Australian Food and Grocery Council

SENATE SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING SECTOR

13 DECEMBER 2011

AFGC

one voice - adding value

THE FACTS

The food and grocery industry plays an essential role in the Australian economy

LARGEST MANUFACTURING SECTOR IN AUSTRALIA
(26% of manufacturing sector $108 bill turnover)
eighth largest industry)

LARGEST MANUFACURING EMPLOYER IN AUSTRALIA
312,000 people, half in rural areas- 14.7Bill in wages)

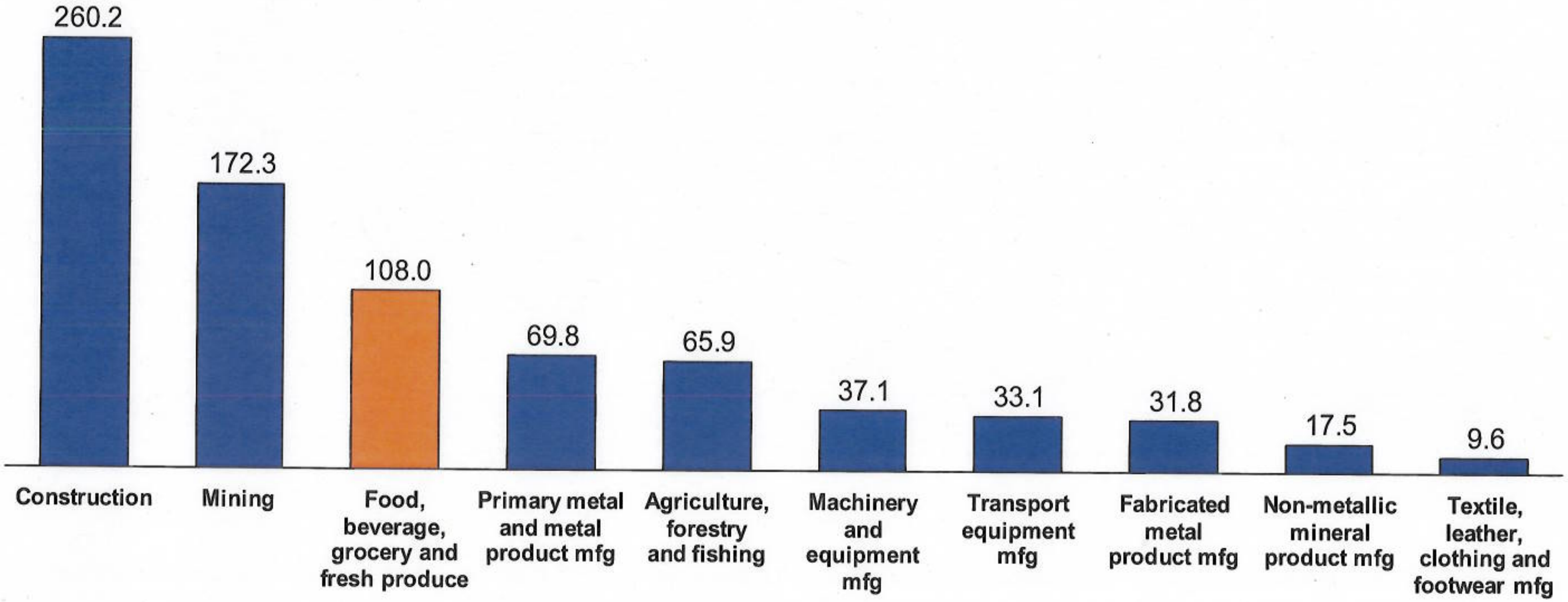
MAJOR EXPORTER OF VALUE-ADDED PRODUCTS
($25 billion in 2008-09)

LEADING INNOVATOR
($500 million a year on R&D)

CORE TO THE WELL-BEING OF ALL AUSTRALIANS

INDUSTRY TURNOVER

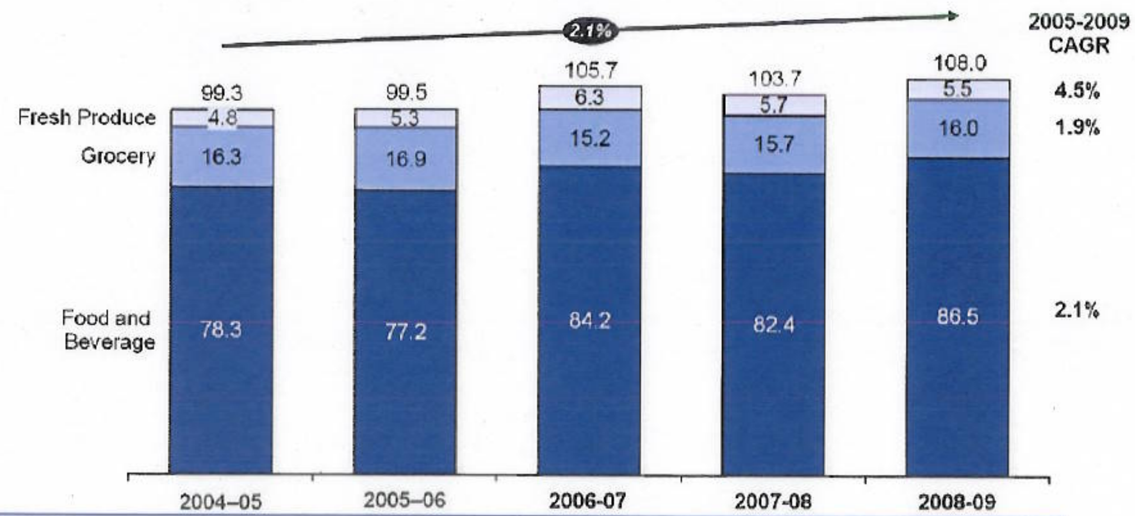
- **Figure 1: Comparable Industry Turnover**
  (A $billion, 2008-09)



FLAT INDUSTRY TURNOVER GROWTH

- For the food and grocery sector, real industry turnover has grown at an average annual rate of 2.1% between 2005 and 2009.
- This is well below the average annual rate of real GDP growth during the same period (4.5 percent per annum) and is tracking to population growth of 1.9 percent per annum.

Figure 5: Real Industry Turnover by Sub-Sector
(Inflation adjusted to 2008-09 A $billion)



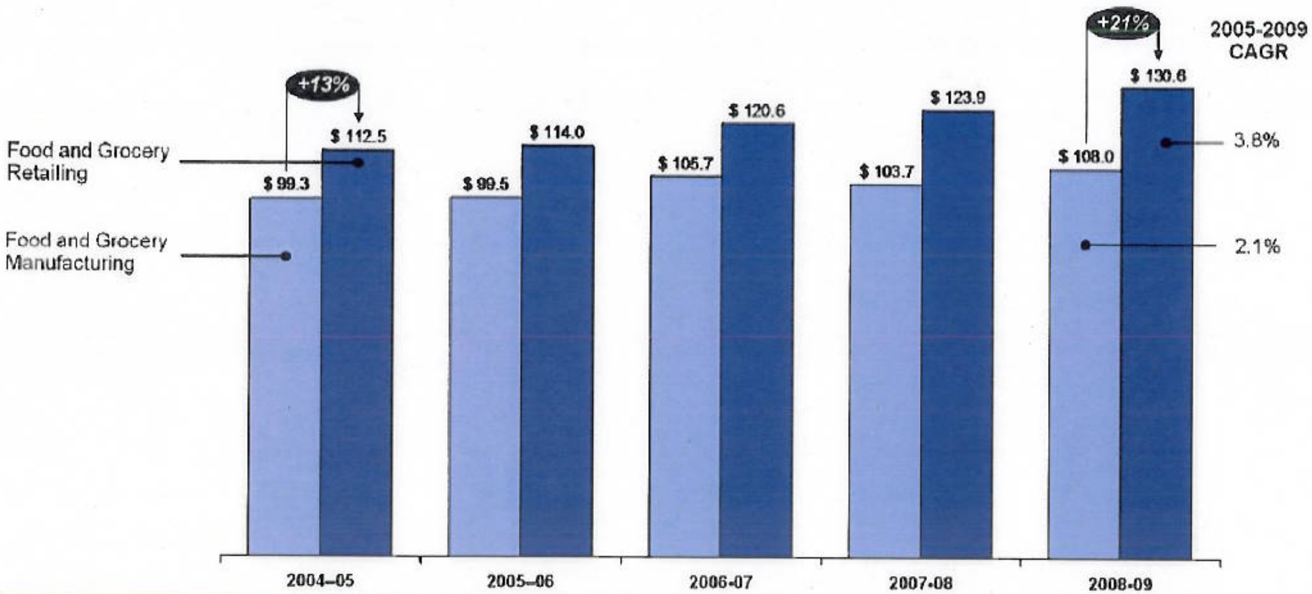
Year on Year Growth					
Real GDP	4.6%	5.1%	5.2%	5.0%	2.9%
Population	1.3%	1.5%	1.8%	2.0%	2.1%
Total Industry	2.4%	0.2%	6.3%	-1.9%	4.1%
Food and Beverage	1.9%	-1.3%	9.0%	-2.2%	5.0%
Grocery	5.2%	4.1%	-10.1%	3.2%	1.7%
Fresh Produce	0.8%	11.4%	19.2%	-10.7%	-2.1%

Source: ABS Catalogue Number 8159.0, 1350.0, 3101.0, and 7503.0

RETAIL DEMAND GROWTH

- Retail demand for food and grocery items has increased at 3.8 percent per annum over the same period, significantly higher than food and grocery manufacturing turnover growth.

Figure 6: Food and Grocery Retailing and Manufacturing in Australia
(Inflation adjusted to 2008-09 A$ billion)

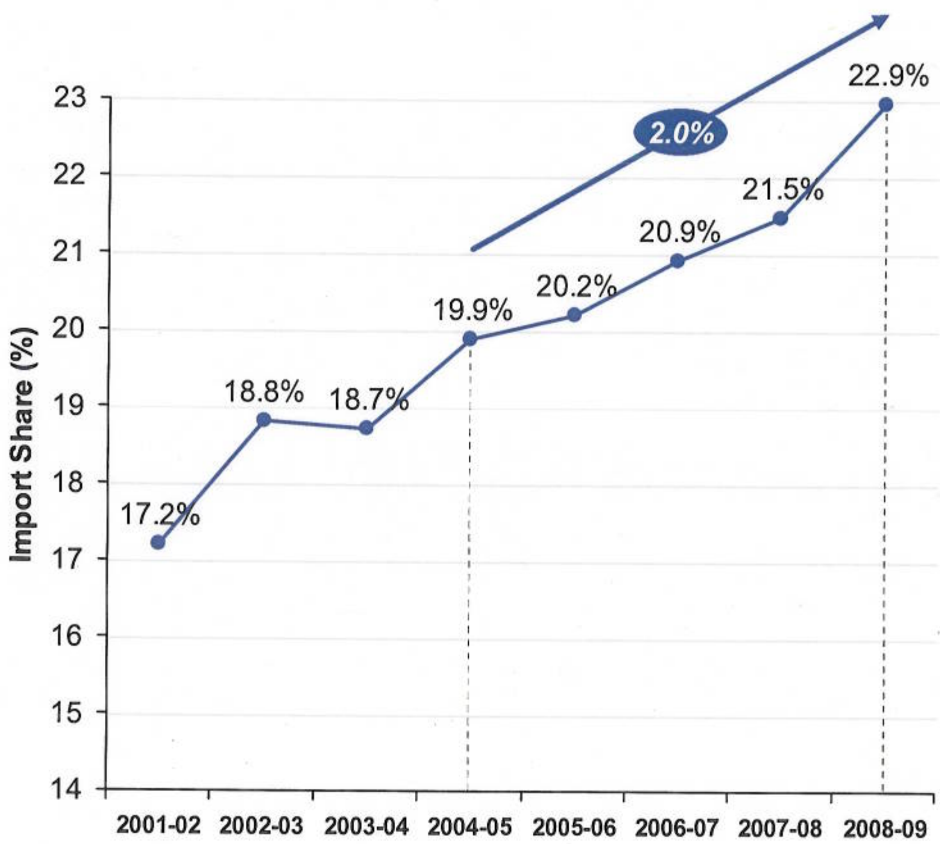


Year on Year Growth					
Retailing	0.8%	1.3%	5.8%	2.8%	5.4%
Manufacturing	2.4%	0.2%	6.3%	-1.9%	4.1%

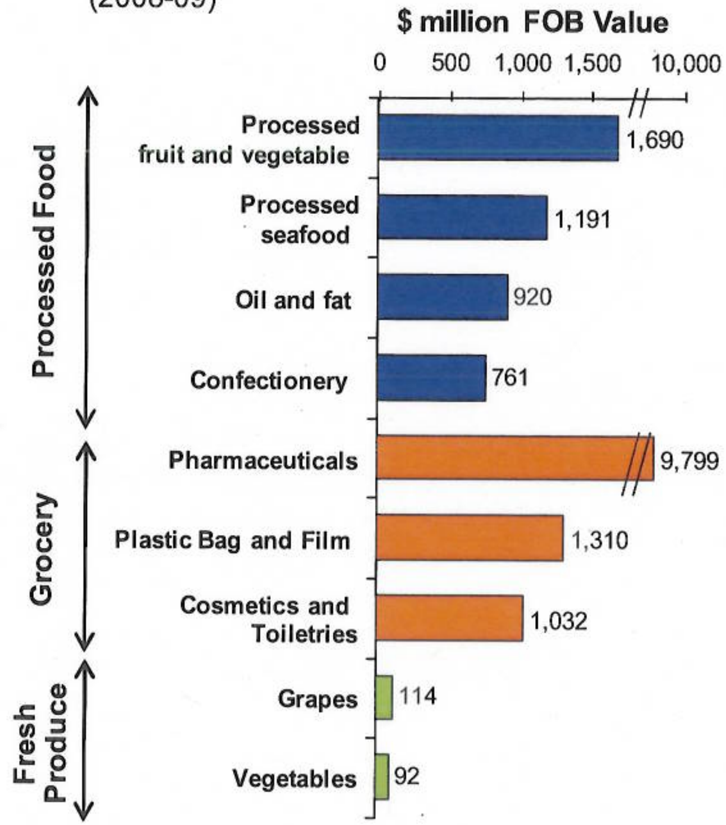
Source: Australian Bureau of Statistics, Catalogue Number 8501.0; Total spend on food through the retail channel and the food-service channel and total spend on pharmaceuticals, cosmetics and toiletries products

GROWTH IN IMPORTS

Import Share of Total Industry Turnover



Top Food and Grocery Import Categories
(2008-09)

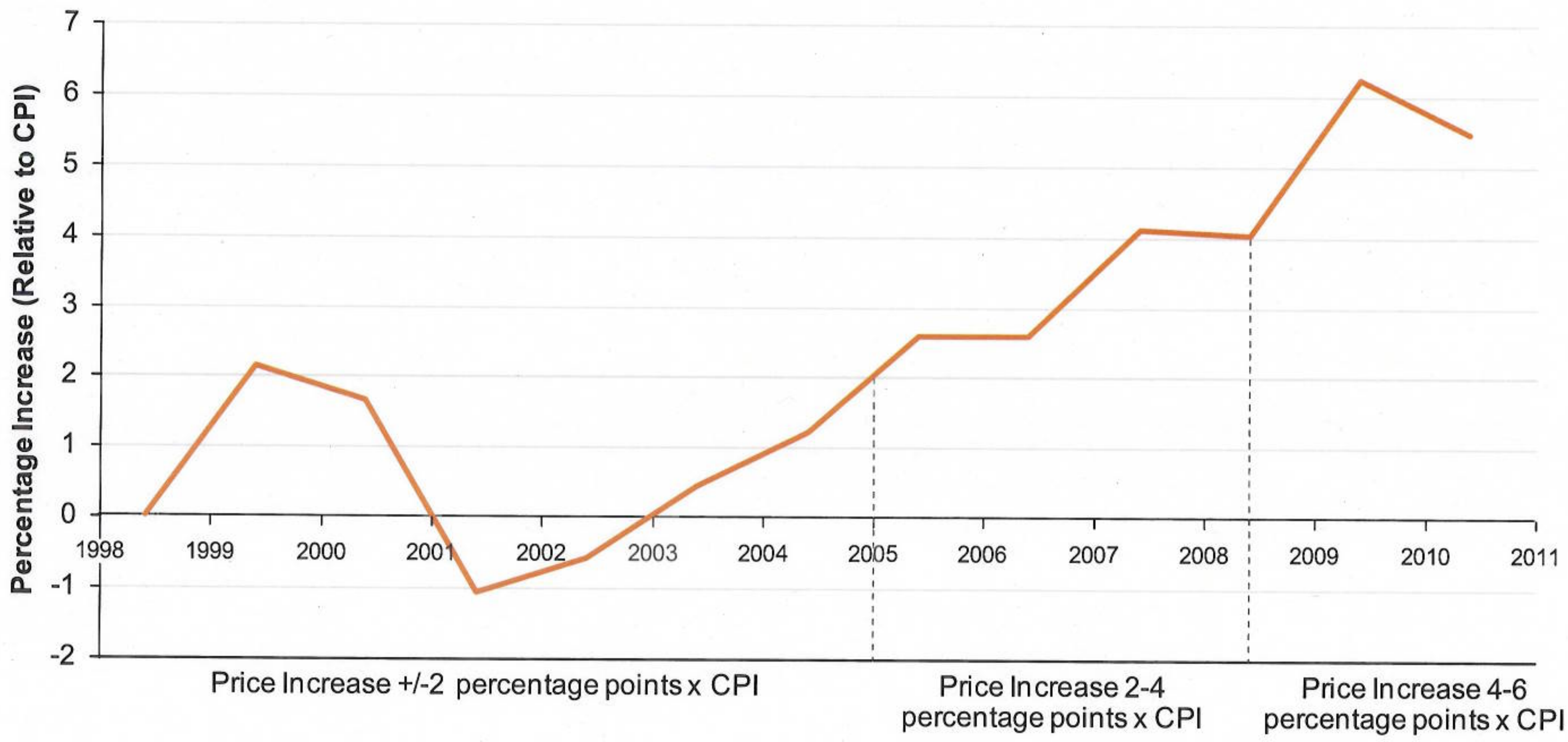


NET TRADE BALANCE

Australia's Food and Grocery Net Trade Balance
($ million Free-On-Board, 2004-2010)

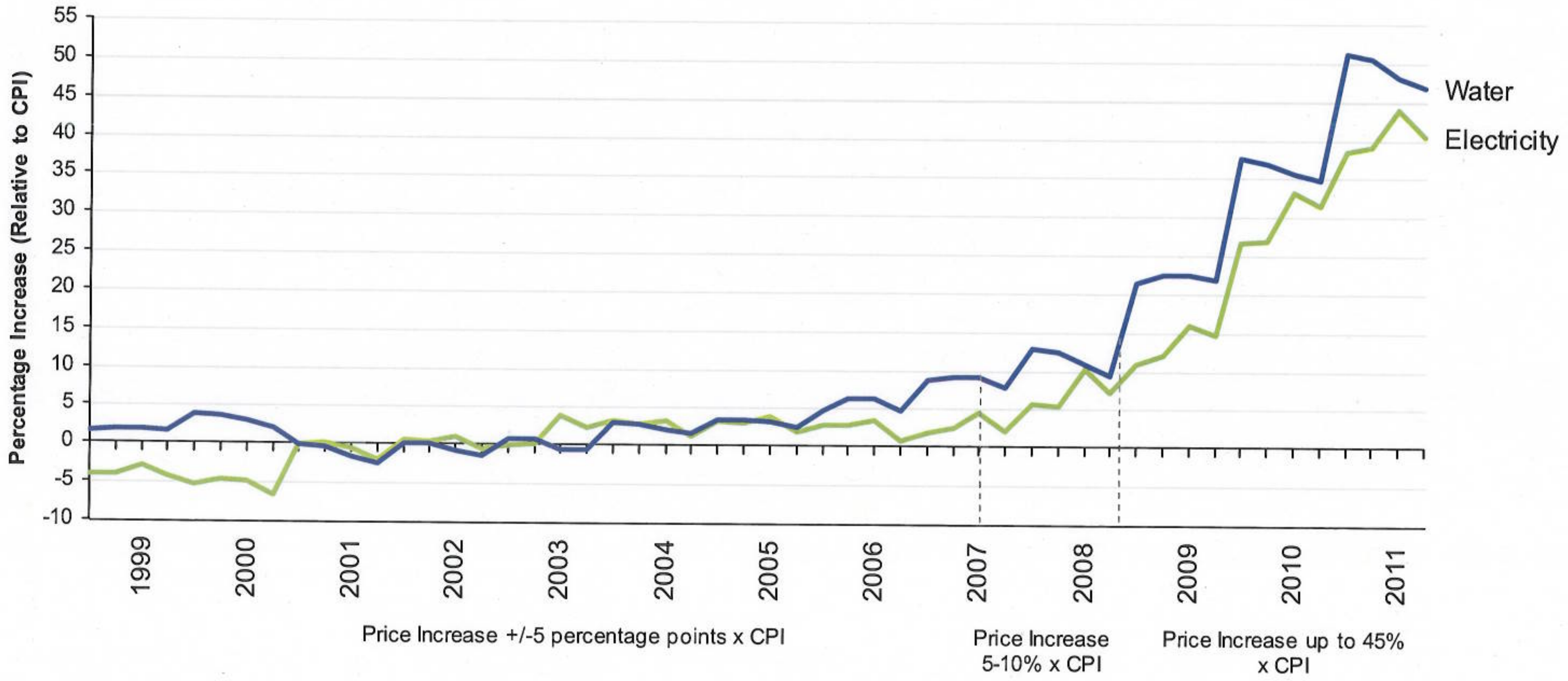
MANUFACTURING WAGE PRICE INDEX

Manufacturing Wage Price Index Relative to Overall CPI
(Per cent differential)



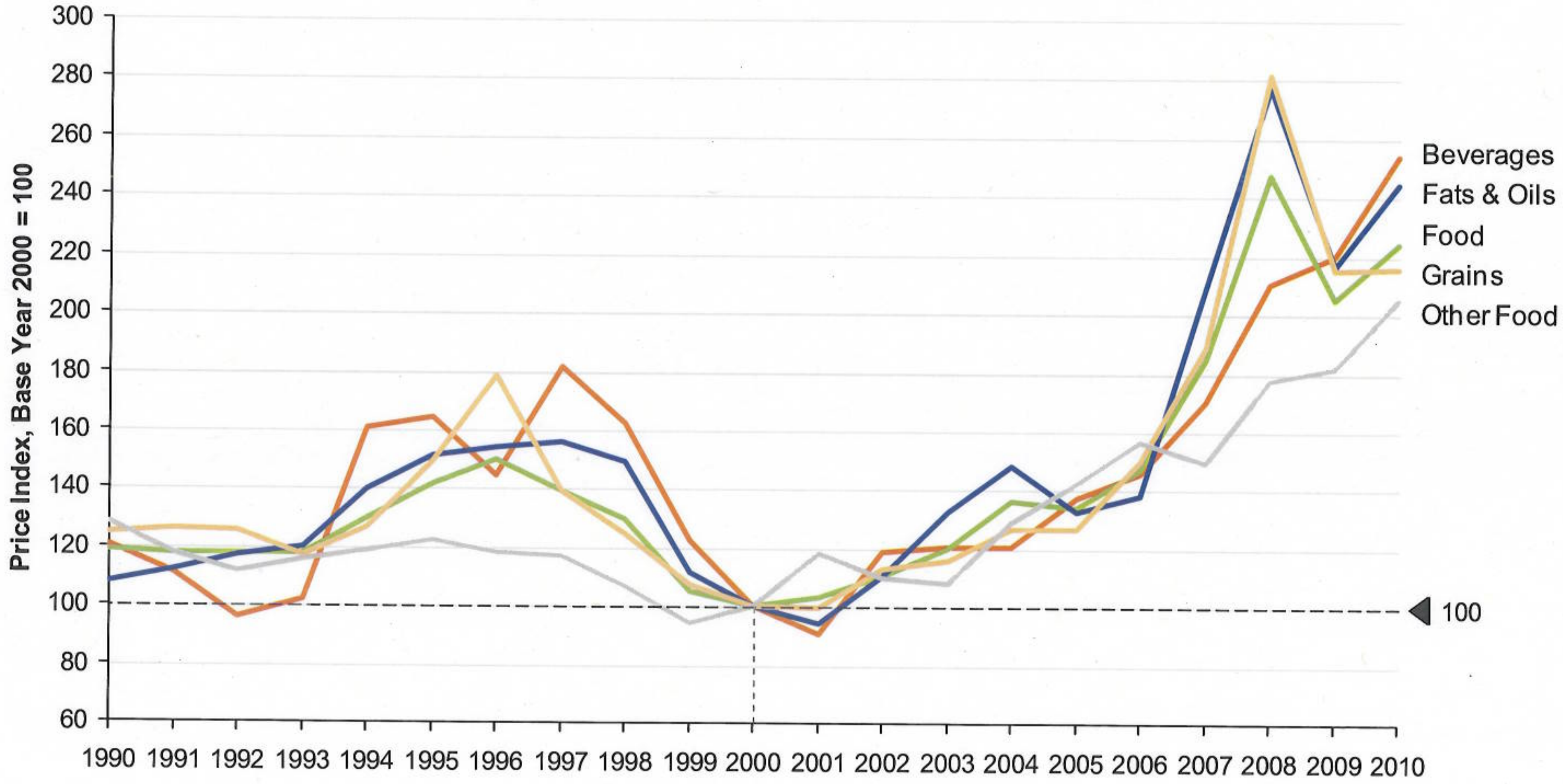
ELECTRICITY AND WATER PRICE INDEX

Electricity and Water Price Index Relative to Overall CPI (Per cent differential)



GLOBAL FOOD AND BEVERAGE PRICE INDEX

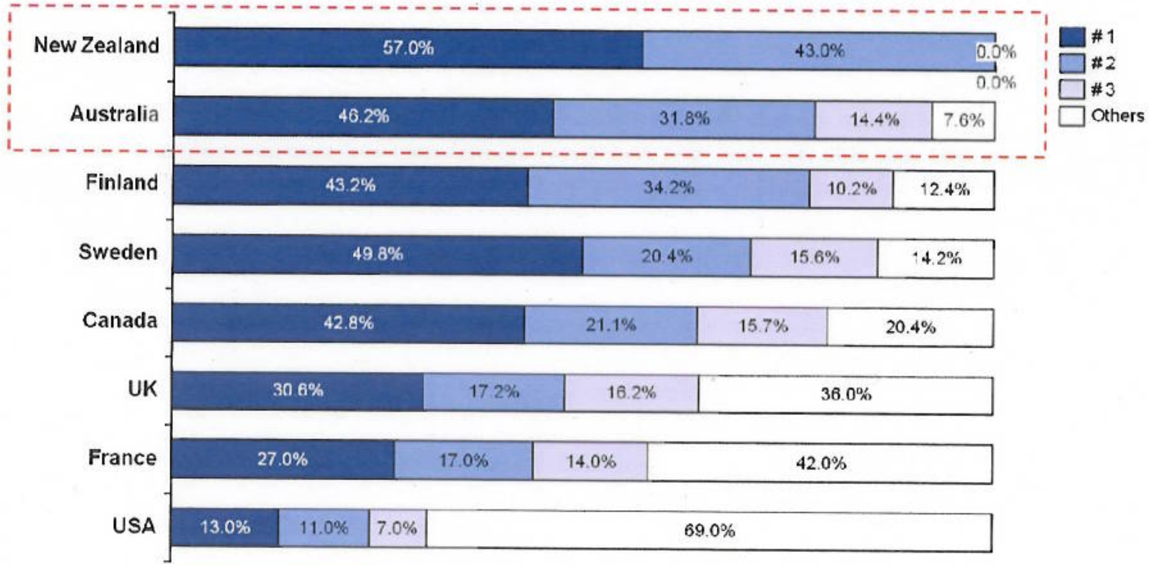
Global Food and Beverage Price Index (Base Year, 2000 = 100)



MARKET CONSOLIDATION

- **Major supermarkets are the predominant channel of choice for Australian consumers accounting for 50-70% of total food and grocery industry sales across product categories.**
- **The top three retailers in Australia comprised 92.4% of total supermarket sales, which places it in the top two most consolidated food retail markets in the world.**

Figure 24: Market share of top 3 supermarket retailers by country
(% of total market sales: various years 2009-2011)

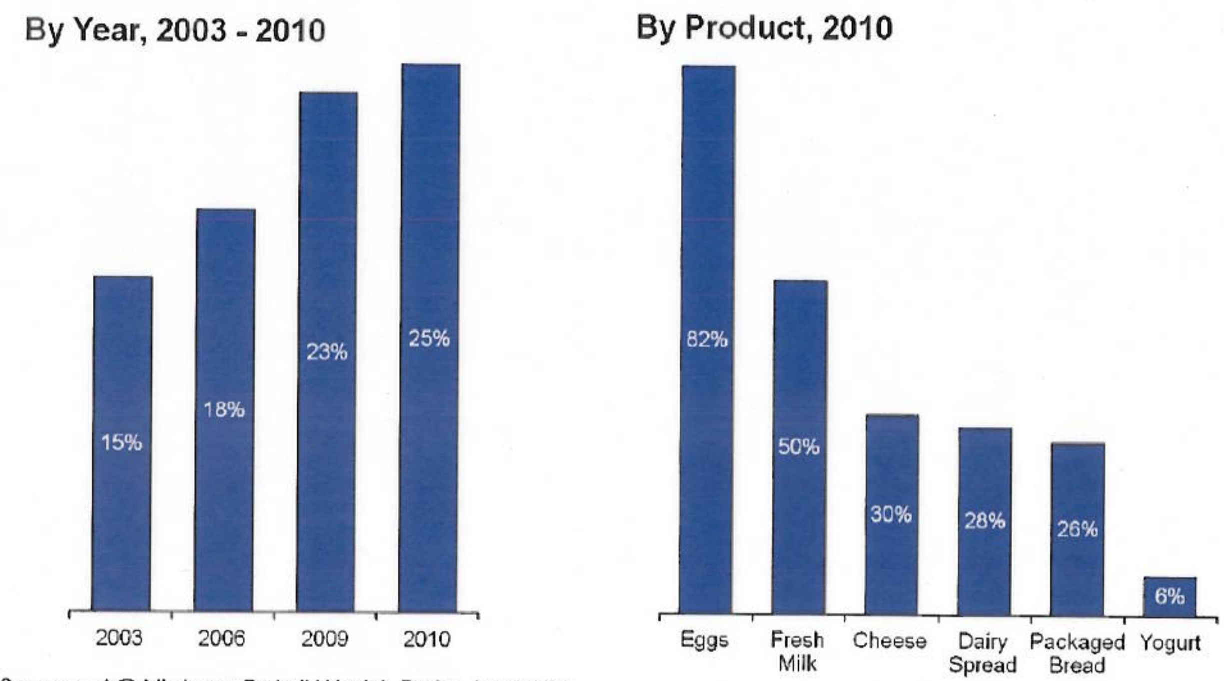


Source: Coriolis Research, USDA Foreign Agricultural Service, Retail Food Sector Annual Report France, UK, Finland, Sweden, BMO Capital, Canadian Grocers 2011, Planet retail

PRIVATE LABEL GROWTH

- **Private label share of total supermarket sales has increased significantly from ~15% in 2003 to ~25% in 2010.**
- **Private label share is much higher for commodity products such as eggs, milk and bread than for categories with a stronger brand proposition.**

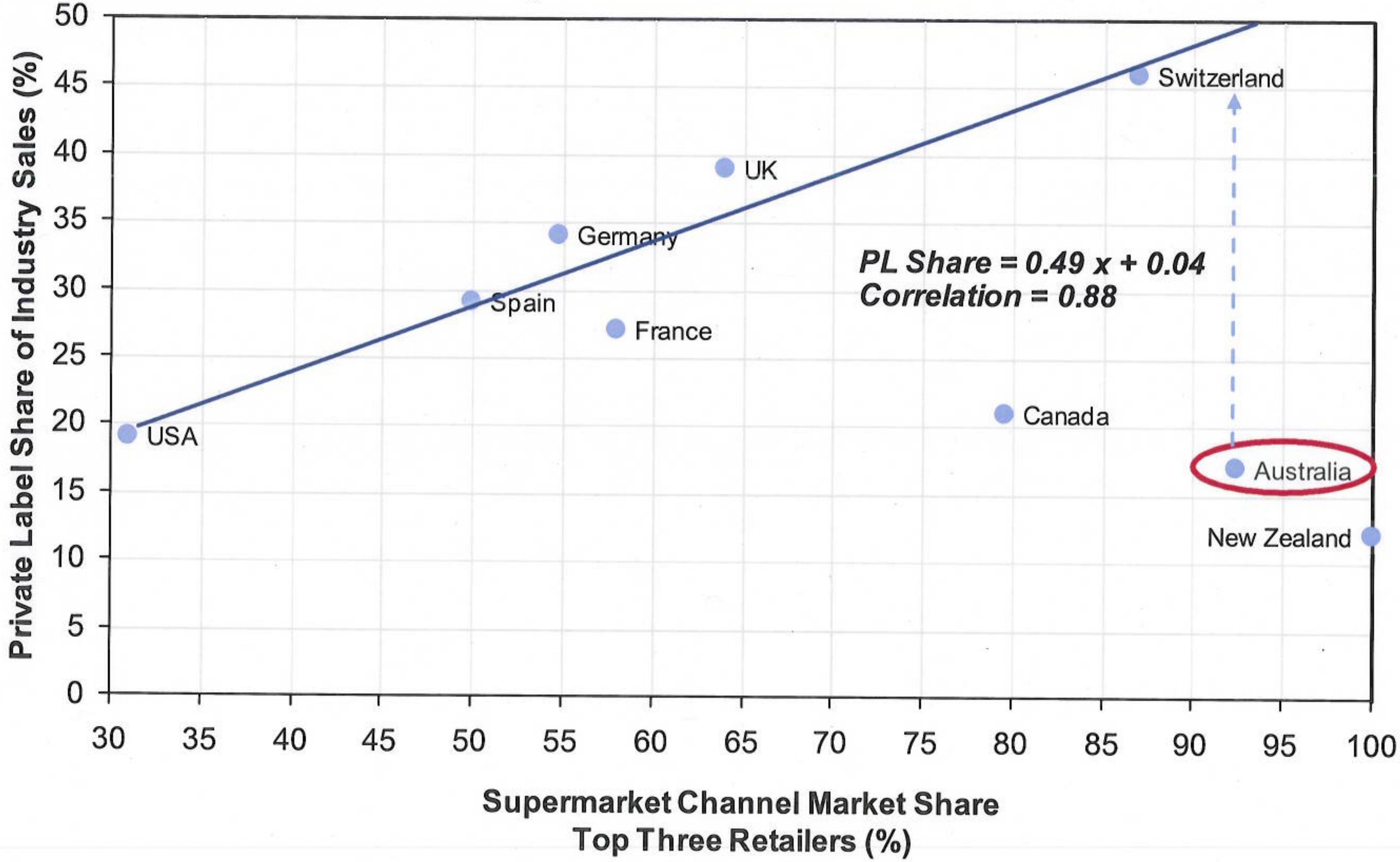
Figure 29: Private Label Share of Supermarket Sales in Australia



Source: AC Nielsen, Retail World, Dairy Australia

PRIVATE LABEL PENETRATION & MARKET CONCENTRATION

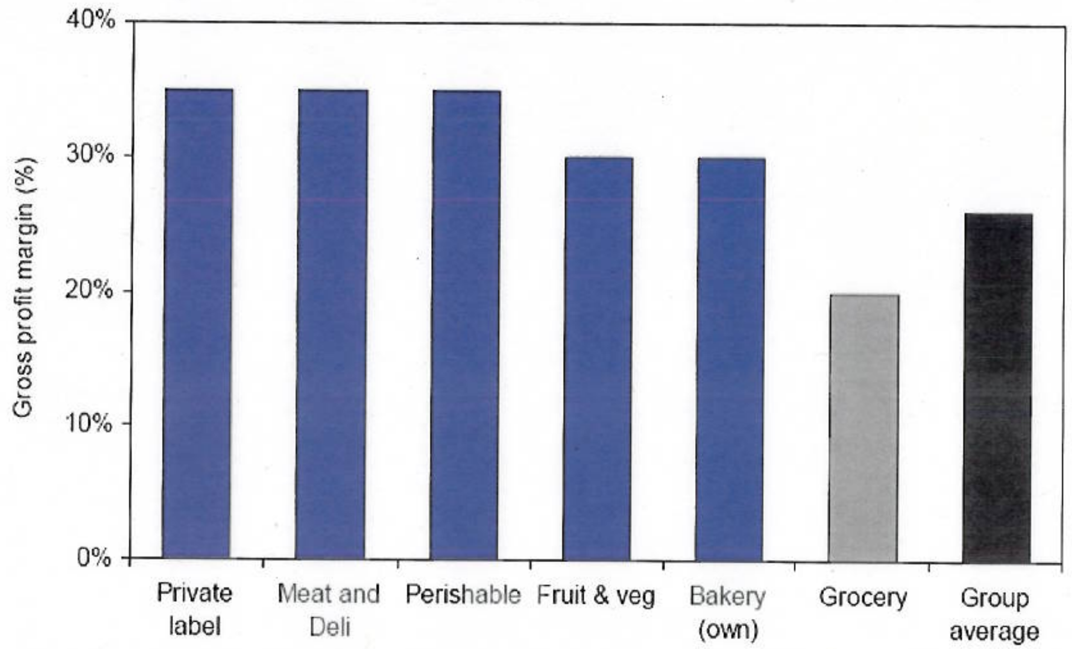
Relationship between Private Label Penetration and Market Concentration
(Various years, 2009-2011)



ESTIMATED GROSS MARGIN

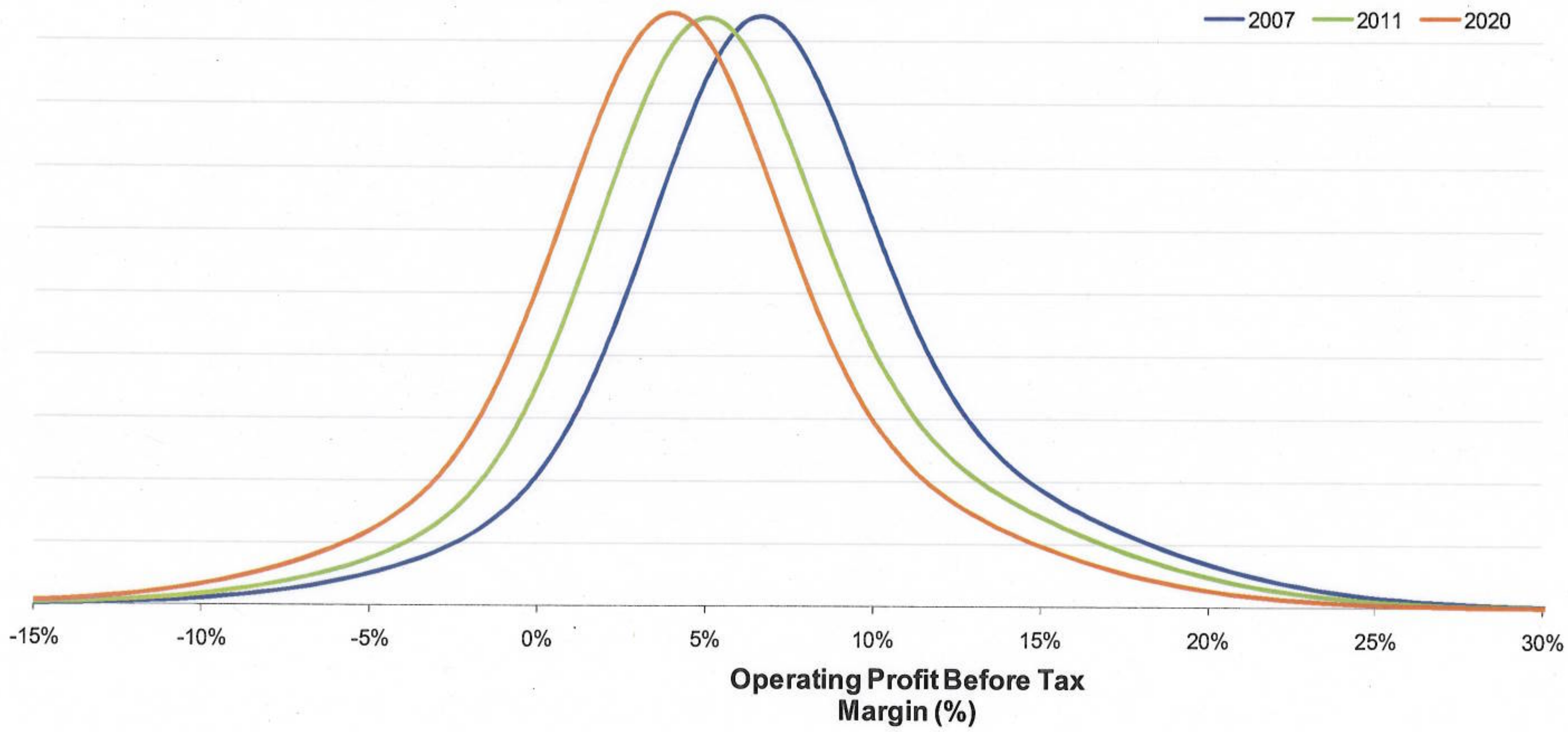
- The retailers focus on $$$ earnings growth
- A grocery line would need to do 50% higher stock turn to be more lucrative than a fresh food item

Gross margin mix can vary widely



Source: Company Reports, Citi Investment Research and Analysis

Industry Profitability Distribution (Illustrative) (2007-2020)



Strategic Options for Government

Strategic Options	Challenges and Opportunities
Competitive Retail Sector	• Establishing a co-regulatory Code of Practice for Supermarket Trading Relationships overseen by a Supermarket Ombudsman to ensure branded products continue to have access to supermarket shelf space on a fair and equitable basis.
Low Cost Regulatory Environment	• Streamlining the regulatory system and 'red tape' burdens on industry. For example, expensive, complex labelling changes impact on industry's competitiveness. • Removing infrastructure bottlenecks which impede transport and logistics efficiencies of food and grocery products.
Investment Incentives	• Providing tax incentives to enable business to take advantage of the high Australian dollar to invest in large-scale plant equipment upgrades from overseas (accelerated depreciation of assets). • Creating incentives to encourage investment in innovation.
Labour Markets and Skill Development	• Providing a more competitive and flexible labour market – especially as many parts of the sector are seasonal. • Facilitating skills development and training opportunities to ensure careers in food and grocery manufacturing become more attractive. • Encouraging innovation through a food manufacturing sector R&D grants program designed to support R&D aligned with nutrition, health and environmental outcomes.
Industry Sustainability and Security	• Having a greater focus on water and food safety and security. • Eliminate unnecessary duplication and complexity in environmental reporting. • Support industry to become more energy efficient.

STRATEGIC OPTIONS FOR INDUSTRY

Strategic Options	Challenges and Opportunities
Connection with the Consumer	• Demonstrating the value of 'Tier 1' products vs. private label brands by focusing on relentless innovation & marketing. • Investing in communications to build stronger brand connections with the consumer (awareness, relevance, authenticity) - e.g. Buy Australia. • Exploring new technologies to better understand consumer behaviour and tapping into wider consumer demographics such as the 55+ age group and the healthy/ fresh convenience categories.
Alternative Channels to Market	• Employing a multi-channel strategy, investing in developing new and innovative channels to market including on-line retailing, food service and direct. • Invest in alternative points of sale, e.g. vending machines.
Leading Manufacturing Cost Position	• For toll manufacturers – efficiency, scale & asset utilisation. • For branded manufacturers – scale in more complex manufacturing processes, investment in automation. • Developing more sustainable and efficient supply chains. • Improving resource efficiencies and increasing productivity.