



High Pressure Cooking

European foodservice market matures,
while value chain dynamics just start



**CAP GEMINI
ERNST & YOUNG**

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SPECIMEN

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Utrecht, January 2004

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Lifestyle changes boosted foodservice

In the past decade, consumer lifestyle trends resulted in a food consumption shift towards foodservice (chapter 1, paragraph 1.1). A more dominant position of work in the weekly schedule for men and women, hectic and more individual lifestyles, the declining importance of the family meal, and an increasing attention for personal health & safety, all make consumers long for convenience, enjoyment and time to relax. Foodservice fulfils these needs and has become a market of a mature size.

Until recently, market figures for foodservice offerings showed strong growth (chapter 1, paragraph 1.2). Recent news reports though, explain that the growth has declined due to the economic slowdown. Especially higher-end full service restaurants (FSR) are hit, and they account for the largest market share. The larger players in the market, the fast food chains and the caterers, are currently also facing a more difficult market.

Nonetheless, the main drivers behind foodservice growth suggest the market will increase further - though more modestly - after an economic recovery (chapter 1, paragraph 1.3). Busy working schedules, growing participation of women in the workforce, a larger senior population with time and money to spend, and a teenage population that is very much into the quick service restaurants (QSR), all ensure the market is there to stay and decline is just temporary.

But even after an economic recovery, foodservice will not be an 'easy market', as the number of players, the number of outlets and the variety in formulas has grown along with the market size (chapter 1, paragraph 1.4). Consumers indeed continue to buy foodservice offerings, but are well aware of what the options are and choose for formulas that meet their specific needs. They want value for money.

Market has grown and now stagnates across Europe

The above foodservice trends can be recognized in Europe's main markets, though there are some differences between countries with regard to preferences for specific channels (chapter 4). In Italy (paragraph 4.4) and Spain (paragraph 4.5) out-of-home foodservice is more important than in Germany (4.1), France (4.2) and the UK (4.3), where a larger part of foodservice is sold through the retail channel. But in all these five countries foodservice has shown strong growth figures in the past ten years, followed by a slowdown of the market growth in more recent years.

New consumer needs impact the value chain

Since foodservice has become a significant market, many players try to get hold of a strong position in this market (chapter 2). At the moment, there are no foodservice outlet operators active across Europe, except for McDonald's. The stronger regional players are mainly caterers and QSR and these segments are consolidating. At the same time retailers and food manufacturers enter the foodservice outlet market and try to tempt the consumer through own outlets. With more competition, the necessity increases to scale up and improve operations to a higher level of professionalism. Opportunities that arise are branding, food safety, supply chain efficiency, outlet formula management, food product development and R&D. For some of these issues alliances or partnerships might be the best solution.

Maturing foodservice demands players to refocus

While the market matures, expectations are that in the next decade roles in the foodservice value chain will change strongly (chapter 3). For the QSR and mainstream FSR segment, consolidation towards more industrialised and efficient formulas provide better value for money for consumers. The consumers' buying decision is often made on impulse or out of habit. Outlet operators spend more time on formula management and branding, while the actual cooking is often taken care of by suppliers. In the high-end FSR segment, local players will keep their position, as consumers expect a unique dinner experience.

Retailers develop towards foodservice, but make sure that the foodservice outlet branding is in line with what consumers expect. Food retailers will not only continue to offer ready-to-eat meals, but more often open up QSRs and take-away outlets in or just outside their supermarkets. Non-food retailers appreciate in-store restaurants that support their own shop formula, but realise this mostly through alliances, as it is a different kind of business.

Wholesale and distribution operators need to choose in the following years between one of the two activities, as both businesses will be increasingly run in a different manner. Players in this field of business have to decide on whether to focus on wholesale or distribution, in order to make a clear value for money proposition. As efficiency becomes more important, wholesale companies as well as distribution companies consolidate.

Food manufacturers need to invest to update their product portfolio to meet tomorrow's more demanding needs. New food products will alter a lot in logistic processes. Building a strong position in foodservice outlets as well is very ambitious for manufacturers. But they do have the experience in marketing that outlets need so badly at the moment. This might be a good time for manufacturers to build alliances with outlet owners and support them to help sell their products.

Foreword

Foodservice has been in the picture a lot in recent years. At first, because the market growth was strong and consumers were tempted by creative concepts and outlets. Next, news reports read that in current economic times market growth was declining. This might suggest that developments slow down.

This book explains why the foodservice value chain dynamics are stronger than ever, especially now that the market shows first signs of maturity. No doubt, foodservice offerings are a significant part of the entire food market and are there to stay. Indeed the market might not grow as strong as before, but still it will grow and more players will claim their share of the market. This means that in the following years companies throughout the value chain need to further improve product offerings and business processes. In our modest opinion, they just have to.

I would like to thank the companies that contributed to this book by participating in our interviews and taking the time to discuss their views on the market with us,¹ including Aguas Danone España, Aramark, Canela Foods, Compass, CSM Bakery, Sara Lee/DE, Elidis, Fontvella/Lanjaron, Grupo Panrico, Heinz Foodservice, Horizons, IgloMora, Pomona, Lekkerland, Masterfoods, McDonald's, Gallina Blanca Restauración, Sodexo, Starbucks, Subway, Unilever Bestfoods Foodsolutions, and Uniq. They helped us strengthen our findings and sharpen the view on the foodservice market.

And finally I want to thank all the Cap Gemini Ernst & Young colleagues who were involved in conducting the research and completing this book. I would like to specifically mention Manuel Rodriguez Contra, Thomas Reichenbach, Laurence Jumeaux, Richard Hull, Paolo Ferrari, Eric Kruidhof, Ellen Croes, Marc Spronk, Jan-Willem Grievink, Armijn Beek, Arie-Simon Kranendonk, Miranda Langhout, Riemke de Kloet, Francisca van Dijk, Bert Koerts, Russell Stocks and my co-author Maud Oortwijn.

I hope this book triggers your thoughts on the various opportunities in the European foodservice market.

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Principal Consultant Cap Gemini Ernst & Young

¹ Some of them are quoted throughout the book.

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Ten statements on the future of foodservice in Europe

1. Sociological and demographic trends that supported foodservice growth in the last decade continue to drive foodservice (chapter 1).
2. The foodservice market has grown to a mature size and consumers demand value for money (chapter 1).
3. The QSR segment consolidates to strong international brands. Weak QSR formulas disappear as consumers want proven value for money (chapter 2).
4. Consumer preferences for fresh food and attention to food safety will have as much impact on suppliers as on foodservice outlet operators themselves (chapter 3).
5. Outlet operators focus on formula management and branding (consumer needs management) and leave more of the actual cooking to suppliers (chapter 3).
6. Suppliers of foodservice outlets need to develop strong cooking skills and the technology to provide fresh ready meals that meet tomorrow's consumer needs (chapter 3).
7. Food manufacturers have to invest strongly on technology for foodservice products including its distribution based on consumer needs management (chapter 3).
8. Wholesale & distribution operators need to make a decision whether to focus on wholesale or distribution (chapter 3).
9. Large food retailers open up more foodservice outlets themselves, while smaller retail chains build alliances with foodservice operators (chapter 3).
10. Non-food retailers will continue to open up in-store restaurants, mainly through alliances (chapter 3).

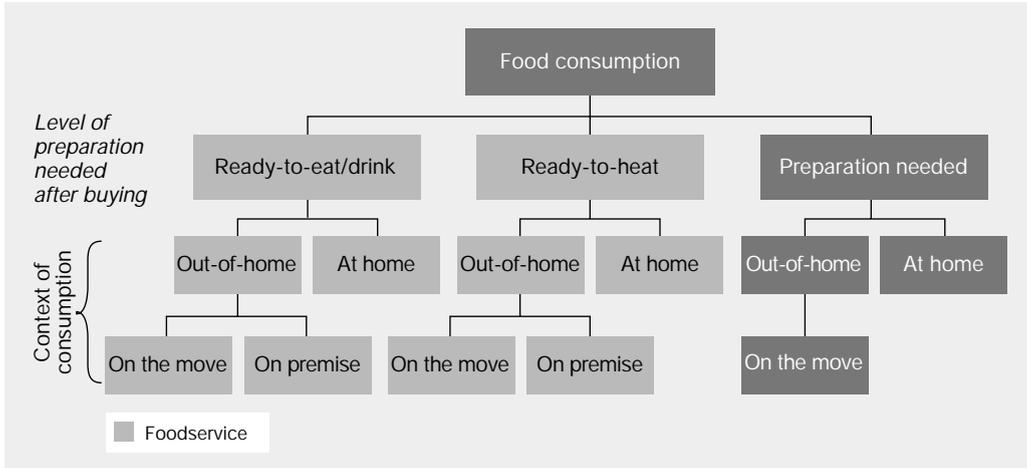


Figure 1 Definition foodservice

	Outlet categories
Catering	<ul style="list-style-type: none"> • Health care catering • Travel catering (air, train) • At work: Business & Industry • Education (canteens)
Restaurants	<ul style="list-style-type: none"> • Quick Service Restaurants - QSR • Full Service Restaurants • Bars, cafés, sport canteens • Hotels and pensions
Retail	<ul style="list-style-type: none"> • Convenience stores • In-store restaurants • Specialty stores (bakery, butcher, chocolates, salad bars) • Ready-to-(h)eat retail sales (frozen pizzas, to-go breakfast) • Gas stations
Vending	Vending machines at various locations: <ul style="list-style-type: none"> • Health care catering • Travel catering • At work, at school • On the streets
Events & Leisure	<ul style="list-style-type: none"> • Food stalls • Mobile bars • Outlets at leisure/holiday parks, adventure parks, cinemas, sport events etc

Figure 2 Foodservice outlet channels

How will growth of ready-to-(h)eat impact the value chain?

In the past decennia a lot changed in the way we prepare and consume food. Not so long ago everyone ate home cooked meals together with the family at fixed times during the day. Nowadays we eat whatever we like, whenever and wherever we feel like it (at home, on the move and at foodservice outlets). Food is available for us everywhere and 24 hours a day (at gas stations, canteens, drive-ins, quick service restaurants, vending machines, etc). Where traditionally eating out was a luxury for special occasions, we now enjoy a variety of foodservice offerings as a part of our daily life.

Definition foodservice

Foodservice is a significant part of the food market. In this book foodservice is defined as 'all kinds of food and drinks that are available for consumers ready-to-eat/drink or ready-to-heat' (figure 1). Foodservice varies from sandwiches to an à la carte menu or a microwave meal, as long as consumption does not require more preparation than just heating it up. Whether it's sold by retailers or through foodservice outlets, the channel is not what makes food offerings foodservice. In this book a variety of channels are analysed.

Main questions

The growth of foodservice to a mature market size will impact the foodservice value chain. Since foodservice has become a significant market, existing food(service) players invested in their foodservice operations and many new players entered the arena. Where previously a strict division could be made between retail and foodservice outlets, now all kinds of new outlet concepts open doors and the division of retail and foodservice is fading away (figure 2). This, combined with other developments in the foodservice chain, like food safety and the trend towards fresh and healthy food, raises the question: 'How will the foodservice market growth impact the food(service) value chain?'

In this book a variety of questions will be answered:

- How is the European food market and particularly foodservice developing?
- What are the important trends in foodservice across Europe?
- What are the main drivers behind the changes in customer needs and how do they develop?
- Will foodservice further grow in the next 5 years?
- How does the foodservice market develop in the UK, Germany, Spain, Italy, and France and what are the differences in eating cultures?
- What are the differences between the UK, Italy, France, Germany and Spain with regard to the drivers behind foodservice?
- What are important developments in the foodservice value chain across Europe?
- How does foodservice change the roles of players in the value chain?

Characteristics of a mature market	Foodservice
• Slow overall market growth	
• Increased competition for market share	
• Increased emphasis on price	
• Experienced buyers who leverage suppliers	
• Product development becomes largely incremental	
• Falling industry profitability	

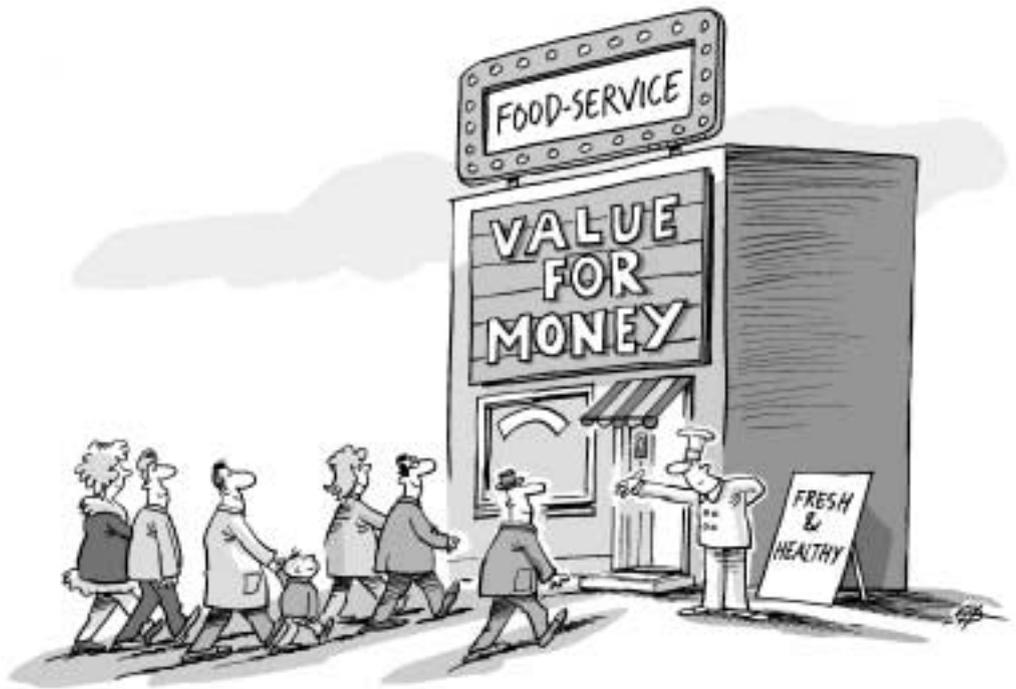
Figure 3 Characteristics of a mature market

Research approach

To gain insight on these subjects a literature study was done in July and August 2003² followed by interviews with industry leaders in September and October 2003 (see research sources listing and list of companies that participated). Industry experts of Cap Gemini Ernst & Young (CGE&Y) in cooperation with the Strategic Research Group (SRG) did the desk research. The interviews were conducted with executives from food manufacturers, food distributors and foodservice outlet organisations in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the UK. Foodservice operations in the United States were studied to complete the picture, as the US foodservice market is further developed than the European market.

Our main finding is that while the foodservice market shows first signs of maturity (figure 3), the foodservice value chain dynamics have just started. The foodservice market has grown to a considerable size and now growth is declining. Long-term perspectives are still positive, as drivers behind the market show a positive trend (chapter 1). These conclusions can be drawn for the UK, Germany, Spain, Italy and France, though there are some differences between countries with regard to eating culture and preferences for specific offerings and channels (chapter 4). As the market grows across Europe, new and traditional foodservice players will try to improve and strengthen their position in this market (chapter 2). This, combined with the specific product requirements and the possibilities for reducing complexity in the value chain, will change the role of players in the food(service) market (chapter 3).

² Market data found on different segments of the foodservice market might not add up exactly to the total foodservice market, as definitions of segments overlap and figures are rounded off.



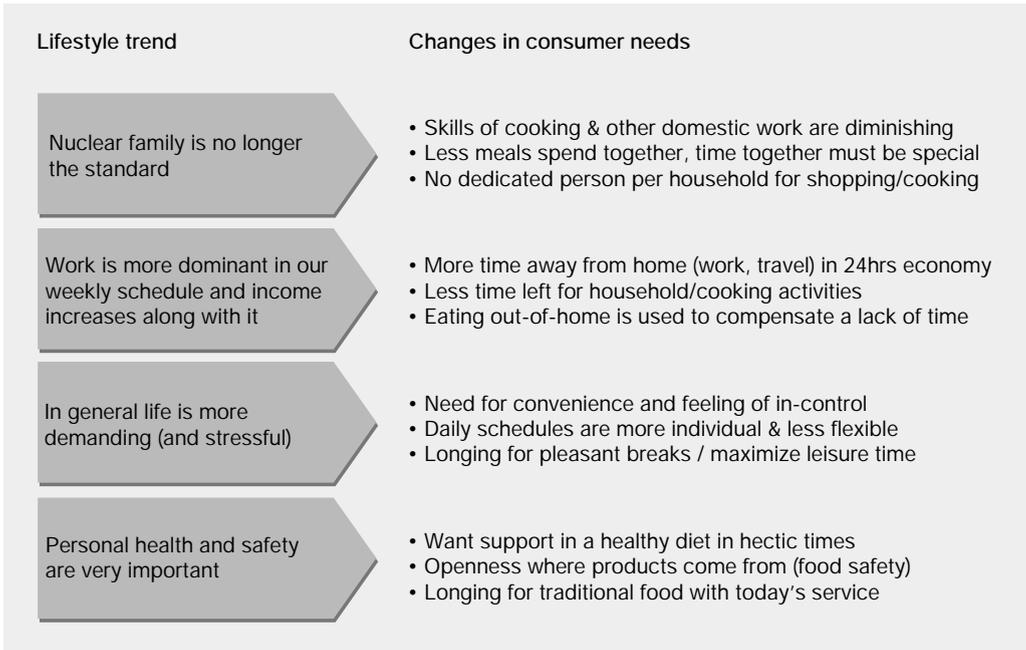


Figure 1.1.1 Consumer lifestyle trends

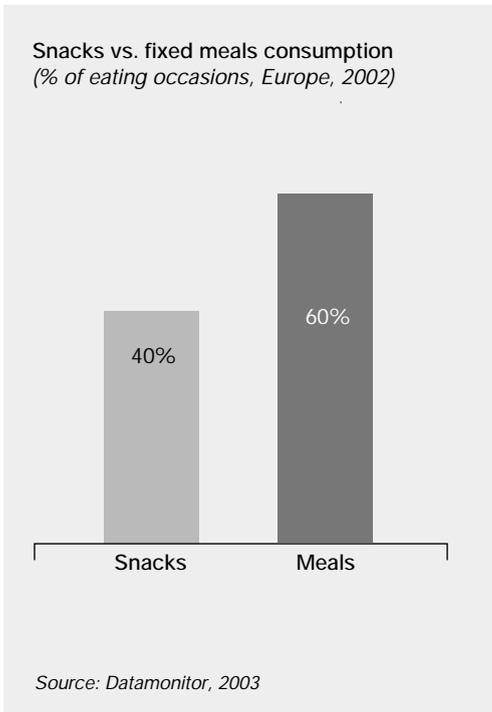


Figure 1.1.2 Snacking versus fixed meals

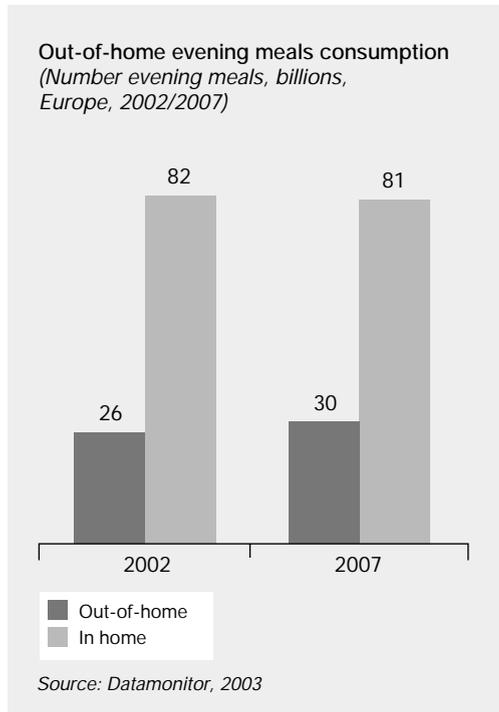


Figure 1.1.3 Out-of-home evening meals

1 Foodservice market shows first signs of maturity

The European foodservice market shows some signs of saturation, while the long-term expectations are positive. Changes in consumer lifestyles have resulted in a shift towards easy-to-buy and ready-to-(h)eat food (figure 1.1.1). For years the foodservice market figures has showed growth and foodservice has become a market not to overlook. Recently though, restaurant owners explain in news reports how their business has been influenced by the recent economic circumstances. Drivers behind consumer lifestyle trends, however, promise further growth when the economic situation improves. But since the number of offerings is numerous, consumers choose more and more for value for money.

1.1 Social trends

Consumer lifestyle trends stimulate consumption towards ready-to-(h)eat

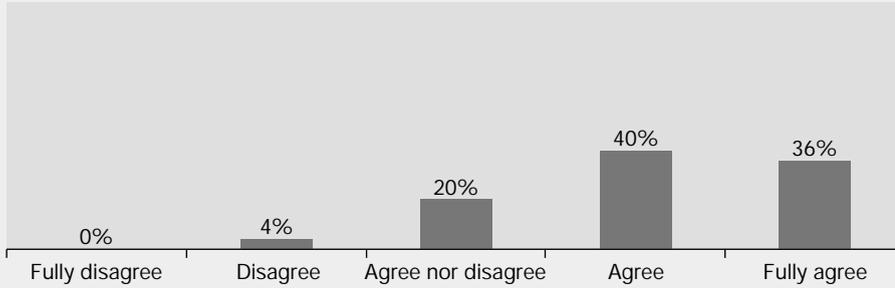
Nowadays food consumption is based on individual needs and lifestyles, while traditionally people fitted their lives around the family meal. Consumers want foodservice offerings that meet their particular needs anytime and anywhere and with the right quality and quantity. Market data confirms the foodservice trend and shows that more is spent on 'the luxury' of eating out and snacking (figure 1.1.2 and 1.1.3). Currently 24% of all meals in Europe are consumed outside the home (2002) and this is expected to grow towards 27% in 2007. Preferences for specific offerings differ per generation and develop when people grow older (see textbox Different generations). Foodservice players should act on these changes in consumer needs.

Change in individual needs and lifestyles

The nuclear family is no longer the standard and more and more women join the work force, while household sizes decrease. As a result there is less often a dedicated person per household who is responsible for grocery shopping and cooking. Cooking skills and other housekeeping skills are even diminishing. Fewer meals are eaten together and preparing a meal for just one person is often too much of a hassle. As a result, we prefer foodservice offerings. And when families do spend time together, the family meal has to be special, even though we don't want to invest much time in cooking.

At the same time, work is more dominant in the weekly schedule and income increases along with it. In this 24-hour economy people spend more time away from home (at work, on-the-road, travelling). This means that there is just less time left for housekeeping and cooking activities. By way of compensation, consumers prefer foodservice to 'buy time for money'.

To become successful, manufacturers will have to develop new concepts that are more focused on consumer needs instead of on product categories or channels



N=25

Source: CGE&Y research September - October 2003

Figure 1.1.4 Results interviews statement 4

Chilled ready meals in the evening and sandwiches for breakfast at gas stations are a typical example of this.

In general, life is more demanding and stressful. Hectic lifestyles make people long for convenience and a feeling of being in-control again. Well-positioned foodservice concepts can do just that, for instance all-in-one breakfast drinks. Foodservice helps busy consumers by providing them with just the product they long for, in the quantity they need, easy-to-buy, easy-to-handle, easy-to-eat, and whenever they feel like it. Consumers expect foodservice to be available everywhere and at any moment of the day.

“Omni-presence will become very important: anticipating on consumer needs at every moment of the day in every place” (Manager of a large food manufacturer)

Eating and drinking no longer is a factor that needs planning, but becomes an ideal way to have a short pleasant break in our daily schedule or something we just take care of while we work or drive.

Compared to foodservice snacks in the old days, consumers want more healthy and fresh food, which supports them in their diets. Personal health and safety are more important and thus transparency about the production process and origin of ingredients is a value-add.

Foodservice consumption patterns

Consumers want the right foodservice offering, anytime they want, and anywhere. Foodservice offerings should combine convenience with premium quality, as consumers look for value for money instead of lowest price. And since support of a healthy diet is important for more consumers, fresh and nutritious food products offered in smaller portions are preferred.

“It’s going to be a challenge to develop the right concept at the right moment in the right place. Price does not play the first role then.” (Mr. Arnoud van Os, Uniq)

The quality and atmosphere of the location should match with the food products sold and with anything the consumer wants at that time of day. Since foodservice is a larger market and the number of outlets has grown, consumers can choose from a variety of outlets. Their perception of the buying location, whether it is quality of the staff or decorations, does influence the choice of where the money is spent. As a result, the number of branded outlets increases, especially in the Quick Service Restaurant (QSR) segment.

Another shift in consumption is that consumers more often eat individually; moreover eating times vary per person and per day. Research shows a growth in the number of eating moments. Snacking has not only become more common in between meals, but the number of

people that replace a full meal with several snacks has increased too. Across Europe 40% of the eating occasions is already a snacking moment instead of a fixed meal and this trend is expected to continue (figure 1.1.2). Manufacturers could act on this trend by offering individually packed, healthy, nutritious snacks.

Different generations

The described consumer lifestyle trends occur across Europe, but some differences can be seen between generations

Generation Y: age 15-25 years

Today:

Youth

- Eat fast food
- Seek adventure
- Want to be different
- Comfortable on-line

By 2010:

Enter workforce

- Start families (late)
- Create time to connect
- Embrace technology

Eating habits 2010

- Enter workforce, start a family and gain economic importance
- Eating out (large part QSR) a cornerstone of their habits
- Will rarely cook from scratch

Generation X: age 26-35 years

Today

- Grew up with family diner
- Many can't cook
- Use technology

By 2010

- Balance career vs. family
- Income rise
- Outsourcing 'low value' tasks

Eating habits 2010

- Pioneers of meal assembly
- Eat out 2 times per week
- Slow spending on QSR, shift to FSR and Fast Casual Dining
- Purchase food at convenience locations

Boomers: age 36-55 years

Today:

Youth

- Last generation to cook
- Busy manage family/career
- Use technology to connect

By 2010:

Start enjoy pension

- More time and money
- Enjoy investing in time
- Connecting is priority

Eating habits 2010

- Rediscover kitchen for assembly
- Shift from QSR to Full Service restaurants
- Attentive to eating healthy food

Matures: age 56-65 years

Today

- Focused on value
- Healthy and fit
- Technology for connection

By 2010

- Living independently
- Reconnect with family
- Some return to workforce
- Physical/health constraints

Eating habits 2010

- Remain core grocery cohort
- Dine out more than previous generations
- Overall food spending declines
- Full Service gains from QSR

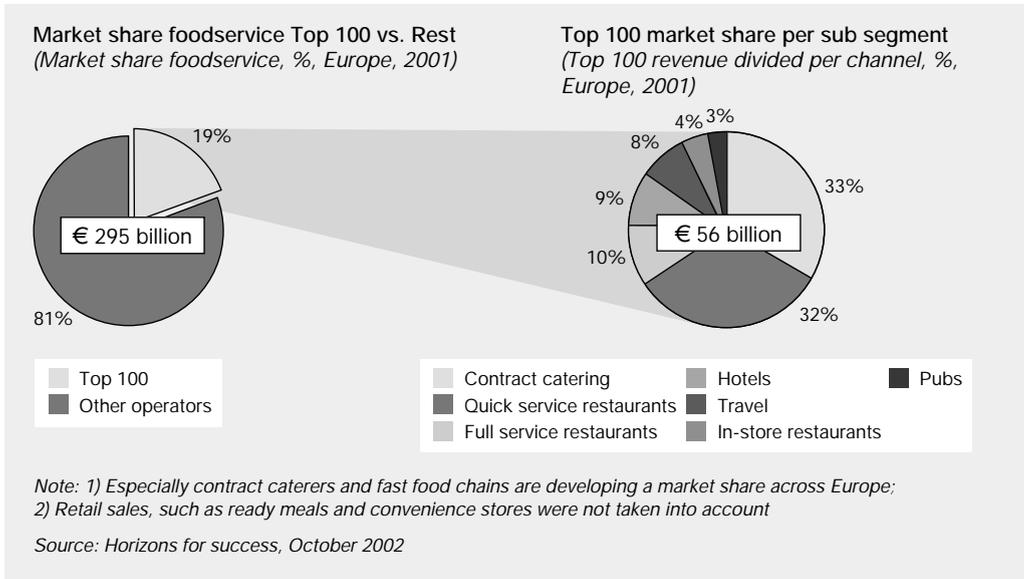


Figure 1.2.1 Market share foodservice channels

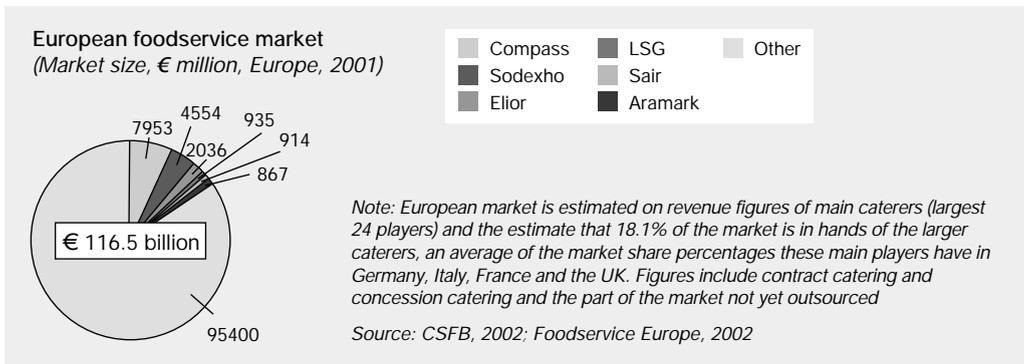


Figure 1.2.2 European Catering market size



Figure 1.2.3 Top 5 QSR and FSR in Europe

1.2 Market size

Foodservice market showed strong growth, but recently growth has declined

In the past decennium many studies were conducted on the foodservice sector, which all showed a strong growth in the various segments of Catering, Restaurants, Vending machines, Retail (convenience, ready meals and in-store restaurants) and Events & Leisure. Recently, foodservice operators sent out more negative news about their trade. Compared to foodservice market figures a few years ago, growth is declining.

Overall market

The European out-of-home foodservice market is estimated at € 300 billion in 2001 (excluding sales via retail outlets). Foodservice is offered by various channels, of which catering and restaurants (QSR/FSR) are the largest segments (figure 1.2.1). The top 100 foodservice operators hold only 20% of the fragmented foodservice market. The largest players are caterers and fast food chains. Full Service Restaurants (FSR) is a large segment as well, but FSRs are seldom owned by larger chains. Within Europe, there are strong differences between eating cultures (chapter 4), but these differences are getting smaller, as more Europeans develop an international taste apart from their local cuisine.

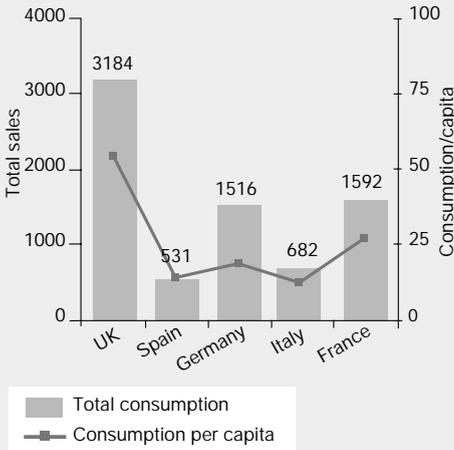
Catering

The European Catering market will show slow growth in the next few years. Catering revenues are currently estimated at € 116.5 billion (figure 1.2.2), including contract catering and concession catering as well as the not-outsourced part of the market (62%). At the moment, revenues in canteens are decreasing. A reduction in client company subsidies on meals is one of the main reasons behind this. This in turn causes price increase. Another reason is that because of the state of the economy, the total number of employees is decreasing. For the following years, only a small single-digit growth is expected. Opportunities mostly arise as more and more organisations outsource their catering activities to the market, especially within Health Care and Education. The Business & Industry catering is already a mature market with a large part of the market outsourced to external parties.

Restaurants

Consumers more and more have dinner outside their homes and eating out is quite common. In 2002 around 26 billion evening meals were served out of home (figure 1.1.3). Across Western Europe growth in the number of meals served has out paced growth in the number of drinking occasions over the last 5 years. For the next 5 years further growth in out-of-home evening meals is predicted towards 30 billion meals in 2007. So, consumers will keep going out for dinner frequently; it is an eating habit that will come to stay.

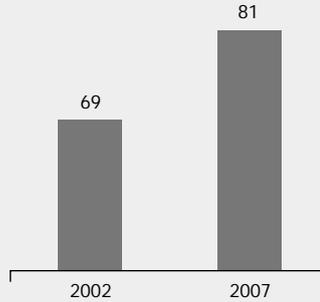
Ready meals market
(Ready meals sales¹, € million and € per capita, 2002)



Note: 1) Exchange rate used GB £ = € 0.62
Source: Ananova, 2003; Eurostat, 20/2003

Figure 1.2.4 Ready meals market size

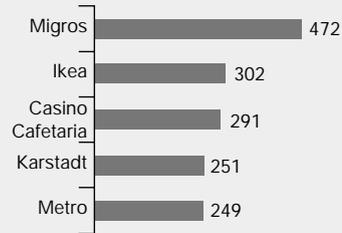
Retail out-of-home food and drinks market
(Market size, € billions, Europe, 2002/2007)



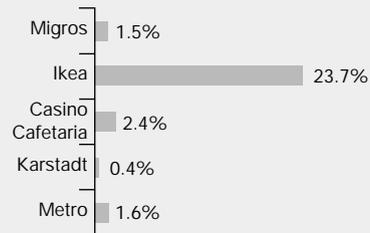
Source: Euromonitor, 2003;
www.readymealsinfo.com, August 2003

Figure 1.2.5 In-store restaurants market size

Top 5 In-store restaurants
(Operators turnover in Europe, € million, 2001)



Growth Top 5 In-store restaurants
(Growth % of turnover in Europe, 2000-2001)



Source: Food Service Europe, 4/02

Figure 1.2.6 Top 5 In-store restaurants

The full service restaurant segment (FSR) is by far the largest segment, followed by the QSR segment. Traditional FSR restaurants will only remain popular when concepts offer consumers optimum value for money vs. time spent, like, for instance, fast casual dining (FCD) and leisure restaurants do. The turnover of large QSRs like McDonald's and the Yum! brands outnumbers that of large FSRs (figure 1.2.3), as the QSR segment is dominated by international fast food chains. This might change, as newcomers threaten the burger and pizza segment with hip and healthy concepts that offer fresh coffee, juices, sandwiches, sushi or salads.

Retail

Consumers more often choose for foodservice instead of cooking from scratch, but this does not mean that retail is loosing revenues. The retail channel benefits from the foodservice trend through in-store restaurants, convenience stores, take-away formulas and ready meals. In-store restaurants and convenience stores realised around € 70 billion sales in 2002, while the market for ready-to-heat meals is estimated at another € 15 billion.

The ready meals product range benefits strongly from the relatively new chilled meals that give ready meals a more premium market positioning. Ready meals are going through an image change from being unhealthy, lazy food, to healthy and premium convenience. Preferences for ready meals differ strongly between countries (figure 1.2.4) and demographic/social groups. Households with higher disposable incomes and stressful working lives prefer chilled meals, while households with children, equally time-pressured, are more price-sensitive and often choose frozen meals.

In-store catering started as a way to keep customers in the shop, but has become a significant part of the revenues (figure 1.2.6). The fact that retailers are dedicating more precious floor space to restaurants demonstrates this. Some successful examples confirm that an in-store restaurant increased total shop revenues significantly (Selfridges 8.5%, Harrods 5%, Harvey Nichols 14%). The revenues of European top 3 in-store restaurants (Migros € 472 million, Ikea € 302, Casino € 291) are nearly comparable to those of Europe's top 3 FSR (Whitbread € 1832 million, Agapes € 499, City Centre € 368). But the most important reason for retailers to open in-store restaurants is still to enhance customer experience and to keep them longer in the shop.

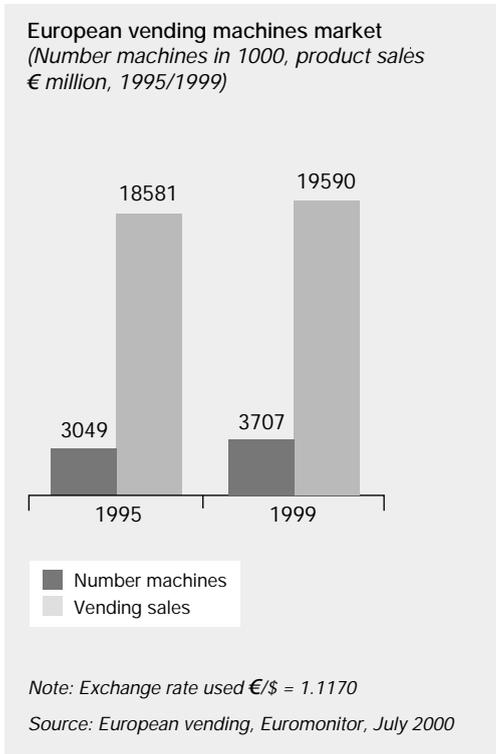


Figure 1.2.7

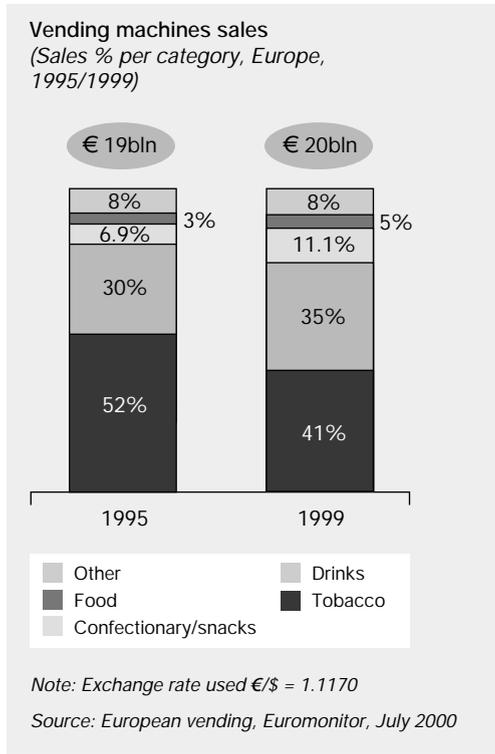


Figure 1.2.8

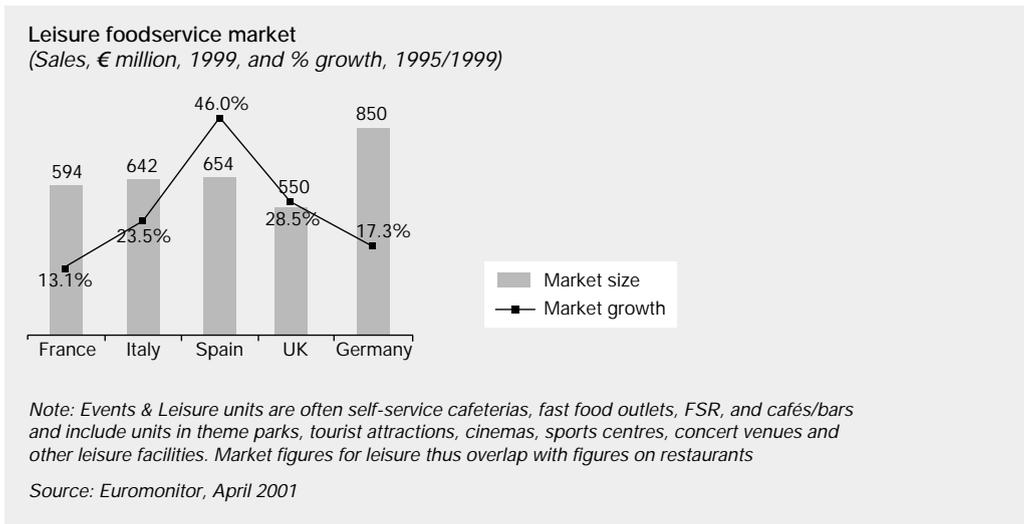


Figure 1.2.9 Leisure market size

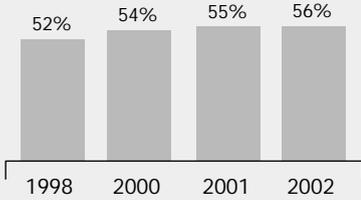
Vending machines

With € 20 billion vending is a small but increasing part of the market (figure 1.2.7) and it does not require any attendants. Vending machines are well positioned for around the clock emergency and impulse purchases. Machines are often located at the work place and mostly in cities and in high traffic locations outside cities, like railway stations. Main selling items (figure 1.2.8) are hot drinks (35%) and tobacco (40%). The machines have had a position for weakly branded goods and cigarettes for a long time. But this is changing now that consumers are used to around the clock snacking. Compared to the US (40 persons per machine) and Japan (20 persons per machine), Europe has still a low number of machines per inhabitant (100 persons per machine).

Events & Leisure

Expenditure in leisure foodservice has shown strong growth figures in the nineties, especially in Spain, a country which is with € 650 million together with Germany (€ 850 million) one of the largest leisure foodservice markets in Europe (figure 1.2.9). In the last few years spending on tourism has declined as the average spending per holiday has decreased. When the economy recovers, the impact on expenditure in leisure is strong, since the price level in leisure outlets is higher than average prices in city centres and spending on tourism depends highly on economic circumstances.

Female labour force EU-15
(% of female population employed¹)

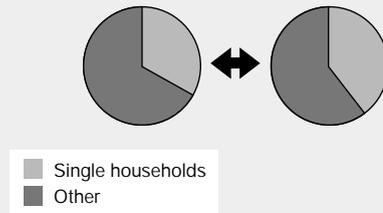


Note: 1) % women between 16-64 years of age employed at the moment

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 1.3.1 Female workforce participation

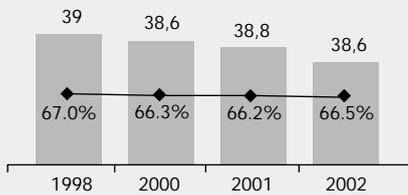
Share in households (Number of households, %, 2002, Europe) **Share in food spending** (Food spending, %, 2002, Europe)



Source: New Mealtime occasions and locations 2003, Datamonitor, 2003

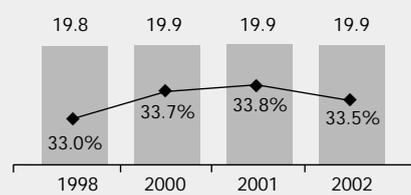
Figure 1.3.3 Share food consumption single households

Working hours full-time women
(EU-15, 1998-2002)



■ Usual hours worked by women per week
◆ Women full-time/part-time employed as % of total employed women

Working hours part-time women
(EU-15, 1998-2002)

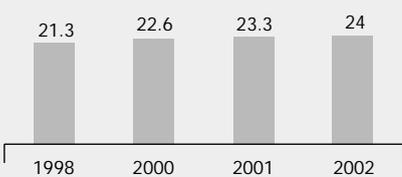


Note: 1) EU-15, incl. UK, Sweden, Denmark

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 1.3.2 Female average working hours

Income per capita
(GDP per capita, EU-15, PPS/€¹)

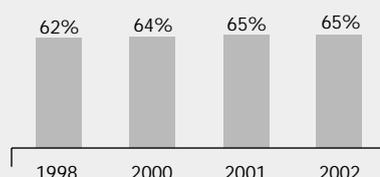


Note: 1) GDP in 1000 Purchasing Power Standards (PPS) is sum of GDP / country evaluated on common PPS, EU-15 GDP / head based on K € shows comparable figures, e.g. in 2002 K € 24; 2) EU-15 incl. UK, Sweden, Denmark

Source: GDP analysis Eurostat, 2003

Figure 1.3.4 Income per capita

Employed population EU-15¹
(% of total population employed²)



Note: 1) EU-15 incl. UK, Sweden, Denmark; 2) % 16-64 yrs old employed in job

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 1.3.5 Employment

1.3 Drivers behind the market

Drivers behind foodservice suggest the market will grow further

Are there any reasons to worry about a structural decline in the market? Drivers behind the change in lifestyle trends suggest the foodservice market will further grow after the current economic dip. Increase of women in the workforce has had a major impact together with the decreasing role of the nuclear family. The need to buy time also explains a large part of the previous foodservice growth. Currently this effect is less as the growth of income per capita declines, while unemployment rises. In the following years the growing elderly population will stimulate the demand for foodservice at home and out of home. Meanwhile, the traditional fast food target group, the youth, decreases in population size, but has more to spend and does not have the cooking skills to cook from scratch.

Nuclear family breakdown

The increase of women in the workforce has been one of the most dominant and persistent trends in the EU labour market in the last decades. In 2002 56% of European women between 16-64 years old were employed, of which 33.5% part-time. Counterpart has been a decline in the traditional household form and a growth in the single and 'dual participant' households. Nowadays in most families with two partners, women do have a job (figure 1.3.1 and 1.3.2). As a result, time spent in the kitchen decreases while more families have a double income to spend.

Single households

The number of single households has grown across Europe and foodservice spending has grown with it. Foodservice is stimulated by a more individual lifestyle. Not only are meals more often consumed individually within a family, also more Europeans live in single households (one third of all households). On average, single households spend 50% more per person on at-home foodservice than two member households. With one third of the households, they represent 40% of total food sales (figure 1.3.3). In total, single households in Europe spend € 140 billion on food, drinks and personal care. This spending will grow in the coming years.

Time versus money

The need to buy time largely explains foodservice growth, but this effect temporarily dims in the current state of the economy. In the 1990's Europeans got into tighter time-schedules with higher disposable income, which resulted in increasing demand for foodservice and prices that went up with it. This has now changed. The employment rate across EU-15 countries³ has stagnated to 65% of the total population between 16-64 years old (figure 1.3.5). Of the employed population a larger part works part-time and those that work full-time (81.8%), on

³ EU-15 includes besides EU-zone countries also the UK, Sweden and Denmark.

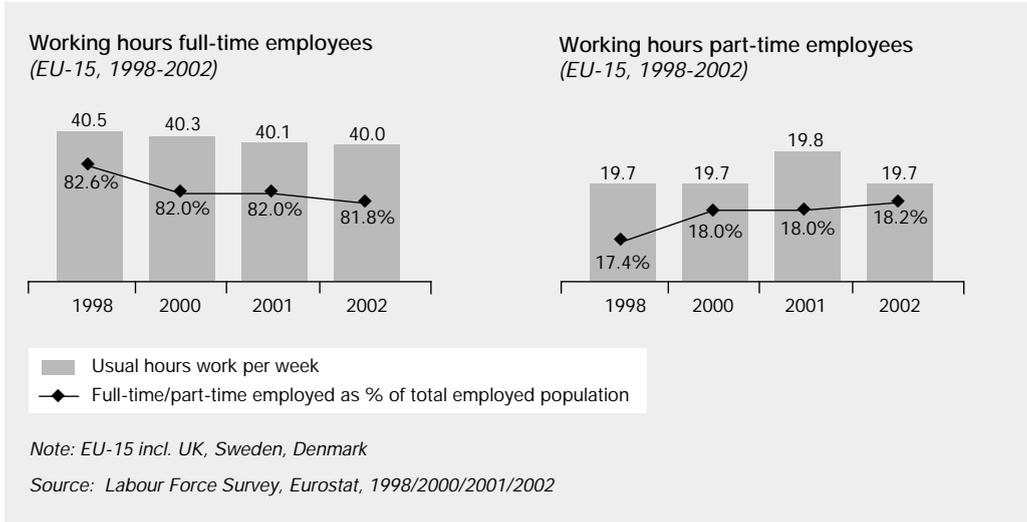


Figure 1.3.6 Working hours full-time and part-time employees

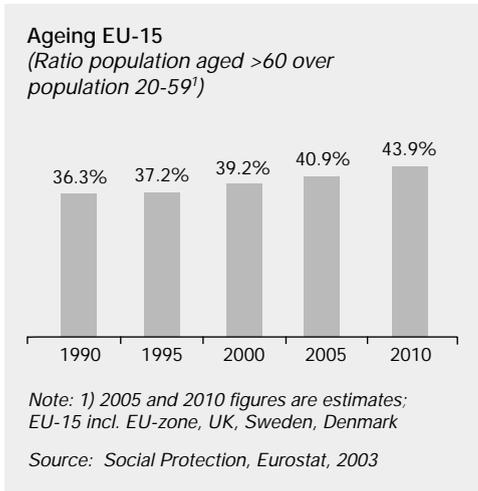


Figure 1.3.7 Elderly population

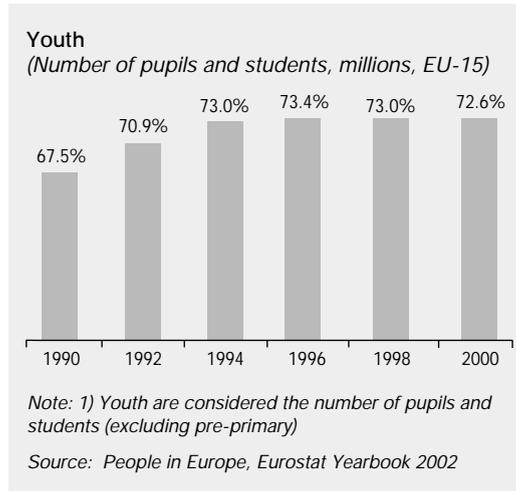


Figure 1.3.8 Teenage population

average work less hours per week (figure 1.3.6). Income per capita still increased slightly to € 24,000 across Europe in 2002 (figure 1.3.4). But when this is reviewed against the background of increasing prices, it becomes clear that, where until a few years ago 'buy time for money' was a main driver behind foodservice growth, the influence of this driver has now stabilised. And prices are expected to decrease.

"The existing economic circumstances in Europe will lower foodservice prices and stimulate a critical evaluation of the value for money spent. This will continue in the coming years." (Mr. Wayne Levin, Subway)

Elderly population

Soon the Baby boomers will become part of the senior population and this population spent a large part of their income on foodservice. In 2010, the ratio of elderly to the population of 20-59 years old will be 44% (figure 1.3.7). These seniors are looking for convenience and longing to enjoy themselves. Still, many foodservice operators consider the youth and yuppies to be their main target group, while the elderly are growing in numbers, have money and time to spend and are very open to spending it on foodservice offering.

Generation Y

The youth is the 'traditional' target group for fast food. They are currently decreasing in population size (figure 1.3.8), but since youngsters go to school longer and start a full-time career later in life, the period in which they spend a relatively large part of their income on foodservice lasts longer. And young people do have more money to spend than years ago. Besides that, they have less cooking skills than previous generations and most of them will never learn how to cook from scratch.

CGE&Y Consumer relevancy research

"What do you feel is the degree of importance of these factors for your shopping satisfaction?"

Category Price
(% respondents saying 'extremely important')

- 1. You feel you are getting an honest price, that the price has not been artificially increased 58%
- 2. Prices do not fluctuate from day to day 54%
- 3. You feel you are getting the lowest price available 38%

Category Price
(% respondents saying 'extremely important')

- 1. The retailer provides consistently good merchandise quality 67%
- 2. The retailer carries a wide assortment of products, so you can find exactly what you are looking for 50%
- 3. The retailer offers top-quality products throughout the store 48%

Category Price
(% respondents saying 'extremely important')

- 1. You can unconditionally return merchandise with which you are unhappy 60%
- 2. Employees can answer most of your questions about their products 57%
- 3. Returning merchandise is quick/hassle free 56%

Category Price
(% respondents saying 'extremely important')

- 1. The store is clean and well maintained 71%
- 2. The price is easily visible, the price is well marked 64%
- 3. The retailer provides excellent handicap access inside the store 57%

Category Price
(% respondents saying 'extremely important')

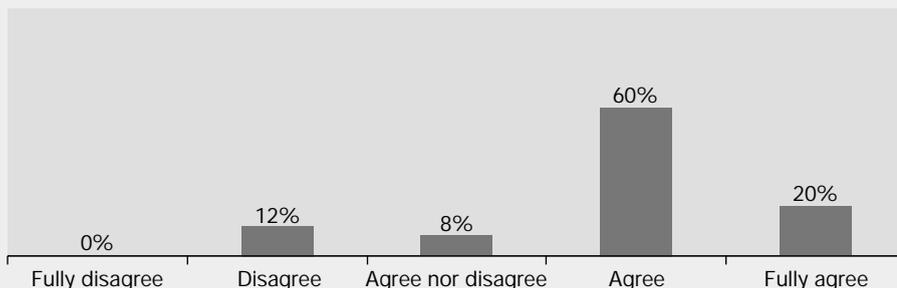
- 1. Employees are courteous and respectful 69%
- 2. Staff responds to concerns in a positive manner 54%
- 3. You are treated as a valued customer 51%

Note: CGE&Y Research with 6,000 consumers in nine countries: Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden and the UK

Source: Searching for Global Consumer, CGE&Y, 2002

Figure 1.4.1 Results CGE&Y consumer relevancy research

In the current economic climate consumers choose much more than in recent years for best value for money foodservice



N=25

Source: CGE&Y research September - October 2003

Figure 1.4.2 Results interviews statement 2

1.4 Recent consumer shifts in preferences

Consumers evaluate foodservice on value for money

As the number of outlets grows, consumers evaluate more on value for money. There are simply more outlets to choose from with a variety of concepts. So how is the buying decision made? Cap Gemini Ernst & Young research in 2001 showed that the lowest price is not a very important factor, but value for money and a pleasant shopping experience are (figure 1.4.1). Recent interviews with foodservice executives confirm that consumers choose much more on the basis of value for money (figure 1.4.2).

According to Peter Backman the economic climate is not the main reason:

“Consumers base their eating out decisions mainly on value for money; the current economic climate has nothing to do with it.” (Mr. Peter Backman, Horizons)

In the past decade the foodservice market has boosted and the number of outlets has grown along with it. All kinds of creative foodservice concepts tempted the consumers to spend more. For an evening meal one can eat all kinds of international dishes at a variety of concepts, from à la carte restaurants to places where dining can be combined with dancing or theatre. Most larger railway stations have foodservice offerings in a FSR, a QSR, a retail outlet, a small kiosk and in vending machines. In short, there's a lot to choose from.

How do consumers make up their minds where to buy? Cap Gemini Ernst & Young research (figure 1.4.1) proved that getting the lowest price for retail purchases was only for 38% of the customers 'extremely important'. Other factors were mentioned by a significantly higher percentage of consumers as 'extremely important': clean outlet (71%), courteous and respectful employees (69%), good merchandise quality (67%) and a fair, honest price (58%). The shopping experience (atmosphere) and quality in combination with a fair, honest price (value for money) are much more important than the lowest price.

Today, consumers are more aware of price, but still prepared to pay more when offerings are perceived as value-add. Because of this, we see a shift in foodservice spending towards the QSR segment, which is lower priced and offers consumers better value for money. In current economic times, consumers won't spend more time in the kitchen again just to save money, but are more aware of the fact that they can spend their money only once and evaluate carefully when and where extra money is spent on more luxury foodservice concepts. As a result, branding becomes more important.

At the same time fast food chains learn a different trend in consumer preferences the hard way (figure 1.4.4). Burgers are still the largest segment within QSR, but growth is declining, while newcomers like Starbucks, Prêt a Manger and Subway have won a significant part of the market in a short period of time. What the newcomers have in common is a hip interior with a 'feel-at-home living room' atmosphere and a healthy and often tailor made menu that matches with today's tastes. Market leader McDonald's recognises this and quickly responds by taking a majority share in the chains Prêt a Manger and Chipotle, while changing their way of advertising and outlet concept. In general, QSR concepts develop and offer more often a broader menu, healthier food products, with a local touch, and special offerings.

"Especially in the QSR segment brand differentiation will be a key issue; but this is also very difficult. When the differentiation is good, price power and high margins are not an issue."
(Manager of a Beverage foodservice company)



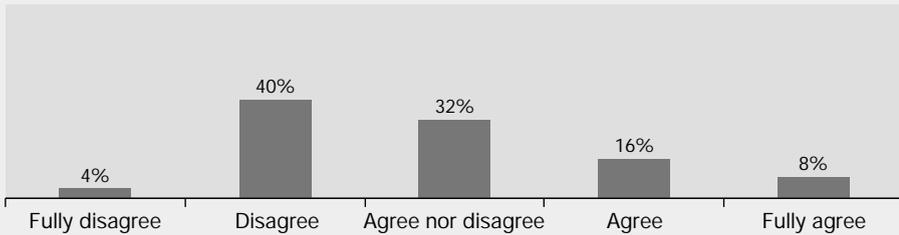
Fast casual dining at Chipotle (USA)



Fresh fast food offering



The existing margins in the entire foodservice chain will decrease drastically in the near future



N=25

Source: CGE&Y research September - October 2003

Figure 2.1.1 Results interviews statement 5

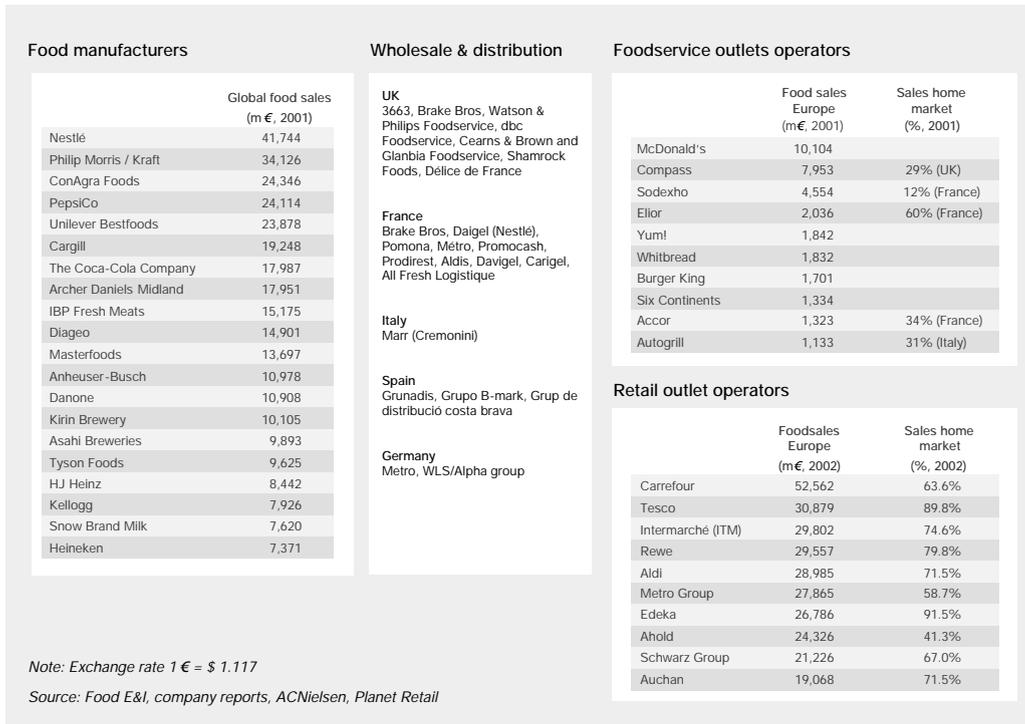


Figure 2.1.2 Listings of leading Manufacturers, Wholesale & distribution companies and Outlet operators

2 Food value chain is characterised by a paradox

The food(service) value chain is characterised by a paradox: the battle for power and the cooperation between players. Now that the foodservice market has become a large, interesting market and growth slows down, the industry has also become more competitive. Increased competition to win or keep market share is progressively a battle for power for a leading position. On the other hand, building alliances is a good way to improve market offerings on short notice or to share the risk of investments needed. Stronger cooperation with players up or down the value chain are necessary to improve supply chain efficiency and guarantee food safety.

2.1 Battle for power

Market slowdown increases competition

During the past few years the European foodservice market has shown significant growth and has become of a mature size. Foodservice now is a significant part of the total food market. Therefore, various players entered the foodservice business and tried to claim their share of this increasingly interesting market. While recently growth slowed down, competition has increased. Still, players in the market don't think margins will decrease (figure 2.1.1).

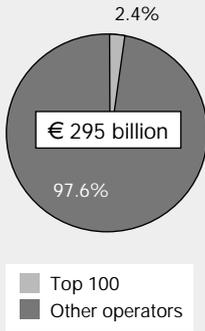
"Professionalisation will be the main issue in foodservice. Branding and developing concepts will be the next step, after that value chain development" (Manager of a large food manufacturer)

In the as yet fragmented foodservice market, players increase scale to build strong (international) brands and improve efficiency.

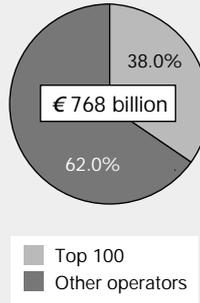
No leading players in foodservice yet

Across the foodservice value chain, from manufacturers, to wholesale & distribution and outlets, there are no foodservice players that are leading players across Europe (figure 2.1.2). Among the food manufacturers there are strong global players who are active in all European countries, but only some of them have a leading position in foodservice across Europe. The European wholesale & distribution market is highly fragmented, even within individual EU countries. Top European foodservice operators (fast food and catering chains) often just have a firm position within their home market. Beside McDonald's, there are no foodservice operators with a strong market position across Europe. Food retailers do have a strong international position, but are not primarily focussed on foodservice.

Market share Foodservice Top 10 vs. Rest
(Market share foodservice, Europe, 2001)



Market share Retail Top 10 vs. Rest
(Market share food retail, Europe, 2002)



Source: ACNielsen, Horizons, Planet Retail

Figure 2.1.3 Market share top 10 foodservice operators and top 10 retailers

Restaurants & cafés - share of market (€ m, 2002)			
Germany			
	Sales	Growth ('01)	
LSG	13.2	52.0	
Autobahn Tank & Rast	5.6	1.4	
Nordsee Group	3.9	-	
Dineau Gastronomie	2.3	2.3	
France			
	Sales	Growth ('01)	
Accor SA	2.2	1.9	
Group Flo SA	1.9	-7.7	
Agapes Restauration	1.8	7.0	
Buffalo Grill	1.4	60.9	
Casisono Restauration	1.4	2.5	
UK			
	Sales	Growth ('01)	
Whitbread PLC	15.5	-8.2	
Bass PLC	13.0	-	
Granada Group PLC	11.2	13.9	
Scottish & Newcastle PLC	8.2	8.9	

Catering - share of market (% , 2001)					
2001	France	Germany	Italy	Spain	UK
Ellior	24				1
Sodexho	24	4	7	#1	16
Compass	17	13		#2	36
LSG		10			
Pedus		8			
Aramark		6		#3	
Autogrill			12		
Alpha air					5
Onama			5		
Seruniön				#4	
Other	35	59	76	100	42
	100	100	100	100	100

Fast food - share of market (€ m, 2002)			
Germany			
	Sales	Growth ('01)	
McDonald's	31.6	1.7	
Burger King	18.3	24.5	
Nordsee Group	11.0	-	
Tricon Global restaurants	5.6	2.3	
LSG	4.9	-	
Aral	3.6	-	
France			
	Sales	Growth ('01)	
McDonald's	26	16.2	
GIB Groupe (Quick)	10	-72.5	
Casino Groupe	8	19.8	
Le Duff Restauration Rapide	3	-1.3	
UK			
	Sales	Growth ('01)	
McDonald's	23.2	2.6	
Diageo	7.3	8.7	
Tricon	3.8	3.7	
Pret a Manger Europe	2.0	-	

Source: Euromonitor, CSFB

Figure 2.1.4 Market share operators per outlet channel

“Up to now, foodservice has been more of a local market, in the future we will see a transfer of concepts and companies across boundaries, especially in Europe.” (Mr. Joaquin Pardo, Gallina Blanca Restauración)

Foodservice outlets are run by a small number of international fast food chains and caterers, a few larger, particular locally strong chains, and many small-scale operators (figure 2.1.4). Strong international chains like McDonald's, Yum! and Diageo dominate the European fast food segment. QSR are the larger players in foodservice, because they were the first to operate internationally with brand-based repeatable concepts. Even though the European FSR segment is larger in market size than the QSR segment, revenues of the largest players in the FSR segment, Whitbread, Agapes, and City Centre, are much lower than the above-mentioned QSR chains (figure 1.2.3). The restaurant segment and other important foodservice segments such as pubs, cafés and bars are mainly small family-owned businesses. Leading catering companies, like Elicor, Sodexho and Compass are comparable in size to fast food chains.

In Italy and Spain local chains represented the dominant force. These markets as a whole were characterised by small-scale operators. In Italy, the number one company is Autogrill, which derives its strength from its presence in all major foodservice segments. In Spain, the leading company is TelePizza, which is present only in the QSR segment (figure 2.1.5).

Compared to the food retail market the market for foodservice outlets is still highly fragmented. The top 10 foodservice operators have a market share of 2.4% of the total European foodservice market in 2001. And the top 100 foodservice operators possess a combined market share of 20%. This compared to the top 10 food retailers who have a share of 38% in the total European food retail market in 2002 (figure 2.1.3). Foodservice is expected to consolidate further in the coming years, especially in the QSR segment.

More competition than before

The boundaries between foodservice and retail are blurring. Foodservice outlets sell retail products and retailers (food and non-food) go foodservice. Grocery stores increasingly offer ready-to-(h)eat food and other retailers announce openings of in-store café and dining facilities. Even food manufacturers open foodservice shops.

“Retailers have to move towards foodservice, however they do not have so much foodservice know-how.” (Mr. Paul van Wageningen, McDonald's)

In the past years retail players have entered the foodservice outlet market. Food retailers not only sell ready meals and open up convenience stores, but also operate own foodservice outlets with ready-to-eat foodservice, often just outside the grocery stores to benefit from the

Market shares brand owners of chained foodservice market by country

Global brand owner	France (%, 1999)	Germany (%, 1999)	Italy (%, 1999)	Spain (%, 1999)	UK (%, 1999)
McDonald's Corp	22.4	37.4	20.0	11.2	14.5
Diageo Plc	1.3	4.6	7.4	12.4	6.1
YUM! (Tricon)	1.7	0.4	-	7.3	6.1
Autogrill SpA	2.3	-	22.8	-	-
TelePizza SA	0.1	-	-	15.4	-
Meritem SA	-	-	-	12.3	-
Agrolimen SA	-	-	-	9.7	-
Scottish & Newcastle Plc	2.2	-	-	-	7.6
Whitbread Plc	-	1.4	-	-	7.6
GIB Group	7.9	-	-	-	-
AutoBahn Tank & Rast Holding	-	7.5	-	-	-
Agapes Restauration SA	7.0	-	-	-	-
Heineken Group	-	-	6.5	-	-
Buffalo Grill SA	5.1	-	-	-	-
Groupe Casino	4.9	-	-	-	-
Nordsee Holding GmbH & Co	-	4.2	-	-	-
Metro AG	-	3.8	-	-	-
Gruppo Cremonini	-	-	3.2	-	-
Others	45.1	40.6	40.1	31.6	58.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor

Figure 2.1.5 Market share brand owners per country

Market shares formulas by country

Brand	Global Brand Owner	France (%, 1999)	Germany (%, 1999)	Italy (%, 1999)	Spain (%, 1999)	UK (%, 1999)
Autogrill	Autogrill Spa	-	-	9.9	-	-
Bass Taverns	Bass Plc	-	-	-	-	3.5
Buffalo Grill	Buffalo Grill SA	5.1	-	-	-	-
Burger King	Diageo Plc	-	4.6	0.1	9.0	5.9
Casino Caf��terias	Groupe Casino	4.9	-	-	-	-
Ciao	Autogrill SpA	-	-	6.3	-	-
Flunch	Agapes Restauration SA	5.0	-	-	-	-
Guinness	Diageo Plc	-	-	7.0	-	-
Karstadt	Karstadt AG	-	2.4	-	-	-
KFC	Tricon Global Restaurants Inc	0.3	0.4	-	2.0	2.9
McDonald's	McDonald's Corp	22.4	37.4	20.0	11.2	14.5
Nordsee	Nordsee Holding GmbH	-	4.2	-	-	-
Paellador	Meritem SA	-	-	-	7.6	-
Pans & Company	Agrolimen SA	-	-	-	9.7	-
Quick	GIB Group	7.9	-	-	-	-
Tank & Rast	Autobahn Tank & Rast	-	7.5	-	-	-
Telepizza	Telepizza SA	0.1	-	-	12.5	-
Others		54.3	43.6	56.7	48.1	73.3
TOTAL		100.0	100.0	100.0	100.0	100.0

Source: Euromonitor

Figure 2.1.6 Leading outlet formulas across Europe

extra sales, higher profitability and more direct consumer contact. In 2002 the top 30 grocers in Europe increased their number of convenience stores with 26% and announced plans to further expand in convenience stores. Retail players are a threat to traditional foodservice operators, because they have stronger financial power, are very much used to working efficiently with low margins and are quick to develop standard concepts that can be copied to other outlets. Besides that, they have experience in take-overs and have the financial power to buy existing foodservice players. On the other hand, foodservice is a different business than retail.

Non-food retailers enter the in-store foodservice market as well. Their strategy is aimed at keeping the consumer inside the shop for as long as possible in order to increase overall purchasing and enhance the shopping experience. A good example is Ikea that successfully placed foodservice facilities in their shops. Other retailers with in-store restaurants are Vendex Group (La Place), Casino Cafeteria (Casino), Metro (Dinea) and Coop Suisse (Coop). In the meantime, the in-store restaurants of many non-food retailers are already in the European top-100 foodservice groups.

While retail enters the foodservice market, foodservice outlets are also going retail as shown by examples like Starbucks that also sells coffee and ice cream for home consumption. Another example is Bagelmania Restaurants, which advises customers how to store and prepare donuts for consumption at home.

At the same time manufacturers with strong brands have entered the foodservice operators market as well. They not only develop special foodservice products, but also open branded foodservice outlets. Examples in the ice cream market are Ben & Jerry's, Swirl's and Häagen-Dazs.

Retail and foodservice blur

Retail is going foodservice - some examples

- Tesco in the UK has acquired convenience group T&S Stores. T&S operates 862 convenience stores under the One Stop and Day & Nite brands, as well as the newsagent chain Dillons, and Supercigs, a chain of tobacco discount shops. The powerful supermarkets are realising that convenience stores are a very important part of today's shopping choice.
- The UK Co-operative Society has said it will continue its acquisitive strategy following the purchase of convenience chain Alldays. The £ 133 million acquisition in October saw the Co-op become the UK's biggest convenience operator. Co-op has around 1,200 convenience stores, as well as 500 supermarkets, following the Alldays deal.
- IKEA placed its Swedish foodservice facility halfway through the shop, so that the customer can stop, rest and feed before continuing his shopping. IKEA's foodservice turnover in 2001: 302 € m with a growth of 32.7% versus 2001.
- Following the success of the Simply Food store trial at three railway stations, Marks & Spencer and specialist retail catering company Select Service Partner (SSP) - part of Compass Group - have agreed to extend their first UK franchise programme up to a further 40 railway station locations over the next three years.
- Retail player Sainsbury's partnered with foodservice player Yo! Sushi and introduced Yo to Go Sushi into 200 stores.

Foodservice is going retail - some examples



- Starbucks icecream
- TGIF ready meals
- Yo!Sushi sushi-pack



Growth by acquisition of major foodservice outlet players

	Growth 2001/2002 (%)	Acquired
McDonald's	-	Boston Markets Restaurants, Partner brands
Compass	6.2%	Seiyo Foods, Itochu, Restorama, Rail Gourmet, Louis Catering, Bon Appétit, Vendlink, Onama Spa
Sodexho	6.0%	Patriot Clinical Services, Minesite Catering, Gastro Cernigov
Elior	8.8%	Digby Trout Restaurants, Serunión, Áreas, Brian Smith, Nelson Hind

Some examples

UK

- Granada Group and Compass Group have announced a merger of their foodservice and hotel businesses (2002)
- McDonald's acquired Papa John's of Perfect Pizza
- Granada Group takes over Harry Ramsden's Plc
- Whitbread acquired David Lloyd Leisure and Costa Coffee, Pelican Group (restaurants), Racquits and Healthtrack and Swallow Plc (hotels)

Germany

- Wal-Mart entered the German retail market with the takeover of the Wertkauf chain followed by the acquisition of 20 Interspar outlets. Wertkauf had foodservice activities which were integrated in 1999.
- Autogrill entered the German market with the acquisition of Wienerwald/Tourast motorway outlets

Italy

- Compass acquired My Lunch Spa and Rial in 2000

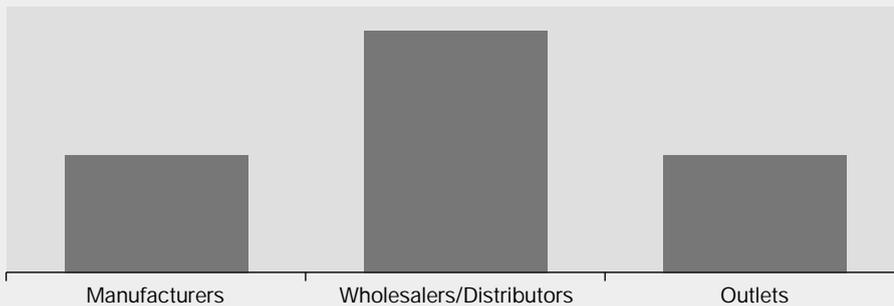
France

- Agapes restaurants bought Les Rovaldines and renamed the chain Flunch

Source: Company reports

Figure 2.1.7 Mergers and acquisitions foodservice players

Consolidation is the next step for most.....?



N=24

Source: CGE&Y research September - October 2003

Figure 2.1.8 Results interviews statement 17

Consolidation already started

Consolidation in foodservice outlets has already started and this will further continue (figure 2.1.7 and 2.1.8). In this more mature market consumers can and will choose for value for money. This means that pricing is more important, but in relation to (perceived) quality. As a result, margins are under pressure and efficiency becomes a strategic issue, as confirmed in interviews with foodservice executives.

"After growth in QSR, margins are now under pressure. This will stimulate consolidations in this segment." (Mr. Jörg Bleydorn, Lekkerland Tobaccoland Germany)

"After a period of take-overs the catering sector will now restructure. Low margins and gaining market share will be the main drivers for consolidation after 2005." (Manager of a food manufacturer)

Unilever

Unilever developed different channels for different product categories in order to sell straight to consumers and by-pass traditional foodservice outlets and retailers. Some of their foodservice activities are:

- Bertolli's lunchrooms
- Swirl's ice cream stores
- Ben & Jerry's
- Cornetto soft ice cream machines
- Soup factory stores
- Rocket ready meals (order through internet and pick-up through vending machines).



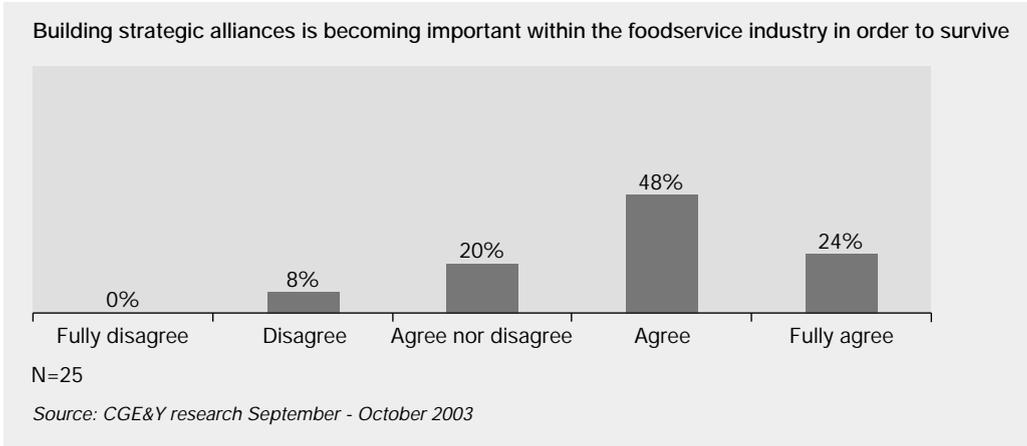


Figure 2.2.1 Results interviews statement 16

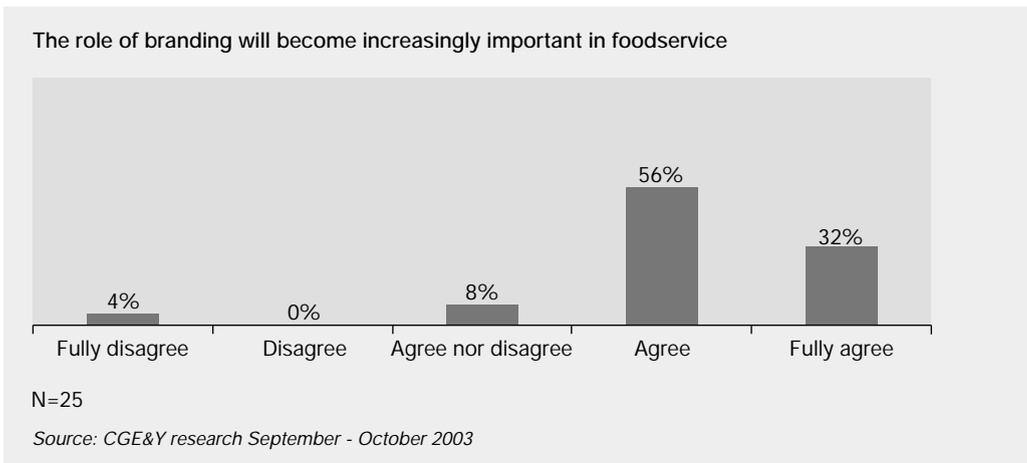


Figure 2.2.2 Results interviews statement 12

Scale is for most formulas the answer to more demanding consumers, as scale offers the opportunity of more efficient operations, repeatable concepts (recognisable for consumers), and increased marketing effort to build brands. Of course, there will stay enough room for local concepts with special value add in niche markets, but foodservice chains will dominate the larger part of the market.

All players in the value chain, food manufacturers, wholesale & distribution and outlet operators, are already consolidating. Leading foodservice outlet companies in catering even realised a 6-8% growth by acquisition. QSR chains use acquisition to enter into new markets.

In general, benefits of consolidation and scale are:

- Streamline and optimise activities.
- Global contracts in purchasing; Buy at the lowest prices.
- Access to finance. Easier and cheaper to raise finance.
- Marketing and branding. Greater size makes marketing activities more beneficial.
- Enhanced opportunities for career development.
- Larger companies are better equipped to deal with recession.

2.2 Across value chain issues demand cooperation

Cooperation within the value chain required for foodservice success

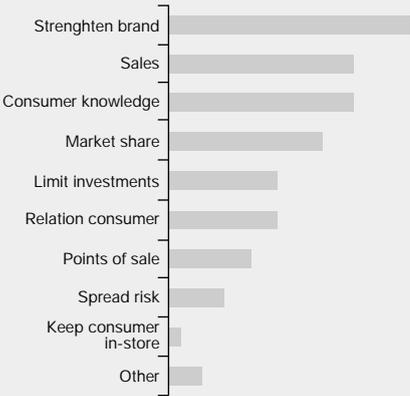
While the foodservice market matures and competition increases, for some issues alliances might be a necessary solution. Cooperation across and throughout the value chain is an obvious way to quickly respond to increased food safety requirements and consumer demands. A joint go-to-market enhances the chance of success of new product offerings. Supply chain efficiency improvements might be realised on shorter notice with cooperation between suppliers and buyers. For a professional image of the sector as a whole, it's necessary to develop joint quality standards. In short, alliances might be the shortest route to meet changing demands (figure 2.2.1).

Joint go-to-market is shortcut

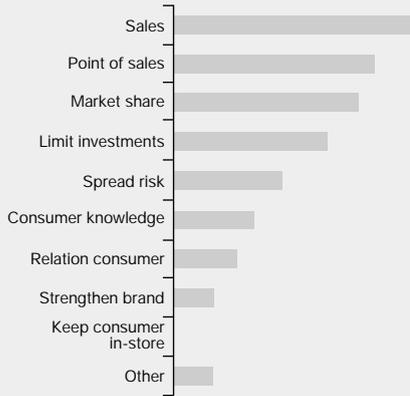
Different players in the food(service) value chain have various reasons for a joint go-to-market. Co-branding and joint product development may include shared investments and risks, improved access to consumers through outlets, better product positioning with known brand(s), strengthening of own existing brand, or simply developing a better product that meets consumer needs in more than one aspect. Below some examples are discussed, which, of course, do not define the borders of tomorrow's opportunities through alliances.

What could be drivers for alliances for manufacturers, wholesale & distribution and outlets?

Drivers for manufacturers
(Answers all respondents, 2003)



Drivers for wholesale & distribution
(Answers all respondents, 2003)



Drivers for outlets
(Answers all respondents, 2003)



N=23

Source: CGE&Y research September - October 2003

Figure 2.2.3 Results interviews statement 20

Food manufacturers formed alliances with other manufacturers (e.g. Heinz with Lay's, Chupa Cups with Unilever ice cream and Baileys with Häagen-Dazs) or with foodservice outlets (e.g. McDonald's McFlurry together with Masterfood Nestlé and Sara Lee/DE) to best position new food products in the market with co-branding. The role of branding will become increasingly important in foodservice (figure 2.2.2). An example is the success story of Senseo Crema coffee from Sara Lee/DE and Philips that offers premium quality through joint product development.

Non-food retailers enter into alliances with foodservice operators to easily develop in-store foodservice facilities with a strong formula. For foodservice operators this is an extra point-of-sale that can be set up rather quickly with a minimum of investment as the shopping area and client base are already there. For retailers foodservice keeps the consumer longer in the store and strengthens the shopping experience.

Relatively small independent food retailers favour strategic alliances with foodservice chains as well. While the larger food retailers often develop own foodservice concepts, small and medium-sized retailers welcome existing foodservice formulas as they convey an image and a product that the client can recognise and appreciate straight away.

Foodservice partnerships support the larger food retailers in offering premium quality ready-to-(h)eat. Retail player Sainsbury's partnered with foodservice player Yo! Sushi and introduced Yo to Go! Sushi in 200 stores after developing co-branded foodservice products.

Food safety demands cooperation

More attention to food safety is a necessity to comply with European laws and consumer demands. It is considered to be a driver for supply chain cooperation. Food safety concerns a) hygiene in production processes combined with b) tracking & tracing to quickly respond to possible issues. Food safety is first of all a cultural issue (standards for hygiene), and secondly, of course, a matter of central European legislation (tracking & tracing). European legislation is challenging players to work together, but is not yet enforcing value chain players to do so. To operate successfully across Europe foodservice companies have to take into account local eating habits and both national and EU law. It's difficult to define food safety and especially hygiene across the EU, as perceived food safety differs between cultures. European countries all have their own national food safety legislations, which are often based on local eating habits. Examples are the production of Parma ham (dried in open air) and some French cheeses; both production processes are perceived to be not hygienic by local authorities in countries other than Italy and France. Because of this, EU legislation on hygienic of production processes is not expected soon. For operators this means they have to select target markets and take into account the countries' perceived food safety (eating habits) and actual food safety (legislation).

Tracking & tracing is an aspect of food safety which can be defined across Europe and is laid down in the European General Food Law. Players comply with the European General Food

Examples go-to-market alliances

Manufacturer with foodservice operators

- McDonald's McFlurry
- Häagen-Dazs shake with Baileys



Manufacturers with manufacturers

- Lay's (Smith's Food Group) partnered with Heinz
- Chupa Chups partnered with ice-cream manufacturer Unilever



Manufacturers with other parties

- Sara Lee with Philips developed Senseo Crema

Foodservice operators with retailers

- Marks & Spencer and Compass Group confirm first UK franchise rollout of Simply Food stores. Following the success of the Simply Food store trial at three railway stations, Marks & Spencer and specialist retail catering company Select Service Partner (SSP) - part of Compass Group - have agreed to extend their first UK franchise program up to a further 40 railway station locations over the next three years.
- The opening of McDonald's restaurants in Wal-Mart's supermarkets in Germany. McDonald's Express outlets in C & A stores in Cologne and Frankfurt. McDonald's McExpress cooperates with gas stations Aral, Shell. Burger King cooperates with gas stations Total, Shell and Aral. Joey's Pizza opened a test site at a Total gasstation. Ufa-Theater cinema entertainmant offer the services of fast food outlets (Pizza Hut, McDonald's, Burger King). In November 2002, the first Donatos Pizza store outside US opened in Munich/Germany
- Flunch cafeterias are situated within the Auchan hypermarket complexes (remark: Flunch is owned by Agapes which is owned by Auchan). Galeries Lafayette installed a McDonald's restaurant located on their toys and games floor. McDonald's launched an outlet in L'Equipe, especially designed to recreate a sports environment. Quick opened a Cyper restaurants to attract clients interested in new technologies.

Foodservice operators with foodservice operators

- Joint venture between Burger King and Granada Group.
- YUM! is operating Pizza Hut in a joint venture with Whitbread.
- Joint venture Elixir and RistoChef of Chef Italia (Italy).



Initiatives logistics optimisation

Barriers to logistics optimisation

Numerous barriers are keeping foodservice companies from realising the full benefits of logistics optimisation:

1. Lack of technological implementation
 - Most companies understand the value of technology, but most have not implemented it. Bar coding and electronic communication/EDI, two essential EFR tools, have not been implemented universally. P&G said it receives 90 percent of its retail orders via EDI, but only 19 percent of its foodservice orders.
2. Reluctance to change business practices
 - Many companies fear entering into seamless, extended-enterprise partnerships because they believe they will lose control over quality or company intellectual property, or that they will lose touch with customers or business trends.
3. Absence of integration
 - No foodservice company today is running a totally integrated, end-to-end supply chain operation.
4. Lack of cooperation
 - Distributors mistrust working with other distributors, and manufacturers mistrust working with other manufacturers. Thus, millions of dollars in shared warehousing and distribution, coordinated transportation, consolidation, cross docking and other costs are not being saved.
5. Difficulty or lack of time

Source: EFR, 2003; OFSCI, 2003

Law if they can demonstrate where products have come from and to whom the product is sold. Currently, food players implement own tracking & tracing systems within company boundaries. However, when future legislation demands a certain response time to accidents (which is not unlikely), it becomes necessary for value chain players to work together, as time delay occurs in communication between companies.⁴ For now, it would only be wise to jointly develop tracking & tracing throughout the value chain.

In retail, players do unite and take the initiative to define food safety standards and more strict demands than defined in National and European laws. Those demands are imposed on suppliers. Examples are:

- The British Retail Council (BRC) defined standards for food producers.
- Large European retailers formulated stringent standards in the Eurep-GAP.
- International Food Standard (IFS) used by many German retailers (e.g. Aldi) and forced onto suppliers.

To meet international requirements manufacturers and retailers have to deal with many standards. For this reason, the Global Food Safety Initiative (GFSI) has been set up. The GFSI reviews existing food safety standards (like the BRC) and when approved the standard gets a GFSI-certification. This means that if a manufacturer meets BRC standards he automatically meets other GFSI-certificated standards. Another initiative that illustrates the more mature market in retail is the Global Commerce Initiative (GCI). In this initiative large manufacturers and retailers work together to define standards for data communication (standardisation of product information to eliminate data discrepancies). GCI is considered leading edge in standardisation. There are no similar initiatives for foodservice players and they are not involved in GCI.

Foodservice players are lagging behind. And now that the market and players have become of a mature size, it's time to further professionalise the sector. The transfer of information from manufacturer to distributor to customer is one challenge to overcome. Other challenges typical for foodservice are loss of traceability during debagging (codes are printed on packaging material) and in the meal preparation process. Foodservice outlets are just not organised for food safety and this is particularly an issue for large-scale kitchens. The English OFSCI project is working on these issues and develops a food safety product database for the Foodservice industry.

Cooperation supports supply chain efficiency

Large players start working together in order to improve supply chain efficiency. Both the US and the UK have concrete examples of initiatives in the field of improving supply chain efficiency. Recently, Dutch foodservice players set up the FoodService Instituut Nederland.

⁴ Another reason for developing tracking and tracing is consumer demand for food safety, and even more than that: food nutrition labelling common in retail is expected to become common in foodservice as well.

Optimum Foodservice Supply Chain Initiative (OFSCI)

The Food and Drink Federation (FDF), the Federation of Wholesale Distributors (FWD) and a group of leading Operators in the UK have met to develop a number of major industry initiatives that will provide the platform for all partners in the Foodservice supply chain to benefit by improving supply chain operational efficiencies. By providing this platform, the Foodservice industry will be able to:

- Remove unnecessary on-costs in the chain
- Shorten, and reduce the cost of, the lead times in the chain
- Reduce working capital in the chain
- Improve service levels

In terms of financial benefits, the objective is for each partner in the supply chain to utilise the adoption of the standards and technology to remove inefficiency and cost within their own business. It is estimated that the possible benefits available to the UK foodservice industry from all aspects of these initiatives is £ 450 million, spread fairly evenly between all parts of the supply chain in the following areas:

(£ millions)					
		Product database	e-Transactions	Sales and forecast exchange	Total
Administration	7	15	220		242
Handling	17		41		58
Transportation	40	10		8	58
Inventory			5	87	92
Total	64	25	266	95	450

Source: www.ofsci.org.uk

One of the goals in this initiative is to realise efficiencies in supply chain operations. At the same time numerous barriers are keeping foodservice companies from realising the full benefits of logistical optimisation, as increased competition and cooperation seems difficult to combine.

In a mature market pricing and margins get under pressure. As a result, efficiency becomes more important. In the coming years foodservice operators will increasingly pay attention to cost savings and supply chain efficiency. Large caterers for instance will take a more international approach of the supply chain to improve margins.

An approach over company boundaries will be beneficial. Supply chain standards throughout the food(service) value chain support efficient supply chain management of individual players up and down the value chain. Closer cooperation with suppliers supports tight management of margins and quality, especially in this sector of fresh and ready-to-eat consumer preferences.

Foodservice players can benefit from the lessons learned from food and retail. More than 45 global retail players and manufacturers have united in Global Commerce Initiative (GCI) and developed global standards for improved efficiency in the supply chain. Foodservice players could benefit from this.



3 Value chain dynamics have only just started

The foodservice value chain will consolidate in the next decade and roles of players in the chain will develop to fulfil the changing consumer needs. It's a large industry with a variety of offerings and players. Consumer expectations are higher than before and pricing is more important. Food products and foodservice outlet formulas require adjustments to meet those expectations. And the necessary changes in foodservice offerings will impact the role of players in the years to come.

3.1 Consumer needs trends to continue

Consumers want it all: sophisticated foodservice formulas and products

The foodservice market has grown to a mature size and will continue to grow in the next few years, though at a slower pace. Demographic trends and lifestyle changes that influenced the foodservice market will continue. But with a variety of offerings to choose from, consumers are more demanding.

Market grows slowly

The European foodservice market is currently worth over € 300 billion and will grow further towards 2010. In the nineties, the market grew to a mature size, while in recent years growth has slowed down. Main drivers behind the growth were female participation in the workforce, more individual and hectic lifestyles and economic growth (chapter 1). Currently, the economic growth shows a decline and sales figures of the eating out market are less optimistic. For the years to come the drivers behind foodservice will slowly increase, and so will the foodservice market.

Consumers currently are and will stay more demanding than ten years ago. And this not only has to do with the current economic slowdown and a decrease in the average income. Now that the foodservice market has become a mature market, consumers have all the options available and choose for what best suits their particular needs in a specific context. And for consumers nowadays, there's always an alternative to choose from. As a result, value for money and thus efficiency and scale become more important. By 2010, consumers will be even more demanding than at the moment.

Now foodservice has grown to a mature size, so will the manner in which foodservice companies are organised. Foodservice outlets will further professionalise their business processes. They need to do this to improve the offering to consumers in terms of outlet concepts, branding and food products. And since efficiency and this scale is just as important, in the next few years foodservice outlet operators will consolidate.

Demanding consumers

Food consumption preferences are shifting towards convenient and healthy offerings. Players throughout the food value chain need to adjust their offerings to meet today's and tomorrow's more demanding consumer needs. As the buying decision for foodservice is more often made on habit or impulse, outlet formula branding becomes more important. And with today's more demanding consumers increased efforts on food product development and supply chain efficiency are important factors.

Lifestyles have changed in the past decennia and food preferences have changed with it. Players in food(service) need to be aware and act on this. Consumers more often eat individually, pay increasingly attention to a healthy diet, want fresh food available in convenient foodservice offerings and more often have snacks instead of proper meals. Especially the younger generations adopted these trends and will keep these habits as they grow older. These shifts in food preferences are no short-term fashion items, but reflect an essential alteration in the attitude towards food consumption.

Consumers want all that, but are all the same more aware of reasonable pricing and value for money. As a result players in foodservice must pay more attention to efficiency of business operations.

"Within the foodservice sector contraction [reorganising] in the base and expansion with differentiated concepts will take place." (Manager of a QSR chain)

Food offerings

Food manufacturers could improve their product portfolio to better suit today's and tomorrow's consumer needs. For instance, with the development of healthy nutritious snacks, improved technology for fresh ready meals, attention to products that fit into a healthy diet and adjustments of products to make them easy-to-bring and easy-to-consume. This requires an adjustment of current product management, namely to add the dimension of the context in which consumers enjoy specific food products.

The above not only applies to consumer foodservices, but also to foodservice for restaurants. Restaurant visits are a perfectly acceptable way of having a standard meal and most Europeans visit restaurants frequently. Because eating out is more common, consumers expect very good and tasty, nutritious, healthy, fresh meals that are quickly served in a pleasant atmosphere. So how can these expectations be met when more and more restaurants work in two or even three shifts per evening? For cafés, fast casual dining and other informal FSRs, the answer to this is an increased use of (partly) prepared meals or courses. The question is, who will be the supplier of this. Today's leading food manufacturers? Small local players who can provide the best fresh meals? Or will outlets cook from scratch in the afternoon, to finish it in the evening?

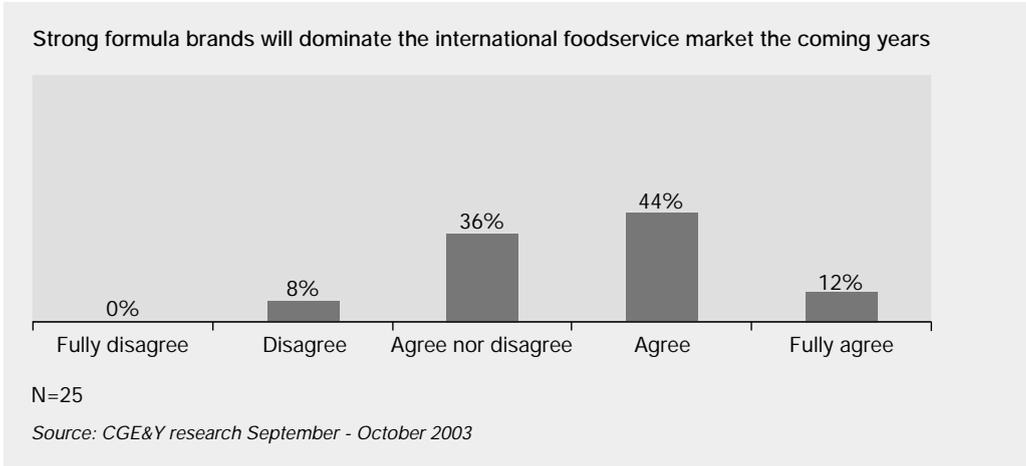


Figure 3.1.1 Results interviews statement 13

What makes it even more difficult is that consumers want to be able to make informed decisions on what to choose from the menu. Many need details of ingredients for health reasons. Attention for food safety and the consumers' wish to know where ingredients come from and how nutritious a meal is, mean that by 2010, a menu with detailed description of what's in a specific course will be no exception. As a result, detailed labelling of foodservice products (for retail as well as supply of foodservice outlets) will be common.

Outlet formulas

Formula management will be a critical success factor for foodservice operators. Traditional foodservice operators, whether it's FSR or QSR, are investing less time in cooking, while understanding consumer needs and developing and improving their formula becomes more important. Running a foodservice outlet nowadays requires a broader and more managerial skill set than ten years ago. Operators might learn something from tactics already common among retailers, like repeatable concepts and formulas, sales promotions, purchasing efficiency, supply chain management and category management.

Atmosphere is essential for out-of-home foodservice. The environment should match with the consumer's lifestyle and with the food products offered. First of all, because consumers buy something in a foodservice outlet partly to enjoy a certain atmosphere. And secondly, because consumers buy food in a specific context and need to 'trust the concept' as a whole. In other words, the outlet formula has to match with the products sold, since consumers buy this entire package. Besides, focus on atmosphere and the concept as a whole, is the only way to build a consistently strong formula brand. Direct brand experience can turn the brand contact into something really memorable, as physical contacts are more intense than superficial advertising contacts.

Branding becomes more important in out-of-home foodservice (figure 3.1.1). Outlet formula branding is a good way to give potential customers clarity on what to expect from a concept and provides guidance on what could match with their lifestyles and needs. Moreover, strong brands provide an assurance of high quality products and thus food safety. As foodservice is more part of daily life, the buying-decision is often made on impulse and habit. Consumers don't want to spend time on deciding where to buy a sandwich for lunch while comparing the available outlets. Outlet and food product branding supports quick decision making, especially welcomed in the QSR segment. Of course, in the higher-end à la carte FSR segment, consumers long for a unique experience when dining out and are less tempted to go to an (international) outlet formula. But for the other restaurant segments, marketing the brand (and thus again scale) will become more important in the next decade. There will, however, always be room for smaller niche players with a local touch who appeal to specific consumer needs.

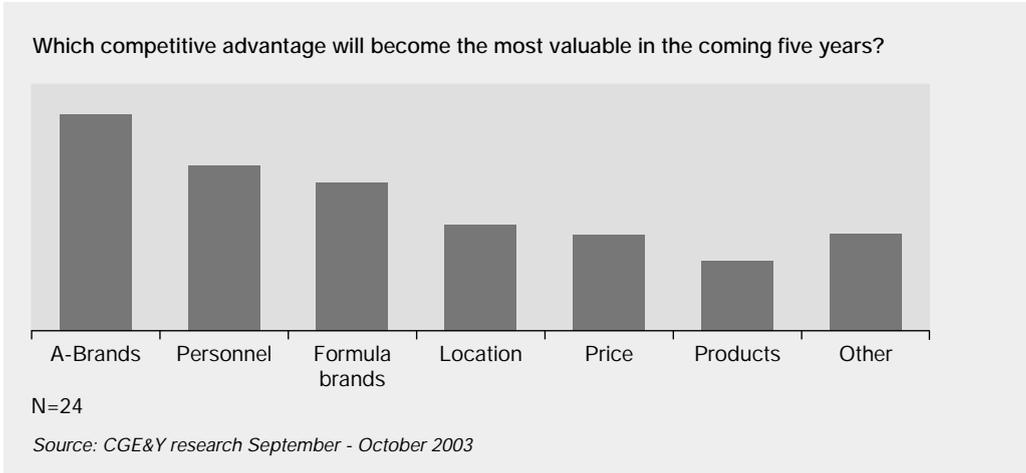


Figure 3.1.2 Results interviews statement 6

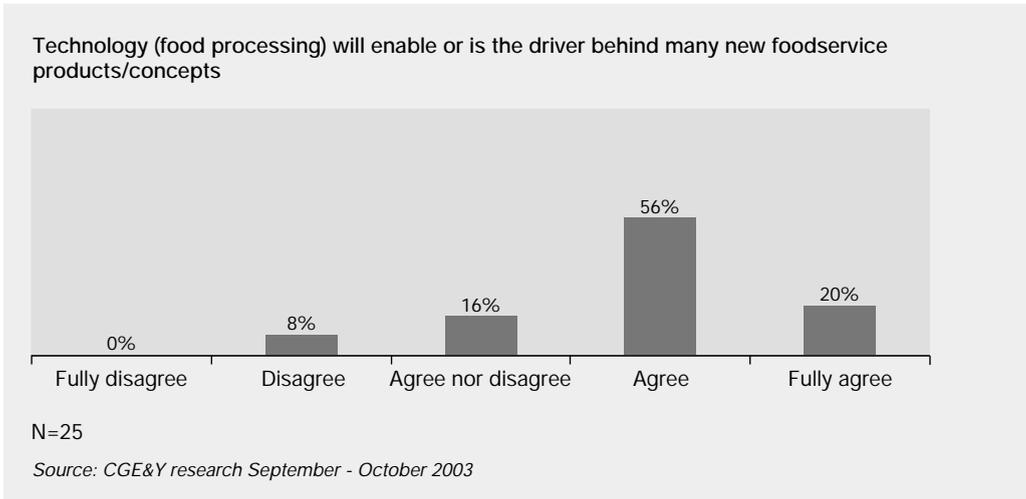


Figure 3.2.1 Results interviews statement 11

In the coming years players across the value chain will build alliances to bring products to the market or strengthen food product brands. It is important to note that branding and positioning offerings occurs not solely through mass media communication nowadays. In this information-overloaded society, consumers are mostly influenced by directly experiencing a brand. Bacardi's Breezers, for example, became successful when added to the menu in hip places and offered at concerts and other events. The beer manufacturers have a competitive advantage in this, as they decided long ago to buy cafés and leisure events. Manufacturers will continue to build alliances with outlets. It helps to build product brands and supports the outlet formula brand. Suppliers know their products get offered, while outlet operators will be provided with the latest supporting technology or marketing material.

Another critical success factor for all sorts of outlets is premium outlet locations. Those players with access to the better locations will become the strongest. Of course these locations can be bought. Some players in the food chain have their own real estate department and this is a notable competitive advantage. For those who don't own prime locations, franchising or building alliances with retailers for in-store restaurants, might be good ways to gain a market share.

3.2 Value chain trends to continue

Foodservice enforces cooking up the value chain

The activity of cooking moves to players upwards in the value chain. Consumers and foodservice outlets cook less themselves. Specific product requirements of freshness in combination with ready-to-(h)eat, challenge leading manufacturers to develop new technology and invite (local) newcomers to supply low-tech solutions. In the next few years, a variety of players will try to win a strong position within foodservice outlets.

Cooking up the value chain

With at-home foodservice through the retail channel growing to a large portion of the retail sales and with the trend of ready-to-eat or ready-to-(h)eat products supplied to foodservice outlet operators, the activity of developing a recipe and actually cooking is shifting upwards in the value chain. This does have implications. Investing in technology development for improved possibilities of (chilled) ready meals and lengthening food freshness is very important (figure 3.2.1). This would also have advantages for risk reduction throughout the value chain, as chances of over dated food will be limited. The larger food manufacturers who'll have the research capacity will probably be able to be at the forefront of packaged fresh food technology.

On the other hand, in foodservice outlet supply, some local newcomers gain a good position.

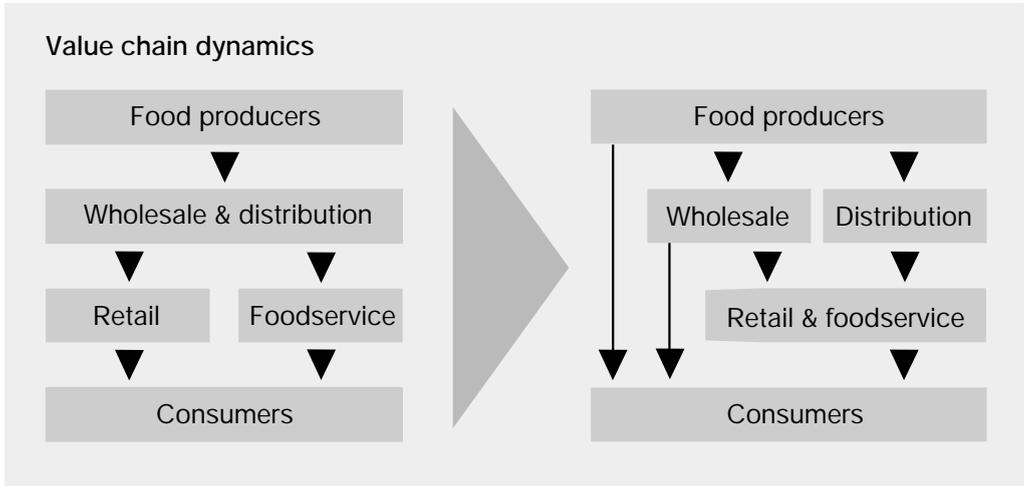


Figure 3.3.1 Foodservice value chain changes

In larger cities there are small pizza factories who deliver fresh ready-to-heat pizzas to pizzerias and supermarkets. Small, local food manufacturers make fresh sandwiches for convenience stores in their region. Since the trend of ready-to-(h)eat will continue within outlet supply as well, for instance for evening meals, local players who can deliver fresh foodservice will gain a strong position and compete with food manufacturers who developed technology for a longer shelf life for foodservice products.

Food safety required

Food safety concerns two sides: safe food production & storage methods and systems for food tracking & tracing. Food safety perception differs per country and this is reflected in the variety of national legislations in European countries. The EU has now established the European Food Authority in 2002 that facilitates and coordinates international standards of food safety. The difficulty of a truly European legislation is that food safety perception is a cultural issue. For instance, local traditional food (like raw milk cheese in France) requires a manufacturing process that would elsewhere not be considered safe. And while differences in the hygiene standards of production are probably there to stay, consumers demand openness around it.

Where international legislation is still in development, responsibilities are clear: “responsibility for ensuring the delivery of safe food and animal feeds belongs to the food and feed manufacturers. Unsafe foods and feed must be withdrawn” (EU website). By 2010 tracking & tracing of products will have developed to a very sophisticated extent, as the public opinion on food safety will be influenced not just by food safety incidents, but by the ability of companies to act appropriately whenever safety is at stake. This requires professional management of the value chain and cooperation between food players from animal feeding to meal serving. Besides tracking & tracing, managing the value chain becomes for various reasons a strategic advantage now that pricing and thus efficiency and risk of stock are more important.

Power play

Consumer preferences for value for money and strong brands will drive the value chain towards consolidation. Currently, there are no real European players, except for McDonald’s, but this will change in the near future. First of all, because pricing and value for money become important when consumers have more options to choose from. Secondly, people consume foodservice as a habit or buy on impulse. Developing strong and recognisable brands can very well influence this kind of buying behaviour. Besides, product development and improved technology will require investments in research that only the larger food players have available. Since foodservice is of a mature size, multinationals are and will stay very interested. A diversity of players currently open up consumer foodservice outlets. All kinds of retailers have built in-store foodservice facilities. Manufacturers even open up outlets and say that it’s

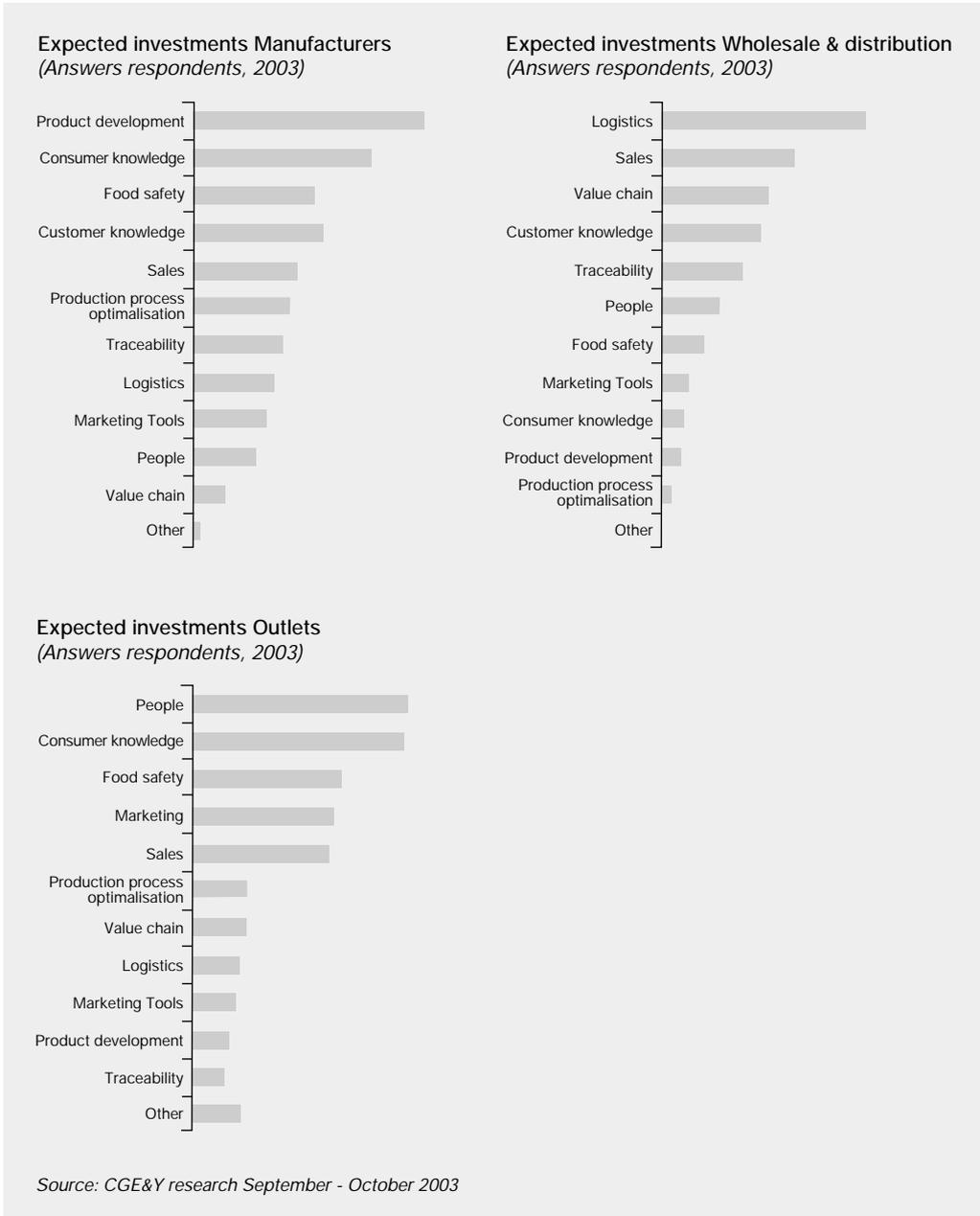


Figure 3.3.2 Results interviews statement 15

the best way to keep in contact with consumers and build a brand. Cash & carry wholesale markets are more and more open to the general public. In fact, throughout the food value chain products are more often sold directly to the consumer. But is this a trend that will continue in the next ten years? Will players down the value chain buy outlet chains? Who will be tomorrow's leading foodservice operators?

Manufacturers outlets are not expected to expand to become leading brands in foodservice outlets.

"Outlets based on manufacturer brands are not successful. They will remain as try-outs rather than being expanded." (Mr. Peter Backman, Horizons)

Running a foodservice outlet in tomorrow's competitive environment requires specific skills that not every retailer or manufacturer has available. It's a different kind of business to run. On the other hand, leading retailers and food manufacturers do have money to buy existing operators and enough experience in mergers & acquisitions. Another factor to consider is access to prime outlet locations. Who owns them? Who will be able to buy an event?

3.3 Foodservice value chain 2010

By 2010, new roles have been formed in the food(service) value chain

The foodservice value chain will definitely look different in 2010. Current roles of players in the value chain are largely based on the market as it used to be not so long ago. But changes that have taken place are there to stay and the role of manufacturers, wholesale & distribution and various outlet types will alter (figure 3.3.1). Below is described what the vision is of CGE&Y on how roles of players will develop in the years to come.

Manufacturers strengthen outlet relation

Manufacturers will move towards foodservice outlets. Leading players among food manufacturers are best-in-class brand developers. And branding will be more and more important for food-service outlets, while at the same time 'real life' consumer contact is essential to build a brand perception. So manufacturers and outlets have something to offer each other, besides food products and joint product development. Ideas on what kind of role the food manufacturers will play within the outlet operations vary from simply enter the outlet market themselves and buy or build own chains, to franchising outlet concepts (with product brands), or just build alliances with specific outlet chains when beneficial for a food product go-to-market. Still, a simple alternative is to develop specific products for the foodservice market and offer supporting marketing materials.

"There's a big difference in developing/manufacturing products and maintaining a concept. Therefore few manufacturers will expand their outlets." (Manager of a catering company)

Food manufacturers will most likely build strong relationships with outlets to assure they are the key supplier. To open up own outlets and offer existing products directly to the consumer is getting into a fight they might not win. While brand development and consumer knowledge are key attributes of food manufacturers, building a successful foodservice outlet formula requires other skills as well. Skills that are totally different to what food manufacturers currently possess. But if food manufacturers decide to open up own outlets, it will probably be through franchising concepts. This might however not be the most likely scenario.

"Franchising is a different business and it's not the manufacturer's business." (Mr. Paul van Wageningen, McDonald's)

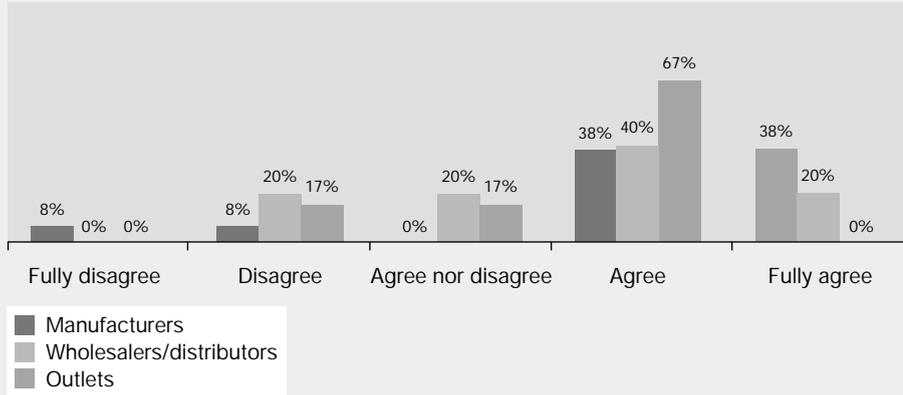
Improving the existing food product portfolio is a better option. Product development for professional use of foodservice in the outlet (kitchen) is an area where there is more to gain and loose. Outlets face a very demanding consumer. They want to be quickly served, with healthy, 'fresh cooked' food, and clarity about what's in the different courses. Manufacturers who can support outlet chains with products that offer all that, will benefit most. While in the drinks segment branding is most important, for food this is less the case, as outlets will continue to link their own formula brand to these products. It's what consumers are looking for when they go out for a meal: Consumers want industrialised food, but don't want to be aware of it.

When food manufacturers don't invest in research on ready-to-(h)eat offerings for restaurants, they will loose this market to smaller local players. Local players are able to prepare and deliver fresh meals daily to the various outlets and are small and flexible enough to discuss specific menu requirements with the outlets. They are well positioned for these kind of activities. Larger manufacturers should start to build a business case around the decision whether to enter the chilled meals or almost fresh segment for professional use, or just stick to packaged food with a longer shelf life. But even if food manufacturers decide to stick to the packaged goods with a long shelf life, developing products that meet the changing consumer needs still requires specific attention, as consumers have other consumption patterns than before.

Wholesale & distribution focus

Wholesale and distribution is a part of the chain with an interesting future, but for a limited number of players. In the coming years foodservice outlets will further consolidate and the larger chains will dominate a growing part of the market. The largest chains will arrange distribution internally when possible, while independent outlets and smaller and medium sized chains continue to be supplied for efficiency reasons. This also means that supply chain efficiency is critical to survive in this segment.

Wholesalers/distributors have to make a choice between a trade function and a logistics service provider function



N=24

Source: CGE&Y research September - October 2003

Figure 3.3.3 Results interviews statement 24

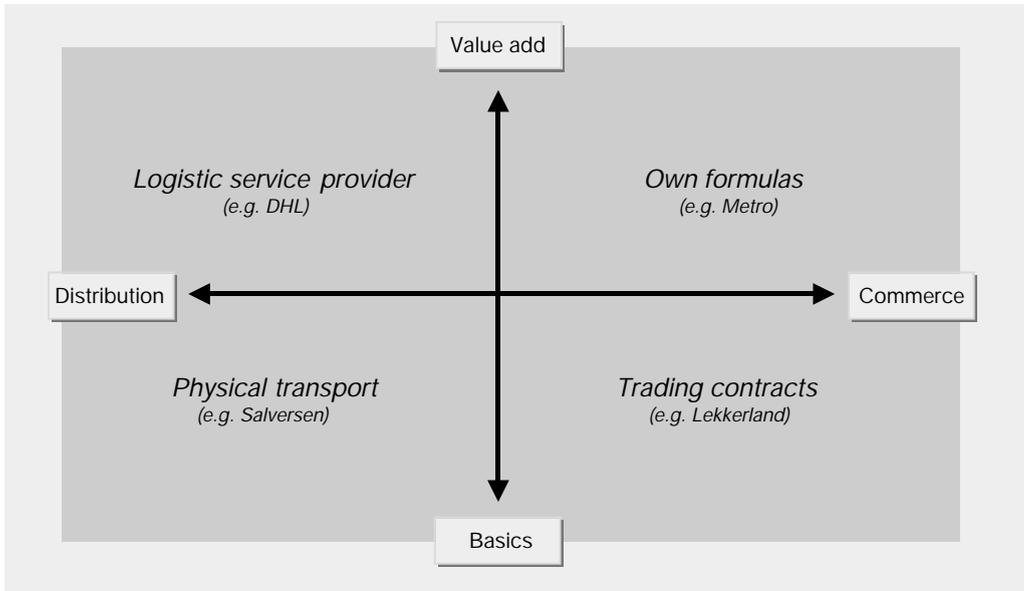


Figure 3.3.4 Wholesale & distribution dilemma

“Wholesale & distribution is an expensive and specialised activity which companies will not easily be able to carry out themselves.” (Mr. Wayne Levin, Subway)

Players in this part of the chain will have to make a strategic decision for either wholesale or distribution (figure 3.3.3). With a smaller part of the foodservice market as a potential market, players have to prove added value, as competition will increase. Since wholesale and distribution have completely different business models and require other capabilities, the chances of being the better player in both are small. This is the time to decide in which arena - wholesale or distribution - the best position can be attained (figure 3.3.4).

On the other hand, there are new developments that might offer opportunities for those players who are not afraid to take the lead. The first opportunity is related to the newcomers in the market who provide foodservice outlets on a daily basis with fresh meals that are ready to heat. As this trend continues and more restaurants want to be provided with a large part of the menu already prepared, this might be an interesting opportunity for wholesale and distribution to pick up. Another opportunity lies in the trend that more and more consumers go shopping once a month at large hypermarkets looking for the lowest prices for products with a long shelf life, like wine, milk and pasta.

Outlets strengthen formulas

For 2010, retail outlets and foodservice outlets will not merge towards each other, but the division between retail players and foodservice outlet operators blurs. There will be supermarkets that offer food(service) for at-home or on-the-move consumption next to traditional grocery offerings. And there will be foodservice outlets that just focus on out-of-home consumption on their premises. Some concepts combine both traditional outlet types, like restaurants that offer ingredients or supermarkets with an in-store restaurant. But these concepts will not dominate, since consumers have different needs when they shop for groceries or go-out for a meal. These needs are fulfilled in different kinds of outlets. This does not mean that, for example, bakeries won't offer sandwiches, since consumers that just want a piece of bread for direct consumption, expect a high quality sandwich at a bakery. In short, outlet formulas need to focus on specific consumer needs.

Supermarket retailers can very well open up own foodservice outlets with take-away meals next to their grocery shop (figure 3.3.5). Consumers that go out to buy groceries for the evening meal might be tempted to have a nice and convenient ready-to-eat meal instead. For formula branding reasons and because foodservice requires a different skills set, the outlets will not be integrated into the supermarkets physically, but the larger food retailers will manage them in-house. Smaller food retailers will want to have in-store foodservice facilities as well, but - contrary to the larger retailers - build alliances with foodservice operators to realise this most efficiently.

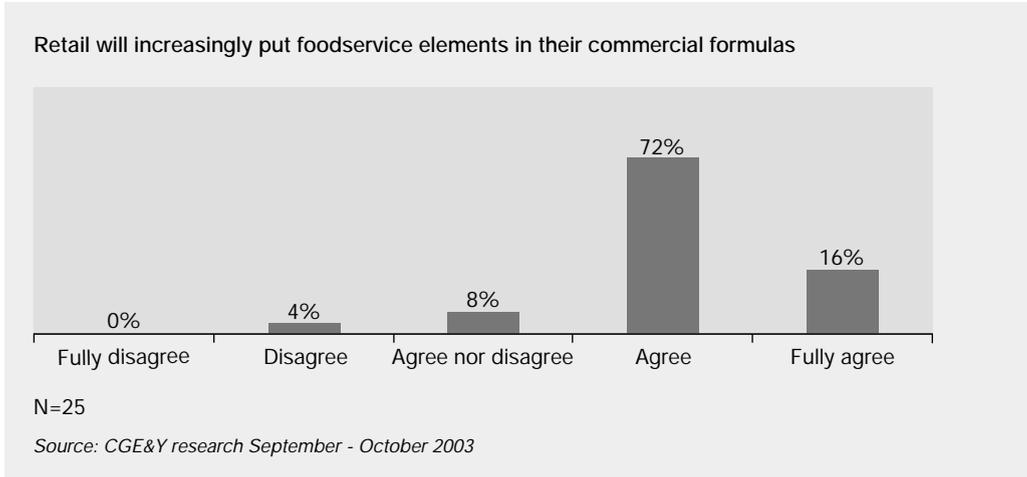
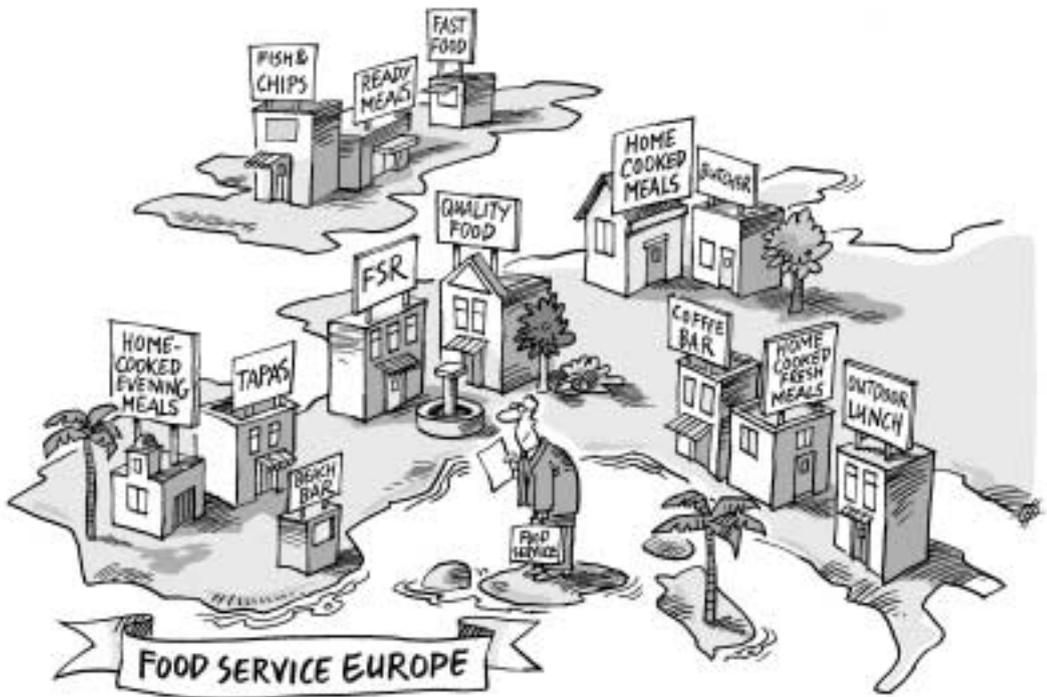


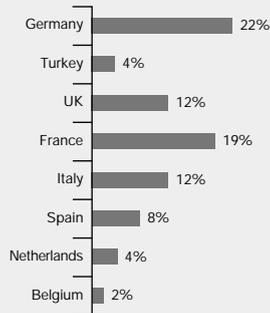
Figure 3.3.5 Result interviews statement 9

Of course the trend of in-store restaurants continues in all kinds of retail outlets. Consumers do need something to drink or eat wherever they are and shopping is an activity that can very well be combined with just having a cup of coffee and cake. How can traditional non-food retailers best benefit from foodservice? Most of them will build an alliance with a specialised foodservice operator who knows how to run such a business inline with the shop brand. Just renting the square meters to the highest bidder is no option, as it might result in an in-store facility that just does not match with the shop's branding. Running a foodservice restaurant by the store themselves isn't always the best solution either, as foodservice is simply a different business than selling books or clothing.

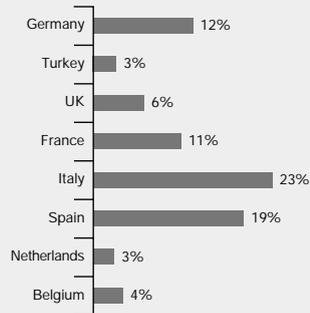
"Knowledge of the foodservice business is important for retailers, because foodservice is a different business." (Mr. Arnoud van Os, Uniq)



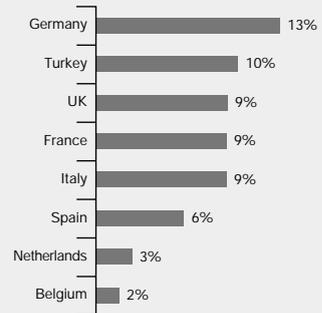
**Share countries overall
Food purchases**
(% of European food
market, 1999)



**Share countries in
Restaurant purchases**
(% of European restaurant
market, 1999)



**Share countries in
Population**
(% of European population,
1999)



Source: *European foodservice market overview, Food Institute, September 2001*

Figure 4.0.1 a) Food purchases overall, b) Restaurant purchases, c) Countries population size

4 European markets mainly differ in preferences for outlet channels

European markets differ in preferences for outlet channels, but overall there is foodservice growth potential after the current dip. The main foodservice markets in Europe are Germany, France, the UK, Italy and Spain. In all these countries foodservice showed a steady growth in the past ten years, followed by a slowdown of the market in recent years. Another thing these countries have in common is the growing internationalisation of cuisines, with preferences for Italian and Asian food. But there are differences as well, especially with regard to the preferred channel to buy foodservice offerings. The eating cultures in Germany, France, the UK, Italy and Spain are simply different.

In the UK, Germany and France, foodservice is more often purchased through retail channels and oriented towards ready meals and QSR, while in the southern part of Europe, in Italy and Spain, more is spent on FSR and dining out (figure 4.0.1). The ready meal consumption is by far highest in the UK with a spending of € 54 per capita, compared to only € 13 per capita in Spain. Restaurant purchases are much higher in countries like Spain and Italy. Italians for instance, are responsible for 23% of European restaurant sales, while they represent only 9% of the European population. In Germany and France restaurant spending is average, while more money is spent on groceries.

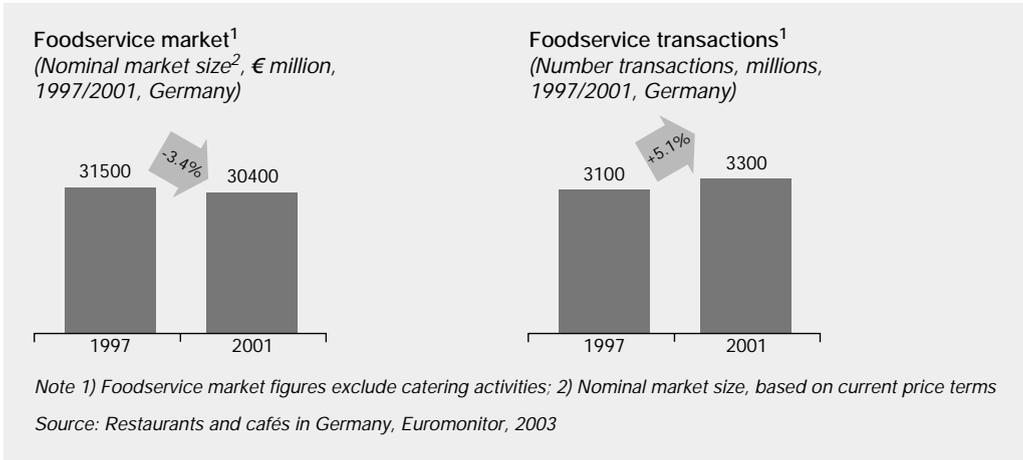


Figure 4.1.1 German foodservice market in value size and number of transactions

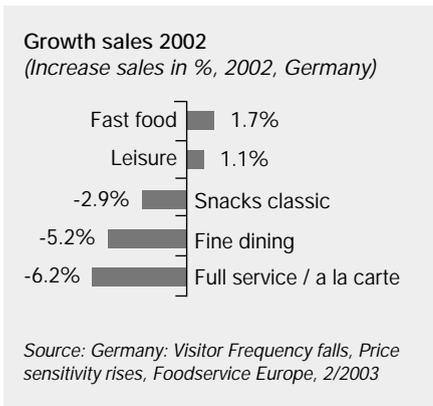


Figure 4.1.2 Growth in sales per channel 2002

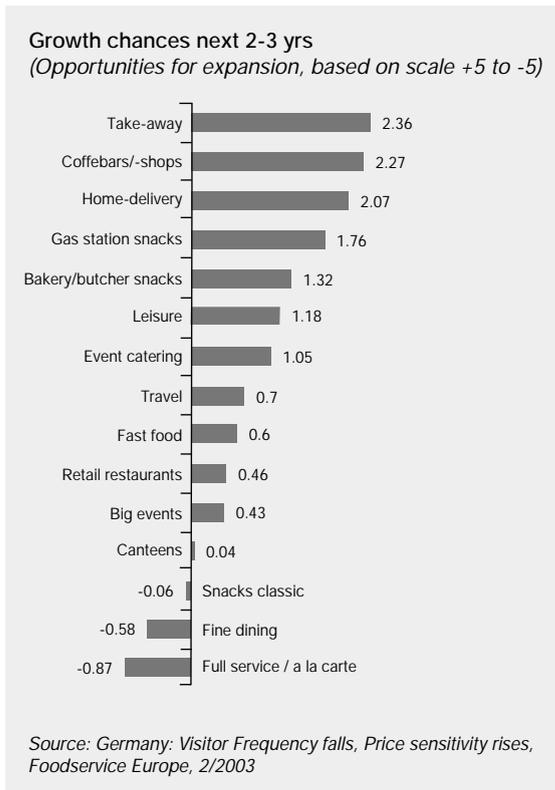


Figure 4.1.3 Growth in sales per channel 2003-2004

4.1 Germany

The large German foodservice market is currently stagnating along with the German economy

Germany, one of the larger European foodservice markets, is strongly focussed on traditional German food products. Currently the out-of-home foodservice market faces tough times and revenues are decreasing. Consumers nowadays spend less per transaction and choose for lower priced options.

Overall market

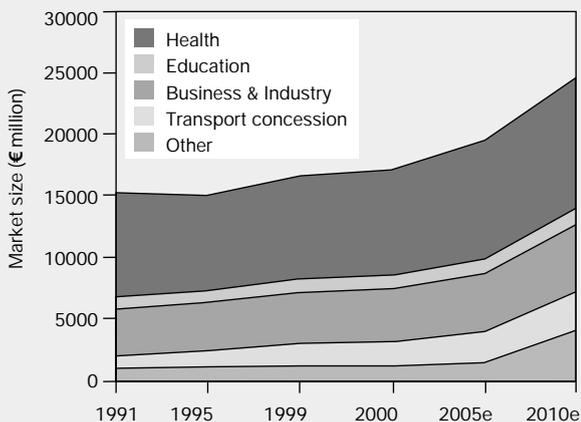
After years of growth, foodservice is a stagnating market in terms of value, but not in number of transactions (figure 4.1.1). The market size has decreased to € 30 billion in 2001 (excluding retail and catering). Especially Fine dining, Full Service Restaurants and à la Carte Restaurants are losing market share (figure 4.1.2). The total number of FS units declined with 2.3% between 1997 and 2001, mainly due to the closure of non-profitable independent outlets. In 2001 there were 221,370 consumer foodservice units.

As Germans prefer to eat dinner at home, foodservice is for a large part lunch and snack oriented. Eating habits, as in other countries, are strongly affected by the trend towards snacking. The most successful food units are those that meet the requirements of small, light, modern dishes at economical prices, most of which fall into the QSR category.

Despite trends towards healthy food, Germany remains a major meat-eating country, with more traditional food and a less notable internationalisation of cuisines. QSRs are mainly used for lunch meals and snacking, since Germans prefer to prepare and have dinner at home. In Germany bakers and butchers with integrated snack facilities remain one of the stronger segments in foodservice (snacking). Though not always included in market research, revenues from this segment are estimated at 35% of the total foodservice market.

The German market is characterised by a low presence of chains, but the QSR chains are winning market share. In 2001 chains accounted for only 4.7% of the outlet units but produced 24.3% of value sales of the total foodservice market (excluding catering). About half the market is FSRs, but preferences shift to lower priced QSRs. Another factor in QSR growth is the expansion of chains in Eastern Germany. New providers like gas stations, bakeries, coffee shops and traditional food retailers with take-away goods provide competition for QSR snacking.

Catering market
(Germany, € million, 1991-2010¹)

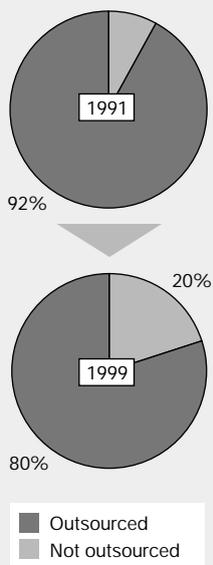


Note: 1) Contract catering involves preparation and serving of meals to private guests (employees, students, patients) of a client, while concession catering is open to the public in general. Revenues are generated through monthly fees by the client and/or payments by guests. The concession catering market mainly involves travel catering in train (station), airport, and motorway service stations; 2) Figures for 2005 and 2010 are estimates

Source: Pan-European foodservice, CSFB, September 2002

Figure 4.1.4 Catering market size

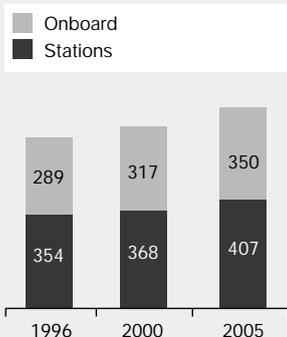
Catering market
(Germany, % Outsourced)



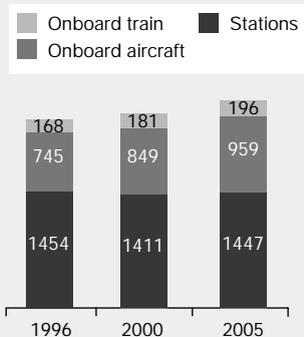
Source: Pan-European foodservice, CSFB, September 2002

Figure 4.1.5 Catering market outsourcing

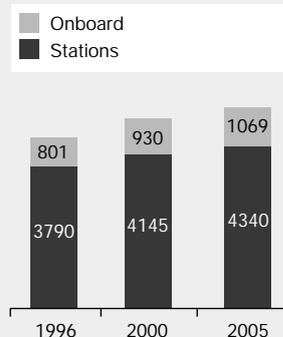
Travel FS transactions
(Number transactions, millions, Germany)



Travel FS market size
(Value, € million¹, Germany)



Travel FS outlets
(Number of units², Germany)



Note: Travel foodservice contains an area in which the environment is a captive environment with no competition (such as within a train, aircraft, bus or ship) and a semi-captive environment often at gas stations, train stations, airports, harbours etc.; 1) Exchange rate 1 € = DM1.9558; 2) Units are either outlets or number of departures, in this study only the number of departures of airplanes were counted; and trains/ships were left out

Source: German Market for Consumer foodservice, Euromonitor, 0302

Figure 4.1.6 Travel catering market

Catering

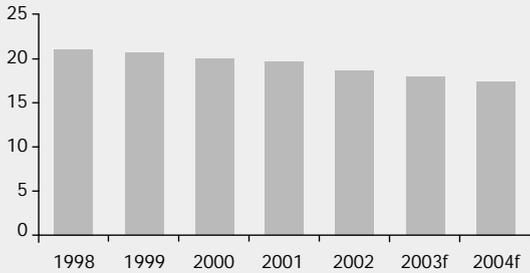
Catering meals in Germany are not often outsourced. Exceptions to this rule are mainly seen in the commercial sector (figure 4.1.5). The catering market was estimated at € 17.2 billion in 2000 (figure 4.1.4), with only 21% outsourced. Business & Industry and Transport concession catering are the main areas with 12% and 47% outsourced. In Healthcare, the largest segment in size, only 2% is outsourced, but this percentage is growing (8.3% growth expected per annum in following years). Overall, outsourcing will grow further with 6% per annum in the next 10 years towards 30%, which is still relatively small compared to other European countries.

Canteen foodservice providers (the largest part of catering) face demanding consumers and clients. Margins are low, but consumers are willing to spend more when outlets improve the product offering with a broader and higher quality product range served in a pleasant 'non-canteen-like' atmosphere. But caterers have to realise all this within the boundaries (of for instance the outlet location and menu pricing) given by their client. And price competition between catering companies is fierce. Many clients decided recently to cut subsidies on the meals and as a result caterers were forced to increase prices towards consumers.

Within Travel, the onboard airplane and train services are mostly contracted out and this is the main growth area as well (figure 4.1.6). The airline onboard market grew until 2000 because of an increase (25%) in the number of passengers. After 2000, the market declined, but is expected to grow again up to 2005. The onboard train market increased through the growing number of transactions per passenger (the number of passengers decreased). The onboard market is almost 100% contract catering, while only one third of the station outlets are contracted out. In train stations and airports, the number of transactions grows while the market size declines, which is caused by a preference for eating snacks.

Compared to other countries investigated, catering in Germany is less concentrated. Largest players are Compass (13% market share), LSG/Lufthansa (10%), and Pedus (8%).

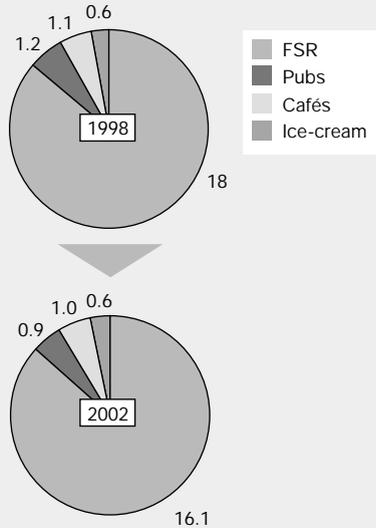
Market size Restaurants and cafés¹
(€ billion², 1998-2003)



Note: 1) Restaurants and cafés include Full service restaurants, bars, ice-cream parlours and cafés, but exclude QSR; 2) Figures for 2003/2004 are forecasts

Source: Restaurants and cafés in Germany, Euromonitor, 2003

Share segments
(Germany, € billion, 1998/2002)



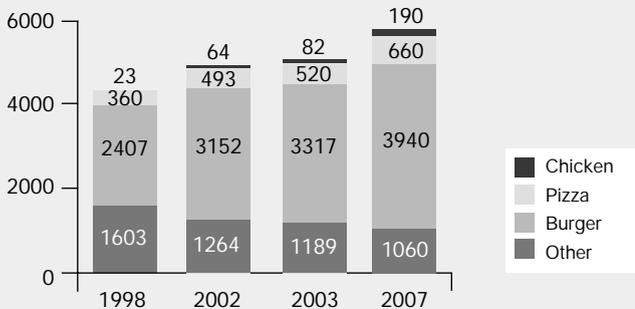
Note: 1) Restaurants and cafés include Full service restaurants, bars, ice-cream parlours and cafés, but exclude QSR

Source: Restaurants and cafés in Germany, Euromonitor, 2003

Figure 4.1.7 Restaurant and cafés market

Figure 4.1.8 Market share outlet segments

QSR market size
(Market size, € millions, Germany, 1998-2007)



Source: Euromonitor, 2003

Figure 4.1.9 QSR market size per food category

Restaurants

The out-of-home segment is facing tough times. Consumers spend less on restaurant and café visits, which is partly explained by the shift towards the QSR segment (figure 4.1.7). In 2002 the German market for restaurants and cafés decreased by a further 4.3% in comparison to 2001. Pubs saw the largest growth decrease. The decline reflects the economic climate as well as price increases that were an industry's attempt to combat decreasing turnover. FSRs account for the lion share of the market with around € 20 billion, but saw a decline of € 1.8 billion between 1998-2002 (figure 4.1.8). Largest players in Germany are LSG, Autobahn Tank & Rast, Nordsee Deutsche and DINEA Gastronomie.

For the next 5 years recovery of the restaurant and café market is not expected. People consider pubs and cafés to be overpriced. Euromonitor says the market will decline with 14.8% to 2007, as the economy might not improve and younger people often prefer dinner parties to eating out.

At the same time, the QSR market grows, mainly because it offers consumers Value for money in current economic conditions. The market for QSR has grown by over 2% since 2001, to reach a value of nearly € 5 billion in 2002 (figure 4.1.9). Hectic lifestyles and a reduced level of disposable income created a market shift from FSR to QSR. Another key factor in QSR growth is expansion of QSR chains in Eastern Germany.

In previous years Pizza/Pasta was the strongest category in QSR, then lost ground, but now returned to be the number two segment. Main chains are McDonald's, Burger King and Nordsee. The QSR market will grow with 18% from 2002 to € 5.8 billion in 2007 (Euromonitor).

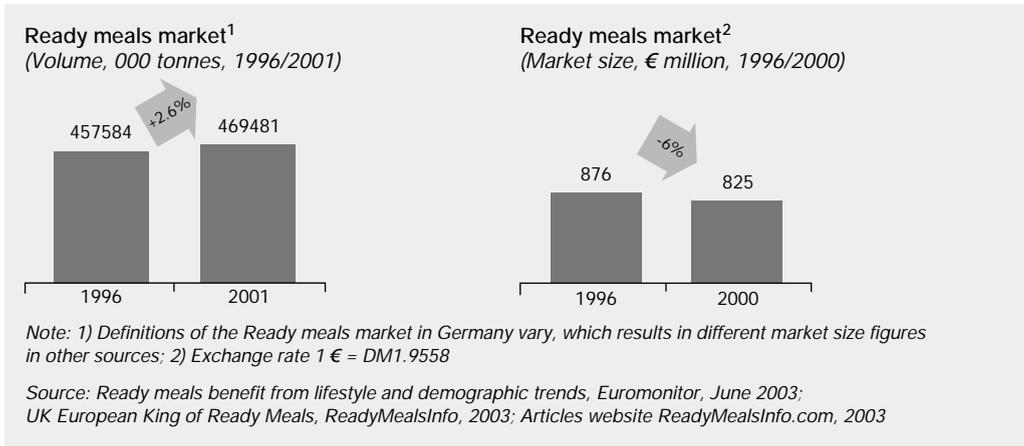


Figure 4.1.10 Ready meals market

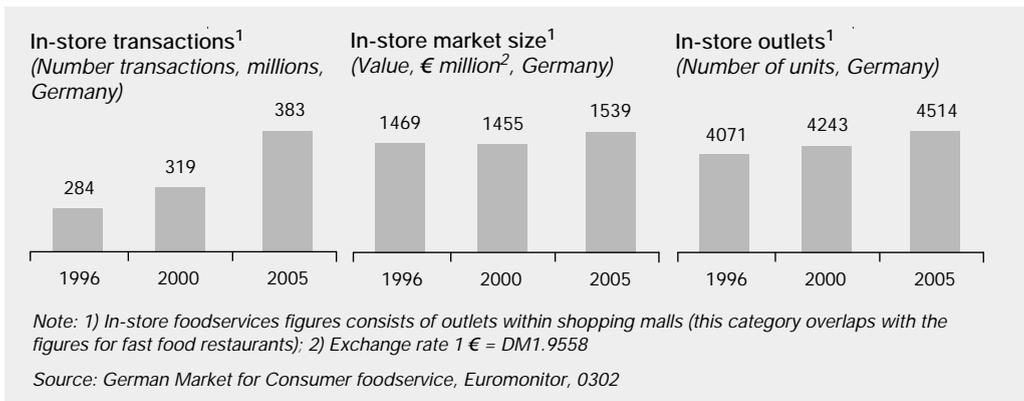


Figure 4.1.11 In-store market

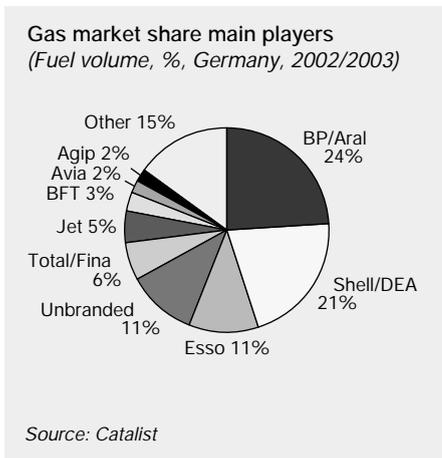


Figure 4.1.12 Gas market share



Figure 4.1.13 Gas station shop sales and average shop area

Retail

The retail market is difficult to define, but according to different market data, it shows a slow growth or recent decline. Market data on ready meals also show a slow growth or recent decline.

The ready meals market in Germany is estimated at € 1.5 billion in 2002 (figure 4.1.10), which is high compared to countries like Italy and Spain. On average, consumption of ready meals in Germany was 5 kg per capita in 2002. Mintel's consumer research reveals that 71% of German housewives resort to ready meals. 62% of German households own a microwave and 65% a freezer. Ready meals are more likely to be eaten by younger consumers, but usage is broad, with only the oldest consumers showing lower usage. Consumption is stronger in the higher income bands and is above average in households with children.

The gas station market is almost saturated, main players all invest in forecourts and increase the number of products sold in the shop to improve revenues. In Germany there is a strong 'eating along the road' culture. Most gas station sites have shops. The top 10 gas stations together realise € 5.2 million forecourt shop sales (figure 4.1.13). Investments in the quality of gas station facilities and forecourt shops in Germany are among the highest in Europe. Main players in gas stations in Germany invest in retail and broaden the assortment of products in the shops. Unbranded sites have noticeably lower shop sales compared to fuel volumes than branded sites.

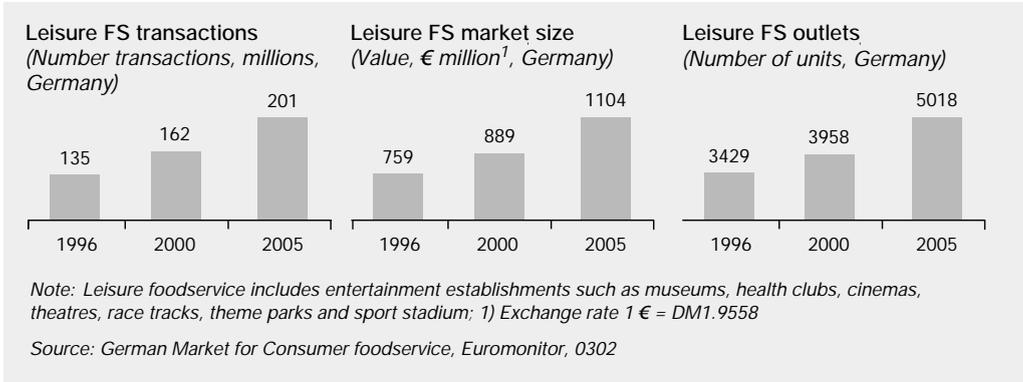


Figure 4.1.14 Leisure market

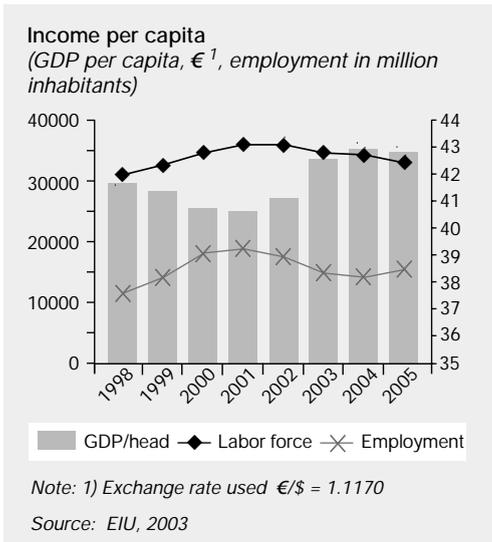


Figure 4.1.15 Income per capita

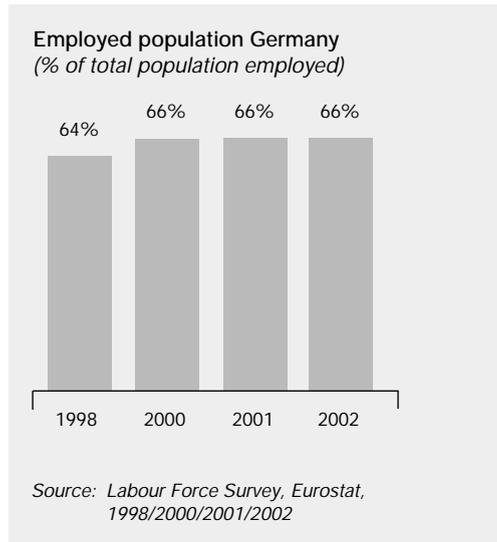


Figure 4.1.16 Employment

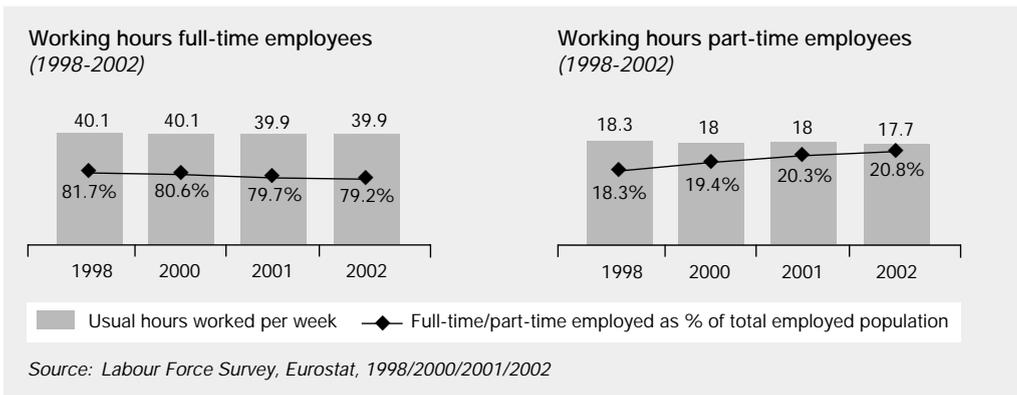


Figure 4.1.17 Average working hours

Vending machines

Between 1996-2000 vending became more important in the at-work foodservice market. Machines have become more sophisticated and offer a wider product variety with often a higher quality than years before. The market size for vending machines and in-between meals snacking is estimated at € 3.4 billion in 2000. Most caterers do not conduct their own vending operations and hand this over to specialised vending machine players.

Events & Leisure

The German Leisure foodservice market is very fragmented. Foodservice at leisure locations such as theme parks is often provided by the operators' subsidiaries. In other leisure locations, providers are local players, making the leisure market in Germany a very fragmented one. However, in cinemas, operators have introduced strong brands such as McDonald's, Burger King and Pizza Hut. The number of units in 2000 was estimated at 4000, of which only 4% was outsourced; this was 6.1% of the leisure market. Leisure has a positive growth trends and spending per transaction is expected to catch up. Outsourcing is not expected to grow strongly (7.9% of the market in 2005).

Drivers behind the market

Apart from improved offerings, the main influencing factor for foodservice growth might be economic recovery. The major lifestyle shifts of the past decade will stay, but drivers behind foodservice will not increase in the following years.

Buying time for money' has been a main driver behind foodservice until 1998. Since 1998, the income per capita and the average workweek have decreased. This is expected to improve again towards 2005 and thus foodservice will be stimulated again. But even when the economy recovers, value for money stays important, as the current market is more mature than 10 years ago. The strongest driver behind foodservice has been female workforce participation as it increased most strongly between 1980-1990 with a permanent effect on foodservice. Currently, women work on average fewer hours per week than some years ago, but this trend is mainly caused by the economy and not so much a permanent change in lifestyle.

Other demographic trends that impact foodservice are the elderly population and the youngsters. The population of Germans aged under 20, the traditional fast food population, strongly decreases. While at the same time, as in other European countries, the ageing population increases. And this might be an important new target group.

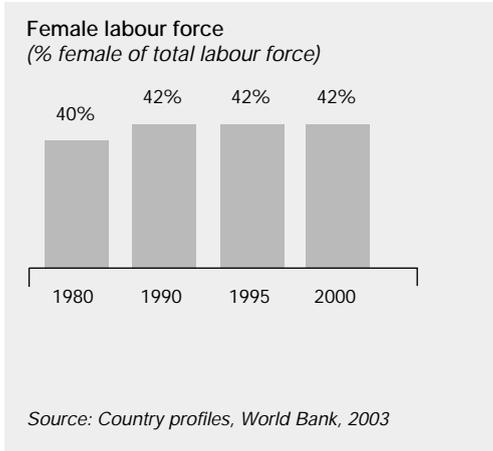


Figure 4.1.18 Female workforce participation

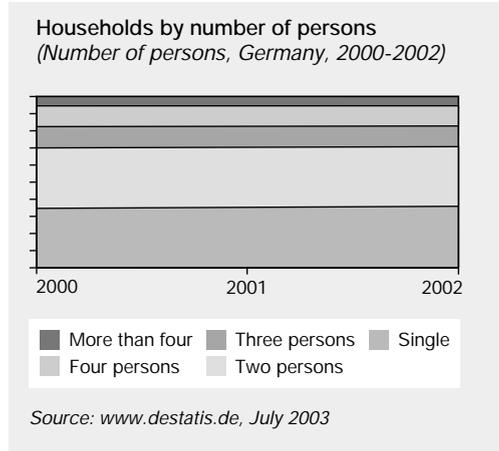


Figure 4.1.19 Household forms

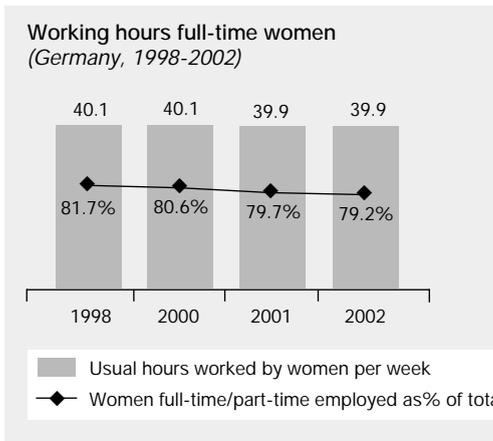


Figure 4.1.20 Female average working hours

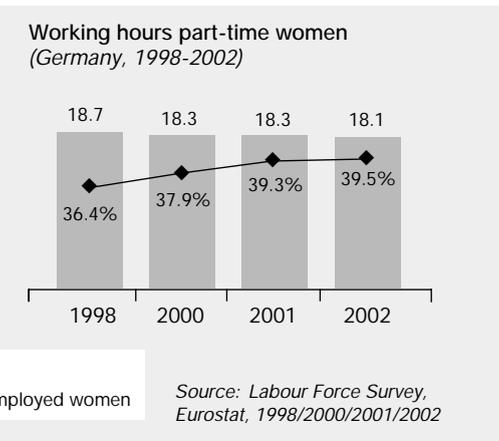


Figure 4.1.20 Female average working hours

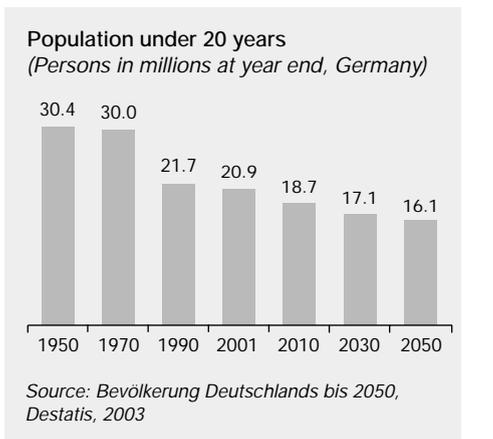


Figure 4.1.21 Teenage population

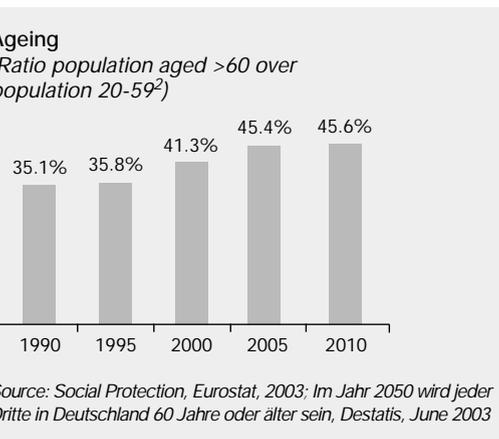


Figure 4.1.22 Elderly population

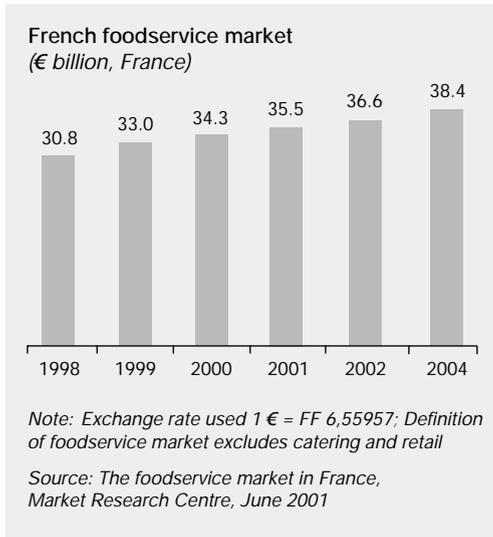


Figure 4.2.1 French foodservice market

4.2 France

French are into high quality, pricier food, with a tradition of eating at home

French eating culture combines eating habits of Southern countries like Spain and Italy with Northern European foodservice consumption patterns of for example the UK and Germany. French spending on food in general is among the highest in Europe and the French are prepared to spend extra for premium quality food in and outside the home. Contrary to Italy and Spain, at-home foodservice is important in the French market.

Overall market

The French foodservice market shows a slow, constant growth rate (figure 4.2.1). In 2000, France had more than 160,000 foodservice outlets with a total turnover of € 37 billion. Stand-alone foodservice locations generate over 85% of all foodservice sales followed by hotels with 10%. Travel, leisure and retail have less than 5% market share. Commercial restaurants generate two-thirds of foodservice spending, while contract caterers account for the remaining 34% of sales. By 2004, foodservice sales are forecast to reach over € 38 billion.

Compared to other European countries the average Frenchman spends a lot on food purchases in general, of which a little above average on restaurant purchases and relatively a lot on groceries for at-home consumption.

The French are very much into higher quality and pricier food. Products that emphasise health continue to be in strong demand for the foreseeable future. Increased health consciousness and a number of food scares are changing consumer preferences slowly towards vegetarian, organic and other healthy goods. Especially among women, demand for low fat options increases. Although transport costs and tariffs will increase costs, French consumers have traditionally shown willingness to pay higher prices for goods they feel are of premium quality.

Due to lifestyle changes (long working hours and more women joining the workforce) the frequency of scheduled, sit-down meals decreased, and were replaced by impulse purchases and snacking. Busy consumers look for quick and convenient buying locations, which explains recent growth in vending machine sales (10% growth to € 1.8 billion, 1999). Recently there has been a shift towards lower priced foodservice offerings (QSR). For evening meals, the French still prefer a more premium leisurely environment. Consumers start to seek out new and unique foods (ethnic foods), while at the same time authentic French cuisine is gaining importance.

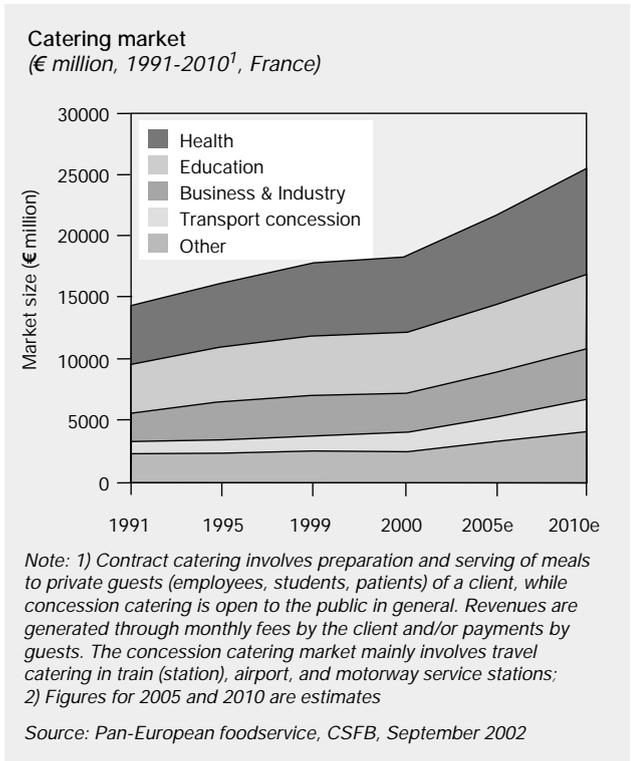


Figure 4.2.2 Catering market size

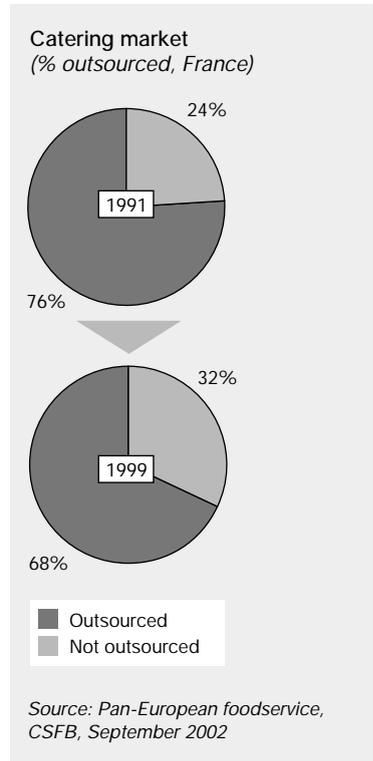


Figure 4.2.3 Catering market outsourcing

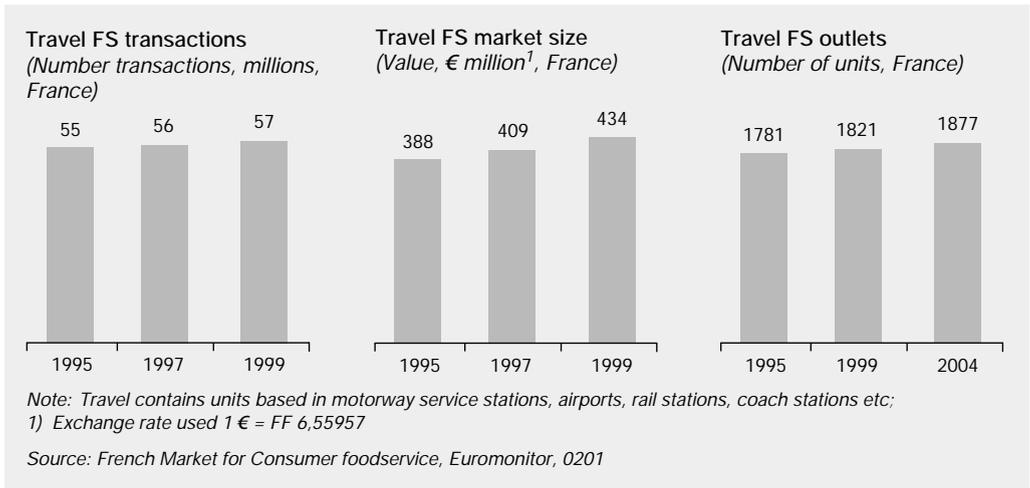


Figure 4.2.4 Travel catering market

Catering

The catering market until recently showed strong growth, but still provides good opportunities since an increasing part of the market has been outsourced. The French market was estimated € 18.3 billion, with approximately 33% of the market being outsourced (figure 4.2.2 and 4.2.3). The main part of the market (85%) was contract catering and concession catering which made up 15% of the market. Highest growth for the next ten years is expected in health care (8.7%) and education (8.0% per annum). The outsourcing market is expected to grow by 7% in the next ten years towards a penetration of 50%. The three largest players are the French catering group Elior (24%), Sodexo (24% after acquisition of Sogeres), and Compass (17%).

Travel catering investigated concerns semi-captive outlets in railway stations, gas stations and airports. Total market size in this area of foodservice is € 500 million. A quarter of the outlets are a Quick Service Restaurant. Spending per transaction has increased strongly in the past decade. The number of transactions showed a small constant growth rate, while value sales increased by 12% between 1995-1999. The number of outlet units shows hardly any growth and this is not expected to change as locations are limited to travel stations.

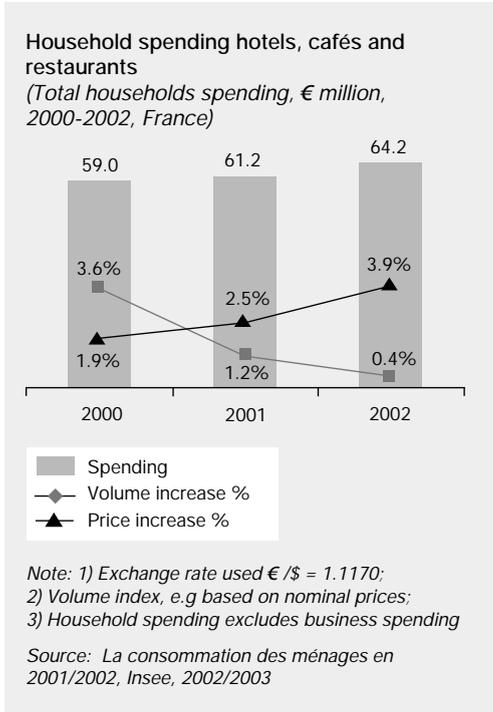


Figure 4.2.5 Consumer spending hotels, cafés and restaurants



Figure 4.2.6 Average spending per meal



Figure 4.2.7 QSR market

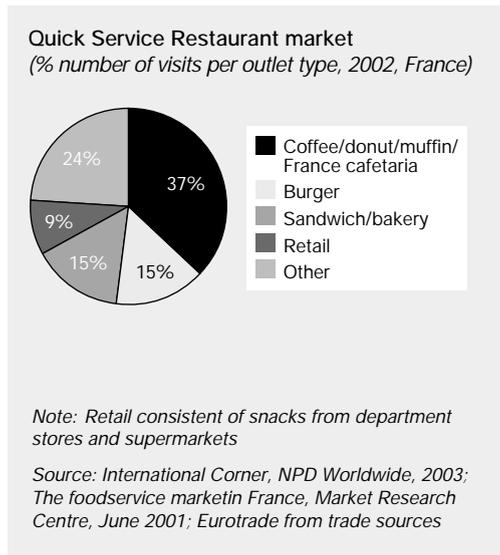


Figure 4.2.8 QSR market share per outlet segment in number of visits

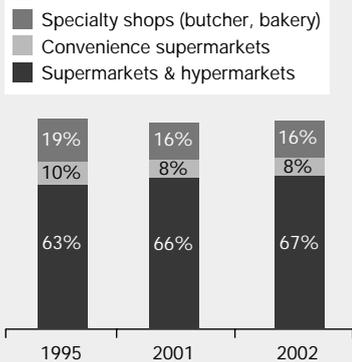
Restaurants

Compared to the other countries investigated, total spending on eating out is quite average in France. French consumers eat-out on average 83 times a year, of which 76% (!) is lunch. Average spending per out of home meal is above € 22 for 50% of Frenchmen (figure 4.2.6). The total eating out market is estimated at € 27 billion. Between 2000 and 2002 the consumer market for hotels, restaurants and cafés (figure 4.2.5) still grew in France, but this mainly had to do with price increases (3.9% in 2002), as growth in terms of volume declined (0.4% growth in 2002).

Especially the higher-end FSR segment is hit by the economic situation. Full Service Restaurants, like pizzerias, fish/seafood, theme restaurants, French cuisine, meat & grill, make up the lion share of the market in terms of number of units (55% of the market), number of transactions (40% of the market) as well as in terms of value sales (80% of the market). FSRs typically offer expensive, high quality full meals. Between 1995-1999 this segment saw a strong growth (20%) because of strong economic growth figures. After 2000 the FSR segment was hit hardest by the economic downturn. But since the French most enjoy an haute cuisine dinner at-home or in a sophisticated place, this market will recover again as soon as the economy recovers. Outlets are often family-owned haute cuisine restaurants, but there are also FSR chains with offerings somewhere between fast food and à la carte restaurants. Among the latter, there is a trend towards consolidation.

In France the QSR segment is dominated by the street based outlets. At first, QSR didn't grow as quickly in France as it did in some other countries in Europe, but now people prefer the convenience of a quick meal. France stands out with its cafeteria segment, owned mostly by the French hypermarkets and grown substantially in recent years. After cafeterias, hamburger restaurants are the largest segment in the QSR market. McDonald's counts for the largest market share followed by Quick France. Burger chains are popular because they offer full meals that are perceived as more value for money than snacks sold elsewhere in QSRs. As a reaction to the fast food chains, the sandwich has made a comeback. Sandwiches & bakery play an important role, since 'boulangeries' turned into QSRs. France shows hardly any ethno QSRs and pizza/pasta or chicken chains play a minor role. Ice cream on the other hand showed tremendous growth figures and is believed to be an underdeveloped segment of the QSR market. Expectations are that in France QSR concepts that match perfectly with typical French consumer preferences (high quality, healthy full meals that are quickly served) will win. Cafés do not play an important role in foodservice. As opposed to the UK, cafés in France do not put food products forward. Sandwiches are the most commonly sold food products. Cafés are mainly oriented on drinks and the atmosphere is often the same as years ago (smoky and old-fashioned). Due to the availability of foodservice everywhere, the role of the café even decreases. The number of cafés is slowly but steadily declining (the number of units has dropped by half in 25 years). Hotels account for 10% of the foodservice market in France. Approximately two thirds of all hotels had a restaurant on their premises in 2000. Foodservice sales generally account for 30% of hotel-restaurant turnover.

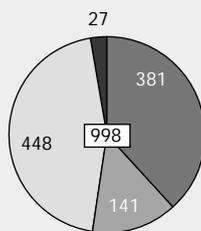
Retail food market per channel
(Sales retail food, € million, 1995-2002, France)



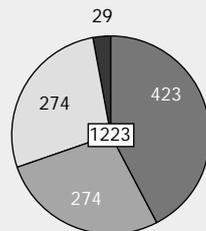
Source: La consommation des ménages en 2001/2002, Insee, September 2002/2003

Figure 4.2.9 Retail food purchases

Ready meals market
(€ million, France, 1996)



Ready meals market
(€ million, France, 2000)

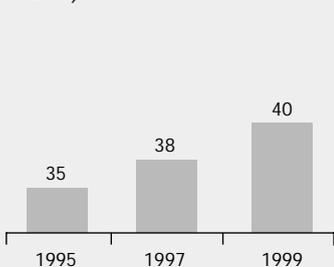


Legend: Frozen, Chilled, Canned, Dried

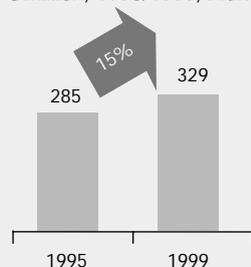
Source: www.readymealsinfo.com

Figure 4.2.10 Ready meals market

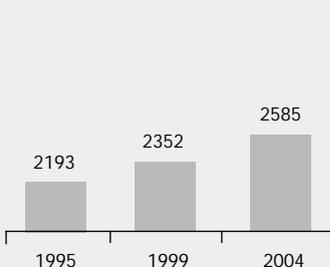
In-store FS transactions
(Number transactions, millions, France)



In-store FS market
(Nominal market size, € million, 1996/1999, France)



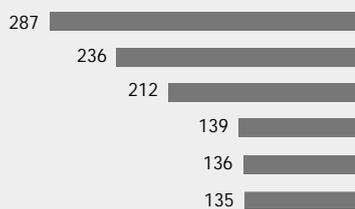
In-store FS outlets
(Number of units², France)



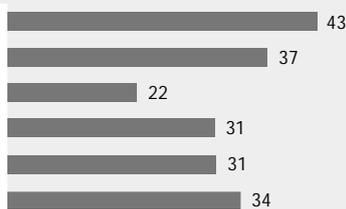
Source: Euromonitor. Exchange rate used 1 € = FF 6,55957

Figure 4.2.11 In-store market

Average shop sales
(In € 1000, France, 2002/2003)



Average shop area
(In Sq. M., France, 2002/2003)



Source: Catalist, December 2001

Figure 4.2.12 Gas station shop sales and average shop area

Retail

The French ready meals market is, after the UK, one of the largest in Europe. Compared to a few years ago, a trend is noticeable in supermarkets towards more convenient single portions and ready meals. The ready meals market reached a volume of € 1225 (290,000 tonnes) in 2000. All segments showed growth between 1996 and 2000. Chilled meals showed the strongest growth and almost doubled in five years time. Compared to other European countries, the French canned meals market is large (50% market share), but growth slows down and canned meals are under pressure by frozen and chilled meals that are perceived to be healthier. Dried ready meals have always been a small part of the market.

The in-store market is, compared to other countries, above average as major retail players open up cafeterias. Most hypermarkets have an in-store restaurant, which belongs to either the retail chain or is owned by fast food restaurants and other restaurants. Major players in the retail market introduced the in-store cafeteria to make one-stop-shopping at hypermarkets more pleasant and most Frenchmen do their major shopping at the hypermarché. The in-store market share is approximately 1% of the total foodservice market. The average transaction size is small, due to the fact that it is snack & beverage oriented and in general prices are low. The number of gas station shops is estimated at 15,000 across France. Approximately 25% of the gas stations in France are owned by major supermarket chains that open gas stations near their hypermarkets (Carrefour and Casino are the largest). The larger international oil companies also have a strong position in France and tend to invest in a larger shop area (figure 4.2.12). For Shell and BP this was not without success.

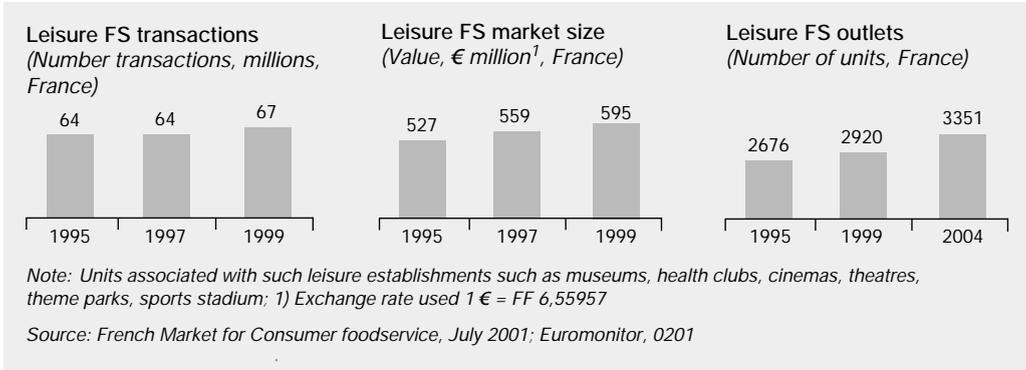


Figure 4.2.13 Leisure market

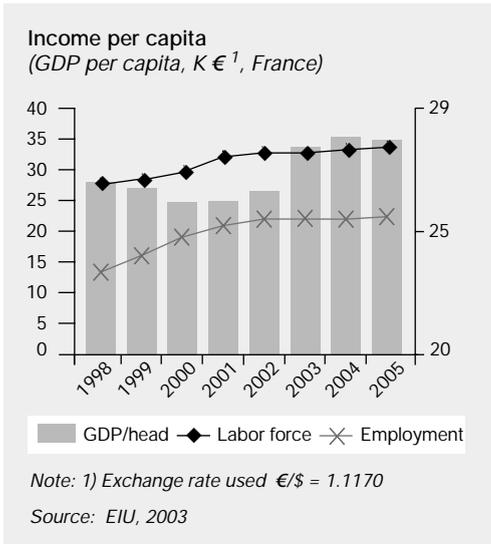


Figure 4.2.14 Income per capita

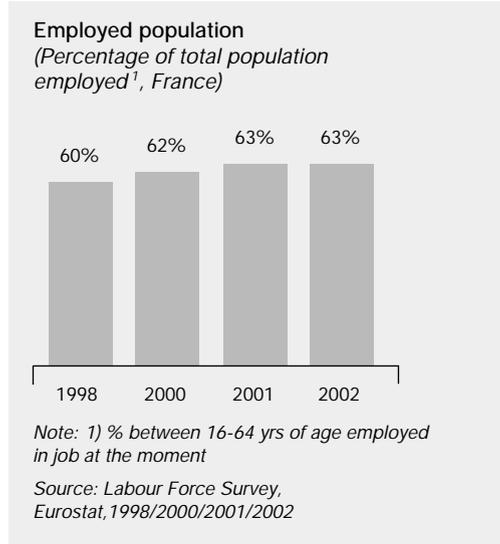


Figure 4.2.15 Employment

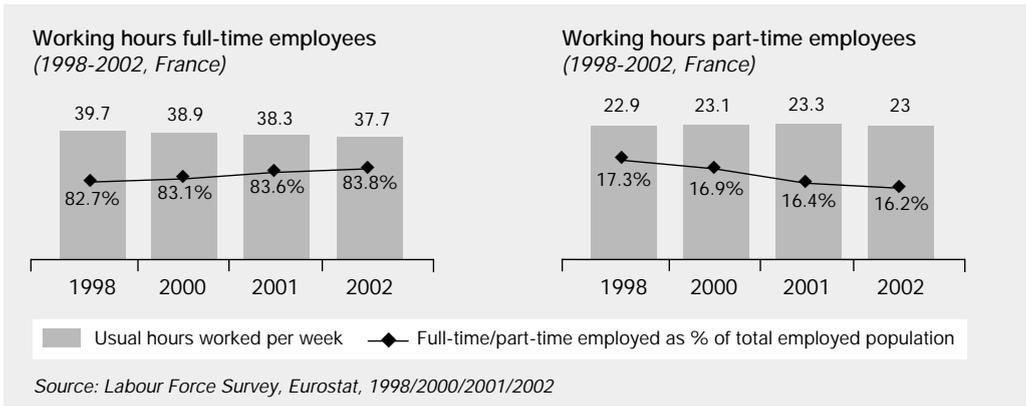


Figure 4.2.16 Average working hours

Vending machines

Vending machines make up just a small part of the French market, but their share is growing. Reasons for success are the trend towards snacking and the longing for convenience. On the other hand, vending machines are not seen as healthy, but this doesn't stop modern French consumers. Vending machines that serve drinks and hot beverages constitute the largest segment. In the food segment, products sold tend to be sweet, rather than savoury. The Paris metro for example recently installed vending machines and has become very successful. Another growth area might be hotel catering, as in this segment 24 hour service is a value add, but at the same time expensive to realise with regard to personnel. Some budget hotels only offer foodservice through vending machines.

Events & Leisure

The number of outlets in leisure locations increases (figure 4.2.13). This is mainly due to the professionalisation of the leisure industry. The number of theme parks with multiple activities is expanding, while cinema chains restructure cinemas into movie theatre complexes outside city centres. These developments mean that leisure facilities are now organised for a 'fully packaged' night out and foodservice facilities are an important source of income.

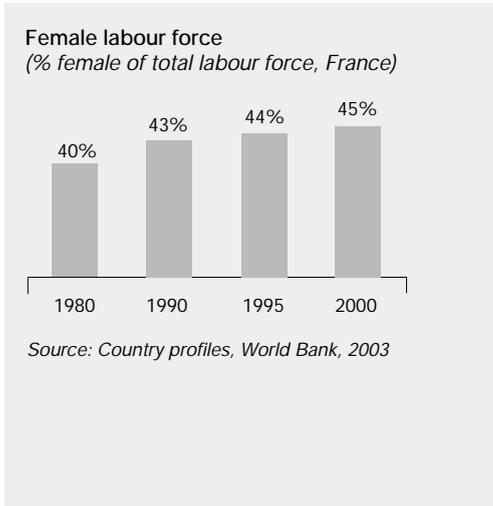


Figure 4.2.17 Female participation workforce

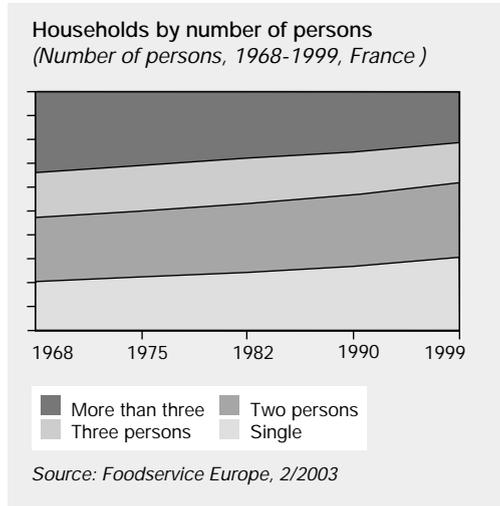


Figure 4.2.18 Household forms



Figure 4.2.19 Female average working hours



Figure 4.2.20 Elderly population

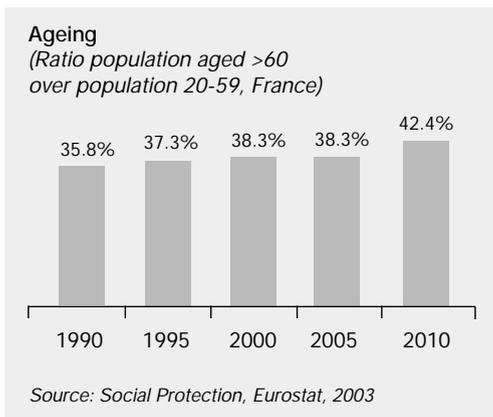


Figure 4.2.21 Teenage population

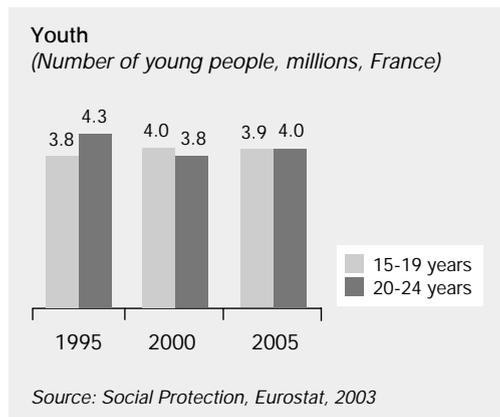


Figure 4.2.21 Teenage population

Drivers behind the market

Drivers behind foodservice suggest further growth in the foodservice market as soon as the economy recovers. All economic drivers behind foodservice showed a strong growth until recently, but are expected to increase further after economic recovery. The trend that more women work full-time and household sizes decrease will continue to promote foodservice. The ageing population in France is expected to drive the growth in the food services market, especially after 2010.

Drivers behind foodservice suggest a sustained growth in the foodservice market when the economy recovers. GDP per head, the number of people in the labour force and the number of people employed, have grown strongly in recent years and are now stable. But they are however expected to grow further towards 2005 (figure 4.2.14 through 4.2.21).

Changing family structures will continue to stimulate foodservice. Female participation increased strongly towards a high level compared to other countries and this is the main driver behind foodservice. According to Eurostat research 21.6% of French women aged 25-54 were inactive and 15.5% of women between 25-54 years old were inactive because of family responsibilities. Between 1999-2000 households with 2 partners in the workforce increased by 4%; these growth rates were the same for households with or without children. The number of single households another important target group for foodservice, increased as well.

The population of 60+ is expected to grow over the coming years, boosting the growth in food services. The population will continue to grow dramatically. By 2012, 20% of the French population will be older than 65 years, up from 16% presently.

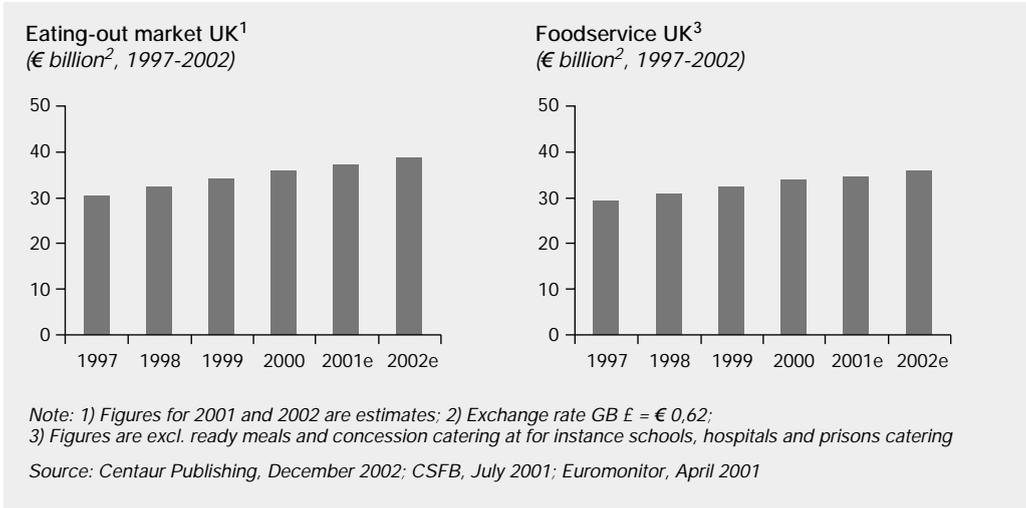


Figure 4.3.1 UK foodservice market

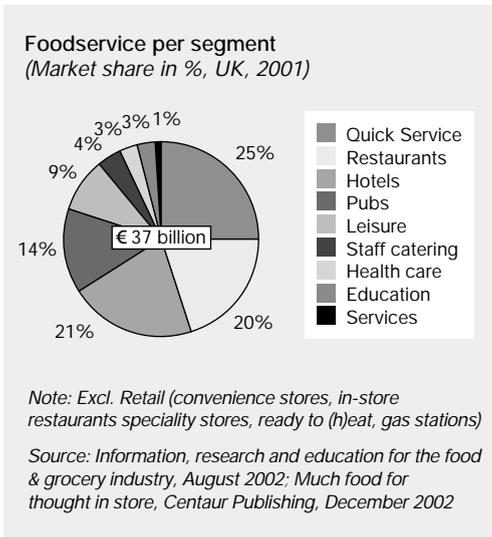


Figure 4.3.2 Foodservice market per segment

4.3 United Kingdom

The UK is a large foodservice market with a strong focus on value for money

The UK is a large foodservice market, especially in fast food, pub food and ready meals. Recently interests have developed slightly towards higher-end FSR. Drivers behind foodservice are ahead of other European countries investigated. Contrary to other countries in Europe, foodservice growth is not expected so much in volume, but rather in a shift to more expensive forms of foodservice, like FSR restaurants and fast casual dining.

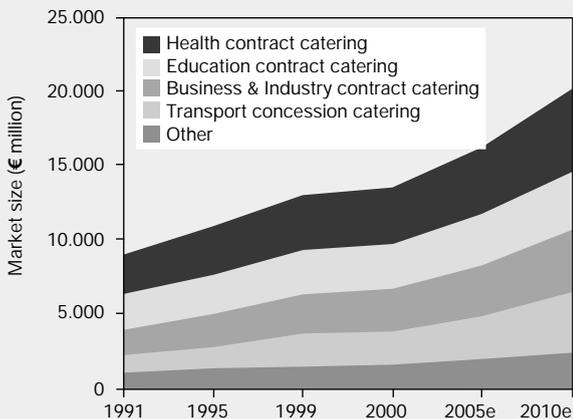
Overall market

The UK foodservice market has risen to around € 37 billion (excluding ready meals and concession catering). According to CSFB UK consumers spend about 32% of every food pound on foodservice, compared to only 19% in 1990. One third of every foodservice pound is spent in chained outlets (2000). Informal eating is more likely to take place in a pub, snack bar or takeaway rather than in a restaurant as consumers traditionally choose for value for money offering. This is expected to change, as healthy, fresh food concepts of premium quality slowly win ground.

Consumers are keen on fast food and pub food, but there is a trend upwards in the market towards cafés and restaurants. The UK is largely regarded as conservative in eating habits, but increased consumer confidence led to high leisure spending and more consumers dined out. The range of restaurants is slowly becoming quite diverse and contains more ethnic outlets, though the restaurant culture is still less pronounced in the UK than in continental Europe. Pubs remain an important part of the market, with an increasing number of pubs placing emphasis on foodservice and offering higher quality dishes to offset declining drink sales.

Health and convenience have gained importance in choice of food, and for many consumers override the price as primary concern. As a result, there has been a notable rise in premium meal options both in retail (supermarkets launch gourmet ready meals) and in eating out (chains such as Prêt a Manger). Trends towards safe and organic food already have a major impact on retail sales and are expected to influence eating out preferences as well.

Catering market UK¹
(UK, € million, 1997-2010²)

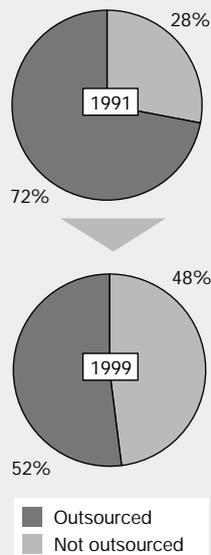


Note: 1) Contract catering involves preparation and serving of meals to private guests (employees, students, patients) of a client, while concession catering is open to the public in general. Revenues are generated through monthly fees by the client and/or payments by guests. The concession catering market mainly involves travel catering in train (station), airport, and motorway service stations; 2) Figures for 2005 and 2010 are estimates

Source: Pan-European foodservice, CSFB, September 2002

Figure 4.3.3 Catering market

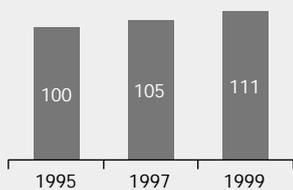
Catering market
(UK, % outsourced)



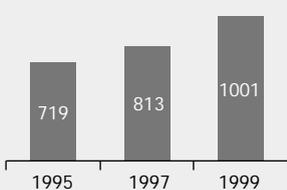
Source: Pan-European foodservice, CSFB, September 2002

Figure 4.3.4 Catering market outsourcing

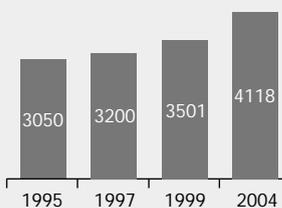
Travel FS transactions¹
(Number of transactions², millions, UK)



Travel FS market¹
(Value, € million³, UK)



Travel FS outlets¹
(Number, € million², UK)



Note: 1) Units based in motorway service stations offering gas facilities, airports, rail stations, coach stations etc, but excluding the captive environment of onboard travel catering; 2) Exchange rate GB £ = € 0.62

Source: UK Market for Consumer foodservice, Euromonitor, 0302

Figure 4.3.5 Travel catering market

Catering

The catering market showed a steady growth in the UK with half the catering market outsourced in 2000. The UK market was estimated at € 13.7 billion in 2000, with approximately 49% outsourced. Contract catering made up 77% of the market (18,000 outlets) and concession catering 23%. The largest part of contract catering is currently health care and although a small portion in this area is outsourced, this is expected to grow strongly with 7% per year over the next 10 years. The contract catering market is highly concentrated with the two leading players (Compass and Sodexo) dominating 72% of the market. The larger players in the concession segment are Compass and SAir Group.

Travel locations cater for a semi-captive audience and thus prices can increase to some extent. With an estimated market size of over € 1 billion, the semi-captive travel foodservice market is larger in size than for instance the in-store retail market. In travel locations the audience is often a semi-captive consumer while fixed costs (rent) to exploit an outlet are often higher, which results in higher prices. Relatively high prices are paid for standard quality snacks or quick meals. In the past few years the number of transactions grew, but more slowly than the value sales indicating higher spending per transaction.

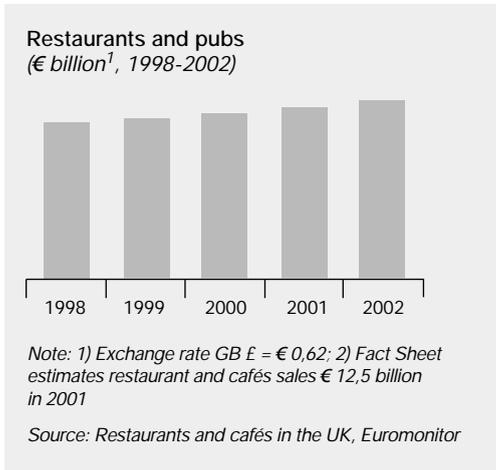


Figure 4.3.6 Foodservice market restaurants and pubs

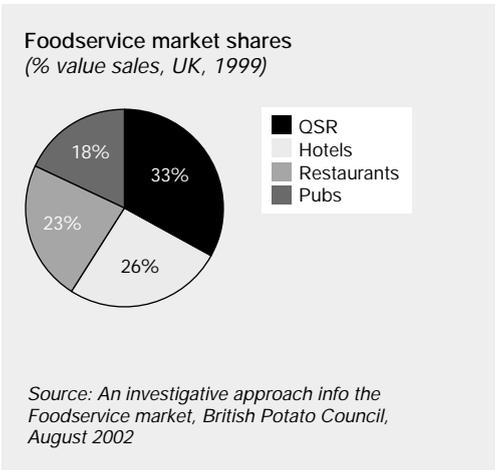


Figure 4.3.7 Foodservice market share per segment

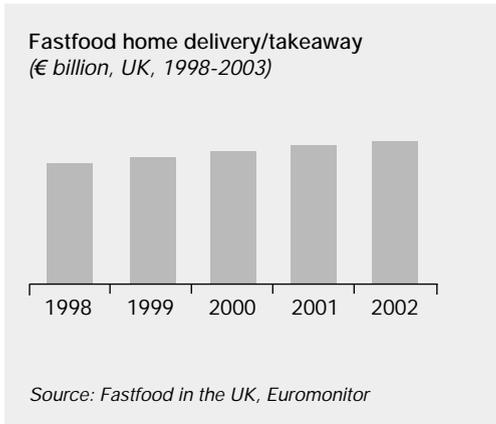


Figure 4.3.8 Fastfood home delivery/takeaway market

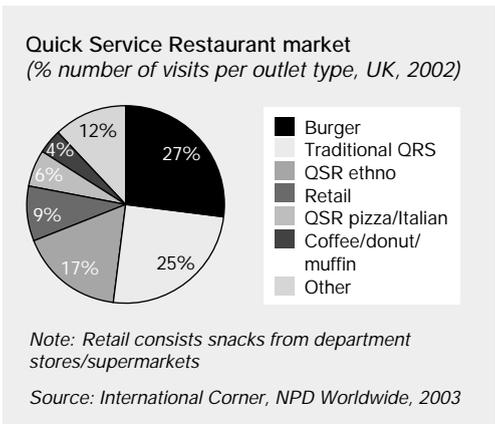


Figure 4.3.9 QSR market share per food category

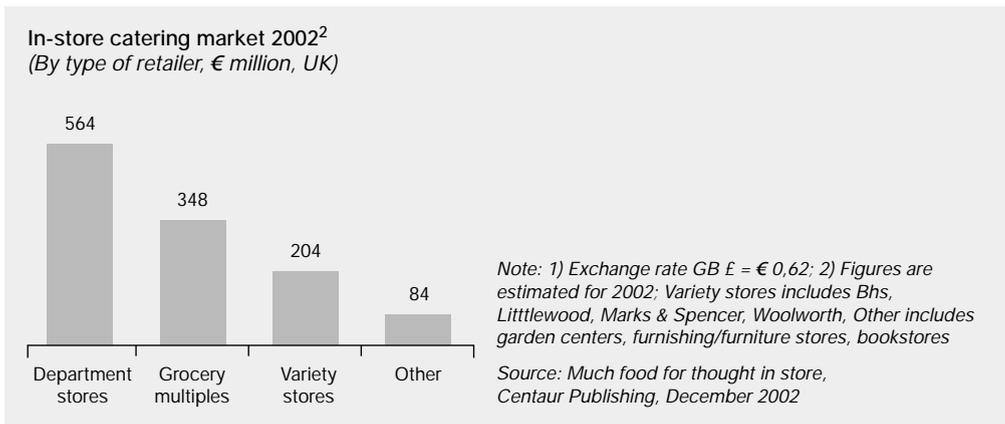


Figure 4.3.10 In-store market

Restaurants

The UK does not have an exceptionally strong eating-out culture except for QSR. The restaurant market is divided in FSR, pubs, hotel restaurants and QSR. QSRs are leading in number of meals served and in value of sales. Pubs are leading in number of sales. FSRs are smaller in number of outlets and meals served, but realise 23% of the value sales of out-of-home food. Hotels are strong as well and represent 26% of the value sales.

The FSR segment is smaller in terms of meals served, but does realise a significant part of the value sales. Restaurants serve around 660 million meals a year but with a high total value sales (23% market share) compared to pubs (18%). Most restaurants offer quickly served full premium quality meals, while the number of à la carte restaurants is small. In the past two decades the main trend was the increase in the number of specialist ethnic restaurants. A new key development amongst consumers is a trend towards more casual eating. There is an increased penetration of branded restaurant chains. Key players include Conran, Pizza Hut, Pizza Express, Café Rouge and City Centre Restaurants.

The QSR segment is the largest segment in terms of number of meals and value sales. Fast food burger restaurants and traditional fish & chips are the major players in the QSR segment. In the UK hamburger restaurants have reached almost the same market share as in the USA. About 6 months after the BSE crises (mad cow disease) in the UK people were eating as much beef as before. QSR contains fish & chips, are traditionally visited on Wednesdays and are a cornerstone of eating habits. Pizza and pasta places play only a minor role in the QSR market. However, with growing acceptance of delivery services and the planned expansion of certain chains, this segment is expected to grow. Overall QSR is still growing, although growth is slower than in other European countries, as there is a shift away from canteen-style environments to more stylish cafés and restaurants.

After Quick Service Restaurants, pubs are the most popular place to consume food outside the home. Pubs continue to be the most dominant FSR format in terms of outlets (55,000 units) and number of meals served (over 1100 million meals in 1999). Adding more food to the menu proved a key part of many pub owners' strategies for increasing profit margins. In general, pub food is moving slightly to more sophisticated offerings. Growth has partly been fuelled by taking business away from the restaurant segment. Pubs are nowadays frequently owned by investment companies who are not so much interested in brand development, but more focussed on cash flow. Against this background, the trend of changing pub formulas towards eating-places is expected to continue.

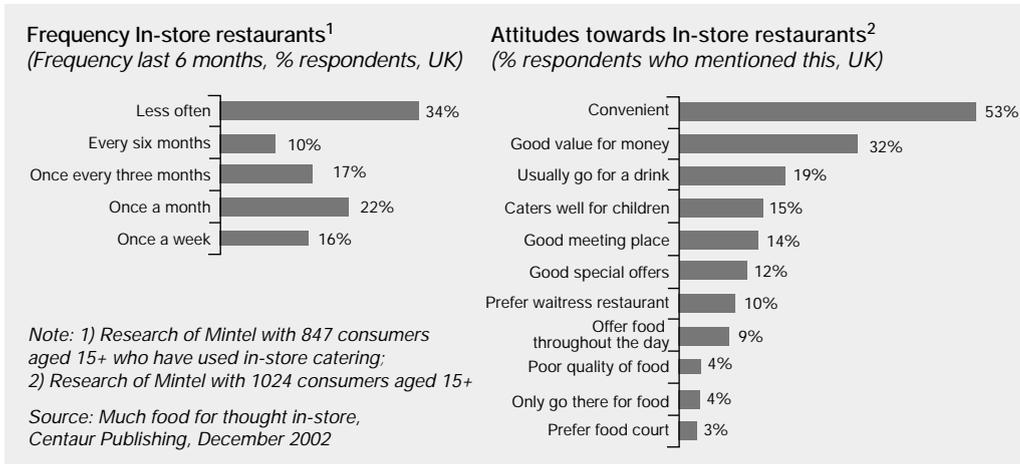


Figure 4.3.11 Attitude and behaviour towards In-store restaurants

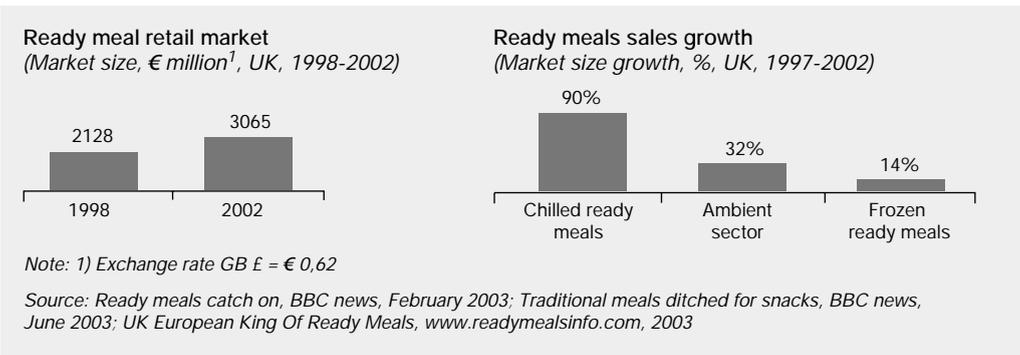


Figure 4.3.12 Ready meals market size and growth

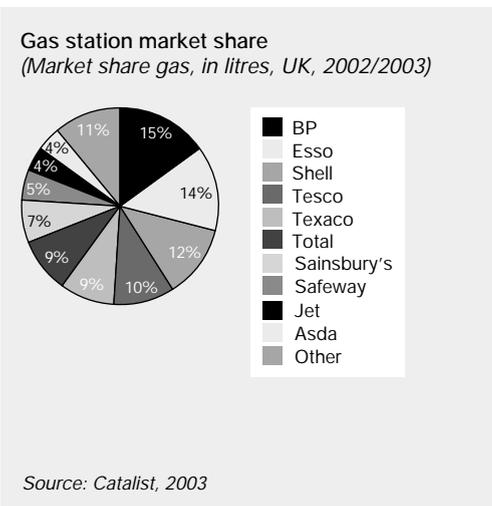


Figure 4.3.13 Gas station market share

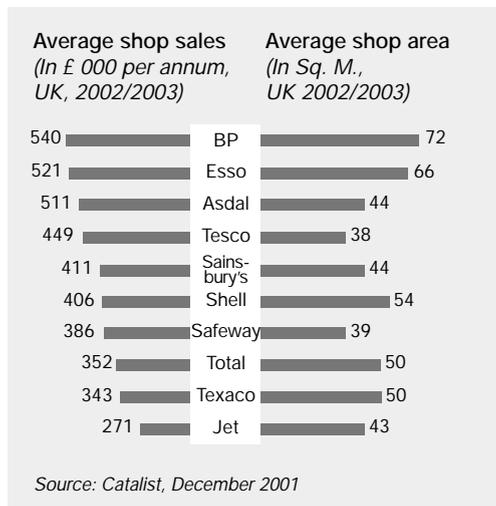


Figure 4.3.14 Gas station shop sales and average shop area

Retail

Compared to other countries, in the UK a relatively large part of foodservice spending goes to retail and especially to ready meals, as convenience in the kitchen is appreciated. Convenience stores at gas stations are another growth area.

Convenience and value for money of in-store foodservice has led to a significant market, but innovation of concepts is needed. Between 1997 and 2001 the UK in-store foodservice market grew 28% to reach € 2.32 billion. 14% of the consumers think that in-store catering outlets are a good meeting place. Department stores have the largest share of sales, despite the fact that they own fewer restaurants. The shop size and premium position make them higher revenue-generating. Catering sales in grocery stores have also grown because of the increasing number of outlets. Main reason for in-store success is convenience and good value for money. However, retailers face strong competition from high street outlets with often better ambience, decor, and food quality.

Consumers in the UK buy more ready meals than any other major European country. Ready meals have become very popular in the UK, which is most clearly illustrated by the penetration rates of microwaves of over 80% of UK households, the highest in the world. The ready-made meal has undergone a change of image, from being deemed as unhealthy, lazy food to being repositioned as a premium, indulgent option. 30% of adults in the UK eat a ready meal more than once a week. The traditional evening meal at the table is often replaced by a tray meal in front of the television. Chilled ready meals are gaining importance today, which supports the slight shift in preferences towards healthy convenience food.

UK retailers increasingly invest in gas station stores and make on average more sales per square meter shop area than oil companies. Petrol forecourts are one of the prime sites for retail growth in the food and drinks sector. Around 90% of forecourts now operate retail outlets that qualify as convenience stores, up from just 77% two years ago. Top 10 gas station players realise € 4.2 million forecourt sales (Catalist, 2003). UK forecourt stores are the second biggest segment of the convenience market after unaffiliated independents. Forecourts take a further 2.5% share of the convenience market in 2002, up to 18.5% in total, according to IGD. Although forecourt convenience stores typically contribute only 14% of overall petrol station sales value, it pulls in 56% of the profit, as fuel margins continue to decline. Petrol retailers could only expect about 2.5 pence gross profit on a litre of petrol; they were turning to forecourt stores, which could yield 23% margins. A store typically contributes only 14% of overall sales value, but pulls in 56% of the profit. According to Datamonitor, sales from forecourt shops will increase by 4.5% a year until 2007, which is more than double the overall growth rate of food and drinks retailing.

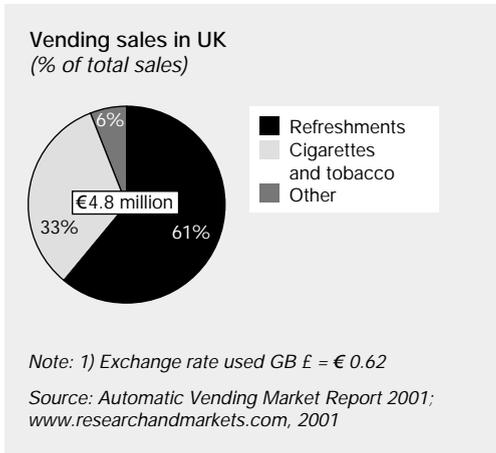


Figure 4.3.15 Vending machines market

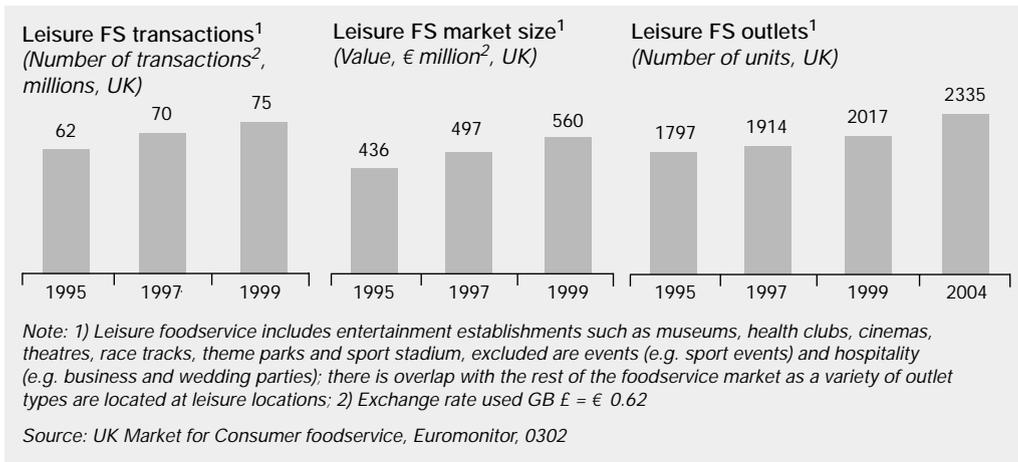


Figure 4.3.16 Leisure market

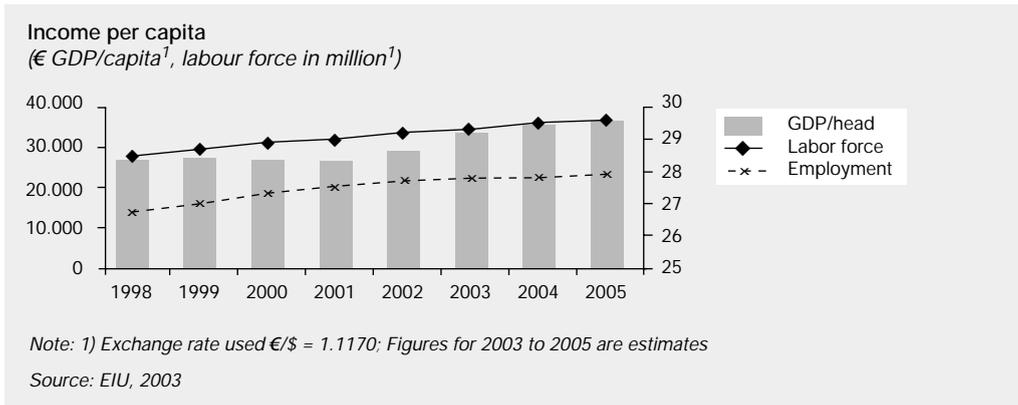


Figure 4.3.17 Income per capita

Vending machines

The trend towards increased snacking and eating on the move has led to more vending machines in non-traditional sites. Sales of vended products grew almost 5% in 2001. Businesses and other organisations have increased their vending systems as they have cut back on staffed catering facilities. The largest product vended is coffee and refreshments, but confectionery and snacks are growing at the fastest rate, along with health drinks, water and juices. Automatic-vending sales will continue to show healthy growth, as more machines and a wider choice of products are available to consumers.

Events & Leisure

Events & Leisure is still an underdeveloped market (with 2200 units, a € 600 million market size) but with lots of opportunities. Overall, this remains an inexperienced market when it comes to foodservice, as the primary role of the segment has been to provide entertainment. In general there are low average throughputs but expectations for future growth are promising as it is a segment with many unexploited opportunities. Growth will be mainly realised through an increase of the value per transaction, since the number of transactions grows, but more slowly than the value spent.

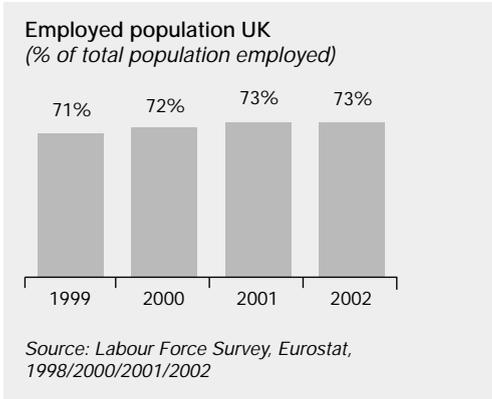


Figure 4.3.18 Employment

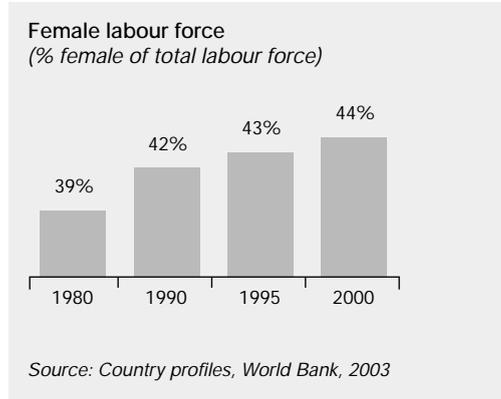


Figure 4.3.20 Female workforce participation

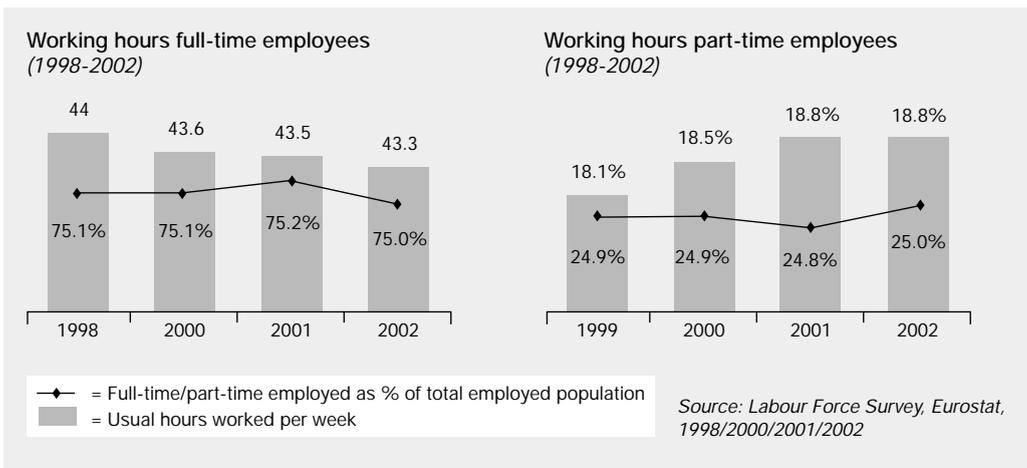


Figure 4.3.19 Average working hours

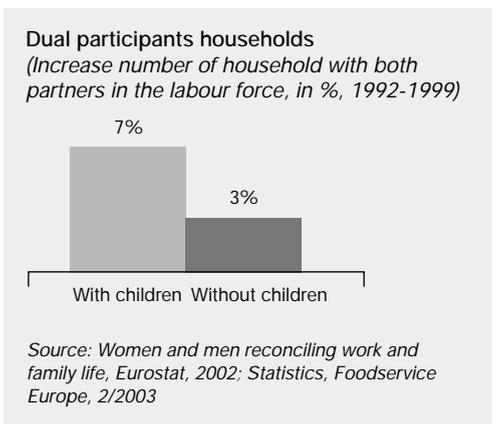


Figure 4.3.21 Household forms

Drivers behind the market

Future foodservice growth is not expected to come from lifestyle changes enhancing the foodservice market volume, but rather from shifts towards more premium quality offerings. Demographic trends are already in favour of foodservice and not expected to increase much further. The average income, length of the working week and percentage of women in the workforce are all high compared to most countries in continental Europe, and are not expected to grow strongly in the next few years.

Buying time for money has been a strong driver behind foodservice, especially in the UK. Increasingly pressured consumer lifestyles and an increase in the number of working women has resulted in a decrease of free time that consumers can devote to preparing meals. The number of working hours of full-time employees is declining, but is still higher than the average in the EU (figure 4.3.19). Working hours of part-time employees are growing, but are lower than the average in the EU, as in Spain and Italy for instance, fulltime jobs are more of a standard. The percentage of the population employed in the UK is much higher than in other European countries. Currently, the average income stagnates, while more people work fewer hours per week. As a result, the buying-time-for-money motive is not growing further in the UK.

Compared to other European countries, more UK women are working and also work more hours a week. 44% of the work force is female and 56% of the female working population works fulltime. According to Eurostat research done in Spring 2001 23.7% of UK women aged 25-54 years old were inactive and 14.1% of women between 25 and 54 years old were inactive because of family responsibilities. It is a fact that single and dual households buy a large part of the foodservice market. In the UK the average household size is getting smaller (today 2.4 people per household), as 31% of households consist only of one person and 33% have two members. All this draws a picture that is difficult to combine with a traditional, home-cooked family meal.

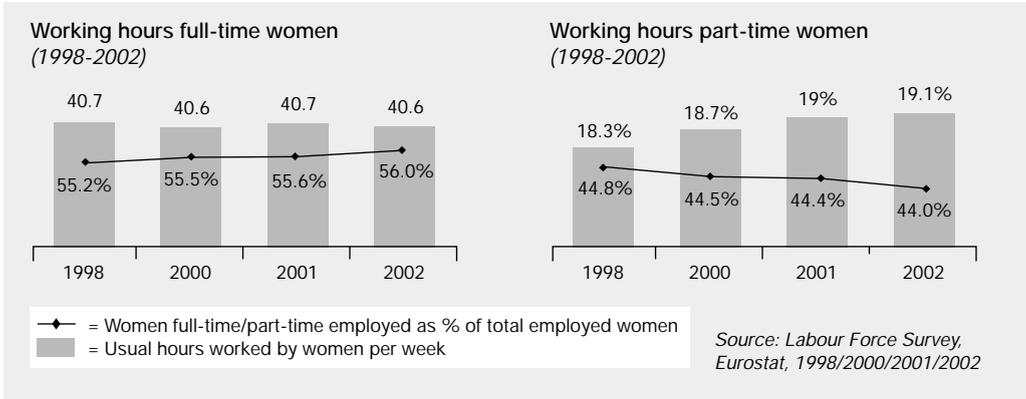


Figure 4.3.22 Average working hours women

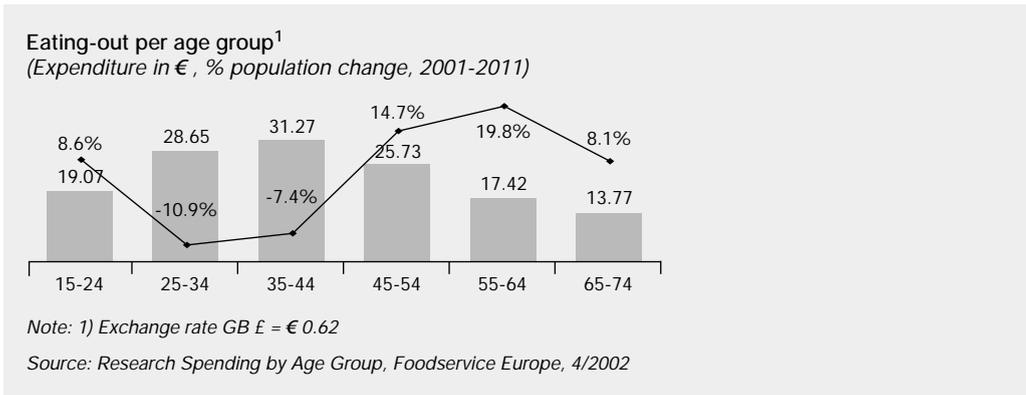


Figure 4.3.23 Eating-out per generation

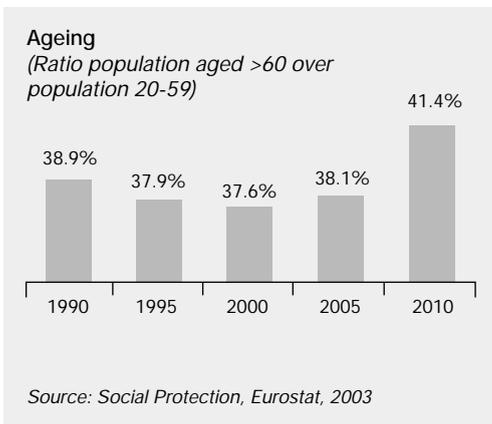


Figure 4.3.24 Elderly population

The two demographic groups in the UK that spend mostly on eating out will decline in size in the following years. The Generation X and Baby boomers population, who spend most on eating out, will decline in size in the coming years. At the same time the elderly population is currently decreasing, but in 2010 the ageing ratio will again have grown to 41% (though other countries investigated show more alarming figures). The population of teenagers (traditionally QSR consumers) is also increasing in the years to come.

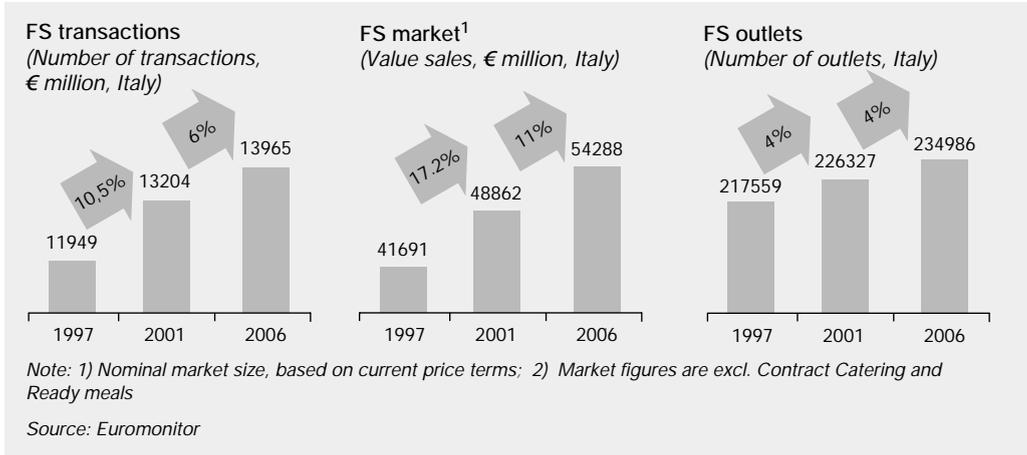


Figure 4.4.1 Italian foodservice market

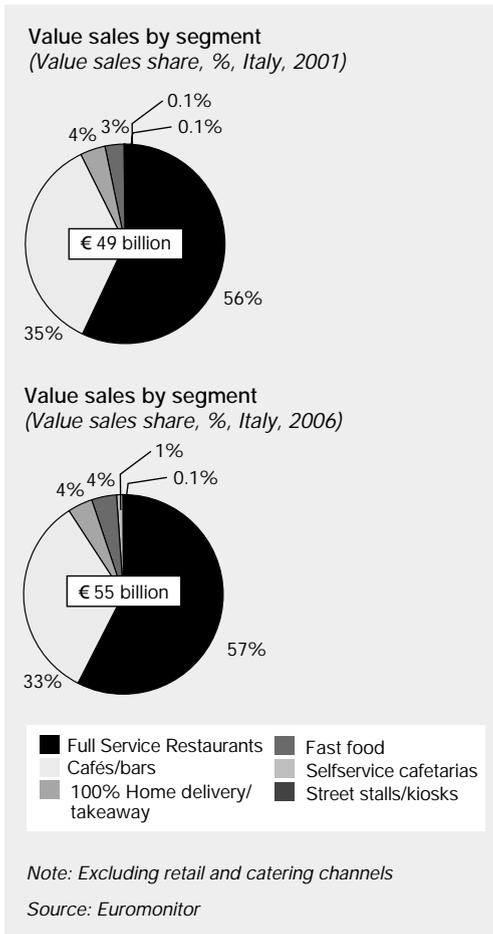


Figure 4.4.2 Market share per segment 2001/2006

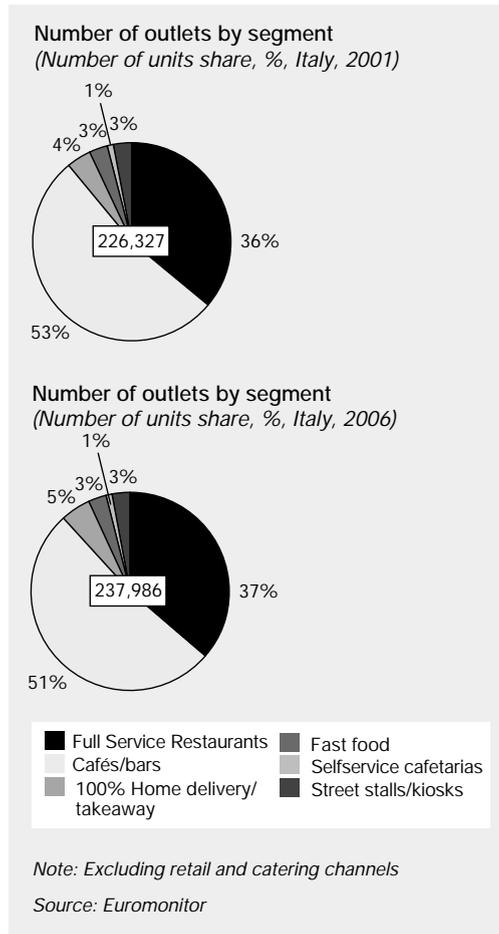


Figure 4.4.3 Number of outlets by segment 2001/2006

4.4 Italy

The Italian foodservice market will keep a prominent position in Europe due to its strong eating out culture

The Italian foodservice market has a strong eating out culture combined with traditional home cooked meals consumption patterns. The fact that the main drivers behind foodservice growth are higher than the European average, partly explains Italy's prominent position.

Overall market

The Italian foodservice market is estimated at € 50 billion (excluding catering and retail) realised through 23,000 outlets (figure 4.4.1). The average sales per outlet and the spending per transaction showed a rise between 1997-2001. Overall there is a positive trend in terms of number of units, value of sales and number of transactions. The value sales and number of transactions show a higher growth than the number of outlets between 1997-2001. The increasing tendency to spend less time at home and more on work, leisure or travelling, stimulated the demand in all sectors until 2001. From 2001 onwards the foodservice market stagnates.

First of all, it's important to notice that there is not only one Italian cuisine. Culinary preferences differ per region and consumers are very demanding with regard to what they eat. Foreign companies need to acquire specific knowledge of local customs to be successful in this market.

In general, Italians prefer Full Service Restaurants and cafés & bars. The low average transaction price of FSRs of € 15,2 explains the prominent position of FSR in terms of overall sales, while it accounted for 8% of the transactions. The most important sector in number of outlets in 2001 was cafés & bars, which took a 53.5% share, reaching 121,300 active outlets. The sales volume shifted a little between 1997-2001 from traditional restaurants (stand-alone restaurants and hotels) to outlets at travel, leisure and retail locations. This indicates that 'eating on the move' becomes more important. In 2001 98% of the Italian foodservice units were independent (instead of part of a chain), covering 95% of the total foodservice value sales. But the chained sector played a fundamental role in foodservice growth since 1997, with Autogrill as its leading player.

Italian consumers will continue to visit Full Service Restaurants for dinner, but consume more low-cost snacks during the day. Traditionally, restaurants play an important role in the Italian market and eating habits are strongly weighted in favour of the FSR Italian cuisine and home-cooked dinner. Changes in lifestyle and the labour market (busier lives) affect eating habits since Italians spend more time out of home for reasons of work, leisure or travel.

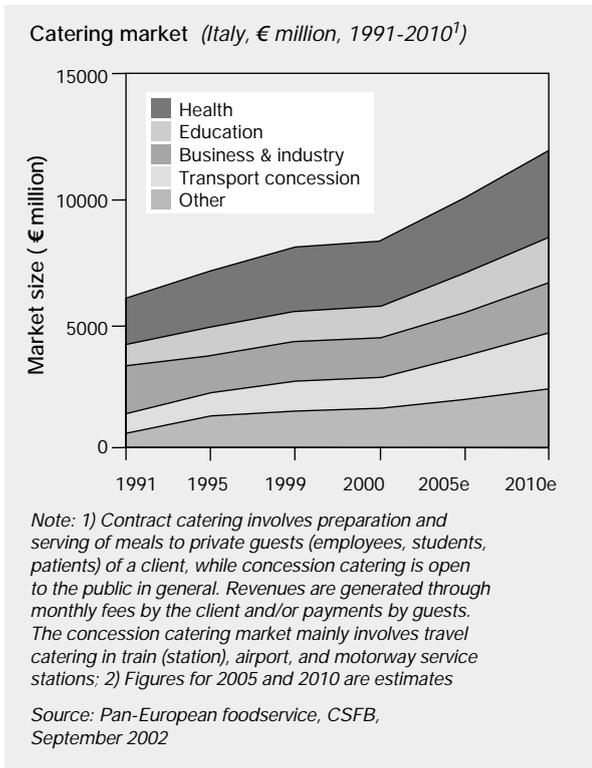


Figure 4.4.4 Catering market

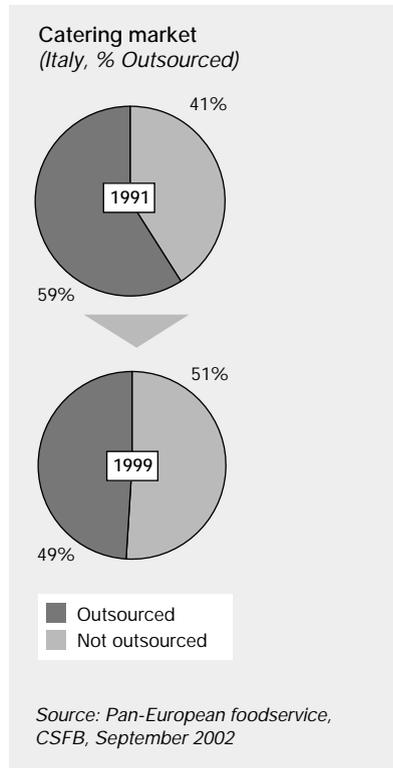


Figure 4.4.5 Catering market Outsourcing

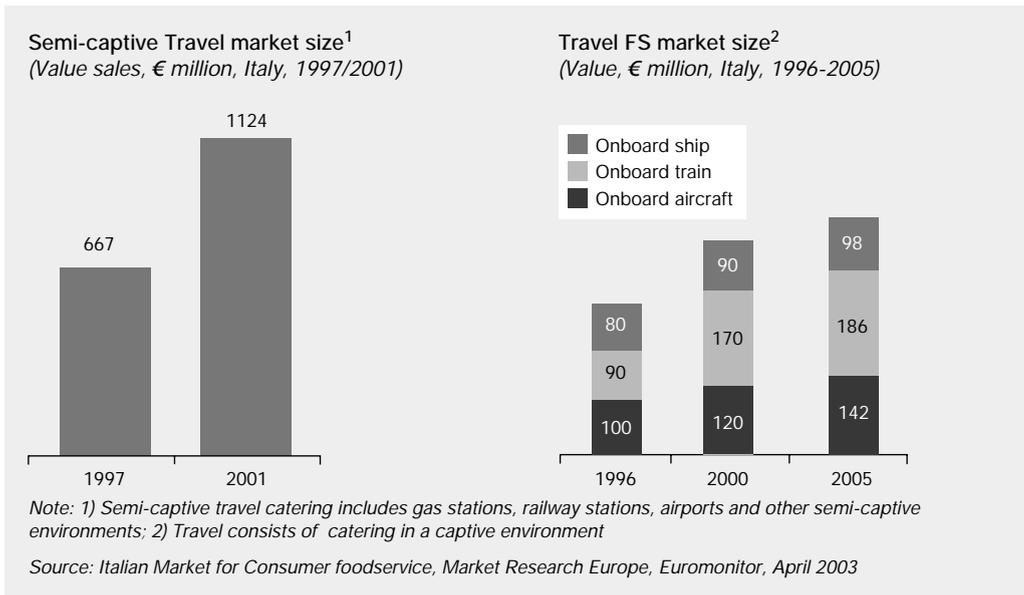


Figure 4.4.6 Travel catering market

Consumption becomes rushed and less regular in terms of following a set routine. There is a rise in demand for inexpensive and promptly served food. Consumers are increasingly migrating towards low-cost snack food, especially for lunch. Much of the snacking demand is met by Italian-style food, such as pizza. Consumers continue to visit Full Service Restaurant units for more relaxed meals, with socialising playing an important role. Ethnic food is particularly popular in the FSR segment.

Catering

In the catering market contracting out is increasingly popular and this trend is expected to continue. The catering market was estimated € 8.3 billion in 2000, with approximately 52% outsourced. Contract catering made up 77% of the market, while concession catering was worth 23% (or € 1.9 billion). Health care has shown strong growth within the outsourced part of the market (16.4% since 1991). The outsourcing market is expected to grow with 16.4% per annum in the next ten years, towards 60% of the catering market. National security will be the biggest growth area in the next ten years. The market is fragmented, with largest players Autogrill (12%), and Sodexo (7%). But most catering outlets are just not branded.

Contract catering is currently affected by the general decline in employment in large businesses and by the fact that companies are trying to cut costs. An alternative for companies is to provide employees meal vouchers to enjoy lunch outdoors in a nearby establishment of their choice. Of course, this is only an option in situations where foodservice outlets are available nearby the working place.

Travel catering in semi-captive environments (gas stations, train stations, airports) is worth around € 2 billion in 2001. The captive environment (onboard airplane, ship, train) currently accounts for 58 billion passengers and 62 billion transactions (in 2000) and realises revenues of € 380 million. The captive part of the market is 100% contracted out. This means that the only growth opportunity lies in an increase in the number of passengers. Expectations are that the number of passengers will grow (especially the younger generation more often travels by plane, and cruise ships are popular again), but more slowly than in the last decade.

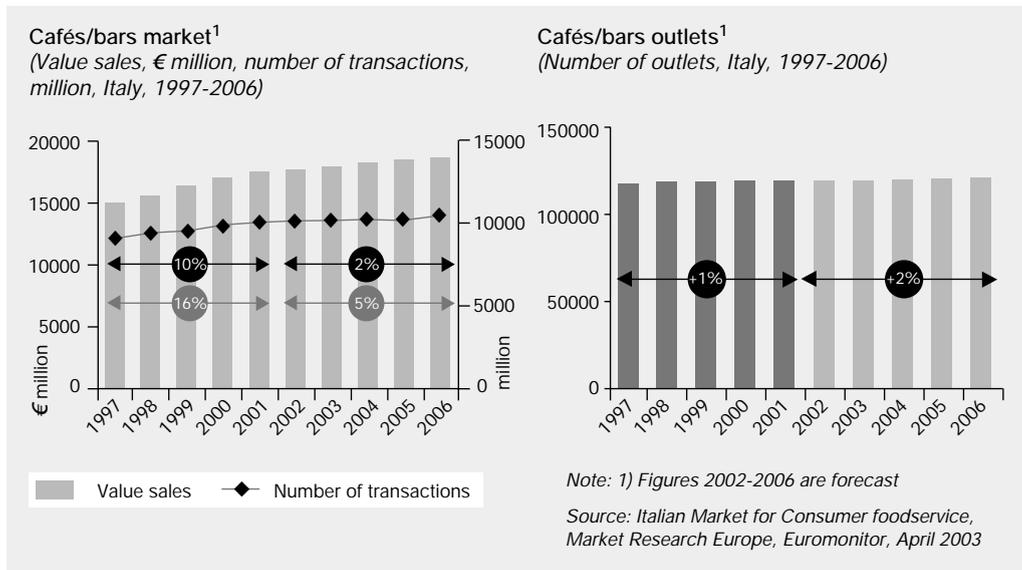


Figure 4.4.7 Cafés & bars market size

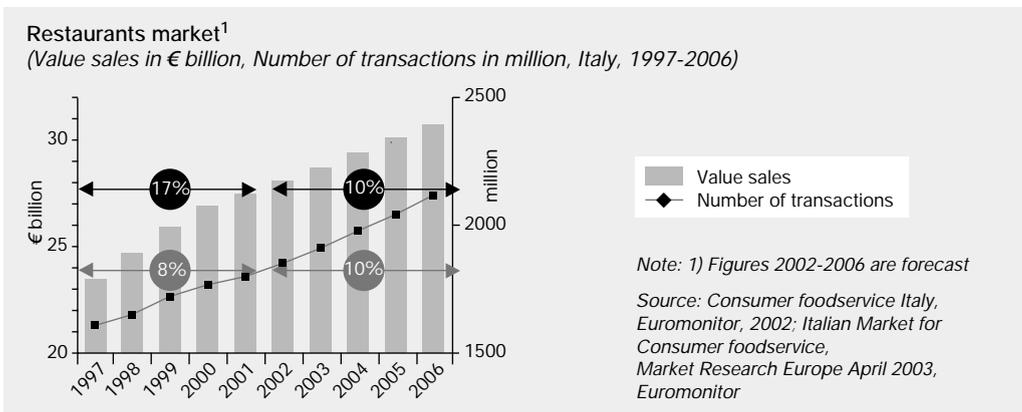


Figure 4.4.8 Full Service Restaurants market size

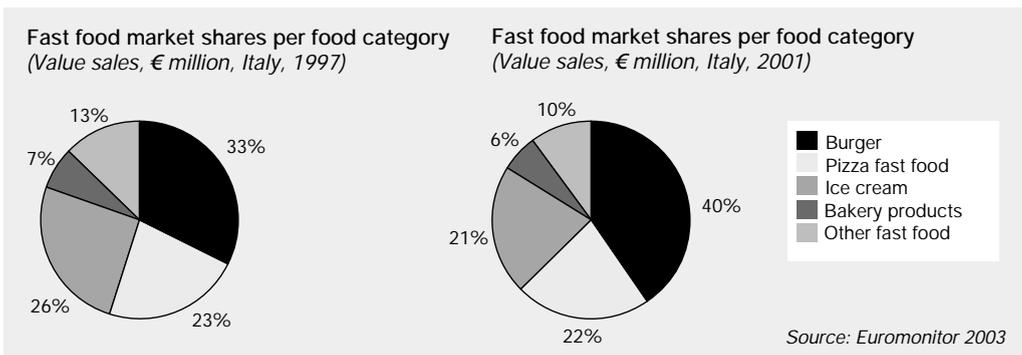


Figure 4.4.9 Market shares fast food per category

Restaurants

Italians have meals outside the home throughout the day, from breakfast to dinner. The total out-of-home eating market in a non-captive environment (catering) is estimated at € 50 billion. Cafés are the largest segment in terms of number of units, while full service restaurants are largest in terms of value sales (figure 4.4.2 and 4.4.3).

In Italy, there are 138,000 bars, about one for every 400 inhabitants. Italians visit a café/bar up to several times a day, for a coffee, a small snack or a quick meal. Coffee makes up 31% of the average turnover, while non alcoholic beverages (25%), alcoholic beverages (15%), and food (12% on average, climbing to 25% in bars in the city) account for less. The nowadays hip coffee bars have their roots in Italy.

Full Service Restaurants have the highest market share. 56% of the market (in value terms) is FSR and the number of FSRs is growing quickly, with almost 7,000 new units opened between 1997-2001. Italians prefer high quality food for eating out in the evenings and consider a fine meal an ideal leisure activity with family and friends. Because of this, the rise in demand for inexpensive and promptly served food will not affect the FSR sector so much. Between 1997-2002 FSR value sales have grown stronger than the number of transactions, which means that spending per transaction has increased. For the next few years, spending per transaction is expected to stay stable and the market growth will be more moderate (figure 4.4.8). Hotel locations showed the worst results in terms of value sales (9.5% of total foodservice value sales in 2001). This performance was linked to the increased curiosity of many tourists, who like to discover the wide range of unknown tastes that Italian consumer foodservice can offer. This made tourists more independent from the hotel structure and less inclined to purchase meals on the hotel premises.

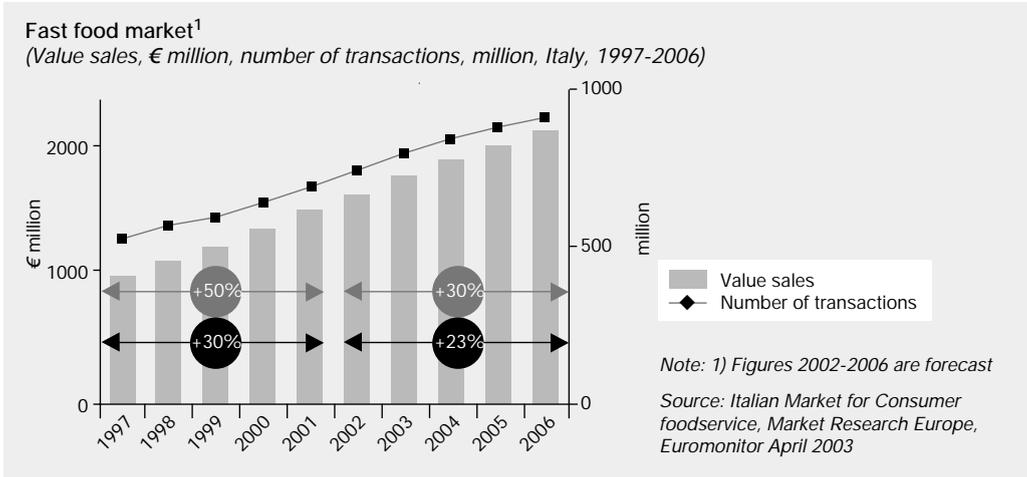


Figure 4.4.10 Fast food market

Fast food consumption is small compared to other countries, but growing strong in number of transactions, market size and number of units (figure 4.4.10). According to Euromonitor, in 2001 a € 1,514 million market size was recorded, which is € 500 million more than in 1997. The growth in value sales was and is lower than in transactions, which might indicate a price decrease or a shift to cheaper fast food. Compared to other segments the growth in number of units is strong, largely due to the establishment of many new outlets of chains like McDonald's, Spizzico and Burger King⁶. Italy favours ice cream parlours and pizza above burgers and this might explain the relatively low presence of fast food chains (figure 4.4.9). Only 15% of the outlets are part of a chain, but the outlets that do, are often better positioned and all together realise around half the revenues of fast food in Italy.

⁶ Burger King was favorite to receive highly frequented locations from existing Autogrill concessions.

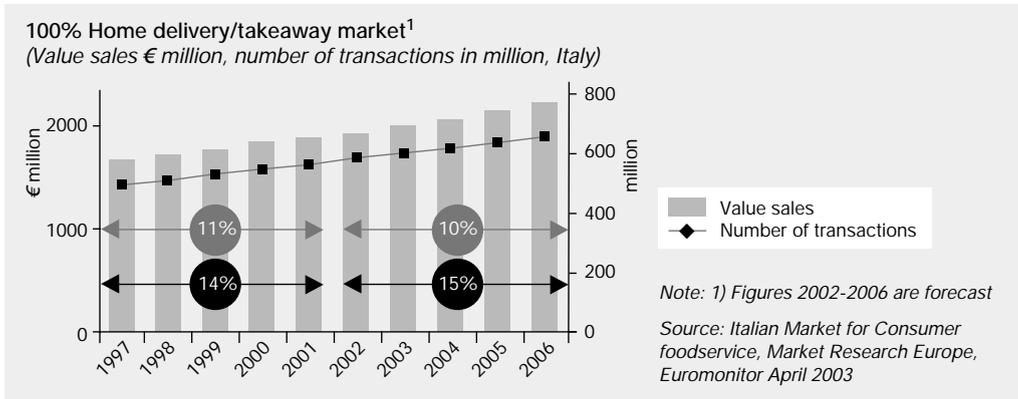


Figure 4.4.11 Home delivery market

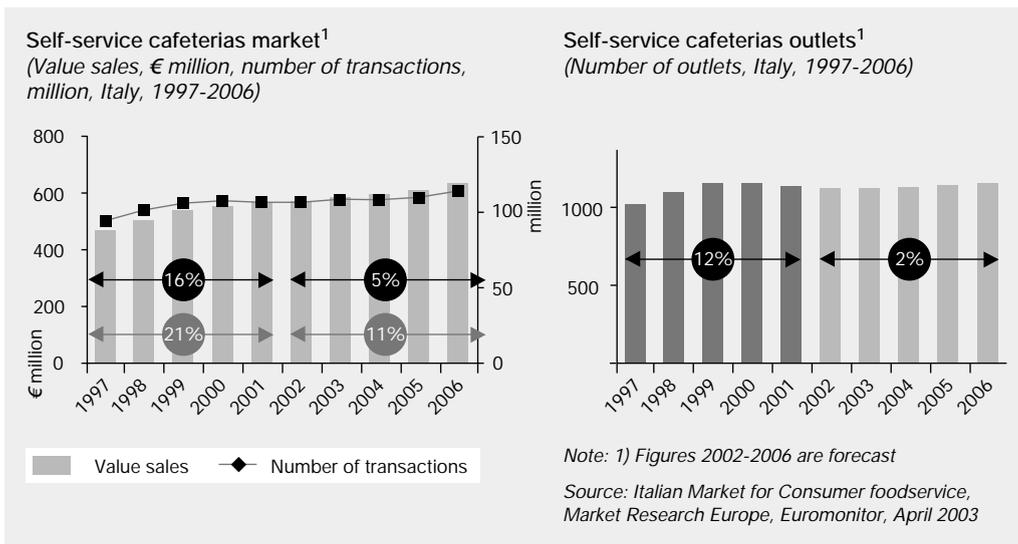


Figure 4.4.12 Self service cafeterias market and outlets

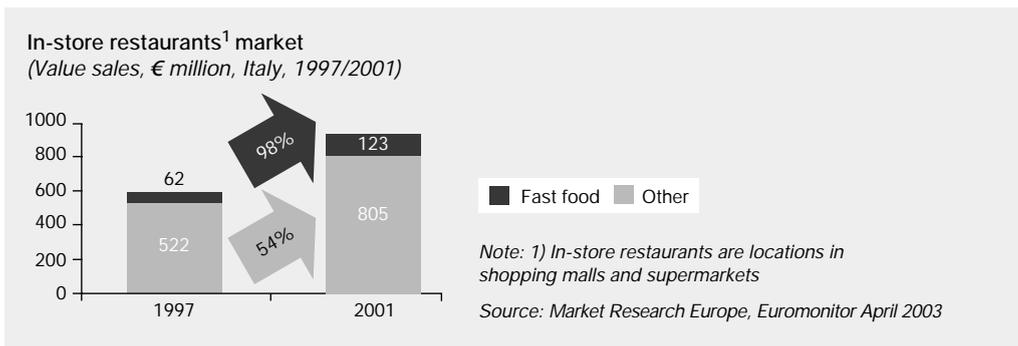


Figure 4.4.13 In-store market

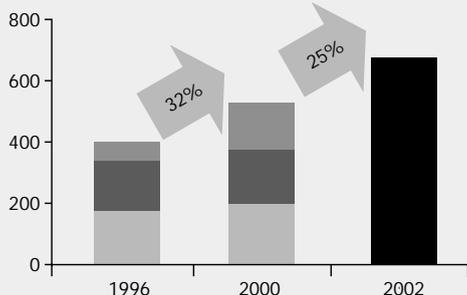
Retail

The retail part of the foodservice market is less developed in Italy, especially compared to the out-of-home segments.

The in-store market is worth around € 928 million and mostly run by retail operators themselves. This segment has shown strong growth, especially in the still small fast food segment (figure 4.4.13). Retail centres are expanding rapidly in southern Italy, which has long been lagging behind in this area. Large distribution companies have a leading role in this expansion and often arrange catering themselves instead of outsourcing. This limits opportunities for foodservice companies. Throughout Italy, many trade centres and supermarkets developed own formulas, for example Flunch, Brek, and Ristó. Only 20% of the outlets are contracted (2000), but the number is growing strongly as in 1996 only 10% of the units were contracted. This is expected to continue, as branding is essential to realise growth in foodservice.

The Italian ready meals market is in its infancy and the expected success is still questionable. The ready meal market is relatively small compared to the rest of Europe and where in other countries frozen and chilled meals caused a turnaround for ready meals, in Italy the demand for frozen and chilled meals stays behind and only shows small growth (figure 4.4.14). There are four main reasons for this lack of success, namely high pricing, mediocre quality, low penetration rate of microwaves (27%) and the still traditional family evening meal culture. Main growth segments in ready meals are the chilled segment and the cuisine, in particular Tex Mex style. Future success depends heavily on development of truly premium quality products.

Ready meals market
(Value sales, € million, Italy 1996/2000/2002)



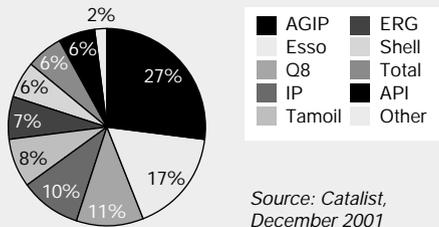
Growth 1996-2000	Value	Weight (tonnes)
Chilled	+133%	+76%
Frozen	+16%	+43%
Ambient	+8%	+17%
Total	+32%	+26%



Source: Leatherhead Food RA, A comprehensive study of the European ready meals market

Figure 4.4.14 Ready meals market

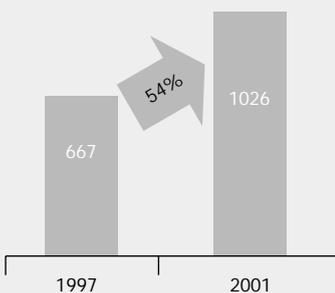
Gas station market share
(Market share, litres gas, %, Italy, 2002/2003)



Source: Catalist, December 2001

Figure 4.4.15 Gas market share

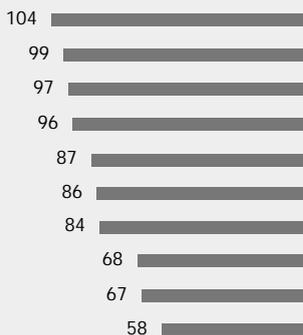
Leisure market
(Value sales, € million, Italy, 1997/2001)



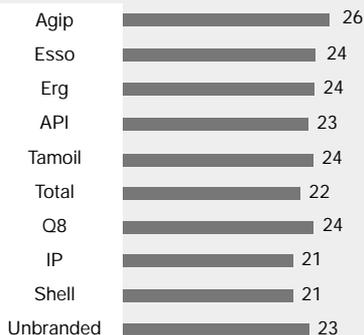
Source: Market Research Europe, Euromonitor, April 2003,

Figure 4.4.17 Leisure market

Average shop sales
(In € per annum, Italy, 2002/2003)



Average shop area
(In Sq. M., Italy 2002/2003)



Source: Catalist, 2003

Figure 4.4.16 Gas station shop sales

In Italy we find a significant relation between gas station average shop sales and gas market share (figure 4.4.15 and 4.4.16). Top 10 gas station players together realise € 0.85 million forecourt shop sales (Catalist). The larger petrol station players all realise a higher average shop sales. Between 1999-2000 most petrol station operators started to contract out foodservice, which is expected to continue.

Vending machines

Vending machines is not yet a well-developed market in Italy. Vending machines are mainly situated at the working place and at schools, while machines in other public places are not that common. Most companies have coffee machines available for employees, while soft drinks are often sold at schools.

Events & Leisure

Leisure locations continue to grow in Italy as tourism is seen as an important growth industry in Italy. Around 55% of the leisure locations outsource foodservice. In general, the larger leisure locations (like leisure parks) do not outsource foodservice, while smaller establishments do. These smaller locations often don't have a FSR or fast food chain, but most often just a small kiosk, café or pizzeria outsourced to a family-owned foodservice operator. The number of outlets will grow only modestly in the next few years (figure 4.4.17), though some larger players might decide to outsource to strong brand names in foodservice. Event catering (banqueting) is typically part of the Italian culture and hiring a company to provide foodservice at (private) parties like weddings, company meetings, family reunions and sport events, is widespread. Main players in this area are Party, Cir's division Gargantua, La Cascina's Doney Ricevimenti and Gemeaz Cusin.

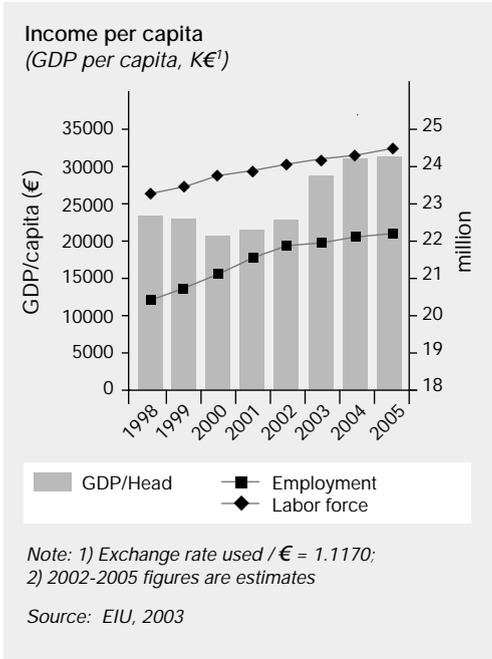


Figure 4.4.18 Income per capita

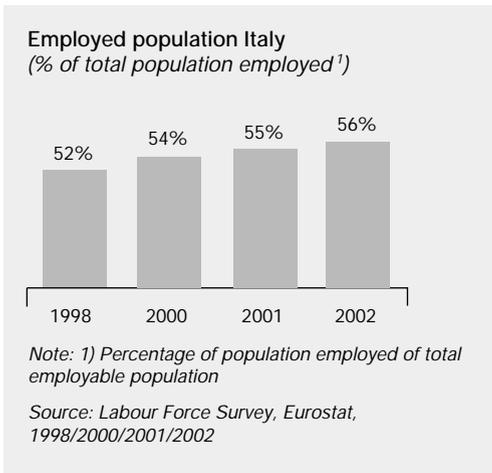


Figure 4.4.19 Employment

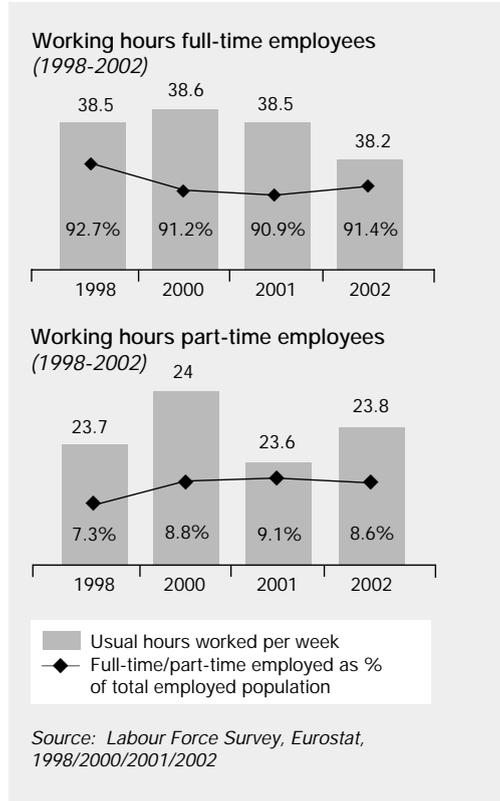


Figure 4.4.20 Average working hours

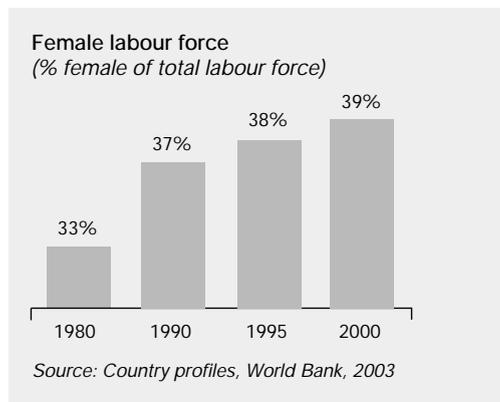


Figure 4.4.21 Female workforce participation

Drivers behind the market

Main drivers behind foodservice growth partly explain the large Italian foodservice market. Another factor is of course the traditional strong eating-out culture. Of the employed population 91% works full-time, which is higher than the European average. At-home eating habits are quite traditional, which might have to do with the low participation of women in the workforce. The percentage of elderly is already higher than the European average and will increase strongly in the next few years.

Macro-economic drivers in Italy are in favour of foodservice. A full-time job is a sort of a standard in Italy. 91% of the employed population works full-time (a much higher percentage than the European average) and employment still increases (figure 4.4.19 and 4.4.20). For those who go to work, it's common to enjoy breakfast or lunch at a foodservice outlet, alone or with colleagues. Italians enjoy coffee, small snacks and quick meals throughout the day while they are away from home and this habit is an important driver behind foodservice as most Italians work further away from home.

Household forms are traditional and so are at home food consumption patterns. Participation of women in the workforce grows strongly but is still low, which explains the smaller at-home market (figure 4.4.21). The increase of the number of women in the workforce is one of the most dominant and persistent trends in the Italian labour market in the last decades, but compared to other countries the percentage of females in the workforce is still rather low and the traditional family is more common than elsewhere in Europe. According to Eurostat research of Spring 2001, 40.6% of Italian women aged 25-54 years old were inactive and 30.6% of women between 25 and 54 years old were inactive because of family responsibilities. In Italy there are fewer single (23.3%) and two member households (26.1%) than elsewhere in Europe, which explains the small demand for foodservice in home delivery, ready meals and partly prepared food for at-home cooking (figure 4.4.22). But since the female participation has grown strongly in the past twenty years, the potential for (at-home) foodservice is there.

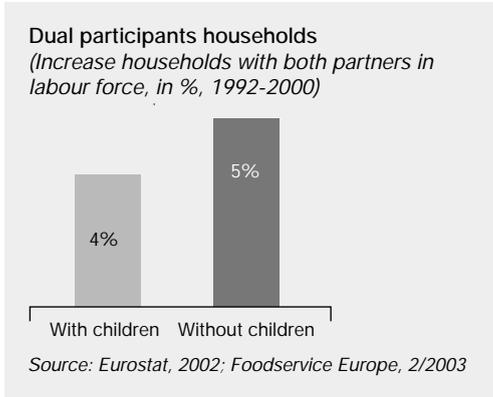


Figure 4.4.22 Household forms

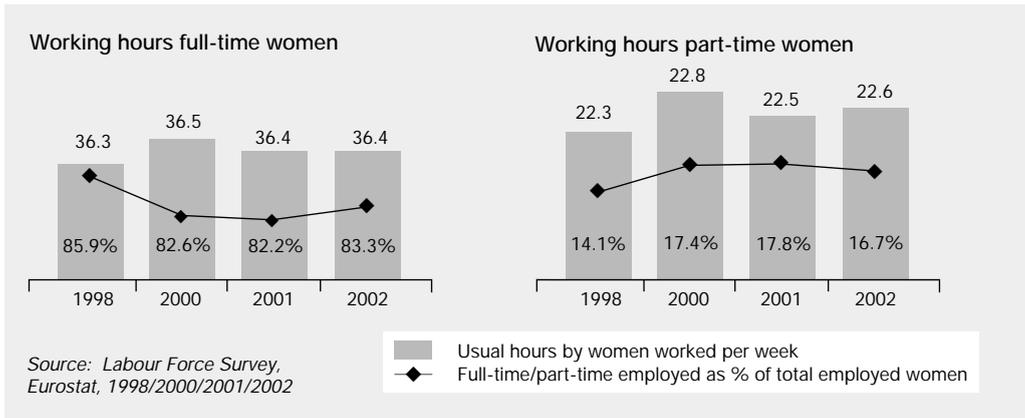


Figure 4.4.23 Female average working hours

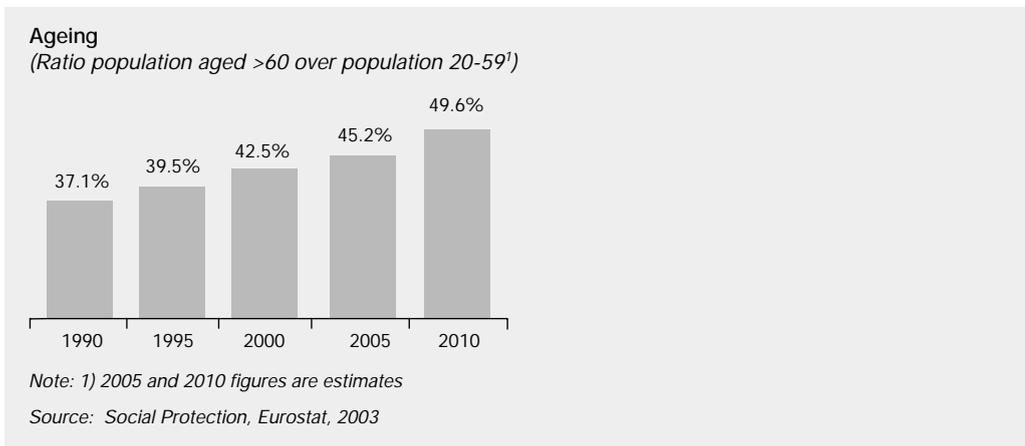


Figure 4.4.24 Elderly population

The percentage of elderly is already higher than the European average and will increase significantly. The percentage of seniors in Italy is much higher than the European average (40%) and the difference will become even more striking towards 2010 (figure 4.4.24), when half the Italian population older than 20 years are actually above 59 years old (European average is 44%). This ageing population is a serious problem in Italy.

But the rising average age of citizens provides opportunities for foodservice operators who focus on seniors as customers. It offers even more opportunities when the issue of the ageing population is partly solved by an increase in female participation in the workforce.

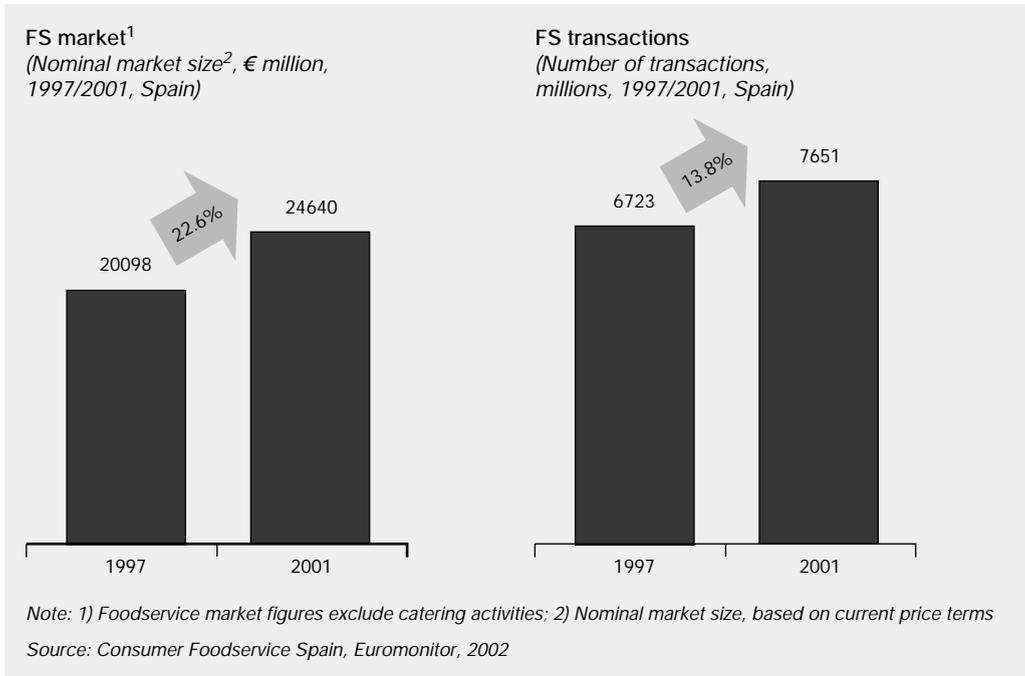


Figure 4.5.1 Foodservice market

4.5 Spain

Spain has a strong and traditional eating culture, but drivers of foodservice lag behind other European countries

In Spain foodservice is an emerging business. Spain has quite a traditional eating culture and foodservice is still less developed than in the other countries investigated. Not surprisingly, drivers behind foodservice - like female participation in the workforce, the employment rate and the size of the elderly population - lag behind other main European markets. In short, there are sufficient growth expectations to make Spain an interesting market, as the Spaniards do have a strong tradition of eating out.

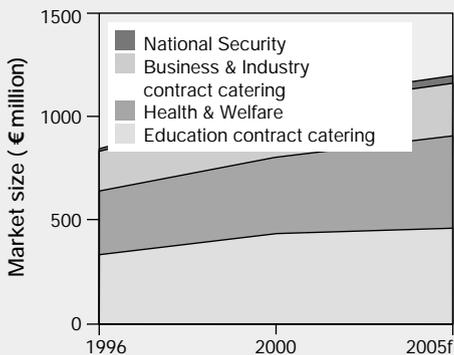
Overall market

With a foodservice market size of € 26 billion (excluding retail sales for at-home consumption), Spain is a relatively small market and smaller than Germany, France, the UK or Italy. Market growth is quite strong though. Between 1997-2001 the economy experienced a steady growth, which had a positive effect on foodservice (23% growth). For the period 2001-2006 a 14% growth is expected, while the number of outlets might grow with 5% over that same period.

Spaniards prefer a traditional meal at home and often cook from scratch in a family setting. On the other hand, there's a strong eating out culture in the table served segment. Eating out traditionally centres around FSR and cafés & bars. Cafés and bars are popular throughout the day for socialising and eating tapas. Having breakfast or lunch together with colleagues at a QSR outlet is quite common. The social occasion of dining out, both with families and friends, ensures its enduring popularity as a leisure activity, aided by the wide availability of low-priced options.

As in other countries, the need for quick and convenient food increases. And while Spain, like Italy, resisted the incursion of the fast food culture thanks to its strong and ingrained food traditions, the demand for QSR results in local fast food popularity, for instance in 'bocadillerias chains' with bakery products (or tapas, wine and salads). The tendency to stick to traditional Spanish food is enhanced by tourism, as tourists often prefer Spanish dishes.

Catering market¹
(Market size, € million², Spain, 1996-2005)

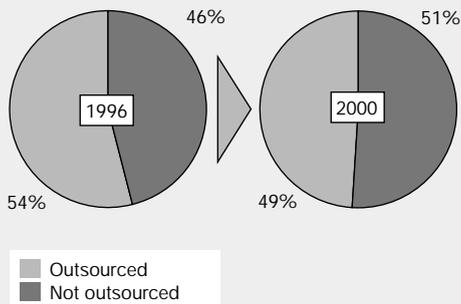


Note: 1) Contract catering involves preparation/serving of meals to private guests (employees, students, patients) of a client. Revenues are generated through monthly fees by the client and/or payments by guests. Contract foodservice is part of the wider on-site (captive) foodservice market that incl. in-house foodservice operations; 2) Exchange rate 1€ = 166,39Ptas

Source: Euromonitor, 0302

Figure 4.5.2 Catering market

Catering market
(% contracted¹, Spain)

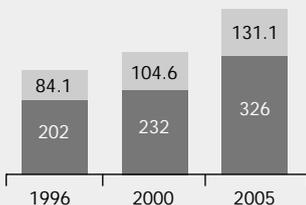


Note: 1) % outsourced excludes national security, since only 2000 data is available

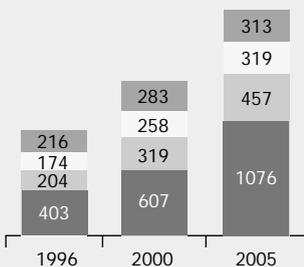
Source: Euromonitor, 0302

Figure 4.5.3 Catering market outsourcing

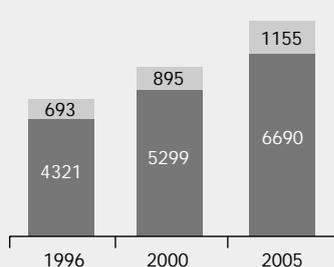
Travel FS transactions¹
(Number transactions, millions, Spain)



Travel FS market size¹
(Value, € million², Spain)



Travel FS outlets¹
(Number of units², Spain)



Note: 1) Travel foodservice contains an area in which the environment is a captive environment with no competition (such as within a train, aircraft, bus or ship) as opposed to a semi-captive environment often at train stations, airports, harbours etc.; 2) Units are either outlets or number of departures, in this study only the number of departures of airplanes were counted; and trains/ships were left out; 3) Exchange rate 1€ = 166,39Ptas

Source: Euromonitor, 0302

Figure 4.5.4

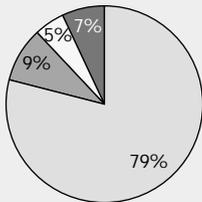
Catering

The contract catering market in Spain of € 1 billion is small compared to the other countries investigated (for the other countries investigated concession catering was included in the figures as well). Especially sales in business & industry are lower than elsewhere, as Spaniards more often go out of the office to enjoy a lunch break. Companies are obliged by Ministerial Order to arrange lunch facilities for employees. Larger companies do have a canteen, but smaller companies do not. Ninety percent of the companies actually subsidise lunch. They do so by lowering canteen prices or by issuing restaurant checks for meals outside.

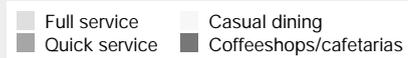
The catering market is fragmented with around 800 catering companies, most of them small family run businesses. These companies often offer low-value at low-prices, which squeezes the margins in the Spanish catering market further. The strong price competition continues, with smaller margins and lower quality offered, forcing catering companies to merge in order to achieve economies of scale and position themselves better in the market and gain public contracts. As a result, there is a trend towards concentration, with the five largest companies now accounting for around 30% of the market.

Travel catering (concession as well as contract catering) is quite different from the other catering markets. Onboard as well as at travel stations foodservice shows growth and compared to other segments in Spain, this is a consolidated market with large (international) players. All areas of travel foodservice are growing in market size. The number of transactions increases as well, but the main growth is in spending per transaction. All onboard train and aircraft catering is contracted out (often for 5 years), while around half the onboard ship foodservice is contracted out. The restaurants market at highways and airports is consolidated with respectively Autogrill & Adias (together 46% market share) and Compass (90%) as main players. It's a governmental rule that at fixed places along highways, there's a restaurant to make sure that every 'so-many' kilometres a driver can enjoy a meal.

Restaurant market share and growth
(Market share %, growth %, Spain, 2001)



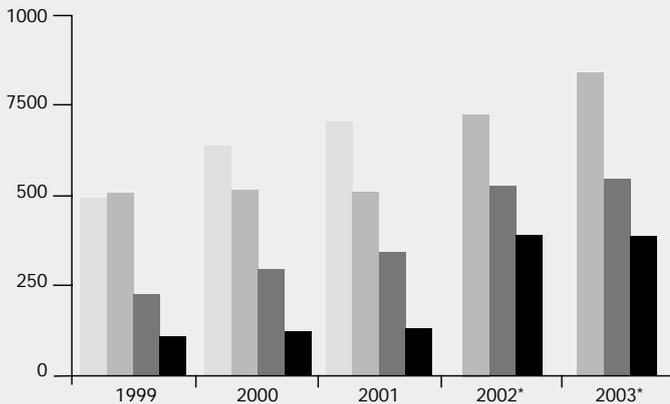
Growth	2001	2002
Full service	+2.8 %	+2.5 %
Quick service	+5.9 %	+8.2 %
Casual dining	+15 %	+13 %
Coffee shop	+8.9 %	+7.0 %



Source: Consumer Foodservice Spain, Euromonitor, 2002

Figure 4.5.5 Restaurant market

Turnover Quick Service
(€ million, Spain, 1999-2003)



Top 5 QSR 2001

	stores	sales €
McDonald's	313	454
TelePizza	539	394
Servifood	455	180
Burger King	264	176
Pizza Hut	127	78



Note: Market figures for 2002 and 2003 are estimates

Source: Spain, Full steam ahead for Sandwiches, Foodservice Europe, 4/2002

Figure 4.5.6 QSR market

Restaurants

The restaurant sector realises a turnover of € 18 billion in Spain and annual growth is around 4%. The largest part of out-of-home dining takes place at traditional full service restaurants. FSR is by far the largest segment in value terms. QSR, the second largest segment in Spain, is smaller than in other countries investigated with a 9% market share. So-called menu restaurants have a large market share. They offer a limited card with Spanish menus for € 6-7, table served and almost as quick as QSR.

Market growth is largely attributed to market entry by foreign chains and Spanish groups. Traditional small places more often close down, while high-end restaurants open doors. This is confirmed by the strong growth of the new eating out trend of fast casual dining, which in a short period of time gained a market share of 5%. QSR are another growth area. Growth in QSR is mainly caused by increasingly hectic lifestyles, strong expansion strategy of leading players, adaptation of the fast food formula to Spanish taste and the good performance of tourism. QSR growth lies mainly in the burger and sandwich product range, while pizza is losing market share.

Still, outlets in all segments of the market are mainly family-owned, making Spain a very fragmented market with around 57,000 restaurants, twice the level of 1982. In number of units, cafés & bars are the largest segment (65% in 2001). Top 20 companies currently only hold 8% of the market. But there is a trend towards consolidation.

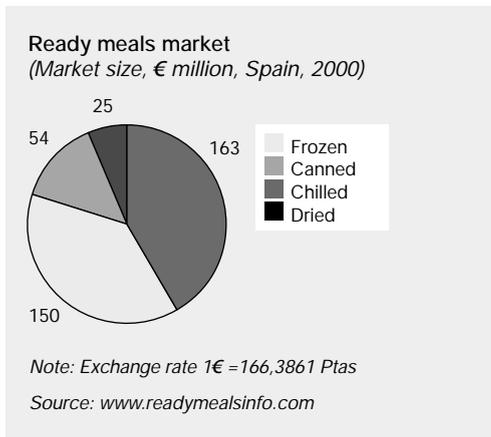


Figure 4.5.7 Ready meals market

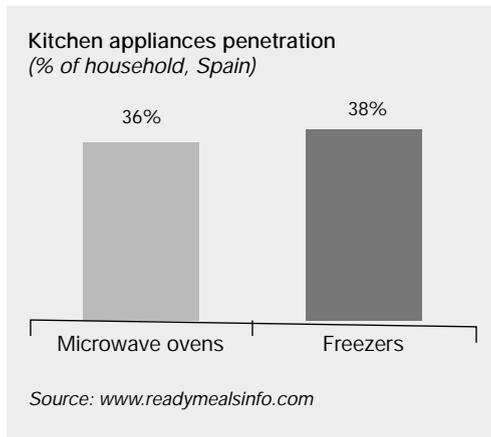


Figure 4.5.8 Kitchen appliances

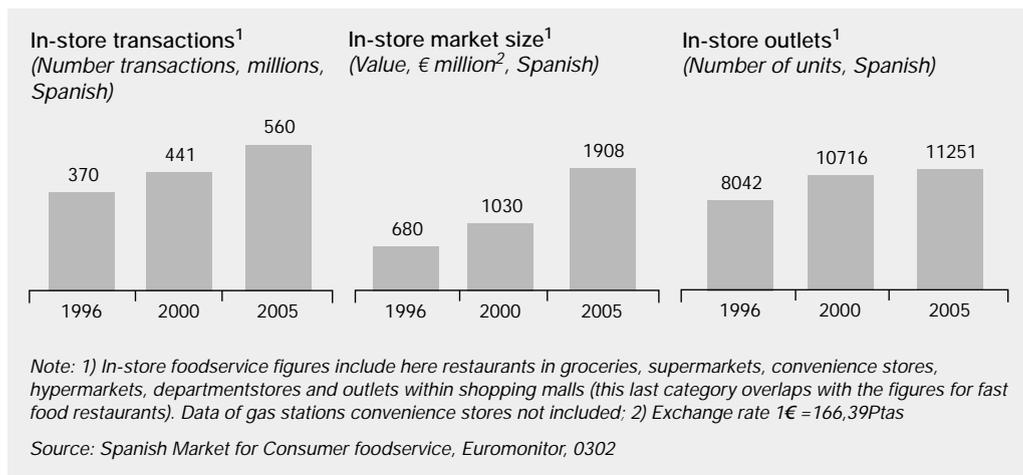


Figure 4.5.9 In-store market

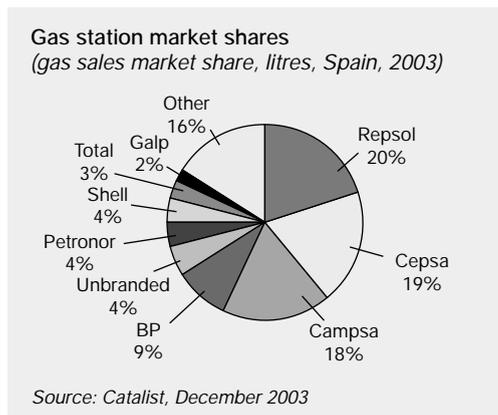


Figure 4.5.10 Gas station petrol sales

Retail

The ready meals market is small, which has to do with Spanish eating culture and a low penetration of household appliances. The Spanish ready meals market is an emerging market due to the fact that the penetration of microwave ovens (36% of households) and freezers (38%) is low. Another important factor is that quality and freshness are very important in their eating culture. As a result, the Spanish eat less ready meals than for instance the British and the Germans. Prepared food for restaurants is also not common, with the small margins and limited kitchen equipment. Main driving force behind the still small growth of ready meal consumption is a longing for convenience as more women work outside the home.

The in-store market makes around € 1 billion through 440 million transactions per year. A big trend in in-store restaurants are outlets (outside a shop) within a shopping mall or hypermarket. The increasing number of shopping centres determines the growth of in-store restaurants. There were 369 shopping centres in Spain in 2000, of which 25 opened doors that year. Especially large foodservice chains can afford these locations. These chains are able to negotiate chain-wide concessions. For example Riofisa, that signed agreements with Restmon and Agrolimen to open in-store outlets in Riofisa centres. These concessions generally consist of agreements for 5-10 years, normally extended year by year. The shopping centre has no control, but receives a monthly fee.

Recent market entry of major international oil companies introduced a broader shop assortment at gas stations. While the major international oil companies don't have large market shares, they do know how to create higher average shop sales. Just over a decade ago the Spanish gas station market was a government monopoly. The government sold their outlets to oil companies who were their main suppliers in Spain. The market is still influenced by this and is dominated by Repsol, Cepsa and BP who make up over 70% of the overall petrol station market (figure 4.5.10). A number of major brands and independents have now entered the market and gained a small market share. Especially those branded gas stations focussed on improving the average shop sales in the stores and with success. Between 2001-2003 the petrol station shop sales increased strongly. Just two years ago the total forecourt gas station market was estimated at € 1.25 million. The retail revenues of the top 10 the gas station stores are now estimated € 4.2 million (Catalist, 2003).



Figure 4.5.11 Gas station shop sales

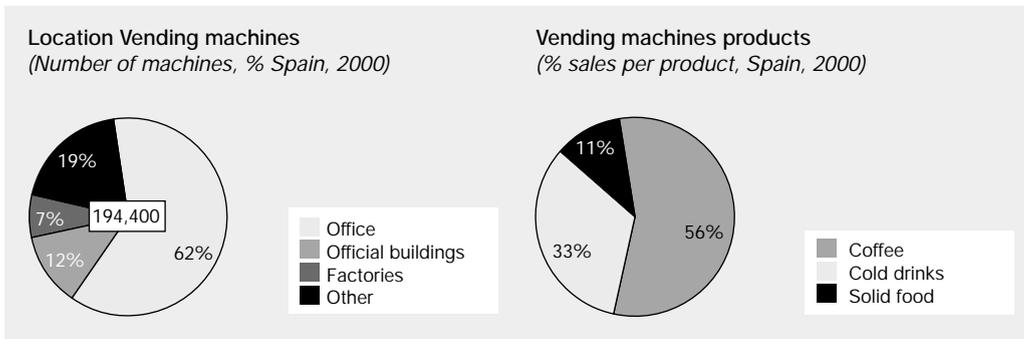


Figure 4.5.12 Vending machine market

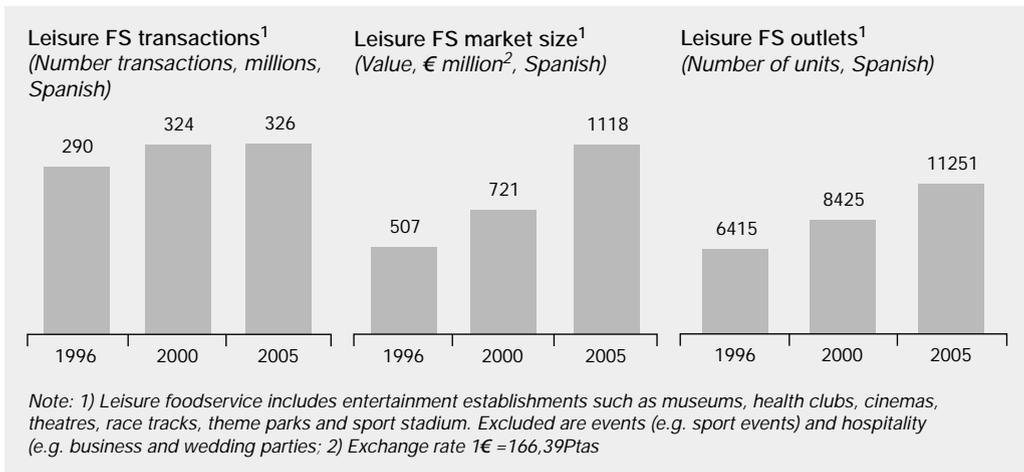


Figure 4.5.13 Leisure market

Vending machines

Machines are making a strong entry into the foodservice market, especially in the office environment (figure 4.5.12). 74% of the vending machines in Spain are actually positioned in an office or within an office building, while factories represent only 7% of the vending machines. Mainly catering companies try to introduce the machines to complement their offering, for instance for afternoon snacks.

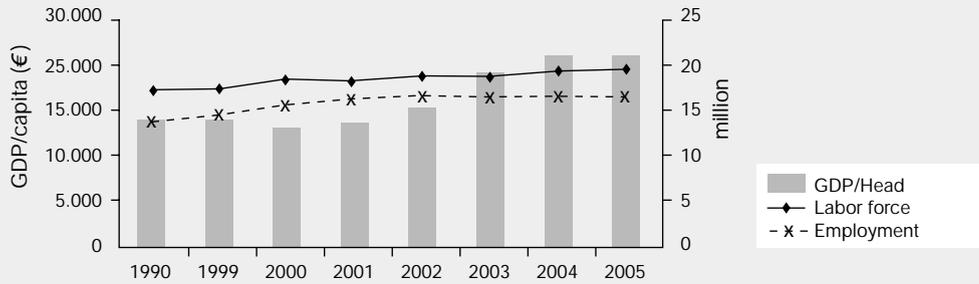
Most machines contain coffee (56%) or cold drinks (33%). Only 11% of the machines offer solid food. Solid food from vending machines is perceived as very unhealthy by the Spaniards. Especially hot meals do not sell very well, while snacks enjoyed a 30% growth over recent years.

Events & Leisure

Tourism is important for Spain and a still increasing sector. Largely because of this, leisure foodservice spending has seen a steady growth in revenues (figure 4.5.13). In recent years the market increased strongly, as consumers spent more per transaction. This trend is expected to continue towards 2005. The segment is currently still very much a large city domain in which contract foodservice has an increasingly high penetration rate. 85% of transactions are done within a contracted outlet and by 2005 this will be 90%.

Income per capita

(GDP per capita in €, Labour force in millions, Spain¹)

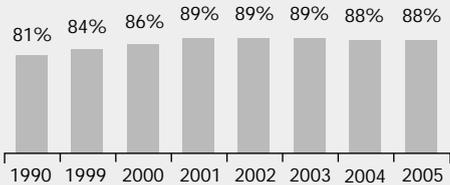


Note: 1) Exchange rate used €/\$ = 1.1170; Figures for 2003 to 2005 are estimates

Source: EIU, 2003

Figure 4.5.14 Income per capita

Employment population
(Employment, %, Spain)

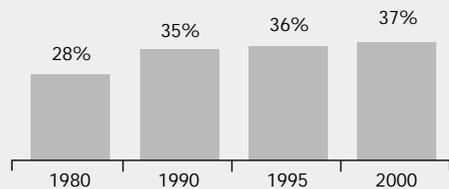


Note: Employed population as percentage of the labour force

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 4.5.15 Employment

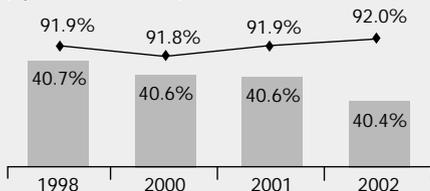
Female labour force
(Percentage female of total labour force)



Source: Country profiles, World Bank, 2003

Figure 4.5.17 Female workforce participation

Working hours full-time employees
(Spain, 1998-2002)

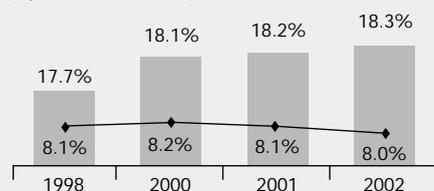


◆ = Full-time/part-time employed as % of total employed population
■ = Usual worked hours per week

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 4.5.16 Working hours

Working hours part-time employees
(Spain, 1998-2002)



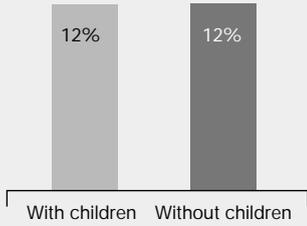
Drivers behind the market

The drivers behind foodservice growth are lagging behind compared to other countries investigated. Economic figures, female participation in the workforce and the percentage elderly of the total population all indicate the foodservice market is still developing.

In Spain the employed population is smaller, with less people in the labour force, a lower employment rate and a lower average income per capita (€ 18,000 compared to € 23,000 in Italy). Unemployment in Spain is higher than in Italy, France, the UK or Germany. But the situation improves, as the difference between Spain and the other countries is now much smaller than in 1998. For those having a job, a part-time job is almost a rarity; a fulltime job is more of a standard (92%!). With less people in the labour force and a higher unemployment rate, there's less need for foodservice offerings at home.

The nuclear family is still more of a standard in Spain and in larger families with fulltime housewives the meals are more often cooked from scratch instead of assembled from foodservice products. Female participation in the labour force is low: 39.2% of the Spanish women aged 25-54 years old are inactive (EU average is 27.7%) and 16.9% are inactive because of family responsibilities. Moreover, 58.6% of the households contain more than two members. These two demographics combined with the strong tradition of the family meal assure that ready meals and QSR don't take off as quickly as elsewhere. But out-of-home foodservice in a good atmosphere - like tapas bars and FSR - does sell. With the current increase in female participation, foodservice at-home might become more common in the near future.

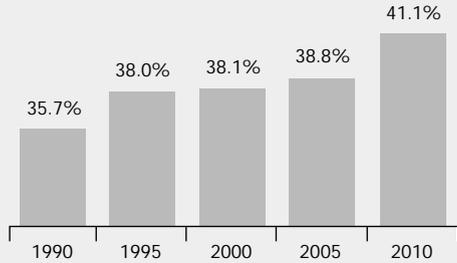
Dual participants households
 (Increase of households with both partners in labour force, in %, 1992-2000)



Source: Eurostat, 2002; Foodservice Europe, 2/2003

Figure 4.5.18 Household forms

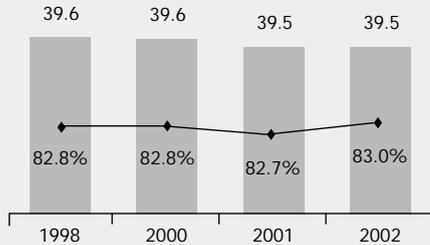
Ageing
 (Ratio population aged >60 over population 20-59²)



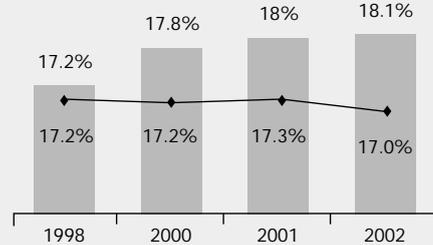
Source: Social Protection, Eurostat, 2003

Figure 4.5.20 Elderly population

Working hours full-time women
 (1998-2002)



Working hours part-time women
 (1998-2002)



◆ = Women full-time/part-time employed as % of total employed women
 ■ = Usual hours worked by women per week

Source: Labour Force Survey, Eurostat, 1998/2000/2001/2002

Figure 4.5.19 Female working hours

As in other EU countries, the percentage of seniors is increasing, but only slowly (figure 4.5.20). The old age dependency ratio is currently average compared to the UK, France, Germany and Italy. In the other countries investigated the old age dependency ratio will change dramatically towards 2010, while in Spain the ratio will slowly grow towards 41% in 2010. Since the ageing population is a target group for foodservice, this target group will grow in the coming years in Spain, but not as strong as in the other countries investigated. On the other hand, many seniors from countries like Germany and the UK move to Spain to enjoy their pensions in a more pleasant climate. This of course, benefits the foodservice industry in Spain.

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5. European market for Consumer Foodservice, OneSource, April 2001
6. EU-wide, one woman in six aged 25-54 is inactive due to family responsibilities, Eurostat, July 2003
7. Italian Market for Consumer Foodservice, Market Research Europe April 2003, Euromonitor, April 2003
8. Labour Force Survey, Eurostat, 1998/2000/2001/2002
9. Leatherhead Food RA, A comprehensive study of the European ready meals market, 2003
10. Pan-European Foodservice, Credit Suisse First Boston, September 2002
11. Social Protection: Expenditure on pensions, Eurostat, November 2003
12. Statistics, Foodservice Europe, February 2003
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Paragraph 4.5 Spain

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2. Consumer Foodservice Spain, Euromonitor, 2002
3. Country profiles, World Bank, 2003
4. Country report Spain, Economist Intelligence Unit, September 2003
5. España duplica su número de restaurantes en veinte años, Gale Group, September 2002
6. European market for Consumer foodservice, OneSource, April 2001
7. EU-wide, one woman in six aged 25-54 is inactive due to family responsibilities, Eurostat, July 2003
8. Full steam ahead for Sandwiches, Mario Canizal Villarino, Foodservice Europe, April 2002
9. Global Business Browser, Adams Trade Press, November 2001
10. Labour Force Survey, Eurostat, 1998/2000/2001/2002
11. NPN international, Spain overview, Catalist, December 2001
12. Social Protection: Expenditure on pensions, Eurostat, November 2003
13. Spain, Full steam ahead for Sandwiches, Foodservice Europe, April 2002
14. Spanish Market for Consumer Foodservice, Euromonitor, March 2002
15. Spanish Market for Contract Foodservice, Euromonitor, September 2002
16. Statistics, Foodservice Europe, February 2003
17. Women and men reconciling work and family life, Eurostat, 2002
18. Website www.readymealsinfo.com, August 2003

Glossary

Branded outlet formulas	Foodservice outlet formula with brand name.
BRC	British Retail Council.
Catering	Preparation and serving of ready-to-eat meals. Catering includes contract catering as well as concession catering.
Concession catering	Concession catering involves preparation and serving of meals to consumers in general, for instance at train stations.
Contract catering	Contract catering involves preparation and serving of meals to private guests (employees, students, patients) of a client.
Convenience store	Small retail outlet with food and non-food mainly focused on foodservice and smaller grocery shopping.
Distribution	The logistical process of moving a product from its manufacturing source to its customers.
Drivers	Something that exerts a force on something else to have a strong impact.
European Food Authority	EU organisation that facilitates and coordinates international standards of food safety.
Events & Leisure	Foodservice activities at one-time events like shows, sport events, pop concerts and permanent foodservice outlets at for instance cinemas or bowling clubs.
Fast food restaurant	Traditional 'Quick Service Restaurant' with burgers, French fries, chicken wings, and other, often fried, food and snacks on the menu.
FCD	Fast Casual Dining, combines benefits of Quick Service Restaurant with benefits of Full Service Restaurant, table served quickly prepared full meal for fast dining in a pleasant atmosphere.
FIN	Foodservice Institute Netherlands.
Food safety	Practices that assure a sufficient safe (healthy) food quality in combination with a tracking and tracing system to withdraw food quickly in case it is of insufficient quality.
Foodservice	Food and drinks that can be consumed as a snack or meal without preparation or after just heating it.
FSR	Full Service Restaurants, table served restaurants; offer full meals.
GCI	Global Commerce Initiative.
General Food Law	European regulation on food.

GFSI	Global Food Safety Initiative, global initiative of food retailers all over the world who aim to enhance food safety.
HACCP	Hazard Analysis and Critical Control Point.
IFS	International Food Standards.
Nuclear family	'Standard' family situation with father, mother, children, all living together in one household.
OFSCI	Optimum Foodservice Supply Chain Initiative (UK).
Outlet formula	Specific, predefined recognisable concept to organize a chain of selling points in the same way.
Outlet	Point-of-sales.
Out-of-home foodservice	Food and drinks served and consumed as a snack or meal outside the home (for on-the-move or on-premise consumption).
Perceived food safety	Practices that consumers consider 'safe' food production and food transport methods.
QSR	Quick Service Restaurants, restaurants with a simple menu that is quickly served and often self-service.
Specialty store	Retail outlet with assortment in specific food product range area, like Domestic caterers, Bakeries, Butchers, Salad bars etc.
Value chain	String of companies working together to satisfy market demands. It consists of one or a few primary value (product or service) suppliers and many other suppliers that add on to the value that is ultimately presented to the buying public.
Wholesale	Outlet that is only selling goods in large quantities.

Appendix I

Foodservice portfolio matrix

Strategic portfolio-matrix

Context Outlet	Ready-to-eat/drink			Ready-to-heat		
	At home	On the move	On premise	At home	On the move	On premise
Supermarkets						
Specialty stores						
Convenience stores						
At work						
At school						
QSR						
FSR						
Hotels						
Pubs						
Health clubs						
Events						
Etc						

Appendix II

Results interviews foodservice executives

The Cap Gemini Ernst & Young European Foodservice book describes recent and future foodservice value chain developments. To gain insight on these subjects a literature study was done in July and August 2003 followed by interviews with industry leaders in September and October 2003. Through these questionnaires and interviews we learned the view of reputable foodservice executives, which resulted in some interesting insights.

Objective of the European Foodservice study is to develop a view on how developments in the foodservice market will impact the role of players in the food(service) value chain. Main subjects analysed are a) changing consumer needs, b) recent market trends and c) value chain developments. Besides desk research a questionnaire was sent out to foodservice executives followed by interviews.

The questionnaire and interviews were conducted with industry experts and managers of foodservice players across Europe. Interviews were conducted with 25 executives from food manufacturers, food distributors and foodservice outlet organisations in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom. Companies that participated were among others Aguas Danone España, Aramark, Canela Foods, Compass, CSM Bakery, Sara Lee/DE, Elidis, Heinz Foodservice, Horizons, IgloMora, Pomona, Masterfoods, McDonald's, Gallina Blanca Restauración, Starbucks, Subway, Unilever Bestfoods Foodsolutions and Uniq.

Questionnaires were done in two phases. At first written questionnaires were sent out and received back, after which interviews were conducted by phone to follow-up on specific answers to questions. The questionnaire was sent out in September 2003, the interviews took place in October 2003.

The questionnaire consisted of 28 questions and was set up in three parts: Consumer Needs, Current and Expected Developments and The Role of the Players in the Value Chain. In the next pages the results are presented. For some questions the answers of manufacturers, wholesale & distribution and outlet operators are separately reported.

Questions and results interviews

1. What will be the top 3 main issues in foodservice in the coming years?

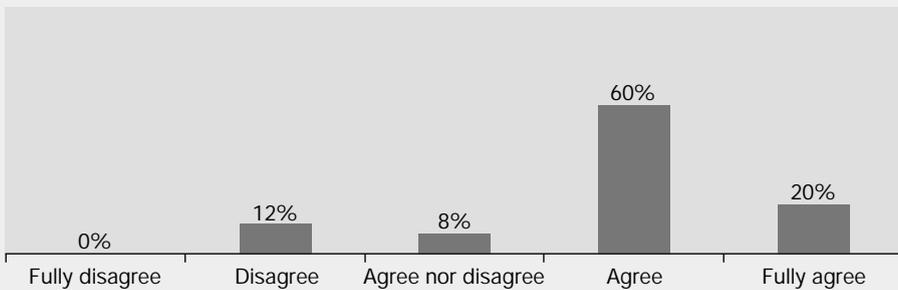
The list of issues below were mentioned as priority 1 issues by the various participants:

- *Generating increased demand*
- *Beating the recession (survive by lowering costs and price)*
- *How can we grow the amount spend in FS*
- *Drive increased customer expenditure*
- *Market growth*
- *How to cope with slower FS growth*
- *Brand differentiation*
- *Attraction power (distinguishing from competition)*
- *Specificity*
- *New consumption trends - importance of the healthy trend*
- *Nutrition*
- *Health & Nutrition*
- *Professionalisation*
- *Commercialisation of the sector*
- *Getting insight in the market with each other*
- *Customers concentration*
- *Efficient consumer response*
- *Distribution - Logistics*
- *Increasing concentration at all levels and all the food companies will increase focus on FS*
- *Retailers' increasing of FS*

Consumer needs

2. In the current economic climate consumers choose much more than in recent years for best value for money foodservice

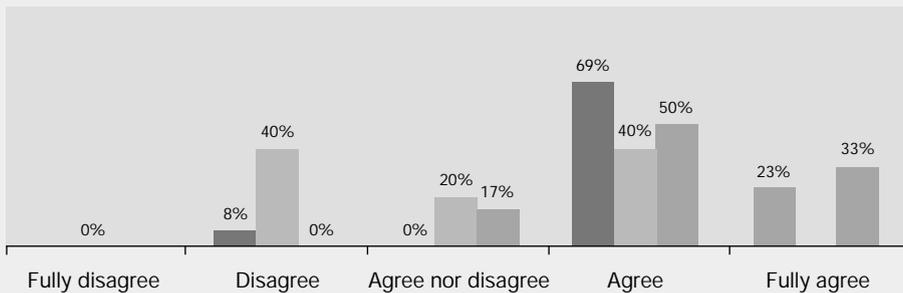
In the current economic climate consumers choose much more than in recent years for best value for money foodservice



N=25

Source: CGE&Y research September - October 2003

In the current economic climate consumers choose much more than in recent years for best value for money foodservice



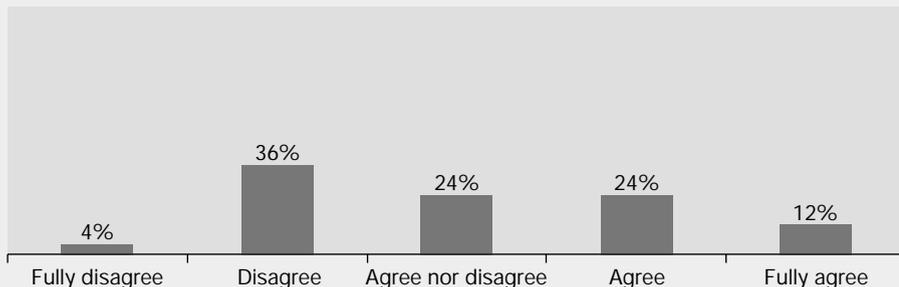
■ Manufacturers
■ Wholesalers/distributors
■ Outlets

N=24

Source: CGE&Y research September - October 2003

3. Currently manufacturers introduce products in the foodservice market that are mainly based on successful retail concepts

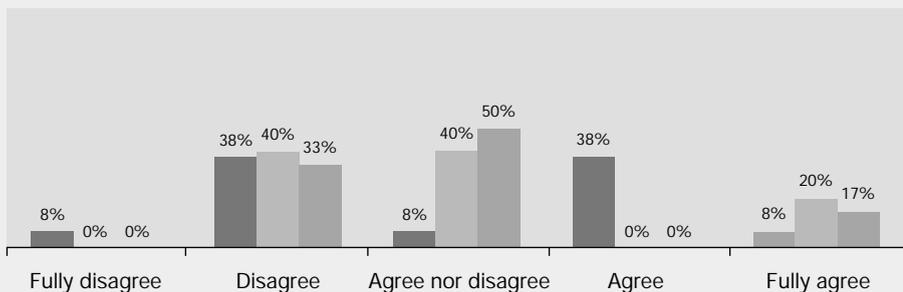
Currently manufacturers introduce products in the foodservice market that are mainly based on successful retail concepts



N=25

Source: CGE&Y research September - October 2003

Currently manufacturers introduce products in the foodservice market that are mainly based on successful retail concepts



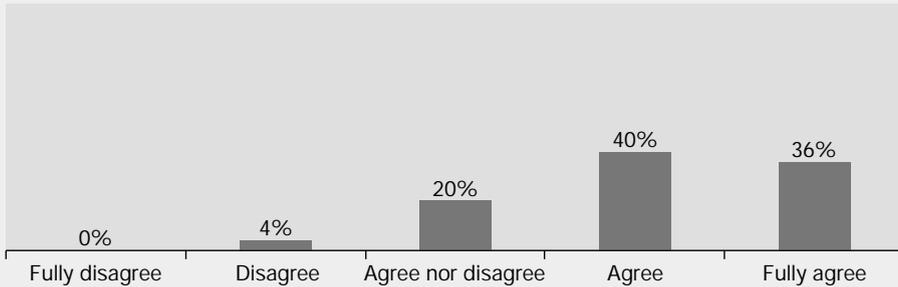
Manufacturers
 Wholesalers/distributors
 Outlets

N=24

Source: CGE&Y research September - October 2003

4. When becoming successful, manufacturers will have to develop new concepts that are more focused on consumer needs instead of on products/channels

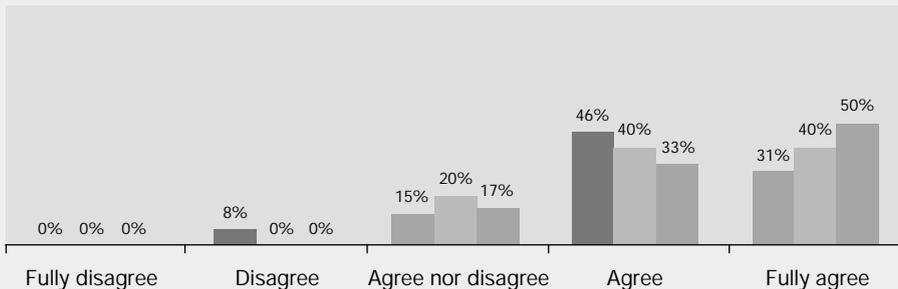
To become successful, manufacturers will have to develop new concepts that are more focused on consumer needs instead of on product categories or channels



N=25

Source: CGE&Y research September - October 2003

To become successful, manufacturers will have to develop new concepts that are more focused on consumer needs instead of on product categories or channels



■ Manufacturers
 ■ Wholesalers/distributors
 ■ Outlets

N=24

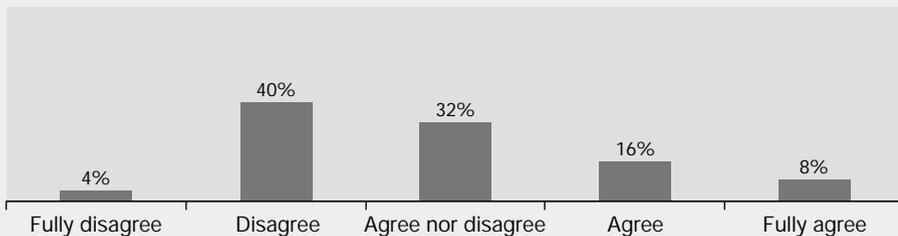
Source: CGE&Y research September - October 2003

Current and expected developments

Market

5. The existing margins in the entire foodservice chain will decrease drastically in the near future

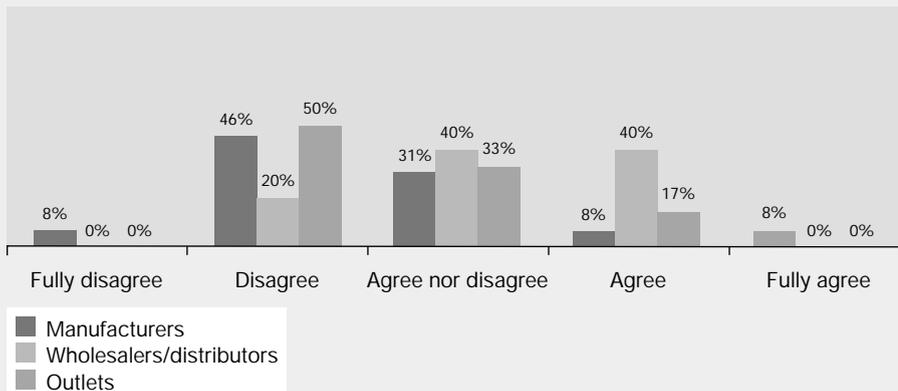
The existing margins in the entire foodservice chain will decrease drastically in the near future



N=25

Source: CGE&Y research September - October 2003

The existing margins in the entire foodservice chain will decrease drastically in the near future



N=24

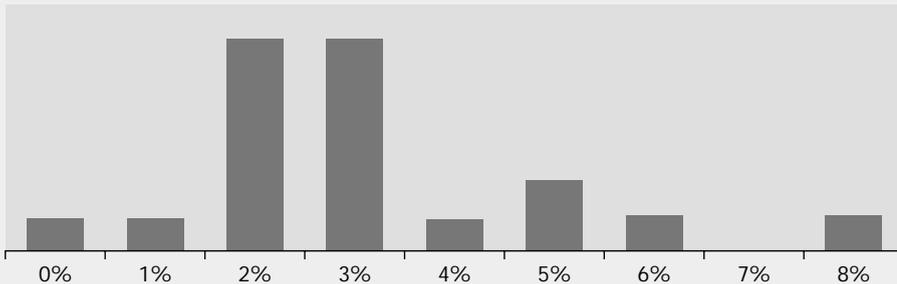
Source: CGE&Y research September - October 2003

6. Which competitive advantage will become the most valuable in the coming five years?
(more than one answer possible)



7. What will be the average growth rate in consumer spending in foodservice in 2004 (throughout Europe)?

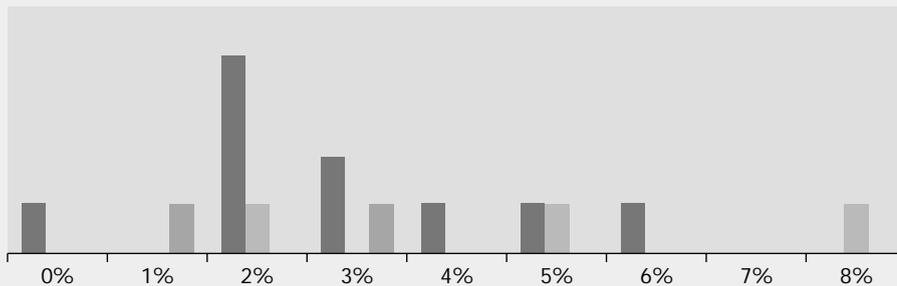
What will be the average growth rate in consumer spending in foodservice in 2004 (throughout Europe)?



N=19

Source: CGE&Y research September - October 2003

What will be the average growth rate in consumer spending in foodservice in 2004 (throughout Europe)?



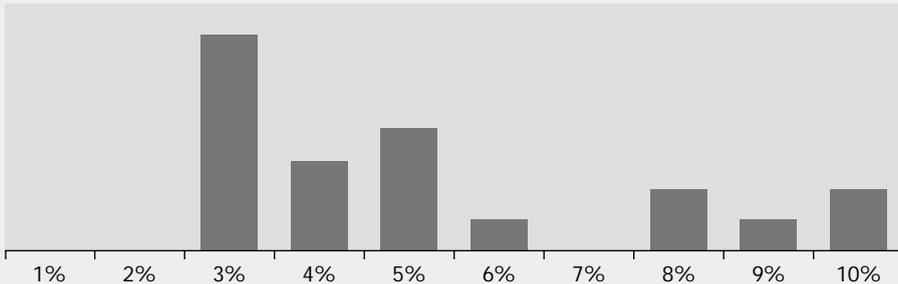
Manufacturers
 Wholesalers/distributors
 Outlets

N=18

Source: CGE&Y research September - October 2003

8. What will be the average growth rate in consumer spending in foodservice in the coming five years (throughout Europe)?

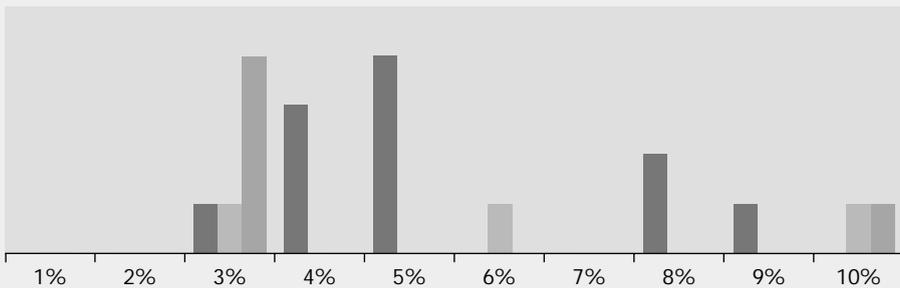
What will be the average growth rate in consumer spending in foodservice the coming five years (throughout Europe)?



N=20

Source: CGE&Y research September - October 2003

What will be the average growth rate in consumer spending in foodservice the coming five years (throughout Europe)?



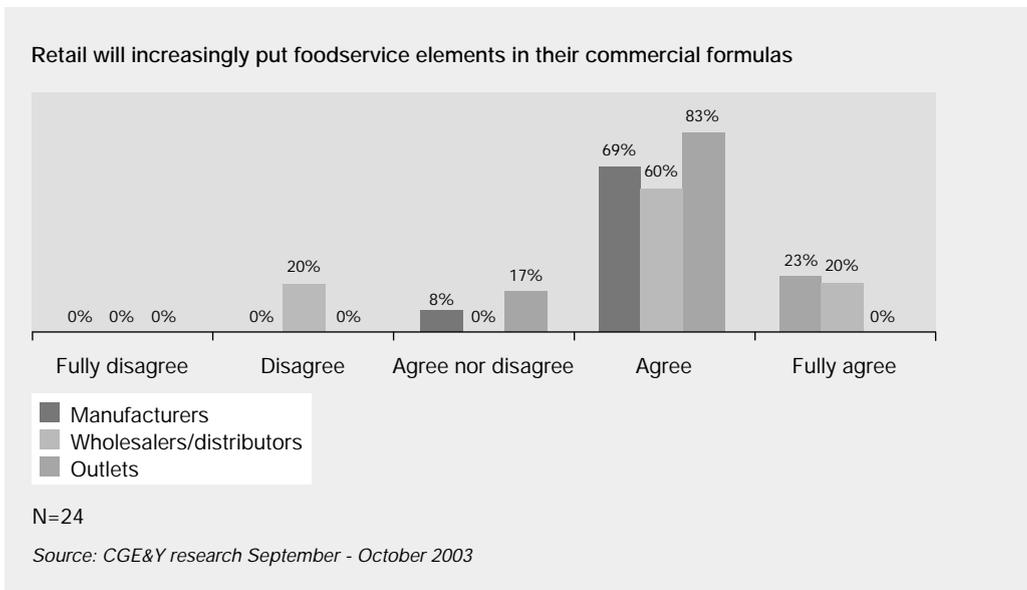
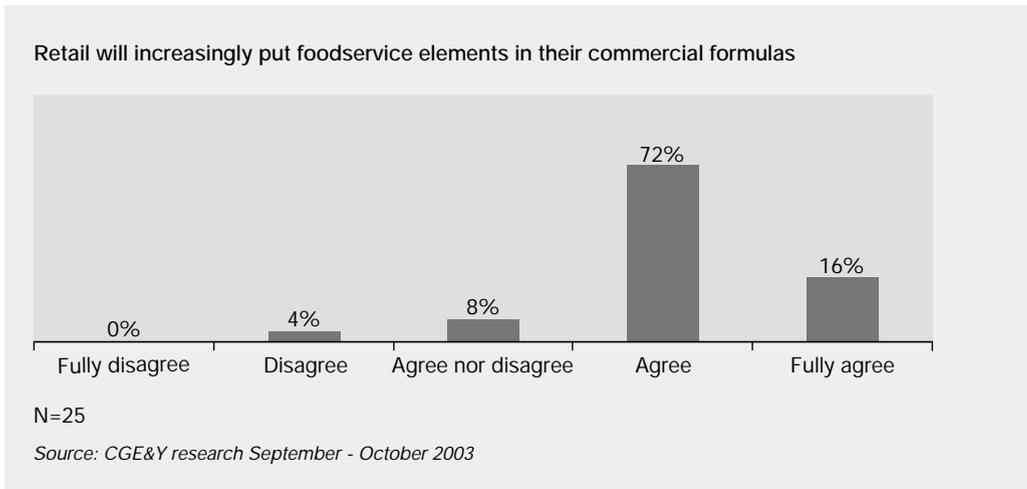
■ Manufacturers
 ■ Wholesalers/distributors
 ■ Outlets

N=19

Source: CGE&Y research September - October 2003

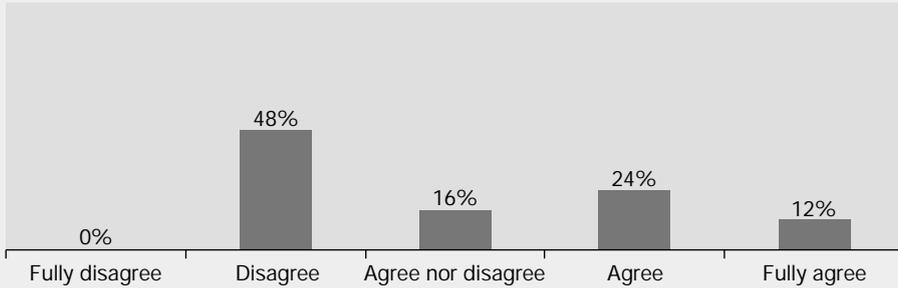
Concepts

9. Retail will increasingly put foodservice elements in their commercial formulas



10. Specialty stores (butchers, bakery, etc) will become a threat for retailers (supermarket, hypermarket, etc) in the area of foodservice

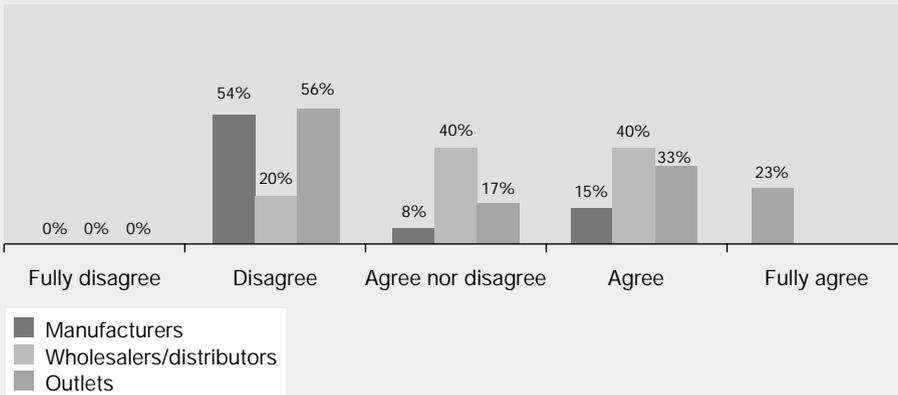
Specialty stores (butchers, bakery, etc) will become a threat for retailers (supermarket, hypermarket, etc) in the area of foodservice



N=25

Source: CGE&Y research September - October 2003

Specialty stores (butchers, bakery, etc) will become a threat for retailers (supermarket, hypermarket, etc) in the area of foodservices

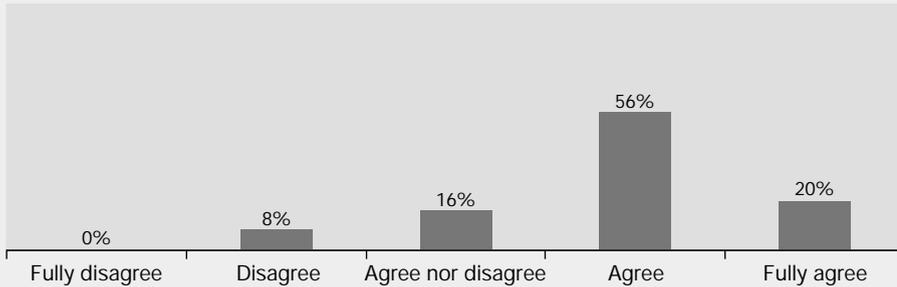


N=24

Source: CGE&Y research September - October 2003

11. Technology (food processing) will enable or is the driver behind many new foodservice products/concepts

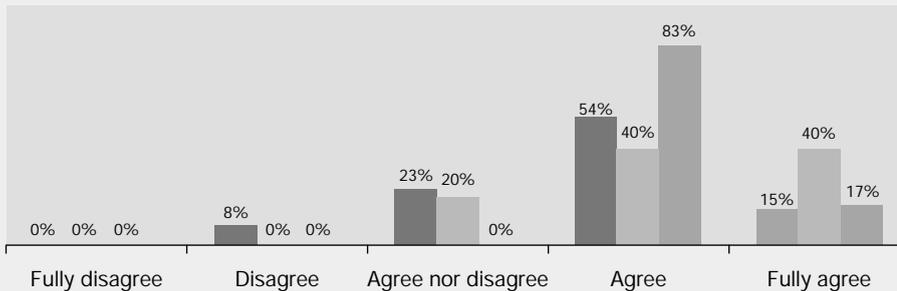
Technology (food processing) will enable or is the driver behind many new foodservice products/concepts



N=25

Source: CGE&Y research September - October 2003

Technology (food processing) will enable or is the driver behind many new foodservice products/concepts



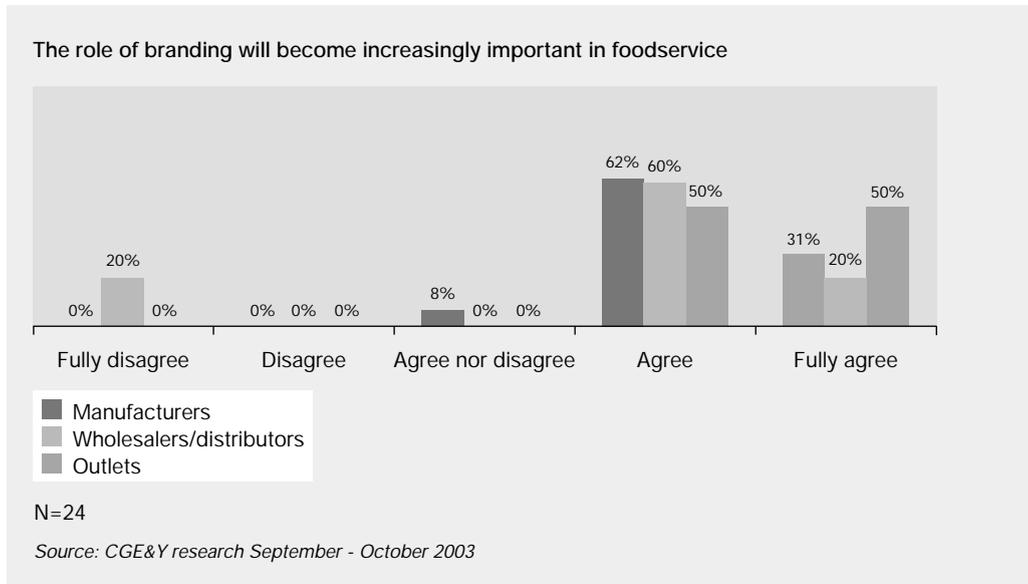
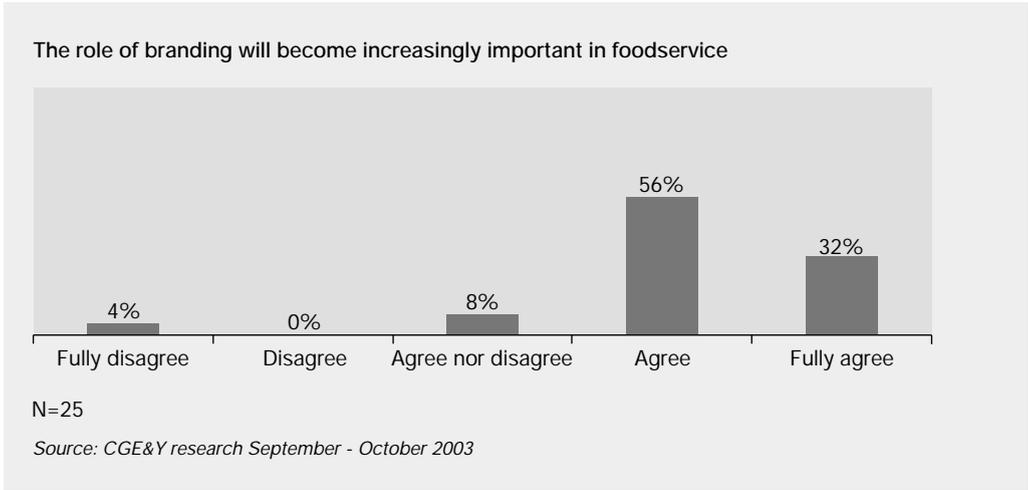
- Manufacturers
- Wholesalers/distributors
- Outlets

N=24

Source: CGE&Y research September - October 2003

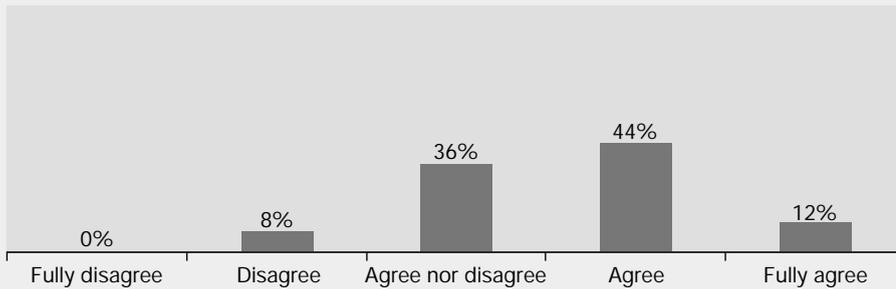
Branding

12. The role of branding will become increasingly important in foodservice



13. Strong formula brands will dominate the international foodservice market in the coming years

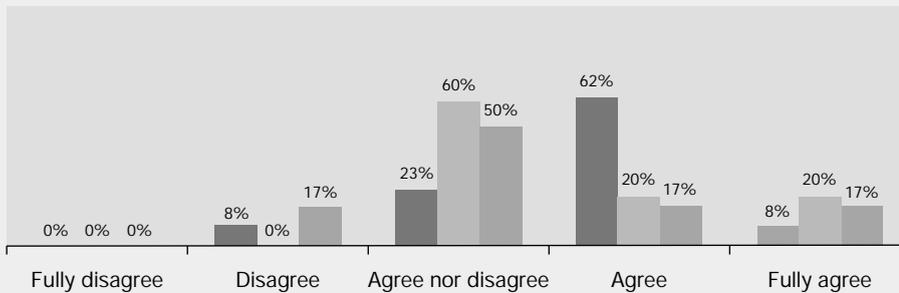
Strong formula brands will dominate the international foodservice market the coming years



N=25

Source: CGE&Y research September - October 2003

Strong formula brands will dominate the international foodservice market the coming years

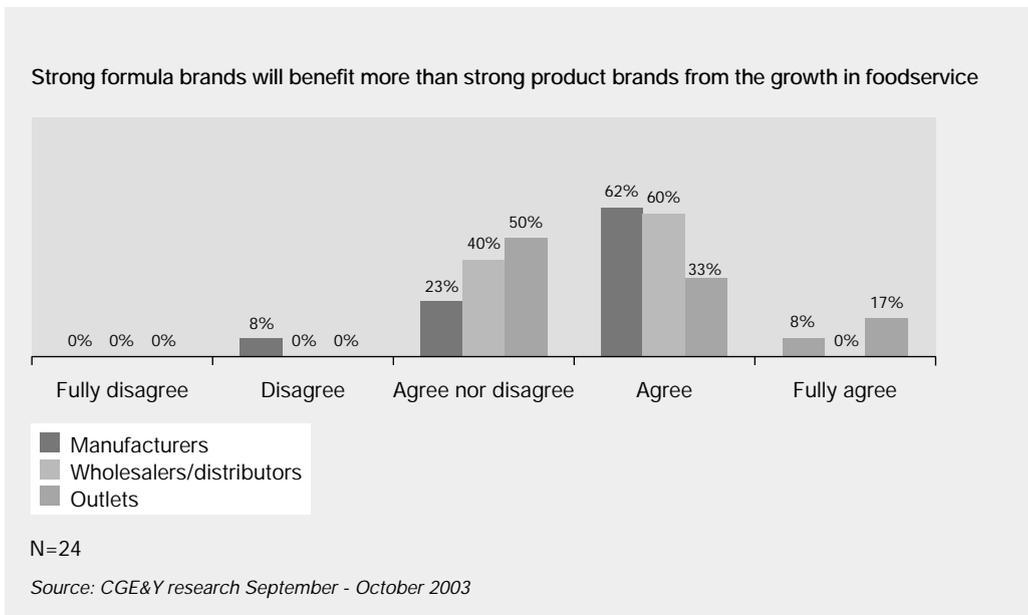
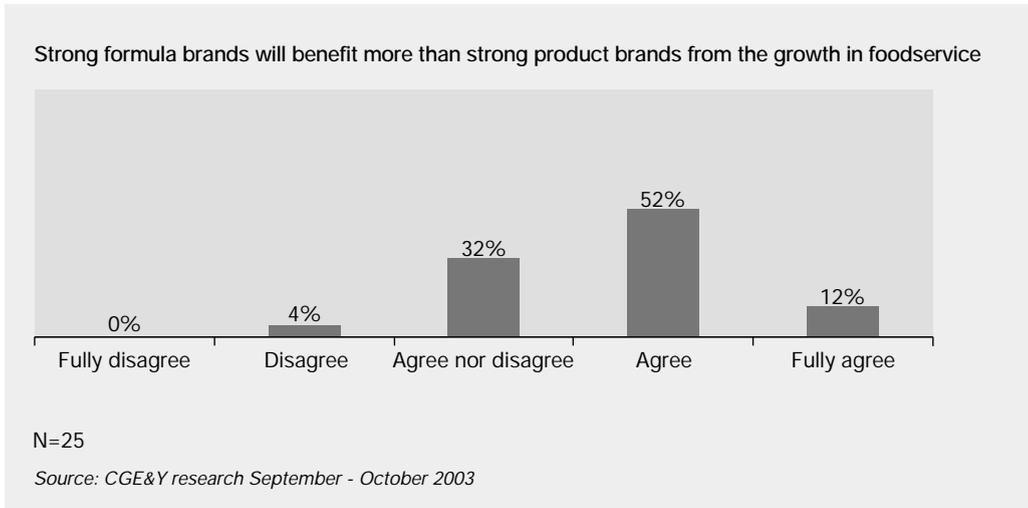


Manufacturers
 Wholesalers/distributors
 Outlets

N=24

Source: CGE&Y research September - October 2003

14. Strong formula brands will benefit more than strong product brands from the growth in foodservice

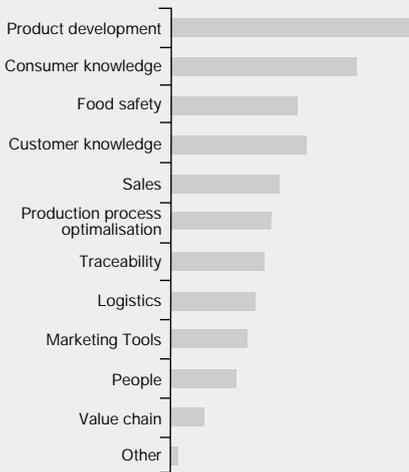


Organisation

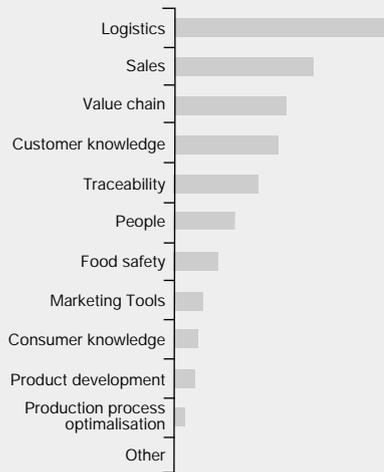
15. Where do you expect Manufacturers, Wholesale & Distribution and Outlets to invest in first in the coming period?

Where do you expect manufacturers, wholesale & distribution and outlets to invest in first in the coming years?

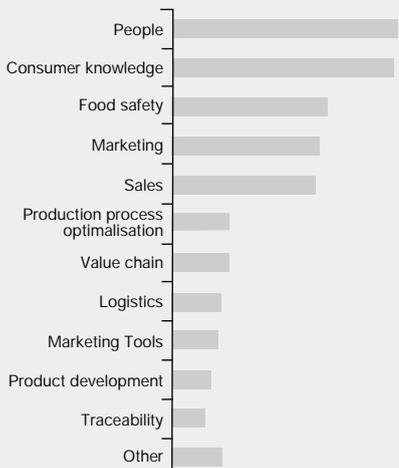
Expected investments manufacturers
(Answers all respondents, 2003)



Expected investments wholesale & distribution
(Answers all respondents, 2003)



Expected investments outlets
(Answers all respondents, 2003)

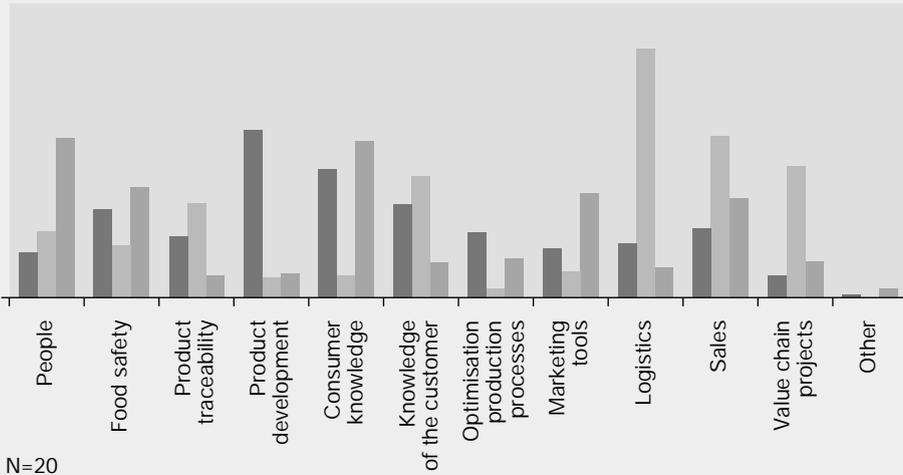


N=21

Source: CGE&Y research September - October 2003

Where do you expect manufacturers, wholesale & distribution and outlets to invest first the coming period?
(Answers given per category of respondent company)

■ Manufacturers
■ Wholesalers/distributors
■ Outlets

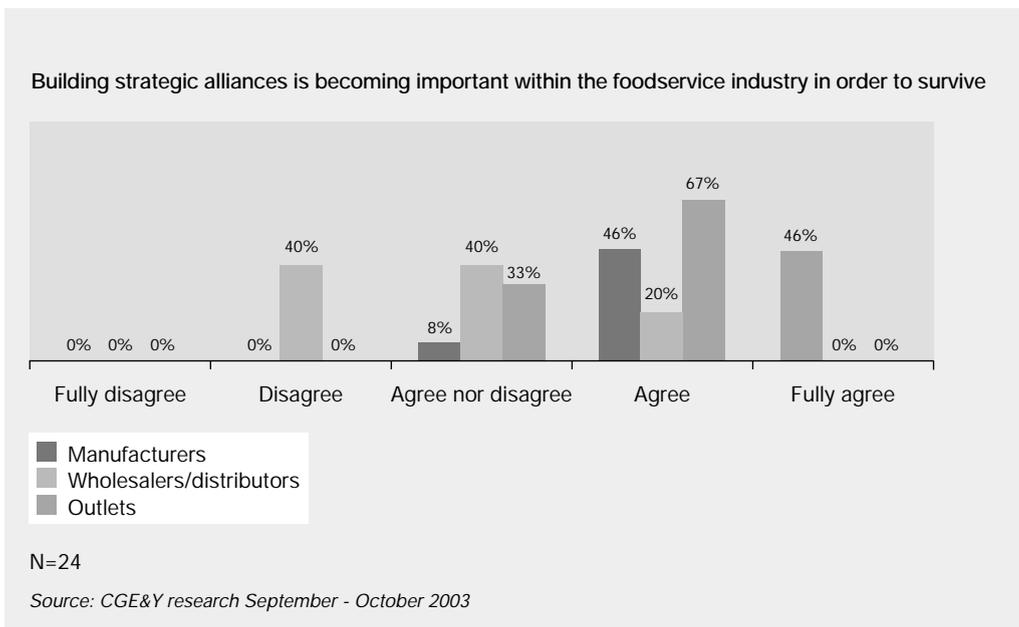
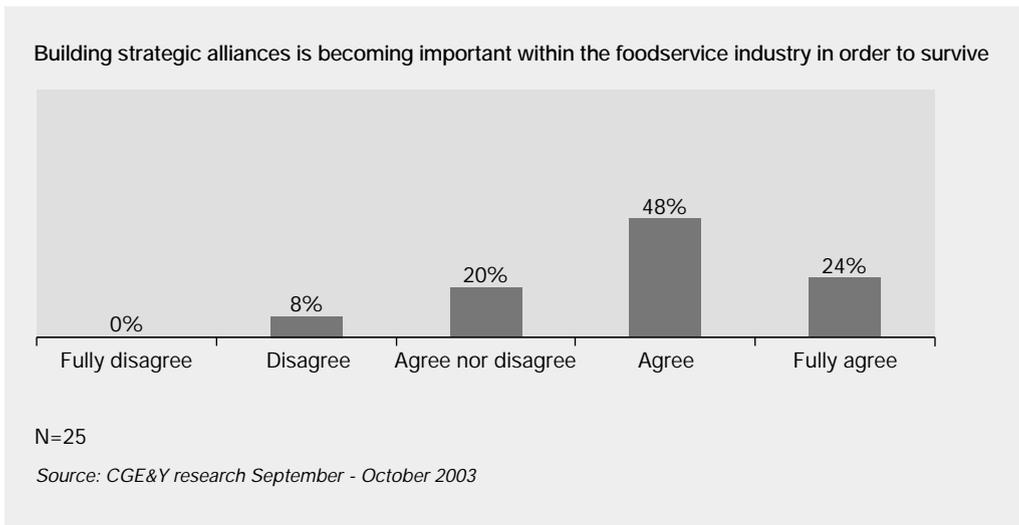


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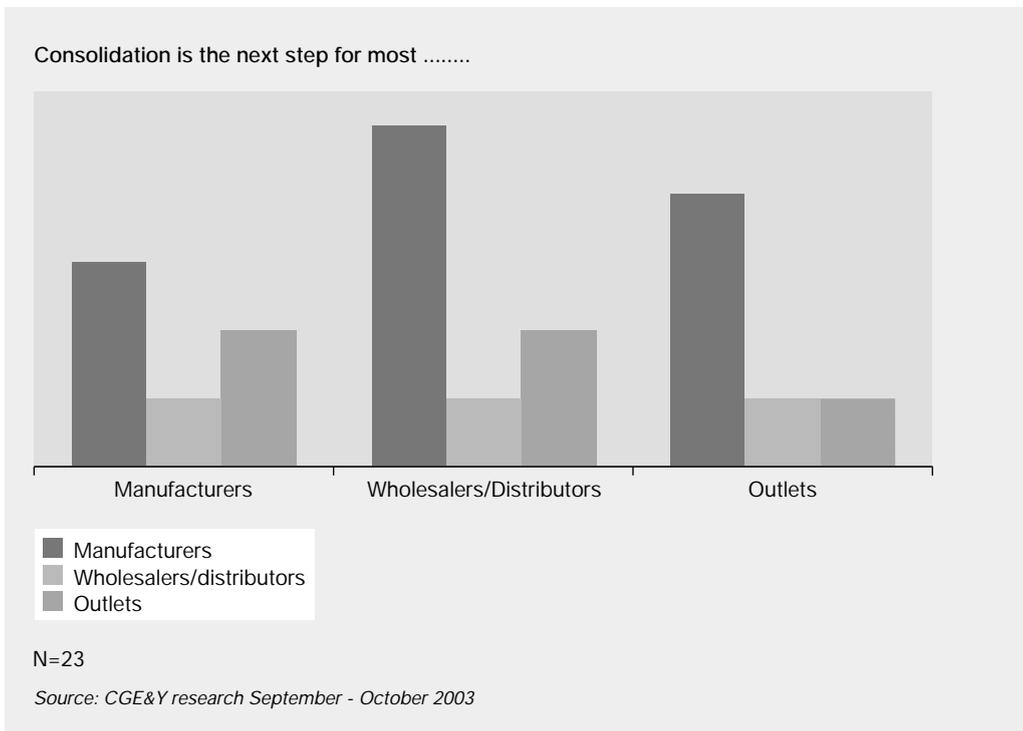
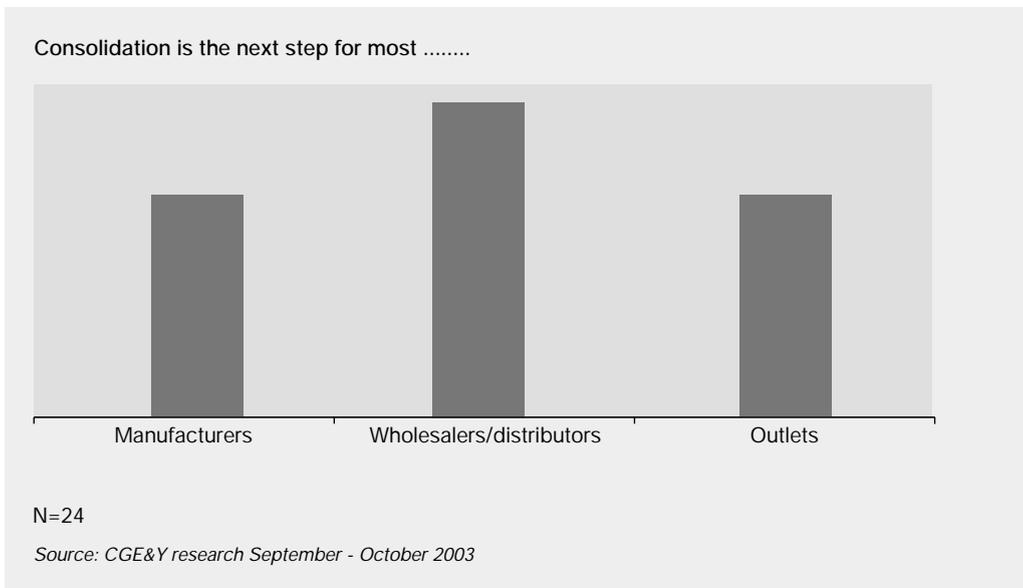
Source: CGE&Y research September - October 2003

Consolidation/Alliances

16. Building strategic alliances is becoming important within the foodservice industry in order to survive

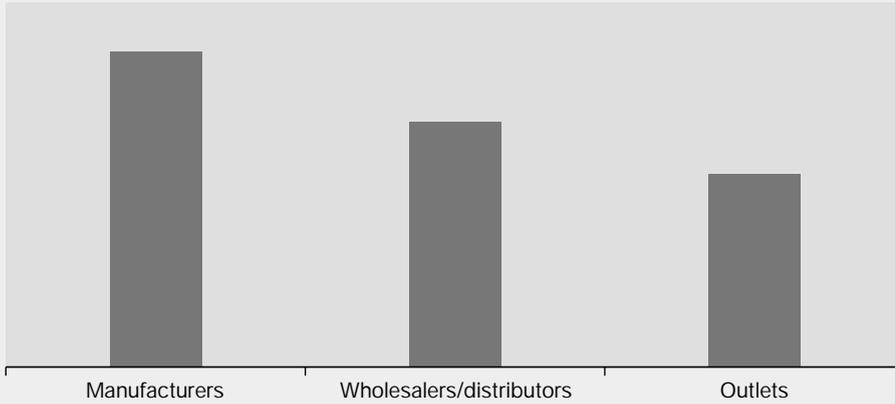


17. Consolidation is the next step for most



18. Building alliances is in the top 3 of strategic choices for

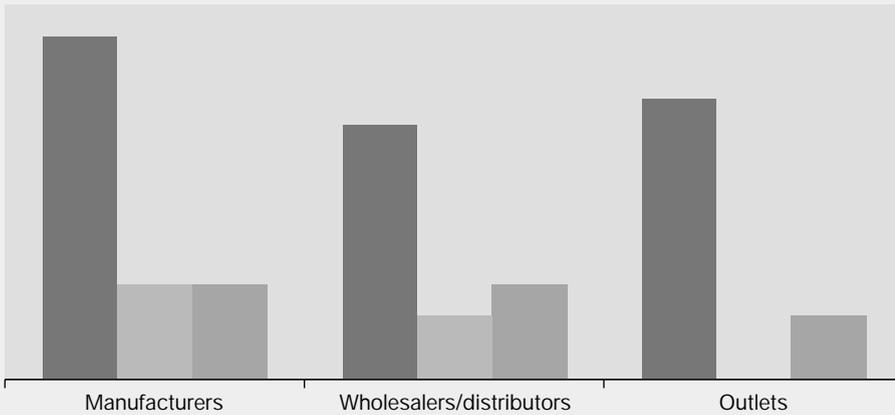
Building alliances is in the top 3 of strategic choices for



N=23

Source: CGE&Y research September - October 2003

Building alliances is in the top 3 of strategic choices for



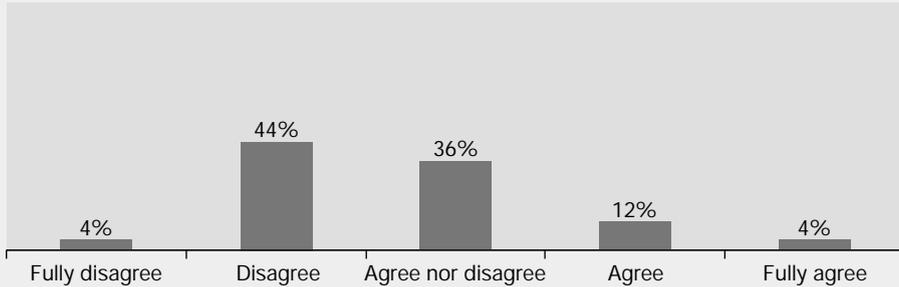
Manufacturers
 Wholesalers/distributors
 Outlets

N=22

Source: CGE&Y research September - October 2003

19. The volume of retailers taking over foodservice chains will be much bigger than the volume of foodservice chains consolidating with foodservice chains

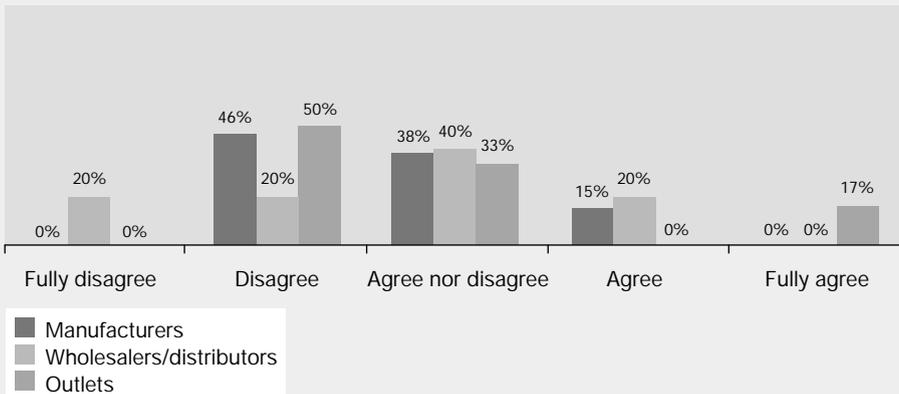
The volume of retailers taking over foodservice chains will be much bigger than the volume of foodservice chains consolidating with foodservice chains



N=25

Source: CGE&Y research September - October 2003

The volume of retailers taking over foodservice chains will be much bigger than the volume of foodservice chains consolidating with foodservice chains



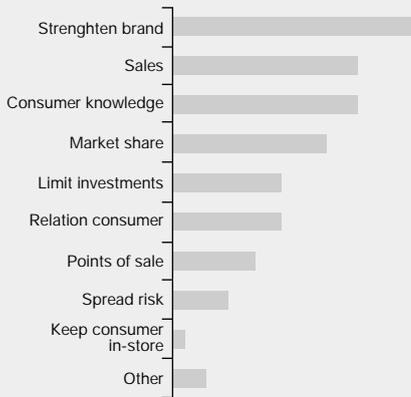
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Source: CGE&Y research September - October 2003

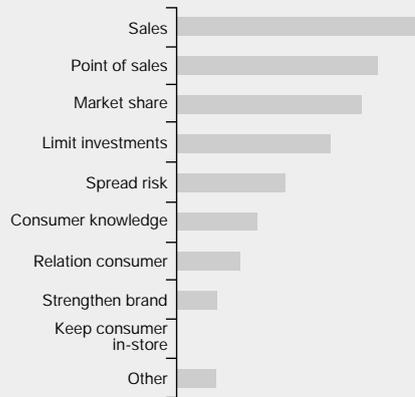
20. What could be drivers for alliances for Manufacturers, Wholesale & Distribution and Outlets?

What could be drivers for alliances for manufacturers, wholesale & distribution and outlets?

Drivers for manufacturers
(Answers all respondents, 2003)



Drivers for wholesales & distribution
(Answers all respondents, 2003)



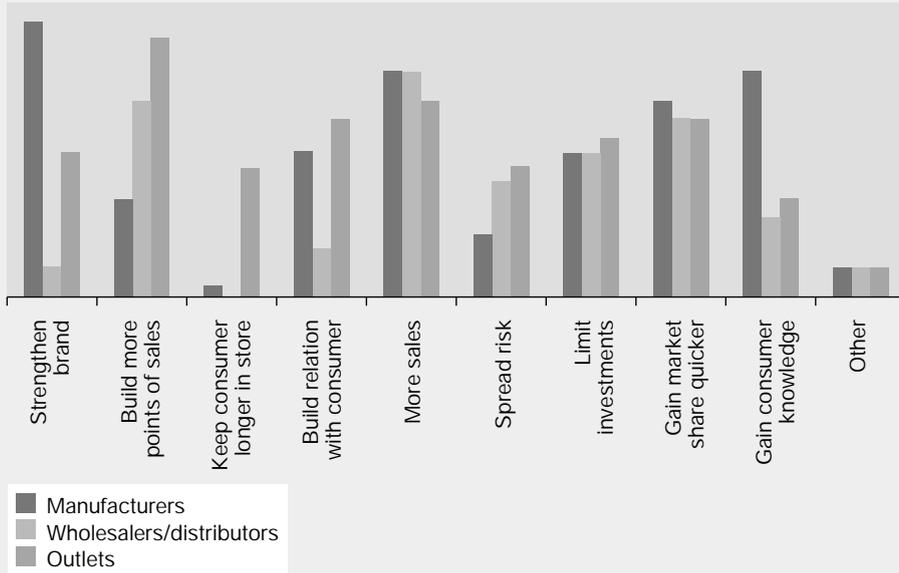
Drivers for outlets
(Answers all respondents, 2003)



N=23

Source: CGE&Y research September - October 2003

What could be drivers for alliances for manufacturers, wholesale & distribution and outlets?

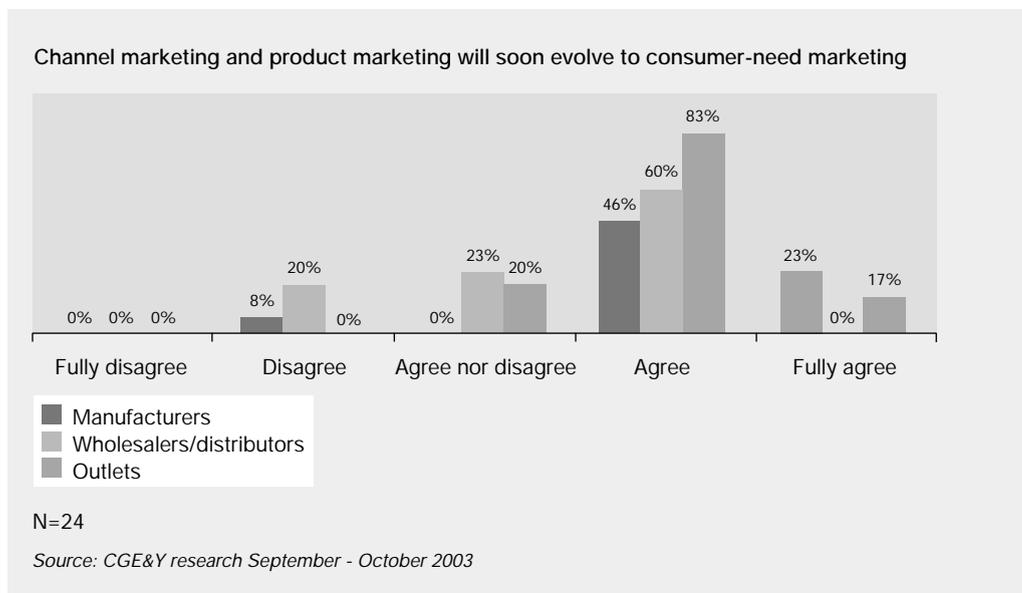
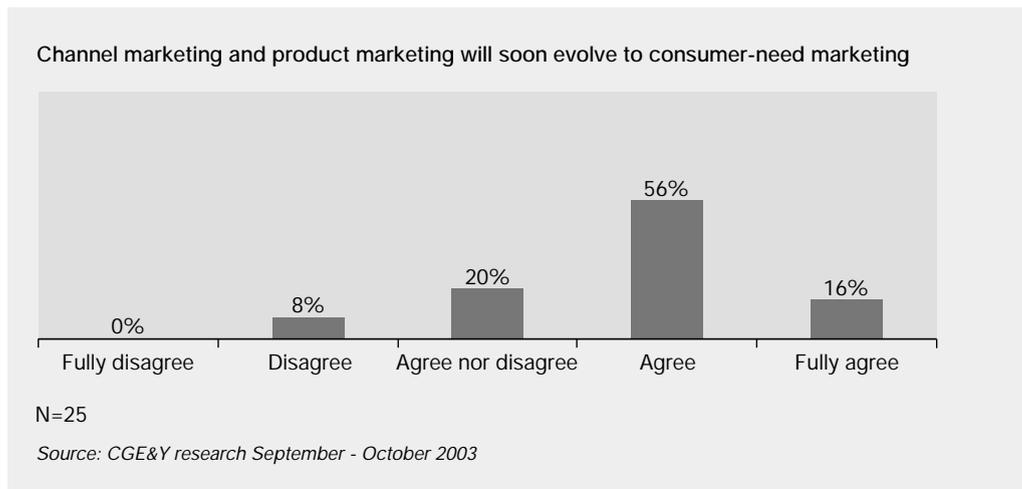


N=22

Source: CGE&Y research September - October 2003

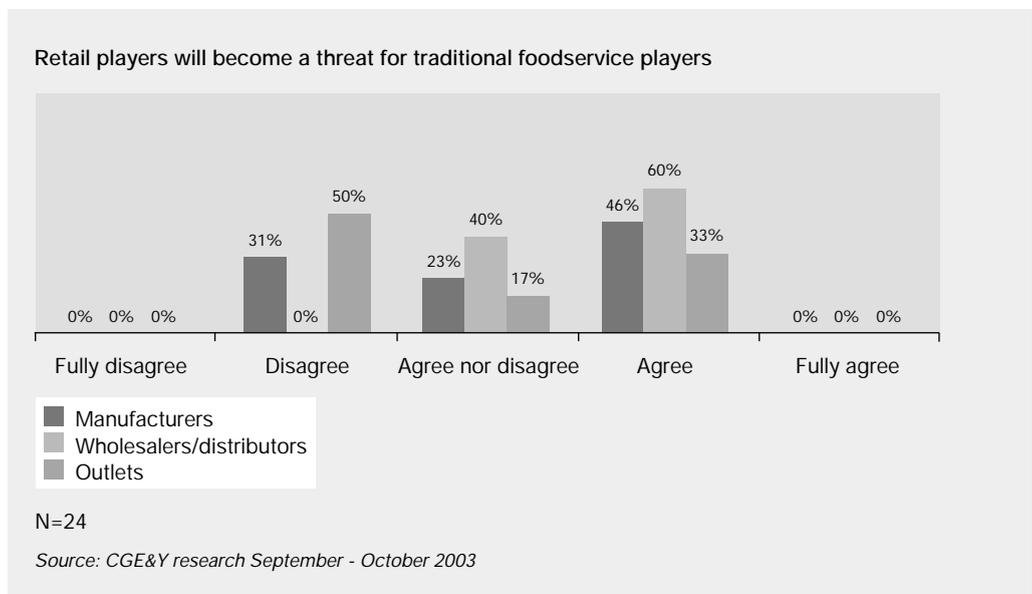
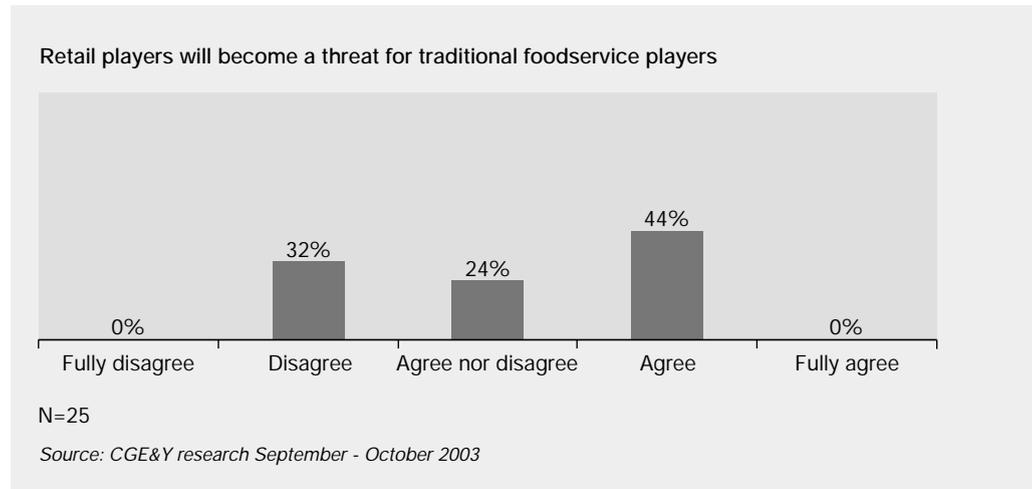
Channels

21. Channel marketing and product marketing will soon evolve to consumer-need marketing



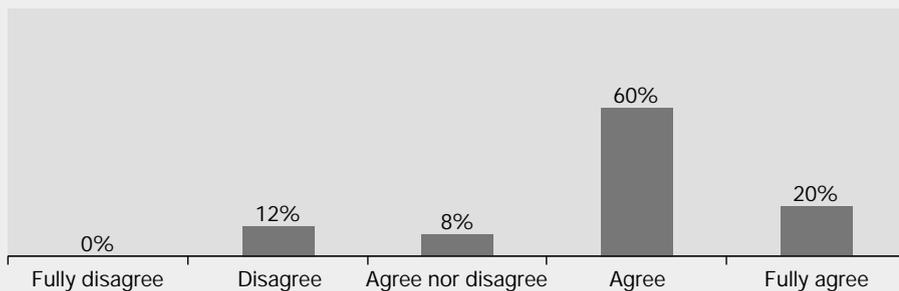
The role of the players in the value chain

22. Retail players will become a threat for traditional foodservice players



23. Outlets (especially chains) are going to benefit most from the growth in the foodservice value chain

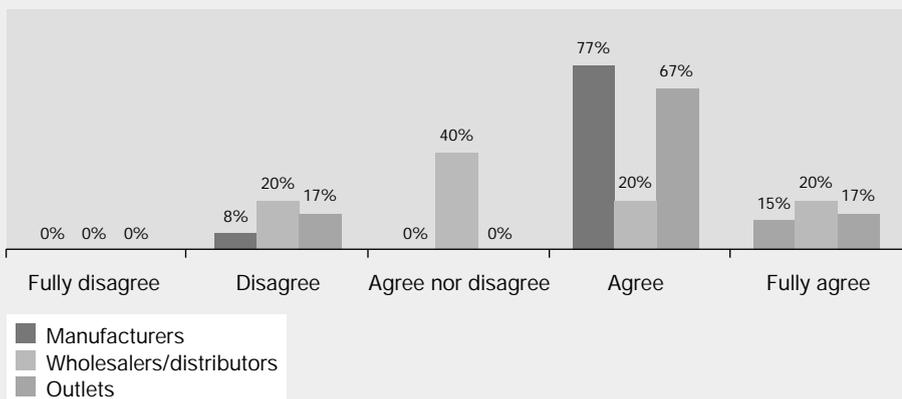
Outlets (especially chains) are going to benefit the most of the growth in the foodservice value chain



N=25

Source: CGE&Y research September - October 2003

Outlets (especially chains) are going to benefit the most of the growth in the foodservice value chain

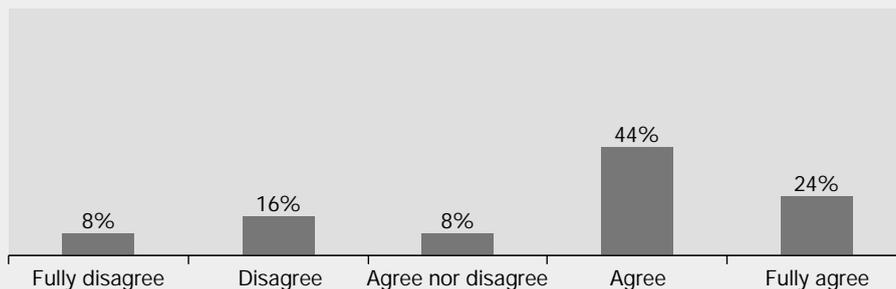


N=24

Source: CGE&Y research September - October 2003

24. Wholesalers/distributors have to make a choice between a trade function and a logistics service provider function

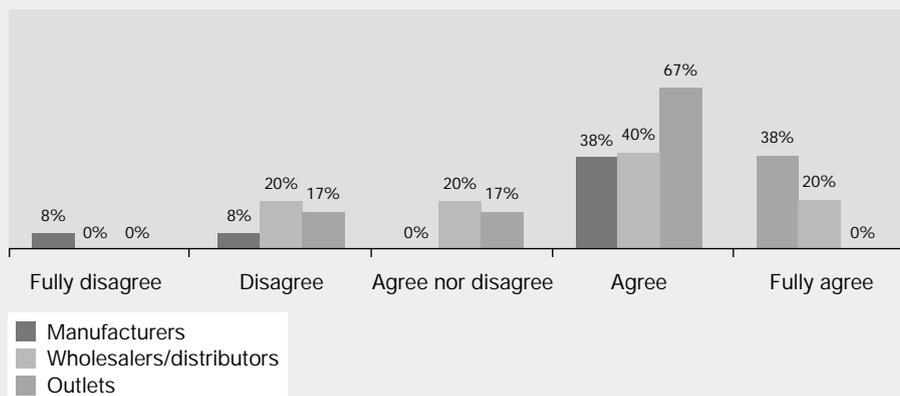
Wholesalers/distributors have to make a choice between a trade function and a logistics service provider function



N=25

Source: CGE&Y research September - October 2003

Wholesalers/distributors have to make a choice between a trade function and a logistics service provider function

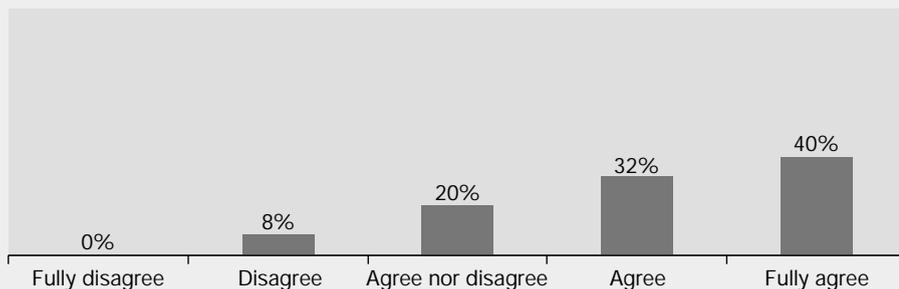


N=24

Source: CGE&Y research September - October 2003

25. Concentrated outlet organisations (chains, headquarters of catering companies, etc) will do their purchasing themselves instead of 'using' wholesalers for this

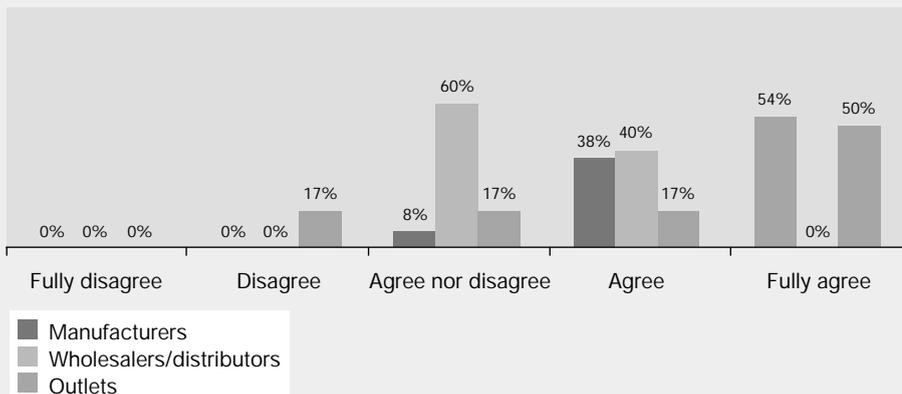
Concentrated outlet organisations (chains, headquarters of catering companies, etc) will do their purchasing themselves instead of 'using' wholesalers for this



N=25

Source: CGE&Y research September - October 2003

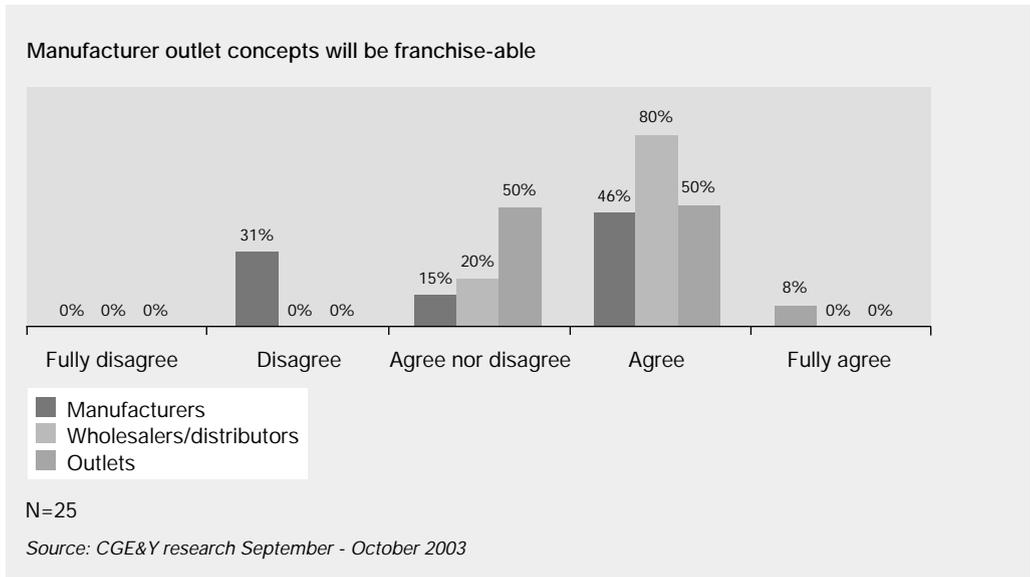
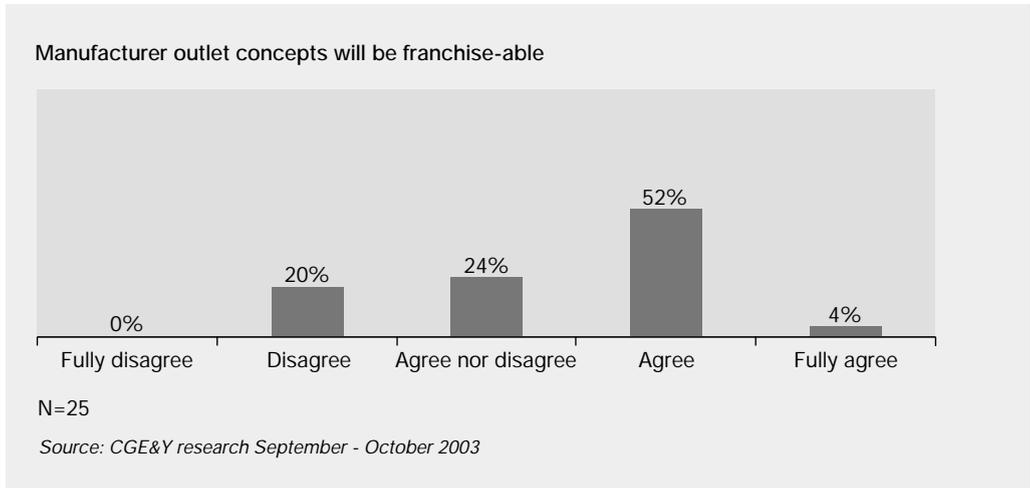
Concentrated outlet organisations (chains, headquarters of catering companies, etc) will do their purchasing themselves instead of 'using' wholesalers for this



N=25

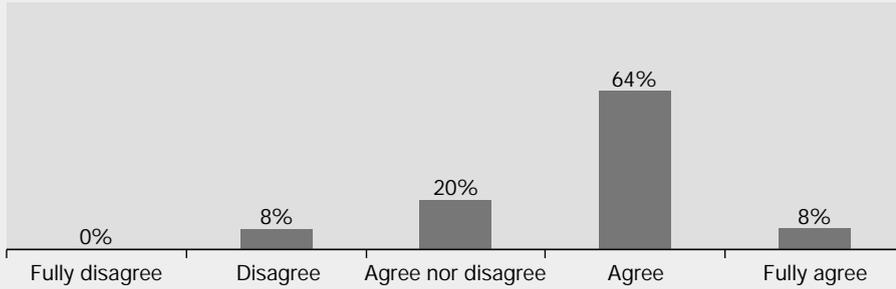
Source: CGE&Y research September - October 2003

26. *Manufacturer outlet concepts will be franchise-able*



27. Most other outlet concepts will be also franchise-able

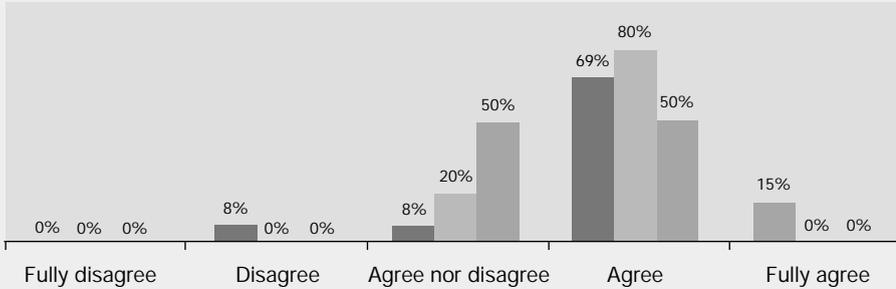
Most other outlet concepts will also be franchise-able



N=25

Source: CGE&Y research September - October 2003

Most other outlet concepts will also be franchise-able



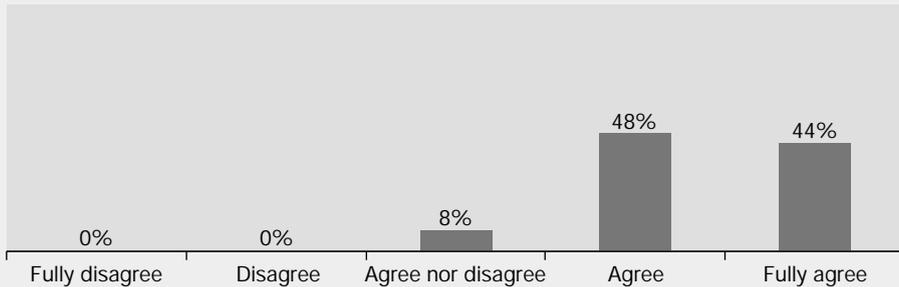
Manufacturers
 Wholesalers/distributors
 Outlets

N=25

Source: CGE&Y research September - October 2003

28. New European food safety legislation makes it necessary for players across the value chain to work together

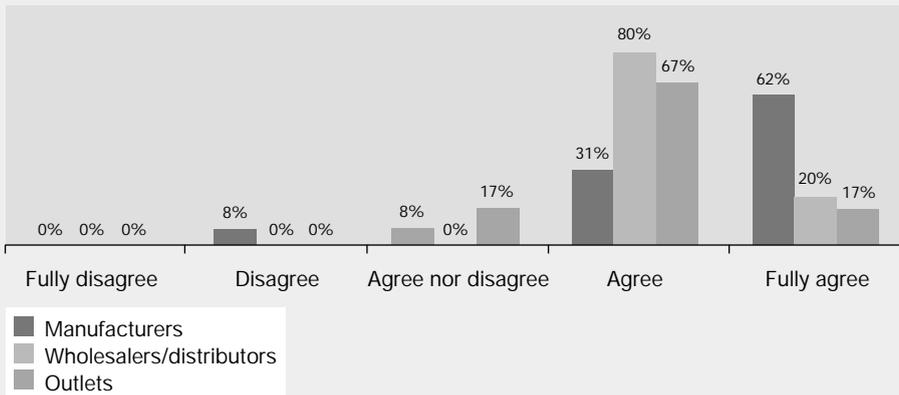
New European food safety legislation makes it necessary for players across the value chain to work together



N=25

Source: CGE&Y research September - October 2003

New European food safety legislation makes it necessary for players across the value chain to work together



N=25

Source: CGE&Y research September - October 2003

Companies that participated in interviews⁷ amongst others:



⁷ In September and October 2003 telephonic interviews were conducted with 25 industry thought leaders and executives from food manufacturers, food distributors and foodservice outlet organisations in Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland, and the UK.