VEGINSIGHTS

monthly vegetable market insights

A VIDP initiative

April ***2011***

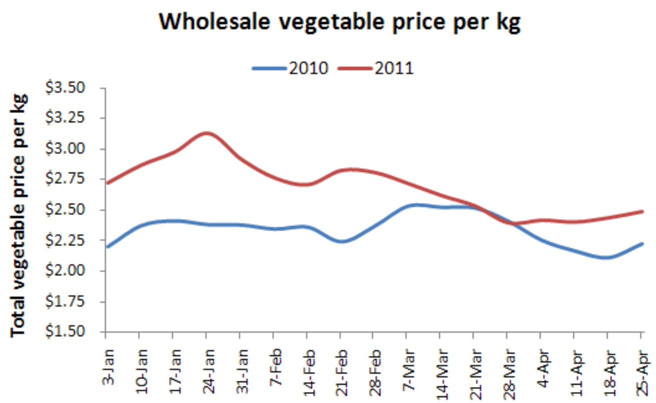
Highlights

- **Wholesale vegetable prices up 11.2% on April last year**
- **Living costs weigh on city consumers**
- **Australia boasts of hottest chilli in the world**
- **Waitrose trumps Elephant Garlic's arrival**
- **Salad singles deliver value consumers prepared to pay for**
- **Category focus: Cucumber**

Vegetable market

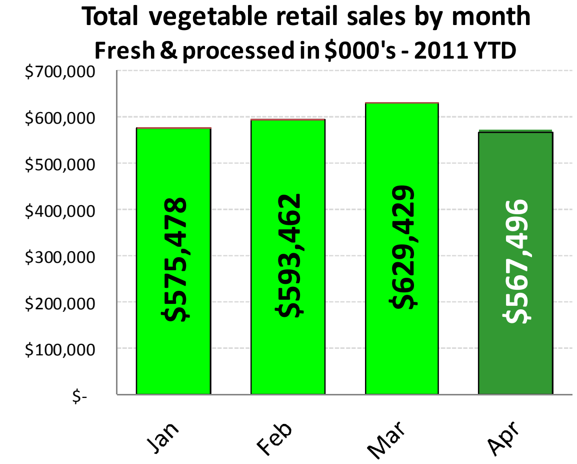
Wholesale vegetable prices – The wholesale price difference gap between April 2010 and April 2011 is profiled in the chart below. It shows the total vegetable price per kg increased over April last year by an average of <u>**11.2%**</u> for month of April 2011. This increase is a reversal of the wholesale price trends in March, which saw prices decline over the 4 weeks to close at the 2010 level.

The impacts across the product categories varied, with soft cooked vegetables, salad components, and hard cooked vegetables having increased by an average of 4-19% over April last year. In comparison, seasonings stayed unchanged over the same four-week period in 2010. At a product level, the most significant increases were with tomatoes, cucumbers, peas, and sweet corn.



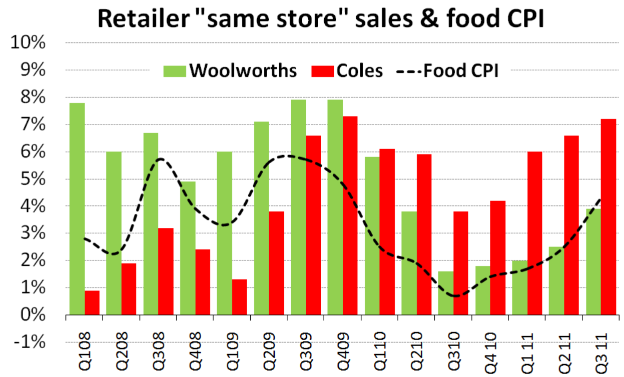
The weighted total vegetable price per kg for the week ending 25 April was $2.49.

The total retail sales of fresh and processed vegetables in April are estimated at $567m and profiled with all four months of 2011 in the chart to the right. This sales level is 7.5% stronger than April 2010 with the large majority of the increase being attributed to higher wholesale prices for fresh vegetables.



The Australian food market

Major food retailer sales – The recent retail sales numbers of the big two grocery retailers suggest they are still taking share of food sales volumes away from smaller players – and from eating-out venues. Each of the chains claimed significant volume gains based on the difference between



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underlying sales growth and their own measures of deflation. The sales growth gap between these two confirms that Coles is still gaining market share.

→ ***What it means?*** *Levels of competitive intensity in food retail will remain high between the two major supermarkets and this will continue to maintain pressure on other food retailers*

Other retail channels – Sales growth is proving elusive for the local retailers selling other than food as the stronger AUD$ reduces the value of inventory and consumers continue to save at near record levels. The only other sector delivering a level of growth is Hardware, which is reported to be enjoying a lift in DIY activity.

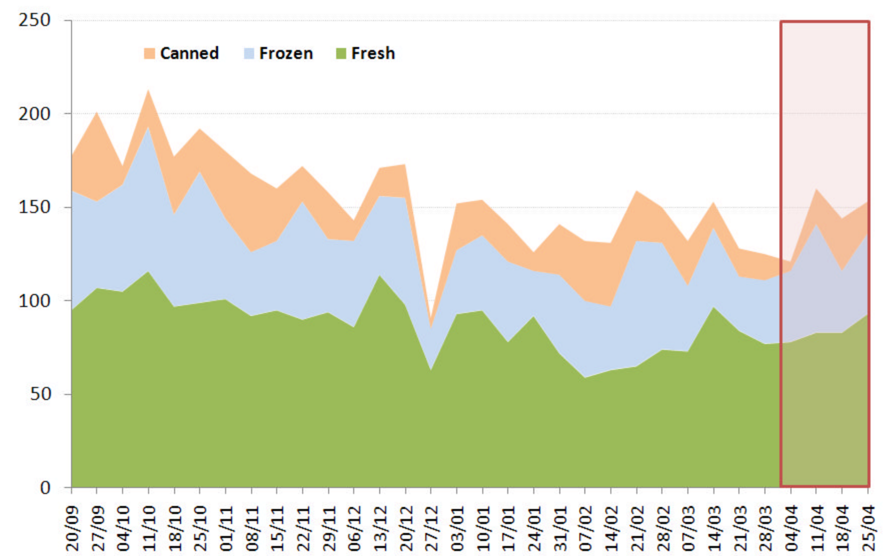
→ ***What it means?*** *Retailers with high exposure to non-food products other than hardware are going to be under sales growth pressure.*

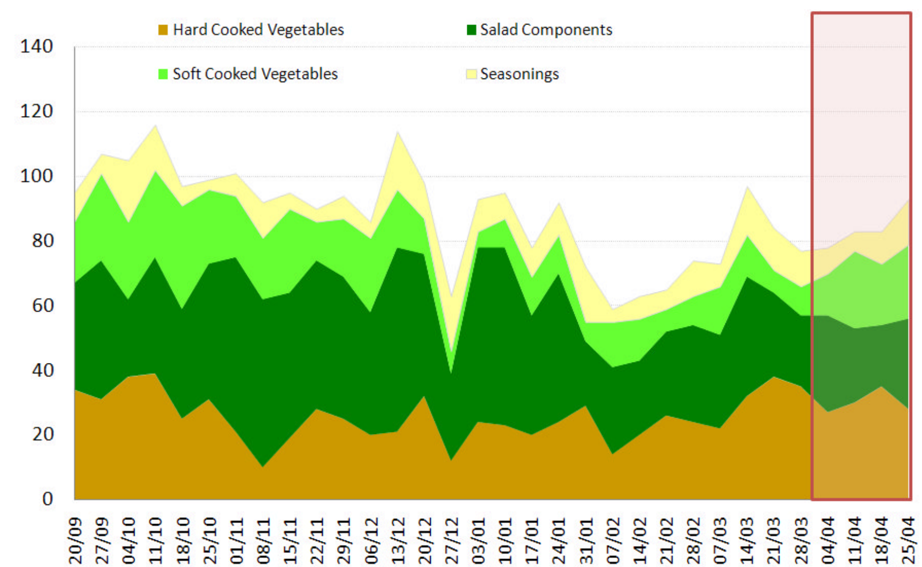
Retailer activity

Promotional activity in the month of April – The retail promotional activity reflects a pattern of increasing exposure for vegetables. All indications are this increase has flowed from a more settled supply, in spite of the public holidays over the Easter period.

Over the last four weeks, the exposure of total vegetable products increased to an average of **145 products per week up from 141 in March**. The lift in exposure has been driven by increases in the number of fresh and frozen vegetable products advertised. This was partly offset by a small decrease in the number of canned vegetable products advertised.

Within the fresh vegetables, the level of exposure increased for soft cooked vegetables and hard cooked vegetables over the period. This was partly offset by a decrease in the level of exposure for the other two categories – salad components and seasonings - over the 4-week period.





Horticulture Australia

However, with the exception of hard cooked vegetables, all the other three categories lifted their levels of exposure during the last week of April (commencing 25 April).

UK grocery growth takes a dip – Latest grocery share figures for the 12 weeks ending 20 March show a sharp dip in supermarkets' growth rate from 3.9% last month to 2.6%, as shoppers economise amid rising prices. Britons have been cutting back on groceries, adding to signs of a rapid deterioration in consumer confidence, which economists fear, could deter an economic recovery.

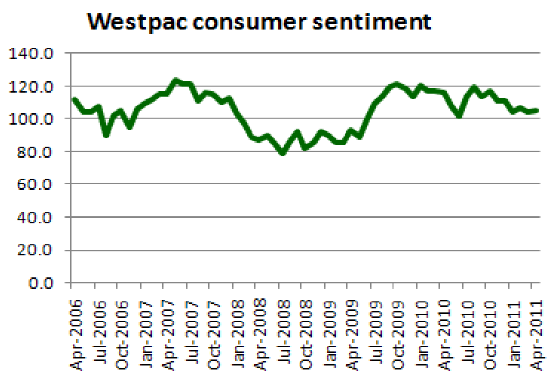
Grocery inflation was 4% ahead of market growth for the first time since 2009. This has prompted the retail sector to employ "powerful" promotions in order to maintain sales. With shoppers responding well to those promotions, about 40% of all sales are now on promotion, an all-time high.

However, in these tight retail conditions, both hard discounters Aldi and Lidl continued their double-digit growth from last month, with Lidl increasing its share from 2.3% to 2.5%, an all-time record for the outlet.

→ ***What it means?*** *Subdued sales in the grocery sector have sparked more competitive pricing among retailers, which has created the challenging spiral of increased promotional sales.*

The consumer

City consumers worry about their wallets – The Westpac-Melbourne Institute Consumer Sentiment Index edged 1.2% higher this month to 105.3 points, less buoyant than it was a year ago, when it was 9.3% higher. Despite steady interest rates, a high dollar and a tight labour market, the Westpac report says families are gloomy about prospects for their household finances.



There was also a wide divergence between city dwellers and those in the country. Westpac reported a sharply higher confidence among consumers in rural areas surging 12.2%, propelled by good rainfall and soaring global prices for commodities. In contrast, the sentiment of urban residents fell 4.6%, with the fragile housing market and rising living costs, including a jump in petrol prices since the beginning of the year and threats of higher power costs.

→ ***What it means?*** *With consumer concern about rising costs of living and family finance settling into a pattern, it will take more to reignite them back into a more free spending mode. The sharp divergence between urban and rural consumers also invites strategies to service these two different sets of market conditions.*

Goodness Gang to boost fresh produce – UK supermarkets are set to stock The Goodness Gang: a toy collection to promote fresh produce. The Goodness Gang – an eight-week promotional campaign devised by a promotional company – allows shoppers to collect soft toys if they buy certain amounts of bananas, pears, strawberries, cherries, broccoli, carrots and garlic.

Eight fruit and vegetable characters will be used in a range of retail promotions and encourage healthy eating at the end of the UK summer to coincide with the back to school season. The toy collection includes carrot, garlic, and eggplant as well as fruity banana, pear, cherry and strawberry friends.

In Columbia, the first country to try out the scheme, the campaign delivered a value sales uplift of between 3% and 4% over its eight-week duration.

→ ***What it means?*** *That a promotional campaign that integrates the friendly side of vegetables has been successful in driving behavioural changes and clearly lifted vegetable consumption among children and families alike.*

McCain's School Veggie patches program planted for second year – McCain School Veggie Patches program has opened registrations for the second consecutive year, with already more than 600 schools across Australia and NZ having confirmed their interest in participating in the program this year.

This year, the program will be undertaking a road tour with the first McCain Red Truck Tour of Australia, in which a McCain grower will travel to regional and metropolitan centres over a six-week period, educating children on growing fresh vegetables.

Launched in 2010, the McCain School Veggie Program helps primary school children learn about the origin and benefits of vegetables by planting and growing vegetables in their own school yard. More than 2,700 schools participated, and the program was nominated by parents in The Parents Jury FAME Award for Parents' Choice 2010, an award that recognises campaigns promoting healthy eating to children.

→ ***What it means?*** *That making edible gardening a fun, engaging, and rewarding activity for primary school students is being led by one of the larger vegetable processors.*

Eagle boys and Video Ezy in loyalty program tie-up to boost sales – Pizza Franchise Eagle boys has teamed up and aligned with Video Ezy Flash Rewards program – the video retailer's 12-month membership program – as part of its expansion drive. The partnership will give Video Ezy Flash Rewards members access to an exclusive $4 off Eagle Boys Large Traditional Pizzas, in addition to other discounts on other foods and discounts on other foods and beverages, books, magazines, movies, and music.

The partnership is believed to be part of Eagle Boys' efforts to expand its customer base. The pizza company plans to open average of more than one new store each week during the first six months of 2011 as part of $18.5m expansion strategy for this year.

→ ***What it means?*** *As food service faces challenges with consumer spending at all-time low, this is a positive example of innovative thinking to increase sales by aligning with a retailer who is likely to share the same customers.*

Potato consumption in children's meals leads to overall diet quality – New research findings presented at the Federation of American Societies for Experimental Biology Conference in Washington, D.C., US, demonstrates that consumption of white potatoes (non-fried) by children does not displace other vegetables from children's meals and leads to an overall nutrient-dense diet.

Researchers studied more than 11,500 children aged 5-18 years of age using data from four cycles of the National Health and Nutrition Examination Survey (NHANES) 2001-2008. The data set included information on more than 57,000 individual meals in which the white potatoes could be baked, boiled, mashed, or roasted but not fried. The study revealed that children's weekday lunches, which included white potatoes, generally had more other vegetables than did weekday lunches without potatoes. In addition, meals that contained white potatoes had more servings of other vegetables and were significantly higher in potassium, fibre and vitamin C.

→ ***What it means?*** *Changing consumers' perceptions about the added nutritional attributes of the staple potato has scope to increase consumption of all vegetables.*

Defra mulls cutting waste through labelling shakeup – The UK government is considering options to simplify and clarify the use of "best before" and "use by" dates in a bid to cut household food waste. The Department of Environment, Food and Rural Affairs (Defra) says at least 60% of the 8.3 million tonnes of the UK household food and drink waste is avoidable, as confusion over what food packaging labels mean 5 million tonnes of edible food is thrown away every year.

While packaged foods are legally required to carry a "best before" date – even though it is usually safe for them to be consumed, the "use by" date shows when food is no longer safe to eat and it is important that consumers understand this. Defra is presently working with the food industry to make labels easier to understand, but without introducing any new rules or regulations.

→ ***What it means?*** *An important find which could result in streamlining the myriad of confusing labels while helping consumers to reduce waste levels.*

Innovation from the world

F&S introduces healthy pack snacks for school, foodservice and retail – F&S Produce Company – a leading manufacturer, marketer, and distributor of fresh-cut produce and other value-added products – has introduced a new line of fruit and vegetable snack packs for the retail, foodservice, and institutional markets, including regional school systems.

This new line of portion-controlled snacks consists of 11 different offerings. This includes six fruit and five vegetable items in all two ounce portions. Red grapes, Sliced Red Apples, Sliced Green Apples, Honeydew Chunks, Cantaloupe Chunks, and Pineapple Chunks, each packaged in either a small bag or clear cup and Broccoli Florets, Carrot Slims, Celery Sticks, Sugar Snap Peas, and Cauliflower Florets packaged in a small bag.

→ ***What it means?*** *How a snack product can increase its versatility and appeal to different sectors of the market just by catering packaging in portion sizes that suit how the product is distributed and consumed.*

Colourful spuds get royal wedding fever – A limited range of red, white, and blue seed potatoes have been launched to mark Prince William and Kate Middleton's wedding. The patriotic potatoes – Highland Burgundy Reds, British Queens, and Salad Blues – have been created by GardeningExpress.co.uk at a cost of £5.99 for a bag of 12 seed potatoes.

Each bag contains four seed potatoes of each of the three varieties for planting. Highland Burgundy Red – which date back to 1936 when they were used to add colour to a meal for the Duke of Burgundy – has a red interior with a ring of white flesh under the skin. British Queen is over 100 years old and is highly prized for its shape and floury texture. Salad Blue was first grown in Scotland in the 1900s and has a strong deep blue skin and flesh colour.

→ ***What it means?*** *Older potatoes get a revival on account of their royal history, taste, and colour attributes that allow them to lever off the special occasion of the royal wedding.*

Australia boasts new hottest chilli in the world – After one year development from chilli seed to full plant and fruiting, a chilli grower from NSW has produced the hottest chilli – "world Trinidad scorpion butch" from seeds originating from Trinidad – in Australia. Measuring a taste bud over 1,463,700 Scoville units of heat, this chilli is more than 200 times hotter than a jalapeno chilli. The fumes are believed to be so potent that protective clothing and a face mask must be worn when cooking. The chillies will primarily be used for making hot sauces and farting after eating is risky.

→ ***What it means?*** *A new product that has captured worldwide attention due to its unique taste properties.*

Waitrose trumps Elephant Garlic's arrival – UK based food retailer Waitrose has launched an Elephant Garlic whose supersized garlic bulbs are the size of oranges and a single clove is nearly as big as a whole bulb of standard garlic product. A bulb of the Elephant Garlic stands around 11 cm high, including the stem, and is up to 10 cm in diameter. Despite its mighty appearance, it has a less pungent, milder flavour than standard garlic and less of an unwelcome aftertaste.

Technically a member of the leek family, this supersized garlic is grown on a farm at the foot of the Andes in Argentina and takes nine months to slowly mature and grow big enough to be harvested.

Elephant Garlic can be roasted and served as a dip or added to soups and sauces for a subtle, garlicky flavour or sliced and added raw in salads.

→ ***What it means?*** *A new product derived from a long distant import that seeks to win appeal based on taste, shape, and versatility.*

Salad Singles for healthy convenience – Ready Pac, a producer of fresh-cut produce in the US, has launched a new single-serve pre-packaged Salad Singles line that combines a number of convenience, health and value attributes.

Each pack contains less than 200 categories, and is offered at a suggested retail price of $2.99 for a pack size of 130-170gms, which equates to over $44 per kg.

The range comes in four varieties in clear packaged bowls, which also include lettuce, toppings, dressing, and a fork.

This "bundle of benefits" makes for a powerful combination that includes a solution for those who see value in using all the product they buy and not incurring waste at home.

→ ***What it means?*** *A new product that has bundled together a range of benefits and if it is successful, it will have capture a premium, without having to make a feature of its higher relative price.*

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: Cucumber

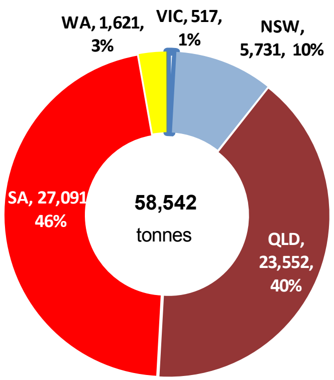
- Cucumber was the **6th** most frequently purchased vegetable by households (weekly) in the December quarter 2010, with clear signals of increased penetration during the warmer months
- Cucumber is a relatively high value product that is purchased by consumers for an average of **$5.08/kg**, which is higher than the average retail price of **$3.50/kg** for all vegetables
- Consumers purchased an average quantity of **477 grams** per shopping trip
- Over 80% of the cucumber crop comes from either Queensland or South Australia

Key Facts

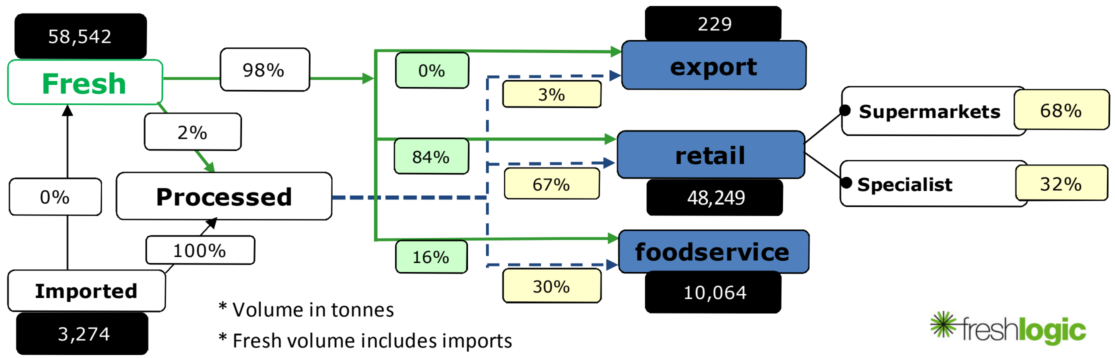
- Cucumber production was 58,542 tonnes in 2009/10
- The retail channel buys 48,249t
- The foodservice channel buys 10,064t
- The current domestic retail market annual value of fresh cucumbers purchased by consumers is $209m

Production

Annual tonnes by state



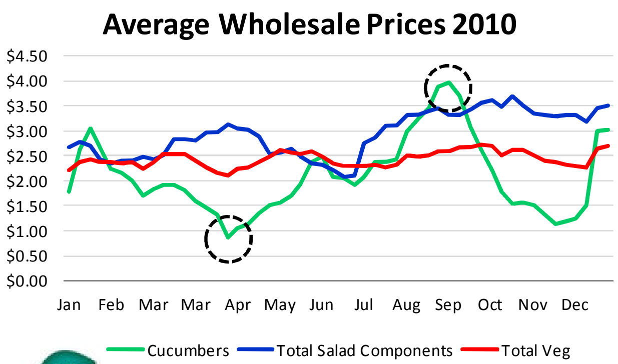
Volumes and shares through the chain



* Volume in tonnes

* Fresh volume includes imports

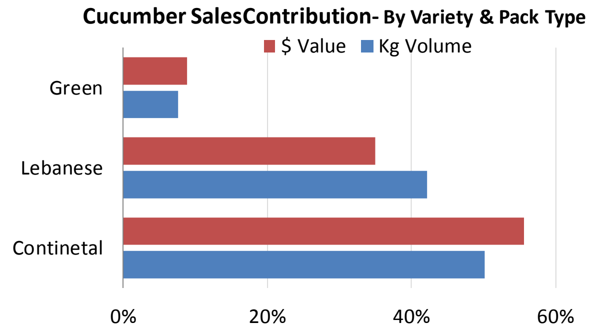
Wholesale Pricing 2010



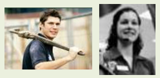
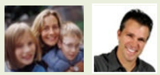
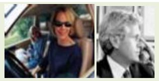
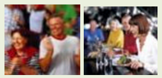
- In 2010 the wholesale price ranged from a low of $0.87/kg (April) to a high of $3.95/kg (Sept)
- The average wholesale price was $2.06/kg, lower than total Salad Components ($2.94/kg) and total veg ($2.43/kg)
- Cucumber pricing fluctuated widely over past year and is largely influenced by weather related supply disruptions and demand spikes in the early warmer months

- Retail sales are led by Continental at 50%, while Lebanese attracted 42% and Green 8% of the sales volume
- The average sales value is led by Green at $5.71/kg, followed by Continental $5.44/kg and Lebanese $4.06/kg
- Continental contributes proportionately more to $ value than Kg volume
- Retail sales are dominated by sales of product in a loose form

Retail fresh sales



Consumer Penetration

Segment		Average Purchased Quantity (kg)	Penetration by Segment
Singles & Couples with lower income		0.418	24%-42%
Singles & Couples with higher income		0.377	28%-42%
Budgeting families		0.568	26%-44%
Established families		0.495	32%-42%
Empty Nesters		0.365	22%-46%

Mealpulse™

- In the 4th quarter 2010, cucumber was the **6th** most frequently purchased fresh vegetable based on weekly purchase patterns. Cucumber displays strong seasonal influences, with higher purchasing frequency in the warmer summer weather. In the 2nd and 3rd quarter it was the **11th** most frequently purchased vegetable
- The highest average penetration by the segment was with Established Families (38%), followed by Empty Nesters (35%) and Budgeting Families (34%)
- Empty Nesters and Singles and Couples with lower income have a wider variation in penetration levels, while Established Families showed more even consumption patterns over the year

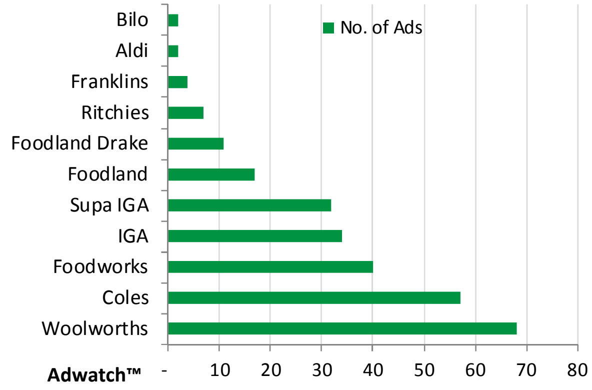
What quantity do consumers buy

- Based on the analysis of retail *Docket data*, provided as part of the Mealpulse™ panel, the average quantity of cucumber Australian consumers select is **477 grams**

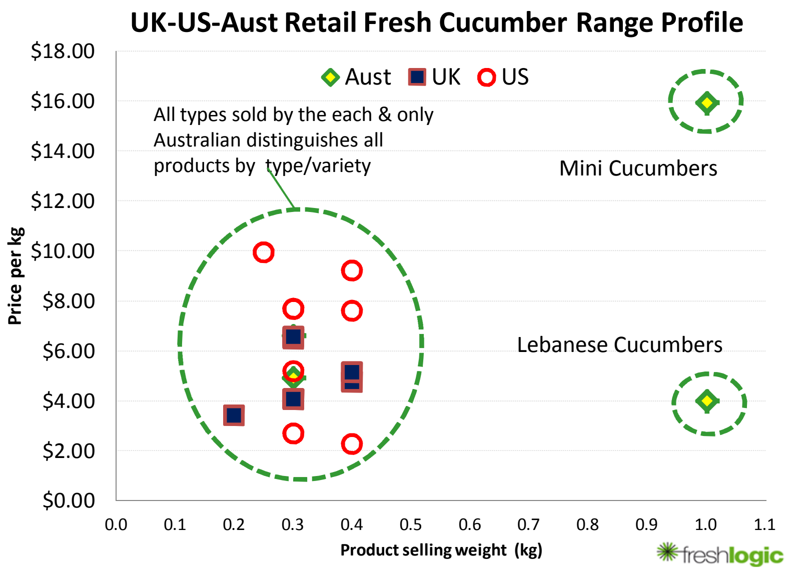
- Over 2010, 36% of the retail promotional activity was in autumn and winter, and 64% in spring and summer
- There was a total of 275 adverts, and some level of retail promotion activity in 45 of the 52 weeks in the 2010 calendar year
- Coles advertised in 31 weeks of the year, while Woolworths advertised in 26 weeks and Supa IGA in 22 weeks
- SA had the highest number of state-based retail adverts with 74 (27%), while TAS had the lowest with 26 (9%)

Promotional Activity- 2010

Cucumber Activity- Adverts by Retailer



UK – US – AUS 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
- The majority of product retailed in these markets are sold loose and by the each. The exceptions being in Australia where Lebanese and mini cucumbers, are sold on a per kg basis
- The UK market offers a larger number of pre-packed portioned products, while the US and Australia focus on loose whole product
- Product is sold based on a wider range of attributes in the US and the UK than in Australia