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HRI Food Service Sector

Report

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Report Highlights:
The food service sector in Australia was worth US$14 billion in 1999/00 representing a growth rate of 12% on the previous year. Opportunities for US exporters exist primarily in the restaurant/coffee shop/function catering (convention) sub-sectors. Other trends that may provide opportunities include healthy food alternatives, spicy foods and quality products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
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Disclaimer: As a number of different sources were used to collate market information for this report, there are areas in which figures are slightly different. The magnitude of the differences is, in most cases, small and the provision of the data, even though slightly different, is to provide the U.S. exporter with the best possible picture of the Australian Hotel, Restaurant & Institutional Food Sector where omission may have provided less than that.

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I. Market Summary

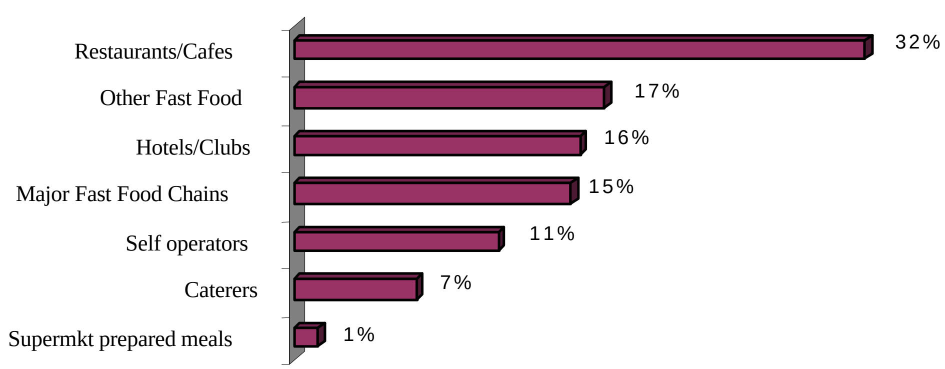
The Australian food service sector consists of three main sub-sectors - Hotels and Resorts, Restaurants, and Institutional Contracts. The expansion of larger hotels and resort restaurants has slowed. A gap that existed in the fine dining sector in Australia has largely been filled and recent trends are for outdoor and casual dining. There are many smaller hotels, which generally don't have in-house restaurants, but exist in suburbs with a proliferation of places to eat. The Restaurant sub-sector is characterized by independently owned restaurants, whereas in the US, 40% of restaurants are chains. Within the Restaurant sub-sector, growth is expected in the traditional fast-food chains, mainly US branded, with predictions for 3% growth from 2000-2002. There is a concentration of café and restaurant business in the eastern states with 79% operating in NSW, Victoria and Queensland. The Takeaway sub-sector has, however, lost ground to the Café and Restaurant subsector. The institutional contract sub-sector is dominated by three main caterers/distributors.

Australians spend 30% of their food budget on takeaway or dining out, spending on average $18.86 (AUD = US$0.64) per week on meals away from home of which $7.70 is spent on takeaway food. A further $5.14 is spent on non-alcoholic beverages. The food service industry served nearly 4.2 billion meals in 1998 or 222 meals per head compared with 216 in 1996, according to a study by BIS Shrapnel (1999). There is potential for substantial growth, particularly if we look at the US where consumers eat out at hotels and restaurants twice as often as Australians. The study forecasts the number of meals served will increase by 4% annually for 2000 and 2001, with restaurants, cafes and fast-food chains reaping the benefits.

The food service sector in Australia was worth US$14 billion in 1999/00, accounting for around 33% of total food sales, with the Café and Restaurant sub-sector growing at twice the rate of the total food retailing industry (ABS Statistics, 8501.0).

Cafes and Restaurants accounted for US$5.2 billion of the market in 1999/2000, increasing from US$4.6 billion in 1998/99, representing a growth rate of 12%. The sub-sector is the largest in the Food Service Sector accounting for 37% value share in 1999/2000. The following graph provides a breakdown of the Australian Food Service market sub-sectors as in 1999, based on a BIS Shrapnel survey, with no update in the survey at the time of this report. Generally, the changes are that the take-away sub sector is declining with the café and restaurant sub-sector increasing in value share.

Australian Foodservice Sub-Sector Sales 1999



Source: "The Australian foodservice market 1998-2000", BIS Shrapnel

Imported foods accounted for approximately 9.4% of total food costs in 2000, falling from a share of 12% in 1998. The following table provides the contribution of imported food products to the total value of food products in Australia. Of the total value of food imported to Australia, US imports contributed US$294 million in 1996, increasing to US$338 million in 1998 and falling to US$298 million in 2000. The depreciation of the Australian dollar and the conversion of AUD to USD has contributed to this apparent decline.

Value of Imported Food vs Domestic Products (USD Million) (1996 – 2000)

	1996	**1997**	**1998**	**1999**	**2000**
ROW Imported Food Products	2,748	2,700	2,497	2,672	2,594
US Imported Food Products	294	325	338	317	298
Domestic Food Products	41,069	31,548	29,019	31,221	28,030
Total value of Food Products in Australia	44,111	34,572	31,855	34,210	30,922

Source: Australian Bureau of Statistics, Cat Nos. 5422 / 5206

In 1999, the food service market consisted of 76,000 outlets, nine per cent more than recorded in the survey of 1996. 60,000 are commercial (restaurants, hotels, fast-food chains, clubs and cafes), and 16,000 institutional (schools, hospitals and prisons). The increase in outlets has been driven by growth in restaurants and fast-food outlets (FoodService News September 1999).

The number of Cafes, Restaurants and Bars in Australia increased to over 14,000 over the period 1997 to 1999, and in 1999, over 45 percent of cafes and restaurants were licensed to sell alcohol. The below table shows that almost half of all sales from restaurants and cafes are consumed on the premises, demonstrating the increased popularity of dining out.

Types, Location and Sales of the Restaurant and Café sector in 1998-99

Type of business	Number of Locations	Sales Consumed on Premises (millions US$)	Percentage Share of Total Sales	Sales as Take-away (millions US$)
Licensed Café and Restaurant	4552	1287	52	83
Licensed and BYO Café and Restaurants	1891	398	16	38
BYO only Café and restaurants	2748	337	14	51
Unlicenced Café and Restaurants	3291	431	17	95
Catering	1716	14	1	12
Total	14199	2467	100	279

Source: Australian Bureau of Statistics, Cat no. 8655.0, 1998 – 99 (most recent survey).

The distribution of the food service sector across Australia is presented in the following table. NSW/ACT are the leaders in all four divisions, however, WA, Victoria, Queensland and Tasmania have increased their share of food sales in the Takeaway Outlet sector at the expense of NSW/ACT and SA/NT. In the Café and Restaurants sector, Victoria and NSW have increased their share, while all other States experienced a decline in share.

States Share of Retail Food Sales 1999/2000 (Percentage)

States	Takeaway Outlets	Other Food Outlets	Cafes & Restaurants	Supermarkets & grocery
NSW/ACT	31.3	45.3	37.9	33.1
Vic	22.5	28.3	27.2	25.8
Queensland	22.1	na	17.6	18.9
SA/NT	9.1	14.7	6.6	8.9
WA	12.1	11.7	9.7	10.9
Tas	2.9	na	1.0	2.3

Source: AFFA, Australian Food Statistics 2001, ABS 8501.0; Note: Information from Queensland and Tasmania was not available, inflating the share of the other States artificially.

The key demand drivers and macro-economic factors affecting the food service sector include:

Trend towards healthy food choices: A recent consumer survey found that more than 70% of Australians over the age of 14 like to eat healthily, and combined with this, 72% of the same people agreed that health food is not necessary if you eat properly (Retail World, 2001). This result shows that consumers are aware of healthy options, but at the same time, see healthy eating habits just as important as healthy food choices. BIS Shrapnel in their 1999 survey of food service operators found 80% of respondents agreed that customers are demanding healthy foods (e.g. low fat, vegetarian, organic).

Increase in fresh produce as compared to processed products: BIS Shrapnel found 51% of respondents in the 1999 survey agreed that fresh produce popularity was reducing demand for processed products. Interviews with operators in the restaurant sub-sector confirm this statistic enlisting dedicated suppliers to produce fruit and vegetables to their quality specifications of variety and freshness. The success of gourmet delis/sandwich bars is also based on the presentation of high quality fresh produce.

Menu diversification & ethnic diversity influencing food choices: Multiculturalism has had, and will continue to have, a major impact on the food service industry with around 75% of Australians eating ethnic foods regularly. There has been a dramatic increase in Indian, Chinese and Japanese cuisine, and more than 30% of first courses in restaurants in Australia classified as ethnic dishes. Modern Australian is the most predominant cuisine accounting for 15.4%, followed by Italian, which increased from 8.9% in 1998 to 12.7% in 2000/01 (Food Processor, July 2001). Thai restaurants continue to experience growth with two restaurants opening every week Australia-wide during the 6 months to December 2000.

Domestic demand buoyant: Australian consumers are confident in the Australian economy due in part to growth in real incomes and employment. This has lead to an increase in disposable incomes available for dining out. Indeed figures revealed by the Australian Bureau of Statistics in May 2001, show that industry turnover in the Restaurant and Café trade has been higher in the past nine months than it was in the corresponding period 12 months earlier (Foodservice News, July 2001).

Internet: Food service companies including caterers, home-service, food distributors and specialist manufacturers are using the Internet to increase sales and improve distribution. www.nafda.com.au, www.greengrocer.com.au, and www.rhcl.com.au are examples. Many of the Internet food retailers are seeing themselves becoming a 'one-stop-shop', where consumers are able to purchase everything they need on line, in a time and location convenient manner.

Product Innovation: Australians are prepared to try innovative foods and international chefs consider it easier to experiment in Australia and break with tradition. A recent survey revealed that over 55% of Australians are prepared to try new types of food (Retail World, 2001), with this number even higher for younger consumers.

Lifestyle: Eating out is playing an increasing role in socializing and entertainment. Eating out is predicted to grow by 3% over the next two years (Fast Food in Australia 2000 – 2002, BIS Shrapnel), with the preference for relaxed, outside dining emerging as a threat to more traditional forms of restaurant dining. The influence of clubs and hotels are also expected to increase in the eating out sector, with the availability of cheap quality meals and good support from an aging population (Hospitality, July 2001).

Café/Restaurant sector growing at the expense of the Takeaway sector: In 1999, the Café/Restaurant sector increased its share of total food retailing from 10.4% in 1998 to 11.7%. This was at the expense of the Takeaway Food Sector, which declined from 11% to 9.8%.

Growth in International Conventions: Sydney, and Australia, is experiencing substantial growth in the number of international conventions being held. This growth is partly due to an increase in advertising and appropriate venues, and also exposure that has come from the success of the 2000 Olympics.

Indulgence: The market is breaking down into specific segments with consumers demanding "indulgence food one day, and healthy products the next". This trend is represented with the large increase in sales for both healthy and indulgent types of biscuits, whereby consumers are conscious of their health, but also willing to purchase more premium goods. In the HRI sector, this is reflected in the trend towards eating out at restaurants and cafes instead of consuming takeaway food.

Increased consumption of spices: Australian consumers have a taste for spicy food. From a decade ago, consumption of red pepper is up 105%, and basil is up 190%.

A conclusion from these trends is that the Restaurant sub-sector will continue to grow. In particular we will see an expansion of ethnic cuisine restaurants, offering high quality, value for money food, and café dining. The consciousness of consumers towards healthy lifestyle choices should not be understated, along with the preference towards time efficient methods of consumption, which supports the sector.

Advantages and Challenges Facing U.S. Products in Australia

Advantages	Challenges
Growing confidence in Australia's economic fundamentals with continued expansion.	Australian dollar has depreciated against the US dollar making imports relatively more expensive.
Tariffs on imported food products are low - 0% for canned or minced salmon, condiments, chilled beef and almonds.	Many competitive U.S. products are prohibited entry or face rigid SPS regulations, e.g. citrus from Florida, grapes and stone fruit.
Australian consumers are experimental and desire authentic, restaurant quality taste sensations. Innovative products that make it easier for food service operators have potential.	As most products are available in Australia for the food service industry US products have to compete on price in an extremely competitive market.
Opportunities for new flavors and spices such as Latino, Caribbean, Spanish and the growth in the popularity of 'fusion' meals, with the combination of different tastes and flavors.	With the emphasis on quality, Australian chains and restaurants are likely to buy fresh produce locally as it is viewed as fresher by consumers.
The conventions market is continuing to expand with opportunities for caterer suppliers. The growth is due in part to increased exposure from the Sydney Olympics.	The recent expansion of the Café and Restaurant sub-sector at the expense of the Takeaway food sub-sector creates challenges for US exporters, as it increases the demand for fresh produce, reducing the demand for processed inputs and ingredients for the food service sector.
Generally, there are opportunities in food retail for innovative products, particularly those that are healthy, flavorful and which reduce preparation time.	US suppliers have to compete with the popularity of Italian, Thai, Indian, Chinese, Japanese and European cuisine.
	The food service industry has access to one of the widest and freshest supplies of food in the world.

II. Road Map for Market Entry

A. Entry Strategy

Channels

- US exporters should establish local representation.
- For most food product categories, wholesalers are the main source of supply to food service operators in terms of the flow of goods, as reported by BIS Shrapnel in 1999. This is with the exception of bread, meat, fresh poultry, fresh fruit and vegetables, and dairy products, which are mostly supplied by specialist retailers, distributors or manufacturers. However, specialist food service distributors distribute many products developed specifically for the food service industry.
- Exporters may find more success by targeting distributors and wholesalers that stock a wide range of items as the food service market is looking to one-stop-shop servicing distributors that can offer a range of dry and frozen goods.
- Use Australian food service supplier Internet sites to locate specialist/generalist distributors. For example www.nafda.com.au provides industry links to www.supplysite.com and www.foodservice.net.au and contact details for its members. Many of the linked sites are international allowing you to advertise your products to Australian buyers as well as to the rest of the world. Also look at http://www.ausfoodnews.com.au/foodcomp.htm and http://www.ausfoodnews.com.au/foodserv.htm

Product Promotion

- Build brand awareness through advertising and promotion. A 2000 survey determined that: 89% of marketing executives believed promotional products effectively built brand awareness; 53% used promotional products; and 30% believed such products were more memorable than mainstream advertising. The most popular promotional products are calendars, items that can be worn and office accessories.
- Educate potential customers of industry product endorsements your products may have received. Australian consumers respond positively to a quality product endorsement. If your product has won awards in US ensure adequate advertising. Also if restaurants/caterers you supply have won awards, ensure your products include educational material advertising successes.
- Exhibit at trade fairs in Australia (Refer Section V).
- Make it easier for distributors/caterers to use your products by packaging products into menu suggestions that target school canteens for example.
- Depending on the nature of your product, whether it is geared towards the institutional, restaurant or hotel/resort sub-sectors, different food service suppliers should be targeted. For example:
    - larger wholesalers are dominant in the institutional sector (except for non-boarding schools);
    - smaller suppliers appear to be dependent on trade from restaurants;
    - coffee shops, clubs and hotels, fast food and restaurant chains rely mostly on the large wholesalers and distributors; and
    - function and contract caterers appear to use suppliers of all sizes.

Food Safety

- Ensure your product meets the food safety requirements of each sector. The Institutional Sector has particular requirements, as does the seafood industry (Refer Section V).

School Canteens

- Products must meet the Federation of Canteens in Schools (FOCIS) standards on nutrient criteria and be registered with FOCIS.
- Register with the School Canteen Association in the relevant state (see Section V).
- The Western Australia School Canteens Association (WASCA) has developed the "Healthy Kids" initiative, which combined with the national "Star Choice" products promotion, encourages canteens to promote healthy options for students nationally. Canteens accredited by state associations receive canteen buyer's guides, which outline and recommend the purchase of healthy foods. While there are no stringent State guidelines for accreditation, each state has very similar standards.
- Registered products should include industry logos in their promotion.
- Register with the Australian National Heart Foundation where possible.

B. Market Structure

Independent distributors dominate the food service network in Australia. The industry is fragmented and is represented by 600-700 distributors nationally who service an estimated 73,000 outlets. The fragmented nature of the industry means food service operators need to deal with a large number of distributors and wholesalers to meet their requirements. In the BIS Shrapnel study (1999) nearly half of the food wholesalers interviewed used five or more suppliers. This percentage increases to 62% in the case of larger companies. However, the results suggest there is a trend towards a decrease in the number of suppliers used. Importers are more likely to succeed by targeting the main distributors, buyer groups and wholesalers that generally have national coverage or specialist distributors of a particular product.

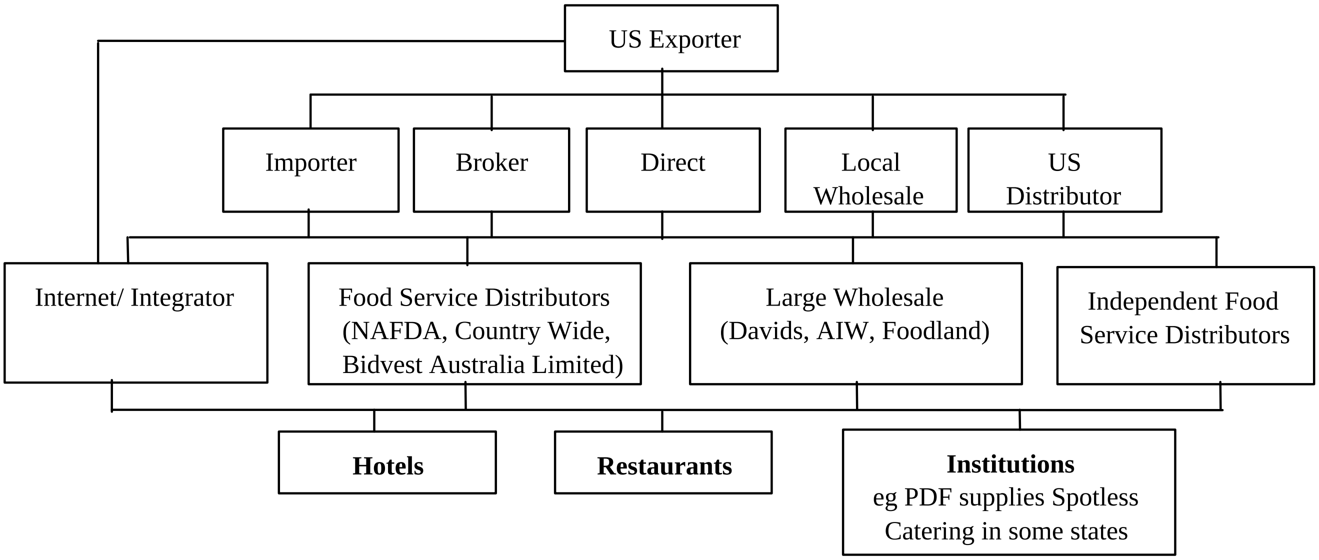
Most distributors are small (five employees or less) and located mainly in rural towns while the largest (up to 750 employees) are found primarily in the key capital cities, especially Sydney and Melbourne. The industry fragmentation is driven by the high expectations of customers who expect virtually 24-hours, 7-days a week, service.

In order to compete more effectively, some small distributors have banded together to form buying groups, such as National Food Distributors Association (NAFDA), one of the largest distribution networks in Australia. NAFDA is largely metropolitan based, with a membership of 45 food-service distribution companies. Bidvest Australia Limited is another leading food service distributor in Australia, with an annual turnover in excess of US$224 million.

Most large food producers or manufacturers still distribute a large proportion of their own products, particularly for bread, cold beverages, dairy products and fresh/frozen meats. Coca-Cola, Arnott's and Goodman Fielder Foodservices maintain their own in-house distribution network.

The food service distribution network services the traditional food service outlets such as hotels, clubs, restaurants and institutional and business canteens, caterers, delicatessens and specialty food stores. McDonalds and PepsiCo chains employ individual distributors. FJ Walker services McDonald's and Tricon services KFC and Pizza Hut.

The structure of the Australian Food Service distribution network as shown below, shows the flow of product from the US exporter through to the food service sub-sectors.



While it appeared that Internet Integrators, as distinct from distributors with Internet capability, were emerging as a player in the distribution of fresh produce to restaurants with the flow of goods moving from the manufacturer via the Internet/Integrator to the consumer, this trend appears to be slowing. Wineplanet.com, an Internet distributor in the food service industry, was presented as an example of successful entry, however it has closed its site. The Internet is still an important tool for the major distributors and wholesalers.

C. Sub-sector Profiles

Abbreviations used in this section:
NT = Northern Territory; SA = South Australia; WA = Western Australia; VIC = Victoria; QLD = Queensland; NSW = New South Wales; TAS = Tasmania; ACT = Australian Capital Territory.

1. Hotels and Resorts

Company Profiles

Name of Hotel/Resort	Food Sales*	Number	Location	Purchasing Agent
Park Royal Hotels and Resorts	NA	31	National, Capital Cities and Tourist Destinations	Internal buyers/ wholesaler
Hyatt International	25% of total turnover	8	National except NT & TAS	Internal buyers/ wholesaler
Sheraton Hotels and Resorts	50% of total turnover	12	National except NT/SA and TAS	Internal buyers/ wholesaler
Accor (Novotel)	NA	16	National	NA
Accor (IBIS)	NA	7	Major capital cities	NA

Source: Based on advice from industry.
*Due to competitive nature of the sector not able to divulge turnover figures.

The Hotel sub-sector represents 16% or $2.19 billion of the food service sector. The major chain hotels are listed in the table above.

There are a number of challenges, which face US suppliers in this sector:
- Hotel chains and independent hotels generally serve food which is localized; and
- Australian products are more prevalent than imports and US products are not common.

Despite these challenges the following growth trends offer opportunities to US suppliers:
- Hotels and Resorts are increasing their push into the growing business convention and function sector. Australia, and Sydney in particular, is a popular destination for international conventions suggesting an expanding market.
- The market for breakfast is growing in Australia. Offerings include continental breakfasts, fruit platters, hash browns, pancakes with maple syrup, sausages etc. Hotels have the largest share of the market serving approximately 70 million breakfasts each year, while cafes and food outlets serve approximately 21 million breakfasts.
- The serviced apartments and bed and breakfast accommodation market is gaining rapidly on the four and five-star hotel sector. Opportunities exist with portion controlled, easy to heat dinners such as high quality cook-chill or 'heat in the bag' meals.

2. Restaurants

Fast Food Company Profiles

Company Name	Sales (US$ Mil)	Number of Outlets	Location	Nationality	Purchasing Agent Type
McDonald's Australia	$652 (1998)	680	National	Local franchise	F J Walker Distributor
KFC	NA	470	National	US	Tricon Services
Pizza Hut	$214 (1998)	425	National	US	Tricon services
Sub Way	NA	223	National (50% in QLD)	US, local franchise	Local Wholesaler/ Distributor
Pizza Haven (ranked 2 in Pizza market)	$47 (1998)	220	National	Local	Local Wholesaler/ Distributor
Eagle Boy's Pizza	NA	155	NSW, QLD, WA, ACT	Local	Local Wholesaler/ Distributor
Domino's Pizza	NA	136	National	US local franchise	Local Wholesaler/ Distributor
Arnold's Ribs & Pizza	$3 (1998)	20	NSW, QLD, ACT	Local	Local Wholesaler/ Distributor
Hungry Jacks	NA	172	National	US Local franchise of Burger King	Local Wholesaler/ Distributor Import Agent

Wendy's	NA	300	National	US	Local Wholesaler/ Distributor Importer Agent
Pure & Natural Diners	NA	39	National (except Tas)	Local	Local Wholesaler/ Distributor
Fancy Fillings	$4 (1998)	25	NSW, VIC, QLD, WA	Local	Local Wholesaler/ Distributor
Hokka Hokka (Asian fast food)	$8 (1998)	30	NSW, VIC, QLD	Local	Local Wholesaler/ Distributor Import Agent

Source: Corporate web-sites; Franchise Council of Australia (1999) Franchising Yearbook & Directory 1999; Industry Advice.

Major fast-food chains represent 15% of the total food service industry.

In July 2001, BIS Shrapnel advised the Foodweek Convention held in Australia, that there was a 15% drop in hamburger sales between 1997 and 2000. Sandwiches are the most popular takeaway food item at 25 purchases per week per head, followed by hot chips at 18 purchases. It was found that 20-29 year olds spend US$17.70 each a week compared to US$10.60 spent by over 65s on takeaway and fast food. These trends generally support local ingredients, however, there are likely to be opportunities in such products as condiments and canned food ingredients.

Although the traditional fast-food restaurant sub-sector in Australia is substantial, a number of challenges face US suppliers:

- The majority of fresh produce is supplied locally.
- The majority of US fast-food chains are locally franchised.
- The sub-sector is facing competition from a developing up-market convenience food sector.
- Ethnic quick service restaurants, cafes and restaurants are growing in number and popularity.

Family Style/Mid-Level Company Profiles

Company Name	Sales (US$ Mil)	Number of Outlets	Location	Nationality	Purchasing Agent Type
Sizzler	NA	29	National	US	Local Wholesaler/ Distributor Import Agent
Hog’s Breath Café (Australia) Pty Ltd	$25 (1998)	38	National	Local franchise	Local Wholesaler/ Distributor Import Agent
The Keg Restaurant & Bar	NA	13	VIC, NSW, QLD	South Africa	Local Wholesaler/ Distributor Import Agent
Montezuma’s (Mexican)	NA	19	NSW, QLD, VIC, SA	Local	Local Wholesaler/ Distributor Import Agent
Taco Bill Mexican Restaurant	NA	21	National	Local	Direct

Source: Corporate web-sites (2001); Franchise Council of Australia (1999) Franchising Yearbook & Directory (1999); industry advice.

Australian family-style/medium level restaurants are, for the most part, independently owned, with most operations privately or family-owned accounting. They account for 47% of the market. Specialty food service shops predominantly serve modern-Australian, Italian, seafood, Japanese, Chinese, Thai, Indian and Mexican cuisine. For example, Australia has over 3,000 Chinese restaurants and 860 Thai restaurants with approximately two new Thai restaurants opening per month nationwide.

Independent and franchise restaurants deal with distributors and wholesalers and visit fresh produce and meat markets. To tackle this market, targeting wholesalers and distributors will be more successful and beverages and quality condiments are likely to be the most successful products.

Trends in family-style/medium level restaurants include:
- An increase in Asian food outlets.
- An increase in the total number of restaurants.
- Consumers willing to pay more for quality products.
- Continuation of multicultural flavors dominating, reflecting the ethnicity of Australia.
- New ideas flowing from Asia and Europe, with the potential for trends in flavors from the US to influence the sector.
- Food festivals are popular events and provide a good idea of trends.

Coffee Shops Company Profiles

Company Name	Sales (US$ Mil)	Number of Outlets	Location	Nationality	Purchasing Agent Type
Donut King (US, local franchise)	NA	185	Australia	US Local Franchise	Local Wholesaler/ Distributor Import Agent
Muffin Break	NA	119	National	Local	Local Wholesaler/ Distributor Import Agent
Michel's Patisserie	NA	160	National	Local	Direct Local Wholesaler/ Distributor
The Coffee Club	NA	56	QLD, NSW, SA	Local	Direct Local Wholesaler/ Distributor Importer Agent
Coffee DCM Donuts (local franchise)	NA	29	NSW, VIC, QLD	Local	Direct Local Wholesaler/ Distributor Importer Agent
Starbucks Coffee Company	NA	10	NSW, ACT, QLD	US	Direct Local Local Distributor Direct Import (Starbucks Seattle)

Source: Corporate web-sites; Franchise Council of Australia (1999) Franchising Yearbook & Directory 1999 Food service News, August 2001industry advice.

As with family style restaurants the majority of coffee shops in Australia are independent and locally owned. However, franchises are popular. Recently, the US heavyweight Starbucks entered the local market, with 5 stores in Sydney, 5 stores in Melbourne and a plan to have 50 stores by June 2002.

McDonald's is the only quick service restaurant with a significant share of the breakfast market, however, of the overall breakfast market, McDonalds share has been diminishing due to increased variety and competition.

Specialty Shops Company Profiles

Ice cream: Ice cream is an area of growth in the food service market with many coffee shops providing an ice cream bar. During 1998 Australians spent more than US$943 million on ice cream, with most being sold through supermarkets, convenience stores, milk bars, delicatessens, petrol stations, news agencies and other stores. A small growing market of franchised ice cream parlors accounted for US$107-126 million of the total market in 1998, with premium ice cream parlors representing the biggest area of growth. In Australia there are more than 650 franchised ice cream outlets, providing opportunities for US suppliers in the boutique end of the market and catering industry, where new flavors using quality ingredients enjoy a premium and popularity.

Bakeries: Significant growth has been experienced for bakery products, primarily driven by the large growth in bakery franchises and premium products. The Australian baked product market is estimated to be worth US$1.4 billion (Food service news, 2001), with bakery chains and independent bakeries accounting for around 15-20 percent of the market. The growth in the market is best represented by the expansion plans of market leader ‘Bakers Delight’, who currently has around 400 stores, but aims to have 600 by 2003 (Food service news, 2001). The trend towards products that are healthy, quick and convenient and the development of new tastes and products have driven the growth in the market. Opportunities exist in the supply of quality, premium products and the development of new products, particularly inclusions and new flavors.

3. Institutional

The sub-sectors business cafeterias, military (defense), schools/universities, hospitals, nursing/retirement homes, function catering (sporting, entertainment, conventions, Olympics) and Internet home delivery services, present opportunities to US suppliers.

The companies listed in the following table are the primary suppliers to these sub-sectors and the food service sector as a whole.

Company Profiles

Company Name	**Sales (US$ Mil)**	**Sector**	**Location**	**Purchasing Agent Type**
Spotless Catering (caterer)	NA	Conventions, business and industry, tourism and leisure facilities, educational facilities, defense and government	National	Local wholesaler/ Distributor Import Agent Direct
Nestle Foodservices – National (distributor)	NA	Schools/universities, restaurants, hotels, functions	National	Local wholesaler/ Distributor Import Agent Direct
PFD Food Services (distributor)	NA	23 outlets supplying hotels, restaurants and caterers.	VIC, TAS, SA, NSW	Local wholesaler/ Distributor Import Agent Direct
NAFDA (buying group, distributor)	NA	Nursing/retirement homes, hospitals, fast-food chains and hotels	National	Local wholesaler/ Distributor Import Agent Direct
Eurest Australia/Eurest Whizz Kids (caterer, distributor)	$92 (1999)	Business cafeterias 3 Defense industry 1 School cafeterias 4 University 3 (Function catering, healthcare)	VIC/NSW	Local wholesaler/ Distributor Import Agent Direct

Bidvest Australia Limited (distributor)	$207	Nursing/retirement homes, hospitals, fast-food chains, hotels, clubs, correctional centers, restaurants/take-away, caterers etc	National	Local wholesaler/ Distributor Import Agent Direct
Grinners Buffet Catering (caterer)	NA	70 (functions)	NSW, QLD, VIC, SA, WA	Local wholesaler/ Distributor Direct
Valcorp Fine Foods (wholesaler)	NA	Function caterers, hotels	National	Import Agent Local Wholesaler Direct
Countrywide Australia (buying group, distributor)	NA	Catering companies, hospitals, fast-food chains, hotels	National	Local wholesaler Import Agent Direct
GEMA Catering (caterer)	NA	Function catering (conventions, entertainment)	NSW	Local wholesaler/ Distributor Direct
Laissez-Faire	NA	Function Catering (Olympic contracts)	NSW	Local distributor Direct

Source: Corporate web-sites; industry advice; *Food service News* magazine, 1999 editions, Food service News magazine, July 2001.

Supplier Information

- PFD Food Services Pty Ltd, www.pfdfood.com.au is an Australia-wide catering/distributor specialist, supplying hotels, restaurants and functions. PFD is a member of NAFDA and their website is a useful source of information on the Australian food service sector.
- Australian Food service Distribution (AFD), a division of NAFDA (www.nafda.com.au), distributes products for NAFDA, including its own private label products.
- John Lewis Food Service, owned by national distributor Bidvest Australia, www.bidvest.com.au, is one of the top three catering distributors in NSW, promoting a range of over 10,000 items nationally. Bidvest trades under a range of names for different locations including R M Smith and Stephensons (Sydney), Manettas (Newcastle), Tod Foods (Wollongong), Warramba (Melbourne), Regency (South Australia), Cold Seas (Canberra), and Burleigh Marrs (Coast of Queensland).
- Spotless Services, www.spotless.com.au is a significant catering company in Australia, with capability to satisfy the catering requirements of large events. They were the preferred suppliers for the Olympics. Recently, Spotless Services, and Peter Rowland Catering were awarded the contract to cater the Australian Grand Prix, held in Melbourne for the next three years.
- Countrywide Food service, www.countrywide.net.au is as a network of food service distributors and wholesalers that operate nationally. The full product distribution range includes frozen, dairy and smallgoods, canned products, dry goods and cleaning products. Countrywide delivers directly to retail outlets, and takes an active role in the marketing of key products. Key brands distributed by Countrywide nationally include Devondale, National Foods, Kraft, Steggles, Peerless, McCain and Simplot.

Military (Defense)

Each State and Territory in Australia has a Department of Defense. In terms of size it is substantially smaller than that of the US. However, if US suppliers have developed suitable products they can target suppliers to the Defense industry such as Spotless Catering and Eurest Australia. For large contracts, the Department has to advertise through open tenders. Foodstuffs commonly sought include the basics such as bacon and ham, biscuits, bread and bread rolls, butter, cheeses, coffee and tea, cordial, eggs, fish, frozen vegetables, fresh fruit and vegetables, ice cream, fruit juice, small goods, poultry and meat.

School / University Cafeterias:

The following trends apply to this sector:

- The sale of fresh fruit has expanded in schools.
- Canteens favor healthier and inexpensive products.
- A decrease in the reliance upon traditional pastry products, with more options being available.
- There is increased demand for ‘Star Choice” registered products by cafeteria operators, sold through the canteen buyers guide and supported by aggressive marketing campaigns.
- The sale of chips, sweets, carbonated drinks, and chocolate has fallen, along with their availability in canteens.
- Suppliers are offering complete menus to cafeterias.
- There is a tendency towards ‘heat-and-serve’ meals, such as pasta and rice.
- The successful implementation of days in which only certain products are sold, is enabling students to experiment with different types of food.

Nursing / Retirement Homes

Australia has an aging population of a generation used to satisfying their nutritional needs. Opportunities will continue to grow, therefore, in the nursing home and retirement care market.

Hospitals

‘Healthier Food Choices for Hospitals’, an initiative of NSW Hospitals, is a nutrition strategy to promote safer and more nutritious food choices for people in the State. Other states have similar programs highlighting the trend towards healthy food in institutional catering. Generally, hospitals meet the needs of their patients with nutritious and healthy food.

There are 1,257 hospitals in Australia, increasing from 1,236 in 1999, with 755 public and 502 private hospitals. The following table shows the distribution of establishments across Australia.

States	Number of Hospitals	Percentage Share
New South Wales	391	31
Victoria	276	22
Queensland	264	21
South Australia	138	11
Western Australia	136	11
Tasmania	36	3
Australian Capital Territory	10	0.1
Northern Territory	6	0.1

Source: Australian Institute of Health and Welfare (1999).

Hospitals (public and private) provide food for patients, staff, and Meals on Wheels clients in the community and make up 3% of food service outlets. Across the hospital system there were 22.6 million patient days for 1999/00 (Australian Institute of Health and Welfare, 2001) and more than 1,315,000 patients enter NSW hospitals per year, with the average length of stay being 3.6 days, suggesting a large market for institutional food service. Examples of distributors who serve the industry include NAFDA and Bidvest.

Function Catering

Function catering is an expanding market in Australia. The Sydney Convention and Visitors Bureau (SCVB) are currently working on over 70 meetings, with event bids worth over US$287 million to the NSW economy, a 37% increase from 1999/00. Sydney in particular, between 2001 and 2003, is set to host 86 individual business events, contributing an estimated US$280 million to the economy (Hospitality, July 2001). It has been suggested the growth is due in part to the impact the Olympics had on increasing awareness of the Australian market and the increase in venues available for catering for functions of various sizes. It is interesting to note that Barcelona is now the top destination for conventions and Sydney is the only non European city in the top 5 convention cities for 2000 by ICCA (SVCB website).

The special event catering industry is highly competitive and menu management systems have been implemented by most catering firms. Portion and quality control are important factors allowing control from both a quality and cost perspective. Opportunities could open for US suppliers of portion controlled seafood products.

III. Competition

The primary competition US suppliers face in the Australian market is from domestic suppliers, who are becoming increasingly able to fill the demand for fresh produce including meat, fruit, vegetables and dairy. In general, food service distributors are indecisive about the purchase of products made in Australia, however, the large majority of food service operators indicate that they prefer Australian products. This preference can be attributed to the comparative freshness and quality of the domestic produce, even though it is perceived as being more expensive than imports (BIS Shrapnel 1999).

Interviews with wholesalers and distributors in Australia (September 2001), revealed that they are indifferent to the sale of US products, and that they are quite happy to depend upon Australian produced goods. As a result of this indifference, imports from North America are generally specialty products, such as canned fish (60% of all fish fillets eaten in Australia are imported), chocolate and confectionery (i.e. Hershey's), and beverages (US Sport drinks). Additionally US imports are at a disadvantage at present with the Australian dollar having depreciated against the US dollar.

US suppliers also face competition from major food service trends, particularly those towards consumption of food from the Mediterranean, Europe and Asia, as a result of the increasingly multicultural nature of the Australian community. As such, there is a tendency towards these flavors. BIS Shrapnel (1999) found that the types of cuisine considered to be the fastest growing were Italian (23% of respondents), Other Asian (16%), Thai (14%), Australian/English (12%), Mexican (9%), Chinese (6%), Vegetarian (3%), Seafood (1%), Other (2%) and Don't know (14%). Queensland and Western Australia registered Italian as the most mentioned with 32% and 31% respectively.

On the positive side, Australia has low (3-5%) to zero tariffs on imported food products and imports are well presented in the market place.

IV. Best Product Prospects

Distributors to the food service industry, chefs and caterers advise that Australia produces and processes basically all food products required by the food service industry. Because of the diversity of local product and the fact that domestic substitutes exist for most imports, US imports face significant competition from Australian products. That being said, there are some products which have good sales potential in Australia and these have been discussed in previous sections of this report. The following provides further examples.

A. Products Present in the Market Which Have Good Sales Potential

Products Suitable for Large Events: There are a large number of venues throughout Australia that host numerous large events, mostly sporting, where people in the stands expect quality products. Spectators will consume anything from traditional foods such as pies, chips and drinks, to a range of Asian style meals, hamburgers, chicken and pizzas, offering opportunities for US exporters.

Energy Drinks (increased popularity among younger consumers): The sales of Sports and Energy drinks in Australia have increased dramatically with a growth rate of 40% per annum. The proliferation of 'energy' drinks into the market, such as V-Vitalise, Red-Bull and Lift-Plus, has proved to be very successful, and is predominantly aimed at a younger audience. Consumers are now more aware of sports and energy drinks as a result of advertising campaigns, a wider availability, and the perceived health benefits linked to the drinks. Opportunities exist for US exporters due to the high growth of the market and that Australian manufacturers are legally prohibited from manufacturing non-cola caffeine drinks, caffeine being a significant ingredient.

Healthy Alternatives (organic and soy based products): The increasing health awareness of consumers has resulted in products that emphasize health benefits experiencing significant growth in demand and sales. According to recent figures, demand for organic food is growing at around 45% per annum (*Food Processor* magazine, 2001). Soy based products, such as milk and yoghurt are acting as substitutes for traditional milk based products, and have experienced rapid growth in both distribution, sales and availability. The confidence in the growth and potential of soy products, is represented by So Natural Foods, Australia's largest producer of soy milk, who recently launched 'fresh chilled soy milk' made from certified organic soybean, a first for the Australian market (*Food Processor* magazine, 2001).

Olive Oil: Australia produced less than 1,000 tonnes of the 25,000 tonne local consumption market in 1999, presenting opportunities for US exporters. The consumption value of olive oil has risen dramatically in the past decade, particularly with the food service sector realizing the health and taste benefits of olive oil, with imports in 2000 totaling US$64.5 million. It should be noted, however, that consumers of olive oil in the Australian market see quality as the most important factor, and are unwilling to compromise quality for price. www.rirdc.gov.au is an interesting site providing research reports on a range of emerging and established agricultural industries in Australia.

Mediterranean cuisine remains a regular feature on catering menus providing opportunities for easy to use, low preparation, and high quality products. Sandhurst Fine Foods explains antipasto is always popular in catering because of the low preparation costs. Artichokes, dolmades, sun-dried tomatoes and specialty olives are in high demand. Eggplant paste is developing rapidly as a substitute for tomato paste with gourmet pizzerias. Basil pesto and olive paste are now popular alternatives to traditional garlic and herb bread, and capers are also in demand. Retail trends also reflect the popularity in the restaurant sub-sector with sales of fresh pasta and pasta sauces expected to increase by 17% in Australia by 2004 (Retail World, April 2001).

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

New flavors and cuisines (eg. Latino, Caribbean and Spanish Cuisines): Australia presents opportunities for the introduction of new cuisines and ingredients prepared to assist with their introduction. A trend in America, which has been named Neuvo Latin cuisine, a combination of the influences of Latin America and the Caribbean, could emerge as a trend in Australia's restaurants. The National Restaurant Association found that the cuisine was attractive to younger diners looking for something new, exotic and exciting. The main ingredients include corn, plantains, chillies and tropical fruits. Mojo dressings based on fruit juice, citrus marinades and cornmeal crusts are also popular.

C. Products Not Present Because They Face Significant Barriers

Industry advice suggests that where products are not present in a market it is primarily because the distribution channel is not yet developed for a particular area, or demand for the product is not large enough to warrant supply. Generally everything required in Australia is available, so much so that Australia exports culturally specific products to originating countries (e.g. exporting Asian cuisine to Asia).

V. Post Contact & Further Information

Post Contact

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U.S. Embassy
APO AP 96549
Tel: +61-2-6214-5854
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Import Regulations

Food Law and Policy can be obtained through links located on the http://www.ausfoodnews.com.au website.

Australia's Food Sanitation Regulations

See the Foreign Agricultural Import Regulations and Standards (FAIRS) report for Australia for detailed information on Australia's import requirements, including labeling. The latest version of this report (No: AS1024) is available on the following web-site: http://www.fas.usda.gov/scripts/attacherep/default.asp. Our report on the Retail Sector can also be downloaded at the same site by conducting a search for report number AS1023.

Food Standards are under the control of the Australia New Zealand Food Authority (ANZFA), http://www.anzfa.gov.au. Food import regulations are handled by the Australian Quarantine & Inspection Service and can be found at http://www.aqis.gov.au.

Industry Information

Table of Industry Bodies and Contact Phone Numbers for the School Catering Sector.

Abbreviation	Name	Fax Number
FOCIS	Federation of Canteens in Schools	61-2- 9876 1471
NSWSCA	NSW School Canteen Association	61-2 -9876 1471
QAST	Queensland Association of School Tuck-shops	61-7- 3260 4120
WASCA	Western Australia School Canteen Association	61-8- 9244 1989
TSCA	Tasmania School Canteen Association	61-3- 6222 7252
ACTSCA	ACT School Canteen Association	61-2- 6282 2158
NTSCA	Northern Territory School Canteen Association	61-8- 8988 4426

Trade Shows

2001

November 26-30 - National Seafood Week and Australian Seafood Industry National Conference. Sheraton Hotel & Towers, Brisbane. Conference Secretariat; Tel: +61-7-3854-1611, Fax: +61-7-3854-1507, Email: seafood@ozaccom.com.au, Web: http://www.seafoodsite.com.au.

2002

March 14-15 - Functional Foods: Through Innovation to Market Conference. Melbourne Convention Centre, Melbourne, Victoria. Alison Johnson, Food Science Australia: tel: (03) 9731 3417, fax: (03) 9731 3201, email: alison.johnson@foodscience.afisc.csiro.au.

March 24-26. Fine Food Queensland, Brisbane Convention & Exhibition Centre. See www.foodaustralia.com.au for more details (Australian Exhibition Services Pty Ltd; Tel: +61-3-9261-4500, Fax: +61-3-9261-4545, email: food@ausexhibit.com.au).

July 21-24. Food Pro 2002. Sydney Exhibition and Convention Centre Darling Harbour. Riddell Exhibitions, tel: (03) 9429 6088, fax: (03) 9427 0829, email: melbourne@riddellexh.com.au.

July 21-24 - 35th Annual AIFST Convention in conjunction with FoodPro'2002. Sydney Convention and Exhibition Centre, Darling Harbour. AIFST Inc; tel (02) 8399 3996, fax (02) 8399 3997, email: aifst@aifst.asn.au, web: http://www.airst.asn.au.

Aug 11-14 - Catering 2002 – International Catering Trade Fair, Sydney Convention and Exhibition Center, Sydney, Australia. (Exhibitions and Trade Fairs, +61-2-9413-3322).

Sept 1-4 - Fine Food Australia, Melbourne Exhibition & Convention Centre, Melbourne. See www.foodaustralia.com.au for more details. (Australian Exhibition Services Pty Ltd, Tel: +61-3-9261-4500; Email: food@ausexhibit.com.au).