



Grant Thornton

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Expanding horizons

Food and Beverage looks for growth

GUIDE TO INTERNATIONAL EXPANSION IN FOOD AND BEVERAGE 2015





Introduction

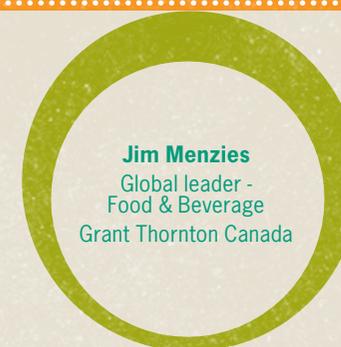
Growing food and beverage (F&B) companies are not constrained by geographical boundaries. They chase profits and revenues around the world, wherever market-entry risks are manageable.

But even when all signals point to going global, F&B executives face an array of challenges. These include geopolitical uncertainty; distribution and logistics limitations for perishable goods; food safety regulations that vary by country, region, state or province; and a tireless battle for shelf space.

Capitalising on international F&B efforts requires innovation and adaptation of processes, products and strategies. Successful companies:

- tailor their products, packaging and messaging to the cultures and lifestyles of their destination markets
- explore local market dynamics, competitors and distribution channels in those areas
- identify the most profitable product opportunities
- build an informed picture of potential pitfalls
- have a clear understanding of regulatory requirements in every jurisdiction in which they operate
- understand the mind-sets of partners and build long lasting, profitable relationships

Working with dynamic, growing, global F&B companies has allowed Grant Thornton member firms to gain valuable insight into international expansion. This guide aims to help you develop smart, profitable expansion plans while minimising risks.



Jim Menzies
Global leader -
Food & Beverage
Grant Thornton Canada

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The expansion landscape

Key considerations for global or national expansion.



1. "Global food and beverage retail industry 2012-2017: Trend, profit, and forecast analysis", Lucintel, 2012.
 2. "10 projections for the global population in 2050", Pew Research Center, February 3, 2014.

F&B exports accelerating

Over the past decades the food and beverage (F&B) sector has transformed from a collection of regional and national industries into a global engine of economic growth, evolving rapidly from simple farm-to-table distribution to shipping massive amounts of goods around the globe.

Global F&B growth is fed by changing demographics around the world. Successful expansion will rely on technology to find and understand consumers and to manage increasingly demanding safety and regulatory issues.

One-quarter of global F&B executives anticipate an increase in exports in the next 12 months, according to the Grant Thornton International Business Report. In the European Union this number increases to 45% of F&B executives expecting an export increase. Meanwhile, globally four out of five F&B companies export, with 18% exporting the majority of their sales according to the Grant Thornton's

"Hunger for growth" report.³

The growing middle class

Keeping up with changing population dynamics can strain food and beverage providers as they try to stay ahead of the trends. Middle classes are growing throughout the world, even in countries where disposable income was once considered a luxury. China's newly affluent population now consumes everything from Starbucks to iPhones. Yet China's economic ascent is becoming old news.

The global population will expand to 9.6 billion in 2050, up from 6.9 billion in 2010. India will replace China as the most populous country and, with 1.6 billion people, nearly equal that of China and

the United States combined. Africa will reach 2.4 billion by 2050, with Nigeria becoming the fifth most populous country in the world, outgrowing the United States. Even some developed nations are growing. The UK population is expected to rise from 63 million to 73 million by 2037. Meanwhile some countries such as Japan, Russia and Germany will see their populations decline by more than 10%.⁴ These changing demographics will influence the products F&B companies develop and the markets they target as they look towards the future.

3. "Hunger for growth", Grant Thornton International, 2013.

4. "10 projections for the global population in 2050", Pew Research Center, February 3.

2014; "The world in 2013", The Economist, 2013; "World population prospects: The 2012 revision", Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 2012.

5. "The 'bird of gold': The rise of India's consumer market," McKinsey Global Institute, 2007.

6. "Food and beverage market Singapore", Switzerland Global Enterprise, 2013.



Middle classes are growing throughout the world

India's middle class is expected to grow from 50 million to 583 million⁵



Singapore imports over 90% of its food products from other Asian nations⁶

The power of technology

F&B companies use technology, the internet and social media to adapt to shifting consumer behaviours at home and abroad. Large retailers such as Walmart service customers digitally.

This adds increased pressure on F&B companies to lower prices, offer faster delivery times and synchronise their forecast, procurement and fulfilment capabilities with customers. F&B companies will increasingly use customer data available through digital channels to generate business intelligence to optimise sales and supply-chain margins.

Complex supply chains

F&B companies can increasingly purchase ingredients from across the globe. This broadens opportunities but complicates supply chains. Companies will have to integrate varied regulations and customer requirements into their supply-chain procurement, monitoring and tracking capabilities.

Entering new markets

Successful market entry requires keen insights into local market dynamics.

- Can you compete with regional producers that have more control over distribution?
- Will your product appeal to consumers with different cultures and tastes?
- How do you plan, fund and execute market entry?
- Do you have an exit strategy if events move beyond your control?

“Growing middle classes and new technologies are changing the F&B landscape worldwide. These are exciting times for executives willing to take chances while monitoring risks”

Ciara Jackson
National leader Food and Beverage
Grant Thornton Ireland



Large online retailers put pressure on F&B companies to reduce prices



Unlocking barriers to entry

F&B companies must research new markets before making costly expansion decisions. These assessments will locate the best opportunities; flag the most significant barriers; and identify government and industry resources that can help maximise return on investment.

Market potential

The global F&B retail industry is expected to grow to US\$5,776 billion in 2017.⁷

To earn a share of that opportunity, F&B executives need to look beyond their traditional borders.

- How many consumers are likely to purchase your product?
- Will your products appeal to consumers in another country or will they require reworking of formulas or processes?
- Who 'owns' the market and represents the stiffest competition?

Culture

Even as cross-cultural exchanges increase and geographic barriers break down, national and ethnic traditions remain strong – both in how consumers view products and in how businesses and executives interact. Knowing the nuances of the business culture in each country you enter will help you to choose appropriate business partners, build trust with suppliers and retailers, and reach mutually beneficial agreements faster.

- Can you access people in-country who understand and can help you navigate cultural barriers?
- Which customs and practices may help or hinder potential business relationships?
- Are there particular cultural sensitivities or taboos you should be aware of?



7. "Global food and beverage retail industry 2012-2017: Trend, profit, and forecast analysis", Lucintel, 2012.

Optimising business structures

Identify the business structure/s that can be used in the region you plan to enter. Find out the relative success of various models such as joint ventures, acquisitions, distribution into the region, business alliances and transactions through third parties. Corporate entities may not be the best choice from either business or tax perspectives and changing structures may lead to adverse tax implications and/or be seen as tax avoidance. Some jurisdictions have structures for foreign investment that help to minimise tax consequences. In some countries, such as India, ownership requirements differ from state to state.

- What is the most appropriate business structure for the region and for your company?
- Can you deploy a different business model cost effectively if necessary?
- Do you have a cost effective exit strategy with the model you choose?

Supply chain and distribution channels

Develop detailed maps of how your goods will move throughout a region from suppliers to retailers to customers. Transportation and logistics costs often can be slashed dramatically with selective in-country sourcing, especially of non-core ingredients and materials such as packaging. And depending on the business model and partners you select, efficient distribution and supply chains may already exist.

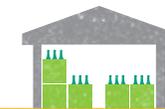
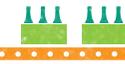
- What does your business need to get your products into robust supply chains that offer access to retailers, food service and ultimately the end consumer?
- Can you transport your products confidently through distribution channels without tampering or theft?
- Which components of your products can you source in-country?
- How will warehouse and storage conditions impact product shelf life?

“Choosing the most appropriate business structure ensures you minimise tax and regulatory costs whilst maximising profits and repatriations to shareholders. It will also facilitate a smooth exit at the appropriate time”

Tony Pititto

National leader Food and Beverage
Grant Thornton Australia

The route to market



Regulation and compliance

Regulatory requirements often form a lengthy checklist. They include inspection standards, labelling and product claims, traceability processes, and recall procedures. Different rules and regulations may apply to different products in foreign markets. And different standards may also apply to imported goods versus local goods, having an effect on how you structure your international expansion.

- How will you develop your business plan to make sure you are working to all relevant regulations?
- Does your company have the technology and best practices to monitor products – and the supplier elements that go into them – anywhere around the globe?
- Are systems in place to respond to adverse events such as quality issues and recalls?

Intellectual property

It is important to understand the intellectual property regime in each target country, and how those regulations may or may not have an impact on your products. You should also find out whether your products could be viewed as infringing on a host company's patents or trademarks.

- How risky is it to make or ship your 'secret ingredient' outside your home country?
- What is the potential for your products to be pirated or counterfeited? Your brand might rise, but revenues may end up in the hands of copycats and criminals. If this happens, how will you defend it?
- Are your business systems and authorisation procedures strong enough to secure databases, information and intellectual property?



“Without intellectual property (IP) protection your product could be on a shelf against a local competitor with a similar name and packaging, but at a dramatically lower price, damaging both profit and reputation”

Trefor Griffith
National leader Food and Beverage
Grant Thornton UK



Tariff and tax implications

Tariffs are typically collected on imported goods to generate income and/or to protect domestic industries. These taxes can significantly raise the prices of your products in comparison to domestic goods and even squeeze you out of the market.

You must also identify direct and indirect overseas tax issues. These include:

- location where income is earned and repatriated (tax presence)
- best tax entity for the foreign market, such as company, partnership, or branch
- value added taxes
- local payroll taxes and levies
- social security taxes
- personal tax filing requirements
- tax implications on exit.

- Have you quantified the effects of taxes and trade barriers for your sales model?
- Have you modelled the tax implications based on your sales channels and volume?
- Is the impact of transfer pricing built into your business plan?

“A well planned tax strategy should also explore intra-company pricing options, which can have a significant impact on profitability from foreign sales”



Małgorzata Samborska
Head of Tax in Warsaw
Grant Thornton Poland

Currency issues

Be aware of any currency control issues that may prevent you from repatriating funds. Some countries have few restrictions for transferring cash out of the country, while others dictate the volume and method.

Exchange rate fluctuations can increase risk substantially. For example, when reporting income in your home country's currency, appreciating currencies in the countries in which you distribute can inflate revenue figures without corresponding increases in profits.

- What is the potential volatility of the target country's currency?
- Have you managed repatriation restrictions; and planned to adjust repatriation of funds based on currency fluctuations?

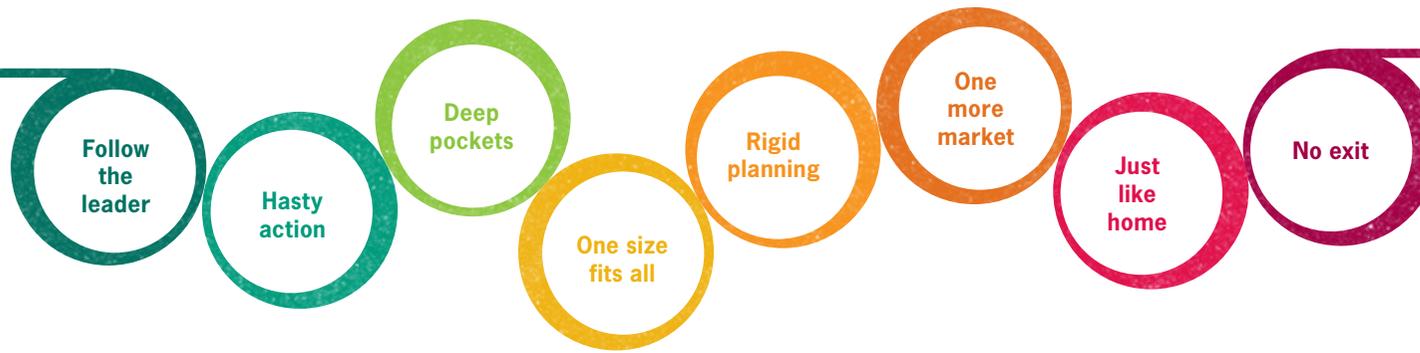


“Repatriating funds can incur significant taxes. If you're planning to use corporate inversions to reduce your tax payable, tread carefully. This practice has received a lot of negative press and can hurt your reputation”

Dexter Manning
National leader Food and Beverage
Grant Thornton US

Common pitfalls

As you begin to develop a strategy for launching your F&B products into new, international markets, our experience suggests it is vital to watch for common pitfalls that can undermine even the best laid plans.



Follow the leader

Every company and every product is different in the eyes of consumers. Do not assume that you can succeed internationally based on the achievement of an established market leader or competitor.

Hasty action

A distributor or retailer may want your goods in the market. They say that you need to jump now at this rare opportunity. Be patient. Apply the same analytical rigor and due diligence that you would with any other opportunity.

Deep pockets

Only the largest F&B companies are likely to be able to launch and sustain an international expansion through cashflow. Establish realistic financial models that project cash requirements. Get a feel for sources of available funding.

One size fits all

It is rare that any company's business model and organisational structure translates precisely into a foreign market. Some elements of how you do business will change.

Rigid planning

F&B consumers are fickle. Trends and trouble emerge overnight. But change should not necessarily mean failure. Your expansion plan should include regular monitoring of markets, competitors and regulations so that you can adapt.

One more market

No corporate structure can be stretched without limit. As international expansion occurs, make sure that existing domestic and international operations retain the level of support necessary to deliver required revenues and profits.

Just like home

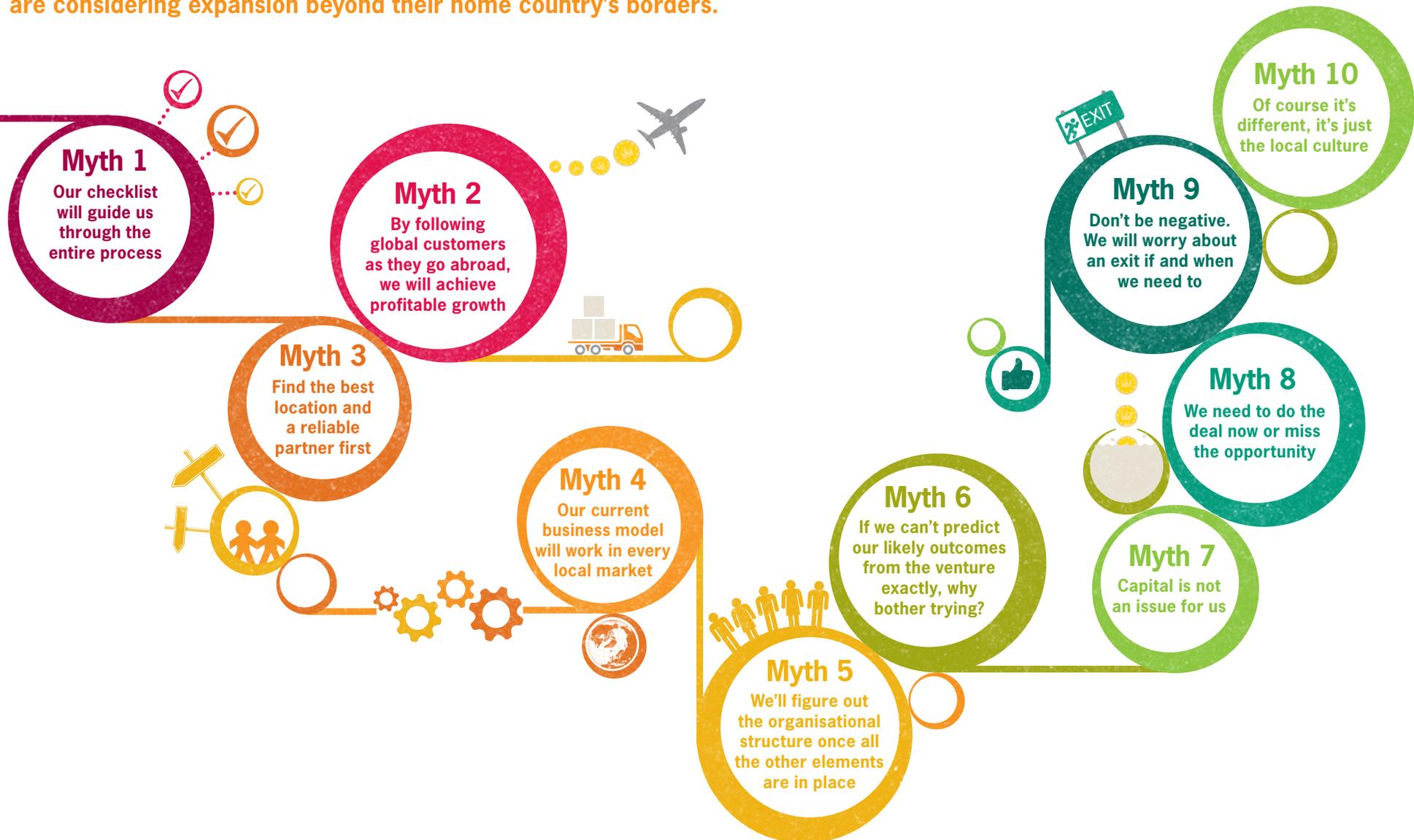
Even the most promising market can turn sour quickly due to geopolitical, economic or natural events. Monitor the political and fiscal barometer of the market regularly.

No exit

Even a successful market expansion can have a shelf life. Develop an exit strategy that allows your company to remove itself from local partners and repatriate your cash without burning bridges.

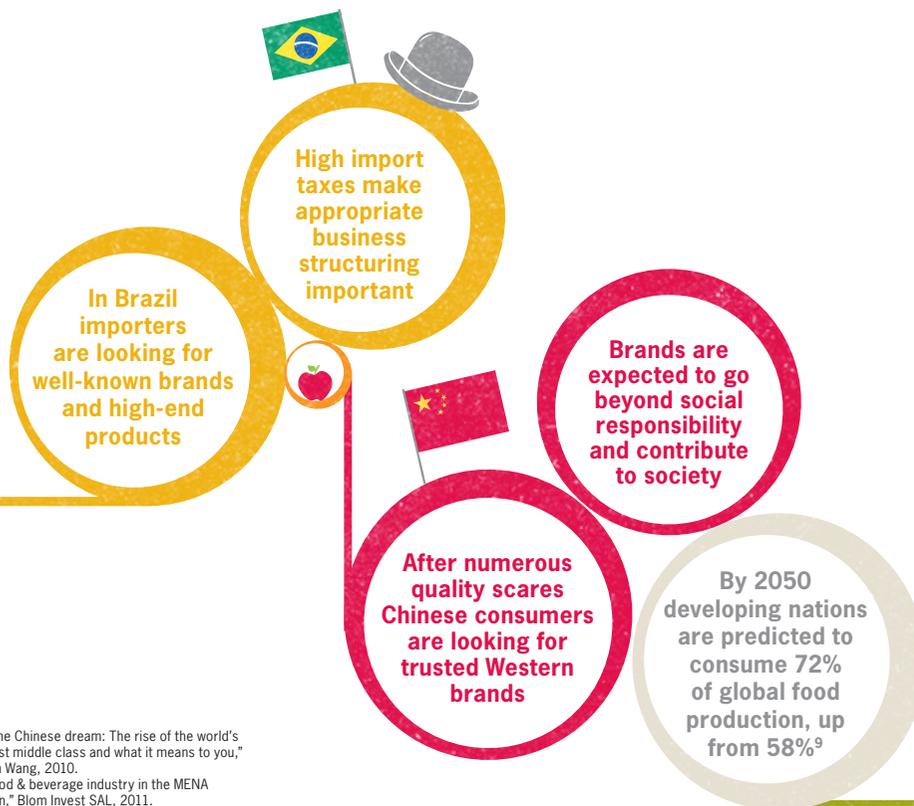
Managing the myth

There are ten common misconceptions among F&B executives who are considering expansion beyond their home country's borders.



Eyeing emerging markets

Many F&B companies' international trade partnerships are based on long held relationships and proximity. For example, the United States is by far the top export market for Canadian food and beverages. But to grow dynamically, executives need to assess potential in emerging markets, such as China, Brazil, India and Nigeria.



8. "The Chinese dream: The rise of the world's largest middle class and what it means to you," Helen Wang, 2010.
9. "Food & beverage industry in the MENA region," Blom Invest SAL, 2011.



"With over 300 million middle class purchasers, and a fear of poor quality local F&B products, the Chinese are open to 'foreign' brands with a strong reputation for quality"

Jonathan Geldart
Executive director - Markets development
Grant Thornton International

China

China is a key contender for F&B executives looking to expand. In 2013, it had a population of 1.36 billion, with 300 million people defined as middle class.⁸ However those planning to enter China should be prepared to alter their recipes to meet different consumer tastes. Weetabix did this with very successful results.

Following years of significant government investment in infrastructure, China has excellent air, rail and water transport throughout the country. This has opened the previously inaccessible central and western parts of the country. These represent significant opportunities for international companies. Incentives are stronger and production costs lower.

For those working in China, enforcement of intellectual property protection is low, while time spent working with bureaucratic bodies is high. Finding partners you trust remains one of the best ways to access China's diverse markets safely. Status, long-term relationships and a strong balance sheet heavily outweigh the importance of short-term profit. Ignoring these factors risks damaging your relationship with these essential gatekeepers.



Brazil

With a GDP of US\$2.2 trillion and spending power of US\$11,208 per person, Brazil is the largest market in Latin America. Brazilians imported US\$4.2 billion in consumer food products in 2012. That's nearly double the figure for 2008. The majority of these goods came from Mercosur countries and the EU.¹⁰

Brazil's enhanced global profile – thanks to the 2014 World Cup and 2016 Summer Olympics – should draw attention to the country's opportunity for importers.

However, brands entering the country may find it difficult to compete. Brazil's well developed food processing industry supports 45,000 domestic food companies. Despite this challenge and comparatively high operating costs, Brazil has strong infrastructure and regulators who are open to foreign investment. Several major F&B multinationals have made inroads into Brazilian markets.¹¹

India

As the Indian economy continues its shift away from agriculture towards services, its GDP has risen from US\$284 billion in 1993 to US\$1.9 trillion in 2013. Spending power is US\$1,499 per person. Annual household consumption is likely to triple by 2020 and make India the fifth largest consumer market in the world.¹²

Over 50% of the population is under 30 years old. These consumers seek out high quality produce, organic foods, product variety and convenient access to groceries. Companies have been slow to innovate and respond, creating a market opportunity.

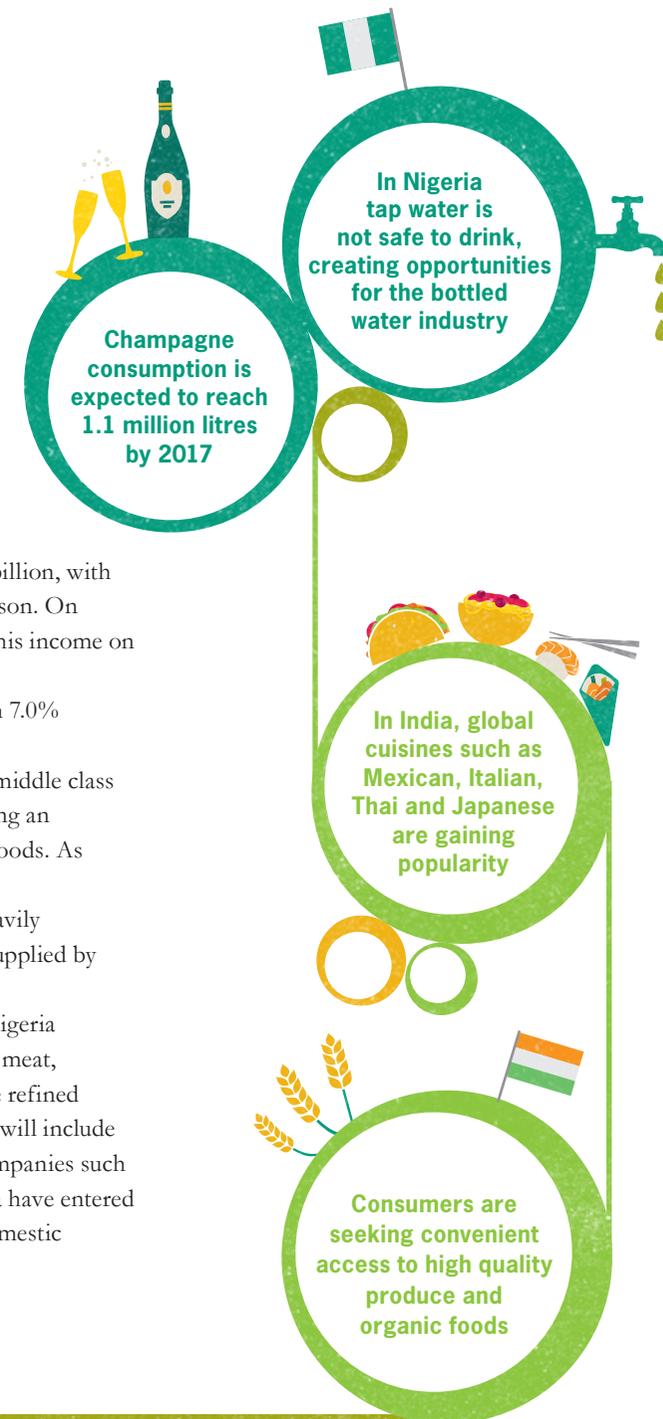
Perhaps the biggest challenge executives will face while entering India is the diversity in its regions, where complex and often ambiguous regulations are determined on a state-by-state basis. This is especially relevant for the food processing sector, as there is no comprehensive national policy.

Nigeria

Nigeria's GDP stands at US\$522 billion, with US\$3,010 spending power per person. On average Nigerians spend 73% of this income on food and beverage products.¹³ It is a rapidly growing market with 7.0% growth forecasted for 2014.

The country has an expanding middle class whose disposable income is creating an increasing demand for packaged foods. As domestic food processing remains underdeveloped, Nigeria relies heavily on imports, which are primarily supplied by Asia, the EU and South Africa.

To protect domestic industry, Nigeria has embargoes on importing fish, meat, poultry, flavoured water and some refined vegetable oils. From 2015 this list will include rice. Despite these bans, many companies such as Nestle, Cadbury and Coca-Cola have entered the market in partnership with domestic companies.



10. "Brazil exporter guide," USDA Foreign Agricultural Service, November 22, 2013.

11. Ibid.

12. "The 'bird of gold': The rise of India's consumer market", McKinsey Global Institute, 2007.

13. "Steady growth of Nigeria's retail food sector", USDA Foreign Agricultural Service, December 21, 2011.

Incentives for Australian businesses

Australian Food & Beverage companies should take the time to determine if recent Free Trade Agreements (FTA) could provide the incentive required to help them expand into international markets.

You've heard about them in the media – but what do FTA's mean for you and your business's future? Grant Thornton has already assisted many clients in developing an approach to leverage overseas markets where current FTAs support their plans for growth. Included below is a snapshot of FTAs between Australia; and China, Japan and South Korea.

Japan

JAPEA key tariff eliminations include

- 74% reduction in tariff for high polarity (international standard) raw sugar.
- 25% tariff on honey removed within 10 years
- 19.5% tariff on frozen beef exports removed within 18 years (immediate 8% reduction)
- 15% tariff on bottled wine removed within 7 years
- 16% tariff on various canned foods removed immediately
- 7% tariff on live and chilled shellfish removed immediately
- 5% tariff immediately removed on the vast majority of Australia's fruit, vegetables, nuts and juice.
- 4.8% tariff on lobsters removed immediately and the tariff on Bluefin tuna, and Atlantic salmon, will be phased out over 10 years.
- 5% tariff on dried fruit removed immediately
- Increased duty free quotas for wheat for feed and barley for feed as well as Australian cheese

China

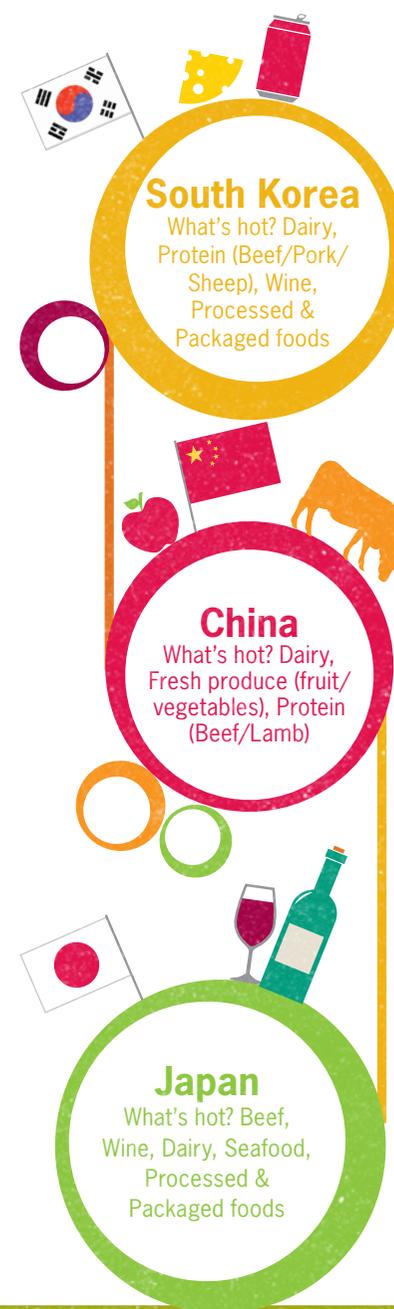
CHAFTA key tariff eliminations include:

- 12-25% tariff on beef imports removed within 9 years
- 12% tariff on beef offal removed within 4-7 years
- 12-23% tariff on sheepmeat removed within 8 years
- 15% tariff on infant formula removed within 4 years
- 10 -19% tariff on ice cream, lactose, casein and milk albumins removed within 4 years
- 15% tariff on liquid milk removed within 9 years
- 10 - 15% tariff on cheese, butter and yogurt removed within 9 years
- 10% tariff on milk powders removed within 11 years
- 10 - 25% tariff on macadamia nuts, almonds, walnuts, pistachios and all other nuts removed within 4 years
- 11 - 30% tariff on oranges, mandarins, lemons and all other citrus fruits removed within 8 years
- 10 - 30% tariff on all other fruit removed within 4 years
- 10 - 13% tariff on all fresh vegetables removed within 4 years.

South Korea

KAFTA key tariff eliminations include:

- 89% on butter and 36% on cheese removed within 13 and 20 years respectively
- 63% on a wide range of processed and packaged food
- 40% tariff on beef and 22.5 per cent tariff on pork and sheepmeat removed within 15 years (immediate 6% reduction)
- 24-42% tariff on various fruits and nuts removed within 5 years
- 15% tariff on Australian wine removed immediately
- 13% tariff on lobster and Bluefin tuna removed within 3 years
- 3% tariff on raw sugar removed immediately
- Increased duty free quotas for cheese, butter and infant formula

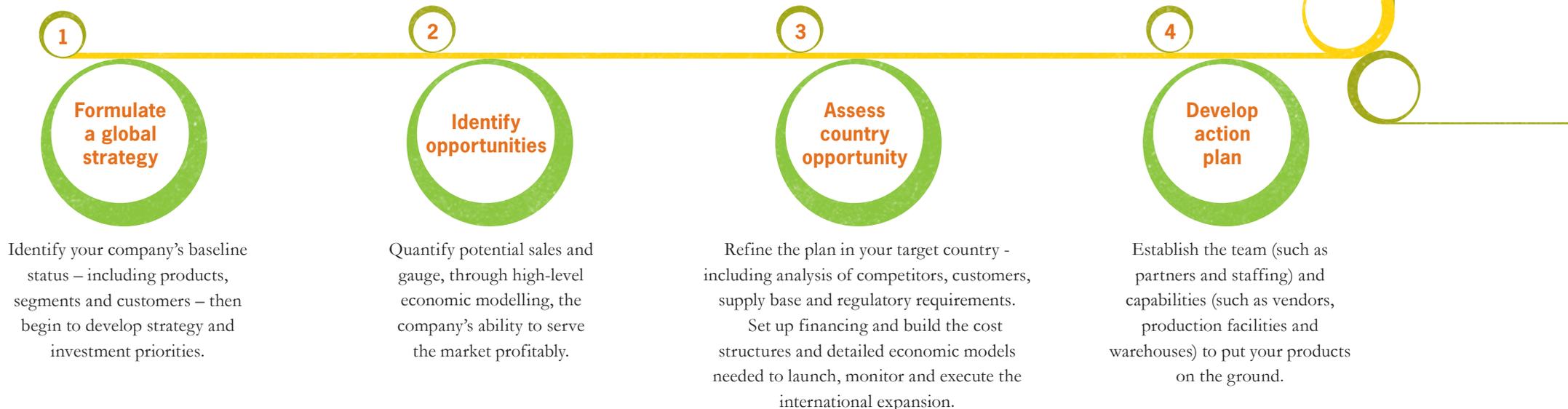


Developing a market access plan

There are massive growth opportunities for those companies that sell F&B products internationally – and an equal number of pitfalls. Through our network of member firms, Grant Thornton works collaboratively with our F&B clients to develop creative, executable and measurable strategies based on international best practices and years of experience.

As a worldwide organisation, we pull together a global, integrated, cross functional team of specialists at home and in the countries you're targeting to provide the quality of service you expect. These include navigating the funding landscape; due diligence; tax strategy; research tools; knowledge management systems; benchmarking capabilities; financial forecasting; and insights across F&B industries, geographies, competition and product markets.

We work with clients through a four-step approach



As we support you through this cycle, we help you carry out the following key activities.

Pre-market analysis

Test the rationale of where you should sell internationally, including countries, and regions; why you should sell overseas, by projecting revenue and profit; how you should sell, by looking at business structure; and what you should sell, in terms of products and associated regulatory requirements. This F&B due diligence can prevent ill-fated expansions and, even when plans are cancelled or delayed, build a knowledge base on which to explore other opportunities.

In-market visit

See for yourself what is taking place in the culture, consumers and stores - and the likely distribution channels for your products. Visit suppliers and potential customers in the region. Meet with funding sources and our in-country consultants. Get your feet on the ground and feel comfortable about expanding the business.

Business and financial modelling

The business structure you choose can have a huge impact on financing models, tax implications and corporate regulatory requirements. In establishing the structure, these factors need to be considered collectively and in how each will affect the others. We help executives sleep at night by crafting a clear exit strategy should the expansion not go to plan and need to be pulled.

Access to finance

Few small and medium sized organisations can fund international expansion from cash flow alone. They usually require cost effective financing through traditional banking relationships, alternative financing, or partnerships with suppliers and customers. Small businesses generally have less access to financing.

In these cases, foreign sources of financing may be imperative – but need to be structured with awareness of currency controls or financial regulations that could make repatriation of funds difficult.



Clients we work with

With years of experience in food and beverage, our specialists offer deep insight built on practical knowledge. From business practices to supply chain structures, and from revenue sources and revenue recognition issues to industry terminology, we understand your challenges and your business.

Industry knowledge means we can move fast to help you find the solutions you need now. Because of our up to the minute knowledge of emerging trends – including the impact of new regulation, the evolving supply chain and

industry dynamics – we can anticipate their impact and help you prepare for future opportunities and threats as you expand internationally.

**Archer Daniels
Midland Company
Bibendum
Bonduelle
Chia Inc.
Danone
Fromageries Bel
Pizza Express
Premier Fishing
Saputo
Spier Group
The Edrington Group
United Spirits**

“Developing a bespoke action plan for the specific market is key. Our global collaborative culture ensures we can offer the best advice to our clients and connect them to the relevant F&B specialists wherever they operate”

Piyush Patodia
National leader Food and Beverage
Grant Thornton India



What our clients say

Clients value our extensive international market knowledge and solutions that either meet or exceed industry standards. But above all, they value our open, accessible and no nonsense approach that leads to a deeper understanding and more relevant advice.



"...This acquisition will bolster IHC's presence internationally. Grant Thornton introduced the opportunity to us and from origination all the way through to completion, I was impressed with their strong sector insight, commercial acumen and relationship based approach in navigating through the deal which at times presented numerous challenges"

India Hospitality Corporation

"...We built a close relationship with the partners we work with and the firm, and in fact our levels of satisfaction with their services were such that we have referred them to other clients"

Spier Group

"When we first started, Grant Thornton was there helping us, they provided us with the advice that a small company needs to grow and become successful. And, as we grew and became successful, they were there and had to the resources to provide us with the level of advice that a large corporation needs as well"

Southern Wine and Spirits of America, Inc

"Our Grant Thornton advisers took time to gain an understanding of the business and used this insight to provide us with excellent strategic advice. We really value their industry expertise and their supportive approach that helps us achieve our goals"

Andros UK

"Grant Thornton worked with us to restructure the business. It was very good, they understood exactly what we were trying to do commercially"

Patisserie Valerie

Our global reach

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.

Proactive teams, led by approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 38,500 Grant Thornton people across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.



“Our 38 International Business Centres (IBCs) are focal points that offer clients access to Grant Thornton resources, including local and international professionals who understand their marketplace”

Jason Ramey
National managing partner
International Client Services
Grant Thornton US



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