

# Building on brands

By Deanna Rosolen

*In a mature category, confectioners find innovative ways to stay sweet.*

**T**he confectionery industry tends to be recession proof, but it's not without its challenges. While most manufacturers will tell you confectionery items are the one affordable pleasure in spite of the ups and downs in the economy, the industry is also at the mercy of consumer-based fads and trends.

The numbers, however, show it is growing in Canada. We exported over \$1.6 billion in confectionery in 2003 – that's up from \$1.3 billion in 2002. John Rowsome, president of Confectionery Manufacturers Association of Canada, says confectionery sales have grown steadily the last four years. In fact, Statistics Canada says sales for candy, confectionery and snack foods from all retail stores were \$5.5 billion in 2003 (they were \$4.6 billion in 2000).

But manufacturers do have challenges to contend with. They've noticed the Atkins diet, one of the biggest consumer-based fads to affect all food processing, influencing their industry as well. While we've seen all sorts of low-carb options in the past year, confectionery manufacturers are looking at no-sugar added in a new way.

Many companies that already produce low- or no-sugar options for diabetics have now expanded the concept to meet the low-carb craze. Purdy's Chocolates Ltd. in Vancouver noticed a rise in the demand for no-sugar added chocolates. Karen Flavelle, the company's president, says Purdy's has

offered no-sugar added truffles for over 10 years. But in the last five years she has noticed demand for the no-sugar treat rise. She attributes that increase in part due to the rise in the number of diabetics in Canada, but also in the past year she's heard more and more customers talking about low-carb diets. "It's easy to know five people who are on the low-carb diet. It's hit us. I'd say [the low-carb craze] has been here since Christmas for sure." This past Christmas the company launched a no-sugar added 23-gram Hedgehog with net carbs of 1.2 grams.

Flavelle has seen this demand firsthand. "I was visiting our stores in Victoria and one of the stores said a year ago they would have been ordering one stock box of no-sugar added chocolate bars per week – but they're ordering five [per week] now." Flavelle, who was also in Purdy's Alberta stores, found customers were buying the no-sugar added option because they were on a low-carb diet, knew someone who was or wanted a spouse to go on it. Some just chose it because they knew it was a healthier option.

As for innovation in the category, Flavelle says Purdy's is working on a 70 per cent chocolate (a dark, somewhat bitter variation). Flavelle says it's about 10 years old in England, but has just come to Canada in the last two years. She adds that in the U.S. another new innovation is Estate chocolate, where product is linked to a specific cocoa bean plantation.



René Rey Swiss Chocolates in North Vancouver and Donini Chocolate in Belleville, Ont., have also had the same experience with the low-carb craze. Colin Campbell, who is director of marketing and sales for René Rey, a 30-year-old company with between 15 and 20 employees, says the company launched sugar-free and low-carb chocolates about three years ago mainly for diabetics. Now the company is promoting the low-carb concept to a new segment of consumers. "It was a natural spin off for the low-carb market," he says.

Francine Houle, director of sales and marketing at Donini, says no-sugar added chocolate was just a specialty item produced on demand. The 40-year-old company, which has been in Belleville for the last 25 years and has 30 employees, noticed a steady rise in demand for sugar-free chocolate in the last three years. "Now it's a stock item because we sell so much of it," says Houle.

Bill Goodman, senior marketing and trade officer with Agriculture and Agri-Food Canada in Ottawa, says another challenge for the industry is obesity. He says over 90 per cent of Canada's exports in 2003 went to the U.S. But, he says, the U.S. Health Department has talked a lot recently about

#### RETAIL SALES OF CONFECTIONERY

	National All Channels			
	\$Vol	\$Vol % Chg	Unit Vol	Units Vol % Chg
Total Boxed Chocolates	239,794,921	2%	53,453,431	1%
Total Chocolate Bars all Formats	798,020,495	5%	1,703,866,456	0%
Total Nutritional Supplements & Weight Management Bars**	78,873,297	26%	32,600,541	22%
Total NCC* >125gm	194,014,900	5%	79,529,624	1%
Total Hard Rolled Candy	38,745,169	-1%	49,715,043	-2%
Total Mini Mints	39,666,837	5%	30,765,618	7%
Total Cough Drops Incl. Alpine and Fisherman's Friend	99,264,964	11%	86,901,623	6%
Total Cough Drops Excl. Alpine and Fisherman's Friend	83,222,083	13%	75,821,439	8%
Total Portable Breath Fresheners	78,412,006	2%	80,480,661	2%
Total Gum	354,940,196	3%	514,603,578	1%

\*\* All channels = Total Grocery + Drug + MM + GM + WC

\* NCC - non-chocolate confections (Starburst, Caramels, Skittles, Jolly Ranchers, Gummy Bears, etc.)

Source: AC Nielsen MarketTrack. Latest 52 Weeks Ending Feb. 21, 2004

obesity, heart disease and juvenile diabetes and is promoting healthy lifestyles. Canadian confectionery manufacturers are going to have to "position themselves that they can be part of a healthy lifestyle. I think that's going to be the challenge for the industry," he says.

Goodman suspects that the recent concerns over these health issues may create new segments in confectionery with new products having some health benefits. But, he adds, "confectionery products do really well. They're an impulse

purchase. They satisfy a need, they make you feel good. And when you want something sweet, you're not concerned about getting something healthy."

Len Willschick, manager of consumer and market intelligence at Wrigley Canada in Toronto, says Canada's aging population is another challenge for confectionery manufacturers. "That's a big challenge for confectionery because incidence of confectionery consumption definitely declines as people age," says Willschick. "We have to give that group more reasons to continue chewing gum – in our case – or to continue to consume confectionery."

In addition to Canada's aging population, Willschick says population growth per year is only about one per cent. So manufacturers can't depend on growth coming from fertility. The solution is to attract attention from consumers of confectionery with innovation. Willschick says he sees confectioners building on their current brands "and diversifying into other kinds of related categories."

Wrigley, for example, is launching an Excel mint this month. There will be two flavours: Peppermint and Winter Fresh. "Currently we have Excel gum, so we're going to try to build the Excel breath freshening property or identity by extending it into the portable breath freshener category," says Willschick. Wrigley also extended the Juicy Fruit brand by launching it in pellet format. It also launched Juicy Fruit

Red in late 2002 and will launch Juicy Fruit Blue this month.

In gum, he says, the trend has been to strong tasting and breath freshening. Excel, which has 22.3 per cent of the gum market in Canada, has had a stronger taste with every new launch. "With every launch we've dialed it up and made it stronger. Canadians don't seem to have a limited capacity for the strength or the flavour of their gum – relative to Americans who reject that level of strength," he says. Also, fruit flavours are a recent trend. With its last two incarnations, Excel came in cherry and lemon flavours.

In gum packaging, says Luisa Girotto, head of corporate communications for Cadbury Schweppes Americas Confectionery in Oakville, Ont., consumers prefer pellets. Cadbury Schweppes recently converted its Trident gum to pellet form. Also relatively new in gum is oral care benefits such as whitening. Girotto says the addition of a teeth whitening function to Trident is about two years old.

Willschick also adds that manufacturers may have to look at new immigrant and ethnic communities to drive growth. Rowsome says we're already seeing the ethnic influence in certain products. "Canada continues to have an expanding cultural base and we're finding that there is demand for different types of confectionery products, different types of flavours," he says. As a result, we've seen coffee flavours, exotic fruit flavours and intense flavours crop up recently in



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**TATE & LYLE**

gum, and orange added to established chocolate bar brands.

Extending established brands is one way to combat another challenge. Giroto, of Cadbury Schweppes, says the confectionery category is mature. "You've got to get particularly inventive or innovative to drive growth and bring some excitement to it," she says.

Cadbury Schweppes brought some interest to the cough drops category when it launched Halls Fruit Breezers in 2002. The product is "less mentholated and more of a pleasant hard candy," she says. In 1999, the company launched Halls Defense, a vitamin C supplement cough drop.

For some confectioners the price of cocoa and nuts often poses a challenge. The Ivory Coast, one of the world's largest producers of cocoa, is often beset with political unrest. Flavelle at Purdy's says cocoa beans peaked at US\$2,400 per metric ton from US\$750 per metric ton about four years ago. The prices have now settled at between US\$1,400 and US\$1,500 per metric ton. She adds that hazelnuts had a similar run up because of unrest in Turkey. "You can't double your prices, customers will walk away," says Flavelle. "So it squeezes your margins." Flavelle adds that they may put less chocolate in boxed chocolates because that keeps it at a price customers are willing to spend.

Houle at Donini says packaging prices and the cost of carton also seem to go up every six months. "When you go to your customer," she says, "you cannot increase your prices because they won't accept that. Very often when there are increases you have to absorb them yourself. That's quite a challenge."

The challenges in the industry and changes in consumer behaviour have brought on some other interesting trends. Jacquelynn tenWesteneind, client account officer with the Food Industry Competitiveness Branch at the Ontario Ministry of Agriculture and Food, says we will probably see more snack-size products and "to-go" packaging. Bite-size/snack-size items, she says, meet the new "dashboard dining" that has taken over. It may also play into the obesity issue, she says. "[Manufacturers] are offering smaller product sizes so you can indulge yourself with just a bite-size product instead of consuming an entire chocolate bar." She also suspects that the new labelling legislation may force manufacturers to reformulate where they can, but it will also give consumers more room for choice.

Despite the challenges, Rowsome thinks the sector will continue to thrive. In fact, he doesn't believe there are any challenges that would impede its growth. The trends affecting the industry, as with all food processing, will only cause manufacturers to create products that in turn create new interest in the sector. "We're going to continue to see a growth and a variety of choice in intense flavours, a growth in functionality," says Rowsome. "And the traditional strong brands of 25 years ago will continue to be strong brands today, but the marketplace will continue to expand in terms of what it offers."

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