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RETAIL FOOD SECTOR

2009

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Report Highlights:

In the UK the retail grocery industry is concentrated with seventy-five percent market share in the hands of just four supermarket chains. The remainder is scattered over hundreds of outlets.

This report overviews the characteristics of UK retail outlets and how best to place U.S. products in the UK market.

Post:

London

Author Defined:

SECTION I. MARKET SUMMARY

Overview

Over the last 12 months, the UK food and drink industry has faced challenging trading conditions as shoppers, manufacturers and retailers have been impacted by a range of factors. Increased pressure on household budgets, unemployment, the banking crisis, and the availability of credit continues to impact consumer spending. Despite these challenges, the UK food and grocery market remains robust. While not recession proof, food and grocery is more resilient to the current downturn in the economic market than other sectors.

The UK grocery market was worth £141.7 billion (\$226.7 billion) in 2008, this is an increase of 5.1 percent over 2007. Groceries account for 12.8 percent of total household spending in the UK, making it the third largest area of expenditure, following housing and transport. Food and grocery expenditures account for 49p in every £1.00 of retail spending (excluding restaurants). 20p in every £1.00 spent on food and grocery is spent in convenience stores.

There are 97,442 grocery stores in the UK. These are split into 4 sectors.

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: These stores have sales areas of less than 3,000 square feet, are open for long hours, and sell products from at least 8 different grocery categories.

Traditional Retail and Developing Convenience Stores: These stores have sales areas of less than 3,000 square feet, and include news stands, green-grocers, liquor stores and gas stations.

Alternative Channels: This category includes a wide range of outlets such as internet or catalogue home shopping, farmers' markets, and other produce markets and vending machines.

Economic indications continue to point towards weakening consumer confidence, as household budgets come under pressure from increases in energy, transport and housing cost. However, the food and grocery market is relatively resilient and growth opportunities remain both at the value and premium ends of the sector. The Institute of Grocery Distribution (IGD) estimates that the UK retail grocery market will grow at an average annual rate of 2.9 percent over the next five years.

It is expected to be worth £145 billion (\$232 billion) by 2010, at current prices.

Advantages & Challenges to U.S. Products in the UK Retail Sector

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

U.S. products face fierce competition in the British market. Not only is UK food production advanced, but EU countries benefit from duty free access. However, there are opportunities for U.S. products in this competitive and challenging retail environment. The United States 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 U.S. products.

Advantages	Challenges
Market dominated by a few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. products can 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 are a large number of specialty importers, capable and interested in importing from the United States.	The UK has well-established brands for mainstream products. Brand-building and marketing costs are substantial.
The United States 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 U.S. exporters.	EU competitors do not pay import duty on goods to the UK. The United States generally pays 0-25 percent import duty, depending on the product.
The United States is a popular destination for UK tourists and familiarity with U.S. products is widespread.	Popularity of specialty products from many EU countries and U.S. 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 U.S. retail market trends.	Consumer tastes differ in the UK. In general, there is not the same affinity for popcorn, peanut butter, and U.S. style chocolate.
Strong interest in innovative products including 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/scripts/AttacheRep/default.asp>.

Four large supermarket chains dominate UK food retailing, and together they account for 75 percent of the market. Tesco is the market leader, by a sizeable margin. Tesco has 30.9 percent market share, followed by Asda/Wal-Mart (17.2 percent), Sainsbury's (15.7 percent) and Morrison's (11.5 percent). In the last year, the Cooperative purchased Somerfield. Therefore this group now has 8.1 percent of the market (Cooperative at 5.4 percent and Somerfield at 2.7 percent). Other UK supermarket chains include Waitrose, Iceland, Aldi, Budgens, Netto and Lidl.

Discounters

Discount retailing is the new boom in UK grocery sector. Aldi and Lidl are leading the pack in the UK. Both are German owned and both entered the UK market in the 1990's.

The main features of discount supermarket shopping are every day low cost; limited product ranges and a focus on price. Stores are also smaller and relatively uniform in size and layout. Stores range from 800sq m. (8,600 sq ft) to 1,500 sq.m. (16,000 sq ft.). They carry predominately private label products; however, these are exclusive labels rather than store name.

The discounters now account for 5.4% share in grocery spending. This is higher than ever before. They are also the fastest growing sector of the market. While the discounters share in the UK has reached a new record, this is still low in comparison with the continent where discounters accounting for 11% of the market in France and 38% in Germany.

In September 2008, Tesco unveiled its own discounter range with 350 discounter-style, branded products. The range now has 700 lines. Tesco announced that these products would provide better quality than its value range of basics and prices cheaper than the best know brands. Tesco's aim is to become the UK's biggest discounter.

Market Shares of the UK's Supermarket Chains

Retailer	Share %
Tesco	30.9
Asda/Wal-Mart	17.2
Sainsbury's	15.7
Morrisons	11.5
The Cooperative made up of:	8.1

Cooperative Somerfield	5.4 2.7
Waitrose	4.0
Aldi	3.0
Lidl	2.4
Iceland	1.7
Netto	0.8

Source: TNS Data, market share summary, 12 weeks to October 4, 2009

In general, each retail chain focuses on specific market segments. For example, Tesco targets the middle market, providing both economy and up-scale products. Sainsbury's is pitched slightly up-market of Tesco, with Asda/Wal-Mart slightly down-market of Tesco. Morrison's and The Cooperative compete at much the same level as Asda/Wal-Mart. 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.

Base: 1,485 all adults aged 15+

	Asda %	Morrison's %	Sainsbury's %	Tesco %
All	21	12	19	28
Men	21	12	17	28
Women	21	12	21	28
15-19	17	12	17	25
20-24	27	9	16	27
25-34	26	8	18	34
35-44	27	11	19	27
45-54	21	16	19	26
55-64	17	13	19	31
65+	13	15	22	27
AB	18	8	27	30
C1	15	13	20	32
C2	22	15	15	26
D	32	13	11	25
E	23	12	14	22

Source: Mintel, August 2007.

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, Marks and Spencer with BP Connect, Tesco with Esso, and Sainsbury's with Shell.

The UK has one of the most advanced private label markets in the world (valued at 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 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 seen 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 recently experiencing difficult trading conditions in their clothing departments, their food halls have continued to grow. 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.

In June 2007, the U.S. chain Whole Foods opened its flagship store in London's High Street Kensington. Whole Foods has 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 its continued dedication to stocking U.S. products. Partridges is essentially a large delicatessen celebrating both British and international foods.

Internet or Online Shopping

The internet and online grocery market in the UK is dominated by four of the UK's major supermarket chains – Tesco, Sainsbury's, Asda and Waitrose, which is partnered with Ocado. Outside of these suppliers, the market is mainly populated by a wide range of niche, specialized retailers, many of which offer products that are not always available in major supermarkets. Apart from the leading online suppliers, no other supermarket chains in the UK operate in the online grocery market. This is because the costs and complexity of establishing an online service appear to be too much of a risk.

IGD, the grocery market research organization, predicts that sales of groceries online will reach £5 billion within the next five years. Although this number seems high, it is only 2 percent of total groceries sold in the UK. This is likely to rise to 3 percent by 2012. On-line shopping for food remains a niche market, but there is considerable potential for growth. It is most popular with the younger generation, families, and more affluent consumers. There is very low uptake among the over 45s. This is probably due to the acceptance and use of technology, along with a preference for well established routines. The majority of consumers (55%) are reluctant to even try shopping for food online.

The highest number of users of internet shopping are in Scotland, followed by East Anglia and the Midlands. These are all more rural areas.

Tesco is by far the largest online grocer in the UK, selling £1.23 billion groceries online. This is 3 ½ times more sales than it was achieving five years ago.

Half of British adults now have internet access from home. This is up from only 7 percent in 2002. Internet connections have also become faster and retailers have made their sites easier to use and have improved delivery services.

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/scripts/AttacheRep/default.asp>.

The UK's convenience store market is highly fragmented, with a large number of retail operators. 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 Cooperative Group (1,703 stores), followed by Mid Counties (152 stores) and Southern Cooperative (95 stores).

Gas Stations

The largest players in the UK gas station market are Shell (585 stores), Total (509 stores), Esso (355 stores), and BP (351 stores). The UK supermarket chains are also key players in this market too. Tesco has 440 gas station stores, Asda/Wal-Mart has 173, and Sainsbury's has 247. In total, there are 3,342 gas stations operating in the UK. Collaborative agreements between supermarket chains and gasoline retailers have resulted in joint sites, for example, Tesco Express stores operate at Esso gas stations and Sainsbury's Local stores operate at Shell gas stations.

Convenience Outlets at Supermarkets

Tesco also dominates the convenience multiple sector with 1,445 Tesco Express and Metro type stores. Sainsbury's, has followed Tesco into the convenience multiple market with their Local stores. In fact, supermarket chains now own 50 percent of the UK's convenience multiples. Other key players are Martin McColl, the Simply Food format of Marks & Spencer, Whistlestop (SSP), and Mills.

Symbol Groups and Franchises

In order to protect against the advance of the supermarket chains in the convenience sector, the number of convenience stores affiliated with a symbol group is growing rapidly. 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 (2,557 stores), Premier/Booker (2,250 stores), Musgrove (2,037 stores), Bestway (1,900 stores), Costcutter (1,600 stores), Landmark (1,760 stores), and Nisa Today's (1,255 stores).

Non-Affiliated Independent

There are 21,950 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 with a symbol operation.

Traditional Retail and Developing Convenience Stores

This retail sector encompasses small chains of specialist Confectionery, Tobacco and Newsagents (CTNs), specialist grocers, package liquor stores (off-licenses), and food specialists. There are

also a large number of independent specialists, with just one or a very small number of stores. Below are the key players in each category, and their number of UK stores.

MULTIPLES (10+ STORES)				INDEPENDENT
Specialist CTNs	Specialist Grocers	Package Liquor Stores	Food Specialists	Specialists (1 or more stores)
Martins, McCool (795)	Farmfoods (304)	First Quench Retailing (1,190)	Greggs Bakers (1,409)	CTNs (2,541)
Northcliffe (200)	Heron Frozen Foods (140)	Bargain Booze (488)	Thorntons Chocolate (629)	Grocers (2,574)
Rippleglen - Supercigs/ Supernews (163)	Jack Fulton/Frozen Value (84)	Wine Celler (172)	Holland & Barrett Health Food (937)	Off-Licences (1,670)
News Express (70)	Cooltrader/ Baugur (45)	Majestic Wine Warehouses (147)	Lyndale Foods (158)	Forecourts/ Gas Marts (642)
GT News (63)	Cook (32)	Oddbins (132)	Whittard (84)	Food Specialists: Greengrocers (7,547) Butchers (6,756) Fishmongers (1,012) Bakers (3,218) Farm shops (3,072) Others (771)

Source: The Grocer, May 2009

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

Other Retailers/Alternative Channels

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

Examples of these retail sales avenues are:

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.newcoventgardenmarket.com; and

Automatic Vending Association www.ava-vending.co.uk.

SECTION III. ROAD MAP FOR MARKET ENTRY

Importers are key to doing business in the UK. Food importing is a specialized business, and an importer plays a pivotal role in navigating the hurdles of UK/EU food law. 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 critical.

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 U.S. company and the foreign importer are normally established by contract.

Some of the largest importers 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 importers 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; and mark-up by supermarket retailer (35-70 percent).

Large U.S. 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 U.S. 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.

In choosing a UK importer, it is essential to take in to account the retail outlets that they currently supply. A U.S. exporter needs to understand 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.

Market entry to the UK/EU requires substantial homework on the part of the U.S. exporting company to ensure that all import regulations and labeling laws are met.

These are covered in the Food and Agricultural Importer Regulations (FAIRS) Report, available by searching under the subject heading at: <http://gain.fas.usda.gov/Pages/Default.aspx>.

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 snack 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 U.S. 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 U.S. consumer-orientated food. EU food exporters have relatively low transportation costs and fast delivery times. Their products do not face import duties, nor do they 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 United States is the largest non-EU supplier to the UK, with 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 suppliers.

SECTION V. BEST PRODUCT PROSPECTS

U.S. 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 U.S. products that can be marketed as natural, wholesome, and healthy. Within this category, organic products are also good prospects provided they comply with EU/UK organic

regulations.

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

Best High Value Product Prospects for the UK Market

Product Category	Total UK Imports 2008 (\$ million)	UK Imports From U.S. 2008 (\$ 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	2,632	81.9	18%	0-22%	Highly fragmented market, domestic shortfall.	U.S. #1 canned salmon supplier, developing interest in other products and species
Chocolate confectionery HS: 1806	1,467.6	16.6	16.6%	8-27%	Domestic & EU competition, low acceptance of American chocolate taste	British eat more chocolate than any other nationality.
Vegetables & Fruit prepared in Vinegar HS:2001	103.2	0.4	57.7%	0-16%	Competition from Turkey, Netherlands and India	Food has long shelf life
Preserved fruit & nuts HS: 2008	519.5	17.7	17.7%	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	1,227.2	11.9	23.3%	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	884.3	24.8	9.8%	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	969.0	14.4	17.8%	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	793.5	10.2	72.8%	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	5,308.9	241.98	-1.4%	18-25%	Competition from EU, Australia, Latin America &	UK #1 export market for U.S. wine, California wine has

					S. Africa. Figure shows a minus due to wine being shipped to Italy and then the UK.	16% market share, other parts of U.S. should benefit in future
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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.

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Further information on the UK retail grocery sector is available from the British Retail Consortium or the Institute of Grocery Distribution.

British Retail Consortium(BRC)

21 Dartmouth Street

London, SW1H 9BP

Tel: +44 20 7854 8900

Website: www.brc.org.uk

The British Retail Consortium is the lead trade association representing the whole range of retailers from large multiples and department stores through to independents.

Institute of Grocery Distribution (IGD)

Grange Lane, Letchmore Heath

Watford, Hertfordshire WD2 8DQ

Tel: +44 1923 857141

Website: www.igd.com

The IGD is the UK Trade association for information about the food and grocery chain.

One service offered is the Retail Analysis - www.igd.com/analysis. This covers more than 130 retailers in 50+ countries. Retail Analysis provides an understanding of retailer strategies as well as the latest news in this sector.

NOTE: This report uses the following exchange rate:

1.6 U.S. Dollar = 1 British Pound