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Retail Food Sector

Southeast Asia Retail Food Service Report

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Report Highlights:
The size of the food service industry in South East Asia was conservatively estimated at USD14 billion in 1998. Growth in sales is predicted, by most, to average 15-20 percent over the next three years. Most of the future growth will occur in countries outside of Singapore. However, it appears that Singapore's role in the region will become even more significant, as it will increasingly serve as a venue to showcase and promote new food items for the region and a sourcing and consolidation center. Funding for this research was provided through the Emerging Markets Program.

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Southeast Asia Regional Food Service Report

Regional Trends and Market Summary

Description of Sector

There are a large number of establishments in the food service sector in Southeast Asia. For example, it is estimated that the number of establishments in Thailand exceeds 100,000 and there are more than 80,000 outlets in Malaysia. Nevertheless, it is difficult to obtain accurate statistics on the sector due to the small nature of many of the outlets.

The types of establishments that are included in these figures are:

* The food and beverage outlets of hotels and resorts;

* Full service restaurants which serve both local and international cuisine;

* Fast food outlets, coffee shops, in-home restaurants, food court stalls, street vendors, and hawker food and drinks outlets; and

* Contract and company catering operations for schools, hospitals, airlines, shipping companies, mining camps, factories, military operations, and business and personal social functions.

The majority of these establishments are small, family-owned businesses and fall in the second and third categories (full service restaurants and some form of fast food outlets). A drive down the streets of any of the major cities in most of Southeast Asia will produce sights of many street vendors (hawkers), small family restaurants, and hawker/food centers with numerous vendors.

Government and tourism authorities in most of the countries publish statistics which include the larger food service outlets and those in the major cities. In 1998, these figures indicate that there were at least 3,469 of these establishments in Singapore, 7,443 in the Philippines, 5,451 in Indonesia, and 20,831 in Thailand.

The smaller number of larger players, such as the international hotels and resorts, appear to account for a disproportionate share of the value of total sales. For example, it is estimated in the Philippines that hotels and resorts account for as much as 40% of total food service sales in that country. In Malaysia, the figure for full service restaurants, hotels and resorts, and fast food chains is 55%.

In most countries, the catering sector is the smallest, accounting for only 5% - 10% of sales.

Size of the Market

The size of the food service market in Southeast Asia was conservatively estimated at USD 14.7 billion in 1998. This includes sales of USD 5.4 billion for Thailand, USD 2.2 billion for Indonesia, USD 3.4 billion for Malaysia, USD 1.2 billion for the Philippines, and USD 2.5 billion Singapore[1].

Import Levels

Imports of U.S. consumer-oriented foods and edible seafood products by Southeast Asian buyers were growing rapidly prior to the recent economic crisis. In 1997, U.S. exports of these items to Southeast Asia totalled USD 747 million. The Philippines was the largest market at USD 220 million, followed by Singapore at USD 200 million, Malaysia at USD 123 million, Indonesia at USD 118 million, and Thailand at USD 86 million[2].

U.S. exports of consumer-oriented items and seafood products then dropped to USD 437 million in 1998.

The food service sector was significantly affected by the economic crisis. Indonesia and Malaysia were particularly hard hit, with negative growth for the value of sales in these countries. Consumers ate out less often and businesses reduced spending on social and business functions during the crisis. They became more price conscious. Imported food prices increased due to the sharp devaluation of Regional currencies and some importers stopped importing or reduced their range of items.

The food service sector coped with the crisis in a number of ways. To reduce food costs and/or obtain the supplies that they needed, much of the trade looked for acceptable quality local substitutes for their imported items. Imported foods were also removed from some menus. Finally, the hotels and restaurants began to produce more of their own food items, such as corned beef and mayonnaise.

Many in the trade forecast that it will require 3 - 5 years for the economies and consumption patterns of Southeast Asia to return to pre-crisis levels. Nevertheless, imports have recovered more quickly than initially anticipated. In 1999, imports of U.S. consumer-oriented foods and edible seafoods totalled USD 589 million. This is despite the fact that many currencies in the Region remain weak relative to the U.S. Dollar.

Import Buyers

There are no figures available as to what percentage of imports moves into the food service sector in the Region. In some items, such as red meat, wines, poultry, and french fries, this figure is substantial.

[1] These figures were obtained from the various food service reports published by the U.S. Embassies in Southeast Asia and Hotels and Catering 1998, Singapore Department of Statistics. There are no figures available for Indonesia, thus the number used is 33% of foreign exchange expenditures by tourists to Indonesia. This figure is likely to substantially understate the value of the Indonesian market, which has a population of more than 200 million.

[2] Source : U.S. Bureau of Census Trade Data

A key to the decision to use imported foods in most food service establishments is the international nature of their menu. For example, U.S. franchises, such as Hard Rock Café, Dan Ryan's or TGI Fridays, are major importers of U.S. items.

Also of importance is the extent to which the establishment serves expatriate customers and/or Southeast Asians who have traveled abroad. Thus, 5-star hotels, international resorts, international full service restaurants, Western franchise restaurants and fast food outlets, and international airlines hold the most potential for U.S. exporters. Even within 5-star hotels, their coffee shops are more oriented to using local products due to their high percentage of local customers.

Outlook for Future

In line with the relatively quick recovery of imports, most of the food service trade in Southeast Asia is optimistic concerning future growth prospects. Growth in the value of food service sales in local currency is projected at a minimum of 10% annually for the next three years. Most growth forecasts are in the neighborhood of 15% - 20% annually. A number of new hotels and restaurants are scheduled to open.

This optimism is attributed largely to the expected economic recovery. This will result in greater consumer and business spending. The improved economic climate is also anticipated to be reflected in increased visitor arrivals and convention business. The better tourism prospects will affect airline catering as well as the business of the major hotels, resorts, and international restaurants.

Over the longer-term, the continued improvement in demand drivers for the industry will contribute to strong prospects for the industry. These include further growth in population, tourism, consumer incomes and expenditures on food "outside the home", new investment in the food service sector, and the number of working women. In addition, the demand for convenience will expand as the traffic situation in some Southeast Asian countries continues to worsen.

General Trends

The following are major trends that are developing in most countries in the Region.

* Consumers will be more price, quality, and value conscious.
* Casual dining at cafes, food courts, and restaurants will grow in popularity at the expense of fine dining. This is currently reflected in the rapid expansion of Starbucks and other modern coffee franchises throughout the Region.
  Trendy cafes and American concept dining will become increasingly popular.

* A large range of international cuisines will be widely available, including American, Japanese, Korean, Thai, Vietnamese, Caribbean, Continental, French, Italian, Mediterranean, Swiss, Irish, etc..

* Western-style restaurants will increasingly offer an alternative menu of local cuisine.

* There will also be a blending of food cultures in the Region as consumers become more well-traveled. Fusion food will be served in more outlets.

* The sector will become more sophisticated. Strong marketing programs will be a key to success, including careful targeting of customers, quality food and entertainment, and restaurant ambience. More emphasis will be placed on the presentation of food.

* The demand for convenience will grow and spur innovation in the industry, such as 24-hour operations and kiosks and portable stalls in strategic locations in shopping malls, bus terminals, and other venues. The size of food outlets will shrink and it will become increasingly difficult to compete with outlets that require little food preparation space.

* The lifecycles of restaurant concepts and products are getting shorter.

Role of Singapore

Current Role

Interviews with the food service trade in Singapore suggest that this country plays an important role in the industry in Southeast Asia. Singapore is a small, but dynamic food service market. Many master franchises for the Region are held in Singapore and operations were started here. The country has also traditionally served as a repacking, transshipment, and consolidation center for importers of food service items in the Region.

The food service linkages that Singapore has with the Region are detailed below. For various operators, the country serves as:

* a Regional headquarters, with administrative, marketing, and financial oversight for all or some of the countries in the Region;

* a direct sourcing and distribution center for some food products;

* a provider of recommendations and assistance with product sourcing, but with no actual procurement or logistics involvement;

* a service support center; and

* an organizer of conferences for their outlets in the Region.

Future Role

Most of the future growth in the food service industry in Southeast Asia lies in the countries outside of Singapore. However, it appears that Singapore's role in the Region will become even more significant.

As the number of franchise fast food and restaurant outlets expands in the Region, there will be greater cooperation and the seeking of economic synergies by the master franchisee in the Region. It is likely that marketing, logistics, and procurement support will be provided out of Singapore, especially if the master franchisee is located here.

The country will also become a Regional administrative hub for more international hotel chains. For some hotels, headquarter functions that were previously performed in Tokyo or Hong Kong are being moved to Singapore.

Singapore will increasingly serve as a venue to showcase and promote new food items for the Region and a sourcing and consolidation center.

Opportunities and Challenges

Strengths/Advantages	**Challenges/Weaknesses**
U.S. food products have a good reputation for their taste, quality, and safety.	They face competition from lower-priced local and foreign suppliers, like Australia and New Zealand. The implementation of AFTA is likely to increase inter-regional production and trade.
The English language has a strong presence in Asia and few changes are required in product labels.	There is a need to understand the tastes, style of working, and mentality of Asians. In some cases, products may need to be modified.
The population of Southeast Asia is young and younger Asians are significantly influenced by Western culture. This has extended into food.	The value of the U.S. Dollar remains strong and the food service segment is often more price conscious than the retail or other sectors.
The economies of the Region are beginning to recover and there is an expanding upper and middle class with increasing purchasing power and the desire to eat out.	Order quantities are often smaller than those in the U.S..
Trade barriers and import regulations have eased to allow easier entry into the countries.	Trade barriers are still present and significant in some countries, such as Thailand.

Strengths/Advantages	Challenges/Weaknesses
Southeast Asia has a large population of more than 500 million.	Malaysia and Indonesia are Muslim countries and halal product certification is needed for some products, including meat and poultry.
High tourist density areas, such as Bali and Cebu, significantly increase demand for western type foods.	Inadequate infrastructure and transportation inhibit distribution of chilled and frozen foods to outlying islands.
HRI users are diversifying their menus and there is increasing interest in U.S. food service items.	Some companies are still experiencing financial difficulties.
New shopping malls are opening throughout the countries, encompassing new food outlets.	There are limited numbers of importers adequately servicing the HRI trade and problems are experienced in obtaining consistent quality and supplies of products.

Major Players

Only a small number of players have outlets in all or most of the countries in Southeast Asia.

The large international hotels are the most prominent in this regard. Most of the big international players have a presence in Southeast Asia and many in multiple countries. Among these are the Hilton International, Hyatt, Regent, Ritz Carlton, Westin, J.W. Marriott, Sheraton, and Shangri-La.

Western fast food outlets are also strong throughout the Region. Regionally, the major players are Kentucky Fried Chicken, Pizza Hut, and McDonalds. Other franchises are not Region-wide and/or may have only a limited number of outlets per country, such as Arby's, Kenny Rogers Roasters, A & W, Hokka Bento, Dairy, Queen, Wendy's, Taco Bell, Burger King, and Texas and California Fried Chicken.

Western coffee franchises are beginning to take the Region by storm. Starbucks is the leader, with outlets in most countries and rapid expansion. Others, such as Spinelli's and Seattle's Best, are just getting started.

Most Western and local full service restaurants have a presence in one or two markets only. Their numbers of outlets within markets are also limited. The exception is the Hard Rock Café, which is located in all markets. Other Western full service franchises include Swensen's, TGI Fridays, Chili's, Planet Hollywood, Sizzler, Dan Ryans, California Pizza Kitchen, Lawry's, and Morton's of Chicago.

Distribution System

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-----------------------------------------------U.S. Exporter
|                |                                  |
|                |                                  |
|                |        ---------Importer/Distributor -------------------------------
|                |        |            |            |              |                  |
|                |        |            |            |              |                  |
|      Central Purchasing Unit         |            |              |                  |
|        |                             |            |              |                  |
|        |                             |            |              |                  |
----------------Cash and Carry/Supermarkets         |         Wholesaler       Wet Markets
         |                                          |
         |                                          |
    -------------------------------------------------------------------------
    |    |               |                          |                    |
  Fast Food          Restaurants                  Hotels              Caterers
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The distribution system for most imported products is relatively short. Products move from the U.S. exporter to an importer/distributor in the Southeast Asian country who delivers the items directly to the HRI user. Wholesalers may be used, especially in cases where HRI users are small or located in cities outside of the capital city.

A small number of HRI users import items directly from the U.S. exporter. This is primarily the case of buyers who purchase significant quantities of items to use container loads themselves or require unique products. For example, a number of Western franchise restaurants or fast food outlets will import direct in order to get products from the U.S. with the specifications that they need. In these situations, a consolidator in the U.S., a local centralized purchasing department or company, and/or a local freight forwarder or other intermediary may be involved in the distribution system.

Although some international hotels have a strong Regional presence, their food and beverage operations in different countries often buy and operate independently in terms of menu planning.

Supermarkets, hypermarkets, cash and carry wholesalers (such as Makro, Booker, and Ultra Mega-M), and wet markets are more important in the distribution system in the HRI trade in Southeast Asia than in the United States. This is especially true for smaller users. HRI buyers will purchase canned and other items from these outlets that they are unable to obtain easily or as inexpensively through existing import channels. Wet markets are a common source of fresh produce.

Changes in Distribution

In general, few changes are anticipated to the distribution system for imported products in the next five years. There will be some HRI users who expand to the point where they are able to import direct, but the importer/distributor system is likely to remain dominant. International trade via the internet is also expected to be introduced, but the extent and nature of this trade is uncertain at this point.

Cash and carry wholesalers will play a more important role in the distribution network. These outlets currently sell to hotels, restaurants, caterers, and institutions. They do not offer credit, thus are not popular with some of the larger, upscale HRI users. However, they are expanding their range of items for the HRI trade and may offer improved marketing and delivery of these items in the foreseeable future.

Most of the U.S. food products that move into the food service trade in Southeast Asia are purchased in container loads from American manufacturers. At the present time, there are relatively few U.S. food service wholesalers or consolidators who are involved in exporting to this sector. There is some consolidation of shipments for Western franchise restaurants. In addition, some U.S. consolidators who service primarily retail customers also move items to cash and carry wholesalers through direct shipments or their existing agents and distributors. There is a growing demand for U.S. consolidators who can supply items in food service-size packaging.

Entry Strategy

A U.S. exporter that is interested in selling to the HRI trade should appoint a reputable importer/distributor in each market. Distributors with strong experience in and relationships with the food service trade should be selected. In the case of some franchises, suppliers and distributors need to be approved by the head office. An importer/distributor will be in a position to ensure the widest distribution for your items.

Three to 5-star hotels, resorts, international restaurants, Western franchise restaurants and fast food outlets, and international airline catering services should be targeted in your market entry efforts. Outlets that are located in the capital cities and major tourist destinations, such as Bali, Langkawi, Penang, Phuket, and Cebu, have the best potential for sales. Among these, the leaders and innovators in the trade should be identified. When "trendsetter" hotels bring in a product that people like, all other hotels will follow suit.

Your initial sales efforts should include personal visits to potential HRI users. This can be accomplished in conjunction with your agent. It is important to understand the needs and product specifications of potential users and different segments. It is also critical to provide information on your items to and obtain feedback from chefs and food and beverage personnel.

Other recommendations for market entry are as follows.

- Price your products competitively. Think long-term and achieve turnover, rather than volume.

- Take part in trade exhibitions, such as Food and Hotel Asia, Food and Hotel Malaysia, Food and Hotel Indonesia, Food and Hotel Philippines, and Food and Hotel Hospitality Thailand.

* Educate your distributor and the HRI trade on the use, pricing, handling, and preparation of your products.

* Work with the trade in Singapore to gain acceptance of your items there. Meet with Regional international hotel and/or restaurant personnel. Container loads of items can then be sent to Singapore, with smaller shipments re-distributed to the Region.

* Obtain Halal certification of your products if appropriate.

* Familiarize yourself with local tastes and work closely with food and beverage personnel and chefs to modify your products if required.

* Conduct seasonal promotions with hotels and restaurants, particularly during Hari Raya, Chinese New Year and Christmas. Other opportune periods for promotion are times of the year when tourists visit, e.g, during mid-year with visitors from Europe and America and over the year-end with visitors from Australia and New Zealand.

* Explore opportunities to promote your products at events involving or in conjunction with local chefs associations.

Consumer Profile[3]

Importance of Tourism

The tourism industry in Southeast Asia is an important sector of the economy. In 1999, the number of visitors to Singapore totalled 6.6 million, while the same figure for Malaysia exceeded 6.5 million. Tourist arrivals for Indonesia and the Philippines were 5 million and almost 2.5 million, respectively, in 1997.

Consumer Spending

Prior to the recent crisis, consumer spending on food outside the home was expanding in most countries. Relative to other countries, Singapore consumers appear to spend the greatest percentage of their average monthly household income on food away from home. In 1993 (the latest year for which data is available), this figure was 13.2%[4]. In contrast, Malaysian households spent 11% of their average monthly household income on food outside the home in 1999. This was up from 7% in 1993. Comparable figures for the Philippines were 4.2% in 1994 and 4.7% in 1997.

[3] Much of the material for this section of the report was obtained from : Malaysian HRI Food Service Sector Study, U.S. Embassy, Kuala Lumpur, Malaysia.

[4] Source : Report on the Household Expenditure Survey 1992/93, Department of Statistics, Singapore.

The low percentage of expenditures on food outside the home in various countries is constrained by low per capita incomes, a relatively high percentage of women who do not work outside the home, and the ready availability and inexpensive cost of household help. Nevertheless, more women are working and eating out has become a viable and affordable alternative for many families.

Small Local Food Outlets

Middle and low income earners tend to frequent food courts, hawker stalls and centers, and coffee shops. These outlets generally offer a limited range of local dishes at inexpensive prices. Breakfast and/or lunch may be purchased from these outlets during the work week. Dishes, such as noodles or rice, are often consumed in temporary hawker stalls by the roadside. These are located near offices and operate with limited hours.

Canteens, cafeterias, and/or hawker centers in office and school locations also offer budget level hot meals suited to local tastes. These facilities are frequented by school children and office workers.

Fast Food Restaurants

A large number of fast food restaurant consumers are also from the middle and lower income groups. Fast food outlets tend to attract young adults and children and family groups during the weekend. Office workers who want a quick meal also frequent fast food outlets. Menus tend to be fairly standard across the Region and include dishes and condiments which appeal to local tastes. For example, fried chicken, rice and chili sauce can often be obtained at McDonald's.

Restaurants

Upper middle to higher income earners are the main customers of Western and local restaurants. These families tend to dine out once a week in full service restaurants which offer higher-priced menus and better quality food. This segment of the market also frequently patronizes food courts and casual dining cafes.

It is common for Southeast Asians from the middle to higher income groups to entertain their business and personal guests at middle to high end restaurants. This is due to convenience as well as the social status it implies. In addition, larger and more successful businesses usually hold an elaborate annual dinner and dance for their staff, usually at middle to high end hotel or resort restaurants. Wedding dinners are also a frequent occasion at these establishments.

Fine Dining

Fine dining establishments attract less price sensitive consumers, such as high income local customers, businessmen, tourists, and expatriates. The menus of these establishments tend to be limited and expensive, but encompass top quality items. Food presentation is stressed. Such restaurants are usually located in 5-star hotels or are independent free-standing restaurants.

Best U.S. Sales Prospects

Asians are very receptive to American products and view them with high regard for their quality, taste, and safety. There is a wide range of American products currently moving into the food service trade in Southeast Asia. For example, one cash and carry wholesaler stocks more than 175 stock keeping units for the HRI trade.

Among the more common U.S. items which are purchased by the trade are canned fruits and vegetables, beef, poultry, fresh fruit, dried fruit, liquor and wines, potatoes for baking, french fries, condiments and sauces, and spices and seasonings.

The following types of American products have good sales prospects. For Southeast Asian countries with a high percentage of Muslims in their populations (Malaysia and Indonesia), product popularity may vary due to halal restrictions and requirements.

* Fresh seafood, such as shrimp, crab, salmon, and lobster. Seafood is a popular food item among Asians, especially since a wide range of local, traditional dishes use seafood as an ingredient.

* Meat and chicken. Eating meat is a sign of wealth and U.S. beef is likely to be ordered at high-end restaurants. Consumers of all religions are able to consume poultry.
  Delis are growing in popularity and there is an expanding demand for deli meats.

* Snack foods and frozen appetizers. Asians love to snack and french fries, chicken nuggets, and potato chips are popular snack food items. A number of hotels are looking for new snacks for their minibars and pubs.

* Ready-to-cook items. Subsequent to the economic crisis, the demand for ready-to-cook items, such as pre-blanched and pre-cut products, is beginning to re-surface. This demand is especially strong in Singapore where there is a short supply of labor and need for high and consistent quality products. Among the products with potential are frozen fruit, frozen vegetables, pre-sliced meats, and frozen appetizers.

* Bakery ingredients. Most Asians have a sweet tooth and enjoy Western desserts and pastries. High teas in hotels and restaurants are common. There are growing requests for bakery products and ingredients, including dried fruits, pre-packaged frozen desserts, flour, and instant mixes for cakes, muffins, chocolate brownies, and waffles.

* Gourmet foods, such as wines, cheese, and other gourmet items.

* Healthier foods and lighter meals. HRI outlets will feature healthier foods on their menus, including more vegetarian dishes. They will also use more low-fat and low-sugar items in cooking, such as low-fat oils, salad dressings, and mayonnaise.

* Other food and beverage items, including breakfast cereals, fruit juices, sauces and seasonings, condiments, fresh fruits and vegetables, canned fruits and vegetables, and soft drinks and liquor.

Sources of Information

Much of the information in this report was drawn from the reports listed under the "U.S. Embassy" below.

U.S. Embassy Publications

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Indonesia HRI Food Service Sector Report, 2000, U.S. Embassy, Jakarta, Indonesia, May 2000.

Hotel and Restaurant Industry: Bali, U.S. Embassy, Jakarta, Indonesia, December 16, 1999.

Malaysia HRI Food Service Sector Report, U.S. Embassy, Malaysia, February 17, 2000.

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Singapore Consumer Oriented Food Products Linkages, U.S. Agricultural Trade Office, U.S. Embassy, Singapore, May 27, 2000.

Other Publications

Possibilities for Sales of U.S. Products to the Singapore Food Service Market, Prepared for the Oregon Department of Agriculture, D. Richmond & Associates, October 1999.

Hotels and Catering 1998, Singapore Department of Statistics, March 2000.

Report On The Household Expenditures Survey 1992/93, Department of Statistics, Singapore.

General Publications

Food Chain Asia - This magazine is published monthly in Singapore. It is a leading source of developments in the food distribution system in Southeast Asia. Tel: 65-323-3020,
Fax: 65-323-3008, email: fcapub@singnet.com.sg

The New Asia Cuisine and Wine Scene - This magazine is published bi-monthly in Singapore. It is a leading source of developments in the HRI trade in Southeast Asia. Published by Peter Knipp Holdings Pte Ltd, Singapore. Tel: 65-273-7707, Fax: 65-270-1763, email: heritage@singnet.com.sg

Hospitality Asia - This is a bi-monthly publication that contains information on the Food and Hospitality Trade in Southeast Asia. It is published in Kuala Lumpur. World Asia Media Holdings (M) Sdn Bhd., Kuala Lumpur, Malaysia. Tel: 603-718-0700, Fax: 603-719-1700, email: wam@wamhldgs.com

Websites

http://www.asiacuisine.com - provides information on the Food and Hospitality industry in Asia, including subscription information for Ezine, an email update of events in the industry.

http://www.accessasia.com - provides a collection of web links by country and category.

http://www.asean.or.id - contains economic and social indicators for each member country. Section of ASEAN calendar of activities and a list of ASEAN publications.

http://www.tdb.gov.sg - The Singapore Trade Development Board (TDB) globalink home page. Provide links Singapore and international business.

http://wwwasianet.com - Contains comprehensive links with various countries in Asia. Each country has directories of four major categories: business, government, education, arts, and culture.

http://www.asia1.com - An Asia newstand and business center managed by Singapore Press Holdings, a leading publishing and printing group in Southeast Asia.