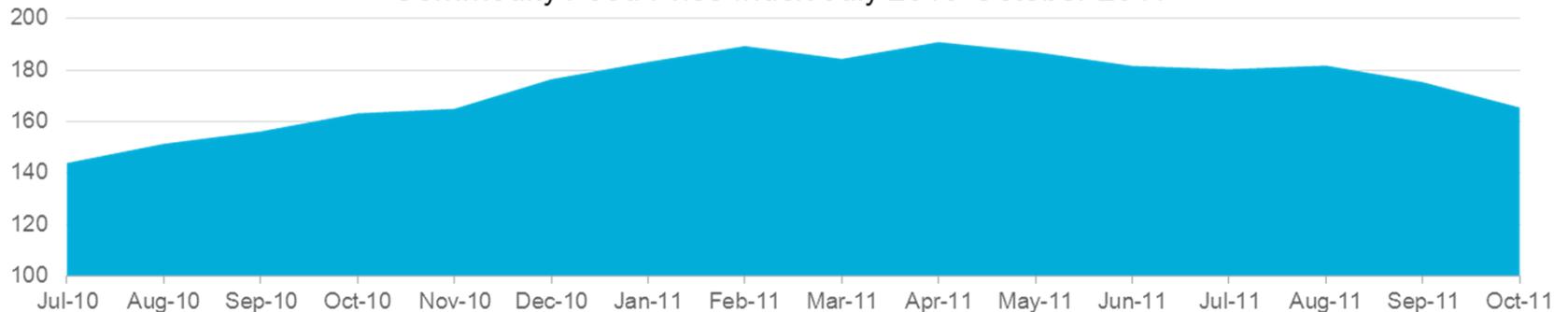


Are food prices going up?

- Prices for many key agricultural commodities that are widely used by the global food industry have been facing generally upward pressures since mid-2010.
- This has been the result of several factors, including sustained global population growth, weaker crop yields, dwindling oil stocks and the subsequent diversion of agricultural produce to the manufacture of biofuels, and the relatively weak value of the US dollar, which supports commodities speculation.
- Though the commodity food price index has been falling steadily since April 2011, prices remain notably higher than the levels in July 2010, when the index began a fairly steady nine month ascent.
- It remains to be seen whether the commodity food price index will continue its decline, stabilise or resume its increase. Currently, prices are being pushed down as the risk appetite among commodities speculators is low, given recent developments in the Euro-Zone and the looming threat of a new global recession. As a result, many traders are fleeing to the relative safety of the US dollar and selected treasury bonds.

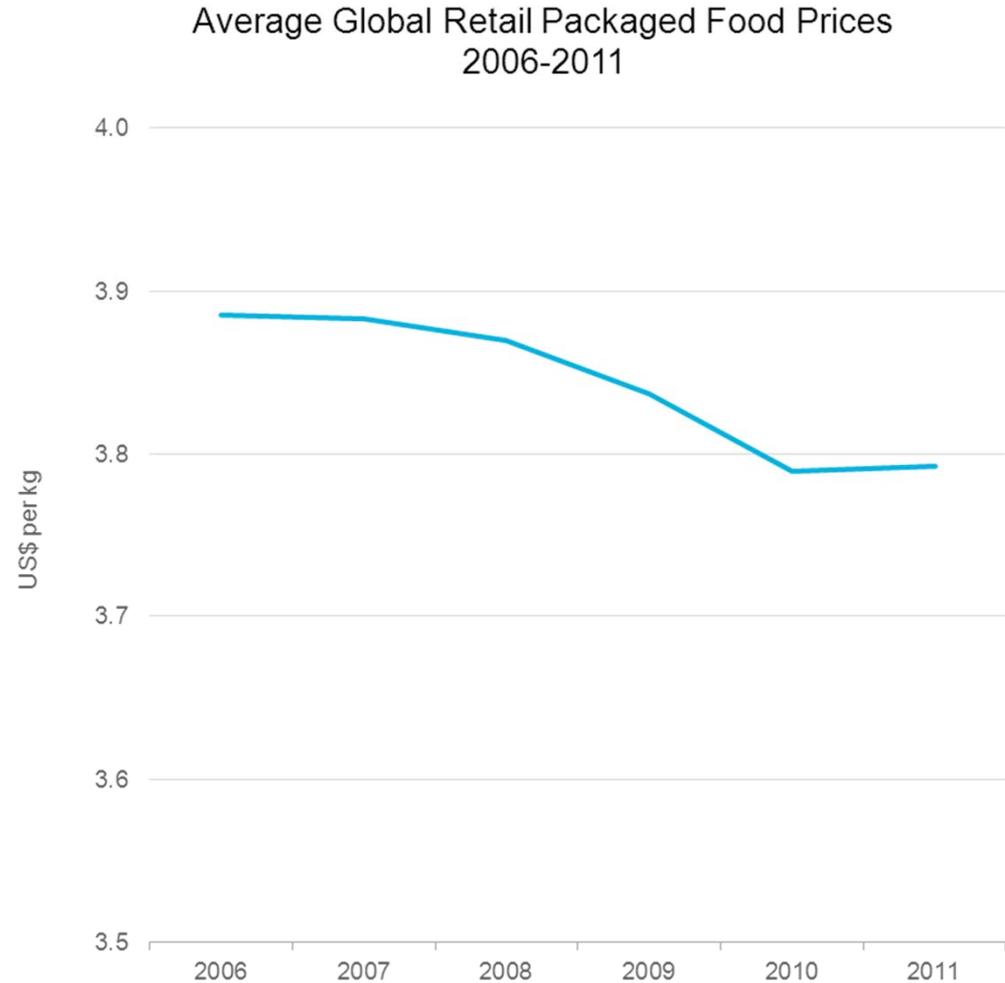
Commodity Food Price Index July 2010-October 2011



Source: Euromonitor from IMF and UN Food and Agriculture Organisation
 Notes: Includes cereals, vegetable oils, meat, seafood, sugar, bananas and oranges
 2005=100

Are average retail food prices going up?

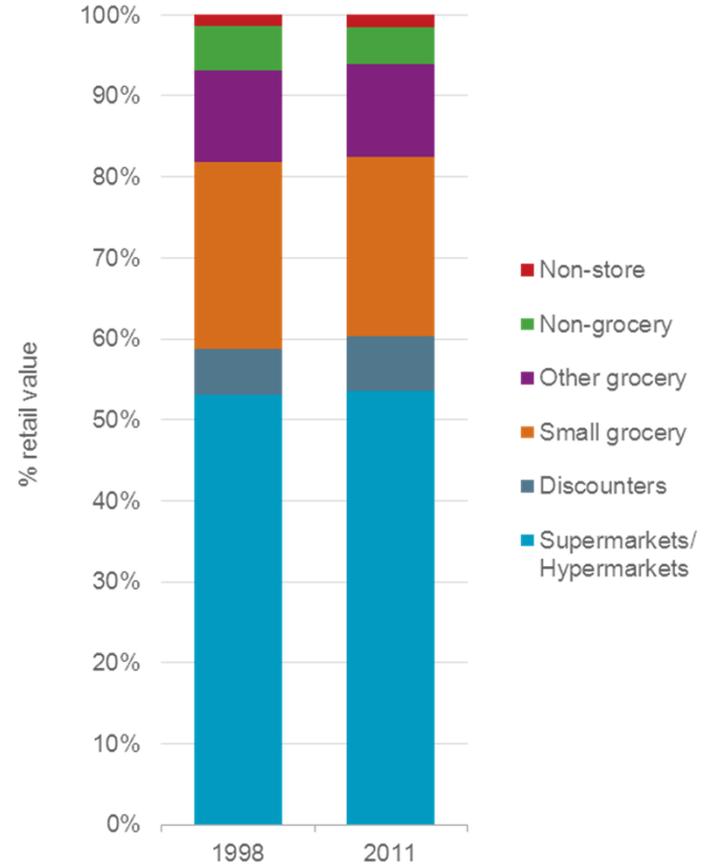
- Even though elevated food input prices and other economic factors are driving up retail packaged food prices in some cases, most of these increases have typically not greatly exceeded the general rate of retail price inflation.
- This is despite the fact that the increase in food commodity prices since mid-2010 has greatly outstripped the general inflation rate in most countries.
- More surprisingly, the average global retail price of packaged food has actually fallen steadily in real terms since 2006, irrespective of sharply rising food input costs in both 2007/2008 and 2010/2011.
- While average packaged food retail prices for the entire world have stopped falling in 2011, they show little sign of mirroring the general rise in food input costs.



Modern grocery formats gain share, drive down food retail prices

- Supermarkets and hypermarkets have long dominated the global retail distribution of packaged food, but still managed to increase their combined retail value slightly between 1998 and 2011, to approach 54%.
- The major winner among packaged food retailers has been discounters. Thanks to their low retail prices and steady outlet expansion – not to mention rising reputation for product quality and value for money in the minds of many increasingly hard pressed consumers – the likes of Aldi and Lidl have increased their share of global packaged food retail value sales by more than one percentage point since 1998, to approach 7% in 2011.
- Moreover, the sustained success of discounters has forced supermarkets and hypermarkets to operate more like them to attract consumers. In the UK, for example, supermarket/hypermarket giant Tesco continues to bill itself as the country's largest discounter, competing even more on price.
- All of this has been to the benefit of consumers around the world, many of whom are choosing to maintain their usual preferences when buying food, but are shopping smarter in the light of persistent economic concerns. As a result, they increasingly prefer lower priced retail outlets.

Global Packaged Food Retail Distribution by Format 1998 vs 2011



Consumers continue to demand added value packaged food

- In order to protect their margins and make the most of the competitive openings left by private label packaged food, branded manufacturers must understand what the world's consumers want from the food that they eat.
- Broadly speaking, consumer preferences towards packaged food have not changed much since the onset of the global economic downturn. They still want food that first and foremost tastes good, with an added aura of indulgence.
- Consumers also increasingly want food that is healthy, especially as global obesity rates rise.
- Convenience remains paramount as well, in terms of food that is portable and/or easy to prepare and consume.
- Consumers want food that offers all four of these attributes, rather than just one or two of them.
- What has, however, changed is that consumers have become more discerning and are shopping smarter. Value for money has become paramount, meaning that consumers are neither opting for the cheapest or most expensive products, but rather those which strike the best balance between perceived "quality" and price.
- Food that speaks directly to consumers' lifestyle choices are also doing well, regardless of their retail selling price.

