

## **Confectionery for the future**

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In the time allotted today my intention is to look at the overall UK confectionery market and some of the important factors that control where we have been and more importantly where we are going.

For the purpose of this talk, 'confectionery' encompasses ambient as well as chilled and frozen cakes and pastries. All markets these days seem to change and fragment at an ever increasing pace and this makes the gathering of data more and more complex. Let us look initially at some facts and figures to provide a platform to start from. First the ambient market.

Sales fell slightly during 1992 and 1993 in value terms mainly due to trading down to budget brands and own label products, particularly at the expense of major brands. Volume sales during the recession have remained fairly stable, however.

The main trend over the 1988-93 period is that unwrapped cakes have increased their share of the total market, although some share was lost in 1992/93. Over the period 1988-93, sales of unwrapped cakes have grown by 16% whereas sales of wrapped cakes have increased by 13%.

The wrapped and unwrapped sectors can be further broken down as shown (wrapped cakes comprise individual and large cakes, the former being the larger of the two).

Individual slices have increased their share of the market as a result of the increased trend towards snacking and the growth of single person households. Mini swiss rolls and jam and custard tarts have also been buoyant.

Sponge sandwiches cakes and swiss rolls are quite mature sectors with little new product development, minimal advertising or promotional support, and high own label penetration.

Concerning unwrapped cakes, the data for this sector is very sparse but the sector is felt to have grown due to the increasing sales of fresh cream cakes.

Sales of own label cakes show a steady increase, while the branded companies have struggled in the main as consumers have traded down. McVities has been the prime mover behind the development of the countline cake sector using the power of companies' other brands, for example Jamaica Ginger and Golden Syrup cake. This concept is now being widely applied across a range of product areas from gateaux and ice cream to confectionery and beverages.

Nearly all major branded players in the market have become involved with own label. Major new product development changes are increasingly being left to the big players, due to ever-decreasing margins and the high cost of bringing a product to the market.

Growth areas involve development of the healthy cakes sector and the celebration cake market, which relies in part on a company's ability to react quickly to trends which may come and go with awesome speed - for example Mutant Ninja Turtles, Jurassic Park and so on.

The major grocery multiples are continuing to boost their share of the cakes market as they increase their own label sales. Traditional bakers, which retail mainly unwrapped cakes, have been affected by the growth of the major multiples through in-store produced products.

The growth of the frozen desserts market has been strong in recent years due mainly to the fact that premium quality, more sophisticated products are being bought to provide organoleptic pleasure and as an indulgence.

Social trends that have affected other sectors together with the increasing home ownership of fridge/freezers have helped to increase the market, but the indulgent side of the market is beginning to be counterbalanced by the new wave of healthy products.

Gateaux and desserts, cheesecakes and hot puddings together with pies, tarts and flans have all shown strong growth at the expense of small cakes/pastries and cream sponges.

Sara Lee is the market leader with about 18% of the market followed by United Biscuits with about 9%, Campbells Freshbake with about 5%, Sweet Caroline with about 3% and RHM with about 2%.

Birds Eye currently enjoys about 5% market share after having 15% five years ago. Private label is worth approximately 45% of the market with Iceland, Sainsbury and Tesco all having large ranges putting increased pressure on the cabinet space. These three retailers account for over 50% of overall sales.

Consumers buy chocolate varieties in the largest quantity although caramel and toffee appear to be gaining in popularity. Continental style cakes are also becoming more established now that own label producers are behind them. Where large products have been successful, manufacturers have produced single/double portion indulgence packs.

For the future the market will continue to polarise between discount and premium quality products. The consumer will look for better than ever value for money with convenience, quality and innovation becoming more important.

Chilled cake sales have held up well due to a number of factors. They contain fresh ingredients and usually are baked on the premises at a high street bakers or within an in-store bakery. They may be sold in packs or individually, are cheaper than frozen cakes but are perceived as more of a treat than an ambient cake.

The chilled cakes market can be divided into three product types as shown.

Freshly baked cream cakes either at the bakers or supermarket provide a great attraction for an impulse/treat purchase. Custard tarts, cakes and pies declined 1989-91 but there is no reason to suppose that this traditional sector can not be revitalised with alternative flavours using the same pastry shell format.

Others include fresh fruit tarts and pies and American style products such as fudge cake, banana cake and carrot cake. These have seen significant product innovation with this sector providing the appeal of health such as fibre and carrot as well as an attractively presented product. The figures unfortunately do not go beyond 1991.

Having now looked at the type and size of the markets involved, what conclusions can we draw for the future. What are the markets and customers looking for? Let's look at the prevailing conditions and levers that will affect the market for the future:

### **Economy/customers/consumers**

As the economy recovers, so we are led to believe consumers will purchase more so increasing volume and value across all sectors. This also will release pressure on margins with the emphasis being put back on quality and service and allows for larger product development budgets with which to launch new products.

The population is forecast to age considerably over the next 20 years. This will concentrate more disposable income with the older age group who will be able to afford better quality products. Recent concerns for green issues and healthy eating have manifested themselves in a number of ways such as recyclable packaging and functional foods with no additives. Convenience one stop grazing products are partly due to a higher incidence of working mothers and single parent families.

### **Innovation**

One of the key factors of success in a consumer orientated food market with a high degree of saturation is the speed of innovation. For example 60% of the Dehler product range did not exist five years ago and of Marks & Spencer's 2,500 current food lines, half did not exist 12 months ago.

It should be remembered though that innovation means different things to different people and, even in a fairly polarised market such as confectionery, can be applied to both ends of the spectrum. At one end of the market the baker may innovate by changing a round crumpet into a finger crumpet or a doughnut may be filled with fresh cream or a fruity mousse. Jam could be incorporated as in the round doughnut, but this could be taken further with the incorporation of a red or forest fruits preparation.

A different route in order to get customers to purchase something new and different is to make it appear consumer friendly as the above example illustrates but then to provide a surprise on the inside. This could be done for example by making a Black Forest gateau on the outside but on the inside varying the ingredients so that different combinations of flavour, colours and texture may be employed.

### **Retail sales of ambient cakes by sector (wrapped and unwrapped)**

	<b>Wrapped £m</b>	<b>%</b>	<b>Unwrapped £m</b>	<b>%</b>	<b>000 tonnes</b>	<b>Total £m</b>
1988	600	66	310	34	215	910
1989	637	65	340	35	206	977
1990	661	64	366	36	209	1027
1991	665	63	388	37	235	1053
1992	680	65	370	35	228	1050

1993 (est)	680	65	359	35	230	1039
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Source: Mintel

### Individual wrapped cakes market by sector 1990-92

	1990		1992		±%
	£m	%	£m	%	
Small cakes (cherry bakewells, cupcakes, viennese whirls, eccles, small chocolate coated)	120	33	119	32	-1
Fruit pies	80	22	70	19	-3
Small tarts	61	17	68	18	+1
Slices	58	16	64	17	+1
Mini Swiss rolls	43	12	50	13	+1
<b>Totals</b>	<b>362</b>	<b>100</b>	<b>371</b>	<b>100</b>	

Source: Mintel

### Large wrapped cakes market by sector 1990-92

	1990		1992		±%
	£m	%	£m	%	
Whole cakes (round fruit, Battenburg, ginger, chocolate)	140	47	141	46	-
Slab cakes (madeira/genoa)	45	15	52	17	+2
Sponge sandwiches	39	13	40	13	-
Large rolls	39	13	37	12	-1
Large pies/tarts (apple/bakewell)	36	12	37	12	-
<b>Totals</b>	<b>299</b>	<b>100</b>	<b>307</b>	<b>100</b>	

Source: Mintel

### Manufacturers' shares in the wrapped cakes market 1990-92

	1990	1992
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	£m	%	£m	%	±%
Manor Bakeries	178.5	27	176.8	26	-1
Lyons Bakeries	92.5	14	81.6	12	-2
Memory Lane	19.8	3	20.4	3	-
McVities	19.8	3	20.4	3	-
Park Cakes	6.6	1	6.8	1	-
Other brands	132.2	20	129.2	19	-5
Own label	211.5	32	244.8	36	+6

Source: Mintel

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### UK frozen desserts by value 1989-93 (£m)

1989	1990	1991	1992	1993	±% 92-93
154	199	219	251	281	+12%

Source: Leatherhead Food Research Association

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### Frozen dessert market by type 1991-93 (£m)

	1991	1992	1993	±% 92-93
Gateaux desserts	73	82	92	+12
Cheesecakes	29	46	52	+12
Hot puddings (danish, puddings, strudel, crumble)	25	31	39	+26
Pies, tarts, flans	22	26	31	+19
Small cakes, pastries	13	14	13	-4
Cream sponges	18	15	13	43
Pastry	15	10	9	-10
Mousse	12	11	11	-3
Ice cream rolls	9	7	5	-29
Others	3	8	16	+88
<b>Totals</b>	<b>219</b>	<b>251</b>	<b>281</b>	

Source: Leatherhead Food Research Association

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### Chilled cakes by value 1989-91 (£m)

	1989	1990	1991
Cream	26.8	28	29.6
Custard	2.6	2.5	2.2
Others	3.6	4.5	5.2
Totals	33.0	35.0	37.0

Source: Trade & MSI

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Slice lines we have already noted as a buoyant sector. These could be made to attract customers by the use of fresh fruit and combinations of tastes and textures.

One should not forget that customers buy with their eyes! How do we know what our customers like? One way is to encourage the tasting of new products; at best the result will be a purchase and at worst there won't, but hopefully the baker will get some feedback.

Customers sometimes show contradictory preferences in their purchasing patterns. They want light but tasty products, innovation as well as the traditional tastes and quality but at the right price. This provides ingredient suppliers and bakers with quite a challenge.

Results do not come by one's own effort alone. The industry needs partners who have a reputation for quality and naturalness and who, through the most modern high tech means of production, are able to maintain the quality and taste of all their ingredients.

Who would have thought that M<sub>l</sub>ller Fruit Corner yoghurt would have such an impact in the yoghurt market? The traditional dairy companies in the UK were unable to appreciate that a relatively simple packaging change could so radically alter the whole market. Through its high quality and innovative approach, M<sub>l</sub>ller has driven the whole market forward and achieved a 22% market share of a £506m market in 1993 in seven years.

### Naturalness/quality

Lifestyles are constantly changing, governed by consumers consumption motives, enjoyment, health and convenience. Today's healthy consumers who may stick to their calorie controlled diets during the week may well want to indulge themselves or their guests at the weekend. A key word that may be used to describe these consumption motives is 'wellness'.

Over the last five years we have seen a trend away from the artificial, and this together with consumers' important environmental concerns leads to a new naturalness and their desire to go back to nature - but in a Mercedes! This means as natural as possible but better tasting and healthier than the old nature - for example more fruit identity, higher fruit content, fuller taste.

The light food sector may encompass reduced fat and sugar, lower calories, cholesterol and salt or sodium.

However, in order to be successful light foods must deliver all the satisfaction of the full fat or sugar products in order to be accepted as real alternatives. In other words consumers can still enjoy their indulgence because it tastes as good.

Major retail brands are now developing the market primarily in the frozen gateaux sector, for example Heinz Weight Watchers, Boots, United Biscuits and Sara Lee with their low calorie cheesecake range. Own label companies are sure to follow hard on the heels of these companies and the market will expand. If the experiences of the dairy and beverage market are anything to go by, that area looks to become a very significant growth area.

### **Value for money**

There is a clear relationship between price and quality. Nobody will buy a Mercedes if a Golf will do the job. As discussed earlier, in an increasingly competitive market those that don't innovate will stagnate, able ultimately to compete only on price. This leads to a downward price spiral, resulting in lower quality. Trading down, as we noted earlier, increases pressure on margins resulting in less development and launching of new products.

Utilising the right ingredients it is possible to trade up and provide better quality products at a good price. Who would have thought that consumers would buy impulse ice creams for around the £1 mark? Manufacturers such as Mars have driven the market forwards and up primarily by using their brand strength from within their confectionery background. We have already seen that McVities successfully employed this principle within the wrapped cakes market and in the frozen dessert area with the Jaffa Cake.

Some businesses are located in areas where they are able to sell quality value added lines as the norm. In other areas the challenge is to be able to sell upgraded products with which the customer is basically familiar. This value added difference has then to be communicated to the consumer; provided they believe they are getting value for money, they will buy the product.

### **Ease of use/convenience**

As well as quality, other factors such as ease of use, convenience and consistency are exceptionally important. The consumer trend towards snacking, the rise in single parent households and so on means that the demand for slice lines or single portion cakes will become ever greater.

Consumers can currently buy pre-proved frozen danish as well as the traditional finished product. Frozen cakes and gateaux have grown but there is nothing to prevent semi-finished products being sold. The consumer would purchase the half-finished gateau and complete it at home, either with an included kit of ingredients and decorations or in their own style and finish.

Using the right ingredients that are freeze/thaw and cut stable and one step in operation, it is possible for bakers to produce in advance and then freeze the product until required for sale, whether it be cakes, pastries or sheet lines.

What business are we really in? The answer I believe is education; we are all links in the same chain, and by working together we can educate the consumer better. To develop confectionery for the future we need:

- to innovate constantly
- to be prepared to experiment
- to take risks
- to build on existing products to increase their value added contribution
- to work closely with suitable partners on ingredients, packaging and equipment
- to provide quality ingredients that are simple to use in a variety of different applications which are then presented well
- to communicate.

Of the product sectors we looked at in the beginning, the areas showing potential for increasing development include slice lines and cake bars and other individual products such as single portion desserts as formal mealtimes become less the norm and grazing more common.

With the decline in home baking, the celebration cake market will continue to develop and frozen single portion and whole gateaux used for home consumption and entertaining due to their quality and wide product range available will continue to expand.

The low calorie sector now boosted by the support of some major brands will show growth, perhaps to the same level as that enjoyed by other low calorie products.