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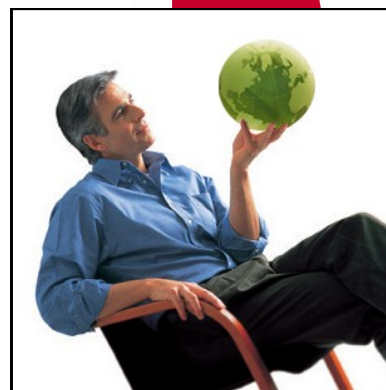
**International
Markets
Bureau**

MARKET INDICATOR REPORT | MAY 2011

Pathfinder Report Global Packaged Confectionery Trends



Source: Shutterstock





► EXECUTIVE SUMMARY

Australasia (Australia and New Zealand) and Western Europe were the two biggest regional confectionery markets in 2010, with Australasia's sales increasing by almost 25% over 2009 figures. North America, Asia Pacific and Latin America confectionery markets have also maintained increasing sales of these products despite the global economic downturn.

The recession has caused many consumers to sacrifice volume rather than quality, and to use confectionery as a reward or as a means to help alleviate stress. However, sugarized gum, milk chocolate tablets and boiled sweets confectionery are all being adversely affected by mounting consumer health concerns. Obesity and diabetes are major health issues that are increasingly affecting both the young and aging populations. In particular, the United States (U.S.), United Kingdom (U.K.), and Japan will stand to benefit the most from reduced calorie and low/no/reduced sugar content.

When it comes to "healthy" confectionery, consumers tend to look for products benefiting dental and cardiovascular health, as well as low-calorie products that help assuage guilt over indulgence. We see this trend playing out with sugar-free gum which has been performing well globally, and is predicted to continue, particularly in emerging countries. Gum is a strong favourite in Asia Pacific and Latin America because of its relatively low unit price.

Finally, the premium segment will continue to offer some of the best prospects in global confectionery, with all major players either expanding their "trade-up" product lines, or acquiring premium players. Case in point, Turkey's Ulker Gida Sanayi ve Ticaret AS acquired Godiva chocolates from Campbell Soup, and South Korea's Lotte Confectionery acquired Guylian. It appears that premium brands will become increasingly crucial for manufacturers looking to leverage growth in the global confectionery market.

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Source: Shutterstock

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Despite the success of organic chocolate confectionery, organic sugar confectionery remains unexplored.
”



► GLOBAL TRENDS

Retail value sales are proving relatively resilient in spite of the global economic climate. Many confectionery producers are driving growth by shrinking pack sizes, thereby boosting per kilo unit prices, while limiting perceived retail price increases. To grow value *and* volume sales in the long term, this strategy will need to be re-evaluated by the producers, which is already happening through premiumization. Premiumization has continued to grow retail sales in several major geographic confectionery markets (such as the United States) at the expense, however, of volume growth. Consumers are still reaching for confectionery products as a way to alleviate stress or grant themselves a reward, and in these tougher economic times, they are choosing to sacrifice quantity rather than quality.

As with many other consumer food and beverage commodities, chocolate retail sales rebounded in 2009-10, reaching 6.3% year-on-year growth. Regional chocolate sales should remain stable due to non-economic factors, such as the growing practice of giving chocolate as gifts for weddings and birthdays in markets like China. Additionally, chocolate will continue to be purchased most often by middle-class consumers in urban areas.

Organic and fair-trade chocolate is proving resilient. In the U.K. for example, Cadbury switched its source to Ghanaian fair-trade cocoa exclusively. Similarly, France's Alter Eco company re-launched its Noir Intense dark chocolate tablets with not only organic and fair-trade certifications, but also a carbon neutral stamp.

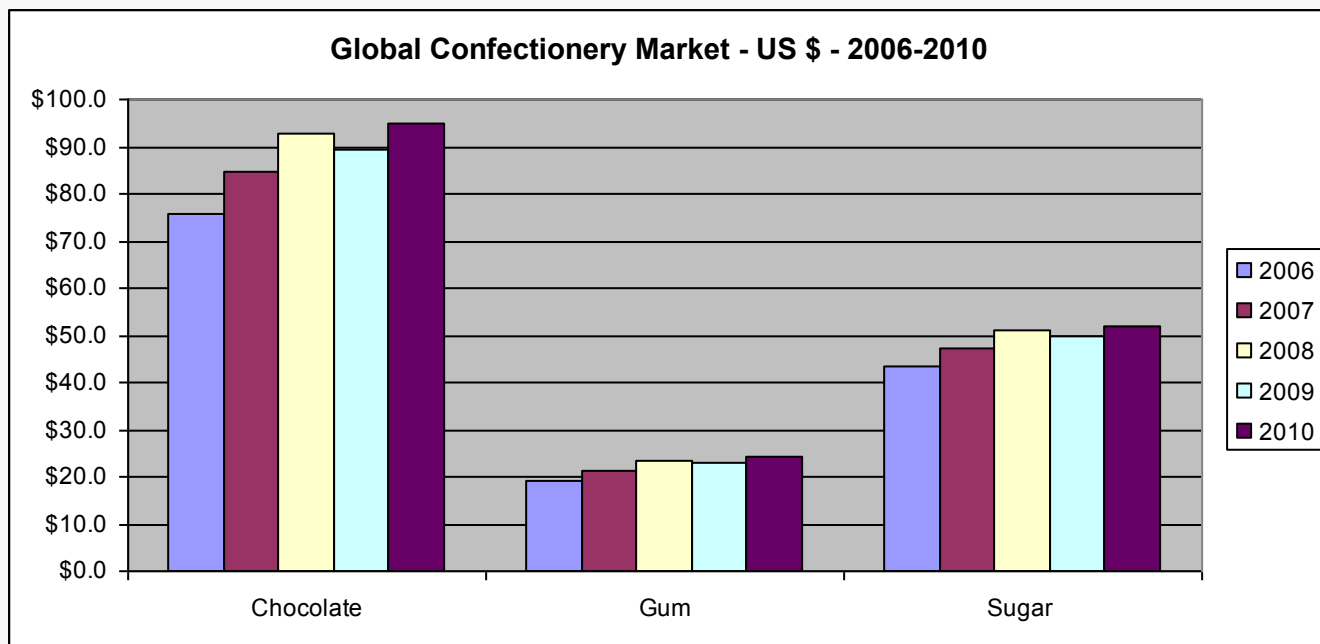
Gum retail sales rebounded in 2009-10, reaching 5.5% year-on-year growth. Gum is an important category in Asia Pacific and Latin America because of its relatively low unit price. Sugar confectionery retail sales also rebounded in 2009-10, reaching 4.3% year-on-year growth.

For gum and sugar confectionery, bigger has proven better in terms of packaging. Larger packs make consumption easier at home, at work, in the car, or wherever. Conversely, chocolate packaging is getting smaller. This strategy was developed to entice cash-strapped consumers, who are looking for a small, inexpensive treat. Additionally, these smaller packages are being sought by health conscious consumers looking for easier portion control.

Confectionery has well-established links with healthcare as a delivery format for active ingredients, including nicotine chewing gum for smoking cessation, and medicated confectionery to treat coughs and colds. In recent years, we have seen confectionery and healthcare converge even further. For example, both dietary supplements and digestive remedies are now found in chewable tablet form.

When analyzing global confectionery trends, we must also examine the growing role of sugar-substitutes in this industry. A closer look shows sweetening ingredients, including both bulk and high-intensity products, are gaining market share over other traditional sweeteners such as sugar, dextrose, fructose, syrups, and molasses. This substituting trend will continue as new sugar-alternative sweeteners continue to be introduced, and adopted by industry. One of the biggest key terms for future development of the international food and drinks industry is "natural flavouring," which is already having a significant impact, particularly in the more developed countries. For example, the new stevia-derived sweeteners, such as Cargill's Truvia and Corn Products International's Enliten ingredient, are receiving significant attention from suppliers and could well become the sweeteners of choice once regulatory hurdles have been cleared.

The confectionery industry is already introducing more and more products made with sweeteners as a substitute for sugar. Dental and weight concerns are driving this trend. Chewing gum, sugar confectionery and carbonates represent the three most important markets for sugar replacement ingredients. On the whole, these industries have become well-established end-users for sweeteners. Having said that, the chocolate sector still offers some opportunities for sweeteners and could provide growth in the future as long as quality is not sacrificed. In general, developing and emerging countries will offer the best option for growth of reduced-sugar products in the future.



Source: Euromonitor International

Note: 2010 figures are estimates

Per Capita Spending - Confectionery US\$ - Current Prices - Global Breakdown

Geographies	2005	2006	2007	2008	2009	2010
Australasia	228.2	240	287	293	284.2	351.5
Western Europe	168.7	170.5	191	205.3	182.1	180.8
North America	113.4	118	122.3	126.8	126.5	132.4
Eastern Europe	53.6	62.7	73.3	88	83.1	91.3
Latin America	23.1	26.4	31.6	37.1	37.2	38.2
Asia Pacific	19.3	20.3	22.4	24.8	25.7	27.9
Middle East and Africa	11.7	12.5	13.8	15.5	15.1	11.7

Source: Euromonitor International

Note: 2010 figures are estimates

Global Confectionery Retail Sales - by type - US \$ millions

Type	2005	2006	2007	2008	2009
Reduced Sugar Confectionery	11,207.1	12,489.7	14,382.0	16,110.8	15,783.4
FF Confectionery	8,541.7	9,002.1	10,042.8	11,080.8	11,048.8
Medicated Confectionery	4,149.0	4,567.0	4,991.4	4,877.7	5,132.1
Organic Confectionery	508.6	566.2	685.2	747.5	714.0
Diabetic Confectionery	250.4	269.6	309.9	346.2	331.7
Reduce Carb Confectionery	47.5	49.3	33.7	28.2	25.8

Source: Euromonitor International

Note: see definitions on page 12 for acronym descriptions

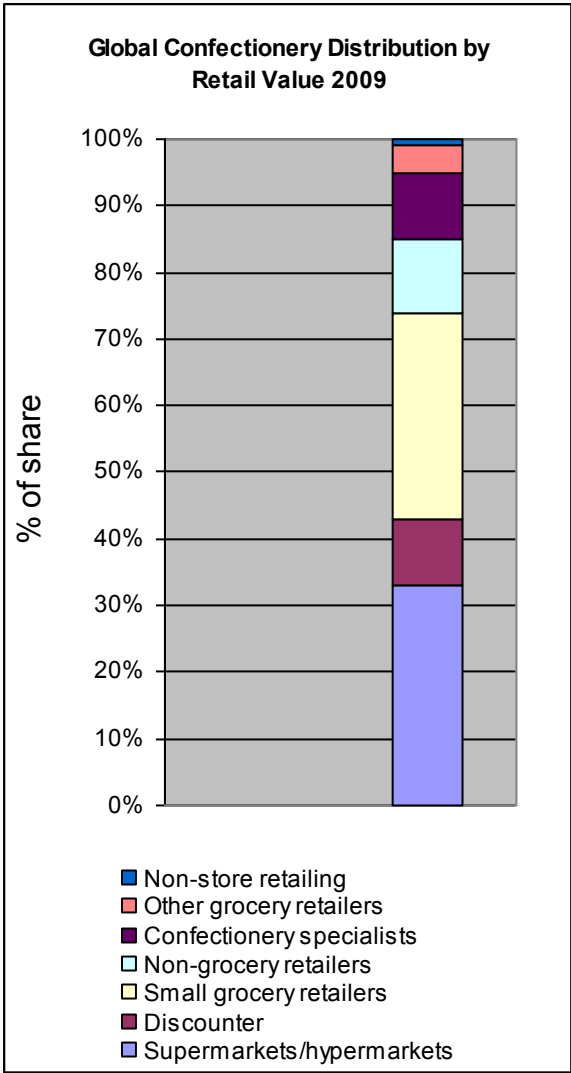


► **DISTRIBUTION CHANNELS**

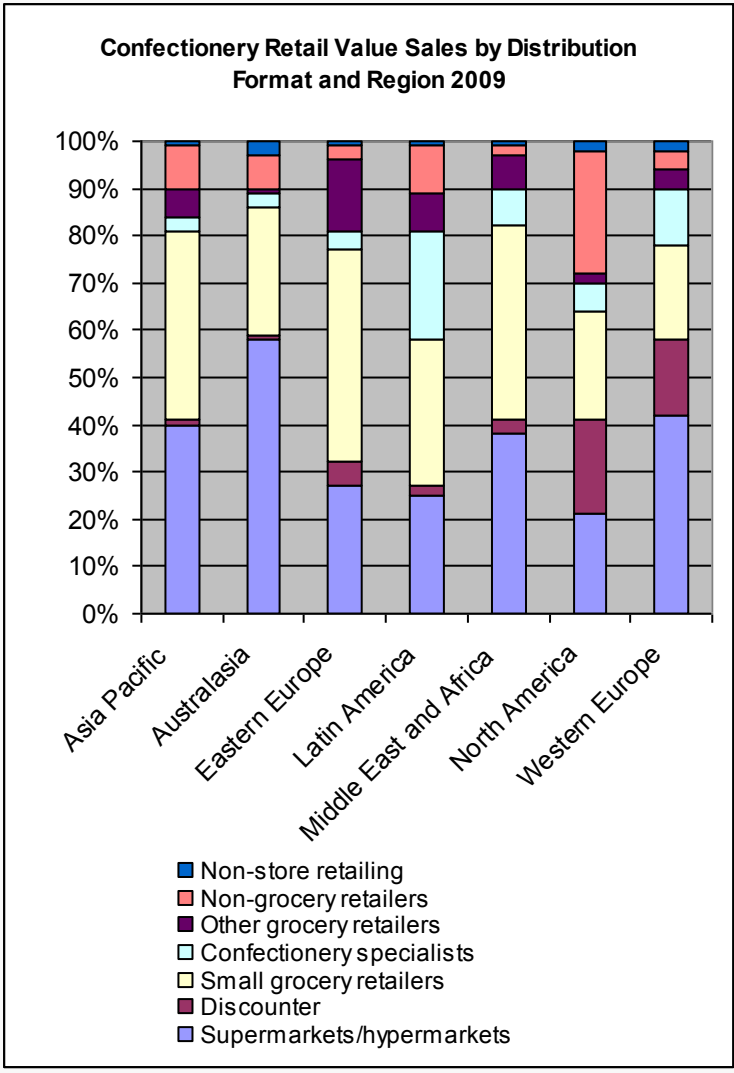
Supermarkets/hypermarkets were the most important retail outlet for confectionery, accounting for 34% of global retail value sales in 2009. In highly developed regions like Western Europe, they accounted for 43% of total confectionery sales over the same period. Over the past couple of years, supermarkets and hypermarkets have executed successful and aggressive price-cutting strategies to maintain market share for impulse items like confectionery.

Small grocery retailers and discounters were the second and third most important retail formats for confectionery in value terms in 2009. These retailers owe much of their market share to emerging markets where convenience stores and independent corner shops are prevalent.

Discounters are generating consumer traffic through price promotions, especially in Europe.



Source: Euromonitor International



Source: Euromonitor International



► EMERGING MARKETS

Global confectionery sales year-on-year growth is expected to be 3% between 2010 to 2014. The top growing markets are predicted to be:

- Europe: UK, Russia, Germany, France and Italy
- Americas: US, Brazil, Mexico, Canada and Argentina
- Asia-Pacific: Japan, China, Australia, India and Indonesia
- Middle East and Africa: South Africa, Saudi Arabia, Egypt, Israel, and United Arab Emirates

Top 10 Global Market *Forecast* Value by Country for 2011-2014 in Millions of US Dollars

Region	Country	2011	2012	2013	2014	Overall Growth	CAGR (2008-2014)
Americas	United States	\$35,653.2	\$36,651.0	\$37,704.0	\$38,817.6	18%	3%
Europe	United Kingdom	\$12,669.6	\$12,987.3	\$13,325.7	\$13,684.9	15%	2%
Europe	Russia	\$11,757.4	\$12,329.7	\$12,907.8	\$13,501.7	33%	5%
Europe	Germany	\$13,314.9	\$13,327.6	\$13,369.2	\$13,434.1	-1%	0%
Asia-Pacific	Japan	\$9,054.1	\$9,159.8	\$9,270.8	\$9,381.8	7%	1%
Asia-Pacific	China	\$7,207.4	\$7,610.2	\$8,045.4	\$8,513.2	38%	5%
Europe	France	\$6,742.5	\$6,868.5	\$6,993.7	\$7,118.4	12%	2%
Americas	Brazil	\$5,692.9	\$5,928.3	\$6,165.5	\$6,403.9	28%	4%
Europe	Italy	\$4,843.2	\$4,918.7	\$4,997.8	\$5,080.5	10%	2%
Europe	Ukraine	\$3,704.4	\$4,014.7	\$4,328.7	\$4,641.1	65%	9%

Source: Datamonitor

► COMPETITIVE LANDSCAPE

Consolidation

Merging has been popular in the confectionery industry of late, with Mars purchasing Wrigley, and Kraft's purchase of Cadbury. Nestlé SA acquired Russia's Ruzskaya Konditerskaya Fabrika confectionery company and Brazil's Chocolates Garoto SA.

Health Consciousness Spreading to Confectionery

Many confectionery manufacturers are introducing healthier versions of existing products and/or launching new products with an emphasis on sugar-free and organic options. Mass-market chocolate confectionery has lost ground to premium dark chocolate and functional variants as consumers become more health conscious.

Premium Confectionery is Crucial

In 2008, two world-famous and premium-oriented Belgium chocolate brands changed owners. Godiva was acquired from Campbell Soup by Turkey's Ulker Gida Sanayi ve Ticaret AS, and Guylian by South Korea's Lotte Confectionery. With the acquisitions secured, these two previously regional/domestic producers have now positioned themselves to pursue international expansion plans, particularly in Europe. These well established premium brands bring valuable brand equity that is necessary for success in the niche premium chocolate segment.

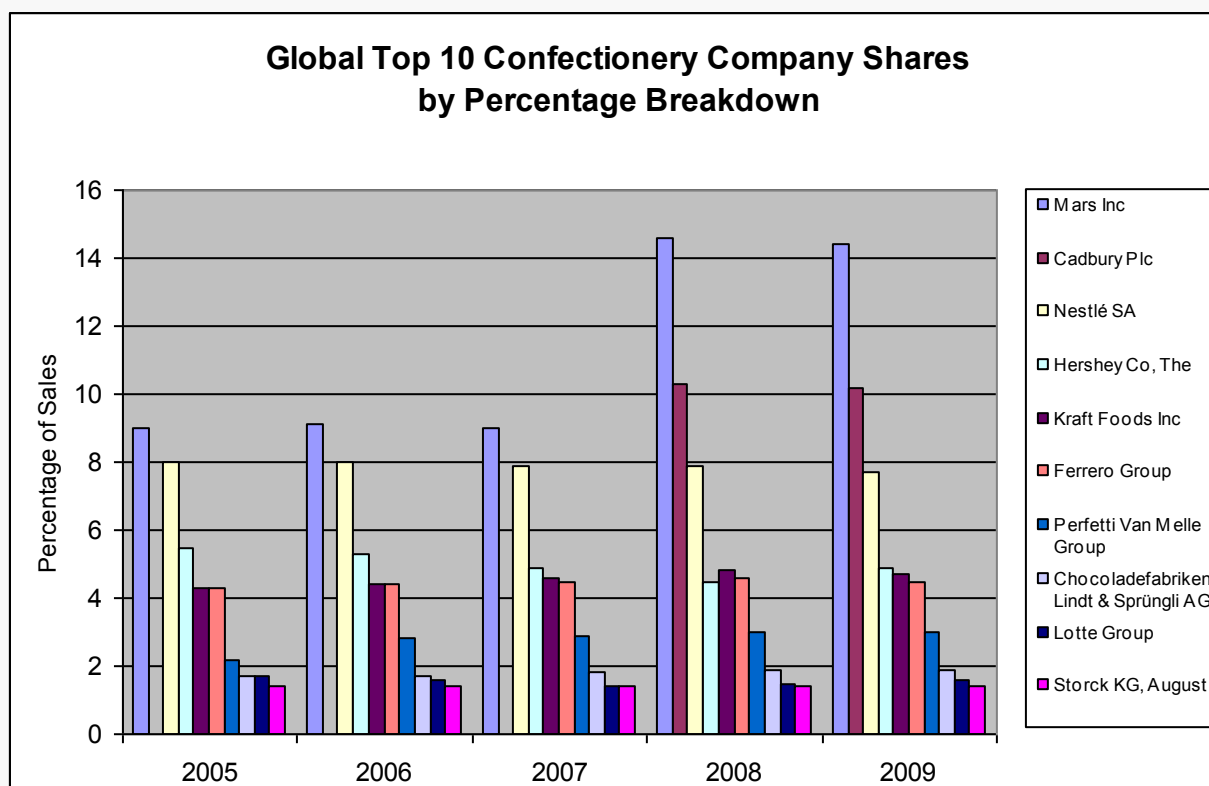


Global Confectionery Competitive Landscape Summary 2009

Strategies	Mars	Cadbury Plc	Nestlé SA	Kraft Foods Inc	Hershey Co.
Increased indulgence	Yes	Yes	Yes	Yes	No
Shrink Pack Sizes	Yes	No	No	No	Yes
Sugar Free	Yes	Yes	No	No	Yes
Fortified/Functional	Yes	Yes	Yes	No	No
Organic	No	Yes	No	No	Yes
Fair-trade	No	Yes	No	No	No
Raise Prices	Yes	Yes	No	No	Yes
Geographic Expansion	Yes	Yes	Yes	Yes	Yes
Diversity Portfolio	Yes	No	No	No	No
M&A	Yes	Potentially	Yes	Potentially	Yes

Source: Euromonitor International

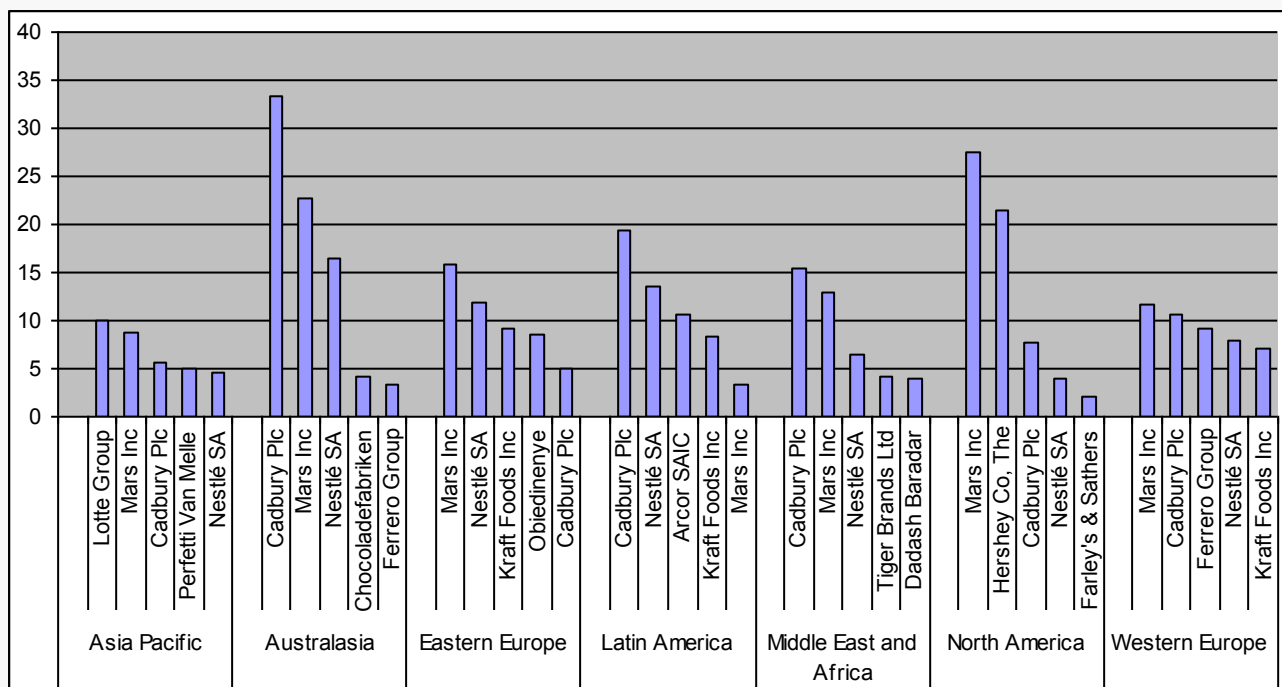
Global Top 10 Confectionery Company Shares by Percentage Breakdown



Source: Euromonitor International



Top 5 Confectionery Company Shares for 2009 - by Region - by %



Source: Euromonitor International

► OPPORTUNITIES FOR CANADA'S CONFECTIONERY INDUSTRY

In some markets including Japan, Russia and France, consumers are curtailing their consumption of confectionery. In contrast, the U.K. and China are eating more as they look to indulge themselves, and are responding to industry efforts to stimulate that consumption. Brazil and Mexico confectionery consumers are moving to smaller portions that have a lower price per unit incentive. Confectionery consumers in the U.S. and Germany are putting quality ahead of quantity as they look to better manage their budgets and waistlines.

Canadian confectionery manufacturers could see gains through the strength of their innovation, by striking strategic partnerships with competitors, or by engaging in merging or acquisition activity of their own.

Canada ranked 7th in total global exports (CAD \$1.5 billion) of confectionery and baked goods (HS 1704 and 18) in 2009, up from CAD \$1.4 billion in 2008.

In 2010, Mintel listed 1500 new gum and sugar confectionery products, and 655 chocolate confectionery products that were launched globally. The leading claim for gum and sugar confectionery was low/no/reduced sugar, representing approximately 85% of new product launches. For chocolate confectionery, almost 50% of the new products launched in 2010 were organic or low/no/reduced sugar in nature.



Global Market Size - Confectionery (HS codes 1704, and 18)

Rank	Partner Country	CAD \$ millions				
		2005	2006	2007	2008	2009
1	United States	4,764	4,367	4,167	4,863	5,287
2	Germany	2,879	2,912	3,417	4,173	4,737
3	Netherlands	2,883	2,532	3,027	3,796	4,387
4	France	2,684	2,618	3,103	3,499	3,577
5	United Kingdom	2,422	2,332	2,704	2,785	3,027
6	Belgium	1,595	1,586	1,842	2,029	2,131
7	Canada	1,192	1,261	1,257	1,467	1,533
8	Russia	817	832	1,057	1,374	1,243
9	Malaysia	549	864	970	1,414	1,045
10	Spain	782	791	928	1,129	1,147

Source: Datamonitor

Top 10 New Global Sugar and Gum Confectionery Products by Claim and Sub-Category 2010

	Low/No/ Reduced Sugar	Low/No/ Reduced Calorie	Low/No/ Reduced Allergen	Gluten- Free	No Additives/ Preservatives	Breath- Freshening	Kosher	Premium	Organic
Gum	651	59	35	35	16	66	6	7	8
Standard & Power Mints	178	44	14	14	10	36	14	0	6
Boiled Sweets	139	55	47	47	37	8	54	3	26
Pastilles, Gums, Jellies & Chews	70	19	33	33	20	8	14	25	25
Medicated Confectionery	95	19	6	3	7	6	2	13	6
Toffees, Caramels & Nougat	41	13	12	12	6	0	10	33	6
Other Sugar Confectionery	41	11	12	11	8	0	6	14	11
Liquorice	24	5	5	4	17	0	9	12	9
Lollipops	4	5	5	5	5	0	5	2	9

Source: Euromonitor International



Organic
Fair-Trade
Milk Chocolate

Sugar-Free Chocolate Milk Bar



Source: Mintel



Glucose-Free,
Calorie-Reduced
Lozenges



Top New Global Chocolate Confectionery Products by Claim and Sub-Category - Global 2010

	Organic	Low/No/ Reduced Sugar	Ethical - Humane	Low/No/ Reduced Allergen	Gluten- Free	Low/No/ Reduced Calorie	Kosher	Ethical - Enviro. Friendly Package	Vegan
Chocolate Tablets	220	133	105	83	75	24	31	41	53
Non-Individually Wrapped Chocolate Pieces	93	34	34	29	27	12	20	20	12
Chocolate Countlines	33	28	7	27	23	21	15	5	2
Individually Wrapped Chocolate Pieces	8	23	1	0	0	9	6	0	0
Seasonal Chocolate	21	7	8	4	3	2	2	5	2
Other Chocolate Confectionery	2	2	1	1	1	10	1	1	0

Source: Euromonitor International



Ice Cream
Chews



Melon Mint Flavoured

Cough-Drop
Candies with
Herbal Extracts



Source: Mintel

▶ MARKET CHALLENGES

The aggressive price-cutting strategy implemented by supermarkets and hypermarkets will put pressure on the industry's margins, and could increase the popularity of private label confectionery items. With all of the merging and acquisition activity being carried out by the segment's major players, smaller players striving to maintain their global presence may find it necessary to enter into strategic partnerships to remain competitive. Currently, there is also a significant shift towards more natural sources of sweeteners, which will further affect the confectionery industry.

The legislative arena surrounding sweeteners is one of the most diverse on a global scale. The difference in approvals between major markets is significant compared to most other additive categories, making it complex to effectively market certain products globally. Codex Alimentarius defines sugar substitutes as food additives and has adopted an internationally-accepted numbering system (for example, the E-number system in Europe) to help inform consumers of the additives in food. The U.S. uses the Generally Recognized as Safe (GRAS) notification system to pre-approve sweeteners. However, many new sweeteners (including natural sweeteners, such as Stevia), are not currently on the approved food additive lists, and require country-specific approval prior to use. Since most additives are only permitted to be used in certain foods and are subject to specific quantitative limits, the onus is on industry to provide a substantive risk analysis for each product containing a new sweetener.



► TOP CONFECTIONERY MANUFACTURERS 2009

Mars Inc.

World headquarters: McLean, Virginia, U.S.A.
Approximate 2008 global retail sales: US \$30 billion
Top brands: Mars, Milky Way, M&M's, Twix, Skittles, Snickers
New products: M&M's Pretzel chocolates, Snickers Peanut Butter Squared
Website: www.mars.com

Cadbury Plc (recently purchased by Kraft Foods)

World headquarters: Northfield, Ill, U.S.A.
Approximate 2009 global retail confectionery sales: US \$13.7 billion, representing 29% of their global product offerings.
Top brands: Cadbury, Trident, Milka
New products: reducing chocolate bar sizes to offset rising commodity prices for cocoa.
Website: www.kraftfoodscompany.com

Nestlé SA

World headquarters: Vevey, Switzerland
Approximate 2010 global confectionery retail sales: US \$11.8 billion
Top brands: KitKat
New products: KitKat Choc Pop, KitKat Strawberry Cake mini bars, Intense Roast Soybean Kitkat, Cheese flavoured KitKat, Cranberry Rasinettes
Website: www.nestle.com

Hershey Co., The

World headquarters: Hershey, Pennsylvania, U.S.A.
Approximate 2009 global retail sales: US \$5.3 billion
Top brands:
New products: Hershey's Drops, Reese Mini's,
Website: www.hersheys.com

Ferrero Group

World headquarters: Torino, Italy
Approximate 2010 global retail sales: \$6.3 billion EURO
Top brands: Ferrero Roche, Kinder Surprise, Tictac
Website: www.ferrero.com

Perfetti Van Melle Group

World headquarters: Lainate, Italy and Breda, Netherlands
Approximate 2009 global retail sales: \$2 billion EURO
New products: Mentos Sugar-free, Smint 3 gum, Mentos 3 gum, Vivadent 3D gum
Website: www.perfettivanmelle.com

Chocoladefabriken Lindt & Sprungli AG

World headquarters: Kilchberg, Switzerland
Approximate 2009 global retail sales: US \$2.4 billion
Top brands: Caffarel, Ghiradelli, Lindo, and Lindt.
New products: Les Grandes Almond Dark, Excellence Coconut, Excellence Caramelized Hazelnuts, Petits Desserts White Chocolate Mouse, Excellence 50% Cacao
Website: www.lindt.com

Lotte Group

World headquarters: Shinjuku, Tokyo
Approximate 2009 global retail sales: US \$50 billion
Top brands: Crunky candy bar, Black gum, Green Gum, Lotte Ghana chocolate products
Website: www.lotte.co.kr

Stoorck KG, August

World headquarters: Berlin, Germany
Approximate 2009 global retail sales: N/A
Top brands: Wethers candy, Toffifee, Campino, Riesen, Milkfuls
New products: Merci chocolates,
Website: www.storck.com



► DEFINITIONS

The following definitions are derived from Euromonitor International.

Sweeteners—Ingredients that are used specifically to replace sugar and add sweetness to finished foods and drinks, reducing calorie content at the same time. It covers both bulk (or polyol) sweeteners which add volume to the end product and deliver equivalent or slightly lower levels of sweetness than sucrose, and intense sweeteners, which need only be used in small volumes as they have sweetness levels far higher than those of standard sucrose. The report does not cover the more basic sugars or syrups commonly used in food and drinks.

FF Confectionery—This is the aggregation of chocolate confectionery, sugar confectionery and gum. Note: Retail sales measurements are confined to packaged sales. However, exceptions are made for seasonal chocolate, where unpackaged/artisanal sales are included. Pick 'n' mix sales are also included. Finally, sales from chocolatiers, typically displayed loose and later packed (usually in boxes) are also included.

Medicated Confectionery—Any sugar confectionery product (not limited to sweets made from boiled sugar) containing herbs and/or plant extracts. Medicated mints fall into this subsector. Leading global brands include Halls (Cadbury Schweppes), Ricola (Ricola AG), Fisherman's Friend (Lofthouse of Fleetwood).

Organic Confectionery—This is the aggregation of chocolate confectionery, sugar confectionery and gum. Note: Retail sales measurements are confined to packaged sales. However, exceptions are made for seasonal chocolate, where unpackaged/artisanal sales are included. Pick 'n' mix sales are also included. Finally sales from chocolatiers, typically displayed loose and later packed (usually in boxes) are also included. Packaged food that is certified organic by an approved certification body, such as the Soil Association in the UK, are included. Organic food production is based on a system of farming that maintains and replenishes soil fertility without the use of toxic and persistent pesticides and fertilizers. Organic foods are minimally processed without artificial ingredients, preservatives, or irradiation to maintain the integrity of the food. The use of GMOs (Genetically Modified Organism) is prohibited. "Certified Organic" means the item has been grown according to strict uniform standards that are verified by independent state or private organizations. Depending on the country, such products are called 'organic', 'biological' or 'ecological'. For organic products to be included under Euromonitor definitions, the organic aspect needs to form part of positioning/marketing of the product.

The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

Pathfinder Report - Global Packaged Confectionery Trends

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ISSN 1920-6615 Market Indicator Report

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