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Food Service - Taiwan

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Report Highlights:

Annual growth in the Taiwanese food service industry has averaged 10.63% over the past nine years. With rising incomes and ever increasing labor demands, the average Taiwanese consumer is finding it much more advantageous to exploit the convenience and cost effectiveness of the services offered by this industry.

Includes PSD changes:
Includes Trade Matrix:

Executive Summary

Total sales turnover for the food service industry amounted to US\$5.7 billion. Annual growth over the past nine years has been a whopping 10.63%. Among the various types of food service outlets, fast food and meal box shops registered the highest growth in sales turnover. Beverage shops indicated a slight decline in 1997. It is widely believed that this decline was due primarily to business scale and not a lack of diversification to meet consumer demand. While the total sales turnover indicated a growth trend, the actual registered number of outlets indicated a reduction for restaurants, beverage shops and other eateries. The phenomenon may be the result of tougher competition in the food service industry

Food Service Structure

Restaurants

The registered number of Chinese restaurants at the end of 1997 totaled 2,079, slightly more than half of the restaurants in Taiwan. Western style restaurants held the second largest share with 15.4% of the total market.

Fast Food

Many fast food chains have been cooperating with other channels in order to form strategic alliances. Some have collaborate with petrol stations and department stores to generate additional revenues and to try and increase their share of the market. Chinese fast food restaurants accounted for 10% of the total market share. It should also be pointed out that the number of stores in operation has been decreasing in recent years. High operating costs, small-scale advertising, and low promotional budgets are the primary reasons for the decline.

Hotels

Income for food and beverage sales accounts for 47% of total operating income for the island's international tourist hotels. In terms of income generated by hotel restaurants, the Grand Formosa Regent Taipei topped the list with US\$12 million, followed by the Howard Plaza Hotel with US\$11.6 million, and the Lai Lai Sheraton Hotel Taipei with US\$11.2 million. International tourism hotels only consist of four and five star hotels. Therefore, the aforementioned figures are representative of only 70%-80% of the total market

Drinking Establishments

In recent years, coffee house chains have been spreading rapidly throughout Taiwan due to their fashionable appeal, high quality coffee, and simple meals. Starbucks, the largest coffee chain store in the United States, recently set up a store in Taiwan. Starbucks aims to set up 200 coffee shops around the island. The total market is estimated to be worth US\$351 million. Taiwan's per capita coffee consumption accounts for only 16% of U.S. consumption. However, the market outlook for coffee houses looks very promising.

Consumer Information

- In 1997, per capita GDP was US\$35,356
- In 1997, food expenditures accounted for 24.2% of total per capita GDP

The proportion of income spent on eating out has increased each year over the past few years. Expenditures on eating out are growing faster than expenditure on food consumption as a whole. Convenience, time management and entertainment are the primary reasons. The abundance of fast food restaurants, meal box shops and neighborhood restaurants provides a viable alternative to in-home preparation of food. However, homogeneous product lines under different brand names means marketers have to work harder to differentiate

their products. Surveys show consumers in the north are more likely to prefer a good dining environment over low prices, while those in other regions have a tendency to prefer good quality at affordable prices. Four crucial elements that go into the consumer decision-making process are:

- Brand reputation
- Location
- Taste
- Environment

How to Develop Products Suited to The Market

New product development in the Taiwanese market requires an investigation of competitors' products to find out their respective product attributes and selling positions. This will allow further product differentiation. Fast food chains are currently doing this. Investigations on channel distribution is also necessary. The important thing is to identify "product reach", and whether this can be achieved with efficiency and cost savings. Price is another area that should be evaluated. Pricing at different levels in the distribution channel, for example grocery stores, convenience stores, supermarkets and hypermarkets, should be evaluated and prices to wholesalers and retailers should also be calculated. Careful planning of a pricing strategy ensures accurate judgement and profitability.

Market Segmentation

With increasing competition in the food service industry, many analysts believe that market segmentation and product differentiation is of utmost importance. A recent transformation by Pizza Hut may give some indication to the trend of Taiwanese consumers' palate preferences. Out of 87 Pizza Hut Shops, 65 are for take-out and delivery, the remaining 22 are restaurant types. Five are positioned as "new delicacy restaurants", blending an American style dining atmosphere with a rich assortment of Italian foods, afternoon tea and wine. This has been done in an attempt to create a fun and casual dining atmosphere. Having diverse restaurant types under one chain has allowed Pizza Hut to maintain a competitive edge and it has also made it easier for them to respond to consumer palate changes.

Use of Imported Food Products in The Food Service Industry

The decision to use imported food products is strongly associated with domestic supply. In general, if food can be acquired from the domestic market, then there is little need to source from other countries. In specific restaurants however, especially upscale western restaurants, there is a need to import certain food products due to consumer demand and the high standards set by these restaurant managers. Among the three major suppliers of beef to the Taiwanese market, Australia, New Zealand, and the United States, U.S. beef is regarded as the best in terms of quality. As a result, U.S. beef is the number one choice for leading hotels and restaurants.

Opportunities for U.S. Exporters

With rising incomes and changing taste, Taiwanese consumers are in search of a more diverse selection of foods. In virtually any supermarket around the island, Washington apples, New Zealand kiwi, and Swiss chocolate can be found on the shelves. A number of activities have led to a general decrease in local production of commodities. This will hopefully amount to an increase in imported goods into the island's economy. These changes were reflected in a reduction in the local production of cereals and vegetables; a 7.6% drop in the livestock index due to the outbreak of foot-and-mouth disease; and a decrease in the general agricultural production index which includes agriculture, fishery, and livestock.

As Taiwan is seeking admission into the WTO, the government is reducing tariff rates on imports of a number of agricultural products. Both local food manufacturers and foreign firms are eager to introduce their products into the local market in order to cash in on the great sales potential. In terms of competing countries, Australia has announced that the market for its food products is worth A\$400 million (US\$242 million) a year. As new air routes open up to Taiwan, new opportunities will arise to export fresh foods to the island. This may however, affect the U.S. in a negative way if direct flights to the PRC surge. A new air route with Mandarin Airlines between Brisbane and Taipei has led to the export of perishables including fresh fruit, seafood and fresh vegetables from South East Queensland and northern New South Wales.

Trends

Taiwan's annual growth for consumer prices will probably remain lower than the targeted level of 3% set by the government this year. The devaluation of the NT Dollar and rising import and wholesale prices, led to lower food prices last year. An increase for 1998 is not apparent. The trend towards fine dining and healthy eating has been growing steadily over the past few years. In an attempt to appeal to customers, restaurants have been well prepared to meet consumers' needs by implementing changes that affect consumer choice. These changes are as follows:

- A larger selection of low fat dishes
- A focus on dishes that are low in sodium
- A reduction in the use of monosodium glutamate (MSG)
- An increase in the number of vegetarian restaurants
- Additional salad bars featuring fresh produce in many western restaurants
- New products at lower prices
- Price discounts

When convenience stores first incorporated ready-to-serve foods into their outlets, they did not expect it to result in extraordinary sales contributions. Ready-to-serve lines are the fastest growing sector and for many stores accounts for as much as 10% of total sales revenue, with most food items achieving 30%-40% gross margin. The potential for ready-to-serve food has made stores like 7-Eleven, Family Mart, and Hi-Life change their commodity combination by placing a greater emphasis on ready-to-serve food in order to meet increasing consumer demand and to differentiate themselves from their competitors. Market researchers predict that ready-to-serve food will become the key development area for convenience stores. The mission will be to focus on developing new taste, variety, safety and food hygiene during transportation and preparation.

Competition Amongst Fast Food Chains

On its 250th store opening in Taiwan, McDonald's, the leading western-style fast food restaurant in Taiwan, strongly appealed to its customers by offering a sales promotion in the form of price reductions on its hamburgers and fried chicken. The low price promotion proved to be a huge success and in the process cast a great deal of competitive pressure on other fast food chains. Hospitals are another one of McDonald's main development targets for the future. At present, the chain has outlets in two hospitals in Taiwan. In terms of price wars in the fast food industry, they only tend to work on a short term basis. To appeal to customers in the long term, fast food chains have to find out how they will differentiate products to cater to their target customers' palate.

Market Share for Top Five Fast Food Chains 1997

Restaurant name	Market Share (%)
McDonald's	37.5
Pizza Hut	13.0
Domino's	12.0
Kentucky Fried Chicken	6.7
Mercuries	4.1
Total	73.3%
Total	US\$686 million

Source: Taiwan Chain Store Association, AMI interviews, AMI estimations, Ministry of Finance

Other Considerations

In anticipation of Taiwan's accession into the WTO, the island's food industry is increasing its imports of foreign food products. The island's large food conglomerates are anticipating attractive opportunities in the foreign-foods import business after WTO entrance. They are differentiating themselves with an emphasis on international merchandising. It has been noted that the arrival of increasing numbers of foreign brands in the Taiwanese market will increase competition upon accession into the WTO. The red wine industry is a good example of where there is significant importance in international trade. In 1997, Hsing Tung Yang enjoyed an excellent sales performance from red wine in the domestic market. The company plans to make heavy investments in the establishment of an international purchasing team in order to introduce a wide variety of new products through its retail outlets island-wide and to offer consumers a larger selection of new and affordable products. When both the PRC and Taiwan join the WTO, fruit and vegetable imports from the PRC will pose a major threat to local products and other imports from further afield. Due to its geographic proximity to Taiwan, PRC fruits and vegetables can be shipped in the morning and arrive in local restaurants by evening of the same day. The cost of production of PRC agricultural products is one tenth of that of Taiwan's and less than that of many country's that currently export to Taiwan. Only through the promotion of quality will world-wide imports be able to compete with the PRC's produce.

The environmental changes facing the food industry are epitomized by the opening of the WTO. This phenomenon is also coupled with the rapid development of new channel distributions and competition from international food manufacturers. Being close to the markets and knowing local palates is an advantage that local food manufacturers have exploited for years. In short, it is advisable that those in search of a position in the market be close to the market or close to the raw materials that are supplying the market.