POTATO COUNCIL

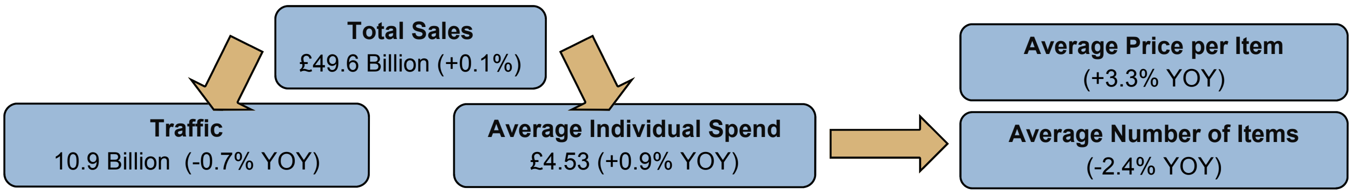
AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Foodservice Market Update

January 2014

Market Overview —Year ending September 2013

- In an attempt to manage budgets and minimise the impact of price rises, consumers bought fewer items when eating out and they also ate out slightly less often than last year. The average individual spend increased just 0.9% as a result and traffic dipped by 0.7% compared to last year, despite some growth over the summer. Side dish items, such as potatoes, are particularly susceptible to being dropped from food orders. Further details on the impact of this trend on potatoes are on page two of this report.

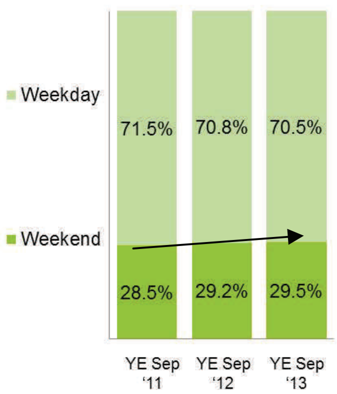


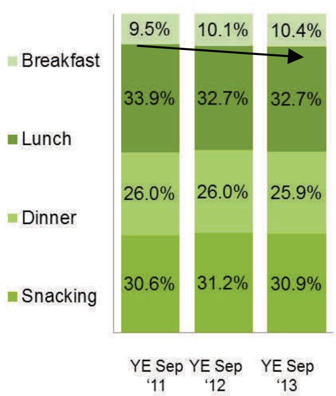
Quarterly Review - OOH Channels

- Over the year, Quick Service Restaurants (QSRs) posted an uplift in total spend, driven by higher prices per item. However, visits remained in line with last year; growth in traffic will be required for longer-term success. Breakfast and lunch occasions have performed well, however, compared to other channels, breakfast represents a smaller share of visits, indicating further potential at this occasion. Weekend visits have increased on the year, suggesting consumers are eating out for more social reasons. In the latest quarter, QSRs saw a 1.2% increase in traffic, reversing the trend seen in the spring.
- Spend at pubs has increased 0.5% over the year, driven by increases in total visits, which were up 0.9%. This has been due to very positive turnaround in the latest quarter, with pubs being the major beneficiary of the warm weather. Sales grew 4.3% and visits increased 3.3%, reversing the trend seen earlier in the year. Food has been the main beneficiary of this, seeing a 6.9% increase in servings, while servings of alcoholic beverages fell compared to the same period last year.
- Visits to Full Service Restaurants (FSRs) were 0.6% below last year, due to poor performance in quarter two. Total spend over the year was down 1.0% as a result of both visit decline and consumers spending less at each visit. Declines at key occasions (lunch and dinner) remain major concerns for the channel. Similar to other channels, weekend occasions have been in growth and weekday meals have driven the decline, as consumers move towards more social dining. FSRs have also benefited from the more successful summer with visits increasing 1.5% in the latest quarter.
- Visits to travel and leisure channels fell 1.8% over the year, while a rise in average cost per item drove the small spending gains. Weekend visits and breakfast and lunch occasions all saw a fall in traffic. In the latest quarter, although visits increased, a fall in the average spend meant that sales were just below last year.
- Looking over the year, Workplace/Education channels have posted a 3.7% reduction in spend due to a 2.9% decline in visits. The trend was apparent across all day parts, with no mealtime in growth. Once again, the latest quarter saw better figures with visits up 1.8%, although the average spend declined, resulting in a fall in total sales.

	SHARE OF TRAFFIC YE SEP 2012/13		TRAFFIC CHANGE % YOY (+/-)				
FOODSERVICE CHANNELS	2012	2013	Q3 12	Q4 12	Q1 12	Q2 13	Q3 13
QUICK SERVICE RESTAURANTS	50.8%	51.0%	1.2	0.6	-0.2	-2.4	1.2
PUBS	11.1%	11.3%	-0.7	0.4	-0.2	0.1	3.3
FULL SERVICE RESTAURANTS	10.5%	10.6%	-2.8	0.2	-0.2	-4.0	1.5
TRAVEL & LEISURE	10.8%	10.6%	0.8	-0.7	0.4	-10.5	3.4
WORKPLACE/EDUCATION	15.9%	15.6%	0.1	-2.1	-1.9	-9.9	1.8

Total out-of-home traffic distribution



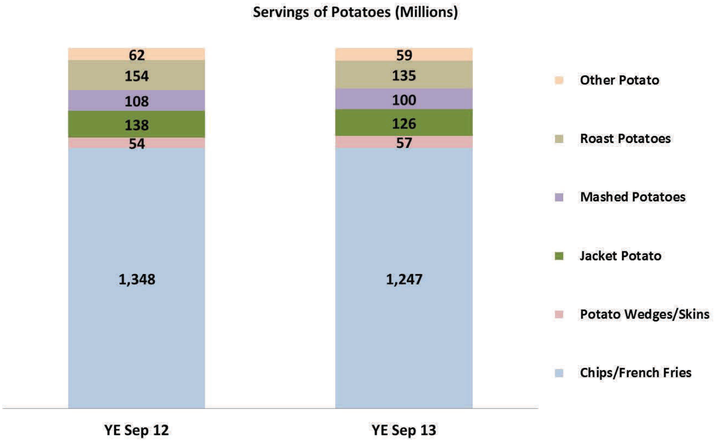


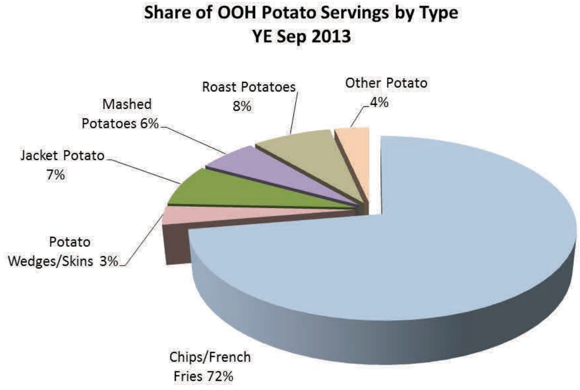
- Weekday visits make up most traffic out of the home. However, total traffic growth has come mainly at the weekends over the last three years. This matches up with the shift in motivations to eat out, with social drivers becoming more important.
- The trend for growth at breakfast continues, with breakfast now accounting for 10.4% of all out-of-home traffic.

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

Potato Consumption - Orders and Servings

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



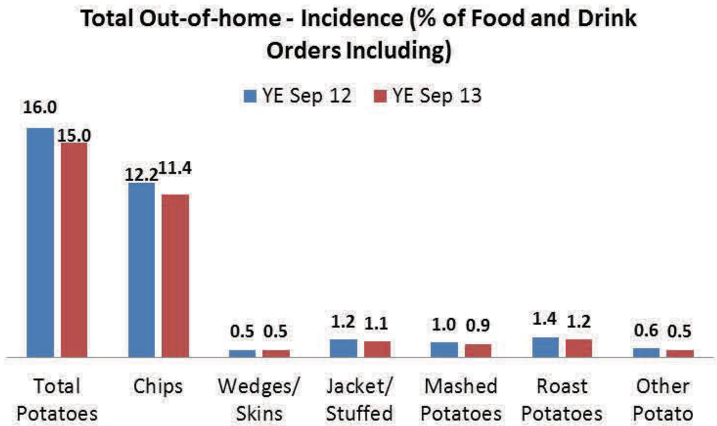


- There were 1.72 billion potato servings OOH in the year ending September 2013. This was down 7.5% compared to the previous year; this decline is faster than the total food servings decline. Consumers have been buying fewer items per visit in order to manage spend, leaving side dish products vulnerable to being removed from orders. Potato serving figures are likely to have been impacted by this. Total side dishes servings, including rice, have also declined.
- Chips, which account for the majority of potato servings, have recorded a similar fall of 7.5% over the year, a decline which has accelerated to 11.1% in the latest quarter. Chips have been particularly impacted by consumers taking them off their orders, with the incidence (the percentage of orders including chips) falling notably. Over the year, actual servings decline has been heaviest at QS burger and QS chicken restaurants, with Travel/Leisure and Workplace/Education channels also suffering. At pubs, however, chip servings were up over the year and in the latest quarter.
- Potato wedges account for 3.3% of all potato servings and servings have increased 6.4% over the year, being the small bright spot for potatoes. Female diners in particular have boosted the figures. Gains have been made at travel and leisure channels as well as workplace/education sectors and FSRs.
- Jacket potatoes have seen a fall in servings over the year, down 8.3%. The reduction is due to fewer servings during the week, as consumers move away from functional eating. Servings of jacket potatoes at the weekend have increased year-on-year.
- Mashed potato servings have also dipped over the year. In the latest quarter, pubs accounted for over half of all mash servings out of the home but, despite the channel's strong total food performance, servings of mash within the channel declined by 5.4%.
- Roast potato servings have declined 12.5% over the year. Workplace and education outlets have shown the largest decline, most likely due to the large fall in the number of servings of traditional roast dinners in these channels, particularly in the most recent quarter.
- Hash browns continue to benefit from the growing breakfast occasion, which is becoming increasingly important to the foodservice market. Hash brown servings are up 3.7% year-on-year as a result.

Potato Consumption - Incidence

- Potatoes currently feature in 15.0% of OOH food and drink orders, down from 16.0% last year.
- 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.
- Wedges and skins have remained at a similar level compared to last year, whereas the mashed and roast potato incidence rate has fallen slightly.

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



Focus on wider food: What's in growth?

The key foods in growth over the last year have been **chicken burgers** and **chicken wraps**. Both **fried fish** and **non-fried fish** have also shown large increases in servings. **Traditional roasts** have also made good gains on the year. The majority of these dishes can be served with potatoes, so there is potential for growth. Items doing less well out of home include **desserts**, **bacon**, **salad** and **Chinese** dishes. Like potatoes, most of these are items or dishes which consumers can easily cut down on in order to reduce the overall cost of eating out.