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Market Development Reports

Food Processing Sector Report

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Report Highlights:
Malaysia's food manufacturing industry offers good potential for U.S. food ingredients. Malaysia's food manufacturing industry comprises over 3,500 businesses with a total output in excess of US$9 billion. Malaysia is Southeast Asia's leading biscuit and chocolate confectionery exporter and one of the region's largest exporters of noodles, beer, soft drinks and sugar confectionery.

Includes PSD changes: No
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FOOD PROCESSING SECTOR REPORT

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Introduction

This report is a summarized version of the Malaysian Food Manufacturing Industry, prepared for the Office of Agricultural Affairs, Kuala Lumpur by Stanton, Emms & Sia. The Food Manufacturing Report has been prepared to provide US exporters of food ingredients with:

- A review of Malaysia's food manufacturing industry and its products.
- A review of Malaysia's market for ingredients used by food manufacturers.
- A review of future scenarios for the food manufacturing industry with key points for consideration in developing export strategies as well as highlighting future prospects for US exporters to Malaysia.

The study concentrated on profiling Malaysia's higher processed food sectors. For this reason, sectors which process most local agricultural products are not covered in any detail.

In the report, food ingredients, as defined in the U.S. Agricultural Trade Office's project brief, refer to two broad categories of products used by food manufacturers. These are as follows:

- Food used as ingredients.

  These products include meat products, fish and seafood, dairy products, vegetable and vegetable products, fruit and fruit products, herbs and spices (not chemical flavours), cereals and cereal products, pulses and pulse products, fats and oils, cocoa and its products, sugars and sugar derivatives and starch and starch derivatives.

- Food additives and other chemicals.

  These products include colours, emulsifiers, enzymes, essential oils and plant extracts, flavours and aromas, hydrocolloids and gelling systems, sweeteners and yeast and yeast derivatives used in food production and other chemicals used by food manufacturers.

The reader should note that the aim of this study is to provide a broad based overview of Malaysia's food manufacturing industry and its demand for food ingredients, as defined above. Readers should not view this document as a detailed market study.

Foreign exchange note

The Malaysian Ringgit (RM) figures which have been used in the preparation of this report were translated to US$ at a rate of RM 3.80: US$1.00.

I. MARKET SUMMARY

Malaysia has developed into a modern nation with a firm foundation of a mixed economy made up of strong manufacturing and service sectors. Malaysia' economy had an average growth rate of about 8 percent during the past ten years. However, influenced by Southeast Asia's financial turmoil, Malaysia's economy has exhibited a dramatic slowdown with 1998's GDP reported at minus 4.8 percent. The GDP forecast for 1999 is more positive with growth rate estimated at 1 percent.

Malaysia's food manufacturing industry comprises over 3,500 businesses with a total output in excess of US$9 billion. Major industries include the manufacturing of edible oil products (Sales of US$5,881 million), dairy products (Sales of US$335 million), cocoa, chocolate and sugar confectionery products (Sales of US$ 232 million), soft drinks (Sales of US$227 million), fish and seafood products (Sales of US$218 million), biscuits (Sales of US$200 million), cereal flour (Sales of US$185 million) and baked products other than biscuits (Sales of US$150 million).

The industry is one of the most dynamic in Southeast Asia. Monopolies are rare in Malaysia and there is a high degree of competition amongst local companies of all sizes. The market has few real trade barriers so competition between local and imported products is also high. This, and the export orientation of many businesses, underpins the high level of innovation which exists in the industry today.

Malaysian exports of food and beverages, including agricultural and fisheries products, were valued at US$4,067 million in 1997. The main higher processed food and beverage exports were soft drinks, biscuits, beer, wheat-based noodles, sugar confectionery, sauces, canned peas and beans, ice cream, chocolate confectionery and powdered milks,

Malaysia's imported food ingredients were worth about US$900 million in 1997. The Malaysia food manufacturing industry sources its food ingredients from all over the world. The increasingly sophisticated consumer market has put pressure on the food and beverage manufacturing industry to upgrade its products and introduce new products in order to remain competitive against imported processed products.

Today, most of Malaysia's households are economically active and independent. While Malaysians adopt many Western food ideas and eating habits, they also retain many of the Asian characteristics and cultures inherent in their upbringing. These income groups already form a significant consumer market for a broad range of processed food and beverages. They are very important in shaping the market development of the future, based on their relatively high purchasing power when compared to that seen in the other ASEAN nations.

Malaysia's population is also multi cultural and multi-ethnic. Local food manufacturers take this into account when developing new foods for the Malaysian market. Of major importance is the fact that more than 50% of the population are Muslims so the majority of foods which are produced in Malaysia are *halal* in nature.

Advantages and Challenges Facing U.S. Products in Malaysia

Advantages	Challenges
Malaysia has been liberalizing its import markets since the late 1980s in line with its commitments to the GATT Uruguay Round. Today, it has some of the lowest tariff rates in Southeast Asia and a very limited range of other trade barriers for food ingredients. Most of its tariff rates are below 5% and many are zero rated. Its highest tariffs of around 20% are levied on imported products which directly compete with local agricultural sectors.	USA faces stiff competition from other countries as Malaysia imports food ingredients, additives and chemicals from all over the world, including Australia, Thailand, India, New Zealand , the EU and other Asian countries, including Japan and China.
Malaysia aims to be the international center for *halal* food production and its accredition on *halal* products is highly respected and recognized by most Islamic nations. This has created a challenge for the food industry to produce *halal* certified food and beverages targeted at the Muslim markets worldwide.	The ability to supply *halal* ingredients is very important.

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

US exporters need to fully understand potential customers' demand needs and how to service them. Key supply-side points which need to be considered by US food ingredient exporters are as follows:

- The competitive strengths of existing suppliers, both local and foreign. Malaysia imports food ingredients, additives and chemicals from all over the world, including Australia, Thailand, USA, India, New Zealand, the EU and other Asian countries, including Japan and China
.
- The competitive strengths of foreign suppliers with marketing offices and other businesses in Malaysia, neighboring Singapore and other parts of the region.
- The different level of suppliers' buying power existing between multinational manufacturers, large local manufacturers, importers and medium to small sized manufacturing operating in Malaysia.
- The different channels which are needed to service different industries, e.g. direct buying by large food manufacturers and localized channels needed to service smaller manufacturers.
- Large businesses' expectations that all of their suppliers:

- Have a local presence
- Be well established in their respective businesses
- Be technically competent
- Be financially sound
- Be accessible

B. MARKET STRUCTURE

The majority of Malaysian processors procure their food inputs through brokers and local wholesalers, while some of the larger companies have established direct relationships with larger U.S. suppliers. The most common method of entry into the Malaysian market for small and medium-sized U.S. companies is to establish a relationship with a local wholesaler or broker directly or work through an export agent or consolidator.

C. COMPANY PROFILES

Malaysia's food and beverage processing industry comprises more than 3,500 businesses. Of these businesses, medium to large scale firms are estimated by the government to number between 1,300 to 1,400 firms. The businesses involved range from small family-owned businesses to large businesses which are listed on the Kuala Lumpur Stock Exchange or operate as subsidiaries of foreign or multinational businesses. Most businesses serve very localized markets while a few medium to large businesses dominate the market on a nationwide basis.

Profiles of key food manufacturers and their products

Company (Product Types)	Sales ($Mil)	End-use Channels	Production Location	Procurement Channels
Nestle - (dairy products, confectionery, beverages, dry goods and condiments)	555 (1998)	Retail	Malaysia	Importer
Carlsberg Brewery (alcoholic beverages)	205 (1998)	Retail HRI	Malaysia	Importer
Chocolate Products (confectionery, beverages)	175 (1998)	Retail	Malaysia China	Importer
Yeo Hiap Seng (beverages, dry goods, dairy products)	128 (1998)	Retail	Malaysia Singapore China	Importer
Ayamas Corp. (Poultry products)	90 (1997)	Retail	Malaysia	Importer
Yee Lee Corp. (Oilseed products)	72 (1997)	Retail	Malaysia	Wholesaler

Mamee-Double Decker (dry goods, confectionery, beverages)	36.8 (1997)	Retail	Malaysia	Wholesaler
Britannia Brands (baked goods)	31.5 (1998)	Retail	Malaysia	Importer Wholesaler
Ace Canning Corp. (Beverage, dried goods, condiments)	23 (Annual)	Retail	Malaysia	Importer Wholesaler
Perfect Food Industries (baked goods)	13.4 (Annual)	Retail	Malaysia	Wholesaler

D. SECTOR TRENDS

Today, Malaysia has one of the most dynamic higher processed food and beverage market and industry. Malaysia is Southeast Asia's leading biscuit and chocolate confectionery exporter and one of the region's largest exporters of noodles, beer, soft drinks and sugar confectionery. It should be noted that:

C AFTA is a major force for change on the industry in Southeast Asia. Several multinational food manufacturers are operating in Malaysia to take future benefit from AFTA. These investors include Nestle, Groupe Danone (France), Unilever, CPC/Aji, Campbell Soup and Pepsico Foods. While many of these businesses have long had operations in Malaysia, their new strategy, and some investments made since 1992, are oriented towards manufacturing products in Malaysia for the larger ASEAN regional market tomorrow.

C The number of products and brands in the market and competition levels surpasses that seen in neighboring Singapore, which is in itself a major market for Malaysian products.

C The markets and industries in Thailand, the Philippines and Indonesia differ radically from that seen in Malaysia. Most higher processed food and beverage market segments in these three countries are monopolized by one or two large businesses, usually a powerful local daily business or a subsidiary of a multinational company. In contrast, Malaysia has a diverse range of businesses, products and brands involved in all industry sectors, except brewing which is dominated by two foreign businesses.

It should be noted that a number of companies operate a wide range of sectors. These businesses dominate the markets in which they operate. They include Nestle (M) Berhad, CPC/Aji (M) Sdn. Bhd., Unilever (M) Holdings Sdn. Bhd., Fraser & Neave (Malaya) Sdn. Bhd., Yeo Hiap Seng (M) Sdn. Bhd., Mamee-Double Decker (Malaysia) Berhad. Groupe Danone (France) is another foreign group which is expanding its business from a strong position in the local biscuit market. Its main local subsidiary is known as Britannia Brands (M) Sdn. Bhd.

C The effects of the economic crisis on consumption of higher processed food and beverages manufactured in Malaysia has been limited. Sources in the Malaysia's food manufacturing industry pointed out that Malaysian families have sufficient income to continue eating what they want to eat. They will reduce spending on "big ticket" items, e.g. housing, cars and foreign holidays, and some other luxury items, e.g. imported foreign products. They continue to spend on the broad range of processed foods and beverages which are well entrenched in the local food culture.

- The "Eat Malaysia - Buy Malaysia" campaign is influencing large sections of the population to turn locally manufactured products. As a result, demand for certain imported finished products has slumped in 1998. The increase in consumption of local products, as opposed to imported finished products, is a very positive driver for food ingredient imports, This is especially important for ingredients required for the manufacture of products which are popular with the Malaysian consumers.

The key forces for change on the food industry

- Demand pull from sophisticated local consumers for high quality value-for-money foods and beverages. This include traditional foods and non-traditional foods which are now entrenched in the Malaysian diet. Most Malaysian consumers are concerned about taste, price, packaging quality and use-by dates. They also react well to high quality advertising and promotional activities in retail outlets.

  Some local businesses are reacting to the new demand by upgrading the quality of their products and packaging. This trend will also be beneficial for exports to the quality conscious Singapore market at a time when its consumers are also affected by their country's own economic downturn.

- Malaysia has a good education system which underpins market sophistication. Health consciousness is high and has its effects on some areas of demand. This is expected to increase in future. Government healthy eating campaigns exist. These are effective as a change agent because the incidence of diabetes and heart disease is increasing and is well publicized by the local press and other media.

- New investment by food and beverage companies in Malaysia as a home base for their Malaysian and, importantly, ASEAN regional operations. Existing businesses also have investment programs. The key objectives of these programs are:
  - Maximizing on production economies of scale.
  - New product and brand development
  - Upgrading existing product images and packaging
  - merger and acquisition activities

  New and enhanced existing products will largely be pushed into the market by industry in future. The success of these activities will, however, depend on their ability to meet closely with tomorrow's sophisticated consumer demand traits. In this respect, the Malaysian market is now very similar to that which exists in some parts of the Developed World.

- Malaysia's open market. Today, it has the lowest trade barriers amongst ASEAN's group of large nations (Indonesia, Malaysia, Myanmar, Philippines, Thailand and Vietnam) and this increases competition between local and imported finished products. This is expected to increase in future as the ASEAN Free Trade Area becomes fully implemented and will be a major stimulus for local industry to "remain ahead of the competition". Malaysia's highly positive attitude towards GATT/WTO liberalization also has similar positive implications for the future.

- Malaysia's sophisticated food laws and enforcement activities. These laws are constantly under review and so put pressure on Malaysian food and beverage manufacturers to maintain up-to-date high quality manufacturing processes.

- The Malaysian government's activities to enhance the local agricultural sector. The government is attempting to increase processing of local produce into higher processed foods. This is already happening with poultry and pineapple through large integrated businesses but the government sees the need for this to occur with other sectors, e.g. fruits, vegetables, spices, fish and seafood and various meats.

- Export market potential, inclusive of Malaysia's goal to become the world's leading producer of *halal* higher processed foodstuffs. Today, the Malaysian food and beverage industry has already developed competitive advantages as a supplier to Asia and the Muslim markets on a world wide basis. This is expected to continue in future with the Developed World as a key target for increased future exports.

- Modernization of Malaysia's nationwide distribution channels. While usage of supermarkets, hypermarkets and convenience stores is still low compared to the Developed World, the majority of Malaysia's upper and middle income groups now shop in such outlets. The retail and distribution industry will consolidate from its fragmented base today but will need to take into account the inherent lower income demand which exists for a broad range of processed foods and beverages. Food manufacturers will have to deal with the changing distribution power base as it evolves over the next 10 years or so.

III. COMPETITION

Many of the market segments are competitive with large numbers of supply countries involved in some segments. More than 80% of imports are supplied by just 10 countries. Of these, Australia, Thailand, USA, India and New Zealand supplied over 60% of imports in 1997.

Product	1997 Import Value in US$ Millions	Number of Countries Involved	Key Supply Countries
Chemicals	145.8	20	Japan and USA.
Cereals and cereal products	46.2	25	Australia, USA, Thailand and Argentina.
Cocoa and cocoa products	1.5	11	Singapore, Netherlands, USA, Indonesia and Australia.
Colors	15.9	26	Australia, India, Singapore, Brazil, China, Taiwan and USA.
Emulsifiers	3.1	14	Germany, USA, Finland, Singapore, UK and Japan.

Enzymes	4.3	22	Denmark, Finland, USA and Belgium.
Essential oils and plant extracts	6.1	22	USA, Japan and Singapore.
Fats and oils	117.4	19	Indonesia, Argentina, Brazil and USA.
Fish and seafood	2.2	48	India and Indonesia.
Flavors and aromas	4.3	25	Indonesia, China, Hong Kong and Singapore.
Fruits	33.0	25	Australia, China, Thailand and USA.
Herbs and spices	17.7	25	China, Indonesia and India.
Hydro colloids and gelling systems	5.6	23	China, Singapore and USA.
Meat products	100.6	20	Australia, New Zealand and India.
Milk products	223.8	18	Australia and New Zealand.
Nuts and seeds	30.8	23	China, India, Indonesia, Italy, Myanmar, Turkey, Thailand, Switzerland, USA and Vietnam.
Pulses and their products	17.7	29	China, USA, Australia, Myanmar, Turkey, Thailand and Vietnam.
Starch and starch derivatives.	79.1	31	Thailand, USA, Japan, Singapore and Taiwan.
Sugar and sugar derivatives	7.4	24	Thailand and Australia.
Other sweeteners.	0.9	11	France, Indonesia, South Korea and Thailand.
Vegetable products	33.0	18	USA, Thailand, China, Australia and India.
Yeast and yeast derivatives.	5.2	14	China, France and UK.
Total	901.6		
Source: Department of Statistics			

Trade and government sources comment that :

- Australia is the market leader. It supplied about 20% of Malaysia's needs in 1997. While it only leads in the market for imported fruit and sugar products, it is one of the top three suppliers of meat and meat products, dairy products and cereals and cereals products. It is also a supplier of chemicals and colors to Malaysia.

- Thailand's share of the market was about 15% in 1997. It is a key supplier of fish and seafood, rice, fruits, sugar, starch and vegetables.

- The USA's share of the market was about 12% in 1997. It leads the market for imported cereals and cereal products and oil seeds/edible oils and is a key supplier of fruits and vegetable products. It competes with Japan for the position of leading supplier of chemicals and additives to the Malaysian food manufacturing industry. Supplies are quite fragmented and other important suppliers include Taiwan, China, Singapore and the EU countries.

- India's market share was about 8% in 1997. It is the leading supplier of meats and second largest supplier of spices to Malaysia. It is also a key supplier of vegetables and fish and seafood.

- New Zealand's market share was about 7% in 1997. It is the leading supplier of dairy products and is a key supplier of meats and fruits.

IV. BEST PROSPECTS

The major sectors which are targets for U.S. exporters to Malaysia are:
- Dairy processing
- Soft drink manufacturing
- Fish and seafood processing
- Flour milling
- Biscuit manufacturing
- Other baked product manufacturing
- Noodle manufacturing
- Brewing

The following large sectors, which mainly use local ingredients, are also important targets for food ingredients which are not produced by Malaysia:

- Edible oils, e.g. additives and chemicals
- Chocolate confectionery, e.g. dairy ingredients, fruits, nuts

The following smaller manufacturing sectors should not be ignored by US exporters as they also utilized some imported food ingredients:

- Soy sauce and other soybean product manufacturing.

- Vegetable canning.
- Sugar confectionery manufacturing.
- Cereal and potato snack manufacturing
- Meat processing

The key targets in all of the above sectors are the market leaders, key processed food and beverage exporters and large suppliers of ingredients to the fragmented noodle and baked products sectors, e.g. Malaysia's flour millers.

V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting high value products to Malaysia, please contact the Office of Agricultural Attache at the U.S. Embassy in Kuala Lumpur at the following address:

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