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Retail Food Sector Report

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Report Highlights:

The retailing sector has been undergoing considerable concentration, which is not yet over. The five largest food chains cover about 90% of the food market. Both local food products and products from other EU countries predominate on the shelves of food shops. However, there is also a market for certain U.S. products, particularly those of the prime quality sector.

Includes PSD changes: No
Includes Trade Matrix: No
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Retail Food Sector

I. Market Summary

Austria is a small market with slightly more than 8 million people. However, the living standard is high which results in a strong demand for high quality products and luxury articles. Foods and beverages from Austria, Germany, and other EU countries dominate the shelves of the country's retail outlets. The reason for this is primarily the duty-free movement of goods among EU members, transportation advantages, existing business ties, and the fact that legal food requirements are the same within the EU. Despite the challenges, there are some market opportunities for the U.S., particularly in the prime quality sector.

Food and beverage imports show a rising trend. In 1997, they increased by 15% and 35% and in 1998 by 3% and 18% respectively.

The retailing sector has been undergoing a considerable concentration, which is far from over but expected to slow down. Of the roughly 7,000 outlets, the majority belong to food chains of which the largest five cover nearly 90% of the food market. The annual turnover of these retail outlets is around U.S. \$13 billion with a slightly rising trend (1-3% per year).

To increase returns, a rising number of shops offer home meal replacements, and prepare daily hot meals to be eaten in the shops.

The majority of non-EU products are bought through large German importers/wholesalers. Large retail companies buy from wholesalers and producers, small companies only from wholesalers.

Advantages and Challenges Facing U.S. Products

Advantages/Opportunities	Challenges
Intensive travel by Austrians to the U.S. in recent years (relatively low dollar) introduced them to more American products.	Since Austria is an EU member, products of other EU countries can enter the market duty free. U.S. products pay the EU duty rate.
Good image of certain U.S. products (fresh fruits, dried fruits, nuts)	The major share of the population has reservations towards certain U.S. products (beef because of hormone problem; all items containing genetically modified products). Reservations towards products with chemical food additives.
High quality of U.S. products	Unawareness of U.S. quality by consumers. Most efficient promotion (television spots) is expensive.

Population is growing (immigration).	Population is small (8 million) and thus import volumes small. A large share of imports from third countries come through German wholesalers.
Food imports are rising.	Imports are coming mainly from EU countries, particularly Germany and Italy. High shipping costs from the U.S. to Austria.
Niche market for various products	Compliance with strict food regulations
Good infrastructure, efficient distribution system, importers speak English.	Retail market highly concentrated, difficult to acquire shelf space in large supermarkets, high listing fees.
Income situation high and rising. Rising demand for luxury products such as certain seafoods.	

II. Road Map for Market Entry

A. Supermarkets, Hypermarkets, Club Warehouse Outlets

Entry Strategy

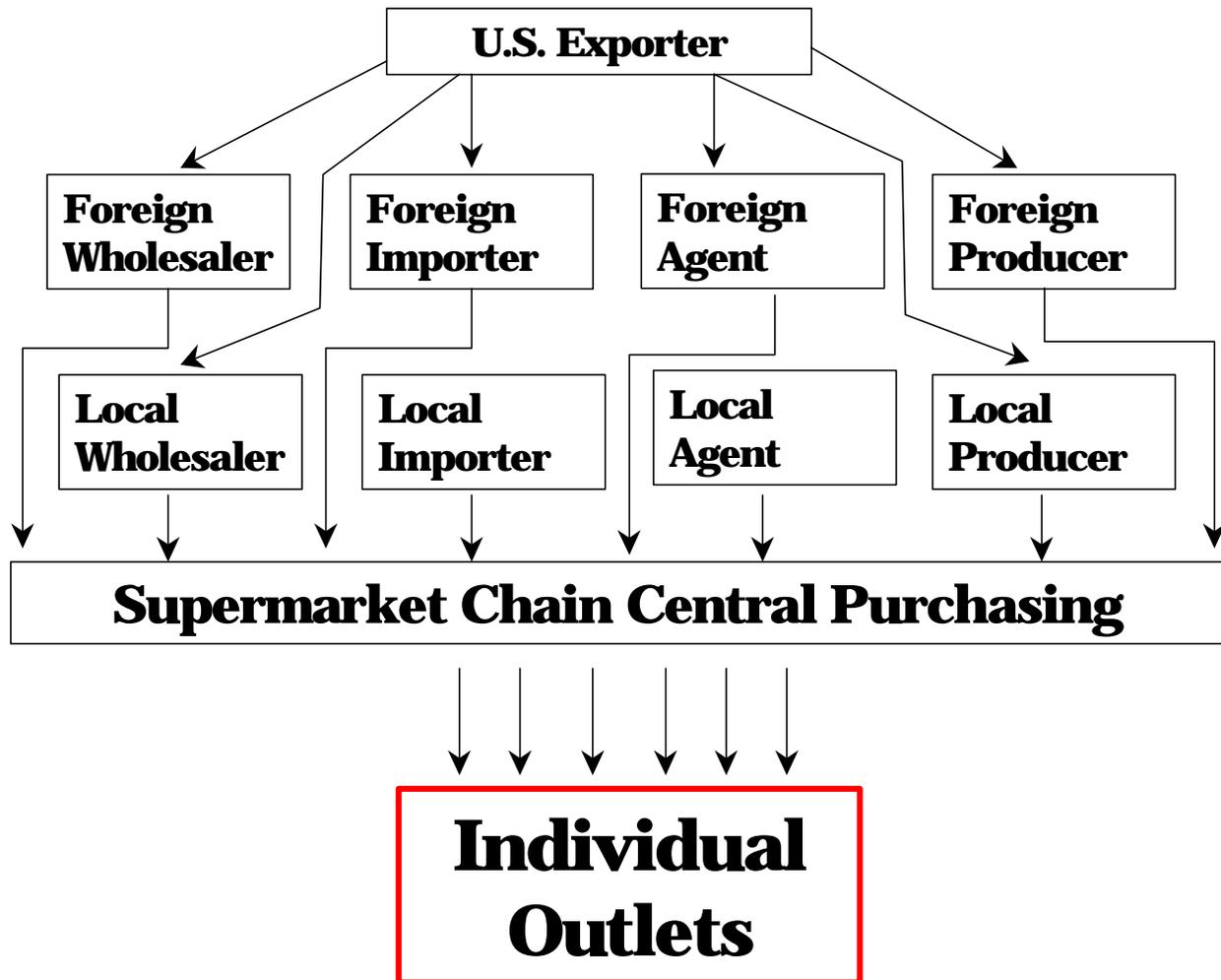
The common way to approach importers is by offering them products by fax or mail.

U.S. traders participating at food fairs have the possibility of a more efficient method. They can invite Austrian traders to their booths. One or more employees of the larger Austrian trade companies always attend the international food fairs in Cologne (ANUGA) and Paris (SIAL). In addition, the food fairs in Brno, Czech Republic and Budapest, Hungary are usually visited by Austrian food traders. As the above mentioned fairs are large and close, Austrians rarely bother to go to U.S. shows.

The best way for U.S. products to enter the Austrian market is through agents with good relations to the few supermarket chains.

Market Structure

Distribution Channel



In general, retailers buy through local and foreign importers, local and foreign wholesalers, local and foreign agents and directly from local and foreign producers. The foreign sources are mainly German ones.

This commodity flow applies particularly to supermarket chains. Large supermarket chains have their own warehouses from which the products are distributed to retail outlets.

Smaller companies or individual shops buy predominantly from wholesalers and to a lesser extent from producers.

Certain food chains buy some products from their mother company abroad or together with foreign companies.

Some food chains own plants where certain products are manufactured.

There are importers specialized in some products or product groups and importers dealing in a large range of foods and beverage. Imported products are distributed nation wide through their own sales force or through the network of other companies.

Direct sales to the central purchasing department of one of the large supermarket chains is the most desirable but at the same time the most difficult way for U.S. exporters to enter the country's market.

Company Profiles

Retailer and outlet Type	Ownership	Sales (\$Mil)	No. of Outlets	Locations	Purchasing Agent Type
BILLA - group Supermarkets Superstores	REWE concern (Germany)	3,800 (1997)	1,400 (Including 365 drugstores, which sell some foods)	Most areas	Direct, Importer, Wholesaler
HOFER Discount-Supermarkets	Aldi concern, Germany	1,600	220	Most areas	Mother company, Wholesaler, Direct
SPAR Supermarkets Superstores Hypermarket	Local	3,500	1550	Most areas	Direct, Importer, Wholesaler
ADEG	Local	1,800	850	Most areas	Direct, Importer, Wholesaler
ZEV MARKANT Supermarkets C&C	Swiss and Local	3,300	2,400 (Including 550 drugstores)	Most areas	Direct, Importer, Wholesaler
LOEWA	Tengelmann, Germany	470	214	Most areas except west Austria	Mother company, Wholesaler, Direct

METRO C&C	Metro Holding, Germany	950	11	Vienna and some other cities	Mother company, Wholesaler, Direct
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Concentration in the retail market has been going on for many years. From 1971 to 1997, the number of food shops dropped from 19,800 to 7,300.

The process is far from over. In 1999, Billa took over 162 supermarkets from Meinl, which will increase its market share to 33%.

Billa covers mainly the eastern part of Austria and Spar the western parts. The latter's share of the total food market is 27%.

The top five chains cover nearly 90% of the domestic market. It is expected that in the mid term fewer than ten chains will survive.

Fierce competition in the retail sector results in low consumer prices but at the same time causes strong pressure on producer, wholesale, and export prices.

There is a strong trend towards larger shops. In general, markets with about 500 and hypermarkets with about 2,000 square meter sales area are successful.

Large food chains are increasingly selling products under their own brand name.

Due to rising personnel input costs and falling margins, small shops are not profitable. For economical operation, the minimum sales area is regarded as about 350 square meters. Since around 64% of Austrian shops are smaller, a size adjustment will take place where possible. In areas where enlargement is uneconomical, small shops will close.

The unemployment rate is low, the income situation high and thus there is a niche market for specialty products.

Since in many families husband and wife are working, there is little time for cooking. As a consequence, the demand for convenience products is rising.

In most supermarkets, home meal replacements are offered.

B. Convenience Stores, Gas Marts, Kiosks

There are kiosks connected with cinemas, theaters and stadiums, which however sell only sandwiches and snacks. This is also the case for the majority of train station kiosks. Only a few of them have a larger product line.

The most important non-conventional shops are gas marts, which belong to big gas station chains

but are rented to individuals.

Gas marts are important as they are generally the only place legally open to sell food and sundries after working hours and on Sundays.

Gas marts have been gaining in significance for a long time. Of the 3,254 Austrian gas stations, 2,775 included a shop at the beginning of 1998. However, each year the number of gas station shops rises by 50-100.

The average annual turnover per shop is U.S.\$ 200,000, and per square meter of sales area around U.S.\$ 4,500. Due to the strong upward trend, an area productivity of U.S.\$ 8,000/square meter is regarded as a realistic possibility in the long term future.

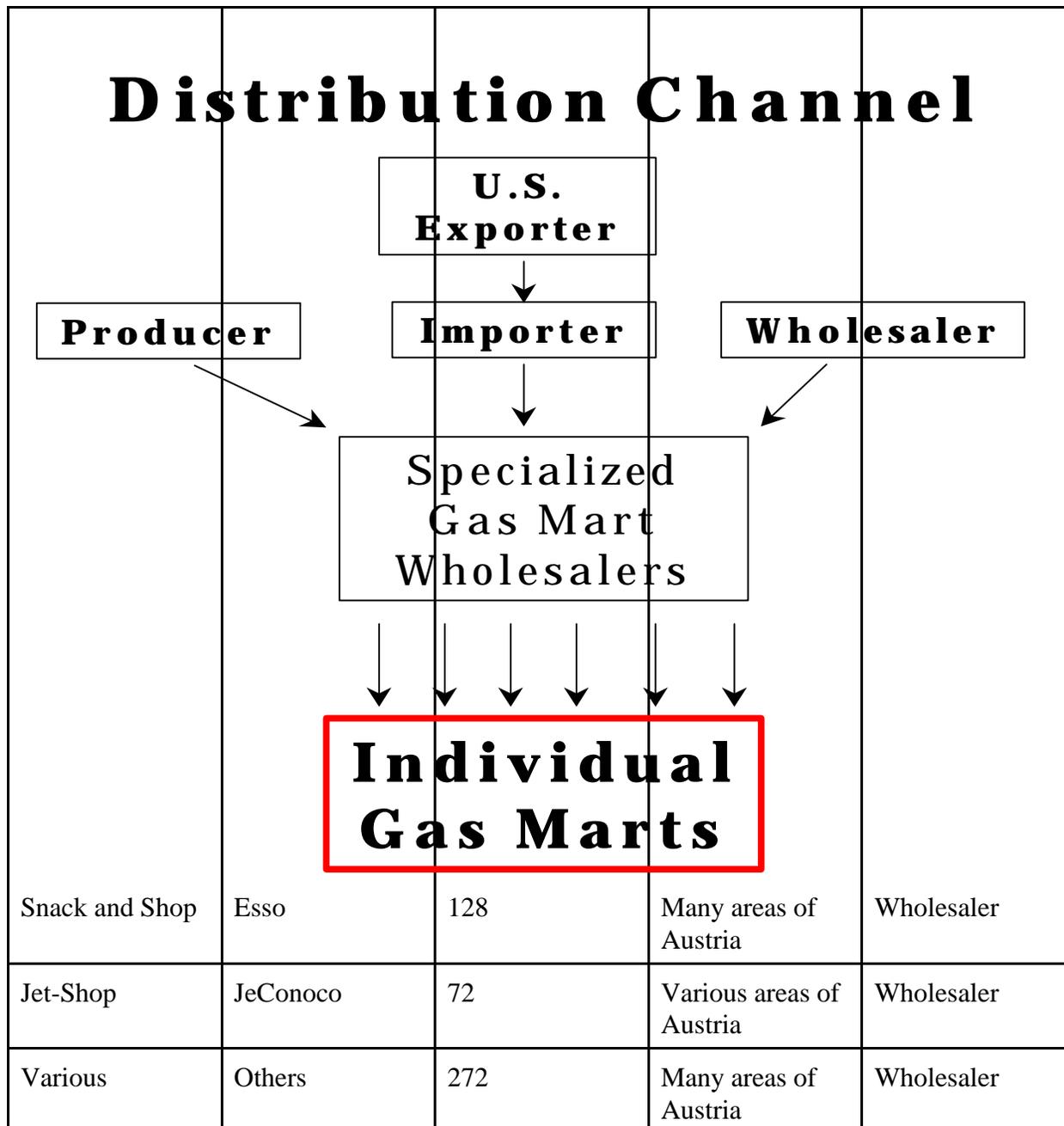
Austrian gas marts had a food turnover of U.S.\$ 460 million in 1997. This amount corresponds to about four percent in the food turnover of the special food retail trade.

The share of the total turnover in these outlets is non-alcoholic drinks 28%, alcoholic drinks 22%, confection 42%, other foods 6%, and pet food 2%.

More than one third of the population buys occasionally in gas marts, although, due to the present legislation, frozen vegetables cannot be sold by these shops.

Company Profiles

Retailer Name and Market Type	Ownership	Number of Outlets	Locations	Purchasing Agent Type
Viva Stop & Shop-Store	OMV	743	Most areas of Austria	Wholesaler
Select	Shell	430	Most areas of Austria	Wholesaler
Express Shopping Petit Bistro	Mobil	416	Most areas of Austria	Wholesaler
Mini-Markt, Bistro	Aral	262	Many areas of Austria	Wholesaler
Ciao Agip	Agip	230	Many areas of Austria	Wholesaler
Express Shopping. Petit Bistro	BP	222	Many areas of Austria	Wholesaler



Entry Strategy

All offers should be directed to the wholesalers who forward and discuss these offers with the gas marts.

Generally, foods and beverages are obtained from wholesalers which have a special branch for serving gas marts. The main companies are Lekkerland, Kinast, and Kastner. Lekkerland is by far the largest company.

Since gas marts determine the products to be placed on shelves of their company stores, it makes no sense to offer any products to individual gas shops.

The food and beverage sales of gas station shops, which already cover a relatively large share of the Austrian food market, are growing. Among U.S. products, snacks, particularly dried fruits, nuts and various mixtures of these products have the best market opportunities.

C. Traditional Markets- “Mom and Pop” Small Independent Grocery Stores and Wet Markets

Entry Strategy

These shops cover only a small percentage of the food market and their share appears to be in permanent decline. In addition, they offer extremely limited opportunity for sales of imported U.S. products.

Mom and pop shops buy only through wholesalers.

III. Competition

Total food (raw and processed) and beverage imports account for around U.S. \$4 billion of which the U.S. share is 1%. Due to long transportation time lags for U.S. commodities and the duty free imports from EU countries, the U.S. share is small.

Since EU accession in January 1995, the domestic food processing industry is facing great economic difficulties. Products of larger food manufacturers of other EU countries are more competitive and have been coming in rising volumes into Austria.

The strongest branch within the Austrian food industry is the juice industry.

There are only a few processed U.S. foods imported into Austria. However, all U.S. products manufactured or packed in Austria and Europe are available on the domestic market.

Austria is a large net exporter of pork and particularly of beef. Nevertheless some quantities are imported each year from Germany and the Netherlands (veal and pork). There is also some market for U.S. high quality beef (USHQB) favored by upper class restaurants.

Poultry production exceeds domestic requirement considerably. However, due to rising demand for turkey, relatively large imports (15,000 MT) are carried out each year. The main suppliers are France (48%), Italy (20%), Germany (15%), and Hungary (12%).

Dairy imports and exports are large. The latter exceed imports by U.S.\$ 45 million. Imports include predominantly fresh cheese. Larger quantities are imported from Germany and France.

Egg imports (U.S.\$ 40) are twice as high as exports. About half of the imports are eggs without shell and egg powder coming primarily from Netherlands and Germany. A relatively large share of imported shell eggs are brood eggs.

Domestic fish production is marginal and limited to trout and carp. Since the country is landlocked, all marine fish, shellfish and crustacea must be imported. Total seafood imports in 1997 were 47,000 MT, valued at U.S.\$190 Million. At the same time 2,100 MT were re-exported. Imports of live, fresh, frozen fish accounted for 18,400 MT (U.S.\$ 74 million) of which 31% came from Germany, 23% from Denmark, 12% from Netherlands, 9% from Italy and the rest from other, mainly European countries. The small quantity of dried and/or salted and/or smoked fish (1,700 MT, U.S.\$ 15 million) came predominantly from Germany (47%), Denmark (22%), Netherlands 6%, United Kingdom 6% and the rest from other countries. Imports of fresh or frozen crustacea and molluscs increased since 1993 by more than 60% and reached 1,900 MT (U.S.\$ 170 million) in 1997. As usual, major shares came from Germany (63%), Netherlands (16%), Denmark (16%), and Italy 11%. Also the bulk of processed seafood (total 1997 imports 25,000 MT, valued (U.S.\$80 million) comes from the traditional main suppliers Germany (49%), Netherlands (11%), Denmark (4%).

The U.S. is only a marginal supplier of seafood products to Austria; in 1997, the U.S. accounted for 112 MT, valued at AS 1 million. Since 1993, imports from the U.S. increased 67% which corresponds to the total increase in seafood imports. The main seafood items from the U.S. include fresh/frozen fish and prepared seafood products. Among fresh/frozen items (74 MT), which constitute the bulk of U.S. exports to Austria, are some catfish and catfish products.

The Austrian market offers limited opportunities for U.S. exporters due to geographical separation, lower tariffs for EFTA members (Iceland and Norway) and free imports from other EU members with large seafood industries such as Germany, Denmark, Netherlands, and Sweden. However, since demand for luxury products is growing, some sales prospects exist for U.S. seafood such as lobster, crab, shrimp and related preserved fish products. A good potential market should also exist for catfish and catfish products, fresh and breaded.

The value of annual fruit imports is about U.S.\$460 million. Imports include mainly citrus fruits and tropical fruits which are not grown in the country and various nuts. Among fresh fruits, there are some opportunities for U.S. grapefruit. Of the total import value of U.S. \$ 4 million 2% account for U.S. fruits.

For U.S. traders, Austria's nut imports are more interesting. The import value is about U.S. \$7 million for almonds (U.S. share 60%, main competitor Spain); U.S. \$ 20 million for hazelnuts (no U.S. share, main competitor Russia); walnuts U.S. \$7 million (U.S. share 34%, main competitors Rumania, Hungary and other central European countries); U.S. \$ 3 million pistachios (U.S. share 21%, main competitor Iran with 50%); U.S. \$ 0.5 million other nuts (U.S. share 30%, main competitor Germany). Pecan imports are small (U.S. \$55,000, U.S. share 90%); but could be increased through promotions.

In addition, there is a market for U.S. dried fruits. Total imports of dried apples are U.S. \$2million (no U.S. share, main competitors are Italy (56%), Hungary and Germany); apricots U.S. \$1 million (no U.S. share); prunes U.S. \$3 million (U.S. share 64%, main competitors France, Chile); raisins U.S. \$8 million; (U.S. share 9%, main competitors Turkey (40%), Iran); various dried fruit mixtures U.S. \$2 million (U.S. share 8%, main competitor Germany)

Pet foods imports are around 40,000 MT. In general, the major share comes from other EU countries (70%), followed by central European suppliers (10%). The predominant EU suppliers are France and Germany. Around 7% comes from the US. Austria is however a net exporter of pet food (58,000 MT per year).

There is a strong trend to foreign premium wines. Of the wine imports totaling U.S. \$85 million, the U.S. share is close to one percent. Main competitors are Italy, France, Spain. U.S. wines priced above U.S. \$9 per bottle are competitive, and exclusive wines in the small niche over U.S. \$80 a bottle are very competitive.

IV. Best Products Prospects

A. Products in the Market which have Good Sales Potential

Tree nuts, dried fruits, rice, wine, petfood

B. Products not Present in Sufficient Quantities but which have Good Sales Potential

Pecans, cranberries, cranberry jam, cranberry juice, seafood; niche market for buffalo, antelope.

C. Products not Present Because they Face Significant Barriers

U.S. high quality beef: At the time this report was prepared, only U.S. HQB originating from cattle not raised with hormones can be imported. The "hormone freedom" must be confirmed by certain EU labs after testing. Testing is costly and time consuming which constitutes an additional barrier to the already more expensive "hormone free" beef. If an agreement on the importation of U.S. HQB coming from hormone raised cattle can be reached, a relatively large volume will be marketed, particularly in tourist areas.

The U.S. could participate at Austria's rising turkey demand if the EU approves U.S. poultry slaughter plants.

V. Post Contact and Further Information

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On the Internet homepage the following market relevant reports are available: Food and agricultural import regulations, exporter guide, retail food sector, exporting to certain large food chains; market briefs on developments on the Austrian food market, gas station marts, catering market, seafood, wine, nuts, petfood, ready to eat dishes, rice, organic foods, and beverages.