Specialty Food

US Industry Overview

April 2015
Introduction

The United States is a large market, full of opportunities for UK companies but it is also complex and highly competitive.

With the mission of helping UK companies identify and pursue new business opportunities, UK Trade & Investment (UKTI) teams in the United States offer a variety of support to help companies achieve their international potential, including trade missions, events, and webinars, and customised consultancy services (Overseas Market Introduction Service, OMIS).

This brochure is intended to provide an overview of opportunities in the United States, help companies consider and understand the challenges, and outline the steps required to succeed in this market.

UK companies interested in any of our services in the United States should ideally speak first with one of our UK-based International Trade Advisors (ITAs). Financial assistance and grants are not available from UKTI staff in the United States, but UK companies can speak to ITAs about export support services like the Tradeshow Access Programme, Passport to Export, Gateway to Global Growth, and the Export Marketing Research Scheme. Companies in Scotland, Wales, and Northern Ireland should contact Scottish Development International, Business Wales, or Invest Northern Ireland, respectively.
U.S. Market Checklist

Due to a common language and culture, the United States may seem like a relatively easy market to access. However, it is also a large, crowded, and highly competitive economy. It can be easy to underestimate the requirements of a successful US strategy. Prospective exporters should consider carefully whether they are ready to do business in the United States.

The following questions can assist with a critical self-evaluation:

1. What US market research have you conducted, and what, if any, conclusions have you reached about your potential here? Is the market nascent, growing, or already saturated? These are key questions to ask and answer before committing the required time and expense towards developing your company’s business in the United States.

2. Is your company in a stable financial position and ready to invest in expanding into new markets? Many UK companies underestimate the costs of setting up and time required to effectively succeed in the United States. It should not be considered a short-term process; you should set realistic expectations in terms of time and cost.

3. How much manpower, time and financial resources can you commit to your US strategy?

4. Have you formulated a market entry strategy? For example, do you want to sell online, via a distributor, agent, partner, or do you need to set up a US entity?

5. What is your Unique Selling Proposition (USP) for the US market? Make sure that this is clear, concise, well-presented and accessible to your potential US customers.

6. Have you developed a compelling sales pitch and marketing materials, including a website, around your USP? Have they been developed with a US audience in mind?

7. Do you understand the legal and accounting issues associated with doing business in the US? For example, think about whether your sales contracts are appropriate, whether your intellectual property is protected, whether different technical standards and data privacy rules exist for your product or service, and whether you are covered in the event of liability claims. Before taking any concrete steps, a consultation with a US attorney is usually advisable.

8. Does your company export to or do business in any other international markets? It is generally easier to begin exporting to markets that are geographically closer and have more experience working with UK companies, such as Ireland and other EU countries, before tackling the United States.

9. Do you have the capacity to fully exploit opportunities? Can you build on any initial success and meet increased customer demand? US businesses will be open to working with a foreign partner but will expect you to meet their customer service standards, be present to support any issues, and may want accessibility to discuss other future opportunities. They do not want to work with foreign companies that are ‘in it for the short term’.

10. Where applicable, do your products comply with the U.S. Food and Drug Administration’s and/or the U.S. Department of Agriculture’s regulations and requirements? It is advised that any company considering the US market have a FDA registration number before approaching any customers in the US, including importers and distributors.

11. Have you evaluated the logistics required to export in the United States? For example, are you prepared to invoice in US dollars, and have you determined how you will receive payments? How will you provide technical support? For physical products, have you identified customs duty rates and whether you will need a freight forwarder?
Market Overview

Market Size

As defined by the Specialty Food Association, specialty food is comprised of “foods and beverages that exemplify quality innovation and style in their category. Their specialty nature derives from some or all of the following characteristics: their originality, authenticity, ethnic or cultural origin, specific processing, ingredients, limited supply, distinctive use, extraordinary packaging or specific channel of distribution or sale. By virtue of their differentiation in their categories, such products maintain a high perceived value and often command a premium price”.

The Specialty Food Association’s 2015 State of the Specialty Food Industry report states that specialty food sales topped $109.5 billion in 2014 ($85.5 billion for retail and $24 billion for foodservice). This represents an increase of 21.8% between 2012 and 2014. While retail sales of all food grew by only 2.2% during the same period, specialty food retail sales grew 19.2%. Specialty food sales as a share of the total food market reached 14.9% in 2014.

A Mintel survey showed that 69% of adult shoppers in the U.S. purchased specialty foods in 2014.

Continued growth was achieved thanks to product innovations and increased specialty food penetration in mainstream stores making it accessible to more consumers.

Category Segmentation

Largest specialty food categories

According SFA, the largest category is cheese and cheese alternatives, with $3.7 billion in sales and 7.2% of the specialty food retail market. Coffee, coffee substitutes and cocoa took over number 2 spot from frozen and refrigerated meat, poultry and seafood. The other leading categories are chips, pretzels and snacks and cred and baked goods.
# Sales of Largest Specialty Food Segments in 2014 ($ Million)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>2014 $ Million</th>
<th>% Share</th>
<th>% Change 2012-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese and Cheese Alternatives</td>
<td>$3,708</td>
<td>7.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Coffee, Coffee Substitutes, and Cocoa</td>
<td>$3,476</td>
<td>6.8</td>
<td>21.5</td>
</tr>
<tr>
<td>Frozen and Refrigerated Meats, Poultry, and Seafood</td>
<td>$3,189</td>
<td>6.2</td>
<td>26.8</td>
</tr>
<tr>
<td>Chips, Pretzels, and Snacks</td>
<td>$3,112</td>
<td>6.1</td>
<td>24.6</td>
</tr>
<tr>
<td>Bread and Baked Goods</td>
<td>$2,351</td>
<td>4.6</td>
<td>16.7</td>
</tr>
<tr>
<td>Candy and Individual Snacks</td>
<td>$2,082</td>
<td>4.1</td>
<td>27.2</td>
</tr>
<tr>
<td>Condiments, Dressings and Marinades</td>
<td>$1,754</td>
<td>3.4</td>
<td>12.1</td>
</tr>
<tr>
<td>Frozen Lunch and Dinner Entrees</td>
<td>$1,666</td>
<td>3.3</td>
<td>18.7</td>
</tr>
<tr>
<td>Yogurt and Kefir</td>
<td>$1,568</td>
<td>3.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Nuts, Seeds, Dried Fruits, and Vegetables</td>
<td>$1,339</td>
<td>2.6</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Mintel/SPINS/IRI

## Fastest-growing specialty food categories

The fastest growing categories in unit sales are refrigerated +78% since 2012, followed by eggs +76%, and refrigerated pasta/pizza sauces +61%. Other products that saw a bounce in unit sales are functional beverages, nuts and seed butters and energy bars and gels.
Other Dairy and Alternatives  
Ready-to-Drink Tea and Coffee  

Source: Mintel/SPINS/IRI

Retail Sales of all foods

<table>
<thead>
<tr>
<th>Product Category</th>
<th>2014 $ Million</th>
<th>% Share</th>
<th>% Change 2012-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frozen and Refrigerated Meats, Poultry, and Seafood</td>
<td>27,523</td>
<td>8.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Bread and Baked Goods</td>
<td>22,394</td>
<td>6.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Carbonated Beverages</td>
<td>20,112</td>
<td>5.8</td>
<td>-4.3</td>
</tr>
<tr>
<td>Candy and Individual Snacks</td>
<td>19,761</td>
<td>5.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Chips, Pretzels and Snacks</td>
<td>17,610</td>
<td>5.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Frozen Lunch and Dinner Entrees</td>
<td>16,195</td>
<td>4.7</td>
<td>-3.3</td>
</tr>
<tr>
<td>Cheese and Cheese Alternatives</td>
<td>14,229</td>
<td>4.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Milk</td>
<td>11,941</td>
<td>3.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Frozen Desserts</td>
<td>10,647</td>
<td>3.1</td>
<td>-1.3</td>
</tr>
<tr>
<td>Cookies and Snack Bars</td>
<td>10,437</td>
<td>3.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Mintel/SPINS/IRI

Trends

Macro Trends

- The specialty foods industry has been growing steadily, in line with the economic recovery.
- Increased interest in healthy nutrition fuels the sales of organic, natural and specialty products.
- Specialty and premium foods are the fastest-growing segment in the overall growing food business.
- Interests in sustainability and locally-sourced products have been beneficial to the sales of specialty products.
- Targeting specific demographics: city-dwellers with medium to high income, interested in healthy living and aware of food trends.
- Regular supermarkets have diversified to include gourmet and specialty products, stiffening the competition.

Influential Product Claims

- **“Local”** products will be a claim of growing importance to US consumers in the coming years, which could be detrimental to the sales of imported goods.
- **Non-GMO** has the highest potential for growth over the next three years (according to the Specialty Food Association). Sales of non-GMO verified products more than doubled from $3 billion in 2013 to $8.5 billion in 2014, making non-GMO the fastest growing food labelling claim in the US. There are now more than 22,000 non-GMO verified products. For manufacturers “non-GMO” is the new “sustainable,” an attribute that is increasingly demanded by consumers, and thusly taken into account by manufacturers. Likewise, distributors see the “non-GMO” product aspect as replacing the “all natural” one and driving sales. In line with the other actors of the supply chain, brokers see a bright future for “non-GMO” product, while “natural” and “local” products are the most sought today.
Voluntary certification and labelling of non-GMO foods by such organizations as the Non-GMO Project is growing. FoodChain ID (www.foodchainid.com) is the leader in global non-GMO certification, having verified over 26,000 ingredients from more than 100 countries.

- **Gluten Free food.** The $8.8 billion gluten-free food within inherently gluten categories increased 63% from 2012-14. Greater awareness of a gluten-free diet as a result of increasing diagnoses of celiac disease, and other gluten sensitivities, and the diet's perceived health benefits, are major market drivers. Gluten-free foods not only appeal to those who must follow a gluten-avoidance diet, they also appeal to a wide audience who view them as beneficial. In response, food manufacturers offering either gluten-free alternatives or existing products with a gluten-free label, have increased dramatically over the last several years. * Rules regarding gluten free labelling can be found on page 11.

The Celiac Disease Foundation launched a gluten-free allergen-free marketplace in March 2015: http://celiac.org/marketplace/.
Regulations and Certifications

Specialty food manufacturers are required to abide by the federal and state laws governing food products. You should make sure you know which US regulations apply to your products or services and follow packaging and labelling requirements. The USA.gov website has a full list of US federal agencies. In addition, a directory of state and local regulatory officials involved with food, animal feed, animal health, and food defense is available at http://dslo.afdo.org.

Two main federal agencies involved with food safety are the FDA and the USDA.

The US Department of Agriculture (USDA)

The U.S. Department of Agriculture’s Food Safety and Inspection Service (FSIS) regulate aspects of the safety and labelling of traditional (non-game) meats, poultry, and certain egg products.

The Food and Drug Administration (FDA)

The FDA is charged with protecting consumers against impure, unsafe, and fraudulently labelled products. FDA, through its Centre for Food Safety and Applied Nutrition (CFSAN), regulates foods other than the meat, poultry, and egg products regulated by FSIS. FDA is also responsible for the safety of drugs, medical devices, biologics, animal feed and drugs, cosmetics, and radiation emitting devices.

Foods regulated by the FDA include:
- dietary supplements
- bottled water
- food additives
- infant formulas
- other food products (although the U.S. Department of Agriculture plays a lead role in regulating aspects of some meat, poultry, and egg products)
How to Export food to the United States:

1. **Register with the FDA**
   
   You must register with FDA if you manufacture, process, pack, or store food for human or animal consumption. Once you’ve registered, be sure to biennially renew your registration. It is important to note that the FDA will physically inspect your registered facility within 2 years of registration in order to verify compliance with its [Good Manufacturing Practices](#).

2. **Designate a U.S. Agent**
   
   When you register, you must designate a U.S. Agent. The U.S. Agent must be physically located in the U.S. and available 24 hours a day for the FDA to contact with questions about shipments and to schedule inspections.

   This agent can be an importer, a distributor, a lawyer, etc., and will be notified when the FDA decides to physically inspect the registered facility. However, it is important to note that not all importers or distributors are willing to become agents.

3. **Label your products**
   
   Labelling mistakes are one of the leading causes for food to be denied entry into the U.S. FDA regulations are strict and extensive, and include everything from the ingredients list to the font sizes used. Be sure to review the regulations thoroughly.

4. **Submit prior notice**
   
   When your product is properly labelled and ready to ship, you must inform FDA that your shipment will be arriving to the U.S. When to file Prior Notice with FDA depends on the shipment’s mode of transport. It is important to note that there is a [prior notice of 5 days at least](#) to be given to the Food and Drugs Administration when shipping products to the US.

   Follow this [link](#) for more information on giving prior notice to the FDA.

   Source: [Registrar Corp](#). Third party advisors like Registrar Corp can properly register a facility with FDA, act as its U.S. Agent, review product labels for FDA compliance, and submit Prior Notice to FDA.
Labelling & Ingredients

When exporting products to the United States, there are two labelling options:

1. Bull Pack: if the product is not destined to the end consumer. The following elements have to be visible:
   - Name of product
   - Gross and net weight
   - Country of Origin
   - Name and address of producer
   - Lot or tracking number

2. Retail: if the product is destined to retail selling right away (the label will be visible to the end consumer), there are two label areas:
   - Principal Display Panel, showing:
     - Statement of Identity (name of product)
     - Net Quantity Statement
   - Information Panel, mandatorily showing:
     - Nutrition values (respecting the format shown on image below)
     - Ingredient list
     - Allergens contained in the product (if any)
     - Producer identification
     - Country of Origin
Useful Links to FDA guidelines:

- **Importing Animals, Meats, and Meat and Dairy Products**: In this legal document, Subchapter IV is particularly interesting, as it outlines the regulations linked to importation, permits, inspection, and penalties.

  §141: “The importation into the United States of milk and cream is prohibited unless the person by whom such milk or cream is shipped or transported into the United States holds a valid permit from the Secretary of Health and Human Services”

- **Importing Food Products into the United States**
- **Food Labelling Guide**
- Food Labelling: [Gluten-Free Labelling of Foods; Small Entity Compliance Guide](#)
- Food Allergens: [Ingredients, Packaging & Labelling](#)
- Guidance & Regulation: [Gluten-Free Labelling of Foods](#)

**Organic products**

The U.S. has an equivalence arrangement with the European Union (EU) since June 2012. This means that as long as the terms of the arrangement are met, organic operations certified to the USDA organic or EU organic standards may be labeled and sold as organic in both countries.

**Terms of the Arrangement**

Products must be either produced or have had final processing or packaging occur within the EU.

To trade products under the partnership, certified operations must:
- Produce livestock without antibiotics.
- Meet additional specifications for wine.
- Ship imports with a National Organic Program (NOP) import certificate, completed by an EU authorised certification body.

The following EU organic products may not be exported to the U.S:
- Agricultural products derived from animals treated with antibiotics.
- Aquatic animals (e.g. fish, shellfish).

Labelling Requirements: for packaged retail products, labels or stickers must state the name of the EU certification body and may use the USDA organic seal and/or the EU organic logo.

**Dairy Products**

Some dairy products require a permit under the Federal Import Milk Act. FDA issues import permits, which expire in one year. Milk and cream may not be imported without a permit from the FDA. The wrappers or cartons for these products must be printed with the country of origin.
For dairy products subject to Tariff Rate Quotas, a license from the USDA Foreign Agricultural Service is generally required to import items at the low-tier tariff rate. Individuals must apply annually for a license between September 1st and October 15th. The U.S. Department of Agriculture’s Foreign Agricultural Service (FAS) charges a fee of $250.00 for each dairy license issued to importers for the 2015 tariff-rate quota (TRQ) year, which opens on January 1, 2015. This is an increase of $50 from the 2014 TRQ year.

Milk, cream, ice cream, butter and many cheeses are subject to quota restrictions administered by both the US Customs and Border Protection (CBP) and the Department of Agriculture. All dairy products are subject to Department of Agriculture’s Animal (APHIS) requirements. They are also subject to Food and Drug Administration (FDA) requirements.

Dairy licenses permit the holder to import into the U.S. a specific quantity and type of dairy product, from a specific country of origin, at the lower ‘in-quota’ TRQ rate of duty. Subject dairy products include butter, butter substitutes, cheeses, and dried milk or dried whey.

More information can be obtained by contacting the USDA (Dairy Import Licensing Program):

**Abdelsalam El-Farra,**
Dairy Import Licensing Program, Import Policies and Export Reporting Division
STOP 1021
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, DC 20250-1021
Telephone: (202) 720-9439, or email: abdelsalam.el-farra@fas.usda.gov


**Voluntary Certifications**

- Organic Trade Association certification label

For more information on the “organic” label and how to get your product certified, refer to the Organic Trade Association: [http://www.ota.com/](http://www.ota.com/)

- GMO Labelling

Several US states, nonprofit organisations and manufacturers of organic products have taken initiatives to push for the mandatory federal labelling of genetically engineered foods in the US. In addition, a significant number of states have proposed bills at the state level. A map containing information on state-specific regulations regarding the labelling of genetically modified food can be found on the Right to Know website: [http://www.righttoknow-gmo.org/states](http://www.righttoknow-gmo.org/states)

Non-GMO Project Verified is a growing label in the natural products industry, representing $11 billion in annual sales and more than 27,000 verified products. More information on how to get your product verified can be found at [http://www.nongmoproject.org/product-verification/faqs/](http://www.nongmoproject.org/product-verification/faqs/)
States in dark blue are states with active pending GMO labelling legislation.

- Islamic Services of America: Halal Certification
- Fair Trade USA: Fair Trade Certification
- Kosher certification:
  - Directory of Kosher Certifying Agencies
  - https://oukosher.org/
  - http://www.ok.org/
Routes to Market

It is critical that you assess the appropriate route to market and the target end user ahead of entering any overseas market.

Distribution Framework

The distribution of specialty food products follows a classical distribution framework. It is a vertical market with manufacturers, importers, brokers, distributors/wholesalers, and different categories of retailers.

<table>
<thead>
<tr>
<th>Supplier Type</th>
<th>2012 Avg Sales</th>
<th>2013 Avg Sales</th>
<th>% Change</th>
<th>2012 Avg SKUs</th>
<th>2013 Avg SKUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>1,711,983</td>
<td>1,904,400</td>
<td>11.2</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>Importer</td>
<td>1,773,334</td>
<td>2,055,900</td>
<td>15.9</td>
<td>94</td>
<td>181</td>
</tr>
<tr>
<td>Distributor</td>
<td>4,681,250</td>
<td>6,753,350</td>
<td>44.26</td>
<td>1,638</td>
<td>1,849</td>
</tr>
<tr>
<td>Broker</td>
<td>3,046,875</td>
<td>2,582,950</td>
<td>-15.2</td>
<td>2,422</td>
<td>1,607</td>
</tr>
</tbody>
</table>

Source: NASFT
Specialty Food Supply Chain

Manufacturers

According to Mintel, the industry is mostly comprised of small players, which are either selling to a small geographical area (to remain local, unlike big chains) or to a niche within the industry. Indeed, more than half only sell up to 25 SKUs.

A Mintel survey provides interesting insight as to which channels reported the fastest growth according to manufacturers. Natural supermarkets top the list at 25% growth, followed closely by specialty food stores at 21% and conventional supermarkets at 20%. The latter, players like Kroger and Safeway, are capitalising on trends and shifts in taste by diversifying their offers to capture the specialty food market.

According to Mintel, 64% of US manufacturers of specialty food are co-packing private labels for retailers.

Importers

In 2014, most importers reported modest sales gains of 1 to 19%. Europe is the most frequent source (82%), followed by South America (18%), Asia (14%) and North America (14%).

Retail distributors are the channel to which importers sell the most, as they account to 38% of sales, and foodservice distributors account for 16% of sales.

Channels experiencing strong sales growth are specialty food stores, natural supermarkets, and online retail. Many consumers are attracted by the simplistic and practical offerings by companies like Fresh Direct (online grocery shopping delivered to your door), fuelling such sales.

Distributors

In 2014, distributors’ fastest growing channels were specialty and natural food retailers.

Some of the largest distributors include United Natural Foods Inc. and KeHE distributors.

<table>
<thead>
<tr>
<th>Distributor</th>
<th>United Natural Foods Inc.</th>
<th>KeHE Distributors</th>
<th>DPI Specialty Foods</th>
<th>Nash-Finch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>7,300</td>
<td>3,400</td>
<td>1,450</td>
<td>426</td>
</tr>
<tr>
<td>Revenue</td>
<td>$6.06 billion (2013)</td>
<td>$2+ billion (est.)</td>
<td>$200 million (est.)</td>
<td>$5.2 billion (est.)</td>
</tr>
</tbody>
</table>

In order to maintain relationships with their vendors and clients, some distributors organise yearly trade shows. These are commercially important, as upcoming products are usually showcased, enabling attendees to identify trends and become more familiar with the market (example: KeHE Natural Fall Show, September 9-10, 2015 in Long Beach, California). However it is important to note that these trade shows are reserved to current business partners, and are not open to prospective clients or suppliers.
Brokers

Brokers are an essential part of the specialty food supply chain. Without a broker, it is very difficult for a manufacturer’s products to reach distributors, and therefore retailers. In the industry dynamics, distributors and retailers usually refuse to work directly with manufacturers, and many have long-term relationships with their usual brokers. In 2013, all brokers service specialty food stores, while most of them also service natural and conventional supermarkets.

Members of the SFA can download a [Database of Specialty Food Brokers](#).

Major Distribution Channels

Overall, about 78% of specialty food sales are made at the retail level and 22% by the foodservice industry. Major retailers such as Target, Kroger and Costco continue to embrace specialty foods. More than four-fifths of specialty food sales, or $42 billion, are through mainstream stores. This channel has grown 18.6% in 2014, but its share of the market is slipping as the natural food store segment has grown, at a rate of nearly 28% between 2012 and 2014. Dollar sales through specialty food stores have increased by 18.5% over the past two years, growing as fast as mainstream stores.

This graph shows the 2014 Specialty Food sales split by channel.

Mainstream / Conventional Supermarkets

Supermarkets

Mainstream supermarkets (Mainstream retail and private labels, Trader Joe’s, Whole Foods Market in the pie chart above) account for nearly two-thirds of specialty food sales but their share is slipping.
Mainstream or conventional supermarkets include supermarket chains, mass merchandisers, drugstores, dollar stores, and warehouse clubs. They are defined as self-service food stores which are organised by departments to offer grocery, meat, produce, and eventually general merchandise. Due to the rise in popularity of specialty food products, many conventional supermarkets have diversified their product range in order to capture this growing and profitable market. It is important to note that specialty food is not the core business of these supermarkets. Their sheer size and supply capabilities enables them to easily create value with this segment, and this drives the overall retail prices down for all players. The biggest supermarkets that have added specialty, natural and organic products to their offering are:

<table>
<thead>
<tr>
<th>Specialty Supermarkets</th>
<th>Conventional Supermarkets</th>
<th>Mass Merchandiser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Supermarkets</td>
<td>Whole Foods Market</td>
<td>Trader Joe's</td>
</tr>
<tr>
<td>Number of employees</td>
<td>58,300+</td>
<td>10,000+</td>
</tr>
</tbody>
</table>

- **Safeway**

Since January 2015, Safeway is the second largest supermarket chain in the U.S., behind Kroger. Since 1957, it has acquired multiple local chains and supermarkets, making it the giant it is today. It is UNFI's second biggest customer after Whole Foods Market, enjoying a solid commercial relationship with the supplier.

Safeway uses private branding to sell specialty and premium products, regrouped under the brand name “Signature Café”.

To access the Safeway vendor portal: [http://suppliers.safeway.com/](http://suppliers.safeway.com/)

- **Kroger**

Kroger is the second largest general retailer (behind Walmart), and like Safeway, built its network of stores through acquisitions made over time. In addition to owning multiple manufacturing centres across the country, Kroger uses private branding to market certain product lines: “Private Selection” for premium (and specialty) products, and “Simple Truth Organic” to tap into the organic trend. The latter, as a result, is being increasingly highlighted in Kroger’s general marketing campaign.

To access the Kroger vendor portal: [Become a supplier](http://suppliers.safeway.com/)

**Specialty Supermarkets/Natural Supermarkets**
Specialty supermarkets are those in which specialty food products represent over 25% of products. They are usually high-end and offer high quality products with a strong focus on specialty foods as well as natural and organic items. These stores are the most well-known channel for specialty and natural/organic products, as they have high visibility and offer a wide selection of products. Because their sales volume is high, the profit margin for each product can be lowered, which results in very competitively priced goods.

- **Whole Foods Market**

Founded in 1980, Whole Foods Market is the largest organic, natural and specialty food chain. Publicly traded on the NASDAQ and S&P 500, it boasts 404 locations all over the U.S. Most of its products are distributed by United Natural Foods, Inc., the leading national distributor of organic and specialty foods.

It is important to note that Whole Foods is decentralised even though it covers the whole country. It is organised by regions (11 in the US and 1 in the UK). Each of these regions has autonomous purchasing teams for all the stores’ product range. In addition, there is also a decision-making process at the store level, giving each Whole Foods location the ability to decide whether or not to sell a particular item or brand.

By 2018, all food products sold in Whole Foods’ U.S. and Canadian stores must be labelled to indicate whether they contain genetically modified organisms (GMOs). The initiative will require products based on or containing GMO risk ingredients to be labelled by manufacturers.


WFM offers on its website some information for potential suppliers.

- **Trader Joe’s**

Created in 1957, Trader Joe’s is a renowned chain of specialty supermarkets, operating over 400 stores mostly located on the East and West Coast. Self-described as “your neighbourhood grocery store”, Trader Joe’s offers less products than Whole Foods while still being a big player, over 80% of Trader Joe’s products are privately branded - adapted to reflect the product’s country of origin (“Trader Jacques” for French food, “Trader Giotto” for Italian food, “Trader Ming’s” for Chinese food, and so on). Trader Joe’s is very secretive about its supply chain processes, purchasing directly from local and international small time vendors, thusly cutting out brokers and importers. This selective sourcing strategy makes it extremely difficult for manufacturers to enter their products into the Trader Joe’s product range.

**Trader Joe’s Vendor Requirements**

- Trader Joe’s brand products contain NO synthetic colours, artificial flavours, artificial preservatives, MSG, added trans-fats, dairy ingredients from rBST sources or genetically modified ingredients.
- Trader Joe’s only buys products that are produced in FDA or USDA licensed and approved commercial manufacturing facilities that possess a variety of food safety certifications, including GMP and HACCP.
- All vendors must be prepared to provide nutritional analysis for the products they produce via a Third Party Laboratory Analysis (AOAC method only) or a Computerised Recipe Analysis, if performed by a qualified professional provider trained in nutrition and/or food science, using a USDA standardised nutrient analysis software database current within two years.
- All vendors must be prepared to provide a validated third party lab shelf life data analysis.
- All vendors must be prepared to provide product liability insurance.
- New Vendor Submission Form can be found at [http://www.traderjoes.com/contact-us/new-vendor-form](http://www.traderjoes.com/contact-us/new-vendor-form)
Progressive Grocer Magazine provides a ranking of the top 50 supermarket chains in the US: [http://www.stagnitodigitalmedia.com/super50/](http://www.stagnitodigitalmedia.com/super50/)

**Mass merchandisers**

- **Walmart**

  As the largest retailer in the world, it was operationally easy and logical for Walmart to introduce specialty food items in its stores. Its international presence is assured by its multiple chains and brands. Leading retailers such as Walmart will usually prefer a direct sale approach to business, since their business model relies on buying in bulk in order to retail at low prices.

**Specialty Food Stores**

Specialty food stores are small retail outlets focusing on a particular product range and its associated items. Characterised by premium prices, high quality service and expert guidance, they are most frequently found retail channels for specialty food products. Over 47,370 businesses operate in this segment, competing for a share of the $484.6 million of profit. It is important to note that a majority of these stores are independent, family-run and have between 2 and 5 employees.

### Product Segmentation in Specialty Food Stores (2014)

- Candy, chocolate and snacks: 28.3%
- Bakery products: 22.4%
- Other: 13.3%
- Dairy products: 11.1%
- Refrigerated/frozen meats and eggs: 9.4%
- Gourmet prepared foods: 8.0%
- Coffee and tea: 7.5%

*Source: IbisWorld*

This graph shows the split by product offering in Specialty Food Stores in 2014. One can notice that 7 segments are omnipresent and that all others comprise around 13% of the product range.

**Natural Food Stores**

The natural food store segment has grown, at a rate of nearly 28% between 2012 and 2014.

Natural supermarkets can be defined as:

- Full-format supermarket selling more than $2 million in annual sales.
- At least 50% of sales from natural/organic products and less than 50% from supplements.
- Range from co-ops to associations to independent retailers to large regional chains.
Examples include:

A directory of natural food retailers in the US can be found at [http://www.naturalfoodretailers.net/member-directory](http://www.naturalfoodretailers.net/member-directory).

**Online Retail**

Online sales across all segments are expected to boom in coming years, with millennials representing the biggest buyers.

Online retailers sell their products through a website, which can be B2B or B2C. The online retail of specialty products is a growing channel of the specialty food industry. Consumers enjoy the practical aspect of simply building a grocery selection online and having it delivered to their doorstep. One of the most famous online retailers is Fresh Direct. Introduced in 2002, this online grocer caters to NYC and its metropolitan area. While this is not a large territory, it is one where health-conscious individuals with significant purchasing power are found.

Some specialty food stores also use their websites as a point of sale. This also enables customers to review products easily and assures an increased visibility for the brands they carry.

**Foodservice**

The foodservice segment refers to the businesses and companies responsible for any meal prepared outside of home. This includes but is not limited to: restaurants, schools, catering companies, hospital cafeterias, etc.

Foodservice is an increasingly important sector in terms of specialty food sales, with an impressive growth of 30.7 percent since 2012.

The foodservice business is characterised by volatile supply costs, a constant pressure for stringent sanitary management (food intoxications can badly affect sales and reputations), and a particular employment dynamic (low wages and high turnovers). In addition, current health and nutrition trends are shaping the foodservice segment. In order to respond to this evolving demand and to ensure differentiation, the foodservice is increasingly offering imported products from Europe, as they are generally perceived to be of quality.

The largest foodservice distributors in the U.S. are:

- Sysco (125 distribution centres);
- U.S. Foodservice (100 centres);
- Performance Food Group (55 centres);
- Gordon Food Service (12 centres);
- Food Services of America (11 centres).

The disparity of number of distribution centres within the 5 biggest distributors indicates that it is a competitive segment dominated by a few companies.

**Key Considerations**
Most retailers and wholesalers receive a great deal of requests from manufacturers trying to sell their products in the US. Filling out a vendor submission form is usually the first step to follow, but finding the right decision-maker in the purchasing team is just as important (Category Manager, Sourcing Manager, Purchasing Manager, Merchandising Manager, Senior Buyer) to be able to follow-up.

Manufacturers should be able to provide a whole presentation of the company, its products and a price list in US Dollars (wholesale prices and suggested retail prices). Giving pertinent references is a key point; it shows the company’s ability to respond to retailers’ requirements in terms of quality, logistics and delivery time.

Most of the time, certification by a third party is required to sell to certain industry players. Depending on what attribute the product has: organic, GMO-free, gluten-free, halal, kosher, etc., the cost of this certification varies and is to be covered by manufacturers.

Depending on the product category, the portfolio is usually revised at least once a year, but mostly twice a year for seasonal products. The timeframe can range anywhere from 6 to 10 months before the product is available in stores.

Once a vendor is approved, retailers test the product in several stores (10 to 30 stores) and if it is successful, they make it available in more locations. Due to regional disparities, a product’s price and popularity can vary from one location to another in a same chain store. Store managers have access to a centralised database of approved suppliers and can make the decision to carry the product.

It is important to take into account that a majority of specialty food stores only have a single location, which means that they have a very limited space for storage. Inventory management is a key aspect of their business. The owner, the store manager or the purchasing manager has the authority to decide which products to buy. To reach the maximum number of stores, manufacturers work with distributors and/or independent sales agents who are already in contact with the right decision-maker.

Distributors can import if the volume is significant, otherwise they work with a third party logistics company. They expect some support from the manufacturer in term of marketing tools and market visits from manufacturers to assist them in meetings with key accounts. They usually organise a vendor/dealer show once a year, where they can interact with their customers, prospective and current suppliers.

Advertising

The marketing and promotional budget is higher in the US than in Europe, representing at least 15% of the market value of the product. TV, Radio, Print commercials, coupons, as well as direct mail and sponsorship, are often used by specialty food manufacturers in order to target specific demographics, local customer base and increase sales. Simple and strategic actions, such as connecting with bloggers, opinion leaders, realizing a short a commercial video on YouTube, or finding brand ambassadors can help spread the word about a new product in the United States.

Logistics

For a foreign manufacturer, logistics is an important aspect of new market entry. American retailers expect to have products available on the ground; they do not want to deal with importation and warehousing unless large volumes are involved. For new vendors, it is advisable to contact logistics companies to have a better idea of delivery time frame and cost. “Drop shipping” and “direct shipping” are two different shipping strategies that retailers might consider. With drop shipping, a stock of products is at the disposal of retailers in a public warehouse; with direct shipping, products are shipped directly from the country of manufacture to the retailer’s distribution centre.
Customs duty rates depend on the product’s category; therefore it is important to know your products classification. Refer to the Harmonised Tariff Schedule of the United States on the US International trade commission website: http://hts.usitc.gov/

It is important to note that there is a prior notice of 5 days at least to be given to the Food and Drugs Administration when shipping products to the US.

**Pricing**

When building the USD price of a product, manufacturers should take into account the different layers of the distribution process. Importers, distributors, and retailers each take a different margin depending on the product category, which needs to be included in the final price for the consumer.

A studied pricing strategy is absolutely crucial to successfully doing business in the U.S. According to Export Solutions, importers make a 20-30% margin on products, warehouse distributors make between 2% and 10%, and retailers make 25% to 40%. A broker will make a 5% to 15% margin, depending on the product and its overall strategy. Hypermarkets such as Walmart will make 10% to 30% less margin than the general market, due to the fact that retail prices are lower in this channel. It is important to note that, in the U.S., the sales tax (which varies by state) is not included on the retail price tag.

It is also advised to count a marketing budget equivalent to 10% to 20% of sales. This budget will cover promotions and discounts throughout the year (such as Temporary Price Reductions), as well as slotting fees (or new product introduction fees).

Distributors and retailers often ask their new suppliers to participate in “free fill” programs, in which free product must be supplied to be put on shelves. This free product is then offered at a discount in an attempt to generate sales, and to eventually provide an assessment of customer interest. It is important to study the details of these free fill programs, as they can be a strain on a company’s cash flow and have high opportunity costs.

It is not uncommon in the industry for manufacturers to be given access to category management analytics, which include sales, pricing, and other retail-level data (even for competitors). The study of these is as necessary as the presence of a broker or sales representative that will check stores regularly to enforce the merchandising strategy and gather information at the store level. Building a product’s price for internet sales is a different process. Companies give manufacturers the option of delivering the product themselves, or through the company-provided service.

**Expert Feedback:**

**Expert feedback: Laurence Montrognon, Churchill’s Confectionery:**

- **Market dynamics:** An often overlooked aspect of doing business in the U.S. is the unique purchasing culture that reigns there. There are a lot of discounts, promotions, which are determinant in driving sales. Our products are positioned in high-end department stores, and have a unique packaging that people are attracted to, but this is not always enough to create demand.

- **Logistics:** Having products in a warehouse in the U.S. can be very helpful but can also have drawbacks. The difficulty of tracking demand makes it difficult to properly manage the inventory, leading to expired products and other logistical issues. One must make sure to
Expert feedback: PJ Wolkenstein, Posh Nosh Imports:

- **Trends:** The snack industry is booming in the US with a trend towards healthy snacks, driven in particular by millennials who are looking for healthier, natural, organic, and non-GMO snacks. In addition to the gluten free trend of the past few years we’re also now seeing a move towards ancient grains such as spelt flour.

- **Trade shows:** For companies looking to launch in the US the Fancy Food Show in New York is a good way to start. Once established, I would recommend exhibiting at distributor shows which allow more exposure to the distributors’ customers and often yield a higher return on investment.

- **Route to market:** One of the most popular options for entering the US market is to use an exclusive importer, who in turn will supply distributors nationwide. Importers may use a network of brokers to drive sales with distributors and manage promotions, with the broker charging 3-5%. Alternatively, the importer will employ their own regional sales managers. In this scenario, the margins will be approx. 30% for the importer, 30% for the distributor, and 30% for the retailer. However the importer’s margin may be as high as 40% depending if they are responsible for funding promotions. Retailer margins will also vary depending on the category, with some retailers requiring 35-40% margin. Importers require funds to support quarterly promotions and marketing support for brand building.

- **What advice do you have for UK manufacturers looking to enter the US Specialty Food market?** Read up on regulations regarding importing food to the US – whether it’s registering for a FDA bioterrorism registration, making sure the ingredients are permitted, or making sure that the label is FDA compliant. Be prepared to invest to build brand awareness and don’t expect immediate results. The US is a huge market with divergent local trends and tastes. What might work in the North East may not succeed in other regions.

- **Challenges to be aware of:** Deductions – Merchandising allowances (approx. 1%), spoils (approx. 2%), terms (approx. 2%), and promotions (approx. 15-20%). Unauthorized deductions add up very quickly and can be extremely difficult to recover.
This is a guide to some key US market events in the Specialty Foods Industry; it is not an exhaustive list.

- **UKTI** denotes events that are likely to be UKTI-sponsored or to include UKTI-sponsored activity.

**Summer Fancy Food Show**
New York, NY: June
[https://www.specialtyfood.com/shows-events/summer-fancy-food-show/](https://www.specialtyfood.com/shows-events/summer-fancy-food-show/)
This show is held every year by the National Association for the Specialty Food Trade in New York. It features over 2,400 exhibitors hailing from 50 countries and regions, showcasing a total about 180,000 products. It is one of the most important meetups in the industry, as all supply chain actors usually attend.

**Winter Fancy Food Show**
San Francisco, CA: January
[https://www.specialtyfood.com/shows-events/winter-fancy-food-show/](https://www.specialtyfood.com/shows-events/winter-fancy-food-show/)
Still organised by the National Association for the Specialty Food Trade, this is the Summer Fancy Food Show’s West Coast equivalent. A tad smaller, it regroups 1,300 exhibitors showcasing 80,000 products. Attending this event is essential to build and maintain relationships with manufacturers, distributors, brokers, and retailers.

**Natural Products Expo West**
Anaheim, CA: March
Natural Expo West is the premier trade show for the natural, organic, and healthy products industry. Highlighting the bestsellers of today and the upcoming trends of tomorrow, this trade show regroups over 2,700 exhibiting companies and 71,000 industry members. Their Expo Education branch is available to all those who wish to learn about all segments of the industry: from ingredients to packaging, marketing, and distribution. Every year, notable industry members serve as keynote speakers to share their knowledge and insight.

**Natural Products Expo East**
Inner Harbor, Maryland: September
As the east coast sibling of Expo West, Expo East serves the same purpose: to regroup industry actors, showcase new products and inform and educate. It is a crucial event to attend in order to maintain existing relationships and creating new ones.

**Sweets and Snacks Expo**
Chicago, IL: May
Sponsored by the National Confectioners Association, the Sweets & Snacks Expo is the confectionary industry’s most successful and largest event. It brings together all the supply chain, from manufacturers all the way to merchandisers, resulting in a meetup of over 16,000 industry professionals.

**Trade Associations**

Joining an industry association can open the door to insider opportunities and valuable networks. Many associations host conferences and social events throughout the year that are well-attended by key industry insiders, potential customers, and trade partners. UKTI recommends signing up to receive associations’ newsletters, so you will be alerted when relevant events are scheduled that correspond with your US market visit. UKTI has partnered with many of these organizations before and may have a contact that we can recommend for your business.

**Specialty Food Association**
https://www.specialtyfood.com/
The Specialty Food Association is a thriving community of food artisans, purveyors, importers and entrepreneurs who bring craft, care and joy to the distinctive foods they sell. Established in 1952 in New York, the not-for-profit trade association provides its 3,000+ members in the U.S. and abroad the tools, knowledge and connections to champion and nurture their companies in an always-evolving marketplace.

**Independent Natural Food Retailers Association**
http://www.naturalfoodretailers.net/
INFRA is an association owned and governed by independent natural and organic food retailers of all sizes working together to leverage our voice in the industry.

**The Tea Association of the USA**
http://www.teausa.com/
The Tea Association of the USA, the Tea Council of the USA and the Specialty Tea Institute (STI) are housed and staffed at the New York office. The Tea Association of the USA serves the tea industry members and holds an annual convention. The Tea Council promotes tea consumption in the U.S. The Specialty Tea Registry avails tea information and assistance to retailers.

**The Grocery Manufacturers Association**
http://www.gmaonline.org/
The Grocery Manufacturers Association is a trade association of the food industry. It represents the world’s largest branded food, beverage and consumer product companies.

**The National Confectioners Association**

http://www.sweetsandsnacks.com/
Founded in 1884 in Chicago by representatives of 69 confectionery manufacturing firms, the National Confectioners Association is one of the oldest, most respected trade associations in the world.

Over the years, the association has endeavoured to provide the kind of vigorous leadership necessary for its members, which include domestic and international confectionery manufacturers and suppliers to the industry, to meet the increasingly complex challenges and problems that have confronted the industry.

**Trade Publications**

There are a handful of notable online publications that review trends in the US Specialty Foods industry. You can register for free subscriptions to nearly all of the online publications, which provide access to general industry intelligence ahead of a US market visit.

You also have the option to subscribe to more comprehensive reports that include insightful research and reputable forecasts, but they often have fees or require paid membership.

- **Gourmet News**
  http://www.gourmetnews.com/
  The business newspaper for the gourmet industry.

- **Specialty Food Magazine**
  The magazine published by the Specialty Food Association, covering industry news and trends.

- **Candy & Snack Today**
  http://www.candyusa.com/CST/
  The magazine of the National Confectioners Association, covering industry news and trends.
Written for retailers in the specialty food and housewares industries, covering trade shows and industry news.

**Where to Learn More**

**UKTI Social Media**

- www.gov.uk/ukti
- Business Opportunities
- UKTI Events
- UKTI blog
- UKTI Twitter
- UKTI LinkedIn
- Business is GREAT Facebook
- UKTI YouTube
- UKTI Flickr

**US publications**

- **Immigration**
  - US Immigration Options for British Companies
- **Exporting**
  - Exporting to the USA
- **Setting up**
  - Establishing a Business Presence in the USA
- **Marketing**
  - Marketing in the USA
- **Intellectual Property**
  - Protecting your Intellectual Property in the US

**UKTI Webinars**

- **Doing business with US in-market representatives**
  - Watch webinar recording
- **US cross border logistics and Warehousing**
  - Watch webinar recording
- **Selling successfully through e-Commerce**
  - Watch webinar recording
- **Creating US-ready Marketing Collateral and USP**
  - Watch webinar recording
- **FDA Regulations**
  - Watch webinar recording

**Key industry links**
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