

The US Market for Selected UK Food & Drink Products

Report prepared on behalf of



Department
for Environment
Food & Rural Affairs



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Map of the US



Abbreviations – the following are commonly used in this document

| | | |
|---|--------|---|
| ❑ | BOGO | Buy one get one (BOGOF in UK) |
| ❑ | CAGR | Compound annual growth rate |
| ❑ | Defra | Department of Environment, Food & Rural Affairs |
| ❑ | DIT | Department for International Trade |
| ❑ | EU | EU Union |
| ❑ | FAH | Food at home |
| ❑ | FAWH | Food away from home |
| ❑ | FCL | Full container load |
| ❑ | FDA | Food & drink administration |
| ❑ | FOB | Freight/free on board |
| ❑ | FTA | Free trade agreement |
| ❑ | GDP | Gross domestic product |
| ❑ | GMO | Genetically modified organism |
| ❑ | HORECA | Hotels, restaurant & catering |
| ❑ | IMF | International monetary fund |
| ❑ | LCL | Less than container load (consolidated load) |
| ❑ | NPD | New product development |
| ❑ | NAFTA | North American Free Trade Agreement |
| ❑ | NTB | Non-tariff barrier |
| ❑ | POS | Point of sale |
| ❑ | SKU | Stock keeping unit |
| ❑ | TOR | Terms of reference |
| ❑ | USP | Unique selling oint |

1. Introduction

Introduction

- ❑ The Department of Environment, Food & Rural Affairs (Defra) has commissioned Promar International to carry out a series of market research studies in the US, India and the UAE.
- ❑ It is expected that work in China will be carried out in due course.
- ❑ This report documents our analysis of the US market.
- ❑ This work was commissioned to Promar by Defra in October 2019.
- ❑ There was an extensive period of desk research carried out between November 2019 and January 2020, not least, to narrow down the list of products that were to be studied in detail in the course of our in-depth country research.
- ❑ The in-country work was carried out during February and March 2020.
- ❑ This the final report submitted to Defra after receipt of two rounds of comments on our first document.

Our Terms of Reference (TOR)

1. How is the UK perceived as a food supplier – strengths and weaknesses.
2. Who are the UK's competitors in the US market?
3. How significant are tariff barriers and non-tariff barriers (NTBs) to UK products?
4. What are the opportunities for the UK?
5. What are the routes to market and where in the country? What types of consumers?
6. What are the constraints?
7. What do UK companies and other stakeholders need to be doing to increase exports?
8. Who is “best of class” in the US and why?
9. What are the norms of doing business in the US?

What did we do in the US?

- ❑ Using a semi-structured topic guide, developed in conjunction with Defra and with input from other project stakeholders, we carried out the following:
 - 8 interviews with importers;
 - 6 interviews with distributors;
 - 2 interviews with foodservice companies/operators; and
 - 5 interviews with miscellaneous other market respondents.
- ❑ We interviewed businesses from across the food and drink supply chain in four regions (California, the “BosWash” corridor, Florida and Mid-Southeastern region). These interviews were supplemented by retail store and off-license audits in Los Angeles and New York City.
- ❑ A list of contacts is given in **appendix I** of this document.

Exchange rates

□ At the time of doing our research in the US, the exchange rate was as follows:

➤ £1.00 - US\$ 1.29

➤ Source: www.xe.com - 24th February 2020

The impact of COVID-19 on the US food sector

- ❑ At the time of our field research, the issue of COVID-19 was just beginning to become a feature of daily life in the US. The hotel, restaurant and cafe (HORECA) sector was already starting to be affected with imposed lockdown in many states. What the long-term impact of this will be on the US food and drink sector is uncertain, but several things appear clear:
 - Over 90% of companies in the restaurant trade are family owned, with fewer than 50 employees. The effect on smaller and independent businesses within the food and drink sector (both in HORECA and retail) means potentially major financial losses and the sector may initially shrink and be slow to regain its market share, particularly if social distancing remains in place. This may vary within region as state laws may be different.
 - The tourist market is likely to initially experience decline, as international travel takes time to re-establish. Some economists are predicting years, rather than months for it to recover. Again, this will hit the HORECA sector hardest.
 - E-commerce and home delivery have experienced rapid growth as a result.

The impact of COVID-19 on the US food sector (continued)

- Whilst retail may recover relatively quickly, premium and luxury goods may see a decline in market share if national incomes drop and high unemployment or recession takes hold. This may have an effect on imported UK goods, which by their nature are often at the premium end of the pricing spectrum.
- In New York alone, there are over 27,000 restaurants – one company, Union Square Hospitality Group, laid off 80% of their workforce (2,000 employees) in March/April 2020 due to COVID 19 and it is thought that the pandemic will have a short-term national loss in the HORECA industry of 5 - 7 million jobs.

The impact of COVID-19 on the US beer industry

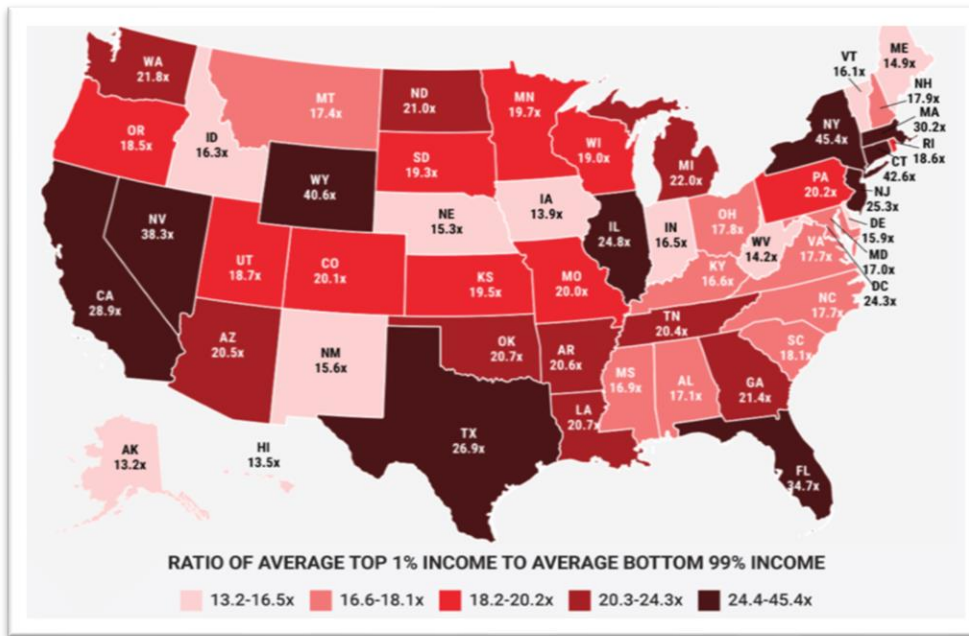
- ❑ There are significant changes in the US alcoholic beverage industry moving forward as a result of COVID 19. These include:
 - **Off-premise:** sales grew significantly as consumers stocked up, with e-commerce channels doing particularly well. The general trend was towards better value brands at the expense of more premium offers.
 - **On-premise:** restaurant closures will impact all beverage alcohol categories. This sector sells about US\$ 10 billion of alcohol per month. With a 2-month ban, the potential loss could be US\$ 15 – 20 billion.
 - **E-commerce:** this sector has grown dramatically. NakedWines, Drizly and Wine.com saw massive sales growth and were sometimes unable to cope with the uplift. Firms who do not offer e-commerce may wish to look into this in future.

The impact of COVID-19 on the US beer industry (continued)

- **Lost occasions:** the cancelling of public gatherings (St. Patrick's Day, March Madness, etc.) and at-home consumption occasions (birthdays, dinner parties, etc.) will likely impact total alcohol consumption.
- **Craft brewers:** craft beer (specifically small and independent) will be massively impacted by loss of brewpub sales. A survey from the Brewers Association found its members expected a 60% volume decline in March, and 90% of respondents believed they would have to make redundancies. Taprooms will likely see a similar loss in revenues (as a share of total) as those of the on-premise accounts. Brewers with wider distribution in off-premise retail will be least affected .

2. Executive Summary

What does the US market look like?



- ❑ 331 million population (2020).
- ❑ Three key areas for UK exports are:
 - West Coast (focus on CA) 39.6 million
 - South East (focus on FL) 21.6 million
 - North East “BosWash” corridor (focus on NY state) 44 million
- ❑ 82% of the population are urban based.

- ❑ The US has a higher number of younger people in urban areas than in rural areas. By 2060, the ethnicity of the US population is predicted to be 44% non-Hispanic white, 27% Hispanic, 15% Black or African American and 9% Asian. GDP in the US will grow at a rate of 3% over the next 10 years with CA, NV, TX, FL, IL, WY, NY and NJ the most affluent states.

What does the US market look like?



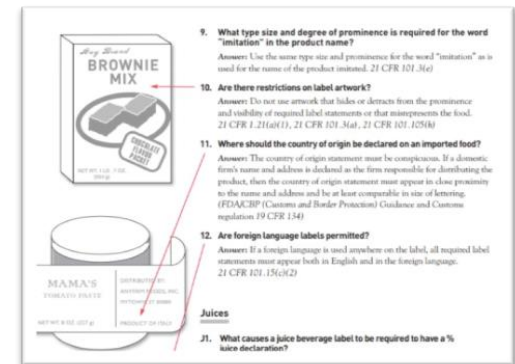
- ☐ The US has a mature grocery retail market. Over 60% of the sector is accounted for by supermarkets, hypermarkets and discounters. The discount sector has seen a 10% increase in last 10 years. Over 40% of the retail market is accounted for by smaller chains.
- ☐ All key retailers have online food platforms with Fresh Direct, Instacart and Amazon Direct (Wholefoods) as market specialists.
- ☐ Current spend in the US foodservice sector is equal to the spend in the grocery sector. This is split predominantly between serviced and fast-food outlets.
- ☐ As per capita disposable income rises, shoppers will be more inclined to purchase premium-level, value-added products at retail stores including organic and all-natural brands.

How do UK firms get to market?

- ❑ Tariffs vary widely depending on product ranging from 3-25%. The additional Airbus Tariff is having a major adverse impact.
- ❑ Many UK firms work with an importer who manage much of the administration and sales for them.
- ❑ Food and drink products must adhere to FDA (fda.gov) labelling and then individual state requirements.
- ❑ The vast majority of food and drink imported from the UK is shipped by sea, either ambient or frozen.
- ❑ The main seaports used for UK are New York or West Coast ports such as LA.
- ❑ Help to access the market is available through the DIT, FDF and Regional Support.

| Nutrition Facts | |
|-------------------------------|---------------|
| 8 servings per container | |
| Serving size | 2/3 cup (55g) |
| Amount per serving | |
| Calories | 230 |
| % Daily Value* | |
| Total Fat 5g | 10% |
| Saturated Fat 1g | 5% |
| Trans Fat 0g | |
| Cholesterol 0mg | 0% |
| Sodium 150mg | 7% |
| Total Carbohydrate 37g | 13% |
| Dietary Fiber 4g | 14% |
| Total Sugars 12g | |
| Includes 10g Added Sugars | 20% |
| Protein 3g | |
| Vitamin D 2mcg | 10% |
| Calcium 250mg | 20% |
| Iron 8mg | 45% |
| Potassium 235mg | 6% |

* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.



Extract from the FDA food labelling guide

How do UK firms get to market?



- ❑ UK companies need to have a 3 to 5-year export plan for the US, which includes full sales and marketing/financial support.
- ❑ Identify US-based importers of UK products who have established long term relationships in the retail and HORECA markets .
- ❑ These importers typically buy direct from the UK.
- ❑ There is a need to target key regions and consumer groups.
- ❑ UK brands that invest time and money on the ground are the most successful.
- ❑ Terms of business vary for trade between 30-60 days often due to length of transit time .

What will drive demand for UK food & drink?

- ❑ Lower tariffs.
- ❑ More market focus and understanding from the UK.
- ❑ Increased product and brand awareness with US consumers with region specific campaigns.
- ❑ Products tailored for a US consumer at appropriate price point.
- ❑ In-country partnerships and manufacturing opportunities.
- ❑ Use of 'bridging' products to introduce new brands.
- ❑ Specialist products where the UK is a market leader.
- ❑ Growth of the premium online market.



What might constrain demand for UK goods?

- ❑ There is strong competition from countries that have closer geographical proximity and therefore a shipping advantage (such as Mexico and Canada).
- ❑ There are high tariff barriers or duty particularly for biscuits (i.e. Airbus Tariff) and craft beer.
- ❑ The US market is very price sensitive and the majority of US consumers are not thought of as adventurous when trying new products.
- ❑ US consumers do not have a high affinity in general with UK products, except where there are ex-pats or historical links (FL & NY).
- ❑ The brand support and in-country promotion from the UK is not seen as particularly strong.
- ❑ The US covers 6 time zones and the main trading areas for the UK are the East & West Sea borders – this causes major logistical issues and high transport costs.

Opportunities by route to market

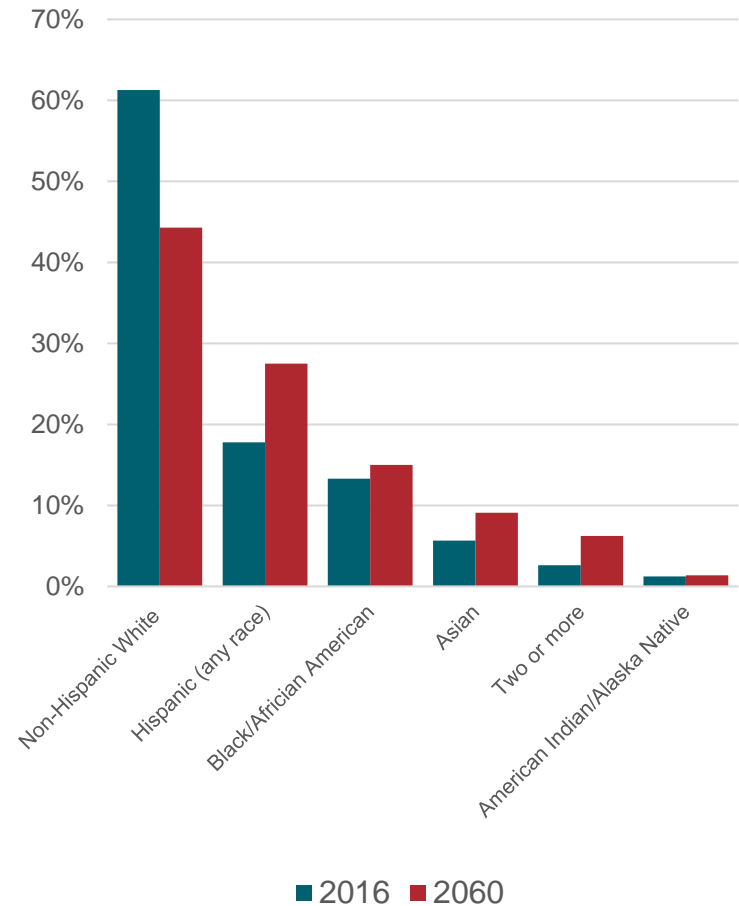
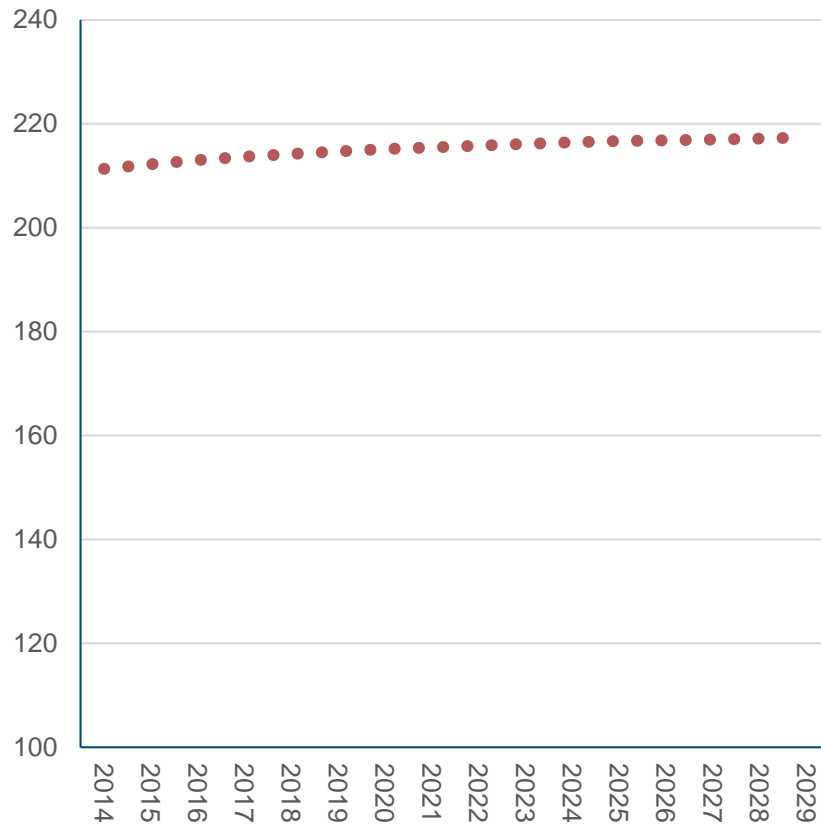
| Rank | Route to Market | Strengths | Weaknesses |
|------|-------------------------------|---|--|
| 1. | High end retail | <p>US consumers are less price sensitive and more interested in trying new products.</p> <p>Health and wellness are more prevalent in this sector. Fits the UK quality and niche product model.</p> | Highly competitive to access as many other suppliers see it as the most attractive. |
| 2. | E-commerce | Enables access a large number of consumers in a country where size and access to consumers is an issue. It offers a more economic route to market. | Competition for consumer interest is strong. Working with a larger or established company may offer wider coverage. |
| 3. | Independent & high-end HORECA | Working with a specialist distributor to get product listed and then accessing a wide range of HORECA customers. | Challenging to get listed by distributors and margins can be lower. |
| 4. | Mass retail | Access to largest number of consumers. | Very price sensitive and a very commercial trading environment to deal with. UK exporters need a large support budget to access this market. |

3. Macroeconomic data

3.1 Population & demographics

US working age population (millions), 2014 – 2029 & ethnicity

(source: UN Population Division & US Census Bureau)

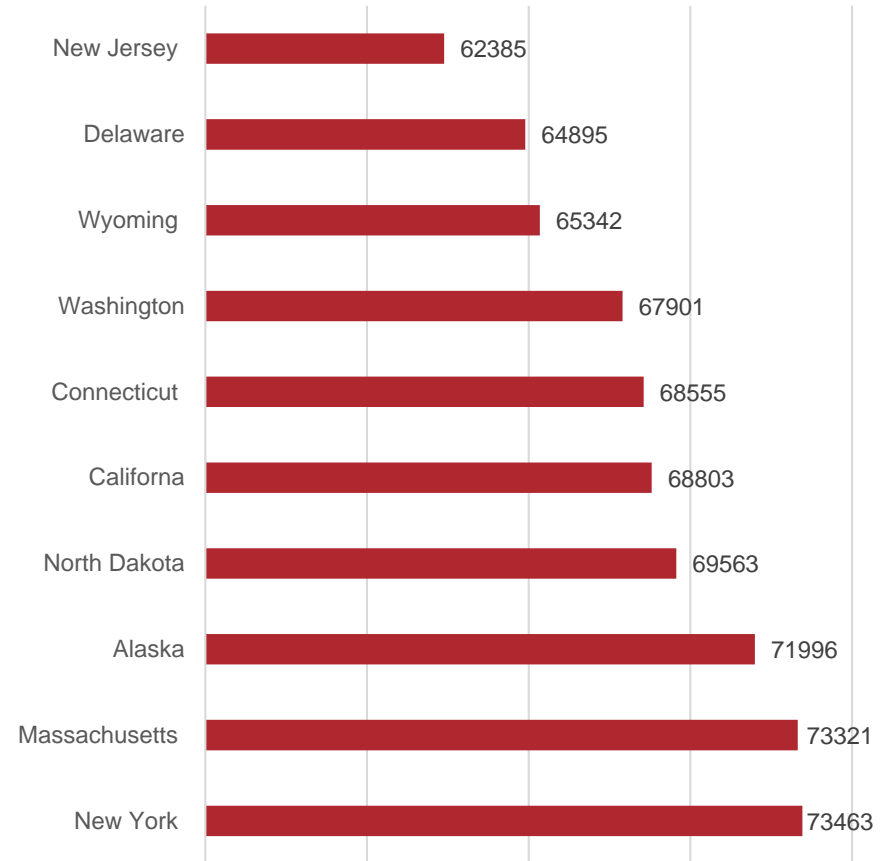


US population & demographics - summary

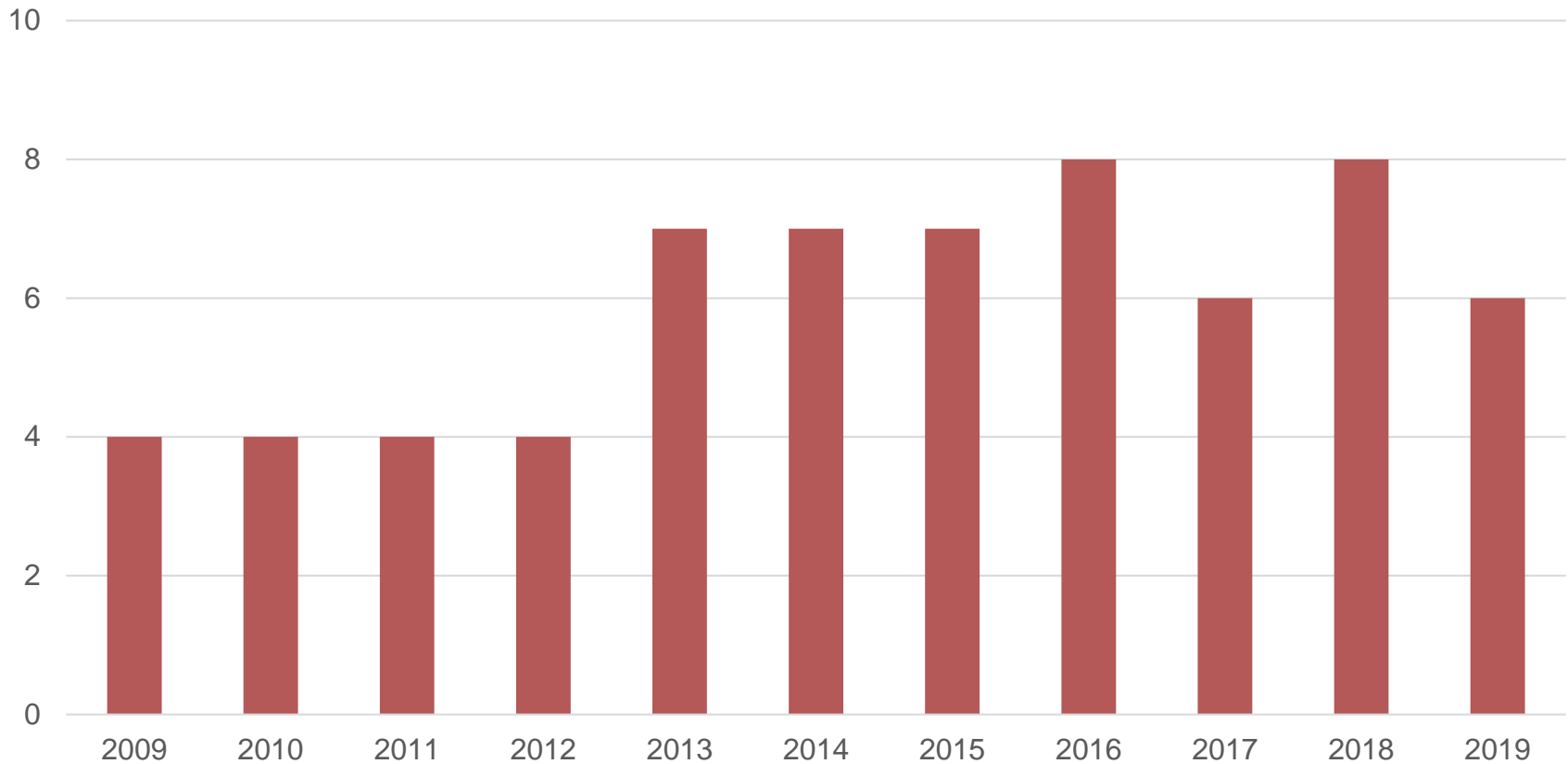
- ❑ The US population is growing steadily at a rate of 0.54% from 2008. It currently stands at 331 million. By 2030, the population in the US is predicted to reach 347 million. It has a predominantly urban population (82%) which is predicted to rise slightly by 3% to 85% by 2030.
- ❑ The US population is also ageing very slightly, with those aged 65 years and over expected to rise by 30% from 2019 to 2030 – this largely due to people living longer.
- ❑ Due to the younger demographic moving to urban areas for work, there is a disproportionate number of elderly in rural areas.
- ❑ The proportion of those ages between 15-64 years, classed as the ‘working age’ is also expected to rise by 1.3% by 2030.
- ❑ Currently, the US demographic is 61% “Non-Hispanic White” – however there is an expected reduction of 27 percentage points in this group by 2060. The US is predicted to see a significant rise in “African American” and “Asian” demography's with an increase of 12% and 60% respectively. This demographic change will influence consumer spending and preferences in what food and drink products are purchased.

3.2 Macroeconomic trends

GDP per capita (US\$ '000s) change 2014-2024 & by state (US\$, 2018) (source: IMF & Statistica)



The ease of doing business in the US, 2009-2019 (source: World Bank)



Ease of doing business index: (1= most business-friendly regulations)

The US economy – summary

- ❑ The GDP in the US has, over the last 5 years, been steadily growing and is forecasted to grow at a rate of 3% over the next 10 years.
- ❑ The US inflation rate dropped in 2015. It is predicted to stabilise from 2020 at 2.2%, illustrating a more stable economy.
- ❑ Doing business in the US has improved between 2018 and 2019 with its current Ease of Doing Business ranking at 6, according to the World Bank.
- ❑ As a comparison with other countries, the UK rates as 7, Germany 22 and Japan 29. Economies are ranked on their ease of doing business, from 1 – 190.
- ❑ It should be noted that the ease of business and GDP per capita changes from state to state in the US and influences which are more viable markets for UK exporters.
- ❑ The states of California, Nevada, Texas, Florida, Illinois, New York, Wyoming and New Jersey are some of the most affluent states in the US by income level.

4. US Food & Drink Importers

US food & drink importers

- ❑ US food and drink importers are split between those who are US based and those who are UK based, but with well established agents in the US.
- ❑ A number of UK based importers offer serviced exports (from the UK manufacturer to the US point of service (POS)) and/or pure freight service.
- ❑ A growing number of UK export freight companies are moving into the import and distribution industry within the US.
- ❑ Importers of UK products based in the US are often owned and run by expatriates or non-US owners.
- ❑ These companies have strong links with and good contacts within the UK food sector and good UK industry knowledge.
- ❑ US companies specialising in UK imports have built up strong relationships with the UK export supply chain, including UK regional representatives and DIT.

Examples of US importers include the following

❑ UK based:

- Smylies, Ramsden International, Oak Export, Sun Mark, Turner Price, Cool Cargo, MSC Ltd, FCL Global, Elm Consolidators.

❑ US based:

- BWI - imports (CA), LBB imports (CA), UK Imports (FL), British Food Imports (FL), Parkers British Institution (NY), Euro-American Brands (NJ), World Finer Foods (NJ).

Case Study - US beer importers & distributors

❑ **National Association of Beverage Importers Inc** - (NABI) is a national, tax exempt, trade association representing U.S. importers of alcohol beverages, wine and distilled spirits. They cooperate with other trade associations on issues that impact all alcohol beverages whether imported or domestic.



❑ **Wine and Spirits Shippers Association Inc** - (WSSA) negotiates shipping contracts on behalf of importers and distributors in the wine and spirits industry.



❑ Some key US beer importers/distributors include:

- **US Beverage** - leading importers focusing on imported and US craft beer, ciders, and specialty beverages
- **Intertrade USA Company** - importer and distributor of fine wines, spirits beers and ciders from around the world
- **Reyes Beer Division** - involved in business-to-business distribution of craft, import and domestic beer across the US
- **Total Beverage Solutions** - a full-service importer and supplier
- **B United International** - import exclusive brands specializing in traditional brewing and ingredients
- **AB-InBev** - the worlds largest brewer and distributor of own brands

Case Study – Connecticut based beer importer

- ❑ B United import a range of EU and Asian imported beers, wines, ciders, and spirits. They actively look for smaller independents and prefer suppliers that have history, a story and/or are innovative and interesting. They cater for customers with a refined beer palette, who are also prepared to pay a slight premium.

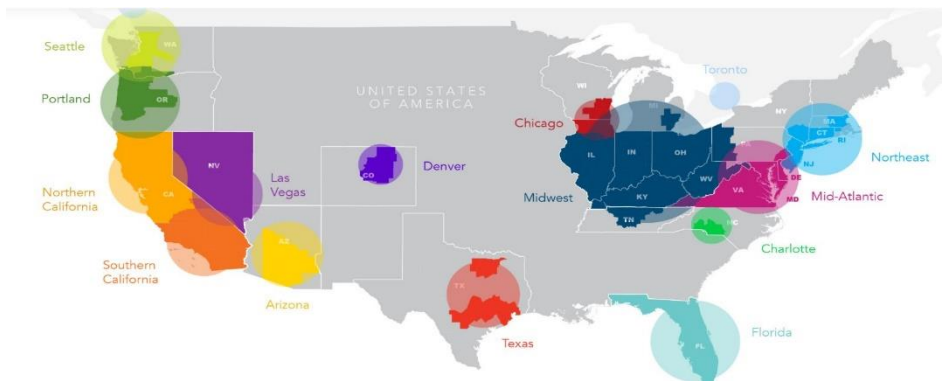
| UK beer strengths | UK beer weaknesses |
|--|---|
| History, brewing heritage, tradition, expertise in ales, porters and stouts. | UK craft beers should not try to compete with the US domestic IPA market – American style IPA has a fragile flavor profile, and it fades during transit, so not an obvious product choice to export. Costs, tariffs and the inherent local competition make for a very competitive market for UK suppliers. |



- ❑ UK brewers need to work closely with their US importer/distributor to offer what the US market wants and consolidate, if not grow market share. They should offer “tradition with a twist” and stick to what the UK is good at – heritage, tradition, quality, ales, stouts and porters.
- ❑ Bars and retailers are less likely now to try a new cask (e.g. in NY) previously they would give something a try to see how it went, but now have so much local high-quality beer available.
- ❑ US consumers, especially younger ones, are very influenced by trends and social media – UK beers tend to fit a more educated palate.

Case Study - BK distribution/chef warehouse

- ❑ BK are one of the largest suppliers to the HORECA sector and are a family operated specialty food distributor.
- ❑ They supply key areas of US and Canada serving restaurants, hotels, caterers and gourmet stores.
- ❑ British food and drink products are featured in their catalogue but under sub-categories of other distributors (e.g. Cawston Press (Under Dora's Natural) – a 3rd party distributor and BWI an importer/distributor.
- ❑ Access to the large HORECA market via BK distribution is most likely to be via these 3rd party importers such as BWI.



Case Study – British Food Imports Florida

- ❑ British Food Imports are a Florida based importer who have been trading since 2001. They provide product consolidation, shipping, duties and can file all paperwork for products with all relevant US authorities.
- ❑ They sell to independents and distributors and supermarket chains in Florida, Georgia, New York, Texas and the Caribbean where there is a strong ex-pat market alongside some strong regional and specialty supermarkets.
- ❑ BFI direct sales focus is on specialty and gourmet food stores, cruise ships, hotels, theme parks and foodservice for restaurants.
- ❑ They are currently working with Santander to help UK brands access the US market with a manufacturer to point of sale offer.



How do US importers find new UK food suppliers?

- ❑ US food companies typically attend a range of trade shows, such as:
 - Winter/Summer Fancy Food Shows
 - Natural Products Expo East and West US
 - Specialty Fine Foods UK
 - ANUGA, SIAL etc.
 - Regional UK producer events aimed at exports (Welsh, Scottish, Irish etc.)
- ❑ With regards to contact with the Department for International Trade (DIT) amongst US companies:
 - The majority of companies interviewed were aware of DIT and many had close working relationships.
 - Some respondents currently had no relationship with DIT and were unaware of the help that DIT could provide.
 - Those who were unaware asked to find out more about DIT following on from our research.

How do US importers find new UK food suppliers? (continued)

- ❑ US importers/distributors also use a variety of methods to source new suppliers. This was dependent on whether the importer/distributor was originally a UK national (or not).
- ❑ **US based (UK national owner) companies**
 - Regular trips to the UK, including visiting UK trade shows and local events, if looking for smaller regional producers.
 - Research what is available in the UK by visiting farm shops and independent retailers.
 - Reading UK trade magazines such as The Grocer and other industry publications.
 - Suppliers, in some cases, approach the companies direct.
- ❑ **US owned companies**
 - Occasional trips to the UK, sometimes facilitated by DIT to visit food & drink specific trade shows such as Speciality Fine Foods, Food and Drink Expo or regional events (i.e. Welsh Taste event, SDI Gleneagles Event).
 - Attending UK trade missions to source specific products sometimes facilitated by DIT and/or regional export specialists.
 - Visit stores and supermarkets if in the UK.
 - Reading blogs and social media feeds to see what UK products are trending.

How do US importers find new UK drink suppliers? (continued)

- ❑ Some “themed” bars’ (Irish/English etc.) said that they will bring in a special beer from the UK which, although will have a premium import cost, will also be retailed at a higher price (e.g. a small Irish brewery for St Patrick’s Day).
- ❑ We spoke to a range of British (including Irish) themed pubs about where they source their beer from. All used local distributors. Many said they could request specific beers if they wanted, however, they felt that their customer base, particular the younger generation, asked more for big name brands or local craft beers and their older customer was declining in numbers.
- ❑ With the current challenging beer market in the US, most companies are not actively looking for new suppliers. Instead, they work with current suppliers to expand their product offer, by introducing new packaging (cans vs bottles), new label design or new flavours (chocolate flavoured stout). Due to the current economic challenges within the US market, importers/distributors are less inclined to take the financial risks on an untested supplier or product – almost regardless of source
- ❑ Previously (5 years ago), US importers would attend trade specific shows in the US and internationally to source new beers from outside the US, but now seem less likely to attend now. UK brewers often appear to contact distributors directly – but respondents felt that often the UK company has not researched the market sufficiently.

Examples of US import models

(ranked in order of ease for a UK exporter)

| Model Type | Positives | Negatives |
|---|--|---|
| 1. Fully managed/serviced The food/drink business sells product from production facility (ideally US market ready) to an importer who manages all further stages into US market up to or including distribution to POS. | This is the simplest route to market. The UK supplier is paid up front and hands over ownership of goods to the importer/distributor. There are no ongoing issues over paperwork and transportation. | Limited control over product once it has left the UK depending on contract with US importer. Reduced margin for the manufacturer as any ongoing commercial risk has been transferred to importer. |
| 2. Semi managed/serviced The food business builds a relationship with a customer in the US (retailer/HORECA or distributor) and works with a freight forwarder or consolidator to assist with shipping and paperwork and possibly warehousing. The customer retains title to the goods. | This reduces the amount of administrative work needed to ship product and so makes exporting a bit easier. | There can be delays on shipping if waiting for other products for consignment. Extra costs must be paid to a freight forwarder. The manufacturer is still liable for product. |
| 3. Self managed/serviced The food business builds a relationship with a customer in the US (retailer/HORECA or distributor) and manages shipping (LCL or FL) and paperwork themselves. The customer retains title to the goods. | The manufacturer has full control over their goods and distribution into the US. They have more financial control over the end price to customer. | A high level of knowledge is needed to manage paperwork, shipping and regulations. It is more time consuming. Need to build relationships with distribution and POS in the US. |

5. How is the UK perceived as a Food & Drink supplier?

5.1 Strengths, weaknesses, opportunities and threats (SWOT) analysis

Strengths

- ❑ British products are perceived as high quality and safe and newer brands are considered modern and innovative in the US.
- ❑ The ease of doing business in the US is relatively easy and straightforward.
- ❑ The US has a large marketplace with a diverse consumer base.
- ❑ There are many routes to market with specialist and high-end retailers and independents.
- ❑ No major language barriers, however Spanish is widely spoken in some states.
- ❑ There are regions with strong historical links to the UK and regions with high levels of expatriate UK residents.
- ❑ The US is a stable country to do business in with a moderately growing economy.

Weaknesses

- ❑ Tariffs can put the UK at a disadvantage to other competitors, particularly non-EU suppliers.
- ❑ Transport costs can be an issue and logistical issues can arise from the sheer size of the US and different time zones.
- ❑ The US consumer is not very British food aware. New products need to have strong promotional support such as through brand promotion and in-country support.
- ❑ Most US consumers (>90%) are not purchasers of premium food and drink products.
- ❑ UK companies need to view US exporting as a long game with a 2 to 5-year commitment so UK companies may have to accept lower margins at the beginning to build their brand. There is often a lack of understanding of FDA regulations and labelling requirements.
- ❑ The view of British products can be old fashioned and there is a need to educate US consumers on the 2020 UK food and drink offer.

Opportunities

- ❑ A UK-US FTA could be a game changer for UK exports to the US.
- ❑ The US is a large market for the right product aimed at a US consumer.
- ❑ In-country production of some of the categories by UK companies.
- ❑ Niche markets, such as gluten, sugar, carbohydrate or alcohol free and vegan, as well as innovative and different products not available in the US
- ❑ More in-country research to allow UK exporters to be better prepared before they decide to launch. Trade missions with in-country specialists or importers working in the sector.
- ❑ UK exporters should view regions and states as separate export opportunities and focus on each one as an individual export campaign.
- ❑ In store British food promotions which could cover a range of categories to build British and brand awareness. Improved brand support in-country by manufacturer.

Opportunities

- ❑ A growing natural, health-food market particularly on the east and west coasts.
- ❑ The premium online market is growing and may provide opportunities for producers to sell directly to US consumers or via an importer.
- ❑ Market awareness and willingness to react to trade prospects such as changes in tariffs can enable new market opportunities.

Threats

- ❑ Tariffs and taxes can have a large impact on the ability of the UK to export to the US.
- ❑ Uncertainty over future tariffs may create caution from UK processors to invest in export programmes.
- ❑ There is a large competitive advantage for neighbouring countries, in particular Mexico and Canada, due to reduced freight costs and lower tariff barriers.
- ❑ The mass US consumer market is highly price sensitive and it is difficult for imported brands with a premium price to compete with the domestic offer.
- ❑ In the US craft beer market, the large numbers of local producers and narrow margins make it hard for imported beer producers to enter the market.
- ❑ The possibility of increases in manufacturing and packaging costs to get UK products export market ready for the US.

Who are the UK's main competitors?

| Category | 1 | 2 | 3 | 4 | 5 |
|-------------------|---------------------|-------------|-------------|---------|---------|
| (Craft) Beer | Mexico | Netherlands | Belgium | Ireland | Canada |
| Meat Alternatives | Philippines (Quorn) | Netherlands | New Zealand | | |
| Sweet biscuits | Mexico | Canada | Germany | Denmark | Belgium |
| Confectionery | Mexico | Canada | China | Germany | Turkey |
| Breakfast Cereals | Canada | Mexico | India | Spain | Korea |
| Condiments | Mexico | Canada | China | Germany | Turkey |

❑ It should be noted in all cases - the biggest competitor is the US domestic producer.

Constraints to developing UK exports

| Nature of constraint | Comments | Required actions to mitigate |
|---|---|--|
| Lack of market presence and/or trade representation | <ul style="list-style-type: none"> ❑ Due to its size the US is a difficult market to penetrate and there is low British brand awareness generally. ❑ Lack of market research and understanding of the complexity and pricing of UK exports. | <ul style="list-style-type: none"> ❑ Producers working with importers/distributors should focus on targeted regions or consumer groups to create impact with a smaller target sector. ❑ Trade visits, building up relationships with the supply chain and market research before starting to export. |
| Price competitiveness | <ul style="list-style-type: none"> ❑ The US is very price sensitive and UK imports are generally more expensive. | <ul style="list-style-type: none"> ❑ UK brands need to either reduce margins to fit with the US price model or be able to demonstrate a unique selling point (USP) of why their product is priced at a premium. |
| New product development (NPD) and innovation | <ul style="list-style-type: none"> ❑ This was felt to be a key opportunity and one that UK producers are good at. NPD and innovation, however, must be aimed at the US consumer. | <ul style="list-style-type: none"> ❑ Thorough research of market and US consumer needs and wants. Consider developing specific products for the US market as an extension of core range. |
| Logistics of supply from the UK | <ul style="list-style-type: none"> ❑ Distance to market can cause issues with shelf life and time to arrive in the region ex works. In some cases, deterioration in food quality can occur during transit. | <ul style="list-style-type: none"> ❑ UK producers should aim for as long shelf life as possible ex-works. Food and drink producers should only choose products that are robust enough to travel. |

Constraints to developing UK exports

| Nature of constraint | Comments | Required actions to mitigate |
|--|--|--|
| Promotional support & marketing | <ul style="list-style-type: none"> □ Generally, there is often a lack of marketing and promotional support by UK exporters – some distributors fill this gap, but there is a cost implication, and they may have to promote many brands in their range. | <ul style="list-style-type: none"> □ UK companies need to put together a comprehensive sales and marketing plan and work with the importer/distributor to create a brand support in-country. |
| Lack of interest from the UK food sector | <ul style="list-style-type: none"> □ It is potentially seen as too complicated and too difficult by UK companies to investigate export opportunities. | <ul style="list-style-type: none"> □ UK government and regions can run export events and trade visits. □ There is a need to include up to date market insights and data for companies investigating opportunities. □ Use UK company case studies and consider inviting US importers to give real insight in what is needed to be a successful exporter to the US. |
| Strength of competition | <ul style="list-style-type: none"> □ Imports are dominated by Canada and Mexico who have tariff and location advantages. | <ul style="list-style-type: none"> □ Other EU countries with similar barriers to the UK have been successful in various categories - UK exporters need to learn what has worked for them and target the remaining market sector. |

Constraints to developing UK exports

| Nature of constraint | Comments | Required actions to mitigate |
|---|--|---|
| <ul style="list-style-type: none">❑ Finances: exchange rates and terms and conditions of supply | <ul style="list-style-type: none">❑ Exchange rates can work for and against but both scenarios need to be considered and planned for.❑ Insurance can be taken out against some of the variables, but these are extra costs. | <ul style="list-style-type: none">❑ Carry out research thoroughly and be aware of any potential non-tariff costs.❑ UK firms should create best- and worst-case scenarios to understand the financial robustness of the export prospects. |

Extra costs to consider when exporting to the US

Direct costs can include:

- ☐ Product modifications (labour and materials for re-labelling or new packaging)

Indirect costs can include:

- ☐ FDA compliant and US compliant labeling for packaging and marketing materials
- ☐ Transactional costs depending on payment methods
- ☐ Legal advice structuring agreements with a selling agent or distributor
- ☐ Market research (desk and in-country)
- ☐ Communication costs with agents and distributors, liaising with freight forwarders etc
- ☐ Insurance policies may need extension for product liability or professional indemnity

Shipping specific costs can include:

- ☐ Insurance specific to transportation
- ☐ Export licenses and documentation
- ☐ Shipping
- ☐ Specific packaging for the cargo
- ☐ Additional “in-country” costs depending on contract

5.2 The Image of the UK Food & Drink Sector

The image of the UK food & drink sector in the US – importers & distributors

| | Positives | Negatives | Indifference |
|----------------------------|--|--|---|
| Importers and distributors | <ul style="list-style-type: none"> ❑ Importers and distributors see UK food and drink companies as innovative with good packaging. ❑ UK products are considered easy to handle and shelf ready. ❑ UK food and drink products are also seen as being good quality and modern, often with a point of difference, heritage and authentic. ❑ British products are held in high regard and have good associations with US consumers. ❑ Sustainable packaging ❑ “Tradition with a twist” | <ul style="list-style-type: none"> ❑ US importers cite poor market research from UK food and drink companies before market entry. ❑ UK food and drink products are often seen as expensive. There are sometimes shelf-life issues with UK products due to time to freight to the US. ❑ In worst cases scenarios, UK firms have the wrong products for the US consumer and market. ❑ UK producers don’t plan for or offer enough brand support. The decision to export needs to have a 2 to 5-year support plan to gain market share. ❑ Not everyone wants premium - some want value and volume. ❑ Producers slow to adapt to market wants (e.g. beer in cans). | <ul style="list-style-type: none"> ❑ Other products/ countries can fill the market gap if no UK product is suitable or if too expensive. ❑ US importers claim they can buy a range of products that are similar to the UK’s from New Zealand, Australia and other EU Countries. ❑ This is particularly relevant if tariffs (e.g. on biscuits) have priced a product out of the market, they will look for a replacement product. |

The image of the UK food & drink sector in the US – retailers

| | Positives | Negatives | Indifference |
|-----------|--|--|--|
| Retailers | <ul style="list-style-type: none">❑ US retailers, especially in the independent sector, see UK food and drink companies as being innovative with inherently good quality products.❑ British products can offer something different for their customers. | <ul style="list-style-type: none">❑ UK food and drink products are seen as expensive and have little brand support in-country.❑ Due to the premium price, they are not always ideal for the mainstream supermarket model. | <ul style="list-style-type: none">❑ Many US retailers are tailoring products to the US consumer regardless of country of origin. |

The image of the UK food & drink sector in the US – consumers

| | Positives | Negatives | Indifference |
|------------|--|---|--|
| Consumers* | <p>When US consumers do make a connection with UK food and drink products it is often associated with:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Quality <input type="checkbox"/> Heritage <input type="checkbox"/> Tradition <input type="checkbox"/> Family history or travel <input type="checkbox"/> “Downton Abbey” style imagery <input type="checkbox"/> The Royal Family | <p>At worst, US consumers might associate UK food and drink with:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Being “old fashioned” <input type="checkbox"/> A “fish and chips” culture <input type="checkbox"/> An image of UK food being bland - even boring <input type="checkbox"/> A “Union Jack” based generic image of UK food <input type="checkbox"/> Unaware of British brands | <p>The majority of US consumers have no strong feeling either way about British products. It is more important that the products suits them than where it is from.</p> |

**based on feedback from the commercial supply chain and not from specific consumer research*

The experience of dealing with the UK

Positives

- ❑ US importers saw UK food and drink companies that had a professional and well thought through export plan as the best to work with.
- ❑ They felt it made their work easier promoting the UK brands if the company had done their in-country research and had a comprehensive sales and marketing plan.
- ❑ Good examples were cited as the likes of Premier Foods (Sharwoods), Seedlip Gin, Walkers Shortbread and McSweens Haggis, Fisherman's Friend and Fever Tree.

The experience of dealing with the UK

Negatives

- ❑ US importers felt that bad examples of dealing with the UK were mainly surrounding a lack of research into the US market and consumer.
- ❑ They felt some companies had a product that they wanted to export (e.g. an unusual drink flavour), but they had not properly researched whether the US consumer would like it.
- ❑ They felt that some companies were not prepared to provide financial brand support or create a US focused product and reduce margins to fit the US pricing model.
- ❑ They felt that UK exporters had to understand exporting to the US was a long-term commitment and not a “quick win”.
- ❑ There was also an issue with exporters not understanding FDA regulations and labelling which can be easily rectified with support from importers and thorough research.

Feedback on UK food & drink image

Negatives

- ❑ There seems to be an almost complete disconnect between what importers and some retailers seem to think about UK food and drink and what many consumers feel about it.
- ❑ The mass US market is probably often beyond most of the UK food and drink sector, particularly for the smaller end of SME as big budgets are needed to support this route to market.
- ❑ In the short term, UK food and drink exporters should focus on other routes to market which are invariably more niche in their nature.
- ❑ A US – UK FTA might make a difference in the mid term, but UK food companies still need to get the basics right in the US and address weaknesses and develop a strong US market export focus.

6. Where are the best opportunities for UK food & drink exports?

6.1 Opportunity by product

What sort of products does the US want from the UK?



- ❑ Products that have a proven track record of success in other international markets. They also need to be price competitive.
- ❑ There are two main approaches:
 - A stand-alone product – tailored to the US consumer
 - “British with a (modern) twist”
- ❑ A high level of support from the UK manufacturer in-country. Opportunities exist in:
 - Alternative meats – as the UK is seen as a market leader in this sector
 - Quirky and innovative products fit for market
 - Traditional British products, such as biscuits, if tariff issues are resolved
 - New categories
- ❑ Protected Designation of Origin (PDO), Protected Geographical Indication (PGI), Red Tractor and regional branding has little resonance in general except for products like Scotch beef and whiskey.

Opportunities by product

| Rank | Product | Strengths | Weaknesses |
|------|------------------|---|--|
| 1. | Alternative Meat | <ul style="list-style-type: none"> ❑ Growing market. ❑ UK is a leader in this sector. ❑ Limited number of players in the sector. | <ul style="list-style-type: none"> ❑ Total market size is currently limited – but significant growth opportunities are expected. ❑ High investment is needed to expand production. |
| 2. | Cereals | <ul style="list-style-type: none"> ❑ Well developed UK premium products. ❑ Large premium cereals market in US. | <ul style="list-style-type: none"> ❑ There are lots of players already in this category. ❑ The US market is currently dominated by Mexico and Canada. |
| 3. | Condiments | <ul style="list-style-type: none"> ❑ Large US market. ❑ Product innovation driving market expansion. | <ul style="list-style-type: none"> ❑ The US market is dominated by Mexico, Canada and China. ❑ British products don't always fit the US consumer wants. |
| 4. | Confectionery | <ul style="list-style-type: none"> ❑ Innovative British products. ❑ Niche product opportunities. | <ul style="list-style-type: none"> ❑ US market dominated is by Mexico, Canada, China & Germany. ❑ A highly price sensitive category. |
| 5. | Craft Beer | <ul style="list-style-type: none"> ❑ Strong British brand and heritage. ❑ Innovative products which are a USP. | <ul style="list-style-type: none"> ❑ This is a financially challenging marketplace with tight margins. ❑ There is strong competition from domestic craft brewers. ❑ Import taxes for UK companies are unfavourable. ❑ The import market is dominated by Mexico and EU countries. |
| 6. | Biscuits | <ul style="list-style-type: none"> ❑ Strong British brands in the market. ❑ High quality products. | <ul style="list-style-type: none"> ❑ The unfavourable Airbus tariff is making UK products uncompetitive in a price sensitive market. |

6.2 Opportunities by route to market

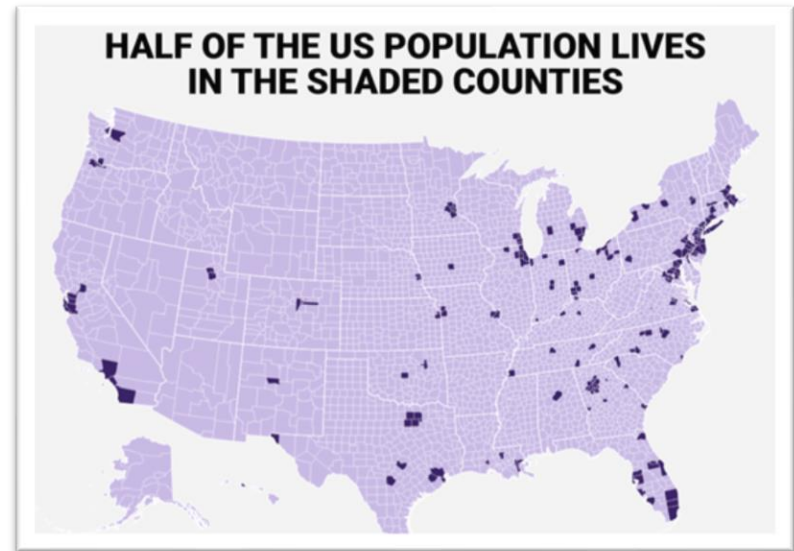
Opportunities by route to market

| Rank | Route to market | Strengths | Weaknesses |
|------|-------------------------------|---|---|
| 1. | High end retail | <ul style="list-style-type: none"> ❑ US consumers are less price sensitive and more interested in trying new products. ❑ Health and wellness are more prevalent in this sector. This fits the UK quality and niche product model. | <ul style="list-style-type: none"> ❑ This is a highly competitive market to access as many other suppliers also see it as the most attractive. |
| 2. | E-commerce | <ul style="list-style-type: none"> ❑ Enables access a large number of consumers in a country where size and access to consumers is an issue. It offers a more economic route to market. | <ul style="list-style-type: none"> ❑ Competition for consumer interest is strong. Working with a larger or established company may offer wider coverage. |
| 3. | Independent & high end HORECA | <ul style="list-style-type: none"> ❑ Working with a specialist distributor to get product listed and then accessing a wide range of HORECA customers. | <ul style="list-style-type: none"> ❑ It is challenging to get listed by distributors and margins can be lower. |
| 4. | Mass retail | <ul style="list-style-type: none"> ❑ Access to largest number of consumers | <ul style="list-style-type: none"> ❑ This is a very price sensitive and commercial trading environment to deal with. UK exporters need a large support budget to access this market. |

6.3 Opportunity by geography & consumers

US geography

- California – 39.6 million
- Texas – 28.7 million
- Florida – 21.6 million
- New York State – 19.5 million
- Pennsylvania – 12.8 million
- Illinois – 12.7 million



| Which parts of the country to target? | Logic and rationale |
|---------------------------------------|---|
| East Coast Bost/Wash Corridor | <ul style="list-style-type: none"> <input type="checkbox"/> 17% of the US population <input type="checkbox"/> Affluent consumers <input type="checkbox"/> International mix of consumers <input type="checkbox"/> UK expats |
| South East Coast/Florida | <ul style="list-style-type: none"> <input type="checkbox"/> UK expats <input type="checkbox"/> Affluent US consumers |
| West Coast/California | <ul style="list-style-type: none"> <input type="checkbox"/> Affluent US consumers <input type="checkbox"/> International mix of consumers <input type="checkbox"/> High population density |

The BosWash Corridor

- ❑ The BosWash corridor includes five major cities: Boston, New York, Baltimore, Philadelphia & Washington.
- ❑ A population nearing 44 million, accounting for about 17% of the US population, but only 2% of its landmass, it is a clear target as an area to focus UK export sales.
- ❑ The New York metropolitan area (19.5 million population) is 7.5% of the national population.



What type of consumers to target?

| What type of consumers? | Logic and rationale |
|-------------------------------|--|
| Educated | Increased likelihood to have travelled abroad and willingness to try new products |
| Ex-pat/ has connections to UK | Actively looking for British products |
| Foodies | Interested in food and world flavours and more likely to try new products |
| Ethical families | Willing to pay for environmental, social or health values |
| Health conscious | Likely to try new products and willing to spend more on their health and wellbeing |
| Affluent | Less price sensitive to higher price of imported products |
| Well travelled/ tourists | May have tried different products abroad and more willing to try new things |

Considerations for UK food and drink companies exporting to the US

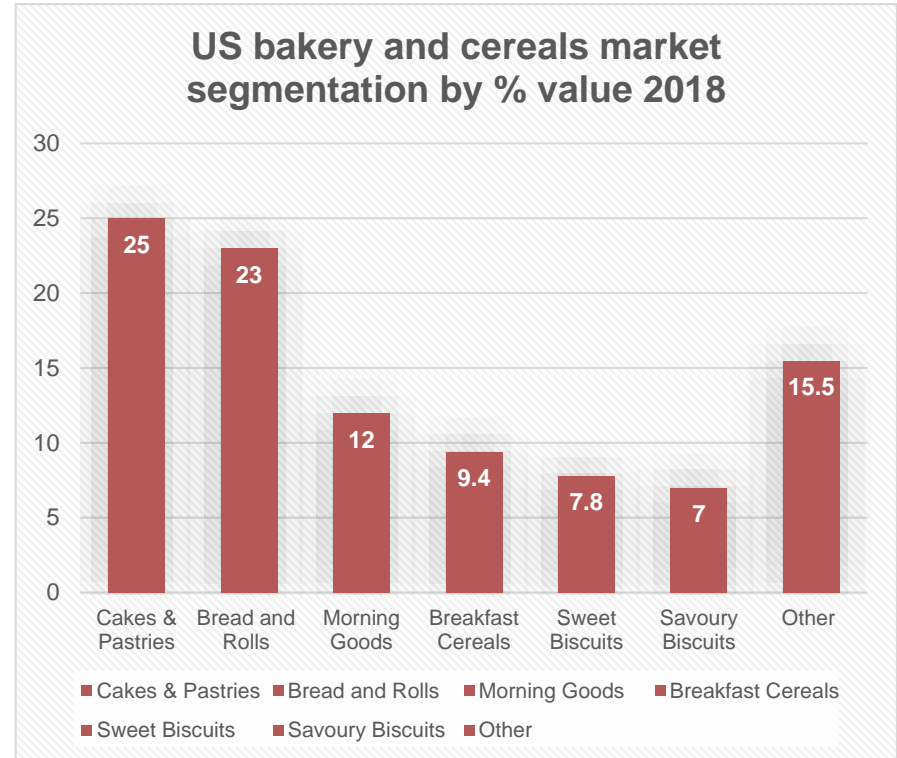
- ❑ Treat the US as individual regions or states when planning export campaigns.
- ❑ Research the target market and consumer before deciding what and where to export.
- ❑ Create supply chain links and establish supply costs.
- ❑ Allocate budget for in-country support.
- ❑ Commit to the US market for the mid-to-long term.
- ❑ Find niche markets and target them effectively.
- ❑ Aim for price parity with similar US products.
- ❑ Work with importers and distributors on accessing the US market.

7. Product Specific Information

7.1 Breakfast Cereals

The US breakfast cereal market

- ❑ The US bakery and cereals market grew by 2.7% in 2018 to US\$112 billion and is predicted to grow by another 13% in the next 3 years.
- ❑ Breakfast cereals account for 9.4% of this market at a value of US\$10 billion.
- ❑ Large grocery stores account for 66.8% of the US market share by value, followed by independents at 16.6% and convenience stores with 11.6%.
- ❑ Although there are large established players in this market, new entrants can potentially enter successfully on a small scale through niche products.



Data: Marketline

US market drivers – breakfast cereals

Positives

- ❑ The US bakery and cereals market is a growing sector with nutrition and health being a key consumer trend.
- ❑ There are many artisanal manufacturers in this category which allows smaller scale producers to enter more easily by providing niche products.
- ❑ The sale of free-from and organic products are increasing in this sector.
- ❑ There are opportunities for new UK entrants if they can offer a range with enough differentiation to compete with the established brands. Smaller producers are sometimes leading players in the US market and health focused products command a higher retail price

Negatives

- ❑ The high fixed costs and a very competitive domestic market supply base increases barriers to entry for UK processors.
- ❑ Whilst the niche cereal (e.g. free from, granola, oats) market is segmented with smaller manufacturers, there are already lots of domestic suppliers making it difficult for an imported product to compete on price.
- ❑ There is a high degree of FDA regulation regarding ingredients, particularly on granola/muesli type products.

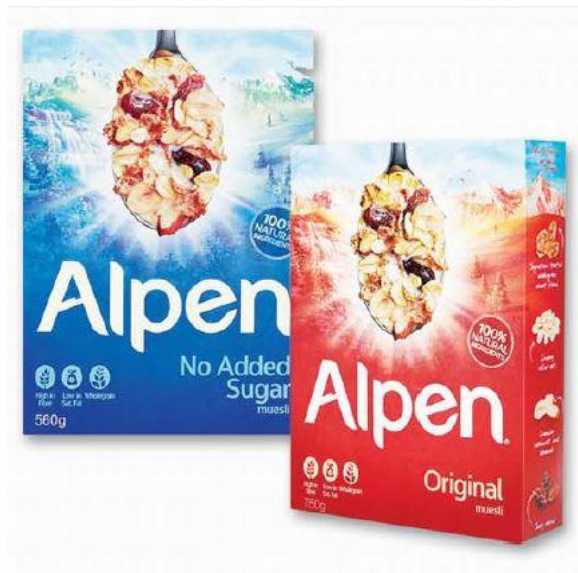
Product range

- ❑ The category is split in stores between standard family pack style cereals aimed at children and high-end granola/muesli style cereals aimed at an adult health-conscious consumer.
- ❑ Pricing within this category reflects the product type and consumer targeted – mass family market value or niche premium pricing.
- ❑ Key players in the US market are Kellogg, Quaker Foods (PepsiCo), General Mills & Post Holdings, all of whom are targeting the premium market in cereals.
- ❑ For a UK exporter, they need to offer something currently not available within the US market.



British breakfast cereal brands in the US

- ❑ Some UK brands available in the US include Weetabix, Shreddies, Ready Brek, Alpen and Scotts Porridge Oats.
- ❑ This category is not very well supplied by the UK exporters and is seen as a low margin sector.



Pricing (source: Promar based on trade research & store visits)

| Customer type | Brand | Price (excl. VAT) |
|---------------|--------------------------|-------------------|
| Family market | Alpen | US\$3.99/14oz |
| | Captain Crunch | US\$4.49/22.8oz |
| | Life Original | US\$4.49/21.3z |
| Premium | Purely Elizabeth Granola | US\$7.49/12oz |
| | Bear Naked Granola | US\$6.99/12oz |
| | Kind Granola | US\$5.69/11oz |



Packaging

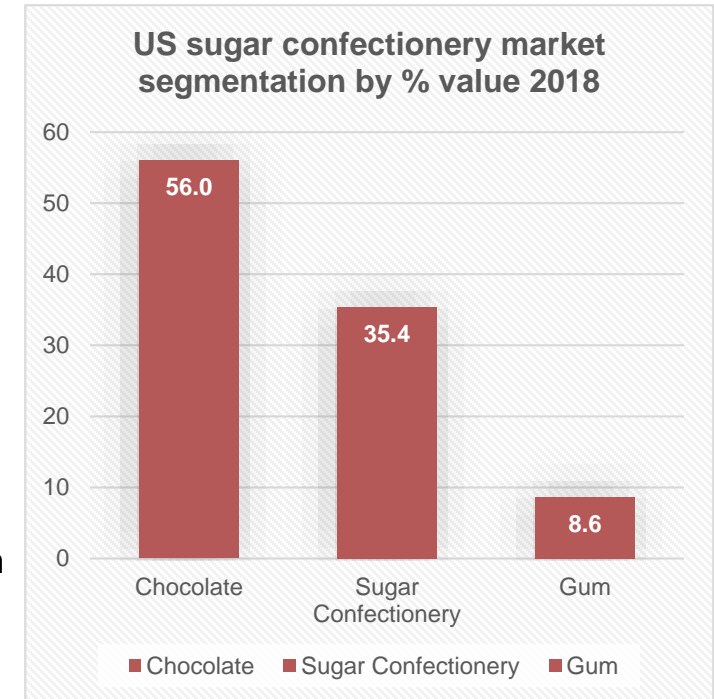
- ❑ There is a clear split between family basic cereals and high value niche products (mainly granola style).
- ❑ FDA regulations have strict nutritional labelling requirements for breakfast cereal products.
- ❑ This is an area that UK products would fit into by default .



7.2 Confectionery

The US confectionery market

- ❑ In 2018, the US confectionery market grew by +1.2% to reach the value of US\$ 25.5 billion volume sales this is an increase of 0.7% mainly due to increases in the sale of sharing bags.
- ❑ Chocolate is the largest segment of the confectionery market in the US, accounting for 56% of the market total value.
- ❑ The confectionery sector for “everyday treats” is \$21.7 billion.
- ❑ The US accounts for 23.1% of the global confectionery market value.
- ❑ Supermarkets have the largest distribution share in the US, at 39%, followed by convenience stores at 24%, independents with 10%, pharmacies at 9% and “other” making up 19%.
- ❑ E-commerce sales have increased by 300% in the last 2 years.
- ❑ Convenience stores have seen an 8% year on year increase in non-chocolate confectionery sales.



US market drivers – sugar confectionery

Positives

- ❑ Sugar confectionery is still a growing sector in the US – three main current themes in the confectionery industry are:
 - Experience (luxury, indulgent)
 - Expectation (health, energy)
 - Simplicity (natural, clean)
- ❑ As the health & wellbeing market grows, it may offer opportunities for small scale, niche, high value such as free-from products (sugar, colourings, gelatine, flavourings etc.). For example:
 - Gluten free products saw 20.3% growth in non-chocolate and US\$317 million in sales.
 - Sustainability and Fair Trade are important with younger generations and more relevant to the chocolate sector.
- ❑ US retailers are often opposed to switch to some alternative health snacking products, due to shelf space, shelf life, or where alternatives need chilled storage such as fresh produce snacks.
- ❑ There is a range of private label ranges available which reduces larger brand power but is often a lower margin offer.

US market drivers - sugar confectionery

Negatives

- ❑ The increased focus on health and wellbeing has meant that some consumers have switched to fruit snacks, trails bars, cereal bars and other “healthy” snacking products.
- ❑ High logistics costs and FDA labelling regulations make it challenging for new entrants to navigate this market without a distribution partner.
- ❑ Big names dominate and brand power and advertising is highly visible in the mass market.
- ❑ The US market is price sensitive due to the influence of large big-name brands in this category.
- ❑ Consumer loyalty is strong to favourite brands creating a reluctance for retailers to try new brands.
- ❑ If bought as a gift item, competition from other non-confectionery products should also be considered.

Product range

- ❑ The largest market players in sugar confectionery in the US are Mars, Wrigley, Lindt, The Hershey Co, Ferrara, General Mills, Kellogg Co. and Mondelez. Mars, Lindt, Hershey's and Ferrara account for 71% of US sales (US\$ 18.2 billion) between them.
- ❑ The US confectionery market contains a wide range of categories, allowing manufacturers the opportunity to expand their product range into other sectors, such as healthier categories like sugar/gluten free or no artificial colours.
- ❑ This may present an opportunity to UK confectionery manufacturers who have something new to offer that is not currently available in the US. There is also strong demand for novelty products, such as sours and new flavours, with jellies dominating the sector. New products such as premium sweets or alcohol jellies, could have a niche market opportunity here.



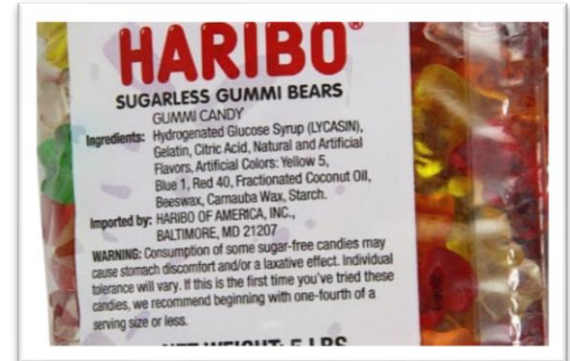
British confectionery brands in the US

- ❑ Some UK brands available in the US include the likes of Simpkins, Flower & White, Romneys, Lees of Scotland, Candy Kitten, Barratt, Mrs Tillys, Rowntree, Fisherman's Friends, Cartwright & Butler, Stockley and Walkers. There were very few UK products seen for sale in the store audits that were conducted except for Cost Plus World Market and Bristol Farms stores in California.
- ❑ There was a mix of manufacturer size of UK confectionery brands available from importers/distributors UK from smaller and specialist sweet manufacturers to large multinational brands.
- ❑ This would suggest that whilst the US import market is relatively small and price sensitive, there is opportunity for SME companies to enter it if they have a product that is not already available and suitable to the US market. Some of the UK premium sweet brands were sold online through websites, such as www.parkersbritishinstitution.com.



UK competition in the US

- ❑ Within the health and wellness category of retailers and independents, there were sections selling free-from (sugar, colouring etc.) which may open opportunities for UK companies to enter this sector.
- ❑ Besides Mexico, Canada and China, Germany has a large percentage of the confectionery import market with their Haribo range.
- ❑ The main imports in this sector are in the value mass market category although they have free-from ranges too.
- ❑ As mentioned previously gluten free has seen a +20.3% growth in non-chocolate US\$317 million sales in 2018. All the major confectionery companies now have ranges in this sector.

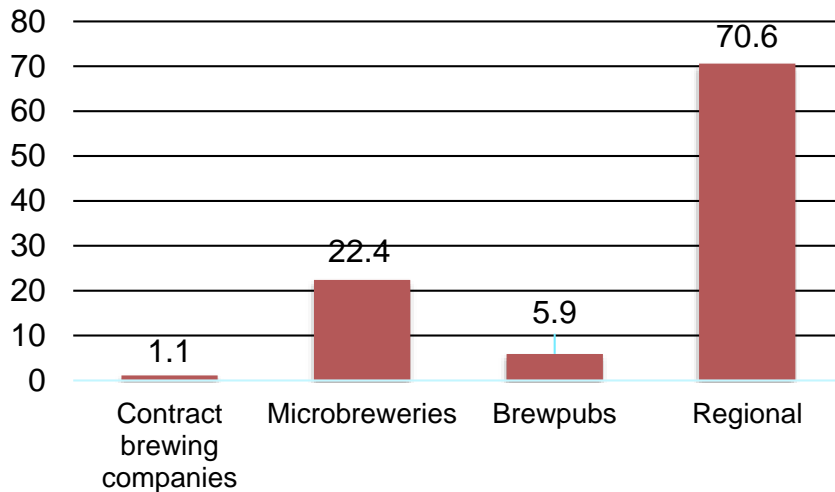


7.3 Craft beer

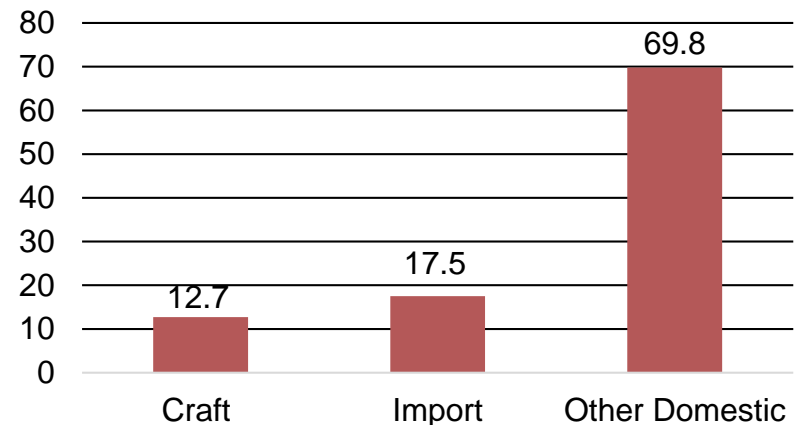
The US beer market

- ❑ The total US beer market is worth US\$111.4 billion – the craft beer market is worth US\$27.6 billion. There was a 0.2% decrease (from 2018) in beer volume, but value has increased mainly due to premiumisation of the products available.
- ❑ UK beer exports to the US are worth US\$180 million. Total imported beer accounted for 17.5% of total beer sales in the US – US\$ 36 billion.

US craft beer industry production volume %



US beer market % market share



Source: Brewers Association, Boulder Co.

Why is the term “craft beer” confusing?

- ❑ The term “craft beer” is objective in the US, defined by the US Brewers Association and easily identified as a distinct product by US consumers. In the US “craft beer” also refers to the size of a brewer (nearly all independent breweries in the UK would fit in this size definition (see the US definition on the next page). It is seen as a particularly American beer (often floral IPA style), supplied domestically by one of the 8,000 US brewers.
- ❑ UK consumers/brewers have a more subjective view of what constitutes a “craft beer” as there is no strict definition. They have a variety of views on what the term “craft” means for a British beer which can often be used as a marketing tool but can be unhelpful if it is applied as an export category term.
- ❑ The US view of British beer is different to how we see our own (beer). Their view of British beers is of “traditional ales”, porters and stouts. They value the brewing heritage and welcome newer concepts (e.g. “tradition with a twist”). An example might be a chocolate flavoured stout, beer aged in whisky casks or a dessert plum porter.
- ❑ By specifying craft beers as a category for targeted help, it may both exclude many traditional British brewers with their export ambition and may also have a detrimental effect on the US consumers who have a different perception of the term craft beer.

US definitions of craft beer

- ❑ The term “craft beer” is objective in the US.
- ❑ There are over 8,000 brewers operating in the US. Most Americans live within 10 miles of a craft brewer. More than 4,700 craft brewing companies have adopted the independent craft brewers seal. US consumers often actively ask for local craft beers.

US definition – as given by the US Brewers Association

Small

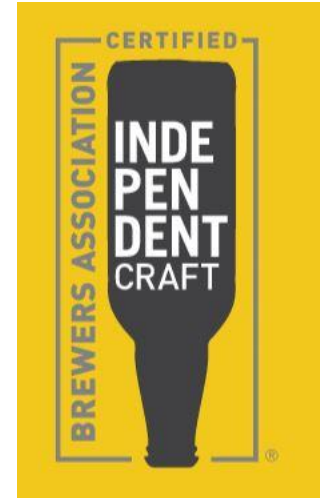
- Annual production of 6 million barrels of beer or less (approximately 3% of US annual sales).
- Beer production is attributed to a brewer according to rules of alternating proprietorships (>25% owned by a non-craft brewer).

Independent

- Less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by a beverage alcohol industry member that is not itself a craft brewer.

Brewer

- The firm must have a TTB (US Government Alcohol & Tobacco Tax & Trade Bureau) Brewer’s Notice and produce beer.



US market drivers – craft beer

- ❑ The total US beer market is worth US\$ 111.4 billion – as a subsector the craft beer market is worth US\$ 27.6 billion.
- ❑ The UK's beer exports to the US are worth US\$180 million per annum. Imported beer accounted for 17.5% of total beer sales in the US – US\$ 36 billion.
- ❑ Many beer exporting countries have “their beer” which they are identified by.
- ❑ Germany, Belgium, Spain, France and Japan all have their own distinctive beer type that US consumers know and look for.



What is the British beer type that a US consumer looks for?

- ❑ The UK beer industry is high tech and innovative whilst along with Belgium and Germany, also having the heritage and tradition that is the pillar of modern beer making.
- ❑ The British beer “brand” needs to convey to US consumers the very best of our brewing heritage with the new innovation it is known for and that US consumers want in effect a taste of “Cool Britannia”.
- ❑ The older style beer drinker in the US is being replaced with a younger, more trend influenced crowd.

US market drivers - craft beer

Positives

- ❑ The US craft beer is still seen as a growth market (it has grown by 4.7% since 2014). Big brewers are investing in craft brewers (often with alternating proprietorship). However, most craft beer market growth is now coming from smaller players. Whilst volume is decreasing slightly, value is increasing due to premiumisation.
- ❑ A younger generation is drinking craft beer and looks for something different or new trends such as:
 - Health & wellness (low alcohol, carbohydrate or calories)
 - Canned products for flexibility
 - The hard seltzer market sector has grown significantly in the last year by nearly 50% (2019).
- ❑ Low alcohol trend has big players and investment in this market as consumers want good quality products that mimic “the real thing” - sales grew 10% in 2019.
- ❑ Commercial buyers looking to stock wide variety of beers which could provide further opportunities in the US market.
- ❑ Consumers like a traditional brewing story (and this is something the UK has to offer).
- ❑ Imported beers have increased their market share by 3.8% since 2014.

US market drivers - craft beer

Negatives

- ❑ Beer volumes are falling slightly in US; spirits and wine are biggest threat to beer market share. New products such as hard (alcoholic) seltzers, kombucha, coffee and agua fresca are new sub-sectors to the market.
- ❑ Craft brewer numbers in the US may have peaked and some breweries have closed due to oversupply and highly competitive market. There are high fixed costs in beer production, with a low-margin high-volume model.
- ❑ The premium prices in the US craft beer market have reduced recently due to oversupply (IPA and American Style IPA is oversupplied domestically).
- ❑ It is difficult for smaller, international brewers to enter the market. There are higher taxes for imported beer than domestically produced beers which favours the smaller volume brewers.
- ❑ Due to a price sensitive beer market, US importers are less likely to try unknown brand or product.

US alcohol – tax & fee rates (applied to 2018-2020)

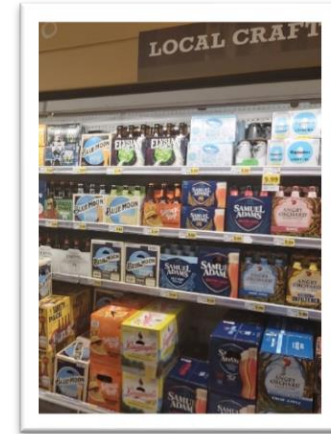
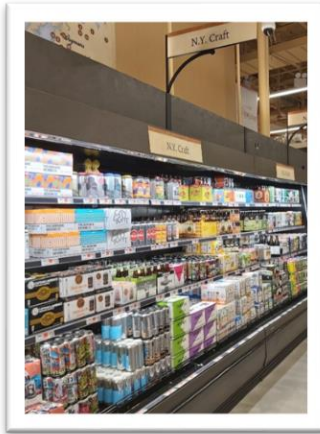
(Source: US Alcohol and Tobacco Tax and Trade Bureau)

Tax Rates for Beer that is Removed or Imported

| Barrels per calendar year | | |
|---|------------------|---------------------|
| Beer removed by a domestic brewer who brews 2,000,000 barrels or less per calendar year | First 60,000 | 60,000 to 2,000,000 |
| | US\$3.50/barrel | US\$16.00 |
| Other beer (including imports)* | First 6,000,000 | Over 6,000,000 |
| | US\$16.00/barrel | US\$18.00 |

*The “other beer” category, which includes imports, faces an extra US\$12.50/barrel tax compared to domestically brewed beers. This particularly impacts smaller brewers.

Product range – craft beer



- ❑ The US beer market is one of the most supplied in the world, both domestically and via imports. Domestic craft beer producers are available everywhere from local, regional and national suppliers. Most domestic craft beer is IPA and American style IPA, which has a light floral hoppy flavour and is known for its quality.
- ❑ Imported beers face a challenging marketplace, due to the oversupplied domestic market, extra import costs and additional taxes.
- ❑ Imported British beers that succeed are traditional styles such as ales, stouts and porters. These are often beers with a distinctive “Britishness”, but seen to be “tradition with a twist”.
- ❑ UK exporters need to be able to offer support to sales campaigns where margins are relatively low, and competition is high.

The US three tier system

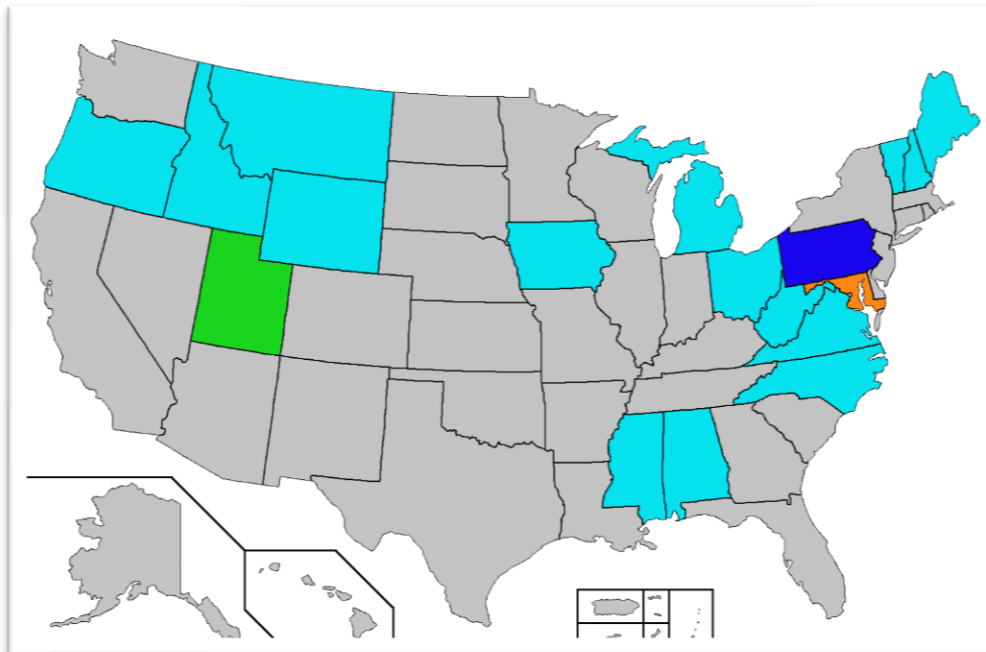
- State control of beer, wine, and spirits
- State control of wine and spirits
- State control of spirits
- Other alcoholic beverage control states

**Tier 1
Producer/
Importer**
(Breweries
and/or
Importers)

**Tier 2
Distributor/
Wholesaler**
(Distributors are
assigned by states
and can only sell to
retailers in their state)

**Tier 3
Retailer**
(Off-
premise/On-
premise (On &
Off-license))

Consumer



- 35 States in the US allow the private sector to distribute and sell alcoholic beverages, including California, New York and Florida, via the three-tier system.
- 17 other States have adopted a control distribution model, under which the State is involved in one or more tiers of the traditional three tier distribution system.

Beer retailers

On tap

- ☐ Bars
- ☐ British/Irish pubs
- ☐ Restaurants
- ☐ Events
- ☐ Sports Arenas

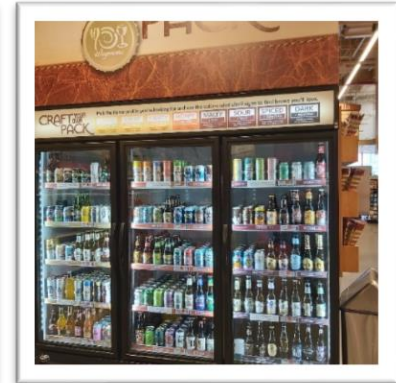
Bev Mo Wholesaler LA



British style pub LA



Wegmans Grocery NY



Off tap

The beer, wine and liquor stores industry in the US comprises specialty shops licensed to sell alcoholic beverages for off-premises consumption. As per capita disposable income rises, many establishments have experienced strong sales of high-margin and imported beverages, which are typically less available at alternative retailers.

- ☐ Grocery stores
- ☐ Liquor Stores (small and large)
- ☐ Convenience Stores



British beers currently in the US

The US market is already well supplied with British beers. Importers often they said that they were not looking for new breweries specifically but wanted to consolidate the import share they currently had and ideally grow their current portfolio. They felt this could be achieved by better product and packaging innovation, strong national brands or “beer types”.

Some UK brands & breweries currently exporting to the US include:

- Belhaven
- Eagle
- Adnams
- Robinson
- The Wild Beer Co
- Thornbridge Hall
- Harvey & Son Ltd
- Burton Bridge Brewery,
- JW Lees
- George Gale & Company Ltd
- Yarlington Mill & Major
- Harviestoun Brewery
- Innes & Gunn
- Mackesons
- Greene King
- Fullers
- Black Sheep
- St Peters
- McEwans

Typical margin structures – craft beer

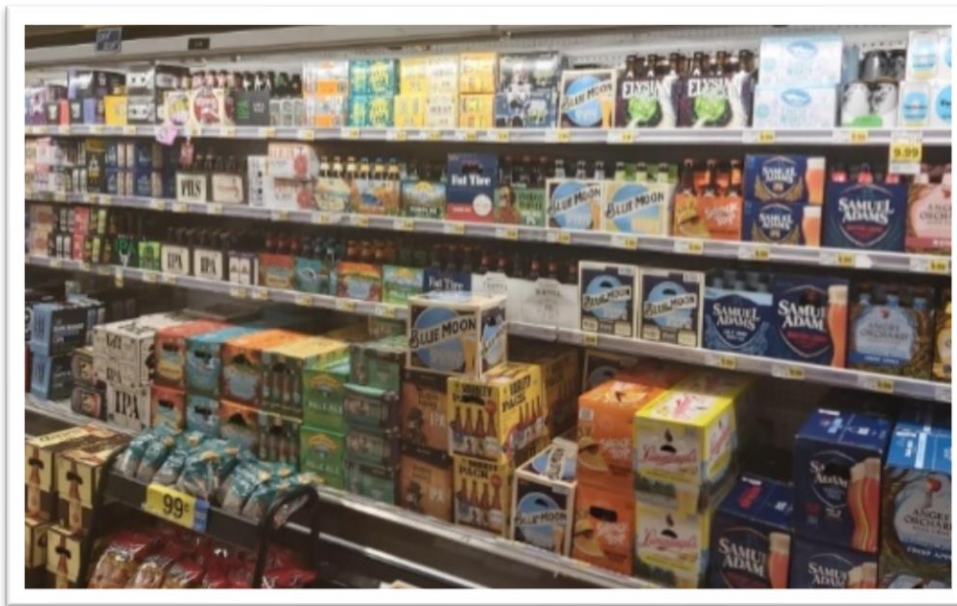
(Source: Promar, based on trade research)

| Stage of supply chain | US\$ |
|---|------|
| UK brewery 12 x (6 x 250ml bottles) | 30 |
| Ocean freight | 5 |
| Fed tax/ duty/ custom broker/ fees | 5 |
| Landed cost for importer | 40 |
| Importer margin 33% | 20 |
| Price to distributor | 60 |
| State taxes | 1 |
| Transportation charges | 3 |
| Distributor landed costs | 64 |
| Distributor margin (50% mark-up/33% margin) | 32 |
| Price to retailer | 96 |
| Retailer margin (50% mark-up/33% margin) | 48 |
| Retailer total price (12 x 6 x 250ml bottles) | 144 |
| Point of sale (POS) price per 6 x 250ml bottles | 12 |

NB: these costs are used as an example and will vary depending on state and retailer.

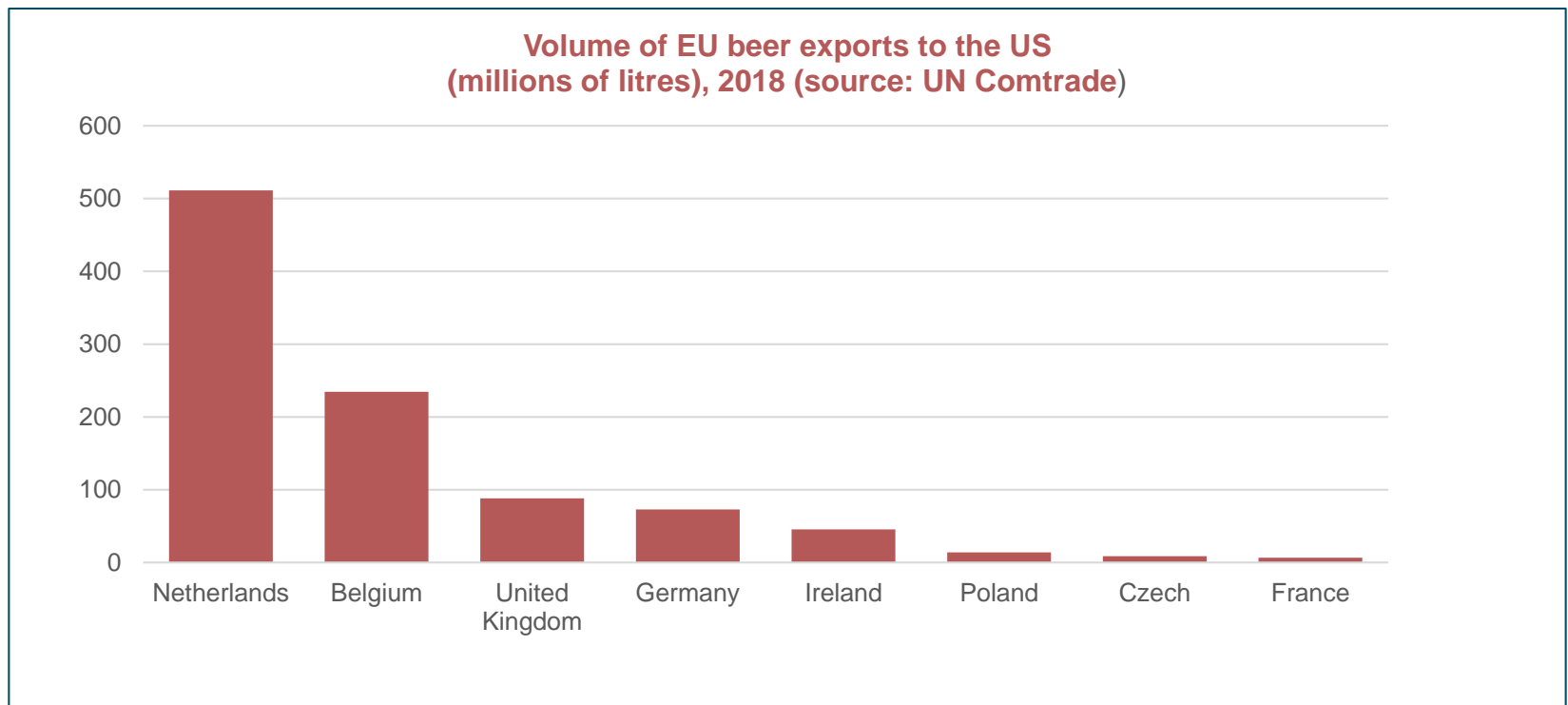
Craft beer packaging

- ❑ There is a mix of cans and bottled beer available in the US – it was suggested that younger beer drinker preferred cans, as it offered more flexibility when taking out and about.
- ❑ US craft beers often feature modern, fresh designs focusing on local production.
- ❑ Local and regional beers are heavily promoted in stores and bars.
- ❑ Individual states can have different labelling requirements as outlined by the FDA.



EU competition in the US market

- ❑ The Netherlands has the largest volume of total beer exports to the US, followed by Belgium, the UK and Germany. The high volume of Netherlands beer exports are likely a combination of domestic production as well as re-exported products from other countries.



7.4 Meat alternatives

The US meat alternative market

- ❑ The plant-based meat market was estimated to be worth US\$ 898 million in 2018 and was projected to grow at a rate of 5.3% to reach a value of US\$ 1,208 million by 2024.
- ❑ This category has a lot of coverage within the media, due to vegan campaign groups and some high-profile investors, however within retail stores it still has a relatively small though visible shelf space.
- ❑ Whilst there are specialist meat alternative companies, many meat-based companies are also expanding their range to include a meat-free offer too.
- ❑ Products currently available are mainly sausage, pattie, crumb or ground meat style offers. There is also a range of chicken and breaded chicken style offers available.
- ❑ Most US consumers state concerns of health and weight management as reasons for shopping this category rather than environmental concerns. Millennials, health-conscious individuals and people partaking in sport tend to be taking the most interest in meat alternatives.



The US meat alternative market

- ❑ The reported US market value however varies widely due to the infancy of the category and variations in the sources of data:
 - in 2018, the market value of meat substitutes in the US was estimated to be worth US\$ 10.1 billion (source: Statistica)
 - the FAO of the UN in 2019 reported that: “.....currently, the market base for alternative protein is approximately US\$2.2 billion compared with a global meat market of approximately US\$1.7 trillion, making the growth rate of the alternative proteins marginal to the overall meat market”

US market drivers: meat alternatives

Positives

- ❑ Plant-based meat substitutes are already well represented in many supermarkets, restaurants and fast-food chains.
- ❑ There has been massive investment in plant-based meat alternative companies, particularly in the US, but also UK, and very much 'on trend' for new investors.
- ❑ Opportunities might exist for UK/US partnerships and in-country manufacturing.
- ❑ Traditional meat companies such as Tyson and Cargill are entering the meat-alternative sector.
- ❑ Other large food multinationals have also entered the market (Nestle & Unilever) which will increase visibility of this category.
- ❑ Due the immature nature of the market and less established competitors, there are new entry opportunities in this category for niche suppliers

US market drivers: meat alternatives

Negatives

- ❑ It is still very much a niche section in most grocery stores.
- ❑ Meat alternatives are sometimes seen as being less healthy with high sugar/salt content.
- ❑ With potential regulatory restrictions in the US being mainly pushed by meat lobbyists, the conventional US meat sector is still a very strong category.
- ❑ The general view from importers/distributors is that this is a trend like gluten-free and may not be a seismic shift in consumer behaviour as predicted by some.
- ❑ “Lab” grown meat could replace this category eventually, if costs are reduced.

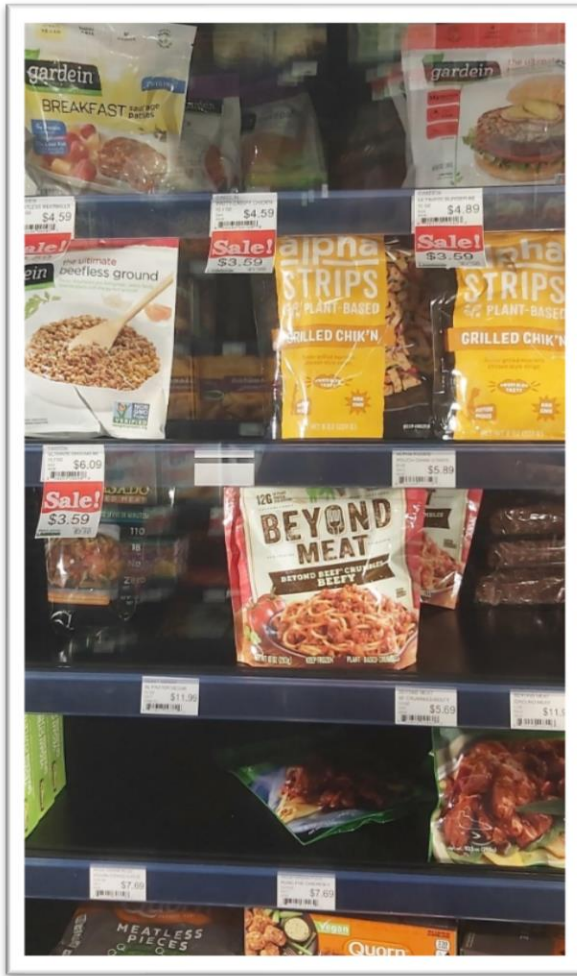
Meat alternative product range

- ❑ Most products observed on store visits were from the US, apart from the UK brand Quorn and The Meatless Farm (exclusive to Whole Foods from August 2019). The UK brand Vbites was launched in Florida in winter 2019.
- ❑ The Meatless Farm are currently planning to open a production facility in the US in the next year.
- ❑ The meat alternative market is still relatively new, with only a few larger players. The market is currently dominated by North American companies, with the largest being Beyond Meat and Impossible Foods. A distinction should be made between plant-based alternative meats and lab grown meat (this research focuses on the former).
- ❑ All the products in this category are processed end products pre-cooked or chilled/frozen processed products, for cooking in the home.
- ❑ There is an established HORECA range of meat alternatives, mainly focused around the Impossible or Beyond Meat Burger offer.

Meat alternative product range

- ❑ The key products for sale are patties (burgers), sausages (Italian style, chorizo, frankfurter), bacon, burgers, ground meat alternative, chicken alternatives (tenders, cutlets, nuggets).
- ❑ All the high-end and natural/healthy retailers had meat-free products for sale in chilled and frozen sections.
- ❑ Some were in a separate section whilst others retailed it next to or within the meat category.

Meat alternatives available in the US



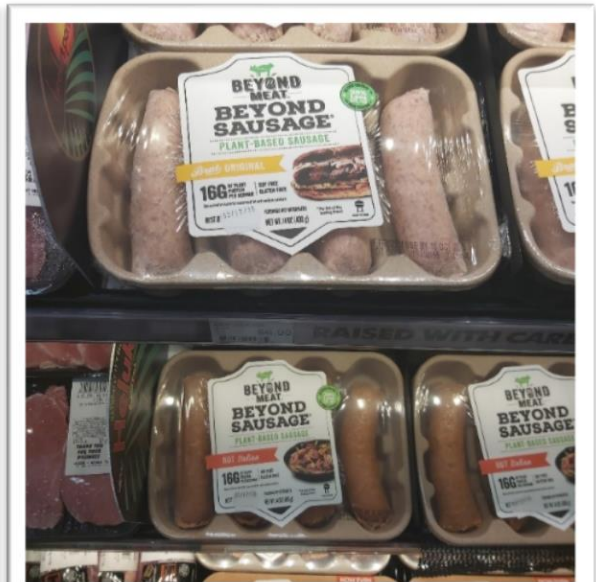
The main companies with products seen on sale include:

- ❑ Impossible Foods (US), Beyond Meat (US), Garden Protein International (US), Morningstar Farms (US), Amy's Kitchen (US), Maple Leaf Foods (Canada), the Tofurky (US), Gold & Green Foods (US), Boca Foods (US), Quorn Foods (UK), Meatless Farm Co (UK), No Evil Foods (US), Vbites (UK)



Meat alternatives packaging

- ❑ Packaging is virtually identical to conventional meat products in style and pack sizes.
- ❑ It is displayed in stores in the same way as conventional meat products.
- ❑ In some stores, it was mixed in with meat products. This suggests that the target audience is not just vegans or vegetarians, but consumers who also eat meat.



The competition to the UK

- ❑ Potential competitors to the UK in the longer term in the US could potentially come from the Southern Hemisphere and the rest of Europe. There are many new entrants to this market and millions of US\$ have been invested into the sector.
- ❑ Aside from the predominance of locally based US companies, the Netherlands and New Zealand have strong meat alternative offers although, neither are currently exporting to the US.



New Zealand Company – product currently available in Australia and NZ

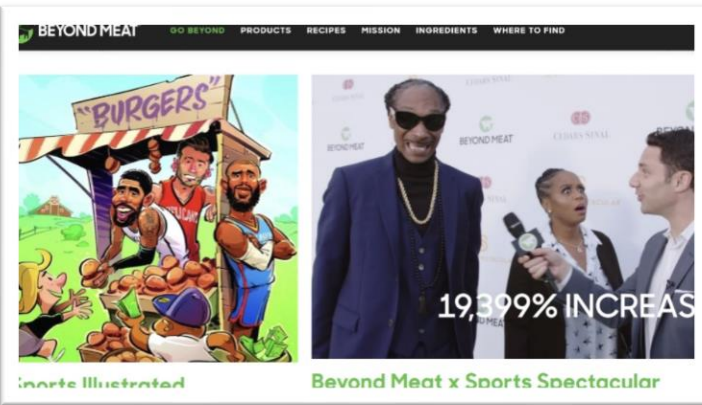


A Netherlands based company –
sausages and meat alternative pieces
- product currently available in
Europe, South America, Japan etc.



Case study – Beyond Meat

- ❑ Beyond Meat was founded in 2009 in LA by Ethan Brown to produce plant-based meat substitutes.
- ❑ Products became available across the US in 2012. The current product range includes meat alternatives of ground meat (mince), sausages and burgers.
- ❑ Beyond Meat received major venture investment funding with Tyson Foods as one of its early investors.
- ❑ Their products are sold in many retail outlets and the company has also been successful selling into many restaurant and fast-food chains in the US. Beyond Meat is prominent in its marketing, branding and high-profile celebrity and sports personality ambassadors.
- ❑ Current Beyond Meat's share valuations have dropped due to coronavirus fears where it was to start a production facility in China.



7.5 Sauces & condiments

US market drivers – sauces & condiments

Positives

- ❑ Revenue in the sauces and condiments (without ketchup) segment amounts to US\$ 35 billion in 2020 and the market is expected to grow annually by 1.8% (2020 - 2023).
- ❑ There is an increase in demand for flavor enhancers, such as sauces and dips and this is expected to see growth over the coming years.
- ❑ Large multi-nationals, such as Kraft Heinz and Unilever are investing in new product development in this sector and continuing to bring out new product categories.
- ❑ The increase in street food, fast-food brands and pre-prepared meals has widened the range of condiments available some brand specific (e.g. Nando's peri-peri sauce).
- ❑ US consumers want sauces that are convenient (25 min average meal preparation time), healthy and authentic.

US market drivers – sauces & condiments

Negatives

- ❑ Condiments are very much linked to the domestic US consumer's cultural and food preferences and by implication, US domestic products.
- ❑ US condiments are well supplied with spicy, American, Asian and Mexican style products.
- ❑ Importers reported the view that if there is no food culture reference for a new product US consumers struggle to know how to use it.
- ❑ There are significant financial barriers for brand and product awareness for a new UK product to enter the market, if it is to be well supported and launched in-country.

Packaging & pricing – sauces & condiments



| Brand | Price (excl. VAT) |
|------------------------|-------------------|
| Colemans Mustard | US\$ 4.99/3.53oz |
| Organic Yellow Mustard | US\$ 2.69/14oz |
| Sir Kensington Mustard | US\$ 6.99/11oz |
| Maille Dijon | US\$ 5.99/7.5oz |

| Brand | Price (excl. VAT) |
|-----------------------|-------------------|
| HP Sauce | US\$ 6.49/9oz |
| 365 Organic Hot Sauce | US\$ 2.49/5oz |
| Tabasco | US\$ 1.79/1.8oz |

Product range – sauces and condiments



- ❑ The US condiment product range mirrors the food tastes of the US consumer, so are well supplied with ketchups, mustards, mayonnaises, Mexican and Asian inspired condiments. The meal cooking sauces are a less well-developed category and may provide scope for expansion into this sector.
- ❑ Most offers are within the ketchup, mustard, mayonnaise and hot sauce ranges. Within this category, there are a range of offers from value to premium. There are niche ranges of imported sauces including French, UK and Asian sauces. There is also the development of new flavour combinations and brands, such as Sir Kensingtons, who offer a vegan range.

UK sauce & condiments brands in the US

- ❑ Some UK brands available in the US include Branston, Colemans, Heinz, Mrs Darlington, HP, Duerrs and Geetas.
- ❑ Market respondents often highlighted the difficulty of selling products where there was no strong cultural link to a sauce or condiment (e.g., HP sauce with a meat pie is familiar in the UK but not the US).
- ❑ Many respondents we spoke with felt that UK products were innovative in their packaging and design and stood out well on the retail shelf.



Case study – Sharwood's Indian sauces

- ❑ In 2015, Sharwood's launched a campaign in the US to become the No.1 premade Indian sauce and accompaniments brand in the US. As the interest in eating out in Indian restaurants has grown in the US, Sharwoods launched their 'Thursday night is curry night' campaign. This was not something familiar to US consumers, so they were in effect, creating a new category with consumers.
- ❑ They recognised that whilst still a "work night" and time was limited, people still wanted to have the social friends or family time watching prime time TV or sports with the ease of 'easy to make', professional tasting sauces.
- ❑ Premier Foods understood that to create a new category they needed to have the full promotional plan in place.
- ❑ They had wide distribution in over 4,000 mainstream stores nationwide and a competitive entry price point of about US\$ 4 per jar.
- ❑ This was an excellent campaign – well researched and resulted in a significant gain in market share. A year after launch their tikka masala simmer sauce grew at a rate of 13% in US\$ sales.

Sharwood's seeks to satisfy Americans' "curry-osity," drive sales by instituting Thursday as curry night

By Elizabeth Crawford

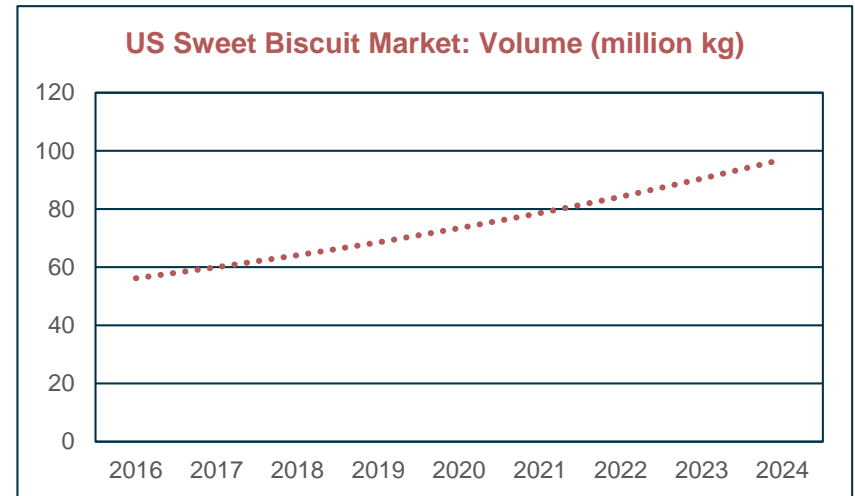
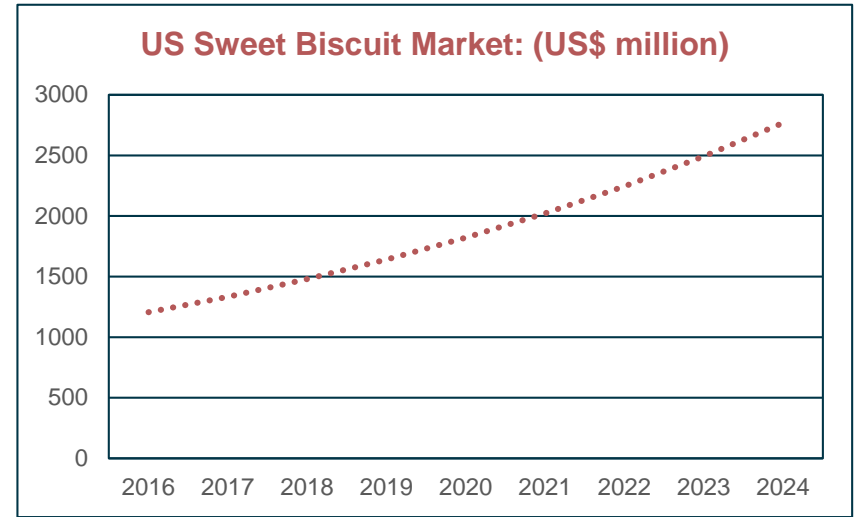
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7.6 Sweet biscuits

The US sweet biscuit market

- ❑ The US bakery and cereals market grew by 2.7% in 2018 to US\$ 112.4 billion and is predicted to grow by another 13% in the next 3 years.
- ❑ Sweet biscuits (cookies) account for 7.8% of this market at a value of US\$ 8.7 billion.
- ❑ The market is forecast to reach US\$ 11.2 billion by 2025 at a rate of 1.9%.
- ❑ Cookies are a preferred biscuit type and manufacturers are targeting specific groups such as health conscious to cater for this rising demand of premium biscuits.
- ❑ Large grocery stores account for 66.8% of US market share by value, followed by independents with 16.6% and convenience stores at 11.6%.



Source: Mordor

Leading exporters of sweet biscuits, to the US (tonnes), 2009 – 2018 (source: UN Comtrade)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Mexico | 90,501 | 99,956 | 118,785 | 122,744 | 131,395 | 126,583 | 145,505 | 242,293 | 274,269 | 327,600 |
| Canada | 84,208 | 91,790 | 92,620 | 94,704 | 94,015 | 90,907 | 83,386 | 79,551 | 75,838 | 74,079 |
| Germany | 8,700 | 9,760 | 10,761 | 10,825 | 10,948 | 11,443 | 11,257 | 14,297 | 15,549 | 16,136 |
| Denmark | 7,686 | 7,707 | 7,888 | 8,130 | 8,811 | 8,902 | 9,937 | 9,539 | 9,619 | 8,099 |
| Belgium | 3,725 | 3,967 | 5,062 | 5,245 | 5,660 | 5,357 | 6,693 | 9,323 | 10,529 | 1,1970 |
| India | 4,024 | 5,811 | 4,600 | 5,622 | 6,319 | 5,994 | 5,587 | 7,157 | 8,514 | 7,757 |
| United Kingdom | 7,656 | 7,944 | 4,726 | 4,330 | 4,824 | 4,848 | 5,847 | 5,973 | 6,154 | 6,530 |
| France | 2,738 | 3,180 | 2,460 | 2,973 | 3,303 | 3,381 | 3,273 | 3,877 | 4,766 | 5,425 |
| Italy | 1,963 | 2,296 | 2,651 | 2,931 | 3,016 | 3,385 | 3,801 | 4,320 | 4,101 | 4,453 |
| China | 2,550 | 2,977 | 3,734 | 2,838 | 3,015 | 3,045 | 3,433 | 4,171 | 3,488 | 3,630 |

The “Airbus Tariff” impact

- ❑ The “Airbus Tariff” of 25% on EU imports of sweet biscuits and wafer products was introduced in December 2019. It is still too early for any data to show UK market share impact.
- ❑ The following is from conversations from importers and distribution in the US:
 - The “Airbus Tariff” of 25% varied in how it was absorbed into the supply chain.
 - Most importers were covering the extra costs (sometimes 100%) or split with the manufacturer.
 - Some had split the cost 3 ways, with US retailer and the UK manufacturer. All those who were absorbing the costs said that this was only a temporary fix to honour retail contracts and could not be sustained longer term.
 - A third group passed it on 100% to retailer/consumer.
 - They felt that the biscuit market was already price sensitive in the US and to increase retail cost by 25% would price UK imports out of the market.
 - Some had seen an increase in cost price from the UK manufacturer that covered the extra 25% but again felt this wasn’t a sustainable pricing model.
 - It is felt that the “Airbus Tariff” was having a negative effect on sales of UK biscuits and predictions varied from a 25% decrease in market share to 50%.

US market drivers – sweet biscuits

Positives

- ❑ The US bakery and cereals sector is a growing market.
- ❑ Sweet biscuits (cookies) account for 7.8% of this market worth approximately US \$8.7 billion.
- ❑ There is an opportunity for innovation in the US market with opportunity to expand the range with new flavours and styles of biscuit.
- ❑ If the “Airbus Tariff” is lifted there will be an opportunity to retain and grow this market share.

Negatives

- ❑ The “Airbus Tariff” of 25% on sweet biscuits and wafers has had the largest impact on UK and EU imports.
- ❑ This sector is very much price driven and there is little segmentation on artisan or niche sub-sections, such as health and wellbeing.
- ❑ Major US brand names dominate this sector – such as Oreo, Tate's, Chips Ahoy.
- ❑ UK imported brands need to be price competitive in this category and current tariffs make this more of a challenge.
- ❑ Whilst some importers/ distributors and manufacturers are absorbing the additional tariff cost, this cannot continue.

Sweet biscuits – product range

- ❑ Cream filled biscuits are becoming extremely popular across the US and are the fastest growing sector in the wider category. They also account for the largest share in the US biscuit market.
- ❑ The biscuit market recently in the US has seen increasing product innovation, with brands increasing their product range and flavours.
- ❑ New flavours and ranges such as high protein bars are aimed at the health and wellbeing section of the market.
- ❑ Key players in the US market include Kelloggs, PepsiCo, Nestle, Danone, Mondelez International, Campbell Soup Company, Parle Products, Pladis, General Mills, Pacific Cookie, Great American Cookies, Boulder Brands, Starbucks, J and M Foods, Aryzta, Voortman Cookies.
- ❑ For UK exporters, there are some large US competitors who have the benefit of scale and proximity to market meaning they can be more competitively priced.



Packaging for sweet biscuits

- ❑ Packaging varies between premium and value (see examples below).
- ❑ FDA regulations have strict nutritional labelling requirements for food products.
- ❑ Imported products are often re-packaged, over-packed or over-labelled to include the importers name and address.



| Nutrition Facts | |
|-------------------------------|-----------------------|
| 8 servings per container | |
| Serving size | 2/3 cup (55g) |
| Amount per serving | 230 |
| Calories | % Daily Value* |
| Total Fat 8g | 10% |
| Saturated Fat 1g | 5% |
| Trans Fat 0g | |
| Cholesterol 0mg | 0% |
| Sodium 160mg | 7% |
| Total Carbohydrate 37g | 13% |
| Dietary Fiber 4g | 14% |
| Total Sugars 12g | |
| Includes 10g Added Sugars | 20% |
| Protein 3g | |
| Vitamin D 2mcg | 10% |
| Calcium 260mg | 20% |
| Iron 8mg | 45% |
| Potassium 235mg | 6% |

* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.

British biscuit brands present in the US

- ❑ Some UK brands available in the US include the likes of Walkers, Tunnocks, McVities, Jammie Dodgers, Cadburys Chocolate fingers, Cartwright & Butler, Crawford's, Grandma Wilds, Hill Biscuits, Jacobs, Reids and Lyons.
- ❑ The majority are large brands and often part of multi-national company portfolios.
- ❑ Some brands like Walkers Shortbreads have a good US consumer brand recognition and are widely available in many retail channels. Others, like Cartwright & Butler, are available through exclusive deals with importers.



Margin structure – British biscuits (150g pack)

(source: Promar, based on trade research)

| Stage of supply chain | % | (US\$) |
|--|----|--------|
| Biscuits | - | 1.00 |
| Ocean freight | 15 | 0.15 |
| Federal tax/ duty/ customs & broker fees | 6 | 0.06 |
| Airbus tariff | 25 | 0.25 |
| Importer margin | 30 | 0.30 |
| Sub total | - | 1.76 |
| Distributor margin (50% mark up/ 33% margin) | 33 | 0.58 |
| Sub total | - | 2.34 |
| Retailer margin (50% mark up/ 38% margin) | 38 | 0.88 |
| Point of sale price | - | 3.22 |

- ❑ These costs are used as an example and will vary depending on the state and the retailer.
- ❑ Extra costs are any instore promotions and BOGOF. Breakages are normally covered by the US based distributor/ importer.

8. The US service package

The service package concept

- ❑ We have found that any export development and subsequent promotional activity – no matter how well funded, planned and carried out – will find it difficult to make the desired impact, if some element of the overall service package is not quite right.
- ❑ In the past, we have seen very good export development and promotional programmes nullified by the export sector providing the wrong or sub optimal varieties, poor logistics, incorrect packaging and inconsistent pricing etc., which weakens the overall export offer, and this limits further market and/or promotional opportunities.
- ❑ The question of the source of supply's sustainability and all-round provenance credentials is increasingly prominent.
- ❑ To be successful, it is important to be able to compete across all aspects and a weak link in one area of the service package can impact other areas of strength and will limit the development of sales, or at least make this a much harder task.
- ❑ The key features of the required US service package are detailed on the following pages.

Shipping to the US market

- ❑ Major ports of entry in the US in order of volume of imports for agricultural and food trade, including alcohol and groceries, are New York NY, Los Angeles CA, Savannah GA, Philadelphia PA, Oakland CA, Long Beach CA, New Orleans Port Region LA, Houston TX, Port Everglades FL, Miami FL.
- ❑ For most freight shipments the length of transit from the UK is about 9-10 days. Delays in consolidation, customs and onward transport can all have a negative impact on the shelf life of imported products.
- ❑ Many of the importers we interviewed in the US bought products in the UK and then consolidated these with other products before shipping. A few bought from other importers to spread the risk or ship products directly in freight containers. All importers in the US shipped the UK product in either frozen or ambient forms. The main consolidation collection points in the UK are at a variety of locations in the UK both at ports and inland, such as Liverpool, Birmingham, Southampton, Cardiff, London and Humberside.

Example of sea freight costs to the US

(4 pallets of 1,000kgs of 4 m³ using FCL or LCL)

| | FCL (full container) e.g. whole 20 ft container | LCL (less than full container) e.g. consolidated load with other shipments | Example charge |
|---|---|--|-----------------------|
| Inland haulage (UK) | Included or fuel charge or delivered | Included or fuel charge or delivered | £50 |
| UK terminal handling charge (THC) | Set price | Weight or measure (w/m) (variable price) | £5 w/m |
| Documentation admin charge | Shipping bill of lading/house BOL, Certificates of origin (set price) | Shipping bill of lading/house BOL, Certificates of origin (set price) | £10 |
| Customs clearance | Set price | Set price | £15 |
| Security | Set price | Set price | £5 |
| Ocean freight | Set price per container size | Weight or measure (w/m) (variable price) | £30 w/m (x 4 pallets) |
| Bunker adjustment factor (fuel surcharge) | Set price per container | Weight or measure (w/m) (variable price) | Included |
| Currency adjustment factor | Percentage of freight | Percentage of freight or w/m | Included |

NB: some freight forwarders might include some of these charges and some might charge separately.

Typical payment terms & conditions of business – *example 1*

East Coast based importer and distributor (south and eastern coverage). To spread the risk and ensure continuity of supply they use 3 different import methods:

1. **Fully managed:** product is bought direct from F&D manufacturer (this accounts for 30% of their UK trade) the product is now owned by importer who takes on the full risk of taking to market and selling:
 - consolidation/ shipping to the US: 35% cost added onto the purchase price
 - warehousing/ distribution to POS: 40% cost added onto the imported price
2. **Semi managed:** product is bought from a consolidator (30% of trade) and is owned by the importer when it arrives in US:
 - consolidation/ shipping to the US: 20% cost added onto the purchase price
 - warehousing/ distribution to POS: 20% cost added onto the imported price
3. **Buy from 3rd party:** (40% of trade) – the company buys off another importer who manages shipping into the US:
 - warehousing/ distribution to POS: 20% cost added onto the imported price

Payment terms are usually 60 days – in part due to length of time before product arrives in US due to the shipping time involved.

Typical payment terms & conditions of business - *example 2*

California based importer and distributor (with national coverage) and using a fully managed model:

- ❑ Product is bought directly from the UK food and drink manufacturer and is now owned by importer who takes on the full risk of taking to market and selling. The percentages are all additional to the purchase price:
 - 15% freight costs
 - 6% duty
 - 30% importers margin
 - 33% distribution costs (60% of imported product distributed by 3rd party)
 - 38% retailer margin
- ❑ Payment terms 30-60 days
- ❑ Extra manufacturer costs – instore promotions including BOGOs
- ❑ Breakages are covered by the importer

Other supply & contract stipulations

- ❑ For UK companies selling via grocery retail outlets, there are a variety of other costs to be considered.
- ❑ These included listing fees, buy one get one (BOGO) offers, introductory discount offers, and free samples for new products.
- ❑ US distributors felt that there was often no standard listing fees, and they could vary widely depending on the retailer, but could run to several thousands of dollars per SKU.
- ❑ Promotional offers, BOGO offers and free samples, are all funded by the UK manufacturer or by the importer/distributor, not by the retailer.
- ❑ If a UK product is de-listed, the US distributor is asked to collect the remaining product. If uncollected, the product is destroyed by the retailer and the distributor is charged at full retail price for the product disposed of.

High end market model - *promotional support*

- ❑ Lack of brand support culminating in lack of brand/product awareness was one of the biggest concerns voiced by US importer/distributors. All US market respondents felt that generally UK companies offered insufficient sales and marketing support for their brand, regardless of size of company. Some of the importers/distributors acted in a more proactive way for their suppliers, especially some of the UK SME exporters.
- ❑ For some products, the US importer worked on behalf of the UK manufacturer to promote them within the US market. This would generally only occur where the distributor had an exclusive distribution contract with the supplier or a more favourable (lower purchase price) contract had been agreed.
- ❑ US importers/distributors often exhibited their product ranges at the Winter/Summer Fancy Food Shows US, attended Natural Products Expo East and West US, Specialty Fine Foods UK, ANUGA, SIAL and made UK trade visits.
- ❑ It was commonly suggested that more in-store promotion of UK food and drink would be beneficial such as a “British Week” covering a range of products.

Volume model - *promotional support*

- ❑ Price competitiveness is crucial for those aiming to sell products in volume. It was felt that UK exporters were not always willing to offer discounts or special offers to encourage sales growth.
- ❑ This was felt to be particularly important when launching a new product into the market.
- ❑ There appears to be very little UK product activity at point of sale (POS) – US distributors typically offer BOGO (buy one get one) promotions, introductory discounts or free products, but felt that UK companies were not always willing to support this, particularly for SME companies.
- ❑ Some US importers felt that UK food and drink products needed to be more comparable on pricing with similar US brands and felt that a premium price was not justified just because it was a British brand.
- ❑ Again, it was commonly suggested that more in-store promotion of UK food and drink would be beneficial such as a “British Week” covering a range of products.

Promotional support – *other responses*

- ❑ It was commonly suggested that British companies do not put in place a long term (2 - 5 years) promotional and support plan when launching into the US – one exception to this is the previous case study of Premier Foods who launched their Sharwood's curry sauces in the US with a fully supported sales and promotional campaign and resulting in good capture of market share.
- ❑ Most of the US market respondents interviewed felt that lack of brand awareness of UK food products by many consumers was the biggest barrier to (US) customers trying new products.
- ❑ US market respondents were not aware of any advertising from UK businesses, apart from a few exceptions (e.g., Sharwood's). Some were aware of the Britain is GREAT campaign, but they felt this should be aimed more at consumers in the US to promote British products.
- ❑ It was felt that social media was not used at all for UK products, in general, however, this may be in part due to the pricing structure of Facebook and Instagram which have made using this channel more expensive. It was also felt that any social media produced was not targeted to a US consumer and the same as used in the UK market which they felt wouldn't work.

Promotional support – *other responses*

- ❑ It was also felt that some detailed step by step guides featuring companies that had been successful within the US market would be helpful to UK companies (or UK based export events) where companies could speak to US importers and UK companies that had successfully exported to the US.

UK quality assurance & promotional schemes

- ❑ Hazard analysis and critical control point (HACCP) is widely used and recognised in the US and is mandatory for dairy, juice, meat and seafood and other high-risk food and drink products. BRC certification although not widely used in the US, can be recognised by the American National Standards Institute (ANSI).
- ❑ With regards to global certifications such as Global Food Safety Initiative (GFSI), in the US many companies would use Safe Quality Food (SQF) certification. Individual manufacturers in the UK need to check the food standard requirements demanded by the FDA in the US and in the state(s) they are exporting to (fda.gov).
- ❑ All the respondents had heard of PDO/PGI type schemes, but none felt that it had much influence on consumer sales – they felt a product just saying “made in the UK/Italy/France” would have as much, if not more, impact.
- ❑ National branding – some respondents felt that British products should move away from national based branding. However, all felt that the Union Jack in food and drink had a positive brand image.

UK quality assurance & promotional schemes

- ❑ The majority felt that most US consumers would not be aware of regional variations, apart from products from Ireland (Guinness) and other products such as Scotch beef and whisky, where the country of origin was linked to the name.

Technical support & NPD

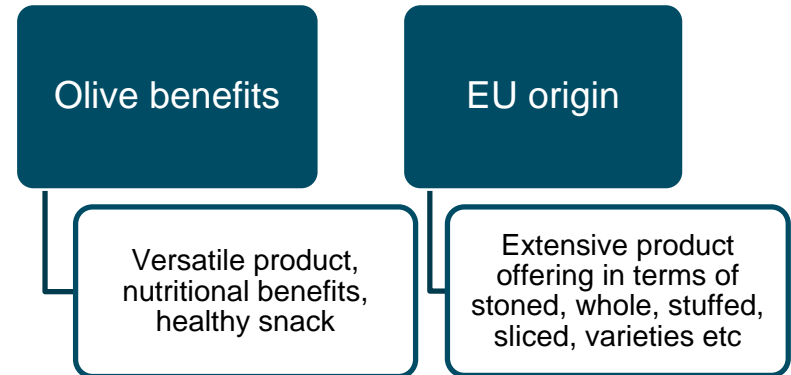
- ❑ Technical support and NPD should be like that used in UK markets. The US market is keen for innovative new food and drink products – traditional with a twist and examples include Young's Chocolate stout and meringues as snack products.
- ❑ The UK is already seen as a leader in innovation in food and drink products. However, some felt that UK companies were slow to respond to product innovation and changing consumer demands - an example being a UK brewer changing from bottles to cans, which took 6 years from initial discussion to implementation.
- ❑ NPD was felt to be one of the USPs of UK food and drink companies. On researching UK brands, importers and distributors saw innovative packaging and products as a good reason for considering a product.
- ❑ Market respondents generally felt that there was a disconnect between the reality of UK food products and the US consumers perception of UK brands – which was sometimes 10-20 years out of date to where the UK market currently is.



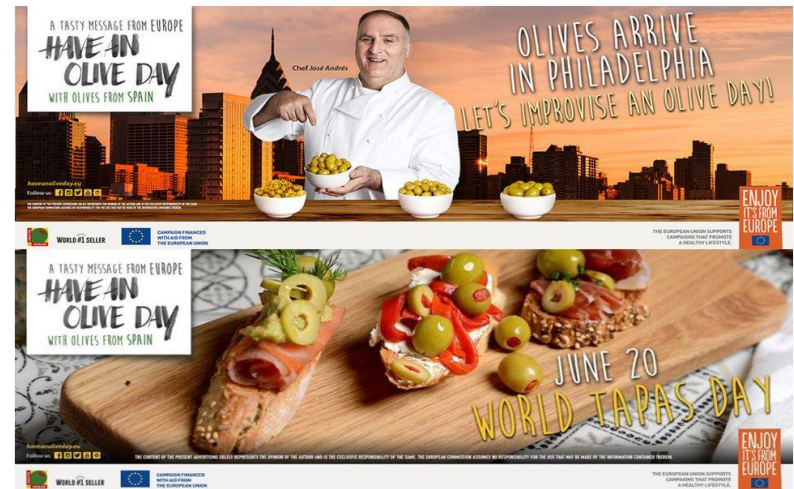
Who are the best in class for exporting to the US?

Case study – Interaceituna (the Spanish inter professional body for olives)

- This organisation implemented a promotional campaign focused on the US. The aim of the campaign was to strengthen Spain's market position in the US table olive sector. This was done by raising the awareness of the olive benefits and the EU as the source of supply.
- ❑ Key details included:
 - A plan that was in operation from 2017 - 2019 under the strapline "A tasty message from Europe: Have an olive day!".
 - The main activities undertaken included: print, digital, TV and exterior advertising, trade fairs and events, PR activities and social networking.
 - The campaign budget was €7.4 million with a contribution from the EU being €5.9 million.



EU funded promotions in the US



9. Key market drivers

The US – market conditions



- ❑ The US is very much “open for business”, however there are many levels of legislation that need to be crossed before achieving this.
- ❑ The FDA website (www.fda.gov) has full information and guidance on labelling regulations in the US and any state variations.
- ❑ States should be considered individually, as separate markets, as they often have different regulatory rules.
- ❑ Developing exports to the US should be a long-term commitment and should normally be considered a 2 to 5-year project and needing thorough research beforehand.
- ❑ Understanding the US consumer needs is key to ensuring that UK exports are fit for market.
- ❑ The likes of Canada, Asia and Mexico are all major trading partners for the US, leaving often only about 25% market share for the rest of the world, including the UK and the rest of Europe.

The US - key market drivers

❑ Food culture

- The US is an ethnically (and religiously) diverse country.
- This provides opportunities for the UK food and drink industry, but also challenges, as there is no single common food culture.
- The US is heavily influenced by its nearest neighbour Mexico and by Asia for its food tastes, along with the traditional US style “fast food” offer.
- UK companies should be aware of this if trying to introduce a new product to market that has no cultural or food history reference point.
- UK companies should carefully research the US market and aim to export products that will do well or are tailored to their target US consumer.

The US - key market drivers

❑ Health and wellbeing

- Within the US population, there are a significant number of consumers interested in health and wellbeing related issues.
- 63% of Americans say they are trying to eat healthier and 49% say they consciously eat more fruits and vegetables.
- This can be seen mainly on the east and west coasts, where specialist retailers such as Mothers Market and Lassens are located.
- These consumers can provide opportunities for niche products such as “free from” and low fat.

The US - key market drivers

❑ Lack of brand/ product awareness

- Many US consumers are still generally conservative in their food choices, particularly when it comes to trying new food and drink brands or products.
- Some key trade respondents talked about “bridging products” being supplied from the UK. These products are typically somewhat familiar to a US consumer, but also something slightly different that they might want to try.
- For new product launches from the UK, there needs to be a considered brand awareness and promotional campaign to support it.
- Budgets for UK exporters need to be realistic to support the US market. However, some of the costs involved, for larger retailers, would probably price many smaller (UK) companies out of the market.
- US consumers often don’t have strong views or preferences on where a product comes from. It is more important that they know what it is - and it is something they want to buy.

The US - key market drivers

❑ Size of target market

- Mexico and Canada dominate US imports for many product categories, followed by Asia - between them, they generally account for around 75% of the import market. This is due to a combination of their proximity to market, low tariffs and highly competitive production costs.
- This leaves the remainder market share available to the UK and other countries being approximately 25% of the overall total.

❑ The role of import tariffs

- Within the categories studied in this research, many exports from the UK face tariffs that their main competitors do not. For some categories, such as sweet biscuits, the 25% “Airbus Tariff” has created an extreme challenge. This could potentially have serious implications on the exports of UK sweet biscuits to the US.
- There is a clear correlation on distance to market/ tariffs and a % of the market share in the US for all categories (e.g. Mexico and Canada generally have the largest market share, are the closest and benefit from zero tariff barriers).

What will drive demand for UK food & drink?

- ❑ More market focus and understanding from the UK
- ❑ Increased product and brand awareness with US consumers with region specific campaigns
- ❑ Products tailored for a US consumer at appropriate price point
- ❑ In-country partnerships and manufacturing opportunities
- ❑ Use of “bridging” products to introduce new brands
- ❑ Specialist products where the UK is a market leader
- ❑ Growth of the premium online market



The growth of niche markets

- ❑ **Gluten free** – this sector is valued at US\$ 9.55 billion, but some sub sectors are clearly more important than others such as sugar confectionery (US\$ 37.7 million non-chocolate sales and a growth of +5%).
- ❑ **Organic** – this is still a strong market sector with food sales in the US rising 5.9% in 2018 to reach US\$ 47.9 billion. Currently, the US has an equivalence arrangement with the European Union (EU) organic certification scheme - more details are given on www.ams.usda.gov/services/organic-certification. After the UK's exit from the EU, this will need to be reviewed for UK processors and exporters to ensure UK companies still have this equivalence.



The growth of niche markets

- ❑ **Low carb/ low alcohol** – “sober-curious” and younger consumers have helped this sector grow by 10% in 2019. In 2019, the UK exported US\$ 1.56 million worth of non-alcoholic beer.



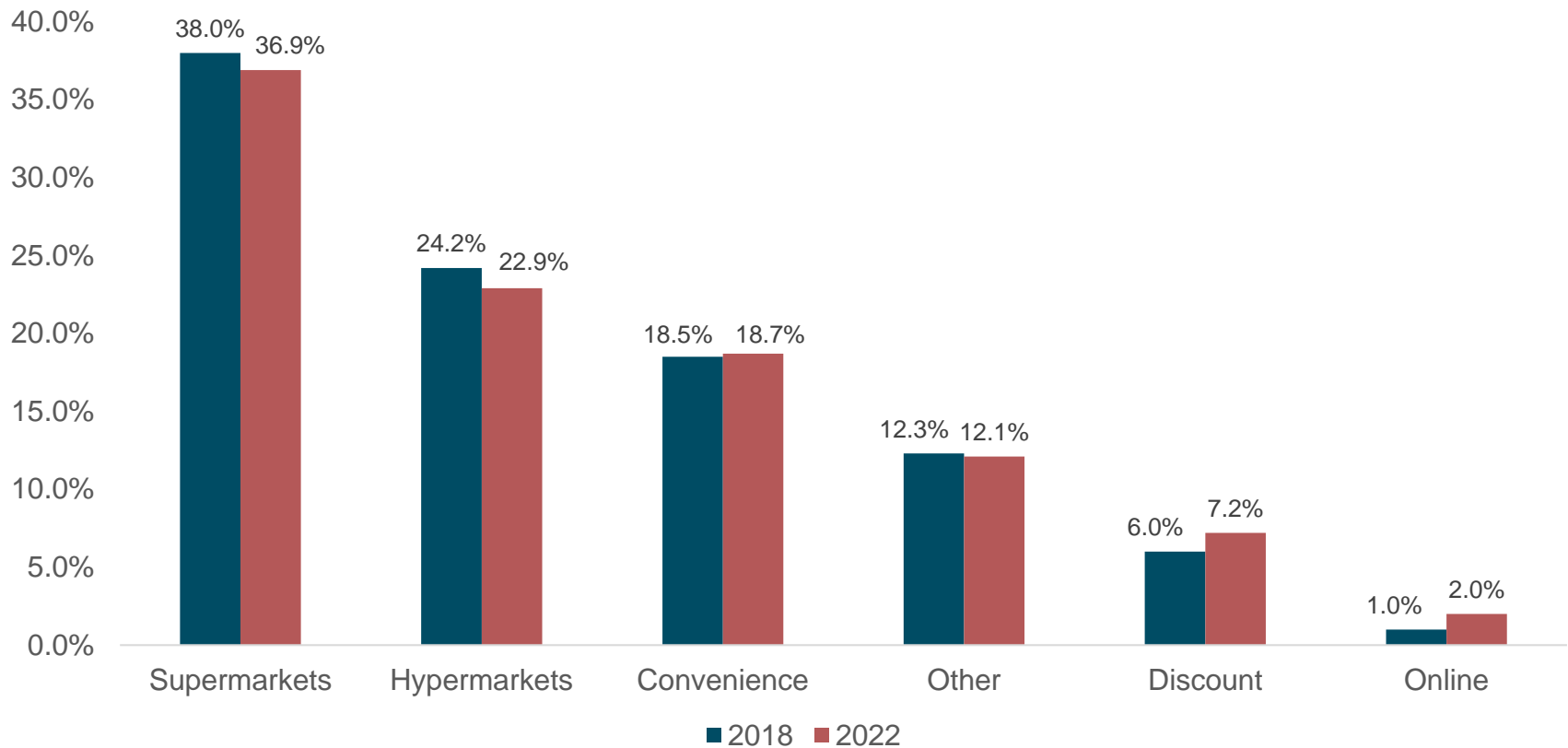
What might constrain the growth of UK food and drink exports?

- ❑ Strong competition from countries that have closer geographical proximity and therefore a shipping advantage (such as Mexico and Canada).
- ❑ High tariff barriers or duty particularly for biscuits and craft beer.
- ❑ The US market is price sensitive and many US consumers are not considered adventurous when trying new products.
- ❑ US consumers do not have a high affinity in general with UK products, except where there are expatriate or historical links (FL & NY).
- ❑ Brand support and in-country promotion from the UK is not seen as particularly strong.
- ❑ The US covers 6 time zones and the main trading areas for the UK are the East & West Sea borders – this can mean major logistical issues and high transport costs.

10. The food & drink retail market in the US

Food distribution in the US,% (2018 and 2022, forecasted)

(source: IGD)



Factors driving retail growth

- ❑ For the most part, the food and drink sector is a mature industry in the US, characterised by steady, long-term growth. Growth in the sector would be expected to follow changes in population size, with shifts within individual product categories reflecting consumer trends.
- ❑ Over 50% of the retail market share is taken by non-specified retailers, which means the US retail market, aside from some major players, is quite fragmented.
- ❑ For UK exporters, individual states should each be considered as standalone markets and the retailers which predominate in that region targeted on a case-by-case basis.
- ❑ Some of the specialist and niche chains may be looking for a different offer to the larger retailers, which may be an opportunity for UK exporters. As per capita disposable income rises, shoppers are more inclined to purchase premium level, value added products at retail stores, including organic and all-natural brands.

Key retail players in the US market (source: IGD)

| Retailer | Grocery Sales 2019 (US\$ billion) | Change in Grocery Sales 2018 -2019 | Number of Stores in 2019 | Market Share | Retailer type |
|----------------------------|--------------------------------------|--|-----------------------------|--------------|---|
| Walmart | 306 | 2.4% | 4,350 | 19.80% | Hypermarket/Supermarket/Online |
| Kroger | 120 | 2.9% | 3,966 | 7.80% | Hypermarket/Supermarket/discount/ Convenience/Online |
| Albertsons | 66 | 3.4% | 2,384 | 4.30% | Supermarket/Online |
| Ahold Delhaize | 48 | 3.1% | 2,015 | 3.10% | Supermarket/Online |
| Publix | 39 | 4.8% | 1,212 | 2.50% | Supermarket/Online |
| Aldi | 41 | 10.3% | 2,698 | 2.60% | Discount |
| Dollar General | 28 | 7.2% | 16,070 | 1.80% | Discount |
| Dollar Tree | 25 | 7.0% | 16,026 | 1.60% | Discount |
| HEB | 23 | 4.5% | 357 | 1.50% | Supermarket |
| Target | 22 | 2.6% | 248 | 1.40% | Hypermarket/Supermarket |
| Amazon.com (Wholefoods) | 120 | Unknown | 500 | 1.60% | Natural Food |
| Costco | 101 | Unknown | 546 | Unknown | Discount/Warehouse |

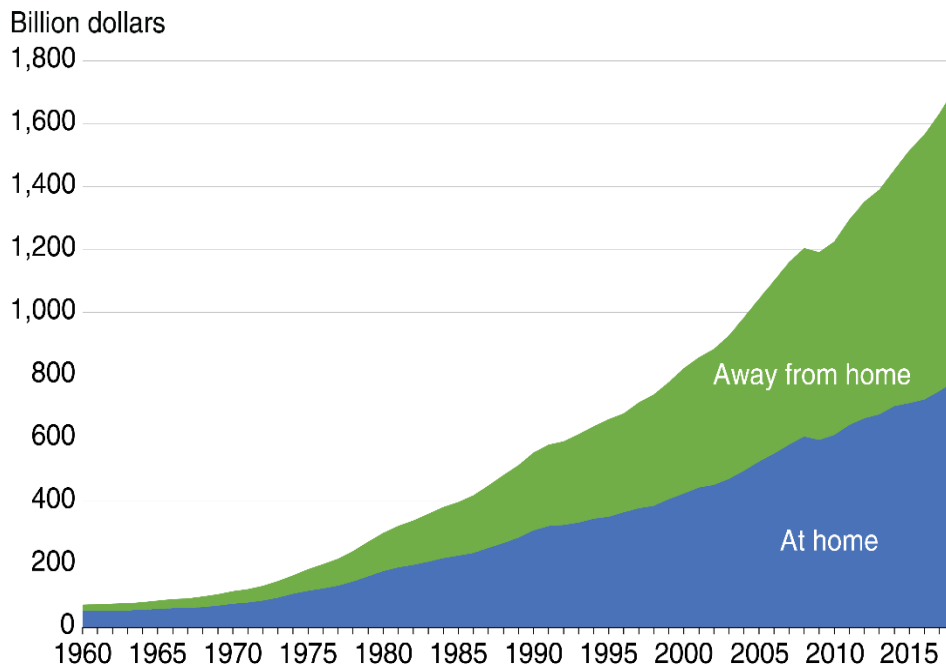
Main routes to the US consumer



- ❑ Large grocery stores and alcohol wholesalers – national or regional e.g. Costco, Walmart, Kroger
- ❑ High-end grocery stores e.g. Whole Foods, Wegmans, Cost plus World Market, Trader Joe's, Ralphs
- ❑ Independents, Health/Natural and Market stores
- ❑ Bars, Restaurants and Hotels (HORECA)
- ❑ Online grocery or online direct
- ❑ Fresh and farmers markets

US consumer spending trends in Food at Home (FAH) (source: USDA)

Food-at-home and away-from-home expenditures in the United States, 1960-2018



Source: USDA, Economic Research Service, Food Expenditure Series.

- ❑ For FAH expenditure, the grocery share has declined by 8.6% in the last 18 years. Hard discounters such as warehouse clubs (e.g. Costco) and supercenters have increased their % expenditure by 10.9% in the same period and their reach across the US.
- ❑ E-commerce is being rolled out mainly through the click-and-collect model. Walmart and Kroger being at the forefront of this.
- ❑ Health, wellness and natural foods: in addition to existing retailers directing investments towards these high-growth categories, new entrants which have built the core of their propositions around these areas have also been attracted to the sector.

West Coast food retail outlets

- ❑ **Ralphs & Bristol Farms** – Both high-quality supermarkets (akin to Waitrose & Booths in the UK) and both had slightly premium prices to others.

British brands seen on sale – Marmite, HP Sauce, Colemans Mustard, Keiller Marmalade, Newcastle Ale, Boddingtons, Belhaven Ales, Walkers Shortbread, Crosse & Blackwell, Mackays, Simpkins, Twinings.

- ❑ **Mothers Market, Lassens Natural Foods** – Specialist health and natural food stores, selling range of products, not just food.

British brands seen on sale – Samuel Smith Ale.

- ❑ **BevMo** – Off license with large imported beer section.

British brands seen on sale – Samuel Smith Ale, Fullers, Belhaven, Youngs, Black Sheep, Wells (Eagle Brewery), Fentimans, Traquair, Crabbies, Robinsons.



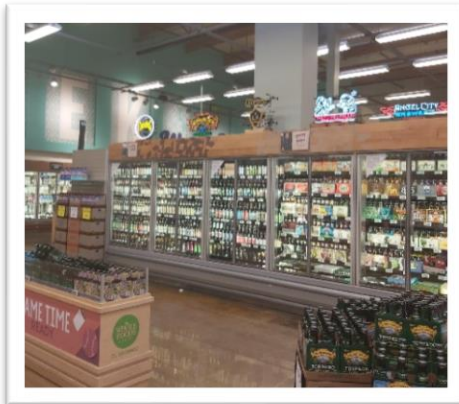
East Coast food retail outlets

- ❑ **Wegmans** – A privately owned business with its HQ in Rochester, New York. Wegmans has 101 stores in the mid-Atlantic and New England regions. Stores tend to be large and modern with customer parking. They have a high-quality fresh offer, with large stores and mix of grocery and ready to eat, pre-prepared offers.
- ❑ **Fairway** – 15 grocery and 4 alcohol stores in the tri-state area of NY, many of which are in city centre locations. They offer a high-quality range of grocery and pre-prepared food. The main UK import products on sale were beer.
- ❑ **Key Food** – 270 stores in Connecticut, Massachusetts, New Jersey, New York, Pennsylvania, and Florida. Online presence and premium offers.
- ❑ **Jewel-Osco**
- ❑ **Shop Rite**



Case Study – Whole Foods (owned by Amazon)

- ❑ During our US store audits, a limited number of British brands were seen on sale – The Meatless Farm, Marmite and some British teas & gins. From a UK export perspective, Whole Foods is a key target due to its UK coverage and Amazon Fresh links. There are facilities to approach Whole Foods in the UK to apply to become a supplier.
- ❑ Whole Foods has 500 stores in North America (with a 1.6% total US grocery share). USDA Certified Organic products are commonly stocked. Whole Foods uses Amazon Fresh home delivery with Amazon hubs and distribution staff located within stores.
- ❑ There is a full range of groceries, including a high proportion of ready to go meals and pre-prepared cook at home options. The brand is natural, quality, fresh and modern, and aimed at an affluent, younger demographic.



Case Study – Trader Joe's

- ❑ With its HQ in Monrovia, California, Trader Joe's has over 500 stores nationwide in 42 States and Washington, DC and has 1.3% of the US grocery market.
- ❑ They stock a wide range of products from around the world but are very much focused on own-brand products. They look to stock natural and healthy products and are marketed as local and community stores. There are a limited number of “ready to go” options stocked but some international products are seen at the POS.
- ❑ During our US store audits, a limited number of British brands were seen on sale – Samuel Smith Ale, Smithwicks Irish Ale.
- ❑ From a UK export perspective, Trader Joe's has an interesting range of products. The proliferation of own-brand could potentially mean though margins would be lower for UK exporters. There might be less opportunity, unless they are products unique to the store.

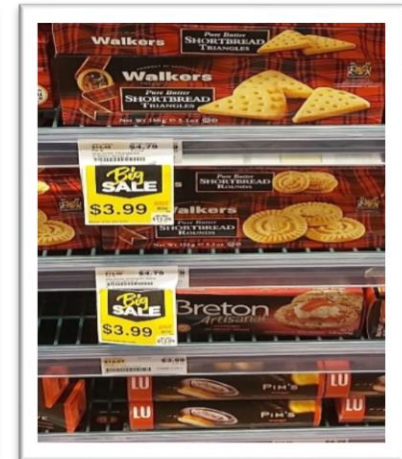


TRADER JOE'S®



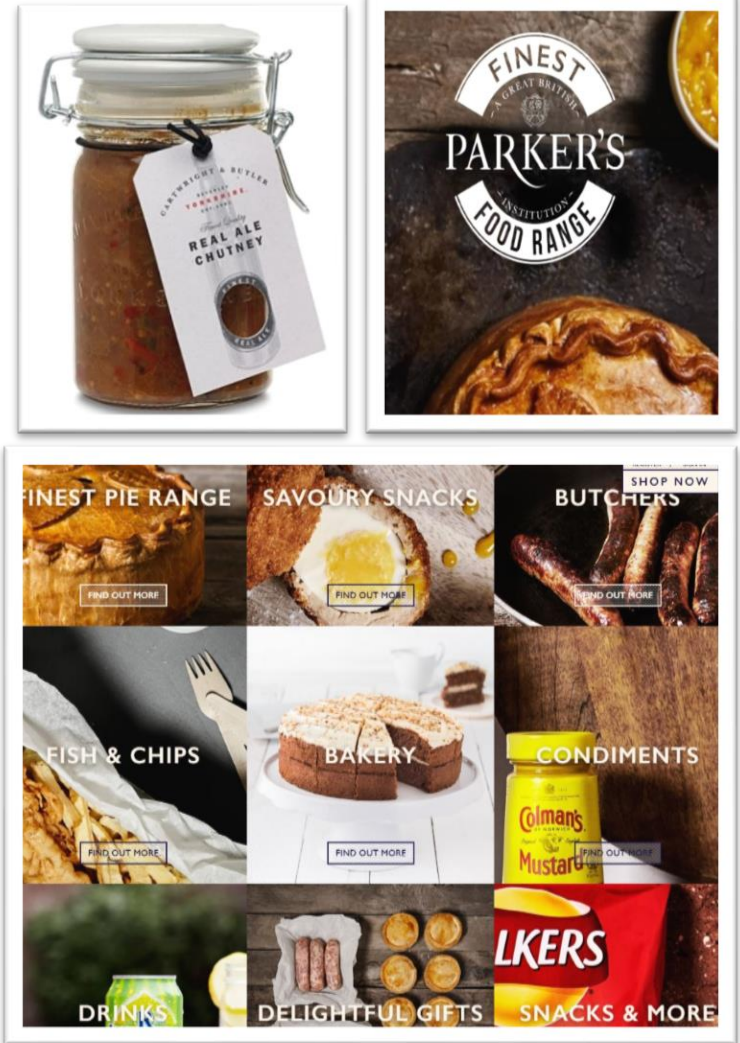
Case Study – Cost Plus World Market

- ❑ Cost Plus World Market (CPWM) is a chain (276 stores) of specialty/ import retail stores, selling home furniture, decor, curtains, rugs, gifts, apparel, coffee, wine, craft beer, as well as several international food products. In our store audits, CPWM had by far the largest range of British and Imported products on sale.
- ❑ British brands seen on sale included Marmite, HP Sauce, Colemans Mustard, Keiller Marmalade, Newcastle Brown Ale, Boddingtons, Belhaven Ales, Walkers Shortbread, Crosse & Blackwell, Mackays, Simpkins and Twinings. CPWM would be a key target for UK exporters, due to the large international and UK brand offer.



Case study - Parkers British Institution

- ❑ PBI are based in Buffalo, NY and trade online as well as via a physical shop. They have distribution across the US.
- ❑ They manufacture UK style butchery products, sausage rolls and pies within the US due to meat product import restrictions and import a range of traditional and artisan products from the UK.
- ❑ They actively try to champion smaller and artisan companies and actively source brands and products when they are visiting the UK. They also fully manage the export process for suppliers. A new online sales platform is due to be launched shortly.
- ❑ If introducing a new brand or product they will link it to another product that is selling well or offer a special introductory offer or free samples to gain market traction.
- ❑ British brands on sale – a wide range of traditional British brands (Colemans, Bachelors, HP, Daddies, Walkers) and premium brands such as Cartwright & Butler, Wilkin & Sons, Cornish Sea Salt, Clipper Tea, Luscombe Juice.

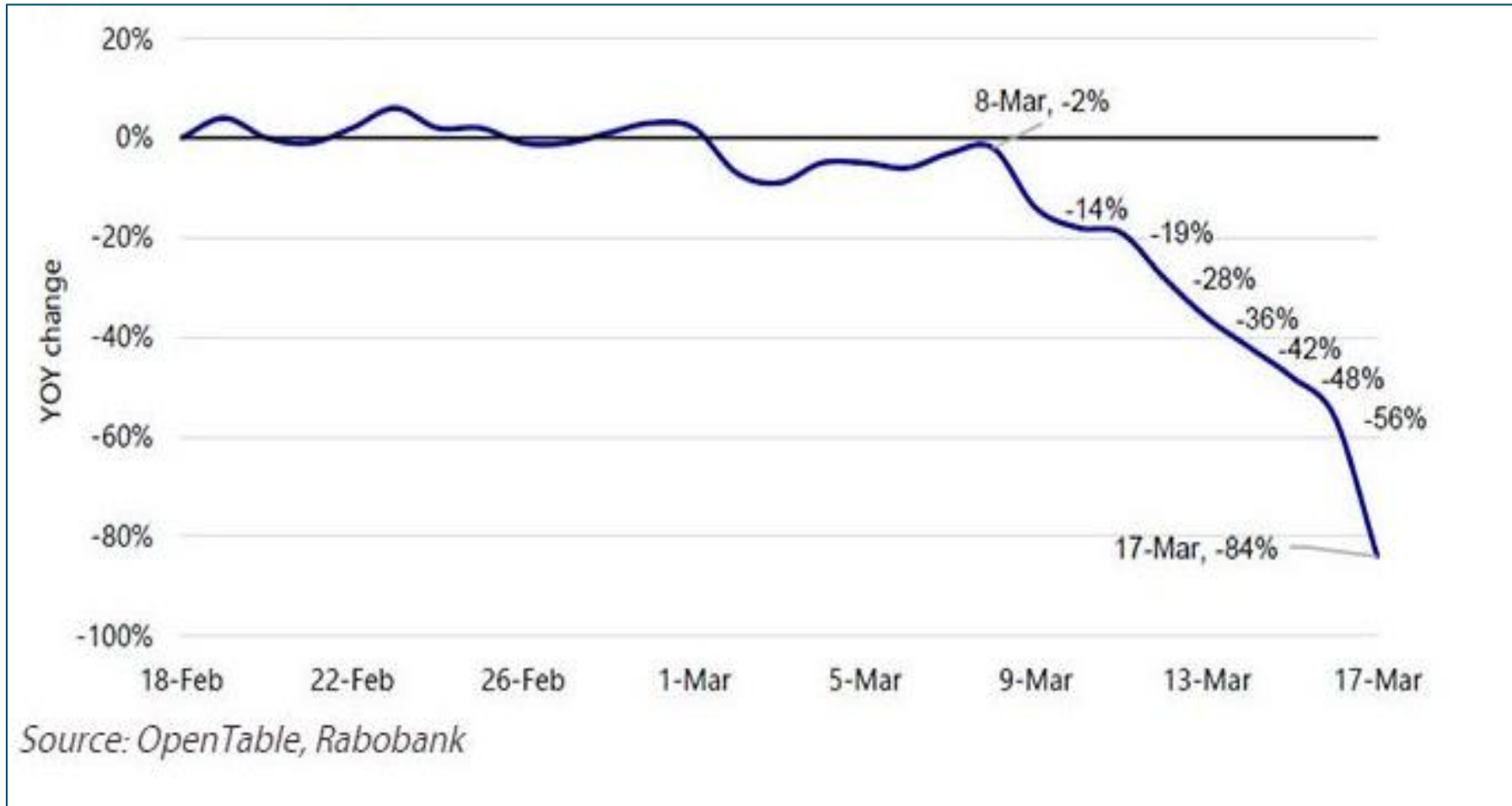


11. The foodservice market in the US

Foodservice market trends

- ❑ The US foodservice market is forecasted to reach US\$ 731.8 billion by 2024, witnessing a CAGR of 3.7%.
- ❑ This is of similar value to the food at home market. Money spent on food outside and inside the home was set to equalise prior to the COVID-19 pandemic (see the graph over leaf for the impact of COVID-19 on seated diners in the US in 2020 vs 2019).
- ❑ The main factors driving the market for foodservice (restaurants) in the US are the ease of online ordering and payment.
- ❑ Some fast-food restaurants are focusing on organic produce or healthy food as the interest in this sector increases.
- ❑ However, the increased obesity and health awareness among consumers is affecting market growth, as much of the sector is not focused on the health food category.

Foodservice market trends

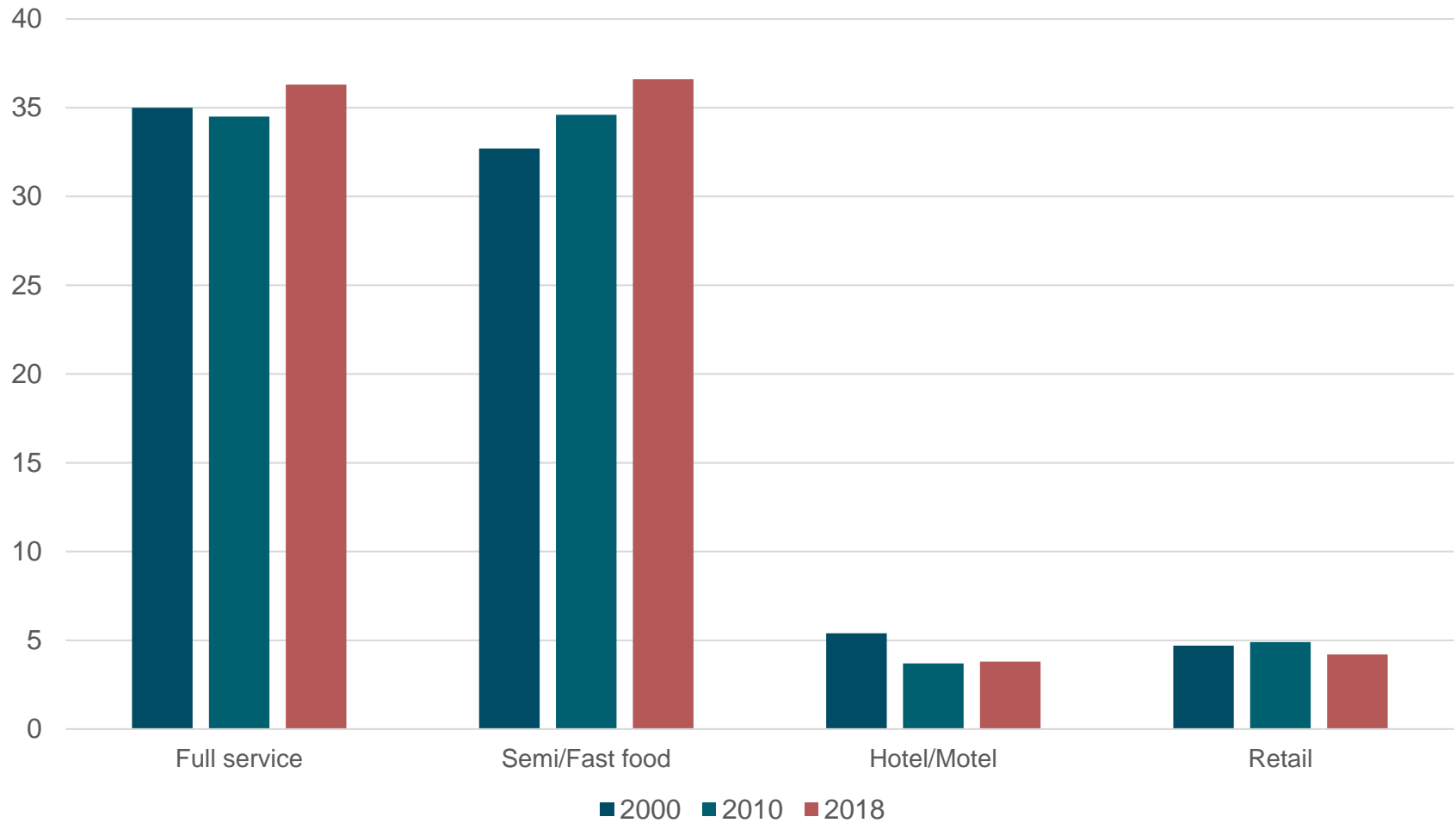


US consumer foodservice by type (outlets)

(source: Passport)

| | Independent | Chained | Total |
|----------------------------|-------------|---------|---------|
| 100% home delivery | 7,379 | 27,263 | 34,642 |
| Cafes/ bars | 59,728 | 18,989 | 78,717 |
| Full-service restaurants | 208,275 | 31,083 | 239,358 |
| Semi-service/ fast-food | 101,855 | 171,470 | 273,325 |
| Self-service cafeterias | 472 | 330 | 802 |
| Street food | 50,718 | - | 50,718 |
| Pizza consumer foodservice | 27,838 | 35,654 | 63,492 |
| Consumer foodservice | 428,427 | 249,135 | 677,562 |

US consumer spending in the food away from home (FAFH) sector (source: USDA)



US spending trends in foodservice

- ❑ In the food away from home (FAFH) category, expenditure by outlet has remained quite consistent over the last 18 years, with full service and limited service (fast food) outlets accounting for over 70% of the share of expenditure.
- ❑ In the full serviced and semi-service (fast food) category, US\$340 billion each is spent annually.
- ❑ Other places where FAFH is commonly eaten are hotels, motels, schools and colleges, sports stadiums and bars.
- ❑ Retailers are placing a greater emphasis on prepared foods, meal solutions and food-to-go as they focus on consumers' new eating habits and winning a greater share of consumption.
- ❑ This is leading to the development of new formats operating at the cross over of retail and foodservice.

13. Tariffs & non-tariff barriers

Tariff implications

❑ Is the UK better or worse off than the competition?

- The UK is currently in the same position as its EU competitors regarding tariffs. However, for non-EU competitors, they are not paying the same tariffs. Such competitors do not pay the 25% Airbus Tariff on sweet biscuits or the extra tax paid by beer importers per barrel on the first 6 million barrels.

❑ What is the impact of the tariff situation?

- Due to lack of uniformity of tariffs, UK exporters of beer and sweet biscuits to the US are at a disadvantage compared to countries like Mexico and Canada (biscuits) or the domestic market in the US (beer).

❑ Are tariffs seen as a big issue?

- In certain categories, such as sweet biscuits, some importers we spoke to predicted that this category might decrease by between 25 and 50% if the Airbus tariff remained. Currently the extra cost was being absorbed in various ways. They felt however that this was unsustainable. If the cost was eventually passed on to the consumer, they would stop buying a high priced product in an already price sensitive category. UK brewers also see the extra tax and “craft label” confusion as a major disadvantage. Beer is a high volume, low margin market and this made costs even tighter for export.

Tariff implications

❑ Are the issues of tariffs a pinch point for UK exporters?

- Where tariffs were high or an extra tax was placed on imported goods, they were at a disadvantage – importers/distributors felt that this was a pinch point for UK exporters.

❑ Is the tariff situation likely to change in the foreseeable future?

- There is concern that tariffs on sweet biscuits could continue and possibly even rise. This feeling of unpredictability could stifle long term planning for UK exporters and US importers.
- The US has had several tariff disputes with Mexico in the last few years and further trade friction cannot be ruled out between the two countries.
- A UK-US free trade agreement would potentially change the situation regarding the tariffs paid by UK exporters into the US market.

US – import tariffs (source: WTO)

| Product | UK/ EU rate | WTO | Canada | Mexico | South America | China | India |
|-------------------|---------------------------------|---------------------------------|--------|--------|--|---------------------------------|---------------------------------|
| Craft beer | See notes on TTB Tax | 0% | 0% | 0% | 0% | 0% | 0% |
| Meat alternatives | 6.4% (210610) 6.3% (210690) | 6.4% (210610) 6.3% (210690) | 0% | 0% | 6.4% (210610) 6.3% (210690) 0% (Colombia, Peru & Chile) | 6.4% (210610) 6.3% (210690) | 6.4% (210610) 6.3% (210690) |
| Sweet biscuits | 25%* | 0% | 0% | 0% | 0% | 0% | 0% |
| Cereals | 1.1% (190410) 10.3% (190420) | 1.1% (190410) 10.3% (190420) | 0% | 0% | 1.1% (190410) 10.3% (190420) 0% (Colombia, Peru & Chile) | 1.1% (190410) 10.3% (190420) | 1.1% (190410) 10.3% (190420) |

* Airbus Tariff introduced December 2019

US – import tariffs (source: WTO)

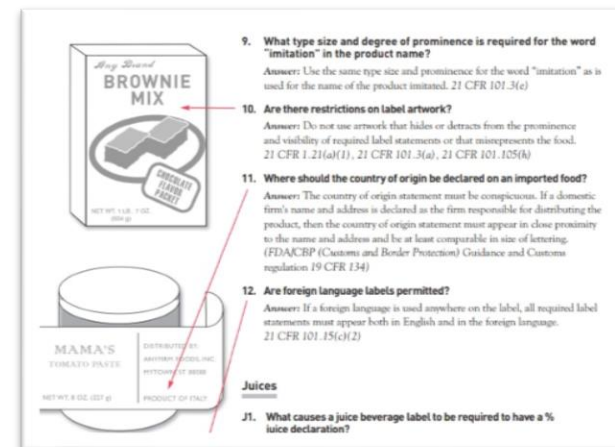
| Product | UK/ EU rate | WTO | Canada | Mexico | South America | China |
|---------------|---|---|--------|--------|---|---|
| Condiments | 3% (210310) 8.8% (210320) 0%+2.8 cents/kg (210330) 4.7%+30.5 cents/kg+ 6.4% (210390) | 3% (210310) 8.8% (210320) 0%+2.8 cents/kg (210330) 4.7%+30.5 cents/kg+ 6.4% (210390) | 0% | 0% | 3% (210310) 8.8% (210320) 0%+2.8 cents/kg (210330) 4.7%+30.5 cents/kg+ 6.4% (210390) 0% (Colombia, Peru & Chile) | 3% (210310) 8.8% (210320) 0%+2.8 cents/kg (210330) 4.7%+30.5 cents/kg+ 6.4% (210390) |
| Confectionery | 4% (170410) 6.5%+40 cents/kg +10.4% (170490) 6.7%+33.6 cents/kg (180610) 6%+52.8 cents/kg+4.3% (180620) 5.6% (180631) 5.6%+52.8 cents/kg+6% (180632) | 4% (170410) 6.5%+40 cents/kg +10.4% (170490) 6.7%+33.6 cents/kg (180610) 6%+52.8 cents/kg+4.3% (180620) 5.6% (180631) 5.6%+52.8 cents/kg+6% (180632) | 0% | 0% | 4% (170410) 6.5%+40 cents/kg +10.4% (170490) 6.7%+33.6 cents/kg (180610) 6%+52.8 cents/kg+4.3% (180620) 5.6% (180631) 5.6%+52.8 cents/kg+6% (180632) | 4% (170410) 6.5%+40 cents/kg +10.4% (170490) 6.7%+33.6 cents/kg (180610) 6%+52.8 cents/kg+4.3% (180620) 5.6% (180631) 5.6%+52.8 cents/kg+6% (180632) |

Non-tariff barriers (NTBs)

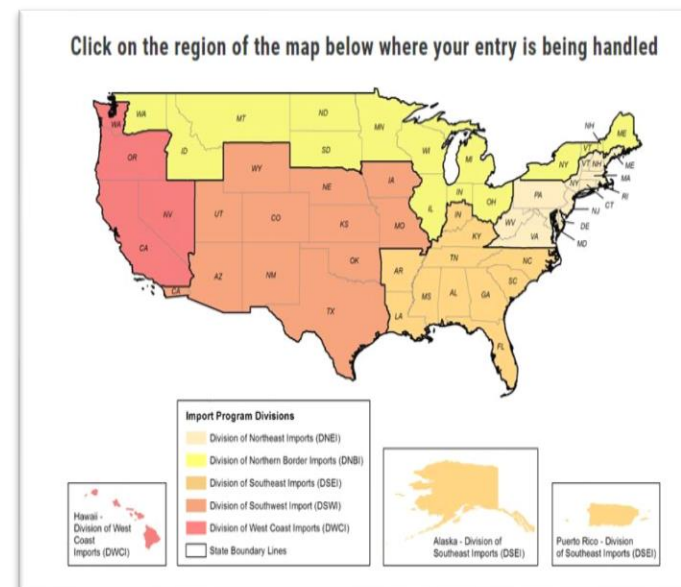
- ❑ There are several NTBs that UK food and drink companies also face in the US market, including:
 - FDA labelling requirements for the US market need to be considered – these can vary by state (examples given on the next slide).
 - The additional financial costs involved in exporting to the US, as well as transport, warehouse, distribution and listing fees.
 - In the view of many US importers and distributors, there is a lack of understanding of the US consumer from UK food and drink businesses.
 - There is a lack of understanding of the US marketplace and supply chain.
 - There is a general lack of UK product and brand awareness by the US consumer.
 - The size of the US and practical logistics transporting product within the US should be considered.

Labelling requirements

- ❑ Correct labelling can often be a barrier for UK exporters.
- ❑ The US FDA (fda.gov) provides clear guidelines on regulations with a pdf available Food Labelling Guide explaining the regulations.
- ❑ The FDA field offices that process imports are part of the Office of Regulatory Affairs and are divided into 5 Import Divisions
- ❑ Importers/ UK exporters can contact the region of the port that they are importing into (image bottom right) to find out regional specific requirements.
- ❑ Many US importers will manage the paperwork and labelling requirements on behalf of a UK food and drink exporter as part of the ongoing brand support.



Extract from the FDA Food Labelling guide



Appendix I – list of US market contacts

List of contacts

| Company Name | Location | Importer (I), Retailer (R), Distributor (D), Store Audit (SA), Beverage Retailer (B) |
|-----------------------------|-------------|--|
| British Food Imports | Florida | I & D |
| B United International | Connecticut | I & D |
| BWI | California | I & D |
| LBB Imports | California | I & D |
| Food service express | Nationwide | D |
| UKi | Florida | I & D |
| World Finer Food | New Jersey | I & D |
| Food Ireland | New York | I & D |
| Parkers British Institution | New Jersey | I, D & R |
| Chefs Warehouse | New Jersey | D |
| Wine Warehouse | California | D |
| Kings Head | California | B & SA |

List of contacts (continued)

| Company Name | Location | Importer (I), Retailer (R), Distributor (D), Store Audit (SA), Beverage Retailer (B) |
|----------------------------|------------|--|
| BevMo | California | B & SA |
| Wholefoods | National | R & SA |
| Bristol Farms | California | R & SA |
| Ralphs | California | R & SA |
| Mothers Market | California | R & SA |
| Larsens | California | R & SA |
| Cost Plus World | National | R & SA |
| Fairway | New York | R & SA |
| Wegmans | New York | R & SA |
| Trader Joes | California | R & SA |
| Irish Pub Sports Bar Chain | New York | B |
| Top Hops Tap Room | New York | B |

Appendix II - tariff codes

Tariff code description (source: WTO)

Sauces and condiments

- ☐ 210310 - Soya sauce
- ☐ 201320 - Tomato ketchup and other tomato sauces
- ☐ 201330 - Mustard flour and meal and prepared mustard
- ☐ 210390 - Other

Confectionery

- ☐ 170410 - Chewing gum, whether or not sugar coated
- ☐ 170490 - Other
- ☐ 180610 - Cocoa powder, containing added sugar or other sweetening matter
- ☐ 180620 - Other preparation in blocks, slabs or bars weighing more than 2kg or in liquid, paste, powder, granular or other bulk form in containers or immediate packings of a content exceeding 2kg
- ☐ 180631 - Filled
- ☐ 180632 - Not filled
- ☐ 180690 - Other

Tariff code description (source: WTO)

Craft beer

- ☐ 2203 - Beer made from malt

Sweet biscuits

- ☐ 190531 - Sweet Biscuits
- ☐ 190532 - Waffles and Wafers

Meat alternatives

- ☐ 210610 - Protein concentrate and textured protein substances
- ☐ 210690 - Other

Breakfast cereals

- ☐ 190410 - Prepared foods obtained by the swelling or roasting of cereals or cereal
- ☐ 190420 - Prepared foods obtained from unroasted cereal flakes or from mixtures of unroasted cereal flakes and roasted cereal flakes or swelled cereals