

Final Report

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Final Report – Review of Domestic Delicatessens to Identify Demand Opportunities for Red Meat

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1 Executive Summary

To date, Meat & Livestock Australia (MLA) have predominantly focused on fresh meat innovations and promotional activity to grow red meat demand. However as consumers, brand owners and merchandisers begin to seek out new usages and occasions for red meat, opportunities exist to meet these new consumer needs and improve the presence of red meat in the deli space.

A range of factors including consumer behaviour, general global food trends and product market volume and growth show there are opportunities for red meat to increase market share. Consumers are spending more on premium products, there is increased demand for convenient meal solutions, snacking is steadily replacing traditional meals, and there is a heightened awareness for nutrition and sustainable and ethical solutions. Business models have changed to respond to increasing competition in the supermarket sector; food trucks, grocerants and ready-meals, and meal kits are being delivered direct to consumers. Retailers are responding to these consumer trends and there is a gap in the product offering for red meat.

This project seeks to better understand value in considering diversifying innovation investment in the delicatessen category, which domestically at least is dominated by pork and chicken proteins, in order to improve market share of red meat.

2 Background

The global chilled and deli foods market is projected to be worth US\$988b by 2021. In 2014, Australia's independent Deli industry alone was worth approximately \$913m, with an estimated annual increase of 0.6% attributed primarily to a rising increase in consumers wanting premium products. (Inside Retail, 2014)

The growing demand evidenced by consumer trends reveals a major opportunity to which the Australian Red Meat Industry can respond. This paradigm shift in consumer behaviour is demonstrated not only in what consumers are buying, but how they buy it.

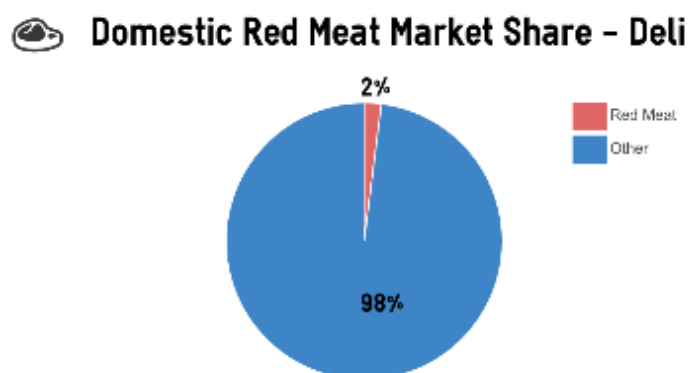


Figure 1: Current market share of red meat in domestic deli's

There a significant gap in the market where red meat could be more competitive, and research shows that Australians are increasing their average weekly spend at the Deli. However, even though consumers are spending 25% more at Deli's, the market only saw a 5% increase of total shoppers over the same 4 year period, which indicates that the market is not growing, as indicated by Figure 2. (Mellors, 2015)

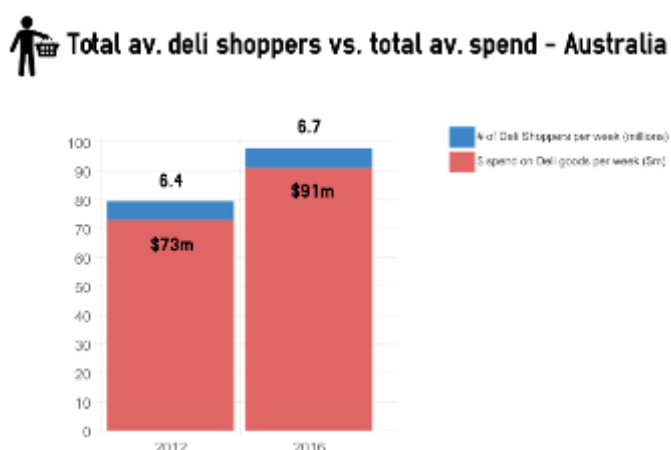


Figure 2: Total number of consumers vs total spend (weekly domestic average)

The domestic deli trading departments are currently dominated by bacon, redskins (hot dogs, cheerios etc.), sliced/shaved cold meats such as ham, value-added chicken products (e.g. marinated chicken drumlets) and fresh salads and cheeses as shown in Figure 3.



Figure 3: The typical value offering at a major domestic deli

Figure 4 shows Prepared Salads, Cured Meats and Pâtés as the largest categories for growth in 2016 (compound annual growth rate). (Canadean, 2016) Pâtés rated highest in market value at \$489.9m, followed by Pies & Savoury Appetisers (\$428.4m), and then Fermented and Cured Meats (\$271.6m & \$251.1m respectively). Further information at the product category level is required to inform opportunities for red meat products.

Savoury & Deli Foods Market Volume, Value & Growth - Australia 2016

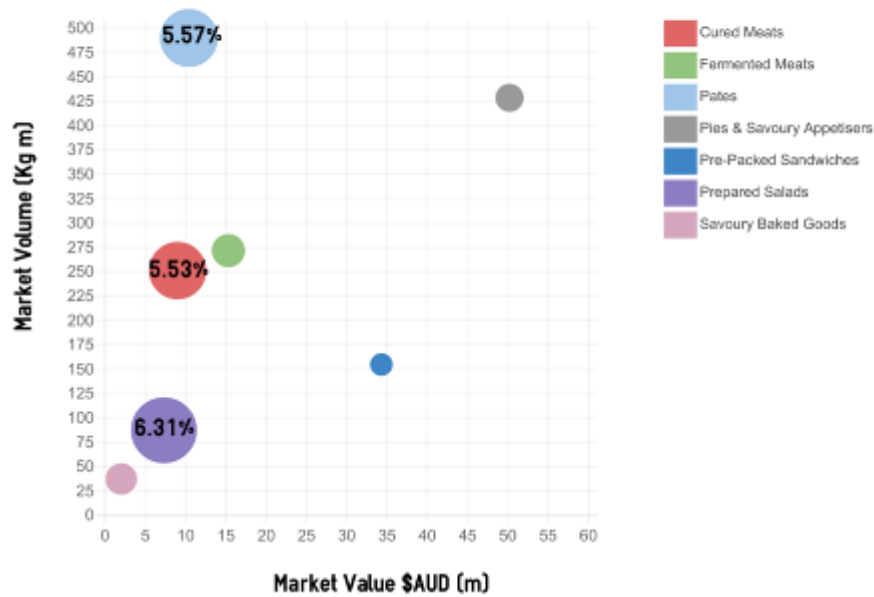


Figure 4: Domestic volume, value & growth of Savoury & Deli Foods

The following insights were informed by consumer trends during 2016. Insights into these trends form the recommendations on where red meat can possibly increase its value offering in domestic delicatessens.

The Evidence:

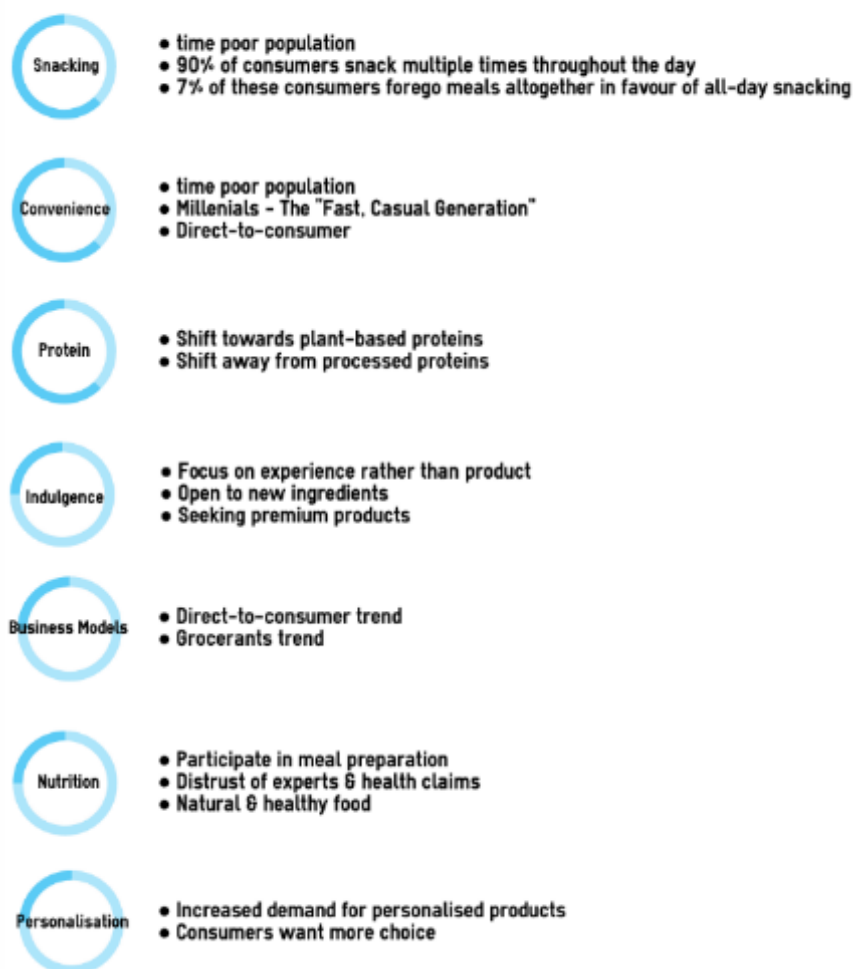


Figure 5: Consumer trends and insights 2016-2017

2.1 Snacking

Research has shown an increase of snacking habits, with approximately 90% of the population snacking multiple times throughout the day; approximately 7% of these consumers forego meals altogether, making this trend a strong influencer in buying behaviour. (The Hartman Group, 2016)

Data in the Final Report will show the limited product offering in the Deli space for red meat products to satisfy consumer needs in the snacking area. The snacking industry was worth approximately \$620 million in 2015. (AFN Staff Writers, 2015)

2.2 Convenience

On average, Australians eat non-home-cooked evening meals 2.5 times a week. (Piras, 2016) Consumers are basing meals around their schedules, which is a move away from the traditional planning and prioritization of three daily meals; a time-poor population is driving the need for on-the-go meals. This messaging is reflected in the marketing of products such as tuna (e.g. “Street Food Asia”) and direct-to-door meal kits (e.g. YouFoodz), with messages appealing to the Millennial generation ranging from freshness to personalisation (e.g. tailored meals). It is also being seen in the advent of different business delivery models (e.g. Sushi franchise in Woolworths).

An example of red meat competing in this space is the beef roast. A gap in the market was identified and after product testing for ideal elements (flavour, juiciness, tenderness and suitable packaging), Woolworths in conjunction with Teys Australia Food Solutions aimed to obtain 5% of the hot deli chicken market segment.



Figure 6: Beef roast as an alternative to Roast Chicken in the Deli

Advances in packaging have also allowed red meat products such as beef jerky and salami to be sold through snack machines and compete alongside other more traditional snacking products such as potato chips and confectionary items. (Leroy & Degreeef, 2015)



Figure 7: Emerging products such as beef jerky and meat protein bars

2.3 Protein

Consumers spent 2016 moving towards plant-based proteins, and will continue to do so in 2017. (Mellentin, 2015) (Mellentin, 2016) The United Nations, interestingly, named 2016 the “International Year of Pulses”. (United Nations, 2016) Regardless of this shift, an opportunity exists to use marketing to appeal to the Flexitarian market and promote value-added products to increase red meat market share. Shows such as MasterChef assist in promoting red meat and marry life-style choices with product convenience. Pulled meats are an example of a value-added product that has seen excellent market penetration.

2.4 Indulgence

Globally there has been increased demand for products that provide an experience in addition to the product itself. Examples can be seen in Fairtrade coffee, organic goods, and a shift towards on-demand services and personalised products. (CSIRO, 2016) As red meat, specifically beef, is itself seen as a luxury product, there is opportunity here to value-add products that appeal to the consumer’s desire for speciality offerings. For example, luxury messaging has been used to revamp several Coles and Woolworths Deli departments to resemble luxury, specialty market-deli’s, including displaying dry-aged and air-dried meats to create theatre in the deli. The value offering in red meat is noticeably missing when considering businesses such as Lenard’s, which are a part of independent groceries across Australia.

The market competition between supermarket giants Coles, Woolworths, and discount competitor Aldi, is forming favourable market conditions for red meat to improve its value offering in these spaces. Both supermarkets will be seeking to advance their offering in premium products such as the deli in order to compete with cheaper competitors such as Aldi to maintain market share. (Heffernan, 2016)



Figure 8: An example of a domestic supermarket deli revamping to appeal as a "marketplace" premium product destination

2.5 Business Models

The increase of changes in the way consumers buy products in areas such as online shopping, grocerants, food trucks and upmarket food-courts, have seen significant changes in people's eating habits.

The global food delivery market is significant, estimated at €83b in 2016. Digital technology is shaping the market in food delivery, with more consumers ordering via channels such as apps, click-and-collect, and direct to consumer (e.g. Aussie Farmers Direct).

Market penetration in this area is estimated to reach 65% annually. (Hirschberg, et al., 2016)

Packaging innovations seen in the fresh meat sector are now emerging in deli products, providing opportunities to mitigate risk in food safety and extend shelf life, whilst at the same time value-adding by including features re-sealable and ease-of-opening packaging, transparent packaging, microwave-safe compatibility, and packing that minimises drip losses. Other features include the 'eat me, keep me' strategy, which allows consumers to eat portions now and save some for later. (Leroy & Degreef, 2015) Lessons learned from packaging

innovations¹ (e.g. Cryovac, modified atmosphere packaging, vacuum packing & skin packs) also add to the sustainability appeal for cleaner label products and differentiated, retail-ready products in the Deli.



Figure 9: Sausage mince packaged in rolls, reducing amount of total packaging

The battle for market share between supermarkets has seen a re-emphasis on sales per square meter (sales PSM) as a key performance indicator. Marrying this information with the fact that the Deli market is not growing, yet consumers are spending more at the Deli (see Figure 2), provides a leading indicator of the opportunity within this space. The Deli is a prime candidate for increasing sales PSM.

In addition, the Deli is one of the last spaces in a supermarket environment in which the customer has specialised interaction with sales staff. For the past decade, to improve overall market share, companies in the United States such as ConAgra and Smithfield have been offering specialised training for staff – Deli College – to help move the industry forward. (Sivak, 2003)

2.6 Nutrition

Whilst consumers want more convenience, they also want their food to be nutritious. The 2016 trend “Free From” (Mellentin, 2015), predicted an increased demand for organic and Fairtrade products. In addition, the increase in improved food labelling reflects the consumer’s desire for improved nutrition. Food intolerances in Australia grew 12% in 2015 (Euromonitor, 2016), and more consumers are avoiding additional ingredients due to the perceived health benefits (Nielsen, 2016). There is opportunity here for supplying value-added products in the Deli. For example, a retailer in the United States has responded to this gap by creating a new product that consists of filling long romaine lettuce leaves with deli meat and cheese. (Harper, 2016)

¹ e. g. Australian Country Choice, Hilton Food Group and Somerville Retail Services are examples of processors utilizing centralized fresh meat packaging to expand their offering of shelf-ready products.

A related trend to note is that some consumers still want to participate in meal-creation. An example found in the fresh meat section of Coles shows a pre-made sausage roll that consumers can “just add pastry” to.



Figure 10: Products that provide an alternative to the "ready meals" options are missing from the Deli

Like the positioning of complimentary products for meal ideas (e.g. the olive selection located near cheese offerings in Deli's, or taco shells next to mince products), there is a lack of cross-promotion and speciality knowledge (either from a store clerk or information boards) to promote unique selling points (such as nutritional value, cuts suitable for specific occasions and cooking methods, nutritional value and ingredients etc.) to red meat products within the Deli.



Figure 11: Self-serve olive section at the Deli

2.7 Personalisation

A start-up company recently invested \$32m in providing personalised nutrition that individually tailors meal solutions (B&L MedienGesellschaft, 2016). The trend towards personalised products (e.g. tailored sleep solutions, wearable technology, DNA tests for nutrition and genetic profiling) indicates an opportunity to provide a portfolio of new, value-added products to meet highly specialised consumer needs.

3 Barriers to entry

3.1 Competition for market share in groceries

Chicken consists of two of the top five fresh food items sold in major supermarkets Woolworths, Coles, Aldi and IGA. Red meat cannot compete purely on price point against chicken and pork. At the beginning of 2016, Coles and Woolworths significantly reduced the cost of their hot roast chickens from \$11 to \$8. (Heffernan, 2016) The price war on chickens has continued throughout the year. The beef roast as the main competitor in this space at \$13-15 per item reinforces red meat as a luxury product.

3.2 Product differentiation

There is a notable absence of a wide range of product offerings for red meat in the deli. The following picture is an example of an independent butcher/deli offering red meat ready-meals.



Figure 12: An independent butcher/deli offering hot ready roast meals

Responding to the projected 3.6% annual increase in ready meals, supermarket Coles released a range of fresh ready meals; a category that has traditionally been dominated by frozen meals.



Figure 13: Coles' response to fresh ready-meals alternatives

Ready meals are worth \$900m annually in Australia. Other opportunities need to be identified where products can be developed in areas that are least saturated. For example, beef cheeks, currently residing in the fresh meat section, have not been value-added, yet exist as a luxury item in many restaurants. The barrier in this particular example is consumer education and information.



Figure 14: Beef cheeks as an example of potential value-add product

3.3 Consumer education and marketing

An understanding of consumer needs and wants is needed to fully optimise opportunities for red meat. Identifying the occasion for which consumers purchase items from the deli needs to be linked back to marketing and messaging. For example, the lone beef roast in the following picture is lost amongst roast chickens. Little to no messaging existed in this example to educate or message the consumer on the product's existence let alone product differentiation.



Figure 15: Product messaging and product placement

As Nespresso products are marketed to owners of Nespresso machines, specific red meat products need to be developed with the buyer in mind (e.g. Thermomix owners, slow food movement, organic products, self-serve/grab'n'go etc.). Products need to clearly differentiate their value offering; the link between the fresh meat section and the deli section, and the messaging to the customer, needs to be defined.



Figure 16: Product branding example: pork vs. beef

Anecdotally, the messaging and perhaps lack of products for beef may be reflected in these banners seen in Coles. Each banner for major meat groups had a product displayed. The exception was beef, which communicated the “100% Aussie” message as opposed to featuring a product.



Beef cheeks, lamb shanks and pork belly are all examples of low-value cuts that have increased in demand and value due to lifestyle shows (e.g. My Kitchen Rules, MasterChef) and increased demand for luxury items. Whilst offerings for lamb shanks and pork belly have been increased, beef cheeks have yet to be value-added.

4 Summary

Consumer behaviour must inform product development, marketing strategies and business decisions. Opportunities exist in the Deli space to develop products for the elderly, Baby Boomers, Gen Y and Millennials; each value offering must take into consideration trends specific to each group. Insights into these behaviours and identifications of gaps in the Deli space can then inform possible new business models and a portfolio of value-added products where red meat may be competitive.

The opportunity in the Deli space, with the red meat share currently at 2%, is immense. If red meat were to increase market share by a mere 1%, the benefit to the red meat industry in the domestic deli market alone would be approximately \$10m. However, the barriers of [INSERT BARRIERS HERE]

Investment decisions must be informed not only by consumer insights, but also sound business acumen; influencing scenarios will require vision, investment and tools/frameworks to support accurate decision making.

The Appendix following outlines several opportunities for red meat to expand its presence in Deli using supporting evidence from Nielsen data to demonstrate the overall financial benefit of each opportunity.

5 Appendix

Three years' worth of data from Nielsens was obtained and is discussed in this appendix.

Individual categories highlighted the following top 15 trending Categories:

- CHICKEN OTHER
- LAMB ROAST/RACK
- BEEF STRFRY/DCD/CASS CUTS/STRP
- PORK SAUSAGES
- LAMB FILLET/STEAK
- T. CHICKEN COOKED
- SEAFOOD OTHER
- PROCESSED MEAT CHICKEN
- CHICKEN COOKED OTHER
- PORK RIBS & RASHERS
- CHICKEN WHOLE
- PROCESSED MEAT BEEF
- Lamb Diced Mince & Sausages (MLA Defined sum)
- PORK BACON PORK OTHR BACON - DICED PIECES
- CHICKEN COOKED BBQ

The following top downward trending categories include:

- PROCESSED MEAT TURKEY
- TURKEY COOKED
- OTHER PROC MEAT SLICED
- SEAFOOD COOKED
- FRESH MEAT CHICKEN
- PORK HAM PORK HAM BONE IN
- Turkey Fresh (MLA defined sum)

- LAMB OTHER
- OTHER PROC MEAT PATE
- CHICKEN SAUSAGES
- Pork Pre-prepared (MLA defined sum)
- BEEF OTHER
- PORK OTHER
- PORK HAM ALL OTHER HAM
- CHICKEN PRE PREPARED

A general conclusion can be drawn that processed meats are increasing in trend, and fresh meats are decreasing in trend. Therefore, the data supports the hypothesis that there is opportunity to expand a value-added red meat offering in the deli space.

Pork and seafood have increased in demand, whilst chicken and beef have decreased.

The data indicates that further demographic, ethnographic and socio-demographic research is required to support these general trends of expenditure and product demand. Understanding the consumer on a deeper level is required, by not only drilling down into the trends to reveal drivers of behaviours in both fresh and processed categories, but also understanding the context in which these trends are occurring.

The data shows that there are definite opportunities for red meat in the deli space, however changes in these trends to understand why and how people are behaving differently must occur before any product design or business model support is considered.

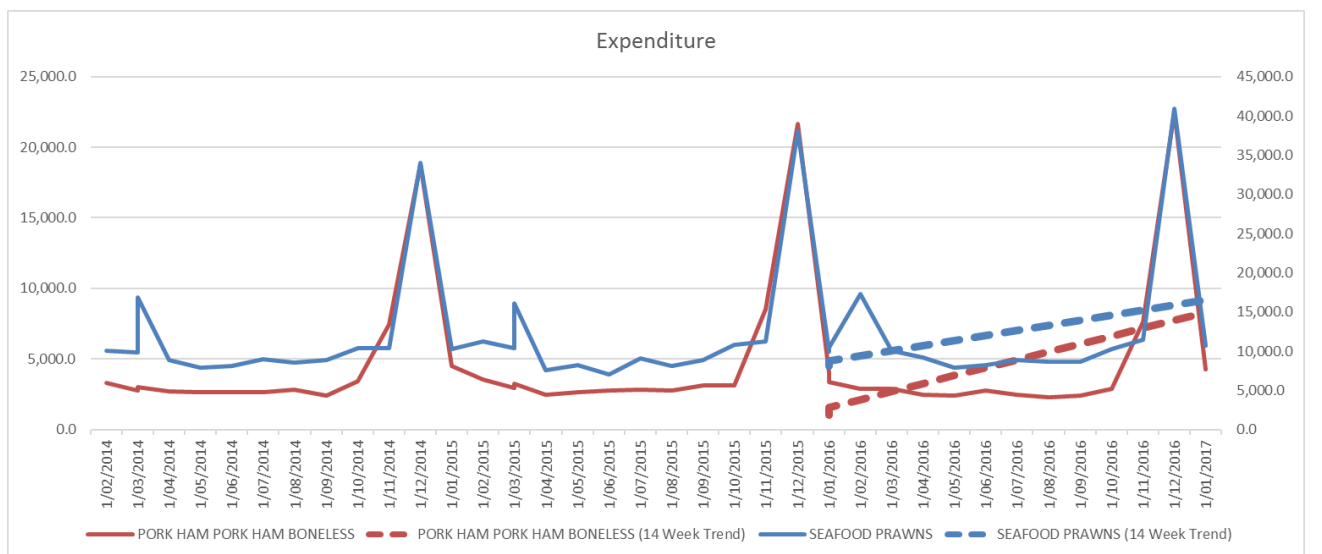
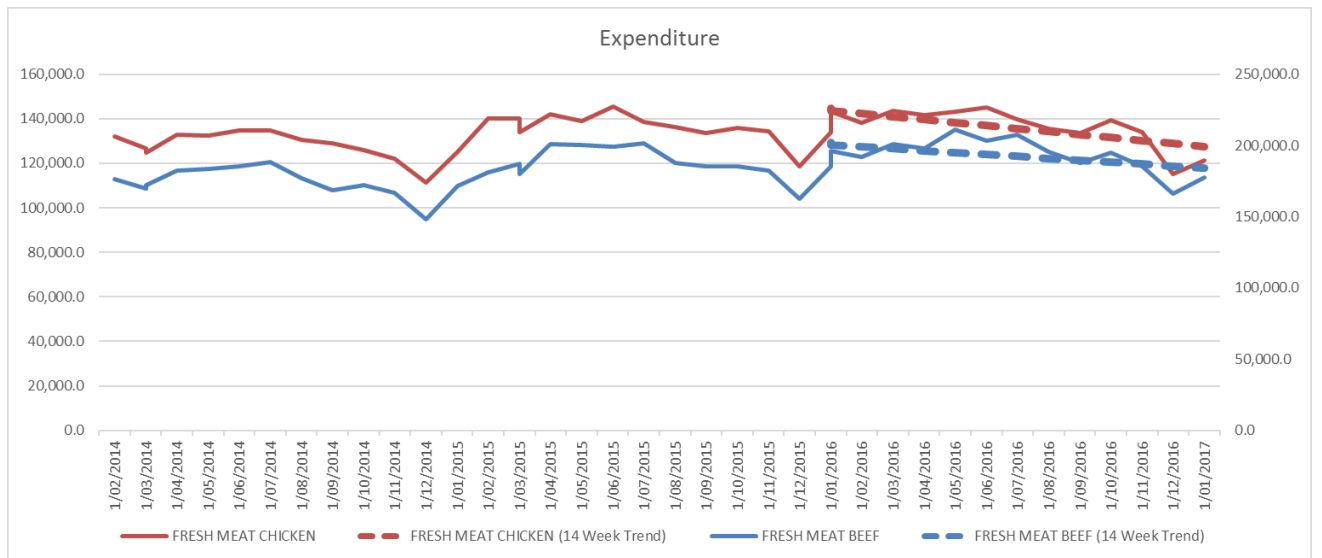
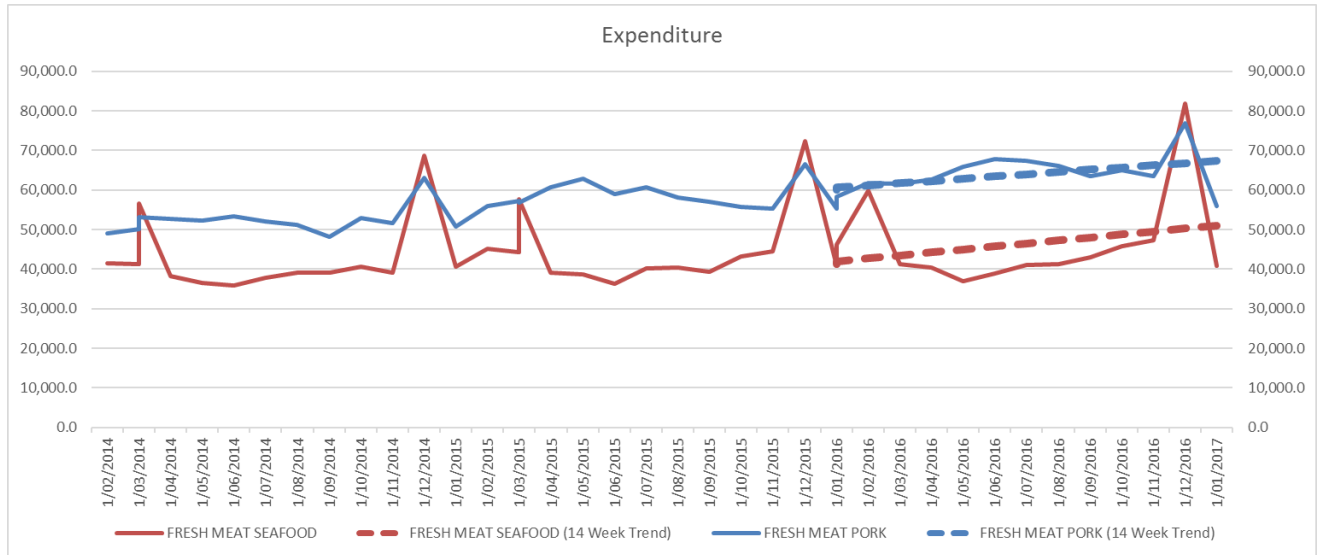
Largest Trends

The last 14 weeks was trended for each category and calculation type. Of these Expenditure was the largest.

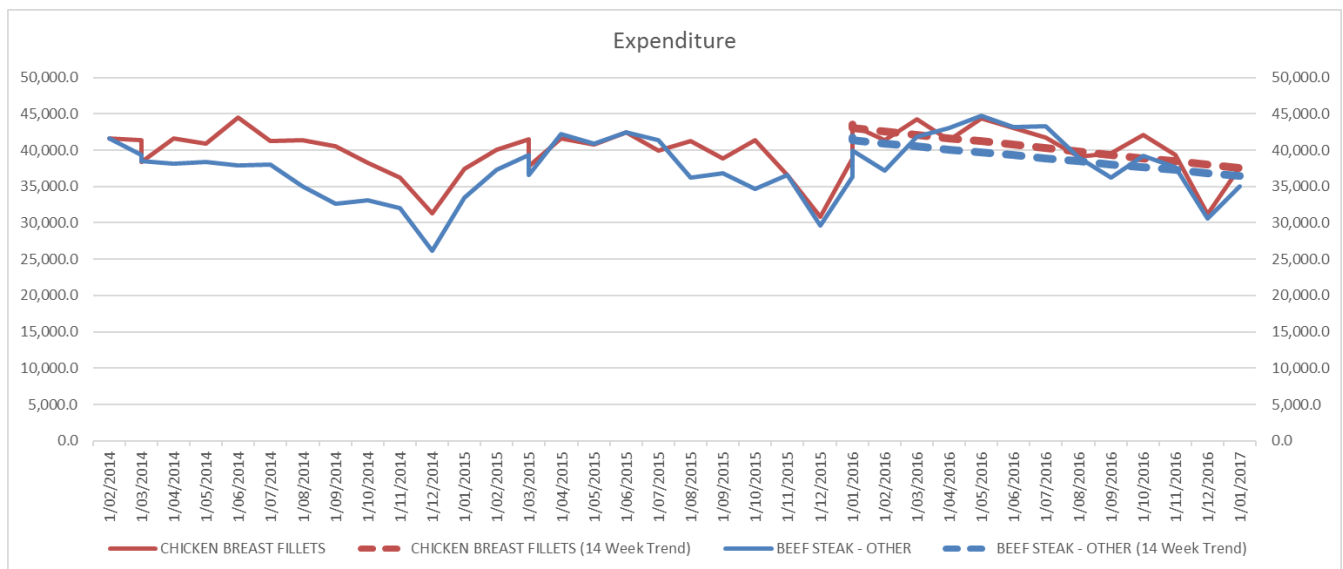
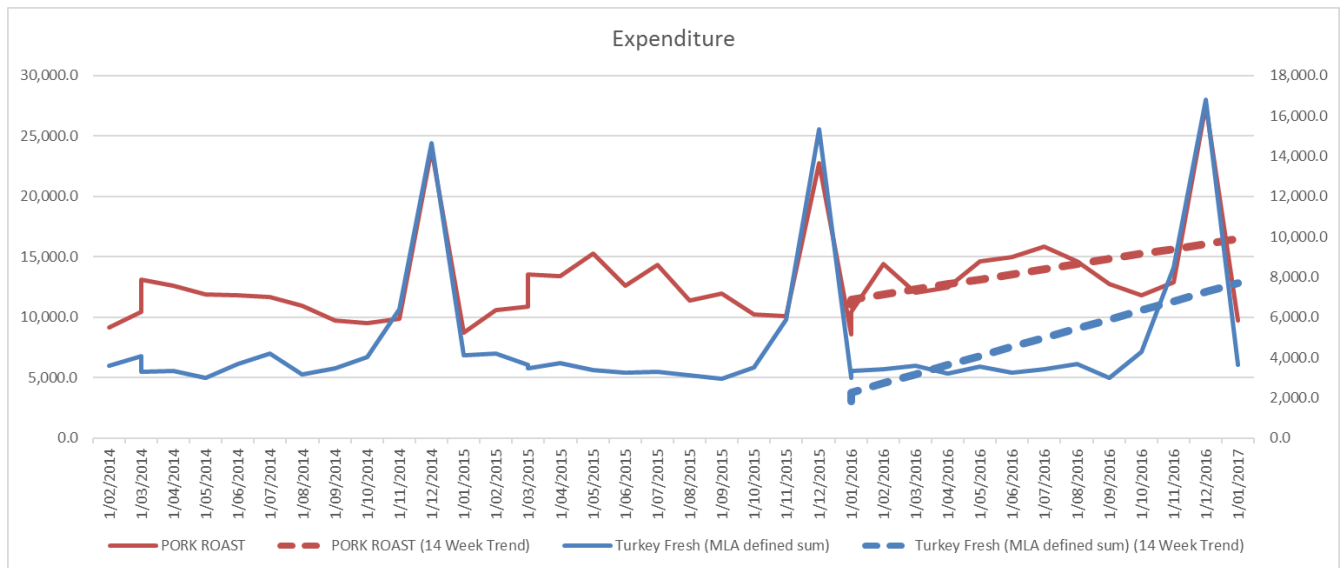
Expenditure

- Fresh Pork and seafood have the largest upward trends (seafood is quite seasonal so would need this seasonality removed)
- Fresh Beef and Chicken have the largest downward trends
- Of the individual categories, Pork Ham boneless, prawns. Pork roast and fresh turkey (MLA defined) had the highest upward trends
- Of the individual categories, Chicken breast fillets, beef steak, chicken thigh fillets and beef mince had the highest downward trends

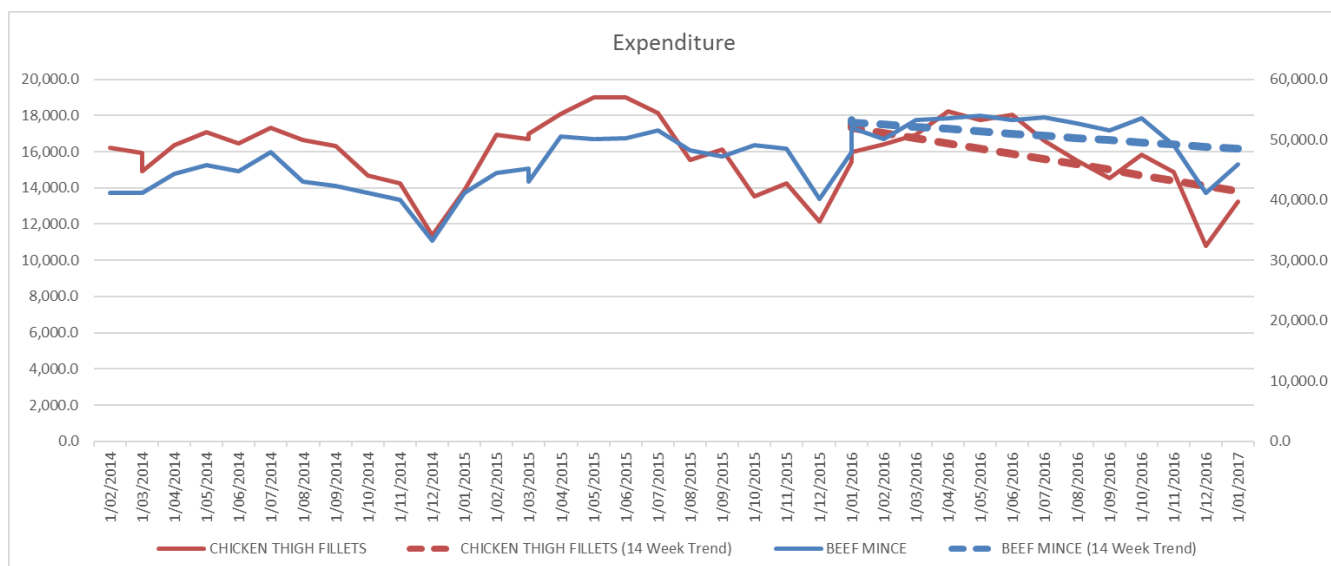
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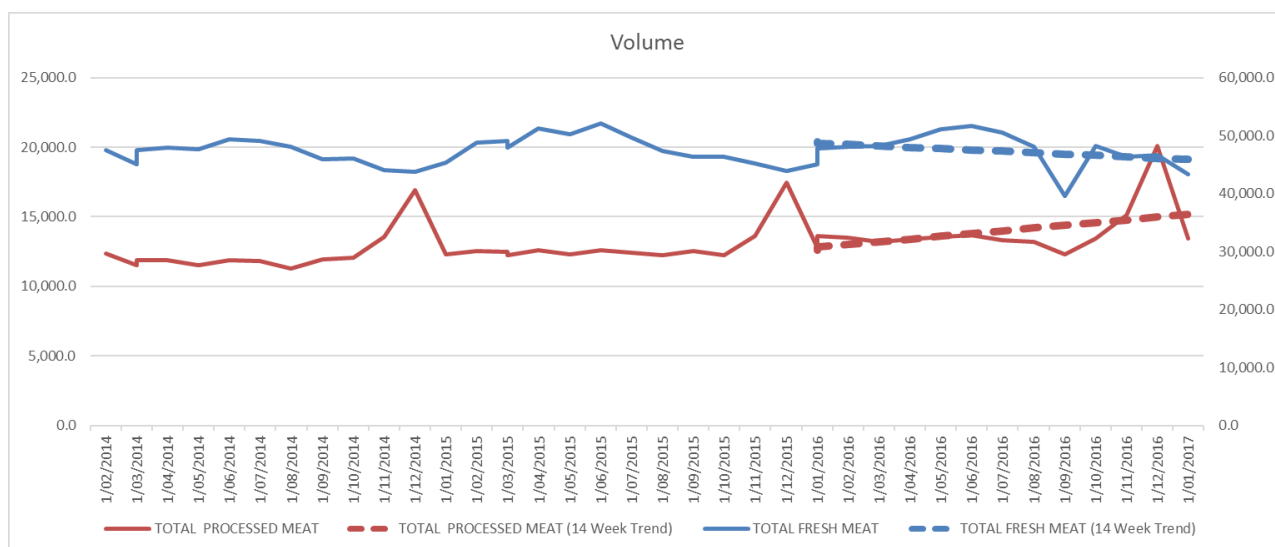


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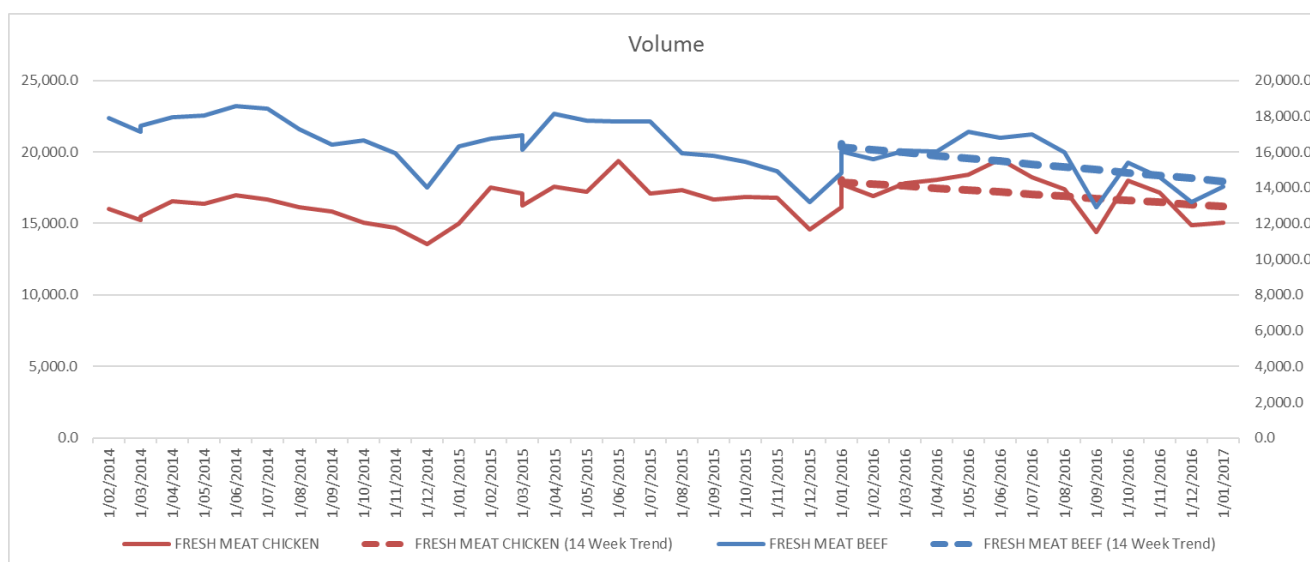
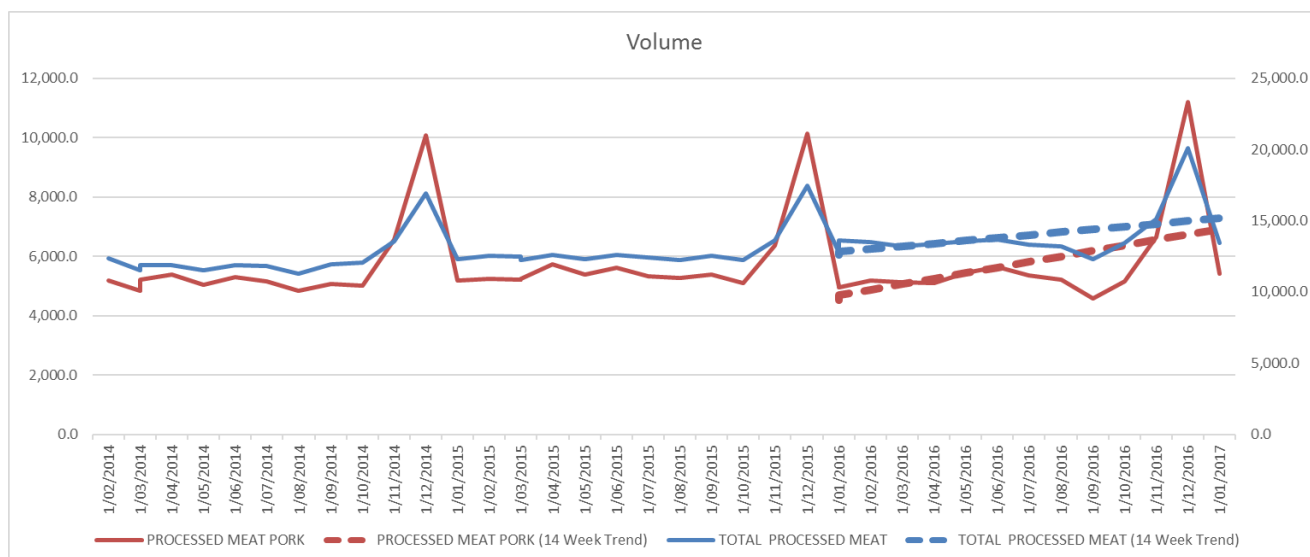


Volume

- The largest upward trend is Total Processed Meat with Total Fresh meat being the largest downward trend
- Of these, processed pork is by far the largest contributor to upward trend with fresh meat and fresh chicken being the largest contributors to downward trend
- Of the individual categories, pork ham bone-in and boneless have the largest upward trends with beef mince and beef steak having the largest downward trends



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Raw Occasions

- Total Fresh Beef and Chicken are again the largest downward trends with turkey and pork showing the only upward trends
- Of the individual categories, similar products – Pork Ham Bone In/BoneLess, processed pork and prawns show the highest upward trends. And similar downward trends as Expenditure and Volume – Beef Steak, Mince and Chicken breast fillets

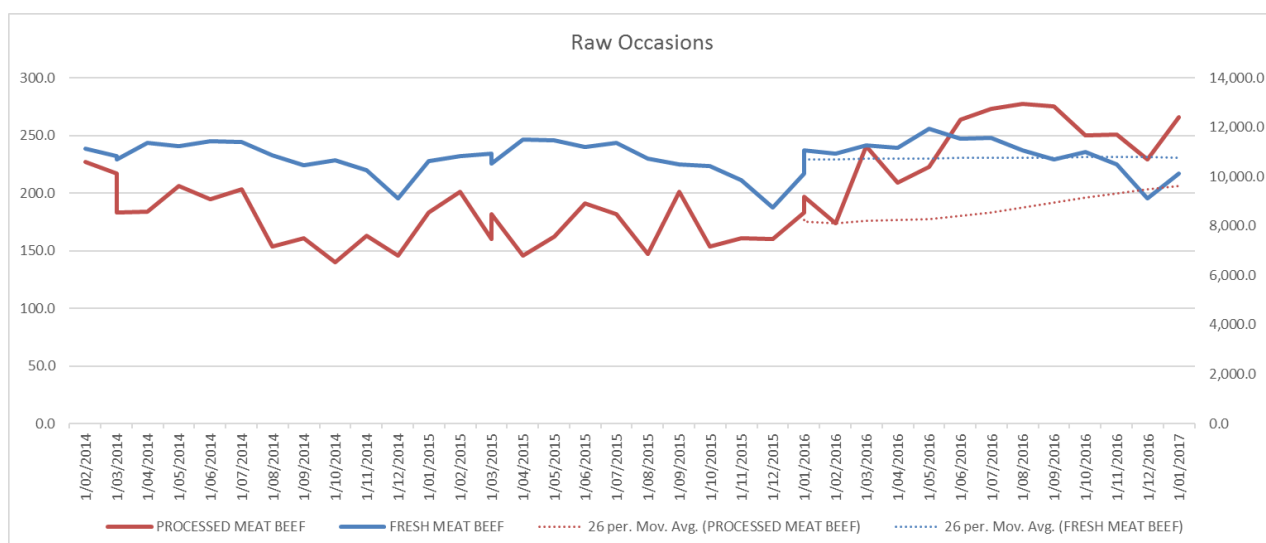
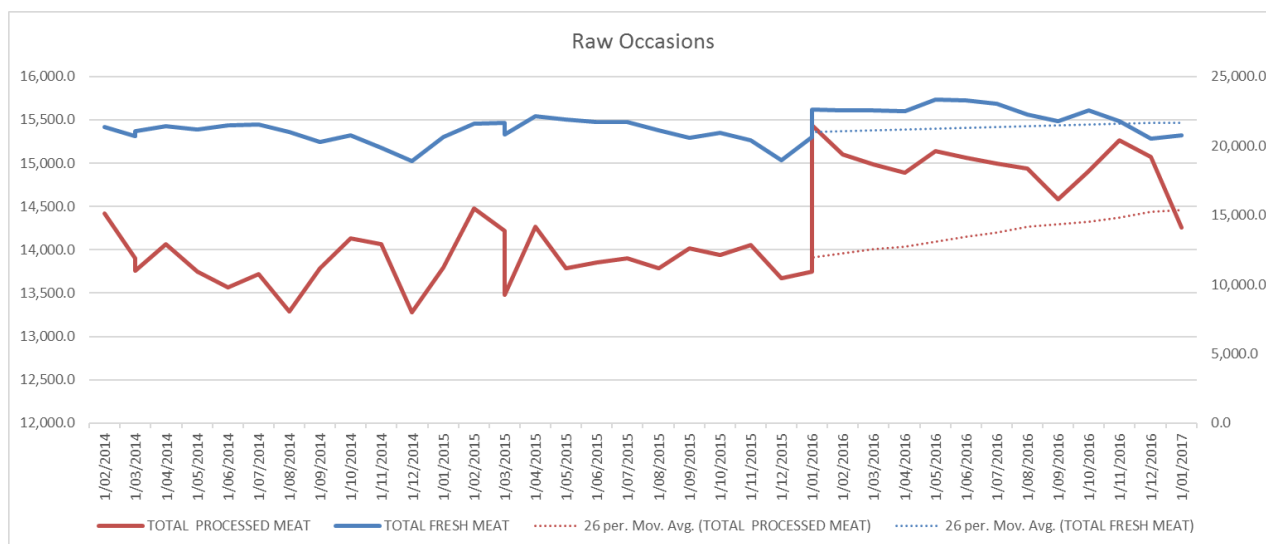
Other

- Similar trends are also seen for AWOP, Penetration, Expenditure/Occasion and Volume/Occasion
- **Average Occasional Buy** show some differences:
 - FRESH MEAT OTHER FRESH MEAT (INCL. VEAL) has the highest upward trend. Other main category trends were the same as above

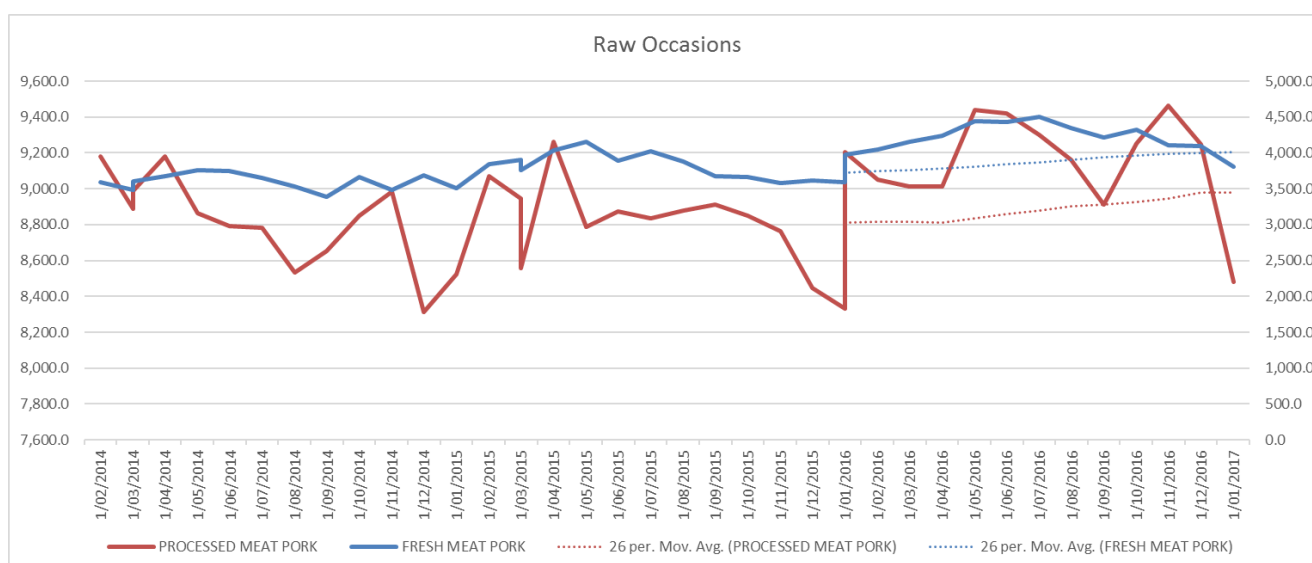
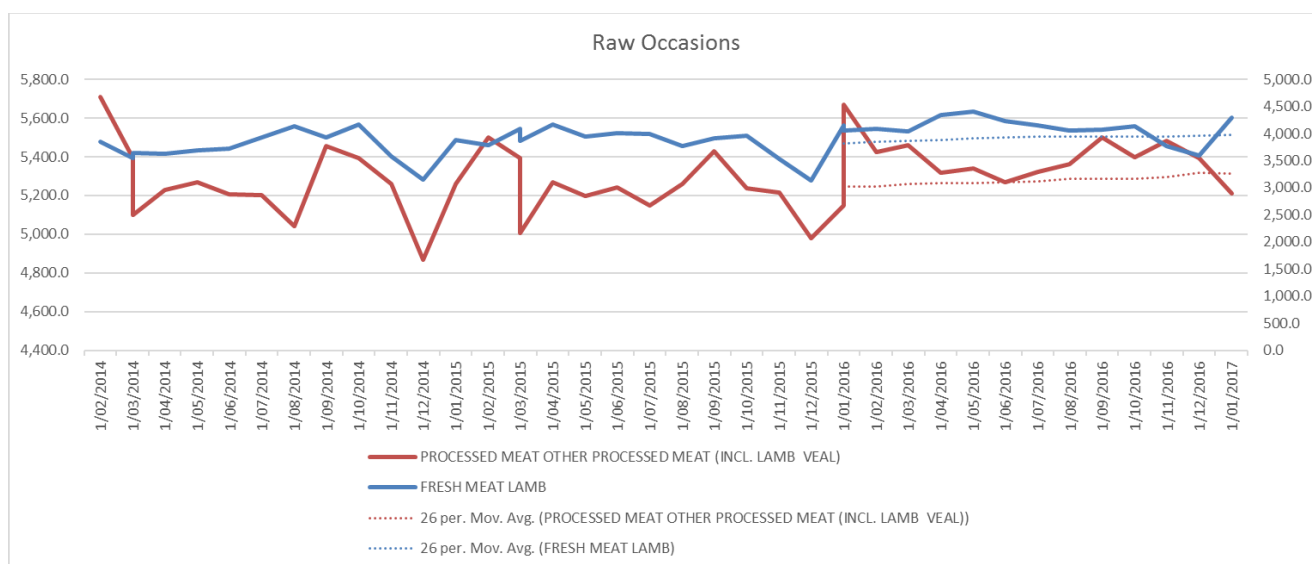
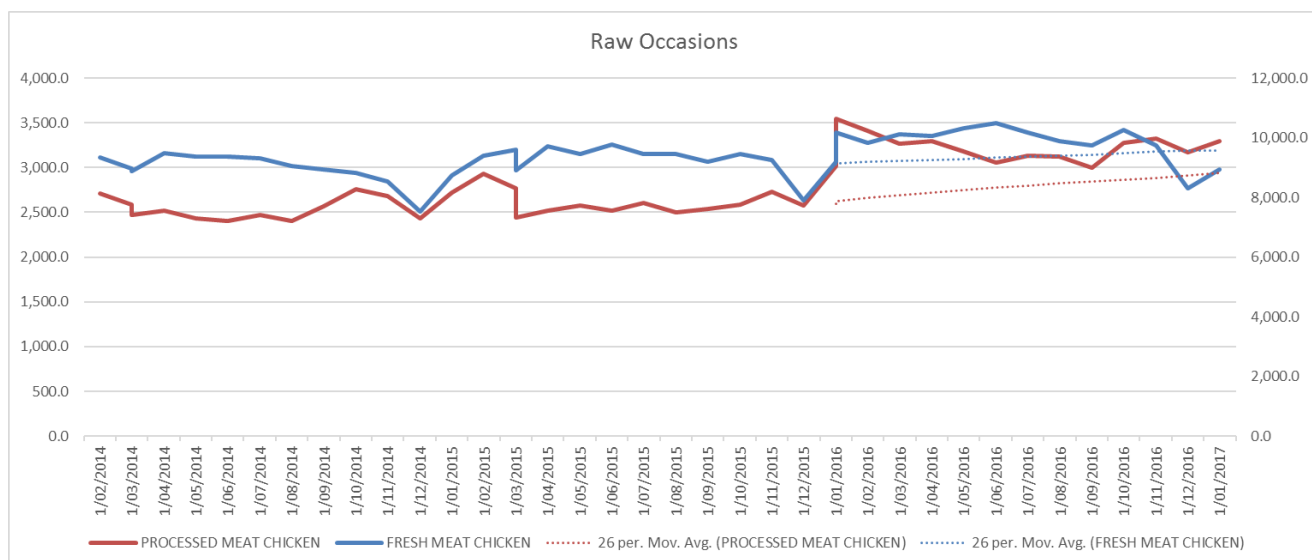
Raw Occasions

Broad Categories – Fresh vs Processed

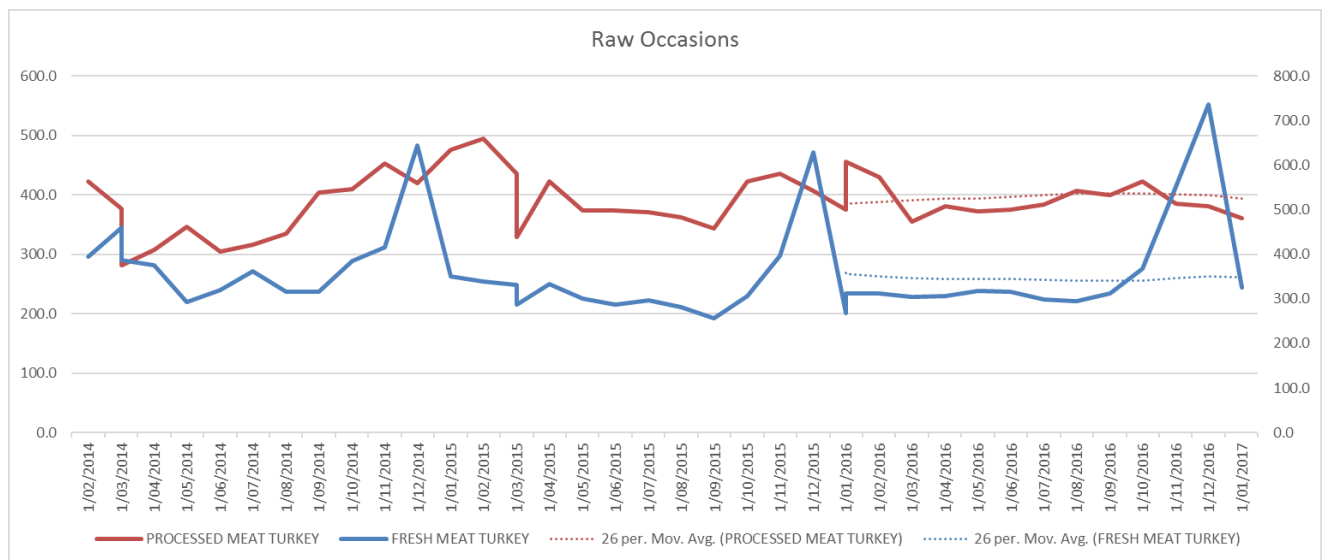
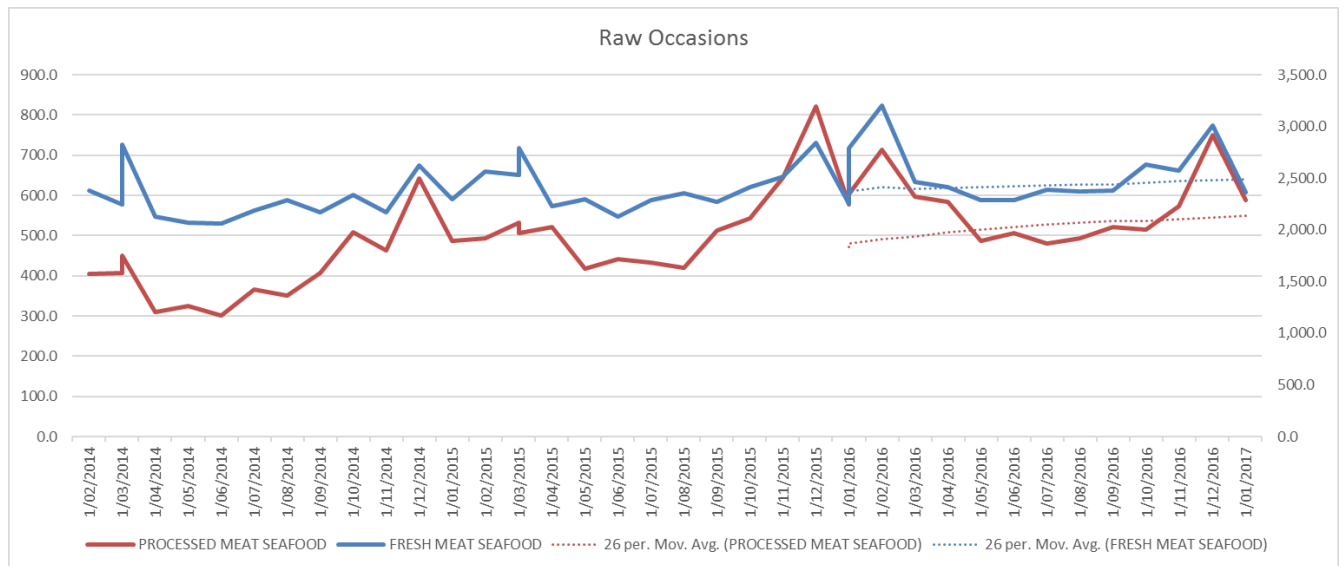
- Processed meat figures show a massive jump in Jan 2016 which would seem to imply some data error. Since that point it has fallen away quicker than fresh meat
- Only Turkey has Processed trending above Fresh
- Of the rest, Beef shows processed trending towards fresh and to a lesser extent chicken



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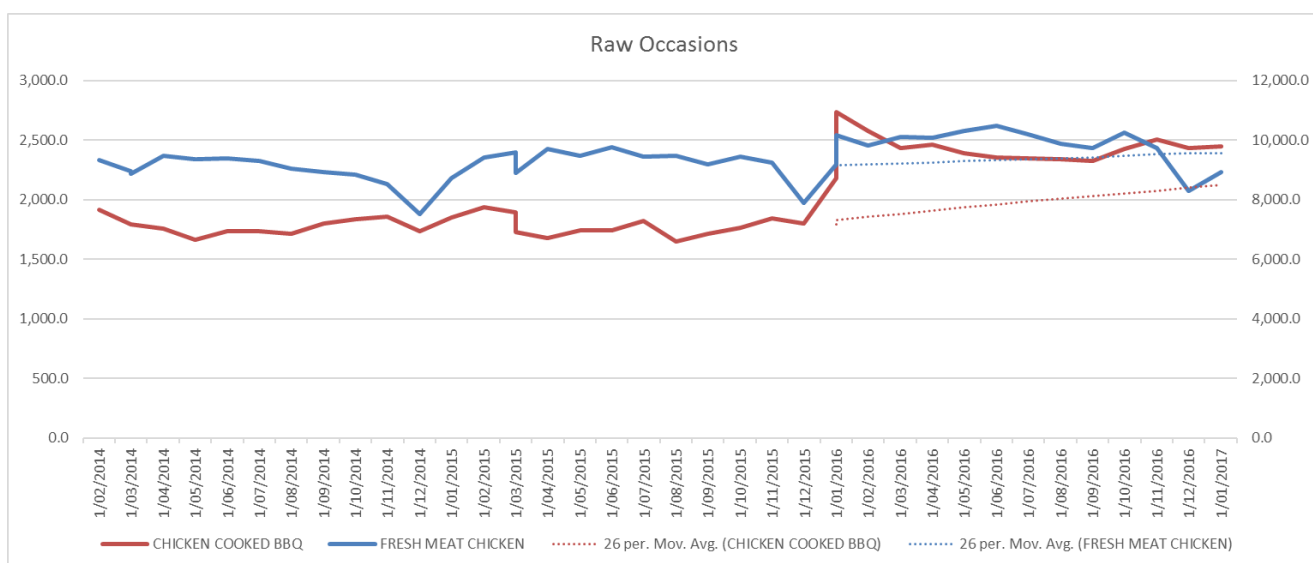
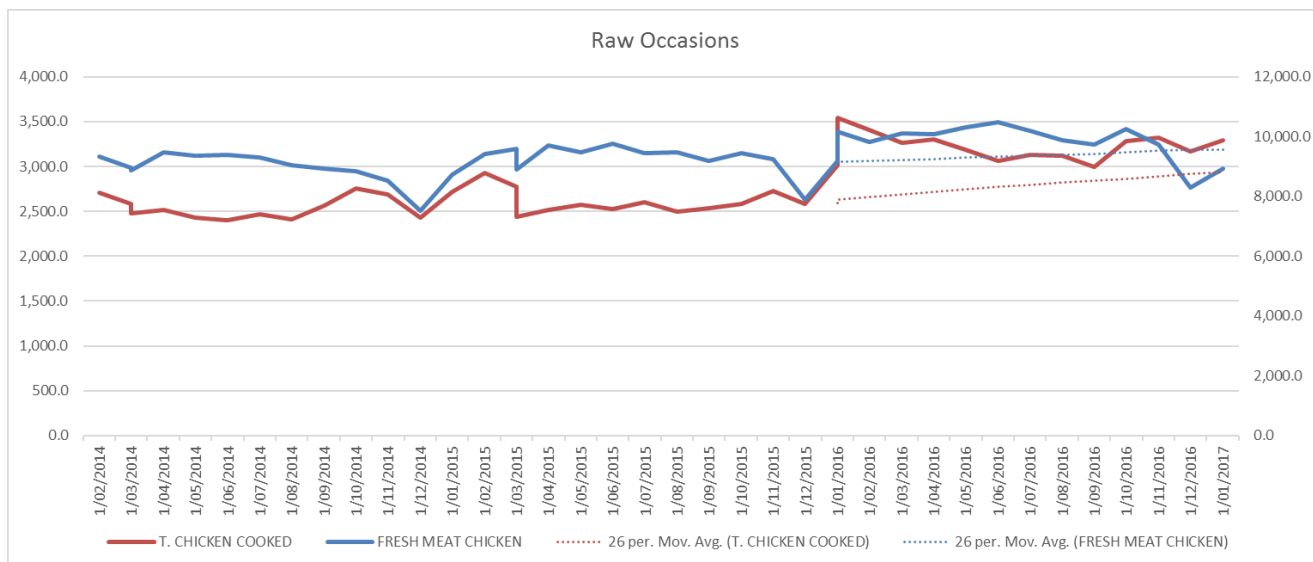


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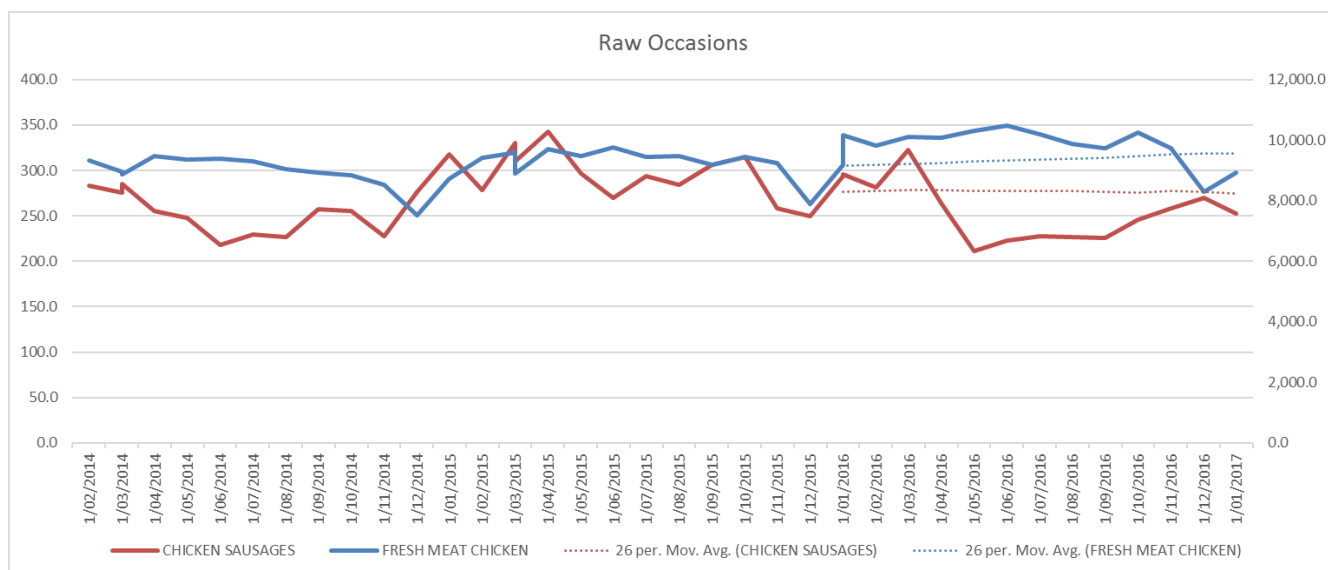


Individual Cuts

- All Beef cuts (including 'Beef Pre prepared') roughly follow the same trend as total fresh meat
- T. Cooked Chicken and BBQ Cooked Chicken are closing in on Fresh Chicken and set to potentially overtake it
- Chicken sausages and thigh fillets have been trending downwards away from fresh chicken but this looks to be seasonal



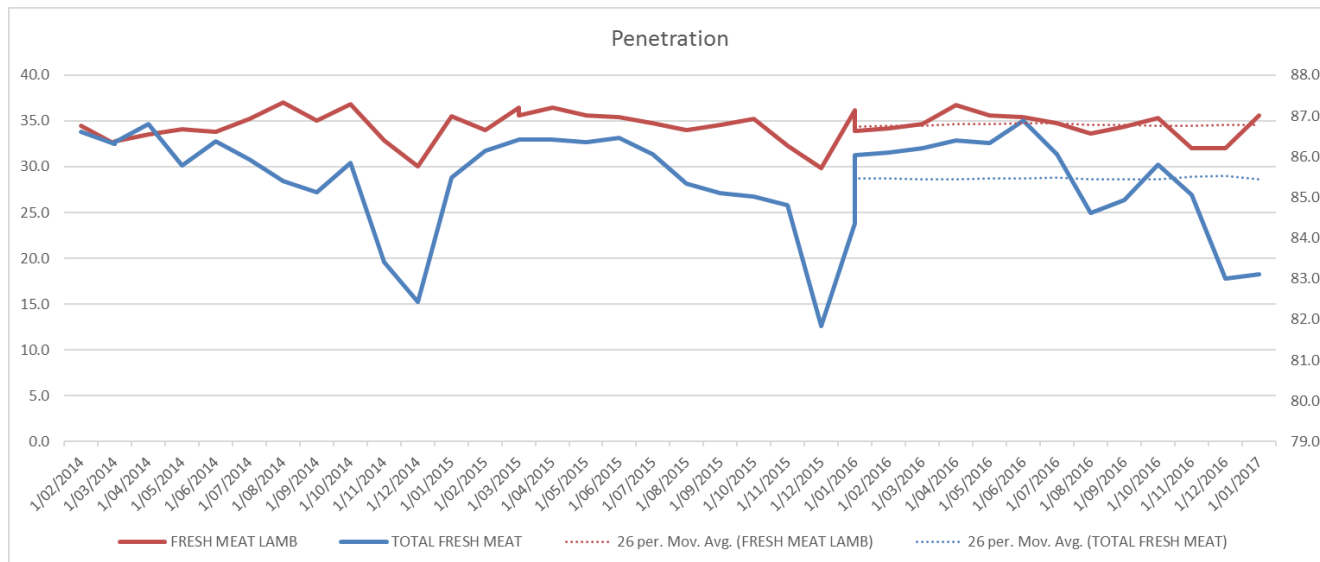
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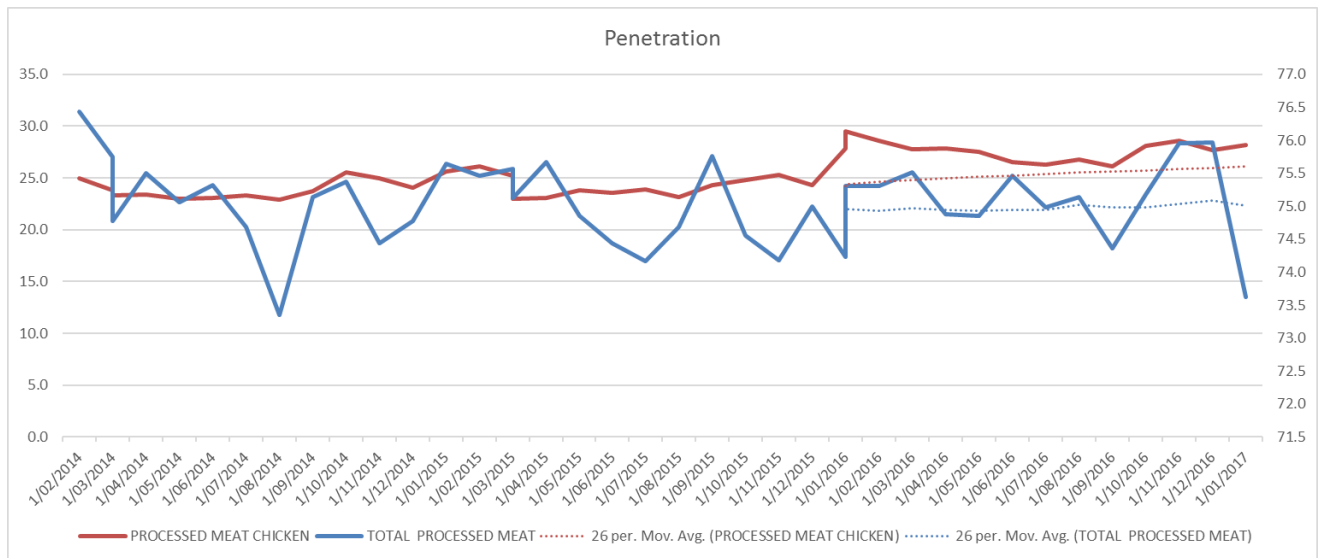
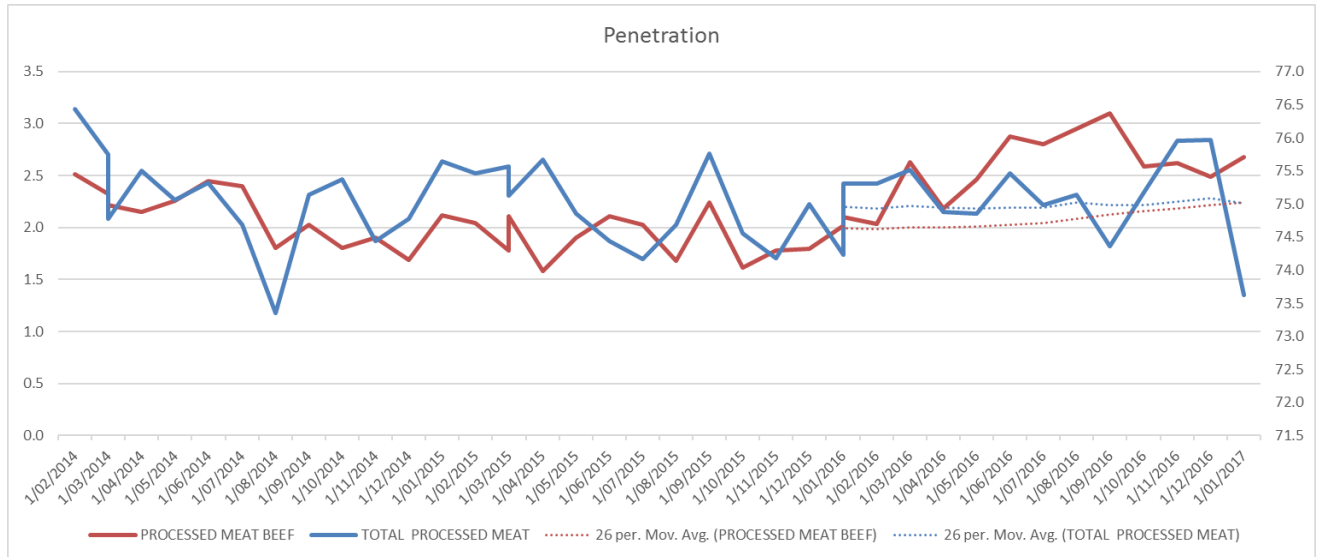
Penetration

Broad Categories – Fresh vs Processed

- Of all the fresh meats, Lamb has held steady the best
- Of the processed meats, beef is trending upwards at the fastest rate. Chicken is second steadily increasing



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