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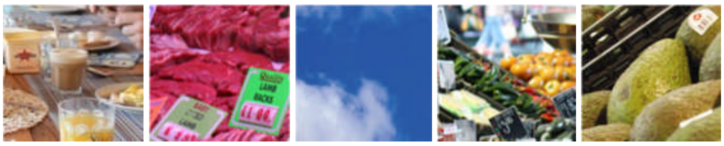

November 2011

A Freshlogic foodcast on Australian and international trends, innovations and other insights relevant to the Australian food market

What we're seeing

A new fresh food battleground? – The arm-wrestle over changes in the supply of packaged fresh bread to the grocery channel may change some important dynamics in that category.

We've seen the unusual development of grocer and supplier talking to the media to make claims about how to best service the market. Woolworths fired a shot at Goodman Fielder, reminding its supplier of the seriousness of its "fresh food" mantle in response to GF's mooting of reconsidering daily delivery of fresh bread to supermarkets in an effort to cut costs. Goodman Fielder pointed to European and North American standards for bread to have a 10-day shelf life, and that it was exploring ways of extending shelf life of bread in Australia using natural ingredients and packaging innovation.

The jousting – and the aims by GF to cut costs in its baking division by changing its supply chain – have highlighted the significant pressure on merchandising cost structures which are now in the spotlight, as the competitive tension builds in the bread sector.

Of interest in this discussion, is that fact that 20% of grocery buyers shop at a bakery weekly (according to Freshlogic's Mealpulse consumer panel) for an array of reasons. However, also in play here is the resource scale required to keep merchandising resources available to service what's left of packaged bread sales in other retail outlets.

Consumer priorities clearly highlight better quality, handy location and better range as some of the top attractions – something for all players to keep in perspective when considering potential changes.

In this edition...

Reasons for using a bakery (Sept 11)

The consumer will have the final say in this battle, and bakeries can only win if freshness is elevated and smaller packaged bread retailers' loose support.

Labelling approach not resolved – The choice between "traffic lights" and daily intake guidelines for front of pack food labelling proved too hard to call for the Australian Government, which has deemed that neither provides sufficient nutritional information for consumers to make informed choices. While a number of labelling issues have been in play, the highest profile has been earned by the arguments between food manufacturers and consumer advocates over the style of message in front-of-pack labelling. This came after Australian public health organisations upped the ante, co-signing a letter with consumer advocates CHOICE, urging Federal Government to adopt the Traffic Light scheme. Signatories to the letter, sent to the Ministerial Council for labelling law and policy, include Australian Medical Association, Diabetes Australia, Cancer Council Australia, and the Australian New Zealand Obesity Society.

Despite this decision, consumer advocate groups will continue to seek significant attention in this, and similar debates. It is difficult to say what the final compromise will be, but it is safe to say that someone is going to be unhappy.

The Combo deal emerges - Freshlogic's tracking of retailer printed promotional activity using Adwatch saw the emergence of the product "combo" offer from Woolworths during the past month – offering two compatible products for a single price (e.g. a roast chicken and a pre-packed salad). It will be interesting to see if it such deals get a larger role across the festive season as home entertaining increases. The push to keep Coles brand in the spotlight continues – it is far and away the highest

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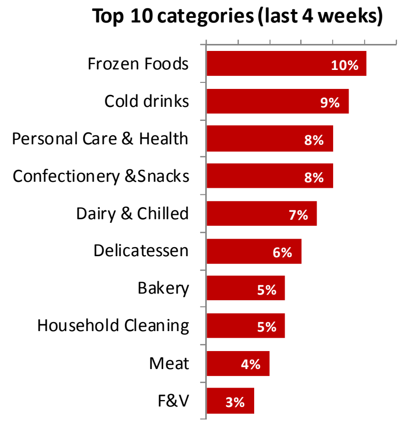
promoted brand over the past 4 weeks of tracking, while Kraft had the biggest corporate presence ahead of Nestle. At a category level, summer has kicked in to lift the volume of frozen foods and cold drinks categories.



The promotional messages reaching shoppers have a huge sway on week-to-week spending choices, and can help explain patterns that exist in the data – not only between brands, but also between competing food and drink categories.

Making news

Domino's pick up speed – Domino's Pizza Enterprises' CEO Don Meij announced plans to ramp up the expansion of the group, suggesting the chain will capitalise on the success of its value pitch and the popularity of its on-line ordering system to open 30 to 40 new stores in Australia over the next six months. Domino's only added 43 stores in all of 2010/11 across Australia, NZ and the parts of France, Netherlands and Belgium where it operates, 25 of which were in the latter regions where it is breaking new ground.

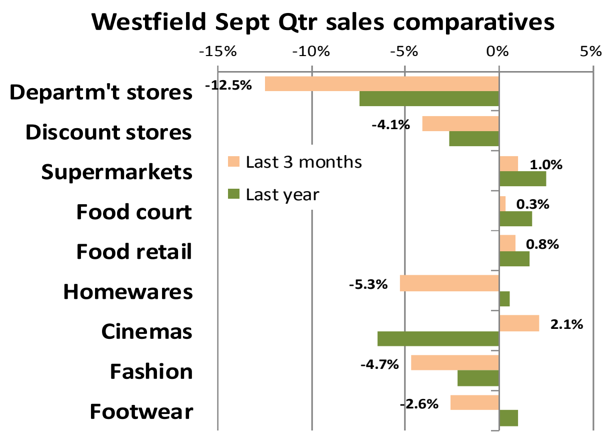
Interestingly, while same store sales continued above 11% in the first quarter of 2011/12, they slowed a little from 13% achieved over the prior full financial year. Meij issued a note of caution in his AGM presentation to the effect that these stellar times won't continue – others will wake up and the value pitch will become a bit generic.

"Value" retains a strong hold on the pizza market. Dominos took the limelight and won quick growth with its capture of on-line business but competitors will recover and as consumer confidence rebuilds, a higher meal spend will favour eating out.

This group won't stand still and be enveloped by the market – it has led on several fronts with marketing, product extension and technology, and will stay in front in a highly competitive takeaway market.

Sobering numbers from Westfield … but rents lifted – Latest quarterly data from the sales of tenants within Westfield centres shows that the retail market got tougher for shopping centres in the September quarter – in all categories of tenant except cinemas! The depth of the challenges facing major department stores is stark but even food could not escape a bleaker spending regime, as all formats – supermarket, food court and specialty food outlets – suffered a pruning in spend from the same quarter in 2010, as well as a slowing from earlier in 2011.

However, this didn't stop rents growing – rentals on new agreements on specialty rentals were up by almost 4%.



Can bricks and mortar landlords get away with rent increases in a dying specialty retail market for long?

The consumer

Interest from kids in food is mixed – Children's understanding and experience of food issues may be aided by concepts such as the *Junior MasterChef* franchise in various parts of the work, but the trend is not reaching secondary-age kids who are not cooking as often as they used to and their involvement and interest is declining. This is according to research recently carried out among some 2,500 school children in the UK. When the survey asked about cooking at home, 79% of children aged seven to 11 said they had cooked at home, with 32% doing so once a week. However, although a third of 11 to 15-year-olds said they cooked independently using either fresh or store-cupboard ingredients, the research highlighted that the number of this age group not cooking has doubled and their involvement and interest in cooking regularly is decreasing compared to five years ago. It found that eight out of 10 primary-age children were involved with growing food at home, at school or with friends and relations.

While the interest in food issues has improved for the younger set through greater focus in the UK education system, the group that missed this investment, and who are pulled into a different world as they mature into teens, will develop into an extension of the indifferent crop of Gen Ys.

Cutting waste in the home – UK retailers claim to have helped cut waste in the home by 13% between 2006 and 2010. Figures from not-for-profit waste reduction body WRAP this week show UK domestic food waste fell by 1.1 million tonnes (13%) between 2006-07 and 2010. The British Retail Consortium (BRC) said the major multiples are working on WRAP's Love Food, Hate Waste campaign by giving consumers advice on food storage and leftovers as well as offering a wider range of pack sizes and making the best use of packaging. Earlier WRAP research figures showed 8 times more food waste was generated in homes than in food stores.

WRAP claimed in its recent reporting to industry that it helped keep 11 million tonnes of waste out of landfill (that is 176 kg each for every person in the UK) and generated £2bn of benefits to the UK economy, including £1.8bn of cost savings.

We've seen nothing like the community awareness and interest in the waste reduction agenda in this retail market as has developed with European retailers. Cynical attitudes to the impact of consumers on the planet prevent this massive agenda item from gaining momentum in Australia.

US 'local' market worth $7bn – The USDA reckons that the size of the "local" food market is $7 billion…but before being dazzled by this number, it is worthwhile considering that the total US food market (retail and foodservice) is worth an estimated $1.24 trillion in retail value. A new U.S. Department of Agriculture report says sales of "local foods," whether sold direct to consumers at farmers markets or through intermediaries such as grocers or restaurants, amounted to $4.8 billion in 2008. That's a number several times greater than earlier estimates, and the department estimates locally grown foods will generate $7 billion in sales this year.

The report also puts the local food movement in context. It's dominated by fruit and vegetable growers. While only 5% of US farms sell their products in local and regional markets, it claims 40% of vegetable, fruit and nut farms (at least the smaller of those operators) sell some of their produce through these channels.

"Local" has growing prominence, but these figures may set the advocates back on their heels a little and perhaps see them quickly claim that the USDA bean counters have got it wrong.

Global food retail

Sprucing private labels – We've been given a serve of the plans for increased presence of private label products in Australian supermarkets. In the UK, where the battle using price has made everyone numb, retailers are being forced to innovate to revitalise a lot of tired products in their various "tiers" of private label products.

A marketing agency study suggests 60% of UK shoppers say they are buying more supermarket own-label than they did two years ago, while 71% of shoppers now say they see little or no difference between brands and own-label products.

During the past 18 months there have been major relaunches of The Co-operative's *Truly Irresistible* and Sainsbury's *Taste the Difference* ranges and new own-label launches from Waitrose, Morrisons, and Tesco. Some innovations have been essential to improve the personality of the brands and their products, including:

- **Morrisons** works on a strong reputation for fresh produce and food expertise. The *M Kitchen* range features a friendly, hand-drawn typeface to communicate the care and human touch, while their *M Bistro* range pairs similar hand-drawn typography with photography of the raw ingredients, to emphasise the artisan quality of the chefs who make the products.
- **Waitrose's** *LOVElife* range, launched in June uses vibrant primary colours to symbolise more variety and improved nutrition, and also to make these products easily identifiable on shelves. A similar approach used in *Essential Waitrose* in 2009, which it claims sparked a rebound in growth, was designed in a simple style with strong branding and distinctive illustrations to make it easier for our customers to identify.

Compared to Australian product, the UK private label market is mature, but tempting shoppers to trust quality and taste will take significant innovation if the aspirational targets put out there by Woolworths for one, are to be reached.

US and UK foodservice trends have relevance here – The foodservice consultancy Technomic reports on the outlook for 2012 and nominates leading trends in the UK and US markets.

The US market	*The UK market*
• **Consumers wanting more information** about the story of the meal and its ingredients. • **Higher input costs** will drive rustic/basic approaches - curtailing purchases of value-added items for cheaper cuts, grains and produce that require more in-house prep. • **Novel flavours** excite interest – gains for comfort foods with a taste benefit (gourmet, ethnic, artisan, wood-fired) as well as innovation in old formats (sandwiches, wraps, pizza, pasta). • **Expanded "local" sourcing** supply chains will be used more readily as a selling feature. • **Social media's influence** grows – patrons will increasingly trust friends and peers more than professional marketers. • **Discounting innovation** – value will remain a driver but novel ways to reward and incentivize will gain greater favour. • **Flexible formats** – outlets changing operating styles for different day parts to enhance appeal, or use kitchens to gain sales in the catering market.	• **Hyping local** – a similar trend to that in the US, but possibly with greater purchase in the UK due to entrenchment of "planet care". This will extend to greater fresh, local and seasonal inputs. • **Expanding the share of take-home meals** – expect an influx of take-home meals from chain and independent restaurant brands in a variety of retail establishments. • **Diversifying cuisine** – increasing the range of international cuisines on menus, including the expansion of this through casual street food. • **Technology sprucing up the experience** – operators using a range of technologies to create better atmospheres and streamline ordering will create greater excitement in eating out. • **Cranking up British cuisine** – the cuisine of Britain is often ridiculed as having none of its own identity. Trends suggest this will get a reworking with new ingredients.

Some clear relevance of several of these trends to the Australian market is apparent, but it will be interesting to see whether some of the edgier trends – such as a greater role for "local" foods and the extent of technology adoption - will gain traction here!

Fighting back with bricks & mortar – On-line sales of consumer goods through retailers such as Amazon have reshaped the US retail market. The influence of Amazon on Walmart's thinking in the US appears to be massive as the battle between conventional and on-line retailing escalates, and Walmart watches same store sales continue a 2-year slide. Walmart is trying to use its 3,800 stores and 150 distribution centres as a logistical and marketing advantage over Amazon. Last month Walmart rolled out "Home Free" delivery, with free shipping on orders over $45 from its stores - without a $79 membership fee such as charged by Amazon. Walmart claims a "next-day delivery at a very economical price" using its stores as distribution centres aimed largely at urban markets.

Walmart is also experimenting with everything from home grocery delivery to a pilot using the US Postal Service to deliver items shipped from a rural store in Nevada. The planned expansion of other smaller formats, supermarket and smaller Express stores now in test mode, could extend Walmart's massive logistics operations closer to consumers.

It will be interesting to see if department and discount chains in Australia – feeling the pinch already in declining underlying sales – start to dig deeper to engage in an expansion of their reach through on-line platforms.

Adwatch – Now more valued market intelligence

As retail intensity drives changes in promotional timing, levels of exposure, and bundling of products, there is greater need to be aware of activity in your category and among your competitors.

Freshlogic's **Adwatch** service can assist you by providing a daily profile of competitor activity, enabling you to respond to your customer's needs with timely and accurate action. We collect the ***complete detail of all food adverts***, including catalogues, from all food retailers in the five main states.

Starting at only $100 per week for a single category, this service is very competitively priced.

Download an overview today, or contact us at enquiry@freshlogic.com.au to receive a free sample of weekly data.

Comparative ads misleading – In the heat of the discount battle, retailers get pretty blunt about the competitive messages they want to send to targeted shoppers. Tesco has been found to have gone a little too far in comparing itself against a rival.

The UK's advertising watchdog has ruled a Tesco advert comparing prices with Asda was sufficient to have misled consumers. In an advert published and broadcast in March for Tesco's Price Check campaign, the UK's largest retailer said it would "refund double the difference" with a voucher to shop at its stores if consumers found their comparable grocery shopping cheaper at Asda. The retailer found that shoppers could tactically shop to exploit the offer, forcing a limit to be subsequently placed on the practice – but this fact was omitted from the advert. This was enough to mislead consumers.

The UK's advert watchdog has strong powers (stronger than we have here it seems), and was called in at a time when Tesco was digging deep to stop a slide in store performance at the expense of the rival mentioned in this communication.

Food on the Move trialled – UK upmarket food retailing pioneer Marks & Spencer opened a new-model convenience food store beside London's Baker Street underground station selling hot and cold takeaway eats. M&S recently reported a 10% slide in first half profits, but has signalled that convenience rates highest in its priorities as its exposure to the same department-store weaknesses plaguing both David Jones and Myers in Australia.

The 600 sq ft shop, formerly a Whistlestop convenience store, will be operated by its franchise partner SSP, which also runs the M&S *Simply Food* shops in travel locations. It will trade as M&S *Food on the Move* – the first time that fascia has been used for a standalone store, although it is used as branding in some food sections in the retailer's mainline shops.

We'll see more of these new retail formats emerge as convenience food shopping gains greater acceptance in the UK market. It will be interesting to see if local grocers are brave enough to follow this lead into the meals market.

Cutting out the retailer – The world's largest marketer, Procter & Gamble, has set up virtual stores in four of the busiest subway stations in Prague, where consumers on their way to and from work can purchase essentials such as razors, shampoo and diapers via their mobile phones.

Consumers capture scan codes for the items they'd like to purchase and the orders are then submitted to Mall.Cz (the biggest online store in the Czech Republic). Consumers then receive a message to confirm a delivery time - all while waiting for the next train.

While the virtual retail store in commuter traffic zones has been pioneered in Korea and the UK, (and since quickly copied by a retailer in Shanghai), the retail interface and delivery logistics equally lend themselves to any multi-category FMCG company.

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