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Retail Food Sector

UK Retail Market Brief

2007

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Report Highlights:
In the UK, the retail grocery market is particularly concentrated, with seventy-five percent market share in the hands of just four supermarket chains. The remainder are scattered over hundreds of outlets. This reports outlines the differences between different retail outlets and how best to get your product into the UK market. The unquestionable trend in the UK food retail market is highlighting perceived health benefits, organic production, "natural"/free range and low environmental impact foods.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
London [UK1]
[UK]

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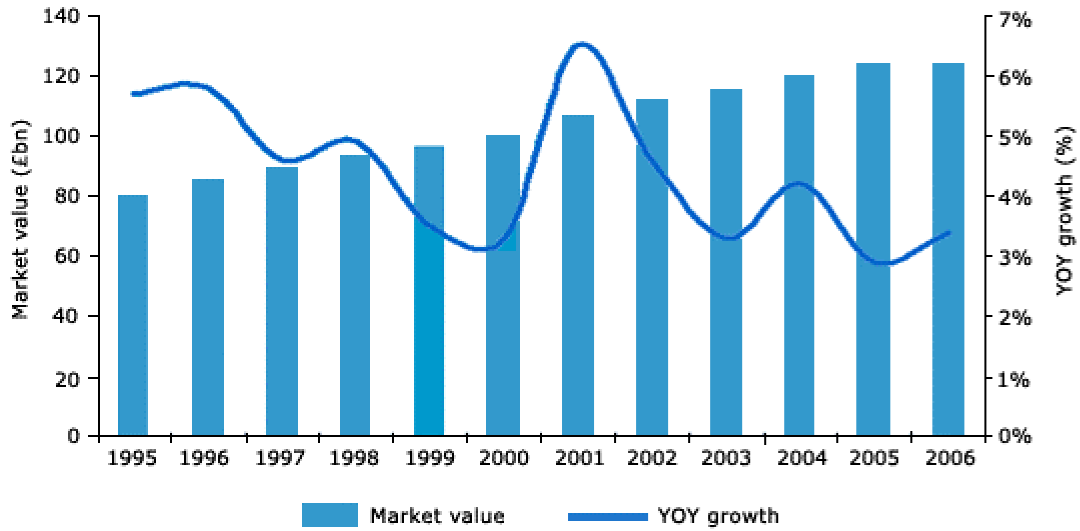
SECTION I. MARKET SUMMARY

Overview

- The overall UK retail grocery market was worth £128.2 billion ($266.6 billion) in 2007, an increase of 4.0 percent on 2006
- Groceries account for 12.7 percent of total household spending in the UK, making it the third largest area of expenditure (the largest is housing, and the second largest is transport)
- Food and grocery expenditure accounts for 49 percent of retail spending
- Convenience store shopping now accounts for 20 percent of the total retail grocery market

This graph illustrates the UK grocery market's performance over the last ten years:



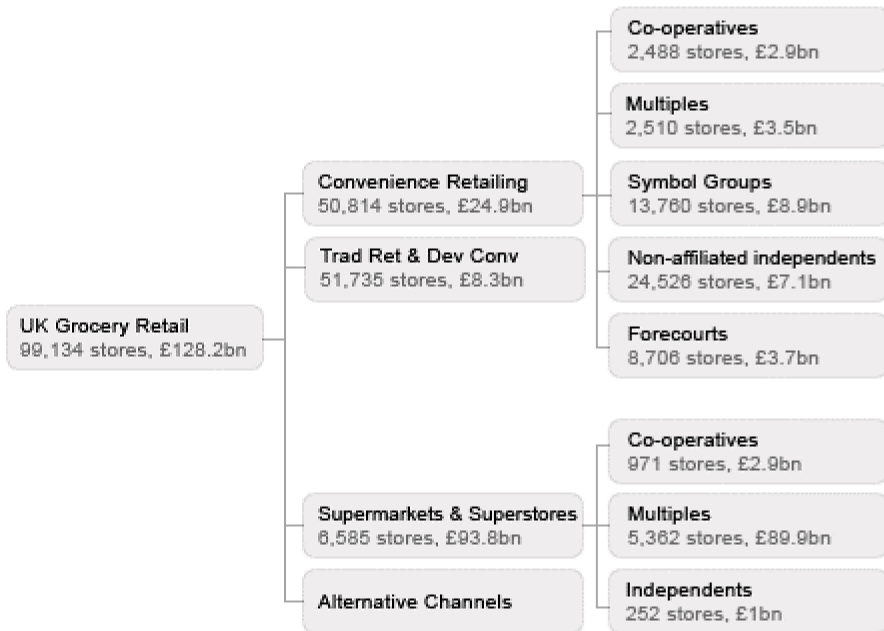
Source: Institute of Grocery Distribution Research, 2007

There are approximately 100,000 grocery stores in the UK. These are split into 4 sectors that are defined as follows:

- Supermarket chains: supermarkets have a sales area of 3,000-25,000 square feet and sell a broad range of grocery items; superstores are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items.
- Convenience stores: stores with sales area of less than 3,000 square feet, open for long hours, and selling products from at least 8 different grocery categories.
- Traditional retail and developing convenience stores: sales area of less than 3,000 square feet, such as news stands, green-grocers, liquor stores and gas stations.
- Alternative channels, e.g., internet or catalogue home shopping, farmers' markets and other produce markets, vending machines.

The below chart shows the total number of stores in each sector, and how much each sector is worth:

UK Grocery Retailing - Store Numbers & Sector Value



Source: Institute of Grocery Distribution Research, 2007

The Institute of Grocery Distribution (IGD) has estimated that the UK retail grocery market will grow at an average rate of 2.9 percent over the next five years. It is expected to be worth £138.2 billion ($261.2 billion) by 2010, at current prices.

Growth is expected to come from both ends of the grocery store portfolio spectrum, i.e. convenience stores and superstores, also known as hypermarkets. There are currently, around 660 superstores in the UK. The IGD estimates that their number will increase by almost a third in the next five years, despite tough UK town planning laws. The convenience store sector is also expected to continue to grow strongly and is forecast to reach £33.9 billion ($64.1 billion) by 2011.

NOTE: This report uses the following exchange rate:
1 US Dollar = 2.08 British Pound

UK Consumer Spending on Food, Drink, and Tobacco
(£mn, including VAT or sales tax)

Products	2001	2002	2003	2004	2005
Breads & Cereals	8,951	9,365	9,137	9,566	9,866
Meat	12,230	12,570	13,369	13,680	13,881
Fish	2,255	2,368	2,344	2,378	2,384
Milk, Cheese, & Eggs	7,674	7,647	7,721	7,952	8,104
Oils & Fats	1,193	1,144	1,188	1,196	1,201
Fruit	4,021	4,311	4,695	4,965	5,259
Vegetables	8,534	8,440	8,440	8,631	8,700
Sugar/Sweet Product	6,539	6,580	7,169	7,142	7,145
Food Products	1,393	1,423	1,412	1,550	1,632
Coffee, Tea, & Cocoa	1,851	1,788	1,684	1,775	1,851
Mineral Water & Soft Drinks	5,699	6,075	6,335	6,729	7,042
Spirits	2,640	2,746	3,183	3,317	3,582
Wine	5,018	5,404	5,733	5,930	6,107
Beer	2,815	2,940	3,129	3,113	3,246
Tobacco	14,673	15,224	15,271	15,651	15,873
Total	**85,486**	**88,025**	**90,810**	**93,539**	**95,074**

Source: Mintel

Advantages & Challenges to US Products in the UK Retail Sector

The UK is a sophisticated market that mirrors some trends in the US retail sector. However, it can be surprisingly different from the US and in-depth research and analysis should be carried out before attempting to export.

US products face fierce competition in the British Market. Not only is UK food production advanced, but other EU countries benefit from duty free access. However, there are opportunities for US products in this competitive and challenging retail environment. The US is the largest non EU country supplier to the UK, but on average represents just 5-6 percent of food imports. Due to EU technical barriers, market access can sometimes prove a challenge for US products.

Advantages	Challenges
Market dominated by a few retailers with strong market penetration. Sophisticated replenishment systems mean US products would be widely distributed.	Supermarket chains 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 is a relatively large number of specialist importers, capable and interested in importing from the US.	The UK has well-established brands for mainstream products. Brand building and marketing costs are substantial.
The US has a good brand image in the UK.	Strict (EU) import regulations and labeling/ingredient requirements.
The country is English-speaking and is therefore an easier gateway into the rest of Europe for US exporters.	EU competitors do not pay import duty on goods to the UK. The US generally pays 0-25 percent import duty, depending on the product.

The US is a popular destination for UK tourists and familiarity with US products is widespread.	Popularity of specialty products from many EU countries and US competitors is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African wines
Strong purchasing power, sophisticated consumers. In general, the UK tends to mirror the US retail market trends.	Taste buds differ in the UK. In general, there is not the same affinity for popcorn, peanut butter, and US style chocolate.
Strong interest in innovative products, particularly high in organic, health, specialty, and ethnic food categories.	

SECTION II. MARKET SEGMENTS

Supermarket Chains

This report gives a broad outline of the UK supermarket chains. A more detailed report entitled "UK Supermarket Chain Profiles" is available at http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp

Four large supermarket chains dominate UK food retailing, and together they account for almost 75 percent of the market. Tesco is the market leader, by a sizeable margin. Tesco has 31.3 percent market share, followed by Asda/Wal-Mart (16.8 percent), Sainsbury's (16.3 percent) and Morrison's (11.0 percent). Other UK supermarket chains include Waitrose, Somerfield, Iceland, Aldi, Budgens, Netto and Lidl.

Market Shares of the UK's Supermarket Chains

Retailer	Share %
Tesco	31.3
Asda/Wal-Mart	16.8
Sainsbury's	16.3
Morrisons	11.0
Somerfield	3.9
Waitrose	3.9
Aldi	2.4
Lidl	2.2
Iceland	1.6
Netto	0.6

Source: TNS Data, market share summary, 12 weeks to April 22, 2007

In general, each chain services a particular consumer base. For example, Tesco targets the middle market, providing both economy and up-scale products. Sainsbury's is pitched a little up-market of Tesco, with Asda/Wal-Mart pitched a little down-market of Tesco. Morrison's and Somerfield compete at much the same level as Asda/Wal-Mart, while Waitrose, part of the John Lewis Partnership, is the most up-market of the leading chains. Iceland, Aldi, Budgens, Netto and Lidl are all price-focused outlets.

Where UK consumers do their main grocery shopping, by gender, age and socio-economic group, July 2006

Base: 1,485 all adults aged 15+

	Asda	**Morrison's**	**Sainsbury's**	**Tesco**
	%	**%**	**%**	**%**
All	20	12	15	33
Men	20	10	18	31
Women	20	13	13	35
15-19	26	7	9	30
20-24	18	14	14	28
25-34	26	7	15	35
35-44	21	11	10	42
45-54	16	12	18	36
55-64	19	11	21	33
65+	17	16	17	24
AB	15	11	22	34
C1	19	10	16	36
C2	21	11	16	33
D	25	14	7	32
E	27	14	8	24

Source: Mintel

Social Grade Definitions:

A	Upper Middle Class
B	Middle Class
C1	Lower Middle Class
C2	Skilled Working Class
D	Working Class
E	Those at lowest level of subsistence

As a result of town planning regulations, supermarkets in the UK are smaller than their counterparts in Germany or France. For example, Tesco and Sainsbury's stores are just 3,500m² (37,700 sq ft) on average. Planning restrictions have resulted in limited availability of suitable sites. This in turn has fueled a move back towards smaller stores by the large supermarket chains, and created a polarization between superstores and convenience stores formats. The major UK supermarket chains have also developed store formats that sit alongside gas stations. For example, Morrison's has a partnership with BP gas, Tesco with Esso, and Sainsbury's with Shell.

The UK has one of the most advanced private label markets in the world (worth around $100 billion). The UK's major supermarket chains dominate the private label market and on average 40-50 percent of products in their stores are private label. Originally, private label goods were a 'me too' copy of a branded product, but today they are often innovative. They give UK retailers the opportunity to diversify their product ranges and develop new revenue streams.

The extreme of UK private label grocery shopping can be witnessed by visiting a Marks and Spencer (M&S) food hall. Ninety nine percent of what M&S sells is own label goods. Despite Marks and Spencer experiencing difficult trading conditions in their clothing departments in recent years, their food halls have continued to maintain successful business growth. Most M&S customers buy the majority of their food from other mainstream grocery retailers. They use M&S for special occasions, for convenience food such as ready-meals and as a top-up to their regular shop by buying a few luxury items. M&S consistently offer innovative, high quality and rigorously checked food.

Other supermarket-style stores of note are the five Fresh & Wild stores, bought by the U.S.-based Whole Foods Market in 2004. In June 2007, Whole Foods opened their flagship store in London's High Street Kensington. Whole Foods now have the largest food retail space in central London at 80,000 square feet.

Partridges, part of the 9-store Shepherd Foods company, also deserves a mention for their continued dedication to stocking US products. Partridges is essentially a large delicatessen celebrating both British and international foods.

Internet or On-Line Shopping

The Institute of Grocery Distribution (IGD) estimates that UK on-line grocery sales are currently worth £2.4 billion ($4.9 billion), two percent of the total grocery market, however, this market is growing over six times as fast. IGD forecasts that on-line shopping will double in the next five years to reach £5.0 billion by 2012, suggesting that online grocery is proving its importance in the overall UK grocery market. Market research has shown that currently Tesco is the only retailer to make on-line shopping profitable. In 2006, Tesco launched a new catalogue service designed to showcase over 8,000 non food items. These items are all available through buying on-line. Sainsbury's has announced that it is hoping to more than double on-line sales to £500 million by 2008, currently sales stand at £200 million. Asda, lagging behind its rivals, now covers an area serving 30-45% of the UK population with its delivery service. Ocado (the specialist on-line retail service run in partnership with Waitrose) continues to make a loss, despite of its superior customer service reputation.

On-line grocery shopping is a costly service for retailers to provide. Some have experimented with dedicated 'picking depots', but the more successful have relied on their existing stores to fulfill orders.

45 percent (14 million households) of homes in the UK have an internet connection, more than two-thirds of which are broadband. 60 percent of UK adults are thought to use the internet regularly. Most consumer purchases made on the internet are for gifts or leisure purposes.

Convenience Stores or the "c-sector"

This report gives a broad outline of UK retail outlets. A more detailed report entitled "Key UK Retail Outlets" can be found by searching under the subject name at http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp

The UK's convenience store market is highly fragmented, with a large number of retail operators present. Store operators may be divided into several types:

Co-operative

UK food co-operatives are moving away from their traditional supermarket-type operations and towards convenience retailing. The largest co-op is The Co-operative Group (1,217 stores), followed by United Co-op (495 stores) and Scottish Midlands Co-operative (84 stores). The total number of Co-operative stores in the UK is 2,488.

Gas Stations

The largest players in the UK gas station market are Esso (622 stores), Shell (550 stores), Total (514 stores), and BP (390 stores). The UK supermarket chains are also key players in this market too. Tesco has 418 gas station stores, Asda/Wal-Mart has 167, and Sainsbury's have 244. In total, there are 3,521 gas stations operating in the UK. There are also independent gas stations such as Malhurst (160 stores) and Snax 24 (72 stores). Collaborative agreements between supermarket chains and gasoline retailers have resulted in joint sites, for example, Tesco Express stores on Esso gas stations and Sainsbury's Local stores on Shell gas stations.

Convenience Outlets at Supermarkets

Tesco also dominates the convenience multiple sector with 1,219 Tesco Express and Metro type stores. Sainsbury's, has followed Tesco into the convenience multiple market with their Local stores, and their recently purchased stores from Bells and Jacksons. This takes Sainsbury's convenience store number to around 326 stores. In fact, supermarket chains now own 50 percent of the UK's convenience multiples. Other key players are Somerfield/TM Retail, the Simply Food format of Marks & Spencer, Amigo/Whistlestop (SSP) and Mills.

Symbol Groups, Franchise, and Fascias

In order to protect against the advance of the supermarket chains in the convenience sector, the number of convenience stores affiliating to a symbol group is growing rapidly. Over 600 stores were recruited in the last year alone. Symbol and buying groups offer small retailers a range of benefits including strong marketing and branding, wider product ranges, and more sophisticated supply chain systems. Major players in this sector are Spar UK (2,742 stores), Premier/Booker (2,000 stores), Londis (1,896 stores), Costcutter (1,500 stores), Landmark, also known as Lifestyle/Scandia, (1,200 stores) and Nisa Today's (1,132 stores).

Non-affiliated independent (i.e. not affiliated to a buying group)

There are around 25,000 unbranded independent grocery retailers in the UK. Independent store numbers are in decline. As store standards continue to improve in the c-sector, competition is intensifying. This is resulting in a number of independent retailers either leaving the sector or affiliating to a symbol operation.

Traditional retail and developing convenience stores

This retail sector encompasses small chains of specialist Confectionery, Tobacco and Newsagents, or CTNs as they are known in the UK, specialist grocers, Package liquor stores, or off-licences as they are known in the UK, and food specialists. There are also a large number of independent specialists, with just one or a very small number of stores.

Here are some key players in each category, and their number of UK stores in brackets:

MULTIPLES (10+ STORES)				**INDEPENDENT**
Specialist CTNs	**Specialist Grocers**	**Package Liquor Stores**	**Food Specialists**	**Specialists (1 or more stores)**
Forbouys, Martins, Dillions (970)	Farmfoods (303)	Thresher Group (1,680)	Greggs Bakers (1,165)	CTNs (2,759)
Northcliffe (190)	Heron Frozen Foods (135)	Bargain Booze (595)	Holland & Barrett Health Food (549)	Grocers (2,852)
Supercigs/ Supernews (125)	Jack Fulton/Frozen Value (67)	Oddbins (246)	Thorntons Chocolate (367)	Off-Licences (1,661)
Star's News Shops (86)	Food Weighouse (60)	Booze Buster (186)	Julian Graves Nuts & Dried Fruit (311)	Forecourts/ Gas Marts (676)
United News Shops (71)	Cooltrader/Baugur (39)	Majestic Wine Warehouses (133)	Bakers Oven (165)	Food Specialists: Greengrocers (7,925) Butchers (7,390) Fishmongers (958) Bakers (3,345) Farm shops (1,562) Others (825)

Source: The Grocer, July 2007

In addition to the above retail avenues, department store "food halls" and delicatessens present opportunities for listings of US products. London-based department stores such as Harvey Nichols and Selfridges have recently expanded to other major UK cities - including Birmingham, Manchester and Leeds. Other notable department stores stocking US products are Fortnum & Mason and Harrods. Key London delicatessens for US products include Villandry, Partridges, and The Rosslyn Deli.

Other Retailers/Alternative Channels

The UK has other outlets for US products such as mail/internet order, farmers' markets and other produce markets, as well as machine vending.

Examples of these retail sales avenues:

Shelf-stable grocery products www.skyco.uk.com and www.lakelandlimited.co.uk
Organic fruit and vegetable box scheme www.abel-cole.co.uk
Farmers' markets www.farmersmarkets.net
UK's largest fresh produce market www.cgma.gov.uk
Automatic Vending Association www.ava-vending.org

SECTION III. ROAD MAP FOR MARKET ENTRY

Importers are key to doing business in the UK. Food importing is a specialist business, and an importer plays a pivotal role in navigating the hurdles of UK/EU food law, as well as undertaking the all-important purchase of US food products to sell on to UK retailers.

It is not impossible to supply UK retailers direct. However, there are few instances where that is a viable option. A UK importer or UK sales agent or broker is usually vital.

Importers normally carry a whole inventory of products. 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 almost all importers of frozen and chilled foods contract out to specialized storage, handling and distribution companies.

The terms and length of association between the US company and the foreign importer are normally established by contract. It is generally advisable to start the business relationship with a fixed trial period, and assuming the relationship proves satisfactory, extend the contact.

Some of the largest agencies will only consider a product if it has large volume potential in the UK supermarket chains, and is backed by substantial marketing and financial support. Others specialize entirely in independent grocer or food service distribution. Costs vary widely too, some agencies may ask for a start-up fee, some are commission only agents, and others may seek a fixed fee that switches to commission when sales reach a target level. A full 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 (is applicable)
- Customs entry and clearance
- Handling charge to importer (can be a small charge deducted from wholesale price)
- Packaging and labeling
- Overheads, wastage and shrinkage allowance
- Mark-up by supermarket retailer (35-70 percent)

Large US companies with substantial financial backing may be able to work with an importer to supply the UK supermarket chains immediately upon market entry. For small/medium sized US companies, it is normal to work with an importer to gain product listings in department store food halls, delicatessens and independent retailers first. Once a sales volume and track record has been established, it is then possible for the importer to attempt listings in smaller retail chains, with a view to ultimately supplying the four key supermarket chains, if that is the export goal.

In choosing a UK importer, it is essential to take in to account the retail outlets that they currently supply. A US exporter needs to weigh up a UK importer's distribution capacity, and ensure that the UK importer can supply the retail outlets that best fit the appropriate UK consumer base for the product.

Market entry to the UK/EU requires substantial homework on the part of the US exporting company to ensure that all import regulations and labeling laws have been met.
This is covered in our Food and Agricultural Importer Regulations (FAIRS) Report, available by searching under the subject heading at:
http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp

SECTION IV. COMPETITION

In the last decade, the UK consumer's appetite has grown for "healthy", convenient, and ethnic foods. There is an increasing demand for quick meal solutions, such as chilled ready meals or ingredients, and single snacking portions. As a result, the UK domestic food manufacturing industry is sophisticated and advanced. UK new product development teams create innovative copies of international dishes and ready meals. If a US product has been particularly successful in the UK, it is likely that a manufacturing site will be placed in the UK or EU.

The EU is the main competitor for US consumer-orientated food. EU food exporters have relatively low transportation costs and fast delivery times. Their product does not face import duties, nor does it face major ingredient or labeling changes. Products are sourced mainly from the Netherlands, France, Ireland, Denmark, Germany, Italy and Spain. Fruits and vegetables primarily come from the EU.

The US is the largest non-EU country supplier to the UK, supplying around 6 percent of all UK food and drink imports. New Zealand, Brazil, South Africa and Canada are some of the other top non-EU country suppliers.

SECTION V. BEST PRODUCT PROSPECTS

US products which do well in the UK are snack foods, fresh and dried fruit, nuts, canned salmon, cereal products, cooking sauces, salad dressings, confectionery, dips and salsas, frozen foods, wine and beer and food ingredients.

The UK government is increasingly promoting healthy eating and healthy lifestyles. There are opportunities for US products that can be marketed as natural, wholesome and healthy. Within this category, organic products are also good prospects providing they can comply with EU/UK organic regulations.

Convenience (semi-prepared) foods are estimated to account for around 50 percent of household food expenditure. This trend continues to be a major driving force in the UK food and beverage industry.

The table below shows the best high value product prospects for the UK market:

Product Category	**Total UK Imports 2006 ($ million)**	**UK Imports From US 2006 ($ million)**	**Average Annual US Import Growth (last 5 yrs)**	**US Import Tariff Rate**	**Key Constraints to Market Development**	**Market Attractiveness for USA**
Fish and Seafood HS: 03	2,465	77.1	15%	0-22%	Highly fragmented market, domestic shortfall currently bridged by Baltic States	US #1 canned salmon supplier, developing interest in other products and species
Chocolate confectionery HS: 1806	1,157.5	9.8	13%	8-27%	Domestic & EU competition, low acceptance of American chocolate taste	British eat more chocolate than any other nationality, apart from the Swiss
Vegetables & Fruit prepared in Vinegar HS:2001	70.5	1.7	34%	0-16%	Competition from Turkey, Netherlands and India	Food has long shelf life
Preserved fruit & nuts HS: 2008	433.7	17.3	11%	7-27%	Competition from EU + Thailand & South Africa	US nut butters perceived as high quality, exotic preserved fruits of interest for gift/specialty trade
Fruit & Vegetable Juice HS: 2009	857.2	7.1	4%	16-23%	Competition from EU and Brazil	High focus on healthy living in UK. Juices now more popular than carbonated drinks
Sauces, Condiments, Seasonings HS: 2103	593.0	14.8	-3%	0-10%	Domestic & EU copy-cat products, Australia now also entering this market	US #4 supplier, UK wants authentic tex-mex, BBQ sauces, marinades & salad dressings
Soft drinks HS: 2202	840.4	9.6	9	0-10%	Domestic & EU competition, strong brands, market reaching saturation	New US concepts in beverages always attractive, e.g. functional drinks
Beer HS: 2203	678.7	1.9	-16%	0%	Domestic & EU competition, major brewers located in EU	US micro-brew beers, generally quirky beers with a story are attractive to a niche audience
Wine HS: 2204	4,256.2	233.67	-2%	18-25%	Competition from EU, Australia, Latin America & S. Africa. Figure shows a minus due to wine being shipped to Italy and then the UK.	UK #1 export market for US wine, California wine has 16% market share, other parts of US should benefit in future

Source: World Trade Atlas

SECTION VI. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report, require a listing of UK importers 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
London, W1A 1AE
Tel: +44 20 7894 0040
Fax: +44 20 7894 0031
E-Mail: aglondon@fas.usda.gov
Website: www.fas.usda.gov or www.usembassy.org.uk/fas/index.html

Further information on the UK retail grocery sector is available from:

British Retail Consortium(BRC)
2nd Floor, 21 Dartmouth Street
London, SW1H 9BP
Tel: +44 20 7854 8900
Website: www.brc.org.uk

Institute of Grocery Distribution (IGD)
Grange Lane, Letchmore Heath
Watford, Hertfordshire WD2 8DQ
Tel: +44 1923 857141
Website: www.igd.com

Other Reports of interest relating to this subject are:

Report Number	Title	Date Released
UK7037	UK Supermarket Chain Profiles	12/12/2007
UK6040	Key UK Retail Outlet Profiles	11/28/2006