

## 2022 Country Market Profile: Germany

Euromonitor reports that driven by robust domestic and external demand, the German economy bounced back in 2021 after a pandemic-induced contraction a year before. The level of inflation in Germany soared during the year, largely due to reinstatement of Value Added Tax (VAT), supply constraints and rising energy prices. After reaching a peak in 2021, the public debt ratio is set to decline, in line with phased out support measures. Germany remained an important foreign direct investment (FDI) recipient globally, benefiting from recovering investment flows in 2021.

- Following real growth of 2.5% in 2021, Germany's economy is expected to expand by an average annual real rate of 1.2% over the next few years.
- Inflation in Germany is forecast to slow down to 2.8% in 2022 from 3.1% in 2021
- While Germany's exports increased by 17% during 2021, the country remained a net exporter.
- While FDI inflows into Germany decreased over 2020, FDI intensity reached 1% of GDP.
- Public debt in Germany rose to 72.1% of GDP in 2021 from 69.1% in 2020, driven by the public support measures to mitigate the pandemic's impact

Germany still faces a number of persistent constraints. The country's huge service sector is highly protected and relatively inefficient. Investment as a share of GDP continues to be lower than in most other large economies. Finally, the country's ageing population will eventually pose greater fiscal problems. Another long-term problem is that Germany faces a broad-based decline in population. Its birth rate is the lowest of all advanced countries while approximately 500,000 people are retiring each year. 23% of the German population is over 65 years old.

Germany's population has been falling gently over time. In 2022, total population stood at 84.3 million (CIA World Factbook Est.), which is 3.3 million more than in 2000. The number will decline to 83.5 million in 2030. Germany also has one of the world's oldest populations. The median age was 47.8 years in 2020. This was 7.7 years greater than the figure for 2000 and well above the regional average. The growing number of older consumers is altering the pattern of consumption and pushing up healthcare costs.

USDA's Office of Agricultural Affairs (OAA) in Berlin reports that Germany is by far the biggest market for food and beverages in the European Union. The food retail sector is saturated, highly consolidated, and competitive. There is good sales potential on the German market for U.S. exporters of nuts, fish and seafood products, dried fruits, bakery products, and organic products. The COVID-19 related lockdown measures heavily impacted the German food sector as well as consumers' eating and purchasing patterns. Whereas online grocery shopping was still a niche market in Germany in 2019, it showed the highest growth in e-commerce in 2020

Market Opportunities and Key Issues for the German Food Market

## Market Opportunities

- Germany is the biggest market in Europe with one of the highest income levels in the world
- Large non-German population and Germans' inclination to travel abroad help fuel demand for foreign products
- Germany is among the largest food importing nations in the world
- Many German consumers are uninformed about the details of sustainability, and there is still room to define a U.S. sustainability message
- U.S. style is popular, especially among the younger generation; good reputation for U.S. foods like dried fruits, seafood, and wine
- Germany is the largest EU market for U.S. beef under the EU import quota for high quality beef, which was expanded in January 2020

## Key Issues

- German consumers demand quality and low prices
- Private sector sustainability standards can act as a barrier to trade
- EU import regulations and tariffs; EU gives preferential access to products from EU countries
- No unified U.S. sustainability message in the German market, looming misconceptions about U.S. agriculture
- Non-tariff barriers such as phytosanitary restrictions and traceability requirements can make exporting to Germany complicated
- The beef quota only applies to meat from animals not treated with growth-promoting hormones

Germany is a major producer of food and agricultural products and a leading player in the global marketplace. Germany is also the world's third largest importer of agricultural products after the United States and China. In 2020, Germany imported consumer-oriented agricultural products worth US\$71.5 billion; the majority (85%) of these originated from other EU member states. Imports of consumer-oriented agricultural products from the United States totaled US\$1 billion in 2021, growth of 2% and good for a ranking of 11<sup>th</sup> from the U.S. Germany is now the 2nd largest EU market for U.S. consumer food exports after Netherlands.

Germany also is a major importer of U.S. processed foods as well. U.S. exports of processed food products to Germany dropped 5% in 2021 to US\$318.5 million. Top processed foods exported to Germany in 2021 included:

- Alcoholic Beverages
- Food Preparations & Ingredients
- Prepared/Preserved Seafood
- Condiments, Sauces, Jams & Jellies
- Non-Alcoholic Beverages
- Snack Foods.

## Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Germany have been estimated to reach at US\$114.9 billion in 2022. That represents growth of 11.2% and US\$11.5 billion since 2018. Germany is the 4<sup>th</sup> largest packaged food market in the world. By the year 2026, the retail sales in the packaged food market in Germany is expected to reach US\$127.1 billion, growth of 10.6% or US\$12.1 billion from 2022. High growth categories in the forecast include:

- Savory Snacks
- Sweet Spreads
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Edible Oils
- Ready Meals
- Sauces, Dressings & Condiments
- Processed Meat, Seafood & Alternatives To Meat

FAS Berlin reports that consolidation, market saturation, strong competition, and low prices are key characteristics of the German retail food market. The top four grocers account for around 74.5% of the total market. The German market is largely dominated by domestic players. This is particularly true for hypermarkets, supermarkets, and discounters. German consumers are very particular about what they like and what they do not like in their grocery retailers, and grocery retailers can count on a strong base of loyal customers. The failure of Walmart to establish itself in Germany over a decade ago shows how hard it is for international players to successfully enter the German market.

Large grocery retailers in Germany are mainly driven by competition between each other. They are very well-established and compete mainly on price, outlet networks, and consumer trust, which, amongst other factors, require them to maintain their standards in terms of quality. Retailers also try to differentiate themselves through additional services and standards which add value to their original value proposition.

The growth of discounters is slowing because of market saturation and the continuing trend towards shopping at supermarkets in convenient city locations. As urbanization is growing and consumers' lifestyles are changing, more and more people seek convenience when doing their grocery shopping. To counter this, discounters are also attempting to adapt and expand in hopes of differentiation. Additionally, they are focusing more on quality and choice rather than price with new concepts and the introduction of more premium and convenience foods.

Supermarkets benefit from the convenience trend as smaller outlets in convenient city and residential locations continue to increase in popularity. The urban consumer of today is looking to save time, without having to drive to a hypermarket or a discounter, but still demands high-quality products and a wide product range.

Euromonitor reports that the COVID-19 pandemic in many ways accelerated a shift in many consumer preferences and shopping habits that have been slowly building in Germany for years. This became especially apparent in particular with organic products and product localization in German supermarkets. German consumers have increasingly looked to understand more about the products they purchase, more about the supply chain and more about the nutritional and health aspects for themselves and their families.

Consumers, especially during and after the worst of the pandemic, are keen to have greater levels of transparency in the items they purchase. Organic products, which are known as “Bio” products in Germany, were in particularly high demand in 2020. Supermarkets offered more organic products on store shelves, and by late 2020, most product types were available in a range of private label organic alternatives. Private label offerings also tend to be affordable and price-competitive with non-organic offerings, which helped fuel sales. This is likely to change consumer expectations for higher-quality products at affordable prices over the long-term.

Rewe supermarkets were amongst the top grocery performers in 2020, in part due to the company’s omnichannel engagement efforts, which were particularly relevant to consumers during and after the COVID-19 lockdown period and this will continue into 2021. As a leading player in online grocery delivery, and the leading player in traditional bricks-and-mortar supermarkets, Rewe had a distinct first-mover advantage when demand for delivery options surged due to the pandemic.

Rewe has also been working on a broader omnichannel approach, which equally helped position the company for success in 2020. Rewe’s online platform, Rewe.de, in addition to being a starting point for the company’s delivery services, also houses Rewe’s loyalty program, a partnership with the Payback loyalty program that is widely available in Germany, incentivizing use through discounts and exclusive offers in stores. Rewe’s website also offers lifestyle appeal through recipes and nutritional advice, which became increasingly relevant for consumers who spent more time cooking at home, looking for inspiration. This kind of digital omnichannel engagement will help Rewe differentiate from its competition and build loyalty over the long-term.

With the long-term effects of the COVID-19 pandemic still uncertain, especially in the short-term, what is certain is that supermarkets is primed to fare better over the long-term than perhaps any other store-based retail channel in the coming years. The longer restaurant operations and other away-from-home food options remain restricted, the more entrenched consumer behavior will be for at-home dining. Supermarkets will continue to gain expertise in online delivery options as well as in omnichannel engagement, reaching consumers in their homes like never before. For Germany in particular, where store-based sales are traditionally so important to retailers, this represents a strong shift in behavior. Moreover, the variety and better store experiences that supermarkets already offer will help the channel stand out in the years ahead.

Euromonitor reports that the outlook for c-stores in Germany is highly dependent on COVID-19. C-stores are an underdeveloped retail channel in Germany, given the

market's high density of small-format grocery stores which often serve a similar purpose. Existing c-stores typically cater to commuters and tourists, and new outlet development targets dense urban areas that traditionally enjoy high footfall. As the effects of the pandemic push into 2021, and the longer consumers stay at home and become used to working remotely, the more demand for c-stores will suffer. Instead, forecourt retailers will continue to attract consumers who commute or travel by car, especially given the expectation of more domestic holidays in 2021. For fast-growing brands like REWE to go, this means a continued pivot to forecourt retail and petrol shop conversions, and a likely pause on stand-alone new outlet development in c-stores.

#### Best Product Prospects:

FAS Berlin reports that U.S. products in the market that have good sales potential include: Nuts: almonds, walnuts, pistachios, hazelnuts; Fish and Seafood: salmon, surimi, roe and urchin, misc. fish products; Dried and Processed Fruits: raisins, prunes, cranberries; Beef and Game: hormone-free beef, bison meat, exotic meat and processed meat products; organic products; Soup & Other Food Preparations; organic products

#### Food Service Sector Highlights:

FAS Berlin reports that the German food service sector is large and highly fragmented but can be divided into the commercial and institutional food service markets. The German commercial food service market includes hotels, restaurants, fast food and take-away outlets, bars, cafeterias, coffee shops, and similar channels. The institutional food service market consists of hospitals, universities, nursing homes, and cafeterias. In comparison to 2019, German food service sales decreased by 38.6% to US\$68 billion in 2020. COVID-19 related lockdown measures were the primary reason for this decrease. With the closure of hotels, restaurants, and canteens, much of the demand shifted from restaurant and food service to food retail. The sector not only suffered from sales losses but also from employment losses. Many employees worked reduced hours or became unemployed.

Restaurants had to get creative to stay open during the lockdown. They not only expanded their takeout options, but they often introduced their own delivery services. Others turned their dining rooms into makeshift grocery stores. After several months of lockdown measures, hotels and restaurants were able to reopen again in May 2021. In August 2021, hotels and restaurants achieved the best turnover since the beginning of the pandemic in March 2020 (5.7% decrease in sales in comparison to August 2019).

Purchasing by hotels, restaurants, and institutions is fragmented and competitive. Few of these businesses import products directly from other countries, except for items that they purchase in large quantities. Most HRI companies would rather purchase from central buyers/distributors importing food and beverages. In general, these wholesalers specialize in products or product groups. Some are even experts in food products from a specific country of origin. Specialized importers have an in-depth knowledge of import requirements, such as product certification, labeling, and packaging. They also typically

handle shipping, customs clearance, warehousing, and distribution of products within the country. The two major distribution channels for the German food service trade are “cash and carry” wholesalers and specialized distributors/wholesalers.

Cash and carry wholesalers operate large stores with food and non-food products. They sell to retailers, restaurants, and other food service operators. Cash and carry stores offer a variety of products at competitive prices. They are not open to the average consumer. Specialized distributors to the food service sector have dry and cold storage facilities with refrigerated/frozen trucks for deliveries. They buy from processing companies, importers, and occasionally, foreign exporters. To cover the entire German food service market, regional distributors have organized in groups, such as Intergast and Service-Bund. Some of those distributors organize inhouse food shows once or twice a year, during which their suppliers can showcase their products to potential customers. This is an excellent opportunity for U.S. suppliers of products to enter the German food service market.

Restaurants led the food service market in 2020; however, their sales were down considerably from the previous year (US\$39 billion in 2020 vs. US\$60 billion in 2019). International chains like McDonald’s, Burger King, and Yum! Restaurants (KFC, Pizza Hut) have a very strong position in the German food service market. Institutions were the smallest sector in food service in 2020, with sales of US\$7.7 billion. The majority of the institutional food service market is covered by caterers, of which Compass, Aramark, Sodexo, Klüh, and apetito are among the largest in Germany.

#### Best Product Prospects:

FAS Berlin reports that U.S. food products with good potential for increased sales in this sector include tree nuts, hops, sweet potatoes, pulses, fish and seafood and whisky.

#### Food Processing Sector Highlights:

FAS Berlin reports that following stagnation in 2020 and decline in 2021, the German food processing industry still cannot catch up with the growth dynamics of pre-pandemic period. According to BVE initial estimates, total sales of US\$201 billion were generated across all sub-sectors in 2021, which is 1.6% lower than the previous year. A moderate increase in prices and rising exports somewhat softened this decline.

However, the German food industry continues to struggle with subdued private consumer spending, results of COVID-19 related measures, and rising production costs, which are difficult to impose on customers. COVID-19 related lockdowns and physical distancing measures heavily impacted the German food sector, as well as shopping and consumption patterns of German consumers. The look into the future is mixed. Based on the latest survey conducted by the Federation of German Food and Drink Industries (BVE), the majority of companies expect stagnating results for 2022

In 2020 the German food processing industry employed about 614,036 people in 6,163 companies. The sector is dominated by small and medium size companies; 95 percent of which have less than 250 employees. In 2021, the sector generated a turnover of roughly US\$203 billion; accounting for 5.8% of the German GDP. The largest subsectors by value were meat (24%), dairy (15.5%), bakery (9.4%), confectionary and long-life bakery products (7.8%), and processed fruits and vegetables (6.3%).

Germany's food processing industry is well developed and has access to all food ingredients. Generally, German food processors source their ingredients from local producers or local importers. Only large processors import ingredients directly from foreign suppliers.

The United States ranked thirteenth worldwide in exports of consumer-oriented agricultural products to Germany in 2021, but when accounting for the single EU market, the United States is a much larger source of imported consumer-oriented products. The main competitors for U.S. suppliers include domestic producers and producers from other EU member states, such as the Netherlands, Italy, Spain, Poland, France, Austria, and Belgium. However, for dried fruits and nuts the main competitors are Turkey (hazelnuts and raisins), Chile (dried prunes), South Africa (raisins), and Canada (cranberries). The U.S. industry's advantages include a good reputation for consistent quality and stable supply. The main advantages of competitors are proximity and price.

Sector trends include that food product portfolio is becoming more specialized and complex. The share of convenience and ready-to-eat products as well as smaller packaging sizes is increasing while the share of milk and dairy products, alcoholic beverages, and sugar is declining. The food industry is adjusting to the increasing demand for organic products; the total number of organic-certified products rose from 24,000 in 2004 to 81,537 in 2019. Food labeling with special seals is very common in Germany and has a large impact on the industry. Various regional, organic, sustainability, and animal welfare labels are introduced or being discussed in Germany. Most companies have a sustainability strategy that demonstrates sustainability in the entire chain from cultivation all the way through to food processing.

#### Best Prospects:

FAS Berlin reports that U.S. products in the market that have good sales potential include: Nuts: almonds, walnuts, pistachios, hazelnuts, pecans; Highly Processed Ingredients (dextrins, peptones, enzymes, lecithin and protein concentrates); Fish and Seafood: salmon, surimi, roe and urchin, misc. fish products; Dried and Processed Fruits: raisins, prunes, cranberries; Fruit Juice Concentrates: cranberry, grapefruit, prune; Beef and Game: hormone-free beef, bison meat, exotic meat and processed meat products; Organic Products; products featuring "sustainable" or other social issue-based marketing label