Novelty & Nutrition PROMISE Sweet Success

By Doug Burn

The past 12 months haven't been particularly sweet for confectionery makers. That's unfortunate as the previous three years were excellent with exports surging and plenty of domestic innovation to drive all the categories from breath freshening gums and bagged candies to boxed chocolate and energy bars. In 2004, however, a rising Canadian dollar caused confectionery exports to drop for the first time since 1999. That is significant as exports now account for over half of sector shipments.

Within the domestic market the only significant growth was in the family-size bar category and mini-mints, the former driven by retailers' private label bars and the latter by new product launches. Conversely, a lack of innovation in the sugar confectionery category left sales flat. While unit volume for gum sales declined slightly, the value of sales rose, indicating a consumer willingness to absorb recent price increases. Cadbury Adams notes that sales of its Trident, Dentyne and Bubbas power brands rose 11 per cent during 2004.

Nutritious Portable Foods (NPF) had a remarkably good year. While sales for granola, cereal, diet and energy bars plus fruit snacks had enjoyed year over year growth of close to 10 per cent since 1999, in the 52 weeks ended March 19 they jumped 13 per cent. While NPF is not considered confectionery, the latest products increasingly resemble candy bars, jubes and jellies and are often consumed in lieu of confectionery as between meal treats. The distinctions are further blurred as confectionery makers launch low-carb, sugar-reduced and portion-controlled line extensions of their established brands to satisfy the small but growing niche of diet-conscious candy consumers.

From Lookin' Good to Living Longer

The spectacular growth in the Atkins and South Beach inspired low-carb diets may have plateaued in the last 12 months but as the media frenzy subsided consumers no longer thought of dieting as an exclusively vain pursuit of a youthful physique. Public campaigns to combat childhood obesity drove home the message that excessive consumption of fats and carbohydrates could cause type 2 diabetes, hypertension and asthma. Food manufacturers reinforced these concerns by promoting the trans fat free, no added sugar and low-carb features of their new products. Now, eating healthy is more a matter of living longer than simply looking good.

The change was most apparent in the sharp rise in sales of diet bars as energy bar sales dropped. Sinen Uner, brand manager for Slim-Fast at Toronto-based Unilever Canada, says the trend from energy to diet aid bars extends beyond North America and is driven by consumers seeking a better

Photo: Courtesy of Danisco USA Inc.

balance in their diet, "not just on reducing carbohydrates but also on calories, fat and sugars." Last summer Slim-Fast launched its CarbZone line to complement its high protein, snack, breakfast and meal bars.

Trace Hanlon notes that consumers are not likely to abandon the energy bars but will consume them more sparingly. Hanlon, marketing manager for Mississauga, Ont.-based Atkins Nutritionals Inc. (Canada), explains, "Consumers may buy two PowerBars for those days they work out and Atkins bars for the other five days. Retailers understand this and shelve the energy and diet aid bars together and sometimes the granola and cereal bars and fruit snacks as well." He also notes that the major drug chains have launched their own private label diet aid bars driving up category sales and their market share at the expense of the other market channels.

Fruit snacks have a different but similarly motivated consumer demographic – mothers of school age children. Successful products must be loved by kids for their taste and novelty while being sufficiently nutritious to win over the primary shopper. Margaret Lucas says Dare's RealFruit Minis pass both tests with flying colours. Lucas, senior brand manager for Kitchener, Ont.-based Dare Foods Limited, attributes the success of the jube-like snacks to their great taste and the "no artificial colours or flavours, fat/trans fat free, peanut free, made with a variety of real fruit purees and juices" message on the package. Sales have exceeded expectations since the line was launched out west and beginning this January, Lucas took the brand national.

Granola and cereal bars have enjoyed a health halo since General Mills launched the granola bar category 30 years ago with its Nature Valley line. As the TV commercials emphasize, the bars are a good substitute for a bowl of cereal or a handful of trail mix or granola. With the rapid growth in sales, manufacturers are developing line extensions with chocolate, caramel and other ingredients more appealing to confectionery consumers.

General Mills has been sampling a new granola bar that is getting a great reception from retailers. The Nature Valley Sweet & Salty Chewy Nut Bars have sodium, sugar and fat levels comparable to the diet bars plus high fibre content thanks to their incorporation of 100 per cent whole grains. Doug McGillivray, vice-president, marketing for Mississauga, Ont.-based General Mills Canada, says the product should do particularly well in gas and convenience store channels as consumers seek healthier on-the-go snack solutions. McGillivray plans a "blockbuster launch" when he begins shipping in June.

Chocolate bar makers are not about to forsake consumers seeking pure indulgence but they are offering choices for those seeking healthier options. Toronto-based Cadbury Adams Canada Inc., for example, recently launched Canada's first portion-controlled chocolate bars – Cadbury Thins in Dairy Milk and Premium Dark – that neatly fit into over-the-belt displays at checkout counters alongside gums and mints. The Thins are sized to deliver just 100 calories. The company also launched Cadbury Delight with 80 per cent less sugar than regular Dairy Milk bars.

The last 12 months have seen a multitude of line extensions, many as limited editions, which add new flavours and ingredients to established brands. In January, for example, Toronto-based Nestlé Canada launched Kit Kat Chunky in Caramel and Peanut Butter, the latter, being Nestle's first entry in the $200 million peanut butter category. Ken Shaver, vice-president of confectionery marketing, says the line has won listings with all his major customers and sales are going extremely well. At the same time Nestlé's Smarties bar (launched 18 months ago) added a peanut butter version.

In the midst of this growing proliferation of brands and line extensions Cadbury Adams is converting all of its packaging to purple. Martin Parent, director, category and customer planning, explains, "With less than 10

Canadian Shipments, Imports, Exports. Domestic Market and Balance of Trade in Confectionery 1999 to 2004

	1999 Millions	2003	CAGR (1) 2003 v 1999 Per cent	Change 2004 v 2003 Per cent
Shipments	$2,334	$2,700*	+ 4%	N/A
Imports	$820	$1,119	+ 8%	+ 3%
Exports	$853	$1,705	+ 19%	- 3%
Domestic Market	$2,301	$2,260*	+ 1%	N/A
Balance of Trade	+ $ 33	+ $587	+ 105%	- 15%
Export Share	36 %	58 %	N/A	N/A
Import Share	36 %	38 %	N/A	N/A

* Estimated from 1998 to 2002 Period
CAGR (1): Compounded Annual Growth Rate
Source: Statistics Canada, North American Industrial Classification System (NAICS)

Canadian Retail Sales of Confectionery and Nutritious Portable Foods: By Category and Market Channel

Category	Market Channels	Sales (Millions)	Value Change	Volume Change	Grocery Share
Single Bars	A	$382	+ 2%	- 1%	20 %
Multi Bars	A	$64	+ 7%	+ 8%	61 %
Family Bars	A	$81	+ 17%	+ 10%	38 %
TOTAL EXPANDED CHOCOLATE BAR MARKET*		**$871**	**+ 5%**	**- 1%**	**30 %**
Boxed Chocolate	A	$253	+ 4%	+ 5%	28 %
Sugar Confectionery	A	$393	+ 1%	+ 3%	26 %
Hard Rolled Candy	A	$35	- 11%	- 8%	16 %
Cough Drops	A	$82	- 1%	- 7%	21 %
Portable Breath Fresheners	A	$81	+ 3%	+ 4%	18 %
Mini Mints	A	$46	+ 16%	+ 16%	82 %
Gum	A	$382	+ 8%	- 3%	27 %
TOTAL CONFECTIONERY**		**$2,108**	**+ 5%**	**N/A**	**29 %**
Energy & Nutrition Bars	B	$31	- 16%	- 29%	61 %
Diet Aid Bars	C	$57	+ 18%	+ 44%	33 %
Granola Bars	C	$236	+ 14%	+ 14%	77 %
Cereal Bars	C	$118	+ 19%	+ 22%	74 %
Fruit Snacks	C	$128	+ 12%	+ 9%	71 %
TOTAL NUTRITIOUS PORTABLE FOODS		**$570**	**+ 13%**	**N/A**	**70 %**

Source: ACNielsen MarketTrack 52 Weeks to March 19, 2005
* Includes Easter Confectionery
** Totals for Confectionery and NPS are calculated by the author, not ACNielsen
Channels A: National (excluding Newfoundland) Drug, Grocery Banner, Remaining Grocery, Variety, Mass Merchandisers, General Merchandise, Warehouse/Club, Toys R Us, Gas
Channels B: National (excluding Newfoundland) Drug, Grocery Banner, General Merchandise, Warehouse/Club
Channels C: National (excluding Newfoundland) Drug, Grocery Banner, General Merchandise, Mass Merchandisers, Warehouse/Club

seconds for consumers to make a decision, we're trying to make it easier for them to find what they're looking for by eliminating the guess work. All new and existing Cadbury chocolate bars will be sporting new purple packaging with a prominent Cadbury logo, creating a unique and distinct brand block in-store, so consumers quickly identify the purple with Cadbury."

The confectionery category, due to its dependence on impulse purchases, thrives on attention-drawing innovations so 2005 is shaping up to be a sweet year for the sector.

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FOLLOW THE ACQUISITON

In early 2004 Ganong Bros. of St. Stephens, N.B., sealed a deal with Archibald Candy of Chicago to supply a broad range of confectionery items to its Laura Secord stores across Canada and six months later Archibald sold Laura Secord to Gordon Brothers Group, a Boston-based investment firm.

In March 2004, Beta Brands Limited (2002 sales of $71 million), a London-based manufacturer of Breath Savers, Beech-Nut and McCormicks brand jellies, jubes, panned chocolates and hard candies was acquired by Sun Capital Partners, a Florida-based investment firm and two months later Beta Brands closed its Hamilton plant to consolidate production at its London plant.

In August, Concord, Ont.-based Concord Confections Inc. (estimated 2003 sales of $100 million), makers of Double Bubble and other non-chocolate candy, was acquired by Chicago-based Tootsie Roll Industries (2004 revenues of US$420 million) for US$197 million.

In November, Chicago-based Wm. Wrigley Jr., the world's number one maker of chewing and bubble gum (2004 sales of US$3.7 billion), entered into an agreement to pay US$1.48 billion to acquire the Life Savers, Crème Savers, Altoids and other confectionery assets of Kraft Foods.

Also in November, Hershey, Penn.-based Hershey Company (formerly Hershey Foods) with US$4.4 billion in 2004 sales paid US$112 million to acquire Irvine, Calif.-based Mauna Loa Macadamia Nut Corp. for US$112 million (2004 sales US$80 Million).

In March (2005) Cadbury Adams Canada Inc. (formerly Cadbury Trebor Allan Inc.) completed the full integration of the Canadian operations of Adams Brands. U.K.-based Cadbury Schweppes PLC (parent of Cadbury Adams Canada) acquired gum and mint maker Adams Brands from pharmaceutical giant Pfizer Inc. for US$4.2 billion in 2003.