The Globalization of Food Marketing

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Food marketing is going international. Around the world, food processors, wholesalers, and retailers, as well as foodservice firms, are looking to foreign nations to expand their markets.

The U.S. food processing firm, Borden, for example, operates 44 of its 183 plants in foreign countries. H.J. Heinz has 47 foreign plants. U.S. foodservice firms are also expanding their overseas operations. Visitors to Moscow will now find McDonald's golden arches, and the Persian Gulf is home to 30 new Wendy's restaurants.

U.S. companies' sales from their foreign food processing, wholesaling, retailing, and foodservice operations reached $82 billion in 1988 *(table 1)*. Food manufacturing affiliates had $60 billion in sales, food wholesaling affiliates nearly $11 billion, and food stores and restaurant affiliates over $11 billion.

At the same time, foreign firms are gaining ground in U.S. markets by purchasing U.S. firms and establishing affiliates here. Such familiar names to U.S. consumers as Pillsbury, Green Giant, and Alpo pet foods are owned by a British firm, Grand Metropolitan, PLC. The world's largest food processor, Nestle, based in Switzerland, operates 421 plants in 60 countries. Sixty-seven of these plants are in the United States. Burger King and Roy Rogers are now foreign-owned firms *(see box)*.

Food marketing affiliates in the United States owned by foreign firms had sales of $72.6 billion in 1988. Food manufacturing affiliates accounted for $30 billion, food wholesaling affiliates over $14 billion, and food retailing and restaurants, $28 billion.

Foreign Markets Provide Opportunities for Expansion

While many large U.S. food processing firms have gone international, most are not major exporters—especially of highly processed consumer food products. The value of U.S. exports of processed food products is large and growing—reaching $17.8 billion in 1989—but for most large food processors, exports average less than 3 percent of their total sales. Rather, the world's largest food processors continue to expand aggressively in foreign markets by increasing their investments in foreign plants or expanding licensing arrangements with foreign firms to produce and distribute their branded products. Nestle, for example, recently signed a joint venture agreement with General Mills to produce and market General Mills cereals, as well as jointly develop new brands. Philip Morris announced its acquisition of Jacobs Suchard, the largest confectionery firm in Europe, with annual sales of about $4.5 billion.

Establishing production facilities in foreign countries avoids tariff and most nontariff trade barriers. But even where trade barriers are minor, many firms apparently prefer producing in the foreign country rather than exporting. Those firms find it easier to deal with local governments and regulatory agencies when the product is produced in the host country. For consumer value-added

Table 1. U.S. and Foreign Firms Look Overseas for Expanded Markets[1]

Sector	Foreign affiliates of U.S. firms		U.S. affiliates of foreign firms	
	Sales	Assets	Sales	Assets
	Million dollars			
All food manufacturing	60,264	39,488	30,053	30,317
Meat	2,924	1,437	1,699	310
Dairy	3,941	2,150	3,938	2,005
Fruits and vegetables	3,675	2,815	D	D
Grain mill	15,117	8,167	D	D
Bakery	4,761	3,554	2,515	1,751
Beverages	11,275	8,955	7,745	13,982
Other food	18,572	12,390	11,844	9,308
Food wholesaling	10,634	4,698	14,244	3,502
Food stores, eating and drinking places	11,151	6,233	28,295	8,894
Total food marketing	82,049	50,419	72,592	42,713

D = data suppressed to avoid disclosure of data of individual companies.
[1]1988 data.

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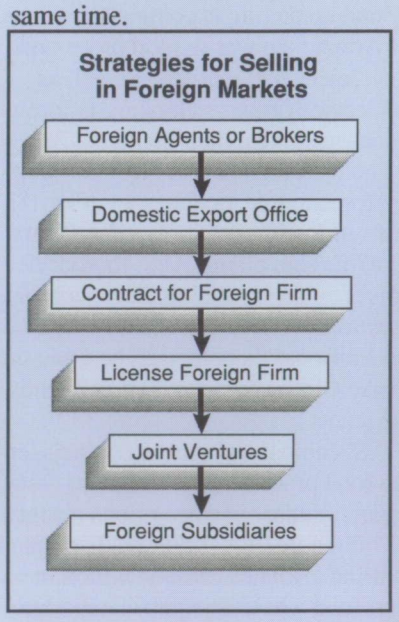
Strategies To Access International Markets

There are many strategies that firms can use to enter foreign markets. Some involve considerably more investment of time, money, and expertise than others, and greater risk. Most firms enter the export market by using foreign agents or brokers. As export sales increase, many firms set up separate export offices or divisions within their U.S. companies. U.S. processors can also package food under contract for a foreign firm. For example, several Japanese manufacturers of soda and fruit drinks contract production of their brands to American bottlers.

Firms may also choose to produce and market their branded products in foreign countries under licensing agreements with foreign firms. While this generally requires no direct investments in foreign production facilities, considerable investments are required to identify appropriate licensees, develop production and marketing procedures, and establish quality control safeguards. Joint ventures allow U.S. firms to tap into the production, marketing, and regulatory know-how of host-country firms without the expense of acquiring wholly owned subsidiaries. Finally, U.S. processors can acquire or build foreign manufacturing facilities and operate them as wholly owned subsidiaries. In actual practice, firms can use any one or all of these strategies at the same time.



Over 50 percent of Coca-Cola's processed food sales are from their foreign subsidiaries. The Hong Kong bottling plants make many deliveries in the city. *(Photo Credit: Joe Stewardson)*

products, it is also easier to keep abreast of local tastes and opportunities for new product development or reformulations when products are produced in the foreign country.

Some firms prefer to acquire established brands in foreign countries and use those facilities as a base for further expansion. Furthermore, producing a product in a foreign plant may improve access to local food distribution firms and facilitate a variety of marketing and promotional activities involved in selling a branded consumer product.

U.S. Firms Operating Overseas

In 1988, 96 U.S. parent firms had 966 foreign food marketing affiliates with about one million employees. About 75 percent of U.S. foreign investment in food marketing was in Europe and Canada *(see box)*.

A USDA Economic Research Service data base for 64 of the largest U.S. food processing firms, which account for about half of all U.S. food processing,

Food Processing Around the World

Who are the world's largest food processing firms and where are they located? Nestle, headquartered in Switzerland, was the largest food processor in 1989. Philip Morris (Kraft General Foods), headquartered in the United States, was the second largest. Unilever, a widely diversified consumer products firm headquartered in both the United Kingdom and The Netherlands, was number three. ConAgra (U.S.) joined the top four following its recent acquisition of Beatrice Foods, and Kirin Brewery, Japan, was number five.

Of the world's 10 largest food processing firms, 7 are U.S. companies. In addition, 12 of the 20 largest, and 15 of the 25 leading food processors are U.S. firms.

World's Largest Food Processing Firms in 1989

	Firm	Headquarters	Processed food sales	Total sales	Major products
			Billion dollars		
1.	Nestle	Swiss	31.0	32.0	Diversified foods, restaurants
2.	Philip Morris/Kraft General Foods	US	25.8	43.0	Foodstuffs, tobacco, beer
3.	Unilever	UK/Netherlands	17.2	34.4	Diversified foods, soaps
4.	ConAgra (includes Beatrice)[1]	US	16.0	19.0	Foodstuffs, meats, poultry
5.	Kirin Brewery	Japan	11.2	11.4	Beer, soft drinks
6.	RJR Nabisco	US	9.9	16.9	Foodstuffs, tobacco
7.	IBP	US	9.5	9.5	Meats
8.	Anheuser-Busch	US	9.3	9.7	Beer, snacks
9.	Pepsico	US	9.0	15.2	Soft drinks, snacks, restaurants
10.	Coca-Cola	US	8.5	8.9	Soft drinks, fruit juices
11.	Taiyo Fishery	Japan	8.1	9.0	Seafood products
12.	BSN	France	7.5	8.0	Snacks, bakery, beverages
13.	Archer Daniels Midland	US	7.3	7.9	Food products, grains
14.	Sara Lee	US	7.1	11.7	Frozen foods, meats
15.	Mars	US	7.0	8.0	Confectionery, pet foods
16.	Snow Brand Milk Products	Japan	6.6	6.6	Dairy products
17.	Borden	US	6.5	7.6	Dairy, pasta, adhesives
18.	Hillsdown Holdings	UK	6.5	7.0	Poultry, flours, seafoods
19.	Ralston Purina	US	6.1	6.7	Food products, cereals, pet foods
20.	Bass	UK	6.1	6.1	Beverages
21.	Cargill	US	6.0	43.0	Meats, grains
22.	H.J. Heinz	US	5.9	6.0	Diversified food products
23.	Campbell Soup	US	5.8	6.0	Soups, prepared foods
24.	Elders	Australia	5.8	8.4	Beer, food products, meats
25.	Asahi Breweries	Japan	5.7	5.7	Beer

[1]ConAgra announced its acquisition of Beatrice in 1990.

gives insight into these firms' international activities. In 1988, 38 of the 64 firms owned a total of 682 food processing plants in foreign countries. These plants accounted for 26 percent of the 38 firms' sales of $154 billion in 1988. In contrast, exports of processed food from these firms amounted to only 2.6 percent of their U.S. sales.

Two companies, CPC International and Coca-Cola, sold over 50 percent of their processed food from their foreign subsidiaries. Philip Morris led U.S. food processors in sales at foreign subsidiaries, with $5.9 billion in 1988. In total, 13 U.S. food processors, including RJR Nabisco, Mars, Pepsico, Kellogg, Sara Lee, Quaker Oats, and Borden, received over $1 billion each in annual sales from their foreign subsidiaries.

Unlike the processing sector, U.S. food retailing companies are almost entirely domestic-market oriented. Safeway Stores and convenience store firms Circle K and Southland Corporation are the only U.S. food retailers with substantial investments in foreign foodstore operations. In 1988, Safeway had sales of

Table 2. U.S. Restaurants Overseas Have Grown Rapidly Since the 1970's[1]

Location	1971	1974	1976	1978	1981	1982	1984	1985	1986
					Number of restaurants				
Canada	519	860	1,047	1,196	1,220	1,172	1,591	1,542	1,869
Mexico	44	71	87	84	99	100	119	119	121
Caribbean	40	70	96	150	198	234	290	312	280
United Kingdom	63	429	433	454	442	481	567	615	608
Continental Europe	40	101	103	164	316	360	514	539	642
Australia	163	223	224	384	468	522	581	635	691
Asia	37	306	468	710	1,336	1,535	1,921	1,935	2,100
Japan	NA	265	415	590	1,106	1,259	1,490	1,436	1,548
Other	NA	41	53	120	230	276	431	499	552
Other	24	109	162	198	246	271	398	425	458
Africa	NA	NA	NA	NA	NA	124	172	195	198
New Zealand	NA	NA	NA	NA	NA	71	88	92	112
Central America	NA	NA	NA	NA	NA	45	75	71	76
South America	NA	NA	NA	NA	NA	31	63	67	72
Total	930	2,169	2,620	3,340	4,325	4,675	5,981	6,122	6,769

NA = Not available.
[1]Includes company-owned, franchisee-owned, and joint-venture establishments.
Source: *Franchising in the Economy, 1988-90*, January 1990. International Trade Administration, U.S. Department of Commerce.

over $3 billion from its 240 supermarkets in Western Canada. Circle K licenses firms to operate stores in Japan, the United Kingdom, Indonesia, Canada, and Hong Kong. Southland, operator of 7-Eleven stores, had licensing agreements covering about 4,000 stores in Japan and several other countries.

Bringing U.S. Fast Food To the World

As growth opportunities in the U.S. fast food market slowed, several large chains began tapping into foreign markets. Overall, U.S. restaurant firms now operate nearly 7,000 establishments in foreign countries, up from 900 at the start of the 1970's *(table 2)*. Kentucky Fried Chicken (a subsidiary of Pepsico, Inc.) operates 3,000 units outside the United States—about 40 percent of the total Kentucky Fried Chicken system.

About 25 percent of McDonald's 11,000 outlets are outside the United States. Major markets include Japan (700 units), Canada (600), and Germany (300). McDonald's of Canada now has an outlet in Moscow where a new 108,000-square-foot McDonald's food processing and distribution center will supply joint venture restaurants. Twenty additional McDonald's units are planned in the Moscow area.

Early in 1989, Wendy's International entered into a franchise agreement with a Saudi Arabian food company to open 30 fast food outlets along the Persian Gulf over the next 5 years.

Foreign Firms in the United States

While U.S. firms have increased their foreign investment, foreign firms have also expanded into U.S. food marketing operations. The top five in the processing sector include Nestle (Swiss) and its U.S. subsidiaries: Stouffers Food, Hills Brothers Coffee, and Carnation Food; Grand Metropolitan (U.K.): Pillsbury, Almaden, and Haagen Daz; United Biscuits (U.K.); Seagram Co. (Canada); and Allied Lyons (U.K.). Nestle and Grand Metropolitan were the only firms with sales from U.S. food processing subsidiaries over $1 billion *(table 3)*. However, 22 additional foreign companies had sales of $100 million or more from their U.S. food processing subsidiaries.

Foreign investment in the U.S. wholesale food industry totaled $3.5 billion in 1988, or 11 percent of the industry's assets. One of the five leading U.S. food wholesalers, Scrivner, Inc., is owned by Haniel et Cie of West Germany. A Canadian firm, Provigo, owns two small operations in the United States—Market Wholesale in California and Tidewater Wholesale Grocery Company in Virginia.

Table 3. Nestle Ranks First in Sales by Foreign Parents of U.S. Food Processors

Foreign parent/ country	Major U.S. subsidiaries		Total estimated U.S. sales
			Million dollars
Nestle SA-Switzerland	Nestle Foods Corp. Stouffers Food Corp. L.J. Minor Corp. Hills Bros. Coffee Co. Carnation Food Co. Wine World, Inc. Beringer Wines Co. Fresh-Nes Food Co.		1,760
Grand Metropolitan-UK	Pillsbury Green Giant Tortino's Jeno's Joan of Arc	Heubilen Almaden Christian Brothers Alpo Pet Foods Haagen-Daz	1,200
United Biscuits PLC-UK	Keebler Co. Bernardi Food Co.		900
Seagram Co. Ltd.-Canada	Tropicana Products, Inc. Seagram Co.		875
Allied Lyons PLC-UK	DCA Food Industries, Inc. Tetley Tea, Inc. Hiram Walker, Inc.		825

Foreign firms are investing in U.S. food retailing at a much faster rate than their U.S. counterparts are expanding into foreign countries. Regulations restricting the internal growth of large retailers in many foreign countries and the declining U.S. dollar in 1980-85 have encouraged foreign investment in U.S. food retailing.

Foreign firms' U.S. food store sales reached $22.1 billion in 1988. The five largest foreign parents accounted for $18.9 billion, or 86 percent of the total. Tengelmann A.G. (West Germany), which owns A&P, had the largest U.S. food store holdings in 1988. A&P's sales totaled $8.2 billion in 1988. Delhaize, Le Lion (Belgium), owner of Food Lion, ranked second with U.S. sales of $3.8 billion. Ahold International (The Netherlands) owns First National, BI-LO, and Giant Food Stores (Pennsylvania) with combined U.S. sales of $3.5 billion. George Weston, Ltd. (Canada) owns National Tea Co. with U.S. sales of $1.9 billion. Sainsbury, Ltd. (U.K.) owns Shaw's Supermarkets and Iandoli's Supermarkets with combined U.S. sales of $1.5 billion.

Other foreign-owned firms include Furr's, located in Texas with sales of $1.2 billion, owned by a West German firm, and Smitty's Super Value in Arizona, with U.S. sales of about $725 million, owned by a Canadian firm. In addition, several French firms including Euromarche, Carrefour, Promodes, Auchan, and Societe Alsacienne de Supermarches operate supermarkets in the United States. Marks and Spencer, PLC, (U.K.) entered U.S. food retailing in 1988 by acquiring Kings Super Market, Inc., in New Jersey.

Foreign Foodservice Firms Expand into U.S. Markets

The number of U.S. restaurants owned by foreign parents took a significant jump when Grand Metropolitan, PLC, of Great Britain acquired the number two fast food chain, Burger King Corp., with the purchase of Pillsbury in 1988. Burger King had $5.8 billion in sales from nearly 6,000 units in 1989.

Late in 1989 the Marriott Corporation sold most of its Roy Rogers restaurants to Imasco, a Canadian firm, for $365 million. Imasco also owns the Hardee's, Inc., chain, which had sales of $3.3 billion through nearly 3,200 outlets in 1989.

In 1989 and 1990, Allied Lyons, PLC, acquired both the Dunkin' Donuts and Mr. Donut chains. In 1989, Dunkin' Donuts had about 1,900 units with combined sales of over $800 million. Mr. Donut operated about 800 units with sales of nearly $250 million in 1989. Allied Lyons also owns Baskin-Robbins ice cream stores with estimated sales of $693 million.

Westin Hotels and Resorts is owned by the Aoki Corporation of Japan. In 1989, Westin operated 265 units with total estimated food sales of $439 million. The Japanese firm of Seibu/Saison also recently acquired Inter-Continental Hotels Corp., from Great Britain's Grand Metropolitan, PLC. Inter-Continental operates several hotels in the United States and in 1988 had food sales of about $420 million. ■