



# MARKET ANALYSIS REPORT

*"EXPORT OPPORTUNITIES FOR B.C.'S FOOD PROCESSORS IN GERMANY & THE UNITED KINGDOM"*



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## EXECUTIVE SUMMARY

B.C.'s food and beverage processing industry generated \$7.5 billion in sales in 2011, making it the largest manufacturing industry in the province. More than 90 per cent of these processors had less than 100 employees, highlighting the important contribution that B.C.'s food and beverage processors have made in support of a strong, diversified economy. The purpose of this report is to help B.C.'s smaller-scale food processors understand the market for processed food products in Germany and the United Kingdom (U.K.). This report covers the following product categories: baked goods; biscuits and cookies; breakfast cereals; sauces, dressings and condiments; and, snacks and spreads. These categories were chosen based on feedback from two surveys conducted by B.C.'s Small-Scale Food Processors Association of its membership in 2011.

Germany and the U.K. are members of the European Union (E.U.), an economic and political alliance consisting of 27 European countries. The E.U. is the world's largest trader, foreign investor, and single market, with a 2011 Gross Domestic Product (GDP) that was 10 times as large as Canada's. An important agreement for B.C.'s food exporters is the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), which is currently being negotiated between governments to eliminate tariffs and remove trade barriers. Without the added costs of tariffs and trade barriers, CETA will make it easier for Canadian products to compete on price, thus enabling them to better compete in the marketplace of the E.U.

Germany has the largest national economy and is the most populous country within the E.U. Germany has also shown the greatest recovery of any E.U. nation since the global recession of 2008/09 and demonstrated the most economic growth of any western European country in 2011/12. Germans generally have a positive outlook on the economy and demonstrate a high willingness to spend. Germany has a GDP per capita growth of three per cent in 2011 and a population of 81 million people (more than double the size of Canada's population). With the third highest immigration rate in the E.U., many foreign foods have become commonplace in Germany, which could be capitalized on by B.C.'s processed food producers who already cater to B.C.'s multicultural population. Despite all of this, Germany is, however, witnessing a shrinking population and already has a food self-sufficiency rate of 93 per cent. Germans are traditionally very price-sensitive, and prefer private-label products over branded products.

The U.K. is made up of England, Scotland, Wales and Northern Ireland, with England being home to almost 51 million of the 62 million U.K. residents. London is the centre of the U.K.'s economic activity, and is one of the world's largest international financial business hubs. The U.K. is only 60 per cent food self sufficient and is experiencing a population increase, meaning that consumers will increasingly rely on imports. Since the recession, however, U.K. consumers have proven less willing to spend money and generally have negative feelings toward future economic expectations. This could present a barrier to B.C.'s processed food exporters interested in this market, especially since consumers in the U.K. are historically very price sensitive. Compared to Germany and North America, per capita consumption of potato chips/crisps and chocolate confectionary is considerably higher in the U.K.

This report discusses several key trends which can be witnessed in Germany and are influencing consumer purchasing behaviour. By 2050, 34 per cent of the German population will be seniors, and this age group is generally unsatisfied with the current packaging of processed foods as they find them too difficult to open. Many new products in Germany are attracting consumers through claims that attract seniors and appeal to a generally busier lifestyle, such as 'microwavable,' 'on the go,' and 'convenient packaging.' Discounters are the most popular shopping retailers for the majority of Germans, with low-priced private label products being the most sought after. Of these products, there is increasing demand within Germany for foreign and ethnic foods and spices, as well as vegan and vegetarian options. Even though Germany is one of the largest producers of organic food products, consumers do rely on organic imports, indicated by product demand exceeding the domestic supply. The German market for packaged foods is expected to increase at an average rate of one per cent annually over the next five years.

Trends within the U.K. affecting consumer purchasing behaviour are fairly similar to those seen in Germany. Virtual supermarkets, mobile phone shopping and purchases of convenient processed foods are increasing in popularity, as consumers are facing more time constraints. Encouraged by the rising number of obese people within the country, U.K. consumers are generally making a conscious effort to eat natural and whole foods. Fruit is rapidly gaining popularity, as well as fat-free, sugar-free, and salt-free products. Consumers are also increasingly seeking locally produced, sustainable products that have a reduced environmental footprint. There is a particular focus on food origin and reduction in packaging in consideration of the large environmental costs of overseas transportation. Innovative packaging in general is also gaining popularity, with examples such as more informative nutrition labels and 'greener' packaging materials.

Based on information gathered from Euromonitor – an independent provider of market intelligence – B.C. exporters may wish to consider the following when deciding whether or not to compete in the processed food market of Germany and the U.K.:

**Baked Goods** - Baked goods are considered a core part of food culture within German households, with the leading retail value sales going to bread products with US\$12.5 billion. Due to the advancement of technology in providing baked goods products with a longer shelf life, retail sales are expected to slightly decrease over the next few years. Also, with a growing focus on health and wellness, a trend towards locally-sourced products is expected to increase. Currently, the market is dominated by private labels and artisanal bakeries, who account for approximately 80 per cent of the baked goods market in Germany. The other 20 per cent is attributed mainly to domestic companies, leaving very few opportunities for B.C. exporters to introduce new brands to the market. The U.K. baked goods market is also dominated by sales of bread products with US\$5.2 billion, although the overall market is half the size of that in Germany, at US\$9 billion in sales compared to Germany's US\$17.5 billion. The market share of U.K. baked goods is more evenly distributed than in Germany, with approximately 51 per cent of products being produced by national companies, 25 per cent by artisanal bakeries and 24 per cent by private labels. Pastries are quickly gaining popularity within the U.K., especially as a breakfast item. As ethnic flavours are increasing in popularity in the U.K., consumers are constantly seeking unique baked goods such as naan bread, flat bread and cornbread. U.K. speciality bread sales increased by eight per cent in 2011 exceeding the two percent growth in the overall baked goods market. This market could present an opportunity for some B.C. processors who have innovative products to export.

**Biscuits/Cookies** - Due to the increased awareness of health and wellness within Germany, the savoury biscuits and crackers market is expected to experience more growth than the sweet biscuit market in the next five years (three per cent and one per cent respectively). Although 83 per cent (US\$ 1.6 billion) of sales in 2011 were in sweet biscuits, cookies accounted for the smallest portion and presents room for growth. National and multinational companies are often unable to compete with private labels in Germany, as discounters are highly entrenched in sales and domestic manufacturers benefit from high consumer loyalty. With the market already quite saturated and at a stage of low consumption and low growth, this may not be the best market for B.C. processors to enter into at this time. In the U.K., the trend toward healthy eating has surged the sales of plain biscuits, although consumers are becoming more open to new flavours. British manufacturer United Biscuits Plc (UB) is a dominant player, with 50 per cent of the US\$823 million savoury biscuits and crackers market and 20 per cent of the US\$2.7 billion sweet biscuits market in 2011. Eating tea with biscuits is a long standing British tradition, with 54 per cent of residents in 2011 saying they regularly partake in this activity. Although this market in the U.K. is at a level of high consumption and high growth, the number of domestic processors and private labels already established act as a deterrent for B.C. brands to enter the saturated market.

**Breakfast Cereals** – In Germany, ready-to-eat (RTE) cereals captured almost all of the retail sales of breakfast cereals in 2011, accounting for US\$880 million. Hot breakfast cereals were only just introduced into the market in 2011. Almost every category of the breakfast cereals market experienced a decrease in sales in 2011, except for muesli cereals with US\$375 million. This reflects the overall trend toward healthier breakfast choices, and suggests that B.C. breakfast cereal processors should focus on healthy ingredients if entering this market. Residents of the U.K. consume the most breakfast cereal of all E.U. nations, accounting for US\$3 billion in retail sales in 2011. Sales of RTE cereals were at US\$2.6 billion last year and almost 90 per cent of adults consume cold cereal on a daily basis. Kellogg Co is the biggest player in the overall market, with 33 per cent of market share. This market is already quite saturated, with an average of 50 new

breakfast cereal products being launched per year since 2008. As with Germany, it may be possible for B.C. breakfast cereal processors to capitalize on the health and wellness trend by entering the U.K. market with natural and healthy products, as well as eco-friendly packaging.

**Sauces, Dressings and Condiments** – The dips market in Germany is a promising market for B.C. processors, as the retail value sales of dips have increased at an annual average of 12 per cent over the past five years, rising from US\$70.2 million in 2007 to US\$111.4 million in 2011. Although the majority of sales were driven by wet/cooking sauces in 2011 with US\$2.2 billion, the dips market was the fastest growing. The dips market is not yet saturated in Germany and it is forecasted that it will witness positive value and volume growth in the next five years. Other table sauces, such as mayonnaise and regular salad dressings, are expected to see negative development due to health trends. The overall sauces market is fairly saturated; however, the market is lacking innovative products. In 2011, 85 per cent of products launched were a new product or variation, showing that manufacturers are realizing the importance of product differentiation. In the U.K., cooking sauces accounted for over half of the total sales of the market with US\$2.3 billion, with eastern flavours such as chili sauces and soy based sauces seeing the quickest growth. U.K. consumers are willing to pay a higher per unit price for individual sauce packets, as they can accommodate busier schedules. This market is quite saturated with well known brands, but may be a viable option for B.C. processors with innovative products and a strong knowledge of the ethnic food market.

**Snack Foods** – The snack foods market includes snack bars and sweet and savoury snacks. Granola/muesli bars accounted for the majority of sales in Germany's snack bars market of US\$161 million, whereas potato chips/crisps accounted for the majority of sales in the much larger sweet and savoury snacks market of US\$2.6 billion. The overall market is very diverse, with snack foods sold in smaller packages being encouraged by German lifestyle trends. The success of this market is limited by the growth of other processed food industries, in particular baked goods. The future growth of Germany's snack bar market may be limited by the saturation and maturity of the market, as well as the immense competition from other categories, and may be difficult to penetrate for B.C. processors. Euromonitor predicts that new launches within the sweet and savoury market will not be successful unless they are part of a well developed and broad product portfolio. In the U.K., the fastest growing products among snack bars in 2011 were energy and nutrition bars (US\$72 million), while the fastest growing products in the sweet and savoury market were tortilla/corn chips (US\$394 million). The majority of overall sales in the entire snack industry in the U.K. were driven by potato chips/crisps (US\$2.8 billion). British consumers eat approximately 51 per cent of all potato chips/crisps, crackers and nuts consumed in Europe. While the trend for healthy eating is on the rise, it is unlikely that there will be a significant fall in sales of potato chips/crisps. The snack bar market in the U.K. presents a possible opportunity for B.C. processors, as the market has many players and is very diverse. The snack bar market has an expected growth rate of five per cent annually over the next five years, specifically with energy and nutrition bars (15 per cent), and granola/muesli bars (nine per cent) showing promising growth. The sweet and savoury snacks market shows six per cent forecasted growth in the next five years and is currently dominated by some big players.

**Spreads** - In both Germany and the U.K., jams and preserves are the top selling products in the spreads market, followed by honey. In Germany, the US\$1.8 billion spreads market is saturated with domestic processors and private labels, with only four of the 15 significant companies being based outside of Germany. This market is experiencing low growth because of a high level of saturation and a stable per capita consumption and would be difficult for B.C. processors to penetrate. In the U.K., the spreads market was worth US\$754 million in 2011, with the market for jams and preserves (US\$308 million) being mature and losing out to trendier spreads such as peanut butter and chocolate spreads. Many national and multinational companies are already attempting to revive the market through new flavours. Private labels also have a strong position in this market, and if unit prices continue to increase consumers would likely turn to less expensive private labels, making it difficult for B.C.'s food processors to introduce new brands into the market.

Of the German processed food markets discussed in this report, it seems that for B.C. processors the most feasible options for exports exists in healthy breakfast cereals market and the dips market. For the U.K., it seems that the most feasible options for exports exists in the baked goods market, the healthy breakfast cereals market, the sauces market and the snack bars market.

## PURPOSE

The B.C. Ministry of Agriculture, with support from Agriculture and Agri-food Canada, conducted this study to identify market opportunities for B.C.'s processed food in Germany and the United Kingdom (U.K.). This report covers the following product categories: baked goods; biscuits and cookies; breakfast cereals; sauces, dressings and condiments; and, snacks and spreads. These categories were chosen based on feedback from two surveys conducted by the Small-Scale Food Processing Association of its membership in 2011.

The purpose of this report is to:

- describe the differences and similarities between Germany & U.K. food markets;
- explain the current trends affecting demand for processed foods in Germany and the U.K.;
- describe how current trends may affect consumers' eating and shopping habits; and,
- provide sector-specific information on market size, top competitors and popular products.

## INTRODUCTION

This report begins with a brief overview of B.C.'s food processing industry, before moving into a detailed comparison of opportunities for B.C.'s processed food products in Germany and U.K. The report explains how trade relations are affected by Germany and the U.K. being members of the European Union (E.U.), followed by a macro-comparison of Germany and the U.K.'s economy and demographics, as well as information on shopping habits, eating habits and major trends influencing general consumer behaviour in each market. The report concludes with sector-specific market intelligence to help B.C.'s food processors understand which products are most popular, who the top competitors are, how big each market is and where the greatest opportunities may exist. The majority of information presented in this report is from Euromonitor, an independent provider of market intelligence. All monetary mentions within this report are in current US Dollar value, unless otherwise mentioned.

This study was funded through the *Growing Forward Trade and Market Development for the Canadian Agri-food and Agri-based Products Sector Program*.<sup>1</sup> This program aims to facilitate industry success in global and domestic markets. Through industry-led marketing strategies, a Canada branding strategy, market intelligence and services for exporters, and actions to maintain and improve market access, the program helps equip the sector to seize market opportunities and address emerging challenges.

## B.C.'S FOOD AND BEVERAGE PROCESSING INDUSTRY

B.C.'s food and beverage processing industry ranked third largest in Canada in terms of number of establishments and people employed in 2011, with over 1,400 small and medium sized companies. B.C.'s processors generated \$7.5 billion in sales, making it the largest manufacturing industry in the province. More than 90 per cent of these processors had less than 100 employees, highlighting the important contribution that B.C.'s food and beverage processors have made in supporting a strong, diversified economy.<sup>2</sup>

The B.C. Small-Scale Food Processors Association represents food and beverage processors from all across the province who produce an impressive array of products that meet the diverse tastes of consumers in Canada and around the world. There are currently over 220 processors listed on the B.C. Small-Scale Food Processors Association's Speciality Food Directory ([www.bcspecialtyfood.ca](http://www.bcspecialtyfood.ca)).

## GERMANY & THE UNITED KINGDOM: MEMBERS OF THE EUROPEAN UNION

Germany and the United Kingdom (U.K.) are both members of the European Union (E.U.), a political and economic partnership consisting of 27 European countries. Created in the aftermath of World War II, the E.U. has helped to create economic stability and economic interdependence between member countries through the removal of trade barriers, which then allowed products and people to move freely between member countries.<sup>3</sup>

In addition to being the world's largest single market, with a Gross Domestic Product (GDP)\* that was 10 times as large as Canada's in 2011,<sup>4,5</sup> the E.U. is also the world's largest trader and foreign investor.<sup>6</sup> Trading of goods, services and people within the member states is encouraged; this permits food products to be imported into one country and then distributed to another, as long as the product is not a threat to public health, safety or the environment.<sup>7</sup> Where food laws are not yet E.U.-harmonized, importation of food products must follow the regulations of the member state.<sup>8</sup> More information on specific import regulations related to processed foods entering the E.U., Germany and the U.K. can be found on the Canadian Trade Commissioner Service website ([www.tradecommissioner.gc.ca/eng/document.jsp?did=97445](http://www.tradecommissioner.gc.ca/eng/document.jsp?did=97445)).

A common currency, the euro, was created through the formation of the E.U. and is currently used by 17 of the 27 participating members. The euro is very globally influential, being the second most commonly traded currency and the second largest reserve currency in the world behind the US Dollar. While Germany is one of the 17 member countries that now uses the euro, the U.K. still uses the pound sterling as the majority of British residents do not believe that switching to the euro will help the economy or the financial status of their country.<sup>9</sup>

Canada and the E.U. are connected through multiple direct trade agreements, one of which is through membership in the World Trade Organization (WTO). The WTO mandates participating countries to follow the trade regulations which were agreed upon by all members and offers dispute settlement.<sup>10</sup>

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) is a free trade agreement currently being negotiated between Canada and the E.U. to eliminate tariffs and remove trade barriers.<sup>11</sup> Currently, Canadian products that are shipped to the E.U. are subject to the added costs of import tariffs, which makes them more expensive to consumers than products produced within the E.U. After CETA is introduced, Canadian products will have a competitive advantage within the E.U. relative to other foreign countries that do not have similar trade agreements, and will be able to better compete with domestic products.<sup>12</sup>

Figure 1: European Union States

(Source: [www.hopbrussels.com](http://www.hopbrussels.com))



\* GDP represents the value of final goods and services produced within a country. For Germany in 2011, the GDP was almost US\$3 million, making the ranking 5<sup>th</sup> in the world and 1<sup>st</sup> in Europe.

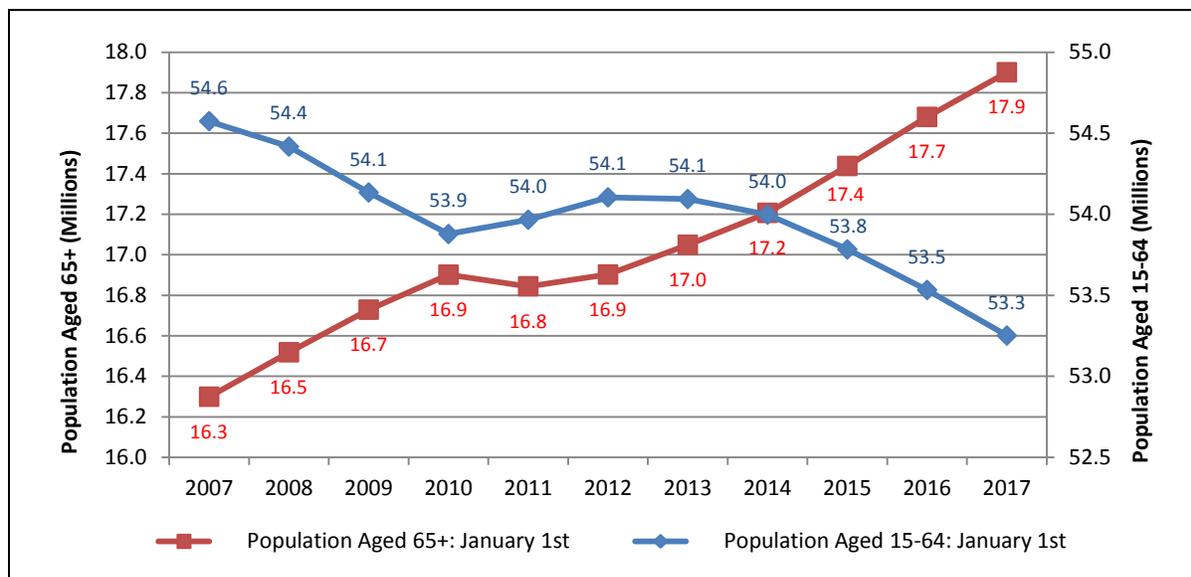
# GERMANY: GENERAL MARKET OVERVIEW

## ECONOMY AND DEMOGRAPHICS

Within the E.U., Germany is the most populous country and has the largest national economy. Since the global financial crisis of 2008/09, Germany has shown the greatest recovery of any E.U. nation.<sup>13</sup> In 2011/12, Germany demonstrated the most economic growth of any western European country.<sup>14</sup> Studies have shown that German residents are much more positive than other European countries in regards to their outlook on future economic and income expectations, as well as their willingness to purchase.<sup>15</sup>

Although the economic characteristics of Germany seem optimistic, the country is facing an important social and political challenge. As a result of a low birth rate and growing life expectancy,<sup>16</sup> the population continues to shrink while the proportion of seniors continues to rise (see *Figure 2: Population Age to 2017 in Germany*).<sup>17</sup> The senior population is expected to increase to more than 30 per cent of the total population by 2060, from the current 20 per cent.<sup>18</sup>

Figure 2: Population Age to 2017 in Germany



Germany has the third highest immigration rate in the E.U.,<sup>19</sup> which has encouraged many foreign foods to become commonplace within Germany. An example of this trend is how Turkish ‘doner kebabs’ are the number one fast food choice and Italian pastas and pizzas are considered staples within the German diet.<sup>20</sup> Germany is the third largest producer in the E.U. of agricultural products.<sup>21</sup>

Agrifood trade between B.C. and Germany has seen an overall decline in recent years, with a five year average decline of 10 per cent, from US\$12.8 million in 2007 to eight million US Dollars (USD) in 2011.<sup>22</sup> These trends are most likely attributed to both the global recession and Germany’s food self-sufficiency rate of 93 per cent.<sup>23</sup> Germany did, however, still import US\$98.2 billion in agriculture products in 2011.<sup>24</sup> Furthermore, exports from B.C. to Germany saw a 25.7 per cent increase between 2010 and 2011, from over six million USD to over eight million USD.<sup>25</sup> The top agrifood products exported from B.C. to Germany are fish liver and roe (frozen, dried or smoked) and fresh sweet cherries.<sup>26</sup> The GDP for Germany acts as another attraction as its population of approximately 81 million people, almost three times the population of Canada, demonstrated a GDP per capita growth of three per cent in 2011, which was higher than Canada with just over two per cent. Germany’s total GDP for 2011 was the third highest in Western Europe, accounting for almost 15 per cent of Western Europe’s total GDP. This can be compared to the U.K.’s total GDP for 2011, which accounted for just over eight per cent of Western Europe’s total.<sup>27</sup>

## SHOPPING AND EATING HABITS

During the global recession of 2008/09, Germany's spending on food decreased by six per cent; however, the nation experienced a quick recovery, with consumer spending on food increasing 10 per cent from 2010 to 2011, rising from US\$175.2 billion to US\$193.2 billion. As previously mentioned, Germany's positive outlook on the economy and a high willingness to spend is driving economic activity.<sup>28</sup>

More than half of German consumers shop several times a week, while a third of them do a weekly grocery shop. When it comes to grocery shopping as a family, German parents highly encourage their children to actively participate in selecting the foods to buy. Children are encouraged to learn about the importance of food and nutrition, thus parents tend to purchase less conventional snacks and processed foods. This also means that consuming healthier foods will be a long-term trend.<sup>29</sup>

Food prices are generally low and Germans are traditionally very price-sensitive. The majority of people shop at discounters regularly while less than 20 per cent of people frequent farmers markets. Large discounter chains such as Aldi are widely-frequented as they often carry less-expensive, private-label products. Germans generally prefer to purchase these products over branded products that target niche markets. Internet retailing is slowly gaining popularity, with German consumers generally skeptical of the freshness and safety of buying food online.<sup>30</sup>

Over 90 per cent of German families continue to have at least one meal together each day. Furthermore, 90 per cent of German families cook several times a week and the use of fresh, unprocessed foods is common. Due to large Italian immigration, Italian cuisine is very popular as are other ethnic cuisines such as Greek, Spanish and Asian. The majority of Germans believe that breakfast is the most important meal of the day, which usually consists of bread, cereal and a hot drink.<sup>31</sup>

For adults, snacking is a common habit during the busy week, but most are health-conscious and choose to snack on fruits, yogurt and raw vegetables. An exception to this is during mid-afternoon, when there is a strong tradition to enjoy 'coffee and cake'. Other less common choices for between meals include sweet and savoury snacks, such as chocolate, cereal, cake bars, potato chips/crisps or nuts; only seven per cent of Germans prefer sweet snacks compared to almost 30 per cent who prefer fresh and raw vegetables.<sup>32</sup>

## MAJOR TRENDS

### Ageing Population

By 2050, 34 per cent of the German population will be seniors, thus this age group will become a major focus for food processors.<sup>33</sup> As of 2010, Germany had the lowest number of people of all E.U. member countries who were considered to be within the working age range (15-64), at 17.4 per cent of the country's population. Germany also had the highest share of people over 65, at 20.7 per cent.<sup>34</sup> Furthermore, the proportion of the population over the age of 65 rose from 16.8 per cent of the total population in 2001 to 20.6 per cent of the total population in 2011.<sup>35</sup>

Germany's senior population tend to be the least price sensitive of all consumer groups, and are generally willing to pay more money for a convenient product. In addition, healthy, functional and easy to prepare dishes appeal greatly to German seniors, especially traditional German dishes.<sup>36</sup> German seniors are not satisfied with the current packaging of many products, claiming that they are too difficult to open. Processors of products sold in Germany have begun listening to these demands, and Mintel's Global New Product Database (GNPD) – a privately owned market research firm - indicated that products carrying the 'ease of use' claim tripled in the past five years. Seniors in Germany are also of the opinion that nutrition labels and instructions are too difficult to read.<sup>37</sup>

### Convenience

German consumers are allocating less time for traditional grocery shopping due to busier schedules; this has caused Germans to seek out other ways to purchase food products. While online food shopping is not as popular among consumers as it is in the U.K., the trend is slowly progressing and gaining popularity within many of the leading grocery

retailers in Germany. To provide consumers ease in choosing and comparing products, many online retailers have provided product information on their websites.<sup>38</sup>

Many new products in Germany are attracting consumers through claims that appeal to a busier lifestyle. Mintel reveals that five per cent of all new German food products display the ‘microwaveable’ claim on their packaging (see *Table 1: Top 10 Product Attribute Claims for German Processed Foods*). The ‘on the go’ claim has also increased, from having only eight new products in this category in January 2007 to approximately 100 products at the beginning of 2012. Furthermore, new products claiming to have ‘convenient packaging’ have doubled since 2007.<sup>39</sup>

*Table 1: Top 10 Product Attribute Claims for German Processed Foods*

RANK	CLAIMS	2009	2010	2011	2012	10-11 GROWTH	11-12 GROWTH
1	Organic	1,310	1,302	1,353	<b>1,325</b>	4%	-2%
2	No Additives/Preservatives	1,346	1,392	1,258	<b>1,066</b>	-10%	-15%
3	Low/No/Reduced Allergen	458	606	724	<b>749</b>	19%	3%
4	Gluten-Free	360	452	543	<b>536</b>	20%	-1%
5	Low/No/Reduced Lactose	252	289	382	<b>403</b>	32%	5%
6	Ease of Use	249	353	379	<b>352</b>	7%	-7%
7	Premium	698	518	366	<b>323</b>	-29%	-12%
8	Low/No/Reduced Fat	478	453	338	<b>287</b>	-25%	-15%
9	Microwaveable	495	498	395	<b>281</b>	-21%	-29%
10	Vegetarian	200	145	191	<b>255</b>	32%	34%

Source: Mintel

#### Discount Stores/Private Labels

As previously mentioned, Germans are known to be price sensitive and have low brand loyalty; therefore, discounters are the most popular shopping retailers for the majority of Germans as they carry a variety of low-priced, private label products. For processed foods in 2011, discounters were responsible for 41 per cent of sales. German based discounters, such as Aldi, have developed strong consumer loyalty, beating out many national and multinational companies. With discounters continuing to strengthen their positions, most mid-priced products and multi-national brands could eventually be forced out of the market.<sup>40</sup>

#### Food Choices

Veganism and vegetarianism are both on the rise in Germany, with Mintel indicating that these claims on food products have increased 20 per cent and 235 per cent respectively in the past five years.<sup>41</sup> An increasing amount of German people are lowering their meat consumption and/or only eating organic, high-quality meats due to an increased importance being put on animal welfare and lowering CO<sub>2</sub> emissions to address environmental awareness.<sup>42</sup> Asian cuisine is also gaining popularity in Germany, with overall demand rising for foreign and ethnic foods and spices.<sup>43</sup> This can be partially attributed to Germany having a high immigration rate, with the third highest ranking in the United Nations (UN) for international migrants.<sup>44</sup> Comparatively, B.C. is one of the most multicultural provinces in Canada, having the highest proportion of visible minorities in the country. Over 20 per cent of B.C.’s population represent an Asian ethnicity, giving B.C. processors an opportunity to have their products directly exposed to and influenced by Asian culture.<sup>45</sup>

#### Natural and Organic Products

Germany has one of the longest traditions of organic farming in the world, and is currently one of the largest producers and importers of organic food products. The German government began supporting organic farming in the 1990s, causing many conventional farmers to switch to organic farms to take advantage of government subsidies.<sup>46</sup> According to Mintel, the number of products with an ‘organic’ claim has tripled since 2007 and many more companies are using eco-seals on their products.<sup>47</sup> The recent recession had very little effect on the German preference for organic foods,

even though German's are typically very price-sensitive.<sup>48</sup> The total sales of organics produced in 2010 reached nearly six billion Euros<sup>49</sup> and Mintel indicated that products carrying an 'all natural' claim increased by 40 per cent since 2007.<sup>50</sup>

The German organic processed food market is the third fastest growing market in the entire E.U.<sup>51</sup> The demand for organic products in Germany, however, is exceeding the domestic supply, causing the country to rely on imports.<sup>52</sup> With the rising interest in natural and organic foods, certain consumer groups are willing to pay the extra dollar for high-quality food products.<sup>53</sup>

Cautious Market Recovery

Even though the German economy is steadily recovering from the recent global recession, German consumers are still cautious of a return to economic insecurity. This has caused the overall purchasing of processed foods to not grow as exponentially as other countries. For example, Euromonitor states that in Canada between 2006 and 2011 the market size of packaged goods increased by 20.5 per cent.<sup>54</sup> Comparatively, in Germany in the same years the market size of packaged goods increased by over six per cent. This is because German consumers generally substituted low value items for products that they considered essential, whereas they would tend to avoid buying products that were considered nonessential.<sup>55</sup>

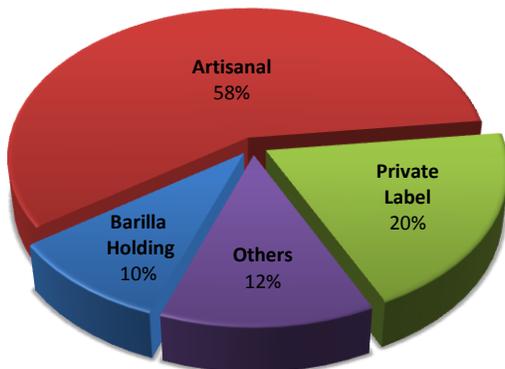
**GERMANY: OVERVIEW OF PROCESSED FOOD MARKET**

The following section provides insight into some of the processed food categories in Germany, including information on market size, distribution, popular products, current trends and top competitors. The categories covered in this analysis were chosen based on feedback from members of B.C.'s Small-Scale Food Processors Association that indicated there was interest to understand the market for these products in Germany.

**BAKED GOODS\***

Baked goods sales in Germany in current retail value terms increased by less than one per cent between 2010 and 2011, rising from US\$17.45 billion to US\$17.53 billion. Leading in retail value sales among the sub-categories of baked goods was bread with US\$12.4 billion in sales in 2011, followed by cakes with US\$3.7 billion in sales, and pastries with US\$1.5 billion in sales. In retail volume terms, baked goods fell by 2.4 per cent in 2011, from 5.7 million tonnes to 5.5 million tonnes. Among this was bread decreasing almost four per cent and cakes decreasing over two per cent, with pastries increasing by 0.1 per cent. Grocery retailers are the top distributors for baked goods, responsible for 97 per cent of total retail value shares in 2011. Discounters accounted for 38 per cent of all grocery retailer purchases, with top discounters and supermarkets such as Aldi, Lidl, Rewe, and Edeka-Zentrale continuing to dominate the retail market.<sup>56</sup>

*Figure 3: Baked Goods Retail Value Shares in Germany*



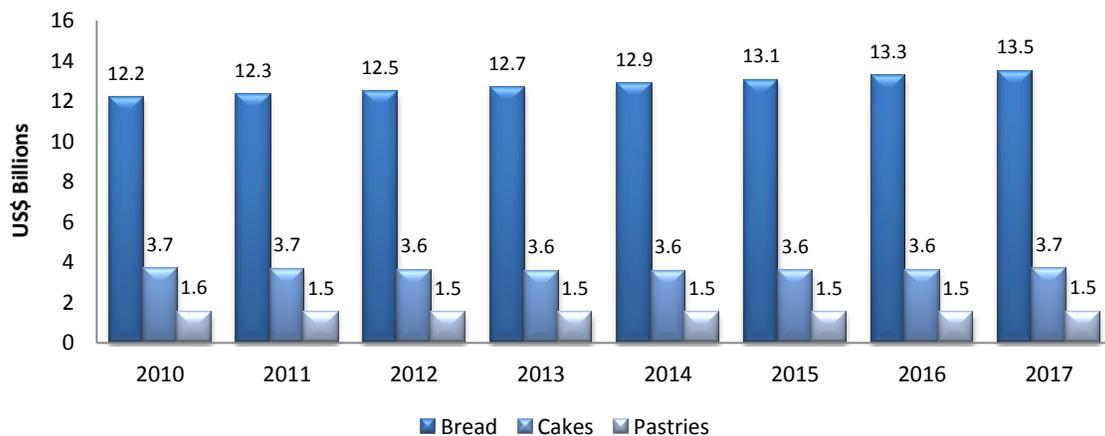
Germany's consumers are extremely price sensitive, so the allure of national brands generally do not affect their purchasing decisions. For all baked goods, the top three companies accounted for only 15 per cent (US\$2.8 billion) of the retail value share; artisanal bakeries, however, dominate with 58 per cent (US\$10.1 billion) and private labels held 20 per cent (US\$3.4 billion) of shares in 2011 (see *Figure 3: Baked Goods Retail Value Shares in Germany*). The top two national companies for all baked goods in Germany are Barilla Holding SpA with over nine per cent (US\$1.7 billion) of retail value shares followed by Harry-Brot with over four per cent (US\$749 thousand). Due to the price sensitivity of consumers, however, the growth of private label products is quite prominent. Private labels in Germany compete on both low price and high quality, sometimes being considered as higher quality than other premium branded products.<sup>57</sup>

\* "Baked Goods" includes all bread products, pastries and cakes

Baked goods are a core food culture in most German households, with bread being particularly popular. Bread products are usually consumed at breakfast and dinner,<sup>58</sup> with appreciation for creative and innovative breads as well as traditional and modern breads. Germany's economy benefits greatly from the bakery industry; in 2010, 33,000 young people (11 per cent of all workers within the industry) were in training to become professional bakers.<sup>59</sup> The growing trend towards healthy eating is also benefiting small, local bakeries, as they offer more organic and natural baked goods.<sup>60</sup>

Despite the fact that baked goods are an important aspect of the everyday German lifestyle, Euromonitor states that the retail sales of this industry are anticipated to decrease in volume terms by three per cent over the next four years. It is predicted that this decline will be due to the advancement of technology in providing baked goods with a longer shelf life. Increasing input prices are expected to increase the price per unit, thus raising the retail value of baked goods in Germany (see *Figure 4: Past and Predicted Baked Goods Retail Sales in Germany*). Furthermore, it is predicted that discounters and supermarkets will continue to dominate the overall market while consumers will continue to turn to local bakeries for high-value and high-quality products. With a growing focus on health and wellness, a trend towards regional products that consumers deem trustworthy is expected to increase in popularity.<sup>61</sup>

*Figure 4: Past and Predicted Baked Goods Retail Sales in Germany*



Currently, B.C. does not export any baked goods to Germany.<sup>62</sup> The German baked goods market is dominated by domestic manufacturers, as they have advanced knowledge of consumers' tastes and have saturated the market. This could be a major barrier to B.C. entering the market and could be very difficult to overcome.<sup>63</sup> Close to 80 per cent of the baked goods market in Germany is dominated by private labels and artisanal bakeries, and the other 20 per cent is attributed to mainly domestic German companies, leaving very little opportunities for outside players. Euromonitor suggests that to compete with private labels in Germany, international companies must sell a product that is unique and obviously differentiated from the private label products currently on the market.<sup>64</sup>

## **BISCUITS/COOKIES\***

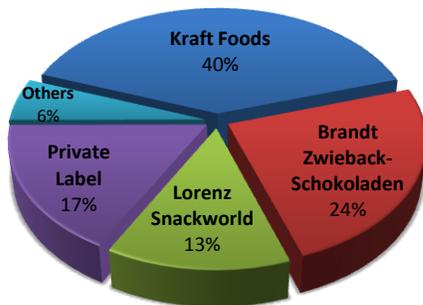
Biscuits/cookies sales in Germany in current retail value terms increased by one per cent between 2010 and 2011, rising from US\$1.89 billion to US\$1.91 billion. Sales in sweet biscuits accounted for 83.5 per cent (US\$1.6 billion) of the biscuits/cookies market, whereas savoury biscuits and crackers sales accounted for 16.5 per cent (US\$315 million). Of total sweet biscuits sales, plain biscuit sales accounted for 42.7 per cent (US\$680 million), chocolate coated biscuits accounted for 33.3 per cent (US\$531 million), filled biscuits accounted for 12.7 per cent (US\$203 million), sandwich biscuits accounted for nine and a half per cent (US\$152 million) and cookies accounted for one and a half per cent (US\$28 million). In volume terms, the biscuits markets increased slightly by 0.4 per cent in 2011 to 338 thousand tonnes. The fastest growing products in 2011 included: chocolate coated biscuits, rising over two per cent to 75.9 thousand

\* "Biscuits/Cookies" includes all sweet biscuits, savoury biscuits/cookies, crackers and bread substitutes

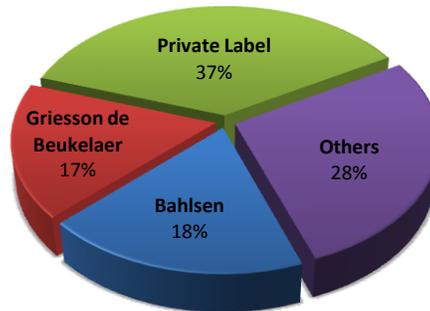
tonnes; cookies, rising two per cent to over five thousand tonnes; and, sandwich biscuits, rising one per cent to 21.9 thousand tonnes. Currently, discounters dominate as grocery retailers with 41 per cent of total retail sales, followed by supermarkets and hypermarkets, generating 27.5 per cent and 20 per cent of total retail sales respectively.<sup>65</sup>

For all biscuit and cookie products, private labels account for 33.4 per cent (US\$637 million) of company shares in retail value terms in 2011, followed by the top three companies Bahlsen GmbH & Co KG (16 per cent), Griesson de Beukelaer (14 per cent) and Kraft Foods Inc (11 per cent). For savoury biscuits, Kraft Foods Inc holds the majority share at 40 per cent (US\$125 million), but only holds over five per cent (US\$87 million) for sweet biscuits, whereas private labels hold the majority, at 36 per cent (US\$583 million) (see *Figure 5: Savoury Biscuits and Crackers Retail Value Shares in Germany* and *Figure 6: Sweet Biscuits Retail Value Shares in Germany*). When Kraft Foods Inc entered the sweet biscuit market in Germany in 2009, the market was already quite saturated and private labels held close to 40 per cent of market share.<sup>66</sup>

*Figure 5: Savoury Biscuits and Crackers Retail Value Shares in Germany*

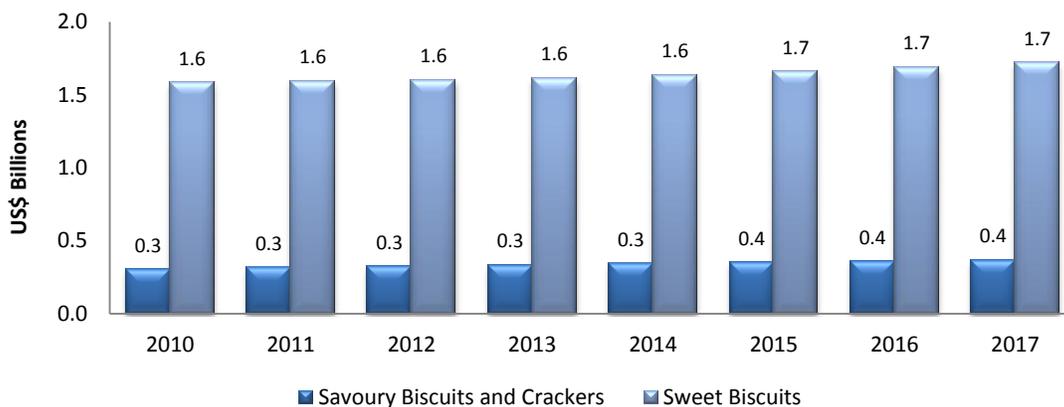


*Figure 6: Sweet Biscuits Retail Value Shares in Germany*



Among sweet biscuits, cookies account for the smallest portion of market share. Although sweet biscuits have a much larger market size in retail value terms (see *Figure 7: Past and Predicted Biscuits and Crackers Retail Sales in Germany*), savoury biscuits and crackers are expected to lead in growth as consumers are more aware of their health. While biscuit products are not generally in line with the current health and wellness trend, companies are continuing to launch more varieties of healthy cookies.<sup>67</sup>

*Figure 7: Past and Predicted Biscuits and Crackers Retail Sales in Germany*



Mintel indicates that the most popular claims in new biscuit products since 2008 have been ‘organic’, ‘no additives/preservatives’, ‘low/no/reduced allergen’, ‘gluten-free’, ‘wholegrain’ and ‘seasonal’ (see *Table 2: Top 10 Product Attribute Claims for Biscuits and Crackers*). Furthermore, of new products launched in the past five years with natural claims, 62 per cent of them have been from non-established products lines.<sup>68</sup> This demonstrates that a lot of manufacturers are introducing new brands into the market to cater to the increasing demand for natural products. This

could present an opportunity for B.C. manufacturers to introduce new brands that provide the marketable characteristics mentioned above. This demonstrates that manufacturers are aware of the trends of healthier eating, so it could be more difficult for B.C. to enter as a completely new brand.

*Table 2: Top 10 Product Attribute Claims for Biscuits and Crackers*

RANK	CLAIMS	2010	2011	2012	10-11 GROWTH	11-12 GROWTH
1	Vegetarian	164	233	184	42%	-21%
2	No Additives/Preservatives	86	109	91	27%	-17%
3	Economy	6	18	57	200%	217%
4	Ethical - Environmentally Friendly Package	75	91	57	21%	-37%
5	Low/No/Reduced Allergen	40	32	42	-20%	31%
6	Low/No/Reduced Transfats	45	51	40	13%	-22%
7	Gluten-Free	31	27	39	-13%	44%
8	High/Added Fiber	3	25	28	733%	12%
9	Low/No/Reduced Fat	12	14	27	17%	93%
10	Wholegrain	25	31	24	24%	-23%

Source: Mintel

Unit prices for biscuits and cookies in all categories are expected to increase as input prices such as wheat, sugar and cacao are expected to rise; however, manufacturers may have a hard time raising prices as retailers have such strong bargaining power. Although domestic manufacturers benefit from high consumer loyalty, the entry of multinational company Kraft Foods in late 2009 has intensified the competition of biscuits in Germany. In addition to the intense competition from domestic manufacturers and large multinational companies, this market faces low consumption and growth rates and is already quite saturated. As a result, it may be difficult for B.C.'s processors to introduce new products into this market.<sup>69 70</sup>

## BREAKFAST CEREALS

Breakfast cereals in Germany in current retail value terms decreased by over one per cent in 2011, falling from US\$890.8 million to US\$880.4 million. Almost every sub-category of breakfast cereals experienced a decrease between one and a half per cent and two per cent. In retail volume terms, the breakfast cereal market fell by almost two per cent in 2011, falling to 194.3 thousand tonnes. Ready-to-eat (RTE) cereals led the category in 2011, capturing almost all of the retail sales of breakfast cereals. Family breakfast cereals accounted for 66 per cent of sales with US\$580 million, with muesli being the most popular cereal type at US\$373.2 million. Children's breakfast cereals accounted for 34 per cent of the RTE cereal market, with sales of US\$300.2 million.<sup>71</sup>

Consumers are beginning to realize that the processing that is done to many breakfast cereals strips away the nutrients.<sup>72</sup> Natural 'superfoods' in cereals such as chia seeds, quinoa and sprouted buckwheat are gaining popularity. Cereals and cereal bars that emphasize these qualities with attractive packaging are proving successful in this saturated market. It is also suggested that manufacturers attempt to differentiate themselves from the sweet breakfast cereal options by including new flavours such as peanut butter.<sup>73</sup> Increased sales were witnessed in muesli cereals packed in boxes with a transparent sheet section allowing the customer to see the actual product, demonstrating the importance of packaging type.<sup>74</sup>

Children's breakfast cereals are declining in popularity because of the ageing population and low birth rate within Germany, as well as the trend toward healthier breakfast choices.<sup>75</sup> The one exception to the overall decline in this market was seen in muesli cereals, with sales increasing from US\$372.8 million to US\$373.2 million in 2011. Euromonitor predicts that purchases of RTE cereals will decrease in value until 2013, but are expected to increase to over US\$900 million by 2017 (see *Figure 8: Past and Predicted RTE Cereals Retail Sales in Germany*).<sup>76</sup>

Figure 8: Past and Predicted RTE Cereals Retail Sales in Germany

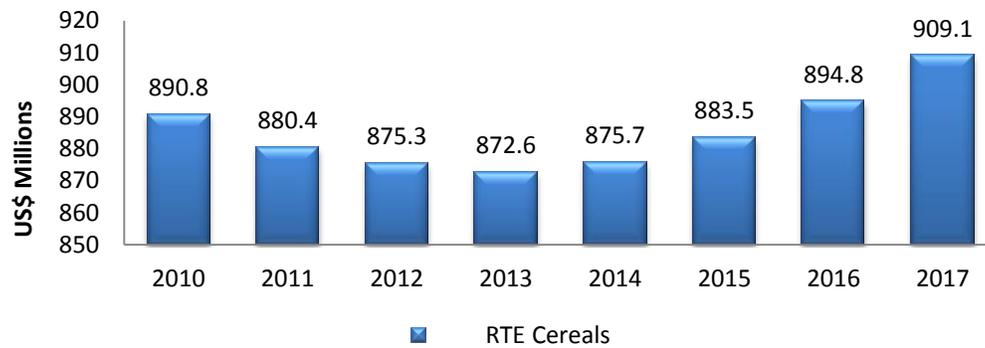
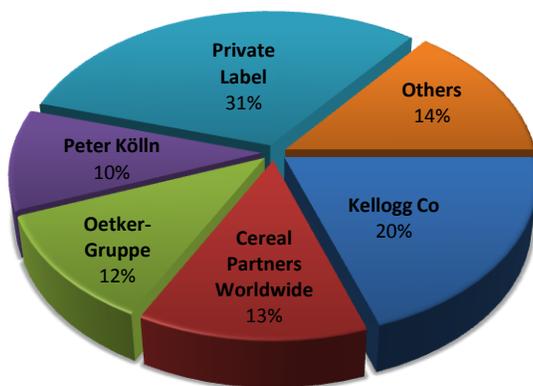


Figure 9: RTE Cereals Retail Value Shares in Germany



Hot breakfast cereals were introduced to the German market in 2011, with seven products launched in 2011 and 17 launched by the end of October 2012.<sup>77</sup> As mentioned in previous sections, shopping at discounters is the most popular method of grocery shopping for German consumers. Private label breakfast cereals accounted for 31 per cent (US\$275 million) of the market share. The most prevalent multinational company is Kellogg Co, with 20 per cent (US\$174 million) of the market share in retail value in 2011, followed by Cereal Partners Worldwide with 13 per cent (US\$115 million) and Oetker-Gruppe with 12 per cent (US\$100 million) (see *Figure 9: RTE Cereals Retail Value Shares in Germany*). Kellogg Co also leads the children’s breakfast cereal market with 32 per cent (US\$97 million); however, the growing market of muesli cereals was dominated by Oetker-Gruppe and Peter Kölln KGaA with market share of 27 per cent and 24 per cent respectively.<sup>78</sup>

Mintel states that since 2009 the most popular claims among 443 new breakfast cereal products launched were ‘organic’ (41 per cent) and ‘wholegrain’ (24 per cent).<sup>79</sup> Sugary children cereals are expected to lose popularity, because of the health conscious trend and declining number of children aged 14 and under.<sup>80</sup> According to Mintel, the trend towards organic cereals is expected to increase as these products showed the highest number of new product launches in 2011. Wholegrain products are also increasing in popularity with 87 new products available in the past five years including 59 new varieties.<sup>81</sup> The trend toward superfoods and natural and wholegrain products suggests that B.C. processors entering the German breakfast cereal market may want to focus on healthy ingredients.

## SAUCES, DRESSINGS AND CONDIMENTS\*

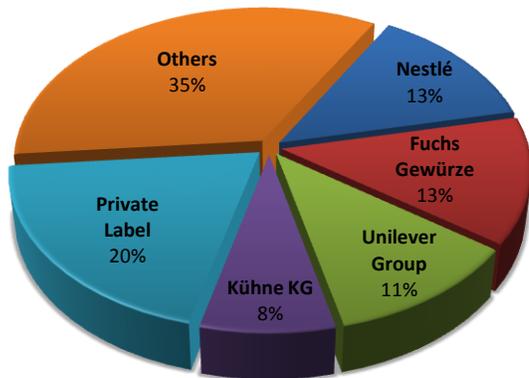
Sauces, dressings and condiments sales in Germany, in current retail value terms, increased by almost two per cent between 2010 and 2011, rising from US\$4.3 billion to US\$4.4 billion. The majority of sales in this sector were driven by wet/cooking sauces<sup>†</sup> at US\$2.1 billion, with top sellers in this category including herbs and spices, pasta sauces and bouillon/stock cubes. Other top selling products were table sauces at US\$1.3 billion, with the most popular of this category being ketchup. In volume terms, Germany’s sauces, dressing and condiments market grew by 0.4 per cent in 2011, rising from 876,500 tonnes to 879,800 tonnes. The fastest growing product was dips, rising four and a half per

\* “Sauces, dressings and condiments” includes: bouillon/stock cubes, tomato pastes and purees, monosodium glutamate (MSG), herbs and spices, soy based sauces, table sauces, wet/cooking sauces, pasta sauces, ketchup, dry sauces/powder mixes, mustard, mayonnaise, vinaigrettes, pickled products, salad dressings, dips, and other sauces, dressings and condiments (Euromonitor definition)

† “Wet/cooking sauces” are liquid sauces/pastes that are added to ingredients, such as vegetables or meat, to make a meal. They are usually categorized by type of cuisines, for example Thai or Italian.

cent to seven thousand tonnes. Grocery retailers accounted for 99.1 per cent of generated sales in 2011, with the majority of sales occurring at discounters (46.1 per cent), supermarkets (21.3 per cent), hypermarkets (15.6 per cent) and independent small grocers (12.3 per cent).<sup>82</sup>

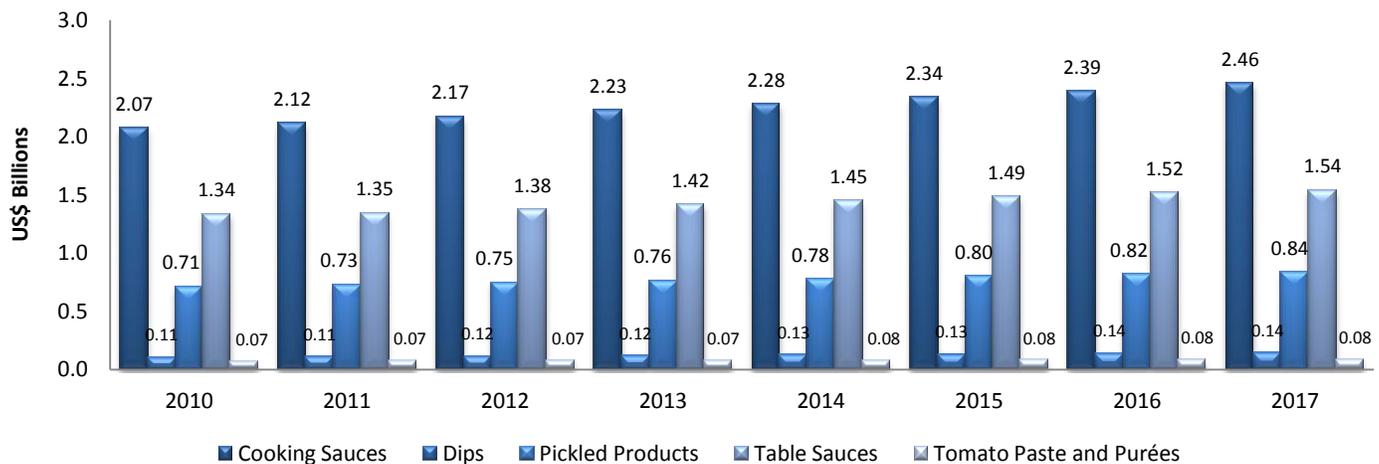
Figure 10: Sauces, Dressings and Condiments Retail Value Shares in Germany



“Knorr” branded sauces, manufactured by the Unilever Group, accounted for 10.4 per cent of sales in the market at the end of 2011, generating US\$454.6 million. Other top brands included “Kühne”, manufactured by Kühne KG Carl, accounting for over seven per cent of the market (US\$334.5 million), and “Maggi”, manufactured by Nestlé SA, accounting for over seven per cent of the market (US\$320.5 million). Private label and other brands generated a combined 55 per cent of total sales,<sup>83</sup> demonstrating that this market in Germany is very diverse and has many successful competitors (see Figure 10: Sauces, Dressings and Condiments Retail Value Shares in Germany). Mintel states that 84.9 per cent of products launched in 2011 were a new product or variation, highlighting the increased focus by manufacturers on product differentiation as opposed to relaunching or repackaging.<sup>84</sup>

In the past five years, the retail value sales of dips have increased at an annual average of 12 per cent, rising from US\$70.2 million in 2007 to US\$111.4 million in 2011. As this market is not yet saturated in Germany, there may be opportunities for B.C. processors to introduce new dip products. It is forecasted that many categories, including dips, will witness positive volume and value development in the next five years (see Figure 11: Past and Predicted Sauces, Dressings and Condiments Retail Sales in Germany); however, due to the current trend of health and wellness, some table sauces, such as regular salad dressings and mayonnaise, are expected to see negative development. According to Euromonitor, the most significant trend within 2011 new product development has been in organic products and health and wellness. The former is encouraged by the environmentally-friendly outlook of German people, whereas the latter is due to sauces, dressings and condiments being viewed as a source of high calories.<sup>85</sup>

Figure 11: Past and Predicted Sauces, Dressings and Condiments Retail Sales in Germany



With the increase of single person households and the decrease of traditional family meals, Euromonitor predicts the main contributors to market growth will be in time saving products, like premade pasta sauces and powder mixes. Also predicted is an increased demand for table sauces, in particular barbecue sauce. Although the market for sauces, dressings and condiments in Germany is fairly saturated, it is also lacking innovative products, which may present opportunities for B.C. processors.<sup>86</sup>

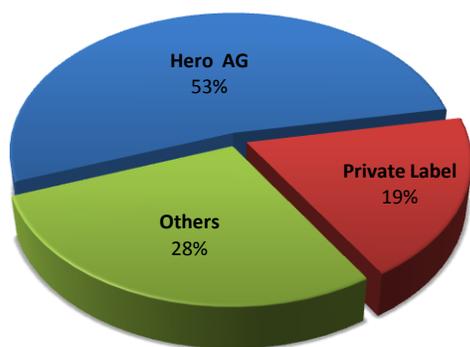
## SNACK FOODS

The snack foods market includes snack bars and sweet and savoury snacks. Snack bars\* sales in Germany in current retail value terms increased by over one per cent between 2010 and 2011, rising from US\$140.2 million to US\$161.2 million. The majority of sales in this market were driven by granola/muesli bars, which accounted for US\$142.3 million out of the total market sales. In retail volume terms, 14.2 million tonnes of snack bars were sold in Germany in 2011, including 13.3 million tonnes of granola/muesli bars. Previously, the market for snack bars dropped by almost two per cent in 2009, and by over one per cent in 2010.<sup>87</sup>

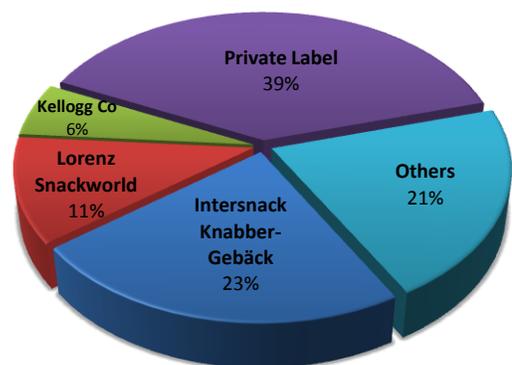
The sweet and savoury snacks† market in Germany is much larger in comparison to the snack bars market. This market increased by over three per cent in current retail value terms between 2010 and 2011, rising from US\$2.5 billion to US\$2.6 billion. The sweet and savoury snacks market generated 236.4 million tonnes in retail volume sales, driven mostly by potato chips/crisps (62.1 million tonnes), pretzels (46.8 million tonnes) and ‘other’ sweet and savoury snacks (45.2 million tonnes). Of the entire snack industry in Germany, the majority of sales in 2011 were driven by potato chips/crisps (US\$692.6 million). Potato chips/crisps were also the fastest growing products in the snack industry, rising four and a half per cent in 2011 from US\$662.8 in 2010.<sup>88</sup>

The snack foods market in Germany is a very diverse market, from expensive luxury items sold through specialty stores to less expensive, basic products sold in discount stores. ‘Corny’ brand, by Hero AG Company, was the top brand within the German snack bar market in 2011, holding 52.5 per cent of the market share. Corny brand has maintained top market shares through a good reputation with consumers - reducing package size to accommodate lifestyle trends and offering healthy alternatives while still being flavourful (see *Figure 12: Snack Bar Retail Value Shares in Germany*). Kellogg Co held 48.6 per cent of the breakfast bar market in 2011 by targeting specific groups, such as offering a healthier option to health conscious consumers with their Special K Bar. There were very few new snack bar products launched in 2011, due to limited popularity, strong competition from other segments of Germany’s food market and the generally small size of the snack food market. For the sweet and savoury snack market, private labels were the top company category with 39 per cent market share, followed by the other remaining companies with 21 per cent market share (see *Figure 13: Sweet and Savoury Snack Retail Value Shares in Germany*). Kellogg Co entered this market in 2012 with their brand ‘Pringles’ and has already taken a good share of the market away from some established brands.<sup>89</sup>

*Figure 12: Snack Bar Retail Value Shares in Germany*



*Figure 13: Sweet and Savoury Snack Retail Value Shares in Germany*



The popularity of smaller snack foods is being encouraged by German lifestyle trends, however market growth is limited by the success of other processed food industries, such as baked goods. Granola bars and muesli products account for the majority of current retail value sales of the snack bars market and are a strong competitor in the sweet and savoury snacks category. These products are mainly distributed through grocery retailers, whereas breakfast bars, fruit bars and energy and nutrition bars are sold mainly from pharmacies and drugs stores. For the entire snack foods market, the top

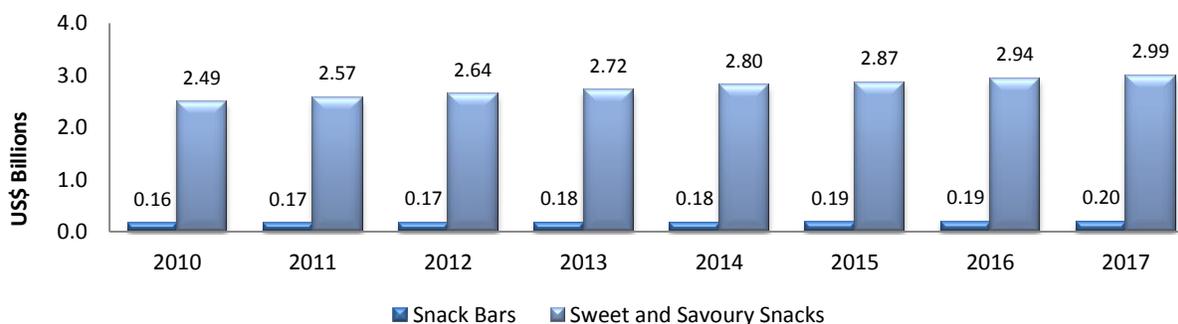
\* “Snack bars” includes breakfast bars, granola/muesli bars, fruit bars, energy and nutrition bars, and other snack bars

† “Sweet and savoury snacks” includes potato chips/crisps, fruit snacks, tortilla/corn chips, extruded snacks, pretzels, popcorn, nuts and other sweet and savoury snacks

distribution method is through discounters at approximately 40 per cent, followed by supermarkets and hypermarkets.<sup>90</sup> According to Mintel, the top three claims on snack bar products were 'organic', 'no additives/preservatives' and 'low/no/reduced allergen'.<sup>91</sup>

Euromonitor predicts that future snack bar market growth will be limited by the saturation and the maturity of the market, as well as the immense competition from other categories. A focus on health products will continue to grow and a focus on specific target groups, such as children or women, is expected to be evident. Immense cost pressures are expected to increase average unit prices, due to increased competition for cultivatable land in Germany. While B.C. processors may not face this particular pressure, the snack bar market may still be too difficult to penetrate. This cost increase is also expected for the sweet and savoury snacks market. Even though Euromonitor is expecting the sweet and savoury snacks market to grow at a constant value CAGR of one per cent between 2012 and 2017 (see *Figure 14: Past and Predicted Snack Foods Retail Sales in Germany*), they predict that new launches will not be successful unless they are part of a well developed and broad product portfolio.<sup>92</sup>

*Figure 14: Past and Predicted Snack Foods Retail Sales in Germany*



## SPREADS\*

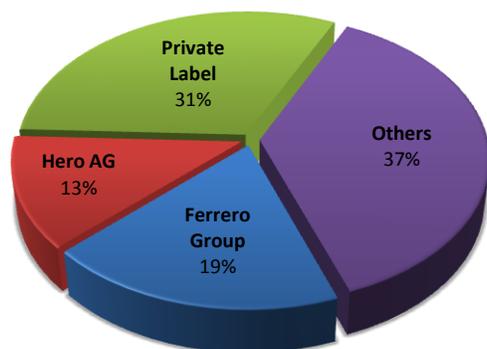
The market for spreads in Germany increased by one per cent in current retail value terms in 2011, rising from US\$1.71 billion to US\$1.73 billion. Leading among the sub-categories was jams and preserves with US\$704.3 million in sales, followed by honey with US\$553.7 million in sales and chocolate spreads with US\$448.3 million in sales. In retail volume terms, the spreads market also grew by one per cent, rising from 286.3 thousand tonnes to 288.6 thousand tonnes in 2011. Honey led volume growth, rising three per cent from 65.5 thousand tonnes to 67.2 thousand tonnes. Jams and preserves accounted for 45 per cent of the volume sales in 2011, but showed no growth. Sales were mainly generated by discounters (28.6 per cent), supermarkets (24.2 per cent) and hypermarkets (17.9 per cent).<sup>93</sup>

With most sales in the German spreads market being generated by discounters, private labels accounted for 31.7 per cent (US\$548 million) of total retail value sales in 2011, followed by Ferrero Group with 18.5 per cent (US\$320 million) and Hero AG with 12.6 per cent (US\$218 million) (see *Figure 15: Spreads Retail Value Shares in Germany*). Ferrero Group dominated the chocolate spreads market with 71.3 per cent (US\$320 million), private labels led the honey market and jams and preserves market with 40.3 per cent (US\$223 million) and 33.6 per cent (US\$236 million) respectively, and Dockhorn & Co GmbH led the nut and seed based spreads with 48.7 per cent (US\$12 million) of total sales. The spreads market is saturated with domestic processors and private labels; there are approximately 15 significant companies in the market and only four of them are not based in Germany.<sup>94</sup>

The spreads market in Germany is experiencing low growth because of a high level of saturation and stable per capita consumption. This market is also one of the few mentioned in this report where there is high brand loyalty, especially for chocolate spreads. As mentioned, Ferrero Group, the maker of the Nutella brand, dominated the 2011 market for chocolate spreads with 71.3 per cent, while private labels only accounted for 18.3 per cent. The honey market is not yet saturated and honey is a versatile, natural product which aligns with the growing trend of choosing natural products.<sup>95</sup>

\* "Spreads" includes: jams and preserves, honey, chocolate spreads, nut-based spreads and yeast-based spreads

Figure 15: Spreads  
Retail Value Shares in Germany



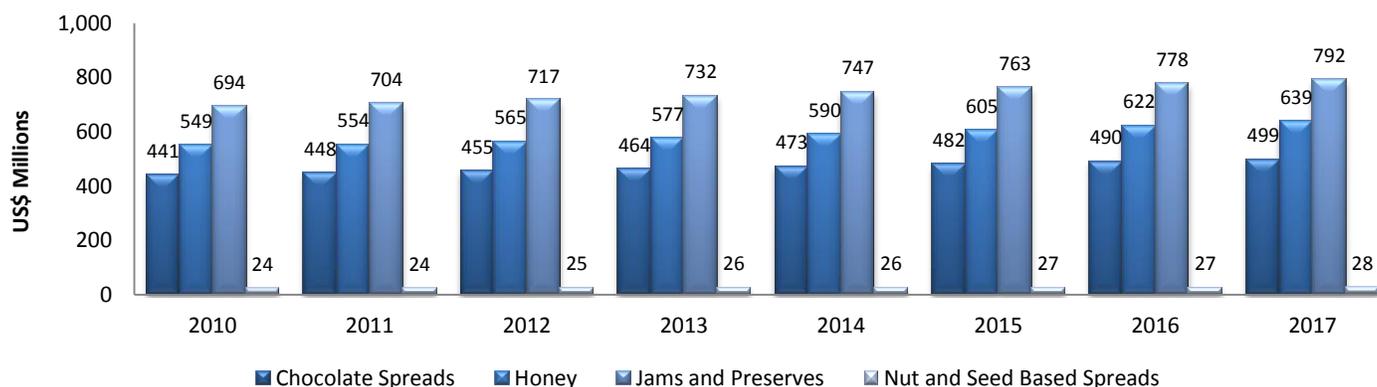
According to Mintel, of the 790 new sweet spread products that were released since 2009, 27 per cent carried the claim ‘organic’ and 13 per cent carried the claim ‘no additives/preservatives’. All types of spreads showed an increase in the number of new products released in 2011, including: syrups (171 per cent); caramel and cream spreads (100 per cent); nut spreads (70 per cent); honey spreads (18 per cent); and, confiture and fruit spreads (16 per cent). In volume terms, the majority of new products released in 2011 were confiture and fruit spreads, which have seen a significant increase of 260 per cent since the 2008/2009 recession.<sup>96</sup> The leading flavours for jams and preserves include strawberry, raspberry, apricot, cherry, and forest fruits\* (see Table 3: Ranking of Most Popular Flavours for Jams and Preserves in Germany).<sup>97</sup>

Table 3: Ranking of Most Popular Flavours for Jams and Preserves in Germany

FLAVOUR	2006	2007	2008	2009	2010	2011
Strawberry	1	1	1	1	1	1
Raspberry	2	3	3	3	2	2
Apricot	5	5	4	4	3	3
Cherry	3	2	2	2	4	4
Forest Fruits	4	4	5	5	5	5

The spreads market is expected to decline in volume growth while increasing in value sales, due to higher unit prices; this trend corresponds with the predicted baked goods trend, as the goods in these two markets are often consumed together. While spreads are expected to increase by a constant value of one per cent CAGR between 2012 and 2017, honey is expecting a two per cent increase (see Figure 16: Past and Predicted Spreads Retail Sales in Germany).<sup>98</sup> Overall, the spreads market would be difficult to penetrate for B.C. processors, with the level of market saturation and certain brand loyalty that is demonstrated within Germany.

Figure 16: Past and Predicted Spreads Retail Sales in Germany



\* Mixed berries

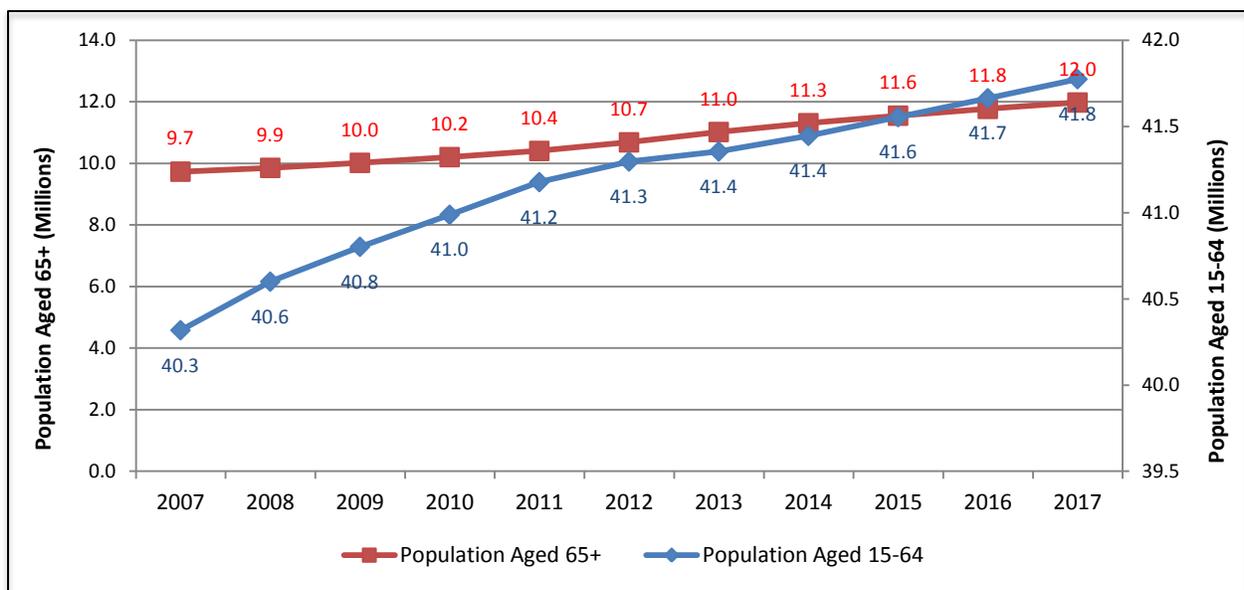
# THE UNITED KINGDOM: GENERAL MARKET OVERVIEW

## ECONOMY AND DEMOGRAPHICS

The U.K. is a nation consisting of England, Scotland, Wales and Northern Ireland, with London being the most populous and ethnically diverse city. London is the centre of the U.K.'s economic activity and is one of the world's largest international financial business hubs, sharing this title with cities such as New York City.<sup>99</sup> The majority of the U.K.'s approximately 62 million residents live in England (almost 51 million).<sup>100</sup> Until the global recession of 2008/09, the U.K. had very low interest, inflation, and unemployment rates, making it one of the strongest economies in the E.U.<sup>101</sup> After the recession, however, these characteristics have weakened and consumers within the nation are less willing to spend. Inversely of Germany, U.K. residents generally have negative feelings toward future economic and income expectations, and willingness to purchase.<sup>102</sup>

The birth rate is currently higher than the death rate, with forecasts for life expectancy, inward migration and fertility all showing an increase.<sup>103</sup> If this forecast holds true, the U.K. population will continue to rise steadily and more food products will be needed for all ages and ethnic groups (see *Figure 17: Population Age to 2017 in the U.K.*). Similar to Canada, the majority of the population within the U.K. resides in an urban area.<sup>104</sup>

Figure 17: Population Age to 2017 in the U.K.



The U.K. is a lot less food self-sufficient than Germany, producing only 60 per cent of the food consumed within the nation.<sup>105</sup> The main agrifood products produced are cereals, oilseed, potatoes, vegetables, cattle, sheep, poultry and fish.<sup>106</sup> While almost one per cent of total U.K. agrifood imports come from Canada, B.C. agrifood trade to the U.K. has been declining in recent years. From 2006 to 2011, the value of B.C. agrifood exports to the U.K. declined by a yearly average of almost two per cent, from US\$41 million to US\$27 million. The top agrifood products exported from B.C. to the U.K. are salmon, edible fats and oil mixtures, cereal products, fresh sweet cherries and frozen fish.<sup>107</sup>

## SHOPPING AND EATING HABITS

During the recent recession, the U.K.'s spending on food declined by a significant 13 per cent; however, the nation has been slowly recovering and in 2011 consumer spending on food products showed a seven per cent increase, from US\$114.7 billion in 2010 to US\$122.4 billion.<sup>108</sup>

With the introduction of global discounters, such as German-based Lidl and Aldi, domestic supermarkets and hypermarkets\* are facing pressure to lower their prices as British consumers are opting for these less expensive retailers. Like the Germans, the British are very price-sensitive, with the use of coupons proving to be a common theme. Online shopping is gaining popularity among the British as it allows consumers to save time and resist impulse shopping.<sup>109</sup> A rising challenge in the U.K. is to accommodate the needs of seniors, a growing consumer group; many seniors find that processed food products are too difficult to open and have labels too small to read. Seniors also generally find that grocery stores are not physically accommodating.<sup>110</sup>

On average, a U.K. consumer spends only eight minutes on breakfast; some just have a drink while an increasing number of youth skip breakfast all together. This shows a growing trend for more convenient breakfast foods that require minimal preparation. An average family will not prepare a full English breakfast consisting of toast, bacon, sausage, egg and potatoes on a daily basis, so it is usually eaten only on the weekends. For this reason, there are a growing number of people buying breakfast from cafes and supermarkets.<sup>111</sup>

The per capita consumption of chocolate confectionary and potato chips/crisps are considerably higher in the U.K. compared to Germany and the US. Statistics show 41 per cent of U.K. parents allow their children to snack on junk food due to convenience; 53 per cent think that healthy snacks are more expensive; and, 22 per cent say that their children eat at least five chocolate bars a week, while having no more than four pieces of fruit a week. Healthier choices such as fruit, nuts and seeds are gaining popularity in general, especially with women.<sup>112</sup>

## MAJOR TRENDS

### Convenience

In the U.K., especially in larger cities, consumers are facing more time constraints, continually struggling with work-life balance. Food processors can maximize on this market trend as these foods can be enjoyed between and during daily activities. To accommodate this busier lifestyle, new methods of purchasing groceries are gaining popularity, such as virtual supermarkets and mobile phone shopping. The former allows consumers to view the products virtually in a traditional supermarket setting,<sup>113</sup> where the latter allows consumers to shop for and purchase their groceries directly from their cell phone at any place during the day. The prices and nutritional information are also clearly displayed, letting consumers make conscious decisions.<sup>114</sup> Processors may choose to include recipes to encourage the purchasing of the product. Leading British retailer, Tesco, has recently opened up their first virtual supermarkets where consumers utilize their Smartphones to make purchases.<sup>115</sup>

### Healthy Foods

Many U.K. consumers are looking to consume the daily required amount of nutrients, vitamins and minerals. Forbes stated that 47 per cent of U.K. consumers listed health as very important within their food budget,<sup>116</sup> leading to a growing demand for nutraceuticals such as probiotic yoghurts.<sup>117</sup> It is anticipated that sales for probiotic yoghurts will continue to increase as they are convenient and provide energy and nutrients, especially when supplemented with fruits. Most importantly, yoghurts are more tolerable to those who are lactose-intolerant, thus appealing to a larger consumer group.<sup>118</sup> Another food group that appeals to the health conscious consumers in the U.K. is fruit.<sup>119</sup>

An increasing number of consumers are changing their diets to consist of mainly natural and whole foods that carry the 'free-from' labels, such as 'gluten-free' and 'sugar-free'. According to Mintel, in 2011, 28 per cent of the 8,048 new products carried the 'no additives/preservatives' claim, eight per cent had 'low/no/reduce allergen' and seven per cent had 'gluten-free'.<sup>120</sup> The demand for fat/sugar/salt-free products is increasing in the U.K. due to the rising number of obese people,<sup>121</sup> evident by U.K.'s ranking of 16<sup>th</sup> in the world in terms of obesity at 22.7 per cent.<sup>122</sup> There is also a trend towards younger consumers avoiding gluten, nut and dairy products as the prevalence of food intolerances is rising.<sup>123</sup>

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\* A hypermarket combines a grocery store with a department store, offering customers a 'one-stop shopping experience.' A North American example of a hypermarket would be Wal-Mart.

### Being Responsibly Green

Sustainability, buying local and reducing environmental footprints are gaining importance among consumers in the U.K.<sup>124</sup> Transportation of imported goods is a major contributor to greenhouse gas emissions and road congestion, with the food sector contributing approximately 19 per cent of total emissions. Overseas transportation is one of the top sub-sectors,<sup>125</sup> thus leading to higher awareness for food origin and to reduction in packaging.<sup>126</sup> To support this, some U.K. families are educating themselves in ways they can be more self-sustainable, for example by having backyard gardens.<sup>127</sup> Furthermore, supermarkets are attempting to source more local foods<sup>128</sup> and according to Mintel, eight per cent of all new products carried the 'seasonal' claim in 2011.<sup>129</sup>

### Food Packaging

Increasingly, U.K. consumers are expecting smarter packaging, from having more informative nutritional labels to using 'greener' packaging material.<sup>130</sup> In general, more attention is given to the amount of food waste that ends up in landfills and contributes to toxic emissions. According to Mintel, in 2011 new products carrying 'eco-friendly packaging' claims accounted for 25 per cent of 8,048 new products.<sup>131</sup> As mentioned earlier, seniors will become a main consumer group, thus increasing the need for 'ease of use' claims on processed foods. At this point, the U.K. is ranked eighth in the world in terms of launching products aimed at seniors.<sup>132</sup> Mintel also states that of the 9,385 new products launched in 2011, six per cent carried the 'ease of use' claim and while there was a three per cent decrease from 2010, there is already a rebound of an eight per cent increase going into 2012.<sup>133</sup>

### Vegetarians and Flexitarians

There are approximately three million vegetarians in the U.K. According to Agriculture and Agri-Food Canada, U.K. has the third highest rate of vegetarians in the E.U., following Italy and Germany, and the number of vegetarian women doubles the number of vegetarian men. In addition, many refer to themselves as 'flexitarians' where they are part-vegetarian or are consuming a meat-reduced diet. Many have made a conscious decision to convert to vegetarianism or flexitarianism due to health and environmental reasons as they believe that livestock factory farming further deteriorates the worsening crisis of climate change.<sup>134</sup>

Within the U.K. and the E.U. there is no law that defines a 'vegetarian' or 'vegan' product; however, many food manufacturers have voluntarily chosen to include these labels following the U.K. Foods Standards Agency guidance.<sup>135</sup> In addition, the Vegetarian Society of the U.K. places a label on products that they deem vegetarian; many U.K. vegetarians associate this label with an appropriate food choice.<sup>136</sup> According to Mintel, 'vegetarian' is the most used label on all food products that have been launched in the U.K. since 2009. Since then, products carrying this label increased at a yearly average of 14 per cent and in 2011, 40 per cent of 9,385 new products had the 'vegetarian' claim. Among packaged goods, bakery products, including baked goods and biscuits, carried this claim most frequently.<sup>137</sup>

## **THE UNITED KINGDOM: OVERVIEW OF PROCESSED FOOD MARKET**

The following section provides insight into some of the processed food categories in the U.K., including information on market size, distribution, popular products, current trends and top competitors. The categories covered in this analysis were chosen based on feedback from members of B.C.'s Small-Scale Food Processors Association that indicated there was interest to understand the market for these products in the U.K.

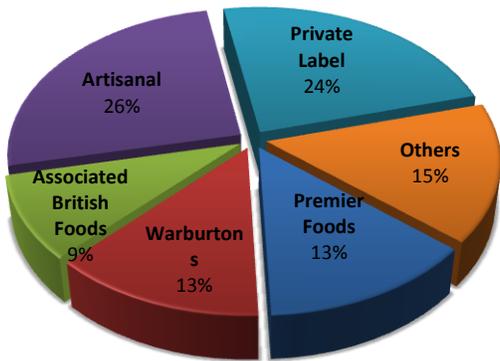
### **BAKED GOODS\***

Baked goods sales in the U.K. in current retail value terms decreased by 0.5 per cent between 2010 and 2011, falling from US\$9.1 billion to US\$9 billion. Leading in retail value sales among the sub-categories of baked goods was bread with US\$5.2 billion in sales, followed by cakes with US\$2.9 billion and pastries with US\$950 million. In retail volume terms, baked goods fell by over three per cent in 2011 to two and a half million tonnes, as bread sales decreased by four

\* "Baked Goods" includes all bread products, pastries and cakes

percent, cake sales decreased by over two percent, and pastry sales experienced an increase of only 0.2 per cent. Among this decrease was bread decreasing by four per cent, cakes decreasing by over two per cent and pastries only increasing 0.2 per cent. Supermarkets and hypermarkets each held a 40 per cent share of the market. Currently, 25 per cent of baked good sales are generated by artisanal bakeries, 24 per cent by private labels and the remaining 51 per cent by national companies.<sup>138</sup>

Figure 18: Baked Goods Retail Value Shares in the U.K.

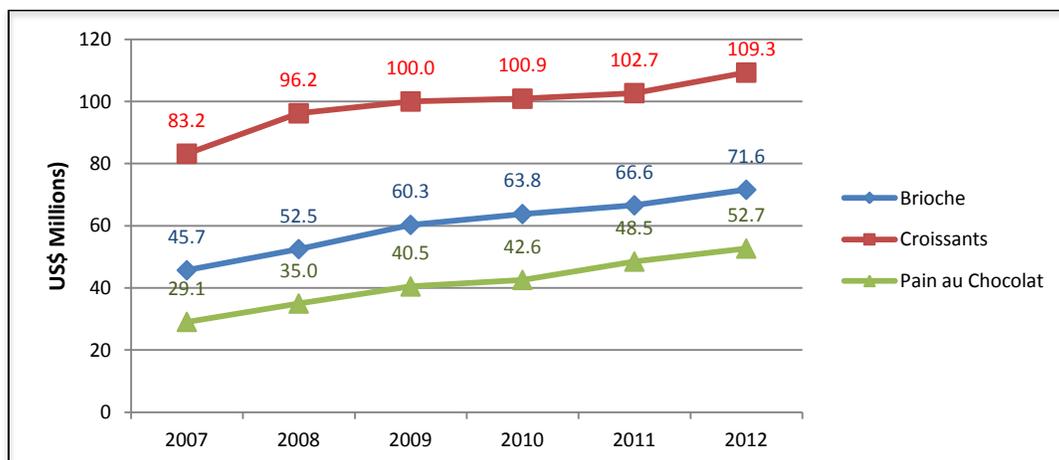


Artisanal bakeries and private labels have accounted for a combined share of 50 per cent (US\$4.4 billion) of the market since 2007, as U.K. consumers generally have low brand loyalty towards baked goods products. Among the national brands for baked goods, Premier Foods Plc. continued to lead the market with 13.5 per cent (US\$1.21 billion) of retail value shares in 2011, followed by Warburtons Ltd. with 13 per cent (US\$1.18 billion) and Associated British Foods with nine per cent (US\$823 million) (see Figure 18: Baked Goods Retail Value Shares in the U.K.). With recent increases in input costs, many retailers have dropped products from Premier Foods due to higher unit prices which caused the company's retail value shares to fall by one and a half per cent in 2011.<sup>139</sup>

In the U.K., bread is considered a staple food product; however, bread sales have been declining as consumers are becoming more health-aware,<sup>140</sup> and are looking for healthier alternatives for bread such as wholemeal, brown and seeded bread.<sup>141</sup> Sixty per cent of British consumers check labels on baked goods such as sandwiches, bread and cakes, but many have commented that there is a significant reduction in taste due to less sugar, fat and salt content.<sup>142</sup> Mintel states that British consumers think health qualities are important, but taste and flavour still remain top priority.<sup>143</sup>

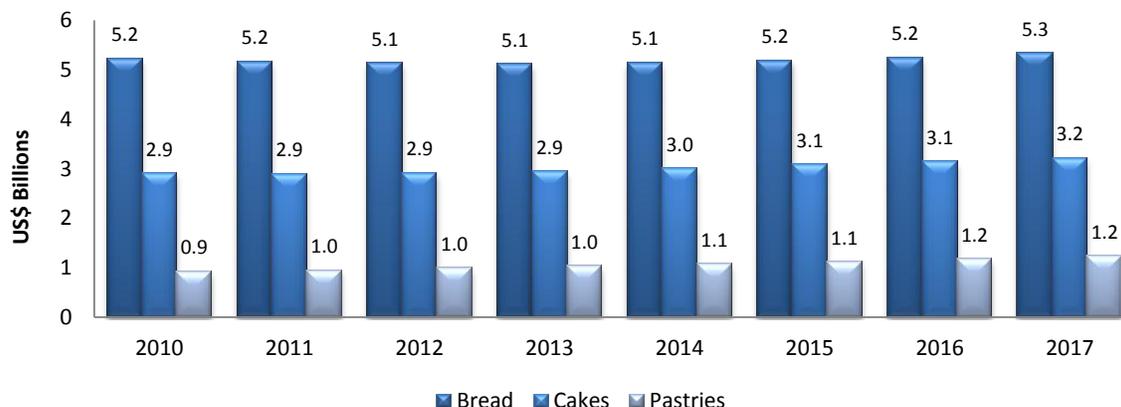
A traditional English breakfast in the U.K. consisted of toast, sausages, eggs and potatoes; however, with busier schedules, British households are more accepting of sweet pastries for breakfast causing increases in French pastry sales.<sup>144</sup> Popular French pastries such as pain au chocolat, croissant and brioche showed the greatest increase in retail sales over a five year average, climbing 13, 10 and six per cent respectively (see Figure 19: Popular French Pastries Retail Sales in the U.K.).<sup>145</sup> Pastries have seen the highest growth in sales among bread and cakes because they are convenient choices and specialty coffee shops contribute largely in pushing the sales of these products.<sup>146</sup> Sales for bread and cake decreased in 2011, but pastry sales have been steadily increasing since 2007, from US\$31.1 to US\$55.7 in 2011.<sup>147</sup> Savoury baked goods are also gaining popularity, with most purchases being made for individual consumption, highlighting the appeal of individual servings.<sup>148</sup>

Figure 19: Popular French Pastries Retail Sales in the U.K.



It is expected that baked good sales will increase at a rate of one per cent between 2012 and 2017 (see *Figure 20: Past and Predicted Baked Good Retail Sales in the U.K.*), driven especially by innovative products in the areas of bread substitutes and packaged breads.<sup>149</sup> Reflecting the increase of consumer attitude towards healthy foods, companies are taking advantage by developing more natural products that also cater to consumers that have food intolerances. Mintel indicated that in the past three years, 1,870 baked good products were launched with the top five claims being 'vegetarian' (63 per cent), 'no additives/preservatives' (26 per cent), 'eco-friendly packaging' (21 per cent), 'low/no/reduced transfers' (11 per cent) and 'low/no/reduced allergen' (11 per cent).<sup>150</sup> British consumers are also seeking unique baked goods, thus pushing demand for ethnic baked goods such as wraps and specialty breads.<sup>151</sup>

*Figure 20: Past and Predicted Baked Goods Retail Sales in the U.K.*



Given that the baked goods market is currently dominated by branded labels, it could be challenging for B.C. to compete against the numerous big players in this market. However, as mentioned, taste in baked goods is still the most important factor and ethnic flavours are becoming popular in the U.K., such as the flavours of green tea (Asian) and rooibos (South African).<sup>152</sup> B.C. processors may be able to carve out niche markets in the U.K. for unique baked goods that cater to these diverse, ethnic taste profiles by leveraging their understanding of the flavours and product formats that are successful within the multi-cultural market of B.C.

### **BISCUITS/COOKIES\***

Biscuit sales in the U.K. in current retail value terms increased by over four per cent between 2010 and 2011, rising from US\$3.2 billion to US\$3.4 billion. Specifically, savoury biscuits and crackers sales increased by over six per cent to US\$760 million, cookies increased by five and a half per cent to US\$210 million and sweet biscuits increased by over three per cent to US\$2.6 billion. In retail volume terms, the biscuit market increased slightly by 0.2 per cent in 2011, rising from 652.7 thousand tonnes to 654.3 thousand tonnes. Savoury biscuits and crackers increased slightly by 0.4 per cent to 175.5 thousand tonnes and sweet biscuits increased by 0.2 per cent to 478.7 thousand tonnes. Of sweet biscuits, filled biscuits showed the greatest volume growth of over three per cent in 2011, rising to 59.3 thousand tonnes. Savoury biscuits and cracker sales accounted for 22 per cent (US\$760 million) of total sales and sweet biscuits accounted for 78 per cent (US\$2.6 billion). Of the sweet biscuit sales, chocolate coated biscuits sales accounted for 54.8 per cent (US\$1.4 billion), followed by plain biscuits with 17.7 per cent (US\$461 million) and sandwich biscuits with 13 per cent (US\$240 million). In terms of distribution, supermarkets and hypermarkets dominated with each generating almost 40 per cent of total biscuits/cookie sales.<sup>153</sup>

British manufacturer United Biscuits Plc (UB) was the leading national company in biscuit manufacturing in 2011, accounting for a significant 26.4 per cent of retail value sales (US\$889 million), only falling slightly by 0.3 per cent from 2010. For savoury biscuits and crackers, UB dominated with 47 per cent (US\$378 million) of the sales and 19 per cent (US\$511 million) in sweet biscuit sales (see *Figure 21: Savoury Biscuits and Crackers Retail Value Shares in the U.K.* and *Figure 22: Sweet Biscuits Retail Value Shares in the U.K.*). In 2011, there were 16 companies carrying 41 brands in the

\* "Biscuits/Cookies" includes all sweet biscuits, savoury biscuits/cookies, crackers and bread substitutes

biscuits market with 21 of those brands being sold by UB. Iconic brands under UB, such as McVitie’s Digestive and Go Ahead!, are very popular among British consumers as these biscuits capture the traditional British flavours. Private labels represented 22.4 per cent (US\$753 million) of total biscuit/cookie sales in 2011.<sup>154</sup> With tea-and-biscuits being a popular tradition, domestic processors have already established a dependable reputation with the advantage of being familiar to the tastes of U.K. consumers.<sup>155</sup>

Figure 21: Savoury Biscuits and Crackers Retail Value Shares in the U.K.

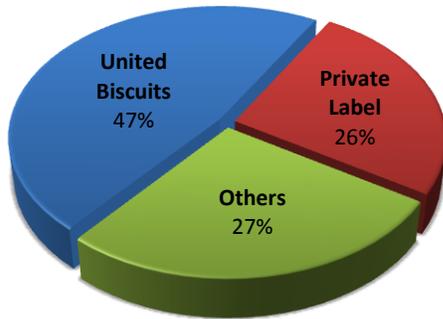
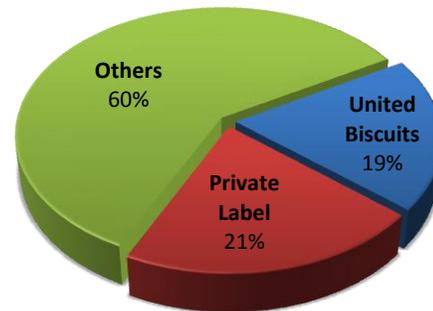


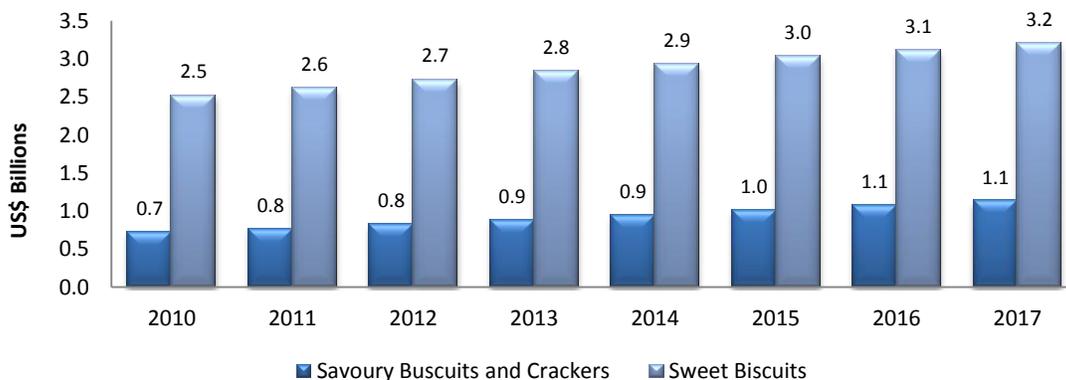
Figure 22: Sweet Biscuits Retail Value Shares in the U.K.



Although sales of sweet biscuits accounted for 78 per cent of the biscuits market, savoury biscuits and crackers experienced a larger growth in 2011 due to consumers converting to a healthier lifestyle. This led biscuit manufacturers to reduce the saturated fat content by 10 per cent in 2012, following a recommendation from the Foods Standard Agency.<sup>156</sup> Despite the growing popularity of coffee in the U.K.,<sup>157</sup> biscuits with tea have been a long-time British tradition, and more than half the nation (54 per cent) in 2011 stated that they regularly enjoyed having tea accompanied with biscuits. Regardless, biscuit manufacturers are encouraged to create more innovative biscuit varieties to attract the younger consumers mainly between the ages of 16 to 24,<sup>158</sup> where biscuit eating fell by approximately 80 per cent in 2011.<sup>159</sup> Although chocolate biscuits are an all-time favourite for the majority of people, especially to younger consumers, healthy eating has surged the sales of plain biscuits.<sup>160</sup>

Biscuit and cookie sales have been rising steadily year after year as the market has been consistently experiencing high consumption and high growth,<sup>161</sup> and expected to grow two per cent between 2012 and 2017 (see Figure 23: Past and Predicted Biscuits and Crackers Retail Sales in the U.K.).<sup>162</sup> The biscuit market for young adults still presents opportunities as this age group is more open to trying new flavours. According to Mintel, the flavours that are currently the most popular are chocolate, spice, sugar, cheese, nut and berry fruit.<sup>163</sup> In addition to developing flavours that appeal to the younger crowd, biscuit manufacturers in the U.K. are also continuing to saturate the market with festive-themed biscuits, hoping to encourage sales during festive occasions.<sup>164</sup>

Figure 23: Past and Predicted Biscuits and Crackers Retail Sales in the U.K.



According to Mintel, savoury biscuits and crackers are expected to see higher growth than sweet biscuits between 2012 and 2017 due to growing health-conscious consumers.<sup>165</sup> It is suggested that any B.C. processors attempting to enter this market have at least one healthy option in their product line. In terms of distribution, supermarkets will most likely continue to grab the biggest share; however, biscuits sold through the internet are rising substantially from no products being launched in 2010 to 45 products going into 2012, according to Mintel.<sup>166</sup> B.C. processors may find opportunities to enter this market by offering unique, health-oriented savoury biscuits or crackers that target the younger consumer, but will likely find it difficult to compete for shelf space in supermarkets as a result of UB's wide line of products and the prevalence of popular private label products.

## BREAKFAST CEREALS

Breakfast cereals in the U.K. in current retail value terms increased by more than four per cent between 2010 and 2011, rising from US\$2.7 billion to US\$2.9 billion. Ready to Eat (RTE) cereals lead the category with sales of US\$2.5 billion, followed by hot cereals with sales of US\$359.8 million. Under RTE cereals, family breakfast cereals accounted for 73 per cent (US\$1.9 billion) of the sales while children's breakfast cereals accounted for the remaining 27 per cent (US\$661.2 million). The hot cereal market experienced the largest volume growth in 2011, rising two per cent from 75.9 thousand tonnes to 77.5 thousand tonnes, as well as the largest increase in sales, rising 14.4 per cent to US\$360 million. In contrast, RTE cereals experienced a 0.6% percent increase in retail volume terms, rising from 512.3 thousand tonnes to 515.5 thousand tonnes, and a three percent increase in retail value terms.<sup>167</sup>

In 2010, the E.U. nation consuming the most breakfast cereal was the U.K.,<sup>168</sup> with almost 90 per cent of adults consuming cold cereal for breakfast on a daily basis.<sup>169</sup> Cold cereals such as muesli that contain wholegrain, oats, nuts, seeds and fruits are in high demand due to high fibre and low sucrose content.<sup>170</sup> Hot cereals are gaining popularity due to more British families realizing they are often healthier alternatives than most cold cereals.<sup>171</sup> The top five breakfast cereal flavours in 2011 were plain, chocolate, honey, nut and fruit (see *Table 4: Top Breakfast Cereal Flavours in the U.K.*).<sup>172</sup>

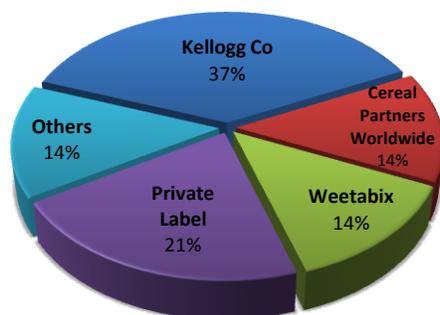
*Table 4: Top Breakfast Cereal Flavours in the U.K.*

CEREAL FLAVOURS	2010	2011	2012	10-11 GROWTH	11-12 GROWTH
Unflavoured/Plain	43	79	62	84%	-22%
Chocolate (unspecified)	15	27	22	80%	-19%
Honey	13	26	20	100%	-23%
Nut	9	22	19	144%	-14%
Strawberry	1	12	11	1100%	-8%
Fruit	14	23	10	64%	-57%

Source: Mintel

Kellogg Co is the biggest player in the industry, holding 33 per cent (US\$931 million) of market share in retail value terms, as a result of the company's well-known reputation, innovative products, marketing initiatives and prevalence.<sup>173</sup>

*Figure 24: RTE Cereals Retail Value Shares in the U.K.*



Kellogg Co was the leading company in selling RTE cereals (37 per cent), children's breakfast cereals (36 per cent), family breakfast cereals (38 per cent) and flake cereals (62 per cent) in 2011. The U.K. breakfast cereal market is quite saturated with other national and multinational companies, such as Weetabix Ltd. (from the U.K.), PepsiCo Inc (from the US), Associated British Foods Plc (from the U.K.) and Cereal Partners Worldwide SA (from Switzerland). Private labels were second in market shares after Kellogg Co, with 21 per cent (US\$603 million) (see *Figure 24: RTE Cereals Retail Value Shares in the U.K.*).<sup>174</sup> According to Mintel an average of 50 new breakfast cereal products have been launched each year since 2008.<sup>175</sup>

There were 509 new breakfast cereal products launched in the U.K. between 2009 and 2011, and Mintel states that the top five claims were ‘vegetarian’ (58 per cent), ‘eco-friendly packaging’ (49 per cent), ‘wholegrain’ (35 per cent), ‘no additives/preservatives’ (24 per cent) and ‘low/no/reduced sodium’ (22 per cent) (see *Table 5: Top Breakfast Cereal Claims in the U.K.*). The ‘high/added fibre’ claim saw the biggest increase in usage between 2010 and 2011, having 25 new products showing this claim in 2010 and 82 new products in 2011. In the past five years, almost 50 per cent of new products were re-launched with new packaging, demonstrating the importance of catering to the changing demands of these health-conscious consumers.<sup>176</sup>

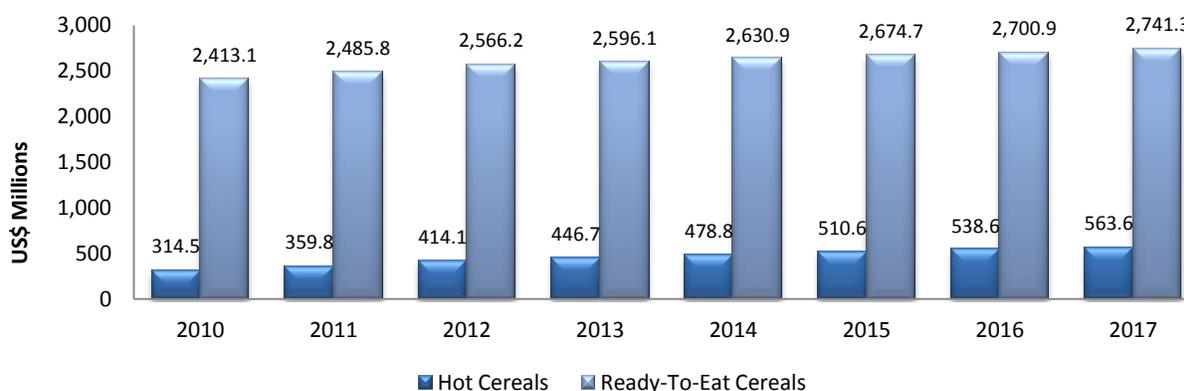
*Table 5: Top Breakfast Cereal Claims in the U.K.*

RANK	CLAIMS	2010	2011	2012	10-11 GROWTH	11-12 GROWTH
1	Vegetarian	105	136	157	30%	15%
2	Ethical - Environmentally Friendly Package	97	117	122	21%	4%
3	Wholegrain	64	81	74	27%	-9%
4	High/Added Fiber	25	82	83	228%	1%
5	No Additives/Preservatives	41	54	57	32%	6%
6	Low/No/Reduced Sodium	38	49	46	29%	-6%
7	Vitamin/Mineral Fortified	27	37	55	37%	49%
8	Low/No/Reduced Fat	31	34	18	10%	-47%
9	Microwaveable	13	39	33	200%	-15%
10	Kosher	14	22	37	57%	68%

Source: Mintel

The breakfast cereal market is expected to increase by one per cent between 2012 and 2017 (see *Figure 25: Past and Predicted Breakfast Cereals Retail Sales in the U.K.*), with only marginal growth in volume sales anticipated. Breakfast cereal will remain a staple breakfast food for both children and adults, but sales for hot cereals are expected to continue to rise as consumers are switching to this healthier alternative. British families are also opting for natural cereals, switching from sugar-coated flakes to natural muesli. Despite flake cereal sales accounting for 50 per cent of family breakfast cereal sales, flakes only increased by three and a half per cent in 2011, whereas muesli sales increased by over five per cent.<sup>177</sup> The amount of breakfast cereal products within the market could act as a deterrent for B.C. processors, as the market is already quite saturated. B.C. processors may find an opportunity in this market with products that highlight natural and wholesome ingredients, complemented by an eco-friendly and appealing package design.

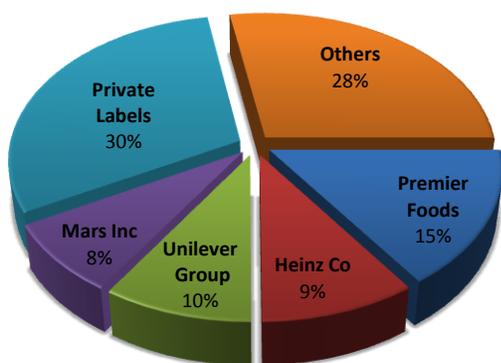
*Figure 25: Past and Predicted Breakfast Cereals Retail Sales in the U.K.*



## SAUCES, DRESSINGS AND CONDIMENTS\*

Sauces, dressings and condiments sales in the U.K. in current retail value terms increased by six per cent between 2010 and 2011, rising from US\$4 billion to US\$4.2 billion. Cooking sauces accounted for 54 per cent of total sales with an increase of over seven per cent in 2011 to US\$2.3 billion. Of cooking sauces, bouillon/stock cube sales were US\$486.8 million, dry sauces/powder mix sales were US\$164 million, herbs and spice sales were US\$369 million, wet/cooking sauce sales were US\$537.5 million and pasta sauce sales were US\$725.3 million. Table sauces accounted for 27 per cent of total retail sales with an increase of four and a half per cent in 2011 to US\$1.1 billion. Of table sauces, ketchup (US\$298.8 million), mayonnaise (US\$201.9 million) and brown sauces (US\$100.3 million) dominated the market; however, soy based sauces experienced the largest growth in sales of 11.3 per cent, reaching US\$31.4 million in 2011. In retail volume terms, sauces, dressings and condiments increased by three per cent, from 509.4 thousand tonnes in 2010 to 524.2 thousand tonnes in 2011. Cooking sauces increased by five per cent to 228.4 thousand tonnes and table sauces increased by one per cent to 193.2 thousand tonnes. In terms of distribution, supermarkets and hypermarkets each generated 40 per cent of total sales in retail value terms.<sup>178</sup>

Figure 26: Sauces, Dressings and Condiments  
Retail Value Shares in the U.K.



Private labels lead the market with 30 per cent (US\$1.2 billion) of total sales in retail value terms in 2011, followed by Premier Foods Plc with 15 per cent, Unilever Group with 10 per cent (US\$453 million) and Heinz Co HJ with 9 per cent (US\$423 million) (see Figure 26: Sauces, Dressings and Condiments Retail Value Shares in the U.K.). With Indian cuisine being popular in the U.K., the wet/cooking sauce brands Sharwood and Patak, under Premier Foods Plc, have gained high popularity. For soy based sauces, Ajinomoto Co Inc lead the market with 61 per cent of market share and Grace Foods Ltd lead the market for spicy chili/pepper sauces with 32 per cent.<sup>179</sup>

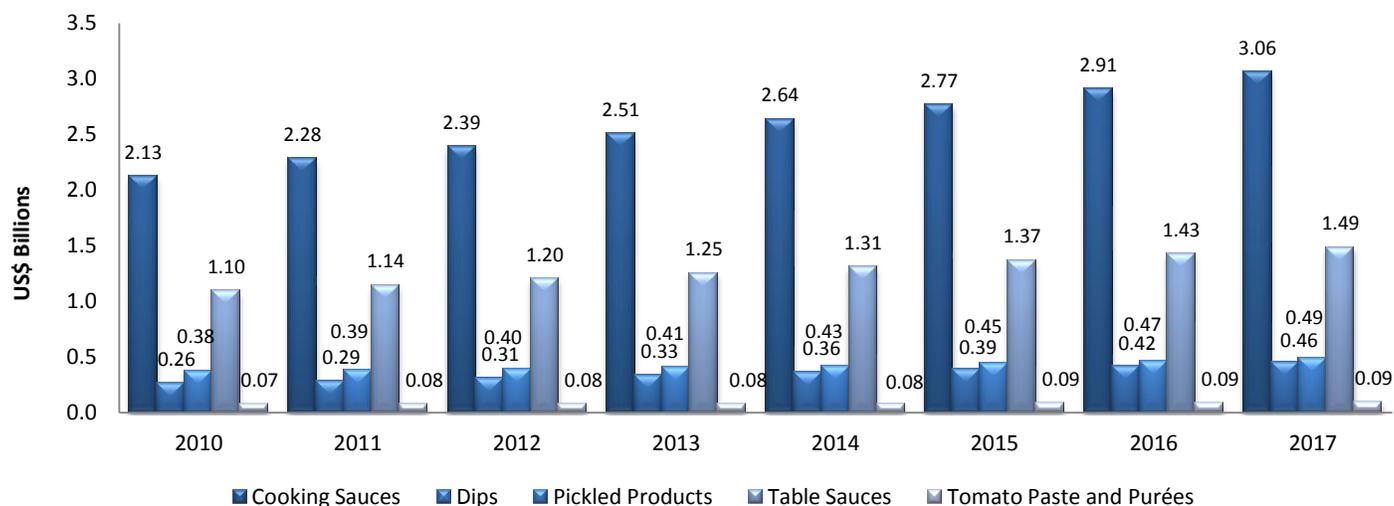
The abundance of sauce products within supermarkets and hypermarkets is growing, with sauce products distributed within these retailers increasing by seven per cent and 102 per cent respectively in 2011. Internet retailing is also gaining importance in the sauces, dressings and condiments market in the U.K. with 147 new products being distributed online in 2012, up from just six new products in 2011.<sup>180</sup>

While traditional sauces such as ketchup, mayonnaise, tartar sauce, mustard, salad dressing, brown sauce and BBQ sauce experienced slow growth in 2011, eastern flavours such as soy based sauces and spicy chili/pepper sauces grew much more rapidly, rising over 11 per cent and eight per cent respectively. Eastern wet/cooking sauce types are gaining popularity as Indian and Oriental sauces accounted for the majority of retail sales, accounting for 35.2 per cent (US\$189 million) and 37.2 per cent (US\$200 million) respectively.<sup>181</sup> U.K. consumers are also willing to pay a higher price for sauce packets, as they are convenient and accommodate busy schedules.<sup>182</sup>

According to Mintel, the market is expected to see a volume and value sales increase of two per cent between 2012 and 2017 (see Figure 27: Past and Predicted Sauces, Dressings and Condiments Retail Sales in the U.K.). Though some traditional companies, such as Heinz, are well-known, their sauces have been experiencing stagnant growth so companies are continually working to create unique flavours to attract consumers. Some traditional sauces such as pasta sauces are also expected to grow, as they are already prepared and can accommodate busier life styles.<sup>183</sup>

\* "Sauces, dressings and condiments" includes: bouillon/stock cubes, tomato pastes and purees, monosodium glutamate (MSG), herbs and spices, soy based sauces, table sauces, wet/cooking sauces, pasta sauces, ketchup, dry sauces/powder mixes, mustard, mayonnaise, vinaigrettes, pickled products, salad dressings, dips, and other sauces, dressings and condiments (Euromonitor definition)

Figure 27: Past and Predicted Sauces, Dressings and Condiments Retail Sales in the U.K.



Although the sauces market in the U.K. is heavily saturated with well-known brands, there may be opportunities in the U.K. market to introduce unique sauces in single-serving packets that cater to the increased demand for ethnic foods. To capitalize on the trend towards more convenient, healthy foods, these sauce packs would likely be most successful if they included easy-to-cook recipes and information on how they can contribute to a healthy diet.

## SNACK FOODS

Snack bars sales in the U.K. in current retail value terms increased by over six per cent between 2010 and 2011, rising from US\$726.8 million to US\$772.4 million. The fastest growing products among snack bars were energy and nutrition bars, with an increase of 19.5 per cent to US\$71.6 million, and granola/muesli bars, with an increase of 15.3 per cent to US\$149.6 million. Breakfast bars accounted for the majority of snack bar sales (55 per cent), once again reflecting the trend for convenient breakfast foods. In retail volume terms, the snack food market reached 41.6 million tonnes in 2011, which is the result of a steady annual increase of seven to nine per cent since 2007.<sup>184</sup>

The sweet and savoury snacks market increased by over six per cent in current retail value terms between 2010 and 2011, rising from US\$6.5 billion to US\$6.9 billion. The fastest growing products were tortilla/corn chips, with an increase of 15.3 per cent to US\$394.2 million, and pretzels, with an increase of 10.9 per cent to US\$91.7 million. Of the entire snack industry in the U.K., the majority of sales were driven by potato chips/crisps which increased by six per cent to US\$2.8 billion in 2011.<sup>185</sup>

Alpen brand, by the Weetabix Company, was the top brand within the U.K. snack bar market in 2011, holding over seven per cent (US\$57 million) of the market. Private labels only accounted for six per cent (US\$53 million), while other branded products accounted for 46 per cent, showing the diversity in this market (see *Figure 28: Snack Bars Retail Value Shares in the U.K.*). There are six companies in the energy and nutrition bars market, with GlaxoSmithKline Plc dominating with 24.5 per cent (US\$17.6 million) of total sales in 2011 after only one year in the market. For sweet and savoury snacks, private labels accounted for 30.4 per cent (US\$2.1 billion) of the market share, followed by PepsiCo Inc with 29 per cent (US\$2 billion) (see *Figure 29: Sweet and Savoury Snacks Retail Value Shares in the U.K.*). For potato chips/crisps, PepsiCo Inc lead with US\$1.3 billion (47.8 per cent) and private labels with US\$679 million (24.7 per cent).<sup>186</sup> In the U.K., it is estimated that six billion packets of potato chips/crisps and over four billion bags of savoury snacks are consumed annually, which is around 150 packets per person.<sup>187</sup> British consumers eat approximately 51 per cent of all potato chips/crisps, crackers and nuts consumed in Europe, which is three times more than Germany.<sup>188</sup> While the trend for healthy eating is on the rise, it is unlikely that there will be a significant fall in potato chip/crisp sales moving forward.<sup>189</sup>

Figure 28: Snack Bars  
Retail Value Shares in the U.K.

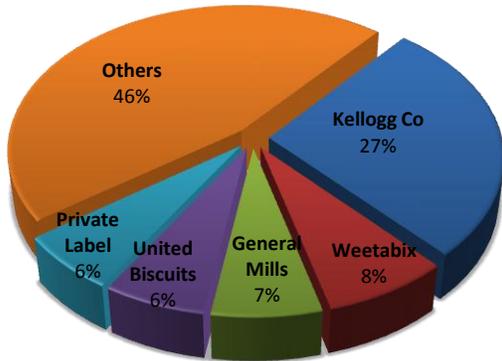
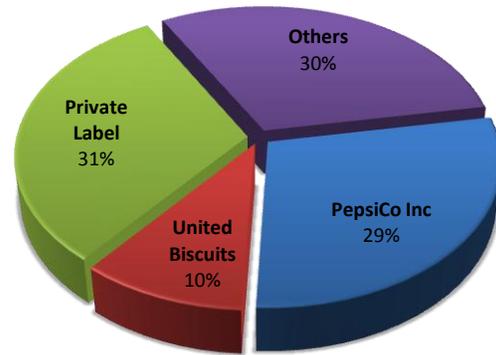
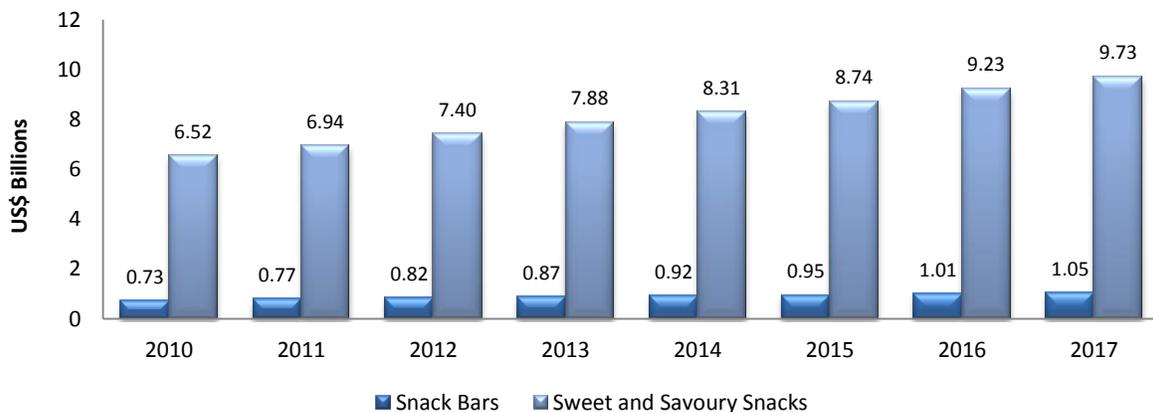


Figure 29: Sweet and Savoury Snacks  
Retail Value Shares in the U.K.



According to Mintel, the top three claims on newly launched products in 2011 were ‘vegetarian’ (34 per cent), ‘no additives/preservatives’ (24 per cent) and ‘eco-friendly packaging’ (eight per cent).<sup>190</sup> Granola and muesli bars, and energy and nutrition bars are gaining popularity, and some companies have chosen to reformulate their products in order to capture more market share against other snack foods such as cakes, biscuits and potato chips/crisps.<sup>191</sup> Euromonitor predicts that energy and nutrition bars will eventually replace breakfast bars. The unit price of snack bars is expected to increase due to rising commodity prices, especially in energy and nutrition bars.<sup>192</sup> As for sweet and savoury snacks, demand for nuts and fruit snacks are expected to increase; however, rising unit prices may cause hindrance to the growth (see Figure 30: Snack Foods Retail Sales in the U.K.). Popcorn and pretzels are expected to experience volume and value growth due to improvement in quality; some companies, such as Penn State, are taking advantage of this trend by offering a variety of new pretzel flavours. Eighty-five per cent of people living in the U.K. eat potato chips/crisps, with 11 per cent of them consuming these on a daily basis. As a result, sales for these snacks are expected to continue to increase while companies try to gain higher market share by offering unique flavours.<sup>193</sup>

Figure 30: Snack Foods Retail Sales in the U.K.

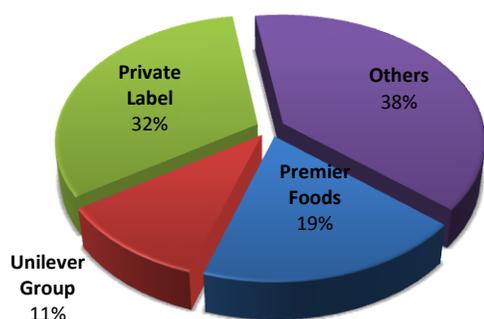


Snack foods in the U.K. are in the state of high consumption as snacking is a common habit for most consumers. There is a possible opportunity for B.C. processors to enter the U.K. snack bar market, as the market has many players and is very diverse. There may be an opportunity to highlight specific health attributes which appeal to a wide range of customers, such as ‘no additives/preservatives’. The sweet and savoury snacks market is much more saturated and dominated by certain big players, which could make it difficult for B.C. processors to successfully enter into this market.

## SPREADS\*

Spread sales in the U.K. in current retail value terms increased by five per cent between 2010 and 2011, rising from US\$717.8 million to US\$753.8 million. Leading among the sub-categories of spreads was jams and preserves with US\$303.3 million in sales (40 per cent of sales), followed by honey spreads with US\$198.9 (26 per cent), and nut and seed based spreads with US\$92 million (12 per cent). Although chocolate spreads only accounted for 10 per cent of retail sales in 2011, this category showed the largest increase in the past five years, from US\$62 million to US\$73 million. In retail volume terms, spreads increased by one per cent in 2011, rising from 112 thousand tonnes to 113 thousand tonnes, with jams and preserves as the dominant category accounting for 56 per cent of the market (64 thousand tonnes). Like with retail sales value, the volume sales of chocolate spreads showed the biggest increase (10 per cent) from 10.9 thousand tonnes to 12 thousand tonnes, followed by nut and seed based spreads that showed a five per cent increase to 13.7 thousand tonnes. In terms of distribution, supermarkets and hypermarkets generated 80 per cent of the sales, followed by small grocery retailers with 12 per cent.<sup>194</sup>

Figure 31: Spreads  
Retail Value Shares in the U.K.



Private labels generated 32 per cent (US\$235 million) of retail value sales in 2011, followed by U.K.'s largest food processor, Premier Foods Plc, with 19 per cent (US\$150 million) and multinational company Unilever Group with 11 per cent (US\$84 million)(see *Figure 31: Spreads Retail Value Shares in the U.K.*) Premier Foods Plc was the leader in producing jams and preserves and nut and seed based spreads, with a 32 per cent (US\$98 million) and 31 per cent (US\$28 million) of market share respectively. Multinational Ferrero Group dominated the market for chocolate spreads with an overwhelming share of 73 per cent (US\$54 million) of total sales with the brand Nutella, which has become an everyday breakfast favourite rather than a treat. The remaining shares were held by private labels with 20 per cent, Kraft Foods Inc with a four per cent and other small companies with three per cent. For yeast-based spreads, Unilever Group dominated with 92 per cent of total sales; Unilever's two most well-known brands are Marmite and Bovril.<sup>195</sup>

Sales for jams and preserves have been declining at an average rate of two per cent in the past five years.<sup>196</sup> The market for jams and preserves is mature in the U.K., already has high levels of penetration, and is losing out to trendier spreads such as peanut butter and chocolate spreads. In hopes of reviving the jam market, companies are launching innovative flavours such as non-alcoholic cocktail and smoothie flavours to appeal to the younger crowd.<sup>197</sup> Nut and seed based spreads, such as almond butter, are becoming top choices for consumers as they display healthier qualities providing higher protein content.<sup>198</sup> According to Mintel, 498 new spread products were released between 2009 and 2011 and the top three claims on these products were 'vegetarian' (38 per cent), 'eco-friendly package' (26 per cent) and 'organic' (18 per cent).<sup>199</sup> The leading flavours for jams and preserves include strawberry, raspberry, blackcurrant, orange and apricot (see *Table 6: Ranking of Most Popular Flavours for Jams and Preserves in the U.K.*).<sup>200</sup>

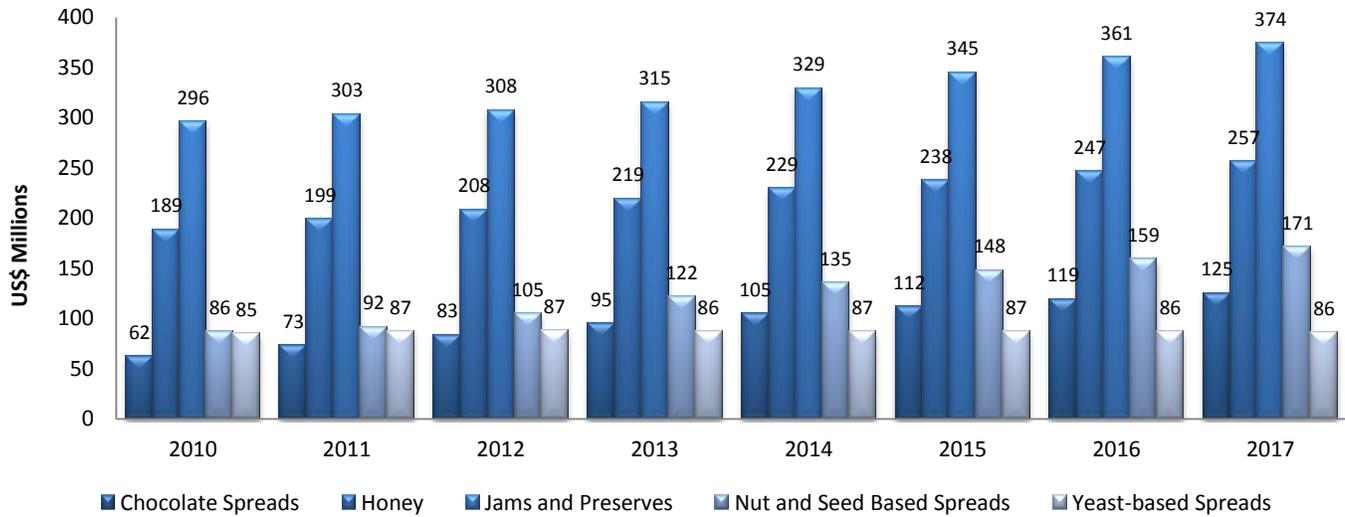
Table 6: Ranking of Most Popular Flavours for Jams and Preserves in the U.K.

FLAVOUR	2006	2007	2008	2009	2010	2011
Strawberry	1	1	1	1	1	1
Raspberry	2	2	2	2	2	2
Blackcurrant	4	4	4	4	4	3
Orange	3	3	3	3	3	4
Apricot	5	5	5	5	5	5

\* "Spreads" includes: jams and preserves, honey, chocolate spreads, nut-based spreads and yeast-based spreads

Spreads sales are expected to experience a retail value growth of two per cent with a marginal volume growth between 2012 and 2017 (see *Figure 32: Past and Predicted Spreads Retail Sales in the U.K.*). It is expected that chocolate spreads, especially Nutella, will continue to drive up sales as these spreads will get more popular with the younger generations. Chocolate spreads are generally perceived to be bad for health and with the rising trend of healthy eating, manufacturers will be focusing on fair-trade and high-cocoa products with naturally healthier properties in this market. Though the spreads market might not be growing drastically, spreads are still a big component of English breakfast and snacks; furthermore, the market for the younger consumer group still presents opportunities as they are always seeking new flavours. The biggest threat looking forward is the rising costs of ingredients such as sugar, fruit and raw honey which Euromonitor expects to cause unit prices to increase two per cent between 2012 and 2017.<sup>201</sup>

*Figure 32: Past and Predicted Spreads Retail Sales in the U.K.*



Though the market for chocolate spreads is in a state of high consumption and high growth, B.C. processors will most likely be unable to penetrate this market as it is dominated by the widely-consumed Nutella. Likewise, many British and multinational companies are already on the move to capture market share in the jams and preserves sub-category by releasing new flavours, which will make it increasingly difficult for new B.C. products to find shelf space in supermarkets. Finally, private labels have a strong position in the market, and if unit prices continue to increase consumers would likely turn to cheaper private labels making it hard for B.C.'s higher-value spreads to enter the market.

## CONCLUSION

Although **Germany** has the largest national economy and is the most populous country of the E.U., many of the processed food markets are already saturated in Germany and do not offer a lot of potential for B.C.'s food processors. Of the processed food products analyzed in this report, the greatest opportunities for B.C. food exporters in Germany likely exist in the breakfast cereals and sauces, dressings and condiments markets.

Within the **breakfast cereals** market in Germany, the only category that witnessed an increase in sales in 2011 was muesli cereals. The overall trend toward health and wellness within the country is reflected within this market, and many people are choosing healthier cereals over the processed and sugary options. With the right product and the right marketing strategy, B.C. breakfast cereal processors could capitalize on this market growth opportunity. The same can be said for the **dips** market within Germany, as Euromonitor predicts this market will experience positive volume and value growth in the next five years. The dips market is also not yet saturated and the retail value sales of dips have increased at an annual average of 12 per cent over the past five years, rising from US\$70.2 million in 2007 to US\$111.4 million in 2011.

When entering the German market, it is important for B.C. processors to remember the emerging trends that are helping to shape the economy and processed food markets. These include the need to cater to the ageing German population, the growing emphasis being put on convenience, through online food shopping and more convenient products and packaging, and the trend toward natural and organic products. It is also important to remember the general popularity of discount stores and private labels, showing the need to be price competitive or differentiated from other products currently on the market.

Even though the **U.K.** is seen as a nation that is generally less willing to spend money than Germany, this report finds more export opportunities for B.C. processors within the U.K. than in Germany. Some of these markets are less saturated or do not have as many key domestic players as are seen in Germany. Of the processed food products analyzed in this report, the greatest opportunities for B.C. food exporters in the U.K. likely exist in the baked goods, sauces, dressings and condiments, breakfast cereals, and snack foods markets.

The **baked goods** market in the U.K. could prove to be a feasible entry point as consumers are becoming interested in specialty baked goods, including pastries, ethnically-flavoured goods, and innovative breads. In order to be successful in this market, it is important that B.C. baked goods processors differentiate their products from domestically produced products. To do this, processors can focus on Canadian-branded packaging and innovative marketing, as well as include claims on the packaging that express the product's health benefits. Similarly to baked goods in the U.K., **cooking sauces** are very popular within this nation but are lacking differentiation and innovation. Cooking sauces with eastern flavours such as chili sauces and soy based sauces are witnessing the quickest growth in the market. B.C. processors may be well positioned to capitalize on this opportunity through the knowledge of food flavours and cultures that many possess, due to the immense ethnic diversity within the province.

As with Germany, the U.K. **breakfast cereals** market is evolving into being more focused on health and wellness ingredients. With the U.K. being the highest consuming nation of breakfast cereal within the E.U., this market could prove profitable for B.C. breakfast cereal processors. The challenge within this market is that the cold breakfast cereal market is already quite saturated with many different products; however, 90 per cent of U.K. residents consumed cold cereal on a daily basis in 2011, so with the right export marketing strategy B.C. processors could see success. As the hot breakfast cereal is witnessing faster growth than the RTE cereals, due to perceived health benefits, this may be the most lucrative market for B.C.'s processors to target.

The final market that this report determines as a viable entry point for B.C. processors in to the U.K. is the **snack bar** market. This market is growing quickly, especially in regards to energy and nutrition bars. The market is very diverse with different flavours and preferences, and even though there are many players in the market it is not dominated by any big companies.

There are also trends that are important to remember for B.C. processors when entering the U.K. processed food market. Similarly to Germany, U.K. residents are beginning to put an emphasis on convenient foods, such as grab-and-go products. There is also growing popularity in regards to environmentally-friendly products, both in transportation methods and packaging materials.

The CETA agreement between Canada and the E.U. is anticipated to provide increased opportunities for B.C. exporters. The signing of this agreement will allow Canadian processed food products to be exported to the E.U. without trade barriers or tariffs. By eliminating these added costs, B.C. products will be able to be competitive in price with domestic products. As both Germany and the U.K. are known to be price sensitive nations, this agreement will allow B.C. products to more easily penetrate the processed food markets. This agreement will also create a competitive advantage for B.C. products over other nations who do not have a similar agreement with the E.U.

Once a B.C. exporter determines that there is an opportunity for their product to enter either Germany or the U.K., it is important to develop an appropriate export marketing strategy. This is done by conducting a deeper analysis of opportunities, threats and challenges of the market by collecting appropriate market information. This report is intended to provide information for the foundation of this analysis. It is necessary to conduct further sector-specific research before making a commitment to compete in these markets.

After B.C. exporters have developed an export strategy and are ready to connect with a buyer in Germany or the U.K., they can attend tradeshows in the market, participate in a government-led trade mission, or reach out to federal Trade Commissioners at the Canadian embassies and consulates. The key food tradeshow in Germany is the ANUGA tradeshow, which occurs biennially and is the largest food and beverage trade show worldwide. More information can be found on their website at <http://www.anuga.com/en/anuga/home/index.php>. The key food tradeshow in the U.K. is the International Food and Drink Event held biennially, which highlights new products and industry trends. More information can be found on their website at <http://www.ife.co.uk>. For more information on key tradeshows and how the Federal Government can assist B.C.'s food and beverage processing industry in taking advantage of emerging export opportunities, please visit AAFC's Agri-food Trade Service Website (<http://www.ats.agr.gc.ca/intro/index-eng.htm>).

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