



Template Version 2.09

USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 11/4/2003

GAIN Report Number: UK3031

## United Kingdom

### Exporter Guide

### Annual

### 2003

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#### Report Highlights:

The UK has strong historic and political ties to the U.S., and continues to mirror closely consumer trends in the U.S. retail and foodservice markets. The UK, to some degree, presents opportunities for U.S. consumer-oriented products in all sectors. Healthy choices, convenience foods and international flavors are the three main driving forces in the UK value-added food and beverage market today.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
London [UK1]  
[UK]

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## SECTION I. MARKET OVERVIEW

### Economic Situation

The UK, a leading trading power and financial center, deploys an essentially capitalistic economy, and is one of the four trillion dollar economies in Western Europe. Services, particularly banking, insurance, and business services, account for the largest proportion of GDP while industry continues to decline in importance. The Confederation of British Industries has cut its economic growth forecasts for 2003 to 1.8 percent from 2.1 percent, and estimates 2.4 percent growth in 2004. The UK Treasury shows more optimistic growth projections of between 2 and 2.5 percent for 2003 and 3 to 3.5 percent for 2004. The Office for National Statistics (ONS) reports that UK trade performance continues to be poor, with imports far exceeding exports and economic growth slowed as a result.

Despite weak growth, the UK appears to be in a stronger economic situation than other major EU countries, notably France, Germany and Italy. UK government and consumer spending are reported as factors maintaining the buoyancy of the UK economy. The UK has so far chosen to remain outside the European Monetary Union.

The UK is very receptive to U.S. goods and services. With its \$1.3 trillion GDP, the UK remains the United States' largest European market and fourth largest market worldwide, after Canada, Mexico and Japan. The U.S. and UK have an equivalent trade balance, for example, in 2002 the United States exported \$44 billion of goods to the UK and imported British goods worth \$46 billion.

The UK is a net importer of food, and the trade deficit in the food and agricultural industry is growing, reaching over \$17 billion in 2002, a rise of 7 percent on the previous year. As a percentage of all food the UK has a self-sufficiency of 62.2 percent and currently its imports are around 2-1 in favour of the EU when compared to the rest of the world.

### UK Demographics

According to the last official census by the ONS, the population of the United Kingdom in 2001 was 58,789,194. Individual country composition: England 83.6 per cent of the total population, Scotland 8.6 percent, Wales 4.9 percent, Northern Ireland 2.9 percent.

The UK population has grown by 17 per cent overall since 1951. However, comparing growth over this time period with many other developed countries, the UK population has grown more slowly. For example, the average figure for population growth in Europe since 1951 is 23 per cent, for the U.S. it is 80 percent growth, and Australia 133 per cent.

The population of England has grown by 5 percent in the past 20 years. The North East and North West regions have experienced a decline in population while the South West, East and South East have seen population growth of 10 percent or more. England is one of the most urbanized countries in Europe, while Scotland and Wales are at the other end of the spectrum.

For the first time, people aged 60 and over form a larger part of the population than children under 16 - 21. There has also been a big increase in the number of people aged 85 and over - now over 1.1 million, or 1.9 percent of the population.

The UK population comprises an ethnic mix of 3 percent Indian/Pakistani/Bangladeshi; 2 percent Black - Caribbean/African/Other; and 0.3 percent Chinese.

The UK, in common with much of the rest of Europe, has seen a substantial increase in the number of single person households. For example, the ONS recorded an increase in the number of UK households from 22.9 million in 1990 to 25.2 million in 2000.

Summary of key influences on UK consumer demand:

- Slow population growth
- Ageing population
- Number of household units growing
- Smaller households (notably one-person households)
- Growing personal disposable income (boosting premium/convenience/eating out)
- Rise in number of working women (46% of total workforce)
- International consumer tastes e.g., Chinese, Indian, Italian, Thai, Mexican
- Reduction in formal meal occasions, leading to an increase in snacking and “grazing”
- Increasing public debate centered on food, incorporating safety, environmental, ethical, social and economic issues
- Improvements in efficiency across the supply chain, reducing the real cost of food
- Increased retail concentration (supermarkets growth vs independent retailers)

### Trends in Imports of Consumer-Oriented Foods

Product Category	Growth 1998-2002 (%)	Average Size 1998-2002 (\$m)
Wine & Beer	+16	165.4
Processed Fruit & Vegetables	-27	100.5
Other Consumer-Oriented Products	+9	70.0
Salmon, Canned	-10	69.0
Fresh Fruit	-1	66.2
Tree Nuts	-37	44.3
Snack Foods (excl nuts)	-48	31.3
Fish & Seafood (excl canned salmon)	+31	25.9
Pet Foods (Dog & Cat Food)	-47	16.5
Fruit & Vegetable Juices	-75	14.9
Fresh Vegetables	-38	14.5
Red Meats, Fresh/Chilled/Frozen	-75	11.9
Eggs & Products	+41	5.5
Breakfast Cereals & Pancake Mix	+58	4.7
Nursery Products & Cut Flowers	-35	2.7
Poultry Meat	-78	1.7
Red Meats, Prepared/Preserved	+5	0.5

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

**Relative strengths/weaknesses of U.S. Supplier to UK market**

Advantages	Challenges
The scale of the U.S. food industry may offer price competitiveness on large volume orders	Competition from EU member states (U.S. must pay import duty)
The diverse U.S. population creates innovative food products and concepts which are often mirrored in the UK	Meeting strict UK/EU/retailer rules on food safety, traceability and plant inspection
U.S. has good brand image in UK. The U.S. is a popular destination for the UK tourist and familiarity with U.S. products is widespread	Need to check out ingredients and modify labels, particularly nutritional panel
Common language means that the UK is a natural gateway into Europe	Need to develop relationship with UK trade contacts and invest in marketing product
UK has a relatively large pool of traders with a history of importing from the U.S.	Biotech (GMO) ingredients are not widely accepted by the UK consumer
Strong interest in innovative products, interest particularly high in specialty, ethnic and health food categories.	Taste buds differ in the UK; in general, there is not the same affinity for popcorn, peanut butter & U.S. manufactured chocolate

**SECTION II. EXPORTER BUSINESS TIPS**

In order to meet export goals, it is essential for an exporter to do his homework:

- Why will the product work in the UK? - Do basic market research
- What is the target sector (retail/HRI/processing)?
- What is the preferred UK business partner & terms?
- What is the import duty, and excise tax (if alcoholic beverage)?
- Is the product liable for UK Value Added Tax?
- What are the sea/air freight & insurance costs?
- What is the UK final price point you are aiming for?
- Will the product label need to be altered?
- Are there any ingredients present that are not permitted in the EU?
- What resources can you offer to promote the products?

FAS has exporter assistance available at [www.fas.usda.gov](http://www.fas.usda.gov); direct questions on the UK can be directed to FAS London using the contact details on page 18 of this report

### Local Business Customs

Dress	Business suit or jacket, shirt, tie or no tie
Meals	UK trade contacts prefer a lunch meeting to either breakfast or dinner
Meetings	Bring business cards, brochures, samples; highlight company sales record
Negotiation	It is customary for UK contact to negotiate down from first price given
Agencies	An importer usually takes possession of the goods while an agent will not. Exclusive contracts are common to protect the investment made by the UK company. Fees and negotiated contracts vary, normally 5-15 percent is acceptable.
Entry	An importer usually checks import duty, labeling & ingredient regulation; a retailer or hotel chain may expect the U.S. company to organize this

### General Consumer Tastes and Preferences

Food Safety	Given the history of food scares, the UK consumer is wary of putting his trust in the government to provide guidance. This is improving with the advent of the Food Standards Agency. However, the UK food chain is now heavily scrutinized, meaning that UK retailers, foodservice operators and manufacturers are uncompromising on trace-ability and quality assurance. An interesting point is that British consumers are very loyal to British meat and poultry since the BSE crisis.
Biotech (GMO)	Although biotech corn and maize products can be sold in the EU (if labeled as such), the uptake of these products is minimal in the UK. The large supermarket chains have determined that they will not stock products with biotech ingredients in their private label products (these, typically, account for 45-50% of supermarket lines). The labeling of products containing biotech components has resulted in a slow uptake of these by retailer and consumer alike.
Organic	The UK organic category has expanded beyond its niche market origins, moved into the mainstream and is set to break the BPS 1 billion (US\$ 1.6bn) barrier. Supermarket chains dominate retail sales of organic foods, accounting for an estimated 82 percent of sales by value. Organic product ranges now extend to a wide range of convenience and grocery items. The UK will continue to source imports to meet demand. However, the rate of growth in the organic sector has slowed and estimates suggest that the organic market's growth rate will be around 5-7% in the coming years.
Health	Like the U.S., the UK has a high incidence of heart disease and cancer. Consumers are looking for foods to improve their health which is driving sales of premium, less processed food, functional food, fresh fruit, fruit juices and low-fat or low-sugar processed food. Organic, at least in the mind of the consumer, is also seen as a contributor to improved health.
Package Sizes	UK households are mainly comprised of 1-4 people. In addition, kitchens and refrigerators are small. Shopping is undertaken every couple of days, with perhaps a "large shop" every 2-3 weeks. US suppliers should consider this in determining export package size.
History & Culture	As in the US, there are major brands and products that UK consumers have grown up with day to day. British taste and product usage can differ greatly to American. Examples are chocolate, sodas and popcorn.

## Food Standards and Regulations

The UK follows EU policies regarding labeling and ingredient requirements. A detailed report that specifically addresses labeling and ingredient requirements is available, entitled: The UK: Food and Agricultural Import Regulations & Standards Report (FAIRS) and can be obtained from the FAS homepage [www.fas.usda.gov](http://www.fas.usda.gov) choose Countries, Market Reports, Attaché Reports.

### General Import and Inspection Procedures

Her Majesty's Customs & Excise (HMCE) are responsible for the clearance of all goods entering the UK, for further information and customs forms please go to [www.hmce.gov.uk](http://www.hmce.gov.uk).

The UK FAIRS report as mentioned above addresses UK import and inspection procedures; please obtain this report for further information.

## SECTION III. MARKET SECTOR STRUCTURE & TRENDS

### Retail Sector

#### Supermarket Chains

Four large supermarket chains dominate UK food retailing; together they account for around 70 percent of the market. Tesco is the market leader holding, some 27 percent share. ASDA/Walmart has just moved into second place with a market share of 17 percent while Sainsbury's market share is now 16.2 percent. Safeway is the fourth largest player with 9.5 percent market share. A bidding war for Safeway was sparked earlier this year by the sixth largest supermarket chain William (Wm) Morrisons. Sainsbury's, Tesco, and ASDA/Walmart followed quickly with notifications that they would also be interested in purchasing Safeway. All four of these supermarket chains had their bids referred to the UK's Competition Commission. The Commission has recently recommended that only Wm Morrison may make a bid for Safeway, this would create a sizeable fourth player, potentially able to compete with Tesco, ASDA and Sainsbury's. Other UK supermarket chains include Waitrose, Somerfield, Iceland, Aldi, Budgens, Netto and Lidl.

Each chain services a particular consumer base. For example, Tesco targets the middle market, providing both economy and "finest range" products. Sainsbury's is pitched a little upmarket of Tesco, with ASDA pitched a little downmarket of Tesco. Morrisons and Somerfield compete at much the same level as ASDA, while Waitrose, part of the John Lewis Partnership, is the most upmarket of the leading chains. Iceland, Aldi, Budgens, Netto and Lidl are all price-driven outlets. The Co-operative movement, which was the market leader in the UK in the mid-1980s, has shrunk steadily but continues strong in its core convenience store format.

Superstores in the UK are smaller than their counterparts in Germany or France; this is a result of UK planning town planning regulations. For example, Tesco and Sainsbury stores are just 3,500 square meters 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 big players, thereby creating a polarization between superstores and convenience stores formats. Consumers on UK high streets have now many options with both large and small retail stores offering convenience

formats. The major retailers have also developed gas forecourt based formats. For example, Safeway has a partnership with BP gas, Tesco with Exxon, Sainsbury's with Shell.

The UK has one of the most advanced private label markets (worth around \$100 billion), and leads developments in this sector throughout Europe. The UK's major supermarket chains dominate the private label market and on average 40-50 percent of their products are private label. Originally, a 'me too' copy of a branded product, private label foods today are often innovative. They give UK retailers the opportunity to diversify their product ranges and develop new revenue streams. The UK private label market is expected to show continued growth.

The most successful UK Internet grocery retailer is Tesco's; it has geared its operation to relatively low volumes and served all orders from stores. Most of the other chains established dedicated depots, these were not successful, and several have since closed. Waitrose has a partnership with Ocado.com, which is proving beneficial to their home delivery business.

Product entry into the major UK supermarket chains is not easy to achieve. New direct suppliers are not necessarily encouraged since the cost of adding a supplier to the stock management, food safety and logistical systems is high. Most US food and drink products are supplied to UK retailers through UK importers. Importers provide a valuable service in undertaking regulatory checks and customs clearance procedures. A small proportion of US products are delivered direct to UK retailers. This route-to-market depends on the complexity of the product and the tenacity of the retailer in their sourcing. Opportunities with major UK retailers exist for US products where there is a price advantage in product from US large manufacturing facilities or for product innovative by virtue of its concept or technology.

### Department Stores

Marks and Spencer (M&S) food halls continue to maintain successful business growth. 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 with a few luxury items. M&S consistently offer innovative, high quality and rigorously checked food.

The London-based Department Stores: Harvey Nichols, Selfridges and Harvey Nichols have expanded recently to other major UK cities such as Birmingham, Manchester and Leeds. This has increased the sale of US products sold to their food halls by UK importers. Other notable department stores stocking US products are Fortnum & Mason and Harrods. Department Store food halls provide an opportunity for U.S. specialty foods. There are a number of importers servicing this sector; importer information can be obtained from [www.fas.usda.gov](http://www.fas.usda.gov) and [www.usda.org.uk](http://www.usda.org.uk).

### Convenience Chains

These include Alldays Stores, Belleview (Whistlestop), Europa Foods, Family Food Stores (Jacksons) and Shepherd Foods. The focus of these stores is mainly on well-known brands. They are located in the heart of town or in busy suburbs to provide convenience mainly to commuters during the day and families in the evening or at weekends.



### Other Retailers

The UK has other outlets for US products such as health food stores, mail/internet order companies and delicatessens. An importer is vital to reach these smaller customers.

For further information on the UK retail sector, please contact FAS/USDA London using the contact details shown on page 17.

### **Hotel, Restaurant & Institutional (HRI) Sector**

The foodservice market is the UK's 4th largest consumer market following retail food, motoring and clothing and footwear. The total market is estimated at \$36.6 billion sales per annum (2001) (*Source: Foodservice Intelligence*). This represents the sales from approximately 262,000 outlets. The market comprises profit sector categories such as restaurants, quick service catering, pubs, hotels, leisure venues, and cost sector categories such as staff catering, health care, education and services at local government facilities.

There are no operators with over 5% market share by value and over 90% of foodservice businesses have an annual turnover of less than \$500,000. However, large companies do exist and are continuing to grow as the market slowly consolidates. For example, contract caterers such as Compass and Sodexo operate in all sectors of the market.

The following table identifies some of the major players within each segment of the market:

<b>Restaurants</b>	City Centre Restaurants, Conran, Pizza Hut, Pizza Express, Whitbread, Pelican Group, Yum! Brands
<b>FF/Cafés/Takeaways</b>	McDonalds's, Burger King, Tricon, Wimpy, Starbucks
<b>Hotels</b>	Whitbread, Thistle, Queens Moat House, Greene King, Greenalls, Ramada, Hilton
<b>Pubs</b>	Six Continents, Punch Group, Pubmaster, Scottish & Newcastle, Nomura
<b>Travel</b>	P&O, Servair, Alpha
<b>Leisure</b>	First Leisure, Six Continents, Sodexo
<b>Staff Catering</b>	Compass, Aramark, Sodexo
<b>Health Care</b>	National Health Service, Compass, Sodexo
<b>Education</b>	Compass, Sodexo
<b>Services/Welfare</b>	Compass, Aramark, Sodexo

**Source: Institute of Grocery Distribution**

The UK HRI/foodservice market is a challenge for US products. Most products are sourced locally or from the rest of Europe since there is a preference for fresh/chilled. Many UK companies operating in this sector have little experience of import from the USA. That said, success has been achieved for products such as authentic salsa, guacomole, tortilla chips/flour tortillas, frozen cheesecake/other desserts and frozen appetizers.

### Restaurants

The restaurant sector of the total eating out market in the UK has increased from \$6.5 billion in 1997 to an estimated \$8.3 billion in 2002. The restaurant market is diverse and is characterized by several different formats. Individual independent restaurants and numerous chains make up the fragmented market. Dynamic in nature, it is driven by consumer demand for more choice, variety and sophistication in the restaurant dining experience.

In recent years most of the chain restaurants have been streamlining their portfolio of restaurants to adapt to consumer needs. The number of restaurant outlets continues to grow annually – strong branded chains are increasing outlet numbers while many under performing brands were closed or sold in 2001/2002.

The UK consumer has a growing sophistication and desire for a good experience. Mintel research shows that only 3 percent of consumers (from a small sample/base) prefer a branded chain restaurant to an independent restaurant. The chain restaurant of the future may be one that is a chain by ownership only.

At one time a restaurant was easily recognized as distinct from a pub/bar in that one served food and the other drink. Today this is no longer the case and this blurring of definitions stems in part from the commercial and financial pressures on the restaurant business.

Tourism plays a significant role in the fate of some restaurant groups, in particular those who have traditionally relied on this transient clientele in regions such as London, Bath, York and other UK tourist areas. The repercussions of the events of 11 September 2001 along with the earlier foot-and-mouth epidemic have made significant differences to the performance of some UK restaurant groups. This impact has continued with the war in the Middle East, the concern over SARS and the general terrorist threat.

### Hotel Catering

Hotel catering has also been affected by the global factors mentioned above. In 1998, hotel catering accounted for 17.5 percent of the total UK eating out market. By 2002, this percentage had slipped to an estimated 16.1 percent. Indeed, the average annual growth rate in hotel catering sales since 1998 (at just under 3 percent), has barely kept pace with inflation.

Hotel dining is influenced by age, life stage and affluence, with a much higher participation rate on the part of “two full-time earner“ as well “pre-family“ households.

Many hotel restaurants are carried by the strength of the hotel brand rather than the restaurant, however, there has been a significant move to co-branding of hotel restaurants. The expansion of budget hotel chains, in particular, has stimulated the growth of branded franchised food & beverage outlets, which are typically located next to the lodging unit, e.g. Travel Inn and Brewer's

Fayre, or Travelodge and Little Chef. Some hotel chains such as Thistle and Hilton have created their own in-house food and beverage brands. Many four- and five-star hotels in prime locations, have outsourced at least a part of the food and beverage activities to a well-known chef, thus creating “destination“ or “signature“ restaurants.

### Pub Catering

While the UK’s total pub industry turnover has expanded by 9 percent in the five years between 1997 and 2001, in real terms this equates to a 1 percent decline in revenue. However, pub food sales have grown by 27 percent during the same period, equating to a real increase in value of 15 percent, far ahead of the total market. This consistently above-average growth is one reason why pub operators continue to invest heavily in developing food-led pub businesses, even though margins on food are usually lower than those which can be achieved on the sales of alcoholic beverages due to the overheads involved.

The number of UK pubs appears to have currently stabilized at around 70,000-71,000 following a decade or more of decline in the wake of the 1989 Beer Orders, which forced brewers to sell off many of their “tied” pubs.

Pubs may be independent and have the scope to develop individual menus or their menu may be linked to their management company. Managed outlets tend to be larger, and generally of a higher quality; this is reflected in their food offering. The larger managed pub-restaurant chains derive in excess of 50 percent of their sales from food, compared to the pub industry average of just over 20 percent.

Six Continents is one of the largest managed-only pub operators. It has a very high proportion (more than 50 percent) of branded outlets in its portfolio and these tend to generate higher than average food sales. Other major pub catering players, ranked by food sales value, include JD Wetherspoon, Greene King, Scottish & Newcastle, Spirit Group, Whitbread, and Wolverhampton & Dudley.

Mintel consumer research has found that around one third of pub visitors eat in pubs at least once a month, with these customers being drawn from a broad age band of 25-64 and the more affluent socio-economic groups. Respondents said that they were more likely to eat in a pub at lunchtime rather than the evening and also that they are more likely to eat in a pub during the weekend, underlining the importance of this time of the week for the pub food business.

### Quick Service Catering/Fast Food

With the popularity of ready meals, drive-throughs and takeaways, there can be no doubt that Britain likes its food fast. Most people in the UK now have some type of fast food restaurant near them and clever positioning of outlets provides real convenience.

In response to negative press and consumer perceptions, many chicken and burger companies now openly publish details of the nutritional and calorific values of their products and most offer healthier, lower-fat alternatives on their menu. KFC dropped the 'fried' from its name almost a decade ago and the image change that started then has recently reaped its rewards. In 2001, British sales surpassed those of Burger King for the first time.

The fast food market has now embraced “wraps”, “noodles” and “sushi” illustrating the UK consumer’s increasing sophistication, desire for choice, taste for global cuisines and an awareness of healthier eating.

### Leisure Venue Catering

Overall, the UK’s leisure venue market is declining in real terms, having peaked in 1998. The largest contributing segment - nightclubs and discotheques - has been in a downward spiral since 1999. It has faced escalating competition from late-night pubs and bars. Nightclubs and discos currently command 57 percent of the leisure venue catering market, although in 1998 this was closer to 67 percent. There have been gains made by other sectors including cinemas, museums, theme parks, tenpin bowling centers and zoos, although these have not been large enough to increase overall sales.

Tourists are a key revenue source for various leisure catering venues, including museums, art galleries, historical buildings, theme parks and theatres. Tourists currently account for an estimated quarter of transactions at these particular leisure venues. Domestic tourists are the primary visitors to attractions, especially ones situated outside London. However, with the surge in low-cost airlines, domestic tourism has dipped, resulting in plunging admission figures in some attractions, even prior to the foot-and-mouth epidemic and the events of 11 September 2001. Domestic tourist figures this year are expected to show an increase with the war, general threat of terrorism and SARS outbreak earlier this year having curbed overseas travel. Overseas tourists are also returning to the UK, albeit at a slow rate.

Results of a UK consumer survey conducted for Mintel point to the fact that consumers are more satisfied with the food and beverage options sold at leisure venues today than they were two years ago. The increased dependence on contract caterers has helped to increase food and service standards in the industry and a larger fraction of people now perceive food and beverage options at leisure venues positively. However, consumers continue to feel that there is a large discrepancy between the quality of food and drink served and the prices charged for them.

### On-board Catering

Overall the on-board catering market has declined for the second year in a row despite a general increase in eating out within the UK. Most of the decline can be attributed to the in-flight catering market, this fell by 5.2 percent between 2001 and 2002. A number of factors contributed to this: a fall in passenger numbers; an increase in low-cost, no-frills airlines; and a number of airlines cutting costs following the difficult market conditions after 11 September 2001.

On-board ferry catering has continued to decline due to increased competition, particularly on cross-Channel routes, and on-board rail catering is the only sector to achieve growth, although it only represents 9 percent of the on-board catering market.

With declining passenger numbers, the future of on-board catering may rely on product quality and innovation in order to boost the flagging demand, as transport providers realize that quality food provision enhances the overall journey experience.

### Coffee Shops

The UK's branded coffee shop market continues to increase and Mintel estimates that it will be worth in excess of \$640 million in 2003, a rise of 20% on 2002. This will be achieved mainly through outlet expansion, which is planned by almost all of the major players, and this year should also see a drive towards increased store profitability, along with some disposal of under-performing stores. There will be an increase in outlets in UK regional areas, with a truly national presence being targeted by the larger chains, and newer and more innovative locations will be seen, particularly from Costa Coffee, which has emerged as the leader in this respect. Branded coffee shops are now present inside tourist attractions, health clubs, building societies and even hospitals, and this trend will continue.

Starbucks, Coffee Republica and Cafè Nero now offer customers a more sophisticated snacking experience. This has led to diversification by burger companies: Starburger also has a coffee house franchise - Cafè Express, McDonald's has a stake in Pret A Manger, (their McCafès are expected to arrive soon), and Burger King is improving its coffee as part of a general image overhaul.

### Contract Caterers

The Compass merger with Granada at the end of 1999 and subsequent de-merger of Granada Media in 2001 created one of the world's largest contract catering companies. Compass has an annual turnover in excess of \$14.4 billion, operates in over 90 countries and employs over 360,000 people. Compass continues to grow, although further expansion appears heavily reliant on acquiring foodservice businesses rather than organic growth.

The UK contract catering market is an attractive industry to outside investors and represents a significant share of the business of a number of overseas operators. The France-based Sodexo Alliance and the US giant Aramark have both made inroads into the UK in a relatively short space of time. This has been achieved through acquisition of UK-based operations and through organic growth.

Over the last few years there has been a dramatic reduction in the number of suppliers to contract caterers. On the food supply side, the number of suppliers has declined by some 67 percent between 1995 and 2001, falling from 5,455 to just 1,789. Food represents the highest proportion of costs to contract caterers, so by dealing with fewer larger companies there are not only straight cost savings but savings in management and administrative time and costs.

Increasingly UK private-sector companies as well as cost-sector organizations are seeing the benefit (particularly through no-risk style contracts) of transferring the responsibility of catering to a third party. The UK is still some way behind its US counterparts in terms of outsourcing but tends to be ahead of its European neighbors in this regard.

Historically, the public sector has been one of the main areas where catering has been run in-house. Non-profit-making companies have traditionally looked upon commercial contract caterers with suspicion. It is only from 1988 with changes in UK government legislation that many public authorities have started to consider other catering options. These public sector organizations include Schools, City Councils, Police forces, Army & Navy (NAAFI) and the biggest catering operation in the UK - the National Health Service.

The UK government has tried to address the quality of school meals with its most recent legislation relating to nutrition in the form of The Education (Nutritional Standards for School Lunches) (England) Regulations 2000, which came into force on 1 April 2001. This legislation, together with the renewed emphasis on the take-up of free school meals and the proposed National School Fruit Scheme, should all assist in building the value of the educational catering sector.

### Supply Chain

The catering market is supplied in two main ways, either direct from a supplier or through an intermediary such as an importer or importer plus further distributor. Because there is a large number of small companies operating in the catering market, intermediaries skilled at fulfilling small orders efficiently play a crucial role in the distribution of products. Wholesalers represent an avenue of further distribution. The wholesaler normally takes title of the goods (i.e. ownership) following the purchase from a supplier/importer and prior to resale to trade customers. Wholesalers provide a link between agriculture (for fresh food), manufacturing (for finished products) and the foodservice and retail sectors.

#### **Distribution channels for the UK Catering Market**

Channel	Percentage
Delivered Trade	67%
Cash & Carry	8%
Direct	19%
Other	6%

Source:

Institute of Grocery Distribution

The UK's foodservice industry holds many avenues of opportunity for US food and beverage products. It is clear from the above information that it is important to research the exact route-to-market relevant to the product and US company export goals. Networking within the industry is vital to ascertain the best market entry strategy.

For further information on the HRI sector please contact FAS/USDA London using the contact details shown on page 17.

## Food Processing

British manufacturing is fairly diversified, with competitive strength in the aerospace, high technology and pharmaceutical industries. In addition, the production of food, beverages and tobacco is consistently one of the UK's top three largest manufacturing sectors. Food and drink accounts for around 14 percent of total UK manufacturing, with a turnover of \$105 billion. It employs almost 13 percent of the entire manufacturing workforce in the UK - some 500,000 people.

The food processing sector has become more concentrated, and between 1997 and 2002 the number of UK food-manufacturing enterprises fell by almost 12 percent. As far as type of food production is concerned, there has been a switch from commodity products to further-processed and value-added lines. UK companies such as Unilever, Guinness and Grand Metropolitan are among the largest in Europe. Many US companies, like, Pepsico, Kellogg's, ADM, ConAgra and Cargill also have substantial interests in the UK.

As the UK is around 60 percent self-sufficient in all types of food and feed and 75 percent self-sufficient in indigenous products, there is substantial demand for imported products. It is estimated that around 20 percent of the UK's agricultural imports are of unprocessed products, of which almost two thirds are not indigenous to the UK. Lightly processed products account for around 50 percent of agricultural imports, one third of which are not produced in the UK. Of the remaining 30 percent of agricultural imports (highly processed products), around half are not native to the UK.

The major unprocessed commodities that are not commercially produced by the UK are rice, citrus fruit, bananas, maize, coffee, cocoa, stone fruit, tea and some oilseeds and oleaginous fruit. Although the UK produces sugar beet, cane sugar is imported under the Cotonou Agreement (successor to Lome Convention). Processed products that the UK has to import include wine and preserved/frozen fruit and fruit juices.

## SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Product Category	Total UK Imports 2002 (\$ million)	UK Imports From US 2002 (\$ million)	Average Annual US Import Growth (last 5 yrs)	US Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Fish and Seafood HS: 03	1,456.5	47.7	20%	0-22%	Highly fragmented market, domestic shortfall currently bridged by Baltic States	US #1 canned salmon supplier, developing interest in other products and species
Coffee + Tea HS: 0901 + 0902	513.8	12.7	40%	0-10%	Competition from domestic and key established suppliers such as Kenya, India, & Latin America	UK mirrors US drinking trends, branded coffee chains present & historic tea drinking nation
Sunflower Seeds HS: 1206	15.4	4.9	30%	0%	Price competition from China & Argentina	US #1 supplier, UK also supplied through trans-shipment from France & Netherlands
Chocolate confectionery HS: 1806	693.3	5.1	5%	8-27%	Domestic & EU competition, low acceptance of American chocolate taste	British eat more chocolate than any other nationality, apart from the Swiss
Jams, Jellies, Fruit Purees HS: 2007	72.2	1.0	25%	15-30%	Domestic & EU competition, British style & composition of jam/jelly may differ to US	US flavors such as blueberry & cranberry popular
Preserved fruit & nuts HS: 2008	266.8	9.3	20%	7-27%	Competition from EU + Thailand & South Africa	US nut butters perceived as high quality, exotic preserved fruits of interest for gift/specialty trade
Sauces, Condiments, Seasonings HS: 2103	355.5	24.9	12%	0-10%	Domestic & EU copy-cat products, Australia now also entering this market	US #4 supplier, UK wants authentic tex-mex, BBQ sauces, marinades & salad dressings
Syrups, Meat Substitutes & Baby Food HS: 210690	561.5	74.3	20%	2-30%	Domestic/EU competition + Thailand & China	US #2 supplier after Ireland, UK recognizes US high-spec syrups, UK meat-free & premium baby food markets are growing



**BEST PROSPECTS CONTINUED . . .**

<b>Product Category</b>	<b>Total UK Imports 2002 (\$ million)</b>	<b>UK Imports From US 2002 (\$ million)</b>	<b>Average Annual US Import Growth (last 5 yrs)</b>	<b>US Import Tariff Rate</b>	<b>Key Constraints to Market Development</b>	<b>Market Attractiveness for USA</b>
Water & Soft drinks HS: 2201+2202	529.0	10.4	5%	0-10%	Domestic & EU competition, strong brands, market reaching saturation	New US concepts in beverages always attractive, e.g. functional drinks
Beer HS: 2203	516.6	3.4	-20%	0%	Domestic & EU competition, major brewers located in EU	US micro-brew beers, generally quirky beers with a story are always attractive
Wine HS: 2204	3,223.9	244.3	20%	18-25%	Competition from EU + Australia + Latin America	UK #1 export market for US wine, California wine just reached 10% market share, other parts of US should benefit in future

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