

SWEET SPREADS IN SPAIN - ANALYSIS

Country Report | Nov 2022

KEY DATA FINDINGS

- Retail value sales rise by 11% in current terms in 2022 to EUR530 million
- Chocolate spreads is the best performing category in 2022, with retail value sales rising by 12% in current terms to EUR205 million
- Idilia Foods SL is the leading player in 2022, with a retail value share of 17%
- Retail sales are set to rise at a current value CAGR of 2% (2022 constant value CAGR of -0.2%) over the forecast period to EUR588 million

2022 DEVELOPMENTS

Health trend puts chocolate spreads in the spotlight

Despite a marginal decline in retail volume sales, retail constant value sales (2022 prices) of sweet spreads saw moderate growth in 2022 on the back of a significant increase in unit pricing. However, the rise in unit pricing in sweet spreads was much smaller than in many other packaged food categories. In Spain, retail volume sales of nut and seed based spreads are dominated by jams and preserves and chocolate spreads, with honey also fairly popular.

While demand for nut and seed based spreads remains very limited, both distribution and the product offer are widening. During the latter part of the review period, supermarket Mercadona launched private label smooth and, later, chunky peanut butter in glass jars, for example. Both of these offerings are made from 100% peanuts and do not contain such additives as palm oil or sugar. The packaging stresses that they are high in protein.

Chocolate spreads are particularly popular with children. They are usually eaten on bread at breakfast or as a mid-morning or mid-afternoon snack. However, as parents become more health conscious, demand is coming under pressure, with retail volume sales exhibiting a marginal decline in 2022. Rising childhood obesity rates likely played a role in this. A study conducted by the FEC (Fundación Española del Corazón) has estimated that a third of children in Spain are overweight.

Idilia Foods has launched Nocilla Noir with an intense dark chocolate flavour. Like the rest of the Nocilla range, Nocilla Noir does not contain palm oil and is suitable for coeliacs. The new variety is also suitable for vegans, as it does not contain any ingredients of animal origin (not even milk). However, its more intense flavour may not appeal to children. Nocilla from Idilia Foods and Nutella from Ferrero Ibérica are the leading brands in chocolate spreads.

During the second half of the review period, several new players entered chocolate spreads. These included Lindt (which offers spreads in two flavours: cocoa and chocolate cream with hazelnuts) and Mondelez which launched its Milka chocolate spread (another cocoa cream with hazelnuts product). Given the brand's presence in chocolate, many consumers were keen to try their products in spread form, stimulating category growth.

Sweet spreads had been under increasing pressure in Spain during the review period prior to the pandemic due to changes in breakfast routines. During the pandemic, sweet spreads received a significant boost in consumption as many Spaniards sought small, sweet indulgences to alleviate the boredom of lockdown. Consumers are also engaging in more at-home breakfast occasions because of an increase in flexible working—a trend that has outlasted the pandemic.

These products are typically enjoyed by all family members and are relatively inexpensive. Recent new launches in the category have helped to maintain consumer interest. This includes artisanal recipes with less sugar, higher fruit content, and exotic flavours. Helios (by Dulces y Conservas) has a line called Pure Fruit, which is comprised only of natural sugars, free from gluten, and available in a variety of flavours including apricot, blueberry, and Mediterranean black figs.

Organic offerings continue to proliferate, but flavour remains an issue for many consumers

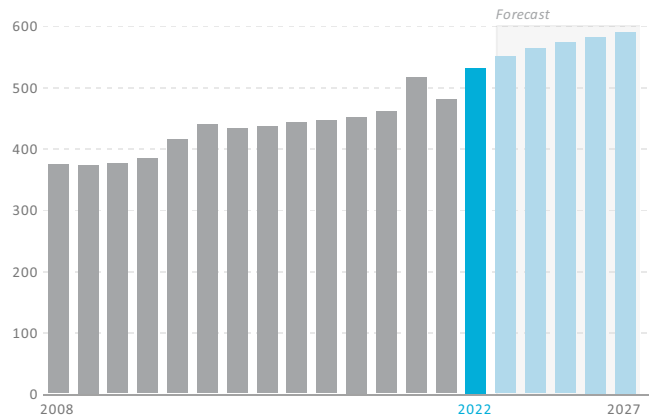
Organic offerings are proliferating in sweet spreads and growing in popularity, with manufacturers adjusting their formulas in an effort to meet the taste expectations of consumers. This is because a lack of taste is a frequent consumer complaint when it

Market Sizes

Sales of Sweet Spreads

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

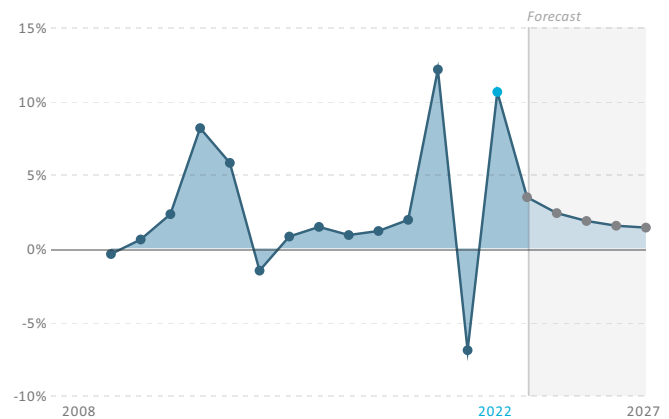
530



Sales Performance of Sweet Spreads

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

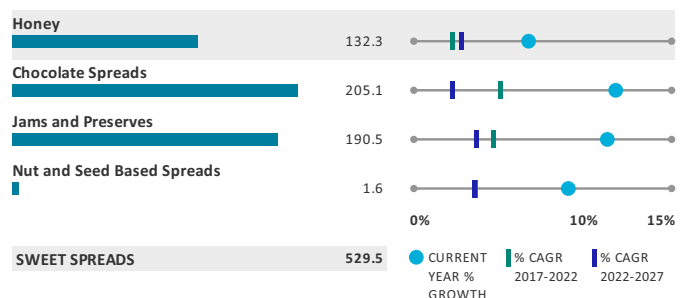
10.6%



Sales of Sweet Spreads by Category

Retail Value RSP - EUR million - Current - 2022

Growth Performance



comes to organic sweet spreads. For example, Natruly, a producer of organic chocolate and nut and seed based spreads, relaunched its product range with a new flavour and a smoother texture but with no added sugar or sweeteners.

In 2022, Ángel Camacho, which makes the popular marmalade brand La Vieja Fabrica, launched a new organic range (peach, strawberry and bitter orange) with a higher fruit content. Meanwhile, Biocop has launched chocolate spread Vida Vegan, which is 100% organic, vegan, fair trade, palm oil-free gluten-free and soy-free.

Grocery retailers, particularly supermarkets, dominate the distribution of sweet spreads, but e-commerce has emerged as a small, but significant channel, particularly since the onset of the pandemic. Specialized chains like Herbolario Navarro and Veritas are growing in popularity with local consumers seeking natural and organic products in sweet spreads. These two chains now have 50 and 80 stores nationwide, respectively. Both of these chains also have an online presence.

Premium products defy downturn in honey demand

Over the review period, honey saw a decline in retail volume sales due to consumers increasingly avoiding products that are high in sugar. However, as demand is increasing for higher-quality honey, constant retail value sales have outperformed retail volume sales. More consumers are willing to spend on higher-quality products as they seek to boost their immunity and general wellbeing. Apícola Bierzo Sociedad Cooperativa produces the most expensive honey in Europe, but demand for its products has remained strong. The cooperative is actively pursuing organic certification for all its hives.

Credentials, such as being locally produced, are very important for honey sales in Spain, as beekeepers have been negatively impacted by imports and Spaniards want to support local businesses. Spain is one of the main producers of honey in Europe, typically exporting more than 20,000 tonnes per year. Even so, producers will continue to find it difficult to cover production costs. One reason for this is a strong increase in imports, especially from China, which are lower in price and quality, which puts downward pressure on unit pricing.

Currently, the honey that is sold in Spain can have a mix of 1% Spanish-origin ingredients and the remaining mix being of Chinese or Argentinian origin, with the label stating only that it is a combination of honey produced inside and outside the EU. For this reason, Spanish beekeepers are demanding clean labels, with the exact origin and percentages of the mix. This is something that will likely be implemented soon and will lead to a fairer value positioning for Spanish products.

PROSPECTS AND OPPORTUNITIES

Declining demand for chocolate spreads and honey will drag down retail volume sales of spreads

There will be a slight decline in both retail constant value sales and retail volume sales of sweet spreads during the forecast period as a whole. Honey and particularly chocolate spreads will be the main driver of this. As an ageing population increasingly watches what it eats, the health and wellness trend will persist. In contrast, there will be modest growth in both retail volume and constant value terms for jams and preserves and nut and seed based spreads.

Manufacturers will increasingly seek to target parents with young children, aiming to convince them of the essential healthfulness of their offerings. For example, in 2022, the Association of Honey Manufacturers launched its 'millennials' campaign to promote the consumption of honey among families, seeking to exploit its antibiotic and antiviral qualities.

Product innovation will also accelerate, but with such a traditional product as honey, this is challenging. Nonetheless, manufacturers are trying, with Granja San Francisco launching honey that is less viscous and thus more spreadable. It has also launched honey in a cardboard cup in an effort to make the product more sustainable.

Health and wellness trend will favour nut and seed based spreads

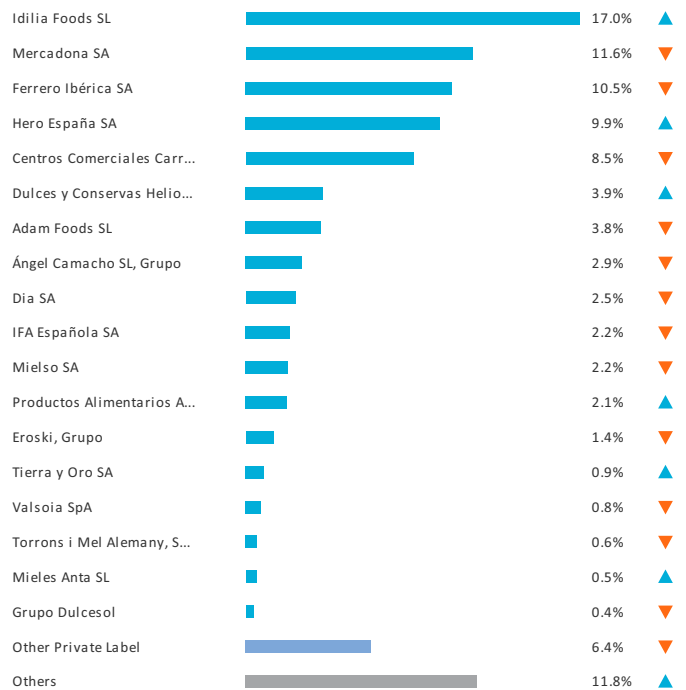
Sweet spreads perceived as healthier are expected to grow during the forecasting period, as high sugar content remains a major concern in Spain, especially in products consumed by children. A reduction in sugar content or the presence of more sugars that are perceived as more natural, such as brown sugar or whole cane sugar, may help to boost demand. This particularly holds true for chocolate spreads, where it is leading manufacturers to increase their offer of low-sugar, free-from-additives and free-from-preservatives recipes. For example, Nocilla recently launched Chocoleche, a chocolate spread with no added sugar or palm oil.

Consumers are also likely to be increasingly interested in healthy alternatives in nut and seed based spreads. The high protein content and strong health properties of the category are important factors favouring these products, especially among sports and gym enthusiasts who are seeking to build muscle. They are also highly versatile. For example, peanut butter can be consumed on bread or toast, with a banana or even on its own.

Competitive Landscape

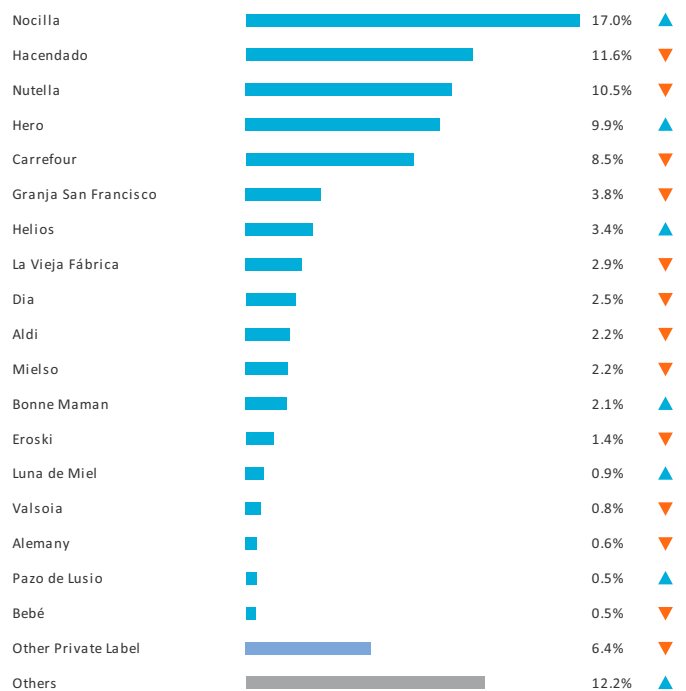
Company Shares of Sweet Spreads

% Share (NBO) - Retail Value RSP - 2022



Brand Shares of Sweet Spreads

% Share (LBN) - Retail Value RSP - 2022



5-Year Trend
 ▲ Increasing share ▼ Decreasing share — No change

Demand for other types of nut and seed based spreads, such as tahini and cashew or almond butter, remains quite limited in Spain, but consumer awareness is growing. During the latter part of the review period, Mercadona launched private label tahini (a spread made from sesame seeds that is of Middle Eastern origin). However, relatively high pricing will hamper demand growth somewhat, particularly in the inflationary environment that is set to persist into the early part of the forecast period.

CSR will become more prominent

Corporate social responsibility (CSR) will become more prominent during the forecast period, as manufacturers of sweet spreads seek to burnish their brands in order to enhance consumer loyalty. For example, in chocolate spreads, Idilia Foods, has created Cola Cao Foundation to celebrate the individuality of each child and fight bullying through marketing, education, and research. It is collaborating with anti-bullying NGO NACE (Asociación No al Acoso Escolar—Anti-Bullying Association) in this initiative.