Exporter Guide

FOOD & BEVERAGE IN AUSTRALIA

Market Profile

March 2011

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1 MARKET STRUCTURE

1.1 Market Overview

According the Australian Food and Grocery Council (AFGC)[i] the Australian food, beverage and grocery manufacturing industry is:

- A major contributor to the Australian economy – generates sales and service income in excess of A$100 billion annually
- Australia's largest manufacturing sector, accounting 28 percent of total manufacturing – four times larger than the automotive industry
- Australia's largest manufacturing employer – 315,000 people
- Responsible for 9.1 percent of Australia's total international trade valued at A$49 billion in 2008-09
- On a turnover basis, Australia's food and grocery sector is comparable in size to the Australian mining industry.

1.2 Market Drivers

Total consumer expenditure on food and beverages stood at US$73bn in 2009, accounting for 40.6 percent of total retail spending.[ii] As in most developed economies, the domestic food market is mature and consumption of basic items has grown only slowly in recent years.

Food companies making or importing premium products, including organic products, have enjoyed stronger growth as affluence has increased. The market for organic food and beverages is expected to reach US$1 billion 2010, according to the Australian Organic Market Report 2010. Demand is also increasing for healthy versions of staple foods, such as low-fat cheeses, cholesterol-reducing spreads and nutrient-enriched products owing to a growing focus on healthy eating and increasing awareness of the need to reduce obesity rates.[iii]

1.3 Market Potential

In June 2010 **retail spending** on food was up by just 1.8 percent year on year, which implies that in real terms spending on food has been falling as interest rates have risen and as the effects of cash handouts made by the government in early 2009 have faded. In 2010-11 food consumption is expected to grow by an average of just 2.6 percent a year. However, in the medium term, there will remain good prospects for growth in organic and specialty foods as well as pre-prepared meals as consumer confidence returns.[iv]

The **Australian food retail industry** had total revenue of US$ 67.9 billion in 2009, representing a compound annual growth rate (CAGR) of 6.4 percent for the period spanning 2005-2009. Hypermarket, supermarket, and discounter sales proved the most lucrative for the Australian food retail industry in 2009, with total revenues of US$ 36.6 billion, equivalent to 53.9 percent of the industry's overall value.

The performance of the industry is forecast to slow, with an anticipated CAGR of 5.3 percent for the five year period 2009-2014, which is expected to drive the industry to a value of US$ 87.7 billion by the end of 2014.

The industry is increasingly consolidated with large chain supermarkets wielding more power over smaller specialty, luxury or organic food outlets.[v]

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.

Liquor Retailing[vi]

In 2010-11, it is projected that the Liquor Retailing industry will generate revenue of US$8.1 billion, representing a real gain of 3.6 percent as general economic activity recovers strongly. While the volume of liquor consumed is expected to increase, the actual value of sales will rise at a lower rate as consumers continue to move into discounted and unbranded products and take advantage of value offers.

Foodservice

The global financial crisis has had a marked effect on the Australian foodservice industry with virtually no growth in the foodservice sector during 2009. However, research by BIS Shrapnel predicts that the sector will have an annual growth rate of 5.5 percent over the period 2009-2014, as conditions begin to improve.

Commercial Channels

BIS Shrapnel estimates the number of commercial foodservice outlets to be 60,761 (2009). The size of this channels expenditure in 2009 was A$ 8.66 billion, and is estimated to rise to $A 9.36 billion by 2011.

Proportion of Total Food and Non-alcoholic Beverage Expenditure by Commercial Channel (2009)

Channel	Proportion of Total Food and Non-alcoholic Beverage expenditure (2009)
Restaurants	25%
Cafes	18%
Quick Service Retail [QSR] (Chain)	17%
Quick Service Retail [QSR] (Independent)	11%
Hotels/Motels	11%
Caterers	9%
Clubs	6%
Function Centres	2%
Sporting Venues	2%

Source: BIS Shrapnel, Australian Foodservice 2009

Industrial Channels

BIS Shrapnel estimates the number of institutional foodservice outlets to be 14,775 (2009). The size of this channels expenditure in 2009 was A$ 1.35 billion.

Proportion of Total Food and Non-alcoholic Beverage Expenditure by Institutional Channel (2009)

Channel	Proportion of Total Food and Non-alcoholic Beverage expenditure (2009)
Aged Care	29%
Hospitals	16%
Work Canteens	14%
Tertiary Institutions	13%
Schools	12%
Prisons	7%
Military	6%
Charitable Organisations	3%

Source: BIS Shrapnel, Australian Foodservice 2009

1.4 Import Trends

In the year ended December 2010 New Zealand exported over NZ$ 2.4 billion worth of food and beverage products to Australia, making Australia our second largest export market for food and beverage products, after China. In the last year New Zealand's food and beverage exports to Australia grew by 13.7 percent.

New Zealand's Top Ten Food & Beverage Exports to Australia (y/e Dec. 2010) $NZ millions

Product	2008	2009	2010	Change 10/09 (%)	Competition (% share of Australia's imports in 2009)
Wine	309.9	328.0	332.2	1.3	**NZ (57%)**, France (28%), Italy (9%)
Cheese	277.4	234.3	313.6	33.8	**NZ (56%)**, Italy (10%), Denmark (7%)
Food Preparations	102.1	125.4	150.0	19.6	Ireland (45%), USA (11%), **NZ (9%)**, China (6%)
Bread, Pastry, Biscuits etc.	101.8	118.7	118.1	-0.5	**NZ (24%)**, China (15%), UK (9%)
Fish Fillets	85.3	88.5	92.5	4.5	**NZ (27%)**, Vietnam (24%), Taiwan (18%), South Africa (7%), China (7%)
Butter	83.5	59.0	90.5	53.3	**NZ (84%)**
Chocolate and other preparations containing cocoa	62.3	58.0	90.2	55.6	Germany (18%), **NZ (14%)**, Belgium (11%), Switzerland (9%), Italy (8%)
Waters (mineral, aerated, sweetened)	80.3	75.8	82.9	9.3	Austria (33%), **NZ (32%)**, USA (16%)
Infant Formula/Malt Extract	46.2	92.4	82.4	-10.8	Ireland (39%), **NZ (35%)**, USA (10%)
Fish, whole, fresh or chilled	58.9	68.0	80.6	18.6	**NZ (94%)**

Sources: Statistics NZ, via The World Trade Atlas; International Trade Centre (ITC), Trade Map

1.5 Key Players in the Market

Food Retail[vii]

The Australian food and beverage retail market is dominated by nationwide supermarket chains Coles and Woolworths who share around 72 percent of the grocery retail market. Coles' share is estimated to be 32 percent, and Woolworths' share 40 percent.

IGA- Independent Grocers of Australia (estimated market share: 7.0%) commenced operations in Australia in 1988 when Metcash Trading Limited (previously Davids Holdings) introduced it into the market. Metcash Trading Limited operates as the distributor to these independent supermarkets under the IGA banner. Stores trade under the banners Foodland IGA, Supa IGA, IGA/IGA Everyday, IGA Express, Friendly Grocer and Eziway. IGA's primary customers are 2500+ independent retail grocery stores over 700 Foodworks and 500 non branded independent stores.

Metcash is experiencing positive growth as the wholesaler to many of these independent stores which are showing increasing sales, especially where the owner operators are doing a good job of tailoring their stores and ranges to their customer base.

Aldi (4% market share) is a German owned discount chain. As at November 2009, Aldi had opened 212 stores (85 in New South Wales/ACT, 73 in Victoria and 54 in Queensland). The company is a low-cost operator that stocks about 600 products compared with about 30,000 found in a Coles or Woolworths store. An estimated 95 percent of the company's products are part of Aldi's private label or home brands.

Other smaller players in the grocery retail market include: Australian United Retailers (market share 2.5 percent), Franklins (market share less than 1 percent), SPAR Australia (market share less than 1 percent).

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

Industry 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[viii]
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. Industry research predicts that liquor retailing will become increasingly dominated by the supermarket industry over the next few years.

1.6 Regulatory

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.

Industry standards

Food Standards Australia New Zealand sets the food standards for both countries, which are covered by the Australia New Zealand Food Standards Code (ANZFSC). This includes labelling requirements for foods sold in Australia, food safety requirements, regulations for food additives, and specific food standards for different types of food, i.e. meats, dairy, fruits and vegetables, etc.
The most recent version of the ANZFSC is available at the following site:
www.foodstandards.gov.au/foodstandards/foodstandardscode/

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 (at present) 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) programs in place.

Duties and tariffs

New Zealand goods 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, i.e. at 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 that only the new CTC approach will apply. The new approach will not change the rules relating to the treatment of “wholly obtained goods”, i.e. 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: http://www.customs.gov.au/site/page6011.asp

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...

Labelling requirements

New Zealand and Australia share the same food labelling code, this is set out in the Australia New Zealand Food Code, refer to Part 1.2.

1.7 Sustainability

In Australia, the consumer market for natural, healthy and sustainable products and services in Australia has grown over 20 percent to $19 billion in 2009 and is expected to reach at least $27 billion by 2011.[ix] Whilst the sustainability area in Australian food and beverage market is poised for good growth in the near term, Australia is not as developed in this trend as other developed markets such as the United Kingdom.

The Australian Food and Grocery Council’s ‘Green Shopper’ survey found that while 36 percent of Australian shoppers are prepared to pay more for green products, only 13 percent actually buy environmentally sustainable food and groceries from the supermarket. Free-range eggs, dolphin-safe tuna, environmentally friendly toilet paper and laundry powder, and certified organic fresh fruit and vegetables are among the most common green purchases.[x]

More than 50 different eco-labeling programmes operate in Australia, from energy and water savings ratings to Forest Stewardship Council, Rainforest Alliance and Fairtrade trust marks, all aimed at helping consumers make the right choice. However, the recent Living LOHAS surveyxi found that many people are unaware such labels exist, or they have low levels of awareness of specific labels and what they want to achieve.

2 MARKET ENTRY AND DEVELOPMENT

2.1 Market Entry Strategies

There are a growing range of New Zealand products available in a range of retail channels, many of which are packaged for home brand or other local labels, but with a growing presence of branded products as well. It is not uncommon for smaller manufacturers to by-pass the larger grocery channel (supermarkets) in favour of the lower cost and slower market development build within the food service, route or online channels. Once critical mass is reached in these channels, manufacturers will then consider entering more costly mass market channels such as supermarkets.

Companies should carefully weigh the business case associated with own label versus branded supply in Australia which is achieved by thorough market intelligence and gathering category financial and performance information before pitching products to retailing buyers. Companies should also note that Australia has a relatively sophisticated level of channel development, so alternative opportunities to reach the consumer should be carefully considered and costed before entering. For advisory assistance on alternative market entry strategies and costing, NZTE staff are happy to help.

Private Label Supply

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

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 and Coles Brand offering value, cheaper than leading brands and quality equal to or better than leading brands across all volume categories. Coles’ Finest range represents a harmony of classic culinary techniques, superior ingredients and a commitment to first-class quality and is limited to a very small range of products currently.

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. Since the take cover of the Macro Wholefoods chain Woolworths has retained the Macro brand for their organics range of products.

Metcash has a long established own brand Black and Gold plus the more recently launched IGA Signature, Purely Organic and Body Logic brands. Smaller independent grocery banners also have developed their home brands with Franklins maintaining their No Frills brand, Foodworks and AUR with Foodworks and Best Buy.

The advantage of supplying product for packaging under another label is that costs associated with freight and mass market marketing are reduced, but not entirely eliminated; and that some retailers have shortened credit payment to around 30 days.

Note, however, that costs of innovation are expected to be borne by the supplier and this can impact further on the lowered profit margins associated with own label supply.

Most private label opportunities for Woolworths, Coles and Metcash are generally handled via tender, with durations lasting 1-3 years. Suppliers must wait until tenders are reissued to have an opportunity to win this business. The exception to this is Aldi who do not operate on a set-time tender system, but a “best price” system with opportunities to pitch for business generally being available year round, depending upon the category.

Opportunities for private label supply also exist in non-grocery channels such as major food service distributors and specialised ingredients, such as baking. Again, please contact NZTE representatives to discuss opportunities tailored to your business.

Branded Supply

Decisions on new products for the major supermarket chains are made by central head office buying departments which work to category review schedules on a 6 or 12 month rolling cycle. They may require new line listing fees and will look for promotional strategies which will at least include in-store price promotion, and perhaps catalogue / in-store media and product demonstrations/tastings. Out of store promotional strategies, such as advertising (ideally television), social media and other tactics are often requested by buyers (but not necessarily a prerequisite) for supermarket product ranging.

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. The disadvantage of adopting this approach is the speed for channel penetration and issues around store compliance and promotions. This might require more in-market staff resource to support, which needs to be considered by the company. A series of options to address this can be discussed with NZTE, such as brokers, distributors, partnerships and the hiring of offshore specialists.

Again, opportunities for branded label supply exist in non-grocery channels, such as route, convenience, food service and on-line. An important point to note here is the need to consider format differentiation by channel with your product, which is increasingly being requested by buyers in these channels as a means of helping to build customer loyalty.

2.2 Points of Differentiation

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. The 2010 report highlights growth in the production and consumption of organic produce of almost 50 per cent in the last two years. 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. It is still however, a relatively small category compared to mainstream product categories in Australia due mainly to price considerations.

Organic domestic retail sales have grown over 50 percent in two years and are now reported to be worth A$ 947 million.

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. Some standout performers include: essential oils production (up 155 percent) feeding the growing cosmetics sector; Poultry (eggs) (75 percent); Milk and dairy (36 percent); Fruit and wine (16.5 percent), while the main processors for the meat sector have reported grown in turnover by 25 percent in the past year.

2.3 Long Term Strategic Issues for Exporters to Consider

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 grocery 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 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.

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.
As mentioned, companies may want to consider alternative channel entry strategies to grocery as a means to progressively build cash flow and market awareness.
Careful selection of distribution strategy also needs to be considered, especially when dealing with Coles and Woolworths. On-the-ground representation with partners that can dedicate good focus to your products and great service with quick turnaround to these customers is also highly recommended.

2.4 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. Some of these companies tend to be state-based, but many have associations with similar companies in other states so they can offer wider reach. Others are national in their reach, so careful consideration to geographic coverage is a necessary pre-requisite to choosing the correct distribution partner.

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. Most of these chains also have a few distribution centres across Australia, so suppliers should be aware that freight may need to be organised to a number of different centres. 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. Food service distributors are divided into the majors who have national coverage – such as Bidvest and PFD – which make up around 30 percent of the food service market. The balance of the food service 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 of the major buying groups Countrywide and NAFDA.

3 MARKET RESOURCES AND CONTACTS

ORGANISATION	WEBLINK
Agribusiness Association of Australia and New Zealand	www.agribusiness.asn.au
Australian Bureau of Agricultural and Resource Economics (ABARE)	www.abareconomics.com
Australian Beverage Council	www.australianbeverages.org
Australia Customs	www.customs.gov.au
Australian Food and Grocery Council	www.afgc.org.au
Australian Institute of Food Science and Technology (AIFST)	www.aifst.asn.au
Department of Agriculture, Fisheries and Forestry	www.daff.gov.au
Food & Beverage Importers Association	www.fbia.org.au
Food Science & Nutritional Sciences Australia	www.csiro.au/org/FNS.html
Food Standards Australia New Zealand	www.foodstandards.gov.au
Packaging Council of Australia	www.packcoun.com.au
TRADE EVENTS	WEBLINK
Fine Food Australia	www.finefoodaustralia.com.au

i Source: AFGC, Industry Facts and Statistics 2009, Link: www.afgc.org.au/our-industry/facts-stats.html.

ii Source: Economist Intelligence Unit, Australia: Consumer Goods and Retail Report, published August 2010.

iii Source: Economist Intelligence Unit, Australia: Consumer Goods and Retail Report, published August 2010.

iv Source: Economist Intelligence Unit, Australia: Consumer Goods and Retail Report, published August 2010.

v Source: Datamonitor, Food Retail in Australia, published June 2010.

vi Source: IBISWorld, Liquor Retailing in Australia, published September 2010.

vii Source: IBISWorld, Supermarkets and Other Grocery Stores in Australia, published September 2010.

viii Source: IBISWorld, Liquor Retailing in Australia, published September 2010.

ix Source: www.lohas.com.au Living LOHAS© report - Mobium Group.

x Source: Link to Survey Report: www.afgc.org.au/highlands-forum.html.

xi Source: www.lohas.com.au Living LOHAS© report - Mobium Group.