



# **TRENDS AND PROSPECTS OF THE** **SINGAPORE FOOD, BEVERAGE &** **TOBACCO INDUSTRY**

**SMA Industry Study Series**  
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## **I Scope**

This paper outlines the profile and performance of the food, beverage and tobacco (FBT) industry in Singapore. It then assesses the global economic outlook and the market prospects for the industry. It also looks at some market trends and drivers, Singapore's unique strengths, opportunities, issues and outlook for the FBT industry.

## **II Summary**

In the main, some of the interesting points this study found are:

- 1 The FBT industry is still a small player in Singapore. In 2003, it accounted for just 2.7% of total manufacturing output and about 1.5% of total domestic exports;
- 2 The FBT industry is still labour-intensive. It accounts for some 5.4% of total manufacturing workforce but only contributes 2.7% of total manufacturing output in 2003;
- 3 Even though investments declined 48% in the industry between 1992 and 2002, output of the industry rose 40%. This is the result of the industry's efforts to increase labour productivity;
- 4 The advertising industry will be pleased to note that the FBT industry accounts for a very substantial 24.2% of the manufacturing sector's total expenditure on advertising and promotion;
- 5 Within the FBT industry, food exports have been rising in the past five years. But beverage and tobacco exports have been flat;
- 6 Most of our food exports (63%) in 2003 went to our Asian markets. This trend has not changed in recent years;
- 7 Singapore's top three markets for food exports remain Japan, US, and Malaysia. The market in China is expanding rapidly;
- 8 Asia remains Singapore's top market (92% share) for its beverage & tobacco exports. Vietnam, Malaysia and Myanmar are the top three destinations for Singapore's beverage & tobacco exports;
- 9 Singapore food manufacturers are tuned in to the global shift by consumers towards convenience food, environmentally-friendly food, healthier food, smaller servings, and sophisticated & hygienic packaging for food products;
- 10 Many obstacles confront the FBT industry. One is the small size of the domestic market. Cheaper, lower-standard food imports from Malaysia are also undermining Singapore manufacturers. Supermarkets are also stifling

food manufacturers with their profit squeeze and the trend towards in-house brands;

- 11 The duty-free nature of Singapore can help domestic manufacturers once the neighbouring countries remove their various import barriers. Until that time comes, domestic FBT players are reluctant to invest significantly in the industry.

### III Profile of Singapore's FBT Industry

At the end of 2002, there were 683 food, beverage and tobacco (FBT) manufacturing establishments<sup>1</sup> in Singapore. This comprised 7.9% of 8,609 manufacturing establishments in Singapore. At the end of 2003, the industry employed 18,684 workers or 5.4% of the total manufacturing workforce<sup>2</sup>.

### IV Performance

1 Over an 11-year period, net investment commitment in the FBT industry declined from S\$76.5 million in 1992 to S\$40 million in 2002. This is a 48% decline. This amounted to a mere 0.4% of the manufacturing sector's net investment commitments. This shows the smallness of the FBT industry here. Output of the FBT industry increased from S\$3 billion in 1992 to S\$4.2 billion in 2003. This is an increase of 40%. This amount comprised 2.7% of total manufacturing output in 2003.

2 The preceding figures show that even though net investment commitment has declined in the FBT industry, output has increased by almost the same amount. This could be due to increased productivity in the FBT industry. However, taking the economy as a whole, labour productivity in the FBT industry is not the best. FBT output per worker was \$224,037, compared to the manufacturing sector's output of \$453,870 in 2003. But this is understandable as the FBT industry is a labour-intensive industry.

3 Domestic exports of FBT (at current prices) increased from S\$621.2 million in 1970 to S\$1.8 billion in 2002, or 1.5% of all domestic commodity exports. Conversely, imports of FBT increased from S\$1.1 billion in 1970 to S\$7 billion in 2002, or 3.4% of all domestic commodity imports.

4 In terms of value-added<sup>3</sup>, the FBT industry's contribution increased from S\$0.7 billion in 1992 to S\$1.1 billion in 2003. This comprised 2.9% of all manufacturing value-added. Value-added per worker in the FBT industry was S\$57,600 or 53.6% of the S\$107,400 value-added per worker in the entire manufacturing sector.

5 In terms of breakdown of operating costs in 2002, it is noteworthy that the FBT industry accounted for a considerable 24.2% of the manufacturing sector's expenditure on advertising and promotion. This is on par with the other big spenders, which are the chemical industry and the pharmaceutical industry.

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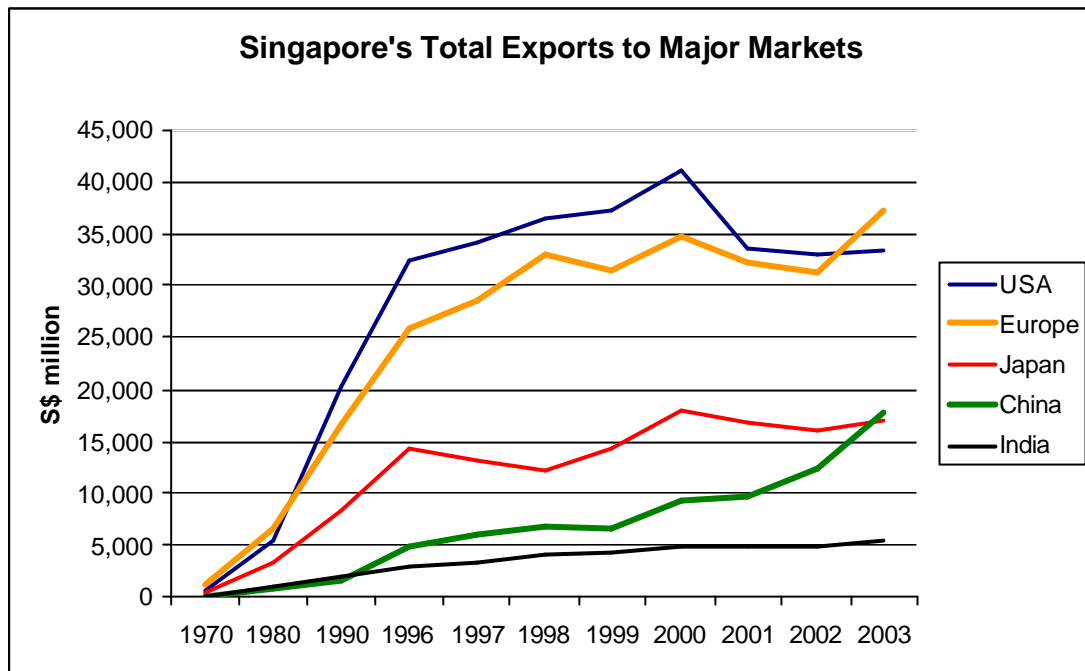
<sup>1</sup> Establishments that engage 10 or more workers. Source: Yearbook of Statistics, Singapore 2003.

<sup>2</sup> Economic Survey of Singapore 2003

<sup>3</sup> Source: Report on the census of manufacturing activities 2003, prepared by EDB. According to EDB, Value Added = Remuneration + indirect taxes + depreciation + net operating surplus

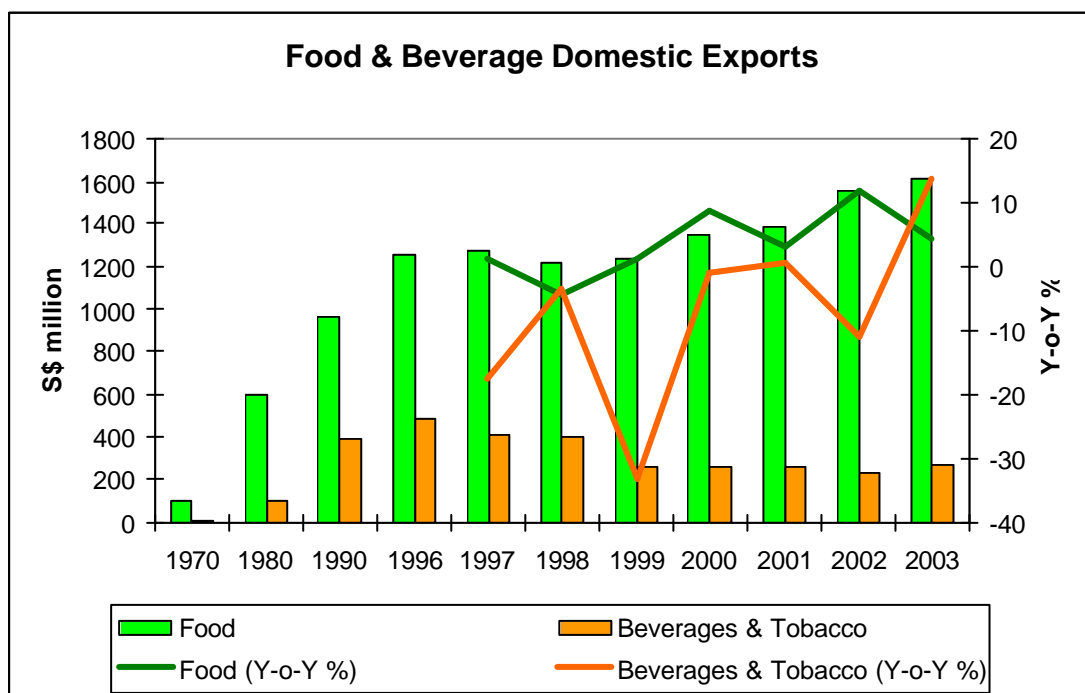
## V Global Economic Growth Forecasts & Market Prospects

1 The prospects of our domestic FBT exports are influenced by the global, regional and country economic outlook of our FBT export markets.



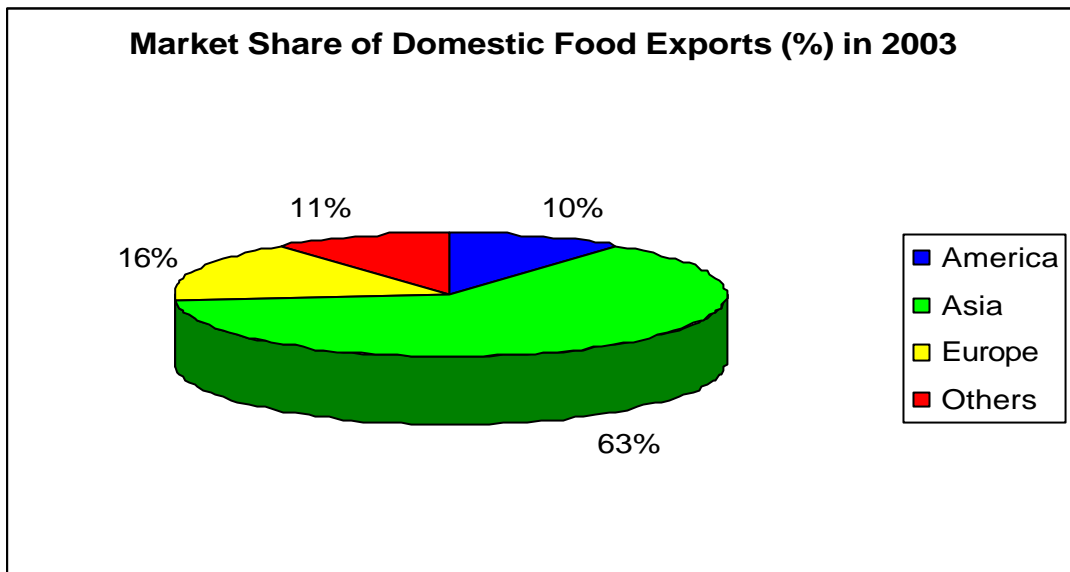
Source: International Enterprise Singapore

2 Global GDP growth is forecast to pick up, from 3.2% in 2003 to more than 4.1% in 2004, according to the International Monetary Fund. The recovery is broadening and deepening, with all major regions showing improvement.



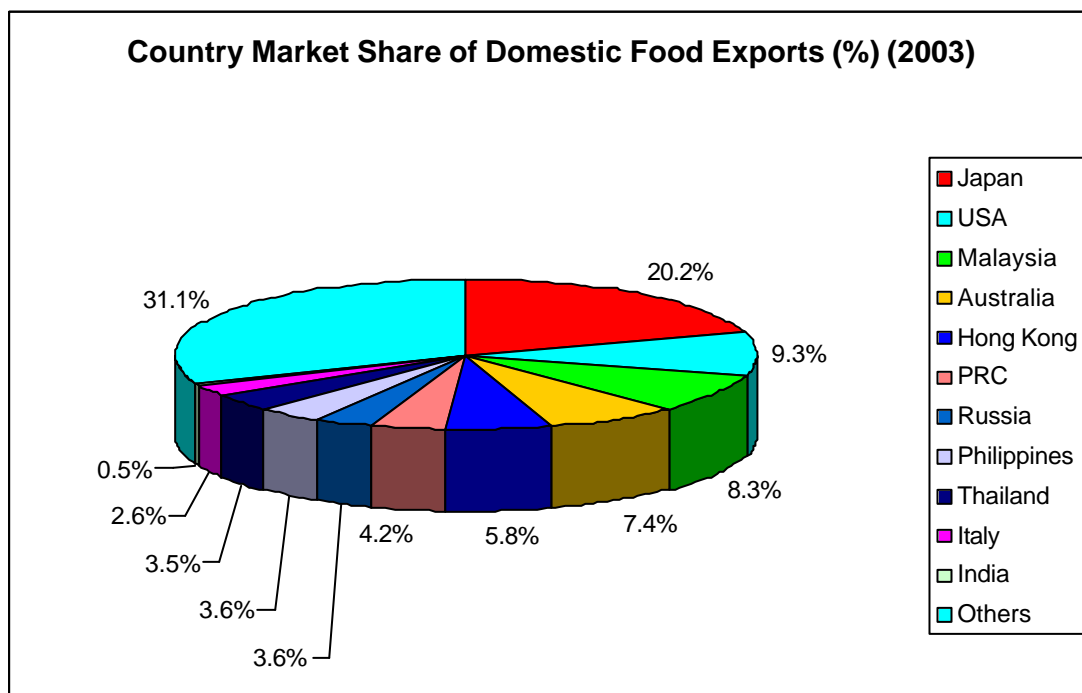
Source: International Enterprise Singapore

3 Despite the Asian financial crisis, the total value of Singapore domestic food exports has been rising since 1998 to reach S\$1.6 billion by end-2003. In contrast, the value of domestic beverage and tobacco exports averaged around S\$256,000 per year during 1999-2003. So these two sub-industries are lagging behind.



Source: International Enterprise Singapore

4 In 2003, the bulk (63%) of our domestic food exports went to the Asian market, which is more culturally attuned to our domestic food tastes. This trend has not changed significantly in the past five years. Europe absorbed 16%, whilst America absorbed 10% of our domestic food exports.



Source: International Enterprise Singapore

5 **Japan**, which absorbed the largest share (20%) of our domestic food exports in 2003, remains a promising market prospect. After more than a decade in the doldrums, preliminary signs indicate that the economy is finally turning round the corner. IMF expects real GDP growth to be 3% or more in 2004. The latest domestic surveys show that optimism among Japanese consumers has risen to one of the highest levels in recent years. Its consumer purchasing power is still strong.

6 Despite obstacles at customs and certification, strong competition and rigid retail chain, Japan is expected to remain as one of the largest export markets for our noodles and pastries, oils, cocoa and candy in 2004<sup>4</sup>. As food safety and hygiene are of particular concern to the Japanese consumers, foreign food that appeals to them tend to carry authoritative food safety certification or labelling.

7 The **USA**, which absorbed the second largest share (9%) of our domestic food exports, is forecast to grow from 2.6% in 2003 to more than 3.9% in terms of real GDP growth in 2004. It is expected to generate robust growth at least for the first half of 2004. Concerns over the US employment market have gradually diminished as jobs created continue to increase. The USA currently imports large amounts of Singapore's domestic exports of processed food. It continues to exhibit a positive growth trend and has a strong purchasing power. The US market is also scalable since it has a large population.

8 **Malaysia**, which is the third largest domestic food export market, has picked up economic growth momentum in recent months. It will benefit further from synchronised global recovery. Snap political elections are unlikely to disrupt economic growth, which is forecast by the Malaysian government to be 5.5%-6% in 2004.

9 Good market prospects can also be found in the developing world. **China**, which had recorded a strong 9.1% real GDP growth in 2003, is expected to continue with its strong economic growth momentum of at least 7%-8% in 2004. China is emerging as an engine of growth for many of Asia's export oriented economies. In 1998, China took a 1.7% share of Singapore's total food exports. In 2003, this share had increased to 4.2%. **India**, which absorbed a mere 0.5% of our domestic food exports, is expected to record strong GDP growth of about 7% in 2003<sup>5</sup> and about 6.3% in 2004<sup>6</sup>.

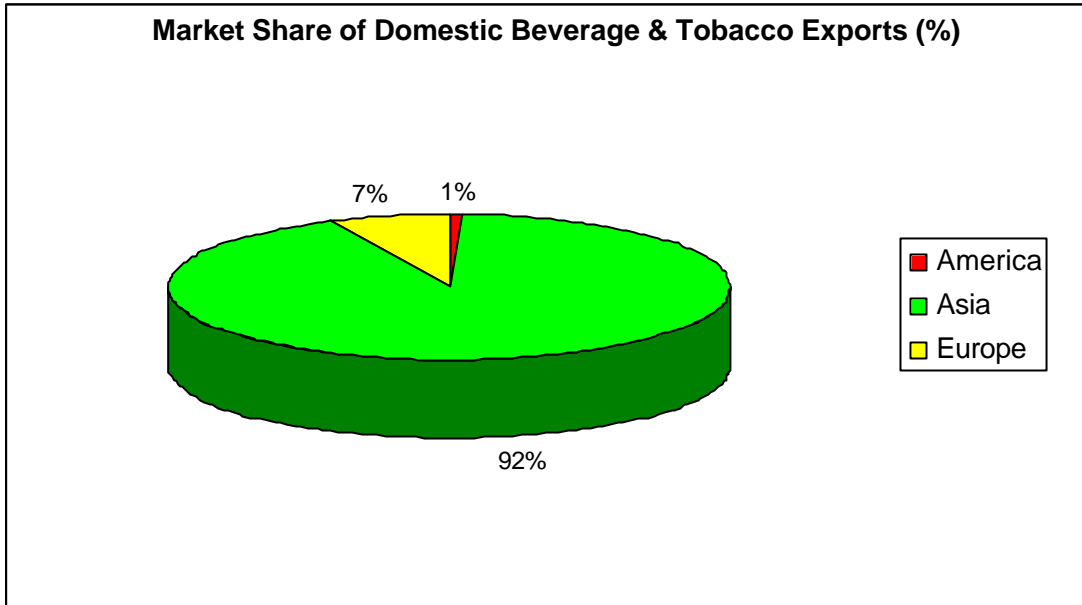
10 Although **China** and **India** have successfully slowed down their population growth, their GDP per capita, a rough proxy of consumer purchasing power, has increased over the years. Both China and India may be more accepting of our culture and food tastes, and hence will be able to increasingly absorb our food and beverage exports over the long term.

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<sup>4</sup> Source: Straits International Consulting, based on STC CD-ROM 2002 and Straits Analysis.

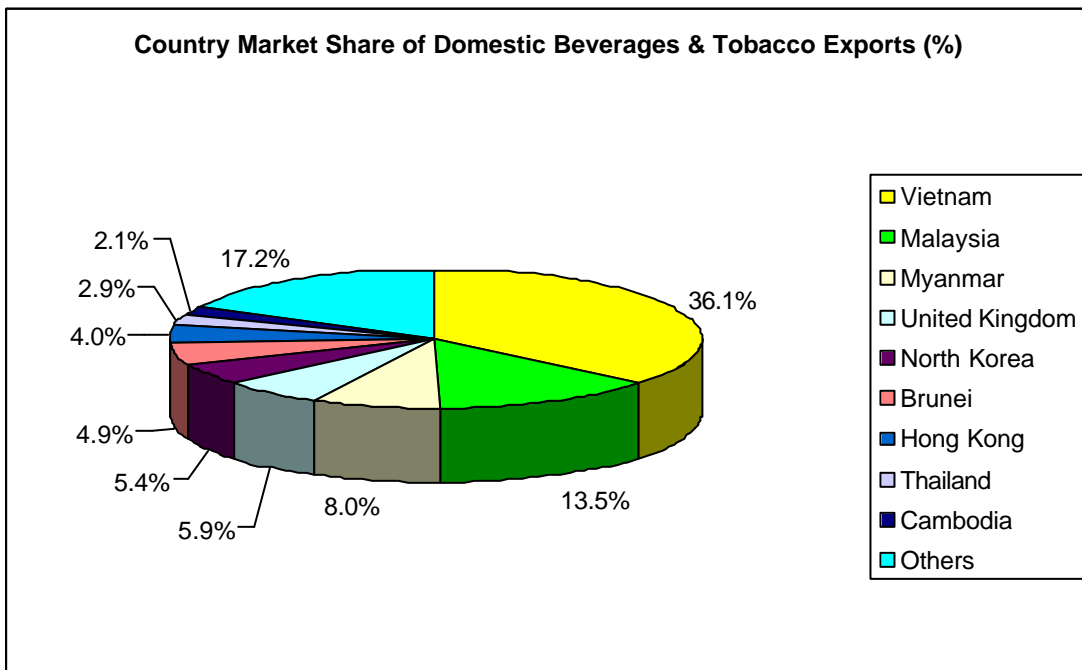
<sup>5</sup> Forecast by the Asian Development Bank.

<sup>6</sup> Forecast by Asian Development Bank, published in Asian Development Outlook 2003.



Source: International Enterprise Singapore

11 In terms of domestic export value of beverages and tobacco, Asia captured 92% of them in 2003, followed by 7% by Europe. In terms of specific country markets, Vietnam absorbed 36% of such exports, followed by Malaysia (14%) and Myanmar (8%). In **Vietnam's** case, GDP growth is estimated by the Asian Development Bank to grow by 6.9% in 2003 and by 7.1% in 2004, a slightly higher rate than achieved in 2002. The outlook predicts that growth will be underpinned by ongoing strong domestic demand driven by the Government's policy and institutional reform process and by expansionary fiscal policy.



Source: International Enterprise Singapore

## VI Population Growth

1 Another determinant of our FBT output and export potential is population growth. World population growth is forecast to grow exponentially, especially in the developing countries of Asia, Latin America and Africa<sup>7</sup>. Within Asia, China and India stand out prominently as two of the world's most populous nations, with more than 1 billion people each.

2 According to an estimate by the International Agriculture Policy Research Institute, Asia's grain import needs will double between 1995 and 2020. It is highly unlikely that developing countries will meet their own market needs for agricultural products over the course of the next few decades.

3 Therefore, the continued growth of world output demand and population creates rising demand and opportunities for processed food and beverage industry.

## VII Market Trends & Drivers

1 There are other market trends and drivers that affect the FBT industry. First, there is a worldwide trend towards smaller households, especially in urban areas. With double-income families leading a busy or hectic lifestyle, there is greater demand for **convenience** and speed of food preparation.

2 Second, there is also increasing consumer consciousness of food **safety, health and hygiene** and the desire for environmentally-friendly products, especially in the developed world.

3 Third, there is a trend towards greater levels of **pre-packaging**, especially the growth of single-serving portions/packages.

4 Thus, the growing health consciousness and demand for convenience F&B products across the globe has created the need for a variety of health, functional, ethnic food products and ready-to-serve meals.

5 Our manufacturers, who have developed strengths in soy-based health beverages, ready meals ethnic foods, instant beverages and noodles, can find a ready market for their products in developed countries.

6 There are other trends. The primary demographic and demand factors: gradual greying of the Asian population. Consumers are also getting more sophisticated with higher education levels and cuisines from other cultures through travel and immigration.

## VIII Singapore's Unique Strengths

1 Our F&B players have the ability to identify and leverage on lifestyle changes among consumers, allowing them to develop new products that meet the ever changing and growing needs of consumers.

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<sup>7</sup> Source: United Nations, *World Population Prospects, The 1998 Revision*; and estimates by the Population Reference Bureau.

2 Our manufacturers have also managed to carve out a niche area in seafood products, and have developed healthier products such as the Omega-3 crabsticks, fortified with polyunsaturated fatty acid DHA and EPA, and spirulina-based surami fish products.

3 Singapore's reputation as a technologically advanced and hygienic country can only assist in exports of processed food products.

4 Singapore is well positioned to be a one-stop solutions hub for tropical, health and innovative F&B products. Our industry, having core competencies in the above products, offers unique value propositions to international buyers and consumers.

5 In addition, our access to many research expertise and knowledge pools gives us the cutting edge in the area of high value-added activities such as research and development (R&D) and new product development for the industry.

## **IX Opportunities for F&B Industry**

1 These trends point to the following opportunities for the food and beverage industry:

- Healthy foods that contain less fat, and are more suitable to an ageing population for which personal health will become increasingly important;
- Foods that are safe and considered to have been produced under “environmentally-friendly conditions” with minimal artificial additives;
- Food perceived to be of high quality, employing high quality agricultural inputs;
- Convenient foods that either supplement or replace traditional food preparation, i.e. “ready to use” prepared foods and take-out or home delivery meals;
- Food that incorporate sensory appeal such as sauces or flavour enhancers;
- Ethnic cuisines, which appeal to both new immigrant groups and the increasingly diversified tastes of the indigenous population; and
- Foods that are fresh and made with processes that preserve natural flavours.

2 Based on these trends, the prospects for cereal products, lean meats, low-fat dairy products and processed products that contain more “natural” ingredients, particularly fruits and vegetables, are particularly good.

## **X Issues facing F&B Industry<sup>8</sup>**

### **1 Small Size of Singapore Market**

The market for food products in Singapore is small. This makes it hard for local manufacturers to expand and reap the benefits of economies of scale. It makes it harder to justify throwing money into research and development to come out with new products. A small domestic market makes it hard to test new food products on the end-consumers. Ultimately, it also makes it hard to expand and sell Singapore-made food products in the global markets.

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<sup>8</sup> Based on surveys of SMa Food and Beverage Industry Group

## **2 Cheaper Imports from Malaysia**

2.1 The main obstacle facing our local F&B manufacturers are the massive inflows of cheap imports coming from Malaysia. This has a tremendous negative impact on their abilities to sell their products to consumers.

2.2 Almost all the F&B manufacturers SMA surveyed said that their costs of production in Singapore were higher than in countries such as Malaysia and China. These push up their selling prices.

2.3 Singapore manufacturers become uncompetitive because buyers (supermarkets) usually aim for the lowest prices possible when they source products for their shelves.

2.4 The problem is compounded because the food products coming out of our neighbouring countries do not have to go through the same stringent health and safety checks (HACCP requirements) as in Singapore. Our F&B manufacturers wonder whether the government can assist in this area where an uneven playing field has been in existence for such a long time.

## **3 Supermarkets 'stifling' manufacturers**

3.1 Another one of the major obstacles facing manufacturers here is not their ultimate consumers, but their go-betweens, i.e. the supermarket chains handling and distributing their products to the end-consumers.

3.2 F&B manufacturers say that the big supermarkets are squeezing their profit margins very tightly. This is through their excessive listing fees, trade margins, rebates, merchandising allowances, etc. etc. This is making it almost unprofitable for F&B manufacturers to carry on.

3.3 On top of this, the international trend is towards supermarket house brands. Instead of selling branded F&B products, supermarkets prefer to sell products bearing their house brands. In accommodating this development, F&B manufacturers are becoming contract manufacturers for the supermarkets. Unfortunately, this trend is not conducive to developing Singapore-made brands of food products.

3.4 F&B manufacturers would like the weight of this supermarket burden to be lifted from them. But they also understand that it may not be practical for the government to tell (or legislate) the big supermarkets that they should do something to ensure the profitability of Singapore food manufacturers.

3.5 But if the government wants the domestic F&B industry to grow, and domestic brands to proliferate, perhaps it could do something to help F&B manufacturers, even if these policies appear to contradict each other.

## **XI Outlook for the Singapore F&B Industry**

1 Right now, if a Singapore F&B manufacturer is a niche player, he enjoys some advantages in Singapore. This is helped by the duty-free nature of the Singapore system. Going forward, as more of our neighbouring countries remove their tariff barriers and set up more duty-free trade zones, Singapore's competitors in the F&B industry will be able to gain the upper hand even in niche markets.

2 Despite the many difficulties faced by Singapore F&B manufacturers, they are still plenty of them around. Those surveyed by SMA said that they were still here because they had no choice. They had already sunk their capital assets in Singapore.

3 Going forward, they are not planning to invest more capital into manufacturing plants in Singapore. In the long run, fewer and fewer manufacturing plants will operate in Singapore.

4 Many big-name Singapore companies (such as Yeo Hiap Seng, Gardenia and Tee Yih Jia) have gone regional and have shown that it can be done. But most of the F&B manufacturers are small players. The perception of smaller F&B manufacturers is that the Singapore government has concentrated its efforts on assisting high-profile firms or multinationals. Having said that, they would welcome assistance in these areas:

- (1) Increase shelf-life of products;
- (2) Automating factory production process;
- (3) Packaging and design;
- (4) Branding;
- (5) Upgrade workers' skills;
- (6) To attain the HACCP (Hazard Analysis Critical Control Point) requirement;
- (7) Research and development of new products;
- (8) Marketing strategies;
- (9) Lower operational costs like rent, transport, utilities.

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