

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 12/27/2013

GAIN Report Number: IT1392

Italy

Retail Foods

2013 Italian Food Retail and Distribution Sector Report

Approved By:

Christine Sloop

Prepared By:

Dana Biasetti

Report Highlights:

In Italy, the food retail and distribution sector is extremely fragmented and resistant to change. Consolidation remains low and traditional grocery stores continue to represent the majority share of the outlets, followed by open-air markets. In fact, the sector is one of the most fragmented and least saturated in Western Europe with fewer large retailers and still many small local retail stores. Nonetheless, consolidation is slowly gaining momentum, with Italian and foreign operators 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.

Post:
Rome

Author Defined:

Section 1. The Italian Food Retail and Distribution Sector Overview

Unlike other European nations, the Italian food retail and distribution sector continues to resist consolidation. Small, 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. Larger food retailers are starting to appeal to those consumers who are attracted by the convenience that one-stop shopping offers, and appreciate the wide range of products and additional services that larger retail formats provide. Social changes, including smaller family sizes, longer working hours, more working women, an increasing the number of single households. An ageing population also is contributing to this change.

The discount store format remains quite marginal, but with the economic downturn has improved somewhat. In general, Italian consumers remain hesitant to shop at discount stores and purchase private label products. Coop Italia, Italy's largest retailer, however, has decided to invest in private label products. Coop has used private label products to drive down the price of staple foods and develop its group identity. Coop Italia now accounts for around 30% of all the private label products sold in Italy. However, the private label market is still very immature and offers enormous potential for growth. Industry sector sources predict that, as in other EU countries, consumers will move towards private label products in stages, with staples such as milk, bread and pasta being the first to register strong growth followed by more highly processed products such as confectionery and prepared meals. Although the market for private label goods in Italy is still relatively small in comparison with other Western European countries, this immaturity also means that there are currently growth opportunities.

Italy is 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 the south (27%) and then by the central 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. At the same time, continuing societal trends toward smaller families 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. However, contrary to trends across Europe, the majority of Italians still live in small cities and towns. Furthermore, the planning laws in Italy tend to favor smaller stores. The system requires permission from local and regional authorities, making it difficult to establish larger stores as local communities are often strongly opposed to the development of hypermarkets. On the other hand, no planning permission is needed for outlets with a sales area of less than 250m² in towns of more than 10,000 people.

Currently, there are six major players in the Italian food retail and distribution sector: Co-op Italia, Conad, Interdis, Carrefour, Auchan and SPAR. Despite the continued presence of traditional outlets, as well as increased competition from domestic and international retailers, these retailers occupy a dominant position in the market. Four of the leading players - Co-op 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 mass grocery retailers in terms of sales revenue include Esselunga and Gruppo Pam. The principal foreign investors are the major French retailers Carrefour, Auchan and Leclerc, as well as the German retailer Rewe and German discount chain Lidl. Through establishing joint ventures with local operators, Leclerc, Carrefour and Auchan have been able to build up a nationwide presence. Despite these advances, Italian operators have also been expanding their retail footprint.

Table: Structure Of Italy's Mass Grocery Retail Market By Estimated Number Of Outlets, 2003-2010

	2003	2004	2005	2006	2007	2008	2009	2010
Hypermarkets	388	395	402	409	416	423	425	427
Supermarkets	10,423	10,560	10,635	10,710	10,785	10680	10690	10700
Discount stores	3,572	3,800	4,012	4,224	4,436	4657	4664	4671
Convenience stores	689	745	784	823	862	901	912	914
Total MGR Operators	15,072	15,500	15,833	16,166	16,499	16,661	16,691	16,712

Source: Official statistics/BMI

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, who have had to create joint ventures with local operators in order to access the market. Although the Italian sector remains fragmented, consolidation has been increasing over recent years. This process has been spearheaded mainly by the foreign multinationals, who continue to enter the market mainly through

partnerships with local players who know the strict retail regulations and local consumer habits.

The future of the discount store format remains uncertain, as Italian consumers have yet to embrace the merits of a no-frills store, with basic packaging and more limited selection. Perhaps by improving the branded product range and providing a few more bells and whistles, these types of store might attract a larger Italian customer base. Discount retailers will need to move away from the current image of cheaper, lower-quality products and potentially offer a friendlier store environment with potentially an offering of private label and manufacturer-branded products, rather than retail-branded products.

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, but often a broader range of products 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: Mass Grocery Retail Sales By Format - Historical Data & Forecasts, 2010-2017

	2010	2011	2012	2013f	2014f	2015f	2016f	2017f
Supermarkets sales, EURbn	33.48	33.85	33.49	33.64	34.17	34.70	35.26	35.81
Supermarkets sales, US\$bn	44.35	47.07	42.53	42.05	41.01	41.64	42.31	42.98
Hypermarkets sales, EURbn	9.38	9.41	9.07	8.97	9.08	9.19	9.32	9.45
Hypermarkets sales, US\$bn	12.43	13.09	11.52	11.22	10.89	11.03	11.19	11.34
Discount stores sales, EURbn	5.20	5.21	5.20	5.21	5.28	5.35	5.41	5.49
Discount stores sales, EURbn, % change y-o-y	0.48	0.06	-0.11	0.26	1.22	1.30	1.29	1.40
Discount stores sales, US\$bn	6.89	7.24	6.60	6.52	6.33	6.42	6.50	6.59
Convenience stores sales, EURbn	0.97	0.99	0.98	0.98	0.99	1.00	1.01	1.03
Convenience stores sales, US\$bn	1.29	1.37	1.24	1.22	1.19	1.20	1.22	1.23
Total mass grocery retail sales, EURbn	49.04	49.45	48.73	48.81	49.52	50.24	51.01	51.78
Total mass grocery retail sales, EURbn, % change y-o-y	1.87	0.84	-1.44	0.15	1.46	1.47	1.52	1.52
Total mass grocery retail sales, US\$bn	64.95	68.77	61.89	61.01	59.42	60.29	61.21	62.14

f = BMI forecast. Source: BMI, National Institute of Statistics, Central Bank of Italy

Table: Key Players In Italy's Mass Grocery Retail Sector - 2013

Company	Origin of Company	Sales (€ millions)	Brands	Format	No. of Outlets
Coop Italia	Italy	13,100			1,394
				Supermarkets	740
			Estense	Hypermarkets	537
				Discount stores	63
				Other	54
Conad	Italy	10,907			3,067
			E. Leclerc-Conad	Hypermarkets	31
			Conad	Supermarkets	1,415
			Margherita	Convenience stores	1,380
Auchan	France	7,200			1,490
			Auchan	Hypermarkets	45
			Sma, Citiper	Supermarkets	1,445
Interdis	Italy	5,492			2,909
				Hypermarkets	15
				Supermarkets	820
				Convenience stores	1,580
				Discount stores	290
				Specialty stores	151
				Cash & Carry	53
Carrefour	France	5,715			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 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 or retail sectors.
- 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 container shipments.

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

Conad

In summer 2013, Italian retailer Conad reported that despite 2012 being a difficult year for household budgets and consumption in Italy, they experienced positive results. Turnover for the full year climbed by 7.3% to reach EUR10.9bn. The store network stood at 3,067 outlets with floor space of more than 1.7mn square meters. Conad attributed 0.7% growth in market share to new openings, with the retailer's share of the Italian grocery market reaching 11.3%. Their sales outlets enjoyed a higher productivity level than the market average despite having a smaller average floorspace. Conad private label products also performed well in 2012, with sales increasing by 17% to reach a turnover of EUR2.2bn. New stores are planned for 2013, with an investment of €240 million, an additional 91,000 square meters of floor space and the creation of over 2,200 new jobs. At the end of 2011, Conad increased their market share to 10.6% by acquiring 43 Billa stores (36 supermarkets and 7 hypermarkets) from Germany's Rewe.

Rewe and Billa

In October 2012, German retail giant Rewe announced it would expand its Italian presence through an annual investment of €20 million thru 2016. The decision will give Rewe a stronger standing in northern Italy, an area less affected by the tough global economic conditions. Rewe plans to open medium-sized Billa stores across Italy, with stores having a selling space of 800-1,000 square meters. Rewe is one of Germany's largest retail groups. It operates supermarkets under the Rewe brands, as well as Penny-branded discount stores and a chain of Toom-branded hypermarkets. Rewe has an expanding network outside Germany across the Central and Eastern Europe region.

Auchan

In June 2012, French retailer Auchan expanded their retail presence in southern Italy with the addition of a new franchisee chain with Italy-based retailer Fratelli Morghese. The 20 new stores will be operated under the Simply Market banner, as a joint venture. There are currently around 1,800 Simply Market outlets in Italy, of which 270 are owned by Auchan while the rest are franchises.

Retail Sector Strengths and Weakness

Advantages	Challenges
Italians are traveling more and becoming more 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.	The Italian retail sector is extremely fragmented, and the mandatory customs duties, sanitary inspections, and labeling requirements can be onerous.
Interest in new and innovative	Competition from similar food products produced in other EU

products, especially with a health twist.

countries that enter tariff free.

Bilateral Ag Trade 2012

Major U.S. Exports to Italy: \$922 million

Tree Nuts: \$177 million

Wheat: \$137 million

Fish products \$80 million

Hides & Skins \$65 million

Red Meats \$64 million

Hardwood Lumber: \$55 million

Major U.S Imports from Italy: \$3.5 billion

Wine: \$1,536 million

Olive Oil: \$535 million

Cheese: \$291 million

Snack Foods \$128 million

Coffee \$70 million

Forest Products \$75 million

Exchange Rate: EURO per U.S. Dollar

Average 2012: €0.777 = \$1.00

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

Snacks

Scallops

Chocolate

Specialty/Microbrew Beer

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

Beef, other than that sold thru the High Quality Beef Quota

Poultry

Processed food products containing biotech ingredients

Key Trade & Demographic Information - Italy 2012

Agricultural, Fish/Forestry Imports from the U.S. \$952 million	Consumer Food Imports from the U.S. \$368 million
Fish and Seafood Imports from the U.S. \$80.5 million	Unemployment Rate: 10.6 percent
Italian Population 61,482,297 (July 2013 est.) Foreign Population 4 million	Total Rural Population: 20 Million Total Urban Population: 40 Million
Major City Centers and Population: Rome 3.4 million; Milan 3.0 million; Naples 2.3 million; and Turin 1.7 million	Per Capita Income: \$30,600
Gross Domestic Product: \$1.863 trillion	Labor Force 26 million

Section 4. Contact Information

USDA FAS Contacts in Rome, Italy

Office of Agricultural Affairs,
American Embassy
Via Veneto 119, Rome, 00187, Italy

Tel: (011) (39) 06 4674 2396
Fax: (011) (39) 06 4788 7008
Website: www.usembassy.it/agtrade/
E-mail: agrome@fas.usda.gov