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HRI Food Service Annual Report 2010

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HRI Food Service Sector

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Report Highlights:

This report gives an overview of the foodservice industry and its various sectors within the UK. It explains how the current economic downturn is affecting UK foodservice industry and identifies the major players, as well as giving contact information for all the main groups within the industry. Healthy food options are the hottest trend in the HRI sector, while the market remains receptive for new U.S. products.

General Information:

SECTION I – MARKET SUMMARY

The HRI market is the UK's 4th largest consumer market following food retail, motoring, and clothing and footwear. The HRI market provides prepared meals and refreshments for consumption primarily outside the home.

State of the market:

In the last 12 months UK consumer foodservice has seen a decrease in consumer demand due to the slowdown in the UK economy. In January 2009, the UK officially entered a recession with slowing house prices, inflation within the retail channel, and leading to higher food prices. The knock on effect to this is that consumers are less likely to dine out. Although the UK is officially now out of a recession, it will take a few years for the UK to recover.

The number of people becoming unemployed continues to rise, with many job cuts coming from within the financial sector which in the past its consumers were a key driver in the higher end foodservice restaurants.

Although the UK will see an improvement in overall spending, UK consumers will still be watching what they spend their money on and therefore the total number of HRI outlets is still likely to fall. Quick service restaurants are likely to continue to do well with consumers spending less.

Trends:

Here is a snapshot of trends seen in the last 12 months.

Leisure outlets continue to have increasing success. With the weaker pound and the recession more people are holidaying in the UK and spending more money at theme parks or in cinemas. Also consumers are continuing to want healthier lifestyles and therefore are spending more money on food and drink in health centers.

Airport dining is experiencing high levels of growth. Following increased security at airports, consumers are at airports longer and travelers are not allowed to take drink products through security. Therefore, as a result, consumers are more likely to have a meal at the airport and buy drink products and snacks to take on the plane with them.

Fast food outlets with drive-thru's have also seen an increase in trade. Due to limited land, the majority of these are found not in city centers.

In the last few years the UK has built more large enclosed shopping malls. Consumers are increasingly spending a number of hours there, during which time they are likely to spend money on food and drink.

The largest UK trend in recent years is "Health" and "Healthy Eating". The UK government has put increased efforts into healthy eating; one of the reason's being is that the UK's obesity rates are now the highest in Western Europe. Twenty four percent of the UK adult population is now technically obese.

In the last couple of years, there have been many government campaigns focusing on the benefits of healthy eating. As a result consumers increasingly want healthier products, which the industry sector as a whole has had to respond to.

One Government enforcement was the smoking ban in public places which came into effect in July 2007 in the UK and has hit the UK pub trade the hardest. Many pubs have had to offer or increase their food portfolio, as smokers are tending to stay away from pubs. However, pubs have still seen profits fall.

As always it is the independent pubs that have been hit the hardest. These small establishments have not had the money to spend on advertising or creating new dining areas like the large chain pubs have. Some of the big operators such as Mitchells and Butlers Plc, Greene King Plc, and JD Wetherspoon have continued to generate profits.

The pub industry is likely to be hit again in the next year or so, as the UK government focuses on reducing binge drinking especially amongst teenagers and women. Therefore it is expected that costs of alcohol will increase and there be stricter rules in pubs, further driving down opportunities for growth in this segment.

What the future holds:

Smaller/Independent operators are likely to be driven out of the market. High-end restaurants will also suffer with consumers likely to eat in mid-level restaurants instead.

UK consumers have become accustomed to eating out, especially with the continued increase in single occupant households; however, they are likely to eat out less often but buy more ready to eat meals.

Consumer demand for new foods is strong in the UK and is continually driven by high numbers of non UK citizens making the UK their home, as well as the UK love of travelling.

In the last couple of years, Japanese food has seen a big increase in popularity somewhat due to its health image.

Many UK consumers cook non-British food at home on a regular basis.

Overview of the foodservice market in the UK in 2008

	No. of Outlets & Meals		£ Millions at 2008 Prices		
Sector	Outlets	Meals Millions	Purchases Food	Purchases Food & Drink	Sales Food & Drink
Restaurants	27,153	736	£1,734	£2,406	£8,820
Quick Service	30,716	2,040	£2,360	£2,918	£10,185
Pubs	49,343	1,061	£1,320	£1,907	£5,997
Hotels	46,019	648	£1,484	£1,975	£7,706
Leisure	19,409	538	£667	£817	£3,252
Staff Catering	20,158	1,075	£1,098	£1,308	£2,868
Health Care	31,770	1,049	£702	£760	£910
Education	34,482	1,126	£689	£895	£1,183
Services	3,084	260	£202	£227	£254

Total 2008	**262,134**	**8,535**	**£10,257**	**£13,212**	**£41,175**

Source: Horizons for Success

Advantages & Challenges to U.S. Products in the HRI Sector

Advantages	Challenges
Brand name recognition – there are many American chain restaurants in the UK wanting to source American food products.	Competition from many other ethnic restaurants all popular in the UK, eg. Indian, Chinese, European.
There are a relatively small number of specialist foodservice importers, capable and interested in importing from the US.	With the exchange rate still being comparatively low against the dollar to two years ago – price competitiveness will be fierce.
The US has a good brand image in the UK.	Strict EU import regulations and labeling/ingredient requirements.
The country is English-speaking and is therefore a natural gateway into the rest of Europe for US exporters.	UK importers don't pay duty on EU origin goods. The importers of US origin products generally pay 0-25 percent import duty, depending on the product.
The US is a popular destination for UK tourists and familiarity with US products is widespread.	Need to change image of American food, which is associated with fast food.

Market Structure

The foodservice market is much more complex than the grocery retail market and is generally divided up into two distinct sectors: Profit and Cost.

Profit Sector:

This is the area of the foodservice market in which the potential business gains are the main motivator. Pricing is flexible. In the profit sector the majority of outlets can be classified as working within the hospitality industry. eg. Restaurants, fast food, pubs, hotels, leisure venues.

Cost Sector:

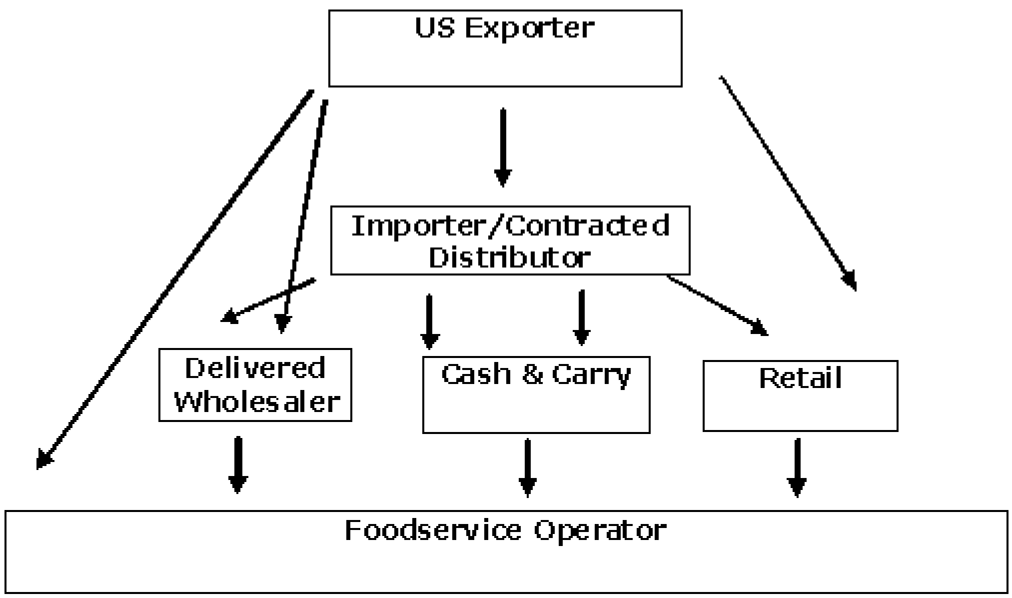
Caterers within the cost sector traditionally do not derive substantial margins. Meal provision tends to be out of necessity, rather than as a result of a business opportunity being identified. Provision is governed by contract where pricing is controlled if not fixed. eg. Schools, hospitals, prisons, specialist care homes.

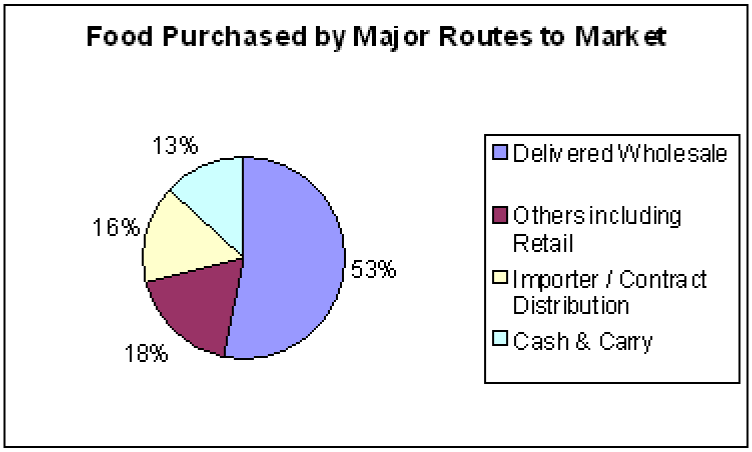
Profit Sector **Cost Sector**

Restaurants	Staff Catering
Quick Service Restaurants	Education
Pubs	Health Care
Hotels	Custodial (Prisons)
Leisure	Welfare (Long term care facilities)

SECTION II – ROAD MAP FOR MARKET ENTRY

The following diagram shows the most common routes to market. Although there are many varied routes, the most common way for American products is through an importer, due to their knowledge of the market, well-developed contacts and distribution systems.



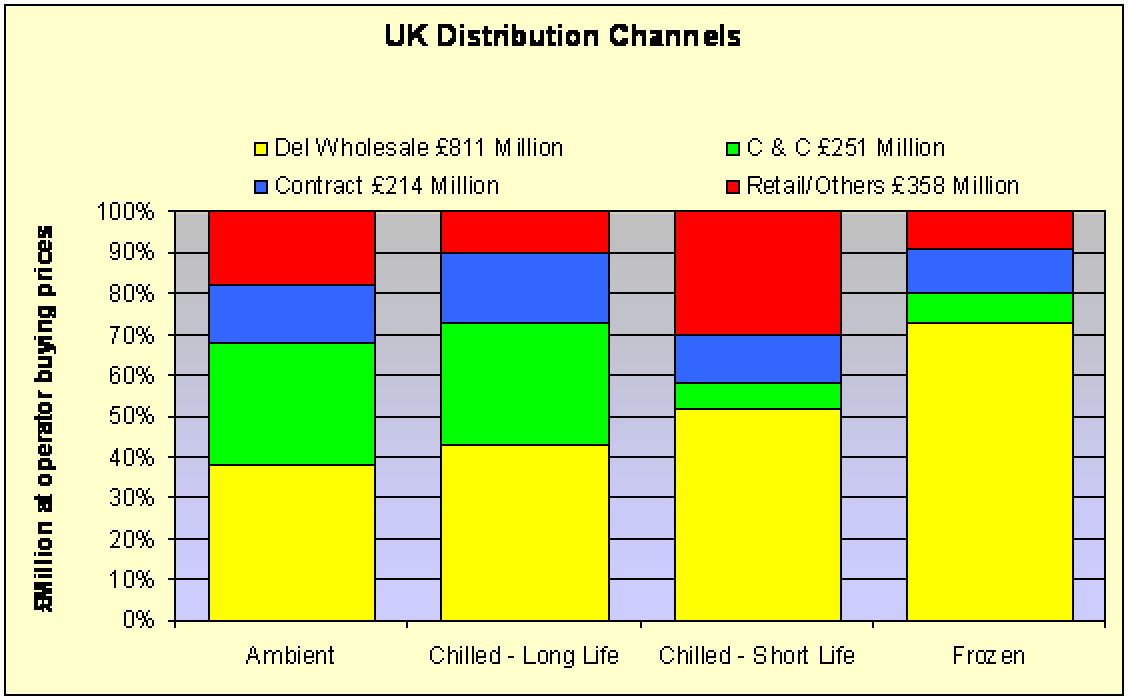


Over half of all food and drink sold to foodservice operators is through delivered wholesale. Larger operators will purchase from wholesalers, while smaller outlets are likely to buy from either cash and carries or retail stores.

Due to the large number of companies operating within the food service market, intermediaries skilled to fulfill small orders efficiently play a pivotal role in the distribution of products.

3663 First for Foodservice, Brakes, Compass Group and Sodexho are among the largest delivered wholesale operators in the UK. UK importers will sell the products onto these wholesalers.

Distribution channels to each sector



The foodservice sector cannot be looked at as a single market. The role of each channel varies from sector to sector. Wholesalers, for example, distribute a lot more frozen foods than ambient products and the retail sector has the most chilled short-life products.

Sub Sector Profiles

Following are institutions within the HRI sector:

Restaurants

The restaurants referred to in this sector, cover establishments where one would sit down to a meal. Eating in a restaurant is more likely to be a planned event for a specific purpose.

Key players include: Mitchells and Butler, Gondola Holdings, Whitbread Restaurants and The Restaurant Group

Quick Service Restaurants

In common with cafés quick service restaurants offer a quick meal on the go, but lack the social element of a café. One in four consumers eats in a quick service restaurant because their children or grandchildren want to eat there. Fast food chains will continue to develop healthier alternatives to their standard offerings as consumers demand healthier options.

Key players include: McDonald’s, Burger King, KFC, Pizza Hut, Pret a Manger, Subway

Hotels & Resorts

Each site is counted as one outlet, even though there might be several foodservice components within it eg. restaurant, bar, room service, leisure. A decline in public spending and the general publics price consciousness owing to the credit crunch has seen an increased demand for budget accommodation. In 2009, 69% of UK residents were planning a holiday at home rather than abroad in order to save money on costs. Also with the weakness of the pound, the UK is experiencing an increase in foreign visitors. It is predicted that the hotel industry will remain flat for the next 2-3 years seeing an increase as we get closer to the 2012 Olympics.

Key players include: Hilton, Holiday Inn, Marriott, Intercontinental, and The Savoy Group

Pubs

Places with good service and a relaxed atmosphere are key to people's expectations of eating in a pub. Low prices and price promotions are also key and is one of the main differences between restaurants and pubs. Thirty six percent of consumers eat in a pub once a month or more. Eating in a pub is primarily a social event with friends. Pubs are seen to offer a convenient option when compared to a restaurant or eating at home.

The increasing number of pub closures is affecting this market with 50 pubs closing every week in the last 12 months; this is up from 27 closures a week in 2007. Independent pubs that do not sell food are most as risk.

Research has shown that there was a 4% decline in the number of pubs in 2009, this is expected to decrease a further 1% in 2010 and then remain stable between 2011 – 2013 resulting in a 5% decrease between 2008-2013.

Pub companies and breweries will increase there market share while independently owned pubs are expected to decline in number.

Key players include: Scottish & Newcastle, JD Wetherspoon, Punch Taverns, Enterprise Inns, Greene King and Admiral Taverns

Leisure Parks

These include everything from visitor attractions such as museums, zoos, theme parks. Entertainment eg: theatres, cinemas, sports stadiums and gambling. Clubs eg; health clubs and fitness centers, sports and social clubs. Caterers eg: events caterers, mobile caterers. On Board Travel eg; airline catering, ferry catering, rail catering, bus and coach catering. Although the UK public is still visiting these establishments especially with the increased holidays in the UK, consumers are not spending as much money on food. They prefer to take their own snacks to cinemas rather than buying food there.

Health Clubs are one area where consumers are spending more money on food and drink as the importance of health is increasingly important.

Key players include: Odeon Cinemas, Living Well Fitness, and David Lloyd.

Cafeterias & Cafés

The UK branded café market has grown hugely in recent years. Chain coffee shops are opening at a rate of 10 per week. The growth has defied the economic downturn. Across Britain in the past year there have been 245 new Costa, 160 Starbuck, 83 Caffé Nero and 78 independents/smaller operators.

The coffee shop sector consists of outlets that serve hot and cold beverages, but no alcohol. They also serve snack foods such as cakes, sandwiches, soups and salads, although serving food is not their main domain of business. Thirty eight percent of consumers eat in a café once a month or more. Cafés are seen to offer quick meals for time pressured consumers and are also a good place to meet friends. Cafés are associated more with daytime dining. Forty eight percent of consumers choose cafés as a place to eat while out shopping. Forty three percent of consumers will drink specialty coffees such as lattés or cappuccinos when visiting cafés, compared to 1% of consumers who drink specialty coffees in the home.

Key players include: Starbucks, Costa, Eat, Pret A Manager, Caffé Nero, and Millies.

Staff Catering

These include trolley services as well as areas where full meals are sold eg. Self run canteens, Contracted canteens, National Government canteens, Off shore catering.

Education

This includes all food and drinks served in schools of all levels from nurseries to universities. In the last couple of years guidelines have been changed so that meals served are healthy and nutritional.

Health Care

Meals counted in the health care sector include those served to patients, staff and visitors and include: hospitals, nursing homes and care homes. As with the educational sector, nutritional needs are under scrutiny in this area.

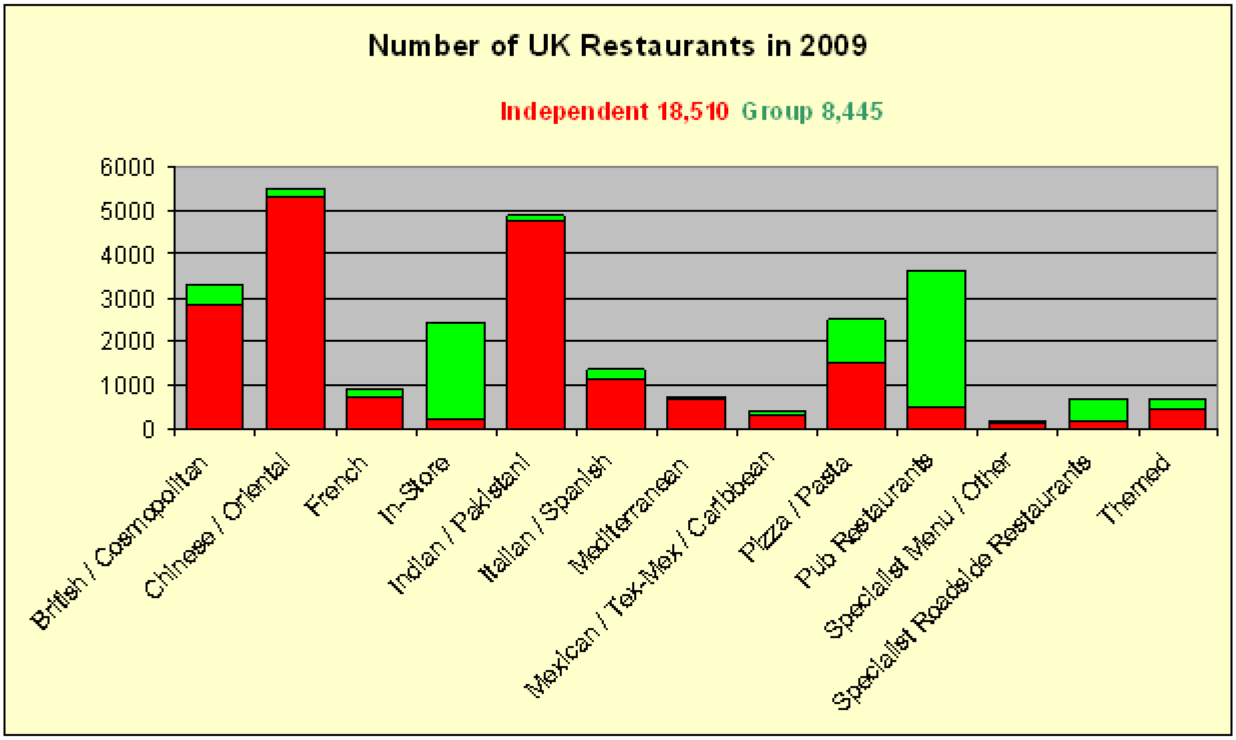
Custodial

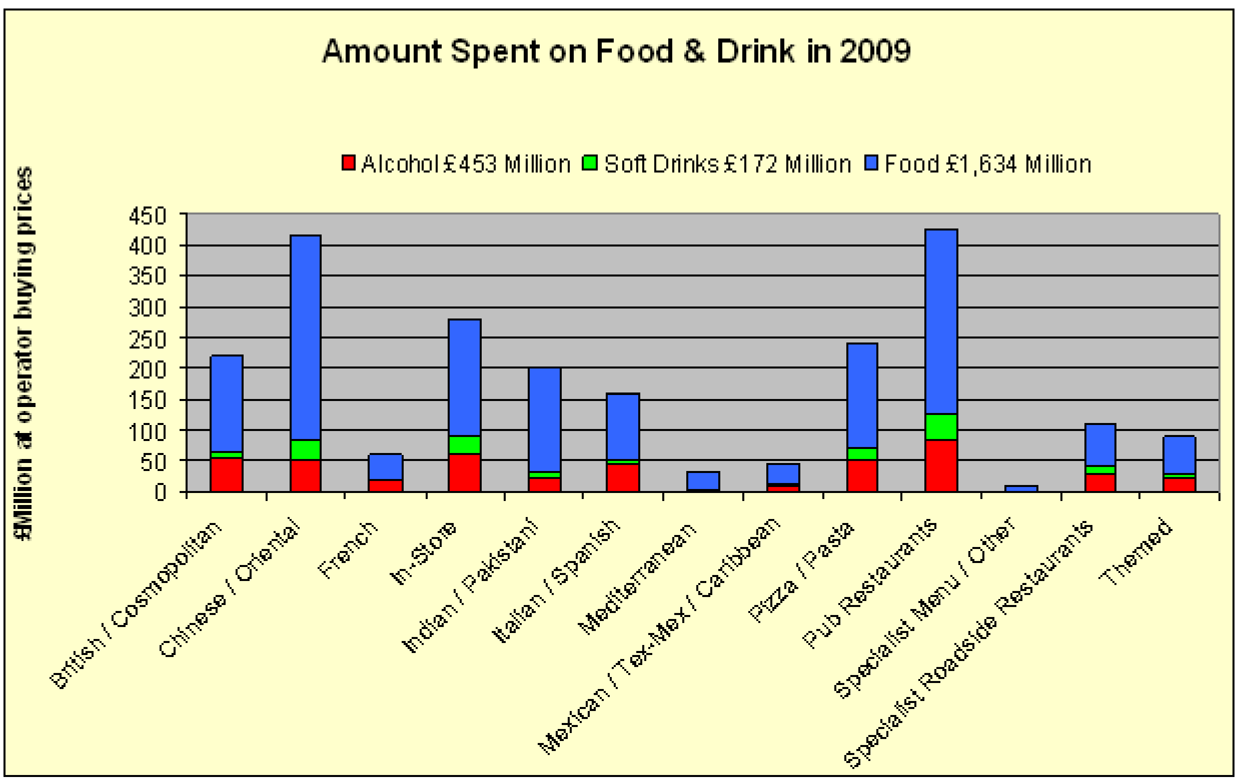
Includes Police stations, Fire stations, Armed Forces and Prisons.

Welfare

Includes Meals on Wheels, Luncheon Clubs and Day Centers.

The following two graphs show the number of specific types of restaurants and the breakdown on how much is spent on food and drink.


Number of UK Restaurants in 2009
Independent 18,510 Group 8,445
6000
5000
4000
3000
2000
1000
0
British / Cosmopolitan
Chinese / Oriental
French
In-Store
Indian / Pakistani
Italian / Spanish
Mediterranean
Mexican / Tex-Mex / Caribbean
Pizza / Pasta
Pub Restaurants
Specialist Menu / Other
Specialist Roadside Restaurants
Themed


Amount Spent on Food & Drink in 2009
Alcohol £453 Million
Soft Drinks £172 Million
Food £1,634 Million
£Million at operator buying prices
450
400
350
300
250
200
150
100
50
0
British / Cosmopolitan
Chinese / Oriental
French
In-Store
Indian / Pakistani
Italian / Spanish
Mediterranean
Mexican / Tex-Mex / Caribbean
Pizza / Pasta
Pub Restaurants
Specialist Menu / Other
Specialist Roadside Restaurants
Themed

SECTION III – COMPANY PROFILES

The following companies are some of the biggest players in the UK foodservice industry: Aramark, Brakes, Compass, 3663 First For Foodservice, Mitchells and Butlers, Sodexho and Whitbread.

Aramark

ARAMARK	Aramark Ltd. Millbank Tower, 21-24 Millbank London, SW1P 4QP Tel: +44 (0) 20 7963 0000 Fax: +44 (0) 20 7963 0500 Website: www.aramark.co.uk

Aramark is a leader in professional services providing award winning food services and facilities management. They work with healthcare institutions, universities and schools, stadiums and arenas and businesses around the world. No. of sites: 1200.

Brakes

BRAKES Foodservice solutions	Brakes Enterprise House, Eureka Business Park Ashford, Kent, TN25 4AG Tel: +44 (0) 1233 206 000 Website: www.brake.co.uk

Brakes is a market leader of delivered wholesale in the UK supplying frozen, chilled and grocery products to sectors across the foodservice industry.

Compass Group

COMPASS GROUP	Compass Group plc Rivermead, Oxford Road, Denham Uxbridge, Middlesex, UB9 4BF Tel: +44 (0) 189 555 4554 Website: www.compass-group.co.uk

The Compass Group is a leading foodservice company. They have over 400,000 employees who specialize in providing food, vending and related services to clients in over 90 countries. They have six main sectors in which they work: Business & Industry, Fine Dining, Defense, Offshore and Remote Sites, Education, Healthcare and Seniors and Vending. No. of sites: 7000.

Clients include: Café Ritazza, Upper Crust and Harry Ramsdens

3663 First For Foodservice

	3663 First for Foodservice Buckingham Court, Kingsmead Business Park London Road, High Wycombe, Bucks, HP11 1JU Tel: +44 (0) 870 3663 000 Website: www.3663.co.uk

3663 First for Foodservice is the UK's leading foodservice company with sales of over £1 billion a year. They deliver quality ingredients, finished products and equipment to the catering industry including restaurants, pubs, cafes and clubs across the UK, schools, hospitals and Government departments. They have a fleet of 1,100 vehicles and deliver to over 50,000 customers.

Clients include: Compass Plc, Prêt A Manager and Burger King.

Mitchells & Butlers

	Mitchells & Butlers plc 27 Fleet Street Birmingham, B3 1JP Tel: +44 (0)870 609 3000 Fax: +44 (0)121 233 2246 Website: www.mbplc.com

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants in the UK. They have around 2,000 businesses offering food, drink, entertainment and accommodation in prime locations across the country.

Clients include: Alex Gastro, All Bar One, Brown's Restaurants, Express by Holiday Inn, Flares Bars, Harvester Restaurants, Hollywood Bowl, Inn Keepers Lodge, Nicholson Pubs, O' Neills Pubs, Sizzling Pub Co and Toby's Carvery.

Sodexho

	Sodexho UK Ltd Capital House, 2nd Floor 25 Chapel Street London, NW1 5DH Tel:+ 44 (0) 20 7535 7400 Fax:+ 44 (0) 20 7535 7401 Website: www.sodexho.co.uk

Sodexho has a good reputation with clients. They have 48,000 staff in the UK and Ireland and have more than 2,300 client locations across all market sectors including business and industry, education, healthcare, defense and leisure sectors.

Whitbread PLC

	Whitbread Group plc Whitbread Court Houghton Hall Business Park

	Porz Avenue, Dunstable, LU5 5XE Tel: +44 (0) 1582 424200 Website: www.whitbread.co.uk

Whitbread Plc is one of the UK's leading hospitality companies, managing top brands in hotels, restaurants and health and fitness clubs. They employ 45,000 people and have over 1,400 outlets across the UK.

Clients include: Premier Travel Inn, Brewers Fayre, Beefeater, Costa Coffee and David Lloyd Leisure.

Top 15 Foodservice Operators in the UK

Rank	Operator	Selected Brands	Main Sector
1	McDonald's	McDonald's	QSR
2	Compass Group	Upper Crust, Café Ritazza, Harry Ramsden's, Moto	Contract Catering
3	Sodexho	Sodexho	Contract Catering
4	Mitchells & Butlers	All Bar One, Toby Carvery.	Pubs
5	Yum	Pizza Hut, KFC	QSR
6	Burger King	Burger King	QSR
7	Aramark	Aramark	Contract Catering
8	Wetherspoon	JD Wetherspoon, Lloyds	Pubs
9	SSP	Millie's Cookies, Café Riazza	Travel
10	Punch Taverns	Chef & Brewer	Pubs
11	Best Western	Best Western	Hotels
12	Whitbread	Beefeater, Brewer's Fayre, Costa Coffee, TGI Fridays'.	Restaurants
13	Greggs	Greggs, Baker's Oven	QSR
14	Hilton	Hilton	Hotels
15	GateGroup	Gate Gourmet	Travel

(Source: Horizons for Success)

Leading Chained Consumer Foodservice Brands by Number of Outlets 2008

Rank	Operator	Main Sector	No. of Outlets
1	Enterprise Inns	Pubs	7,763
2	Punch Taverns	Pubs	7,550
3	Admiral Taverns	Pubs	2,400
4	Marstons	Pubs	2,260
5	Scottish & Newcastle	Pubs	2,250
6	Subway	QSR	1,306
7	Greggs	QSR	1,210
8	McDonald's	QSR	1,200
9	Greene King	Pubs	890

10	Costa Coffee	Restaurants	870
11	KFC	QSR	760
12	JD Wetherspoon	Pubs	719
13	Starbucks	QSR	650
14	Tesco	Retail	650
15	Pizza Hut	Restaurants	646

(Source: Euromonitor)

SECTION IV – BEST PRODUCT PROSPECTS

US products which do well in the UK foodservice industry are: snack foods, fresh and dried fruit, nuts, salmon and seafood, cooking sauces, salad dressings, confectionery, dips and salsas, frozen foods, wine and beer.

The UK government is increasingly promoting healthy eating and healthy lifestyles. There are opportunities for US products that are natural, wholesome and healthy.

The table below shows the best high value product prospects for the UK foodservice market:

Product Category	Total UK Imports 2008 ($ million)	UK Imports From U.S. 2008 ($ million)	Average Annual U.S. Import Growth (last 5 yrs)	U.S. Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Fish and Seafood HS: 03	2,632	81.9	18%	0-22%	Highly fragmented market, domestic shortfall.	U.S. #1 canned salmon supplier, developing interest in other products and species
Chocolate confectionery HS: 1806	1,467.6	16.6	16.6%	8-27%	Domestic & EU competition, low acceptance of American chocolate taste	British eat more chocolate than any other nationality.
Vegetables & Fruit prepared in Vinegar HS:2001	103.2	0.4	57.7%	0-16%	Competition from Turkey, Netherlands and India	Food has long shelf life
Preserved fruit & nuts HS: 2008	519.5	17.7	17.7%	7-27%	Competition from EU, Thailand & South Africa	U.S. nut butters perceived as high quality, exotic preserved fruits of interest for gift/specialty trade
Fruit & Vegetable Juice HS: 2009	1,227.2	11.9	23.3%	16-23%	Competition from EU and Brazil	High focus on healthy living in UK. Juices now more popular than carbonated drinks
Sauces, Condiments, Seasonings HS: 2103	884.3	24.8	9.8%	0-10%	Australia starting to enter the market	U.S. #4 supplier, UK wants authentic tex-mex, BBQ sauces, marinades & salad dressings

Soft drinks HS: 2202	969.0	14.4	17.8%	0-10%	Domestic & EU competition, strong brands, market reaching saturation	New U.S. concepts in beverages always attractive, e.g. functional drinks
Beer HS: 2203	793.5	10.2	72.8%	0%	Domestic & EU competition, major brewers located in EU	U.S. micro-brew beers, generally unique beers with a story. They are attractive to a niche audience
Wine HS: 2204	5,308.9	241.98	-1.4%	18-25%	Competition from EU, Australia, Latin America & S. Africa. Figure shows a minus due to wine being shipped to Italy and then the UK.	UK #1 export market for U.S. wine, California wine has 16% market share, other parts of U.S. should benefit in future

SECTION V – POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need any other assistance exporting to the United Kingdom, please contact the USDA office in London at the following address:

United States Department of Agriculture
Embassy of the United States of America
24 Grosvenor Square
London, W1A 1AE
Tel: +44 20 7894 0040
Fax: +44 20 7894 0031
E-Mail: aglondon@fas.usda.gov
Website: www.fas.usda.gov

Further information on UK foodservice is available from:

Institute of Grocery Distribution (IGD)
Grange Lane, Letchmore Heath
Watford, Hertfordshire WD2 8DQ
Tel: +44 1923 857141
Website: www.igd.com

UK Trade association for information about the food and grocery chain.

One service offered is their: Retail Analysis - www.igd.com/analysis this covers more than 130 retailers in 50+ countries. Retail Analysis enables you to understand retailer strategies and keep in touch with the latest news.

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313 Regents Park Road
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Tel: +44 20 8349 0162
E-Mail: info@horizonsforsuccess.com
Website: www.horizonsforsuccess.com

Leading consultancy who specialize in the foodservice industry.