

New Direction in Global Food Markets

Introduction

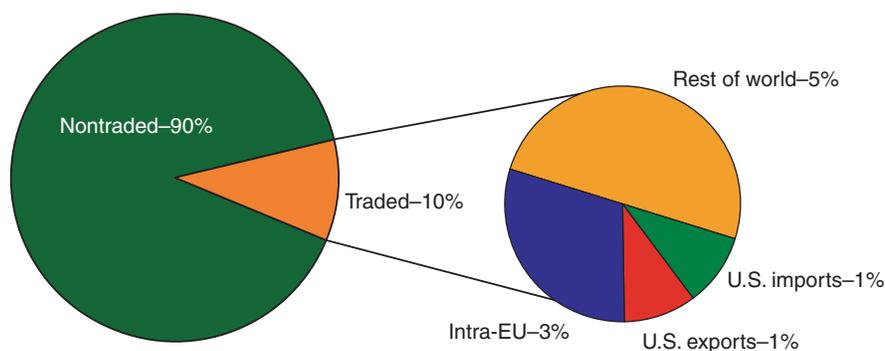
Understanding the performance and dynamics of global food markets is no longer a matter of understanding the fundamentals of international trade. At \$3.2 trillion, processed food sales are a major component of global food markets and account for about three-fourths of the total world food sales. Still, only 10 percent of processed food sales are traded products (fig. 1). Although consumer demand for processed foods continues to grow globally, growth in processed food trade has generally stalled since the mid-1990s. While trade policy may contribute to this disparity between trade levels and market performance, competition in the global food industry is also influenced by many other factors.

Understanding the competitive nature of the global food industry means understanding changing consumer preferences and the food industry's efforts to meet these demands. The task of moving food from the farm to the table is becoming increasingly complex, involving diverse local, national, and global agents and networks. Food markets are constantly evolving, driven not only by changes in consumer preferences, but also by technology, linkages between members of the food supply chain, and prevailing policies and business environments. Sophisticated supply chains and distribution channels are now being adopted across different regions and national boundaries.

The ongoing changes and innovations in global food markets, as well as the trends in different sectors of the food industry, make up a complex puzzle with consumers, producers, and global retailing and manufacturing firms representing the many pieces. A growing trend in food markets is the shift

Figure 1

Only 10 percent of \$3.2 trillion global processed food sales are traded products, 2002



Source: Trade data from U.N. Comtrade, 2002.
Global commerce in processed food is approximated from Euromonitor.

in growth of food sales from high-income (developed) countries to lower income (developing) countries. Despite the shift, per capita commercial sales show wide regional disparities worldwide, though growth in food sales in the developing countries is expected to continue in the coming decade. In anticipation of this growing market, food firms appear to be repositioning themselves and investing in many developing countries.

Supply chains are the mechanisms for transmitting signals from consumers to food manufacturers, as well as delivering products from the farm to the consumer's table. The major components of a supply chain are input supply, production, processing or manufacturing, and retailing. In response to consumer demands, suppliers can choose to add value and market products that meet specific needs. Additional value can be added at any of the four points in the supply chain prior to reaching the consumer. In the evolving global food economy, signaling the additional value (quality) of the new product is as important as developing the product.

Modern technology, such as point-of-sale scanners, provides retailers with first-hand information regarding consumer food preferences, positioning retailers to interpret and transmit changing consumer demands. However, food retailing is a service industry and does not generally engage in the design and manufacture of new products. Rather, the development of specific products desired by consumers requires coordinated efforts and cooperation among all segments of the supply chain. Degrees of coordination and cooperation among the different elements of the supply chain are more pronounced in developed countries, particularly in the European market, which may serve as a model for many markets in high-income countries.

Food distribution/retailing channels differ across regions in the world. Consumer shopping habits, income levels, and lifestyles all influence how the food retail sector is configured in different countries. However, liberalized trade and globally focused commodity and financial markets have initiated the move toward convergence of the world food retail structure, as evidenced by the growing presence of supermarkets and hypermarkets across the globe, often with multinational chains operating across many countries. In developed countries, a large share of retail food is sold through supermarkets/hypermarkets. The United States has the largest share, at 62 percent (table 1). Despite developed countries having similarly large shares of supermarket sales, cultural and lifestyle differences influence the structure of retail outlets in specific developed-country markets. For example, consumer demand for convenience and efficiency in Japan accounts for the relatively high share of food sold through convenience stores and petro-gas outlets, 18 percent, which is much higher than shares in other developed countries. In developing countries, where supermarkets/hypermarkets are newly establishing, independent stores and traditional markets still account for very large shares of total retail sales, as shown by the growing presence of large multinational food retail firms in Latin America and Asia.

The reorientation of global food markets has prompted food manufacturers to adopt more focused growth strategies to maintain leadership positions in specific sectors. Food manufacturers compete in the retail sector by marketing and promoting their own products. It is increasingly common for private firms to own trademarks, brands, formulas, and processing technolo-

Table 1—Share of food sales for retailers in selected international markets, 2002

Retail outlets	United States	Western Europe	Latin America	Japan	Indonesia	Africa and Middle East	World
	<i>Percent sales</i>						
Supermarkets/hypermarkets	62.1	55.9	47.7	58.0	29.2	36.5	52.4
Independent food stores	10.0	10.0	33.0	11.3	51.1	27.1	17.8
Convenience stores	7.5	3.8	3.1	18.3	4.8	10.0	7.5
Standard convenience stores	5.7	2.5	1.8	18.2	4.8	9.5	6.4
Petrol/gas/service stations	1.8	1.2	1.3	0.1	0.0	0.5	1.1
Confectionery specialists	0.5	2.0	1.7	0.3	0.1	1.3	1.2
Internet sales	0.2	0.1	0.1	0.4	0.0	0.0	0.2
Chemists/drugstores	0.2	0.3	0.2	0.4	0.2	0.3	0.3
Home delivery	0.4	0.2	0.0	0.0	0.0	0.0	0.1
Discounters	7.4	10.3	0.2	2.2	2.7	6.2	5.7
Other	12.0	17.5	14.0	9.0	11.9	18.6	14.9
Total	100	100	100	100	100	100	100

Source: Euromonitor, 2004.

gies associated with manufacturing. Licensing and marketing agreements with other national and multinational firms play a role in determining how a food manufacturer's products are sold in foreign markets. Of increasing importance is the manufacturer's ability to establish business relationships with supermarkets and other retail chains. For example, Ben and Jerry's, a popular U.S. ice cream manufacturer, had its products introduced into the Japanese market via a partnership with a single retail chain, 7-Eleven (Hagen, 2000).

Another increasingly important strategy of multinational companies is winning public support for business activities in developing countries. This strategy is reflected in current annual reports of most international companies, which once focused solely on financial reporting but now include substantial sections on corporate social responsibility. Consumer concerns about the environmental impacts of agriculture and inequities in income distribution arising from food production are growing. It is not enough for firms to allay consumer concerns for food quality and food safety to preserve product loyalty or win the public trust. Rather, firms are increasingly driven to integrate plans for sustainable development of the world's natural resources into corporate strategies and responsibilities.¹ Firms are reviewing not only their product-market portfolio but also their specific roles in the food chain.

Given the profits from catering to specific consumer demands and preferences in each market, global firms with wide geographic coverage are not necessarily the largest or the most diversified firms. Rather, firms with a flexible business structure that enables them to respond to demand signals and a more focused market orientation are more competitive in global markets. Producer-owned firms, such as cooperatives, successfully compete in global food markets by adopting vertically integrated approaches to delivering quality products to consumers.

The ongoing evolution of the global food industry is driven by changes in consumer preferences and the food industry's response to those changes at the local, national, and global levels. Market trends revealed in food retail sales

¹ Companies listed in the Dow Jones Sustainability Index are selected by a systematic assessment of corporate sustainability practices. They must actively lead their industries and set industrywide best practices in strategy innovation, governance, and relationships with shareholders, employees, and other stakeholders.

data pose questions regarding the long-term impact of these changes on consumers, small businesses, and the relationship between food exports and foreign direct investment. These questions remain for future investigation.

References

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