

EXPORT

▶ BACKGROUND

As in all of the USPB programs, limited resources of manpower and funds prevent the USPB's presence in all frozen potato product markets. If the frozen program is to have an impact on grower investment, decisions must be made on which markets have the best return and what direction best serves **growing** each market based on market development status; emerging, developing or mature.

Shoestring Fry

The USPB's frozen program has focused predominantly on the "shoestring" frozen fry in the foodservice arena since its inception. The shoestring fry market has become very competitive and commoditized, especially within mature markets. Additionally, much of the shoestring fry category growth has been perpetuated by the growth of international quick service restaurants (QSRs). While some markets have seen a slowdown in QSR expansion, some developing markets of the world such as Central America, China, Mexico and parts of Southeast Asia are experiencing continued strong expansion of QSRs. There are also countries such as Vietnam, India, Saudi Arabia and Eastern Russia where QSRs are just entering the market.

The shoestring fry was a "gold mine" product for many years, as QSRs expanded internationally, and the US held the dominate production position. The maturation of some major markets, such as Japan, and the dramatic increase in frozen fry production capacity around the world, means future export growth will be less explosive. A careful assessment must take place, to ensure the USPB **is not fighting market share battles, but rather helping support US frozen potato export growth.** Strong marketing messages regarding "Why buy US?" conveying the benefits of purchasing US frozen products will be important, especially in new and emerging markets.

Frozen Product Mix, Applications and Other Channels

In recent years, the focus of the USPB frozen program has shifted to new products, new channels and local cuisine initiatives. As a whole, the US frozen potato category spans hundreds of products and has much to offer to both mature and developing markets in terms of opportunities. The addition of value-added products in marketing efforts has and will continue to help expand market penetration.

In some of the more mature markets for shoestring fries, such as Korea and Japan, other potential frozen potato channels exist beyond QSRs. The retail food sector is one such growth area that could provide an excellent opportunity for frozen potatoes. Additionally, demographic and societal changes have led to shifts in the frozen program to better meet the needs of the aging and health conscious populations through the promotion of non-fried frozen potato products. In markets where fresh US potatoes have limited or no market access, alternative channels, such as **as** manufacturing, have provided frozen potatoes new upside potential.

Frozen Potato Profile

The "potato" is generally viewed positively in the global market place. However, there is a general lack of knowledge and understanding of frozen potato products related to product benefits such as convenience and versatility, as well as nutritional attributes. Though hundreds of frozen potato products exist, the term "frozen" potato most often equates to "fry" due to the historical rise in sales and growth the fry has provided to the industry.

Increased concerns regarding health issues negatively impact the sales of fries. Additionally, the fry is usually featured in the media when issues such as acrylamide and obesity hit the news. Affirmative messages of health and safety, as well as innovative solutions relating to frozen potato products should be conveyed within the markets to help generate a positive profile for frozen potatoes.

Market Access

Market access issues continue to crop up in the frozen program. Free trade agreements between competing producers and target markets put the US at a disadvantage. Issues such as **high tariffs, irregular import regulations/requirements, maximum residue levels (MRLs), GMO and acrylamide concerns** all have the potential to hamper frozen potato sales and require continual work.



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►► CURRENT MARKETS ◀◀

China

With the fastest GDP growth in the world, China continues to present a huge opportunity for US frozen potatoes. Growth is expected to stay strong in the QSR sector and the trend towards Western types of foods is prevalent. Additionally, continuous expansion of local Chinese chain restaurants, as well as retail, will allow for further opportunities to tap into these sectors. Even with the **growth** of local production capabilities and anti-import sentiment in the government, demand still exceeds the supply of frozen potatoes, **especially for high quality specialty and value-added frozen products**. Due to issues such as acrylamide, the flow of positive nutrition **and US benefit** information into the market will be important. Work establishing US fries as the industry standard should continue to be pursued.

Mexico

Mexico is the **fourth** largest destination for US frozen potatoes. **US product sales to Mexico have been cut in half due to a 20 percent tariff imposed on US fries in retaliation for the US not fulfilling its NAFTA trucking obligations**. Canada has picked up the majority of these exports as its product remains at the NAFTA duty free level. Overall, exports to the market have declined due to the **25 percent devaluation of the peso, the H1N1 outbreak and the economic problems facing the country**. Mexico lost close to **9 percent of GDP in 2008/09, and consumer spending has declined significantly**. The retail market has fared better than foodservice, with the three largest supermarket chains continuing to expand.

Japan

Japan remains the largest export market for US frozen potato products. Little growth potential is expected for the shoestring fry market due to its maturity. However, work in new channels with healthy and innovative products focused towards the needs of the population has proven its ROI. The Japanese consumer's thirst for variety and for healthy, innovative food products will be whetted by understanding the variety and nutrition that abounds in US frozen potato products. **The recessionary economy has impacted recent frozen potatoes sales**.

Korea

Korea is a mature market for shoestring fries, but there is inconsistent local fresh potato supply and no local frozen production. It is a very health conscious market which is constantly looking for new innovative products. The Korean consumer's preference for health-focused items, as well as poor perceptions of fast food, has affected fry sales. The exploration of new channels, such as **e-commerce and bakery cafes**, should lead to expansion of the market. The recent economic recession in Korea has led to more visits to QSRs, as well as deli section purchases which are offered at lower prices. Once ratified, the Free Trade Agreement between Korea and the US would immediately reduce the present 18 percent tariff to zero, which will positively affect US exports to Korea.

Malaysia

Malaysia ranks as the eighth largest US frozen potato export destination. Malaysia is one of the most developed nations in Southeast Asia with a steady GDP growth of around **6 percent**. It is open to foreign trade, including potatoes, relying on imports for its entire potato product supply. With most families eating away from home more frequently and Malaysia's tourism industry expanding, further growth is expected to fuel food service expansion, creating new opportunities for US frozen potato products. The retail sector in Malaysia also presents growth opportunities as supermarkets and hypermarkets become more popular shopping venues.

The Philippines

The Philippines is the ninth largest destination for US frozen potato exports. With a population of around 88 million and a growing economy, the ability to increase the volume of US potato products shipped to this country remains excellent. The Philippines has the largest number of QSRs in the ASEAN region, with continued strong expansion and growth. Other restaurants are opening, particularly in Manila, offering a wide variety of cuisines that are mainly western, fusion or ethnic. These factors continue to push consumption of US potato products. The demand for convenience and modernization of the retail sector could lead to greater frozen potato consumer purchases. **The quickly expanding call center industry could provide excellent potential for further growth for US frozen products**.

Indonesia

With a population of about 240 million people (the world's fourth most populous country) and a relatively new government creating a stable political and economic environment, Indonesia offers good growth potential for the US potato industry. Both QSR and Family Dining Restaurants (FDR) foodservice expansion within the major cities of Indonesia is positioning US frozen potatoes for rapid growth. The tourist industry, expecting to increase significantly in the future, should provide opportunities for foodservice expansion. Shopping malls, supermarkets and hypermarkets are expanding and upgrading as more and more Indonesians are starting to prefer to shop in these modern, convenient and hygienic environments. [A poor economy impacted US potato sales in Indonesia with fewer customers dining out.](#)

Thailand

With a population of 64 million and growing, Thailand is the US's 12th largest frozen potato export market. The positive Thai economic growth, as well as growth of the middle and upper income classes, creates opportunities to build consumer demand for US potatoes. The foodservice sector is expanding with a trend towards western, foreign, ethnic and fusion cuisines when dining out. Thai tourism is extremely important to the Thai foodservice sector. Besides the HRI, potential also exists in the retail sector. Generally speaking, Thai consumers think highly of US origin food products, both in quality and safety, which also bodes well for US frozen potato potential.

Though Thailand has no frozen processing capability, the 30 percent tariffs on frozen potatoes are some of the highest in the world. [Thailand now has free trade agreements in place with China, New Zealand and Australia that call for the tariffs on frozen potato products to fall to zero. The tariffs are already below 20 percent, putting US product at a distinct disadvantage. Unless the US and Thailand negotiate an FTA, US exports will continue to show declines and eventually lose not only market leader status, but their entire market share.](#)

Central America - Dominican Republic

On August 5, 2004, the United States signed the United States-Central America-Dominican Republic Free Trade Agreement (DR-CAFTA) between the US and Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua and the Dominican Republic. The DR-CAFTA levels the playing field, providing US exporters market access that is better than, or at a minimum, equal to that given to other competitor countries, which has led to renewed interest in US products, including frozen potatoes.

With CAFTA in place, the opportunities for exports of US agriculture products, to the region should increase significantly. According to the USDA, this area represents one of the United States' largest destinations for US agricultural exports (over \$1 billion in 2002), with a total population of approximately 37 million. The region has a total combined purchasing power parity of almost \$152 billion (CIA World Factbook). [As a whole, the Central American-Dominican Republic region is the 11th largest market for US potato frozen products.](#)

Vietnam

Vietnam is an emerging market which holds good growth potential for US frozen potato products. The Vietnamese economy is witnessing rapid growth with total foreign investment at record highs. Becoming a member of the WTO seems to have created renewed vibrancy in the country's major urban areas. The 2009 tariff on frozen fries was 26.2 percent, however, the accession agreement calls for a gradual reduction of 4.4 percent annually. Since the lifting of the US embargo, US trade and commercial ties with Vietnam have expanded, including HRI establishments selling potatoes. Establishing US frozen potatoes at the ground level will encourage future US potato product sales in the HRI and retail sectors. Additionally, the cold chain is almost non-existent, assistance in this area will help expand future sales of US frozen potato products.

►► POTENTIAL MARKETS ◀◀

The following markets, as well as others, will be reviewed in order to better understand their upside potential.

Panama

Recently, Panama's HRI sector [began](#) to fulfill its predicted growth potential thru the tourism market. Currently there are a number of "five star" hotels and high-end restaurants that import their food

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supplies. However, despite the country's reduced vegetable production, Panama's high import tariffs resulted in higher vegetable exports than imports. Panama's tariff on frozen fries increased to 20 percent in 2003. However, should the US and Panama implement the agreed upon Free Trade Agreement, the tariff would go to 18 percent and be gradually eliminated over a 10-year period. Panama does not have a well developed cold chain distribution system, this would need to be addressed via education and training.

India

Based on its food culture, the potato is well accepted, and there is currently no domestic fry production. Good growth in frozen potato imports has occurred; 143 MT in 2001 to 1,043 MT in 2004. Though geographically far away, it may prove to be a worthwhile market for the US to tap, if US processors are focused on it.

Middle East (Saudi Arabia)

Saudi Arabia is a \$5.8 billion import market for food and agricultural products, and this is expected to grow in the years to come. There are a growing number of QSRs, hotels and resorts. The number of upscale supermarkets continues to increase, creating greater opportunities for new-to-market US food products. This is an open access market, in which US fries **perform** well. Presently, there is room for growth for all suppliers, but competition and geographic location could be an issue in the future.

Russia

Potatoes are a high consumption item in Russia. Increasing consumer demand for new and better food products, an expanding economy, as well as a 143 million population makes Russia an attractive target for US frozen potato exports. QSR burger establishments **are** forecasted to nearly double in Russia by 2012, and will increasingly rely on imports to fulfill supply requirements. European competition is strong and entrenched, especially in western Russia. However, due to geographic distances, the Russian Far East offers a natural market from the US West Coast.

► CHALLENGES

The ultra competitive nature of shoestring fry sales, especially in mature markets, makes it difficult for the USPB to influence market share battles. **To face increased competition in the foreign markets and be fully competitive, the US frozen program must fully and properly answer the question, "why buy US?"** Globalization of frozen processors also presents a challenge, as large multinational processors can sell product from any of their worldwide operations. Additionally, **changing global potato supplies, limited production capacity, fluctuating exchange rates and high finished frozen potato prices,** create anxiety among international purchasers of US frozen potatoes, **lessening confidence and loyalty.**

Emerging markets are often very price sensitive, as buyers often lack an understanding of value purchasing. The high quality and often higher priced US product can lose out in such environments. The profitability message and **other core messages as to the reasons why to buy US** must be understood by all levels of the trade in these markets to establish US fries as the industry standard.

Problems with storage and handling in foreign markets can drastically reduce the quality of US fries. Shortfalls in the cold chain channel in emerging and developing markets continue to be an issue damaging frozen products. These issues need to be addressed to ensure the quality of US frozen product is not tarnished. Additionally, in newer markets, processors have few resources to fully market US potatoes within the market, creating the need for support.

There remains a lack of knowledge and understanding of other frozen potato products in both mature and developing markets. Many of the US processor foreign representatives tend to be sales rather than market development driven, leaving opportunities for the USPB to help develop untapped product categories and channels. The products that fit the local market and channels yet untapped should be explored and developed. With this development comes the lack of knowledge of application and use, which must be resolved to ensure market penetration for US frozen potato products.

As the target markets mature and saturate, the challenge will be to investigate and build new markets to create new growth opportunities for the industry. New market exploration will be important to ensure grower ROI. Yet as markets mature, market share developed through USPB marketing efforts must not be lost due to food safety issues. Additionally market access issues, such as high tariffs or unfair competition, must be addressed to ensure full access for US frozen potatoes.

► RESOLUTION

In order to expand the market for frozen potato products, efforts must be undertaken for both fries as well as other frozen potato categories.

Expand the Sales of Frozen Potato Products through New Products, New Applications and Alternative Channels

In maturing markets, in order to tap new opportunities for non-shoestring products in a variety of channels, it will be important to drill deeper and wider into the markets. Some potential channels include: local cuisine, Western dining, new menu applications, institutional foodservice, manufacturing, convenience as well as the retail sector. Once the best opportunities for non-shoestring frozen potato products are analyzed and discovered, key channel players in the markets must be supported via education, training and new product introduction support.

Establish US Fries as the Standard in Developing and Emerging Markets

Establishing the high quality of the US fry as the industry standard in target markets will be essential for continued growth. As each market has special needs, it will be necessary to create market criteria to determine the appropriate activities to achieve this. The goal will be to create a complete understanding of value purchasing and better returns available from utilizing the higher quality US product. A preference for US fries will also be established by adding value to US frozen potato products. **Additional frozen program technical expertise should be utilized to further evaluate and update the frozen program and US frozen potato messaging.** It will be important that the USPB support processors and QSRs in developing and emerging markets. Additionally, key channel players, including importers and distributors, should be educated and supported in these efforts.

New Market Exploration and Opportunity Shifts

Research should be conducted on new target market opportunities to ensure the USPB is in the “correct” markets. The development of criteria which analyzes market opportunities will help to clarify when to enter a new market, as well as which mature markets are ready for the USPB to exit. These decisions will be made utilizing the criteria appended to this LRP. As best ROI markets are clarified, work to shift from exit markets to entry markets will be done.

Market Maintenance

For the mature fry markets, there is still opportunity for great losses of sales if the market is not monitored. For markets identified as ready to be exited a phase out staging will be critical. It will be important to not fully depart the market in whole, but to maintain a presence to address market

THE USPB

WILL SYNERGIZE EFFORTS TO EXPAND FROZEN POTATOES

***AND EFFICIENTLY UTILIZE
GROWER DOLLARS***

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access, food safety and other issues. The USPB will need to play the role of an issues resource, with critical information being transferred to US processors, the foreign trade and consumers to try and prevent the loss of exports.

Create a Positive Frozen Potato Profile

A positive image is critical for the success of all potato categories (frozen, dehy, fresh and seed). Proactive PR work must be undertaken to disseminate the US potato's quality, versatility and nutritional attributes. Additionally, research to understand **benefits** and attributes specific to **US** frozen products, as well as the needs and perceptions of the trade and consumers, should be pursued to better leverage marketing efforts. **Evaluation of present and potential frozen messaging, including "Why buy US messaging?" should be conducted.** Transferring research results, trends, program initiatives and innovative potato uses from the USPB's domestic program to the international markets, as well as from the international markets back to the US will synergize USPB efforts to expand US frozen potatoes and efficiently utilize grower dollars. Delivering positive nutrition messages about potatoes to the trade, as well as consumers, will heighten the profile of frozen potatoes.

Market Access/Issues Management

The USPB will continue to work to reduce and eliminate barriers to trade, as well as new regulations that could hamper US frozen potato sales abroad. The USPB will also work on food safety and other issues that threaten sales of frozen potato products

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GROWTH STRATEGY

Expand Market Penetration for US Frozen Potato Products

- Expand the sales of frozen potato products through new products, new applications and alternative channels
- Educate and support importers/distributors and key channel players
- Establish US fries as the standard in developing and emerging markets
- Shift to new market opportunities
- Market maintenance
- Create a positive frozen potato profile
- Market access and issues management

PRODUCTIVITY STRATEGY

Select Appropriate Investments Where Impact and ROI Can Be Achieved

- Analyze best opportunities for frozen potato products
- Support US processors and in market trade/industry partners (foodservice, retail, new channel players) to increase demand for US frozen potatoes via increased coordination and communication
- Conduct research on new market opportunities
- Continue to research and understand frozen product attributes, as well as trade and consumers' needs and perceptions to support **"Why buy US"** and other marketing efforts
- Develop positive messages, including nutrition for frozen potatoes
- Communicate the frozen program effectively to the US potato industry by teaming with the industry communications department
- Play the role of an issues resource for US processors and foreign HRI