

Food and beverages - USA

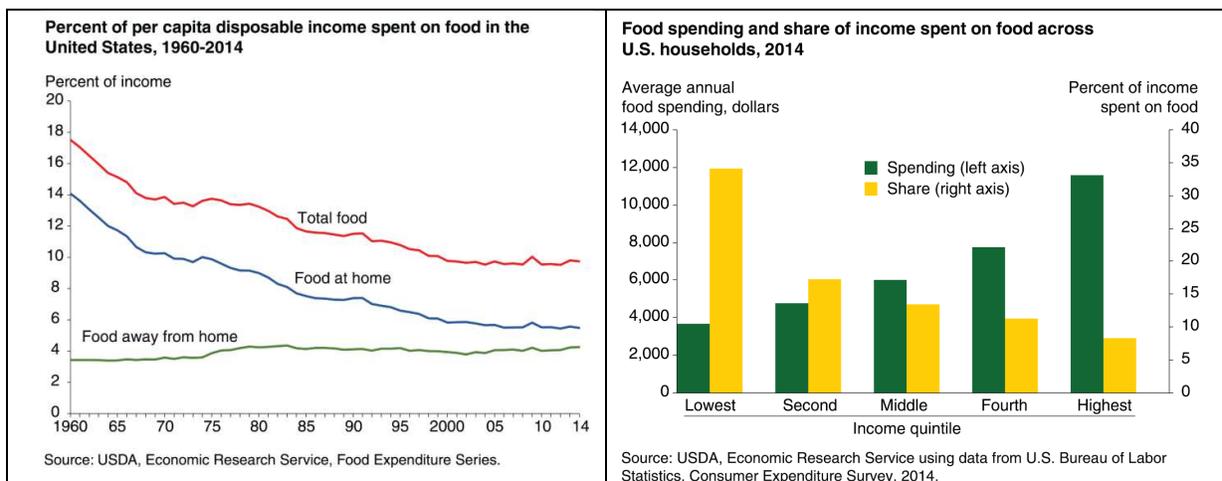
Summary of findings related to international market opportunities for Norwegian food and beverage products to the United States

Date: August 08, 2016

Contact person: Antonio Raposo, Sr. Market Advisor (tony.raposo@innovationnorway.no)

1. Brief facts about the market

- **In 2014, Americans spent 5.5 percent of their disposable personal incomes on food at home and 4.3 percent on food away from home.** Between 1960 and 2007, the share of disposable personal income spent on total food by Americans, on average, fell from 17.5 to 9.6 percent. (*US Dept. of Agriculture, 2014*)
- **Households spend more money on food when incomes rise, but food represents a smaller portion of income as they allocate additional funds to other goods.** In 2014, US households in the middle income quintile spent an average of \$5,992 on food, representing 13.4 percent of income, while the lowest income households spent \$3,667 on food, representing 34.1 percent of income. (*US Dept. of Agriculture, 2014*)



- **On average, 5.1 evening meals per week are cooked at home** and involve a diversity of product options (*Food Marketing Institute 2015*). In a typical week, 3.1 dinners are prepared at home using fresh/raw ingredients; 1.4 dinners include prepackaged ingredients that require preparation; 0.9 involve heating/serving prepackaged foods; 0.6 feature takeout; and 0.9 are eaten in a restaurant (*Multi-Sponsor Surveys Inc. 2014*).
- **The U.S. restaurant industry reached \$709.2 billion in sales in 2015**—a 3.8% increase over 2014, marking the sixth consecutive year of real sales growth (*National Restaurant Association 2015*)

- **Specialty food sales at retail grew to \$94 billion in 2015**, a 19.7 percent jump since 2013. Sales through foodservice outlets grew at a faster clip—27 percent to hit \$26.5 billion—as U.S. consumers continue to make more away-from-home meal purchases:

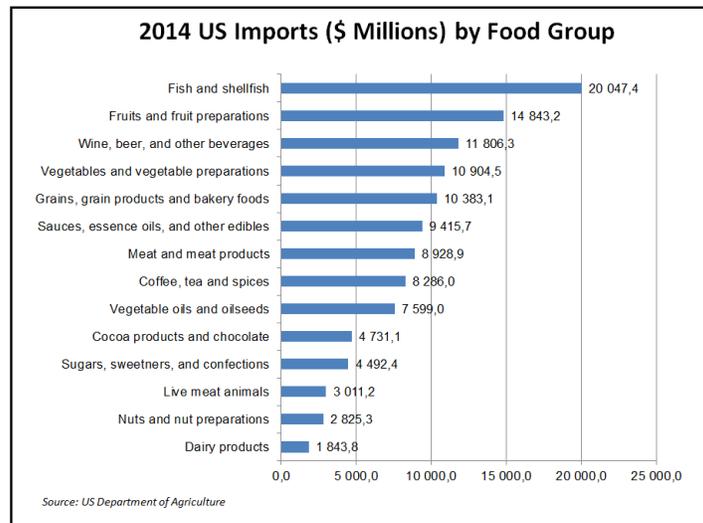
| TOTAL U.S. SALES OF SPECIALTY FOOD | |
|------------------------------------|------------------|
| | 2015 \$ Million |
| Retail Channels* | \$93,982 |
| Foodservice | \$26,508 |
| Total | \$120,490 |

Source: Mintel/SPINS/IRI

| SPECIALTY FOOD SALES BY RETAIL CHANNEL | | | |
|--|-----------------|--------------|----------------------|
| | 2015 \$ Million | % Share | % Change 2013 - 2015 |
| Mainstream Stores* | \$45,850 | 81.7 | 19.0 |
| Specialty Food Stores | \$6,226 | 11.1 | 20.2 |
| Natural Food Stores | \$4,024 | 7.2 | 19.5 |
| Total | \$56,100 | 100.0 | 19.2 |

(Specialty Food Association and Mintel/SPINS/IRI, 2016).

- **2014 US Imports by Food Group:** The main categories of food and beverage products imported into the US in 2014 were: Fish and shellfish (\$20.0 billion), fruits and fruit preparations (\$14.8 billion), and wine, beer and other beverages (\$11.8 billion)



Top 5 Food Trends in the US*:

1. Shift away from processed in favor of fresh foods. The shift to fresh and refrigerated foods is unstoppable. Nearly nine in 10 adults (87%) feel that fresh foods are healthier, and 80% believe that they are tastier; 78% of consumers are making a strong effort to eat more fresh versus processed foods.

2. Dramatic changes in lifestyles, eating patterns, and demographics are creating new rules for marketing and packaging, and are motivating new food product purchases. Nearly half (47%) of all eating occasions are alone. Even in multi-person households, 39% of eating occasions are solo. The family meal continues to erode. Only 27% of family meals include children. However, in 28% of families, the family members will eat the same meal for dinner even if they each eat alone and at different times.

3. Explosive growth in snacking and on-the-go meal sector. The average number of in-between-meal snacks grew from 1.9 per person per day in 2010 to 2.8 in 2014. Half (51%) of adults ate three or more snacks per day, up from 21% in 2010. In 2014, 28% of adults reported eating four or five mini-meals a day; 21% say that they eat on the run and “grab food when they can”. Yogurt, fruit, and bars are the snacks most likely to be used as meal alternatives.

4. Discovery of more sophisticated culinary experiences. In 2014, the Food Marketing Institute identified “discovery” as a new “must-have” food attribute in which retailers/manufacturers help create more sophisticated food experiences. New food discovery is evolving into a big opportunity: In 2013, 41% of all eating occasions, 33% of snacking occasions, and 29% of kids’ eating occasions involved a more sophisticated culinary experience that was characterized by unique flavors and culinary narratives.

5. Consumers are experimenting with exclusion dieting and alternative eating styles. In 2014, one-third of adults tried a specialty regimen; 8% tried gluten-free; 7%, lactose-free, 6%, raw/living foods; 5%, dairy-free; and

5%, a juice cleanse. Three-quarters (76%) of U.S. households prepare meat alternatives (defined as protein sources other than meat, poultry, or seafood) for dinner. Four in 10 meal preparers (44%) serve meat alternatives one to three times per week; 7% do so four or more times weekly. Meat or poultry is eaten an average of 3.7 nights per week. Eggs are the most popular meat alternatives, prepared by 78% of consumers; 61% serve beans, lentils, or legumes; 28%, veggie burgers; 28%, quinoa/other whole grains; 18%, seeds/nuts; and 14%, tofu or tempeh.

**Institute of Food Technologists. The Top Ten Food Trends. A. Elizabeth Sloan | April 2015, Volume 69, No.4*

2. Opportunities for Norwegian companies in US

The most significant areas of opportunities for Norwegian food and beverage producers are probably:

CHEESES



Why?

- Largest specialty food segment in the US (\$4.31bn in 2015). Specialty cheese and cheese alternatives grew by 14.7% from 2013 to 2015.
- Already Norway's second highest food export commodity in 2013 (565m kr/14 000 tons).
- Jarlsberg cheese was introduced in the United States in 1964 and has grown in popularity ever since. Jarlsberg has contributed to US consumer awareness of Norwegian cheeses, an attribute that can be leveraged to introduce other types and brands of cheese from Norway.

Other Considerations:

- Tariffs: US tariffs on imported cheese can be significant. For example, cheeses made from goat's milk have a duty of 9.6% per kg*. Cheeses containing or processed from Gjetost, Gammelost, Nokkelost are dutiable at 8.5% per kg.*

*general rate to MFN countries / actual applicable rates must be determined on a case-by-case basis.

CHOCOLATE CANDY



Why?

- US chocolate confectionery sales grew 24% from 2009-2014 to reach \$21 billion. Some 85% of US consumers buy chocolate and more than half (53%) eat chocolate once a week or more. (Mintel, 2015)
- Chocolate was Norway's sixth highest food export commodity in 2013 (237m kr / 7 000 tons).
- Norwegians love their chocolate and produce an amazing variety of chocolate treats and candy bars. This national passion for the product can be tapped to promote and position Norwegian chocolate as Norway's specialty treat of choice when introducing it abroad.

Other Considerations:

Tariffs: Chocolate and other food preparations containing cocoa are categorized by sugar, milk and/or butterfat content and can have varying duties based on either percentage of value per kg or fixed rate (in cents) per kg. The rates of duty are typically between 5% to 10% of the shipment value per kg or \$0.37 to \$0.52 fixed value per kg*.

*general rate to MFN countries / actual applicable rates must be determined on a case-by-case basis.

CRISPBREADS, CRACKERS



Why?

- Significant US demand: \$813m in 2015. Specialty crackers and crispbreads segment grew by 10.6% from 2013 to 2015.
- Bread and pastries is one of Norway's major food export commodities (189m kr / 9000 tons in 2013).
- A must at any Norwegian breakfast table, this all natural and nutritional product has the distinction of being a traditional staple food in Norwegian households. Given this tradition Norway is well positioned to brand itself as a reputable supplier.

Other Considerations:

- Tariffs: There is no US tariff on either crispbread or crackers (which is classified under bread, pastry, cakes, biscuits and other bakers' wares).

*general rate to MFN countries / actual applicable rates must be determined on a case-by-case basis.

JAMS, PRESERVES



Why?

- Considerable US Market: \$212m in 2015. Specialty conserves, jams and spreads grew by 10.5% from 2013 to 2015.
- Berry picking is a longstanding Norwegian family tradition. In the late summer and fall there are lush bushes with wild berries of many flavorful varieties just waiting to be made into delicious jams and preserves. Given this traditional connection to jam, Norway is well positioned to brand itself as a reputable supplier.

Other Considerations:

- Tariffs: US tariffs on imported fruit jams, jellies, marmalades, purees and pastes vary between 1.3% and 14% per kg*. For example, lingonberry and raspberry jams have a duty of 1.8% per kg*. Strawberry jam has a duty of 2.2% per kg*, however, strawberry purees and pastes are dutiable at the significantly higher rate of 12% per kg*.

**general rate to MFN countries / actual applicable rates must to be determined on a case-by-case basis.*

LAMB



Why?

- The specialty frozen and refrigerated meat, poultry and seafood segment (of which lamb is a subsegment) was valued at nearly \$3.63bn in 2015, and grew by over 23% from 2013 to 2015.
- US per capita consumption of lamb is low (1lb per person per year) relative to other red meats (65lbs per person per year), but it is growing.
- Roughly 80% of all lamb consumed by Americans is imported.
- Lamb is part of Norway's national dish (Fårikål) and is a seasonal favorite during the autumn and at Christmas (Pinnekjøtt). Given its traditional connections to lamb, Norway is well positioned to brand itself as a reputable supplier.

Other Considerations:

- Norway does not participate in the US Dept. of Agriculture's (USDA) Food Safety and Inspection Service (FSIS) audit program for foreign countries. As a result, Norwegian agri food processors are not eligible to export meat, poultry, or processed egg products into the US. Norwegian authorities would have to first apply to the program and be deemed to meet the USDA's equivalency requirements. Furthermore, all individual exporting establishments would have to pass FSIS inspections prior to being able to ship their lamb meat to the US.
- Tariffs: US tariffs on imported lamb varies from \$0.007 per kg* to \$0.028 per kg* depending on the cut of meat.

**general rate to MFN countries / actual applicable rates must to be determined on a case-by-case basis.*

3. Challenges for Norwegian companies exporting food products to the US

Norwegian companies seeking to export food products to the US must ensure they consider the following basic requirements in order to compete in the US Market:

- **Price/volume considerations:** Products must be competitively priced and Norwegian companies must be capable of supplying the minimum volumes typically demanded by US distributors/retailers in order to do business with you.
- **Complex regulatory environment:** The regulatory environment for importing food products into the US is fairly complex. All foreign food shipments arriving at a US Customs port of entry must clear customs and are subject to Food and Drug Administration (FDA) inspections. Foreign manufacturers must register their facilities with the FDA on a biennial basis and must designate a proper US agent for FDA communications. Imported Food products must comply with various rules and regulations, including: Current Good Manufacturing Practices (CGMP), the FDA Food Safety Modernization Act (FSMA), and the Foreign Supplier Verification Program (FSVP). Additionally, for shelf-stable or sealed foods, "FCE" (food canning establishment) registration and process filing may be required.
- **Understanding of regional differences:** Norwegian companies must understand that the US is not one homogenous market, but many regional markets distinguished by different cultures, history and immigration, etc. These considerations must not be overlooked in your marketing strategy.
- **Understanding of US business culture:** Norwegian companies must understand and abide in accordance to US business norms and culture which is driven by the 'time is money' ethic (e.g. quick,

open and efficient communication, on time deliveries, 24/7 availability of suppliers, quick problem solving, etc.).

4. Recommendations to Norwegian companies considering export of food and beverages to US:

- **Do your homework first:** Norwegian companies should thoroughly do their homework prior to committing any significant investment in the attempt to export their food products to the US. All of the items outlined in section 3, above, need to be considered: Make sure that your product is price-competitive after trans-Atlantic shipping costs and any applicable tariffs. Make sure you are in compliance with all US regulatory requirements. Make sure to visit the US market and attend relevant trade shows. This will allow you to learn more about the local marketplace and your competitors, as well as create opportunities to connect with potential distribution partners. Make sure to contact the local Innovation Norway office for advice and assistance.
- **Be direct and get to the point using open and honest communication:** In accordance to the 'time is money' ethic, it is always appreciated when communication is focused and relevant to the matter at hand. Always keep in mind that the basis for your success in the US market, is a win-win relationship with your importer and/or distribution partner. With this in mind, you must always honor any commitments you make and immediately address any problems that arise with constant open communication. There should never be 'surprises' when it comes to previously agreed upon contract terms, pricing and coordination.