

ITALY – Food & Beverage Report

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Market Structure

Size

Italy is the 4th largest food and drinks manufacturer in the European Union (EU) and Italy's food and drinks industry is the country's second-largest manufacturing sector. It accounts for about 12% of GDP and had a total sales value of US\$168 billion in 2008.

Most of the value-added manufacturing is concentrated in the northern half of the country, with farming remaining comparatively underdeveloped in the southern regions.

Italy is still a tradition country when it comes to food and food habits. In general, Italians prefer healthy good quality food and are willing to pay for it but at the same time there is a large market segment for low price products.

Table 1: Food and beverage market value and expenditure per capita, 2004-2008

US\$	2004	2005	2006	2007	2008
F&B Market Value (US\$ Bn)	154.69	157.91	161.56	165.36	168.13
F&B Expenditure per Capita (US\$)	2666.30	2719.77	2781.22	2845.97	2887.97
Wine Market Value (US\$ Bn)	38.83	39.48	40.41	41.39	38.83
Wine Expenditure per capita (US\$)	668.84	679.44	695.21	711.9	710.27

Source: Datamonitor. Consumer Products Database

Italy is a significant producer and exporter of food and beverage products. The main exports are wine, pasta, canned tomatoes, cheese and olive oil. In 2007, F&B exports were worth an estimated US\$26.1 billion, while imports were worth US\$20.5 billion.

The retail food sector in Italy generated revenues of US\$134.3 billion in 2008, with an annual compounding growth rate of 3% from 2004-2008. Within the sector there are 32,100 active businesses with 6,450 businesses working only in production.

The HRI (Hotel Restaurant Industry) sector is also lucrative and growing but is diverse and fragmented. It is dominated by many small establishments, with the large chains located mainly in city centres, airports, motorway service stations and shopping centres.

Annually, Italy has more than 87 million tourists, making it the world's fourth most attractive tourist destination. A growing segment of the HRI sector in Italy is represented by the cruise lines. Costa Crociere, the leading company in this sector, is expanding and in its Mediterranean season – April to October – carries over one million passengers. This niche market has the special characteristic of not being subject to European quotas on meat and dairy products and is basically a duty free market.

Growth Rate

Products with potential in the Italian market are organic foods, functional foods and low fat food products. Gradually changing food habits and two working parents are increasing the demand for frozen and easy to prepare products.

There has been a growth in acceptance of private label products by Italian consumers. Many retailers have begun to offer a variety of private label food products, targeting different types of consumers, especially in the organic or typical regional categories.

A gradual increase in female participation in the workforce is likely to raise demand for convenience and packaged food as well as eating out. Consumers are particularly looking for

healthy convenient products for breakfast. However, the female labour force participation rate is likely to remain relatively low compared with most other European countries, particularly in the south of Italy.

Known factors influencing growth rate

Italy officially slid into recession in the third quarter of 2008. A Datamonitor survey showed that around 50% of consumers are now making value based food purchasing choices, cutting expenditure and trying to save some money in case times get tougher. More than 40% anticipate that their standing of living will deteriorate over the next 12 months.

Changing lifestyles, demographics and increasing demand for quality and affordable food prices are all having an effect of the type and price of the food and beverage market.

The number of small food stores is decreasing as large supermarkets and hypermarkets continue to expand. This has resulted in a steady lowering of prices for mass market items, but the supermarkets and hypermarkets also offer premium prices products and private label items.

Competitive Environment

Major Players in the Market

More than 70.1% of Italy's F&B imports come from other EU countries, in particular, France and Germany. The Italy's food retailing sector is still very fragmented and dominated by a high number of small to medium-sized outlets. Until recently, no Italian grocery store chain has had national coverage, but La Rinascente and Gruppo GS, through foreign joint ventures with Auchan and Carrefour, have started to expand into the South.

Coop Italia is the largest supermarket chain in Italy and Esselunga is the main one in the north-west, and is a leader in terms of quality of products and service. Esselunga is also strong on private label ranges of products.

Large retailers largely rely on buying groups for products the major buying groups include:

- Intermedia – 20% market share
- Sicon – 18% market share
- GDPlus – 16% market share
- ESD Italia – 15% market share

Marketing Strategies

Most New Zealand F&B products, such as lamb and seafood, that arrive in the Italian market are not currently branded and are mainly absorbed by the food industry or HRI sector. As a result, consumers are not generally aware of New Zealand products. Supermarkets have to disclose the origin of the meat but packs will not have a specific NZ label.

Therefore it is important to select the right commercial partner who has the capacity, the understanding and the commitment to be able to successfully open and grow the market. Because of the strong competition from other countries, especially in terms of price, it is important to be able to offer a point of differentiation for products.

Visiting the market and also visiting potential importers is recommended in order to gain a clearer understanding of the market and the competitive environment, as is establishing a collaborative strategy with a commercial partner – once one has been identified.

For those products aimed at the HRI sector, a useful marketing strategy consists of organising tastings and promotional events where the products can be presented directly to chefs and journalists. This activity can be jointly carried out with the distributor and/or in collaboration with gourmet associations.

Entering contests can be a useful channel to identifying a commercial partner in the market and raising the profile of a product. This is particularly suitable for certain products like honeys, olive oils and wines.

Distribution Channels

Supermarkets account for 43% of retail food industry in Italy, followed by hypermarkets (17.4%), food specialists (11%), discounters (6.3%) and small individual stores making up the remainder.

The north-south divide extends to the supply chain, with a higher level of organisation and centralisation found in and around the Milan area, while the south of the country is still

dominated by small independent grocers, and has a much less developed distribution network. Generally imported food enters the market through brokers or specialised traders.

Traditionally, none of the Italian grocery store chains have had national coverage. However, as noted above, some have begun to expand into the south of the country. Fragmentation, as well as weak economic conditions that force small chains to cut costs, has recently led to large foreign firms becoming more interested in the Italian retail market, which is becoming more concentrated.

Regulatory Overview

Duties and Taxes

As a member of the EU, Italy employs the same tariffs as other EU member states. Tariff rates can vary considerably and processed foods generally attract higher tariff rates than raw materials. The tariff rate for specific items can be checked on the European Commission's tariff database: http://ec.europa.eu/taxation_customs/dds/cgi-bin/tarchap?Lang=EN.

The standard rate of value-added tax (Imposta sul Valore Aggiunto; IVA) is between 4 and 20%, which is added to imported luxury F&B products, such as caviar and imported wines. There is a reduced rate of 10% for the majority of imported foods and 4% for certain basic foodstuffs such as bread.

Regulatory Requirements

Products imported into Italy must meet all Italian and EU food safety and quality standards, as well as labelling and packaging regulations. Food and agriculture products imported into one EU member can be transhipped unimpeded into Italy, provided they have a label written in Italian and the products do not present a risk to human or animal health. Food products imported directly into Italy must comply with all Italian food safety regulations, quality standards, and national labelling and packaging regulations that are as strict as, or sometimes a little stricter than, EU rules and regulations.

Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). All phytosanitary certificates are harmonised within the EU system. The New Zealand Ministry of Agriculture and Forestry (MAF) has full details on phytosanitary certificates required for companies exporting to the EU.

www.biosecurity.govt.nz/files/regs/stds/icprs/european-union.pdf

Health and hygiene controls on imports from non-EU Countries come under the jurisdiction of the State, and are entrusted to the Health Ministry (www.ministerosalute.it).

Licensing and Registration Requirements

Licensing and registration requirements vary depending on the type of product being imported, and are normally carried out by the importer.

Labelling

Food products sold in Italy must have the information outlined below provided in Italian (multi-language labels are acceptable):

- name of the product
- ingredients listed by category or by specific name (depending on the ingredient) in descending order of weight (including starch, colourings, and additives)
- net content or weight in metrics. In the case of pre-packaged foodstuffs, the net quantity of liquids – the declared litres/centilitres/ millilitres; of solids – the declared kilogramme/gram
- expiry date, or in the case of perishable foodstuffs, the “use by” date. The preferred wording is: “Da consumarsi entro il dd/mm/yy” (To be consumed preferably by dd/mm/yy)

- any special storage conditions or conditions of use and information regarding prohibited or non-recommended use or preparation
- business name and address of the importer
- business name and address of the manufacturer, packager, or of a seller established within the EU
- place of origin or provenance, where failure to give such particulars might mislead the consumer as to the true origin or provenance
- strength by volume when beverages contain more than 1.2% alcohol
- selling price and the price per unit of measurement (kilogramme or litres). There are exceptions, provided where products are not measured by the kilo or litre such as for eggs
- batch number. The producer, manufacturer, packager or the first seller established within the European Union must determine the lot, and the marking must be preceded by the letter "L" unless it is clearly distinguishable from other indications on the label
- instructions for intended use.

New Zealand exporters of "health" and/or organic foods, weight-loss or diet foods, baby foods and vitamins should work closely with their Italian importer, as Italy's labelling laws regarding health claims can be particularly stringent.

The presentation and the advertising of the products must not attribute properties for the prevention, treatment or cure of human disease. The labelling and methods used should not mislead the purchaser in any way.

Nutritional labelling must be present when a nutritional claim is made for a product. The only nutrition claims permitted are those relating to energy value, protein, carbohydrates, fat, fibres, and sodium, prescribed vitamins and to substances which belong to or which are components of one of these categories.

Quotas

Importation of some foods is subject to quota restrictions, with specific examples including beef and dairy products. The availability of quotas can be checked with importers.

As noted above, however, the cruise line sector is not subject to these restrictions and is treated as a duty free territory.

Industry Standards

In 1992, the European Union created systems known as PDO (Protected Designation of Origin), PGI (Protected Geographical Indication) and TSG (Traditional Speciality Guaranteed) to promote and protect food products.

A PDO (Protected Designation of Origin) covers the term used to describe foodstuffs which are produced, processed, and prepared in a given geographical area using recognised know-how.

In the case of the PGI (Protected Geographical Indication) the geographical link must occur in at least one of the stages of production, processing or preparation.

A TSG (Traditional Speciality Guaranteed) does not refer to the origin, but highlights traditional character, either in the composition or means of production.

Products covered under the various classifications can include meat and meat products, cheese, fruits and vegetables, fish and other seafood. A list of registered products can be found on the European Commission website:

http://ec.europa.eu/agriculture/foodqual/quali1_en.htm

Recommended Strategies

Possible points of differentiation for NZ companies

As a significant amount of New Zealand F&B exports to Italy are products such as meat and fish that are sold unbranded, it is difficult to differentiate these product at the retail level, unless supported by an appropriate campaign. This is slightly different in the case of value-added products, such as Greenshell Mussels or oysters which, through suitable packaging, can achieve some visibility.

Wines are possibly the only product that can currently carry distinctive labelling and are bought because they are from New Zealand.

In general, there is not much visibility for New Zealand F&B products at the retail level because there is virtually no advertising activity in the Italian market. Collaboration with the local commercial partner is essential to develop a successful introduction to the market, and in terms of image and differentiation of the New Zealand product.

Possible points of differentiation for New Zealand products could be a mix of quality, exotic origin, uniqueness of ingredients, functionality, innovative packaging, wellness and lifestyle, and traceability. Using such points of differentiation can make price less of an issue in such a competitive market.

In the HRI sector the quality of New Zealand products is well recognised by both importers and operators. Because of the long association with meat and dairy supply, New Zealand is positively regarded and this assists with clean (disease free) and premium quality positioning that can be used in pitching to food service buyers against other major suppliers. However, any price premium will require some other unique selling points to secure interest, and suppliers must have a firm value proposition.

Tactical recommendations on market entry

Italian consumers are generally rather traditional and discerning when it comes to eating habits, hence market entry may not be easy. New Zealand suppliers are advised to research the market thoroughly in order to approach it with a firm value proposition. Market research, including gaining an understanding of the product category (competition, pricing and structure) is highly valuable.

Like other Mediterranean countries, Italy is a relationship market and personal visits to customers are important, at least until the relationship is well established. They will help to both gain an understanding of the market, and also display commitment to the market to distributors and buyers.

Recommendations on long-term strategic issues for exporters to consider

Product quality is no doubt the most important factor but price also plays an important role because of the increasing competition from other countries.

In dealing with supermarket chains, even via importers, it is very important to be reliable in terms of respecting required specifications, delivery times and quantities. Otherwise there is a high risk of losing the contract or incurring penalties.

A good traceability system can be a tool to certify New Zealand origin and hence guarantee the quality of food products.

Sustainability Issues

At present Italian consumers do not seem to be as concerned by food miles or sustainability issues as consumers in the UK. However, the issue is likely to spread across Europe and reach the Italian market, but may have a smaller impact as Italy is less dependent on F&B imports than the UK.

Traceability has been treated as a marketing factor for a few years, and is used at a retail level by supermarket chains to propose their own labelled guaranteed products, and assure the consumer of quality. This is backed by the EU law on food traceability, 178/200.

In general, there is an increasing interest in natural products and organics, especially among the segment of wealthy and educated consumers that are a target for New Zealand products.

Market Resources and Contacts

Government

Ministry of Agriculture: www.politicheagricole.it

Ministry of Health: www.ministerosalute.it

Italian Customs Service: www.agenziadogane.it/wps/wcm/connect/ee/

Industry

Association of Italian Food & Drinks Producers - www.federalimentare.it

Italian Association of Food Product Industries - www.aiipa.it/aiipa-inglese/index.html

The Italian Association of Industrial Producers, Exporters and Importers of Wines, Spirits, Syrups and Vinegars - www.federvini.it/Default.asp?l=eng

Industrial Association of Meat – www.assica.it

Italian Association of Olive Oil Industry – www.assitol.it

Dairy Italian Association – www.assolatte.it

Trade publications

All specialised publications are in Italian. Some of them have an English translation of some of the articles.

Il Pesce - www.pubit.it/e_pesce.html

Largo Consumo - www.largoconsumo.info/

Bar Giornale - www.bargiornale.it/

Mondo Agricolo - www.mondoagricolo.crol.it

Trade events

CIBUS is the main international food exhibition and is held every two years in Parma. The next event will take place 7-10 May 2012. www.cibus.it

VINITALY is one of the main international wine fairs in Europe and attracts visitors from across Europe. It takes place every year in April www.vinitaly.com. The next exhibition will take place 7-11 April 2011 in Verona.

SOL (Salone Internazionale dell'olio extravergine di qualità) is the international exhibition on olive oil and takes place in Verona, in conjunction with Vinitaly in April, every year. <http://www.sol-verona.com>

MIA is the international nutrition exhibition and takes place in Rimini from 19 - 22 February 2011. www.miafiera.it/.

MSE is the Mediterranean Seafood Exhibition that takes place in Rimini from 19 - 22 February 2011 in conjunction with MIA. www.medseafood.it.

Other

The most important contests for wine and olive oil can be found at: www.enohobby.it. One of the most important competitions for olive oil is the "Leone d Oro dei Mastri Oleari" (Mastri Oleari Golden Lion Award): www.mastrioleari.org.