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Red Meat Innovation Insights Report: The Snacking Opportunity

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1. Abstract

A snack is defined as; a smaller amount of food than one would typically have as a meal, which is consumed between meals. From its special occasion origins: 'popcorn at the fun fare' nearly a century ago, it has grown to become a dominant force in our day-to-day food behaviours. So much so, that in 2012, the ABS's study into 'a snapshot Australians daily food choices', found that 35% of Australians daily calorie consumption takes the form of what they describe as 'discretionary foods', primarily made up of snacks, though also including beverages outside of meal occasions. Lending further support, Datamonitor reported that in 2011 overall 'main meal' was in steady long term decline at 0.5% per annum, where as snacking was in growth at 2% per annum.

Snacking has continuously come into the mainstream over the past 40 years; coincidently this period marks our BMI downfall, as people have tended to add additional calories to their daily diets through their snacking choices. The ABS described our general choice of snacks in 2012 as being "high in saturated fats, sugars, salt and are therefore energy dense". Our growing recognition that snacks are no longer inconsequential in our diets but are a major contributor to our growing waistlines, has not caused a decline in snacking behaviours, but has led to our desire to have snacks that are 'better for you'.

Nielsen explored our snacking habits as a nation and found that it was no longer purely the domain of children and the under 30's, with 96% of Australians consuming some sort of snack on a regular basis. Thus snacking has now pervaded all segments of society, including seniors. They also found that Australia's most popular snack is no longer chips or chocolate, but fresh fruit is marginally more popular, with a piece of cheese in 3rd place. Thus within this overall long-term snacking growth, our choices are changing, creating the opportunity for new offerings to emerge and gain popular acceptance.

The other major advantage of developing offerings in the snacking space is that they can deliver against important personal rational and emotional drivers, as well as the value associated with immediacy of consumption. Thus if the right value chain can be developed, supported by the design of an appropriate business model, there is scope to build a successful and profitable business.

The pace of change in snacking is accelerating, representing a next generation of future opportunity. Snacking is a global phenomenon, with the US leading the snacking landscape, with all 'developed' food markets having significantly developed snacking sectors, through each with their own cultural food overlay / taste preferences. Snacking is now growing on many fronts, the result of a number of overlapping themes:

Many consumers are developing a changing relationship with snacking, and given snacks significance in our diets, with food overall. Some people are becoming 'Planned Snackers', no longer at the mercy of moments of personal weakness; they plan ahead and have available desirable alternatives (i.e. Le Snak - cheese dippers for kids, or a

stash of nuts / rice crackers in the desk drawer). Further along the evolutionary curve are 'Purposeful Snackers', for whom snacking is central to their diets, seeing it as the primary form of food consumption. These people typically eat meals 'on the go' and place far greater expectations on what their snacks deliver.

Secondly, a new generation of snacks are emerging that offer serious nutritional and functional benefits. No longer are snacks solely made from starchy ingredients, such as potatoes and grain based products. Increasingly nuts, yoghurts, meats and so-called super foods like Chia are becoming the most desirable snacking options, delivering both health & indulgent taste solutions.

Combined with this is snacking's omnipresence, as they become a part of our everyday lives. Snacks are far more widely available than from the local corner store. Sporting venues offer a breadth of appealing, ready to eat alternatives, café's provide a range of savoury and sweet treats and even offices have vending machines that provide traditional and fresh alternatives. Existing channels that have dominated in the 'main meal' space are also viewing snacking as a significant avenue for growth, whether its 'food on the go' options from the supermarket, or grazing options from fast food outlets.

Thus we are potentially in the early stages of a new paradigm in snacking, one that promises great opportunity for 'natural' products that can deliver functional and emotional benefits, targeting to new consumer segments and at times and in situations that are of the greatest value to consumers. Certainly the lessons from major food manufacturers, like Kellogg's and Mondelez Int'l (Kraft – Cadbury spin off), is that it is within the Snacking and On-the-go market space within food, where there is the greatest future opportunity.

2. Background:

Red Meat has for a long time focused on owning 'center of plate' in terms of people's food choices – even the shift towards 'convenience' offerings has not displaced red meats role. But consumers' food choices continue to evolve, with some 35% of calorie consumption now taking place in the form of snacks. So whilst Red Meat was one of the original snacks (pies & sausage rolls) it has little presence in this growing segment of the market and is doing little to realize potential value-adding growth.

Snacking has been well established for over 40 years, yet the role it plays in our lives has continuously evolved. Snacks are no longer an occasional sweet or savory treat, with little impact on our overall wellbeing. They are now a major part of our daily lives, many believe, leading to our BMI downfall. Thus expectations of snacks are shifting, so whilst not willing to compromise enjoyment, people seek far greater functional benefits and emotional associations in their snacking choices. This shift in market dynamics creates the opportunity for red meat snacks.

As we look forward, to the emerging future, many consumers are making snacking their primary food choice – eating on the go, grazing as part of their daily socializing and getting the nutrition they desire thru their snacking choices.

3 Understanding Snacking & the Drivers of Growth

Snacking is no longer a marginal part of our diets, or something only undertaken by those with little concern for 'proper eating' – Snacking is now well and truly part of the mainstream.

Eating between meals is extremely widespread with 96% of Australians saying they regularly consume snack foods. Meal skipping is become highly prevalent, reflecting our disrupted life styles, as few of us know exactly what the day ahead involves. In the last 30 days:

38% of Australian skipped breakfast, in favour of snacks

46% have skipped lunch, in favour of snacks

33% have turned to snacks instead of having a proper evening meal

Thus shapes the 'new world' requirement for snacks, with Healthy habits now prevailing but only by a slim margin:

64% consuming fresh fruit as a snack in the past 30 days

62% opting for a sweet treat, in chocolate

54% chose cheese as a snack, the third highest

The implications are that we all snack across a diversity of options, to suit the occasion.

Snacking is a Global Phenomena

The size of the global snacking market is estimated to be $400Billion – with US & Europe representing 75% (Nielsen). One can reasonably conclude that as society develops people become increasingly disposed to snacking. Within this, though there are cultural biases, they are not as great as we see in mainstream food behaviour (snacking is a largely Western inspired phenomena).

There is an evolutionary element to snacking and how new snacking choices are adopted, with the US at the forefront of snacking trends.

Major Food Companies Response to Snacking's Growth

Most large food manufacturers are well aware of the declining share of meal behavior. With ever fewer consumers sitting down for cereal at breakfast time, Kellogg's decline has continued, dropping 3.1% in the last year. Not wanting to believe their products were no longer relevant in a modern world they made them 'portable'. This belligerence has now been replaced with a more progressive view to delivering breakfast solutions 'to go' – protein shakes, sustaining biscuits & flatbreads that can be quickly toasted and eaten during the morning drive to work.

Revenue at General Mills U.S. snacks division, whose brands include Natures Valley granola bars, rose 6%, whilst its meals division, which includes Old El Paso, contracted 4%. General Mills Chief Executive said when commenting on the underlying business performance: "We are in changing times, once considered an indulgence – a few cookies or handful of potato chips – a snack now seems to be anything small, increasingly nutritional & portable that compliments or replaces a meal"

Snacking in Australia

For the average Australian in 2011, 37% of all eating and drinking occasions were snacks. While main meal consumption will decline or plateau over the next few years, snack consumption in the morning, afternoon and evening is forecast to increase significantly as consumers seek meal solutions that better adapt to their hectic lifestyles.

Overt Snacking expenditure at these different times of day are estimated to be:

Mid-Morning:	$8.1Bn
Mid-Afternoon:	$9.5Bn
Evening:	$7.6Bn

However, the snacking that is occurring as a part of, or replacement to a 'proper' meal, such as through on-the-go solutions, is showing the greatest growth.

The Evolution of Snacking

Beyond the growth of snacking, through more people consuming more often, we are seeing some clear evolution in consumers' relationship with snacking:

The Origins of Snacking: A permissible treat. Its role was to enhance the event experience, making it a 'much loved' addition – a role that still remains in todays world. This relative lack of frequency means it represented 'inconsequential calories'. At this time, there were few and clear choices in snacking – chocolate, chips, biscuits, ice cream, …

Our Love–Hate relationship with snacks: Snacking is all around us. Our desire to snack on a daily basis has meant additional calories in our daily diets and is generally believed to have led to our BMI downfall. Generally associated with poor nutrition – high levels of sugar & saturated fats. Thus consumers increasingly seek out 'non-negative' health benefits, such as 'fat free'.

A New World order: Many people have become Serial Snackers, a way of being that is preferable to committing to three meals a day. Choices are far more conscientious, as snacks become the primary means of gaining nutrition. Snacking behaviours reflect a far more dynamic and spontaneous life style choices.

4 Understanding Snacking Occasions

To develop red meat based snacks, our starting point is to understand 'snacking'.

In particular WHY people snack – their underlying motivations that lead them to snack and shape the choices they make. Using these foundations will enable us to design superior red-meat based solutions that better meet these needs. Further to this, understand the most relevant channels through which a snack would be sourced to satisfy the immediacy of the occasion.

The origins of snacking was to enhance the entertainment experience – the circus, the fair, sport, etc.. As part of the event experience, snacks increasingly play a role in social connection and a shared experience

Some snacks are so entrenched with the event; they have become a default choice - popcorn at the movies. Snacks growth came about as a result of parental treat giving and the enhancement of family connection (putting a smile on the face of loved one's).

Nowadays, snacking encompasses all adults and is part of everyday life – but the same underlying drivers exist:

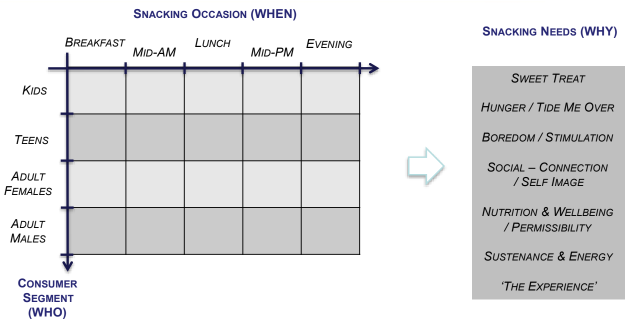
-> Snacks enhance the experience

-> Snacks are enjoyable, primarily consumed for a treat

-> Snacks often play a role in making a social connection – eaten in a social context

-> Snacks can fulfill a functional role, whether hungry, needing energy, or to provide warmth

Thus when viewing the world of snacking and conceptualising opportunities, it is important to build a framework that gives structure to 'why' people snack:



The Mid-morning Snacking Occasion

When we are at our healthiest – full of good intentions for the day ahead (though a social dynamic can undo even the best). Has become an encouraged activity – many offices make available a fruit box for the occasion. Biscuits original role was for the morning tea break – though many original favorites now seem a little bland. The snacking occasion for which we most pre-plan – many take yoghurt to work with them each day.

Quantification:

The mid-morning snacking occasion is an $8.1Bn category, growing at 6.8% per annum, with an average consumption level of 3.4 times per week. The occasion predominantly occurs in the work environment – often provided for by the business, for free. It is not of a particularly high value, at $2-50 per occasion. It is more prevalent amongst young – 70% of teens, 50% of 20's, yet less than 30% of Seniors have a mid-morning snack.

The Mid-afternoon Snacking Occasion

The mid-afternoon occasion represents the origins of snacking entering the mainstream – an innocent treat for kids after school. We no longer feel we can survive more than 3 or 4 hours without eating – thus mid-afternoon has for many become a required occasion. Inhibitions tend to 'go out the window' – senses that we are all victims of it, as any health concerns also are relaxed. It is as much a mental as physical need – a feeling of 'flagging', need to get thru the rest of the day.

Quantification:

The mid-afternoon snacking occasion is a $9.5Bn market, growing at 2% per annum, spread across all channels: planned & spontaneous. It is the most common snacking occasion with pretty much all ages participating with a frequency of 3.7x per week. The occasion happens across a breadth of contexts, both at work but also when people are on the move.

The Evening / Night time Snacking Occasion

The evening snacking occasion is more of a modern day phenomena – skewed towards younger adults. It predominantly occurs at home, having been pre-purchased from the supermarket. Foodservice sees it as a growing opportunity – extended hours & the fourth meal concept. Thus it is increasingly happening out & about – prolong the time we are able to socialise with friends.

Quantification:

The evening snacking occasion is a $7.6Bn category, growing at 6.8% - the fastest growth of any category. On average, Australians who snack in the evening, do so 3.5x per week – though heavily skewed towards 18 to 34's. Over 90% of these snacks are consumed at home, either solos or with a partner.

The Breakfast Snacking Occasion

Snacking is increasingly pervading meal occasions, particularly as our lives become more disrupted, and meals are skipped. In these instances, snacks are more often referred to as 'on-the-go' occasions, as portability becomes key. Breakfast has for a long time believed to be 'the most important meal of the day' – though even that is being challenged. A proper breakfast is a highly aspirational way-of-life, such as a weekend café social event. But during the working week other life style drivers are impacting normal breakfast, particularly amongst those who seek to exercise early.

Where as others feel they can't face breakfast & would prefer to 'catch up' later in the day. The breakfast occasion is the most ritualistic, meaning we tend to turn to tried & tested options, with little variation.

Quantification:

Breakfast is a $12Bn meal occasion, with almost 20% of occasions occurring outside of the home. Off a low base, it is the fastest growing area of snacking: with on-the-go breakfast growing at 9.4%. On average, the value associated with breakfast consumed at home is $2-25, where as out-of-home is $4.00 (2011).

The Lunchtime Snacking Occasion

Lunch is the most common out of home consumption occasion – become second nature for many, who never consider taking a 'packed lunch'. Lunch has not only become a social occasion – colleagues choosing where to visit on a particular day. But lunch is shifting from a 'complete meal' (such as pasta), to a number of meal (or snack like) components – a couple of sushi rolls and a yoghurt.

Quantification:

Lunchtime is a $34Bn meal occasion, however the vast majority of this is a meal not a snack. This equates to over 6 occasions per week (we rarely skip lunch) and around $6 per person. Lunch is the only meal occasion that occurs predominantly out of the home. Only retirees exhibit markedly different lunch behaviours

5. Emerging Drivers of Snacking Choices

Consumer Driven Foresight Themes

5.1 Enhanced Health & Wellbeing – An Expectation that Snacks will Deliver

Snacking is no longer relegated to a bit part in our diets but is now seen as being a significant contributor, meaning that for most it is required to have more 'food credentials'

⇒ Increasingly snacks are consumed as meal replacements – events transpire that people don't have the opportunity for a proper meal, thus require a snack to see them through

⇒ Consumers feel they are better educated as to what's good for them: shifting from 'free from' claims, to seeking more positive nutritional benefits

⇒ Consumers are becoming more conscientious and experienced – a diet with a wide variety has enabled them to adopt a trial & error approach as to what works for them

⇒ Snacks have risen in prominence, particularly as many consistently 'graze', so much so that snacks are now considered a primary source of nutrition

5.2 Snacking Dynamics – A New Relationship with Snacking

Consumers no longer all snack in the same way, there now existing different types of relationships with snacking:

Spontaneous Snackers: Respond to how they feel thru the day – a roller coaster of physical and emotional needs. Generally find snacks hard to resist – seeking instant gratification, buying snacks at the checkout. Snacking is a personal thing - buy a wide variety & try new snacks. This still represents over 50% of the way people snack.

Planned Snackers: Snacks are sourced through planned shopping trips. Snacking is part of their daily life, with habitual behaviours and snacking being an important part of socializing (i.e. mid-morning coffee break). They typically have a well stocked snack cupboard at home, but most importantly, snacks are 'well placed' – in the desk drawer, bag, etc. ready when required. They tend to have limited repertoires – they know what like, and things have a proven role.

Purposeful Snackers: This group of consumers is proactive as to how they are going to be feeling throughout the day – seeking to maximize how they adapt and stay on top of things. They make informed choices, based upon taste, nutrition and social context. To them, snacking occasions are as important as meals. This segment is the fastest growing and the one that is happy to spend the most on their snacks to get what they desire in any situation.

5.3. The Social Context – No Longer a Purely Personal Experience

No longer are our snacking choices purely personal – an internal struggle between guilt, cravings & looking after ourselves. Our food & beverage choices convey a great deal about who we are to our peer group and broader social context.

- ⇒ Few people are able to look beneath the surface of what a product contains or delivers – we rely upon popular opinion to shape our choices
- ⇒ Whilst many have a strict set of criteria they use for their own snacking choices – when snacks are offered to be shared by others, few can resist
- ⇒ A great many meal occasions, particularly for younger consumers revolve around social interaction at food service locations

5.4. Food Expectations – Every Food Occasion is an Experience

In our busy & hectic lives food takes on far greater significance. What was once primarily motivated by sustenance, a desirable experience is no longer the exception but has now become the daily norm.

- ⇒ Premiumisation has impacted almost every category from ice cream to coffee. For many, having the premium alternative is no longer the exception, but the everyday
- ⇒ Cosmopolitan tastes / embracing foreign food cultures – we actively seek out interesting new taste experiences and many foreign food cultures are an established part of our repertoires – Japanese, Mexican, …
- ⇒ Ease & Convenience impacts all meal occasions – our higher discretionary incomes and more pressured working lives leads to us being prepared to pay a premium for desirable food solutions / eating on-the-go
- ⇒ Embrace food service – what used to be an exception has now become a part of the everyday / we think nothing of eating out 2 or 3 meals a day (café – breakfast, fast food drive-thru lunch, …)

Supply Chain / Capability Driven Driver

5.5. New Packaging Solutions – Functional & Emotive Benefits

For a product that has obvious freshness / hygiene issues, new packaging solutions can transform the product experience as well as our initial impression

- ⇒ Packaging that assists preparation, either for those less capable (teenagers) or to save us time during our busy days
- ⇒ Packaging can preserve freshness, not only for hygiene issues, but for a premium taste experience
- ⇒ Packaging has the capability to add portability & allow contrasting products to be combined prior to consumption, greatly enhancing enjoyment
- ⇒ Perhaps most importantly, packaging can create a whole new perception of a product – i.e. shift a bite sized product away from being compared to a doggie treat

5.6. Snackings Omnipresence – New Channels of Distribution are Emerging

Omnipresence or **ubiquity** is the property of being present everywhere at the same time – an unbounded or universal presence. This characteristic is most commonly used in a religious context – meaning minimally that 'there is no place to which God's knowledge and power do not extend'.

- ⇨ Packaging Vending places snack foods right when we most need them – at times and places when we most desire a snack, whether mid-afternoon at work, or leaving a pub a One O'clock in the morning
- ⇨ It is no longer just bookshops with their 'dwell time' cafes that see the value in offering snack products – mainstream retailers see the margin and business building opportunity in offering snack foods
- ⇨ Many airlines no longer believe that customers value an in-flight meals, particularly for 'short-haul' flights. In stead, they are offering a range of snack options, from Pringles, to muesli bars, to cheese snack packs.

5.7 Snacking as Part of the Mainstream – Entry of Traditional Channels

With snacking in continued and long term growth, in contrast to 'main meal' consumption, many channels are looking beyond their existing offerings and getting more serious about developing snacking / on-the-go solutions.

- ⇨ Coles & Woolworth's have achieved strong growth from the continued development of convenience foods – the ever-expanding bank of in-store freezers is a testimony to this. Whilst this continues to work well for them (i.e. the part-cooked meat cuts), they are seeking further growth opportunities.
- ⇨ Coles & Woolworth's recognise our shifting behaviours through snacking / eating on the run, but they are not perceived to be the natural channel solutions. Thus they are giving prominence to snack products and ready to eat food solutions.
- ⇨ Fast Food outlets have long grown their business thru broadening their occasion footprint – such as their success in entering the breakfast market. This was achieved with minimal menu changes & only incremental staff costs.
- ⇨ They have taken this same approach to broadening their appeal to mid-meal occasions, with more grazing / snacking options that can be consumed at any time of day. Most simplistically this is being achieved through alternative portion sizes of the same core offering.

6. Outcomes Overview

The following opportunity spaces were identified thru combinations of our 'Snacking Drivers': Both Consumer driven foresight themes and Supply chain / Capability drivers.

1. **The Re-Invention of a Cultural Icon** - as one of the original snacks, meat pies & sausage rolls have many redeeming features, but have also failed to evolve to changing expectations:

   ⇨ Sausage rolls and pies have been around for a long time – they are part of the Aussie culture.

   ⇨ Whilst highly relevant to Blue-collar workers and appealing to many more on certain occasions (i.e. The Footy), for the most they have become marginalised.

   ⇨ Jokes abound as to what's contained within – the price of the humble pie has thus been stilted. Most bakeries will charge more for a coffee, than a pie.

   ⇨ Sausage rolls & pie's have the potential to develop far more value-added associations, finding a platform for quality and authenticity.

   ⇨ They would also do well to address their poor health associations.

2. **Shaping the Jerky Opportunity** - Jerky is gaining traction in the Australian market, but it could be so much more that the limited path that it seems to be on.

   ⇨ Jerky is hugely popular in many markets - US, S. Africa, with an array of offerings

   ⇨ Jerky has momentum in the Australian market, with many new brands appearing across a diversity of channels

   ⇨ However, these offerings tend to be somewhat 1-dimensional, limiting the opportunity for what dried-meat based snack offerings could become

   ⇨ Rarely have more people 'rejected' a product they have never tried – often because of negative social imagery

   ⇨ Given the properties of Jerky, there is huge scope to explore different angles

3. **The Re-Emergence of a Childhood Favourite** - Meat based sandwich spreads, re-invented – what every big kid loves, to make the perfect sandwich

   - ⇨ Many products are fondly remembered from childhood times
   - ⇨ The opportunity to not only change the texture of red meat, but add complimentary flavours opens up a wealth of opportunities
   - ⇨ Processed red meat products suffer from low product quality associations – ‘off cuts’
   - ⇨ Many products have revitalised their associations thru discovering cosmopolitan European connections – (i.e. liver sausage to pate)
   - ⇨ New packaging formats enable the transformation to be complete

4. **A New Format Enables Grazing** - Mini meats have the potential to fulfill a breadth of occasions and add a new dynamic – sharing

   - ⇨ Popcorn for couples to share at the movies is iconic
   - ⇨ The promise of shared & enjoyable social experience is highly appealing
   - ⇨ Popcorn chicken is a big success for KFC, providing for new food occasions
   - ⇨ New packaging formats allow these products to be consumed for self on new occasions – i.e. the dashboard cup
   - ⇨ Their scalability makes them highly flexible to suit different contexts – a small taste thru to a complete meal

5. **Sliders have Demonstrated Appeal & Success** - the most popular item when platters of food are served at sophisticated, social events - leaving people wanting more

   ⇨ Miniaturized version of existing offerings have a transformational impact upon impressions i.e. choc mini's = premium sharing

   ⇨ They are seen as more stylish & sophisticated – their origins as hors d'ouvres

   ⇨ Smaller portions are (mistakenly) seen as more permissible

   ⇨ Miniatures works well for products that deliver a strong flavour hit – prolonging the pleasure

   ⇨ Mainstream channels see the opportunity to deliver miniature solutions as an evolving part of their offerings – fast food, supermarkets etc.

6. **Re-thinking On-the-go Breakfast** - Cooked breakfast are the most satisfying, but red meat options have struggled to find a role.

   ⇨ A hot breakfast is regarded by many, as the most desirable of breakfasts – but these days few have the time.

   ⇨ Whilst red meat has largely missed out, an on-the-go solution provides new possibilities.

   ⇨ To satisfy people with active life styles, on-the-go meal solutions need to provide more serious food credentials than other snacks.

   ⇨ New packaging possibilities and channels with enhanced delivery capabilities enable new solutions to be developed

   ⇨ The omnipresence of snacking makes delivery to where & when needed