

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Retail Foods

Retail Food Sector Report 2017

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Report Highlights:

Health, wellness, and the environment continue to be major focuses among Australian consumers. Portion sizes are increasingly important as consumers want quality over quantity and they expect packaging to be informative and environmentally responsible. The economy is strong and growing and the market presents an excellent opportunity for U.S. exporters. The value of food and liquor retailing in Australia grew by 3% in 2016 to reach US\$91 billion. Supermarket and grocery expenditure accounts for the bulk of food retailing sales, with a share of 62%. The U.S. accounted for US\$1.5 billion or 14.9% of all consumer oriented, fish, and seafood product imports in 2016.

Post:
Canberra



The following exchange rates were used to convert Australian dollars to U.S. dollars for 2012 to 2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------|--------|--------|--------|--------|--------|
| A\$/US\$ | 1.0393 | 0.9600 | 0.8990 | 0.7465 | 0.7434 |

Source: www.rba.gov.au

In circumstances where only fiscal year data is available (Australian fiscal year July-June), the following exchange rates have been used:

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----------|---------|---------|---------|---------|---------|
| A\$/US\$ | 1.0362 | 1.0239 | 0.9148 | 0.8288 | 0.7272 |

Source: www.rba.gov.au

Market Summary

- Americans and Australians have a strong relationship that spans the history of both nations. Australia and the United States share a common heritage, culture and language and have supported each other in every major international crisis of the past century.
- Australia is a prosperous, politically and economically stable, industrialized nation. It enjoys an enormous natural resource base of agriculture and minerals; a highly developed human resource base; modern legal and financial systems; and a physical and service infrastructure to support complex business and industry. Its state-of-the-art transportation and telecommunications systems (domestically and internationally) support a well-developed, economically diversified market.
- Australia is the world's 12th largest economy. Nominal GDP was estimated to be US\$1.3 trillion in 2016, accounting for 2.2% of the global economy. With a population of 24 million, Australia has one of the highest levels of per capita GDP in the world. Australia is the only country to wholly occupy a whole continent, with the mainland covering 7.7 million square kilometers. Notably, the Australian economy is entering its 26th year of consecutive economic growth and is forecast to have an annual real GDP growth of 2.5% in the medium term. Australia has low inflation and is ranked 15th internationally in the World Bank's 2017 'Doing Business 2017' index. The United States is Australia's largest foreign investor and accounts for 28% of the total foreign direct investment (FDI). In 2016, U.S. FDI totaled \$640 billion.
- Australia has a well-established and sophisticated financial sector regulated in accordance with international standards. Between 2010 and June 2015, Australia's financial markets expanded with total annual turnover (over-the-counter and exchange traded) rising 32% to A\$135 trillion. In terms of global turnover, Australia's foreign exchange market is the seventh largest in the world, and the Australian dollar/U.S. dollar currency pairing is the fifth most traded globally (BIS, Triennial Central Bank Survey, 2016). Four of Australia's leading banks are currently ranked in the top 12 in terms of world financial security and AA rankings. Australia is home to the third largest liquid stock market in the Asian region and is the ninth largest in the world with total capitalization value of over US\$900 billion. The Australian dollar was trading at about US\$0.77 in December 2017. Australia's A\$1.6 trillion superannuation system is the third largest in the world and is a major driver behind Australia's globally significant funds management industry. This pool of assets is expected to grow to A\$9.5 trillion system by 2035.
- Underpinning Australia's strong economy is its open and transparent trade and investment environment, business-friendly regulatory approach and its trade and economic links with emerging economies, particularly in Asia.
- Australia is a major exporter of resources, energy, food, and goods and services, which accounted for over 16% of GDP in 2016. Australia's major export markets are China, Japan, Korea, the United States and India. Its major sources of imports are China, the United States, Japan, Singapore, and Germany. Terms of trade have come off historic highs, with prices for exports of iron ore and coal moderating as production increases after a minerals investment boom. Energy and mineral exports will nevertheless continue to expand as large projects in northern Australia (such as Gorgon) increase supplies of gas to Asia.
- Australia is one of the most urbanized societies in the industrialized world even though its land mass is the size of the continental United States. Of its almost 24 million people, more than 90% live in the large urban areas of Sydney, Melbourne, Adelaide, Brisbane, and Perth and in smaller cities and towns within 100 miles of the ocean. The center of the continent is flat, dry, mineral rich and largely unpopulated, while the coastal areas are wet, mountainous, and densely forested. The interior plains are rich and fertile, supporting great varieties of agriculture.
- The society is increasingly multi-cultural, with the traditional Anglo-Celtic majority joined by immigrants from Southern and Eastern Europe, the Middle East, Latin America, and Asia, who are all making their cultural influences felt more vibrantly, including in the restaurant and food processing industries.

- The U.S. - Australia Free Trade Agreement has provided some advantages for U.S. products. For example, tariff rates for all U.S. food products exported to Australia dropped to zero upon implementation of the agreement in January 2005. Australia also has free trade agreements in place with New Zealand, Singapore, Thailand, Chile, ASEAN (with New Zealand), Malaysia, Japan, Korea, and China. Details of these agreements and others under negotiation are available on the [Australian Department of Foreign Affairs and Trade](#) website.

Advantages and Challenges in the Australian Market

| Advantages | Challenges |
|--|--|
| U.S. culture well accepted and similar to Australia | Strict quarantine regulations with regard to fresh produce, meat and dairy products |
| No language barriers to overcome | Australia is a significant producer of a wide variety of agricultural products. |
| U.S. products have excellent image and acceptance. | ‘Buy Australian’ campaign is significant. |
| The U.S. and Australia have a free trade agreement that removes import tariffs. | Australian labeling and advertising laws are different from the U.S. This may require some changes to food labels. |
| Australian consumers are experimental and desire new and innovative products. This presents an opportunity to trial such products and capture/gain market share. | Need to produce innovative food products to break into highly competitive retail food sector as most categories have substantial market leaders. |
| The U.S. is a trusted supplier of food products. | |

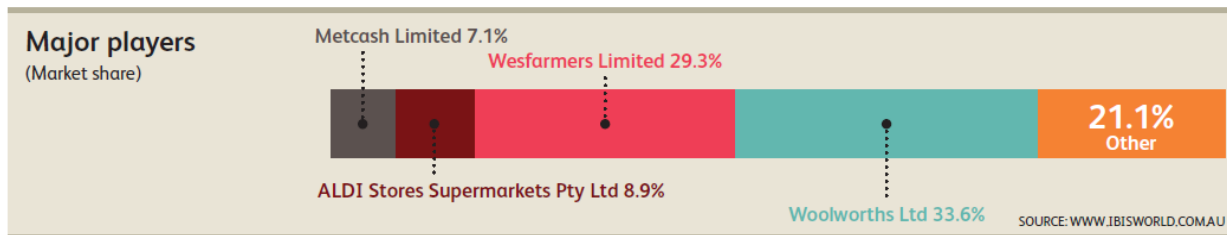
The value of food and liquor retailing in Australia grew by 3% in 2016 to reach US\$91 billion. Supermarket and grocery expenditure continues to account for the bulk of food retailing expenditures, with a share of over 80%.

- Consumer aspirations, both personal and social, along with product developments by suppliers and retailers, continue to be important influences on shopping choices. For example:

| | |
|--------------------------------------|--|
| Sustainability | Consumers support products and brands that address concerns for better environmental outcomes. These aspirations have met with considerable investments by food producers and retailers into sustainability platforms to anticipate and respond to these issues. |
| Waste reduction | Consumers desire to reduce household food waste, partly to meet sustainability but also to save money. |
| Integrity of food production systems | Consumers have supported products positioned to resonate with them (such as free-range egg, poultry, and meat products) |
| Healthy eating | The high profile given to obesity has increased the awareness of managing portion sizes. |

Key Players

- **Woolworths** is an Australian-owned company that has been trading since the 1920s. Trading under the logo of the "Fresh Food People," the company operates in Australia and New Zealand, as well as India (through a partnership with Tata Group). In Australia, the company's core business is grocery retailing through supermarkets and convenience stores. Woolworths is the number one player in the grocery sector with a 34% value share of the market in 2016.
- **Coles** supermarkets are part of Wesfarmers Limited and are the second largest player in the grocery sector with a 29% value share in 2016. Coles have been able to turn around a lagging performance by achieving one of the fastest rates of growth for sales per outlet through revitalization of their stores, aggressive discounting, growing their private label offering, and a strong emphasis on advertising.
- **Aldi Stores Supermarkets Pty Ltd**, the German based international discount food retailer which began trading in Australia in 2001, is the only discounter in Australia and continues to increase its value share (9% in 2016). Aldi has established strong loyalty among consumers as a result of a no-frills and honest approach to grocery retailing. Since its entry into the Australian market, the company has forged relationships with local manufacturers and producers, enabling it to portray itself as supporting domestic enterprises.
- **Metcash Trading Limited Australasia** ranks fourth in supermarkets in value terms (7% in 2016). Metcash is Australia's largest grocery wholesaler and is a leading marketing and distribution company operating in the food, and other fast moving consumer goods, categories. Its retail brands include IGA, Supa IGA (supermarkets), and IGA Express (convenience stores).



- **7-Eleven** is the leading operator of convenience stores in Australia, holding 44% of value sales within the channel. It is also the fourth largest operator in the chained forecourt channel with 12.3% of the value share.

Value of Overall Retail Food Sales

- **Error! Reference source not found.** summarizes total food retail sales and growth for the past five years. The total value of food retailing in 2016 was US\$122.6 billion.
- The supermarket and grocery sector accounts for 62% of food expenditure (US\$76 billion in 2016).

Total Food Retailing Over the Past Five Years (US\$m)

| Description | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---------|---------|---------|---------|---------|
| Total Food Retailing (US\$m) | 144,514 | 139,140 | 138,674 | 119,071 | 122,625 |
| Supermarkets and Grocery Stores Food Retailing¹ | 90,079 | 86,729 | 86,181 | 74,167 | 76,064 |
| % of Total Food Retailing | 62% | 62% | 62% | 62% | 62% |
| Cafes, Restaurants and Takeaway Food Retailing | 35,731 | 34,460 | 35,326 | 30,432 | 31,676 |
| % of Total Food Retailing | 25% | 25% | 25% | 26% | 26% |
| Liquor Retailing | 10,231 | 9,546 | 9,424 | 8,065 | 8,421 |
| % of Total Food Retailing | 7% | 7% | 7% | 7% | 7% |
| Other Specialized Food Retailing² | 8,472 | 8,404 | 7,742 | 6,407 | 6,464 |
| % of Total Food Retailing | 6% | 6% | 6% | 5% | 5% |

1. This category consists of units mainly engaged in retailing groceries or non-specialized food lines (i.e. grocery retailing, grocery supermarket operation, convenience store operation, etc.)

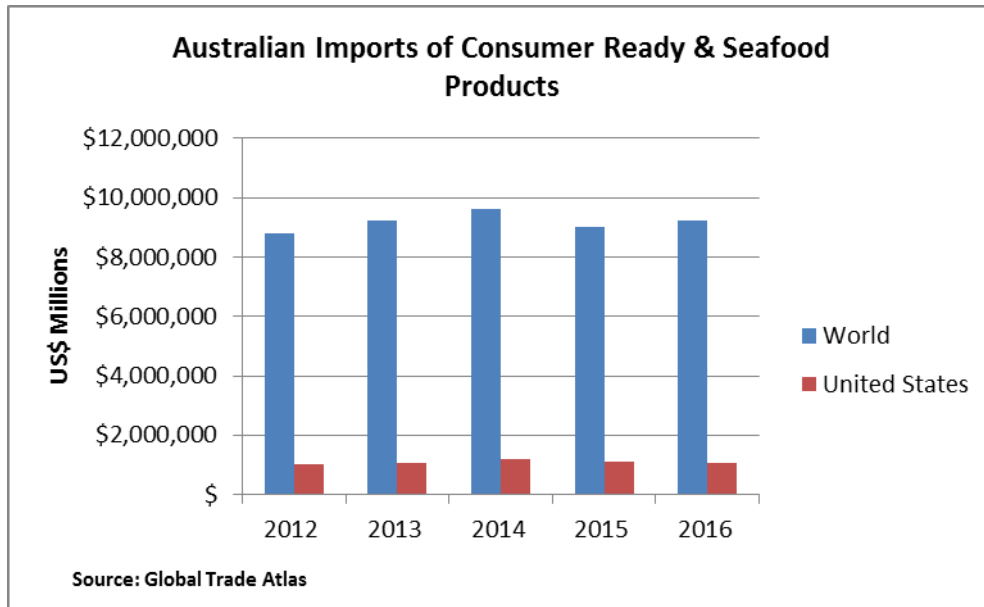
2. This category consists of units mainly engaged in: fresh meat, fish and poultry retailing; fruit and vegetable retailing; bread and cake retailing; milk vending, and confectionery.

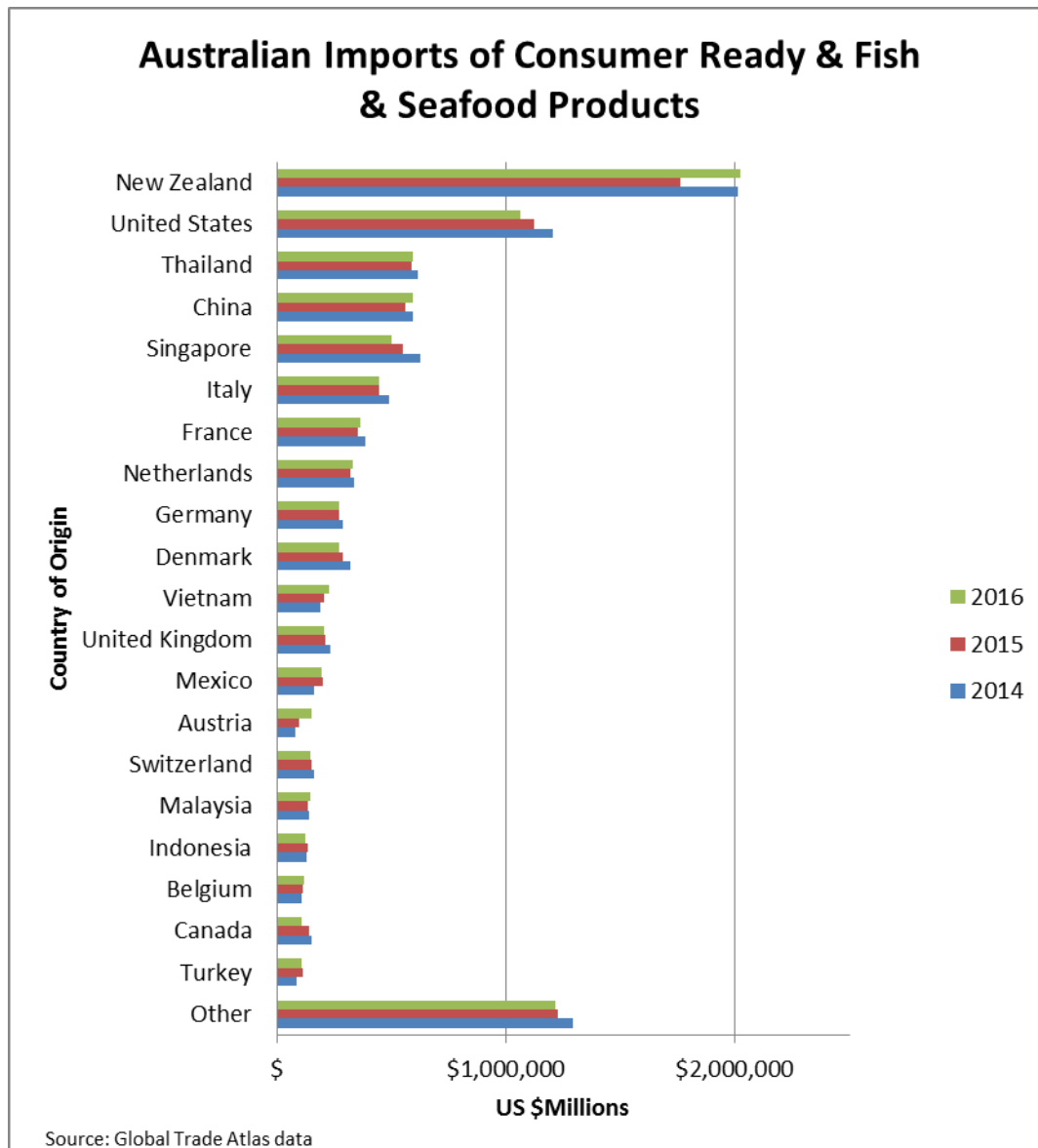
Source: ABS Cat. No. 8501.0

Value of Imported Food vs Domestic Products

- Although most Australians would say that they want to buy Australian-made ‘whenever possible’ or ‘often,’ this does not translate into behavioral change in-store, as evidenced by the meteoric rise of Aldi stores in the supermarket sector.
- A 2014 survey found that the top five factors that mattered most to Australian grocery buyers were: high standards of food safety (56%); location close to home (56%) good value (54%); convenient trading hours (53%); and hygienically prepared food (52%).
- The value of Australian consumer oriented (i.e., snack foods, breakfast cereals, meat and poultry, dairy, eggs and products, fresh fruit and vegetables, processed fruit and vegetables, fruit and vegetable juices, nuts, wine, beer, nursery products, pet food, etc.), fish, and seafood imports totaled US\$10.1 billion in 2016.

- The U.S. accounted for US\$1.5 billion or 14.9% of Australia’s total food related imports. The majority of Australia’s imports in these sectors are sourced from New Zealand. The U.S. is the second largest supplier of consumer ready products and the ninth largest supplier of fish and seafood products.
- The total value of Australian domestic farm and fishery food production reached A\$59 billion in 2015-16.

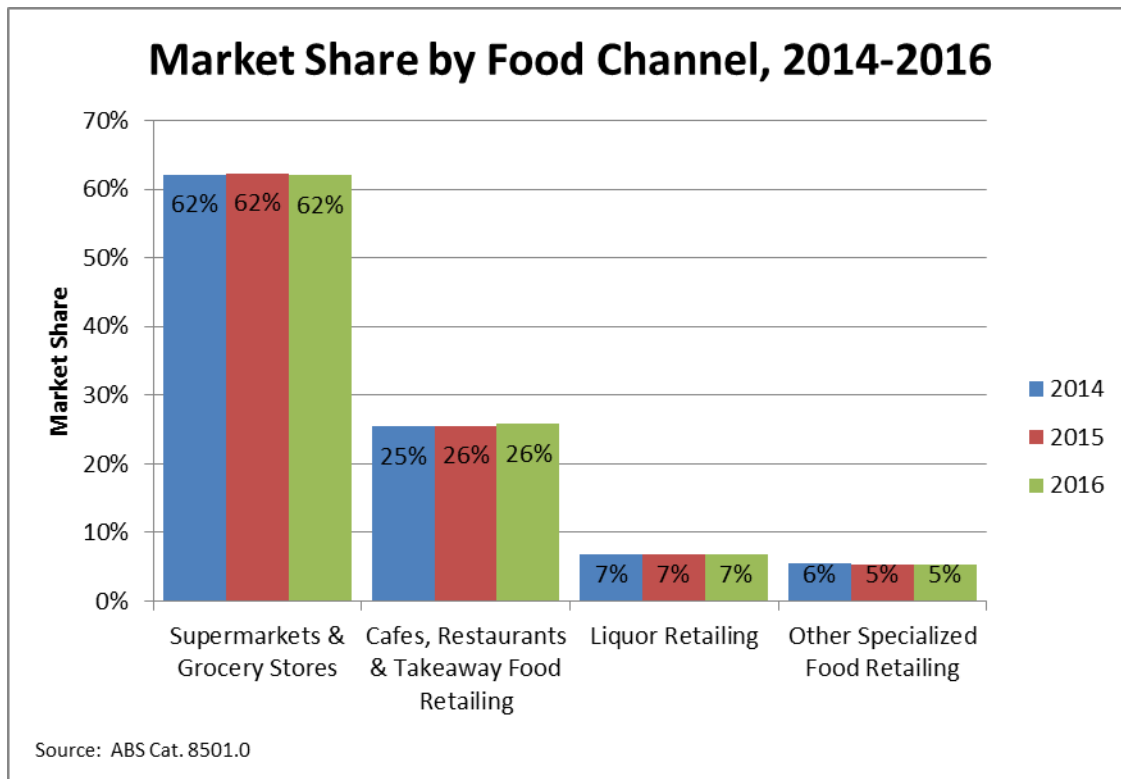




Trends in Retail Food and Sub-sectors

- The supermarkets industry is one of the most fiercely competitive sectors in Australia with the rapid growth of German-owned ALDI over the past five years significantly altering the industry.
- ALDI has grown in popularity, partly due to its discount private-label products. This has forced the two established industry giants, Woolworths and Coles, to cut prices and expand their private-label product ranges.
- Changing consumer sentiment and shopping preferences have also influenced the industry's trading conditions. Shoppers have shifted their shopping habits over the last decade with some of the key determinants being food safety, location and good value.
- Most grocery shopping is still done in the major supermarkets with consumers preferring the convenience over supporting local and independent outlets. However, shoppers indicated that local green-grocers and markets hold sentimental value and they would choose to go to them if possible for their fresh fruit and vegetable purchases.

- Ongoing price wars between Woolworths and Coles have been exacerbated by the rise of ALDI, which has led to lower prices over the past five years.
- Supermarkets and grocery stores continue to maintain the vast majority of the retail food market share, at just over 60%. The market share of cafés, restaurants and takeaway food outlets is around 26%, reflecting consumers' continued desire for convenience. Other food retailers, such as butchers and bakeries, remain relatively stable with around 5-6% market share.



- Woolworths is the largest player in the Australian grocery sector, with a 34% value share and 992 supermarket stores (as at June 2016). During 2016 Woolworths has experienced limited growth in current value terms when compared to its major competitor Coles. Woolworths has lost market share to both Coles and ALDI over the past five years.
- Coles (Wesfarmers) had 787 supermarket outlets and 690 Coles Express outlets. Aggressive discounting and the growth in its private label offerings have helped Coles gain market share from Woolworths.
- After opening its first Australian store in 2001, ALDI now operates over 400 stores nationally. The company plans to continue to pursue a rapid expansion strategy, increasing store presence and also its product range including the addition of more local brands to its private label range.
- Aggressive pricing initiatives taken by the major supermarket retailers in recent years are expected to last for the longer term. Competition within grocery retailing is expected to intensify with aggressive discounting continuing to be used to appeal to value-conscious consumers.
- Competition between major supermarket chains has encouraged segment and product discounting strategies. Smaller supermarket chains and independent supermarkets are facing increasing price competition. However, they remain in the market due to their convenience factor, the scale of the market in remote areas, and customer loyalty.

- **Private label** in Australia tends to be more prominent in the grocery channel. ALDI's private label strategy has been so successful in Australia that it has changed the perception that Australians had of the quality of private label brands.
- Leading supermarket operators, Coles and Woolworths, are increasing their range of private label products each year.
- Grocery retailers are also diversifying their ranges of private label by developing different segments in terms of sophistication and pricing. Better-for-you products, such as organic or gluten-free packaged food are gaining momentum within private label in grocery, as they are more competitively priced than branded products. Private label goods are now offered across all segments, from basic to high-end and organic ranges.
- The major supermarkets are investing heavily to grow their share of home brands. Changing consumer shopping trends and the increasing popularity of private-label goods in ALDI stores have led to Coles and Woolworths improving their private-label merchandise ranges. The private-label segment has grown strongly over the past five years, now accounting for approximately 25% of all supermarket sales.
- Consumers who traded down to lower-priced products during the GFC are continuing to shop with a highly value-conscious mindset. Growing satisfaction with private label products has resulted in many consumers sticking with those products even during periods of positive consumer sentiment when they would have previously switched back to branded products.
- **Warehouse clubs** made an aggressive expansion in 2011 following the launch of Costco's first store in Melbourne in 2009 and its expansion since to all main cities across Australia. This presents a further challenge to value gains for supermarkets. Costco has gained significant consumer interest due to its bulk sales and low pricing structure across both its grocery and non-grocery product ranges. Costco remains the only warehouse club in the Australian market.
- **Convenience stores** focus on providing a daily routine stop for consumers, with an emphasis on driving visit frequency through selling freshly prepared hot food and drinks to attract time-pressed customers.
- Woolworths and Coles are fierce competitors in the supermarket sector. These large retail chains have significant economies of scale and are able to offer lower prices and a wider product range. This constrains revenue and demand for traditional convenience store products.
- Many convenience stores have attempted to change their image over the past five years. Once regarded as expensive alternatives to supermarkets, many consumers now see convenience stores as a quick and easy source of basic groceries, fresh milk, beverages and confectionery. While high prices and limited product lines have made them less popular than local grocery stores, consumers are often willing to pay the higher prices as a trade-off for the convenience and quick service. Many consumers use convenience stores to top up on daily needs, rather than as a place to do the weekly or monthly shop.
- Convenience stores are projected to continue battling against the big supermarkets over the five years through 2021-22, with industry revenue forecast to grow by an annualized 0.5% over the period. This marginal rise in revenue will largely stem from a greater focus on fresh food and an increased range of services.
- During 2016 the **independent small grocers** channel has declined by a further 3% in current value terms. This channel has been struggling to differentiate itself in order to compete with modern grocery retailers, with many players exiting the channel or joining a larger banner. This channel will remain at a competitive disadvantage to supermarkets due to the weaker buying power and economies of scale of the larger businesses. Independent players are also unable to match the marketing budgets of larger retailers and will therefore struggle to compete.
- **Consumer Trends:** A 2015 [IPSOS Australia](#) study into Australian consumer attitudinal trends found:
 - Cutting back sugar is definitely a priority for Australians. They want to do it, they think about it doing it, and they know they should be doing it. But actually changing consumption is more difficult. Very few Australians will actually prioritize reducing sugar in the next 12 months, they certainly don't want to do so

by replacing sugar with natural alternatives such as Stevia, nor do they want to use artificial sweeteners. Finding the sweet spot between intentions and consumption is still a challenge.

- Australians have a simple approach to health with most aiming to eat more natural foods, fresh and unprocessed foods. Smaller portion sizes and healthy snacks are also a priority. Extreme diet fads are achieving exposure and the Paleo diet has achieved the most awareness overall, but trial of these diets remains low amongst typical Australians.
 - Although obesity weighs heavily on our minds, they believe that healthiness is expensive and time consuming to achieve and beyond the means of many. Financial outlook amongst those who need healthiness the most is significantly less positive than other Australians, indicating weight issues may continue to be a problem for many Australians.
 - Australians like to snack. Two-thirds snack between meals, and they particularly like to indulge in a midafternoon pick-me-up. Fresh fruit is the main temptation, as well as other healthy options such as dried fruit and nuts. Jumping on the brand bandwagon by offering mini-versions of signature products could be just the ticket, as many Australians do equate smaller portions with healthiness.
 - Although Australians have plenty of good intentions in terms of shopping and eating healthily, when it comes down to it, budget still has a higher priority in decision-making in-store than health aspirations. Easy decisions rule, and finding the healthy choice is still a challenge for many despite the introduction of the Health Star Rating system.
 - Private labels may be winning the war on the supermarket shelf, but it might not be the same story in pantries at home. Only 1 in 10 shoppers prefer private labels which still suffer from many negative perceptions. While private labels are about value, premium labels are about trust and a little luxury which is a combination that is hard to beat.
 - The craving for new and exciting flavor experiences is not dying down and Australians are still crazy about the latest flavor fad. Experiencing the adventurous side of food consumption is happening more in the dining out scene than in kitchens at home, and Australians are increasingly eating out at cafes and restaurants which are heating up with a range of exciting new innovations.
 - Two out of every three Australians who prepare dinner, cook completely from scratch, mainly to create a healthy meal. But there are some segments of the population who don't enjoy cooking as much, and some who are becoming increasingly reliant on ready meals and packaged products to feed themselves. However, they don't seem to have lost the art of cooking just yet and while they still have families to feed, they will continue to care about cooking to make their meals as healthy as possible.
- **Positive nutrition:** The drive to make food and beverages healthier continues to gain momentum in Australia. Australian consumers are looking for constructive guidance to assist their food and beverage purchases rather than being told "what not to eat." This encompasses a movement from food avoidance (such as products with reduced fat and sugar) to positive nutrition and the inclusion of healthy food and ingredients.
 - **Healthy indulgence:** Australians aren't really interested in strict diet plans, but there is a huge spike in people trying to control their portion sizes. They don't want to cut out certain food groups or flavors, but they are willing to control the amount they eat. Therefore, the quality over quantity mentality is an important consideration for marketers. Claims such as 'portioned indulgence' or 'treat size' convey the message that sensory benefits have not been foregone for health's sake.

- Demand for **healthy food** is being boosted by demographic shifts. An aging population and rising birth rates have both had a positive impact on the development of the health and wellness market since 2005. Middle-aged or elderly consumers and parents with young children tend to be better informed about health and dietary matters than other groups, and therefore represent a key target for health and wellness manufacturers.
- **Freshness** is an important area of concern for packaged food sales. Foodservice players and consumers appreciate the peace of mind from knowing the offerings are in good condition. This can be achieved with single-serve pack sizes, resealable packaging, and clear on-pack communication.
- A recent report on food consumption, habits, attitudes and trends determined **Australia's top five food priorities in 2016** were: eating more fresh fruit and vegetables; smaller portion sizes; reducing sugar intake from food; eating healthier snacks; and cutting down on fat.
- **Snacking still popular** – two-thirds of respondents to a recent survey indicated that they eat between meals and that health snacks are a priority.
- Health concerns among Australians increasingly encompass not only finished products, but also the production process. The same is true with regard to ethical and environmental concerns, with issues like sustainable production, fair wages for farmers and animal welfare playing an increasingly influential role in consumer purchasing decisions. All of this helped to sustain demand in **organic packaged food** in 2016. Demand for organic products was also bolstered by consumer concerns about the health effects of genetically modified organisms (GMOs).
- Organic packaged food recorded value sales growth of 5% in 2016. It was the second strongest performer among the main health and wellness packaged food categories in this regard, after “free from.” One factor constraining the development of this sector in Australia is the difficulty in obtaining official accreditation, a process that can take up to three years. This is among the reasons why organic packaged food products tend to have high prices as compared to standard alternatives, which limits demand. In 2016, demand for organic products was also restricted by growing consumer interest in **free from** packaged food, particularly from dairy and gluten varieties.
- Demand for organic packaged food is expected to continue outstripping supply, which will continue to hinder the development of the category as a whole, but presents excellent opportunities for U.S. exporters.
- The accessibility of organic packaged food products to Australian consumers will continue to improve over the forecast period. The expansion of private label organic ranges by retailers like Aldi, Woolworths, and Coles will be a key driver of this trend as they maintain wide portfolios that cover multiple organic packaged food categories. Concerns over the environmental impact of food production and rising health awareness will continue to lead many consumers to buy organic whenever possible. However, ongoing supply shortages mean that many companies may struggle to meet rising demand.
- Despite projected improvements in accessibility and affordability, it is expected that demand for organic packaged food products will continue to be concentrated among higher-income consumers. This is partly because such consumers tend to be relatively well-educated, and are therefore more likely to be concerned about issues like GMOs and the environmental impact of their purchasing habits.

Sales of Organic Packaged Food by Category: Value (A\$M)

| A\$ million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------|-------|-------|-------|-------|-------|
| Organic Baby Food | 45.9 | 59.2 | 78.1 | 103.1 | 111.6 | 122.7 |
| Organic Bread | 57 | 60.5 | 72.3 | 78.7 | 81 | 83.4 |
| Organic Breakfast Cereals | 20.2 | 28.6 | 30.7 | 35.3 | 34.7 | 35.7 |
| Organic Chilled Processed Meat and Seafood | - | - | - | - | - | - |
| Organic Confectionery | 23.8 | 24.4 | 23.5 | 25.4 | 28.8 | 31.6 |
| Organic Dairy | 152.3 | 166.2 | 182.5 | 219.5 | 240.6 | 254.8 |
| Organic Edible Oil | 26.2 | 23.4 | 24.8 | 27.5 | 44.7 | 46.6 |
| Organic Frozen Meat, Seafood, Fruit and Vegetables | - | - | - | - | - | - |
| Organic Ice Cream | 3.2 | 3.4 | 3.6 | 3.8 | 3 | 2.7 |
| Organic Ready Meals | 4.7 | 5.4 | 6.2 | 6.9 | 7.4 | 8 |
| Organic Rice, Pasta and Noodles | 8.5 | 9.2 | 10.4 | 18.8 | 22.6 | 25.9 |
| Organic Sauces, Dressings and Condiments | 3.8 | 4 | 4.3 | 4.7 | 4.9 | 5.2 |
| Organic Savory Snacks | 4.7 | 5.9 | 7.4 | 19.2 | 23 | 26.5 |
| Organic Shelf Stable Meat, Seafood, Fruit and Vegetables | 11.3 | 11.6 | 13.9 | 15.3 | 15.9 | 16.6 |
| Organic Soup | 7.9 | 8.3 | 8.7 | 15 | 17.5 | 13.7 |
| Organic Spreads | 14.2 | 16.2 | 18.1 | 17.1 | 16.3 | 13.3 |
| Organic Sweet Biscuits, Snack Bars and Fruit Snacks | 6.5 | 7.4 | 11.7 | 14.2 | 13.5 | 14.5 |
| Organic Packaged Food | 390.1 | 433.8 | 496.3 | 604.5 | 665.3 | 701.3 |

Source: Euromonitor International

- Packaging** has grown in importance in recent years and innovative packaging is a valuable selling point in the Australian market. It is often the packaging that conveys convenience to the consumer and snazzy packaging attracts the attention of consumers. Packaging ensures that offerings conform to market trends by communicating unique selling points and offering freshness and convenience. By being lightweight, packaging can reduce the carbon footprint of transportation. Increasingly, consumers expect that packaging will also be recyclable. A recent study found that 50% of Australians think food and drink products are over-packaged and 69% would consider boycotting a product if it didn't meet their environmental criteria.
- Packaging plays a major role in attracting the shopper's attention and helping a product conform to consumer demands for convenience and health.
- It is expected that products will be sold on a more regular basis in the multipack format as producers try to offer value to compete against private labels. The popularity of microwaveable packaging will grow as consumers appreciate the convenience of a short cooking times and the reduced hassle of heating and eating. Moreover, companies will look to use packaging as a means of differentiating their products from the competition.
- Internet retailing** of grocery products continues to grow in Australia. However, investment in e-commerce platforms or a digital strategy was largely limited to supermarkets and food/drink/tobacco specialty shops. Other grocery retailers like Aldi experimented in 2013 with an online store for liquor retailing, but this store was

closed in 2016, with the company indicating its plans to redirect those resources into its physical expansion rather than online business. Australian consumers are still heavily entrenched in the habit of shopping for groceries in stores, inspecting and selecting fresh products, and comparing prices on the shelves. Value-driven consumers tend to perceive that online prices are higher than in-stores, especially with the aggressive price promotions evident in supermarkets. Both Woolworths and Coles offer the ability for customers to order online and have their groceries home delivered for a fee.

- **Hypermarkets** – there are no hypermarkets in Australia, with no investment made by retailers to develop the channel since a failed attempt by Coles in the 1990s.

Distribution Channels

- Distribution points in Australia are centralized. All major supermarket chains and warehouse/wholesale clubs operate their own network of national and regional distribution centers.
- Banner groups, such as IGA, are used by a large number of independent retailers to improve the buying, advertising, and competitive power of smaller grocery and convenience stores. Under banner groups, retailers are able to negotiate better prices, coordinate marketing campaigns, and collaborate to establish new programs that benefit consumers.

Types of Retail Outlets

Sales in Grocery Retailers by Type: A\$m Value

| A\$million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------------|------------|------------|------------|------------|------------|------------|
| Modern Grocery Retailers | 85,421.10 | 88,345.10 | 91,500.70 | 94,019.00 | 97,938.40 | 100,435.00 |
| - Convenience Stores | 1,645.60 | 1,636.90 | 1,671.20 | 1,721.40 | 1,756.10 | 1,792.70 |
| - Discounters | 3,520.00 | 4,160.00 | 4,998.00 | 6,000.00 | 6,811.20 | 7,395.00 |
| - Forecourt Retailers | 6,046.30 | 6,108.10 | 6,213.60 | 6,264.70 | 6,578.10 | 6,685.80 |
| -- Chained Forecourts | 4,813.00 | 4,925.00 | 5,079.00 | 5,180.00 | 5,514.00 | 5,643.00 |
| -- Independent Forecourts | 1,233.30 | 1,183.10 | 1,134.60 | 1,084.70 | 1,064.10 | 1,042.80 |
| - Hypermarkets | - | - | - | - | - | - |
| - Supermarkets | 74,209.10 | 76,440.10 | 78,617.80 | 80,032.90 | 82,793.00 | 84,561.60 |
| Traditional Grocery Retailers | 28,744.40 | 29,412.40 | 30,385.20 | 31,476.80 | 31,645.30 | 31,821.60 |
| - Food/Drink/Tobacco Specialists | 22,054.90 | 22,756.20 | 23,677.90 | 24,719.70 | 24,909.60 | 25,059.00 |
| - Independent Small Grocers | 2,398.50 | 2,398.90 | 2,407.50 | 2,409.90 | 2,347.30 | 2,272.20 |
| - Other Grocery Retailers | 4,291.00 | 4,257.30 | 4,299.90 | 4,347.20 | 4,388.40 | 4,490.40 |
| Grocery Retailers | 114,165.50 | 117,757.50 | 121,885.90 | 125,495.80 | 129,583.70 | 132,256.60 |

Source: Euromonitor International

- **Traditional grocery retailers** accounted for a 24% share of total grocery retail sales in 2016. . This channel has been shrinking and losing market share to modern grocery retailers such as supermarkets. Liquor retail establishments have propped up this sector. Current Australian regulations do not allow modern grocery retailers to sell liquor, thus, creating a significant barrier for other retailers looking to compete with specialized liquor retailers.
- Australians tend to choose **modern grocery retailers** over traditional ones due to the more comprehensive range of products than traditional retailers. Modern grocery retailers such as supermarkets also compete with the offering of food specialists such as bakers and butchers, as well as health food stores, confectioners, and newsagents. Furthermore, the scale of these modern grocery retailers allows them to offer better prices, further encouraging consumers to choose this channel.
- In 2016, the **independent small grocers** channel declined 3% as it has struggled to differentiate itself in order to compete with modern grocery retailers; with many companies closing or joining a larger banner.
- Liquor retailers represent more than 50% of sales within the **food/drink/tobacco channel**, with Woolworths and Wesfarmers leading the way in 2016. Through an extensive portfolio of brands, both companies have

been able to compete through different price points, store formats, and online services. Big box stores have been the preferred format for liquor retailers with brands like Dan Murphy's increasing its presence significantly across the country, with an average selling space per store of 890 square meters.

- The **other grocery retailers** channel is comprised of small retail formats with a primary focus on selling food, beverages, and tobacco. These include outlets specializing in health food, organic products, and dietary supplements, as well as those offering direct sales from producers such as vineyards, dairies, and farms. "Other grocery retailers" experienced a 2% growth in 2016. This growth has been largely supported by the health and wellness trend, with a number of consumers looking for healthier food options at farmers' markets and health food stores.

Trends in Services Offered by Retailers

- Woolworths and Coles have **reward programs**, which offer shoppers such things as discounted fuel, frequent flyer points, and exclusive offers.
- Woolworths' rewards program – "Woolworths Rewards" – enables customers who spend A\$30 or more in one transaction at any Woolworths supermarket to receive a fuel savings voucher which saves 4c/liter on fuel at any Caltex Woolworths co-branded fuel outlet. Woolworths Rewards members may convert their points to Qantas Frequent Flyer points and are also eligible for a range of exclusive offers. Further information is available at <http://www.woolworthsrewards.com.au/>.
- Wesfarmers/Coles reward program called "Flybuys," operates throughout Wesfarmers supermarket and non-supermarket businesses. Points can be redeemed for discounts on entertainment, flights, gift cards, fashion, home and garden, technology, and lifestyle products. Details are available at <http://www.flybuys.com.au/collect#/partners/coles>. Coles also offers a 4c/liter discount on fuel when consumers shop in their store.
- Some IGA stores offer a "MyIGACard" program, but not all stores participate. Participating stores provide different benefits such as special prices on selected products and loyalty points that can be used for future purchases. Many stores also periodically donate a percentage of the transaction value to nominated clubs and charities. Details are available at: www.myigacard.com.au.
- **Private Label** - The leading supermarket operators are increasing their range of private label (generic) products each year. Grocery retailers are also diversifying their private labels by developing different segments in terms of sophistication and pricing. Better-for-you products, such as organic or gluten-free packaged food, are gaining momentum within private labels as they are more competitively priced than branded products.
- The rapid growth of German-owned ALDI over the past five years has significantly altered the industry. ALDI has grown in popularity, partly due to its discount private-label products. The rise of ALDI has forced the two established industry giants, Woolworths and Coles, to cut prices and expand their private-label product ranges. Aldi currently holds an 8% share of the market. Aldi continuously updates its private label offerings with up to two thirds of its product lines being revamped or reformulated each year to meet changes in consumer demand.
- **Trend away from plastic bags towards reusable bags** – In 2003, the Australian Federal Government negotiated with the Australian Retailers Association for a voluntary progressive reduction in the use of plastic bags, which led to a number of initiatives, including the widespread distribution and promotion of reusable bags, commonly called 'green bags' in Australia. In 2011, the ACT government banned the use of lightweight plastic shopping bags in all retail outlets with South Australia, Tasmania, and the Northern Territory. These states implemented similar policies and supermarkets and other retail outlets in those areas now charge for heavier and reusable plastic bags or shoppers bring their own bags. Queensland will ban the lightweight plastic bags in 2018. In July 2017, Woolworths and Coles announced that they intended to phase out the single use plastic bags in all other states (NSW, Victoria and Western Australia) over the next 12 months.

- **Home shopping via the Internet** – Both Coles and Woolworths offer home shopping in the larger metropolitan areas in all states and territories.

Advantages and Challenges for U.S. Retail Food Exporters

| Advantages/Opportunities | Challenges |
|---|--|
| U.S. culture well accepted and similar to Australia | Australia has strict quarantine requirements for fresh products. Import permits are required for fresh produce and some products are prohibited. |
| No language barriers to overcome | Australia is a significant producer of a wide variety of agricultural products. |
| U.S. products have excellent image and acceptance. | ‘Buy Australian’ campaign is significant. |
| Northern hemisphere seasonal advantage for fresh foods, e.g. fruit and vegetables. | Australian labeling and advertising laws are different from the U.S. which may require some changes to food labels. |
| The U.S./Australia Free Trade Agreement means that U.S. products enter Australia tariff free. | Country of origin labeling is compulsory and many Australian made products bear the Australian Made logo. |
| Australian consumers are experimental and desire new and innovative products. | A focus on fresh food presentation by the major supermarket chains has provided advantages to local producers. |
| Opportunity to trial innovative products and capture/gain market share. | Increasing customer awareness of diversity in food products is fragmenting some traditional single offering markets. |
| | Need to produce innovative food products to break into highly competitive retail food sector as most categories have substantial market leaders. |

Market Access for Imported Products

- Enter the market through a distributor, importer, agent or broker who then targets specific food categories or merchandise managers at major wholesalers and major supermarket chains. Major chains and wholesalers have their own distribution centers and national coverage. Targeting major chains through an agent/distributor will reduce the risk of entering an inappropriate state market in Australia. Specialist distributors or wholesalers may also be approached.
- Product promotion - product launches for supermarkets are popular and effective. Provide agent/distributor with promotional material and product suitable for in-store demonstrations. Promotional formats may vary.
- To enhance marketing activities, exporters should consider combining promotional advertising such as in-store displays and store catalogues, major industry magazines (e.g. Retail World), newspapers, television, radio and public transport.
- Exhibit at Australian food shows. Fine Food Australia, the premier international food, drink and equipment exhibition is endorsed by the U.S. Department of Agriculture and is held each September, alternating between Sydney and Melbourne (see <http://www.finefoodaustralia.com.au/> for more information). Major buyers and importers from all over the country and region attend. Due to Australia’s large geographic size and the high cost of internal airfares and transport, exhibiting at trade shows such as Fine Food is the most cost-effective way for U.S. companies to meet potential partners and customers for consumer-oriented food products in Australia.

Competitive Analysis

- Imported products will have to compete with ‘Australian Made’ products. Australians generally have a keen awareness and affinity for buying Australian made goods.
- Imported products need to be **competitively priced** to compete with the growing number of discount chain stores.
- Over two thirds of Australian consumers indicate they believe it is important for grocery products to be sourced locally. However, only one third claim to actually buy local food and drinks regularly. Higher prices continue to be a major drawback of local offerings, with lower prices more important to some shoppers than a product being produced locally.
- Convenient, healthy, fresh, and diverse meals that are easy to buy, easy to store and easy to eat, are a consumer preference that provides future potential for imported products.
- **Food labeling** in Australia is stringent and has different requirements than in the U.S. Full details of Australia’s food labeling regulations can be found in the Food and Agriculture Import Regulations and Standards (FAIRS) report which is updated each year. The latest copy of the FAIRS report is available on the [FAS website](#).
- Manufacturers need to consider the costs involved with changes in labeling for a relatively small market (Australia’s population is approximately 24 million). Sometimes the quantity required for the Australian market is not compatible with large volume U.S. production.
- An option that is currently used for some American branded products is labeling that satisfies many different export markets. This assists in making the Australian market more accessible.

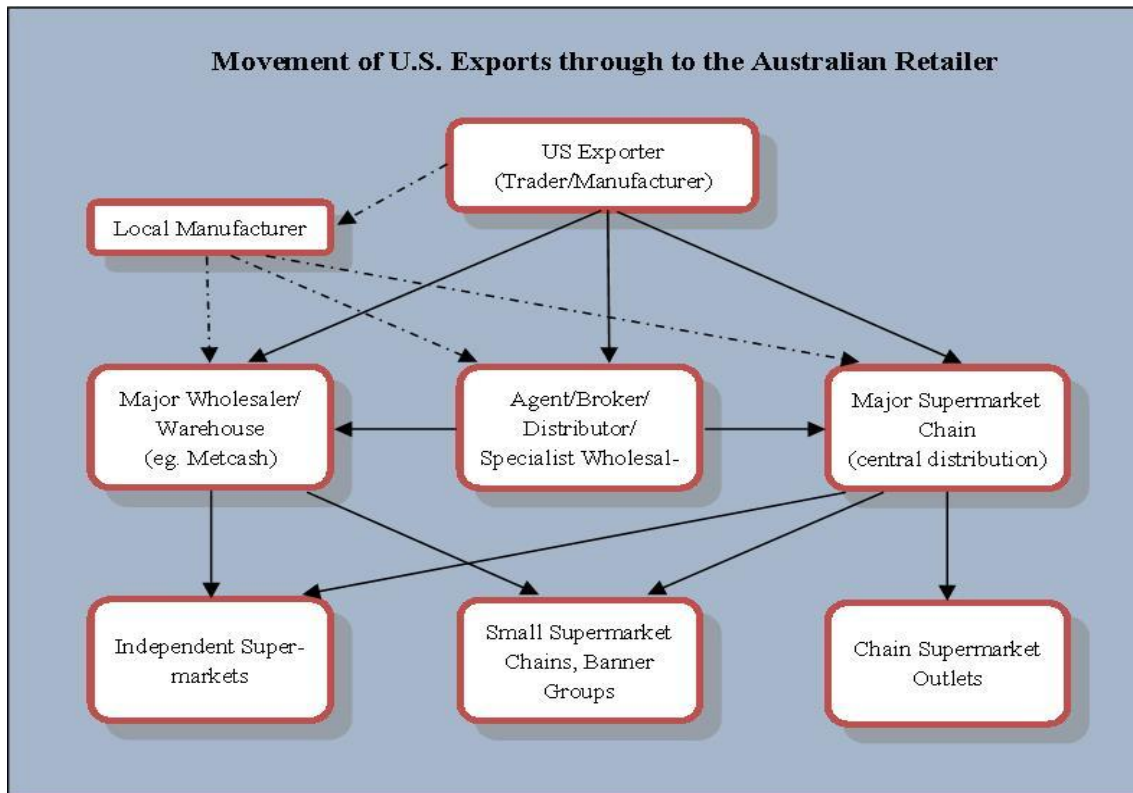
Comparative Advantage of U.S. Products

- The U.S. is the second largest supplier (behind New Zealand) of imported consumer oriented foodstuffs to the Australian market, holding a 12% share in 2016, valued at almost \$1.1 billion.
- The U.S./Australia Free Trade Agreement signed in 2005 allows many U.S. products to enter the Australian market tariff free.
- Due to the large U.S. market, U.S. manufacturers are able to develop a range of products far beyond that which can be achieved by smaller manufacturers in Australia. This enables U.S. exporters to deliver innovative product lines that are otherwise not available from Australian manufacturers.
- U.S. products are well regarded as safe (with regard to food safety) and a good value for money.
- The Australian market is very ‘Americanized’ and most food categories are compatible with Australian tastes. Many categories are already dominated by American brands, such as Kraft, Mars, Campbell’s, Kellogg’s, Coca-Cola, and Pepsi, who have been very successful in the Australian market.
- Most of these U.S.-owned food manufacturers also have a long-standing manufacturing presence in the Australian market thereby making market entry easier.
- It is helpful to engage a distributor/importer/broker who understands the market, knows what presentation documents the retailers require, and has high-level trade relationships.

Market Structure

- Distribution centers and wholesalers are the two main distribution channels to enter major supermarkets and smaller supermarket chains.
- Food products will be stored in warehouses prior to delivery.
- Transport between distribution centers in Australia is predominantly by road.
- Product flows in a similar manner for each of the major supermarket chains, with each operating central distribution centers.

- Independent supermarkets and smaller supermarket chains purchase their food products through the major wholesalers or direct from manufacturers. The larger chains are also direct importers.



Best High Value Product Prospects

The **organic, healthy, and natural products** market in Australia continues to grow rapidly. Although Australia is a large producer of organic raw products, it does not have the manufacturing capacity to satisfy demand for the processed segment. Prospects are excellent for organic and natural ingredients as well as consumer-ready processed foods and beverages. Findings from a Nielsen survey in 2016 show that Australian consumers are adopting a back-to-basics mindset, focusing on simple ingredients and fewer artificial or processed foods. The top 10 ingredients being avoided by Australian consumers are: Antibiotics/hormones in animal products; MSG; artificial preservatives; artificial flavors; artificial sweeteners; foods with BPA packaging; artificial colors; sugar; GM foods; and sodium. These ingredients are being avoided primarily because of their perceived impact on health rather than actual medical conditions.

The survey showed that Australian's want to eat healthier, but need help to make it happen. Almost 50% of consumers indicated that they wished there were more 'all natural' food products on shelves. They also indicated that they would be willing to pay more for foods and beverages that don't contain unhealthy ingredients.

The types of products consumers want to see more of are: all natural; no artificial colors; low sugar/sugar free; no artificial flavors; and low fat/fat free. U.S. exporters who are able to incorporate ingredients and preparation methods that improve the nutritional profile of products will be strongly positioned to succeed in this market.

It should be noted that although consumers are trying to eat healthier, they still want to treat themselves so confectionery products are still on their shopping lists.

Post Contact and Further Information

Post Contact

Office of Agricultural Affairs
U.S. Embassy
Canberra, Australia
Tel: +61-2-6214-5854
Email: AgCanberra@fas.usda.gov

Import Regulations

- See the Department of Agriculture and Water Resources biological import conditions (BICON) database to identify whether your product is prohibited entry to Australia - <https://bicon.agriculture.gov.au/BiconWeb4.0/ImportConditions/Search/>
- Information on Food Law and Policy in Australia can be obtained from the www.ausfoodnews.com.au website.

Australia's Food Labeling Regulations

- In Australia, Food Standards Australia New Zealand (FSANZ) regulates the delivery of safe food. FSANZ is a bi-national independent statutory authority that develops food standards for composition, labeling, and contaminants (including microbiological limits) that apply to all foods produced or imported for sale in Australia and New Zealand. FSANZ operates under the Food Standards Australia New Zealand Act 1991.
- The Foreign Agricultural Import Regulations and Standards (FAIRS) report from this office contains detailed information on the Food Standards Code and other food regulations. This report is updated each year and a copy is available on the [FAS website](#).
- An Internet version of the entire Australia New Zealand Food Standards Code is available through [FSANZ website](#).

Industry Information

Australian Food and Grocery Council

Email: info@afgc.org.au

Web: www.afgc.org.au

Food and Beverage Importers Association

Email: info@fbia.org.au

Web: <http://www.fbia.org.au>

The Association of Sales and Marketing Companies Australasia (ASMCA)

Web: www.asmca.com

The association is the peak industry body, which represents the interests of sales and marketing companies in Australia and New Zealand. A list of brokers in each state is also available on the [website](#).

Trade Shows

Fine Food is the largest food, beverage and equipment show in Australia and this region and presents U.S. exporters with the most efficient and cost-effective way to enter the Australian market. Australia is a very large country and internal transportation is expensive and time consuming. Fine Food offers an opportunity for U.S. exporters to access a 'one-stop-shop' for entry to the Australian market because a large number of the major importers, distributors, etc., exhibit at the show and at times represent other companies. This presents an ideal opportunity for U.S. exhibitors to meet with a majority of the big players in this market in one place. The show is held every September alternating between Melbourne and Sydney.

Fine Food is endorsed by the U.S. Department of Agriculture. For information on participating in the U.S. Pavilion at Fine Food, please contact the Office of Agricultural Affairs listed above.

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