Senate Select Committee on Australia's Food Processing Sector
13 December 2011

Australian Food and Grocery Council
Core to the well-being of all Australians
($500 million a year on R&D)
Leading Innovator
($25 billion in 2008-09)
Major Exporter of Value-Added Products
312,000 people, half in rural areas - 14.7% of all wages
Largest Manufacturing Employer in Australia
(eighth largest industry)
26% of manufacturing sector - $108 billion turnover
Largest Manufacturing Sector in Australia

Australiain economy

The food and grocery industry plays an essential role in the

THE FACTS

Australian Food and Grocery Council
Figure 1: Comparable Industry Turnover (A $billion, 2008-09)
This is well below the average annual rate of real GDP growth during the same annual rate of 2.1% between 2005 and 2009.

For the food and grocery sector, real Industry turnover has grown at an average per annum period (4.5 percent per annum) and is tracking to population growth of 1.9 percent.
Retailers Products
Retail Channel and the Food Service Channel and Total Spend on Pharmaceuticals, Cosmetics and
Source: Australian Bureau of Statistics, Catalogue Number B5314. Total Spend on Food through the

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<thead>
<tr>
<th>Year on Year Growth</th>
<th>2008-09</th>
<th>2006-07</th>
<th>2005-06</th>
<th>2004-05</th>
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<tr>
<td>Total Spend</td>
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Figure 6: Food and Grocery Retailing and Manufacturing in Australia

Manufacturing turnover growth.

Annual growth over the same period significantly higher than food and grocery

Retail demand for food and grocery items has increased at 3.8 percent per

Australiana Food and Grocery Council
$ million (Free-On-Board, 2004-2010)

Australia's Food and Grocery Net Trade Balance
Electricity and Water Price Index Relative to Overall CPI

Electricity and Water Price Index Relative to Overall CPI (per cent differential)
Global Food and Beverage Price Index (Base Year, 2000 = 100)
In the world.

The top three retailers in Australia comprised 92.4% of total supermarket sales, accounting for 50-70% of total food and grocery industry sales.

Major supermarkets are the predominant channel of choice for Australian consumers.
Figure 29: Private label share of supermarket sales in Australia

By Product: 2010
- Eggs: 82%
- Fresh fruit: 80%
- Cheese: 78%
- Dairy products: 76%
- Processed meat: 29%
- Packaged foods: 26%
- Bread: 20%

By Year: 2003-2010
- 2010: 16%
- 2006: 18%
- 2005: 23%
- 2004: 26%
- 2003: 31%

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

Private label growth

Australian Food and Grocery Council
Relationship between Private Label Penetration and Market Concentration

Australia

New Zealand

Correlation = 0.88
Pl Share = 0.49 x + 0.04

Various Years, 2009-2011

Top Three Retailers (%)
Supermarket Channel Market Share

Private Label Share of Industry Sales (%)
More lucrative than a fresh food item, a grocery line would need to do 50% higher stock turn to be.
The retailers focus on $$$ earnings growth.

Estimated Gross Margin

Source: Company Reports, Citi Investment Research and Analysis.
Support Industry to become more energy efficient
- Removing unnecessary duplication and complexity in environmental reporting.
- Eliminate unnecessary duplication and complexity in environmental reporting.
- Having a greater focus on water and food safety and security.

Strategic Options for Government

A NATIONAL FOOD AND GROCERY AGENDA

Australian Food and Grocery Council
Challenges and Opportunities

- Improving resource efficiencies and increasing productivity
- Developing more sustainable and efficient supply chains
- Process, investment in innovation, for branded manufacturers – scale in more complex manufacturing
- For local manufacturers – efficiency, scale & asset utilisation

Strategic Options

- Cost Positioning
- Leading Manufacturing

Market Channels

-创新 in alternative points of sale, e.g., vending machines
- and direct
- Innovative channels to market including on-line retailing, food service
- Employing a multi-channel strategy, investing in developing new and exciting new technologies to better understand consumer behaviour

The Consumer

- Group and the healthy, fresh convenience categories
- Expanding into wider consumer demographics such as the 55+ age
- Investing in communications to build stronger brand connections with consumers
- By focusing on relentless innovation & marketing
- Demonstrating the value of Tier 1 products vs. private label brands

Australia

- Consumer (awareness, relevance, authenticity) – e.g., Buy

Strategic Options

- Leading Manufacturing
- Cost Positioning