

Global market review of food and drink additives – forecasts to 2012

2007 edition



Just-food

Global market review of food and drink additives – forecasts to 2012

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Executive summary

Chapter 1

- The increased purchasing power of major multinational food producers has negatively impacted value sales within certain sectors in the additives market; however, the overall additives market has experienced value and volume sales growth in recent years. The larger players in the food and drink industry have strong control over the additives producers and a greater control over their suppliers' costs.
- Over the next five years, demand for application-specific ingredients and additives solutions will increase in line with the growing power of multinationals over their suppliers.
- In 2007, the global food additives market is expected to reach a value of US\$xxxxbn according to just-food estimates.
- Preservatives are employed to keep food 'fresh' in taste and appearance, and prevent spoilage by controlling bacteria, mould, fungi, yeast and other chemical changes that occur inside the packaging and while on the shelf. The global preservatives market will be worth an estimated US\$xxxbn by the end of 2007 and forecast to rise to US\$xxxbn by 2012 according to just-food estimates.
- In the UK, Wal-Mart-owned Asda started to sell potatoes and carrots still covered in mud from January 2007, which it says doubles the products' shelf-life and cuts the production costs.
- In the US, food scientists are experimenting with fish gelatin to provide packaging advancements in the frozen food sector. Research from US Department of Agriculture scientists, published in April 2007, indicates that clear plastic-like coatings made from gelatin extracted from silver-skin sea fish can help to maintain correct levels of moisture, which can be lost during freezing to the detriment of the nutrition and taste of the product.

Chapter 2

- Ajinomoto is a global food, pharmaceutical and amino acids producer. In 2006, the company reported a turnover of US\$xxxbn representing growth of xxx% from 2004. Headquartered in Tokyo, Japan is

Ajinomoto's biggest and most successful market; it was worth US\$xxxxbn in 2006, compared to Asia, with a worth of US\$xxxm.

- Danisco has invested in xx R&D centres in 16 countries worldwide, and in recent years has increased the number of employees working in R&D from around xxx in 2002 to more than xxxxx in 2006.
- Kerry Food Group has successfully invested heavily in the ingredients business with total sales growth of xxxx% between 2004 and 2006 to reach US\$xxxbn in 2006. Meanwhile, the consumer foods business has witnessed a drop in sales from US\$xxxxbn to US\$xxxxbn in 2006.
- Archer Daniels Midland's (ADM) full line of corn sweeteners includes corn syrups, maltodextrin, crystalline fructose, dextrose and high-fructose corn syrup (HFCS). HFCS now represents half of the sugar and sweeteners used in the US, where an estimated xxlb of HFCS are consumed per person in 2006.¹

Chapter 3

- The Food and Agricultural Organisation (FAO) and the World Health Organisation (WHO) established Codex Alimentarius Commission in 1963 to establish guidelines to ensure a level playing field for the food trade throughout Europe. The standards it has set are not mandatory but they strongly influence markets that have a less rigid regulatory framework relating to their food and drink industry.
- In 2006, according to national statistics, the total food additives output from China was xxxxm tonnes; this was worth US\$xxxm. A report by the National Development and Reform Commission and the Chinese Society of Biotechnology has predicted that xxxm tonnes of food additives will be required in China alone by 2010.
- In Hong Kong, the Centre for Food Safety (CFS) has amended regulation to require additive labelling of the name and functional class under the Food and Drugs Regulation 2004. The regulation is in force from 10 July 2007, following a three-year period which allowed the industry to make the necessary amendments.
- In February 2007, the US Food and Drug Administration (FDA) published a list of definitions for food ingredients to provide a transparent and concise point of reference for food and drinks

¹ http://www.economist.com/research/articlesBySubject/displaystory.cfm?subjectid=7933610&story_id=9208296

companies. The database is freely available on the FDA's website and includes additives.

- Foreign investment opportunities are rife throughout the Eastern European food and drink industry, despite years of reluctance to use additives to preserve or extend the shelf-life of products, and a reliance on cooking from scratch.

Chapter 4

- Pitching a brand as 'whole' and 'natural' against competitor brands that contain additives will become a more regularly-used marketing strategy to target the growing number of consumers choosing additive-free products.
- Currently there is a trend in Australia for bread manufacturers to reduce or eliminate the use of propionate in bread.
- Novel functional additives include stress-relieving gamma-aminobutyric acid (known as GABA additives). GABA is being increasingly used in Asia to produce a range of functional foods targeting time-pressured consumers. GABA additives claim to produce a variety of physiological effects including stress relief and the promotion of relaxing feelings, and are used in new products from confectionery to breakfast cereals.
- Frozen food manufacturer Birds Eye commissioned ICM Research to conduct a survey of xxxxx UK consumers in November 2006, to challenge the negative connotations associated with food additives in the frozen food sector. The research, published in January 2007, found that xx% of people believed that cooking meals from scratch helps them avoid food additives; however, people who ate home-cooked meals consumed an average of xx additives in xx hours, according to Birds Eye, compared to the average xxxx across the survey.
- Only xx of the xxx food additives approved for use across the European Union are permitted in organic food. Controversial additives, such as aspartame, tartrazine and hydrogenated fats, have been linked to health problems such as heart disease, migraines and hyperactivity, and their use is banned in organic food.
- The booming market for soy additives shows no signs of abating, and demand will rise in Eastern Europe in particular, where manufacturers in the meat industry are keen to work with suppliers of functional and textured soy.

- Monosodium glutamate (MSG) is preferable to salt for manufacturers looking to reduce sodium levels in products, as consumer concerns rise regarding levels in processed foods. MSG contains one third of the sodium present in salt.

Chapter 5

- The number of new product launches that are completely free from additives such as colourings and preservatives is forecast to rise to 2012. More and more brands will adopt a 'xxx% natural' and 'additive-free' brand strategy.
- Novel functional additives are increasingly used in the global food industry, such as stress-relieving gamma-aminobutyric acid (known as GABA additives). GABA is being increasingly used in Asia to produce a range of functional foods targeting time-poor consumers.
- GABA additives claim to produce a variety of physiological effects, including stress relief and the promotion of relaxed feelings. They are used in new products from confectionery to breakfast cereals.
- To be classified as 'organic', a food product in the European Union must have at least xx% of inputs organically produced without pesticides, fertilisers and additives.
- Clio Turton, spokesperson for the UK's Soil Association, told just-food: *"Only xx of the xxx food additives approved for use across the EU are permitted in organic food. Controversial additives like aspartame, tartrazine and hydrogenated fats have been linked to health problems such as heart disease, migraines and hyperactivity, and are banned in organic food."*
- In Japan, products are available targeting consumers looking to actively increase their daily consumption of soy isoflavones, such as Showa Sangyo's Showa Nomu Daizu, which is a soybean drink launched in Japan in 2006. Each single serve sachet contains xxmg of soy isoflavones.

Chapter 1 Introduction

Report methodology

This report provides insight into the additives market, which has attracted huge investment, interest and controversy over the past xx years following the introduction of mass-production, and large-scale processing in the food and drink industry. The rate of new product launches, reformulations, line extensions and innovation in the food and drink sector has exceeded all expectations. Manufacturers of additives, such as flavourings, colourings and preservatives, have had to rise to the challenge presented to them by food and drink manufacturers and retailers. Consumer awareness of health, quality of ingredients, provenance, freshness, organic produce and overall nutrition has led to a focus on more natural additives and the rejection of certain additives that are seen to be detrimental to our health.

Aims of the report

The primary objective of this report is to provide a snapshot of the current issues, trends and happenings in additives, with a focus on the opportunities, barriers and potential solutions to enable executives working within the industry to optimise future profit potential, and to encourage manufacturers within the food and drink industry to assess their role and opportunities for their brands within the additives market. The report considers current trends in the major additives sub-sectors, including natural additives, artificial additives and nature identical additives, and considers emerging and potential opportunities.

The report analyses growth strategies by multinationals and smaller players to optimise future opportunities and investigates NPD in key markets, including Europe, North America and Asia. just-food has analysed the major drivers, barriers and trends in order to better understand the future direction of the additives market, and its current role in the global food and drink industry. Brand case studies are included to highlight and substantiate strategies and analysis throughout the report, as are comments from relevant industry executives who were interviewed by the author.

Chapter 2 Overview of additives market and market forecasts to 2012

Introduction

Manufacturers use food additives for a wide range of reasons. They are used to produce and distribute pre-packaged foods with increased shelf-life and decreased waste. Food additives increase the availability, quality and safety of food while keeping costs low. Critics of additives argue that they have no nutritional value and so should be avoided, although not all additives are chemical-based or man-made; the additives market also includes natural additives such as herbs and plant extracts, and natural sweeteners. Clearly, a diet of fresh organic fruit, vegetables and grains purchased on a daily basis would negate the need for the inclusion of additives in the diet, but very few people choose (or are able to choose) to adopt this type of diet or shopping regime, citing time pressures, lack of cooking knowledge (or interest in food preparation) or a preference for processed foods.

just-food estimates that there are more than xxxxx additives on the global market, although their use is restricted according to country- and/or region-specific legislation (this subject will be discussed in greater detail in the following chapter). This chapter highlights the major additive sub-categories offering an explanation and investigation into the status of the sub-category in 2007, with predictions regarding prevalence, availability and usage in the global food and drink industry to 2012.

Value of the global additives market to 2012

The global food additives market is extremely difficult to quantify, due to wide-ranging variations in the definition of sub-categories and the fast-moving nature of certain sectors. In 2007, the global food additives market is expected to reach a value of US\$xxxxbn, according to just-food estimates. We estimate that strong growth will result in a forecast US\$xxxxbn value by 2012.

Chapter 3 Major players in the global additives market

Introduction

The global additives market has experienced a dramatic change in structure over the past decade, with numerous mergers and acquisitions influencing the dominance of multinational players. This chapter analyses four selected additives companies – Ajinomoto, ADM, Danisco, and the Kerry Group – as well as providing an overview of the major players within the global marketplace.

In the 1980s and 1990s, the additives market was dominated by major pharmaceutical companies, although over the past seven years these companies have started to shed their additives divisions to food industry specialists. In 2007, the global additives market is more consolidated, as companies seek to focus their business portfolios on a smaller number of core businesses, rather than maintaining their previously-popular diversification strategies. Leading companies in the global additives market now includes:

- Ajinomoto;
- ADM.
- BASF Group;
- Corn Products International;
- CSM;
- Danisco;
- DSM Food Specialties;
- Kerry Group;
- Sudzucker AG;
- Tate & Lyle.

The following table highlights the wide range of companies involved in the production of additives and their specialist areas of expertise.

Chapter 4 Regional comparisons and legislation in the additives market to 2012

Introduction

The additives market is influenced by global, regional and local legislation, as well as changing consumer tastes, fast-changing trends, and an evolving food and drink industry. This chapter assesses some of the major regulators involved in the global additives market, as well as regional issues.

Global

The FAO and WHO formed Codex Alimentarius in 1963 to establish guidelines to ensure a level playing field for food trade throughout Europe. The standards are not mandatory but they strongly influence markets that have a less rigid regulatory framework relating to their food and drink industry. The influence of the Codex is significant, as governments around the world base related regulation decisions on it. The Codex has two primary aims:

- the health of the consumer; and
- the facilitation of trade.

The strong influence of the Codex Alimentarius is apparent in the debate surrounding the definition of 'fibre', which holds significant sway with health-seeking consumers. In April 2007, two different definitions of fibre were up for comment by the Codex Committee on Nutrition and Foods for Special Dietary Uses⁴ following debate on the original definition (dating back to 1992) that started in 2005 when an FAO representative told Codex that a FAO/WHO group was in the process of reviewing evidence on the physiology of carbohydrates and relevant definitions. In 2006, it was proposed that the definition of fibre should be more closely linked to fruits, vegetables and whole-grain cereals. The UK's FSA is one of the many regional bodies considering

⁴ The main objective of the Codex Committee on Nutrition and Foods for Special Dietary Uses is to study specific nutritional problems, advise the Codex Alimentarius Commission on general nutrition issues and to develop standards or guidelines for foods for special dietary uses.

Chapter 5 Trends and opportunities in the global food additives market to 2012

Introduction

Like any other industry in today's highly-competitive, increasingly-saturated and consolidated market, the food additives industry faces a series of challenges and hurdles, not only in the form of regulation, but also in terms of maintaining consumer and manufacturer interest. Additives companies must no longer take the lead from the manufacturers but take the R&D reins and lead innovation by maintaining a close eye on emerging and current trends influencing purchasing decisions. This chapter assesses some of the trends, barriers and opportunities in the global food additives market to 2012.

Additive-free brand strategy

The number of new product launches that are completely free from additives such as colourings and preservatives is forecast to rise to 2012. More and more brands will adopt a 'xxx% natural' and 'additive-free' brand strategy. *"There is a real gap in the market for really healthy snacks. Not including extras such as additives is a prerequisite for all Benson's products. Our entire business is based around the taste and health benefits of pure fruit and maximising a product that we can grow at home, on our family farm in the UK. It is critical for Bensons to continue the local, pure fruit ethos,"* says Hannah West, spokesperson for Bensons, which manufactures a range of juice products including ice pops and fruit juices.

Pitching a brand as 'whole' and 'natural' against competitor brands that contain additives will become a more regularly-used marketing strategy to target the growing number of consumers choosing additive-free products. In Australia, Barfresh Beverage Systems, the producer of Smoo Smoothies, is steering away from additives in its range of smoothie products. Managing director Riccardo Delle Coste told just-food that the decision to avoid additives is driven by consumer demand for natural fresh product. Delle Coste commented: *"Our customers want smoothies with all natural ingredients. Our*