MARKET SNAPSHOT | **BEEF**

# Australia

Australian consumers are increasingly cautious and price-sensitive. Disposable income has not kept pace with inflation, with wage growth stagnating. Growth in food sales, including in the meat category, is largely driven by population growth and price inflation.

Beef consumption in Australia is facing some challenges and opportunities:

- Australians remain the second-largest consumers of meat per capita, and the sixth-largest consumers of beef in the world *(Source: OECD)*.
- Changing demography – including increased migrations from Asian countries where pork is the dominant protein, and an aging population who are avoiding red meat for health/functional/price reasons.
- Increased competition from pork (marketing activity) and chicken (price pressure) will continue to challenge beef.
- Social factors such as increased consumer consciousness of environmental impact, animal welfare, health concerns, and increased demand for food integrity provide opportunities to consider in red meat messaging.
- Beef value share remains steady as prices increase. Maintaining value share, and limiting decline in volume, remain a challenge.

## Population

**24.3** in 2016

**25.6** in 2020

In million

*Source: BMI Research, 2016 estimate & 2020 projection*

## Households earning

US$15000+ p.a.

**10.3** in 2016 | **11.1** in 2020

US$35000+ p.a.

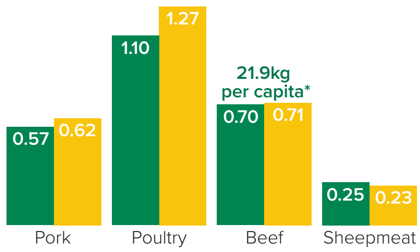
**9.1** in 2016 | **9.8** in 2020

In million households

*Source: BMI Research, 2016 estimate & 2020 projection*

## Meat consumption

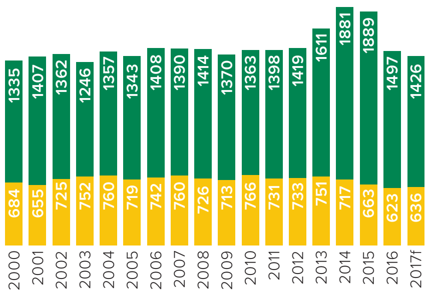
**92.7kg** per capita* total meat protein**




● 2016 ● 2020 In million tonnes cwt

*Source: BMI Research, GIRA, 2016 estimate and 2020 projection*
** 2016e per person per year* *** excluding fish/seafood*

## Domestic utilisation (share of produced volume)

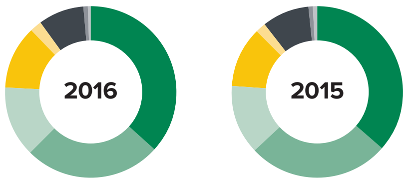



● Domestic Consumption ● Exports

'000 tonnes cwt

*Source: ABS, MLA forecast* *f = forecast*

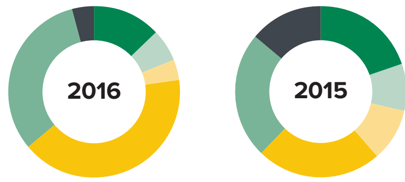
## Retail fresh meat value share




| 2016 | 2015 |
|---|---|
| Beef – **36.7%** | Beef – **36.5%** |
| Chicken – **26.0%** | Chicken – **26.6%** |
| Lamb – **13.4%** | Lamb – **13.2%** |
| Pork – **11.9%** | Pork – **11.3%** |
| Other – **2.1%** | Other – **2.1%** |
| Seafood – **8.6%** | Seafood – **8.8%** |
| Turkey – **0.9%** | Turkey – **0.9%** |
| Veal – **0.4%** | Veal – **0.6%** |

*Source: Nielsen HomeScan MAT to 3/12/2016 vs. year ago*

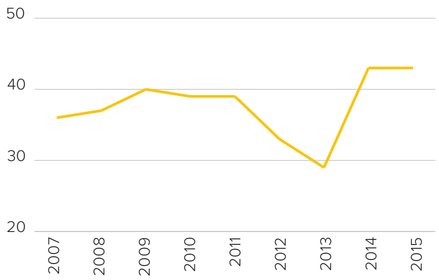
## Share of voice advertising spend




| 2016 | 2015 |
|---|---|
| Beef – **13%** | Beef – **20%** |
| Lamb – **6%** | Lamb – **9%** |
| Beef/Lamb – **4%** | Beef/Lamb – **10%** |
| Pork – **41%** | Pork – **24%** |
| Poultry – **32%** | Poultry – **24%** |
| Seafood – **4%** | Seafood – **14%** |

*Source: Nielsen AIS Dec 2014 – Nov 2016, via Universal McCann*

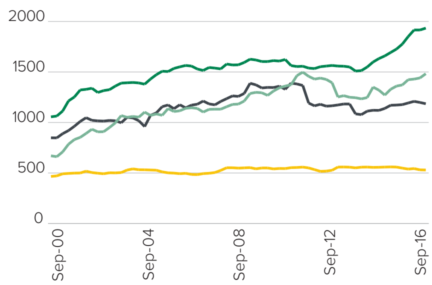
## Price Sensitivity in Australia (all categories)




%

*Source: KANTAR Millward Brown BrandZ 2007-2015*

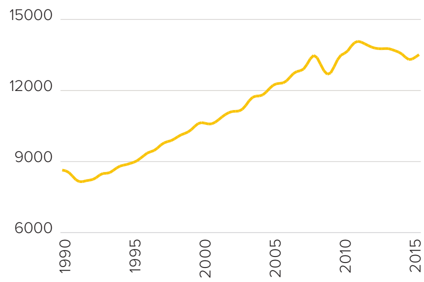
## Australian retail meat price




● Beef ● Lamb ● Chicken ● Pork

*Source: ABARES/ABS*

## Per Capita Disposable Income




Per capita

*Source: ABS*



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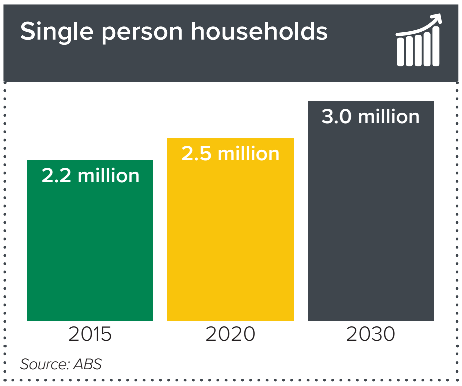
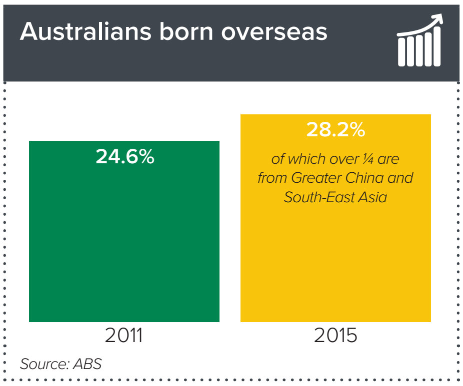
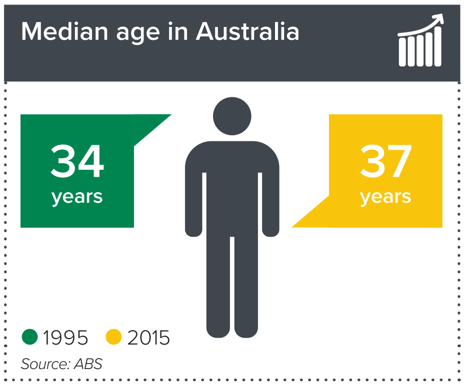



# Consumers

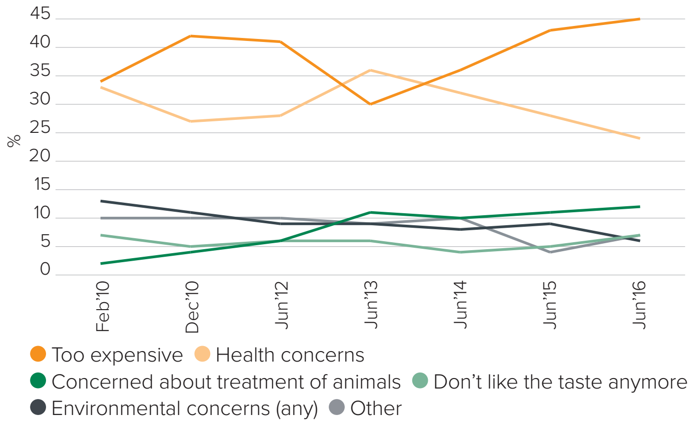
- Consumer demand for beef is affected by many factors, such as demographic change, and changes in attitudes and beliefs towards food from family, friends, and the media.
- Consumers are increasingly challenged to cut back on sugar, and eat more natural, fresh and unprocessed foods *(Source: IPSOS Food CHATS 2016)*. Consumers claim to want to see more food products that are "All natural" *(Source: Nielsen – Eliminating the Unnatural 2016)*. "All natural" product claims doubled between 2009 and 2014 *(Source: Mintel, quoted in Australian Food News October 2014)*.
- Regarding animal products, 60% of consumers claim they want to avoid antibiotics/hormones – the number one ranked concern *(Source: Nielsen, ibid)*.
- MLA research has shown that, when consumers are choosing meat, the attributes most closely associated with frequent consumption are that it is a **"family favourite"** and that it is **"easy and convenient to prepare"**.
- When consumers are shopping for beef, the key information they look for on pack relates to **freshness** and **price**.

| What things do consumers look for on pack/on shelf when buying beef? | What are attributes that are important for Australian consumers? (all protein) | What key strengths does beef have? |
|---|---|---|
| Colour of meat | Is my/my family's favourite meat | Is the most superior meat |
| Price per kg | Is easy and convenient to prepare | Is an essential part of a healthy diet for growing children |
| Date packed | Is the most superior meat | Can be used in many different meals |
| Freshness | Tastes delicious | Consistent quality standards |
| Use by date | Consistent quality standards | Tastes delicious |

*Source: MLA Global Consumer Tracker, 2016*

- There's no doubt that price is a key barrier for Australians when considering beef, especially when compared to chicken However, beef is seen as being more expensive than it actually is *(Source: MLA Domestic Consumer Tracker 2016)*.

### Main reason for eating less red meat



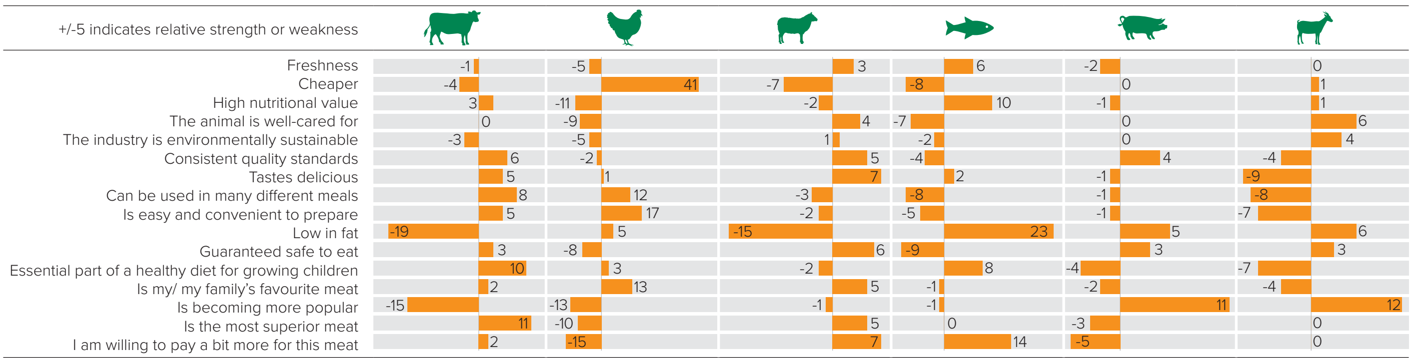

*Source: MLA/Pollinate annual tracker 2010-2016*

- If the price barrier can be overcome, beef remains a very popular meat choice that has pride of place in Australian hearts and minds. While some concerns are on the rise, consumers generally feel very positive about the beef industry.
- However, social trends indicate an increasingly challenging future for beef in Australia.

**Vegetarianism**

- Vegetarianism is reportedly on the rise, with Roy Morgan reporting in August 2016 that 11.2% of the population reported as vegetarian, up from 9.7% in 2012. However, the definition was somewhat flexible, with the actual claim being "The food I eat is all, or almost all, vegetarian" – a group more closely aligned to the term 'flexitarian'.
  – MLA/Pollinate research suggested the number of pure vegetarians is closer to 7%.
  – 13% of current meat eaters claim to have been a vegetarian at some stage in the past.
  – There is some interest in meat substitutes but the market remains small.

### Protein Image Profiles



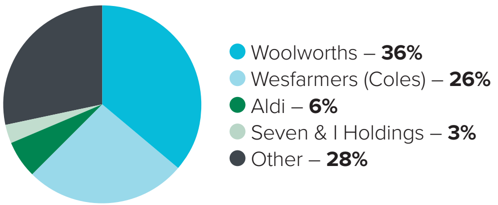

*Source: MLA Global Consumer Tracker, 2016*

# Retail

- The grocery retail industry is robust, with turnover totalling $123 billion in 2016, forecast to rise 5.7% in 2017 *(Source: IGD).*
- Food and beverages comprise the majority of grocery sales, however the trend is towards lower growth, with non-food retail sales growth outperforming food sales for the first time in 10 years *(Source: Citi Research "Looking across the supermarket horizon" October 2016).*
- With the average grocery basket value worth $45, a basket with fresh meat/seafood jumps up to around $80 *(Source: Nielsen HomeScan).*
- Shopper research suggests fresh meat is a "Hero" category for supermarkets – a driver of both traffic to store, and extra spend when in store, and also acting as a 'price beacon' category by which shoppers generally judge the level of value provided by a retailer *(Source: Shopper Tracker 2016).*
- Supermarkets are also increasing their ready-to-eat meal range, targeting shoppers looking for a convenient meal option that might otherwise come from foodservice.

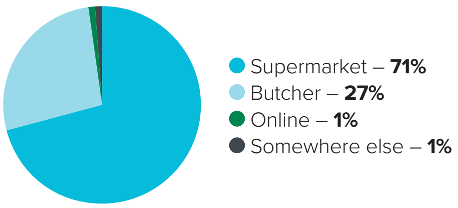
### Grocery retail market shares

Major organised retailers – 2016




*Source: IGD*

### Where do consumers typically purchase beef from?




*Source: MLA Global Consumer Tracker, 2016*

### Chicken Wars

In 2016 Coles and Woolworths played out a very visible price war on takeaway hot roast chicken, reminiscent of a similar price war on milk. A Roy Morgan study* showed this was impacting not just supermarket visitation but also fast-food chicken outlet sales. This is an example of the competition for a share of the convenience economy which is likely to escalate – look for convenience stores to increasingly challenge the ready-meal market.

To capture share back for red meat Woolworths rolled out a trial of hot ready-to-eat beef meals.

** Quoted in press release Oct 27 2016*

### Mini-resurgence of independent retail

The independent meat retail sector has seen a modest resurgence, with 23% of butchers surveyed in 2015-16 saying their business is "Thriving" – up from 21% in 2014-15 *(Source: MLA NFS telephone survey).*

### Place of fresh-meat purchase by average weekly customer spend and market share

| Place of purchase | Average customer spend | Value market share ($) |
|---|---|---|
| Butcher | $37 | 23.5% |
| Market/Delicatessen/ Other | $34 | 9.4% |
| Woolworths/Safeway | $27 | 26.4% |
| Coles | $25 | 23.2% |
| ALDI | $22 | 7.6% |
| IGA | $22 | 5.4% |

*Source: Roy Morgan Jan-Dec 2015, quoted in press release Feb 2016*

### The changing face of food retail

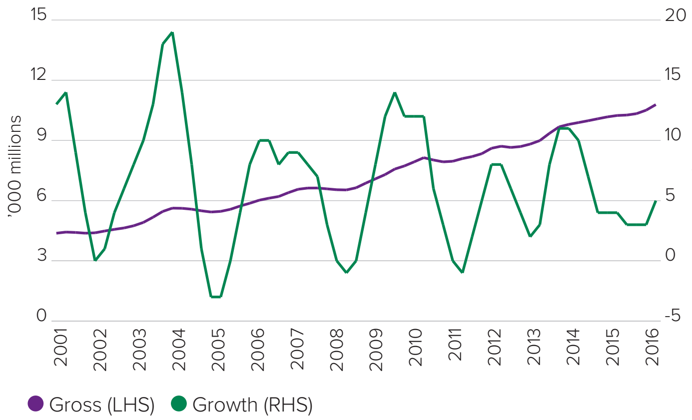
- The retail sector is progressively adopting disruptive technology. The major retailers are building online sales, with Coles reporting a 25% increase YOY *(Source: IGD 2016).*
- Fresh Logic forecast that online sales of Australian food & grocery may lift from 3.8% share of the Australian grocery market currently to 7-8% similar to current levels in the UK & US markets *(Source: FreshLogic.com.au).*
- Non-traditional grocery chains (e.g. Google, Amazon, Uber) may be looking to bring new online grocery shopping solutions to Australians in 2017.

### Key things to know about major grocery retailers

- Competition remains aggressive at grocery, especially at the discount end with all retailers engaging in visible price wars, particularly within staple categories. These are set to escalate, with speculation that other discount retailers (e.g. Lidl) may launch in the near future.
- **Woolworths:** Food, liquor and petrol sales were down – 1.7% YOY in FY2016 *(Source: IGD).* Woolworths has been opening new shopfronts, offset by the gradual closure of Thomas Dux outlets. In FY17 they will slow down new store openings to focus on 80+ store refreshes *(Source: IGD)*, potentially including the butcher counters being trialled in some stores now. Citi Research estimate that successful refurbishments can add roughly 1.0% to like-for-like sales growth.
- **Coles:** Food & liquor sales were up +5.1% YOY in FY2016 *(Source: IGD).* Coles are continuing with an Every Day Low Price *(Source: EDLP)* strategy – by the end of June, Coles had increased the number of SKU's at 'Every Day' prices to 3,100, up from 2,000 at the start of 2016 *(Source: IGD).*
- **IGA (Metcash):** Experiencing low growth with food & grocery sales up 0.5% YOY *(Source: IGD).*
- **Aldi:** Rapid expansion, as Aldi has opened 36 stores in 2016 (to October), and is forecast to operate 590 stores nationwide by 2021 *(Source: IGD).* +13.3% sales YOY in 2015 *(Source: IGD).* Aldi has the highest level of customer satisfaction of any supermarket, according to Roy Morgan (Jan-Dec 2015).
- **Costco:** Continue to announce record sales – +50.6% revenue YOY in FY2015 *(Source: IGD).* Costco are set to launch a new Sydney store in 2017 and Melbourne store in 2018. The focus is on high quality meat products, often sold in bulk.

# Foodservice

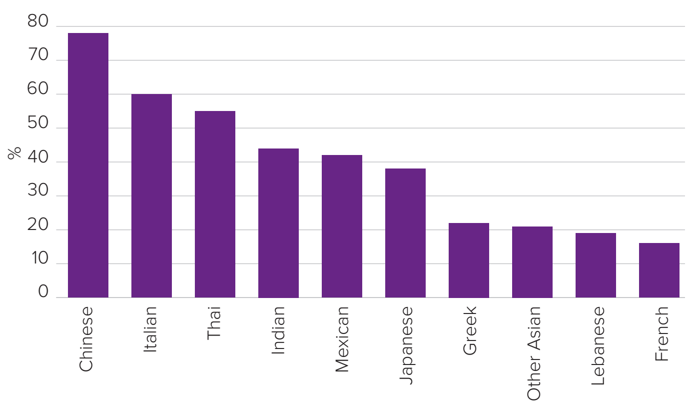
### Quarterly turnover in millions & Growth Quarter vs Quarter YA
Cafes, restaurants & takeaways




*Source: ABS. Represents approx.. 75% of the foodservice industry*

- The Australian foodservice sector is large, and competitive, with over 85,000 places to eat out, dominated by Quick Service Restaurants (QSR), cafes, and casual dining restaurants.
- Australians eat out an average of two to three times a week, spending $45 billion per annum (nearly $100 per household per week) *(Source: Intermedia – Eating Out in Australia, quoted in press release Nov 2016).*
- The foodservice channel is highly fragmented, with many individual companies having small market share. Exceptions include QSRs and institutional channels such as hospitals and aged care.
- Shifting consumer attitudes and behaviour drive innovation and evolution from foodservice providers and these are responsible for some of the volatility seen in the market. Foodservice growth is also impacted by tourism and therefore by international market dynamics, and by the fluctuating Australian dollar.
- The eating out behaviour of Australian consumers over recent years has seen slower rates of growth, and this is set to continue, with only 17% of Australians saying they are eating out more now than they were a year ago – with 36% saying less and only 11% say they are intending to eat out more in future *(Source: MLA Domestic Consumer Tracker 2016).*

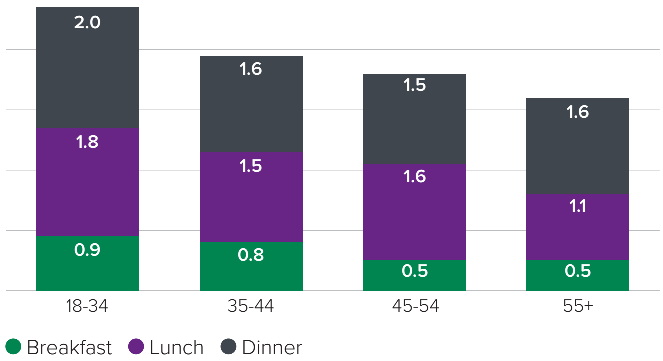
### Favourite international cuisine types




*Source: Roy Morgan Jan-Dec 2015, quoted in press release May 2016*

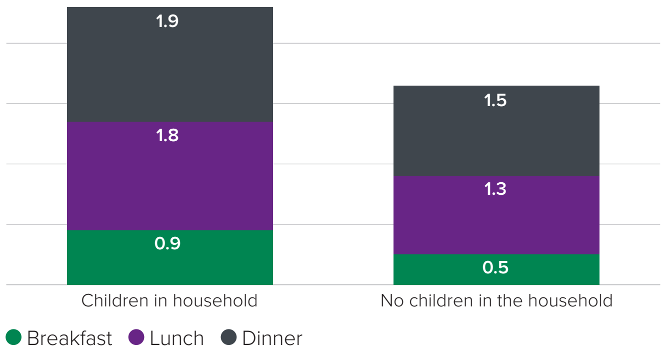
**A trend to watch for 2017: tech-driven food delivery by aggregators such as Deliveroo, Foodora, MenuLog and UberEats**

### Average number of meals out of home per week by age




*Source: MLA Domestic Consumer Tracker 2016*

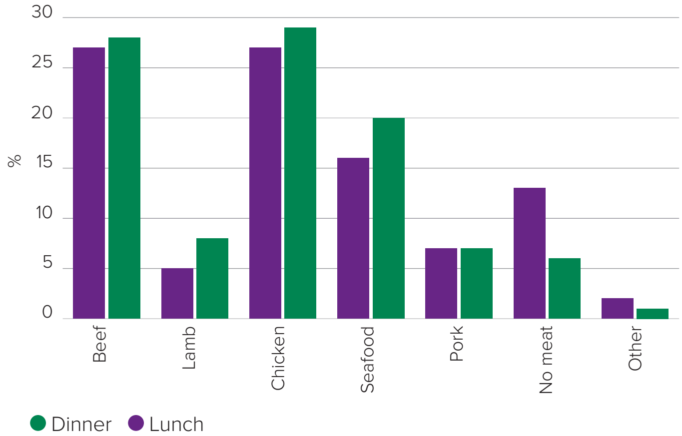
### Average number of meals out of home per week by household composition




*Source: MLA Domestic Consumer Tracker 2016*

- There are many factors that contribute to the choice to eat out or not, mostly occasion-based i.e. where and when the meal takes place, and with whom. Having children in the household indicates a higher level of eating out, as well as influencing choice of venue and choice of meal. When it comes to where to go, convenience, value and familiarity are key, which partly explains the rise of QSRs, supermarket meals-to-go, and other casual dining options.
- Other foodservice trends to watch are menu customisation (for example, McDonalds' "Create Your Taste") and increased demand for integrity (e.g. Guzman Y Gomez' switch to 100% free range chicken). Authentic eating and personalisation are amongst the "Top 10 Global Consumer Trends for 2017", according to Euromonitor International.

### Meats eaten when dining out – lunch and dinner




*Source: MLA Global Consumer Tracker, 2016*