



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

What we're seeing

The growth gap gets wider – Recent quarterly sales announcements by the two major grocery chains suggest momentum has shifted further towards Wesfarmers on a number of fronts. The gap in same store sales for food & liquor widened with Coles holding onto its previous quarter growth rate of 5.2% as Woolworths slipped to just 1.9%. This isn't the biggest gap in the indicator of underlying sales between the two in the past nine quarters since Coles started to expand sales faster, but what is more significant is that Woolworths number has fallen two quarters in a row. Woolworths booked "average weighted basket" price deflation of 3.3%, suggesting volumes are growing faster than the \$ sales line. Coles' fuel incentives seem to have done the trick, as like-for-like fuel sales volumes rose by more than 5%, while Woolworths' were flat.

The language from Woolworths has changed to a more defensive stance in Greg O'Brien's regime, admitting the company could do a better job in packaged groceries and its marketing, triggering a review of creative marketing, and of suppliers of customer insights and brand feedback for the supermarkets business. The strategic response to Coles' pressure in grocery is largely based on punching out more supermarkets and doubling private label sales over the next 5 years.

- * *The intensity will remain, while the strategic update from Woolworths on 2 November didn't herald a major change in approach.*
- * *Ambitions to dramatically increase private label sales were last touted in the regime of John Fletcher at Coles. Even the UK experience shows that private label shares can at best be edged up steadily over time, and only on the back of strong parent-brand credentials. Australian grocers have a journey to go before winning that trust from shoppers.*

Buying "local" – which way will it go? – The term "local" has various meanings to different people. Supporting "local" is a strengthening trend where shoppers can tick a couple of boxes – doing their bit to help reduce the environmental costs of food reaching the plate by selecting items that haven't travelled as far, as well as supporting regional producers or suppliers, and hence their community. "Buying local" is a massive, co-ordinated movement in the US driven by "heartland farmers" – here it is (so far) in its infancy and a bit muddled.



A research survey released recently but carried out in May and June this year, suggests a disparity between the two thirds of consumers who attach importance to local products, and the one-third that actually buy them regularly. At the same time more than 40% of the surveyed sample said they'd place more importance on a lower price than whether the product was sourced locally.

Bear in mind that fresh produce prices at the time of that survey were at relatively high levels after the compounding effects of weather, and householder sentiment at the time was falling. A large part of the problem, says the research, is confusion as to what "local" means – the term isn't capable of being tightly defined and can't be regulated.

- * *We will see more of the "support local" theme emerge – the effectiveness of promotional messages in gaining confidence of shoppers as to the validity of the source, enabling any value trade-off easier to understand.*
- * *"Local" will go one of two ways – it might gain greater respect and solid meaning, or be prone to abuse and weaken over time. Watch consumer advocates jump on this movement once it gathers more steam to audit "the truth in claim".*

In this edition...

The growth gap gets wider.....	1
Buying local: Which way will it go?.....	1
FOODFrontiers released by Freshlogic	2
Coles increases promotional pressure	2
QSRs roll out nutritional information.....	2
Growth in on-line advertising.....	3
CPI horrors continue?.....	3
Mobile payments arrive.....	3
Convenience beats healthier eating.....	4
Helping the well-off "do their bit"	4
UK: More than just a price war?.....	4
A new gig for ex-ASDA boss.....	4
Innovations in fresh food packaging.....	5
Repositioning organic	5



FOODFrontiers

Meal and food shopping trends in Australia

Freshlogic has published a new report which provides insights on the new settings in the Australian food market.

- It is a forwarding looking analysis of the key forces affecting consumer food purchasing behaviour
- It is a strategic tool that provides timely insights for commercial decision-makers
- It is a comprehensive package that offers excellent value-for-money compared with alternatives
- The extensive insights and indicators are updated twice yearly
- It is available in report form with an option for delivery by our directors to your board and management

The comprehensive FOODFrontiers package details:

- Major forces affecting consumer spending, and their convergence into new market settings
- The intensity of and exposure to cautious spending
- Consumer aspirations affecting choice
- What are shoppers trading off against price?
- Pressures on meal and food shopping decisions
- The increasing influence of technology on meal choices
- Where is online retailing headed?
- New exciting food sales channels to the consumer
- The leakage from supermarkets to specialists
- Relevant trends in global retail and foodservice

FOODFrontiers is published in November and May each year. It tracks a large number of influencers, indicators and trends affecting and intensity and relationships between these market settings. It draws on [Mealpulse](#) to track household spending on food taken home and eaten out, and consumer attitudes and behaviour regarding a range of issues.

You can participate in **FOODFrontiers** either by purchasing a report, or subscribing to an annual package that includes two reports, a board and management workshop and tailored implications for your enterprise.

Go to our [website](#) for more details.

Coles increases promotional pressure – Freshlogic’s tracking of retailer printed promotional activity using [Adwatch](#) showed Coles upped the ante last month as it cranked up its promotion of meat as part of the Down Down campaign. Coles was also the dominant brand, although these numbers include private label meat products. It stepped up the pressure in a way we haven’t seen in a while, using “cheaper than Woolworths” in adverts.

We also tracked a rise in dairy promotions – cheese, spreads and ice-cream – were all promoted in greater volume as warmer weather kicked in.

✱ *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

QSRs roll out nutritional information – Rather than wait for uniform national laws – which could take years based on current form, two national quick-serve restaurant chains have rolled out nutritional information boards in stores. Hungry Jack’s is posting nutritional information on all menu items in all stores, alongside the regulatory requirement looming in some states to post the recommended daily KJ intake – at the same time dropping its 16 year-old “Burgers are better” tagline for a wider “Hungry Jack’s makes it better”. Hungry Jack’s is also promoting a prompt implementation of salt and fat reduction plan across menus.



Energy values in KJs for all Domino’s products are now displayed on all menu boards and menu brochures across Australia. Domino’s positions the “informed choices” advantage as part of its “Domino’s is on a journey” CSR platform which covers a range of sustainability initiatives (including “sourcing local”) which it says will improve their appeal as a value meal provider over time. Others will be compelled to follow – improved meal information will be a very short term differentiator. McDonald’s Australia plans to introduce the kilojoule content of items on restaurant menus later this year.

✱ *As the demand for healthy food and menu transparency becomes mainstream priority and mandatory, quick service restaurants will respond to this.*

✱ *It is imperative, however, to see if this level of detailed information is valued by the consumers. It will be interesting to see if we have a response once customers are given more information – as we did in the US which we reported on recently.*

Growth in on-line advertising – Hard numbers are backing the trend towards more use of on-line marketing. The Interactive Advertising Bureau (IAB) and PwC said the total online ad market, which includes display, search and classified ads, climbed a thumping 20.2% cent to \$2.46 billion during 2010/11, taking a greater share of total spending on the advertising dollar.

A study by Frost & Sullivan estimates that spending on the subset market of online display ads – banner ads, website sponsorship, advertorials, video ads, and direct mail – climbed 12% per cent to \$635 million in 2010/11. Furthermore they say it will jump to \$1.05 billion in 5 years' time, suggesting a compound annual growth rate slowing slightly to 10.6%. The fastest growth in the display ad market was spending on video ads that come up every time you click on a news video insert, which is expected to take 30% of the \$1bn online display market in 5 years.



The other small surge may come from spending on ads that pop up on mobiles. While 46% of Australians now own internet enabled Smart phones which Telstra says will go to 60% next year – just \$14 million was spent on mobile ads in 2010/11, but would take 8% of the display market in 5 years. F&S said 60% of marketers will spend more on mobile ads in 2011/12.

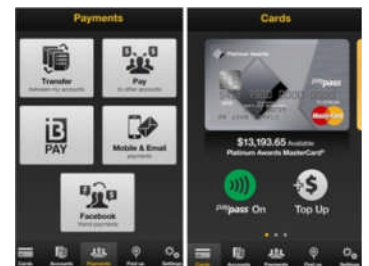
✱ *The market for the mobile advert is held back by the lack of local mobile content websites, the sluggish acceptance of the medium by advertisers and their ad agencies, and cheaper alternatives for online advertising. Nonetheless the penetration and extended use of mobile devices may change these barriers.*

CPI horrors continue? – The September Quarter CPI numbers show that little has changed in the way numbers have been calculated with Food CPI clocked at 6.4% by the ABS compared to the same quarter in 2010. Once again, this is miles from the average price changes quoted by major grocers who posted quarterly sales updates in the same week. The two major supermarkets, which account for about 50-55% of all spending on all food, issued their own volume-weighted inflation numbers which we estimate to average out at annual deflation of about 2.6%.

By our reckoning – if we are to believe both ABS and retailer numbers – food prices in all other venues such as green grocers, fast food outlets and restaurants have lifted more than 20% in the past year. Hard to imagine that fast food has been able to get away with price rises in the past year as major chains have been duelling on “value meal” credentials to attract the same frugal consumers that are opting for cheaper groceries.

✱ *Some food category inflation has been strong over the past year due to seasonal conditions, but it was time methods took into account the reality of the overall cost of living.*

Mobile payment options get a kick-start with Kaching – Commbank has gained the jump on its rivals launching a new iPhone app appropriately called Kaching which allows for contactless payment from the smartphones. The app allows users to make payments to friends using a mobile phone number, email or Facebook, or payments to retailers through the PayPass contactless technology, a product which gives CBA a dominant share of the contactless transaction market at present. The app is the first to employ Near-Field Communications (NFC) technology to make payments, and is a big step forward for the acceptance of that technology in this country.



The only problem is the iPhone doesn't contain NFC, which was hoped for the iPhone 4s but will be considered for future versions. The CBA will supply special cases for the iPhone to enable the software once it is available to the public prior to Christmas. Android versions are being testing.

✱ *The barriers to wider use of mobile payment will be convenience – being faster than drawing a credit card - and trust, that it can't be corrupted or hacking within the “near field”. The uptake for this payment gateway will have a slow and clunky start but a steady uptake is assured.*

The consumer

Convenience beats healthier eating – A survey by kitchen goods maker Tefal of 2,500 Australians suggests 45% of Australians failed to meet the recommended daily intake of five vegetable portions. Of these people, 39% said that preparing and cooking vegetables wasn't convenient as part of their busy lifestyle, and this was major impediment to vegetable consumption.

Tefal said that the second biggest barrier to consuming vegetables was a lack of culinary skills, with 37% of people claiming they often avoided fresh vegetables as they weren't confident about how to prepare and cook them. Of those surveyed, 15% claimed they weren't aware they should be consuming five portions of vegetables a day in order to maintain a healthy lifestyle.

** The challenge for fresh produce categories in lifting sales volumes and therefore "share of stomach" remains one of improving convenience. Regardless of the segment of the consumer market, convenience remains a robust definer of opportunity.*

Helping the well-heeled "do their bit" – Something for the consumer at the top-end of the market. The New York Times recently carried a wonderful story about the "Eco-concierge" services on offer in the US, which is an interesting reflection on how the top end consumers are balancing time demands with a desire or need to "do their bit". Green living can be made so much easier with a personal environmental concierge. At least a half-dozen services of this type have sprung up around the country in recent years, both to help time-starved high-income consumers manage their lives and to address their guilt that they are letting the planet down.



The service is time or membership-based offering personal assistance for clients to shop, eat, clothe, light, warm, recycle, detox their homes and even take their leisure in environmentally friendly ways.

** These well-established services show how convenience extends to addressing ways of investing and changing habits to tick the box for their "green" aspirations.*

Global food retail

UK: More than just a price war? – The grocery price wars have become so pervasive and constant in the UK that one of its major retailers reckons that consumers are losing interest in value and that other factors will come to the fore in choosing a store or brand to shop in, and products. The statement came from Sainsbury which had itself just rolled out a "Brandmatch" campaign. Price, it says, is no longer a competitive advantage – as long as shoppers can trust the claim behind the retailer brand in the land of the private label.



The retailer's commercial director has claimed that the premise of brand positioning is that the shopper doesn't have to worry about price because there'll be a brand match at the till, but what they get from the shopping choice is trusted quality underpinned by a set of other important values. Sustainability platforms receive massive investment and promotional focus to support the UK's food retailer brands.

Is it getting harder to move UK shoppers on price? Market data released recently suggests the big four of Tesco, ASDA, Sainsbury and Morrisons have plenty to keep an eye on if they want to rest on their value laurels. Hard-discounters Aldi and Lidl continue to pick up healthy slabs of market share expanding double-digit growth rates, based on cheaper prices for household staples, while ASDA claims a surge in support for its cheaper private label lines with a 'cheaper by 10%' claim.

** UK retailers are masters of corporate spin and would love to believe their own CSR hype in preference to sticking at a protracted focus on value!*

Former ASDA boss bobs up with new venture – The former ASDA CEO who stepped away from his job after a long period of success, Andy Bond, has emerged as part of a new online retail venture called farmison.com. The home delivery website is aimed at food enthusiasts who want access to the same high quality fresh produce, meat and dairy supplies as used by the country's leading restaurants. The business already has some 30 fruit and vegetable growers supplying it with seasonal UK produce.



Farmison is not the first of these ideas, and a few in this market are trying the same approach. The model is a variant of Aussie Farmers Direct, or a variety of fresh food box delivery models in operation here, with the difference being the focus on the top end of the market. **Fratelli's** for one offers a similar proposition to home entertainers sourcing from existing restaurant suppliers.

** We'll see more of these new retail supply services emerge as on-line food shopping gains greater acceptance.*

Innovations in packaging – The **Produce Market Association (PMA) Fresh Summit 2011** was held in October 2011 in Atlanta, recognised as one of the leading global events to showcase new products. The "Impact Awards" is deemed a reflection

of the leading edge in innovative and original packaging solutions for fresh produce. The packaging entries were judged on a set of five criteria or points of excellence: marketing, food safety, supply chain efficiency/functionality, sustainability, and consumer convenience. **The 2011 Impact Award winners include:**

- **Peel/Reseal Squash Package** by *Apio & ClearLam*: - A tamper-resistant platter with removable dividers, extending shelf life for produce from 16 to 18 days. It can be used for meats, cheeses, a variety of other snacking items, fresh cut vegetables and fruits. It adds convenience and cuts waste.
- **Living Lettuce Squirrel** by *Hollandia*: A new redesigned “clamshell” to optimise the space to package the lettuce, allowing for a 20% increase in units per pallet, and reduced usage of plastic. The shipping container features has a tamper evident seal, and reduces the total cardboard by 40%.
- **Sustainable Mushroom Packaging** by *Monterey Mushrooms*: The packaging features a recyclable, biodegradable fibre tray, with a printable surface to carry messages on nutrition, recipes, usage, and the versatility of mushrooms.
- **Berry Quick Snacks** by *Naturipe*: First of its kind, Berry Quick Blueberries are individually portioned, washed, and ready-to-eat snack packs that prevent berries from being damaged, as well as extend their shelf life for up to 3 weeks in the refrigerator. These packs are suited for on-the-go snacking, lunch boxes, or for adding to bowls yoghurts or salad. The rigid pack prevents crushing of the berries, making it easy for children to hold while snacking.
- **Season & Steam Microwavable Artichoke Pack** by *Ocean Mist*: The new bag features two fresh globe artichokes cleaned, trimmed, and ready to cook. The packaging gives users the option to open, pre-season the artichokes to their preference, reseal, and steam by microwave. It aims to overcome perceptions that preparation is the major barrier to purchase of artichokes.



✱ *Consistent themes are evident in this crop of winners – cutting preparation time, targeting new meal and snacking uses, reducing household waste, improved handling, reducing packaging materials, and offering food safety and anti-tampering solutions, which have been very topical in the US fresh produce sector in the past couple of years.*

Other things of interest...

Repositioning organic – The Soil Association - the peak organic supply industry body in the UK - has released a new strategy called *The Road to 2020* outlining priorities for the next decade under two themes “*facing the future*” and “*good food for all*”.



The organic certification body places less emphasis on the term “organic” in its overall mix of priorities, which it acknowledges may be frequently misunderstood by consumers, and focuses on “solutions that meet the needs of people for healthy food, fuel and fibre while protecting the natural world” which pitches the organisation into a wider sustainability and social justice space. The organisation – which has in the past backed controversial claims that organic food is healthier for people – says it will put as much work into public health as it does into environment and farming.

✱ *The organic sector has suffered a mixed bag in leaner times*

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Freshlogic is a specialised consulting and analysis business with a strong focus on the food industry. We deliver a range of services to industry and corporate clients, which aim to interpret market and supply chain conditions, or address challenges faced in food supply chains associated with changes in the preferences of consumers, the expectations of the community, international trade and economic settings.

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