Veginsights

The market - Q4 09

A vegetable market platform analysis plus a profile of the three-month period ending 31 Dec 2009

March 2010

Prepared by freshlogic as part of the Vegetable Industry Development Program

Contents

1.0 Executive Summary

Overview

This is the first Veginsights – The Market developed by the Consumers and Markets sub-program of the Vegetable Industry Development Program. 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 provides settings for the ongoing market and consumer analysis. It quantifies the annual market size in values of all forms of retail vegetables at $7.05 billion and profiles the three-month period ending 31 December 2009 for fresh vegetables.

The report includes outputs and analysis from a market model, which, for the first time, has consolidated and reconciled all available data from production through to 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

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

Selected Key Findings

- Sales of fresh retail vegetables in Australia are valued at $5.83 billion annually and processed retail vegetables sales are valued at $1.22 billion annually.
- 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.
- Vegetable price volatility has led to the view that vegetables make a larger contribution to the food CPI than the 7.45% they represent.
- While there are several pathways to the market, vegetable producers are dependent on the domestic fresh market and must deal with the increasing competition from imported processed product.
- Successful distribution of vegetables requires a good understanding of the role of service providers, such as wholesalers, brokers, agents, and transport into the targeted channel.
- Consumers are shopping for retail food 3-4 times a week and food to eat away from home a further 2-3 times a week.
- Weekly household expenditure on vegetables ranges from $5 to $50.
- Some vegetables have captured substantial levels of value and this is reflected in their selling price per kg. Their success provide clear insights and possibilities for other vegetables.
- Processed vegetable products enjoy more exposure than fresh vegetable products in the weekly retail promotional activity due to dedicated marketing support from the manufacturers.

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

2.0 Key findings & implications

Findings	Implications
01. While there are several pathways to the market, vegetable producers are dependent on the domestic fresh market and must deal with the increasing competition from imported processed product.	• Building marketplace advantages in the fresh domestic market is increasingly gaining importance as processed products experience increased global competition.
02. Since many pathways exist to the Australian consumer, there is a need to understand the requirements and performance of the intermediaries that provide services in each supply channel.	• The successful distribution of vegetables requires a good understanding of the role of service providers, such as wholesalers, brokers, agents and transport into the targeted channel.
03. Fresh vegetables sales represent the largest proportion of domestic retail sales ($5.83 billion annually), followed by all forms of processed vegetables sales that are valued at $1.22 billion annually.	• Fresh retail vegetables is the major product form. Only 17% of the household expenditure on vegetables is on the processed product.
04. Based on like products and preparation methods, vegetable products can be grouped into Hard cooked (31%), Soft cooked (18%), Seasonings (8%), and Salad components (34%).	• Monitoring vegetable sales and demand in categories provides a clearer perspective on the competitive and/or complimentary impact of other vegetable products within and across categories.
05. The retail channel dominates the distribution of fresh vegetables with 82% volume share.	• To service the local market in scale requires an understanding and exposure to the retail channel and the larger eastern states markets.
06. The eastern states have a greater share of the annual retail fresh vegetable market, with NSW leading ($410 million), followed by Victoria and Qld with $299 million and $243 million respectively.	
07. 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.	• Supermarkets are clearly the channel with the highest volume, but the size and scale of specialists warrants dedicated servicing.

2.0 Key findings & implications

<table>
<tr><th>Findings</th><th>Implications</th></tr>
<tr><td>08. 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.</td><td>• Foodservice channel buy vegetables to combine with other products and make meals; therefore, they have different buying priorities.</td></tr>
<tr><td>09. Consumer confidence has lifted from the lows of 2008 and in spite of increasing interest rates, the sentiment indicators are positive.</td><td>• Stronger consumer confidence provides a platform for acceptance of new products and prospect of market growth.</td></tr>
<tr><td>10. Improved exchange rates have eased global demand for consumables. This has eased the pressure on Australian households and the Consumer Price Index (total and food CPI).</td><td rowspan="2">• Growth in the total CPI, and within it the food CPI, has eased and reduced pressure on the cost of food for Australian consumers.

• The potential price volatility of vegetables elevates the risk of them being responsible for causing inflation, particularly if the other CPI components are flat.</td></tr>
<tr><td>11. Vegetable price volatility has led to the view that vegetables make a larger contribution to the food CPI than the 7.45% they represent. This volatility results in variable incomes for vegetable producers and makes it difficult to assess their investment options.</td></tr>
<tr><td>12. Processed vegetable products enjoy more exposure than fresh vegetable products in the weekly retail promotional activity due to dedicated support from manufacturers.</td><td>• Fresh vegetables should enjoy higher exposure in the retail promotional activity based on the sales they generate.</td></tr>
<tr><td>13. The economic crisis of 2009 has passed, but has changed consumer attitudes and shopper behaviour and left consumers with a fragile confidence.</td><td>• Fragile consumer confidence could lead to less expenditure on “eating out” and increased grocery purchases. This could put pressure on higher cost “eating out” establishments and the vegetable channels that supply them and conversely provide growth for those in retail supply chains.</td></tr>
<tr><td>14. Variation in the household demographics and available income combine to provide clear links to food buying preferences and behaviour.</td><td>• Understanding the size and nature of different household segments establishes a platform for new product development and distribution.</td></tr>
</table>

2.0 Key findings & implications

Findings	Implications
15. Consumer behaviour has shifted towards eating at home in the last quarter. Associated with this trend has been the increased retail market share for specialist vegetable retailers.	• As consumers embrace higher levels of home cooking, they have buy more from specialist vegetable retailers.
16. Strong lifestyle influences exist that drive consumers to make several smaller top up shopping trips per week.	• Retailers and vegetable products that cater for smaller and more frequent top up shops will be welcomed by consumers.
17. The specialist retailer is well-positioned to compete with supermarkets and there is every indication that they will be able to sustain this position.	• Specialist retailers have a secure position in the retail market.
18. Retail sales grew by 12% in the last quarter buoyed by the seasonal switch higher value salad lines. Household expenditure on vegetables ranged from $5 to $50 per week with most buying fresh and over 40% buying frozen and canned.	• There are wide variations in the levels of household expenditure on vegetables. •When consumers switch to salad components from Soft cooked vegetables, they increase the total dollar value of their expenditure on vegetables. • Females buy more vegetables than males, which has implications for market development.
19. Fresh vegetables were purchased by 74% of shoppers with more female shoppers buying vegetables than male shoppers. Household segment participation was consistent except for the Singles & Couples with higher income who had a lower level of fresh vegetable purchases.	
20. Attitudes and values of consumers affected the way they purchased vegetables. While those who buy fast food and ready-made meals purchased less vegetables, over 60% of households were led by several health-related factors that positively affect vegetable consumption.	• Some consumers' attitudes and values reflect their vegetable consumption. However, attitudes and values, that could be expected to align with stronger vegetable consumption, do not do so.
21. Demand for Salad components lifted as demand for Soft cooked vegetables eased.	• Seasonal changes shift the demand between different vegetable product categories.
22. Seasonings maintained their sales throughout the quarter, while Hard cooked vegetables sales were held up by potatoes.	

2.0 Key findings & implications

Findings	Implications
23. Over 50% of households regularly purchase tomato, carrot, potato, and lettuce. Male and female shoppers show clear preferences in their purchases.	• The high-volume vegetable lines enjoy over 50% household penetration, which would be the envy of many food marketers. • There are also some clear variations in vegetable purchasing between genders that provide opportunities for market development.
24. Although the majority of households buy vegetables from supermarkets, at least 35% of these shoppers also buy vegetables from other retail outlets during the week.	• Supermarkets do not capture all the vegetable expenditure – at least 35% of shoppers also buy from specialist retail outlets.
25. Most households prepare vegetables by cooking; however, there are variations in the household segments that eat vegetables raw or include them in salads.	• Vegetable preparation methods are limited.
26. Female shoppers and all vegetable shoppers in the larger eastern states showed more variations in their vegetable buying patterns.	• There is greater variation in buying patterns among females and those in the larger eastern states.
27. Consumers are heavily influenced by the products they find at the retail store and are particularly sensitive to retail specials and products "in season and looked good", which is regarded as a positive attribute that reflects product quality.	• The vegetable offer that consumers find at retails has a major impact on the products they purchase.
28. The *MasterChef* style of TV show has changed attitudes towards home-meal preparation among all age categories. It has resulted in positive attitudes towards scratch cooking at home by increasing its entertainment value and has enhanced meal quality.	• With home cooking gaining popularity, the demand for high quality and varied fresh vegetables is likely to be strengthened. • This media has added "home entertaining" to the range of benefits consumers can enjoy from preparing meals at home.
29. Some vegetables have captured substantial levels of value and this is reflected in their selling price per kg. Their success provides clear insights and opportunities for other vegetables.	• There are successful precedents for value-adding in the current vegetable ranges that can guide market and product development for other products.

3.0 Vegetable Market Settings

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

- Vegetable supply
- Pathways to the domestic vegetable market
- Total vegetable market values
- Fresh vegetable categories & values
- Domestic market distribution channels
- Fresh vegetable retail market size
- Fresh vegetable retail market channels
- Fresh vegetable foodservice market size & channels

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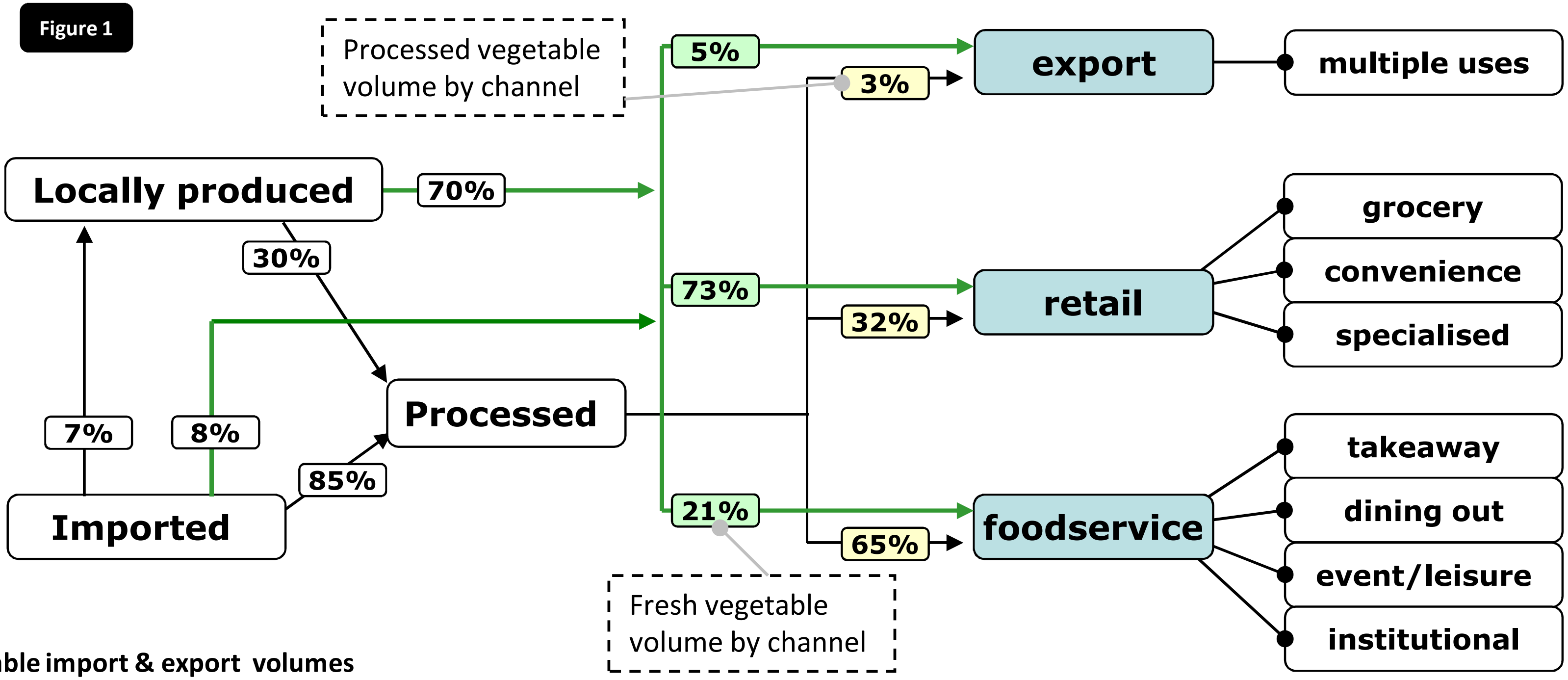
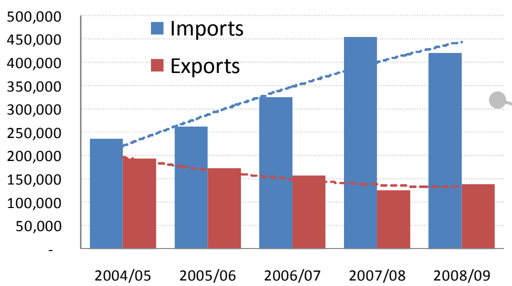
3.1 Vegetable supply

The vegetable market is supplied annually with $3.2 billion tonnes of locally produced product plus net imports (total imports less exports) of 280,000 tonnes. As profiled in Figure 1, 70% of the locally produced product is distributed in a fresh form, 30% is processed, and the distribution of product to export markets is minimal. This makes Australian producers 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.

Figure 1



Vegetable import & export volumes



Import and export trends reflect steadily increasing imported volumes.

01. While there are several pathways to the market, vegetable producers are dependent on the domestic fresh market and must deal with increasing competition from imported processed product.

3.2 Pathways to the domestic vegetable market

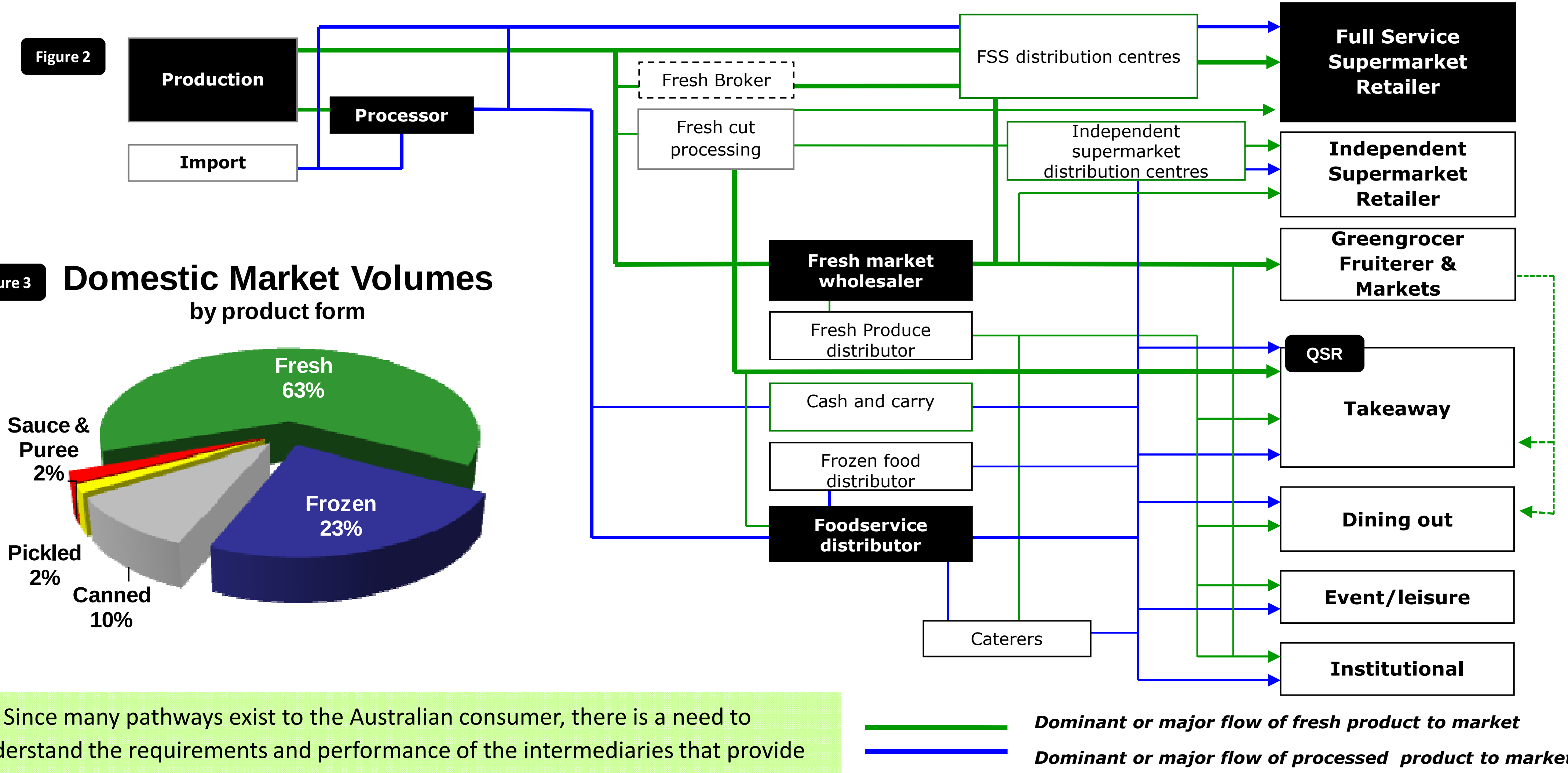
Vegetables flow into the domestic market in fresh, fresh cut, canned, and frozen forms in the proportions shown in Figure 3. There are many pathways for fresh and frozen products and a limited range of options for the highly perishable fresh cut product. Figure 2 profiles how the larger stakeholders 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 chain that deals with consumers.

Figure 2

Figure 3

Domestic Market Volumes

by product form



02. Since many pathways exist to the Australian consumer, there is a need to understand the requirements and performance of the intermediaries that provide services in each supply channel.

3.3 Total vegetable market values

Market size & contributions

- The annual value of 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 (Fig 4)
- Figure 5 profiles the contributions to the annual value of the processed vegetable products, where frozen vegetables lead generating $603 million in sales and constituting 49% of the total.
- It is also relevant to assess the value per kg of these various products, and in that assessment determine how similar the two high-volume forms of fresh and frozen products are in value.

Product form	Price per kg
• Fresh	$ 3.54
• Frozen	$ 4.11
• Canned	$ 2.95
• Pickled	$ 7.00
• Sauce & puree	$ 10.07

- It is not possible to define the retail value of fresh vegetables distributed into the foodservice channels, as these products are combined with other ingredients and sold as meals. Therefore, this market is valued at wholesale where the relativity to the retail channel can be profiled. This is profiled in Figure 8 on page 13.

Figure 4 Total vegetable retail market value
$7.05B annual value ($M)

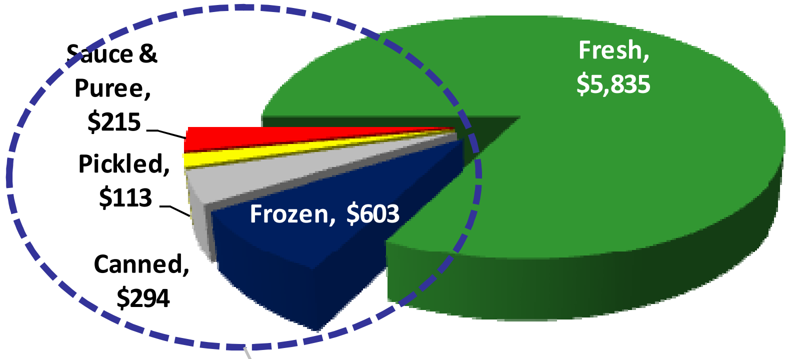
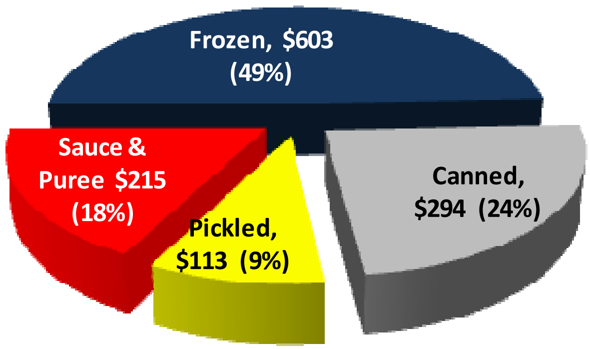


Figure 5 Processed vegetables retail market value
$ 1.22B annual value ($ M)



03. Fresh vegetables sales represent the largest proportion of domestic retail sales ($5.83 billion annually), followed by all forms of processed vegetables sales that are valued at $1.22 billion annually.

3.4 Fresh vegetable categories & annual values

Figure 6

Hard Cooked Vegetables
- Carrots
- Parsnip
- Potato
- Pumpkin

Salad Components
- Capsicum
- Celery
- Cucumber
- Lettuce
- Salad mix
- Spinach
- Sprouts
- Tomatoes

Seasonings
- Chillies
- Garlic
- Ginger
- Herbs
- Onions
- Radish

Soft Cooked Vegetables
- Asparagus
- Asian veg
- Broccoli
- Cabbage
- Cauliflower
- Mushroom
- Sweetcorn
- Zucchini

Vegetable range

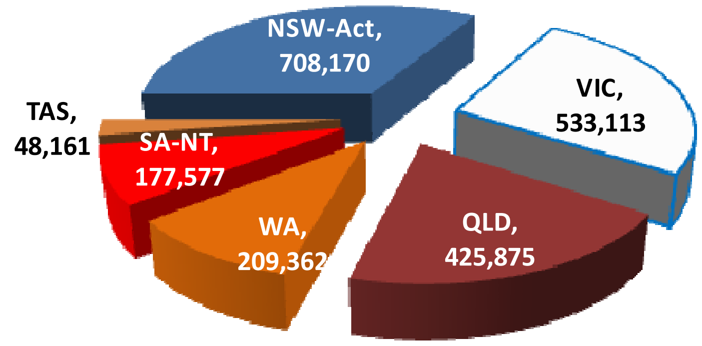
Based on like or complimentary products, the vegetable types are grouped into categories listed in Figure 6, which enable a summary level analysis of all the vegetable categories.

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.

The three larger eastern states distribute 79% of the national fresh vegetable volume as profiled in Figure 7, which largely reflects the population density with salad preference in warmer climates.

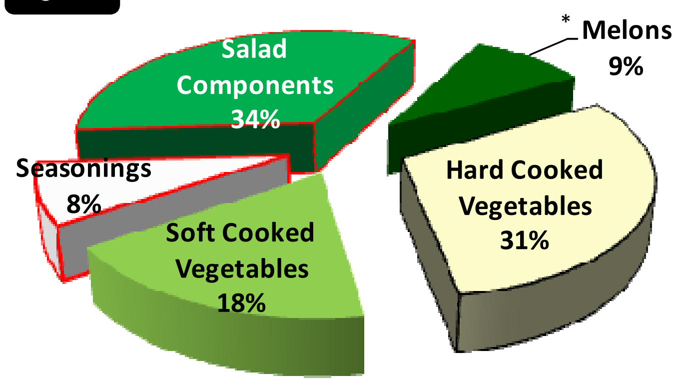
Wholesale fresh vegetable market
2.12B tonnes by state

Figure 7



Wholesale fresh vegetable market
2.12B tonnes by category

Figure 8



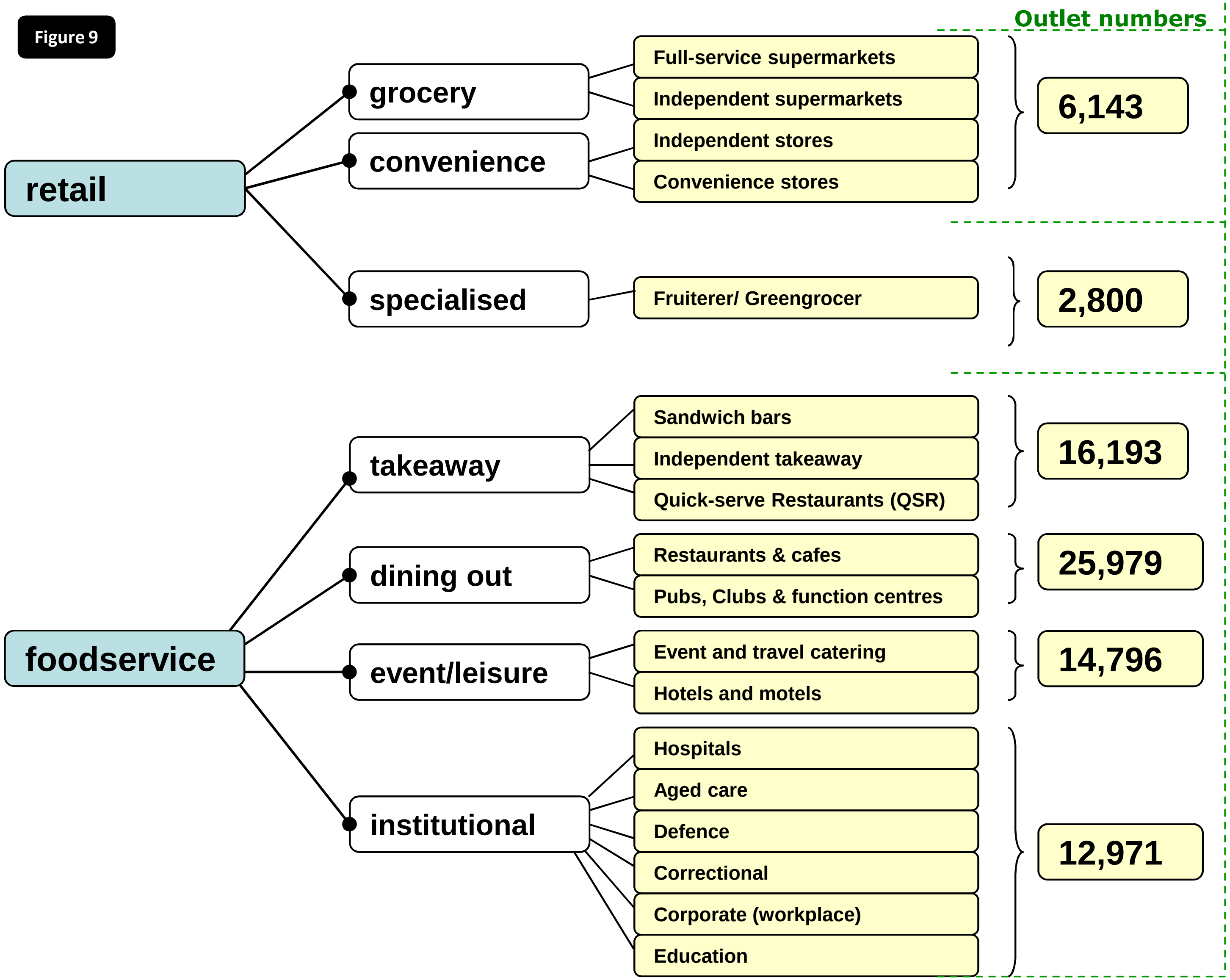
* Melons are consumed as an alternative to fresh fruit so they are not include the four vegetable categories.

04. Based on like products and preparation methods, vegetable products can be grouped into Hard cooked (31%), Soft cooked (18%), Seasonings (8%), and Salad components (34%).

3.5 Domestic market distribution channels and annual volumes

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. Figure 9 profiles these channels and their sub-channels including the number of outlets they contain. Figure 10 profiles the fresh volumes supplied into the entire local market and reflects the retail dominance with supermarkets at 49% share and the specialist at 32% share of the total. The foodservice channels distribute 18% of the fresh vegetables into the local market.

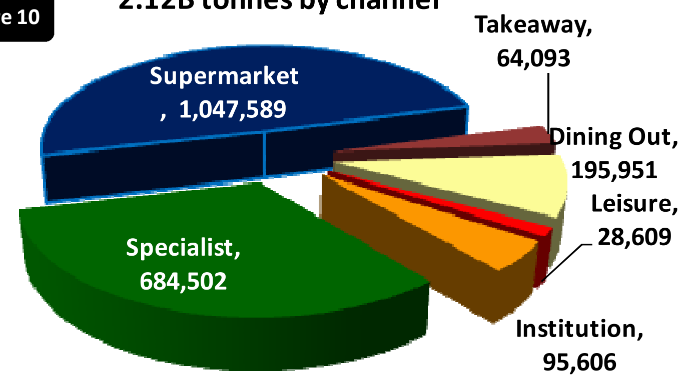
Figure 9



Wholesale fresh vegetable market

Figure 10

2.12B tonnes by channel



Channel market shares of fresh vegetables into the domestic market include:

- Supermarkets 49.5%
- Specialists 32.3%
- Takeaway 3.0%
- Dining out 9.3%
- Leisure 1.4%
- Institution 4.5%

05. The retail channel dominates the distribution of fresh vegetables with 82% volume share.

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3.6 Fresh vegetable retail market size and annual values

Retail 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 state-based share of the national retail fresh vegetable market is profiled in Figure 12, which reflects the dominant scale of the eastern states led by NSW with a $410 million per annum market size. The mixture of vegetable products sold varies by state. The warmer climates lead to higher consumption of Salad components and lower proportions of Hard cooked vegetables. However, consumers in the warmer climates also enjoy the availability of local fresh fruit—a product that is available at a comparatively lower cost and used in more fresh salads than in the cooler states, easing the demand for higher-priced Salad components.

Figure 11

Retail fresh vegetable market
$5.8B by category

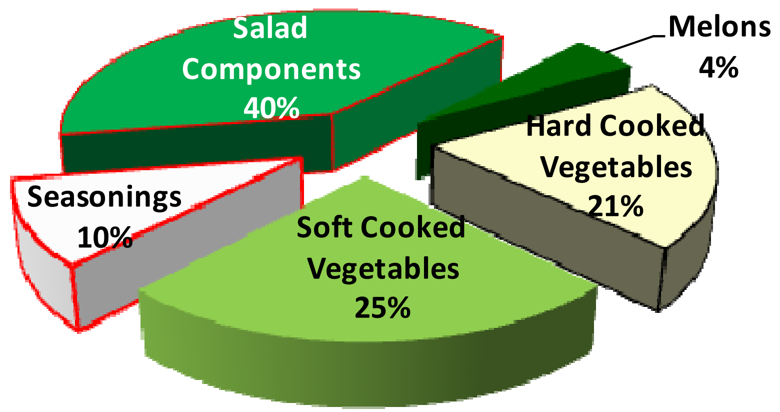
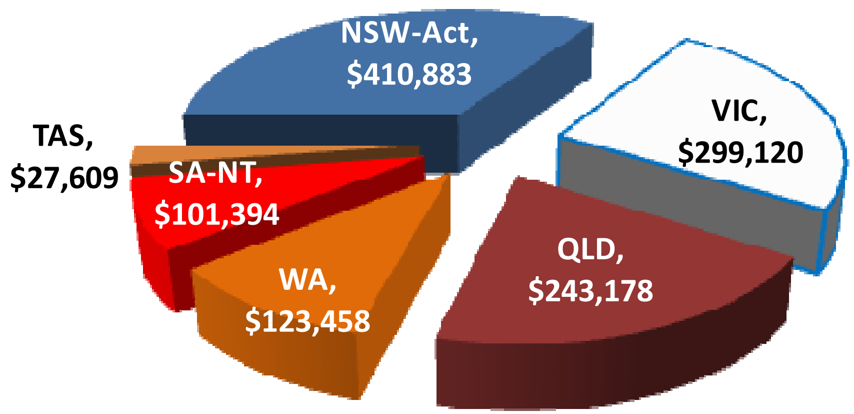


Figure 12

Retail fresh vegetable market
$5.8B by state



06. The eastern states have a greater share of the annual retail fresh vegetable market, with NSW leading ($410 million), followed by Victoria and Qld with $299 million and $243 million respectively.

3.7 Fresh vegetable retail market channels and annual values

Retail channels

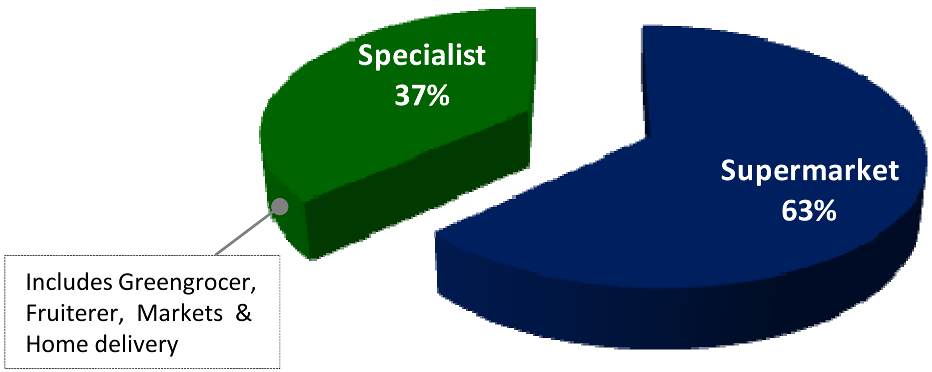
- Fresh vegetables are distributed to consumers through two major channels supermarkets and "specialists". These specialists are retail outlets where the main retail offer is centred on fruit and vegetables. Further information on consumer usage of specialist retailers is provided on page 28.
- The supermarket category is dominated by Woolworths, Coles, and Supa-IGA who operate over 1,900 full-service supermarkets. These outlets occupy at least 2,500 square metres in retail selling area and offer 25,000 products, including a complete range of fresh, frozen, and processed vegetables. They have state-based distribution facilities that enables them to buy product centrally and then breakup and distribute product to their store networks. The discount operator Aldi entered Australia market in 2002 and since then, expanded its network to 230 stores. Aldi also operates central buying and state-based distribution facilities. In addition, a second-tier of retail supermarket operators, such as FoodWorks and Foodland, also provide credible fresh vegetable offers.

Market share

- The supermarkets have a fresh vegetable market share of 63.2%, which equates to $3.648 billion (Figure 13).
- The specialists, including Greengrocers, Fruiterers, and Markets have a 36.2% market share, valued at $2.15 billion. The term "markets" is used broadly and includes "growers markets" and some specialised retail outlets that contain all fresh food categories.

Figure 13

Fresh vegetable channel share
$5.8B by channel



- The market share of supermarkets and specialists varies between states and is influenced by:
  - The sales mix of vegetable products on offer. For example, the supermarkets dominate in the higher value packed salad range, while the specialists carry two grades of products and are certain of the accurate selling price identification
  - The ease of sourcing product for the specialists
  - The number of specialist outlets and the standards maintained by all local fresh vegetable retailers
  - The retail planning support that has or has not provided parking for strip-shopping centres.
- The specialists' share is highest in NSW at 38.5% and lowest in TAS at 31.0%

07. 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.

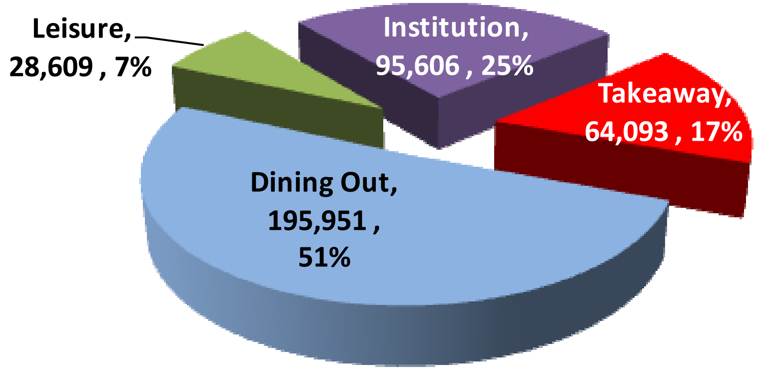
3.8 Fresh vegetable foodservice annual market size & channel volume share

Foodservice channels

- Foodservice channels buy vegetables for use in the production of meals or snacks. They buy and use more frozen than fresh vegetables, since a product in its frozen form can be stored and used as required with minimal waste risk and acceptable quality. The foodservice buyers seek competitive prices; however, since they are not seeking to trade the product in its purchased form, the buyer will be influenced by the product's suitability for their production or assembly processes. There are four types of foodservice channels, whose share of the fresh vegetable volume is profiled in Figure 14. These channels can be described as follows:
  - Dining Out includes more than 25,000 cafés & restaurants , pubs, clubs, and function centres that provide meals, snacks, and venues for dining out. These buyers are seeking a continuity of supply so they can set menus and rely on product quality. They typically purchase through fresh market providers and understand vegetable seasonality but do not welcome wide variations in price.
  - Takeaway constitutes over 16,000 takeaway outlets that provide lunch; these operators can range from major franchises like McDonalds and Subway that buy processed fresh vegetables centrally through to family run fish & chip shops who buy from the central market providers.
  - Leisure & Events include more than 14,000 venues, caterers, and travel providers that provide food for specific events and venues. These buyers are often seeking large quantities of products over short periods, as they usually service large gatherings of people.

Figure 14

Fresh vegetable wholesale share
384K tonnes by Food Service channel



- Institution has over 12,000 locations that cater for facilities such as hospitals, aged care, schools, and correction facilities. Operators typically have in-house equipment and tools to prepare meals from scratch. Some operators, for example schools and aged care, expect suppliers to meet certain nutritional standards. The buyers in this channel often use a tender process and contract arrangements to secure fresh vegetable supply. Since this channel is often using product in full scratch preparation, it can use a grade of product that may not be suitable for retail presentation due to cosmetic reasons.

08. 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.

4.0 Food Market Settings

This section outlines the following factors that frame how the food market works:

- The economic climate
- Vegetable prices & inflation
- Vegetable promotional activity

Consumer sentiment

Moving fast: the fear of recession

- It now appears that Australian consumers believe they will miss the sharpest impacts of the financial crisis, with consumer sentiment lifting sharply from Mar 09. This was fuelled by a recovering share market that had a direct effect on household wealth through its impact investments (affecting retirees & established families) and flowed into more positive expectations in relation to discretionary spending.

Sentiment indices

- The Westpac-Melbourne Institute is the most widely regarded barometer of consumer sentiment, although it does not specifically relate to the purchase of food or other household consumer goods. This gauge recorded a clear lift in sentiment in the last three quarters of 2009, after exhibiting a record low in 2008, a period when interest rates and fuel prices peaked.

Interest rates

- With the lift in demand, the Reserve Bank reverted to lifting interest rates from the low point of March 2009 by 4 increments in 2009.

Unemployment

- Security of employment was a driver of household confidence and at the first signs of the GFC, the unemployment forecasts peaked at 8.5%. However, as 2009 unfolded, under the impact of stimulus packages and the strength of the domestic economy, unemployment levels peaked in mid-2009 and then declined to 5.5% in the late 2009. The turnaround in employment prospects provided the platform to lift consumer confidence.

09. Consumer confidence has lifted from the lows of 2008 and in spite of the increasing interest rates, the sentiment indicators are positive.

Figure 15 Comparison of consumer sentiment & variable home loan interest rates

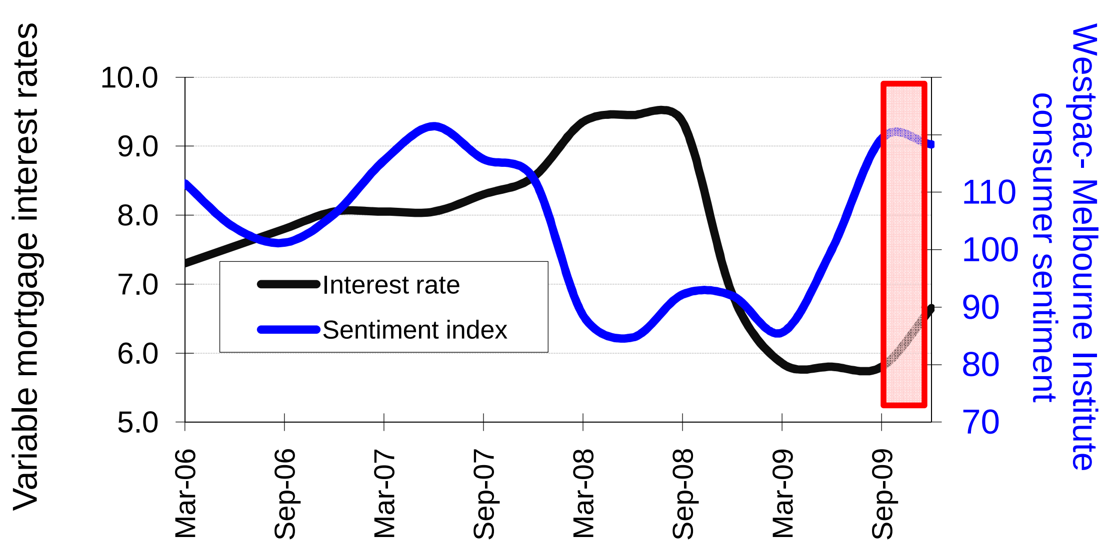
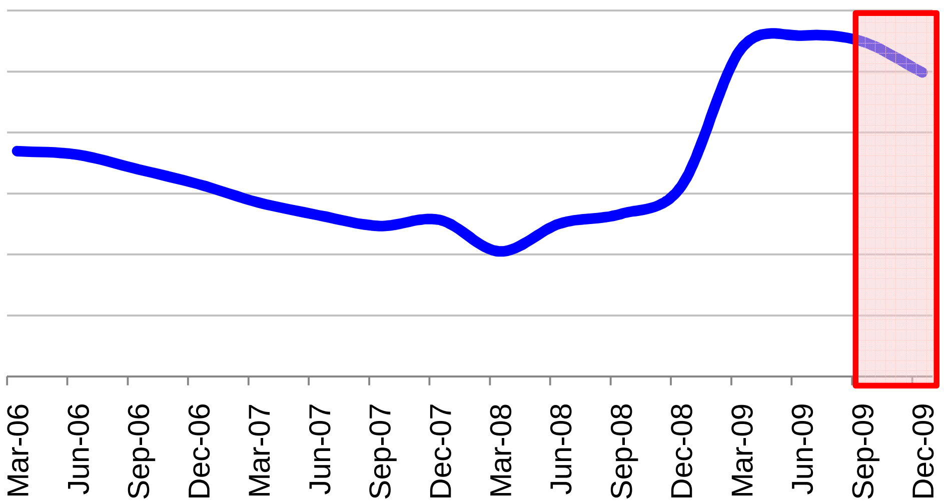


Figure 16 Unemployment rate (%)



4.1 The economic climate (continued)

Economic indicators

Global demand impacts the costs of living

- The easing of global demand for consumables, supported by an improving AUD$ exchange rate eased the pressure on the costs of living for Australian households.
- The cost of living eased further in 2009 further due to decreases in costs for a range of goods and services, including energy, transport charges, and various food groups. The last quarter of 2009 showed a firming in the total CPI and levelling out in food CPI.

Food inflation in the spotlight

- Food price inflation became a political issue in the latter half of 2007 and early 2008, as the new Rudd Government attempted to address its impact on households. Public awareness of food costs increased and major grocery retailers appealed to consumers on the grounds of caring about the "value" proposition.
- Vegetable prices in 2009 were lower than the previous year, increased slightly in the March quarter of 2009, and then followed a similar pattern of seasonal decline as in 2008. In the last quarter, they remained below 2008 and contributed to an overall decline in the total food CPI as profiled in Figure 20 on page 20.
- Fruit prices have been negative for most of 2007 and 2008, and have only improved into a positive in early 2009. Taking into account that many fruits are now actively promoted as options for inclusion in fresh salads, the strong value of fruit is likely to have captured some vegetable expenditure.

10. Improved exchange rates have eased global demand for consumables. This has eased the pressure on Australian households and the Consumer Price Index (total and food CPI).

Figure 17

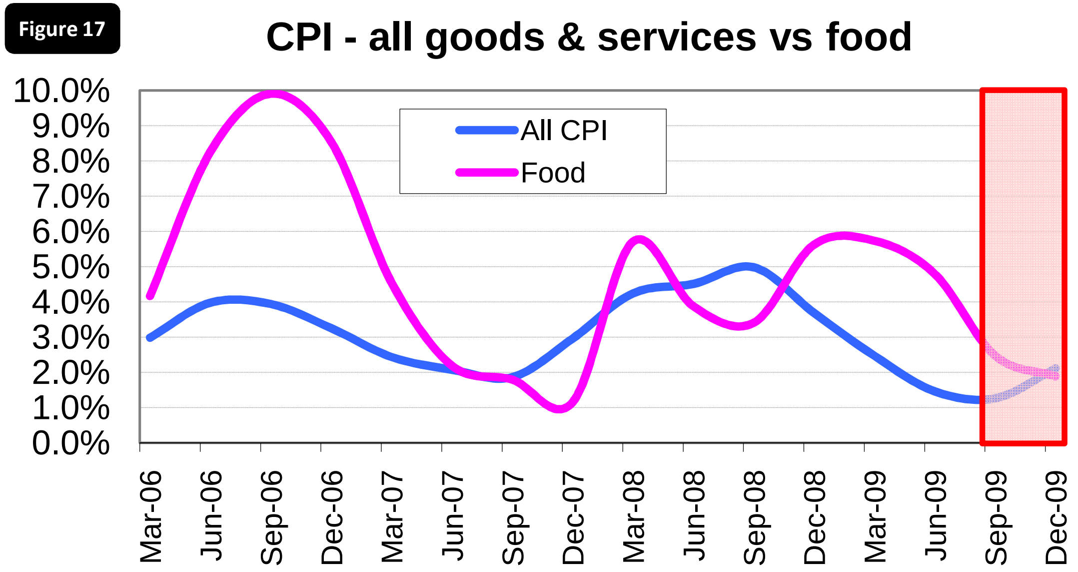
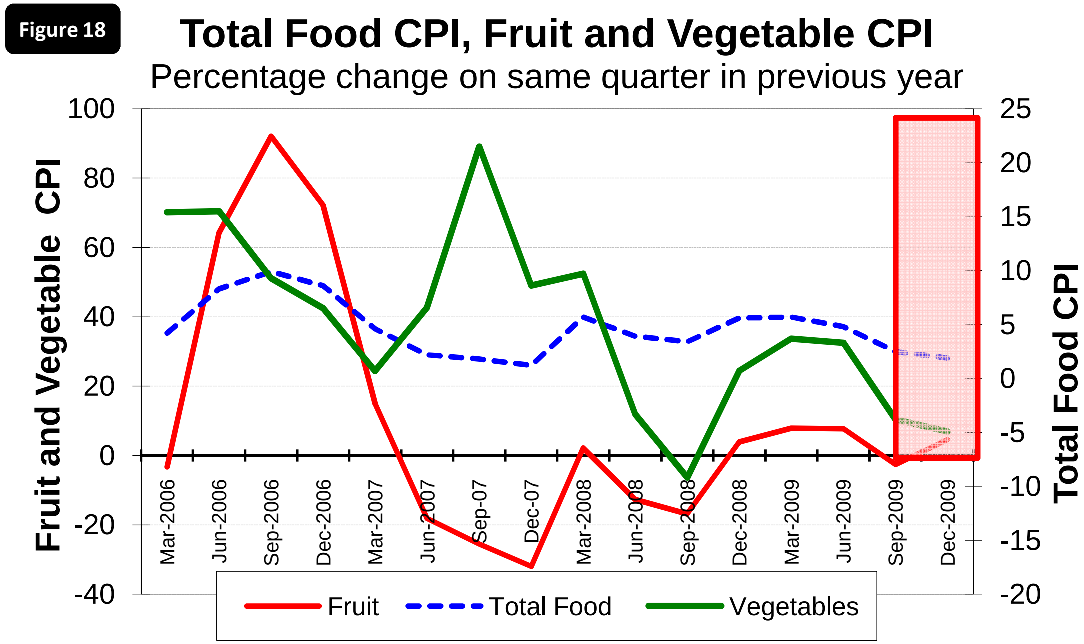


Figure 18



Vegetable prices & their impact on food CPI

- Despite their comparatively low contribution to the total food CPI, fruit and vegetables have a large impact on the cost of food. Fruit is currently weighted by the ABS with a contribution of 6.15% and vegetables of 7.45% (Fig 19). These weightings reflect the proportion of household food spend on food prepared at home.
- However, when the food category contribution to the total food CPI is assessed, it is clear that changes in fruit and vegetables prices can impact total food CPI (see Figure 20).
- The three lowest quarters of food CPI in the six quarters to Dec 09, Sept 06 at 3.4%, Sept 09 at 2.5%, and Dec 09 at 1.9%, involve low price points in both fruit and vegetable categories or just vegetable category contributions.
- The prevailing price of fruit and vegetables is commonly included in media communications by authorities and market analysts when the quarterly food CPI is announced, which combines to elevate the price focus on vegetables.
- This elevated price focus increases the marketing challenge to promote the other benefits and attributes of vegetables and increase consumption. It also serves to reinforce the commodity product focus that influences production planning and wholesale price setting and drives consumers to substitute between vegetable products and forms.
- The impact of variable prices makes it difficult to forecast producer incomes and objectively assess investment options for producers.

11. Vegetable price volatility has led to the view that vegetables make a larger contribution to the food CPI than the 7.45% they represent. This volatility results in variable incomes for vegetable producers and makes it difficult to assess their investment options.

Figure 19

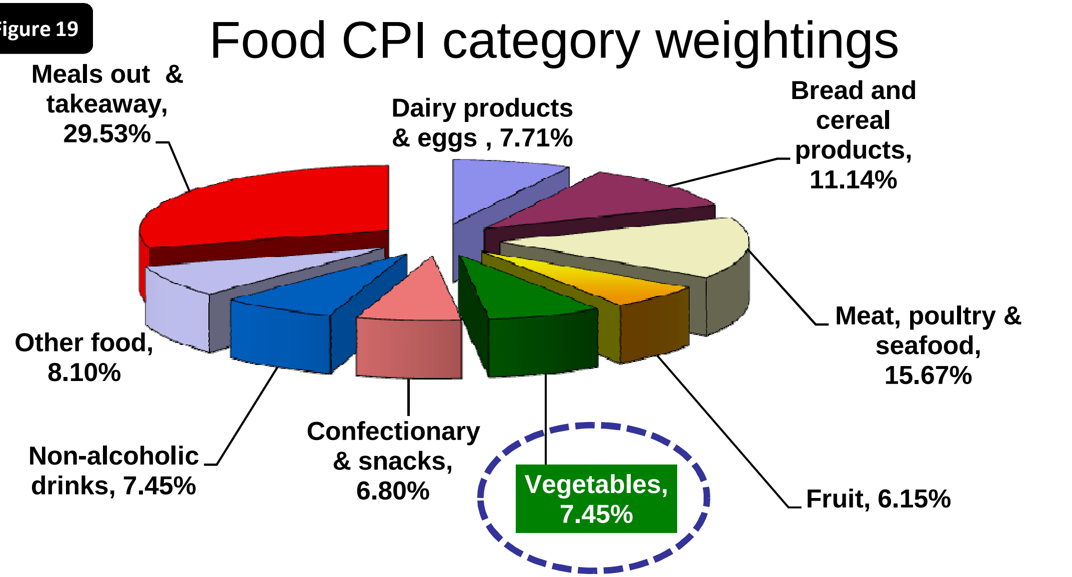
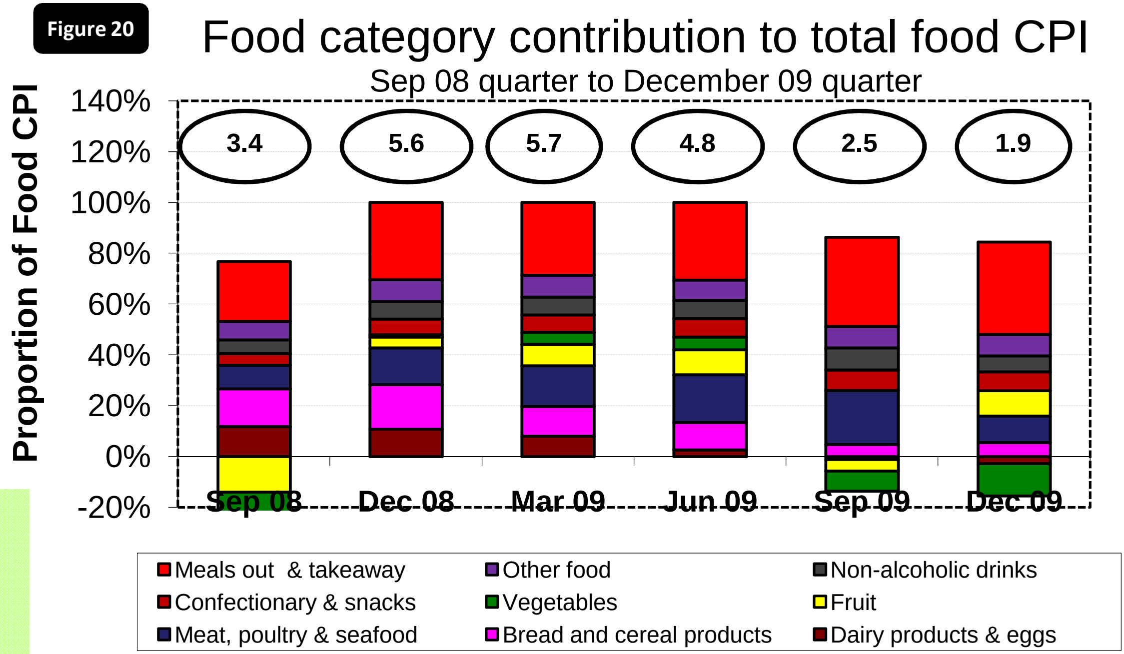


Figure 20



4.3 Vegetable promotional activity

Retail promotional activity

- The promotional activity by retailers represents the largest volume of tactical messages that consumers receive about vegetables. Promotional activities convey the value of selected products and can shift consumers' buying between like products. It is an integral part of new product launches, as it stimulates trialling by consumers.
- Retail promotional activity affects:
  - Consumer perception of relative prices between supermarkets
  - Choice of retailer and the volume of purchases, particularly when the specialist retailer is regarded as an alternative
  - Retail and wholesale prices for seasonal vegetables that decline in price as supply volumes increase

Fourth quarter of 2009

- On an average, 210 vegetable products were advertised each week during the 4th quarter of 2009. The declining pattern of exposure in Figure 22 is indicative of promotional activity moving to other priority products in the festive season.
- The frozen and canned vegetable products have the highest exposure with 47% of all adverts, but only represent 12.7% of retail sales. This is driven by the fact that these products are supported by dedicated marketing resources, which contribute to the cost of the retail advert activity.
- The relative exposure of the fresh vegetable categories, as profiled in Figure 21, largely reflects their sales contribution. Salad components category has enjoyed more exposure as more consumers switched from Soft cooked vegetables in the warmer months. Seasonings with 3% of adverts had low exposure and the majority of products advertised included low-value onions.

12. Processed vegetable products enjoy more exposure than fresh vegetable products in the weekly retail promotional activity due to dedicated support from the manufacturers.

Figure 21

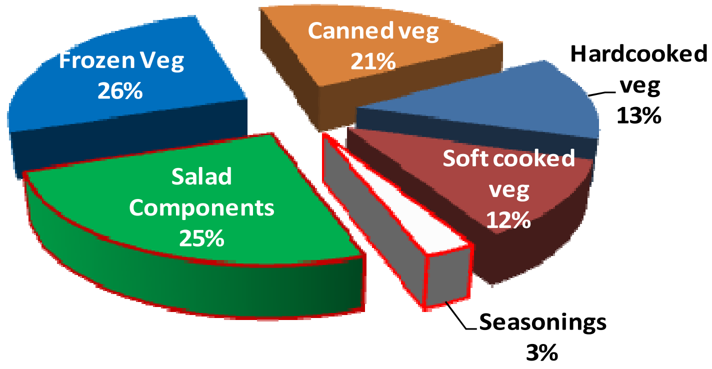


Figure 22

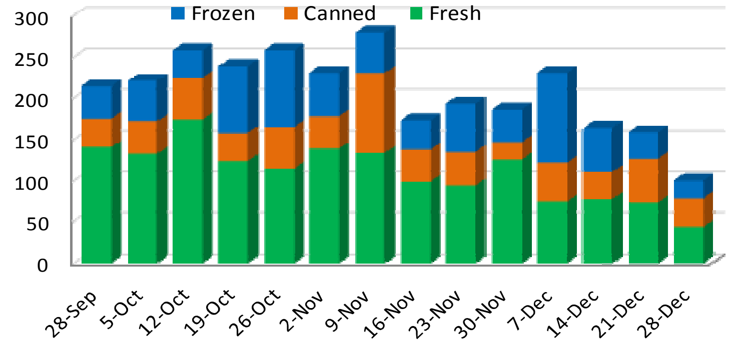
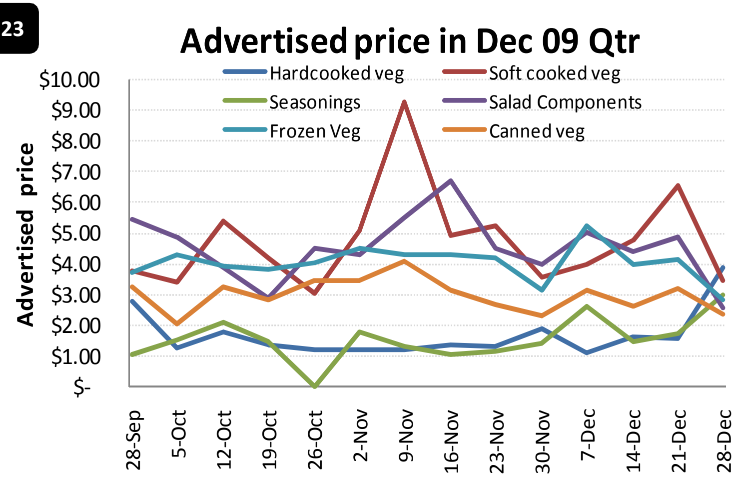


Figure 23



5.0 Consumer Attitudes & Behaviour

This section outlines consumer profiles, attitudes, & behaviour, which impact vegetable purchasing and consumption.

- Consumer attitudes & shopping behaviour
- Demographics & household segments
- Household food spending
- Household shopping trips & take home food spend
- The specialist greengrocer

5.1 Consumer attitudes & shopper behaviour

Strong underlying trends in late 2008 and throughout 2009

This page summarises a number of background trends that have been affecting the retail food market for many years. These have mostly been associated with an extended period of rising consumer affluence that halted during 2008.

background drivers

Macro consumer trends…

- Changing demographics:
  - Households getting smaller
  - Greater incidence of working couples
  - Ageing population
- More complex wants & desires:
  - Diversity in personal aspirations
  - Size & make-up of household spend
- Global economics has affected food costs:
  - Strong influence of large-volume, low-cost Asian producers, & manufacturers
  - Australian goods less competitive
- Advancing technologies:
  - Tools and toys are increasing the "time critical" aspects of business and daily life

impacts

...have been driving change and conditions...

- Increasing the demand for convenience affecting:
  - Shopping times and access demands
  - Need for shorter meal preparation time
- Meal times less organised and structured:
  - People shopping more frequently
  - Greater diversity of eating occasions
- More eating out of home:
  - Expanding "casual dining" market
- Greater demand by consumers to understand the integrity (the "story") of food production
- More complex drivers of value for the discerning consumer
- The consumer's general value preference:
  - Indifference towards local origin/source product compared to imported low-price goods
  - People spending lower % of income on food

consequences

…that has manifested in:

- A greater share of the growth in spending in foodservice
- Rising strength of fresh food specialists seeking segments of the market:
  - Category experts (fruit & veg, butcher, and bakery) who are wining on quality, service, & value
  - Independents (offering convenience and personal attention)
  - Discounters (seeking "value" staples)
- Category movement to convenience, such as:
  - Wholefood v snacking
  - Ingredients v ready prep
  - Pack and portion size for versatility
- Pressure to localise the supermarket appeal
  - Tailoring shop format/location/offering
- Opportunity for new entrants into food retail in specialty areas

5.1 Consumer attitudes & shopper behaviour (continued)

The effect of changing economic conditions

The significant change in economic fortunes through 2008 has altered the trends that had settled in the recent past. In 2009, Australia averted the depth of decline that consumed other developed countries and now the outlook for 2010 is framed by cautious optimism.

pressures

What we've seen so far…

- Higher cost of living has put pressure on disposable incomes
- Rising food prices have brought more focus on "value"
- The financial crisis has passed but has left consumer confidence fragile
- Concern about the stability of household wealth and investment incomes

impacts

…is rapidly shaping market dynamics…

Action by consumers

- Reduction in "eating out" expenditure and higher spend in grocery outlets
- An increase in home cooking, which has led to a demand for meal-ready food
- Consumers trading down in several ways and saving more than previously
- Some price sensitivity by consumers to perceived "premium" products and outlets

Action by retailers

- Retailers seeking to exploit "value" concerns with heavier discounting of lines and more targeted focus on household staples
- Lower corporate spending on events and scaling back on entertainment

consequences

…which have consequences for:

- Faster private label expansion through action by retailers to replace brands and some support from consumers seeking cheaper and undifferentiated options
- Demand and price premium for meal-ready smaller portioned fresh foods
- Loss of volume by convenience channels and higher cost "eating out" channels, particularly white-table lunch
- Margin pressure for suppliers exposed to price sensitivities and/or increases in private label share
- Loss of volume for local vegetable producers into processed channels with global supply options becoming more attractive for local manufacturers
- Opportunities for takeaway and quick service restaurant (QRS) retailers offering an effective "value" product offering

13. The economic crisis of 2009 has passed, but has changed consumer attitudes and shopper behaviour and left consumers with a fragile confidence.

5.2 Demographics & 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 structure. 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.

14. Variations in the household demographics and available income combine to provide clear links to food buying preferences and behaviour.

Figure 24

Take Home food as defined in Figure 30 on page 27

Mealpulse™ Household segments

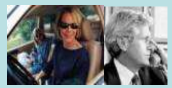
Segment		Description	% of food spend is take home
Singles & Couples with lower income		No children, lower income, eating out restricted by income	63-64
Singles & Couples with higher income		No children, higher income and available discretionary dollars, eats out often	59-63
Budgeting families		Single 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

Segments as a % of national households

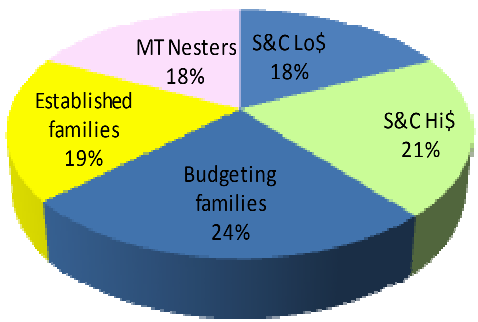
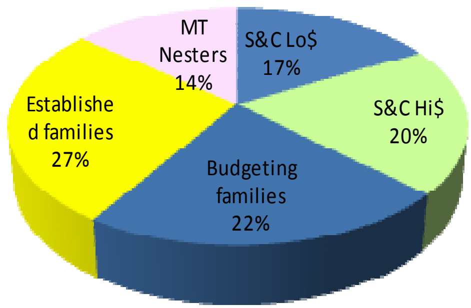


Figure 26

Segments as a % of food market spending



5.3 Household food spending

Food spend

- Supermarkets are the dominant channel with 61.3% of total food spend (see Figure 27). All consumers use the "one stop shop" convenience of supermarkets to some extent.
- The specialist food stores (such as Fruiterers, Butchers, Bakers, and Delis) capture 12.1% of food spend, which enables them to remain a a viable channel. The specialists' share increased to 10.5 % to 12% in this quarter. Taking into account the higher level proportion of meal being prepared at home and more entertaining-type meal occasions associated with the festive season, it is clear that consumers shifted their buying to where they felt they could capture value and be assured of quality.
- The food eaten away from home is segmented into the meal occasions involved and equates to 27.1% of food spend in this quarter. This has declined from 29.5% in Dec 2008 and reflects the substantial share of stomach movement from foodservice to retail over this period.
- This food analysis concentrates only on food expenditure and does include non-food and beverage grocery products, as typically these products constitute 25% of food and grocery expenditure.

Household segment variations in food spend

- The total weekly food spend for this quarter is profiled in Figure 28, which ranged from MT nesters at $161 to Established families at $298 per week.
- The drivers of food spend are the number of people per households, available discretionary dollars, and lifestyle influences on eating food away from home.

15. Consumer behaviour has shifted towards eating at home in the last quarter. Associated with this trend has been the increased retail market share for specialist vegetable retailers.

A-1.A

Figure 27 **Food Spend per Week - Average in 4th quarter**

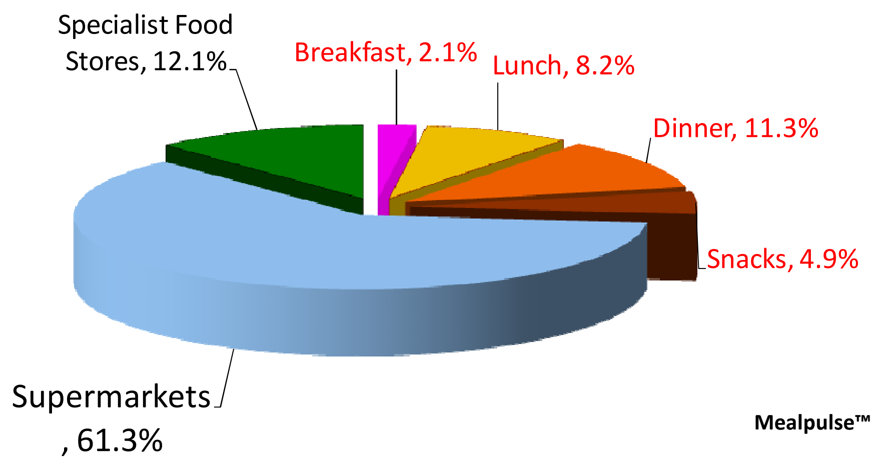
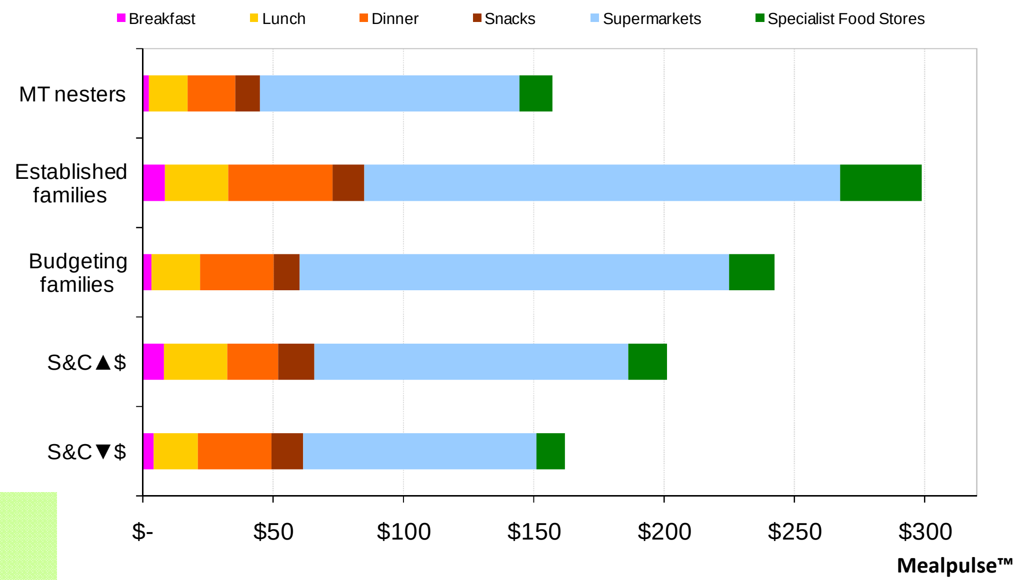


Figure 28 **Weekly total food spend per Household Segment**



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HAL Know-how for Horticulture™

5.4 Household shopping trips & take home food spend

Shopping trips per week

- Consumers are making 6 to 7 shopping trips per week in order to meet their food requirements, among which 3 to 4 of these trips are made to supermarkets or specialists like greengrocers to buy food to prepare at home.
- The trip frequency is driven by the perishable nature of the product; milk and bread being most perishable are the most frequently purchased items, followed by vegetables. The extended supermarket hours have also eased the need to plan ahead as it possible to shop at virtually anytime.
- This pattern of top up shopping, which is consistent across all household segments, reflects many lifestyle influences that have led to less forward meal planning and consequently, less planned shopping.
- When consumer confidence was first impacted by the prospect of a recession and petrol prices were at a high of $1.50 per litre, it reduced the number of shopping trips. Some households reverted back to using shopping lists in the belief that planned shopping and using less retail outlets would help increasing savings. This favoured the supermarket but as confidence improved, the patterns of multiple shopping trips and using multiple retail outlets have returned.

Take home food spend (food prepared at home)

- Since Q1 08, households have spent an average of $157 a week on food with 86% of their take home food expenditure at supermarkets and 14% at specialists. However in Q1 09, reflecting increased home cooking and the festive season occasions, the household spend on take home food increased by 4.4% to $166 per week.
- The specialists captured more of this growth, with their share increasing from 14.1% to 16.4% of take home food. Part of this increase was due to seasonally higher priced meats and seafood. Vegetable volumes moved to the greengrocer but generated proportionately lower value growth.

Figure 29

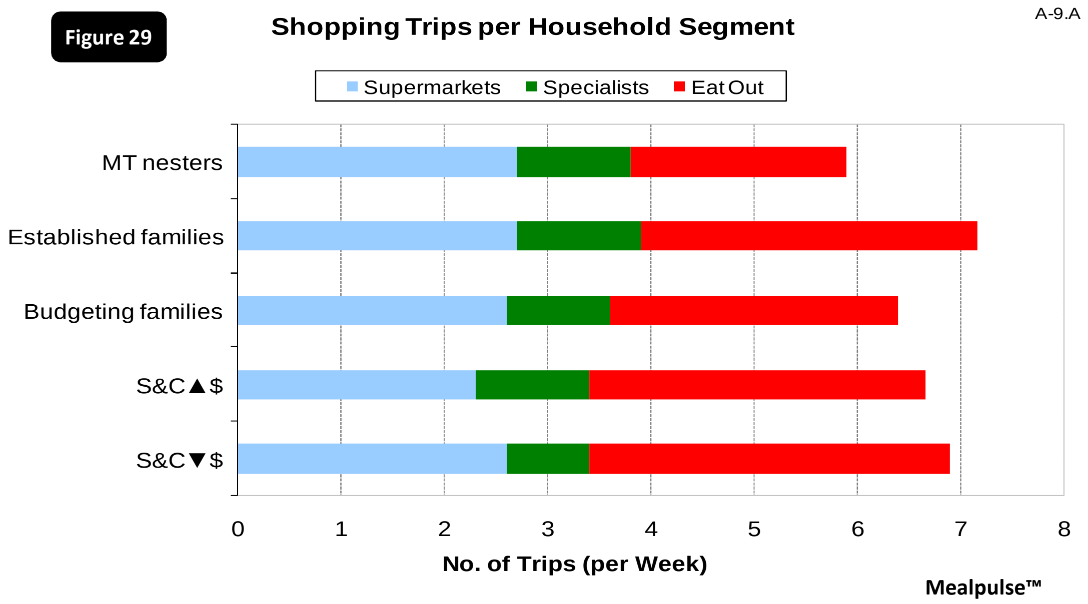
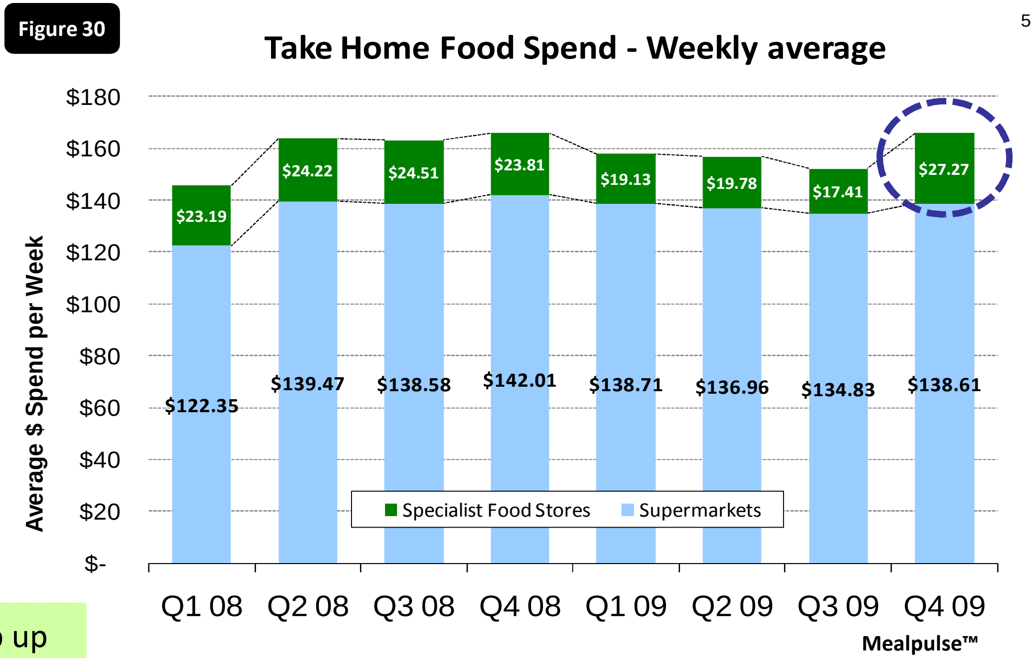


Figure 30



16. Strong lifestyle influences exist that drive consumers to make several smaller top up shopping trips per week.

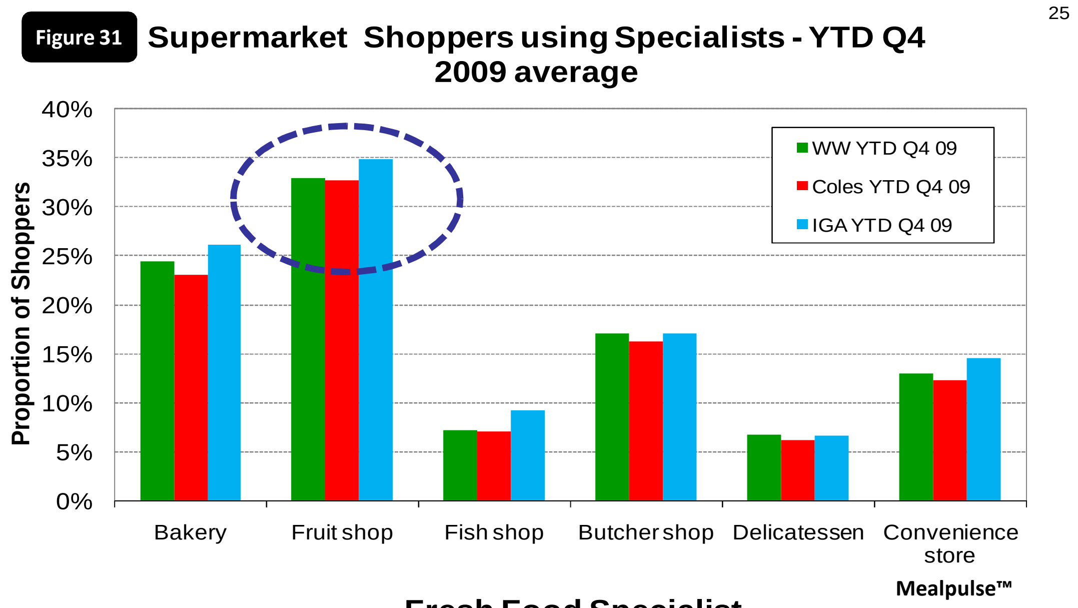
5.5 The specialist greengrocer

Greengrocer share & advantages

- Figure 31 shows 32% of supermarket shoppers also buy vegetables at a greengrocer.
- The consumers' reasons for shopping at specialists include:
    - Better quality, better range, & lower regular prices
- There is substance behind these consumer attitudes:
    - The greengrocer can offer a wider range as they can provide two grades of a like product and accurately identify these two grades at the point of payment. This allows then to offer a range of quality and product prices, which conveys positive signals to consumers.
    - The supermarket are open for 15-18 hours a day, during which fresh vegetables are exposed to air conditioning and lighting. When product are sold within a few hours, these conditions can be tolerated but when the product has to endure the conditions for over half a day, it loses freshness.
- These are strong advantages the greengrocer has over the supermarkets. Although the supermarkets lead with the "one stop shop" convenience, they follow greengrocers on quality and range.
- However, there are also operational challenges for the supermarkets in the pressured 5-7 pm period. The pressure on supermarket queues during this peak period causes some shoppers to go to the greengrocer.
- In response, the greengrocers have broadened their range to offer other top up products. New and recently refurbished greengrocer outlets are reportedly generating up to 40% of their sales from "convenience top up" bakery and dairy products.

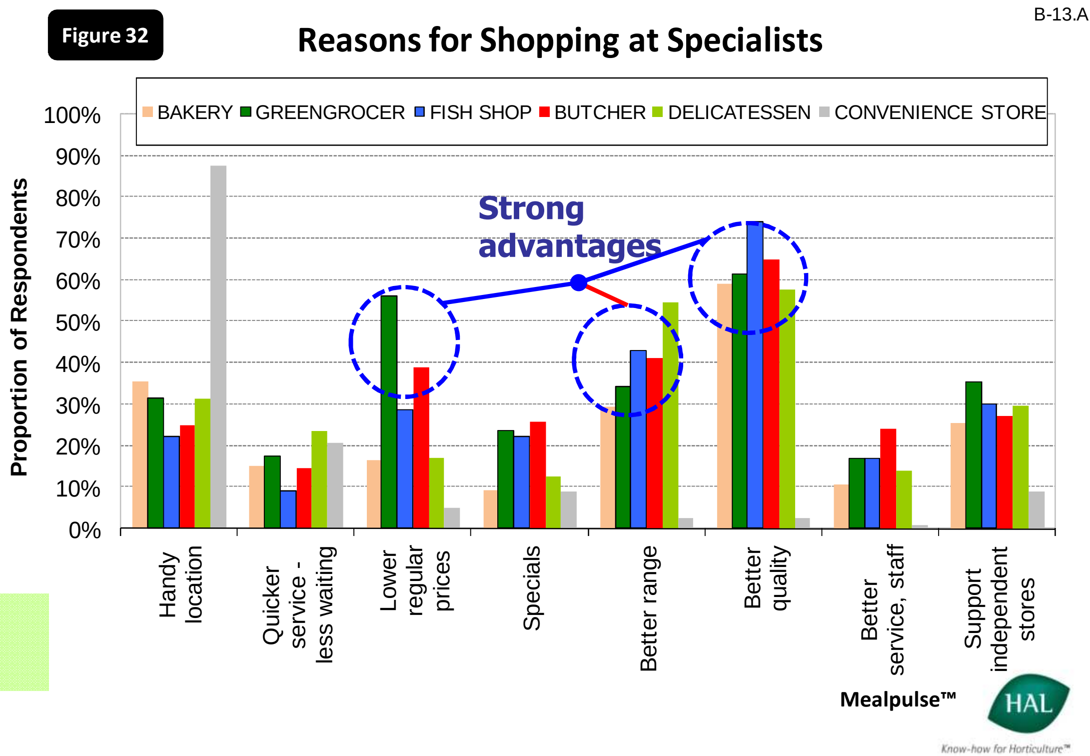
17. The specialist retailer is well-positioned to compete with supermarkets and there is every indication that they will be able to sustain this position.

Figure 31 Supermarket Shoppers using Specialists - YTD Q4 2009 average



Fresh Food Specialist

Figure 32 Reasons for Shopping at Specialists



6.0 Vegetable Market – 4th Quarter 2009 Profile

The section reviews market performance for the last quarter of 2009.

- The 4th quarter sales profile
- Retail vegetable category buying patterns
- Attitudes & values
- Fresh vegetable category performance
- The retail vegetable category buying patterns last quarter
- Since this is the first quarterly report, the trend data is not available. This analysis will be incorporated into future quarterly reports, when the historical data will be available

6.1 The 4th quarter sales profile

Growth

- Sales growth in retail vegetables is an outcome of the combination of the price per kg and the kg volume sold. In this quarter, the price per kg increased by 5% and the volumes increase by 6%, delivering a total value growth of 12% on the previous quarter.
- The seasonal shift away from Soft cooked vegetables to the higher value Salad components aided the value growth. Taking into account that these demand dynamics repeat each year at this time, it is expected that the 4th quarter will always exceed the volume and value of the 3rd quarter.

Participation

- Figure 33 profiles that over 82% of households purchased fresh vegetables , 47% purchased frozen, and 43% purchased canned.

Weekly expenditure

- The range of weekly expenditure on vegetables for the households is profiled in Figure 34. There is a substantial range in vegetable spend with 18% of households spending >$50 and yet 14% of households spending only <$5.
- The average household expenditure for those who purchased vegetables was $22.50 per week. However, the range of expenditures signals that servicing this market requires an understanding of the different household groups and not just targeting an average.

Figure 33 **Type of vegetables purchased**

by household

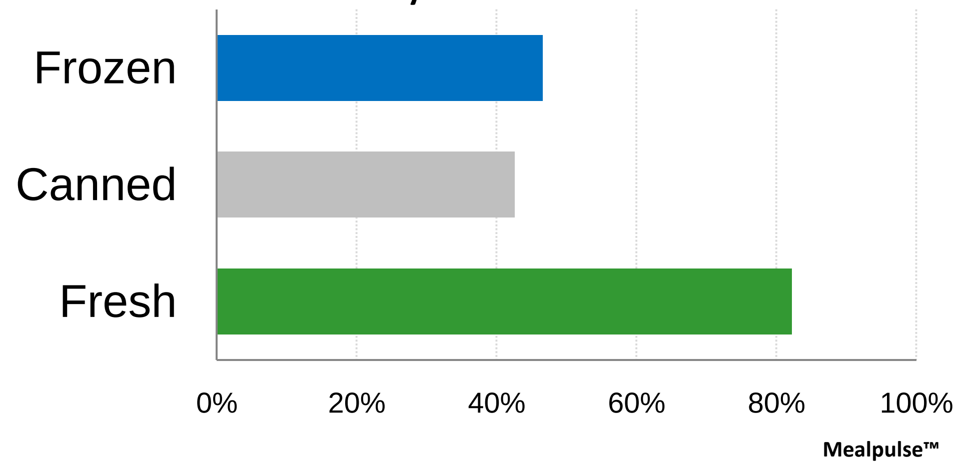
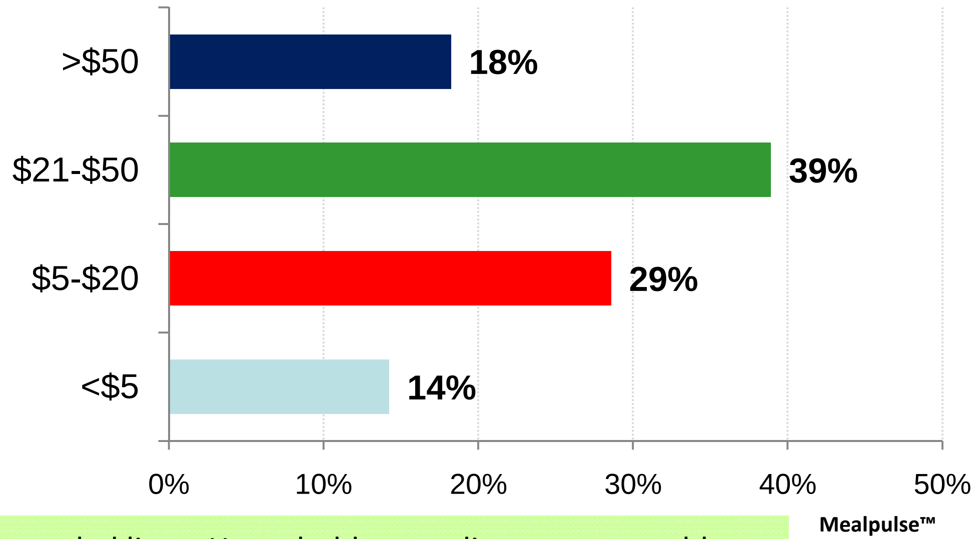


Figure 34 **Weekly household vegetable spend**



18. Retail sales grew by 12% in the last quarter buoyed by the seasonal switch higher value salad lines. Household expenditure on vegetables ranged from $5 to $50 per week with most buying fresh and over 40% buying frozen and canned.

6.2 Retail vegetable category buying patterns

Vegetables purchased

- Figure 35 indicates that on average 74% of shoppers purchased fresh vegetables in the week of their response.
- The proportion of household purchasing of vegetables ranges from a low of 56% for Singles & Couples with higher income to a high of 85% for Established families.
- The other three household segments have a similar proportion purchasing vegetables with Singles & Couples with lower income at 75%, Budgeting families at 78%, and Empty nesters at 74%.
- About 80% of food shoppers were females; on average, 76% of females purchased vegetables compared to 64% of males.

State variations

- The three smaller states have a similar proportion of families purchasing vegetables with SA/NT at 82%, WA at 81%, and Qld at 82%.
- The larger states had a smaller proportion of families purchasing vegetable with NSW/Act at 65% and Vic/Tas at 76%.

Figure 35 **Purchased fresh vegetables**

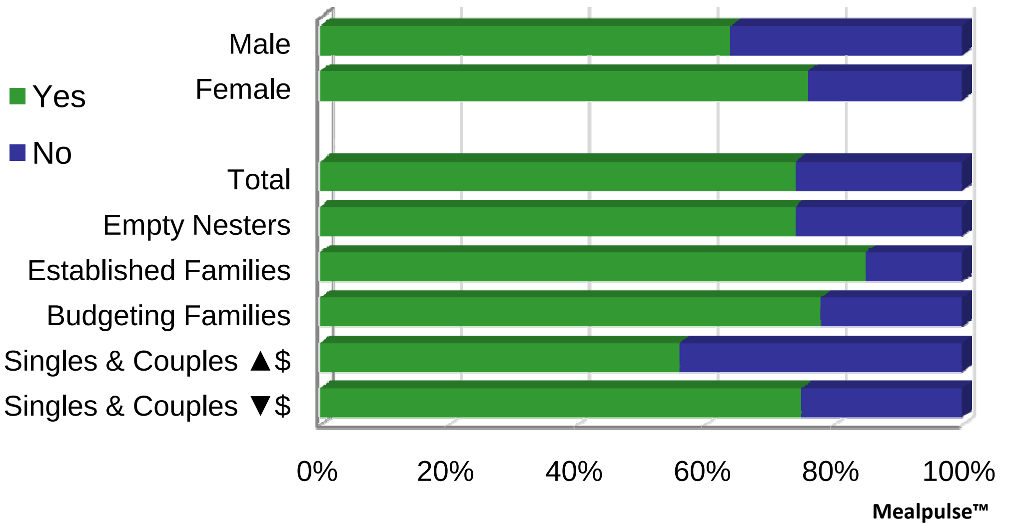
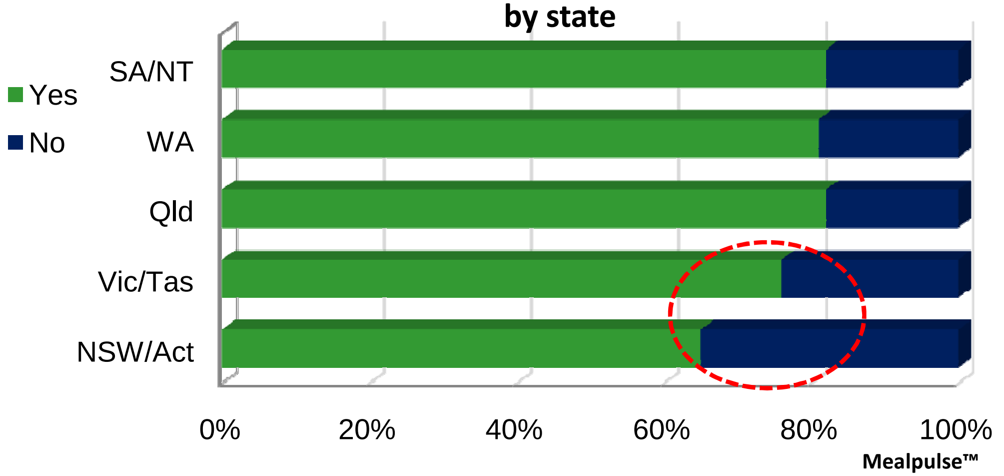


Figure 36 **Vegetables fresh purchasing by state**



19. Fresh vegetables were purchased by 74% of shoppers with more female shoppers buying vegetables than male shoppers. Household segment participation was consistent except for the Singles & Couples with higher income who had a lower level of fresh vegetable purchases.

6.3 Attitudes & values

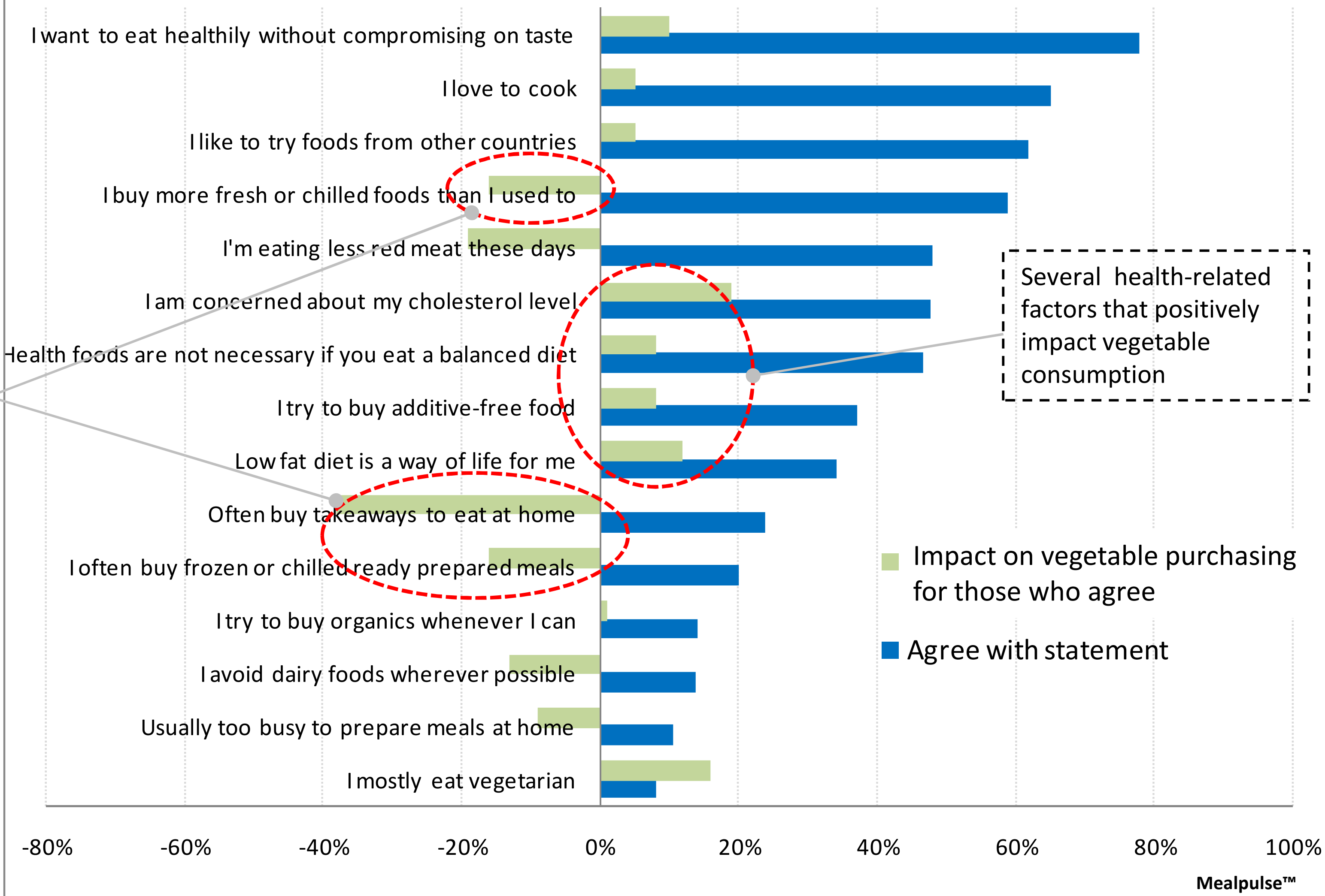
Strength & impact on purchasing

- Figure 37 profiles consumers' views on a series of food and consumption related statements.
- It shows the proportion of the population that agrees with these statements, along with the impact on vegetable purchasing of those who agree with the statement.

The key findings

- Those who buy fast food and prepared frozen or chilled meals purchased less vegetables.
- There exists a group of diet-related views that do correlate with higher vegetable purchasing and presumable consumption.
- Eating healthily without compromising on taste, loving to cook, and enjoying food from other countries are views held by over 60% of all households, which translate into a minor positive impact on vegetable purchasing.

Figure 37 **Attitudes & values that impact vegetable purchasing**



20. Attitudes and values of consumers affected the way they purchased vegetables. While those who buy fast food and ready-made meals purchased less vegetables, over 60% of households were led by several health-related factors that positively affect vegetable consumption.

6.4 Fresh vegetable category performance

Figure 38

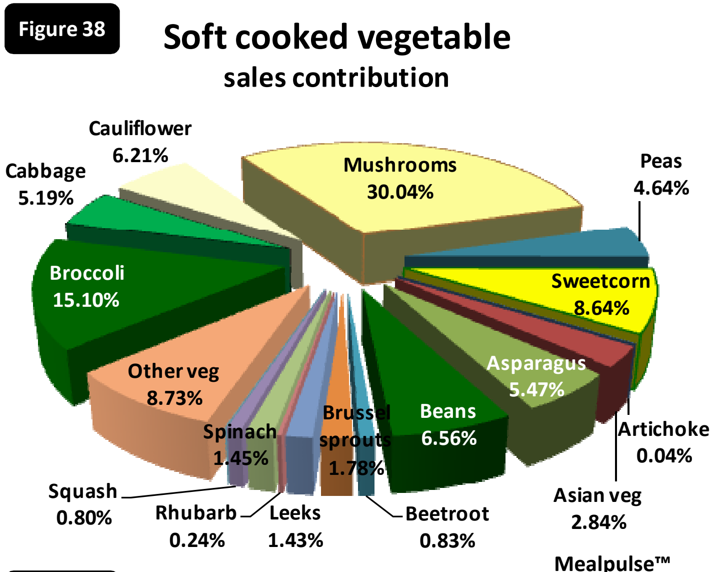
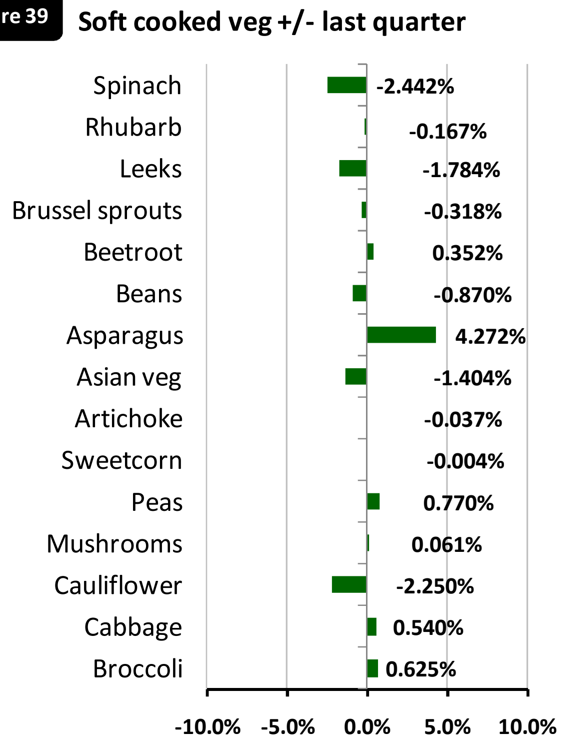


Figure 39



Soft cooked vegetables

- Sale of all products types were flat or negative except for the seasonal lift generated by asparagus in the last quarter.
- This reflects the normal seasonal pattern as vegetable share shifts towards Salad components.
- The largest volumes products of mushroom and broccoli, which contribute to 45% of category sales, matched the sales level contribution of the previous quarter.

Salad components

- The lift in Salad components' sales clearly reflects the increased summer demand for salads with an overall increase of 16%.
- All product types enjoyed increases with tomatoes and salad mix enjoying the most significant increases.
- While these two products groups are the heart of salads, they have also enjoyed the contribution from a range of new products.
- Salad components enjoyed the highest proportion of exposure with retail advert activity (see page 21).

21. Demand for Salad components lifted as demand for Soft cooked vegetables eased.

Figure 40

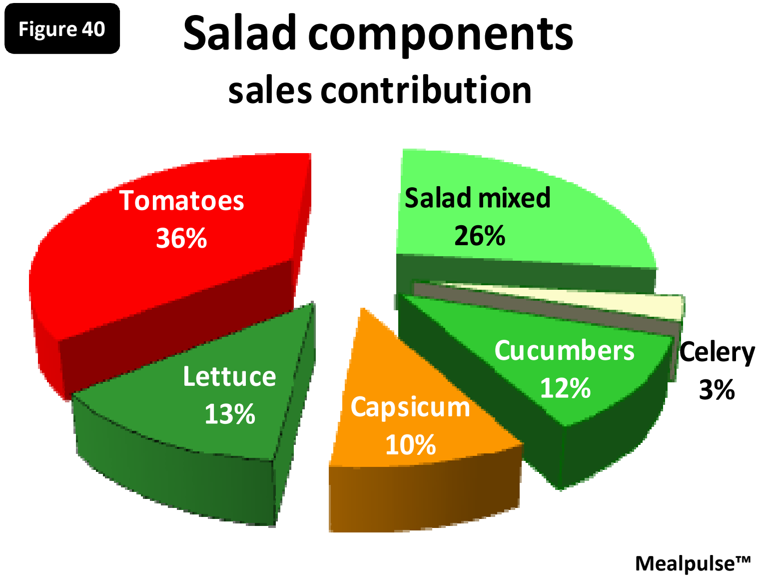
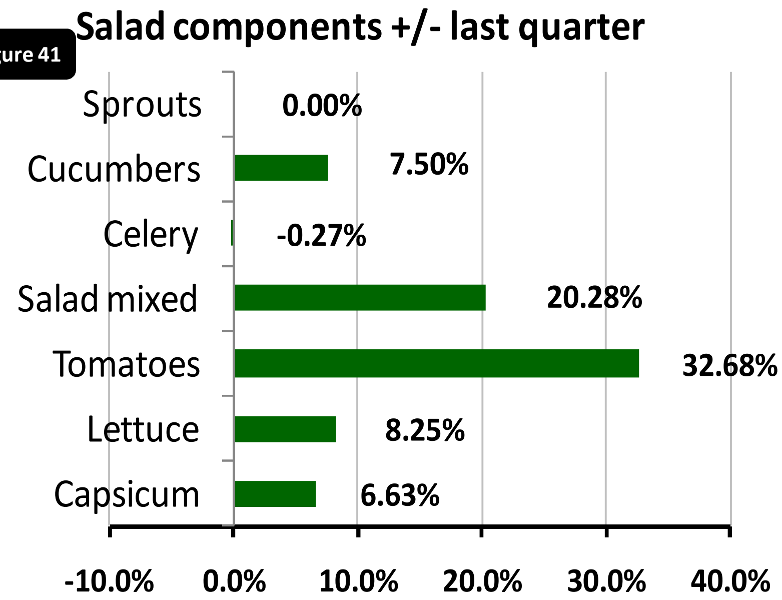


Figure 41



6.5 Fresh vegetable category performance

Figure 42

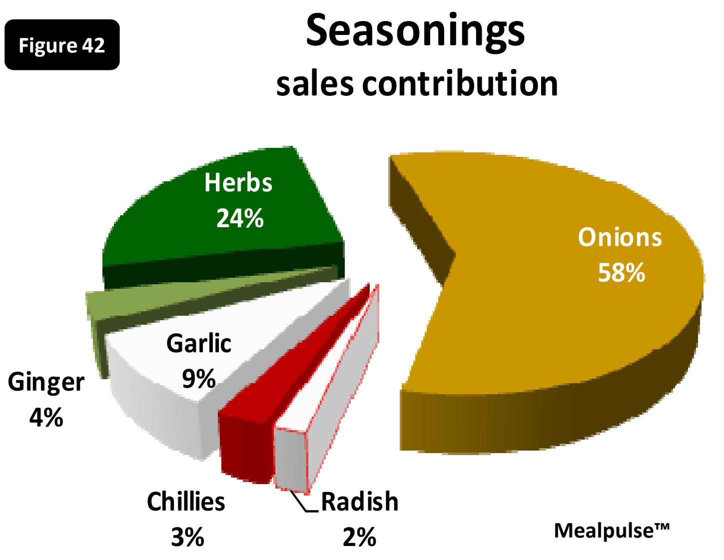
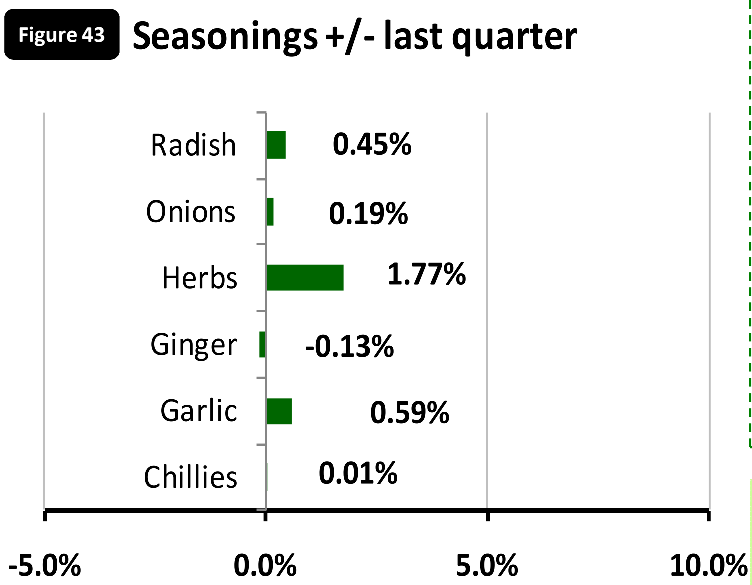


Figure 43



Seasonings

- The taste preferences that drive the steady demand for seasonings is reflected in the minimal changes in sales from the last quarter.
- The growth in herbs is a result of increased availability of potted fresh herbs. This lift is partially attributed to the increased demand for "grow your own" vegetables, which has lead to increases in vegetable seedlings and fruit tree sales in the garden retailing market.
- The dominant category of onions enjoyed a lift in red onion sales as they are included in salads.

Hard cooked vegetables

- Potatoes were the only product that increased their share of sales as all other Hard cooked vegetables showed a decline.
- The move away from the cooler weather, a period when roasted and baked meals are common, towards a more BBQ-style cooking is regarded as a driver of these sales trends.

22. Seasonings maintained their sales throughout the quarter, while Hard cooked vegetables sales were held up by potatoes.

Figure 44

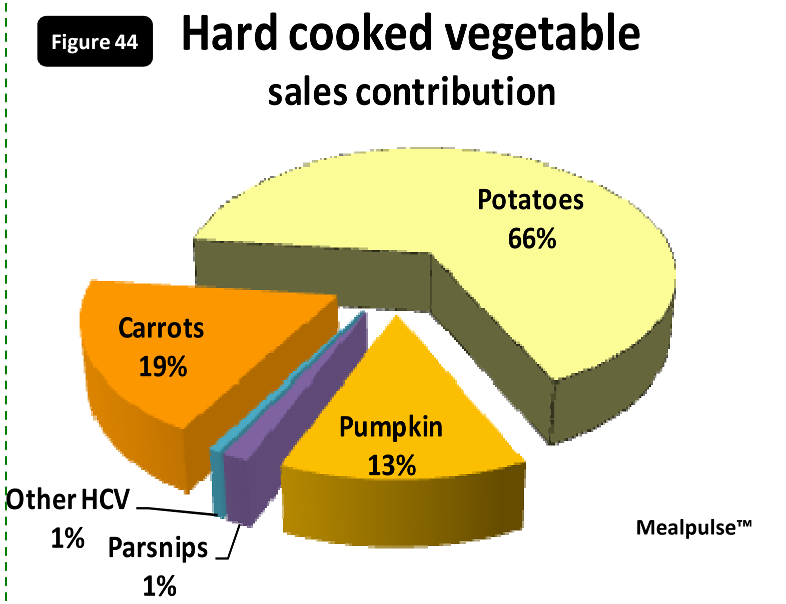
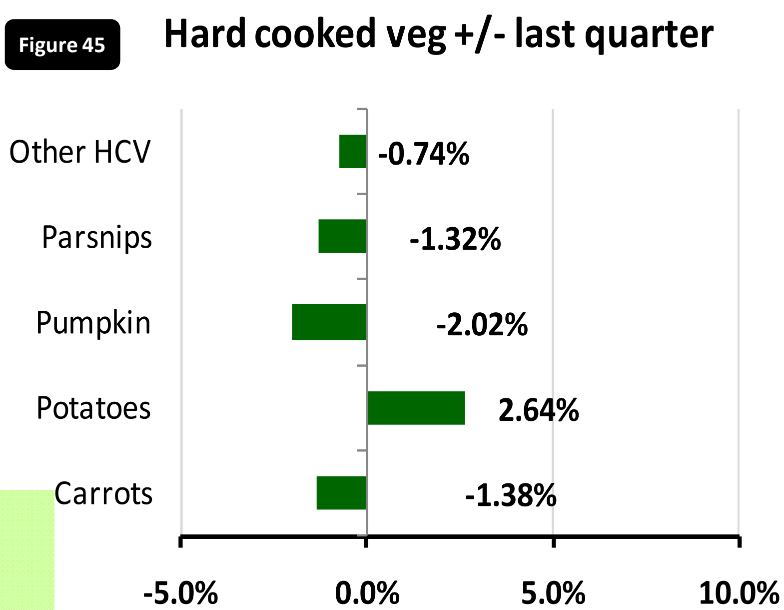


Figure 45



6.6 The retail vegetable category buying patterns last quarter

Retailer used

- Figure 46 profiles the 10 most commonly purchased fresh vegetables. Tomato clearly tops the list, being the only vegetable purchased by over 68% of households. It is followed by carrots, potato, and lettuce at 58% each and onions at 54%.
- The balance of the top ten products that include capsicum, mushroom, broccoli, and zucchini are purchased by less than 40% of households.

Gender buying patterns

- Figure 47 reveals the buying patterns of the top ten products including, garlic and chilli, by the gender of the buyer. Evidently, some variations exist in the type of vegetable products that are purchased by females and males.
- A common denominator in these variations is evident in the purchasing of seasoning products. For example, chillies and onions are the only two products listed that are purchased more by males than females. This variation is attributed to the male palette being more attracted to these products.
- It is also evident that females purchase more soft vegetables like lettuce, mushroom, and broccoli than males.

Figure 46

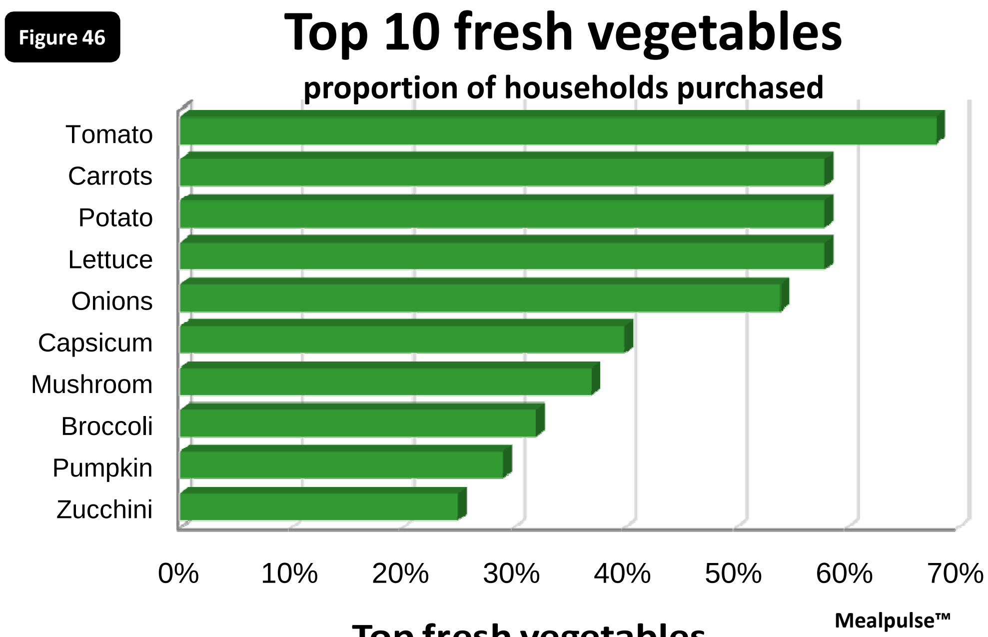
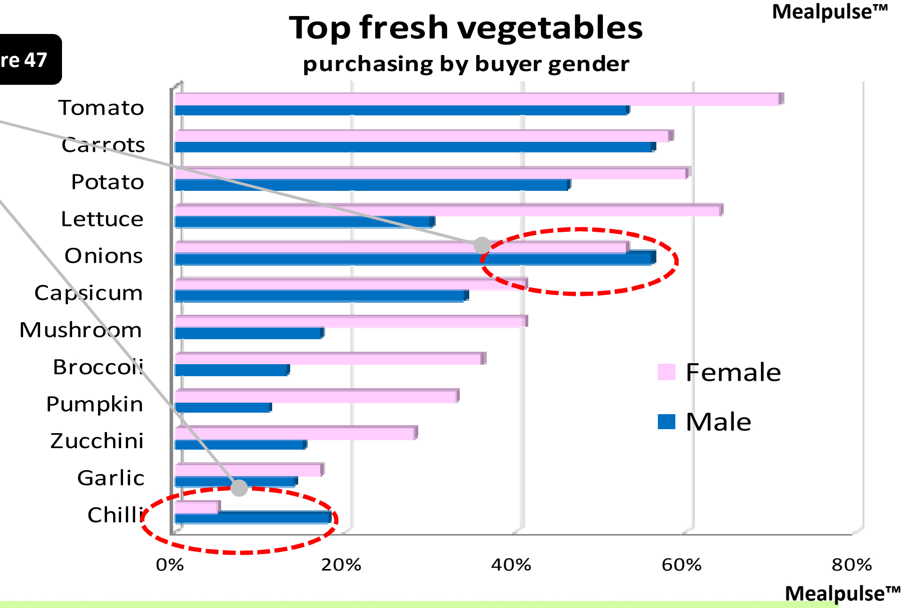


Figure 47



23. Over 50% of households regularly purchase tomato, carrot, potato, and lettuce. Male and female shoppers show clear preferences in their purchases.

6.6 The retail vegetable category buying patterns last quarter (continued)

Retailer used

- Consumers buy their fresh vegetables predominantly from either markets, greengrocer/fruiterer, or supermarket retail outlets. This includes the comparatively small amount purchased through direct home delivery, which is regarded by some consumers as coming from greengrocers or markets.
- The retail providers, other than the supermarkets, are referred to as the "specialists" in this analysis (a more detailed explanation can be found on pages 15 and 28).
- Figure 48 shows that on average 74% of households purchase from supermarkets and 47% of household segments use more than one outlet to source their fresh vegetables. This pattern of multiple outlets is driven by the number of weekly shopping trips and the convenience of some retailer locations.
- The use of supermarkets varies by segment, with the highest convenience seekers like Singles & Couples with higher income at 87% through to the Empty nesters who have the time to shop around at a low of 50%.

Specialist use by main supermarket

- Figure 49 profiles the proportion of supermarket shoppers who also buy vegetables at a market or greengrocer. This is highest for Aldi, where 63% of their customers are purchasing vegetables elsewhere.
- This trend is also significant for the 3 full-service supermarkets with IGA at 39%, Coles 40%, and Woolworths 46%.

Figure 48 **Fresh vegetable retailer used**

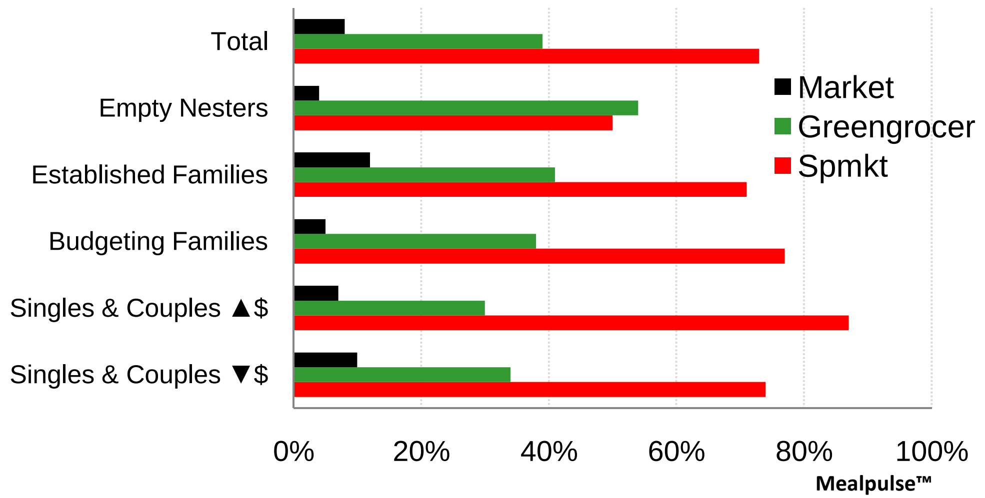
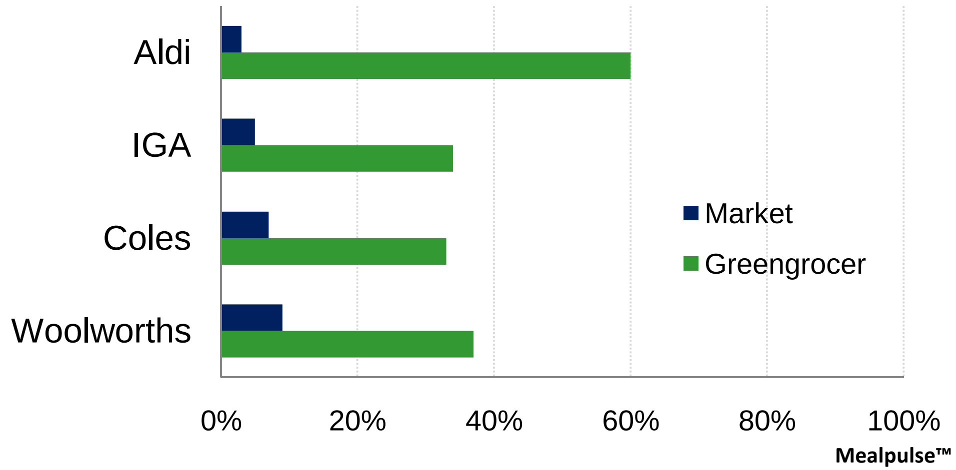


Figure 49 **Vegetables purchased at specialist**
by respondents main supermarket



24. Although the majority of households buy vegetables from supermarkets, at least 35% of these shoppers also buy vegetables from other retail outlets during the week.

6.6 The retail vegetable category buying patterns last quarter (continued)

Vegetable preparation

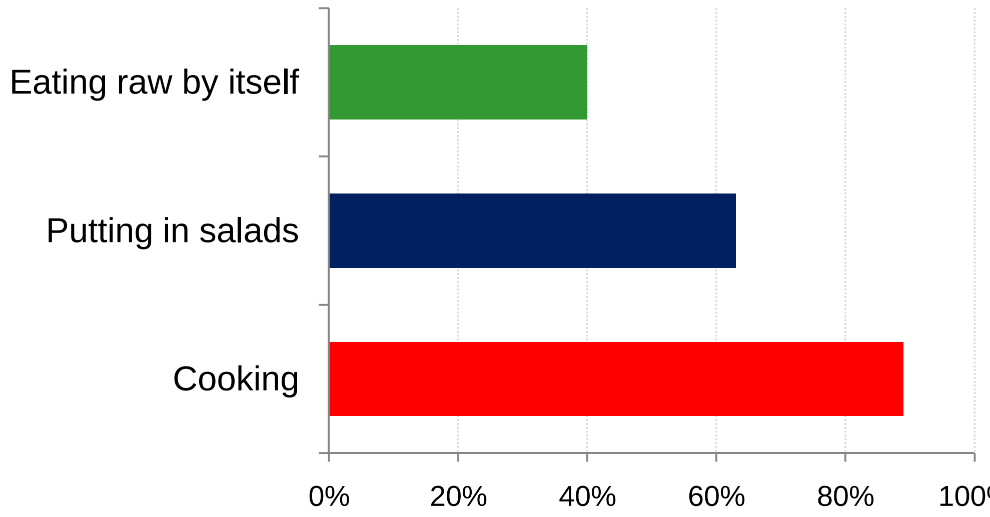
- Cooking is the dominant method of preparation with over 89% of households steaming, boiling, roasting, or stir frying vegetables. Inclusion in salads is a close second with 63% and eaten raw at 40%.
- These levels suggest that any negative that may flow from a longer preparation time with cooking is balanced by the minimum time required for preparing salads and/or eating in a raw form.
- It is also revealed that one of the positives associated with frozen vegetables is the minimum preparation time.
- Category sales as profiled on page 33, indicate the growth of Salad components during this period; therefore, most likely, the proportion of households preparing salads is higher than the previous period.

Household segment variations

- All segments cook similar levels of vegetables with the older Empty nesters using this method slightly more than others.
- Established families and Empty nesters eat more Salads than other segments. The ease or preparation of salads is welcomed by all segments, and there are also indications that salads are not rejected as frequently as cooked vegetables by children.
- Singles & Couples with higher income prepare less salads and eat less raw vegetables than all other segments, which is influenced by this segment eating more meals away from home.

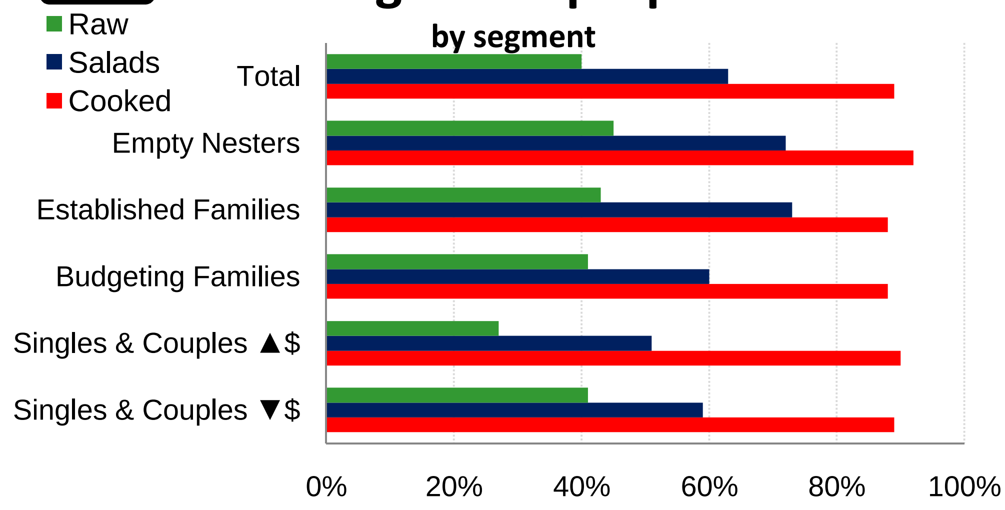
25. Most households prepare vegetables by cooking; however, there are variations in the household segments that eat vegetables raw or include them in salads.

Figure 50 **Fresh vegetable preparation**



Mealpulse™

Figure 51 **Fresh vegetable preparation by segment**



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6.6 The retail vegetable category buying patterns last quarter (continued)

Vegetable buying trend

- Figure 52 profiles that 76% of households are purchasing the same quantity of vegetables as they have done previously. Of those who altered buying, 15% purchased less and 9% purchased more vegetables.
- There was more variation in the buying patterns of female shoppers, who make up 80% of household vegetable shoppers, with 17% buying less and 9% buying more. Conversely, 85% of males bought the same amount of vegetables, with 9% buying less and 6% buying more.
- The two family segments reflect very similar trends in terms of buying more vegetables, but the Budgeting families at 14% were more inclined to buy less vegetables than the Established families at 11%.
- The Empty nesters segment reflected the highest decline, with 74% buying the same quantity, but 20% buying less and only 6% buying more. Similarly declines were evident with the Singles & Couples with lower income segment, with 80% buying the same, but 16% buying less and only 4% buying more.
- The Singles & Couples with higher income had the lowest level of buying the same at 69% but those buying less at 18% were almost compensated for by the highest level of those buying more at 13%.
- The state-based profile of buying trend in Figure 53 shows that Vic/TAS and NSW/Act have greater variations, including more households who have reduced their vegetable purchases compared to the other smaller states.
- SA/NT had the least amount of change with 87% of households buying the same quantity, 8% buying less, and 5% buying more.
- WA had the highest net reduction with 83% buying the same, 15% buying less, and only 3% buying more.

Figure 52

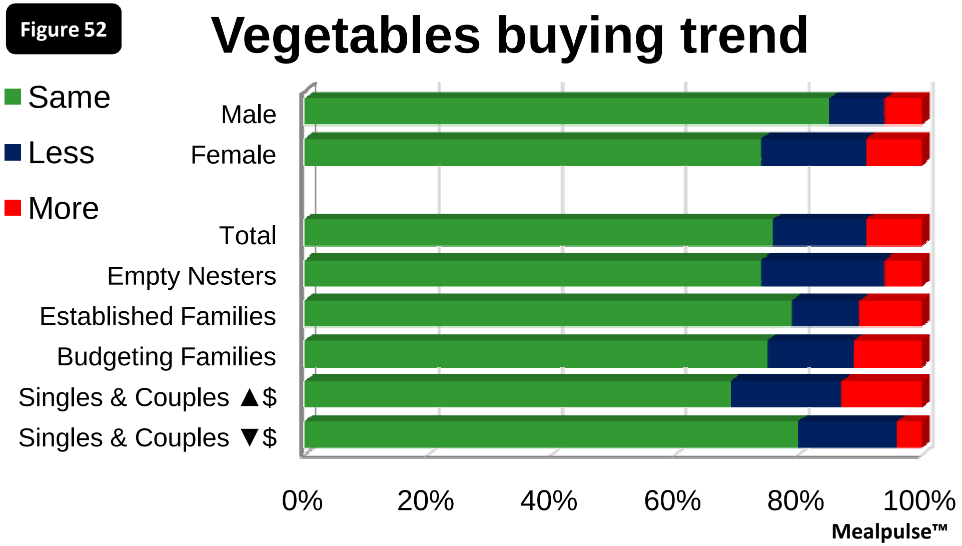
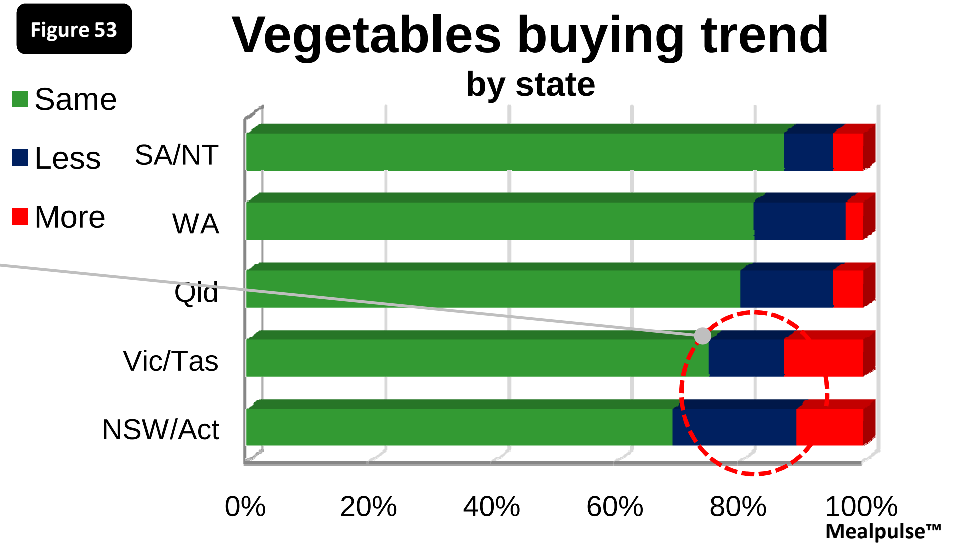


Figure 53



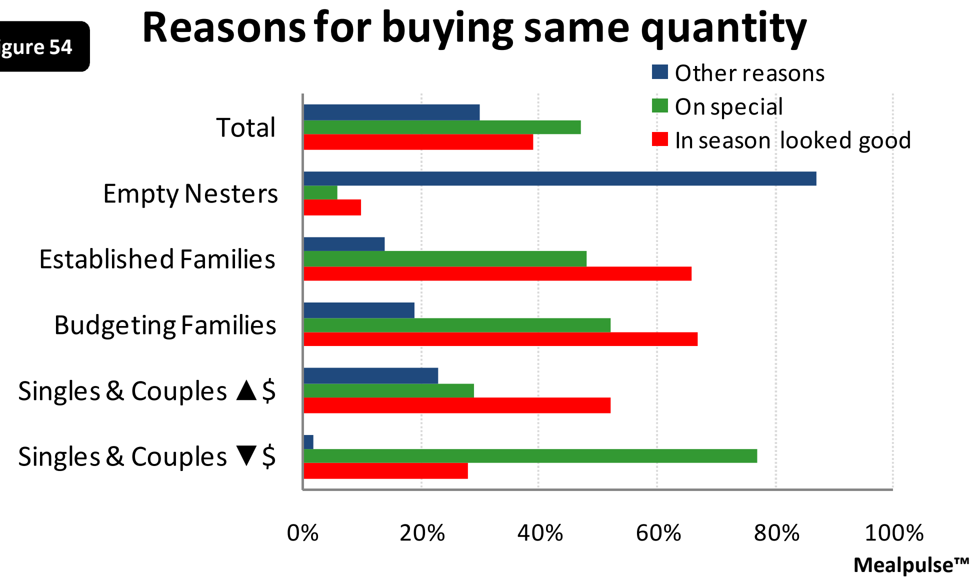
26. Female shoppers and all vegetable shoppers in the larger eastern states showed more variations in their vegetable buying patterns.

6.6 The retail vegetable category buying patterns last quarter (continued)

Vegetable buying trend

- The dominant stand-alone reasons for buying the same quantity were "on special" at 47% and "in season and looked good" at 39%. This signals the following:
  - ➢ Consumers are making product selection decisions when they are in the retail environment.
  - ➢ Retail "specials" are a major influence on what consumers buy (see page 19 for an explanation and profile of this activity).
  - ➢ Product quality is assessed on product appearance.
  - ➢ Being in season is viewed as a positive attribute reflective of quality.
- The sensitivities to these influences varies by household segment with "in season and looking good" a leading influence on the families.
- The value sensitivity of the Singles & Couples with lower income is reflected in their being heavily influenced by what the retailers had "on special".
- These influences are not isolated and will be combined and assessed and balanced by consumers. However, each has boundaries that when reached can provide an absolute impact on product selection. For instance, a product that is below a certain quality or one that is above a certain price may be rejected for these reasons alone.

Figure 54



27. Consumers are heavily influenced by the products they find at the retail store and are particularly sensitive to retail specials and products "in season and looked good", which is regarded as a positive attribute that reflects product quality.

7.0 Vegetable Market Insights

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

- The *MasterChef* factor – Insights into what it really means
- Adding & capturing greater value
- Methodology & data sharing

7.1 The *MasterChef* factor

Perfect conditions: In the mid-2008, economic uncertainty and recession, put pressure on the available discretionary dollars, leading consumers to reduce out-of-home food expenditure and prepare more meals at home with food purchased at retail outlets.

Good timing: *Masterchef* was launched at the same time as a shift in share between the channels was occurring and instantly found support with and popularity among food consumers of all ages.

New highs in audience ratings: The support for the show escalated to new levels for host Ten. It averaged a nightly audience of 1.5 million and broke the record by attaining the magical 3 million mark on its finale, the highest ever since the Oz-TAM ratings systems introduced in 1991.

Sponsors responded quickly: Last year, *Masterchef* sold sponsorships at $1.3 million each to Coles and Campbell. Now, Ten airing *Masterchef*'s second season, has sold sponsorship deals worth more than $20 million, an increase of more than $17 million for the first season.

Shows following *Masterchef:* Competing networks have raced to create their own shows, leading to channel 7's "My Kitchen Rules," a successful show that was so similar to *Masterchef* that Ten is considering taking legal action.

Birth of celebrities: Chefs like Matt Preston, George Calombaris, and runner-up Poh enjoyed and benefitted from the limelight instantly shooting to fame after being exposed on *MasterChef*. While George has expanded his profile and enjoyed increased levels of corporate sponsorship, Poh is now fronting her own ABC cooking show.

Why so successful?

Masterchef has been successful not just because of the fortuitous timing of launch when consumers were returning to more home meal preparation**,** but due to the following reasons:

- The show highlighted the high quality local produce and ingredients available to Australians , which can help people to create the best food. It has embraced scratch preparation as positive and enhanced meal quality.
- It may have touched the nerve when it exposed the gap in the food preparation skills of young parents, as a result of their busy working lifestyles. In doing so, the show provided a positive solution by bringing back healthy cooking and making it entertaining, educative, and enjoyable rather than a time-consuming cumbersome task.
- It has appealed to children and young adults by making home food preparation "cool" and "OK".
- It broadened the awareness among consumers of all ages about the value of healthy food preparation and consumption.
- It drew consumers to look at more diverse and difficult cuisines and ingredients for home cooking preparation, moving the views towards cooking from scratch to "OK" instead of difficult.
- This new attitude towards food preparation has raised the awareness for high quality and fresh food and can only help local producers, including vegetable growers.

Thus, with home cooking gaining popularity and shows like *MasterChef* providing recipes and skills, the demand for high quality and varied fresh vegetables can only be positively impacted.

28. The *MasterChef* style of TV show has changed attitudes towards home-meal preparation among all age groups. It has resulted in positive attitudes towards scratch cooking at home by increasing its entertainment value and has enhanced meal quality.

7.2 Adding & capturing greater value

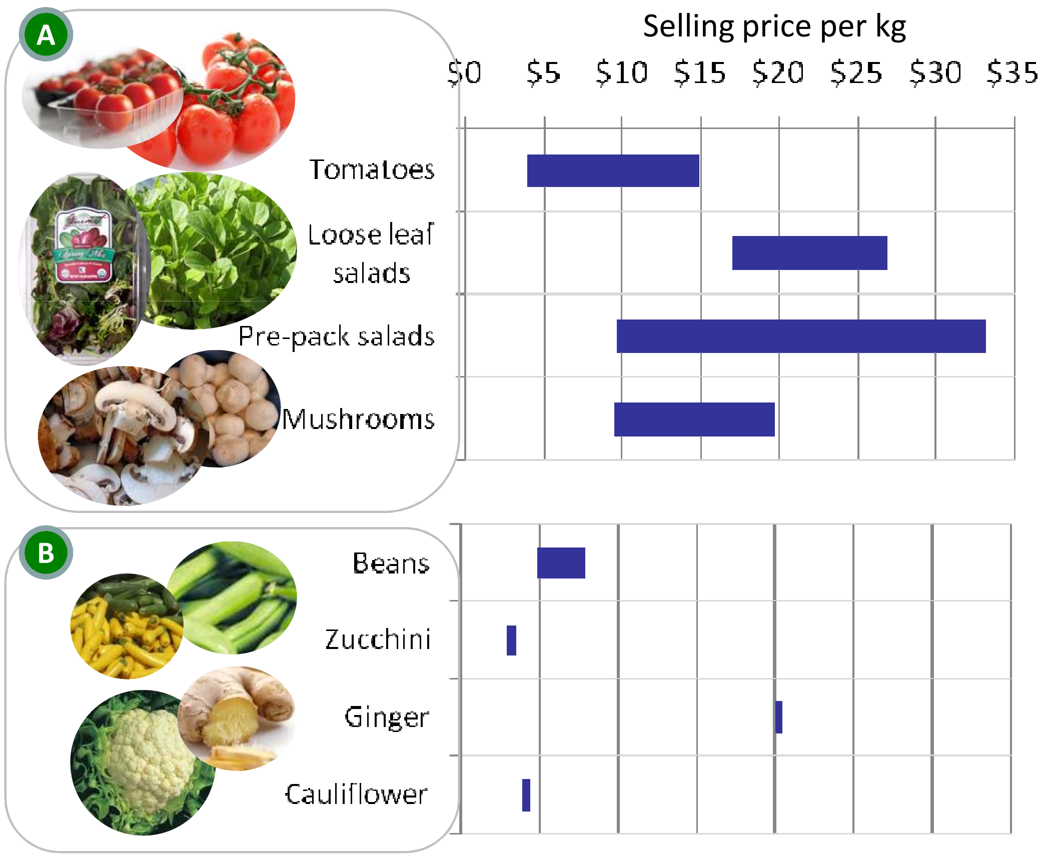
What is adding value?

The concept of adding value is about improving or enhancing a product so that customers will be willing to pay more for it. The process requires an understanding of the demand for the product and its use. This understanding is then applied to define what will be valued by the buyer and whether it can be practically added. Adding value to food can be done in many different ways; success in this has been achieved by preparing a product, managing portion size, and conveying and delivering better quality.

Adding value to vegetables

The average price for fresh vegetables is around $3.50 per kg and this level is often viewed as a driver of low returns to the vegetable supply chain. However, when the vegetable range is assessed as is profiled in Figure 55, it is apparent that some vegetable products have added and captured substantial value. The products in group A enjoy a higher selling price per kg, have more products in the range, and provide portion-size convenience, new varieties, and levels of pre-preparation. Conversely, the products in group B have a limited product range, provide comparatively no basis for extra value, and receive a lower price per kg. Therefore, the best examples of how value can be captured is present among the current fresh vegetable range. The common basis for extra value includes portion size, varieties, and levels of pre-preparation.

Figure 55



	Basis for extra value		
No. of products	Portion size	Varieties	Pre-preparation
11	*	*	
7	*	*	
16	*	*	*
12	*		*
1	*		
1			
1			
1			

29. Some vegetables have captured substantial levels of added value and this is reflected in their selling price per kg. Their success provides clear insights and opportunities for other vegetables.

7.3 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 and import 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 9-16.

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.

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 report content are welcome at the same contact details.

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