POTATO COUNCIL

AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Foodservice Market Update

April 2014

Market Overview —Year ending December 2013

2013 was a year of two halves for the UK food service market, with a poor start to the year outweighing the growth in later months. As a result, over the year as a whole, consumers ate out less often and total food servings declined. Despite the fall in the number of visits to foodservice outlets during 2013, the amount consumers spent increased slightly. This was due to price rises which consumers tried to offset by buying fewer items. As a result, snacking, side dishes and add-ons performed badly as they are easier to remove from orders. On the other hand, items bought as part of a promotion or deal benefited from consumer's continued caution. Further details on the impact of this trend on potatoes are on page two of this report.

Total Sales
£49.8 Billion (+0.6%)

Traffic
10.9 Billion (-0.5% YOY)

Average Individual Spend
£4.55 (+1.1% YOY)

Average Price per Item
(+2.7% YOY)

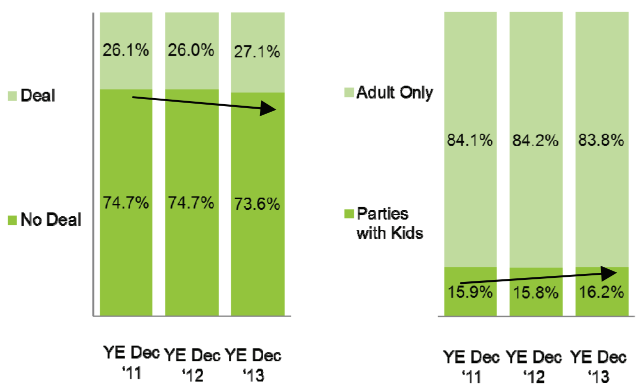
Average Number of Items
(-2.0% YOY)

Quarterly Review - OOH Channels

- Consumers are eating out less for convenience reasons and instead social factors are becoming increasingly important. The number of visits to foodservice outlets made by groups with children has increased as family dining becomes more popular. Consumers are likely to be avoiding trips where possible on a day-to-day basis but are increasingly using eating out as a treat for the family. This is a positive development for the market as these trips tend to be of higher value. The breakfast occasion continues to show growth, meanwhile, as consumers focus on core meals rather than snacking.
- The warmer-than-average summer boosted the market during the second half of 2013, with visits growing 2% during June to September. Increasing consumer confidence may have also contributed to gains later on in the year, with visits up 1% in the last 3 months of 2013.
- Typically, Quick Service Restaurants (QSRs) had been the industry bright spot over the last few years, while pubs have struggled. However, in recent months, pubs have performed very well, with the number of visitors rising by 3% and sales rising even faster. QSRs meanwhile saw a reduction in the number of visitors during the first half of the year although they have recovered somewhat in more recent months. Over the year, although sales increased at QSRs, visits were in line with 2012 while food servings declined.
- The sales performance of Full Service Restaurants (FSRs) over 2013 was slightly behind 2012, although the number of visitors dipped slightly (-0.6%). The latter part of the year was much stronger, however, with sales and visitors in growth. Lunch and dinner are in decline and breakfast remains the key growth area, representing a challenge for potatoes.
- Travel and leisure channels have posted some sales gains over the year (+1.0%), although the number of visitors has dropped slightly. The latter part of 2013 showed some improvement.
- Workplace and education outlets continue to suffer amid consumer restraints on budgets and have not seen gains in Q4 as other channels have.

FOODSERVICE CHANNELS	SHARE OF VISITS YE DEC 2012/13		TRAFFIC CHANGE % YOY (+/-)				
	2012	2013	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
QUICK SERVICE RESTAURANTS	50.9%	51.1%	0.6	-0.2	-2.4	1.2	1.1
PUBS	11.1%	11.3%	0.4	-0.2	0.1	3.3	3.4
FULL SERVICE RESTAURANTS	10.5%	10.5%	0.2	-0.2	-4.0	1.5	0.2
TRAVEL & LEISURE	10.7%	10.6%	-0.7	0.4	-10.5	3.4	0.6
WORKPLACE/EDUCATION	15.8%	15.5%	-2.1	-1.9	-9.9	1.8	-1.4

Total out-of-home traffic distribution

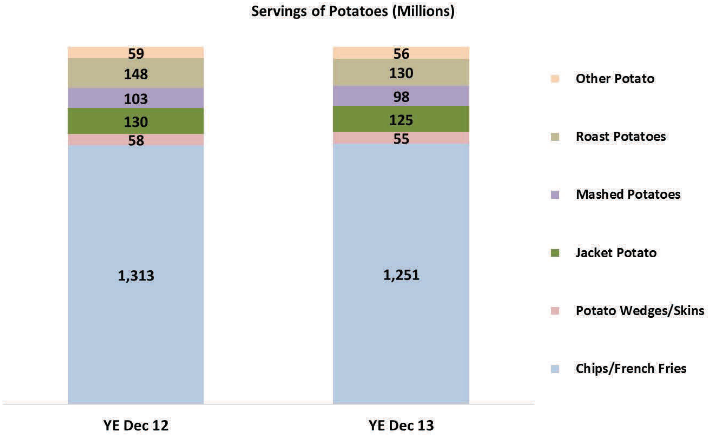


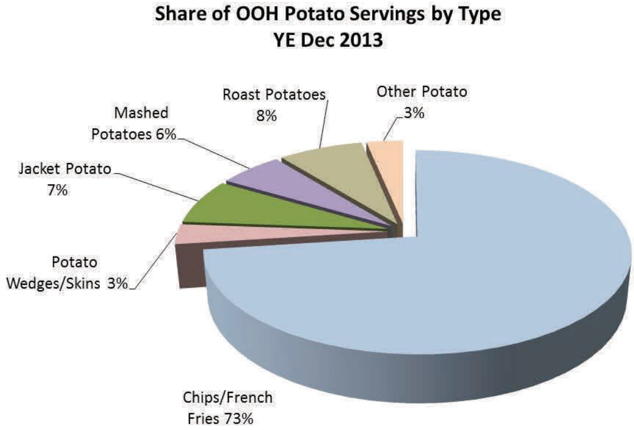
- Although consumer confidence is rising, wage growth has remained behind inflation for most of the year meaning that consumers continue to be price sensitive. As a result, items and menus that are on a deal or promotion are increasingly popular. 27% of all visits now include some form of offer.
- Family meals out of the home now represent a larger proportion of visits, with almost 1 in 6 meals eaten out being eaten by families. This is perhaps as consumers look for small ways to treat their families.

Source: The NPD Group/CREST®, YE Dec '13

Potato Consumption - Orders and Servings

This section refers to OOH servings that contain a particular product.

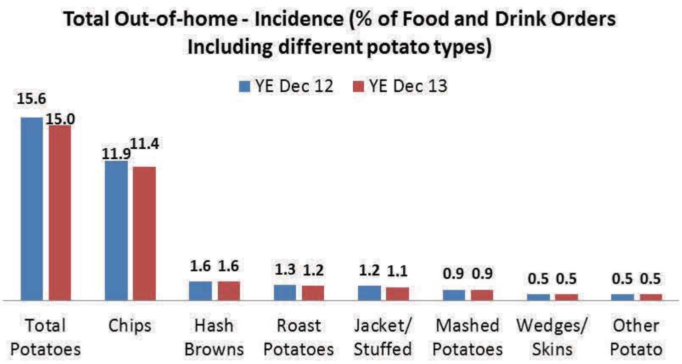




- There were 1.71 billion potato servings out of home in 2013 — equivalent to 4.7 million servings every day. This was down 5.3% compared to 2012, representing a slightly heavier decline than total food servings, which fell 3.1%. Throughout 2013, consumers have been trying to reduce their spending by buying fewer items when they eat out, leaving side-dish products or extras vulnerable to being removed from orders. Potato serving figures are likely to have been impacted by this. Desserts and snacks, also easily removed from orders, have suffered a similar decline year-on-year.
- Chips/French fries account for the majority of potato servings and as such their performance dictates the total potato category. Servings fell 4.7%, with 62 million fewer sold in 2013 compared to 2012. While chips have performed well at pubs, this has been offset by particularly heavy declines at Quick Service burger and chicken restaurants. Sandwiches and salads have made gains here instead, suggesting that consumer appetites are shifting away from the traditional burger and chips to new innovations, perhaps boosted by their healthier positioning.
- In contrast, QS fish and chip shops have sold approximately 8 million more servings of chips this year (+4.3%). Although total food and drink servings have actually fallen at this channel, consumers appear to be switching back to chips, particularly in later months. Servings gains have been driven by Monday-Friday and evening meals in particular.
- Jacket potato servings fell 3.9% over the year, a shallower decline compared to other types. Servings at the evening meal have suffered particularly heavy declines, while lunchtime occasions have dipped just 2.9%. The decline was mainly seen through pubs and travel and leisure channels while at Cafés/Bistros jacket servings have increased. Education outlets have also made strong gains, perhaps representing a healthy, value-for-money option if people do need to eat at work/college.
- Roast potato servings over the year were 12.5% lower than last year. Despite some increase in servings of traditional roasts at pubs, figures suggest that roast potatoes have not benefited notably from this trend. Instead, pubs have recorded a notable uplift in servings of chips.
- Servings of mashed potatoes have also declined over the year, a trend seen across most channels. Servings of mashed potatoes have fallen both during the week and at weekends.

Potato Consumption - Incidence Rate*

- Potatoes currently feature in 15.0% of OOH food and drink orders, down from 15.6% last year. This highlights that although other food types have also shown a decline in servings as consumers cut down, potatoes have been harder hit and have lost share as a result.
- Chips remain the most common potato variant to be served out of the home, with 11.4% of all orders including them. However, this is down compared to last year, driven by the poor performance at QSRs.
- Hash browns continue to see an increase in servings, holding their share as a result.



**Incidence rate refers to the percentage of orders that contain that specific food*

Demographic changes

There has been a difference in potato consumption trends for male and female eaters over 2013. Females ate just 3.3% less potatoes, in line with their total food servings trend. Potatoes have stayed on females' out-of-home menus. Male eaters, however, have dropped potatoes at more than double this rate, with their servings down by 7.4%. Men have reduced their consumption of all potato types, particularly at QSRs. Potato servings at lunch and dinner have been the main driver of this.