



NEWS RELEASE

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Retail business confidence in decline, but manufacturers still hold some optimism to see out 2006

- ***Retail manufacturers anticipate deteriorating business conditions over the next two years***
- ***Aldi driving Private Label gains and rated strongest performing retailer by suppliers***
- ***Pressure on trading terms the biggest concern with most retailers relying on promotional spend to achieve sales targets***

Sydney, 7 August 2006: Australian grocery manufacturers are feeling the effects of slow consumer spending with most (53%) saying retail business conditions have been in decline over the past 12 months, a report released today by leading marketing information company ACNielsen has revealed.

The findings extracted from ACNielsen's bi-annual Retail Barometer survey captured responses from over 100 senior leaders from top Australian fast moving consumer goods (FMCG) companies on business confidence and concerns, retailer relationships, Private Label trends and promotional trade spend.

Results from the survey revealed that only 17 percent of manufacturers had seen an improvement in retail business conditions over the past 12 months, while close to half (47%) expected business to deteriorate further over the next two years – a 10 percent increase from November 2005 (refer to *Chart 1*). Interestingly, it was the multi-national companies that were the most pessimistic with half (50%) expecting business conditions to decline over the next two years, compared to 43 percent of Australian companies.

Asked to rate issues of most concern in terms of the impact on their businesses, pressure on trading terms was the most likely concern to keep manufacturers awake at night, followed by Private Label growth, the ability to pass on price increases, retailer supply chain strategies and petrol prices (refer to *Chart 2*).

Despite these concerns, manufacturers appeared optimistic about their retail sales growth for 2006, with 62 percent expecting business growth of more than four percent – the majority (38%) expected growth of four to seven percent, and almost a quarter (24%) expected growth above eight percent. This compared to industry growth of just three to four percent for packaged grocery.

Almost half (47%) of multi-national companies estimated their sales growth for 2006 would be between four and seven percent, and only 18 percent expected growth above eight percent. Conversely, local Australian companies appeared polarised when forecasting their sales growth for 2006, with the majority (39%) expecting growth to be between zero and three percent, while almost one in three (32%) expected growth above eight percent.

Not surprisingly, there was a direct correlation between increased trade spend and expected sales growth with 42 percent of manufacturers who increased their investment in trade spend by over eight percent in the past year also expecting retail sales growth for 2006 to be above eight percent.

The survey results indicated manufacturers were concerned with increased promotional spend, with more than four in five (83%) saying they were increasingly relying on promotional spend to achieve sales budgets, and 82 percent agreed that it is now more difficult to get new products ranged on supermarket shelves than it was a few years ago.

“There are clearly a number of issues which are having a flow-on effect on manufacturers’ business confidence, particularly in the area of trading term pressures, Private Label growth and the challenge of being able to pass on price increases,” says Ben Dixon, Executive Director, ACNielsen Australia. “However, it is promising to see

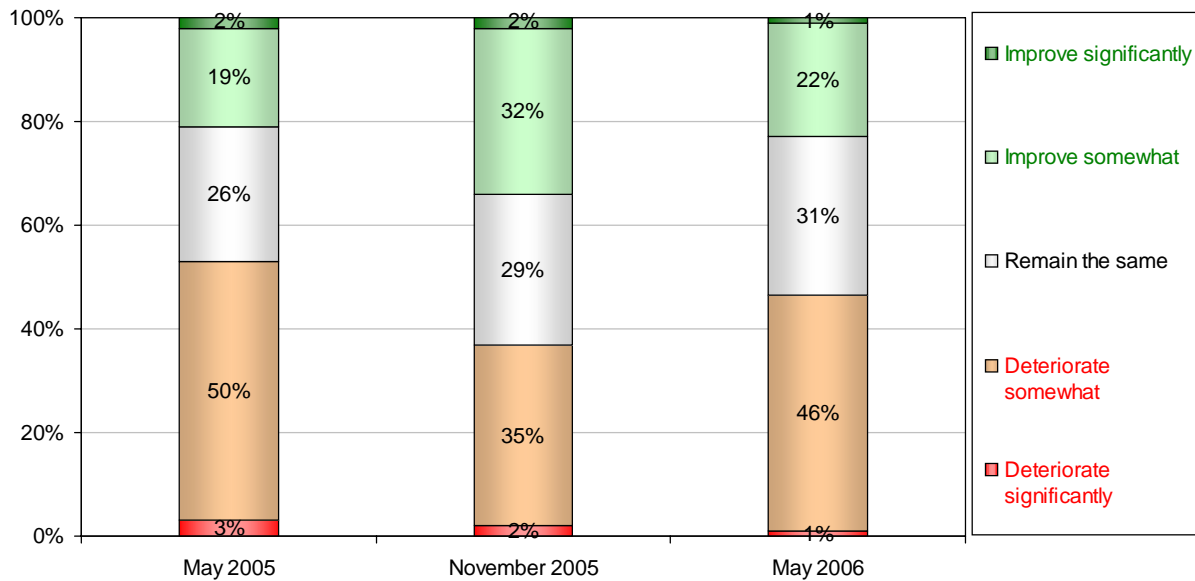
that the vast majority still expect growth above four percent – the total packaged grocery sector has been growing at between three and four percent over the past year.”

Overall, manufacturers’ satisfaction with supermarket retailers remained positive in the six months to May 2006, with more than three in five (62%) rating their current trading relationships with retailers as good or excellent.

When asked to rate retailers’ performance based on a number of specific attributes German retailer Aldi emerged as the top overall performer. Consistent with ACNielsen findings that Aldi continues to be the key driver behind Private Label share gains in Australia, it was also rated the strongest in six of the eight performance attributes including understanding the needs of the consumer; quality of the range review process; fairness of trading terms and negotiations; store compliance; supply chain efficiency; and strategies for success.

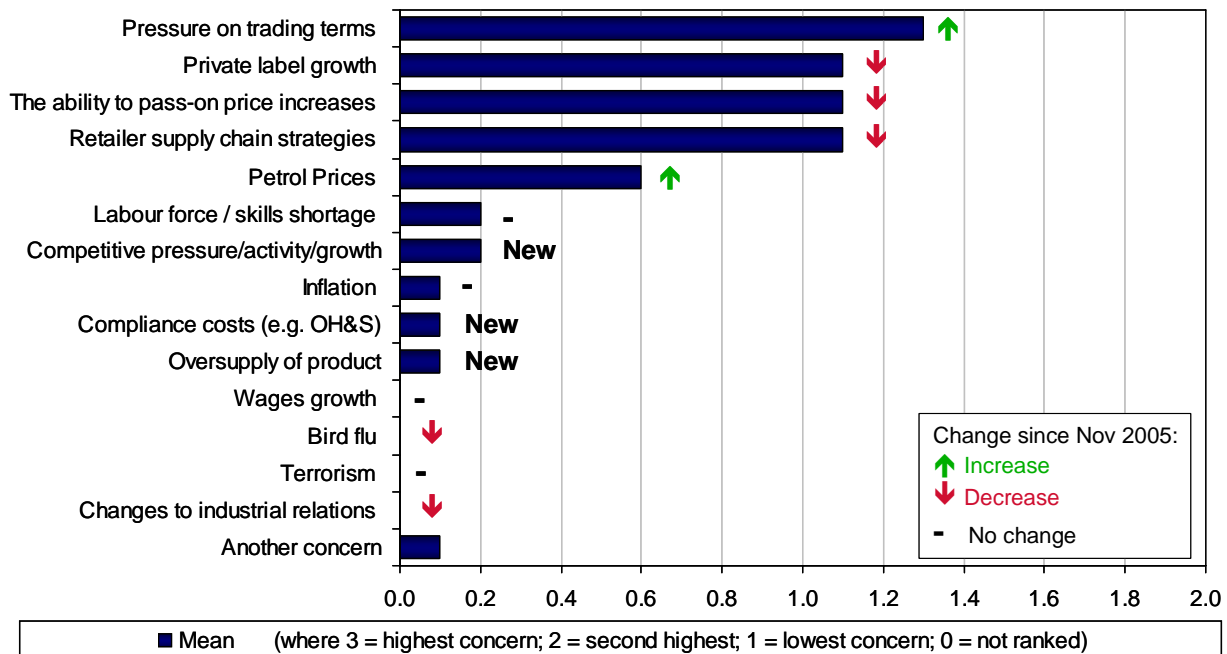
Findings from the Retail Barometer also showed that the number of manufacturers producing Private Label products had declined to 56 percent (down 9% from November 2005). And of those not currently supplying Private Label, 69% say it was unlikely that this will be undertaken in the next three years, with the majority citing global policy as the key reason.

Chart 1: Over the next 1-2 years, do you believe that business conditions in your industry are more likely to improve or deteriorate?



Base: All manufacturers: May 2005 (n=104), Nov 2005 (n=117), May 2006 (n=118). Significance tested against previous period at 95% confidence.

Chart 2: Which of the following issues concern you in terms of the impact they may have on your business? Rank the top three issues that concern you.



Base: All manufacturers (n=118)

About ACNielsen

ACNielsen, a VNU business, is the world's leading marketing information provider. Offering services in more than 100 countries, the unit provides measurement and analysis of marketplace dynamics and consumer attitudes and behaviour. Clients rely on ACNielsen's market research, proprietary products, analytical tools and professional service to understand competitive performance, to uncover new opportunities and to raise the profitability of their marketing and sales campaigns. To view this and other ACNielsen media releases online go to www.acnielsen.com.au