

VEGINSIGHTS

A VIDP initiative

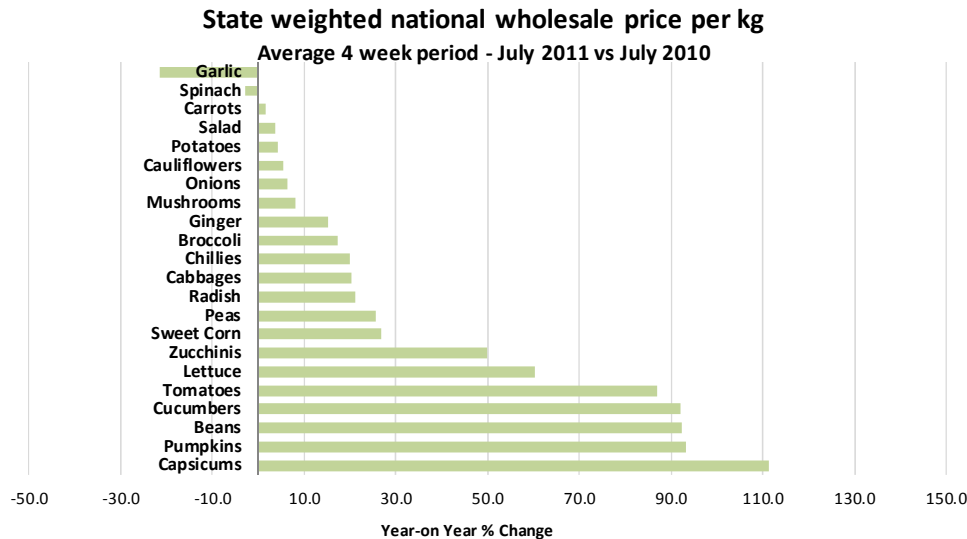


Highlights

- Gap between Coles & Woolworths sales growth narrows
- Walmart to target US “food deserts”
- Virtual groceries available on Korean train platforms
- MasterChef iPad app goes live
- Fruit & veg vending machines expand in US
- Beans category profile with a retail value of \$67m pa

Vegetable market

Wholesale vegetable prices – The wholesale price difference between July 2010 and July 2011 for major the vegetables is profiled in the chart below.



monthly vegetable market insights – July 2011

These increased are primarily due to a cooler weather in July, with frosts having taken whole crops out and in many cases, slowed growth and shortened available supply.

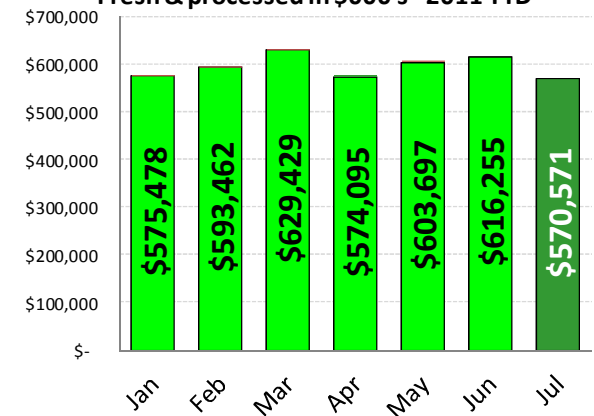
The impacts across the products varied, with the softer lines in salad components increasing more than the soft cooked vegetables and hard cooked vegetables. In contrast, seasonings decreased compared to July 2010. At the product level, the most significant changes were with capsicums, pumpkins, beans, cucumbers, and tomatoes, which increased over the same month last year, and garlic and spinach which decreased over the same month last year.

The weighted total vegetable wholesale price for the week ending 29 July was \$3.12 per kg.

The total retail sales of fresh and processed vegetables in July 2011 are estimated at \$570.6m as profiled in the adjacent chart. These sales are 9.5% higher than July 2011 but lower than the preceding month of June.

The transfers of household food expenditure from food service to retail channels combined with stronger wholesale prices were the major drivers of sales growth.

Total vegetable retail sales by month
Fresh & processed in \$000's - 2011 YTD



The Australian food market

Gap between the two major supermarkets narrows – Woolworths posted a food and liquor sales increase for the 2010/11 year in by 4.3% to \$36.2 billion, while Coles again reported a stronger lift of 6.3% to \$25 billion.

Same-store sales growth, which is a measure of market share performance, for the 4th quarter eased for both retailers - Woolworths 3.3% and Coles 5.2% - as both claimed different levels of deflation. The same store gap between the big two retailers has closed somewhat. However, the sales growth gap shows that Coles continued to gain market share above that of Woolworths for the eight consecutive calendar quarters.



→ **What it means?** Levels of competitive intensity in food retail will remain high between the two major supermarkets, which will continue to maintain pressure on other food retailers. It also indicates that price-based promotional activity is likely to continue in the retail food market.

Costco to open six new stores in Australia –

Bulk discount retailer Costco is expected to open six more stores in Australia over the next three years, with two new stores opened in Sydney and Canberra in July. The new Auburn store in Sydney has 14,000 square metres of shopping space and 800 car parking spaces. Costco will offer a limited range of fresh good, clothing, and electronics in bulk quantities at a time when consumer sentiment has dropped to a two-year low. The chain is also reported to have signed up to more than 100,000 members at its Melbourne store at Docklands, which is believed to be now set to reach over \$200m in annual turnover.



The timing of Costco’s market entry has coincided fortuitously with consumers looking harder for value with their food expenditure. The Costco format seems too likely to succeed in this market, with 9 stores in this market headed for a sales turnover of over \$1.5b, not all of which is food.

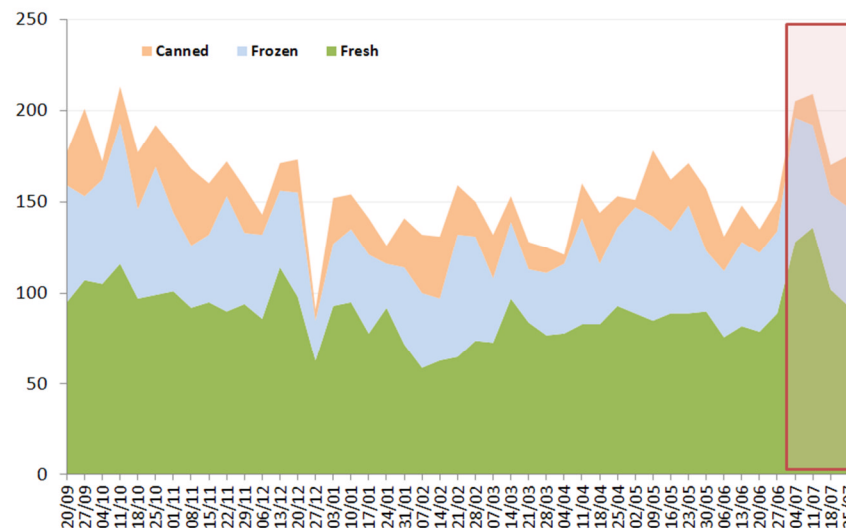
→ **What it means?** Costco’s expansion amidst unfavourable non-food retail conditions shows that the bulk discount retailer has found support. This will increase the level of competition amongst food retailers.

Retailer activity

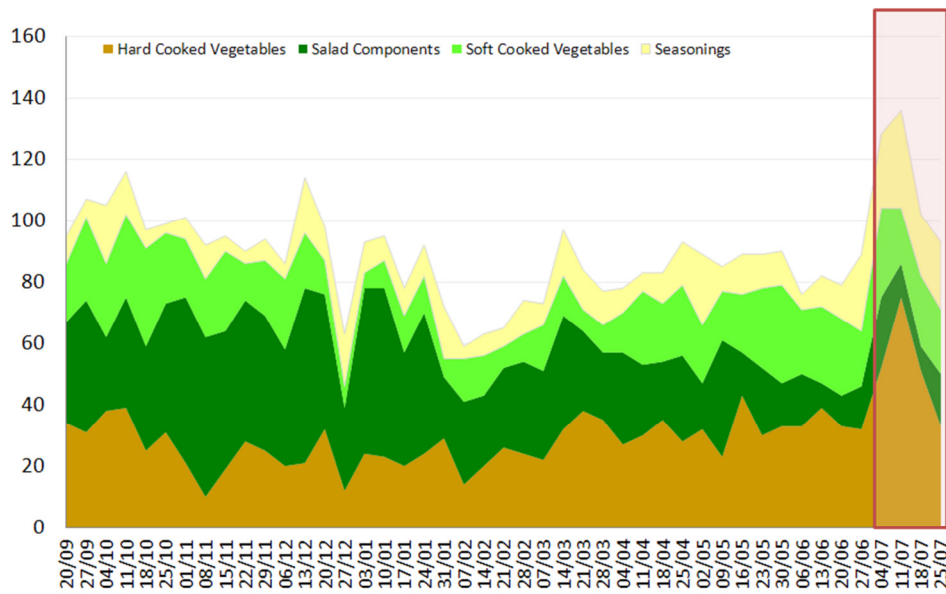
Promotional activity in the month of July – The retail promotional activity reflects a pattern of increasing exposure for vegetables, reversing the decreasing trend seen in June this year.

Over the month, the exposure of the total vegetable products increased to an average of **190 products per week, up from 144 in June**. The lift in exposure has been driven by a strong increase in fresh vegetables advertised and a smaller increase in frozen vegetables advertised. In contrast, there has been a small decrease in the number of canned vegetable products advertised over the month.

Advertised vegetables- total adverts per week



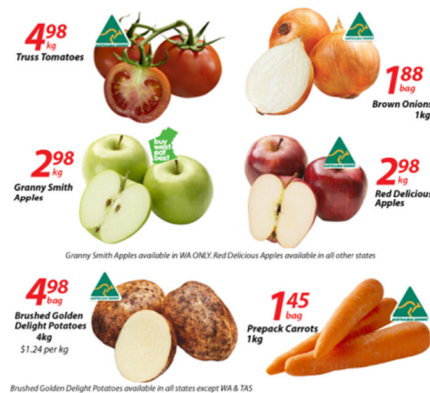
Advertised fresh vegetables- total adverts per week



Within the fresh vegetables, the level of exposure increased for hard cooked vegetables, seasonings, and salad components in July. This was offset by a small decrease in the level of exposure for soft cooked vegetables advertised over the four-week period.

Woolworths fixes retail price for 12 months on 5 high volume fruit and vegetable products as the competitive intensity between the major retail supermarkets extends past milk and bread.

The products involved are 2 types of Apples and 4 vegetable lines; 1kg bag of



Brown Onions \$1.88, 1 kg bag of Carrots \$1.45, 4kg bag Brushed Potato \$4.98 and loose Truss Tomato at \$4.98 per kg. Woolworths are promising consumers a constant price until July 2012 on these staple fruit and vegetable products. They also advise they have worked closely with their suppliers to ensure these products will continue to generate a satisfactory return for them, while also offering consistent value to consumers. This seems workable with the secure and stable supply lines on carrots, onions and potatoes but far more challenging with Truss tomatoes due to the more volatile season nature of both demand and supply.

→ **What it means?** This fixed pricing may draw competing responses in like or similar categories. It also has the potential to provide a stable price, based upon which consumption could be increased.

Morrisons to undercut rivals with M local – UK supermarket chain

Morrisons has opened its first of the chain of convenience store in Bradford, northern England, as it looks to tap into the growing demand for local shopping. The retailer seeks to undercut rivals with three main strategies:



- Each M local store will have at least 100 fruit and vegetable lines, plus strong fish, meat, and bread offers, and a salad bar. The supermarket has also revamped its fresh convenience offer, offering more bagged salads and stir fries than before.
- Morrisons expects to be 4-11% cheaper on fresh products than its rivals in convenience by charging its usual prices, or slightly higher, at the M local stores, ahead of other C-stores that charge a premium.
- Produce will be prepared “little and often” at a nearby full-format store, so that it can be moved more quickly from point of preparation to point of sale.

Morrisons plans to open two more M Local stores before the end of 2011.

→ **What it means?** That this mainstream retailer has determined that the strength of consumer demand for locally sourced food is worth developing a store format that combines these benefits with better value.

Further consolidation forecast for foodservice – Market analysis company Horizons has forecast that the UK foodservice industry is set for further consolidation, while the restaurant trade suffers, as promotional tactics falter. Two of the major players in the UK – Brakes and 3663 – have been acquiring foodservice distribution business throughout Europe in growth markets such as Sweden and Poland, as well as smaller-scale strategic acquisitions in the UK to fill their geographic or sector gaps. The fact that margins are extremely tight in the food supply business means that profitability favours the large-scale operators who can operate with scale. .



According to the latest bi-annual SME Pulse survey by Aviva, while about 20% of restaurant, pub, and café owners remain optimistic that the economy will improve over the rest of 2011, almost 31% hold that there is a risk of double slip recession which could be extremely damaging for their business.

→ **What it means?** *As the UK foodservice channel faces challenges with consumer spending scaled back to recession levels, it is undergoing consolidation as larger operators seek to gain greater scale to survive.*

Walmart to target US “food deserts” – US retail giant Walmart is set to open up to 300 new stores in the more than 700 areas the USDA has designated as “food deserts”, where healthy, affordable food is difficult to get, by 2016. The new stores would provide access to groceries for more than 800,000 people who currently live in food deserts. This forms part of an initiative spearheaded by First Lady Obama – Let’s Move campaign against childhood obesity. Food deserts are seen as major contributor to childhood obesity and are found in both rural and urban area, particularly low-socio-economic minority communities.



This follows the recent announcement by the retailer to double sales of fresh produce sourced from local farms in the US stores by the end of 2015. The

company also expects to invest more than \$1 billion on its global fresh food supply chain over the next five years.

→ **What it means?** *That this move reflects the commercial merits of this opportunity as building and opening 300 stores is a serious investment way past generating a positive PR narrative for the company.*

Retailers sign up to healthy targets – Eight major retailers in Scotland have signed up to a new commitment to help consumers more easily achieve the recommended target of eating at least five portions of fruit and vegetables per day, in a bid to curb obesity.



Under the scheme, retailers would be implementing a series of measures, including: increasing the proportion of fruit and vegetable ingredients in own-brand products; providing information to help customers understand their health benefits; and keeping fresh and frozen fruit and vegetables affordable through special offers and value ranges. Retailers will also attempt to encourage impulse buys and increase fresh prepared and convenience offerings, including strategically placing apples and avocado instead of chocolate and chewy gum and offering a range of pre-prepared and ready-to-cook vegetables.

The retailers involved include ASDA, Boots, The Co-operative, Marks & Spencer, Morrisons, Sainsbury’s, Tesco, and Waitrose. This voluntary retail initiative is being co-ordinated by the Scottish Retail Consortium and is backed by the Scottish government. As per Government statistics, about 66.3% of men aged 16-64 years and 58.4% women were found to be overweight in 2009.

→ **What it means?** *The strength of this cause has led to national-scale collaboration among retailers in Scotland and therefore, it warrants consideration in the Australian market.*

The consumer

US food industry draws rules on food advertising for kids

Seventeen US food and beverage companies, including Nestle, Hershey, and Kraft Foods, have unveiled a plan to set new, uniform nutrition standards for foods that can be advertised to children.



Through the Children's Food and Beverage Advertising Initiative (CFBAI), the food manufacturers have announced guidelines for ten categories, such as dairy products; juices; and grain, fruits, and vegetable products. The new criteria will aid the development of new products with less sodium, saturated fat and sugars, and fewer calories. The CFBAI will require many companies to alter their recipes or they will not be able to advertise them after 31 December 2013.

→ **What it means?** *If the pressure to do something about the healthier diets of children is causing the largest food companies into action, then it is clear that the momentum for this issue has gone well past a being a fringe concern.*

Innovation from the world

Virtual groceries hit Korean train platforms – Home Plus – the Korean branch of Tesco PLC – has launched a series of virtual stores on the Korean subway platform that enable customers to shop using their smartphones while they wait for their trains.

The virtual stores feature large, wall-length backlit billboards and display images of the essential items available at a standard Home Plus shop together with their QR codes, which enables smartphone equipped commuter to automatically add the merchandise to an online cart by scanning the code and then specify a time for Tesco to deliver it.



Research shows that during the campaign for virtual stores, Home Plus online sales increased by 130%, with over 10,000 customers trying the stores.

→ **What it means?** *This internet shopping is located where busy commuters are and it harnessing the new smart phone option, making it even easier by providing items in the format they are on the retail shelves. With no apparent limitations to how this system can be expanded, it seems destined to grow.*

MasterChef iPad app launched – A MasterChef magazine application for the iPad has been launched by News Magazines, which extends the brand into a new digital platform. This builds on the strong success of both the MasterChef Magazine, which received the highest debut since measurements began with 868,000 readers in May last year, and the Ten Network's MasterChef Australia.

The app features all the recipes, contestant and celebrity chef stories, as well as behind-the-scenes video clips, cooking demonstrations, chef tips, and interactive tools. It also offers a "cook mode" with step-by-step cooking instructions. The app is now available via the Australian iTunes store and includes the magazine's digital July edition for free. Subsequent editions will be priced at \$2.99 and cheaper than the printed edition, which retails at \$4.95.



→ **What it means?** *Another example of how the new digital media landscape is evolving to challenge conventional print media. The fast and flexible nature of these digital channels is well suited to conveying the wealth of information in and around fresh vegetables.*

Colourful cauliflowers hit Tesco's shelves – UK supermarket Tesco has launched new "rainbow" cauliflowers in orange, green, and purple colours to widen the vegetable's appeal to children and combat flat demand.

Grown in Lincolnshire and exclusive to Tesco, the coloured cauliflowers are naturally produced but have been crossed with other types of the Brassica family, which includes green cabbage and broccoli. The



breeding initiative set out to bring colour options to cauliflowers and provide a positive injection to declining sales after it has been overtaken by broccoli. These new products have also been finished in smaller head sizes, which suites the demand for smaller portions from smaller households.

→ **What it means?** *Clever innovation that seeks to win appeal from new younger consumers and spark some returning interest from cauliflower consumers eaters who have shifted to other vegetables.*

Sainsbury’s extends purple potato

range – Sainsbury’s is set to launch a new purple potato product “Witches Fingers” using the Albert Bartlett Purple Majesty, as part of its Halloween range.



The purple potato wedges development follows the successful launch of the Purple Majesty potato last year, which proved to be extremely popular with consumers, with initial volumes sold out before Christmas. The potatoes, to be available from September this year, are grown in Scotland.

→ **What it means?** *Another innovative product development that builds on the success of the unique attributes of the purple potatoes and gains leverage off being marketed towards a special occasion.*

Tesco stocks the world’s hottest commercially grown chilli

– UK retailer Tesco has commenced selling the world’s hottest commercially grown chilli “Bhut Jokoia” in its stores this week.



Also known as the “Ghost Chilli”, Bhut Jokoia originates from the Assam region of northern India, but is now also grown in Bedfordshire in the UK. It has a score of over a million Scoville Units – the scale used to measure the heat of chilli peppers – making it more than 401.5 times hotter than Tabasco sauce. Although initially Tesco only sold chilli peppers in areas dominated by large Afro-Caribbean and Asian communities, now chillies have become mainstream, with their appeal boosted by the increasing popularity of Asian, Thai, and other oriental food.

The chillies are priced at 90p for a 15g sachet containing 3 chillies.

→ **What it means?** *Products that were once only purchased by some ethnic groups often expand their appeal warrant wider distribution.*

Fruit & Veg replace junk food in vending machines in the US

– Vend Natural – the fastest growing healthy vending snack company with 420 machines in the US – has now installed vending machines selling fruit and vegetables in Texas, with a particular focus on locations in hospitals, office buildings, and schools, to help provide consumers with healthier snack choices.



The products on offer in these vending machines are replacing bags of salted potato chips with dried apple slices; soda drinks with organic juices; and chocolate bars with cut pineapples and carrot sticks. Thus, instead of deliberating between a chocolate bar and a bag of chips, consumers are given choices that include apple chips, vegetable chips, and all-natural granola bars.

This expansion has been welcomed by the education and health sector as a healthy alternative to the more conventional snack foods.

→ **What it means?** *The expansion of this vending option is bringing some scale to this means of distributing vegetable products and can only be good for both consumption and creating more distribution options for vegetable producers.*

The report has been produced by Freshlogic as part of the National Vegetable Levy and matched funds from the Australian Government. It forms a part of the VIDP and aims to inform vegetable producers and supply chain stakeholders on market influences and 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: Green Beans

- Beans were the **15th** most frequently purchased vegetable by households (weekly) in the **June** quarter 2011.
- Beans are relatively high value product that is purchased by consumers for an average of **\$5.22/kg**, which is markedly higher than the average retail price of **\$3.50/kg** for all vegetables.
- Australian consumers are purchasing **379 grams** of beans per shopping trip.
- Fresh beans are available as hand-picked or machine harvested with the hand-picked product earning a premium over machine harvested crops.

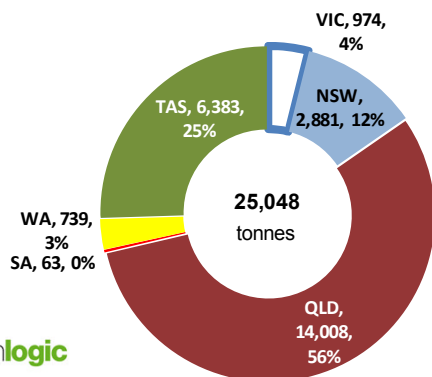


Key Facts

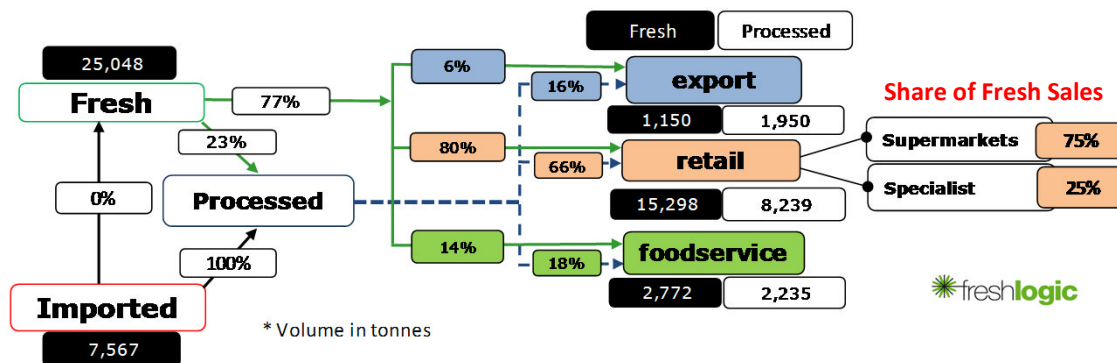
- Bean production was 25,048 tonnes in 2009/10 and a further 7,567t was imported.
- Beans are supplied in fresh & processed forms with the retail channel buying 23,531t and food service taking 5,007t
- The current domestic retail market value of fresh beans purchased by consumers is **\$67m per annum**

Production

Annual tonnes by state

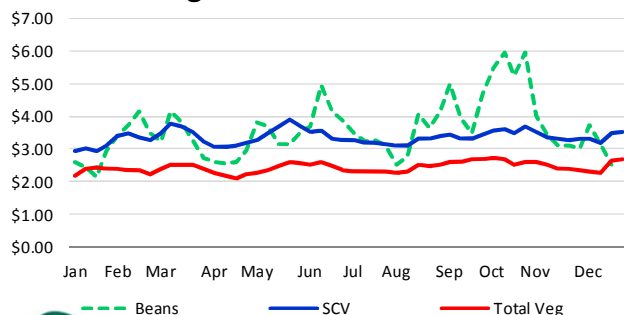


Volumes and shares through the chain



Wholesale Pricing 2010

Average Wholesale Prices 2010

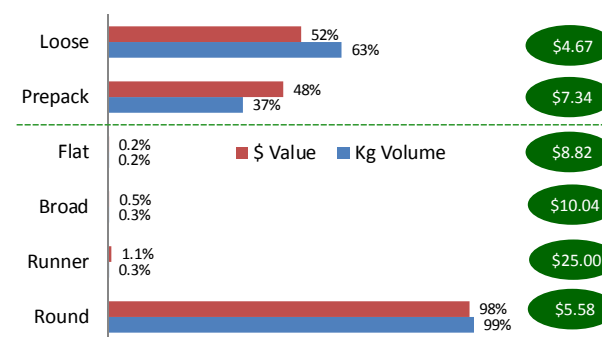


- In 2010, the wholesale price ranged from \$2.16/kg (Jan) to \$5.96/kg (Oct).
- The average wholesale price was \$3.58/kg, higher than total soft cooked veg (\$3.35/kg) and total veg (\$2.43/kg).
- Wholesale pricing reflects strong seasonal influences.






- Fresh retail sale volumes are dominated by round beans with 99% of the green bean volume and 98% of the value.
- Pre-packed beans generated a significant premium of 57% over loose sold product.
- Retail sales of beans were relatively consistent throughout the year, compared to the seasonal variations in other soft cooked vegetables.

Retail fresh sales

Bean Sales Contribution- By Variety & Pack Type



Consumer Penetration

| Household Segments | | Average Purchased Quantity (kg) | Mealpulse™ Purchase Weekly |
|--------------------------------------|---|---------------------------------|----------------------------|
| Singles & Couples with lower income |  | 0.345 | 16%-20% |
| Singles & Couples with higher income |  | 0.220 | 15%-22% |
| Budgeting families |  | 0.423 | 15%-20% |
| Established families |  | 0.388 | 12%-26% |
| Empty Nesters |  | 0.377 | 13%-23% |

- In the June quarter 2011, beans were the 15th most frequently purchased fresh vegetable based on weekly purchase patterns, with 18% weekly purchase frequency. Weekly purchase frequency has remained consistent over the last four quarters. In the September quarter 2010 it was the 14th most frequently purchased fresh vegetable, with 19% weekly purchase frequency.
- Within soft cooked vegetables, beans are ranked forth based on weekly purchase frequency, behind broccoli, mushrooms and cauliflower.
- The highest average penetration by segment was with Established Families (21%), followed by Singles and Couples with higher income averaging 19% weekly purchase frequency.
- Budgeting Families had the lowest average weekly purchase frequency with 16%.

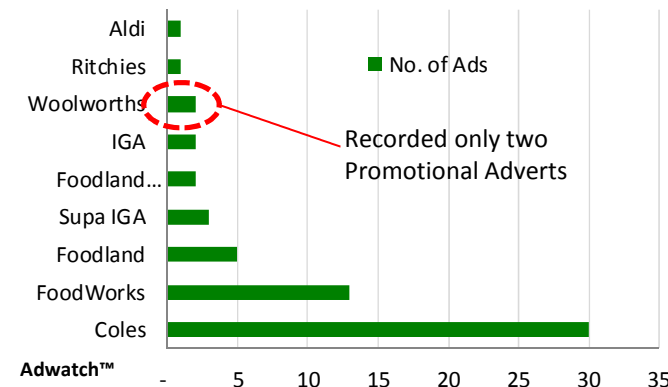
What quantity do consumers buy

- Based on the analysis of retail *Docket data*, provided as part of the Mealpulse™ panel, the average quantity of beans Australian consumers select is **379 grams**.

- Over 2010, 69% of the retail promotional activity was in autumn and winter, and 31% in spring and summer.
- There was a total of 59 adverts, and some level of retail promotion activity in 29 of the 52 weeks in the 2010 calendar year.
- Coles advertised in 21 weeks of the year, while FoodWorks advertised in 7 weeks and Foodland in 5 weeks.
- SA had the highest number of state-based retail adverts with 15 (25%), while WA had the lowest with 4 (7%).
- Fresh pre-packed beans generated 34% of the total adverts, and the majority of this came from the 375g pack.

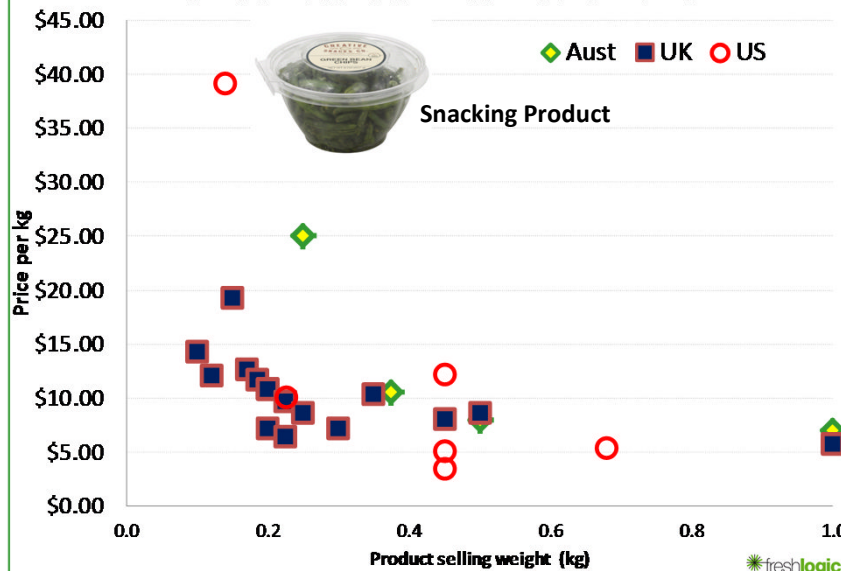
Promotional Activity- 2010

Bean promotional activity- Adverts by Retailer



UK -US -AUST retail range profile

UK-US-Aust Retail Fresh Beans Profile



- This analysis has drawn on data gathered from Australia retail and UK and US online sites. It is considered representative of the current retail ranges in each market.
- The adjacent chart shows the range of pack sizes and comparative retail prices.
- Loose product is sold by the kg/lb in all three markets.
- Pre-packed product is available in all markets with a wider pre-packed offer in UK than in both the US and Australian markets.
- There is evidence of some snacking products in the UK and US markets, generating significant premiums.