

Market outlook and Promotional Potentials in the USA



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- USA has been the largest single market for Sri Lankan products for several years and over 20% of total Sri Lankan exports are reaching to the US market annually.
- During the year 2017 Sri Lanka exports to USA reached to US\$ 2,857.94 million an increase from US\$ 2,678.44 million recorded in 2014.
- The 03 western states (California, Oregon and Washington) have \$ 2.86 trillion GDP and several important corporate sectors, multinational and fortune 500 companies are operating from the major cities such as Los Angeles, San Diego, San Francisco, Seattle/Tacoma, Silicon Valley etc. California is the largest economy in USA with 13.3% of the total size of the US economy and the 5th largest economy in the world in terms of GDP value which is \$ 2.3 trillion in last year.
- Ports of Long Beach, Port of Los Angeles, Port San Francisco, Port of Seattle and International Airports of LA, San Francisco handle major portion of international trade that include major percentage of Sri Lanka's exports to USA. During the year 2017 total trade volume between Sri Lanka and the City of Los Angeles administrative area was nearly \$ 400.00 million.
- During the past several years the USA domestic market size, demographic composition, consumer behaviors, consumer buying strength, pattern and their mind sets, knowledge about the products they buy and consume regularly and its manufacturing process together with mechanism, consideration of ethical and environmental related values have been prominent in reshaping the consumer decisions and these elements are playing a major role in the market and its future growth directions. These changes bear direct impact in the market place shaping its direction.
- It is timely and crucial that we reposition our presence with exceptionally innovative and highly value-added products; if possible with creative re-branding that address current as well as future overall trend, which guarantee fetching premium in the niche market segments and support stay above the price competition.
- Food grade and non-food grade essential oil – HS chapter 33; during the past several years this sector has been making healthy growth momentum year on year basis in the USA market. Sri Lanka export in this sector has grown from \$ 9.0 million in 2014 to \$ 17.38 million in 2017. The Sri Lankan exports, during the months of January - August 2018 reached to \$ 11.87 million as compared to \$ 11.71 million of corresponding months 2017. Most of the products exported to USA from Sri Lanka falls under HS heading 330129 for which total import market size of USA is about \$ 550.0 million in 2017, increase from \$ 275.0 Million recorded in 2013. It is expected that the ongoing growth momentum in US imports as well as market size will sustain during the years to come. At present overall average US market size for this sector is about \$

10 - 13.0 billion which is expected to grow by about 9% - 12% annually. The natural and organic food ingredients have become well sought-after value-added product among the food flavoring, confectionary and several natural medicinal supplement manufacturers.

- Value-added Natural Spices and Ceylon Cinnamon; Natural spices from Sri Lanka has been a consumer preference in USA for several years. The size of the US market is relatively large that no country could meet the demand on annual sourcing volume. It is also a fact that even though the demand is so high, the ever-increasing competition is also a major concern among the suppliers.

Some years ago, the Ceylon Cinnamon has been directly affected by the low-quality substitute product, especially Cassia supplied by the China and South East Asian countries. However, during the recent years key distributing companies and market chains together with the actual consumers have realised that real Cinnamon exported by Sri Lanka is far more superior in terms of quality and health benefits, than Cassia. The North American Cinnamon market is mainly driven by the factors like growing demand for cinnamon in different food items for flavor, rising scope in bakery, pharmaceuticals, and cosmetics sectors, and increasing awareness about the health benefits of cinnamon. However, cinnamon is still considered as a luxury ingredient and is thus costly, hampering the growth of market in the poor societal class. The North American Cinnamon Market dominated the world with the largest market share and is predicted to continue the pattern during the coming years.

As per the available trade data and commercial intelligence, the export of Cinnamon under HS heading 0906 has made constant export growth during the past years; year-on-year basis, reaching to total export of \$ 29.4 million in 2017 increasing from \$ 17.42 million in 2014 with 25% overall market share in 2017. During the months of January - August 2018, the Sri Lanka Cinnamon sector exports has been able generate \$ 13.69 million export revenue with market contraction of about -9.9%, reason for which, we are trying to identify and make appropriate measures where possible to regain growth momentum. During the first 8 months period total US imports has reached to \$ 78.57 million with 14.1% growth. It would be highly important if this product sector is presented to the upmarket segment with highly innovative manner in order to fetch premium price and avoid, as much as possible, exporting it in bulk form. It is also suggested that highly value-added product sectors are promoted through well attended and highly popular trade exhibitions such as Natural Food Export East and West, Fancy Food Show, SIAL Canada Montreal Edition etc.

- Black pepper products; HS 0904 – USS has emerged as a major market for this product sector consequent to the growth in the food seasoning and spice market and the growth in overall food industry. The market for black pepper is openly influenced by the growing pre-treated foodstuff business. The increase in intake of ready-to-eat and frozen food, confectionery products, and bakery products in USA is pushing the market for the spice upwards. We have also

noted that growth in the cosmetics industry is also directly influencing the pepper market due to the antioxidant and antiseptic belongings of black pepper.

As per the available trade data, the overall US imports of pepper HS 0904, has reached to \$ 764.27 million in 2017 decrease from \$ 925.96 million recorded in 2016. During the first 8 months of 2018 too, imports has registered negative growth of 22.2% with the total imports of \$ 404.26 million. Sri Lanka exports under HS heading 0904 which stood at \$ 2.93 million in 2014 has reached \$ 6.11 million in 2017 and during the 08 months of 2018 the export was \$ 4.16 million with contraction of 10.5%.

The Consulate General will identify further promotional initiatives to popularise this sector and gain market share during the year 2019 and beyond.

- Miscellaneous Edible Preparations HS 21, Food Preparations HS 2106 and Mixed Condiments & Mixed Seasoning HS 210390;

USA is one of the lading markets for this sector and during year 2017 total imports under HS Chapter 21 has reached to \$ 4.62 billion, increase from \$ 4.19 billion recorded in 2014. During this period exports from Sri Lanka has grown to \$ 12.95 million in 2017 from \$ 2.39 million in 2014 with 541% impressive export growth in 03 years. During the first 8 months Sri Lanka exports expanded to \$ 10.66 million with 22%growth. Sri Lankan export of HS heading 2106 has grown to \$ 9.75 million in 2017 from \$ 1.34 million in 2014 and Mixed Condiments of HS heading 210390 from Sri Lanka has expanded to reach \$ 2.04 million in 2017 from \$ 0.091 million recorded in 2014. The period January – August 2018 witnessed Sri Lankan export growth of 35.7% in this sector. During 2017 USA has imported goods worth of \$ 949.39 million and in first 8 months \$ 667.54 million with 7.1% growth.

It was noticeable that the processed food and food ingredient industry in USA is entering to an era filled with emerging technology innovations which has tremendous potential to support progress in sustainability, efficiency and health impact. The food sector is rapidly turning to innovations with a purpose. With the changing buying pattern of aging baby boomers new market segments are appearing from the younger generation that include millennials and generation Z who are advancing into new lifestyle stages. Under the new trend consumers of tomorrow are expected to evolve from their usual price sensitive mindsets to a relatively premium seeking trend.

It is also suggested that, in order to overcome market expansion limitations within the ethnic market segments, highly value-added and innovative products in this category are reached to mainstream market segments for which promotional measures are implemented specially with the support of well reputed and represented trade exhibitions where most of the buying agents, distributors and market players are gathered frequently. The Consulate General will be very pleased to extend all possible facilitation in related to special promotional programmes to be launched accordingly.

- Products under special categories such as Organic, FairTrade, Rainforest Alliance, Kosher, Vegan; -We have also observed that demand for Kosher certified products has been expanding and over the past several years, sales of Kosher certified products have grown at an annual rate of 15%. It was also reported that 'Kosher' was one of the most frequently used claims on new

products launched in the USA than 'All Natural' and 'No Additives or Preservatives'. Furthermore, nearly 80% of all Kosher food sales are sold outside of the "Traditional" Jewish market. For millions of consumers, the Kosher symbol has become synonymous with accountability, quality, and food safety. Over the past 50 years, kosher has slowly been embraced by mainstream brands in USA and most of the major supermarket chains offer product under this certification for its regular customers. It was reported that Kosher labelled products have a consumer segment of about 12.4 million consumers. Even though USA Jewish population is less than 2% of the total, about 40% of the newly launched food and beverage sector packaged food carry Kosher label. It was also observed that the sizable percentage of US consumers are turning to products falling under concepts such as organic, natural, vegan, gluten free etc and the key supper market and specialty supper market have introduced special sections for these product categories which fetch a premium price from exclusive, responsible and trusted customers.

The Consulate General has spared no opportunity in further popularizing and retaining the market share of the products highlighted above and will be very pleased to collaborate with respective line agencies, promotional bodies and TSIs in future promotional endeavours.