

# **Apple & Pear FRESHlogic Market Monitor**

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## **AP04006**

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## Apples & Pears ~ July to Dec 2004

This FRESHlogic report has been facilitated by APAL and Horticulture Australia Ltd. It is funded by the Apple & Pear Industry R & D Levy with matching support from the Federal Government. This report covers the 6 months from 1 July to Dec 31st 2004 and is part of a pilot to assess the FRESHlogic systems and methodology. This report the concluding milestone in project AP04006

This report is about about informing the market and guiding better commercial decisions. It is recommended that those seeking to act on the basis of the contents of this report first obtain independent professional advice.

# FRESHlogic Market Information Program

## Overview

The FRESH*logic* program works by collecting and processing data into outputs that those in the industry can use to improve supply chain efficiency and the management of the category.

The scope of the data collected and how it is analysed, is driven by the need to assess all market influences. This is because the performance of fresh foods can be impacted by a mixture of demand, supply and competitive influences. A team of field resources collect data on retail prices, consumer advertising, weather patterns and competitive activity on a weekly basis. This data is then combined with supply, quality and trading data from those operating in the supply chain. When this pool of data is combined it enables analysis tools to be built to profile the drivers of category performance.

The FRESH*logic* program produces information on what is driving the market and provides a basis to assess performance and target investments. This includes profiles of market conditions and factors that drive those conditions, as well as profiles of promotional activity, basket pricing comparison and share of income along the supply chain. More profiles will be developed as the analysis creates more knowledge about the linkages in the data and how the outputs can be used.

This report is about the performance of Apples and Pears in the Fresh Fruit category\* from 1 July to 31st Dec 2004 in the Australian domestic market.

\* See Fresh Fruit Category structure. Appendix 1



# FRESHlogic Market Information Program

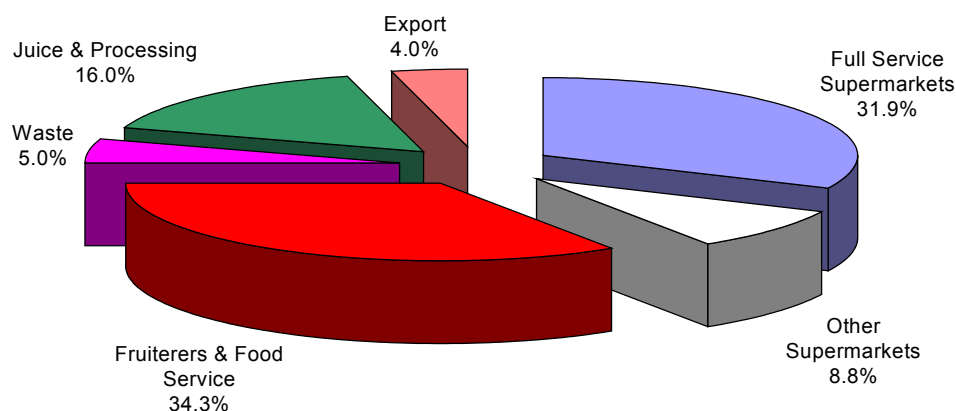
**FRESHlogic output** uses include:

- Convincing supply chain partners and their customers that the higher quality product you can supply will increase the value of the category. This is possible as these options can be credibly profiled with real market results.
- Determining if you have enough of your product going to the best distribution options, plus which parts of your product range has the growth potential, by being able to track which parts of the market and product range are growing.
- Forecasting the effect of increasing supply volumes and directing what you can influence by seeing a clear profile of what is really driving the market.
- Measuring the effect of industry investments in marketing and promotional activity through having visibility of the impact on market volumes and prices.
- Knowing what the increasing availability and impact of alternative fresh products does to the demand and price of your product. With this information plans can be made to counter the growth of these competing products.
- Judging whether R&D investments are flowing through to improve your returns, which could be reflected in new varieties selling for higher prices or smoother supply chains resulting in better volume flow management and price stability.

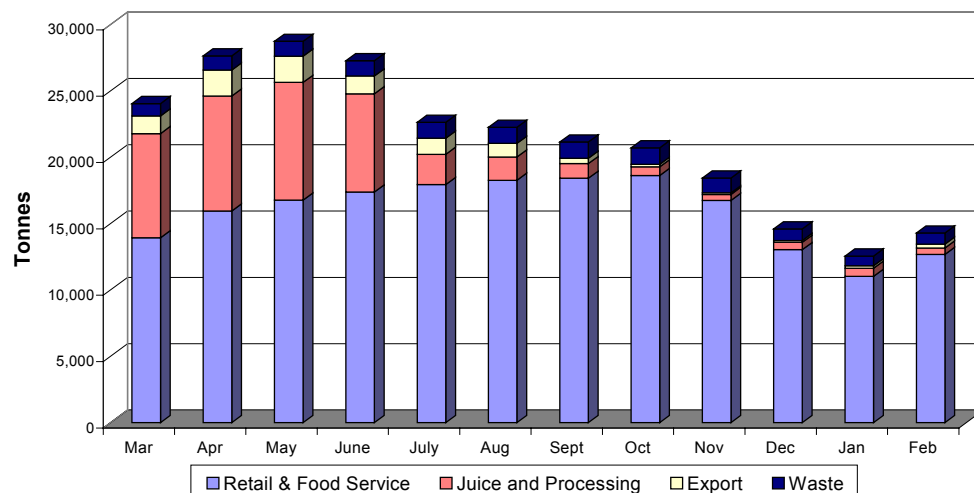


# Category Overview ~ Market Framework

**(A) 2004-05 Apple season share of 254,925 tonnes**



**(B) Monthly kg volume by channel**



- The 2004 apple season produced 254,925 tonnes of apples, which was -22% on the previous year. 75% of the crop was distributed through the retail and food service. The lowest level of channels market share available are profiled in graph A.
- The sales pattern per month for apples for each of the three channels is shown in the graph B. Of interest is the even nature of the retail and food service sales pattern which peaks in early spring.
- This forecast sales pattern uses the CA storage capacity of 199,000 tonnes plus 87,000 tonnes of standard coolroom capacity, and peaks with storage a requirement of 239,000 tonnes in March 04. The timing of release of CA stored product is a key supply variable and therefore a direct impact on prices.
- There has been consolidation within the production, packing and wholesaling sectors and this has improved the capacities to manage volume. This appears to have eased the vulnerability to the pricing based on perceived supply volumes. Some would argue it has moved the concentrations in buying power one step back up the chain.

## Category Overview ~ Market Framework



- The market has historically established prices on commodity trading principles with volume supply the major factor. However, there are signals that the market is becoming more informed, and with that better able to accept and pass on genuine added value.
- The domestic retail Fresh Fruit market is valued at \$2.4-2.6b, with the range of value driven by fluctuating supply volumes and prices. The retail channel for Apples and Pears is valued at \$600m-\$700m or 190-210,000 t.
- A large segment of the retail market is the full service supermarkets who buy the majority (75%) of the 80-120 count product. This preference for what is seen as the “optimum eating size” product, flows on to create challenges in marketing the balance of the crop. Smaller fruit is viewed by the market as of less value despite the fact that consumers want this size for some eating occasions and smaller size vegetables are sold at a premium.
- The mixture of apples sold is moving towards the newer varieties and this shift is contributing to market growth as these new varieties sell at higher prices.
- There is a level of industry funded marketing investment in the category that is of a scale that reaches the consumer.
- The promotional activity by retailers is a driver of variety volume and effects share within the fruit snacks category.
- Apples are a consumer staple that are purchased regularly by close to all households. They are seen as a natural and healthy addition to a diet and “an apple a day keep the doctor away” is still accepted. The quantity purchased will be influenced by the relative value and quality of available alternatives. The price of bananas can have a direct impact on the quantity of apples purchased as incremental quantities of these two products will be traded off by consumers.

## Category Overview ~ Market Framework



- Apple and Pear consumption is now operating against a more complex competitive set, that includes new products and new distribution channels.
  - Fresh fruit competition is increasing as the seasonal windows of alternatives fruits have extending to offer longer seasons and higher volumes. This includes Grapes, Melons, Summerfruit and Mangos.
  - The range of processed Fruit Snacks (IE SPC Ardmoma Fruit tubs) has increased and this category has grown to a retail value of \$270m.
  - The Nutritious Snacks category, which include Muesli Bars and the like, is now valued at \$395m. The brands that dominate this category out-spend Apple and Pears in marketing and this includes sponsorship of the leading sporting personalities.
  - Processed Apples and Pears fruits have found their way into other foods, most notable cereals, and their inclusion is promoted as natural, nutritious and healthy. This support confirms the benefits that Apples and Pears deliver but also provides an alternative way for consumers to buy and consume these fruits.
  - In the last 4 years 300 plus Fresh Juice bars have opened and are generating sales of \$150m plus. This has creating a new channel and is viewed by some consumers as an alternative to fresh whole fruit.
- Consumer behaviour has changed and the demand for healthy foods and convenient snacks has increased. In response to these changes alternatives have evolved, increased the size of the market and taken share off Apples & Pears.
- The key issues for Apples are to how sell the smaller size fruit and maintaining market share in an increasingly competitive snack market. This challenge is outlined in the profile to “sell the whole bin” on page 23.



## Market Conditions Profile ~ How it works

The nine factors that make up this profile fall into the three groups of Demand Drivers, Supply Drivers and Competition. The impact of each factor is calculated by drawing on a range of data sources including promotional data, supply-trading data, met bureau data, quality outturn, consumer sensory research and category marketing plans. The detail of each factor is as follows.

### **Demand Drivers**

- *Retail promotional activity.* This is the products and the number of times they are involved in retail product advertising across all state capitals. It records the advertiser, the medium, the product and the price. This factor drives market share between the various fresh snack alternatives and is a major influence on volume.
- *Retail shelf prices.* This is the standard (non-promotional) retail price of products at which the consumer purchases. This factor has a direct influence on the basket and volume of fruit and vegetable that consumers purchase.
- *Consumer advertising.* This is the investment in consumer media advertising. ( IE Crunch time and or Wiggles TV ).
- *Breadth of range.* This is the number of products available in the subject category, which will reflect shelf space occupied and the range on offer to consumers.
- *Weather suitability.* This is the impact that the weather has on the selection of meal occasions and the products that are purchased for that meal occasion. IE Warmer weather stimulates BBQ's and with that more salads and holidays can stimulate more casual snacking and more food purchased and consumed outside of the home.
- *Holidays and events.* This is the incidence of major holidays and events. It includes school holidays, sporting finals and other major events, which cause changes in consumption patterns for fresh snacks.

**Supply Drivers** *Supply volume.* This is the volume of the product available, relative to the seasonal pattern or previous years. *Product quality.* This is the product quality available to the consumer. It will be drawn from observations at packhouse, wholesale and retail.

**Competition** *Competing snacks.* This is the availability and value of alternative fresh products and alternative processed snack products. It includes capturing the supply situation and pricing in other fresh fruit, as well as activity from processed snacks.



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# Market Conditions ~ The mechanics

**Volume sold = (.....) tonnes. A calculation of the size of the plotted area that correlates with the volume sold through Retail and Food Service channels for the period. This does not include waste.**

**Competing Snacks:** The number alternative fresh snacks available relative to other periods, factored by their comparative value. Plus activity of processed snacks weighted by impact on the category. Higher availability and activity at better value = lower score & less volume

**Retail Promotional Activity:** The incidence of activity, the relativity of the prices advertised to other periods, factored by weather, range availability. Higher activity complimented by factors = higher score & higher volume

**Retail Prices:** Weekly retail prices from a sample of retailers and weighted Nationally, compared to previous periods and previous years relationships between volume and prices. Higher prices = lower score & lower volume

**Product Quality:** Quality assessments by program partners at packhouse, wholesale and by field force at retail POS. Higher quality factored by relative price = higher score & higher volume

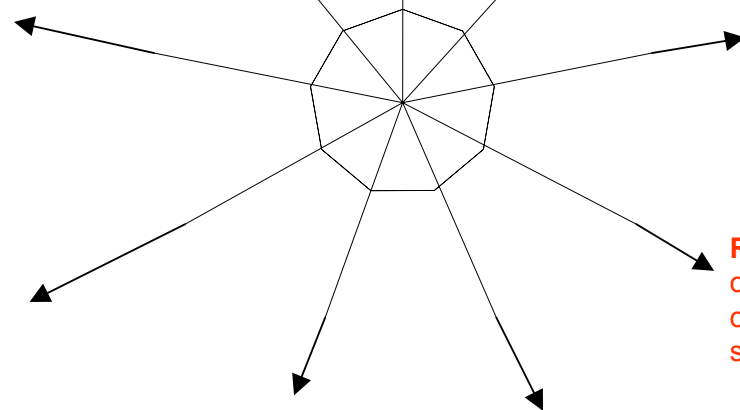
**Consumer Advertising.** The volume of advertising directly supporting the category factored by range, weather and retail promotional activity. Higher combined activity = higher score & higher volume.

**Supply Volume:** The volume of product available to the market relative to other periods. Higher availability = higher score & higher volume.

**Range Breadth:** The number of products available relative to other periods. Less range = low score & less volume

**Holidays & Events:** The number of trading days restricted by holidays and events. More holidays = lower scores and lower volume. Plus consumption positives driven by certain events, which equal positive impact, higher scores = higher volume

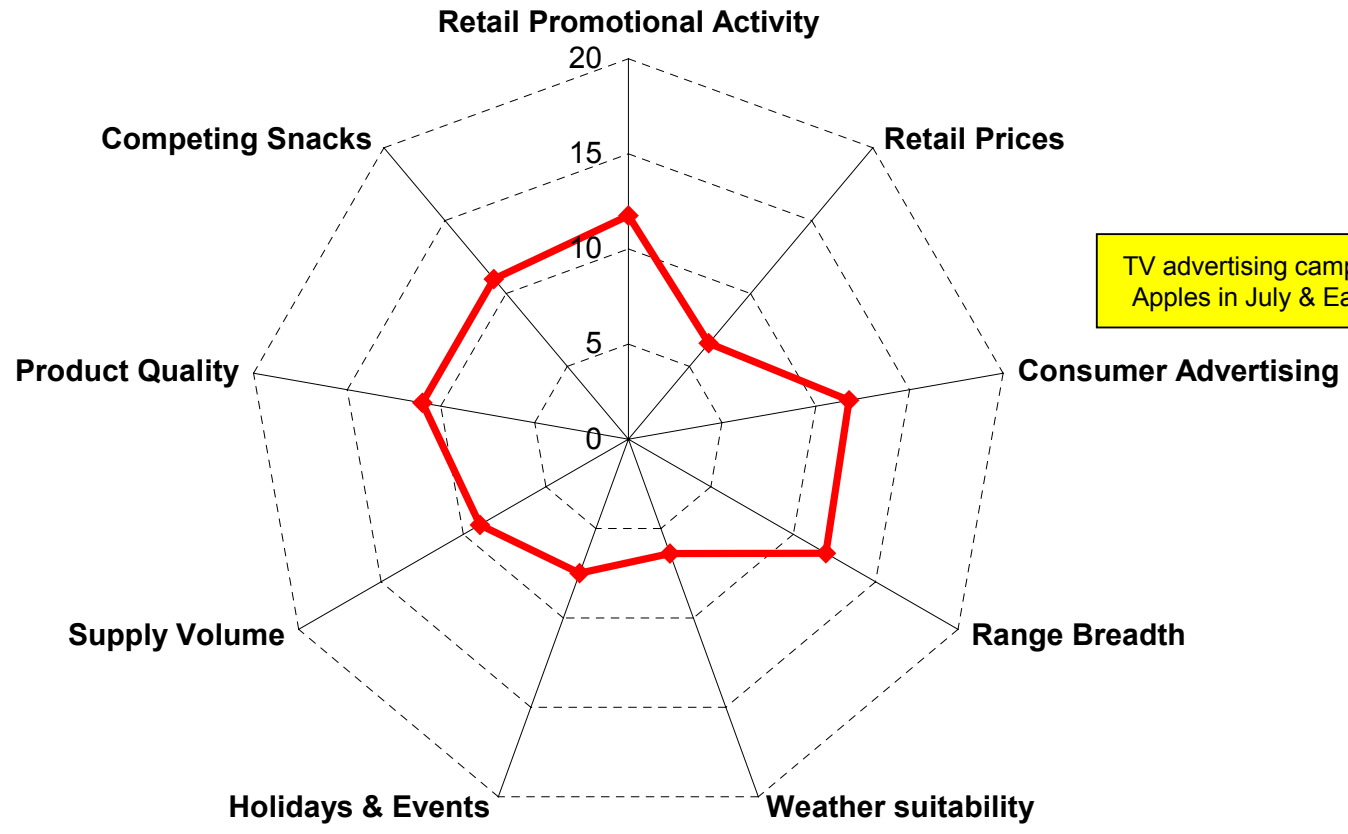
**Weather suitability:** An assessment of optimum consumption weather calculated by combining, temp, sunshine hours, day length and rainfall. IE For snacks finer milder weather, with longer days is positive. Better conditions = higher score & higher volume



# Market Conditions ~ July 04

## Apple Domestic Market Conditions - July 04

**Volume Sold = 17,943 tonnes**



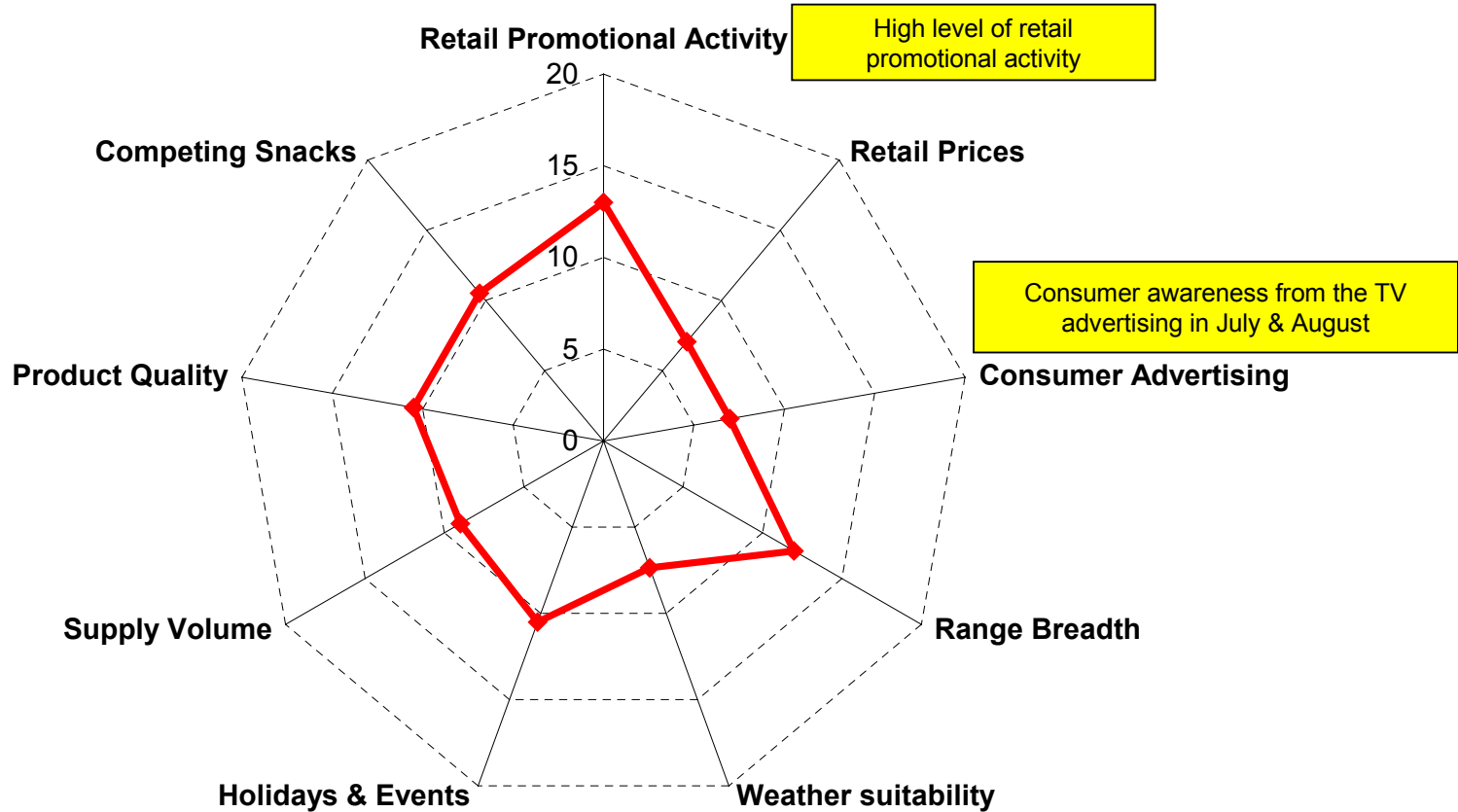
TV advertising campaign for Apples in July & Early Aug

First 2 weeks of July tied up with school holidays

# Market Conditions ~ Aug 04

## Apple Domestic Market Conditions - Aug 04

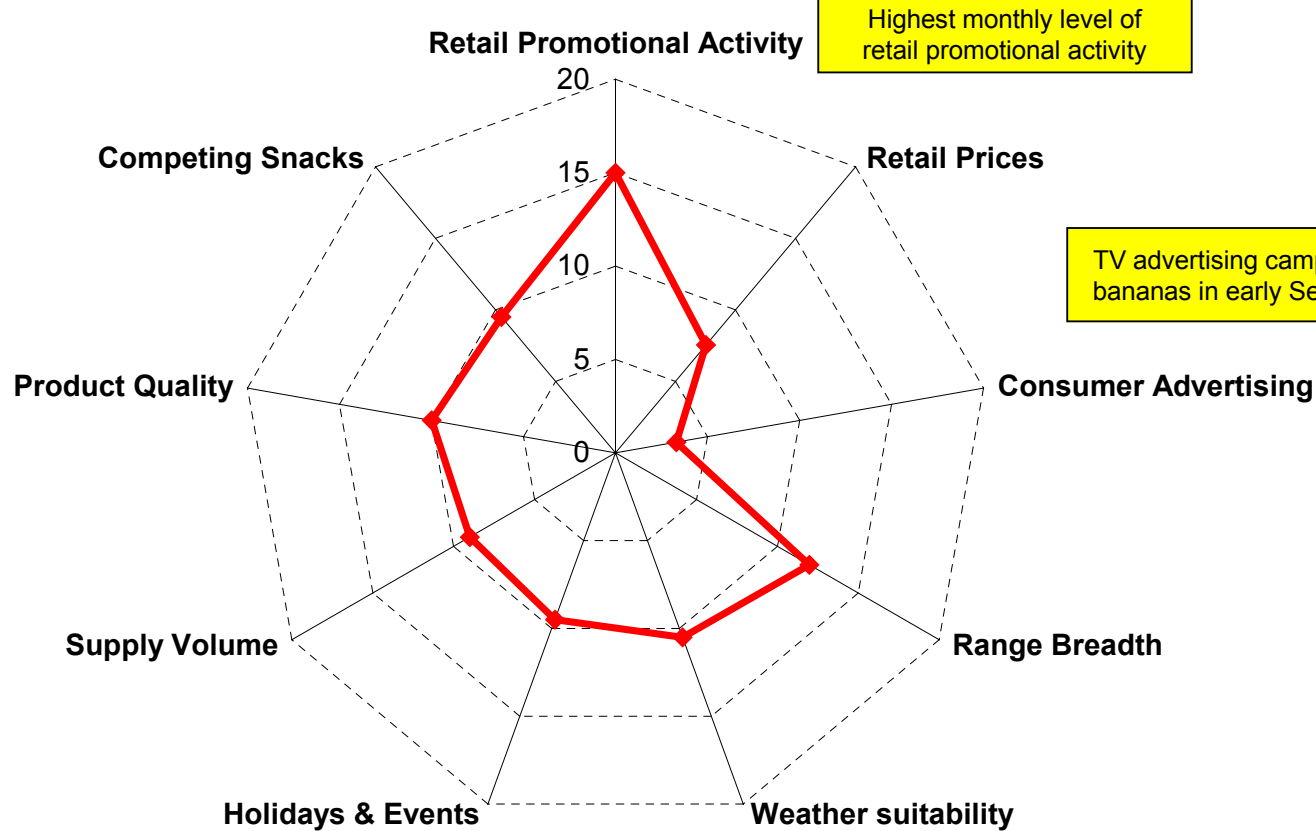
**Volume Sold = 18,264 tonnes**



# Market Conditions ~ Sept 04

## Apple Domestic Market Conditions - Sept 04

**Volume Sold = 18,407 tonnes**



Highest monthly level of retail promotional activity

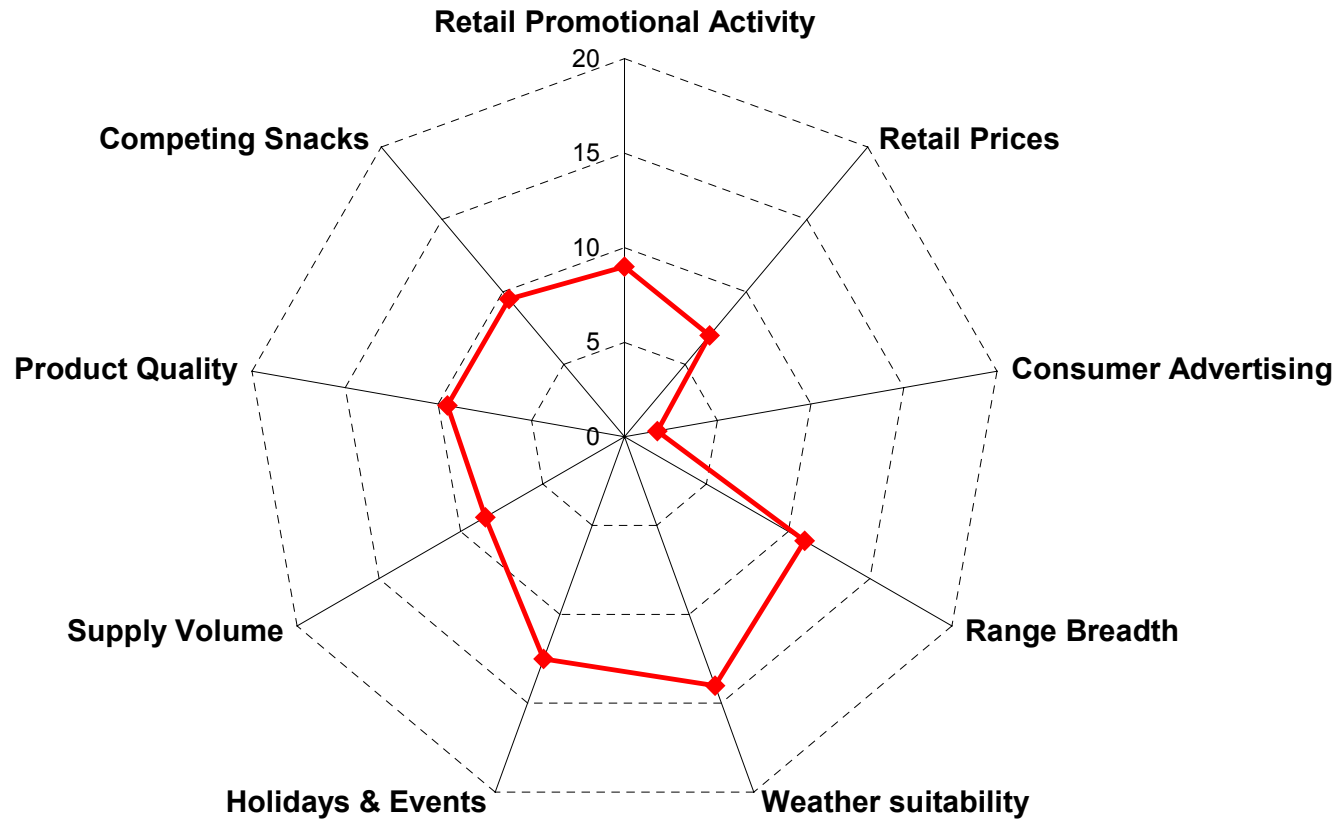
TV advertising campaign for bananas in early September

Last 2 weeks of Sept tied up with school holidays

# Market Conditions ~ Oct 04

## Apple Domestic Market Conditions - Oct 04

**Volume Sold = 18,618 tonnes**

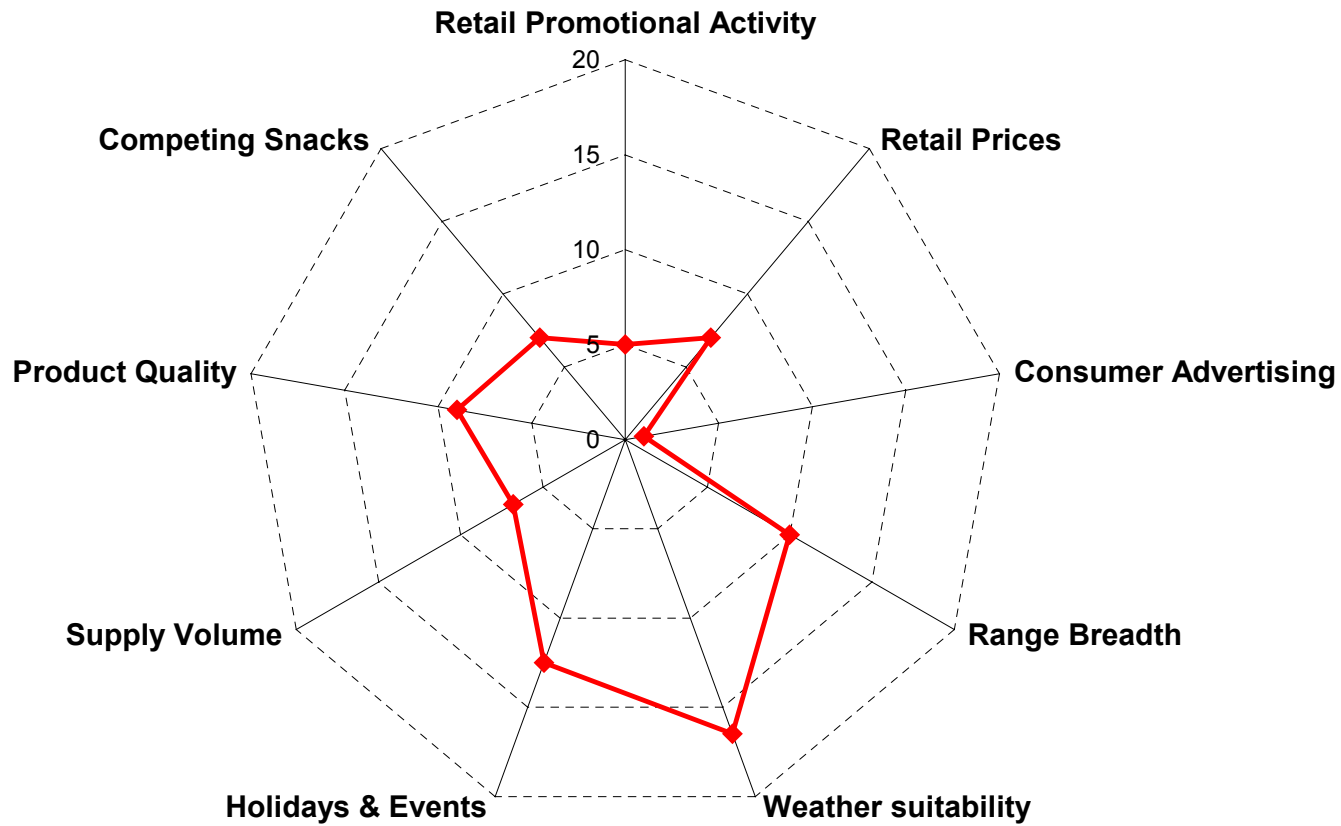


Improving weather leads to increases on fresh fruit snack consumption

# Market Conditions ~ Nov 04

## Apple Domestic Market Conditions - Nov 04

**Volume Sold = 16,743 tonnes**

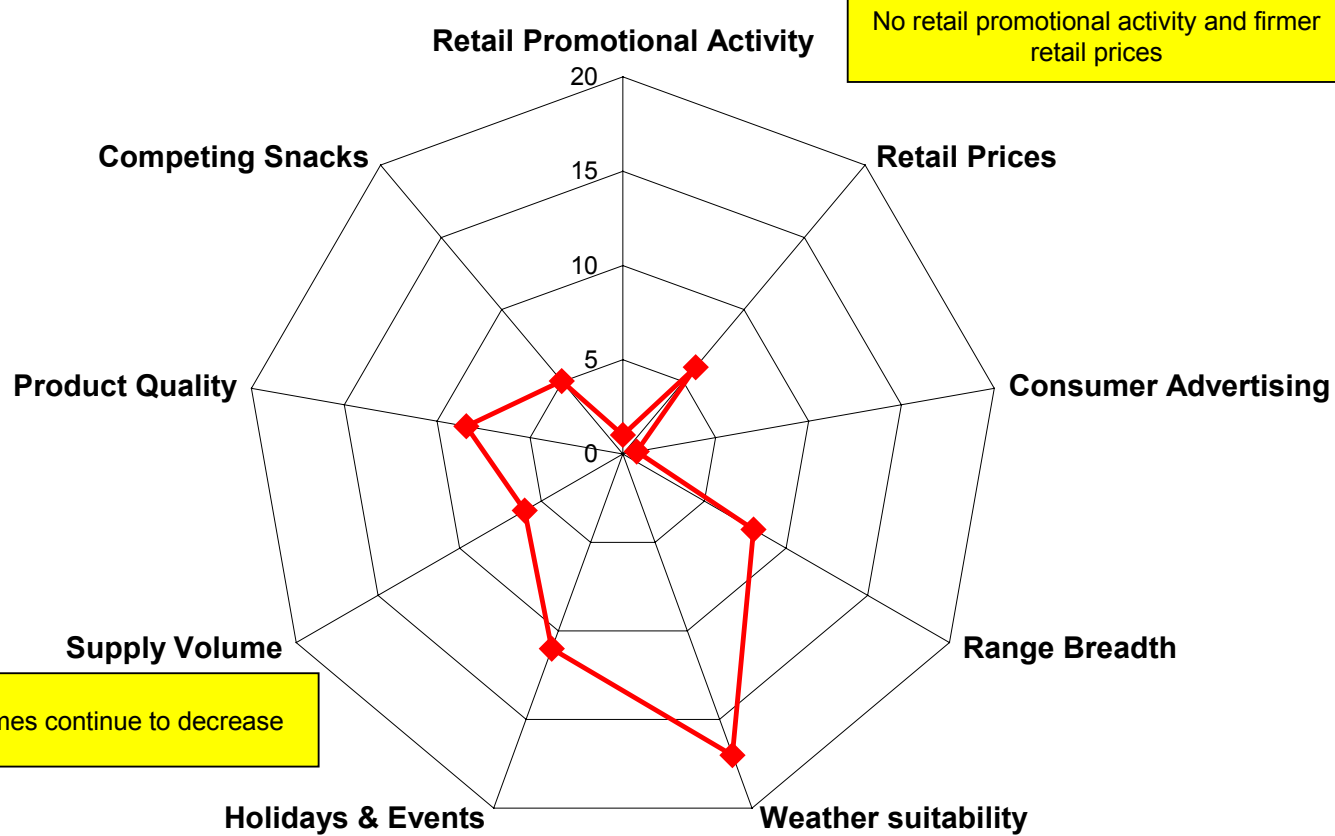


Improving weather continues to drive fresh fruit snack consumption

# Market Conditions ~ Dec 04

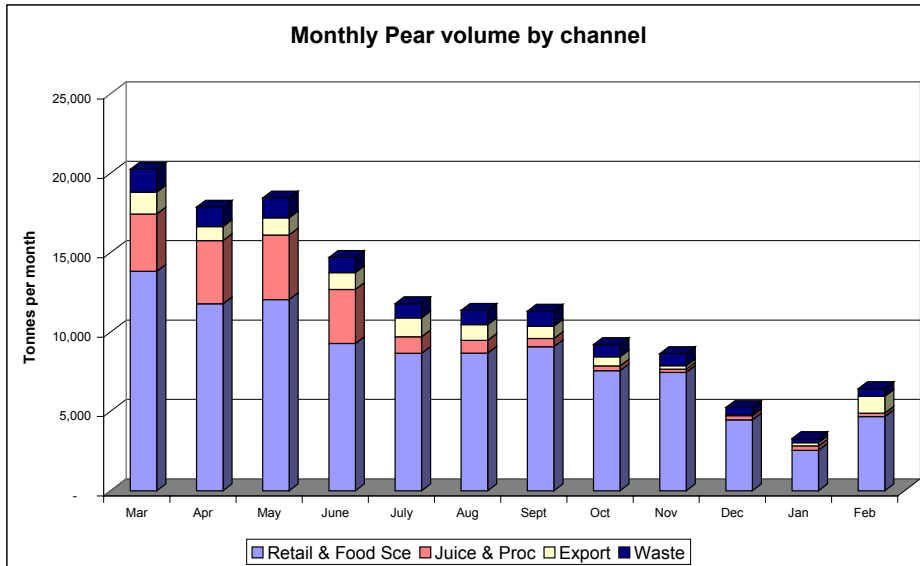
## Apple Domestic Market Conditions - Dec 04

**Volume Sold = 13,025 tonnes**

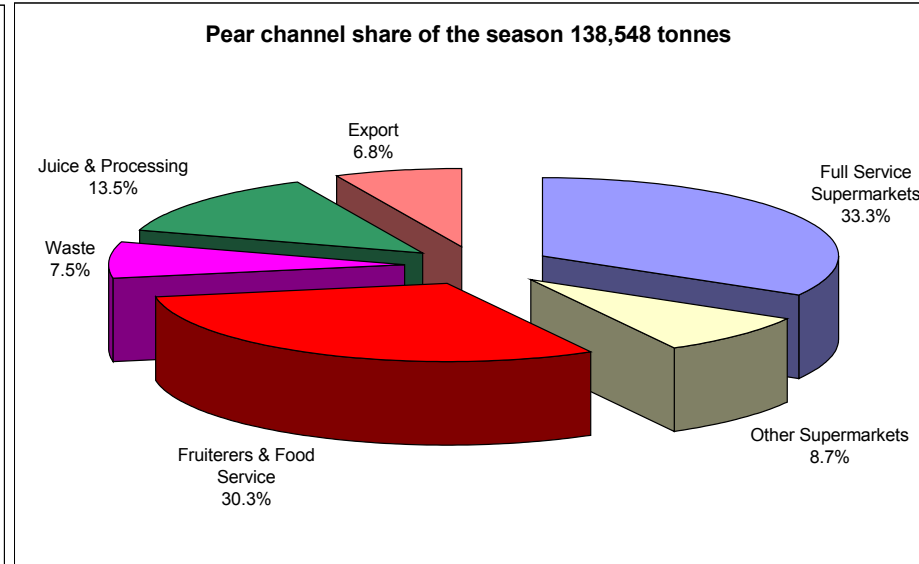
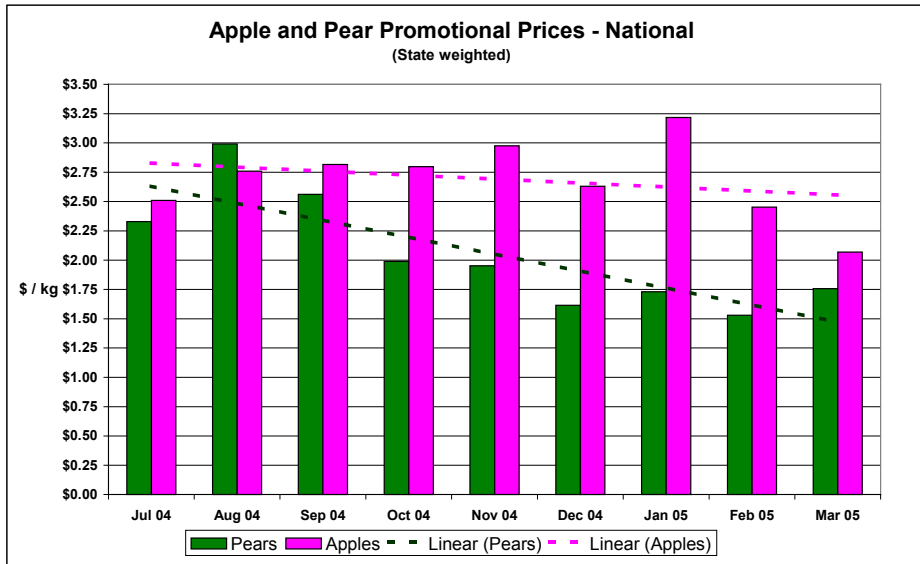




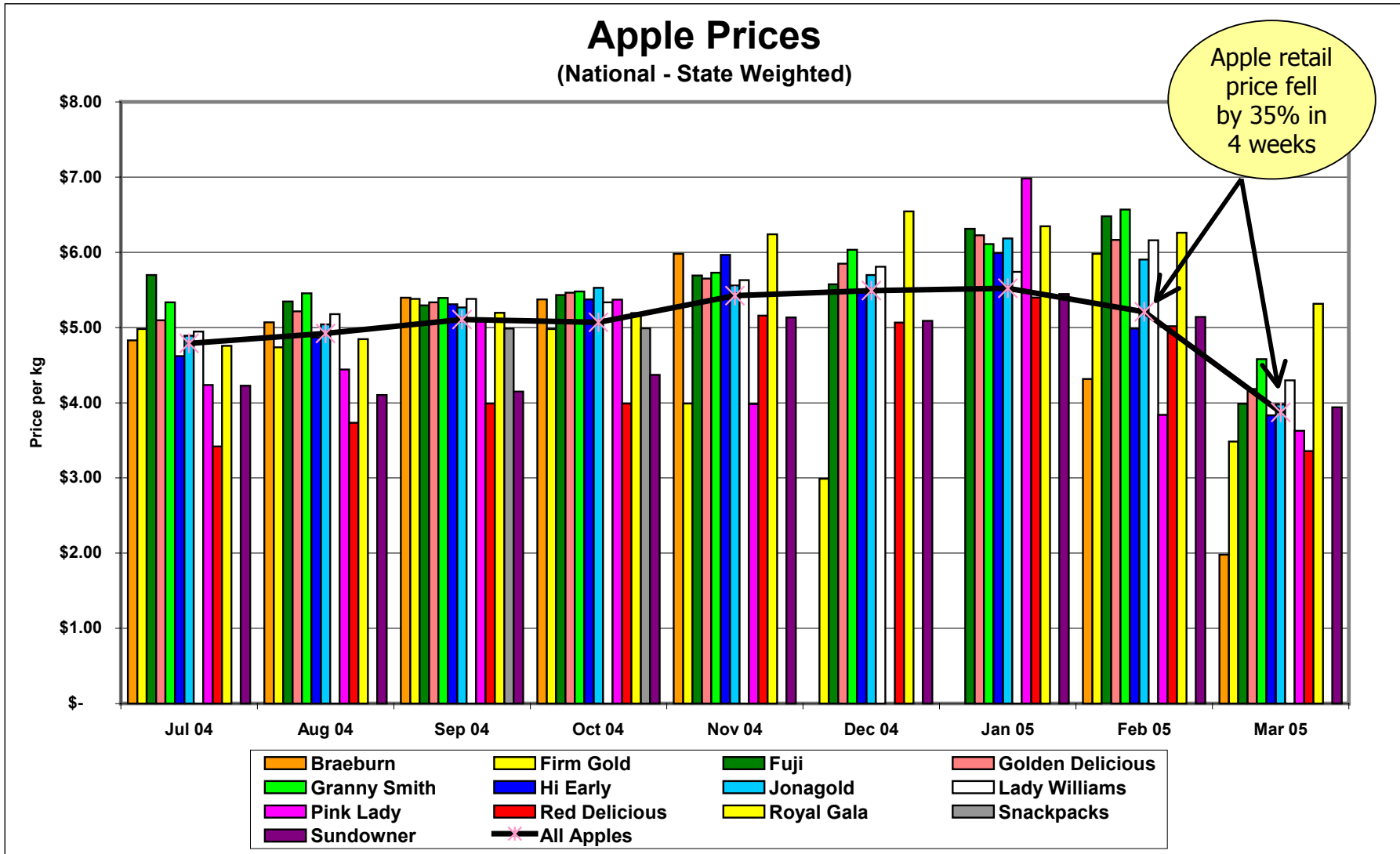
# Pear Category performance



- Pears have are consumed by different segments of the market and in different ways to Apples. Pear consumers are typically older and pears have a presence in white table food service as a specialist dessert. With SE Asian ethnicities pears have role after an "after dinner occasion fruit".
  - In this seasons total Pear volume increased on the previous year by 2% to 138,548 tonnes. The solid level of exports was aided by the consolidated production base in the Goulburn Valley and their effective in market representation.
  - The Ripe and Ready program has continued to earn the support of the retailers and consumers. Rapid expansion has created some challenges for the ongoing capture of the value added with this program. The increasing proportion of product sold in this form has aided the average retail price of pears.
  - The pear retail promotional prices have reduced faster than apples over the course of the season. This was reflected in the lower Apple volumes and Pear volumes being maintained. It is also clear that the Ripe and Ready program has stimulated a level of promotional activity that has not required the standard "price reduction" approach.
- NB This performance profile excludes Nashi



# Apple retail prices Jul 04 to Mar 05





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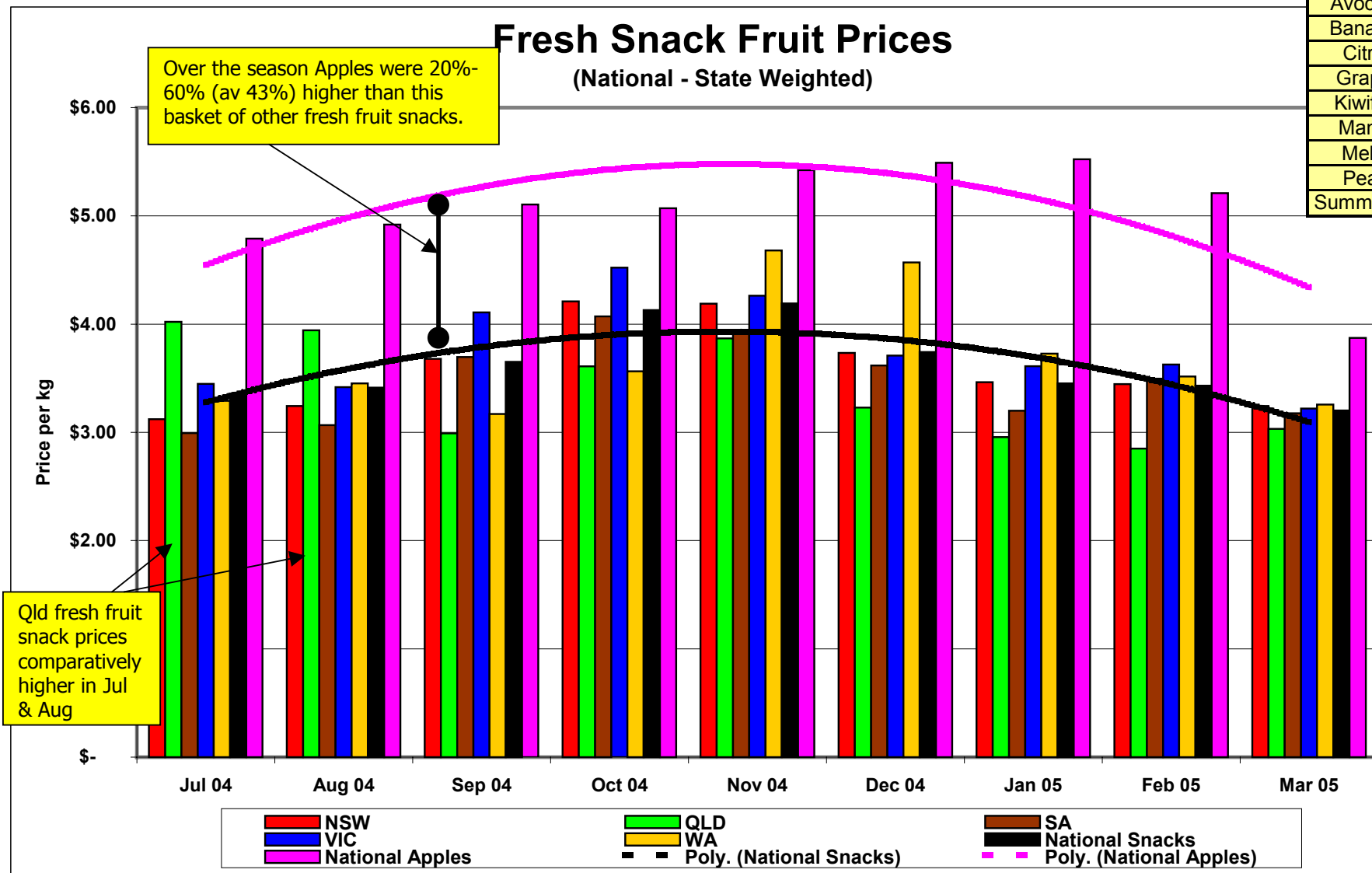


# Fresh snack retail prices Jul 04 to Mar 05

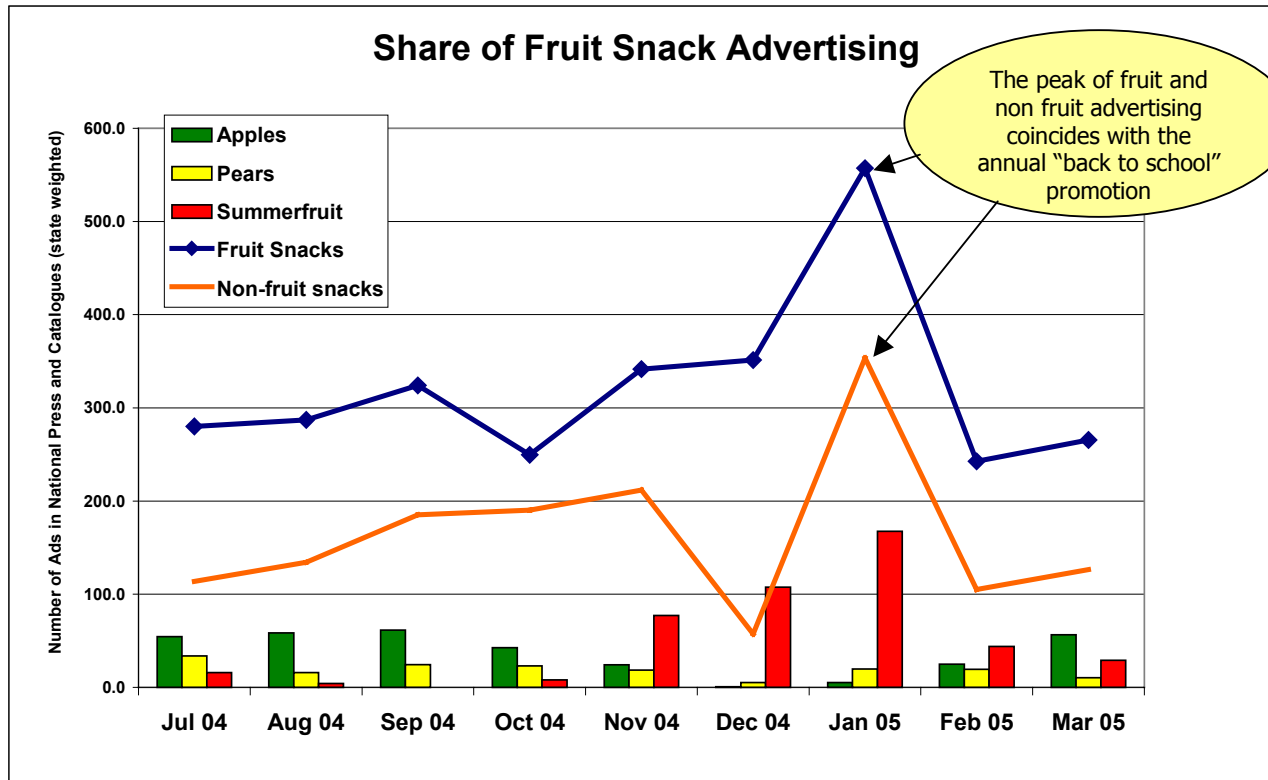
Includes
Apples
Avocado
Bananas
Citrus
Grapes
Kiwifruit
Mango
Melon
Pears
Summerfruit

## Fresh Snack Fruit Prices

(National - State Weighted)



# Share of snack fruit retail advertising



Retail promotional activity generates most of the tactical market consumer messages on availability and price. This activity directly effects sales volumes and share as when a product is featured, it can stimulate increases of 150%+ over normal sales. These increases are not all incremental volume as consumers trade off between fruit products, but they are a key driver of share within fresh fruit snacks. If this activity can stimulate some consumers to "trade up" to a higher value product this can generate category value growth.

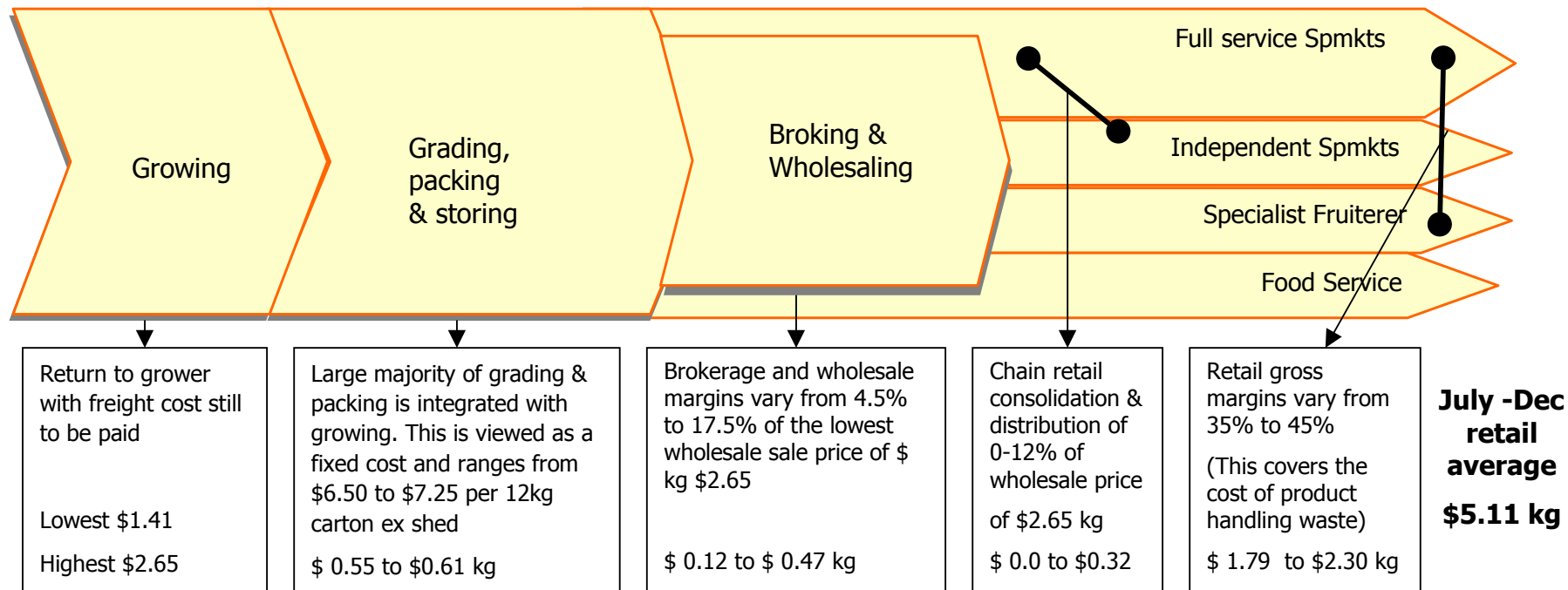
The type of fresh fruit products advertised reflects the seasonal peaks and the lack of alternatives. Apples enjoy exposure at their new season peak of March and they feature at similar levels from Jul to Sept, when the range of other fruits is limited. When Summerfruit are in season they dominate the products advertised in Nov to Jan-Feb, with peak in Jan 05 of 168 adverts.

The quantity of non-fruit snacks advertised varies from 14% to 65% of the number of fresh fruit snacks. The peak of retail advertising for fresh and not fruit snacks is in January, which coincides with the "back to school" event.

Total number of retail adverts for fresh fruit & non fruit snacks per month									
	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05
Fruit Snacks	280	287	324	250	341	351	557	243	266
Apples	54	59	62	43	24	1	5	25	56
Pears	34	16	25	23	19	5	20	19	11
Summerfruit	16	4	0	8	77	108	168	44	29
Non-fruit snacks	114	134	185	190	212	57	354	105	127

Over the period Fruit snacks were advertised between 243 and 557 times per month, Excluding Dec & Jan Apples were featured 24-59 times and Pears 25-34 times per month. The details are shown in the tables above. The Apple varieties advertised from July to Nov were dominated by Red Delicious at 25.9% and Pink Lady 23.2%.

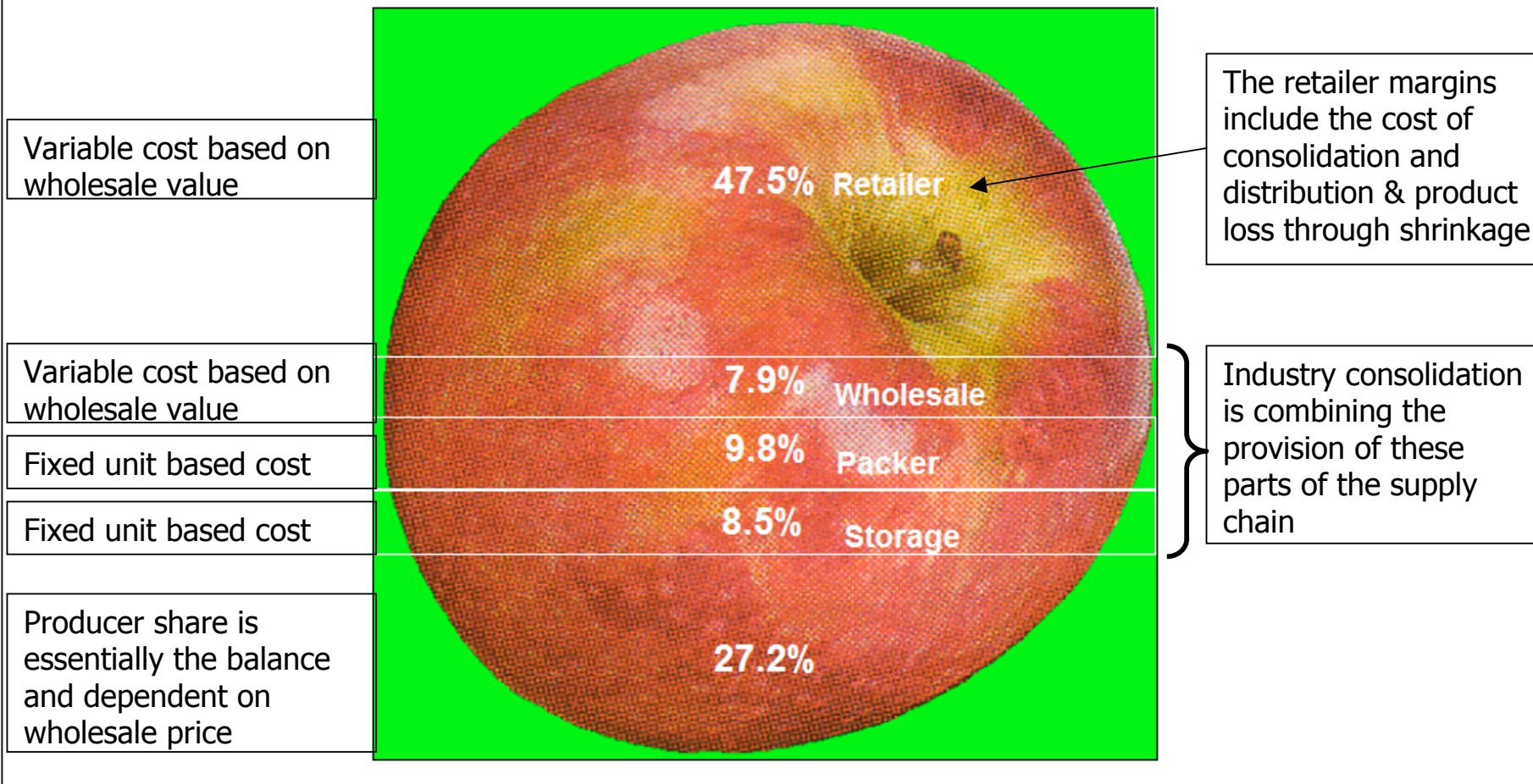
# Domestic market share of retail price ~ Apples



- The industry price setting model is same as other domestic market fruit and vegetables. In essence the growers return is what is left after the rest of the supply chain has met their costs and taken their margins. However, there are indications are that the consolidated grower/packer/marketers have brought some supply management capabilities and a greater appreciation of the growers cost to produce and supply. It is also evident that the major buyers are paying more for the higher quality product they are specifying.
- Packing costs vary substantially due to the pack out variations of the different varieties. These costs are typically \$3.50-\$3.75 for carton materials plus a labour charge of \$60-70 per bin. A Fuji or Red Delicious with a pack out of 15 to 18 cartons per bin will require a lower labour cost per bin than a Pink Lady with a pack out of 10-12 cartons per bin.
- The dollar value of the wholesale price paid is the single largest impact on the dollar value of profits earned by those in the Apple and Pear supply chain. In the period from the end of the 2004/5 season through to May 05 the wholesale price per 12 kg carton has dropped (\$35 to \$20) over 43%. This scale of wholesale price variation magnifies the value of improvements that can forecast and better manage this wholesale price volatility.

# July - Sept Apple Market - Share of retail price

## Estimated average share of the Apple retail price July to Dec 04



## July - Dec Conclusions



- The season was dominated by lower apple volumes and higher prices. A weighted retail price basket analysis for the period has Apple prices at \$5.11, with this price firming during the period as supply decreased. This is 68% higher than last seasons average retail price of \$3.10. These prices for the period have moved apples to the highest price fresh fruit staple. The new varieties of Apples continues to take share of the older varieties and this has serves to increase the average retail price per kg.
- For the 6 month period reviewed the average weekly sales or Apples into the retail and food service channels was 3,900 tonnes per week.
- Pears increased in retail price to an average of \$3.45, for the July to Dec period which is 23 % up on LY. The Ripe and Ready Pear program has traded up some consumers and increased category value.
- The impact of competing fresh snacks was marked by low supply of mandarins in June & July and then steadily increased as mangoes, grapes and stonefruit became available. Bananas invested \$600k in advertising in Sept and over Aug/Sept reported a 9% lift in volume plus a .40c kg lift in wholesale price. The NT mangoes were later than previous years and this delay keep the prices for the QLD mangoes lower. Summerfruit started their season with higher prices prior to Xmas and then mismanaged volumes in early 05 which caused a sharp prices drop to clear a backlog.
- The level of product competition has escalated and Apples have lost some share of key consumption occasions. The value relativity with other fruit has been stretched and is likely to come under further pressure as other crops increase volumes and expand seasonal windows.
- The school holidays slow sales but they are followed by a lift as children go back to school. The sharp peak in processed snack advertising points to the critical value of the new year back to school occasion. Warmer weather is a catalyst for improved fresh fruit sales and can be isolated as a factor that drives consumption. Retail price based activity for Apple was highest highest in Jul-Sept and then fell away as summerfruit dominated. The same sort of activity for Pears promotional activity was more even over the period and maintain higher levels than Apples against summerfruit.
- Product quality declined marginally as the season unfolded with weaknesses due to the changes from air stored to coolroom stock, late season pressure to find new varieties and the slower retail stock-turn at retail, as a result of higher prices.

## July - Dec Conclusions



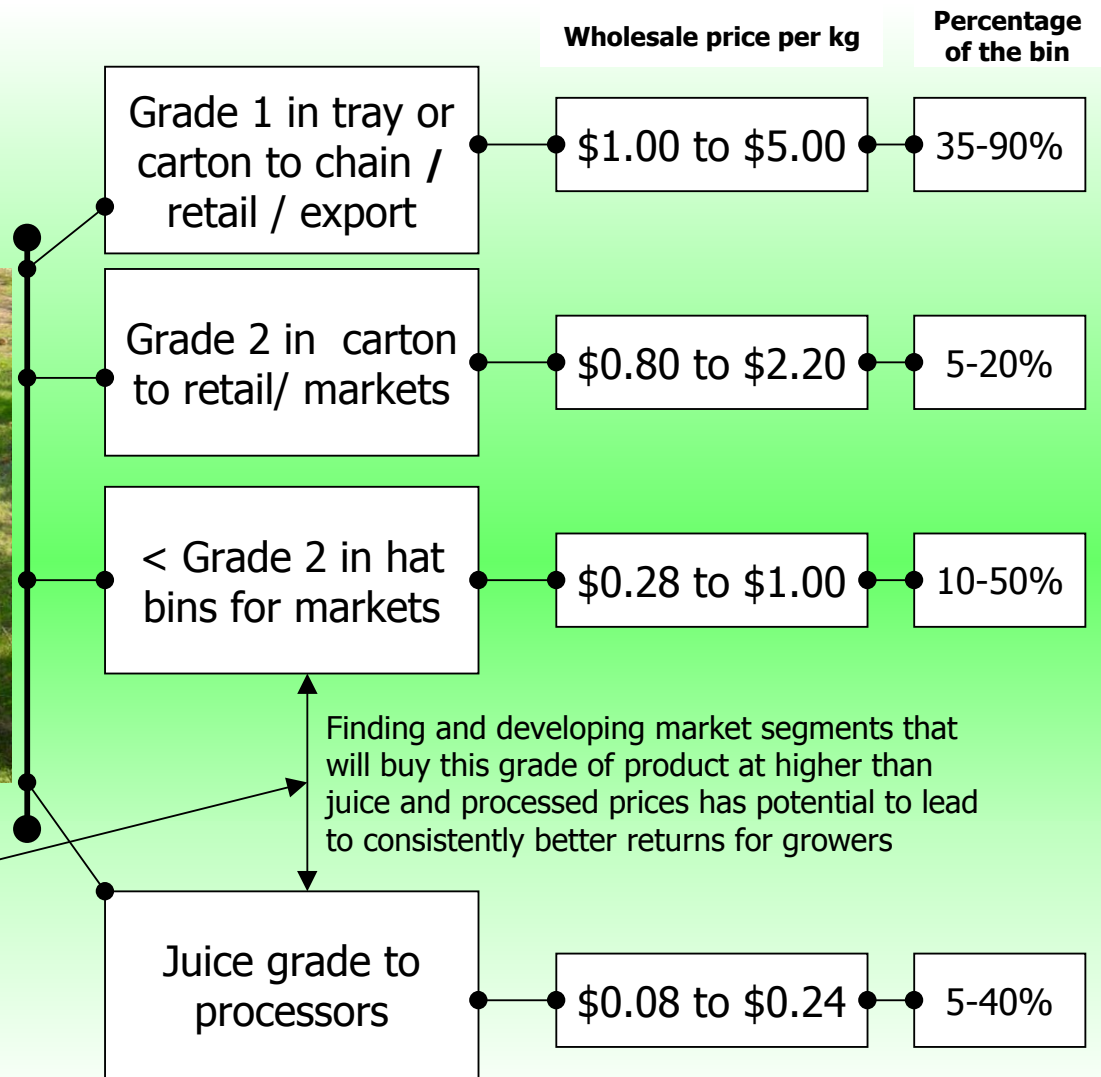
- The range breadth reduced over the period as supply of some varieties finished. This reduction was also impacted by the large retailers heavy concentration on the new varieties.
- This season has provided some new precedents with the management of supply resulting in stronger returns. Effecting these improvements have been aided by lower volumes and a season of higher volumes is needed to test how robust they are. The 2005 season prices indicate there are still serious challenges in managing supply.
- The income for participants on the supply chain is dependent on the wholesale price. Producers are more likely to be advantaged if they work with supply chains that have scope to positively influence wholesale supply and therefore prices.
- The category marketing program investments were timed to exploit the best competitive profiles. This report suggest that before it is concluded it was "all due to lower volumes" it should be considered that a volume trend of -22.5% and a price increase of 40%+ is highly unlikely to happen in any "Fast Moving Consumer Goods" category without managed marketing support.
- The **core challenges** for the Apple & Pear producers and their supply chain partners remain as:
  - 1. How to sell all the crop. In particular addressing the preconceptions about the value of smaller fruit. Several other fresh fruit and vegetable crops have moved away from the view that smaller fruit in worth less and has re-positioned these parts of their crop. The consumers are sending clear signals they welcome smaller fruit for some occasions and this presents an opportunity. This is included on the profile "Need to sell the whole bin" on page 23 of this report.
  - 2. How to compete with increasing level of competitors and in particular the value gap with other fresh fruit snacks. Share of key consumption occasions cannot be lost without long term repercussions.
- These are national figures that have been built up from state based data. There are clear differences in state markets, which at times operate in different conditions, and these need to be understood.
- This report concludes this project. It is recommended that extensions of this market information work are considered on an industry wide and voluntary contribution basis.



# Need to sell the whole bin ~ Apple example



Potential R & D focus



# Appendix A Fresh Fruit Snack Category Structure

Fruit & Vegetable Product Category Structure			
Product Group		Category	
1	Cooked Hard Vegetables		
2	Cooked Soft Vegetables		
3	Seasonings		
4	Salad Components		
5	Fruit Snacks	501	Apples
		502	Bananas
		503	Citrus
		504	Dates
		505	Grapes
		506	Kiwifruit
		507	Mangoes
		508	Melons
		509	Nuts
		510	Other Fruit Snacks
		511	Pears
		512	Pineapples
		513	Stonefruit
		514	Tropicals
6	Desserts	601	Berries

Variety	Loose
	Prepack

Variety	Loose
	Prepack

For further information please contact

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