

THE MARKET FOR SPECIALITY FOODS IN IRELAND

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SUMMARY

The speciality food sector has experienced above average industry growth over recent years. Most speciality foods are produced in limited quantities using non-industrial artisan techniques. The majority of speciality food producing businesses were set up in the last fifteen years, have a turnover below €635,000, are based in a rural region and employ less than ten people. The most important markets for Irish speciality food producers are the export market, food service and multiple retailers.

The Irish market for speciality foods is estimated to be worth €250 million per annum with the dairy, meat and condiment product categories accounting for over half of retail sales. The market was forecast to grow by 65% over the next ten years with the most significant growth in the cured meats, yogurt and cheese product categories. Speciality food sales via the Internet and delicatessen/speciality stores were forecast to experience the highest growth rates.

INTRODUCTION

Changes within the Irish food industry have seen the growth of a number of small, primarily rural-based food enterprises whose capabilities are focused on the production of niche, high quality, artisan-type products. These changes coupled with changes in lifestyle, demography and consumer demands have led to the formation and growth of the speciality food market in Ireland. While there is no universal definition of speciality foods, products outside the main stream that display a number of specific characteristics are deemed to be speciality in nature. These characteristics include quality, uniqueness, added value, premium price, limited distribution and regional origin. Producers differentiate their products from mainstream products through the use of quality raw materials, the type of technology used, presentation and packaging, sensory properties and the association of certain products with particular geographic origins.

Increased concentration of multiple retailers coupled with the growing trend towards centralised purchasing has resulted in small food businesses experiencing difficulties accessing national markets. Many small food enterprises rely on word of mouth to develop and promote their products and develop a reputation for quality and reliability. The central distribution system and associated computerisation means that producers lose direct contact with their customers, thus diminishing their market intelligence. In addition, most specialist businesses produce low volumes and are often unable to supply an adequate quantity of products. Furthermore, costs are often increased as producers have to employ distributors to get their products stocked by large retailers. However, some speciality food distributors are forming networks and mutually beneficial arrangements. As the concentration of the retail industry increases, specialist producers need to integrate into the dominant food chains or to concentrate on increasing direct sales to smaller independents, speciality food stores and the food-service sector as well as the gift, corporate and special events markets (McDonagh and Commins, 1999).

OBJECTIVES

The objectives were to identify the current structure and the potential value of the Irish speciality food market. More specifically, the project set out to identify the product categories and market outlets and their current and potential share of the speciality food market.

METHODS

The project was carried out in three stages. Retailer and speciality food producer surveys were conducted to investigate the structure and size of the Irish speciality food market and a Delphi forecast was used to predict the potential of this market.

Surveys are used to quickly collect inexpensive, efficient and accurate information. Data was collected by mail surveys which facilitate access to a geographically-dispersed sample and are more convenient for participants as

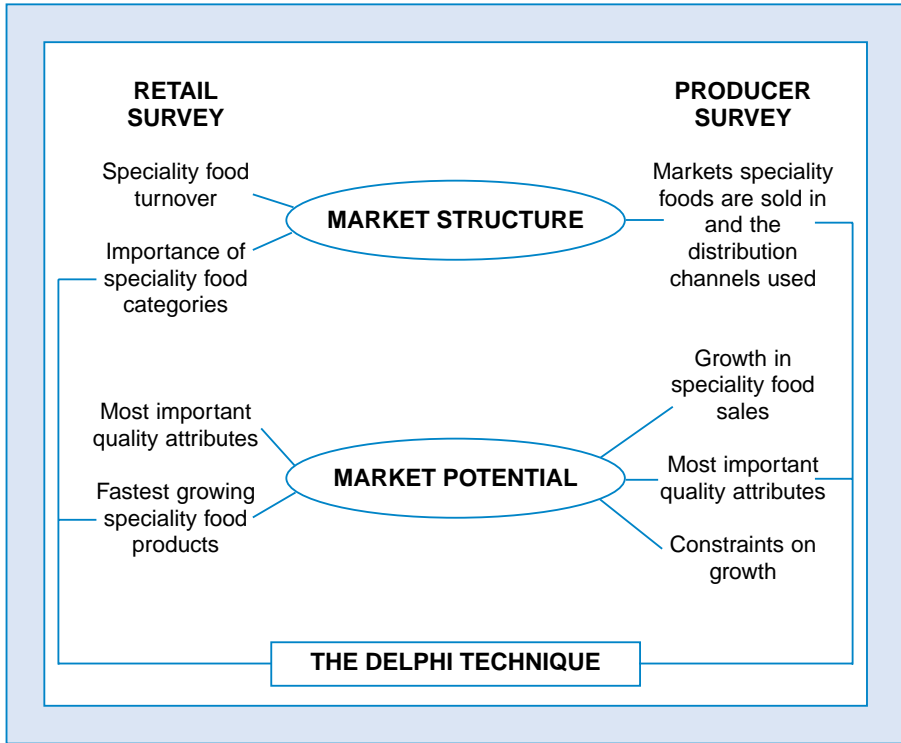


Figure 1: Research framework.

they can respond in their own time. More importantly, mail questionnaires allow respondents to check their records and answer questions more accurately.

Due to the scarcity of historical data and the long-term focus of the forecast, a qualitative technique was employed to forecast speciality food growth in Ireland. Qualitative forecasting relies heavily on human judgement and expert knowledge and can be used to forecast changing consumer tastes and long-term social attitudes.

Retailer survey

The retail sector was divided into the following groups: non-affiliated independent grocers, symbol groups, delicatessen/speciality food stores, forecourts with shops, multiple retailers and “other”. The group “other” was largely made up of confectioners, bakeries and tourist shops that were considered likely to sell speciality foods. A comprehensive sampling frame was compiled based on a list of Irish retail outlets purchased from AC Nielsen (1997), McKenna’s *Bridgestone Irish Food Guide* (1999) and the Checkout Ireland Yearbook (1999). From these sources, a sampling frame of 3,064 retail outlets was identified and a random selection made of 400 non-affiliated independent grocers, 390 symbol groups, 200 forecourts, 112 delicatessen/speciality food stores, 147 multiples and 50 “others”. The decision on how many outlets to select from each group was based on two factors: the number of stores in the population of each group and the importance of each group to the speciality food sector. Of 1299 retail outlets surveyed, 348 responses were received, giving a response rate of 26.8%.

The retail survey investigated existing sales in each store and the expected growth over the coming years. It also detailed retailers’ perceptions of the product attributes that influenced consumers’ selection of speciality foods. Finally, the questionnaire examined the value of the retail market for speciality foods.

Speciality food producer survey

A survey of 290 speciality food businesses was undertaken. A response rate of 39.6% was received accounting for 115 speciality food producers. However, only 66% of these respondents produced speciality foods as some had gone out of business and others were producing more mainstream products. This questionnaire examined the types of speciality foods produced, the main distribution channels used and the markets of importance to speciality food producers. Respondents were asked to rate the importance of the same product attributes, as were retailers, to provide a basis for comparison. Finally, producers were asked to identify the most significant constraints facing Irish speciality food producers.

Delphi forecast

Figure 2 depicts the steps taken during the Delphi forecast into the Irish speciality food sector.

The first step in a Delphi forecast is the identification and recruitment of a suitable panel of experts. This is critical to success as panel members need to

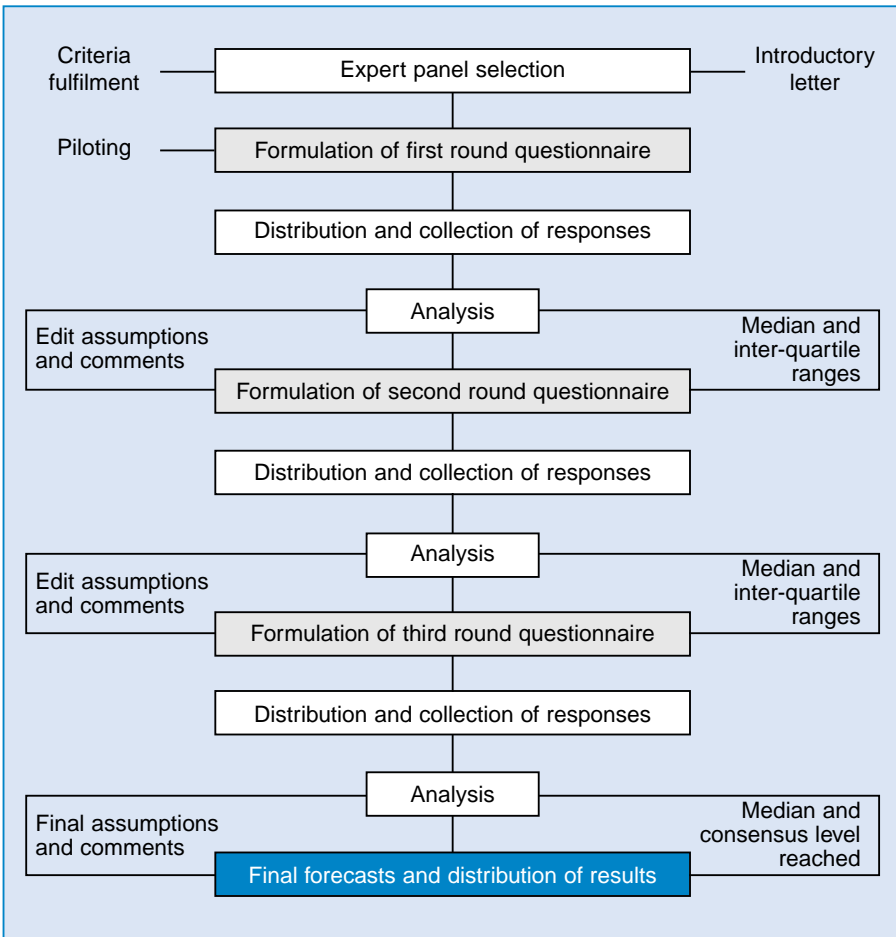


Figure 2: Methodological framework.

be at least expert in a sub-system of the topic being researched. Therefore, experts were invited from a wide variety of speciality food related areas to participate in this study.

A panel was formed of twenty-seven¹ experts comprising nine speciality food producers, six retailers, four distributors, three restaurateurs, two public servants, two food writers, four buyers from the major multiples and symbol groups, one academic and one regional food co-operative manager.

Each questionnaire on speciality food was broken down into three sections: one to forecast overall sales growth, one to forecast sales growth in specific product categories and one to forecast sales growth in specific markets. The panellists were requested to make estimates for two points into the future: five and ten years.

A base figure of 100 was assigned to the current value of each item being forecast. Each panellist was then requested to forecast how that value would change in the future. To ensure the results were unambiguous, panellists were instructed to ignore inflation and to base their forecasts on current market prices.

Three rounds of the Delphi process were undertaken. With each iteration the panellists were presented with their previous responses and a summary of the arguments used by them to support their forecasts. Then, based on this information, they were asked to reconsider their previous forecasts and make any necessary revisions. To eliminate any ambiguity, the definition of speciality food, examples of speciality foods and an introduction explaining Delphi design were presented at the start of the questionnaire for each round.

The following definition of speciality foods was presented to retailers, producers and the Delphi panel:

“Products outside the main-stream possessing specific qualities which differentiate them from standard foods. These qualities are derived from a

¹ Some experts were involved in more than one area e.g. retailing and distribution.

combination of at least two of the following features:

Exclusiveness: The product is produced on a small scale and is therefore only available in limited quantities.

Processing: The product has undergone at least primary processing using non-industrial artisan techniques.

Distinctiveness: The distinctiveness of the product arises from a combination of all or some of the following attributes: extraordinary packaging, premium price, renowned origin, and/or its unique design.”

FINDINGS

Retailer survey

The total value of the retail speciality food market (excluding alcoholic beverages) was estimated at €140.4 million. Speciality foods were sold by all the multiple retailers, 93% of the deli/speciality food stores, 51% of the independents and 7% of the forecourts. It is therefore not surprising that the multiple retailers accounted for the largest sales value at 44%. Symbol groups followed this at 21%, with delicatessen/speciality food stores at 17%. The type of store and the store turnover were more likely to have an impact on the stocking of speciality foods than store location.

Cheeses were the most commonly sold speciality food products: 78% of the speciality food retailers surveyed sold speciality cheeses. This is not surprising since there are over 30 farmhouse cheese producers in Ireland accounting for approximately 3.5% of total cheese production (Murphy *et al.*, 1998). The next most commonly sold speciality food products were chutneys/jams, breads and relishes/sauces, sold by approximately 60% of speciality food retailers.

Speciality food growth over the next five years

Fifty-four per cent of retailers expected that, over the next five years, cheese would be within the top five speciality food growth products. The retailers’

expectation that cheeses will experience the highest growth is probably based on the impressive annual 20% growth in farmhouse cheeses over the last two decades (Murphy, 1999). Other speciality foods expected to experience high growth over the next five years were breads, cured meats and yogurts which were respectively listed by 45%, 41% and 37% of retailers as within the top five growth products (Figure 3).

Superior quality of speciality foods over their mass-produced equivalents was seen as the main reason for their growth. Growth would also be fuelled by an increasing demand for leisure/convenience foods, increasing variety in the diet, the perception that speciality foods are safer and healthier than standard foods, increasing disposable incomes and the increasing availability of speciality foods.

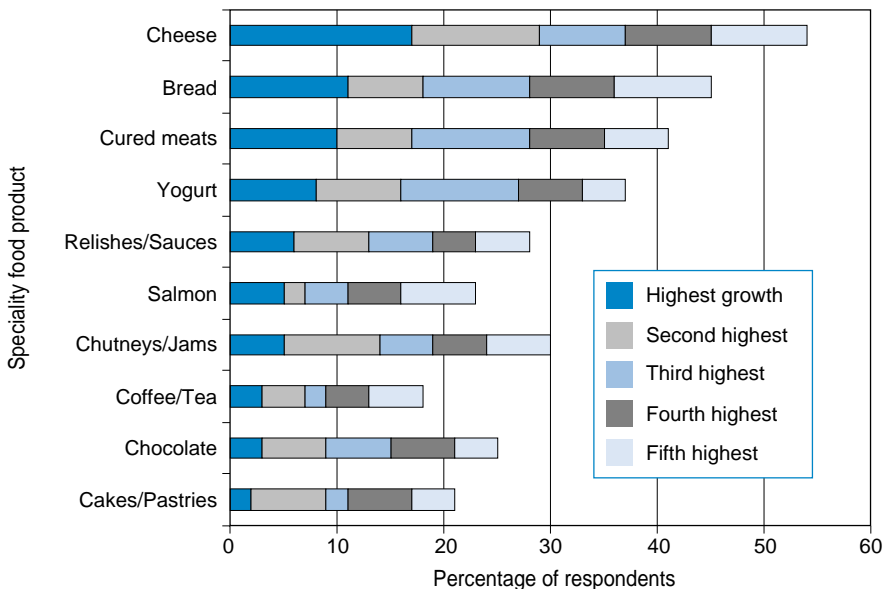


Figure 3: Retailers' expectations of which speciality food products would experience the highest growth over the next 5 years.

Importance of quality attributes

Retailers were asked to rate the importance of ten quality attributes that influenced consumers to purchase speciality foods on a scale of 1 to 5 where 5 is 'very important'. The most important attributes were flavour, food safety and appearance/packaging.

Retail speciality foods sales

The retailers were required to breakdown the value of their speciality food sales into eight categories: bakery, beverages, condiments, confectionery, dairy, meat, seafood and other. Dairy, meats and condiments accounted for over half (54%) of all retail speciality food sales (Figure 4).

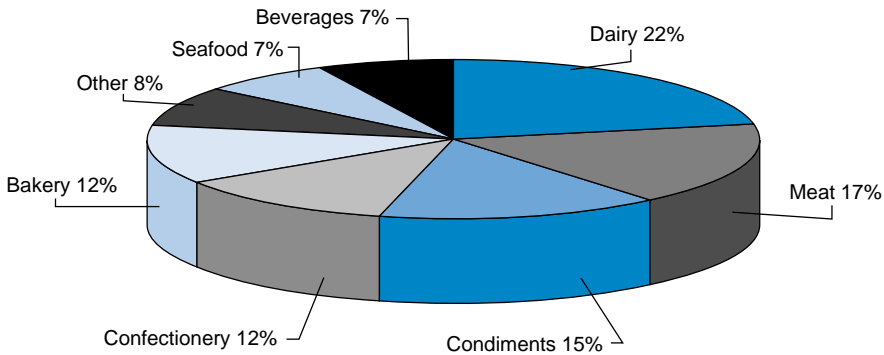


Figure 4: Market shares of categories of speciality foods, based on retailer sales

Speciality food producer survey

Producers surveyed described themselves as limited companies (55%) or sole-traders/family businesses (40%). The majority of producers (80%) commenced business after 1983 and employed less than 10 people. The low volume nature of the sector is again illustrated by the finding that 80% of producers had a turnover below €635,000. These results correspond closely to Food from Britain's (Anon, 1995) findings that, in the UK, approximately 75% of speciality food producers had a turnover below Stg£500,000 and the average was about Stg£250,000. Most speciality food producers were located

in rural regions. While many speciality food producers manufacture only one category of product, some producers manufacture products for three different product categories. Cheeses were the most common products with 30% of speciality food enterprises manufacturing them. Twenty-five per cent of businesses surveyed produced either speciality condiments or speciality seafood (Figure 5). It is worth noting that while 25% of producers may produce a product e.g. speciality seafood, the volumes they are producing are relatively small and so these product categories account for a small share of the total retail speciality food market.

Markets for Irish speciality foods

The main market for speciality food producers was the export market, which accounted for 18% of sales, followed by the multiples (15%) and food service (14%) (Figure 6).

Even though it was the most important market, only 61% of the producers sold their products in the export market. Conversely however, even though they were less important markets, 69% of producers sold at least some of their products in deli/speciality stores and 62% sold their products in independent shops. Also, 45% of the producers' products were available in the multiple

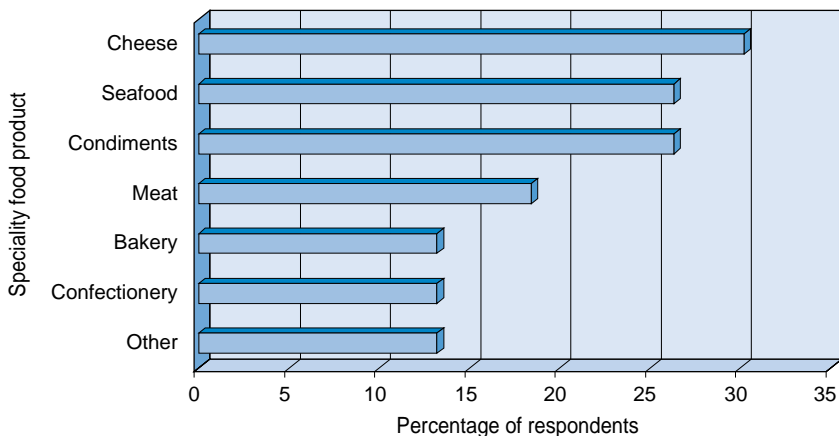


Figure 5: Types of speciality foods produced in Ireland.

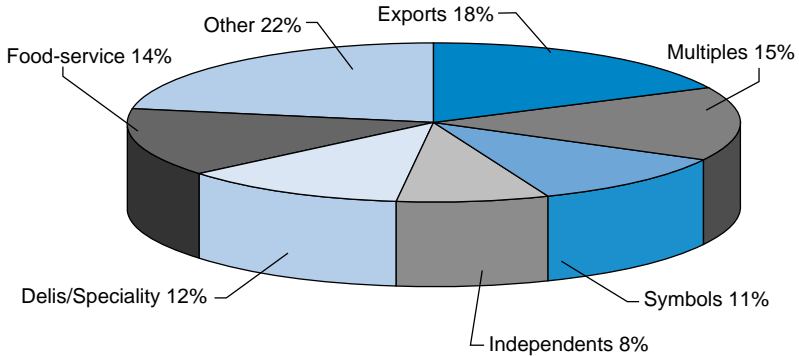


Figure 6: Breakdown of Irish speciality food producers' sales.

retailers, 51% of their products were available in symbol groups and 45% of their products were sold in restaurants/cafes.

Distribution channels used by speciality food producers

Nearly half of all speciality foods were distributed by wholesalers/distributors, import/export agents distributed 12%, 28% were delivered directly to retailers or caterers and 14% were sold directly to the consumer (Figure 7).

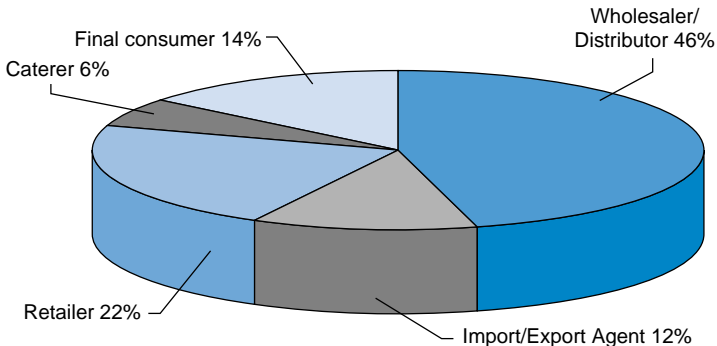


Figure 7: Distribution channels used by Irish speciality food producers.

Importance of quality attributes

The producers were required to rate the importance of the same ten product attributes as the retailers. Flavour, superiority and appearance/packaging were seen as the most important attributes.

Delphi forecast

A panel of experts forecast that the speciality food market would grow by 40% over the next five years and by 65% over the next ten years. Therefore, given that the current market value is estimated at €250 million, sales by 2010 were forecast to be worth €413 million (at 2000 market prices). This represents a value increase of €163 million. This estimate was based on a number of assumptions such as continued economic growth, the development of strong partnerships within the sector and increasing assistance from support agencies.

Speciality cured meats, yogurts and cheeses were forecast to undergo the highest growth rates over the next ten years, increasing by 90%, 85% and 70% respectively. Speciality condiments, breads and preserves were forecast to grow by 60%, speciality seafood sales were expected to increase by 55% and speciality biscuits, cakes and chocolate were forecast to grow by 50%. Many panellists believed the speciality cured meats market was underdeveloped and that huge potential existed for further expansion, especially as consumers become more concerned about animal welfare (Figure 8).

Speciality food growth forecasts in specific markets

Direct speciality food sales via the Internet were forecast to increase by 195% over the next ten years (see Figure 9). Albeit from a low base, the experts clearly expect the Internet to provide speciality producers with new opportunities to access consumers.

Delicatessen and speciality food shops were forecast to double their speciality food sales over the next ten years. Given that the current value of speciality food sales through delicatessen/speciality food stores was estimated at €23.5 million per annum, the forecast indicates that sales in this sector will be worth €47 million by 2010.

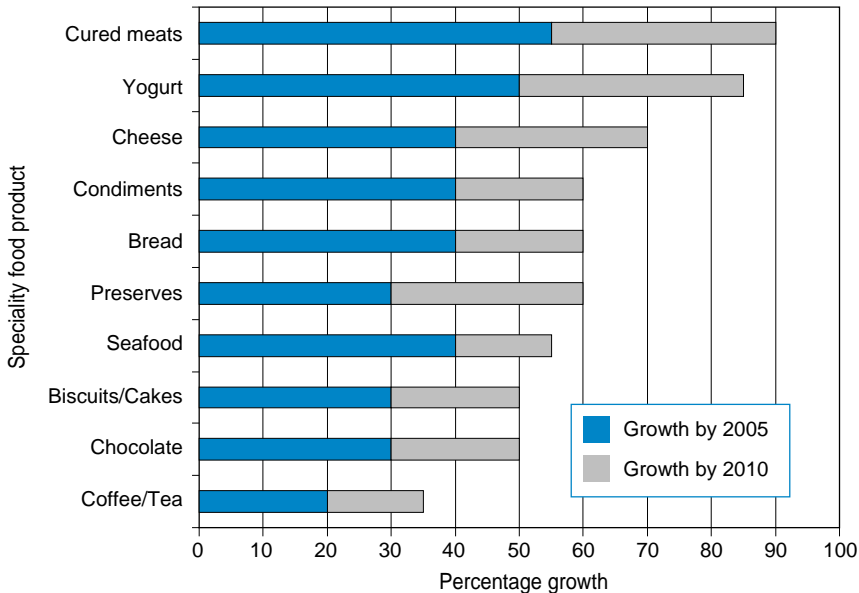


Figure 8: Forecast growth of the market for Irish speciality food products to 2010.

At an increase of 87% by 2010, street markets were forecast to experience the third highest growth rates. It was believed that producers will be attracted to this channel because of the opportunity it affords them to skip the middle-man and increase their margins. The personalised and informal nature of street markets, it was felt, along with the fresh traceable foods available, will encourage consumers to purchase more products there.

Speciality food sales through symbol groups were expected to grow at a faster rate than sales through multiple retailers. However, the forecast 2010 increase of 50% in the multiple retailers' speciality food sales represents the most significant volume increase of all the markets considered. This arises from the finding that the multiple retailers accounted for 44% of retail speciality food sales. Therefore, a 50% increase in multiple retail sales converts to a value increase of €32 million. In contrast to this, the forecast 60% increase in symbol group sales will only result in a value increase of €18 million.

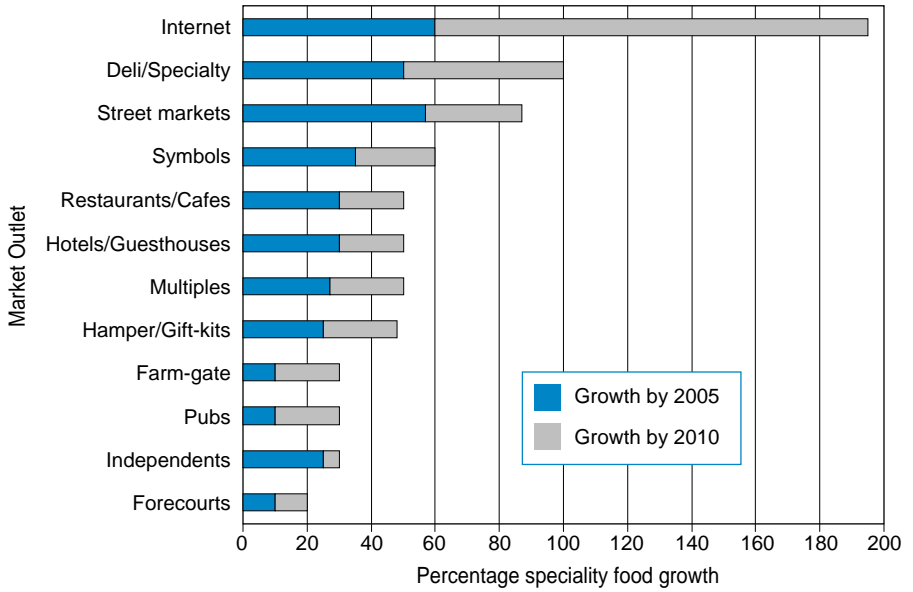


Figure 9: The growth of specific markets for Irish speciality foods up to 2010.

CONCLUSIONS

- The current value of the retail speciality food market was estimated at €140.4 million per annum.
- The dairy (22%), meat (17%) and condiment (15%) categories were found to account for the majority of retail speciality food sales.
- Speciality food producers sold 46% of their products in the retail market, 14% in the food-service market, 18% on the export market and 22% in other markets.
- There is considerable growth potential in the speciality food market. Experts have predicted that this growth will be in the region of 65% over the next ten years, representing a value increase of €163 million
- Growth will be in the region of 40% over the next five years with a slight slowing in the following five years. It is important for speciality food businesses to be aware of this so they can plan for the expected slow down in growth after 2010.

RECOMMENDATIONS FOR THE DEVELOPMENT OF THE SECTOR

Speciality foods have emerged as an important niche sector in the Irish food industry. This sector is supplied by a group of dedicated small-scale producers. The dominant supply channels are the multiple retailers and symbol groups. Larger speciality food producers are more likely to supply their products to the multiple retailers and the export market. Speciality food producers have two main options available to them in order to grow their business above a certain size. Producers may either enter the dominant supply channels or increase distribution through alternative channels (i.e. the Internet, deli/speciality stores and street markets). The Internet, deli/speciality stores and street markets are expected to experience the highest speciality food growth rates and speciality food producers should be able to pursue various growth strategies by entering these channels.

It is recommended that new and immature speciality food producing businesses concentrate on the high growth rate alternative channels when marketing their products. However, it is recommended that any growth orientated producers that are already established in alternative markets, but have not yet entered the dominant supply channels, should attempt to gain entry to the major retailers.

Speciality food producers that are already “incorporated” into the dominant and alternative supply channels need to carefully consider how they position their products if they want to increase their sales volumes. The larger speciality food producers must carefully decide if they wish to maintain a product’s current level of sales, and therefore remain in the niche market, or make the transition into the main-stream. If they choose the latter, a rethink of the manner in which the product is marketed will be necessary as by definition these enterprises will cease to be speciality and alternative marketing strategies will need to be employed. It is suggested that, rather than achieving growth by moving a product into the mainstream, producers should consider developing new speciality food products. The basis of this recommendation is that speciality food producers know their sector better than anybody and that their expertise is not in the mainstream.

All speciality food producing businesses should be constantly planning for the development of new products. This will enable the producer to experience continued growth without entering the mainstream. Speciality cured meats, yogurts and cheeses offer the greatest potential. However, many of the other categories – such as condiments, breads and seafood – also hold significant potential as these categories are underdeveloped in the Irish market. Therefore, whilst it would be preferable to produce new foods in the highest growth categories, it is advised that businesses develop new products in the categories with which they have the most experience.

Speciality enterprises should concentrate on producing foods with superior sensory qualities which are well presented to promote the product's uniqueness. Both producers and retailers consider price to be of least importance to consumers. Therefore, speciality food businesses should be able to solicit, within reason, premium prices from consumers. The development of new high quality products and alternative channels of distribution will ensure that this sector continues to experience growth.

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