



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 5/17/2004

GAIN Report Number: RP4024

Philippines

Food Processing Ingredients Sector

Philippine Food Processing Ingredients Sector 2004

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Report Highlights:

The Philippine food processing industry continues to expand, with total sales exceeding \$10 billion/year. The United States is a top supplier of ingredients to Philippine manufacturers, although competition from other foreign suppliers has intensified. Major imported food ingredients include: wheat, dairy products such as milk and whey powders, processed fruits and vegetables, beef and beef products, and sweeteners. Continued strong demand for basic food ingredients is forecast fueled by a rapidly growing population and limited supplies of locally produced inputs. Cost will continue to be a primary consideration in ingredient purchases due to persistent price sensitivity in the Philippine food and beverage market.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

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Market Summary

There are close to 5,000 food and beverage manufacturers in the Philippines, with gross receipts totaling \$10.4 billion in 1998, the most recent data available. Most sales are by a small number of large locally-owned companies, such as San Miguel, RFM, and Universal Robina and multinationals, led by Nestle and Del Monte. Top sectors include: bakery, coconut, confectionery, dairy products and eggs, grain milling, processed meat and fish, processed fruits and vegetables, milled and refined sugar, vegetable/animal oils and fats.

Overall, Philippine manufacturers continue to face numerous challenges in producing and marketing processed foods and beverages in the Philippines. High electricity costs (highest in Asia) and other production expenses, outdated equipment and facilities, and gaps in the cold chain are major constraints. Large well-financed companies that have made needed investments are overcoming these challenges and meeting growing demand for new, better-quality and competitively priced processed foods and beverages. However, most establishments are poorly equipped small and medium-sized processors who continue to struggle.

Demand for imported ingredients is strong since the tropical Philippine climate limits production of many agricultural products. When available, local supplies are often hampered by inefficient post-harvest and storage facilities and costly farm-to-market transport, which often drive prices higher than world market. The local supply situation means manufacturers must look overseas for many inputs. Major imported food ingredients include: wheat, dairy products such as milk and cheese powders and whey, processed fruits and vegetables, and beef and beef products. Expensive specialty ingredients, such as exotic dried fruits and nuts, processed egg products, many grains, and organic ingredients, are still small niche items due to persistent and pervasive price sensitivity in the Philippine food and beverage market.

Rising demand for processed foods and beverages is driven by a large population of 84 million that is growing 2.3 percent annually, a food culture that emphasizes frequent snacking, and large workforce participation by women and resulting need for convenience foods. With more than two-thirds of the population under the age of 30, the Philippines is a youth-oriented food market. This fuels demand for new and trendy products, attractive packaging, and sweetened foods and beverages.

A. Advantages and Challenges for US Exporters

Advantages	Challenges
U.S. products are highly regarded for quality and product consistency.	Strong competition from other exporting countries.
Two thirds of the population is below 30 years of age and are heavily influenced by Western habits and culture through media, and are observed to be very open to processed and ready to cook, ready to eat and imported food products	Volatile exchange rate resulting in US ingredients becoming expensive can shift buyers' purchases to source cheaper alternatives to keep current market prices in a very price sensitive market.
Proliferation of malls and accompanying expansion in the retail and dine out establishments especially on American franchises that require American ingredients.	Available supply from regional facilities licensing American brands and an abundant domestic supply especially on fresh vegetables, poultry and seafood products.

Market is far from saturated with plenty of room for growth in the regional areas of the Philippines with a growing middle class market.	Deficient distribution and cold chain systems in place, raise costs and limit marketability of frozen and chilled products.
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Road Map for Market Entry

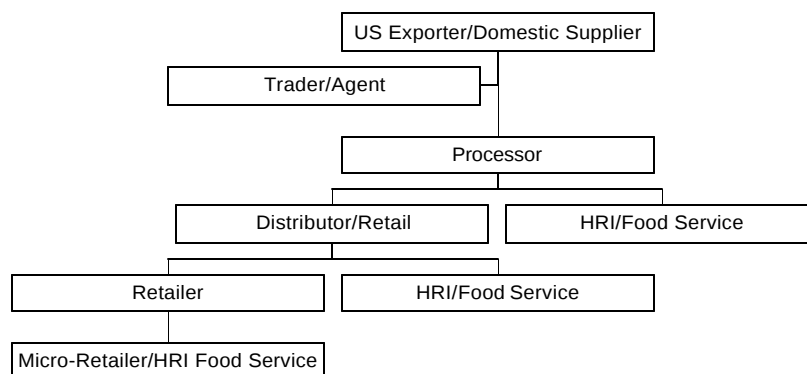
A. Entry Strategy

New to market US exporters should consider the following when planning to enter the market:

- Filipino businessmen value interpersonal relationships and US exporters should work to develop and maintain close contact. Regular meetings with a client are appreciated and help reaffirm U.S. supplier commitment and support.
- Most food processors rely on local traders or agents to supply necessary ingredients although there is a trend toward import directly, especially by large multi-product companies. While importing from agents is a costlier approach, Philippine agents are used to provide small shipments, credit terms, and manage importation and product quality.
- Market is highly price-sensitive. While American products are usually highly regarded for their quality and product consistency, which gives them a certain advantage in terms of pricing premium as compared to competing products, consumers are extremely resistant to price increases.
- Willingness to be flexible to changes in the market requirements like adjustments in formulations as dictated by the changing consumer trends.
- Can work with one or several importers. Exclusive distributorship agreements are difficult to enforce in the Philippines while parallel imports are common.

B. Market Structure

This diagram gives an overview of the usual distribution channel for imported food ingredients, with a similar pattern from domestic suppliers to the retail and HRI sector.



Large food processing companies typically prefer to buy their imported food ingredients directly wherein they have control of the price and quality. However, they also purchase through traders/agents whenever:

- the quantity required is minimal

- an ingredient is accompanied by complicated technical or quality issues. In these situations, sourcing through an experienced local agent is considered less risky.

On the output side, while most companies have their own distribution network, especially in supplying their major accounts or the big retailers, a considerable number use the services of a distribution company to tap into smaller grocers and micro-retailers.

C. Company Profiles

The following is a summary of sales by top manufacturing companies for major processing sectors. Many companies are multi-product, have subsidiaries or partners in the industry. Company data provided below reflect sector-specific sales.

Production, processing and preserving of meat and meat products:

Company	Sales (\$ 000)	End-use Channel s	Production/Plant Location
Pure Foods Corporation	\$310,085	Retail	2 (Philippines) that also processes for Purefoods Hormel and San Miguel Campocarne
The Purefoods-Hormel Company, Inc.	118,692	Retail	
RFM Corp.	48,663	Retail	1 (Philippines)
Genosi, Inc.	16,662	HRI	1 (Philippines)
San Miguel Campocarne	13,254	Retail	

Note: Pure Foods Corporation, Purefoods-Hormel and San Miguel Campocarne are owned by San Miguel Corporation.

Flour milling except cassava flour milling

Pilmico Foods Corp.	\$69,968	HRI	1 (Philippines)
Liberty Flour Mills, Inc.	31,966	HRI	1 (Philippines)
Wellington Investment and Manufacturing Corp.	28,511	HRI	1(Philippines)
Morning Star Milling Corp.	24,622	HRI	1 (Philippines)

Manufacturer of Chocolate and cocoa products including chocolate candies

Novartis Consumer Health Philippines	\$22,913	Retail	1 (Philippines)
Cocoa Specialties, Inc.	16,979	Retail	1 (Philippines)
Gandour Philippines, Inc.	4,905	Retail	1 (Saudi Arabia) 1 (Malaysia)

Processing of fruit and vegetable sauces

Southeast Asia Food, Inc.	\$26,775	Retail	2 (Philippines)
Heinz UFC Philippines	22,589	Retail	2 (Philippines)
Hunt-Universal Robina Corp.	10,237	Retail	1 (Philippines)

Note: Southeast Asia Food, Inc. and Heinz UFC Philippines are sister companies.

Manufacture of Diary Products, n.e.c.

Kraft Foods Philippines	\$89,746	Retail	1 (Philippines)
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Manufacture of Butter and Cheese

Phil. Dairy Products Corp.	\$48,694	Retail	1 (Philippines)
New Zealand Creamery	13,884	Retail	1 (Philippines)
Blue Dairy Corporation	3,632	HRI	1 (Philippines)

Note: Philippine Dairy Products Corporation is also owned by San Miguel Corporation.

Baking of bread, cakes, pastries, pies and similar perishable bakery products

Goldilocks Bake Shop, Inc.	\$47,793	HRI/Retail	3 (Philippines)
Golden Donuts, Inc.	11,469	Retail	1 (Philippines)
Red Ribbon Bake Shop, Inc.	10,471	HRI/Retail	5 (Philippines)

Baking of biscuits, cookies, crackers, pretzels and similar dry bakery products

Monde Nissin Corporation	\$158,464	Retail	1 (Philippines)
Monde M.Y. San Corp.	9,149	Retail	1 (Philippines)

Note: Monde M.Y. San Corp. is a subsidiary of Monde Nissin Corporation

Manufacture of macaroni, noodles, couscous and similar farinaceous products

California Manufacturing Co.	\$139,280	Retail	3 (Philippines)
Nissin-Universal Robina Corp.	13,813	Retail	1 (Philippines)

Manufacture of candies (excluding chocolate candies) and chewing gum

Wrigley Philippines, Inc.	\$28,302	Retail	1(Philippines)
SPI Corporation	14,303	Retail	1(Philippines)
Perfetti Van Melle Philippines, Inc.	8,368	Retail	1(Indonesia) 1(Vietnam) 1(China)

Manufacture of ice cream and sherbet, ice drop, ice candy and other flavored ices

Selecta Wall's Inc.	\$39,618	HRI/Retail	1 (Philippines)
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Note: Selecta Wall's Inc. is also owned by RFM Corporation in a joint venture with Unilever Philippines.

Manufacture of snack products such as corn curls, wheat crunchies and similar products

Liwayway Marketing Corp.	\$16,524	Retail	3 (Philippines)
Leslie Corporation	10,064	Retail	3 (Philippines)

Source: Top 7,000 Corporations 2002-2003

D. Industry Trends

Following are selected key trends affecting the food processing industry:

Functional foods – an increasing consumer awareness of how diet affects health has pushed processors to come up with ways to address growing interest in products promoted as “healthy”. Although savoury snacks are traditionally not considered healthy, snack food processors have created new innovations and/or relaunched current products that address demand for healthier options in the market. Added functional substances are often

highlighted on the product package. Examples include snacks fortified with ingredients like pre-mix vitamins and whey.

This shift from taste to a nutritional platform have companies betting on the health benefits to increase the marketability of their products. Lactose and whey usage is dominated by the infant formula industry with still very limited usage in the snack, bakery and confectionery sectors. Some meat processors have also repacked or launched their products to highlight the nutritional value of their product like “High protein” or “vitamin enriched.”

New varieties – rising consumer demand for more fruit varieties, especially in baked and ice cream products that cater to the mid to high end market, has encouraged importers to seek other lines of dehydrated fruit ingredients like cranberries, blueberries and others in addition to their regular tropical fruit lines. Again, this is partly a result of a market that is looking for health benefits in the products that they purchase. Tree nut varieties, especially those not grown in the country, has also witnessed an increase in usage in addition to bread and ice cream, in the food service sector, like in organic food and family and fine dining establishments.

New flavors – while cheese and barbecue is still the preferred and popular flavor in most snack products, processors have developed and are looking into increasing usage of other flavors like beef, sweet corn, sour cream and onion. One company has recently come out with jalapeno, ensalado, chicken and jamaican barbecue flavors in their crumble nut products. New flavored milk varieties capitalized as well on the popularity of ice cream flavors such as Ube, Vanilla, Melon and Strawberry.

Adapting to local tastes – Noodle, meat, and condiments processing companies have expanded variants or new products that capture the various known regional cuisines or native ingredients designed to appeal to the local taste like adobo (pork cooked in soy sauce and vinegar), sinigang (meat or fish stew), bulalo (beef marrow broth), calamansi (local lime), sampaloc (tamarind base) and shrimp paste. This trend reflects the fact that local dishes and flavors are still preferred in most households, despite continued interest in Western-style foods. While still a small player in the market, dried ready meals are showing promise, including new rice porridge varieties like arroz caldo and champorado.

Compounding/blending - To reach the bigger mass market and still be cost competitive, dairy and confectionery processors are now blending and compounding ingredients i.e. milk and whey and cocoa powder. With this process, processors say that it still maintains the nutritional value of the finished product at a price that is within reach by a bigger market.

Dietary variants – low or non-fat milk, low sugar spreads, sugar free cookies; these are just some of the variants increasingly available in the market to cater to a growing sophistication and increasing health awareness among Filipino consumers.

Niche marketing – Food manufacturers are gradually expanding product lines, including niche products that appeal to a narrow, typically upscale segment of the market. For example, dairy processors have released new products that target specific market segments like a special milk formula that promotes strength in the elderly, calcium deficiency or osteoporosis in women and for lactose intolerant persons. Snack processors have even come up with chicharong baboy (pork cracklings), a popular food identified as a pulutan or food normally consumed accompanying beer or liquor. “Delicatessen” processed meat is being marketed to hotels and upscale establishments.

Competition

Product Category	2002 import statistics	Major Supply Source (\$)	Strengths in Key Supply Countries	Advantages/ Disadvantages of Local Suppliers
Red meat (Beef and pork)	111.8 m kilos \$ 94.8 m(FOB)	India (46%) Australia (22%) USA (1%)	Indian buffalo beef which is priced competitively and used for corned beef.	Shortage of supply. Most are sold fresh to wet markets and supermarkets
Milk and cream in solid form	144.9 m kilos \$ 213.4 m(FOB)	Australia(48%) New Zealand(40%) USA(5%)	Australia and New Zealand are major producers of milk	Domestic production is very minimal to supply industry requirements.
Whey or modified whey	36 m kilos \$ 23 m(FOB)	USA (25%) France (25%) Australia (23%)	USA, while preferred as a suppliers has lost share due to price.	No domestic supply available.
Wheat and wheat flour	2,585 m kilos \$ 420.6m (FOB)	USA (57%) Canada (20%) India (15%)	Quality, consistency and in-country trade servicing which is crucial in maintaining the loyalty of buyers/users.	No domestic production.
Edible Nuts	4 m kilos \$ 2.6 m(FOB)	China (27%) USA (11%) Vietnam (6%)	China mainly supplies groundnuts while the USA other types like almonds, pistachios, macadamia, etc.	No domestic production of a variety of edible nuts used by bakeries, ice cream companies or re-packed under a local brand for the retail sector.
Dried fruits	4 m kilos \$ 2.3 m(FOB)	USA (65%) Iran (17%)	Raisins is the major item brought in under this category both from the USA and Iran.	No domestic production of a variety of dried fruits used by bakeries, ice cream companies or re-packed under a local brand for the retail sector.
Peas/beans	67.5 m kilos \$14.4 m(FOB)	China (31%) USA (24%) Australia (15%)	China and Australia supplies mainly mongo beans and the USA peas for processing or re-packing.	No domestic production.
Tomato paste/puree	20 m kilos \$9.7 m(FOB)	China (46%) USA (27%)	Mainly tomato paste is being	Domestic production cannot keep up with

		Turkey (17%)	imported for processing.	the volume, consistency and quality required by processors.
Extracts, essences, concentrates of coffee	5 m kilos \$10.3m(FOB)	Malaysia(49%) Indonesia(32%) USA(7%)	Proximity to Philippines and pricing compete with other markets.	Domestic production cannot meet demand of the market.
Cocoa beans, powder, paste and butter	22.4 m kilos \$31.7m(FOB)	Indonesia(56%) Malaysia(18%) USA(3%)	Proximity to Philippines and pricing compete with other markets.	Supply cannot meet the increasing consumption.
Spices in bulk	2.7 m kilos \$3.1 m(FOB)	Singapore(23%) China(10%) USA(10%)	Proximity to Philippines and pricing compete with other markets.	Mostly still sold in unpacked or unlabelled formats in open markets.
Sugar derivatives (lactose, fructose, glucose and other sugars)	63.1 m kilos \$21.8m(FOB)	USA (26%) China(16%) Germany(11%)	Technology to obtain the required specifications.	While the country now exports sugar, its does not have the technology to process sugar derivatives required by carbonated or cola companies.
Fresh/Frozen potatoes	37 m kilos \$13.8m(FOB)	USA(36%) Australia(26%) New Zealand(19%)	The USA mainly supplies French fries for the HRI sector.	Local production of potato is mainly supplied to chipping companies.
Potato flour/flakes/powder	2.1 m kilos \$1.6m(FOB)	USA(44%) Netherlands(25%) Germany(19%)	USA is preferred in terms of taste and quality but may loss its lead due to price.	Local production is mainly on potato powder and starch.
Protein concentrates	10.2 m kilos \$10.5m(FOB)	Israel(40%) USA(25%) Malaysia(9%)		
Cheese Flavoring	2.3 m kilos \$5.2m(FOB)	USA(54%) Canada(17%) Australia(13%)	Consistency and quality.	
Vegetables fats and oils and their fractions	59.5 m kilos \$28.8m(FOB)	Malaysia(57%) Singapore(20%) USA(1%)	Proximity to Philippines and pricing compete with other markets.	Local production is mainly on cooking oil and fats from coconut and corn based products.

Source: 2002 Volume and Value of Imports, Philippine National Statistics Office

Best Product Prospects**A. Products Present in the Market That Have Good Sales Potential**

Red meat
Chicken meat
Seafoods (tuna, mackerel, squid)
Milk powder
Fresh potatoes
Potato flakes/powder
Tomato paste/puree
Cheese and barbecue powder
Tree nuts
Dehydrated fruits
Mixed fruits
Baking mixes
Dressings and spreads
Milk replacers
Pre-mixed vitamins

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

Herbs and spices
Mixed vegetables
Protein concentrate
Whey powder
Other powder flavorings (sweet corn, chocolate, etc.)
Fruit flavors
Egg powder

Post Contact and Further Information

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Annual and updated information on the following related industries and commodities as reported by the Foreign Agricultural Service in Manila can also be viewed online at www.fas.usda.gov under FAS Attache Reports:

- a. Dairy and Products
- b. Coffee
- c. Livestock and Products
- d. Sugar
- e. HRI Food Service Sector

- f. Retail Sector
- g. Philippine Exporter Guide

Additional information can also be accessed thru the following cooperators that have either offices in Manila or Asia-based offices that cover the Philippine market:

Lieu Marketing Associates Pte Ltd

(ASEAN Representative of California Pistachio Commission, California Table Grape Commission, California Tree Fruit Agreement, Florida Department of Citrus, Pear Bureau Northwest, Raisin Administrative Committee, United States Potato Board, Wine Institute of California, Western United States Agricultural Trade Association, Mid-America International Agri-Trade Council, Food Export USA-Northeast and the Southern United States Trade Association)

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