

## OTHER DAIRY IN SPAIN - ANALYSIS

Country Report | Sep 2022

### KEY DATA FINDINGS

- Retail value sales rise by 1% in current terms in 2022 to EUR896 million
- Chilled and shelf stable desserts is the best performing category in 2022, with retail value sales rising by 2% in current terms to EUR528 million
- Danone SA is the leading player in 2022, with a retail value share of 19%
- Retail sales are set to decrease at a current value CAGR of 0.4% (2022 constant value CAGR of -3%) over the forecast period to EUR877 million

### 2022 DEVELOPMENTS

#### Pandemic boost to demand proves to be short lived

Having been briefly boosted by COVID-19 lockdowns in 2020, retail constant value sales of other dairy resumed their long-term decline in 2021, and this trend continued into 2022. However, the rate of decline in retail constant value sales slowed significantly. Retail current value sales rose during the year due to the steepest rise in unit pricing in almost 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 feedstock, agricultural inputs (such as fertiliser) and energy, resulting in sharply increased production and distribution costs for dairy processors.

Other dairy is dominated by chilled dairy desserts, with cream and fromage frais and quark also relatively popular. Demand in desserts is being driven by two apparently contradictory trends—indulgence and health (with an emphasis on protein). Chilled snacks continued to perform poorly during 2022. These products mainly target children, but a growing number of parents are seeking to reduce the sugar consumption of their offspring. Demand for chilled snacks is relatively low in Spain due to the country's relatively warm climate, as many parents do now want to put snacks that could melt into the lunch boxes of their children.

Many Spanish consumers tried to deal with the stress of the pandemic and the lack of ability to socialise by creating more elaborate and indulgent foods to spoil themselves and make them feel better. This helped cream and condensed milk to return to growth in 2020. During this time, social media has proven to be a perfect vehicle for people to share their culinary creations and encourage cooking. However, this trend proved to be short lived, with the growth that was generated in 2020 evaporating as pandemic restrictions were eased and daily life normalised. On the other hand, demand for condensed milk has been supported by the wider availability of plant-based alternatives. Meanwhile, Prosalud, a traditional oil and vinegar company, diversified its business in early 2020 by launching the Milvalles brand of condensed milk, with classic, skimmed and lactose-free versions available.

#### Indulgence and protein the key trends in chilled dairy desserts

High-protein offerings continue to grow in popularity, supported by improvements in the taste and texture of these products, in addition to heightened local consumer interest in being (and looking) fit and healthy—with protein increasingly being regarded as key to this (particularly in terms of building muscle). During 2022, Postres Reina SA (third placed in dairy desserts) continued to expand its offer of high protein products with its Rich in Proteins range of chocolate and vanilla custards. These products have 0% added sugar and 10g of protein per unit (2x100 g packs).

The premium segment is the other main growth opportunity in chilled dairy desserts. Here, the watchword is indulgence. With this in mind, Nestlé launched Nestlé Gold Crunchy Custard, which it claims presents a contrast of textures between a delicious chocolate or vanilla custard with a spiral of sheets of intense chocolate.

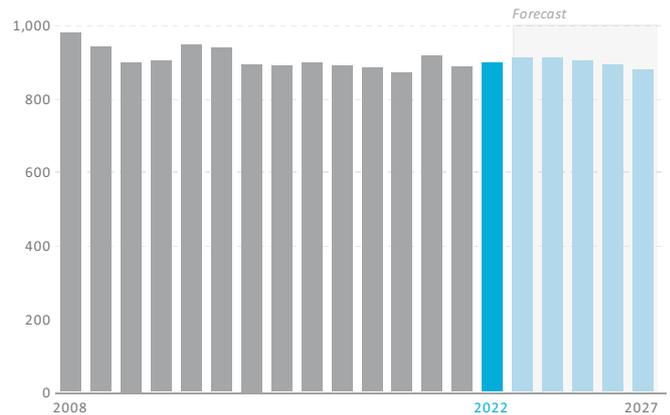
Demand for cream was boosted by increased home cooking and baking during 2020, but retail constant value sales declined sharply during both 2021 and 2022—albeit at a more modest rate during the latter year—as local consumers spent more time at home. It also faces increased competition from evaporated milk, which is backed by strong marketing. The texture of evaporated milk is slightly denser than liquid milk but thicker than cooking cream. Due to these qualities, it is especially suitable for preparing sauces or in pastry recipes. Nestlé continues to dominate evaporated milk continues, but it is facing rising competition from private label, with Mercadona launching private label evaporated milk in 2019, for example.

### Market Sizes

#### Sales of Other Dairy

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

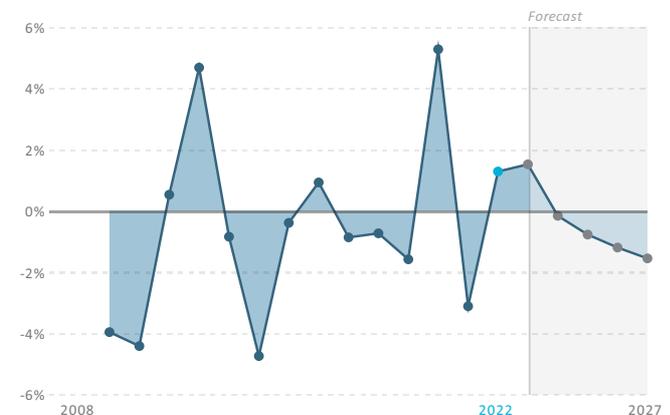
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#### Sales Performance of Other Dairy

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

# 1.3%



## Danone increasingly squeezed by private label and premiumisation

Mercadona's private label Hacendado remained the leading brand in other dairy during 2022, ahead of French multinational Danone. The latter is strong in chilled and shelf-stable desserts, with such offerings as Danone para postres ("for desserts"), Danet, Mousse and Vitalinea, which have long been popular among local consumers. It also has a strong presence in the smaller category of fromage frais and quark, offering well-known brands such as Petit Danone and Danonino. Nevertheless, the company is coming under increased pressure in terms of retail value share, as other dairy is moving towards greater sophistication, specifically in terms of chilled dairy desserts. Therefore, Danone is starting to focus on sophistication within chilled dairy desserts under its brand Danone Mmmh!, a line of flans available in four flavours, (egg, egg 0% fat content, coffee and chocolate), which was launched towards the end of the review period with the intention of consolidating its position. Meanwhile, private label continues to grow in popularity among more price-sensitive local consumers, with elevated inflationary pressure during 2022 serving to deepen this trend.

## PROSPECTS AND OPPORTUNITIES

### Increasingly sophisticated private label offerings will continue to gain ground

Retail constant value sales of other dairy will continue to decline throughout the forecast period. Brands, particularly Danone, will continue to be squeezed by private label, with retailers widening their offer to include more premium offerings, such as high-protein chilled dairy desserts. As long as the rate of inflation remains elevated, private label is likely to continue to gain ground. As a result, Danone is unlikely to regain its leadership position in other dairy during the forecast period.

With yoghurt manufacturers addressing the health and wellness trend by offering an increasing range of fat-free, lactose-free, dairy-free and high protein products, in addition to more indulgent references through the use of interesting fruit combinations, manufacturers of chilled dairy desserts and fromage frais will be forced to look at developing their own offers in similar ways if they want to halt the decline in sales over the forecast period. As a result, companies will have to focus on meeting consumers' needs if they want to prevent them from switching to yoghurt as a healthier alternative.

Reduced-fat other dairy products or other dairy products containing added functional ingredients, such as protein, are expected to emerge with strength over the forecast period. The trend towards dairy products with a high protein content, which saw strong development in yoghurt towards the end of the review period, is already starting to extend into chilled dairy desserts and chilled snacks, and this is expected to continue over the forecast period. A new product has already been seen from the brand Valio, which launched Valio PROfeel Protein Pudding in chocolate and caramel flavours, containing 20g of protein per unit. Similarly, the Ehrmann brand has enjoyed success following the launch of its High Protein Pudding, which is a low-calorie, chocolate-flavoured custard-type dessert with 20g of protein per unit. Reina has also continued to develop its healthy range Equilibrio through innovative launches such as a protein flan. In 2021, Mantequeras Arias introduced skyr in Spain, under the brand Burgo de Arias. Skyr is a cultured dairy product from Iceland which is characterised by being high in protein content. Demand for protein is on the rise as consumers are doing more sport and reducing their intake of animal proteins; therefore, launches of such high-protein offerings are likely to intensify over the forecast period, as more consumers become aware of the health benefits of a high-protein diet.

### Plant-based desserts will pose a growing competitive threat

Plant-based desserts will continue to grow in popularity, with the likes of Danone and host of smaller players set to launch more products in this space. For example, Abbot Kinney's has launched two plant-based desserts, with coconut the star ingredient—Coco Straccietella, which is made of organic chocolate, coconut cream and almond protein, and Coco Flor de Naranja, a fruity coconut dessert containing 23% orange cream, organic and fresh orange blossom and a touch of lemon juice. Sugar-free desserts are also likely to proliferate, amid increased health consciousness—a trend that has been deepened by the pandemic.

Meanwhile, sustainable products are also likely to perform well, with products in recycled and/or recyclable packaging, such as glass, set to become increasingly popular. These types of packaging formats are likely to gain traction over the forecast period, as consumers become increasingly wary of single-use plastic packaging due to the waste that it generates.

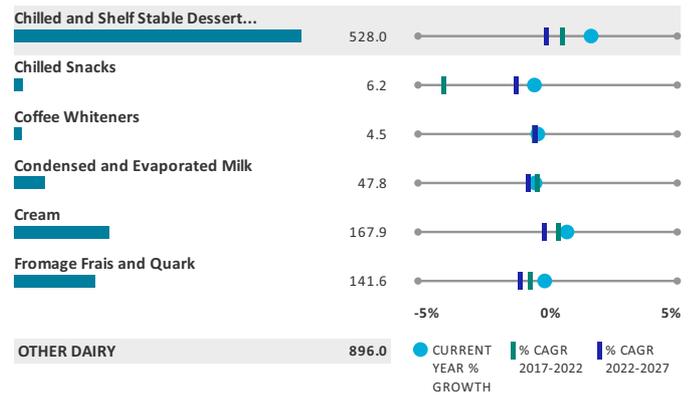
### Plant-based offerings will also pose a growing threat to condensed milk and coffee whiteners

Condensed milk and coffee whiteners will also see increasingly stiff competition from plant-based alternatives, as well as ready-to-drink coffee with added milk. Demand for fromage frais and quark will continue to be undermined by a lack of innovation in terms of taste and texture. In Spain, flavoured fromage frais is mainly targeted at small children, with strawberry, banana and chocolate the main flavours.

## Sales of Other Dairy by Category

Retail Value RSP - EUR million - Current - 2022

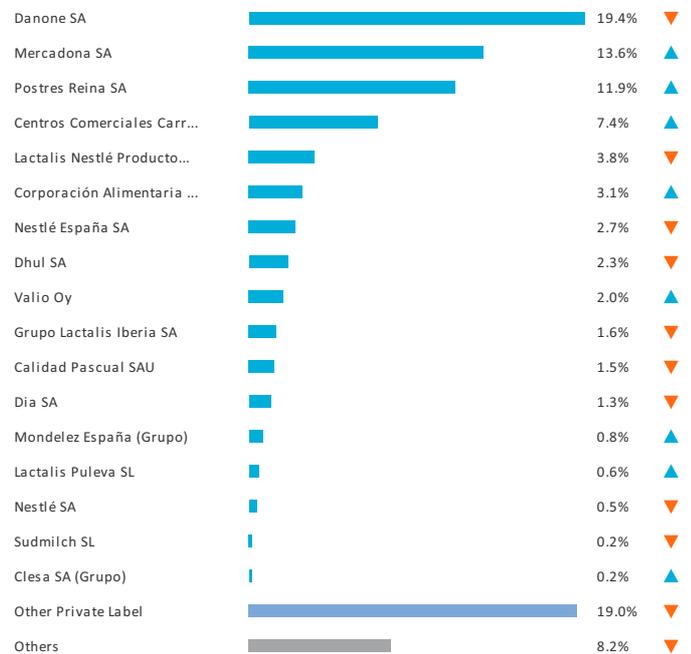
Growth Performance



## Competitive Landscape

### Company Shares of Other Dairy

% Share (NBO) - Retail Value RSP - 2022



### Brand Shares of Other Dairy

% Share (LBN) - Retail Value RSP - 2022

