



Food and beverage to the United Kingdom.

Trends and opportunities

The market

The food and beverage manufacturing industry is the single largest manufacturing sector in the UK. The total sector value is around A\$230 billion. Value growth over the last few years has slowed due to price stability – food inflation is minus 0.3 per cent while the retail prices index is three per cent. The British Government encourages the development of this industry within World Trade Organization guidelines. Projects are run by the [Department of Trade and Industry](#).

Over the last two years, the **UK food industry has suffered from overcapacity**. This has led to consolidation, both in the structure of the industry and the behaviour of the major customers; the supermarkets.

Oversupply has strengthened the supermarkets' position in the supply chain. Supermarket leaders Tesco and Sainsbury's have adopted 'factory gate pricing', which is essentially a shortening of the distribution system – Tesco's lorries collect direct from the manufacturer, cutting out the need for the wholesaler. So far the retailers have concentrated on frozen food and fresh produce, but the initiative is certain to impact on all sectors in the future.

The overcapacity in the industry has led to a decline in the number of participating companies, through mergers or industry exit. **Companies that have survived have tended to become more vertically integrated – becoming more involved in the whole growing, manufacturing and marketing process.** This is particularly the case for the meat industry which suffered badly under the food and mouth epidemic.

Consumers are now spending less in real terms than 10 years ago. This is due mainly to competition between the supermarkets that dominate UK retailing and seek to gain market share through price promotions. Also, UK consumers have a healthy scepticism, and consumer-rights groups are vociferous in exposing so-called 'fat cats'. This concentration on price obviously affects the margins available to all suppliers in the chain.

The UK now has the widest range of population in employment, and the longest working hours in Europe (approximately 43 hours a week mean average). This means that **eating patterns have undergone a revolution, with consumers becoming more educated in both expectations and palate.** Only 15 per cent of households sit down together for a meal every day. Twenty per cent only eat together once a year, and 25 per cent only once a month. Coupled with the lack of cooking classes in schools, many younger people now lack the skills to cook a meal from scratch. This has fuelled the market for prepared, ready-to-cook and ready-to-eat products.

The UK grocery sector has similar product offerings to Australia, although packaging and presentation is more important. The key difference is that private label products take up 50 per cent of the sector value. Private label is differentiated into:

- ✦ High-end, gourmet ranges, such as Tesco's 'Finest' range
- ✦ Mid range 'brand-copier' type products
- ✦ Budget ranges at rock bottom prices

Beverages

The factors affecting the UK drinks industry are mainly social, rather than regulatory. These include:

- ✦ more entertaining at home
- ✦ greater interest in healthy living
- ✦ interest in novel and innovative products
- ✦ tougher drink-driving laws
- ✦ increasing range of products available through supermarkets

The [Institute for Grocery Distribution](#) (IGD) and the [Food and Drink Federation](#) (FDF) both provide detailed analysis of consumption patterns in the UK, and the factors affecting sales.

Wine

Australia has a 14.5 per cent share of the UK wine market, second only to France. Australia's exports continue to grow strongly and is gaining popularity, particularly amongst women and the 20–35 age group. Consumers are becoming more adventurous in terms of new labels and higher-priced wines. Fruit wines have limited popularity and

local brands seem to sell best in the area of their production.

Beer

Beer is the largest sector of the UK drinks market. The total value of the beer market continues to increase, while consumption has started to decline after years of non-growth. Sales of lighter lager-style beers and premium bottled beers drive the sector. The take-home or 'off-trade' from supermarkets is fast becoming the most dominant point of sale, though 'on-trade' sales in pubs and bars is still a major outlet.

Spirits and pre-mixed alcoholic drinks

Spirits is a mature and conservative sector and it is hard to drive change. There has been little overall growth in value or volume. Clear spirits remain more popular than coloured, especially with younger drinkers. The success story is pre-mixed cocktails and alcopops. Investment in new products and marketing is high, and the sector is highly competitive and fashion-driven. However, the attractiveness of these sweeter drinks to under-age drinkers has incurred increased regulation.

Soft drinks

Soft drink consumption continues to grow at five per cent by value and three per cent by volume. This is driven by consumer interest in healthy options and significant investment in innovation. Carbonated drinks continue to dominate the sector, but fruit juices are seeing growth at six per cent, fruit based drinks at 12 per cent and bottled water at 30 per cent.

Hot beverages

Hot drinks have lost market share to soft drinks, but the UK's changeable weather also affects sales - which are down by nine per cent. Product innovations include herbal infusions, flavoured coffees, green tea and new packaging options.

Opportunities

Opportunity areas include:

- ✦ **Grocery products** (branded and private label) – pasta, breakfast cereal, biscuits, snacks, condiments, sauces, confectionery, healthy foods, home baking
- ✦ **Gourmet products** – Australian specialities, luxury foods, special occasion foods
- ✦ **Fruit and vegetables** – premium apple varieties, cherries, nectarines, plums, citrus, mangoes, pineapples and tropical fruits. Some opportunity for vegetables.
- ✦ **Seafood** – white fleshed reef and farmed fish, shellfish, crustaceans
- ✦ **Meat** – premium beef, lamb and possibly game meat (note that meats are affected by quota)
- ✦ **Organic food** – fruits and vegetables, groceries and snacks
- ✦ **Beverages** – wine, beers (premium or boutique bottle), spirits and liqueurs (particularly pre-mixed cocktails), hot drinks (herbal teas, caffeine-free beverages) and soft drinks (sports and energy drinks, adult dilutables and mixers)

Competitive environment

The UK is a highly competitive drinks market, requiring high levels of investment in marketing and promotion to succeed. Australian-made products must compete with locally produced drinks that incur no import duty and low freight costs. Competition comes from within UK, mainland Europe, USA, Canada, and other Southern Hemisphere suppliers.

More information

For further information please contact Austrade on 13 28 78 or email info@austrade.gov.au

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