CORRELATING FORCES: THE ROLE OF ‘PREMIUM’ AND ‘SUSTAINABLE’ IN DRIVING GROWTH WITHIN CHOCOLATE CONFECTIONERY
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- Ingredients
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- Packaged Food

Passport
THE CHALLENGES FACING CHOCOLATE
CONFECTIONERY

DIVERSIFYING TO ANSWER DEMAND

A SUSTAINABLE FUTURE?
Chocolate confectionery dominates, but better growth elsewhere?

Cocoa Ingredients: Global Volume and Growth by Application 2010-2015

- Chocolate Confectionery: 45%
- Ice cream and frozen desserts: 15%
- Sweet biscuits: 10%

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Growth prospects and constraints

Cocoa Ingredients: Absolute Growth by Main Applications and by Region 2015-2020
Traditionally reliable markets faltering....
THE CHALLENGES FACING CHOCOLATE CONFECTIONERY

Chocolate market in Middle East ripening?

- UAE
- Turkey
- Saudi Arabia
THE CHALLENGES FACING CHOCOLATE CONFECTIONERY

Category characteristics.....

Chocolate Confectionery: Growth by Value and Volume 2015-2020 (constant terms)

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume (2015)</th>
<th>% CAGR (Value)</th>
<th>% CAGR (Volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tablets</td>
<td>2,100</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Countlines</td>
<td>2,000</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Chocolate Pouches and Bags</td>
<td>1,500</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Boxed Assortments</td>
<td>1,000</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Seasonal Chocolate</td>
<td>500</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Other Chocolate Confectionery</td>
<td>200</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Chocolate with Toys</td>
<td>100</td>
<td>0.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>
THE CHALLENGES FACING CHOCOLATE CONFECTIONERY

Overcoming the lack of affordability challenge

Sugar confectionery vs. chocolate confectionery in China

Other categories continue to be mainstay of Chinese snacking

Until this is addressed, opportunity remains limited
Consumers in many countries buy more sugar than is recommended.

**Daily sugar purchases compared to recommended intake, 2014**

Sugar (g)
- 5% WHO recommended intake
- 10% WHO recommended intake
The challenges facing chocolate
Diversifying to answer demand
A sustainable future?
Cocoa price increases place pressure on unit prices

Cocoa Prices (US$ per Tonne) and Chocolate Confectionery Unit Prices (US$ per Kg) 2002-2016

Cocoa Price - US$ per tonne
% Y-o-Y Growth
Chocolate Confectionery Unit Price % Y-o-Y Growth
Premium the name of the game in the West

**Single origin**

**Diverse flavours (eg. mint, chilli)**

**High cocoa content (70-90%)**

**Premium private label products**

**Niche products (eg truffles) and manufacturers**

Private Label stealing market share

Big companies to redevelop and/or acquire
Many chocolate confectionery brands have extended their brands into other snack categories such as snack bars and ice cream. Few, however, have ventured into dairy drinks or yoghurt. Snickers is perhaps the best case example in how far a brand can extend and has successfully leveraged it brand familiarity in snack replacement products.
The challenges facing chocolate
Diversifying to answer demand
A sustainable future?
A SUSTAINABLE FUTURE?

Sample strategies

Expansion
- Develop long-term outsourcing agreements and supply partnerships.
- Accelerate growth in Gourmet & Specialties Products business.

Innovation
- Continually improve current portfolio of products and recipes.
- Focus on health properties of the cocoa bean and develop products accordingly.

Cost Leadership
- Improve operational efficiency, with a target of reducing manufacturing costs.

Sustainable Cocoa
- Increase focus on mid- and long-term sustainability of the cocoa supply chain, securing the volume and quality of cocoa for the company.
- Achieved through sustainability initiatives to improve farming practices, farmer education and farmer health.
A SUSTAINABLE FUTURE?

Supply chain issues present long-term problems

- Climatic/political instability
- Demand growth
- Unattractive employment

= Long-term supply-side instability

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A SUSTAINABLE FUTURE?

The divergence of CSR and Packaging claims

Fairtrade, UTZ Certified and Other Sustainable Trade and Farming Schemes 2015-2020

US$ billion, fixed exchange rates

Year-on-Year growth
What are consumers looking for?

**A SUSTAINABLE FUTURE?**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value for money</td>
<td>50%</td>
</tr>
<tr>
<td>All natural</td>
<td>45%</td>
</tr>
<tr>
<td>Superior taste</td>
<td>35%</td>
</tr>
<tr>
<td>Non-GMO (genetically modified)</td>
<td>30%</td>
</tr>
<tr>
<td>Locally sourced or manufactured</td>
<td>30%</td>
</tr>
<tr>
<td>Health and nutritional properties</td>
<td>30%</td>
</tr>
<tr>
<td>Free range</td>
<td>30%</td>
</tr>
<tr>
<td>Low price</td>
<td>25%</td>
</tr>
<tr>
<td>Hormone free</td>
<td>20%</td>
</tr>
<tr>
<td>100% organic</td>
<td>20%</td>
</tr>
<tr>
<td>Environmentally conscious or eco-friendly</td>
<td>20%</td>
</tr>
<tr>
<td>Sustainably produced or raised</td>
<td>20%</td>
</tr>
<tr>
<td>Grass fed/pasture raised</td>
<td>15%</td>
</tr>
<tr>
<td>Fair trade</td>
<td>15%</td>
</tr>
<tr>
<td>Ready to cook</td>
<td>15%</td>
</tr>
<tr>
<td>Strong or well-known brand</td>
<td>10%</td>
</tr>
<tr>
<td>Supports local communities</td>
<td>10%</td>
</tr>
<tr>
<td>Specialty or new variety</td>
<td>10%</td>
</tr>
<tr>
<td>Supports a charity or charitable</td>
<td>5%</td>
</tr>
<tr>
<td>High price</td>
<td>5%</td>
</tr>
<tr>
<td>None of the above</td>
<td>5%</td>
</tr>
<tr>
<td>I do not buy fresh food</td>
<td>5%</td>
</tr>
</tbody>
</table>
A SUSTAINABLE FUTURE?

The Future of Sustainability Claims?

QR Code

Consumers

CSR

SMARTLABEL™ PRODUCT SEARCH
FIND DETAILED INFORMATION ON PRODUCTS
Clean label confectionery

Chocolate confectionery in Western Europe, clean label claims

A SUSTAINABLE FUTURE?

No Artificial Colours
No Artificial Preservatives
No Artificial Flavours
All Natural
No Artificial Additives
A world of increasing sustainability credentials

The future of sustainability?
What next for chocolate confectionery?

Chocolate faces a tipping point

Greater competition from new snacks provides threat in the West

Chocolate will continue to have a limited audience in the Middle East and Asia

Sustainability strategy could be the difference between success and stagnation
THANK YOU FOR LISTENING

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