MARKET SNAPSHOT | BEEF

Australia

In recent years Australia's economy has remained strong; however Australian consumers' confidence is being weighed down by high household debt and low wage growth. Disposable income has failed to grow with inflation and broadly rising living costs (electricity, childcare, rent), which is impacting consumer purchasing behaviour around categories like fresh meat causing them to become more cautious and price sensitive. However, overall Australians continue to be big consumers of meat, being the sixth largest per capita consumers of beef in the world *(Source: OECD)*.

Beef consumption in Australia is facing some challenges and opportunities:

- The 'premiumisation' trend across both retail and foodservice channels highlights consumers are willing to pay more for the right offer. Fresh meat such as beef is a key category consumers are willing to spend more on.
- Messaging around factors such as country of origin, environmental impact, animal welfare, health and safety, along with food integrity and transparency, provide opportunities to consider in consumer communication.
- Australia's changing demography provides some macro challenges for beef with two broad trends of increased migrations from Asian countries (where pork is the dominant protein), and an ageing population who are avoiding red meat for health/functional/price reasons.
- Competitive pressures will continue on beef with ongoing competitor marketing activity (particularly pork), aggressive pricing (chicken) and the increasing profile of alternate proteins such as turkey and salmon.
- Maintaining value share will be challenging if beef's price premium to chicken/pork grows larger as the primary reason for consumers eating less red meat is currently due to cost and not health.

Population

24.5 in 2017

25.7 in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning*

>US$35,000/year

9.5 in 2017 | **10.5** in 2021

>US$50,000/year

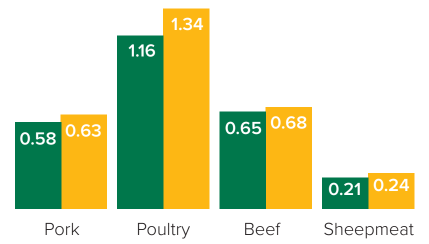
7.9 in 2017 | **9.0** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

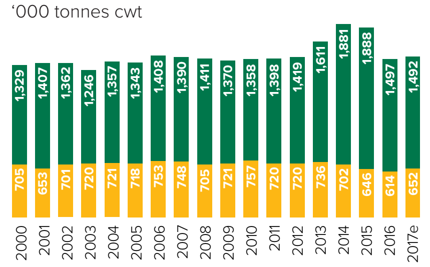
*Disposable income

Meat consumption



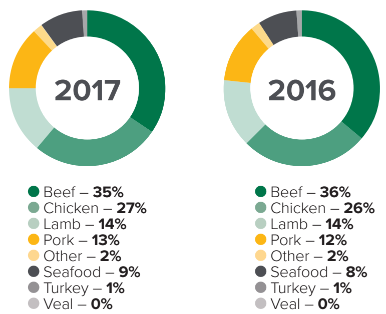
Source: BMI Research, OECD (2017 estimate, 2021 projection), MLA

Domestic utilisation (share of produced volume)



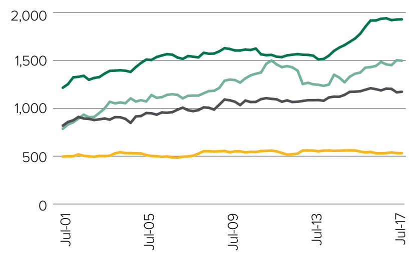
Source: ABS, MLA estimates *e = estimate*

Retail fresh meat share



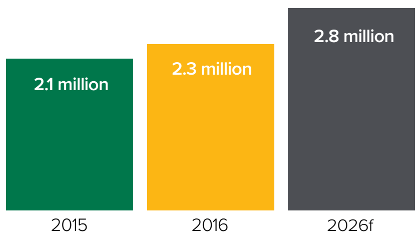
Source: Nielsen Homescan, MAT to 04/11/2017 vs year ago

Australian retail meat price (¢/kg)



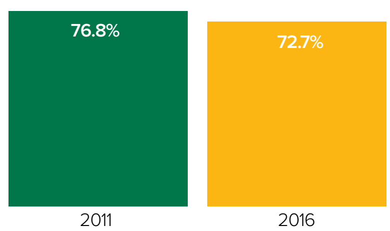
Source: Source: ABARES, calculated using ABS data

Single person households



Source: ABS

English only spoken at home



Source: ABS

Median age in Australia

Source: ABS, BMI

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Consumers

- Australian consumer demand for beef is impacted by many factors, such as demographic shifts, income growth and changes in people's attitudes and beliefs towards food from family, friends and the media.
- Overall awareness of beef is high among Australians, with average consumption being around two serves a week (slightly less than chicken) *(Source: MLA Global Consumer Tracker Australia, 2017)*.

Protein image profiles

	Beef	Lamb	Chicken	Pork	Seafood
Easy everyday	✓		✓		
Goodness	✓				✓
A little bit special		✓			✓

Source: MLA Global Tracker
* Tick = Area of strength vs other proteins

- Beef's strengths are around its perception of being a 'trusted quality'. It is also perceived as 'easy everyday' when compared to other proteins, such as lamb, seafood and pork, but is behind chicken on this measure *(Source: MLA Global Consumer Tracker Australia, 2017)*.
- There is an opportunity to increase beef's appeal by reinforcing quick, easy and convenient ways that it can be prepared for everyday healthy meals *(Source: MLA Global Consumer Tracker Australia, 2017)*.
- When consumers are shopping for beef, the key information they look for on the pack relates to price and then freshness (meat colour, use-by date), followed by elements such as natural, hormone-free and animal welfare *(Source: MLA Global Consumer Tracker Australia, 2017)*.
- Research by Roy Morgan into Australian Food Attitudes from 2006 to 2016 highlights some key trends that beef messaging can leverage with now almost three quarters of the population (72%) saying they enjoy food from all over the world (up from 65% in 2006). Food without additives in it has also become increasingly popular along with a preference for taste over ingredients. Interestingly some of the health-orientated dietary concerns such a low fat diet has dropped *(Source: Roy Morgan)*.

Rising costs of living

Australian consumers are paying higher prices for utilities, childcare, health and education, which in turn is contributing to more cautious consumer spending on food and grocery items according to recent research commissioned by Coles. Coles CEO John Durkan has come out and said Coles customers, particularly in lower socio-economic areas, are shifting from buying premium products to the supermarket giant's own range of private label products, and are spending less on fresh produce and fresh meat, despite relatively low food and grocery price inflation over the same period.

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

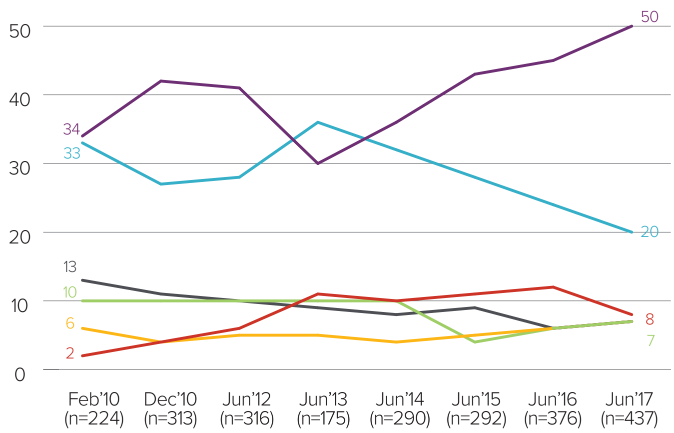
Source: MLA Global Consumer Tracker Australia, 2016

Australia's increasingly diverse population

High levels of immigration are driving Australia's population growth and also leading to a more increasingly diverse population. In the most recent ABS survey it showed that more than a quarter of Australia's residents are now born overseas, and for the first time in Australia's history, the majority of these people born abroad are from Asia rather than Europe. This is leading to foodservice and retailer operators looking at adjusting in-store/menu space that better targets these changing demographics.

- As the retail price of red meat has trended upwards since 2013, consumers claim price to be the main reason for eating less red meat, above health or animal welfare/environment concerns (see figure below).
- Despite beef's price premium to many other proteins it remains a very popular meat choice with Australians, being the sixth largest per capita consumers of beef in the world *(Source: OECD)*.

Main reason for eating less red meat



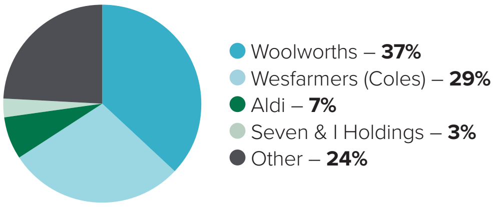
Too expensive · Health concerns · Concerned about treatment of animals · Don't like the taste anymore · Environmental concerns (any) · Other

Source: Pollinate/MLA

Retail

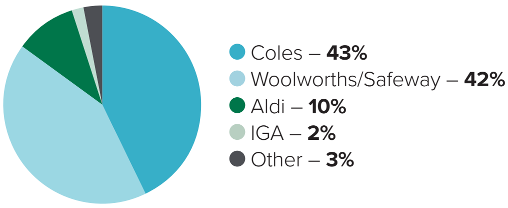
- Beef had the highest share of retail sales of any meat in 2016-17, with around 36% share of fresh meat sales (by value) *(Source: Nielsen Homescan)*.
- It is a critical category for retailers with the average grocery basket value typically worth $45, it jumps to around $80 when the basket includes fresh meat/seafood *(Source: Nielsen)*.

Grocery retail market shares – 2017



Source: IGD

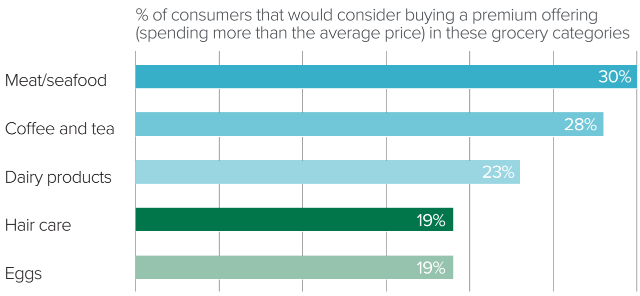
Main supermarket of purchase – beef



Source: MLA Global Consumer Tracker Australia, 2017

- There is an increasing focus on convenience options with supermarkets expanding their ready-to-eat meal range and convenience stores trialling new formats (i.e. Caltex's 'The Foodary') and new promotions (i.e. 7-Eleven's Friday $2 Pie Day). These retailers are all targeting this key shopper trend and seeking incremental sales that might otherwise have gone through the foodservice channel.
- Premiumisation trend is growing within retail and red meat is well positioned with meat as a category being Australian consumers top choice when considering a higher price tag. Just under one-in-three consumers (30%) in Australia would consider spending more on a premium meat offering *(Source: Nielsen Global Online Survey on Premiumisation)*.

Top upgradable grocery categories – Australia



Source: Nielsen Homescan Grocery E-Commerce Survey

There is a growing food box meal kit trend in Australia (such as Hello Fresh, Marley Spoon and Aussie Farmers Direct). These generally include portioned ingredients and simple recipes that allow consumers to quickly create their meal. They now capture 0.8% of the online grocery market *(Source: Nielsen Homescan Grocery E-Commerce 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 Australian grocery market is highly concentrated by global standards, with the two big retailers making up over 60% of the market. Coles, Woolworths and IGA all have a broad and significant national footprint, with Aldi currently catching up through expansion into the western states and increasing store counts on the East Coast.

Key facts about major Australian grocery retailers

- Strong competition has continued in the Australian grocery market in 2017 with the ongoing growth of Aldi and Costco placing pressure on all retailers with price emerging as a core strategy across the board.
- **Woolworths:** Food sales experienced a strong turn-around this year with revenue growing +4.5% in 2017 *(Source: Woolworths)*. Key developments behind this improved performance has been a focus on store refurbishment and trialling new formats. Woolworths has also continued to invest in price with annual deflation at 2.1% *(Source IGD)*.
- **Coles:** Food and liquor sales were up +2.0% year-on-year in 2017 behind Woolworths for the first time in recent years. Its continued 'Down Down' price strategy has led a food and liquor deflation of 0.8% for 2017 *(Source: Coles)*.
- **IGA (Metcash):** Supermarket sales continued to capture low growth in 2017 up +1.3% on last year. Broadly Metcash have lagged behind the growth of Coles and Woolworths in recent years as the competition, especially around price has intensified *(Source: IGD)*.
- **Aldi:** Rapid expansion has continued at Aldi and is forecast to operate 590 stores nationwide by 2021. It experienced the largest growth (albeit off a smaller base) out of the four majors with a +12% increase in sales year-on-year *(Source: IGD)*. Aldi is seeking to attract new customers with a widening range and a better fresh food offering.
- **Costco:** Sales grew +15% as Costco plans to continue opening more new stores moving forward increasing from its current nine stores to 15 by 2021 *(Source: IGD)*. The focus is on having a complete food and general merchandise offer in one place, which is often sold in bulk.

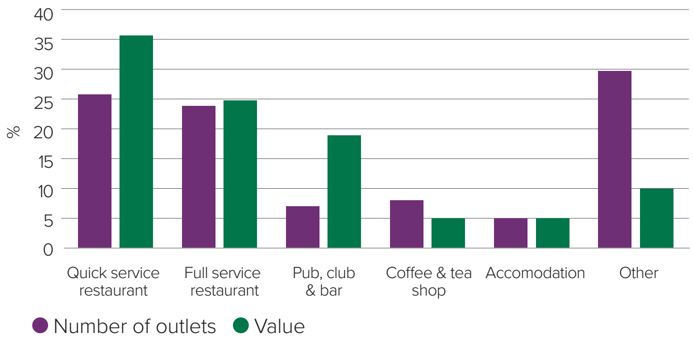
The changing face of food retail

The retail sector in Australia is expected to undergo some significant change in the near future with the rapid increase in Woolworths and Coles sales though their online channels, Amazon Marketplace's launch and anticipated entry of new retailer Kaufland (operated by the world's fourth largest retailer, Germany's Schwarz Group). We are also seeing some changes in approach from current retailers with David Jones opening a premium food hall in Bondi Junction and Costco and Metcash both launching new services into the online space. Costco has introduced a B2B delivery service in Melbourne and Metcash flagging a new digital portal in 2018 called IndieDirect.

Foodservice

- Beef is the third most popular fresh meat protein consumed through the foodservice channel after chicken and seafood *(Source: RIRDC/Fresh Agenda)*.
- The Australian foodservice sector is a key channel for beef and sources approximately 28% of our domestic beef and veal supply *(Source: RIRDC/Fresh Agenda)*.
- The foodservice landscape is large, and competitive, with around 87,000 places to eat out, dominated by quick service restaurants (QSR), cafes, and casual dining restaurants. Generally, it is highly fragmented, with many individual companies having small market share, exceptions include QSRs and institutional channels such as hospitals and aged care.
- Australians eat out an average of two to three times a week, with the foodservice market growing at a moderate pace in recent years averaging 2-3% growth annually. This is largely being driven by rising transaction prices, following the 'premiumisation' of food offerings across most channels *(Source: GlobalData)*.

Foodservice channels: Outlets number and values (% of total)



Source: GlobalData

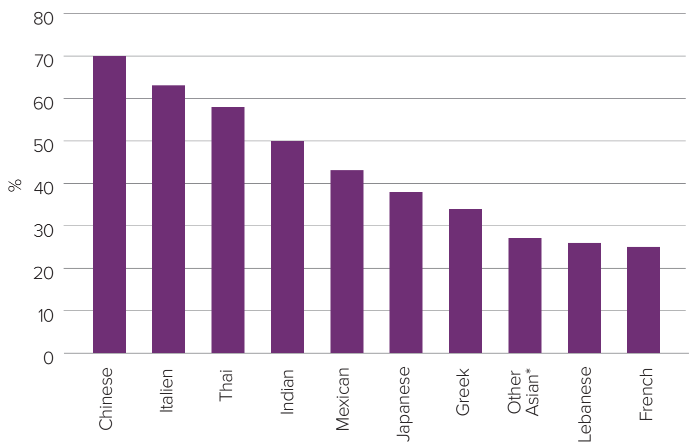
- Over 80% of foodservice sales in Australia will go through either a quick service restaurants (QSR), a full service restaurant (FSR) or a pub, club and bar.
- Within foodservice beef has strong volume share in FSR and takeaway along with institutions (such as aged care & hospitals) and has opportunity in the event/leisure space.
- A key trend for beef has been the emergence of fast casual outlets that have forced up expectations of consumers. This trend has created a race among traditional QSR operators to "premiumise" their brands and offering – this includes the removal of additives, introduction of natural ingredients and updated outlet decors *(Source: GlobalData)*.

Modern Australian dinner parties

A recent study conducted by Galaxy Research on behalf of MLA has highlighted some new trends for Australian dinner parties with 32% attending parties where everyone helps cook a culturally diverse meal. The majority of hosts (61%) also now plan their menu based on their guests' dietary needs (with 20-25% of hosts catering to gluten and dairy intolerances).

- Australia is often referred to as a 'takeaway nation' with 48% of consumers having eaten a takeaway in the past week. This number is expected to increase with the emergence and continued growth of numerous food delivery companies that open up the ability of FSR operators to outsource delivery. *(Source: GlobalData)*

Favourite international cuisine types



Source: Roy Morgan Single Source (Australia), Jan-Dec 2015 (n=15,367)
* Other Asian includes Vietnamese, Indonesian, Malaysain, Korean, etc

Food delivery apps having an impact

The four largest food delivery apps in Australia are UberEATS, Deliveroo, Menulog and Foodora with an estimated combined market share of 75% *(Source IBIS)*. These food delivery apps have been a contributor to the growth in the foodservice sector and are now establishing partnerships with the major QSRs (McDonalds has partnered with UberEATS and KFC Foodora). A Sensis eBusiness survey of 800 Australian consumers has found that nearly-half (47%) of shoppers are now buying take-away online, up from 36% 12 months ago. This is driving two key trends some restaurants are changing to cater to this delivery channel (specific menus and store format), while others such as fine dining restaurants, are focusing on ensuring customers continue to come in for seated meals by offering unique dining experiences.

- 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.