Potato Retail Report

September 2014

Market Summary

(*These figures are retail purchases taken back into the home)

52 w/e 17 August 2014				
Produce Type	Value (£000s)	% Chg YOY	Volume (Tonnes)	% Chg YOY
Total Fresh	1,255,838	-4.3	1,429,836	-6.0
Loose	210,034	-4.0	130,731	-2.5
Pre-pack	1,045,803	-4.4	1,299,104	-6.3
Total Organic	11,731	-7.1	10,560	-2.7
Total Frozen	739,226	6.6	497,660	0.9
Frozen Chips	455,879	5.4	334,585	0.1
Frozen Potato Products	283,347	8.6	163,074	2.7
Chilled Potatoes	206,989	2.6	55,161	-0.4
Canned Potatoes	10,634	1.2	18,769	6.4
Crisps	930,503	-0.5	134,772	-0.3
Snacks	937,066	5.3	126,538	5.0
Recon. & Conv.	27,001	0.1	12,850	-2.1

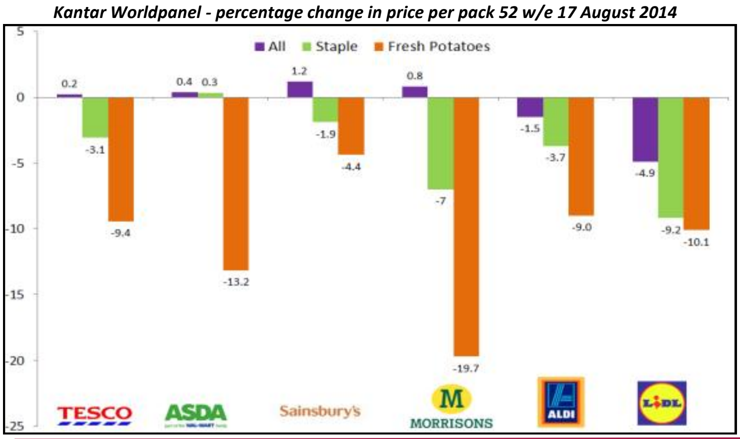
12 w/e 17 August 2014				
Produce Type	Value (£000s)	% Chg YOY	Volume (Tonnes)	% Chg YOY
Total Fresh	268,741	-14.7	303,762	-1.7
Loose	52,447	-13.7	31,102	-0.3
Pre-pack	216,294	-15.0	272,660	-1.8
Total Organic	2,415	-31.5	2,095	-22.6
Total Frozen	153,077	3.3	105,334	4.7
Frozen Chips	96,231	0.7	72,482	4.3
Frozen Potato Products	56,846	8.0	32,851	5.7
Chilled Potatoes	42,313	6.3	11,074	2.7
Canned Potatoes	2,469	-1.9	4,232	-5.8
Crisps	212,522	-0.3	30,877	2.1
Snacks	213,418	4.1	28,685	6.7
Recon. & Conv.	5,297	2.0	2,523	5.3

GROCERY TRENDS—latest figures from Kantar Worldpanel, for the 12 w/e 17 August 2014, show grocery price inflation has fallen for the eleventh consecutive period, standing at just 0.2% – the lowest level since Kantar started keeping records in October 2006. A deliberate focus by retailers on competitive pricing for staples has led to a substantial decline in the price of core items such as vegetables, fruit and milk (shown in the graph below). Asda and Waitrose have achieved growth with differing strategies while Tesco, Sainsbury's and Morrisons have felt the squeeze. Aldi and Lidl continue to attract main supermarket shoppers, with some 53% of GB households shopping at these stores in the past 12 weeks.

Fresh

Latest 12-week data shows that sales by value for fresh potatoes declined -14.7%. This is being driven by higher than average price reductions across several of the key multiples as well as by discounters Aldi and Lidl.

Kantar Worldpanel - percentage change in price per pack 52 w/e 17 August 2014



42.7% of all fresh potato volumes were sold on promotion during this period. Volume decline has eased, supported by a growth in volume sales through the smaller format stores and increased sales among younger shoppers. The largest volume declines are being seen among older shoppers, typically seen as core buyers of fresh potatoes with a continuing decline in purchases of economy/value potatoes.

Frozen

Volume and value data shows that sales growth continued to strengthen for frozen potato products in the latest 12-week period. This has been driven primarily by increased market penetration (+3.7%) compared to the same period last year, as well as by modest price inflation (+2.1%). In contrast, average prices for frozen chips decreased by -3.5% over the same period, while momentum in volume growth (4.3%) remained.

Chilled

Chilled potatoes posted strong sales value growth in the latest 12 weeks. This was due to 3.5% price inflation compared to the same period last year as well as an increase in sales volumes (boosted by a +7.0% rise in purchase frequency).

Canned Potatoes

Canned potatoes have seen price inflation gain momentum in the latest 12-week period (+4.1%). This has offset the rate of market value decline against a reduction in volume sales of -5.8% compared to the same period last year as shoppers bought lower quantities, less often.

Crisps and Savoury Snacks

In the latest 12-week period, Savoury Snacks continued to show strong growth in volume terms, however a -2.4% fall in average price compared to the same period last year impacted on the rate of sales value growth. Crisps returned to positive volume sales growth (+2.1%) in this period, although average prices continue to trend lower (-2.4%) compared to the same period last year, inhibiting value growth.

Variety

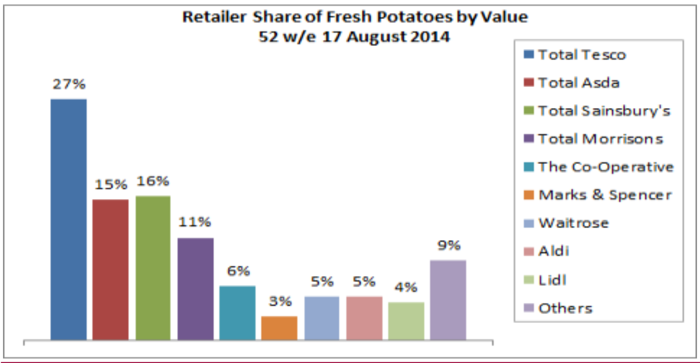
Pre-pack	Maris Piper		King Edward		Reds (Inc. Desiree)		Desiree		Whites (Exc. Maris Piper)		Economy (Exc. Maris Piper)	
12 w/e 17 August 2014	Actual	% Chg	Actual	% Chg	Actual	% Chg	Actual	% Chg	Actual	% Chg	Actual	% Chg
Value (£000's)	28,705	1.5	5,989	0.3	12,874	-6.9	4,563	-0.6	161,717	-17.1	6,382	-36.3
Volume (Tonnes)	39,358	28.3	8,125	25.3	16,838	17.8	6,487	37.8	193,615	-5.4	13,546	-33.0

Growth in sales by volume of pre-packed Medium Standard Plus potatoes (Maris Piper, Desiree and King Edward) has again accelerated in the latest 12-week period, increasing by 27.6%, largely due to a 21.0% increase in buyers. With average prices 21.7% lower than in the same period last year, buyers are purchasing more of these potatoes individually (+5.4%). The decline in sales of Economy potatoes has accelerated in the latest 12-week period, down -36.3% by value and -33.0% by volume compared to the same 12-week period last year. Annual sales of Economy potatoes have fallen 54% since August 2012 and are now smaller in volume terms than Reds (including Desiree). White potatoes have seen an accelerated fall in value sales (-17.1%) in the latest 12-week period due to -12.4% average price deflation compared to the same period last year together with a -5.4% decline in volume sales.

Retailer Performance - Fresh Potatoes

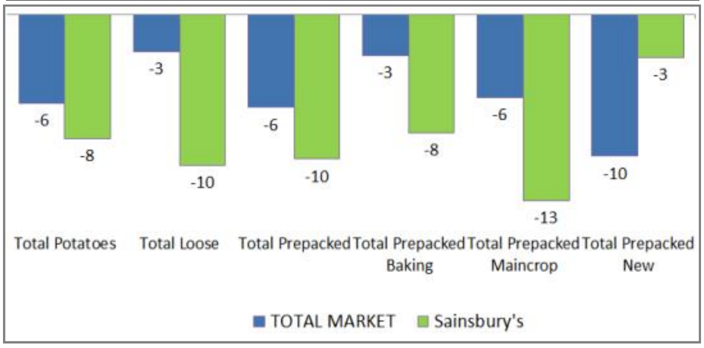
52 w/e 17 August 2014				
Retailer	Value (£000s)	% Chg YOY	Volume (Tonnes)	% Chg YOY
Tesco	332,928	-8.2%	394,561	-11.8%
Asda	194,110	-5.3%	233,139	-8.0%
Sainsbury's	198,183	-4.4%	209,350	-8.4%
Morrisons	141,247	-13.8%	166,684	-7.7%
The Co-operative	74,375	-14.1%	74,279	-15.2%
Marks & Spencer	33,106	-2.6%	25,968	-4.5%
Waitrose	59,717	3.9%	49,865	1.0%
Aldi	60,456	35.0%	73,609	18.4%
Lidl	51,451	15.8%	77,266	8.9%
Others	110,225	4.0%	125,069	10.6%

The top 4 multiple retailers accounted for 69% of fresh potato sales by value in the 52 w/e 17 August 2014 - compared to 72% in this period in 2013. Competitive pricing is behind a substantial decline in the price of staples. The top 5 multiples have declined 10.2% in volume sales of fresh potatoes annually, with 56% of fresh potatoes sold on promotion in the latest 12-week period. Meanwhile, sales through the smaller retailers continued to grow on the back of lower prices. Together, Aldi and Lidl grew sales of fresh potatoes by 31.8% volume terms in the 12 weeks to 17 August 2014 with average prices 11.8% lower than the same period last year. Bargain stores saw the strongest sales volume growth with average prices reduced by 63.0% compared to the same period last year (see detailed analysis below).



Focus on Sainsbury's

Sainsbury's year-on-year % change in volume sales - 52 w/e 17-Aug-14 (Kantar Worldpanel)



Sainsbury's is one of the UK's leading food retailers, with a reputation for quality food, supported by strong ethics and underpinned by an increasing value focus. Traditionally a supermarket/superstore retailer, it now has growing convenience, online and non-food businesses. IGD retail analysis (Sept 2014) identifies that Sainsbury's has five priorities: (1) to drive online faster; (2) dealing with the threat of the Discounters; (3) greater differentiation in its store format and service strategy; (4) greater focus on convenience; (5) strengthening value perceptions.

Sainsbury's now has more 'Local' convenience stores than larger supermarket formats. Sainsbury's plans to operate 15 Netto discount stores in the UK with a strong fresh food offering by the end of 2015.

Sainsbury's has been promoting its great food strategy by promoting its value credentials through its 'Live Well for Less' campaign as well as its 'Brand Match' initiative. Sainsbury's continues to invest in 'own label' with an emphasis on ethical British sourcing.

Sainsbury's has a market share of 15.4% for fresh potatoes (14.4% by volume) – representing a comparative over trade compared to its total grocery share. However, in the 52 w/e 17 August 2014, Sainsbury's has seen its volume sales of fresh potatoes decline at a much faster rate than the total market. Sainsbury's has experienced greater declines across every category with the exception of pre-pack new potatoes.

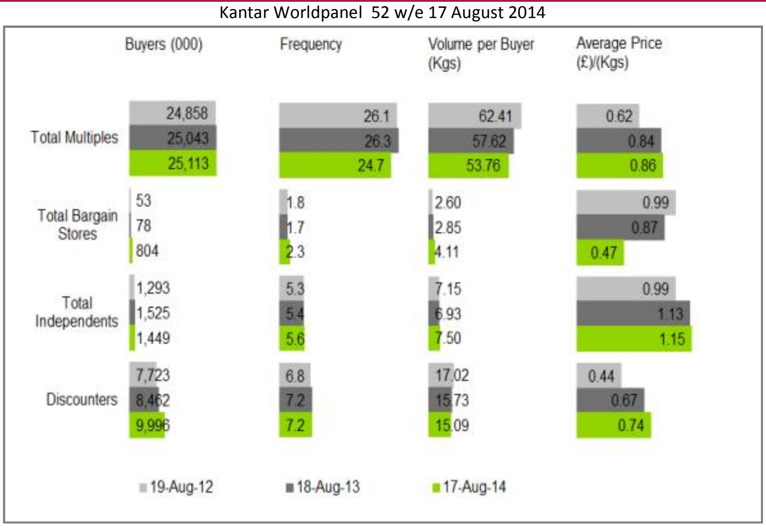
In order to provide more insight, the PCL Retail Report will focus on one individual retailer at a time. Each of the main nine retailers will be featured in rotation throughout the calendar year.

Focus on High Street Bargain Stores:

- According to IGD, there is an active retail trend towards the merging of discount with convenience 'discountvenience' and the number of businesses adopting this format is expanding.
- Shops such as high street bargain stores, Poundland, Home Bargains and B&M Bargains are embracing this trend and are investing strongly with a rapid expansion of stores 2014-2018.
- Fresh produce is seen as integral to attracting regular shoppers to the 'discountvenience' store format. These shops can offer a significant price advantage over other store formats, as shown for fresh potatoes in the chart opposite.
- In the 52 w/e 17 August 2014, buyers of fresh potatoes at these Bargain stores increased ten-fold. Buyers also bought more frequently and bought a greater volume of potatoes overall.
- In the latest 12-week period, fresh potatoes sold through High Street Bargain stores increased by 5,500.0% from a low base.

Source: IGD ShopperVista / Kantar

Kantar Worldpanel 52 w/e 17 August 2014



What's been in the news

Albert Bartlett, one of the largest vegetable grower/supply and processing/packaging companies in the UK, has announced plans to return to the frozen potato sector. Inspired by scented bus shelters, McCains is to introduce shelf-barkers smelling of baked potatoes in the frozen aisles of up to 500 Tesco and Asda stores from the end of September 2014 to drive added excitement around frozen.