

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 12/17/2012

GAIN Report Number:

United Kingdom

Food Service – Hotel Restaurant Institutional

2012

Approved By:

David Salmon

Prepared By:

Julie Vasquez-Nicholson

Report Highlights:

This report gives an overview of the foodservice industry and its various sectors within the United Kingdom (UK). It explains how the current economic downturn is affecting the 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 hotel, restaurant, and institutional (HRI) sector, while the market remains receptive for new U.S. products.

Post:
London

Executive Summary:
SECTION I – MARKET SUMMARY

The hotel, restaurant and institutional (HRI) market is the United Kingdom's (UK) fourth 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:

The UK foodservice sector is estimated to be worth £42.8 billion, with the food element of this total around £10 billion. This has remained fairly static for the past three years. The food service sector is clearly an enormous market and is one that can provide many opportunities. The foodservice market in the UK continues to be affected by economic volatility. Even though the UK is out of recession, the after effects are still being felt. Unemployment is impacting the population and inflationary food prices and frozen salaries are reducing discretionary spending.

Although eating out is a way of life for many UK consumers, the number of times people eat out and the type of place where they eat are dictated by how much they want to spend. Takeaway and fast food outlets have continued to do well with consumers opting for these types of meals rather than more expensive restaurants.

Trends:

A snapshot of major trends currently seen in the UK follows:

In order to entice consumers into restaurants, many restaurants are offering discounts or voucher promotions which bring the costs of meals down considerably. Many consumers now search the internet for current promotions and then choose where to eat based on the current best deal.

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

One Government enforcement change was the smoking ban in public places that 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 felt the biggest impact. These small establishments have not had the money to spend on advertising or creating new dining areas as the large chain pubs have done. 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 healthy image. Food from every continent is available in the UK. International cuisine is extremely popular.

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

Overview of the foodservice market in the UK in 2011

Sector	Number of Outlets and Meals		£ Millions at 2011 Prices		
	Outlets	Meals Millions	Purchases Food	Purchases Food & Drink	Sales Food & Drink
Restaurants	28,074	704	£1,777	£2,473	£9,515
Quick Service	31,450	1,977	£2,371	£2,934	£10,806
Pubs	45,087	871	£1,173	£1,692	£5,477
Hotels	45,763	611	£1,536	£2,044	£8,274
Leisure	19,044	523	£716	£876	£3,589
Staff Catering	20,158	880	£970	£1,176	£2,647
Health Care	32,047	1,047	£696	£754	£934
Education	34,398	1,134	£700	£875	£1,278
Services	3,077	261	£206	£233	£264
Total 2011	258,579	8,008	£10,145	£13,056	£42,785

Source: Horizons

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

Advantages	Challenges
Brand name recognition – there are	Competition from many other ethnic restaurants all

many American chain restaurants in the UK wanting to source American food products.	popular in the UK, e.g., Indian, Chinese, and 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 – price competition 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 a natural gateway into the rest of Europe for US exporters.	UK importers don't pay duty on EU origin goods. The importers of U.S. origin products pay 0-25 percent in import duties, depending on the product.
The U.S. 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, e.g., restaurants, fast food, pubs, hotels, and 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, e.g., schools, hospitals, prisons, and specialist care homes.

Profit Sector



Cost Sector



- Restaurants
- Quick Service Restaurants
- Pubs
- Hotels
- Leisure

- Staff Catering
- Education
- Health Care
- Custodial (Prisons)
- 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 to enter is through an importer, due to their knowledge of the market, well-developed contacts, and distribution systems.

See attached tables - Importing table and Routes to market.

Over half of all food and beverage products sold to foodservice operators are through wholesalers. 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 in fulfilling small orders efficiently play a pivotal role in the distribution of products. Aramark, 3663 First for Foodservice, Brakes, Compass Group, Mitchells & Butler, Sodexho and Whitbread are among the largest operators in the UK.

These companies can be categorized in the following:

Operators - Operating a foodservice outlet includes all the functions associated with both 'front' and 'back' of house, including kitchen operations and meal preparation. All of the operating functions can be undertaken by the owner. Foodservice operators include: Compass Group, Sodexho, Whitbread, McDonalds and Burger King.

Delivered Wholesalers - The catering market is predominately supplied in two main ways, either direct from a supplier or an intermediary or from a wholesaler. Currently, over half of all food sold to food service operators is delivered by wholesalers. Smaller operators, such as independent pubs, restaurants and hotels, may purchase from national or regional wholesalers, but given their small size and flexibility, they are more likely to source from regional producers. Examples of these are 3663 First for Foodservice, Brakes, Sodexho and Compass Group.

Distributors - Unlike the wholesalers, contract distributors do not normally take ownership of goods, but instead, offer a delivery service function. Operators choosing to contract a distributor for all parts of their estates include McDonalds, Burger King, Prêt Manger and Compass. 3663 and Brakes provide a contract distribution service, in addition to their delivered wholesaler service.

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. In the past 12 months restaurants have battled hard against the recession by offering discount vouchers or special offers to entice consumers into their establishment. Ethnic food is very popular in the UK, so restaurants offering food from all over the world are seen throughout the UK.

Key players include: Mitchells and Butler, Gondola Holdings (UK leading casual dining group operating Pizza Express, Ask, Zizzi, plus a number of smaller brands), Whitbread Restaurants and The Restaurant Group (one of the largest independent restaurants and pub restaurant groups owning Chiquito, Frankie and Bennies, Garfunkel's, Home Country, TRG Concessions and Brunning & Price).

Quick-Service Restaurants

Similar to cafes, 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.

Quick service restaurants have performed well in the last 12 months with many consumers opting for this type of meal rather than a full service restaurant. Also, some of the fast food operators are opting for menu items outside their normal fare. For example, McDonalds has made a success of selling coffee, despite strong competition from the numerous specialist coffee shops.

Key players include: McDonald's, Burger King, Nandos, Eat, Domino's, KFC, Pizza Hut, Pret a Manger, Subway and Greggs Plc.

Hotels and Resorts

The majority of hotels trading in the UK are small independent businesses, mostly run by families; however, this is slowly changing as a number of larger chained operators have entered the market. Each hotel is counted as one outlet, even though there might be several foodservice components within it, e.g., a restaurant, bar, room service, and leisure. A decline in public spending and the general public's price consciousness owing to the credit crunch has seen an increased demand for budget accommodation. Hotels, especially those in London and the South-east, have done well in the last 12 months, as a result of increased tourism to the UK predominately because of the Olympics.

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

Pubs

Places with good service and a relaxed atmosphere are key expectations when eating in a pub. Low prices and price promotions are also critical and are 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 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. Independent pubs that do not sell food are most at risk. Pub companies and breweries will increase their market share while independently owned pubs are expected to decline in number. One of the sector's main concerns is the government's goal to reduce binge drinking in the UK. Some direct outcomes that may affect pubs are a potential increase in the cost of alcohol and stricter rules that will affect the segment's growth in the long term.

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

Leisure Parks

This category includes everything from visitor attractions, such as museums, zoos, and theme parks. A breakdown would include:

Entertainment	Theatres, cinemas, sports stadiums and gambling establishments
Clubs	Health clubs and fitness centers, sport and social clubs
Caterers	Events caterers, mobile caterers
On Board Travel	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. Bingo halls and Bowling Alleys have seen an increase in food sales as consumers tend to make a night of it and buy food as part of the evening. 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, David Lloyd, Gala and Mecca.

Specialist Coffee Shops

The UK branded coffee shop market has shown huge growth in recent years. There are currently 15,000 coffee outlets in the UK with chain coffee shops opening at a rate of 10 per week. The growth has defied the economic downturn. Costa Coffee, the number one specialist coffee chain, plans to open an additional 350 stores by March 2013.

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 line of business. Thirty eight percent of consumers eat in a coffee shop once a month or more. Coffee shops are seen to offer quick meals for time pressured consumers and are also a good place to meet friends. Coffee shops are associated more with daytime dining. Forty eight percent of consumers choose coffee shops as a place to eat while out shopping. Forty three percent of consumers will drink specialty coffees such as lattes or cappuccinos when visiting coffee shops, compared to 1 percent 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, e.g., 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 recent years, guidelines have been changed so that meals served are more healthy and nutritious. The leading contract school caterers are Compass's Scolarest Division, Initial Catering Services, and Sodexo.

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

This includes police stations, fire stations, the armed forces, and prisons. The vast majority of the catering for the armed forces is managed by the Ministry of Defense but it hires the defense divisions of Sodexo, Compass Group and Aramark to run the operations.

Welfare

This are includes meals on wheels, luncheon clubs and day care centers. Meals on wheels is the delivery of food at lunchtime to pensioners. With the aging population and more pensioners living on their own, there has been considerable growth in this area.

The following table shows the number of specific types of restaurants in the UK – figures from 2011.

Type of Restaurant	Number of Outlets	Number of Chained Restaurant Groups	Number of Independent Restaurants
British/Cosmopolitan	3,275	504	2,771
Italian / Spanish	1,401	312	1,089
French	851	267	584
Sub Total European	5,528	1,084	4,443
Chinese / Oriental	5,353	225	5,128
Indian / Pakistani	4,655	196	4,460
Mediterranean	805	59	747
Sub Total Ethnic	10,813	479	10,334
In-Store	2,509	2,288	221
Specialist Roadside Restaurants	454	452	2
Pub Restaurants	4,690	4,137	553
Pizza / Pasta	2,676	1,145	1,531
Mexican / Tex-Mex / Caribbean	432	166	266
Themed	775	353	422
Specialist Menu / Other	198	64	134
Sub Total Concept	11,734	8,605	3,128

TOTAL Restaurants	28,074	10,169	17,906
--------------------------	---------------	---------------	---------------

Source: Horizons.

SECTION III – COMPANY PROFILES

The following companies are some of the biggest players in the UK foodservice industry:

Aramark

	<p>Aramark Ltd. 250 Fowler Avenue IQ Business Park, Farnborough Hampshire, GU14 7JP Tel: +44 (0) 1252 529 000 Fax: +44 (0) 113 393 7200 Website: www.aramark.co.uk</p>
---	---

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

	<p>Brakes Enterprise House, Eureka Business Park Ashford, Kent, TN25 4AG Tel: +44 (0) 1233 206 000 E-Mail: customer.services@brake.co.uk Website: www.brake.co.uk</p>
---	--

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

	<p>Compass Group plc Parkview, 82 Oxford Road Uxbridge, Middlesex, UB8 1UX Tel: +44 (0) 1895 554 554 Website: www.compass-group.co.uk</p>
---	--

The Compass Group is a leading foodservice company. They have over 400,000 employees and 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

	<p>3663 First for Foodservice Buckingham Court, Kingsmead Business Park London Road, High Wycombe, Bucks, HP11 1JU Tel: +44 (0) 370 3663 100 Website: www.3663.co.uk</p>
---	---

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

	<p>Mitchells & Butlers plc 27 Fleet Street Birmingham, B3 1JP Tel: +44 (0)121 498 4000 Fax: +44 (0)121 233 2246 Website: www.mbplc.com</p>
---	--

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

	<p>Sodexho UK Ltd One Southampton Row London, WC1B 5HA Tel: + 44 (0) 20 7404 0110 Website: www.sodexho.co.uk</p>
---	---

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

Whitbread PLC

	<p>Whitbread Group plc Whitbread Court Houghton Hall Business Park Porz Avenue, Dunstable, LU5 5XE Tel: +44 (0) 1582 424200 Website: www.whitbread.co.uk</p>
---	--

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 in 2012.

Rank	Operator	Selected Brands	Main Sector
1	McDonald's	McDonald's	Quick Service Restarants (QSR)
2	Compass Group	Upper Crust, Café Ritazza, Harry Ramsden's, Moto	Contract Catering
3	Mitchells & Butlers	All Bar One, Toby Carvery.	Pubs
4	Sodexo	Sodexo	Contract Catering
5	Whitbread	Beefeater, Brewer's Fayre, Costa Coffee, TGI Fridays'.	Restaurants
6	JD Wetherspoon	JD Wetherspoon	Pubs
7	Yum	Pizza Hut, KFC	QSR
8	Greggs	Greggs, Baker's Oven	QSR
9	Starbucks	Starbucks	QSR
10	Domino's	Domino's	QSR
11	Restaurant Group	Frankie & Benny's, Chiquitos, Garfunkel's.	Restaurants
12	Subway	Subway	QSR
13	Gondola	Pizza Express, Ask, Zizzi	Restaurants
14	Aramark	Aramark	Contract Catering
15	Nando's	Nando's	Restaurants

(Source: Horizons)

Leading Chained Consumer Foodservice Brands by Number of Outlets 2010

Rank	Operator	Main Sector	No. of Outlets
1	Enterprise Inns	Pubs	6,800
2	Punch Taverns	Pubs	5,967
3	Marstons	Pubs	2,150
4	Admiral Taverns	Pubs	1,700
5	Greggs	QSR	1,487
6	Subway	QSR	1,420
7	Scottish & Newcastle	Pubs	1,400
8	Costa Coffee	Restaurants	1,195
9	JD Wetherspoon	Pubs	770
10	McDonald's	QSR	717
11	Starbucks	QSR	701
12	Tesco	Retail	655
13	Pizza Hut	Restaurants	632
14	Domino's	QSR	616
15	KFC	QSR	522

(Source: Euromonitor)

SECTION IV – BEST PRODUCT PROSPECTS

US products that 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 U.S. 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 2011 (\$ million)	UK Imports From U.S. 2011 (\$ 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	2,605	63.7	-28%	0-22%	Highly fragmented market, domestic shortfall.	U.S. #1 canned salmon supplier, developing interest in other products and species
Chocolate confectionery HS: 1806	1,672.1	21.2	+27%	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	137.4	0.3	-55%	0-16%	Competition from Turkey, Netherlands and India	Food has long shelf life
Preserved fruit & nuts HS: 2008	554.8	21.8	+13%	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	1,092	20.7	+139%	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	861.6	21.6	+10.5%	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	1,015.0	+6.6%	-18.5%	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	752.0	4.5	+107%	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	4,781.8	223.6	+3%	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, W1K 6AH
Tel: +44 20 7894 0040
E-Mail: aglondon@fas.usda.gov
Website: www.fas.usda.gov

Further information on UK foodservice is available from:

Horizons

Winston House
2 Dollis Park
London, N3 1HF
Tel: +44 844 800 0456
E-Mail: info@hrzns.com
Website: www.hrzns.com

Leading consultancy who specialize in the foodservice industry.

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 chains.