

Veginsights

•The market – Q3 10

A profile of the three-month period ending 30 Sept 2010

Jan 2010

Prepared by Freshlogic as part of the Vegetable Industry
Development Program

Small shift back to salads in Q3



Content Overview

This version of Veginsights covers the quarterly ending 30 Sept 10 and is titled Veginsights – The Market report for Q3 2010.

A support document ‘Veginsights – Market Settings and Methodology’ is also available, which outlines the vegetable market settings and the methodology used in preparing this report.

Data sources

The analysis in these documents draws on purpose built vegetable market models and detailed vegetable consumption data gathered by the **Mealpulse™** food panel. These sources are combined to define and track market volumes and values and derive insights of commercial relevance to vegetable producers.

Quarterly Report - Q3 2010

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Appendices - Vegetable market settings and methodology

(See complementary document)

1.0 Executive summary

Overview

This is the fourth quarterly Veginsights – The Market report and covers the period for Q3 2010, ending 30 September 2010.

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 this third 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 30 September 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. This 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

Selected key findings

- This third quarter of the year commences with the end of the longest school holiday break and the start of the third school term.
- Consumption patterns have moved away from hard cooked vegetables, toward more higher value soft cooked vegetables and salad components.
- Retail channel competitive intensity has continued to see pressure on greengrocers as supermarkets lift their focus on fresh food through store refurbishment, marketing and promotional activity.
- Consumer sentiment moved into closer alignment with increases in interest rates. Despite flat inflation, uncertainty has led to households saving more of their discretionary income.
- Retail promotional activity for vegetables declined by 5% on the previous quarter to an average of 242 products per week.
- The wholesale total vegetable price per kg firmed over the period and there was a small shift in demand towards salad products.
- Demand signals are dominated a willingness to pay for convenience, particularly in portion size, and value discerning consumers.
- Total household expenditure on all vegetables increased by 5.5% over the quarter.
- A profile of the delivered home meals providers, offers insights into this growing segment.

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

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.

1.0 Key findings & implications - Q3 10

Findings

1. Consumer confidence has lifted as interest rates remain unchanged but households are increasing their level of savings.
2. Total annual food inflation lifted to 1.7% influenced strongly by price rises for food eaten away from home. Despite a modest rise in vegetable prices of 3.3%, total 'retail' food prices remain close to deflation levels.
3. Share moved back to take home eating and a decline in the total food spend was driven by families – both budgeting and established.
4. The average weekly household spend on food prepared at home decreased, and Budgeting families reported the largest decline in retail spend.
5. Retail sales of vegetables increased by \$31.7m to \$1.68b for the quarter with most of the increase generated by fresh product.
6. Over the quarter, the total wholesale price was impacted by steadily firming prices in three out of the four vegetable categories.
7. The number of vegetable products advertised decreased by 5% to an average of 242 products per week.
8. The changes in the type of fresh vegetable product advertised in Q3 reflect an expected shift towards salads as warmer weather arrives and outdoor living commences.
9. Household expenditure on all vegetables increased by 5.5% in the quarter. Households continued to purchase fresh vegetables, but the purchasing of canned vegetables continued to decline, while the purchasing of frozen vegetables increased.

Implications

- Consumer confidence is still unstable. While discretionary dollars are still available, consumers will need better reasons to spend them.
- Low food price inflation helped ease the pressure on Australian household incomes, but sustains an environment where promotional discounting will be favoured by retailers.
- Retail food continues to take market share away from food service and all indications are this is being led by the supermarkets.
- Retail competition remains intense and consumers remain cautious about spending – including food spending. Together, these two trends are putting pressure on household retail expenditure levels, particularly for households with lower discretionary spending.
- Encouraging increase in fresh vegetable sales, with steady supply and small increases in wholesale prices, could indicate consumption growth.
- Wholesale prices firmed over the period and all producers and wholesalers should have enjoyed increasing sales value as per this trend.
- The retailers eased back on the exposure of vegetable products in favour of other fresh food lines.
- The content of their advert activity was ahead of the demand for salad products.
- Increased household expenditure on vegetables could indicate consumption growth, in particular in frozen and fresh products. Consumers are increasingly demanding fresh and frozen products, while fewer are seeking canned varieties.

1.0 Key findings & implications - Q3 10 (continued)

Findings	Implications
<p>10. The proportion of households buying fresh vegetables nationally remained largely consistent, but there were increases in the penetration into the high and low income Singles & couples segments, and decreases in SA/NT and WA.</p>	<ul style="list-style-type: none"> Increased penetration into the high and low income Singles & couples segment could indicate higher consumption levels of fresh vegetables among those with smaller households.
<p>11. The most frequently purchased vegetables reflected a small demand shift away from Cooked products, towards Salad components. Over the quarter, carrots and chilli were purchased by more males than females.</p>	<ul style="list-style-type: none"> The shift in demand towards Salad components is reflective of the warmer weather and general seasonal patterns, and is expected to continue into Q4 2010.
<p>12. After 3 quarters of share drift to the supermarkets, some shoppers have reverted back to trips to the specialist.</p>	<ul style="list-style-type: none"> While competition remains intense within the retail sector, specialists continue to maintain a key role as a significant avenue for vegetable purchase.
<p>13. Expected spring shifts in seasonal demand patterns led to an increase in preparing salads, while despite variations across household segments, the use of cooking and eating raw remained largely consistent overall.</p>	<ul style="list-style-type: none"> The increase in vegetables used in salads did not adversely impact the other methods of vegetable preparation over the quarter, indicating consumer interest in using a variety of vegetable preparation methods, and presents an opportunity for increased consumption across multiple methods simultaneously. In addition, the wetter, cooler weather has continued to support cooking.
<p>14. The majority of consumers buying the same quantity of vegetables. However, 3% more males increased their purchases, and state-based increases were experienced WA, NSW/ACT and Qld.</p>	<ul style="list-style-type: none"> The increase in vegetable purchase by males may indicate an opportunity to capture greater value from male shoppers over time.

2.0 Vegetable Market Settings, News & Events

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

- Vegetable market settings
- News & events

2.0 Vegetable market settings - Overview

Introduction: The market settings are summarised below. Fuller details can be found in the support document ‘Veginsights – Market Settings & Methodology’. Unless otherwise stated, the review of the Australian domestic vegetable markets assumes the same settings as those applicable in previous quarters.

Vegetable supply: The vegetable market is supplied annually with 3.2 billion tonnes of locally produced product plus net imports of 218,000 tonnes. About 70% of the locally produced product is distributed in a fresh form, 30% is processed and export volumes are minimal. The retail channel provides the highest volumes, however, 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.

Vegetable product range: Vegetable types are grouped into the following categories with their respective volumes: Hard cooked vegetables (31%); Seasonings (8%); Salad components (34%); and Soft cooked vegetables(18%).

Market size: The annual value of the domestic retail sales of vegetables is \$7.15 billion, made up of \$5.92 billion in fresh product sales and \$1.23 billion in processed vegetable product sales. Processed vegetables 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. In Q3 2010, **\$1.681 billion** has been generated in the total vegetable retail sales.

Distribution channels and market share: The retail channel dominates the distribution of fresh vegetables in terms of volume (82%), compared to the Foodservice channels (18%). 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, while the other three categories

contribute greater value but lesser volume, led by salad components. 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

Two types of retail channels dominate the distribution of fresh vegetables to the consumers: supermarkets, with a national share of 65.4% or \$3.87 billion, and “specialists” with 34.6% or \$2.05 billion. The supermarket category is dominated by Woolworths, Coles, and Supa-IGA who operate over 1,900 full-service supermarkets. The 2,800 specialists made up of greengrocers markets and farm gate sales are independently owned and operated.

Foodservice channels buy more frozen than fresh vegetables. There are 4 diverse types of Foodservice 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 of commentary around food price inflation, and 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.

2.1 News & events in the quarter

Regulatory changes and influences

Several regulatory impacts on foodservice channels. Total price for all menu items will be listed on all menus, where weekend and holiday surcharges apply, with the ACCC now empowered to issue infringement notices with penalties of \$6,600 for corporations and \$1,320 for individuals, that fail to provide this information.

Nutritional information is now mandatory on fast food menus in Vic by 2012 for those businesses which operate 50 or more stores. Scores on Doors foodservice safety and hygiene rating system commenced on 1 July under a 6-month trial in 20 councils in NSW. If successful, this voluntary system will be rolled out state-wide on 1 July 2011.

New labelling to boost SA farms. A new “Buy the Way, Buy SA” campaign was launched to support the SA economy and 14,000 SA agribusinesses by increasing consumer awareness of the State’s produce. This campaign developed retail advice, promotional website (www.buysouthaustralian.com.au) and a campaign logo that provides easy identification about which companies and products are South Australian. This has been designed to support SA farmers by clearly conveying about the product’s origin.

Forum to tackle health issues. Australia’s peak food and grocery manufacturing organisation (AFGC) and major fast food restaurants have formed an alliance to address important health, nutrition and chronic disease issues. The new fast food forum will enable fast food players to work with governments and offer better information to consumers for “more informed purchase decisions”. The forum includes four foundation members including McDonald’s, Hungry Jack’s, Yum! (KFC & Pizza Hut) and QSR Holdings (Red Rooster & Oporto).

Primary schools rushed to sign up for McCain’s school veggies patches program, responding to a national callout to register for the initiative. More than 1,700 Australian primary schools registered for the chance to earn resources for their vegetable gardens, including seeds, tools, and gardening equipment. Ambassador for this program, celebrity chef Pete Evans, believes that schools are eager to equip their gardens and educate their students about the origin and benefits of vegetables while growing and harvesting vegetables in an engaging way. Involving children in the garden and in the kitchen has shown to have a positive impact on their willingness to eat and enjoy a wider range of vegetables.



Implications

- If foodservice leads consumers to new foods then its approach to nutritional and food safety information will soon pressure retail food to do the same.

- This provides clear signals to consumers about product origin and taps into what appears to be strong levels of support for local producers.

- This initiative comes against a background of increased community focus on healthy eating and opens a door for greater influence of choices available in the fast food meals, including more fresh vegetables on the menu.

- These programs demonstrate how involving children in the basics of edible gardening and kitchen classes can positively impact their food preparation skills and dietary habits.

2.1 News & events in the quarter (continued)

Regulatory changes & influences

Potatoes hit UK classrooms, as a part of the Potato Council Grow Your Own Potatoes (GYOP) project that streams ahead to help the next generation develop positive, life-long potato eating habits. This project, which began in March and saw nearly half a million pupils from about 14,500 participating UK schools take part in growing their own potatoes, now has pupils and teachers eager to discover what they had produced. A team of “Potato Ambassadors” – comprising local farmers – have also been visiting schools in their regions to harvest crops and help change the way potatoes are perceived by the younger generation. The Council hopes that this simple and enjoyable experience will impress on the children who will continue to enjoy potatoes in the future.



Implications

- UK Potato Council clearly believes that showing children how to produce vegetables can have a lasting impact.

New products

Compelling new tools for engaging consumers. Research from The Seed has revealed how technology – food-based phone apps, food bloggers, interactive restaurants, and social network tools – have positively affected consumers’ engagement with food. The study shows 7 in 10 Australians think food is important in bringing family and friends together, 82% feel food brings them pleasure, 80% believe good food helps them maintain their health, 75% rate the importance of food safety, and over 72% of them want to broaden their horizons and experience different cuisines.



Implications

- Technology is influencing consumer choices in buying and preparing food. As they become more tech-savvy, it is imperative for food marketers to harness trends to better relate to and influence choices.

New super potatoes. Scientists at the Obihiro University in Japan have discovered that the amount of antioxidants in potatoes can be increased up to 50% through a 30-minute application of ultrasonic or electric shocks. Researchers maintain that the multiplied antioxidants in these potatoes can help in reducing the risk of coronary and neurological diseases.



- Increasing antioxidant levels and making potatoes healthier for consumers can only broaden and strengthen demand for this staple vegetable.

2.1 News & events in the quarter (continued)

New products

Convenience the core benefit for new products. Maritime Foods launched the Carolina Sun Sweet potato brand into the UK convenience market with the introduction of a **“rapid cook” line**. This development introduced sweet potatoes enveloped in a contained microwaveable film that allows the sweet potatoes to steam while cooking, with no need to wash or prepare the product. This ready-to-cook range is designed for the convenience shopper as it is easy and convenient to take into work for lunch or simply as a snack. Carolina Sun “rapid cook” sweet potatoes are priced at 65p each.



Meanwhile, **four shelf-stable pasteurized fresh mashed peppers**, including Jalapeno, Red Habanero, Orange Habanero and Thai Chilli, in 32oz. plastic jars were launched by Tropical Commodities in the US. These products eliminate the traditionally time-consuming process of making hot sauce and salsa for foodservice enterprises and consumers. Thus, this new product line targets particularly the foodservice channel with an easy shelf-stable pepper mash solution. These new products meet the demand for ease of preparation and acceptance by foodservice channels and consumers that this product form provides easy portion control and reduces the level of waste.



Small households targeted with miniature lettuce. British retailer Marks & Spencers launched a new baby Iceberg lettuce aimed at one-person households, adding to the retailer’s existing miniature line of tiny pears and baby lemons introduced last year. Fully grown baby lettuces are 75% smaller than normal Iceberg lettuces, are ideal to balance wastage and convenience. The miniature lettuce is priced at 75p each, while the full-size product is priced at 85p, starkly illustrating the value difference between the specialised and conventional “commodity” lines.



Implications

- These new products have been designed to appeal by reducing both preparation time and waste incurred at home.
- They are also generating a level of price premium.
- Another new product innovation that is managing down the portion size to suit the smaller numbers of people in the average household.

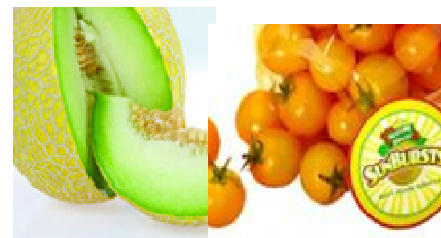
2.1 News & events in the quarter (continued)

New products

Shoppers seeking product innovations. According to research from IGD in the UK, post-recession shoppers searching for innovation rank the top five features encouraging them to buy a new product as; health benefits (27%), better quality (23%), offers better performance (21%), interesting flavour/smell or recipe (19%) and if it “makes life easier” (18%). Fruit and vegetables were ranked third of all categories, with 18% of shoppers recognising innovation in the segment. 48% of shoppers found new products through a combination of in-store merchandising and promotional advertising.

Carrot producers go after kids’ snack food market. A new campaign in the US aims to convince kids to eat baby carrots as they head back to school. US baby carrot growers have created the industry’s first-ever marketing campaign to go head-to-head with junk food and salty-snack rivals. The marketing will involve packaging carrots in Doritos-like bags, selling through school vending machines, using catchy slogans on billboards, offering phone apps using the sound of people eating carrots in real time and airing TV spots that tout baby carrots as extreme and futuristic.

New weight-loss pill made with chilli peppers gained support in Britain, with promises to burn the same number of calories as walking for an hour. The pill is made with capsaicinoids, the active ingredient in chilli peppers, which supposedly stimulate metabolism, burn flab and carbs, and step up the oxygenation rate in someone who’s exercising. Tests at the University of Oklahoma in 2009 reported that those who popped the pill burned 12 times more calories in the hour after an hour-long workout than those who did not. It is known that chilli peppers increase the metabolic rate and obesity studies confirm chilli stimulates receptors in the bowel when you eat a spicy meal. Increased heat means increased energy expenditure, and thus the boost to the metabolic rate. The makers of Capsiplex claim they have solved the problem of an irritated stomach with a natural coating that withstands strong stomach acids and doesn’t break down until it gets to the upper bowel.



Implications

- This finding points to important lessons as to what features are most important, and the role of promotional activity in bringing new lines to the attention of shoppers.
- This initiative has adopted the tactics of other food marketers by repositioning vegetables to capture children’s attention. The core product has not changed, it has only involved changes in packaging and support communications.
- This innovation has potentially created a way to market a chilli-based products as a weight loss aid. If successful, it creates a new and specific use for this type of vegetable.

2.1 News & events in the quarter (continued)

Retail & food service channels

Woolworths & IGA move towards meeting local demand. Woolworths introduced new labels to highlight Tasmanian produce, in response to shoppers' demands for locally-sourced food. Under the strategy, the retailer will tag its fruit & veg, and meat & delicatessen items with a "Tasmanian grown" shelf ticket. This news was welcomed by local farmers, amid concerns about the increasing levels of food imports into Australia.

On a similar note, **IGA gave a voice to locals with its new campaign "How the locals like it"**. Focussing on localisation and designed to leverage local store credibility by emphasizing the individuality of its 1,000 stores, the campaign made consumers aware that their suggestions are being valued. This integrated campaign is set to run for 6 months and will be supported by TV adverts featuring local staff and customers, point of sale advertising tailored to each store and a new consumer website.

(www.howthelocalslikeit.com.au)

From My Farm (FMF) undertook expansion. FMF is offering UK supermarkets and specialist retailers a "one-stop-shop" buying solution for fresh regionally sourced produce. It launched a campaign to support its expansion plans and raised its profile in a bid to position itself as a nationally-recognised brand by June 2011. Launched in 2008, the FMF brand is a supplier concept that divides the UK into regions from where FMF identifies and works with growers. It collates orders, liaises with growers and delivers to the nearest regional distribution centre or sometimes, direct to store. This not only offers supermarket chains the convenience of a one-stop-shop buying solution for perishable, regional, fresh produce but also provides growers with the opportunity to supply in bulk in their regions when they would otherwise not have the volume of scale to do so.



How the locals like it



Implications

- Retailers realise that there are advantages in responding to consumers' preferences by localising their offers. There is also a risk that no response by a retailer allows its competitors to lead and by default implies that it does not support the local community.
- As catering for local need increases in the retailers' priorities, so does the chance for local vegetable producers to promote their products.
- A collaboration that responds to consumers' demands for local produce and offers growers a premium outlet for their produce.

2.1 News & events in the quarter (continued)

Retail & food service channels

Restaurants move to cater for special dietary concerns. A new guide *Safer Meal Service* has been produced with the support of Coeliac Society to help restaurants and cafes understand food allergens and provide food allergy information on menus so that customers can make informed food choices. The guide is also supported by the Australian Food and Grocery Council (AFGC) that has developed complementary guidelines that will help caterers to access information about the ingredients and the foods they use in their kitchens. This marks a move undertaken by the foodservice channel to recognise and understand the specific needs of consumers with allergic intolerances. It caters to those needs by offering a new level of information in this channel.



Implications

- The foodservice channels have moved to make it easy for consumers with specific allergenic health issues to relax and continue to dine out.

3.0 Total Food Market: Conditions and Trends

This section outlines the following factors that indicate the food market conditions and food consumer trends:

- The economic climate – consumer sentiment
- Food and vegetable inflation
- Household food spending
- Take home food spend

3.1 The economic climate – consumer sentiment

Consumer sentiment

Sentiment linked to rates

- As interest rate levels remained the same, Australian consumers confidence levels lifted. This reflects the close pattern of alignment between these two market variables.

Sentiment indices

- The Westpac-Melbourne Institute is the most widely regarded barometer of consumer sentiment and the patterns are profiled in Figure 6. This gauge reflects an improving sentiment over this period that is mirrored by stable interest rates.
- While the sentiment index lifted, the level of household saving and expenditure reflect how households are spending. During this third quarter, households increased the proportion of disposable income they saved by 17.5% on the previous quarter, and only increased expenditure on consumables by 0.9%.

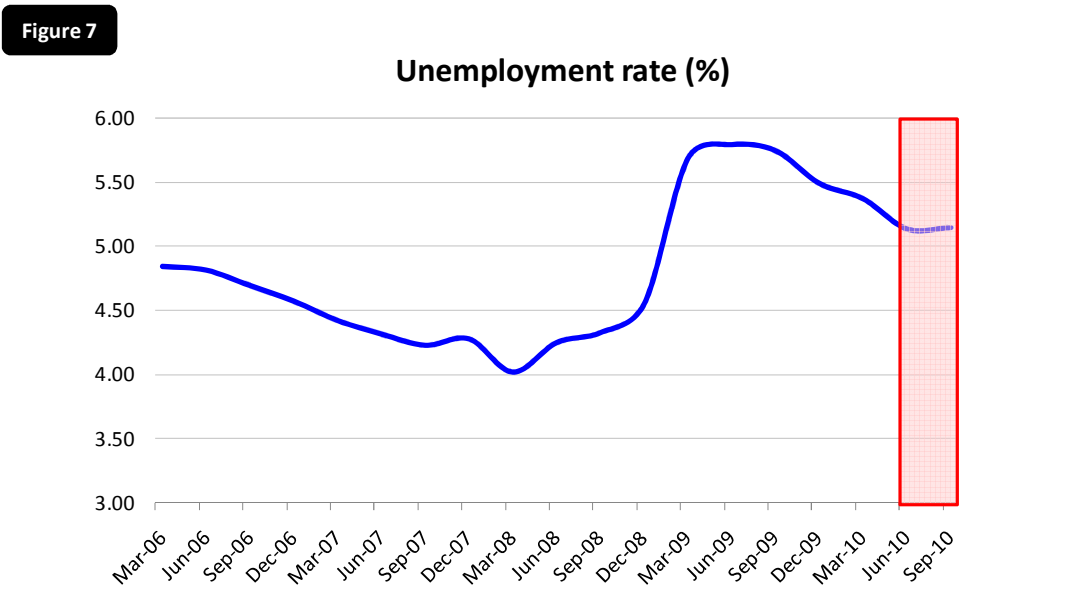
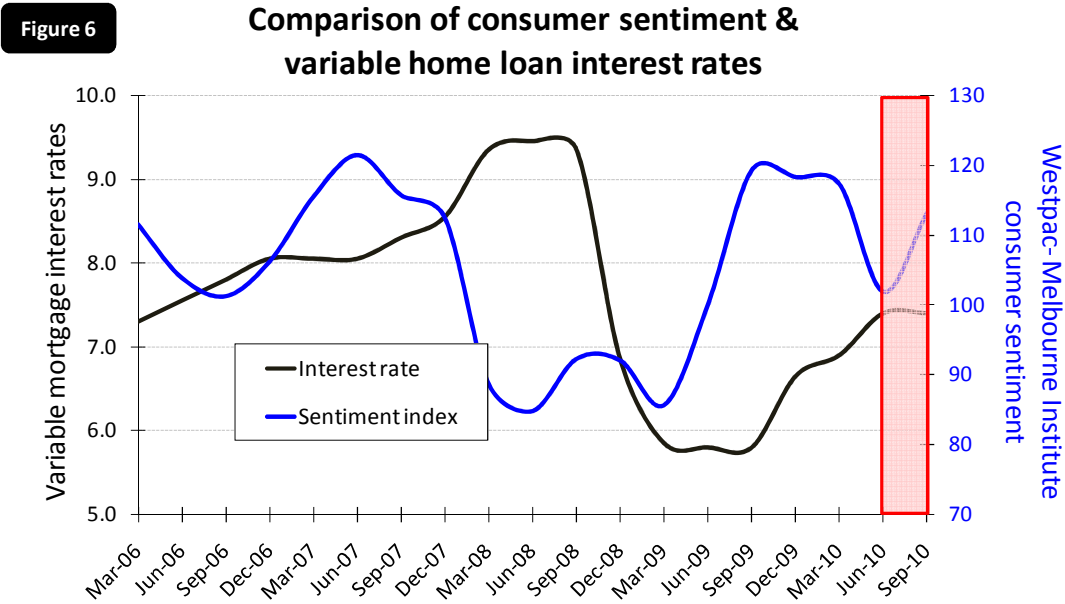
Interest rates

- The Reserve Bank (RBA) did not lift its interest rates in the quarter ending September 30th. This was in sharp contrast to the two 0.25% increases in the previous quarter.

Unemployment

- Unemployment levels increased by a very minor increment from 5.14% to 5.15%, which kept press commentary away from the subject of employment.

1. Consumer confidence has lifted as interest rates remain unchanged, but households are increasing their level of savings.



3.2 Food and vegetable inflation

Food inflation

- The fruit and vegetable price impact on the overall food inflation increased in Q3 2010, with positive contributions from fruit and vegetables, as is reflected in Figure 8. The food inflation was 1.7%* and at that level remained under 2% for the 4th quarter. (* compared to the same quarter in the previous year.)
- The total food inflation continued to be influenced most significantly by meals out & takeaway which increased by 2.1% and contributed 34% to the overall food inflation.
- The contrasting patterns of contribution to food inflation, with meals out & takeaway leading, indicates that food away from home must be getting more expensive than food purchased at retail to prepare at home. When this pattern is combined with a heightened value sensitivity with consumers, it points to a share of stomach movement away from food service to retail food.
- As is reflected in Figure 9, vegetable prices increased 3.3% on the same quarter in the previous year for Q3 10, and contributed 14% to total inflation. Inflation in vegetable prices this quarter, was a small increase on the previous quarter, prior to which time deflation existed for 3 consecutive quarters.
- Fruit prices also increased 3.3% and this led to the inflation commentary that attributes more “inflation blame” to fruit and vegetables than they contribute.

2. Total annual food inflation lifted to 1.7% influenced strongly by prices rises for food eaten away from home. Despite a modest rise in vegetables prices of 3.3%, total ‘retail’ food prices remain close to deflation levels.

Figure 8

Food category percentage contribution to total Food CPI

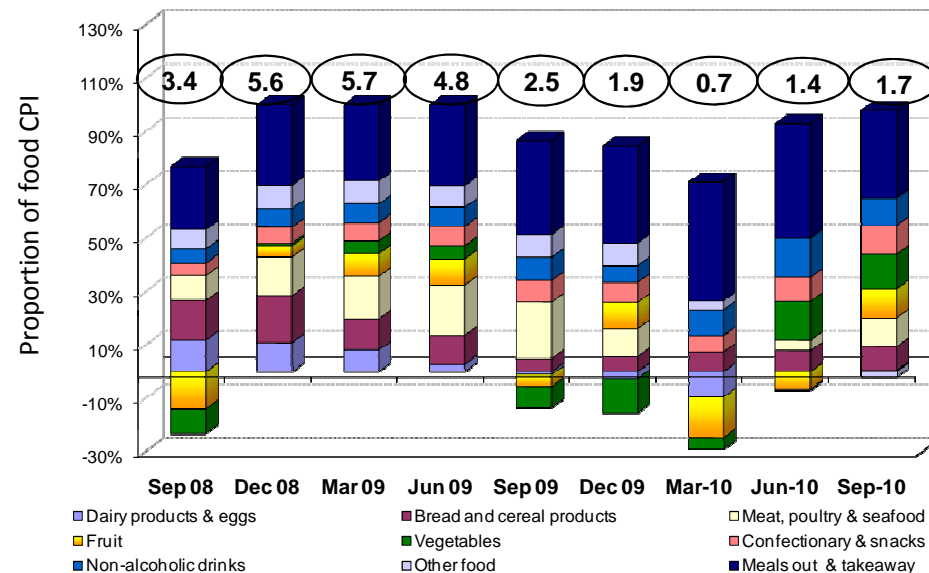
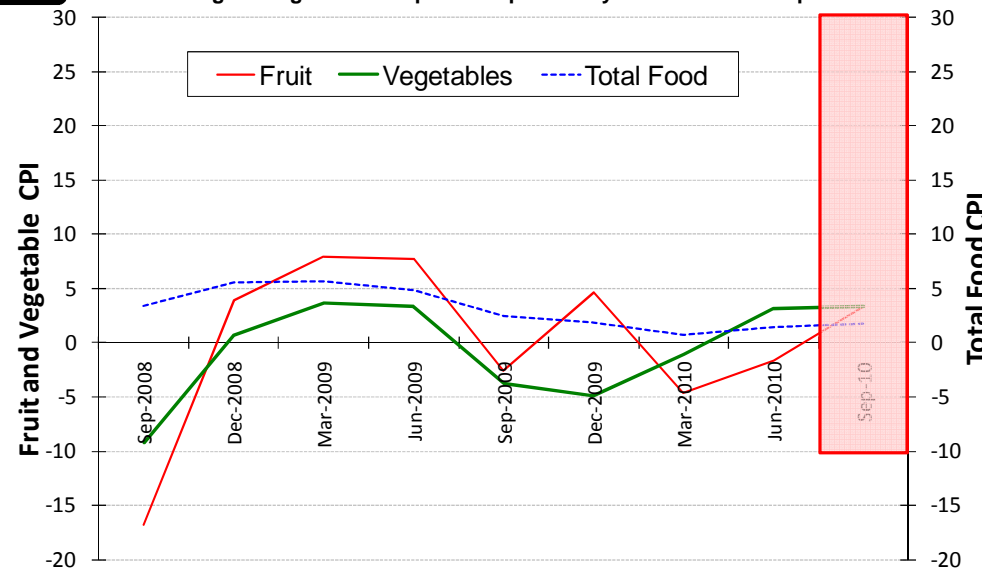


Figure 9

Total Food CPI, Fruit and Vegetable CPI
Percentage change on same quarter in previous year Jun 2006 to Sept 2010



3.3 Household food spending

Food spend

- Total average weekly household food spend declined from the previous quarter by 1.1% to \$215.30 per week. Within this decline the value of food purchased to prepare at home, through Supermarkets and Specialists, as profiled Figure 10, increased and captured 0.1% share from food eaten away from home
- The specialist food stores, who are the retailers of fresh food (such as Fruiterers, Butchers, Bakers, and Delis) lost 0.4% share of the total household food spend in this quarter, countering some of the 0.7% they gained in Q2. All the share loss by Specialists was reflected in gains by the Supermarkets.
- The food eaten away from home decreased to 27.7% of the total household food spend in this quarter. This was driven by decreases in expenditure on breakfast and lunch and partially compensating increases in dinner.
- This share decline for food expenditure in eating away from home is also reflected in signals of soft demand in the food service channel.

Household segment variations in food spend

- The average weekly household food spend for Q3 10 decreased on the previous quarter by 1.3% to \$215 dollars per household. The weekly spend per segment ranged from \$179 for Singles and couples with lower income to \$280 for Established families, as profiled in Figure 11.
- There were marked variations in food spend changes that mirror the household type. Singles & couples with higher income and MT nesters increased their total food spend by 1.7% and 3.0% respectively, while Budgeting families and Established families reduced their expenditure by 5.2% to 1.5%. Singles & couples with low income maintained their expenditure levels.

Figure 10

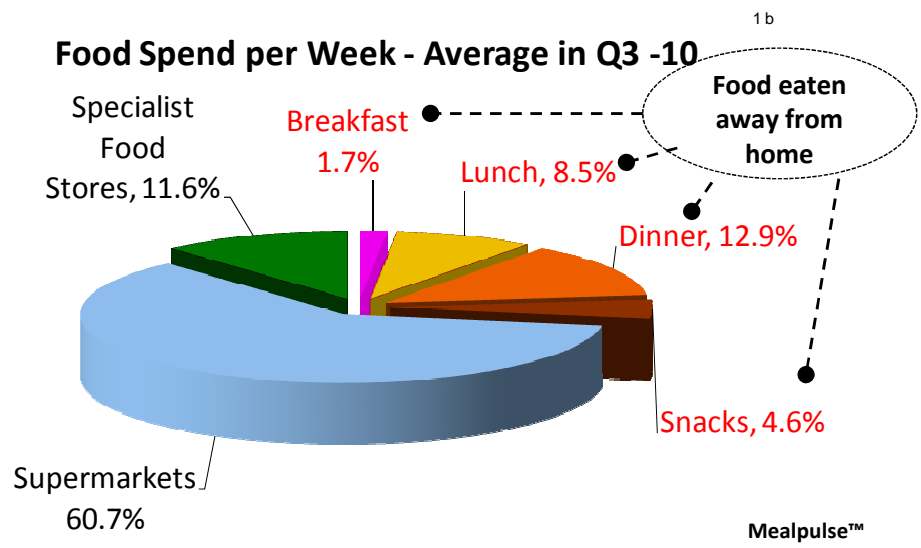
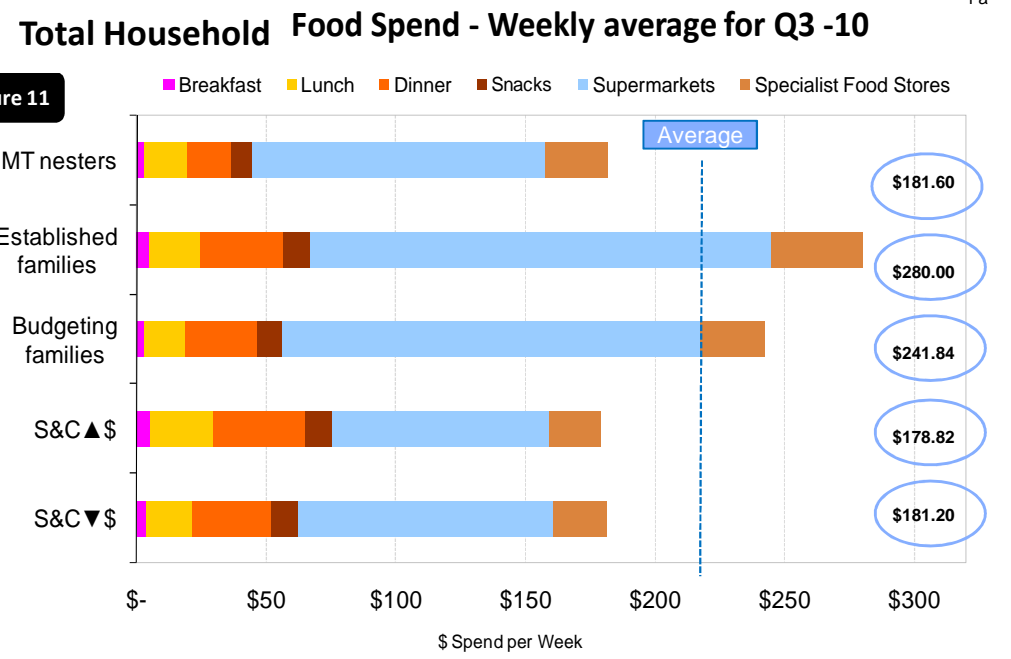


Figure 11



3. Share moved back to take home eating and a decline in the total food spend was driven by families – both budgeting and established.

3.4 Take home food spend

Take home food spend (food prepared at home)

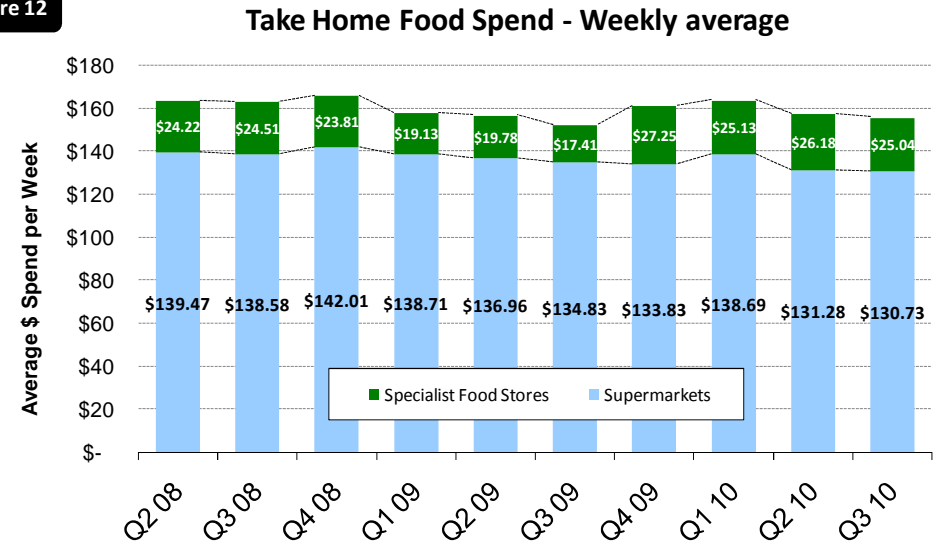
- The average weekly household spend on food at home decreased by 1.1% to \$156, with supermarkets capturing \$131, while specialists captured \$25 per household per week. This expenditure for the last 10 quarters is profiled in Figure 12.
- The current climate of deflation and aggressive promotional pricing in retail food is assessed as having a greater impact on the sales value of food purchased through the major supermarkets than the specialists. Therefore, some of this apparent decline, is likely to be a reflection of the lower value of food product sold through supermarkets.

Share of stomach trend – household variations

- Families and Empty nesters recorded the highest proportion of total ‘retail’ food spending, ranging between 76% and 77%. Conversely Singles & couples with high income spent 58% of their total food expenditure on ‘retail’, reflecting a comparatively lower proportion of spending on take home food.
- Families and Empty nesters increased their retail spend ‘share’, reflecting a reduction in the proportion of out of home (foodservice) expenditure over the quarter.
- Budgeting families reported the largest reduction in retail dollars spent, spending \$9.78 less on average per week. Combined with a \$3.58 reduction in eating out, Budgeting families spent a total of \$13.36 less on food per week, reflecting greater pressure on the family budget at this time.
- Conversely, Empty nesters increased their retail spend, while also maintaining their level of ‘food service’ spend.

4. The average weekly household spend on food prepared at home decreased, and Budgeting families reported the largest decline in retail spend.

Figure 12



Segment		% Share spend on Retail (Take home food)	\$ Retail Spend movement (on Q2)
Singles & Couples with lower income		65% (-1.1% on Q2 10)	-\$2.03
Singles & Couples with higher income		58% (-1.2% on Q2 10)	-\$0.29
Budgeting families		77% (+ 0.2% on Q2 10)	-\$9.78
Established families		76% (+1.8% on Q2 10)	+\$1.98
MT Nesters		77% (+0.2% on Q2 10)	+\$4.35

4.0 Vegetable Market Trends

The section reviews market performance for the third quarter of 2010

- Market size & contribution
- Wholesale vegetable market price trends
- Vegetable retail promotional activity
- Vegetables purchased and weekly spend
- Fresh vegetable buying patterns
- Most popular purchased vegetables
- Retailer used
- Vegetable preparation
- Vegetable buying trends & reasons for buying

4.1 Market size and contribution

Total vegetable sales

- The total retail vegetable sales in Q3 10 for all vegetables in fresh, frozen and canned forms amounted to \$1,680,870 billion, as profiled in Figure 13.
- This was an increase of \$31.7m on the previous quarter, most of which was generated by increased volume of fresh product.
- It is estimated that a further 90,000 tonnes of fresh vegetables were sold to the food service sector in Q3 10.
- The value of fresh vegetable retail sales is driven by the wholesale price and the mixture of products sold. In this quarter, the wholesale price was firmer when higher volumes were being sold at the end of the 12 week period.

Fresh vegetable category contribution

- The category level contribution profiled in Figure 14 reflects that the contribution from salad components increased by 1% and was matched by a 1% decrease in the contribution from hard cooked vegetables for fresh vegetable sales in Q3 10.
- The direction of this change is expected as the weather warms. However, the cooler wetter weather in the quarter combined with the appealing lower cost of hard cooked vegetables, appears to have kept them in favour.

5. Retail sales of vegetables increases by \$31.7m to \$1.68b for the quarter with most of the increase generated by fresh product.

Figure 13

Total vegetable sales by quarter \$000's

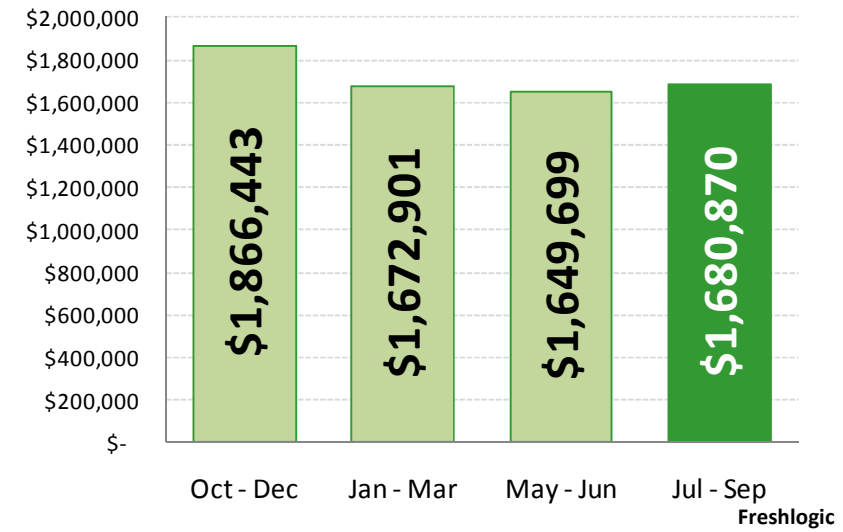
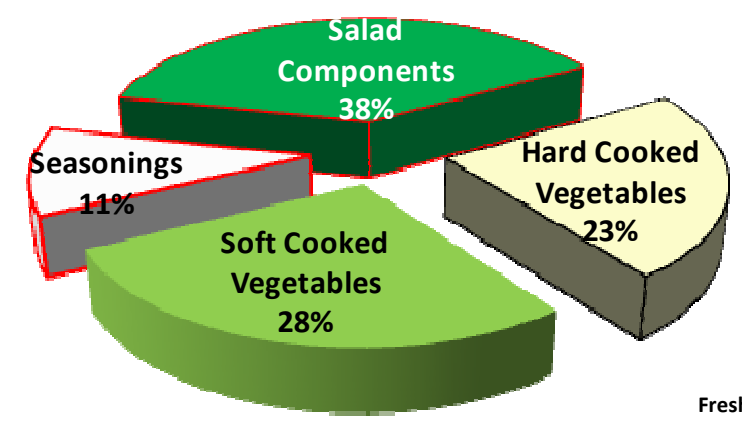


Figure 14

Fresh vegetable sales contribution by category Q3 -10



4.2 Wholesale vegetable market price trends

Wholesale prices

As profiled in Figure 15, the wholesale vegetable prices per kg are modelled on the vegetable wholesale market prices for a full range of high volume products from the five main markets.

The trend for Q3 10, which ran from weeks commencing 5 July to 27 September, shows an increase in prices, starting the period at \$1.94 per kg, followed by a low of \$1.88 per kg in early August, and ending the quarter on a high of \$2.29 per kg. Prices at the end of the period were 18% higher than at the beginning.

Holidays & events

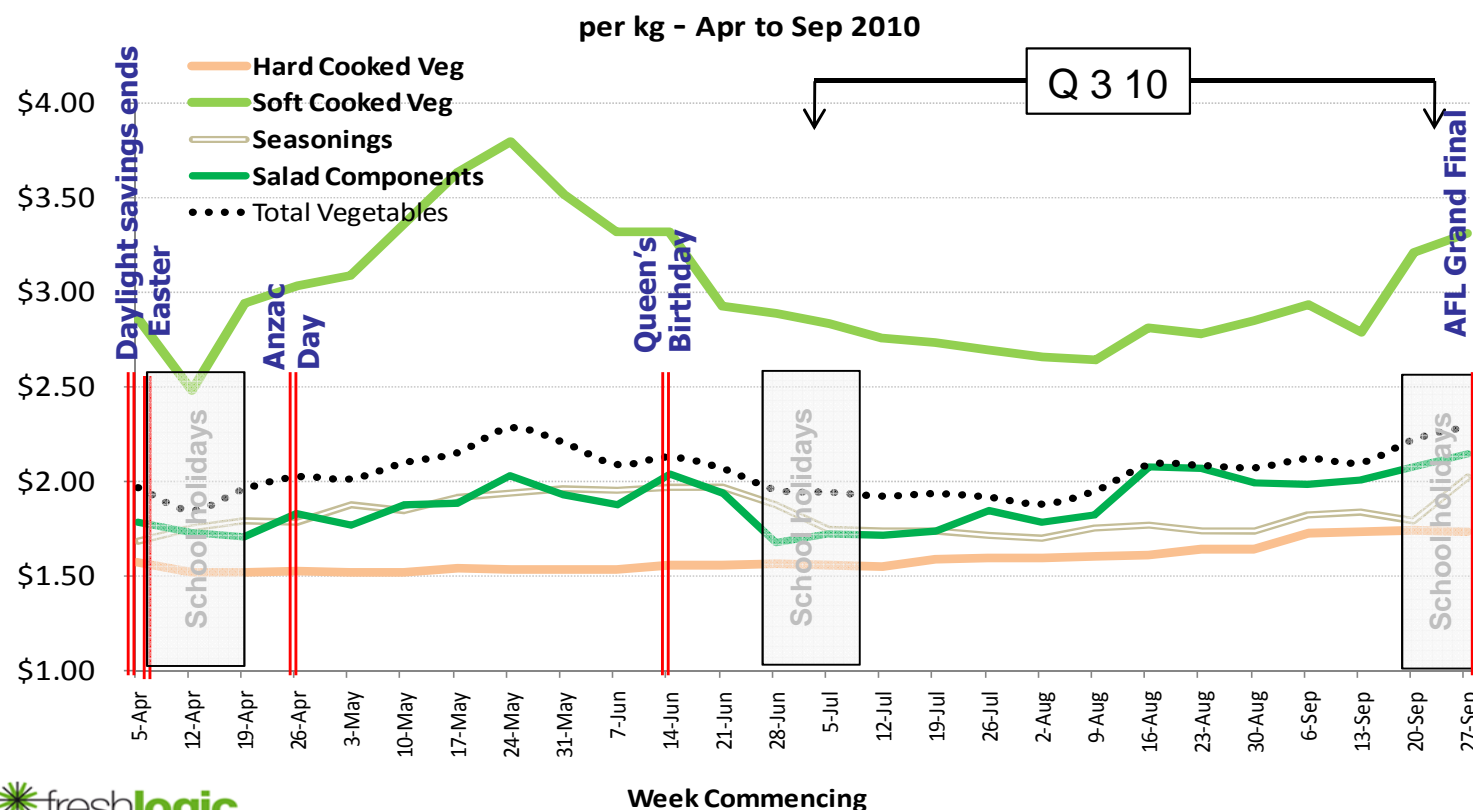
Over Q3, the holidays and events that impacted demand were limited to the end of the second-term school holidays, the start of the third-term school break in late September, and the AFL Grand Final.

Figure 15 profiles that all vegetable categories fluctuated and firmed in price over the quarter. The price of Soft Cooked Veg, which includes mushrooms, broccoli and cauliflower, fluctuated 25% over the quarter, as did the price of Salad components, which includes tomato, lettuce and salad mix. The price of Seasonings, which includes chilli, garlic and onions, fluctuated 19% and incorporated a strong rise over the final week. In contrast, the wholesale price of Hard Cooked Vegetables, which includes potatoes and pumpkin, were sold in a relatively stable and narrow range \$1.55 to \$1.74 per kg, fluctuating 12% during the period. Details of the main products in Soft cooked vegetables and Salad components are profiled on page 33.

6. Over the quarter, the total wholesale price was impacted by steadily firming prices in three out of the four vegetable categories.

Figure 15

National Vegetable category wholesale price



4.3 Vegetable retail promotional activity

Retail promotional activity

- The promotional activity by retailers that featured vegetables was decreased by 5% to 3,152 products for this Q3 10 quarter, compared to the previous quarter.
- On an average, 242 vegetable products were advertised in the five main states each week in Q3 10. This was a decrease of 5% on the 255 lines per week for previous quarter.
- The majority of the decrease for the quarter was in canned with 263 lines or 39%, and frozen with 31 lines or 3%. Fresh increased by 130 lines or 8%, and within that seasonings was a significant contributor with a 113 line or 68% increase on the previous quarter. The detail of the fresh product groupings are explained in the supporting document 'Vegetable Market Settings and Methodology'.
- The pattern of adverts as profiled in Figure 16 shows the impact of school holidays and a general decline in the advert space the retailers are giving to vegetables products.

Promotional pricing

- In Q310, the promotional price averaged \$4.47 and the category prices per kg ranged from a low of \$1.25 to a high of \$14.92 (Garlic) per kg.
- The fresh category average prices per kg for the 13 weeks in this quarter and the change on Q2 2010 are as follows:
 - Hard cooked veg at \$1.96 (-1.1%), followed by canned at \$3.27 (-6.3%), soft cooked veg at \$4.20 (-2.5%), frozen at \$4.59 (13%), salad components at \$5.17 (4.7%) and seasonings at \$7.33 (6.3%).

7. The number of vegetables products advertised decreased by 5% to an average of 242 products per week.

Figure 16

Type of advert Jan - Sep 10

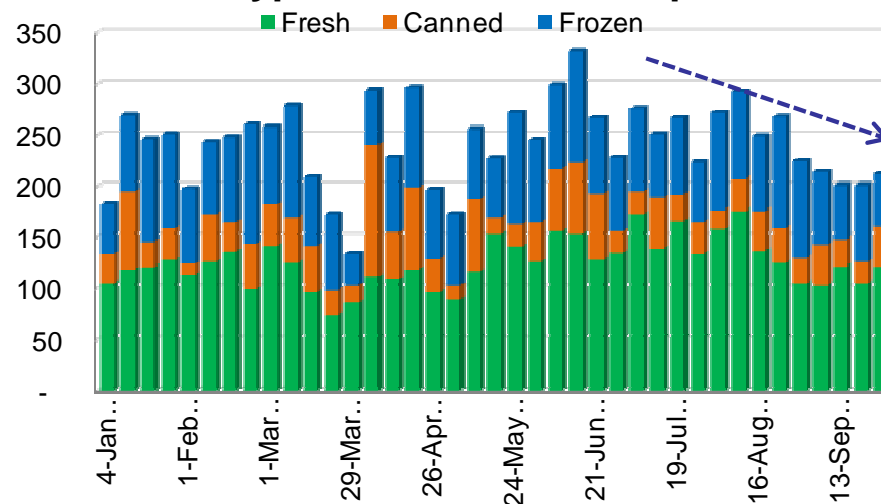
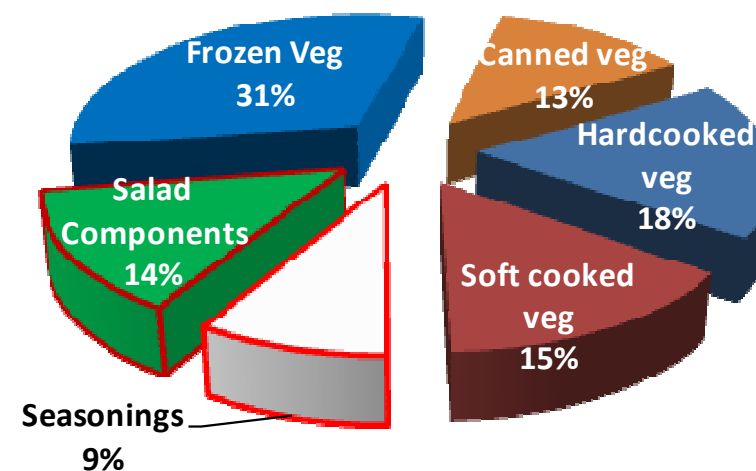


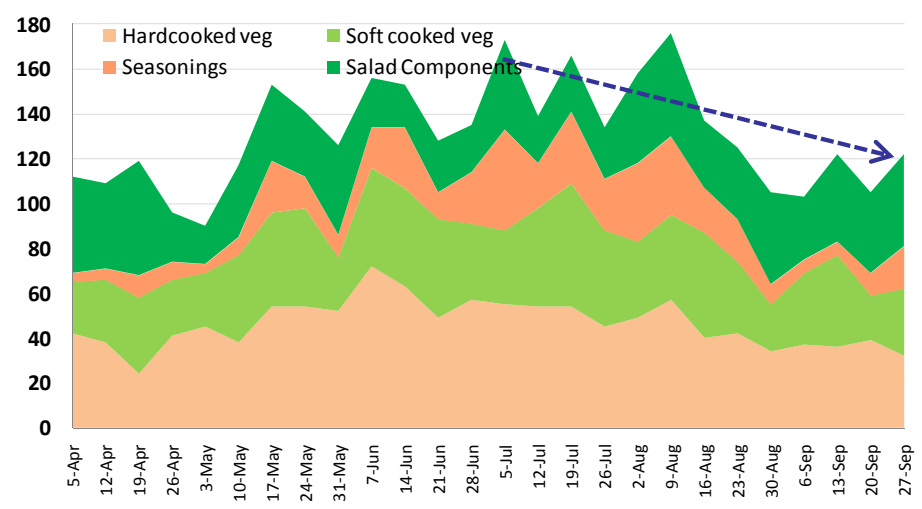
Figure 17

Advertised vegetable products 3,152 adverts by category - Q3 -10



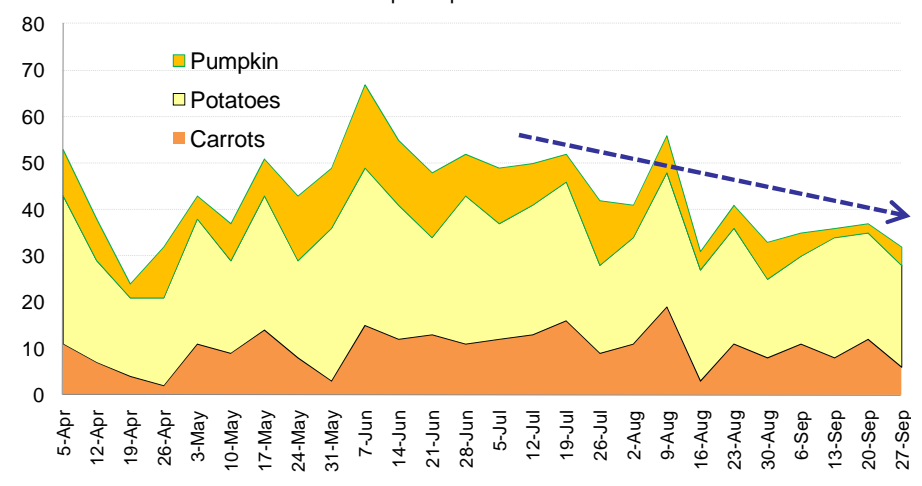
4.3 Vegetable retail promotional activity (Continued)

Figure 18 Number of advertised fresh vegetable products
Apr - Sep 2010



Trends: Q2 & Q3 10
The type of product advertised in Q3 10 reflects a shift towards salad lines and away from cooked vegetables. This trend is clearest in the increases in Salad components and decreases in cooked veg .

Figure 19 Number of advertised Hard Cooked Veg
Apr - Sep 2010



At a product level this was most evident in decreases in pumpkin, carrots and potatoes and increases in the primary salad lines of tomato, lettuce and salad mix.

Figure 20 Number of advertised Soft Cooked Veg
Apr - Sep 2010

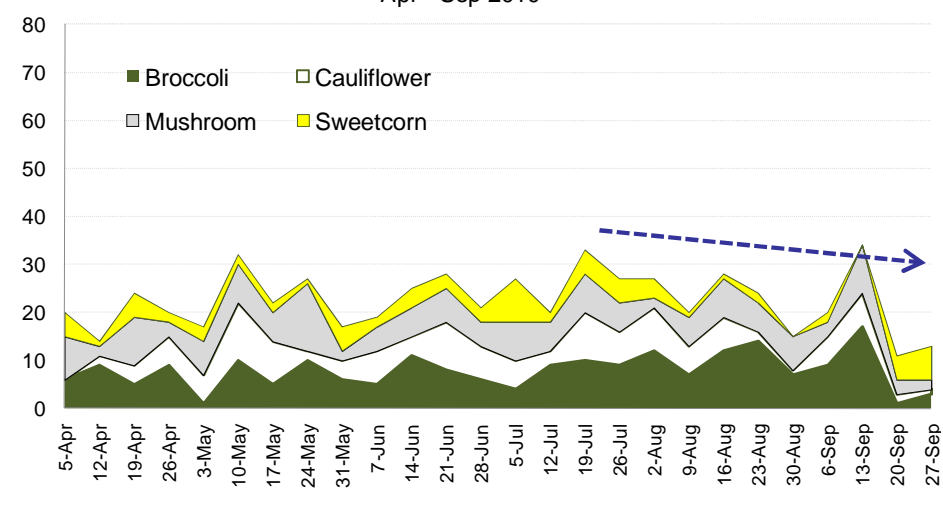
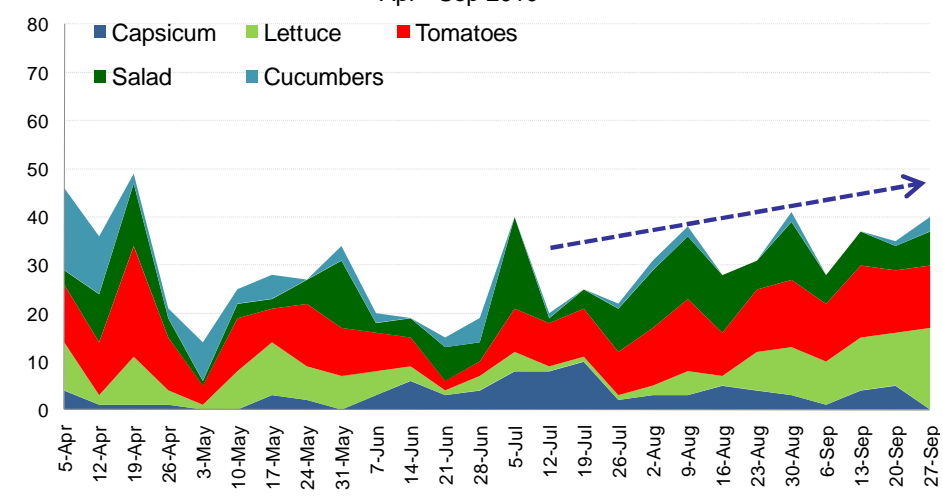


Figure 21 Number of advertised Salad Components
Apr - Sep 2010



8. The changes in the type of fresh vegetable product advertised in Q3 reflect an expected shift towards salad as warmer weather arrives and outdoor living commences.

4.4 Vegetables purchased & weekly spend

Participation by vegetable form

- Figure 22 profiles the proportion of households that purchased vegetables in frozen, canned and fresh forms over the last four quarters. Clearly, there are many households that buy vegetables in each form, however purchasing of canned vegetables has become less common over the year.
- In Q3 10, the proportion of households that purchased canned vegetables declined by a further 3% to 34%, while the proportion purchasing frozen vegetables increased by 5% to 52%. Fresh vegetables remained the dominate form type, with 86% of households purchasing fresh vegetables.

Weekly total vegetable expenditure

- The total household spend on vegetables by the households that purchased vegetables increased by 5.5% or \$1.05 per week on the previous quarter to \$19.87 per week.
- When this expenditure is assessed in household segments as profiled in Figure 23, the range spans from Empty nesters at \$14.87 to Established families at \$26.21 per week.
- Empty nesters was the largest increase at 13% or \$1.71 to \$14.87 per week. Singles & couples with higher income also reflected a substantial increase at 12.1% or \$2.24 per week to take their weekly vegetable expenditure to \$20.77 and reversed the decline of the last quarter.
- The only household segment to reduce expenditure on vegetables during this quarter was the Budgeting families, with a decrease of 87c to \$22.18 per household per week.

Figure 22

Type of vegetables purchased by household

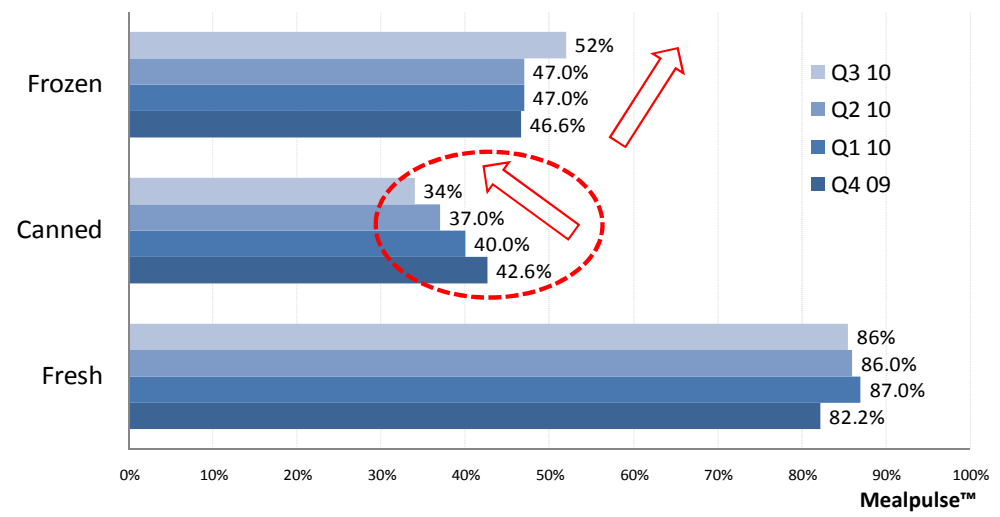
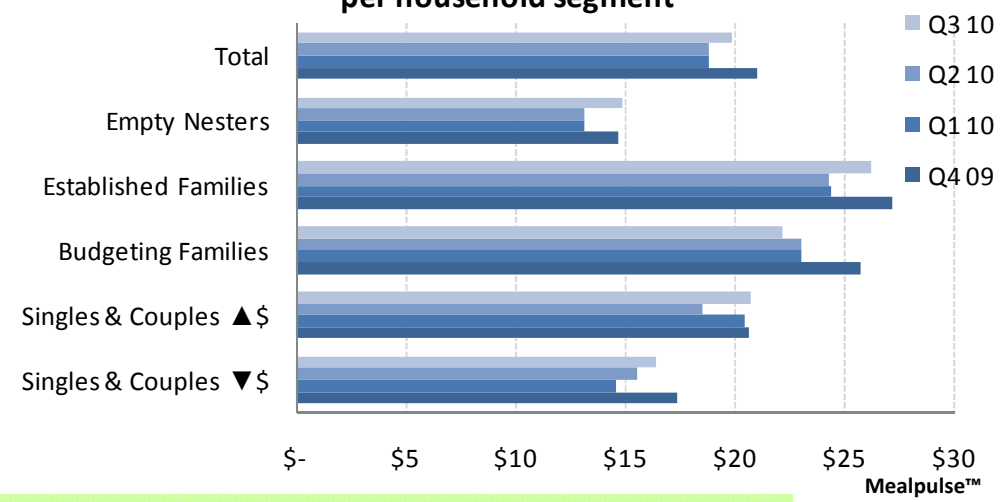


Figure 23

Weekly vegetable spend per household segment



9. Household expenditure on all vegetables increased by 5.5% in the quarter. Households continued to purchase fresh vegetables, but the purchasing of canned vegetables continued to decline, while the purchasing of frozen vegetables increased.

4.5 Fresh vegetable buying patterns

Fresh vegetables purchased

- Figure 24 profiles the proportion of households and household segments that have purchased fresh vegetables weekly for the last four quarters. In Q3 10, the fresh vegetable weekly household penetration remained consistent at 86%.
- Changes over the quarter were modest, and include a small increase in fresh vegetable household penetration by both high and low income Singles & couples; offset by a small decrease by Budgeting families and Empty nesters.
- The most notable longer term trends include a decline in fresh vegetable household penetration by males and by Budgeting families, together with an increase by Empty nesters. The trend for Empty nesters is impacted by the greater knowledge of food preparation methods and a high proportion of meals they eat and prepare at home.

Fresh vegetables purchased - state-based variations

- Figure 26 profiles the variations in household penetration for fresh vegetable purchasing by state for the last four quarters.
- The larger south-eastern states of NSW/ACT and VIC/Tas reflected the national trend, with little or no change.
- WA decreased its level of penetration by 6% to 84%, while SA/NT decreased its level by 3% to 85%. In contrast, Qld increased its level of penetration up 2%, to 88%.

Figure 24

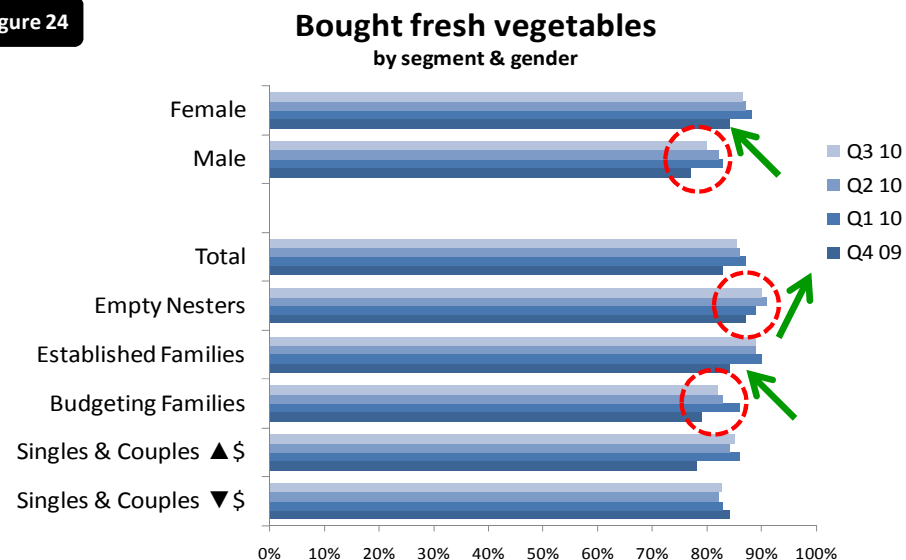
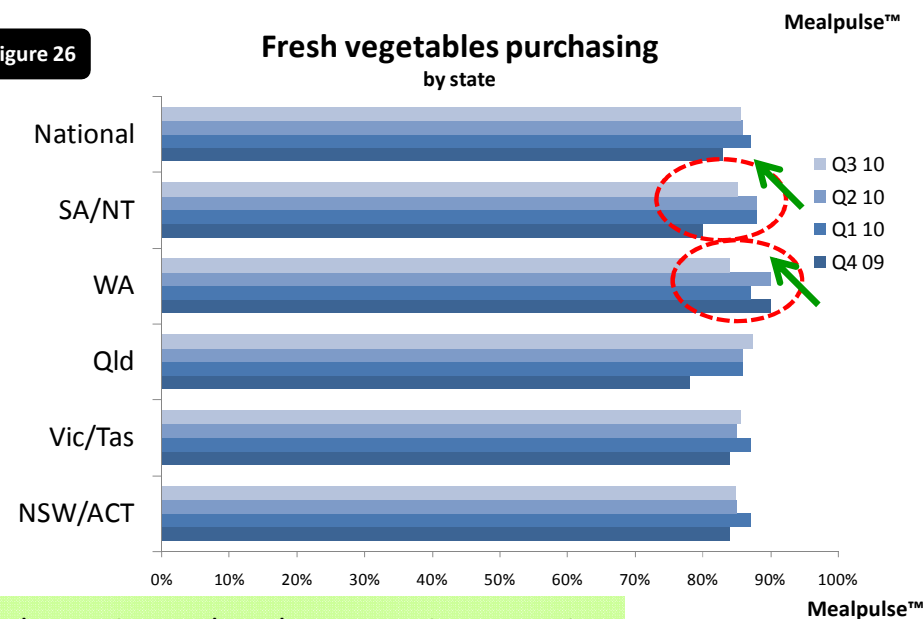


Figure 26



10. The proportion of households buying fresh vegetables nationally remained largely consistent, but there were increases in the penetration into the high and low income Singles & couples segments, and decreases in SA/NT and WA.

4.6 Most popular purchased vegetables

Most popular vegetable purchased weekly

- Figure 26 profiles the 10 most commonly purchased fresh vegetables for the last four quarters. In Q3 10, this was topped by carrots and potatoes, which were the only vegetables to be purchased by over 60% of households weekly.
- Tomatoes and onions, the third and fourth most common, switched places from the previous quarter.
- The top four vegetables – carrots, potatoes, onions and tomato – were purchased by more than 50% of households, while broccoli was purchased by 48% of households.
- While the hard cooked staples of carrots and potatoes remain popular, both experienced a small decline, as did pumpkin.
- This has coincided with a recovery in the purchase of salad components, such as tomato and lettuce, reflecting increased demand in light of warmer weather.

Vegetable purchasing by gender this quarter

- Figure 27 profiles the top vegetables and shows whether they were purchased by males or females.
- With the exception of chillies and carrots, all of the most frequently purchased vegetables, were purchased by more females than males.
- Carrots, and the seasoning line of chilli which are purchased by 68% and 8% of households on a weekly basis respectively, are purchased by more males than females.

11. The most frequently purchased vegetables reflected a small demand shift away from cooked products, towards salad components. Over the quarter, carrots and chilli were purchased by more males than females.

Figure 26

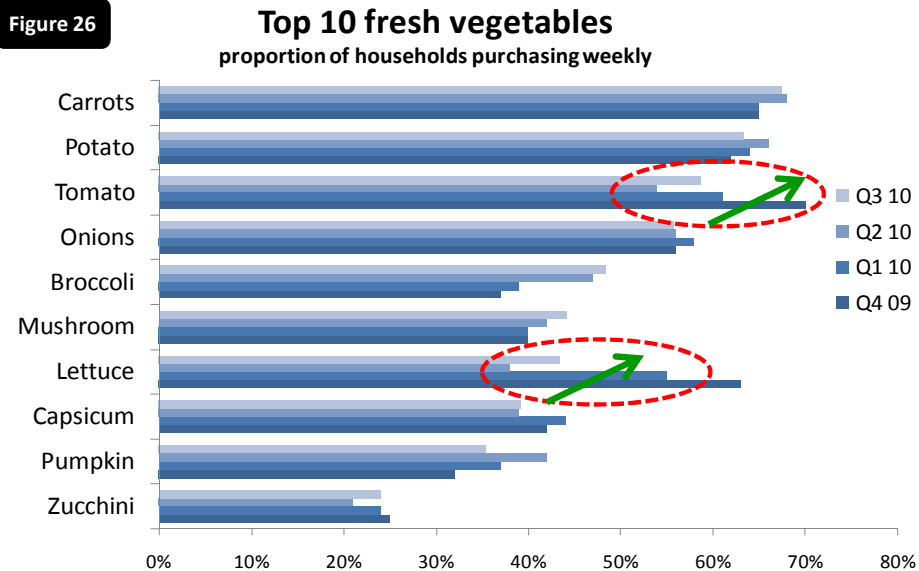
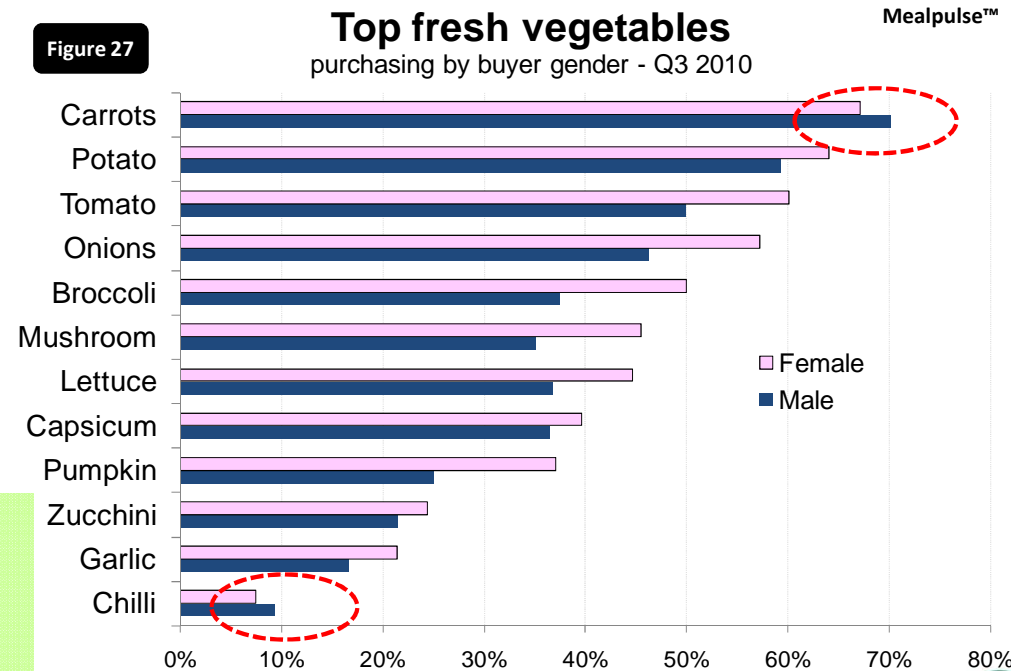


Figure 27



4.7 Retailer used

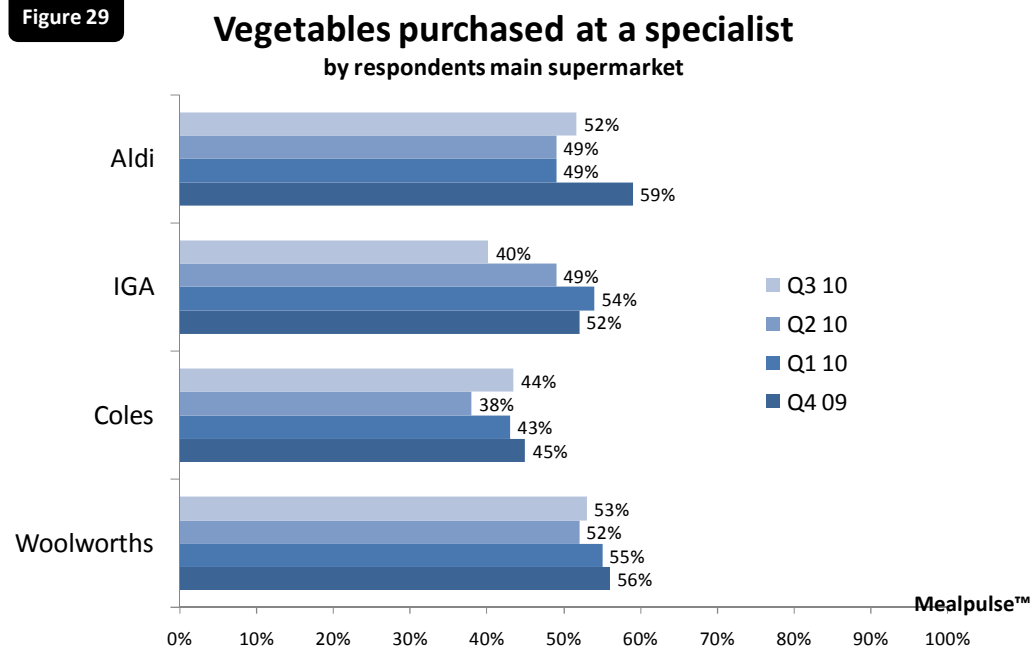
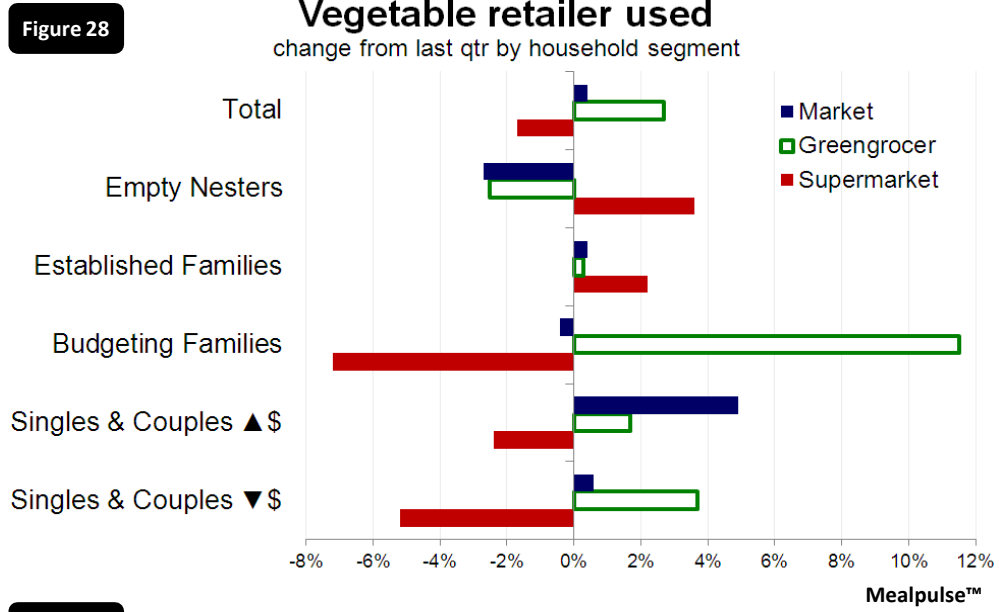
Retailer used

- Consumers buy their fresh vegetables predominantly from either supermarket, greengrocer or markets. This data reflects 'where' consumers shop for their vegetables and this level of patronage does not necessarily reflect the relative expenditure in each type of retail outlet.
- Figure 28 shows the changes in the type of retailer patronised compared to the last quarter.
- In Q3 10 supermarkets lost share, following two consecutive increases. In particular, Budgeting families and both high and low income Singles & couples reduced their level of patronage to supermarkets. This has been partly offset by increases in the remaining household segments.
- Specialists, particularly greengrocers have arrested the share decline of the last 2 quarters. In particular, budgeting families and high and low income Singles & couples have increased their level of patronage to greengrocers. The Empty nester household segment has reduced its patronage to specialists over the quarter.

Specialist use by main supermarket shoppers

- Figure 29 profiles the proportion of supermarket shoppers who also buy vegetables at a market or greengrocer. It reflects the percentage of their customers who are also buying vegetables at other retailers.
- In this quarter, IGA has improved its capture of vegetable spend as patronage to other vegetable retailers declined.
- Over the year, Coles, Aldi and Woolworths have increased their capture of vegetable spend, despite a small reversal of the trend this quarter.

12. After 3 quarters of share drift to the supermarkets, some shoppers have reverted back to trips to the specialist.



4.8 Vegetable preparation

Vegetable preparation

- Cooking, which includes steaming, boiling, roasting & stir-frying remained the dominant method of preparation, with 94% of households using this method in this quarter, down 1% on the previous quarter.
- The use of salads increased sharply with 13% more households using putting in salads, leaving 51% of households using this method.
- 38% of households used eating raw, similar to the proportion using this method in the previous quarter.
- These changes are expected due to the influence of seasonal demand shifts and with that an increased tendency to eat cooler foods in the warmer spring months.

Household segment variations in vegetable preparation

- All household segments increased salad use, as profiled in Figure 31. However, the increase was most prominent among Empty nesters and Established families, who increased use by 28% and 16% respectively.
- While overall the use of eating raw remained constant, there was some variation among household segment, with Established families increasing use by 9%, while low incomes households reduced use by 5%.
- Singles & couples with low income and Empty nesters reduced use of cooking, by 4% and 3% respectively.

13. Expected spring shifts in seasonal demand patterns led to an increase in preparing salads, while despite variations across household segments, the use of cooking and eating raw remained largely consistent overall.

Figure 30

Method of vegetable preparation

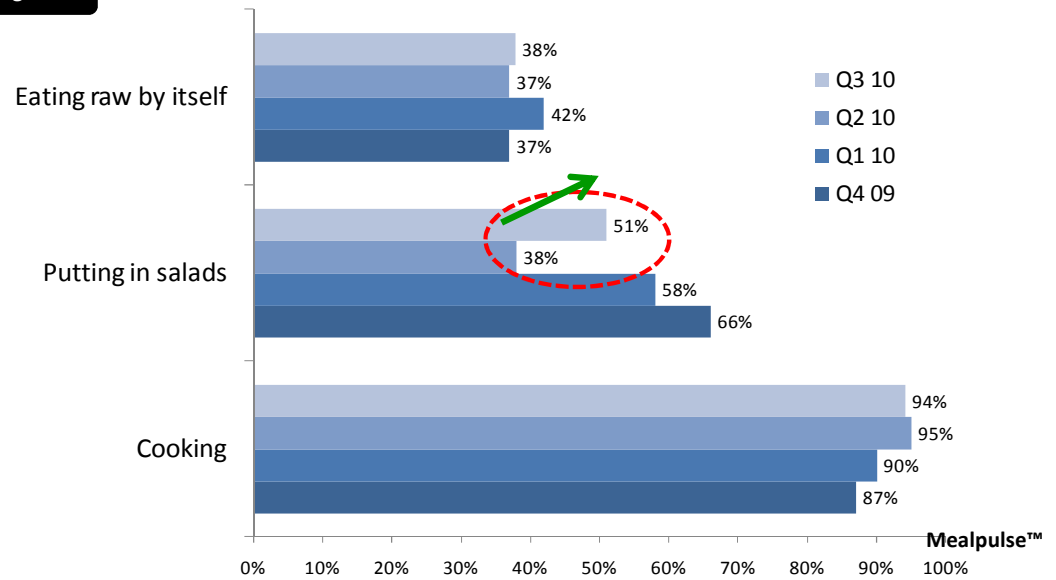
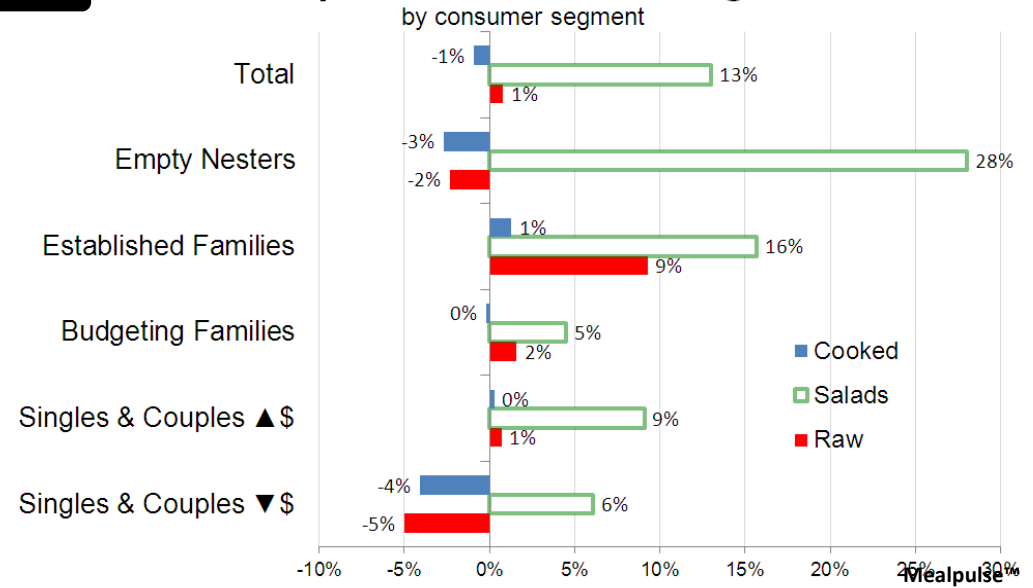


Figure 31

Preparation method changes



4.9 Vegetable buying trends & reason for buying

Vegetable buying trend

- Figure 32 profiles that 76% of households purchased the same amount of vegetables in the period.
- The remaining households altered purchasing levels with 13% purchasing less and 11% purchasing more vegetables. Overall, 76% of females and males purchased the 'same' amount of vegetables. Notably, 3% more males increased their purchases, buying more than normal.
- This maintenance of stable consumption patterns flows from a period of relatively 'even' wholesale values, combined with overall household food planning and shopping patterns, supported by a high proportion of spring meals being prepared at home.
- Overall, the influence on buying more vegetables continued to be dominated by appearance and promotional activity.

Vegetable buying trend – by state

- The state-based profile of the buying trend in Figure 33 shows that WA enjoyed the highest increase with 15% of households buying more vegetables.
- Similarly, NSW/ACT and Qld experienced a 13% increase.
- Qld also had the highest number of households buying less vegetables at 19%, indicating the greatest level of variability across the states.

14. The majority of consumers buying the same quantity of vegetables. However, 3% more males increased their purchases, and state-based increases were experienced WA, NSW/ACT and Qld.

Figure 32

Vegetables buying trend by gender & segment

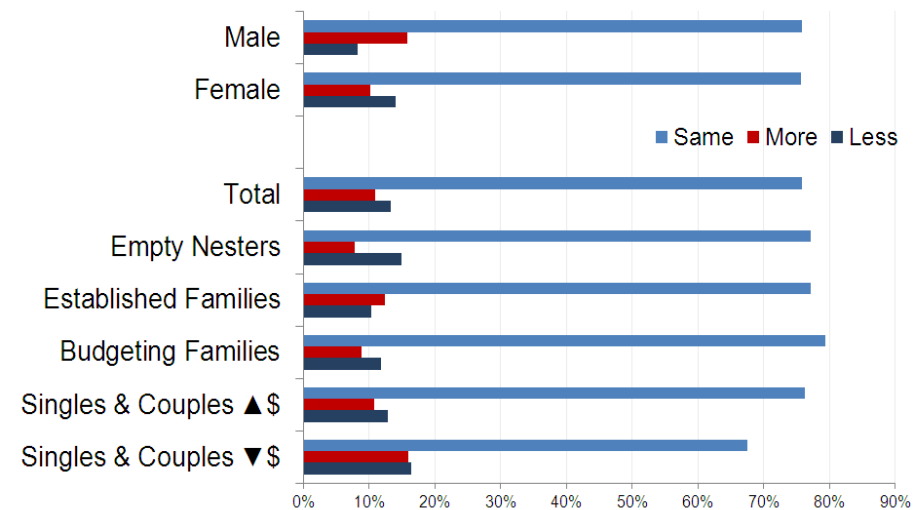
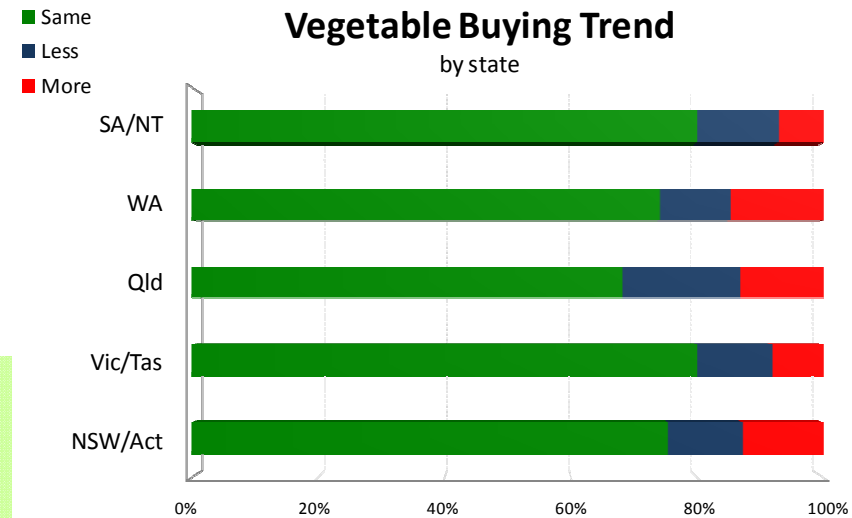


Figure 33

Vegetable Buying Trend by state



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5.0 Vegetable Market Insights

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

- More consumers buying complete meals

5.1 More consumers buying complete meals

Changing face of eating habits – Home-delivered complete meals increase share

Home-delivered complete meal programs are services that offer chilled or/and frozen ready-made food packed in portion sizes to the household.

This type of product was originally aimed at those who could not prepare their own food, but it has rapidly grown to provide meals for time poor households of most configurations.



The meals typically require only a 3-4 minute heat in the microwave before they are ready to be consumed. The key attributes of these complete meals are: balanced, nutritious, sensitive to specific consumer health and dietary concerns and above all, making mealtime easier for today's time pressurised consumers.

Detailed market information assessment is elusive; however, a Sensis Consumer study in 2009 shows that home-delivered meals have almost doubled over the previous 3 years and at that time, accounting for 5% of Australians' meals, up from 3% just 3 years ago. This growth is reflected in the emergence of larger local providers being acquired by multinational food companies and the rapid evolution of a second tier of smaller specialist providers of home-delivered meals. If this market penetration of 5% is limited to evening meals at an entry level price range of \$7-9 per meal, it equates to a market value of \$1.02- \$1.31b per annum.

The business model for home-delivered meals incurs more logistical costs to deliver to households. However, it captures a retail margin and does not have to meet the costs of operating a retail network of stores.



5.1 More consumers buying complete meals

	<i>Who are the main providers?</i>		<i>What do they offer?</i>
Tier 1		<p>Jenny Craig – 100 centres and 100,000 customers a day. Owned by Nestle.</p> <p>Lite n Easy</p>	<ul style="list-style-type: none"> • Interactive website that allows online planning and reviewing of menus and scheduling delivery days, and convenient meal packages delivered to the door. • These larger scale programs are essentially marketed as diet and weight management programs that provide complete weekly solutions of 3 meals per day plus a daily snack. • Typically delivered weekly and an individual’s costs range from \$110 to \$150 per week. • Offer consultants to help compile pre-planned diets, motivational materials like CDs, menus, exercise videos and planners.
Tier 2		<p>Includes:</p> <ul style="list-style-type: none"> • Tender Loving Cuisine • Choice Fresh Meals • Gourmet Dinner Service • Eat@ Home • Katrina’s Kitchen • Meal in a moment 	<ul style="list-style-type: none"> • These medium-scale programs essentially operate on a smaller scale compared to the tier 1 providers, with some catering interstate, while most service specific metro areas and cities. • Do not employ the high level of marketing sophistication of the tier 1, but do use the internet platform for consumer engagement and interactivity. • Seek to differentiate through specialisation on the likes of freshness, ethnic style and in general provide solutions for specialty needs. • Broader customer base: with some offering lunches for students from nominated schools, gifts of meals, while others service care agencies. • Offer a ranges of value, with ‘specials’ of 8-10 meals for entry level prices that can be as low as \$6-7 per meal.
Tier 3	<p>There is a third tier, consisting of locally based home delivered meal providers, that are typically an extension of a local restaurant or cafe. They enjoy close relationships with locally based customers and gain leverage off the local visibility and profile their restaurant or cafe facility provides.</p>		

5.1 More consumers buying complete meals (continued)

Dynamics – landscape of the demand frontier

- Convenience: the major driver – Home-delivered complete meals are welcomed as a good fit for the busy lifestyle of consumers who have little time for cooking but want to have home-styled cooked meals that promise the freshness offered by instant cooking. Eliminating the need for retail food shopping is also welcomed by some segments.
- Closing value gap – These meals already enjoy a price advantage over “eating out” at a restaurant but now the value gap comparing delivered meals to home-prepared meals appears to be closing for some households. This is happening especially with smaller households with varied lifestyle demands that incur high levels of fresh food waste in the home. This type of value benefit is yet to be exploited by the home-meal providers.
- Appealing business model – This is an attractive type of food service business because customers order and pay before delivery. Not only does this eliminate credit risk, it allows providers to manage the cost of ingredients and production processes to maximise yield and minimise waste.
- Changing demographics – The structure of Australian families and their lifestyles are changing, with increasing numbers of working parents and a rising incidence in the representation of empty nesters and singletons in the demographics. These different household are all finding appeal in these products for their busy Monday to Thursday evening meals.
- New communications technologies extending market reach – Enterprising food companies have recognised the role played by technology in influencing today’s tech-savvy consumers in buying food and have harnessed the internet and smart phone capacity to engage with consumers and make it easy to select, order, receive dietary advice and pay for meals.

Dynamics – landscape of the demand frontier

- Sensitive to specific consumers’ needs – The role of diet in preventing lifestyle-related diseases has been promoted to the Australian community by nutritionists and dieticians. Furthermore, about 20% of Australian households contain a member that has a food allergy. This combines to create demand for managing diets and meals that are combined to accommodate specific needs. Complete home-delivered meals that provide these attributes are a very good fit for households with these specific needs.

What does it mean for vegetable growers?

The channel is selling a combination of diet management and convenient meals.

- This is an influential channel with capacity to launch and endorse new food products. However, this type of food service business is more likely to be more orientated to the cost efficient impact of a meal ingredient, and therefore, less inclined to welcome higher quality products at higher prices.
- All providers are using vegetables ingredients, but are typically producing a chilled or frozen product and therefore, they may not need fresh vegetable ingredients.
- Some smaller suppliers are leading with the ‘fresh ingredients’ as a way of differentiating their offers.
- It will take a level of market development to increase the fresh vegetable intake of the providers of these meals.