



By Ben Simpfordorfer

## The world's processed food bowl

The maturing of Asia's food processing industry is one of the region's most overlooked developments. Not only are foreign brand owners and modern trade retailers increasingly turning to the region's low-cost contract manufacturers, but Asia's own growing appetite for premium products is fuelling the rise of local champions with Thailand's Betagro, a major pork and poultry producer, just one of many such examples.

Walk along the chilled meat aisle in Wellcome, a Hong Kong supermarket chain, and Betagro's pork products stand out. The company is one of Thailand's largest poultry and pork producers exporting \$280 million annually with the largest share shipped to Europe and Japan where buyers are attracted not just by the product's price, but also its quality.

Indeed, it's the latter that makes Betagro's pork products stand out from its competitors in Hong Kong. Each package has a QR code that allows customers to trace the product's origins right back to the farm-gate, a major attraction in a market where food safety concerns are an increasingly big driver of consumer preferences, local and foreign.

I was reminded of that point earlier this year when we ran several consumer focus groups in Hong Kong, asking participants about their meal habits: the local participants, all native Cantonese and largely middle-class, overwhelmingly refused to buy any product imported from mainland China, especially meat products, and especially when buying products to feed their children.

And that's the type of consumer that Betagro is aiming for, trading on consumer fears and potentially squeezing out Australian and Brazilian products that don't offer the same 'full traceability'.

Betagro is also just one of Thailand's many food processing companies. Indeed, for all the attention paid to the country's automobile and electronics exports, Thailand is also a huge exporter of processed food, accounting for 4.2 percent of U.S. imports. Moreover,

### Figure 1: Betagro's Hong Kong success

Betagro's pork products are widely available across one of Hong Kong's leading supermarket chains. The products stand out as they are both halal-certified and offer full-traceability through a QR bar code.



Source: SRA

the U.S. accounts for just 14 percent of Thailand's total shipments with sales in Japan, the U.K., and Australia also significant.

Exports will only rise as Thailand's modern retail trade industry has helped develop the type of traceability, certification, and packaging services that buyers in developed countries want. And while pineapple and seafood currently account for a large share of processed products, snacks, beverages, and ready-to-eat meals are also growing fast, all signs of a maturing industry.

Thailand isn't alone either. Vietnam, for instance, has a similarly diverse climate and abundance of agricultural produce, although the country's food processing and modern retail trade industries are still maturing. Malaysia also offers niche opportunities, especially in the snack food and confectionery industry where the country's exports to markets in China and Australia, among others, are already significant and rising.

However, it is China that accounts for the largest share of United States imports at some 5.9% of the total. To be fair, part of that is multinationals exporting produce to China for processing and re-export. But much of what is eaten in the developed world has a "Made-in-China" ingredient, whether it's the garlic paste on a pizza sold in the United Kingdom or the diced vegetables contained in a soup sold in the United States.

Still, China's agricultural sector faces unusual constraints: for a start, only 12% of the country's land mass is arable—against 18% for the United States—of which 19% is polluted according to government figures; the northern regions also suffer water shortages that are comparable to a number of Middle East countries when measured on a per capita basis. By these measures, Thailand appears a land of plenty.

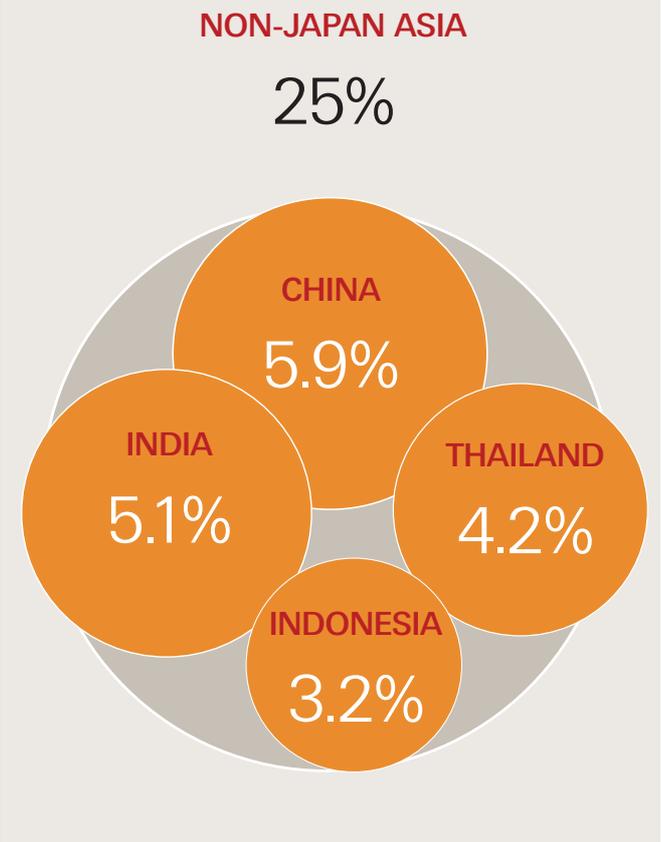
It's no surprise then that modern trade retailers in developed markets are increasingly using contract food manufacturers in Thailand and other Southeast Asian countries to produce low-cost 'home brands'.

It's a growing challenge for smaller foreign brands in developed markets that aren't ranked among the best-selling brands in their home countries and yet are simultaneously squeezed by retailers wanting to sell low-cost home-brand alternatives. Some are considering their options in Southeast Asia in order to cut production costs. Others are even looking to sell locally as the region's appetite for premium products grows.

Tapping Asian demand is a sensible strategy. But the competition is also intensifying as leading Asian food processors, such as Betagro, look to develop their own brands in the region. Some of the region's most popular brands have been around for decades. Hong Kong's Lee

**Figure 2: U.S. processed food imports**

The U.S. imports 25% of its processed food from Asia with China accounting for around 6%, albeit much of that is processing U.S. product for re-export to the U.S.



Source: US Foreign Agricultural Service

Kum Kee sauces are a good example. But Betagro offers a neat illustration of the potential for new entrants as consumer preferences mature, and delaying a market entry will just add to the challenges. ■



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