Organics in New Zealand Future or Failure?

April 2001

CORIOLIS RESEARCH

Will New Zealand be an Organic Nation by 2020?

Today I am going to talk about the drivers of growth of organic foods, the lessons for New Zealand from the US and UK markets and how the market will grow in NZ

Drivers of growth

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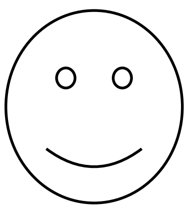
External Influences

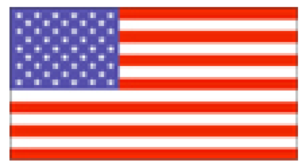


Internal Mindset

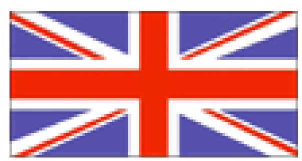
$

Changing Shopper

Lessons from the USA & UK

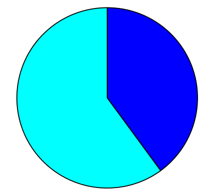


United States of America

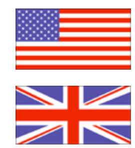


United Kingdom

Market growth in NZ



Current situation

? 

Which model

$ or $$

How big will it be?

The first thing that I am going to talk about is the drivers of growth - the first of which is external influences

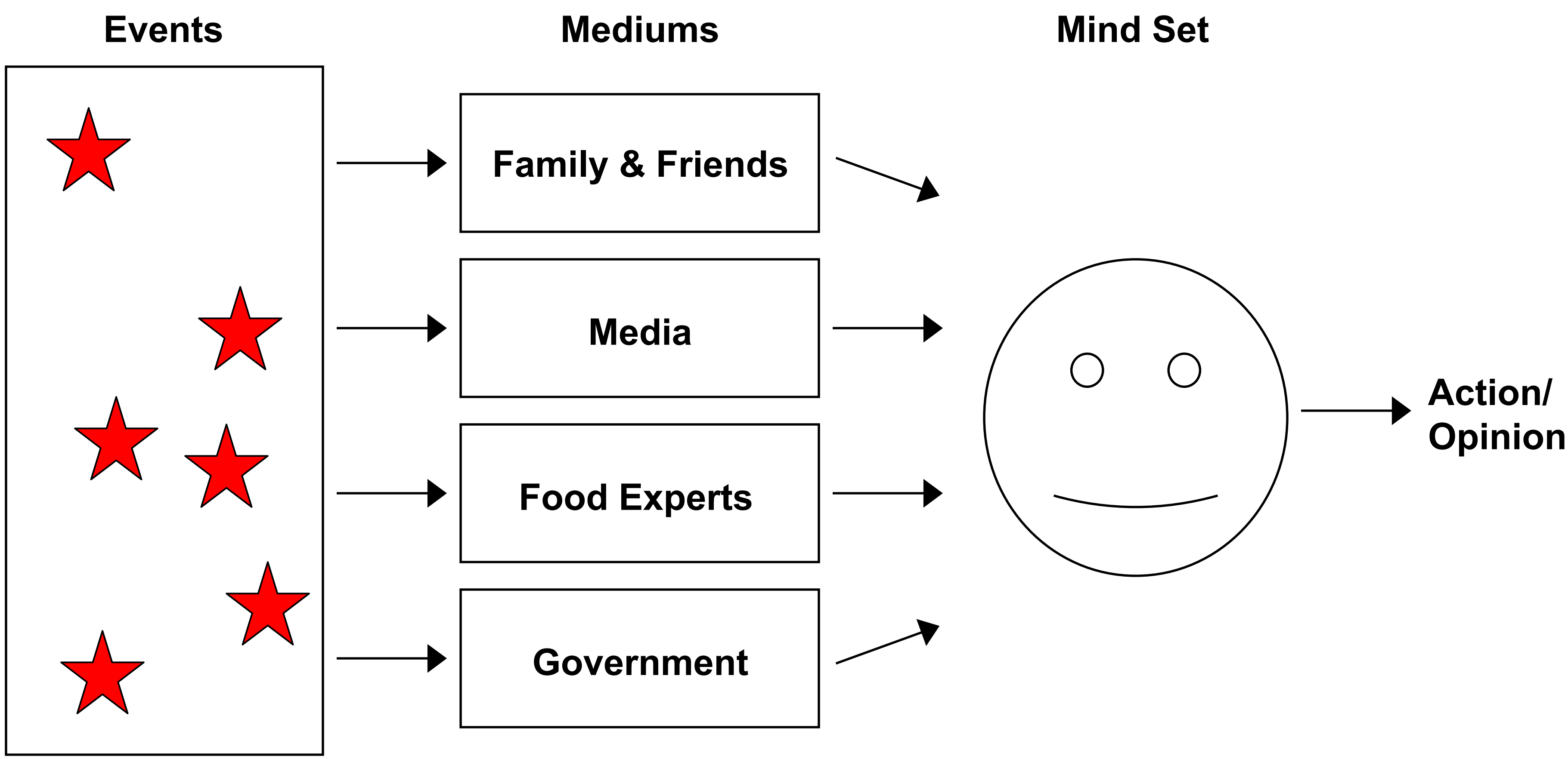
Drivers of growth

?

External Influences

Events occur and are interpreted through various mediums before they reach the individual

HOW DOES A MIND SET DEVELOP?



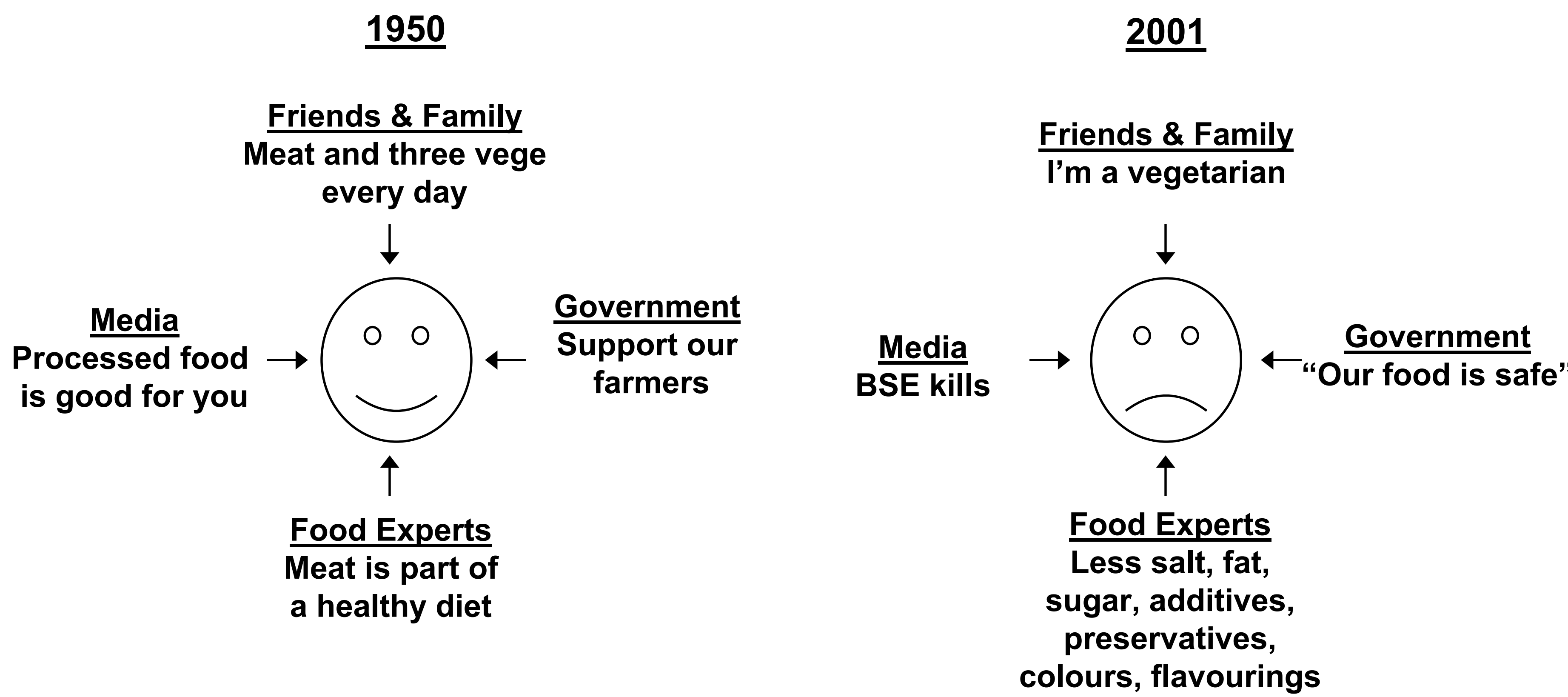
Throughout the world, food safety events are constantly occurring - the safety of our food is being challenged

RECENT FOOD RELATED EVENTS: IS OUR FOOD SAFE?

United States	United Kingdom	New Zealand
• E-Coli at Jack in the Box • Listeria in Ready-to-eat meals • Hormone fed cattle • GMO foods • Irradiation of food	• E-Coli deaths • Salmonella in eggs • Chemical residues on vegetables • GMO foods • BSE in cattle • Foot and Mouth Disease	• Varroa Mites on bees • Gypsy Moth • Spiders and snakes in banana boxes • Salmonella in chicken • DDT in groundwater • Spray drift • Poisonous shellfish

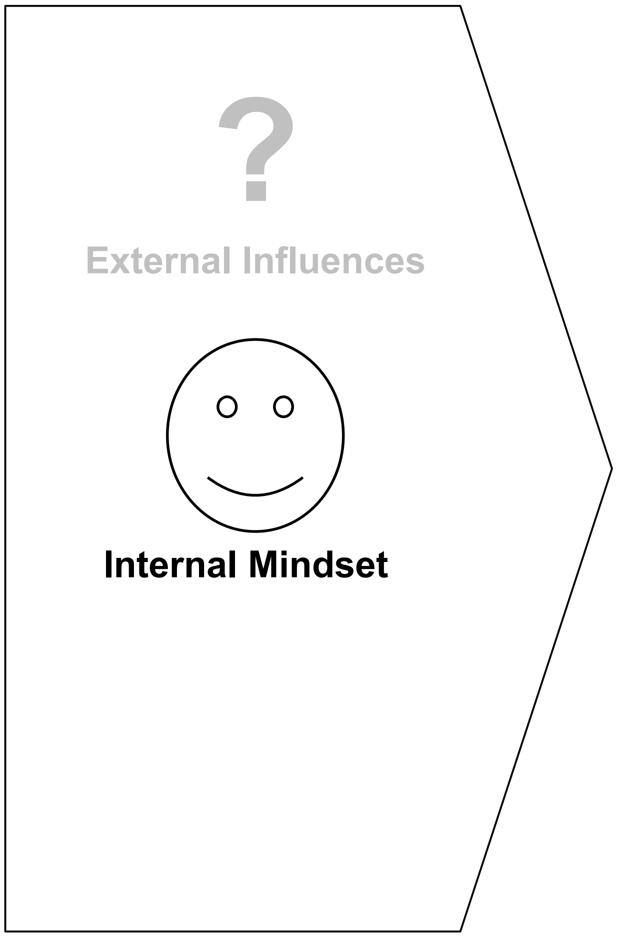
The consumer of today receives a very different message about the safety of their food

EXAMPLE: THE CHANGING MESSAGE TO THE UK CONSUMER



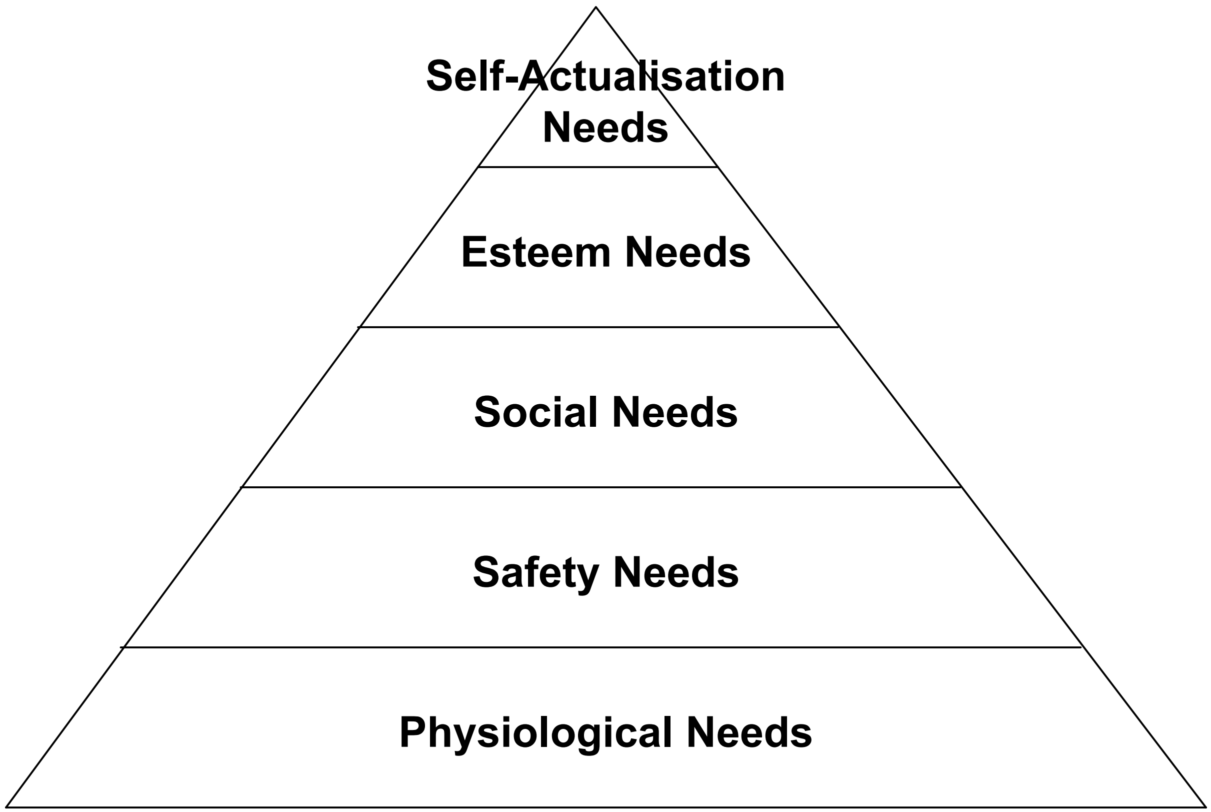
The second driver of growth is the internal mindset of consumers

Drivers of growth



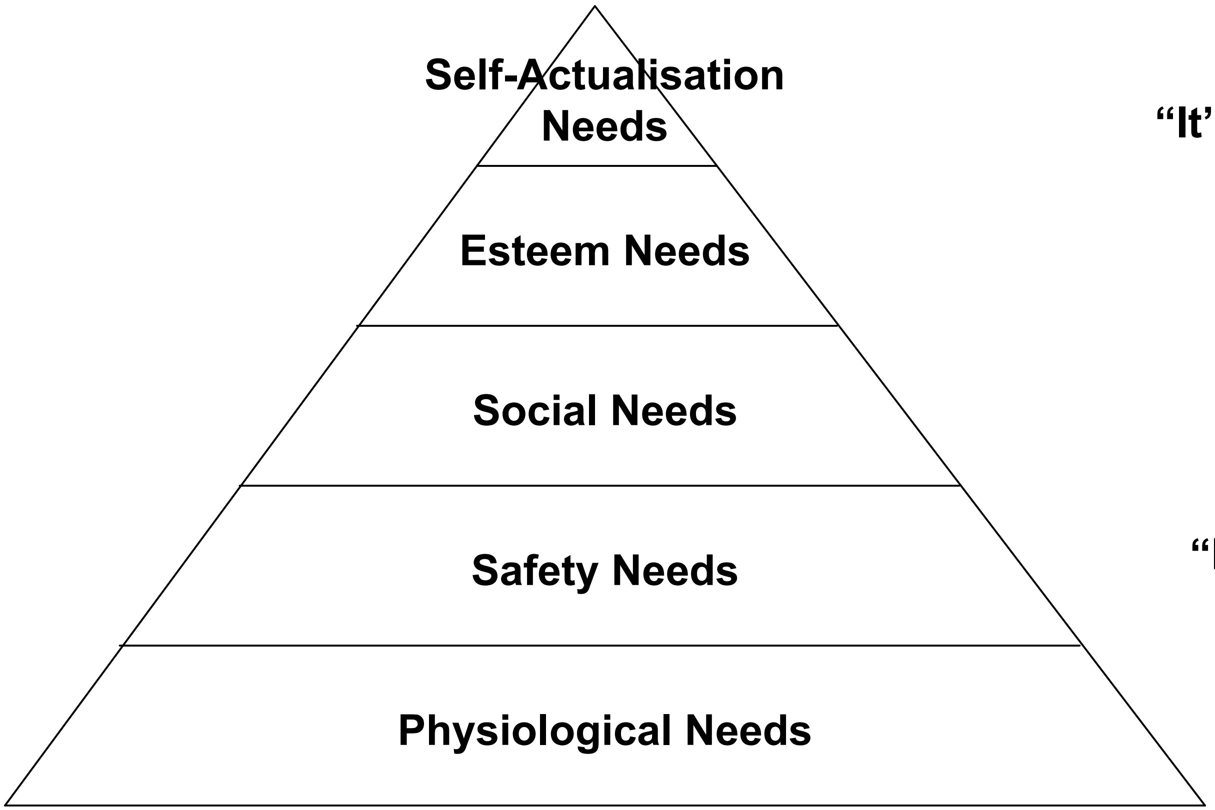
Maslow's hierarchy of needs, is one way of understanding human behaviour

MASLOW'S HIERARCHY OF NEEDS



Applying Maslows hierarchy to organics shows us that consumers are responding on different levels

ORGANICS INTERPRETED BY MASLOW'S HIERARCHY



"It helps save the planet"
"It's better for the environment"

"It's trendy"
"It's healthier"

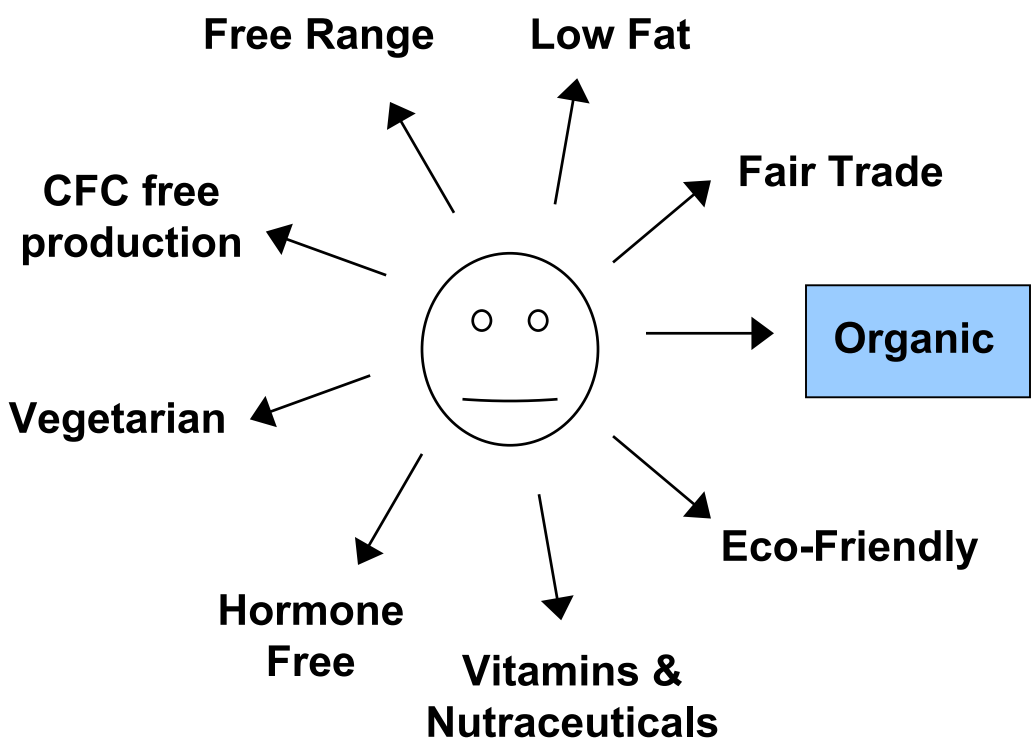
"I support local farmers"
"I'm doing the right thing"

"It's better for my children"
"Its safer"

"It tastes better"

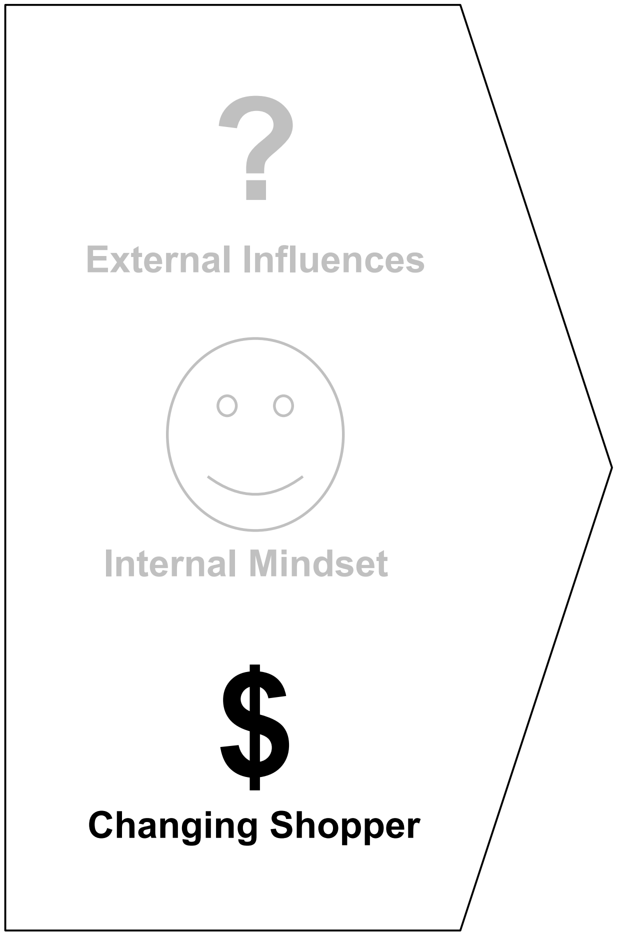
Consumers no longer trust the food industry and organics is just one of the answers

INDIVIDUALS RESPONSES TO FOOD FEARS



The final driver of growth is the changing “typical” organics shopper

Drivers of growth



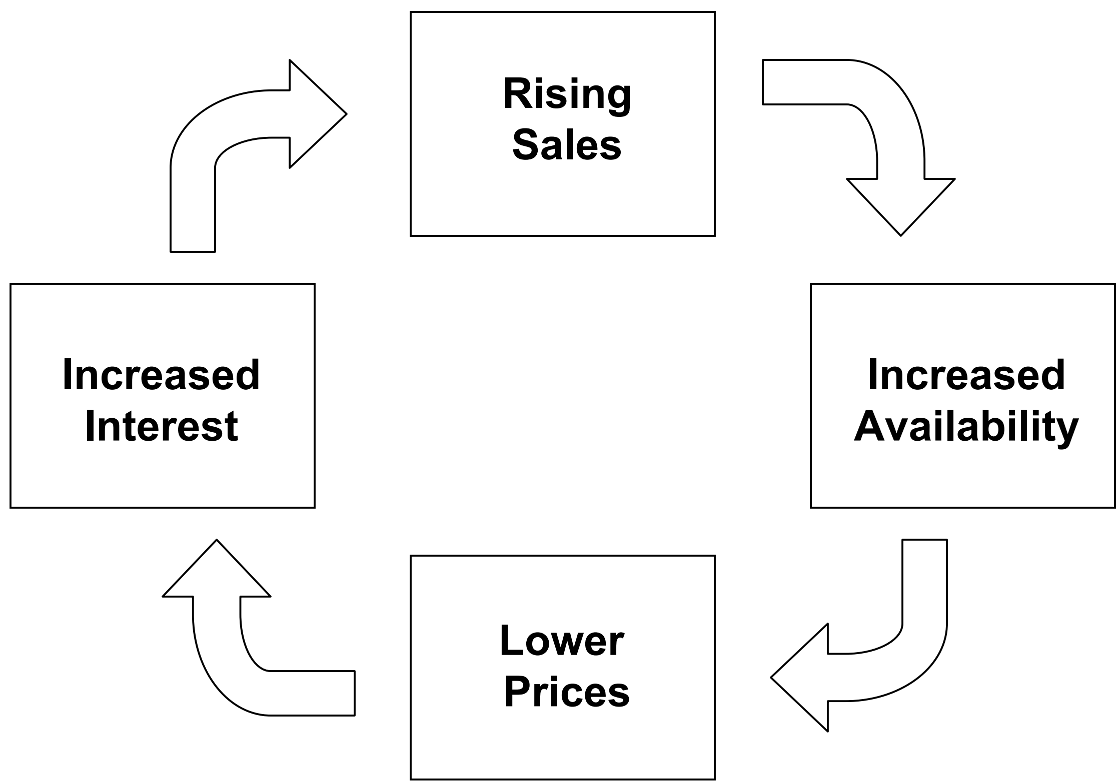
Today's organics shopper is just as likely to drive a BMW as wear sandals

THE CHANGING ORGANIC SHOPPER

Hippies	High Income Mothers with kids	Moving mainstream
Fruit and vegetables Beverages	Fruit and vegetables Gourmet foods Meat Baby food Dairy	Most foods
1980s	*early 1990s*	*late 1990s-2000s*

Organics have entered a virtuous cycle of growing demand leading to lower prices

ORGANICS VIRTUOUS CYCLE



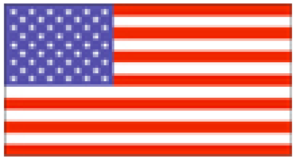
Drivers of growth

External Influences

Internal Mindset

Changing Shopper

Lessons from the USA & UK



United States of America

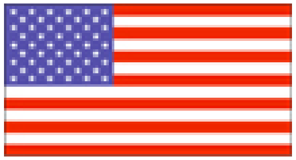
United Kingdom

The US and UK markets have different drivers of growth and different winners and losers

CHARACTERISTICS OF ORGANIC DEVELOPMENT

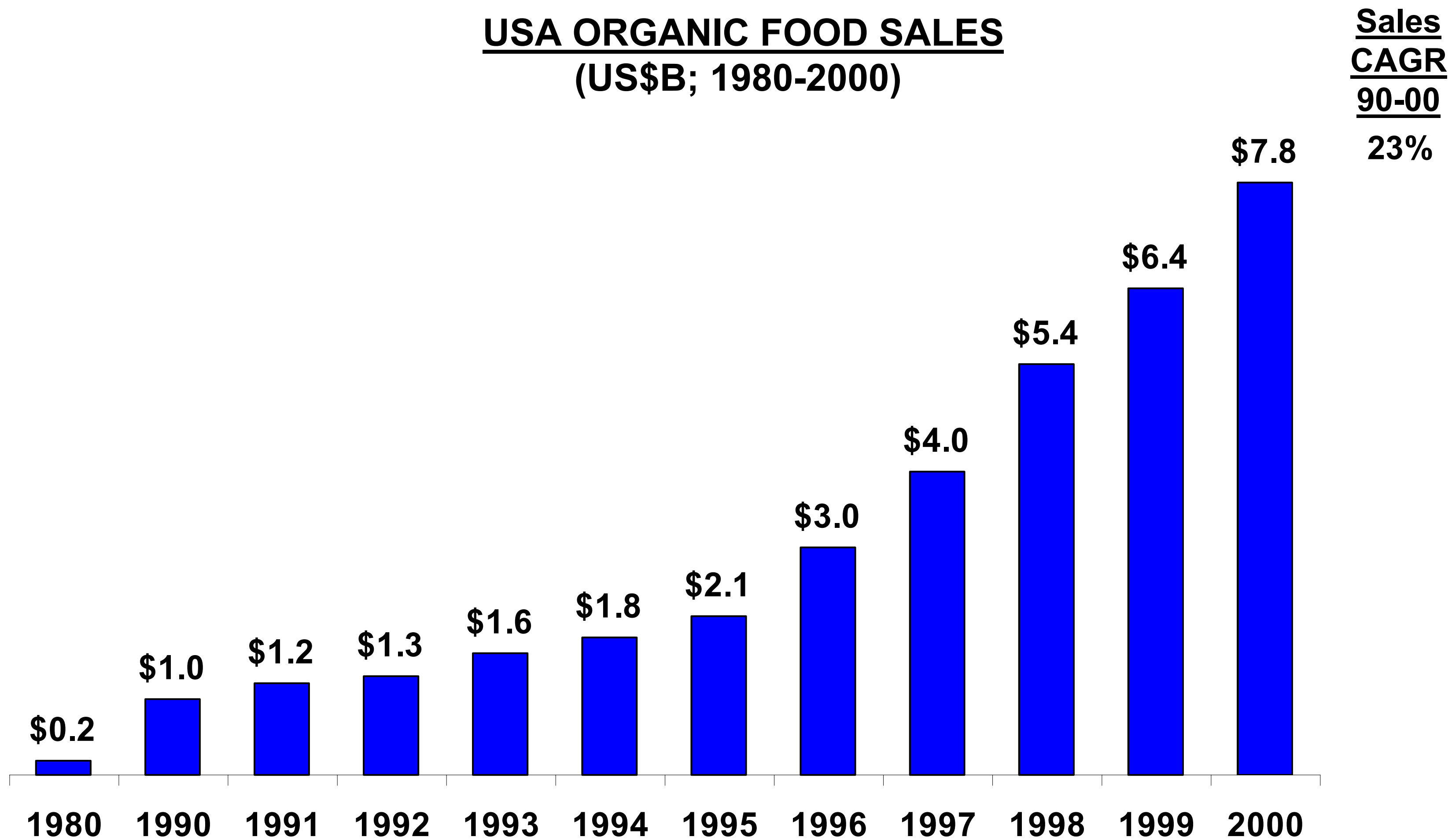
	United States	United Kingdom
Driver of growth	• Aging "baby boomers" & health concerns	• Food scares
Winners	• Specialist supermarkets • Whole Foods • Wild Oats	• Conventional supermarkets pushing organics and implementing organic private labels
Losers	• Conventional supermarkets playing catch up	• Specialist stores playing catch up

Lessons from the USA & UK



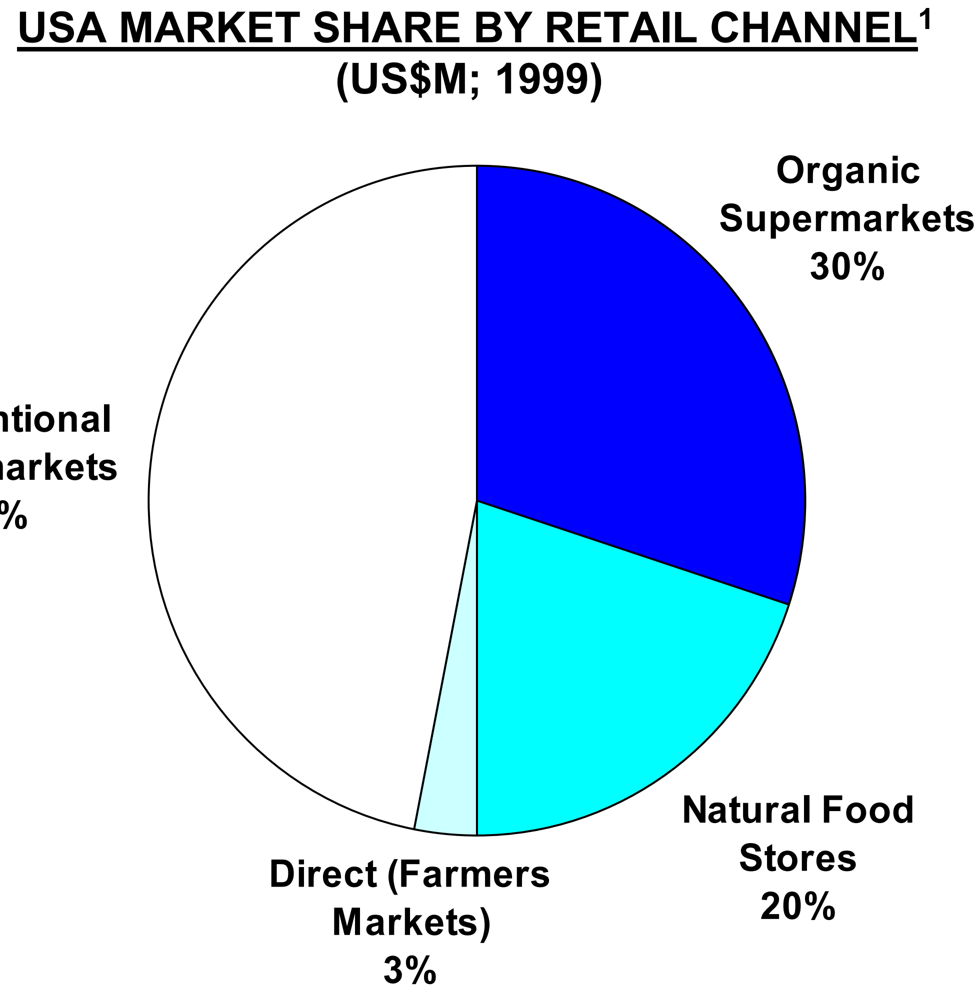
United States of America

In the US, the $7.8 billion organic food industry is growing at 23%, in a food industry growing at 2%



 Source: Selected articles; USDA ERS

More than 50% of organic food sales occur outside conventional supermarkets



1. Does not include foodservice sales
Source: Promar International; Coriolis analysis

After a long string of acquisitions, two well organic supermarket chains have emerged as market leaders

ORGANIC SUPERMARKETS

	Whole Foods Market	Wild Oats
% Organic in store	70%	75%
Established	1980 - Austin Texas	1987 - Boulder Colorado
Number of Stores	117	110
Average store size	2340m^2	2160m^2 (new stores)
Sales	US$1,838.6m	US$838.0m
Sales/Store/Week	US$302,200	US$146,500
Sales CAGR 96-00	19.8%	29.3%
Net Income	US($4.9m)	US($15m)
Number of items	20,000 SKU's	15,000 SKU's
Number of Employees	18,500	8,600

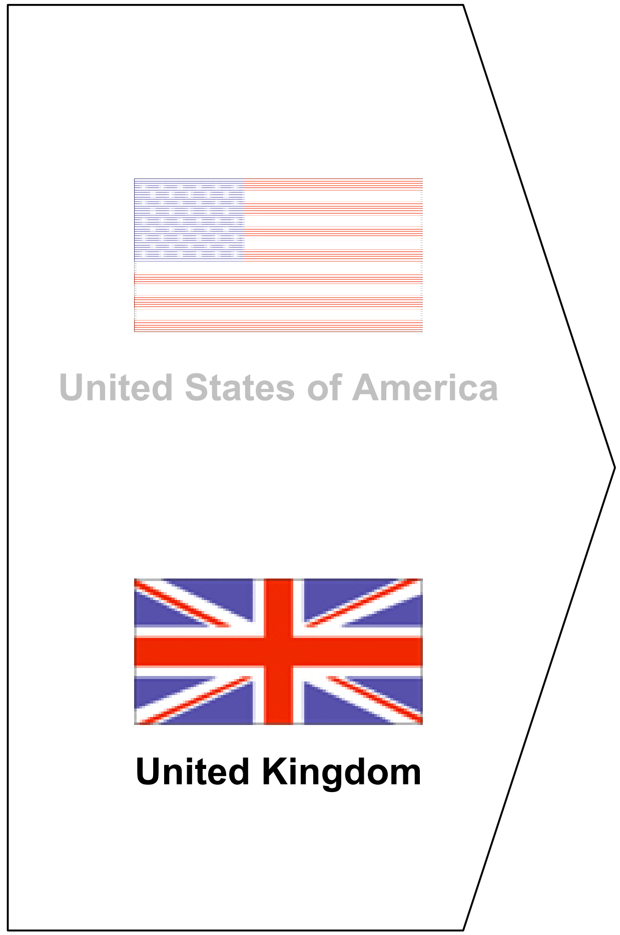
Conventional supermarkets are playing catchup, reacting to the growth of organics in two ways

SUPERMARKETS REACTIONS TO ORGANICS INSTORE

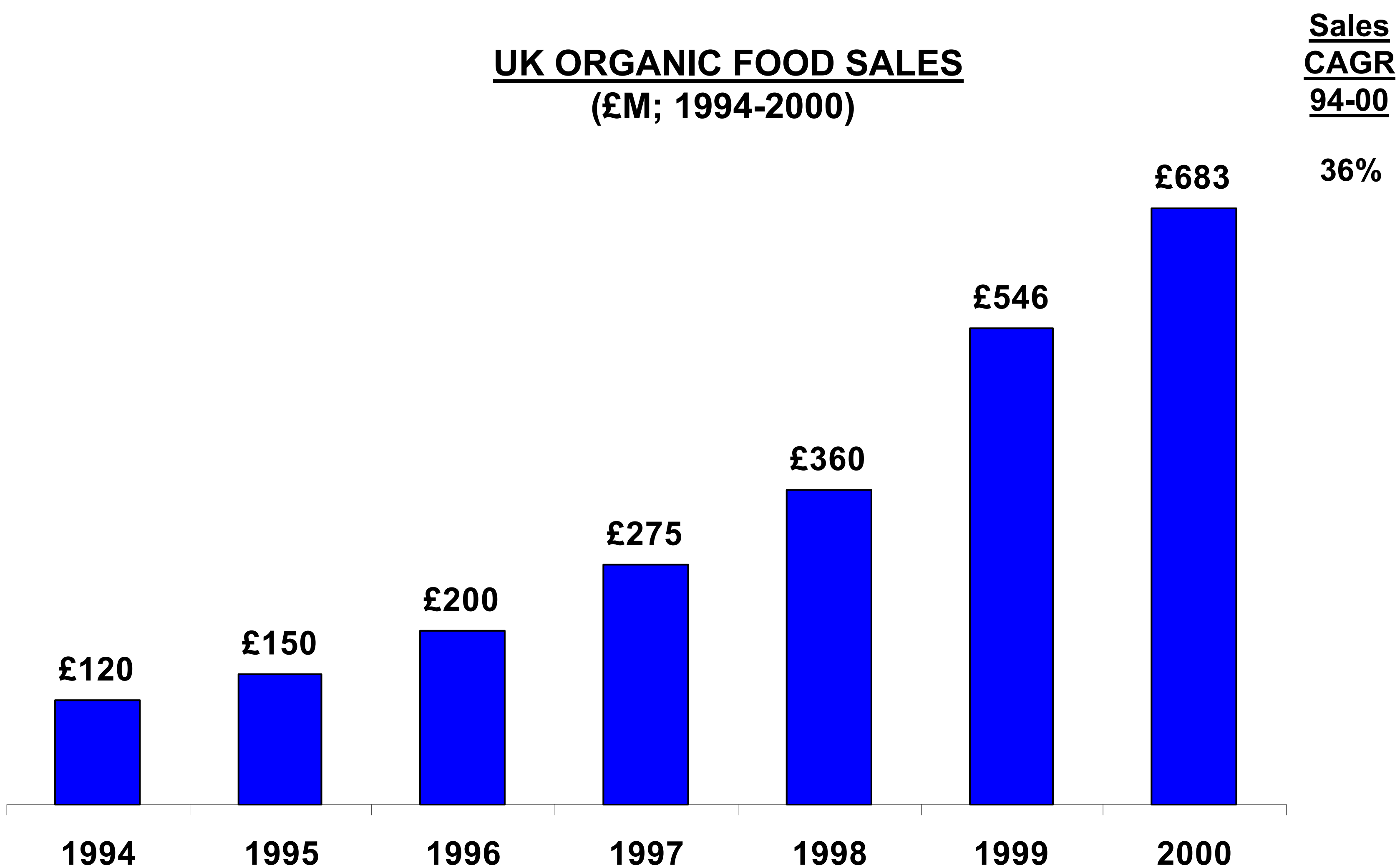
	Organic Ghetto	Organics In-line
Concept	Store-within-a-store	Treated as another flavour
Strengths	Create critical mass Easy for shopper to identify	Impulse purchase Inclusionary
Weaknesses	Exclusionary Limits impulse purchases	Sticker shock

Now lets look at the lessons from the UK market

Lessons from the USA & UK

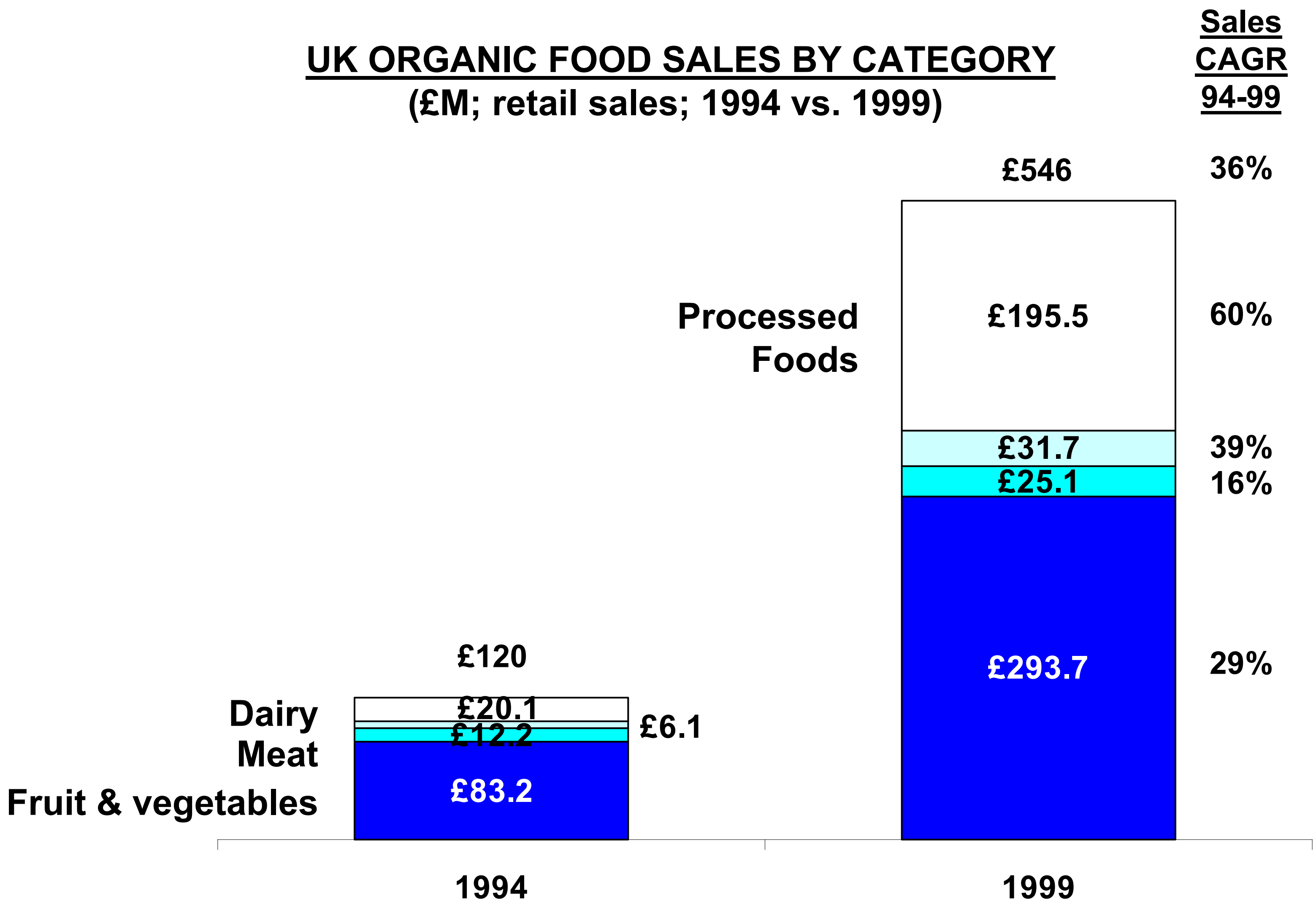


UK organic food sales have grown to £683 million pounds in 2000



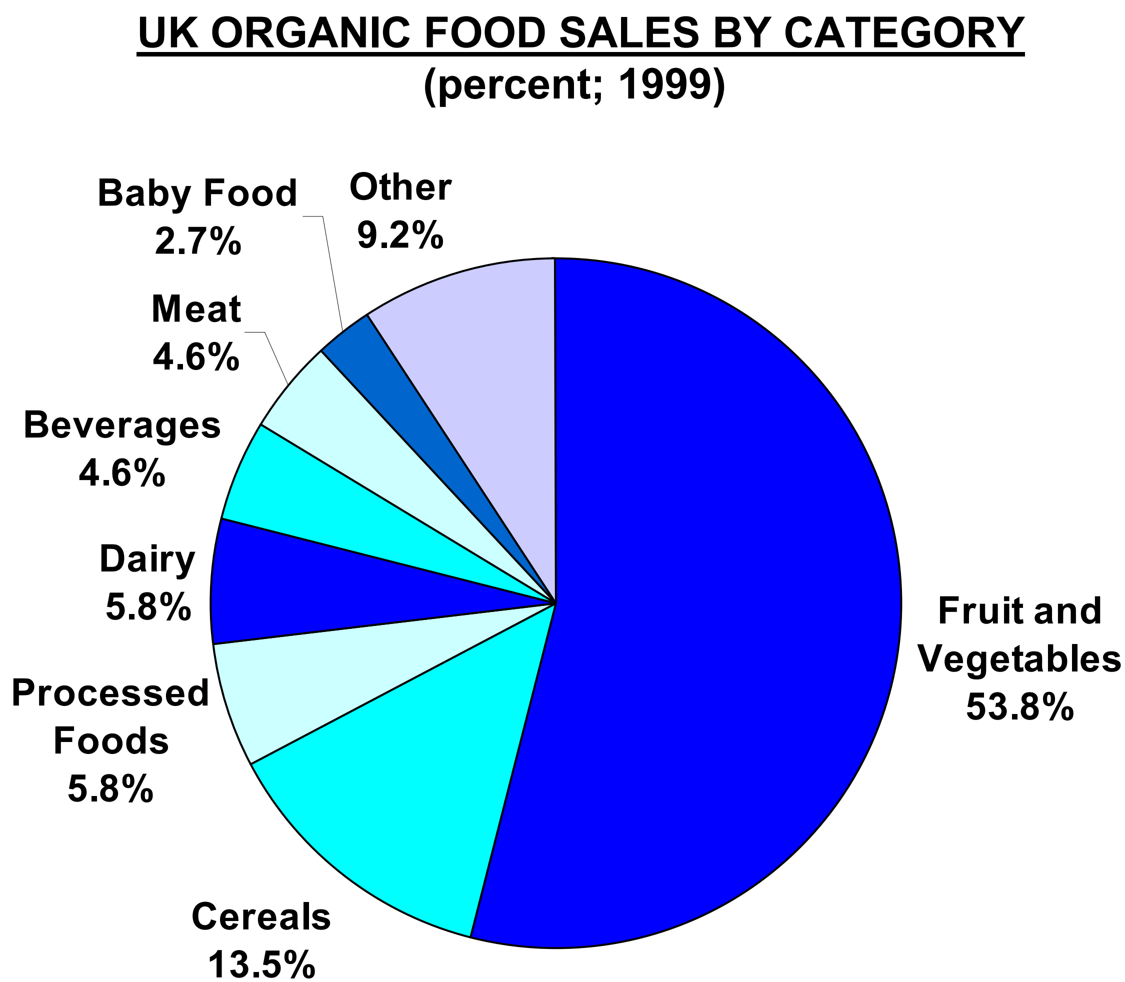
 Source: Various media releases; Press articles; Coriolis analysis

As the market has matured, processed foods have become more important



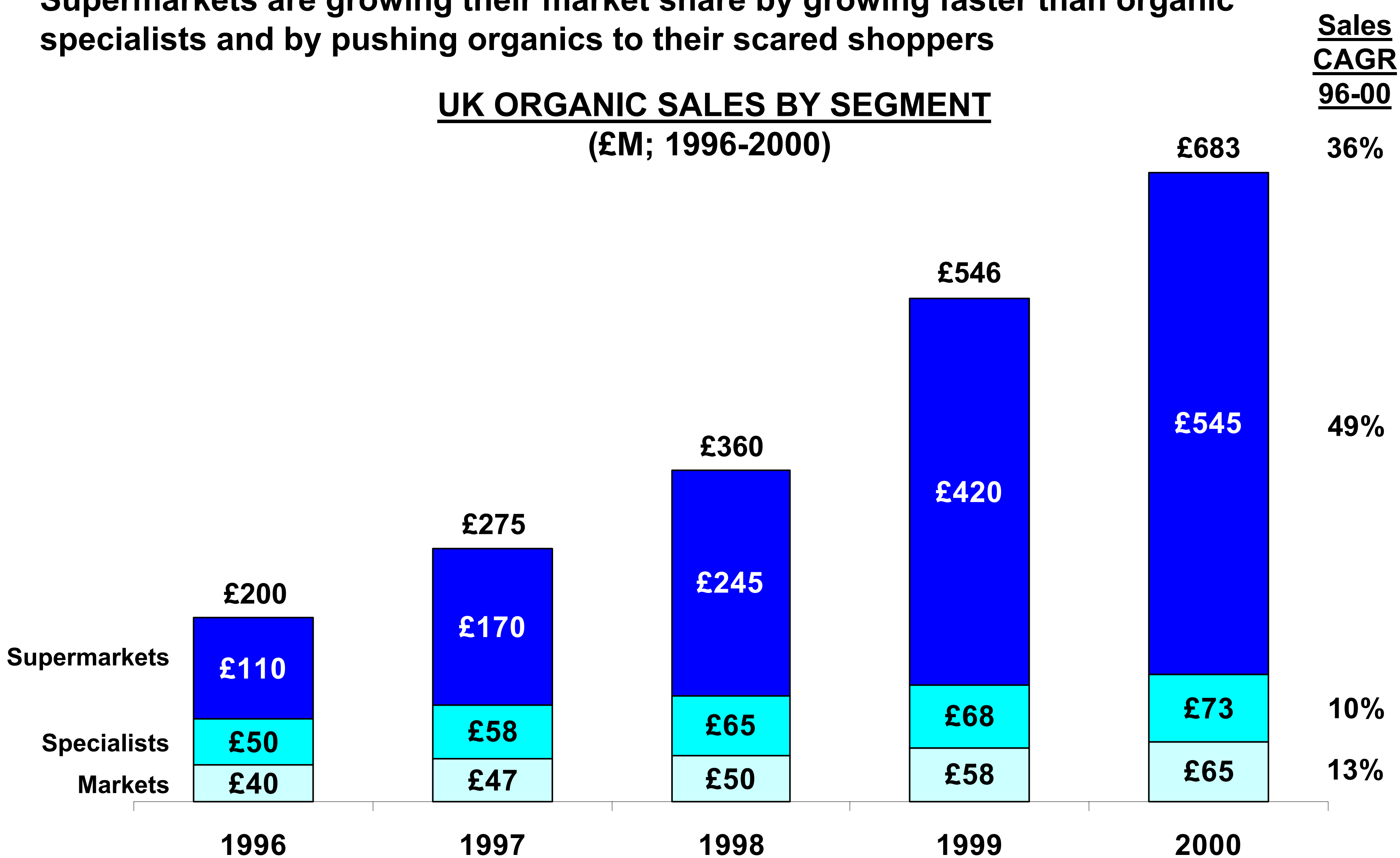
 Source: Mintel, DFAIT Canada, Soil Association; Coriolis analysis

However fruit and vegetables still dominate the market



 Source: Mintel, DFAIT Canada, Soil Association; Coriolis analysis

Supermarkets are growing their market share by growing faster than organic specialists and by pushing organics to their scared shoppers



 Source: Various Media releases; Coriolis analysis

Three upscale supermarkets Sainsbury's, Waitrose and Tesco dominate the British organics market

THREE LEADING CHAINS
(1999 data)

	Sainsbury's	Waitrose	TESCO
% of UK Organic retail sales	19.0%	15.2%	14.6%
Organic sales	£130m	£104m	£100m
% total store sales	1.1%	5.5%	0.6%
Number of items	630	1,100	800
Private label	Sainsbury's Organic foods	O ORGANIC	Organic

Source: Annual Reports; Media releases, press articles, Coriolis analysis


Organic


Organic


Organic
Baked beans


Excludes Express and ROI stores.

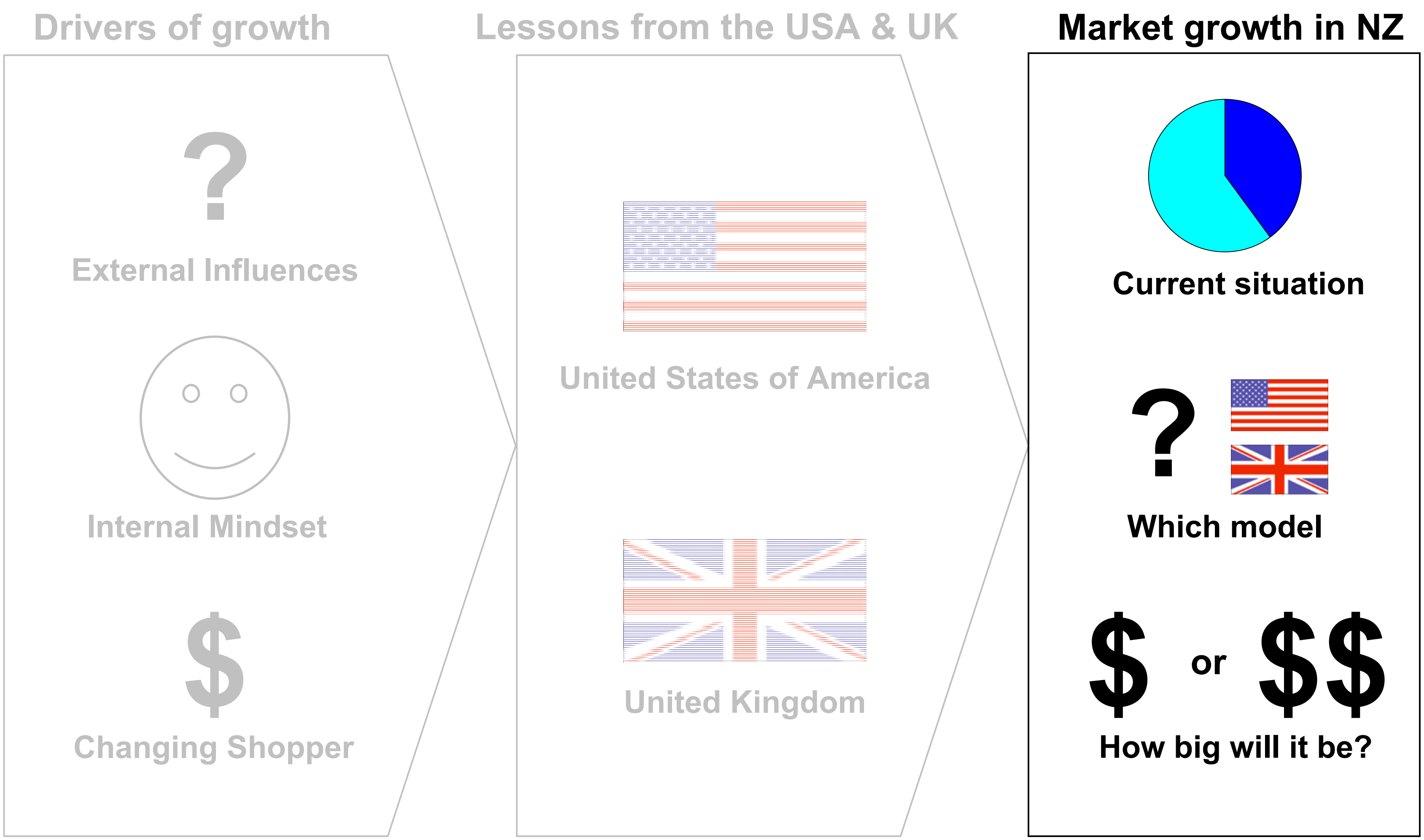
Besides organic butchers, greengrocers and health shops, we see the development of organic specialists, with two former organic supermarket employees try to bring the US model to the UK

ORGANIC SPECIALISTS

Total sales	**£4.0m**	**N/A**
Number of stores	**1**	**3**
Launched	**Started by ex-Wholefoods employee**	**Started by Co-founder of Wild Oats**

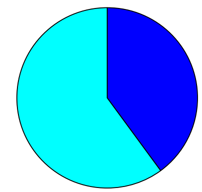
 Source: Various Press articles

So, now lets look at what this means for New Zealand



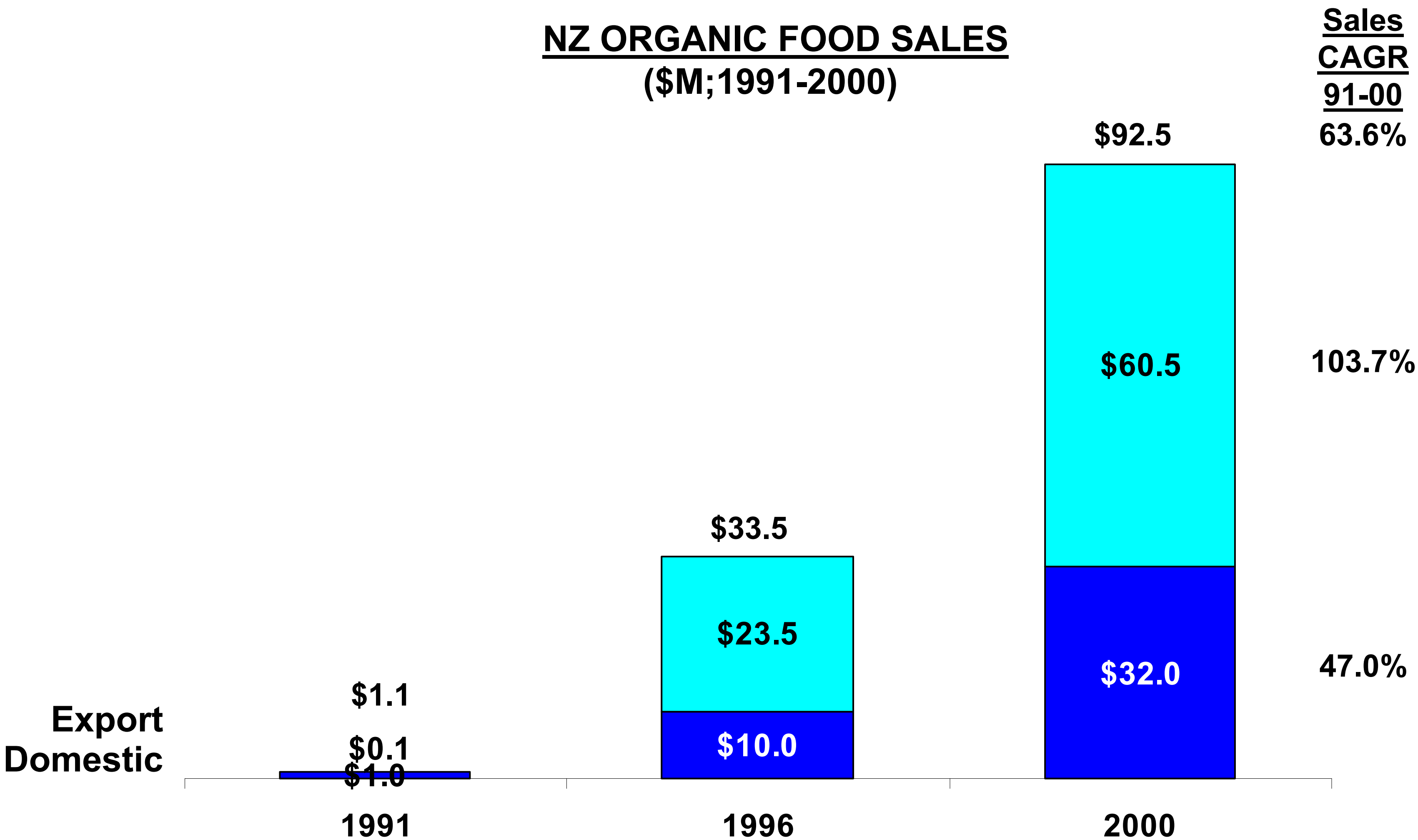
What is the current organic situation in New Zealand?

Market growth in NZ



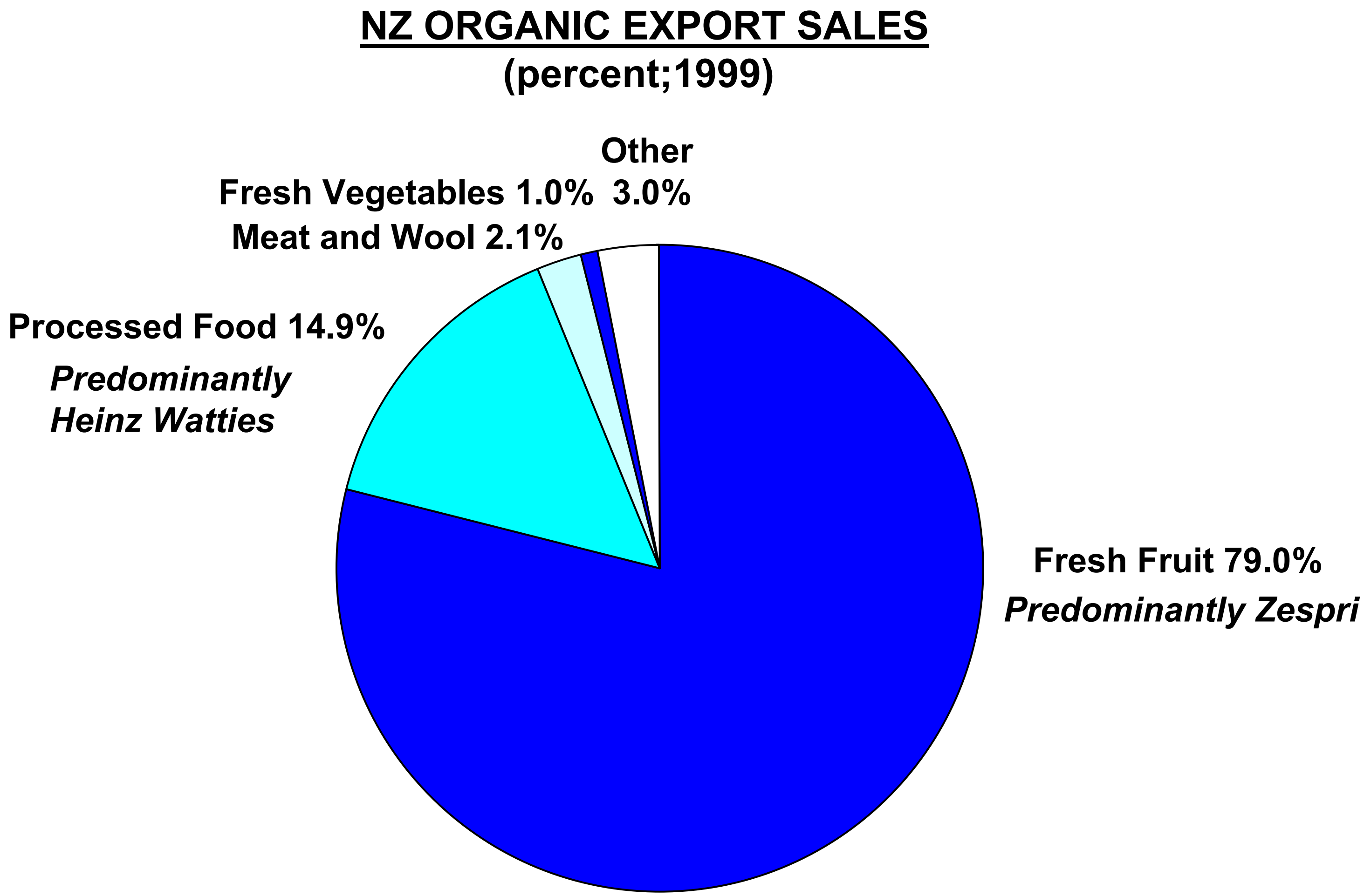
Current situation

Exports dominate the NZ organics market, however the domestic market is also showing dramatic growth



 Source: OPEG; Various press articles; Coriolis analysis

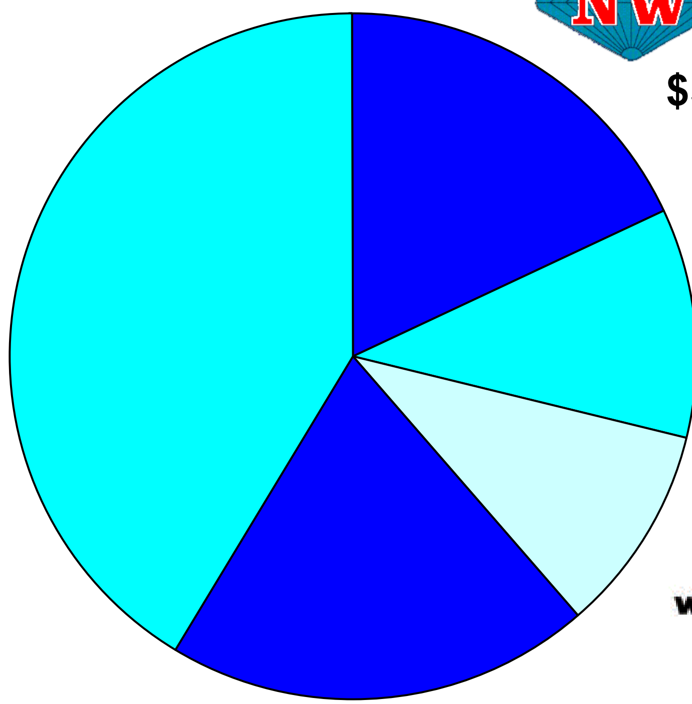
Organic export sales in New Zealand are dominated by Zespri and Heinz Watties



 Source: OPEG

No clear winner has emerged in the battle for New Zealand's organic shopper

NZ ORGANIC SALES BY CHANNEL
($M; 2001)



Organic Specialists
$13.2 / 40%

$5.7[1] / 18%

$3.5[2] / 11%

$3.2[3] / 10%

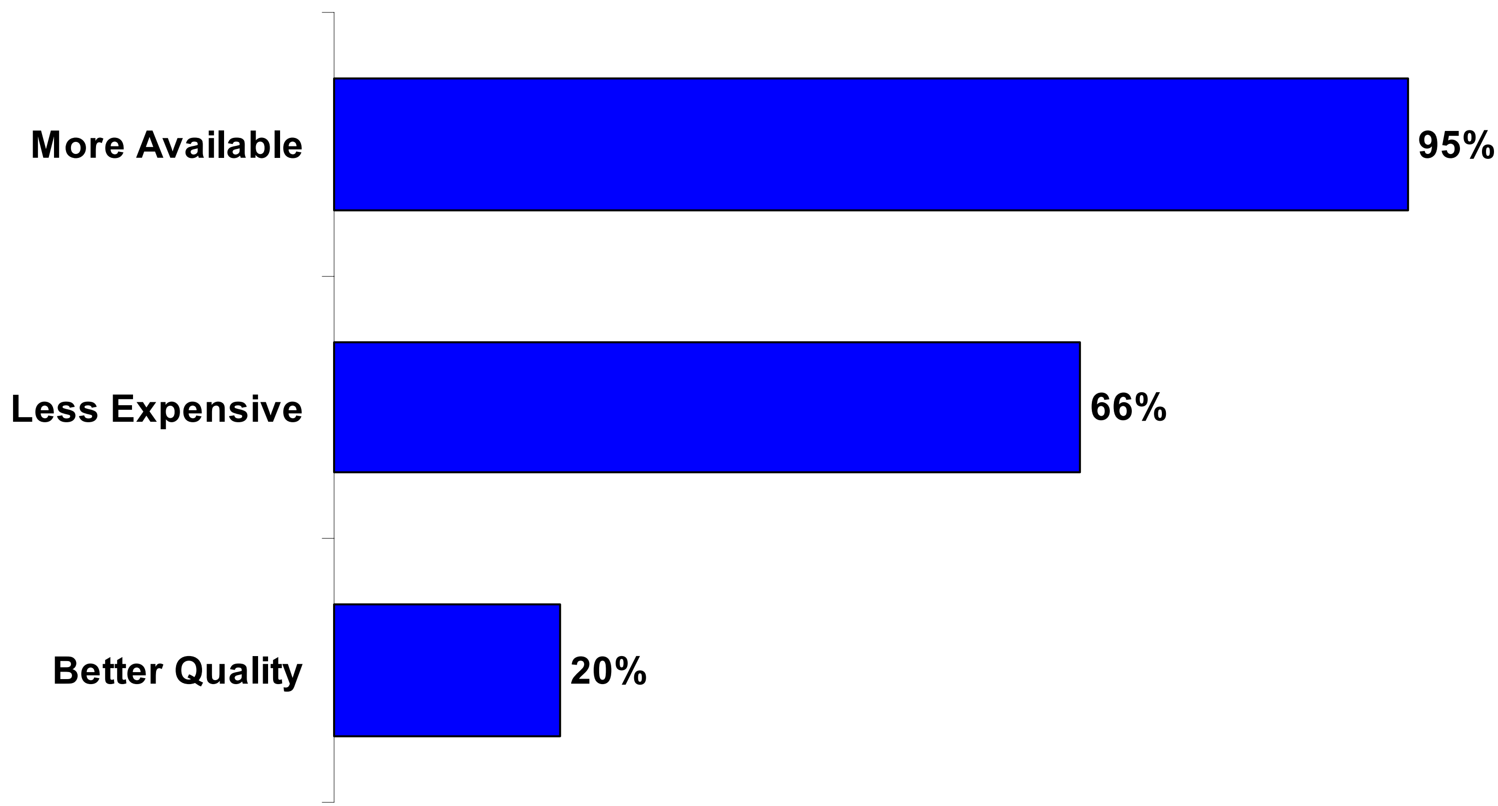
40%

Box Schemes & Farmers Markets
$6.4 / 20%

1. Includes NewWorld, Pak'N Save and WritePrice; 2. Includes Foodtown, Countdown, Supervalue; 3. Includes Woolworths, BigFresh and Price Chopper; Source: Coriolis estimates

New Zealand shoppers would buy more organics if it was more available and less expensive

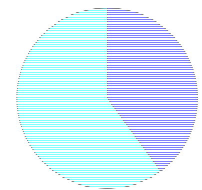
<u>PEOPLE WOULD BUY MORE ORGANICS IF IT WAS…</u>
(% of those surveyed; 1998)



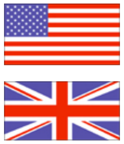
 Source: Saunders, Lincoln University

Will New Zealand follow a US or UK model?

Market growth in NZ



Current situation

? 

Which model

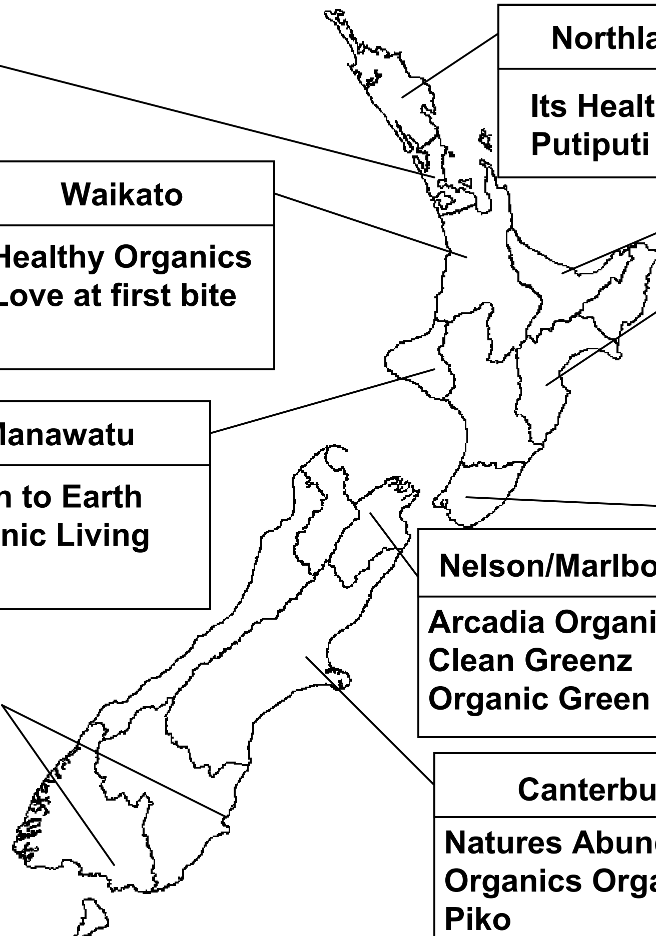
There are two models for the future of organics in New Zealand, and the winner is still unclear

TWO MODELS FOR NZ ORGANIC RETAILING

	Specialists Win (USA)	Supermarkets Win (UK)
Required Action	• Specialists develop large store format • Specialists able to provide complete product range	• Supermarkets develop organic private label brands • Supermarkets actively push organics
Challenges for NZ	• How many Grey Lynns are there? • Can specialists offer a complete range at halfway decent prices? • Do specialists have the management capabilities?	• Do consumers trust their supermarkets? • Do supermarkets have the right image? • Can supermarkets develop a strong private label? • Do supermarkets have the vision and resources to make it work?

There are currently a multitude of organic specialist spread throughout the country…

ORGANIC SPECIALISTS (SELECTED)



Auckland
- Huckleberry Farms
- Ceres
- Harvest Wholefoods
- Harvest Organics
- Vita Health
- Earthway
- East-West
- ie Produce
- Torbay Fruit shop
- Waiheke F&V

Northland
- Its Healthy
- Putiputi Ra

Bay of Plenty
- Back to Eden
- Bethlehem Health
- The Good Earth

Waikato
- Healthy Organics
- Love at first bite

Hawkes Bay
- Chantal Foods
- Cornucopia Natural Foods

Manawatu
- Down to Earth
- Organic Living

Wellington
- Commonsense Org.
- Full of Beans
- Homestead Health

Nelson/Marlborough
- Arcadia Organics
- Clean Greenz
- Organic Green Groc.

Otago/Southland
- Taste Nature
- Soul Foods
- Natural Healing Centre
- Invercargill Org Shop

Canterbury
- Natures Abundance
- Organics Organic
- Piko
- House of Organics

Source: OPEG member list, Soil and Health magazine, Yellow Pages

…however, leaders have begun to emerge

LEADING ORGANIC SPECIALISTS

	Vita Health Inc			
	HARVEST WHOLEFOODS	Vita Health	HUCKLEBERRY FARMS NATURAL FOODS	CERES ORGANICS
Total sales	**$1m**	**$3.2m**	**N/A**	**N/A**
Number of items	**5,000**	**4,000**	**5,000**	**1000**
Store size (m²)	**150m²**	**75m²**	**400m²**	**75m²**
Number of stores	**2**	**8**	**1**	**1**
Business description	**Organic retailer 75% organic of which 15% private label**	**Supplements, vitamins, ltd food**	**Organic retailer 75% organic of which 30% private label**	**Organic retailer/wholesaler Private label**

Supermarkets are dabbling in organics but have yet to make a commitment to the concept – none have followed the UK and launched an organic private label

MAJOR SUPERMARKET CHAINS ORGANIC ACTIVITY

NW	Support of organics varies by owner and location Implementation in-line and separate section New World Victoria Park: All products are in-line with 'shelf talkers' to identify organic range
Foodtown	Separate section in select stores Greenlane: half of one side of an aisle Mt Eden: Organic display island at the end of produce
woolworths	Separate section near produce in newer stores Richmond Road: majority of products in 3 bays at the end of an aisle, including selected products in-line

Up to 250 organic items are currently available in New Zealand supermarkets - there is still not a complete range available

LEADING SUPERMARKET CHAINS ORGANIC ITEMS BY DEPARTMENT

Bakery (10)

Deli (0)

Meat (10)

Dairy/Chilled (37)

- Milk (1)
- Yoghurt (20)
- Sour Cream (1)
- Cottage Cheese (2)
- Tofu (3)
- Hummus (5)
- Soup (2)
- Ready Meal (3)

Fruit (6)

Vegetables (10)

Dry Goods

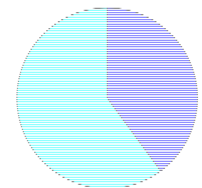
- Breakfast Cereals (10)
- Rice (5)
- Flour (4)
- Pulses (10)
- Pasta (8)
- Pasta Sauces (4)
- Chutney/Sauce (10)
- Sugar (3)
- Snacks/Chips (10)
- Maple Syryp (1)
- Baby Food (30)
- Spreads (6)
- Canned (4)
- Oil & vinegar (6)
- Chocolate (5)
- Juices (20)
- Soy (5)
- Tea (4)
- Coffee (5)
- Eggs (4)
- Mustard (1)

Frozen (6)

 Source: Coriolis analysis

How big will the market in New Zealand be?

Market growth in NZ



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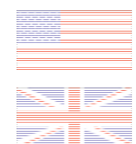
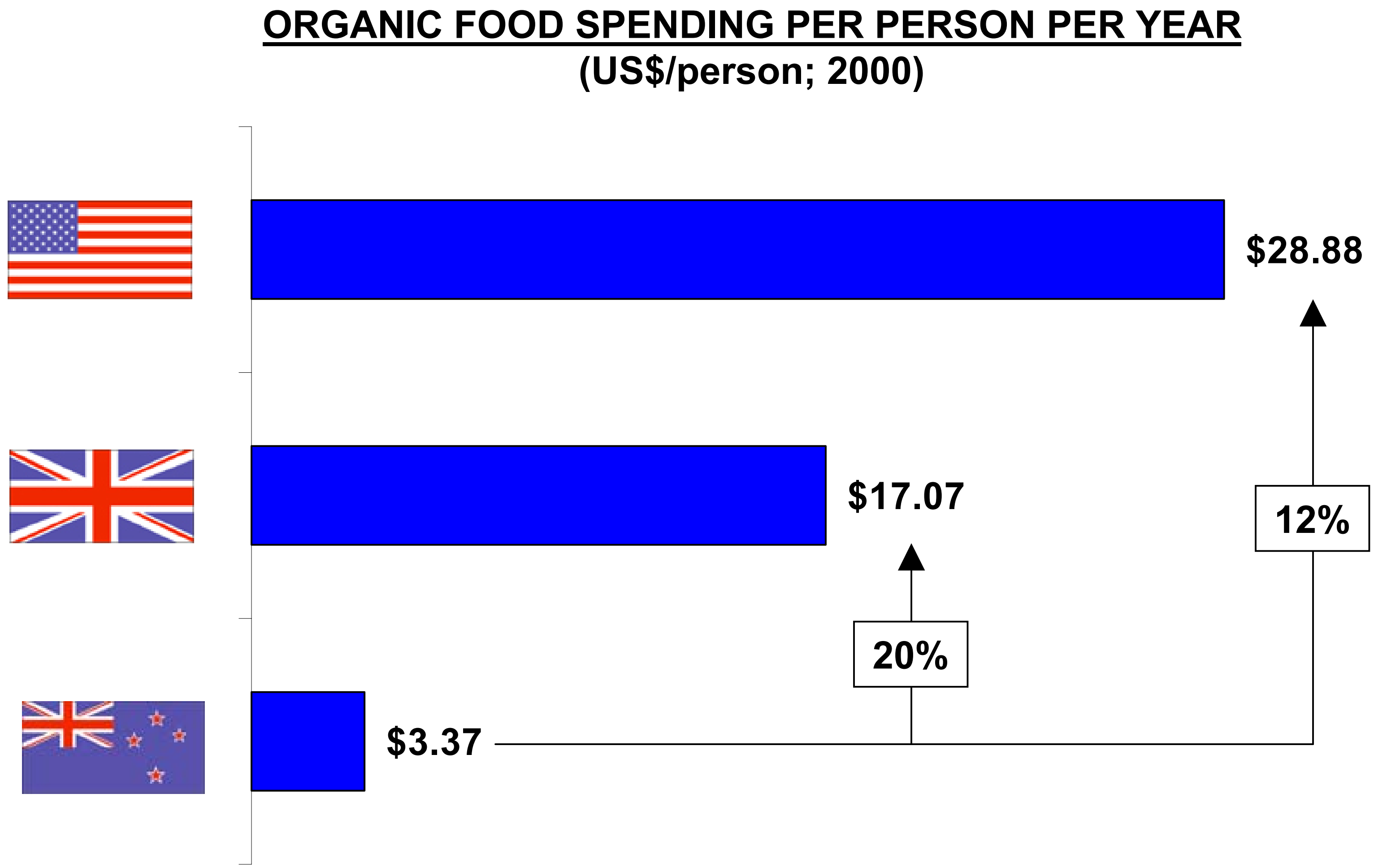
? 

Which model

$ or $$

How big will it be?

American and British consumers currently spend a lot more than New Zealanders on organic food



Source: USDA ERS; Soil Association UK; OPEG; Coriolis analysis

There are four possible outcomes for organics in New Zealand – driven by the size of the domestic and export demand

ORGANICS MATRIX

EXPORT DEMAND		DOMESTIC DEMAND: LOW	DOMESTIC DEMAND: HIGH
	HIGH	FOREIGN FOOD MELTDOWN	THE GREENS DREAM ORGANIC NATION BY 2020
	LOW	NICHE MARKET	THE LAND OF ALTERNATIVE LIVING

If international demand is high, then the impact will primarily be on our existing export industries

HIGH EXPORT DEMAND SCENARIO

Description	• 20% of other industrial countries are 30% organic • Ongoing global shift to organics in the developed world • Reduction in premiums due to competition
Categories	• Dairy • Horticulture • Meat • Niche • Viticulture
Implications	• Significant changes to current NZ farming practices • NZ builds on "Clean Green" branding • A large supply of select organic items available domestically • Organic production and processing on a large scale (i.e. whole plants, regions) • Concentrated in a few hands

If domestic demand is high, organics will be available in all categories, and there will be a need to import products we can't produce

HIGH DOMESTIC DEMAND SCENARIO

Description	• 20-30% of New Zealanders eat a diet that is 80% organic
Categories	• Represented in all categories • Able to do a complete organic shop
Implications	• Need for imported organic products not domestically produced • Fragmented, small scale local production across a large number of categories

Should your company launch a range of organic products?

It depends on what you produce…

SHOULD YOUR COMPANY LAUNCH A RANGE OF ORGANIC PRODUCTS?

Get Started	Wait and See
Fruit Juice	Spices
Dairy Products	Baking Ingredients
Baby Food	Canned products
Wine	Cordials, powdered beverages
Indulgence items - chocolate	
Meat	
Fruit & vegetables	

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