

Analysis of food products

Freshlogic

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Introduction

Objective

- This document has been prepared by Freshlogic for Coles.
- It provides the following:
 - An analysis of the share of retail sales prices available to primary producers, processors and the retailer on products sourced and sold by Coles
 - A profile of average retail selling prices over time – in some cases compared to average buying prices to illustrate the consistency of the relationships between those prices
 - Coles share of sales of produce taking account of the total volumes available within the Australian market. Where applicable, this takes account of product exported as well as imported volumes.

Sources of information

- The information used in this document has been derived from several sources:
 - Industry information and data on yields from fresh produce sectors for these products.
 - Information from wholesalers and producers as to costs incurred in the early stages of fresh produce supply chains.
 - Wholesale markets information on indicative selling prices in the vegetable category
 - Freshlogic's *THRUChain* analysis model to determine Coles share of sales of food categories
 - Coles internal retail sales and category data

Analysis

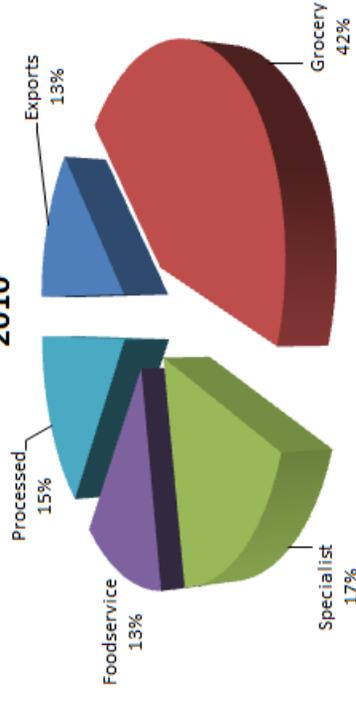
- The estimates of total available product is each category is based on Freshlogic's *THRUChain* model which reconciles total supply chain supply and distribution across all agrifood categories and major product groups.
- This is based on average data on production, exports and imports for the 5 years to 2010, as well as assumptions as to the volumes of sales for each category into the retail market.
- Coles share of grocery sales varies by category and as the following examples illustrate take into account the total available supplies of fresh produce sold in domestic and export markets by Australian producers but exclude volumes of produce sold for processing uses.
- Coles volumes of sales includes the estimated allowances for losses through product handling.

Grocers' share of fruit and vegetable sales

Key points

- With fruit and vegetables, different shares apply at a category level, especially where significant volumes of produce is exported in fresh form, and/or ins used in processing.
- Retail Grocery sells less than half of all fresh fruit and less than one third of all fresh vegetables produced in Australia.
- Food processing and food service (e.g. restaurants and fast food chains) are important buyers of fresh fruit and vegetables in Australia.
- Exports are an important market for fresh fruit and vegetable growers.

Markets for fruit - average over 5 years to 2010



Markets for vegetables - average over 5 years to 2010



Cost and pricing in the supply chain

Key Points

- Substantial costs exist above farm gate in a long and complex supply chain involving many players, including packers, distributors, market agents, storage and retailers.
- The final retail price includes the cost of goods through the entire supply chain and the cost of doing business in a national retail supermarket network operating on high volumes and low profit margins.

Farm Gate Pricing & Beyond

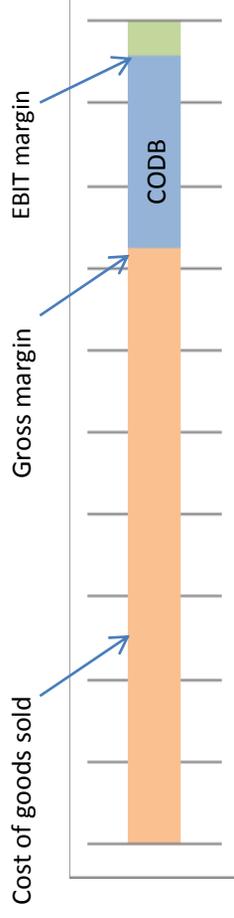


Farm Gate prices vary by produce & across growing seasons and regions. Prices are largely determined by supply and demand, usually on a daily basis, but also impacted by climatic events & conditions as well as export markets

Beyond Farm prices include the cost of aggregation, distribution, packaging and changing hands between market agents, wholesalers, distribution to retail and the CODB at retail level

Coles EBIT margin after COGS AND CODB

Retail margins in each category vary, as they reflect individual product gross margins, cool chain and wastage costs as well as direct product and store costs related to the Cost Of Doing Business



Bananas

Share of the retail price

- The banana producer earned nearly half of the average retail price in the 2011 financial year.
- The 2010 share of retail price has also been provided due to the large increase in prices as a result of supply shortages following the destruction of a large portion of the Far North Queensland crop by Cyclone **Yasi** in early 2011
- Costs incurred between banana grower and wholesaler include ripening and transport

Average prices over time

- The chart of average prices over time covers the 2010 and 2011 calendar years due to the spike in prices in the second half of the 2011 financial year

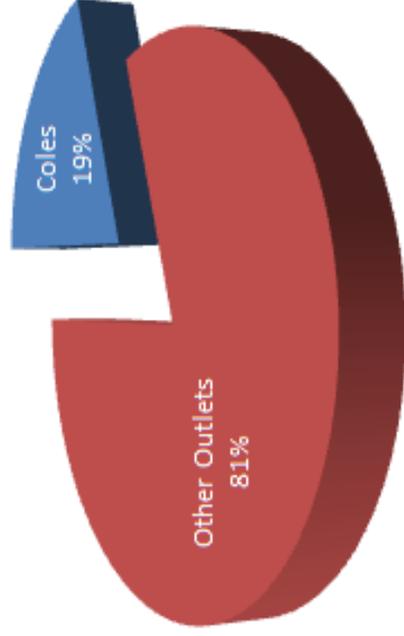
Bananas - share of the retail price in FY 2011



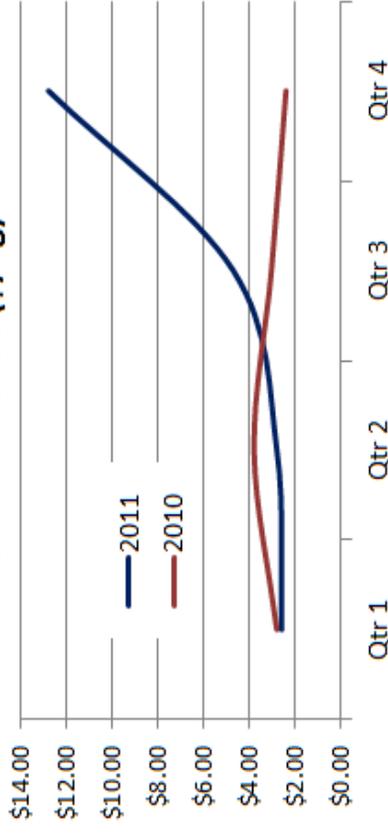
Bananas - share of the retail price in FY 2010



Share of banana sales



Bananas - average selling price by quarter
FY 2010 and 2011 (\$/kg)



Granny Smith Apples

Share of the retail price

- The growers of Granny Smith Apples earned on average over half of the average retail price in the 2011 financial year.
- Apples are a seasonal crop and store well under controlled atmosphere conditions. Packers incur significant storage costs in retaining fresh fruit for consumer availability all year round.
- Logistics between producer and wholesaler include packaging and transport .

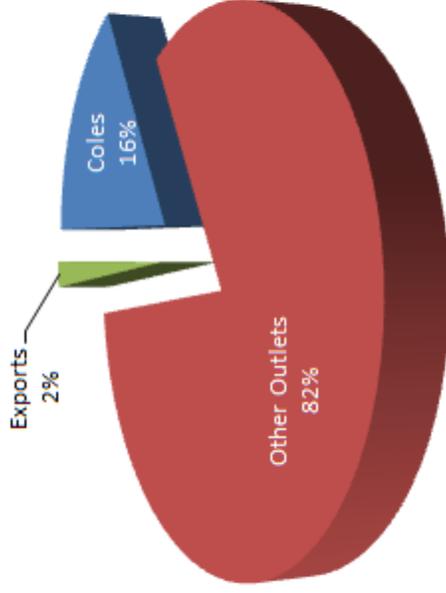
Average prices over time

- The chart of average prices over time covers the 2011 and 2010 financial years.

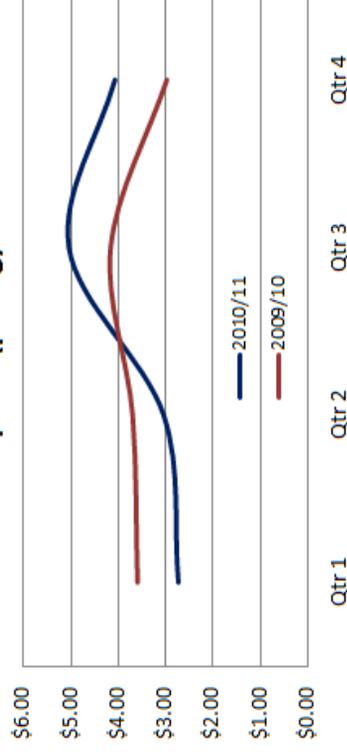
Apples - share of the retail price in FY 2011



Share of apple sales



Granny Smith Apples - average selling price (per kg)



Kensington Mango

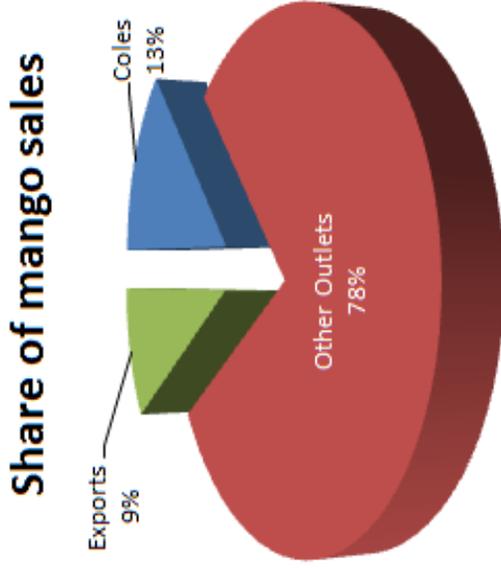
Share of the retail price

- The Kensington mango producer earned nearly two thirds of the average retail price in the 2011 financial year.
- Logistics between producer and wholesaler include ripening and transport

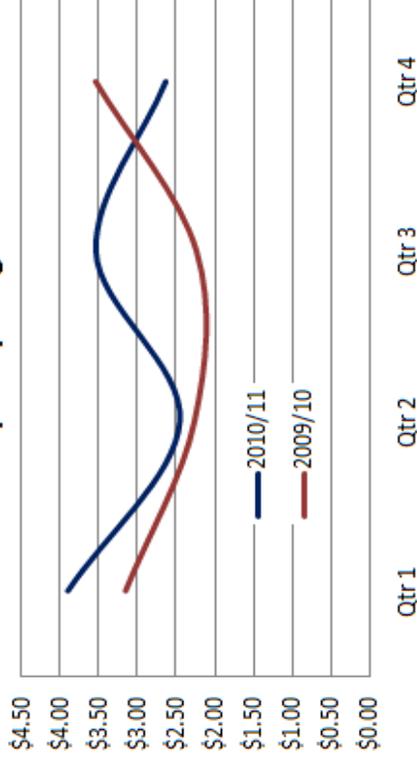
Average prices over time

- The chart of average prices over time covers the comparison of FY 2011 and 2010 selling prices

Kensington Mango - share of the retail price in FY 2011



Kensington mangoes - average selling price per kg



Strawberries

Share of the retail price

- The strawberry producer earned an average two thirds of the average retail price in the 2011 financial year.
- Logistics between producer and wholesaler include packaging and transport

Average prices over time

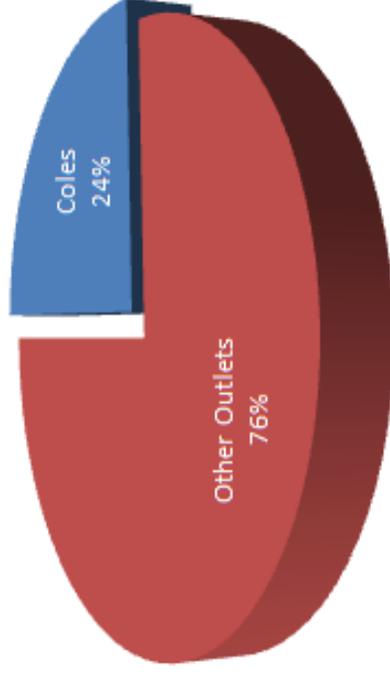
- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year

Strawberries - share of the retail price in FY 2011

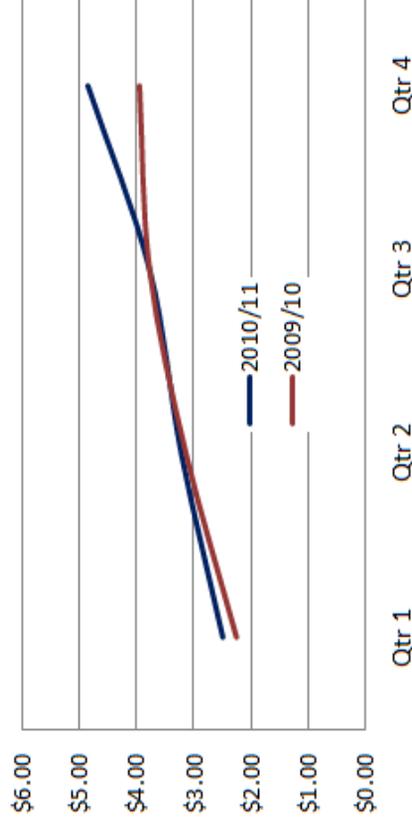
Farmgate

Beyond farm

Share of strawberry sales



Strawberries - average selling price per kg



Haas Avocado

Share of the retail price

- The avocado producer earned an average nearly half the average retail price in the 2011 financial year.

Assumptions

- Retail costs include product handling and direct labour in retail stores
- Logistics between producer and wholesaler include packing, ripening and transport . Costs incurred per-tray have been converted back to a per-item basis.

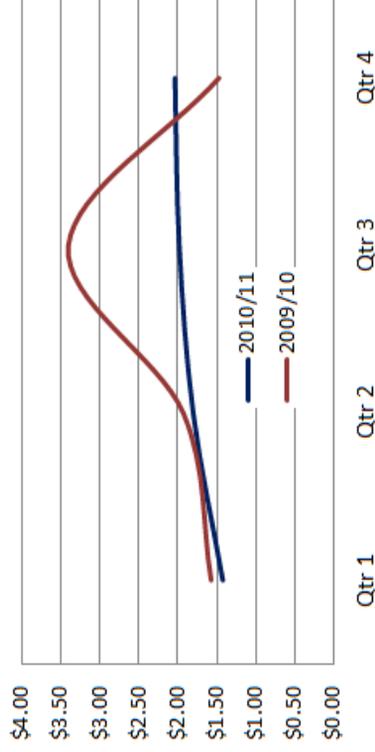
Average prices over time

- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year
- Refer to the spike in prices in the 2010 financial year.

Share of available volumes

- Coles sold about 18% of avocados available in the Australian market in 2010/11, which takes into account a small volume of exports, as well as fresh imported product, which accounted for a fifth of available product in the Australian market.

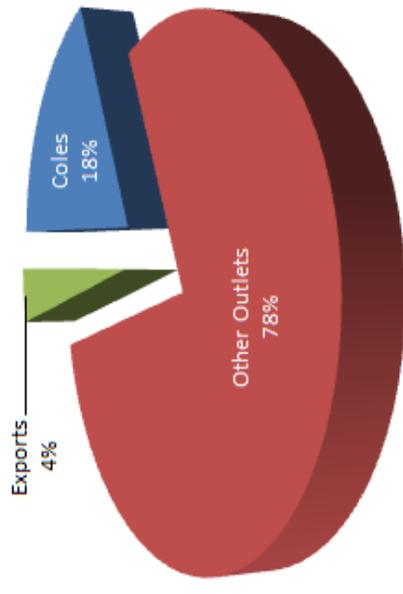
Avocados - average selling price per kg



Haas avocado - share of the retail price in FY 2011



Share of avocado sales



Broccoli

Share of the retail price

- The broccoli producer earned an average of nearly half the average retail price in the 2011 financial year.
- Costs between producer and wholesaler include packaging (which is higher due to the chilled packaging requirement) and transport

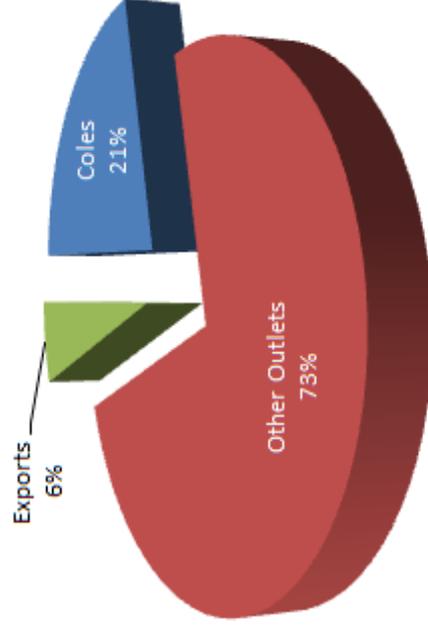
Average prices over time

- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year.

Share of available volumes

- Coles sold about 21% of broccoli volumes in the Australian market in 2010/11, which takes account of a small volume of fresh exports.
- These volumes exclude broccoli used in food processing.

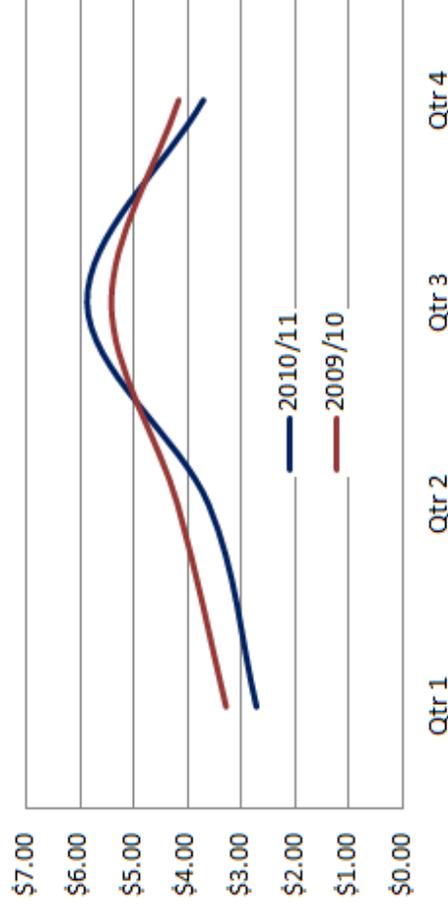
Share of broccoli sales



Broccoli - share of the retail price in FY 2011



Broccoli - average selling price per kg



Field Gourmet Tomatoes

Share of the retail price

- The tomato producer earned an average over half the average retail price in the 2011 financial year.
- Logistics between producer and wholesaler include ripening and transport

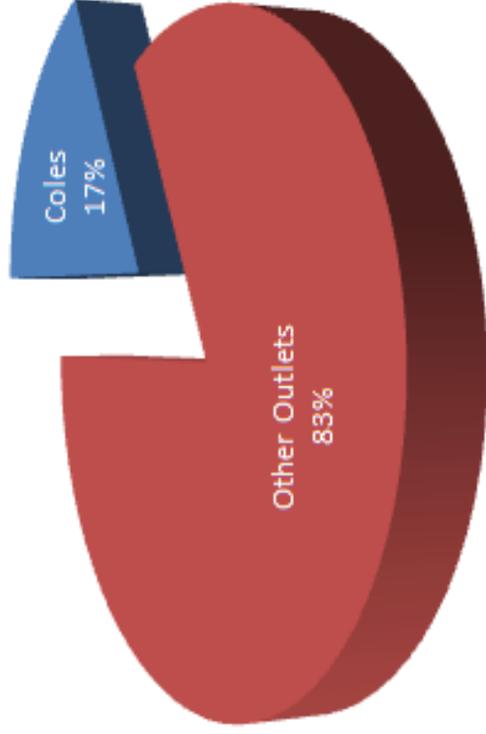
Average prices over time

- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year

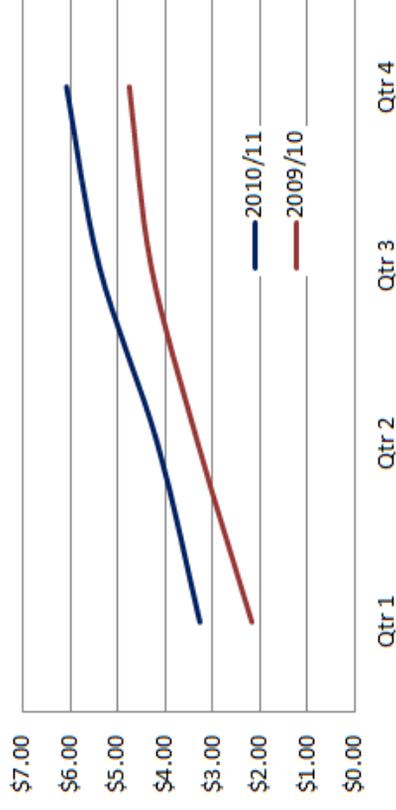
Field Gourmet Tomatoes - Share of the retail price in FY 2011



Share of tomato sales



Tomatoes - average selling price per kg



Pre-packed Carrots

Share of the retail price

- The carrot producer earned an average nearly half the average retail price in the 2011 financial year.
- Logistics between producer and wholesaler include packaging and transport

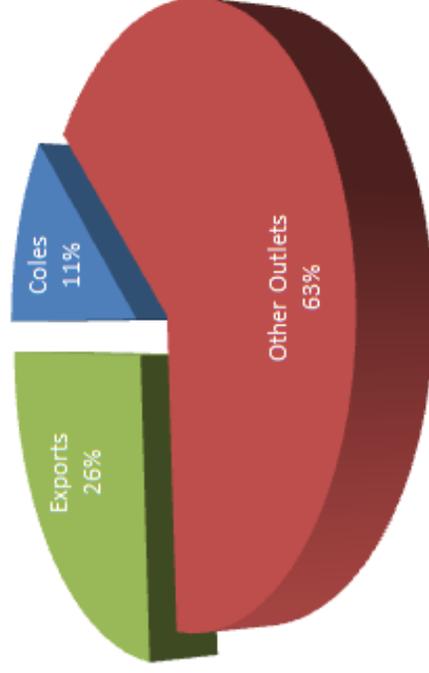
Average prices over time

- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year

Share of available volumes

- Coles sold about 11% of fresh carrots available in the Australian market in 2010/11, which takes account of the large portion of production which is exported.
- These volumes exclude carrots used in food processing.

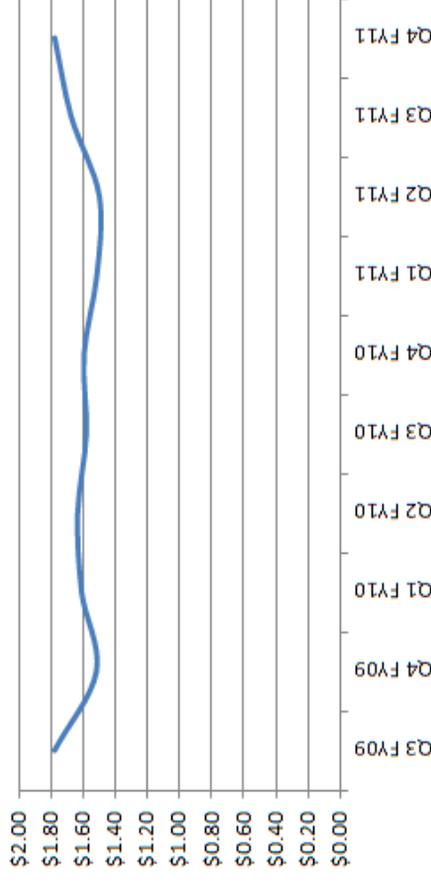
Share of carrot sales



Pre-packed carrots - share of the retail price in FY 2011



Prepack Carrots - average selling price per kg



Mushrooms

Share of the retail price

- The mushroom producer earned an average nearly two thirds of the average retail price in the 2011 financial year.
- Logistics between producer and wholesaler include packaging and transport

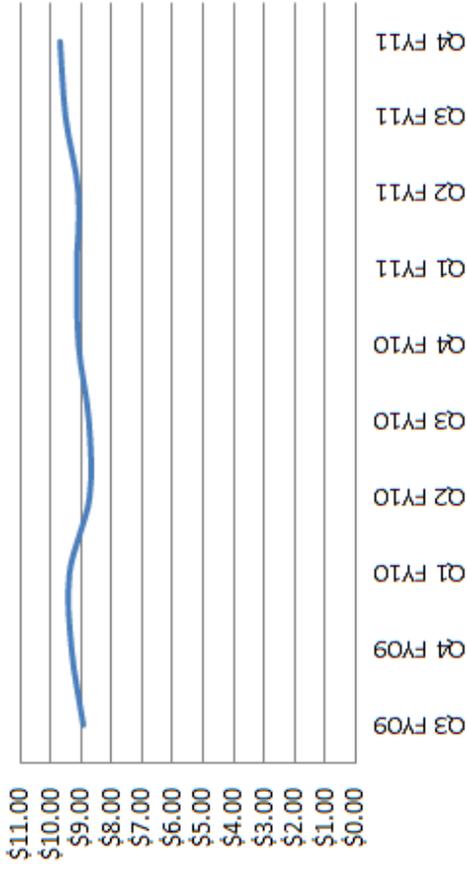
Average prices over time

- The chart of average prices over time covers the 10 quarters to the end of the 4th quarter of the 2011 financial year.

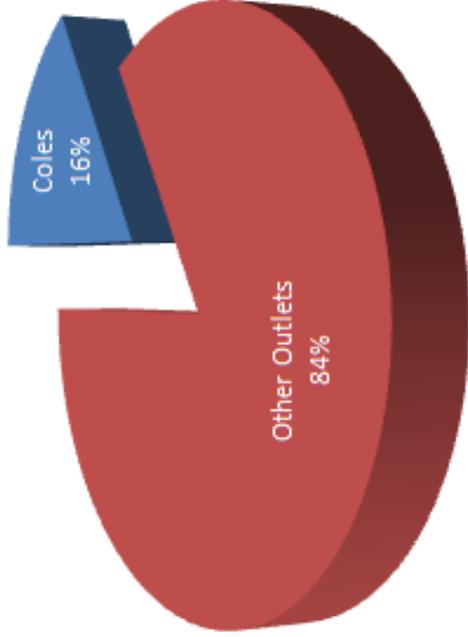
Mushroom cups - share of the retail price in FY 2011



Mushrooms - average selling price per kg



Share of mushroom sales



Market share within defined categories of key vendors

"The domination of Coles and Woolworths in the Australian market...."

- AFGC submission to the Senate Inquiry

"Where ombudsmen work is where you have got a power imbalance and you want to make that a little bit more even."

- Mrs Kate Carnell, Chief Executive, AFGC

AFGC Members market share in defined categories

