

# Southeast Asia's Food Service Market Abounds in Opportunities for U.S. Exporters

**A**s it continues to rebound from the financial crisis that began rocking economies around the world in 1997, Southeast Asia could once again mean good business for U.S. exporters of consumer foods and other agricultural products.

Southeast Asia's imports of U.S. consumer-oriented foods and edible seafood products were growing rapidly before the crisis. In fiscal 1997, the top five markets—Indonesia, Malaysia, the Philippines, Singapore and Thailand—bought nearly \$762 million worth of such products from the United States. But by fiscal 1998, the figure had dropped to \$502 million.

The crisis had a big impact on Southeast Asia's food service sector. Consumers ate out less often, and businesses cut spending on entertaining clients and employees.

Consumers and businesses also became more price-conscious. Lower demand, coupled with sharp devaluations of currencies that effectively raised the prices of many imports, prompted some importers to curtail or suspend purchasing overseas. The strong dollar made U.S. products particularly expensive.

The food service sector coped with the crisis in a number of ways. Much of the trade sought to replace imports with local substitutes of acceptable quality but lower cost. Imported foods disappeared from some menus. Hotels and restaurants began to produce more of their own food items from intermediate ingredients.

There are persuasive signs of recovery. In 1998, the size of the food service market in Southeast Asia was conservatively estimated at \$14.7 billion. And U.S. shipments have recovered more quickly than initially anticipated. In fiscal 2000, the top five country markets imported \$638 million worth of U.S. consumer-oriented products and edible seafood—a particularly auspicious sign, given the fact that many currencies in the region remain weak relative to the strong U.S. dollar. On the other hand, knowledgeable market observers forecast that it could take another 3 to 5 years for the economies and consumption patterns of Southeast Asia to return to pre-crisis levels.

A key to the decision to use imported foods in most food service establishments is the international nature of their menus.



## MARKET OBSERVERS EXPECT SOUTHEAST ASIA'S FOOD SERVICE INDUSTRY TO GROW BY 15-20 PERCENT A YEAR IN THE NEXT FEW YEARS.

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 how much of an establishment's clientele is made up of expatriate customers and/or Southeast Asians who have traveled abroad. International resorts and full service restaurants, Western franchise restaurants and fast food outlets, international airlines and five-star hotels hold the most potential for U.S. exporters. The food and beverage outlets of international hotels often operate independently from the rest of the company. Even within five-star hotels, coffee shops are more oriented to using local products, since a high percentage of customers are local.

### Who Eats Where?

Middle- and low-income earners tend to frequent food courts, hawker stalls and centers (local, open-air restaurants), and coffee shops. These outlets generally offer a limited range of inexpensive local dishes.

Breakfast and/or lunch may be purchased from these outlets during the work week. Canteens, cafeterias and/or hawker centers in office and school locations offer budget-level hot meals suited to local tastes. Temporary hawker stalls, located along the roadsides near offices and operating with limited hours, offer noodle or rice dishes.

Middle- and lower income groups also frequent fast food restaurants. These outlets attract young adults, children, families and office workers who want a quick meal. Menus tend to be fairly standard across the region, while also incorporating dishes and condiments which appeal to local tastes. For example, McDonald's outlets often create special dishes such as the *rendang* burger (in Malaysia) or *kiasu* burger (Singapore) with chili sauce or a pineapple ring on top.

Upper-middle- to higher income earners are the main customers of Western and



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local full-service restaurants, which offer higher priced menus and better quality food. This segment of the market also frequently patronizes food courts and casual cafés.

Middle- to higher income groups often entertain business and personal guests in moderately expensive to high-end restaurants, for the convenience they offer and the social status they convey. In addition, larger and more successful businesses usually hold an elaborate annual dinner and dance for their staffs, usually at moderate to high-end hotel or resort restaurants. Wedding dinners are also frequently held at these establishments.

Fine dining establishments attract less price-sensitive consumers: high-income local customers, business persons, tourists and expatriates. These establishments' menus tend to be limited and expensive, but encompass top-quality items. Food presentation is stressed. Such restaurants are usually located in five-star hotels or are in-



dependent enterprises in free-standing buildings.

**Factors Fueling Future Growth**

Growth in the value of food service sales in local currency is projected at a minimum of 10 percent annually for the next 3 years. In fact, most growth forecasts are considerably higher—in the neighborhood of 15-20 percent annually.

This optimism is based largely on the expectation that the economic recovery will continue, prompting greater consumer and business spending. A number of new hotels and restaurants are scheduled to open. Demand for convenience will accelerate as traffic in some Southeast Asian countries continues to worsen.

Over the longer term, the basic socio-economic trends characteristic of many developing countries will continue to boost

demand for items to supply the region's food service industry. These factors include population growth, tourism, rising consumer incomes and expenditures on food outside the home, new investment in the food service sector and more women in the workforce.

The following trends will continue to shape the region's food service industry:

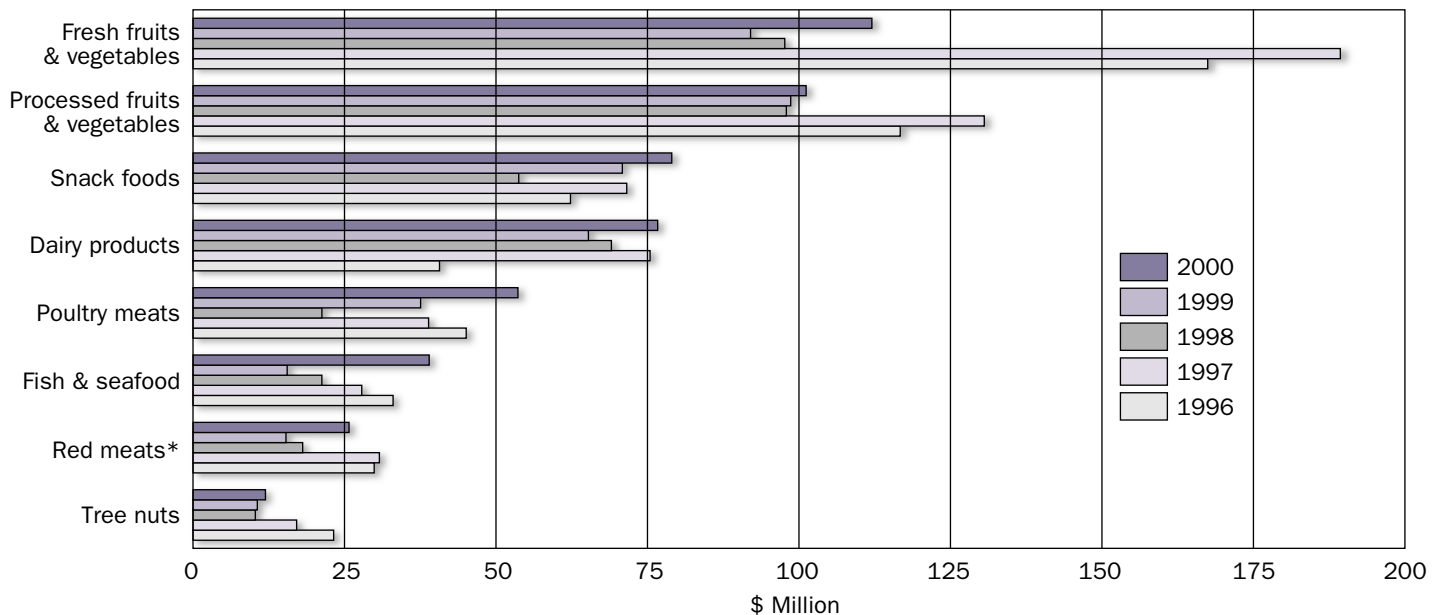
- Consumers will be increasingly conscious of—and sensitive to—price, quality and value.
- Casual dining at cafés, food courts and restaurants will gain in popularity, at the expense of fine dining. The rapid expansion of modern coffee franchises throughout the region exemplifies this trend.
- Trendy cafés and American-concept dining will become increasingly popular.
- A large range of international cuisines

will be widely available, such as American, Japanese, Korean, Thai, Vietnamese, Caribbean, Continental, French, Italian, Mediterranean, Swiss and Irish.

- Western-style restaurants will offer more local cuisines.
- Blending of food cultures, producing fusion foods, will become increasingly popular as consumers travel more.
- The sector will become more sophisticated. Strong marketing programs—those that rely on careful targeting of customers, quality food and presentation, entertainment and ambience—will prove essential to success. The life cycles of restaurant concepts and products will shorten.
- The growing demand for convenience will spur innovations like 24-hour operations and kiosks, and portable stalls in strategic locations, such as shopping malls,

**Southeast Asian Product Markets Continue Recovery**

Although sales of some top U.S. earners remained well below pre-crisis levels last year, they showed sizeable gains over fiscal 1999.



\*Fresh, chilled and frozen.

## GROWTH IN FOOD SERVICE SALES IS PROJECTED TO BE AT LEAST 10 PERCENT A YEAR FOR THE NEXT 3 YEARS.

airports and bus terminals. The size of food outlets will shrink as their numbers proliferate.

### So Far, a Few Major Players

Only a small number of players have outlets in all or most of the countries in Southeast Asia. Large international hotel chains, such as Hilton International, Hyatt, Regent, Ritz Carlton, Westin, J.W. Marriott, Sheraton and Shangri-La, have established truly regional presences.

Western fast food companies with many outlets are KFC, Pizza Hut and McDonald's. Franchises with a more limited presence include Arby's, Kenny Rogers Roasters, A & W, Hokka Bento, Dairy Queen, Taco Bell, Texas and California Fried Chicken, Burger King and Wendy's.

Western coffee franchises are taking the region by storm. Starbuck's is the leader,

with rapid expansion and outlets in most countries. Others, such as Spinelli's and Seattle's Best, are just getting started. The proliferation of the coffee craze has also encouraged similar spin-offs of localized chains such as San Francisco's Coffee in Malaysia.

Most Western and local full-service restaurants have a limited number of outlets present in just one or two markets, such as Swensen's, TGI Fridays, Chili's, Planet Hollywood, Dome, Sizzler, Dan Ryan's, California Pizza Kitchen, Lawry's and Morton's of Chicago. The exception to this rule is the Hard Rock Café, which is located in all markets.

Supermarkets, hypermarkets, cash-and-carry wholesalers (such as Makro, Booker and Ultra Mega-M) and traditional street markets (or wet markets) play a far more important role in the Southeast Asian dis-

tribution system than in the United States. Smaller buyers turn to these outlets for items that they can't obtain as easily or inexpensively through more traditional channels. Wet markets, for example, are a common source of fresh produce.

### Entry Strategy—Or, Gaining Entré

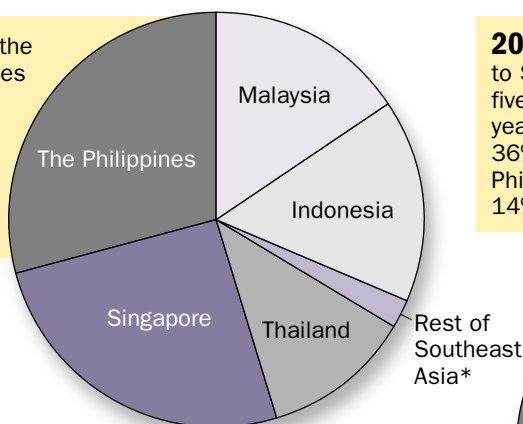
U.S. exporters interested in Southeast Asia's food service trade should appoint a reputable importer/distributor in each of the top five markets. Select those that have substantial experience in and relationships with the food service trade and can therefore secure the widest distribution for your items. In some franchises, suppliers and distributors must be approved by the head office.

Focus market-entry efforts on three-to five-star hotels, international restaurants, airline catering services, resorts, and West-

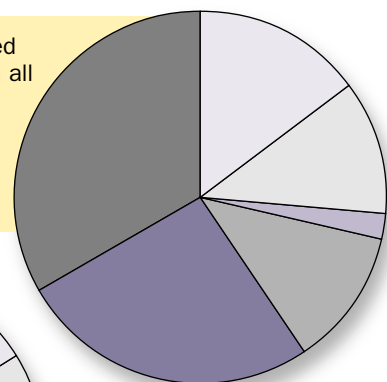
### Southeast Asian Country Markets Also Show Encouraging Growth

Three Southeast Asian countries—Malaysia, the Philippines and Singapore—routinely rank among the top 25 markets for U.S. consumer-oriented products. In fiscal 2000, the Philippines, Singapore and Thailand were top markets for U.S. seafood.

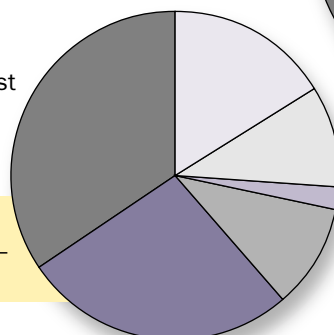
**1997:** Just before the crisis took hold, sales of U.S. consumer-oriented products and seafood to the top five country markets soared to \$762 million.



**2000:** U.S. exports rebounded to \$638 million. Sales rose in all five country markets from the year before: in Indonesia by 36%; Thailand, 34%; the Philippines and Singapore, 14% each; and Malaysia, 8%.



**1999:** U.S. sales in these categories to the top five markets reached \$544 million—good news in the wake of the crisis.



\*The so far comparatively minor markets of Brunei, Burma, Cambodia, Laos and Vietnam.

ern franchise restaurants and fast food outlets. Outlets located in capital cities and major tourist destinations—such as Bali, Penang, Phuket and Cebu—offer the best sales potential, especially those with a track record in trade leadership and innovation. When “trendsetter” hotels bring in a product that people like, other hotels tend to follow suit.

Make personal visits to prospective customers in conjunction with your agent(s). Such visits will help you understand, and meet, their needs and specifications. Here are some other valuable recommendations for making your market entry successful:

- Price your products competitively. Think long-term and concentrate on achieving quick product turnover, rather than large sales volume.
- Take part in trade shows, such as Food and Hotel Asia, Food and Hotel Indonesia, Food and Hotel Malaysia, Food and Hotel Philippines and Food and Hotel Hospitality Thailand.
- Educate your distributor(s) and the trade on the use, price, handling and preparation of your products.
- Obtain Halal certification for your products in markets with large Muslim populations, such as Malaysia and Indonesia. These countries are bound by Halal restrictions.
- Familiarize yourself with local tastes and work closely with food and beverage personnel and chefs to modify your products if necessary.
- Conduct seasonal promotions with hotels and restaurants, particularly during Hari Raya (the Muslim religious holiday at the end of Ramadan), the Chinese New Year and Christmas. Other opportune periods are times when tourism runs high, such as the mid-year with its major influx of visitors from Europe



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and America, and the year-end, with visitors from Australia and New Zealand.

- Explore opportunities to promote your products at events involving local chefs' associations.

### Best U.S. Sales Prospects

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

The following U.S. products have good sales prospects.

- **Fresh seafood:** Shrimp, crab, salmon and lobster are popular with Asians, especially since a wide range of local, traditional dishes use seafood as an ingredient.
- **Meat and chicken:** Eating meat is a sign of affluence, and U.S. beef is likely to be ordered at high-end restaurants. Consumers of all religions are permitted to consume poultry. Delis are becoming more popular, and so are deli meats. However, consumer education and retail training are still needed to increase deli sales.

- **Snack foods and frozen appetizers:** Asians love to snack, and french fries, chicken nuggets and potato chips are popular snack foods. A number of hotels are looking for new snacks for their mini-bars and pubs.
- **Ready-to-cook items:** Demand for ready-to-cook items, such as pre-blanching and pre-cut products, is re-surfacing, especially in Singapore, which has a short labor supply and a steady need for products of consistently high quality. Frozen fruits and vegetables, pre-sliced meats and frozen appetizers have the greatest potential.
- **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, brownies, muffins and waffles.
- **Gourmet foods:** Demand for wines, cheeses and other gourmet items is growing.
- **Healthier foods and lighter meals:** 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 items:** This category includes breakfast cereals, fruit juices, sauces and seasonings, condiments, fresh fruits and vegetables, canned fruits and vegetables, soft drinks and liquor. ■

*This story is based on reports and information from FAS offices in Kuala Lumpur, Malaysia and Singapore.*