Australian Seafood Market Opportunity Scoping

Prepared By Market Strategy Ltd

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1. Introduction

Background

As part of the CRC Retail Transformation project, it was identified that it would be beneficial to attempt to quantify the size of the opportunity in seafood retail for the Australian seafood industry.

Scoping the opportunity (in value and volume terms) is a fundamental business principle. It allows the business to see if the opportunity is worth pursuing and how much resource might be invested in realising the opportunity.

At the outset, an opportunity is scoped in general terms so the business can decide – does this opportunity look like it is worth investigating in more detail? During the development process the opportunity is then quantified more precisely so a business case evaluation can be made.

This document attempts to highlight the former information – is the opportunity worth investigating in more detail? Unfortunately, the quality and quantity of publically available information are quite poor.

Therefore this document suggests a possible market size for retail of Australian seafood and some potential ways opportunities may be sized, subject to the appropriate data being available.

This report does identify some interesting learning’s and opportunities for the Australian Seafood Industry, CRC Retail Transformation Project and any Australian consumer research projects that are being considered.

Information Sources

The following information sources have provided insight for this document:

2. FRDC Seafood Consumption Omnibus 2006 – FRDC, 2006
3. Retail Sale and Consumption of Seafood Melbourne, Ruello & FRDC, 2005
7. Seafood Export Profiles Australia – Seafish UK, 2008

Market Strategy Ltd has also drawn on known information from previous work conducted in this area.

Readers should consider the document ‘Interpretive Summary of Consumer Research’ when reading this scoping study. This study does highlight the need for better consumer information in order to understand the market in more detail. Better information will also allow more accurate market opportunity scoping to be done.

Market Strategy Ltd makes no guarantee for the accuracy of information contained within this report. The information is mostly an assimilation of existing studies. Readers should conduct their own due diligence before making decisions based on the information contained in this document.
2. Available Information

Australian Demographics

While lots of information could be considered here it is critical to recognise:

- There are 21.2 million people in Australia (ABS Projection January 2008) who live in 7.7 million households.
- 5 million of this population were born overseas with the UK accounting for 25% of this total.
- The median age of the population is 37 years, with a trend to fewer children under the age of 15. The population is aging.

Source: Seafood Export Profiles Australia – Seafish UK 2008

Consumption Volume

The following information is sourced from the FAO and measures per capita consumption of seafood. This information is taken from a combination of production, import, export and population figures. At a macro level, as a guidance of consumption it is relatively useful:

<table>
<thead>
<tr>
<th>Per Capita Consumption (kg)</th>
<th>2005</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>16.4</td>
<td>16.4</td>
<td>-</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>23.9</td>
<td>23.7</td>
<td>+1%</td>
</tr>
<tr>
<td>Industrialised Countries</td>
<td>27.3</td>
<td>29.5</td>
<td>-7%</td>
</tr>
<tr>
<td>Australia</td>
<td>24.8</td>
<td>22.2</td>
<td>+12%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>24.4</td>
<td>26.5</td>
<td>-8%</td>
</tr>
<tr>
<td>EU 15</td>
<td>25.7</td>
<td>25.7</td>
<td>-</td>
</tr>
<tr>
<td>UK</td>
<td>20.0</td>
<td>20.4</td>
<td>-2%</td>
</tr>
</tbody>
</table>

Data comparisons have been given for New Zealand, the EU 15 (first 15 EU members) and UK. This is to allow some perspective on the figures from countries of similar demographic and race.

This data shows that Australia outperforms World, Developed Countries, New Zealand and UK averages. Australia has also shown a marked increase in seafood consumption over the past 2 years (possibly due to prawns and salmon?).


NB it should be noted that there are alternative figures to the ones provided above. Ruello records consumption of 12.5kg/capita in Melbourne in 2005; 15.1kg/capita in Sydney in 1999; and 14.7kg/capita in Perth in 1999.

Source: Retail Sale and Consumption of Seafood Melbourne, Ruello & FRDC, 2005

Penetration and Frequency of Consumption

Extrapolating the FAO data further, it would mean that each Australian consumes 480g of seafood per week. With theoretical average portion sizes of 120g, this means that Australians are consuming around 4 portions of seafood a week – more than probably thought.
However, the Seafood Promotions Act Meeting Notes provides data that quotes seafood consumption as being 0.7 serves / week.

It also quotes seafood meals per month as being ‘3 times’, compared with poultry at ‘9 times’.

Source: Seafood Promotions Act Presentation – SEA, October 2008

The FRDC Omnibus Study in 2006 states the following:

- 54% of consumers eat seafood at least once per week. (30% once, 24% more than once).
- The national average for seafood consumption is 55 times a year

Source: Seafood Consumption Omnibus - FRDC, 2006

Furthermore, there are alternative figures, as the Seafood Promotions Act Presentation highlights research from Roy Morgan that states:

- There are 17 million Australians aged over 14
- 10 million like eating seafood
- 9 million have eaten seafood in the last 7 days

Source: Seafood Promotions Act Presentation – SEA, October 2008

Channels

The Seafish Exporting profile states that sales of fresh seafood in 2005 in Australia were:

- Supermarket Channel – 17%
- Independents Channel – 40%
- Foodservice / Take Aways Channel – 43%

Source: Seafood Export Profiles Australia – Seafish UK, 2008

In Ruello’s 2005 Melbourne Consumption Study, he states that:

- Retail of Fresh Fish in 2004/05 was $270m.
- 32% of this was through Supermarkets (up from 16% in 1999)
- 51% through fishmongers (down from 65%).

Source: Retail Sale and Consumption of Seafood Melbourne, Ruello & FRDC, 2005

There seems to be little useful national information to analyse the size of channels for seafood sales in Australia.

Categories

The 2006 FRDC Seafood Consumption Omnibus states that consumers usually purchase the following categories of seafood:

- Fresh 77% of consumers purchase from this segment.
- Canned 41% of consumers purchase from this segment.
- Frozen 31% of consumers purchase from this segment.

Source: FRDC Seafood Consumption Omnibus 2006 – FRDC, 2006
Retail World publishes a survey of the leading 70 grocery manufacturers in Australia. This survey splits each grocery segment out by size and covers canned seafood and frozen seafood. This data is concentrated on packed grocery products, but it’s a good indication of market size:

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Growth</th>
<th>Volume</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Fish</td>
<td>$510m</td>
<td>3%</td>
<td>42,420 Tonnes</td>
<td>-</td>
</tr>
<tr>
<td>Frozen Seafood</td>
<td>$166m</td>
<td>1%</td>
<td>14,763 Tonnes</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Further detail by category and by brand is available in Appendix 1.

Available Information Conclusions

- According to the FAO, Australia has above average seafood consumption. Compared to some European countries (Spain, France, Portugal) and Japan, Australia still has a relatively small seafood consumption.
- From all this data it is possible to conclude that there is no definitive, accurate figure relating to the penetration and frequency of consumption of seafood in Australia. An accurate figure must be developed to get an accurate picture of seafood consumption.
- There is little accurate, up to date information for the size of each retail channel of seafood. Available information suggests that supermarket performance is increasing at the expense of independents.
- Available data suggests that most consumers purchase from the Fresh category. However, the canned fish sector is larger than the fresh fish by a significant margin.

Source: Retail World Annual Report 2007
3. Sizing the Opportunity

Market Size

There are no absolute market size figures for the Australian Seafood Market. The first step to quantifying future opportunity is to attempt to size the current market.

There are many reasons that there is no absolute Australian Seafood Market Size. The most important is probably the difficulty of getting accurate market data on a number of channels where seafood is retailed.

The guide below should be treated as a very rough indication of how large the market might be, based on available data:

<table>
<thead>
<tr>
<th></th>
<th>Size of Market</th>
<th>Date</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Fish</td>
<td>$510m</td>
<td>2007</td>
<td>Retail World</td>
</tr>
<tr>
<td>Frozen Fish</td>
<td>$166m</td>
<td>2007</td>
<td>Retail World</td>
</tr>
<tr>
<td>Fresh Fish</td>
<td>$270m</td>
<td>2005</td>
<td>Ruello</td>
</tr>
<tr>
<td>Total Size</td>
<td>$946m</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Market Strategy believes that these figures understate the size of the market.

- The canned fish market size is likely to be reasonably accurate.
- The frozen fish size is likely to be accurate for packaged grocery brands in mainstream multiples. It might not accurately take into account the frozen sections near fresh fish sections in retailers and the independent trade.
- The Fresh Fish market size accuracy is unknown and seems likely to be understated.

Sizing the Opportunity

Unfortunately, it is not possible to accurately quantify the size of the opportunity in Australian seafood retail, because there is an absence of accurate, up to date information.

To accurately work out market opportunity, more information would be needed on market size (including by channel) and consumer information such as penetration, frequency of purchase etc.

To give a broad indication of what could be done with more information in this area, consider the following scenarios:

Scenario 1

SEA quotes the number of seafood meals per month at 3. The equivalent number of poultry meals is stated as 9.

If seafood were to be consumed 9 times per month, there is an opportunity to triple the size of the market. Using the market size figures identified above, this would give a $2838m market, which is an opportunity of $1892m.

Clearly these objectives are huge, but consider raising the number of times seafood is consumed from 3 to 4. This would give a market size of $1261m, which is an opportunity of $315m.
Scenario 2

FAO consumption data shows that Australian’s consumer 24.8kg of seafood per year. It shows that EU15 countries consume on average 25.7kg of seafood per year.

If Australian’s were to consume 25.7kg, using the market sizes identified above, there would be an increase in market size by $34m.

Next Steps

There are 2 fundamental consumer levers to driving market size. The first is to increase market penetration (the number of consumers picking up your product). The second is to encourage frequency of purchase (how often these consumers are picking up your product).

With better data, industry will be able to develop accurate strategy in order to develop market size. Financial targets can be identified using these consumer levers.

Market Strategy Ltd believes that it will be an easier and more cost effective strategy to get existing regular seafood consumers to purchase more seafood, than to convince non seafood users to purchase more seafood.
4. Key Learning’s and Recommendations

1. DATA

Insufficient data exists on the sales by channel of seafood within Australia. This hinders the ability of this document to do any accurate opportunity scoping.

Accurate consumer data, trade data and value chain analysis is needed in order to accurately describe what is being sold where. This should be split into imported and local seafood to assist interpretation.

The data should also consider the impact of recreational fishing on seafood consumption.

2. DRIVING MARKET SIZE

Market size can be driven by the twin levers of frequency and penetration. Accurate data can be used to work out industry strategies to increase market size based on these levers.

3. COMPETITIVE SET

Seafood (imported/domestic and each species) is competing for consumer ‘share of mouth’ with many other proteins. Available data shows that share of mouth is relatively low compared to other proteins.

Seafood needs to position itself as a protein choice and seek to increase frequency of consumption. By growing the number of times seafood is chosen, each seafood sector can directly benefit from an increased market size.

In the UK, Young’s Seafood coined the term ‘chickenability’, this has been behind the growth of the UK retail seafood sector.

4. COMPARISON CROSS COUNTRY

Compared to other similar countries, Australians do consume a slightly above average amount of seafood.

One could argue that this means the Australian seafood market performs well. Alternatively, one could consider the much higher seafood consumption levels in Spain, France and Japan and argue that the market opportunity for Australian seafood consumption is on a par with these countries.

Australia is an island nation and seafood is part of its inherent culture. The pleasant surprise that Australians are consuming more seafood than similar countries can be used as a base to increase seafood consumption further.

5. CHANNELS

A. There is a shift in seafood sales to supermarkets. Supermarkets are a significant force in retailing of seafood products, but offer relatively poor choice of Australian seafood.
Consumer choice is often dictated by the availability of product at point of purchase. Bluntly, Australian seafood has poor availability in national supermarket chains and is not available to purchase by the consumers who say they would like to purchase it.

Producers must work with the leading supermarkets to overcome this problem. The fresh counter and fresh prepack area should be a focus for this initiative.

B. Seafood businesses might like to consider the following channels and categories for retail sale of product:

I. Supermarket
   i. Fresh counter
   ii. Fresh prepack
   iii. Fresh meal centre
   iv. Fresh ready meal
   v. Canned
   vi. Frozen
   vii. Frozen ready meal
   viii. Ready to eat (sushi etc).

II. Independent Fish Monger

III. Fish & Chip / Takeaway

IV. Gourmet Butcher / Deli

V. Home Meal Replacement Stores

VI. Internet Shopping Services