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United Kingdom

Retail Food Sector

Report

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Report Highlights:
The UK is a sophisticated market which closely mirrors U.S. retail trends. Although domestic food production is advanced and U.S. product must compete with imports from other EU countries, there are extensive opportunities for U.S. products. Product sectors with potential include specialty, organic, health, niche products and gift ideas. This reports is an overview of the current dynamic UK retail climate.

Includes PSD changes: No
Includes Trade Matrix: No
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SECTION I: Market Summary - UK

- Shift in retail distribution in favor of major supermarket chains/multiples continues. The ‘Big Five" supermarket chains account for 79.8% of the market.

- Rate of decline of small retailers/independents has slowed, however, overall numbers are down by 20.6% since 1993.

- Slowing of decline of small retailers may be attributed to the intense interest in the organic sector which has led to the opening of small organic chains. Also, a focus on healthy eating and relatively affluent UK consumers are fueling whole-food and delicatessen trade.

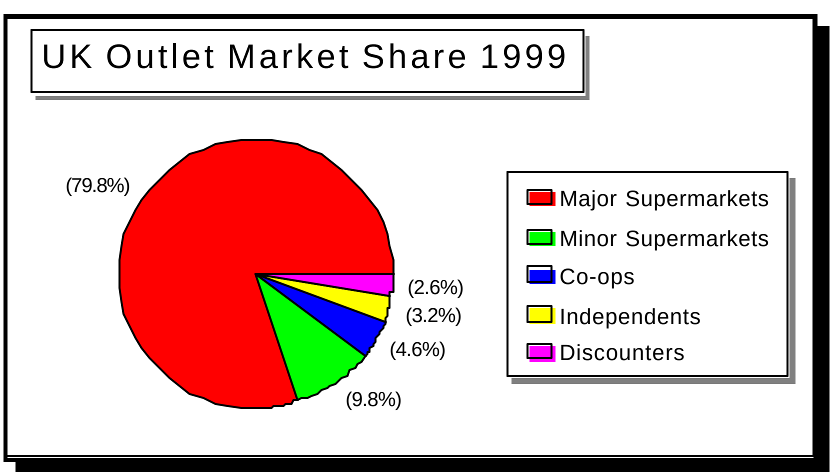
- Number of outlets of UK supermarket chains grew continuously from 1993 to 1998.

- Somerfield, faced with declining performance, closed 144 stores between 1997-98. Currently best performers are Tesco, Asda/Wal-Mart, Wm Morrison, Iceland and Waitrose.

- UK retail sales through all food stores was valued at over $140 billion in 1999, an increase on the previous year of 3.5%.

- Sales through non-specialized food stores, which include the major supermarkets, increased by 4% in 1999 to around $120 billion.

Although the growth rate of UK food retail sales appears low, there is real volume growth within these figures as the UK market has been affected by negative inflation in the food sector. This negative inflation has been driven by the so-called ‘Wal-Mart effect’ i.e. downward pressure on prices from Asda/Wal-Mart’s aggressive ‘Every Day Low Price (EDLP)’ strategy, also by concerns over the possible findings of the UK’s Competition Commission investigation into the UK grocery retailing market. The investigation, now concluded, has vindicated the UK supermarkets of excessive profiteering, however, following concerns raised regarding costs passed back to the supplier, there will now be a legally binding code of practice to govern relationships between retailers and suppliers.



For UK retailers, value growth is expected to remain slow, with continuing pressure on prices and fierce competition for share leading to retailers trying to position themselves in the market place through differentiation (marketing angles such as supporting organic, British farmers and other ethical concerns have already been demonstrated).

Demographic changes (aging population, increase in working women) and declining meal preparation (eating out is now the UK's favorite leisure time pursuit) mean that the UK retailers are also focusing on added-value products such as the booming 'food-to-go" sector, premium products, on increasing own-label's share of the their business mix, and on supply chain and other operational improvements to drive costs out of the business. This includes supply chain consolidation: UK retailers are increasingly reticent to take on new suppliers.

Almost every major food retailer in the UK has experimented with home shopping, home delivery and/or e-tailing. Order fulfilment is proving to be very costly whether centrally based or store based. Also, many customers have found the experience of Web-based grocery shopping dissatisfying, with software problems and general unreliability of the Web causing frustration. Tesco's home delivery and on-line schemes have proved the most successful, while Somerfield and Budgens have recently announced cancellation of their programs.

'Dashboard dining' is on the increase, with increase in UK traffic congestion and fewer people taking time to have breakfast. Despite the fact that the total number of gas forecourts fell during the 1990s, average turnover increased. Some gas stations are owned or affiliated with supermarkets such as Tesco, Safeway, Budgens and Spar. There are also convenience stores on a number of oil company forecourts, including Snack & Shop, BP Express, and Shell Select.

In summary, the UK is a sophisticated market which closely mirrors the U.S. in retail and foodservice trends. Although domestic food production is advanced and U.S. product must compete with imports from other EU countries, there are extensive opportunities for U.S. products in an, albeit, competitive and challenging retail environment. The U.S. is the largest third country supplier to the UK, but on average represents just 5-6% of imports.

Advantages and Challenges Facing U.S. Products in the UK

Advantages	Challenges
Market dominated by few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. product would be widely distributed.	Retailers demand significant volume and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed.
There are a large number of specialist importers.	The UK has well-established brands for mainstream products. Brand building and marketing costs are substantial.
The U.S. has a good brand image in the UK.	Strict (EU) import regulations and labeling/ ingredient requirements.
The country is English speaking and is therefore a natural gateway into the rest of Europe for U.S. exporters.	EU competitors do not pay import duty on goods to the UK, the U.S. pays 0-20% import duty, in general, depending on the product.
The U.S. is a popular destination for the UK tourist and familiarity with U.S. products is widespread.	Culture clash - U.S. exporters must appreciate that the UK is not the 51st state. Wary UK reaction to biotechnology and other agricultural practices commonplace in the U.S. highlight the importance of understanding the market.
Strong purchasing power, sophisticated market. In general, UK tends to mirror U.S. trends in retail and foodservice concepts.	Popularity of specialty products from many EU countries and U.S. competitors is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African wines. In addition to higher transport costs, the U.S. has to compete with the duty free nature of intra-EU trade.
Strong interest in innovative products, interest particularly high in organic, health, specialty and ethnic food categories.	Taste buds do differ in the UK - in general there is not the same affinity for popcorn, peanut butter & U.S. style chocolate

SECTION II: Road Map for Market Entry

A: Superstores & Supermarkets

Entry Strategy

UK supermarket chains prefer to let importers and distributors handle the detail and specialist nature of international importing. If a U.S. exporter believes that a product has potential in the UK, the services of a UK broker or agent will almost certainly be required. It is difficult to maximize long-term, export business without a local ‘representative’ who can also provide guidance on business practices and trade related laws. The USDA London office offers assistance in finding an importer, however, increasingly, U.S. exporters are finding success in contacting retailers first, who will then appoint a UK importer with whom they already have a relationship.

Some retailers, who deal in large volumes of produce, occasionally import direct. In these cases the retailer has a buyer or produce technician in the United States who places the order.

The very wide range of agents and brokers in the UK offer varying amounts of trade and consumer marketing expertise, warehousing, distribution facilities etc. Many importers of non-frozen and chilled foods have in-house distribution networks and warehousing facilities, while smaller importers contract out. Many fresh produce importers have controlled atmosphere warehousing facilities and even packing houses catering to the growing retail demand for prepackaged, and sometimes trimmed, fruits and vegetables. Almost all importers of frozen and chilled foods contract out to specialized storage, handling, and distribution companies.

Some of the largest agencies will only consider a product if it has large volume potential in the multiple supermarkets and is backed by substantial marketing support. Others specialize entirely in independent grocer or food service distribution. Costs vary widely too - some agencies may ask for a start-up fee of between BPS 10,000-100,000 ($15,000-150,000), some are commission only agents (can be anything from 2.5 - 10 percent), others may seek a fixed fee which switches to commission when sales have reached a target level. A “full service” brokerage rate may range anywhere between 17 and 25 percent.

Marketing costs from FOB level to retail may include some or all of the following:

- Sea/Air freight costs
- Insurance costs
- Import duty/Value Added Tax/Excise Duty (if applicable)
- Commission or margin to the importer
- Customs entry and clearance
- Handling charge to importer (can be a small charge deducted from wholesale price)
- Transport to pack-house and on to depot
- Packaging and labeling
- Overheads, wastage and shrinkage allowance

- Mark-up by supermarket retailer (30-70%)

Market Structure

The dominance of the five major retailers has continued to rise year on year, particularly since 1995. In 1999, the five major retailers accounted for 79.8% of total food retail sales. Tesco is the leading UK supermarket, with 24.6% of the market, followed by J. Sainsbury (20.1%), Asda/Wal-Mart (15.3%), Safeway (10.7) and Somerfield/Kwik Save (9.1%). Tesco is the strongest in the South and South East of England, Sainsbury in Greater London area, Asda in the North/North East of England, Safeway and the Somerfield group are predominant in Scotland.

Percentage of UK population claiming to use each store in the past three months, 2000

	%
Tesco	46.3
Sainsbury's	34.2
Asda	33.9
Safeway	25.1
Kwik Save	14.0
Somerfield	16.2
Wm Morrison	11.3
Any Co-op	17.0
Aldi	8.5
Iceland	17.1
Waitrose	9.5
Marks & Spencer	17.4
Savacentre	2.0
Any Lidl/Netto	5.4
Budgens	2.3
Other superstore/supermarket	3.3
Small grocer/convenience store	17.6
Local grocer	13.1
Market stall/farm shop	5.2
Any specialist food shop	9.5
Petrol forecourt shop	5.3
Other (e.g. department store)	4.4

Superstores in the UK are smaller than their counterparts in Germany or France, much of this a result of tight UK planning law: the stores of the two major players, Tesco and Sainsbury, average around 3,500m^2. The aforementioned restrictions and the resulting limited availability of suitable sites has fueled the move back towards smaller stores by some of the big players. Typical location in the UK of a supermarket chain outlet is a suburban or urban fringe location such as a retail park, with good access to major feeder roads.

Although UK neighborhoods have traditionally been the home of the independent retailer, here too the major retailers are making an impact. With sophisticated replenishment systems, the UK leaders are able to offer full food range in smaller stores and compete more effectively with independent retailers and the minor multiples. However, the minor supermarket chains have performed very well in 1999/00, and their share of the market is still growing (12% since 1995). The leading minor retailers are Morrisons (4.9%), Iceland (3.4%) and Waitrose (1.5%). Morrisons is strongest on low prices in Northern England, while Iceland (historically a low cost frozen food retailer, now the leader on anti-additives, anti-GM, pro-organic stance) is nationwide. Waitrose is an up-scale retailer, awarded UK 'Organic Retailer of the Year' in last two years, and strongest in the South East of England.

Tesco, Sainsbury's, Asda/Wal-Mart and Safeway have all developed supermarket formats in conjunction with a gas mart (petrol forecourt), and between them they have over 830 branded fuel outlets. Tesco has the most outlets (310) and an alliance with Esso (Exxon), the UK's largest gas (petrol) chain will ensure that these two powerful brands will grow.

The entry of three continental discount groups to the UK market (Aldi was the first in 1990) caused considerable stir in the early to mid 1990s, however, neither Aldi, Lidl or Netto have had anything like the impact that was originally predicted. This is thought to be due to the fact that the UK market was already dominated by a few major (and aggressive) players which already had loyal customer bases. The discount market has shown slow, but steady growth in the UK (38% from 1995) to reach a collective market share of 2.5%. However, strong value messages from the major retailers, backed by their superior supplier management skills, are making it more difficult to offer sufficient value advantage to compensate for restricted ranges and a poorer retail environment in the discount chains.

Historically, the UK major retailers have had a relatively high number of private label products compared to their Continental counterparts. While sales of private label products through grocers increased in the last year, the proportion of private label to branded products declined slightly. In the last four to five years, the multiples have been reducing their levels of private label products with the aim of giving consumers greater choice. The market leader - Tesco has 42.8% of its total product lineage as own label, with Sainsbury and Asda/Wal-Mart in front with 45.4 and 45.3% respectively. Safeway has 39.5% of its products as private label and Somerfield 35.1%. (Figures are at May 1999). Goods carrying the company's brand may be economy lines, but not necessarily, they are often quality goods competing with the brand leader. Examples of this include Tesco's "Finest" brand and Sainsbury's "Be good to yourself" range.

With UK population growth steady, UK retail sales growth is low and through Asda/Wal-Mart's 'Every Day Low Price' initiative there is intensive price-based competition. Staples such as bread and milk have barely increased in price at all. Any trend towards purchasing a higher proportion of premium or added-value products by increasingly affluent consumers has been counterbalanced by the fact that many of the more affluent shoppers are preparing fewer meals at home (even allowing for the availability of chilled ready meals and other convenience foods), and are spending more on eating out and buying fast food for 'on-the-go' or take-home consumption.

Despite the huge popularity of cookery programs on television and record sales of cookery books, research by Mintel shows a decline in meal preparation from raw ingredients and a growing use of ready meals and easy-to-prepare dishes such as pasta and pizza. 'Real' cooking is becoming less common as an everyday activity and more something to be done for special occasions such as celebration meals or entertaining guests.

The make-up of what consumers are cooking and eating at home is changing: there has been a decline in spending on dairy products, slight growth in spending on meat and fish, flours, bread, cereals, fruit and vegetables, but exceptional growth in spending on snacks, ready meals, ethnic meals (mostly pre-prepared), pizza and pasta. Further information on UK consumer trends can be found in a report from USDA London entitled UK Consumer Trends and is available at: www.fas.usda.gov under Countries/Market Reports/Attache Reports.

Additional services to customers at supermarkets are increasing as the retail offering widens from food and non-food grocery items. These include 24 hour shopping, home shopping, loyalty cards, cash points, creche facilities, petrol retailing, pharmacy, Post Office, dry cleaning, utility payments and financial services.

Co-ops

The Co-operative movement is one of the longest established trading organizations in the UK. It started as a federation of hundreds of co-operative societies which were set up to share profits with customers. The Co-op operates under a number of fascias and formats, ranging from smaller shops to superstores. The number of societies have reduced over recent years along with their share of trade. At one time they accounted for more than 25% of the total grocery business in the UK, but currently they have just 4.4%. The largest organizations CWS (Co-op Wholesale Services) and CRS (Co-op Retail Services) merged in April 2000; together they will be known as CWS and have 640 food stores. Packaged grocery is the strongest category within the Co-ops. Regions in which the Co-op has most representation include the South West and North East of England and Scotland.

Virtually all coo-operative societies use a central food procurement agency: the Co-operative Retail Trading Group (CRTG), however all Co-op brand product negotiations are conducted by CWS Retail buying. Outside the buying group, three societies continue to purchase independently: Plymouth and South Devon, Tamworth and United Norwest.

UK Grocery Market Shares, 1994-99

	1994 %	1995 %	1996 %	1997 %	1998 %	1999 %	% change 94-99
Tesco	19.3	21.8	22.5	23.6	24.2	24.6	+5.3
Sainsbury's	22.0	21.1	20.7	21.0	20.8	20.1	-1.9
Asda	10.9	11.7	12.8	13.5	14.1	15.3	+4.4
Safeway	10.4	10.1	10.7	11.0	11.0	10.7	+0.3
Kwik Save	6.9	6.6	6.5	5.8	5.2	4.4	-2.5
Somerfield	6.3	6.0	5.5	5.3	5.0	4.7	-1.6
Wm Morrison	3.6	4.0	4.2	4.0	4.3	4.9	+1.3
Iceland	3.4	3.2	2.9	3.0	3.3	3.4	-
Waitrose	1.4	1.6	1.6	1.6	1.5	1.5	+0.1
Netto	0.6	0.7	0.8	0.9	1.0	0.9	+0.3
Aldi	0.3	0.8	0.9	0.8	0.8	0.7	+0.4
Lidl	-	0.3	0.5	0.6	0.7	0.9	+0.9
Other multiples	2.0	0.9	0.5	0.5	0.4	0.5	-1.5
Co-ops	6.6	6.3	5.5	5.0	4.7	4.4	-2.2
Symbols	1.3	1.1	1.0	0.8	0.7	0.7	-0.6
Other independents	4.8	3.9	3.3	2.8	2.5	2.3	-2.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Taylor Nelson Sofres, Retailer Share Track, Mintel

Notes:

1. Somerfield purchased Kwik Save in 1998, therefore when referring to the "Big Five" this includes

Somerfield/Kwik Save as one entity.

2. Data in table may not equal totals due to rounding

UK Supermarket Profiles

Retailer Name	Outlet Type	Fascia name	Store Type	Base	Sales 99/00 ($ mil)	No. of Outlets	Location	Purchasing Agent Type
Tesco	Major Supermkt chain	Tesco Hypermkt Tesco Superstore Tesco Express Tesco Metro Tesco Compact	Large Store Gas Mart Mini Metro Town Store	UK	25,336	650	Nationwide South Nationwide Nationwide Nationwide	Importer
Sainsburys	Major Supermkt chain	Sainsbury's Sainsbury Local Sainsbury Central Savacentre	Large Store Mini Store Town Store Large Store	UK	21,227	432	Nationwide London Nationwide Nationwide	Importer
Asda/ Wal-Mart	Major Supermkt chain	Asda Dales	Large Store Discount Store	US	13,085	227	Nationwide	Importer
Safeway	Major Supermkt chain	Safeway	Large Store & Town Store	UK	12,254	489	Nationwide	Importer
Somerfield	Major Supermkt chain	Somerfield Gateway Food Giant Kwik Save	Town Store Town Store Discounter Discounter	UK	8,747	1,308	Nationwide	Importer
Marks & Spencer	Dept Store	Marks & Spencer	Dept Store Town Store	UK	13,158	296	Nationwide	Importer
Wm Morrison	Minor Supermkt Chain	Morrison's	Large Store & Town Store	UK	4,752	105	England	Importer
Waitrose	Minor Supermkt Chain	Waitrose	Large Store & Town Store	UK	3.032	134	England	Importer
Iceland	Minor Supermkt Chain	Iceland.co.uk	Town Store	UK	3,069	760	Nationwide	Importer

Co-ops (CRTG)	Minor supermkt chain	Co-op Superstore	Town Store	UK	2,240	640	Nationwide	Importer
Aldi	Discountchain	Aldi	Town Store	GM	1,120	254	All areas excluding S. England	Importer
Budgens	Minor Supermkt Chain	Budgens	Town Store Gas Mart	UK	722	204	Midlands & South East	Importer
Netto	Discountchain	Netto	Large Store	DK	480	120	England	Importer
Lidl	Discountchain	Lidl	Large Store	GM	248	100+	Nationwide	Importer

B: Convenience Stores/Independent Retailers/Gas Marts

Entry Strategy

Achieving success in the UK with a U.S. product inherently hinges on local representation and personal contact, coupled with commitment from the U.S. company in terms of resources such as personnel time and promotional money. The local representative should be able to supply market knowledge, up-to-date information and guidance on business practices and trade related laws, sales contact with existing and potential buyers, market development expertise, and the distribution system. For this target market, the importer must be in a position to supply wholesalers, symbol and buying groups. This retail sector may also provide opportunities for U.S. companies to deal direct, particularly for U.S. consolidation companies and U.S. export agents who can provide a wider portfolio of product. USDA London maintains listings of potential importers and other pertinent information on how to introduce your product in the UK market.

Market Structure

Today's co-operative and independent trade is the remainder of what once was the dominating sector of the UK retail trade. While the co-operatives operate under a number of formats ranging from smaller stores through to superstores, the majority of independents are so-called convenience stores, about 15 percent of which are affiliated to a symbol group such as Spar or Mace. Both the co-operatives and the independents are in decline as a result of the growth and resultant power of the major multiples. Where they once gained trade by opening "all-hours", this advantage is slowly diminishing as more and more of the major multiple stores operate 24 hours a day. While many do have the advantage of their convenient locations, this status too is being eroded. With many of the major multiples developing systems whereby orders can be placed over the telephone, by fax and via the Internet, all with home delivery options available, the convenience store sector is expected to continue to decline.

There are around 50,000 independent retailers in the UK, which are often referred to as convenience stores or C-stores. An estimated are independent grocery-based outlets, 7,000 of which are affiliated to a symbol group. The remaining 20,000 are Confectionery, Tobacco and Newsagent (CTN) based outlets. Convenience stores are usually less than 3,000 sq ft, with the majority being 1,000 sq ft and 2,500 sq ft. They sell a wide range of products, including confectionery, chilled food, snacks, crisps (chips), soft drinks, tobacco, alcohol (where licensed), newspapers and other convenience packaged groceries. Many also provide services such as Post Office, video hire, dry cleaning, utility payment facilities plus the National Lottery. Convenience stores mainly operate with part-time staff and gross margins vary between 16 and 23%, while net margins are usually between 3% and 6%.

Despite the efforts of trade associations and support groups, and even some minor intervention by the UK government in the form of rate relief for rural stores, the long-term decline of the independent sector has continued. While many UK consumers profess affection for their local corner or village shop, too few want or need to do enough shopping there to keep these shops in business. Small UK shops cannot survive purely on ‘top-up’ sales in small catchment areas - the convenience/top-up format only works where the catchment is large (densely populated urban areas, with a high proportion of dwellings in multiple occupancy) or where the passing trade volume is high (e.g. petrol forecourts (gas marts). Three formats are emerging:

Specialist food retailers can thrive in market towns or affluent suburbs where there is a large catchment of ABC1 customers and a high proportion of non-time-pressured shoppers who can enjoy visiting a range of smaller specialists to buy what they want. These include delicatessens, whole-food, health and organic shops. These shops are likely to source fresh produce locally and from other EU countries. They may source shelf-stable product from the manufacturer’s directly in small quantities, but predominantly obtain their lines through importers, wholesalers and sales agents.

Convenience stores are to be found in the types of neighborhood described above, they need to be open all hours and involve the whole family in the business if they are to survive. Convenience store independents may choose to join one of the symbol groups such as Spar, Mace or Londis, or may simply buy from a variety of local producers, cash and carries, wholesalers and sales agents.

Village/neighborhood stores are the most likely to disappear, many still in operation will close when current owners retire. These source goods predominantly through local producers, cash and carries, wholesalers and sales agents.

Symbol and Buying groups include:

- Co-operative Union
- Key Lekkerland
- Londis
- A D M Londis
- Mace Marketing Services
- National Wholesale Ltd
- Nisa-Today’s
- Palmer & Harvey McLane
- Select & Save
- Spar

UK Convenience Store Profiles

Retailer Name	Fascia name	Base	Sales 1998 ($mil)	No. of Outlets	Location	Purchasing Agent Type
Alldays	Alldays	UK	518	905	Nationwide	Importer Wholesaler
Costcutter	Costcutter	UK	317	850	UK & Ireland	Buy thru Nisa
Europa Foods	Europa Foods Harts Nisa-Today's Hampstead Foods Cullens	UK	50	61	Central London " " " London & South	Buy thru Nisa and source directly if volume criteria are met
Day & Nite (Healds)	Day & Nite	UK	104	75	North England	Buy thru Nisa
Jacksons	Jacksons	UK	n/a	80	North England	Buy thru Nisa

Gas Mart Profiles

Retailer Name	Fascia name	Base	Sales 1998 ($mil)	No. of Outlets	Location	Purchasing Agent Type
Conoco	Jiffy Jet	UK	55	225	Nationwide	Wholesaler Importer
Elf Oil	Elf	FR	n/a	n/a	Nationwide	Wholesaler Importer
Esso	Esso Snack & Shop	Exxon Global	n/a	2300	Nationwide	Wholesaler Importer
Fina Service Stations	Fina Shop Fina Locale	UK	72	400	Nationwide	Wholesaler (Key Lekkerland) Importer
Kuwait Petroleum	Q8 Xpress Budgens	n/a	272	115	Nationwide	Wholesaler Importer
Murco Petroleum	Costcutter Londis Spar Checkout Shopstop	UK	450	200	Nationwide	Buy thru Nisa via Costcutter; & Londis & Spar
Petrol Express	Londis	UK	130	90	Nationwide	All buying thru Londis
Shell Oil UK	Shell Select	n/a	256	930	Nationwide	Wholesaler Importer

Snax 24 (Heron)	Snax 24	UK	176	43	England/ Wales	Alliance with Jet (Conoco) Wholesaler
Texaco UK	Texaco Star Market	n/a	320	870	Nationwide	Buy thru Nisa Wholesaler Importer

C: Department Stores

Entry Strategy

The UK department stores receive their U.S. product lines either from small UK importers or via consolidated shipments through a U.S. export agent.

Market Structure

The players in this market sector are:

	No. of outlets
Marks & Spencers	296
Selfridges	2
Harrods	1
Harvey Nichols	2
John Lewis Partnership	23
British Home Stores (BHS)	155
Woolworths	786

Marks and Spencer (M&S), never a main shopping destination for anyone except the most time-pressured 'AB' professionals holds an estimated 1.5% of the UK retail market. M&S established a reputation in the 1980s and 1990s as an innovator in food retailing, spearheading the development of chilled ready meals, fresh salads and other convenience items, which are now offered by all major retailers. Consequently, it has become a popular secondary shopping destination for special occasion shopping, a celebration meal, or for food-related gifts. In the last two years Marks & Spencer has seen growth in its food business slow and falling profits in its clothing offer. The slowing of its food business can be attributed to competition from the major retailers who now offer a very good range and quality of ready meals, and also food gift items. All of Marks and Spencer's packaged foods carry the St Michael private label branding. M&S sets stringent standards for their suppliers; most successful products from the U.S. sold by M&S are fresh produce items such as apples and cherries.

Harrods, Harvey Nichols and Selfridges offer some opportunity for U.S. specialty and gift items. Given the small number of outlets, sales and product volume moved are low and retention of products can be a problem. However, these retailers are more likely to have U.S. origin promotions and can move sizeable consolidated shipments around key U.S. holidays such as Thanksgiving and Independence Day.

John Lewis is a good candidate for exciting and top quality gift ideas from the U.S., while BHS procures foods and beverages through its partnership with Iceland Foods. Woolworths is not strictly a department store, having all departments located within one shop floor. Its main food and beverage offering is leading national brands of confectionery (it is the UK's number 1. confectionery retailer) and gift ideas.

SECTION III: Competition

The UK domestic manufacturing industry is very advanced. The movement to convenience foods and world cuisine influences has resulted in UK food technologist and new product development teams creating sophisticated grocery products and often passable copies of international dishes and meal solutions. If a U.S. product has been particularly successful in the UK, it is inevitable that a manufacturing site or joint venture will be placed in the UK or EU.

The EU is the main competitor to U.S. consumer orientated food imports. EU food exporters have the advantage of relatively low transportation costs and fast delivery times. Their product does not face import duties nor does it face major ingredient or labeling requirements. This goes some way to explain that of the US$28 billion worth of food and beverage products the UK imported in 1998 around 63 percent of these imports originated from other EU member states. Principally these were sourced from the Netherlands, France, Ireland, Denmark, Germany, Italy and Spain. Fruits and vegetables are still the primary intra-EU import, constituting over 25 percent of EU shipments. Second to these are beverages, which accounted for 18 percent of EU shipments during 1998.

The U.S. is the largest third country supplier to the UK, supplying around 5.4 percent of all UK food and drink imports. New Zealand, Brazil, Iceland, Mauritius, South Africa, Canada, India, Kenya, Thailand and Israel round out the other top third country suppliers.

1998 UK Imports of Agricultural Products (US$million, CIF)

Imports	Total Imports	Intra EU	Extra EU	U.S.	U.S. Share (%)
Live Animals	372	182	190	66	17.7
Meats	3,358	2,574	784	16	0.5
Dairy & Eggs	1,879	1,628	251	8	0.4
Fish	2,110	459	1,651	109	5.2
Cereals	1,902	1,512	391	132	6.9
Vegetables & Fruit	6,803	4,495	2,308	361	5.3
Sugar & Honey	1,267	400	867	21	1.6
Coffee, Tea, Cocoa & Spices	2,109	942	1,168	19	0.9
Animal Feed	1,142	523	618	221	19.4

Other Foods	1,480	1,303	177	74	5.0
Beverages	4,308	3,210	1,098	274	6.4
Tobacco, etc	782	344	439	52	6.7
Oilseeds	526	126	399	149	28.3
Total	**28,039**	**17,698**	**10,341**	**1,501**	**5.4**

Live animals includes high value horses
Source: Overseas Trade Statistics of the United Kingdom

SECTION IV: Best Product Prospects

For more information on product potential, please consult the USDA London report 'Exporter Guide to the UK Market' and market briefs on Organic, Ethnic, Kosher, Soft Drinks, Dips, Beer and others available on the web site: www.fas.usda.gov under Countries/Market Reports/Attache Reports.

A. Products present in the market which have good sales potential

Key ongoing markets for U.S. products which show good growth potential are fresh fruits, dried nuts, canned salmon, cereal products, meal accompaniments, cooking sauces, vegetable and salad oils and dressings, confectionery, dips and salsa, frozen foods, exotic meats, wine and beer. There are also organic options in these product areas which have been introduced in the last two years in particular. Functional products too are starting to find their way into the UK market, particularly in the soft drinks category.

U.S. exports of consumer-oriented product to the UK (US$ thousands)

Product	**1996**	**1997**	**1998**
Snack Foods (excl. Nuts)	17,353	38,635	48,403
Breakfast Cereals & Pancake Mix	2,608	4,131	3,996
Red Meats, Fresh/Chilled/Frozen	13,533	15,624	24,891
Red Meat, Prepared/Preserved	1,127	335	684
Poultry Meat	3,992	4,413	1,210
Dairy Products	7,993	10,552	11,436
Eggs & Products	2,562	2,478	4,737
Fresh Fruit	54,049	62,018	65,021
Fresh Vegetables	12,806	17,943	20,629
Processed Fruit & Vegetables	120,178	110,074	105,392
Fruit & Vegetable Juices	19,675	22,476	23,373
Tree Nuts	80,941	59,132	59,623
Wine & Beer	102,509	123,841	164,243
Nursery Products & Cut Flowers	2,717	3,539	2,806
Pet Food (Dog & Cat Food)	36,844	24,302	23,259

Other Consumer-Oriented Products	50,896	87,483	82,510
Total	**529,783**	**586,976**	**642,213**

Source: BICO

B. Products not present in significant quantities but which have good sales potential

The demand for convenience foods, estimated to account for around 50 percent of household food expenditure, continues to be a major factor driving development of the UK food and beverage industry.

Increasing health awareness is spurring on the market for low fat/low calorie foods and vegetarian foods. Indeed, many supermarkets now label their products with healthy symbols, helping consumers make "healthy" purchases.

Vegetarian prepared foods are now becoming mainstream, able to compete head to head with other ready meals and are no longer a niche market. Currently, mass market appeal for a prepared vegetarian food is gained through products based on traditional recipes with the animal ingredients having been substituted. Opportunities exist for U.S. products that continue this theme, but, also for those that are innovative recipe formulations which meet wholesomeness requirements.

Also, estimates suggest that around 70 percent of organic food consumed is imported. While fruits and vegetables are the most common organic produce sold at retail level, other organic foodstuffs available include pulses, grains, flour, pastas, cheese, coffee, chocolate, herbs, tea, baby food and wine. This sector offers a very real opportunity for U.S. product.

Specialty/niche products and gift ideas also represent opportunity for U.S. products, especially as price is often not the focal point dictating sale. Innovation in flavors and packaging are particularly sought.

C. Products not present because they face significant barriers

Market access is the most important constraint impacting sales of U.S. agricultural food products to the UK. As is the case of other EU member states, the potential for many U.S. imported food products is constrained and in some cases precluded by EU policy. Beef (from hormone treated cattle) and poultry are both examples of products subject to prohibitive import requirements unique to the EU. Processed food products must be checked for compliance with EU permitted additives and other ingredients as well as labeling checks. Information on the UK's food import regulations can be found in USDA London's FAIRS report available on the web site: www.fas.usda.gov under Countries/Market Reports/Attache Reports.

SECTION V: Post Contact and Further Information

If you have any questions or comments regarding this report, require a listing of UK importers and retailers, or need any other assistance exporting to the United Kingdom, please contact the USDA office in London at the following address:

United States Department of Agriculture
Embassy of the United States of America
24 Grosvenor Square
Box 48
London
W1A 1AE

Tel: +44 20 7894 0040
Fax: +44 20 7894 0031

E-mail: aglondon@fas.usda.gov
Home page: www.usembassy.org.uk/ukfas.html

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: http://www.fas.usda.gov.