

Is The Asian Market For You?

Joint-venture investment plus corporate strategies which straddle both the advanced high income markets and the more traditional low income markets will be essential elements of business for any western company looking to cash-in on the rapidly expanding Asian food market.



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Asian markets seem set to grow but accessing those opportunities will present corporate challenges of some magnitude. The main parameters of the Asian market challenge can be summarised as follows:

"Stand alone" export strategies will be difficult to sustain because of high tariff and related protectionist policies in Asia which seem unlikely to change in spite of the World Trade Organisation.

Joint-venture investment in Asian markets will be essential for most western firms wishing to participate in Asian market growth.

Corporate strategies which straddle both the advanced high income markets and the more traditional low income markets in Asia will be essential elements of success.

Corporate willingness to commit significant resources to market research and development; an ability to commit for the long-haul with low levels of profitability in the early years and careful attention to supply chain management will be necessary for commercial success in Asia.

The interplay of high economic growth, rising incomes and rapid population growth is fuelling a strong growth in demand for food in Asia.

The elasticities of demand for food in developed countries are difficult to quantify both broadly in terms

of price and income effects, and in specific product segments. At best it seems that elasticities can be high at low levels of income and low at higher levels of income. In regard to indigenous Asian food little appears to be known about these crucial elasticities of demand either from the point of view of price or income effects. At the more practical level a useful analytical basis for considering corporate strategies in processed food is provided by examination of "trigger points" for food demand by product category.

As an example here, the demand for any loose unbranded cereals moves towards basic packaged foods, when the average GDP/person reaches about \$750, this latter figure can be described as a "trigger point". In 1992, only Singapore, Taiwan and South Korea recorded GDP's in excess of \$5000/person.

This analysis, which endeavours to simplify the analysis of income elasticities of demand in Asia into "trigger points", seems to be the main corporate planning aid presently in use. While it does not address the crucial question of the split between Asian and Western food types, it does provide some useful insights, however, into when the consumption might shift from the more traditional staples (rice, cassava, etc) to alternative staples (meats, wheat, fish, dairy products etc). This type of analysis suggests that egg demand in Asia should be strong during the 1990's.

Food self-sufficiency in Asia is no longer a static concept. As incomes rise, taste become more internationalised and consumer needs become more sophisticated. Satisfying those demands through self-sufficiency adjusts accordingly. In other words, the increasing integration of Asian economies with advanced world economic development does not imply that Asia as a whole will become less self-sufficient in food. Indeed the opposite appears to be both the explicit aim of official economic planning, and the commercially reality. Reinforcing this understandable ambition of Asian governments to see food self-sufficiency as a dynamic rather than a static concept (and as a consequence to capture the maximum value-added for themselves) is the companion goal in official economic planning in Asia to encourage decentralisation of the population and arrest the trend of urbanisation. Agribusiness provides a solution to that problem also.

Corporate And Investment Power

The 1980's has seen the rise of strong Asian agri-food conglomerates with the financial fire-power to rival many of the world's largest agribusiness corporations. For example, in the Fortune 500 list of the top 50 world food

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companies Japan has 9 companies while major Asian conglomerates such as China's State Owned Enterprises (SOE's) and other Asian firms such as CP (Thailand), Salim Group (Indonesia), President Group (Taiwan), San Miguel (Philippines), Fraser and Neave (Singapore), etc have gross sales which rank them alongside the world majors.

Corporate Characteristics In Asia

Asian agri-food companies can be distinguished from the Western majors in two important respects. Firstly they are usually conglomerates — that is they embrace many forms of core business ranging from food production, retailing, manufacture, trading, real estate and banking. Secondly, they are largely family owned with strong ethnic and political connections and are rarely publicly listed. Asian food companies do not have single purpose "core business" strategies common to Western firms nor are they subject to the short-term profit imperatives of their publicly listed Western counterparts.

Asian agri-food conglomerates have developed strongly over the last 30 years flourishing under highly protectionist government policies. Western firms cannot access Asian markets by the classic Western strategies of acquisition and take-over. Western firms must joint-venture and embark on "green field" development in Asia with all of the commercial disadvantages of long pay back periods and high risk which such strategies entail. Asian nations adopt a government/business corporatist model in addressing industry development. They are very conscious of their commercial bargaining power and deploy it to advantage.

The rise in corporate power of the Asian conglomerates and also the ease with which they approach diversified investment has also led them to be very active in foreign investment particularly within Asia. Japanese investment within Asia has been particularly evident over the last decade much of which is designed to secure food supplies for the Japanese market in the light of economic restructuring underway in that country driven by the appreciation of the yen. More recently, however, the activity of other Asian firms in foreign investment has been aggressive and highly competitive with the more traditional sources of international capital from the West. Many of the large Asian food conglomerates, for example, CP (Thailand), President Foods (Taiwan), San Miguel (Philippines) and Fraser & Neave (Singapore), are now prominent intra-Asian investors.

Vertical-integration into retailing is perhaps the most distinguished operational feature of Asian conglomerates. Whereas Western food majors refrain from integration into retailing many of their Asian counterparts do not. Asian agri-food firms traverse the entire value chain (with the exception of distribution which is already cost-efficient in Asian terms). This strategy allows Asian agri-food firms to manipulate margins at the retail level and also to exercise strong control over the profit margins of Western exporters and potential joint ventures.

Dualism In Markets And Distribution

Another distinguished feature of Asian markets is their character of "dualism". Developing countries are characterised by dualism in their economic and business systems. That is, side-by-side with modern and state-of-the-

art Western style institutions and business practices there exists traditional and less developed institutions and systems which have changed little over the centuries and, which in turn, are deeply rooted in local custom and culture. Nowhere is this "dualism" more apparent in Asia than in production, retailing and distribution of food and agricultural products.

The rise in Asia of supermarkets of the Western style is a comparatively new phenomenon and although modern supermarkets have received considerable publicity their share of total retailing is less than 5% in some Asian countries ranging to no more than 30% in the unique city states of Singapore and Hong Kong. Even the most modern supermarket which approximate the Western style do not provide parking facilities and their customer service, particularly in the fresh end of the market, is inferior to the Western model and, of course, shopping patterns are consequently different from those in the West.

Out-ranking the supermarkets as a final point of sale to the consumer are vast layers of smaller outlets - namely convenience stores local shops with numerous variations which serve neighbourhoods and the vast and pervasive system of traditional (or "wet") markets. The importance of traditional markets is profound. Traditional markets dominate the "fresh" market - particularly for vegetables, fruits and meats - and, in turn, distribution systems and supply chains are driven by the huge traditional market system.

Surprisingly also even modern supermarkets rely heavily on the traditional market system, and its distribution network, for supply of product. This is also true of the fast-food and food service industries. In other words, behind the facade of "modernisation" of Asian retailing there is a strong dualism-characteristic of all developing countries and the linkages between the two systems are strong. It is important for Western firms to appreciate this fundamental dichotomy in Asian markets and the very different supply chain management problems which arise as a result.

Companies approaching the Asian market have to consider in their corporate strategy how they focus on the essential "dualism" of Asian markets. Is the focus on the "Western" market or is it on the traditional "Asian" market and how will the complex distribution channels of Asia be managed?

Egg & Egg Products Markets

Asian egg and product markets seem likely to follow the pattern of multi-domestic development common to most food industries. That is, high levels of local production accompanied by growing intra-regional trade appear likely. Foreign trade from third country markets seems likely to be constrained over the long term although useful "niche" markets as the quality and branded end will continue to emerge. The rapidly developing Asian processed food and food service industries are also likely to be sources of new demand particularly for egg product. However, in all of these segments the competition from increasingly strong Asian agri-food conglomerates appear to be likely. — *Abstracted from a paper presented by Terry Larkin, Director, Agribusiness Research, Instate Pty Ltd, Canberra, ACT, Australia to the International Egg Commission's annual conference.*