The Present and Future of the Food Market in Northeast Asia: Confectionery Markets

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Abstract The Asian food market has been growing recently, due to the role played by major Asian countries, which include Korea, China, and Japan. This study is purposed to investigate the potential of the food market in these Northeast Asian countries and to suggest future direction for global food companies. For in-depth analysis, this study is limited in scope to the confectionery market and analyzes that market within two frameworks: first, the 'Market Attractiveness Matrix' which transforms the 'BCG Matrix' to fit into the food market in order to analyze the flow in the Asian confectionery market; and second, analysis of the potential growth of the market using a Category Development Index (CDI), which aids in understanding the growth potential of a market.

The European food market has recently reached its capacity and is now experiencing a low growth rate (Data Monitor, 2011). It is time for food companies to find a new 'blue ocean' to avoid fierce competition in the mature markets of Europe. Therefore, this analysis of the confectionery market, using the Market Attractiveness Matrix and CDI will suggest opportune directions for global food companies.

1 Introduction

For the purpose of the study, the world food market can be divided into two fields: packaged foods and agricultural products. Fig. 1 shows the current status of the food market. The value of the global food market was about 4.639 trillion USD in 2006, while the market share of packaged foods was around 45.8%, lower than the share for agricultural products (54.2%). By 2010, the value of the global food market had reached 5.834 trillion USD, an increase of 26.7% over 2006. This is remarkable, as the global market share difference between packaged foods and agricultural products noticeably shrank from about 8% to 0.8% in the same period. Experts expect that this trend will continue in the future, suggesting that the growth of packaged foods is reflective of the busy lifestyle of modern societies (Moon & Jeong, 2011).

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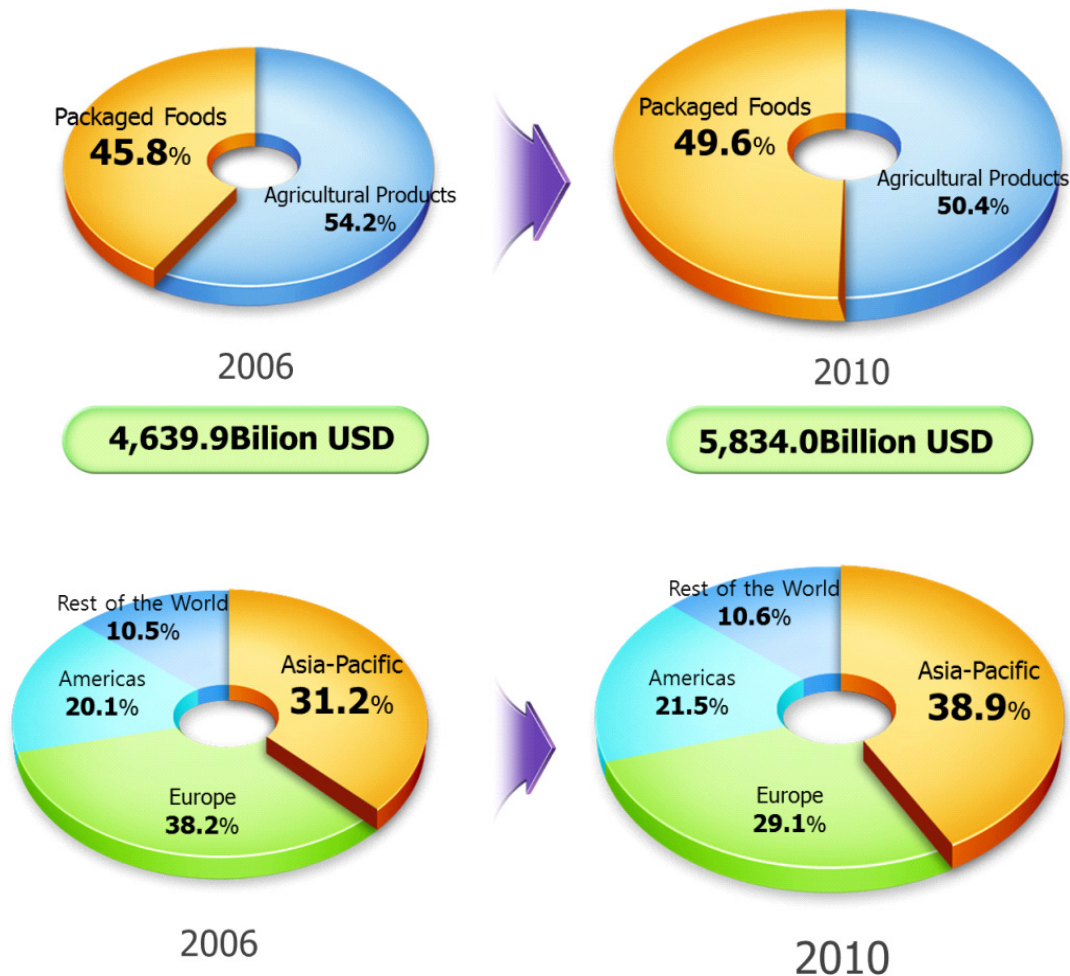e-mail : Jeong5116@snu.ac.kr

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Fig. 1 Global Food Market Values and Ratio Changes (Data source : Data Monitor, 2011)

The average growth rate of the global packaged food market for the past 5 years averages about 3.3%. While the European growth rate was only 2.6%, the average growth rate of the Asian market was 4.9%. The higher growth rate of packaged foods in Asia relies upon the Northeast Asian market of Korea, China, and Japan. The packaged food market in Northeast Asia has been experiencing relatively high growth rates compared to both the global market and the overall Asian market for the past 5 years. In fact, the Northeast Asian market comprises a significant portion of the global food market. For example, it represents 25% of the world's packaged food market, 80% of the Asian market, and 55% of the European (Data Monitor, 2011).

The Asian market has increased its market percentage, not only in the packaged food market but also in the total global food market, as shown in Fig. 1. This suggests that the Northeast Asian food market is increasing its impact on the global food market by spearheading the growth of the Asian food market.

In consideration of this trend in the global market, global food companies, when exploring their future market-entry and business direction, need to focus their efforts on "Where to go?" and "Which areas should we apply our resources to?" The Asian food market, especially in the Northeast, has a significant impact on the global food market, and is expected to continue being a high-growth area in the future. Thus, this analysis of the food markets in Korea, China, and Japan, which are the three most important countries in the area, will help global food companies determine their future business paths.

With respect to the broad spectrum of the total food market, this study limits its scope specifically to the confectionery market. Fig. 2 represents the growth of the confectionery market in Asia and the world. Although both markets are steadily increasing, the Asian confectionery market leads the global market in growth rate.
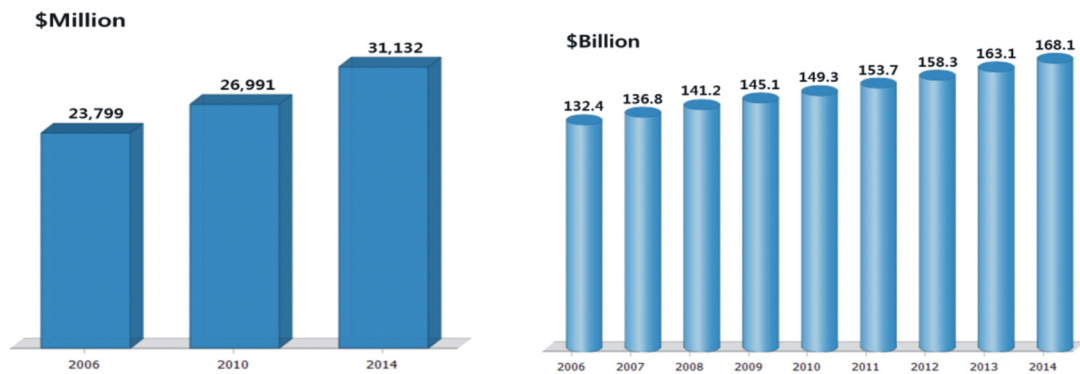
Fig. 2 Asia-Pacific and Global Confectionery Market Values (Data source : Data Monitor, 2011)

Therefore, this study focuses on the confectionery market and will suggest future direction for the global food market based on the analysis.

2 Analysis of the Global Confectionery Market

Product categories for the confectionery market include chocolate, cereal bars, sugar confectionery and gum (Data Monitor, 2011). In the global confectionery market, chocolate takes the highest market share, with about 50% (see Figure 3). Another important category, sugar confectionery, makes up about 33% of the global confectionery market.
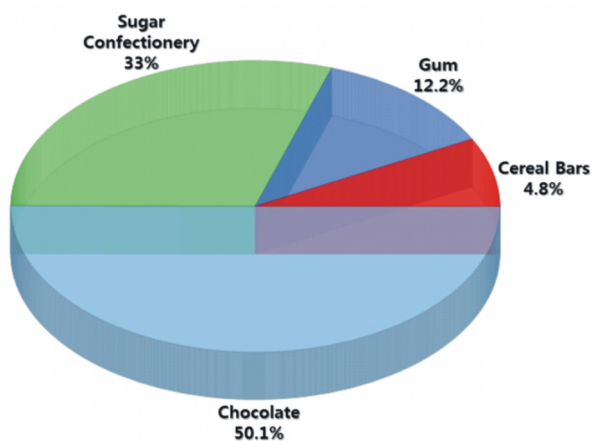

Fig. 3 Global Confectionery Market Segmentation (Data source: Data Monitor, 2011)

As shown in Fig. 4, two important areas in the global confectionery market are Europe and the Americas, which collectively comprise 79.2%. At 19.1%, the market share in Asia is relatively low, but is an area of high growth. The future impact of the Asian market will be significant.
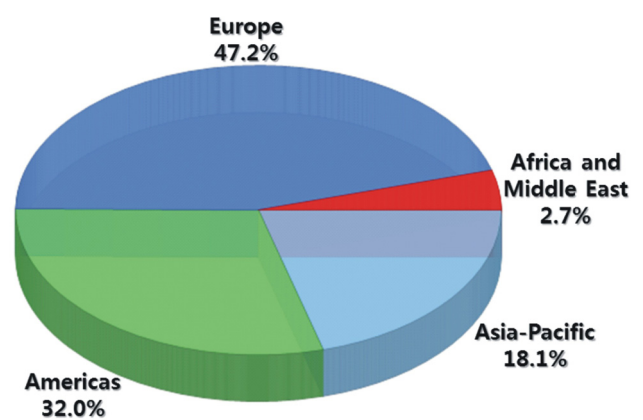

Fig. 4 Global Confectionery Market Ratios (Data source: Data Monitor, 2011)

The global confectionery market is dominated by 3 companies at the top that collectively share about 39.6% of the market. The balance, (60.4%), is distributed among many other smaller companies. The top 3 companies are Mars, Kraft Foods, and Nestle S.A. Mars, which holds 16.6% of the market share, is based in the U.S. and exports to about 100 countries. Another American company, Kraft Foods, has captured about 14% of the market and exports to around 170 countries. Nestle S.A., from Switzerland, holds 3rd place with a market share of 9%.

The main characteristic of the confectionery market is the diversity of product brands that belong to each company and the variety of products within each brand. As products are diverse, competition can be fierce due to the existence of alternatives. However, high preference rates and consumer loyalty towards a specific brand lessen the degree of rivalry within the industry (Data Monitor, 2011).

The Asian confectionery market recorded about 23.8 billion dollars in 2006 and continues to grow, reaching a level of 27 billion dollars in 2010. The rate of growth

from 2006 to 2010 was about 13.4%, which is indicative of the increasing impact of the Asian market in the overall global economy. In addition, the Asian confectionery market is expected to reach about 31.1 billion dollars, (an increase of about 13.5%), by 2014. Because of this, the Asian market will continue to increase its impact on the global market (Data Monitor, 2011).

The global confectionery market was valued at about 132.5 billion dollars in 2006 and grew about 12.85%, recording a value of around 149.3 billion dollars in 2010. On average, the global confectionery market realizes an annual growth rate of about 3%, which is expected to continue in the future. Therefore, the snack market faces excellent prospects for the future.

3 Analysis of Snack Markets in Korea, China, and Japan
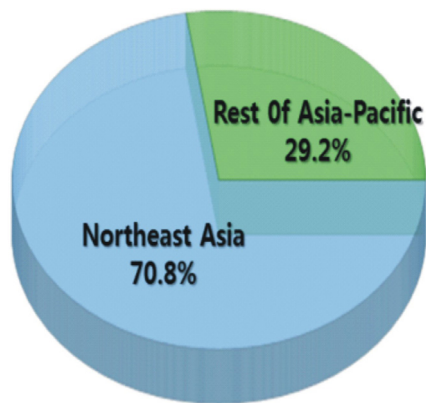
3.1 Trends of Snack Markets in Korea, China, and Japan

Korea, China, and Japan together make up 70.8% of the Northeast Asian market. The Category Development Index (CDI) in Fig. 5 shows sales by specific product category per country, which indicates the purchasing power of each country (Sanjay, Stephen & Nanda, 2001).

The CDI illustrates whether the purchase level for a country in a specific market is above or below the average where 100 is the base. A high CDI value indicates that a market has strong latent purchasing power.

Based on the CDI in Fig. 5, the Asian confectionery market (Japan excepted) displays high latent purchasing power. China in particular shows strong potential with its large population, not only for Asia, but also for the rest of the world. Global food companies therefore can use the CDI as a meaningful rationale for future resource investment.

Fig. 5 Asia-Pacific Confectionery Market Ratio and CDI (Data source : Data Monitor, 2011)

Fig. 6 shows that the market ratio of confectionery markets in the above three countries is similar to that of the global market, where chocolate and sugar confectionery compose the largest portion of the market. In Japan, chocolate and sugar confectionery make up 83.8% of the confectionery market, which is almost equal to the 83% of the global market. In the Chinese and Korean confectionery markets, the two product categories form 81.7% and 81.4% respectively, which again, are similar to the global market.

A difference between the confectionery markets in Korea, China, and Japan and the global confectionery market is the proportion of the cereal bar category. In particular, the market share of cereal bars (at 0.1%) in Korea is very low when compared to that of the global market. This is a consequence of the fact that cereal bars are not a conventional food item for Koreans, which in turn provides an opportunity for food companies to open a new market in Korea. As the cereal bar category exhibits a low market share not only in Korea but in China and Japan as well, this is a category which can provide a new target area for food companies.
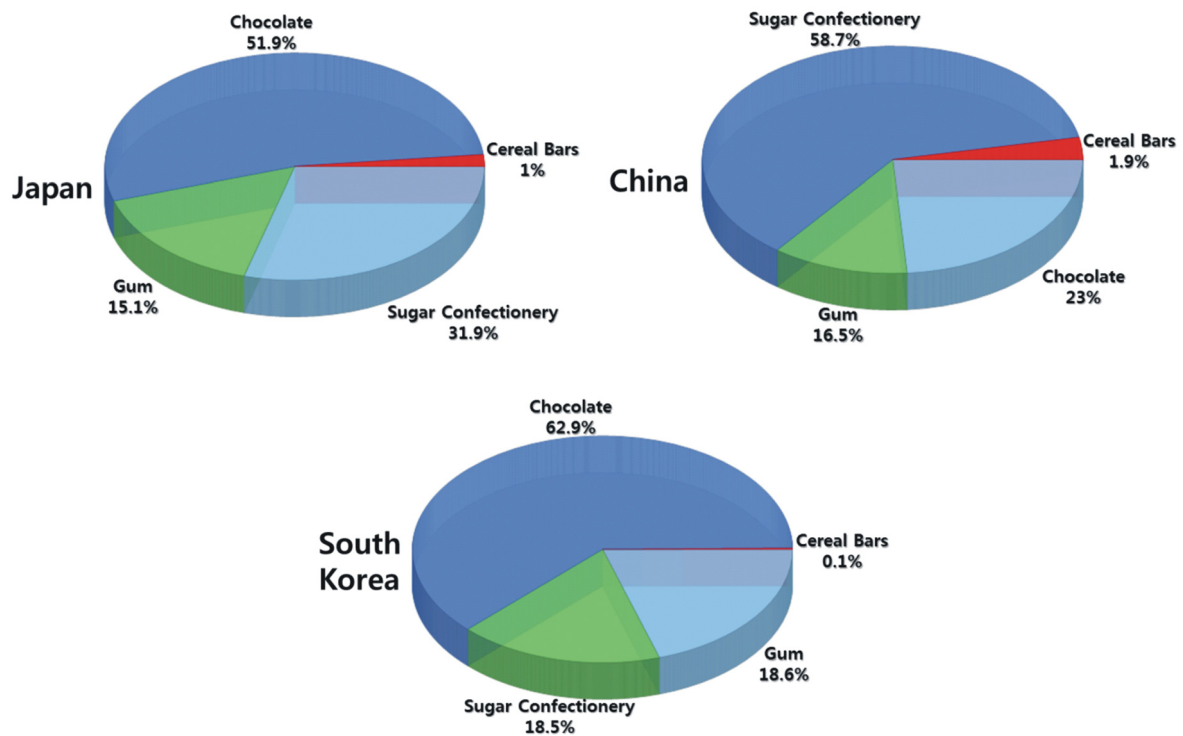
Fig. 6 Confectionery market characteristics of Japan, China, and South Korea (Data source : Data Monitor, 2011)

3.2 Analysis of Snack Market Matrix in Korea, China, and Japan

Companies analyze changes in the market where they operate and set objectives for marketing, finance, and human resource management based on that analysis. To achieve those objectives, it is necessary to distribute management resources, of which process is called a strategy (Chandler, 1962). This study introduces a matrix that can help firms establish management strategies. Fig. 8 presents the Market Attractiveness Matrix that enables the BCG Matrix (popular in management strategies) to fit into the food market.
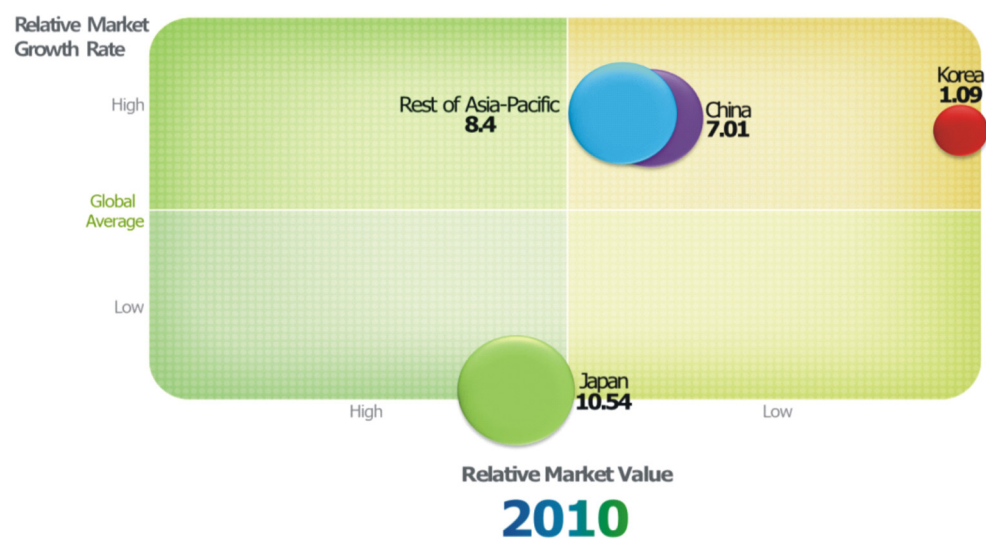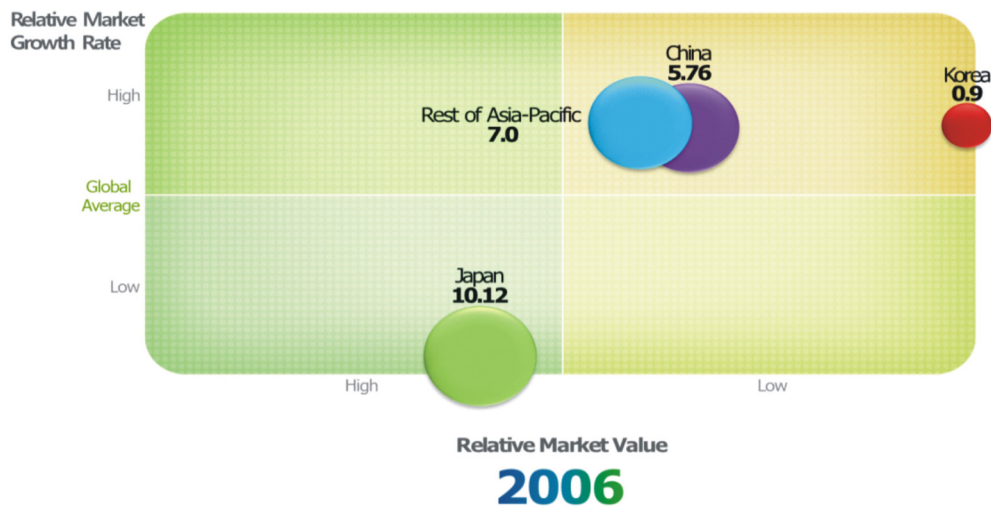

Fig. 7 Market Attractiveness Matrix (Adapted By Moon and Jeong, 2011)

The Market Attractiveness Matrix is divided into 4 sections, similarly to the BCG Matrix. The X axis implies the degree of relative market value, while the Y axis indicates the degree of relative market growth rates (i.e., high vs. low). The first quadrant is called 'Gold Rush', which indicates a potentially underdeveloped market. The 'Heaven' in the second quadrant implies a high-value market with a high growth rate. The third quadrant is labeled 'Battlefield', and is a mature market where firms cannot avoid fierce competition. In this market, firms must have a 'market capability' that can distinguish them from other companies in order to improve their own market share. The 'Chicken Ribs' in the fourth quadrant indicates a market with a low growth rate and low market value, so that firms may want to consider restricting their investment.

Fig. 8 is the result of an analysis of the confectionery market in Korea, China, and Japan using the Market Attractiveness Matrix. In 2006, China and Korea displayed high potential, as suggested in 'Gold Rush', whereas Japan was in the 'Battlefield' category, where the market was mature and subject to fierce competition.

For 2010, the matrix presents two major characteristics: 1) the Japanese confectionery market had low growth rates, and 2) the Chinese confectionery market moved up to 'Heaven' status. In 2014, the matrix shows that, similar to 2010, China and India will be entering 'Heaven.'
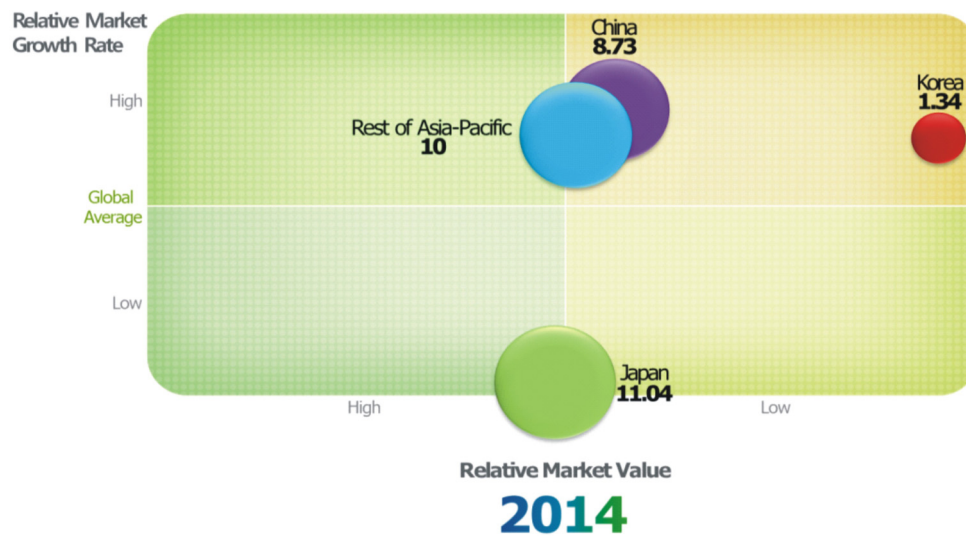
Fig. 8 China, South Korea and Japan Market Attractiveness Matrix Analysis: Confectionery Market
(Data source : Datamonitor, 2011)

4 Conclusion

A firm aims to gain profit through continuous growth. To achieve this goal, it is imperative that proper strategies be established. This study analyzes the global confectionery market using the Market Attractiveness Matrix and CDI in order to assist global companies in the establishment of appropriate strategies.

Two results of the analysis are obvious :

First, the Asian market is gradually taking over a higher portion of the global confectionery market, even though the European market is still the largest. Although the market share of the Asian confectionery market within the global market is only about 18.1%, the Asian market continues to exceed the average growth rate of the global market. This trend is expected to continue into the future.

Second, growth of the Asian confectionery market has been led by Northeast Asia, primarily Korea, China, and Japan. The market share of the Northeast Asian market within the entire Asian market is about 70.8%. The results obtained from CDI imply that the CDIs of Korea and Japan are above 100, while they are still attractive in terms of market share. Furthermore, the CDI of China is relatively low, indicating a high potential for growth.

In conclusion, analysis from both the Market Attractiveness Matrix and CDI emphasize the role of the Northeast Asian market within the global confectionery market. Thus, global food companies should focus on these markets as growth in Korea, China and Japan is expected to continue into the future. In particular, the matrix analysis suggests the Chinese market is highly attractive. Northeast Asia will provide an additional opportunity for global food companies that are currently searching for new markets.

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