VEGINSIGHTS

monthly vegetable market insights

A VIDP initiative

*December **2010***

Highlights

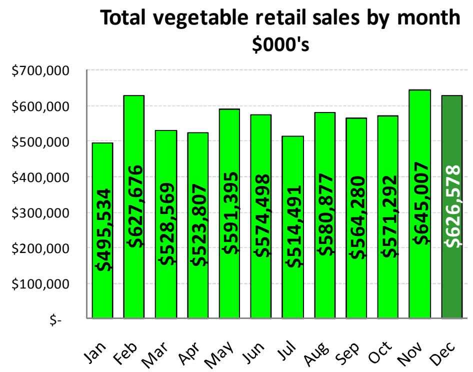
- **Wholesale vegetable prices ease back to Sept levels**
- **Consumer sentiment inches higher on rate pause**
- **Portion sizes the new 2011 eating trend in Australia**
- **Category Focus: Asian leafy vegetables**

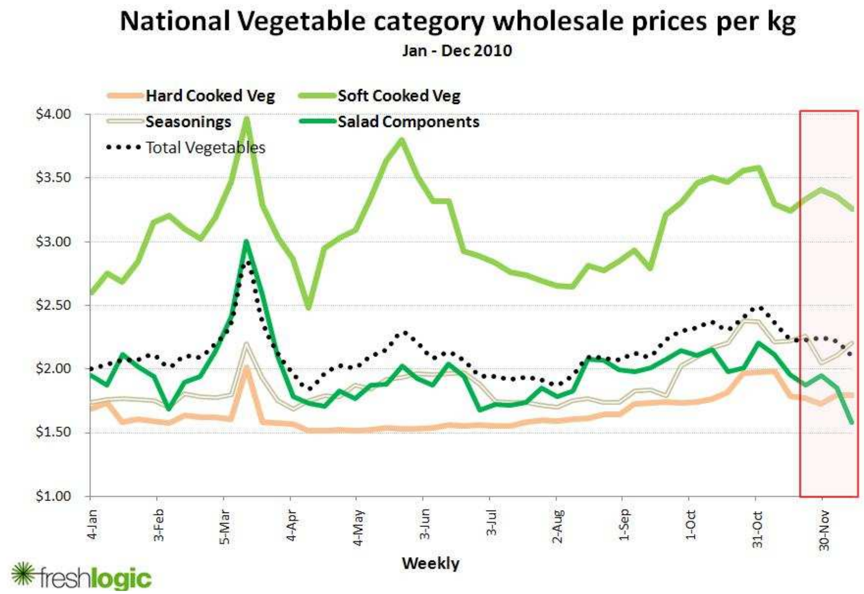
Vegetable market

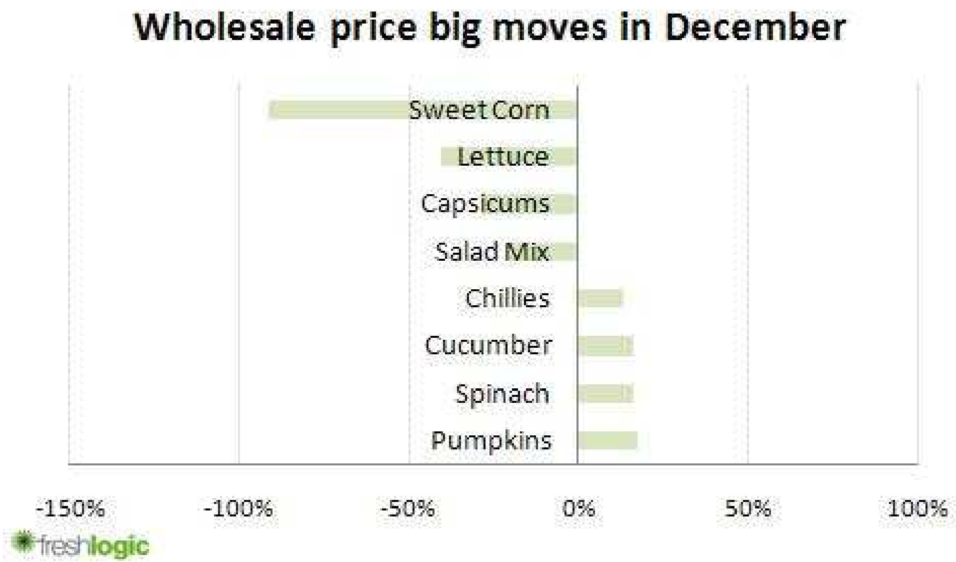
Wholesale prices of vegetables **eased** in December, starting the month at $2.23 per kg, peaking at $2.24 per kg and easing to **$2.10 per kg**. This amounted to a 5.9% decrease and a closing price that was the same as at the middle of September. Salad components led the downward trend, decreasing by 18.5%, while Seasonings and Soft cooked veg both declined by 2.1%. The only category level increase was in Hard cooked veg which lifted by a 1.5%.

The most significant moves in product wholesale prices were decreases of 91% in sweet corn, 41% in lettuce, 29% in capsicums and 20% in salad mix. Increases were led by pumpkin at 17%, spinach and cucumber both at 16%, and chillies at 13%.

Vegetable sales for the month totalled $626m and reflected a sales decline due to lower fresh wholesale process. Summer demand was firm for salad components and a cooler snap lifted demand for soft and hard cooked vegetables.







HAL Horticulture Australia

AUSVEG

The Australian food market

Retail sales slow, scene set for competitive New Year sales – Total retail sales continue to be flat with ABS tracking indicating declines on last year. The National Australia Bank monthly business survey has revealed retail conditions deteriorated to the worst in two years in November, as the effects of the interest rate rise began to affect and shoppers refused to spend.

However, the indicators of challenges in the retail sector are the indications from major retailers that this Xmas trading is well below expectations. These signals have reached the consumer and led to expectations of bigger and better New Year sales.

→ ***What it means?*** *As cautious consumers save their discretionary dollars, they may opt for less expensive food options during festive season. This potentially leads to foodservice channels losing share to the food retail channels that sell food to prepare at home.*

Big US retailers set up online in OZ – Big US retailers who are struggling in domestic market are setting up online in Australia in a bid for business growth and expansion outside the US. Recently, the giant US stationary chain Staples who sells PC and IT products launched an Australian website and they are to be followed by Amazon and Best Buys in 2011, according to US retail specialists.

The US-based Staples, Amazon and Best Buy are enjoying patronage from Australian internet shoppers, who are attracted by the value advantages of a stronger $AUD.

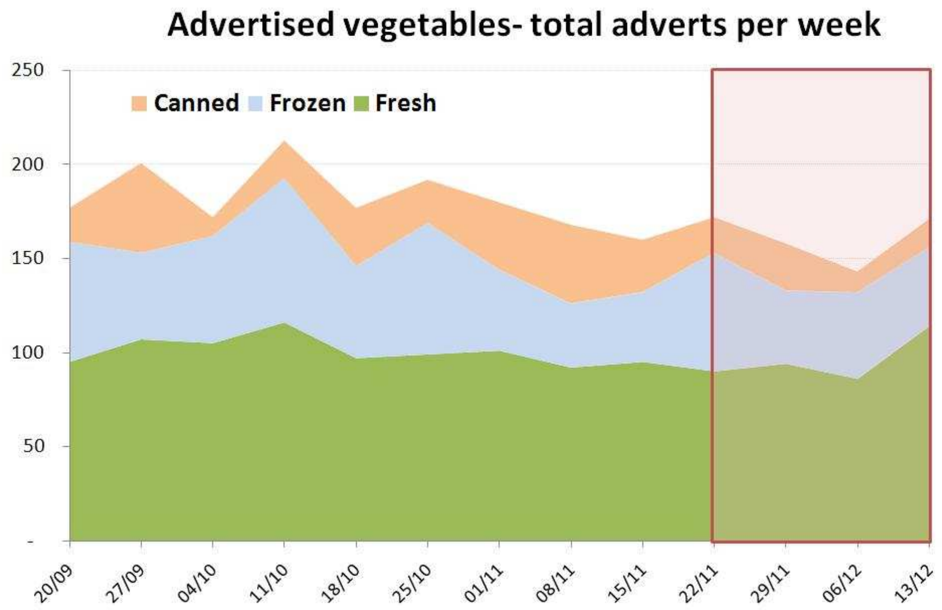
Further, US department store Sears has launched a 20% discount offer specifically for Australians in the lead-up to Christmas. Online retail is becoming more competitive as American and British retailers leverage the strength of the Australian dollar. Australian retailers are struggling to compete against overseas shopping websites as online purchases supplied from outside Australia are GST free. The tax avoidance issue has stimulated some strong complaints from local retailers and led to some considering overseas set up for their internet offers so they can offer the same tax savings and value to customers.

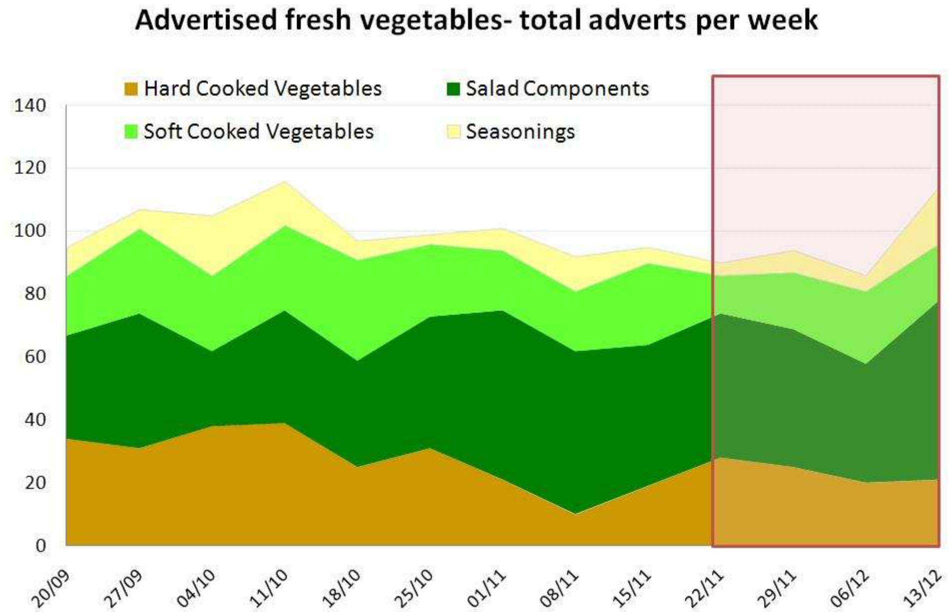
This action by the US retailers has compounded the current sales challenges of the local retailers. It also signals the pace of commercial change that internet retailing can drive. It seems likely that these events have drawn some new consumers into internet shopping and subject to a positive experience, they then use for other retail purchases.

→ ***What it means?*** *This level of activity by foreign retailers will prompt competitive responses from local retailers and lift the overall profile of internet shopping.*

Retailer activity

Promotional activity in the month of December – The activity reflects a pattern of decreasing exposure for vegetables. Over the last four weeks, the exposure of fresh products was reduced from an average of 161 products per week which was 8% lower than the previous 4 weeks.





The changes in exposure has been driven by declines of 1% in fresh veg adverts, with greater declines of 46% in canned adverts, with frozen providing some compensation by an increase of 3%. This reduced exposure is typical of this time of the year, as the festive season products take more exposure in the retailer promotional activity.

In similar patterns to November, the exposure by product type continues to be quite different to the sales value by product type. Fresh vegetables enjoyed 59% of the retail promotional exposure, frozen vegetables 29% and canned 10%. The contribution to retail sales by fresh is 87%, frozen 9% and canned 4%.

The exposure for fresh vegetables changed significantly and centred on greater exposure for seasonings at 78% and decreased exposure for hard cooked veg at 33%.

Tesco extends ethnic food range – UK retailer Tesco has launched seven different ethnic ranges in the UK, adding Turkish, Sri Lankan, Latin, Philippino, African and South African ranges to its offer, in response to demand for ethnic food. Over the past 12 months, Tesco has doubled the size of its world food range to 3,000 products in response to growing consumer demand, which has led to a 35% increase in sales. Tesco state they are responding to a natural curiosity from shoppers to try other cuisines, especially with different looking sauces, condiments, vegetables, tinned products and sweets and hence, Tesco has also supported these products with educational material including tips on how to prepare various products on the shelves.

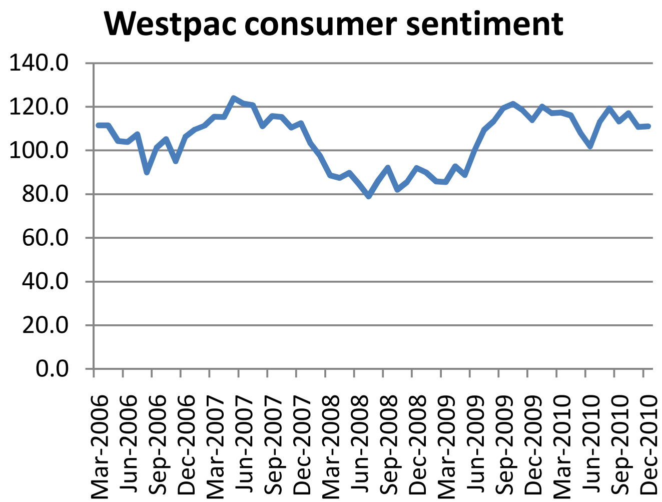
→ ***What it means?*** *A move by this retailer to cater for the ethnic diversity in some store catchments and also at the same time, to keep food shopping interesting for all shoppers*

UK supermarket sales to surge in the next 5 years – New figures from grocery think-tank IGD forecast that the UK grocery market will grow by an average of 3.9% per year over the next five years to £182.7b. Growth will be faster in the convenience sector, where an average 5.8% increase will take the total market to £42.6b from the current £32.1b. Most UK retailers have announced development plans that provide activity across convenience, supermarkets and online channels.

→ ***What it means?*** *As the shopping behaviour and channel selection of consumers continues to evolve, the retailers are required to manage multichannel and multi-format strategies to reach shoppers in different ways.*

The consumer

Consumer confidence inches higher – The Westpac-Melbourne Institute consumer sentiment rose 0.2% in December to 111.0 from 110.7 in November, after the Reserve Bank of Australia kept interest rates on hold and signalled that it may not need to raise rates again until the middle of next year.



This marginal increase in consumer confidence this month followed a big slide in November when the RBA increased its overnight cash rate target from 4.5% to 4.75%. It was immediately followed by the mortgage rate increases by the banks, some of which were bigger than the 25 point RBA increase.

Among the component indexes, the biggest rises in December were in responses to questions on consumers own financial position. The index measuring assessments of family finances versus a year ago rose 4.1%, partially reversing the sharp interest rate induced drop in November of 10.2%. Expectations of family finances over the next 12 months rose 2.7%, and attitudes towards major purchases also remained notably upbeat.

However, Westpac has advised that this rise could be reflecting improved purchasing power due to the high Australian dollar rather than an intention to spend. Further, although the index at 111.0 is higher than the normal level of 100, it is still down from the 114.6 average for the year to October.

The component to fall was the index measuring consumer expectations for the economy over the next 5 years, which fell by 7.2% to its lowest level since February 2009 and 21% below its December 2009 level.

→ ***What it means?*** *The correlation between rates and consumer sentiment appear aligned and there is low confidence that the economy is about to accelerate beyond its current sedate pace.*

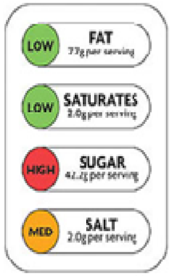
Eating vegetables as children linked to healthier arteries as adults – As per a research reported in the Circulation: Journal of the American Heart Association, children who constantly eat lots of fruit and vegetables lower their risk of having stiff arteries in young adulthood. Researchers compared childhood and adulthood lifestyle factors – including consumption levels of vegetables, fruit, butter and alcohol, along with smoking and physical level status – with pulse wave velocity (which assesses arterial stiffness) of 1,622 participants in the Cardiovascular Risk in Young Finns Study, which followed children ages 3 to 18 to 27 years. They found that a pattern of eating fewer vegetables in childhood was associated with higher pulse wave velocity as an adult. They also found that the group with the persistent pattern of eating more vegetables and fruit from childhood to adulthood has an average of 6% lower pulse wave velocity compared to those who ate the least vegetables and fruit.

→ ***What it means?*** *More confirmation of direct links between vegetables and specific health benefits .However, the challenge to convert the* *acknowledgment of these benefits into increased demand and consumption remains.*

Portion sizes in focus in 2011 in Australia – New research has revealed that Australian consumers prefer to control their portion sizes rather than adopt specific diet plans.

The proportion of Australians who regularly make an effort to eat and drink smaller portions has increased to 46% in 2010 compared to 29% in 2009, a trend that is likely to gather momentum in 2011. Australian consumers are also more concerned about the inclusion of a wide range of foods in their diets rather than restriction or "forbidden" foods. Portion control is perceived by consumers as a more flexible approach to disciplined eating, allowing them to choose from a wide variety of foods while managing portion sizes.

→ ***What it means?*** *New patterns in consumption are the key to understanding how vegetables products can be tailored to meet changing demands. Encouraging smaller portions typically generate price premiums but as a downside require more frequent shopping trips.*



Food report may give green light for fresh labelling in Australia – A recent survey of the 499 submissions to the national labelling review in Australia that was conducted to create an interim report on food labelling for the federal and state food ministers has revealed that food industry and health groups are deeply polarised on traffic light labelling, which would use green, amber, and red signs to signal the level of a food product's potentially unhealthy ingredients like fat, sugar, and salt.

Health groups have supported the traffic labelling, due to the growing evidence of its effectiveness in changing consumer behaviour. Further a recent survey by the Cancer Council of Victoria showed that 87% of Australian consumers favoured the traffic light labels while 77% of food industry submissions opposed them.

→ ***What it means?*** *The industry consensus required to establish one labelling system for nutritional messages is yet to be found.*

UK shoppers splash out on Christmas dinner – IGD's ShopperTrack reveals that three-quarters of UK shoppers are planning to spend more or the same on their Christmas meal this festive period compared to last year, while cutting back on presents. By contrast, 36% of shoppers are planning to spend less on Christmas presents and 38% will not spend as much on going out to restaurants, pubs, and bars this year over the same period last year. The 32% of shoppers who intend to increase their spending more on their Christmas meals mostly constitute shoppers of the 18-24 year old bracket.

→ ***What it means?*** *The younger generations are less encumbered by the state of the economy and are going to enjoy the festive season.*

Nutrition bill vital to children's future – A new nutrition bill was signed by US President Barack Obama, part of an administration-wide effort to address childhood obesity. The US$4.5bn measure increases the federal reimbursement for free school lunches by 6 cents a meal at a time when many school officials say they cannot afford to provide meals.

The bill will also expand access to free lunch programs and allow 20 million additional after-school meals to be served annually in all 50 states. Most states now only provide money for after-school snacks.

→ ***What it means?*** *That efforts to establish better eating habits among children has gone onto a national platform, far beyond than just being a parental or community concern.*

Discounts to devalue eating out trade –

Charging the full price for a meal out will become more difficult for restaurant and pub operators as diners become increasingly accustomed to discounts through the widespread availability of money-off vouchers, according to UK market analyst Horizons. Discount deals in pubs and restaurants have played an important role in keeping consumers eating out over the past 18 months, with 16% of diners using vouchers. Horizons' research shows that of the 16% who use vouchers most prefer "2 for 1" deals. Pizza Express, McDonald's and Tesco are among the most common places to redeem them.

→ ***What it means?*** *Foodservice channels have been serving up offers and incentives to revive consumers' appetites. However, it will take some time to wean consumers off continual discounting.*

UK consumers focus on packaging origins

– A new survey conducted by the produce packaging firm Sharpak has revealed that UK consumers take a genuine interest in the origins of their food and its packaging, with a strong preference for local sourcing even at a cost. About 82% of consumers surveyed want retailers to display the origin of food packaging as well as the food itself and 78% state that they would be willing to pay extra for locally sourced packaging. The survey also revealed that consumers believe that the food industry has done a good job in using recycled products in their packaging.

→ ***What it means?*** *The origin of a product is important to consumers and "locally produced" is a positive as is recycling considerations in packaging used. However, whether these benefits generate a price premium is best measured on what consumers buy rather than just what they say they will pay for.*

British asparagus marches on –

The UK asparagus industry is set to undertake its 2011 British Asparagus campaign to further increase the product's household penetration by extensive promotional activity in both national and regional broadcast.

The 2010 British Asparagus marketing campaign, the 9th year the drive has been running, helped the product reach 7 million customers through extensive TV, radio, and print coverage. Household penetration grew 22% year-on-year, up from 13% in 2006 to 16.2%, while purchase efficiency improved by 6%. Further, UK asparagus sales value climbed 22% year-on-year to £21.4m, placing the household penetration at 16.2%. Tesco and Sainsbury's have shown sales around the 4,500 units mark throughout the 8 weeks of the campaign, a marked increase on the 3,000 units of 2008.

2011 British Asparagus will be supported with celebrity chef endorsements offering sets of new and exclusive recipes. For more information, see www.british-asparagus.co.uk

→ ***What it means?*** *Investing in promotional activity that is designed and executed can lift sales.*

Christmas sprout shortage in the UK –

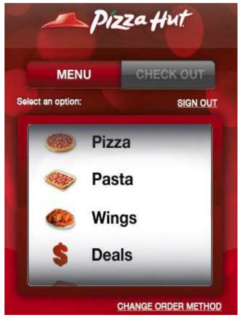
Freezing weather in Britain could cause a sprout shortage this Christmas. Sprouts are worth £54 million to the British economy and have seen steady growth over the past four years, according to Kantar Worldpanel data. More than 40,000 tonnes are consumed throughout the UK with the busy festive period accounting for over 67% of the annual tonnage.

→ ***What it means?*** *Sprouts from Dutch farmers may be required to meet demand in the UK festive season.*

Innovation from the world

New fresh produce app for Australians – Perfection Fresh Australia has launched an iPhone app, giving consumers access to fresh produce information and recipes at their fingertips. This app will feature profiles on more than 35 of its fruit and vegetable lines, serve up more than 250 recipes and integrate Perfection Fresh Twitter and Facebook communities. The app serves as a resource for home cooks planning their menus and shopping lists anytime and anywhere. The app offers multiple user-friendly options which educate, inspire, and encourage interaction with the providers brand and social media community. It can be downloaded free onto all iOS devices, including iPhone and iPad through Apple's AppStore. See www.perfection.com.au

→ ***What it means?*** *A live and local example of how to use the interactivity of social media in the fruit & vegetable category.*



Pizza hut delivers world's first edible Facebook gift – Pizza Hut Australia is rewarding customers and their friends on Facebook with a free pizza in the new Pizza Hut "Feed a Friend" campaign. As per the deal, every time a customer places an order at www.pizzahut.com.au, the customer will receive two virtual slices – one for him and the other for a friend on Facebook. When the customer or his friends collect 4 virtual slices, they will get one free real pizza from Pizza Hut.

"Feed a Friend" is the latest digital launch for Pizza Hut, which follows the company's iPhone app that had over 200 000 downloads in the first 8 months of launch. The iPhone app gave users the ability to find their nearest Pizza Hut store by utilising the GPS technology. When people held up their iPhone 3Gs, the camera opened and the screen showed not only what is in front of the user but small tabs highlighting the direction and distance of Pizza Hut locations nearby.

→ ***What it means****? Further examples of leveraging being gained through the social media channels and new smart phone capabilities.*

Grow your own mushrooms – California-based business, Back to the Roots, is now offering a grow-your-own mushroom garden kit that can be kept inside on a windowsill. Consumers need to only moisten their garden and within seven days of growing, a mushroom garden should be apparent. From that stage, mushrooms typically double in size each day, eventually amounting to a pound of produce per crop. Consumers can expect between two to four crops per kit.

The Easy-to-Grow Mushroom Garden kit uses soil – provided as part of the kit – which is made up entirely of recycled coffee grounds and is priced at US$19.95. Last month, this growing kit was named an Innovation Award Winner by the Social Venture Network.

→ ***What it means?*** *This innovative urban farming kit has won support with a unique eco-friendly focus that produces food. It may also introduce more consumers to new vegetable products, in this case mushrooms.*

Austrians make vegetable tea – After several years of developing and taste testing, Austrians are marketing a special vegetable tea 'Gemüsetee' that is made of organic vegetables and can be brewed quickly. The vegetables are dried in a specially constructed drier that works on natural gas. Once brewed for a while, the tea tastes somewhat like a soup. The products can be brought online and through the wholesaler. See www.zentrum-der-gesundheit.de/gemuesetee.html

→ ***What it means?*** *Another option to increase vegetable consumption.*

New product gets branded – Netherlands-based Rijk Zwaan De Lier - who specialises in breeding and supplying vegetable seed for commercial cultivation in glasshouses, tunnels and outdoors worldwide – has launched Salanova, which is a new type of lettuce. Salanova is a fresh, easy-to-prepare lettuce with baby-sized leaves and with just one cut, the lettuce separates into numerous small, ready-to-eat leaves.

There are two main types of Salanova lettuce: the Salanova Incised Leaf types that are characterised by their deeply-incised leaves with a 3-D structure and a good shelf life and the Multileaf types that are characterised by the large number of uniform, small leaves per head. The core of the Multileaf type can be easily removed with the specially developed Salanova corer or by cutting it out with a circular movement.

→ ***What it means?*** *An example of how those who are making the major R&D investments are seeking to gain greater supply chain influence by launching these products with consumer brands they can control.*

Premium beetroot on shelves for Christmas – Produce World subsidiary Isleham Fresh Produce launched Heritage Beetroot into Sainsbury's this month under the retailer's premium Taste the Difference label. The product is a bunch of three different beetroot varieties – white, golden, and Chioggia or candy-striped – and each type is sweet enough to eat raw. While the golden variety has a "more delicate and sweeter" flavour than traditional red beetroot, the white is "extra sweet". The supermarket chain will sell the "delicate and sweet" beetroots at £2 a bunch in more than 100 stores this month.

→ ***What it means?*** *New product lines that have combined new attributes of taste and colour and will be launched to capture a premium.*

M&S launches convenience lines – UK premium retailer Marks & Spencer is set to launch 10 fresh convenience lines aimed at consumers who are trying to eat more vegetables and lowering their meat consumption, as 23% of the UK population are considered "meat reducers". The Lovely Vegetables range – which will hit the shelves in January – contains a minimum of two of the recommended 5 A DAY. Seasonal British vegetables will be used where possible, with new dishes introduced depending on what's in season.

The lines will start off with options including beetroot multigrain risotto with goat's cheese, roast honey glazed parsnips and red chard (£3.99) and grilled haloumi with roast butternut squash, Tender stem broccoli, mixed grain pilaff and smokey red pepper and tomato sauce (£3.99).

→ ***What it means?*** *A new vegetable product that targets consumers seeking to reduce their meat intake and bundles together in season and meal ready benefits, proving that there are ways to make vegetables more interesting.*

This project has been funded by HAL using the National Vegetable Levy and matched funds from the Australian Government. It forms a part of the VIDP & aims to inform vegetable producers & supply chain stakeholders on market influences & developments in the past week. We recommend that those seeking to act on the basis of this information first obtain independent professional advice.

Category in profile: Asian Leafy Veg

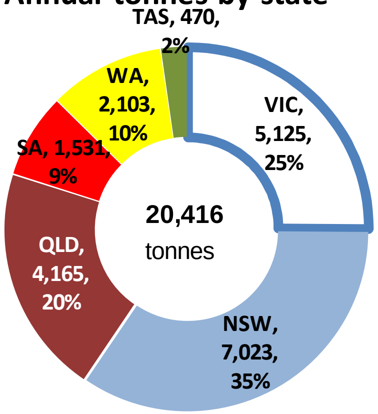
- Asian vegetables have enjoyed a unique development pathway , which has been anchored by introduction on the back of migrant production expertise, an initial bias towards some ethnic groups and more recently expansion into large scale production and mainstream retail distribution.
- The definition of "Asian vegetables" has been a moving target but this has been aided by recent efforts to establish common product names. At times it has included pumpkin, selected mushrooms and root crops. This analysis has focused on the high volume leafy vegetable listed below, as they have established the growth pathways,
- These products have provided consistently good value to consumers, compared to other vegetables. Furthermore the sizes, portions and "by each" selling multiples are easily understood by shoppers and suit today's lifestyle needs,.

Key Facts

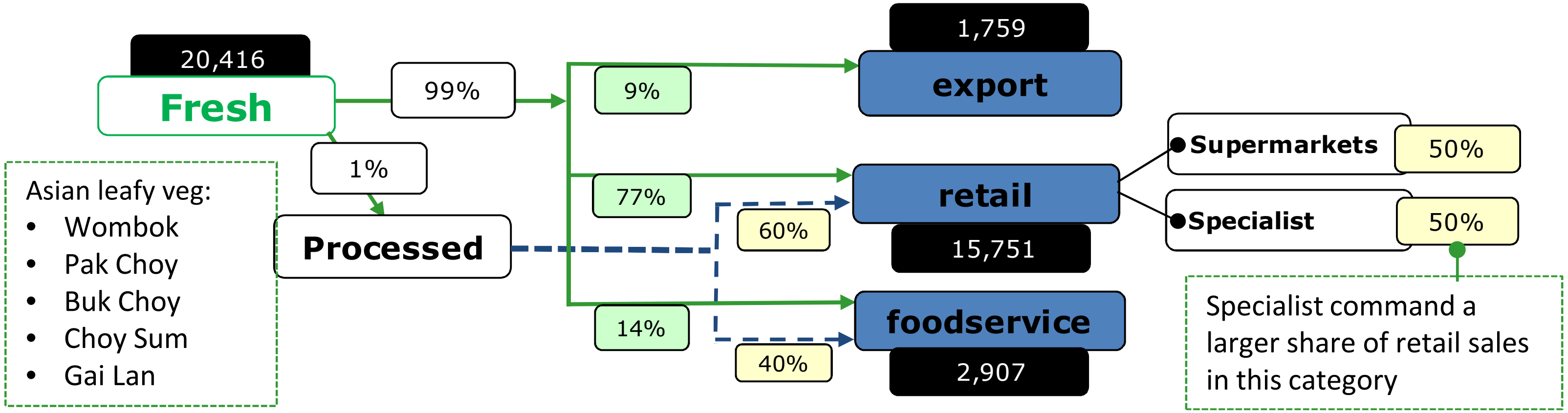
- Asian Leafy Veg production is estimated at 20,416 tonnes.
- The current domestic market retail value of these products is $54m per annum
- The geographical distribution of production is reflective of Australia's population, confirming the sector orientation to the domestic market.
- There are exports of 1,759 t via NT.

Production

Annual tonnes by state



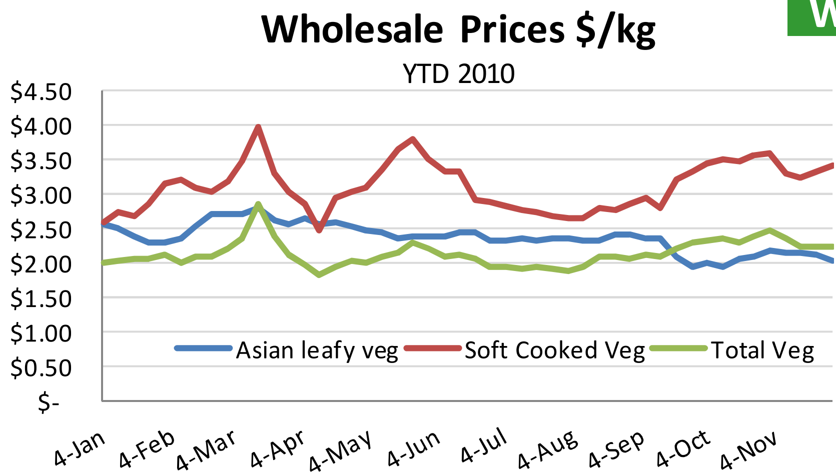
Volumes and shares through the chain



What is in a name

Naming of these products was identified as issue as the scope of market potential became clearer. Some products carried names that contained a variety of The main drivers around the development of product names were;

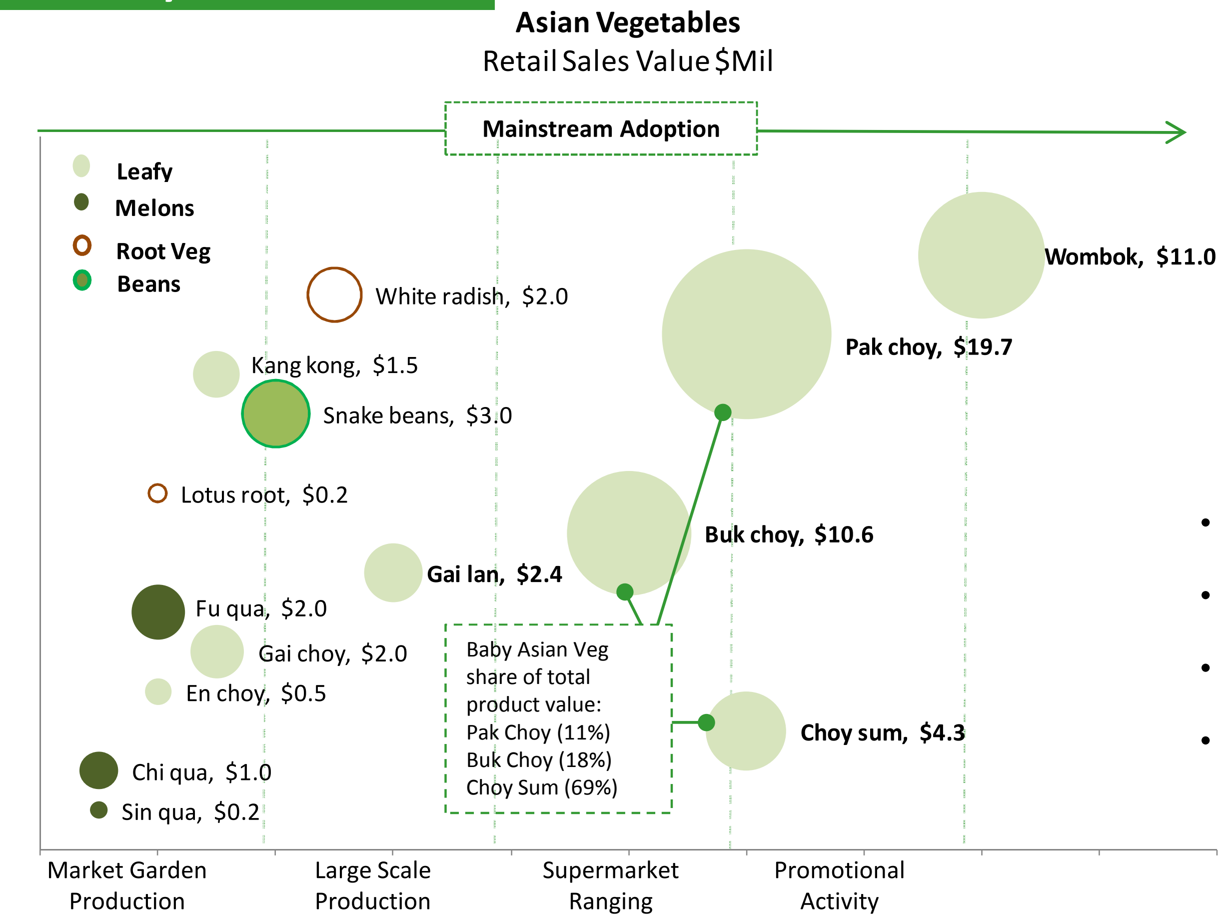
- Keep traditional names that offer some differentiation for other vegetables
- Remove any "country of origin" confusion
- Reform names that may present any marketing barriers.
- Promote acceptance across all levels of the supply chain.



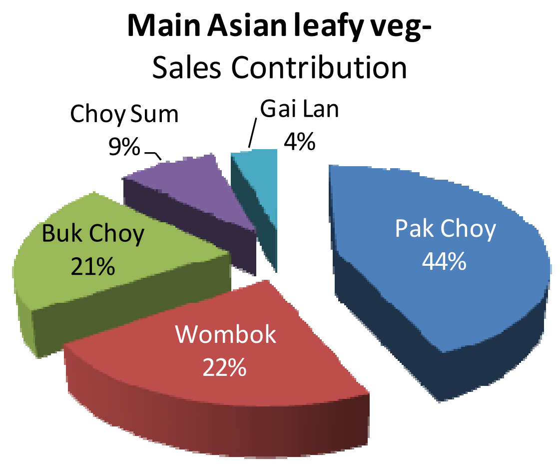
Wholesale Price Analysis -2010

- Over the past year the wholesale price per kg for Asian leafy veg products was a minimum of $1.94 and a maximum of $2.81. In comparison to Soft cooked veg which received a minimum of $2.48 and a maximum of $3.97.
- This analysis suggest that Asian leafy veg provides more consistent value than other soft cooked veg.

Pathway to Mainstream



- The five main products, in the chart below that generate retail sales of $54 m pa, have build recognition in mainstream retail.



- The adjacent chart profiles the stages associated with the growth of the most common Asian leafy veg.
- The initial phase is the migration away from smaller scale market garden production towards larger commercial operations.
- With increased production capabilities, producers are able to establish and develop supply arrangements with larger supermarket retailers.
- Once the product has been integrated into the supermarket range, it will begin to experience levels of promotional activity; a further breakdown of this is represented in the graph below.

Promotional Activity

- The top three products listed in respective order : Buk Choy (47%), Pak Choy (14%), Choy sum (9%)
- There is considerable difference in the level of activity from WW compared to Coles, as well as a large involvement from independent retailers.
- On three separate occasions across October and November, Coles ran grouped promotional deals where the offer included 2 products for $2. This group included Buk Choy, Pak Choy, Gai Lan and Choy Sum.
- The number of adverts has remained consistent over the 45 weeks, with a slight increase in promotion frequency in later part of the period.

*The profile has benefitted from the input of **Dr Jenny Ekman**, who was able to share detailed knowledge of this Asian vegetable category and how it has evolved.*