



Dairy product suppliers are sitting on a gold mine with the enormous growth potential of the functional food sector, which now includes products aimed specifically at children. Beth Brooks reports

FORM & FUNCTION

The functional dairy foods sector has continued to grow at a rapid pace. Latest figures from TNS show that total spend in the functional dairy foods market increased 54% to \$399m for the year to May 22, up from \$259m the previous year.

Georgina Pickford, business director for TNS Superpanel, says: "The market is in strong growth year on year, as new buyers enter the market and as households purchase more often. Yoghurt and milk drinks are still the largest sector worth \$237m, with \$97m of this added in the latest year."

Growth has been fuelled by consumers becoming more interested in healthy diets, says Javier Orti, marketing manager for Yakult. "There has been a massive change of attitude. Obesity is making an impact."

Although functional foods can now be found in many sub-sectors of grocery, by far and away the biggest impact has been felt in the dairy category. "Food manufacturers are looking at ways of promoting their foods to different audiences, and realise that dairy products have other health benefits besides ensuring strong bones and teeth," says Bev Cook, The Dairy

Council's communications manager. "Dairy is a great category for functional foods and companies should invest in this."

And they are. Adam Grant, commercial director for Danone Dairy UK, which boasts a 50% share of functional dairy and some of its biggest brands, says the sector is "exploding". "We are confident functional dairy drinks will be a \$400-450m category in three years."

Despite this phenomenal growth, manufacturers still have to persuade retailers to give over more space in their stores. "One of the biggest challenges we face with our retailers is how we can educate them to make sure that we have enough space for the category to achieve its growth potential," says Grant.

"It's a big challenge for our retailers to say 'wow, I need to triple that space'."

Danone has been propelled to the top of the functional dairy market by its probiotic yoghurt drink, Actimel, which contains a bacteria said to help digestion. Actimel achieved 74.8% year-on-year growth in the year to April [ACNielsen]. "We expect Actimel to reach \$200-250m brand value in the next couple of years," Grant adds.

Danone expanded the Actimel range this

year with the launch of Actimel 0.1% fat strawberry flavour and further new Actimel products are expected later in the year.

Danone has also been working on its Activia yoghurts. The brand has grown consistently since it was relaunched last year with a functional positioning to aid digestion. Activia Fibre, with added cereals, arrived last month.

Also launched last year was Danone's cholesterol-lowering dairy drink, Danacol, containing plant sterols. Danone says this now has a 23% share of functional dairy drinks, boosted by a partnership with the British Heart Foundation through which 5p from each pack of Danacol sold is donated to the charity.

Danone has many more ideas in the pipeline, says Grant. "We are also interested in exploring the possibility of introducing weight loss benefits in functional foods."

Another big hitter, Nestlé, has been busy. In April it launched Sveltesse Optimise, a probiotic dairy drink designed to help maximise fat metabolism through calcium. It comes in strawberry and pineapple flavours with an rrp of \$1.99 for six 88g bottles.

Unilever also expanded its Flora Pro-active >>>



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range with the launch last September of a one-shot health drink. The drinks contain plant sterols, which lower cholesterol levels, while probiotic content helps maintain the balance of bacteria in the gut. In July, Unilever introduced a Flora Pro-activ one-shot drink said to reduce blood pressure and backed by a \$10m advertising campaign.

Unilever says that it expects these yoghurt drinks to drive growth for the brand and the whole one-shot health drinks category this year.

Onken expanded its Biopot range with the launch of Lite Wholegrain Biopot fig, date and grape flavours. Available exclusively at Waitrose, the range contains a special mix of three live bio cultures.

Jackie Duff, Onken's head of marketing, says: “There is a real move towards the active health category lately, with consumers demanding ever more probiotic and cholesterol-lowering products. As well as the added grains that are in every Onken Wholegrain Biopot, we have added vitamins B and E so that it is a quick way to add fibre and vitamins to a person's diet.”

Such is the success of probiotic drinks that there is now a product that has been designed specifically for children.

In July, Yoplait Dairy Crest launched Petits Filous Plus, a one-shot probiotic yoghurt drink to help keep children's digestive systems in balance. The drink contains 17% of the RDA of calcium and is free from preservatives, sweeteners, colours and gluten. It is available in strawberry flavour as a four-pack of 90g pots.

“This is a huge innovation for the brand,” says Gemma Baggaley, senior product manager for Petits Filous.

“Yoghurt drinks is the fastest-growing sector



Flora Pro-activ: growing range



Nestlé Sveltesse Optimise: ‘maximises fat metabolism through calcium’

of chilled yoghurts and desserts and within it kids' drinks are growing rapidly.”

Smaller companies are also entering the market. Court Lodge Farm in Sussex produces the Court Lodge Organics range of drinking and pouring yoghurts, which contain probiotics to aid digestion.

Marion Harding, from Court Lodge Organics, says: “Probiotic yoghurt cultures have been around for a long time and have always been regarded as beneficial, but it was the general acceptance of how stressful modern life can be on the digestive system that encouraged us to use probiotic bacteria in our organic drinks.”

Companies have also started to look for new concepts. One is the introduction of milk with added Omega-3.

In May Dairy Crest launched St Ivel Advance, containing Omega-3. It is aimed at families with young children and is sold at 79p for a one litre bottle and \$1.45 for a two-litre bottle.

Paul Fraser, dairies marketing manager at Dairy Crest, says: “St Ivel Advance adds value to the category – for retailers, suppliers and ultimately the farmers. It's a real opportunity to reinvigorate milk and provides us with a platform to talk about health benefits.”

Hot on its heels was Marks and Spencer, which in the same month launched Fresh Omega-3 milk.

Dubbed ‘super milk’ by M&S, it is available as whole or semi-skimmed.

A 250ml serving of the whole milk contains 48mg of the fatty acids DHA and EPA – around



Danone: improvement to Activia

six times that of organic milk and 10 times that of regular milk – and 88g of Omega-3, says M&S.

Besides the difficulty of getting noticed, a major challenge facing the whole industry is regulation. Claims made for a functional dairy product have to be backed by scientific evidence and receive a gold standard sign-off from the Joint Health Claims Initiative, an independent NGO consisting of representatives from consumer protection groups, food law enforcers and the industry.

The JHCI also creates generic health claims that can be used on products for certain health requirements. For example, in February this year it created a generic health claim for Omega-3 in relation to heart health.

Yakult's Orti suggests that regulation may, ultimately, become the best way for companies to ensure that their product stands out in an ever-growing market.

“In three to four years there will be a massive rationalisation of the market. Only the products backed with scientific facts will remain.” *

Yoghurts and pot dessert manufacturers are determined to get the best of both worlds, satisfying both indulgent and healthy instincts says **Helen Gregory**

ACCESSORIES FOR A HEALTHY LIFESTYLE

The yoghurt and dairy desserts market is one of the most dynamic in the dairy business, with sustained interest from shoppers, plenty of new product development from suppliers and positive support from retailers.

"The total chilled yoghurts and desserts category – including yoghurt drinks – is growing by 9% compared with a year ago," says James King, category strategy manager at Danone Dairy UK [ACNielsen, MAT June 11, 2005]. The whole market is now worth £1.7bn.

Danone reckons that yoghurts with a healthy positioning are performing most strongly. Indeed, the healthier yoghurts and yoghurt drinks sector grew 24.6% in the past year and now represents over 65% of the total yoghurt and yoghurt drink market, excluding children's products [ACNielsen, 52 w/e February 19].

Most of the big manufacturers are promoting health benefits or lowering fat content.

Even producers of the more luxuriant products are getting in on the health act.

Greek yoghurt manufacturer Total has launched a yoghurt rich in essential fatty acids Omega-3 and Omega-6.

Georgina Pickford, business director at TNS Superpanel, says functional and light yoghurts are the key sectors in growth.

"Functional yoghurts have almost doubled in size in the latest year, with strong growth from Danone Activia and Müller Vitality, supported by new product development from Flora Pro-activ and Tesco Probiotic."

Danone claims it is number one in the healthy sector with 24.5% value share, while Müller's market share of this sector has fallen from 27.1% to 24.3% [ACNielsen].

Even though Müller remains the number one



"There are two extremes in yoghurt – the purely health-conscious and the indulgent-end luxury products that consumers would be more likely to have as a dessert"

brand in the sector overall, according to The Grocer's last annual Top Products Survey, its sales dipped 3.5% last year to £380m.

Müller has recently been pushing its 'Lead a Müller Life' campaign covering all its products this year, encouraging consumers to have an appetite for life and feel good about snacking.

Health benefits are also being pushed in the children's category.

Uniq's St Ivel Balamory fromage frais has been promoted as being extra-kind to

children's teeth, with a sugar content of less than 10%.

But everything comes at a cost. Whereas yogurts have capitalised on demand for healthy products – Danone says healthier yoghurts and yoghurt drinks will be worth £1bn a year by 2009 – dairy desserts have suffered.

ACNielsen figures show the value of the total chilled desserts market fell 4% year on year to \$530m [52 w/e August 6, 2005]. Meanwhile, according to TNS, the value of the pot desserts market fell 1.8% to \$451m [52 w/e May 22, 2005]. One reason for this might be the increasing crossover between yoghurts and pot desserts. A prime example is Müller's cheesecake-style products, in flavours such as Florida Key Lime Pie, launched in June.

Manufacturers and retailers say such innovation is a great way to revitalise the >>>



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stalling chilled pot desserts category. But it also has wider ramifications for desserts if it means yoghurts are eating up their sales.

Laura Kingsman, trading manager at Musgrave Budgens Londis, says Müller's Lemon Cheesecake Müller Light is now the second bestselling Müller Light variety in MBL stores, behind strawberry but ahead of traditional flavours such as cherry and toffee.

She adds: "Yoghurts need to continue to develop and this has been seen with dessert flavours appearing.

"There are two extremes in the market – the purely health-conscious and the indulgent-end luxury products that consumers would be more likely to have as a dessert."

Onken head of marketing Jackie Duff agrees, saying that while consumers want light, healthy products, they are also looking for indulgence. This led to the company launching Smooch, a luxury fruit yoghurt range, in April this year.

Duff says: "Consumers told us they were looking for a lower-fat yet fruity premium yoghurt for breakfast or snacks. With Smooch we've brought our 'feelgood' positioning to the single serve sector."

Meanwhile, Yoplait Dairy Crest has launched dessert recipe yoghurts in strawberry tart, lemon cheesecake, raspberry tart and toffee apple flavours.

"Dessert recipe yoghurts are adding incremental growth to the light sector and account for over 6% of light yoghurt sales by value," says Erin Pohe, Weight Watchers brand manager at YDC [IRI, 52 w/e March 19, 2005].

Yoplait Dairy Crest has also moved its Petits Filous fromage frais into the yoghurt category with the launch of Fruity Smooth Yoghurt.

Gerry Rhodes, marketing director at YDC, says: "The bigger size Petits Filous yoghurts have appealed to older children."

Gourmet chocolate puds brand Gü is one of the success stories in the desserts sector, according to Nisa-Today's.

It started out in chocolate products but in May extended its brand into a premium range of fruit-based desserts such as Sicilian Lemon cheesecake.

Steve Dixon, Nisa freeze/chill controller, says: "Gü is the fastest growing brand in the yoghurts and desserts sector and its products are

"The on-the-go market is increasingly important and products need to be easy and hassle-free for consumers, hence the development of drinking yoghurts"



Smooch: single-serve gets feelgood factor



Ski: an emphasis on simplicity



Müller: crossover activity

uniquely packaged and well-supported above and below the line."

Other manufacturers are also planning to get into the desserts sector. Tim Henniker Parker, business development manager at ice cream maker Loseley, says there's a strong demand for quality products.

"We are looking to extend our range of products later in the year to include desserts and cottage cheese."

Danone's King says another key driver in the yoghurt and dairy desserts category is the trend towards snacking and eating food on-the-go.

As a result, there's been large growth in hand-held products – especially in the children's category – that fit well into school lunchboxes.

MBL's Kingsman reckons the main trend is towards different packaging formats.

"The on-the-go market is increasingly important and products need to be easy and hassle-free for consumers, hence the development of drinking yoghurts and kids' products such as the Frubes pouch."

But all this innovation means that while healthy, luxury and convenient products are growing and evolving, the 'middle' market for standard products is standing still.

With this in mind, Nestlé relaunched Ski in May, emphasising the old family favourite's simplicity. Greg Krol, MD of Nestlé's chilled dairy division, says: "Consumer awareness is high. Ski is one of those trusted brands – but they don't always appreciate how natural the product is." A television and press campaign

which kicked off in June aims to boost the brand in a market Krol says is becoming more price-competitive.

"So many promotions are taking value out of the category because, although British consumers want to try new things, they end up just wanting products on deal."

Dixon at Nisa agrees: "IRI Infoscan data shows over 52% of volumes sold in yoghurts and desserts are sold on promotion.

"While one could argue there is too much promotional activity on major brands, we must have aggressive promotional plans in place in order to maximise this key sales opportunity."

Aggressive promotion is also the order of the day in yoghurt drinks.

Nestlé is finding success with its Munch Bunch Drinkly+ and Optimise probiotic drink, which has a USP in the rapidly expanding yoghurt drinks category in that it emphasises a role in weight loss.

Says Krol: "It's achieved fantastic distribution. But there's so much confusion in the category because of all the promotions, while shoppers haven't realised what's out there yet."

Nevertheless, Kenton Burchell, category manager at MBL, says the drinking yoghurts market is very healthy, with growth of over 50% year-on-year [AC Nielsen MAT September 9, 2004]. "The category has long legs," he adds.

Indeed, as per capita yoghurt consumption of 11kg per year in the UK represents less than two average pots per person each week, there's clearly still plenty of potential in the market. *