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Retail Food Sector

Italian Retail and Distribution Sector Report

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Report Highlights: Italy's retail food sector is growing at a much slower pace than its European neighbors, maintaining a balance between tradition and modernity. 85 % of all food retail establishments in Italy are small to medium sized, with less than 10 million Euro in sales. Italian consumers are conservative, discerning and selective, seeking quality, food safety, exclusivity and diversity in food products. In 2003 consumer spending fell drastically.

Includes PSD Changes: No
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Table of Contents

Section 1. The Italian Market Overview

Macro Economic Situation & Key Demographic Trends

Italy is the world's sixth largest economy, with a GDP of almost $1.5 trillion, and per capita annual incomes of over $25,000. This economy remains divided into a developed industrial north, dominated by private companies, and a less developed, welfare-dependent agricultural south, with 20% unemployment.

Food Retail Outlet/Population Ratio:

North = one food retail outlet/every 7,547 inhabitants
Center = one food retail outlet/every 8,584 inhabitants
South = one food retail outlet/every 12,337 inhabitants

Italy has a population of 58 million people who spend 20% of their disposable income on food. According to ISTAT, in 2003 consumer spending fell drastically, with an average Italian family spending 2.400 Euros a month on food. Total retail sales stood at €282,128 million in 2003. ISTAT also forecasts that food value sales are expected to increase by just 6.3% between 2003 and 2008 in constant terms, with consumers spending more on non-food. In Italy there are 1.5 million foreign residents of which the leading community is Moroccan, followed by Albanians, Romanians, Philippinos and Americans. Food retail outlets have started to cater to these consumers with more foreign and ethnic foods, but these offerings remain small in the face of traditional Italian cuisine.

The Italian population is aging and projected to decline in coming years. While living longer, Italians are having fewer children and marrying at a much later age. Also, contrary to trends across Europe, the majority of Italians continue to live in small cities and towns. This said, the combined population of Italy's three largest cities-- Rome, Milan, and Naples-- accounts for almost 20% of the Italian population. Consumer price inflation has been around 2 % per annum, but this has been accelerated by the conversion from the lira to Euro, and by the strength of the Euro against the dollar. Unemployment has remained stable at 9 %.

Continuing societal tendencies toward smaller families, later marriages, and an increasing number of women in the workforce are resulting in food retail outlets offering more ready-made, ready-to-serve products and a wider range of products. Euromonitor reports that because the emphasis in Italian households is still on fresh, rather than frozen food, shopping frequency for food is greater than in many other European markets. In the vast majority of Italian households, it is the women who take care of all the food shopping, and housewives tend to shop daily. Most housewives shop in small local grocery stores and specialist outlets, like butchers, bakeries and fishmongers. However, as a result of the rise in the female workforce and an increase in the number of large supermarkets and hypermarkets, there has been a tendency towards less frequent shopping trips. This trend is expected to grow.

Main Types of Households

Couples with Children	Singles	Couples without Children	Single parents	Others
44 percent	25 percent	20 percent	8 percent	3 percent

Source: ISTAT 2004

Italians tend to be conservative and strongly wedded to a traditional Mediterranean diet. Italians also seek a healthy lifestyle that has led to a rise in demand for light or dietetic products. A healthy image and taste are the two single most important factors influencing food sales in the country. While health consciousness is becoming increasingly important in food, taste and tradition tend to be dominant factors.

Interest in organic food is also increasing, largely supported by subsidies. Today 30% of all European organic food is Italian, and organic food in Italy accounts for 3% of total agricultural production. ISTAT estimates that organic consumption in Italy will represent a 5.165 billion Euro market by 2005, and that 60% of all organic foodstuffs will be mainly sold through supermarket retail outlets, while 33% will be sold in specialized stores. Currently all food retail outlets in Italy carry a selection of organic products, but large retailers like Coop Italia and Esselunga, have actually created their own organic product label.

Italians have always consumed fish and seafood products, but now also see these as healthy, low-fat options to meat. Breakfast, traditionally synonymous with coffee, and eaten on the run, is beginning to be acknowledged as an important meal, and snacking is more common, attracting innovative processed and convenience products. The breakfast cereal market in Italy is overwhelmingly ready-to-eat boxed varieties. Steady growth in this cereal demand is expected to increase these products' total sales to approximately $250 million by 2006—an increase of over 20% from 2002. Italy's extensive food processing industries feed much of the expanding market for processed food products, and import growing volumes of raw materials.

As Italians believe that frozen foods can be as nutritious as fresh food, and household refrigeration is now widespread, the above trend towards convenience is reflected in the frozen food industry's growth at the expense of canned goods. Sales of frozen foods are forecast to reach $2.2 billion in 2005--a 43% jump from 2000. The majority of retail sales of frozen products are for frozen pizza, followed by pasta-based, fish-based and vegetable-based portions and meals. The preference for frozen over canned foods is well defined. Annual sales of canned food for the period 2000-2005 are virtually unchanged at about $1.5 billion.

Despite recent inflation and unemployment, the fluctuations in the dollar/Euro exchange rate, and the often protectionist regulations of the EU, in Italy there still exist many opportunities to both maintain and expand the market for a variety of U.S. agricultural and consumer ready products in the context of the broad discussion above.

Consumption and Expenditures

All Consumer Expenditure on Food by Retail/Foodservice Split 1999-2003

EURO million

	Retail	**Foodservice**	**TOTAL**
1999	111,327	45,907	157,234
2000	115,004	47,669	162,673
2001	116,773	48,862	165,635
2002	125,464	55,060	180,524
2003	131,856	60,354	192,210

Source: Istat, Fipe, Euromonitor

Food Retail Sales	**1999**	**2000**	**2001**	**2002**	**2003**
EURO million					
Supermarkets	30,966.6	32,018.0	32,771.6	34,159.3	35,573.8
Hypermarkets	17,193.6	17,436.6	17,710.0	18,248.9	19,004.6
Discounters	7,224.3	7,052.8	7,170.2	7,189.1	7,201.6
Convenience stores	1,018.0	1,021.0	1,025.0	1,025.0	1,025.0
Small independent groceries	9,500.0	9,400.0	9,300.0	9,300.0	9,300.0
Food specialists					
Greengrocers	1,036.0	1,054.4	1,128.0	1,161.8	1,185.1
Butchers	2,636.3	2,678.7	2,629.8	2,642.9	2,669.4
Fishmongers	850.1	893.1	955.4	1,017.5	1,073.5
Bakers	2,349.9	2,582.3	2,737.2	2,909.7	3,093.

Source: Istat, Fipe, Euromonitor

According to a study published by Pianeta Distribuzione and conducted by the Maastricht University, when making purchasing decisions, Italians place a lot of importance on the following:

1. Price compared to assumed product value
2. Quality
3. Price
4. Innovation
5. Product shelf life
6. Product safety
7. Brand image
8. Product labeling
9. Product packaging

Therefore, in order to stay competitive in the Italian retail sector, stores must offer at least the following:

Price
Assortment
New Formats
Increase of service and quality of assistance
Develop unique product lines
Increase level of food quality and safety
Increase presence of local and regional food products

Section 2. Road Map for Market Entry

While Italian food marketing is still dominated by stand-alone Mom and Pop stores, modern trends are apparent with supermarkets and hypermarkets in evidence. Private labels are slowly appearing on the store shelves, however, Italy cannot yet be compared to the French or U.S. retail sector.

The north/south fragmentation within the Italian retail sector is very evident. AcNielsen reports that in 2004 there were more than 7,000 food retail stores in Italy. Over 50% of Italy's supermarkets, hypermarkets, and shopping malls are located in the North of Italy, while the south lags with fewer large retail outlets and an underdeveloped distribution network. Italian food retailing remains highly fragmented, especially in the South, which is still home to more than 70,000 traditional shops, accounting for just 12% of food sales.

Historically, none of the Italian grocery store chains had national coverage from north to south, but a few years ago Rinascente and Gruppo GS, through foreign joint ventures with Auchan and Carrefour, broke the mold by starting to expand to the south. Several other large foreign retail groups are now interested in expanding their presence in the Italian market. Italy does not yet have WalMart or Tesco, but it is only a matter of time.

Retail Definition

Source: *Italian legislation and the Ministry of Industry and Commerce, 2003*

Hypermarket - is a very large establishment engaged in retailing various types of food and non-food necessities within a structure of 2,500 to 10,000 square meters of space.

Supermarket - is a medium to large establishment engaged in retailing mainly food items within a structure of 400 to 2,500 square meters of space. A supermarket can also offer a self-service type of format, and be linked to a department store.

Discount - is an establishment mainly engaged in retailing private and unbranded labels at a discount price, within a structure that can range from 300 to 1,000 square meters of space.

Mini-Market (Superette) - is an establishment engaged in retailing food and non-food necessities within a structure that can range from 200 to 399 square meters of space.

Self-Service - is a small establishment engaged in retailing food necessities without the assistance of personnel within a structure that can range from 100 to 399 square meters of space. Convenience stores located within large gas stations on major roadways fall under this category as well.

Traditional Mom + Pop - are privately owned small establishments engaged in retailing food and some non-food necessities within a structure of less than 100 square meters of space.

Leading Food Retailers in Italy Ranked by Retail Turnover 2003

Retail Group	Retail Turnover 2003 (EUR million)	Retail Turnover 2002 (EUR million)	Outlets	Retail Sales Area ('000 sq m)
Coop Italia	9,700	9,652	1,281	1,153
Carrefour Italia	7,176	6,630	1,077	1,079
Conad	6,020	6,008	2,720	1,023
Auchan-La Rinascente	4,628	4,136	1,954	2,376
Esselunga	3,750	3,727	114	253
Pam	2,250	2,205	392	392
Metro	2,100	2,100	39	195
Finiper	1,900	1,895	21	177
Bennet	1,150	1,145	39	190
Rewe	1,100	1,195	164	240
Lidl Italia	800	631	300	300
Il Gigante	750	712	27	75

Source: Euromonitor from company reports, trade press (Largo Consumo/Mark Up)

Private Labels and Discount Stores

While private label goods have generally been thought of as being inferior in quality and significantly cheaper than branded goods, this image is changing as modern large scale retailing increases. Private label goods with their own brand names (known as "fantasy brands" in Italy) are seen more frequently.

With the entrance of foreign retail companies into the market, the sector has become more sophisticated and is expected to expand more rapidly. Large distribution chains and supermarkets not only offer a varied selection of food products, but also promote their own private label brands and offer lower prices. Companies like ESSELUNGA, COOP Italia, CONAD and Unes are all using their private brand lines as a way to promote organic, GMO free, and other specialized niche products.

Major Buying Groups

Worthy of mention in this report are the numerous buying groups that play a major role in the Italian retail food sector. Retailers differ from the buying groups in that they own their stores or operations. According to Euromonitor, until 1994, buying groups were relatively unknown in Italy. Now however, large retailers rely heavily on sourcing products from buying groups who can ensure better deals with suppliers. Most large food retailers have joined buying groups to increase their leverage when dealing with suppliers. Although buying groups are largely the precinct of large chain food retailers, independent retailers have also understood the value in joining buying groups. In order to continue to operate in the face of competition from nationwide chains, which can offer similar products at lower prices, many independent retailers have joined Intermedia to benefit from the same suppliers and the same prices as chain operators. In 2003, there were 194 independent operators that were part of the Intermedia buying group.

Leading Retail Buying Groups 2003

Group	Fascia(s)	Outlets
Intermedia	Rinascente, Pam, Conad, Rewe, others	2,802
Mecades	Interdis, Sisa, Despar, others	2,322
Coop Italia	Coop, Sigma	1,159
Esd Italia	Esselunga, Selex, Agorà	968
Carrefour Italia	Carrefour, Finiper, Il Gigante, others	722
TOTAL		7,973

Source: Euromonitor from trade press (Largo consumo/Mark Up)

Foreign Retail Outlets in Italy

Italy does not have a large presence of foreign retailers in the food sector. Most of the foreign companies that are present, however, have joint ventured with Italian retailers. Some examples are Auchan with Gruppo Rinascente, Rewe with Standa, Spar with Asiag, and Carrefour that entered the market with the acquisition of GS. The joint venturing is a response by foreign retailers to the strong presence of buying groups, formed by the leading players, which represent an entry barrier to food retailers from outside Italy.

Major Retail Conglomerates in Italy 2003

Retail Conglomerate	Sectors of Activity	Turnover (EUR million)	As a % of Group Turnover
Auchan-La Rinascente	Supermarkets/hypermarkets, large mixed retailers, DIY, shopping centres	4,628	100
Carrefour Italia	Supermarkets/hypermarkets	7,176	100
Esselunga	Supermarkets/hypermarkets	3,750	100
Metro	Cash-and-carry, consumer electronics	2,100	65
Pam	Supermarkets/hypermarkets	2,250	100
Finiper	Supermarkets/hypermarkets	1,900	100
Coin	Large mixed retailers, fashion & apparel	1,188	100

Source: Euromonitor from company reports, trade press (Largo Consumo/Mark Up)

Italian Importers, Wholesalers and Retailers

Italian importers are usually small to medium-sized companies, rather than the large, market-dominating varieties found in northern Europe. Consequently, these companies import on a smaller scale and usually in a broader range than their much larger counterparts. Most imported food products enter the Italian market through brokers or specialized traders. Price is an increasingly important basis for import purchase decisions, although quality and novelty do move some products. Imported products from North America often enter Italy indirectly from the Netherlands' Port of Rotterdam or directly via air.

Wholesalers are the main customers for fish and seafood products, as they purchase and distribute products to consumers through supermarkets, hypermarkets, local fish shops, restaurants, and fishmongers and fish processors. In Italy there are over 1000 fish wholesalers--100 of which are considered to be importers.

Retail Sector Strengths and Weakness

Advantages	**Challenges**
Italians are traveling more, becoming aware of foreign cuisines.	Competition in the Italian food market is fierce and many consumers still have a preference for traditional Italian products.
Italy is a member of the Euro zone, which eases market entry.	U.S. exporters must conform to often-difficult Italian/European standards and regulations.
Interest in new and innovative products, especially with a health twist.	Recent food scares have made some Italian Consumers wary of the unfamiliar.

Tables and Statistics
Best High Value Product Prospects
(1000s of USD $) (Source: Eurostat)

Product	**Country**	**2000**	**2001**	**2002**	**2003**
WHEAT	Italy	199,369	209,669	188,719	170,879
DRIED PLUMS	Italy	19,506	18,208	15,763	14,324
CONDIMENTS	Italy	1,823	1,293	1,474	1,401
FRUIT JUICES	Italy	1,575	748	654	442
SEAFOOD	Italy	60,044	53,391	52,036	48,599
TREE NUTS	Italy	58,504	65,778	68,537	94,138

Leading Italian Agricultural Exports to the United States in 2004
(Million USD $) (Source: U.S. BICO)

Wine & Beer	$ 977,788
Vegetable and Olive oils	$ 509,915
Cheese	$ 223,532
Snack Foods and Chocolate	$ 103,302
Processed Fruits & Vegetables	$ 30,553
Roasted & Instant Coffee	$ 26,170

Leading U.S. Agricultural Exports to Italy in 2004
(Million USD $) (Source: U.S. BICO)

Tree Nuts	$126,519
Wheat	$ 99,613
Fish & Seafood	$ 56,487
Coarse Grains	$ 40,369
Soybeans	$ 29,091
Processed Fruits & Vegetables	$ 17,990

Key Trade & Demographic Information - Italy 2003/2004
(Millions of USD $) (Source: U.S. BICO and UN Trade Data)

Agricultural Imports from the World 11,318	**U.S. Market Share:** 5 percent
Consumer Food Imports from the World 13,817	**U.S. Market Share:** 1 percent
Edible Fishery Imports from the World 3,471	**U.S. Market Share:** 1 percent
Population 58 million	**Population Growth rate:** 0.11%
Major City Centers: (13) Rome, Milan, Naples, Turin, Palermo, Genoa, Bologna, Florence, Catania, Bari, Venice, Messina and Verona	**Total Rural Population:** 48 Million
Gross Domestic Product 2003: $1.455 trillion U.S. dollars	**Per Capita Income:** $25,100
Unemployment Rate: 9.1 percent	**Percentage of Female Population Employed:** 28 percent
Exchange Rate: US Dollar to EURO Average 2001: $1.00 = €1.117 Average 2002: $1.00 = €1.100 Average 2003: $1.00 = €0.925 Average 2004: $1.00 = €0.805 Source: European Central Bank	

Section 3. Best Products Prospects

A. U.S. products in the Italian market that have good sales potential:

Wild salmon from Alaska
Lobster
Dried plums
Tree nuts
Wheat
TexMex and other ethnic foods
Dried beans and lentils
Processed fruit juice

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

Cake mixes
Dressings and sauces/condiments
Beer
Snacks
Scallops
Chocolate
Specialty/Micro brew Beer

C. Products not present because they face significant trade barriers:

Beef
Cheese
Poultry

Section 4. Contact Information

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