VEGINSIGHTS

monthly vegetable market insights – May2011

A VIDP initiative

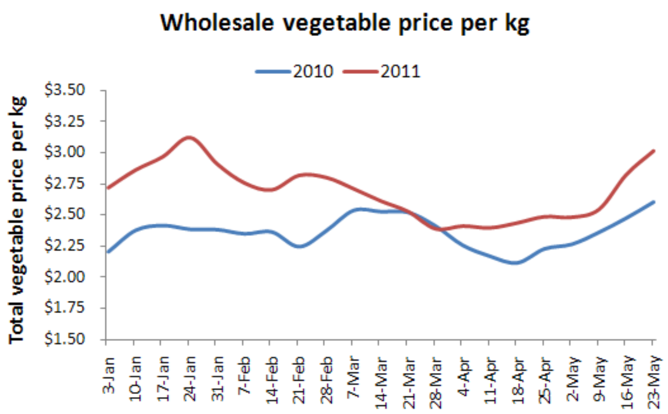
freshlogic

Highlights

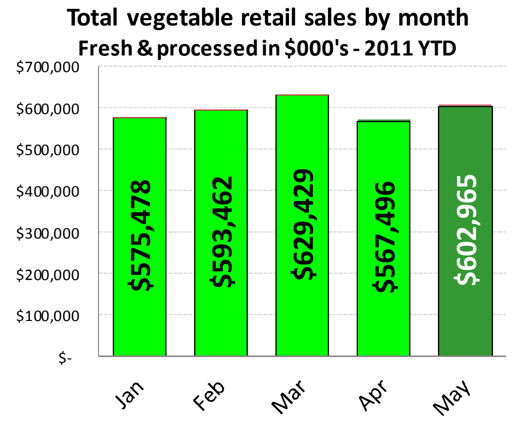
- **Wholesale vegetable prices up 12.2% on May last year**
- **Spending in café & restaurants declines further**
- **Aussies snub healthy fast food options**
- **“Made in Australia” label stumps shoppers**
- **New salad add-on range blooms at UK Waitrose**
- **Category focus: Zucchinis with a retail value of $108 million**

Vegetable market

Wholesale vegetable prices – The wholesale price difference gap between May 2010 and May 2011 is profiled in the chart below. It shows the total vegetable price per kg increased over May last year by an average of 12.2% for the month of May 2011.



However, the impacts across the product categories varied. Salad components, hard cooked vegetables, and seasonings increased by 30%, 8%, and 1% over the same month last year. In contrast, soft cooked vegetables decreased by 2% over the same four-week period last year. At the product level, the most significant changes were with cucumbers, cabbages, and radish, which increased over the same month last year, and cauliflowers which decreased over the same period last year.

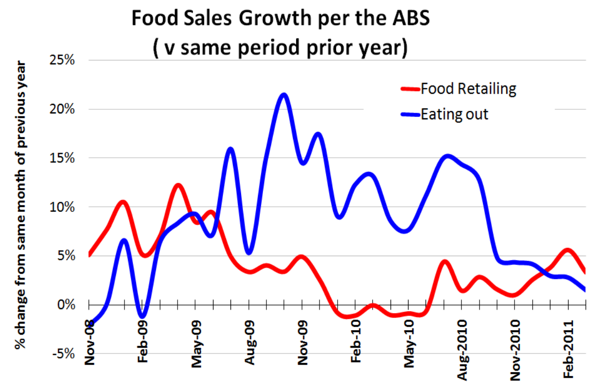


The weighted total vegetable wholesale price for the week ending 27 May was $3.02 per kg.

The total retail sales of fresh and processed vegetables in April are estimated at $602.9m and are profiled in the adjacent chart. These sales extend the growth achieved in April and are 7.5% stronger than May 2010. Higher wholesale prices for fresh vegetables continue as the major driver of growth.

The Australian food market

Food retail sales sluggish in March – Retail sales data released by the Australian Bureau of Statistics showed that the total retail spending was slightly up on March 2010 but still remained sluggish compared to same period last year. The ABS data on food sales indicates growth has slowed in year-on-year terms. It reported that the growth in money spent on eating out in cafes and restaurants stayed below that of retailing (mostly grocery) for the past quarter.



HAL Horticulture Australia

AUSVEG

→ ***What it means?*** *As cautious consumers reduce spending on food out of home, food retailers must be picking up the total food market share.*

Online Farmer's Market launched – A new website – eFarmersMarket – aims to bring fresh Australian-made artisan food products to be home delivered across Australia. It features a range of 750 all-Australian products, from antipasto to sweets, with sections particularly for organic and gluten-free products. It also includes messages from producers about their products and how they were produced.

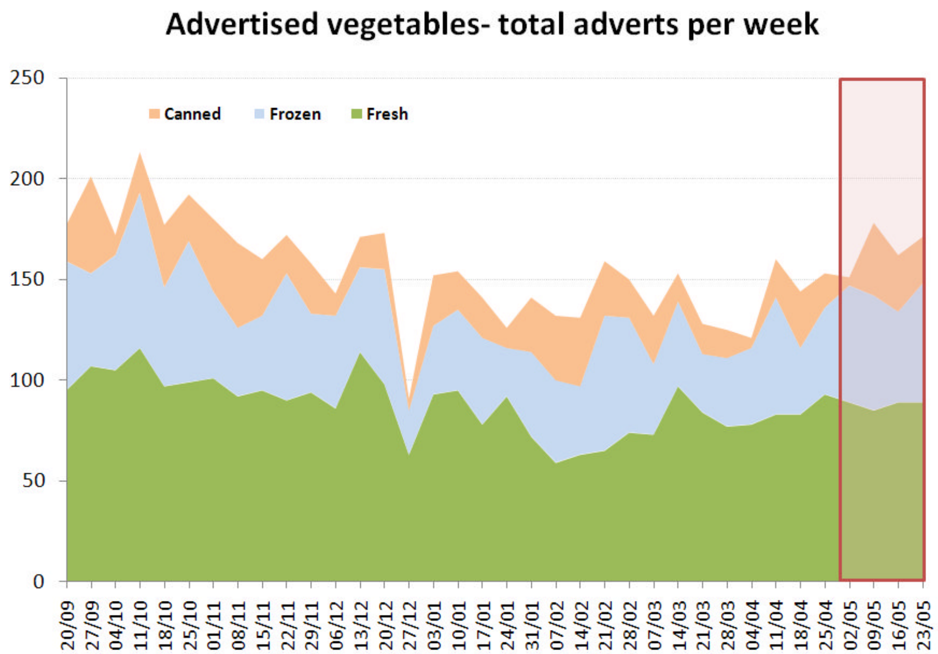
More information can be found at www.efarmersmarket.com.au and that includes offers of mixed vegetable boxes, currently available to only Sydney residents, but with plans for expansion. A gifting service is available throughout Australia, though, offering hampers of hand-picked products for every occasion.

→ ***What it means?*** *This collaboration provides a platform for local manufacturers to lever off the positive imagery farmers markets and reach a wider audience through internet based product offers.*

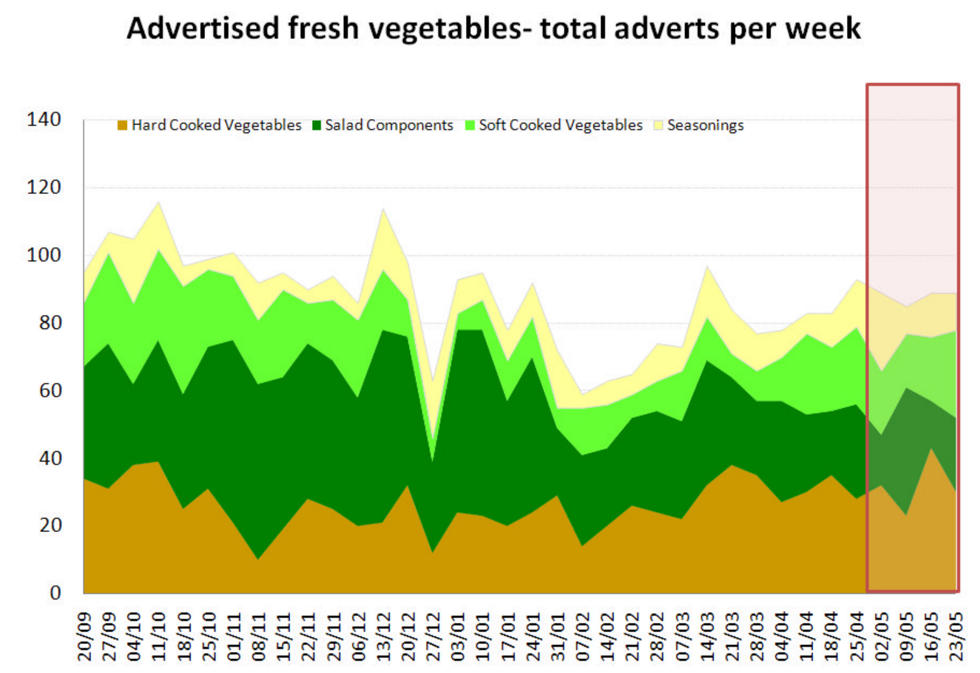
Retailer activity

Promotional activity in the month of May – The retail promotional activity reflects a continued pattern of increasing exposure for vegetables. All indications are this increase has flowed from a more settled supply this month.

Over the last four weeks, the exposure of the total vegetable products increased to an average of **166 products per week up from 145 in April**. The lift in exposure has been driven by a strong increase in frozen products advertised and smaller increases in fresh and canned products.



Within the fresh vegetables, the level of exposure increased for hard cooked vegetables and seasonings and stayed unchanged for soft cooked vegetables over the period. This was partly offset by a decrease in the level of exposure for salad components over the four-week period. This shift in the levels of exposure for vegetable products is considered normal as cooler weather patterns set in, leading to increased preference of consumers for cooked vegetable products over salad components.



Tough times ahead for UK retailers –

According to a report issued by economic forecasting group Ernst and Young ITEM club, UK retailers are in for a difficult time, with consumer spending set to remain below pre-recession peaks until at least 2013.

Spending is being weighed down by debt repayments, restricted lending and high inflation, with the prospect of an impending interest rate rise. Households' sensitivity to interest rates was seen as particularly acute, with 69% of mortgages on variable rate and 43% of them interest-only. The report forecasts that disposable income will fall by 0.1% this year. Consumer spending will grow only by 0.6% – a situation last seen in the 1970s – and 1.3% in 2012, before rising to 2.2% in 2013.

Consumer sentiment is further dampened by the rising food prices which increased by 4.7% in April, according to the latest pricing index by the British Retail Consortium.

→ ***What it means?*** *The UK food markets conditions, framed by higher input costs and low consumer spending, could well be the conditions that soon envelop the Australian market. One indication of what these conditions bring is greater intensity between the food retailers.*

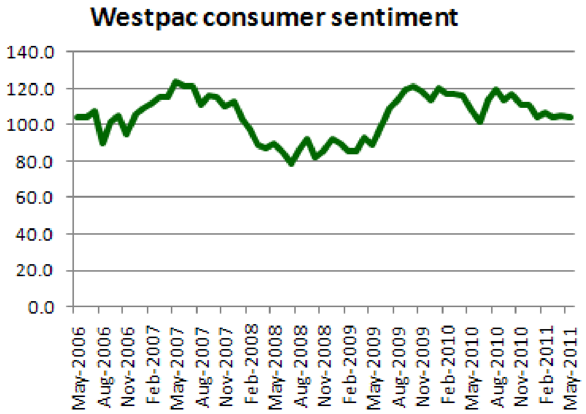
Smarter selling moves back home –

The trend to target consumers is shifting, backwards – out of the store and back to the home. Findings from US Grocery Manufacturers Association show that about 62% of shoppers research online deals before shopping at least 50% of the time. About 80% of women now consider the cost of "just about everything", up from 64% three years ago. Driving this digital shift are the recent recession, more sophisticated search technology, and increased loyalty rewards programs. In order to capture this trend, retailers of staple products are navigating towards in-store campaigns, product displays, end-of-the aisle promotions, and social media, including campaigns, digital couponing, and incentives for product reviews.

→ ***What it means?*** *As the shopping behaviour of value-conscious consumers seeks information in different ways, mainstream food retailers are extending their promotional tools to include the new media channel to reach some segments.*

The consumer

Consumer sentiment dips in May – The Westpac-Melbourne Institute of Consumer Sentiment slipped 1.3% in May to 103.9 in April, the lowest recorded since June 2010. Westpac survey showed that this decline was largely driven by concerns over possibility of another interest rate rise and state of economy. The Federal Budget weighed heavily on consumer minds, with 36% of respondents stating that the budget will worsen their finances. Only 7% stated that it will improve their finances.



→ ***What it means?*** *There is not a lot on the horizon for Australian consumers to lead them to adopt a more free spending mode.*

Onions may improve the quality of life – New study by the University of Southern Queensland (USQ) shows that an onion a day has the potential to combat obesity, diabetes, and an increased blood pressure. Researchers hold that rutin – which is a non-nutritive component of many foods such as onions, apples, tea, and red wine – extracted from onions could render health benefits in addition to keeping cold at bay. The study will be published in this month's Journal of Nutrition.

→ ***What it means?*** *Another study that correlates health benefits with a fresh product to increase consumption of this popular stable product.*

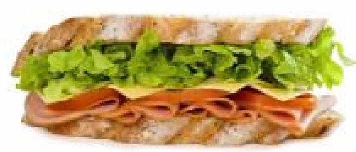
"Made in Australia" label stumps consumers: Choice – A survey conducted by consumer magazine Choice has found that 99% of respondents do not have a good understanding of what the "Made in Australia" label means.

According to the 900 people surveyed, the majority of respondents wanted more information than the label "Made in Australia from local and imported ingredients" provided, while 85% wanted to know the origin of the ingredients used in the product.

Choice states that such food labels with little or no information on the origins of imported ingredients are stopping shoppers from buying Australian goods and making informed choices about what they eat. Choice's polling results are released as the government prepares to respond to recommendations for more rigorous labelling from the Labelling Review Panel.

→ ***What it means?*** *Further confirmation that, despite strong demand from consumers for this information, there is confusion on the "Made in Australia" labelling.*

Aussies snub healthy fast food options – New research findings from a study conducted at the Griffith University shows that while healthier menu options are now being offered by many fast food restaurants, less than 3% of consumers are actually buying them.



Researchers surveyed 1,025 Subway and McDonald's customers on their lunchtime food purchases over a two-month period and found that only 2.5% bought a "nutritionally promoted item" such as McDonald's Tick Approved choices or items which met Subway's "Six grams of fat or less" claim. People who bought the healthier choices were predominantly female, older than the average customers, and are more likely to be working or training in a health-related profession.

→ ***What it means?*** *Perhaps the health benefits of a product are not something that can influence consumers buying fast food. This does not mean healthy food cannot be offered but it may indicate that promotional activity should include messages based on other features.*

McCain's supports reformulation with "It's all Good" campaign

– McCain Foods Australia and New Zealand has announced a new campaign, centred on "spreading the goodness" with reformulation of products to eliminate additives, emphasise its School Veggie Patches campaigns, and highlight the benefits of fresh-frozen foods and increase product transparency.

As part of the campaign, the company has redesigned its website and packaging to increase transparency, including a "healthy and nutrition dietary" online search which allows consumers to exclude particular ingredients for allergy or dietary reasons.

→ ***What it means?*** *One of the major enterprises in processed vegetables is building the strength and value of their brand.*

Video Series for potato types marketing –

The United States Potato Board (USPB) has debuted a new television series titled "Potato Types and Tips" on the Food Network, which is hosted by a celebrity nutritionist. The video series focuses on the seven most common potato types: russets, reds, whites, yellows, purples, fingerlings, and petites and educates on what to look for when shopping for them - their appearance, differing taste properties, nutrition, and popular ways of preparing each potato type. Each series finishes off with the chef preparing a signature dish for a particular potato type.

This series is part of the overall "Potato Types Marketing" initiative, which seeks to inform people on each potato type on their unique attributes and characteristics, as research shows that consumers often lack the confidence to try new types or the inspiration for how they should serve them.

→ ***What it means?*** *Improving the basic understanding of potato types is expected to grow the potato category by increasing the varieties of potatoes consumers' purchase.*

Innovation from the world

Waitrose deepens convenience offer –

Waitrose has launched a new range "Good To Go", in order to enhance its foray into the convenience market. The new label includes 150 lines designed to be eaten on the move. Different salad bowls with meat, fish, eggs, or dressings as well as Romaine salad leaf boats with prawns are some of the new innovations together with the more standard products like sandwiches and smoothies. This product expansion reflects the retailer's plans to open 300 convenience branches over the next 10 years, as it makes a bid to double its share of the convenience market.

→ ***What it means?*** *This move by a mainstream retailer signals their view that food on the go is market worthy of new product investment. .*

New salad add-on range blooms at Waitrose –

Waitrose has become the first UK supermarket to sell edible flowers in response to growing renewed shopper demand for these English garden ingredients. The upmarket retailer's new Finishing Touches range of salad ingredients features pots of stalkless edible flowers, such as mauve-coloured Violas and yellow Nasturtiums. Sold under the tagline "Your Salad Your Way", these single-serve pots will be complemented by a range of salad dressings featuring Caesar, French, mango, and chilli pots at 40p. Baby coriander and amaranth leaves and micro purple basil leaves will also feature in the range. The edible flowers range is sold in single-serve packs containing up to 10 heads each and cost between £1 and £1.29. They will be available in the 204 branches of Waitrose until September this year.

→ ***What it means?*** *Sound response to the renewed demand for once-forgotten edible flowers by developing a product offer that is in a portion size that allows easy participation and yet earns a good price premium.*

This report has been produced by **Freshlogic** *as part of project funded by HAL using 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: Zucchini

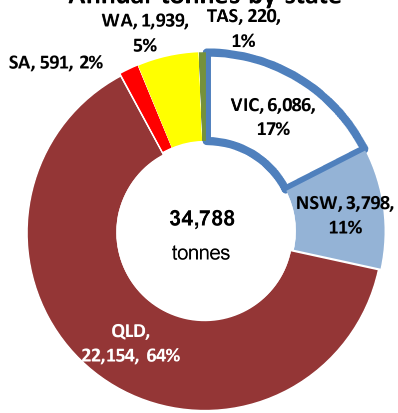
- Zucchini was the 11th most frequently purchased vegetable by households (weekly) in the March quarter 2011, with increased household penetration during the price lows of early new year and during the winter months
- Zucchini is a relatively high value product compared to all vegetables. It was purchased in 2010 by consumers for an average of **$4.45/kg**, which is higher than the average retail price of **$3.50/kg** for all vegetables.
- Consumers purchased an average quantity of **448 grams** per shopping trip

Key Facts

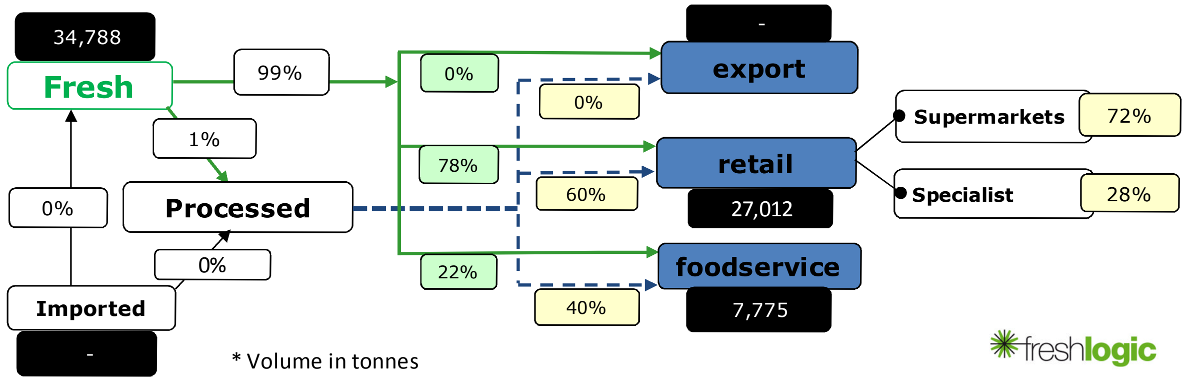
- Zucchini production was 34,788 tonnes in 2009/10
- The retail channel buys 27,012t
- The foodservice channel buys 7,775t
- The current domestic retail market value of fresh zucchini purchased by consumers is $102m

Production

Annual tonnes by state



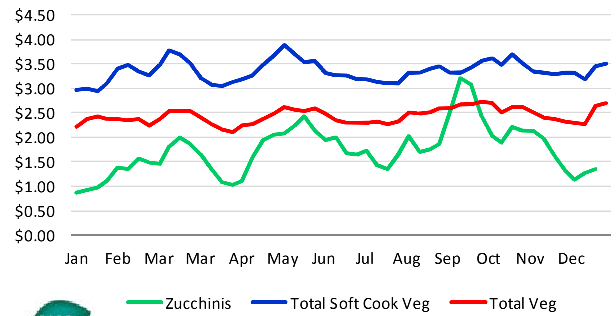
Volumes and shares through the chain



* Volume in tonnes

Wholesale Pricing 2010

Average Wholesale Prices 2010

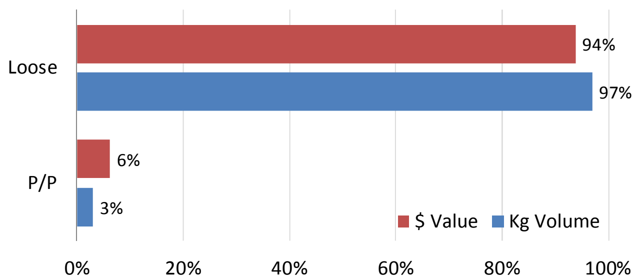


- In 2010 the wholesale price ranged from a low of $0.86/kg (January) to a high of $3.21/kg (September)
- The average wholesale price zucchini's was $1.73/kg, lower than total Soft cooked veg ($3.35/kg) and total veg ($2.43/kg)

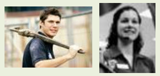
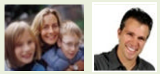
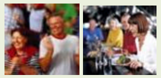
Retail fresh sales

- Retail sales are dominated by green zucchini in both volume and value
- The average sales value is led by Baby varieties at $10.59/kg, a substantial premium over green with an average value of $4.36/kg
- The average sales value for pre-packed product (450 and 500grams) was $8.96/kg, compared to $4.23/kg for loose green product

Sales Contribution- By Pack Type



Consumer Penetration

Segment		Average Purchased Quantity (kg)	Purchased Weekly
Singles & Couples with lower income		0.392	18%-23%
Singles & Couples with higher income		0.459	14%-28%
Budgeting families		0.478	23%-26%
Established families		0.444	11%-29%
Empty Nesters		0.491	12%-17%

Mealpulse™

- In the 1st quarter 2011, zucchini was the **11th** most frequently purchased fresh vegetable based on weekly purchase patterns. Zucchini displays seasonal influences, with more households purchasing during winter. In the 2nd and 3rd quarters of 2010 Zucchini was purchased by 21% and 24% of households.
- The highest average weekly purchase level by household segment was with Budgeting Families (24%), followed by Singles and Couples with high income and Established Families (22%).
- Singles and Couples with high income and Established Families have a greater degree of variation in weekly purchase levels, while Budgeting Families showed greater consistency over the year

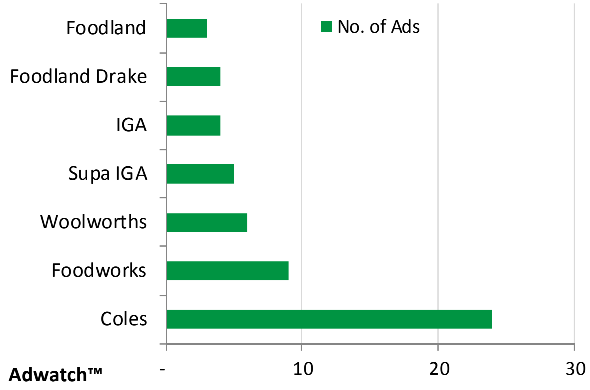
What quantity do consumers buy

- Based on the analysis of retail *Docket data*, provided as part of the Mealpulse™ panel, the average quantity of zucchini Australian consumers purchase is **448 grams**

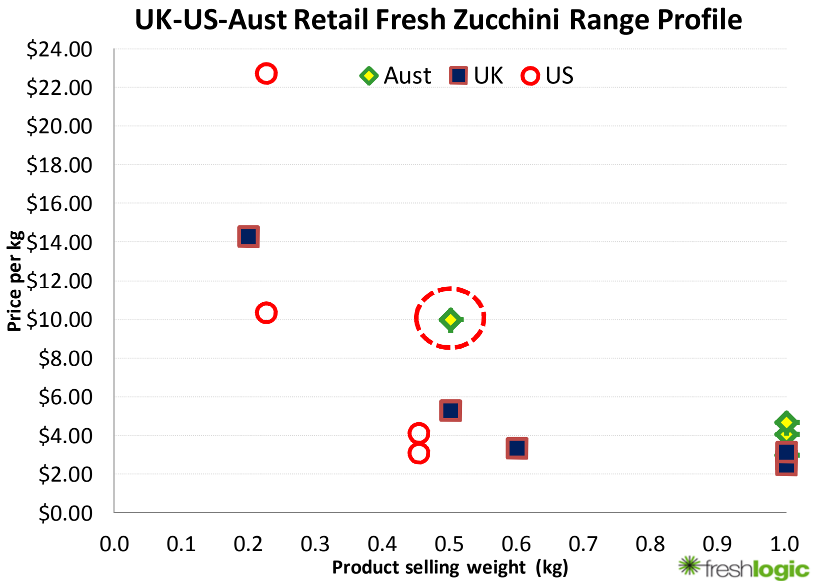
- Over 2010, 67% of the retail promotional activity was in autumn and winter, and 33% in spring and summer
- There was a total of 55 adverts from 7 different retailers, and some level of retail promotion activity in 34 of the 52 weeks in the 2010 calendar year
- Coles advertised in 20 weeks of the year, while Woolworths advertised in 6 weeks and Supa IGA in 5 weeks.
- QLD had the highest number of state-based retail adverts with 11 (21%), while TAS had the lowest with 5 (10%)
- Within Soft Cooked Veg, zucchini generates 4% of the overall promotional activity

Promotional Activity- 2010

Zucchini Activity- Adverts by Retailer



UK -US -AUST retail range profile



- **This analysis** has drawn on data gathered from Australia retail and UK and US online sites. It is considered representative of the retail ranges in each market
- All markets offer loose product that is sold by the kg or by lbs in the US
- The UK market predominantly offers pre-packed product while the US and Australia focus on loose product
- In contrast, the Australian range offers fewer smaller-sized products than in UK and the US. This is a common difference between the retail ranges in these markets.