

Sector Profile Food and Beverage Germany

1.0 MARKET STRUCTURE¹

1.1 Background

Germany has a population of 82.2 million and is Europe's largest economy. The country is divided into 16 federal states, each with constitutions, parliaments and governments that exercise wide ranging powers and responsibilities. Due to the historic development of Germany, eating habits and preferences do vary from region to region.

Almost a fifth of the population in Germany (15.3 million) comes from an immigrant background, and around half of these are “foreigners” in the strict sense ie without German citizenship. The largest group of immigrants (2.1 million) comes from Turkey, but major numbers also come from Italy, Spain, Portugal, Greece and the Balkan countries. Many immigrants arrived in the 1950s when Germany needed labourers and stayed on. These immigrants have influenced German eating habits considerably and food from Italy, Greece and Turkey is very popular. Italian and Turkish fast food is as widely available as American or German.

Germany is New Zealand's ninth largest export market and contributed NZ\$834 million to New Zealand's export earnings (year ending May 2008). Eighty-three percent of those exports are food and beverage (F&B) products:

- meat - 70 percent (70 percent of this is sheep, 20 percent venison)
- dairy products (including proteins and whey) - 22 percent
- fish and seafood – 4 percent
- fruit, mainly pipfruit – 3 percent
- vegetables (mainly onions) - 1.2 percent
- wine – 1 percent.

Germany is an important market for New Zealand kiwifruit. However, as it is primarily imported via other EU countries, this trade is not captured in the New Zealand export statistics for Germany.

¹ While every effort is made to ensure the accuracy of the information contained herein, New Zealand Trade and Enterprise, its officers, employees and agents accept no liability for any errors or omissions or any opinion expressed, and no responsibility is accepted with respect to the standing of any firms, companies or individuals mentioned. New Zealand Trade and Enterprise reserves the right to reuse any general market information contained in its reports.

1.2 Size

Germany's retail market is worth around €190 billion, including convenience stores in petrol stations, and cash and carry markets (includes non-food sales by predominantly food retailers). Food sales in 2007 totalled around €165 billion.

Type of outlet	Sales 2006 billion €	Sales 2007 in billion €	Trend 06/07 %
Retail F&B incl. discounters (Aldi, Lidl, Norma)	132.2	136.1	+3.0%
Drug stores (F&B sales only)	11.5	12.0	+4.3%
Drinks wholesalers	6.5	6.6	+1.9%
Cash and Carry	13.1	12.9	-1.4%
Convenience (petrol stations, bakeries, kiosks)	22.6	22.6	+0.1%
Total	185.9	190.3	+2.4%

Source: AC Nielsen Universe 2008

By value, the largest F&B industry sectors in Germany are meat (22 percent), dairy (16 percent), alcoholic beverages (9.3 percent) and confectionery (8.4 percent).

Germany exports roughly as much food as it imports - worth around €30 billion in 2006. Eighty percent of this trade goes to other EU countries.

Germany is self sufficient in the meat, dairy, bakery and confectionery sectors, but a net importer for all other goods.

1.3 Growth Rate

The retail market has only grown by 11 percent in the past 10 years. The increase of 3.1 percent in 2007 (vs 2006) is due to price increases in the second half of the year, especially for dairy products.

While the overall market did not grow significantly, it shows divergent growth at both the upper and the lower-price end. At the bottom end, there are the discounters who sell everyday grocery staples at very low prices. This shop type seems to have plateaued after 15 years of steady growth with around 40 percent of the market in 2007. Aldi is the largest discounter and accounts for 16 percent of the entire retail market. It is not exclusively the preserve of the poor as chauffeur driven Mercedes have been seen parked outside Aldi!

There is also a growing market for more affluent consumers, with high quality (including organics), convenience and indulgence being its key drivers. This part of the market is found in the food sections of large department stores, in specialist gourmet stores or in organic supermarkets.

1.4 Known Factors Influencing Growth Rate

1.4.1 Economic Situation

After a decade of economic strain in Germany, accompanied by high unemployment rates and decreasing effective incomes, the economy has been improving since 2006.

Business confidence increased dramatically with the change in government in October 2005 from a Green-Social Democrats government to a so-called 'grand coalition' of both big parties, the Social Democrats (SPD) and Christian Democrats (CDU).

In 2007 the unemployment rate reached its lowest point since 1992 (9 percent) but incomes are slowly rising again. It seemed that the German economy had reached a turning point and the grocery market was expected to profit from this situation. However, since then, globally rising energy prices have put pressure on households, especially on those with lower incomes and are dampening private consumption.

1.4.2 Demographic Situation

Germany's population is ageing and shrinking. Around 20 percent of the population is 65 years and older and this percentage is expected to reach 33 percent by 2050. The birth rate is very low and it is estimated that the population will drop to 80 million in 2020 and more dramatically to 69 million by 2050.

Also of significance is the high number of single households. The latest figures from 2005 show that out of the 39.2 million households 37.5 percent consist of one person, 33.9 percent of two people and 28.6 percent of three or more. Single households can be found in most age groups with a slight peak in the group over 65 years: 32 percent are between 25 – 45 years old, 23 percent between 45 – 65 years, and 36 percent over 65 years. Single and two-person households are expected to grow by 11 and 13 percent respectively by 2025 while the number of households of three or more will decline by 20 percent. A large proportion of these households have significant disposable incomes and can pay higher prices for healthy, high quality and convenient food, and appreciate good service.

2.0 COMPETITIVE ENVIRONMENT

2.1 Major Players in the Market

The retail market is very concentrated in Germany with five retail chains and discounter Aldi controlling around 85 percent of the grocery retail market. Individually owned shops have become very rare and are continuing to decline in numbers.

Retailer	Market share value 2007	No. of outlets 2007
Edeka Group	23.6%	10.980
Rewe Group	19.3%	8.199
Markant	18.5%	17.126

Metro Retail	7.8%	599
Tengelmann	6.2%	3.537
Others (mainly Aldi, Lidl, Norma discounters)	24.6%	9.232
<i>Total food retail</i>	<i>100%</i>	<i>49.673</i>

Source: ACNielsen (Total sales of these stores in 2007 were €148.150 million)

In a mature market, each of these retail chains is keen both to define its proposition (or character) and also to raise its consumer profile - and they have invested significant sums in advertising and promotions. Key areas for gaining profile are price (discounters), freshness and quality of produce including fresh food counters, as well as the depth and presentation of the product range.

Sustainability has recently become a hot topic. This is currently mainly demonstrated in more and clearly marked regional food products, sometimes grouped under a private label like 'From here'. Carbon footprint labels are in discussion (see chapter 5.3 for more information.)

Providing advice on healthy nutrition has also become very popular, either through information on the internet or in-store activities, often targeted at families with children.

2.2 Trends / Marketing Strategies

Key trends in the German market are:

Convenience – catering for busy lifestyles with little time for cooking: pre-cut or pre-cooked food, chilled food, re-sealable packaging, small portions, products to consume 'to-go'.

Indulgence/Gourmet products – treats for the individual or for entertaining friends and family.

Home cooking – cook books, TV cooking shows and cooking classes are very popular. Even though people do not cook every day there is certainly a trend towards cooking as a social activity to entertain friends on the weekend. Families with children are again considering home cooking as a way to provide kids with healthy food and to spend quality time as a family. It also becomes important to teach children how to cook as traditional knowledge about cooking is almost lost.

Healthy food – extensive campaigning by the government and health insurers for healthy eating is showing results, and there are increasing numbers of consumers trying to eat more healthily (but ideally keeping it convenient). This applies especially for more well-off and better educated households, but also families with children. The government is also setting standards for healthy meals in public catering such as hospitals and schools.

Organics – organics is a part of the overall health and wellness trend. Sixty-three percent of German consumers said in a recent AC Nielsen survey that they buy organic products because they were healthier for them or their children.

Food safety - after a number of food scandals, including rotten meat and high pesticide levels in vegetables, the awareness of food safety and food tracking is very high in Germany. There is also increasing insight into the fact that very cheap food will be produced very cheaply and that good food has its price. This trend seems to open consumers' minds to higher staple food prices in the future.

2.3 Distribution Channels

As described above, the retail market is dominated by a few chains and the number of outlets has decreased by a quarter in the past decade. The most popular shop format is the discount store, followed by larger shops with up to 5,000 m².

The number of small supermarkets (under 1,000 m²), and especially independently owned ones, decreased drastically in the past, but the demographic trend towards older and more smaller households, as well as busy lifestyles and the increased cost of transport, are sparking renewed interest in 'neighbourhood' shops. These shops focus on convenience and freshness, long opening hours and well-trained service staff, which give them an edge on the big outlets.

Online shopping is only relevant for niche gourmet products and for wine, but this could be an option for New Zealand products with relatively low risk. However, public relations activity is necessary to make the product known and to attract consumers to the website. Traditional retailers do not have professional online shopping websites and concentrate on their physical outlets.

Supermarkets do not import directly but will source through a small number of preferred suppliers. Decisions on new products are usually only made once or twice a year by the head office, so it can months or even a year until a product actually reaches the shelves. Often retailers require manufacturers to present a programme of promotional activity around the product launch.

3.0 SUB-SECTORS

3.1 Meat

Meat consumption in Germany has fluctuated substantially in the past 10 years. One reason for this development is animal diseases (mad cow disease (BSE), foot and mouth, avian flu) and a second is the various scandals where retail outlets re-labelled and sold rotten meat.

The third reason is the healthy eating trend that lobbies for less meat consumption and higher amounts of vegetables instead. Recently, meat has also come under criticism in discussions on climate change because of the high amount of resources needed to produce it compared to vegetarian foods, and the high methane output from the animals grazing.

In 2007, per capita consumption of meat reached 61.6kg - the same level than in 1995. The most popular type of meat was still pork with 40.1kg per year, followed by poultry (10.7kg), beef and veal (8.5kg), lamb and goat (0.7kg) and others including venison and offal (1.5kg).

The problems mentioned above led to food safety and traceability being very much on top of consumers' minds. As a consequence, a lot of consumers switched to pre-packaged meat instead of buying it at the fresh counters, perceiving the pre-packaged and branded meat as safer. Also, the demand for regional and organic meat was boosted. The market share of organic meat by value is still, however, only 1.2 % (2007).

3.2 Dairy

The dairy market is the second largest food sector. Germany, a net dairy exporter, produced 28.4 million tonnes of cow milk and realised a turnover of €22.3 billion in 2007.

While the market value increased by 6.2 percent, the volume only grew by 1.4 percent. Price increases lead to a slight decrease in per capita consumption of consumer milk to 64.5 litres in 2007 (-0.5 percent). The cheese category, which New Zealand is locked out of except for cheddar by EU quotas, has also decreased by 3.5 percent to 22kg per capita. This trend underlines the price-sensitivity in this market segment. Dairy products are seen as staple products and are usually bought in discount stores.

The only categories still growing were milk drinks and yoghurts, added value products combining fruit with milk, whey or yoghurt as well as probiotic and low calorie products. A huge variety of different products and brands is competing in this segment and consolidation is expected. Also growing in demand are non-dairy milk products like soy milk and rice milk which are not only sold to people with dairy allergies but are generally seen as alternatives for a healthy lifestyle. Dairy is one of the consumer entry segments for organic products, with around six percent of consumer milk sold in Germany being organic (by value, 2007).

The Germany dairy industry is highly fragmented with smaller private, co-operative and multinational players. The sector is expected to experience significant consolidation in the future.

3.3 Fish and Seafood

Germany is dependent on imported seafood, with only around 24 percent of the inland consumption supplied by domestic fisheries. The trend towards a healthier diet is driving up per capita consumption of fish: from 13.8kg in 2004 to 16.4kg in 2007. Retailers are increasingly using the fresh fish counter as a point of difference and to create an attractive shopping area. At the same time, seafood producers offer an increasing range of different fish and convenience products. Thirty-two percent of fish consumed is bought frozen.

Sustainable fishing is an important and publicly discussed topic. The Marine Stewardship Council (MSC) label for sustainable fishing is well known, and Germany is globally the country with the highest volume of fish sold with this label.

To meet the consumer's demand for more precise information on the origin of fish, the German Fish Industry Association is working on voluntary labelling guidelines for 2010. The aim is to precisely name the source of the fish rather than just stating 'Pacific' or 'North Atlantic' which is the current legal requirement.

New Zealand's reputation for sustainable and safe fish production provides a favourable background for fish and seafood imports to Germany.

3.4 Fruit

Fruit consumption in Germany sits at around 122kg per capita per year (2006), including processed fruits and juice. Since 2001, consumption has increased by 6 percent. While healthy eating campaigns promote the consumption of fresh fruit, it faces strong competition by convenience foods, including dairy product for snacking. Fresh fruit is also very price sensitive.

Apples (18.4kg) and bananas (10.7kg) are by far the most popular fruits. Around half of the apples consumed were grown locally. Germany produces around one million tonnes of apples and has one of the largest fruit growing areas in Europe just south of Hamburg. But it is still the second largest apple importer globally with 700,000 tonnes.

Sales of organic apples and bananas are growing strongly. The market share for apples is estimated to be around 6 percent, for bananas 10 percent.

Opportunities for fruit lie in processed, convenient products that fulfil the consumer's wish for healthy food fitting into busy lifestyles: fresh cut fruit and fruit drinks. A growing range of pure fruit smoothies are sold in retail stores but also in trendy city cafés.

3.5 Vegetables

Vegetables are also encouraged for a healthy diet, but consumption has only increased by 3 percent compared to 2001, reaching 88.2kg in 2007. When asked in a 2007 survey what they like to eat most, 86 percent of consumers named vegetables, so there seems to be an opportunity for innovation and promotion to capitalise on this latent demand

Most popular vegetables are tomatoes (22.3), carrots (7.5kg), onions (7kg) and cucumbers (6.3kg).

Like fruit, convenience products are also entering the market to make '5-a-day' consumption of fruit and vegetables easy. Examples are washed mini vegetables, pre-cut salads and small portion vegetable drinks.

3.6 Wine

With around 20 million hectolitres (2006), Germany is the fourth largest wine market in the world behind France, Italy and the US. This covers the whole market of still and sparkling wine (15 percent of the market) as well as home and out-of-house consumption. The market has decreased slightly compared to 2004 (-1.5 percent), and is expected to only show slow growth in coming years. Per capita wine consumption is around 24 litres per annum.

Growing segments of the market are rosé, sparkling and organic wine. Red wine is more popular (53 percent) than white wine (38 percent). Rosé has a 9 percent market share.

Germany produces around 9 million hectolitres of wine and exports a third of it. Unlike the French and Italians, Germans don't necessarily prefer local wine and around 60 percent of the wine on the market is imported. The main countries of origin are Italy, France and Spain, together accounting for three quarters of the imported volume. The New World as a whole has an estimated market share of 8 percent. New Zealand accounts for around 0.1 percent of all imports.

The most popular German varietals are Riesling, Mueller-Thurgau, Spätburgunder (Pinot Noir) and Dornfelder.

The German wine market is very fragmented with a large number of individual specialist wine stores covering the high end of the market and reaching a share of 8 percent in value. The main volume outlet for wine are the discounters. At least 50 percent of wine is bought there resulting in a very low average price per bottle of €2.

With the improving economy there is a market though for high quality and high value wine from New Zealand, if it has a good story to tell and is supported by its producer with regular market visits and promotional activities.

3.7 Organics

The European market for organics reached sales of €14.6 billion in 2007, and Germany is the largest national market with €4.6 billion turnover. Germany is forecast to remain the largest market in Europe with sales reaching €8.3 billion by 2010. All retail chains including discounters have established organic product ranges by now. Several dedicated organic retail chains (eg Alnatura, basic, Denn's Bio) report strongly growing sales and outlet numbers, totalling 450 in 2007. Demand for organic products outstrips German, and often even European supply, so imports are growing. While local products are preferred for fresh produce, especially in the European season, there are opportunities for counter-season and exotic fruit, seafood, processed foods, ingredients and organic wine from New Zealand. Of all non-EU import countries for organic products New Zealand has the best reputation.

To enter this niche market internationally recognised organic certification is a prerequisite.

3.8 Functional Foods

Following the global trend, sales of food with functionality are increasing. This offers opportunities for New Zealand companies to sell functional ingredients or the intellectual property involved in manufacturing it. Another option would be to partner up with European companies to co-develop customised ingredients. Especially interesting are ingredients that help fight modern society's growing problems of obesity, cardiovascular diseases, allergies and diabetes. In demand are, for example, sugar-free sweets, healthy snacks, cholesterol-reducing products, non-dairy drinks, low-calorie drinks, low-fat dairy products, and herbal teas.

4.0 REGULATORY OVERVIEW

Duties/Taxes/Regulatory and Licensing Restrictions/Quota

Market access is clearly the major constraint on New Zealand food and beverage exports. In certain instances product is precluded due to EU policy, while other products attract high levels of tariffs and other additional charges. Ascertaining regulations for the individual product is crucial when considering the European market just as much as market research on consumer trends and behaviours.

Information on tariff codes by product group can be found on the TARIC website of the EU: http://ec.europa.eu/taxation_customs/dds/tarhome_en.htm. The same taxes and quotas apply for organic and conventional products.

For legally binding tariff information (EBTI), you will need to hand in an application to one of the designated authorities in any EU country. The EBTI applies to all EU countries and is usually valid for six years. Detailed information as well as the forms and addresses of the authorities in each European country can be found on:

http://ec.europa.eu/taxation_customs/common/databases/ebti/index_en.htm#authorities

For customs information on Germany in particular, you can go to:

www.zoll.de/english_version/index.html as a first step. An email address is provided for individual questions.

The standard rate of VAT in Germany is 19 percent and this rate applies also for drinks, both alcoholic and non-alcoholic. Foodstuffs are rated at 7 percent.

5.0 RECOMMENDED STRATEGIES

5.1 Possible Points of Differentiation for NZ Companies

New Zealand is a recognised safe source of supply of fruit and meat and has a very positive image. Around 60,000 German tourists travel to New Zealand each year which is the second largest European group after the UK. This situation provides New Zealand food exporters with an ideal background to find and occupy niche opportunities in this large food market. It is essential though that exporters have a clear unique selling point, that they are aware of and comply with all regulatory requirements, and that they are prepared to commit to the market.

5.2 Tactical Recommendations on Market Entry

To be successful, a New Zealand exporter will almost certainly require local representation, coupled with a commitment in terms of resources for promotional activities. Supermarkets will not deal direct, opting instead to nominate a preferred supplier, so it is important to select a company, probably a specialist food broker that has the necessary skills and requisite market access. A wide range of such companies exist, each offering varying degrees of expertise, warehousing, distribution facilities etc.

While not as strong and aggressive as in the UK, there is also a discussion about 'food miles' in Germany. New Zealand exporters will need to be able to answer the question why the German consumer 'needs' their product.

5.3 Sustainability Issues

5.3.1 General Trend/Consumer Concerns

German consumers have been aware of sustainability issues for some time, but other considerations – particularly price – have proven to be more decisive in determining F&B purchasing decisions. Recently, food quality has been regaining importance though and demand for organic and "fair trade" products is growing strongly. There is also an increasing interest in reliable information about the product's origin, production, animal welfare or GM (genetically modified) content. German consumers are largely opposed to GM food. Consumers want to know whether to trust a product and increasingly distinguish between allegedly "good" and "bad" produce (ie good for health, the environment etc).

The food miles discussion is well advanced in Germany and regional foods are being actively promoted by retailers to demonstrate environmental responsibility. However, German consumers appreciate a wide range of international foods and acknowledge that there will always be imports to complement the local offering. New Zealand is not seen as real competition to German food manufacturers and has a very good reputation. This said, New Zealand companies still need to have answers about their carbon footprint. They need to be able to demonstrate that they manufacture in a sustainable manner and freight in the most energy efficient way. A lot of consumers believe that products from New Zealand are flown to Europe so mentioning the fact that they have been shipped is important.

5.3.2 Labelling/Packaging

German households usually separate glass, paper, plastics and tins (with the Green Dot or equivalent), and in more rural communities also biodegradable material, and dispose of them separately. Sometimes they are collected with rubbish, in other cases people bring the rubbish to collection containers along the streets themselves.

Manufacturers – or importers, in the case of eg New Zealand lamb or venison – must ensure that packaging is collected and increasingly reused (preferably recycled). The most widely used system for the collection of end consumer packaging is the so-called Green Dot. Manufacturers pay a fee to the organisation that will in turn arrange for the collection, sorting and recovery of packaging, as required by national law. As quantity and quality determines the individual fee, there is an incentive to reduce packaging in the first place. The Green Dot will then be printed onto the packaging. More information (available in English) go to www.gruener-punkt.de/?L=1.

Biodegradable packaging is still a niche area but expected to grow in the near future. Organic products are paving the way in using this type of packaging.

More detailed information about sustainability issues in some of New Zealand's major food and beverage export markets (including Germany) is available on the Market New Zealand website: <http://www.marketnewzealand.com/MNZ/services/14703.aspx>

6.0 MARKET RESOURCES AND CONTACTS

6.1 Sources for This Report Include

- German Food & Drink Industry, Facts and Figures, BVE, 2008
- The German Food & Beverage Market - Invest in Germany, Jan 2008
- AC Nielsen – Universe 2008
- Datamonitor – Germany F & B news & distribution – July 2007
- IGD Retail Analysis – Country Presentation Germany – Aug 2007
- Economist Intelligence Unit – Industry Forecast Germany Food, beverages and tobacco, Feb 2007
- Information from the Federal Statistical Office

6.2 Useful Websites

- Ministry for Food, Agriculture and Consumer Protection (Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz, BMELV): www.bmelv.de
- Food Industry Association (Bundesverband der Ernährungsindustrie, BVE): www.bve-online.de
- German Agricultural Society (Deutsche Landwirtschafts-Gesellschaft, DLG): www.dlg.org
- German Wine Association (Deutsches Weininstitut): www.deutscheweine.de
- Meat Industry Association (Bundesverband der deutschen Fleischwarenindustrie): www.bvdf.de (only German)
- Dairy Industry Association: www.milchindustrie.de
- German Fruit Trade Association (Deutscher Fruchthandelsverband): www.dfhv.de
- Invest in Germany: www.invest-in-germany.de
- German Customs: www.zoll.de
- NZ-German Business Association (NZGBA): www.germantrade.co.nz

6.3 Main F & B Trade Shows

Anuga - the world's largest food fair, held biannually in Cologne (business-to-business only). Next show is 10 - 14 Oct 2009. In 2007 it attracted 163,000 visitors (56% international) and 7,000 exhibitors (83% international). www.anuga.com

Biofach – the world's largest organic trade show, held annually in Nuremberg (business-to-business only). Next show is 19 - 22 Feb 2009, and the focus country will be Denmark. In 2008 it had 47,000 visitors (38% international) and 2,800 exhibitors (66% international). www.biofach.com

Fruit Logistica – a large fresh fruit and vegetable fair, held annually in Berlin (business only). Next show is 4 - 6 Feb 2009 with Chile being the partner country. In 2009 the show had 50,000 visitors (73% international) and 2,110 exhibitors. www.fruitlogistica.com

Internorga - the leading German fair for the food service sector, held annually in Hamburg (business only). Next show is 11 - 18 March 2009. In 2007 the show had 112, 000 visitors (mostly German) and around 1,000 exhibitors. www.internorga.de

Green Week – a traditional, large consumer fair for agriculture, food and horticulture, attracting very high media and political attention. It has limited suitability for business-to-business contacts, but is increasingly used by German retailers and the food industry to present themselves to the end consumers. In 2008 it attracted 425,000 visitors (110,000 trade) and 1,610 exhibitors from 52 countries. Next show is 16 - 25 Jan 2009.
www.gruenewoche.com

Prepared by: *New Zealand Trade and Enterprise, Hamburg
August 2008*