



PRESS RELEASE

Industry Study Food & Beverages 2011: Raw Material Prices direct Market Development

[09.05.2011] The German foodstuffs industry is not given any respite. The prices of many raw materials have reached astronomic heights – more increases seem certain. Essential domestic markets are saturated, but growth in young export markets is limited by brand popularity. Market shake-out is imminent. What strategies are still available to companies to free themselves from the cost trap? Which options do they have for action in the "sandwich position" between price and cost pressure? These are the issues the current industry study "Food & Beverages 2011" performed by Dr. Wieselhuber & Partner (W&P), in cooperation with West LB, deals with.

The results show a clear picture of the industry situation: in particular smaller companies will face an increasingly harsh fight for survival as a consequence of increasing raw materials prices and saturated markets. Reviewing strategic alignment is mandatory for all players, however – independently of the company's size. This is the result the survey performed among 29 top managers in the food and beverage industry between March and June 2011 comes to. The participants – 82 percent manufacturers and 18 percent from trade – answered questions on difficult subjects and trends in the industry in intense interviews.

According to them, increasing raw materials prices are as good as certain. 95 percent expect further price increases in raw materials as well as continually high market volatility. In particular the increasing demand for agricultural raw materials due to population growth, harvests lost to environmental influences and clear increase of raw material use for energy production are the reasons they name.

The most important measure the manufacturers take to react to the raw materials price development is price increases (94 percent). Trade is much more careful here (67 percent). A lack of willingness to spend more money on food among the consumers, as well as price competition among the players, prevent passing on of prices to the customers. Of course in particular large manufacturers with the corresponding brand bonus will find it easier to "pass on" higher prices to trade.

70 percent of the persons asked considered smaller and medium-sized companies focussing on end-product production – usually with a high material rate and low market share – the victims of market shakeout. "Usually, smaller players do not have the resources needed to adjust their value generation model. They are caught in their value-added chain – purchasing materials, processing them, selling them," says Dr. Timo Renz, industry expert and study manager at W&P. Additionally, these companies are only of subordinated importance for trade and suppliers, and thus can be replaced easily.



Dr. Wieselhuber & Partner GmbH
Unternehmensberatung

The developments on the raw material markets also accelerate internationalisation trends. Access to regional raw material sources and suppliers are very important here. Because the German food and beverage market has been stagnating for years, 96 percent of the persons asked also considered internationalisation to be the most important strategic growth measure. Dr. Renz says: "the expansion trends will not lose their dynamics in the medium term either. Quite the opposite. The use of resources to conquer foreign markets will intensify to balance out the stagnating domestic business." Sales markets in the EU and Russia are currently at the focus of the export and foreign activities.

"Not all companies will be able to react appropriately to the raw materials and sales market developments and to implement the still-present growth opportunities e.g. by re-segmentation of the brand. These owners then must not ignore their problems but have to consider, e.g., selling their company," advises Renz.

Feel free to contact us if there are any questions on other results of the study.

Short profile of Dr. Wieselhuber & Partner

Dr. Wieselhuber & Partner (W&P) is an independent, cross-sectoral top management consultancy for family businesses as well as public institutions. Through this consistent target group orientation and the resulting competence, W&P became the leading management consultancy for family businesses and the public sector in Germany over the past 20 years. With offices in Munich, Düsseldorf and Hamburg, Dr. Wieselhuber & Partner offers his customers an extensive expertise in various sectors and methods and is mainly characterised by its competence in the interplay between family, management and company.

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