

EXPLORING OPPORTUNITIES IN THE PHILIPPINE FOOD MARKET



In a region known to lead the market in global food production, the Philippines stands out as Asia's most exciting food business destination.

Goldman Sachs lists the Philippines as one of the 21st century's Next Eleven economies based on macroeconomic stability, political maturity, the openness of trade and investment policies, and the quality of education.

HSBC forecasts that by 2050, it will become the 16th largest economy in the world, the 5th largest economy in Asia, and the largest economy in Southeast Asia.

With an estimated 2011 GDP worth US\$389.8 Billion, the Philippines is fast becoming recongnized as a regional springboard to penetrate the lucrative East and Southeast Asian markets for processed products.

It is a robust, dynamic, and growing market for imported foods and beverages, with total imports of consumer-oriented products exceeding US\$1 Billion annually.

It is gifted with a large and talented workforce with the ability to manufacture high-quality, differentiated or niche-market, and high-value products that use both domestic and duty-free imported raw materials.

Set your sights on the Philippine food market, and seize business opportunities within Asia and beyond.



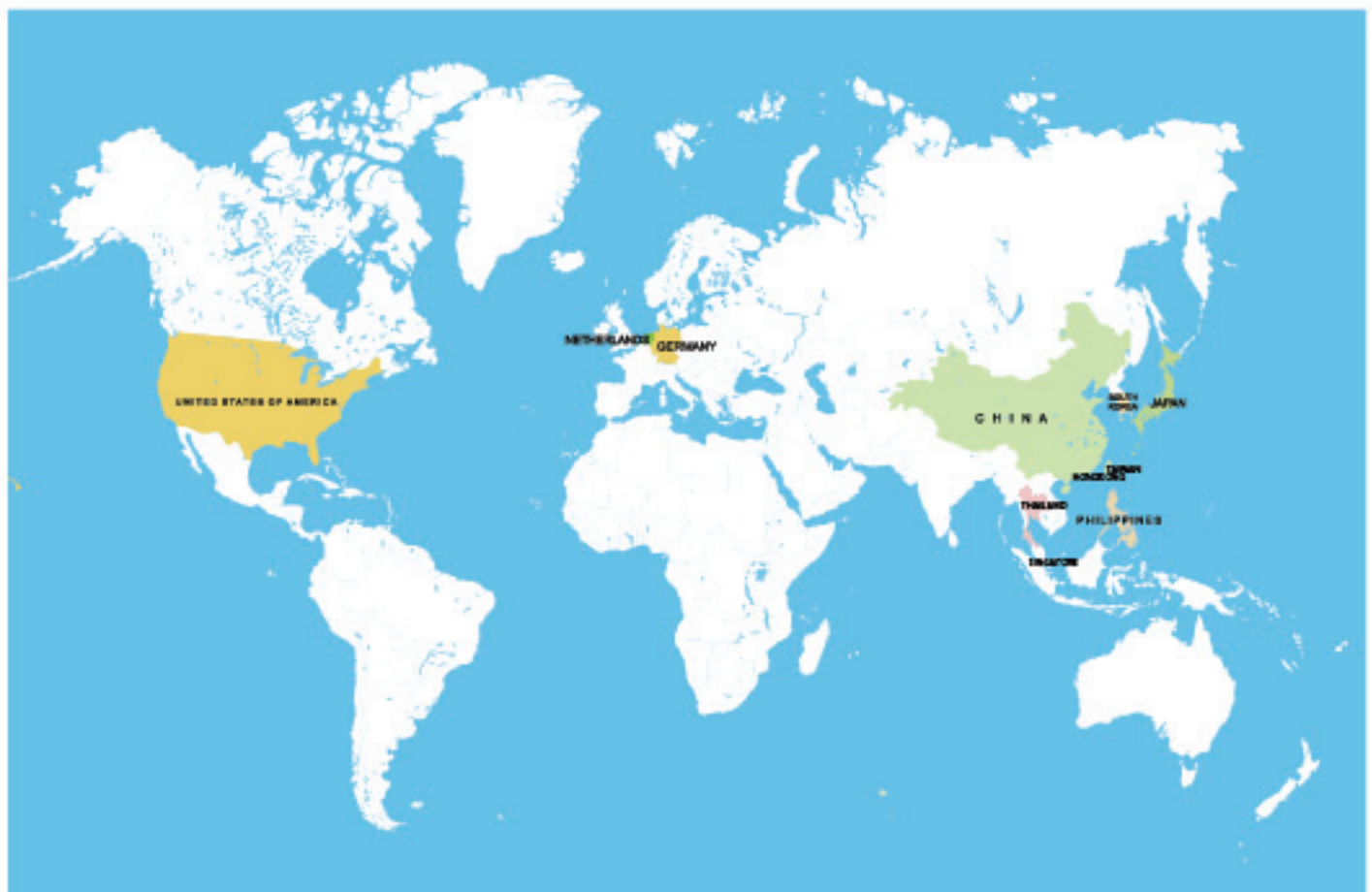
THE PHILIPPINES

PRIMARY EXPORTS

- Semiconductors and electronic products
- Transport equipment
- Garments
- Copper products
- Petroleum products
- Coconut oil
- Tropical fruits

MAJOR TRADING PARTNERS

- USA
- Japan
- China
- Singapore
- South Korea
- Hong Kong
- Germany
- the Netherlands
- Taiwan
- Thailand



10 REASONS TO DO BUSINESS IN THE PHILIPPINE FOOD MARKET

- 1 Proximity to major Asian capitals
- 2 8th top fish producer, 5th canned tuna producer, 3rd top pineapple exporter, top banana and mango exporter
- 3 Reduced import duties to 0% by 2015 due to Free Trade Agreements with ASEAN, China, Japan, South Korea, and New Zealand
- 4 Liberalized retail trade landscape and expansion of more efficient, modern and large-scale supermarket and hypermarket chains
- 5 100 Million youth-oriented and fast-paced population (64% is aged between 1 and 29 years)
- 6 "Frequent snacking" culture which favors processed, convenient, and attractively packaged food and beverages
- 7 More affluent, upper-middle income consumers (5.23% average annual growth of consumer spending from 1991 to 2000) with a growing demand for more sophisticated products, premium labels, and healthier food items
- 8 Booming tourism industry (3.9M tourists in 2011 or an 11.2% increase from 2010)
- 9 Robustly expanding Hotel/Restaurant/Cafe (HORECA) sector
- 10 Aggressive expansion of retail chain operators

Retail

MAJOR RETAIL GIANTS

- SM Supermarket / SM Hypermart
- Robinson's / Big R
- Rustans / Shopwise
- S&R
- Puregold

MAJOR CONVENIENCE STORES

- 7-11
- Mini-Stop
- Shell Select
- Caltex Star Mart

In recent years, the rapid modernization and expansion of Philippine food retailing has led to the increase of national and upscale supermarket chains throughout the country.

These chains provide new opportunities for imported food and present the best platform to promote high-value food items in the Philippines through their improved infrastructure, growth prospects, and customer demographics.

The use of improved cold chain and distribution systems in modern supermarket chains allow for better storage options for imported food. Imported food are also sources of new items for chains that are always on the lookout for a wider variety of products. Finally, imported products that offer superior quality, variety, and reliability fit the needs of the generally more upscale and demanding customer base of these supermarkets.

Growth in Philippine food retailing can be attributed to the country's bullish business call center industry, which accounts for almost 10% of the Asia-Pacific's call center seats. The 24-hour nature of this industry has attracted retail operators and convenience stores ready to cater to the needs of night-shift employees, particularly in the form of imported snacks, beverages, and microwaveable/ ready-to-eat meals.

Foodservice

LEADING FASTFOOD CHAINS

- Jollibee
- McDonald's
- Chowking
- KFC
- Pizza Hut

Led by the sizable young Filipino demographic

with higher consumer standards and concern for food safety, more and more Filipinos are attracted to dine in food outlets and away from traditional food hawkers. In fact, eating out accounts for about 12% of the food budget - up from less than 9% in the mid-1990s.

The growing demand for convenience has led to the expansion of the Philippine foodservice industry in the form of

(1) fastfood restaurants, usually western-style chains, accounting for the great majority of the market;

(2) casual dining restaurants (upscale restaurants and cafes) in Metro Manila that present a wide range of opportunities for imported food and beverages.

Current foodservice sales are approximately US\$3 Billion, increasing by an estimated 15% to 20% per year in the past decade. These food outlets use imported ingredients, including meat, wine, seafood, dairy products, sauces, and fresh produce.

Popular chains offer attractive menus including imported products such as French fries, processed poultry products, sauces, and cheese toppings. Full meals in these stores are also available for as little as US\$2.00.

Full service restaurants are also growing, especially in fashionable shopping or dining areas in Metro Manila. Competition in this segment is keen, with restaurant operators always interested in new and exciting menu ideas to attract customers.

Food Processing

SECTORS

- Fruits and vegetables
- Fish and marine products
- Meat and poultry products
- Flour and bakery products
- Beverage and confectionery
- Dairy foods
- Condiments and seasonings
- Food supplements
- Bottled water
- Snack foods
- Fats and oils

TOP PHILIPPINE FOOD IMPORTS

- Wheat
- Dairy products
- Processed potato products
- Meat and poultry for further processing

RAW MATERIALS WITH IMPORT POTENTIAL

- Poultry cuts (including chicken feet)
- Mechanically de-boned poultry meat or beef offal's (for sausage manufacturing)
- Fresh apples, oranges, stone fruit and grapes (for mixed fruit cups)
- Condensed fruit juices (for beverages)
- Dried fruits & nuts (for healthy trail mixes)
- Fresh vegetables (for veggie packs)
- Wine must (for locally-produced wines)
- Specialty flours or powders: soy, pea, and potato flour or milk/whey powder (for enriched baked goods and instant noodles)
- Dried peas and/or fresh chipping potatoes (for snack food)
- Tomato paste and sauces (for canned or bottled products)
- Fish, salmon heads, and bellies

Food manufacturing, including food and beverage processing, accounts for more than 40% of total manufacturing output and remains the Philippines' most dominant primary industry. It contributes approximately 20% of annual GDP. It has been identified by



the Philippine government as a priority sector for attracting foreign investment under special economic zones.

The industry represents a gross added value of more than US\$2 Billion. There are almost 12,000 food processing establishments nationwide, most of which are owned by a single proprietor and which is common among micro, cottage and small industries.

There are a few large multi-product firms, some operating in partnership or as a subsidiary of foreign or multinational companies. Unlike other countries where multinationals dominate food sales, local companies (such as San Miguel, RRM Corporation, and Universal Robina Corporation) dominate some sectors of the market or compete equally with foreign players.

In March 2012, the Philippine National Statistics Office (NSO) listed Philippine food and beverage imports at US\$5.37 Billion, with 34.9% of these as raw materials or ingredients used in food processing. Imports from ASEAN member-countries in March 2012 was US\$1.15 Billion, while imports from the European Union were valued at US\$378.5 Million.

Sources:
• The Philippine National Statistics Office
(www.censu.gov.ph)
• Food Export Association of the Midwest USA
(www.foodimport.org)