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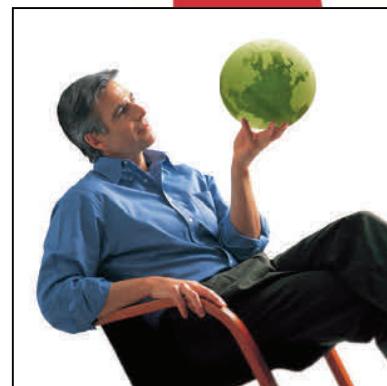
Agriculture et
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**International
Markets
Bureau**

MARKET INDICATOR REPORT | APRIL 2012

Functional Foods in the United Kingdom





► EXECUTIVE SUMMARY

According to Euromonitor estimates, the United Kingdom (U.K.) had the fourth-largest population in Western Europe in 2011 with 62.3 million people, behind Germany (81.4 million), Turkey (73.3 million) and France (63.1 million).

As a whole, the U.K. population is aging, as evidenced by the growing number of citizens in the 65 and older demographic. Estimated at 10.1 million in 2010, this population segment is forecast to surge by 18.0%, reaching almost 12 million in 2020.

The first of the baby boomers (those born between 1946 and 1964) are entering into retirement. However, many of these pensioners are still quite conscious of current trends in fashion and lifestyle. Many are also very health-oriented, remaining physically active and mindful of their diets.

Like in most other developed economies, consumers in the U.K. have shifting attitudes towards nutrition. Many are very interested in products and services that promise to enhance their health and wellness in particular ways. Advances in medicine and consumer knowledge of personal health have contributed to this trend, from which the functional foods market could also greatly benefit.

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► DEFINITION OF FUNCTIONAL FOODS

In scientific terms, functional foods and drinks have been defined as: "affecting beneficially, one or more target functions in the body beyond adequate nutritional effects, in a way that is relevant to either an improved state of health and well-being and/or reduction of risk of disease," (British Journal of Nutrition, 1999).

In the United Kingdom, the Food Standards Agency (FSA) defines functional foods as, "claiming to have additional benefits other than nutritional value, for example a margarine that contains a cholesterol-lowering ingredient."

From a consumer perspective, functional food and drink products generally address or claim to assist with aspects such as:

- ▶ Cardiovascular health (blood pressure, cholesterol levels or overall cardiovascular system);
- ▶ Bone health (prevent/treat osteoporosis);
- ▶ Digestive health (through probiotics and prebiotics); and
- ▶ Immune system (through ingredients that claim to heighten the body's natural defenses).





► CONSUMER TRENDS

The desire to maintain a better quality of life for longer is motivating British consumers to embrace a healthier lifestyle. Following governmental recommendations for healthy eating, consumers from various age groups are making specific dietary changes. However, as reported by Mintel, adopting dietary changes tends to become increasingly popular with age and occurs more frequently in older segments of the population.

Functional foods have been widely accepted in the U.K., as consumers become increasingly educated about their potential benefits, and seek products with added vitamins, minerals and other health-oriented ingredients. As more and more information about how to enhance one's own health becomes available, this trend is only expected to grow, with consumers motivated to take responsibility and action where possible (which includes the selection of particular food products and/or attributes).

According to a Mintel study (2010), the overall number of U.K. consumers who report taking vitamin supplements is on the rise, an indication of a growing interest in preventative health measures. However, distinctions between different age groups were also noted. Nearly one third (32%) of those aged 65 and older reported trying to lead a healthier life, compared to 11% of those aged 35-44, and just 8% of respondents aged 15-34. While the senior demographic may appear to be a favourable market for functional foods based on these findings, they are also the most sceptical of the benefits of such products.

Consumer Segmentation in the United Kingdom – Forecast – in Thousands of People

Age Segment	2010	2015	2020	% Growth, 2010-2020
Babies/Infants (0-2 years)	2,367	2,399	2,498	5.5
Kids (3-8 years)	4,209	4,666	4,821	14.5
Tweens (9-12 years)	2,794	2,792	3,139	12.3
Teens (13-19 years)	5,389	4,966	4,925	-8.6
Young Adults (20-29 years)	8,606	9,028	8,699	1.1
Adults (30-39 years)	8,109	8,281	9,288	14.5
Middle-aged Adults (40-64 years)	20,366	20,396	20,412	0.2
Seniors (65+ years)	10,126	11,190	11,949	18.0

Source: Euromonitor, 2011.

Between 2010 and 2020, the British population aged 30-39 is expected to grow by a notable 14.5%, recording the second-highest growth rate after the senior demographic. This increase could be a positive influence on the functional foods market, as this age group will likely embrace new and trendy products and may become more proactive in health maintenance as they raise their young families. This creates an opportunity for functional food products that can target the specific needs of this demographic.

Functional food consumption also differs slightly by gender, with women as the more frequent users, according to another Mintel survey (2010). It was found that 44.3% of women reported purchasing functional food products occasionally and 24.6% reported using them regularly, versus 43.6% and 18.8% of men. Similarly, the survey also found that women are more likely to have reported taking steps to improve their overall health. However, men were reportedly more likely to purchase functional products aimed at reducing cholesterol.

Functional foods and drinks are generally marketed at a price premium compared to conventional products, meaning income will likely play a role in consumers' ability and willingness to purchase such products. According to Euromonitor, U.K. consumers aged 45-49 reported the highest annual income in 2010 at US\$49,635, followed by the 40-44 (US\$49,003), 50-54 (US\$48,397) and 35-39 (US\$47,556) age segments.

Omega-3, probiotic bacteria and fibre are popular functional ingredients in the United Kingdom. However, as the population continues to age, the demand for products claiming to assist in lowering cholesterol or improving overall heart health is likely to increase.



► MARKET SIZES

Sales of fortified/functional food reached US\$7.09 billion in 2010, a 5% increase over 2009. Despite the growing demand, functional foods are still viewed as slightly indulgent, keeping prices from rising too high. The packaged food sector accounted for close to US\$4.7 billion of total market sales, with yogurt (US\$1.2 billion) and breakfast cereals (US\$1.4 billion) as the highest-grossing categories. Many breakfast-oriented products such as these are ideal carriers for functional ingredients, as they may already bear health-conscious properties in their most basic form. The yogurt market in the United Kingdom is actually home to some of the longest-standing functional food brands.

Market Sizes of Fortified/Functional Foods in the United Kingdom
Retail Sale Value in US\$ millions

Category	2005	2006	2007	2008	2009	2010
Fortified/Functional (FF) Food	5,497	5,866	6,061	6,445	6,748	7,088
FF Packaged Food	3,593	3,815	3,936	4,166	4,425	4,700
FF Baby Food	287	296	308	350	392	440
FF Milk Formula	287	296	308	350	392	440
FF Bakery Products	1,486	1,514	1,575	1,666	1,770	1,894
FF Breakfast Cereals	1,310	1,320	1,333	1,363	1,404	1,458
FF Bread	177	193	242	303	366	436
FF Confectionery	309	305	299	287	290	290
FF Chocolate Confectionery	43	44	44	43	40	38
FF Gum	127	125	118	114	116	114
FF Sugar Confectionery	139	136	137	130	135	138
FF Dairy Products	1,137	1,307	1,369	1,475	1,591	1,694
FF Cheese	201	201	188	181	170	161
FF Flavoured Milk Drinks	15	19	24	28	33	39
FF Fromage Frais and Quark	132	191	198	218	234	242
FF Milk	18	25	30	29	29	29
FF Yogurt	771	871	930	1,018	1,125	1,224
FF Oils and Fats	140	152	143	141	144	147
FF Spreadable Oils and Fats	123	135	123	120	122	124
FF Vegetable and Seed Oil	17	17	20	22	22	22
FF Snack Bars	201	207	206	212	202	198
FF Energy and Nutrition Bars	26	29	32	34	36	39
Other FF Snack Bars	175	178	174	178	166	160
Other FF Food	34	34	35	35	36	38

Source: Euromonitor, 2011. **Note:** Not all categories are shown.



► MARKET FORECASTS

By 2015, the functional foods market in the United Kingdom is forecast to be worth US\$8.8 billion, which would represent a compound annual growth rate of 4.4% from 2011 to 2015. The market is expected to benefit from continued product innovation amongst the big manufacturers and the aging U.K. population. Furthermore, a growing middle class, which represents the primary users of functional foods, as well as growing consumer awareness of ailments such as high cholesterol and osteoporosis, should secure demand for products with targeted health benefits.

In a 2011 survey of functional food consumers, Mintel found that the 16-24 age demographic was the most positive in terms of believing in the products' benefits. Amongst those surveyed, 38% of the 16-24 age group reported having noticed an improvement in their health since consuming functional foods. This was followed by the 24-34 segment (33%), the 35-44 group (31%), the 65+ group (29%), the 55-64 group (24%) and the 45-54 segment (23%). If this survey is any indication of broader consumer behavior towards functional foods, the outlook is a positive one. As the youngest consumers surveyed were the most likely to report noticing the benefits of functional foods, it's probable that they will continue using such products into the future.

**Forecast Market Sizes of Fortified/Functional Foods in the United Kingdom
– Retail Sale Value in US\$ millions**

Category	2011*	2012	2013	2014	2015
Fortified/Functional (FF) Food	7,455	7,819	8,187	8,533	8,873
FF Packaged Food	4,972	5,241	5,512	5,782	6,058
FF Baby Food	469	492	507	519	528
FF Milk Formula	469	492	507	519	528
FF Bakery Products	2,031	2,164	2,310	2,463	2,636
FF Breakfast Cereals	1,554	1,648	1,762	1,896	2,057
FF Bread	477	515	548	567	579
FF Confectionery	289	290	292	295	298
FF Chocolate Confectionery	37	36	35	35	36
FF Gum	113	114	114	115	114
FF Sugar Confectionery	139	141	143	145	148
FF Dairy Products	1,797	1,903	2,002	2,098	2,186
FF Cheese	152	147	143	142	142
FF Flavoured Milk Drinks	43	47	50	51	51
FF Fromage Frais and Quark	252	265	280	294	304
FF Milk	30	31	32	34	35
FF Yogurt	1,320	1,413	1,497	1,578	1,655
FF Oils and Fats	151	154	158	160	162
FF Spreadable Oils and Fats	128	131	134	136	137
FF Vegetable and Seed Oil	23	23	24	24	25
FF Snack Bars	197	198	201	204	205
FF Energy and Nutrition Bars	42	47	50	53	56
Other FF Snack Bars	154	152	151	151	149
Other FF Food	39	40	42	43	43

Source: Euromonitor, 2011. Note: Not all categories are shown. *2011 figures are forecasts based on partial-year data.



► COMPANY AND BRAND SHARES

Top Fortified/Functional Food Brand Shares (by Global Brand Name)
% Breakdown based on Retail Sale Value

Brand	Company Name (GBO)	2005	2006	2007	2008	2009	2010
Lucozade	GlaxoSmithKline Plc	13.0	13.4	13.8	13.7	12.9	12.2
Activia	Danone, Groupe	1.4	2.6	3.1	4.2	5.2	5.6
Ribena	GlaxoSmithKline Plc	5.7	5.1	4.6	3.9	3.7	3.4
Kellogg's Special K	Kellogg Co.	3.3	3.3	3.3	3.2	3.1	3.1
Actimel	Danone, Groupe	3.5	2.8	2.8	2.7	2.7	2.6
Petit Filous	Sodiaal SA	2.4	2.4	2.4	2.6	2.5	2.6
Hovis	Premier Foods Plc	-	-	1.4	1.7	2.0	2.2
Dairylea	Kraft Foods Inc.	3.4	3.3	2.9	2.6	2.3	2.1
Kellogg's Crunchy Nut Cornflakes	Kellogg Co.	1.8	1.9	1.9	1.8	2.1	2.0
Benecol	Raisio Oyj	1.6	1.4	1.4	1.5	1.6	1.6
Flora	Unilever Group	2.4	2.4	2.2	1.8	1.7	1.6
Yeo Valley	Yeo Valley Organic Co. Ltd.	1.6	1.9	1.8	1.8	1.6	1.6
Kellogg's Corn Flakes	Kellogg Co.	1.9	1.7	1.7	1.6	1.6	1.6
Warburtons	Warburtons Ltd.	1.0	1.0	1.1	1.2	1.3	1.5

Source: Euromonitor, 2011.

The fortified/functional packaged food market in the United Kingdom is varied, with a number of manufacturers and brands, as well as many niche players. GlaxoSmithKline is the leader in this sector, holding 12.2% of retail sales value in 2010.

The fortified/functional breakfast cereal category is dominated by Kellogg Co. with its Kellogg's Optivita and Kellogg's Special K Sustain brands. According to Mintel, Special K is the United Kingdom's best selling breakfast cereal brand, as of August 2011.

The functional yogurt market has been one of the highest-profile segments in functional foods and drinks, thanks to the presence of brands like Activia. However, Activia withdrew its product's functional claim of improving digestive health in 2010*.



Source for all: Mintel 2011.

*The European Food Safety Authority (EFSA) has been evaluating generic health claims used by food manufacturers, in order to determine those which are appropriate for consumer products, as well as their conditions of use. The final list of approved health claims was to be published in the first quarter of 2012. This new legislation may pose challenges to the functional foods market due to the stricter regulations on health claims. However, manufacturers may opt to simply highlight the healthy ingredients that have been added to the product, rather than emphasize the potential health benefits that could result from their consumption. Companies using health claims that are ultimately rejected by the EFSA will be granted six months to remove the claim from the product, or the product from the market. Visit <http://www.efsa.europa.eu/> for more information.



DISTRIBUTION

The U.K. grocery market is fairly concentrated, with the top five retailers accounting for over 59.5% of grocery retail sales. Tesco is the dominant grocer, with 21.4% of the market, followed by Morrisons (11.5%) and Sainsbury (11.2%).

Top Five Retailers in the United Kingdom, 2010

Company	Number of Outlets	Grocery Market Share (%)
Tesco	2,715	21.45
Morrisons	439	11.53
Sainsbury	934	11.18
Walmart	380	9.75
Co-operative Group	3,657	5.54
Total	8,125	59.45

Source: *Planet Retail*, 2011.



Source: Shutterstock.

Chains like Sainsbury and Tesco are redeveloping their stores, adding areas for ready-meals and takeaway foods, in an attempt to appeal to time-constrained, higher income consumers in the United Kingdom. Tesco carries both discount and premium products that draw a wide spectrum of consumers. Their retail structure also offers a variety of options for shoppers, and includes convenience, virtual, and hypermarket formats.

The greater availability of space in many retailers has enabled them to stock a broader variety of products, including those that currently appeal to more niche markets, such as functional foods. Supermarkets' own private labels have been the primary supplier of functional prepared meals in U.K. retail.

Distribution of Functional Foods in the United Kingdom – % Breakdown Based on Retail Sales Value

Outlets	2005	2006	2007	2008	2009	2010
Store-Based Retailing	98.4	98.2	98.0	97.8	97.5	97.3
Supermarkets/Hypermarkets	71.2	69.8	69.7	69.5	69.1	68.5
Discounters	1.7	1.8	2.0	2.0	2.1	2.2
Small Grocery Retailers	10.3	10.1	10.3	10.3	10.3	10.3
Convenience Stores	6.4	6.6	6.8	7.0	7.1	7.1
Independent Small Grocers	2.0	1.9	1.8	1.8	1.7	1.6
Forecourt Retailers	1.8	1.7	1.6	1.5	1.5	1.5
Other store-based retailing	15.3	16.4	16.1	16.0	16.0	16.4
Other Grocery Retailers	9.0	10.1	9.8	9.5	9.5	9.8
Non-Grocery Retailers	6.3	6.3	6.3	6.4	6.5	6.6
Non-Store Retailing	1.6	1.8	2.0	2.2	2.5	2.7
Vending	0.7	0.7	0.7	0.6	0.6	0.6
Internet Retailing	0.8	1.0	1.3	1.5	1.8	2.0
Direct Selling	0.1	0.1	0.1	0.1	0.1	0.1
Home Shopping	-	-	-	-	-	-

Source: *Euromonitor*, 2011.

► NEW PRODUCTS



According to Mintel, 382 new functional food products were launched in the United Kingdom in 2011, compared to just 168 in 2005. The U.K. market also saw more products than others in Western Europe such as France (179 new functional food launches) and Germany (175). Digestion-enhancing probiotic yogurts, cholesterol-lowering spreads, and heart-healthy cereals are growing in popularity in terms of new launches.

Unless otherwise noted, all of the information and images in this section were derived from the Mintel Global New Products Database, 2011.



Oat So Simple Raspberry & Pomegranate

Position Claims: Cardiovascular (Functional), Ethical (Environmentally Friendly Product), Wholegrain, Time/Speed, No Additives/Preservatives.

Price: US\$3.70



Yazoo Strawberry Milkshake

Position Claims: Bone Health, Ethical (Environmentally Friendly Package), High Protein, Low/No/Reduced Fat, No Additives/Preservatives, Vegetarian.

Price: US\$1.58



Simply More... 5 Almond & Acacia Honey Multiflake Bars

Position Claims: Digestive (Functional), Prebiotic, No Additives/Preservatives, Ethical (Environmentally Friendly Package), Vegetarian.

Price: US\$3.14



First Foods Pure Baby Rice

Position Claims: Babies & Toddlers (0-4), Gluten-Free, Immune System (Functional), Low/No/Reduced Allergen, No Additives/Preservatives, Vitamin/Mineral Fortified, Vegetarian.

Price: US\$2.90



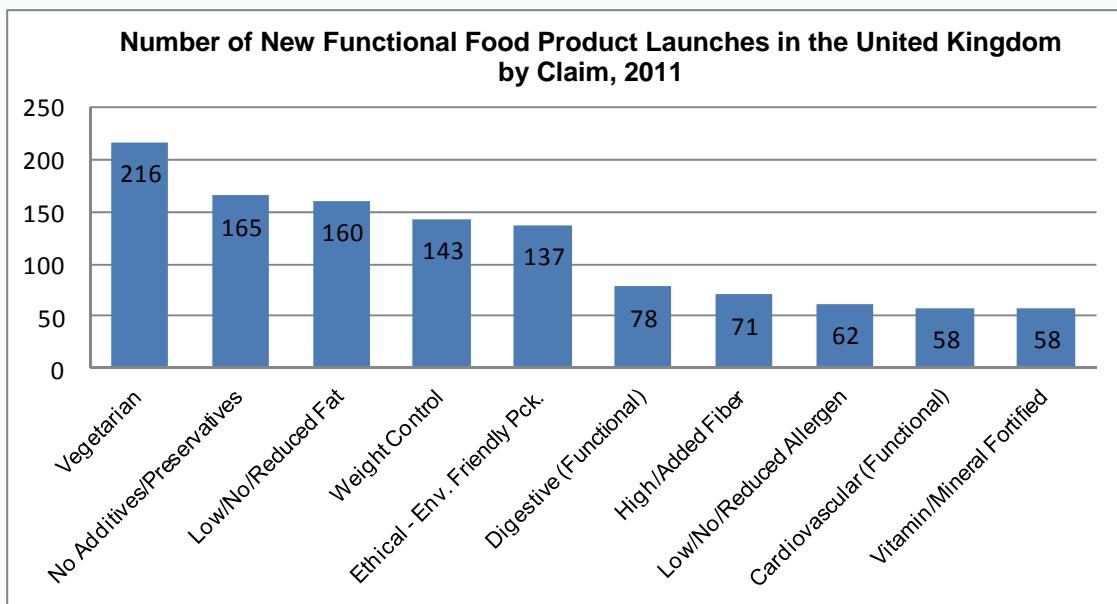
Gluten-free Instant Porridge Oats

Position Claims: Ease of Use; Ethical (Environmentally Friendly Package); GMO-Free; Gluten-Free; High Satiety; High/Added Fiber; Low/No/Reduced Allergen, Glycemic, Sodium and Sugar; Microwaveable, No Animal Ingredients, Time/Speed, Vegan, Wholegrain.

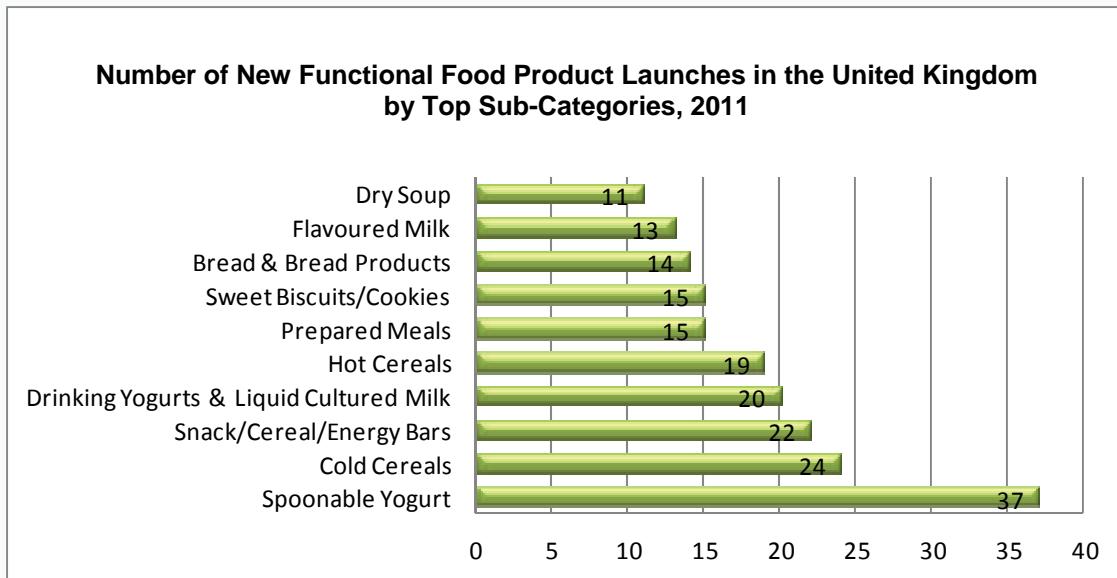
Price: US\$4.90



► NEW PRODUCTS (continued)



Source: Mintel, 2011.



Source: Mintel, 2011.

The yogurt sub-category has benefited significantly from increased consumer awareness of the added health properties of functional products. Spoonable yogurts are more popular than yogurt drinks, with particularly high sales among women. Despite their often higher prices, functional yogurt drinks are more often geared towards younger on-the-go consumers, such as students.

Both hot and cold cereals are popular functional products in the United Kingdom, partially due to the already high penetration of breakfast cereals among British consumers.



► PRICING SAMPLES

Pricing Samples from Supermarkets/Hypermarkets of Fortified/Functional Foods
in the United Kingdom by Category, 2011 – Prices in Local Currency (British Pound)

Category and Brand	Company	Pack Size	Price (£)
Fortified/Functional Milk Formula			
Aptamil First Milk	Cow & Gate Nutricia Ltd	900 g	8.5
SMA First Infant Milk RTD	Wyeth & Brother Ltd	1 litre	1.9
Fortified/Functional Breakfast Cereals			
Cheerios	Cereal Partners U.K.	600 g	2.5
Kellogg's Coco Pops	Kellogg Co of GB Ltd	375 g	2.2
Kellogg's Coco Pops	Kellogg Co of GB Ltd	600 g	3.0
Kellogg's Corn Flakes	Kellogg Co of GB Ltd	500 g	1.8
Kellogg's Crunchy Nut Corn Flakes	Kellogg Co of GB Ltd	500 g	2.3
Kellogg's Crunchy Nut Corn Flakes	Kellogg Co of GB Ltd	750 g	2.5
Kellogg's Frosties	Kellogg Co of GB Ltd	500 g	1.8
Kellogg's Frosties	Kellogg Co of GB Ltd	750 g	2.2
Kellogg's Rice Krispies	Kellogg Co of GB Ltd	450 g	2.1
Kellogg's Rice Krispies	Kellogg Co of GB Ltd	600 g	2.7
Kellogg's Rice Krispies Multigrain	Kellogg Co of GB Ltd	350 g	1.8
Kellogg's Special K	Kellogg Co of GB Ltd	500 g	2.6
Kellogg's Special K Bliss	Kellogg Co of GB Ltd	375 g	2.8
Fortified/Functional Flavoured Milk Drinks			
Mars Refuel	Masterfoods U.K. Ltd	1 litre	1.8
Fortified/Functional Fromage Frais and Quark			
Munch Bunch Fromage Frais Variety Apricot, Raspberry & Strawberry	Lactalis Nestlé Produits Frais	6 x 42 g	1.5
Petit Filous	Yoplait U.K. Ltd	4 x 100 g	1.6
Fortified/Functional Reduced Fat Milk			
Flora Pro-Activ Skimmed Milk	Unilever Foods U.K. Ltd	1 litre	1.3
Pro/Pre-Biotic Drinking Yogurt			
Actimel Coconut	Danone U.K. Ltd	8 x 100 g	2.8
Actimel Vanilla	Danone U.K. Ltd	8 x 100 g	2.6
Müller Vitality Probiotic Drink	Müller Dairy U.K. Ltd	4 x 100 g	1.9
Yakult	Yakult U.K. Ltd	7 x 65 ml	1.9
Other Functional Drinking Yogurt			
Benecol Yogurt Drinks	McNeil Consumer Nutritionals U.K. Ltd	6 x 65 g	3.6
Flora Pro-active	Unilever Foods U.K. Ltd	7 x 100 g	3.9
Activia Bio Natural Yogurt	Danone Ltd	4 x 125 g	1.6
Muller Vitality Pre/Probiotic Yogurt	Muller Dairy U.K. Ltd	4 x 125 g	1.6
Onken Biopot Natural Yogurt	Onken Dairy (U.K.) Ltd	450 g	1.0
Yeo Valley Organic Natural Bio Live Yogurt	Yeo Valley Organic Co Ltd	150 g	0.4

Source: Euromonitor, 2011.



► RESOURCES

Euromonitor International (2011).

Euromonitor International (2011). Health and Wellness in the United Kingdom.

Euromonitor International (September 2011). Fortified/Functional Packaged Food in the United Kingdom.

Mintel (2011). Global New Products Database.

Mintel (2011). Inspire.

Mintel (September 2011). Functional Food and Drink in the United Kingdom.

Planet Retail (2011).

In-Country Contacts

In-country trade commissioners can assist Canadian exporters in assessing market potential and preparing their product for international markets. An overview of services and contact list can be found at the following website: <http://www.tradecommissioner.gc.ca/eng/home.jsp>

The High Commission of Canada to the United Kingdom

Macdonald House, 1 Grosvenor Square
London, United Kingdom
W1K 4AB

Phone: (011-44-20) 7258-6600
Fax: (011-44-20) 7258-6384

Email: ldn-td@international.gc.ca
Website: <http://www.tradecommissioner.gc.ca/uk>

New European Regulations on Food Labelling

A new regulation regarding food and nutrition labelling has been released by the European Parliament and the Council of the European Union (No. 1169/2011), and will become mandatory as of December 13, 2014. The new legislation may affect sales of functional food products, as it establishes the product information that must be available to consumers. For more information, the regulation can be found at the following link:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:304:0018:0063:EN:PDF>

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.

Functional Foods in the United Kingdom

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please contact:

Agriculture and Agri-Food Canada
1341 Baseline Road, Tower 5, 4th floor
Ottawa, ON
Canada K1A 0C5
E-mail: infoservice@agr.gc.ca

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