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Understanding Food Markets Outside Retail

Part 1: What is Foodservice?

By Steve Spencer

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UNDERSTANDING FOOD MARKETS OUTSIDE RETAIL

Part 1

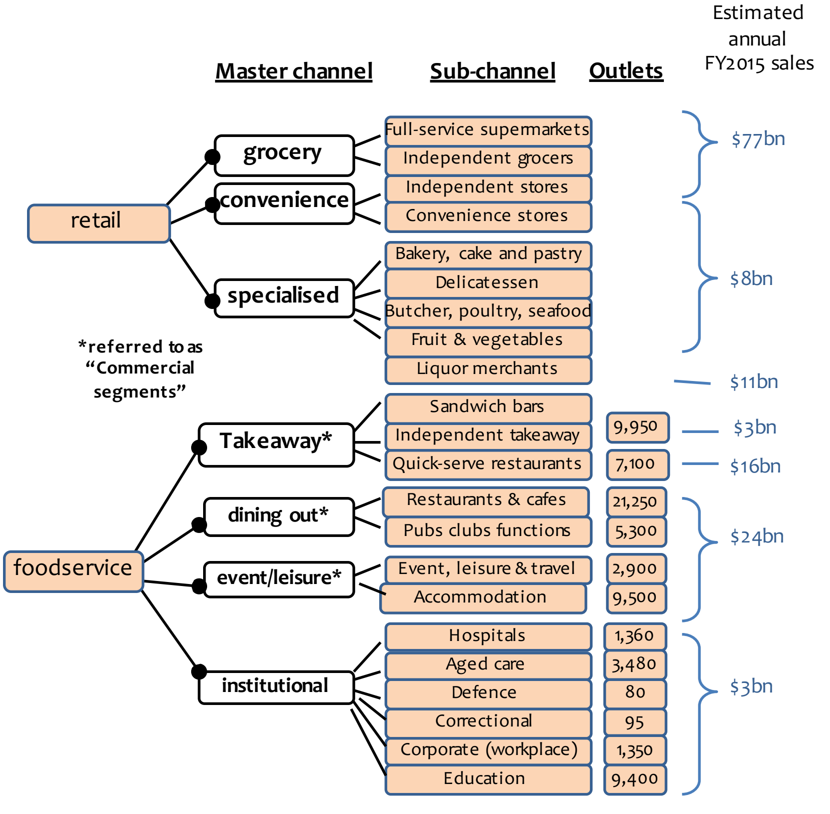
WHAT IS FOODSERVICE?

The big picture

Distribution to consumers

- The chart on the right shows the mix of estimated total spending through the various channels to the consumer. This draws on the analysis conducted in the FOODmap study in 2012 updated to 2015.
- The numbers of outlets in the chart were assessed in June 2015. They have been established based on a variety of sources, including data from industry groups, databases of food establishments, and information from specific retail and foodservice chains.
- This shows the significant influence of the grocery channel on overall spending on food with a high percentage of sales through a relatively small number of outlets.
- While a large influencer of the value available at wholesale, grocery is a key determinant of value in the broader food market.
- There is some potential minor double-counting in this analysis, as some of the smaller independent retail and food service outlets buy food and other groceries through grocery chains and specialist food stores (such as bakeries and butcher shops).

Figure 1.1 – Size of channels and distribution to consumers



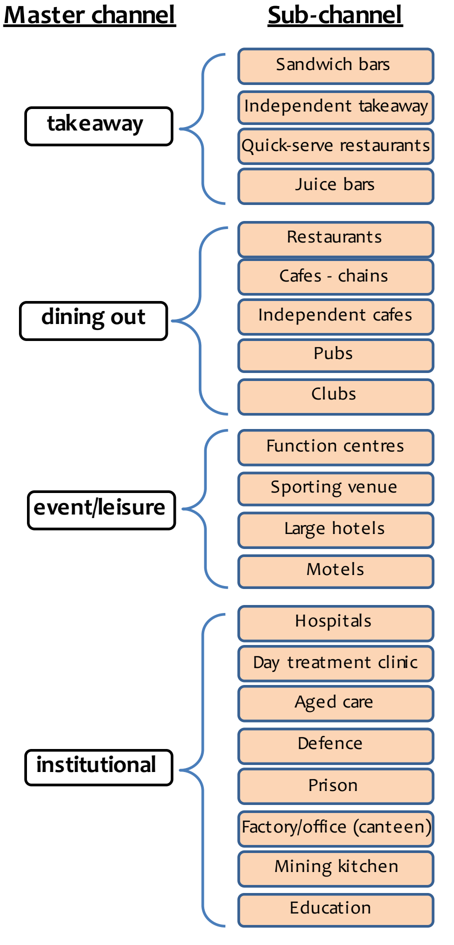
Source: Freshagenda analysis drawing on ABS, IBIS

The big picture

The composition of major segments

- The chart on the right further illustrates the diversity of outlets arranged by each of the "master channels".
- The classification of channels into large groups is based on their characteristics in terms of the nature of the outlets themselves and how meals are generally provided to patrons.
- There is some blurring between these sub-channels. Many of the meals provided by Quick Service Restaurant (QSR) chains – especially some of the recently-emerged cuisine-based groups – are eaten in-house at provided tables, yet essentially those operations are primarily geared to serve takeaway meals.
- There is often blurring between restaurants and cafes – cafe for this definition is a venue that is themed around the service of coffee and/or other hot drinks.
- Many accommodation hotels will feature restaurants that draw significant numbers of patrons not staying at the hotel, and hence which compete against other restaurants in the hotel's proximity.
- Many large sporting venues feature QSR-style outlets as well as clubs and pubs. They are however typically managed as a single major facility.
- Institutional food channels are based on large commercial kitchens where meals are made, assembled, or reheated for large-scale provision to patients, inmates, employees or students. The meals and consumers may be radically different, but the systems and management of these facilities are similar.

Figure 1.2 – The composition of major market segments



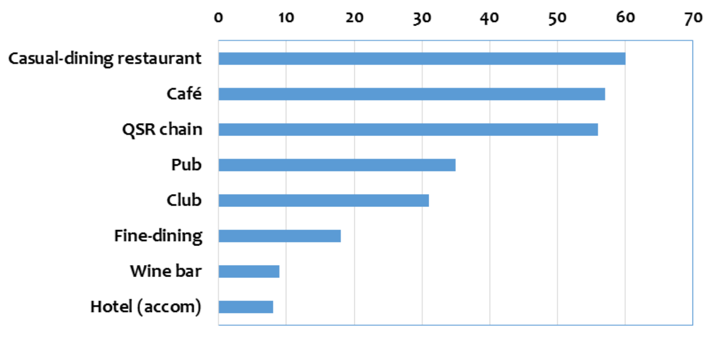
Source: Freshagenda analysis

The state of the market

The composition of the market

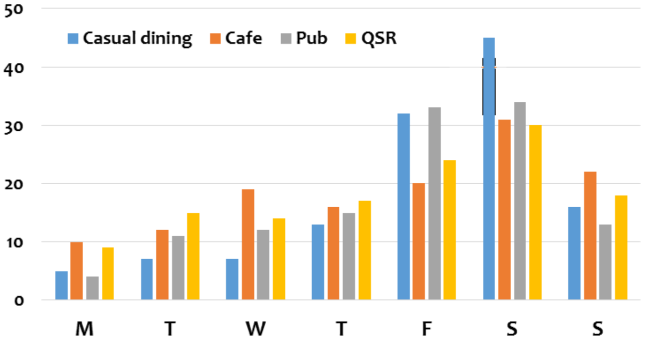
- The charts below provide some high-level analysis of the composition of the overall market in terms of the share of spending, frequency of visits, and the timing of eating out (time of week and time of day).
- This analysis shows the importance of the weekend peak in activity, as well as the importance of different occasions to certain large foodservice channels.
- It also shows the different spending patterns across the market.

Figure 1.3 – Preference in dining at certain outlet types (% of people dining at each outlet type – May 2015)



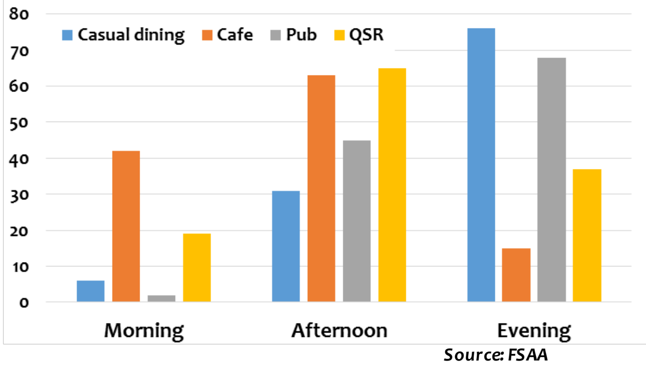
Source: FSAA

Figure 1.4 – Day of week eating out at different venues



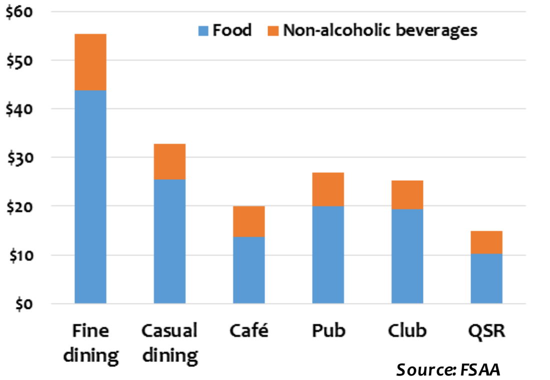
Source: FSAA

Figure 1.5 – Time of day eating out at different venues



Source: FSAA

Figure 1.6 – Average spending per outlet type (May 2015)



Source: FSAA

What is different?

Features	Grocery	Foodservice	Convenience & specialist
Product form	Packaged finished goods	An ingredient for a meal, generally supplied in bulk but increasingly in form to improve convenience	Packaged finished goods Proteins as large primals or portions
Buyer priorities	Reliability Cost	Function Cost as a meal ingredient Waste	
Outlet size/diversity	Limited number of grocery store models	Small, highly diverse range of outlets across different channels	Small, highly diverse requirement
Ability to plan demand	Readily based on established (historical) demand patterns that govern supply chain fulfilment requirements	Limited ability for many to predict walk-in traffic Prone to shifts in patronage	Generally based on established (historical) demand patterns
Path to market	Generally through a major Distribution Centre (DC) High proportion of fresh produce volumes move direct from producer to retailer but co-ordinated through a DC	Complex and diverse, depending on the nature of the product and the sales channels. Distributors – general and specialist – play a major role. Limited volumes move from producer to retailer	Similar to food service but generally through distributor networks
Supply chain costs	Lowest, pressure to reduce further	High-cost, several points of handling and significant roles for intermediaries	Higher than retail due to outlet size/scale, simplifying supply chains with grocer involvement
Reward for convenience	Consumer prepared to pay, but want perceived value	Expected to be built into the service offering by many buyers	Consumers prepared to pay higher than retail
Information resources	Detailed sales data (at a cost) based on retail scanned sales	No aggregated supply or channel data, commercial providers supply survey-based insights	Convenience channel data from providers, some based on scanned sales for larger chains

FOODSERVICE CHANNELS

Channels to consumers

This section

This document provides an overview of the structure of channels from producers and manufacturers through to consumers. This page summarises some of the key supply chain partners relevant to food and beverage suppliers that operate across foodservice. There are a large number of distributors that operate in the sector.

Type	Nature of business	Examples
General distributors	• Large scale distribution networks • Dominating volumes of packaged products into most channels and also into convenience retail • Wide category coverage, extending into fresh chilled categories • Buying practices and category management similar to grocery	Bidvest PFD NAFDA
Drinks distributor	• Chilled milk and juice, and ambient drinks specialists • Servicing many independent foodservice outlets as well as convenience retail and independent grocery outlets • Some are either tied to or integrated into the businesses of specific drinks manufacturers & processors	AIDA group The Distributors
Specialist distributor	• Fresh category specific, generally with cold-chain capabilities • Includes gourmet and "fine foods" specialists • Wide coverage of channels and outlets	Meat/seafood specialists Fresh dairy Imported/ gourmet
Wholesaler	• Distributors integrated into fresh produce and meat wholesalers	Fresh produce or protein wholesaler
Caterers (or Facility managers)	• Large scale contract supply and service co-ordination of facilities that include food and a wide range of other site services for event and institutional outlets	ISS Spotless Delaware North
Cash & carry	• Large retail chains specialising in bulk goods	Costco Campbells
Fresh cut processor	• Process and distribution of fresh produce and prepared meals	Chef's Pantry Snapfresh

Approach for channel

The pros and cons of distributors

Many suppliers of FMCG goods and fresh foods have mixed feelings about the role and impact that foodservice distributors – whether general or category specialists – have on their capabilities to optimise opportunities from foodservice channels. Our consultation provides a set of pros and cons that suppliers should consider when assessing path to market.

Advantages

- Larger distributors **assume the risks of market access** – this includes **reducing the search costs** for an entrant attempting to identify and approach target customers in a preferred channel
- Their use may **improve the spread of market channels reached,** and reduce the dependence on a narrow number of outlets in a specific channel or region that might be exposed to changing market conditions
- They provide **easier management of supply chain logistics** providing **cost efficiencies** between supplier/producer and end-user
- They **assume the working capital risk** by purchasing and storing products in their supply chains for on-supply to customers
- These operations have strong compliance and supply chain management disciplines in place which are based on customer and consumer requirement
- The scope for use of supplier brands (including those in meat protein) is steadily increasing.

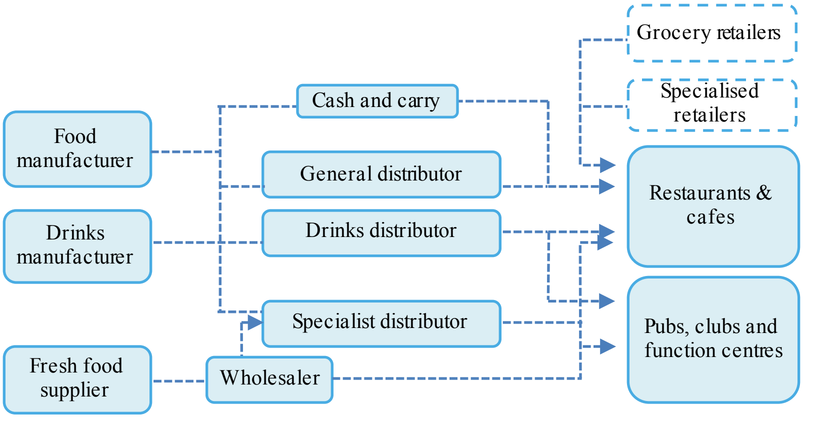
Disadvantages

- Large groups provide **limited visibility to suppliers** of the end-user market segments, to understand trends and better assess needs
- This factor provides a **barrier to supplier-led innovation** that may lower cost or improve functionality and utility of the products supplied
- They **prevent the building of closer relationships** over time between food buyers and suppliers
- There is a **potential layer of profit-margin** that is being either met by the buyer or supplier. There are various views on the likely extent of any cost disadvantage as large distribution groups offer scale efficiencies
- Their use **may limit the ability to offer provenance** into customers that may value such a point of difference – why many go around these models
- Many regard larger operators as **similar to grocery chains** in the strictness of requirements.

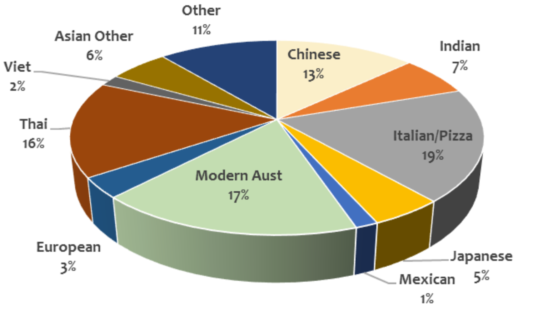
Dining out

The dining out segment

- The largest and most complex segment of the market with significant diversity of cuisine-specialty, price-positioning, size and formality.
- Total outlet numbers are difficult to accurately estimate at any point in time but are estimated at 21-22,000. The diversity of cuisine varies by region, yet over time reflects trends in consumer preferences for variety in dining experiences.
- There has been increased blurring between cafes and restaurants, mostly defined by the extent of emphasis on coffee.
- There has also been considerable change in the repositioning of the "pub" as a gourmet food venue, blurring the distinction with restaurants.



% of restaurants that promote a specific cuisine



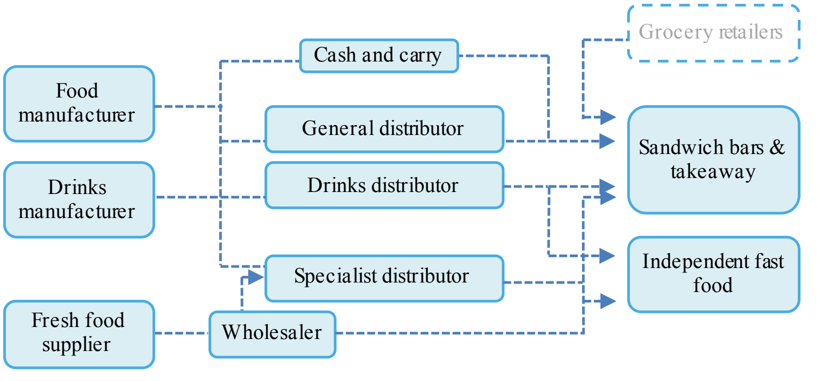
The roles of key players

Role	Priorities	Competitive advantage
General distributor	• Ensuring critical mass of coverage	• Range and geographical coverage
Drinks distributor	• Efficient logistics across all channel types	• Range • Strength of distribution & logistics network • "Fridge ownership" model to ensure loyalty
Specialist retailer	• Improving throughput and unit value to premium outlets	• Agility • Quality of product/service
Cash & carry	• Expansion of club-retailing model across small-scale outlets	• Cost-competitiveness • Range
Specialist wholesaler	• Viable throughput based on network of dependent outlets	• Specialist

Takeaway channel

The takeaway segment

- This comprises a large number of small independently-owned food outlets.
- This segment is very strongly dependent on traffic flows, with a strong focus on servicing workers and shoppers, mostly catering to breakfast, lunch and casual snacking occasions.
- Takeaway outlets in this segment are distinguished from the QSR segment (next page) in terms of operational scale and uniformity.



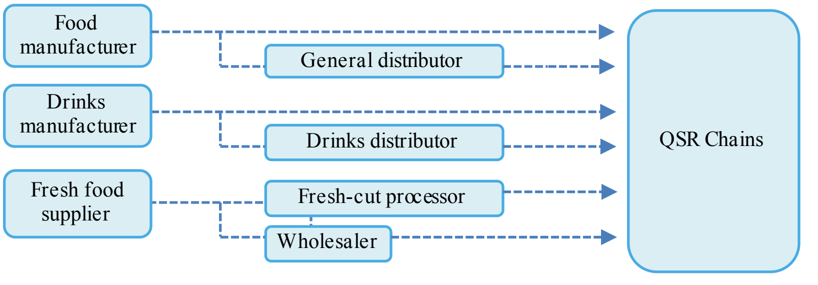
The roles of key players

Role	Priorities	Competitive advantage
General distributor	• Ensuring critical mass of coverage	• Range and geographical coverage
Drinks distributor	• Efficient logistics across all channel types	• Strength of distribution & logistics network • "Fridge ownership" model to ensure loyalty
Cash & carry	• Expansion of club-retailing model across small-scale outlets	• Cost-competitiveness with other suppliers • Range
Specialist wholesaler	• Viable throughput based on network of dependent outlets	• Relationship focus • Cold-chain management • Just-in-time service • Fresh food focus

Quick Service Restaurant channel

The QSR or fast-food segment

- QSR chains are defined by large chains of branded casual dining outlets with uniform product offerings, sourcing, systems, and policies.
- Chains vary significantly in scale and cuisine focus, with increasing diversity in offerings in response to greater demand for variety and value.
- Due to the scale and systems in use, sourcing policies feature more directly-sourced and tailored solutions, and in general are far more sophisticated than the independent fast food segment.



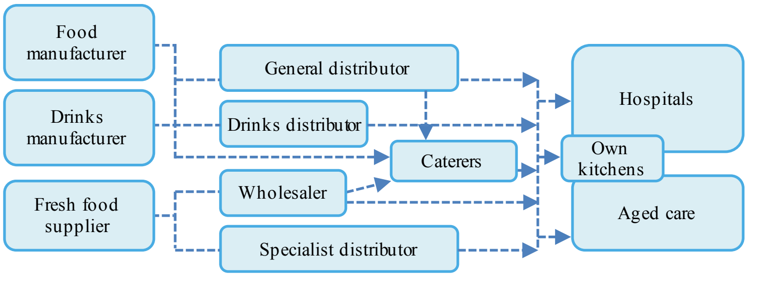
The roles of key players

Role	Priorities	Competitive advantage
General distributor	• Maintaining business growth through expanding small chains	• Strength of distribution & logistics network • Range
Fast-moving consumer goods	• Product solutions and functionality • Close relationships with major QSR chains	• Direct to store delivery
Drinks distributor	• Efficient logistics across all channel types	• Strength of distribution & logistics network
Specialist wholesaler or distributor	• Fresh product solutions to back of house operations	• Cold-chain management • Just-in-time service • Fresh food focus

Health and aged care channel

The institutional care segment

- These segments refer to the provision of meals in catered aged care and hospital facilities, most of which is funded through government programs.
- Various delivery models exist from fully external through to in-house facilities, but there has been a gradual shift towards out-sourced meal supply over food prepared and assembled in on-site kitchens, due to the focus on cost-saving in this sector.
- The size of the market is governed by the number of patients requiring extended care, and number of places provided in aged care facilities and funding available. A much larger number of meals are provided outside the aged care institutions in private retirement villages and delivered meals for at-home care.



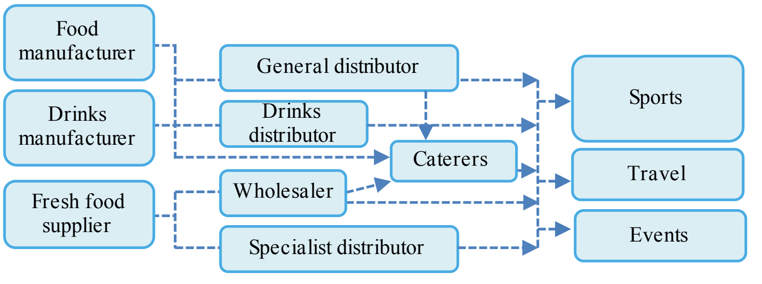
The roles of key players

Role	Priorities	Competitive advantage
General distributor	• Ensuring critical mass of coverage	• Product range (one stop) • Strength of distribution & logistics network
Drinks distributor	• Efficient logistics across all channel types	• Strength of distribution & logistics network
Caterers	• Whole of facility service	• Large-scale meal delivery capabilities • Lower cost than in-house options • Cost-management disciplines
Specialist wholesaler	• Fresh product solutions to kitchen operations	• Cold-chain management • Just-in-time service • Fresh food focus

Events and leisure channel

The events and leisure segment

- This diverse segment covers a large number of venues that stage or host major sporting, cultural or corporate events, including conferences and exhibitions.
- It also covers services to the travel market, either servicing aircraft or airport foodcourts and lounges.
- Corporate events can influence the demand for meals at function venues, hotels as well as private restaurants located adjacent to venues themselves and are hence difficult to measure as a separate segment of the market.



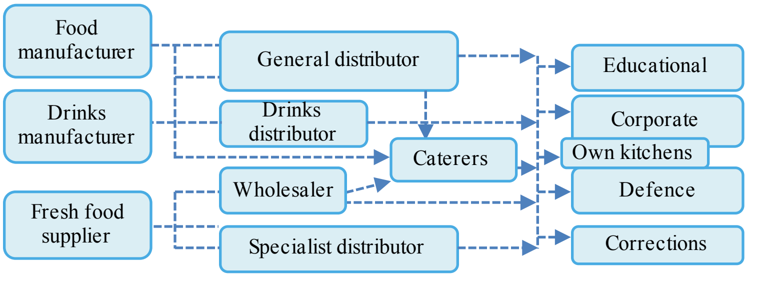
The roles of key players

Role	Priorities	Competitive advantage
General distributor	• What drives their model	• Product range (one stop) • Strength of distribution & logistics network
Drinks distributor	• Brand presence at profile events	• Brand sponsorship or access relationships
Caterers	• Whole of facility service	• Large-scale meal delivery capabilities • Cost management disciplines
Specialist wholesaler	• Fresh product solutions to kitchen operations	• Cold-chain management • Just-in-time service • Fresh food focus

Institutional channel

The institutional segment

- These markets are generally serviced by larger contract caterers and distributors due to the size of the facilities, with fewer in-house meal facilities due to the efficiency of those providers.
- The approach to meal provision at schools varies markedly across states and between school systems.



The roles of key players

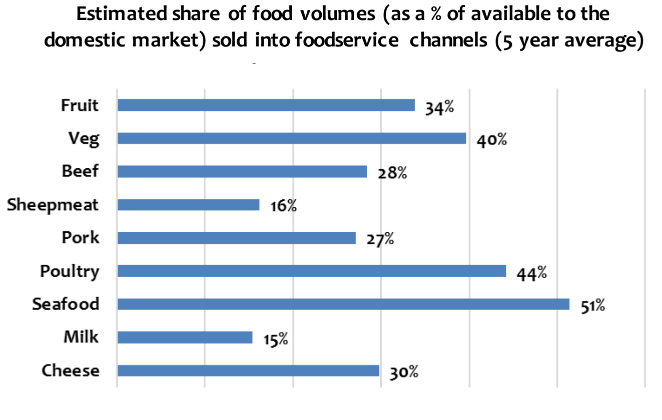
Role	Priorities	Competitive positioning
General distributor	• Ensuring critical mass of coverage	• Range
Drinks distributor	• Efficient logistics across all channel types	• Strength of distribution & logistics network • “Fridge ownership” model to ensure loyalty
Caterers	• Whole of facility service	• Large-scale meal delivery capabilities
Specialist wholesaler	• Addressing low-cost portion requirements to balance usage	• Cold-chain management • Just-in-time service • Fresh food focus

CATEGORIES IN FOODSERVICE

Channel shares

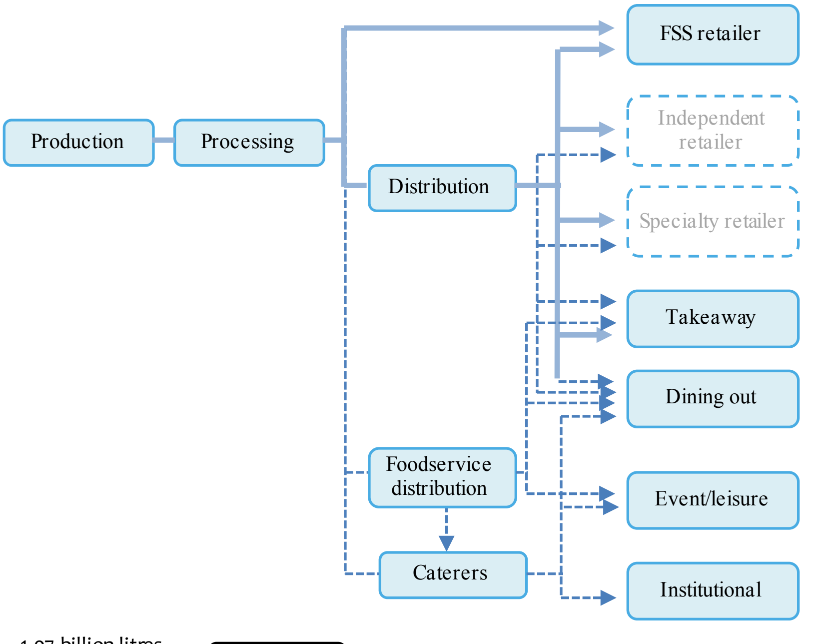
Overall volume shares

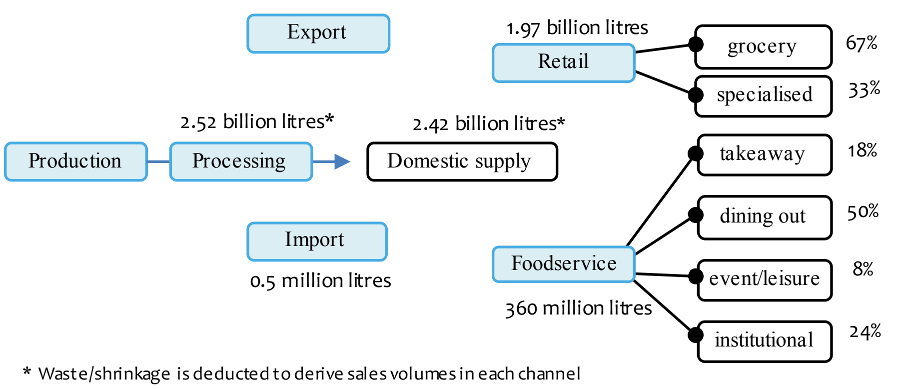
- The apparent share of sales into the overall foodservice market at a category level has been reconciled. This has been developed based on firstly arriving at total food available to domestic markets which is the sum of:
    - Total production (including yields in converting fresh product into processed lines)
    - Less exports
    - Add imports
    - Less waste factors/estimates
- Volumes sold into foodservice are based on estimated retail shares using insights as to the total retail volumes (grocery and specialist stores) at a category level.
- Channel shares have been taken from a number of industry reference points and past studies.
- Poultry is higher than red meat due to the size of the QSR market for processed poultry portions.
- Seafood remains the highest protein sector in percentage terms given the importance of the fish and chips takeaway segment.
- Vegetable volumes exceed fruit with the importance of processed potatoes (a significant portion of which are imported) to the QSR segment.
- While pork and red meat channels arrive at similar outcomes, this is co-incidental due to the size of beef sold into QSR and restaurant channels, and the volumes of processed smallgoods (ham and bacon) sold into takeaway and café channels.
- The analysis shows the volumes sold into food service channels – which may be far more in some categories than those volumes that are actually eventually sold to end consumers. The potential for waste in product sourcing and meal preparation is much higher in food service channels than grocery.



Category size: Milk

Key volume drivers	• Growth in coffee consumption
Key value determinants	• Retail private label white milk prices
Challenges faced	• Balancing supply and offtake in small-scale integrated operations • Retail packages sold through much of food service (not always fit for purpose)
Dominant players	• Wholesale fresh dairy distributors

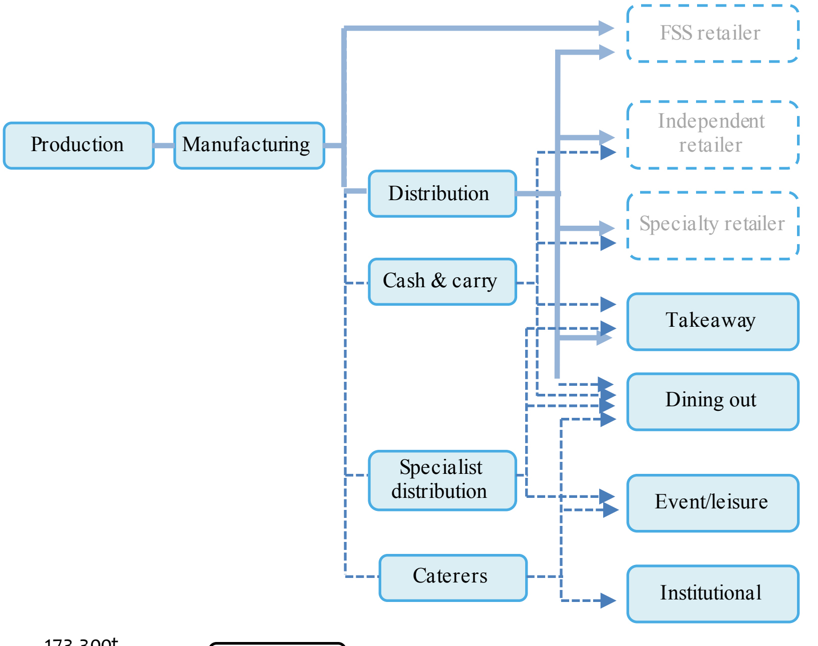


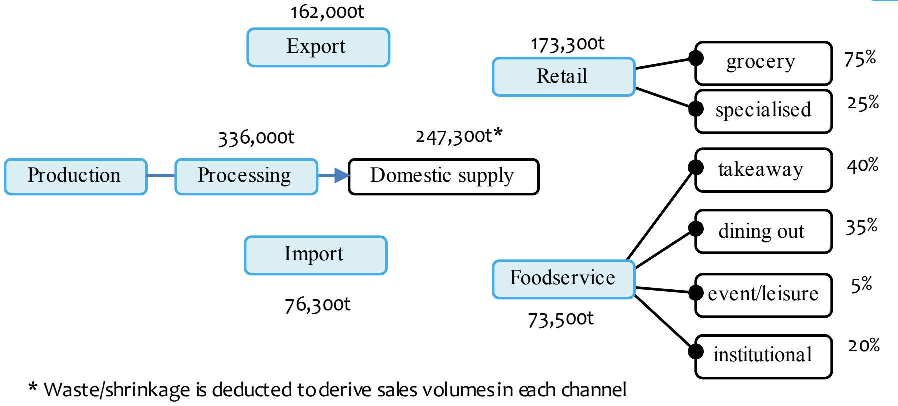


* Waste/shrinkage is deducted to derive sales volumes in each channel

Category size: Cheese

Key volume drivers	• Growth in pizza and burger consumption through QSR chains
Key value determinants	• Wholesale prices for cheddar and mozzarella
Challenges faced	• Volatile world prices for cheeses, sold into the large volume segments of the market which are price-sensitive
Dominant players	• QSR chains • General distributors increasing cold-chain business

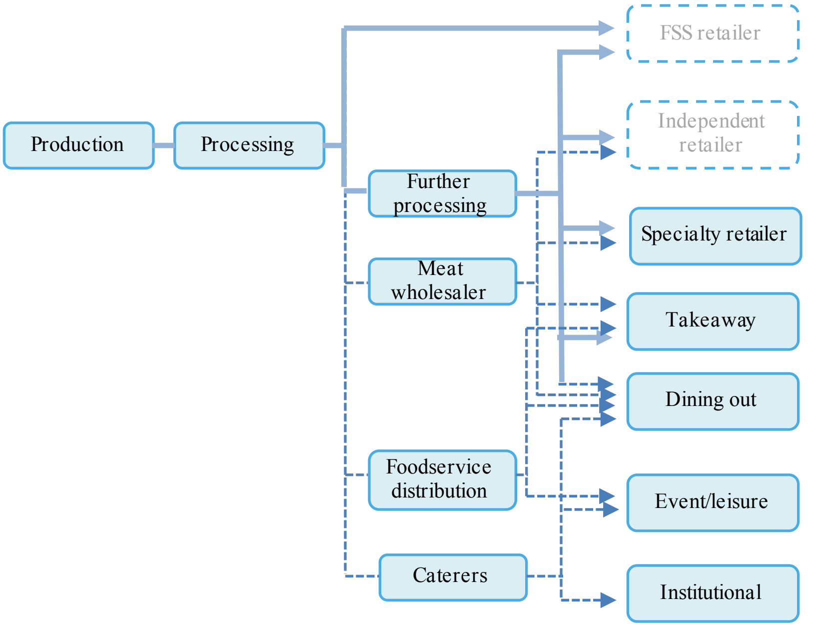


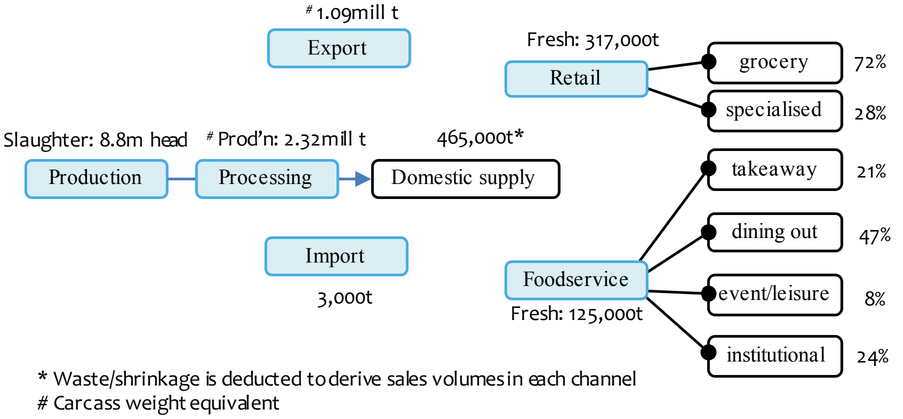


* Waste/shrinkage is deducted to derive sales volumes in each channel

Category size: Beef

Key volume drivers	• Growth of pizza and burger consumption through QSR chains • Demand for gourmet burgers through various segments of the dining out market • Consumer health concerns regarding red meat
Key value determinants	• Export returns for beef primals and portions
Challenges faced	• Volatile world prices for beef, sold into the large volume segments of the market which are price-sensitive
Dominant players	• QSR chains • Local butchers servicing larger portions of the dining out market

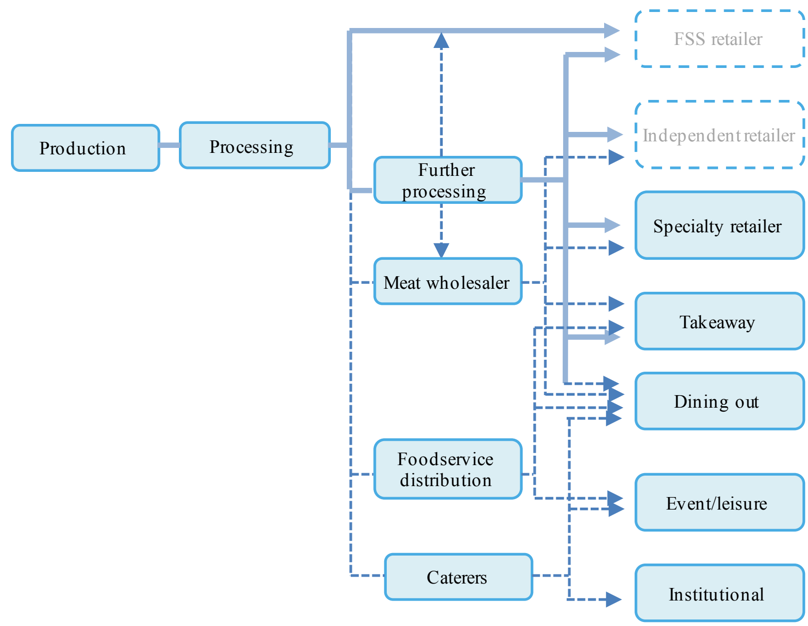


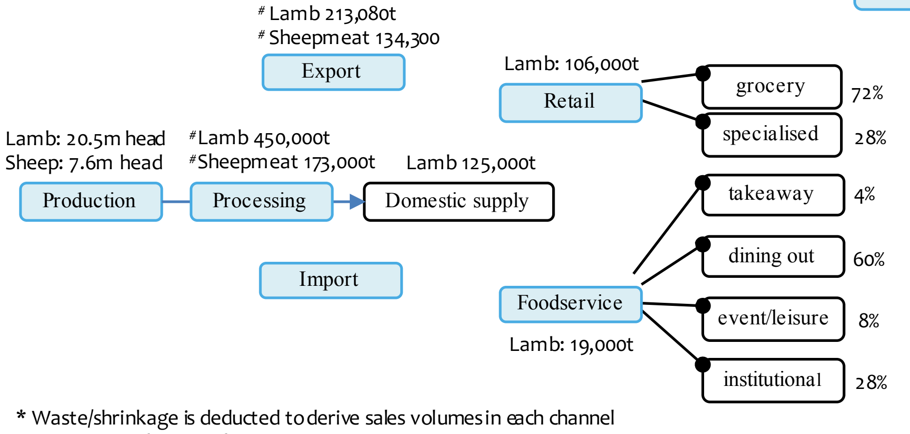


* Waste/shrinkage is deducted to derive sales volumes in each channel
# Carcass weight equivalent

Category size: Sheepmeat

Key volume drivers	• Demand for premium cuts through various segments of the dining out market • Consumer health concerns regarding red meat
Key value determinants	• Export returns for lamb and mutton primals
Challenges faced	• Volatile world prices for lamb and mutton, sold into the price-sensitive segments of the market
Dominant players	• Specialist meat distributors • Local butchers servicing larger portions of the dining out market

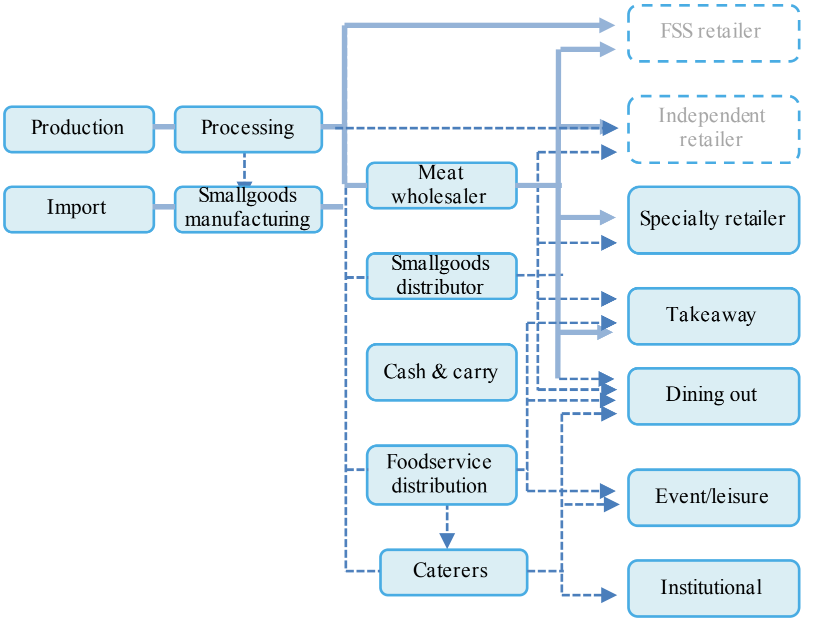


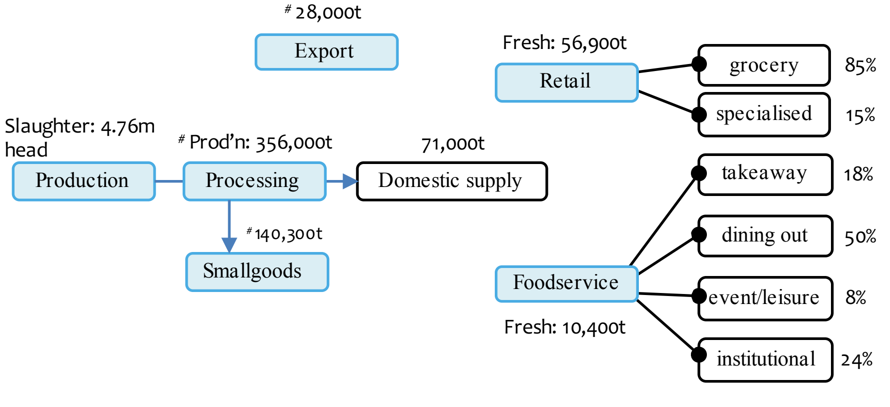


* Waste/shrinkage is deducted to derive sales volumes in each channel
# Carcass weight equivalent

Category size: Fresh pork

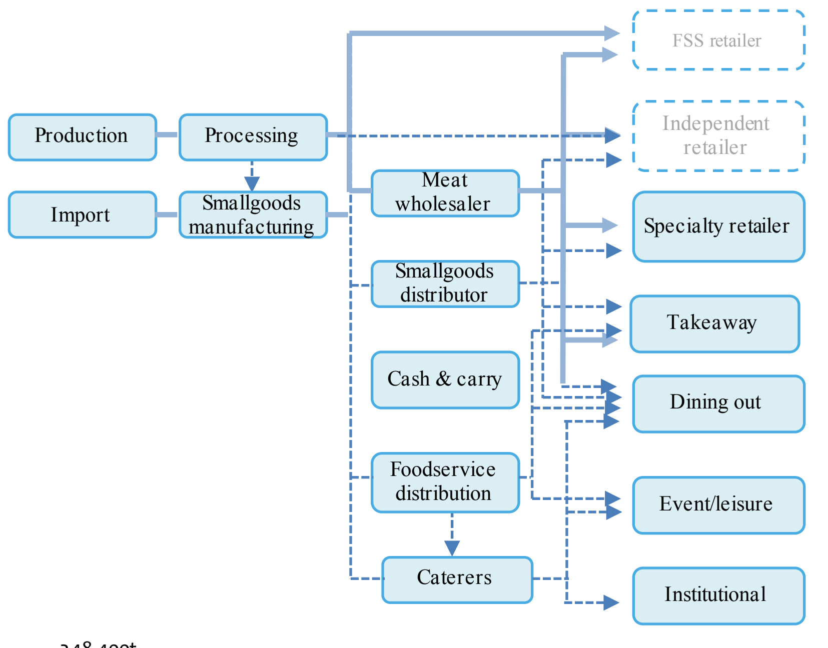
Key volume drivers	• Demand for premium cuts through various segments of the dining out market • Demand for pork cuts through ethnic segments • Consumer health concerns regarding red meat
Key value determinants	• Overall carcass returns for pork (influenced by value of imported cooked meats)
Challenges faced	• Competing prices for landed processed meats
Dominant players	• Specialist meat and ethnic food distributors • Local butchers servicing larger portions of the dining out market

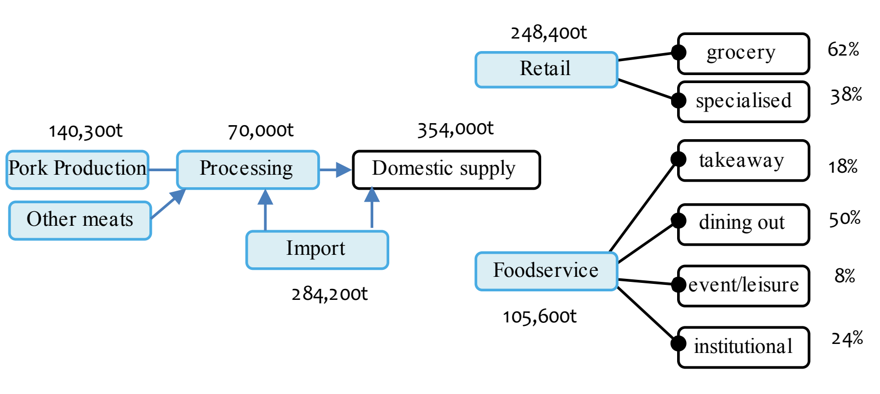




Category size: Smallgoods

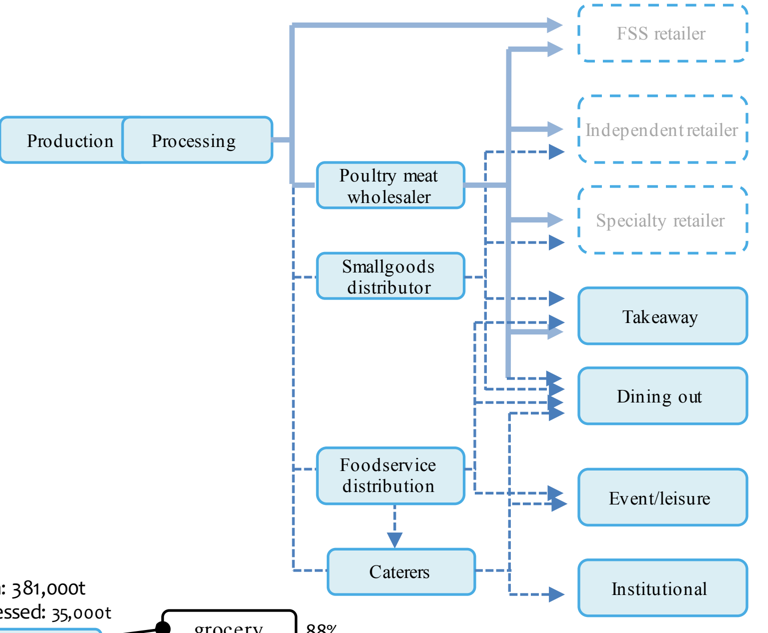
Key volume drivers	• Health of the breakfast occasion • Health of independent takeaway outlets • Consumer health concerns regarding cooked meats
Key value determinants	• Landed prices of imported processed pork (ham, bacon, other cooked portions)
Challenges faced	• Competing prices for landed processed meats
Dominant players	• Specialist meat and ethnic food distributors • Local butchers servicing larger portions of the dining out market

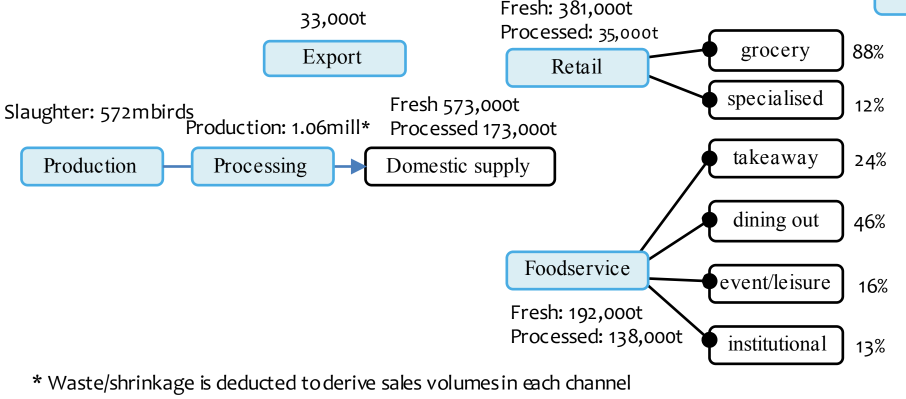




Category size: Poultry

Key volume drivers	• Growth in chicken product consumption through large and gourmet QSR chains • Demand for poultry cuts through ethnic dining out segments • Consumer health concerns regarding red meat has boosted consumption over time • Ease of application across meal types
Key value determinants	• Overall bird returns for poultry across retail and foodservice uses
Challenges faced	• Ensuring suitable mix of business for product recoveries • Passing on rises in input costs to low-value segments of the market
Dominant players	• QSR chains • General distributors increasing share of processed products

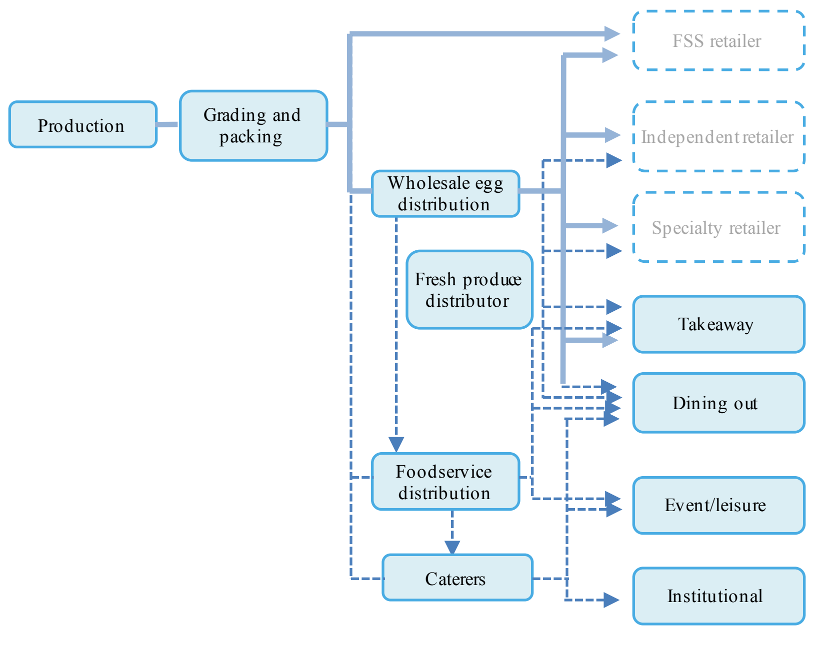


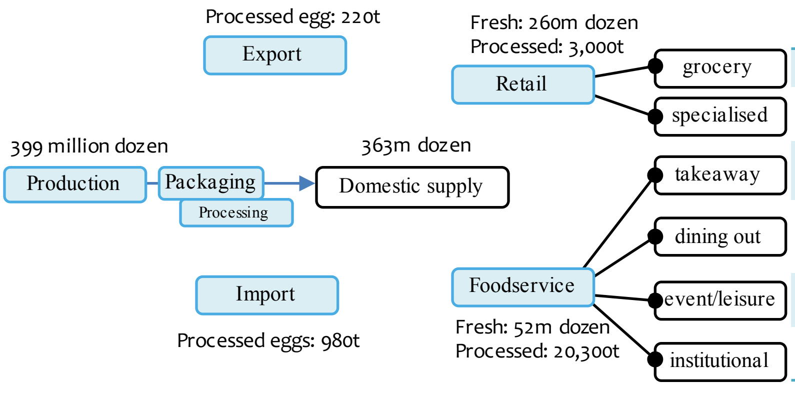


* Waste/shrinkage is deducted to derive sales volumes in each channel

Category size: Eggs

Key volume drivers	• Growth in demand through QSR chains • Health of the breakfast occasion • Consumer health concerns regarding red meat
Key value determinants	• Wholesale prices influenced by market balance
Challenges faced	• Balancing supply and demand across channels with some volatility in egg production • Improving the integrity of free-range product
Dominant players	• Major integrated egg marketers

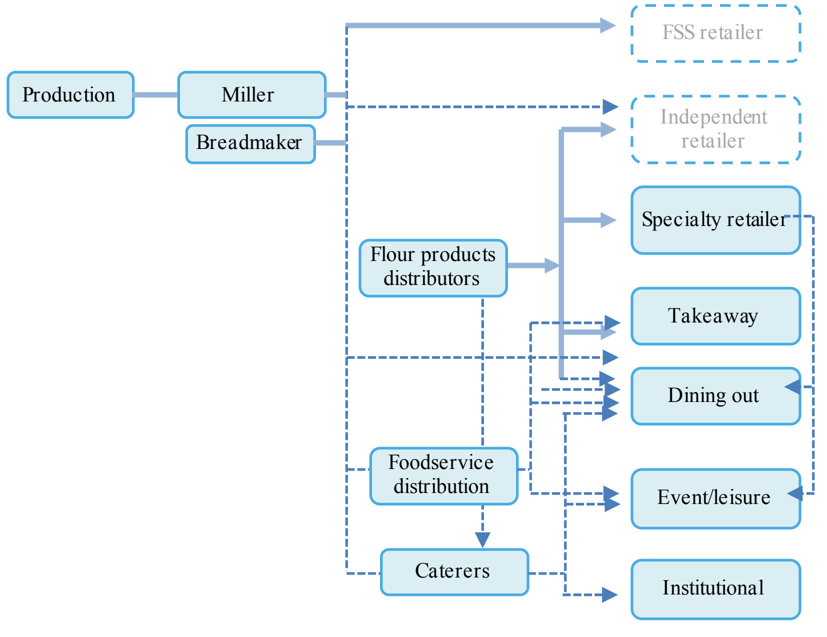


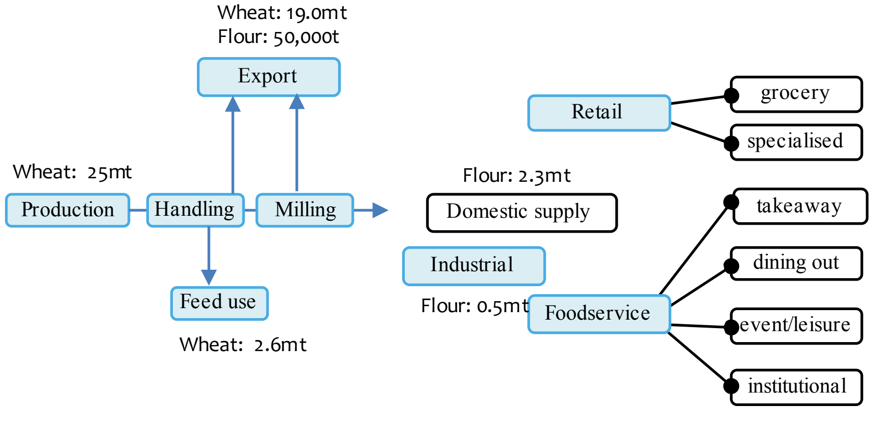


	Fresh	Processed
grocery	68%	72%
specialised	32%	28%
takeaway	55%	55%
dining out	32%	20%
event/leisure	3%	10%
institutional	10%	15%

Category size: Grains & flour

Key volume drivers	• Healthy eating trends improving demand for high fibre products
Key value determinants	• Higher demand for artisanal products in bread and bakery markets • Differentiation in bread styles
Challenges faced	• Private label price pressure on retail flour and bread markets
Dominant players	• Major millers as processors and distributors • Major bread manufacturers • Large bakery chains servicing home use



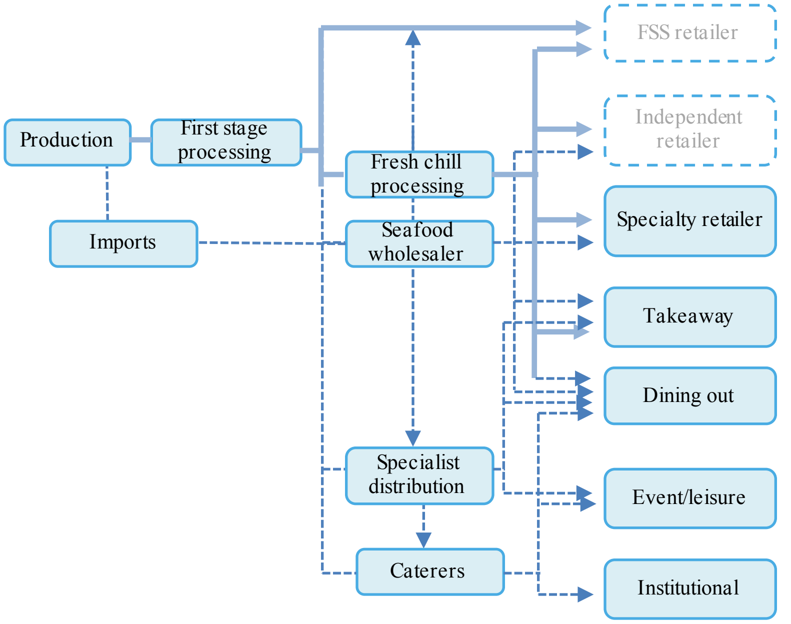


Total flour sold into the food industry for various uses including breadmaking and a range of bakery products is estimated at about 1.8mt per annum (excluding industrial uses of flour), however shares between channels are not measured.

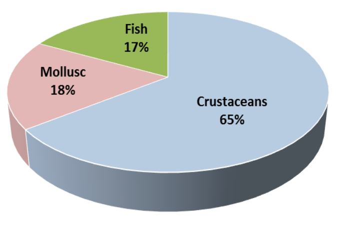
Large-scale breadmaking is estimated to consume about 40-45% of total flour supply, but this does not count consumption in small bakeries. It is estimated that major grocery chains hold about 60% of the retail bread market, while specialist bakeries hold 30%.

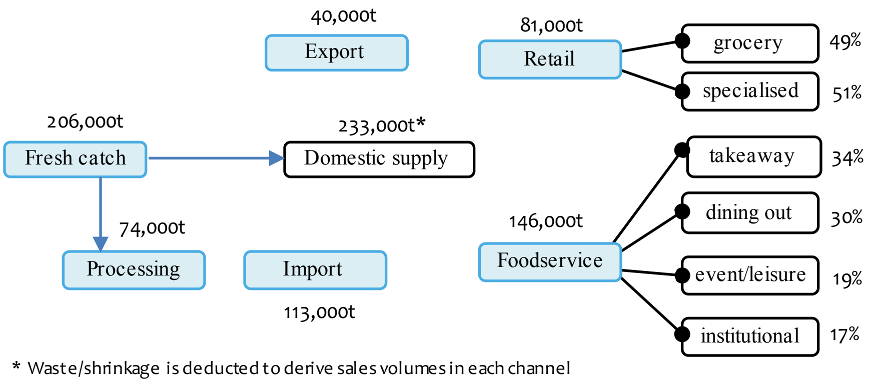
Category size: Fresh Seafood

Key volume drivers	• Growth in demand through takeaway segment • Overall demand across the dining out market • Consumer health concerns regarding red meat
Key value determinants	• Wholesale prices for different qualities of white fish and salmonids influenced by overall supply
Challenges faced	• Balancing supply and demand across channels with some volatility in supply • Length of the supply chain affecting product freshness in discerning market segments
Dominant players	• Specialist seafood distributors • Specialist seafood retailers (with wholesale activities)

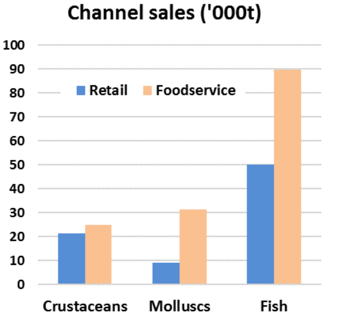


Australian production of fresh seafood



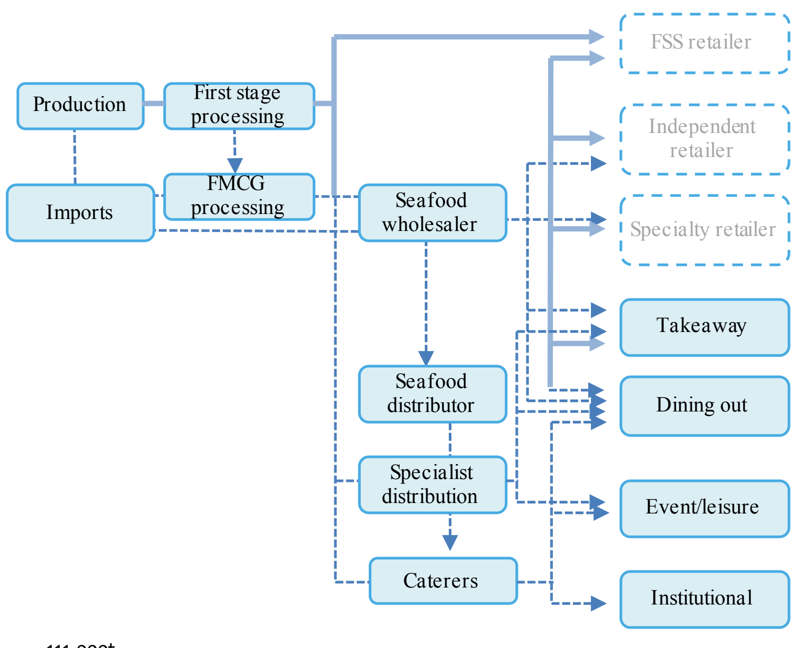


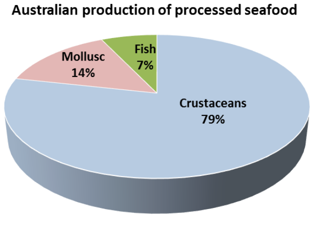
* Waste/shrinkage is deducted to derive sales volumes in each channel

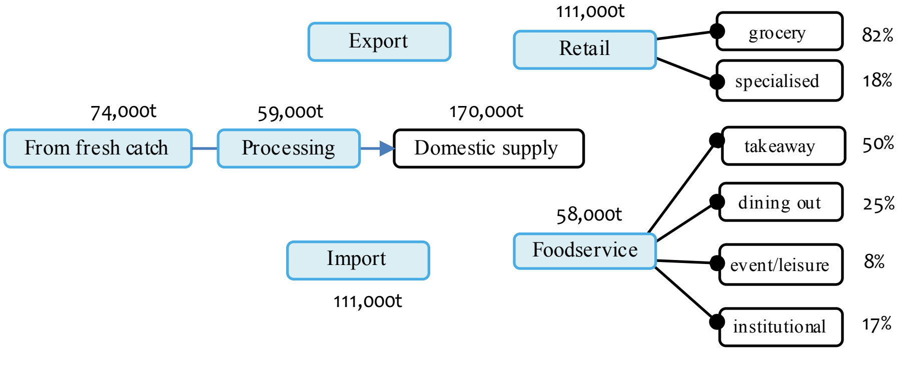


Category size: Processed Seafood

Key volume drivers	• Growth in demand through takeaway segment • Overall demand across the low-value of the dining out market • Budgetary scope within institutional channels • Consumer health concerns regarding red meat
Key value determinants	• Benchmark value of imported lines
Challenges faced	• Remaining price competitive with imported products
Dominant players	• Major Fast-Moving Consumer Goods (FMCG) processors • General distributors • Specialist seafood distributors

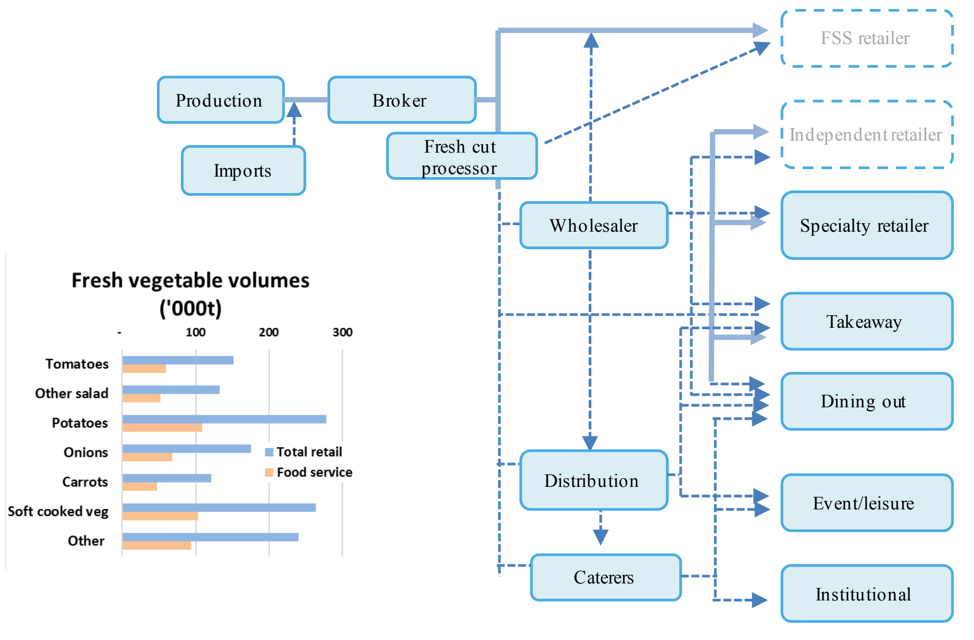


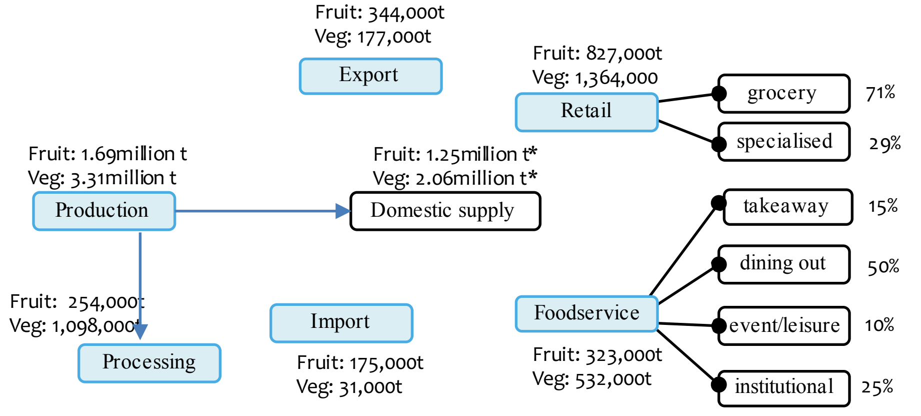


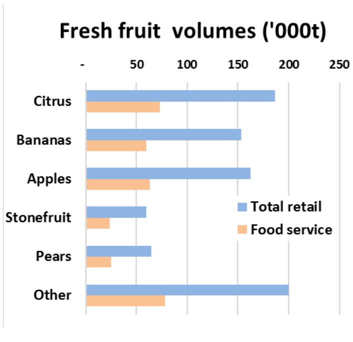


Category size: Fresh Horticulture

Key volume drivers	• Overall demand across the dining out market • Consumer health priorities regarding fresh foods
Key value determinants	• Wholesale prices driven by fluctuations in supply
Challenges faced	• Balancing supply and demand across channels with some volatility in supply • Minimising waste • Improving meal portion convenience/freshness
Dominant players	• Fresh cut processor servicing large takeaway • Specialist fresh produce distributors • Specialist green grocers (with wholesale activities)



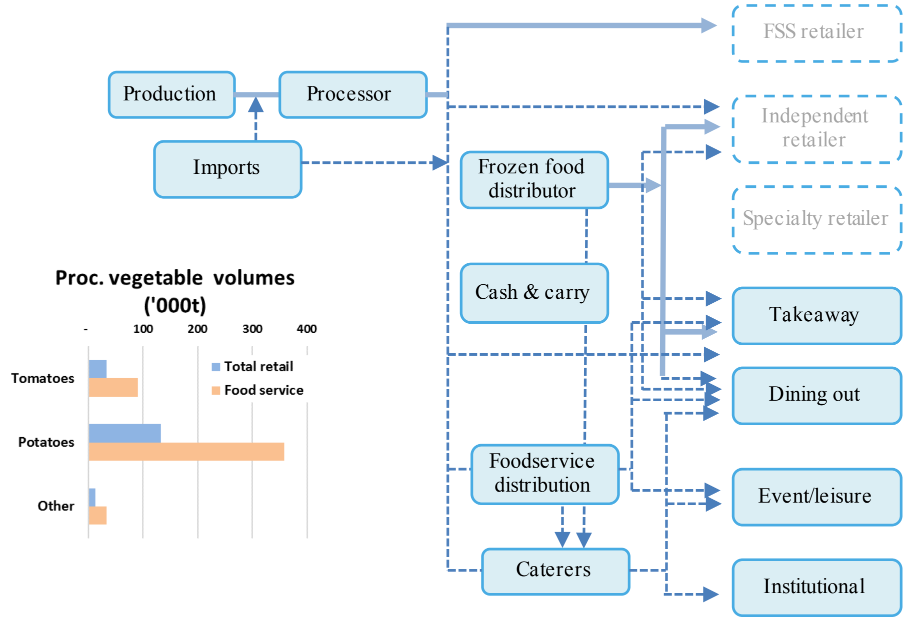


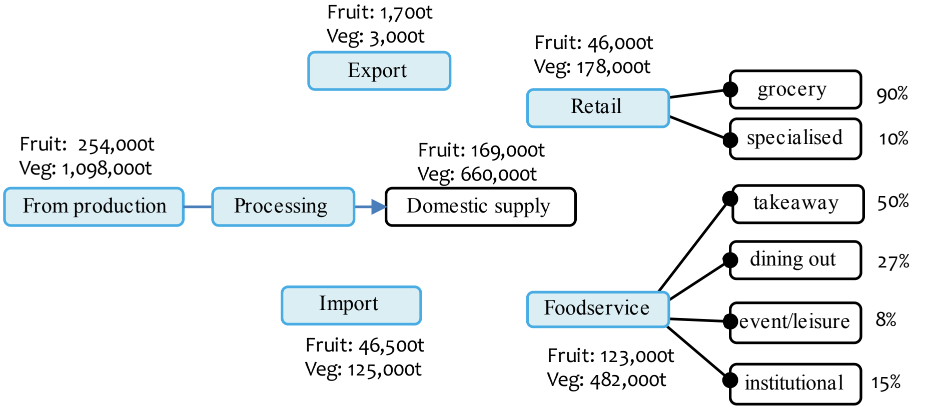


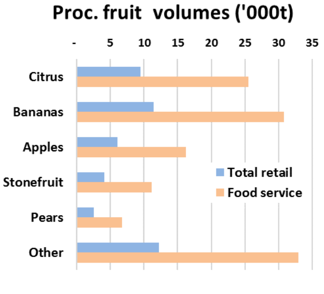
* Waste/shrinkage is deducted to derive sales volumes in each channel

Category size: Processed Horticulture

Key volume drivers	• Growth in demand through QSR chains • Overall demand across the low-value of the dining out market • Budgetary scope within institutional channels • Consumer health concerns regarding fast food lines
Key value determinants	• Benchmark value of imported lines
Challenges faced	• Remaining price competitive with imported products • Improving ready-meal assembly to lower cost
Dominant players	• Major FMCG processors • General distributors • Ready-meal producers







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by Steve Spencer

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