

Recession to slow sweet and savoury snacks sales in 2009



making sense of global markets

Euromonitor International

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2009 is predicted to see a moderate slowdown at global level in demand for sweet and savoury snacks. The current economic uncertainty will constrain growth of non-essential food products, including snacks. This, along with maturing consumer demand in North America and Western Europe and dietary concerns about savoury snacks, will lead to a weaker performance than in previous years.

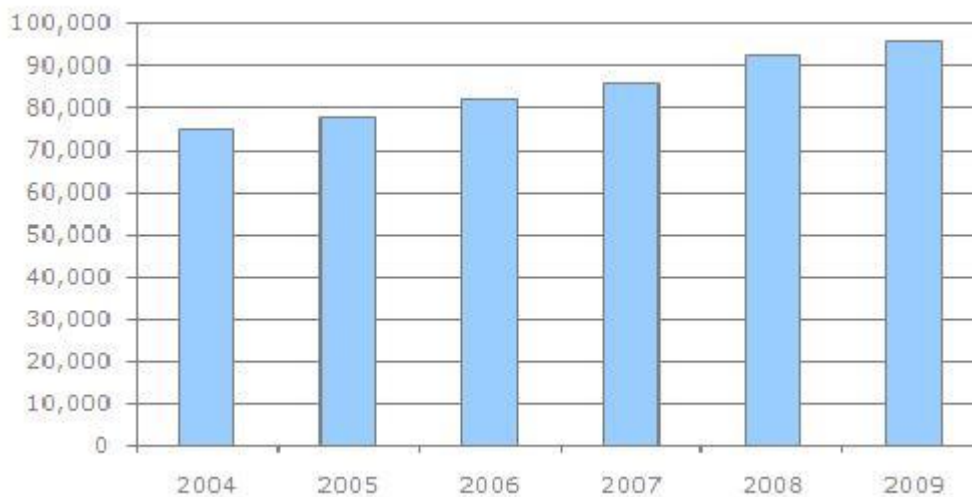
Global performance

Global retail sales of sweet and savoury snacks are predicted to reach US\$95.9 billion in 2009, up 4% on 2008. The growth recorded in 2009 will be lower than that of the previous year, when sales grew by 7%.

Overall, research shows that recession will lead to a moderate reduction in consumer expenditure on non-essential indulgence products, which will affect the performance of key snack categories such as chips/crisps and tortilla/corn chips. Sweet and savoury snacks will see its growth constrained by a weaker labour market and less pressure on time-pressed workers to skip meals.

Furthermore, maturing consumer demand and economic uncertainty in developed regions such as North America and Western Europe will constrain further growth of sweet and savoury snacks at global level in 2009. Growth in demand for sweet and savoury snacks will continue to be strong in emerging regions such as Latin America and Eastern Europe, driven by consumption in upper-tier cities. The sector's growth, however, is predicted to slow in 2009 as a result of the uncertain economic situation and moderate fall in disposable income.

Chart 1 Retail value sales of sweet and savoury snacks (US\$ million). US\$ fixed exchange rates (2009)



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** 2009 is partially estimated*

Recession impact

Widespread recession has led to a weakening of the snacking culture. A weaker labour market has resulted in a slowdown in skipping hot meals and snacking in the workplace. Furthermore, dwindling disposable income has resulted in consumers spending more time at home cooking, which is in turn reducing the number of snacking occasions. As a result of a moderate contraction in demand, global retail volume sales growth is predicted to slow from 3% in 2008 to just 2% in 2009. In regions where economic contraction is particularly intense, sales will be more severely affected. North America (+0.7% in retail volume) and Eastern Europe (+1.3% in retail volume) are clear examples of this trend.

Despite recessionary tensions, underlying consumer trends have continued to push the sweet and savoury snacks industry to invest in health-oriented and indulgence lines. The inclusion of healthy oils in crisps and chips, differentiation through packaging, fortification through the inclusion of vitamins and the expansion of existing lines through the introduction of exotic flavours have continued to be used in order to maintain consumer interest. If

anything, manufacturers are bound to slow the number of new innovative launches and focus instead on supporting their existing lines via price promotions.

Performance by category

Nuts is the category predicted to register the strongest sales growth in 2009. These products contribute to reduced risk of heart disease, diabetes and cancer. Greater awareness of their health benefits has succeeded in expanding the category's middle-class consumer base, particularly in developed markets. In the UK market, for instance, sales of these products are predicted to grow by 10% in constant local currency terms in 2009, building on the strong growth recorded in previous years.

Sales of chips/crisps have been severely affected by the strong economic contraction registered at global level as consumers have cut back on their snacking expenditure – regarded as non-essential. One of the most relevant examples can be seen in the Ukrainian market, where chips/crisps is set to post a decline of 22% in constant local currency terms in 2009. A strong decline in economic growth, linked to a drop in exports, has encouraged Ukrainian consumers to drastically reduce their expenditure on indulgence products, including snacks.

The fruit snacks category is predicted to outperform the growth of sweet and savoury snacks at sector level in 2009. These products will benefit from robust demand in the US market, where retail sales are set to grow by 6% in local constant currency terms. Sweetness, and the fact that they are produced from natural products, makes fruit snacks particularly appealing to health-conscious consumers in developed markets.

Performance by region

Research shows that Eastern Europe is being severely affected by the economic crisis, particularly major commodity export markets like Russia and Ukraine. GDP real growth in these countries will decline by 7% and 8% respectively in 2009. The reduction in non-essential expenditure in this region is likely to depress sales of snack categories such as extruded snacks, which is predicted to decline in retail volume by 1% in 2009.

Latin America, less affected by the global crisis than other emerging regions, is managing to maintain positive growth. Sweet and savoury snacks will grow by 3% in retail volume in 2009, outperforming the growth of the sector at global level. Snack consumption in the region is being underpinned by strong demand in upper-tier cities, particularly in countries like Brazil and Mexico. Categories in which innovation activity is particularly strong are predicted to fare the best. Extruded snacks, for instance, will grow by 3% in retail volume and 6% in retail value terms in 2009, despite the slowdown in economic growth.

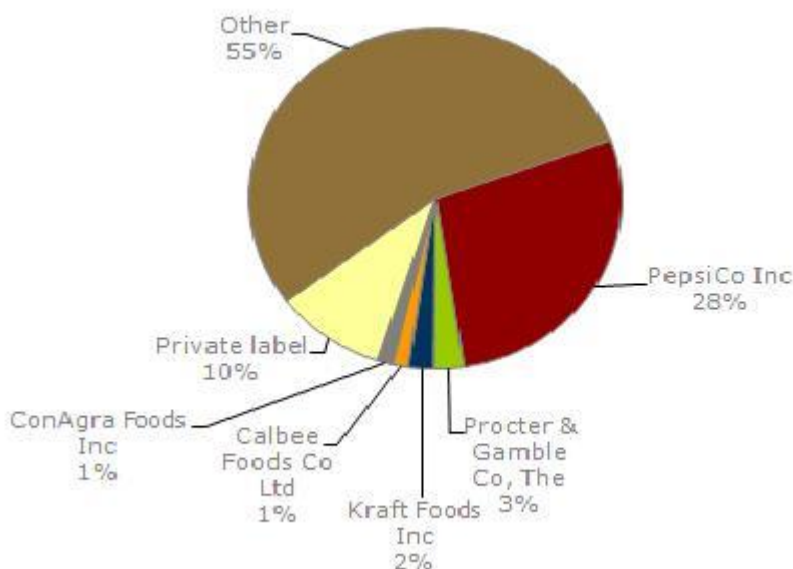
Maturing consumer demand, along with dwindling disposable income, will slow the growth of sweet and savoury snacks in 2009. This, along with the increasing pressure of private label on sales, will constrain value growth in North America and Western Europe.

Competitive environment

As for the more important players in the market, PepsiCo was by far the market leader in 2008, accounting for 28% of global retail value sales. The company's main strength is chips/crisps and tortilla/corn chips, in which it accounts for 50% and 75% of global retail value sales respectively. PepsiCo's main market in 2008 was the US, which accounted for 50% of its global value sales. Furthermore, the company has a strong presence in regions like Eastern Europe and Latin America, where it commanded respective shares of 14.5% and 14.6% in 2008.

Procter & Gamble Co is largely present in extruded snacks through its umbrella brand Pringles. The brand commands an 11% value share of extruded snacks. Its main markets are Western Europe and North America, which account for a combined 50% share of its sales at global level.

Kraft Foods followed Procter & Gamble Co in terms of relative importance. The company's main strength is nuts, in which the company is mainly present through its Planters brand. The latter accounted for around 50% of its retail value sales at global level in 2008.



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Future performance

Sweet and savoury snacks is forecast to register a volume CAGR of 2% over the 2009-2014 period. This represents a moderate slowdown in sales when compared with a review (2004-2009) period CAGR of 3%.

This moderate slowdown in growth is expected to be a result of maturing consumer demand in developed regions (North America and Western Europe) and increasing dietary concerns. Furthermore, the sweet and savoury snacks sector is predicted to lose ground to snack bars and to a lesser extent fresh food, considered as a healthier alternative in most developed countries. In contrast, the transition from unpackaged to packaged snacks in emerging regions is set to underpin growth in demand at global level. This will be particularly relevant in fast-growing economies like China and India, where sales of sweet and savoury snacks are set to grow in retail volume terms by 27% and 68% respectively over the 2009-2014 period.

Private label is expected to continue to grow in importance and achieve further sophistication in terms of quality and presentation, particularly in South American and Asian countries where its share is still relatively low.

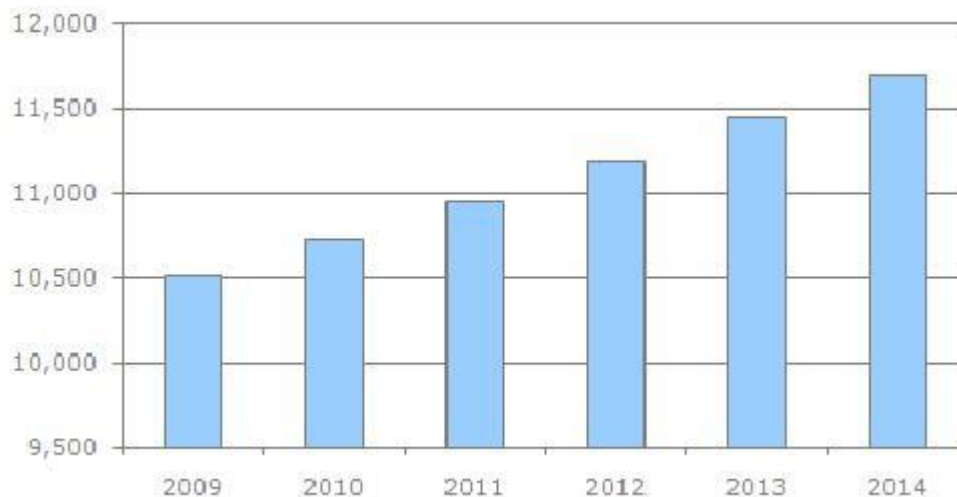
Nuts and fruit snacks will benefit from healthy perception

Healthy perception of fruit snacks is expected to push up sales at global level, with the category predicted to grow by 23% in retail volume terms over the 2009-2014 period. China (+27%) in Asia-Pacific and Spain (+24%) and the UK (+40%) in Western Europe are countries where these products are forecast to significantly expand their consumer base.

Rising demand for nuts in both developing and developed markets will underpin the category's performance at global level over the forecast period, when sales are expected to grow by 15% in retail volume terms. Nuts' positive influence on cardiovascular health has made these snacks very popular with consumers, particularly in developed markets. Furthermore, innovation is set to advance further and include wider ranges of 'hybrid' nut combinations, for example organic, fairtrade and sourced by origin. As a result, nut consumption is predicted to extend from traditional health-conscious shoppers to 'socially responsible' consumers.

Chips/crisps' volume growth will be underpinned by strong demand in the Asia-Pacific and Latin American regions, where middle-class consumers are expected to continue to trade up from artisanal to packaged –and more convenient – snacks.

Chart 3 Retail volume sales of sweet and savoury snacks ('000 tonnes). 2009-14 forecast.



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Way forward

Robust growth in Africa and the Middle East and Asia-Pacific will continue beyond 2009, particularly in markets such as China and India. Ideally, manufacturers should adapt their long-term strategies accordingly, prioritising those markets in which organic growth will be strongest.

International manufacturers should adopt a dual strategy in order to maximise growth at global level. On the one hand, they should extend standard-priced packaged lines to developing markets, using where possible local inputs to minimise costs and final retail prices. Manufacturers should not overlook the fact that maintaining relatively low prices is crucial to enabling middle-class consumers to trade up from artisanal to packaged snacks in emerging economies.

On the other hand, snack manufacturers should enhance the premium content of their brands in more mature markets through the addition of more functional and exotic ingredients, flavour combinations and user-friendly packaging. The development of hybrid 'super-premium brands' combining indulgence with organic and fairtrade properties will be crucial to expanding the sector's consumer base in more mature markets, in which health, social or organic features are no longer enough to expand sales when marketed separately.