

## Summary

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 total world food sales. Still, only 10 percent of processed food sales are traded products. Although consumer demand for processed food 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, many other factors are at play.

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 has become more 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 chains, and prevailing policies and business environments. Sophisticated supply chains and distribution channels are now being adopted across different regions and national boundaries.

Developing countries are expected to largely account for future increases in food demand, resulting from both increases in population as well as increases in per capita food consumption. Annual growth rates of retail sales of packaged food products in developing countries range from 7 percent in upper-middle-income countries to 28 percent in lower-middle-income countries, much higher than annual growth rates of 2-3 percent in developed countries.

The food industry will continue to evolve in response to specific consumer demands in individual markets, with significant differences between industry strategies in the developing and the developed countries. Across all countries, modern food markets are responding to consumer preferences at a local level, even as the food industry becomes more global.

In mature developed-country markets, product differentiation, value added, and consumer trust are important considerations for retailers seeking to retain market share. Many retailers, particularly in Western Europe, have developed private label products that capture these qualities. To ensure that their branded products meet quality and safety standards demanded by consumers, retailers coordinate and develop relationships with other upstream sectors in the food supply chain.

In rapidly growing developing-country markets, multinational food companies are expanding and changing regional food industry landscapes. Foreign investments by these firms have played major roles in the diffusion and expansion of supermarkets in Latin America and Asia. While supermarkets accounted for 15-30 percent of the national food retail sales before the 1980s, they currently account for 50-70 percent of the retail sales in many Latin American countries, registering in one decade the level of growth experienced in the United States in five decades. Although the supermarket

sector in Asia is 5-7 years behind in its expansionary process, it is registering faster rates of growth than in Latin America.

In all markets, market forces are expected to push the evolutionary process toward increased efficiency, higher quality products, and more integrated food supply chains. Increased private label products in developed-country markets are contributing to the global trend in more integrated food supply chains. Likewise, changes brought about by multinational retailers are upgrading the food marketing sector in many developing countries, while leading to more integrated supply chains serviced by fewer producers. The quest for efficiency and cost reduction has encouraged investments in new technologies and joint ventures with marketing intermediaries and producer associations able to meet big volumes and high private standards.

In a food industry driven by consumers' retail pull, food manufacturers have to continuously reorient themselves to remain competitive. Firms that respond to market signals are better able to adjust and maintain their positions in the industry. Flexible organizational structures that enable firms to make adjustments at various stages of the production process in response to consumer demand are better suited for the current industry. Such a business structure is possible if firms operate in close coordination with producers and other sectors of the supply chain.

Expansion in foreign markets is contributing to the growth of large multinational food manufacturers. But, although significant concentration may exist in certain individual product markets at the local level, at the global level, even the largest food company accounts for less than 3 percent of total world food sales. The diversity of consumer demand creates opportunities for smaller firms to successfully compete in the marketplace.