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Austria

Retail Food Sector

Annual

2004

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Report Highlights:
Food and beverage retail sales in Austria show a slight but steady rising trend. Within the last five years, total sales for the food retail sector increased by 5.4 percent to 15.2 billion Euro (US $17.3 billion). Retail sales for 2004 are forecast to increase marginally by 0.8 percent. Powerful German retailer groups dominate the Austrian food retail sector. Only Spar Warenhandels AG remained a local leading food retailer.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Vienna [AU1]
[AU]

SECTION 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 sales show a rising trend. In 1999, retail sales by food businesses accounted for Euro million 14,420. In 2003, they accounted for Euro million 15,202, which is an increase of 5.4 percent.

The retail sector in Austria remains extremely traditional with a high level of control through government legislation and social habits. This rigid control is restricting the modernization of the retail sector and cuts down flexibility that is needed to respond to a highly dynamic market environment.

Austria's joining of the EU in 1995 brought some changes, including reforms in the regulatory environment, allowing consumers the freedom to shop in neighboring EU countries and opening the borders to leading retailers in the EU, especially German ones. At present, leading German retailer groups like Rewe, Edeka, Aldi and Lidl are dominating the Austrian retail sector. Only a handful of strong companies of Austrian origin are in a position to compete with these foreign giants.

The Austrian retail sector also shows a high level of retailer concentration, with more than 60% of some sub sectors in the hands of a few leading retailers. Price competition in the retail sector is extremely aggressive and the retailer concentration in many retail sub sectors is increasing.

The forecast for 2004 is likely to be affected by the performance of the US, Japanese and the global economies. Germany, which is one of Austria's leading export countries, is still experiencing economic difficulties and high unemployment. Unemployment in Austria also increased slightly at the end of 2003, which raised consumer insecurity. As a result of these factors, retail sales are forecast to increase marginally by 0.8% in 2004.

Exchange rate 2003= 1 US$ = 0.88 Euro

Advantages	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.	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. SUPER STORES, SUPERMARKETS, HYPER MARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

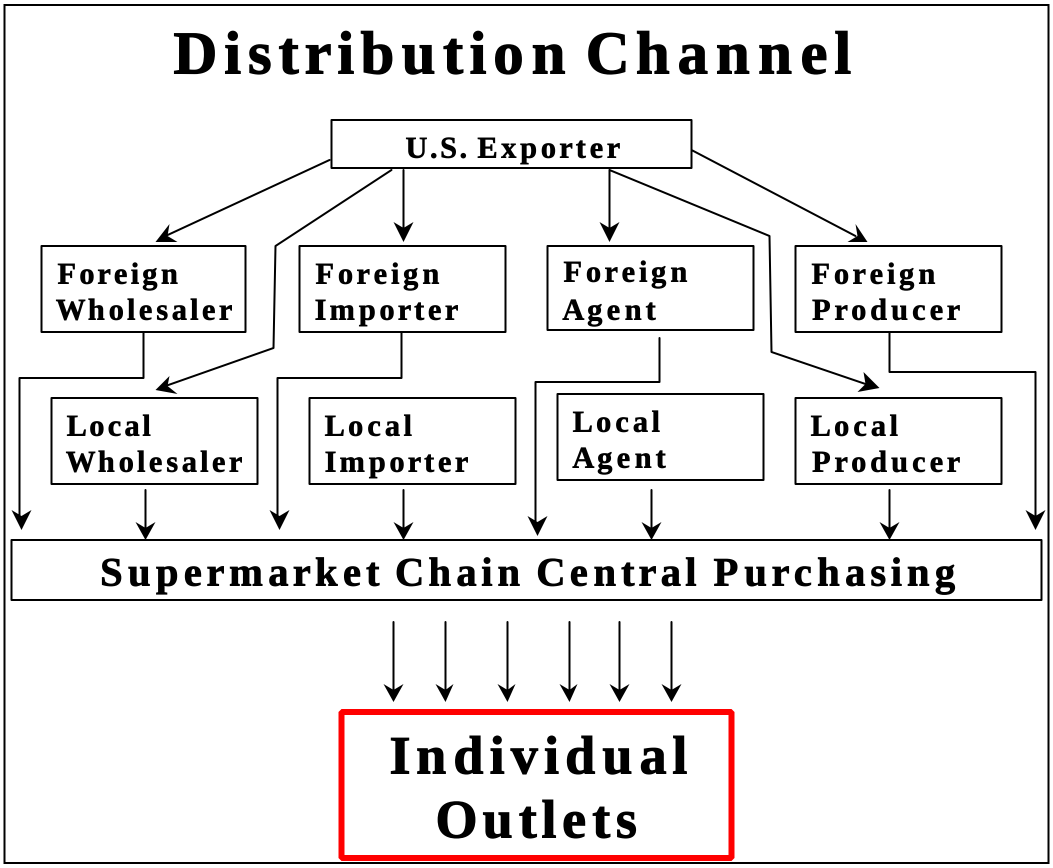
Entry Strategy

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



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 Name & Outlet Type	Owner-ship	Sales (Euro million) 2003	No. of Outlets	Locations (city / region)	Purchasing Agent Type
Rewe Austria Supermarkets Superstores	REWE concern Germany	4,327	1,309	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	4,015	1,458	Most areas	Direct, Importer, Wholesaler
ADEG	Local	1,062	882	Most areas	Direct, Importer, Wholesaler
ZEV MARKANT Supermarkets C&C	Swiss and Local	841	1,126	Most areas	Direct, Importer, Wholesaler
METRO C&C	Metro Holding, Germany	908 (2002)	11	Vienna and some other cities	Mother company, Wholesaler, Direct

Apart from Spar Warenhandels AG all leading food retailers in Austria are large and powerful German retailer groups that moved to Austria after it joined the EU in 1995. These large retailer groups have huge resources at their disposal, against which the local retailers are not able to compete. This has resulted in the decline of the traditional independent retailers in Austria and a structural change in the Austrian retail landscape.

Concentration in the retail market has been going on for many years. From 1997 to 2003, the number of food shops dropped from 7,300 to 6,083.

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.

REWE Austria covers mainly the eastern part of Austria and Spar the western parts. The food retail market share of REWE Austria in 2003 is 36.0 percent, the market share of Spar accounts for 34.2 percent.

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.

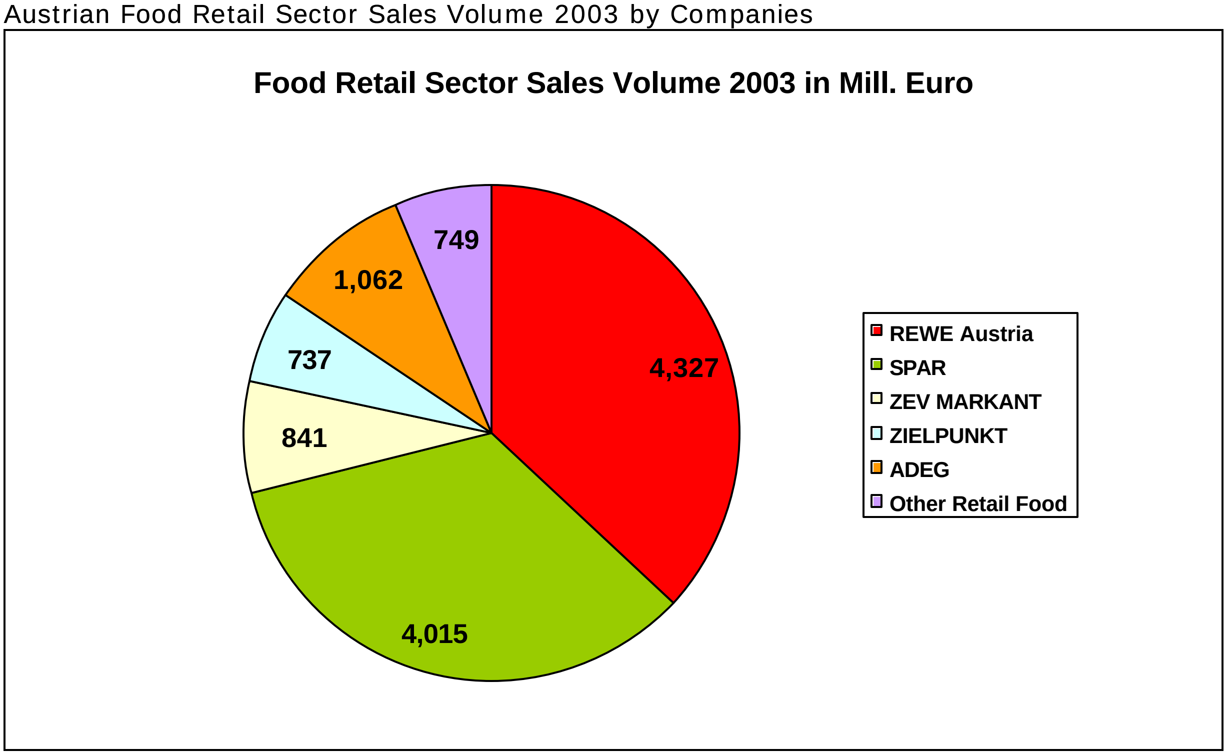
The unemployment rate compared to other European countries is low, the income situation high and thus there is a niche market for specialty products.

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.

Due to the low-price strategy of the food retailers and discounters the high-profile manufacturers' brands are losing out to private labels. The quality of the private labels continues to improve and the gap between the branded and private label products is becoming smaller. As a result retailers' dependence on the food manufacturers is decreasing. It is estimated that around 11% of all retail sales are generated through private labels. In the food retail sector, Hofer, a subsidiary of Aldi, only has private label products in its product range.

An increase in the number of private labels in the organic food sector was also noticeable in the last years, partly due to the growing health consciousness of consumers and partly due to food scandals. The leading private labels in this product sector are Ja! Natürlich from REWE Austria and Natur pur from Spar.

Austrian Food Retail Sector Sales Volume 2003 by Companies



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 at the main stations 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 take advantage of an exemption in the strict shop opening law that allows them to sell to food and sundries after shop opening hours, and on Sundays, and public holidays.

More than one third of the population buys food occasionally in gas marts, although, due to the present legislation, these shops cannot sell frozen food products.

Consumer goods sold through service station shops increased by 20% in the last five years. The strong consumer demand in the convenience sector due to a mobile population is acting in favor of gas shops.

The sales area of the 2,300 shops in 2002 had a retail space of 92,000 sq m. The average size of the shops is between 35 sq m and 40 sq m, although the shop sizes vary significantly. The trend towards outlets with large selling spaces is mainly seen by the branded gas stations.

Although the food sales through gas stations shops are significant, the industry believes that this figure is likely to remain stable in the future in spite of the expansion of shop retail spaces in branded service stations. Service station shops are significantly more expensive than food retail outlets and the expansion of grocery discounters as well as the low-price strategy of food retailers erodes food sales through service station shops. Products that are necessary for the daily requirements, such as pet food and drugstore articles, are showing a decline in sales and may be taken out of the product ranges in the future.

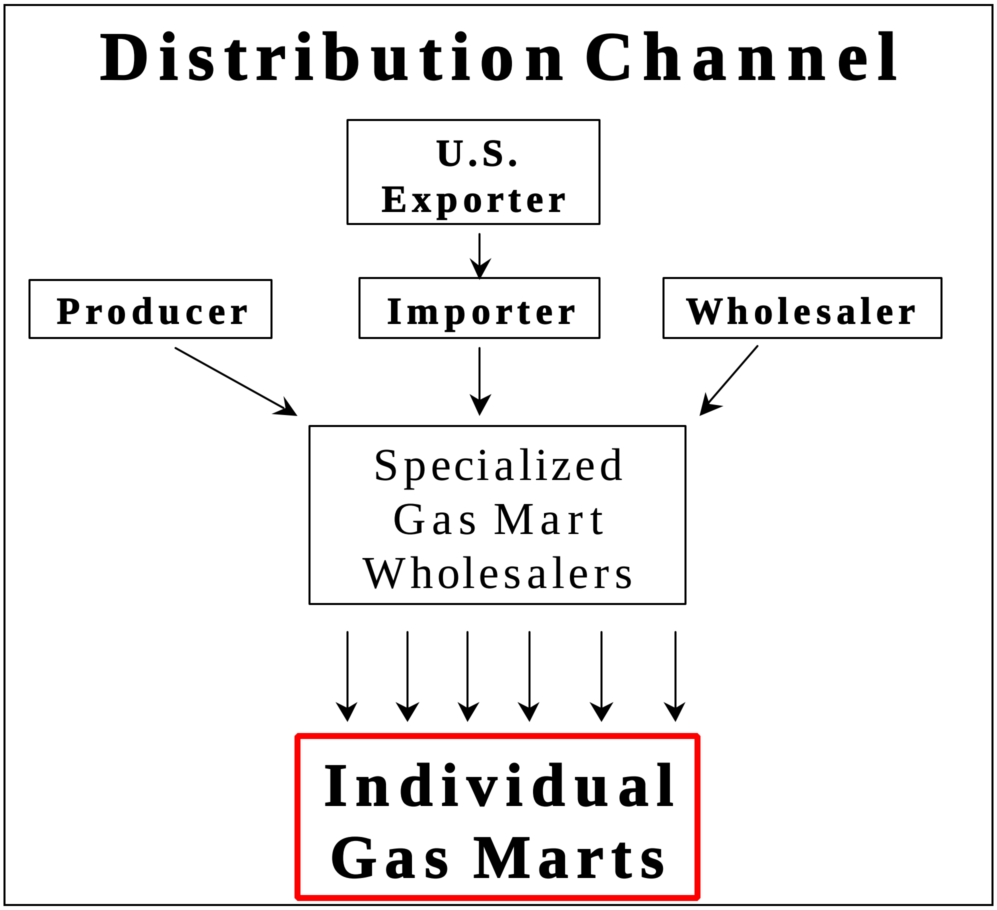
Gas marts have been gaining in significance for a long time. Of the 2,880 Austrian gas stations in 2003, 2,300 included a shop

Austrian gas marts had a consumer goods turnover of Euro million 480 in 2003. This amount corresponds to about four percent in the turnover of the food retail trade.

Entry Strategy

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

Market Structure



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.

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
Snack and Shop	Esso	128	Many areas of Austria	Wholesaler
Jet-Shop	JeConoco	72	Various areas of Austria	Wholesaler
Various	Others	272	Many areas of Austria	Wholesaler

C. TRADITIONAL MARKETS – "MOM AND POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

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.

SECTION III. COMPETITION

Total food (raw and processed) and beverage imports account for around Euro billion 5.1 of which the U.S. share is 1%. Euro billion 3.8 out of the total imports come from EU 15 countries. 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 (mainly Germany) 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 might be some market for U.S. high quality hormone free beef.
Poultry production exceeds domestic requirement considerably. However, due to rising demand for turkey, relatively large imports of poultry (48,051 MT in 2003) are carried out each year. The main suppliers are Hungary (40%), Germany (27%), France (11%), and Italy (11%).

Dairy imports and exports are large. The latter exceed imports by Euro million 256. Imports include predominantly fresh cheese. Larger quantities are imported from Germany and France.

Egg imports (Euro 34,000) are three times as high as exports. About half of the imports are eggs without shell and egg powder coming primarily from Netherlands and Germany. Relatively large shares 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 according to Statistik Austria in 2003 were 30,000 MT, valued at Euro million 144. Due to transshipment within the EU real number for imports can be expected much higher. From 2002 to 2003, imports from the U.S. increased by 5% quantity wise which corresponds to 32% increase in value. The main seafood items from the U.S. include fresh/frozen fish and prepared seafood products. Among fresh/frozen items, 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.

For U.S. traders, Austria’s nut imports are interesting. The import value is about U.S. $11 million for almonds (U.S. share 60%, main competitor Spain); U.S. $ 18 million for hazelnuts (no U.S. share, main competitor Russia); walnuts U.S. $12 million (U.S. share 34%, main competitors Rumania, Hungary and other central European countries); U.S. $ 5 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. $70,000, 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 fruits excluding raisins are US $13.6, dried apples are U.S. $4million (no U.S. share, main competitors are Italy (56%), Hungary and Germany); apricots U.S. $1 million (no U.S. share); prunes U.S. $6 million (U.S. share 64%, main competitors France, Chile); raisins U.S. $16 million; (U.S. share 9%, main competitors Turkey (40%), Iran); various dried fruit mixtures U.S. $4 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. $153 million in 2003, the U.S. share is close to 1.5 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.

SECTION IV. BEST PRODUCT PROSPECTS

Category A: Products Present in the Market Which Have Good Sales Potential

Tree nuts (including organic products), dried fruits (including organic products), rice, wine, petfood, convenience food, GMO free products

Category 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.

Category 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 Ahormone 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 Ahormone 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.

SECTION V. POST CONTACT AND FURTHER INFORMATION

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