Innovative Approaches for International Growth
A look at the dynamics in the food sector and new competitive models

Executive Summary

Macroeconomic scenario & strategies in the food sector

Global economic growth is weakening. Although the euro zone is not entirely to blame for it, there can be no doubt that the euro-zone crisis is contributing to the slowdown in world trade, shaping developments in the Italian economy at the same time, which is suffering under the fiscal cutbacks needed to satisfy budget constraints. Italy's long decline into negative growth will only begin to taper off in the last quarter of 2012. The recovery, however, will be slow, as growth in net exports will manage only partially to offset the sharp fall in domestic demand, on both the investment and consumption fronts.

As a result, in the forthcoming years, the food sector will continue to be affected by the weakness of the Italian and other euro zone markets. Non-European markets, especially those that have recently industrialized, will thus be essential for growth in Italian food companies that currently export predominantly to markets closer to home.

The competitiveness of Italian food products on international markets is excellent, representing a key advantage to buoy the sector in forthcoming years. In recent years, the food and beverage sector has shown a stronger capacity to defend its international market share than manufacturing as a whole. **In the premium range in particular, which accounts for as much as 46% of our exports, Italy's world market share reached 5.2% in 2010 (from 4.7% in 2000; Fig. 1)**.

Italian exports grew at sustained rates in the first half of 2012. Over the first seven months of the year, exports in the food, beverage and tobacco sectors rose by 7.8%, with particularly strong results posted in non-EU markets: +13.7%, led by the United States, +9.3%; Japan, +22.8%; China, +26.8%; and the OPEC countries, +38.8%. Good growth levels were also recorded in EU countries: France, +7.1%; United Kingdom, +6.6%; and Germany, +5.3% (Fig. 2).

Much more needs to be made of this potential. The Italian food sector's propensity to export is lower than in Germany and France (Spain's propensity is comparable to ours; Fig. 3). **Matching Germany, which enjoys a 9 percentage point lead on Italy in exports/sales, would mean increasing Italian exports by 38%—the equivalent of €10 billion, a huge figure that would give Italian food companies a significant boost**.

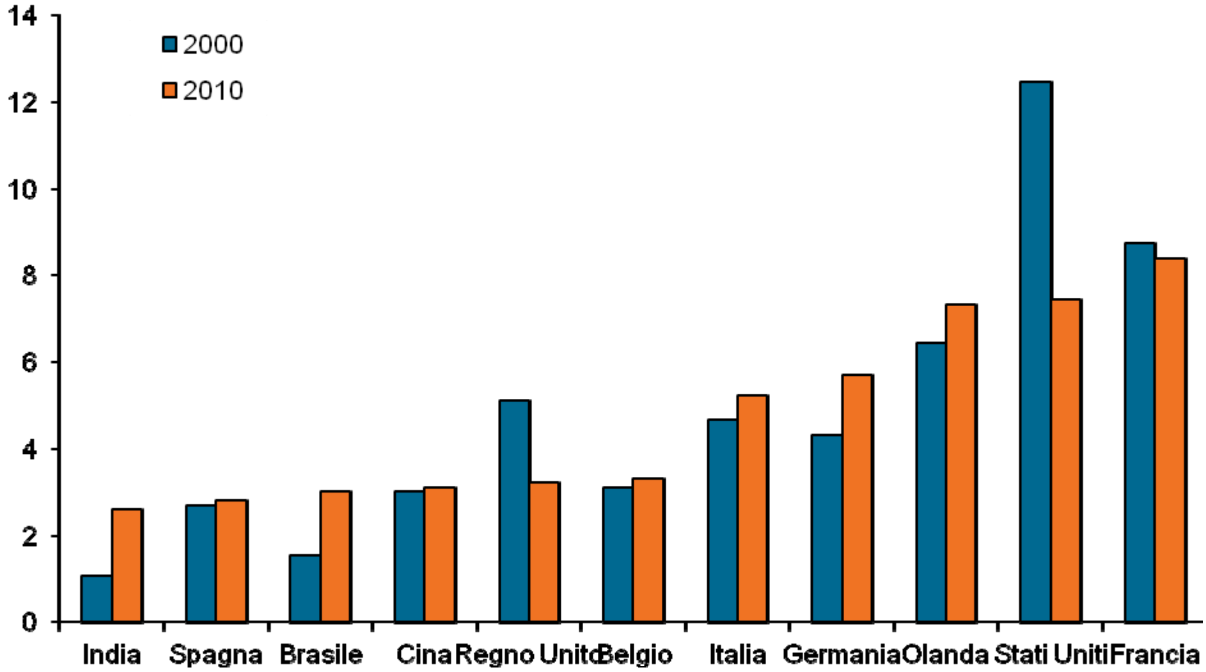
To achieve such figures, significant support will need to be given above all to the vast number of SMEs that make up the sector, also on foreign markets. It is remarkable to note that in Italy, SMEs account for 62% of Italian food exports; in Germany and in France, the figure is around 37%.

A **more stable presence** on markets, via company sales organisations or through partnerships, and a stronger commitment to **innovation at all levels** (in products, processes, packaging, organization, and so on) represent key strategic levers to work on, also considering the limitations of the sector, tied to the perishable nature of goods and the diverse eating habits of different countries.

Even now, the Italian food companies that have chosen this approach are reaping important rewards. A survey of 3500 financial statements in the sector shows that a gap of more than two percentage points divides the innovators from the non-innovators in terms of 2009–2011 sales growth (12.3% vs. 9.8%) and EBITDA margins (8.3% of sales vs. 6%; Fig. 4).

Thus, the Italian food sector needs to push ahead with strategies begun in recent years to strengthen its position, which have seen Italian companies raise their R&D spending, with respect to value added in the sector, from 0.4% in 2000 to 0.6% in 2010—a figure that is no longer all that far off from Germany's (0.8%).

Fig. 1 Food & beverage market share
in international markets for premium range goods (%)

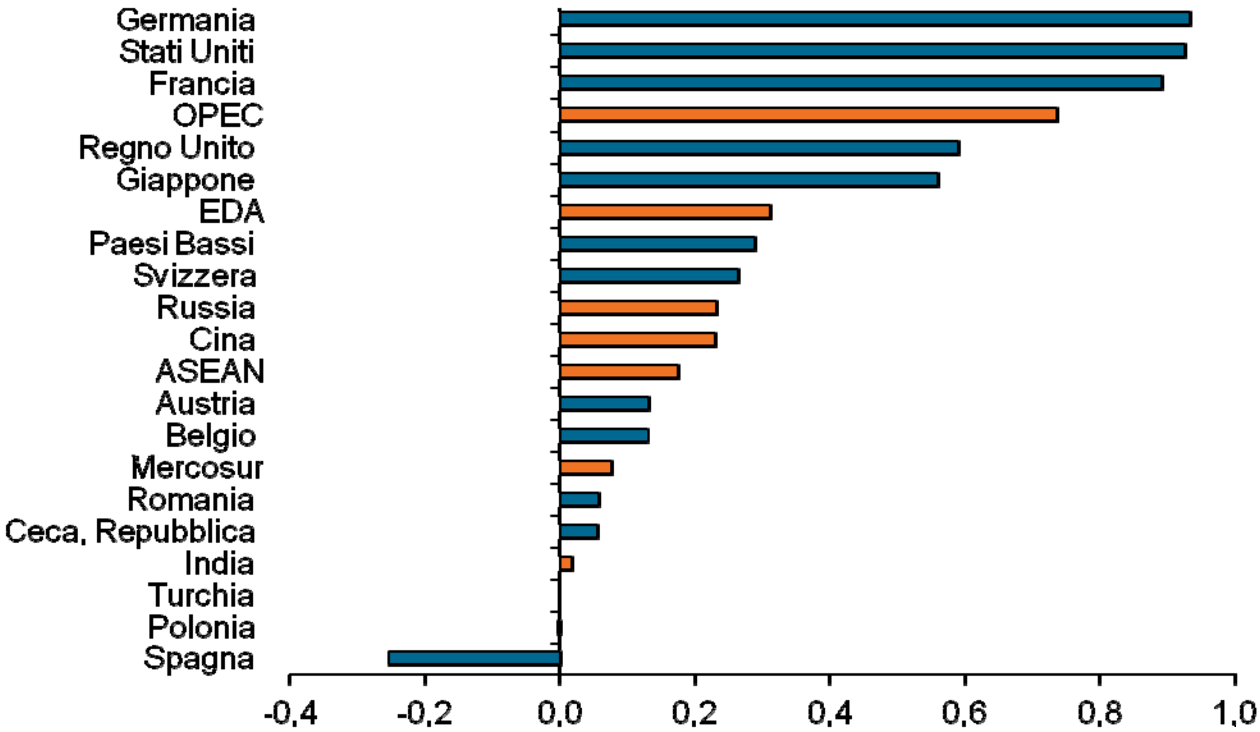


[India / Spain / Brazil / China / UK / Belgium / Italy / Germany / Netherlands / USA / France]

Source: Intesa Sanpaolo, from BACI

Fig. 2: Growth in food, beverage & tobacco exports

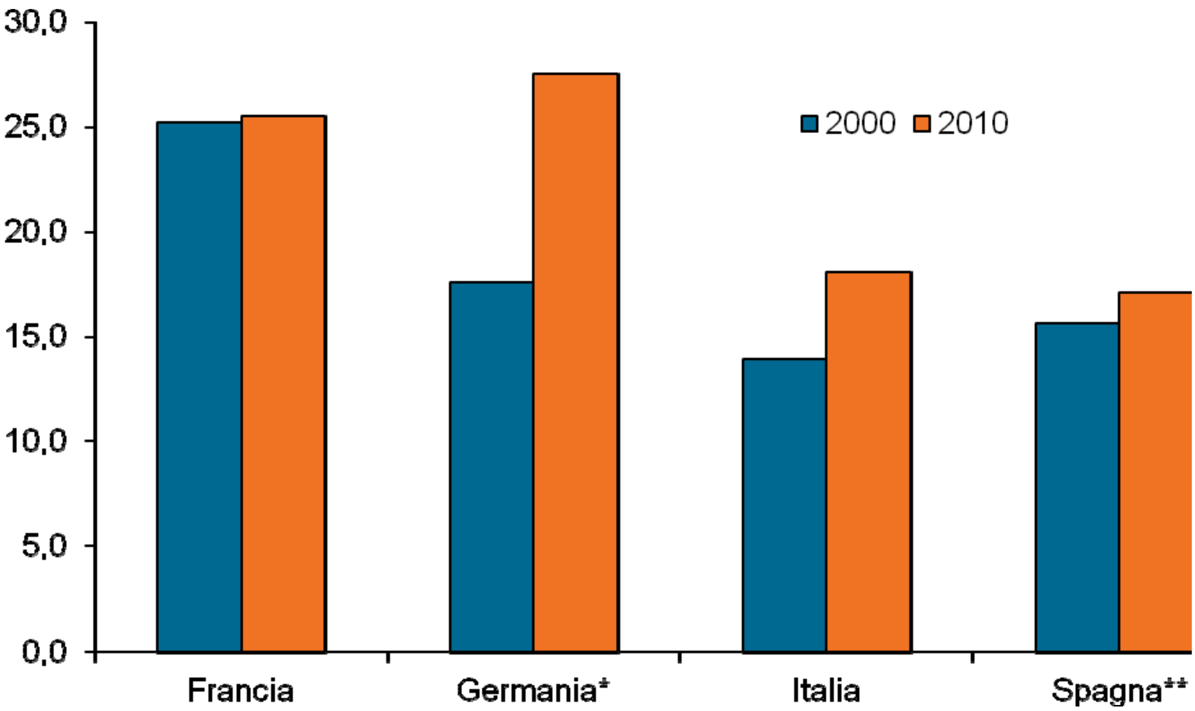
January–July 2012 (contribution to growth)



[Germany / United States / France / OPEC / United Kingdom / Japan / DAE / Netherlands / Switzerland / Russia / China / ASEAN / Austria / Belgium / Mercosur / Romania / Czech Republic / India / Turkey / Poland / Spain]

Source: Intesa Sanpaolo, from ISTAT

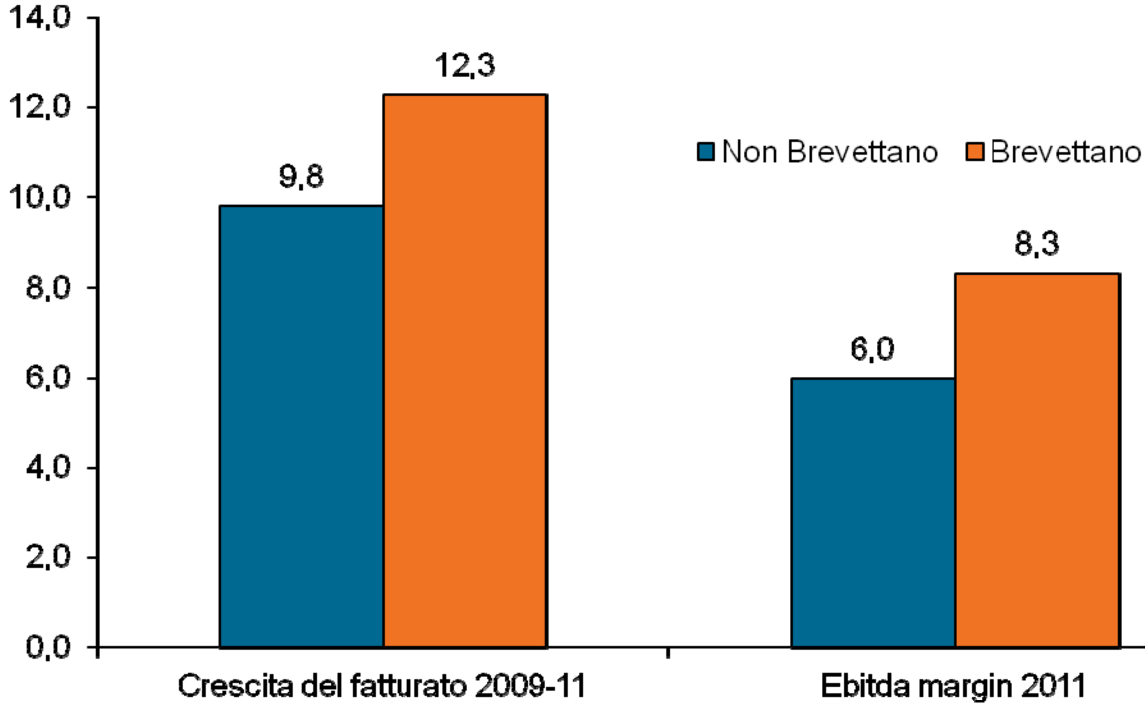
Fig. 3: Exports as a % of production value in the food, beverage & tobacco sector



[France — Germany* — Italy —Spain**]

* 2009 ** 2007 Source: Intesa Sanpaolo, from OECD

Fig. 4 The effect of innovation on growth in 2009–2011 sales and EBITDA in the food & beverage sector



[Non-patent holders/Patent holders

2009–11 sales growth]

Source: Intesa Sanpaolo, from 3567 company financial statements and Thomson Innovation