



News release

Australian Food & Beverage industry at risk of segmenting

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Australia's food and beverage CEOs reveal the industry is in a solid position, but only at first glance. Substantial change is on the way, as revealed in the latest report produced by Grant Thornton with the support of Monash University and the Australian Food and Grocery Council.

The ability to innovate is driving segmentation across the industry. The larger players are investing in product innovation, while the niche players are carving out new markets to get ahead. This leaves behind the smaller, less dynamic companies who are becoming less profitable and more susceptible to being acquired.

Investment in product innovation was identified by 1 in 3 CEO's as a main driver to improving profitability; with companies reporting a current spend of 1 to 5% of sales on product development. With less to spend on R&D, the smaller, less dynamic companies are struggling to keep up with industry pace.

Larger companies, with deeper pockets can more readily afford to promote their brands and sustain premium pricing. Supermarkets, on the other hand, are continuing to introduce competitively priced, private label products. As a result, smaller companies are being squeezed out: unable to compete either on brand exposure or price.

Grant Thornton's Industry Leader for Food & Beverage, Tony Pititto says, "The industry is split – until now the divide has been masked by consumer demand and stable input prices. As the market changes, ultimately what we expect to see is a more concentrated industry landscape, dominated by large companies with strong brands, but with room for agile, niche players."

The report reveals that the industry is rising to the challenge by embracing new routes to market and exploring new customer and supplier agreements. They are also considering strategic alliances and acquisitions to build market presence in carefully defined niches.

It's evident that the industry has been in savings mode, with 82% of respondents expecting to fund future revenue growth through either internally generated funds or existing debt lines. CEOs also expect M&A activity to continue with only 25% not considering M&A activity over the next two years which will inevitably change the industry landscape.

The Government's upcoming carbon tax will also have an industry wide impact. Respondents indicated current costs of utilities at less than 5% of sales with most expecting those costs to increase by up to 10% or more over the next two years. All companies will require evaluation from a monetary perspective to anticipate and cope with rising costs.

Pititto says, "It's expected that the impact will be different for each sector, however an increase in utility and other costs will be common across the Industry. Now is the time for

all food and beverage companies to reassess their pricing models to 'future proof' their business. To warrant the surveyed optimism, the Industry must tighten cost controls, free up cash for innovation and review their strategies as a matter of priority.

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