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Report Highlights:

The food service sector has been growing for the past five years despite the economic down turn and is forecast to continue to grow. Trade sources estimate the total food service market size to be around US\$3.8 billion, with the restaurant sector dominating 80% of the market, hotel and resorts 15% and institutional catering sector having 5% share of the market.

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1. Malaysia in profile

Malaysia is the third wealthiest country in Southeast Asia with a population of around 23.8 million people. About 61% of its population make up the middle to upper income group of consumers. Its economy has a firm foundation in a mixed economy that comprises strong manufacturing, service and agricultural sectors. Its GDP per capita in 2001 was estimated at US\$3,509, up from US\$3,208 in 1998 when it suffered adverse effects from the regional economic downturn. Since early 2001, Malaysia's economy has been slowing down due to the direct effects of the slowdown in the global economy and the economic slowdown faced by the USA, European Union and Japan. The government estimated economic growth for 2001 at 2.0%, down from 8.5% in 2000. Based on the favourable external and domestic economic environment, economic analysts forecasts Malaysia's economy will grow by 5% for the year 2002.

2. Market summary

2.1 Malaysia's food service sector in overview

Malaysia has a large and highly fragmented food service market with a large number of small to medium sized players. No official statistics are available on the current structure of the food service sector today. The last official survey conducted by the government in 1993 showed that there were over 80,500 businesses operating in this sector. According to trade sources, over 80% of the food service establishments are made up of small family-owned businesses or individual proprietors. The Table below provides trade estimates of the structure of the food service market today.

Structure of Food Service Market (Estimated Sales of US\$ 3,813 Million)	
Full service family style restaurants	25%
Food and drinks hawker stalls	25%
Fast food restaurant chains	15%
Coffee shops	15%
Hotel and resorts	15%
Catering services	5%
Total	100%
Source: Trade estimates	

Trade sources estimate the total food service market size to be around **US\$3,800** million. This sector is supplied by both local and imported products. The Table below shows the size of the food service sector, based on trade estimates.

Size of Malaysia's Food Service Sector		
	Estimated Sales* (US\$ Million)	Growth Rates (%)
1997	3,500	15.9
1998	3,400	-3.5
1999	3,488	2.6
2000	3,691	5.8
2001	3,813	3.3*
Note *: Estimates provided by trade sources. Source: Economic Planning Unit and Trade Estimates		

The Table below provides an indication of the future growth rate of the food service sector, based on trade estimates.

Future Growth Rates of the Retail Food and Beverage Sector			
	2002	2003	2004
Restaurants	From 5%, depending on future economic growth.		
Hotels and resorts	5% to 15%, depending on hotel's promotions.		
Institutional caterers	Very slow growth expected but no forecast made.		
Source: Trade estimates			

Trade sources comment that the food service operators that invest in advertising and promotion of their menu items, introduce innovative products during festive seasons and regularly introduce new menu items to pull in the customers are likely to achieve higher growth rates than the rest of the businesses.

2.2 Advantages and challenges for US exporters

The Table below summarises the advantages and challenges for US products in the Malaysia food service sector.

Advantages	Challenges
Malaysia's economy has come out of the recession better than some of its neighbours. Its economy is forecast to grow by 5% in 2002.	The Muslim population (60% of the total population) demands Halal products. US products will have to comply with this very important requirement.

The food service sector has been growing for the past five years, despite the economic down turn and is forecast to continue to grow for the next three years.	Malaysian food culture is strong and dominates the sector's output. Local products and those from neighbouring countries dominate the supply of food and beverages to this sector.
New shopping malls are opening up in the major cities, providing increased opportunities for middle to high end food service operators to access middle to high income customers.	Relatively small but frequent orders for food and beverages from the sector means that buyers are unable to source directly from overseas exporters who generally prefer to satisfy large orders.
The North-South Highway has created new opportunities for establishing new food service outlets.	Strong competition from Australia, New Zealand and some European countries.
New concept food service outlets such as modern café and lifestyle restaurants attract the younger urban dwellers from the middle to higher income group.	Price sensitivity of consumers directly affects the sector's buyers and their suppliers, e.g. importers and distributors.

3. Road map for market entry

3.1 Restaurants

The restaurant sector dominates the food service market in Malaysia with the largest share (80%) of the market. Trade sources estimated this sector to be worth around US\$ 3,000 million. The sector is made up of:

- Full service family style restaurants, operated by individual proprietors, companies or large corporations, which are estimated to have around 25% of the total food service market. They are made up of low end to high end, air-conditioned restaurant chains with waiter services included. A large number of these full service restaurants serve Asian cuisine although an increasing number specialise in serving exotic cuisine from Europe, Africa and America, particularly those located in the major cities where expatriates live.

The majority of the customers consist of families from middle to high income groups, business persons, tourists and affluent younger Malaysians. Most of the customers frequent this type of restaurants to dine in style and comfort and access the best and most sophisticated culinary standards in the country.

- Coffee shops and modern concept café which are estimated to have around 15% share of the total food service market.

Coffee shops are generally low to middle end restaurants without air-conditioning or waiter

services, owned by proprietors or small companies. Culinary and sometimes health standards are generally low to average with the majority offering simple local dishes for breakfast and lunch. Their menu prices are usually inexpensive which attract the majority of the low to middle income consumers in Malaysia.

An increasing number of high end franchised branded cafés, such as Starbucks and Coffee Bean & Tea Leaf, have entered the sector in recent years. They are usually located in the high end shopping centres in major cities. These cafés are very popular with the young adults as well as teenage students from the middle to high income groups. Their customers link being seen in such a branded café to the trendy lifestyle that they lead.

- Fast food chain of restaurants, operated by companies or large corporations, which is estimated to have around 15% share of the total food service market. KFC today dominates the sector. Other major fast food restaurants include McDonald's and A&W. The majority of the fast food businesses offer US style fast food dining.

The customers that frequent fast food outlets are largely from the educated middle income group of consumers who have acquired a taste for burgers, quick fried chicken and alike, made up of largely family groups, young working adults or children/students as well as tourists. These consumers prefer the informal, yet clean and comfortable ambiance of the fast food restaurants.

- Small food and drinks stalls serving a very limited range of local dishes at inexpensive prices, operated by proprietors or family businesses. This sector has around 25% of the total food service market. A large number of these businesses operate from temporary roadside stalls while some are located within coffee shops. Increasingly, more stalls are located in food halls in the modern shopping complexes.

The majority of this sector's customers are low to middle income workers, families and students who have their breakfast, lunch or snack at food stalls on a daily basis during the working week.

3.1.1 Company profiles

The Table below provides information on the major restaurants involved in this sector.

Restaurant Name and Outlet Type	Ownership	Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
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KFC Holdings (Malaysia) Bhd, fast food chains of KFC and Pizza Hut and Rasa Gourmet restaurants	Franchise operated by a local company listed on the KLSE.	Restaurant turnover of US\$ 156.5 million. (1999)	KFC (300) Pizza Hut (77) Rasa Gourmet (10)	Nationwide, in urban centres and along North-South highway.	Centralised buying performed by KFC in Kuala Lumpur.
Golden Arches Restaurants Sdn Bhd, McDonald's fast food chains	Franchise operated by company. Share holder includes McDonald's Corporation.	US\$ 82.6 million (2000)	163	Nationwide, in urban centres.	Centralised buying performed by McFood Services Malaysia Sdn Bhd.
TT Resources Bhd, full service restaurant under the Tai Thong group of restaurants.	Public company listed in the KLSE.	Group f&b sales of US\$ 16 million (1999)	21 Chinese restaurants, 5 lifestyle restaurants, 6 bistros, 14 coffee outlets	Major cities.	Local agents.
Eden Village Sdn Bhd, full service restaurant	Local Malaysian Chinese.	US\$ 1.6 million (1999)	10	Major cities.	Local agents.

3.1.2 Entry strategy

The majority of the larger restaurant businesses do not use a large quantity of imported food products as most offer local cuisine or only use imported products if local alternatives could not be found. US exporters should consider the financial strength, number and locations of outlets, menu diversification, purchasing policy of the business when selecting major restaurants to target. In addition, US exporters should also consider the following matters when planning to enter this sector:

- The requirement to supply halal food products as the majority of middle to high end restaurants target a wider consumer base today and hence demand halal food products.
- Price competitiveness of US products compared to local and other imported products.
- US products which can be accepted as alternatives to local and other imported products.
- US products which can easily fit into local food cuisine. US exporters will need to study this to identify opportunities available to them.
- The use of local agents to promote and distribute US products because all restaurants order small volumes of food products on a frequent basis.

3.1.3 Distribution channel

Restaurant establishments do not have the storage space to keep large inventories. For this reason, they prefer to place small but frequent orders with local agents who are able to meet such needs. In addition, they source from specialist local agents/distributors with the necessary storage facilities and refrigerated trucks to handle short shelf life product such as dairy products, meat and poultry, fresh vegetables and fruits and bakery products. They source wine from specialist wine importers/distributors that have in-depth product knowledge and the ability to conduct regular wine tasting sessions .

It is important to note that some restaurant chains, particularly fast food chains, purchases via a centralised purchasing department or company. For example, KFC's centralised purchasing function is handled by KFC's head office in Kuala Lumpur while McDonald's central purchasing unit is controlled by McFood Services Malaysia Sdn Bhd.

3.2 Hotels and resorts

Hotels and resorts, which comprises about 1,700 hotels and other lodging houses, form a relatively small segment in Malaysia's food service market. Its share of the total market is estimated by trade sources at about 15% today, worth around US\$ 570 million. Importantly, the 3 to 5 star rated hotels, numbering less than 250 nationwide, operate restaurants that are key users of imported food and beverages. These 3 to 5 star hotels normally have more than three food and beverage outlets, e.g. a coffee house, a local Asian restaurant and a foreign restaurant, i.e. Western food or, in some cases, Japanese food, as well as at least one bar that is licenced to sell alcoholic drinks.

3.2.1 Hotel profiles

Most of the key hotels are owned by large locally listed companies and managed through agreements with international hotel management chains, in particular Pan pacific, Hilton, Hyatt and Sheraton. The Table below provides an overview of the some of the key hotel chains.

Hotel Group	Sales (US\$ million)	No. of Hotels	Location	Purchasing Agent Type
Berjaya Resorts (Local - owned by Berjaya Land Bhd)	US\$9.0 million for hotel operations located in Malaysia (2001)	8	Major cities and tourist centres	Local agents
Hyatt (Hotels are owned by different enterprises)	Not readily available	4	Major cities	Local agents
Pan Pacific	Not readily available	5	Major cities	Local agents
Sheraton (Owned by the Faber Group Bhd)	US\$ 35.5 million Group Sales (2001)	5	Major cities and tourist centres	Local agents

Hotel Grand Continental (Local - Owned by Grand Central Enterprise Bhd)	US\$ 8.0 million for hotel operations (2000)	7	Major cities and tourist centres	Local agents
Shangri La Hotels and Resorts (Local - Shangri-La Hotels (Malaysia) Bhd)	US\$ 64.2 million for hotel operations (2000)	6	Major cities and tourist centres	Local agents
Hilton International	Not readily available	4	Major cities	Local agents
Renaissance Hotels and Resorts	Not readily available	5	Major cities	Local agents
Hotel Equatorial	Not readily available	5	Major cities	Local agents

3.2.2 Entry strategy

3 to 5 star hotels and resorts are key users of imported food and beverages, particularly those that employ foreign chefs and offer authentic foreign cuisine. US exporters should consider the following matters when planning to enter this sector:

- Focus on the main business and tourist hotels, e.g. those located in Kuala Lumpur, Penang and Langkawi as well as some of the hotels located on beaches close to Kuantan.
- Develop links through local agents and target the key branded hotels, e.g. Berjaya, Sheraton, Shangri-La, Pan Pacific, Hilton and Hyatt as well as specialist hotels with high end restaurants such as Carcosa, Palace of the Golden Horse.
- Gain a full understanding of product needs and purchasing criteria on a localised basis.
- Conduct seasonal food festivals and other related food and beverage promotions with hotel restaurants, particularly during Hari Raya, Chinese New Year, Christmas and 4th July, as well as other times of the year when tourists visits, e.g. during mid year with visitors from Europe and America and over the year end with visitors from Australia and New Zealand.

3.2.3 Distribution channel

All hotels source for their food and beverage products from local agents. This is because all hotel kitchens have the policy of holding only sufficient quantities of food and beverage for short term needs only. In addition, the 5 star hotels also check the handling, hygiene standard and storage quality of the the local agents before accepting supplies from them. For this reason, 5 star hotels maintain a list of approved local agents that they will source food and beverage products from.

3.3 Institutional caterers

The institutional catering sector has around 5 % share of the food service market, estimated to be worth US\$ 190 million, according to trade sources. This sector is largely made up of:

- Contract catering businesses.

These catering businesses range from small businesses operated by proprietors or family members to medium sized companies. The majority of these businesses target middle to high income earners and large businesses located in Kuala Lumpur and in major cities in Selangor. These businesses specialise in catering to special functions such as weddings, birthday parties, business parties, seminars, conventions, trade exhibitions, company family day functions, private parties and alike.

- Airline catering businesses.

These businesses specialise in catering to airlines. Only two businesses are involved in this line of business. The major company with the bulk of the airline catering business is MAS Catering, supplying most of the airlines flying through Malaysia. A smaller business is also involved, known as KLAS Catering which cater to much fewer airlines.

- Other catering businesses.

Other catering businesses include those which target canteens at schools, the military, prisons and alike as well as those which specialise in catering meals to families on a daily basis, particularly families with busy working mothers. Most of these businesses are small sized establishments. These catering businesses usually provide local dishes only, usually at the low end price scale. Generally, hospitals, nursing and retirement homes provide in-house meals and do not contract in any catering service.

3.3.1 Major Caterer's profile

The catering sector is highly fragmented and involves very few large companies. The Table below provides information on the major businesses involved in the catering sector.

Name and business type	Ownership	Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
MAS Catering Sdn Bhd, airline catering	Malaysian Airlines Systems Bhd, the national airline	US\$ 50.4 million (2001)	At all airports in Malaysia	At all airports in Malaysia	Direct from overseas suppliers (through a tendering system) and via local agents for purchases under RM50,000.

TT Resources Bhd, food catering services targeting large events, conventions, exhibitions, company functions, private functions.	Public company listed in the KLSE.	Group f&b sales of US\$ 16 million (1999)	-	Kuala Lumpur	Local agents.
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3.3.2 Entry strategy

The majority of the caterers do not use imported food products as most offer local cuisine. Those that use imported products are very cost conscious because profit margins made by the catering business tend to be very slim. US exporters should consider the following matters when planning to enter this sector:

- The requirement by the airline catering companies to only purchase halal food products.
- The use of local agents to promote and distribute US products.
- Identify products which can be accepted as alternatives to local or other imported products.
- The need to meet closely with the purchasing criteria of the catering business, particularly airline caterers where the products must be halal and quality, price and food safety are important factors affecting purchasing decisions.

3.3.3 Distribution channel

MAS Catering source for their food and beverage products directly from overseas suppliers through a tendering system. Under the process, suppliers participating in the tender are required to provide samples to MAS Catering for their assessment of the quality of the products. Tenders generally take around three months to process and approve. All purchases under RM 50,000 (US\$13,158) are sources directly from local agents without the need for calling a tender.

Apart from MAS Catering, all other caterers source for their food and beverage products from local agents. Catering businesses, like other food service businesses, do not purchase large quantities of foodstuffs. Most do not have the storage space to keep large inventories. For this reason, they will not order directly from overseas suppliers, preferring to deal with local agents instead.

4. Competition in the sector

The local food and beverage products dominate demand from operators in the food service market and will continue to do so into the long term because the local products meet closely with the taste preferences of the majority of consumers in Malaysia. The Table below shows the major supply sources of imported food and beverages which may be used by the food service sector.

Product/Usage level by sector	Import Market Size in 2000	Major Supply Countries in 2000	Reasons for Strengths of Key Supply Countries
Fish and seafood/ High usage	311,401 tonnes	Thailand (60%) Indonesia (13%) USA is an insignificant supplier.	Thailand and Indonesia are both very price competitive and able to supply the fish and seafood varieties demanded by local consumers.
Red meat, beef and lamb/ High usage	103,870 tonnes	India (67%) Australia (16%) New Zealand (15%) USA is an insignificant supplier.	India supplies price competitive beef. Australian and New Zealand products are demanded by the high end food service sector.
Poultry, frozen/ High usage	30,460 tonnes	Denmark (29%) Netherlands (25%) USA is a minor supplier (7%)	Local chicken dominates. Denmark and the Netherlands supply price competitive good quality products. USA is the major supplier of turkey and turkey parts
Dairy products, excluding milk powder/ Moderate to low usage	13,865 tonnes	Australia (35%) New Zealand (29%) USA is a minor supplier (3%)	Both Australia and New Zealand are aggressive suppliers that have developed a good reputation with the food service sector. US products are generally not price competitive.
Fresh temperate fruits/ Moderate usage	249,026 tonnes	China (48%) Australia (18%) USA (18%)	China leads with Fuji apples, Chinese pears and mandarins. Australia and USA are key seasonal suppliers of apples, oranges, grapes, berries and stone fruits.
Canned fruits/ Low usage	3,948 tonnes	Thailand (35%) USA (18%) Australia (16%)	Thailand is a major supplier of price competitive canned fruits. USA leads in supplying canned cherries and strawberries. Australia competes with the USA on quality.

Fruit juices/ Moderate usage	8,280 tonnes	Taiwan (32%) Australia (19%) USA (12%)	Taiwan and Australia supplies price competitive, good quality juices. USA supplies some well known brands.
Jams and jellies/ Low usage	2,333 tonnes	China (31%) Thailand (18%) USA (9%)	China and Thailand supplies very price competitive products. USA supplies well known brands in the market.
Fresh temperate vegetables/ Low usage	163,759 tonnes	Australia (44%) Indonesia (17%) China (15%) USA is a minor supplier (3%).	Australia supplies high quality and price competitive produce. Indonesia supplies mainly price competitive potatoes. China competes on price.
Canned vegetables/ Low usage	14,732 tonnes	Turkey (46%) USA (18%) China (17%)	Turkey supplies mainly high quality canned tomatoes/puree. USA leads in supplying high quality products targeted at the sector. China supplies mainly canned Asian products.
Frozen vegetables/ Moderate usage	27,229 tonnes	USA (42%) New Zealand (31%)	USA dominates with its frozen potatoes. New Zealand dominates the mixed vegetables segment.
Edible nuts/ Low usage	6,641 tonnes	China (37%) USA (21%)	China supplies mainly groundnuts. USA leads in supplying the other types of edible nuts such as almond, pistachio, hazelnut.
Breakfast cereals/ Low usage	9,192 tonnes	Philippines (37%) Thailand (11%) USA is a minor supplier (3%).	Nestlé breakfast cereals are supplied from the Philippines while Kellogg's breakfast cereals are supplied from Thailand.
Soft drinks/ high usage	3.5 million litres	Local products dominate (403 million litres). USA is an insignificant supplier.	The brands of Coca-cola, Pepsico and others are produced in Malaysia. Other less well known US brands are not price competitive.

Mineral water/ high usage	3.0 million litres	France (56%) USA is an insignificant supplier (6%).	Malaysia is now a large producer. France supplies well known brands. US products are not price competitive.
Beer/ High usage	7.4 million litres	Singapore (65%) USA is an insignificant supplier.	Malaysia is a large producer. Beers brought into the country from Singapore are produced by Malaysia's 2 largest breweries with production facilities in Singapore. US products are not price competitive.
Wine/ Low usage	2.4 million litres	USA (33%) France (24%) Australia (24%)	French wines dominate the food service sector although new age wines from Australia and USA are now becoming increasingly popular.
Spirits/ High usage	3.1 million litres	UK (47%) France (19%) USA is a minor supplier (3%).	This market is dominated by well known brands from France and the UK. US products are not well known to consumers.

5. Best product prospects

It should be noted that this market attractiveness review has been developed from a broad study of the Malaysian market and not detailed market studies of each segment. As a result, the reader should not construe it as the results of a full and detailed market study into opportunities for U.S. products. This assessment considers in broad terms the likely strategic direction of each market segment but does not consider or provide advice on the strategies or tactics that will be needed by US exporters to develop viable markets.

The summary of findings is as follows:

Category A products:	Category B products:	Category C products:
<ul style="list-style-type: none"> • Wine. • Fresh temperate fruits. • Frozen vegetables. • Edible nuts. 	<ul style="list-style-type: none"> • Fish and seafood. • Red meat, beef and lamb. • Frozen poultry. • Fresh temperate vegetables. • Canned vegetables. • Canned fruits. • Fruit juices. • Jams and jellies. • Breakfast cereals. 	<ul style="list-style-type: none"> • Dairy products. • Soft drinks. • Mineral water. • Beer. • Spirits.

END OF REPORT