

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 7/11/2019

GAIN Report Number:

United Kingdom

Retail Foods

2019

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Report Highlights:

Four supermarket chains hold over 70 percent market share of the UK retail grocery sector. This report provides an overview of UK retail outlets and guidance on how best to place U.S. products in the UK market.

Post:

London

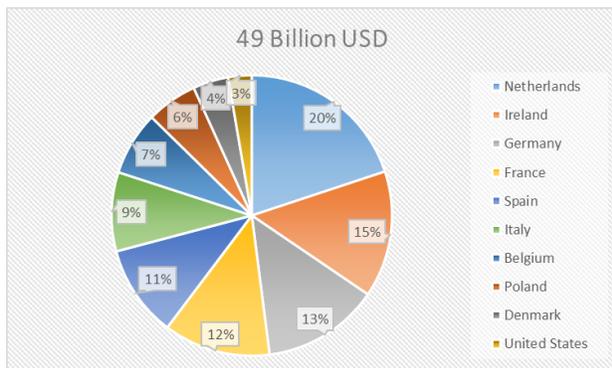
Market Fact Sheet: United Kingdom

Executive Summary

The UK, a leading trading power and financial center, is the third largest economy in Europe, after Germany and France. Agriculture is intensive, highly mechanized, and efficient by European standards but, in terms of gross-added value, represents less than 1 percent of GDP. While UK agriculture produces about 60 percent of the country's food needs with less than 2 percent of the labor force, the UK is heavily reliant on imports to meet the varied demands of the UK consumer who also expect year round availability of all food products. The UK is very receptive to goods and services from the United States. With its \$2.92 trillion GDP, the UK is the United States' top European market and the fifth largest market worldwide for all goods, after Canada, Mexico, China and Japan. Consumer oriented food and beverage products remain the most important sector for U.S. agriculture, amounting to \$1.03 billion (38 percent of the total) in 2018. Demand for U.S. consumer oriented food products continues to differentiate the UK from many of its European neighbors. The UK is the 11th largest market in the world for U.S. consumer-oriented products. Within this category it is worth noting that U.S. exports to the UK of fresh vegetables, chocolate and cocoa, and condiments and sauces all set records in 2018.

Imports of Consumer-Oriented Products

In 2018, the United Kingdom imported consumer-oriented agricultural products worth USD 49.0 billion. Just over half (54 percent) of these originated from other EU member states.



Food Processing Industry

The food and drink sector is the largest single employer in the UK manufacturing sector. Food and drink is also the largest manufacturing industry in the UK, with an annual turnover in 2018 of \$136.2 billion (£104 billion). Around 450,000 people across the United Kingdom are employed in jobs associated with food and drink manufacture and sales. Around 103,000 of these workers are of EU nationality, amounting to about a quarter of the UK workforce.

Food Retail Industry

The sector is saturated, highly consolidated and competitive. The five retail groups together account for 76 percent of the market. Independent stores continue to face strong competition from modern grocery retailers. Online food sales are showing tremendous growth, with the sector being valued at \$15.4 billion (£12.3 billion) in 2018. UK consumers are willing to try foods from other countries but expect quality products at a competitive price.

Quick Facts CY 2018

Imports of Consumer-Oriented Products (USD billion)
49.0

List of Top 10 Growth Products in Host Country

- | | |
|----------------|-------------------------|
| 1) Ice Cream | 2) Whey |
| 3) Cocoa Paste | 4) Coffee Extracts |
| 5) Vanilla | 6) Cranberry Juice |
| 7) Ginger | 8) Dried Fruit Mixtures |
| 9) Baby Food | 10) Cucumbers |

Food Industry by Channels (USD billion) 2018

| | |
|-----------------------------------|-------|
| Food Industry Output - Turnover | 136.2 |
| Food Exports – Agricultural Total | 0.98 |
| Food Imports – Agricultural Total | 1.7 |
| Retail | 273.0 |
| Food Service | 71.2 |

Top 10 Host Country Retailers

- | | |
|----------------|---------------------|
| 1) Tesco | 6) Cooperative |
| 2) Sainsbury's | 7) Lidl |
| 3) Asda | 8) Waitrose |
| 4) Morrison's | 9) Iceland |
| 5) Aldi | 10) Marks & Spencer |

GDP/Population

Population (millions): 65.1
GDP (trillions USD): 2.95
GDP per capita (USD): 44,300

Sources: Food & Drink Federation, GTA, Kantar Worldpanel

Strengths/Weaknesses/Opportunities/Challenges

| Strengths | Weaknesses |
|--|---|
| The UK is one of the biggest markets in Europe with one of the highest income levels in the world. | U.S. exporters face competition from tariff-free products from other EU member states and FTA partners. |
| Opportunities | Threats |
| Speaking the same language, the UK's affinity with the U.S. and its products and the potential of a free trade agreement make the UK an attractive market. | EU's focus on SPS-related trade barriers (beef, poultry, biotech) in combination with the UK's strict approach to import controls, creates potential for increased number of port of entry issues |

Data and Information Sources:

Global Trade Atlas (GTA), Kantar Worldpanel

Contact:

FAS London, United Kingdom
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I. Market Summary

The UK grocery sector is one of the most sophisticated in the world. The four leading supermarket chains compete fiercely for customers with an ever-growing popularity of the discount chains.

The grocery sector continues to record the strongest growth in retailing in the UK driven by modern grocery retailers. Convenience stores, discounters and online grocery retailing are the formats seeing the strongest expansion, with major chains opening smaller stores in city and town centers while limiting the expansions of large-format outlets in out-of-town locations.

By 2023, the total value of the UK grocery sector is projected to grow 14.8 percent to \$273 billion (£213 billion). Online grocery shopping is expected to increase 52 percent over the next 5 years. By 2023, discounters will be worth \$39.3 billion (£30.1 billion) and convenience stores will remain the third-fastest growing sector with sales increasing from \$50.1 billion (£40.1 billion) in 2018 to \$59 billion (£47.1 billion) by 2023. Click and Collect sales will continue to increase rapidly. Discounters will continue to be the fastest growing channel as both quality and value are recognized by consumers. By 2023, they will claim \$3.75 of every \$12.50 (£3.00 in every £10.00) spent on grocery items. In addition, other stores such as B&M, Home Bargains, and Poundland are eyeing opportunities in the grocery sector.

Food prices had been decreasing in recent years due to the success of the discounters and competition. However, when the UK voted to leave Europe in June 2016, the British pound weakened significantly, creating upward pressure on food prices. However, with the discounters continuing to gain market share and with increased buying power, they have pledged that prices will again decrease.

In the last few years, the UK has witnessed a remarkable shift in how and where consumers buy their food, with the discounters and online shopping being the winners.

Online grocery shopping is rapidly growing; the boom in sales of tablets and smart phones meant consumers have more access to online shopping. New players provide more choice to shoppers. In 2016, Aldi launched “Special buys” (these are limited products not normally sold in the store at special discounted prices) and “wine online”. AmazonFresh also launched in the UK in the same year.

The UK convenience sector is thriving as shoppers respond positively to the greater choice of high quality local stores helping them shop a little at a time but often. All of the major food retailers are increasing their convenience store openings. Convenience stores are also investing in their stores at a rate that could mean the convenience sector would represent almost a quarter of the grocery market by 2023.

Sales through larger format stores such as hypermarkets and superstores also have a more positive outlook as more investment is made into creating a big store experience for shoppers.

Key market drivers and consumption trends

- Aging population and increased health consciousness of consumers is fueling the demand for health and wellness products, as well as functional food products.
- Increasingly high-paced society and the rising number of single households are driving the demand for convenient ready-to-eat meals, desserts, and baking mixes.
- Ethnic foods, health and super foods, “free from” products (e.g. gluten or lactose free), and locally grown are further trends that attract more and more UK consumers.

- Increasing share of consumers who view their purchasing decision as a political or lifestyle statement (no GMO, only free-range eggs, vegetarian or vegan diet).
- Consumers increasingly require traceability and information about production methods.
- Fair trade and organic products are becoming increasingly popular.

Table 1: Advantages and Challenges

| 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. |
| U.S. products are viewed by UK consumers as affordable. | The UK has well-established brands for mainstream products. Brand-building and marketing costs are substantial. |
| 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 is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African produce. |

Source: FAS London

II. Road Map for Market Entry

The first thing a U.S. company needs to decide is what market sector they are looking to penetrate and whether their products will be private label or branded.

For many years, importers have been 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 much harder to supply UK retailers directly. That said with retailers trying to keep prices as low as possible and by using importers means adding 20-30 percent additional costs to the products, some are now looking to source directly from suppliers.

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 lengths 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 (if 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 record of accomplishment 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. If a U.S. company is looking to bring a brand to the UK, the retailers expect that they will support the brand financially. Many retailers still demand [BRC](#) or [IFS](#) accreditation for listing brands to protect themselves in case there are issues concerning the brand. If a U.S. company wants to penetrate elements of food service, convenience, or specialty grocery sectors where private label is not as strong, the financial support may not be as great.

In choosing a UK importer, it is essential to take into account the retail outlets to which 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. FAS GAIN Reports are good sources for country specific information: <http://gain.fas.usda.gov>.

Contact the USDA Foreign Agricultural Service (FAS) Office in London for clarification on specific questions. Contact information is provided at the end of this report.

Once U.S. companies have acquired this background information, they may consider attending or visiting one of Europe's [USDA endorsed trade shows](#). They serve as a springboard into the market, helping companies to establish new trade contacts and gauge product interests. Although the UK does not have the huge shows that other European countries host, if you are specifically targeting the UK market, you may be interested in the shows below:

Table 2: Food and Drink Related Trade Shows in the United Kingdom

| Trade Show | Description | Location |
|---|---|-------------------------------|
| The Casual Dining Show March 25-26, 2020 www.casualdiningshow.co.uk | Only UK trade show dedicated to the casual dining sector. | ExCel, London |
| Craft Beer Rising February 2020, www.craftbeerrising.co.uk | Trade & Consumer show for craft beer. | Old Truman Brewery, London |
| Hotel, Restaurant & Catering (every two yrs) March 2-4, 2020, www.hotelympia.com | The UK's leading hospitality and foodservice event. | ExCel, London |

| | | |
|--|--|-----------------|
| IFE – International Food & Drink Event (every two years) March 21-24, 2020, www.ife.co.uk | UK's biggest all round food & drink trade show. | ExCel, London |
| Food & Drink Expo (every two years) March 30 – April 1, 2020, www.foodanddrinkexpo.co.uk | Five shows in one: Foodex, The Ingredients Show, National Convenience Show, Farm Shop and Deli, and Food and Drink Expo. | NEC, Birmingham |
| Natural Products Apr 19-20, 2020, www.naturalproducts.co.uk | Trade show focuses on Natural health products. | ExCel, London |
| London Wine Fair May 18-20, 2020, www.londonwinefair.com | Show for the wine trade. | Olympia, London |
| London Produce Show June 2020 www.londonproduceshow.co.uk | The only UK trade show for the produce industry. | London |
| Imbibe Live July 1-2, 2019 www.live.imbibe.com | An exhibition alcohol being served in licensed on-trade. | Olympia, London |
| Great British Beer Festival August 6-10, 2019 www.gbbf.org.uk | Large consumer beer show with a trade afternoon. | Olympia, London |
| Speciality Fine Food September 1-3, 2019 www.specialityandfinefoodfairs.co.uk | UK's leading industry showcase of fine food and drink. | Olympia, London |
| Lunch Sep 19-20, 2019 www.lunchshow.co.uk | The UK's leading trade show for the Food to Go sector. | ExCel, London |
| Food Matters Live Nov 19-20, 2019 www.foodmatterslive.com | A conference and exhibition that focuses on health and nutrition. | ExCel, London |

U.S. exporters can also contact their respective U.S. State Regional Trade Groups (SRTG), their Commodity Cooperator Group, and their state Department of Agriculture to obtain additional support.

State Regional Trade Groups (SRTG) are non-profit trade development organizations that help U.S. food producers and processors to enter overseas markets. They are funded by USDA/FAS and the private industry. They carry out promotional activities to increase exports of U.S. high-value food and agricultural products. For more information, contact the SRTG responsible for your state: <https://www.fas.usda.gov/state-regional-trade-groups>

The **U.S. Agricultural Export Development Council** is composed of U.S. commodity trade associations and other organizations, in addition to the SRTGs, with an interest in promoting U.S. agricultural exports. For an overview and additional information on the various Commodity Groups, you can go to www.usaedc.org. The **Commodity Cooperator Groups** regularly organize (reverse) trade missions, often organized around trade shows or other events. These also are excellent platforms for U.S. suppliers of food ingredients to meet with foreign buyers.

Market Structure

The UK grocery market was valued at \$237.9 billion (£190.3 billion) in June 2018. This is an increase of 3.1 percent over 2017. 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 64 cents in every \$1.25 (51 pence in every £1.00) of retail spending (excluding restaurants). There are 87,141 grocery stores in the UK.

Profiles of Different Food Retailers in the United Kingdom

| Retailer Name and Outlet Type | No. of Outlets (2018) | Market Share (May 2019) | Website |
|---|-----------------------------------|-------------------------|--|
| Tesco (Supermarket)Hypermarkets, Supermarkets & Express stores. | 3,433 | 27.3% | www.tesco.com |
| Sainsbury's (Supermarket) Supermarkets & convenience stores. | 1,412 | 15.2% | www.sainsburys.co.uk |
| Asda/Wal-Mart (Supermarket) | 646 | 15.2% | www.asda.co.uk |
| Morrison's (Supermarket) | 493 | 10.4% | www.morrisons.co.uk |
| Aldi (Discounter) | 750 | 8.0% | www.aldi.co.uk |
| Waitrose (Upscale supermarket) | 353 | | www.waitrose.co.uk |
| Whole Foods Market | 1 main store and 8 smaller stores | n/a | www.wholefoodsmarket.com/stores/list/uk |
| Costco Wholesale (Warehouse – Membership) | 28 | n/a | www.costco.co.uk |

Source: Supermarket websites & Kantar Worldpanel

Four supermarket chains dominate UK food retailing, accounting for 70 percent of the market. Tesco is the market leader, with 27.3 percent market share, followed by Sainsbury's and Asda with 15.2 percent each and Morrison's with 10.4 percent. Other UK supermarket chains include Aldi, The Coop, Waitrose, Lidl, and Iceland.

Discounters - The discounters Aldi and Lidl continue to gain market share. In the 12 weeks ending May 19, 2019, the discounters combined market share reached 13.8 percent of the British grocery market for the first time. The discounters show no signs of stopping with plans to open hundreds of more stores between them.

The UK has one of the most advanced private label markets in the world and is seen as a flagship market for private-label development. 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 and marketed as a premium or high quality brand. They give UK retailers the opportunity to diversify their product ranges and develop new revenue streams.

Internet or Online Shopping - The value of the UK online grocery market has seen tremendous growth in recent years and in 2018 was valued at \$15.4 billion (£12.3 billion). Online grocery sales are predicted to reach \$24.7 billion (£19.8 billion) by 2023 as the internet becomes more widely used and relied upon by UK shoppers.

Online grocery shopping is now offered by all of the major UK supermarket chains. 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 one of the most advanced in the world and online shopping for food is one of the main areas of growth. 28 percent of online shoppers now do all or most of their grocery shopping online – confirming the UK’s leadership in online grocery retailing in Europe, yet still less than 5 percent of the total food retailers’ sector sales are online.

Click and Collect - With the increasing popularity of online retailing, supermarkets and other retailers introduced Click and Collect which has become hugely popular and is rapidly growing.

Click-and-Collect is a concept, that brings together the benefits of online retailing with the advantages of maintaining a store-based retailing presence. Through these services, customers are able to access a vast catalogue of products, which often cannot be stocked by even the largest outlets from the comfort of their home, purchase the items online, and then collect the items from a store within easy reach. About 28 percent of consumers regularly use Click and Collect for grocery shopping.

Convenience Stores or the “C-Sector” - The UK’s convenience store market is highly fragmented, with a large number of retail operators. Store operators may be divided into several types: supermarket convenience stores, gas stations, other group food convenience stores, independent grocery stores, and specialist stores, such as newsagents, greengrocers etc. Nine in ten people visit a convenience store on a regular basis to buy everyday grocery items.

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

III. 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 six percent of all UK food and drink imports. New Zealand, Brazil, South Africa, and Canada are some of the other top non-EU suppliers.

IV. Best Product Prospects

Products in the market that have good sales potential

- Processed Products – health food, mainstream grocery, snack foods, etc.
- Dried and Processed Fruit: cranberries, dried cherries, prunes, raisins, wild berries
- Nuts: Almonds, peanuts, pecans, pistachios, walnuts
- Fish and Seafood: cod, pollack, salmon, scallops and other fish products
- Fresh Fruit and Vegetables: apples, grapefruit, pears, sweet potatoes, table grapes
- Meat: hormone-free beef and pork products.
- Drinks: craft beer, spirits, wine
- Food Ingredients

Products not present because they face significant barriers

- Food additives not approved by the European Commission
- Red meat and meat products produced with growth promotants
- Most poultry and eggs
- Genetically modified products that are not approved in the EU

Trends in imports from the United States of Consumer-Orientated Foods

| Product Category | Growth 2014 –2018 (%) | U.S. Exports to UK 2018 (\$ million) |
|-------------------------------------|-----------------------|--------------------------------------|
| Wine & Beer | +10.1 | 261.0 |
| Tree Nuts | +15 | 196.6 |
| Prepared Food | -2.0 | 167.6 |
| Fresh Vegetables | +74.5 | 85.5* |
| Processed Fruit & Vegetables | -47.2 | 59.1 |
| Snack Foods (excl nuts) | -15.7 | 48.9 |
| Chocolate & Cocoa Products | +56.6 | 42.3* |
| Condiments | +43.4 | 37.3* |
| Fresh Fruit | -37.8 | 29.9 |
| Dairy Products | +76.7 | 26.5 |
| Non Alcoholic Beverages Exc. Juices | -1.3 | 22.7 |
| Breakfast Cereals & Pancake Mix | +83.8 | 14.7 |
| Fruit & Vegetable Juices | -30 | 7.0 |
| Eggs and Products | -36.4 | 7.0 |
| Pet Foods (Dog & Cat Food) | +18 | 5.9 |
| Other Consumer-Oriented Products | +40 | 5.6 |
| Pork & Pork Products | +26 | 3.7 |
| Beef & Beef Products | +30 | 2.6 |
| Poultry Meat | +100 | 2.0 |

Source: BICO Report/U.S. Bureau of the Census Trade Data

*Denotes Highest Export Levels Since at Least CY1970.

V. Key Contacts 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.

United States Department of Agriculture

Embassy of the United States of America

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E-Mail: aglondon@fas.usda.gov

Website: www.fas.usda.gov or <https://uk.usembassy.gov/>

FAS London publishes other market and commodity reports available through the Global Agricultural Information Network (GAIN) at <https://www.fas.usda.gov/data/search>

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

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.