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Italy

Retail Food Sector

Report

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Report Highlights:

Italy is one of the more affluent countries in Europe, and its retail sector offers potential opportunities to businesses interested in entering a relatively underdeveloped yet lucrative market. The Italian food sector, a blend of tradition and modernity, is expanding but at a much slower pace than other European nations. Italians have a high standard for quality food.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Rome [IT1], IT

Retail Food Sector Report - Italy

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Currency: On 1 January 1999, the European Monetary Union introduced the EURO as a common currency to be used by financial institutions of member countries; on 1 January 2002, the EURO became the sole currency of Italy replacing the Lira.

Exchange Rate: \$1.00 = EURO 0.996
As of 21 November 2002.

**Map of Italy
Regions****North -**

Val d'Aosta,
Lombardy,
Trentino
Alto Adige,
Friuli
Venezia
Giulia,
Veneto,
Liguria,
Piedmont

Center -

Emilia
Romagna,
Tuscany,
Marche,
Umbria,
Latium

South -

Abruzzo,
Molise,
Campania,
Apulia,
Basilicata,
Calabria,
Sicily,
Sardinia



Section 1. The Italian Market Overview

Macro Economic Situation & Key Demographic Trends

Italy's economy stagnated in the first half of 2002 as the soft global economic situation dampened Italian exports and heightened consumer uncertainty. The conversion to the Euro created another economic challenge, pushing up inflation to 2.4 percent/annum. Overall, the Italian economy is in anemic condition with 2002 GDP growth forecast at only 0.6 percent, down from 1.8 percent growth in 2001. Recovery from the current economic malaise is not expected before the end of 2002 or the first half of 2003. Unemployment nationally is 10 percent, but varies significantly by regions and is nearly 20 percent in the South.

Despite the recent strains on the economy, Italy remains one of the most affluent nations in Europe, with a GDP of \$1.402 trillion and per capita income for 2001 of \$18,837. (ISTAT forecasts 2002 per capita income at \$19,451). Population growth is nearly stagnant at 0.05%, with increased immigration offsetting a negative birth rate among Italians.

The Italian peninsula varies climatically, geographically, culturally, and economically between north and south. For example, per capita income in the north approaches \$23,000, whereas the \$12,000 per capita income in the South (below Naples) is almost one-half of that of the North. Also contrary to trends across Europe, the majority of Italians continue to live in small cities and towns. There are presently 58 million persons living in Italy. However, the combined population of Italy's three largest cities-- Rome, Milan, and Naples-- accounts for 10 million or 5.8 percent of the Italian population. Markets are therefore diffuse and relatively small scale, but often lucrative.

Northern Italy: Population: 25.8 million

Per Capita Income: \$ 23,000

Major Cities: Turin, Aosta, Genoa, Milan, Trieste, Trento, Venice, Bologna

Central Italy: Population: 11.1 million

Per Capita Income: \$20,000

Major Cities: Rome, Florence, Perugia, Ancona

Southern Italy: Population: 20.8 million

Per Capita Income: \$ 12,000

Major Cities: Naples, Aquila, Campobasso, Bari, Cantanzaro, Palermo, Cagliari, Potenza

According to the Italian Ministry of Interior, of the 58 million residents, 2.5 million are foreigners from 190 different nations. The leading foreign communities in Italy are Moroccans, followed by Albanians, Romanians, Philipinos, and Americans. 51% live in the North of Italy, 31% in the Center and 18% in the South. 35% of the foreign population resident in Italy follow the Muslim faith.

Main Types of Households (of total population)- Source: ISTAT 2002

Couples with Children	Singles	Couples without Children	Single parents	Others
45 percent	23 percent	20 percent	9 percent	3 percent

In Italy there are 22.2 million households, with an average of 2.6 persons per household. Over the last few years, the Italian population growth rate has slowed down, with the latest forecast showing a much higher death rate than birth rate. The Italian population is forecast to drop to 52 million by 2050. While Italians are living longer, they are also having fewer children and getting married in their late twenties to early thirties.

In Italy 34 percent of women, (the lowest rate of any OECD country), work outside the homes. Women slowly entering the workforce has had a definite impact on child birth. In the 1960's the average number of children per family was 2.41. This figure has now dropped to 1.20 children per family.

In contrast to the shrinking family is the rise of a dynamic singles community. Singles now have a much more visible role in Italian society. Unlike before, there are many more young people venturing out from their family homes and living on their own, especially in the northern industrial cities. Singles are also starting to be recognized for their buying power as retail outlets have started to cater to their needs by offering single portion, ready made food products.

Resident Population Living in Large Cities (numbers are in thousands of people).

Source: ISTAT - 1 January 2002

2656	1302	1000	901	679	632	380	375	336
Rome	Milan	Naples	Turin	Palermo	Genoa	Bologna	Florence	Catania

332	275	257	257
Bari	Venice	Messina	Verona

According to the Italian Ministry of Interior, 70% of the Italian population live in urban city centers. Although highly urbanized, the Italian population is widely dispersed among several medium and small cities. Italy's three largest cities – Rome, Milan, and Naples are home to less than 5 million people, 10 percent of the total population. This is an important factor to keep in mind when entering the Italian retail sector. There are many potential cities through which a company or product may access Italian consumers.

According to ISTAT, in 2001 total food consumption in Italy (excluding drinks) was 103 billion EUROS, 72 billion of which were consumed at home. This shows that 30% of food expenditures were spent outside of the home, while 70% were consumed at home.

Italians are very "quality" conscious when it comes to purchasing their food. Following are key elements necessary when defining "quality" food for Italians:

- ☐ Food safety and traceability
- ☐ Healthy
- ☐ Artisanal
- ☐ Regional cuisine
- ☐ Flavorful and tasty
- ☐ Visually pleasing presentation and packaging

Average Monthly Consumption by Household Type and Category - Source: ISTAT, 2002

	Food	Clothing	Housing	Transport	Leisure	Other
Single under 35	13.2%	7.5%	33.2%	19.5%	7.2%	19.4%
Single 35-64	16.0%	5.8%	37.3%	17.7%	6.4%	16.8%
Single over 65	21.6%	4.2%	47.8%	7.6%	4.1%	14.7%
Couple w/out children under 35	13.8%	6.7%	35.5%	20.1%	6.0%	17.9%
Couple w/out children 35-64	17.1%	6.0%	36.6%	18.0%	5.4%	16.9%
Couple w/out children over 64	22.2%	4.8%	41.4%	12.3%	4.0%	15.3%
Couple w/1 child	17.8%	6.8%	32.5%	18.9%	6.7%	17.3%
Couple w/2 children	18.4%	7.8%	30.2%	20.0%	7.9%	15.7%
Couple w/3 or more children	21.2%	8.2%	28.2%	19.1%	8.1%	15.2%
Single parent	19.3%	6.6%	34.0%	17.0%	7.4%	15.7%

Average Monthly Household Consumption Expenditures (converted to U.S. \$)

Source: ISTAT, 2002

Single under 35	\$1,747	Couple w/out children over 64	\$1,625
Single 35-64	\$1,627	Couple with 1 child	\$2,515
Single over 64	\$1,058	Couple with 2 children	\$2,698
Couple w/out children under 35	\$2,380	Couple with 3 or more children	\$2,650
Couple w/out children 35-64	\$2,258	Single parent	\$1,979

The ongoing socio-economic and demographic changes in Italy have had an impact on consumer spending. Italians are spending more money on consumer goods and have started to eat more outside the home on a regular basis. Eating habits have certainly evolved during the past 40 years. While the Mediterranean diet remains king, Italians have discovered through their increased world traveling the so-called exotic/ethnic foods.

According to the latest Nielsen survey, in 2001 Italians spent 35 billion dollars eating outside of the home, a 7% increase from 2000. Work habits and convenience have affected the amount of food consumed outside of the home.

Food Consumed Outside of the Home - Source: Food Industria 2002

	2001 Total Food Purchases \$ billions	2000-2001
Second Course	12.5	increase of 1%
Snacks	5.5	increase of 4%
Drinks	4.6	increase of 2%
Breakfast Foods	3.0	decrease of 2%
Sauces and Condiments	2.4	decrease of 1%
First Course	2.0	no change
Bread and crackers	1.0	no change
Hot Drinks	1.0	no change
Side Dishes - vegetables	.9	no change
Other	.7	increase of 1%

Desserts	.6	no change
Baby Food	.5	no change
TOTAL	34.7	increase of 7%

Italians have access to a broad range of fresh foods due to their national wealth of horticultural production. This contributes to their fairly traditional food habits. While the per capita volume figures paint a picture of a fish and vegetable hungry Mediterranean nation, the per capita value figures also point to a group of health conscious, modern consumers willing to pay a premium for quality food products. In fact, Italy is only second to Portugal when it comes to per capita spending on food. The recent economic down turn has however, started to put a damper on luxury food sales and visits to expensive restaurants.

American-style fast food chains, buffets, and salad bars are gaining popularity in the Italian market. This move towards more convenient dining has led Italian importers to seek out U.S. food products adapted to self-service eateries. Many bars, restaurants and food service companies also are seeking foods that microwave easily. While home use of microwaves is still low, microwave sales are increasing. Families with two working parents rely more and more on microwaves to reheat food and prepare frozen foods. Microwaves are present in most small food shops to reheat baked goods such as pizza or roasted chicken.

Italians are consuming increasing quantities of breakfast cereals, organic foods and snack foods. The Italian youth market is especially interested in lifestyle foods such as American beer and salted snacks. American type packaging is perceived as being trendy and consumer friendly. American food does well in the Italian market, including in the increasingly popular sushi bars. U.S. exports of bulk and packaged dried fruits and nuts have consistently sold well in Italy.

Distribution of Total Food Purchases and Consumption - 2001. Source: AGRA, Food Distribution in Italy, 2002

Supermarkets	29 %
Traditional Mom + Pop	15 %
Restaurants	14 %
Mini Markets	11 %
Hypermarkets	10 %
Pizza Parlors	8 %
Other	5 %

Bar *	4 %
Cafeteria	2 %
Self Service	1 %
Fast Food	1 %
Total	100 %

* A bar in Italy is a retail establishment that mainly serves coffee, tea, and dairy products.

Section 2. Road Map for Market Entry

According to the 2001 Information Resources study, during the last three years Italians have started to shift towards the growing number of medium to large retail food outlets. In 2001, 461 new medium to large retail outlets opened, for a total of 7000 hypermarkets and supermarkets. The Italian consumer is becoming more price and quality conscious, preferring retail outlets which are able to offer more services, selection and cheaper private labels. Italy however, cannot be compared to the French or U.S. retail sector, but instead offers its own unique retail model.

The north/south fragmentation within the Italian retail sector is very evident. The north of Italy continues to have the largest number of hypermarkets, shopping malls and large supermarkets, which cater to the more prosperous regions of the country. The south lags behind with fewer large retail outlets and an underdeveloped distribution network.

Historically, none of the Italian grocery store chains had national coverage, spanning 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.

Retail Definitions

Source: Italian legislation and the Ministry of Industry and Commerce, 2002

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

Supermarket - is a medium to large establishment engaged in retailing mainly food items within a structure of less than 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.

Mini-Market - 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.

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.

Foreign Retail Distribution In Italy.

Source: AGRA, Food Distribution in Italy, 2002

Foreign Group	Italian Company	Brands	Sales
Carrefour	Carrefour Italia	37 Carrefour hypermarkets 301 GS supermarkets	5.57 billion EURO
Auchan	Gruppo Rinascente Auchan	37 Auchan hypermarkets 657 SMA supermarkets	5.75 billion EURO
Rewe	Standa	75 Billa supermarkets 94 Standa supermarkets 26 Superstores 2 hypermarkets	1.14 billion EURO
Spar Austria	Aspiag	N/A	.8 billion EURO
Lidl	N/A	N/A	.5 billion EURO

The Italian retail sector is relatively underdeveloped and expanding at a slower pace compared to northern European countries. Italians maintain a strong preference for their traditional grocer, with local mom and pop establishments still accounting for an important segment of the retail sector. The Italian consumer is also extremely discerning, contributing to a strong quality-gourmet food sector.

Worthy of mention are the numerous buying groups which play a major role in the Italian retail food sector. Retailers differ from the buying groups in that they own their stores or operations.

The following are the major buying groups in Italy.

- C Insieme CMS was created in 1998 as a merging of three major buying groups - C3, MDO and SISA.
- C Intermedia was founded in 1989 by Garosci, Gruppo Lombardini and Gruppo PAM. In 1994, SUN joined the group, while in 1996 Garosci departed. Dixetal recently joined Intermedia completing the buying groups' mix.
- C Interdis was born from the merge of Vege and Selex in 1998, and in 1999 La centrale joined the group. Interdis includes Maxi Sidis, Sidis, Scudo, Standa, Eurospin, Sosty, and Quali supermarkets.
- C Sirio was initially created in 1998 with the merging of two independent buying groups, Crai and Sigma. In 2001, Crai broke away from Sirio creating their own purchasing group called Secom.
- C Italia Distribuzine (CONAD and COOP)
Italia Distribuzione ranks as the leading retail buyer/importer, with 27% of the market, followed by Intermedia (Auchan, Rinascente, Gruppo PAM, Bennet, Sun and Lombardini) with 17%.

Leading Retail Buyers and Market Share

Source: Information Resources, Largo Consumo, 2002

Retail Buyers	Retailers	Market Share
Italia Distribuzione	Coop Italia, Conad	27%
Intermedia	Auchan, La Rinascente, Gruppo PAM, Sun, Lombardini, Bennet	17%
Carrefour	Carrefour, Gruppo GS, Finiper, Unes, Il Gigante	16%
Esd	Esselunga, Selex, Agora' Network, (Iperal, Sogegross, Seven)	15%
Mecades	Metro, Despar, Aligross, Sisa, Interdis	10.7%
Sirio + Crai	Sirio (Sigma, Pick Up), Secom (Crai)	4.6%
Mdo	N/A	2.8%
Billa-Standa	N/A	2.5%

C3	N/A	2.3%
Total		100%

Led by a series of important foreign retail corporations, the strengthening and consolidation of the Italian retail sector is evident. While key domestic players such as COOP Italia, CONAD, La Rinascente and Gruppo COIN have been busy holding onto their market share through mergers and corporate alliances, foreign retailers like Marbert, Carrefour, Auchan, Promodes and Sephora have been aggressively expanding into the market during the last few years. Smaller retailers, such as Despar Italia, have been less active and may have to create their own alliances to remain competitive.

In 1998 Tengelmann established an alliance with Gruppo PAM, which incorporated Tengelmann's 48 Italian Superal supermarkets into the PAM distribution chain in exchange for 23 discount outlets.

In 1999, CONAD and COOP Italia decided to create a joint venture buying group called Italia Distribuzione. In March 2000 Carrefour bought out Gruppo GS, and CONAD bought the Nuova Distribuzione Southern sales network.

In May 2001, Auchan/Rinascente finalized an eight year franchise agreement with its SMA supermarket food retailer 3A (120 small Superettes, 50 local/traditional stores and 6 large supermarkets). The agreement stated that all of the 3A retail outlets will be renamed SMA, including the 10 new stores that are scheduled to be inaugurated from 2001-2003.

Leading Retailers in Italy - Source: AGRA, 2002

Retailer	Operations	Market Share %	No. Outlets
COOP (IT)	Co-operative	16.8	685
CONAD (IT)	Multiple grocer	10.1	1211
Rinascente/Auchan (IT/FR)	Multiple Grocer	9.06	387
Carrefour (FR)	Multiple Grocer	10.49	435
Esselunga (IT)	Multiple Grocer	7.91	114
Despar (IT)	SPAR Food Group	3.06	356
Gruppo PAM (IT)	Multiple Grocer	3.25	135
Gruppo Lombardini (IT)	Multiple Grocer	1.14	132
Il Gigante	Multiple Grocer	1.08	23
Unes + Finiper	Multiple Discounter	4.08	100
Bennet	Intermedia Group	1.97	35

Sun	Intermedia Group	1.68	130
Selex	Multiple Grocer	6.23	628
Agora	Multiple Grocer	0.98	64
Interdis	Multiple Grocer	4.35	556
Sisa	Multiple Grocer	3.06	488
Sigma	Multiple Grocer	2.60	418
Pick Up	Multiple Discounter	1.03	144
MDO	Multiple Grocer	2.84	495
Billa + Standa	Multiple Grocer	2.75	212
C3	Multiple Discounter	2.29	183

Retail Sector Strengths and Weakness - 2002

Advantages	Challenges
Italians are becoming more aware of foreign cuisines and open to new and novel foods.	Italian consumers are demanding of quality, and prefer food made from fresh ingredients.
Italy's booming tourist industry further stimulates demand for HRI products.	The HRI sector still need to be educated on how to incorporate American food products and ingredients into their menus.
Italy is a member of the Euro zone which eases market entry and participation.	U.S. exporters have to conform to often difficult Italian/European standards and regulations.
Strong interest towards new and innovative products, especially in the health, specialty and ethnic food categories.	Recent food scares have made some Italian consumers wary of the unfamiliar
American products remain quite popular with Italians.	Competition is fierce and many consumers have a preference for traditional Italian products.

Section 3. Competition

With the insurgence 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 are also aggressively promoting their own private label brands. 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.

U.S. Imports of Agricultural, Fish and Forestry from Italy (1997-2001) Source: U.S. Census Data, 2002

Billions \$	1997	1998	1999	2000	2001
Agricultural Products	1.5	1.5	1.6	1.6	1.7
Agricultural, Fish & Forestry	1.6	1.6	1.7	1.7	1.8

Leading U.S. Agricultural Exports to Italy in 2001:

Wheat	\$ 134 million
Soybeans	\$ 95 million
Hardwood Lumber	\$ 83 million
Hides and Skins	\$ 78 million
Tree nuts	\$ 48 million
Fish and Seafood	\$ 46 million
Logs and Chips	\$ 39 million
Planting Seeds	\$ 34 million
Cotton	\$ 22 million

U.S. Exports of Agricultural, Fish and Forestry to Italy (1997-2001) Source: U.S. Census Data, 2002

Billions \$	1997	1998	1999	2000	2001
Agricultural Products	755	684	494	551	567
Agricultural, Fish & Forestry	1,017	923	745	804	780

Leading Italian Agricultural Exports to the United States in 2001:

Wine	\$ 592 million
Vegetable oils (including olive oil)	\$ 330 million
Cheese	\$ 145 million
Wood products	\$ 80 million

Section 4. Best Product Prospects

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

Wild salmon from Alaska
Wines
Dried plums
Tree nuts
Wheat
TexMex and other ethnic foods
Dried beans and lentils

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

Processed fruit juice
Cake mixes
Dressings and sauces/condiments
Beer
Snacks
Lobsters and scallops
Chocolate

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

Beef
Cheese
Poultry

Section 5. Further Contact Information on Leading Buyer Groups:

Insieme CMS

Insieme DMA,
Via Vittor Pisani 14
20124 Milan, Italy
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Intermedia

Via Vincenzo Monti
20016 Pero, Milan
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Sirio

Via Missiglia 97,
20142 Milan, Italy
Telephone: 001 39 02 89309263
Fax: 001 39 02 89514752

Selex

Via Cristoforo Colombo 51,
20090 Trezzano sul Naviglio, Milan
Telephone: 001 39 02 4840 2900
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Further Contact Information on Leading Retailers:

COOP

Via del Lavoro 6-8,
40033 Casa Iecchio di Reno
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www.coop.it

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Via Michelino 59,
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www.conad.it

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Via Caldera Palazzo c,
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www.despar.it

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20096 Pioltello,
Milan
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Calendar of Italian Holidays

Italian holidays must be taken into account when planning a business itinerary. July and August are poor months for conducting business in Italy since most businesses close for summer vacation. The same is true during the Christmas and New Year period. Italian commercial and local city holidays are listed below. Italian and American holidays are observed by the U.S. Embassy in Rome and Consulates in Milan, Florence and Naples. When an Italian holiday falls on a Saturday, offices and stores are closed.

Listed below are fixed public Italian holidays:

January 1	New Years Day
January 6	Epiphany
April 1	Easter Monday
April 25	Anniversary of the Liberation
May 1	Labor Day

August 15	Assumption Day - Ferragosto
November 1	All Saints' Day
December 8	Feast of the Immaculate Conception
December 25	Christmas Day
December 26	St. Stephen's Day

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