FOREWORD

This brief report highlights the insights obtained by TradeMalta during its efforts to identify the key specialisations of local businesses operating within the food and beverage sector and the main obstacles they face when they come to access international markets. This information will enable TradeMalta to tailor its support services to the needs of this sector with greater impact and effectiveness.

The insights presented in this report are based on the responses given by 22 food and beverage companies out of a total of 44 companies, which were contacted directly. The responses were obtained via an online questionnaire and the survey was conducted during the fourth quarter of 2015. Given that the questionnaire focused on international strategies when most companies in this sector are concentrated on the local market, the response rate is deemed to be satisfactory and the responses adequately reflective of the sector’s achievements and challenges in this area.

This study is one of a series of sector-specific studies which aim to uncover the international orientation of companies operating within sectors that TradeMalta considers to be key for Malta.
CHARACTERISTICS OF THE SECTOR

Ownership
The food and beverage sector is dominated by companies which are 100% Maltese owned. Out of the respondents, only one company had mixed Maltese and foreign ownership and another was a publicly listed company. The industry can therefore be said to predominantly consist of Maltese-owned companies.

Years in business
The sector comprises companies which were established over 55 years ago (three of which participated in the study) and others which were set up within the last 5 years. Most of the companies which participated in this study were founded in the 1990s which means that the majority of the companies are less than 35 years old.

Size
While 41% of the companies in this sector are categorised as micro and employ less than 10 employees, a surprisingly small percentage of only 29% fall within the middle segment which employs between 10 and 100 employees. A further 32% employ more than 100 employees and can be categorised as large by Maltese standards. One can therefore conclude that a disproportionately large number of companies in this sector are either very small or very large.

Turnover
This tendency for companies in the food and beverage sector to either grow dramatically or remain at a status quo is also reflected in their turnover figures, with approximately 35% having a turnover of less than 1 million Euro, only 12% having a turnover which falls between the 1-5 million Euro bracket and 53% having a turnover of more than 5 million Euro.

This pattern is repeated if one looks at the 53% of respondents with a turnover of more than 5 million Euro in isolation. Here 41% reported a turnover between 5 and 15 million Euro and 12% over 75 million Euro, but no companies reported a turnover...
falling within the higher-middle range of 15 to 75 million Euro.

**Outlook**
None of the respondents predicted any significant changes in either their headcount or turnover in 2016. Based on data from 2015 and forecast for 2016 alone, it would appear that this is a stable sector where players expect to maintain their market share.

**INTERNATIONALISATION**

**Exports**
Only 20% of the companies (slightly less than that in fact) reported that 45% or more of their turnover came from exports. 15% reported a figure of 10-20% and one or two reported exports amounting to 1-5% of their turnover, which indicates that they are either budding export ventures or that they only export sporadically.

These figures imply that only a few companies have pursued an export strategy successfully, the majority is clearly focused on the home market. Out of those companies who do export, two companies expect a decrease in exports, whereas 41% of all the companies who responded expect exports to increase in 2016.

**Target regions and markets**
The target regions for Maltese exporters of food and beverages are predominantly Europe and the Middle East and North Africa (MENA) region. Given that these two regions only account for 20% of the world’s
population, this finding reflects a clear bias for geographical proximity when it comes to exporting food and beverages. Two respondents mentioned Eastern Europe as a target region and one Sub-Saharan Africa, whereas none of the respondents mentioned the Americas or Asia. Turning to specific countries, as opposed to regions, the top two export countries were the United Kingdom and Libya. Other countries mentioned, apart from a number of EU member states, included the United Arab Emirates, Saudi Arabia, the United States of America, Canada and Australia. These choices indicate that language could be an important parameter for business in this sector, which is not surprising given that complying with guidelines relating to labelling and other standards is crucial in the food and beverages industry.

Success factors
The respondents were also asked to name what they think gives them a competitive advantage. Asked to choose between a set of pre-specified competitive factors, Quality came out on top with all the respondents confirming that this is a critical success factor. The two second most important factors mentioned were Competitive Price with 61.5% and Innovative Product with 53.9% respectively. Within this sector, factors such
as Service and E-commerce are less important whereas several respondents mentioned Flexibility as a key competitive factor. The fact that the latter was not on the list of factors given but was spontaneously mentioned by the respondents indicates that it is of great importance to some companies.

Whereas the importance of price and quality is self-evident, it is worth dwelling on the other parameters which were indicated to be important in this survey. Since Maltese exporters have to import most raw materials at great cost and the export costs are presumably also high, it is safe to say that Malta has a poor factor endowment for the manufacture and export of food and beverages. It is therefore not surprising that Maltese companies have to rely on parameters such as innovation and flexibility to compete in international markets.

**Challenges to internationalisation**

All of the companies who answered the question asking them to rank the barriers to internationalisation identified Finding Customers/Agents/Distributors as an issue, with 42.9% saying that this is always an issue.

Other important factors ticked included Cost of Transport, Cost of Raw Materials, Price Competitiveness and Cost of Carrying out Market Research, all of which were deemed to be of importance to nearly all the companies who replied to this question.

**Quality and price are key to export, but innovation is also an important success factor**

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Whereas one would expect businesses in any sector in any
part of the world to rank factors related to identifying markets and finding customers high on a list of challenges, factors such as Cost of

Finding new markets and customers is the greatest challenge

Transport and Cost of Raw Materials are transaction costs which are specific to Malta and directly related to the food and beverages sector.

Companies with a high export ratio ranked overseas regulatory requirements as often being a barrier, reflecting how the perception of barriers to export changes as the company gains experience in the area.

While some respondents rated Access to Finance as a barrier to export, it was also the factor which most respondents marked as never being an obstacle, suggesting that it is not a significant barrier to export.

In terms of practical help with their process of internationalisation the companies would most appreciate Financial Assistance to cover Market Visits for Selling and Research Purposes, to Exhibit in Trade Fairs and Attend Conferences, to Travel to Meet Customers and Agents and, in turn, to Host Them in Malta, to Purchase Detailed and Product-Market Specific Research Reports and to Conduct Market / Country Research and R & D.

In terms of non-financial assistance, the type of support the companies would appreciate is Introductions to Overseas Customers / Agents, Participation in TradeMalta-led Business Missions, Assistance in Marketing Planning and Training, Assistance to Develop Marketing Material and Language Translation Services (in that order).
FIELDWORK

The fieldwork was conducted by TradeMalta who contacted 44 food and beverage manufacturing companies in Malta. A total of 22 food and beverage companies took part in the study, representing various company sizes and horizontal specialisations.

FURTHER INFORMATION

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