy firms.

The "official future" involves China's economy continuing to grow as it has over the past 10 years through:

- Future increases in foreign direct investment into today's less developed areas of China, i.e. the inland cities, western China and the rural areas;
- Future increases in domestic demand for China-made products and services, especially in the more developed areas of China along its eastern seaboard;
- Future increases in exports of China-made products; and
- Future expansion of the less developed sectors of China's economy, namely:
 - Services, which has now been targeted as a key area for development over the next 10 years; and
 - The rural area and agricultural economy, which is a longstanding challenge.

Envisaged economic growth rates for this "official future" range from 5% to 10% per annum, with a forecast that growth rates will gradually slow from around 10% in 2007 to around 5% in 2017.

In this "official future", there will be no change in the political and macro economic management situation that exists in China today, albeit that it is coming under significant strain. It is also based on the premise that China's government has the capacity "*to deal with anything that is thrown at it*" in a manner that it has done over the past 20 years or more.

These strains on the system are arising from consensus decision-making between the different interest groups in a policy making environment. Gridlock has already developed, or is close to development, on a range of different matters. These matters are likely to very important to China's future and include issues such as land rights and title, the pace of reform of the State sectors, the Stock Market, inflation, interest rates, rural area "democracy", pollution, etc.

This official future does not take into account that impact of factors that cannot be controlled by the Chinese government but are, in part, caused by their development policies and successful policy activation in China. Chief amongst these are rising commodity prices. This matter is very important because the Chinese government has based all of its development assumptions on it being able to obtain access to inexpensive energy supplies and other natural resources to cover shortfalls in local supplies, which are in essence China's "Achilles Heal".

This chapter considers the indicators of opportunity and threat that exist for this official version of China's future.

Indicators of Opportunity	Indicators of Threats (Challenges)
<p>□ Although the One Child Policy is causing China’s population to age, it has set a solid foundation towards the development of a society of smaller wealthier families in China. This situation is unlike that which has developed in other high population countries in Asia where larger poorer families are the norm, e.g. Indonesia and the Philippines.</p> <p>(Note: Some analysts believe that this policy will ultimately cause developmental problems for China because its population will age prematurely. An alternative view is that it could also be a blessing in disguise as it will build a relatively smaller wealthier Chinese population over the next 50 years).</p> <p>□ The Beijing Olympics in 2008 has become a focal point for government efforts to deal with the complaints from its urban area citizens over pollution and environmental degradation. This challenge in Beijing, at least, has taken on new dimensions with the involvement of very high level central government officials who do not want to see China “loose face” in the eyes of the world during the Beijing Olympics.</p>	<p>□ Chinese citizens in the rural areas have become increasingly vocal over their “rights to use” the land that they occupy and the loss of that land when it is taken over by local governments and their contractors for development purposes. These complaints have led to sizeable protests and to civil unrest in some parts of China.</p> <p>Poor “management” of these incidents by local governments and police/army contingents have led to higher level complaints to the central government who fully understand that they now have a problem in China’s rural areas (Note: This matter is one reason why the government has established a new policy direction aimed at developing a “new socialist countryside”).</p> <p>□ China’s ageing population, although this will not have any specific threat to China over the period to 2017. If there is any threat (see comments under opportunities) it will develop after 2017.</p> <p>□ China’s post 1979 generation. The young have no memory of Communist China. Additionally, they have been the constant focus on attention by their parents and grandparents, in a China that has seen household incomes and discretionary spending power rise.</p> <p>Despite being educated about the official version of past events, they are significantly more open minded than any of the children born after 1949 and before 1979. They are better educated, more open minded, more worldly-wise, more religious, more “money oriented”, more contradictory than the older Chinese. They are also learning English, interacting with foreigners and travelling to other countries as tourist, students or on official or business trips.</p> <p>Out of this generation will come tomorrow’s leaders who will have none of the “baggage of the past” to deal with in their policy making and governance activities.</p>

10. China's future

10.1 Overview of the situation in China today and the potential for future change

As has been highlighted in the previous chapters of this report, China (Population: 1.35 billion persons) is a complex nation with a large number of forces acting on its economy, society, industry, market and supply chain. Some of these forces will ultimately change China, whereas others will be barriers to change or will delay change in the short to medium term.

Today, China's (GDP per capita: US\$ 2,010) market is now in a situation similar to the larger Asian Tigers, e.g. South Korea, Taiwan and Malaysia, in the mid to late 1980s. It has a very small high income group, a sizeable and growing middle income group and a massive population of lower income groups, including 300 million or more persons who live in poverty. Its key cities are, in reality, islands of wealth in a large sea of poverty, i.e. relative to household incomes seen in the Developed World.

It is a WTO member and has already implemented a large number of its commitments, which are leading to an opening of its economy to foreign investment and its markets to imported products. Although, this is happening the state is still deeply entrenched in the economy through state-owned enterprises that exist in most industrial sectors. In some cases, these state-owned enterprises are "near monopolies" or are oligopolies. These enterprises also have the opportunity to operate as cartels.

Its economy still depends to a very high degree on inward foreign investment into manufacturing and capital expenditure on infrastructure projects. Both of these account for a high proportion of its GDP growth. China's central government fully realise this and is now taking steps to boost other aspects of the economy, e.g. services and domestic demand.

Most economic commentators and analysts expect China's rapid growth to slow down over the next 5 years (see Table below).

Short Term Economic Growth Forecasts for China – 2007 to 2010				
2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
10.7%	Around 11.5%	9% to 10%	8% to 9%	Around 8%
Source: Government of the People's Republic of China, Asian Development Bank and economic analysts.				

Analysts are making the forecasts provided in the Table above on the basis of a "no change scenario". In terms of development strategy and direction, they are largely ignoring the sizeable number of change agents that now sit in the background to future scenarios for China.

Although speculative, the longer term forecasts that are available suggest that China could see economic growth rates of between:

- 6% and 8% in the period 2011 to 2015; and
- 4% to 6% per annum in the period from 2016 to 2020.

- Highly immature demand for processed food and drinks from unsophisticated consumers.
- Weaknesses in the distribution channels, especially for sensitive products, even including bottled products.
- Growing retailer bargaining power in the channels to the most affluent consumers in China's key city markets.
- Developing competition from retailer own brands.
- New entrants in some market segments.

Some comments on these matters that were received from senior managers of companies operating in China are as follows:

- *“Price sensitivity is a fact of life in China. If you get your pricing points wrong you will not be able to develop your market. Your products have to be affordable to consumers.”*

The challenge for anyone targeting development of the so called mass market will be in setting prices and having products that can meet demand from this lower income group market. I think Nestlé is quite successful in this but I don't know whether they are profiting from it. I believe that low pricing was one way that they broke into the ice cream market”. (Manager with a major retailer).

- *“State-owned enterprises tend to spoil the market by dumping low priced products into it. Of course, they are also involved in other issues such as the production of fakes.”*

It is very important to fully understand what these businesses are doing in your market. You have to be able to access your target customers and differentiate your products from those of the state-owned enterprises.

The problem with China today is that consumers tend to go for the cheap product before they will go for quality. In some markets, for example, infant foods this has now stopped because of the scandals over cheap infant foods and Big Head baby disease” (Senior Marketing Manager with a food processing company).

- *“Fresh is definitely best in China but there are some interesting markets growing for convenient frozen Chinese processed foods, dumplings, Dim Sum, in the cities. As a retailer, we focus on what our customers want - fresh meat and poultry and not on frozen products, which I think at only used by restaurants”. (Merchandising Manager with a major retailer).*

- *“When launching a new product in China, especially something that is foreign, detailed consumer research is definitely needed to identify if there are any cultural challenges with it. The Chinese tend to know what they like and they are a bit suspicious about new products. There are, of course, those younger persons who will just dive in and try it. Demand for confectionery is unusual here because of different taste preferences. There are also differences between Beijing and Shanghai so product standardisation for China can be a bit of a challenge”. (CEO of a food processing company)*

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Stanton, Emms & Sia - Capability Statement

Who we are

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, China, Australia, New Zealand, Hong Kong, India, Japan, South Korea and Taiwan. We also manage research projects for clients in the USA and EU.

Our mission

Our mission is to help our commercial clients to build strong positions in their target markets by:

- Assisting them to develop a commercially focused and coherent "big picture" of their customers and markets, including the basis of competition and forces and barriers affecting the markets.
- Providing them with clear and concise insight into their markets, especially their customers wants and needs.
- Assisting them to:
 - Identify opportunities in their target markets in the East Asian region.
 - Develop strategies to:
 - ✓ Fully exploit the opportunities that have been identified in their target markets; and
 - ✓ Minimise their threats and weaknesses in their target markets.
 - ✓ Successfully build a sustainable long-term presence for their brands or products in their target markets.

Our mission for our government clients is tied closely to assisting them to better understand the strategic issues that impact on their policy making and so assist them to develop programs that are more effective in terms of their impact within the context of the agriculture and food industry, market, trade and supply chain development.

We specialise in servicing clients in the food, drink and agrifood industries

SES focuses on the international industry and markets for food and beverages in Asia, 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 program, 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. Our management team has been monitoring the region's food, beverage and agrifood markets since the late 1980s.

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 research performed by our competitors who operate without having a tangible presence in our region. Having researchers who are based in country and aware of the trends and tone of the market is therefore invaluable. We believe our team has this proven track record.

What we offer

Our services to clients include:

<ul style="list-style-type: none">▫ Business and marketing consultancy.▫ Brainstorming, analysis and interpretation.▫ Brand research.▫ Business to business research.▫ Consumer research.▫ Cultural analysis in the food and drinks markets.▫ Data collection in the field.▫ Depth interviews.▫ Desk research.▫ E-mail interviews.▫ Evaluations of marketing programs.▫ Evaluations of advertising and promotional activities.▫ Executive interviews.▫ Face to face interviews.▫ Fax-back interviews.▫ Focus groups and other discussion groups.▫ Hall tests.▫ Industrial interviews.	<ul style="list-style-type: none">▫ International research.▫ Interactive research, including research workshops.▫ Intercept interviews of consumers.▫ Market observations.▫ New product development support research. Strategic planning support research and brainstorming.▫ Panels, ad-hoc research, including sensitivity panels.▫ Positioning research.▫ Postal surveys.▫ Product testing.▫ Qualitative research.▫ Questionnaire design.▫ Report writing and presentation development.▫ Surveys, consumer and industrial.▫ Syndicated research, including multi-client studies and surveys.▫ Tactical research.▫ Telephone interviews.
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Our multi-client report program

We actively produce a number of multi-client studies and management briefings 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:

- Beyond the Asian Economic Crisis: Marketing Processed Foods Under New Food Supply Chain and Distribution Scenarios in Developing East Asia.
- 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 Indonesia, Malaysia, Singapore, South Korea and Vietnam.

- Beer in Developing East Asia and China: Strategic Directions & Opportunities for Brewers.

Our clients

We undertake assignments for a wide range of clients, drawn from both the public and private sectors. Our client base includes some of the world's largest food, drink and agrifood businesses and includes the following entities:

- Multinational companies located in Asia, Australia, Europe and North America.
- Large national companies from Australia, UK, USA, South Africa, Japan 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, Australia and New Zealand located in Asia and their home countries.
- Other entities, including co-operatives and societies, operating in Australia, Netherlands, Denmark, the USA and France.
- Food and agricultural research organisations located in Australia and the UK.

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