

3 MARKET OVERVIEW

KEY FINDINGS

- The increasing demand for functional food, convenience health food and supplements, the need to counter the lack of nutrition associated with changing lifestyle, and the resultant demand for functional food ingredients have particularly encouraged the development of probiotics ingredients and products
- The probiotic market is expected to grow at a CAGR of 6.8% from 2012 to 2017
- The APAC region holds the largest market share, dominated by dairy foods as the key segment in the functional foods and beverages market
- APAC remains the leader in market going ahead, however, growing awareness and adoption of probiotics culture in the U.S., makes North America the key driver

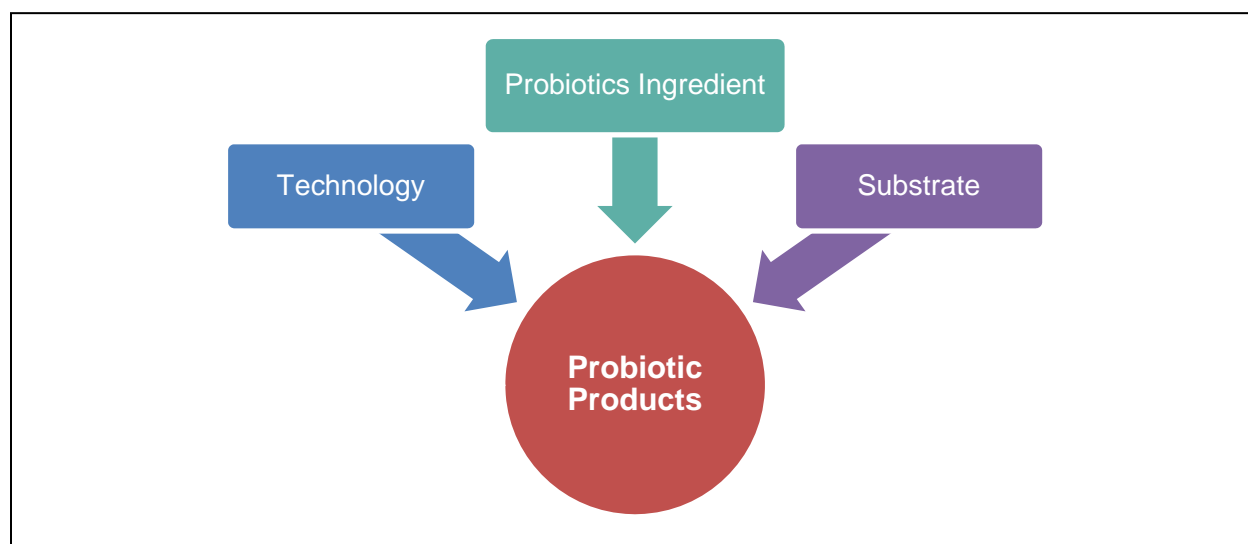
3.1 INTRODUCTION

Probiotics are defined as live microbial food ingredients, which are beneficial to the consumers as they improve the intestinal microbial balance. The live microorganisms are perceived to confer specific health benefits when consumed in adequate amount in food. The microorganisms are measured in colony forming units. The primary factor driving the global success of probiotics is their direct relation to digestive health as individuals have become more health conscious across the globe. A few blockbuster probiotics products doing significantly well in the global probiotics market include Actimel – a dairy drink by DANONE and Yakult – a fermented dairy drink by Yakult Honsha. The main competitors in this field are Yakult Honsha (Japan), Danone (France), Nestle (Switzerland), and General Mill (U.S.). Several smaller companies are also competing for the market share but do not have enough supportive R&D results to back the claim, that their products are beneficial to the health of its consumers.

The probiotics market in general and probiotics functional foods and beverages market in particular has been one of the prime beneficiaries in the latest trend of fortified and functional foods, a market that commanded over \$100 billion in global sales in 2008. In the same year, Europe accounted for over 43% of the probiotics functional foods and beverages market, followed by Asia with a share of over 29%. Primary reasons for the success of probiotics fortified foods are awareness about their efficacy and willingness to pay for something 'extra healthy'.

Though, the U.S. accounted for one-third of the overall functional foods and beverages market, its share of the probiotic functional foods and beverages market was just above 10.0% in the year 2008. The primary reason behind the slow growth in the popularity of these products in the past was uncertainty of the food industry concerning mainstream consumer acceptance of probiotic products. Consumers were unaware of the potential benefits of probiotics products and also associated bacteria as being always 'bad'. However, the scenario is expected to change by 2014 with the U.S. expected to command almost 12.5% of the market share, growing at an approximate CAGR of 7.0% from 2012 to 2017. This is due to large scale and

effective marketing efforts by probiotic product manufacturers in the U.S., to raise consumer awareness about the efficacy and health benefits of consuming it.

FIGURE 3**PARENTAL STRUCTURE OF PROBIOTICS MARKET**

Source: MarketsandMarkets Analysis

The probiotics market is through the integration of food substrates and probiotic ingredients. Technology is a critical dimension, since it not only enhances the stability of the ingredients but also enables successful delivery of the microorganisms to the intestines. Technological innovations such as the proteomic approach, genetic approach of identifying and isolating bacterial strains, effective harvesting, and delivery through microencapsulation in unconventional food substrates (dry and non-dairy form) has led to several product innovations such as food supplements, biscuits, granola bar, and nutritional supplements in the form of capsules. The combination of different food substrates, patented probiotic microorganism strains and advanced technology has resulted in an expanded portfolio of probiotic products leading to greater choices for consumers with diverse tastes and preferences.