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Food Service - Hotel Restaurant Institutional

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Report Highlights:
This report provides an overview of the UK foodservice industry and its various sub-sectors. It describes how the slow economic recovery is impacting the industry and provides contact information for all the main groups within the industry. Healthy food options are the hottest trend in the HRI sector which remains receptive to new American products.

Post:
London

Executive Summary:
SECTION I – MARKET SUMMARY

The hotel, restaurant and institutional (HRI) market is the UK's fourth largest consumer market following food retail, motoring, and clothing and footwear. The HRI market provides prepared meals and refreshments for consumption, primarily outside the home.

State of the market:
The UK foodservice sector is estimated to be worth £43.4 billion ($69.4 bn), with the food element of this total around £10 billion. This has remained fairly static for the past three years. The food service sector is clearly an enormous market and is one that can provide many opportunities for prepared U.S. exporters.
The foodservice market in the UK continues to be affected by economic uncertainty. Even though the UK is technically out of recession, the after effects are still being felt. High unemployment is impacting certain portions of the population and inflationary food prices and frozen salaries continue to limit discretionary spending.
Although eating out is a way of life for many UK consumers, the number of times people eat out and the type of place where they eat are dictated by how much they want to spend.
Takeaways and fast food outlets have continued to do well with consumers opting for these types of meals rather than more expensive restaurants.

Trends:

Here is a snapshot of the major trends currently seen in the UK:

In order to entice consumers into restaurants, many restaurants are offering discounts or voucher promotions which bring the costs of meals down considerably. Many consumers now search the internet for current promotions and then choose where to eat based on the current best deal.

Leisure outlets continue to have increasing success. With the weaker pound and the recession, "staycations" are more common with more people holidaying in the UK and spending more money at local theme parks or cinemas. Also, consumers continue to want healthier lifestyles and, are spending more money on food and drink in health centers.

Airport dining is experiencing high levels of growth. Following increased security at airports, consumers are at airports longer and travelers are not allowed to take beverages through security. Therefore, as a result, consumers are more likely to have a meal at the airport and buy drink products and snacks to take on the plane with them.

Fast food outlets with drive-thru's have also seen an increase in trade. Due to limited land, the majority of these are found outside city centers.

In the last few years the UK has built more large enclosed shopping malls. Consumers are increasingly spending a number of hours there, during which time they are likely to spend money on food and drink.

The most significant trend in recent years is the preference for “healthy eating”. In spite of this, the UK’s obesity rates are now the highest in Western Europe with an estimated twenty four percent of the adult population now technically obese.

In the last few years, there have been many government campaigns focusing on the benefits of healthy eating. As a result consumers increasingly want healthier products, a trend to which the industry sector as a whole has had to respond.

One Government enforcement change was the smoking ban in public places which came into force in July 2007 and has hit the UK pub trade hard. Many pubs have had to offer or increase their food offerings in order to lure people back. Pubs have still seen profits fall and continue to close throughout the country.

As always it is the independent pubs that have felt the biggest impact. These small establishments have not had the capital or resources to spend on advertising or creating new dining areas as the large chain pubs have done. Some of the big operators, such as Mitchells and Butlers Plc, Greene King Plc, and JD Wetherspoon, have continued to generate profits.

What the future holds:

Smaller/Independent operators will continue to feel pressure and many are likely to be driven out of the market. High-end restaurants will also face stiff competition with consumers likely to eat in mid-level restaurants instead.

UK consumers have become accustomed to eating out, especially with the continued increase in single occupant households; however, they are likely to eat out less often but buy more ready-to-eat meals.

Consumer demand for new foods is strong in the UK and is continually driven by high numbers of non-UK citizens making the UK their home.

In the last couple of years, Japanese food has seen a big increase in popularity somewhat due to its healthy image. Food from every continent is available in the UK. International cuisines are extremely popular.

Many UK consumers cook non-British food at home on a regular basis.

Overview of the foodservice market in the UK in 2012

Number of Outlets and Meals			£ Millions at 2011 Prices		
Sector	**Outlets**	**Meals Millions**	**Purchases Food**	**Purchases Food & Drink**	**Sales Food & Drink**
Restaurants	28,606	719	£1,882	£2,625	£10,181
Quick Service	31,811	1,989	£2,423	£3,000	£11,083
Pubs	45,042	820	£1,109	£1,599	£5,185
Hotels	45,401	581	£1,533	£2,040	£8,366
Leisure	19,888	520	£742	£907	£3,733
Staff Catering	18,412	823	£932	£1,129	£2,523
Health Care	32,044	1,008	£683	£740	£916
Education	34,349	1,106	£688	£859	£1,254
Services	3,076	256	£206	£233	£265
Total 2012	**258,630**	**7,823**	**£10,198**	**£13,134**	**£43,406**

Source: Horizons

Advantages & Challenges to U.S. Products in the HRI Sector

Advantages	Challenges
Brand name recognition – there are many American chain restaurants in the UK wanting to source American food products.	Competition from many other ethnic restaurants all popular in the UK, eg., Indian, Chinese, and European.
There are a relatively small number of specialist foodservice importers, capable and interested in importing from the U.S.	With the exchange rate still being comparatively low against the dollar – price competition will be fierce.
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 a natural gateway into the rest of Europe for U.S. exporters.	UK importers do not pay duty on EU origin goods. The importers of U.S. origin products pay 0-25 percent in import duties, depending on the product.
The U.S. is a popular destination for UK tourists and familiarity with U.S. products is widespread.	Need to change image of American food, which is associated with fast food.

Market Structure

The foodservice market is much more complex than the grocery retail market and is generally divided up into two distinct sectors: Profit and Cost.

Profit Sector:

This is the area of the foodservice market in which the potential business gains are the main motivator. Pricing is flexible. In the profit sector, the majority of outlets can be classified as working within the hospitality industry, e.g., restaurants, fast food, pubs, hotels, and leisure venues.

Cost Sector:

Caterers within the cost sector traditionally do not derive substantial margins. Meal provision tends to be out of necessity, rather than as a result of a business opportunity being identified. Provision is governed by contract where pricing is controlled if not fixed, e.g., schools, hospitals, prisons, and specialist care homes.

Profit Sector	**Cost Sector**
Restaurants	Staff Catering
Quick Service Restaurants	Education
Pubs	Health Care
Hotels	Custodial (Prisons)
Leisure	Welfare (Long term care facilities)

SECTION II – ROAD MAP FOR MARKET ENTRY

The following diagram shows the most common routes to market. Although there are many varied routes, the most common way for American products to enter is through an importer, due to their knowledge of the market, well-developed contacts, and distribution systems.

See attached charts for Foodservice importing chart and Food purchased by major routes to market.

Over half of all food and beverage products sold to foodservice operators are through wholesalers. Larger operators will purchase from wholesalers, while smaller outlets are likely to buy from either cash and carries or retail stores.

Due to the large number of companies operating within the food service market, intermediaries skilled in fulfilling small orders efficiently play a pivotal role in the distribution of products.

Aramark, 3663 First for Foodservice, Brakes, Compass Group, Mitchells & Butler, Sodexho and Whitbread are among the largest operators in the UK.

These companies can be categorized in the following:

Operators - Operating a foodservice outlet includes all the functions associated with both 'front' and 'back' of house, including kitchen operations and meal preparation. All of the operating functions can be undertaken by the owner. Foodservice operators include: Compass Group, Sodexho, Whitbread, McDonalds and Burger King.

Delivered Wholesalers - The catering market is predominately supplied in two main ways, either direct from a supplier or an intermediary or from a wholesaler. Currently, over half of all food sold to food service operators is delivered by wholesalers. Smaller operators, such as independent pubs, restaurants and hotels, may purchase from national or regional wholesalers, but given their small size and flexibility, they are more likely to source from regional producers. Examples of these are 3663 First for Foodservice, Brakes, Sodexho and Compass Group.

Distributors - Unlike the wholesalers, contract distributors do not normally take ownership of goods, but instead, offer a delivery service function. Operators choosing to contract a distributor for all parts of their estates include McDonalds, Burger King, Prêt Manger and Compass. 3663 and Brakes provide a contract distribution service, in addition to their delivered wholesaler service.

Sub Sector Profiles

Following are institutions within the HRI sector:

Restaurants

The restaurants referred to in this sector, cover establishments where one would sit down to a meal. Eating in a restaurant is more likely to be a planned event for a specific purpose.

In the past 12 months restaurants have battled hard against the recession by offering discount vouchers or special offers to entice consumers into their establishment.

Ethnic food is very popular in the UK, so restaurants offering food from all over the world are seen throughout the UK.

Key players include: Mitchells and Butler, Gondola Holdings (UK leading casual dining group operating Pizza Express, Ask, Zizzi, plus a number of smaller brands), Whitbread Restaurants and The Restaurant Group (one of the largest independent restaurants and pub restaurant groups owning Chiquito, Frankie and Bennies, Garfunkel's, Home Country, TRG Concessions and Brunning & Price).

Quick-Service Restaurants

Similar to cafes, quick-service restaurants offer a quick meal on the go, but lack the social element of a café. One in four consumers eats in a quick-service restaurant, because their children or grandchildren want to eat there. Fast food chains will continue to develop healthier alternatives to their standard offerings as consumers demand healthier options.

Quick service restaurants have performed well in the last 12 months with many consumers opting for this type of meal rather than a full service restaurant. Also, some of the fast food operators are opting for menu items outside their normal fare. For example, McDonalds has made a success of selling coffee, despite strong competition from the numerous specialist coffee shops.

Key players include: McDonald’s, Burger King, Nandos, Eat, Domino’s, KFC, Pizza Hut, Pret a Manger, Subway and Greggs Plc.

Hotels and Resorts

The majority of hotels trading in the UK are small independent businesses, mostly run by families; however, this is slowly changing as a number of larger chained operators have entered the market. Each hotel is counted as one outlet, even though there might be several foodservice components within it, e.g., a restaurant, bar, room service, and leisure. A decline in public spending and the general public’s price consciousness owing to the credit crunch has seen an increased demand for budget accommodation.

Hotels, especially those in London and the South-east, have done well in the last 12 months, as a result of increased tourism to the UK predominately due to the 2012 Olympics.

Key players include: Hilton, Holiday Inn, Marriott, Intercontinental, and The Savoy Group.

Pubs

Places with good service and a relaxed atmosphere are key expectations when eating in a pub. Low prices and price promotions are also critical and are one of the main differences between restaurants and pubs. Thirty six percent of UK consumers eat in a pub once a month or more. Eating in a pub is primarily a social event with friends. Pubs are seen to offer a convenient option compared to a restaurant or eating at home.

The Campaign for Real Ale (CAMRA) report that 26 pubs close every week, but many report the figures to be much higher with up to 4,000 pubs closing in the next 12 months. Independent pubs that do not sell food are most as risk.

Pub companies and breweries will increase their market share while independently owned pubs are expected to decline in number.

One of the sector’s main concerns is the government’s goal to reduce binge drinking in the UK. Some direct outcomes that may affect pubs are a potential increase in the cost of alcohol and stricter rules that will affect the segment’s growth in the long term.

Key players include: Scottish & Newcastle, JD Wetherspoon, Punch Taverns, Enterprise Inns, Greene King and Admiral Taverns.

Leisure Parks

This category includes everything from visitor attractions, such as museums, zoos, and theme parks. A breakdown would include:

Entertainment	Theatres, cinemas, sports stadiums and gambling establishments
Clubs	Health clubs and fitness centers, sport and social clubs
Caterers	Events caterers, mobile caterers

On Board Travel Airline catering, ferry catering, rail catering, bus and coach catering

While UK public is still visiting these establishments especially with the increased holidays in the UK, consumers are not spending as much money on food. They prefer to take their own snacks to cinemas rather than buying food there. Bingo halls and Bowling Alleys have seen an increase in food sales as consumers tend to make a night of it and buy food as part of the evening. Health Clubs are one area where consumers are spending more money on food and drink as the importance of health is growing.

Key players include: Odeon Cinemas, Living Well Fitness, David Lloyd, Gala and Mecca.

Specialist Coffee Shops
The UK branded coffee shop market has shown huge growth in recent years. There are currently 15,000 coffee outlets in the UK with chain coffee shops opening at a rate of 10 per week. The growth has defied the economic downturn. Costa Coffee, the number one specialist coffee chain with 1,500 outlets, plans to open an additional 150 stores by early 2014.

The coffee shop sector consists of outlets that serve hot and cold beverages, but no alcohol. They also serve snack foods, such as cakes, sandwiches, soups and salads, although serving food is not their main line of business. Thirty eight percent of consumers eat in a coffee shop once a month or more. Coffee shops are seen to offer quick meals for time pressured consumers and are also a good place to meet friends. Coffee shops are associated more with daytime dining. Forty eight percent of consumers choose coffee shops as a place to eat while out shopping. Forty three percent of consumers will drink specialty coffees such as lattés or cappuccinos when visiting coffee shops, compared to 1 percent of consumers who drink specialty coffees in the home.

Key players include: Starbucks, Costa, Eat, Pret A Manager, Caffé Nero, and Millies.

Staff Catering
These include trolley services, as well as areas where full meals are sold, e.g., self-run canteens, contracted canteens, national government canteens, off-shore catering.

Education
This includes all food and drinks served in schools of all levels from nurseries to universities. In recent years, guidelines have been changed so that meals served are more healthy and nutritious. The leading contract school caterers are Compass's Scolarest Division, Initial Catering Services, and Sodexho.

Health Care
Meals counted in the health care sector include those served to patients, staff and visitors and include: hospitals, nursing homes and care homes. As with the educational sector, nutritional needs are under scrutiny in this area.

Custodial
This includes police stations, fire stations, the armed forces, and prisons. The vast majority of the

catering for the armed forces is managed by the Ministry of Defense but it hires the defense divisions of Sodexho, Compass Group and Aramark to run the operations.

Welfare

This are includes meals on wheels, luncheon clubs and day care centers. Meals on wheels is the delivery of food at lunchtime to pensioners. With the aging population and more pensioners living on their own, there has been considerable growth in this area.

The following table shows the number of specific types of restaurants in the UK – figures from 2012.

Type of Restaurant	Number of Outlets	Number of Chained Restaurant Groups	Number of Independent Restaurants
British/Cosmopolitan	3,288	526	2,762
Italian / Spanish	1,409	323	1,086
French	848	270	578
Sub Total European	**5,546**	**1,120**	**4,426**
Chinese / Oriental	5,344	235	5,109
Indian / Pakistani	4,637	204	4,433
Mediterranean	836	64	773
Sub Total Ethnic	**10,817**	**503**	**10,315**
In-Store	2,528	2,317	211
Specialist Roadside Restaurants	402	400	1
Pub Restaurants	5,115	4,542	573
Pizza / Pasta	2,714	1,183	1,531
Mexican / Tex-Mex / Caribbean	476	187	289
Themed	808	375	433
Specialist Menu / Other	201	65	135
Sub Total Concept	**12,244**	**9,069**	**3,175**
TOTAL Restaurants	**28,606**	**10,691**	**17,915**

Source: Horizons.

SECTION III – COMPANY PROFILES

The following companies are some of the biggest players in the UK foodservice industry:

Aramark

	Aramark Ltd.

	250 Fowler Avenue IQ Business Park, Farnborough Hampshire, GU14 7JP Tel: +44 (0) 1252 529 000 Fax: +44 (0) 113 393 7200 Website: www.aramark.co.uk

Aramark is a leader in professional services providing award winning food services and facilities management. They work with healthcare institutions, universities and schools, stadiums and arenas and businesses around the world. No. of sites: 1200.

Brakes

	Brakes Enterprise House, Eureka Business Park Ashford, Kent, TN25 4AG Tel: +44 (0) 1233 206 000 E-Mail: customer.services@brake.co.uk Website: www.brake.co.uk

Brakes is a market leader of delivered wholesale in the UK supplying frozen, chilled and grocery products to sectors across the foodservice industry.

Compass Group

	Compass Group plc Compass House, Guildford Street Chertsey, KT16 9BQ Tel: +44 (0) 1932 573 000 Website: www.compass-group.co.uk

The Compass Group is a leading foodservice company. They have over 400,000 employees and specialize in providing food, vending and related services to clients in over 90 countries. They have six main sectors in which they work: Business & Industry, Fine Dining, Defense, Offshore and Remote Sites, Education, Healthcare and Seniors, and Vending. No. of sites: 7000.

Clients include: Café Ritazza, Upper Crust and Harry Ramsdens

3663 First For Foodservice

	3663 First for Foodservice Buckingham Court, Kingsmead Business Park London Road, High Wycombe, Bucks, HP11 1JU Tel: +44 (0) 370 3663 100

	Website: www.3663.co.uk

3663 First for Foodservice is the UK's leading foodservice company with sales of over £1 billion a year. They deliver quality ingredients, finished products and equipment to the catering industry including restaurants, pubs, cafes and clubs across the UK, schools, hospitals and Government departments. They have a fleet of 1,100 vehicles and deliver to over 50,000 customers.

Clients include: Compass Plc, Prêt A Manager and Burger King.

Mitchells & Butlers

	Mitchells & Butlers plc 27 Fleet Street Birmingham, B3 1JP Tel: +44 (0)121 498 4000 Fax: +44 (0)121 233 2246 Website: www.mbplc.com

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants in the UK. They have around 2,000 businesses offering food, drink, entertainment and accommodation in prime locations across the country.

Clients include: Alex Gastro, All Bar One, Brown's Restaurants, Express by Holiday Inn, Flares Bars, Harvester Restaurants, Hollywood Bowl, Inn Keepers Lodge, Nicholson Pubs, O' Neills Pubs, Sizzling Pub Co and Toby's Carvery.

Sodexho

	Sodexho UK Ltd One Southampton Row London, WC1B 5HA Tel:+ 44 (0) 20 7404 0110 Website: www.sodexho.co.uk

Sodexho has a good reputation with clients. They have 48,000 employees in the UK and Ireland and have more than 2,300 client locations across all market sectors, including the business and industry, education, healthcare, defense, and leisure sectors.

Whitbread PLC

	Whitbread Group plc Whitbread Court Houghton Hall Business Park Porz Avenue, Dunstable, LU5 5XE Tel: +44 (0) 1582 424200

	Website: www.whitbread.co.uk

Whitbread Plc is one of the UK's leading hospitality companies, managing top brands in hotels, restaurants and health and fitness clubs. They employ 45,000 people and have over 1,400 outlets across the UK.

Clients include: Premier Travel Inn, Brewers Fayre, Beefeater, Costa Coffee and David Lloyd Leisure.

Top 15 Foodservice Operators in the UK in 2013.

Rank	Operator	Selected Brands	Main Sector
1	McDonald's	McDonald's	Quick Service Restaurants (QSR)
2	Compass Group	Upper Crust, Café Ritazza, Harry Ramsden's, Moto	Contract Catering
3	Mitchells & Butlers	All Bar One, Toby Carvery.	Pubs
4	Sodexho	Sodexho	Contract Catering
5	Whitbread	Beefeater, Brewer's Fayre, Costa Coffee, TGI Fridays'.	Restaurants
6	Yum	Pizza Hut, KFC	QSR
7	Greggs	Greggs, Baker's Oven	QSR
8	SSP		QSR in travel hubs
9	Starbucks	Starbucks	QSR
10	Gondola	Pizza Express, Ask, Zizzi	Restaurants
11	JD Wetherspoon	JD Wetherspoon	Pubs
12	Domino's	Domino's	QSR
13	Restaurant Group	Frankie & Benny's, Chiquitos, Garfunkel's.	Restaurants
14	Subway	Subway	QSR
15	Greene King		Pubs

(Source: Horizons)

Leading Chained Consumer Foodservice Brands by Number of Outlets 2012

Rank	Operator	Main Sector	No. of Outlets
1	Enterprise Inns	Pubs	5,900
2	Punch Taverns	Pubs	4,445
3	Marstons	Pubs	2,100
4	Greggs	QSR	1,671
5	Costa Coffee	Restaurants	1,527

6	Subway	QSR	1,482
7	Scottish & Newcastle	Pubs	1,400
8	McDonald's	QSR	1,216
9	Admiral Taverns	Pubs	1,100
10	JD Wetherspoon	Pubs	845
11	Starbucks	QSR	760
12	KFC	QSR	752
13	Domino's	QSR	725
14	Tesco	Retail	690
15	Pizza Hut	Restaurants	630

(Source: Euromonitor)

SECTION IV – BEST PRODUCT PROSPECTS

US products that do well in the UK foodservice industry are snack foods, fresh and dried fruit, nuts, salmon and seafood, cooking sauces, salad dressings, confectionery, dips and salsas, frozen foods, wine and beer.

The UK government is increasingly promoting healthy eating and healthy lifestyles. There are opportunities for U.S. products that are natural, wholesome and healthy.

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

Product Category	Total UK Imports 2012 ($ million)	UK Imports From U.S. 2012 ($ million)	Average Annual U.S. Import Growth (last 5 yrs)	U.S. Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Fish and Seafood HS: 03	2,502	61.7	-24%	0-22%	Highly fragmented market, domestic shortfall.	U.S. #1 canned salmon supplier, developing interest in other products and species
Chocolate confectionery HS: 1806	1,742.0	22.6	+36%	8-27%	Domestic & EU competition, low acceptance	British eat more chocolate than any other nationality.

					of American chocolate taste	
Vegetables & Fruit prepared in Vinegar HS:2001	136.9	0.3	-5.7%	0-16%	Competition from Turkey, Netherlands and India	Food has long shelf life
Preserved fruit & nuts HS: 2008	587.2	26.5	+50%	7-27%	Competition from EU, Thailand & South Africa	U.S. nut butters perceived as high quality, exotic preserved fruits of interest for gift/specialty trade
Fruit & Vegetable Juice HS: 2009	1,120	9.0	-23%	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	837.9	24.9	+0.7%	0-10%	Australia starting to enter the market	U.S. #4 supplier, UK wants authentic tex-mex, BBQ sauces, marinades & salad dressings
Soft drinks HS: 2202	975.1	8.2	-4.2%	0-10%	Domestic & EU competition, strong brands, market reaching saturation	New U.S. concepts in beverages always attractive, e.g. functional drinks
Beer HS: 2203	686.3	5.9	-41%	0%	Domestic & EU competition, major brewers located in EU	U.S. micro-brew beers, generally unique beers with a story. They are attractive to a niche audience
Wine HS: 2204	5,062.1	224.4	-7.2%	18-25%	Competition from EU, Australia, Latin America & S. Africa. Figure shows a minus due to	UK #1 export market for U.S. wine, California wine has 16% market share, other parts of U.S. should

					wine being shipped to Italy and then the UK.	benefit in future

SECTION V – POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report 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, W1K 6AH
Tel: +44 20 7894 0040
E-Mail: aglondon@fas.usda.gov
Website: www.fas.usda.gov

Further information on UK foodservice is available from:

Horizons
Winston House
2 Dollis Park
London, N3 1HF
Tel: +44 844 800 0456
E-Mail: info@hrzns.com
Website: www.hrzns.com

Leading consultancy who specialize in the foodservice industry.

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

UK trade association for information about the food and grocery chains.