Passport

CHEESE IN SPAIN - ANALYSIS

Country Report | Sep 2022

KEY DATA FINDINGS

- Retail value sales grow by 5% in current terms in 2022 to EUR2.9 billion
- Soft cheese is the best performing category in 2022, with retail value sales growing by 6% in current terms to EUR836 million
- Grupo Lactalis Iberia SA is the leading player in 2022, with a retail value share of 14%
- Retail sales are set to increase at a current value CAGR of 4% (2022 constant value CAGR of 2%) over the forecast period to EUR3.5 billion

2022 DEVELOPMENTS

Inflationary pressure drives decline in retail constant value sales

While retail current value sales of cheese rebounded in 2022, this was driven by the sharpest increase in unit pricing in well over a decade. This was part of a broader inflationary trend, as the impact of post-pandemic supply chain bottlenecks was exacerbated by the war in Ukraine. This drove steep rises in the prices of agricultural products, agricultural inputs (such as fertiliser) and energy, resulting in sharply increased production and distribution costs for manufacturers of cheese. As a result, retail constant value sales actually declined during 2022—albeit at a significantly slower rate than in the previous year, when demand was negatively affected by a post-pandemic hangover. At the beginning of the pandemic, there was a notable switch of sales from foodservice to retail due to temporary outlet closures.

Some grocery retail chains use cheese as a loss leader to boost footfall in their stores. This squeezes margins and discourages manufacturers from investing in research and development. However, they are seeking to broaden consumption occasions for cheese. For instance, Millán Vicente reorganised its packaged cheese range by dividing it into cheeses for sandwiches, cheeses for cooking and cheeses to share. Companies have also diversified their product portfolios with new formats and alternatives to attract consumers. This was the case with Palancares Alimentos, which launched a new range of pre-cut slices of fresh cheese in line with the convenience trend, a protein-enriched Max Protein range with zero fat in line with the high-protein trend, and a new range of pressed goat cheese enriched with bifidus probiotics, under the Cabrachef brand.

An expanding product offer in premium hard cheeses

Hard cheese dominates retail constant value sales of cheese in Spain, with unpackaged hard cheese particularly popular. This is partly because it is perceived as less processed and thus more natural and healthier. Consumers are looking for intensive flavours, which is boosting demand for more mature offerings. As a result, manufacturers are expanding their offer of premium hard aged cheese. For example, García Baquero's Grand 62 is a blended cheese with 10 months of curing; Flor del Cadi, a cured cheese from the Pyrenees, also has a strong flavour and aroma; and Neu de Cadi is an aged cheese with aromas of truffle and herbs. Arla Foods has launched Castello Decorado, a gourmet cheese in six flavours under the slogan "eat the world." Its flavours includes Hawái (tropical fruits and pineapple), Italia (basil and tomato), Nordica (onion), India (spices), Mexica (pepper) and even Xmas (rum and raisin).

Soft cheese significantly outperformed hard cheese in terms of their respective rates of retail volume sales growth in 2022. More local consumers are using soft cheese in cooking. This is due in part to the wider availability of light versions of soft cheeses, such as brie and camembert, which contain much less fat and are thus regarded as healthier by some.

Grupo Lactalis Iberia retained its leadership of cheese in Spain in value terms in 2022 and remained the only individual player with a double-digit value share. It offers a wide product portfolio, including popular brands El Ventero, Gran Capitán and Président. The player regularly invests in innovation, adapting to consumers' needs in order to retain leadership of the competitive landscape, concentrating on convenience, flavours, formats and healthy attributes. However, the leading brand in 2022 will remain García Baquero (Lácteas García-Baquero), offering a range of cheese types, including the popular Manchego. Nevertheless, the competitive landscape in cheese remains very fragmented, with high and rising value shares for the smallest players.

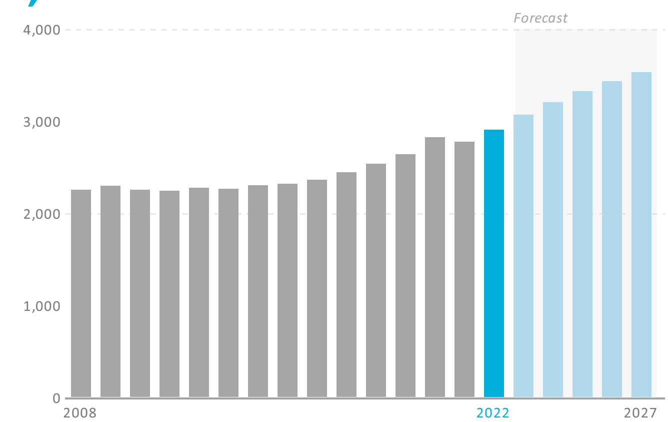
Private label is not as prominent in cheese as in some other categories of dairy (such as butter and spreads), but it nonetheless accounted for close to a quarter of retail value

Market Sizes

Sales of Cheese

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

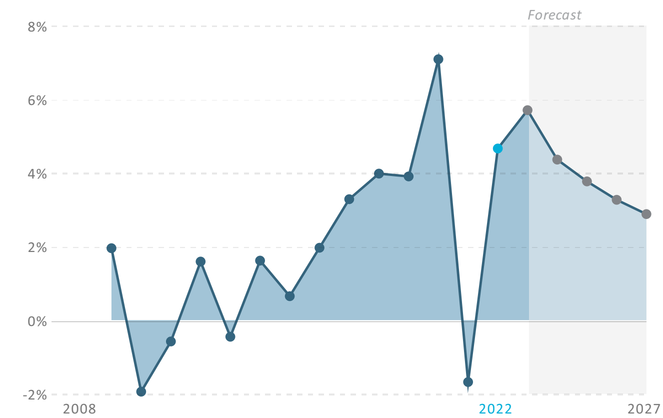
2,897



Sales Performance of Cheese

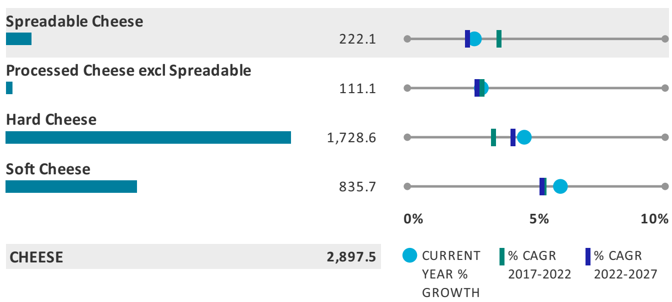
% Y-O-Y Retail Value RSP Growth 2008-2027

4.7%



Sales of Cheese by Category

Retail Value RSP - EUR million - Current - 2022 | Growth Performance



sales in 2022. Grocery retailers are expanding their private label offer with premium ranges. Organic and lactose-free cheese have been amongst the fastest-growing types of cheeses across the different product types, thanks to the launch of such products by private label players. Private label has a good reputation in Spain, and such products are usually offered at reasonable unit prices, which has been important to consumers due to the economic impact of the pandemic. Meanwhile, BabyBel from Queserías Ibéricas has launched other types of cheeses which are perceived as healthier, such as cheese fortified with protein, as well as BabyBel Plus, enriched with vitamins and probiotics.

Increased demand for healthy, natural snacks represents a growth opportunity

Rising consumer interest in healthy and natural snacks is a growth opportunities for manufacturers of cheese. The removal of COVID-19 restrictions has boosted impulse purchasing and on-the-go consumption, which is encouraging new product launches in this space. For example, Millán Vicente (Royal FrieslandCampina) launched Merienda (a word that means “mid-morning snack” in Spanish) under the Millán Vicente brand. This new range comes in packs of six individual bars that are packaged in paper. It is available in two varieties—Gouda creamy and low-fat Gouda. Targeted at children, the packaging of each individual portion is decorated with the popular Minions animated characters, with ten unique designs intended to catch their attention.

PROSPECTS AND OPPORTUNITIES

Grazing trend will boost cheese consumption

The rate of growth in retail volume sales of cheese will accelerate sharply in 2023, before easing during subsequent years. While hard cheese will remain dominant, the relative popularity of soft cheese will continue to grow. During the forecast period as a whole, cheese will benefit from the trend towards ‘grazing’—eating small snacks throughout the day, rather than large meals—with accelerating consumer lifestyles playing an important role in this.

Cheese will also continue to benefit from its perception as a relatively healthy snack. Heightened local consumer interest in health and wellness may boost demand for cheese made from goat’s milk and sheep’s milk, rather than cow’s milk. Accelerating consumer lifestyles will also help to boost demand for grated cheese when cooking such dishes as pizza or lasagne or to preparing salads. Millán Vicente (Royal FrieslandCampina) has launched a range of grated Parrano cheese in resealable packaging. Private label grated cheese is also widely available. Meanwhile, local consumers will discover new ways to use cheese, from cooking different dishes to aperitivos, while the Spanish Cheese Association will continue to promote cheese consumption. While private label is a significant presence in cheese, brand products dominate, and this is unlikely to change during the forecast period.

Marketing campaign seeks to reinforce the dominance of local cheeses in the face of increased imports

Local hard cheese like manchego continue to dominate, and this is unlikely to change during the forecast period. In 2020, dairy industry trade group INLAC launched a marketing campaign called Quesea (‘queso’ is cheese in Spanish) to support local brands in the context of rising imports of competitively priced cheese, particularly by discounters Aldi and Lidl, which are rapidly expanding their store networks in Spain. The campaign sought to link the consumption of different types of cheese to different times of the day and to increase consumer awareness of the culture associated with cheese. It also worked with such grocery retail chains as Carrefour to achieve a greater diversification of the product offer of domestic cheeses on the latter’s store shelves. The campaign also sought to highlight the flavours and nutritional qualities of local cheese in comparison to imported offerings.

Dairy-free alternatives will grow in popularity

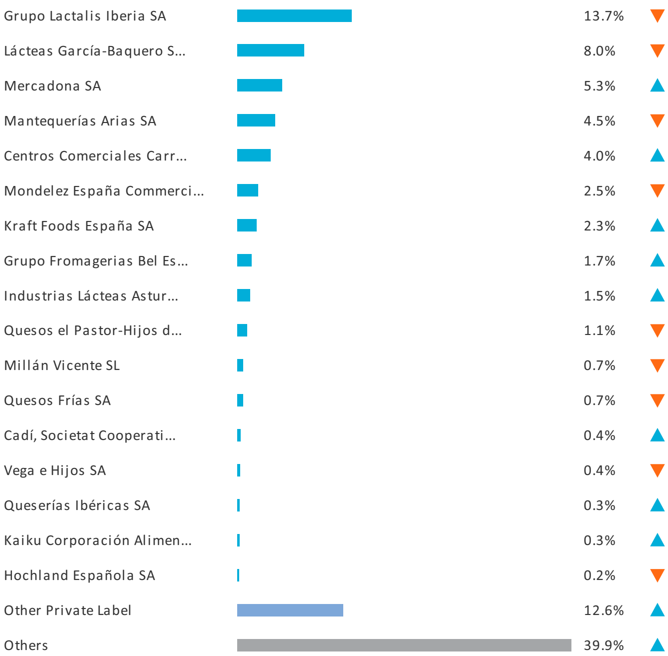
Dairy-free alternatives are set to gain more space in cheese in Spain, due to the rising number of people following a vegan diet and greater awareness of dairy intolerance. Towards the end of the review period, Quesería Lafuente launched a Lafuente Veggie cheese alternative. Furthermore, Vicky Foods expanded its Be Plus range to include a vegetable alternative to cheese made with a coconut base. In mid-2021, Violife entered Spain with milk-free cheeses, whilst the French group Biobel plans to start the distribution of its plant-based cheese Nurishh later in 2021. Local manufacturers of such products are also emerging, such as Veganfeel from García Baquero.

This is particularly important, as consumers are expected to increasingly seek local products following the pandemic. Before COVID-19, national brands already generated more than 50% of Spanish consumption of hard and soft cheeses. However, local consumers’ patriotism is likely to intensify over the forecast period as they have shown a preference for brands that show a commitment to their community during the pandemic. The sustainable positioning of most local brands is also likely to contribute to demand. These types of products are likely to increasingly attract health-conscious consumers over the forecast period, as they look for healthier alternatives and lactose-free alternatives.

Competitive Landscape

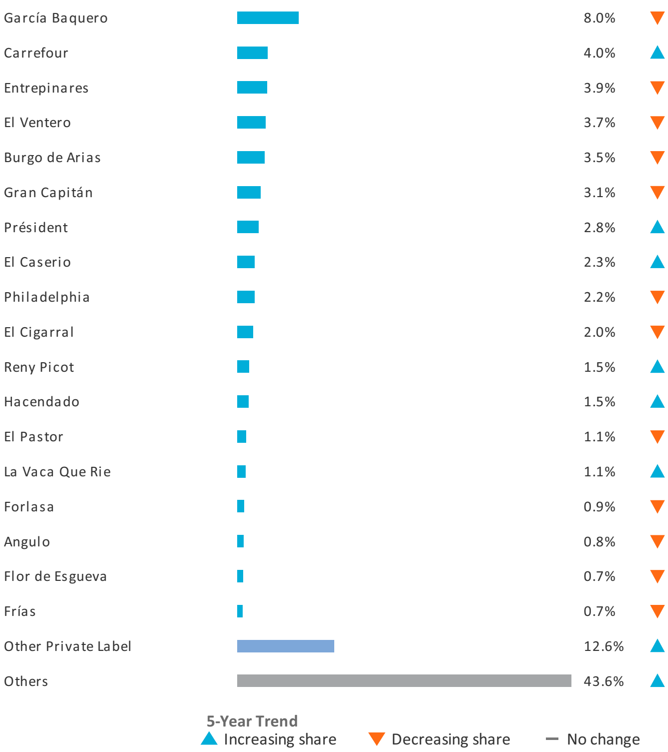
Company Shares of Cheese

% Share (NBO) - Retail Value RSP - 2022



Brand Shares of Cheese

% Share (LBN) - Retail Value RSP - 2022



There has been a great deal of debate in Spain about the environmental problems caused by the plastic produced by the food industry. Therefore, packaging is changing rapidly, including within cheese, and this is set to continue in the forecast period. Manufacturers are likely to gradually move towards the use of less plastic, recycled plastic or 100% recyclable plastic for their cheese products.