Healthy market

This month, **Stuart Jackson** returns to the subject of trends and takes a closer look at how a selection of markets are performing.

Last month's article demonstrated that most of our industry's non-food sectors are showing healthy growth. In this instalment let's establish if the food division is performing equally well. Once again it is Mintel that has helpfully provided the key market data. Full reports are available from www.mintel.com

Organics

Irrefutably the product feature on most consumers' minds, it is a market that continues to develop and this year's Soil Association report puts sales at £1.6 billion, up 60 per cent on 2002.

It is, however, a misleadingly positive statistic for independent retailers as product segments we are traditionally weak in dominate sales. Fruit and vegetables account for around 37 per cent of expenditure, closely followed by dairy (17 per cent), prepared foods (15 per cent) and meat/poultry (12 per cent).

The fastest-growing organic segments are meat/poultry and dairy products (mainly milk and yoghurts) with sales up 149 per cent and 120 per cent respectively between 2000 and 2005. In organic prepared foods and organic baby foods, growth has slowed as these markets mature, though investment in new lines remains high.

Spending on organic non-alcoholic drinks showed only modest growth and that is due chiefly to the strong performance of organic tea. Within the bread and cereals division, growth is being driven by hot eating cereals while bread sales struggle to improve due to better competition from alternatives.

One of the most notable changes in purchasing habits has been the focus on locally-sourced products, with the Soil Association reporting a massive 33% per cent rise in sales through box schemes, farm shops and farmers' markets in 2004.

Overall, 18 per cent of consumers were identified as organic oriented; 41 per cent of this group regularly buy organic, 16 per cent visit specialist organic shops, 89 per cent think eating organic is better for the environment and 80 per cent believe that it is better for family health. Organic consumers tend to be AB rated and aged 35-54.

Adding to the independent health food retailers' woes is that supermarkets dominate market share with 82 per cent followed by local and direct sellers at 11 per cent, leaving just seven per cent to be shared by other vendors including health food shops.

Slightly reassuring, however, is that supermarket share has actually slipped from a high of 84 per cent as shoppers switch to direct sources and independent health food shops for a wider, more local choice.

Functional foods

The functional food market was worth an estimated £1.1 billion by the end of 2005, having grown by 143 per cent since 2000. Dairy (including dairy alternatives) is the largest category, accounting for 45 per cent of sector value through sales of spreads, yogurts, yogurt drinks, soya and dairy-free products. Mintel forecasts that the market for functional foods will increase by 104 per cent to a value of £2,225 million by 2010.

Greatest growth has been in probiotic yogurts and yogurt drinks, which saw values rise 183 per cent from £97 million in 2001 to £275 million in 2005, representing one quarter of total functional food sales.

Juice-based drinks have also shown strong growth in the past two years, rising by 30 per cent to £121 million in 2005.

With a reported 40 per cent penetration of households, supermarkets are the main channels for functional foods, accounting for 86 per cent of market value. There is, of course, an industry debate on whether 'functional foods' fall into the definition of health food.

Vegetarian (meat-free) foods

Despite a slight decline in the proportion of estimated vegetarians in the population (from seven per cent to six per cent) spending on meat-free foods grew by 33 per cent to £635 million between 2000 and 2005 with 17 per cent of the population having purchased this type. New demand, driven by various recent food scares, is coming from meat reducers or avoiders.

Interestingly, the popularity of the Atkins diet, which allowed large amounts of fresh meat to be consumed, is cited as a main factor in restricting vegetarian market growth. Consumer analysis shows that 20-34-year-olds and 45-54-year-olds are most likely to buy meat-free food, with the latter age group more likely to contain "reducers".

Perhaps surprisingly, supermarkets are even more dominant in meat-free foods than in organic products, accounting for an estimated 92 per cent of sales in 2005 while health food shops are credited with just two per cent market share. Fortunately, that two per cent does generate £15 million in turnover!

Meat-free sales are dominated by the chilled and frozen sectors and this has favoured supermarkets that are much better equipped and serviced to capitalise on this division. Accounting for around 70 per cent of sales at £452 million, the chilled segment outstrips frozen at £178 million perhaps due to consumer perception that chilled is fresher and of better quality. Ambient meat-free products amount to just £5 million in annual market turnover.

Independent retailers could take more advantage if a more comprehensive chilled supply chain existed outside of London.

Special diets

This product category was bought by six per cent of consumers in 2005. With a total market value of £90 million, up 60 per cent since 2002, it is fast becoming a principal area of interest for the UK's estimated 20 million allergy sufferers. The wheat-free market leads sales at £49m with dairy-free close behind at £32m in 2005.

Due to its emerging popularity and specialist nature it is a category that all independent food retailers would do well to major in.

Herbal teas

The herbal tea market, now accounting for 12 per cent of all tea sales, has doubled in value from £37 million in 2000 to £73 million in 2005 and has helped reduce the effects of an overall decline in the conventional tea market.

Additional consumer factors

A total of 33 per cent of health food purchasers are reportedly satisfied by their regular supermarket, though of those, 15 per cent regularly and 25 per cent occasionally visit a health food specialist, indicating the need to seek products or advice elsewhere.

The need for differentiation is likely to make these qualities more crucial to health food shops in the future and Mintel cites specialised ranges such as natural skin and bodycare to be crucial to an independent's offering.

Supermarkets are again the biggest retailers of health food; Tesco leads with 52 per cent of consumers buying health food there in 2005, followed by Asda (29 per cent), Sainsbury's (26 per cent) and Morrisons/ Safeway (25 per cent) while both Waitrose and Marks & Spencer punch above their weight. Almost a third (31 per cent) of health food shoppers purchased at Holland & Barrett whereas other health food shops were used by 11 per cent in 2005.

Most importantly for us all is that over half of all adults (55.3 per cent) agreed that they should do a lot more about their health compared to 50.5 per cent just four years previously. There is also a definite trend where consumers are turning to alternative therapy, healthy eating and crucially, local community shopping again.

Summary

It is clear to see that food lines are mainly the domain of multiples and that much of our strength lies in non-foods, particularly specialist areas such as skincare. Whether food or non-food, the trick is to look always to esoteric product lines that service the minority and require expertise. Overall, it is a healthy market and widespread sales growth for retailers should be here again soon. HFB

Correction

Last month in Stuart's Jackson market update, we reported that, under the VMS category there had been a reported consumer penetration of four per cent. This should have read 48 per cent. We apologise to readers for the error.

If you have any questions for Talking Shop or would like further information on Stuart Jackson's consultancy service, contact him on 0131 315 0303 or email stuart@forceofnature.co.uk or visit www.forceofnature.co.uk