POTATO COUNCIL

AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Potato Retail Report

July 2014

Market Summary

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

52 w/e 22 June 2014				
Produce Type	**Value (£000s)**	**% Chg YOY**	**Volume (Tonnes)**	**% Chg YOY**
Total Fresh	1,283,439	0.3	1,432,184	-7.9
Loose	215,077	0.6	130,517	-4.6
Pre-pack	1,068,362	0.2	1,301,668	-8.2
Total Organic	12,296	-0.8	10,758	-3.7
Total Frozen	734,797	6.6	493,544	-0.9
Frozen Chips	454,693	6.3	331,983	-1.7
Frozen Potato Products	280,104	7.2	161,561	0.9
Chilled Potatoes	203,666	0.2	54,493	-3.4
Canned Potatoes	10,721	1.5	18,998	10.3
Crisps	933,224	0.0	134,621	-1.1
Snacks	933,294	6.8	125,546	5.4
Recon. & Conv.	26,901	0.2	12,768	-1.8

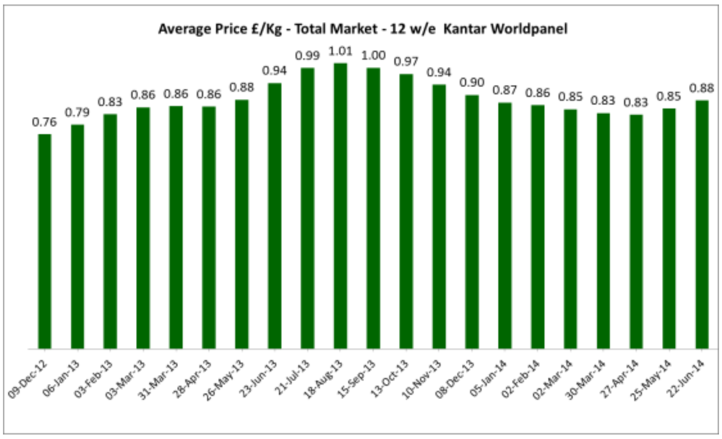
12 w/e 22 June 2014				
Produce Type	**Value (£000s)**	**% Chg YOY**	**Volume (Tonnes)**	**% Chg YOY**
Total Fresh	295,975	-10.0	336,611	-3.7
Loose	50,780	-10.4	31,720	-3.4
Pre-pack	245,194	-9.9	304,891	-3.7
Total Organic	2,563	-28.4	2,212	-24.2
Total Frozen	166,921	2.2	113,696	1.3
Frozen Chips	103,981	0.8	77,710	1.9
Frozen Potato Products	62,940	4.5	35,986	-0.1
Chilled Potatoes	47,181	1.0	12,767	-2.9
Canned Potatoes	2,528	5.3	4,418	1.4
Crisps	218,240	-0.8	31,986	0.4
Snacks	212,490	5.6	28,486	6.0
Recon. & Conv.	5,704	-4.9	2,597	-6.1

GROCERY TRENDS - latest grocery share figures from Kantar Worldpanel, for the 12 w/e 22 June 2014, show market growth bouncing back to 2.8% from last period's historic low of 1.7%. Sainsbury's and Asda have gained market share at the expense of Tesco and Morrisons. The Discounters, Waitrose and smaller retailers have continued to perform well.

Fresh

The volume of fresh potato sales continued to decline (-3.7%) in the 12 w/e 22 June 2014. This represents a significant slowing in the rate of decline which was 6% last quarter and was as high as 12.2% in the 12 w/e 15 September 2013.

Increased supplies of new potatoes have pushed up average retail prices in recent weeks, in line with normal season trends. Prices now average 88p/kg (see graph), down from 94p/kg a year ago but still higher than 71p/kg for the same period in 2012.



Frozen

In the latest 12-week period, frozen chips (+1.9%) have driven category volume growth (+1.3%) with individual buyer purchases modestly up (+1.0%) on the same period in 2013. YOY expenditure for frozen chips and other frozen potato products remains in growth but value performance continues to lose momentum as annual average price growth slows.

Chilled

In the latest 12 week period, a decline in volume sales of chilled potatoes (-2.9%) is being driven by shoppers purchasing smaller volumes per trip (-5.1%) but more frequently (+2.3%). Price inflation in this period is 4.0% higher than the same period last year.

Canned and Reconstituted potatoes

Volume growth for canned potatoes in the latest 12-week period (1.4%), is well below the annual volume growth of 10.3%. Average prices in the latest 12 weeks are now 3.6% higher than in the same period last year and purchases per buyer have fallen 6.2% in volume terms. The reconstituted and convenience potatoes category has seen buyer numbers fall 9.4% in the latest 12-week period despite modest price inflation (+1.3%).

Crisps and Savoury Snacks

Savoury snacks continue to outperform crisps with volume growth of 6.0% in the latest 12-weeks. Crisps have gained volume momentum (+0.4%) in the latest period although the annual volume is still in decline. While both categories have experienced price pressure in the latest 12-week period, this has been accompanied by higher market penetration compared with the same period last year - up 0.9% for crisps and 2.6% for savoury snacks.

Variety

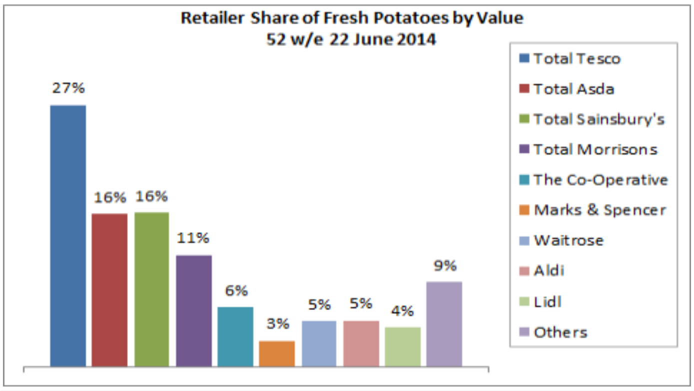
Pre-pack	Maris Piper		King Edward		Reds (Inc. Desiree)		Desiree		Whites (Exc. Maris Piper)		Economy (Exc. Maris Piper)	
12 w/e 22 June 2014	**Actual**	**% Chg**	**Actual**	**% Chg**	**Actual**	**% Chg**	**Actual**	**% Chg**	**Actual**	**% Chg**	**Actual**	**% Chg**
Value (£000's)	32,798	-1.3	8,916	8.9	16,121	-1.0	5,660	4.1	178,090	-11.4	8,590	-30.1
Volume (Tonnes)	44,463	15.3	12,769	42.7	20,128	17.6	8,104	39.2	208,096	-7.7	18,145	-28.1

Medium Standard Plus potatoes (Maris Piper, Desiree and King Edward) increased 21.6% in volume in the latest 12-week period as buyers increased. Buyers of King Edwards increased 57.5% and buyers of Desiree potatoes increased 54.4% over the same period last year. Over the last five years buyers of Medium Standard Plus potatoes have increased steadily YOY during the 12 weeks spanning April, May, June. An extra 2.5m buyers purchased Medium Standard Plus potatoes (an increase of 38.6%) in the 12 w/e 22 June 2014 compared to the same period five years ago. Whites and Economy volumes have declined. Buyers purchasing Economy potatoes in the 12 w/e 22 June 2014 have fallen by 3.4m (53.9%) since the same period in 2012 when they peaked at 6.3m. Buyers purchasing Whites have grown 20.7% in April, May, June over the last five years but volumes have declined by

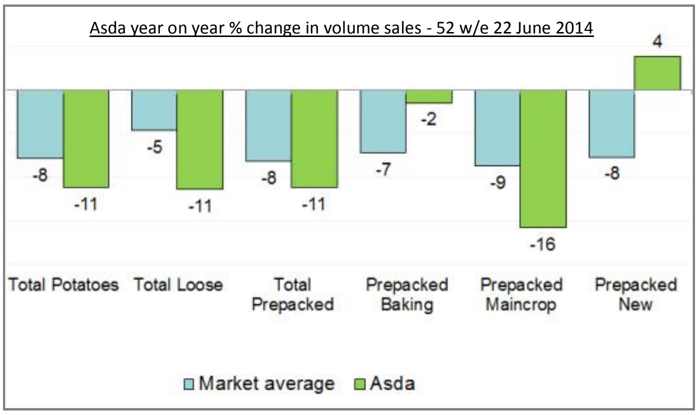
Retailer Performance - Fresh Potatoes

52 w/e 22 June 2014				
Retailer	Value (£000s)	% Chg YOY	Volume (Tonnes)	% Chg YOY
Tesco	342,305	-3.7	401,475	-13.0
Asda	199,188	0.3	231,798	-11.2
Sainsbury's	200,775	-1.0	209,654	-9.7
Morrisons	146,284	-9.4	165,371	-10.9
The Co-operative	78,115	-8.4	77,250	-14.5
Marks & Spencer	34,230	5.9	26,457	0.3
Waitrose	60,196	6.5	49,337	-1.5
Aldi	60,423	46.9	71,388	14.3
Lidl	50,898	18.0	76,507	6.8
Others	111,025	7.9	122,947	7.7

The top 4 multiple retailers accounted for 69% of fresh potato sales by value in the 52 w/e 22 June 2014 - down 3.5% from the same period in 2013. This is largely due to the sales growth of discounters and convenience stores, which collectively accounted for 17% of the fresh potato market by value in 2014. Some ground has also been lost to Waitrose. Meanwhile, Morrisons and The Co-operative saw the greatest negative change in market share by value. These retailers had higher average prices without the premium badge of high-end retailers such as Waitrose and Marks & Spencer. Meanwhile, discounters Aldi and Lidl, with the lowest average annual prices, gained the most in terms of market share by value.



Focus on Asda



IGD retail analysis (July 2014) identifies Asda has ambitions to become the clear number two British grocery retailer with a target to open 342 new stores by 2018, many of which will be in the South where Asda is currently underrepresented. Asda is increasingly focusing on building multichannel sales activity. Features like 'click & collect' help Asda to differentiate from local competitors and Asda aims to triple online sales to £3bn by 2018, with 1,000 'click and collect' locations.

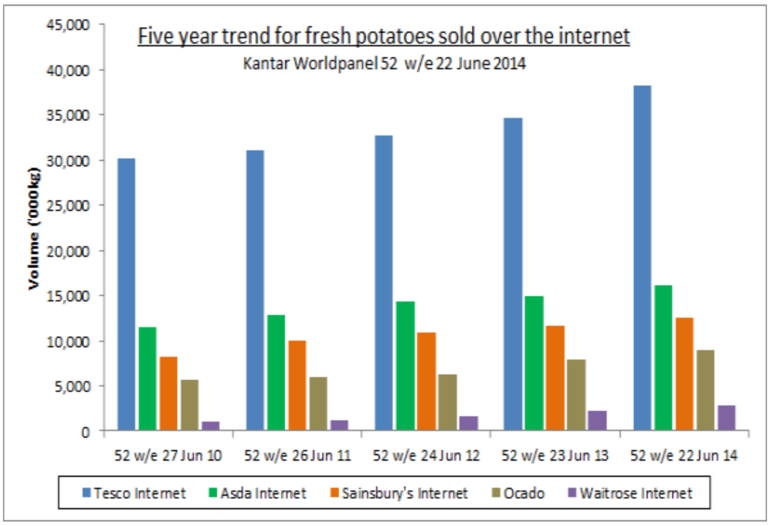
Asda is focused on price leadership with plans to increase the number of products in its 'Price Lock' initiative and use of £1bn to lower prices.

Asda currently overtrades on fresh potatoes overall (accounting for 16.2% of volume sales according to Kantar). Volume sales for fresh potatoes have decreased faster than the total market with Asda's market share by volume decreasing 3.5% compared to last year. This has been driven by heavy volume falls for maincrop potatoes, a category in which Asda overtrades. A decline in shoppers for maincrop potatoes has combined with shoppers buying less per trip and also less frequently. Despite aggressive price leadership, Asda is the only large multiple retailer to maintain sales value for fresh potatoes in the latest 52-week period. Achieved by above average price inflation of 12.9%.

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 Online Grocery Sales:

- According to IGD, online grocery shopping will be the fastest growing channel over the next five years, fuelled by new market entrants, the rollout of 'click & collect', lower delivery charges and greater shopper engagement with mobile technology.
- By 2019, online grocery shopping is predicted to double its value from £7.7bn to £16.9bn and increase its share from 4.4% to 8.3% of the value of the total grocery market.
- 27% of shoppers use online for grocery shopping, up from 22% in 2010. One in 10 shop online for most of their groceries.
- Morrisons has recently partnered with Ocado providing further opportunity for online grocery sales.
- Kantar shows 5.5% of fresh potatoes by volume are currently bought online. Online sales for potatoes have grown 39% in volume over the last five years. Tesco dominates online trade in fresh potatoes, with 48.6% of volume sold. 9.5% of fresh potatoes sold by Tesco trade online - higher than other retailers.



What's been in the news

McCains is running a competition to invent the future of frozen potatoes through the creation of an original product and/or packaging idea that does not exist in supermarkets today (ending August 2014) with a prize attraction of €10,000. KP Snacks has been announced as the winner of the Zero Waste Platinum Award at the 2014 Awards for Excellence in Waste Management and Recycling by achieving zero waste to landfill.