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7% GROWTH FOR \$50 BILLION GLOBAL INFANT NUTRITION MARKET

Esther Renfrew, Market Intelligence Director at specialist food and drink industry consultancy Zenith International, presents a global market overview.

\$50 billion global market

Despite the economic downturn and the uneven recovery since 2008, baby food has bucked the trend which has held back most industries' performance. In 2009, when the global economy went into reverse, the category actually grew by 7% in value. Currently, Zenith estimates the market at over US\$50 billion and it is forecast to be the fastest growing packaged food category over the next 5 years, achieving growth in excess of 7% a year. Some industry experts predict even higher growth levels of 8-9% a year. The strong growth has been bolstered by emerging markets, where the global financial crisis was less severe and where birth rates are still relatively high.

Multinationals lead

The infant nutrition industry is highly consolidated, with 5 multinationals holding some two-thirds of the world market. Many national markets are dominated by global players. The United States is dominated by two competitors - Abbott and Mead Johnson, together accounting for around 80% of sales. In West Europe, whose market size is roughly equivalent to the US in volume, the leading companies are Nestlé and Numico (Danone), with a larger number of companies challenging them. In Asia the trend is for the major players to be present through joint ventures and the development of local production.

Various multinationals that focus on health and wellness have recognised the potential of the rapidly growing baby food market and have made large acquisitions. Gaining significant market share organically is very difficult, so acquisitions are likely to remain a key strategy for companies looking to expand. The baby food divisions of pharmaceutical companies and specialist baby food manufacturers have been the most attractive acquisition targets to date. Nestlé, for example, gained strength in emerging markets from its acquisition of Pfizer's baby food brands in 2012. Some analysts believe Danone is to target acquisitions in Asia, Africa and Latin America.

Contamination scares

The industry has faced particular challenges with contamination scares. Companies have paid heavily when consumer confidence is dented and this has been witnessed recently. Danone is now looking to get back on track after a disputed recall, prompted by supplier Fonterra, which hit its sales last year. Danone announced in February that it would overhaul its Dumex brand and launch a new Nutricia brand - positioned as an ultra-premium range in China - to revive sales.

Growth drivers

Growth in Africa and the Middle East has been driven by socio-demographic factors. By 2018, there will be 7.3 million more 0-3 year olds in the region than in 2013, a significant expansion of the consumer base for baby food. In more developed economies, where birth rates are lower and mothers tend to be older, spending power per baby is higher, raising demand for more premium and organic products. Greater volume opportunities are to be found in regions with higher birth rates and younger mothers, despite lower average spending power.

Increasing participation of women in the workplace and faster paced lifestyles have accelerated the adoption of packaged baby foods in markets such as India, Brazil, the Middle East and Africa. Parents are looking for more nutritious food for their babies to support their early stages of growth. Packaged baby foods are becoming a status symbol in some developing nations.

It is worth noting that two-thirds of the global market value expansion to 2018 is forecast to be generated by China. China's huge market value growth is the combined positive result of economic factors and the fact that its market is still far from mature.

Brand loyalty

Another key characteristic of the global infant nutrition market is the very low penetration of supermarket private labels, at less than 1%. This underlines the high degree of brand loyalty and the opportunities for higher profit margins. High quality and safety credentials are primary criteria for consumers and branded items are more strongly associated with these features. In many food categories, private label products compete successfully on price against brands. It appears, however, that the last item on which consumers seem to economise is baby food. Higher prices are justified by the perceived better nutritional value for babies from high quality branded products.

Social change

The bad news in terms of future outlook is that birth rates are declining. The number of children as a proportion of the total population is also falling. The number of households is continuing to rise by approximately 2.1% a year, but households have fewer children. The average number of children per household has fallen from 1.9 in 1980 to 1.2 in 2010, according to the United Nations. This means that many families have greater spending power for a smaller number of children, resulting in greater expenditure per child, particularly in developed markets.

19% growth in China

Asia is the fastest growing region in infant nutrition, at an annual rate of some 19%, largely driven by China. In China, improved living standards amongst the growing middle class and increased health awareness are stimulating purchases. Demand for imported products, regarded as safer since the recent melamine scandal, has been pushing prices up. Currently there are 160 million children aged between 3 and 13 years old in China. A 2012 baby boom in the year of the dragon, together with China's one child policy, means demand for premium products will continue to grow in the coming years. In China, the number of mothers who breastfeed exclusively for 6 months is reported to be less than 30%. This is partly because baby formula is thought to be healthier and help babies bulk up - which is important in Chinese culture with many people believing that a large baby is a healthy baby.

22 million infants in Indonesia

Indonesia is another key country that is driving market growth. It has the world's 4th largest population, around 22 million children under the age of 4, Asia's second-

highest birth rate and rising wealth. Multinational companies are building new production facilities there to meet the increasing demand - Nestlé has invested \$200 million to start production of powdered milk and its Milo drink this year. Baby milk powder producers are linking the health benefits of milk with both mental and physical success, which appeals to their target group of middle-class parents. Since malnutrition had caused the death of millions of young children in Indonesia, the Government has encouraged exclusive breast-feeding from birth until 6 months. However, this is a real challenge for women in a modernising society and more are choosing powdered infant milk as an alternative.

Small Indian market

In India, the infant formula market developed relatively recently and is growing by 10-12% a year. The market is dominated by Nestlé and Heinz. India has the largest population of 0-4 year olds in Asia. However, the baby food market is small when compared with Indonesia and China, accounting for less than 5% of the whole region.

Premium innovation in Japan

Japan is characterised by innovative use of ingredients, such as prebiotics and specific milk protein fractions. This trend is also rapidly developing in other parts of Asia. Retail prices are much more expensive in Japan than in any other country. This helps companies to invest in research and develop very sophisticated products. The Japanese market is more technology driven, while other markets are more consumer driven.

Middle East features

The Middle East and Africa have especially high growth in female labour participation. The baby population is now close to 200 million. These two facts hold the key to explaining strong market growth.

In Iran, it is very difficult for women to buy baby milk powders. The government has direct control over the distribution of formula milk. Mothers have to obtain a certificate from their doctors stating they need formula milk. Each year, the Ministry of Health invites tenders from pharmaceutical companies or their agents for the right to sell formula milk products. The government decides on the brand mix and the quantities to be imported. Danone is the leader with a portfolio of brands such as Aptamil and Bebelac.

Saudi Arabia is by far the largest market in the region and has seen double-digit growth for the past three years. As mothers have gained increasing awareness of their childrens' nutritional needs, the demand for food products that are natural, fortified and offer health benefits has been rising.

South America more sophisticated

Baby milk powders have been present in South America for decades and are usually incorporated as a supplement in babies' diets. Regular use of powdered milk has become increasingly popular as more women have entered the workforce, leaving them with less time to spend at home and breastfeed their babies. It is common across Latin America for mothers to be given short maternity leave periods - in Mexico mothers have only 45 days of maternity leave before they must return to full time employment. Improving economic conditions mean that more consumers can afford regular purchases. More specialised products have also become available, notably in Mexico and Argentina.

Success needs sensitivity

In conclusion, baby food prospects are strong, proving recession-proof and despite declining birth rates. Whilst China is key in terms of future growth, concentration on a range of growth markets will be paramount for manufacturers seeking to expand. High birth rates and rising disposable incomes are especially relevant in a number of Middle East and North African markets. Opportunities for value driven growth through innovation remain significant in developed markets, where the combination of low birth rates and market saturation limits volume growth. Demand for premium value, fortified/functional and organic product varieties is growing in developing markets amongst high income consumers.

Nevertheless, the industry is dealing with a highly sensitive consumer. The importance of safety cannot be underestimated. Consumer confidence is key.

Note for Editors

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