Exporter Guide

FOOD AND BEVERAGE

IN AUSTRALIA

Market Profile

January 2012
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1 MARKET STRUCTURE

1.1 Market Overview

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

- a major contributor to the Australian economy – generates sales and service income in excess of A$100 billion annually
- Australia’s largest manufacturing sector, accounting for 26 percent of total manufacturing – four times larger than the automotive industry
- Australia’s largest manufacturing employer – 315,000 people, but this number is declining and it has lost 3,468 jobs since 2006-07
- a net-importer of food and grocery products – a trade surplus of $4.4 billion in 2004-05 has turned into a trade deficit of $1.8 billion in 2009-10
- on a turnover basis, Australia’s food and grocery sector is comparable in size to the Australian mining industry. However it is also under intense pressure from rising imports and flat export figures.

New Zealand food and beverage products are well accepted in Australia, with the major imports from New Zealand being wine, dairy, seafood, bakery products, beverages, frozen vegetables and soup. The joint Australia New Zealand Food Standards Code means that the same food standards apply in both markets and there are few Australian Quarantine and Inspection Service (AQIS) issues which restrict entry of products.

The grocery retail sector is very concentrated in the hands of Coles and Woolworths who share almost 80 percent of this market, in contrast to the food service sector which is very fragmented.

Current trends include a growing concern with obesity and other health issues, which has created opportunities for products that can deliver fresh, healthy, natural snacks and meal solutions. It has also increased demand for organic products.

1.2 Market Drivers

Private label growth

Private label products account for nearly one-quarter of Australia’s $70 billion grocery market, and the share is set to climb above 30 percent within the next five years. This is up from around 18 percent in 2006 and is driven by aggressive activity by the major players Coles and Woolworths along with the expansion of Aldi.
Increased consumer acceptance of private labels due to the economic down turn, the growth of the hard discount sector and an improved supply of private labels have all helped boost private label sales.

**Greater health consciousness**

Rising health and nutrition awareness means that consumption of white meat, seafood, fruit and vegetables is rising. Demand is also increasing for healthy versions of staple foods, such as low-fat cheeses, cholesterol-reducing spreads and nutrient-enriched products owing to a growing focus on healthy eating and increasing awareness of the need to reduce obesity rates.

Consumers are embracing portion control over more traditional diet plans and are more concerned about the inclusion of a wide range of foods in their diet. Australians are willing to adopt a more disciplined approach to eating, but are being selective in how they are exercising this discipline. Less than a quarter (24 percent) are adopting specific diet plans, but nearly half (46 percent) are exercising greater control over their portion sizes.

Consumers are more willing to curb the volume of food as opposed to the type of food they consume. Communicating “portioned indulgence” or “treat” size portions conveys to consumers that quality has not been forgone for the sake of health, while also still allowing for indulgence.

**Rising demand for organics**

An increasing preference for organic food is part of the global LOHAS trend – ‘Lifestyles of Heath and Sustainability’, a term which refers to the fast growing group of consumers who are concerned with the environment, health, sustainability. A 2007 report by Mobium Group found that 25 percent of Australian adults were part of this group and that A$12 billion was spent on goods and services in the LOHAS market segment. This market is expected to continue to grow.

While the influence of the global economic crisis saw many Australians revert back to non-organic products in an attempt to save money, this was counter-balanced by an increasing trend towards eating at home creating demand for organic food products used to prepare meals.

Industry revenue from 2011-12 is forecast to reach $503.8 million, a growth of 9 percent from the previous year. The industry’s key products are fruit and vegetables (about 51.5 percent of total value), beef and poultry.

Demand in Australia has also been supported by the increased availability of organic and green products including through the major grocery chains. Woolworths and Coles are now stocking greater amounts and wider ranges of organics, thereby increasing the convenience of purchasing organic products. However the market for organic products remains highly fragmented, with most players being small, independent domestic companies.
Changing population

Population trends in Australia will influence future food and beverage trade. Nearly one-quarter of Australians will be over 65 by 2050. There is an opportunity for companies to take a proactive approach to addressing this historically undervalued segment, and capitalise on shifting demographic trends.

Australia’s population is expected to grow with a recognition that the country needs more skilled migrants, especially in regional areas. The increased population will provide opportunities for New Zealand firms to increase exports to Australia due to resulting pressures on their domestic food industry.

Australia already has a great ethnic and cultural diversity which is reflected in the wide range of foods available in Australia, including European, Asian and Middle Eastern influenced products. Further immigration will increase the demand for food and beverage products that cater toward these diverse groups and tastes.

Australian provenance

Australian consumers are reportedly keen to purchase Australian products in order to help create employment and strengthen economic growth, with an increasing number of Australian food manufacturers positioning their products accordingly. Around 89 percent of Australians believe it to be “very important” or “important” that the fresh food they buy is Australian, with 82 percent applying similar criteria to their purchases of packaged food.

While the sentiment is very strong and will affect the buying behaviour of some, the majority of sales remain cost based.

Many consumers believe that Australian products are higher quality than imported products, and are made to high safety and hygiene standards and under fair working conditions. This has resulted in some multinationals seeking an Australian positioning for their products.

Changing wine preferences

Australian consumers have shown a preference for lighter, crisper and more consistent wine styles which is reflected in a boom in sales of Sauvignon Blanc in recent years, with imports from New Zealand doing particularly well. The strong Australian dollar is prompting many wine drinkers to take advantage of cheaper price tags on premium imported wines, with imported wine sales rising from 7 percent of domestic sales in 2006-07 to 12 percent in 2010-11.

The Australian wine industry has been generating annual production surpluses in recent years. Along with increased wine imports it is facing difficulties with increased competition in its major markets at a time when consumer sales are down due to the global financial crisis and the Australian dollar is very strong.
Fish and seafood

Consumers increasingly view fresh poultry and fish and seafood as healthier than red meat, particularly high-fat processed red meat in the form of corned beef, tinned ham and beef burgers. Meal solutions with frozen processed fish and seafood products are expected to see a 2 percent volume CAGR (Compound Annual Growth Rate) over the next five years, and meal solutions with chilled fish and seafood are expected to see a 5 percent volume CAGR.

Meat

Rising levels of health consciousness may see consumption of red meat decline in favour of chicken and fish. Red meat, especially lamb, is often viewed as high in fat. Even though attempts are being made to change community attitudes to the health risks and nutritional value of meat consumption, especially in relation to lean meats, this has not yet translated into higher overall meat consumption per capita.

An increase in brand marketing of meat products has seen producers move to take over sales direct to consumers via growers markets, online and direct to restaurants.

1.3 Market Potential

Between 2011-12 food consumption is expected to grow by an average of around 4.5 percent. This is an improvement from growth of 2.1 percent in 2010 but it still significantly below the average annual expansion of 8.4 percent over the period 2003-07. However, in the medium term, there will remain good prospects for growth in organic and specialty foods as well as pre-prepared meals as consumer confidence returns.

The performance of the food and beverage industry is forecast to slow, with an anticipated CAGR of 5.3 percent for the five year period 2009-2014, which is expected to drive the industry to a value of US$ 87.7 billion by the end of 2014. The industry is increasingly consolidated with large chain supermarkets wielding more power over smaller specialty, luxury or organic food outlets.

In recent times the growth rate in the value of food eaten away from the home is well in excess of grocery food sales due to changes in household composition, shopping and eating trends. Other trends include an increased demand for convenience in both shopping times and meal preparation; shopping more frequently; an increase in casual dining; a lower share of income spent on food; and an increase in imported lower priced products.

Since 1999, New Zealand’s processed food and beverage exports to Australia have grown significantly. Between 1999 and 2009, processed foods had a compound annual growth rate (CAGR) of 14 percent, and beverages grew with CAGR of 21 percent.
Foodservice

Opportunities in the foodservice sector are wide ranging with more people eating away from home and increased interest in specialty niche products in the market. Current trends also include a growing concern with obesity and other health issues. This has created opportunities for products that can deliver fresh, healthy, natural snacks and meal solutions.

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

BIS Shrapnel estimates the number of commercial foodservice outlets to be 60,761 (2009). The size of this channel expenditure in 2009 was A$ 8.66 billion, and is estimated to rise to A$ 9.36 billion by 2011. BIS Shrapnel also estimates the number of institutional foodservice outlets to be 14,775 (2009). The size of this channel’s expenditure in 2009 was A$1.35 billion.

Processed foods

New Zealand is achieving success in Australia across a range of non-traditional foods and beverages. In addition to its staple dairy and agricultural industry some of these food and beverage products will enable future export growth for New Zealand. According to Coriolis report on the New Zealand food industryxiii, chocolate / confectionary, bakery products, infant formula, and frozen french fries are identified as key processed food categories.

Wine

Australia continues to be the largest market for New Zealand wine by value and the second largest market by volume. New Zealand Sauvignon Blanc continues to retain its position as the largest selling white wine in Australia. While some of the industry thought leaders are starting to look for the next big thing, New Zealand Sauvignon Blanc remains very popular and dominates New Zealand imports to Australia. Pinot Noir is growing in popularity as more reasonably priced New Zealand Pinot Noirs (around A$20) are available.

The growth in sales has been well supported and driven by the large retailers who control over 60 percent of the liquor market with both selling a large number of their own brands as well as established wine brands.

Seafood

Australia’s demand for seafood currently exceeds, by more than double, the production capacity of our wild catch fisheries and our aquaculture industries combined. In edible weight terms (ie. what actually goes in the mouth) 72 percent of the seafood currently consumed in Australia is imported.
Meat

The domestic market is the largest market for Australian beef and sheepmeat and at the same time Australia is also the world's largest exporter of red meat and livestock, exporting to more than 100 countries.

1.4 Import Trends

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

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

<table>
<thead>
<tr>
<th>Product</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% Change 10/09</th>
<th>Competition (% share of Australia's imports in 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>309.9</td>
<td>328.0</td>
<td>332.2</td>
<td>1.3</td>
<td>NZ (54%), France (33%), Italy (7%)</td>
</tr>
<tr>
<td>Cheese</td>
<td>277.4</td>
<td>234.3</td>
<td>313.6</td>
<td>33.8</td>
<td>NZ (61%), Italy (8%), USA (6%)</td>
</tr>
<tr>
<td>Food Preparations</td>
<td>102.1</td>
<td>125.4</td>
<td>150.0</td>
<td>19.6</td>
<td>Ireland (32%), Singapore (17%), NZ (10%), USA (9%)</td>
</tr>
<tr>
<td>Bread, Pastry, Biscuits etc.</td>
<td>101.8</td>
<td>118.7</td>
<td>118.1</td>
<td>-0.5</td>
<td>NZ (24%), China (13%), UK (7%)</td>
</tr>
<tr>
<td>Fish Fillets</td>
<td>85.3</td>
<td>88.5</td>
<td>92.5</td>
<td>4.5</td>
<td>NZ (27%), Vietnam (23%), Taiwan (11%), South Africa (8%), China (6%)</td>
</tr>
<tr>
<td>Butter</td>
<td>83.5</td>
<td>59.0</td>
<td>90.5</td>
<td>53.3</td>
<td>NZ (84%)</td>
</tr>
<tr>
<td>Chocolate and other preparations containing cocoa</td>
<td>62.3</td>
<td>58.0</td>
<td>90.2</td>
<td>55.6</td>
<td>NZ (21%), Germany (16%), Switzerland (9%), Belgium (8%), Italy (7%)</td>
</tr>
<tr>
<td>Waters (mineral, aerated, sweetened)</td>
<td>80.3</td>
<td>75.8</td>
<td>82.9</td>
<td>9.3</td>
<td>NZ (38%), Austria (27%),</td>
</tr>
</tbody>
</table>


### Processed foods

New Zealand is the most significant supplier of processed food and beverage items to Australia, supplying 18 percent of all imported goods in 2010. New Zealand’s closest competitors in the Australian market in terms of value are Thailand (8 percent), and the United States, Ireland and China (7 percent each). Australia primarily obtains its imported processed fruits and vegetables from New Zealand, China, and the United States. However, processed seafood imports are primarily sourced from Southeast Asian countries such as Thailand and Vietnam.

### Wine

In 2010, New Zealand was the most significant supplier of wine to Australia – supplying 54 percent of all imported product. New Zealand is also Australia’s primary destination for wine, at 28 percent in 2010. New Zealand’s closest competitor in the Australian market in terms of value is France (33 percent).

### Fish and Seafood

It is estimated that, within 15 years, Australia will need to import about 500,000 tonnes of seafood annually to sustain rising growth in per capita seafood consumption driven by new information about the many significant health benefits associated with eating seafood regularly.

Australia currently imports about 200,000 tonnes of edible seafood annually at a cost of about $1 billion. Most of this is canned fish such as tuna, salmon and sardines; or frozen fish fillets, crustaceans such as prawns, or molluscs such a squid. By comparison, Australia harvests about 240,000 tonnes of seafood from capture fisheries and aquaculture annually, and exports about 30,000 tonnes (worth about $1.5 billion). Of the remaining products, about 30,000 tonnes is used for non-edible purposes. All of this is measured in unprocessed weight. When allowances are made for conversion to edible flesh weight, imported seafood represents 72 percent of seafood consumed.

New Zealand is Australia’s primary supplier of fish and seafood (25 percent), followed by China (18 percent). In terms of aquaculture products (mussels, oysters, and salmon),
Australia imported US$136 million of fish and seafood in 2010. New Zealand was also Australia’s primary supplier of aquaculture products (26 percent), followed by the United States (11.7 percent).

Meat

In 2010, New Zealand was the fourth most significant supplier of meat to Australia – supplying 5.55 percent of all imported product. New Zealand falls behind Denmark (37 percent), the United States (29 percent), and Canada (26 percent) for meat products, with these three countries supplying primarily pork products.

With tight restrictions on poultry imports Australia is reliant on local producers for all fresh poultry.

1.5 Key Players in the Market

Processed foods

The leading branded players in packaged food are National Foods Pty Ltd and Nestlé Australia Ltd, with the former benefiting from its strong dairy network, and the latter offering a wide range of products across packaged food. Private label accounts for a higher share even than artisanal players, due to the dominance of supermarkets, and the wide ranges offered by chains such as Coles and Woolworths.

Australia has recently moved from being a net food exporter to net food importer. This is principally due to increased input costs (labour, energy, and water) which makes locally produced products more costly than imports. However, the Australian food manufacturing industry makes a contribution of over A$81.2 billion to the country’s economy and just over 89 percent of the food and beverage products Australians consume are still produced locally.

Wine

The two leading players, Accolade Wines (ex-Constellation Wines) and Treasury Wine Estates (ex-Foster’s Australia) accounted for a combined 45 percent of all branded wine sales while the top 20 accounted for around 90 percent of 2010 volume sales. Other large producers include Pernod Ricard Pacific, Casella Wines and Australian Vintage.

The two major retailers, Coles and Woolworths, have introduced extensive ranges of private/own label wine, both bottled and cask wine ranges that are positioned throughout different price segments. They are also both directly involved in the importation of wine brands, most of which are exclusive to their respective retail stores. With control of over 60 percent of the liquor retail market both retailers are putting enormous pressure on overall wine pricing in Australia through regular and “quantity buy” discounting.

Australia currently holds a glut of wine as production is in excess of combined domestic consumption and export sales. Australian wine exports have been suffering due to the high value of the Australian dollar, the impact of the global recession, and increased...
competition. Conversely, wine exports to Australia have been growing rapidly (especially those from New Zealand).\textsuperscript{xvii}

**Fish and seafood**

Australia has the world’s third largest fishing zone but despite this impressive size, Australian waters tend not to be as productive as those in many regions, and Australia only ranks 52nd in the world in terms of volume of fish landed.

Production focuses on high value export species such as lobsters, prawn, tuna, salmon and abalone. The industry is extremely diverse and operators are involved in a range of segments which makes it difficult to operate as a major player across the entire industry. The top four players within this industry account for only 11.6 percent of industry revenue.

**Meat**

Consolidation and rationalisation is occurring all along the meat supply chain. Meat processors are integrating wholesaling operations into their activities. At the same time, large meat retailers are bypassing the services of meat wholesalers.

The major supermarkets all have a policy of sourcing as much Australian fresh meat as possible and promote this extensively. Coles has also announced a commitment to no added hormones in all of their beef.

**Food Retail**\textsuperscript{xviii}

The Australian food and beverage retail market is dominated by nationwide supermarket chains Coles and Woolworths who share around 72 percent of the grocery retail market. Coles’ share is estimated to be 32 percent, and Woolworths’ share 40 percent. However, the relatively recent entrance of both Aldi and Costco within the market is expected to put pressure on Coles / Woolworths market dominance.

Smaller retailer Metcash Trading Limited operates as the distributor to the independent grocery sector under the IGA banner. Stores trade under the banners Foodland IGA, Supa IGA, IGA/IGA Everyday, IGA Express, Friendly Grocer and Eziway. Metcash’s primary customers are 2500+ independent retail grocery stores, over 700 Foodworks and 500 non branded independent stores.

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

Aldi (5 percent market share) is a German owned discount chain which entered the Australian market in 2001 and now has 265 stores on the east coast. It plans to open 25 – 30 new stores per year. The company is a low-cost operator that stocks about 600 products compared with about 30,000 found in a Coles or Woolworths store. Over 95 percent of the company’s products are Aldi private label or own brands.
Other smaller players in the grocery retail market include: Australian United Retailers (market share 2.5 percent), SPAR Australia (market share less than 1 percent). Costco is a membership warehouse club and has three stores in Melbourne, Sydney and Canberra.

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

Industry research indicates that an increasing number of consumers are shopping at specialty and traditional fresh food outlets such as fish markets, greengrocers, butchers and bakeries, instead of supermarkets. According to research by the Nielsen Company, these outlets pose a potential threat to supermarkets as consumers continue to seek fresh food options. The key driver leading consumers towards these stores instead of supermarkets was the perception of quality, followed by price, location, range and service.

### 1.6 Regulatory

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

#### Industry standards

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

The Australian Quarantine Inspection Service (AQIS) is the equivalent of the Ministry of Agriculture and Forestry in New Zealand and is responsible for quarantine issues. There are few entry restrictions for products from New Zealand. A small number of products such as potatoes are not permitted at all, and import permits or strict procedures are required for a limited number of other products such as pet food, raw egg products and fresh fruit and vegetables. You can check import requirements on the AQIS Icon database at: [www.aqis.gov.au/icon](http://www.aqis.gov.au/icon).

The major supermarkets and foodservice operators also have strict food safety requirements and demand that suppliers have HACCP (Hazard Analysis and Critical Control Point) or other quality programs in place.

#### Duties and tariffs

New Zealand goods can enter Australia duty-free under the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), provided they meet criteria under...
the Rules of Origin (ROO) test. This determines that a good has been made in either Australia or New Zealand.

Prior to 1 January 2007, to enter duty-free, goods had to qualify under the 50 percent rule, calculated at the last process in the manufacture, i.e. at least 50 percent of the product’s content is manufactured in New Zealand and / or Australia; or at least 50 percent of the total value of the product has been added through production in New Zealand.

Now, new Rules of Origin based on a Change of Tariff Classification (CTC) approach have been agreed. Under the CTC approach, a product will generally gain duty-free entry as long as the manufacturing process in Australia or New Zealand involves a specified change in its classification under the global Harmonised Commodity Description and Coding System.

Exporters can enter under either of these rules of origin until 2012 but after that only the new CTC approach will apply. The new approach will not change the rules relating to the treatment of “wholly obtained goods”, i.e. goods that are obtained or produced entirely in the country, such as minerals extracted there, vegetable goods harvested there, and live animals born and raised there.

For further information, see the Australian Customs Service website: www.customs.gov.au.

A Goods and Service Tax (GST) of 10 percent is applied to selected food products on the basis of the level of added value. There is no GST on fresh produce, basic bread, cheese, soups etc, but GST is applied to biscuits, ice-cream, packaged meals etc. For more information on which foods are subject to GST see http://www.ato.gov.au/businesses/content.aspx?doc=/content/18694.htm

Labelling requirements

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

1.7 Sustainability

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

The Australian Food and Grocery Council’s ‘Green Shopper’ survey found that while 36 percent of Australian shoppers are prepared to pay more for green products, only 13 percent actually buy environmentally sustainable food and groceries from the supermarket. Free-range eggs, dolphin-safe tuna, and certified organic fresh fruit and vegetables are among the most common green purchases.
More than 50 different eco-labeling programmes operate in Australia, from energy and water savings ratings to Forest Stewardship Council, Rainforest Alliance and Fairtrade trust marks, all aimed at helping consumers make the right choice. However, the recent Living LOHAS surveyxxi found that many people are unaware such labels exist, or they have low levels of awareness of specific labels and what they want to achieve.

Sustainability is a big trend that is affecting operations in packaging. Australian Environment Ministers have endorsed the Australian Packaging Covenant, which commenced on 1 July 2010. Over the next five years the Australian Packaging Covenant will target improved design, ‘away from home’ recycling, litter and product stewardship by all parties in the packaging chain.

The major trends identified in consumer demand for packaging include the environmental considerations such as re-use and recycling, but also design for an ageing population such as easy opening, and larger print, freshness, portability and simplicity.

The major supermarkets are all starting to respond to this trend with new initiatives supporting sustainable seafood, free range eggs and sourcing local fresh produce where possible.
2 MARKET ENTRY AND DEVELOPMENT

2.1 Market Entry Strategies

There are a growing range of New Zealand products available across all retail channels, many of which are packaged for home brand or other local labels.

Companies looking to sell into the Australian market need to be well prepared and to carefully weigh up the market entry options with sound market research and intelligence. Australia has a relatively sophisticated level of channel development, so alternative opportunities to reach the consumer should be carefully considered and costed before entering. For advisory assistance on alternative market entry strategies and costing, NZTE staffs are happy to help.

Private Label Supply

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

The arrival of Aldi supermarkets in 2001 and their own brand formula increased the interest and activity by Coles and Woolworths in developing their own home brand strategies. Coles has a three-tier “Good, Better, Best” offering with Coles’ $mart Buy offering value, never beaten on price and choice of basic weekly items and Coles Brand offering value, cheaper than leading brands and quality equal to or better than leading brands across all volume categories. Coles’ Finest range represents a harmony of classic culinary techniques, superior ingredients and a commitment to first-class quality and is limited to a very small range of products currently.

Woolworths’ basic Homebrand brand was retained and expanded over a wider range of products and Woolworths Select was introduced as a middle-tier brand across a wide range of products. Since the take over of the Macro Wholefoods chain Woolworths has retained the Macro brand for their organics, free from and health ranges of products.

Metcash has a long established own brand Black and Gold plus the more recently launched IGA Signature, Purely Organic and Body Logic brands. Smaller independent grocery banners also have developed their home brands with Foodworks and AUR with Foodworks and Best Buy.

The advantage of supplying product for packaging under another label is that costs associated with freight and mass market marketing are reduced, but not entirely eliminated; and that some retailers have shortened credit payment to around 30 days. Note, however, that costs of innovation are expected to be borne by the supplier and this can impact further on the lowered profit margins associated with own label supply.

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

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

**Branded Supply**

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

Both large supermarket chains have their own food magazines which are a useful vehicle for coverage of new products and advertising. The Coles magazine Australian Table is sold through Coles supermarkets as well as newsagents. Woolworths’ publications Good Taste, Fresh and Australian Parents are only sold through their own stores.

Independent supermarkets’ buying decisions are on a store-by-store basis so new products must be introduced and sold into each store. While they sell mainly major brand products, which they source from a wholesaler such as Metcash, there are specialist distributors who target this market with specialty products.

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

### 2.2 Points of Differentiation

Changing trends and a growing concern about obesity and other health issues have created opportunities for products which can deliver fresh, healthy, natural snacks and meal solutions.

Other consumer trends to be aware of include an increased demand for convenience in both shopping times and meal preparation; people are shopping more frequently; an increase in casual dining; a lower share of income spent on food; and an increase in lower priced imported products.

**Organics**

According to the Australian Consumer's Association (ACA), approximately 1 percent of food consumed in Australia in 2007 was organic, compared to 2000 where the organic industry in Australia was mainly made up of local producers and considered a niche market. Advocates of organic food claim that the purchasing of organic products is a
permanent decision and that money can be saved if goods are purchased from farmer markets. The 2010 report highlights growth in the production and consumption of organic produce of almost 50 per cent in the last two years. Research indicates that the organic industry is experiencing annual growth of between 10 and 30 percent and that this growth is attributable to government support for organics industries and continued consumer demand for organic goods. It is still however, a relatively small category compared to mainstream product categories in Australia due mainly to price considerations.

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

Supermarkets are responding to the increased demand for organic baby products. Demand for organic baby goods has also been fuelled by the ability of suppliers to maintain costs. Some standout performers include: essential oils production (up 155 percent) feeding the growing cosmetics sector; Poultry (eggs) (75 percent); Milk and dairy (36 percent); Fruit and wine (16.5 percent), while the main processors for the meat sector have reported growth in turnover by 25 percent in the past year.

2.3 Long Term Strategic Issues

Due to the highly competitive nature of the Australian grocery market and the dominance of the two major chains, New Zealand companies wishing to enter the grocery market need to be very well prepared and should research the market well. It is recommended that they use the services of a person or company who is experienced in dealing with supermarkets and who knows how they operate.

Most product categories are reviewed once or twice a year so and it can take many months from presenting new products to having them appear on the shelves. Supermarkets may also require promotional strategies to help launch products and initiate sales, so companies need to have resources available for this.

The purchase of Progressive Supermarkets by Woolworths could provide opportunities to leverage off existing relationships in New Zealand.

The advantage of selling into Independent supermarkets is the relative speed with which buying/ranging decisions can be made when compared to the major chains. The disadvantage of adopting this approach is the speed for channel penetration and issues around store compliance and promotions. This might require more in-market staff resource to support, which needs to be considered by the company. A series of options to address this can be discussed with NZTE, such as brokers, distributors, partnerships and the hiring of offshore specialists.

Targeting the foodservice market requires companies to have a clear idea of their market position and then identify their niche and the companies that supply into that niche.

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

2.4 Distribution Channels

There are a number of companies offering a combination of services for imported food items – importing, storage, wholesale, distribution, merchandising, marketing, selling etc, so companies need to assess the best combination of services for their product and sector of the market. Some of these companies tend to be state-based, but many have associations with similar companies in other states so they can offer wider reach. Others are national in their reach, so careful consideration to geographic coverage is a necessary pre-requisite to choosing the correct distribution partner.

Woolworths, Aldi and Coles have a few of their own distribution centres servicing their stores so suppliers should be aware that freight may need to be organised to a number of different centres. Delivery of products onto the shelf is a complex and challenging issue for these nationwide companies due to the vast distances and diversity of weather conditions.

The distribution channels into the foodservice sector are fragmented. Foodservice distributors are divided into the majors who have national coverage – such as Bidvest and PFD – which make up around 30 percent of the food service market. The balance of the foodservice distribution market is supplied by a number of bigger state-based companies and a very large number of small, regional, local and niche players. These companies may or may not be members of the major buying groups Countrywide and NAFDA.

Processed foods

Supermarkets dominate sales of processed food in Australia. This is because:

- Consumers prefer convenience (e.g. wide product range, ease of parking, long operating hours)
- Increased focus on value in response to rising price-sensitivity (price promotion is frequent used by leading retailers Coles and Woolworths)
- Expanded role of retailers’ private label ranges to include more value-added, indulgent and organic options.

Wine

Very little movement between on-trade and off-trade share of volume is forecast over the next five years. Off-trade volume is predicted to account for 81 percent of sales volume. On-trade sales volume is expected to struggle due to fragile economic recovery which is leading consumers away from more expensive on-trade product.

Fish and seafood
Most imported seafood is sold through supermarkets and foodservice outlets where it generally provides a cheaper alternative to local seafood.

**Meat**

As stated above, consolidation and rationalisation is occurring all along the meat supply chain. Australian butchers are currently facing stagnation as supermarkets grow due to competitive pricing and strong marketing tactics. Supermarket growth has come at the expense of butchers, which have suffered decline. Over the next five years, supermarkets are anticipated to continue to grow their share of the market, as that of smaller retailers’ declines. Smaller retailers will need to develop their niche in the market in order to survive.
# 3 MARKET RESOURCES AND CONTACTS

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<td>Australian Bureau of Agricultural and Resource Economics (ABARE)</td>
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<td>Australia Customs</td>
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<td>Australian Food and Grocery Council</td>
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<td>Department of Agriculture, Fisheries and Forestry</td>
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<td>Food Science &amp; Nutritional Sciences Australia</td>
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<td>Packaging Council of Australia</td>
<td><a href="http://www.packcoun.com.au">www.packcoun.com.au</a></td>
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## TRADE EVENTS

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