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Taiwan

HRI Food Service Sector

Report

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Report Highlights:

Food service and the availability of food are ubiquitous in Taiwan. The total size of the Taiwan food service/HRI sector in 2000 was estimated at approximately US $9 billion, which represents a 10% growth from 1999. The food service sector is highly fragmented, which makes it hard for individual suppliers to achieve scale and scope advantages in terms of volume. However, great opportunities for US suppliers exist in some fast growing segments identified in this report.

Includes PSD changes: No
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Unscheduled Report
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Executive Summary

Food service and the availability of food are ubiquitous in Taiwan. The total size of the Taiwan food service/HRI sector in 2000 was estimated at approximately US $9 billion, which represents a 10% growth from 1999. The food service sector is highly fragmented, which makes it hard for individual suppliers to achieve scale and scope advantages in terms of volume. However, great opportunities for US suppliers exist in some fast growing segments identified in this report.

I. MARKET SUMMARY

Food service and the food availability are ubiquitous in Taiwan. "Eating out" is a way of life and the restaurant market is highly fragmented, at all price levels, amongst an almost incomprehensible number of restaurants -- the vast majority of which are non-franchised and individually-owned. From the dense major cities to small rural villages, restaurants, food stalls and street vendors are so common as to often find several-out-of-home meal and snack vendors within just one block. This fragmentation has several important effects, including strong price competition amongst restaurant outlets serving traditional (i.e., Chinese/Taiwanese) food, limited purchasing power of any one outlet or group of outlets, and importance of good logistics for food-products distributor sales success. This report will focus on the major players in each major food service/HRI segment and evaluate their receptivity to imported food products from the US. Targeting key importers, wholesalers, and distributors who are the upstream vendors of the multitude of outlets is critical to achieving success in selling products into the market.

The total size of the Taiwan food service sector in 2000 was estimated at approximately NT$300 billion, excluding the "institutional food service" segment (NT$ is Taiwan's legal tender. The current exchange rate is approximately NT$34 to 1 US dollar). This represents a 10% growth over 1999. Industry estimates that 40% of sales come from family-style restaurants, 15% from Quick Service Restaurant (QSR), 20% from local mom & pop (hsiao-chih tien) eateries, 8% from retail food outlets like ready-to-eat food sections in convenience stores, 6% from coffee/tea shops, 6% from hotels, and 4% from other eating and drinking places. The size of each segment is shown on table 1. Note that there is no specific data available regarding the food & beverage revenue from the institutional segment, which includes schools, factories/companies, hospitals, the army, and similar venues.

Table 1 Taiwan Food Service Sector by Sub Categories (Value in $ million NT)

Category	1998	1999	2000
Restaurants	178,881	200,951	223,529 (75%)
Retail Food Outlets (convenience stores)	23,808	24,148	24,742 (8%)
Coffee/tea shops	16,570	17,249	18,720 (6%)
Hotels	14,639	15,309	17,142 (6%)
Other eating & drinking places	11,928	12,184	12,210 (4%)
Total	245,826	269,841	296,343 (100%)

Source: Ministry of Economic Affairs; Tourism Bureau, Ministry of Transportation & Communication

In terms of store numbers, there were 52,993[1] food venues registered in Taiwan at the end of 2000, of which 70% were categorized as restaurants, 15% as coffee/tea shops or cold non-alcoholic beverage shops, and 15% as karaoke clubs, outdoor catering, beer houses, and street vendors. Of all food

[1] Ministry of Finance

service outlet types, convenience stores, breakfast stores, and coffee shops registered the highest growth in sales during 2000. The number of chain stores by segment is shown in table 2:

Table 2 Number of chain food service venues in Taiwan:

Type of Restaurant	Type of food	1997	1998	1999	2000
Fast food	Chinese food (noodle, rice, lunch box)	795	864	1352	1499
	Non-alcoholic beverage shops	-	1073	1760	2779
	Breakfast (sandwich, hamburger, etc.)	1,314	3,700	5,498	6,707
	Fried chicken & hamburger	486	622	657	677
	Other fast food	114	1,182	1,722	1,733
Family style	Western food (steak, pizza, etc.)	498	887	939	1,022
	Chinese food	85	92	70	73
	Coffee and light meals	393	545	726	882

Source: Taiwan Chain Store Association

Market Factors

Current Stagnant Economic Situation
As the government continues to adjust the expected economic growth rate for 2001 downward (5% in April of 2001) and the unemployment rate upward (4% in April of 2001), Taiwan consumers are experiencing increasing financial pressures. This is reflected in a 10%-30% decline in sales for mid to high-end hotels/restaurants during the last quarter of 2000, compared to the same quarter of the previous year.

Increasing Labor Cost
A big challenge for the food service businesses is rising labor costs. As of January 2000, the number of legally required working hours per week for laborers in Taiwan was reduced from 48 to 44 hours. Increasing labor costs have driven many of the island's labor-intensive, low margin companies out of business or offshore, to less expensive labor markets.

Opportunities in Tourism
Although people generally have more time now for leisure time than previously, this leisure time has not greatly increased domestic travel volume. However, more people are going abroad on vacation, according to Tourism Bureau data. The tourism industry continues to urge the government to lift the longstanding ban on China tourists coming to Taiwan. Hopes are that this will occur by the end of 2001. Meanwhile, the government is encouraging people to take their vacations domestically, instead of abroad, by continuing to improve the island's tourism infrastructure and offering limited incentives for travel to particular areas.

Consumer Spending—More Eating Out
In 2000, the Taiwan GNP per person was US$14,216, a 7% increase since 1996. As people have more disposable income, expenditures on eating out have increased rapidly. As shown in table 3, food and beverage consumption represented 24% of the total private consumption in 1999. Eating out representing almost 27% of the total food and beverage portion of consumption. The value of this portion has ballooned by 28% since 1996. In big cities like Taipei, eating-out expenditures actually represent a higher percentage (30%) of total food and beverage expenditures.

Table 3 Taiwan Consumer Food service Expenditure (Value in $ million NT)

	1996		1997		1998		1999	
	Value	%	Value	%	Value	%	Value	%
Total Private Consumption	3,630,244	100%	3,873,042	100%	4,054,549	100%	4,214,189	100%
Consumption on Food & Beverage	916,182	25%	965,728	25%	1,012,969	25%	1,028399	24%
Consumption on Eating Out	216,243	6.0%	238,150	6.1%	263,905	6.5%	277,338	6.6%

Source: Directorate-General of Budget, Accounting, and Statistics

A study focusing on eating out at traditional Chinese / Taiwanese eateries conducted by the Taiwan Chain Store Association in 1999 showed that 78%, 86%, and 51% of consumers ate out for breakfast, lunch, and dinner, respectively. This study was repeated in 2000, but focused on the Taipei region only. The Taipei study showed that among those who ate out, the most popular breakfast is a sandwich (25%) or egg pancake (23%), with milk tea (39%), or soybean milk (20%), or milk (17%). The most consumed lunch and dinner items are noodles (39%) or rice in cafeterias (31%). Further the Taipei study showed that consumers do not have much time to eat on premises, therefore among those who purchased meals out of the home, 92%, 74%, and 78% of them ordered meals "take out" for breakfast, lunch, and dinner, respectively. In Taipei the expected price ranges are NT$31-50 for breakfast, NT$51-80 for lunch, and under NT$100 for dinner. Important factors in selecting the eating-out venue are taste (20%), food type (15%), price (14%), and hygiene (14%). The source or country origin of food materials was almost nil in importance.

Although western-style eating out venues have not been researched specifically for this report, the following qualitative observations can be made. Eating out in mid to high-end western style restaurants is more of a treat or for special occasions for the average household. However, there are increasingly more people going to a hotel or a high-end restaurant to celebrate holidays including Chinese New Year. It has also become more common for people who live in urban centers such as Taipei to go to western style restaurants, compared to their counterparts in rural areas. For the younger generation, having been exposed to a western food style diet during their formative years, "western" tasting food, particularly in the fast food category, are continuing to gain ground as a frequent, often daily, diet choice. Menu items most frequently replicate the types found in the US although some accommodation is made to fit general consumer tastes – such as a focus on chicken sandwiches rather than beef hamburgers at fast food chains.

Advantages	**Challenges**
1. Importers and wholesalers have an awareness and appreciation for the quality of US products. 2. US products will enjoy greater price competitiveness after Taiwan joins WTO. 3. More westernized diet increases consumers demand for quality US products.	4. Some major items such as chicken and pork are either still prohibited from imports or subject quotas. 5. Low price competitors are threatening US in areas like beef, juice and vegetables. 6. High fragmentation makes it hard for US exporters to achieve scale and scope advantages in terms of volume.

II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

1. Identify the key players for market development

Since the Taiwan market is highly fragmented, it is critical for US suppliers to identify the key players in each of the trade channel levels to focus their marketing efforts. The ATO in Taiwan maintains listings of potential and current trade channel members for major categories. Major importers, wholesalers, food processors, and chain users then need to be contacted with information related to product quality, storage, and handling to ensure the best product condition.

2 Understand your processors' needs

Firstly, US suppliers need to know what the local practices and the end users' needs for this particular product are. For example, Taiwanese prefer dark meat for poultry, pork with skin, and beef stomach and shanks. Therefore food cut or packaged in the right way can save a lot of time and labor for food service operators and will facilitate movement of the product.

3 Communicate the product attributes/benefits to your end-users

Only if the end consumers appreciate US products will they demand US products in food service venues. Consumers need to know the unique benefits US products provide that do not exist in competitor's offerings in order to justify any price difference.

4 Customize the product for local tastes

US suppliers need to work with the local trend-setters to create products suited to local tastes in order to gain economic scale. Consumers' tastes can change quickly so that constant monitoring of customer needs and consistent new product development is essential to keep interest amongst consumers high.

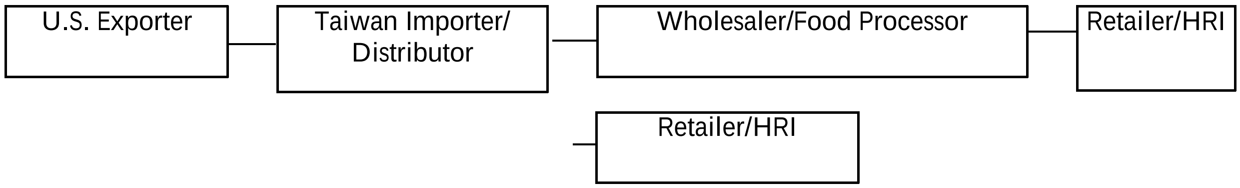
5 Be aware of local regulations and trends

Taiwan will be joining WTO in the near future and many regulations related to food imports will be changed as a result. It is important that US suppliers keep close contact with the market specialists at ATO Taiwan, who monitor these changes.

B. Market Structure

The distribution channel for food products in Taiwan in the food service/HRI sector is identified in the following chart. Fragmentation is high in the food service/HRI trade channel, with many small or local suppliers/distributors. Even 7-Eleven with over 1,000 outlets and nation-wide distribution relies on many middleman-organizations to assemble and deliver their ready-to-eat meals, with each supplier only covering a limited number of outlets. Furthermore, each supplier may only do product assembly, with another upstream supplier actually cooking/preparing the food for the assembler. The result is not infrequently a two-tier system between raw material suppliers and the end vendor – 7-Eleven. Points of leverage for the exporter in this production system are at the level of the importer / distributor and the end-user / customer. The former is able to proactively "push" products into the system, while customers can (and do) "pull" products into the system. Trying to sell to the middlemen processors or assemblers threaten to yield little in the way of efficiencies. Another point of entry is to identify the US supplier of specific western chains who often buy in the US for worldwide distribution. The Taiwan outlet of such a chain typically orders based on home office requirements / specifications. One further, often-overlooked, supplier is an outlet/warehouse operator like COSTCO. These outlets are frequented by many small food service/HRI operators to buy items at the lowest possible cost in quantity thereby avoiding the hassle of trying to get a small volume of items via traditional import channels.

Distribution Channels



C. Sub-Sector Profiles

Hotels

Taiwan had 3,331 registered hotels at the close of 2000. Included amongst these are 80 international tourist and tourist hotels (4 and 5 stars). These 80 hotels represent 60% of the total overall hotel revenue and at least 90% of the total hotel food & beverage revenue. Among the international tourist and tourist hotels, revenue from food & beverage accounted for 46% of the hotels' total revenue in 2000, and was worth NT$17,142 million – a 12% growth over the previous year. In terms of regional areas in Taiwan, 69% of the food and beverage revenue was generated in the Taipei region, 13% from Kaohsiung, 7% from Taichung, and 11% from other regions. The catering business for special occasions can be as high as 40% of the total food and beverage revenues in some hotels. Hit by the recession which began in the last quarter of 2000, hotel food & beverage sales are down by 10-30% compared to the same time last year. In response, some five star hotels are placing more emphasis on the business of take-out/delivery lunch boxes and targeting companies that are willing to pay a premium for lunch-box food quality (typically, such lunch boxes are priced at between $100 and $300 each). The take out/delivery lunch box business may already represent as high as 25% of the total sales for the restaurants inside some hotels. Certain five-star hotels have bucked the trend and not offered lunch boxes to avoid diluting their served meal business.

Name of Major Hotel Group	Food revenue ($ Million NT)	# of hotels	# of restaurants	Purchasing Source
Formosa Int'l Hotels Group (Grand Formosa Regent)	2,138	4	29	Importer/wholesaler
Howard Hotels & Resorts Int'l* (Howard Plaza Hotel)	1,786	4	27	Importer/wholesaler
Grand Hyatt Taipei	1,418	1	12	US consolidator/ importer/wholesaler
Shangri-la Hotels & Resorts (Lai Lai Sheraton Hotel)	1,050	1	14	Importer/wholesaler
The Ambassador Hotel	846	3	14	Importer/wholesaler
Grand Hotel	803	2	9	Importer/wholesaler
Far Eastern Plaza Hotel (Taipei)	768	1	6	Importer/wholesaler
The Leofoo Group ** (The Westin Taipei & The Leofoo)	745	2	13	Importer/wholesaler
Grand Hilai Hotel (Kaohsiung)	647	1	13	Importer/wholesaler

*Howard owns two other resort hotels and five restaurants
** The Leofoo Group also owns a theme park, "Leofoo Village"
Source: Tourism Bureau, Ministry of Transportation & Communication; SP research

Resorts

Resorts in Taiwan, classified by areas of focus, fall primarily into the classifications of amusements parks, cultural/education sites and scenic areas. Over one third of resorts are located in Northern Taiwan, less than one third each are distributed equally in Central and Southern Taiwan, and the remaining 10% are in Eastern Taiwan. About 18% of the resorts are in the NT$100 million plus range of overall revenues. And it's estimated that close to 17% of resort revenues can be attributed to food sales. Food venues are weighted towards cafeteria and served-style Chinese/Taiwanese food, followed by fast food and Western-style restaurants, and snack / beverage vending kiosks. Over two-thirds of the resorts manage the food venues themselves. They purchase primarily through importers/wholesalers.

Name of theme park	1999 # of visitors	# of food venues	Purchasing Source
Leofoo Village	1,542,238	7	Importers/wholesalers
Junfusun Fancy World	1,393,080	7	Importers/wholesalers
Taiwan Folk Village	944,801	4	Importers/wholesalers
Window on China	746,141	9	Importers/wholesalers
Formosan Aboriginal Cultural Village	602,554	8	Importers/wholesalers

Source: Tourism Bureau, Ministry of Transportation & Communication; SP research

Restaurants

A. Fast Food-- Western Style

The fast food industry had a difficult year in 2000. Given a stagnant economy and strong competition from chain coffee shops, convenience stores (featuring ready-to-eat chilled and heated food), and breakfast bars, the major players either slowed down opening new stores or exited from the market. During 2000, the Western style fast food segment grew less than 5%. McDonalds still predominates, with 339 stores and NT$14 billion in sales on the island. Lotteria and Wendy's exited the Taiwan market in recent years. Many new products such as Italian coffee, bagels, spaghetti, pita pockets, and rice burgers were introduced into the market and have led to diversity in consumer choice and expectations. Chicken is still the primary focus of consumer demand. Import quota restrictions on chicken has meant that demand is effectively serviced by domestic poultry.

Fried chicken is very popular and a focus of sales even at establishments such as McDonald's and Pizza Hut. Customer preference is for dark meat (drums, wings, thigh meat). Promotions offered by fast food establishments including price-off, giveaways, and volume discounts were employed everywhere. Pizza houses have largely completed a shift, begun by Dominos, away from sit-down service to delivery and take-out businesses.

Company Name	# of stores	Region	Purchasing Source
McDonalds	339	National	Exporter/importer
Kentucky	127	National	Exporter/importer
Mr. GW Church	51	Regional	Importer/wholesaler
Ting-kua-kua	43	National	Importer/wholesaler
Mos Burger	41	National	Importer/wholesaler
Burger King	26	National	Exporter/importer/wholesaler
21st Century	16	National	Importer/wholesaler
Domino's Pizza	107	National	Importer/wholesaler
Pizza Hut	98	National	Importer/wholesaler
Napoli Pizza	50	National	Importer/wholesaler

Source: Taiwan Chain Store Association; SP research

B. Fast Food-- Chinese Style

The entry barrier for Chinese style fast food outlets is low for individually owned/operated stores. During rough economic times, such as now, a frequent result is proliferation of small "mom-and-pop" Chinese style fast food outlets. Greater competition amongst service outlets, combined with increasing convenience store expansion into prepared meal service (i.e., the ready-to-eat food segment) and coffee shops, have led to increasing pressure on margins for this segment. High labor and land costs, and the fact that not many chains have the ability to provide standardized products, have made the chain scale of outlet numbers relatively small compared to western QSR's. Japanese noodle shops were quite popular in Taiwan in the summer of 2000. However, the market for Japanese noodles style outlets has since peaked and shops continue to dwindle in number.

Company Name	# of stores	Region	Purchasing Source
Mercury Noodle	163	National	Importer/wholesaler
Chung Yi Spare Rib	77	National	Importer/wholesaler
Taiwan Yoshinoya	45	National	Importer/wholesaler
Chia-yi Rice box	40	Regional	Importer/wholesaler
Formosa Chang	28	National	Importer/wholesaler
Sugaki Noodle	27	National	Importer/wholesaler
A-May Noodle	18	Regional	Importer/wholesaler

Source: Taiwan Chain Store Association; SP research

C. Family Style Restaurants

Family style restaurants were hit badly by the slowdown in economic growth. Sales are down 15-50% compared to the same period last year. It is believed that people start cutting down on their eat-outing expenditures first for dinners. Family style restaurants, except some high-end steak houses, mostly buy materials from local importers or wholesalers. US beef is widely used in most of the high-end steak houses such as Ruth Chris and Wang Steak, and even for some more expensive menu items in the low-end steak houses, such as Noble Family and My Home.

Company Name	# of stores	Region	Purchasing Source
Noble Family Steak House	175	National	Importer/wholesaler
Bullfighter	38	National	Importer/wholesaler
Wang Steak	14	National	Importer/wholesaler
Skylark	11	Regional	Importer/wholesaler
Hsin-yeh	12	National	Importer/wholesaler
TGI Friday's	10	National	Exporter/importer/wholesaler
Swensen's	9	National	Distributor/importer
Cairus Stonegrill	6	Regional	Importer/wholesaler
Shan-he-wu	6	Regional	Importer/wholesaler
Hai-Pa-Wang Seafood	6	Regional	Importer/wholesaler

Source: Taiwan Chain Store Association; SP research

Breakfast Store Chains

A study conducted by *Distribution News* among working people in 1999 showed that the most important factors in terms of breakfast purchases are convenience, good taste, hygiene, and reasonable price, in that order. Chained breakfast stores largely address all these key factors, and therefore have expanded very quickly over the past few years. According to the Taiwan Chain Store Association, there were 5,000 breakfast store franchises operating in Taiwan during 2000, among which the vast majority operate in a limited geographic area. The fast growth of this segment is attributed to three factors: 1) breakfast store chains offer freshly made hot sandwiches/egg pancakes at affordable prices, 2) sandwiches and milk tea are extremely popular among the younger generation, just like baked cakes with fritters of twisted dough and soybean milk was to the older generation, and 3) there are low entry barriers for this business since the chain headquarter provides know-how and supplies the materials. Breakfast store chains are more competitive than individually owned stores, because the chain headquarter has economy of scale in material procurement, marketing, and new product development. In terms of materials, for sandwiches, sliced meat (beef, pork, or chicken), instead of ground meat patties, is gaining widespread acceptance.

Company Name	Est. # of stores	Region	Purchasing Source
Mei & Mei system	2,000	National	Importer/wholesaler
My Warm Day	1,000	National	Importer/wholesaler
GDB	400	National	Importer/wholesaler

Source: SP research

Department Store Food Courts & Restaurants

According to the Taiwan Department Store Association, there are around 50 department stores in Taiwan. Total revenue in 2000 for this segment was NT$145 billion, an 8% growth from 1999. Competition is fierce for department store business. In 2000, 10 new department store outlets opened, while 5 exited the market. 48% of sales in this segment are generated in the Taipei region, 17% from Taichung, 17% from Kaohsiung, and 18% from other regions. Each major department store has 2-9 sit-down restaurants and a floor or part of a floor devoted to a food court (along the Japanese model). Revenues from restaurants and food courts represent 3-4% of the total department store revenue.

Company Name	2000 Sales	Market Share of the Region	Purchasing Source
Shinkong Mitsukoshi (total 3 stores in Taipei)	18,883 million	27% (Taipei)	Importer/wholesaler
Pacific SOGO Taipei	16,391 million	24% (Taipei)	Importer/wholesaler
Kuangsan SOGO (Taichung)	8,524 million	35% (Taichung)	Importer/wholesaler
Chungyo (Taichung)	8,300 million	34% (Taichung)	Importer/wholesaler
Hanshin (Kaohsiung)	6,074 million	25% (Kaohsiung)	Importer/wholesaler
Dayeh Takashimaya (Taipei)	5,758 million	8% (Taipei)	Importer/wholesaler

Source: Taiwan Department Store Association; SP research

Ready-to-eat Food from Convenience Stores

There were almost 6,400 convenience stores in Taiwan by end of 2000. Revenue from all convenience stores for 2000 is estimated to be NT$110 billion by the Taiwan Commerce Office. The ready-to-eat food section, representing almost 15% of total revenue, provides a high margin (38%) and grew at least 30% compared to the year before. The ready-to-eat section in a typical convenience store franchise outlet now includes seaweed-wrapped rice patties, cold sandwiches, salads, cold noodles, hot dogs, steamed buns, and a crock pot stocked with traditional Taiwanese snacks such as meat paste balls, tea eggs, and others.

Microwave-able lunch boxes are also gaining ground -- competing directly with traditional cafeteria and take-out style restaurants. These lunch boxes stored at 18 degree Celsius were launched by 7-Eleven in June of 2000, and were a huge success. This led the other chained convenience stores to enter the ready-to-eat lunch box business. Just lunch boxes alone sold through 7-Eleven chain were worth $1.1 billion NT, representing almost 12% of the 7-Eleven's total ready-to-eat food revenue. Each major chain coordinates with a cluster of regional food processors to develop and supply their lunch box products. Prices are fixed between NT$55 and NT$65 each. Related promotions include offering free drinks and promotional price discounts. Major convenience store chains have strong need to ensure their supply of consistent quality food. US products have a great potential in this segment after Taiwan joins WTO.

Company Name	# of stores	Est. Market Share	Purchasing Source
7-Eleven	2,690	54%	Importer/wholesaler
Family-mart	1,011	16%	Importer/wholesaler
Hi-life	750	12%	Importer/wholesaler
OK	610	10%	Importer/wholesaler

Source: Taiwan Chain Store Association; SP research

Air Catering

The air catering business checks in at about NT$1.5 billion in turnover. The segment grew approximately 5% in 2000. Most domestic flights do not provide meals due to short flight time (maximum 1 hour). For international flights, US beef is generally used only in business and first classes, while New Zealand beef is used for economy class. Frozen vegetables and meals from Europe are also widely used. Major air caterer operations also prepare, on a sub contractor vendor basis, sandwich, salad, and cake items for domestic coffee shop chains and convenience stores for the latters' ready-to-eat sections . The industry is widely expected to grow significantly once the government's ban on direct flights to China is lifted.

Company Name	# of meals served daily on average	Other customers	Purchasing Source
China-Pacific	18,000	Barista Coffee	Importers/wholesalers
Evergreen	10,000	Starbucks Coffee	Exporters/importers/wholesalers
Trans Asia	4,000	Hi-life convenience store	Importers/wholesalers

Source: SP research

Coffee Shop Chains

According to the Taiwan Chain Store Association, there were 726 franchised coffee shop outlets in Taiwan by end of 2000, a 33% growth compared to the year before in terms of store numbers. In terms of coffee consumption per capita, Taiwan is at 25% of Japan and 15% of US. As young people are more westernized, drinking coffee in coffee shop chains symbolizes fashion and taste. High-end coffee shop franchises are of two principal types: Japanese-style (table service, more food items. Chains include Kohikan and Manabe) and US-style (self service with coffee being the main item. Chains include Starbucks, Barista, and IS). "35NT-per cup", lower-end coffee store chains include DCS Doutor, Ike, and Dante, among others. Most US style high-end coffee shops only provide sandwiches, cakes, pastries, and salad prepared by air catering or other food processors, while domestic and Japanese style coffee shops offer freshly made sandwiches and hot meals, shipped frozen from their food processors for reheat in the outlets. In terms of coffee beans, Japanese chains typically use coffee beans roasted and packaged in Japan, while US chains buy from US suppliers, roasted either in the US or domestically in Taiwan.

Company Name	# of stores	Region	Purchasing Source
Dante	73	National	Importers/wholesalers
Kohikan	69	National	Exporters/importers/wholesalers
Starbucks	64	National	Exporters/importers/wholesalers
Manabe	56	National	Exporters/importers/wholesalers
IS Coffee	50	National	Exporters/importers/wholesalers
Barista	27	National	Importers/wholesalers
DCS Doutor	18	Regional	Importers/wholesalers

Source: Taiwan Chain Store Association; SP research

Hospitals

There were 700 hospitals in Taiwan by the end of 2000, among which, 4 offer 2,000 beds or more and 11 offer 1000-1999 beds. Major hospitals are located in big cities like Taipei, Kaohsiung, and Taichung. Most of the major hospitals have restaurants for visitors and internal restaurants for employees and patients. Restaurants for visitors are normally operated by outside contractors while restaurants for employees and patients are normally managed by the hospitals internally with nutritionists controlling the menus. Taipei Veteran's General Hospital, for example, serves 14,000 meals for employees and 10,000 meals for patients on an average day. Some small-scale hospitals outsource all their food service business to catering companies. Since most hospitals run on a tight budget for food, US-sourced food is rarely specified. However, some niche opportunities exist with pureed foods for dietary needs of the elderly, and frozen items like sheet cakes for labor saving dessert items.

Company Name	# of beds	Type	Purchasing Source
Chang Gung Memorial Hospital (Taoyuan)	3,230	Private	Importer/wholesaler
Taipei Veteran's General Hospital	2,866	Gov't	Importer/wholesaler
Chang Gung Memorial Hospital (Kaohsiung)	2,450	Private	Importer/wholesaler
National Taiwan Univ. Hospital	2,080	Univ.-affiliated	Importer/wholesaler

Source: Department of Health; SP research

Schools

There are 2,600 elementary and 709 junior high schools in Taiwan. According to the data from the Ministry of Education, 46% of the elementary and 81% of the junior high schools operated a lunch meal program in 1999, which means a total of 1.5 million students ate at school. The budget for a meal in a Taipei county school is about NT$45-55 per child, and may be lower for other cities or counties. Some schools outsource their lunch to food packagers, while others hire kitchen aides. School teachers are involved in purchasing materials. In terms of materials, beef is not used as much as pork and chicken especially for elementary children's meals. Leafy vegetables are preferred. Given the tight budget of school meals and small scale of operation, US products are rarely used. International schools such as Taipei American School (TAS) have a cafeteria type of service providing breakfast and lunch for 2,000 students. US products are used widely at TAS. There are at least 150 food processors supplying lunch to schools, organizations and factories. Given the high labor cost and limited scale, these companies have increasing needs for consistent quality, pre-cut food giving attractive growth potential for appropriate US products.

III. COMPETITION

The major food imports from the US versus competition for year 2000 is outlined in table 4.

Table 4 Taiwan Food Import Statistics 2000

Major Import categories		Category Total Value $USD*	US Primary Competitor	US SOM**	Competitor SOM**
Beef		201,892,690	Australia	**31%**	36%
Pork		68,182,766	Canada	**70%**	14%
Poultry		25,633,404	Canada	**98%**	2%
Seafood	Fish	154,510,523	Norway	**18%**	18%
	Shellfish	181,351,298	Australia	**10%**	33%
Cheese		24,853,741	New Zealand	**10%**	53%
Deli Products		70,607,024	Japan	**30%**	21%
Fresh/frozen fruit		25,206,176	Thailand	**67%**	19%
Juice		34,500,000	Brazil	**27%**	21%
Fresh/canned/frozen corn		31,524,008	Hungary	**80%**	13%
Fresh/canned/frozen potatoes		47,325,565	Canada	**90%**	6%
Fresh/canned/frozen vegetables		159,413,809	Thailand	**58%**	12%
Condiments/seasonings/ Sauces		47,394,152	Japan	**20%**	56%

continued					
Bakery pre-mixes/ frozen dough	Flour/Malt/ food prep	179,359,198	Netherlands	**18%**	27%
	Bread	50,605,581	Japan	**8%**	46%
	Sugars/not cane or beet	7,726,048	Netherlands	**37%**	11%
	Choc/food preps w/cocoa	46,192,736	Italy	**26%**	21%
Cereals		5,707,380	Thailand	**44%**	15%
Tree nuts		31,008,841	Iran	**45%**	30%
Prep food items not elsewhere covered		160,681,577	Japan	**48%**	12%
Pasta		8,938,967	Thailand	**5%**	29%
Coffee		19,000,537	Indonesia	**18%**	24%
Dairy	Ice Cream	9,519,839	Hong Kong	**41%**	30%
	Milk/cream/ buttermilk	149,045,729	New Zealand	**0%**	49%
	Butter	24,755,499	New Zealand	**0%**	62%
Beer		66,829,996	Japan	**25%**	34%
Wine		27,600,000	France	**20%**	46%
Distilled Spirits		244,432,513	United Kingdom	**1%**	48%

Source: Taiwan Board of Foreign Trade (BOFT)
*These are total category import dollars for all uses, hence the food service portion of these dollars would most likely reflect the share of out of home eating dollars of the total consumer food dollar except for items consumed primarily at home.
**SOM means Share Of Market

In the food service/HRI sector, penetration of imports reflects to the degree to which; 1) the Taiwan government and industry groups protect their market from imports, 2) food products are commonly consumed as a part of the cultural eating practices, 3) the degree to which westernization of food tastes has occurred, and 4) the domestic industry's ability to replicate western food processing techniques. There is a strong affinity toward the US amongst Taiwan consumers, and many Taiwanese travel and have lived in the US, returning to Taiwan with interest in US style restaurants and foods.

The meat market provides some understanding of fundamental market attitudes toward imported food products. Beef is not the primary meat of choice, and the domestic industry is not strong. The US, with corn feed beef, services the high end of the food service/HRI sector. The higher price paid for US beef by venue operators is offset by higher prices paid by consumers, and the high quality of US beef is a match for the venues' positioning in the market. Conversely, Australian and New Zealand grass fed beef is a match for lower-priced venues with more middle-of-the-road positioning. Imports from other countries (there is, effectively, no local beef production) fill low-end and institutional needs. Short-term circumstances like a weakening economy or lower value of the New Taiwan Dollar (NT) against the

US dollar leads operators to switch to lower cost alternatives. However, some venues like high-end international hotels and top restaurants will not substitute for US beef, if at all possible.

The local population has a cultural preference for pork and pork products. As a result, the domestic industry is highly developed and well organized. While the US dominates pork import supplies, imports are only a small part of domestic consumption. WTO will open the market over time and provide entry to efficient international pork producers. The chicken/duck market is similar to pork, with the exception that, at present, several chicken buying groups monopolize the market. The one unique segment of the poultry market for US suppliers is turkey dark meat (thigh / leg meat). The seafood market is also similar to pork and poultry industries in terms of the predominance of local suppliers. Imports have penetrated in the processed fillet segment, with the US holding it's own against Norway in terms of share of market (SOM). However, the domestic and nearby SE Asian countries are also strong in terms of supply. Australia is the prime competitor against the US for the premium crustacean market.

In many areas the US is able to dominate imports because of strong brand names for processed foods and scale and scope advantages unduplicated by smaller countries where US cost will be competitive (canned corn as an example -- used in a vast variety of prepared food and in corn soup, a perennial favorite). Juice, frozen potatoes, some vegetables, and many processed items used in baking are areas of competitive advantage for US suppliers. Dominance in an import segment can also come from products which are more unique to the US such as breakfast cereals, US snack nuts, retail-branded coffee, and ice cream. Also, the US holds an advantage in a limited segment of items where US suppliers have preferential or exclusive access. These include chicken meat and certain fruits. However, such exclusivity will end when Taiwan joins the World Trade Organization (WTO).

IV. BEST PRODUCT PROSPECTS

An important part of market opportunity in Taiwan will be best serviced by alterations that meet market & cultural expectations. Western style venues and menu needs can usually be filled, as they would be filled in the US. Chinese-style cooking/cuisine incorporates certain specific needs and opportunities. For example, Chinese style cuisine and the ubiquitous lunch/dinner boxes require chopstick friendly chucks of food. Food preparation for Chinese style cooking is very labor-intensive requiring lots of chopping and cutting before cooking. Labor is expensive and there are advantages for food suppliers that offer materials pre-cut and ready to cook. One of the best examples of matching venue/outlet needs is the Japanese coffee shop chain of Manabe and their Taiwan off-shoot Kohikan, which has limited wait staff in the outlet, but offers entrees which are frozen one dish meals that are microwaved on premise for fast, quick, portion-controlled, high-quality meals without the back kitchen overhead. US companies can use this example to find ways to approach/develop the market, and fill needs.

The assessment in this section comes from analysis of the category and of US SOM vs. competitors' relationships in the previous section, from the results of interviewing trade channel members on development dynamics, and from an informal survey conducted with 18 trade channel members from the retail outlet level, institutions, importers, and middlemen (wholesalers / distributors / processors). Because of the limited number of interviews, the results shown in table 5 are for reference use only:

Table 5. Year 2001 AIT Agricultural Trade Office Food service Sector Survey

Categories	Interviewee currently buys from			Average rating potential for US products (5-very good, 4-good, 3-fair, 2-poor, 1-very poor)
	US	Domestic	Competitive countries	
Beef	73%	13%	Aus(60%)/NZ(27%)/ Can(7%)	4.0
Pork	19%	88%	Canada(6%)	3.3
Poultry	19%	88%	Canada(6%)	3.7
Seafood	13%	47%	Can(13%)/Aus(20%)/EU(7%) /NZ(13%)/SE Asia(20%)	3.5
Cheese	46%	8%	EU(15%)/Aus(31%)/ NZ(31%)	3.2
Deli products	9%	82%	Italy(9%)/Aus(9%)	3.3
Fresh/frozen fruit	85%	54%	Holland(8%)/NZ(8%)/ Aus(15%)/EU(8%)	3.9
Juice	38%	54%	Aus(15%)/Africa(8%)/ EU(8%)	3.9
Fresh/frozen corn	46%	54%	NZ(8%)/Canada(8%)/ EU(8%)	4.0
Fresh/frozen potato	64%	50%	Switzerland(7%)	4.3
Fresh/frozen vegetable	36%	71%	EU(14%)/China(7%)/ Belgium(7%)	3.3
Condiments/seasonings/sauces	67%	58%	Aus(8%)/Mala(8%)/ EU(8%)	3.7
Bakery pre-mixes/frozen dough	45%	55%	Korea(9%)/Aus(9%)/ Thai(9%)/Germany(9%)	3.8
Sugars, sweeteners & beverage bases	44%	69%	Canada(6%)	3.8
Tree nuts	82%	27%	Canada(9%)/Aus(9%)	4.1

Source: Taiwan BOFT

Products Present in the Market Which Have Good Sales Potential

Beef

The primary competitor is Australia, whose advantage is customer perceived comparable / acceptable quality at a lower price. High end food service/HRI venues are for the most part resistant to switching away from US beef because of cost increases due to economic or currency fluctuations, since the venue is tied in positioning to offering top of the line "prime" quality, which US corn fed beef delivers. Many of the interviewed trade channel members currently use US beef for some or all of their needs. They rated future US beef prospects as good. To optimize opportunities for US beef, suppliers need to match market needs for special processing of meat cut types, seasonings, and pre-processed ready-to-cook cuts.

Fresh/frozen fruit
Taiwan with a semi tropical environment is a major producer of many forms of fruit. The domestic fruit products are used to fill some or all of food service/HRI venues needs. US products are used for certain fruit types, either not available locally like apples, or where US products have supplied into an import-protected market (e.g., citrus and grapes) alongside domestic producers. Taiwanese are heavy consumers of fruit and the market is vibrant. Taiwan's accession into WTO will change the dynamics of the market as the protection based on restrictions and quotas favorable to US products will be removed. Strong origin brand building for US products needs to be in place before competitive products flood the market. Currently Thailand is the primary import competitor, but others with fruit industry capacity, like China, promise to offer competition down the road.

Juice
The US currently has a favorable position in the imported juice market. However, the bulk of volume in the juice category comes from domestic manufacturers who also enjoy ties to distribution. Successful entrants need to match local market tastes and be able to capitalize quickly on trends. For example the current opportunity exists for blends of fruit & vegetable juice. Although many of the interviewed food service/HRI trade channel members report using US materials, this sometimes came from the western chain specification. WTO ascension and continued evolvement of the consumer taste trends will lead to a need for US suppliers to be tuned into the market through their trade contacts and be open to shifting opportunities. And there will continue to be a need for 100% style juices in some food service/HRI venues like the western food chains and 4/5 star hotels and resorts.

Canned/Fresh/frozen corn
Corn soup is a domestic favorite in Taiwan and found on almost all food service menus. With the high demand and high turnover for corn, the canned product has developed as the preferred method of storage. Consumers are used to (and often prefer) the taste of canned corn to fresh in ingredient-type applications. US dominance of the segment is reflected in the high SOM. In the latest statistics for the year 2000, only Hungary was a noted competitor, with a small SOM. Among the interviewed trade channel members the development prospects for US corn products was rated as good, suggesting that the market needs are being met at this time.

Fresh/frozen potatoes
Although Taiwan consumers do not yet use US fresh potatoes in cooking (local potatoes continue their dominance in this category), frozen fries are used extensively in the food service/HRI sector. Western style QSR's and western style family restaurants offer fries as a side dish or snack with other meal items. US fries dominate -- reflected in trade statistics showing a US share at 90%. The development prospects for US potatoes were projected to be good by the food service /HRI trade channel members who were interviewed.

Tree nuts
The US also currently dominates the following nut market subcategories: almonds, pistachios, cashews, and macadamia nuts. The greatest competition to US exporters is expected from the Middle East and Australia. The nut market is heavily driven by holiday snacking and general consumer snacking habits. Penetration into the food service/HRI sector needs development as snacking in bars/tea houses, hotel bars, mini bars all represent growth opportunities.

Coffee
Along with the development of western style coffee shops has come the desire and opportunity for branded coffees. The traditional tea drinking behavior of the Taiwanese consumer is being supplemented by coffee drinking not only in the usual outlets of western style hotel venues, in western style restaurants, but in mom/pops, offices and institutional environments.

1 Products Not Present in Significant Quantities but Which Have Good Sales Potential

Pork

Pork/swine is a market where the domestic producers have many competitive advantages, which are reflected in the import statistics and survey results. Among most of the food service/HRI trade channel members interviewed most currently use domestic Taiwanese pork/swine for some or all of their needs. That not withstanding, a few interviewees use US pork/swine, and the development prospects were rated fair. The key will be accession to WTO, the opening of the market from protective measures, and US suppliers coming into the market with cuts and processing which match operator needs, such as skin-on cuts.

Poultry

Similar to pork/swine there are currently competitive advantages for domestic producers. Almost monopolistic practices make market entry for imports very difficult. Until WTO accession levels the playing field there are only niche markets open to suppliers of products such as turkey meat and turkey parts. The opportunity long term is to match market taste needs in flavor of meat and in cuts of meat (such as leg/thighs jointed or to offer legs). Among the food service/HRI trade channel members interviewed, most currently use domestic Taiwanese poultry for some or all of their needs. In spite of the mentioned hurdles, development prospects for US poultry were rated at good.

Seafood

With a bias towards fresh fish and SE Asia-variety crustaceans, the seafood segment currently has development problems. The food service/HRI venues with a strong western orientation and up-market positioning offer the current best opportunities for development. Interested exporters need to meet with the food service end users to see how their product offering can best meet needs. And customization in processing or flavorings need to be explored to identify opportunities to help venues cut labor costs and enhance customer appeal.

Deli Products

Western-style sandwiches are starting to be adopted in the market in many different styles of food service/HRI venues. Lack of experience and knowledge of offerings hampers market development. Often a hotel or airline catering operation (as a sub-contractor for chain venues) with international experience plays the role as innovator by launching new-to-market sandwich types. US exporters can build markets by lending expertise and uniqueness in product forms while fitting local taste patterns.

Fresh/frozen vegetables

Although production and usage is skewed toward domestic products, US vegetables have market niche opportunities for fresh products from the US (i.e. high end hotels and top of the line restaurants) and for frozen vegetables, which can fill needs for the market like quickly-heated ready-to-serve vegetables. The food service/HRI trade interviewees suggested that development prospects were fair.

Condiments/seasonings/sauces

Venues, which have a need to display well-known brand names, are the top prospects. However, other venues, which need quality, or a unique taste, or flavor are also opportunity areas for development. Development prospects were rated fair to good.

Bakery pre-mixes/frozen dough

The bakery item demand has taken off in Taiwan lead by hotel bakeries as trend-setters. Other food service/HRI operators have followed suit with a number of items produced, whether on premise or delivered by sub contractors. The opportunity is for labor saving pre-mixes, dough, and ingredients. Currently some of the food service/HRI trade channel interviewees use US products and rated development prospects as rated good.

Sugars/sweeteners

US exporters compete best in the sugar "not from cane or beet" segment, along with proprietary sweeteners and sweetening flavors that match domestic tastes. Currently some of the food service/HRI trade channel interviewees are using US products and they rated development prospects as good.

Beverage/bases

Beverage bases are dominated by major international brands (mostly US, but also Japanese) and by large local competitors. Public recognition of brand names permits wide distribution throughout the HRI and food service industry, although quality control, substitution (use of name brand machine to dispense lower-quality product), and other problems are rampant in smaller "local" restaurant venues. Currently most of the food service/HRI trade channel interviewees are using US products, and they rated development prospects as rated good.

Prepared food items

There is a need outlined earlier in this sector report for food service/HRI sector members to cut labor costs and provide more efficiency. Benefits of consistent quality, portion control, ease of preparation and serving provide real value-added for many venues. Exporters who service the food service/HRI sector in the US will find ready listeners in Taiwan to ideas that will improve operator margins, and customer satisfaction. Currently, 30% of frozen food imports are used by the food service/HRI sector, reflecting the opportunity to build business through advanced technology.

Dairy

Only in the higher processed brand name end of the dairy business have US suppliers been able to carve out a niche in ice cream. Although the import volume is large, it is dominated by New Zealand. US innovation in products is not yet seen in the market except for a few high-end hotels meeting international travelers needs.

Pasta

A segment that took off in the US was Italian restaurants and Italian style food. Although pasta is found in Taiwan, the development trend does not match US penetration. And noodles, although everywhere and used in many dishes, are not the wheat noodles common in the US. However, given the proclivity for noodle consumption, pasta should represent a good development opportunity.

Beer, Wine, and Distilled Spirits

The alcoholic beverage market is highly regulated. Imports are only a small part of the beer market. The imported beer market has been dominated by major brands from Japan, the Netherlands, and the US. Domestic preference is reported to be for draft beer. Beer is found at all levels of food service/HRI and, at competitive price points, has an opportunity for very good development.

The wine market slowly is recovering from over speculation in the late 1990s. France, with red wine leading the way on perceived health benefits and support from their industry organization, dominates the market with the US a distant second (selling approximately ½ of the sales volume of French suppliers). US suppliers will need to continue niche marketing efforts until the market is sophisticated enough to award preference to major brands. Hotels, bars, and western style restaurants are the primary market in the food service/HRI sector.

Distilled spirits are a requirement at many of the up-market food service/HRI venues. Hotels, bars, western style restaurants and clubs need to stock and serve the well-known western and Japanese brands. Long-term development of brands for US suppliers will depend on support, as consumer demand will continue with globalization.

2 Products Not Present Because They Face Significant Barriers or Present But Face Difficulties

Rice

This is a highly protected monopoly and, even with WTO ascension, it will be interesting to see if eventually opportunities open for US exporters. Imports after WTO are to be based along the Japanese model, with imported rice guaranteed to be released into the market (rather than being stored or re-exported as allowed in Japan).

Cheese

The product category of cheese is not well developed in Taiwan, as cheese is not a part of traditional cuisine. However, with the advent of westernization/globalization, western foods are being adopted starting with cuisines like Italian where cheeses are used on pizza and with pasta, etc. Some of the food service/HRI interviewees currently use US cheeses, with Australia and New Zealand being the other country origin competitors. Trade channel members interviewed for this report projected development prospects as fair, reflecting the trade channels awareness of the lack of consumer acceptance of cheese products for the present.

V. POST CONTACT AND FURTHER INFORMATION

To obtain a list of Taiwan key trade channel members, please contact:

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