Market Profile
Food & Beverage
in the Australian Market

1.0 MARKET STRUCTURE[1]

1.1 Background

Food and beverage is the largest sector in the Australian manufacturing industry, accounting for over 20 percent. More than 80 percent of food and beverage production is located in the three eastern seaboard states of Victoria, New South Wales and Queensland. Australia's 20 largest food and soft drink manufacturers account for almost 50 percent of total industry turnover.

Australian exports of food products totalled AU$23.3 billion for the 2006/07 year, declining approximately 3 percent from the previous year. However, substantially transformed exports (such as frozen or preserved products) continue to rise, approximately 3 percent on the previous year, and at around AU$17.5 billion they made up 75 percent of Australia's total food exports by value in 2006/07. Grain, meat, wine and dairy industries contributed significantly to the value growth. Major export destinations are Japan, USA, Korea, Indonesia and New Zealand. Other smaller markets showing strong growth include India, Sri Lanka, Thailand, Mexico, Saudi Arabia and the United Arab Emirates.

Food imports in 2006/07 were AU$8.2 billion, an increase of 16 percent on the year prior. New Zealand remains the major source of food imports, now accounting for around 18 percent after steady increases since the early 1990s, when it made up around 14 percent.

Trade patterns are expected to change with the signing of free trade agreements with Thailand and the US. Australia is also currently negotiating free trade agreements with Malaysia, the Gulf Cooperation Council countries (the United Arab Emirates, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia), Japan, China, and also a three-way trade arrangement with ASEAN and New Zealand.

Consumer spending on food and liquor in Australia was AU$106.6 billion in 2006/07. This accounts for around 47 percent of total Australian retail turnover, with supermarkets and grocery outlets continuing to capture the majority of sales with 61 percent of total food sales. Cafes and restaurants account for around 14 percent and takeaway food outlets around 9 percent.

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[1] *While every effort is made to ensure the accuracy of the information contained herein, New Zealand Trade and Enterprise, its officers, employees and agents accept no liability for any errors or omissions or any opinion expressed, and no responsibility is accepted with respect to the standing of any firms, companies or individuals mentioned. New Zealand Trade and Enterprise reserves the right to reuse any general market information contained in its reports.*

1.2 Growth Rate

The food retail market recorded growth of 7.4 percent in 2006/07, a 1.3 percent increase over the previous year. The café and restaurant sector continued its strong form of previous years, growing by 12.3 percent, the greatest yearly growth of all food channels. Yearly growth was also recorded for supermarkets and grocery stores (6.7 percent), takeaway food retail (4.3 percent) and hotels and clubs (0.1 percent).

BIS Shrapnel, who carry out the major food service industry research, are moderately optimistic about the food service sector in the short term and very optimistic for the long term.

In Australia, eating out is a way of life. While people may trade down to cheaper options they will continue to eat out. Clubs and fast service restaurants in the middle of the market are experiencing increased custom.

1.3 Known Factors Influencing Growth Rate

The economic environment has presented the food industry with a number of challenges recently – high exchange rates, low unemployment and corresponding pressure on wage costs, rising fuel prices, and on top of prolonged drought conditions has seen the food component of the Consumer Price Index increase steadily.

Future opportunities in the Australian retail food markets will be affected by a number of factors as grocery retailers compete with other channels for a greater share of consumers' expenditure on food.

In recent times the growth rate in the value of food eaten away from the home is well in excess of grocery food sales due to changes in household composition, shopping and eating trends. Other trends include an increased demand for convenience in both shopping times and meal preparation; shopping more frequently; an increase in casual dining; a lower share of income spent on food; and an increase in imported lower priced products.

2.0 COMPETITIVE ENVIRONMENT

2.1 Major Players in the Market

The Australian food and beverage retail market is dominated by nationwide supermarket chains Coles [purchased by Wesfarmers Limited in November 2007] and Woolworths who share around 62 percent of all food and liquor retailing and around 75 percent of the grocery retail market. The Coles share is estimated to be 32 percent and Woolworths' share 42 percent. Coles has been losing market position over the last few years although indications are that the new owners are beginning to turn this around.

Aldi is a German owned discount chain which first opened stores in 2001 and now has around 155 stores across the three eastern states. The vast majority of products are sold under its own brands and it sources 95 percent of grocery lines locally from Australia and New Zealand.

Smaller players in the grocery retail market include IGA, Foodworks, Pick n Pay, SPAR and Franklins. Metcash is experiencing positive growth as the wholesaler to many of these independent stores which are showing positive growth, especially where the owner operators are doing a good job of tailoring their stores and ranges to their customer base. Latest figures put Metcash's market share at 19 percent.

The specialty retail sector is very fragmented with a small number of chains such as Macro Wholefoods, David Jones and Harris Farm. Most stores are independently owned and source from a very wide range and number of specialty food importers and distributors.

Research indicates that an increasing number of consumers are shopping at specialty and traditional fresh food outlets such as fish markets, greengrocers, butchers and bakeries, instead of supermarkets. According to research by the Nielsen Company, these outlets pose a potential threat to supermarkets as consumers continue to seek fresh food options. The key driver leading consumers towards these stores instead of supermarkets was the perception of quality, followed by price, location, range and service.

Liquor retailing is dominated by Woolworths and Coles. Woolworths has an estimated market share of 25 percent and sells through supermarkets and free-standing liquor stores that it operates under the brand/trade names Dan Murphy and BWS. Coles, with an estimated 20 percent market share, sells through supermarkets and free-standing liquor stores operating under the brand/trade names Liquorland, Vintage Cellars, Quaffers, and 1st Choice. Other retailers have a combined estimated market share of 55 percent. Research predicts that liquor retailing will become increasingly dominated by the supermarket industry over the next few years.

The food service/contract catering market consists of three main areas: **industrial** (serving industrial and mining companies, particularly in remote areas) at 50 percent; **commercial** (generally serving service industries such as hospitals, universities, TAFEs, nursing homes, retail food halls, entertainment and sporting functions) at 40 percent; and **private** (catering to functions such as weddings) at 10 percent. Companies with international links such as Compass Group, Spotless, Sodexho and Delaware North have emerged in this industry, and along with Qantas they make up 55 percent of the industry. Around 45 percent continues to be made up of small companies with a high demand for casual employees, especially for event catering.

2.2 Marketing Strategies

There are a growing range of New Zealand products on supermarket shelves, many of which are packaged for home brand or other local labels. The advantage of supplying product for packaging under another label is that companies are not liable for the expensive supermarket marketing and new product listing costs.

The arrival of Aldi supermarkets in 2001 and their own brand formula increased the interest and activity by Coles and Woolworths in developing their own home brand strategies. Coles has a three-tier “Good, Better, Best” offering with Coles’ $mart Buy offering value, never beaten on price and choice of basic weekly items, You’ll love Coles offering value, cheaper than leading brands, quality equal to or better than leading brands across all volume categories. However, there are currently no products under their premium Coles Finest brand.

Woolworths’ basic Homebrand brand was retained and expanded over a wider range of products and Woolworths Select was introduced as a middle-tier brand across a wide range of products.

Metcash has a long established own brand Black and Gold and has announced a new health home brand. Franklins is maintaining their No Frills brand. Independent banners Foodworks and AUR also have their own brands Foodworks and Best Buy.

Household spend on private label continues to grow and is now over 20 percent of grocery sales.

Decisions on new products for the major supermarket chains are made by central head office buying departments which work to product review schedules. They may require new line listing fees and will look for promotional strategies which could include advertising such as print media (ideally television), merchandising, and in-store tastings to help customer awareness and purchasing.

Both large supermarket chains have their own food magazines which are a useful vehicle for coverage of new products and advertising. The Coles magazine *Australian Table* is sold through Coles’ supermarkets as well as newsagents. Woolworths’ publications *Good Taste*, *Fresh* and *Australian Parents* are only sold through their own stores.

Independent supermarkets’ buying decisions are on a store-by-store basis so new products must be introduced and sold into each store. While they sell mainly major brand products which they source from a wholesaler such as Metcash, there are specialist distributors who target this market with specialty products. The advantage of selling into this market is the relative speed with which buying/ranging decisions can be made when compared to the major chains.

2.3 Distribution Channels

There are a number of companies offering a combination of services for imported food items – importing, storage, wholesale, distribution, merchandising, marketing, selling etc, so companies need to assess the best combination of services for their product and sector of the market. These companies tend to be state-based but many have associations with similar companies in other states so they can offer wider reach.

The major supermarket chains have national buying offices. Woolworths and Aldi head offices are based in western Sydney and the Coles head office is in Melbourne.

Products for the major retail supermarket chains are generally delivered from sophisticated centralised warehouses. Delivery of products onto the shelf is a complex and challenging issue for these nationwide companies due to the vast distances and diversity of weather conditions.

The distribution channels into the food service sector are fragmented. There are only two national players – Bidvest and PFD - but unlike the retail market they have a small market share overall. The balance of the foodservice distribution market is supplied by a number of bigger state-based companies and a very large number of small, regional, local and niche players. These companies may or may not be members the major buying groups Countrywide and NAFDA.

3.0 REGULATORY OVERVIEW

3.1 Duties/Taxes

New Zealand goods are given preferential treatment and can enter Australia duty-free under the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), provided they meet criteria under the Rules of Origin (ROO) test. This determines that a good has been made in either Australia or New Zealand.

Prior to 1 January 2007, to enter duty-free, goods had to qualify under the 50 percent rule, calculated at the last process in the manufacture, ie a least 50 percent of the product's content is manufactured in New Zealand and/or Australia; or at least 50 percent of the total value of the product has been added through production in New Zealand.

Now, new Rules of Origin based on a Change of Tariff Classification (CTC) approach have been agreed. Under the CTC approach, a product will generally gain duty-free entry as long as the manufacturing process in Australia or New Zealand involves a specified change in its classification under the global Harmonised Commodity Description and Coding System.

Exporters can enter under either of these rules of origin until 2012 but after then, only the new CTC approach will apply. The new approach will not change the rules relating to the treatment of "wholly obtained goods", ie goods that are obtained or produced entirely in the country, such as minerals extracted there, vegetable goods harvested there, and live animals born and raised there.

For further information, see the Australian Customs Service website: www.customs.gov.au

A Goods and Service Tax (GST) of 10 percent is applied to selected food products on the basis of the level of added value. There is no GST on fresh produce, basic bread, cheese, soups etc, but GST is applied to biscuits, ice-cream, packaged meals etc.

3.2 Regulatory and Licensing Restrictions or Difficulties

Food Standards Australia New Zealand sets food standards for both countries.

The Australian Quarantine Inspection Service (AQIS) is the equivalent of the Ministry of Agriculture and Forestry in New Zealand and is responsible for quarantine issues. There are few entry restrictions for products from New Zealand. A small number of products such as apples and potatoes are not permitted at all, and import permits or strict procedures are required for a limited number of other products such as pet food, egg products, and fresh fruit and vegetables. You can check import requirements on the AQIS Icon database at www.aqis.gov.au/icon32/asp/ex_querycontent.asp

The major supermarkets and foodservice operators also have strict food safety requirements and demand suppliers have HACCP (Hazard Analysis and Critical Control Point) programmes in place.

4.0 RECOMMENDED STRATEGIES

4.1 Possible Points of Differentiation for New Zealand Companies

Changing trends and a growing concern about obesity and other health issues have created opportunities for products which can deliver fresh, healthy, natural snacks and meal solutions.

Other consumer trends to be aware of include an increased demand for convenience in both shopping times and meal preparation; people are shopping more frequently; an increase in casual dining; a lower share of income spent on food; and an increase in lower priced imported products.

Organics: According to the Australian Consumer's Association (ACA), approximately 1 percent of food consumed in Australia in 2007 was organic, compared to 2000 where the organic industry in Australia was mainly made up of local producers and considered a niche market. Advocates of organic food claim that the purchasing of organic products is a permanent decision and that money can be saved if goods are purchased from farmer markets. Research indicates that the organic industry is experiencing annual growth of between 10 percent and 30 percent and that this growth is attributable to government support for organics industries and continued consumer demand for organic goods.

In Australia, this organic industry is reported to be worth around $450 million with demand exceeding supply. Growth opportunities exist within the domestic organic milk market. Sales of organic soy milk and rice milk have experienced growth of 10 percent and 20 percent respectively, while sales of oat milk have increased by around 60 percent. Supermarkets are responding to the increased demand for organic baby products. Demand for organic baby goods has also been fuelled by the ability of suppliers to maintain costs.

4.2 Tactical Recommendations on Market Entry

Due to the highly competitive nature of the Australian grocery market and the dominance/power of the two major chains, New Zealand companies wishing to enter the retail market need to be very well prepared and should research the market well. It is recommended that they use the services of a person or company who is experienced in dealing with the supermarkets and who knows how they operate.

Most product categories are reviewed once or twice a year so and it can take many months from presenting new products to having them appear on the shelves. Supermarkets may also require promotional strategies to help launch products and initiate sales, so companies need to have resources available for this. Activities could include advertising, print media (ideally television), merchandising and in-store tastings to help customer awareness and purchase.

The purchase of Progressive Supermarkets by Woolworths could provide opportunities to leverage off existing relationships in New Zealand.

Independent supermarkets' buying decisions are generally on a store-by-store basis so new products must be introduced to each store. While they sell mainly major brand products, which they source from a wholesaler such as Metcash, there are smaller specialist distributors who target this market with specialty products.

Targeting the food service market requires companies to have a clear idea of their market position and then identify their niche and the companies that supply into that niche.

5.0 SUSTAINABILITY ISSUES

5.1 General Trends

There is a general trend towards supporting locally grown food and in particular there is a growing niche for organic food. However, Australia's demand for imported food is steadily increasing which is partly due to the ongoing drought.[2]

Australia signed the Kyoto Accord in December 2007 with goals of reducing greenhouse gas emissions by 60 percent by 2050. This may create opportunities for improved technologies within the food and beverage manufacturing, supply chain and packaging processes.

[2] ABARE. Australian Food Statistics 2006 (April 2007)
http://www.abare.gov.au/publications_html/crops/crops_07/fstats_main.pdf

5.2 Consumers Concerns

Recent research on Australian consumers showed that four million Australian adults now buy products with a health or sustainability benefit and that environmental, social and community benefits are also considered in making product choices. The research also found that they would increase their consumption of these types of products if prices were reduced and they were more readily available. This group of consumers is commonly known as Lifestyles of Health and Sustainability (LOHAS). The group represents 25 percent of the adult population, and is estimated to spend approximately AU$15 billion in 2008 on products that are friendlier to the environment and personal health. By 2010, green spending is forecast to rise to between AU$22 billion and AU$25 billion with the key growth categories being sustainable building and renovation products, appliances, homeware and household cleaning products.

5.3 Packaging

Recent research states that more than a third of Australians (37 percent) claim to have actively sought products with more environmentally friendly packaging in 2008.

Major retailers now offer consumers re-useable non-plastic shopping bags. This received strong support from consumers and has also increased consumer focus on recycling waste from food packaging which makes up the majority of landfill waste.

South Australia has a buy-back policy for all bottles, cans and milk cartons which will be increased from 5c to 10c per item by the end of 2008[3]. Disposable plastic shopping bags are under the spotlight and several local pilot programmes to reduce their use are underway.

Sectors within the food industry are promoting standards of best practice for sustainability. An example is The National Packaging Covenant, which is a self-regulatory agreement between industries in the packaging chain and government. It is based on the principles of shared responsibility through product stewardship, and applied throughout the packaging chain – from raw material suppliers to retailers, and the ultimate disposal of waste packaging.

5.4 Labelling

Although Australia does not have a full eco-labelling system in place, some existing labelling schemes provide environmental information. Examples of these are the energy labels used on appliances, the labelling of detergent phosphate content and the statement of recycled content on packaging and products.

[3]Drink container deposit to rise to 10 cents. February 2008
http://www.southaustralia.biz/Article/NewsDetail.aspx?id=174

The government has labelling standards for country of origin and for genetically modified (GM) foods which has created a higher profile for these types of sustainable products in the food and beverage categories.

6.0 MARKET RESOURCES AND CONTACTS

Industry magazines ***Retail World*** and ***Foodweek*** produce annual directory publications that provide information on the grocery market, including major players and supplier and support company listings. *Retail World*'s grocery guide also includes AC Nielsen data on market shares and store numbers, category sizes, brand shares and new product launch information .

Both Coles and Woolworths have websites with detailed information for suppliers on how they do business:
http://www.woolworths.com.au/Vendors
http://www.supplier.coles.com.au/
The websites also have links to their online shopping sites which can be useful as a first point of call to check product and brand ranges and pricing.

The Association of Sales and Marketing Companies Australasia website contains a list of member companies plus information on choosing a broker:
http://www.asmca.com/default.php

Food Service Associations operate in each state and provide a valuable industry network:
www.foodserviceindustry.asn.au

www.agribusiness.asn.au - Agribusiness Association of Australia and New Zealand
www.abareconomics.com - Australian Bureau of Agricultural and Resource Economics (ABARE)
www.australianbeverages.org - Australian Beverage Council
www.afgc.org.au - Australian Food and Grocery Council
www.aifst.asn.au - Australian Institute of Food Science and Technology (AIFST)
www.candy.net.au - Confectionery Manufacturers of Australasia
www.daff.gov.au - Department of Agriculture, Fisheries and Forestry
www.foodscience.afisc.csiro.au - Food Science Australia
www.foodstandards.gov.au/foodstandardscode - Food Standards Australia New Zealand
www.nfis.com.au - National Food Industry Strategy
www.packcoun.com.au - Packaging Council of Australia

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