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Retail Food Sector Report

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Report Highlights:

Agent/distributors are the key to developing exports of U.S. consumer-ready foods to Australia. The trend in the retail food sector is that the number of supermarket outlets is falling while at the same time stores are increasing in size. Product innovation is driving growth in many product categories, particularly international cuisine and nutritious snack foods

Includes PSD changes: No
Includes Trade Matrix: No
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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 Retail Food Sector where omission may have provided less than that.

SECTION I: MARKET SUMMARY

Note: The following exchange rates were used to convert Australian dollars to US dollars for 1993 to 1998.

	1993	1994	1995	1996	1997	1998
AUD/USD	0.6785	0.7346	0.7394	0.7846	0.7374	0.6285

Description and Comparison of Sub-sectors of the Retail Food Sector

- Supermarket and grocery store retailing dominate the Australian retail food sector with sales of USD 24.6 billion reported in 1998 accounting for 68% of total food retailing as summarized in Table 1.

Table 1: Total Food Retailing Over the Past Five Years (USD million - 1998 dollars)*

<i>Description</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
Total Food Retailing	34,744	37,344	41,263	40,842	35,936
Growth Rate USD		7%	10%	-1%	-12%
Growth Rate AUD		7%	5%	4%	1%
Supermarkets and Grocery Stores Food Retailing**	24,540	26,009	29,036	28,098	24,555
Growth Rate		6%	12%	-3%	-13%
% of Total Food Retailing	71%	70%	70%	69%	68%
Growth Rate AUD		5%	5%	3%	3%
Takeaway Food Retailing	4,588	5,093	5,534	5,800	5,150
Growth Rate		11%	9%	5%	-11%
% of Total Food Retailing	13%	14%	13%	14%	14%
Other Food Retailing***	5,615	6,242	6,693	6,944	6,230
Growth Rate		11%	7%	4%	-10%
% of Total Food Retailing	16%	17%	16%	17%	17%

Sources: ABS Statistics Cat. No. 8501.0; Food CPI 1989-1990 = 100 adjusted to 1998 CPI = 100.

* Quarterly food CPI index was used to convert nominal turnover figures into 1998 dollars, and US exchange rates provided by the USDA to convert AUD to USD.

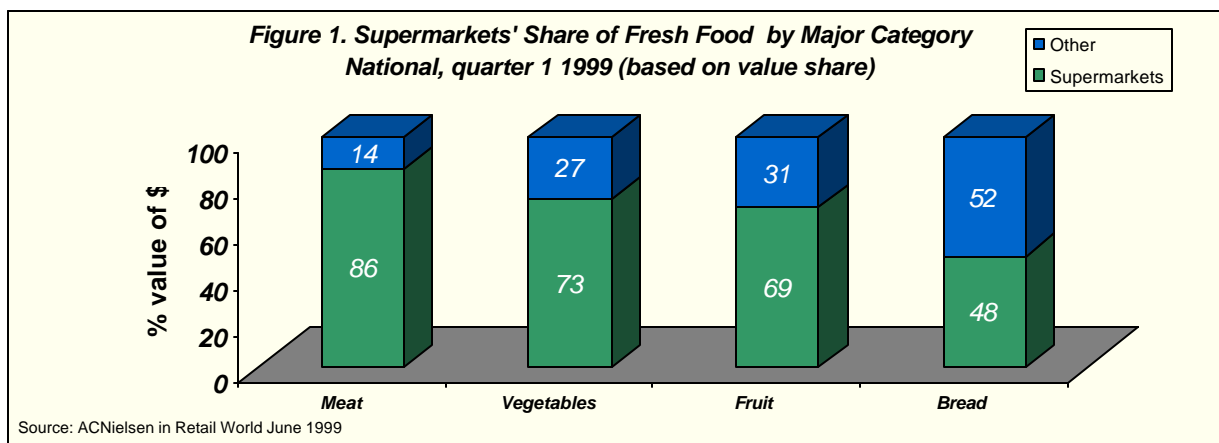
** This class consists of units mainly engaged in retailing groceries or non-specialized food lines, whether or not the selling is organized on a self-service basis.

*** This class consists of units mainly engaged in specialized food retailing e.g. butchers, fresh fish retailing, fresh fruit and vegetable retailing, bread and cake retailing, milk vending, confectionery etc.

- The market for food grocery sales in Australia is concentrated along the east coast where population and disposable income is greatest. NSW/ACT dominates with a 33.2% share of the supermarket and grocery sector,

followed by 25.4% for Victoria, 18.6% for Queensland, 10.8% for Western Australia, 9.3% for South Australia/Northern Territory and 2.7% for Tasmania (AC Nielsen Report June 1999).

- Retail food outlets in Australia include superstore supermarket chains, supermarket chains, small “mom and pop” independent supermarkets and grocery stores, warehouse/wholesale clubs, convenience store chains and independents, and independent supermarkets operating under banner groups. There are only three hypermarkets in Australia owned by Coles Myer Ltd.
- The majority of supermarkets and grocery stores are Australian owned with the two largest chains, Woolworths and Coles, locally owned.
- The three major supermarket chains in terms of \$ value are Woolworths, Coles Myer Ltd and Franklins. The three have reached 80% value share of the dry/packaged goods grocery retail market. In 1985 they held only 65% of the market (ACNielsen June 1999).
- The major chain and independent supermarket outlets offer a variety of services including fresh fruit and vegetables, meal solutions including salads and pasta meals, bakery products, fresh seafood, large dairy cabinets, delicatessen products in addition to frozen and dry packaged grocery products.
- Australia doesn't have a system of wet markets however traditional markets such as fruit and vegetable and fish markets are still popular in all states. Independent grocery stores and smaller supermarket chains rely on these markets for supply. The major chains buy fresh fruit and vegetables, fish and meat directly from markets and abattoirs often owning and operating their own processors. In terms of the end consumer the majority of fresh food is purchased through supermarkets as seen in Figure 1.



Expected Growth Overall Retail and Sub-sectors (supermarkets, convenience, traditional)

- Food retail sales growth is expected to slow slightly but remain strong, growing faster than inflation in AUD terms. However when the AUD/USD exchange rate is taken into account food retailing is experiencing negative U.S. dollar growth as a result of the depreciation of the AUD against the USD. Increases in sales have been assisted by product innovation from suppliers as well as refurbishment of retail outlets.
- A future slow down in retail sales is expected since savings are at an all time low and household debt is high with USD 139 billion owed in housing, and USD 41 billion on cars and credit cards (Retail World July 1999). Consumers may become uncomfortable with their level of debt and reduce spending accordingly. Advertising for brand recognition will benefit sales during the current growth period and sustain sales through slow periods.

- The Australian economy continues to grow at 3+% and has done so since 1992/93. This has been matched by a similar increase in productivity (AC Nielsen June 1999). Strong fundamentals ensure a good foundation for retail sales, however for US exporters the exchange rate means US products are relatively more expensive.

Value of Imported Food vs Domestic Products over the past 5 years

- Approximately 10% of products sold in supermarkets are imported (Food & Beverage Importers Association), a share which hasn't altered significantly over a long period. Imports constitute approximately 9.5% of total food and beverage consumption in Australia as shown in Table 2.
- The United States' share of Australia's food and beverages imports in 1998, worth USD 2.7 billion, was approximately 12% increasing from 11% in the previous year. Of this share USD 26 million was imported as seafood or seafood preparations in 1998.
- It should be noted that many US branded food products such as snack foods and beverages are present in the market as locally produced food products. Australian manufacturing subsidiaries of US parents are common such as Unilever, Arnott's and Smith's Snackfoods (recently acquired by Frito-Lay).

Table 2: Imported Versus Domestic Food Consumption 1994 – 1998 (USD Million – 1998 dollars)

<i>Description</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
Total Value of Domestic Food Products	36,625	36,994	39,165	36,056	30,650
Growth Rate		2%	6%	-8%	-15%
Total Value of Imported Food & Bev*	2,554	2,841	2,901	2,877	2,691
Value of US Imports of Food & Bev	256	307	281	309	321
US Share %	10%	11%	10%	11%	12%
Growth of US Imports		20%	-8%	10%	4%
(Seafood and Preparations of, incl in US Imports)	29	28	33	25	26
Total Food and Beverage Consumption**	38,819	39,835	42,066	38,933	33,342 [#]
Share of Imports of F&B Consumption	7%	8%	7%	8%	9%

Source: *ABS Cat. No. 5422.0; ** Household final consumption expenditure on Food (ABS Cat. No. 5206.0). [#] Hassall & Associates estimate for Sept/Dec Quarter 1998 due to a change in data collection procedures by ABS.

Number and Type of Retail Outlets

- The number of grocery store outlets has fallen dramatically since WWII from around 25,000 in 1952/53 to 5,400 stores in 1998 (Table 3). Coinciding with this drop, over the last 10 years the average supermarket size has increased from 20,000 to 30,000 square feet. There has been a corresponding increase in the number of stock keeping units (SKUs) from 12,000 to 20,000 (AC Nielsen June 1999).
- In the 1950s the average turnover per grocery store was around AUD 220,000 (1998 dollars) which increased to over AUD 7 million in 1998. Last year Australians spent more than AUD 2,000 each on groceries whereas in 1952

spending AUD 635 (in real terms) per capita.

Table 3: Grocery Retailing: number of stores, turnover and population, Australia 1952-1998, (AUD 1998 Dollars)

	1952/53	1971/72	1992/93	1998	1998 USD
ACNIELSEN – defined grocery stores	25,349	11,085	5,433	5,388	-
Grocery Turnover (ABS. AUD million)	5,474	9,844	30,877	38,765	24,364
Average turnover per store (AUD '000s)	218	890	5,683	7,195	4,522
Population (ABS in millions)	8.6	12.6	17.4	19	-
Stores per 1000 persons	2.95	0.88	0.31	0.28	-
Expenditure per person per annum	\$634	\$778	\$1775	\$2,040	1,282

Source: ACNielsen Report, June 1999.

- Major supermarket chains hold approximately 95.4% of grocery market value (ACNielsen June 1999 Report) and only 25% of the outlets. The following table was compiled by the Commercial Economic Advisory Service of Australia (CEASA) as part of the Australian Grocery Review, June 1999 to illustrate sector breakdown of outlets.

Table 4. Grocery Market Breakdown by Outlets in Australia from 1993-1997

	1993	1994	1995	1996	1997
Chain Store Outlets*	1,331	1,335	1,358	1,411	1,490
Convenience Chain Store Outlets**	1,078	1,081	1,583	2,262	1,501
Banner Traders & Other Independents***	4,617	4,515	4,552	4,783	4,186
TOTAL	7,006	6,931	7,493	8,456	5,836

Source: Australian Grocery Review June 1999, CEASA.

* Grocery chains including Woolworths, Coles Myer Ltd, Bi-Lo (Coles), Franklins, Jewel (Davids).

** Convenience Stores.

*** Warehouses, excludes convenience stores and Campbells Cash & Carry is included with independents.

Trends in Distribution Channels

- There is cross ownership between the sub-sectors of the retail food sector in Australia with warehouse/wholesale clubs owning independent supermarkets and convenience store chains, and the major supermarket chains owning independent supermarkets, convenience stores and warehouses. Distribution points are more centralized.
- All major supermarket chains and warehouse/wholesale clubs operate their own distribution centers with Woolworths recently opening an advanced computerized distribution center in Sydney, NSW.

- 1998 and 1999 have seen restructuring of the retail food sector with wholesalers divesting corporate supermarket outlets and establishing banner groups such as IGA (Independent Grocers of Australia), Foodland, Foodlink, Foodway and Four Square. The major supermarket chains have been acquiring independent supermarkets and smaller supermarket chains at a steady pace. Global US-based IGA system has been licensed to Davids Limited. This process of rationalization also simplifies the distribution channels.
- Banner groups are improving the buying, advertising and competitive power of smaller grocery and convenience stores through handbill advertising, and consumer brand recognition.
- Major supermarket chains direct source dry groceries, pre-packaged food and fresh food produce from manufacturers, producers and growers.
- Growth in the convenience store subsector is being driven by the expansion of gas marts and also supermarkets linking with gas companies, e.g. Woolworths "Plus Petrol" and Coles- Mobil Oil, "Fast & Fresh".
- David Jones department store is planning to open 10 independent upmarket food stores over the next five years, of around 1500-2000 meters square each in Sydney and Melbourne. Services will include a coffee bar, upmarket foods (gourmet cheeses, meats, condiments etc), fruit and vegetables, kitchenware as well as prepared and packaged foods. Designed for home entertaining and affluent consumers (Retail World July 1999).
- Aldi Supermarkets, the \$41 billion/year German based international discount food retailer, is planning to enter the Australian market and will operate centralized distribution centers in Sydney (Retail World 24 Sep 1999).

Trends in Services Offered by Retailers

- Major supermarket chains are developing new ways of selling to consumers by increasing the range of selling formats, the range of fresh products on offer, convenience and controlling more of the supply chain with their own distribution channels and established links with suppliers of fresh product.
- Supermarkets have been introducing express check out lanes to ensure quick servicing of customers. Home shopping via the Internet is also a reality with the major chains trialing Internet shopping. Many small businesses are on the Internet as well. *Www.greengrocer.com.au* is a service where consumers can buy graded fruit and vegetables for home delivery.
- Major chains have international cuisine sections with Coles launching "mega" Asian food sections containing 700 lines of authentic Asian products in 16 supermarkets nationally. Franklins is following suit.
- Ready-to-eat/ready-to-cook foods are a substantial sector of growth in Australian supermarkets, and are moving into convenience store chains and gas marts. The meal solutions category (meal replacements) and nutritious foods categories are emerging quickly as a growth sector. Consumers are after fresh, convenient foods which enable them to be involved in the cooking process.
- Eating habits have changed dramatically over the last 3 decades. Australians are now eating on average 1.65 kg of foodstuffs per day, 15% more than in the 1960s. Fruit and vegetables have increased their share of Australian diets and now make up 57% of total intake, while poultry and seafood gains have impacted on red meat consumption (AC Nielsen June 1999).
- A progressive shift from the grocery aisle to the fresh food department has seen a shift from canned and packeted items to chilled and semi-prepared items.

Customer Trends

Trends in food retail are similar to those in the US with more people eating out, shopping more often, and growth in meal solution categories. Major trends were summarized by Meat and Livestock Australia as:

- Convenience: people working long hours, making meal decisions in the afternoon on the way home;
- Snacking: consumers have switched from big meals to snacking and grazing;
- Health conscious consumers: 50% of the Australian population in the 1990's have tried to reduce fat intake;
- Asian styles: switched from a European style of eating (stove top and oven, high in fat and sugar) to Asian style (wok and steam);
- Entertainment: eating is for entertainment not "human fuel"; and
- Quality: fresh, clean safe foods, free of chemical residues.

Table 5: Advantages and Challenges for US retail food exporters

Advantages/Opportunities	Challenges/Weaknesses
Strong consumer demand for grocery products and imports through growing confidence in Australia's economic fundamentals.	Australian dollar has depreciated against the US dollar making imports relatively more expensive.
42% of respondents to Australian Chamber of Commerce and Industry's survey expect the economy to grow in the September 99 quarter, as compared to 28% in the previous quarter.	Large current account deficit of USD 5.89 billion leaves Australia vulnerable to currency fluctuations, and interest rates.
US seen as a trend setter for high quality convenience foods, opportunity to capitalize on well established US trends and systems e.g. eating out of home.	Australia and New Zealand Food Standards Council (ANZFSC) has agreed to require mandatory labeling of foods produced using gene technology and foods containing genetically modified ingredients (ANZFA Media Release 3/8/99).
US is market leader in the snack food and sport drink categories.	Growth in processed lines with country of origin benefits e.g. French Cheese, Italian biscuits and pasta; imports should demonstrate US advantage over competitors.
Northern hemisphere seasonal advantage for fresh foods e.g. fruit, nuts, etc.	Import permits are required for fresh produce and many products are prohibited.
US ahead in use of Internet by consumers, capitalize on this developing channel in Australian.	Need to produce innovative food products to break into highly competitive retail food sector as most categories have substantial market leaders.
Tariffs on imported food products are low at either 0% (canned or minced salmon, citrus, grapes, condiments, petfood, chilled beef, almonds, stone fruit), 3% or 5% (breakfast foods).	Australian made and manufactured products are advertised as such and advertising campaigns create awareness of buying Australian.

Australian consumers are experimental and desire new ideas and authentic, restaurant quality taste sensations. Mexican food is popular however Cajun food, although a restaurant alternative, is not wide spread in supermarkets.	Goods & Services Tax (GST) will be implemented in 2000 however fresh food will have a lower or nil GST as compared to processed foods.
Supermarkets and convenience stores are increasingly consumer focused ensuring products sell.	Manufacturers and suppliers of meal solutions encounter retail display and cold chain management problems, particularly with chilled products.

SECTION II: ROAD MAP FOR MARKET ENTRY

A. SUPER STORES, SUPERMARKETS, HYPER MARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

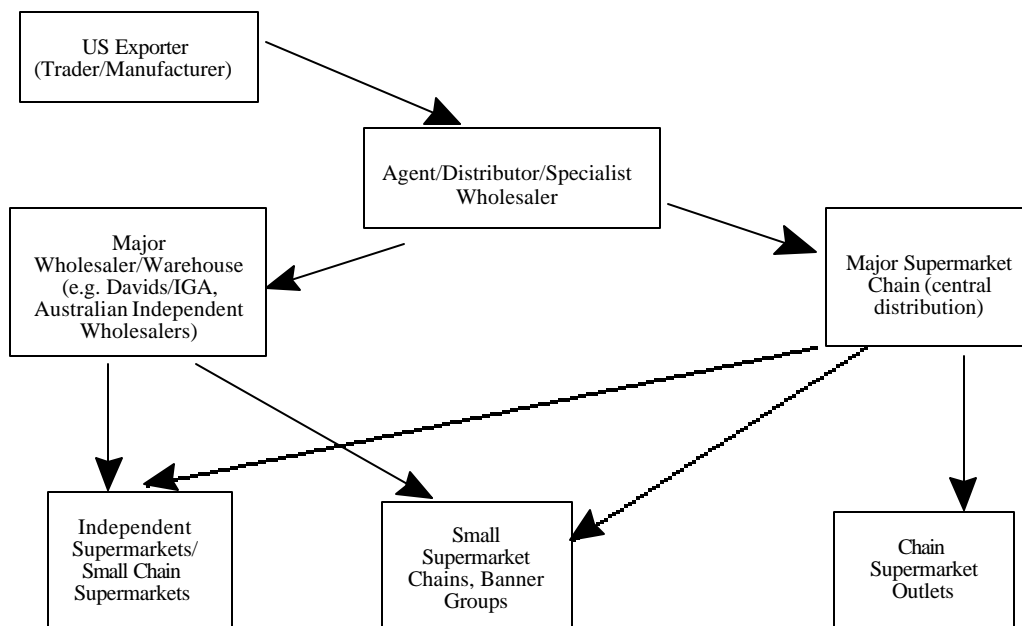
Entry Strategy

- Enter the market through an appointed agent, distributor or import broker who then targets specific food category/merchandise managers at major wholesalers and major supermarket chains. 90+% of imported retail food products are distributed through agents/distributors (Industry advice, October 1999). Major chains and wholesalers have their own distribution centers and national coverage. Targeting major chains through an agent/distributor will also reduce the risk of entering an inappropriate market.
- Specialist distributors or wholesalers may also be approached. For example Trutaste Nuts is Australia's largest nut-in-shell wholesaler supplying domestic and international markets with high quality nuts sourced locally and overseas.
- Advertise your product. Product launches for supermarkets are popular and effective. Provide agent/distributor with promotional material and product suitable for in-store demonstrations. Prizes, competitions and value packs are popular. Couple this with advertising in major industry magazines (e.g. *Retail World*), newspapers, television, radio and outdoor signs.
- Selling to supermarkets will require payment of listing fees which will need to be negotiated with the retailer/wholesaler.
- Exhibit at Australian trade shows such as 'Fine Food' exhibitions. Sydney's Fine Food 99 attracted more than 22,500 trade-only visitors in 1999 including Australian and international producers and manufacturers. The Exhibition includes Feature Worlds such as Meat World, Drink World, Bakery World, Dairy World, Confectionery World, and Sea World.
- While product may also be sold through Internet home shopping which is developing gradually in Australia, Australia's strict quarantine requirements make this difficult for many fresh products.
- For fresh products market directly to category managers at the major supermarket chains, particularly for out of season fruit and vegetables.

Market Structure

US Product Flow

- The following flow chart depicts the movement of food products from the US exporter through to the retailer. There are two major distribution channels to major supermarket and smaller supermarket chains, i.e. major chain supermarket distribution centers and major wholesalers.
- Food products will be stored at some point in warehouses prior to distribution and delivery.
- Transport in Australia between distribution centers is predominantly by road.



Unique distribution structural patterns

- Davids currently has a monopoly on wholesale deliveries to independent grocery stores on Australia's east coast (the bulk of Australia's market). Davids runs its own chain of Jewell stores and holds 50 percent of Australian Liquor Marketers, the country's largest wine and spirits distributor.
- The majority of independent supermarkets and small supermarket chains are members of banner groups. Banner groups are steadily increasing membership and amalgamations are occurring. Banner groups include US-based IGA (Independent Grocers Australia) system licensed by Davids Limited. Banner groups confer national buying power and exposure to smaller supermarkets and independent supermarkets.
- Woolworths and Coles have a presence in all states. Coles national head office is in Melbourne, Victoria, where they maintain a national buying and category management system. Woolworth's National Head Office is in Sydney, NSW with the states retaining autonomy for negotiating, ranging, promotions category and shelf management issues.
- Davids moved its distribution operations to semi-autonomous business unit structures, with distribution, buying, advertising and marketing functions – all reporting to individual state general managers.

Significant changes or trends

- Increasing emphasis on fresh food with major chains carrying the following logos: “Coles Fresh”, “Woolworths the Fresh Food People” and “Franklins Big Fresh”.
- Competition between major supermarket chains is forcing prices down. Smaller supermarket chains and “mom and pop” independent supermarkets are being squeezed with price competition between the chains. Some are being forced out of the market.
- Major supermarket chains are acquiring independent supermarkets, expanding market share. In Australia 20 years ago, independent grocery operators held a 70 percent share of the market, while the three largest chains, Woolworths, Coles and Franklins held only 30 percent. Today independents hold less than 30 percent of the market.
- As a result of a reduction in the number of independent supermarkets the market for major wholesalers is shrinking (major supermarkets act as their own wholesalers).
- There is increased activity by wholesalers to sign up independent and smaller chain supermarkets to secure market share.
- Fundamental changes are occurring in Australia, similar to the UK and the US with a variety of formats such as Express stores with a smaller range of lines, large fresh and pre-packed food sections and a large number of check-outs.
- With the emergence of the meal solutions market there are substantial opportunities. However US exporters should be aware of challenges associated with cold chain management for chilled and frozen foods. For example, variety may be limited to more vegetarian style meals (pasta sauce with greater than 5% meat requires a permit). Australia has a large distribution area and a small population, and there is no one at present specializing in cold chain management for meal solutions (comment made by Australian Independent Wholesalers representative).

Flow pattern between different retailers

- Product flows in a similar manner for each of the major supermarkets chains with each operating central distribution centers.
- Independent supermarkets and smaller supermarket chains purchase their food products through the major wholesalers.

Margins

CEASA reported in their review of the grocery industry in June 1999 that:

- Wholesale gross margins are between 0.5% to 2.5% on sales
- Manufacturers margins are 25% to 35% on product cost. Advertising and trade promotion takes 10-15% so average of around 5% net.

Retail gross margins are provided in Table 6.

Table 6. Retail Gross Margins June 1999

	Chains %	Independents %	Convenience Stores %	Small Independents %
Dry Groceries	19.5	14-19	20	30
Deli	30	25-35	32.6	n/a
Meat	28	25-35	23	n/a
Fruit & Veg	27	25-35	35.7	n/a
Frozen	25	22-30	n/a	n/a
Dairy	22	15-19	n/a	n/a
Bakery	60	60-70	30	n/a

Source: (CEASA Grocery Review June 1999).

Company Profiles

Table 7 provides a list of supermarkets in Australia. The list is not exhaustive however the major chains, banner groups and warehouse/wholesalers have been included. For the majority of smaller banner groups and supermarkets turnover is unavailable at this time.

Table 7: Major supermarket chains, small supermarket chains, warehouse/wholesale clubs

Retailer Name and Outlet Type	Ownership	Sales USDMil	No. Of Outlets*	Locations (city/region)	Purchasing Agent Type
Chain Supermarkets/Superstores					
Woolworths: Woolworths, Safeway, Metro, Purity/ Roelf Vos, Flemings, Food for Less, Plus Petrol supermarkets.	Local	\$13,100 (1997/98)	554	National (Safeway in Victoria, Purity in Tasmania)	Manufacturer Importer Agent Wholesaler
Coles Myer Ltd: Coles New World, Bi-Lo, Express supermarkets and Pick 'n Pay hypermarket.	Local	\$11,300 (1997/98)	559	National	Manufacturer Importer Agent
Franklins: Franklins Fresh barn, Franklins Big Fresh superstore, Franklins No Frills supermarket	Hong Kong	\$2,514 (1997/98)	261	NSW, Queensland, Victoria and South Australia.	Manufacturer Importer Agent Wholesaler
Smaller Chain and Banner Group Independent Grocery Stores/Supermarkets					
Dauids: Jewell Clancy's Food Stores	South Africa and Local	\$3,125 (1997/98 incl wholesale business)	45	National	Dauids Warehouse/ Wholesaler

Foodland Associated Limited (FAL): Foodland WA, Advantage, Supa Value, Farmer Jack's supermarkets and Action Food Barns	Local	\$859 (1997/98)	634	Western Australia (42% share), South Australia,	FAL Warehouse/ Wholesaler
United Star Banner: 5 Star Supermarkets, 5 Star Handimarkets, Superstar Fresh, Freshmart	Local	NA	262	Queensland	AIW Warehouse/ Wholesaler
Foodstore Banner Group (and associates), supermarket	Local	NA	215	Queensland	Davids/AUR Warehouse/ Wholesaler
Foodland Supermarkets	Local	NA	93	South Australia	FAL Warehouse/ Wholesale
FoodWorks Banner Group (FoodWorks and FoodWorks Express), supermarket	Local	\$282 (1997/98)	86	Victoria	AIW Warehouse/ Wholesaler
Food-way Community Supermarkets Banner Group (satellite of FoodWorks)	Local	NA	85	Vic	AIW Warehouse/ Wholesaler
Cut-Price Supermarkets (Foodlink Banner Group)	Local	NA	51	Queensland	Davids/AUR Warehouse/ Wholesaler
Thrifty-T Foodmarkets, supermarket (Foodlink Banner Group)	Local	NA	29	Queensland	Davids/AUR Warehouse/ Wholesaler
SPAR, supermarket (Banner Group)	Local	NA	26	Queensland	AIW Warehouse/ Wholesaler
Drake Foodmarkets (trading as Timesavers and Foodland supermarkets)	Local	NA	21	South Australia	Davids Warehouse/ Wholesaler
Fresco IGA Supermarkets (new comer)	Local	\$157 expected	20	NSW	Davids Warehouse/ Wholesaler
United Supermarkets (Eudunda Farmers Ltd.)	Local	NA	20	South Australia	Wholesaler
Ritchies Stores, supermarket	Local (under IGA Banner	NA	16	Victoria	Davids Warehouse/ Wholesaler

Buy-Rite Foodmarkets, supermarket	Local (Foodlink Banner Group)	NA	13	Queensland	Dauids Warehouse/Wholesaler
Warehouses/Wholesale Clubs					
Dauids Limited and Campbells Cash & Carry, supplies IGA Banner Stores, range of convenience stores and gas marts, independents supermarkets and Mom & Pop independents	78% South African and Local	\$3,125 (1997/98 includes supermarkets)	Supplies 841	National	Importer Manufacturer Distributor Agent
Australian Independent Wholesalers (AIW) (owned by Woolworths; services stores out of Brisbane and Canberra)	Local	\$286 (1997/98) (estimate)	Supplies 419 (estimate)	NSW/ACT, Victoria, Queensland	Importer Manufacturer Distributor Agent
Australian United Retailers (AUR) Banner of Qld Foodlink, Foodstore and Four Square Qld members	Local	NA	Supplies 627	Queensland	Dauids Warehouse/Wholesale
Western Australian Grocery Wholesalers	Local	NA	400	Western Australia and Eastern markets	Manufacturer (private label)
Murray Goulburn Trading Pty Ltd Wholesalers	Local	NA	20	Victoria	Importer Manufacturer Distributor Agent
Springett's Wholesale Pty Ltd. (supplies 600 outlets, service stations, hospitals, schools, hotels, motels, etc)	Local	NA	600	NSW	Importer Manufacturer Distributor Agent

Sources: ACNielsen Half-Yearly Report 1999, in Retail World 1999; Internet home pages; Report by the Joint Select Committee on the Retailing Sector, Parliament of the Commonwealth of Australia.

* Number of outlets is not exclusive due to banners and warehousing.

Trends in the Number and Type of Outlets Opening

- Coles was the growth retailer in 1998. Including Bi-Lo, it increased its share by 2.1 share points to 30.6%. Part of the growth is from store acquisitions and openings throughout the year but also from improved store trading as a direct result of its store refurbishment program undertaken over the last three years.
- Woolworths is still the market leader, recording a marginal share increase in 1998, while Franklins' share continues to decline in all four of the states it operates in.
- Coles has increased its share of the Western Australian market, purchasing 16 stores of the small supermarket chain Charlie Carter.
- Coles and Woolworths are trialing various outlet types including CBD convenience/supermarkets,

petrol/supermarkets, and upmarket supermarkets stocking delicatessen and high quality product ranges.

- Davids Ltd, the largest warehouse operating in Australia, is slowly moving out of corporate owned supermarkets to concentrate on the warehouse and food distribution business.

Trends in the Sale of Imported vs Domestic Product

- Over time the share of imported product for sale in supermarkets and through wholesalers has remained fairly static at around 10%.

Internal and External Market Drivers

- Customers are looking for clean, safe products, healthy and free of chemical residues.
- Convenience is high on customers agendas with limited time to produce home cooked meals (i.e. both partners are working and seeking nutritional quality with take away convenience).
- Substantial interest in new food lines – expressed first through restaurants and then retail such as international cuisines.

Customer Profile

- Consumer confidence remains high. Shoppers are less price-sensitive and Home Brand/generics are at their lowest share for many years.
- Grocery shopping frequency has increased significantly, especially in NSW and Victoria where trading hours have been deregulated. In Sydney, the households making 1 or 2 trips per week has declined from 56% in 1995 to 37% in 1998. Over the same period, the share of households making four or more trips has increased from 26% to 41%.
- More than 40% of consumers said in the ACNielsen Quarterly Consumer Survey that the most important factor in terms of determining where they shop was convenience, followed by prices, easy parking, range of merchandise and one-stop shopping.
- In a study conducted by Food In Focus, a report commissioned by Murdoch Magazines 1999, men are becoming increasingly involved in shopping and cooking. 60% of men are involved in grocery shopping, 28% of men were the main grocery buyer, and 32% of men shared duties.
- An increasing number of households consist of couples, single-parent families and older singles. Today, 57% of households are child free.
- Over the next five years little or no growth is expected in the under 30s population just about average growth in the middle-aged group – but double to triple that rate in 55-plussers. This will impact on products sold in supermarkets and product development.

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

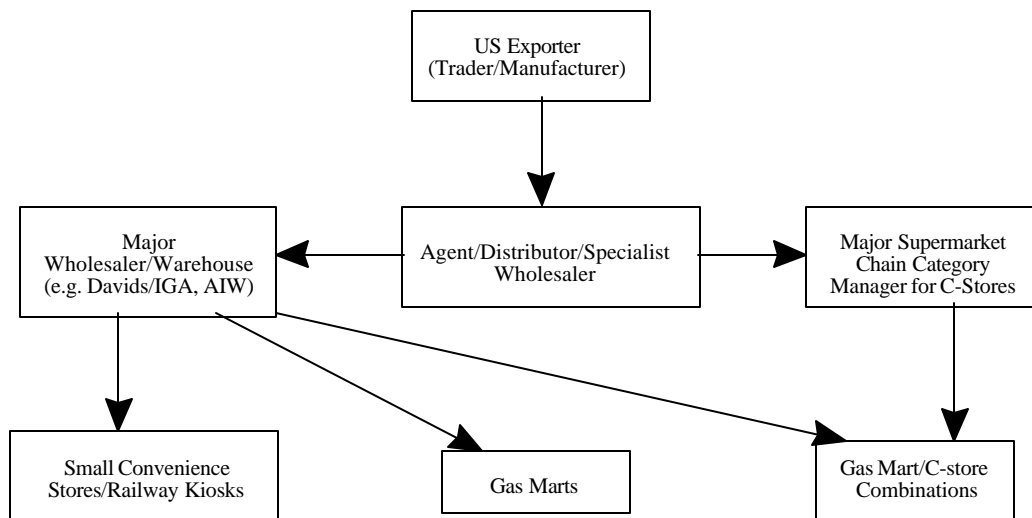
Entry Strategy

- Appoint an agent/distributor in Australia to ensure distribution, availability of product and product promotion.
- Entry strategy for convenience stores is similar to that for supermarkets except that the agent/distributor should target the major wholesaler category managers as well as managers at major supermarket chains responsible for the new wave of gas/convenience stores.
- Convenience stores generally sell limited lines, gas and fast food, are open long hours and are easily accessible by customers. This is changing somewhat with larger convenience stores carrying greater number of lines.

Market Structure

US Product Flow

- Product flows from US Exporter through agents/distributors to wholesalers and then through to convenience stores/gas marts/kiosks.
- Major supermarket chains are entering the convenience store/gas mart market. Agents/distributors should also market product to category managers for major chains.



Company Profiles

Table 8. Gas Marts, Convenience Stores and Combinations

Retailer Name and Outlet Type	Owner-ship	Sales (USD Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Gas Mart/Convenience Store					
Shellshop and Shell Select	British Dutch	NA	642	National	Wholesaler Distributor Manufacturer
Caltex/Ampol ShopStop, Road Pantry Star Mart	50% offshore ownership	NA	1000 sites, owns and operates only 136	National except NT	Wholesaler Distributor Manufacturer
Caltex/IGA Everyday	Corporate	NA	2		Wholesaler Manufacturer Distributor

Mobil Quix Food Stores	US	NA	102	National (except NT, Tasmania)	Wholesaler Manufacturer Distributor
“Fast & Fresh” Coles/Mobil	Local & US	NA	Trials	Victoria	Coles distribution warehouse
BP Express & BP Shop (BP Australia Ltd, subsidiary of parent BP Amoco).	UK	NA	50 BP Express, 1300 total nationally	National except Tas	Wholesaler Manufacturer Distributor
BP Food	Local	NA	36	Western Australia	Wholesaler Manufacturer Distributor
Horizon Food Stores, Horizon Petroleum Pty Ltd.	NA	NA	10	Vic	Wholesaler Manufacturer Distributor
Volume Plus 24 hour Convenience Store	Egyptian	NA	20	NSW	Wholesaler Manufacturer Distributor
Apco Service Stations Pty Ltd.	Local	NA	14		Wholesaler Manufacturer Distributor
Convenience Stores					
7-Eleven, convenience Stores	Local ownership franchise from US	NA	182	Metropolitan and provincial cities in NSW, Qld and Vic.	Wholesaler Manufacturer Distributor
Nightowl, convenience Stores	Local Independent Franchise Systems	NA	43	East Coast (38 Qld) – urban centers	Wholesaler Manufacturer Distributor
Four Square Stores, convenience store	Local Independent Franchise Systems	\$64 (1997/98, based on 284 outlet)	498	NSW, Vic, Qld, Tas, WA	Wholesaler, Manufacturer Distributor
7-2-7 Stores (banner group Foodlink Ltd), convenience store	Local	NA	118	Queensland	Wholesaler Manufacturer Distributor
Family Fare Stores (banner group Foodlink Ltd), convenience store	Local	NA	33	Queensland	Wholesaler Manufacturer Distributor

Significant Changes or Trends

- Major refurbishment of gas mart convenience stores and rebranding such as with BP Express.
- Major supermarket chains such as Woolworths and Coles are providing an extension to the ‘one stop shopping’ convenience concept with gas/convenience store combinations. Such stores can draw on a wide range of products at lower prices than traditional gas convenience stores.
- Caltex has joined the home meal solutions market with the launch of main meals, soups, garlic breads, salads and desserts for its Ampol and Caltex Shop Stop convenience stores.
- Nightowl, the Qld-based chain of franchise convenience stores, is expanding into Victoria and has opened stores in NSW.
- The 7-Eleven convenience store group is pushing into the small convenience store segment with two Melbourne openings. Aiming to stay ahead of the fiercely competitive convenience market is signing for SAP Retail to streamline its supply chain management and move to full electronic commerce.
- Caltex has entered mainstream food retail after sublicensing IGA Everyday from Davids Limited and opening the first IGA Everyday/Caltex convenience store in Bondi, NSW. IGA Everyday is the convenience store banner. Food products at IGA Everyday are cheaper than regular petrol convenience stores.

Trends in the Number and Type of outlets

- The average Australian convenience store lifted sales 11% per cent last year, with an increase in store numbers by 6.3%.
- Gas/major chain convenience stores are increasing in size. For example Coles-Mobil “Fast & Fresh” trial stores are large sites (480 meters square) including parking area, petrol station, Red Rooster and a 5000-line range of groceries including dairy and frozen foods, heat and eat meals, fresh produce, fresh meat, and confectionery.
- The major chains are also entering the convenience subsector with the introduction of CBD Express and Metro stores by Coles and Woolworths which are situated near major railway and bus stops. These stores have a pre packaged and prepared whole meal focus and often attract consumers before they reach the corner “Mom and Pop” shop near home. Woolworths Metro supermarkets and Coles Express are planned for both CBD and urban areas.

Major Internal and External Drivers

- Petrol stations looking to win back trade lost to supermarkets who now offer gas.
- Corner store convenience stores and kiosks may be disadvantaged by consumer interest in “fresh” and health foods and also increases in supermarkets in the CBD.

Customer Profile

- Commuters using public transport as well as private cars requiring petrol and shopping on the way home.
- Customers in the middle to high income range and in the lower age brackets.
- Also as per supermarket profile.

C. TRADITIONAL MARKETS – MOM/POP INDEPENDENT GROCERY, WET MARKETS

Entry Strategy

Mom/Pop Independent Grocery

- Similar strategy to that for small supermarket markets and convenience stores with appointment of agent/distributor for sale through major wholesalers.

Wet Markets

- Australia does not have a system of wet markets, however there is a system of markets for fresh produce with substantial presence in major cities. The majority of fresh produce moving through these markets is local, however overseas produce is available. Fresh produce from overseas should move directly through a wholesaler or be sold directly to major chain supermarkets to avoid delays in the distribution channel.

Market Structure

- Heavily reliant on Davids Limited as a wholesaler.
- Supermarkets in Australia have absorbed much of the fresh produce market as shown in Figure 1.
- Supermarkets source much of their fresh fruit and vegetables directly from growers/products leaving lower quality for other markets. Poorer quality left for small convenience stores to purchase. It is unknown what the price effect this practice has.
- Fresh vegetable markets will survive as long as there is a burgeoning café industry/ small fruit stores, and small supermarket chains and independents.

Table 9: Mom and Pop Independent Grocery Stores

Independent	Ownership	Sales (US\$Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Mom/Pop Independent Grocery					
Supabarn Supermarkets	Local	NA	5	NSW	Wholesaler Fresh Produce Markets Manufacturer
Advantage	NZ Franchise owned by FAL (local)	NA	3	WA	Wholesaler Fresh Produce Markets Manufacturer
Advance Supermarket	Local	NA	5	NSW	Wholesaler Fresh Produce Markets Manufacturer
Ace/Jacks	Retail Logistics Australian	NA	8	NSW	Wholesaler Fresh Produce

					Markets Manufacturer
King's Family Supermarkets Pty Ltd (IGA banner and FoodWorks banner)	Local	NA	5	Victoria	Wholesaler Fresh Produce Markets Manufacturer
Progressive Supermarkets (banner group Foodlink Ltd)	Local	NA	8	Queensland	Wholesaler Distributor Manufacturer
Murray Goulburn Supermarkets	Local	NA	6	Victoria	Wholesaler Fresh Product Market Distributor Manufacturer
Fishers Stores Consolidated Pty Ltd (IGA banner)	Local	NA	7	Victoria	Wholesaler Distributor Manufacturer

Sub-Sector Profile

- Losing market share to supermarkets and the convenience sector with major chains opening small supermarkets in the CBD catering for fresh, prepackaged meal and everyday needs.
- Increase in deli-type products and ready made cakes and pastries.
- Customers working longer hours, greater population mobility and introduction of meal solutions place pressures on this sector.
- This sector is under pressure on price and opening hours from the big three chain supermarkets.
- Difficulties with turnover volume and out of date products.
- Sector is sustained by sales of regular essentials such as milk and bread.
- Customers would include the less mobile.

SECTION III: COMPETITION

Domestically-Produced Goods and Imports

- In terms of the food processing industry, imports only exceed domestically produced products for oil and fat manufacturing (71% share), seafood processing (76% share) and spirit manufacturing (84% share). For all other food processing industries locally produced products dominate (ABS Statistics).
- In 1997/98 the US exported USD 295 million of processed food to Australia. The largest categories were fruit and processed vegetables (USD 62m), oils and fats (USD 49m) and spirits (USD 38m).
- US processed foods exports to Australia grew by 55% over the six years to 1997/98.
- The Australian dairy, meat and fruit industries are dominated by local production.

Comparative Advantages/Disadvantages of Locally-produced vs Imported Products

Advantages

- Low to zero tariffs on imported food products – 0% to 5%.
- Imported products are well accepted in the market place and consumers will purchase imported products to meet needs and culinary tastes rather than go without.
- Consumer profile in Australia is such that products with new attributes that current products do not have will be tried and may do well if nutritional, convenient and innovative.
- Where efficiencies in the US market exist, these can be cashed in on in the price sensitive supermarket sub-sector.

Disadvantages

- Imports are at a disadvantage at present as the Australian dollar has depreciated against the US dollar and subsequently imports are relatively more expensive.
- Locally produced brands which include US brands, are strong – Australian culture has strong links to certain brand names particularly with condiments and breakfast cereals. However consumers are willing to try new things.
- Restrictions on imported products - see the Australian Quarantine and Inspection Service website, www.aqis.gov.au.

Advantages/Disadvantages of US Products vs Other Foreign Products

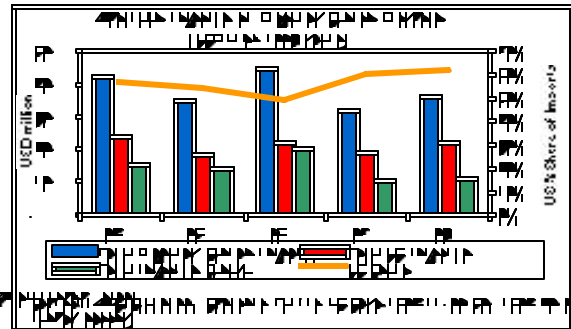
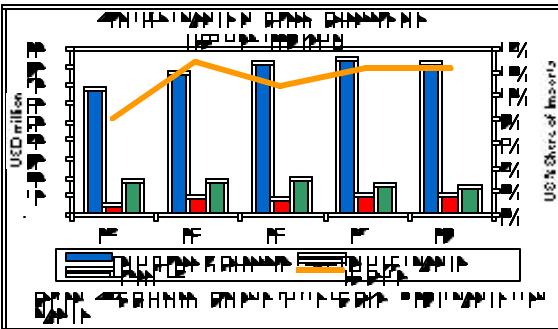
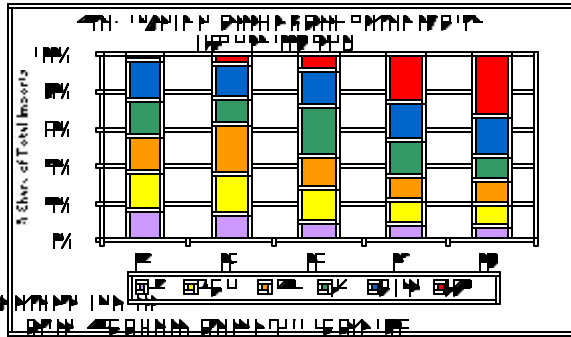
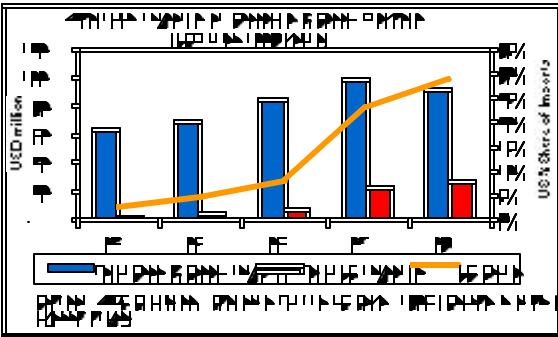
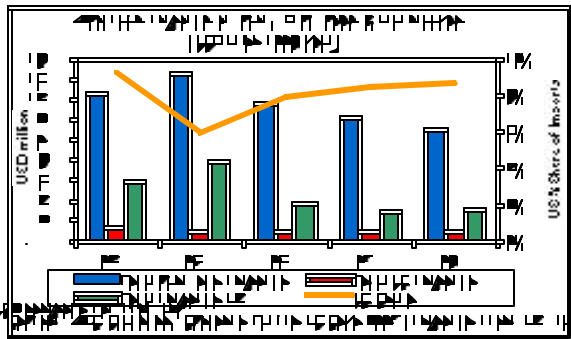
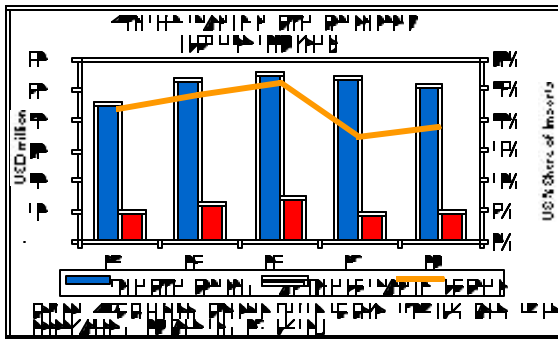
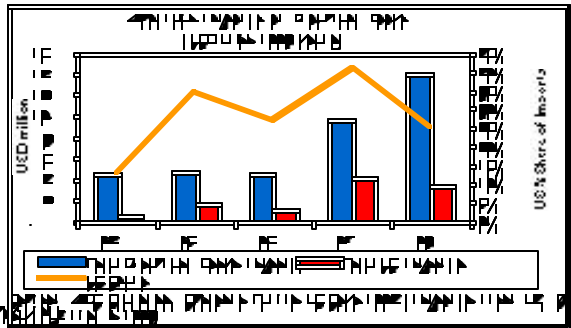
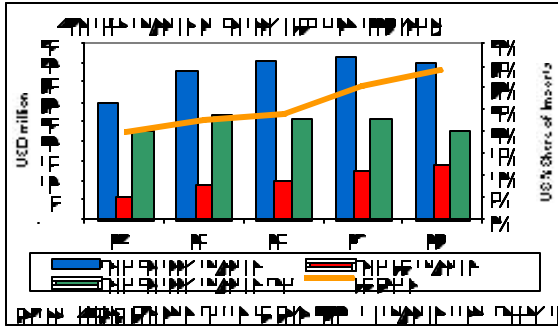
Advantages

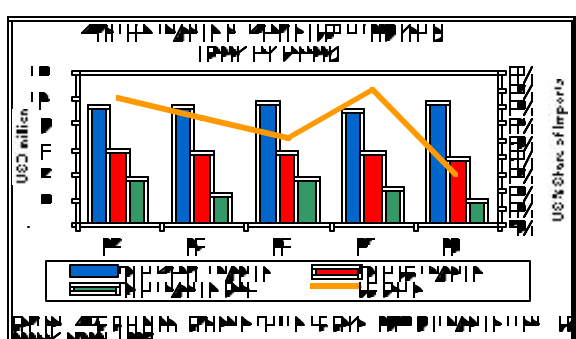
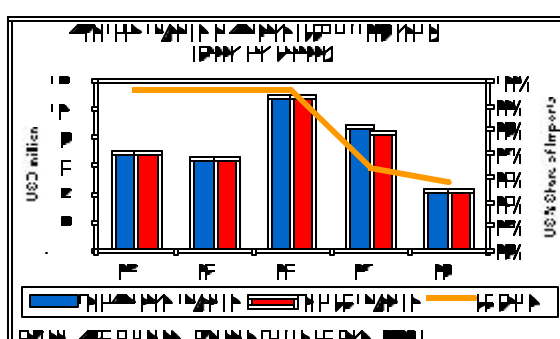
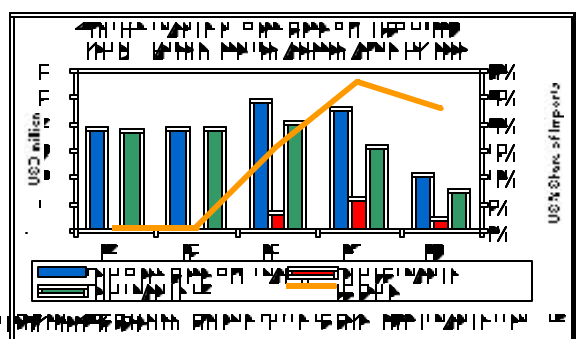
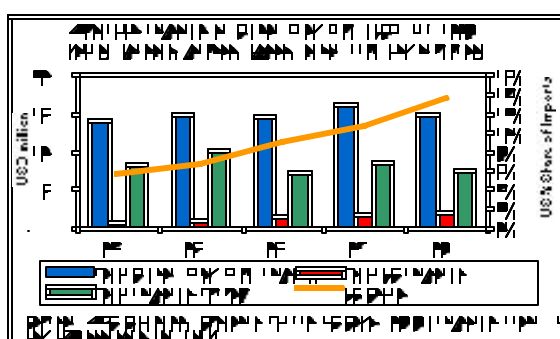
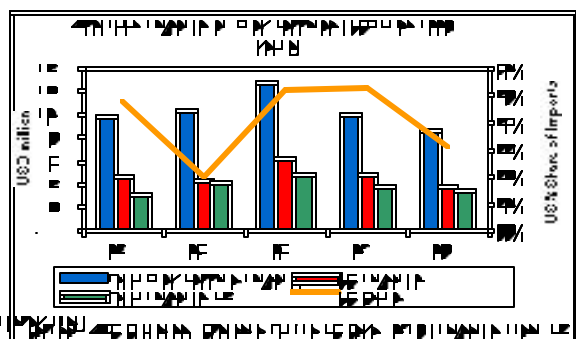
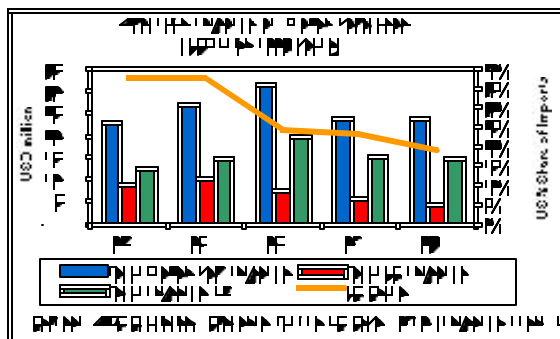
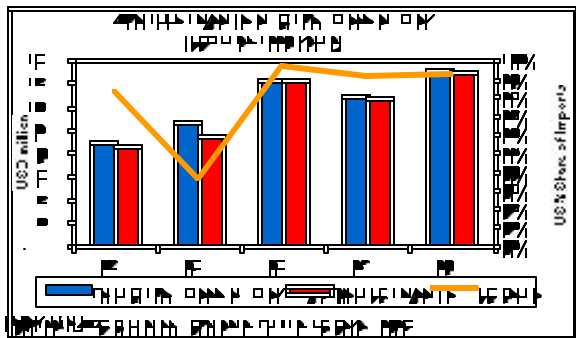
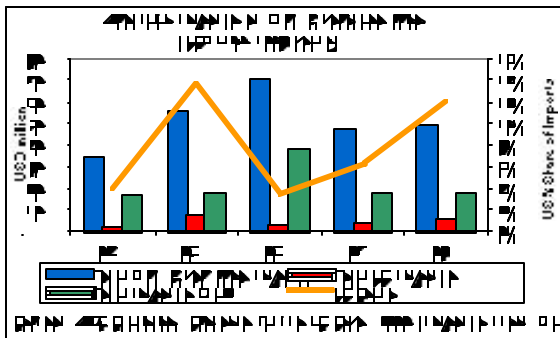
- US products are seen to be of high quality.
- Many US brands are manufactured under license in Australia and through subsidiaries of US parents, so awareness and acceptance of US products is substantial.
- Mexican cuisine has enjoyed growth in the Australian market for over 10 years and continues to grow.

Disadvantages

- Australians have strong ethnic links to the Mediterranean, Europe and Asia and tend to favor such foods and as such US products which capture these flavors will be more likely able to compete. There is a strong café culture, particularly in Victoria which has the largest Italian population in Australia.
- Growth areas include Asian and Indian cuisine with areas in supermarkets dedicated to the sale of oriental products.

Import Statistics for Major Product Categories





US Market Share of Australian Retail Food Sector by Major Product Categories

Summary

- US market share of Australian food and beverage imports is 12%. Of this seafood and preparations of seafood represent 8%.
- Many US products are manufactured in Australia through subsidiaries of American companies.

Table 10: Retail Food Sector Product Categories – Who Produces What?

Key: AU = Australia, CA = Canada, NZ = New Zealand, FRA = France, UK = United Kingdom, HKG = Hong Kong

Categories	Australian(AU)/Other Brands/Companies/ %Share	USA Brands/Companies/%Share
Snack Foods and Confectionery		
Biscuits	Players (AU) 2.8%, Westons (UK) 10.3%, Lanes (NZ) 7.9% (Ritz, Chips Ahoy)	Arnott's 57% (Shapes 8.9%, Tim Tam 5.3%)
Confectionery	Kenman (AU) 2.7%, Nestle (Swiss) 20.1%, Cadbury (UK) 37.8%	Mars 11.2%
Snack Foods (nutritious – fruit bar driving growth, driven by Bellis and Uncle Toby's)	Uncle Tobys (AU) 55.2% [Brands: Crispies, Oven Baked Fruit Bars], Bellis (AU) 3.5%.	Kellogg's 8.5% (Rice Bubble Treats)
Soups Instant	Unilever foods (British/Dutch) 58.1%	Minor
Soups dry packet	Unilever Foods (British/Dutch) [Continental] 74.3%	Minor
Soups: Canned Wet	Rosella Swiss 15.1%	Heinz 38.9%, Campbells 36%
Snack Foods (salty – potato chips and nuts main categories)		
<ul style="list-style-type: none"> • Market Share for Frito Lay /Smith's Snackfood Company (Subsidiary of Pepsico) will change as Dollar Sweets has bought CC's, Lites, Cheezels, Planters Nuts, French Fries, Colvan Potato Chips and Samboy Chips. Is now a 30% player. • The salty snacks market, worth more than \$900 million in Australia through all channels, is experiencing relatively flat volume growth (+2.1%) but significant value movement (+7.9%). Nonetheless, the performance is better than other snacking categories, such as confectionery, drinks, and ice cream (Foodweek, 16 August 1999) 		
Corn Chips		Frito Lay 37.1%, Smith's Snackfood Company 45%
Cereal Snacks	SBA (AU) 14.4%, HB/generics 13.1%	Smith's Snackfood Co 70.7%
Nuts	Dollar Sweets Holdings (AU) [Planters] 4.4%, HB/Generic 30%.	Smith's Snackfood Co (Nobby's) 21.1%,
Potato Chips	HB/Generics 13.3%, Colvan/Frito Lay (AU) [now owned by Dollar Sweets]	Smith Snackfood Co. 36.9%, Kettle Chip Co. (Arnott's) 6.5%

	32.2%	
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Breakfast cereals	Uncle Tobys (AU) 20.7%, Sanitarium (AU) 17.5% [Weetbix 10.6%]	Kellogg 52.5% (Nutri-Grain 7.4%, Corn Flakes 7.3%, Coco Pops 5.5%)
International Meals – Mexican Food & Dips (16.5 growth)	Mexicasa (AU) 7.9%	Pillsbury (Old El Paso 63.6%), MasterFoods 9%, Smiths Snackfood Co. (Tostitos) 6.9%
Fresh Meat (51% of fresh meat sold through Butchers, 49% sold through Supermarkets).		Minor, Australia is major meat exporter and imports only 5% of total import/domestic processing.
Dairy: Some Italian and NZ exposure however mainly Australian producers and manufacturers. Australia is a major dairy exporter		
Dairy Deserts	National Foods (AU) [Petit Miam 16.7%, Fruche 12.2%, Dany 8.4%, Yogo 7.3%]	Minor
Yoghurts	Dairy Farmers (AU) [Ski 29.6%, Danone 17.3%], National Foods Group (AU) [Yoplait 25%], Nestle (Swiss) 12.3%	Minor
Eggs and products		Quarantine based import restrictions
Fish and Seafood (USA dominates imports of prepared salmon products followed by Canada)		
Canned Red Salmon	Greens (AU) 14%, Safcol (AU) 7.8%, Generics 13.6%	Unilever (John West, Ally) 46.9%
Canned Pink Salmon	Greens (AU) [Paramount] 11.5%, Safcol (AU) 1.8%, Generics 11.6%, HBs 10.3%	Unilever Foods (John West, Ally) 56.9%
Canned Australian Salmon	Safcol 20.1%, Generics 49.6%.	Heinz 29.4% (Greenseas)
Fruit and vegetables		
Frozen vegetables (1.6% growth in value) – main products are super-sweet corn, baby peas, & mixes.	McCain (CA) 24%, HB/Generics 23%.	Edgell/Birds Eye (Simplot) 29%, Wattie's 13%
Canned Fruit	Goulburn Valley Canned Fruit (AU) [Ardmona 42.9%], SPC AU 34.4%	Minor
Dried Fruit	Angus Park Fruit (AU) 32.5%, Sunbeam (AU) Foods 8.2%, HB/generics 25.3%, Other 34%.	Minor
Asparagus Canned	Trident 8.4%	Edgell (Simplot) 20.4%, John West 27.7%
Jams (growth 2%)	Cadbury Schweppes Cottee's (UK) [Cottee's 22.5%, Monbulk 16.5%], Allowrie (AU) 7.8%.	IXL (25%)
Yeast Spreads	Sanitarium (AU) [Marmite] 1.9%	Kraft (Vegetmite 89.2%),

		MasterFoods (Promite 8.9%)
Nursery products (baby food)		
Baby biscuits		Heinz 77.4%
Baby food processed/wet \$66.5m	Gerber (FRA) 5.2%	Heinz 89.7%
Baby food cereal \$4.4m	Farex (Swiss) 46.7%	Heinz 52.7%
Pet Food: USA is the dominant player, especially cat foods imported from the US. Market Leader Uncle Ben's is part of Effem Foods Pty Ltd		
Bird Seed	Golden Cob 19%, Trill 13.4%, Generics 41%	
Cat Food : Canned /Wet	Friskies (Swiss) [Friskies Feast and Fancy Feast] 12.1%, Safcol (AU) 7.9%, Chubpak (AU) 4%, HB/generics 15%	Uncle Ben's (Whiskas, Kiticat and Dine) 59%
Cat Food: Packet/Dry	Friskies (Swiss) 49.8%, HB/Generics 7.5%	Uncle Ben's 39.4%
Dog Food: Canned/Wet	Chubpak (AU) 8.7%, Friskies (Swiss) 6.1%, Bush's (AU) 4.2%	Uncle Ben's 67% (Brands: Pal 33.8%, Chum 19.7%, My Dog 13.1%)
Dog Food: Dry-regular	Friskies (Swiss) 24.5%, Green's (AU) 8.4%, HB/Generics 14.3%. [Brands: Trusty 7.9%, Lucky Dog/Puppy 15.3%]	Uncle Ben's 50.3% (Brands: Meaty Bites 37.9%, Good-O 9.4%)
Condiments		Dips and mustards. Dominated by MasterFoods 35.4% & 64.5% respectively
Poultry industry plagued by oversupply, regular outbreaks of discounting and volatile feed costs. Extremely price sensitive – branding is basically non existent and smaller producers can easily undercut major producers.		
Frozen Foods		
Poultry Products (growth of 1.9%)	Inghams (AU) 59.7%, Steggles (AU) [Bartter Enterprises] 3.3%, Colonial Farm (AU) 3.3%	Birds Eye 9.6%, minor US, import restrictions based on quarantine have historically prevented poultry meat import
Dinners (growth in value 14.7%)	McCain (CA) 39.3%, Findus (Swiss) 38.9%, Michelina's 4.1%	
Fish (growth in value of 2.4%)	HB/Generics 19%.	Birds Eye 38.9%, I&J 19.6%, Sealord 10.3% (Simplot)
Savoury Pastries (growth value of 5.4%)	Four 'n Twenty (AU) 19.7%	Herbert Adams 9.6%, Sargents 8.3%, Big Ben 5.8%
Beverages		
Cordials	Cadbury /Schweppes Cottee's (UK) [Cottee's 37.4%] Golden Circle (AU) 15.4%, Berri (AU) 13.2%, HB/Generics 9.7%.	Minor

Fruit Juices and Drinks (\$800m market)	Berri (AU) 34.5%, Sunburst (AU) 19.3%, Golden Circle (AU) 13.2%, Bev-Pak 8.1%	Minor
New Age Drinks	Fruit based/iced teas other - Spritz (AU) 35.7%, Oasis (UK) 24.4%, Hartz 5.3%; Mixers –, Kirks (AU) 12.6%, HB/generics 37.9%	Minor
Soft-Drinks	Coca Cola (AU) 59% [Coca Cola, Sprite], Cadbury Schweppes (UK) 14.4%	Pepsico 9.9%
Soy UHT Drinks	Sanitarium (AU) [So Good 48%], Australian Natural Foods Ltd (AU) [So Natural 9%], Vitasoy (HKG) 12% Others 22%	Minor
Sport/Isotonic Drinks	Schweppes Sport Plus (UK) 6.1%	Powerade 41.1%, Gatorade 22.1%, Lucozade 24.5%
Coffee/Tea		Unilever dominates majority of segments

Source and Shares: information provided in Retail Worlds, Grocery Industry Marketing Guide 1999, and is information provided by consumer packaged goods manufacturers and importers.

SECTION IV: BEST PRODUCT PROSPECTS

Important Tips

Packaging

- Clear packs are popular such as for fruit in natural juice, The 410g plastics market is growing at 36.8%, canned fruit declining by 0.2% and the 200g plastics market is growing at 28.3% (ACNielsen MAT Mar 21 1999).

Labeling

- Ensure labeling outlines nutritional values (folate content, high protein, mineral and vitamin content), quality, and health values such as low fat, no cholesterol and low sodium as these attributes are searched for in foods.
- See the Food and Agriculture Import Regulations and Standards (FAIRS) report for Australia for detailed information on Australia's food standards, labeling requirements, import regulations, etc. This report can be viewed/downloaded at the following Internet site and conducting a "AGR Number" search for report number AS9033: <http://www.fas.usda.gov/scripts/attacherep/default.htm>

Frozen Food

- This segment in the grocery market is the second fastest growing at 6.7%. It grew by 4.9% in 1997 and 3.4% in 1996. Frozen meals category was the star performer. This department steadily improved its growth rate over the past three years and is now considered an over-achiever.

A: Products Present in the market which have Good Sales Potential

Case Study: Fish Products dominated by US brands, many manufactured in Australia

- Of total frozen fish grocery sales, Birds Eye, I&J, and Sealord (all owned by Simplot – US) leads the market with a total share of 67.8%. Heinz Watties holds 4% and HB/generics 18.4%.
- The canned fish category is becoming increasingly dominated by John West, Brunswick, King Oscar and generics. Greenseas, a division of Heinz Watties Australia (US), is the current market leader for canned tuna at 32.5% or USD 31 million, with brands Greenseas, Weight Watchers and Seahaven. Tuna currently makes up 50% of the canned fish at grocery followed by pink (13%) and red salmon (12%) respectively, with sardines accounting for 10%.
- Rapidly growing range of **flavored canned tunas**, nutritional information and variety packs such as lunch kits, gourmet tuna meals.
- Tassal, marketing products under the Royal Tasmanian Salmon brand has expanded plant and production.
- Due to the range of products, companies need to work with retailers to provide merchandising strategies and marketing information.
- Watties Frozen Foods, part of the H J Heinz Group (US), entered the **frozen prepared meals** market with an initial offering of 10 new lines marketed under the Michellinas' brand, in five regular and five **low-fat** variants (Retail World Guidelines 1999). Meal types include fish portions, char grilled fillets and fish for kids.
- In 1998 Fish and Fish Products were Australia's principal food import category.
- "Other seafood" segment, worth 12% of the frozen fish category, value of USD 7.7 million. **Sealord Greenshell Mussels** (US) is a new product. First in a series of product introductions to provide supermarket shoppers with **premium frozen seafood products**.

Indian Cuisine

- **South East Indian Foods** – growth in restaurants has led to a growth in supermarkets for alternative meals and Indian/Thai segments have benefitted growing at over 17% throughout 1999. Major competitors include Meadow Lea Foods (Local), and Riviana Foods (NZ). Size of the market is approximately USD 12.9 million. There is currently no or limited US presence. The Indian food category alone is generating growth of 26.2%.
- Growth is in **simmer sauces and pastes**, with the largest segment Indian pastes accounting for 30.1% of Indian sales followed by canned sauces at 24.5%. Pataks (Local) is market leader at 57.2%, followed by Sharwoods by Riviana Food (NZ) at 37.5%.
- Meadow Lea has also entered the highly competitive **frozen food segment** of the supermarket with its range of Pataks Indian meals.

Asian Cuisine

- This segment is worth approximately USD 29 million. Products driving growth are **curry pastes, curry sauces, noodles and coconut milk**. Pillsbury Australia (US) reports that **fresh Asian noodles and sauces** continue to be one of the fastest growing ethnic food cuisines in Australia with the market valued at \$17 million and growing at 46% (ACNielsen Scan Data MAT 2 May 1999). Pillsbury's Noble House brand is the number 2 brand with 21% with Bamboo Pot the leader with 25%. Ayam (Chinese) is the leading brand in international meals.

Mexican Cuisine

- Mexican food is an established cuisine and is now worth \$86.1 million. Old El Paso marketed by Pillsbury Australia (US) continues to be the market leader with 82.4%. Meal kits such as frozen burritos by Patties Bakeries 17.1% are popular.

Snack Foods – in particular Rice crackers

- Australians have a penchant for snacking on nutritious snacks.
- Savory snacks and biscuits sales have shown healthy expansion at 12.7% with consumer acceptance of **flavored snacks and rice crackers** as **healthy snacking** alternatives. Flavored snacks are 34% of the category at USD 69 million.
- Products are marketed as snack foods rather than everyday biscuits.
- Players (Local) has introduced three new flavors – chicken, plain and salt & vinegar (other flavors established include seaweed, cheese and plain).
- Lanes (NZ) In-a-Biskit brand also recording healthy growth at 14.1%.
- US presence with Kraft, Arnott's crispbreads Salada and Vita Weat, and Smith's Snackfoods. Competitors include Lane's (NZ) Premium brand and Weston's (UK) Ryvita.
- **Nutritious snacks** as a category has seen new product activity and has developed into a USD 130 million business, with new emerging players as well as innovation from market leaders. Uncle Tobys (Local) fruit filled bars have lifted the segment by 200%.
- Activity in niche areas such as crisp breads and snacks. Rice crackers exploded from \$20 m to \$41 million grocery value in the main chains in last 12 months.

Soft Drinks

- In 1997/98 soft drinks were the number one item in Australian and New Zealand Supermarket trolleys (Australian Soft Drink Association Ltd) and the number one preferred beverage of choice. Highly competitive market.
- Over the past decade soft drink consumption has increased by 60%. Since 1990/91 total production increased by 75%. In last 2 years alone production has increased by 245 million liters. In 1996/97 Australian soft drink manufacturers produced over 2.2 billion liters of soft drink. **Australians primarily enjoy cola flavor.** Most popular sized drink container is the 1.25 liter PET bottle with a move towards the 600 ml PET size. Glass has been in long term decline, aluminum cans experiencing decline. Annual turnover of \$4.8 billion, 132 processing plants.

Breakfast Foods

- Leading manufacturers in the USD 465 million breakfast cereals market say consumer preoccupation with convenience and "healthy foods is driving the resurgence of that market" (Retail World June 1999).
- "Portable" Breakfast cereals, such as breakfast bars and liquid breakfast cereals are growing the most, up 28% in value on a year ago. Convenience food segment represents 5.4% of the total category and is worth USD 25 million.
- Estimates of value shares in breakfast cereal types are flakes 31%, wheat biscuits 19%, combinations 12%, children's 10%, portables 6%, hot 5%, muesli 5%.
- US presence in locally manufactured products. Local brands are popular.

Pet Foods

- Growth in the pet food segment of the grocery market has declined from 5.5% in 1996 to 2.9% 1997 and 2.1% in 1998. Grocery market value for dog and cat food is USD 506.7 million.
- An increase in the dog population and a decrease in the cat population has resulted in a drop in wet cat food consumption and growth in dog food. Grocery value of dog food is USD 308 million.
- Franklins national category manager said that Australia is following US trend in moving to smaller cans that contain a single feed.
- Pet treats market is forecast to grow by 12% in Australia in 1999 being driven by Uncle Ben's Schmacko's.

B: Products NOT Present in the market in significant quantities which have Good Sales Potential*International Meals*

- Cajun cuisine spices are available (MasterFoods). However convenience meal components such as bottled sauces and prepared frozen meals are not. Grocery value for the international meal category is growing at; 14.7% for Asian cuisine, 23.1% for Indian cuisine, and 19.6% for Mexican cuisine. Total grocery value for these cuisines is USD 82 million. Major competitors in the category include Meadow Lea Foods (Indian Patak brand), Riviana Foods (Indian Sharwoods brand) and Pillsbury (Mexican Old El Paso brand) and Ayam (Asian food).

UHT Soy drinks and products

- Delivered strong growth in 1998. High level of new brand/product launches. Grocery value \$77.6m, value change 16%, volume change 9.8% (Retail World 1999).
- Australian Natural Foods Ltd soy beverage maker is expecting profit growth of at least 20% this year as margins improve and its market share continues to grow.
- Further growth is expected in the **long life soy drinks**.
- Competition from Parmalat/Pauls (Italian), SoYo (Local) and Sanitarium (Local) in soy yoghurt market.
- Soy ice cream is being developed. Sanitarium (Local) is launching soy healthy made up of five frozen and eight chilled soy meal component products **including soy sausages**, fillets, slivers with **variety of flavors** making it easier for consumers to use.
- No U.S. presence.

Bread Mixes

- Flour/bread mix segment is growing strongly with 250,000 bread makers sold in 1998 and the segment continuing to grow.
- The grocery value of flour in Australia is USD 45 million and is growing at 18.6%. Bread mixes increased by 189% on volume and 158.3% on value.
- Major competitors include Goodman Fielder (Local) and Tip Top (UK).

C: Products Not Present, Significant Barriers

- Frozen poultry products are prohibited entry in Australia. Cooked poultry products are permitted however an import permit is required.
- Imported fresh chilled salmon is present in Australia, however imports are only permitted from New Zealand and Canada. Following a generic risk assessment that would allow imports from other countries, AQIS is working on a protocol with the U.S. Government for imports of fresh/frozen salmon.
- Many fresh fruits are prohibited such as grapes, apples and most stone fruit.

SECTION V: POST CONTACT AND FURTHER INFORMATION**• Import Regulations**

Import regulations for specific foods are available on the AQIS website www.aqis.gov.au (quarantine, import regulations, food safety).

Food Law and Policy information can be obtained from the www.ausfoodnews.com.au website.

• Australia's Food Sanitation Regulations

Australian Maximum Residue Limits are in Standard A-14 of the Food Standards Code. The Internet version of the Code can be obtained from Health Communication Network Ltd <http://www.hcn.net.au/anzfa/>. A subscription of \$350 applies for new members. To become a subscriber the following Internet site will guide you through subscribing: http://www.anzfa.gov.au/FoodStandards/New_Format_For_Food_Standards_Code.htm
Standard is under the control of the Australia New Zealand Food Authority (ANZFA), <http://www.anzfa.gov.au>.

Food safety import regulations can also be found at www.aqis.gov.au and in this Post's Food and Agriculture Import Regulations and Standards (FAIRS) report for Australia for detailed information on Australia's food standards, labeling requirements, import regulations, etc. This report can be viewed/downloaded at the following Internet site and conducting a "AGR Number" search for report number AS9033:

<http://www.fas.usda.gov/scriptsw/attacherep/default.htm>

- **Post Contact**

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- **Industry Information**

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 website: <http://www.afgc.org.au>
 Mitchell Hooke (CEO representative on reference group of key processed food industry CEOs)

- **Trade Shows and Exhibitions**

Mar 26-28 2000	Fine Food Brisbane, Brisbane Convention Center (Trade Show)
Mar 29-30 2000	International Food Dehydration Conference – 2000 and Beyond, Melbourne
May 7-10 2000	Sydney International Catering Trade Fair, Sydney Convention Center
Jun 30/1-2 July 2000	<u>Not Confirmed</u> : ConSnack '2000, (Confectionery) Marriott Hotel Surfers Paradise. See website in January for details http://www.candy.net.au
Nov 17-20 2000	Fine Food Australia, Melbourne (Trade Show)
Aug 2001	AusDrinks to be held in 2001. See www.softdrink.org.au for details mid-2000

Note: Australian buyers also attend many of the large international trade shows around the world such as ANUGA and FMI.

Web-sites that may be of interest include:

- TSCentral, free Internet service, listing world wide events - www.tscentral.com
- Online Events, subscription service lists events in Australasia - www.onlineevents.com.au

