

BAKED GOODS IN SPAIN - ANALYSIS

Country Report | Dec 2022

KEY DATA FINDINGS

- Retail value sales increase by 15% in current terms in 2022 to EUR5.3 billion
- Pastries is the best performing category in 2022, with retail value sales increasing by 23% in current terms to EUR890 million
- Vicky Foods Products SLU is the leading player in 2022, with a retail value share of 6%
- Retail sales are set to rise at a current value CAGR of 0% (2022 constant value CAGR of -2%) over the forecast period to EUR5.3 billion

2022 DEVELOPMENTS

Rising prices crunch retail volume sales

Having declined in 2021, Retail constant value sales (2022 prices) of baked goods rebounded in 2022. However, this was driven by a surge in unit pricing that was part of a wider inflationary wave—retail volume sales exhibited a decline during the year, as some local consumers (particularly those on lower incomes) reined in their discretionary spending. By the middle of 2022, the annual rate of inflation in Spain had reached double digits, before easing later in the year. In particular, the price of baked goods was pushed up by disruption to the international grain trade due to the war in Ukraine, as that country is a major exporter.

The health and wellness trend is also depressing retail volume sales of baked goods, as local consumers are increasingly wary of carbohydrates in general and sugar in particular. This is particularly impacting demand for cakes. Although the threat posed by the pandemic has waned, it has served to raise local consumer awareness of the long-term health risks associated with obesity, which is a growing public health issue in Spain.

New regulations on salt and product definitions

In April 2022, new regulations related to the maximum salt content in bread came into force. The bread quality standard was approved in April 2019 and came into force in July 2019, but the specific measure on salt content was delayed until 2022 to enable manufacturers to gradually reduce the amount of salt that they used. The new standard establishes a limit of 1.31g per 100g of bread (if it is analysed by determination of chlorides) or 1.66 grams of salt per 100g of bread (if it is analysed by determination of total sodium).

Although the industry had been voluntarily working on reducing the salt content of bread, the new regulation has put additional pressure on manufacturers and bakeries to adapt their recipes without sacrificing quality or taste. Salt acts as a flavour enhancer, as it highlights aromas and flavours. Moreover, a reduction of salt content leads to a less elastic dough, with a smaller volume and less consistency and colour.

Other regulatory changes have introduced definitions for certain products, such as whole wheat bread or different forms of preparation, like artisanal bread or bread made with sourdough. With regard to wholewheat bread, until now bread labelled 'wholemeal' often contained no more than a small proportion of whole wheat flour—typically refined white flour with a small addition of wheat bran and agents like malt to give it a golden colour. Now, bread can only be called wholemeal if it is made from 100% whole wheat flour.

Meanwhile, to be labelled as sourdough bread, the portion of sourdough must be at least 15% of the total weight. Moreover, it cannot contain more than 0.2% industrial yeast, and fermentation must take at least 15 hours. Sourdough bread must also be clearly labelled to make it easier for consumers to identify it.

Companies step up their sustainability efforts

Rising interest in sustainability (particularly among younger consumers) is beginning to have a visible impact on baked goods. Vicky Foods Products SLU, the leader in baked goods, is aiming to reduce its carbon footprint by up to 21% by 2025. It is also working to transition its Dulcesol brand to biodegradable packaging. Moreover, all of its cardboard now comes from sustainable forests with the Forest Stewardship Council label.

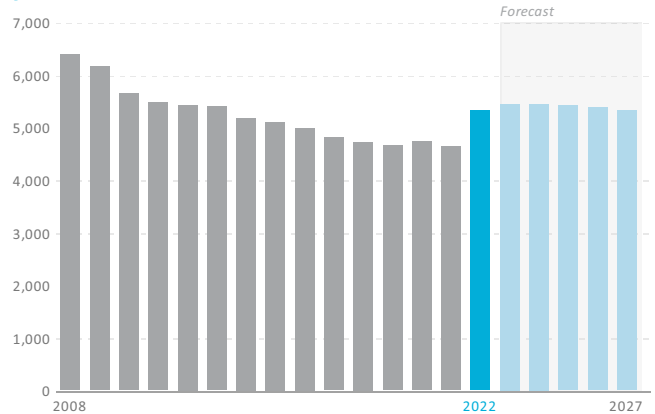
According to Europastry, a producer of frozen bakery goods for foodservice and retail, reduced its carbon dioxide emissions by 47% between 2019 and 2021. It has also

Market Sizes

Sales of Baked Goods

Retail Value RSP - EUR million - Current - 2008-2027

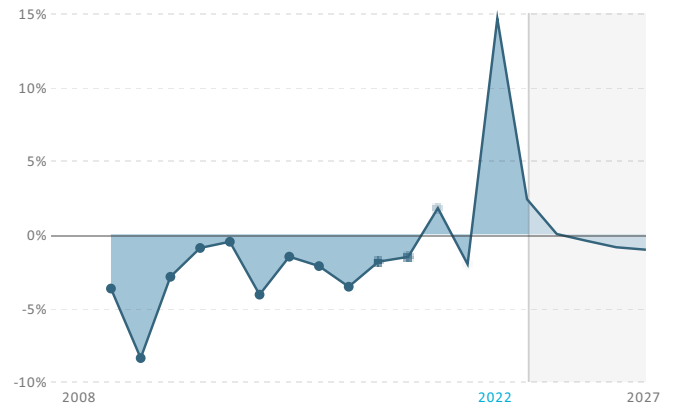
5,311



Sales Performance of Baked Goods

% Y-O-Y Retail Value RSP Growth 2008-2027

14.7%



committed to making its transportation fleet sustainable and (as part of a 'feed to table' strategy), encouraging reduced fertiliser use, an increase in crop rotation and the protection of biodiversity.

PROSPECTS AND OPPORTUNITIES

Health-conscious consumers will continue to reduce their consumption of bread

Even though unit pricing is set to stabilise in the review period, retail volume sales of baked goods will continue to decline throughout the forecast period. Leavened bread will be the weakest performer, as some increasingly health-conscious local consumers continue to shift their diets away from carbohydrates towards protein and healthy fats. Retail constant value sales will also decline.

However, packaged flat bread will buck the downward trend, with retail volume sales set to exhibit robust growth. Heightened local consumer demand for corn and wheat tortillas will continue to be driven by rising interest in Mexican cuisine. Moreover, a growing number of locals consumers will swap tortillas for traditional baguettes or packaged leavened bread for sandwiches, as the former has a much longer shelf life, is convenient to eat on the go, does not soak or crumble and can be eaten rolled or folded. Tortillas are also very quick and easy to heat in a microwave. However, General Mills and Mexifoods, two big players in packaged flat bread, are set to come under increased pressure from private label, as the product offer of the latter widens and consumers remain quite price sensitive—at least during the early part of the forecast period.

A significant number of local consumers will continue to seek to limit their intake of baked goods for health reasons during the forecast period. There has been significant negative media coverage of gluten, which has led some local consumers to seek to reduce their consumption of it or even avoid it altogether—even if they are not gluten intolerant. Local consumers are increasingly paying attention to product labels and doing research online. As a result, gluten-free bread is set to grow in popularity during the forecast period. This will also drive a trend towards 'clean' labels in baked goods i.e. products containing fewer and simpler ingredients that are more natural and less processed.

Traditional bakeries losing ground to supermarkets and discounters

While traditional bakeries (covered by food/drink/tobacco specialists) remained the leading distribution channel for baked goods in 2022, supermarkets and, to a lesser extent, discounters continued to cannibalise them. Traditionally, the level of trust in local bakeries in terms of safety and hygiene has been quite high among Spanish consumers. Their products are also generally regarded as being fresher, healthier and more natural than the offerings of supermarket chains. Bakeries also benefit from their proximity to consumers—most neighbourhoods have at least one bakery (and usually more). These are typically independent, but regional bakery chains are expanding. However, supermarkets and discounters are growing in popularity because of the convenience they offer (consumers can buy bread as part of their grocery shopping) and their highly competitive pricing in an environment where consumers are being squeezed by inflation.

Consumers embrace both tradition and innovation in cakes and pastries

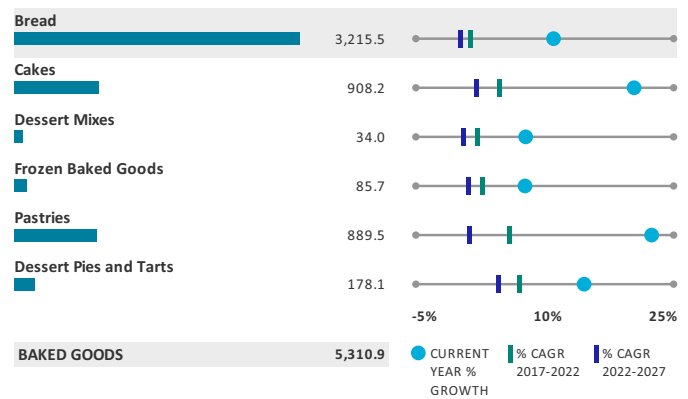
Retail volume sales of cakes and pastries will continue to decline throughout the forecast period, as Spaniards continue to seek to limit their consumption of sugar. On one hand, consumers will continue to exhibit loyalty to traditional flavours. In 2022, Vicky Foods relaunched its Pandorinos (a chocolate-filled pastry) with its traditional recipe to celebrate its 35th anniversary. The Vintage Pandorino comes in packs of two, each of which weighs 120. Vicky Foods has also launched Vicky's recipe traditional magdalenas (cupcakes) as a tribute to the founder of the group.

On the other hand, Spaniards are increasingly interested in out-of-the-ordinary taste experiences. They are looking for more exciting food experiences that are multisensory and startling. Blending flavours and creating new tastes are important to satisfy consumer demand. Moreover, for some, the visual appeal of a pastry is just as important as its taste. In 2022, Intercros Alimentacin, a producer of frozen baked goods, launched multicolour artisanal micro croissants that are covered with dark and white chocolate and come with strawberry, orange, lemon, pistachio or caramel toppings.

Sales of Baked Goods by Category

Retail Value RSP - EUR million - Current - 2022

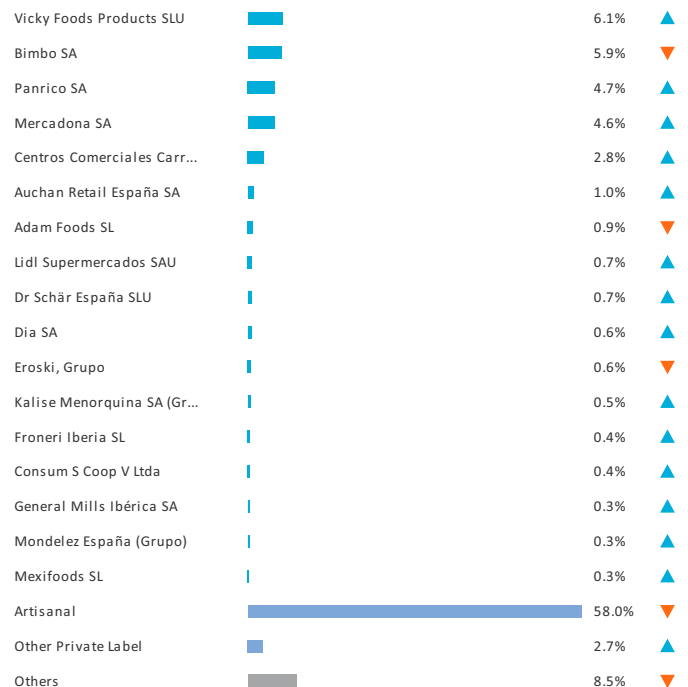
Growth Performance



Competitive Landscape

Company Shares of Baked Goods

% Share (NBO) - Retail Value RSP - 2022



Brand Shares of Baked Goods

% Share (LBN) - Retail Value RSP - 2022

