



with frozen opportunities

The frozen food market continues to enjoy the attention of customers who are in search of value-for-money and convenience. For suppliers, however, prices are up and volumes are down so product innovation and promoting the health benefits and convenience factor are vital to ensure that customers remain at the freezers.

Volumes versus value

The state of frozen in the post-recession climate is not as rosy as may have been predicted in the recession. This is largely due to the volumes versus value debate. The Euromonitor market report* states that the frozen processed foods market has achieved strong value growth in South Africa in 2009.

"Although the recession has taken its toll on South African consumers, the total frozen category has shown positive growth of 4.3% for two consecutive years driven

**Convenience
and value
for money
remain the
key drivers
of the frozen
category**

BY LAURA DURHAM



making sense of global markets

*Frozen Processed Food in South Africa, October 2010, Euromonitor International

primarily by frozen potato and to a lesser degree vegetables, whilst ready meals continue to decline," says Barbara Hardaker, retail marketing manager at McCain Foods SA, quoting the Synovate September 2010 results.

"Both value and volume growth of frozen processed food have remained stable in comparison to the previous year. Price hikes were not as high as in 2010, thus stabilising value growth. However, sales volume growth was slightly slower as consumers are still suffering from decreased disposable income," notes the Euromonitor report.

Warren Frawley, procurement director at OBC Chicken distribution centre agrees with this statement, saying that the last year has not been easy for frozen. In terms of value, yes things are been good because of price increases, but the volumes are still not there. He is cautiously optimistic for the future and hopefully, as customers have more disposable income available, they will remain loyal to the frozen category after realising the value-for-money and convenience far outweigh the fresh appeal of the chilled alternatives.

FROZENS FEATURE ►

Chilled processed food has always been perceived as healthier and relatively preservative-free compared to frozens, but price is still dictating the buying decision. Frawley says that a chilled whole chicken retails at a 20% higher price than the frozen counterpart. "It is likely that the average consumer will continue to trade down to frozen multiple-serve packs offering value for money in certain categories such as fish and poultry, with high inflation and tightening economic conditions consolidating this trend," notes the report.

The frozens customer

"South African consumers continue to seek products that deliver good taste, health and convenience when purchasing frozen processed food," notes the report. To meet this need, suppliers and retailers have both stepped in with product innovation, promotions and consumer education.

"Whilst frozen processed food has suffered from the stigma of being less healthy for you, strong advertising campaigns from the likes of McCain have emphasised the fact that freezing the products locks in the freshness and less nutrients are lost," the report observes.

"The major change has been in consumer buying patterns with consumers shifting to the more value added offerings of mixed vegetables and vegetable mixes," observes Hardaker. "One of the most important advantages of frozen vegetables lies around nutrition. There is a misconception that frozen vegetables don't have the same nutritional value as a fresh vegetable.

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Product innovation in terms of increased flavour variety, as well as meeting consumer demand for both health and convenience will continue to drive the frozens category in the next year.

Frozens has benefited from the recession and this should continue despite customers having more disposable income available as they have now learnt that the value-for-money and convenience far outweigh the fresh appeal of the chilled alternatives

This is not true," she says. In fact, because freezing vegetables is done as soon as they are harvested, they will actually have more nutritional value than vegetables that have been sitting on the fresh department shelf for a while.

Value-for-money remains the most important factor in the buying decision and it is often retailers that have the power to meet this requirement.

For example, in supermarket promotional leaflets, the house brand is always advertised – and is always priced lower than the other brands. Good news for the customer, not so much for the suppliers. "House brands have been to the detriment of the industry because the suppliers are finding it hard to make money. Retailers are always beating the suppliers' price – and telling the customers that they are doing it!" says OBC's Warren Frawley. Chic Dawson, MD of Dr Oetker, the European food manufacturer that has recently entered the South African market agrees with Frawley's sentiments: "Margins are being squeezed due to downward pressure from retailers."

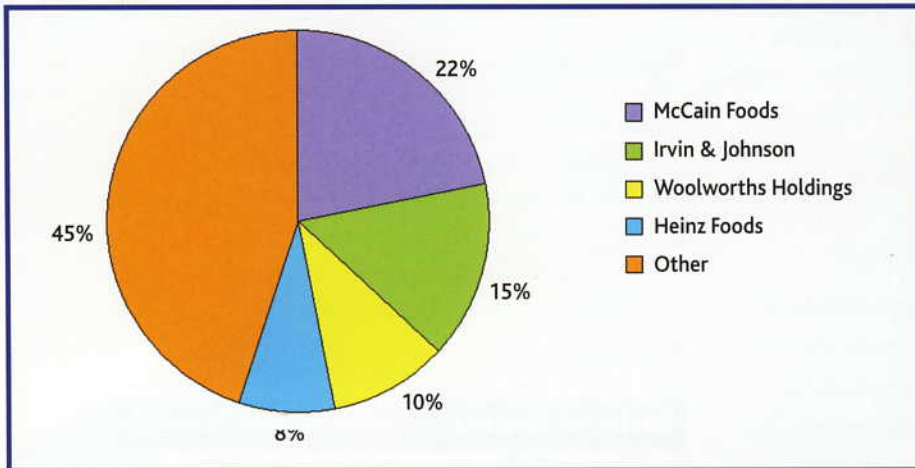
Across the board, private label products have seen increased support in the last year. The report mentions Pick n Pay's successful packaging change that has resulted in customers switching to support the private label. "Private label led the market in 2009 with almost 11% share of sales."

Other challenges that some suppliers face are transport logistics and storage of deep frozen products, says Dawson.

Breakdown of the frozen processed food market

The Euromonitor report notes that consumers are moving towards products that require a little involvement from them in the cooking process, and ones that are versatile in application. Suppliers that meet these demands are bound to reap the reward. The next table shows the suppliers' market share breakdown available in the frozen processed food segment, according to the report.

Frozen processed food in South Africa – competitive landscape



Frozen processed food offers consumers a cheaper protein option for their dietary needs and the convenience of not having to chop, peel or prepare the products is a huge attraction to time-strapped consumers.

Frozen pizza is another growing segment and Dawson believes that the out-of-home market for pizza is already substantial in South Africa and far larger than the retail pizza market.

"Internationally, the frozen retail pizza market is sizeable and we believe it holds

considerable long term prospects here too. Currently the retail pizza market in SA is around R100 million. The total pizza market in South Africa is estimated to be about 12 times larger than that," he says. Dr Oetker expects to capitalise on the huge growth potential by enticing 'take-away pizza' customers to purchase more frozen pizzas through retail channels for in-home consumption.

The frozen potato category has done very well in the recession as customers have traded the do-it-yourself option

with fresh potatoes to the frozen variety. "Within the frozen potato category the recession opened the door for low cost imports which offered consumers more affordable options within the frozen chip market; this in turn stimulated the market and resulted in the overall potato category showing a positive growth of 12.9%," says McCain's Barbara Hardaker, quoting the Synovate results for September. Building on the successful launch of HomeFries last year, McCains has just launched sweet potato chips and sweet potato roasts to the market.

For frozen vegetables, different pack sizes and the option of choosing between chunky or small vegetables are very appealing. However, there is still too little reference to health benefits and suppliers need to use advertising to promote this, as well as bring home the fact that neither colour or taste are compromised in frozen varieties.

Hardaker adds that one of the biggest benefits of frozen vegetables is their versatility, the range (includes out-of-season vegetables) and the shelf life, which reduces wastage completely (another important factor for customers with tight purse strings).

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Case study



What shoppers see in the frozen vegetables category

Prompt Research Insights conducted an eye-tracking study at Checkers, Sunninghill, to gain an understanding of how shoppers shop within the frozen vegetables category. A wide range of shoppers were observed and interviewed while they made their purchases. The following brands were studied: McCain, Harvestime, Housebrand, Nature's Garden and Pot O' Gold.



The heat map shows where the participants focused most during the test sessions (red indicates the most focus).

These are some of their findings:

- The picture and the texture of the packaging is the purchase driver.
- The logo is the first thing customers look at in the category but only so that they can see what brand it is, but do not focus too much on it.

Source: In-store frozen vegetable eye-tracking study report, 2009, Prompt Research Insights.

- The picture of the vegetables on the pack is the most important factor that drives the purchase, customers fixate more on it to see what's inside.
- Frozen vegetable purchases are mostly habitual – customers were buying what they always purchased, looking for their brand and the vegetable type and off they go. The habitual purchasers spent very little time browsing and looking at other alternatives – they tended to be more loyal and less price sensitive.
- McCain is the most dominant brand with its users displaying strong loyalty – even with some price sensitive consumers claiming that it is the better brand.
- Brand plays a significant role within this category.

Role of Brand



Conclusions and recommendations:

- Frozen vegetables need to communicate a stronger health benefit. This can be achieved through the communication of preserved nutrition in the frozen vegetables.
- Packaging needs to serve as a stronger communication tool – more appealing, inspiring and better quality.
- The picture of the vegetables is ultimately the deciding factor on whether or not people will buy the product.
- Greater variety creates greater appeal.
- New and interesting combinations of vegetables create curiosity and trial.
- TV advertising builds credibility and trust because people buy what they know.

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The ice cream story

The ice cream market has performed well historically, but this has not been the case in recent years. According to BMI Research, 2009 saw declines across two of the three ice cream categories and the data predicts conservative growth, at best, for the short term. "It is believed that the effects of the recession eroded potential market growth, with consumers being more likely to focus on essential grocery items to the point for excluding ice cream from their baskets," comments BMI research director, Dana Braithwaite.

BMI has traditionally segmented the market in three primary categories: Non-portion ice cream (for example, an Ola 5l tub of



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ice cream); portioned ice cream (for example, a Magnum) and soft serve. The portioned ice cream has escaped this decline due to the "impulse nature of the purchase decision-making and the lower per unit cost of the variants," Braithwaite said.

Category volumes for non-portioned ice cream dropped a substantial 13.8% in 2009. Range rationalisation by key suppliers and the lack of disposable income for customers meant ice cream was usually substituted for more substantial items. "The outlook for the category remains conservative for the short term. Non-portioned volumes are expected to decline slightly (1.2%) during 2010, and then recover partially in 2011 (1.7%)," BMI forecasts.

Portioned ice cream, on the other hand, maintained volumes during 2009 and it seems that both suppliers and consumers made the switch to focus on this category. BMI suggests that portioned volumes will show a limited decline in 2010 and a reasonable growth rate of 4.2% anticipated for 2011.

Frozen pizza suppliers, like Dr Oetker, expect to capitalise on the huge growth potential by enticing 'take-away pizza' customers to purchase more frozen pizzas through retail channels for in-home consumption.



Category volumes for non-portioned ice cream dropped substantially in 2009 as customers took the luxury item off their shopping lists. Placing ice cream cones near the tubs at least appeals to the customers who are throwing parties.



The future of frozen

The Euromonitor report expects frozen processed food to grow with a constant value compound annual growth rate (CAGR) of 1% over the forecast period. OBC's Warren Frawley also says he expects flat volumes for the category in the next year. Dr Oetker's Chic Dawson believes that the economic and logistic challenges will be overcome in the future. "Product innovation in terms of increased flavour variety, as well as meeting consumer demand for both health and convenience will drive this segment," notes the report.

McCain's Barbara Hardaker believes that frozen will continue to be an important part of consumers' shopping lists. Although frozen are generally placed at the end of the shopping trip so products do not thaw – and by this stage customers may have already made their purchasing decisions – frozen vegetables will continue to play a key role in the customers' need to create a balanced meal in a cash-strapped environment, she says.

