"NINE (9) SECTOR STUDIES FOR SMALL AND MEDIUM SIZED ENTREPRISES"

PHASE C

SECTOR GUIDEBOOK - EXECUTIVE SUMMARY

CATERING

MINISTRY OF DEVELOPMENT
GENERAL SECRETARIAT FOR INDUSTRY

EUROPEAN COMMISSION
ERDF

NOVEMBER 2008

1. MAIN CHARACTERISTICS OF THE SECTOR

The catering sector in Greece is divided into three basic sub-sectors: *event* catering, *industrial* catering and *airline* catering. The basic characteristics of the sector are the following:

- The sector comprises of about 3.000 companies, with largest concentrations in Athens (32%) and Thessaloniki (9%). Many companies are also active in popular tourist destinations, catering for hotels in the Dodecanese, Crete and Corfu.
- Events catering holds the largest market share (51%) followed by industrial catering (32%) and airline catering (17%)
- The sector is growing in terms of sales (apart from airline catering which is stagnant). In addition, the sector exhibits low profit margins, moderate liquidity, favourable business cycles and high return on capital.
- The intensity of competition depends on the sub-sector.
- Many companies from other sectors, such as bakeries, restaurants and hotels, offer catering services with out being classified as catering companies. This fact prevents accurate market assessment.
- Market concentration for event catering is low with a large number of active companies. Industrial catering on the other hand is relatively concentrated (the biggest four companies hold 53% of the market) and airline catering even more (3 companies control 80% of the market).
- Product differentiation is limited.
- Market entry difficulty varies, with event catering being the easiest market to enter and airline catering the most difficult.
- The sector is labour-intensive, with labour costs accounting for the largest part of production costs.
- The sector is regulated by a wide variety of laws and regulations relating to

sanitation, food processing and public health.

Some basic financial indicators, resulting from the sector study of 35 companies are the following:

- Total turnover in 2007 was €280.93 million - 6.9% decrease since 2006. 66.7% of the companies improved their earnings.
- In 2007, gross profits were €97.02 million -9.3% decrease since 2006. Gross profit margin improved further rising to 34,7%.
- EBITDA was €60.56 million (53.7% increase) with margins falling to 14.6%, from 20.8% in2006.
- EBT rose spectacularly from €5.52 million in 2006 to €16.94 million in 2007. However, EBT margin was 2%.

2. SECTOR ATTRACTIVENESS

PEST ANALYSIS

POLITICAL ANALYSIS	ECONOMIC ANALYSIS
Investment incentives Satisfactory system of investment incentives, including direct grants (Law for Investment Incentives and EU Structural Funds Programmes) **Legal framework** The sector is regulated by laws covering sanitation and public health, food processing and industrial activity. Nevertheless, state control of enforcement is deemed inadequate, thus endangering public health. Entry into airline catering requires a special operating license as well as physical presence (facilities and equipment) at the all airports where the company operates. **Unfair competition** The event catering sub-sector is characterised by undue practices, namely the offer of frozen or pre-cooked foods as fresh.	**Demand** Event catering is affected by the number of events and conferences the general economic climate Industrial catering is affected by the tendency to provide meals in the workspace, demand for pre-cooked food as well as the overall tourism industry. Airline catering is affected by passenger numbers, fuel prices, the economic and political conjunction and the overall performance of the airline industry. **Competition** Competition is expressed in terms of price and quality. **Raw materials** The price of raw materials is rising dramatically, affecting mainly SME's. **Economic climate** The current economic crisis is already affecting event and airline catering.
TECHNOLOGICAL ANALYSIS	**SOCIAL ANALYSIS**
Investment in new technologies Companies in the sector are required to follow market trends and renew their equipment so as to improve the quality of their service.	**Demographics** Geographic concentration of companies follows population (main urban centers) but also tourism (main destinations). **Consumption patterns** The growth of the industry depends upon the frequent holding of events/receptions. **Provision of lunch at the workspace** Industrial catering benefits from the tendency to provide lunch at the workspace, especially from larger companies. **Income distribution** Event catering targets higher income groups.

FIVE FORCES ANALYSIS (Porter)

- *The bargaining power of suppliers is very small* both for equipment as well as raw materials.
- *The bargaining power of customers is relatively small* due to the dispersion of companies and customers for events catering. In industrial and airline catering, bargaining power is determined by size of the customer and the order.
- *The threat of the entry of new competitors is low* due the large number of companies (not applicable to airline catering).
- *The threat of substitute products is minimal*.
- *The intensity of competitive rivalry is rapidly increasing,* due to oversupply and the current economic climate.

Market attractiveness is very satisfactory but varies between sub-sectors.

3. CRITICAL SUCCESS FACTORS

Market entry conditions and requirements depend upon the sub-sector:

- Event catering requires a relatively low initial investment in equipment for meal production (stoves, refrigerators, trucks etc.) and service (tables, chairs etc.)
- Industrial catering requires significantly higher investment (buildings, storage etc.) as well as know-how and trained staff. Quality assurance and labeling for meals must also be ensured.
- Airline catering requires equipment for the mass production of meals as well as their handling. Additional demands stem from requirements for a special operating license and the legal obligation to hold facilities in the airport serviced.

The sector is expected to restructure, due to intensifying competition. In current economic conditions the sector is negatively affected. Nevertheless, caterers may benefit from a series of market conditions such as:

- growth prospects for conference tourism and related rise in demand from hotels,
- rising demand for industrial catering,

- expected rise in demand from hospitals,
- overall rise in demand in prepared and "chilled" meals
- consumer pressure for market inspections which will limit unfair competition
- individual consumer and larger customer preference for events as a means to increase social status.

Successful market entry requires a catering entrepreneur to:

- target specific customer groups and maintain appropriate links (establishment of direct contacts for event catering, strategic partnerships for industrial catering),
- pinpoint competitive advantage and establish conditions for its full utilisation (cost center monitoring, pricing policy, quality assurance etc.),
- follow market trends for products, services and innovative approaches,
- be flexible so as to address changes in consumer preferences and seasonality,
- commit to the company, be insightful and be prepared to take calculated risk

Overall, the catering sector is fairly competitive, but offers opportunities for insightful entrepreneurs. Competitiveness for a catering company depends upon:

- price competitiveness,
- meal quality and customer service and satisfaction,
- consistency in service delivery.

4. BUSINESS PLAN SUMMARY

The formulation of a strategy and business plan is indispensable for market entry in any activity. The business plan should contain at least the following:

Internal environment analysis, which includes an overview of the company (status, shareholders, services and products, business links), assets and infrastructure, organization, human resources and management and basic financial data.

External environment analysis, which includes analysis of market structure and

competition, demand for products and services, technological developments in the field. Analysis should be based on market research and sectoral studies / reports.

Strengths, weaknesses, opportunities, threats (SWOT) analysis, resulting from previous analyses.

Strategic Plan, which defines and analyses overall strategy (strategic options and planning) as well as marketing strategy.

Business Plan, where strategy is translated into business objectives for a three- or five-year period. Objectives should be simple and quantifiable in order to assess their attainment. Every Objective is further analysed in distinct Activities (groups pf actions). Similar Activities are grouped and their relative costs should be accordingly assessed.

Financial Plan, which focuses on detailed analysis of projected financial results. It should include the basic assumptions upon which it is based. Forecast financial statements should be based on substantiated assumptions of sales, production – including labour - and marketing costs, depreciation and amortisation, as well as overall financial structure and sources of funding. Forecast results are based on widely recognised indices and should be subjected to sensitivity analysis.