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# ***Food and Beverage Industry***

*On the verge of change*

June 2018

## **Greek Food and Beverage Industry**

**15.7K**



# of companies

**€15.1  
Bn**

Revenue



**+1.86%**



Average annual  
revenue growth  
2009-2016



**€4.2<sub>Bn</sub>**



Imports

**€3.8<sub>Bn</sub>**



Exports

**€-0.4<sub>Bn</sub>**



Balance of Trade

Gross value added



**€ 3.1<sub>Bn</sub>**

Number of workers



**111K**

## **Summary Overview**

**1**

### **The Big Picture**

The Greek Food & Beverage industry contributes significantly to the domestic economy, while being one of its most competitive sectors

**2**

### **Competitiveness**

There is a large number of competitive Food & Beverage companies with positive growth prospects

**3**

### **Sectoral Competitiveness**

There are significant differences in competitiveness between F&B sub-sectors. Half of the sector improved its competitiveness after 2012, while the other half deteriorated

**4**

### **Export Dynamism**

The industry is characterised by a "two-gear" export activity with highly extrovert as well as introvert sub-sectors

**5**

### **Growth Policies & Strategies**

The industry will undergo a rapid transformation that will increase corporate concentration. Development strategies concern products, production, logistics, marketing and sales aggregation under one strong brand



**The Food and Beverage industry is competitive, however not overly extrovert**

## ***Executive Summary (1/2)***

- **The Food & Beverage manufacturing sector is important for Greek manufacturing.** Although under pressure during the crisis, the sector maintained its momentum, especially due to the growth of production in Food which translated into higher export activity. Its key feature is the high concentration and at the same time the high degree of fragmentation
- **During 2012-2015, Food and Beverage companies increased their revenues, contained their profitability and did sustainable investments, while controlling their overall debt.** Only 27% of companies can be characterised as Zombies, while the sector in general seems to be competitive and improved towards the end of the crisis. The typical Food & Beverage company is small and lightly invested. In general, it appears that an increase in size through investments leads to reduction to the return on capital invested
- **Three sub-sectors cover 50% of production (dairy, bakery and oils) while the rest is relatively small.** There are, of course, differentiations within the F&B sector: subsectors with high concentration of Stars, Grey, Zombies, as well as bipolar ones. Star companies' main characteristic is their small size. 85% of the sub-sectors either retained or improved its competitiveness between 2012 and 2015. Only three sub-sectors are Stars (fruits & vegetables, canning, alcoholic beverages) and three are Zombies (poultry, fisheries, red meat)
- Exports account for 37% of the total production concerning mostly 'non-branded' products. Five sub-sectors are export-oriented, with the rest being fully introverts. However, there are examples of introvert sub-sectors that show high export speed driven by their large size, such as dairy products



## ***Executive Summary (2/2)***

- **The Food & Beverage industry lags behind in competitiveness and extroversion due to structural weaknesses that limit dynamic growth.** The growth and the export constraints of the sector fall into two categories:
  - small corporate size
  - market failures
- **Under the pressure of extremely low concentration and low export potential, the sector will be led to transactions and restructurings from consolidator companies**
- **The sector's growth strategy should be based upon the systematic concentration of sales under common brands** that will lead to production aggregation, effective cost saving and stronger marketing activities
- If there is no intra and cross-sectoral aggregation then, following the historical trends, there will be a gradual improvement of competitiveness in 5 years , however the Food & Beverage industry will remain structurally the same with all its weaknesses strengthened



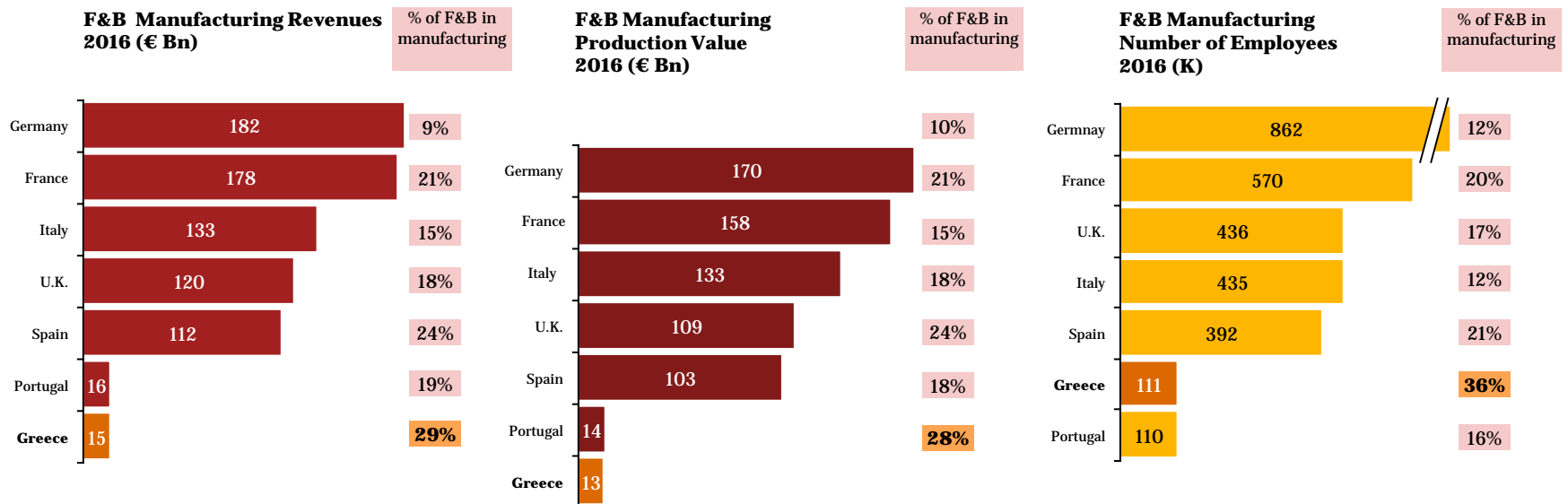




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# ***The Big Picture***

## ***The contribution of Food and Beverage industry in Greece is higher compared to other European countries***

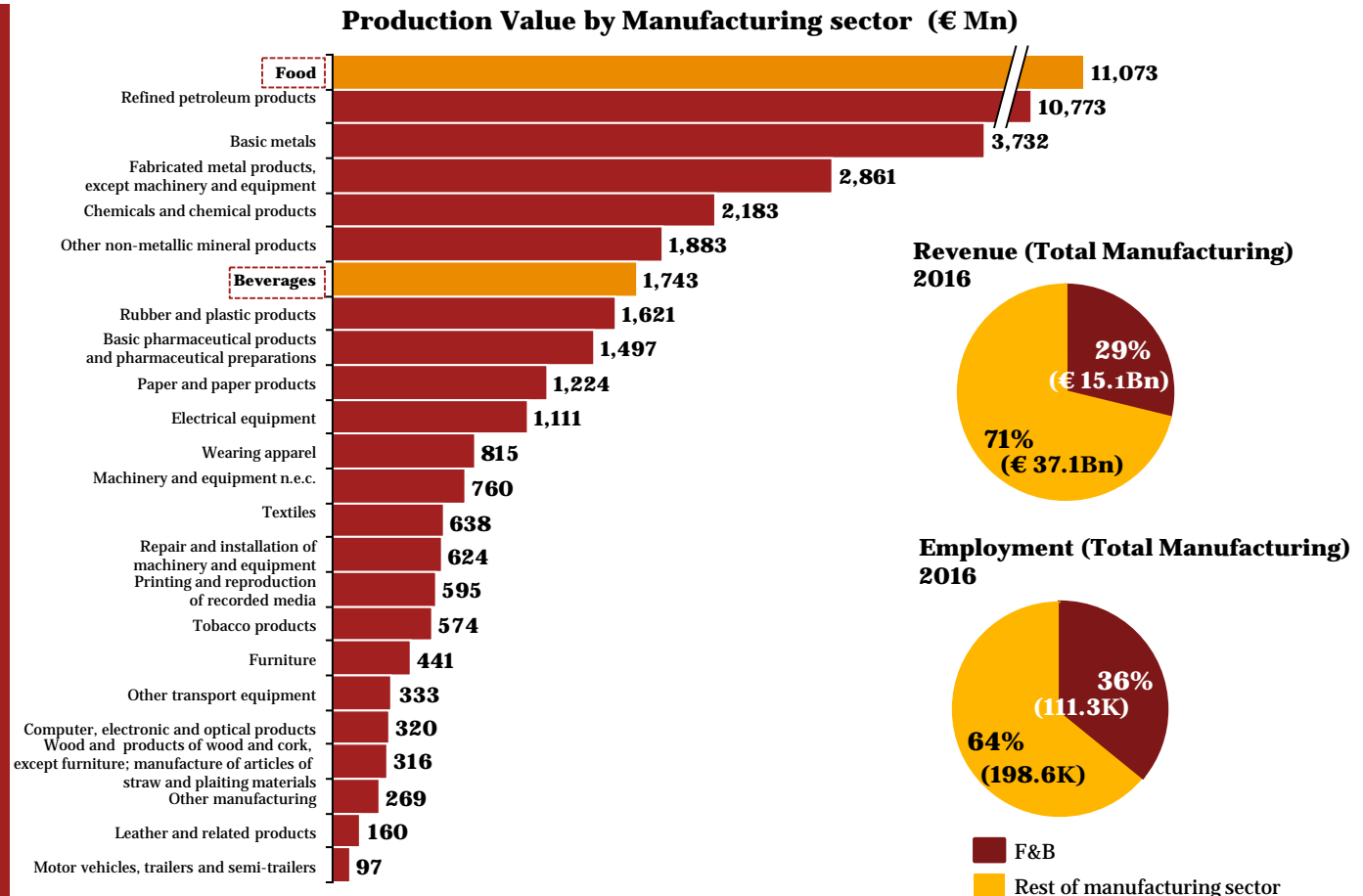


Sources: Eurostat, Structural Business Statistics, 2016

**In large economies the Food and Beverage industry accounts for 10-20% of manufacturing, while in Greece it reaches 30%**

**The Food sector is the largest manufacturing sector in Greece, while together with Beverages they represent the 29% of total sector's production value**

The industry occupies approximately 111K employees, covering 36% of the total workforce in manufacturing

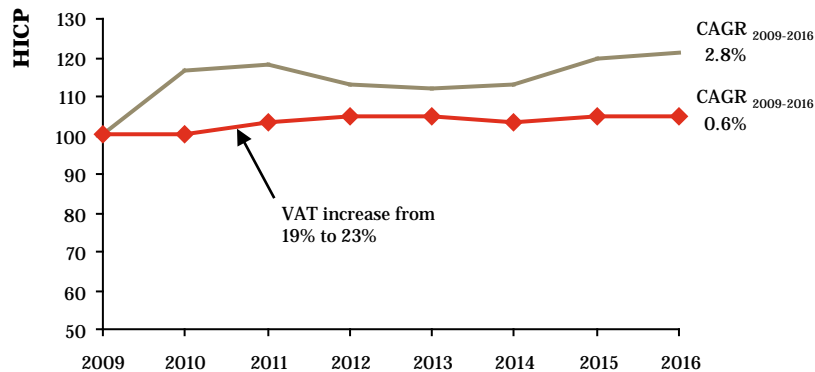


Sources: Eurostat, Structural Business Statistics, 2016



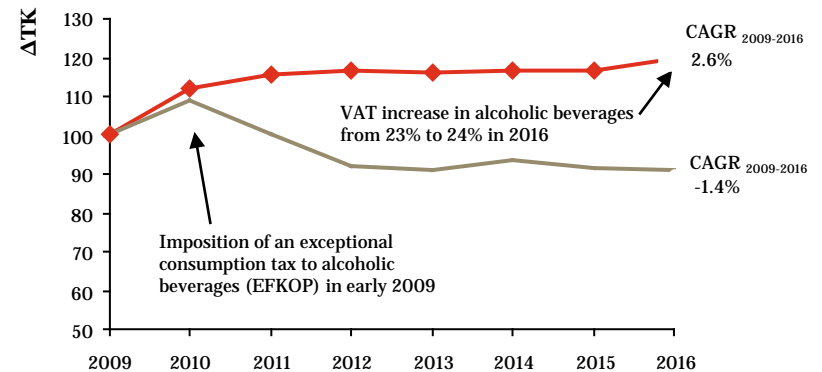
## ***The Beverages sector declined due to tax burden, while production of Foods depicted a positive trend***

**Harmonised Index of Consumer Prices (HICP) & Production Index  
Food Manufacturing**



Sources: Hellenic Statistical Authority, PwC Analysis

**Harmonised Index of Consumer Prices (HICP) & Production Index  
Beverage Manufacturing**



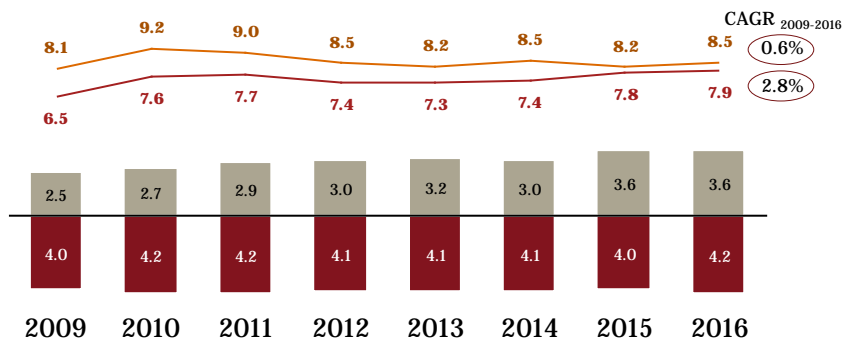
Sources: Hellenic Statistical Authority, PwC Analysis

—◆— HICP — Production Index

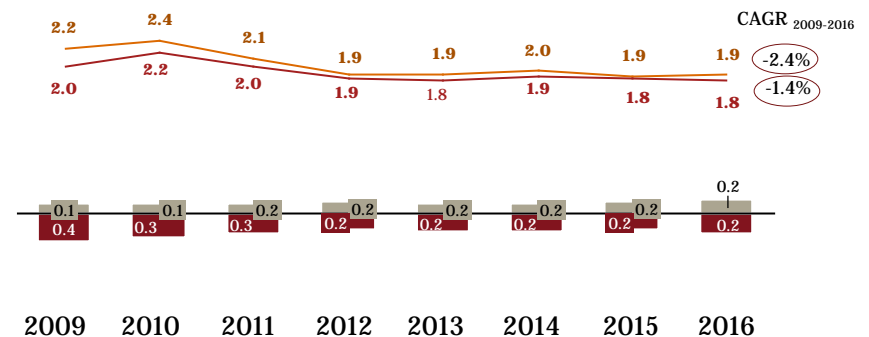
- Production of the Food sector grew by 20%, during 2009-2016, in contrast with the growth of the Greek economy
- Foods HICP demonstrated a marginal compound annual growth rate (cagr) of around 0.5% in 2009-2016, driven largely by VAT increase from 19% to 23% in 2011
- Beverages were heavily taxed, with HICP indicating a compound annual growth rate (cagr) of roughly 3%, mainly due to the VAT increase from 19% to 24% during the crisis, reducing production by 9%

## ***The Food industry increased its exports, while Beverages followed a different path***

**Consumption, Imports και Exports (€ Bn)**  
Food



**Consumption, Imports και Exports (€ Bn)**  
Beverages



Source: Hellenic Statistical Authority

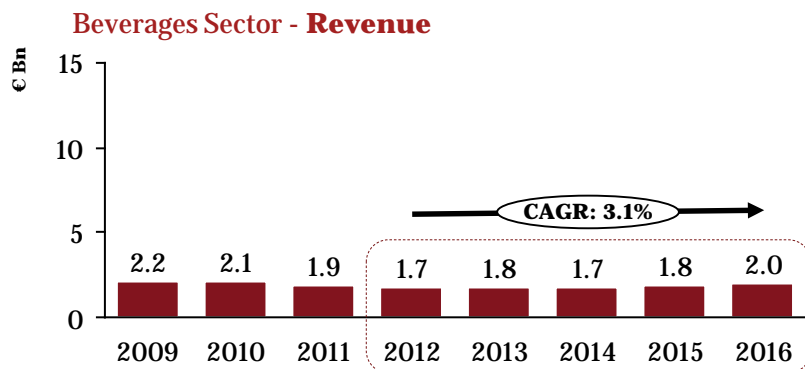
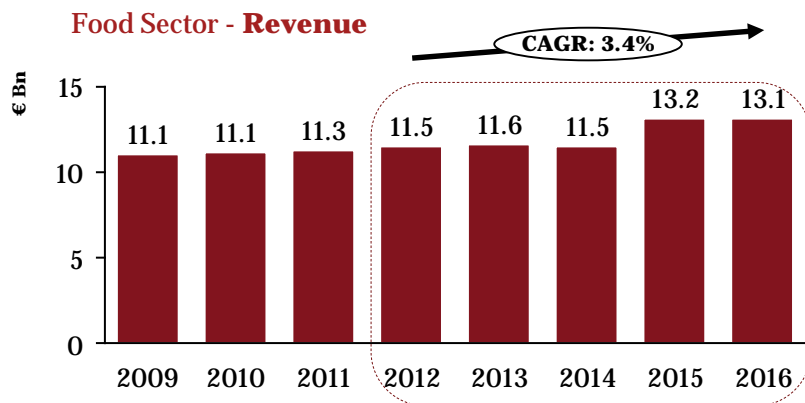
Source: Hellenic Statistical Authority

— Apparent Consumption (€ Bn) \* — Production (€ Bn) ■ Exports (€ Bn) ■ Imports (€ Bn)

\* Apparent Consumption= Production + Imports - Exports

- Apparent consumption of the Food sector grew by 0.5% during 2009-2016, with production rising significantly and is driven by exports
- The decline in apparent consumption of the Beverages sector reached 2.5%, with production closely following and exports rising slightly

***Food sector's revenues grew at an annual rate of 3.4% from 2012 to 2016, while Beverages' revenues increased by 3.1%, gaining a positive momentum***

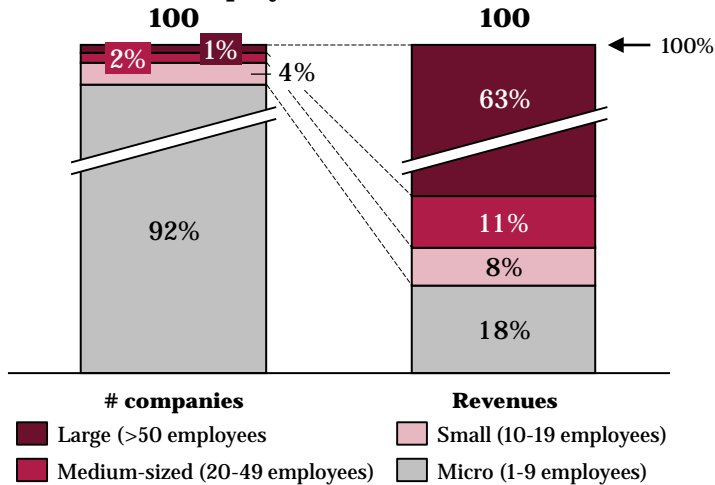


Sources: Eurostat, Structural Business Statistics

- The stable consumption, slightly increased prices but also the exports' expansion, were translated into revenue growth for the Food sector, especially during 2014-2016
- Beverage companies reported a downward trend in revenue during the crisis, which is showing a recovery in 2016

## The Big Picture

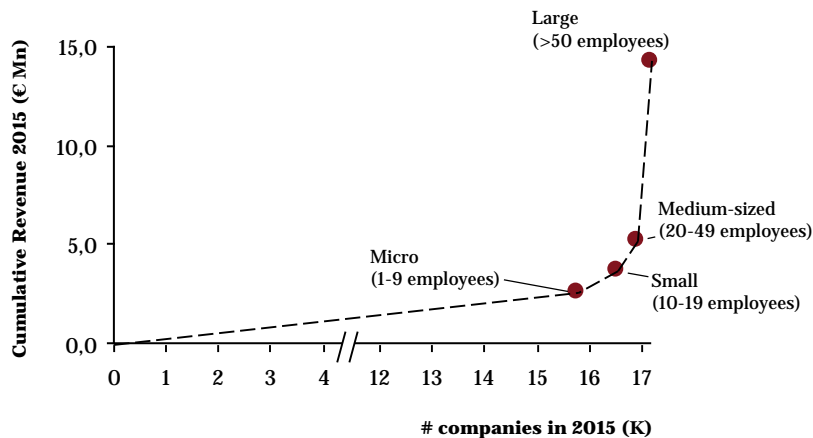
F&B companies' categorisation based on the number of employees (2015 data)



Source: Eurostat, Structural Business Statistics, 2016

## The Greek Food and Beverage industry is also highly concentrated and highly segmented

- Most of the companies (~ 15,799 in 2015) are small family businesses, employing fewer than 10 people. However, they account for only 18% of the total industry's revenues (€ 2.6Bn)
- On the contrary, the larger companies, employing more than 50 employees, have shown resilience, with their revenues increasing in recent years and reaching € 9Bn in 2015. The remaining 19% of the industry's turnover comes from small and medium sized companies employing between 10 and 50 employees



Source: Eurostat, Structural Business Statistics, 2016

63%

of the total industry revenues come from 1% of the companies



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## ***Summary***

- The Food & Beverage industry has a particularly important place in the Greek manufacturing, since it is the largest industrial sector in Greece, accounting for about 30% of total employment and revenue
- Production of Beverages declined due to continued price revaluations during 2009-2016, while production of Food rose driven by exports
- Food companies' revenues grew at a pace of 3.4% p. a. from 2012 to 2016, while Beverage companies' revenues increased by 3.1% indicating a positive momentum
- The Greek Food & Beverage industry demonstrates high concentration and high fragmentation, with 1% of the companies producing 63% of total turnover





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# ***Competitiveness of the companies active in the Food & Beverage sector***





The sample of 292 large Food & Beverage companies represents 67% of total turnover and 51% of total employment of the sector

### ***A brief description of competitiveness***

- For 292 companies with annual revenues greater than € 10Mn, we have conducted a competitiveness analysis using the PwC methodology, Stars & Zombies
- In 2015, these companies reported revenues of €10Bn and employ about € 8Bn in equity, € 3.7Bn in loans and 42 thousand employees, representing a large part of the Food & Beverage industry
- The combination of **revenue growth** (compounded annual growth rate), **profitability** (return on capital employed) and **debt sustainability** (Net Debt/EBITDA) forms the competitiveness profile of each company

# Competitiveness criteria for Food & Beverage companies

Evaluation criteria		
<b>Sales Growth</b>	<b>Profitability</b>	<b>Debt Constraints</b>
Revenue CAGR 12'-15'	Average ROCE* 12'-15'	Net Debt / EBITDA '15

Criteria	Competitiveness bands**		
	High Competitiveness	Medium Competitiveness	Low Competitiveness
<b>Revenue CAGR<sub>2012-2015</sub></b>	Greater than 9.5%	Between -4.2% and 9.5%	Less than -4.2%
<b>Return on Capital Employed (ROCE)<sub>2012-2015</sub></b>	Greater than 10.5%	Between 1.4% and 10.5%	Less than 1.4% or Return on Capital Employed <0
<b>Net Debt/ EBITDA<sub>2015</sub></b>	Less than 1.5x or Net Debt <0	Between 1.5x and 5x	Greater than 5x or EBITDA <0

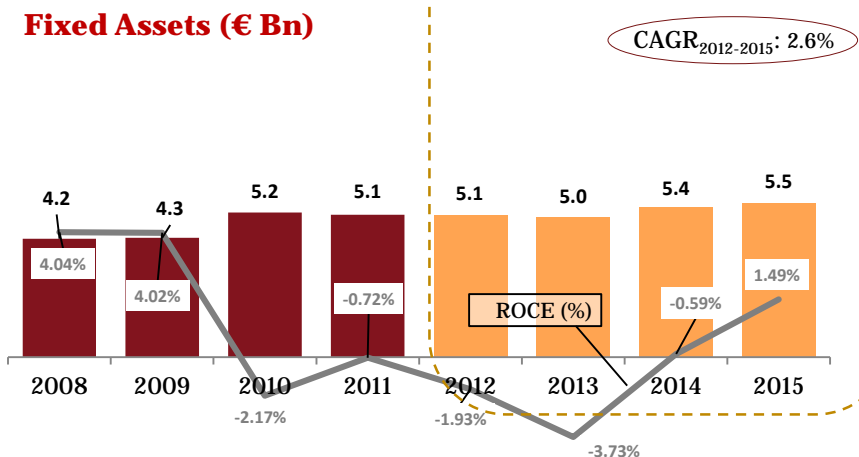
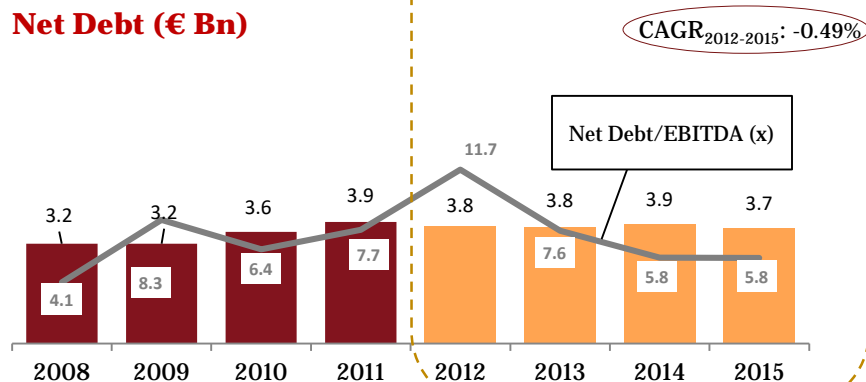
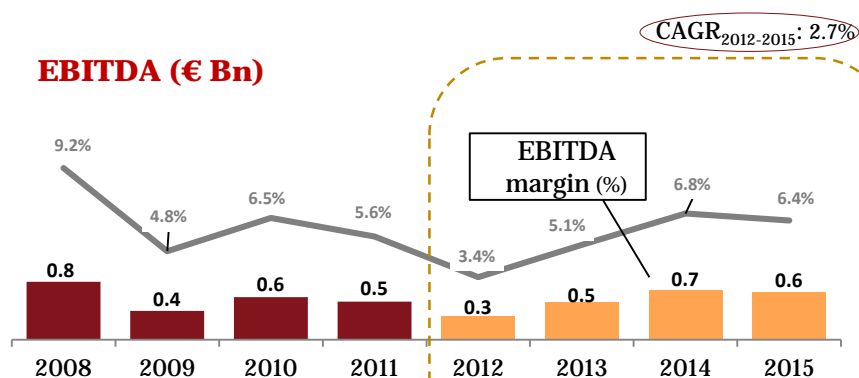
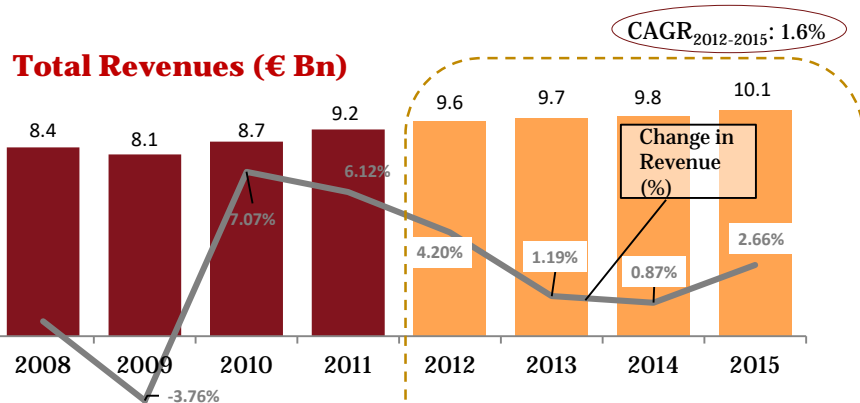
- Depending on the performance in each criterion, every company receives a value (High, Medium, Low) forming 27 different categories
- The combination of these tags produces a competitiveness index (e.g. HML: 3\*2\*1 = 6) for each company taking values from 27 (HHH) to 1 (LLL)
- Based on the competitiveness values, companies are grouped in three hyper-groups

Competitiveness Index	Categories	Classification
27	HHH	<b>Stars</b> High Competitiveness
18	HHM, HMH, MHH	
12	HMM, MMH, MHM	
9	HHL, LHH, HLH	
8	MMM	<b>Grey</b> Medium Competitiveness
6	HLM, MLH, HML, MHL, LMH, LHM	
4	MLM, MML, LMM	
3	HLL, LLH, LHL	
2	MLL, LLM, LML	<b>Zombies</b> Low Competitiveness
1	LLL	

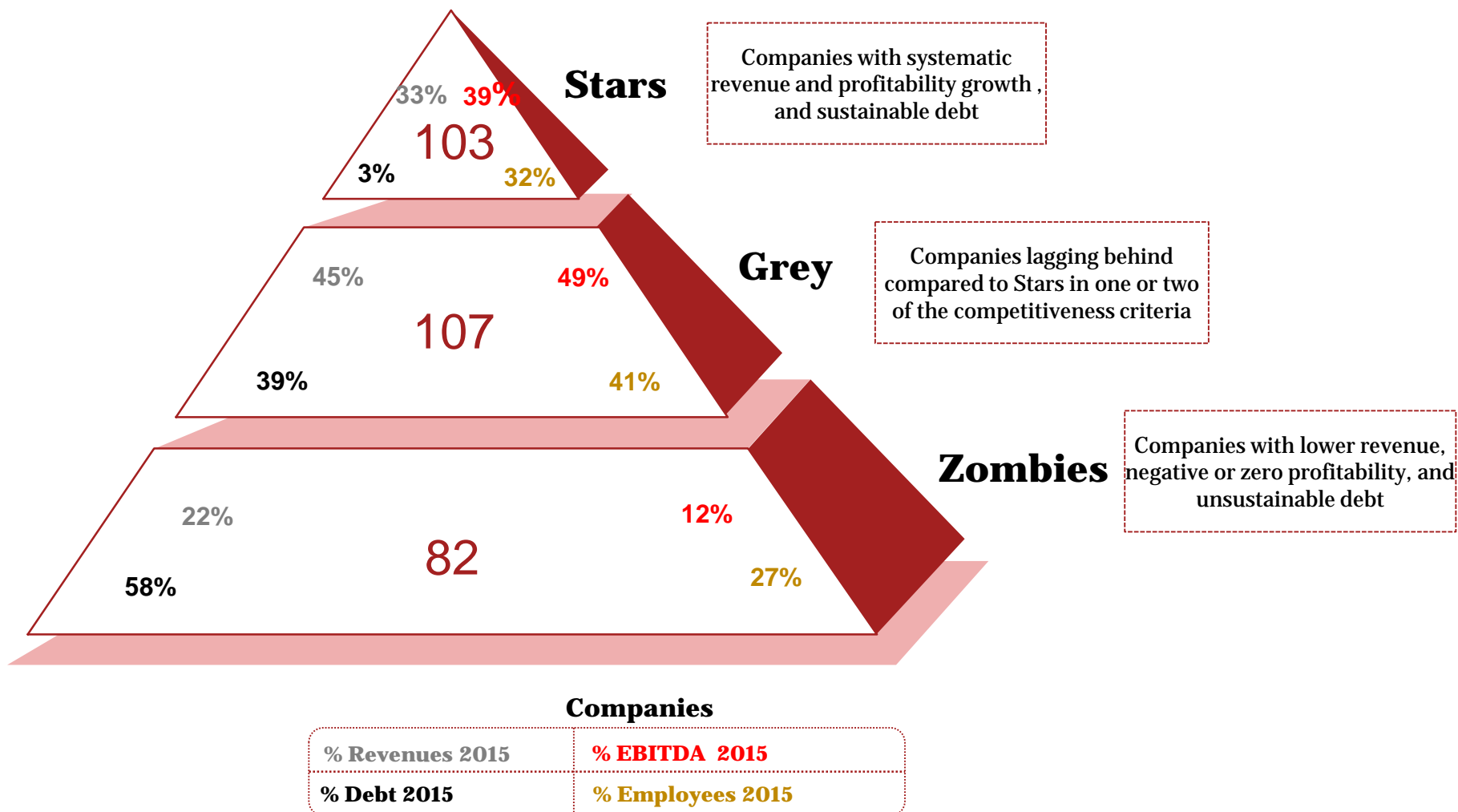
\* ROCE=EBIT/, (Capital Employed =Equity + Debt)

\*\* The limits reflect the lower 25% quartile and the upper 25% quartile of the distribution of the data

**During the last 4 years, large Food & Beverage companies mark a 2% increase in annual revenues, an EBITDA margin of 6.5% and high levels of investment**



**36% of the sector's companies are Stars, while only 27% are classified as Zombies**



## Competitiveness of the companies active in the Food & Beverage sector

**Star companies generate 48% of total profitability and 33% of the sample's revenues, while having an average EBITDA margin of nearly 11%**

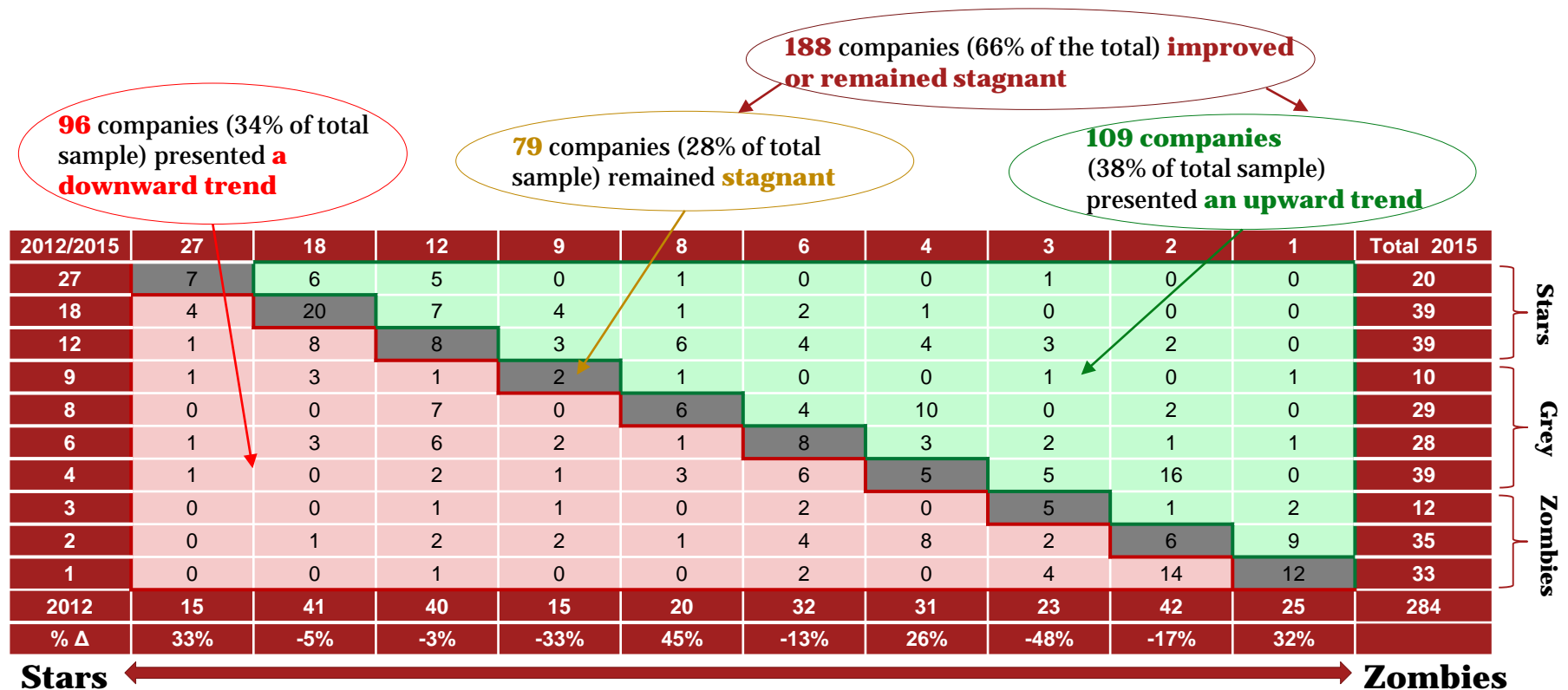
Competitiveness Index	Number of Companies	Staff	Revenues (€ Mn)	EBITDA (€ Mn)	EBITDA Margin	Capital Employed (€ Mn)	Net Debt (€ Mn)	Revenue CAGR (%) '12-'15	ROCE (%) '12-'15	Net Debt/EBITDA (x) '15	
27	22	2,595	493	66	13.4%	234	8	18.9%	19.5%	0.13	Stars
18	40	4,909	1,174	133	11.3%	681	-60	9.6%	13.6%	N/A**	
12	41	6,086	1,642	124	7.6%	1,002	156	1.8%	8.1%	1.3	
Sub-Total	103	13,590	3,309	324	10.8%	1,916	105	10.1%	13.7%	0.3	
9	10	706	315	36	11.5%	201	-15	-2.6%	16.0%	N/A**	Grey
8	29	4,580	1,480	138	9.4%	1,205	488	1.7%	6.9%	3.5	
6	30	4,295	1,077	61	5.7%	742	221	10.4%	3.5%	3.6	
4	38	7,665	1,690	165	9.8%	1,351	737	1.7%	1.8%	4.5	
Sub-Total	107	17,246	4,562	401	9.1%	3,499	1,430	2.8%	7.1%	3.6	Zombies
3	13	1,957	314	8	2.7%	205	158	8.4%	-6.8%	18.8	
2	39	6,737	1,230	90	7.3%	1,857	1,121	-3.4%	-2.2%	12.5	
1	30	2,940	617	-152	-24.7%	532	846	-16.7%	-19.4%	N/A*	
Sub-Total	82	11,634	2,161	-54	-4.9%	2,594	2,124	-3.9%	-9.5%	N/A*	
Total	292	42,470	10,032	671	5.4%	8,010	3,659.4	3.0%	3.8%	5.5	

- 8% of the sample (22 "Super Stars" companies) is classified as very competitive with rapid growth and high return on capital, while 10% of the sample (30 "Real Zombie" companies) has negative profit margin and unsustainable debt
- 44% of the sector's capital employed is utilised by Greys and 32% by Zombies. Stars employ their capital in a more efficient way

**High competitiveness companies occupy about 14k employees, corresponding to 32% of the sample**

\* EBITDA ≤ 0    \*\* Net Debt ≤ 0

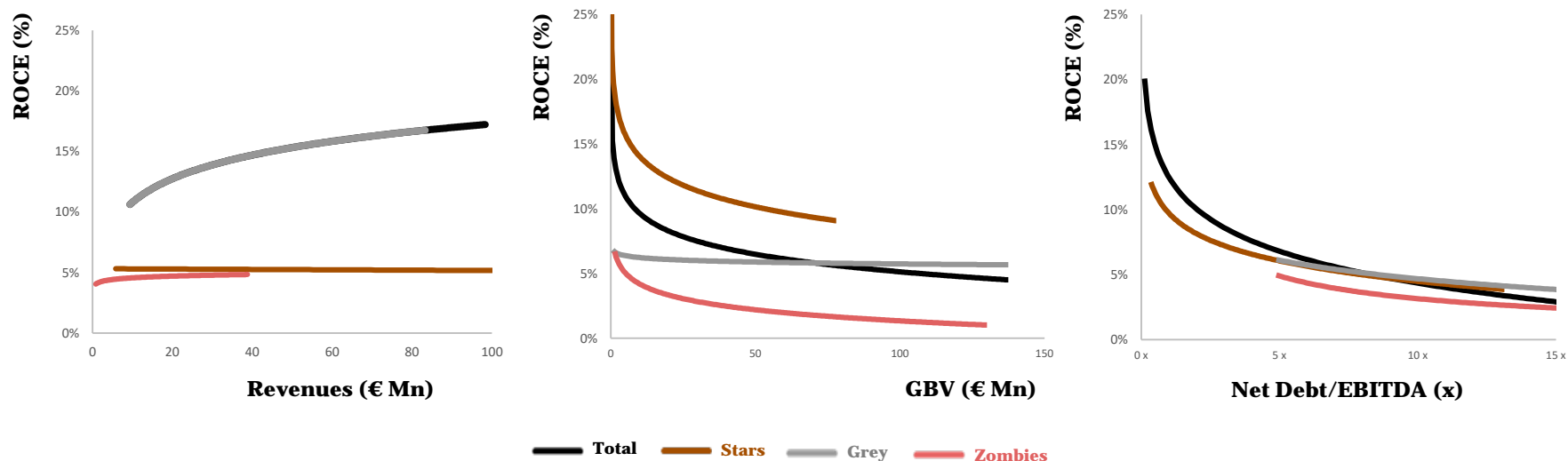
## Competitiveness of the Food & Beverage industry was improved since 2012 despite market pressures



- Since 2012, 21 companies have turned into Zombies, while 13 became Stars
- Between 2012 and 2015, 48% of Zombies failed to improve, while 47% of Stars remained stable



**Return on capital employed declines along with the rise in investment and capital intensity, suggesting a “trench” towards company size growth**









$\ln(\text{ROCE}) = a_1 \cdot \ln(\text{Revenue}) + a_2 \cdot \ln(\text{GBV}) + a_3 \cdot \ln(\text{Net Debt/EBITDA})$				
	$\ln(\text{Revenue})$	$\ln(\text{GBV})$	$\ln(\text{Net Debt/EBITDA})$	$R^2$
<b>Total</b>	<b>0.12</b>	<b>-0.27</b>	<b>-0.41</b>	<b>0.94</b>
Stars	0.09	-0.23	-0.28	0.90
Grey	0.13	-0.28	-0.32	0.95
Zombies	0.00	-0.17	-0.33	0.90

- Return on capital employed rises while revenue increases, due to better fixed asset utilisation
- A drop in return on capital employed through expansion of the production base, is indicative of under-utilisation of fixed assets
- Decreasing returns in scale constitute an important sectoral characteristic, which leads to technological devaluation of fixed assets

## Competitiveness of the companies active in the Food & Beverage sector

**The average Food & Beverage company is small, with a limited capital base**

2015	Revenue 	Staff 	Profitability 	ROCE 	Capital Employed 	Net Debt/EBITDA 
Stars	€ 30Mn <small>10% Revenue CAGR 2012-2015</small>	131 <small>employees</small>	€ 3Mn <small>EBITDA and around 11% EBITDA margin</small>	13.5% <small>ROCE<sub>2012-2015</sub></small>	€ 17Mn	0.6x <small>Net Debt/EBITDA with net Debt of €1 Mn</small>
Grey	€ 40Mn <small>2.8% Revenue CAGR 2012-2015</small>	148 <small>employees</small>	€ 4Mn <small>EBITDA and around 9% EBITDA margin</small>	6.9% <small>ROCE<sub>2012-2015</sub></small>	€ 30Mn	3.9x <small>Net Debt / EBITDA with net Debt of €11 Mn</small>
Zombies	€ 26Mn <small>-3.3% Revenue CAGR 2012-2015</small>	143 <small>employees</small>	€ -1Mn <small>EBITDA and around -5% EBITDA margin</small>	-9.6% <small>ROCE<sub>2012-2015</sub></small>	€ 28Mn	20.6x <small>Net Debt/EBITDA with net Debt of €24 Mn</small>

- The average Food & Beverage company reports average revenues of just over € 30Mn and occupies about 141 employees, while the average European equivalent stands over € 60Mn and around 200 employees
- Although performance varies with competitiveness levels, the typical size of a Food & Beverage company remains almost the same, as most competitive companies utilise less capital

## ***Competitiveness of the companies active in the Food & Beverage Industry***

1

During the last 4 years, large Food & Beverage companies mark a 2% increase in annual revenues, an EBITDA margin of 6.5% and high levels of investment

2

36% of the sector's companies are Stars while only 27% are classified as Zombies. Stars generate 48% of total profitability and 33% of total sample's revenues, with an average EBITDA margin of around 11%

3

Competitiveness of the Food & Beverage companies improved since 2012 despite market pressure

4

Investments and capital intensity are negatively correlated with return on capital employed, for all competitiveness groups, indicating under-utilisation of fixed assets and technological devaluation

5

The average Food & Beverage company is small, with a limited capital base





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# ***Competitiveness of sub-sectors differs significantly***

## ***The Food & Beverage industry appears as of medium competitiveness as a whole with three sub-sectors standing out***

Sub-sectoral characteristics of the F&B Industry										
A/A	Sub-Sector	Weighted Competitiveness Index	# Companies	Staff	Revenue (€ Mn)	EBITDA (€ Mn)	EBITDA Margin	Capital Employed (€ Mn)	Total Debt (€ Mn)	Fixed Assets (€ Mn)
1	Fruits & Vegetables	13.0	37	2,920	754	36	4.7%	456	146	432
2	Canning	12.5	23	1,829	551	46	8.3%	483	304	1,817
3	Alcoholic Beverages	11.4	15	2,445	679	33	4.9%	425	127	194
4	Pork	8.8	15	2,903	518	30	5.8%	377	267	974
5	Oil	8.7	23	1,453	1,008	59	5.8%	575	225	332
6	Bakery	8.7	61	11,807	1,920	134	7.0%	2,294	887	344
7	Dairy & Ice cream	7.9	39	6,036	1,695	116	6.8%	1,365	531	254
8	Water & Soft Drinks	7.5	19	3,107	815	52	6.4%	482	56	41
9	Frozen Food	7.4	16	2,570	457	32	7.0%	451	239	64
10	Nuts & Currants	6.9	8	629	163	14	8.4%	119	68	192
11	Poultry	6.2	18	2,980	831	38	4.6%	358	243	272
12	Red Meat	4.0	7	426	87	N/A*	-1.3%	63	39	223
13	Fisheries	4.0	11	3,365	554	83	14.9%	562	528	338
	Σύνολο	8.2	292	42,470	10,032	671	6.4%	8,010	3,659	5,476

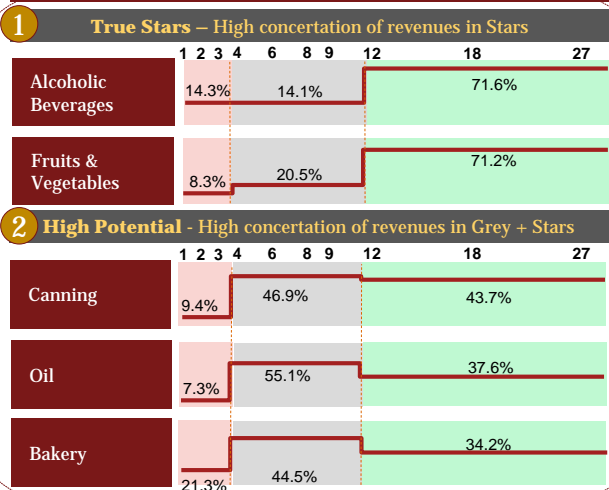
\* EBITDA < 0

- Approximately 75% of Food & Beverage revenue is concentrated in medium competitiveness sub sectors with bakery and dairy products dominating, and also in more competitive sub-sectors (fruit & vegetables, canning and alcoholic beverages) with total revenues reaching € 2Bn
- Fisheries and red meat are the least competitive sub-sectors generating revenues of € 640Mn

**Bakery and dairy products generate the largest amount of revenue comparing to other subsectors, yet the majority of their companies fall into the Zombie classification hindering total competitiveness**

## There are several sub-sectors that demonstrate high revenue concentration in competitive companies

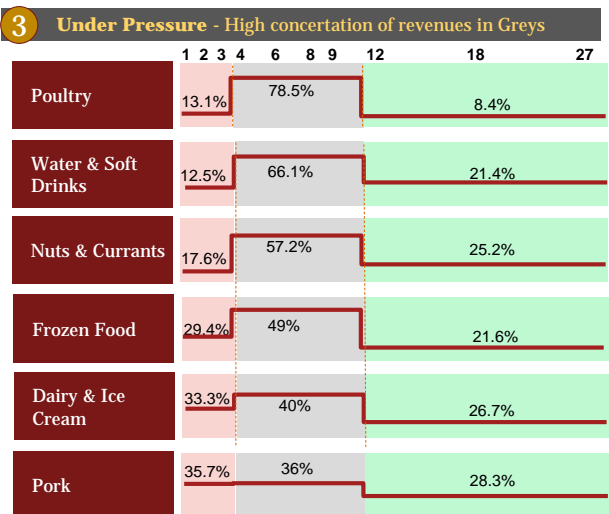
**Concentration of revenues per competitiveness group (%)**



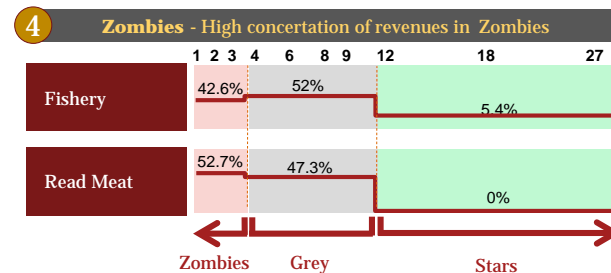
Sub-sectors with 50% revenue concentration in **Star** companies that have significant growth prospects



Sub-sectors with the majority of their revenue concentrated in **Greys**, but with positive momentum, since they also have a large share in Stars



Sub-sectors with the bulk of their revenue laying in **companies of medium competitiveness** (and less in non-competitive ones)



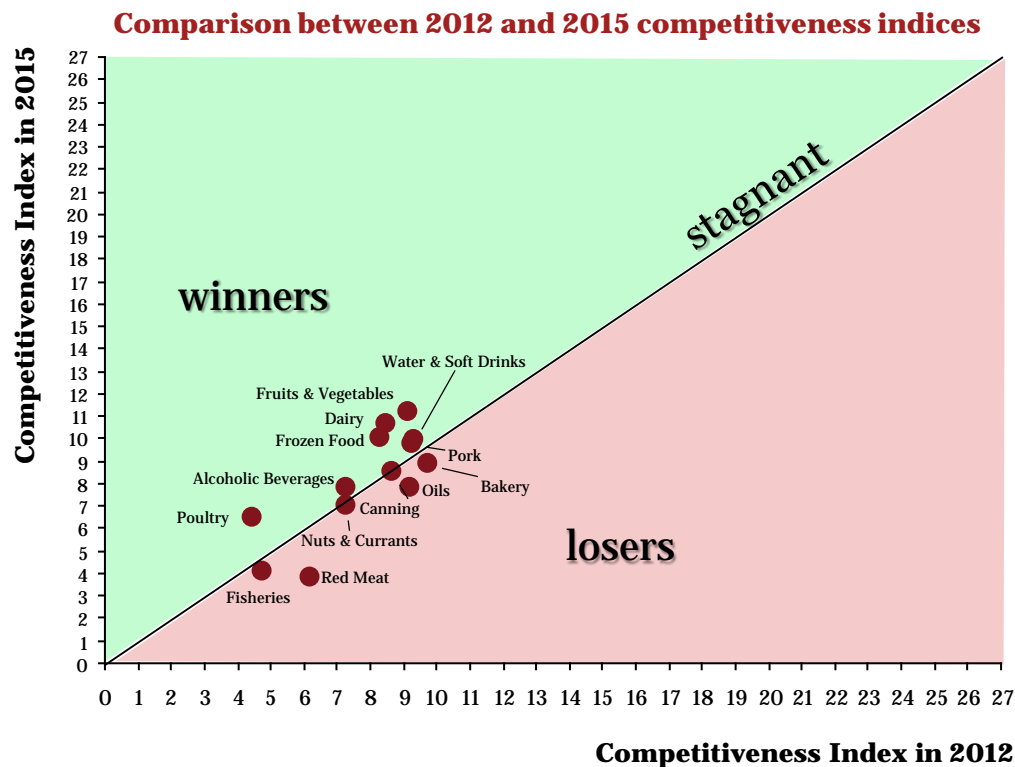
Sub-sectors with the majority of their revenues concentrated in **Zombies and Greys**

*Alcoholic beverages and fruits & vegetables concentrate over 70% of their revenues in Stars. Red meat and fisheries have minimum number of Star companies*



## Competitiveness of sub-sectors differs significantly

**Approximately 50% of the sub-sectors improved its competitiveness within 2012-2015, while the other 50% was deteriorated**



### Changes in Sub-Sectors' Competitiveness Index

Sub-sector	$\Delta(2012-2015)$	Change in Competitiveness
Dairy & Ice Cream	2.5	Large Improvement
Fruit & Vegetables	2.0	
Poultry	2.0	
Frozen Food	1.8	
Water & Soft Drinks	0.7	Mild Improvement
Alcoholic Beverages	0.4	
Canning	-0.1	Mild Decrease
Pork	-0.2	
Nuts & Currants	-0.3	
Bakery	-0.5	
Fisheries	-0.5	
Oils	-1.3	Large Decrease
Red Meat	-2.3	

- Dairy products, fruits & vegetables and frozen food improved their competitiveness from a relatively low base
- Oils and red meat had reduced significantly their competitiveness during 2012-2015

# **An overview of Competitiveness in the F&B sector...**

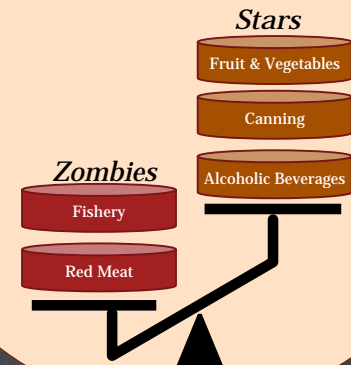
## **The companies of the industry quickly recovered from the crisis**

*During the last 4 years, large Food & Beverage companies mark a 2% increase in annual revenues, an EBITDA margin of 6.5% and high levels of investment*

## **Competitive corporate base**

*Nearly 40% of the sector's companies are Stars while only 27% are classified as Zombies. Stars generate 48% of total profitability and 33% of total sample's revenues, with an average EBITDA margin of around 11%*

## **Stars vs Zombies**



## **High concentration of revenue in competitive companies ...**

*There are sub-sectors with more than 50% revenue concentration in Stars, but also sub-sectors with the majority of their revenue laying both in Stars and Greys*

## **Approximately 50% of the sub-sectors improved their competitiveness in 2012-2015, while the other 50% was deteriorated**

*The sub-sectors demonstrating the largest improvements in competitiveness during 2012-2015 were dairy, fruit & vegetables, poultry and frozen foods*



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# ***Export dynamics of the Food & Beverage sector***

## ***Exports in the F&B Industry***

- During 2012-2015, domestic demand faded away to a large extent due to decreased household consumption expenditures, having as a result a large part of the Food & Beverage sub-sectors remaining stagnant in regards of exports
- The majority of the extrovert sub-sectors either retained or increased their exports during the last years, but at the same time sectors that were traditionally based on domestic market have shown an export dynamic
- Export activity of each sub-sector is defined though:
  - its **extroversion**, as a percentage of domestic production that is exported
  - the **compounded annual growth rate of exports** during 2012-2015



\*\*  $\left[ \sqrt{(1 + Extroversion) * (1 + Export\ velocity)} - 1 \right]$



## ***Five sub-sectors of the F&B industry export more than 50% of their production and cover over 60% of total exports***

A/A	Sub-sector	Extroversion*	Exports (€ Mn) 2015	Production (€ Mn) 2015	
1	Oils	97%	744	767	Extroverts
2	Fruits & Vegetables	83%	771	925	
3	Fisheries	69%	568	824	
4	Nuts & Currants	55%	337	609	
5	Canning	50%	88	182	
Sub-Total		71%	2,508	3,306	
6	Red Meat	35%	50	142	Medium extroverts
7	Alcoholic Beverages	25%	173	688	
8	Dairy	23%	556	2,471	
Sub-Total		28%	780	3,300	
9	Bakery	15%	358	2,432	Introverts
10	Frozen Food	14%	19	135	
11	Water & Soft Drinks	9%	103	1,156	
12	Poultry	4%	18	397	
13	Pork	3%	7	247	
Sub-Total		9%	505	4,367	
Total/Average		37%	3,792	10,974	

Out of the total production of the Food & Beverage sector, only 37% is exported, mainly concerning bulk products

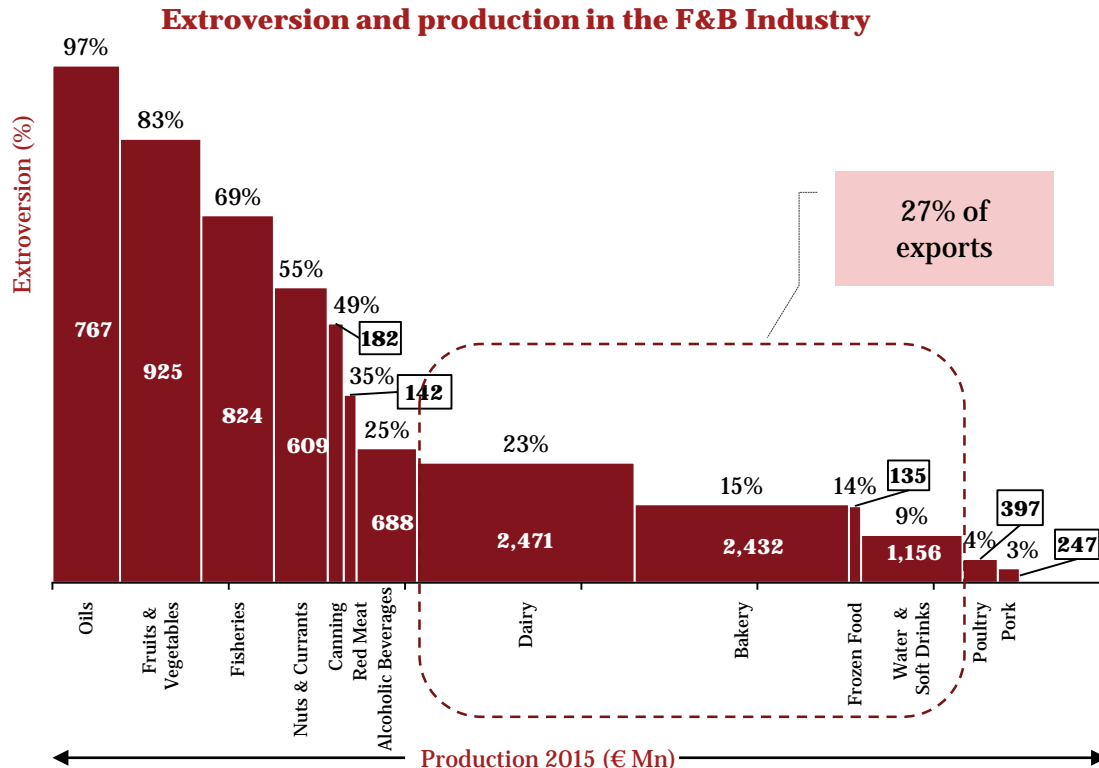
Pork and poultry export around 4% of their total production, while fruits & vegetables and Oils nearly 90%

Source: Hellenic Statistical Authority (fisheries production includes aquaculture and fishing)

\* Extroversion = Value of Exports/Value of Total Production



***The largest share of production in the F&B Industry is generated by medium or low export activity sub-sectors***



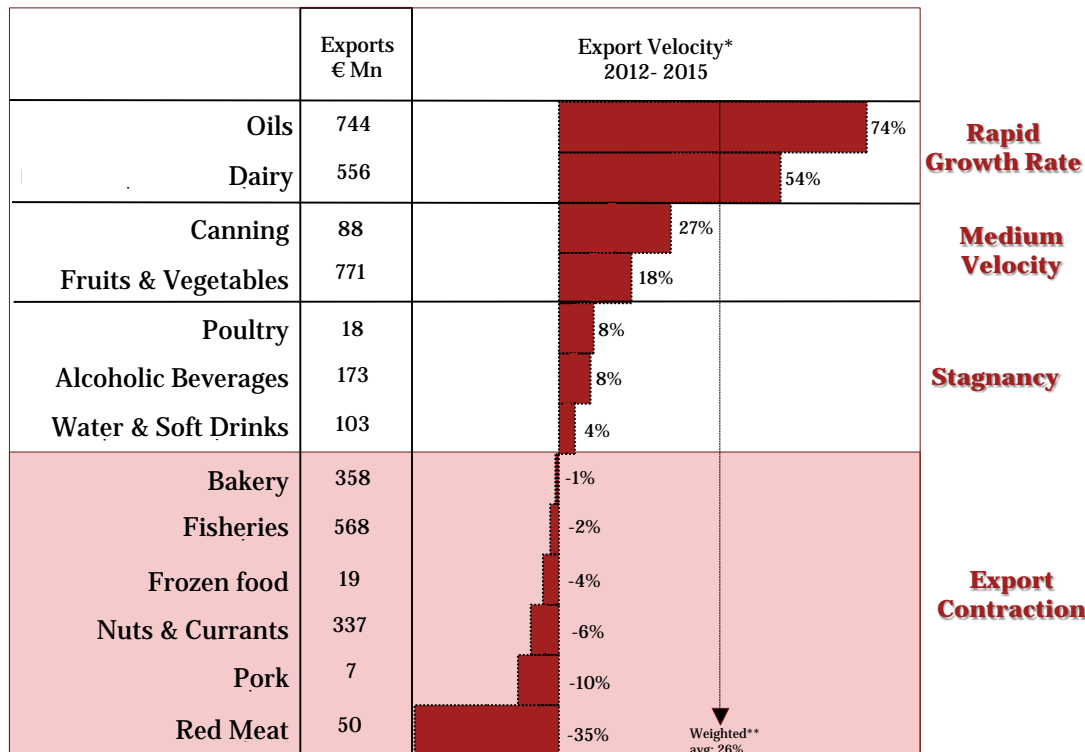
Source: Hellenic Statistical Authority

Dairy, Bakery and Water & Soft Drinks account for 55% of the industry's total production, however these sub-sectors have not yet managed to reach high levels of extroversion





***Total exports increased by 26% during 2012-2015, however almost half of the sector decreased its export activity***



Oils maintained and increased their export activity during 2012-2015 ,while dairy, despite having been introvert in the past, have shown significant export expansion exceeding 50% of their total production

Red meat, pork and nuts & currants have shown the largest contraction in exports during 2012-2015

$$*Export\ Velocity_{2015} = \frac{Exports_{2015}}{Exports_{2012}} - 1$$

\*\* Weighted by exports

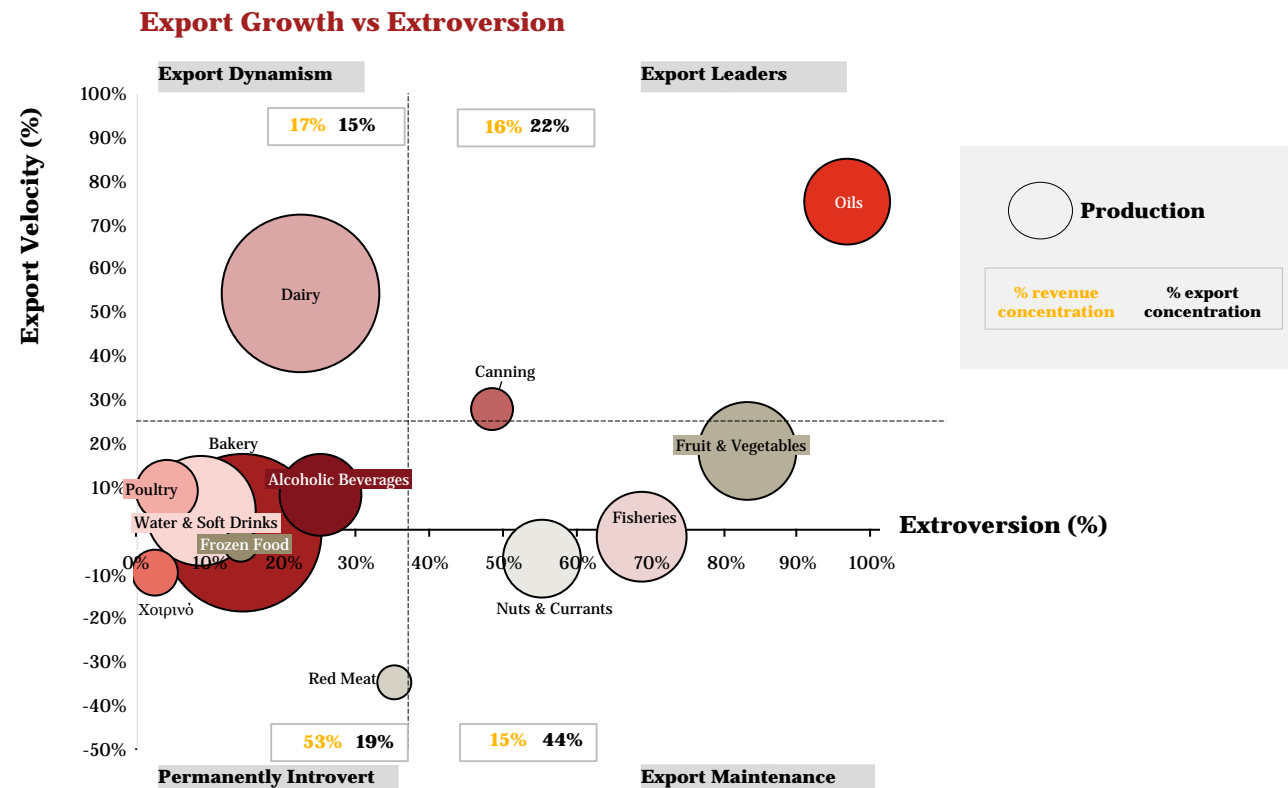
Source: Hellenic Statistical Authority



***The sector is dominated by permanently introvert companies, although exhibiting an extrovert dimension of low dynamism***

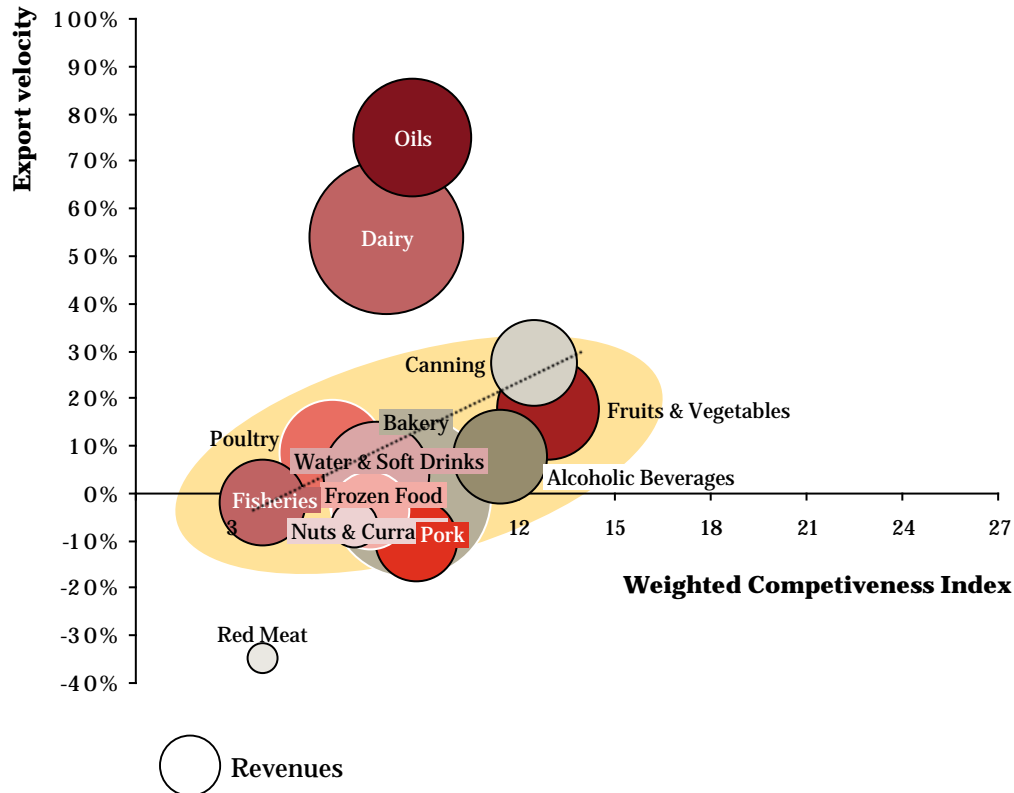
Regarding the extrovert sub-sectors, only oils were able to significantly increase their exports, followed by canning and fruit & vegetables

The majority of sub-sectors marked a decrease or an overall export stagnation, with dairy being the only introvert sub-sector that is growing its export activities





## ***High competitiveness seems to promote export growth in the Food & Beverage industry***



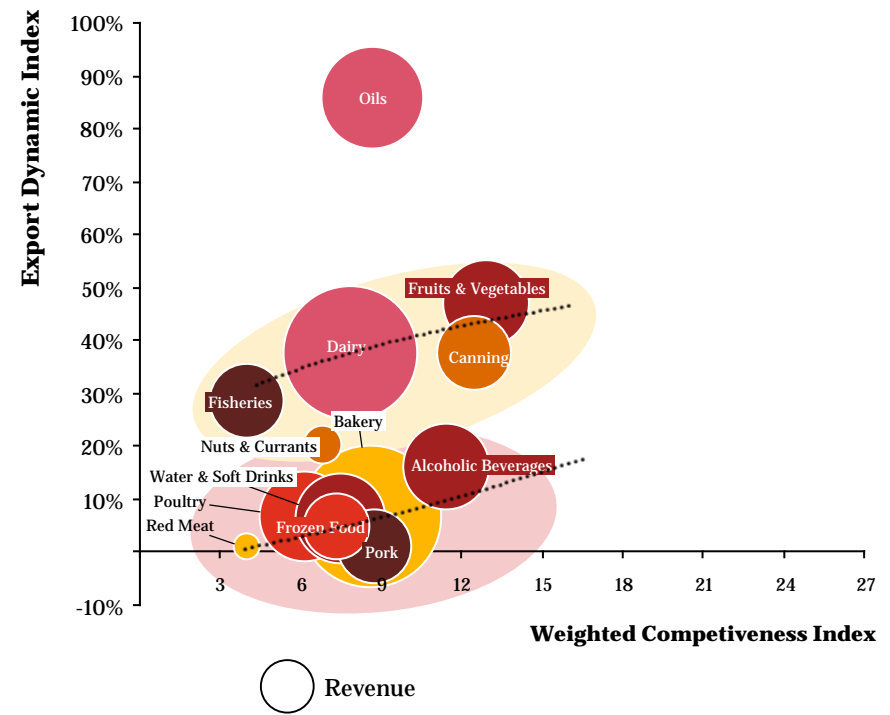
Increase in competitiveness appear to be strongly related to exports

Sub-sectors of low competitiveness have limited export activity with two exceptions: oils, primarily exporting in bulk and dairy primarily exporting long-lasting products

## ***The Food & Beverage industry is competitive but not particularly extrovert***

- The export potential of the Food & Beverage industry is not particularly high, since most sub-sectors are characterised as introverts, while extrovert sub-sectors such as Fisheries and Nuts & Currants demonstrate a decline in export velocity
- Oils, followed by fruits & vegetables, maintained and increased their export activity, while dairy, although an introvert sector, demonstrated significant export expansion during 2012-2015
- Introvert sub-sectors increase their exports by improving their competitiveness, but the overall export dynamic lags behind that of the extrovert sub-sectors

Competitiveness is positively correlated to extroversion, but two large sub-sectoral groups demonstrate different export dynamics

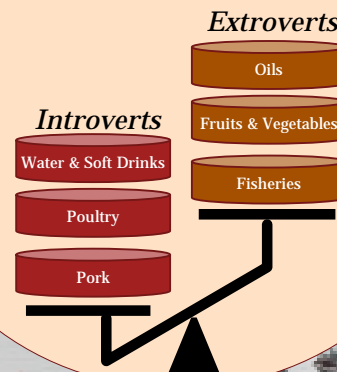


## ***An overview of export activity in the F&B sector...***

### ***Around 1/3 of the sector generates 60% of total exports***

*The Food & Beverage industry does not demonstrate high export activity. Oils, fruits & vegetables, nuts & currants and fisheries are the only true extrovert sub-sectors in 2015 with exports reaching around € 2.5Bn*

### ***Extroverts vs Introverts***



### ***“Trapped” production in medium extrovert or introvert sub-sectors***

*Most of the production is located in sectors of medium export intensity, such as dairy and bakery, but also in purely introvert sub-sectors*

### ***The sector is dominated by permanently introvert companies, while exhibiting a modest extrovert dimension***

*From the extrovert sub-sectors, only oils significantly enhanced their exports, followed by canning and fruits & vegetables*

### ***High competitiveness seems to promote export velocity in the Food & Beverage industry***

*Increases in competitiveness appear to be strongly related to exports, while sub-sectors of low competitiveness present limited export activity*

### ***The Food & Beverage sector is competitive but not particularly extrovert***

*Introvert sub-sectors increase their exports by improving competitiveness, but the overall export potential of the sector falls short when compared to that of the extroverted sub-sectors*



# ***Policies & Strategies for Growth***



## ***Why do F&B companies lack in competitiveness and export activity?***

***A hidden part of the Greek economy should be visible to international markets***



### ***Small Company Size***

- **Lack of funding** for tangible and intangible investments (marketing, R&D etc.)
- Difficulties in **shaping strategy** and consistent **export marketing**
- Lack critical mass necessary for **systematic R&D**
- Lack of **economies of scale** in production

### ***Market Failures***

- Lack of institutional **equity**
- **Small scale of companies** incompatible with the requirements of the international markets in terms of volume and product variety
- Absence of a single or **collective international** marketing and sales plan

### ***Limited exporting dynamic***

- **Lack of funds** for investments in branding and market share
- Low level of product **innovation**
- Small **production volume** per product
- Limited **footprints** in international markets

## ***A glimpse at the future of the Food & Beverage sector...***

- Industry-wide strategies focus on products, logistics, production, and marketing
- The industry is constrained by low concentration and low export potential
- There will be M&As in the Food & Beverage sector with a small subgroup of companies ( $\approx 20$ ) taking the role of consolidators and about 110 companies being potential targets
- There are 106 well known Food & Beverage brands, while the Greek diet is widely accepted and the Greek products are of intrinsically high quality
- In the Food & Beverage ecosystem, many products could be grouped under umbrellas of common brands in order to create the necessary critical mass for competent presence on international markets

Food & Beverage companies generally suffer from lack of competitiveness and extroversion



## ***Strategies for the development of the Food & Beverage industry relate to products, production, logistics and marketing***

### **01**

#### **Products**

- Creation and development of innovative synthesis
- Creation and promotion of more attractive packaging
- Adjustments in cultural differences

### **02**

#### **Production**

- Expansion of production scale
- Higher flexibility of Greek companies
- Cross-sectoral supply aggregation to primary agri-food processing
- Minimal production quantities compatible to low demand

### **03**

#### **Logistics**

- Increase of storage scale and distribution of products
- Aggregation of activities for shared location (to customers and production units)
- Distribution of products through international channels

### **04**

#### **Marketing**

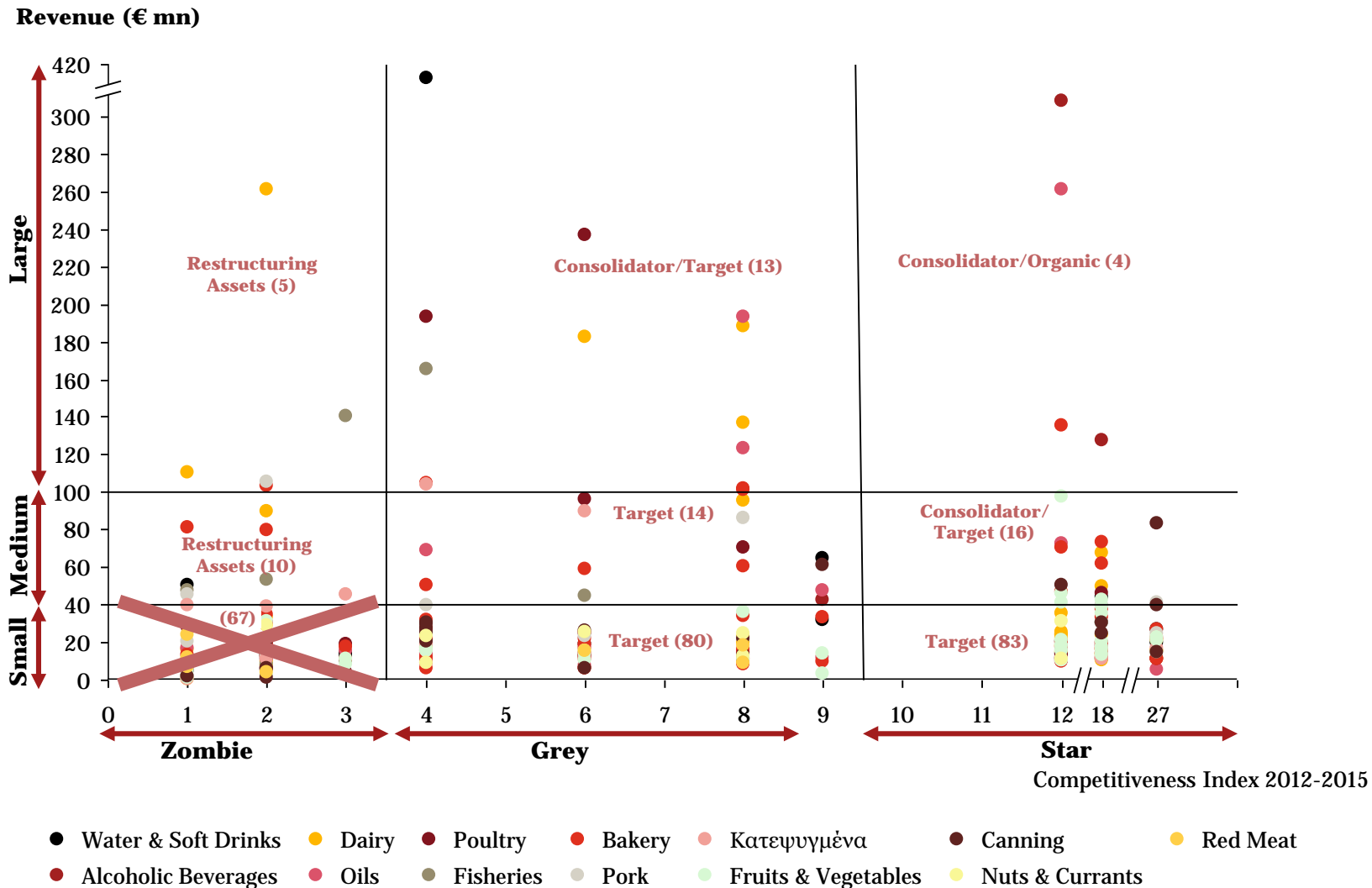
- Demand aggregation for products
- Segmentation of supra and normal branding products
- Common commercial agreements (price and credit)
- Grouping and product differentiation
- Permanent marketing infrastructure

***The Food & Beverage industry is under the weight of extremely low concentration and low export dynamic***

- Large and competitive companies will play the role of consolidator ( $\approx 17$ )
- Small/medium size and of medium competitiveness companies will constitute targets for consolidators ( $\approx 94$ )
- Medium sized competitive companies could act either as consolidators or targets ( $\approx 16$ )
- Small and competitive companies will remain “niche” ( $\approx 83$ )
- Medium and large-sized Zombies will stand as targets of strong consolidators, who can bear the transaction costs through bankruptcy or special administrator ( $\approx 15$ )
- Small Zombie companies will be driven, to a large extent, in liquidation process ( $\approx 67$ )



# Concentration dynamics of Food & Beverage companies



***There are 106 established Greek brands in the Food & Beverage industry, while the Greek/Mediterranean diet is widely accepted, and the Greek products are of high quality***



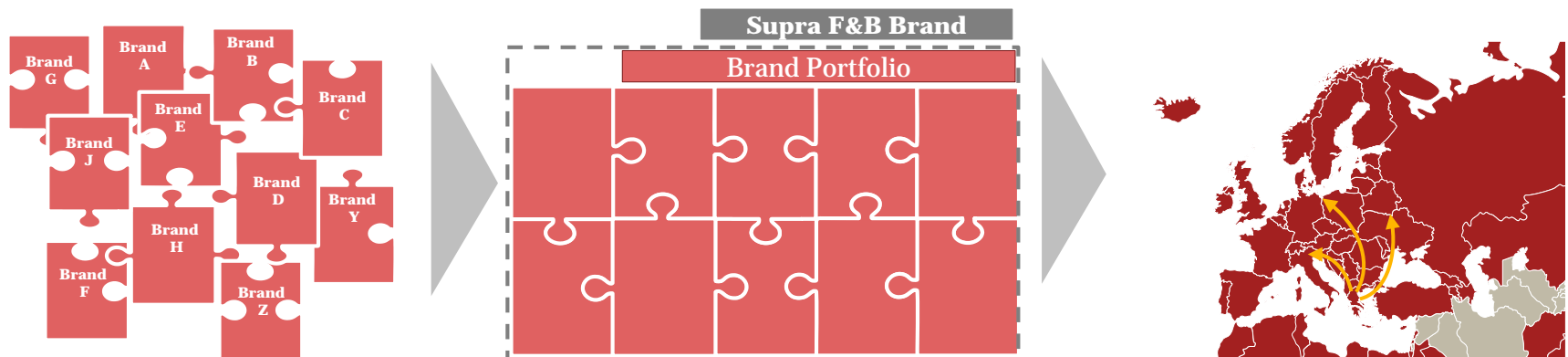


***In the Food & Beverage ecosystem, many products could be grouped, from a marketing and sales perspective, under umbrellas of unified brands***

***Leading and smaller Food & Beverage brands can be grouped together collecting at least € 300m in annual revenue***

***Creation of a «Supra F&B Brand», under which Greek products are advertised and promoted (e.g. Produit du Soleil)***

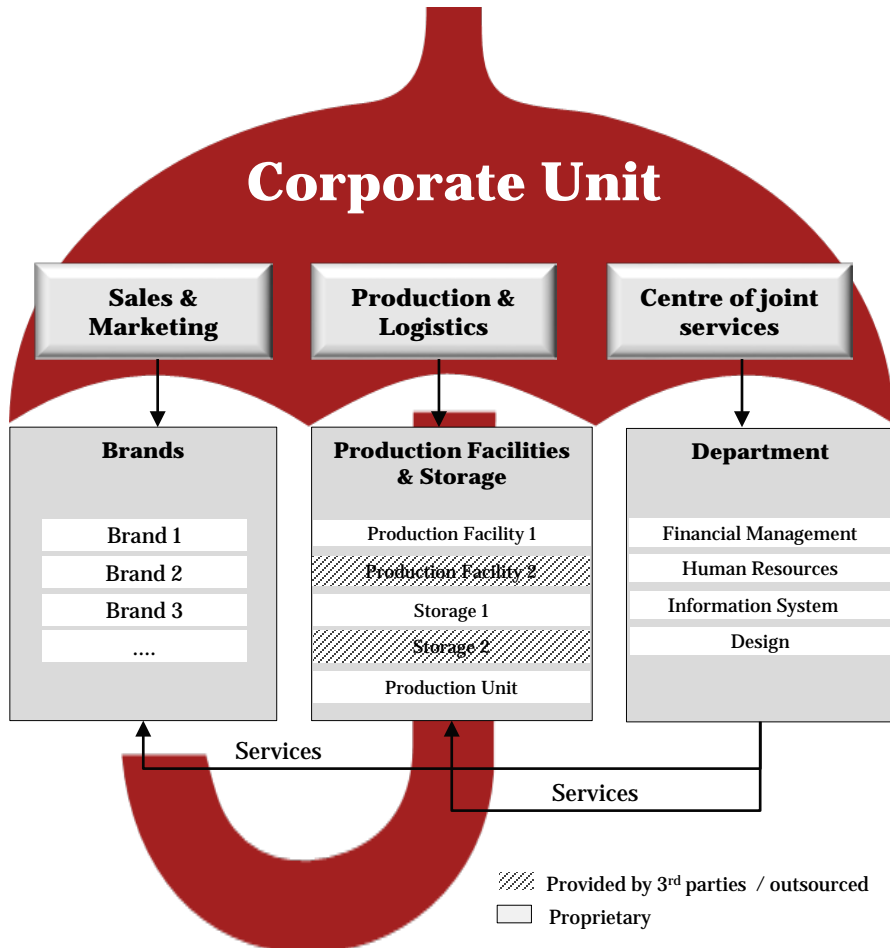
***Through a flexible corporate scheme with investments in marketing and joint services, group's revenue will more than double over a decade, mainly due to exports***



## ***The aim is to create the necessary critical mass in the international markets***

### **“PRODUITS DU SOLEIL”**

#### **Corporate Unit**



- The "company" that will be created through the cooperation of Greek branded companies in the Food & Beverage industry will aim to create an important player in the international market through demand aggregation
- The cooperating manufacturing companies will be able, at their discretion, to:
  - sell / provide their trademark and production facilities to the "Company"
  - to sell / assign their trademark to the "Company", but maintain their production facilities (production services)
- Administration and management, apart from production, will be common and will offer its services in marketing, sales, R&D, and logistics
- The production activities will be managed by the production units, however under a single design mechanism
- The "shared services" model will be adopted for all support functions that will be offered on a single basis to all companies participating in the scheme
- The initial size of the scheme will allow extra funds for marketing, product research & development and distribution in large geographic areas



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# ***Conclusion***

## ***Conclusions (1/2)***

- The importance of the Food & Beverage industry is evident for the Greek economy as it is the largest manufacturing sector, accounting for around 30% of total production. In recent years, the industry has remained unaffected by the economic constraints and the unstable economic climate, however production retained its robustness despite ongoing repricing and tax burden. The industry is strongly fragmented with 1% of companies generating 63% of revenue
- Despite the adverse economic environment, the Food sector managed to increase its production and exports with an average annual revenue increase of around 3%. In contrast, the Beverage sector did not follow the same export trend, since the trade balance was fairly stable during 2012-2015, managing, however, to demonstrate an akin revenue increase
- The corporate base of the Food & Beverage industry was quite resilient during the crisis, since it marked an average annual revenue increase of around 2%, an EBITDA margin of 7% and an increasing investment activity during 2012-2015
- 36% of the companies in the industry are very competitive (Stars), while only 27% do not show signs of competitiveness (Zombies). 65% of the total corporate base has retained or improved its competitiveness over the 4-years (2012-2015)
- The average company of the Food & Beverage sector is small in terms of revenue with a limited capital base. In general, the return on capital is reduced by the rise in investment and the capital intensity, indicating the existence of a “trench” towards companies’ growth but also the existence of technological deficiencies
- Three sub-sectors cover 50% of total production (dairy products, bakery, oils), while the rest are relatively small, yet with some degree of differentiation. Several sub-sectors depict high revenue concentration in competitive and relatively competitive companies



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## ***Conclusion (2/2)***

- In terms of exports, the Food & Beverage industry appears fragmented, as 40% of the sector is responsible for nearly 60% of total export activity, with a large part of production “hooked” in introvert sub-sectors. During 2012-2015, the sector managed to expand its total exports by 26%, however this increase was mainly attributed to only two sub-sectors (oils, dairy products)
- The Food & Beverage sector has not fully reached its competitiveness and export potential due to structural weaknesses that hinder its dynamic growth. The constraints in growth and exports fall into two categories:
  - small corporate size
  - market failures
- Under the pressure of a fragmented market and constrained export capabilities, the Food & Beverage industry is likely to be driven by acquisitions and corporate restructurings
- The sector’s growth strategy should be based upon the systematic concentration of sales under common brands that will lead to production aggregation, effective cost saving and stronger marketing capabilities
- If there is no intra and cross-sectoral concentration, following the historical trend, in 5 years there will be a gradual competitiveness increase, but the Food & Beverage industry will remain structurally the same along with all its current strong constraints





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