A Review of the

UK Food Market

Prepared by Ruth Huxley

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Summary

- Developments in technology and policy during the 1990's led to huge changes in the food industry. Businesses became increasingly globalised and automated and, as a result of mergers and acquisitions, the main players became larger, fewer and accordingly more dominant but also more efficient.

- At the same time the UK population has been growing and becoming older as life expectancy increases and birth rates decline. More women are working; families spend less time eating together and the number of single person households continues to increase. This, coupled with rising affluence, has led to massive demand for quick, convenient foods that require little preparation and an increase in eating out of the home, both in catering establishments and 'on the hoof'. Although still firmly entrenched in traditional British tastes, the nation's food has become increasingly cosmopolitan. However, significant differences remain between the UK's eating and drinking habits and those of our European neighbours.

- Food prices have increased at a greater rate than general retail prices, but as disposable income increases, spending on food accounts for a smaller proportion of the average household budget. Farm gate prices have not increased at the same rate as retail food prices. Competition from imports and the strength of Sterling against the Euro appear to be the main factors forcing downward pressure on prices.

- Some of the increase in the volume of imported foods is due to increased consumer demand for all year round availability of certain fresh foods and wide variety and choice.

- Primary production in the dairy and meat industries is currently difficult. The price paid to UK milk producers is the lowest in the EU. Increasing consumer demand for processed meat products, rather than fresh meat, is often met through imported raw ingredients.

- The desire for convenience also affects the market for fruit and vegetables. Sales of processed potatoes, such as oven chips, have increased at the expense of fresh potatoes and, again, a large proportion of this market is being met by imports. Exotic fruit and vegetables are gaining in popularity at the expense of indigenous produce; often due to their ease of preparation and/or quick cooking time and their suitability for use in exotic recipes.

- The UK market for fresh fish has been one of the most successful in recent years although, yet again, the increase in demand has been for varieties not found in UK waters. Farming of salmon has increased its availability and decreased its price to the extent that it is now the most commonly purchased fresh fish.

- In all processed food sectors, variety and convenience is of paramount importance. Individual sub sectors have developed, catering for the needs of those looking for 'healthy', premium quality, organic, children's or good value products. New products and packaging ideas and new marketing angles (notably in own-label ranges) are continually being introduced, although core products with established brand names remain firm favourites with the UK population.

- The drinks industry is the focus of much innovation and opportunity and is a

significant growth area, although some of the traditional drinks such as beer, sherry, tea and coffee have experienced decline. Convenience is important to consumers because an increasing number of drinks are bought for out of home consumption and this is the market in which the best returns are obtained.

- The boundaries between out-of-home and in-home eating are blurring as supermarkets offer ready-cooked, hot or ready-to-heat meals, and restaurants offer takeaways or home deliveries. As a result, the growth in the fast food and takeaway sector has been slowing after rapid growth in the 1990's.

- Mid-market hotels and restaurants appear to be finding the current market place difficult as budget options and fast foods take the lower end of the market and premium up-market offerings become more affordable to those in the middle income bracket whose disposable income is increasing. Many pubs are offering food as a means of compensating for falling income due to a decline in sales of alcoholic drinks.

- The best performing sector of the catering industry is currently the contract catering sector.

- Plenty of scope exists for the catering sector to exploit opportunities offered by the tourism industry in a more focussed manner.

A Review of the UK Food Market

1 Introduction

This research has been carried out as the first part of a two part project between Cornwall Taste of the West and Cornwall Agricultural Council. The complete project is intended to reveal current market trends within the whole of the UK food industry and to assess where the food industry in Cornwall and the Isles of Scilly sits within that market.

This part of the study looks at the whole of the UK food market. It is a review of recently published data, intended to provide not only an overview of the market, examining both production and consumption trends, but also an analysis of the size, value and scope of individual market sectors.

The second part of the project is a separate study of food production, distribution and processing in Cornwall and the Isles of Scilly, and is believed to be the first study to look to this extent across the whole of the food production spectrum in one geographical area of the UK. The full findings of that part of the project are published separately (Reed et al, 2003). A further report (Huxley, 2003) provides a summary of the combined results of both parts of the project and considers the implications for the food industry in the area.

The aim of the project is to provide data that might guide the food industry within the Objective One area of Cornwall and the Isles of Scilly and the organisations that support it. This report can be used to assess the market potential for Cornish foods and to identify strengths, weaknesses, opportunities and threats. It covers all the main areas of food production carried out in the area and includes data on parts of the food processing industry that it is felt might, or potentially could be, of relevance. A section on the catering industry is also included, with emphasis on the relationship between tourism and catering, because of the significance of tourism in the area.

The report does not offer in-depth analysis of each sector or sub-sector. To do so would create a lengthy and unwieldy document. Its value is in its breadth rather than its depth; and its provision of information in a concise and accessible format. It is well known that those working within one sector of the industry tend to focus on that sector alone. This report seeks to encourage readers to take a look at the whole spectrum of the food industry; to make comparisons and perhaps identify opportunities for working in new ways or with new partners.

Note: The content of the report is intended to be of relevance to the Objective One area of Cornwall and the Isles of Scilly. For ease of reading, the terms 'Cornish' and 'Cornwall' are used extensively, but are intended to apply to the products and the industry of the whole area, including the Isles of Scilly.

2 Market Overview

2.1 Production and Sales

According to Key Note (2002a), production of food commodities in the UK is increasingly being replaced by a manufacturing industry which concentrates on processing and adding value to raw ingredients. This has led to a situation where the UK is a net importer of food, with a trade deficit in the region of £10.65bn in 2001 and food imports accounting for almost three times the value of exports.

The manufacturing and processing industry is itself consolidating and participants are becoming fewer and larger, due to an increasing number of mergers and acquisitions. Key players have developed vertical alliances as a means of retaining control and streamlining operations through all stages of the production cycle, thereby increasing profitability and effectiveness.

Retail food prices are currently increasing at around 3% - about double the rate of inflation, although this is by no means the case throughout all sectors. In 2001, lamb, pork, dairy produce, fresh fruit and vegetables and bread all increased in price, whereas beef, fish and potatoes showed little change. Total retail food sales in the UK in 2001 amounted to almost £100bn.

The best performing sectors overall during the five years 1997 - 2001 were bread, cakes, cereals and biscuits and fish and fish products. Ready meals, pizza and cooking sauces also did well. Fruit and vegetables now account for a 27% share of the market - for the first time replacing meat, which has previously always attracted the largest market share.

Many organic conversions were completed in the UK during 2001, increasing the area under organic cultivation by 133%. This led to an increase in UK supply, particularly in the meat sector. However, this was not matched by increased demand and organic meat and milk were both sold into the mainstream food market without any price premium. Imports of organic food reduced by 5% from the previous year, but nevertheless remained at 70%.

The downturn in the performance of specialist and independent stores halted in 2001. Greengrocers, butchers, fishmongers and bakers all saw an upturn, with greengrocers doing particularly well. Mintel (2003) confirms these findings and states that in 2000 the value of sales through small food businesses grew by 3.8% - the highest recorded growth in recent years - whereas the growth in the value of sales through large food businesses declined to around 3-4% from 6-7% during the 1990's.

Young (2000) reports that petrol stations attract an increasing number of food shoppers, with some reporting as much of 25% of their trade coming from non-petrol purchasing customers and up to 16% of customers arriving on foot.

Recognising that their customers tended to be looking for top-up and last-minute food purchases, the independents have led the development of the convenience store format, where small stores incorporate convenient and attractive features, such as off-licence, bread baking and hot ready meals facilities alongside extended opening hours. This move has not gone unnoticed by the major supermarkets, who are fast developing their own presence in this field and returning to town and city

centres.

2.2 Consumption and Expenditure

2.2.1 Population

The UK population is set to increase by over 2 million to almost 62 million over the next 10 years. Increased life expectancy and declining birth rates are leading to an increasingly elderly population and this trend is set to continue as the large numbers of 'baby boomers' reach retirement age. Eventually there will be fewer people of working age, which will impact on the Government's ability to provide a state pension for the increasing numbers of retired people. For those unable to make alternative provision, retirement may therefore also mean becoming accustomed to a substantially reduced disposable income. Furthermore, an increasing number of people will enter retirement without dependents or partners, and this will lead to an increase in the numbers of elderly people living alone. And as those people become unable to manage on their own, the need for residential care will increase.

As fewer and fewer people choose to marry or settle with a partner, or do so at a later age, and more of those who do marry become divorced, the number of younger adults living alone will also increase, although this will be balanced in part by the number of young adults forced to remain living at home with parents, due to the predicted shortage of affordable housing, particularly in rural areas.

2.2.2 Spending

Key Note (2001) states that spending on food is rarely sacrificed for other spending, except in very low-income households. However, as disposable income increases, so do both expenditure and consumption. There is a limit to consumption of course, but even when this limit is reached, per capita expenditure on food continues to increase with disposable income level. In other words, with increasing wealth, people not only choose to eat more, but also choose more expensive food. Even so, wealthier households spend a smaller *proportion* of their disposable income on food than the less well off, as their increasing wealth allows them to spend more on other luxuries.

With increasing affluence and a relatively stable economy over recent years, the UK has seen the shift take place in food purchasing patterns towards increasingly expensive food items rather than the more ordinary. However, food expenditure as a proportion of overall expenditure has decreased to less than 10%. According to Key Note (2002a), people in the UK spend less of their disposable income on food than any other European country.

2.2.3 Eating and Cooking Habits

Key Note (2001) also considers that there are four main factors that influence eating and cooking habits: -

- Supply/availability
- Price/affordability
- Time
- Knowledge

It is worth mentioning, however, that consumers themselves are not always aware of what it is that influences their decisions. For example, whilst 'greater awareness of dietary requirements and effects on health' is cited by consumers as the most important factor that has a lot of influence on their eating habits, the data provided throughout this report indicates that eating habits bear little resemblance to dietary recommendations and this is substantiated by the population's increasing obesity.

On the other hand, as few as 15% agree that the availability of different ingredients and foods affects their eating habits, when it is the widening range of foods made available to the UK population through global trading that has probably had more effect on food purchasing habits than anything else in the post-war years.

Price and time are two factors that are interdependent when it comes to food habits. The increasing number of women working and/or opting not to have children has been one of the contributory factors in increasing wealth. However, because this means that households can afford to spend more on food but have less time in which to prepare it, the use of ready meals and ready prepared ingredients has soared.

Today's lifestyle places less emphasis on the family unit and family mealtimes are becoming a thing of the past. The use of microwaves and the availability of single serve sizes of prepared or quick to prepare foods enable family members to prepare their meals individually. According to the British Potato Council (2002), 47% of adults eat their main meal in front of the TV and Key Note (2002a) states that 40% of adults eat their evening meal alone.

The three-meal day is also becoming eroded. Key Note (2001) suggests that it is increasingly replaced by the five-snack day, and identifies the main snacking occasions as follows:

- The early morning commuter rush
- Mid morning
- Lunch time
- End of the school day
- Return home from work.

The British Potato Council (2002) highlights 10-11pm as the most common time for in-home snacking and 1-2pm as the time when most snacks are eaten outside the home. In-car snacking, or 'dashboard dining' is a growing trend.

Where people do eat three meals a day, their content is changing. The British Potato Council (2002) finds that consumption of the traditional English breakfast of bacon and eggs declined by 23% between 1990 and 2000 whilst consumption of cereals and yogurts increased and products like croissants, bagels and crumpets are increasingly eaten as substitutes for bread and toast. Breakfast is no longer always eaten at home. Cereal bars and breakfast offerings from fast food outlets,

such as McDonald's, provide solutions for 'on the hoof' breakfast. Alternatively, breakfast can be bought en-route and eaten on arrival at work. This habit has given rise to a new eating occasion - 'deskfast'.

According to the British Potato Council (2002), the working environment is the main driver of lunchtime food choice. Lunch is the main meal of the day for 13% of the population. Most people eat sandwiches for lunch, although the home prepared lunch box is being replaced by shop-bought sandwiches. The market for lunchtime catering out of the home was worth about £22bn in 1999. Key Note (2002a) finds that there is a revival in interest in hot lunches, possibly because more hot snack alternatives are available.

People now look for convenience when it comes to the evening meal and have responded eagerly to all time-saving innovations, whether they are prepared dishes or sauces, home meal replacements which include all the meal components ready prepared, or one of the latest ideas - a pack of measured, part-prepared ingredients with instructions for converting them into a luxury meal, for those who wish to feel they are cooking from scratch but are lacking either the time or skills to do so.

As generations become accustomed to meal solutions such as these, their understanding of what represents a home-cooked meal has become somewhat blurred. For example, 60% of respondents to a British Potato Council survey felt that chicken nuggets and baked beans could be classified as such and 59% felt the same about pasta and prepared sauce (British Potato Council, 2002).

Two generations are now growing up without having acquired the knowledge of cooking as an essential skill. In recent years, TV chefs have done much to promote cooking, but this has raised it to something akin to hobby status. As a result people are spending more time on meal preparation at the weekend, when cooked breakfasts are becoming more popular once again and meals are cooked from scratch using only authentic ingredients. However, cooking is one of many hobbies that have to be fitted into a limited amount of leisure time and mealtimes at weekends remain adaptable to accommodate whatever other activity is taking place.

2.2.4 Eating Out

Eating out is another definition that is becoming blurred, as the multiple retailers and convenience stores offer take-home meals and ready-to-eat hot foods. However, the British Potato Council (2002) estimates that approximately 35p of every £1 spent on food is now spent on out-of-home eating and that nearly 30m people eat out at least once a week.

Such a wide range of catering outlets now exists that people can eat out at virtually any time of the day and the snacking trend is well catered for. Eating out for snacks is especially popular with younger consumers who enjoy doing so whilst shopping (especially in out-of-town centres) or straight after work (Key Note, 2001).

Eating out is explored in more detail in Part 4.

2.2.5 Regional Variations

Mintel (2001a) produced a report which analysed differences in eating and drinking habits in the different regions of the UK. The South West is incorporated in an area that includes Wales and the West of England in the study, so the figures cannot be relied on for total accuracy, but as the demographics of Wales are not dissimilar to Cornwall's - being rural, remote, and having a strong agricultural focus and an older population than the national average, the key findings are worth reporting.

Household expenditure on food in the region is average for all the regions outside London and the South. Spending on meat is fairly high, although only when taking into account both carcass and processed meat. Purchases of carcass meat alone are around average levels, so it is the spend on processed meat that is high in the region. Consumption of eggs is low. Expenditure on, and consumption of fruit, confectionery, alcohol and soft drinks is high. An average of 415ml alcoholic drinks per person per week is consumed and is second only to Scotland's consumption. On average, each person in the region drinks almost 1.5 litres of soft drinks per week; the highest consumption levels anywhere in the UK. Consumption of fish, at 134g per person, per week, is low compared to the national average, although it would be worth more investigation to see if this figure is any higher specifically in Cornwall where fishing is one of the main industries.

People in the West and Wales eat more meat and meat products when eating out than other regions and, again, the least fish, although the same comment applies here about the need for more localised information. Consumption of alcohol and soft drinks out of the home is in line with other regions and does not appear to reflect the high levels of household consumption.

The population mix in the region is reflected in eating and cooking habits. People in the region prefer to stick to traditional cooking or recipes, whereas nationally the preference is for cooking to be *mainly* traditional, but with occasional experimentation. Fewer people than anywhere else in the UK responded positively to the statement 'I never cook' and a high number of people say that they always cook from scratch. Nonetheless, a fairly high number of people also claim to eat microwaved evening meals.

The West and Wales have the fewest dieters, the most meat eaters, the least child influence and the highest number of people eating lunch as their main meal of the day.

2.2.6 Attitudes to Local Produce

Since the late 1990's, farmers' markets, farm shops and the Internet have opened up distribution channels for the marketing of local foods and much attention has been given to the benefits of buying food from a local source. Mintel (2003) carried out research to ascertain how much consumer support exists for the concept of buying locally produced foods and found that although support is dominant in distinct categories of consumer, the situation is by no means straightforward.

About 12% of the population are keen, or even fanatical, local or British produce buyers, and their numbers increase with both age and social status. On the other hand, 47% of the population are carefree, buy anything, anywhere buyers. Those who are least likely to notice the origin of foods or for whom origin plays no role in their food purchasing decisions are the under 25's, one-person households under 65 and ABC1 *families*. Convenience takes precedence over origin for full time workers and financial considerations take precedence for the less well off.

23% of the population use farmers' markets and/or farm shops and do so primarily in order to support their local economy and because they find the produce fresher. The over 45's and ABC1's demonstrate a preference for their local produce, although those within social group E are also supportive. This group tends to find supermarkets expensive and are likely to cook from scratch. Therefore they may well be searching for sources of good value primary ingredients at farmers' markets and farm shops. C2's show least interest in local produce.

Those who use a local grocer are the most likely to be loyal and discerning when it comes to local or British produce. Many shoppers claim to try to buy produce of British or local origin, but will freely substitute with foods from abroad if local or British equivalents are not available. 14% of the population still has difficulty in locating their local products.

Those who are most likely to demand local or British produce are also those who demand year round availability and choice. Both of these desires increase with social status, even though they may conflict in principle. Those who shop for food at Marks and Spencer, for example, are the most choosy and demanding on all counts.

3 The Size of the Market

This chapter details the size and scope and recent trends within individual sectors of the food and drinks industry, selected because of their relevance or potential within Cornwall and the Isles of Scilly.

3.1 Dairy, Eggs, and Yellow Fats

This section deals mainly with the dairy industry, but includes other yellow fats because of their common use as dairy alternatives.
According to Key Note (2002a), the total market for all these products is valued at almost £9bn and still grows at around 2.5% each year, although this figure hides disparities in growth between the different component sectors of the industry. The information in this section is sourced from Key Note (2002a) except where specified otherwise.

3.1.1 Milk

Retail milk prices are lower in the UK than virtually anywhere else in the EU. They did increase by 6.4% in 2001, but price cuts and record production levels in 2002 led to further difficulties in the UK liquid milk industry achieving realistic prices.

About 50% of milk supply is used for liquid milk consumption and about 60% of all liquid milk sales to households are via the multiples. According to the Dairy Council (2003), 17% is still sold through doorstep delivery and 15% through other retailers. Imports of liquid milk in 2000/2001 were about 100 million litres less than in 1995/6 and most household consumption in the UK is satisfied by domestic supplies.

The number of UK dairies continues to fall as production becomes concentrated around larger enterprises which can afford to invest in new equipment and satisfy the demands of the multiples.

Combined UK per capita consumption of liquid milk and cream has remained relatively stable over recent years at around 2 litres per week. However, preferences have changed and pasteurised, semi-skimmed milk now accounts for about half of all household consumption and continues to increase in popularity. Whole (standardised) milk accounts for 29% of the market and skimmed milk takes a 15% share (Dairy Council, 2003). UHT long-life milk is also increasing in popularity and now accounts for 8% of the market.

Relatively new products such as flavoured milks and vitamin- or mineral-enriched milks are experiencing growth and offer good prospects. Seymour Cooke (2002) estimates this market to be worth £80m and growing by about 1% per year. Although flavoured milks were originally created for the children's market, some are now being aimed at adults.

Organic milk production rose to 70 million litres in 2001 - about 1% of total UK production. However, insufficient demand led to about half this quantity being sold into the standard milk market without any price premium.

3.1.2 Cream

According to Seymour Cooke (2002), 275 million litres of cream are produced in the UK each year. Key Note (2002a) estimates annual consumer spending on cream to be about £165m and this figure has barely changed over the past five years. It is a difficult market. Its high fat content does not make cream easily marketable as a commodity item and it does not lend itself to new product development. A few flavoured cream lines have been developed, but by and large cream is bought either as a cooking ingredient or as an accompaniment and tends to be reserved for special occasions.

Although the retail market is challenging, more opportunities might lie in the food processing and catering sector as consumer habits for eating out and for buying ready prepared foods increase. These are occasions on which consumers look for treats and in this market place the luxury or indulgent qualities of cream can be used as a marketing tool.

3.1.3 Cheese

Retail sales of cheese in the UK in 2001 amounted to 335,000 tonnes, worth an estimated £1.7bn - a growth in value of over 9% since 1997. Cheddar accounts for around 60% of all cheese sales, but there is evidence that consumers are becoming more sophisticated in their tastes and premium varieties, blue cheeses and regional and speciality products are becoming more popular. Soft cheeses now take a 15% share of the market. Own brands have 80% of the hard cheese market but brands do well in the processed sector (Key Note, 2002a and Seymour Cooke, 2002).

Seymour Cooke (2002) estimates new products aimed at the snacks and lunch box market to be worth £160m a year. Half of these products are aimed at children.

Total UK annual per capita consumption of cheese is 9.7kg - a little over half the EU average of 18kg per person (Seymour Cooke, 2002). Key Note (2002a) finds that most households use 250g or less of block cheese per week. Retail sales account for only about two thirds of consumption. The remaining third is sold through the catering industry and the public sector.

Cheese is the leading dairy import and most imported cheese comes from the Republic of Ireland (Key Note, 2002a).

3.1.4 Butter and Non-dairy Yellow Fats

According to Key Note (2002a), consumption of block butter is in long term decline and spreadable butter now accounts for about one quarter of all butter sales, even though it is more expensive. Spreads and margarine together account for over 60% of the total yellow fat sales, although butter still retains the largest single sector of the market with a 38% share. There is little brand loyalty in this sector - consumers appear to shop on price and will therefore respond to price promotions.

The total yellow fats market is worth £830m and growth in value does not keep pace with inflation, due to falling butter prices and keen competition in the spreads sub sector.

Less than half of all households use butter, whereas almost 60% use soft margarine. Butter consumption increases with age and social class and consumption of margarine and spreads decreases within these groups accordingly. There is little significant regional variation in the use of butter and other yellow fats.

Seymour Cooke (2002) attributes the decline in household consumption of yellow fats to the decline in home sandwich making and home baking rather than a trend towards a reduction in overall fat consumption.

3.1.5 Ice Cream

Seymour Cooke (2002) states that retail sales of ice cream in the UK in 2001 amounted to 520 million litres, worth nearly £1.2bn. This equates to consumption of 8.8 litres per capita per annum. Consumption volumes are stable and comparable to consumption levels in Italy, Ireland and Germany. Premium, luxury and children's products are the current growth areas.

According to Westbrook (2002), the premium ice cream market is not yet saturated, but constant new flavours and innovation are needed. Emphasis in 2002 was on alcohol-based flavours. Ice cream is another dairy product that has grown up and become a luxury, indulgent, adult product; often marketed as intimate, for couples to share. Regional products can be part of this market, but must have quality if repeat purchase is to be guaranteed. Variations in packaging sizes can be used as a marketing tool.

3.1.6 Yogurt and Chilled Desserts

Key Note (2002a) states that this sub-sector of the dairy industry is currently looking healthy following some rationalisation which has cured the overcrowding that had been developing. It has shown better growth than other parts of the dairy industry - 13% between 1997 and 2001 - and currently growing at around 5% per annum. Seymour Cooke (2002) estimates market volume to be 600,000 tonnes, which amounts to 10kg per person per annum; worth just over £1bn.

New product development is prominent in this sub-sector and has reacted to consumer trends appropriately, introducing products aimed at the snacking market, single person households and children as well as meeting demand for ready prepared, luxury products. The value of the sub-sector has increased consistently alongside these trends in innovation and adding value, and Seymour Cooke (2002) forecasts that both value and volume will continue to rise. There has been some decline in the market for ordinary low fat and natural yogurts as people opt for luxury lines.

Key Note (2002a) states that yogurts make up 55% of the market, other chilled desserts take a 28% share and fromage frais accounts for 17%. Seymour Cooke (2002) estimates that organic varieties of yogurt take 3% of the overall market. Drinking yogurts are a dynamic growth area and confectionery brand names are becoming more and more prominent in the chilled desserts ranges (Seymour Cooke, 2002).

3.1.7 Eggs

Key Note (2002a) reports that the egg market is in long term decline. Household per capita consumption is about half that of 1985 levels and currently stands at around 1.75 eggs per week. This is again indicative not only of changing tastes but also of the decline in home preparation of food and home baking.

The value of the egg market is £525m - the same as 1997. Eggs from caged birds still account for over 70% of the market, although there has been interest in free range and organic eggs and, a more recent introduction, eggs from specific breeds of hen.

3.2 Meat and Poultry

The data on which the information in this section is based has been taken from Key Note (2002a) except where stated otherwise.

The problems associated with UK farming have been well documented and are not discussed in any detail here. However, the following tables clearly illustrate the way in which all UK red meat production has declined over the past 5 years. The effects of swine fever in 2000 and foot and mouth disease in 2001 are also evident. However, one of the most noticeable trends is the all round steady decline in the export market for UK meat which, although enforced at times of crisis by either our own export bans or other countries' import bans, can also be attributed to the strength of Sterling and a lack of confidence in UK produce. This has been coupled with an increase in the quantities imported, so farmers have not only lost their export market but have to compete for the domestic market.

Table 1: UK Supplies of Beef and Veal, (000 tonnes) 1997-2001

	1997	1998	1999	2000	2001p
UK production	698	700	679	706	646
Plus imports	217	152	183	196	262
Less exports	13	9	11	9	8
Stock change	-45	16	83	21	1
Total	**857**	**859**	**934**	**914**	**901**

Table 2: UK supplies of Mutton and Lamb, (000 tonnes) 1997-2001

	1997	1998	1999	2000	2001p
UK production	351	386	403	391	270
Plus imports	152	142	137	134	113
Less exports	141	147	154	134	43
Stock change	-2	0	1	5	1
Total	**360**	**381**	**387**	**396**	**341**

Table 3: UK Supplies of Pork, (000 tonnes) 1997-2001

	1997	1998	1999	2000	2001p
UK production	888	931	831	725	610
Plus imports	177	190	235	274	258
Less exports	248	292	235	208	39
Stock change	-2	-2	3	7	4
Total	**815**	**827**	**834**	**798**	**833**

Increasing demand for poultry meat has seen year on year growth with UK production holding its own. However, imports have increased whilst exports have declined and, although the proportions are much smaller than in the red meat industry, there is no room for complacency. Poultry meat now accounts for almost double the tonnage of beef and five times the amount of lamb consumed in the UK.

Table 4: UK Supplies of Poultry Meat, (000 tonnes) 1997-2001

	1997	1998	1999	2000	2001p
UK production	1,520	1,545	1,525	1,513	1,568
Plus imports	277	316	349	355	335
Less exports	213	197	187	174	182
Stock change	-24	-15	9	13	-8
Total	**1,560**	**1,649**	**1,696**	**1,707**	**1,713**

Data source - DEFRA. Tables 1-4 reproduced from Key Note (2002a)
p= provisional figures

Consumer expenditure on meat in 2001 amounted to £12.15bn, a drop of 1.4% after increases during 1999 and 2000. Although this was partly attributable to a drop in consumption, this was minimal at around 26,000 tonnes. The most significant factor was the drop in beef prices. Pork and lamb, on the other hand, saw increases in price, (lamb by as much as 8%) because the drop in domestic production due to foot and mouth disease was not matched by imports. Poultry prices have been relatively stable.

Consumers appear to have been less sensitive to the various traumas that have affected the meat market and other factors that might have affected their buying patterns than might be expected. Over the past five years, there has been overall growth in real terms in the value of the UK meat market, even allowing for the blip in 2001, although when figures for 2002 are available they will provide a more accurate indication of how well the market has recovered from the effects of foot and mouth disease. Dietary intake has not changed greatly and although poultry shows the most steady and constant increase in popularity, it appears to do so alongside growth, albeit smaller growth, in the red meat sector, rather than totally at its expense. Recommendations to cut down on red meat consumption therefore appear to be going unheeded. The rise in vegetarianism seen during the 1980's and 90's has now levelled off although, according to Key Note (2001), as much as 25% of the population regularly buy vegetarian foods (this figure includes those who also eat meat).

A tendency has developed towards convenience when it comes to choosing fresh meat, with quick to prepare and cook items such as ready sliced or diced fillets taking preference over less lean or tender cuts requiring more time consuming and skilful preparation. Nonetheless, the most popular cuts of each type of meat remain traditionally British - beef mince, lamb roasting joints, pork chops, bacon rashers and whole chickens.

The most noticeable change in consumers' meat buying and eating habits is in the steady decline in sales of carcass meat and other unprocessed meat and a corresponding increase in sales of ready prepared meals and meat products. Total carcass meat sales for the third quarter of 2001, for example, were just over £800m, whereas ready meals containing meat and other convenient meat products for the same period accounted for £500m, and this figure does not include products such as burgers, sausages and pies.

A factor that UK meat producers should bear in mind here is that consumers are much less likely to question the origin of meat in processed products than carcass meat. Processors therefore have little incentive to use UK produce whilst it remains relatively high in price compared to imports.

There is also evidence of a move towards more sophisticated tastes in convenience food. Household expenditure on products such as canned and corned meat and even burgers is declining, whereas delicatessen products are becoming more popular. Sausages did well in 2001, attracting sales valued at £450m and this has been attributed to the increasing range of varieties and interesting recipes now available. Manufacturers have kept in step with consumer demands for convenience alongside style and variety.

Packed, prepared and frozen meat and meat products are generally purchased from the supermarket. Butchers' shops are used mainly for fresh meat and poultry. Supermarkets now account for over 75% of all retail meat sales.

Although most households buy meat, only 2.6% spend more than £15 a week on fresh meat. Over 25% of households do not buy any fresh meat at all and about 22% spend between £3 and £5 per week. This is, of course, as much to do with the reduction in household size as it is to do with overall household meat consumption.

The market is forecast to grow between now and 2006 by about 9% at current prices to about £13bn. Although the best growth will be in convenience and processed products, some growth can be expected in the fresh meat market during this year and next, providing there are no further disasters. Whether this growth is accommodated by domestic production or imports depends largely on price, but also on marketing and the ability of the industry to meet consumers' needs.

3.3 Fruit and Vegetables

The information in this section has been extracted from Key Note (2002a) except where stated otherwise.

3.3.1 Overview

Overall consumer expenditure on fruit and vegetables has increased over the past five years. Total UK consumer spending on fruit and vegetables in 2001 amounted to £12.52bn, with vegetables taking a 68% share of the market and fruit the remaining 32%.

The biggest growth was in the 'other vegetables' sector, i.e. all vegetables other than potatoes, with growth of 18.9% in sales over the five year period. Fruit sales also did well, increasing by 10.9%. Potatoes, on the other hand, showed little significant growth in sales.

Sales increases are mainly due to price increases, with no real growth recorded when expenditure is looked at in terms of constant 1995 prices. Retail prices in 2001 alone increased well above inflation, with fresh fruit up almost 16% and fresh vegetables up over 6%. Retail prices for all food increased by 2.8% in the same year.

Expenditure on processed fruit and vegetables rose much more significantly (by almost 20%) over the five year period than expenditure on fresh fruit and vegetables which rose by about 7%. Fresh fruit and vegetables still account for the greatest share of the market at about £7.5bn, with processed fruit and vegetables taking just over £5bn. Fruit takes a smaller proportion of the processed market at about 23% compared with about 38% of the fresh market.

Over 13 million tonnes of fresh fruit and vegetables were consumed in 2001 in the UK. The retail market accounted for an estimated 6.9 million tonnes, with the remainder going to food processing or catering operations.

The UK is almost self-sufficient in fresh potatoes; imports accounting for only about 10% of the market. However, early indications from DEFRA (2003) are that imports of maincrop potatoes reached their highest ever levels in 2001. About 30% of other fresh vegetables is imported, mostly from Spain; the main imports being tomatoes, onions, cabbages and lettuces. Only 10% of fruit is home produced because many of the popular fruits are not suited to the UK climate, and as a percentage of the total fruit market, home produce is at almost half 1990 levels. The widening range of fruits from other countries, and habits that demand year round availability of as much variety as possible, have led to this change.

DEFRA (2003) figures show that the planted area in the UK has fallen from 234,000 Ha in 1990 to 186,000 Ha in 2000. The area on which both fruit and vegetables are grown has declined, with the only increasing area being that allocated to fruit under glass. In direct contrast to these figures, the area given over to ornamentals, i.e. non-food production, both under glass and in the field has steadily increased. The market value of ornamentals has also steadily increased.

Table 5 below illustrates the extent to which home production of both fruit and vegetables declined over the ten year period. The value of exports of both increased, although the value of imports increased by a much larger amount.

Table 5: Comparison of Market Value of Fruit and Vegetables in the UK, 1990 and 2000

			2000 £	1990 £
Vegetables	Home produced	Field	568m	655m
		Protected	310m	367m
		Total	877m	1.02bn
	Imports		961m	572m
	Exports		30m	16m
Fruit	Home Produced	Open	210m	268m
		Protected	13m	380,000
		Total	222m	268.4m
	Imports		1.4bn	1.07bn
	Exports		34m	27m

Compiled from DEFRA statistics. Figures may not total due to rounding

The number of UK vegetable growers is declining whilst the number of fruit growers is increasing. Most fruit and vegetable growers remain small enterprises, with the largest group consisting of those with a turnover of less than £50,000. As in other food sectors, the number of wholesalers is becoming smaller as the large players who are able to meet the supermarkets' needs capture the market. Almost 80% of retail fruit and vegetable sales are through supermarkets, although greengrocers and market stalls retained their market share in 2001.

Market penetration for *fresh* fruit and vegetables increases with age and lower social class, as these are the sectors least likely to buy ready meals or pre-prepared products. There are no significant differences in buying habits between the different areas of the UK. Females are much more likely to buy fresh fruit and vegetables than males. Most female housewives spend less than £3 per week on fresh fruit and vegetables.

The market for fruit and vegetables is predicted to continue along current lines, although the growth in the processed sector is set to slow by about 2004.

3.3.2 Potatoes

It is estimated that processed potatoes now account for at least 40% of all potato consumption in the UK. The oven chip has been a major factor in the demise of the fresh potato; its convenience and health benefits over the fried chip being the key to success. The market for frozen potato products is now worth nearly £450m and over half of all potato processors are now large enterprises with turnovers in excess of £1m. Fresh potatoes, once the UK staple, now account for less than 15% of the fresh fruit and vegetables market, with a value of £1.1bn.

With the increase in consumption of processed potatoes, it makes sense to grow varieties that are suitable for processing. However, data produced by DEFRA (2003) shows that this need has been increasingly met by imports. The volume of ready processed potatoes imported to the UK rose by almost 70% during the 1990's and continues to do so. Whilst McCain have recently been promoting their own use of Maris Piper from the UK for their chips, according to the British Potato Council (2002), many frozen chips are made from the Premiere variety grown in Belgium, Holland and Germany. The popularity of crisps and particularly the development of premium hand-cooked varieties of crisp also present opportunities for UK growers, although currently most crisping potatoes come from Brittany.

For those who do still buy fresh potatoes, the washed, pre-packed varieties are by far the most popular, with very little scope left for dirty free flow potatoes. Figures produced by the British Potato Council (Burrow, 2002) show that the highest prices are paid for the earliest liftings, with those that arrive first in the market place attracting prices considerably higher than those that follow even a couple of weeks later. Furthermore, the sooner home grown earlies reach the shelves, the more this reduces the volumes imported. DEFRA (2003) statistics show that the volume of imported earlies declined by over 50% between 1991 and 2001.

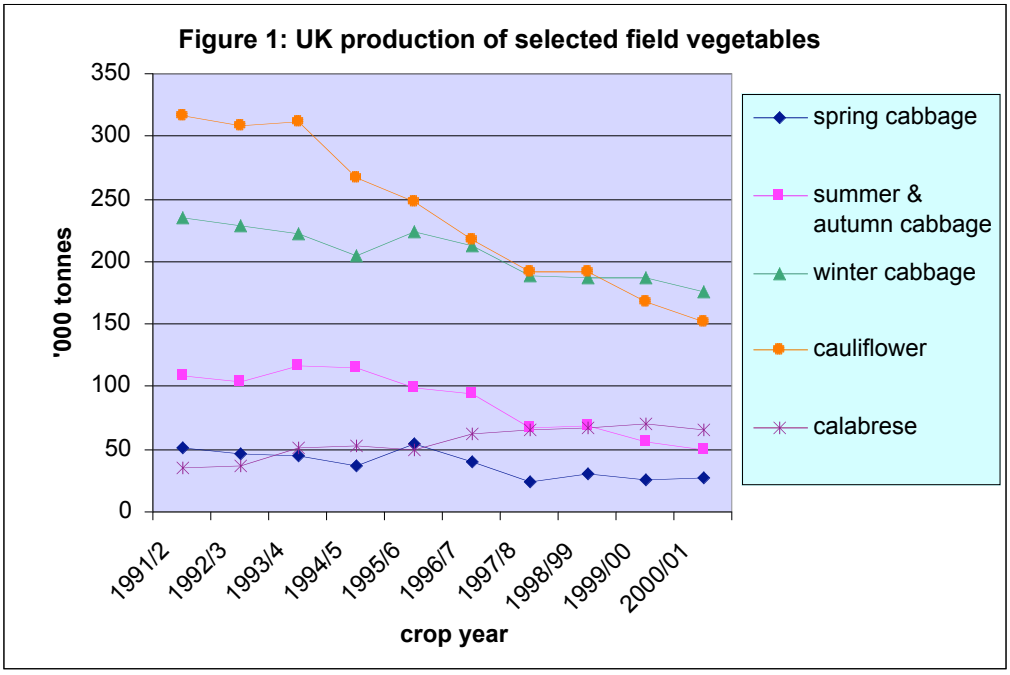
Consumers like the current supermarket practice of labelling potatoes by variety and usage, and further information such as recipe ideas would also be welcomed. Smaller pack sizes are also requested by consumers and this will be more important as the average household size continues to decrease. Salad varieties are popular, providing small tuber size is maintained (British Potato Council, 2002).

Much scope exists for supplying potatoes for the fresh, convenience food sector, whether simply ready peeled, as a prepared fresh vegetable, or fully prepared into recipe dishes that might be suitable for vegetarian main meals, for example, or accompaniments for special meals.

3.3.3 Fresh Vegetables

There has been a steady increase of over 10% in sales of green vegetables over the last five years, to the extent that fresh greens now account for nearly 17% of the fresh fruit and vegetables market. Leaf salads lead this part of the sector, but fresh prepared vegetables and vegetable mixes have also helped to boost sales.

The following charts, all compiled from DEFRA (2003) statistics, detail the performance of brassicas over the 10 year period to 2001, from which it can be seen that cauliflowers have performed particularly badly in terms of both yield and price and in competing with imports. In fact, on examining data on the entire vegetable market, cauliflowers can be singled out as probably the worst performer overall.



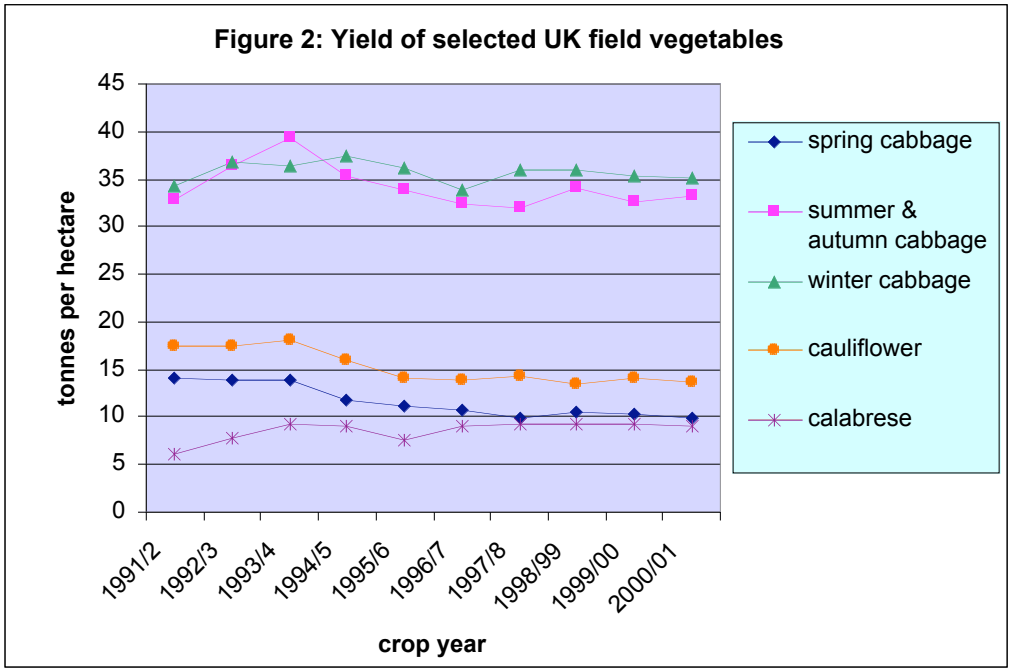


Figure 2: Yield of selected UK field vegetables
tonnes per hectare
45
40
35
30
25
20
15
10
5
0
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7
1997/8
1998/99
1999/00
2000/01
crop year
spring cabbage
summer & autumn cabbage
winter cabbage
cauliflower
calabrese

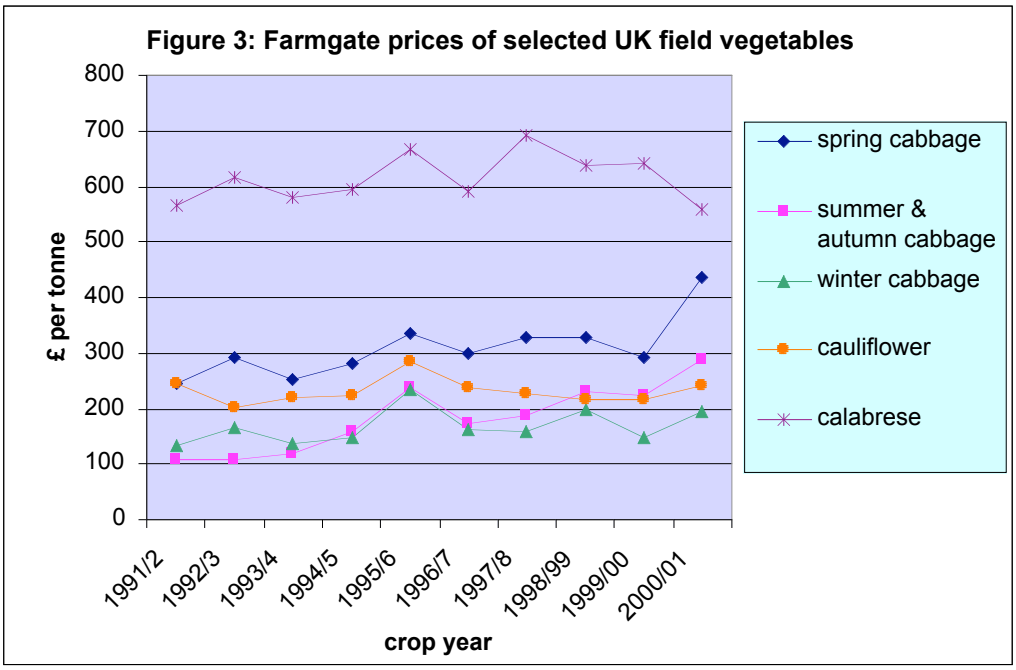
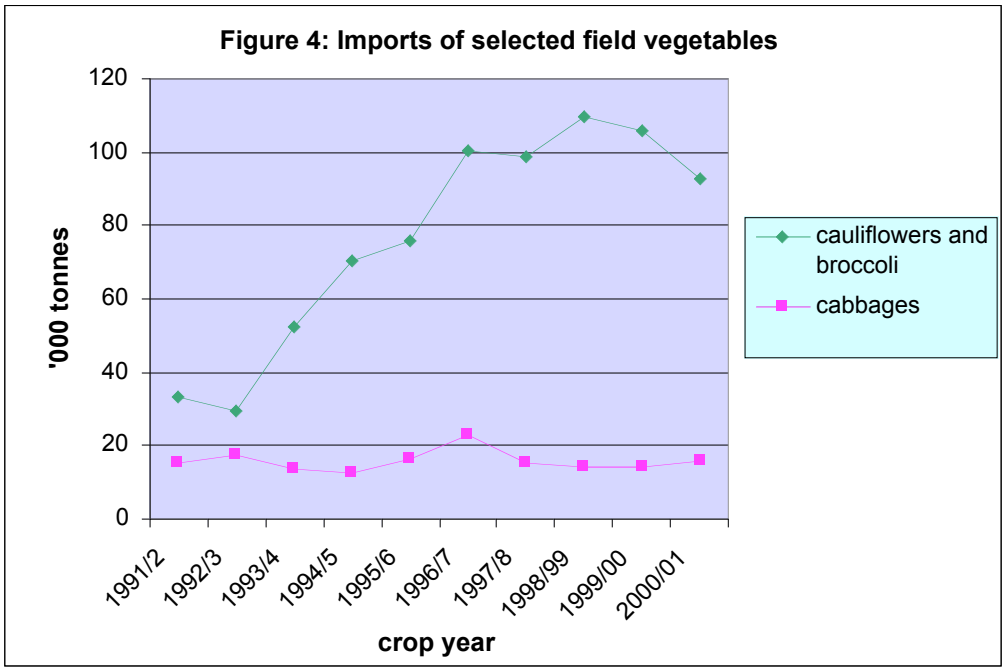


Figure 3: Farmgate prices of selected UK field vegetables
£ per tonne
800
700
600
500
400
300
200
100
0
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7
1997/8
1998/99
1999/00
2000/01
crop year
spring cabbage
summer & autumn cabbage
winter cabbage
cauliflower
calabrese



3.3.4 Fresh Fruit

This market has grown steadily and is now valued at £2.8bn. Bananas take the largest share at over 22%, worth £631m. The desire for convenience extends to the fresh fruit sector, with fruits such as grapes and easy peeling citrus fruits growing in popularity at the expense of larger oranges and grapefruits.

Strawberries are the favourite soft fruit, although others are gaining popularity.

The following charts, compiled from DEFRA (2003) statistics, illustrate how changing tastes are dictating fortunes. Although apples remain the most popular fruit, the market is mature and shows little overall growth. UK production of apples, particularly the traditional varieties such as Cox's Orange Pippin, has declined by about one third, but the level of imports has remained relatively static. Production of cider apples and perry pears, on the other hand, increased by approximately 65%, reflecting the increase in consumption of fruit juices.

Although UK production of plums and cherries is small in comparison to the volumes of other fruits produced, and has likewise declined over the ten year period, these fruits, as well as all soft fruits, have shown considerable increase in value, even though they have had to compete with imports.

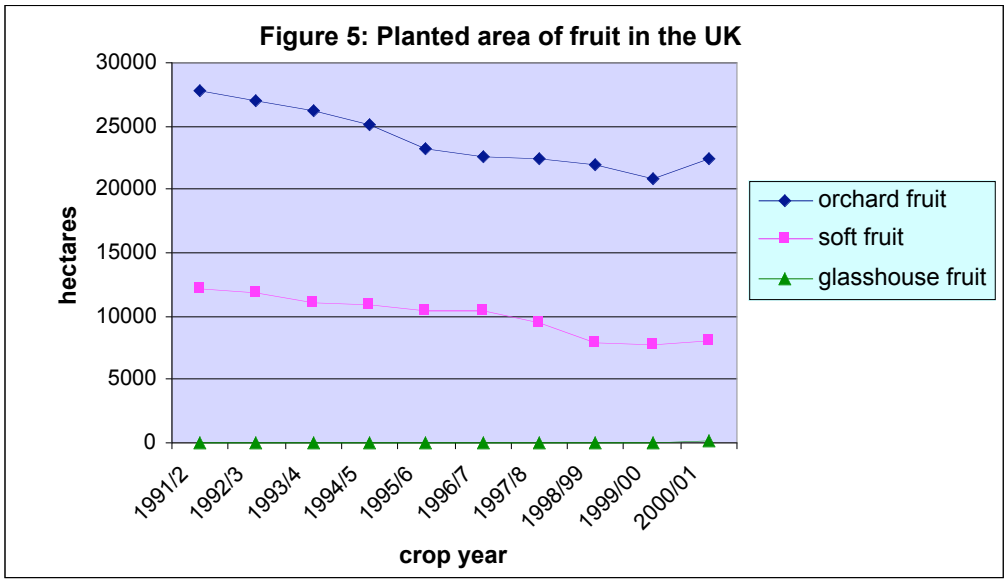


Figure 5: Planted area of fruit in the UK
hectares
30000
25000
20000
15000
10000
5000
0
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7
1997/8
1998/99
1999/00
2000/01
crop year
orchard fruit
soft fruit
glasshouse fruit

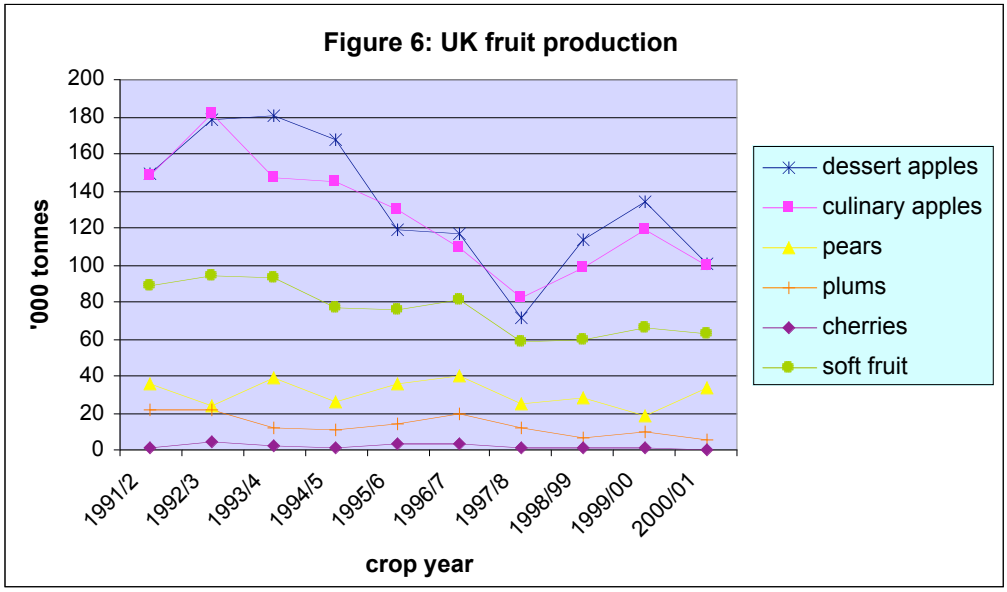


Figure 6: UK fruit production
'000 tonnes
200
180
160
140
120
100
80
60
40
20
0
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7
1997/8
1998/99
1999/00
2000/01
crop year
dessert apples
culinary apples
pears
plums
cherries
soft fruit

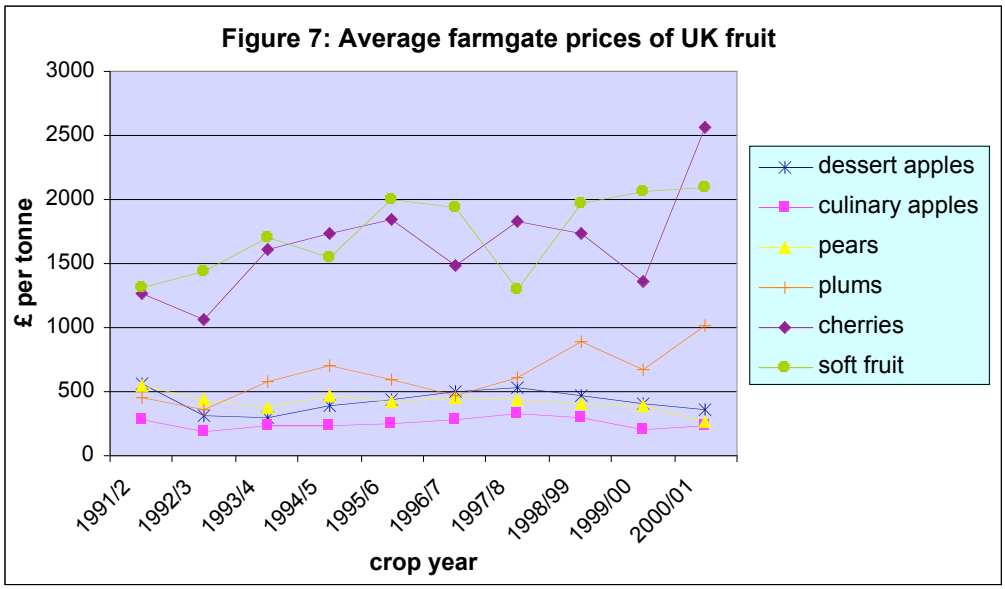
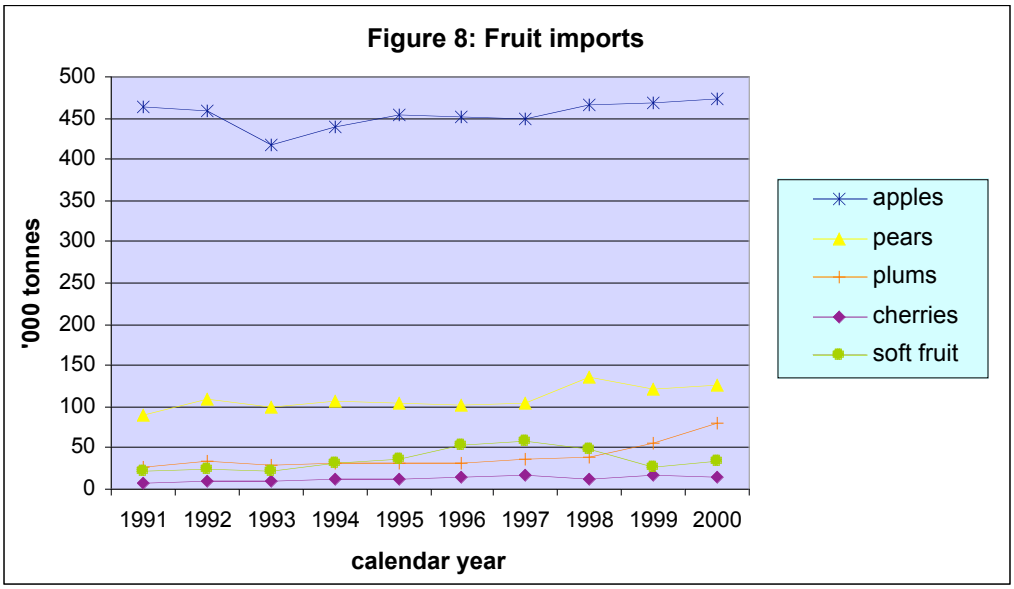


Figure 7: Average farmgate prices of UK fruit
£ per tonne
3000
2500
2000
1500
1000
500
0
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7
1997/8
1998/99
1999/00
2000/01
crop year
dessert apples
culinary apples
pears
plums
cherries
soft fruit



3.3.5 Processed Fruit and Vegetables

The increasing demand for authentic tastes in convenience foods has led to a decline in consumption of canned vegetables, and canned fruit in juice is replacing fruit in syrup. Fruit products aimed at the snack market, e.g. dried fruits and single portion products developed through packaging innovation, have boosted sales. Innovations in the fresh sector, such as fruit and salad bars which sell a wide selection of ready prepared items which can be selected in a 'pick and mix' fashion by the consumer have also impacted on the processed sector.

3.3.6 Exotics

Mintel (2002) reports that foreign travel, rising affluence, and the recommendations of celebrity chefs and other food media have given rise to better growth in this part of the fruit and vegetable industry than any other. The value of the exotic vegetable market in 2001 was £419m; up 62% since 1997 and the exotic fruit market was valued at £219m; up 65% since 1997. Exotics also account for the highest volume growth in the organic fruit sector.

Purchase of exotics is associated with higher income, higher socio-economic groups, more prosperous areas and 35-44 year-olds. Over 65's show least interest. The general preference in both fruit and vegetables is for products that are not *too* exotic. Baby corn and bean sprouts top the list in the vegetable sector whilst pineapple and kiwi fruit are the favourite exotic fruits. Some of these items are in fact becoming so popular that they are on the verge of crossover into the mainstream.

Many products sell well when introduced, but trial is not a guarantee of continued purchase and the popularity of some items drops off after a few weeks. However, for the market to be expanding at its current rate there must be more successes than failures. Initial take-up is very important to the retailer because the unit costs of

exotics are high and wastage can affect profitability greatly. New products are therefore often accompanied by a concerted marketing campaign, including price promotions, targeted media coverage and in-store tastings and recipe ideas. Sometimes trial is encouraged by placing a new exotic item alongside more everyday products, so as not to exclude those who might normally by-pass the dedicated exotics cabinet.

The main purchasers of exotics are those shoppers who also look for quality, innovation and variety. The desire for increasingly authentic, rather than anglicised, ethnic recipes is part of this trend and has led to the use of many new exotic ingredients in recent years.

Exotic fruits and vegetables can also often fulfil the need for convenience, since they can be very versatile (e.g. chillies, used in a variety of different cuisines) and used in time-saving recipes such as stir fries. Baby vegetables, which fall in the exotic category, can often be cooked quickly and straight from the pack.

The fresh and convenience sectors also work well together in the exotics market place. Ready meals, which constantly search for new recipe ideas, often introduce consumers to new exotic ingredients in an easy format and this can in turn lead consumers to trying the fresh ingredient in their own recipes.

Although exotics were originally geared towards adults, they are now increasingly being bought by families and bigger packs of baby and exotic vegetables have been introduced. Both exotic fruits and vegetables can be attractive to children as they like their sweetness and size.

Although most players in the supply chain are international, the multiples are now looking to make use of as much home-grown produce as possible because of the freight costs involved in transporting exotics across the world. Seed suppliers in the UK are beginning to catch on to this and a few UK growers are now beginning to produce speciality salads and greens and baby cauliflowers and cabbages. Baby versions of vegetables such as these, with which consumers are already familiar, have the advantage of not needing a marketing campaign aimed specifically at taste trial. However, they do also have the drawback of not offering a new taste experience in exchange for the price premium attached to them.

Consumers in the South West are about average in the UK in terms of purchasing exotics. Over one third are non-buyers. Possible reasons for this are the higher than average number of older people in the region, and the fact that the more predominantly rural areas are less exposed to new products, and often have smaller supermarkets which do not have space for more unusual lines. People in such areas also tend to have less cosmopolitan tastes, as they are less likely to have experienced such a wide variety of ethnic tastes as those in urban areas.

Since the number of 25-44 year olds in the UK population is set to continue to rise, growth is predicted to continue. A continuation of current economic trends would also lead to continued increase in levels of personal disposable income and therefore in the numbers of ABC1's in the population, although it must also be borne in mind that in any downturn, (which is increasingly being predicted) luxury items such as these are likely to be the first struck off the shopping list.

3.4 Fish

PESCA and the South West of England Rural Development Agency have recently commissioned a socio-economic study of the fishing industry, which examines in detail the size and importance of fishing to the region. The data in this report (which has been taken from Key Note, (2002a)) is complementary to that study and can be used to ascertain how well the fishing industry in the region meets the needs of the UK market.

In spite of warnings about low stocks and sustainability, fish consumption in the UK in 2001 was back to 1996 levels after five years of decline. Total UK fish consumption (both fresh fish and fish products) is estimated at 441,000 tonnes, worth £2.26bn and there have been steady price increases over the past five years. Nevertheless, per capita fish consumption in the UK is one of the lowest in the EU.

The increase in UK consumption is being met increasingly through imports and farmed fish, due to a shortage of stocks in domestic waters and changing tastes towards more exotic varieties. However, world demand for fish now outstrips supply.

Fresh and chilled fish accounted for 102,000 tonnes of UK fish consumption in 2001, valued at £716m - an increase in value of 14% on the previous year. Whilst frozen fish remains the largest single frozen-food market, its growth has been weaker than other fish-sector markets, with growth in value in 2001 of 1.4% - a tenth of that seen in the fresh fish market.

In the frozen fish market, fish fingers are no longer the most popular product. In line with trends in other convenience food sectors, this product, once regarded as the height of convenience, is losing out to fish-based ready meals which provide an even higher level of convenience and meet the current need for variety and interest alongside convenience.

Table 6 shows that in the fresh fish sector, salmon is by far the most popular fish with annual sales of nearly 20,000 tonnes, worth £140m. Cod remains popular and takes the second largest share with 13,500 tonnes valued at £93.5m. It is worth adding that these figures are for *household* purchase and therefore do not include the amounts sold through fish and chip shops.

Table 6: Household Purchases of Fresh and Chilled Fish by Value and Volume (£m and tonnes) 12 months to 10th December, 2001

	Value (£m)	Volume (tonnes)
Salmon	140.0	19,692
Cod	93.5	13,535
Haddock	76.3	11,050
Smoked salmon	58.0	3,766
Prawns	51.9	5,328
Smoked haddock	37.5	4,744
Plaice	31.8	4,465
Trout	26.9	4,870
Smoked mackerel	25.3	4,895
Kippers	16.7	4,570
Smoked cod	12.4	1,590
Mackerel	6.4	2,025
Herring	6.1	1,796
Coley	5.0	1,357
Other fish	100.6	14,754
Other shellfish	26.6	3,590

Total	**715.9**	**102,027**

The popularity of salmon can be attributed to farming, which has made it much more affordable. Smoked salmon is now readily available at reasonable prices to the extent that consumption levels begin to approach those of plaice and smoked haddock.

The canned fish market has also seen steady growth over the last five years. Consumers have benefited from its versatility and convenience as an ingredient in quick snack meals or sandwiches and new product developments have kept pace with consumers' tastes. Tuna accounts for almost half of all canned fish sales.

Fishing operations tend to remain small, whereas processors are becoming bigger and fewer. The multiples add value to fresh fish much better than small fishmongers and therefore take the highest market share.

3.5 Bread, Cakes, Biscuits and Cereals

This sector performed very well in the five years to 2001, as supermarkets replaced price cutting with a move towards quality. The whole sector has undergone a high level of product development, and complete new product categories have been created.

Per capita consumption in all bread and cereals categories has increased; cakes and biscuits by the most. This has increased per capita consumption of flour, although sales of bagged flour are declining as people bake less at home.

3.5.1 Bread and Morning Goods

Seymour Cooke (2002) estimates the bread market to be worth £2.2bn and that UK household consumption of bread is 2.2m tonnes. There is evidence that people are spending more on bread products, but that the rise in spend is not matched by a rise in volumes purchased. Prices have increased, but people are also choosing more premium and speciality varieties - the area that has been the subject of most innovation (Key Note, 2002a).

Key Note (2002a) states that annual per capita consumption of bread in the UK is 37kg; well below all other European countries. More than half of all households purchase less than two loaves a week. White bread accounts for 75% of bread purchases. Men and children tend to prefer white and are also the biggest bread eaters, whilst brown and wholemeal varieties are mainly eaten by women. Brown and wholemeal bread is still a difficult area, in spite of general knowledge about its health benefits over white.

80% of all UK bread production is now carried out by eleven companies in 61 units. Supermarket in-store bakeries have had a great effect on the market and many existing manufacturers have changed their practice to supplying part-baked goods ready for in-store bake-off rather than ready-baked bread. Smaller manufacturers have added sandwiches and other foods to their range to boost downward sales of fresh bread (Key Note, 2002a).

3.5.2 Cakes

Household consumption of cakes has shown small but steady increases over the past five years and is now around 400,000 tonnes. Ready wrapped cakes account for three-quarters of all sales, whilst products sold loose through in-store bakeries and independents make up the rest (Seymour Cooke, 2002). In spite of a move away from traditional English teatime, whole cakes still dominate the market and account for about one third of all sales (Key Note, 2002a). Snack sizes are helping the market and, as in other sectors, confectionery brand names are moving into this field to extend their brands. However, according to Seymour Cooke (2002), own-label cake and bread products take the largest share of the market.

3.5.3 Biscuits

Seymour Cooke (2002) estimates that the UK biscuits market is 595,000 tonnes by volume, worth £1.7bn. Annual per capita consumption is 10kg, one of the highest in Europe and children eat about 150,000 tonnes - about a quarter of total volume.

Organic and luxury lines are performing well, but chocolate biscuit bars are the

largest sector of this market, accounting for one third of total volume. 'Healthy' lines take a 6.7% share, but their growth has stabilised. Savoury biscuits and crackers show steady growth but take a much smaller share of the market than sweet biscuits (Seymour Cooke, 2002).

In contrast to the cakes and bread market, own-label products are declining in popularity as branded products are subjected to frequent, keen price promotions.

The nation has not demonstrated a similar keenness for new products in the biscuit market as it has in other areas and remains loyal to key brands. Table 7 shows that only three of the current top ten brands have been introduced within the last ten years (Seymour Cooke, 2002).

Table 7: Top Ten Biscuit Brands, 2001

	Brand	Sales (£m)
1	KitKat (multipack and minis)	72.1
2	McVitie's Chocolate Homewheat	58.1
3	Penguin	41.8
4	Twix	30.6
5	McVitie's Digestive	30.3
6	Rocky	28.4
7	Jaffa Cakes	26.7
8	Snack-a-Jacks	26.5
9	Nutri-Grain	25.6
10	Club	24.8

Data from Seymour Cooke (2002)

3.5.4 Breakfast Cereals

Seymour Cooke (2002) estimates that the UK market for breakfast cereals has a volume of 440,000 tonnes and a value of £1.16bn. Growth has been steady but suffered slight decline in 2001 after good growth in 2000. However, Key Note (2002a) reports that breakfast cereals performed better than other parts of the bakery and cereals industry, with growth in expenditure increasing by 14% over the five year period to 2002.

There has been considerable new product development in this market. Single portion packs sold with milk are now available, optimising the trend for snacking and breakfasting in the workplace and attempting to extend the usage occasion for cereals.

All the major players now produce a cereal bar, which again can be eaten on the go and at any time of day, and the popularity of these accounts for some of the growth in value of this sub sector.

New ranges of organic, children's and adult indulgence boxed cereals have done well and instant, microwaveable, hot cereals are popular with 25-35 year olds. Nevertheless, Corn Flakes and Weetabix remain the most popular breakfast cereals. Illustrating the importance of a core product to an important brand, Kellogg's still spends more of the company's advertising budget on Corn Flakes than on any of their other cereals, including new products (Key Note, 2002a).

3.6 Ready Meals, Sauces and Soups

3.6.1 Ready Meals

Seymour Cooke (2002) states that the ready meals and pizza market is estimated to be worth £2.19bn. Frozen products still take the majority market share and own-label products are dominant. However, within the own-label sector, specific brands are developing with their own identity and target market, e.g. the luxury ranges such as Sainsbury's Taste the Difference and Tesco's Finest; the slimming and health conscious brands such as Marks and Spencer's Count on us and Sainsbury's Be Good to Yourself; the budget ranges such as Tesco's Value and the children's ranges such as Sainsbury's Blue Parrot Café.

Total sales of ready meals, including frozen, chilled, canned and ambient are estimated to be worth £1.56bn. Consumption is estimated to be 335,000 tonnes per annum. Current growth is about 5% and is due entirely to the chilled and frozen sector, which meets consumer demands for quality, authenticity and convenience better than canned or dried products. This trend is set to continue at its current rate.

The frozen sector takes 55% of the market volume but only 43% of its value, whereas the chilled sector takes 34% of volume and 51% of value. Chilled ready meals are therefore more expensive and in theory more profitable, although their shorter shelf life makes them more prone to losses through wastage. Canned products take only 11% of volume and 6% of value, indicating their relatively low quality and appeal in today's market place.

International and traditional recipes are declining in popularity in the frozen sector, but international dishes still lead the market in the chilled sector, with Italian the favourite and Indian the next most popular cuisine. The British Potato Council (2002) suggests that African and South American cuisines, as yet relatively unexplored, will be the next avenues for new taste innovations. 'Healthy' ranges are showing best growth in the frozen sector. This includes the calorie counted and organic ranges.

According to Seymour Cooke (2002), the market for pizza has stabilised after strong growth during the mid and late 1990's and new products are developed for the chilled sector rather than frozen. The pizza market is valued at £630m with a volume of 100,000 tonnes.

3.6.2 Sauces

Seymour Cooke (2002) reports that per capita consumption of sauces in the UK is 6.8kg per annum and, like ready meals, the market is showing steady growth of around 5% per annum. Market volume is 400,000 tonnes, valued at over £1bn. Cooking sauces account for over 50% of the total market and their value has increased as products have become more innovative and specialised. Italian cooking sauces are the most popular, but Indian and oriental sauces are also strong. Wet sauces perform much better than dried.

In the accompaniments market, ketchup still leads. Side of plate condiments are considered to be a mature market, where mayonnaise accounts for half the market share. Salad cream has lost popularity, although it may have recovered after a concerted marketing campaign in 2002. Mustards have been in decline since the mid 1990's and flavoured, speciality vinegars have kept the vinegar market going.

3.6.3 Soups

According to Seymour Cooke (2002), the UK consumes 300,000 tonnes of soup each year and the market is valued at £441m.

Key Note (2002a) states that although canned soup remains the most popular, fresh, chilled soups have gained a significant hold on the market, and Seymour Cooke (2002) finds that New Covent Garden, the main player in fresh soups, with a 35% market share, now takes a 6% share of the total soup market in value. Although it does not compete on volume, this share of value is equivalent to almost a quarter of the value of all Heinz standard size canned soups sold in the UK.

As a result, the fresh soup market is currently the most competitive area as some of the major players such as Baxters enter it and the multiple retailers identify the opportunity to move in with their own label products.

Seymour Cooke (2002) points out that in each other soup category a significant market leader has developed their own specialism, thus alleviating competition between players. Heinz corners the canned market; Campbell's the condensed; Knorr the packets; and Baxters the premium ranges.

Key Note (2002a) explains that, as in other sectors, the market for dried packet soups is in decline, due to its ageing consumer base and the general trend in the food market away from dried products. Although the soup market has been refreshed by the introduction of the fresh ranges, it does face competition from the increasing number of other light meals and snack products that are being developed and will need to keep innovating to hold its own.

3.7 Savoury Snacks

Seymour Cooke (2002) reports that, in line with the growing consumer preference for snacking, the savoury snacks market has been growing steadily at 2-3% each year in recent years and has increased in both volume and value. 344,000 tonnes of savoury snacks, worth £2.4bn, were sold in the UK in 2001, which amounts to 5.8kg per person. The British Potato Council (2002) calculates that something in excess of 11billion snacks are eaten out of the home each year, and that the market for snacks and confectionery is one area of the food market that is not income dependent. By the age of seven, eight out of ten children buy snack foods for themselves.

According to Seymour Cooke (2002), bigger pack sizes have helped increase market volume, whilst premium varieties such as organic brands and hand-cooked crisps have increased market value. However, all savoury snacks compete with each other and growth in the premium sector has been at the expense of ordinary and stacked (e.g. Pringles) crisps, corn-based snacks and nuts.

Hand-cooked crisps have rejuvenated the image of the crisp, which had declined almost to commodity status. Flavourings are the current subject of innovation in this market.

3.8 Baby Foods

According to Seymour Cooke (2002), organic baby food is one of the

success stories of recent years with the growth of popularity of organic baby food exceeding that of the adult organic food market. That popularity appears to be also better sustained in the baby food market. Baby Organix is now well established as a major player and the other main players, such as Heinz, all now offer an organic range.

In other areas, the baby food market mirrors activity in the rest of the food market, with a trend away from packet, dried foods and a move towards ready prepared, chilled products. New ranges of such products are now available for infants and toddlers, including complete, fresh, chilled, ready meals.

3.9 Confectionery

The UK consumes 558,000 tonnes of chocolate confectionery and 267,000 tonnes of sugar confectionery per annum. This amounts to 4.5kg of sugar confectionery and 9.9kg of chocolate per person. Although chocolate consumption declined slightly in 2001, the UK still has the highest per capita consumption rate in the EU

The value of the chocolate confectionery market is just under £3.9bn and the sugar confectionery market is worth £1.6bn. Rising prices and the introduction of luxury lines have meant that market value has still grown in spite of the slight decline in consumption. Competition for the teenage spend from other items, such as mobile phones, is thought to have contributed to the decline in consumption.

Branding is of enormous importance in the confectionery market, with Cadbury, Nestle and Masterfoods (Mars) taking three-quarters of the total chocolate market. New products therefore tend to take the form of brand extensions and special editions rather than new brands, which are notoriously difficult to get off the ground. New confectionery brands in niche markets such as organics or fair trade have fared better.

Gums, jellies and mints take 50% of the value of the sugar confectionery market. This market has revived after a difficult period in the mid 1990's, largely due to some innovative product developments such as mini mints. The sugar confectionery market is much more child-focused than the chocolate market and tie-ins with TV and film are common. (All data in this section taken from Seymour Cooke, 2002.)

3.10 Traditional, Speciality and Gift Foods

This sector is included in this report specifically because of Cornwall's high proportion of smaller, artisanal and speciality food producers and large tourist industry, for which these products are important. Data is drawn from Mintel (1999). Although it is older than other data sources used in this report, it is not an area that is as time sensitive as others.

Mintel (1999) finds that over 80% of the population would consider buying speciality and artisanal foods and this response rate was spread fairly evenly across all age and socio-economic groups and all regions. There is greater interest from AB's and 35 - 54 year olds, the groups in which most 'food lovers' are included, but interest is not purely related to affluence. Throughout all groups, many said their interest was due to their personal choice or inclination towards these foods.

Market drivers for this level of interest in these foods have been both positive and

negative. Food scares and concern over production methods have played their part alongside a desire for better taste, quality and other organoleptic attributes.

Business in this sector is seasonal, with highest sales pre-Christmas. A wide range of hampers is now available, containing a variety of products. Smaller producers are increasingly using this route to sell their own produce direct to customers and some are taking initiatives to encourage hamper sales throughout the year.

Conserves and biscuits are the most popular potential purchase; 37% of the population claiming either to have bought or to have considered buying speciality versions of these products. Cheese is the next most likely purchase, followed by chocolates. These are also, of course, the products most widely available and with which most people will be familiar. Unsurprisingly, interest becomes noticeably limited to genuine food lovers, the more unusual an ingredient becomes. Regional specialities are of interest mainly to those with a genuine interest in food, or a willingness to experiment.

A different pattern emerges when people are on holiday. 45% of the population like to try local specialities when on holiday, but the most interest is shown by the younger age groups and those who are not otherwise usually interested in food.

Interest within the South West in speciality, traditional and artisanal foods is typical of the UK average. The greatest interest is shown in the south of the country. Over 65's are the least likely to show interest. ABC1 women aged 25-34 are the key target market, showing the most willingness to experiment.

3.11 Nutraceuticals

This relatively new term refers to foods or food ingredients which offer health-enhancing properties and is one of the latest areas of focus for the food industry. Nutraceuticals are foods which are 'enriched' with added ingredients such as herbal extracts, vitamins, minerals or specific micro-organisms and marketed on the basis of their claimed resultant health benefits. The principle is not dissimilar to the fortification of foods such as breakfast cereals with vitamins and minerals - a practice that is by no means new - but nutraceuticals are targeted very much at the more affluent, fashionable and health-conscious sectors.

The trend offers opportunities to those able to produce the plant materials from which extracts are obtained or the primary foodstuffs used as a carrier for the nutraceutical ingredient. Yogurt and other dairy products and beverages are the vehicles most commonly used.

A slightly different angle that is developing from the introduction of nutraceuticals, is for foods simply to be marketed on the basis of their *existing* health-enhancing qualities - without the need for fortification or adaptation. In all cases, care needs to be exercised to ensure that any claims can be substantiated.

3.12 Organics

The current state of the market for organic foods has been mentioned at several points through this report. The reality of 2002 was the discovery of a limit to growth for much of the organic sector - at much lower levels than had been predicted two or

three years previously, although overall the organic sector is still growing.

Datamonitor (2002b) states that price premiums and unsupported health claims are the biggest barrier to growth in the UK organic market. However, it also points out that the growth in the organic market was fuelled during the 1990's to a large extent by scares relating to food safety and that as the food industry becomes safer (the example of hens now being vaccinated against *Salmonella spp*. Is cited) consumer confidence in conventionally produced foods will return. The Food Standards Agency (2003) does indeed confirm that consumers are less concerned about the safety of food now than in 2000.

Huxley (2001) also finds that organic food producers have discovered that growth brings its own difficulties. The increased availability of organic foods in supermarkets and through wholesalers has, whilst broadening choice for consumers, opened up competition to UK organic producers from imports.

Farmers' markets and farm shops and the current interest in locally produced foods have proved to be as much a threat as an opportunity for smaller organic producers. Although these outlets provide a convenient method of distribution for organic producers, they also provide an outlet for non-organic producers who can offer consumers the benefits of fresh, traceable food that has not travelled long distances, without incurring or charging the extra cost often attached to producing food to organic standards.

Datamonitor (2002) states that parents with babies or small children, young working women and middle-aged women are the most likely to buy organic foods, although they also find that it is increasingly necessary for producers and manufacturers of organic foods to employ another marketing angle (such as convenience, indulgence, premium quality or calorie-counting) alongside the organic nature of the food. The word 'organic' on a label is no longer sufficient on its own to guarantee take-up or success.

3.13 Drinks

The data in this section is taken from Key Note (2003) unless stated otherwise.

3.13.1 Overview

The UK market for drinks has been one of the biggest growth areas and the subject of much innovation and development over the past twenty years or so, to the extent that, in 2001, drinks accounted for about 7% of all consumer spending. The total drinks market is estimated to be worth in the region of £46.5 bn.

Some major changes in consumer drinking habits have driven market trends. In the alcoholic drinks sector, continental tastes for wine (particularly with meals) and lager have developed at the expense of both traditional English ale and spirits. The UK is also taking up the continental preference for bottled water - a market that still has room for growth. The traditional hot drinks of tea and coffee are losing out as soft drinks become increasingly popular and the range becomes more diverse.

Both the number of occasions on which consumers buy drinks and the range of outlets from which they buy them has increased, to cater for the trend towards more out of home eating and drinking, whether it be restaurant dining or food on-the-hoof. Out of home drinks have been responsible for upholding and increasing the value of most market sectors, due to the high prices charged for drinks served out of the home. A cola drink in a night club, for example, typically costs twenty times the price of the same volume sold in a supermarket. The multiple retailers, on the other hand, tend to have driven down the in-store price of many drinks in real terms, which has created difficulties for the off-licence trade.

In-home drinking habits have changed too. Tap water is rarely a drink of choice these days and whilst in-home consumption of alcohol has increased substantially, and notably with younger adults, there has also been demand for more sophisticated non-alcoholic drinks for those adults who choose not to drink alcohol. Packaging has been important in this sector and many of the new generation non-alcoholic drinks designed for the adult market are presented in attractive bottles suitable for the dining table, alongside or in place of a wine bottle.

Christmas and New Year are the most popular drinking occasions for most of the population, although it is also worth noting that almost 90% of the population claims to enjoy alcoholic drinks whilst on holiday. This is therefore an important factor for popular holiday destinations such as Cornwall and the Isles of Scilly.

The 1990's saw the advent of brand new drinks designed primarily for the younger market, in the form of alcopops (alcoholic carbonates) and pre-mixed spirits (such as Bacardi Breezer); energy drinks (high glucose and/or added caffeine soft drinks); and, more recently, flavoured and coloured 'shots' of spirits. New drinks designed for wider appeal are health-enhancing drinks (see section 3.11) and smoothies (made from pulped fruit and sometimes dairy ingredients).

Developments in the structure of the drinks industry have mirrored those in the food industry and, in most sectors, a few large multinationals dominate. Some have a presence in more than one drinks sector and each is behind a collection of major brand names. The exception is the wine industry, which remains much more fragmented and in which producers generally have retained much more independence.

Many smaller companies still exist in the drinks industry, but they tend to be left to

manufacture for own-label or secondary brands. However, even in today's global market place, regional drinking preferences are retained throughout the world, and there is still room in the market for those smaller businesses who produce for regional tastes. Even the multinationals, incidentally, vary the recipes of the major brands from country to country.

Although the barriers to entry into the drinks market are high for those wanting to compete on a national or global scale, for those happy to operate on a local scale this is not the case. In the UK, the brewing industry has probably been the most active in taking advantage of this opportunity, with many small and micro breweries successfully producing 'real' ales for sale within their region. Some have also extended their success nationally. Since the duty on beer from small outlets has recently been halved, this success should be set to continue.

The various parts of the drinks market are examined in more detail in the following sections.

3.13.2 Beer

In spite of a general decline in the market for beer as a result of the increase in wine drinking, beer, the UK's indigenous alcoholic drink, remains the largest single component of the drinks market, accounting for 38% of overall UK expenditure on drinks in 2002. There has been a small rise in beer consumption since 1999, but going to the pub for long beer-drinking sessions is a dying habit.

The popularity of lager has doubled since 1980 and it now accounts for almost 65% of the beer market. However, since much of the lager drunk in the UK is brewed here under licence, the impact of this change in taste has not led to a significant increase in imports.

There is evidence that the preference for dark ales develops as tastes reach maturity at around age 35 and that it is the preferred beer of the AB social groups. Young drinkers tend to start out with lager, which is also most popular with C2's. In all beers, the current preference is for premium products. Note, however, that in the brewing industry the term 'premium' refers to higher alcoholic strength as much as to better quality.

Independent retailers take over 20% of take-home beer sales. This indicates that beer is often bought on impulse or as a specific one-off purchase, rather than as part of the main household shopping.

3.13.3 Cider

The cider market underwent rapid growth in the early 1990's after the launch of white ciders. However, demand has now levelled off and market value decreased slightly between 1998 and 2002.

The industry is dominated by two major players, who command 90% of the market, but the remaining 10% is supplied by a plethora of small companies. Farms which make and sell their own product are still an important factor in the cider industry.

Premium ciders, such as organic products and those produced from a single variety of apple, are produced by both major and small companies.

Cider is important in both the on- and off-licence trades and does particularly well in small independent retail outlets, such as corner shops.

Cider drinking is spread throughout all age groups. Men drink more than women and this gap is widening. Market penetration fell to 19% during 2002, from its high of 30% during the mid-1990's, but is flat across all income groups. Most cider drinkers are Welsh, although the South West, where the drink might be expected to be most popular, follows closely behind.

3.13.4 Wine

Although the wine bar is a thing of the past, wine is now drunk in the UK by more people on more occasions than ever before. In 2002 the value of the UK wine market was £8.45bn, representing almost 23% of consumer spending on alcohol. Market value has increased by 33% since 1998 and market volume has increased by 25% over the same period. This is the result of tastes becoming more sophisticated and people being prepared to spend more on wine, although the UK tends now to favour middle quality wines rather than fine wines. In spite of all this, annual per capita wine consumption in the UK is below 20 litres - well below French and Italian consumption rates of about 50 litres per capita.

Red wine gained popularity significantly during the 1990's. Previously, white wine was always the UK choice, but preferences for red and white are now almost equal. The development of techniques that have enabled the production of young red wines that are both palatable and full bodied, has contributed to this. Sparkling wine maintains a fairly steady market share of 2% of the volume and 10% of the value.

Another trend of the 1990's was the introduction of wines from the 'new' world - South America, Australia, the US and South Africa, alongside those from the 'old' world of France, Spain, Italy and Germany. In the UK, where home production is minimal and wine-drinking is a relatively young habit for many, there is no particular allegiance to specific countries of production, so all compete for market share. Many new world wines have been very popular here, and although France remains the largest supplier of wine to the UK, Australia now takes the second largest share.

There is evidence of a North/South divide in UK wine drinking habits. About 70% of people in the South West drink wine, in common with the rest of Southern England, whereas in the North this reduces to about 60%. There is also a correlation between social class and wine drinking. Compared with social group E, almost twice the number of AB's consume wine.

Although 86% of wine is consumed at home, this accounts for only 40% of market value. This is due to the high prices charged for wine served out of the home - on average double the retail price.

3.13.5 Spirits, Liqueurs and Fortified Wines

Although still worth almost £7.5bn, this is a declining market. There have been difficulties attracting younger drinkers to a market place with a somewhat old-fashioned image, although white rum and vodka producers have overcome this by focussing on the suitability of those drinks for mixing with a variety of other flavours.

Scotch whisky remains the most popular spirit within the UK and is exported throughout the world. However, it is much more popular with men than with women. Roughly equal numbers of men and women drink white spirits - vodka, gin and white rum. Women are the main liqueur drinkers. Vodka is the spirit of choice for younger

drinkers, whereas gin becomes more popular after the age of 45.

Care should be taken in assuming that the tastes of younger drinkers will remain unchanged as they mature and that the market should adapt to the tastes of the current younger generation to remain competitive. Evidence suggests, in fact, that the taste for certain drinks, such as gin, usually develops at a later age and there is no reason to suggest that this will not continue to be the case. Drinks such as sherry, vermouth and other fortified or 'made' wines such as ginger wine and 'British' sherry, however, are not managing to retain their market share in this way and are losing their market base as numbers of the older generation diminish.

The concept of new product development in the spirits and liqueurs sector has changed in recent years from the creation of new, high alcohol, spirit-based drinks such as Malibu and Bailey's (creations of the 1980's) to the creation of lower alcohol, pre-mixed cocktail-type drinks such as Bacardi Breezer and Smirnoff Ice. The new development process concentrates on the mix rather than the spirit drink itself. These drinks will be discussed in the following section.

3.13.6 Flavoured Alcoholic Beverages

The concept of the flavoured alcoholic beverage was created during the 1990's, when products such as Hooch appeared on the market. In essence they are simply alcoholic carbonates, such as lemonade. After strong initial growth, their market peaked in 1996 at £300m and has since fallen back to £50m. On this evidence alone they could perhaps be described as a fad, although in fact their introduction and success led to the development of many other similar drinks such as the spirit-based, pre-mixed drinks referred to in the previous section, which were aimed very successfully to compete for the same, younger market.

The success of this second phase of products has been attributed by some to the backing of the major brand names behind them (it is no coincidence that Bacardi and Smirnoff ran some of the most expensive advertising campaigns within the whole drinks industry in 2002). Furthermore, the Bacardi and Smirnoff brand names, being associated with strong spirits, also give the drinks a more adult image, which appeal not only to youngsters wanting to appear 'grown-up', but also to the adult market itself, with whom these drinks are much more popular than alcopops.

Concern over the encouragement which these products give to young people to drink alcohol has led to some controversy, and the Government has announced its intention to tax these drinks as though they were spirits. However, the producers have responded by reducing the alcoholic content of the products to just below the limit at which this is to happen.

3.13.7 Soft Drinks

This sector of the drinks market includes carbonates, concentrates, fruit juices and bottled water, all of which, except the concentrates category are demonstrating good growth (see Table 8 below).

Table 8: Market Value of UK Soft Drinks Sector, 2002

	£m rsp	% change in growth since 1998
Carbonates	4700	+ 17.5
Fruit juices and fruit drinks	1750	+ 25
Bottled water	700	+ 65

Concentrates and ready-to-drink squash	700	- 10

The growth in the soft drinks sector can be attributed to several factors: -

- Increased snacking and eating on-the-go
- Alcoholic drinking and driving restrictions
- Growth in leisure pursuits, which often incorporate a drinking occasion
- Decreasing popularity of hot drinks
- Wider range and availability of drinks to appeal to a larger market
- Health benefits messages about fruit juices and water
- Advertising

The UK shows a marked willingness to experiment with drinks and is receptive to new drink ideas in all categories, which seem to sit happily in the market place alongside traditional favourites. Regional differences occur, and a higher percentage of the population in the South West drink concentrates, fruit juice and bottled water than in any other region of the UK outside Greater London.

Cola drinks account for almost half the total value of the carbonates market. This is a slight decrease since it peaked at 55% in the late 1990's and there is some indication that products such as cola (like burgers), which have enjoyed long term success, are beginning to struggle for their place in the market. However, to put things in perspective, Seymour Cooke (2002) state that per capita consumption of carbonates in the UK is over 100 litres per annum.

Energy and sports drinks are currently a dynamic growth area and take 16% of the carbonates market. Red Bull, a stimulant drink, is enjoying phenomenal success. It is the single product of an Austrian company, which now sells over 1 billion cans a year to 44 countries (one third of which are sold in the UK). Its market value was estimated at £450m in 2001.

The bottled water market has experienced growth since the 1980's and is still growing. It is most popular with the under 25's and the teenage market is significant. Innovations and product extensions have taken the form of flavoured varieties and new bottle styles. More recently, water has moved into the health-enhancement sector and varieties have been introduced with added minerals, vitamins and plant extracts such as ginseng.

In the UK, many small independent manufacturers are appearing in the water and fruit juice sectors. Once these companies reach a certain size, the larger concerns are not slow to take notice of their activities. Successful brands tend to be either copied or snapped up by the multinationals, even though consumers are often unaware of this because the brand names are retained. Many might be surprised to know that much of the world's bottled spring waters, including the Buxton brand from the UK, for example, are owned by Nestle.

3.13.8 Hot Drinks

Although there is declining demand for hot drinks in the UK, there is a trend towards better quality, which is holding up the value of the market. Fair trade and organic varieties are becoming significant sub-sectors of the market.

The UK consumer's desire for convenience is as apparent in the hot drinks sector as in other food and drink sectors. Tea bags and instant coffee are the nation's favourite products and the brief trend towards fresh ground coffee experienced in the 1990's has not been sustained. However, the more recent introduction of the new generation of coffee shops such as Costa Coffee and Starbuck's has revived

interest in coffee, and consumption of fresh ground coffee out of the home is at its highest ever level.

Speciality teas always have their niche, although the particular speciality changes with fashion. Green tea, and lately white tea, are currently in vogue.

4 The Catering Industry

Except where stated otherwise, the following information has been extracted from Key Note (2002b).

Not only has the size of this industry grown but, as with retail food prices, prices within the catering sector have increased faster than general retail prices. Logically, the catering industry should therefore be booming, but some sub-sectors are doing better than others.

4.1 Hotels

Budget hotels such as Travelodge have experienced the strongest growth in recent years and this continues, although at a slightly slower rate as the number of potential sites for budget hotels becomes limited. Their popularity has affected the mid-market hotels more than others.

Business users account for over 60% of all hotel trade. Less than 30% of all adults in the UK stayed in a hotel in 2001, although weekend leisure breaks are increasingly popular. Longer out of season breaks offered as a cheap package for older people are also popular.

Rural hotels are popular as a venue for residential conferences, whereas those close to airports or other transport infrastructure are good for corporate functions.

Loyalty schemes that reward frequent customers are a recent concept aimed at gaining repeat custom.

4.2 Restaurants

Restaurants have seen good strong growth for most of the last five years. Increasing affluence and busy lifestyles have led to increased restaurant usage and household expenditure on eating in cafes and restaurants has increased by over 35% since 1997. However, even in a growing market place, poor performers do not survive and a large number of restaurants fail each year. Mid-market restaurants, like hotels, are currently the most difficult part of the restaurant sector, as they are squeezed on both sides by an increasing range of low cost options at the budget end of the market and increasingly affluent customers choosing more expensive restaurants at the premium end of the market.

Roadside restaurants, including motorway service areas, which have undergone a considerable transformation in the last two or three years, showed the greatest market growth in 2001 at 4.3%.

4.3 Fast Foods and Takeaways

Although snacking and less prescriptive eating habits are on the increase, the fast foods and takeaways sector has shown weakened growth in sales since 2000 after

rapid growth during the late 1990's. The take away chicken market is the only part of the sector that shows better growth in 2001 than in previous years. This is due to heavy price promotions induced by tough competition, although competition is not only between players in the sector but also from innovations elsewhere, such as supermarket take-home meals and work based take-home services.

The market is nevertheless worth almost £7.5bn and still growing. Sandwiches take the largest market share, capturing over one third of the market, and the value of the sandwich market is increasing at about 4% per annum. This increase in value is due to the development of more expensive luxury ranges, using either luxury fillings or breads, but also because increasing affluence and pressures on time are leading people to buy ready-prepared sandwiches rather than prepare them at home.

Burgers are the next most popular fast food and McDonald's and Burger King take 91% of the market, but the annual growth rate in this sub sector has shown the greatest decline, from 9% in 1998 to 2% in 2001.

The value of the fish and chips market is about half the size of the burger market and one third the size of the sandwich market. Its growth rate was not as rapid as other sub-sectors in the 1990's but has likewise declined since 2000. In 2001 growth was only 1.6% - the smallest growth rate of any fast food or takeaway sub-sector. This is thought to be attributable to consumers' perceptions of fish and chips being a high fat meal and perhaps not a trendy option for younger generations.

The pizza market is stable and has been helped by some new menu ideas, but there has been some rationalisation of this sub-sector, leaving fewer players. Outlets in leisure venues, retail parks and transport terminals have helped sales.

Contrary to popular belief, the majority of adults are light users of takeaways and fast food outlets; using them once a month or less. About 4% of adults use takeaways more than once a week and about 1% use fast food outlets more than once a week. However, market penetration is good and spread throughout all social grades and ages (see Table 9). Lowest penetration levels are in the over 65-age group and social grade E. ABC1 groups have not been high users of takeaways and fast food outlets in the past, but penetration is increasing markedly in these groups.

Table 9: Consumer Penetration of Takeaway and Fast Food Outlets by Sex, Age, Social Class and Region (% of adults) 2002

	Takeaway	**Fast Food**
All adults	78.7	53.8
Sex		

Men	81.1	54.6
Women	76.5	52.0
Age		
15-19	70.2	56.5
20-24	96.1	74.7
25-34	97.0	75.4
35-44	95.6	70.8
45-54	85.7	49.5
55-64	70.7	38.0
65+	41.8	22.3
Social grade		
AB	78.7	57.5
C1	82.8	61.0
C2	84.1	56.5
D	76.2	46.2
E	61.4	33.4
Region		
Scotland	78.1	48.5
North West	75.3	49.2
North	69.2	45.9
Yorkshire and Humberside	80.5	53.3
East Midlands	75.4	48.7
East Anglia	80.4	52.6
South East	80.0	57.2
Greater London	88.0	67.5
South West	84.4	58.3
Wales	66.8	41.2
West Midlands	75.3	51.0

Taken from Key Note (2002)
Data Source: Target Group Index, BRMB International Ltd.

Note that the South West has the greatest market penetration levels of both takeaways (almost 85%) and fast food outlets (over 58%) of any region outside Greater London.

4.4 Pubs

The number of pubs in the UK is declining and sales of alcoholic drinks in those that are left are also declining. Food and soft drinks therefore make up an increasing percentage of a pub's sales. Food accounts for about 18% of the total sales in an average pub, but in some pubs this percentage rises to over 50%. Growth has been somewhat haphazard, but the value of food sales in pubs is currently growing at about 5% and the market is worth just over £1bn (this figure excludes formal restaurants in pubs).

Pubs are becoming increasingly segmented. Some have a restaurant or food focus, whilst others focus on sport and providing satellite TV coverage. Some remain community drinking pubs and others have been transformed into young peoples' bars.

There is some evidence of too much branding creeping into parts of the pubs (and restaurants) market, with insufficient differentiation between different branded operators. Even in a fashionable market place, it is necessary for each business to find and maintain its unique selling point.

The younger age groups, men and better-off people are the most frequent pub diners; however the South West has one of the lowest pub dining levels in the UK.

4.5 Contract Catering

Growing at 7.6% in 2001, the contract catering market showed the strongest growth in the whole of the catering sector and is now worth £3.5bn. It is developing into a market of several big global players who also offer ancillary services such as laundry and security, but 75% of the sector is still made up of small independent companies with turnovers of less than £250,000.

Contract catering still accounts for less than half of the institutional and workplace market, but is often a part of Private Finance Initiatives in areas such as health, education and defence.

This sub-sector of the catering market has been helped by the 65% increase in the amount spent on food by lunchtime workers during the 1990's.

4.6 Tourism Catering

According to Mintel (2001b), whose detailed report on this sector provides the basis for the information in this section, it is estimated that catering for tourists in the UK accounts for 29% of the total eating out market and generates £29bn a year. 22% of the average holiday spend is on catering.

61% of people in the UK take an annual holiday and this is higher than the other major European countries. The average for Germany, France and Spain is 50%.

The South West is the most popular choice for UK residents who holiday within the UK. The region has the highest number of visits and the highest visitor spend on catering outside the South East and Northern Ireland.

The average holiday spend for a UK resident is £27 per person per day. For stays of longer than eight night's duration, this decreases to £14 per person per day because accommodation costs decrease as the length of stay increases. Likewise shorter stays incur a greater cost per day.

More frequent, but shorter breaks have become more and more popular and it is estimated that 63% of trips taken within the UK are now of a duration between one and three days.

The South West attracts only 4% of foreign visitors to the UK from abroad, who spend about £340 per capita on catering whilst on holiday. This is average for the UK regions; in London the figure increases to £525.

Only 1% of European adults choose Britain as a holiday destination and North America, France and Germany are the most common countries of origin of foreign visitors to the UK. Visitors from abroad who do choose the UK as their destination are most commonly on business trips or visiting friends and relatives. Package holiday visitors and the total number of visitors from overseas have decreased. Spend per visit has also decreased, but this could be accounted for by the increasing number of short trips visitors are making and by the increasing numbers visiting friends or relatives.

Mintel (2001b) finds that there is plenty of scope for the UK's catering industry to improve or adapt the service they offer the tourist and that many businesses are not geared up to tourist customers. They undertake little promotional activity, their

offerings are not adapted to the needs of tourists and they have little knowledge of the contribution tourists make to their business.

Insufficient use is made of the opportunity to provide linked offers such as theatre and restaurant deals or to tie in with tour groups.

Foreign visitors find UK restaurants expensive and they tend to look for budget deals, often opting for familiar fast food outlets with which they can identify.

Restaurants could take advantage of the fact that holidaymakers, especially those with families, often choose to dine at the times that are otherwise very quiet for restaurants - during the daytime or early in the evening.

Restaurants and other catering outlets need to create or adapt their websites for visitors researching their holiday destination before leaving home. The inclusion of menus and maps is suggested as a simple, cost effective marketing measure.

Key Note (2002b) reports that the value of on-site catering in holiday camps and villages and campsites increased by 18% in the five years to 2001 as a result of many overhauling their food operations. As the number of sites also grows, the forecast is for this to continue in the near future.

5 Conclusion

The UK food market is complex and this report does not intend to clarify all its complexities. However, it does identify many factors and trends that are of significance to the food industry in the Objective One area of Cornwall and the Isles of Scilly. Some of the findings highlight opportunities waiting to be taken advantage of, whilst others should be regarded as a timely warning of impending, if not existing, difficulties.

Since this report is only a part of the whole project, it is inappropriate to draw complete conclusions from it. The summary document, **Prospects and Prosperities, exploring the potential of the Cornish food and drink industry**, (Huxley, 2003) considers the findings of both parts of the project, drawing them together and examining their implications.

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