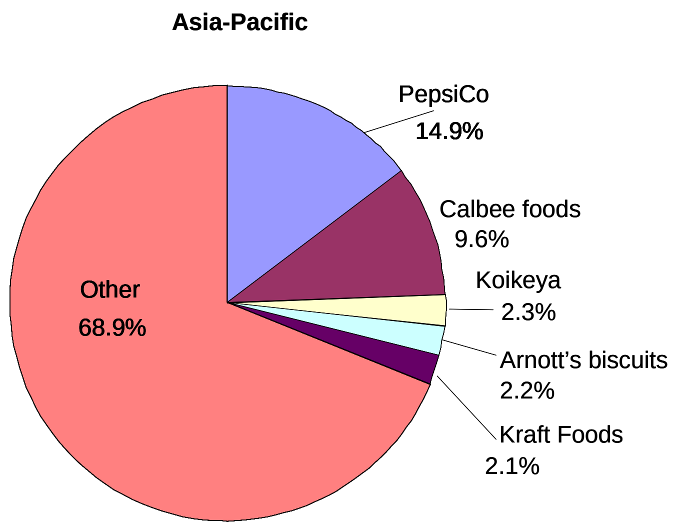
BUSINESS INSIGHTS

The Future of Snacks

Category convergence, NPD and key trends driving growth opportunities in snacks

New Food and Drinks Report - Published September 2006

Leading Snack Players Market Shares (2005)



Source: The Future of Snacks

"The aggregate market share of the top 5 players ranges from 67% in the Americas to 31% in Asia-Pacific, which underlines the relatively high level of market concentration in the global snacks market. PepsiCo, the largest global player, accounted for 15% in the Asia-Pacific region, 55% in the Americas, 21% in Europe and 36% in Africa and the Middle East ..."

Identify and anticipate key market trends and new product development opportunities with this new management report...

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Business Insights' portfolio of consumer goods management reports are designed to help you make well informed and timely business decisions. We understand the problems facing today's consumer goods services executives when trying to drive your business forward, and appreciate the importance of accurate, up-to-date, incisive product, market and company analysis. We help you to crystallize your business decisions.

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Some key findings from this report...

Extract: Overall savory snacks expenditure by age and region %, 2006

Age (Years)	Americas
0-14	16.9%
15-24	16.5%
25-34	16.5%
35-44	19.6%
45-54	15.0%
55+	15.5%
Grand Total	100.0%

Source: The Future of Snacks

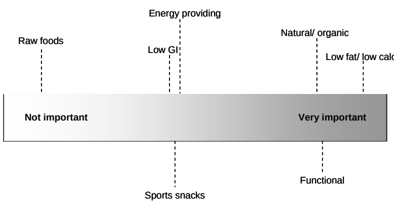
"The impact of restrictions on the advertising to children and a ban on vending machines in schools will be significant as children are a key consumer group for snack manufacturers. 16-18% of overall snacks expenditure in Europe, Asia-Pacific and the Americas is accounted for by children aged 0-14. Furthermore, a reduction in access to such a key consumer group could affect older groups' snacking behaviors in the longer-term, as children become adults..."

- **The US savory snacks market is the largest and most dynamic** of the world's nine key markets, with an estimated total value in 2006 of $19.5bn and a forecast CAGR of 5.5% for the 2006-09 period.
- **The 'Mid-afternoon' daypart offers the highest expected growth in terms of snacking occasion**, with 54.9% of respondents rating it as a high or the highest growth occasion.
- **Category convergence is growing between snacks and other food groups particularly fruit, vegetables and dairy.** This is being driven by health concerns including obesity.
- **The key trends in indulgent snacking are authenticity, exotic flavors, super-premium snacks** and the combining indulgence and health through the fortification of snacks with healthy ingredients including omega-3, antioxidants and plant sterols.
- **Snacking occasions are forecast to increase significantly compared to overall eating occasions from 2004 to 2008**. The largest growth will be in the US (3.6%) and France (3.5%).

The Future of Snacks Food and Drinks

Category convergence, NPD and key trends driving growth in snacks

Importance of health trends in snacks NPD over the next 5 years



Source: The Future of Snacks

"Low fat/calorie" was identified as the most important health trend for the future of snacking with 72.9% of respondents considering it to be important or the most important trend. Functional snacks and natural/organic snacks came second and third in terms of importance with 67.6% and 65.5% of respondents respectively, rating them as important..."

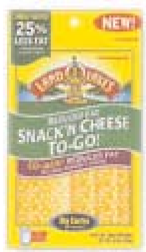
The global snacks market is undergoing fundamental changes that are redefining the way manufacturers develop, produce and market their products. Increasing concerns over the link between unhealthy foods and obesity, restriction on advertising to kids and the ban on snack vending machines in schools are some of the challenges that are reshaping the market and driving category convergence.

The Future of Snacks: Category convergence, NPD and key trends driving growth in snacks is a new management report published by Business Insights that examines the underlying factors driving the snacks market, assesses the impact of new product development and offers actionable recommendations for future strategic success. It is based on extensive analysis of over 5,000 new product launches and the results of Business Insights' proprietary global survey of industry opinions.

This new report will help you to understand the impact of key market trends, regulation and changes in demographics and behavior on the snacks market and create effective strategies to exploit new and emerging revenue opportunities.

This new report will enable you to...

Land O' Lakes Reduced Fat Snack 'N Cheese To-Go!



Source: The Future of Snacks

"Life is increasingly 'on-the-go' and more food and drink consumption is taking place in this way to save time elsewhere. An innovative example of such a product is Land O' Lakes Reduced Fat Snack 'N Cheese To-Go!, launched in July 2005 by the US-based Land O' Lakes. This "natural semisoft cheese" is claimed to contain 25% less fat than regular cheese and be the perfect choice for a nutritious, convenient snack for school, work or on-the-go..."

- **Create more effective snacks NPD strategies** with this report's actionable recommendations and analysis of the NPD strategies of leading snacks companies including Danone, Frito-Lay, Kraft, Masterfoods, Kettle Foods and Walkers.
- **Assess the savory snack foods competitive landscape by country** using the market value data and forecasts to 2009 in this report detailing the US, France, Germany, Italy, Japan, Netherlands, Spain, Sweden and the UK.
- **Understand how to develop, market and distribute your products more effectively** using the results of Business Insights' proprietary industry opinion survey of senior executives.
- **Identify new and emerging target audiences and snacking occasions** with this report's analysis of changing consumer demographics and its impact on snacking behavior.

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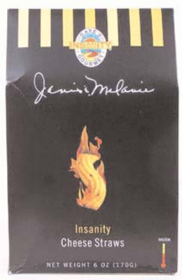
Key issues examined in this report...

Co-branded super-premium cheese straws snack



Source: The Future of Snacks

"A co-marketing arrangement between US companies J&M Foods and Dave Gourmet Specialty Foods resulted in a super-premium line of exclusively hot and tasty Insanity Cheese Straws, promoted with the marketing message "These cheese straws combine the wonderful flavor of J&M's Original Cheese Straws with just a little of the heat of Dave's Insanity Sauce..."

- **Snacks are no longer restricted to the traditional categories of processed, potato chips, snack bars, popcorn, nuts and seeds.** Bakery and cereals, fruit and vegetables and dairy represent examples of new and emerging snack categories.
- **Obesity and unhealthy foods.** The debate about obesity is having an increasingly negative impact on the snacking industry's image and sales.
- **The convergence of health and premium in snacks' NPD.** Through extensive analysis of new product launches, this report highlights the key trends in NPD innovation with specific focus on the convergence of the two key trends, health and premium.
- **Advertising of unhealthy foods.** The report analyzes the impact of the ban of advertising of unhealthy foods to kids on the snacking industry and the alternative strategies adopted by leading players.

Your questions answered...

Lacasa's NPD in Spain, 2005

Perlas - Calcio; Tiburon
High in calcium

Tronquitos Activ con L-Arginina
Active Bars with L -Arginine

Source: The Future of Snacks

"A sweet bar launched in February 2006 called Tronquitos Activ con L-Arginina (Active Bars with L-Arginine), which is available in 2 flavors Black Chocolate and Milk Chocolate and claims to be high in amino acids helping blood circulation and sexual functions; Perlas candy under the brand name of Lacasavital. Available in Mint and Strawberry flavors and sold in a 40g plastic bag, the candy snack claims to be high in calcium..."

- What are the key threats to the future of the snacks market and what strategies are market leaders creating to address them?
- Which product segments within the snacks markets offer the greatest potential for growth?
- What are the key trends in snacks NPD?
- Which country is the most innovative in snacks?
- How is the snacks market changing and what growth opportunities does this present for the future?
- What are the key drivers for the future of NPD innovation?
- Who are the leading innovators in snacks?
- How and why has the snacks category converged with other sectors such as dairy, bakery and fruit and vegetables?

Chapter 3: Overview of NPD in Snacks

The Evolution of NPD by Product Tag

An analysis of changes in the usage of the top 25 product tags on global snacks shows 6 key trends:

- A steady decrease in the use of "single serving", although the claim remains the most used throughout the 2003-2006 period;
- The "natural" tag sustains second position with a small increase of 0.3 percentage points to 14.0% of all product launches in 2006. Increases in comparable tags, such as "fresh", "organic", "no preservatives" and "no artificial color" further consolidate the importance of this category;
- In claims related to fat content, focus shifts from "low fat", which remains the fourth most important tag, to "no trans fat", which increased by 5.3 percentage points;
- Functional attributes remain an important part of snacks tagging, with a fifth of the top 25 claims falling in this category, despite small decreases in 4 out of 5 tags;
- Premium snacks gain momentum, as "upscale" consolidates fifth position with a 2.3 percentage point increase to 7.8 % of all snacks launched in 2006;
- A noticeable downturn in "kids" claims, as the category drops 2.6 percentage points but remains the third most used tag.

Premium claims gain momentum

"Upscale", the fifth most used claim has grown from 5.5 percentage points of all product launches in 2003 to 7.8% in 2005. Should recent tagging trends continue, it would overtake "low fat" as the fourth most used claim by 2007/08, as manufacturers continue to push new products into the premium sector. Within this surge in premium tags, the most interesting is the 100% growth in dual-tagging of snacks, with snacks tagged as both premium and healthy. An example of this trend can be found in GMB Enterprises line of Guiltless Gourmet Baked Potato Crisps illustrated in Figure 3.26.

Introduced in the US in October 2005, the line is available in 4 gourmet varieties of All Natural Sea Salt, Memphis Barbeque, Au Gratin and Pico De Gallo, and sold in single-serve 1 oz. and 4 oz. bags. The health claims are "Baked - Not fried - Good source of iron and protein - All natural puffed potato, 7g of protein per serving, 0g of trans fat, 70% less fat, only 100 calories per serving, and contains no artificial flavors or preservatives". This product targets the conflict between indulgence and health, as consumers are increasingly aware that they need to eat healthier, whilst still craving for that occasional treat. The brand is specifically designed to address this conflict by presenting a solution in the brand name itself, Guiltless Gourmet, with additional tags on the pack to further enhance the message on both counts. "Gratin" is a relatively well known French culinary word and lends an air of sophistication and enhanced taste, while claims such as "All natural" and "Good source of Iron" convey a message of health.

Figure 3.26: GMB Enterprises' Guiltless Gourmet Baked Potato Crisps

Source: The Future of Snacks

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