

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Retail Foods

Retail Food Sector Report - 2012

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Report Highlights:

There is an increasing focus on health and wellness and the environment among Australian consumers. Portion sizes are increasingly important - consumers want quality over quantity. 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 & liquor retailing in Australia grew by 3.7 percent in 2010-11 to reach US\$128.5 billion. Supermarket & grocery expenditure accounts for the bulk of food retailing sales, with a share of 70%. The U.S. accounted for US\$975 million or 10.7% of total imports of consumer oriented and fish and seafood products in 2011, an increase of 38% over the previous year.

Post:

Canberra

Disclaimer: As a number of different sources were used to collate market information for this report there are areas in which figures are slightly different. The magnitude of the difference is in most cases small and the provision of the data even though slightly different is to provide the U.S. exporter with the best possible picture of the Australian retail food sector where omission may provide less than that.



The following exchange rates were used to convert Australian dollars to U.S. dollars for 2006 to 2011.

	2006	2007	2008	2009	2010	2011
A\$/US\$	0.7535	0.8389	0.8525	0.7927	0.9197	1.0320

Source: www.rba.gov.au

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

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
A\$/US\$	0.7477	0.7857	0.8968	0.7477	0.8821	0.9881

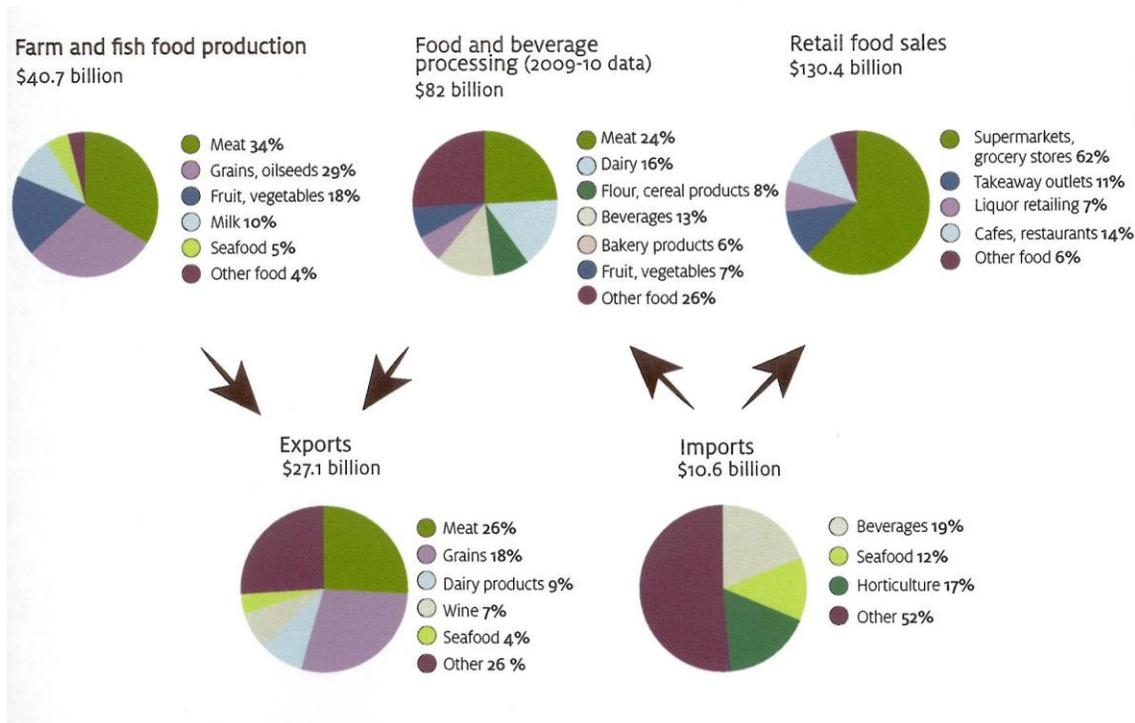
Source: www.rba.gov.au

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 (both internal and international) support a well-developed, economically diversified market.
- Australia is the world's 13th largest economy, with nominal GDP of US\$1.3 trillion and one of the highest levels of per capita GDP in the world. It has a large services sector (80% of GDP) but is also a major exporter of resources, energy, and food. The Australian economy has grown for 20 consecutive years, except for one negative quarter in late 2008 and has an AAA credit rating from all three international ratings agencies. Net government debt will peak at 7.2% of GDP and is falling and the government has pledged to return the federal budget to surplus in 2013. Australia's central bank estimates the economy grew 2.75% in 2011 and a similar rate is projected in 2012. Unemployment fell to 4.9% in April 2012.
- Australia has a deep and sophisticated financial market, regulated in accordance with international norms. 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 fourth-most traded globally (BIS, Triennial Central Bank Survey, 2010). Australia's four leading banks are currently ranked in the top 12 in the world in terms of financial security and AA rankings. In 2011, Australia was ranked as the second easiest place in the world to start up a business, according to the World Bank. It ranked tenth in terms of 'ease of doing business,' and was the sixth easiest place to obtain business credit.
- Australia's trade with the world exceeded US\$500 billion in 2010, with a trend growth of over 10% over 5 years. Terms of trade are at historic highs, with strong prices for exports of iron ore and coal and over a diverse mineral and energy production portfolio. Energy exports will expand further as large LNG projects in northern Australia (such as the Chevron-Exxon-Shell Gorgon project) export gas to East Asia. The Australian dollar has been trading near parity with the U.S. dollar, placing pressure on manufacturing exports and the tourism and education sectors.
- Australian society is increasingly multi-cultural, with the traditional Anglo-Celtic majority now 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. Details of this and other free trade agreements and negotiations are available on the Australian Department of Foreign Affairs and Trade website at: <http://www.dfat.gov.au/fta/index.html>.
- The market for food grocery sales in Australia is concentrated along the east coast where population and disposable income are greatest. New South Wales (NSW) and the Australian Capital Territory dominate with a 33% share of the supermarket and grocery sector, followed by 24% for Victoria, 21% for Queensland, 11% for Western Australia, 8% for South Australia, 2% for Tasmania and 1% for the Northern Territory.

- The Australian food industry encompasses many sectors through export, import and processing sectors to domestic sales to consumers. The key components of the food supply chain in 2010-11 are shown below.

Value chain for food in Australia, 2010-11



Source: ABARE Australian Food Statistics 2010-11

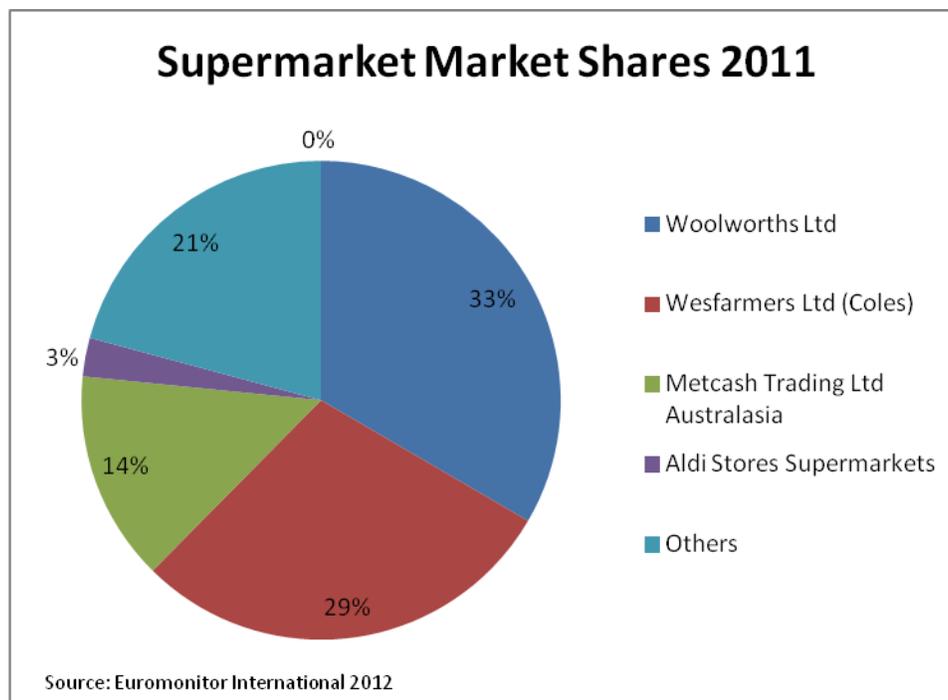
- The value of food & liquor retailing in Australia grew by 3.7 percent in 2010-11 to reach US\$128.5 billion. Supermarket & grocery expenditure continues to account for the bulk of food retailing expenditures, with a share of 70
- From 2006 to 2010, growth in Australian packaged food sales was driven primarily by consumers' rising income levels. In addition, the ongoing trend towards urbanization resulted in the quickening pace of consumers' lives, with many increasingly willing to pay more for convenience and time savings. There has also been an increasing focus on health and wellness among Australian consumers over the past few years, and leading players in the food sector have invested heavily in developing health and wellness packaged food.

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 33% value share of the market in 2011.
- Coles** supermarkets are part of Wesfarmers Limited and are the second largest player in the grocery sector with a 29% value share in 2011. It has been reported that Coles supermarkets 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 and a strong emphasis on advertising.

- **Metcash Trading Limited Australasia** ranks third in supermarkets in value terms (14% in 2011). 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. It has three business units in the grocery sector – IGA Distribution, Campbell's Cash & Carry, and Australian Liquor Marketers (ALM). Its retail brands include IGA (supermarkets) and IGA Express (convenience stores).
- **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 (2.6% in 2011). Aldi has established itself within the Australian market with grocery stores in NSW, ACT, Victoria and Queensland. 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.
- **7-Eleven** is the leading operator of convenience stores in Australia, holding over 36% of value sales within the channel. It is also the third largest operator in the chained forecourt channel with 20% of the value share.



Value of Overall Retail Food Sales

- Table 1 summarizes total food retail sales and growth for the past six years. The total value of food retailing in 2011 was US\$122.5 billion, an increase of over 34% over the last five years.
- The supermarket and grocery sector accounts for 70% of food expenditure (US\$85.6 billion in 2011).

Table 1: Total Food Retailing Over the Past Five Years (US\$m)

Description	2007	2008	2009	2010	2011
Total Food Retailing (US\$m)	\$91,350	\$97,370	\$97,990	\$117,939	\$122,524
Supermarkets and Grocery Stores Food Retailing¹	\$56,414	\$61,758	\$61,804	\$73,463	\$85,593
% of Total Food Retailing	62%	63%	63%	62%	70%
Cafes, Restaurants & Takeaway Food Retailing	\$22,030	\$22,463	\$23,022	\$29,250	\$18,757
% of Total Food Retailing	24%	23%	23%	25%	15%
Liquor Retailing	\$5,986	\$6,466	\$6,758	\$8,197	\$9,852
% of Total Food Retailing	7%	7%	7%	7%	8%
Other Specialized Food Retailing²	\$6,921	\$6,683	\$6,406	\$7,029	\$8,322
% of Total Food Retailing	8%	7%	7%	6%	7%

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)

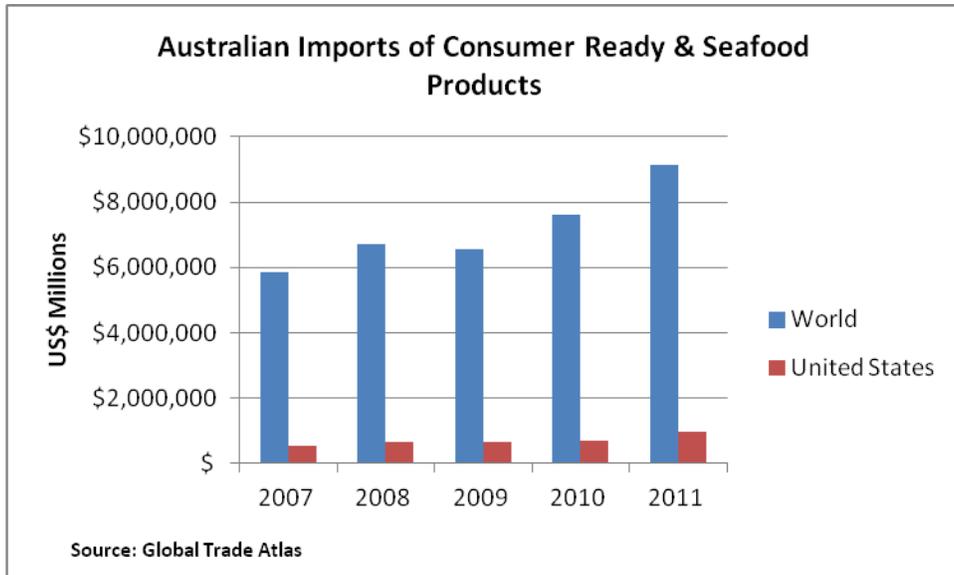
2. This category consists of units mainly engaged in: fresh meat, fish & poultry retailing; fruit & vegetable retailing; bread & cake retailing; milk vending & confectionery.

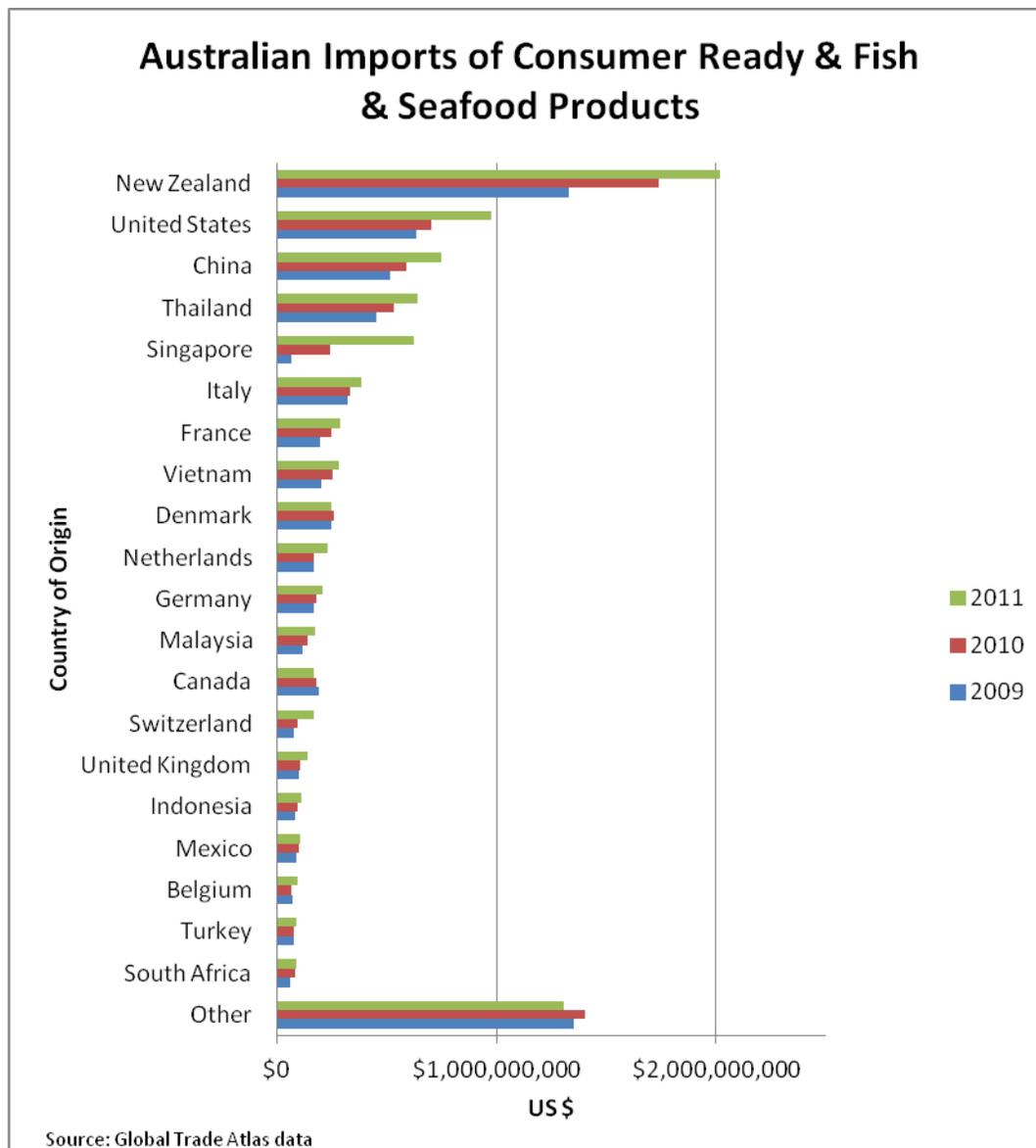
Source: ABS Cat. No. 8501.0

Value of Imported Food vs Domestic Products

- Current exchange rates are stimulating the growth of food imports. Although a 2009 consumer survey found that 65% of Australians bought Australian-made 'whenever possible' or 'often', this did not translate into behavioral change in-store. It was found that when shoppers are in a grocery store, just 14% claimed Australian-made was a significant influence on their purchases in 2011, a decrease of 3% compared to 2010. This shows that, given the right economic conditions, shopper attitudes are not a barrier to the further growth of food imports.
- The total value of Australian imports of consumer oriented products (includes snack foods, breakfast cereals, meat & poultry, dairy, eggs & products, fresh fruit and vegetables, processed fruit & vegetables, fruit & vegetable juices, nuts, wine & beer, nursery products, pet food, etc) and fish and seafood products in 2011 was US\$9.1 billion.

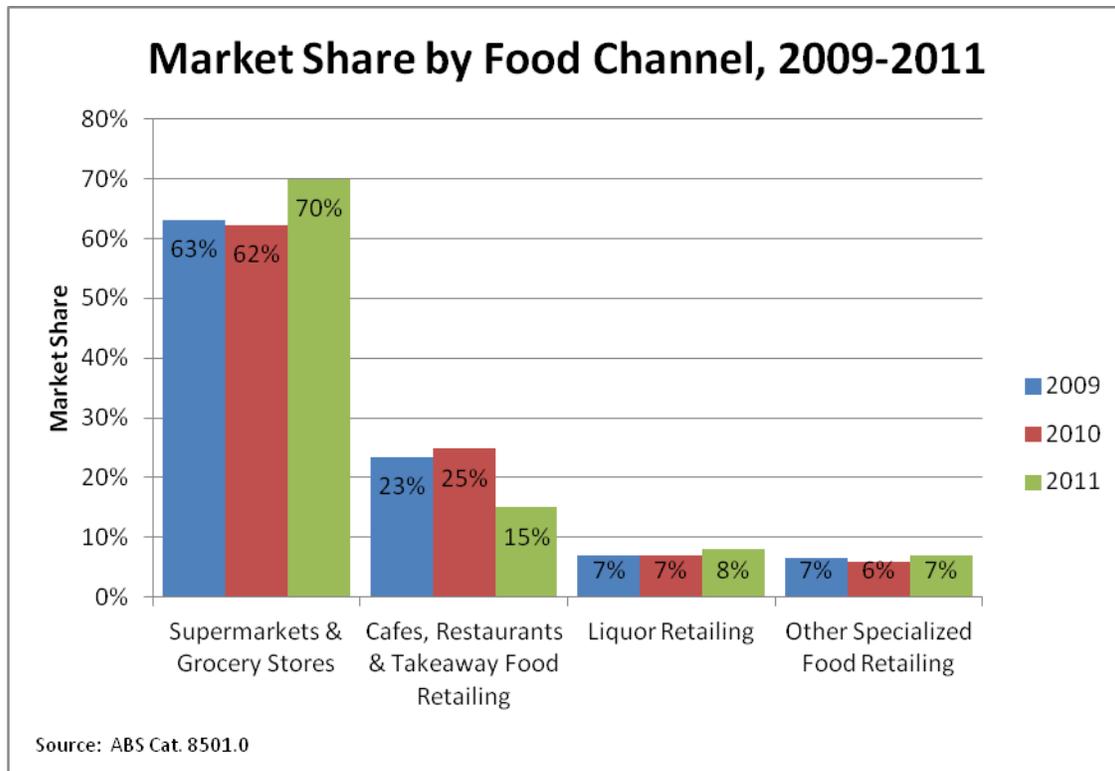
- Of the total value imports of these products, the U.S. accounted for US\$975 million or 10.7% of total imports, an increase of 38% over the previous year. The majority of Australia’s imports in these sectors (22%) are sourced from New Zealand. The U.S. is the second largest supplier.
- Total imports of consumer oriented products have increased by 56% over the last five years. Imports of these products from the U.S. have risen by 82% over the same period.
- The total value of Australian domestic farm and fishery food production reached US\$40 billion in 2010-11.





Trends in Retail Food and Sub-sectors

- Domestic retailers continue to dominate the grocery retail sector as Wesfarmers and Woolworths, with their scale & clout, extended their growth through horizontal and vertical integration. They strengthened their grip in 2011 by extending their operations into multiple retail categories (not just grocery) and deepened their value offer through private label growth.
- Supermarkets and grocery stores continue to maintain the vast majority of the retail food market share, at around 70%. The market share of cafés, restaurants and takeaway food outlets is around 15%, reflecting consumers' continued desire for convenience. Other food retailers, such as butchers and bakeries, remain relatively stable with around 7% market share.



- Woolworths has continued to increase store numbers, opening 30 new stores over the past two years. As of October 2011, Woolworths had a total of 840 supermarket outlets Australia wide.
- In October 2011 Coles (Wesfarmers) had 741 supermarket outlets and 620 Coles Express outlets. The company continues to push lower prices and take initiatives that resonate with Coles shoppers - such as A\$1/liter milk, a move away from cage eggs and a 'no added hormones' meat advertising campaign.
- In 2011 Metcash overcame objections from the Australian Competition & Consumer Commission (ACCC) and purchased 80 Franklins stores from Pick n Pay. Metcash is now in the process of selling these stores to IGA retailers. The Metcash distribution system now supplies 2,312 independent grocery & convenience stores.
- Aggressive pricing initiatives taken by the major supermarket retailers in 2011 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, with the leading supermarket operators, such as Coles and Woolworths, increasing their range of 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.

- The major supermarkets are investing heavily to grow their share of home brands. Current private label penetration in 2011 was estimated at 25% with Woolworths announcing that it would be aiming to double private labels sales by 2015.
- The clout that Wesfarmers (Coles) & Woolworths have over grocery retailing will enable them to develop and execute this price challenger strategy with relative ease.
- Consumers who traded down to lower-priced products during the GFC are continuing to shop with a highly value-conscious mindset. This habit was reinforced by the major supermarkets in 2011 with constant & deep price promotions. The habit is now entrenched with shoppers and will continue as a long-term trend.
- **Warehouse clubs** made an aggressive expansion in 2011 following the launch of Costco's first store in Melbourne in 2009 and its expansion to Sydney & Canberra in 2011. This presents a further challenge to value gains for supermarkets. Costco has gained significant consumer interest due to its bulk sales & low pricing structure across both its grocery & non-grocery product ranges. Costco plans to bring the total number of stores up to six by 2015. Costco remains the only warehouse club in the Australian market.
- **Convenience stores** will likely focus on providing a daily routine stop for consumers, with an emphasis on driving visit frequency through selling freshly prepared hot food & drinks to attract time-pressed customers. 7-Eleven is already featuring A\$1 barista-style coffee & freshly made sandwiches in selected concept stores which has drawn a regular customer based and encouraged substantial foot traffic.
- A recent report indicates that the Australian convenience store sector is growing at a rate considerably slower than in the rest of the world. In 2011, Australia's convenience sector recorded sales growth of 2.6% while in the UK industry achieved growth of 4% and the U.S. was expecting annual compound growth of 11% against a backdrop of much more dire domestic & regional economies.
- According to industry sources, the reasons for the slower growth can be attributed to constraints such as high utility costs and restrictions on the sale of certain product categories such as packaged alcohol which is an extremely important category for convenience stores around the world.
- The report indicates that the traditionally strong beverage sector was critical to the convenience sector in 2011, being the fastest growing category in the last year – up 10.1%. Growth came from flavored milk, energy drinks, frozen carbonated beverages and hot coffee product categories.
- It is forecast that **Independent** small grocers will likely continue to see value sales decline over the next few years. The lack of economies of scale will place further pressure on independents which are struggling against the competition from modern grocery retailers.
- Chained **forecourt retailers** recorded only slight value growth of 3% in 2011. Overall, forecourt retailing was hampered by the difficult trading conditions faced by independents resulting from the bundled grocery-fuel discounts offered by the large supermarket chains.
- There is potential for growth for **food specialists**, such as bakeries, confectionery specialists and chocolatiers, which have been increasingly sought out by consumers looking for affordable indulgences.
- Tobacco specialists are likely to continue to decline as a result of further restrictions on tobacco display, packaging and sale activities by the regulatory agencies.
- 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.

- Recent research found that 61% of Australian consumers are tired of being told what not to eat and are instead looking for more constructive guidance to assist their food and beverage purchases. 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:** There has been a 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. Claim terms such as 'portioned indulgence' or 'treat size' convey the message that sensory benefits have not been foregone for the sake of health.
- A noteworthy initiative has been the government's introduction of stricter quality control standards for **organic products**, an effort that should help to strengthen consumer confidence in organic packaged food and beverages. This has been timely, as in 2009 most organic packaged food categories saw a slowdown in volume and value sales growth due to the economic downturn. Facing tighter household budgets, many Australians sought to save money by reverting back to non-organic variants or trading down to cheaper organic brands and private label products. In many categories, value sales slowed at a greater rate than volume sales, as manufacturers reduced their prices in an effort to sustain demand.
- On the other hand, a growing trend towards eating at home rather than dining out helped to sustain demand for **organic packaged food** products. Apart from being economical, many consumers believe that eating at home makes it easier to maintain healthy dietary habits. Because they prepare the meals at home themselves, consumers know that the organic ingredients they use are truly beneficial.
- Organic packaged food is expected to perform well over the next five years, with value sales expected to maintain their recent growth performance during this time. Given that organic products are still considered to be relatively more expensive than standard alternatives, economic recovery and rising disposable incomes will help the development of the sector as a whole.
- Woolworths' 2009 acquisition of Macro Wholefoods, Australia's first mainstream large-format organic supermarkets chain, is indicative of a growing belief in the potential of organic food and beverage products among leading grocery retailers in Australia. It is likely that Woolworths will seek to reduce the prices of some of its organic private label products to counter growing competition from discounter chain Aldi.
- Generally, leading grocery retailers that have not already done so are expected to develop their own ranges of organic private label products. This is expected to encourage greater price competition, not only among retailers but also among manufacturers of branded organic products. All of these efforts are expected to help break down one of the key traditional barriers to growth in the organic packaged food sector, their higher prices in comparison to standard items.
- **The packaging counts** - packaging has grown in importance in recent years. 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.
- Producers are using packaging as a means of adding value to products. Packaging developments have been used to promote freshness and to also ensure convenience (e.g. heat & serve microwaveable packaging).

- Packaging's importance as a means of communication is an ever-growing characteristic for relaying information on such things as ingredients and to highlight the convenience of the cooking process.
- With the competitive environment expected to intensify over the near term, due to frugal consumers, private label growth and tough brand competition, packaging will become increasingly important to a product's success.
- Packaging will play a major role in attracting the shopper's attention and helping a product conform to market trends such as convenience or health and wellness features.
- It is expected that products will be sold on a more regular basis in the multipack format as producers try to offer value for money to compete against private label. 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.
- Although the outlook for **Internet shopping** in general is very positive in Australia with strong growth forecast, grocery retailers will not be much affected as internet retailing is not widely regarded as a typical channel for grocery shoppers. 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-store, especially with the aggressive price promotions evident in supermarkets. Both Woolworths & Coles offer the ability for customers to order online and have their groceries home delivered for a fee.
- **Hypermarkets** continue to be negligible 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: US\$m Value

US\$ million	2006	2007	2008	2009	2010	2011
Modern Grocery Retailers	\$42,315	\$50,025	\$56,581	\$58,199	\$69,831	\$81,132
- Convenience Stores	\$552	\$656	\$693	\$725	\$879	\$1,025
- Discounters	\$1,019	\$1,299	\$1,796	\$1,845	\$2,305	\$2,917
- Forecourt Retailers	\$3,643	\$4,124	\$4,238	\$4,027	\$4,718	\$5,385
- Hypermarkets	-	-	-	-	-	-
- Supermarkets	\$37,101	\$43,946	\$49,855	\$51,602	\$61,929	\$71,804
Traditional Grocery Retailers	\$19,264	\$22,057	\$23,124	\$22,485	\$26,216	\$29,664
- Food/Drink/Tobacco Specialists	\$13,822	\$16,032	\$17,116	\$16,870	\$19,867	\$22,761
- Independent Small Grocers	\$2,211	\$2,338	\$2,186	\$1,972	\$2,207	\$2,475
- Other Grocery Retailers	\$3,231	\$3,687	\$3,822	\$3,643	\$4,142	\$4,428
Grocery Retailers	\$61,579	\$72,082	\$79,705	\$80,683	\$96,047	\$110,796

Source: Euromonitor International

Trends in Services Offered by Retailers

- Woolworths and Coles have **reward programs** which offer shoppers such things as discounted fuel, frequent flyer points & exclusive offers.
- Woolworths 'Everyday Rewards' – customers who spend A\$30 or more in one transaction at any Woolworths supermarket receive a fuel savings voucher which saves 4c/liter on fuel at any Caltex Woolworths/Safeway co-branded fuel outlet. Everyday Rewards members also earn Qantas Frequent Flyer points when they spend over A\$30 with Woolworths' retail partners and are also eligible for a range of exclusive offers. Further information is available at www.everydayrewards.com.au.
- Wesfarmers/Coles reward program, Flybuys, operates throughout Wesfarmers supermarket & non-supermarket businesses. Points can be redeemed for discounted fuel, flights & holidays with Webjet and can be turned into Flybuys 'dollars' to get discounts at selected partners. Details are available at www.coles.com.au/flybuys.aspx.
- Some IGA stores offer a "MyIGACard" program but not all stores participate in the program. Participating stores provide different benefits. For example, some stores will offer special prices on selected products, loyalty points that can be used for future purchases. Many stores also periodically donate a percentage of the transaction value to nominated clubs & 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 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.
- One of the most significant recent successes seen in private label has been the robust growth recorded by Aldi which saw value growth of 15% in 2010 of their low-priced grocery and household products which are primarily private label. Aldi continuously updates its private label range with up to two thirds of its product lines being revamped or reformulated each year to

meet changes in consumer demand. During 2010 Aldi eliminated the use of any artificial food colorings in its private labels to appeal to parents who see the consumption of such additives as associated with hyperactivity in children.

- **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 & 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. Supermarkets & other retail outlets now charge for the supply of a heavier, reusable plastic bag or shoppers bring their own bags.
- **Home shopping via the Internet** – Both Coles and Woolworths offer home shopping in the larger metropolitan areas in all States & Territories.

Advantages and Challenges for U.S. Retail Food Exporters

Advantages/Opportunities	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.
Australian dollar has appreciated against the U.S. dollar making imports relatively cheaper for Australians.	Australian labeling & advertising laws are different from the U.S. which may require some changes to food labels.
Northern hemisphere seasonal advantage for fresh foods, e.g. fruit and vegetables.	Country of origin labeling is compulsory and many Australian made products bear the Australian Made logo.
The U.S./Australia Free Trade Agreement means that U.S. products enter Australia tariff free.	A focus on fresh food presentation by the major supermarket chains has provided advantages to local producers.
Australian consumers are experimental and desire new and innovative products.	Australia has strict quarantine requirements for fresh products. Import permits are required for fresh produce and some products are prohibited.
Opportunity to trial innovative products and capture/gain market.	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 category/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.
- Couple promotion with advertising such as in-store display 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 in September each year, alternating between Sydney & Melbourne (www.finefood.com.au). 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 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. There is a general awareness and affiliation amongst consumers for buying Australian made goods.
- Imported products need to be **competitively priced** to compete with the growing number of discount chain stores.
- A 2011 survey found that the '**Australian Made**' symbol was the most influential symbol out of 13 that appear on grocery products. Despite this and the fact that over two thirds of Australian consumers indicate they believe it is important for grocery products to be sourced locally, only 33% claim to actually buy local food and drinks regularly. Higher prices continue to inhibit wider adoption of local products, with 41% of Australians saying that this is a major drawback of local offerings. Over 40% claimed that finding a lower price is more important to them than a product being produced locally.
- Convenient, healthy, fresh and diverse meal solutions 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 & Agriculture Import Regulations & 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 23 million). Sometimes the quantity required for the Australian market is not compatible with large volume U.S. production runs. There are options available to overcome this drawback such as 'stickering' the Australian requirements over the top of the U.S. ones.
- 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.

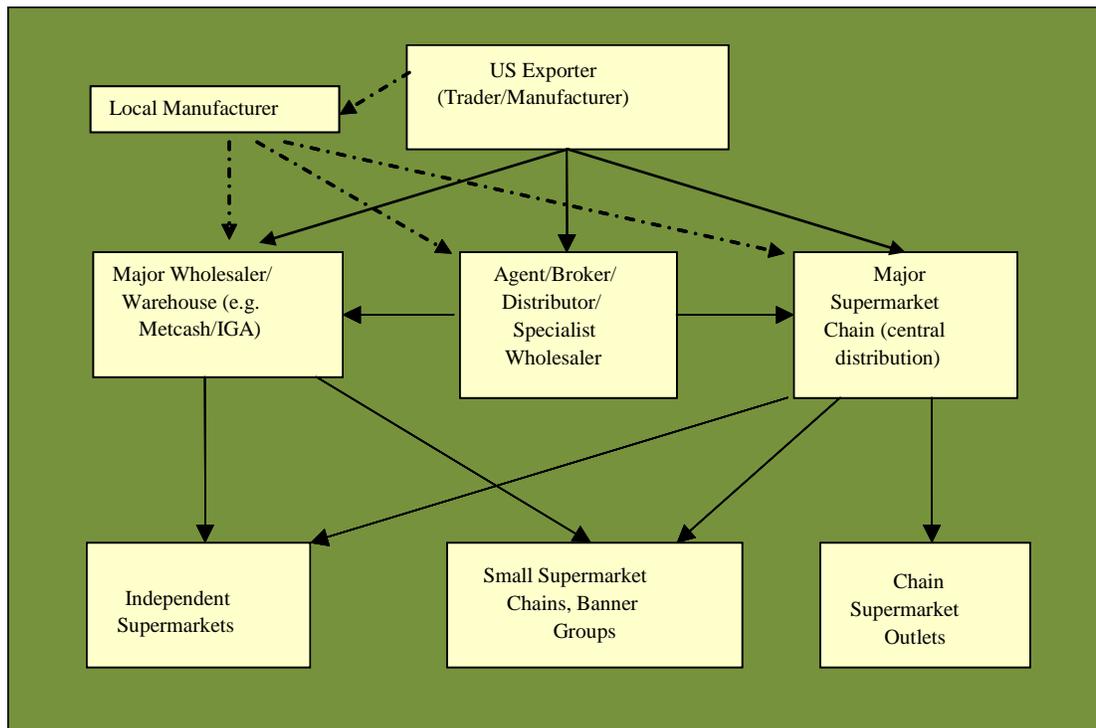
Comparative Advantage of U.S. Products

- The U.S. is the second largest supplier (behind New Zealand) of imported consumer ready foodstuffs to the Australian market, holding a 12% share in 2011, valued at over \$931 million.
- The U.S./Australia Free Trade Agreement, signed in 2005 means that U.S. products 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 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 value for money in this market and the U.S. is the number two supplier (after New Zealand) of imported 'consumer oriented' food products.
- 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, Campbells, Kelloggs, and Coca-Cola, 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 often 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

- There are two main distribution channels to major supermarket and smaller supermarket chains: distribution centers and wholesalers.
- 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 supermarkets 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.

Movement of U.S. Exports through to the Retailer



Source: Various industry publications, websites & local knowledge

Best High Value Product Prospects

- The **organic, healthy and natural products** market in Australia is growing 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. Examples of this are the **nutritious snacks** category which experienced an overall 8.8% rise in value in 2011 following a 5.8% rise in 2010. The 'adult' segment of this category experienced a value change of almost 22% in 2011 after a 16% rise in 2010. The rice & grain cakes segment of the biscuits category also continues to experience good growth with a rise of almost 8% in value in 2011 following a 5.4% rise in 2010.
- **Gluten free** foodstuffs continue to grow in popularity. In 2011 this segment rose by over 85% in both grocery value & volume in the frozen food category alone. The value of frozen gluten free segment is \$24 million.
- **The iced tea** segment of the beverages category continues to perform well, with overall growth by grocery value of 21% in 2011 after similar rises in 2009 & 2010 (28% & 14% respectively).
- **The energy drinks** segment also remains one of the best performing in the cold beverage category with value growth of over 24% in 2011 and 20% 2010. This segment is valued at \$280 million.
- The **mineral water** category grew by over 14% in 2010 and 6% in 2011 with the non-flavored segment showing the largest growth in 2011 (10%).
- In hot beverages, **roast pure coffee** was by far the best performer in 2011 with a rise in grocery value of 16%. Overall the **hot tea** segment was relatively stable except in the non-mainstream, flavored/health & premium categories, which grew by over 9.5% each.
- The value of the **spices** segment of the herbs & spices category grew by just over 8% in 2011 following growth of almost 11% in 2010. This segment is now valued at \$70 million overall.

- Elsewhere in the condiments category **'wet' recipe bases (sauces/marinades)** grew by 14% in value in 2011 after almost 23% growth in 2010. This segment is now valued at \$30 million.

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 Australian Quarantine & Inspection Service import conditions (ICON) database to identify whether your product is prohibited entry to Australia - http://www.aqis.gov.au/icon32/asp/ex_querycontent.asp
- 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. It 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 & Grocery Council

Email: info@afgc.org.au

Web: www.afgc.org.au

Food and Beverage Importers Association

Email: admin@fbia.org.au

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

The Association of Sales & 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 & 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. actually exhibit at the show themselves and those not exhibiting attend. 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 in September each year, alternating between the cities of Melbourne & 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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