

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary Public

Date: 12/28/2012

GAIN Report Number: IT1246

Italy

Post: Rome

Italian Food Retail and Distribution Sector Report

Report Categories:

Retail Foods

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Report Highlights:

In Italy, the grocery retail sector is extremely fragmented and resistant to change. Consolidation remains low and traditional grocery stores remain the majority of the outlets, followed by open-air markets. Nonetheless, consolidation is slowly gaining momentum, as a few Italian and foreign operators are starting to expand their network of stores, particularly in the south of the country. This report overviews the characteristics of the grocery retail sector and how best to place U.S. products in the Italian market.

General Information:

Section 1. The Italian Retail Market Overview

Unlike other European nations, the Italian retail sector has been resistant to change, as consolidation remains low and traditional grocery stores (so-called Mom and Pop stores) continue to represent the largest segment of the food retail sector, followed by open-air markets. Nonetheless, consolidation is slowly gaining momentum, as a few Italian and foreign operators are starting to expand their network of stores, particularly in the south of the country. Italy has a diversified industrial economy, divided into a developed industrial north, dominated by private companies, and a less-developed agricultural south, afflicted with high unemployment. This division is reflected in the distribution of retail outlets, with the majority of the supermarkets located in the north (53%), followed by south (27%) and then by the center region of Italy (20%). While small neighborhood shops and specialty stores are still the norm, Italian consumers are discovering the convenience of large supermarket and hypermarket outlets. Italians still place great value on the quality and freshness of products (rather than frozen), which is reflected in the practice of daily shopping, rather than weekly bulk shopping. Larger supermarket and hypermarket stores are slowly introducing Private label brands; however, unlike other European countries, consumer acceptance in Italy is still relatively low.

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. In addition, contrary to trends across Europe, the majority of Italians still live in small cities and towns. Planning laws in Italy tend to favor smaller stores, and no planning permission is needed for outlets with a sales area of less than 250m² in towns of more than 10,000 people. Local communities are often strongly opposed to the development of large stores such as hypermarkets and the system requires permission from local and regional authorities, making it difficult to establish larger stores. At the same time, continuing societal trends toward smaller families, later marriages, and an increasing number of women in the workforce are resulting in food retail outlets offering ready-made, ready-to-serve products and a wider range of products.

There are six major players in the Italian retail sector: Coop Italia, Conad, Interdis, Carrefour, Auchan, and SPAR. Four of the leading players - Coop Italia, Interdis, SPAR, and Conad - exist as consortiums of smaller operators and owe some of their success to their detailed knowledge of local requirements and shoppers' preferences. Other major retailers are Esselunga, Gruppo Pam, French retailers Carrefour, Auchan, and Leclerc, as well as German retailer Rewe and discount chain Lidl. Thanks to ventures with local operators, foreign retailers like Leclerc, Carrefour, and Auchan have been able to build up a nationwide network.

One particular characteristic of the Italian retail sector is the large number of Buyer Groups, which emerged from the mid-1990s onwards with the aim of sourcing products more cheaply through greater purchasing power. In Italy, all major mass grocery retailers are members of a buying group, with the major ones being Intermedia (whose members include Rinascente, Gruppo Pam, and Conad), Mecades (Interdis, Sisa, and SPAR), Coop Italia (Coop and Sigma), Esd Italia (Esselunga, Selex, and Agorà), and Carrefour Italia (with Carrefour, Finiper and Il Gigante). The presence of these buying

groups has for many years presented a market entry barrier for foreign retailers, which have had to create joint ventures with local operators in order to have access to the market. Although the Italian sector remains fragmented, consolidation has been increasing over recent years. This process has been spearheaded mainly by foreign multinationals, which continue to enter into partnerships with local players in order to make use of their local expertise and to expand without breaching strict retailing regulations.

The future of the discount store format remains uncertain, as Italian consumers have not seemed to appreciate the merits of a no-frills store, with basic packaging and often limited selection. Perhaps by improving their branded product range and providing a few more whistles and bells, these types of store might attract a larger customer base. Discount retailers will need to move away from a cheap, low-quality image by improving the private label products on offer, increasing the number of manufacturer-branded rather than retail-branded products, and improving the shopping experience through a friendlier store environment. The economic downturn has had a major impact on Italian shopping habits prompting consumers to visit discount stores and purchase private label products more than they did before.

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.

Table: Key Players In Italy's Mass Grocery Retail Sector - 2011
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Company	Origin of Company	Sales (€ millions)	Fascia	Format	No. of Outlets
Coop Italia	Italy	13,100			1,394
				Supermarkets	740
			Estense	Hypermarkets	537
				Discount stores	63
				Other	54
Conad (Coop)	Italy	10,200			2,946
			E. Leclerc-Conad	Hypermarkets	31
			Conad	Supermarkets	1,415
			Margherita	Convenience stores	1,380
Auchan	France	7200			1,490
			Auchan	Hypermarkets	45
			Sma, Citiper	Supermarkets	1,445
Interdis	Italy	5,492			2,667
				Hypermarkets	15
				Supermarkets	820
				Convenience stores	1,580
				Discount stores	290
				Specialty stores	151
				Cash & Carry	53
Carrefour	France	6,067			1,599
			Carrefour	Hypermarkets	69
			GS	Supermarkets	475
			DiperDi	Convenience stores	1,030
			Grosslper	Cash & Carry	25
Esselunga	Italy	6,540	Esselunga	Supermarkets	134
Spar	Netherlands	3,855			1,549
			Interspar	Hypermarkets	
			Spar	Supermarkets	
				Convenience stores	
Gruppo Pam	Italy	2,559			595
			Panorama	Hypermarkets	

			Pam	Supermarkets	
			Superal	Supermarkets	
			Meta	Supermarkets	
			In's Mercato	Discount stores	
Rewe Group	Austria/Germany	2,850			556
			Billa	Supermarkets	66
			Standa	Supermarkets	245
			Penny Market	Discount stores	245
Lidl	Germany	1,300		Discount stores	320

Source: Institute of Grocery Distribution, Investor relations, BMI

Road Map for Market Entry

The best way to begin exporting to Italy is to either identify a key Buyer Group or an importer, as both know how to best navigate the import and distribution process and are able to engage directly with Italian food retailers. They are key to doing business in Italy. Food importing is a specialized business, and an importer plays a pivotal role in navigating the hurdles of Italian and EU food law. Importers normally carry a whole range of products. The terms and length of association between the U.S. Company and the Italian company are normally established by contract.

- Survey existing and potential opportunities by reviewing FAS policy and market GAIN reports and consider engaging a market research firm to assist in analyzing market opportunities and challenges.
- Establish a relationship with an Italian importer/distributor that provides services to the food-processing sector.
- Be prepared to start small by shipping a few pallets or cases of a product and recognize that it could take several months or years before an importer is ready to order full containers. Italians place a lot of importance on first building the trust to consolidate the business relationship.
- Be willing to meet special EU labeling requirements and consider working through a consolidator or participating in mixed containers.

Participation in some of the larger European international food trade shows (ANUGA and SIAL) offers a good opportunity to get a sense of the Italian market and provides the opportunity to meet potential Italian importers or distributors.

Market entry to the Italian retail sector requires patience, and substantial homework on the part of the U.S. exporting company to ensure that all import regulations and labeling laws are met. These issues are covered in the FAS Rome - Food and Agricultural Importer Regulations (FAIRS) Report, available at <http://gain.fas.usda.gov/Pages/Default.aspx>.

Key Industry Trends and Developments

In July 2012, Italian retailer Conad reported a 4% increase in revenues for 2011, with €10.2 billion in sales. Conad has announced their expansion plan throughout Italy with 260 new outlets.

In June 2012, French retailer group Auchan signed a deal with Italy-based retailer Fratelli Morgheseto for the addition of 20 new outlets to Auchan's existing network in Italy. The stores will operate under the "Simply Market" banner, of which there are currently 1,800 outlets throughout Italy.

The Italian retail sector remains one of the most fragmented in the EU, as many of the leading brands exist as networks of smaller companies, including the two largest chains in Italy, Conad, and Coop Italia. With a market share of 13.7%, Coop Italia is the country's largest retailer, followed by Auchan (7.6%), Esselunga (6.9%), Carrefour (6.8%), Interdis (5.8%), and Rewe (3%).

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 prefer traditional Italian products.
Italy is a member of the Euro zone, which eases market entry.	Italian retail sector is extremely fragmented, and the mandatory customs duties, sanitary inspections, and labeling requirements can be onerous.
Interest in new and innovative products, especially with a health twist.	Competition from similar food products produced in other EU countries that enter tariff free.

U.S. Ag Exports to Italy \$1.1B

Tree Nuts: \$177 million

Wheat: \$159 million

Hardwood Lumber: \$76 million

U.S. Ag Imports from Italy \$3.5B

Wine: \$1,494 million

Olive Oil: \$526 million

Cheese: \$312 million

- Italy is a major food processor and a net agricultural importer.
- U.S. exports mostly Bulk Commodities to Italy.
- Italy exports mainly Consumer Products to the U.S.

Exchange Rate: EURO per U.S. Dollar

\$1 = 0.7194 (2011)

Source: European Central Bank

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
 Tex Mex and other ethnic foods

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

Dressings and sauces/condiments
 Beer
 Snacks
 Scallops
 Chocolate
 Specialty/Microbrew Beer

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

Beef
 Cheese
 Poultry
 Processed food products containing biotech ingredients

Key Trade & Demographic Information - Italy 2011

Agricultural, Fish/Forestry Imports from the U.S. \$1.945 billion (est.)	Consumer Food Imports from the U.S. \$347 million
Fish and Seafood Imports from the U.S. \$43 million	Unemployment Rate: 8.4 percent
Italian Population 61,016,804 Foreign Population 4 million	Total Rural Population: 20 Million Total Urban Population: 40 Million
Major City Centers and Population: Rome 3.357 million; Milan 2.962 million; Naples 2.27 million; Turin 1.662 million; Palermo 872,000	Per Capita Income: \$30,900
Gross Domestic Product: \$2.25 trillion	Labor Force 25.08 million
Exchange Rate: EURO per U.S. Dollar Average 2011: €0.710 = \$1.00	

Section 4. Contact Information

USDA FAS Contacts in Rome, Italy

U.S. travelers to Italy seeking appointments with U.S. Foreign Agriculture Service officials at Embassy Rome should contact the office at:

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