

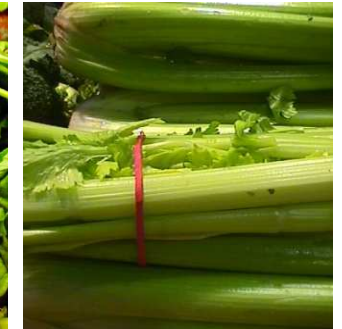
Veginsights

The market – Q1 10

A vegetable market platform analysis plus a profile of the three-month period ending 31 March 2010

July 2010

Prepared by Freshlogic as part of the Vegetable Industry Development Program



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1.0 Executive summary

Overview

This is the second Veginsights – The Market developed under the Consumers and Markets sub-program of the Vegetable Industry Development Program (VIDP). It provides market definition, quantification, and insights into the vegetable market and consumer behaviour.

It has been produced for Australian vegetable producers and the service providers who operate in supply chains that support vegetable producers.

This report confirms the settings for the market and consumer analysis and how they may have altered in the first calendar quarter of 2010. It quantifies the annual market size in values of all forms of retail vegetables at \$7.05 billion and profiles the market for the three-month period ending 31 March 2010 for fresh vegetables.

The report includes outputs and analysis from a market model, which consolidates and reconciles vegetable production output through to household consumption.

This report also aims to profile vegetable consumer-buyer behaviour and vegetable market performance. The information compiled in the report can be used by the target audiences to:

- Access market, channel and category performances
- Guide production forecasting
- Guide business planning
- Enable and guide new product development decisions

This report first identifies and then extends key findings to implications for those who are developing capabilities to use market information in their vegetable business operations.

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

Selected key findings – This Quarter

- This first quarter of the year is marked by the end of the summer holidays and the start of the new school year. Consumption patterns change as the household routines move back to accommodate school lunches and return to work. The retail trade is typically buoyant through until Easter.
- Consumer buying behaviour reflected a sensitivity to the cost of food with retailer promotional activity taking a stronger role in influencing vegetables buying in the quarter. In these conditions, the supermarkets increased their share of take home food.
- Under these influences, consumers purchased more fresh but less canned vegetables during this period. The number of households that purchased frozen vegetables was maintained and this is likely to have been aided by increased promotional activity for this product form.
- The highest increases in fresh vegetable purchasing were in VIC & NSW and in the Singles & Couples With Higher Income segment who have engaged in more home-meal preparation. 30% of the households who spend <\$5 a week on vegetables increased their vegetable spend during this quarter.
- The weighted wholesale vegetable price per kg trended upward for most of the quarter and then declined sharply in the last three weeks to \$2.13, which was 7% higher than at the start of the quarter.
- The decline in the food service channels is at best stable and this has been achieved through higher prices rather than volume.
- Growth in the total food retails sales was flat during the period with food inflation low. While vegetable prices increased during the quarter, they were lower than the previous year.

Please contact Martin Kneebone at martin@freshlogic.com.au with any queries regarding the report's content.

2.0 Key findings & implications

Findings	Implications
<p>1. Consumer confidence has levelled out into a holding pattern while the interest rate rises have slowed real estate values and activity.</p>	<ul style="list-style-type: none"> • Steady or static consumer confidence weakens the general acceptance of new products and innovations, as well as the prospects for growth in volume and unit value in the market.
<p>2. Despite a slight increase in retail unit prices on the previous quarter, vegetables made a disproportionate contribution to food price deflation, which helped ensure the price of vegetables remained a topical issue in mainstream media.</p>	<ul style="list-style-type: none"> • Low food price inflation helped ease the pressure on Australian household incomes, but sustains an environment where promotional discounting will be favoured by retailers.
<p>3. There was further movement in overall food market share in favour of take-home food, as consumers continued to show greater care in how they spent money on food. Supermarkets also picked up market share from the specialist food stores.</p>	<ul style="list-style-type: none"> • Higher levels of home-cooking have been achieved as supermarkets undertook more aggressive promotion of food, and consumers were more price-sensitive, seeking value in the purchase of meals and their ingredients .
<p>4. Underlying lifestyle influences continue to drive consumers to make several smaller top up shopping trips per week despite the supermarkets taking market share from specialists.</p>	<ul style="list-style-type: none"> • The underlying requirement for convenience retained an influence despite price-sensitivity. Products and retailers that understand and cater for more frequent top up shopping will benefit as seasonal changes affect demand.
<p>5. Retail sales of vegetables declined compared to the last quarter by 10%, due to seasonal demand patterns and changes in product mix in the period, and an interrupted supply of product. A shift in product mix towards soft cooked vegetables away from salad components lowered overall value.</p>	<ul style="list-style-type: none"> • Forecast sales for the following two quarters reflects similar overall sales to Q1 10 in view of the expected composition of overall sales and the ongoing pressures on household spending.
<p>6. Wholesale vegetable prices have been tracked in this report, showing the strong effect of changes in supply volumes and demand. Some products are far more volatile than others and are prone to impact the value of other similar products.</p>	<ul style="list-style-type: none"> • Tracking trends in wholesale prices allows for better understanding of changes affecting category value over time
<p>7. This report provides an analysis of promotional activity by retailers over the period. An average of 226 vegetable products were advertised each week at prices between \$1.76 and \$2.89 per kg, with canned priced the lowest at \$1.67 and soft cooked veg achieving the highest at \$2.89 per kg.</p>	<ul style="list-style-type: none"> • The promotional activity by retailers is the dominant tactical message to consumers about the value and availability of vegetables, also reflecting the changes in product mix over the period where seasonal changes occur.
<p>8. Canned and frozen products had as much combined promotional exposure as all the four fresh vegetable categories. Frozen products and seasonings enjoyed substantial increases in exposure when compared to the previous quarter.</p>	

2.0 Key findings & implications

Findings	Implications
<p>9. Fresh vegetables took share of consumption away from canned vegetables, while household expenditure declined on the previous quarter as part of an expected seasonal trend.</p>	<ul style="list-style-type: none"> • This report has focused on tracking period-to-period changes in consumption patterns, creating a platform for future analysis over time to allow growers and suppliers to gain a better understanding of changes in factors that affect market conditions. • There are benefits to be gained by understanding the effects of changes in demand patterns from period to period, affected by needs of different household segments, seasonal factors and key events.
<p>10. More households purchased fresh vegetables in the quarter but the lower value of product and higher proportion of “specials” sold, combined to hold back the value increase. Some segments were drawn to vegetable products for use in scratch preparation and home entertainment.</p>	
<p>11. The most frequently purchased vegetables reflects a demand shift from salads to cooked products.</p>	
<p>12. The majority of all the supermarkets increased their retail market share by reducing the need for current customers to buy vegetables from other retailers. Amid these changes, the 245-store Aldi supermarket enjoyed the largest gains from the lowest total sales base.</p>	<ul style="list-style-type: none"> • Changes in retailer share reflect the result of promotional activity and retailer positioning that plays on consumer sentiment in uncertain economic times .
<p>13. Cooking remains the dominant vegetable preparation method and in this quarter, there was a decline in salads and increase in raw and cooked preparation.</p>	<ul style="list-style-type: none"> • Given the sustained support for meals prepared at home, the demand for high quality and varied fresh vegetables is likely to be strengthened. • Lack of value growth in this period is not a negative outcome, given the economic environment
<p>14. The buying trends reflected small but favourable movements towards buying more vegetables, with strong improvements in the high volume family segments.</p>	
<p>15. Some households purchased more vegetables and dominant reasons were products being “in season and looking good”. The sensitivity to retailer specials increased with the high volume family segments buying more vegetables.</p>	<ul style="list-style-type: none"> • The limited scope to display a range of produce and allow innovation in product form to be seen and understood by shoppers may inhibit the use of on-line retail to improve unit value of vegetable sales.
<p>16. On-line retail sales of food are receiving greater investment by major and specialised retailers, as a means of delivering convenience to consumers.</p>	<ul style="list-style-type: none"> • The vegetable industry will benefit from monitoring these developments and from harnessing collaborative momentum to convey clear messages and potentially capture greater value for producers.
<p>17. Consumer demand for more information about their food is being met with a myriad of messages and claims. “No action” runs the risk of being affected by the action of others .</p>	

3.0 Vegetable Market Settings, News & Events

This section outlines the different factors that frame how the vegetable market works:

- Vegetable market settings
- News & Events

3.0 Vegetable market settings - Overview

Introduction

This review of the Australian domestic vegetable market assumes the same frameworks settings provided in Veginsights – The Market Q4 09, which covered the three-month period ending 31 Dec 2009. These settings are headlined over the next 2 pages.

Vegetable supply

The vegetable market is supplied annually with 3.2 billion tonnes of locally produced product plus net imports of 280,000 tonnes. About 70% of the locally produced product is distributed in a fresh form, 30% is processed and export volumes are minimal. Australian producers are therefore largely dependent on the domestic market. The retail channel provides the highest volumes, with 71% of fresh and 32% of processed volumes. It is also significant that the Foodservice channel distributes 65% of the processed volume.

Pathways to market

Vegetables flow into the domestic market in fresh, fresh cut, canned, and frozen forms. There are many pathways for fresh and frozen products and a limited range of options for the highly perishable fresh cut product. The larger stakeholders have built supply chains around the shortest paths to market; it also shows that a range of middle market traders and distributors exist between producers and processors and the last point in the supply chain that deals with consumers.

Vegetable product range

Based on like or complimentary products, the vegetable types are grouped into categories, which enable a summary-level analysis of all the vegetable categories. They are:

Hard cooked vegetables include a range of vegetables that consumers will trade off within the category. Similarly, Seasonings are products that consumers will use as alternatives within the category. However, the buying behaviour with Salad components and Soft cooked vegetables reflects a high level of transfer and trade off between the two categories. The volume contribution of these categories is Hard cooked (31%), Soft cooked (18%), Seasonings (8%), and Salad components (34%).

Market size

The annual value of the domestic retail sales of vegetables is \$7.05 billion, made up of \$5.83 billion in fresh product sales and \$1.22 billion in processed vegetable product sales. Processed vegetable are 17% of this total retail market.

The three larger eastern states distribute 79% of the national fresh vegetable volume, which largely reflects the national population density with a bias towards salad preference in warmer climates.

3.0 Vegetable market settings – Overview (continued)

Distribution channels and market share

The definition of distribution channels used in this report recognises the distinctions between the retail and foodservice segments that distribute vegetables into the domestic market. The retail channel dominates the distribution of fresh vegetables with 82% volume share. The foodservice channels distribute 18% of the fresh vegetables into the local market.

The value per kg of the vegetable categories is a driver of their sales contribution. Hard cooked vegetables and melons are high volume/lower value categories. They contribute to 40.48% retail volume but only generate 25.25% of the dollar value. The other three categories contribute more value than volume and are led by Salad components with 33.07% of the volume and 39.68% of the value. These details are profiled in the table below.

Category	Contribution		\$per kg
	\$ Value	Kg Vol	
Hard Cooked Vegetables	20.67%	31.51%	\$ 2.25
Soft Cooked Vegetables	24.80%	18.06%	\$ 4.71
Seasonings	10.27%	8.40%	\$ 4.20
Salad Components	39.68%	33.07%	\$ 4.12
Melons	4.58%	8.97%	\$ 1.75

The eastern states have a greater share of the annual retail fresh vegetable market, with NSW leading (\$1.987 billion), followed by Victoria and Qld with \$1.477 billion and \$1.176 billion, respectively.

Two types of retail channels distribute fresh vegetables to the consumers: supermarkets, with a national share of 63.2% or \$3.65 billion, and “specialists” with 36.2% or \$2.15 billion. The supermarket category is dominated by Woolworths, Coles, and Supa-IGA who operate over 1,900 full-service supermarkets.

Foodservice channels buy more frozen than fresh vegetables because product in frozen form can be stored and used as required with minimal waste risk and acceptable quality. There are 4 types of food service channels: Dining Out, Takeaway, Leisure & Events and Institutions with a total of 67,000 outlets.

Price of vegetables and inflation

The patterns of vegetable price volatility has created a perception that vegetables make a larger contribution to food CPI than the 7.45% sales contribution they represent. This volatility has meant vegetables are often the focus on commentary on and around discussions about food price inflation, and this profile has left consumers with a strong price focus regarding vegetables. This creates difficulties when seeking to add value as the price base is volatile. The flow-on variable incomes for vegetable producers also makes it difficult to assess their investment options.

Retail promotional activity

The promotional activity by retailers represents the largest volume of tactical messages that consumers receive about vegetables. It conveys the value of selected products and can shift consumers’ buying preferences between like products. Due to these strong influences, this activity is monitored as part of this analysis.

3.1 News & events for the quarter

Regulatory changes and influences

Taiwan poised to introduce junk food tax in an effort to fight obesity. This momentum increases the pressures on Australia to respond to figures from the Bureau of Statistics showing that one in four children are overweight or obese in Australia. The move towards junk food tax is supported by the health sector but not by the food retailers, who remain unconvinced such a tax will deal with obesity and have concerns about imposing costs on those who can't afford it.

New EU compulsory organic logo to be unveiled and set for introduction from 1 July 2010. The new logo will be obligatory on all pre-packaged organic products that have been produced in any of the EU member states and meet the necessary standards. It will be optional for imported products. Other private, regional or national logos will be allowed to appear alongside the EU label and the organic farming regulation will be amended in the coming weeks to introduce the new logo.

Mandatory calorie count disclosure for all fast food was proposed by Victorian health authorities. A similar calorie disclosure program in New York is reported to have been successful in changing consumer habits, leading to competition among fast food outlets for healthier alternatives. The regulators have planned discussions with the fast-food industry over the disclosure of the calorie content in fatty and sugar-laden foods. Some of the major fast food operators are already providing this information.

Children's food adverts "virtually ceased", following AFGC's Responsible Children's Marketing Initiative (RCMI). Under this initiative, unless the iconic popular children's products are made healthier, they cannot be broadcast on television. Sixteen leading food and beverage manufacturers have committed not to advertise to children until they promote a healthy lifestyle and dietary choices, which follow scientific standards.

UK's Red Tractor scheme was rebranded as a part of the major project to deliver aligned and clearer labelling across all the Red Tractor farm assurance schemes. This initiative saw the scheme's 45,000 farmers and growers implement standards aligned across each of the sectors. The review, which rebranded existing standards as Red Tractor Farm Assurance, was designed to ensure that there is more consistency across the standards and in the logo.



Implications

- The implementation of this tax promotes an increase in the consumption of healthier foods, clearly favouring the likes of vegetables.

- This creates a platform to send clear signals to consumers on organic food products and emulates the USDA organic system.

- The fast food sector of food service under increasing regulatory pressure to profile nutritional content.

- This move by the Australian Food & Grocery Council (AFGC) to develop and implement a level of self-regulation seems to be working.

- The alignment of this scheme to tighten standards and clarify labelling can only raise the credibility with consumers and is enabled by a level of collaboration that remains elusive in the Australian fresh food market.

3.1 News & events in the quarter (continued)

New products

Monsanto embarked on producing new vegetable products after entering into a five-year collaboration agreement in the US with Dole Fresh Vegetables. This collaboration focussed on broccoli, cauliflower, lettuce and spinach and used plant breeding to improve the nutrition, flavour, colour, texture, taste and aroma of these vegetables. Monsanto saw strong synergies by allowing their R&D capacities to be influenced by Dole's knowledge of consumer needs and marketing.



Implications

- This development is likely to increase the proportion of supplier branded fresh vegetables and with that strengthen the negotiating power of suppliers in these markets.

Pink tomato breakthrough. Scientists at the Weizmann Institute in Israel have uncovered the gene responsible for producing pink-skinned tomatoes and found that the differences between pink and red tomatoes are much greater than just their skin colour. Researchers found changes could be traced to a mutation on a single gene known as SIMYB12. This gene acts as a master switch that regulates the activities of a whole network of other genes, controlling the amounts of yellow pigments, as well as a host of other substances in the tomato.



- This finding provides a genetic marker that has potential to guide and accelerate new product development.

New sprouts for Marks & Spencer in UK. A cross between Brussels Sprout and Kale, this new product was bred over 10 years using traditional hybridization techniques by a Surrey-based breeder. It is available in a range of colour forms and maturities and has a Brussels sprout-like plant habit, a tall stem with rosettes forming all the way up to a frilly-leaved top.



- New products are the drivers of growth for packaged grocery products and similar acceptance of new fresh vegetables can only help deliver similar sales growth.

Onions without tears were marketed by Monsanto in February this year. The trademarked EverMild Onion is a domestically (US) grown onion that is mild and effectively extends the season for those who like to eat and cook with sweet onions. It fills a seasonal supply gap, as the only sweet onions available in the US are the ones imported from Latin America. This inaugural crop was also supported by a comprehensive website, with the marketing thrust focussed on expanding consumption in items such as sandwiches.



- This launch is a master class in new product development. It hits a seasonal supply gap, is differentiated from other onions and delivers benefits that can increase consumption.

3.1 News & Events in the quarter (continued)

New products

Panama exported square watermelons to the demanding EU market in February this year. The Panamanian melon has enjoyed demand and this led the producers to explore the potential for a square watermelon, whose shape is obtained through a costly mould. The squaring mechanism for the melon was developed by a Japanese farmer on the island of Shikoku. It makes the melon easy to handle and easily cut into slices. This benefit is earning a substantial premium with the watermelons selling for the equivalent of US\$11.00 per kg.



Implications

- This initiative demonstrates that even in tough conditions, there are some consumers in the market who are prepared to pay a premium for this type of innovation.

Black garlic went mainstream, after Canadian giant Loblaws followed specialty stores and stocked the product across Canada. The bulbs, which develop their distinctive colouring and flavour through a month-long fermentation process at low heat, are sold at \$70/kg. It is claimed to be sweet, with pungent undertones of balsamic and soy, like roasted garlic, but only 10 times better.



- This is an example of what can be captured by launching a product in speciality food stores before it is taken into mainstream food retailers.

A new Australian grown logo was launched by Simplot Australia in association with Tasmanian vegetable growers, on Birds Eye frozen vegetable products in March. This launch followed a survey which found that nine out of ten Australian consumers preferred to buy frozen vegetables that were locally grown in order to support local farmers.



- This initiative provided a welcome product solution that met a demand for locally grown product.

UK Harrods, in conjunction with My Farm, launched a new range of local produce to supply the best in season British produce throughout the year. Each product in the From My Farm range is clearly stamped with the name and location of the grower which provides the shopper with the true provenance of the produce.



- An offer to meet the demand for local product was met through the collaboration of retailer, marketer and local growers.

Retail & food service channels

Thrift shifts UK catering sector. The *Business Thrift Shift Report*, encompassing survey responses from more than 500 UK companies and revealed that almost three-quarters (73 per cent) of businesses surveyed have developed a more detailed knowledge of their spending and resource use as a result of the economic recession. This included everything from investment in raw materials, transport and energy, to staffing, equipment and professional services. Similar patterns are also evident in the Australian market.



Implications

- These findings indicate how tough market situations have led to increased value awareness among food service channels, in order to maximise returns in difficult economic conditions.

3.1 News & events in the quarter (continued)

Retail & food service channels

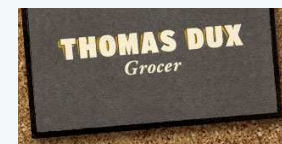
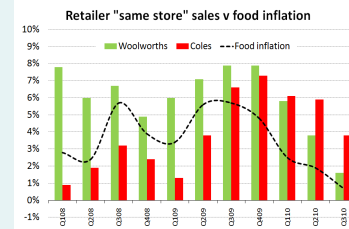
Woolworths vs Coles sales. Woolworths has recorded a 4.7% improvement in its third quarter financial year sales, including petrol sales, but has lowered its full-year sales forecast mainly due to inflationary pressures. The same store Australian food and liquor sales, were only up 1.6%, well below the growth of recent quarters. During this quarter, Coles enjoyed a stronger growth than its rival Woolworths. It reported a 3.9% sales improvement, with same store food and liquor sales growth of 3.8%, during this quarter.

McDonald's in NZ signed a deal with Weight Watchers to promote 3 meals, including nuggets, Fillet-O-Fish and sweet chilli chicken wraps marked with the Weight Watchers logo. As part of the deal, McDonald's used the Weight Watchers logo on its menu boards, while Weight Watchers promoted McDonald's to dieters.

Waitrose rode recession and wants to double. Mark Price, the CEO of the UK premium food retailer has vowed to continue transformation of the upmarket retailer. He plans to double sales and market share over the next decade by developing Waitrose's universal appeal and making it "more accessible to more people". The aim is to increase sales from the current £5bn to £10bn and boost market share from 4.3% to around 8%. Waitrose plans to open a mix of 10 larger and smaller convenience stores this year, with 30 more next year.

Specialist fresh food format for Woolworths. Thomas Dux, the fresh food format of Woolworths, opened store # 11 in Port Melbourne and offered a range of specialty foods and ingredients sourced from local suppliers and specialist manufacturers from around the globe to Port Melbourne's Bay Street.

Restaurants welcomed the food safety ratings introduced by Brisbane City Council, which uses information from regular food safety audits to rate the city's 6,000 eateries by the end of the year. Those with less than two stars will be made to fix problems. It will not be compulsory for businesses to display their rating but Lord Mayor Campbell Newman says public pressure will force dodgy outlets to lift their game.



Implications

- This places the largest retailer under some pressure to maintain sales growth and is likely to flow through to retail competitive intensity all major fresh categories including vegetables.

- The leading quick service restaurant takes the initiative again and win support from consumers.

- The growth achieved by this premium food retailer in tough market conditions suggests that some consumers are still willing to pay for quality product and service.

- This move potentially helps the retail giant to capture the fresh vegetable sales slipping to the greengrocers.

- This indicates foodservice channels are ahead of the retail food sector in conveying their food safety standards to consumers.

4.0 Total Food Market: conditions and trends

This section outlines the factors affecting food market conditions and consumer trends:

- The economic climate – Consumer sentiment
- The economic climate – Food Inflation
- Household food spending
- Household shopping trips & take home food spend

4.1 The economic climate – Consumer sentiment

Consumer sentiment

Are we really in the clear?

- During this last quarter, Australian consumers consolidated the views that they held in Dec 09 as they waited pensively for signs or confirmation that the economy was in safe territory. At this time last year, household were spending cash provided by the Government stimulus packages, and in the absence of that additional cash, the household spend was reduced and the retail sector sales growth was flatter.

Sentiment indices

- The Westpac-Melbourne Institute is the most widely regarded barometer of consumer sentiment and the patterns are profiled in Figure 1. This gauge reflects a flat trend in consumer sentiment for the period.

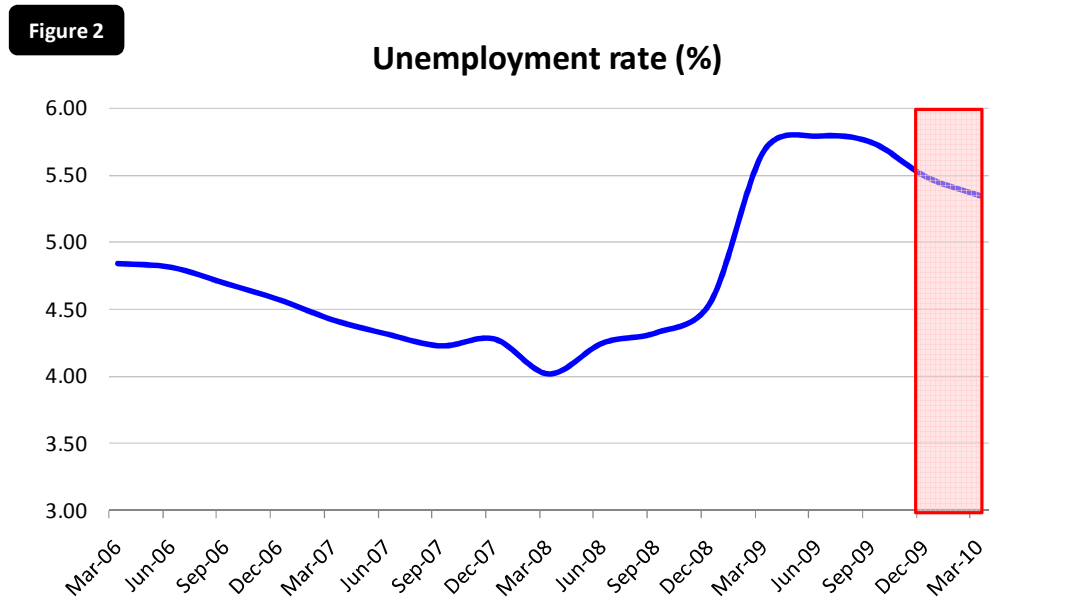
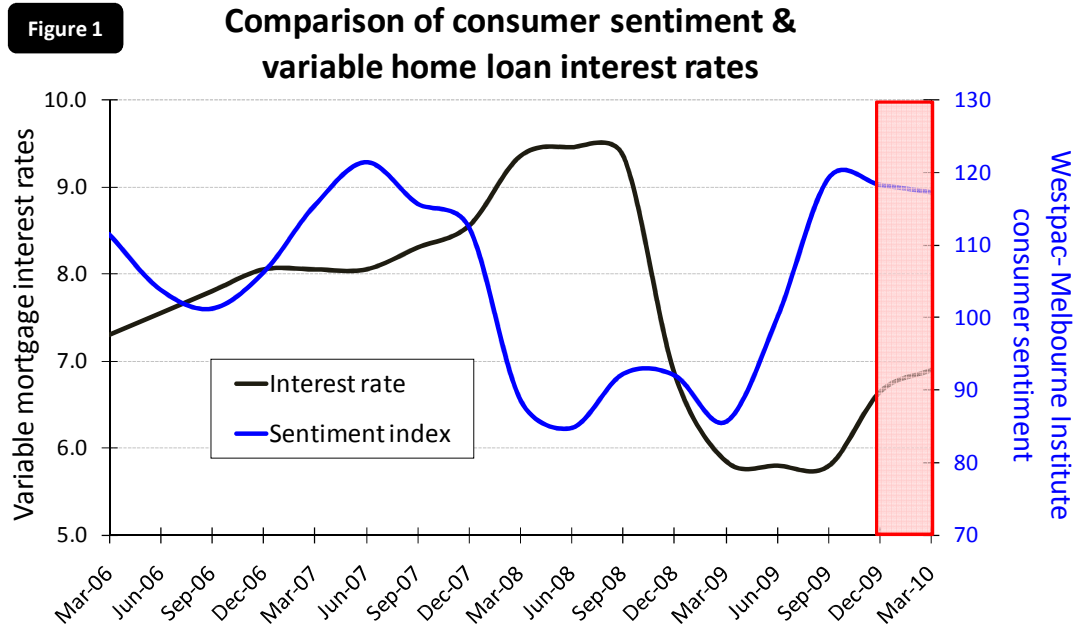
Interest rates

- The Reserve Bank lifted its interest rates once in the period, but this marked its fifth rate increase since March 2009 and raised the interest rates to the levels that slowed real estate values and activity levels towards the end of the quarter.

Unemployment

- Concerns about the security of employment eased as the level of unemployed declined to under 5.5% as profiled in Figure 2, and remained in sharp contrast to many developed economies. The forecast 8.5% unemployment at the start of the GFC now seems to have been averted. The indications are that lower than expected unemployment has had a stabilising effect on consumer confidence.

1. Consumer confidence has levelled out in a holding pattern while the interest rate rises have slowed real estate values and activity.



4.2 Food and vegetable inflation

Food inflation

- Vegetable and fruit prices had a disproportionate impact on the overall food inflation. This is reflected in Figure 3, which shows that lower or at times negative fruit & vegetable prices coincide with the lowest levels of food inflation. Q1 10 saw a food inflation level of 0.7%, the lowest food inflation for the past 16 years.
- If the food inflation contribution from meals out & takeaway wasn't 2.8%, the overall food inflation would have been negative for Q1 10. The increase in "eating out for dinner" expenditure is understood to have been driven more by price increases, rather than volume, and this is evidenced by higher inflation contribution.
- As is reflected in Figure 4, the vegetable price index increased from -4.9% for Q4 09, but remained below the same quarter in the previous year at -1.1% for Q1 10.
- Retail sector data indicates that the value of sales in this first quarter of 2010 were steady up until Easter and then declined sharply. This pattern matches the total vegetable wholesale price trend in Figure 9 on page 20, and confirms the link between vegetables wholesale and retail prices.
- The lowering of the fruit price index, which was -4.6 for Q1 10, would have also impacted the demand of vegetables by providing an alternative. At this time of year, many fruit products are at their seasonal volume peaks, and when this coincides with lower prices, it stimulates the increased use of fruit in fresh salads.

2. Despite a slight increase in retail unit prices on the previous quarter, vegetables made a disproportionate contribution to food price deflation, which helped ensure the price of vegetables remained a topical issue in mainstream media.

Figure 3

Food category percentage contribution to total Food CPI

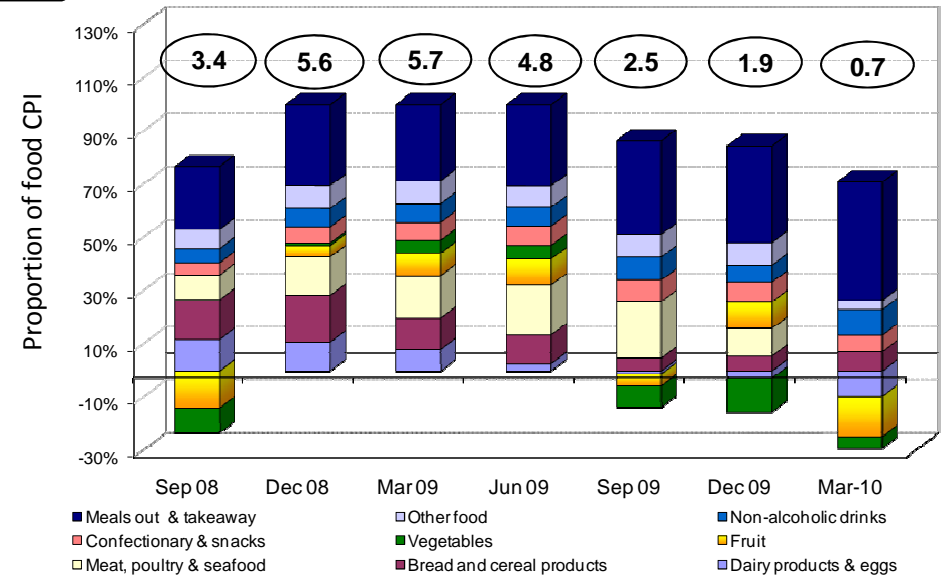
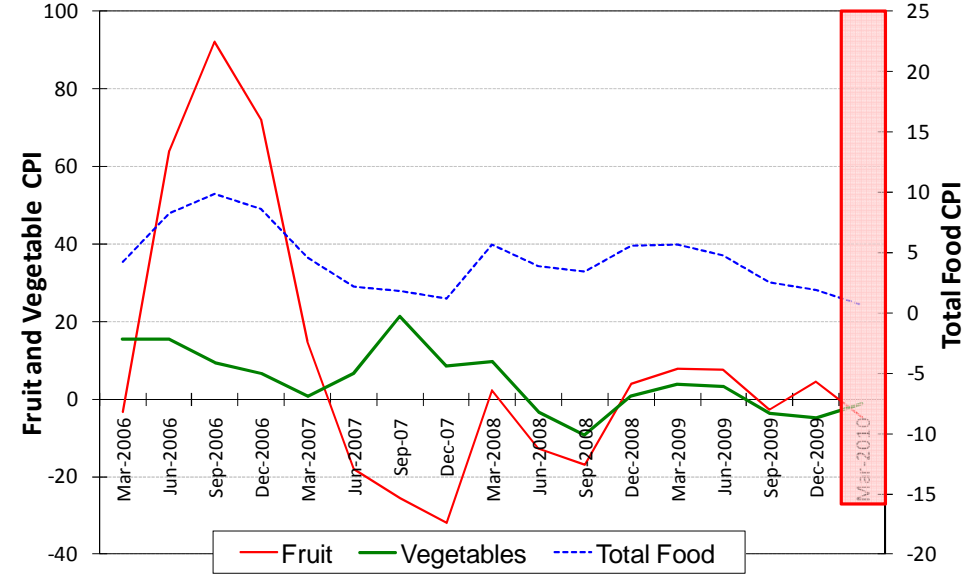


Figure 4

Total Food CPI, Fruit and Vegetable CPI

Percentage change on same quarter in previous year Mar 2006 to Mar 2010



4.3 Household food spending

Food spend

- Supermarkets are the dominant channel with 62.2% of the total food spend (see Figure 5), as food expenditure moved from eat out to being prepared at home.
- The specialist food stores, which are the retailers of fresh food (such as Fruiterers, Butchers, Bakers, and Delis) lost a significant 1.1% share of all household food spend in this quarter. Indications are that this share has moved to the supermarkets.
- The food eaten away from home is segmented into the meal occasions involved and equated to 26.4% of the total household food spend in this quarter. This amount matched the dollar value of the previous quarter but lost by .05% in share. An increase in expenditure on Dinner was negated by decreases in Breakfast, Lunch and Snacks, for meals eaten away from home. This has arrested the level of decline in eating out expenditure, but still leaves it well short of the 29.5% share of the total food expenditure that was spent on eating out in Dec 2008.

Household segment variations in food spend

- The average weekly household food spend for Q1 10 increased by 1.2% to an average of \$223 dollars per household.
- The weekly spend per segment ranged from \$167 for singles and couples with higher income to \$279 for Established families.
- Established Families had the largest overall increase with a large proportion of that increase going into eating out for Dinner.

3. There was further movement in overall food market share in favour of take-home food, as consumers continued to show greater care in how they spent money on food. Supermarkets also picked up market share from the specialist food stores.

Figure 5

Food Spend per Week - Average in Q1 -10

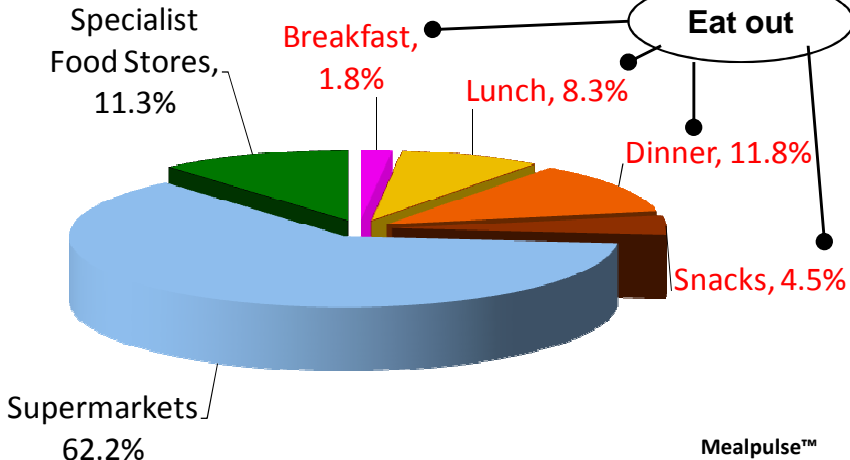
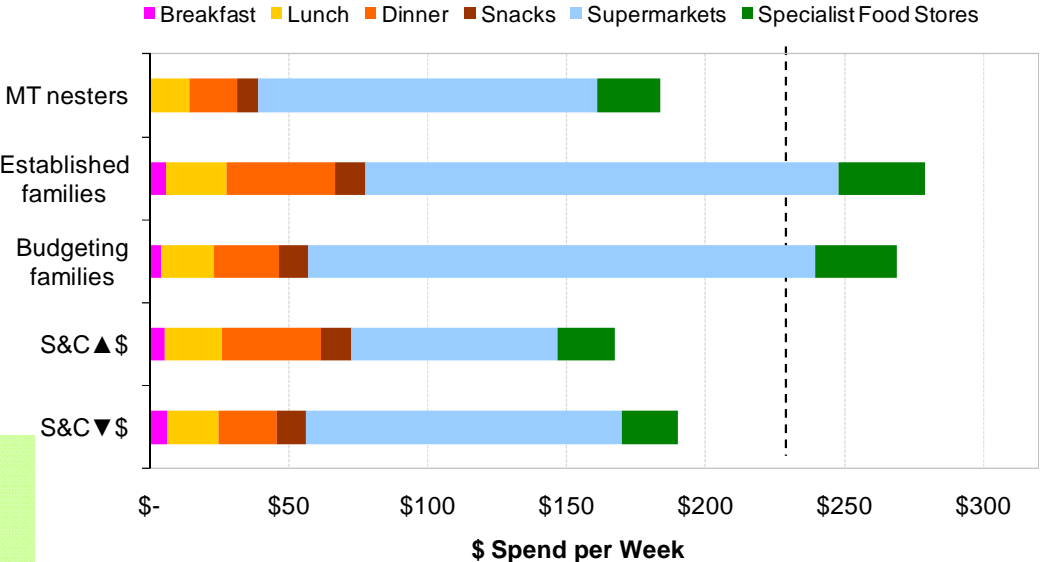


Figure 6

Total Home Food Spend - Weekly average for Q1 -10



4.4 Shopping trips & take home food spend

Shopping trips per week

- The frequency of weekly shopping trips continued in similar patterns to that of the last quarter. Households shopped for take home food 2 to 4 times a week and either ate or bought takeaways another 2 to 3 times a week, as profiled in Figure 7.
- Supermarkets enjoyed the highest patronage for shopping trips to buy food to prepare at home, followed by the fresh food specialists, including greengrocers and butchers.
- This frequency results in an average shopping trip spend of \$45 to \$55.
- The drivers of behaviour towards smaller “top up” sized shopping trips, which include varied working hours, low food preparation skills and extended retail shopping hours, continued to have a major influence.

Take home food spend (food prepared at home)

- The average weekly household spend on food at home increased by 1.7% to \$163, with 82 supermarkets capturing \$138.69 and in the process taking 1.6% share off the specialists, who captured \$25.13 per household per week.
- This capture of increased market share by the supermarkets is attributed to the combination of more aggressive supermarket promotional pricing and more price sensitive consumers who are seeking value with their food expenditure.
- The market commentary from public-listed food companies and market analysts is that retail sales growth is being inhibited by consumers trading down to lower cost product options. This is confirmed in the 0.7% food inflation for the period as detailed on Figure 2 page 14.

4. Underlying lifestyle influences continue to drive consumers to make several smaller top up shopping trips per week despite supermarkets taking some market share from specialists.

Figure 7

Shopping Trips per Household Segment

A-9-A

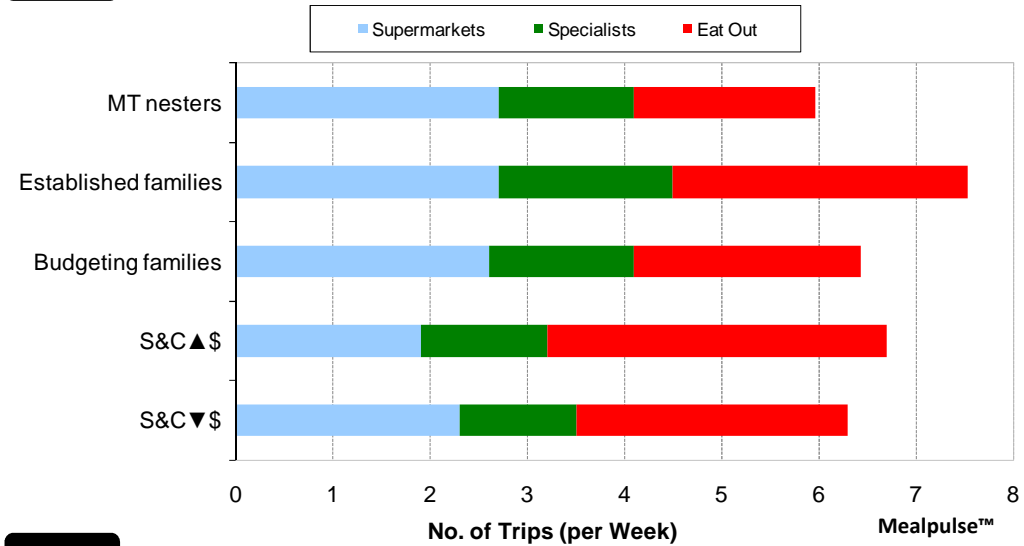
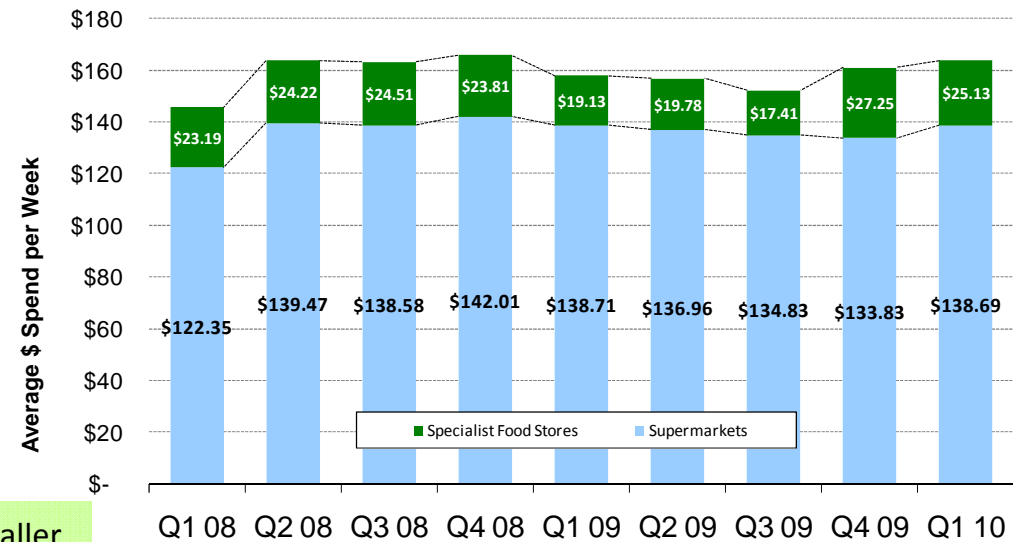


Figure 8

Take Home Food Spend - Weekly average



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5.0 Vegetable Market – 1th Quarter 2010 Profile

The section reviews market performance for the first quarter of 2010

- Market size & contribution
- Wholesale vegetable market prices
- Retail promotional activity
- Retail vegetable buying patterns
- Vegetables purchased and weekly spend
- Fresh vegetable buying patterns
- Most popular vegetables
- Retailer used
- Preparation methods
- Buying trends
- Reasons for buying
- Attitudes and values impact on vegetable buying

5.1 Market Size and contribution

Total vegetable sales

- The total retail vegetable sales for Q1 10 for all vegetables in fresh, frozen and canned forms amounted to \$1.65 billion, as profiled in Figure 9. This represents a decline in sales from the previous Q4 09 by \$191 million. This is to be expected due to increased sales of higher priced lines leading into Christmas and the holidays in the first quarter of the year.
- Historical patterns indicate that the first 13 weeks of the calendar year generates 9%-11% less sales than the preceding 13 weeks that concludes with Xmas. The forecast for the next two quarters of 2010 are also profiled in Figure 9 and reflect sales levels similar to Q1 10.
- It is estimated that 89,000 tonnes of fresh vegetables were sold into the food service sector in Q1 10.
- The value of fresh retail vegetables sales is driven by the mixture of products sold, which sets the total price per kg and the total volume sold. In this quarter, the total price per kg declined on the previous quarter, as the mixture of products shifted away from the higher value salad components and the volumes were lower, as is expected in this first quarter of the year.
- Figure 10 profiles the sales mix for fresh products in the Q1 10. The significant changes in contribution included a 2.4% increase in seasonings and a decrease of 1.8% on salad components. The growth in seasonings was led by an increase in volumes of higher value onions, while the decline in salad components was spread over most products in the category. This change was driven by a demand shift to soft cooked vegetables.
- However, this was not reflected in increased soft cooked vegetables sales as their wholesale values were less than the previous quarter.

Figure 9

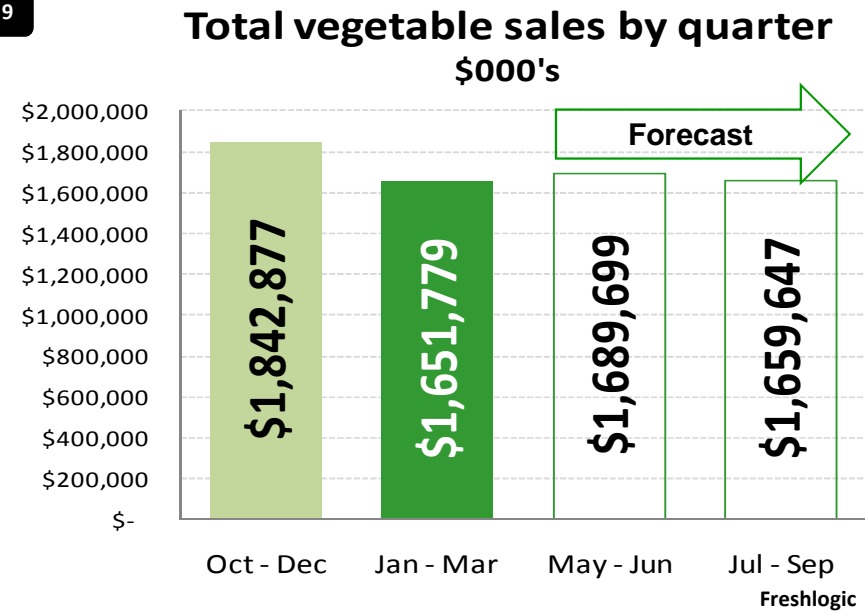
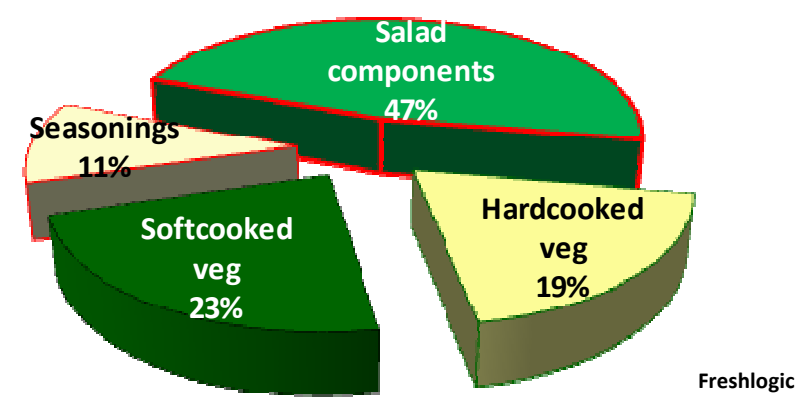


Figure 10

Fresh vegetable sales contribution by category Q1 -10



5. Retail sales of vegetables declined compared to the last quarter by 10%, due to expected seasonal demand patterns and changes in product mix in the period, as well as an uninterrupted supply of product.

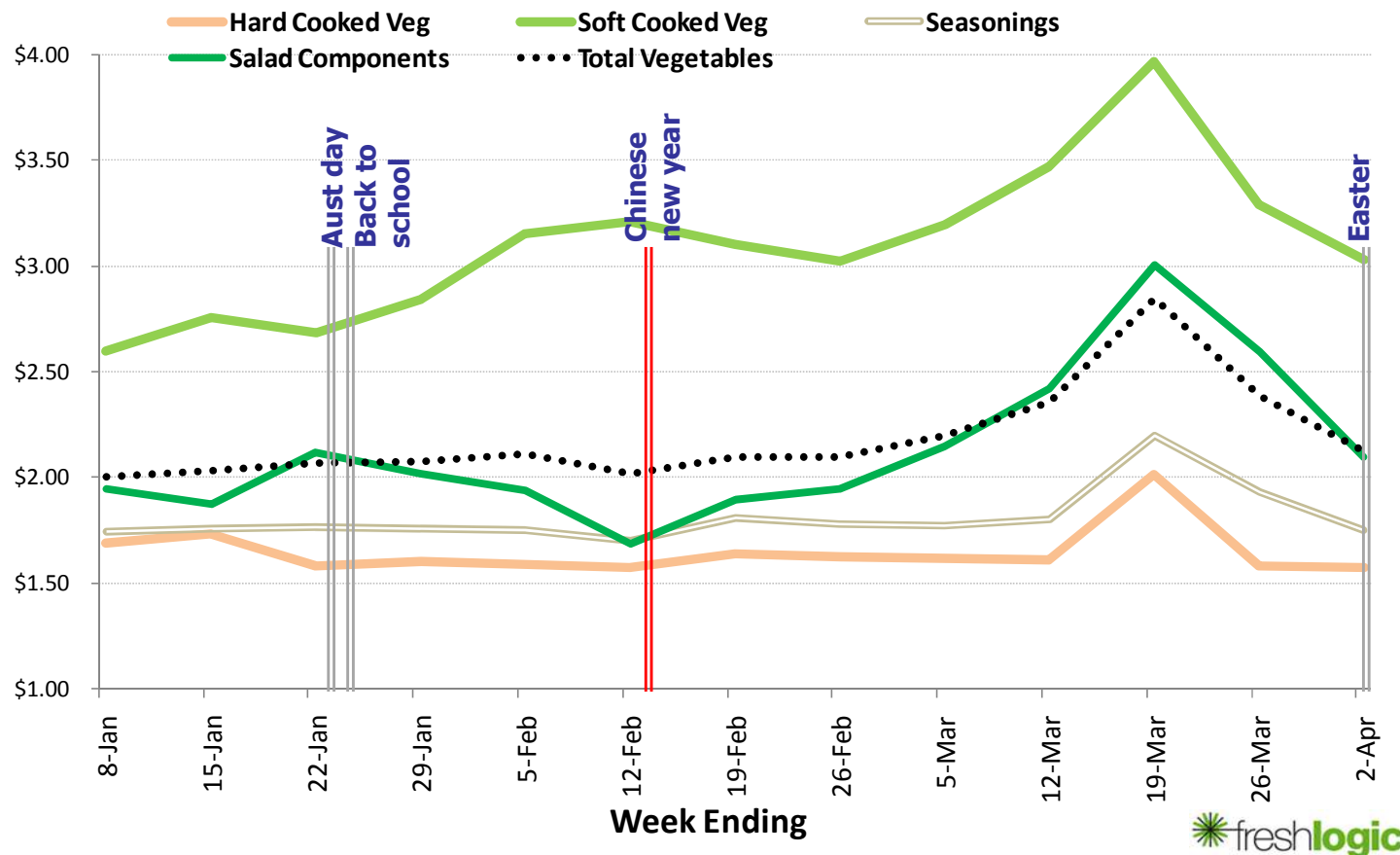
5.2 Wholesale vegetable market price trends

The wholesale vegetable prices per kg, profiled in Figure 11 are based on the vegetable wholesale market prices for a full range of high volume products from the five main markets. The pack size and weight for each item is converted to a price per kg and then weighted by the seasonal sales contribution of that item to create vegetable category totals. These totals are then weighted into a national vegetable wholesale price per kg as per Figure 11.

The trends for this three-month period, which commenced from week ending 8 Jan to the end of March, show a sharp rise of .76c kg or 36.4% from late Feb to mid-March in Figure 9. This rise was attributed to a combination of a supply shortage and increased demand leading into Easter. The rise was then followed by an equally sharp decline of \$1.01 per kg or 35.4% from mid-March to mid-April to end the quarter at \$2.13.

Figure 11

National Vegetable category wholesale price per kg



The events over the period that impacted on demand were Australia Day, changes in routines driven by school children returning to school, Chinese New Year and Easter. Figure 11 also profiles how Soft Cooked Veg, which includes mushrooms, broccoli and cauliflower, and Salad Components, which includes tomato, lettuce and salad mix, are the major drivers of wholesale price volatility. This volatility is driven by these two categories that contribute over 60% of fresh vegetable sales and the wider range of prices returned for these categories as shown in Figure 11. Hard Cooked Vegetables, which includes potatoes, pumpkin, and Seasonings, which includes chilli, garlic and onions were comparatively stable apart from the demand lift in March. The products included in each category is profiled in Appendix C on page 38.

5.3 Wholesale vegetable market price trends - category specific

Soft cooked vegetables

The wholesale prices per kg for the highest volume products in Soft Cooked Vegetables (SCV) are profiled Figure 12. All these products reflected the price lift in the week commencing 19 March.

- Mushrooms and peas were the highest priced product sold and at an average price per kg of \$5.24 and \$4.94, respectively for the period, with mushroom prices were consistent, as expected given the consolidated nature of this supply chain.
- The lift in mushroom and peas prices in the week commencing 19 March indicates that the lift in prices that was apparent in many vegetable products in that week was driven by demand rather than supply problems.
- Broccoli, beans and spinach, which are similarly priced, combine to contribute over 50% of the category sales, reflect more varied pricing that ranged from \$2 to as high as \$4.90. Clearly this is a group of products that impact on the total SCV category price volatility.
- The other 4 main products, sweet corn, cabbage, cauliflower and zucchini, reflect more stable price patterns and would have caused minimal impact on the total category price volatility.

Salad components

The wholesale prices per kg for highest volume products in Salad components (SC) are profiled in Figure 13. This category has two distinctly different levels of products.

- Salad mix sold for \$5-\$7 per kg over the quarter. The other four lines of capsicum, tomatoes, cucumbers and lettuce, were sold in a lower value range of \$0.50 to \$3.00 per kg. These products did not enjoy the same lift in prices in the week commencing 19 March and this is seen as a reflection of demand preferences away from salads as this time.

6. Wholesale vegetable prices show the effect of changes in supply volumes and demand. Some products are far more volatile than others and are prone to impact the value of other similar products in their category

Figure 12

National Soft Cooked Vegetable wholesale price per kg - Q1 10

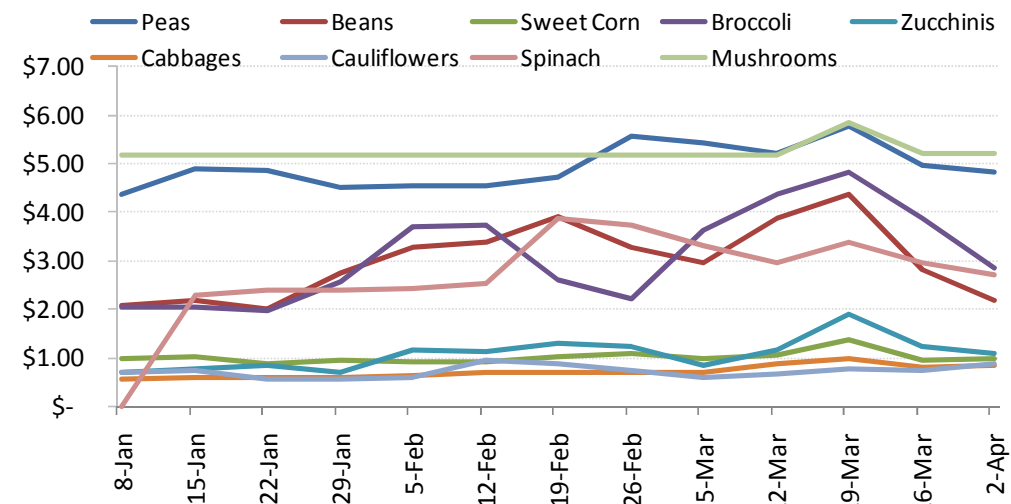
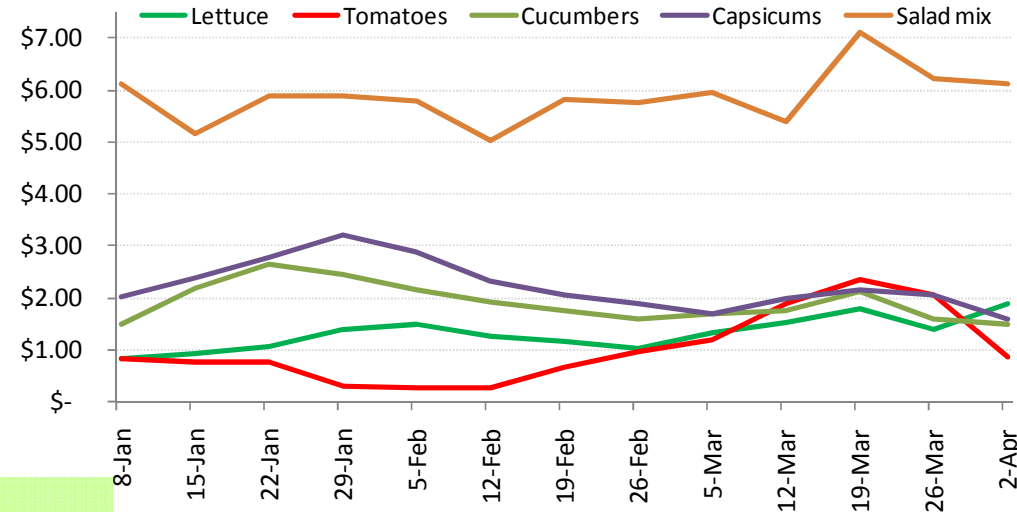


Figure 13

National Salad Component wholesale price per kg - Q1 10



5.4 Vegetable retail promotional activity

Retail promotional activity

- The promotional activity by retailers that featured vegetables was maintained and continued as the dominant tactical message to consumers about the value and availability of vegetables.
- On an average, 226 vegetable products were advertised in the five main states each week during Q1 10.
- The pattern of adverts as profiled in Figure 14 shows the break from holiday patterns in mid to late January, to meet the “back to school” needs of many households. It also profiles that in the weeks leading up to Easter, vegetables exposure reduced, which was due to promotional space being given to seasonal Easter products.
- The share of exposure continued to disproportionately favour the processed canned and frozen products, relative to their sales contribution, compared to the fresh vegetables.

Pricing

- The relative prices of adverts is profiled in Figure 15 by grouping products into categories. The product groupings are explained in Appendix C on page 38.
- In these groupings, the lowest priced product per kg for the 13 weeks of the quarter was canned at \$1.67, followed by hard cooked veg at \$1.91, seasonings at \$2.50, salad components at \$2.58, frozen at \$2.85 and soft cooked vegetables at \$2.89.
- In general, the prices followed close patterns over the quarter, with the exception of seasonings in the week of 1 March, which lifted sharply due to the inclusion of garlic at 12.98 kg.

7. An average of 226 vegetable products were advertised each week at prices between \$1.76 and \$2.89 per kg, with canned priced the lowest at \$1.67 and soft cooked veg priced the highest at \$2.89 per kg.

Figure 14

Type of advert in Mar 10 Qtr

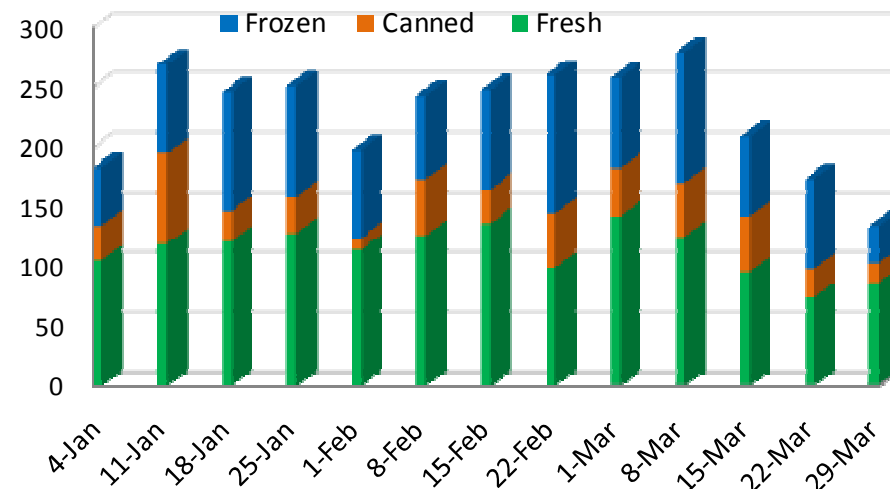
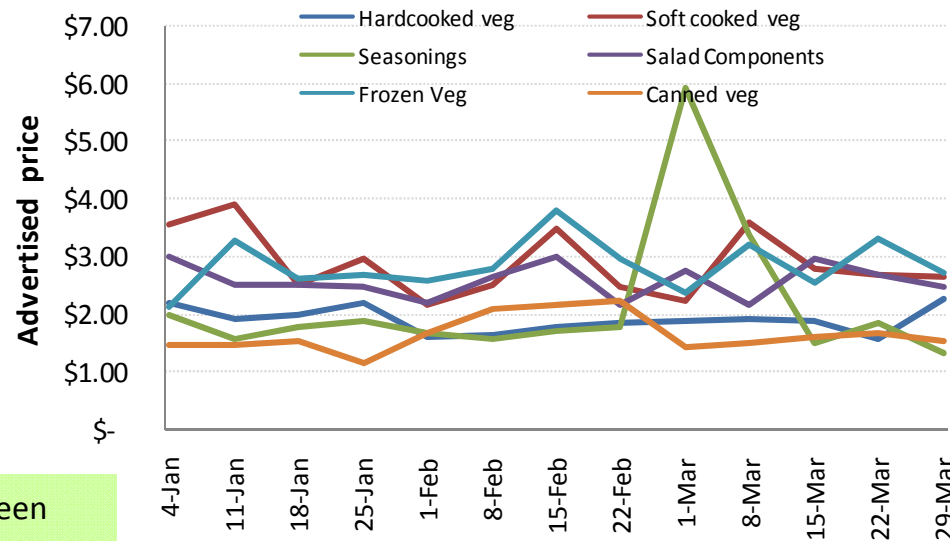


Figure 15

Advertised price in Mar 10 Qtr



5.4 Vegetable promotional activity (Continued)

Retail promotional activity

- During this period, there were 1.5% more retail promotions of vegetable products compared to Q4 09. This level is influenced by the early part of the quarter being in a holiday mode, a period when the retailers ease back on the promotional activity. The retailers' activity generally shifts towards a focus on basic household lines as households return to work and normal weekly routines before students return to school.
- When the changes in advertising exposure are profiled by category, as per Figure 17, it is clear that the changes are varied across the vegetable categories.
- Canned vegetables also reflected a substantial reduction of 153 lines or 25% less than the previous quarter. This is an expected influence of this product form losing appeal to fresh vegetables in the heat of the summer.
- Soft cooked vegetables reduced by 107 lines and salad components by 78 lines, which equates to 31% and 11% on the previous quarter.
- The most significant increases were noted in frozen at 267 lines, seasonings at 67 and hard cooked veg at 48, which equated to 36%, 80% and 12% increases, respectively, compared to the previous quarter.
- Given that frozen vegetables maintained their share of vegetable purchases, as profiled in Figure 18 page 24, this suggests a link between the increased exposure of frozen vegetables and the household share of purchases they maintained.

Figure 16 Advertised products in Mar 10 Qtr
2,950 adverts by category

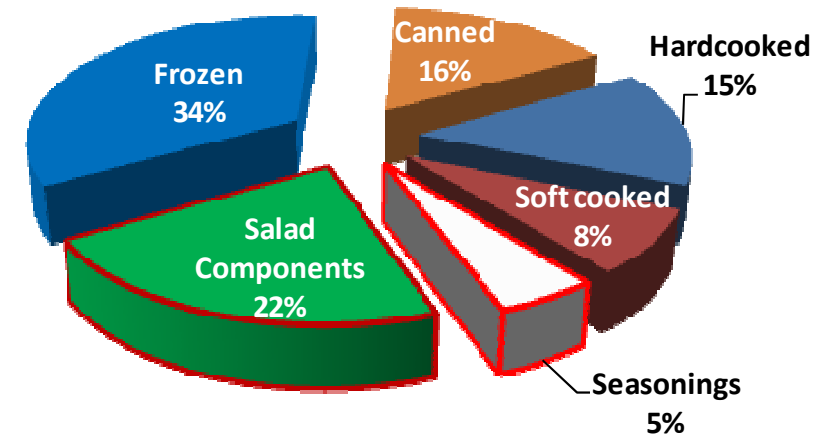
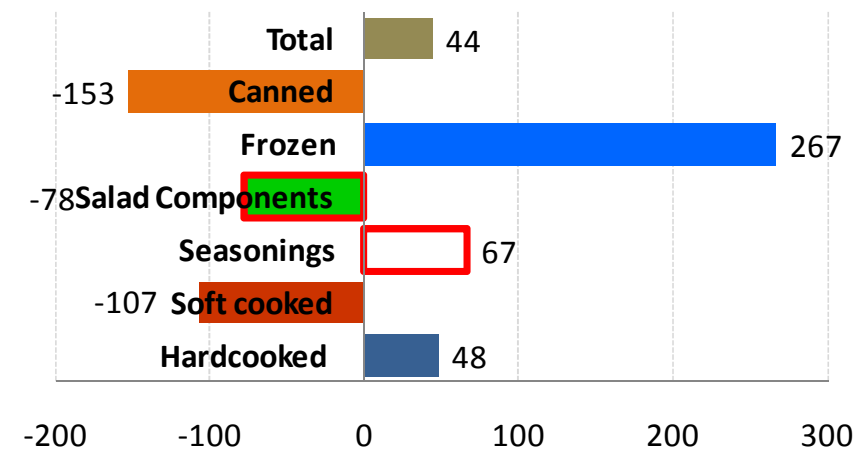


Figure 17 Changes in number of vegetable retail Adverts from previous Qtr



8. Canned and frozen products combined had as much promotional exposure as all the four fresh vegetable categories. Frozen at 36% and seasonings at 80% enjoyed substantial increases in exposure when compared to the previous quarter.

5.5 Vegetables purchased & weekly spend

Participation by vegetable form

- Figure 18 profiles household purchases of vegetables in frozen, canned and fresh forms over the last two quarters.
- In Q1 10, the household purchases of canned vegetables declined in favour of fresh vegetables, while frozen maintained the level of the previous quarter.

Weekly expenditure

- The range of spend on vegetables per household ranges from zero to \$50/week. These varied consumption patterns will require different strategies to stimulate growth.
- When these extremes are viewed in household segments, the range spans from Empty Nesters at \$13.18 to Established families at \$24.38 per week as profiled in Figure 19.
- The Singles & Couples with higher income are higher spenders on the vegetables relative to their total food spend. This group welcomes products that are meal ready and are part prepared and in general, pays a higher price per kg for the vegetables they purchase.
- The total household spend on vegetables by the households that purchased vegetables, decreased by \$2.18 per week on the previous quarter to \$18.80 per week. This is an expected seasonal trend difference between these two quarters that is influenced by demand patterns away from festive season entertaining and towards a lower value per kg range of product.

Figure 18

Type of vegetables purchased by household

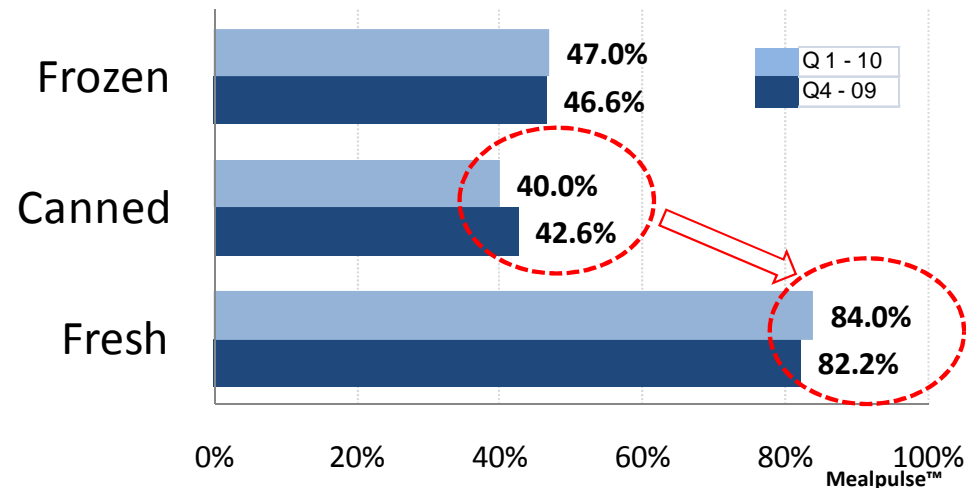


Figure 19

Weekly vegetable spend per household segment



9. Fresh vegetables took share of consumption away from canned vegetables, while household vegetable expenditure declined on the previous quarter as part of an expected seasonal trend.

5.6 Fresh vegetable buying patterns

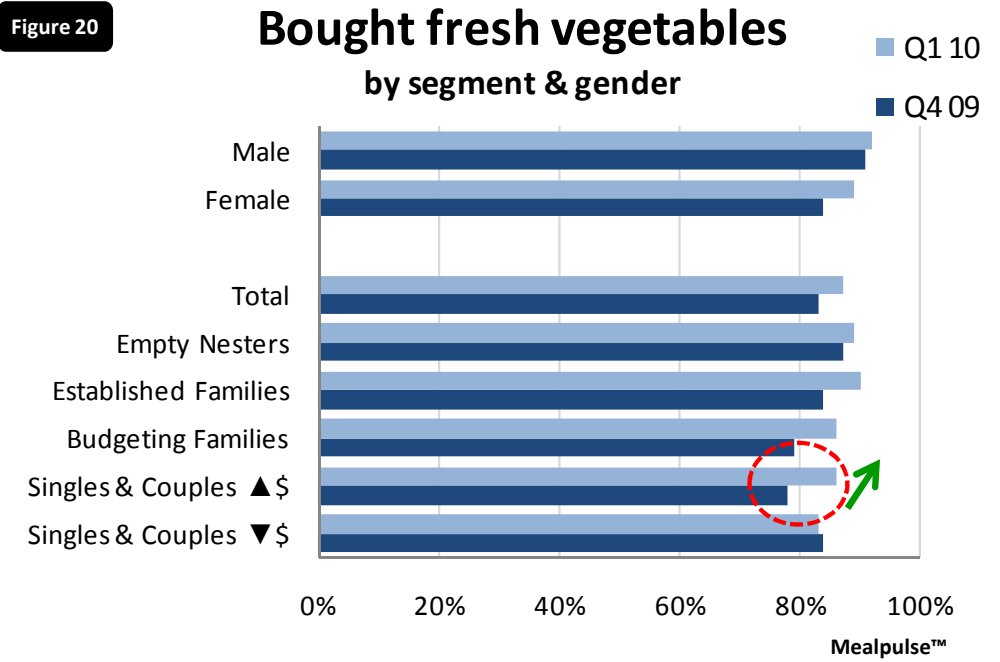
Vegetables purchased

- Figure 20 shows the proportion of households purchasing fresh vegetables compared to the previous quarter. The number of households purchasing fresh vegetables increased from 83% to 87% during this period.
- It is clear that fresh vegetables gained some share from canned vegetables, as profiled in Figure 18 on page 24, and given that fresh vegetables have a higher value per kg, this would have contributed to the sales value for the quarter.
- While the proportion of household’s purchasing increased, the value of merchandise purchased was low and therefore, the sales increment was more in volume than value. The value of these sales was also impacted by all consumers being more responsive to retailer “specials”, which converted more sales into the lower value promotional lines.

Segment variations over the last two quarter

- More fresh vegetables were purchased by all household segments except Singles & Couple with low income, who showed a small decline of 1%.
- The largest increase was with Singles & Couples with higher income, with 8% more households purchasing fresh vegetables. Indications are that this segment was influenced by the demand for vegetable products that suited scratch preparation as home entertainment. These products are meeting a broader set of consumer needs that include consideration for how a product presents to guests before the home meal preparation commences.

Figure 20



- The number of households in the family segments, purchasing fresh vegetables increased. There was a 7% increase for both Budgeting and Established families.



10. More households purchased fresh vegetables in the quarter but the lower value of product and higher proportion of “specials” sold combined to hold back the value increase. Some segments were drawn to vegetable products for scratch preparation and entertaining at home.

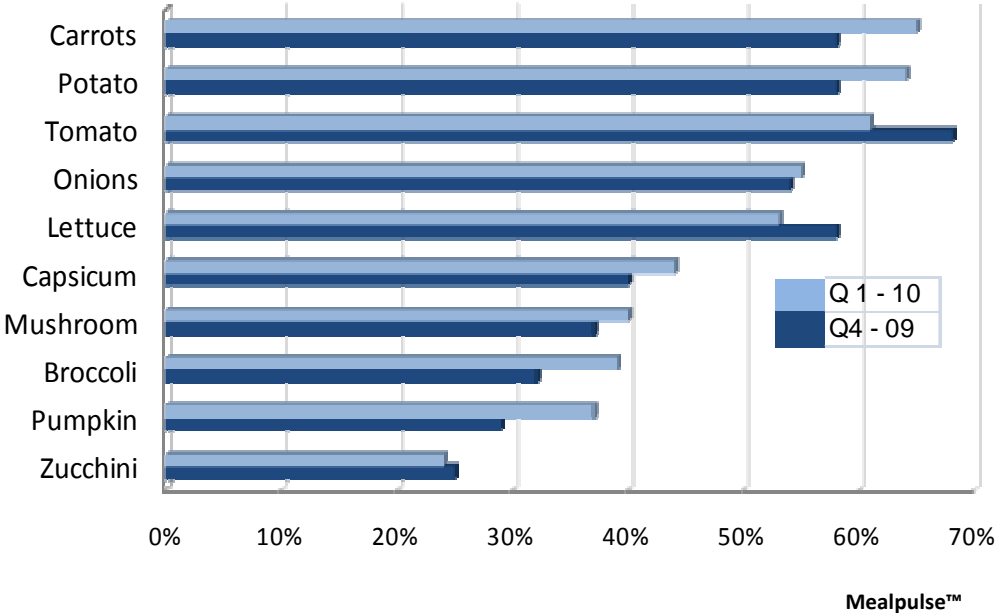
5.7 Most popular purchased vegetables

Most popular vegetable purchased weekly

- Figure 21 profiles the 10 most commonly purchased fresh vegetables every week for the last two quarters. In Q1 10, this was topped by carrots, followed by potatoes and tomatoes which moved from the first to the third place. These top three products were purchased by over 60% of households each week.
- Onions and lettuce are purchased by more than 50% of households each week and make up the top five vegetables.
- In general, the changes reflected a similar profile to the vegetable preparation trends with a decline in products that are heavily used in salads like tomatoes and lettuce. This coincided with increases for products that are cooked including hard cooked vegetables: carrots, potatoes, pumpkin and the soft cooked vegetables, mushroom and broccoli.
- The balance of the top ten products includes capsicum, mushroom, broccoli, pumpkin and zucchini, which are purchased by less than 40% of households.

Figure 21

Top 10 fresh vegetables proportion of households purchasing weekly



11. The most frequently purchased vegetables reflects a demand shift to cooked products for the first quarter of the year.

5.8 Retailer used

Retailer used

- Consumers buy their fresh vegetables predominantly from either supermarket, greengrocer/fruiterer, markets or direct home delivery.
- This data reflect “where” consumers shop for their vegetables and the level of patronage does not necessarily reflect the relative expenditure at each type of retail outlet.
- Figure 22 shows that 74% of households purchase vegetables from supermarkets and 50% of household segments used greengrocers or markets. The family segments, who are the high volume buyers, were the heaviest users of supermarkets at 82% & 75%. Empty Nesters were the heaviest users of outlets other than supermarkets with 64% using greengrocers or markets.

Specialist use by main supermarket

- Figure 23 profiles the proportion of supermarket shoppers who also buy vegetables at a market or greengrocer. It reflects the percentage of their customers’ vegetable spend, and if they are capturing or losing to other vegetable retailers.
- In this quarter, Aldi, Coles and Woolworths have improved their capture of vegetable spend as all their customers have reduced their patronage of other vegetable retailers. Aldi has enjoyed the most improvement with a reduction in the proportion of customers who purchase vegetables elsewhere from 59% to 44% . Fresh Markets, which are included in specialists, have lost share of spend from all supermarket shoppers.
- This profile indicates that supermarkets have increased the share of vegetable retail sales.

12. The majority of all the supermarkets increased their retail market share by reducing the need for current customers to buy vegetables from other retailers. Amid these changes, the 245-store Aldi supermarket enjoyed the largest gains from the total sales lowest base.

Figure 22

Vegetable retailer used

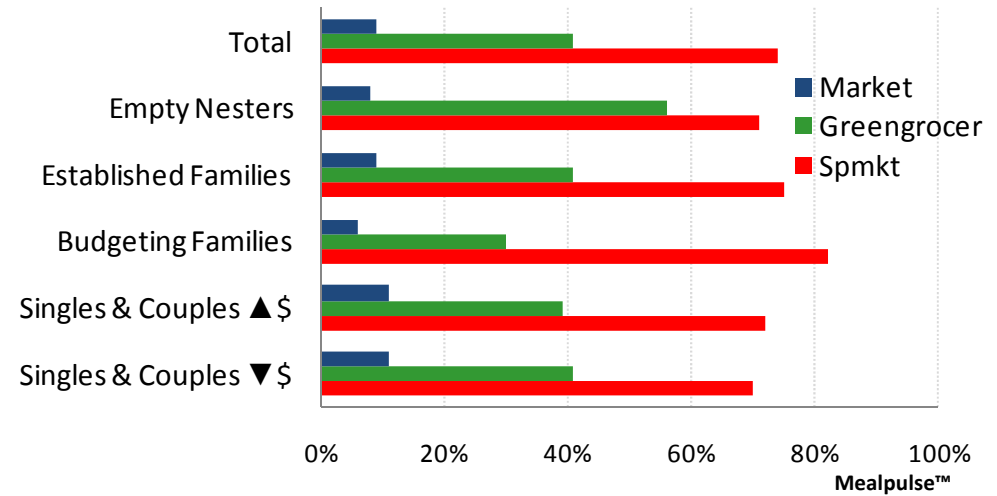
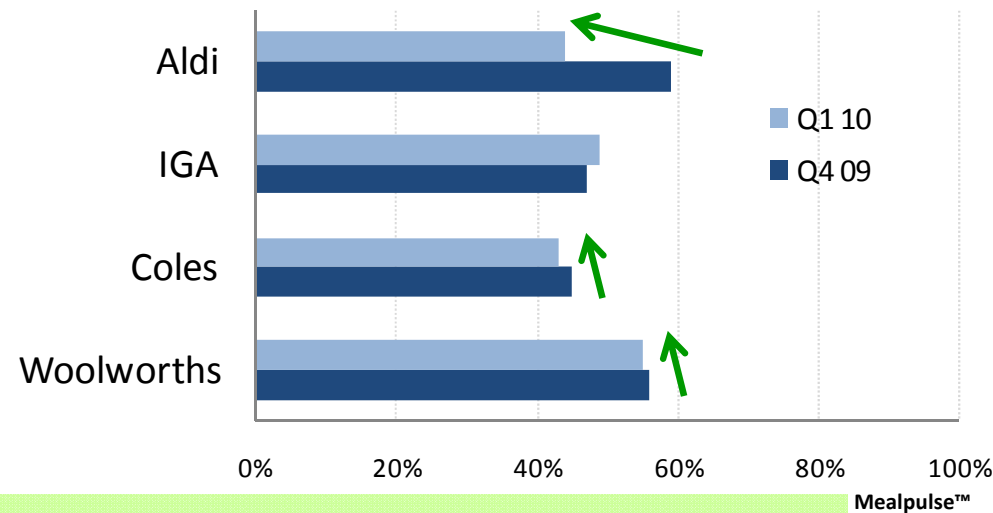


Figure 23

Vegetables purchased at a specialist by respondents main supermarket



5.9 Vegetable preparation

Vegetable preparation

- Cooking, which includes steaming, boiling, roasting & stir-frying remained the dominant method of preparation. 90% of respondents indicated that they cook vegetables, an increase of 3% from the last quarter.
- There was an 8% reduction in salad preparation, reflecting the change from summer eating styles in the quarter.
- The 3% increase in vegetables eaten raw is attributed to sliced vegetables in school and workplace lunchboxes.

Household segment variations

- The preparation methods used by the Singles & Couples with higher income, showed increases in eating raw, cooking and to a lesser extent, putting in salads. This indicates an increased level of home meal prepared by the segment during this quarter. This was the only segment that increased the use of salads in the period, which is believed to reflect this segment being less price sensitive to the higher cost of salad components.
- The other significant change was with Empty Nesters who declined in all methods of vegetable preparation. It is attributed to this value discerning segment purchasing more seasonal fruit during this period.

13. Cooking remains the dominant vegetable preparation method and in this quarter, there was a decline in salads and increase in raw and cooked preparation.

Figure 24

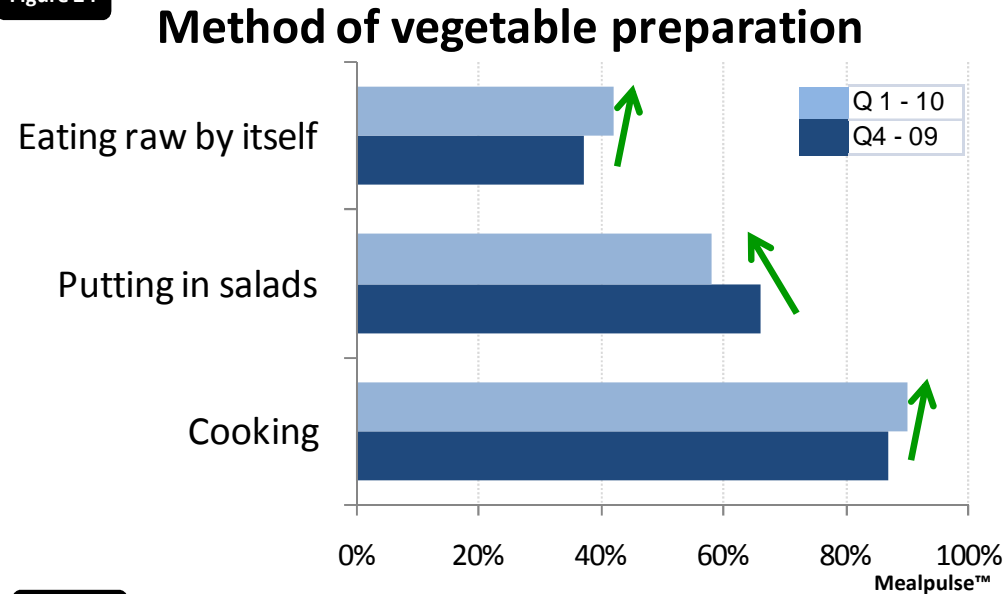
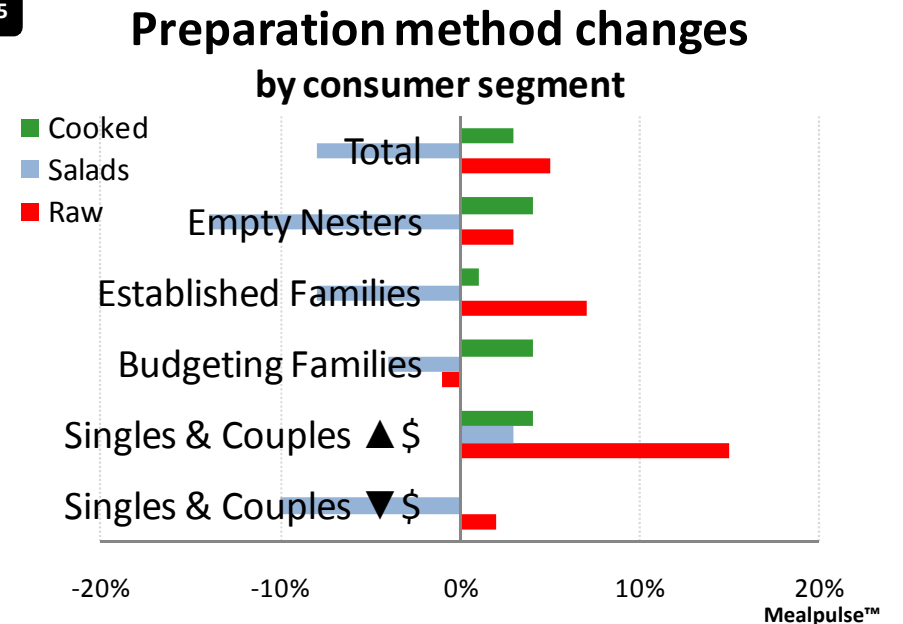


Figure 25



5.10 Vegetable buying trends

Vegetable buying trend

- Figure 26 indicates that 72% of all households purchased the same quantity of vegetables for this period relative to the last. Of those who altered buying, 15% purchased less and 13% purchased more vegetables. Compared to the same quarter last year this was 4% fewer households buying the same quantity, and 2% more households buying more compared to the last quarter.
- The two family segments reflect the same trends in terms of buying more vegetables, with 16% of both Budgeting families and Established families buying more vegetables. This was an increase of 5% on the previous quarter.
- It is also known that retail sales for fresh fruit peaks in this first calendar quarter when stone-fruit and grapes are in full supply. This flush of fruit products at seasonal best value captures some fruit and vegetable spend and softens the demand for vegetables.
- There was an improvement in the Singles & Couples households with higher income, with the proportion of this segment who bought less vegetables, reducing from 22% to 13%. This is viewed as another confirmation that this segment has increased become more interested in vegetables. Singles and Couples with low income has the highest proportion of households buying less vegetables at 17%.
- The state-based profile of buying trend in Figure 27 shows that WA enjoyed the highest increase with 23% of households buying more vegetables. Conversely, Qld had the highest number of households buying less vegetables at 17%.

Figure 26

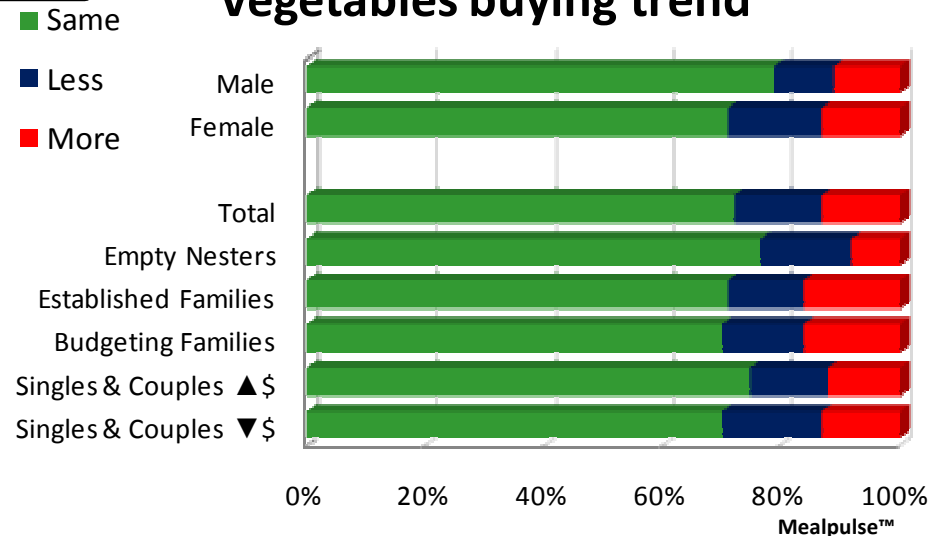
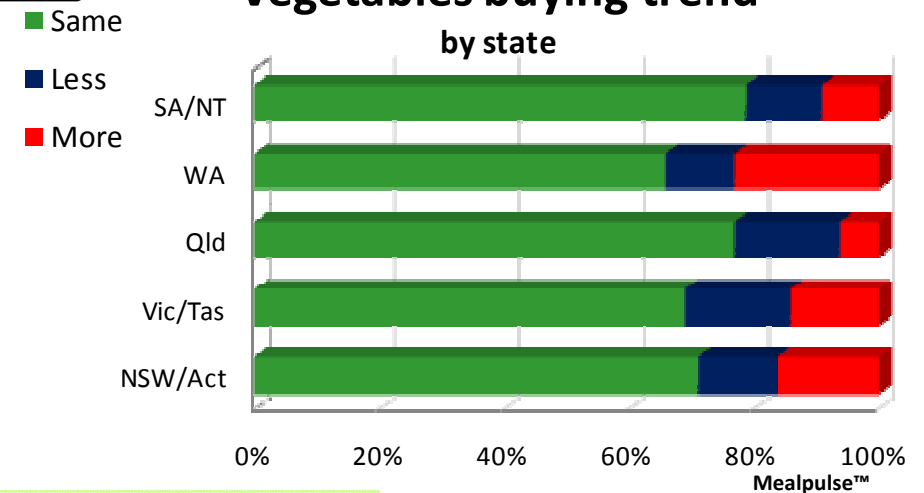


Figure 27



14. The buying trends reflected small but favourable movements towards buying more vegetables, with strong improvements in the high volume family segments.

5.11 Reasons for buying

Vegetable buying reasons

- Figures 28 and 29 provide information on why households decided to purchase more vegetables last quarter. This analysis uses information from the 13% of the households that actually purchased more vegetables.
- The dominant stand-alone reasons for buying the same quantity were “in season and looked good” at 65% and on special at “42%”.
- The dominant reasons for buying more vegetables for all household segments were “in season looking good” at 53%, “on special” at 45%, and other reasons at 33%. When the household segment profiles are assessed they reflect a different sensitivity to these reasons, particularly with the high volume family segments and empty nesters who reflect higher sensitivity to specials.
- It is also relevant that those buying more have a higher proportion of other reasons for doing so than those who are buying the same quantity. These other reasons include a wide array of convenience and market stimulation factors.

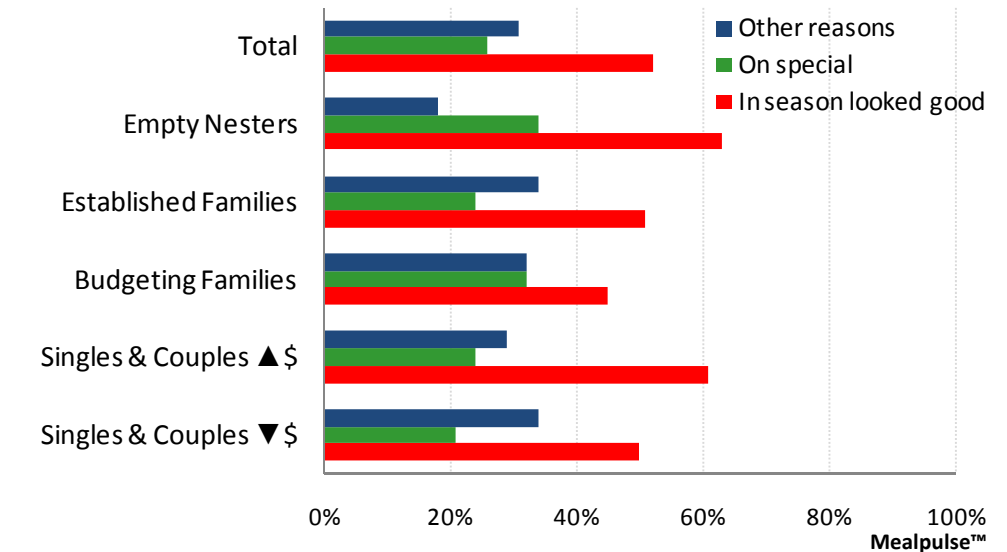
Figure 28

Reasons for buying more



Figure 29

Reasons for buying same quantity



15. Some households purchased more vegetables and dominant reasons were products being “in season and looking good”. The sensitivity to retailer specials increased with the high volume family segments buying more vegetables.

6.0 Vegetable Market Insights

This section includes a selection of the relevant market insights deduced from events or observations of the last quarter.

- Ethical foods gaining momentum
- Home delivery online grocery shopping

6.1 Home delivery online grocery shopping – a reflection of the demand for convenience

Online grocery sales – the sale of goods via the internet or phone has expanded in Australia in recent years with a range of providers offering services. It uses technology to open a new distribution channel to the household which is convenient and negates the need for the customer to visit the store. As a service, it requires a premium to be paid.

Dynamics relevant to fresh vegetables – Online shopping offers some opportunities but also some barriers for increasing vegetable sales:

- **People prefer to see and judge quality** as there are inconsistencies in produce. Achieving consistency in quality is a major concern for consumers and it will be hard to shake use of in-store selection based on this factor.
- **Delivery limitations and the impact on freshness** have hampered uptake for working couples, although providers have adopted flexible approaches
- Technology can **assist the frugal shopper** to select by cheapest price. There have been clear trend towards some consumer segments **breaking-up their shopping missions**, with price and convenience major drivers of those practices.
- Without **physical display** and **point of choice promotion**, it may be harder for product innovation to be recognised by the shopper.
- Despite the convenience for the consumer, on-line ordering **requires a level of organisation beforehand**. Some feel it takes more effort despite quicker shopping.

Where is this trend going in future? As on-line sales gain momentum, systems will improve to give the consumer more confidence with the processes and more understanding towards the level of convenience that online delivery services offer. Improvements in systems must extend to logistic supports and delivery management to ensure freshness and quality are foremost; otherwise consumers will remain wary of the supply of quality. The challenge for fresh vegetables in this channel is to assure quality in ways that will eliminate the need for the consumers in-store sensory assessment. This situation may well stimulate the development of consumer brands to convey these quality attributes.

<i>Who are the providers?</i>	<i>What do they offer?</i>
Tier 1 <ul style="list-style-type: none"> • Coles • Woolworths • Aussie Farmers Direct • OnlyOz 	Their aim is to be able provide the customer with everything they may need for their weekly shop, national or multi-capital city service.
Tier 2 <ul style="list-style-type: none"> • Local specialists 	Generally specialist produce with a focus on quality and choice
Tier 3 <ul style="list-style-type: none"> • Farmer Direct operations 	Specialist produce with a focus on freshness or other differentiation such as organic. These have an advantage in remote and regional areas

Overseas examples are interesting – the major grocery retailers in this country will invariably look to these for a lead in developments:

United Kingdom	Higher population density; dominance of the food market by major chain grocers; and poor weather for many months of the year have aided faster uptake in the UK. Some analysts tip a share of 20% of grocery sales through this facility by 2020.
United States	With easier access to shopping centres and far less density of urban regions, the US setting is similar to Australia.
Europe	Diverse cultural backgrounds and strong food traditions have hampered development in many countries.

16. On-line retail sales of food are receiving greater investment by major and specialised retailers, as a means of delivering convenience to segments of the consumer market.








6.2 Ethical foods gaining momentum

What are “Ethical foods”?

“Ethical foods” is a term used to describe a group of food products with features that reflect how the food is produced, processed and supplied to market. These features may be seen by consumers as being good for sustainability, the environment, animal welfare, human health or “doing the right thing”. There are also times when consumers view these products as providing higher quality. The term ethical foods has evolved as an all-encompassing description for these types of products, but it is a food industry term and not used or well understood by consumers.

It is now clear that these issues are important to some consumers, who are typically motivated by the want to do something about their environment. Furthermore, they are willing to pay for products delivering these features, as is reflected in the volume and 15% price premiums that mainstream “free range” poultry meats currently enjoy. This momentum will flow into some level of impact on all food and there are a number of considerations as to how it may impact vegetables.

Some prominent ethical platforms

	Platform	Proposition	Relevance to vegetables
	Fair trade	Products grown or manufactured without unfair trade or cost advantages	High – this may affect imported fresh or processed lines
	Organics	Food produced without chemicals and other production aids	High –gaining a growing share of sales at higher prices
	Free range	Livestock free to graze without confinement	Low – pricing & positioning however provides an interesting case study
	Carbon footprint	Relative impact on pollution of the product and/or production system	High – this may affect imported processed lines
	Rainforest alliance	Products grown without environmental damage	Low
	GM-free	Food produced without use of genetic modification	Medium – may be a development relevant for imported processed foods
	No-waste Packaging	Supply chain uses sustainable or recycled packaging	High – fresh produce uses large amounts of packaging

Factors to consider

While there is a strong relevance to vegetables across these platforms, there are several emerging issues

- If some producers, processors or retailers in a food category embrace elements of ethical foods, this action by default implies that other products in the category are not embracing this approach and therefore “less ethical”.
- **Widening responsibilities** may create potential conflict between labels – this may undermine credibility and/or confuse consumers. Various environmental claims may face-off over these conflicts, as currently seen in overlapping claims between fair trade, rainforest and carbon footprint platforms.
- Most require **whole-of-chain collaboration** and support rather than commitment from individual parties.
- There are challenges faced with **economies of scale** – several of the platforms suffer due to smaller-scale output because the production systems rejects the techniques of intensive agriculture (eg organic and free-range).
- **Certification will require regulation** – the ongoing emergence of commercial initiatives to measure claimed impact (e.g. carbon footprint, waste reduction and free range) will require backing of credible monitoring or regulation or risk losing credibility with the the consumer.

6.2 Ethical foods gaining momentum (continued)

Factors to consider (continued)

- **Time poor consumers** are unlikely to easily comprehend the detail of several platforms and programs and then discern the value that should be extended to the products on offer. In response to this challenge, solutions that bundle ethical benefits together, have evolved in other developed markets. In the UK this includes the examples of Freedom Foods and Red Tractor. Among other things, it gives a clearer message to consumers.
- **Demand can outstrip supply** in early development of some of these platforms (e.g. Free range) giving rise to substantial premiums over conventional methods. Premiums come under pressure when consumers are forced into price-sensitive behaviour.
- Fresh vegetables are not all packaged and, along with fresh fruit ,are the only types of food that consumers self select from open displays. While this provides an intimate interaction with consumers, it **does not provide the platform to convey specific benefits on product packaging**. This means unpackaged vegetables will require some level of overarching category level mechanism to convey messages to consumers.
- There are **positive brand values** in being associated with ethical foods and this has attracted interest from many stakeholders in food supply chains. Some of these stakeholders have brands and enterprises with values that compliment the message. Others may risk the credibility of the brand value. Brand associations will impact the credibility and effectiveness of consumer messages.
- The **new social media channels** are a powerful medium to reach tech-savvy consumers. If these consumers are also interested in ethical foods, then this becomes a powerful combination.

Where to from here for vegetables?

- Regulatory solutions are unlikely to be proactive, given the prevailing approach of non-intervention. However, some regulatory oversight is likely, as demand is ahead of supply and the attractive premiums on offer may encourage less credible suppliers who will disappoint consumers.
- Industry or sector collaboration and agreement around common standards and programs that captures scale and provides the resources to convey a weight of consumer message have been the hallmarks of global success. Unfortunately, this type of collaborative approach has remained elusive to many Australian food producers and it is unrealistic to expect this to change in the short term.
- It seems that the most likely path for ethical food benefits to reach vegetables will be through innovation from commercial enterprises that can capture the commercial benefits through their products and brands.
- However, this will not provide a solution for the vegetable sectors with multiple producers. Some leadership is required to inspire collaboration and get these producers to work together to capture these benefits. This will be difficult, given the independent nature of these producers, who in many respects view each other as competitors. If this cannot be achieved, it will leave these producers in the familiar position of watching the benefits being captured by others further down the supply chain.

17. Consumer demand for more information about their food is being met with a myriad of messages and claims. “No action” runs the risk of being positioned by the action of others and the vegetable industry will benefit from monitoring these developments and from harnessing collaborative momentum to convey clear messages and potentially capture greater value for producers.

7.0 Appendices

This section includes all appendices for further clarification.

- Methodology & data sharing program
- Mealpulse household segments
- Vegetable category structure
- Domestic market distribution channels

Appendix A - Methodology & data sharing

Methodology

In order to enable this level of analysis, the methodology has centred on the design and building of a vegetable market model; this model has consolidated all available data including:

- Production, import and export data
- ABS household expenditure data
- Distribution channel data from selected vegetable enterprises
- Vegetable wholesale market data
- Retail sales data
- All available vegetable market and consumption data
- Partner consumer research on vegetables

The model is then combined with a set of responses from vegetable specific questions, which are captured in the Mealpulse™¹ consumer panel. This combination brings together the definitions of annual market volumes and values with the likes of buyer preferences, household expenditure and retailer patronage. This scope requires the capture of production and import volumes and the tracking of sales of vegetable products in all forms through all channels. As a result, the capacity of the profiling and analysis has been elevated to a new level of detail for the vegetable sector.

An initial output from the model includes the annual market values and volumes used in this report and detailed on pages 14-17.

A key feature of the model design has been a requirement to reconcile vegetable volumes and values through the supply chain from production to the household. This reconciling feature ensures that all outputs are based on full market profiles.

¹ <http://www.freshlogic.com.au/Services/Mealpulse/tabid/141/Default.aspx>

Target uses

This report aims to profile vegetable consumer-buyer behaviour and vegetable market performance. The information compiled in the report can be used to:

- Assess market, channel and category performances
- Guide production forecasting
- Guide business planning
- Enable and guide new product development decisions

Due to the current low level of information available to the vegetable industry, some readers may benefit from the guidance on how to use market information. Therefore, conclusions and implications have been designed in this report for those who are developing capabilities to use market information in their business operations.

Data sharing

The development of the vegetable market model, which provides information for this report, offers the opportunity for industry stakeholders to participate in a data sharing program. Those who contribute data to the model will have priority access to the market reports.

For more information about this opportunity, please contact Martin Kneebone at martin@freshlogic.com.au. Queries regarding the report's content are welcome at the same contact details.

Appendix B - Mealpulse™ household segments

Household demographics

- The nature of households has diversified in the past 20 years with gradual changes in family structures, the values of the younger generations, deteriorating housing affordability, and more flexible careers and working practices.
- Freshlogic’s analysis of trends is based on 5 demographic segments, as summarised in Figure 24. These segments capture the diversity of incomes and household structures. Each segment contains similar numbers of households. The relative affluence and family size of each segment drives their overall share of food spend.
- This segmentation has been developed from the Mealpulse™ consumer food panel in order to enable the extension of panel results to the national population. This panel is the mechanism used to collect vegetable consumption data for this report.
- The affordability and attitudes of each segment towards eating meals out vary, as does the frequency with which they do so.
- The variations range from the Empty Nesters who are spending 26%-28% of their food dollar on food eaten away from home to the Singles & Couples with higher income who are spending 37%-41% on food eaten away from home.

Take Home food is food purchased in retail outlets like supermarkets & greengrocers and then prepared and eaten at home.

Figure 24

Mealpulse™ Household segments			
Segment		Description	% of food spend that is take home
Singles & Couples with lower income		No children, lower income, eating out restricted by income	63-64
Singles & Couples with higher income		No children, higher income and available discretionary dollars, eats out often	59-63
Budgeting families		Single and dual parent families with children, financially stretched and time pressured	72-74
Established families		Single or couples with children and above average income, at least 1 adult eats out regularly	70-73
MT Nesters		60 years plus, no children permanently at home; generally have income to eat out often but prepare and eat most meals at home.	71-74

Figure 25

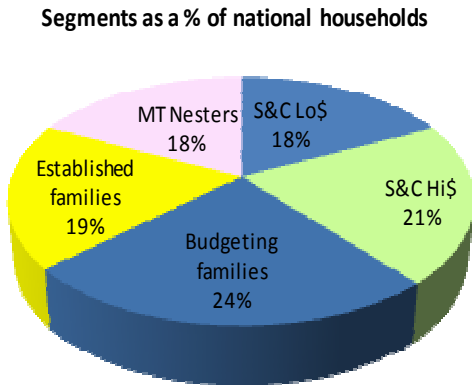
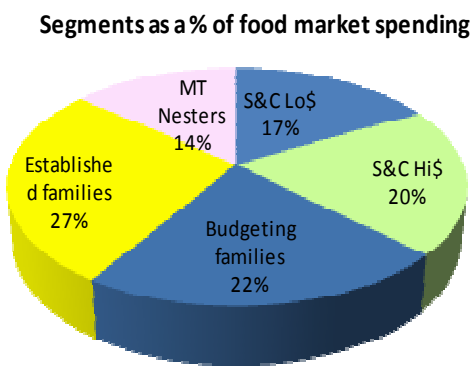
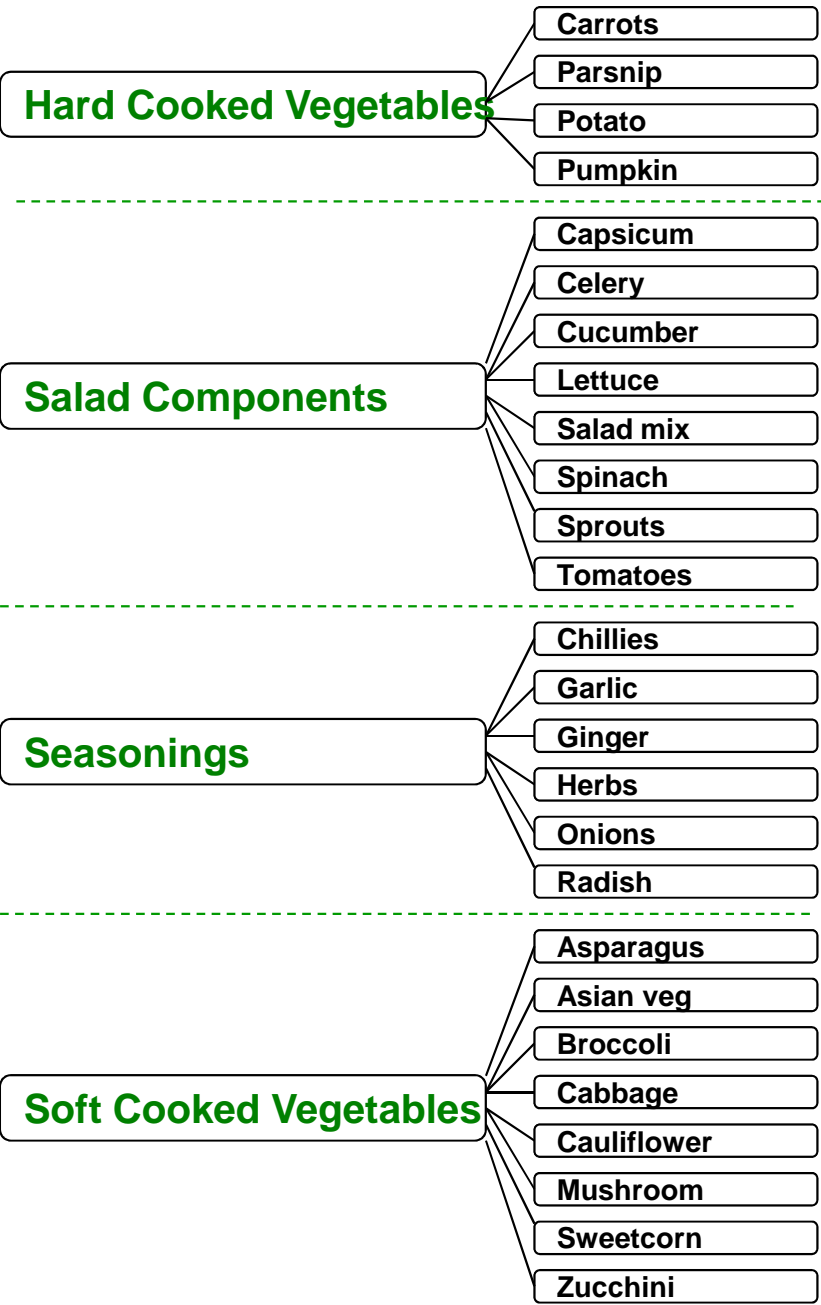


Figure 26



Appendix C - Vegetable category structure



Vegetable range

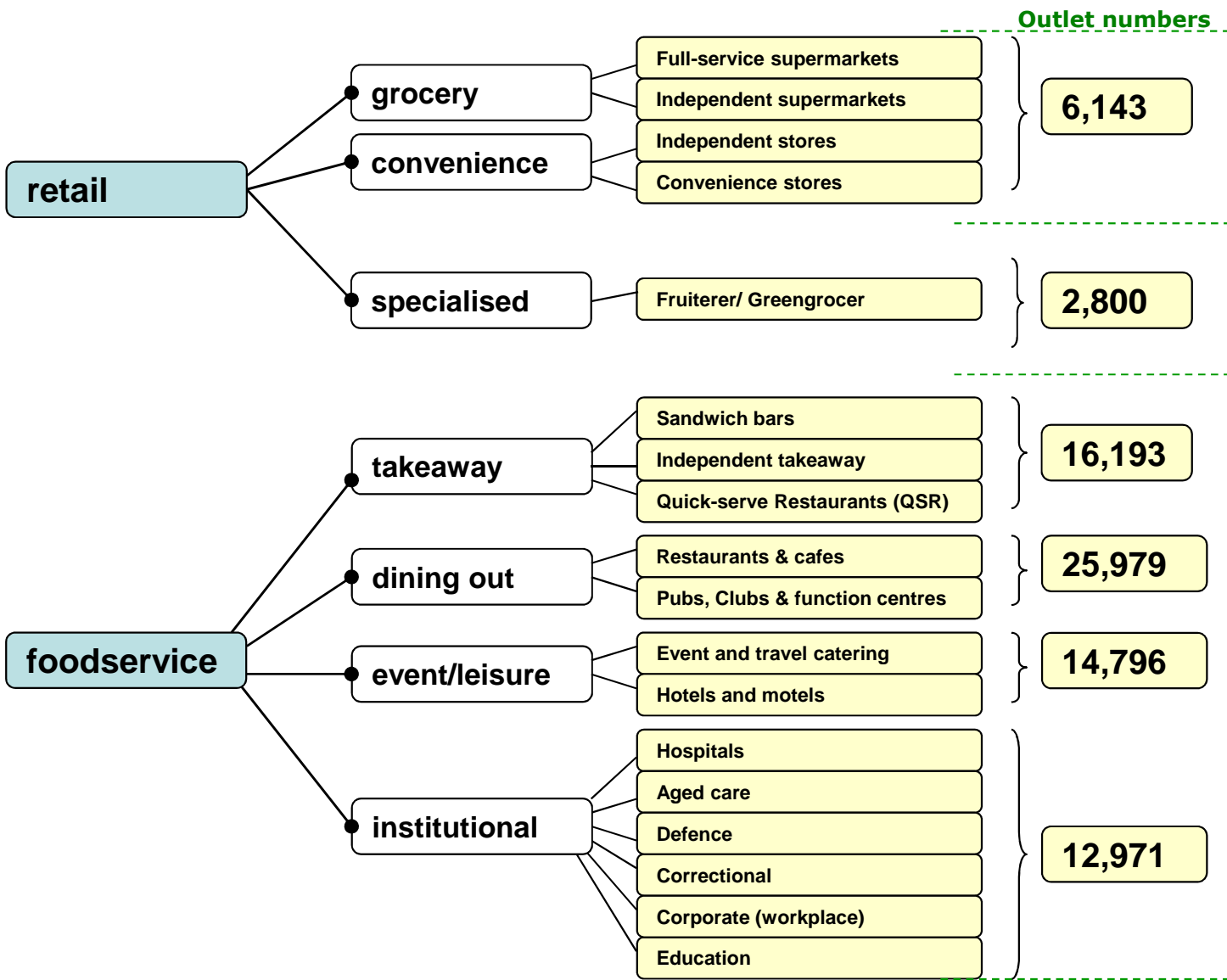
Based on like or complimentary products, the vegetable types are grouped into categories listed in the adjacent figure, which enable a summary-level analysis of all the vegetable categories.

Hard cooked vegetables include a range of vegetables that consumers will trade off within the category. Similarly, Seasonings are products that consumers will use as alternatives within the category.

However, the buying behaviour with Salad components and Soft cooked vegetables reflects a high level of transfer and trade off between the two categories. Given these two categories make up over 50% of the volumes (see Figure 8), this dynamic drives a high level of demand and price volatility in fresh vegetables.

*

Appendix D - Domestic market distribution channels



Distribution Channels

The definition of distribution channels used in this report recognises the distinctions between the retail and foodservice segments that distribute vegetables into the domestic market.

The adjacent figure profiles these channels and their sub-channels including the number of outlets they contain.