

YOGHURT AND SOUR MILK PRODUCTS IN SPAIN - ANALYSIS

Country Report | Sep 2022

KEY DATA FINDINGS

- Retail value sales increase by 4% in current terms in 2022 to EUR1.7 billion
- Sour milk products is the best performing category in 2022, with retail value sales increasing by 12% in current terms to EUR77 million
- Danone SA is the leading player in 2022, with a retail value share of 56%
- Retail sales are set to increase at a current value CAGR of 1% (2022 constant value CAGR of -1%) over the forecast period to EUR1.8 billion

2022 DEVELOPMENTS

Inflationary pressure weighs on demand

Apart from the exceptional year of 2020, retail constant value sales of yoghurt and sour milk drinks have been in decline for more than a decade, and this trend continued into 2022—albeit at a much slower rate than in the previous year. However, retail current volume sales rose marginally during the year. This was driven by a steep rise in unit pricing that 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 yoghurt. As a result, the unit price of yoghurt rose at its most rapid rate in well over a decade (in current prices). More generally, inflationary pressure made many local consumers more price sensitive. As a result, private label continued to grow in popularity in terms of retail value share during the latter part of the review period.

During the periods of lockdown and home seclusion as a result of COVID-19, consumers were able to spend more time having breakfast due to home seclusion and preferred to eat a healthy breakfast. They also cooked more at home, which boosted demand for plain yoghurt. These factors explain why plain yoghurt performed particularly well in 2020. However, this dynamic performance was not sustainable, and it dissipated once conditions normalised. Moreover, plain yoghurt is suffering from rising competition from sour milk products, especially kefir, which is gaining popularity in Spain for its positive health impact, with the likes of Mercadona and Carrefour now offering private label kefir. More positively, yogurt has expanded beyond the breakfast daypart and grown in popularity among consumers looking for a snack in the afternoon.

Demand for yoghurt is fairly mature in Spain, so manufacturers attempt to boost sales by regularly innovating in terms of formats, ingredients and flavours. During the latter part of the review period, discounter Lidl launched mojito and sangria creamy yogurt, while Danone expanded its Oikos range with an offering that included a “layer of authentic Valor chocolate” in collaboration with premium brand Chocolate Valor. Lactalis Nestlé launched a three-layered yoghurt in April 2022 under the brand name Trío de Sabor under the La Lechera umbrella. It is available in two flavour combinations—caramelised apple with creamy yogurt and a final touch of sweet caramel and strawberry jam with creamy yogurt and a final touch of intense chocolate.

Pastoret de la Segarra cultivates a premium image through high-quality packaging and distribution through gourmet food stores

Pastoret de la Segarra, which focuses on the premium yogurts and sour milk products, has found success with premium offerings in yoghurt. It has also managed to gain a foothold in organic yogurt. It leverages graphic design, packaging and its product range to promote an artisanal image. Apart from supermarkets and hypermarkets, its products are also distributed through gourmet food stores. While this may not be a significant channel in terms of retail volume sales, it helps to burnish the brand’s image as a high-quality offering. It also has a focus on sustainability, particularly local sourcing to reduce food miles. Moreover, 98% of its packaging made from recyclable materials like cardboard, glass and ceramics, and the company has been involved with two reforestation projects that resulted in the planting of more than 1,500 trees.

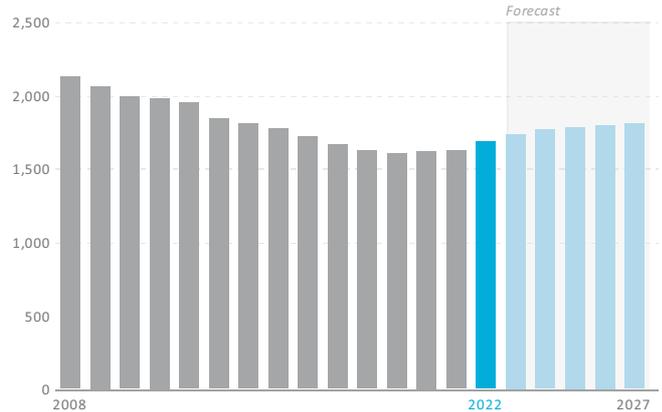
In line with the trend seen in other dairy categories, some producers are focusing on developing healthy alternatives to boost demand for yoghurt and sour milk products. For example, NaturGreen, which was the first company to bring a wide range of 100% plant-based drinks to Spain, launched Biogurt during the latter part of the review period. The launch includes a new Bio range of yoghurts and kefir, with six yoghurt alternatives and three kefir alternatives made with coconut, cashews and almonds. The

Market Sizes

Sales of Yoghurt and Sour Milk Products

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

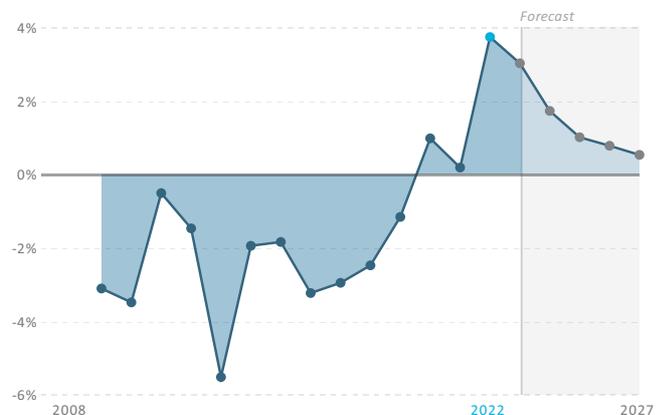
1,681



Sales Performance of Yoghurt and Sour Milk Products

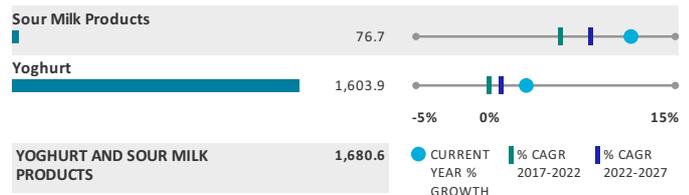
% Y-O-Y Retail Value RSP Growth 2008-2027

3.7%



Sales of Yoghurt and Sour Milk Products by Category

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



products are made entirely from vegetables, making them suitable for vegans, while also containing no added sugar, gluten, egg, milk protein or soy, thus catering to consumers with various types of dietary restrictions.

Another launch of a healthy alternative was Garin Cobian's launch of Yogur Natural, which is made from A2 milk. The product was developed in Spain and has almost no precedent in Europe. The main selling point of yoghurts made with A2 milk is that this type of milk does not contain beta-casomorphine (BCM-7), a peptide that is associated with various diseases related to gastrointestinal function, cardiovascular disease, autism, schizophrenia and decreased cognitive function, as well as decreased intestinal contractions. In general, A2 protein has better health properties than A1, which is why the consumption of this type of milk and its derivatives is suitable for people with intolerances. Furthermore, this type of protein claims to aid in better digestion and the general processing of dairy products.

Alimentos de Segovia launches drinking yoghurt made from donkey's milk

Drinking yogurt performed relatively well during 2022, with no more than a marginal decline in retail constant value sales. Demand for drinking yoghurt has been supported by a revival in on-the-go consumption due to the relaxation of COVID-19 restrictions on movement. In 2022 Alimentos de Segovia launched Yoburri donkey milk drinking yogurt ("Burro" means "donkey" in Spanish). It consists of 70% donkey's milk and 30% sheep's milk. It is available in six flavours—natural, tangerine, pineapple and coconut, strawberry and orange and violet caramel. The company claims that milk has a very similar composition to breast milk. It is rich in vitamins A, B, C, D and E and in such minerals as calcium, magnesium and phosphorus.

PROSPECTS AND OPPORTUNITIES

Appreciation of the health benefits of sour milk drinks will continue to widen

Retail constant value sales of yoghurt and sour milk drinks will continue to decline throughout the forecast period, with sour milk products remaining the top performer. Local consumers are becoming increasingly aware of the digestive benefits of consuming products like kefir, as well as the importance of the gut microbiota to overall health and wellbeing. Within yoghurt, only drinking yoghurt will buck the downward trend.

Traditionally in Spain, yoghurts have been eaten as a dessert, but this positioning will continue to change over the forecast period. Consumers are increasingly seeking products that are suitable for other consumption occasions, such as for snacking or for exercise. Consumers are likely to be increasingly attracted by the functional benefits associated with such products. Companies have already begun innovating in line with this trend, as seen by the launch of the Arla Protein range, which contains 20g of protein, is low in carbohydrates and fat and contains no added sugar.

Trade Group The Spanish Association of Manufacturers of Yogurt and Fresh Dairy Desserts has long lobbied the government to reduce the rate of VAT levied on natural yogurt from 10% to 6% in order to promote public health. Success in this endeavour would naturally have a positive effect on demand for natural yoghurt. In spite of these efforts, the government appears unlikely to give ground for the foreseeable future.

Manufacturers need a broad product portfolio to compete effectively

Many Consumers of yoghurt tend to eat a wide variety of them—opting for a Greek yoghurt for dessert on Monday and a plant-based yoghurt for breakfast on Tuesday, for example. To succeed in this environment, manufacturers need a wide portfolio of offerings, with leader Danone particularly well placed in this regard.

Apart from Danone, which is consolidating its portfolio both dairy and vegetable alternatives, other companies are diversifying their product ranges. For example, in 2022, Pastoret launched a complete range of vegetable alternatives to yogurt in an effort to better compete with Danone. The base ingredient in Pastoret's plant-based yoghurts is almond paste from Mallorca. The product range includes the 500g format in three flavour (strawberry, banana and mango), as well as an 135g format (beetroot, pumpkin-orange and tomato) in glass containers.

Smaller innovative players are likely to continue applying pressure to incumbents like Danone. For example, Biogeminis, which specialises in dairy products made with goat's milk, launched a new brand in 2020. The launch had a premium positioning based on superior quality. The brand is committed to providing consumers with natural products that are not homogenised, along with a commitment to use fresh milk without mixes and never using frozen milk. The range is free from artificial colours, flavours and sweeteners and is packaged in glass.

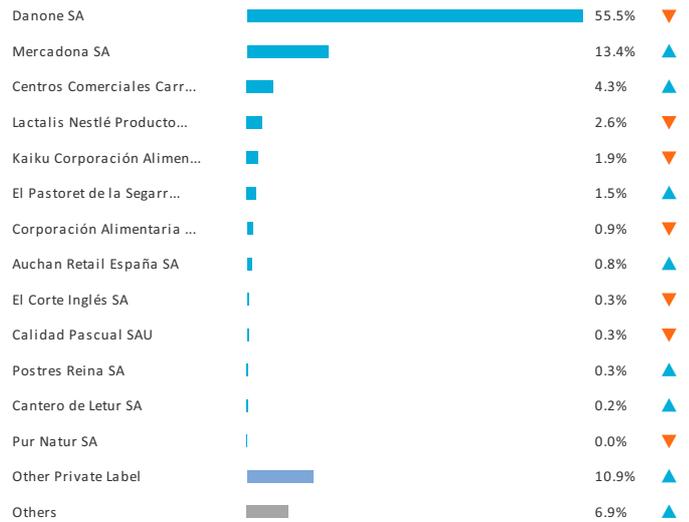
Product offer in sour milk drinks will continue to widen

While kefir will continue to drive growth in sour milk products, skyr is set to follow it into the mainstream. Meanwhile, the product offer in kefir will continue to widen. During the latter part of the review period, Cantero de Letur launched organic kefir

Competitive Landscape

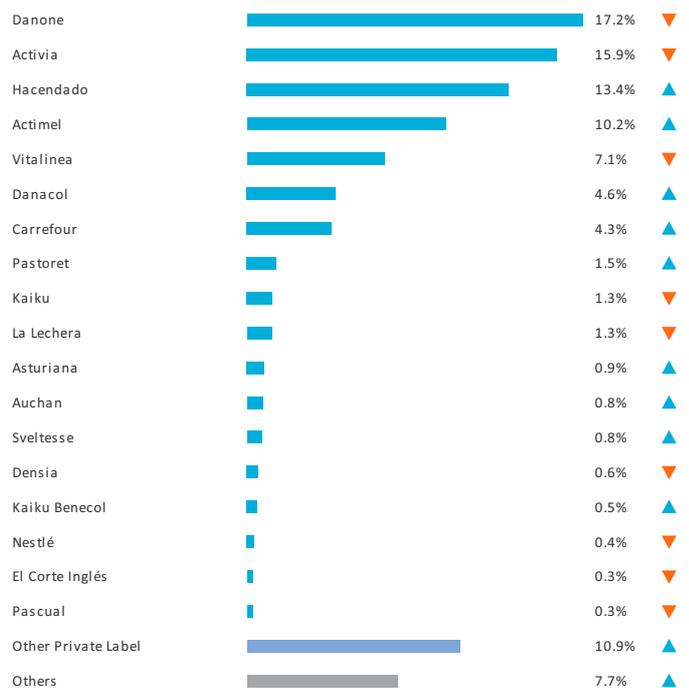
Company Shares of Yoghurt and Sour Milk Products

% Share (NBO) - Retail Value RSP - 2022



Brand Shares of Yoghurt and Sour Milk Products

% Share (LBN) - Retail Value RSP - 2022



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

made from skimmed goat's milk in two flavours—natural and vanilla—for example. Cantero de Letur claims that Kéfir Pro has the highest protein content on the market, which could make it particularly appealing to sports and fitness enthusiasts. Meanwhile, Lactalis Nestlé is seeking to broaden the appeal of kefir with its marketing campaign “For everyone,” highlighting its mild flavour.