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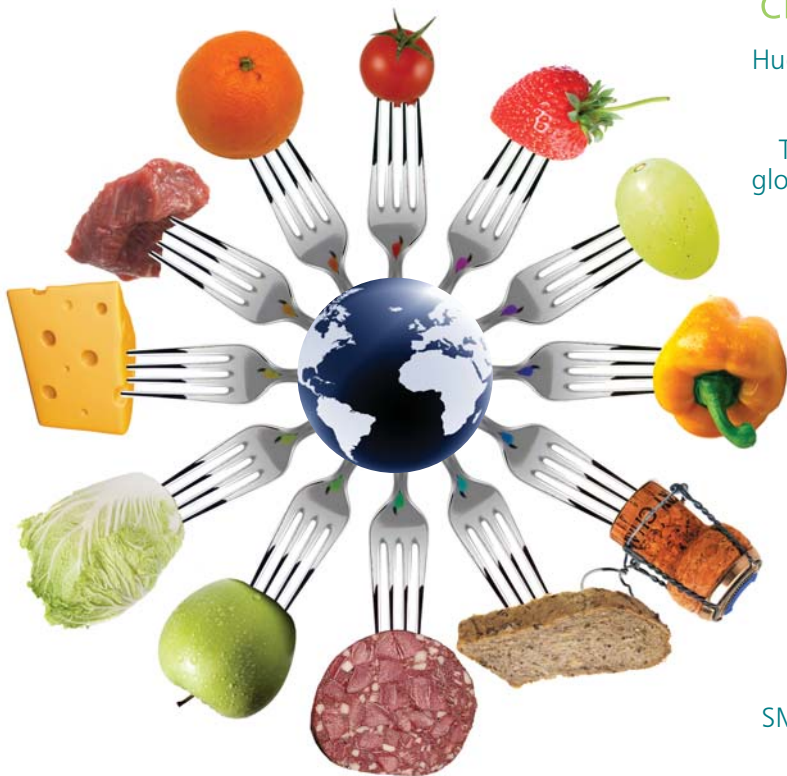
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# digest

January 2011

providing food for thought

## Grasping supply chain challenges



Huge opportunities  
in supply chains

The future of the  
global supply chain

What future  
for Halal  
foods?

2012 - Food  
industry gold

Water efficiency

The future  
of wholesale  
foodmarkets

Looking beyond  
the BRICS

SME opportunities

# Huge opportunities in local and global supply chains

## Introduction

Within living memory the UK and global supply chain has changed out of all recognition. In the 1960s and early 1970s farmers wielded huge influence on what food was available to consumers. The system was production driven. In the late 1970s/early 80s food processors came to the fore. The focus of food production moved from commodity more to added value. Large-scale food processors began to dictate terms and conditions to farmers around the world.

From then into the 1990s supermarket chains began to dominate, forcing consolidation onto the supply chain and making increased technical and commercial demands on suppliers. In mature markets the major supermarkets account for about 80% of all retail food sales. In emerging markets the share held by leading modern retailers is much smaller, often just 5%, but it is poised for huge growth.

Farmers and food processors will need to consolidate if they want to be part of the continuing development of a retail system which now operates globally. This is essential if they are to hold any influence in the supply chain and build significant relationships with leading retailers and foodservice companies.

Most leading EU and US retailers have ambitious plans for what they see as significant opportunities in emerging markets. They are masters at selling to domestic mass markets. They will take all this skill and expertise with them into new territories. Their best suppliers, and in turn their suppliers, will follow them in. This is a strategy we have followed quite deliberately over the last 10 years at Genus.

As a counter balance to the power of major retailers we have also seen the development of more specialised and niche markets. Although small in terms of overall share, they often have a much larger influence on other food businesses. The development of the Fairtrade movement, for example, has brought the whole issue of business ethics and Corporate Social Responsibility (CSR) in the supply chain to the forefront of our attention. Niche markets will still provide good opportunities for some as they continue to grow, albeit from a small base. But they are not the answer to feeding a hungry world of some 9 billion people. A much more commercial approach is needed to meet the targets being set to feed the world.

Leading supermarkets have helped to make some food processors around the world large and successful. Big, global customers need big, global suppliers. This encompasses input supply and other services.

Smaller farming and food businesses need to make a decision about where they will operate, and not just become a niche player because they cannot meet the requirements of bigger customers.

The idea that major supermarkets will go away in the future is naive. There will be fewer of them, but they will be more global in their outlook and they will need fewer suppliers. The whole process of 'the big getting bigger' will drive further consolidation throughout the supply chain, and this will affect farming and food processing.

Only the best will survive. This is true irrespective of the market being serviced, whether the customers are big or small and whether they are operating 30 miles from the market or 3,000.

Huge challenges face food processors and retailers/foodservice companies. In addition to the areas largely mastered to date, such as the ability to move food safely all round the world, they will require answers to a whole range of new areas that will face their businesses. These are discussed in more detail in this edition of Promar Digest.

Even the biggest individual companies will find it difficult to meet all these requirements and challenges on their own. Just having excellent products will not be enough in the future. The ability to control and share information and knowledge with key supply chain partners will differentiate the front runners.

One of the criteria for successful companies in the future will be a willingness to invest in research in technical areas, in understanding markets, customers and consumers. This is a pre-requisite, whether the market is close to home or the other side of the world.



*Richard Wood is the Chief Executive of Genus plc, the parent company of Promar International. Genus is the global leading animal genetics company with a turnover of some £280 million, operating in 70 countries worldwide. Its shares are traded on the London FTSE.*

# How will the global supply chain look in the future?

**Promar International Divisional Director John Giles considers the impact of the global economy on the future nature of the agricultural supply chain.**

The international agricultural and food supply chain has suffered a severe shock over the last two years as the effects of the global downturn have rippled across the world.

Demand for many agricultural products has been suppressed and production across key categories such as meat and dairy has fallen.

While demand and production have both started to recover, the recovery is still fragile and uneven. Asian countries have come out of the slump quickest and are at the hub of the recovery. In the US and EU there are still concerns about the recovery's speed and strength.

Clearly, the fundamentals of a supply chain having been accepted as 'the way things are' have been challenged. A range of other factors coming together means it will probably never operate in quite the same way again. Events of the last few years have gone well beyond being just a blip, as some industry commentators predicted.

In this challenging environment, food producers need to have a clear strategy to enable them to take a flexible approach to business development. Highly efficient supply chains will have to be developed regardless of the market and/or customer being served. Products and services will need to differentiate clearly from the competition. Good value for money, for customers and consumers, will be a key requirement, and businesses will have to take account of concerns such as animal welfare, fair trade, organic, local provenance and low carbon products. The supply chain faces a huge list of challenges; maybe no one company can fully understand them all, let alone tackle them effectively. So how will these companies respond to the pressures? We will see a more collaborative approach to how the supply chain works in the future. In many cases, finding the answers required will begin with the input

suppliers - providers of seeds, feeds, crop protection products, animal breeding services and so on.

Around the world, agri food supply chains are looking to develop joint partnerships and strategic alliances. They are forming links with food processors and retailers to provide workable solutions to ever-more complex questions.



The global supply chain is also under pressure from commercial, regulatory and environmental forces. The situation found around the world over the last two years has accentuated the need to find solutions to the problems the sector faces. We can be sure that the supply chain will in future be characterised by a combination of the following:

- supermarkets, processors and large foodservice companies will still dominate
- the supply chain will carry on consolidating
- volatility will be a key feature of international markets



John Giles

- growth will come from emerging markets, but mature markets will still be very important to international agri businesses around the world – getting the right balance will be important
- the supply chain will be greener and more environmentally aware and the growing number of consumers will be wealthier and more demanding
- CSR will come to the fore
- food will need to be produced in a safer, more efficient manner and with less chance of disease and contamination.

The future business environment will continue to be very tough, but it presents opportunities to those with the correct skills, and technical and commercial abilities. The best positioned will be those who have achieved the status of being indispensable to their supply chain partners.

It is hard to see the future operating environment being anything other than more challenging, potentially volatile and unpredictable. Learning to manage this will be at the heart of the skills set required for successful businesses at all stages of the supply chain. The world's agricultural and food producing systems and their supply chains, from input supply through to consumers, are about to be put to the test as never before.

*John Giles can be contacted at [jgiles@promar-international.com](mailto:jgiles@promar-international.com) or on 01270 616795.*



# What future for



Much has been said in the UK press about halal foods, and particularly halal meat. But should non-Muslim consumers be concerned about the religious status of their food? And what are the implications for the food industry? Senior Consultant Rebecca Lewis takes a look at the rapidly expanding market for halal foods.

Over the last year or so headlines about Halal have included:

**Top supermarkets secretly sell halal: Sainsbury's, Waitrose and M&S don't tell us meat is ritually slaughtered.**

**Britain goes halal... but no-one tells the public: How famous institutions serve ritually slaughtered meat with no warning.**

**Parents' outrage over halal-only school dinners planned for primary schools.**

So what is all the fuss about? Halal food production has become high profile because of the increased demand for it. Surprisingly little research has been published on the actual size or growth of the halal market. Estimates vary on the potential market for halal food and drink, but at a global level it could be as high as US\$635 billion according to the World Halal Forum.

The forum estimates the total Muslim population is 1.83 billion – about 25% of the world population, and its growth outstrips global population forecasts. The top Muslim markets by population are Indonesia, Pakistan, India and Bangladesh, while those with the highest purchasing power include affluent and/or high-growth economies such as Saudi Arabia, Turkey, Malaysia and Qatar. Besides these predominantly Islamic countries, Muslim populations in Western countries are relatively large, increasingly affluent, young and rapidly growing.

There are 52 million Muslims in Europe (including Russia), and approximately 16 million in the EU. Europe is cited as the biggest growth region for halal products and services, which will no doubt interest companies seeking ways to sustain growth in mature markets. So if Halal offers considerable opportunities, why the emotive headlines? One of the main controversies concerns pre-slaughter stunning. To be considered halal, meat must come from animals slaughtered according to Islamic law. In the EU it is mandatory for animals to be stunned before slaughter, although religious exemptions are granted. Animal welfare organisations oppose slaughter with no pre-stun. However, certain methods of pre-stunning are accepted by many halal accreditation bodies. The Gulf Co-operation Council's Islamic Halal Slaughter Regulations for Meat and Poultry, enforced by Bahrain, Kuwait, Oman, Qatar and UAE make provisions for the use of certain stunning methods. In Denmark and New Zealand pre-stunning is legally required for halal slaughter, with procedures developed in conjunction with and approved by Muslim leaders.

There is a lack of consistency and clarity among different Muslim authorities, in the UK and around the world, as to what is accepted as halal and what is not. Muslims make up only 3% of the UK population but industry estimates suggest that as much as 40% of poultry and 25-30% of lamb consumed in the UK meets halal standards, although most is not labelled as such.

In June 2010, the European Parliament voted for compulsory labelling of meat from animals killed without pre-slaughter stunning. Approval from the Council of Ministers is also required for this to be legislated. But based on the Meat Hygiene Services religious slaughter data, the actual volume of such meat sold in mainstream UK retail is likely to be very small, if any.

Arguably, then, the cost to industry of implementing such a labelling scheme may be disproportionately large, yet as consumers we value informed choice above all else.



The UK meat sector knows all too well the fragility of consumer confidence and the cost of re-establishing it when trust is perceived to have been broken.

Of course, halal food does not only include meat. The concept goes far beyond food and drink to pharmaceuticals, cosmetics, clothing, financial services, business ethics – indeed all facets of life.



# Halal foods?

## **So what does it take to access this market?**

Major exporters such as Brazil and Australia have long been geared up to serve Middle Eastern, Asian and other markets with halal meats, and countries - notably Malaysia - are positioning themselves as global halal hubs to facilitate trade and act as centres of excellence in a global halal industry. With rapidly growing spending power, Muslim consumers increasingly demand a much wider range of high quality food and drink, tapping into modern global food trends of convenience, health and premium products.

Halal foie gras and champagne (alcohol free) are among products available in France. Fast food franchises and premium restaurants across Europe are setting up halal outlets. Supermarkets such as Carrefour, Auchan and Casino offer extensive ranges of halal foods, including cured meats, frozen foods and ready meals, and UK retailers are also expanding their halal offer.

Businesses considering entering the halal sector are likely to need a complete overhaul of production, supply chain and logistics to ensure dedicated halal production lines, sourcing only halal ingredients. They will need to ensure products do not come into contact with non-halal (or haram) items at any stage, and have a dedicated team who will guarantee product integrity. Halal-only warehouses are found at major freight terminals such as Rotterdam. Pioneers among western companies include Nestlé, which established its halal committee in the 1980s and today has 75 factories manufacturing halal-compliant products.

It also requires an ability to strike a careful balance between targeting this growing and often under-served segment and ensuring existing customers are not alienated.

This is where the issues can diverge from the more familiar supply chain management and verification into a complex social and political minefield.

In today's multi-cultural society, halal products will naturally be available in mainstream channels to all consumers. But Western consumers often do not fully understand the concept and so are reticent when it comes to knowingly purchasing halal foods. Yet it is this middle ground which surely presents the greatest opportunity and the greatest challenge to prospective halal suppliers and retailers.

*Rebecca Lewis can be contacted at [rlewis@promar-international.com](mailto:rlewis@promar-international.com) or on 01270 616797.*





# Olympics 2012

## A food industry gold



Emma Hancock

The Olympics are heading to London in 2012 bringing hopes of a retail boom across the country, but will the Olympic flame merely warm the food and drink industry or set it on fire? Research Analyst Emma Hancock explores the impact the games might have.

The London Olympics will take place between July and August 2012, followed by the Paralympics. The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) forecast there will be over 9 million visitors to the event which is a lot of mouths to feed.

As well as the huge number of visitors, those competing and working at the Games need to be fed. In total around 14 million meals will be eaten at the Games ranging from nutritionally balanced meals for athletes to food needed around the clock for broadcasters and members of the press. In the Olympic Village alone, it is estimated 330 tonnes of fruit and vegetables will be consumed during the Games along with 230 tonnes of potatoes.

The organising committee has high aspirations for the food and drinks offer - it sees the Games as an opportunity for British food to be on show to the world. The stated approach in London is to 'push beyond the best' in terms of delivering tastier, healthier and greener food.

The official sponsors, McDonald's, Coca-Cola and Cadbury, might not appear to be the healthiest of sponsors for a sporting event. However all three must abide by LOCOG's Sustainable Sourcing Code which insists on only procuring food with the Red Tractor Assured Standard and, where possible, from Fairtrade and organic sources.

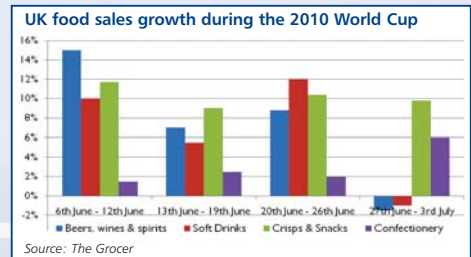
McDonald's sources 55% of the food sold in the UK from 17,500 farms across Britain and Ireland. All its beef, pork, eggs and milk comes from local sources and will do so for the Olympic catering. It will be responsible for an estimated 20% of visitor meals consumed at the Games.

A wide range of unbranded food and drink will also be available, providing a great opportunity for local food and drink, especially as the Games coincides with British Food Fortnight. This annual event, supported by retailer groups and independents, showcases the diverse range of food on offer in the country. The 2012 event has been moved to overlap with the Games to increase awareness of British food and take advantage of Olympic patriotism.

Outside London, retailers and local food companies across the UK are preparing for increased food and drink sales from those watching the Games at home. Retailers will have to work for these extra sales - data from the World Cup in South Africa showed sales are not guaranteed (Figure 1).

Like the Olympics, the World Cup is held every four years and is a huge global event, regardless of the venue. More than 18 million people in the UK watched the World Cup Final on TV this year despite no UK team being involved. Watching the World Cup is seen as a more social event. Sales in the week leading up to England's first match confirmed this with a 15% growth in beer, wine and spirits and a 12% growth in snacks.

Figure 1



The Olympics is less structured than the World Cup with its 90 minute matches which simplify arranging football parties characterised by the consumption of drinks and snacks. Coverage of the Olympics will be available throughout the day creating less distinct viewing times as British athletes will be competing in several events daily. Olympic sports are better associated with the concept of wellbeing. This difference points to an increase in sales of healthy snacks, e.g. fruit, nuts and nutritional and sports food products.

The influx of visitors during the Games will undoubtedly increase food and drink sales in the Capital. There are a further 9 venues outside of London which in total have capacity for over 330,000 spectators.

The magnitude of sales across the rest of the country will depend on the efforts retailers, SME's and foodservice operators are prepared to put in to Olympic and British food promotions. If they play it right, then the Olympics could help the UK food industry win gold in 2012.

Emma Hancock can be contacted at [ehancocks@promar-international.com](mailto:ehancocks@promar-international.com) or on 01270 616799.





Tim Harper

# Clear thinking required on water efficiency

**Project Consultant Tim Harper explores the challenges of understanding water efficiency.**

**Agriculture is the main user of water in the world, mainly for crop irrigation, and accounts for approximately 70% of global water withdrawals. As we move along the food supply chain, water is required for a range of procedures including washing, processing, transport, cooking and, fundamentally, growing food.**

For many consumers and businesses it is hard to envisage a problem with water supply. It is generally taken for granted. There are adequate fresh water supplies for everyone in the world, but they are not evenly distributed. It is estimated that more than 1 billion people globally do not have regular access to clean drinking water, and shortages in many areas are getting worse. With the world's population predicted to rise by 30% in the next 40 years, and as diets continue to change as economies develop, the challenge to supply the world with water is going to get tougher.



In addition to the population surge, climate change will potentially cause the hydrological cycle to intensify, which could bring more extreme seasonal weather variations and reduce supplies as glaciers melt. Water scarcity forecasts for the coming decades make worrying reading for many parts of the world. Particularly at-risk areas include North and Sub-Saharan Africa and Northern China.

Water scarcity must be viewed as an issue for all countries, regardless of location or stage of development. Supply is localised by watershed, but with the increasingly globalised nature of food trade, future water problems could have a world-wide impact. If water consumption patterns remain the same the gap between supply and demand will continue to rise. According to the 2030 Water Resources Group, this gap could reach 40% by 2030 unless efficiency gains are made in water use.

Water scarcity is already acknowledged as a growing global issue among agri-food and drink sectors. Many of the world's leading food-related businesses now have water use firmly on their agendas, alongside carbon. They appear to be investing in plans on how to utilise water more effectively. This is clearly a positive step, but there must be substance and a long-term view to taking real action, rather than appeasing a need for CSR-based PR.

This is far from just an issue for businesses. All governments need to be at the forefront of making effective changes. Policies are needed which encourage efficient use, linking the control of water with the many industries that use it. While reducing carbon footprint can often save businesses money by reducing fuel use, the value in saving water is not as great. Creating policies that incentivise efficiency and conservation will be an important tool in encouraging the food supply chain to improve efficiency of water use.

There is no 'one size fits all' approach to increasing efficiency of water use in the food chain. The range of options is vast and highly dependent on specific industry and geographical location. There are

multiple approaches relating to reducing waste, improving storage, recycling, developing treatment processes and investing in technological innovation that can be used throughout the supply chain.

As the principal user of water at a global level, though not in many developed countries, agriculture is where the most significant impact can be realised through improved efficiency. Crop irrigation is the main use for agricultural water. It has been vital in improving yields, but there is scope to improve the 'crop to drop' ratio.



Better-managed irrigation systems and, potentially, biotechnological advances such as the development of drought-tolerant crops could enable yield increases to be sustained while reducing water use. Innovating to develop cost-effective farming methods and new products in developing areas will be vital. The methods used to improve efficiency will differ, but the progressive thinking and philosophy behind the way we think about water and its value as a resource should be the same.

*Tim Harper can be contacted at [timharper@promar-international.com](mailto:timharper@promar-international.com) or on 01270 616791.*



Andrew McLay

**The outlook for UK and other European wholesale markets has been challenging for many years, mainly due to the size and power of retailers and consolidating supply chains. So what does the future hold? Senior Consultant Andrew McLay considers the options.**

With such entrenched and strong competition, it is easy to suggest that the future for wholesale markets is bleak, especially in mature food markets such as the UK and others in Northern Europe, but we have used scenario planning to consider the options that exist.



Looking for a positive but realistic view of the future, we started to think about what conditions would need to exist for wholesale markets in the UK to prosper in the future. This led to a more structured approach using scenario thinking to look at the future of the food industry in the UK and how this might impact wholesale markets. These scenarios, although related to wholesale markets, identify issues applicable to many other organisations operating in mature food markets such as the UK. We created four scenarios for mature food industries in the next 3-5 years.

# The future

## Slow Recovery

This scenario could also be called 'more of the same'. It assumes many of the current trends impacting the food industry continue at a similar intensity. Commodity prices will be in line with past trends but are more volatile than before. The economy in most developed countries continues to be burdened by debt and slow economic growth. Consumers remain cautious and very price focussed as they reduce personal debt levels. Climate change continues and sustainability is an important issue, but consumer behaviour changes only slightly. Retailers continue to dominate food markets and drive consolidation and lower prices across supply chains. Two critical success factors of current food supply chains are that they need to be large-scale and require lots of cheap oil to work effectively.

## Big is Best

This scenario is driven by strong growth in BRIC countries (Brazil, Russia, India and China) boosting the world economy and creating pressure on food, energy and other commodities. Consumer demand for sustainable and environmental products grows rapidly. The term LoHAS (Lifestyle of health and sustainability) becomes a real aspiration for millions of consumers. Increased costs and greater technology are required to produce sustainable products, particularly at competitive prices for mass consumers. This means that large companies tend to make the investments and changes required. Supply chains consolidate further with big retailers and big producers growing even faster. Direct supply from producer to retailer becomes the norm.

## New Food Order

In this scenario, growing world demand for food coupled with high oil and commodity prices drive fundamental changes in the economy. Unlike the previous scenario, where

big business provides low-cost ecological products to consumers, in this one consumers shun large-scale corporate models in preference to smaller-scale local solutions. New methods of low-carbon, low-embedded water food production - intensive permaculture and forest gardens and so on become mainstream.

Such changes in consumer preferences disrupt big retailers' food models. Other systems such as local supply/box schemes direct from farm etc become more viable. Big retailer market share in food flattens and starts to decline.



## Food Crisis

This scenario borders on the Malthusian, with growth in global population and demand for resources - coupled with increasing impacts of climate change - creating huge challenges for the planet. Economic growth slows as countries struggle with the impact of climate change and higher food prices. Demand for sustainable food products is masked by the demand for basic food products. Major retailers' supply chains are disrupted and economics of centralised distribution etc become challenged. Power shifts sharply back to suppliers.

Although some of these scenarios may seem slightly extreme, it's worth remembering that it is only two years since the world saw food riots in a number of countries, oil at US\$140 per barrel and wheat, rice and dairy products all at record high prices. In reality, the future will look like one of these scenarios or perhaps a combination of them.



# of wholesale food markets

Having created a view of how the UK food market may look in five years time, the real question is, do any of these scenarios provide reasons for optimism regarding the potential for wholesale markets?

**Scenario 1 - Slow Recovery** appears to be 'more of the same' for wholesale markets with a continuing challenging environment and few growth opportunities.

**Scenario 2 - Big is Best** it assumes that large-scale integrated retailer/ producers respond very rapidly and efficiently to consumers' demands for sustainable products. This could create an even more challenging environment for wholesale markets.

**Scenario 3 - New Food Order** provides perhaps the greatest opportunities for wholesale markets, provided they are flexible and fast enough to respond to the changing market.

**Scenario 4 - Food Crisis** could provide opportunity for wholesale markets. The overall turmoil and change created would be likely to provide huge challenges for all businesses and consumers.

The trend for all consumers to look towards local and sustainable foods is a very real one and is likely to increase in the future as the impacts of climate change become more prevalent. If energy and commodity prices continue to rise then the trend to local food could be driven by economics as well as consumer sentiment.



High energy costs will challenge the trend towards globalisation and could potentially create a fundamental shift in supply chain economics. Sustainability and local food trends provide great opportunity for wholesale markets. If they have lost share to retailers in recent years, sustainability and local could provide them with a second chance to rebuild market share and enter a real growth phase.

These scenarios, or similar ones, are likely to have profound impacts on wholesale markets in the future. However, there is potentially little that individual markets can do to make these scenarios happen or to stop them from happening.

The best thing they can do, like any other business, is to have effective market monitoring systems in place to identify threats and opportunities as they emerge, rather than waiting for them to impact the business in a significant manner. Effective early warning systems combined with strong strategy development and implementation processes should help organisations to minimise the negative impacts of emerging issues and to maximise any opportunities.

*Andrew McLay can be contacted at [amclay@promar-international.com](mailto:amclay@promar-international.com) or on 01270 616800.*



# Time to look beyond



Lisa Williams

Senior Consultant, Lisa Williams, takes a look at the next batch of countries likely to make an impact on the global stage.

The so called BRIC countries (Brazil, Russia, India and China) have created considerable interest and rightly so. With a combined GDP of just under US\$9 trillion in 2009, which is expected to reach US\$17 trillion by 2015, the BRICs are clearly significant players in the global market.

But a really important question is what, or who, comes next? Is it the N-11 countries (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam).

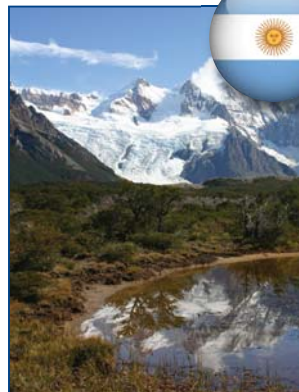
Or the so-called CIVETS (Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa)? Beyond the BRICs there is a plethora of opportunities in the countries following on and we have just taken four of these - Chile, Argentina, Turkey and South Africa - to illustrate the scale of what is happening in the agricultural, food and drink sectors.

The combined population of these four countries in 2010 is just under 184 million and is projected to increase by 22% to just fewer than 226 million by 2050. In economic terms, their combined GDP last year was just short of US\$1.4 trillion and this is expected to increase to just under US\$2 trillion by 2015.

These countries are already established as experienced producers and international traders of agricultural, food and drink products, but in three of the four examples much of this has only really happened in the last 30 years.

**Argentina** has a fast-emerging agri food sector producing soyabeans, grain, cattle and other agricultural products and these are the backbone of the Argentinean export economy. Other export products include wine and fresh fruit, including raisins, apricots, apples and watermelons.

Argentina, along with Brazil and China, represent nearly 30% of total extra EU food and drink imports. Argentina also has a track record of doing well in emerging markets, such as Russia. Its improving quality and cost competitive positioning in the market sees it gain advantages over many of its rivals.



**South Africa** is traditionally a net exporter of agricultural and food products – particularly fruit, vegetables and wine. Deregulation of the fruit sector some 12 years ago was a painful process, but the sector has emerged leaner and fitter. Easier market access gained through trade agreements is expected to bring export advantages over other Southern Hemisphere competitors. The top five commodities produced by volume are sugar, maize, milk, wheat and potatoes, and wine is now the largest export.

The domestic market is relatively large, at 45 million people, and has a fast-expanding middle-class consumer base. The country also has a positive story to tell in terms of the wider socio-economic changes that have taken place over the last 10 to 15 years, changes which are important to consumers in developed markets in areas such as fair trade and a wider sense of Corporate Social Responsibility (CSR).



# the BRICs



The key target markets for SA exports can vary by product, but a large percentage of volumes are exported to the EU, North America and more recently India, China and Singapore. There is also increasing interest in local African markets as SA looks to diversify away from its over-dependence on international markets in Europe.

By contrast, **Turkey**, is a trade deficit country. Total exports have increased from US\$47 billion in 2003 to just over US\$130 billion in 2008. However, by 2008 imports had increased in value to US\$200 billion. This is due in part to changing demographics. It is expected that by 2020 about 14 million households will be classified as middle class, an increase of just over 8 million since 2000. This will have a positive impact on future import trends, particularly in the quality and variety of products.



Turkey is now the fifth most attractive emerging European market for FDI and exports a variety of food products including wheat flour and a range of fresh and processed horticultural products. The developments in the fresh and processed food sectors are expected to be replicated over time in other industries such as dairy. Turkish exporters are increasingly well organised and highly ambitious to develop new export markets. The country is well positioned geographically to exploit a range of international markets.

In **Chile**, the agri food and drink sector is the second most important export industry for the country, representing 24% of GDP. It is predicted that by 2030 this will increase to 35% of total GDP and one in three people will be employed in the industry. Primary exports include fruit, wine, poultry, pork, beef and fish. Chile has become the fastest-growing food exporting country in the world with growth at an average annual rate of around 10% over the last 10 years.

Chile still has considerable capacity to develop its exports further. The country benefits from an enviable reputation and possesses a remarkable ability to compete with other leading producers and processors. The greatest challenge it faces is extending its market share in

the fast-emerging markets of India, China, Russia and Pacific Rim countries while growing its main traditional export markets of the EU and the US.

In the last five years we have probably all been very preoccupied by what is going on in the BRICs and perhaps taken our eyes off the ball on what is happening in other parts of the world. International suppliers such as Chile, Argentina, South Africa and Turkey are already very good at what they do for a number of reasons, and they will carry on getting better.

The likes of Argentina, Chile, Turkey and South Africa are, and will be, very much part of a global market along with other global agri food and drink exporters such as the EU, the US, New Zealand, Australia, Canada, China and Brazil. The global food market is about to get even more competitive over time, while new markets will emerge and present opportunities for the well informed and dedicated exporters, be they in the N-11, the CIVETS, the BRICs or more established markets such as the EU, Japan and the US. Achieving the right balance of international markets, at the right time, will be the challenge for many.

*Lisa Williams can be contacted at [lisawilliams@promar-international.com](mailto:lisawilliams@promar-international.com) or on 012720 616798.*





Richard Hooson

# What opportunities exist for SME's away from the 'Big 4'?

Many parts of the UK are renowned for their high quality local food, but with last year's financial crisis still not a distant memory, many Small to Medium Enterprises (SME's) are finding it challenging to prosper in the current climate. As the UK operates in the aftermath of the recession, Senior Consultant Richard Hooson considers the prospects for SME food and drink companies in the UK.

Latest results from the International Monetary Fund have shown 2010 has been a tough year with a modest 1.2% GDP increase. More of an improvement will be seen in 2011 when GDP is set to increase by 2.1%, although the full outcome of the Government's spending cuts and their impact are still not fully known.

The food industry can be perceived as a recession proof industry as people need to eat. However, on closer inspection it is clear the industry has changed, and will continue to change as the economy recovers. Focus during the recession was very much on 'value for money' with consumers choosing to switch to lower priced brands and cutting back on impulse food purchases. Some of these changed habits may persist as consumers have learnt that 'frugal can be the new cool'.

## Numerous routes to market

Large supermarkets dominate the market in the UK. It is hard to imagine a time without Tesco leading the way. Yet only 20 years ago Tesco had less than a 10% share. The leading retailers still provide huge opportunity areas for those suppliers able to deal with high levels of commercial and technical pressure.

There are, however, increasingly good prospects away from the 'Big 4' into smaller retailers, or by taking a step away from mass retail altogether and getting involved in areas such as farmers' markets, foodservice, or even on-line marketing. Compared to 10 years ago, the potential routes to market

for SME food companies are huge, but understanding them properly is still an art to be mastered by many.

Top end retailers such as Waitrose and Marks & Spencer are always competing to search out the finest local food products. With further store openings planned across the UK, they offer opportunities for new products and suppliers. The requirement is to be better than existing suppliers. While not easy, it is not impossible either.

Online marketing, public sector procurement and farmers' markets still provide realistic opportunities, while social media offer a new way forward. By engaging with consumers and building 'communities' of consumers bound together by common interests and shared values, some believe social media such as Twitter, Facebook, to LinkedIn could become more important than having a more conventional website.

Exporting food and drink products represents quite a challenge depending on the markets identified but determined and focused exporters can succeed. Over the last 5 years, UK exports of food have increased year on year. UK brand identity can be a big advantage, as international customers are often willing to pay a premium for authentic UK products. North America and other EU countries have traditionally been the logical choice for UK exporters, but new opportunities are being seen in other markets such as Eastern Europe, Asia and the Middle East.

## Grasping the opportunities

The options for food and drink companies are now more numerous although none should be considered as easy. A high level of market, consumer and customer understanding is required to be successful. To engage with any of these supply chains requires:

- Time
- Effort
- Attention to detail and an emphasis on quality
- Offering the best – there is no use in just being good, you need to be very good
- Being focused on customer's needs
- A positive outlook

Putting all of these factors into practice requires considerable hard work and determination. Being 'the best' and genuinely different from a huge number of potential competitors is very challenging. In the UK, SME's have a real advantage which can be exploited in regional identity. The trend towards local is strong. Food and drink produced in the UK has all the connotations of this, wrapped up with strong provenance, environmental credentials and genuine authenticity. This selling proposition is something that UK businesses should use, whatever route to market they decide to take, as it helps set them apart from competitors.

The numerous choices now available to get products to consumers, should be seen as an opportunity, rather than a constraint for UK based food companies.

*Richard Hooson can be contacted at [rhooson@promar-international.com](mailto:rhooson@promar-international.com) or on 01270 616800.*

