



White Paper: German Food Industry

Abstract

The German food industry is one of the most famous in the world. Through the exports in the internal market of the EU, the industry is continuously growing. Although the industry is doing well and stays competitive on an international level, some major changes are occurring. Consumers are shifting and becoming more conscious about their food and became more interested in healthy food products. The demand in the meat industry is decreasing and overall uncertainty in terms of export in to one of the most important European markets, the United Kingdom, is arising. In the following white paper, you will find further information of the industry, its branches, key numbers, trends and problems.

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Problem Statement

The German food industry is about to face some major changes. Consumer trends started to shift, the German digitization is coming up and changes in the European Single market are occurring. Germany is for instance in the beginning of a digital revolution in the food industry. Although many companies started to adapt to newer technology, many companies are not able to implement them in a fast manner. The reason for it are mostly problems that occur in the decision making, due to hierarchal structures of companies. Additionally, the uncertainty of Brexit might affect German exports to Great Britain. In the following lines you will find further information of the industry background, trends, its branches with key numbers and the problems that the branches are currently facing.

Background

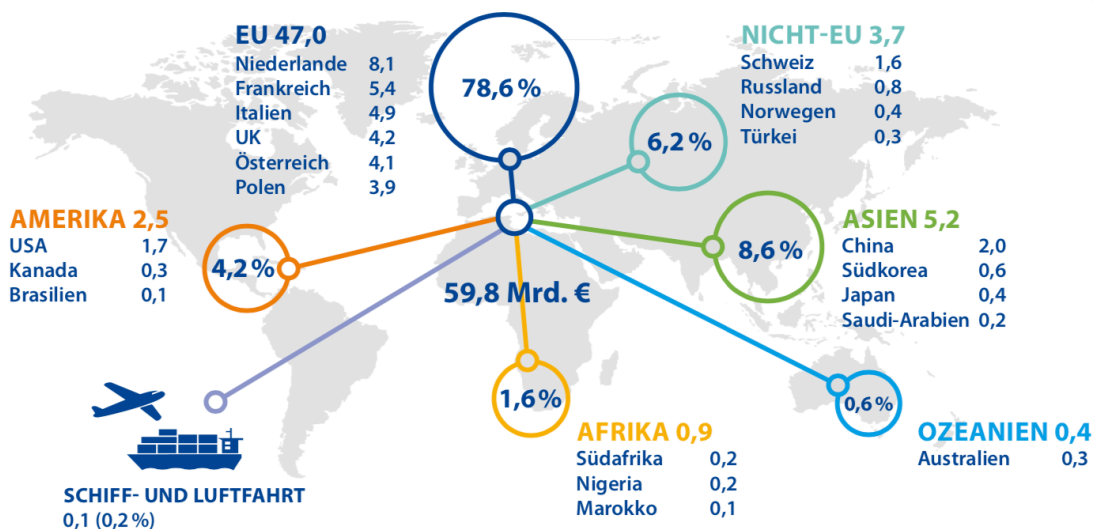
Industry Background

According to the report of the "Bundesvereinigung der Ernährungsindustrie", the German food industry is considered to be the fourth biggest industry in Germany. Around 90% of the companies that are currently operating in this industry are small to medium sized companies, that are often family owned. Mostly, these companies want to keep the tradition and keep their headquarters at the company's first location.

Furthermore, the German food industry is characterized by continuous growth, generated by exports, especially in the internal market of the EU. Germany's food and beverage exports generated according to the BVE report, 60.4 bn. Euros in 2017, compared to the total industry turnover of 181.Bn. Euros in 2017. As previously mentioned, the most important export market for German food and beverages is the EU internal market. According to the study, the Netherlands, France, Italy, the United Kingdom, Austria and Poland are the key trading partners. Additionally, the food industry in Germany, is highly competitive and has globally integrated food. This means, that many of German food products can be found all around the world.

INTERNATIONALE EXPORTMÄRKTE DER ERNÄHRUNGSINDUSTRIE

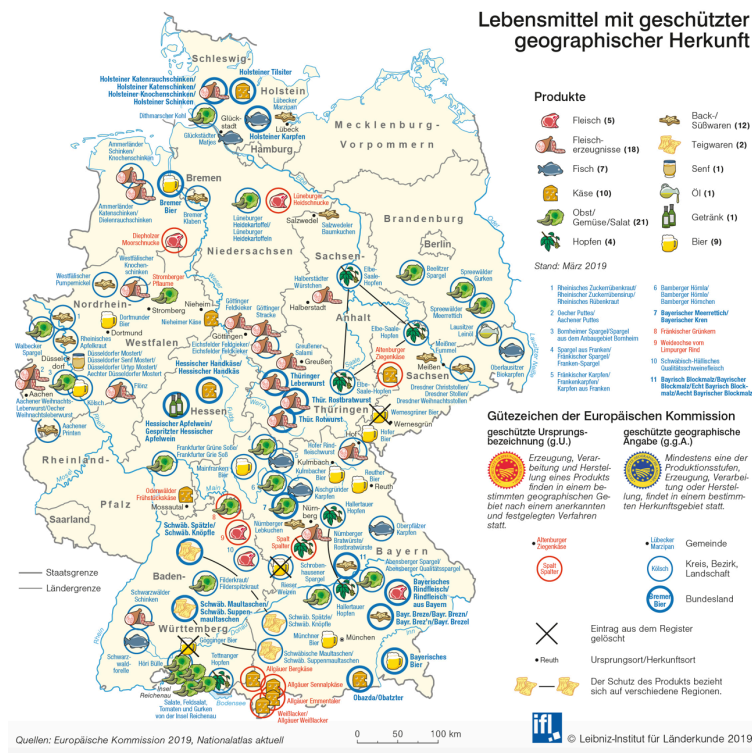
2017, in Mrd. Euro, vorläufig, Anteil an Gesamtausfuhr im Kreis



Location

As previously mentioned, many small to medium sized enterprises operating in the food industry, have usually their headquarter in the company's first location. For instance, companies that are active in the dairy industry, like to stay close to fields and meadows, in order to generate the best possible dairy products. Mostly, these meadows and fields are crucial for the milks taste or for the products that result from it, especially when the resulting products are marked with the label "Protected geographical indication".

For this reason, it is extremely important to for many companies, to leave their headquarter in the company's first location. However, it happens frequently, that the headquarters are not located close to public transport. Therefore, it can become sometimes quite difficult and time consuming to reach those companies by car, bus or train.



Trends in the Industry



The German food industry is standing in front of a change, as changes in society are occurring, leading to new consumer trends. As the German population is aging, demand for healthy food is rising. Along with healthy food, functional food products are becoming more and more appreciated. These functional foods are enriched with additional ingredients that promote positive health effects. They are used for instance to prevent or even overcome conditions as diabetes, cholesterol and high blood pressure.

Furthermore, German consumers started to acknowledge the quality and origin of products and to disregard the price point.

Next to the healthy trend that the German food industry is facing, demand for convenience food is rising as well. Examples for convenience food can be ready-to-eat meals, baked goods or desserts. Although convenience food is often criticized for its high fat, salt, sugar, food additives and food preservatives, many professionals still consume convenience food. The reason for the consumption is mostly the time that can be saved, as well as the practicality of having a ready-to-eat meal. Moreover, convenience food is mostly consumed by single households.

Another trend that is emerging in the German food industry, is the popularity of fair-trade food, as cocoa, coffee or bananas. Lastly, ethnic foods, beauty foods, “free from” foods and regionally grown foods are becoming more and more important for German consumers. Through the influence and increased awareness of cultures, ethnic foods gained popularity in Germany. For this reason, it is not uncommon to find food from all over the world in German supermarket aisles.

Merger and acquisitions

Many companies that are active in the food and beverage industry, have globally integrated goods that contribute to a very competitive world food market. While some companies manage to expand to new markets and use economies of scale, some companies do not have the capability to compete with bigger enterprises. Hence, these smaller companies disappear, due to the inability to compete with large scale companies, which become bigger and bigger. Logically, many of these small companies try to find a solution in order to become more efficient. Usually, the most convenient solution for smaller companies is to merge with another company or to merge into a large scale and international company with multiple markets. Therefore, it is common, that while companies are merging and being acquired, business trips occur on European and international level.

Industry branches

As the German food and beverage industry is immense, therefore, the industry is categorized in various branches. The most significant branches of the German food industry are according to the Bundesministerium für Wirtschaft und Energie the meat and meat processing industry, the dairy industry, the confectionary and bakery industry and the industry of alcoholic beverages production. Many of these branches are facing difficulties.

Meat Industry

The meat industry is one of the most important food industries in Germany. According to Statista, the German meat industry has more than 1.400 companies, that employ a minimum of 20 people. If one looks at the meat industry, companies operating in this field are standing in front of many changes. According to the annual report of the Bundesverband der Deutschen Fleischwarenindustrie e.V., the demand of pork meat in the German market is continuously decreasing, as well as in neighboring countries. The reason for this decreased demand is due to religious reason and changed eating habits of consumers. However, the German meat industry is expecting an overall decrease of meat products in Europe. Additionally, the largest consumer of German meat products is the UK, with an annual delivery volume around 30,000 tons per year. Due to the fact that the UK is leaving the EU, the demand of the British market regarding German meat products, might decrease.

Dairy Industry



According to Statista, Germany is the largest dairy producer in Europe. Furthermore, German dairy products are considered to be the most important products in terms of revenue for the German agriculture, with a yearly revenue of around 27 billion Euros. As stated by the source, the German dairy industry is delivering more than 30 million tons of raw milk every year. Most of the

German dairy farming occurs in large farms, especially in newer regions and northern Germany. Contrary, Statista claims that in regions like Baden-Württemberg and Bavaria, the dairy industry is still characterized by small farms, which are mostly family-run. As previously mentioned, the German dairy industry, is the largest dairy producer of Europe, making it therefore clear, that this industry is relying heavily on exports. According to the Milchindustrie-Verband (MIV) the half of the total tons of raw milk produced in Germany is designated for exports. Export products in this industry are mainly milk, cheese, yoghurt and milk mixed drinks, which are predominantly exported to fellow EU-countries. Other export countries for German dairy products are for instance the United States as well as many Asian countries and countries in the African continent. The German dairy industry is facing problems like declining milk farms. According to Statista, this decline is considered a long-term decline, caused by large milk farming companies, that are using economy of scales and who can adapt quickly to price fluctuations. This is not possible for small businesses operating in milk farming, as they cannot adapt as fast as larger companies. For this reason, a further decline in milk farming in Germany is anticipated. Furthermore, the dairy industry in Germany might be affected by the result of Brexit, due to new regulations and laws.

Confectionary Industry

The German Confectionary industry is worldwide known for its sweet and tasty products, like gummy bears or chocolate bars. According to Statista, the German confectionary industry is an important industry, with a yearly turnover of around 14 billion Euros. Additionally, this industry employs around 55.000 people and has a product value of 8.9 billion Euros. However, the confectionary industry is facing problems. One of the



problems that this branch is facing, is according to the Bundesverband der Deutschen Süßwarenindustrie e.V. the decrease of exports in the UK. The reason for this decrease is again the uncertainty of the UK leaving the EU. Additionally, the confectionary industry is dealing with high energy and transportation costs, as well as an increased competitive environment, nationally and internationally. Furthermore, the availability of specific raw materials needed for the production and their costs are weighing on the profitability of confectionary producers.

Bakery Industry



According to the Global Analysis Report of Agriculture and Agri-Food Canada, the German bakery industry is the largest one in Europe and ranking the 5th largest of the world. Additionally, this industry is according to report experiencing a positive growth. The industry includes a variety of grain-based goods, that need to be backed before consumption. However, the German bakery industry distinguishes bread and biscuits, like buns or pretzels, and pastries and long-life baked

products like cakes and pies. These goods are generally counted among the confectionary industry, due to the high fat and sugar content. Additionally, the bakery industry is split into two categories, baker's craft and industrial bakeries, that employ more than 20 employees. The Industrial bakery production in Germany generates over 17 billion euros annually. Furthermore, this category employs more than 175,000 employees in about 2,400 companies. Unfortunately, Brexit will have according to the "Bundesvereinigung der Deutschen Ernährungsindustrie" negative consequences for its entire export business.

Alcoholic beverage production

Germany is considered to have the largest market for soft drinks and alcoholic beverages in Europe. Throughout the years however, the German alcoholic beverage production for beer is decreasing, due to the rise of non-alcoholic drinks.

Packaging Industry

The German packaging industry plays a key role in the German Food and beverage industry, as packaging needed by the majority of goods produced in the country. If one looks at the annual turnovers of this industry, one will notice a significant difference. According to Statista, the yearly turnover for the German packaging industry for the domestic market exceeds the 19,1 billion euros. Contrary the foreign sales are about 8,7 billion euros every year. It is clear, that this industry relies majorly on the German food industry. For this reason, this industry might face a decrease in turnover in the domestic market. The cause for this is once again Brexit, as some industries in German Food and beverage industry might start ordering less packaging, due to the possible decline of orders from the United Kingdom.



Conclusion

It is clear, that one of the major problems that the German food industry is facing is the uncertainty in Europe due to the United Kingdom leaving the European Union. This problem will affect every branch of the industry, as many of the branches are relying on the export of the goods. Additionally, it is relevant to mention, that the United Kingdom is one of the most important export countries of Germany. However, as consumer trends are starting to shift, some branches within the food industry might be more affected than others. An example for

it is the German meat industry. As mentioned before, the industry is facing a decrease in the demand of pork meat. Another example is for instance the long-term decrease of small milk farming businesses that are overshadowed by larger milk farming companies, that use economies of scale.

Clearly, the German food industry overall, needs to be flexible and adapt quickly to changes that are currently occurring. One way to tackle issues, is to monitor and anticipate changes in consumer trends, laws and regulations, in order to be able to adapt as fast as possible. Another solution to address issues, is by focusing on existing markets and improve them or by finding new markets that suit the industry. Regardless how one addresses current or potential issues, it is obvious that business travelling is a crucial part. Especially when one needs to travel from one country to another, time, money and flexibility can be a meaningful decision factor.

Company

We are, Fly Aeolus an air taxi company from Antwerp in Belgium, with offices in Rotterdam, Liège and Berlin. Our mission is to provide our customers with low cost air taxi flights within Europe. In recent years, we have helped multiple companies within the food and beverage industry. With our fleet of 13 aircraft, that are spread throughout Europe it is possible, to have an air taxi available when you need one. Additionally, through our connection with 1,600 airports, we will make sure to find the closest airport located near your departure and arrival address. Our air taxis will therefore transport you safely and quickly to your destination, at an affordable price. This will allow you to save time and money and let you focus on your business meeting.

Please consult our air taxi price calculator on our website or contact us for further information, directly at info@flyaeolus.com or call us at +32 (0)3 500 9082 , +31 (0)15 820 0999 or +49 (0)30 9789 6996.

We would be delighted to have you on board!

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