

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

In the UK the retail grocery industry is concentrated with 79 percent market share in the hands of just five 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

Executive Summary:**SECTION I. MARKET SUMMARY****Overview**

The UK grocery sector is one of the most diverse and sophisticated in the world. The five leading supermarket chains compete fiercely for customers and note there is the ever growing popularity of the discount chains.

The UK has just barely pulled itself out a recession and food prices continue to rise. Even with continued pressure on household budgets, food and drink sales remain strong. The UK is witnessing a remarkable shift in how and where the consumer chooses to buy their food. The three hot trends in the retail sector at present are online, convenience and food discounters.

Online grocery shopping is rapidly growing; the boom in sales of tablets has meant more access to online shopping for those previously who have not had readily accessible access to computers. It is predicted that shoppers over the age of 55 will be the fastest growing demographic buying groceries online rising by 31.9 percent between 2011 and 2016.

Convenience stores (these are similar to 7/11 stores in the United States) are opening all over the country, generally in areas that are poorly served by large sized supermarkets. With the big four (Tesco, Sainsbury's, Asda and Morrison's) opening their own convenience stores, it is a win win situation for them. Consumers are visiting these stores more often to pick up a few items at a time. This means that shoppers only purchase what they require and benefit from the cheapest prices as the big four supermarkets offer the same prices as they would in their larger format stores.

The largest area of growth is the discounter supermarkets (Aldi and Lidl). They currently hold their highest market share which seems to be growing month on month. The number of shoppers visiting Aldi has grown 16 percent year on year with also the average basket size also growing by 15 percent.

Winners in food and grocery in the next year will be those who remain customer focused, providing shoppers with solutions that make grocery shopping better value for money. It will be the supermarket with a combination of product quality, freshness and convenience alongside price who will win.

UK Grocery Retailing - Store Numbers and Sector Value

The UK grocery market was worth £169.7 billion (\$263.0 billion) in 2012. This is an increase of 3.7 percent over 2011. Groceries account for 9 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 54 pence in every £1.00 of retail spending (excluding restaurants). 21 pence in every £1.00 spent on food and grocery is spent in convenience stores.

There are 88,841 grocery stores in the UK. These are split into four 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 eight 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.

Please see attachment for Grocery Retailing table

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

The UK is a sophisticated market that mirrors many 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 other EU member states 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	Supermarket chains demand significant volume and their concentration can make market access difficult

replenishment systems mean U.S. products can be widely distributed.	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 by emailing aglondon@fas.usda.gov .

Five supermarket chains dominate UK food retailing, accounting for almost 79 percent of the market. Tesco is the market leader, with 29.8 percent market share, followed by Asda/Wal-Mart with 17.2 percent, Sainsbury’s has 16.8 percent, Morrison’s has 11.5 and the Cooperative rounds out the quintet with 6.3 percent. Other UK supermarket chains include Waitrose, Iceland, Aldi, and Lidl.

Discounters

The discounters Aldi and Lidl are going from strength to strength and continue to gain market share month on month. Consumers do their shopping in both a main supermarket and a discounter, therefore getting the best offers and prices. Aldi has done a particularly good job in conveying its competitive pricing message through it’s “Like brands only cheaper” campaigns.

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

The number of shoppers visiting Aldi has grown by 16 percent year on year. Now almost a third of British households have visited an Aldi in the last three months. The discounters account for 6.9 percent share in grocery spending.

Market Shares of the UK's Supermarket Chains

Retailer	Share %
Tesco	29.8
Asda/Wal-Mart	17.2
Sainsbury's	16.8
Morrisons	11.5
The Cooperative	6.3
Waitrose	4.9
Aldi	3.9
Lidl	3.0
Iceland	2.0

Source: TNS Data, market share summary, 12 weeks to Nov 10, 2013.

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 and Lidl are all price-focused outlets.

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 47 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. Eighty-five percent of what M&S sells is own-label goods. 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.

The U.S. chain Whole Foods has its flagship store in London's Kensington High Street with the largest food retail space in central London, at 80,000 square feet. Whole Foods also own four Fresh and Wild stores in London and in January 2012 opened two new Whole Foods Stores, one in Glasgow and one in Cheltenham.

Partridges, part of the nine 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 value of the UK online grocery market has seen tremendous growth in recent years and in April 2013 was valued at £6.5bn. Online grocery sales are predicted to reach £14.6bn by 2018 which is a 123.7 percent increase from its current value.

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. Morrison's have spent the last two years putting together an online service which will be pitched in Warwickshire in January 2014 and reach London by the summer of 2014 and half the UK population by 2015. 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.

The UK online market is regarded as the most advanced in the world and online shopping for food is one of the main areas of growth. It is most popular with families and more affluent consumers whose spare time is very valuable and who prefer to pay for delivery rather than waste valuable time. There is very low uptake among people over the age of 45. This is probably due to the acceptance and use of technology, along with a preference for well established routines.

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

Eighty percent of UK households now have access to the internet.

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 obtained by emailing aglondon@fas.usda.gov.

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 (828 stores), followed by Midlands (75 stores) and Mid Counties (67 stores).

Gas Stations

The largest players in the UK gas station market are Shell (803 stores), Esso (537 stores), BP (314 stores) and Murco (232 stores). The UK supermarket chains are also key players in this market too. Tesco has 497 gas station stores, Asda/Wal-Mart has 217, Morrisons has 314 and Sainsbury's has 283. In total, there are 5,164 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 1,978 Tesco Express and One Stop type stores. Sainsbury's, Asda, Morrison's and Waitrose have 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 Checkers Express.

Symbol (Convenience) 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 Premier/Booker (2,802 stores), Bestway (2,624 stores), Spar UK (2,414 stores), Musgrove (2,265 stores), Landmark (2,200 stores) and Costcutter (1,704 stores)

Non-Affiliated Independent

There are 18,826 unbranded independent grocery retailers in the UK. Independent store numbers are in decline, down 2.1 percent on 2012. As store standards continue to improve in the convenience 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	Specialist Off-License	Food Specialists	Specialists (1 or more stores)
Martins, McCool (601)	Poundland (430)	Bargain Booze (466)	Greggs Bakers (1,671)	CTNs (2,347)

Rippleglen, Supercigs/ Supernews (124)	PoundStrecher (400)	Majestic Wine Warehouses (193)	Holland & Barrett Health Food (797)	Off-Licences (2,359)
GT News (44)	Wilkinson (372)	Whittall's Wine EFB Retail (88)	Thorntons Chocolate (506)	Forecourts/ Gas Marts (3,958)
Aleef (20)	B&M Retail (324)	Wine Man (76)	Whittard (59)	Food Specialists: Greengrocers (1,765) Butchers (6,501) Fishmongers (988) Bakers (5,084) Farm shops (3,356) Others (3,189)
Newsplus Group (20)	Farmfoods (320)	Rhythm & Booze (66)		

Source: The Grocer, Retail Structure - May 2013

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 and Mason and Harrods. Key London delicatessens for U.S. products include Partridges in Kensington – www.partridges.co.uk , and Panzers in St. John’s Wood – www.panzers.co.uk

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 , www.lakelandlimited.co.uk , www.melburyandappleton.co.uk and www.americansweets.co.uk
Organic fruit and vegetable box scheme www.abelandcole.co.uk;
Farmers’ markets www.localfoods.org.uk
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 emailing: aglondon@fas.usda.gov.

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, vegetables, 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 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 wine being shipped to Italy and then the UK.	UK #1 export market for U.S. wine, California wine has 16% market share, other parts of U.S. should benefit in future

Source: GTIS

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)

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E-Mail: igd@igd.com

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:

US\$ 1.6 = 1 British Pound - £

