

***The Euromonitor International  
2010 industry outlook from  
just-food***

**Management briefing**  
January/February 2010

# The *Euromonitor International* 2010 industry outlook from *just-food*

## Management briefing

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By *Euromonitor International*

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# Introduction

The global economic downturn has not radically changed how consumers eat or drink. Despite this, *Euromonitor International* forecasts 2012 retail value will be reduced by 5%, or US\$200bn, compared to pre-crisis predictions.

While significant, this decrease speaks not of what consumers are buying, but where they shop. Price-conscious retail formats such as hypermarkets and discounters are outperforming supermarkets and small grocers, which cannot offer as attractive prices irrespective of what is actually purchased by consumers.

With margins increasingly squeezed by value-minded retailers, manufacturers are focusing on relative value per volume unit. Smaller product sizes have thrived as 'affordable luxuries' and 'small indulgences', even when the unit price has actually increased. Kraft has leveraged this strategy with its Lacta chocolate in Brazil.

Even better is the combination of a smaller size with portion control, helping consumers to manage both budgets and waistlines, as seen with Hershey Bliss in the US. In India and China, with their highly attractive scale and potential, volume and value growth currently run together. The challenge in such markets is to find the right way to increase spend per volume.

Premium frozen pizza brands are doing well because they are not competing with private label on price. Instead they compete against foodservice by allowing consumers to replicate a restaurant experience at home, as the downturn has intensified nesting and cocooning.

Within prepared meal solutions, consumer uptake tends to move from fresh/unprocessed food to:

- canned/preserved food (cheap, easy to store, no refrigeration required and with a long shelf life); to
- frozen processed food (not quite so cheap or easy to store but affordable and with a long shelf life); to
- chilled processed food (the most expensive, seen to be healthiest and with the shortest shelf life).

The downturn has reversed this trend – with many markets reverting from chilled to frozen food or from frozen to canned/preserved food. The frozen food industry has also done a good job educating consumers about the products' convenience (long shelf life) and superior nutritional content thanks to flash freezing technology.

However, this shift is not likely to last. Old consumer habits die hard, particularly the European bias that chilled food is more nutritious. Also, retailers will resist replacing existing chiller cabinets with freezers, so product availability – and consumption – will return to pre-downturn patterns.

Predictions made in August 2009 for global packaged food retail volume sales over the period 2009-2013 are little different from those made in August 2008, before the credit crunch gave way to full-blown global economic crisis. Consumers are continuing to eat the same amount of packaged food.

There is unlikely to be mass-consumer flight from value-added packaged food back to unprocessed fresh food, particularly in emerging markets where fresh food is notably cheaper. Consumers value packaged food's convenience, indulgence and other attributes too highly for a mass exodus.

While consumers are expected to continue to eat and drink more or less the same amount of packaged food and beverages over the next four to five years despite ongoing economic uncertainty, global consumer spending on food and drink is expected to take a more severe hit.

The latest *Euromonitor* projections indicate a 5% reduction in consumer spending on packaged food and beverages in 2012 compared to corresponding predictions made in 2008, before the onset of the global economic crisis. Consumers will spend less on food and drink, but this does not necessarily impact what they buy.

Rather, this reduction in overall food and beverages expenditure speaks more about where consumers are shopping as opposed to what they are actually buying. Hypermarkets and discounters will continue to see the largest retail value gains between 2009 and 2013 as consumers worldwide seek out economical options and value for money.

In the face of this trend, and as value-minded retailers increasingly squeeze their margins, manufacturers are becoming increasingly more – rather than less – bold when it comes to adding value to products.

# Baby food

## Fastest- and slowest-growing markets

Over the 1998-2008 period, the fastest growing baby food markets by retail constant value were mainly Asian. This trend should continue over the 2008-2013 period, but more markets from the Middle East and Africa will also see strong forecasted constant value gains.

Constant value growth will also accelerate in these markets as a result of rising import costs.

That said, sales in developing markets such as these are still largely confined to more affluent urban areas, where growth will slow as sales naturally mature.

**Table 1: Fastest-growing baby food markets, 1998-2013 (%)**

Rank	Country	CAGR 1998-2008	Forecast CAGR 2008-2013
1	Kazakhstan	8.8	21.2
2	China	14.8	18.3
3	Algeria	9.8	13.3
4	Tunisia	7.5	13.1
5	Egypt	3.4	13.0

**Source: Euromonitor International**

Over the 2008-2013 period, the slowest-growing baby food markets by retail constant value will mainly be concentrated in Western Europe, largely as a result of their relative maturity.

Growth will be virtually static in constant value terms in markets like the UK, the Netherlands, Portugal and Denmark due to such factors as falling birth rates, an increase in breast feeding, the increased popularity of home-made baby food and declining economic growth.

Nigeria will be the worst-performing market in retail constant value terms between 2008 and 2013 as a result of the entrenched practice of breast

feeding and the endemic poverty that will continue to plague the country, making baby food unaffordable to most of the population.

**Table 2: Slowest-growing baby food markets, 1998-2013 (%)**

Rank	Country	CAGR 1998-2008	Forecast CAGR 2008-2013
1	Nigeria	(6.3)	(3.8)
2	United Kingdom	0.5	(0.4)
3	Netherlands	(0.1)	0.1
4	Portugal	0.3	0.3
5	Denmark	0.9	0.4

**Source: Euromonitor International**

### **Emerging categories and market extensions**

Partly due to government restrictions of the marketing of baby formula, manufacturers are increasingly targeting toddler milk formula.

Moreover, functional ingredients are becoming more common in formula:

- DHA- and AHA-enriched products are becoming standard in developed markets;
- Nestlé USA added probiotic cultures to its Good Start line in October 2006.

### **Manufacturers focusing on adding value**

Other value-added opportunities are emerging in such niches as teething biscuits, baby snacks and fruit juices, such as Abbott Laboratories' PediaSure Nutripals drinks and bars. The growing number of babies and children with allergies is encouraging the growth of hypoallergenic milk formula. This has also led to an increase in demand for soy-based products.

### **Trends in new product development**

With an increasing number of mothers returning to work after giving birth, products that help babies sleep better could have a wide appeal.

By making its new milk formula product available in both powder and liquid formats, South Korea-based Namyang Dairy Products' Imperial Dream Milk Formula also has a strong appeal to working mothers.

The failure of specialised organic baby food manufacturer Chill Baby in the Irish market suggests that while such companies (Organix and Hipp, for example) can thrive in larger markets like the neighbouring UK, they may struggle in smaller markets where sales opportunities are more limited.

Premium products targeted at middle- and upper-class consumers will struggle if they lack a compelling health and wellness play. Being simply 'Recommended by Paediatricians' (as some packaging messages used to say) is no longer sufficient, even in less mature markets like Latin America.

Russian manufacturer Wimm-Bill-Dann is exploiting the brand equity it has built up through institutional sales of powder milk formula in follow-on milk formula with Agusha Bio W-3. Moreover, tapping into the popularity of sour milk drinks in Russia could give the Agusha brand an edge over its foreign competitors.

### **Market opportunities for international manufacturers**

International manufacturers will be making the most of consumer distrust of domestic brands to expand their presence in the lucrative Chinese market.

As breast-feeding rates are set to increase in the short term, international companies should focus on launching new products targeting breast-feeding mothers. Lactalis, which already has one brand (Lactel Maman) available on the French market, could be one of the beneficiaries of this trend.

### **Market opportunities for domestic manufacturers**

Transparency in labelling of ingredients and certification from health authorities are crucial to rebuilding shattered Chinese consumer confidence. Heavy investment in this respect, along with information campaigns on improved health standards, might not only help to spur milk formula sales for domestic players in China, but also expand their presence to other Asian markets and beyond.

With domestic companies expected to lose share in the short term, the new business environment could provide opportunities among local manufacturers to forge alliances to maximise synergies and minimise costs associated with regaining consumer trust. Such alliances could also help domestic players to better explore and develop alternative milk formula niches like organic and soy-based products.

# Confectionery

The global economic downturn is helping to constrain confectionery retail volumes worldwide, but this is merely exacerbating existing factors like consumer health concerns and manufacturers shrinking pack sizes, rather than changing consumption patterns.

Retail value sales are actually proving relatively resilient in spite of the global economic climate. As a result, manufacturers must decide to increase retail values or volumes, as the current crisis is reducing the chances of finding a viable strategy to grow both simultaneously.

Premiumisation has been a major growth driver in recent years, and it is continuing to prove a viable means of growing retail value sales in several major confectionery markets, even though these gains are increasingly coming at the expense of retail volume growth.

Confectioners are continuing to drive retail value growth ahead of volumes by shrinking pack sizes, thereby boosting per kilo unit prices and margins. In Brazil, for example, Kraft has launched smaller portions for its popular Lacta brand and positions it as an affordable treat.

In the US, consumers are putting quality ahead of quantity when it comes to eating confectionery. As such, they are continuing to eat premium-oriented products but less often or in smaller portions. This not only helps them to manage their budgets but also their waistlines.

M&A remains en vogue, after Mars' purchase of Wrigley, as seen with Kraft's bid for Cadbury. Further industry consolidation seems very likely as a means of boosting margins and improving economies of scale, though it still remains uncertain who will buy whom.

Portion control will remain crucial to weight control. Also, functionality is expanding beyond gum, with the advent of probiotic and high antioxidant chocolate. Prospects for ethical confectionery are also improving.

Health and wellness concerns will continue to influence the market, as consumers remain concerned about obesity, ageing and related ailments. The US, the UK and Japan stand to benefit the most, given their ageing and/or increasingly obese populations.

### **Consumers still want indulgence despite recession**

While adverse economic conditions constrained retail volume gains for chocolate confectionery in 2009 (down by 1%), global retail values still increased by 4% in current terms. Economic uncertainty is driving consumers to cut back on non-essential indulgence food items, but premium chocolate is predicted to remain relatively resilient.

In the US, for example, consumers are sacrificing quantity rather than quality, with many unwilling to trade down to cheaper offerings. Even though the frequency with which they purchase upmarket confectionery is now declining, the focus remains on indulgence and relieving stress. This is driving retail value gains for tablets well ahead of countlines.

US manufacturers are also launching smaller portions to appeal to both the budget and health conscious consumer. The 2008 launch of Hershey Bliss – a reduced-size, portion-controlled luxury chocolate line targeting women – has seen initial sales exceed expectations, even compared to premium chocolates in general. Finding a viable niche demographic and targeting it with a strategy combining both an indulgence and a health and wellness focus can still reap rewards. Indeed, Mars has already responded in 2009 with Fling, its own small luxury chocolate bar for women.

### **Market opportunities**

Opportunities for the market include:

- further development of healthier, functional and organic/Fairtrade ranges in confectionery, especially chocolate;
- sugar confectionery manufacturers should look to key emerging markets to launch more premium-oriented products;
- consumer education will become ever more crucial for further expansion of functional confectionery.

According to *Euromonitor International*, global retail volume growth for confectionery diminished fairly significantly in 2009, and is predicted to slowly recover from 2010, but country-to-country prospects are far from uniform. In some markets, including Japan, Russia and France, consumers are simply curtailing consumption and eating less. However, consumers in some markets, like the UK and China, are eating more confectionery as they look to indulge themselves and are responding to increasingly savvy efforts from manufacturers that stimulate consumption.

Meanwhile, in markets like Brazil and Mexico, consumers are shifting to smaller portions with a lower price per unit, but higher price per kilo, to satisfy their sweet tooth. In contrast, consumers in the US and Germany are increasingly putting quality ahead of quantity as they look to manage both their budgets and their waistlines better. Either way, such consumer behaviour is maintaining retail value sales at the expense of volume.

As such, the combined effects of the global economic downturn and rising consumer health and wellness awareness mean that manufacturers are likely to put even more emphasis on driving retail value growth ahead of retail volumes. For example, September 2009 saw Mars Inc announce that it was shrinking the size of its Galaxy chocolate bars by 17% – from 150g to 125g – less than a year after increasing prices by 26% on the back of rising cocoa commodity prices in 2007 and 2008. Mars is again claiming that an uncertain cocoa harvest is the main reason for the new increase in per kilo unit prices, but it may find that this move backfires if consumers are sufficiently galled by two significant price increases in the space of a year. Confectioners must be very wary when raising prices at the moment.

With margins continuing to be squeezed by both the global economic downturn and retail consolidation, mergers and acquisitions are back in vogue among confectioners. Kraft's bid for Cadbury in early September 2009 – itself a direct response to Mars' acquisition of Wrigley in 2008, probably represents the shape of things to come for confectionery's competitive landscape. Moreover, Kraft's bid – like Ülker's acquisition of Godiva and Lotte's purchase of Guylian – is in line with the health and premium-oriented trends that are now overtly driving the industry, irrespective of the state of the global economy. Manufacturers must be more prepared to respond to an increasingly consolidated competitive landscape in the near term, either through the

strength of their innovation, striking strategic partnerships with competitors, or engaging in M&A activity of their own.

# Impulse food

Through looking at how categories performed in previous recessions, *Euromonitor International* has drawn conclusions as to how the current global economic downturn might affect impulse food.

## Global winning categories: impulse and indulgence food

### Chocolate confectionery

Chocolate confectionery has shown high sensitivity to fluctuating disposable income in the past – a trend likely to continue in the medium term. Fun-sized formats worked well during past recessionary periods in Western Europe and Latin America as they have a relatively low retail price and are bought on impulse as ‘comfort treats’.

### Artisanal and impulse ice cream

During an economic crisis, consumers were generally reluctant to spend on planned purchases of ice cream, which were perceived as an unnecessary luxury in developing markets. However, they were far more open to buying artisanal and impulse ice cream on their way to social gatherings during hot summers.

A stronger presence in ice cream parlours and positioning of value brands sold in these outlets can boost sales performance.

### Snack bars

Snack bars were one of the few impulse products that did not see its performance seriously affected by the economic downturn experienced in developed countries like Italy, Germany, France and the US.

That being said, snack bars remained a niche product in 2002 and 2003. Snack bars’ consumer base was mainly comprised of white-collar professionals pressed for time and willing to pay a premium for a snack combining health and indulgence.

Despite the economic downturn, white-collar consumers kept trading up from relatively cheaper countlines to more expensive but perceived to be healthier snack bars.

### **Global losing categories: impulse and indulgence food**

#### **Mid-priced chocolate confectionery in the US**

US consumers cut back on their expenditure for standard mid-priced chocolate brands and turned to more established expensive offerings, which were perceived as providing 'quality instantaneous comfort'. The US example proves that the stress caused by economic and political uncertainty can make some premium indulgence categories recession-proof.

#### **Take home ice cream in developing markets**

Take-home ice cream sales were negatively affected by the economic cycle in developing countries, particularly in South America. Argentina (2001-2003) and Venezuela (2000-2003) offered clear examples of this trend. In countries with a low tradition of consuming ice cream at home, consumers are more reluctant to buy these products during periods of economic uncertainty. Impulse ice cream showed a far more uniformly positive performance across countries and regions, recording strong consumption levels during hot summer months regardless of the economic cycle.

#### **Sugar confectionery in small formats**

Small formats for impulse products with already low unit prices, such as sugar confectionery, tend to fare worse than family or standard-size versions in times of economic uncertainty. Slowing sales growth for sugar confectionery in Italy after the 2002 introduction of the euro is a clear example of this trend and was also applicable to other European markets like Germany and France.

### **Final conclusions: impulse and indulgence food**

Past economic downturns in Latin America, Western Europe and North America indicate that consumers are generally inclined to cut back on their consumption of impulse and indulgence food during periods of financial duress. While this does not necessarily lead to declining retail volume sales in every case, it does tend to constrain growth prospects as product categories

like confectionery, sweet and savoury snacks and biscuits are deemed to be non-essential.

That said, different regions have different ideas of what constitutes a non-essential food item. In the US, premium chocolate confectionery continued to do well despite adverse economic circumstances because consumers sought comfort from what they perceived to be an affordable luxury. In Latin America, biscuits continued to do well during the region's 1999 economic crisis given their longstanding tradition as an impulse food option and the price promotions implemented by both manufacturers and retailers alike.

Price promotions and keeping products generally affordable remains crucial to insulating impulse and indulgence food retail volumes from economic contraction. However, this does not preclude the necessity of continued manufacturer innovation. History shows that manufacturers that merged product innovation with affordability – such as Unichips in Italy or Kraft in Canada – not only weathered the economic storm but also used this as a launching pad for continued success.

External factors remain significant. Ice cream proved resilient because of hot weather. Hence manufacturers should link the pace of product innovation to weather conditions rather than just focusing only on the economy. Likewise, consumer health concerns tend to remain and can either make or break a category regardless of economic factors.

Impulse and indulgence food has recovered very quickly after past economic crises and there is no reason to think otherwise now. This further underscores the importance of manufacturers continuing to innovate so they are best positioned when the inevitable recovery does occur.

# Meal solutions

## Past crises: key historical lessons for meal solutions worldwide

In previous recessions between 1998 and 2003, unlike other categories such as impulse and indulgence food, meal solutions were perceived as a necessity to help feed consumers looking for convenience and with fewer culinary skills than previous generations. Therefore, consumers were willing to cut down on other non-essential items (either food or non-food) rather than compromise their health or that of their families. This explained the relatively poor performance of meal solutions categories with relatively low unit prices, such as canned/preserved food, or soup, despite an economic downturn. Similarly, concerns about health issues and increasing demand for convenience explained the poor performance of dessert mixes, which continued to lose ground to chilled and shelf-stable desserts across all regions.

Sauces, dressings and condiments were less impacted – either positively or negatively – by the economic downturn and subsequent recovery because of their semi-staple status. That said, products positioned as ingredients to assist home-cooking, such as herbs and spices and tomato pastes and purées, did draw fairly significant benefit from worsening economic conditions.

**Table 3: Winning and losing meal solutions categories**

Winning	Losing
Frozen processed food	Canned/preserved food
Chilled processed food	Non-UHT soup
UHT soup	Dessert mixes

**Source: Euromonitor International**

## Global winning categories

### Frozen processed food

Frozen processed food sales tended to fare better than other meal solutions categories, particularly in regions such as North America and Latin America. In

Latin America, these products benefited from relatively low unit prices, which overrode any health considerations during the crisis period.

In North America, frozen processed food sales benefited from strong innovation activity. These products became easier to prepare, often including more value-added components such as sauces, breading and marinades. The introduction of larger formats for most of these novelties also increased their affordability among families, further contributing to overall success.

### **Chilled processed food**

Chilled processed food maintained steady growth during recessionary periods across all regions despite relatively high retail unit prices. Chilled processed food is generally perceived as healthier than canned/preserved and frozen processed food.

Chilled ready meals performed better during the recovery period across most regions, due to higher levels of economic activity and stronger consumer demand for convenience.

### **UHT soup**

UHT soup performed far better than many other meal solutions categories, particularly within soup, especially during the recovery period. These products were perceived as healthy and convenient and proved particularly successful among white-collar professionals looking for convenience, health and premium quality in their meal solutions.

### **Global losing categories**

#### **Canned/preserved food**

Canned/preserved food sales stagnated across most regions despite low unit prices. This decline was particularly apparent in Latin America, where low-income consumers rapidly traded down to fresh food products. Canned/preserved vegetables and fruit were very severely affected as they were most readily replaceable by fresh food.

#### **Non-UHT soup**

Soup sales generally performed worse than other meal solutions categories in regions such as North America and Latin America.

In regions such as Latin America, with low *per capita* income levels and where there is no strong tradition of eating prepared soup, particularly canned products, consumers turned to cheaper and healthier homemade soup.

### **Dessert mixes**

Despite relatively low unit prices, dessert mixes continued to lose ground to other indulgent dessert options during periods of both economic crisis and recovery.

An old-fashioned image, lack of innovation and competition from chilled/shelf-stable desserts with a healthier market positioning further contributed to dessert mixes' decline. Overall, consumers opting for indulgence preferred to pay more for products offering health benefits, convenience and ease of use.

### **Final conclusions: meal solutions**

History indicates that an economic downturn impacts meal solutions sales, particularly in retail volume terms, in different ways, both positively and negatively. For many consumers, particularly in developing regions such as Latin America, price and affordability were far more important during an economic downturn. Similarly, canned/preserved and frozen processed fruits and vegetables lost out to fresh offerings. However some segments, such as frozen processed poultry, saw strong growth thanks to affordable prices. This trend was also evident in developed markets, though was partially offset by pre-existing levels of meal solutions consumption and continued consumer demand for convenience.

Though price remained important during an economic downturn, health credentials remained the overriding consumer consideration when purchasing meal solutions in both developing and developed regions alike. Consumers were unwilling to compromise on their health, particularly when meal solutions represented their main source of nutrition. This generally benefited retail volume sales of chilled processed food but proved detrimental to canned/preserved food and dessert mixes. Meal solutions' convenience remained a virtue, though many Latin America consumers were unwilling to pay for it. Convenience remained important to Western Europeans and North Americans, however, and healthier meal solutions were perceived as viably convenient, and more affordable, substitutes to eating out, with chilled ready meals retail volumes benefiting in France, for example. However, this proved

to be a double-edged sword, as once the economy recovered, consumers returned to eating out in increasing numbers, to the detriment of meal solutions' sales, particularly in the US.

This underlines the importance of product innovation both during and after an economic downturn to maintain consumer interest. Past economic downturns show that, generally speaking, consumers will abandon meal solutions when their circumstances improve just as quickly as they turned to them when times got tough.

## Looking beyond the recession

As the successful packaged food and beverage products highlighted in this report demonstrate, what people want has not changed significantly since the dark economic days of late 2008. What has changed is manufacturers are fighting for a smaller share of disposable consumer income. To win this share, however, manufacturers must be bolder and more compelling in adding value to their new product launches and not simply retreat into a single-minded value-for-money proposition.

This point has been further reinforced by recent Q3 2009 financial results from leading packaged food companies. At Cadbury, while volumes are down 3%, value revenues are up 7%, indicating that Cadbury is succeeding in getting consumers to pay more for less. Meanwhile, at Danone, Activia and Actimel continue to be the company's star performers in spite of their higher price points.

Moreover, Cadbury's ability – indeed near prescience – to successfully leverage what consumers really want no doubt forms a major reason as to why Kraft covets it so badly, not to mention why Cadbury feels Kraft's bids to date have been undervalued.