



PO Box 1250, Pelican House,
Princess Alice Highway
Bridgetown, Barbados
bidc@bidc.org
Tel (246) 427 5350

The Food Sector in Barbados: 2015

The Food subsector recorded a mixed performance in 2015. Declines were recorded in both the number of operating companies during the review period and in the level of employment. Additionally, food exports weakened, recording a decrease of a decline of 14.8% or Bds\$ 13.1 million.

The level of confidence by companies in the subsector also fell during the year under review, with investment reaching Bds\$ 6.1 million by December, a decrease of Bds\$ 5.9 million or 48.9% as compared with 2014. The greatest levels of investment were made in the production of meat and meat products, sugar production and the production of baked goods.

Rising input costs, high competition and challenging market conditions are all challenges with which the subsector is faced. For the producer seeking to penetrate international markets, there are increased sanitary and phyto-sanitary requirements. Local producers were faced with additional constraints arising from fiscal and monetary measures adopted by Government, intended to control external spending and limit the loss of foreign exchange.

A series of downgrades in the credit rating for Barbados negatively impacted the operating environment for local producers and resulted in the reduction of employment in some companies. Furthermore, Government's efforts to meet its obligations to the World Trade Organisation and eliminate export subsidies by the end of the year saw some producers battling reduced profits as corporation tax waivers came to a close.

Global Trends

Several key trends observed across the industry are challenging producers to rethink all aspects of the production process. Consumers, retailers, industry and regulators are all driving more transparency in labelling. There has been growing concern over the lack of a definition of "natural." More clarity and specific details are being required by industry stakeholders. In particular, the Australian Competition and Consumer Commission (ACCC) has initiated numerous legal actions in relation to products being labelled questionably.

The consumer in 2015 has a preference for convenience and is more likely to avoid complicated food items. Consumers expect to expend a minimum of effort to be able to enjoy their food and want their products to be ready at the time they are ready for them - ready in temperature, shape, taste, etc.

Sustainability is a concern of the consumer who is seeking to minimise damage to the environment and reduce his carbon footprint. Environmentally conscious consumers pay special attention to opportunities to reuse, recycle and repurpose as they make their food consumption choices. They gravitate to products that are affiliated with the protection of the environment.

There is much concern among consumers about products that contain genetically engineered ingredients (genetically modified organisms or GMOs). According to *GMO Inside.org*, there's evidence that the new substances engineered into some GMO foods can mimic potent, potentially life-threatening allergens. Consequently, consumers are insisting that product labels indicate clearly which food items contains GMOs. However, the Federal Drug Administration (FDA) has declared that GMO products are safe and no different from conventional ones.

Consumers have also been making decisions to purchase food products based on the opportunity to connect with a larger community online. They expect that they will be able to engage with brands, even during times that they aren't using the product. The opportunity to share and provide feedback is also a deciding factor, especially for the millennial.

Industry Structure

According to the BIDC Employment and Investment Survey, at December 2015, there were 44 active companies in the Food subsector. Though the number of companies did not change from the previous year, there was one less company engaged in the production of bakery products and an additional company engaged in fish processing. The level of employment fell by 2.4% or 65 persons to 2,613 at December 2015 as the subsector recorded job losses for 24 females and 41 males.

Of the 44 companies operating at the end of 2015, 10 were engaged in the production of bakery products; 9 in the production of spices and condiments; 3 each in confectionery production and fish processing; and 4 in the production of meat and meat products.

The subsector employed 1,532 males and 1,081 females at the end of December 2015. Males worked principally in the production of sugar, bakery items and meat and meat production respectively, while females engaged primarily in the production of bakery products and meat and meat production but also contributed significantly to the production of sugar.

The Food subsector is dominated by small companies, with 25 (56.8%) of the operating companies having less than 25 employees. However, these accounted for 192 persons only, i.e. 7.3% of total employment in the subsector, see table below. The majority of workers are employed by companies in the 100-249 size category, where 5 companies employ 805 persons or 30.8% of the persons employed in the subsector.

**Employment and Size of Operations
As at December 2015**

| Size of Workforce | No. of Companies | No. of Employees |
|-------------------|------------------|------------------|
| 1-24 | 25 | 192 |
| 25-49 | 8 | 267 |
| 50-99 | 3 | 202 |
| 100-249 | 5 | 805 |
| 250-499 | 2 | 643 |
| 500+ | 1 | 504 |
| TOTAL | 44 | 2,613 |

Source: BIDC Employment and Investment Survey

Constraints and Challenges

In 2015, producers were faced with rising input costs, high competition and challenging market conditions in most markets as the global business environment continued to be challenging. At the local level, producers were faced with constraints arising from fiscal and monetary measures adopted by Government, intended to control external spending and limit the loss of foreign exchange. Coupled with reduced incentives due to Government's efforts to meet its obligations to the World Trade Organisation and eliminate export subsidies, and a series of downgrades in the credit rating for Barbados, the operating environment for local producers was extremely tentative and resulted in the reduction of employment in some companies.

More and more, the bulk of disposable income resides with the millennials segment of the population. This is the largest growing consumer segment but poses the biggest challenge to food producers. Millennials are also quick to share their opinions and experiences. Producers are finding it a challenge to keep up with this group of consumers and provide products that resonate with their beliefs, social image, dietary needs and budget. Both positive and negative experiences can go viral quickly within this segment and can seriously advance or impair a company's image, reputation and legacy.

Greater attention has been given to labelling claims by food manufacturers. According to Innova Market Insights, clean label claims are tracked on nearly a quarter of all food launches, with manufacturers increasingly highlighting the naturalness and origin of their products. With growing concerns over the lack of a definition of 'natural', consumers, retailers, industry and regulators are all driving more transparency in labelling.

The global proliferation of cooking shows on TV has generated sustained interest in home cooking. Dining is no longer just a personal experience, but a staged event, with plating and lighting increasingly designed with phone snapshots and social-media sharing in mind. It is now seen as fashionable, fun and social, as well as healthy and cost-effective and has driven demand for a greater choice of fresh foods, ingredients for cooking from scratch and a wider use of recipe suggestions by manufacturers and retailers.

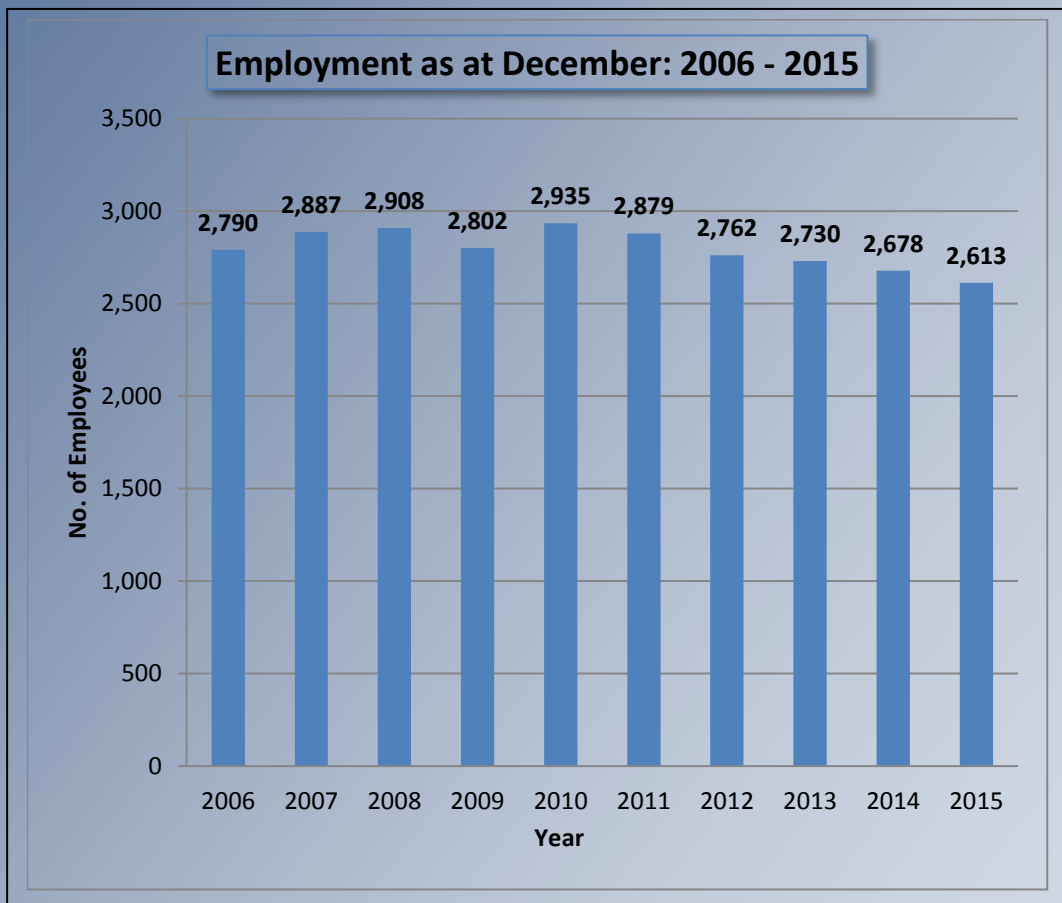
Sector Analysis

In 2015, the Food subsector recorded adverse performances in the majority of indicators. Decreases were recorded in the levels of employment, investment, operating companies and exports. During the year under review, the subsector recorded decreases in

both the number of females (2.2%) and the number of males employed (2.6%). In addition, a moderate decrease was recorded in the demand for foreign food items as imports fell by 1.3%. However, this did nothing to alleviate the worsening balance of trade position for the subsector which increased by an additional Bds\$ 6 million.

On the other hand, there was a minor improvement in the level of output as measured by the Barbados Statistical Service's Index of Industrial Production. Having declined annually for the previous three years, output registered growth of 0.9 percentage points at the end of December 2015.

Employment in Sector



Source: Barbados Statistical Service

Food Subsector Major Indicators As at December: 2011 - 2015

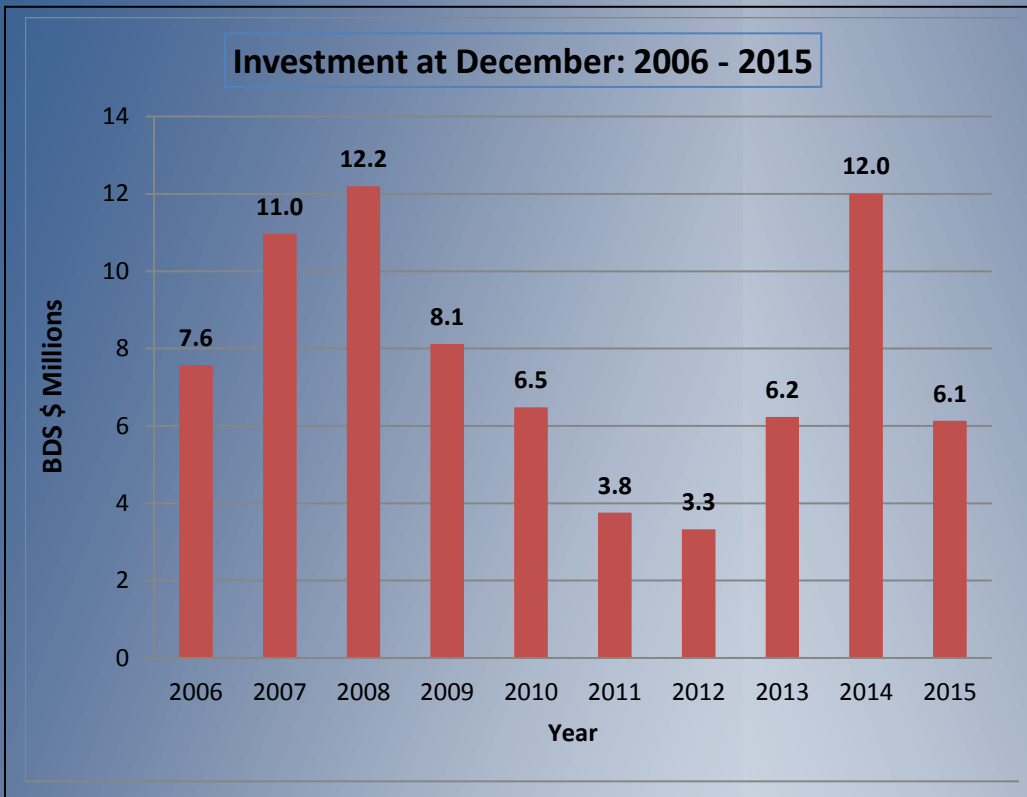
| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-------|-------|-------|-------|-------|
| No. of employees | 2,879 | 2,762 | 2,730 | 2,678 | 2,613 |
| No. of Males employed | 1,677 | 1,633 | 1,636 | 1,573 | 1,532 |
| No. of Females employed | 1,202 | 1,129 | 1,094 | 1,105 | 1,081 |
| No. of Enterprises | 51 | 51 | 50 | 47 | 44 |
| Annual Domestic Exports (Bds \$ M) | 77.4 | 86.0 | 80.5 | 88.9 | 75.8 |
| Annual Imports (Bds \$ M) | 512.1 | 519.8 | 538.4 | 551.6 | 544.5 |
| Domestic Output (Index of Indust. Prod.) | 99.1 | 95.1 | 94.9 | 93.1 | 94.0 |
| Investment (Bds \$ M) | 3.8 | 3.3 | 6.2 | 12.0 | 6.1 |

Source: BIDC Employment and Investment Survey, Barbados Statistical Service

Employment levels continued to fall in the Food subsector over the review period. At the end of 2015, 2,613 persons were employed, some 65 fewer than at the end of the previous year. This was the fifth consecutive year of declining employment levels in the subsector.

The majority of companies operating in 2015 employed less than 25 persons. This category accounted for 56.8% of active companies but only 192 employees, a mere 7.3% of persons employed. At the end of 2015, workers were engaged principally in baked goods production (633 or 24.2%), the manufacture of sugar (504 or 19.3%), the production of meat and meat products (437 or 16.7%) and the manufacture of spices and condiments (127 or 4.9%).

Investment

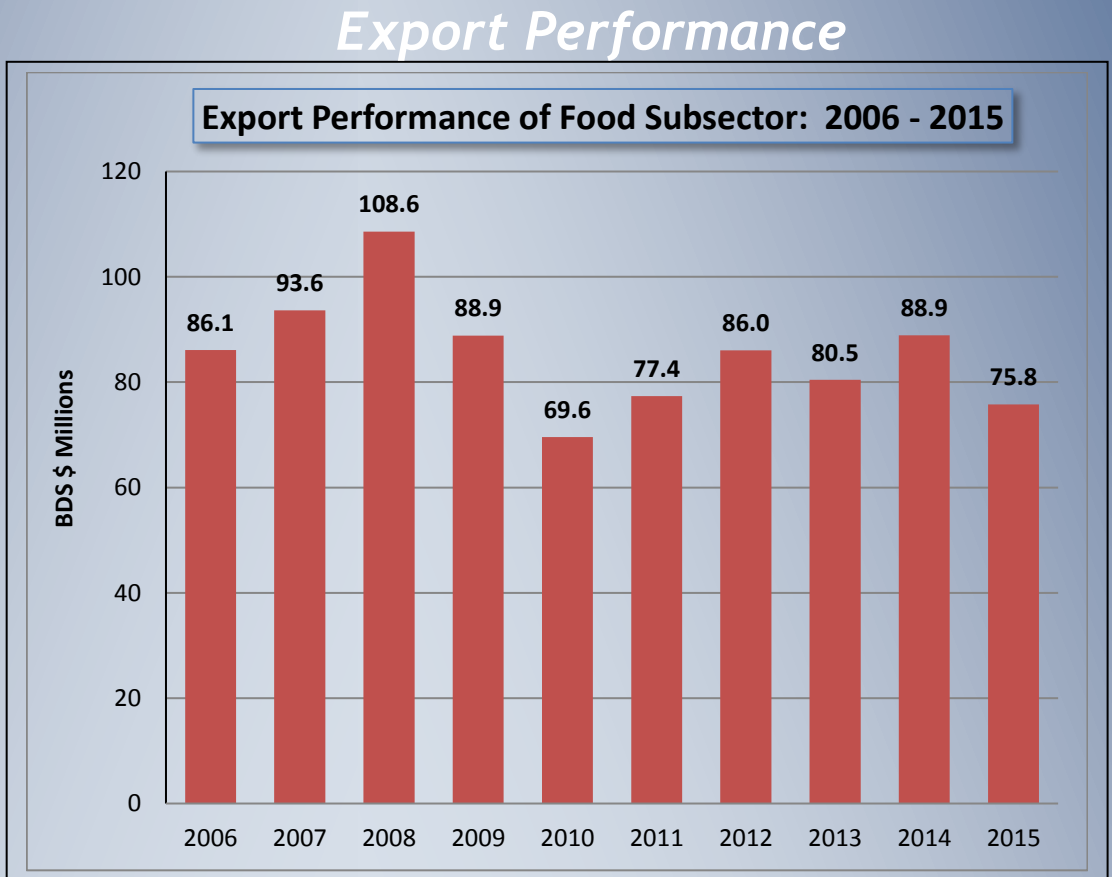


Source: BIDD Employment and Investment Survey

The Food subsector recorded exports valued at Bds\$ 75.8 million at the end of 2015, a decline of 14.8% or Bds\$ 13.1 million as compared to 2014.

This decrease was due largely to a decrease of 60.2% in the exports of sugar, falling to Bds\$ 7.2 million; and a 6.8% decline in shipments of margarine which fell to Bds\$ 18.6 million.

On the other hand, exports of sweetened biscuits and fruit juices strengthened in 2015, growing by 4.4% (Bds\$ 0.5 million) and 19% (Bds\$ 1.6 million) respectively to Bds\$ 12.6 million and Bds\$ 9.9 million.



Source: Barbados Statistical Service

The level of investment stood at Bds\$ 6.1 million at the end of 2015. This represented a decline of Bds\$ 5.9 million or 48.9% when compared to the corresponding figure for 2014.

Almost all of the investment in 2015 was injected by local companies, which accounted for 99.1%. Producers of bakery products invested 7.6% of the total investment while those producing sugar injected 19.4% and those producing meat and meat products, 26.7%. Companies engaged in the processing of fish also invested Bds\$ 0.2 million or 3.1%

The principal areas of investment were machinery (Bds\$ 4.8 million or 78.4%); other fixed assets (Bds\$ 1.0 million or 16.2%); and building improvements (Bds\$ 0.1 million or 2.3%).

Main Exports

The main commodities exported during 2015 were margarine, sweet biscuits, fruit juices, flour and meal and raw cane sugar.

Exports of margarine were valued at Bds\$ 18.6 million

a fall of 6.8% of Bds\$ 1.4 million. This was principally due to decreases of 9.6% to Trinidad and Tobago, 9.9% to St. Lucia and 16.4% to St. Vincent and the Grenadines.

Sweet biscuits exports were valued at Bds\$ 12.6 million in 2015, an increase of 4.4% or Bds\$ 0.5 million compared to the previous year. Barbadian producers exported Bds\$ 3.3 million to Jamaica, Bds \$2.9 million to Trinidad and Tobago, Bds \$2.0 million to the United States of America and Bds\$ 1.3 million to Guyana.

Producers of fruit juices increased their shipments by 19% in 2015. Increases were recorded in all but one of

Main Exports of Food Subsector: 2011 - 2015

(Bds \$ million)

| Products | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------|------------|------------|------------|------------|------------|
| Fruit Juices | 4,041,953 | 6,162,046 | 6,745,946 | 8,313,749 | 9,891,056 |
| Sweetened Biscuits | 12,586,320 | 13,428,579 | 13,183,866 | 12,111,242 | 12,639,913 |
| Margarine | 19,062,404 | 20,238,444 | 20,176,498 | 19,975,486 | 18,610,575 |
| Flour and Meal | 5,587,181 | 7,683,592 | 8,823,572 | 8,492,134 | 8,281,779 |
| Sugar | 21,180,841 | 22,281,897 | 15,948,843 | 18,112,906 | 7,202,391 |

Source: Barbados Statistical Service

the main markets. Shipments to Antigua grew by 10.7% to Bds\$ 2.6 million. Those to St. Lucia recorded an increase of 23.1% to Bds\$ 2.4 million. Exports to St. Kitts & Nevis, Trinidad and Tobago, Guyana and St. Vincent and the Grenadines also rose in 2015 by 32.1%, 5.4%, 20.3% and 43.6% respectively.

Barbados exported raw cane sugar to two markets only in 2015 and sugar exports decreased by 60.2% compared to 2014 to Bds\$ 15.9 million. While exports of sugar to the United Kingdom grew by 1.2% to Bds\$ 5.9 million, those to the United States of America fell by 80.5% to Bds\$ 1.3 million.

Main Competing Imports

The level of imports grew in four of the five main categories of competing products in the Food sector in 2015.

Imports of fruit juices reached Bds\$ 11.3 million, up 10.5% or Bds\$ 1.1 million, chiefly due to imports from the United States of America to the value of Bds\$ 4.6 million, an increase of 7.8%. Barbados also imported 2.5% (Bds\$ 0.2 million) more sweetened biscuits to the tune of Bds\$ 7.1 million, with Bds\$ 4.1 million of this

sourced from Trinidad and Tobago. Flour and Meal imports also recorded an increase of 4.7% (Bds\$ 0.4 million) in the in the year under review, reaching Bds\$ 9.1 million, while imports of margarine grew by 13.6% (Bds\$ 0.2 million) to Bds\$ 1.4 million, due in large part to a 17.7% increase in imports from the United States of America, from which Barbados sourced Bds\$ 0.8 million in 2015.

Of the five main product areas, imports declined in sugar only in 2015. Shipments of sugar into the country were valued at Bds\$ 15.5 million, a fall of 15.4% or Bds\$ 2.8 million. This was due principally

to a fall of 19% in imports from the United Kingdom, Barbados' main source of sugar, from where the country acquired Bds\$ 6.8 million of product in 2015.

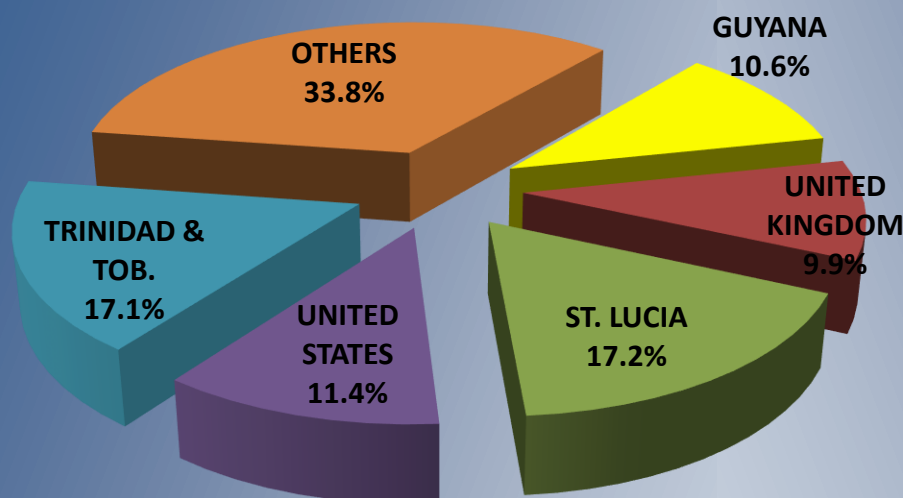
Main Competing Exports of Food Subsector: 2011 - 2015

(Bds \$ million)

| Products | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------|------------|------------|------------|------------|------------|
| Fruit Juices | 12,230,556 | 9,366,538 | 10,290,887 | 10,245,007 | 11,325,558 |
| Sweetened Biscuits | 6,289,130 | 6,554,730 | 6,852,967 | 6,941,888 | 7,114,759 |
| Margarine | 3,117,136 | 2,228,155 | 1,810,155 | 1,271,392 | 1,444,377 |
| Flour and Meal | 6,560,377 | 7,783,083 | 10,046,374 | 8,661,991 | 9,069,668 |
| Sugar | 20,304,279 | 20,302,032 | 18,903,739 | 18,317,901 | 15,491,899 |

Source: Barbados Statistical Service

Main Markets of Food Subsector: 2015



Source: Barbados Statistical Service

Three of the five main markets for Food exports in 2015 were located in the CARICOM region, together accounting for 44.9% of total food shipments, valued at Bds\$ 34.0 million. All three markets found Barbados to be a good source for Flour and Meal; Margarine; and Sweet Biscuits.

The other two principal markets for Food exports in 2015 were the United Kingdom and the United States of America. Consumers in the United Kingdom were chiefly interested in cane sugar (Bds\$ 5.9 million) while consumers in the United States of America sourced Bakery Products (Bds\$ 3.3 million); Sweet Biscuits (Bds\$ 2.0 million); Sugar (Bds\$ 1.3 million); and Processed Fish (Bds\$ 0.8 million).

The United States of America remained the principal source of food imports into Barbados in 2015, providing items valued at Bds\$ 233.8 million. Imported items included meat and meat preparations, vegetables and fruits, eggs, dairy products, condiments and bakery products.

New Zealand, the United Kingdom and Canada were also key sources for imported food in 2015. Barbadians sourced dairy products, meat and fruit juices from New Zealand; sugar; dairy products and chocolate preparations from the United Kingdom; and meat, processed fish and condiments from Canada.

Within the Region, Trinidad and Tobago was the main provider of food items, shipping Bds\$ 42.2 million in 2015, among which were condiments, dairy products, biscuits, bakery products, pasta, preserved fruit and fish.

Top Import Markets for Food Subsector As At December 2015

| Country | Main Imports | Value (BDS \$) |
|-----------------|---|----------------|
| CANADA | Meat; Processed Fish; Condiments; Fresh Vegetables; Eggs; Bakery Products; Preserved Fruit; Nuts; Sugar; Sweetened Biscuits; Chocolate Preparations; Sugar Confectionery; Potato/Tortilla Chips | 27,858,512 |
| UNITED KINGDOM | Sugar; Dairy Products; Chocolate Preparations; Processed Fish; Condiments; Sweetened Biscuits; Fresh Fruit; Fruit Juices; Fresh Vegetables; Preserved Fruit; Sugar Confectionery; Bakery Products | 32,555,903 |
| NEW ZEALAND | Dairy Products; Meat; Fruit Juices; Fresh Fruit; Processed Fish | 32,071,603 |
| TRINIDAD & TOB. | Condiments; Dairy Products; Sweetened Biscuits; Bakery Products; Pasta; Preserved Fruit; Unsweetened Biscuits; Processed Fish; Chocolate Preps.; Potato/Tortilla Chips; Sugar; Sugar Confectionery; | 42,207,412 |
| UNITED STATES | Meat; Fresh Fruit; Fresh Vegetables; Eggs; Maize; Dairy Products; Condiments; Bakery Products; Wheat and Meslin; Preserved Fruit; Processed Fish; Chocolate Preps.; Fruit Juices; Potato/Tortilla Chips | 233,806,136 |

Source: Barbados Statistical Service

Emerging Opportunities

Market research firm TechNavio, in its Global Beverage Packaging Market report, estimates that the food packaging industry will have a compounded annual growth rate of 4.11 percent globally over the next four years, generating many opportunities for food packaging companies to increase production and find new innovations across the industry.

Providing opportunities for consumers to connect with the brand and with other customers will redound to the benefit of food producers. Gathering information on these interactions will allow producers to cater to their customers' desires for individuality. Innovative packaging can connect them to online resources through scan-able bar codes, special passwords and other technical means, thereby building customer loyalty and driving sales. Greater use of the Internet to facilitate online purchases will change the landscape of grocery shopping and innovations will encourage consumers to think outside traditional retailers. Local food producers must continue to modify their packaging, presentation and delivery to meet changing consumer demands and introduce novel ways to engage their consumers.

Consumers are becoming more environmentally conscious and are giving greater consideration to sustainability in their choice of products. They are looking for opportunities to reuse, recycle and repurpose when purchasing beverages. Food companies need to look constantly for new sustainable packaging in order to keep up with this consumer demand. Packaging that can easily be repurposed by the consumer affords an additional element of recycling ease since it relieves the burden upon on the consumer of having to worry about how to recycle it.

Consumers are placing emphasis on convenience and the lack of complication, challenging producers to commit greater efforts to providing food items that require minimal preparation and are ready at the time consumers require it. This allows producers the opportunity to experiment with temperature, shape, taste, portion and packaging. This is especially significant given that, across age groups, more consumers are living in single-person households or occasionally eating meals alone.

Consumer demands for natural and "less processed" food products will challenge companies to remove artificial ingredients. This presents food producers with the opportunity to provide a greater variety of natural offerings. This interest in natural has created a demand to "get back to basics" which has boosted ancient grains and superfoods, fostering a principle that age-old staples are better than today's manufactured options. Local producers must recognise that there is a market segment that prefers minimal or zero processing and, if they capitalise on this opportunity by introducing product differentiations tailored to this segment and market their products appropriately, they can boost their sales and, by extension, their profits.

In the recent past, consumers' awareness of the many sources of good and bad fats has improved immensely through targeted education programmes. This has ushered in a paradigm shift in which fat content is not the first and foremost consideration in the search for healthy products. Coupled with this has been a rise in the promotion of athletic programs that encourage consumers to get and stay active. Knowledge has also increased regarding the growing ranks of novel protein sources and potential replacements for meat-based protein. These unearth a need for food products that help consumers stay healthy while maintaining good nutrition.

HOW THE BIDC CAN HELP

The BIDC can assist your company is making sound business decisions on:

- Entering the market
- Whether the product/service is likely to require further development before launching in the market
- How your product/service could be supplied to the market
- How your product/service could be promoted within the market

The BIDC can also connect you with relevant business contacts.

Please contact your Business Development Officer for further details on our programmes of assistance at (1-246-427-5350).

Industry Outlook

The Barbados economy is estimated to have grown by 0.5 percent in 2015 and is forecast to grow by 1.6 percent in 2016, mainly because of tourism and ancillary activity. The industry is expected to experience an increase in airlift during the year, with summer airlift capacity forecasted to be up 4.5 percent, with increases from the UK and US. This augurs well for the Food industry if producers target this growing market and conduct effective marketing campaigns.

As a result of the persistent slide in international oil prices since the beginning of 2015, there was, on average, no increase in retail prices during the year. Despite a fall in the prices of imported fuels by 42 percent and a corresponding fall in the price of energy leading to some saving in input costs to producers, total exports of goods were down by roughly 7 percent at the end of 2015, owing to declines in food exports, in particular, sugar and margarine. With global oil prices set to regain ground in 2016, local food producers will face increasing costs which will impact negatively on their bottom line.

There is much anticipation about the contents of Dietary Guidelines for Americans (DGAs) to be published by the US Department of Agriculture and the Department of Health and Human Services early in 2016. Issued every five years, the DGAs also rewrite school lunch standards, government agricultural subsidies and research priorities at health agencies, in the process affecting nutrition labels and generally raising the pressure on food processors and foodservice venues to provide healthier products. It is expected that these Dietary Guidelines will have an impact on heart health, diabetes risk and obesity reduction. Indications are that the guidelines will embrace the promotion of vegetables, fruits, whole grains, low/non-fat dairy, seafood, legumes and nuts, and warnings against sugar, sodium and refined grains.

The Food industry will undertake a major campaign to clean up product labels. The clean-label movement is inspiring a significant back-to-basics approach in product development and has refined itself into the "clear label" trend in 2015. More food products will be observed with clean labels because consumers view them as both healthier and less processed,

meeting two consumer trends at one time. According to Mintel, more than three quarters of clean-label purchasers seek "free-from" claims out of a desire for more natural/less-processed food items, contributing to a boost in items free of genetically modified organisms (GMOs), high-fructose corn syrup, preservatives and growth hormones. In addition, producers will step up efforts to simplify ingredient statements and improve transparency to consumers as part of an overall effort to gain and maintain consumer trust in the food production system.

In the year ahead, greater segmentation can be expected within the industry. Food producers will intensify their efforts to solidify their brands by paying special attention to millennials. Brands can be expected to go above and beyond the norm to ensure that this tech-savvy generation is able to access information to answer their questions, especially enabling consumers to check their smartphones, tablets and other portable devices if there's something they don't understand on a label. Marketers, therefore, will endeavour to build more trust and answer more questions online via smartcodes or QR codes. Local food producers have to better understand their overseas markets in an effort to more adequately cater to their needs.

The environment is ripe for more mergers in the global Food subsector. Earthbound Farms stretched WhiteWave's organic dairy business into produce. Enjoy Life Foods catapulted Mondelez to the front of the "free-from" category. Hillshire Brands gave Tyson Foods leading brands in further-processed meat products. The recent mega mergers of major food companies like Kraft with Heinz and AB InBev with SABMiller have gained much attention and traction and are growing. Fewer companies constitute more of the business in the subsector. As established companies continue their efforts at consolidation in a bid to cut costs and thereby offer more competitive prices, there will be more mergers and acquisitions, making it more challenging for new entrants to the market. According to Julian Mellentin, director of New Nutrition Business and author of "10 Key Trends in Food, Nutrition and Health 2016", "Products that typically appeal to a broad audience will become more rare, and large companies will look to bulk up their portfolios with smaller brands. Fragmentation also will continue to foil traditional food markets."