

DYNAMIC EUROPEAN RETAIL SCENE

'Food-to-go' good news for chicken

by CLIVE BEDDALL, editor of *The Grocer*, the UK's leading retail journal

IT'S customary for media commentators, politicians and corporate chief executive officers to enthusiastically hail a new year as '12 months of great potential opportunity'.

And despite the economic uncertainties spawned by the terrible events of September 11, for the UK poultry sector and, more importantly, its relationship with the retail and foodservice sectors, 2002 looks like being just that.

If current signals from across the Atlantic are anything to go by, we are set to witness another consumer phenomenon. Stand by to serve the "Dashboard Diner." That's the latest name for the increasingly time-poor consumer who wants to eat on the go - whether it be in the car, on the train or simply walking to the rail station.

Fueled by longer working hours and stronger snacking habits, this trend is already becoming a way of life in the UK. We may not have seen too many British commuters emulating their American cousins and scoffing chicken products as they battle the traffic jams on the M25. But the

additional scope for an even wider range of convenient poultry products in the £2.98 billion market is likely to soar during the coming months.

First salvoes

Cynics will, of course say, that not everything that goes down well in midtown Manhattan is readily transferable to the middle of Manchester. But after the first salvoes in the big multiples' struggle to become the most proficient at offering a food-to-go service, there's more action on the way. And that must be good news for poultry producers.

Given that some 52% of further processed fresh poultry is now own label - a trend that has been driving the market forward - the added value sector has already achieved great maturity. So that's a valuable foundation that will stand producers in good stead in the months ahead.

Food-to-go sector

If our market intelligence from the other side of the Atlantic is anything to go by, two major UK multiples have been privately taking another close

look at the massive US food-to-go sector in recent weeks.

The word from poultry industry sources in certain southern states in particular is that product development executives from British multiples have been making "fact finding" tours of processing plants. They have also visited major store chains looking for things new to take their private label operations further into the convenient, and potentially lucrative food service arena.

As the big retailers scan the other side of the Atlantic, so the UK poultry industry must be ready to respond.

A couple of decades ago, poultry accounted for about a fifth of overall meat volume. But as the columns of *The Grocer* have shown in recent times, nowadays it boasts over 40%. New product development in added value and convenience means poultry is growing faster in value than it is in volume, with its versatility making life so much easier for all of us.

If you want further proof that convenience is the current buzzword in grocery, consider recent statistics from research group



Datamonitor. The UK spent £2.24 billion on ready meals last year, a rise of 6%, and more than any other European country.

Meal solution centers

Indeed, the potential for this sector is likely to be given even further strength in the months ahead if research from the Institute of Grocery Distribution (IGD) is anything to go by. It predicts the arrival of meal solution centers, located in the high street and near offices, railway stations and road junctions. Their focus will be on quality, freshness and convenience. In IGD's words, "something of a cross between McDonald's and Fortnum and Mason."

The Americans call this the "Grocerant principle" - a derivation of a grocer and a restaurant - offering hot takeaway food which can be warmed up in the microwave when the busy commuter finally arrives home.

These time poor folk are also known in New York circles as the "Ping generation" - the description coming from the noise the microwave makes when the dish is ready!

Focus on Europe's largest ready meals market

In this issue, Clive Beddall, editor of the leading UK retail journal The Grocer, looks at how global trends in food retailing are affecting supermarkets in his own country.

European retailers are looking to the US for ideas that will keep them ahead of trends, particularly in the fast expanding 'food-to-go' sector. The UK is the largest ready meals market in Europe, with poultry enjoying an increasing share of this £2.24 billion (€3.57 billion / \$3.21 billion) business.

Retailers are becoming ever more multi-national with giants such as Wal-Mart, Tesco and Ahold competing for dominance. The article looks at the implications for the retail scene and for the poultry industry.

In our review of world news and market trends on pages 3 and 4 Ken Randall, business editor of Poultry World, looks at the impact of globalization and of the arrival of the euro in real money.

Business Focus is the new Cobb publication, replacing Quarterly Review, produced for the global chicken industry. It is one of the new 'Focus' publications which we are launching to keep customers fully informed about developments in all aspects of our business from our products and technical support to news about our customers around the world and about market trends across the industry.

But, more importantly for the poultry business, these new units will offer a mix of ready-to-eat and easy-to-prepare meals. In short, they will eliminate the need to plan ahead. So why shouldn't poultry meat, given the sector is already growing at around 6% annually, play a significant part?

This segment of the retail market will be less price sensitive, and speed of reaction will be more important than scale. So it is inevitable that global retailers will face competition from local players.

Smaller store format

Looking at the current shape of the UK retail market, it's obvious that Marks & Spencer and Waitrose will pursue this area. One of the few success stories within M&S in recent months has been the development of its convenience formula and this is likely to be expanded even further during this year.

But don't be surprised to see Asda - probably with an additional smaller store format similar to the one its parent, Wal-Mart, is currently pursuing in the US - and the ubiquitous Tesco and Sainsbury also joining the game.

And don't rule out the Co-op as a potential major player in this trend. Given that CWS and CRS have combined to form Europe's largest co-operative, the new giant which, after all, pioneered convenient shopping over 100 years ago, has something over 550 convenience stores.

At a recent count, only T&S, Alldays, Shell, Esso and BP can claim to have more stores in that part of the retailing arena.

But then discounters like Aldi, Lidl and Netto will continue to be a Mecca for the more price-conscious customers, and it's likely that their geographical spread will widen away from their traditional heartlands in the north and midlands.

More 'value' lines

Many pundits have predicted that the discounters will be unable to grow their share of the market to a significant level, due to the lack of appeal to a majority of customers, especially since the other big retailers are introducing more and more "value" lines.

But my magazine's straw poll of supposedly cash rich shoppers at a Lidl store on the south coast recently, showed a response that was far from depressing for the German retailer.

They used to say that the poor

needed bargains and the rich loved them! Add a convenient food-to-go operation to that truly European discounting concept for the busy shopper and the result could astound even the most cynical City analyst.

Industry estimates suggest that convenience retailing will account for up to 22% of the overall grocery market by 2005 (IGD). And that equates to a massive £24.8 billion.

And, while on the subject of convenience, Spar's spectacular expansion into food service is well worth watching. Their microwaveable buns and chicken kebabs are just the beginning.

will justify all the hype.

Having said that, there will be areas of the country where the demand justifies the production. But another more justifiable maxim might well be "low fat and convenient"?

Meanwhile, the shape of the retail sector is continuing to occupy minds. There have been suggestions that Wal-Mart will follow up its £6.7 billion purchase of Asda by bidding for Safeway, the chain currently enjoying rejuvenation at the hands of former Wal-Mart man Carlos Criado-Perez.

At the moment the word in both companies - officially and unofficially

market.

The Sainsbury revival, under Sir Peter Davis, while not as rapid as some of the more impatient City scribblers would like, is set to continue. Its next likely development could be a further expansion of smaller, specialist stores, in line with the swing to more convenience I suggested earlier.

Meanwhile, Morrison's remains the chain that most competing multiple CEOs, in the UK and mainland Europe, continue to most admire. It's still rumored as a takeover possibility.



Across Europe supermarkets are adding value to chicken - from cut-up meat here in Spain to sophisticated 'food-to-go' products.

Time-poor shoppers

Inevitably, all this activity generates opportunities for processors and manufacturers of poultry products. The maxim has generally been that if it's chilled and convenient, then consumers will go for it. Generally, poultry groups appear to have successfully taken up the challenge. But when it comes to supplying the big chains in 2002 and beyond, it will be the supplier who wins the real point of difference on the product front that wins the multiple listing.

Some believe that organic lines will play a bigger part in consumer demand. While interest in that area is certainly growing in the wake of the food scares, it seems unlikely that price conscious, time-poor shoppers

- is that a union is unlikely. But that's not to say the US giant will not look at a non-foods chain in the UK.

A more likely scenario is that a European multiple, probably the ambitious Ahold, will move into the UK with a spectacular takeover.

'Top three' by 2005

My magazine stands by its prediction that the "top five" chains in the UK will, by either takeover or merger, be rationalized to the "top three" by 2005.

The retail market leader, Tesco, recent events suggest, is concentrating its mind on global expansion for the moment, with more developments likely on the Pacific Rim rather than its home

Its store portfolio overlap with other majors is a deterrent to its acquisition. After all, the local monopolies issue was raised as a main area of concern by the Competition Commission into its inquiry into supermarket profitability, so it's likely that any Morrison takeover would be scrutinized with this in mind.

A much more likely scenario in the coming months is the arrival of a thrusting, mainland European newcomer. That would certainly heat up competition in what is, after all, the most competitive retail grocery market ever. As I said at the top of this article, 2002 looks like being quite a year.

Cargill assembles super-company to trade in EU

SIGNS that chicken from Brazil and Thailand is really in Europe to stay are clear in the latest initiative from Cargill, the US-based food multinational.

A new company called Cargill Integra was launched at the end of last year to attack the EU market. It brings together Cargill's European bases in the UK and Holland, Brazil's largest poultry processor,

and two large plants in Thailand and Chile.

It is designed as a 'one stop shop' for the EU's food manufacturers to source all their requirements for both raw and cooked poultry meat. There will also be a comprehensive range of finished products including ready-to-cook and fully-cooked products along with convenience dishes.

The aim is to provide customers with the ultimate economies of scale and to make it easy to source the most economic product on a global basis.

Much of the operation will be built around Cargill's UK operation, Sun Valley, involving its meat purchasing division, its importing offshoot Concordia (which is a joint concern with Brazil's Sadia), Fields

International (a poultry meat trading company), and Sun Valley Thailand. The other companies involved are Hermalink in the Netherlands and Ariztia in Chile.

Not to be left behind, the UK's largest poultry processor, Grampian Country Food Group, has purchased Thailand's Golden Foods International as a step towards setting up a globally based business.

Euro arrival will sharpen consumer power

THE launch of Euro notes and coins at the start of the year will have little impact on the cross-border transactions of the new Cargill Integra, or on the trading of poultry between member states in general. Companies have become used to working with the fixed exchange rates, and the Euro in principle, prior to 1 January, both for those members within the Euro Zone and those still remaining outside it.

What is certain to have an impact over time, for poultry along with everything else, is the ease with which consumers will be able to compare prices for everyday items all across Europe.

Reported early scenes of European citizens living close

to borders hopping over to buy petrol and wine, though, are unlikely to be replicated in bulk buying of poultry products, or to be economical for those further afield.

It will, however, be very easy to drive 100 miles to another country to buy a car or a washing machine at a better price, using the same form of money with no conversion costs. For cheaper items, it is of course possible that enterprising individuals may start to bring the product to the consumer.

So there is bound to be pressure, at this stage hard to quantify, towards the harmonization of prices for all goods over the months and years to come.

Germany holds key to new EU farm plan

THE coming year could prove to be a momentous one in the EU for the development of the Common Agricultural Policy (CAP), believe many industry leaders.

A review of the Agenda 2000 regime is scheduled for this year, which may force member states to confront the realities facing the EU in terms of a greatly expanded membership - and the costs this could entail in agricultural subsidies - and the need to adopt an acceptable posture for the current round of World Trade Organization negotiations due to end in 2004.

This time the German and British contingents are expected to unite in seeking a much more sweeping reform of the CAP, with deeper cuts in market support measures and export subsidies. This is ultimately likely to result in even

less protection for EU poultry producers against third country competition.

The aim would be to channel more funds directly into the rural sector for environmental and social improvements.

One uncertainty for this analysis lies with the coming German elections, where the Green Party is predicted to lose a great deal of its support, weakening its influence in the SPD-Green coalition government. At the heart of Germany's current policy has been the Green Minister of Agriculture, Renate Künast.

Ranged against any German/UK alliance in the coming negotiations will be many other member states led by France, which remains largely committed to the traditional role for the CAP.

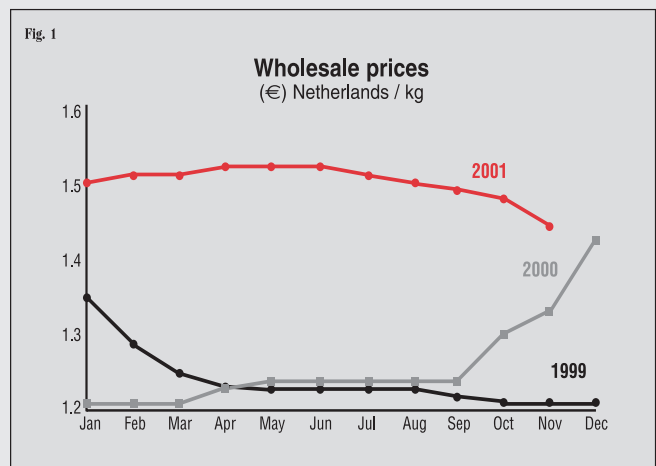
Market pressures build at end of 2001

EU broiler prices continued to slither down in the final months of 2001 as the market came under twin pressures.

Broiler production, in terms of chick placings, continued to run strongly ahead of 2000 in the third quarter (see back page); and the volumes of imports from third countries reached very high levels in the final months of the year, especially for the lower-tariff, salted meat category (as discussed in the previous issue).

Despite their decline, wholesale prices at the end of the year in much of the EU were still above the levels at the start of 2000, as shown for the Netherlands in fig. 1.

Overall, commercial broiler chick placings in the first nine months of last year were 3% higher than in 2000. But female parent chick placings, which were higher than in 2000 during the first half of last year, have slowed down since June, so a pause in the expansion may be anticipated.



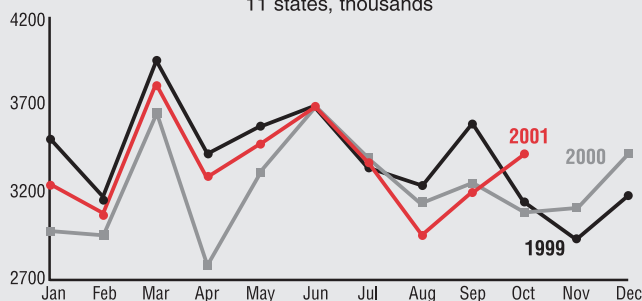
MARKET TRENDS

Feed ingredient prices

| National currency/tonne | Current (Dec) | 3 months ago (Sep) | 6 months ago (June) | 9 months ago (Mar) | Year ago (Dec) |
|---|---------------|--------------------|---------------------|--------------------|----------------|
| US wheat (\$) soft red winter | 116 | 105 | 97 | 110 | 104 |
| US maize (\$) No 3 yellow corn | 95 | 87 | 82 | 89 | 93 |
| US soya (\$) No 2 yellowbeans | 176 | 186 | 181 | 175 | 196 |
| EU feed wheat (£) UK - national average | 77 | 76 | 76 | 69 | 64 |
| EU feed wheat (€) Rotterdam | 131 | 128 | 129 | 124 | 129 |
| EU feed wheat (€) Hamburg | 119 | 114 | 128 | 130 | 128 |
| EU maize (€) Bologna | 130 | 123 | 139 | 138 | 133 |
| S American soya (\$) Argentina/Brazil | 192 | 236 | 171 | 165 | 204 |

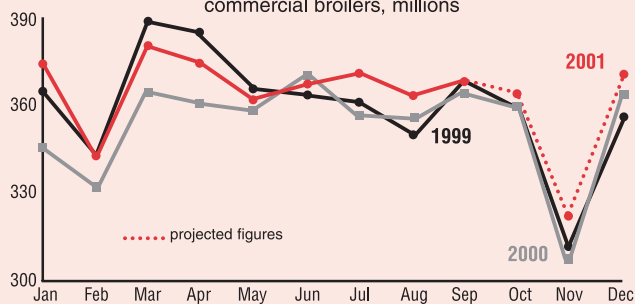
EU female parent chick placings

11 states, thousands



EU chick placings, 11 states

commercial broilers, millions



EU broiler prices

€/kg liveweight (except UK & Denmark)

| | Current (Dec) | 3 months ago (Sep) | 6 months ago (June) | 9 months ago (Mar) | Year ago (Dec) |
|----------------------|---------------|--------------------|---------------------|--------------------|----------------|
| Belgium | 0.47 | 0.77 | 0.89 | 0.98 | 0.87 |
| France | 0.89 | 0.88 | 0.87 | 0.86 | 0.82 |
| Germany | 0.74 | 0.78 | 0.79 | 0.78 | 0.73 |
| Italy | 0.64 | 0.85 | 0.75 | 1.00 | 1.04 |
| Netherlands | 0.75 | 0.79 | 0.78 | 0.75 | 0.68 |
| Spain | 0.79 | 1.16 | 1.12 | 1.28 | 1.22 |
| Denmark (DKr) | 4.76 | 4.61 | 4.56 | 4.39 | 4.29 |
| UK (£) | 0.50 | 0.50 | 0.49 | 0.49 | 0.49 |

EU average wholesale prices

per/kg, whole oven-ready chicken

| | UK (£) | Germany (€) | Italy (€) | France (€) |
|----------|--------|-------------|-----------|------------|
| Dec | 1.05 | 1.47 | 1.62 | 1.76 |
| Jan 2001 | 1.06 | 1.56 | 1.56 | 1.79 |
| Feb | 1.05 | 1.57 | 2.02 | 1.81 |
| Mar | 1.05 | 1.57 | 1.62 | 1.86 |
| Apr | 1.08 | 1.58 | 1.33 | 1.88 |
| May | 1.08 | 1.58 | 1.18 | 1.87 |
| Jun | 1.08 | 1.58 | 1.40 | 1.77 |
| Jul | 1.04 | 1.57 | 1.33 | 1.75 |
| Aug | 1.03 | 1.56 | 1.31 | 1.64 |
| Sep | 1.02 | 1.54 | 1.37 | 1.60 |
| Oct | 1.02 | 1.53 | 1.13 | 1.68 |
| Nov | 1.02 | 1.49 | 1.11 | 1.68 |

Exchange rates

| | Current (Dec) | 3 months ago (Sep) | 6 months ago (June) | 9 months ago (Mar) | Year ago (Dec) |
|---------------|---------------|--------------------|---------------------|--------------------|----------------|
| £ / € | 1.59 | 1.60 | 1.62 | 1.58 | 1.64 |
| \$ / € | 0.90 | 0.91 | 0.86 | 0.90 | 0.89 |
| £ / \$ | 1.44 | 1.46 | 1.39 | 1.43 | 1.46 |

Brazil targets exports to Europe

OFFICIAL figures released by Brazil have backed up the reports from Brussels of the startling rate of growth in exports to the EU.

According to data from the Brazilian Ministry of Trade, exports of chicken to the EU are estimated to have risen 85% for 2001 as a whole, from 135,000 tonnes to 250,000 tonnes.

Although Europe still only accounts for around 20% of Brazil's chicken exports, it is fast becoming the preferred target market.

Brazil has published complete figures for the first 10 months of 2001, which show that Europe accounted for the biggest increase in its chicken exports during the period by far. Exports to all destinations from Jan-Oct were up by 271,000 tonnes (to 1.03 million) compared with the same period of 2000, and of these 100,000 extra tonnes went to Europe (to make a total of 208,000 tonnes). Also showing a big rise was Russia, where imports were up 70,000 tonnes (to 84,000).



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This publication is compiled with the help of Ken Randall, business editor of Poultry World.

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