

INDUSTRY BRIEFING

The Global Market for Ingredients

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Definition

Ingredients make things happen. They allow the food manufacturer to create products that are attractive, safe, stable, health-enhancing and taste good.

The first problem to face in measuring the global market for ingredients is to answer the question: "What constitutes an ingredient?" In some instances, "ingredients" added in small percentages are referred to as "additives". The problem with this definition is that "additives" include only materials such as colours, antioxidants, emulsifiers, preservatives and some flavours, for example. A broader definition of "ingredients" allows us to include those products used at higher levels, such as hydrocolloids, seasonings, herbs and spices, proteins, fat substitutes, bulk sweeteners and all flavour materials.

The main issue with this broader definition is that it can also be argued that major constituents such as meat, vegetables or potato are also "ingredients".

For the purpose of our analysis here, the term "ingredients" has been used to include those products which are added to the main constituents of a food or drink in order to add or enhance colour, flavour, stability (both physical and microbiological) and "healthiness".

Ingredients measured:

colours

emulsifiers

hydrocolloids

industrial seasonings, herbs & spices

compound savoury flavours

savoury flavours 'top notes'

sweet & fruit flavours

cultures
enzymes
proteins
vitamins, minerals, etc.
acidulants
fat substitutes
antioxidants
preservatives
sweeteners - bulk
sweeteners - intense
process flavours/hvp/aye
enhancers

Demands of the market

Global consumption of industrially processed food continues to grow steadily. Growth is fuelled mainly by population growth and increasing urbanisation. Increasing numbers of urban dwellers rely less on artisan food sources with an increasing dependence on more industrial food sources such as bakers and dairies. Meanwhile, the relative affluence of the city-dweller encourages the purchase of soft drinks, frozen and convenience foods. However, despite strong growth in some emerging markets, growth in the world's food consumption has been suppressed by static performances in the established markets of Russia, Germany and Italy where impending population declines are leading to reduced demand.

Consumption of industrially produced food today, with some notable exceptions, is mostly driven by preference (what we prefer to eat) rather than need (not having sufficient to eat). In the world's most established markets, total per person consumption is now almost static although there is much activity in market sub-sectors as manufacturers compete for market share and attempt to carve out and dominate new sectors or niches. At the same time, modern multiple retailers have been responsible for giving their customers a better, wider choice of foods in an effort to attract consumers and increase profitability - often with great success. Today, even the emerging markets now offer similar opportunities.

For all involved in the static markets, the issue that becomes most important is that of increasing "share of the diet". In other words, because we cannot force each consumer to eat more in volume (although some have tried) the focus must be on encouraging the consumer to consume "more-of-what-we-supply". Increasing one's share of the diet is not easy. To be successful it is necessary to displace a competitor or competitive product. This means that competition becomes even more intense as the success of one product becomes dependent on the failure of another.

Changes in the share of the global diet, as defined, show the following:

1. global consumption (as measured) of foods from "industrial sources" is calculated to reach 2.6 billion tonnes in 2005 (570 kilos per person), with a consumer value of \$4.4 trillion (\$1,006 per person);

2. over the next five years, to 2010, these figures will grow to 654 kilos and \$1,051 per person;
3. average consumption figures for emerging markets appear significantly lower than for developed markets due mainly to the fact that much food consumption from “local” or artisan sources goes unrecorded;
4. whilst values of food and drink in developed markets are expected to increase faster than volume (adding value) volumes in emerging markets are expected to grow slightly faster than values either because increased production of food will bring greater efficiencies and/or urban consumers in these markets will focus their shopping on the purchase of relatively more basic (lower cost) items;
5. average market volume growth will fall slightly to 2% per year over the next five years as world population growth slows to +0.8% per year, keeping consumption growth ahead of population growth;
6. this does not necessarily mean that the worlds’ population will be better fed, rather that more of what we eat will come from industrial sources (mostly in line with increasing urbanisation);
7. the comparative success of high interest products such as meals, snacks and confectionery contribute only a fraction of total consumption;
8. the category of fresh foods tends to decline in importance as consumers turn to more ready-prepared and convenience products;
9. overall dietary change occurs extremely slowly when measuring the key market sectors;
10. the real competitive activity today takes place in market niches and sub-sectors, rather than between markets as a whole.

Suppliers of food and drink ingredients need to understand and interpret such information in order to identify new opportunities and satisfy customer requirements, effectively. The complexities of the market today increase the need for information. Planning for the future requires a total view of the market and its likely development.

In addition, many of the market pressures being experienced by manufacturers and retailers are being downloaded to suppliers who, in turn, are expected to become more professional, market-aware and pro-active.

Whilst severe market pressures will prevail there are more encouraging signs that, as disposable incomes rise, this will boost a parallel demand for eating out, added value and convenience, and healthy food and drink products – all of which should provide opportunities for the food manufacturer and their ingredients suppliers.

Whether against a background of restricted consumer spending or one of increasing demand, it is contended that one of the most interesting and profitable ways forward for the industry is in the development, use and exploitation of ingredients — either to cut costs, offer convenience, add value and/or provide differentiation from the competition. It is here that suppliers can endow a finished products with many of the commercial benefits necessary in such a competitive market.

Opportunities for ingredients

Given this situation there are seemingly many opportunities, but also many challenges, for ingredients and for the ingredients supplier/blender.

Food companies are faced with the task of pleasing everyone, all of the time. Consumers expect their products to be safe and natural. They want to be indulged and they want to eat well - yet stay slim and healthy. Consumers also demand freshness and the highest quality but do not necessarily anticipate high prices.

Retailers expect the industry to accommodate fast-changing needs, economically, whilst fast food chains demand quality, consistency and high levels of service. Rapid and safe distribution is paramount.

It follows that the ingredients industry needs to become more active in helping its customers (food manufacturers) to respond to all of these challenges. Added to this, it may also be demonstrated that consumers are becoming better educated and that issues of ingredients, food safety and the link between diet and health (reinforced by the media) are of increasing importance.

Because we are living longer, and as the proportion of elderly in the population increases, staying healthy has taken on increasing importance and is an area of life where food and drink is expected to play a more pro-active part.

Of major influence in recent years has been unease over the levels of fat, sugar and salt used in the production of food and drink as well as concerns about “additives”, animal well-being and genetic modification. Meanwhile, pressure groups, too, have succeeded in affecting the nature of products demanded by an ever-vigilant consumer.

Further influences, brought about by changing demographics and consumer trends, are the demands for convenience and products for snacking. These have led to increasing sales of ready-to-eat products or products requiring very little ultimate preparation, and/or suitability for re-heating by microwave.

If this were not enough for the industry to contend with, competition and faster-changing fashions have spawned a need for manufacturers continually to develop “novelty” products. Such products may require either new ingredients or a different approach to the technology of flavouring.

This demand for the “new” is also being met by the further development of ethnic foods that demand the use of different, often exotic ingredients and, as markets continue to develop, “authenticity” and variety.

Too many opportunities?

One of the points that should be apparent is that there are many, and indeed some might say too many, opportunities to follow in today’s marketplace.

Whilst taken together they now represent a significant part of the international food and drink market. However, individually they tend to be relatively small in either volume or sales revenue.

Some of the demands affecting ingredients include:

- perceived freshness;
- perceived naturalness;
- safety;
- guaranteed quality and consistency;
- new/ethnic/exotic ingredients;
- organic/environment-/animal-friendly;
- traditional values;
- convenience of use/convenient to prepare;
- visual impact;
- low calorie/high quality;
- snack-ability;
- improved presentation;
- functional (nutraceuticals);
- imagery/fashion;
- better health and/or nutrition;
- functionality;
- value for money.

All the above factors conspire to shape an increasingly diverse food and drink market meaning that ingredient suppliers must gear up to supply the industry with smaller quantities of a much wider variety of ingredients and special blends. This is one reason why ingredient brokers are finding so much success.

Intermediate food products (IFPs)

As their businesses come under greater pressure for efficiency with food manufacturers increasingly expecting a greater level of support from suppliers, one response has been a trend towards intermediate food products (IFPs). These can offer the food manufacturer advantages of:

- greater efficiency;
- flexibility;
- functionality;
- consistency in processing;
- fewer buying points.

These IFPs or semi-finished products, including ingredients such as liquid sauces, complete flavour mixes/pastes and pizza bases, can save the manufacturer valuable processing time and costs, even though the IFPs themselves may appear to be more expensive than the equivalent raw materials.

Ultimately, many of today's food manufacturers may become food "assemblers" needing a new level of ingredient supplier specialising in one or more IFPs. This will be one of the few ways that the industry will be able to keep pace with increasing pressure from the consumer, multiple retailing and catering sectors. Such developments would change the overall structure of the industry.

Size and growth of the ingredients market

The size of the global ingredients market today is calculated by RTS Resource Ltd to be \$30.3 billion and forecast to grow by 2.4% per year in real terms until 2010 when the market will be worth \$34.2 billion.

Naturally, within these totals there will be wide variations in performance, in terms of ingredients as well as by country and segment.

Fat substitutes and sweeteners (both bulk and intense) are expected to be the star performers in terms of percentage growth, followed by health ingredients and flavours. Highest additional value growth (see figure 5) is expected in sweet flavours (+\$659m) and seasonings, herbs and spices (+\$521m) followed by hydrocolloids (+\$330m) and proteins (+\$325m).

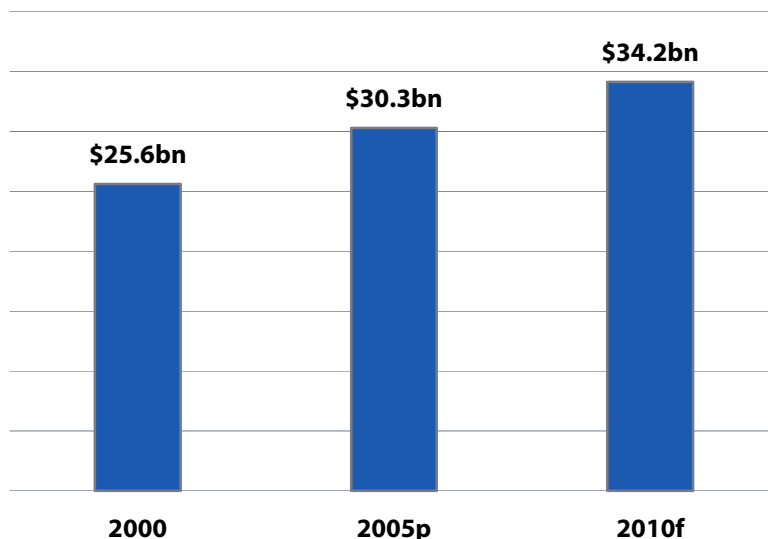
In terms of market segments, the highest growth rates for the use of ingredients are predicted for carcass meats (small base), breakfast cereals and bars, soft drinks, bakery, confectionery (mainly sweeteners) and meals.

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Figure 1

Global market for ingredients, 2000 to 2010

US\$bn

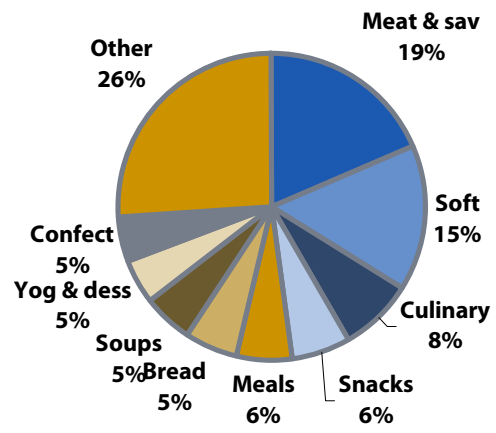


Source: RTS Resource Ltd

Figure 2

Global market for ingredients by food and drink segment, 2005

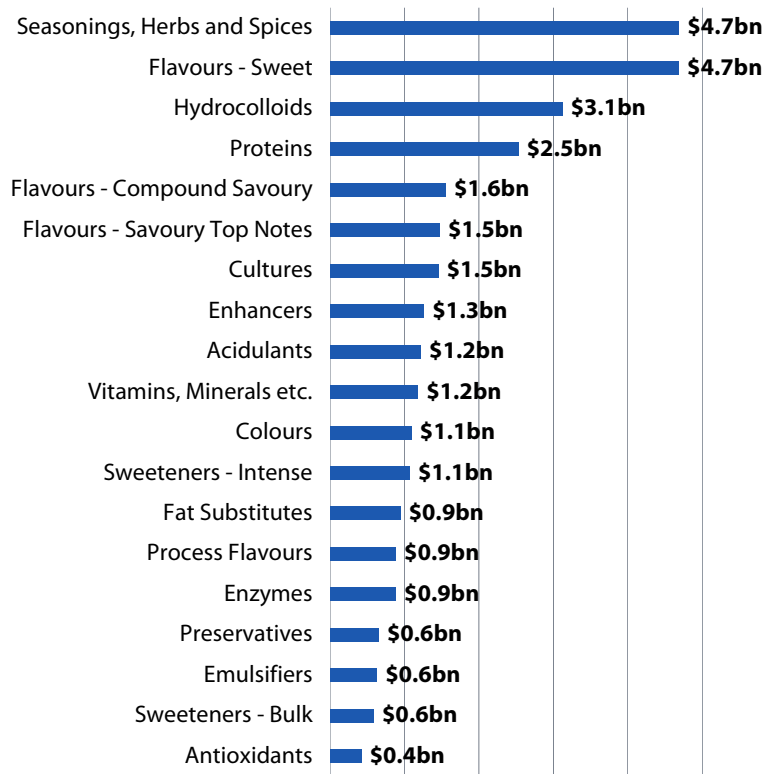
% share of value, US\$bn



Source: RTS Resource Ltd

Figure 3
Global market for ingredients by ingredient, 2005

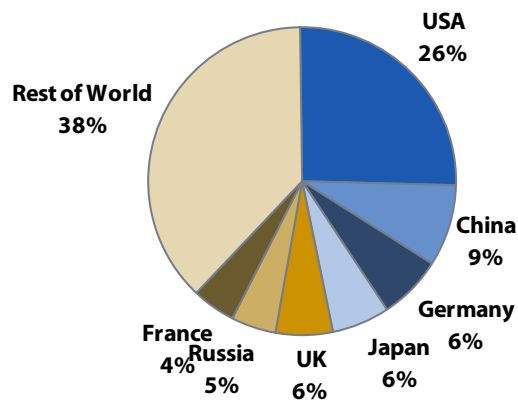
US\$bn



Source: RTS Resource Ltd

Figure 4
Global market for ingredients by main country, 2005

% share of value, US\$bn

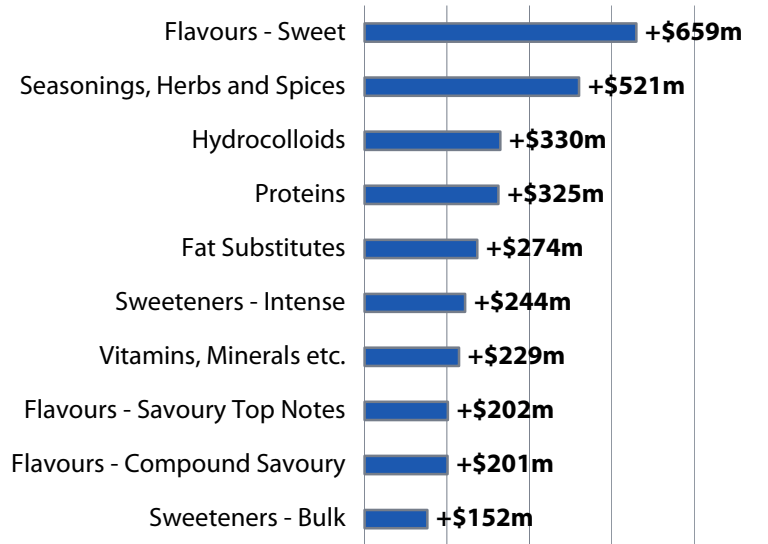


Source: RTS Resource Ltd

Figure 5

Global: Top 10 forecast growth markets by ingredient, 2005 to 2010

Forecast additional growth 2005 to 2010, US\$m



Source: **RTS Resource Ltd**

RTS
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