10 major reasons of business failure in food processing sector

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When it comes to business, food processing seems to be an obvious choice for most of the entrepreneurs. There could be a considerable number of reasons for this apparent choice. Some of the prominent ones could be:

1. Our exposure to a range of food available in our vicinity and our food consumption habits.
2. Media speaks a lot about food losses and food wastage in the developing and developed world.
3. A latent and unsatisfied demand because of demand-supply mismatch.
4. Entry of new product lines or brands in the market on a regular basis.

Despite of so much of an unmet demand and huge requirements of food for consumption, it's difficult to understand why food processing or food related businesses fails. During the research, there were some interesting facts which came across and 10 major ones are discussed below with the list of companies who were failed in the process:

1. Raw material availability: *Angas Park*was was active in the dried fruit processing business with its operations in the souther Australia. Due to decrease in the number of big dried fruit growers, they were forced to produce less, which further led to the closure of the unit.

2. Cheaper imports:

*McCain Foods (Australia)*was forced to close its potato processing plant because of cheaper imports of finished products. Input costs (potatoes, labor and electricity) were steadily increasing for potato processing and that led to surplus capacity and higher unit costs compared to the imported products. Losing competitiveness on unit economics and low prices of imported products made McCain unit unviable to sustain in the long term.

*Rol-Land Farms Group (US)*group was active in mushroom processing business in Freetown, US. Increased labor and raw material costs with fall in margins due to market competition made mushroom processing unprofitable, further leading to the closure of plant.

3. Regulatory environment: *Heinz* was manufacturing tomato ketchup, baby foods, BBQ sauce and other products in *Ontario, Canada*. Canada passed more stringent water and labor regulations leading to spike in prices of raw material. Neighbouring countries with less stringent norms like Chile and US had cost competitiveness over the domestic produce. This made Heinz products unviable and led to the closure of a 104 year old plant. Though this blow made Canadian authorities to think of a national food strategy to ensure Canadians have access to fresh Canadian products but it was too late.

4. Margins: *Morrisons, Bos Brothers Fruit & Vegetables BV (a part of WM Morrisson Supermarket, the Netherlands)* was into international trade in fruit, vegetables, flowers and plants. They were forced to terminate the company because of stiff competition from discounters like Aldi and Lidl.

5. Violence:

Stanfilco (the Philippines) was managing a 1000 acres banana plantation in the Philippines. Multiple violent incidents from armed lawless groups lead to the decision of closure of operations.

Nakashin Davao International (a Japanese company) closed down its frozen fruit operations in Davao city (the Philippines). The reason for the closure was labor agitation. Workers were demanding reinstatement and regularisation which was not acceptable to the company.

6. Consumer demand:

Ready Pac Produce Inc. (US) closed down the Salinas Valley Plant because of slow down in consumer demand for iceberg lettuce.

Treehouse Foods, Inc. (US) closed two of its plants at Azusa (California) and Ripon (Wisconsin). Declining consumer demand led to the discontinuation of the manufacture of sugar wafer products (bars, cookies and snacks).

7. Centralisation: Companies are more interested to manage fewer plants because of higher economies of scale. This concept leads to centralisation of operations with higher capacities. *Saputo (Canada)* closed down three of its milk processing facilities in eastern Canada and *Saputo (Germany)* closed down its cheese manufacturing unit in Quebec, Germany to increase capacity utilisation at other units. The efforts were meant to pursue additional efficiencies and lower costs. The process created more centralised operations with higher efficiencies.

8. Capacity underutilisation: . Economic unviability of the plant due to under-utilized capacity lead to the closure of *Del Monte Foods (US) vegetable production and canning facility in Sampson County.*

9. Single customer: *Lonrho Fresh (South Africa)* was into cut fruit and vegetable business and working on very thin profit margins. 70% of its sales were dependent on single retail player' Pick and Pay'. Losing out some big business from their biggest customer, 'Pick and Pay' made the business unviable for Lonrho Fresh.

10. Dependability on subsidies: *TINE (Norway)* decided to close its facilities of Jarlsberg Cheese in Norway as export subsidies in Norway are being phased out by 2020. Increase in domestic competition and loss of export subsidies were expected to make TINE operations inefficient in Norway.

Above examples illustrates the importance of supply, demand, efficiencies, diversification, human resource, subsidies, trade, trends, consumer health and other critical factors in determining the viability of a unit.

For running a food processing plant, everything has to be well organised and planned, otherwise a single problem could make you out of the business.