



Indian confectionery industry

SWEET AS A GUMDROP

Although certain sectors of the confectionery industry have reached maturity in many parts of the world, the global market continues to grow. Much of this recent growth has come from the developing countries like India, aided by the spread of multinational suppliers & their brands, as well as a growing base of increasingly affluent consumers. As the Indian market hots up, the intense competition is making companies launch new products, expand capacity & reach, and adopt innovative strategy. Overall, the stage is all set for a battle between some of the leading confectionery brands to capture bigger pie in the confectionery market. Here, **Rakesh Rao** examines the latest happenings and emerging trends in the confectionery industry.

Indians like to celebrate with sweets and they start relishing it at a pretty young age. While the West may be more calorie conscious, the Indian kids start off by indulging in all sorts of sugar boiled candies. No wonder, the confectionery industry is one of the largest and well developed among the food processing sectors in the country. The confectionery industry in India is mostly divided into chocolates, hard boiled candies, eclairs &

toffees, chewing & bubble gums, lollipops, and mints & lozenges.

“The present state of affairs of confectionery industry in India is growing approximately at 15 per cent with respect to caramel segment. Today, the organised market size is 1,20,000 tonne per annum in hard boiled candies, toffees and eclairs. Toffees and eclairs share about 50 per cent of market size and balance hard boiled candies with milk base &

fruit flavour," observes B K Gurbani, president, Indian Confectionery Manufacturers' Association, and chairman, Gurbani Group.

Global view

The global confectionery market is one of the fastest growing segments in the packaged food industry. Confectionery is further segmented into chocolate confectionery, sugar confectionery and gum. Globally, chocolate confectionery is the largest sector in terms of value, accounting for almost 60 per cent of total sales. By volume, however, sugar confectionery accounts for the majority of sales, with a share 51 per cent. Between 2006 and 2010, the global confectionery market is forecast to increase by over 16 per cent in terms of value, reaching more than \$ 145 billion.

"Latest figures available to International Confectionery Association (ICA) show that overall, the global food & beverage market has grown by 6 per cent. Specifically, the Asia Pacific region holds 7 per cent of the market and grew by 14 per cent. The chocolate and confectionery category, the second largest packaged food segment, has been growing steadily in all regions over the last few years. According to Euromonitor estimates, in 2007, confectionery (gum, chocolate & non-chocolate) sales - both at the retail and manufacturer's level - grew by 3.4 per cent and by 2.9 per cent in terms of tonnage," says

Christopher Mahony, executive director, International Confectionery Association (ICA),

B K Gurbani

president, Indian Confectionery Manufacturers' Association, and chairman, Gurbani Group



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which brings together the major confectionery industry associations around the world to work collaboratively on issues affecting the confectionery business.

The confectionery market in regions like Western Europe and North America remains fairly mature, and consumption levels have been largely static in recent years. In contrast, growth has been stronger in developing regions, notably Central and Eastern Europe, India and parts of the Far East such as China.

"Asian and EEMEA (Eastern Europe, Middle East and Africa) markets are experiencing the highest growth rates. In terms of market tonnage growth, between 2002 and 2007, developing markets had grown twice the world average with Asia Pacific topping the chart at 27.8 per cent," says Mahony.

According to him, some of the trends in the global confectionery industry are:

- ❖ Continued growth across all categories, especially premium chocolates
- ❖ Increase in food safety and product integrity issues
- ❖ Continued migration and harmonisation of regulatory issues
- ❖ Further product innovation and formulation to meet health issues

- ❖ Increased functionality of products, eg, gum tooth whitening
- ❖ Increase in confectionery manufacturing from India, China and South East Asia

The confectionery market around the world continues to evolve and is particularly influenced by the fast changing lifestyles in developed markets and long-term growth in consumer spending in developing markets. India is a small market compared to the global numbers, but there lies its potential.

Domestic market

According to a study by the market intelligence provider Euromonitor, the Indian candy market is currently valued at around \$ 664 million, with about 70 per cent share (\$ 461 million) in sugar confectionery and the remaining 30 per cent (\$ 203 million) in chocolate confectionery.

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country’s economic boom and growth in consumer spending. Indian consumers, with the nation’s economy growing at around 10 per cent, are expected to consume more chocolates as the product sells more in happy times. This higher consumer spend is also driven by the new found mall culture.

“Euromonitor estimates the compounded annual growth rate (CAGR) for chocolate volumes in India at 6.5 per cent during 2006-2011. This compares with a growth of the global chocolate market of about 2-3 per cent per annum. Chocolate, so far, is not part of the typical diet of Indians. However, they are used to it and like the taste of sweets. So with the disposable income growing, the chocolate market will be growing too, especially in metropolitan areas,” says Maurizo Decio, president - Asia Pacific, Barry Callebaut AG - one of the world’s leading manufacturers of cocoa and chocolate products.

“The chocolate and

confectionery market in India comprises mould formats, bars, and wafer-based products. AC Nielsen estimates this market at around Rs 1,700 crore,” says Stewart Dryburgh, general manager - chocolate & confectionery, Nestlé India Ltd, which includes brands like *Nestlé MUNCH*, *Nestlé KIT KAT* and *Nestlé MILKYBAR*.

According to Nadia Chauhan, director, Parle Agro Pvt Ltd, the organised market for confectionery in India is valued at Rs 2,000 crore and the unorganised segment is believed to be equal to the organised segment. “The contribution from rural India is estimated at 48 per cent and the balance 52 per cent from urban India. The confectionery being predominantly a low value category gets almost equal contribution from the rural markets, unlike many other categories of products that have a large per cent of their contribution from the urban markets. West and South India together contributes the largest per cent of the volume - almost 40 per cent,” she adds.

The impediments

The confectionery industry has considerable potential for growth. For achieving this potential there is need to upgrade the technology in confectionery

industry. The main issue before the industry is the high rate of excise duty, which could not be passed on to the consumers because the products are sold in the price range of 50 paise and one rupee.

“At this point of time the major challenges faced by the industry is the price point (MRP). While the input costs of major ingredients like sugar, glucose, milk powder, *vanaspati* and packaging material are increasing, the industry is not able to increase any MRP on products due to coinage and therefore we have to maintain the price at the level of 50 paise and one rupee. Since last five years, therefore, the bottom line is under pressure and thus we have made several requests and presentations to the Union Government for lending some relief in excise duty for survival of this industry. Confectionery is only the smallest product which is available at as low as 50 paise,” asserts Gurbani.

He further says, “Chocolate and eclair industry will continue to show average growth, unless and until the industry collectively move on to one rupee (MRP) slot from the current 50 paise. This pressure of margin due to input cost will continue. The unorganised sector, which is much larger as compared to organised sector, is seeing more growth than the organised sector as it gets the benefit of the differential government duties and taxes. Therefore, government needs to look into these taxations very seriously specially on excise duty, which is 8 per cent, and also on the 12.5 per cent VAT.”



"Although, the industry is not in a comfortable slot at present, due to input cost increase, the volume growth is there since past two years," Gurbani states.

Foreign brands eyeing India

With demand for high-end confectionery going up, many foreign brands are entering the Indian chocolate & confectionery market. Gurbani states, "Today, many foreign brands are entering the industry through direct imports or by acquiring existing confectionery companies. This will certainly open up new avenues in market and also help in exploring possibilities to bring up new products in this country. Besides, there is tremendous export potential of these products, with the entry of new MNCs in India."

Welcoming this competition, Dryburgh asserts, "It is good for the growing market. Given the low category penetration if the new brands can provide consumers with a sustained choice they may stimulate growth in the chocolate and confectionery market further. We also believe that Nestlé will benefit from this since our product portfolio is based on consumer insights and has clear consumer preference."

Decio feels, "So far the Indian chocolate market has been relatively concentrated with very few players.

We believe that the new market entrants will stimulate the market and will offer consumers a wider choice."

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president - Asia Pacific, Barry Callebaut AG



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Investing in growth

In order to grow their business in India, confectionery companies – both global as well as Indian – are undertaking expansion plans. Barry Callebaut, which has presence in 24 countries and operates in more than 40 production facilities worldwide, is betting big on the Indian chocolate market.

"Barry Callebaut opened a sales office in Mumbai in 2008, followed by the opening of a chocolate academy in August 2008. We now have a global network of 12 chocolate academies. Our chocolate academies serve as training, know-how exchange and marketing platform for the so-called 'artisanal' customers, ie, pastry chefs, chefs, bakers, chocolatiers and caterers involved in chocolate manufacturing," informs Decio.

Elaborating further, he says, "We are pleased with our presence in India so far. However, the share is still very small. We currently have no plans to start chocolate production in India because the infrastructure is not quite up to the mark (ie, lack of refrigeration, logistical network and retail landscape)."

Having realised the potential of the confectionery segment - considering the youth domination and very few product categories within the confectionery segment - Parle Agro set up a separate organisation

(in 2007) in India for tapping the potential in this industry. "When we put in place this new structure our confectionery business grew by manyfolds. Although, today we have only one factory that handles this division, by 2009 we will have five more spread across India. Besides the strategic organisational initiative, there are many product initiatives that are helping us conquer the market. With many more launches planned for the coming year, we expect a steady growth," says Chauhan.

Similarly, Italian confectionery giant Ferrero, via its subsidiary Imsofer Manufacturing India Pvt Ltd, is reportedly planning to establish a new production facility in Maharashtra.

Things to watch out

Although, the largest segment is the hard boiled confectionery today, there are many new categories that are witnessing high growth. "Chewing gums and sugar-free products are emerging categories, which are showing high growth. However, considering the huge



Nadia Chauhan

director, Parle Agro Pvt Ltd



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unorganised segment hard boiled confectionery will continue to be the largest contributor,” claims Chauhan.

The confectionery market is still largely associated with products that cater to kids, unlike in developed countries where adults also form a large chunk of consumers.

“The confectionery industry lacks innovation. Considering it as a highly kid-specific category, even today, innovation should be the core of any confectionery business. At the same time, the adult confectionery market is at a very nascent stage.

Some companies are taking initiatives to capitalise upon it. However, it continues to be an untapped segment. The confectionery market can grow immensely, depending on the kind of categories & products that are introduced. It is a highly price sensitive market.

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feels Chauhan.

There are also some

companies, which are focussing on niche high-end or designer chocolates market. Designer chocolates have become status symbols and are linked to the people’s aspiration & lifestyle and malls are the perfect points of sale.

Greater health awareness has created a new opportunity for the confectionery industry. “Lifestyles are changing and an increasing number of consumers seek balance in the indulgence with lighter eating and wellness,” observes Dryburgh.

Gurbani feels, “While the consumers are becoming more health conscious, industry has already introduced sugar-free range of products in gums, chocolates and candies. Still the awareness needs to be spread, which will take longer time as it has cost implication. But certainly in future there is a high growth in this category.”

“Globally, consumers are becoming increasingly aware of the health-enhancing properties of the cocoa bean. This trend has fed demand for dark chocolate with a high cocoa content,” Decio points out.

What’s ahead

According to a study by Euromonitor, the Indian sugar confectionery market is projected to expand at a

compounded annual growth rate (CAGR) of 8 per cent until 2011. The retail value of the Indian sugar confectionery market - that includes products like sweets, jellies and gums - is projected to reach \$ 498 million in 2008. The increase in CAGR over the forecast period is due to an expected rise in retail value growth as affluent consumers increasingly show a tendency for impulse purchases of products like sugar confectionery.

“There are many brands within the category - most of them are hard boiled. There are very few national players. But in the recent past, the national players have begun to innovate & develop new product categories besides the hard boiled. The confectionery market growth has not been very high mainly attributed to the fact that a lot of the local players are not coping with the rising costs of raw material and other inputs. However, if one looks at the major players that have national presence, their growth is possibly around 35-40 per cent per annum,” observes Chauhan.

As the competition hots up the industry will turn into a battleground of new strategies and products. As the industry appears to be upbeat, players are taking several initiatives to recover the magical growth numbers. On the anvil are investments by several of the companies in expanding capacities and entering new product areas in a bid to achieve broadbase growth. 

