



ITALIAN TRADE AGENCY

ICE - Italian Trade Commission

Trade Promotion Office of the Italian Embassy

A large decorative graphic consisting of two vertical bars. The left bar is green and the right bar is red. Both bars have rounded ends at the top and bottom, resembling large square brackets. They are positioned on either side of the central text.

FOOD AND BEVERAGES MARKET REPORT IN MALAYSIA

MALAYSIA OUTLOOK IN FOOD INDUSTRY

The Malaysian food and beverage (F&B) industry is a fast-growing industry characterized by a large export market. Malaysia's most significant F&B exports are in the oils and fats category, particularly palm oil-based products, for which the country is one of the two largest exporters in the world. The F&B industry accounted for approximately 9.8% of Malaysia's exports in 2017. The country is also heavily dependent on imports of many staples including rice and most meat and seafood for domestic consumption. Food imports accounted for 7.8% of total imports in 2017.

Malaysian food industry is as diverse as the cultures in Malaysia with wide range of processed food with Asian taste. This industry is predominantly Malaysian-owned, dominated by small and medium scale companies (SMEs). Besides the SMEs, there are notable foreign and MNCs companies producing processed food products in Malaysia. It encompasses sectors such as cocoa and chocolate products, fishery products, cereals and cereal products, processed fruits and vegetables, confectionery, food ingredients, herbs and spices, beverages, animal feed, and others.

Total export processed food contributed about EUR €4.19 billion (RM20 billion) and are exported to more than 200 countries, while import processed food totalled EUR €3.92 billion (RM18.7 billion) in 2016.

Major processed food exports were edible products and preparations EUR €1.26 billion (RM6.0 billion), cocoa and cocoa preparations EUR €960 million (RM4.6 billion), prepared cereals & flour preparations EUR €690 million (RM3.3 billion), margarine and shortening EUR €270 million (RM1.3 billion) and dairy products EUR €250 million (RM1.2 billion). Malaysia exported food products to more than 200 countries. Major export destinations were Singapore, Indonesia, USA, Thailand and Republic of China. Raw materials such as cereals and dairy products continued to be imported for further processing.

The main imports of processed food were edible products and preparations EUR €1.15 billion (RM5.5 billion), sugar and sugar confectionary EUR €840 million (RM4.0 billion), dairy products EUR €630 million (RM3.0 billion), prepared / preserved vegetables and fruits EUR €380 million (RM1.8 billion) and cocoa and cocoa preparations EUR €310 million (RM1.5 billion). Raw materials such as dairy products and cereals will continue to be imported for further processing for human consumption and animal feed production. Malaysia is self-sufficient in poultry and eggs, but imports about 80% of its beef requirements. Among the dairy products produced are milk powder, sweetened condensed milk, pasteurized or sterilized liquid milk, ice cream, yoghurt and other fermented milk.

The fisheries product's sub-sector is export oriented which includes processed seafood products such as frozen and canned fish, fillet, surimi and surimi products.

Malaysia is currently the largest cocoa processor in Asia. Although Malaysia is the world's fifth largest cocoa processor local cocoa bean production could not support the huge demand from local grinding and processing industry. Most of the cocoa beans are imported.

Agriculture is one of the sectors identified in the National Key Economic Areas (NKEAs). It focuses on selected sub-sectors including aquaculture, seaweed farming, high value herbal products, fruits and vegetables which have high-growth potential. There is a growing demand for these high value products which provide opportunities for farmers to increase their income. In addition, the paddy and livestock sub-sectors were also selected due to their strategic nature in ensuring national food security.

In the fruits and vegetables sub-sector, premium fruits and vegetables has been identified under NKEA with the aims to export local premium fruits and vegetables to the Middle East and Europe, which import more than 50% of the global production of higher quality local fruits and vegetables that comply with food safety standards. Six high-value non-seasonal tropical fruits (rock melon, starfruit, papaya, banana, pineapple and jackfruit) and three high-value highland vegetables (lettuce, tomato and capsicum) have been identified as the target produce.

Increasing consumer awareness in nutrition value and food fortification for healthcare has created the demand for functional food, healthy minimally processed fresh food, organic food and natural food flavours from plants and seafood. Food ingredients such as customised formulations required by food manufacturers, natural food additives and flavours have the potential for further growth.

The halal industry in Malaysia provides immense opportunities for Malaysian manufacturers. Malaysia is at the forefront in developing halal standards in line with the vision to become a global Halal Hub by 2020. The global halal market is currently estimated at EUR €1.88 trillion (US\$2.3 trillion), covering both food and non-food sectors. It was estimated that the potential value of the global halal food market contributes EUR €458.50 billion (US\$560 billion) annually. By the year 2018, world Muslim consumer expenditure is expected to grow to EUR €1.97 trillion (US\$2.4 trillion) from EUR €1.31 trillion (US\$1.6 trillion) in 2012.

The concept of halal is associated with food products which are of high quality in terms of cleanliness, sanitation and compliance with religious requirements.

PACKAGED FOOD IN MALAYSIA

EXECUTIVE SUMMARY

Unstable Living Costs Discourage Demand for Packaged Food

Malay consumers are becoming increasingly price conscious and are experiencing limited budgets to spend on packaged food as the cost of living grows in 2017. The unstable fuel price, subsidy removal for edible oils, sugar and flour are driving price increases for packaged food through retail, as well as for consumer foodservice. Consumers are therefore saving more for living costs and reducing their budgets on non-essential products such as confectionery, savoury snacks, and ice cream and desserts. Therefore, packaged food is performing moderately well in 2017, as consumers show a preference for purchasing during price promotions.

Price Hikes for Packaged Food Drive Shift in Consumers' Preferences

Raw material costs are escalating due to weak currency, especially for imported ingredients and subsidy removal for sugar, flour and edible oils, resulting in increasing production costs in 2017. Manufacturers are passing these costs onto the end consumer and hence packaged food is experiencing a price hike in 2017. Consumers prefer smaller pack sizes, which are more affordable since they are cooking less at home and prefer smaller portion control for indulgence products. As a result, manufacturers, especially in sauces, dressings and condiments as well as confectionery, are introducing smaller pack sizes with affordable prices to cater for consumers' needs.

Players Run Marketing Events and Launch New Products To Gain Share

Packaged food players are organising extensive marketing campaigns such as road shows, contests, free gifts, price promotions, cooking demonstrations as well as inviting celebrities and chefs as brand ambassadors to enhance brand image. In addition, players are also targeting social media as a communication tool to spread news, new products and events that are organised to create awareness. In addition, packaged food players are introducing new products to gain share, such as Mamee introducing plain biscuits and Munchy's launching packaged pastries in 2016 and 2017. The existing players also partner companies from other categories to introduce specific value to their products such as nut and seed based spreads bundled with biscuits as organised by Lady's Choice and Shoon Fatt.

Grocery Retailers Switch Strategies To Retain Foothold

Grocery retailers is facing a challenging time as consumers show weak purchasing power and tend to shop more frequently or spend a higher amount during promotional periods through this channel. As a result, grocery retailers is downsizing its operational outlets and focussing instead on enhancing the shopping experience. Aeon closed three underperforming outlets in March 2017 to save costs and

focus more on profitable outlets by renovating its outlets to offer consumers a more compact selection of product mixes within the limited floor space. Tesco has allocated funds to refurbish its outlets in 2017 to enhance the shopping experience as well as to offer wider product ranges to encourage consumers to visit its stores more frequently.

Packaged Food Is Predicted To Grow Positively Over the Forecast Period

Players are expected to continue organising marketing campaigns, new products and partner other players to introduce specific value to encourage sales over the forecast period. Consumer demand for convenience will also encourage players to introduce smaller pack sizes at affordable prices, shorter cooking time, as well as new packaging innovation which provides convenience for storage. In addition, internet retailing is expected to emerge gradually over the forecast period as consumers increasingly shop for grocery products online. Grocery retailers such as SAM's Groceria and Tesco may offer greater value and services such as free delivery for initial purchase to encourage consumers to shop online.

KEY TRENDS AND DEVELOPMENTS

Rising Inflation and Living Costs Discourage Consumption of Packaged Food

The inflation rate continued to grow in 2017 due to unstable retail fuel prices set based on the ceiling price determined by the Government of Malaysia. The volatile retail fuel price is forcing consumers to spend cautiously and save their money for fuel; therefore, consumers have limited budgets to spend on food, particularly for packaged food. In addition, fuel price surges are forcing consumers to purchase packaged food only during price promotions, especially for nonessential products such as confectionery, ice cream and savoury snacks. The subsidy removal for edible oils, sugar and flour in 2016 and 2017 drove price hikes for packaged food as production costs escalated, since these products are also used as part of producing packaged food such as baked goods, processed fruit and vegetables as well as processed meat and seafood. Moreover, the subsidy removal for edible oils resulted in panic consumption in November 2016 and stock shortages occurred. The retail selling price increased in November 2016 as well as in January 2017, driving consumers to purchase edible oils with portion control to save costs.

Packaging Innovation Stimulates Demand for Packaged Food

Packaged food players implementing various strategies to expand their share and packaging innovation were two of the strategies applied in 2016 and 2017. For instance, players revamped their packaging, and reduced sizes, as well as introducing new packaging, particularly in dairy, sauces, dressings and condiments, confectionery, savoury snacks, baked foods, biscuits, rice, pasta and noodles, and breakfast cereals. They do this to draw consumers' attention, since price hikes occurred

in packaged food, reducing consumers' interest in purchasing indulgence products such as confectionery and savoury snacks. Gardenia in packaged pastries introduced a new packaging design to look clearer and brighter in February 2017 and Campbell's instant soup introduced a new look in July 2017. On the other hand, players downsized to cater to consumers who prefer smaller portion control such as Nestlé Greek Yoghurt Salted Caramel and Chia Seeds reducing from 135g to 100g in September 2016 and Kit Kat Mini was introduced in miniature size to cater to health-conscious consumers who prefer smaller portion control for confectionery. Players also introduced new packaging types to have more of a premium look, as witnessed with Kit Kat in countlines, which was launched in folding cartons in February 2017. This type of premium packaging caters to the high-end market because the products are placed at higher unit selling prices compared to other brands.

Players Leverage on Marketing Campaigns and New Products

To Sustain Foothold Packaged food players organised aggressive marketing campaigns and new product launches to gain greater share in 2017. Marketing campaigns such as advertisements, free gifts, upsizing and price promotions are organised by leading players in packaged food. Nestlé, Dutch Lady, PediaSure, Goodday, Ayam, Gardenia and Massimo are examples of brands that organise frequent media advertising throughout the year. In addition, Barilla introduced pasta sauces and free biscuits, or pasta sauce with free dried pasta, or pasta sauce with a free baking tray in June 2017. Kit Kat Mini was launched in April 2017 in larger pack sizes and in single bite-sizes to cater to smaller portion control consumers. Maggi also offered a larger size for its newly launched instant noodle cups, namely Hot Mealz in 97g in December 2016 and Maggi Roasted Sesame Chicken launched in April 2017. On the other hand, celebrity endorsements are organised by packaged food players to enhance brand image. Celebrities such as Sheila Rusly was invited by Nestlé as a brand ambassador for Maggi Cukuprasa in 2017, and Jasmine invited celebrity chef Martin Yen to be its brand ambassador and organised cooking demonstrations using Jasmine rice in January 2017.

Packaged Food Players' Cross-category Product Diversification and Collaboration

Packaged food players cross over categories by introducing new products and collaborating with players from other categories to offer consumers specific value. For instance, MameeDouble Decker (M) is popular for introducing drinking yoghurt and other savoury snacks. It introduced plain biscuits in October 2016. Munchy Food Industries is popular for introducing sweet biscuits and savoury biscuits and partners a Greece-based bakery company to launch new packaged pastries, namely Munchy's 7 Days Croissant in May 2017. These companies introduce new products in new areas to drive intense competition for existing brands, drawing consumers' attention since these brands have a strong brand presence and are easily recognisable to consumers. On the other hand, Rex Industry noticed potential growth in biscuits and hence has acquired flour-based product manufacturers, aiming to diversify its product mix such as biscuits. It has bought a 6% stake from Hwa Tai Food Industries (M) in March 2017, which is popular in introducing sweet biscuits and savoury biscuits. Manufacturers

also partnered other players to introduce specific value products such as Lady's Choice in nut and seed based spreads bundle with three packs of Shoon Fatt biscuits in March 2017. As a result, consumers are purchasing an increasing number of bundles in promotions.

FOODSERVICE: KEY TRENDS AND DEVELOPMENTS

Headlines

- ♣ Consumer foodservice transactions increase by 4% in 2017
- ♣ 100% home delivery/takeaway records fastest volume growth of 12% in 2017
- ♣ Full-service restaurants and street stalls/kiosks post the slowest volume growth rates of 3% in 2017
- ♣ Consumer foodservice records 2% growth to reach 35,612 outlets in 2017
- ♣ Consumer foodservice transactions to record a 5% CAGR over the forecast period

Trends: Sales To Foodservice

♣ Shorter time and convenience in preparation has encouraged foodservice operators to order packaged food to expedite meal preparation time, thereby offering consumers a quicker service. In addition, packaged food sells at lower prices to foodservice channels compared to retail and therefore foodservice operators can offer their customers an attractive selling price.

♣ Frozen ready meals recorded the fastest foodservice volume growth of 16% 2017 due to leading players expanding their distribution to cater to a higher number of cafés and restaurants with limited space to cook full meals. Furthermore, many variants introduced by leading brands such as CP and MyChef introduced types of cuisine such as Thai, Malay, Japanese and Western, boosting foodservice operators' interest in purchasing an increasing number of frozen ready meals.

♣ Gum declined by 1% in foodservice volume terms in 2017 due to foodservice operators mainly focusing on food and beverage such as desserts, signature drinks and main course. In addition, gum players focus more on retail channels where consumers prefer to purchase gum instead of through foodservice channels.

♣ PK Agro-Industrial Products (M), Flavor Innovation, Pacific West Foods, Fusipim, QL Foods, Euro Deli and Ayamas Food Corp are examples of popular companies distributing packaged food to foodservice outlets in 2016 and 2017. These companies can offer foodservice operators convenience and variety of products such as frozen processed poultry, frozen processed ready meals, frozen processed seafood and chilled processed red meat which are freshly produced and have a longer shelf life.

♣ Domestic manufacturers such as Flavor Innovation, Fusipim, QL Foods and Euro Deli compete through various variants that suit local tastes, as well as being inexpensive price and hence can compete with international manufacturers. In addition, these domestic manufacturers gain a competitive advantage by sourcing raw materials locally and have a better understanding of consumers' needs.

Trends: Consumer Foodservice

♣ Consumer foodservice recorded EUR €8.09 billion (MYR38.6 billion) in value sales and reached 35,612 outlets in 2017. Foodservice operators compete by introducing aggressive promotions to boost sales such as pizza chain operators introducing buy-one-get-one-free, free upsize or minimal top-up for another pizza or beverage. Furthermore, fast food operators continued to launch new products such as McDonald's Cheesecake Delights and Hot Cakes Groovy Lime in November 2016 to draw consumers' attention.

♣ Consumers experience limited time to prepare full meals at home, especially dual working families, so they choose to dine out frequently and prefer foodservice outlets that are affordable due to high living costs. As a result, this phenomenon has affected the demand for retail packaged food consumption, especially for processed meat and seafood as well as processed fruit and vegetables. However, consumers may cook at home, especially when quick meals are increasingly introduced through retail channels such as ready meals and soup which require short preparation time.

Prospects

♣ Packaged food players are expected to focus more on retail channels in terms of distribution and product variety because consumers prefer to shop for packaged food through retail channels. Moreover, foodservice operators may introduce fewer price promotions and limited product ranges will discourage consumers from purchasing packaged food through foodservice channels.

♣ Packaged food through foodservice is anticipated to see relatively slow growth in volume terms over the forecast period as consumers prefer to shop for packaged food through retail channels as promotions such as bundle sales, price discounts and free gifts are introduced frequently by players. In addition, consumers prefer to shop for packaged food through retail channels as various brands available for consumers to compare and packaged food is widely distributed to most of the retail channels.

♣ The potential forecast opportunity to grow for packaged food players is to introduce larger pack sizes at more accessible prices, especially for bulk purchases which cater to foodservice channels. Therefore, foodservice operators may introduce more affordable packaged food to stimulate demand over the forecast period.

♣ Potential company activities could include foodservice operators introducing an increasing number of packaged food products such as ready meals to cater to different consumer tastes. Price promotions for bulk purchases are also expected to be introduced by packaged food players to foodservice operators.

Interscambio commerciale dell'Italia per settori
Periodo riferimento: Gennaio – Dicembre 2017

Numero	Settore	Esportazioni		Importazioni		Saldi 2017 Gen-Dic
		2017 Gen-Dic (Euro)	Var (%)	2017 Gen-Dic	Var (%)	
1.	Prodotti alimentari	45,682	7.9	265,528	-14.7	-219,845
2.	Bevande	4.562	-7.9	109	-19.0	4.453
3.	Altri prodotti alimentari	16,798	25.3	2.973	40.4	13.825

Fonte: elaborazioni ICE su dati IHS Markit

Quote di mercato in un settore in serie storica.
Periodo riferimento: 2017
Prodotti alimentari

Importazioni dal mondo 2017 (Gen-Nov) : USD \$9,007,332		
Variazioni : 10.9 %		
Numero	Nazione	Quota (%)
1.	Indonesia	14.3
2.	Thailandia	9.9
3.	Brasile	8.9
4.	Cina	7.7
5.	Argentina	7.6

Unione Europea : 8.5 %		
Numero	Nazione	Quota (%)
1.	Paesi Bassi	1.8
2.	Germania	1.5
3.	Francia	1.1
4.	Italia	0.7

Fonte: elaborazioni ICE su dati IHS Markit

Quote di mercato in un settore in seri storica.

Periodo riferimento: 2017

Bevande

Importazioni dal mondo 2017 (Gen-Nov): USD \$560, 763		
Variazioni : -12.5 %		
Numero	Nazione	Quota (%)
1.	Singapore	15.1
2.	Australia	7.4
3.	Thailandia	6.7
4.	Cina	4.5
5.	Emirati Arabi Uniti	2.7

Unione Europea: 51.8 %		
Numero	Nazione	Quota (%)
1.	Francia	25.9
2.	Regno Unito	15.7
3.	Paesi Bassi	4.6
4.	Belgio	1.3
5.	Italia	0.8

Fonte: elaborazioni ICE su dati IHS Markit

Quote di mercato in un settore in seri storica.

Periodo riferimento: 2017

Altri prodotti alimentari: Il gruppo ATECO "108 - Altri prodotti alimentari" comprende: DETTAGLIO CLASSIFICAZIONI MERCEOLOGICHE Interscambio commerciale dell'Italia per prodotto: - 10810 - Zucchero - 10820 - Cacao in polvere, cioccolato, caramelle e confetterie - 10830 - Tè e caffè - 10840 - Condimenti e spezie - 10850 - Pasti e piatti pronti (preparati, conditi, cucinati e confezionati) - 10860 - Preparati omogeneizzati e alimenti dietetici - 10890 - Altri prodotti alimentari n.c.a

Importazioni dal mondo 2017 (Gen-Nov): USD \$2,714,458		
Variazioni : 2.8 %		
Numero	Nazione	Quota (%)
1.	Brasile	26.8
2.	Indonesia	12.6
3.	Singapore	10.9
4.	Thailandia	8.3
5.	Cina	7.1

Unione Europea: 9.7 %		
Numero	Nazione	Quota (%)
1.	Paesi BAssi	2.7
2.	Irlanda	1.6
3.	Italia	1.2
4.	Germania	0.9

Fonte: elaborazioni ICE su dati IHS Markit

Quote di mercato in un settore in seri storica.

Periodo riferimento: 2017

Granaglie, amidi e di prodo segue

Importazioni dal mondo 2017 (Gen-Nov): USD \$839.901		
Variazioni : 2.9 %		
Numero	Nazione	Quota (%)
1.	Thailandia	29.3
2.	Vietnam	17.9
3.	Stati Uniti	8.1
4.	Cina	6.4
5.	India	5.3

Unione Europea : 4.8 %		
Numero	Nazione	Quota (%)
1.	Francia	1.0
2.	Paesi Bassi	0.9
3.	Germania	0.7
4.	Italia	0.6

Fonte: elaborazioni ICE su dati IHS Markit

Quote di mercato in un settore in seri storica.

Periodo riferimento: 2017

Frutta e ortaggi lavorati e segue

Importazioni dal mondo 2017 (Gen-Nov): USD \$510,298		
Variazioni : 4.5 %		
Numero	Nazione	Quota (%)
1.	Cina	26.2
2.	Stati Uniti	20.5
3.	Thailandia	8.0
4.	Vietnam	3.2
5.	India	3.1

Unione Europea : 4.5 %		
Numero	Nazione	Quota (%)
1.	Paesi Bassi	7.0
2.	Germania	4.9
3.	Belgio	2.6
4.	Danimarca	2.5
5.	Italia	1.8

Fonte: elaborazioni ICE su dati IHS Markit