

13 Food and beverage manufacturing



Food and beverage manufacturing is the component of the food chain that produces substantially and elaborately transformed food and beverage products from bulk agricultural food commodities and other ingredients. This is not limited to ‘retail-ready’ food, but includes ingredients, such as flour, to be processed for further downstream manufacturing.

The processed food and beverage industry is Australia’s largest manufacturing industry, accounting for 21.3 per cent of total manufacturing turnover and 18.7 per cent of industry value added, and is one of only two manufacturing sectors that are net exporters (the other being metal product manufacturing).

The industry is located primarily along Australia’s eastern seaboard. More than 80 per cent of production (by turnover) is in Victoria, New South Wales and Queensland. Most of the industry’s growth has occurred where there is established infrastructure and close proximity to raw materials, consumer markets and skilled workers.

Industry profile

Table 23 shows the major features of the processed food and beverage industry.

Table 23 **Overview of Australia’s processed food and beverage industry**

	Unit	1992–93	1998–99	2002–03
World				
Value of food exports ^a	US\$b	na	261.0	268.1
Australia’s export share ^a	%	na	2.6	3.2
Australia				
Turnover	\$b	37.0	49.3	65.8 ^b
Industry value added	\$b	9.7	13.8	16.6 ^b
Share of gross domestic product	%	1.9	2.2	2.2
Employment	'000	163	166	187 ^c
Value added per employee	\$	59 509	83 096	76 800 ^c
Number of food processing establishments	no.	3 322	3 390	3 416 ^d
Food and liquor retailing turnover	\$b	53.8	62.8	81.9
Share of total Australian retailing turnover	%	55.8	46.2	45.9
Exports ^e	\$b	8.6	12.2	15.5
Share of total Australian merchandise trade	%	14.2	14.3	13.3
Imports ^e	\$b	2.5	4.0	5.5

^a Estimates for calendar year, not financial year, for 1992, 1998 and 2002.

^b Excludes the spirits sector.

^c 2000–01 estimate.

^d 1999–2000 estimate.

^e Value for substantially and elaborately transformed products, including processed products (meat, dairy, seafood, fruit and vegetables), bakery and flour mill products, fats and oils, sugar, confectionery and beverages.

Source: DAFF 2005.

Industry characteristics

The processed food and beverage industry employs more than 187 000 people and accounts for 20 per cent of total manufacturing industry employment. Employment levels have fallen by 1.2 per cent a year since 1997–98, with employment decreasing in all industry categories with the exception of fruit and vegetable processing, flour milling, and beverage manufacturing. Nearly 40 per cent of food industry workers are employed by companies with over 1000 staff (BIS Shrapnel 2003). Approximately 40 per cent of food processing operations are located in non-metropolitan areas.

The processed food and beverage industry is highly concentrated, with the 20 largest food manufacturing companies in Australia accounting for almost 50 per cent of total industry turnover. Meat processing, baking and beverage production have more participating manufacturers than the other sectors (BIS Shrapnel 2003).

Mergers, acquisitions and vertical integration with agricultural enterprises to achieve efficiency gains and price competitiveness are increasing. As a result, there has been a shift in competition from product versus product and from firm versus firm to whole-of-chain competition.

- Currently, multinational corporations make up 23 of the top 50 food and beverage manufacturers operating in Australia. They produce approximately one-third of Australia's processed food and beverages.
- Foreign investment in the Australian processed food and beverage industry (including tobacco manufacturing) totalled \$17.6 billion in 2001–02, with investment levels having declined by 5.6 per cent a year over the previous four years (BIS Shrapnel 2003). In contrast, investment overseas by Australian processed food and beverage companies grew at 6.0 per cent a year over the same period, totalling \$7.1 billion in 2001–02.

Globalisation in the food industry has enabled the use of a wide range of product sources to achieve economies of scale and price competitiveness.

Industry expenditure

In 2002–03, the processed food and beverage industry's plant, machinery and equipment expenditure totalled \$2.5 billion. This was the highest level of investment of all industry categories in the manufacturing sector. Average annual net capital expenditure increased by 1.1 per cent over the six years to 2000–01, compared with the decline of 1.1 per cent for the manufacturing sector overall (BIS Shrapnel 2003).

The Australian Government funds research and development in food and beverage manufacturing through CSIRO, cooperative research centres, the Centres of Excellence program and industry-specific grant programs. In addition, some research and development corporations also undertake processing-related research for their respective agricultural products.

- The value of research and development assistance from the Australian Government in 2003–04 was estimated at \$58.6 million (Productivity Commission 2004).

Industry performance

Industry value added for the processed food and beverage industry grew at an average of 5.7 per cent a year between 1995–96 and 2000–01, significantly above the nearly 3.2 per cent average annual growth for the manufacturing sector as a whole over the same period (DAFF 2005). This can be attributed to the development of more sophisticated processed foods and growth in exports.

The meat and meat-product manufacturing sector makes the largest contribution both to total industry turnover (23 per cent) and to industry value added (21 per cent).

Operating profit before tax for the processed food and beverage industry (including tobacco manufacturing) increased by 10.9 per cent a year over the three years to 2000–01 (BIS Shrapnel 2003). In comparison, the profitability of the manufacturing sector increased by 7.8 per cent over the same period.

Domestic market

Growth trends

The domestic market has reached maturity, with growth dependent largely on population growth and the encouragement of consumers to 'trade up' to higher value products.

With the rate of population growth remaining modest, domestic market expansion will be largely contingent on the capacity of the processed food and beverage industry to successfully market more innovative and higher value products.

Import penetration

In 2002–03, imports accounted for around 10 per cent of domestic consumption of processed food and beverages. Australia's processed food imports increased by an average of 0.8 per cent a year over the four years to 2001–02. In comparison, world processed food trade declined by 1.3 per cent a year over the same period (BIS Shrapnel 2003).

Processed seafood and processed fruit and vegetables are Australia's main food imports, although their share of total food imports has declined over the past decade. In contrast, imports of beverages and processed cereal



and bakery products have risen. New Zealand is the main source of Australia's imports; its share of Australia's total imports has increased substantially over the past decade.

Food retailing trends

Supermarkets and grocery stores are Australia's most important food and beverage sales outlets. However, their share of food and beverage retailing declined by 1 per cent in 2003–04 to 62 per cent as a result of strong sales growth in restaurants and takeaway food outlets.

- Drinks and confectionery were the fastest growing grocery category, by value and volume, in Australian supermarkets for the year ending July 2004 (Retail World 2004).

Specialty greengrocers, delicatessens and bakeries have created niche markets that do not compete directly with the major supermarket retailers.

Growth in the current low-end supermarket brands appears to have stabilised and is now broadly consistent with the market overall. Australian supermarkets are beginning to focus on developing premium house brands to improve profitability and produce superior margins.

Export market

Global processed food trade trends

International trade in processed food has increased rapidly over the past decade. In 2002, 75 per cent of the global food trade was in processed products, compared with 50 per cent in 1985. The key products traded globally are meat products, vegetable oils, dairy products and grain products.

A small number of countries have a very large share of global trade in processed food. Just five countries (France, the United States, Germany, the Netherlands and Australia) contribute 38 per cent of the trade. Australia's share is around 3 per cent.

Export performance

In 2002–03, exports made up 23 per cent of Australia's processed food and beverage industry sales (DAFF 2005). The wine, processed meat and dairy sectors have a strong export focus and as a result made the largest contributions to the export sales of all industry categories (see Table 24).

Australian export markets for processed food have diversified over the past decade. Japan and the United States remain Australia's most important destinations, accounting for 23 per cent and 22 per cent of export sales respectively in 2003–04, but Japan's share of total Australian food exports has declined. The United Kingdom, Korea, Indonesia, New Zealand, Malaysia and Hong Kong have assumed greater importance as export destinations.

More than half of Australia's current processed food exports are to Asia. This proportion is expected to increase, with opportunities for trade opening as free trade agreements between Australia and Asian countries are established. Processed meat and dairy products and sugar are the main products exported to Asia. Processed meat and dairy products account for 73 per cent of exports, by value, to Japan, while processed meat products and wine account for 84 per cent of exports, by value, to the United States.

Table 24 **Composition of Australian processed food and beverage exports in 2003–04**
Total value: \$15.2 billion

Sector	%
Processed meat	38.3
Wine	16.4
Dairy	15.0
Sugar	7.9
Other processed food products	6.1
Processed seafood	4.3
Processed fruit and vegetables	3.3
Flour mill products	2.8
Other beverage and malt	2.5
Confectionery	1.8
Oil and fat	1.0
Bakery	0.7
Total	100.00

Source: DAFF 2005.

Industry-level structures and challenges

The Australian Food and Grocery Council is the peak industry body representing the interests of processed food and beverage companies. The council has more than 170 member companies, subsidiaries and associates, including multinational companies operating in Australia, representing 85 per cent of the gross dollar value of sector sales. The priorities for the industry include:

- the economy and trade, including competition policy, industrial relations, tax reform and market access
- environmental sustainability
- food regulation, including novel foods and labelling
- genetically modified foods
- food supply-chain integrity and security.

Other important issues identified by food and beverage manufacturers include:

- retailer–supplier relations
- consumer health and nutrition, particularly in relation to obesity
- how to grow consumer demand
- take-up of emerging food supply chain technologies.

Industry outlook

Global demand for processed food is expected to increase. The world's population is expected to grow from 6 billion people in 2000 to 7.5 billion in 2020 (Garrard 2004). In addition, household incomes are increasing and population demographics are changing, most notably in Asia. These developments are giving rise to significant opportunities for Australian food and beverage manufacturers to enter new markets and grow their businesses. The ability to enter these new markets and build on existing markets will be influenced by the following factors:

- manufacturer's success in focusing on process and product innovations to meet consumer needs and keep ahead of competition
- how well Australian food manufacturers are able to link back into the global supply chain relationships that the major international retailers are building with a select number of suppliers
- ongoing restructuring and rationalisation by Australian manufacturers to reduce costs and generate the economies of scale needed to compete with large global businesses
- capital investment required to commercialise innovations, extend operations and upgrade technology
- the extent to which restrictions on access to global markets can be reduced, thereby creating improved opportunities for industry growth
- how well food and beverage manufacturers are able to consolidate or expand their shares of the domestic market through brand strength and focusing on reducing costs to gain scale efficiencies.

