Firms in the “fresh convenience” strategic segment provide ready-to-eat or easy-to-prepare meals of fresh ingredients. Consumers are increasingly willing to pay more for convenient fresh food.

Opportunities for Croatia may lie in harnessing the country’s access to high-value European urban markets. Croatian firms would need to develop the research capacity to know what foods are in demand in those markets. Quick cold chain logistics are also needed to reliably deliver fresh foods on time.
Industry Snapshot

The food sector is enormous. In 2015, the food and agricultural industry accounted for 10% of global GDP, nearly EUR 6.9 trillion (Plunkett Research, Ltd. 2017). Global trade in food and agricultural items expanded to EUR 997 billion in 2010 from EUR 204 billion in 1980.

The Croatian food industry is vulnerable. Croatia’s exports of prepared or processed foodstuffs in 2015 were EUR 774 million. Croatia’s food industry lacks many of the modern service innovations that have made other food producing countries in Europe so successful. Instead, Croatia mainly cultivates low-value cereal commodities. Nearly three quarters of all agricultural produce in Croatia falls in this low-value category. Many food processors are trying to sell long-shelf life goods under brands developed for the former Yugoslavia.

Emerging consumer-focused strategies are necessary to capture value in an increasingly competitive market. As global incomes rise, they generate demand for new products that fit the lifestyle needs of consumers. Users are demanding more from their food providers in terms of quality, convenience, and experience.

Global Trade in Food and Agricultural Items

1980
1990
2000
2010

EUR 997 billion
EUR 204 billion
Emerging Strategic Segments

Two main factors distinguish strategic segments in the food sector: frequency of delivery and type of consumer.

1. The frequency of delivery for a given food product is a critical strategic factor. Items that require more frequent delivery—fresh items—often have a higher value and are more profitable. Because the shelf life of fresh products is short, the capacity to deliver to consumers is a barrier to entry for many of the world’s producers. Delivering fresh food requires logistics that can get products from farm to fork quickly.

2. The second critical strategic factor in the food sector is the consumer. There are three main types of consumers in the global food market. “Daily use” consumers eat food to meet their basic caloric needs. “Convenience” consumers want foods that are quick and easy to prepare. “Indulgence” consumers purchase food to engage in an “experience” (which may substitute for other forms of entertainment).

“Fresh Convenience”

Preparing meals and fresh ingredients for consumers with less time or inclination to cook ‘from scratch’.

The emerging “fresh convenience” strategic segment is especially attractive for Croatian firms. Buyers in the “fresh convenience” strategic segment are seeking convenient fresh foods.

In the “fresh convenience” strategic segment, firms prepare and combine fresh ingredients from different suppliers. Typical products in this segment include fresh packaged pasta, pre-marinated fresh meat, pre-cut mixed fruit, and complete “easy-to-prepare” meals with fresh ingredients.

Typical companies in the “fresh convenience” segment tend to be small- or medium-sized enterprises. Product differentiation is the key to survival. They invest in predicting trends in food consumption and cooperate intensively with logistics companies and retailers.

Consumers in the “fresh convenience” strategic segment may not have time or may not be inclined to prepare quality food themselves. Consumers in this segment are demanding in terms of quality, taste, and nutritional content. They will pay a premium price for convenience and ease of use.
Where Is the Value Chain Weak?

The Croatian food production and processing industry is underperforming in a range of activities necessary for competitiveness in the sector:

- **Market and Consumer Research.** Croatian food manufacturers are not investing in identifying suitable markets or responding to needs, preferences, tastes or consumer behavior in those markets. Market research is particularly important in the “fresh convenience” strategic segment. Understanding consumer preferences is inherently tricky in foreign markets, and consumer demands and behaviors are highly regionalized. A product that tests well in one location may not be viable in every market. Manufacturers must then also translate consumer research into improved solutions along their value chains. Collaboration with R&D institutions, primary producers, equipment manufacturers, branding agencies and packaging companies is key to success.

- **Primary Production.** Local farms are not producing high-value horticultural produce or animal products. They are producing cereals, beets and potatoes because these crops require the least factor-intensive inputs.

- **Logistics (aggregating, storing, and advanced shipping).** Croatia performs poorly on a range of logistics indicators. For example, in 2013, the percent of products lost to breakage or spoilage during shipping to domestic markets was worse than the average for all other countries. It was more than twice as bad as the average of the (non-OECD) high-income countries. Many warehouses are not suitable for food, and most do not meet international standards. Success in fresh segments requires an intensive supplier network and just in time linkages all along the value chain. Competitiveness is impossible without Third Party logistics (3PL) providers who are able to provide chilled multi-compartment lorry truck or airfreight solutions and invaluable coordination services.

- **Processing.** Croatian firms are underperforming in activities that require advanced processing machinery. There is little to no uptake of highly capital-intensive or knowledge-intensive processing activities. Examples include “high-pressure processing” (HPP) and “pulsed electric processing.” Both allow for preserving foods with minimal processing. Neither is commercially available in Croatia.

- **Bottling and Packaging.** Bottling and packaging practices in Croatia are substandard. Traditional packaging using metal cans and basic plastic packaging are common. This outdated packaging is not adapted for portion control, ease of use, integration with labeling designs, or the movement of perishable products. Firms may need to invest significant amounts in bottling and packaging to produce products designed for ease of consumption and a distinctive high-end look. The firms must complement these investments with labeling informed by intensively focused consumer research.

- **Testing & Certification.** Croatia has not kept pace with the introduction and application of new food safety standards. Private standards continue to pose a high barrier to entry. Retailers are now paying more for firms that voluntarily prove that their product has an added level of quality.
Areas for Reform

Certain aspects of the industry ecosystem limit Croatia's competitiveness in the emerging “fresh convenience” strategic segment.

Demand Conditions

While demand stemming from the tourism sector on the Croatian coast may be a stepping stone for many convenience and indulgence food producers, ultimately export markets should be the objective. Reaching the top fresh logistics hubs such as Frankfurt or Amsterdam could be a launching point for fresh Croatian products more broadly across Europe.

Factor Conditions

Labor productivity is low. Croatia offers a relatively well-educated workforce, however vocational education and training could also be better matched to food industry needs. Development of agriculture and cold chain logistics experts are needed to facilitate production and transport; food technologists are needed to innovate new products and adapt processing technologies; and specialized consulting services are needed to help conduct consumer and market research.

Finance is hard to access. Financial institutions need to be better appraised of the risk and opportunity in various segments of the food sector in order to able to better price interest and offer innovative financing arrangements. Currently, there are no specialized financing institutions for the food industry.

Highly-qualified workers are scarce. Croatia needs to train and recruit agriculture and cold chain experts to facilitate production and transport. It needs to cultivate food technologists to create new products and adapt processing technologies. Finally, it needs consulting services to conduct consumer and market research.

Unskilled labor is also in short supply. Seasonal labor for harvest and labor-intensive processing activities (such as cutting, cleaning, and grading) is a significant constraint on productivity in the sector.

Supporting industries are weakly connected to Croatian industry. Participation in the ‘fresh convenience’ segment requires the proper functioning and participation of a number of supporting industries, including Machinery, Bottling/Packaging, Logistics, and Consulting Services. These industries provide valuable services and inputs into the value chain which enable it to achieve market viability.

Strategy, Structure, and Rivalry

Croatian firms have limited participation in more advanced consumer (convenience/indulgence) and product (fresh) segments. Foreign suppliers account for supply and competition in these segments. Moreover, there is little understanding of the foreign competition, which are increasing their presence on the Croatian market.

Many Croatian firms are fixated on origin labeling laws to prevent competition. They could better benefit from collaborating to find solutions to logistical challenges. For example, making frequent exports financially viable requires building enough volume in the “fresh convenience” segment. To achieve that volume, Croatian companies may need to band together and jointly market to targeted geographies. Such pro-competitive cooperation between food production and processing companies is almost non-existent.
Recommendations

Croatia could improve its position in the emerging “fresh convenience” strategic segment by:

1. **Organizing a competition to motivate firm participation in, and marketing for, the “fresh convenience” strategic segment.** Competitions might center on tourist destinations, which offer convenient testing labs for high-value consumers from targeted foreign markets.

   *Estimated timeframe: 2 years.*

2. **Providing a minimum usage guarantee to entice a sophisticated foreign “high-pressure processing” (HPP) service provider to serve the Croatian market.** Such providers have not opened facilities in Croatia because they would not have a critical mass of food manufacturing companies to service. The lack of HPP facilities creates a chicken-or-egg dilemma because Croatian firms cannot viably enter the “fresh convenience” sector and export without HPP facilities. A minimum usage guarantee would make up at least part of any shortfall in the HPP provider’s income. MoEEC could implement this recommendation (via a ‘level 2’ fiduciary implementing body) as a partial risk guarantee to cover a portion of private investment (whether from debt or direct capital investment).

   *Estimated timeframe: 7 years.*

3. **Supplying business mentoring in product innovation, opportunity recognition, risk perception, entrepreneurship, and professional networking.** MoEEC (through EBRD) or the Croatian Chamber of Economy could implement the mentoring program (through a technical assistance program) as a matching grants scheme.

   *Estimated timeframe: 2 years.*

4. **Conducting market intelligence studies.** Several types of market intelligence studies would be valuable. One is market reports on the “fresh convenience” strategic segment in Vienna, Milan, Venice, Frankfurt, Berlin, London, and Amsterdam. A second is market research to find locations where indicators (such as income, female labor force participation, the concentration of youth, and food prices) suggest demand for “fresh convenience” products. A third type of market report that would be valuable is research on buyer purchase criteria and retailer requirements for certification, labeling, and packaging in target geographic markets. MoEEC and other relevant agencies could implement this recommendation through private sector firms.

   *Estimated timeframe: 5 years.*

5. **Improving performance against the highest Public & Private standards.** The Croatian food sector is missing critical knowledge and investment in testing and certification services. While public inspection laws are mandatorily applied, certification from private certification regimes is often the sine qua non for any food producer or processor who wants to access developed international markets. To fix these market failures a support scheme could be developed to help Croatian firms obtain internationally recognized certifications for their products and activities. Instruments to be considered under this activity include: (i) Training on international standards regimes, (ii) Matching Grant for consultants specialized in standards regimes, (iii) Matching Grant to cover the cost of auditing expenses for such certifications, (iv) Cooperation between inspection agencies for risk-based inspection processes.

   *Estimated timeframe: 6 years.*

**NOTE**

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