



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 12/5/2003

GAIN Report Number: GM3049

Germany

Retail Food Sector

Report

2003

Approved by:

Richard Petges
U.S. Embassy

Prepared by:

Karina Ramos/Christel Wagner

Report Highlights:

Germany, with its 82.5 million people (or 27 percent of the EU 15 population) and the largest economy in Europe, is the leading European market for foods and beverages. In 2002, total sales (turnover) by retailers of food and beverage in Germany was Euro 120.4 billion (or \$ 113.9 billion) compared to Euro 118 billion (\$105.64 billion) in 2001. This represents a 1 percent real increase in turnover, once price inflation is taken into account. Any future growth in Germany will likely be driven by the discount segment. Aldi, the largest discount chain in Germany, already overtook Rewe in food sales, making Aldi the second largest retailer of food products in Germany.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Berlin [GM1]
[GM]

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1. Market Summary

Germany, with its 82.5 million people (or 27 percent of the EU 15 population) and the largest economy in Europe, is the leading European market for foods and beverages. Domestic products and products from other European Union (EU) countries dominate the shelves of retail outlets, mainly due to duty-free movement of goods among EU members, geographical advantages, existing business ties and requirements that products comply with stringent German/EU food laws and packaging and labeling regulations.

Germany's stagnant economy has affected retail sales, including sales of food products. In 2002, total sales (turnover) by retailers of food and beverage in Germany was Euro 120.4 billion (or \$ 113.9 billion) compared to Euro 118 billion (\$105.64 billion) in 2001. This represents a 1 percent real increase in turnover, once price inflation is taken into account. Growth in sales remains relatively flat, with food/beverage sales growing about 7 percent over the last five years. Taking into account retail food price inflation, real growth in sales over this period was about 2 percent. Any future growth in Germany will likely be driven by the discount segment of the food retail market.

In addition to the Euro 120 billion recorded by the organized food retailers such as supermarkets, hypermarkets, discount stores, and small traditional retail stores, food products are also sold by bakeries, butcher shops, farmer's markets, drugstores, gas stations, kiosks, and other retail venues. For example, an additional Euro 39 billion in food and beverage sales was recorded by restaurants, canteens, and snack shops (imbiss) where food and beverages are served on-premise.

Bakeries (bread stores), pastry shops and butcher shops also recorded Euro 27 billion in sales in 2002. This correlates with the Euro 190 billion German consumers report spending on food and beverage products (including tobacco) in 2002. According to the German Federal Statistics Office, 129.2 billion (approx. \$122 billion) was spent by German consumers on food alone (excluding beverages), or about 11 percent of total expenditures. Monthly German household expenditures on food (excluding beverages) averages about Euro 282.

In 2001, Germany imported consumer-oriented agricultural products valued at \$324.7 million from the U.S., down from about \$450 million in the mid- 1990's. Approximately one-third of all U.S. agricultural exports to Germany are in this category.

The major competitors in the consumer-oriented market are other EU countries, particularly the Netherlands, France, Italy and Spain. The U.S. is the second largest non-EU supplier of consumer-oriented products to Germany, following Turkey.

Germany's Retail Profile

Germany's retailing sector can be characterized as very competitive, highly complex and intertwined, and currently in the process of considerable consolidation. Margins are perhaps thinner than anywhere else in Europe, which together with a well-developed distribution system, results in a very competitive sector.

The most dynamic segment within Germany's retail trade is the discount store segment, which is fiercely competitive with the largest two discount companies – Aldi and Lidl – engaged in a price war since 2002. In terms of annual sales, discounters comprised almost 37 percent of the retail market in 2002, up from 30 percent in 1996 and 34.7 percent last year. Most of the products marketed by discounters are private label products.

Germany's Retail Profile

	Number of Stores			Market Share 2002	Value of Sales (Billion Euros)			Market Share 2002
	2000	2001	2002		2000	2001	2002	
Hypermarkets	2,363	2,380	2,409	3.6%	29.8	30.4	30.4	25.2%
Discount Stores	12,970	13,180	13,400	20.1%	38.8	40.9	44.6	37.0%
Supermarket	9,230	8,842	8,810	13.2%	30.1	30.1	30	24.9%
Traditional Stores	45,900	43,950	42,200	63.2%	17.1	16.6	15.4	12.8%
Total	70,463	68,352	66,819	100.0%	115.8	118	120.4	100.0%

Source: EuroHandels Institut (EHI)

Due to the growth in the discount segment, the majority of traditional retailers like Spar, Rewe, and Tengelmann have started to develop and further invest in their own discount store chains/niches. In direct response to the threat by discount stores, many food retailers have also

increased the use of private labels in their stores in order to reduce prices for consumers while maintaining quality.

In 2002, Aldi overtook Rewe in food sales, making Aldi the second largest retailer of food products in Germany. Should current sales trends continue, Aldi could become the largest retailer of food products in Germany in the next year or two. The largest food retailer is currently the Edeka/AVA Group.

Food and beverage retailing in Germany is increasingly dominated by a handful of large retailers. In 2000, the top five food and beverage retailers accounted for 62.5 percent of national sales. It is forecasted that by 2010, the market share of the top five food and beverage retailers will rise to 75% of national sales.

In addition to quality and price, German consumer spending patterns are also driven by convenience. Despite the consolidation of retailers and the increasing popularity of discounters, German consumers continue to frequent small convenience stores despite the higher prices, especially if these stores are open longer hours (as is the case with stores in train stations and gas stations) and carry ready to eat meals. In these cases, sales are motivated by convenience rather than price.

A new German law extending retail hours has been applauded by large retailers but it is unclear how much, if any impact this will have on retail sales of food and beverages. Under the new German law, retail stores can stay open Monday through Friday until 8 pm and Saturdays until 6 pm. This compares with France, UK, Denmark and other European countries which have much more liberal store hours.

Buying associations or buying groups also play an important role in German retailing. These associations or groups are often operated by a wholesale company, which may do the purchasing, marketing and provide other services for independent retailers. Markant is the largest such buying association in Germany.

Advantages/Opportunities and Challenges Facing U.S. Products in Germany

Advantages/Opportunities	Challenges
Germany's 82.5 million inhabitants have one of the highest income levels in the world.	Very competitive market combined with low growth in retail sales.
Germany is among the largest food/beverage importing nations in the world.	German (EU) import tariffs on certain products are high. EU enlargement will give preferential access to products from accession countries.
Fast growing market for organic products.	German buyers demand quality, but also low prices; discounters are fastest growing segment of retail market.

Advantages/Opportunities	Challenges
Germany has many, well-established importers. Distribution system is well developed.	Retailers often charge high listing fees for products.
The “American-Way-of-Life” and U.S.-style foods are popular, principally among the affluent younger generation.	Margins on food at retail are very thin.
Large non-German population and German’s penchant to travel abroad help fuel demand for a variety of foreign products.	Retailers seldom import products into Germany (EU) on their own.
Private label products are popular, not only in discount stores but are also being utilized by supermarkets.	It can be a challenge for U.S. companies to promote a particular brand.

II. Road Map for Market Entry

"Traditional" Retail Outlets- Supermarkets, Superstores, Hyper Markets or Super Centers, Club and Warehouse Outlets

Entry Strategy

Success in introducing your product in the German market normally depends on local representation and personal contact. The local representative should be able to provide market information and guidance on business practices and trade-related laws, sales contact with existing and potential buyers, market development expertise, and the distribution system. The local representative may or may not also be the importer and distributor. The Agricultural Affairs Office in Berlin maintains extensive listings of potential importers and maintains information about ongoing activities that provide opportunities to meet the German trade¹.

Specialized Importers. Specialized importers normally handle the importation and marketing of food and beverages sold in German retail establishments. These importers often specialize in products or product groups (including from a particular country) and frequently distribute products nationwide, either through their own sales force or through a distribution network of independent sales agents.

Selling Direct. Direct sales to the central purchasing department of one of Germany’s leading retailers is typically very difficult, as most German retail buyers are usually not interested in taking on the added responsibility or the time and resources necessary to import products directly.

¹ A directory of European Importers see "American Foods in Europe - Your Guide to European Importers of U.S. Food & Beverage Products" is available in hard copy for U.S. companies. Please contact the Agricultural Affairs Office in Berlin, for a copy.

This is especially true for new-to-market products which may not comply with German/EU import requirements, food laws and packaging and labeling requirements. Retail buyers may only be interested in importing products directly if they are unique or possess some specific attribute or offer significant advantages in terms of quality, price or financial promotional support.

Food and Beverage Retailing Profile

Retail Food/Beverage Sales, Number of Retail Outlets, 2000-2002

Category	1997	1998	1999	2000	2001	2002	5-yr Growth Rate*
Total Sales (billion Euros)	112.8	114.1	114.5	115.8	118	120.4	6.74%
Total Sales (billion U.S. Dollars)	127	126.8	122	107	105.7	113.9	-10.3%
Share of top 5 retailers (% of total sales)	61.70%	63.50%	62.00%	63.50%	68.00%	68.00%	10.21%
Share of top 10 retailers (% of total sales)	81.30%	83.60%	83.00%	84.00%	90.00%	90.00%	10.70%
Retail outlets (1,000)	74.6	73.4	72.5	70.3	68.4	66.8	-10.46%

Note: Sales by the organized food retail industry.

Source: A.C.Nielsen, M+M EURODATA, EuroHandels Institut (EHI).

In 2002, Germany's retailers registered annual food and beverage sales (turnover) of Euro 120 billion (\$113.9 billion). Despite an almost 7 percent growth in nominal sales over the 1997-2002 period, once retail price inflation was taken into account, real retail sales during this period grew by only 2 percent.

Despite efforts by the German government to protect small retailers, the market share of small retailers continues to drop. In 2002, small traditional shops comprised 12.8 percent of the food retail market. At the same time, the concentration of giant retail organizations in Germany has increased dramatically and is expected to continue in the near future as competition laws continue to be loosened. In particular, the German market is becoming dominated by large hypermarkets and discount chains. As a comparison, the five largest food and beverage retailers accounted for 68 percent of national food and beverage retail sales in 2002 as opposed to 45 percent in 1990. According to M+M Eurodata, by 2010, the five largest food and beverage retailers may account for 75 percent of national food and beverage retail sales. However, the German retail market is a lot less concentrated than in other European countries. In comparison, in France, the five largest food and beverage retailers already comprise over 80 percent of the market.

With relatively flat domestic retail food sales, German retailers have sought to expand their sales - and gain market share -- by buying-out their competitors, opening new stores, and by focusing on markets outside of Germany. Many of the major German retailers already generate a significant portion of their total sales from non-German operations. For example, the following German retailers had significant sales outside of Germany in 2002: Metro (46 percent), Aldi (38 percent), Tengelmann (56 percent), Schwarz-Gruppe (31 percent) and Rewe (23 percent). Edeka stands out with only 8 percent of sales outside Germany.

One of the mostly closely watched developments in the German retailing sector was the 1997 entrance of U.S. retailer Wal-Mart in the German market. Wal-Mart purchased 21 hypermarket outlets previously owned by the Wertkauf Group, followed by the purchase of 74 hypermarket outlets from Spar AG in late 1998. New supercenters were built in Guetttersdorf (2001), Pattensen (2001), and Bergkamen (2002). In 2002, Wal-Mart recorded sales of \$2.98 billion in Germany. Although Wal-Mart is the 13th largest retailer in Germany, the chain continues to struggle to attract customers and establish itself as a dominant player in the German market. Food products comprise about 50 percent of Wal-Mart's gross sales in Germany.

**The Top Ranked Retail Stores in Germany
2002**

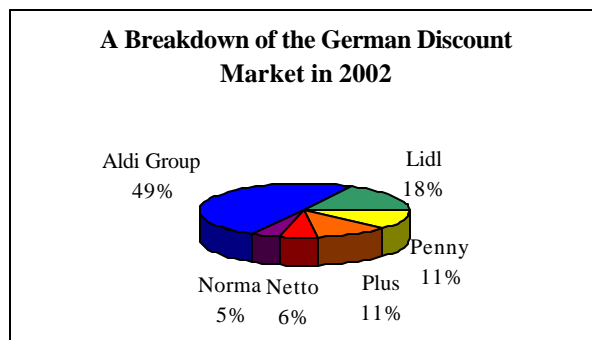
Company	Ownership	Gross Sales	Food Receipts	Percent from Food	Turnover by Type
Metro-Gruppe	German/Swiss	32,022	14,442	45.1%	H: 37%; CC: 20%; O: 43%
Rewe-Gruppe	German	28,622	19,635	68.6%	H: 6%; S: 39%; D: 16%; CC: 27%; O: 12%
Edeka/AVA -Gruppe	German	25,177	20,922	83.1%	H: 80%;O: 20%
Aldi-Gruppe	German	25,000	20,250	81.0%	D: 100%
Schwarz-Gruppe	German	17,150	13,789	80.4%	H: 46%; D: 51%; CC: 3%
Tengelmann-Gruppe	German	12,463	7,764	62.3%	S: 20%; D: 45%; O: 45%
SPAR-Gruppe	French	7,539	6,958	92.3%	H: 18%; D: 40%; CC: 42%
Lekkerland-Tobaccoland	German	8,170	1,629	20.0%	O: 100%
Schlecker	German	5,300	5,035	95.0%	H: 2%; O: 98%
Dohle-Gruppe	German	2,884	2,425	84.1%	H: 82%; S: 17%; O: 1%
Wal-Mart	U.S.	2,875	1,438	50.0%	H:100%

Note: Sales are in millions of Euros.

H = Hypermarkets, S= Supermarkets, D= Discounter, CC= Cash & Carry; and O=Other.

Source: EHI and M+M Eurodata.

There are also major changes occurring in how food and beverages are being marketed in Germany. Small local shops and supermarkets, although still comprising the bulk of outlets, are increasingly being replaced by large hypermarkets and discount food stores. Hypermarkets and discounters now account for about 60 percent of all retail food and beverage sales, despite accounting for less than one-quarter of all the outlets. Metro AG is Germany's largest operator of hypermarkets and Aldi the leading operator of discount markets.



The discount segment is the most dynamic in Germany. Discounters have prospered in recent years as German consumers have become more and more price conscious. In addition, discount stores, which generally tend to be small in size, have benefited from German laws favoring small retailers. Currently, in terms of sales, discount stores comprise 37 percent of the retail food market up from 24.3 percent a decade ago and 35 percent a year ago. The number of discount stores also grew during this time period from 9,300 to 13,400. Aldi is the largest discounter with close to 49 percent of the discount market, on a sales basis.

**Gross Sales for the Leading Discount Stores in Germany
(Million Euros)**

Discount Stores	2001	2002	1-Yr Growth
Aldi Group	21,600	25,000	16%
Lidl	6,300	9,000	43%
Penny	4,900	5,800	18%
Plus	5,300	5,700	8%
Netto	3,000	2,900	-3%
Norma	2,100	2,347	12%
Total Sales:	43,200	50,747	15%

Source: EHI.

According to a poll conducted by AC Nielsen, German consumers spend about \$21 per visit to Aldi compared to \$23 in hypermarkets, \$15 in other discount stores, and \$13 in supermarkets.

Each of Germany's leading retail groups has a different business structure and purchasing and distribution system. Many of the leading retailers have multiple retail chains, often with various types of retail formats, i.e., large hypermarkets, discount and small neighborhood stores, or perhaps beverage and/or delicatessen outlets. The purchasing departments for the large retailers may also be divided by retail format and, sometimes, by region of the country.

Convenience Stores, Gas Stations, Kiosks, Etc.

Entry Strategy

Convenience outlets -- small shops, often located at gasoline and train stations, highway rest stops, kiosks and bakeries -- were among the fastest growing retail formats in Germany. In the last couple of years growth has leveled off. There are currently 48,000 snack stands and kiosks in Germany. Although in terms of turnover, over half the convenience stores in Germany are kiosks or snack stands, convenience stores in gas stations reported roughly the same amount of turnover with a much smaller number of outlets. In addition to non-food items, the most popular items at these outlets include: fruit juice and fruit drinks, soft drinks, beer, wine, other beverages, confectionery products, snacks and convenience-type foods. Products sold in these outlets typically are priced 30-70% higher than in more conventional outlets. However, sales are motivated by convenience -- especially the longer store hours -- rather than price.

There are several large wholesalers that supply food and non-food products to these convenience outlets. The leading supplier to the convenience sector is Lekkerland-Tobaccoland (L-T), which carries about 10,000 different items and services more than 70,000 customers, including gas station shops, kiosks, beverage stores and bakeries. In 2002, the turnover of Lekkerland was Euro 1.629 billion, for food products plus auto repair but not including tobacco products. Metro, Spar, and Tengelmann compete with Lekkerland in supplying these convenience outlets in Germany.

Organizations like Lekkerland, as well as other suppliers to convenience stores, normally source most if not all of their imported products from specialized importers. Most U.S. companies interested in exporting to Germany and in developing a position in the German market are advised to work with an importer(s) or with an agent/broker that services these sectors.

C. Buying Associations (Groups)

Entry Strategy

Buying associations or buying groups play an important role in German food and beverage retailing. Buying associations generally are operated by a wholesale company that provides services for a group of independent retailers.

The largest and last remaining true buying association in Germany is Markant. Markant members have a total annual turnover valued at about 44.8 billion Euros. Markant is an association of more than one hundred independent enterprises, selling both food and non-food products. The goal of the company is to provide a cooperative platform for purchasing and marketing and providing of

services for medium-sized merchants throughout Germany (and Europe). In Germany, Markant members include a number of major food retailers, including market leaders Bartel-Langness, Schlecker, Dohle and Wal-Mart. Markant is part of the European-wide buying association EMD, whose members have a total annual turnover valued at over 110 billion Euros.

Markant Hans-Martin-Schleyer-Straße 2 77656 Offenburg Tel:49-781-61 6-0 Fax:49-781-61 6-494	Edeka -Gruppe New-York-Ring 6 22297 Hamburg Tel:49-40-63 77-0 Fax:49-40-63 77 22 31	Rewe/Fuer Sie Domstraße 20 50666 Köln Tel:49-221-1 49-0 Fax:49-221-1 49 90 00

D. Other Channels

Home food delivery, mail-order and selling foods and beverages over the Internet are alternatives to the traditional German retailing sector. Germany's leading retailers, have become more and more involved in e-commerce with an estimated \$8 billion in business to consumer sales being conducted on-line. However, the value of food and beverages sold over the Internet is still very small and is not growing. Home food delivery is not a new phenomenon in Germany, especially for frozen food.

III. Competition

As the world's largest importer of agricultural products, Germany is an attractive and very sought-after market for exporters throughout the world. The EU internal market results in food products from the other EU member states having a competitive advantage in the German market; an advantage which cannot be easily overcome by competing third countries. Approximately two-thirds of Germany's agricultural imports are sourced from other EU countries, many of which target the German market through the use of promotional programs. The enlargement of the EU in 2004 will give products from the accession countries preferential access to the EU market and will further disadvantage U.S. products in the German market.

In addition to the United States, Germany also imports significant quantities of agricultural products from other non-EU countries. Much of the third-country imports are sourced from Eastern Europe, North Africa and Israel, South Africa, and Latin America and the Caribbean. Germany's major consumer-oriented product imports from these countries include: meat and poultry, fresh fruit (particularly bananas), processed fruit and vegetables, and pistachios.

Third-country promotions for food products in Germany strongly focus on generic aspects. Examples of these types of promotions are: in-store promotions, special combined editorial and advertising sections in trade magazines, and national exhibits at trade and consumer fairs. In department stores a country may be featured with a full line of food and non-food products as well as other economic segments, such as tourism.

Consumer-ready processed food products are imported and distributed by a large number of German importers and import agents. In addition to cooperative advertisement with importers and suppliers, individual country promotions in the German retail trade are organized to increase visibility and awareness of those products and, consequently, increase distribution. Such promotions in Germany are normally organized and sponsored (often also financed) by the foreign country's Embassy or other government representation, in close cooperation and coordination with local importers and the retail organization.

Biotechnology

In July 2003, the EU passed legislation on biotech products which member states must implement. Therefore, by April 2004 all products, including processed foods, produced with approved biotech ingredients of more than 0.9 percent must be labeled. Food manufacturers are still wary that European consumers will not purchase products with a GMO label. As far as FAS/Berlin is aware, the major German food retailers plan to stock their shelves with labeled GMO products rather than trying to source entirely non-GMO products and in addition are considering ways to supply consumers with comprehensive information on biotechnology so the consumer can make an educated choice.

IV. Best Product Prospects

Below is a list of products identified as having a strong market potential in Germany and some helpful tips for interested exporters.

Best Product Prospects	Tips/Facts
Snack Foods	The \$15 billion German snack food market consists mainly of chips and other salty items, followed by specialty snacks and nuts. Growth primarily driven by product innovation, like flavored snacks.
Fresh Fruit & Vegetables	Good opportunities exist for supplying fresh produce, particularly citrus, pears, table grapes and green asparagus, during the winter months (Nov. -Feb.).
Dried Fruits & Nuts	The market for most nuts and dried fruit is fairly stable throughout the year but sales generally peak in anticipation of the Christmas season. Imports are generally in-bulk.
Organic Products	Germany is Europe's largest market for organic products, with sales roughly estimated at \$ 3 billion in 2002.
Alcoholic Beverages	Although overall alcohol consumption is declining, the market for imported beer, wine and spirits is stable or growing.
Pet Food	Sales of cat food have the biggest market share, followed by dog food. Market potential exists for premium pet food.

Best Product Prospects	Tips/Facts
Fitness foods and beverages	Good prospects for "functional" products with added nutritional properties such as vitamins and minerals.
Frozen Fish	Good prospects exist for frozen Alaska Pollack and other frozen fish with Marine Stewardship certification (sustainable fishing certification).

According to the EuroHandels Institut, sweets, snacks, dairy products, frozen foods (including ice cream) and beverages were the product categories with the highest rate of new product introduction in German food retail stores. However, some of these products may face trade barriers. For more information on the German market please refer to Germany's Exporter Guide and the Food and Agriculture Import Regulations (FAIRS) report.

V. Contacts for Further Information

If you have questions or comments regarding this report, or need assistance exporting to Germany, please contact the U.S. Agricultural Affairs Office in Berlin at the following address:

Agricultural Affairs Office
 American Embassy
 Clayallee 170
 14195 Berlin
 tel: (49) (30) 8305 - 1150
 fax: (49) (30) 8431 - 1935
 email: AgBerlin@fas.usda.gov
 Home Page: <http://www.usembassy.de/>

Importer listings are available from the Agricultural Affairs Office for use by U.S. exporters of U.S. food and beverage products. Recent reports of interests to U.S. exporters interested in the German Market include:

Report Title	Report Number	Month Report was written
Wine Report	GM 3046	November 2003
Fish Products Report	GM 3037	October 2003
Exporter Guide	GM 3039	October 2003
Kosher Market Report	GM 3036	September 2003
FAIRS Report	GM 3022	July 2003

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service Home Page at <http://www.fas.usda.gov>

VI. Currency Conversion Rates and Definitions

Yearly Currency Conversion Rates:

		Euro
1999	1 U.S.\$ =	0.93827
2000	1 U.S.\$ =	1.08271
2001	1 U.S.\$ =	1.11656
2002	1 U.S. \$ =	1.0575

Store Definitions:

Hypermarkets are defined as large retail stores with between 1,500 square meters and 5,000 square meters of sales space, with an emphasis on self-service. They carry a significant amount of non-food items.

Supermarkets are defined as a self-service food stores with sales space of between 400 to 800 square meters. The share of non-food items comprises less than 25 percent of store sales.

Discounters are defined as a no frills, self-service food store that concentrate on a limited range of products with a high turnover rate. Their main attraction is through their low prices.

Cash & Carry are membership style retail/wholesale stores with a varied selection of products sold under a warehouse style format. These stores have a broad product range in the food and non-food area.