

## Functional form

In response to the rapid rate of growth in the functional foods industry, researchers at Key Note produced the *Functional Foods Market Assessment 2004*, examining whether future market trends will follow a similar pattern.

Functional foods have been defined as foods and drinks shown to have health benefits beyond their basic nutritional content, which reduce the risk of chronic disease. The functional foods market particularly addresses the important medical issues of cardiovascular health, osteoporosis, cancer, obesity and intestinal problems. It does this through the food-related actions of:

- ❖ Additional 'friendly' bacteria
- ❖ Agents that reduce cholesterol intake into the blood
- ❖ Extra calcium for bones
- ❖ Extra fibre for digestion

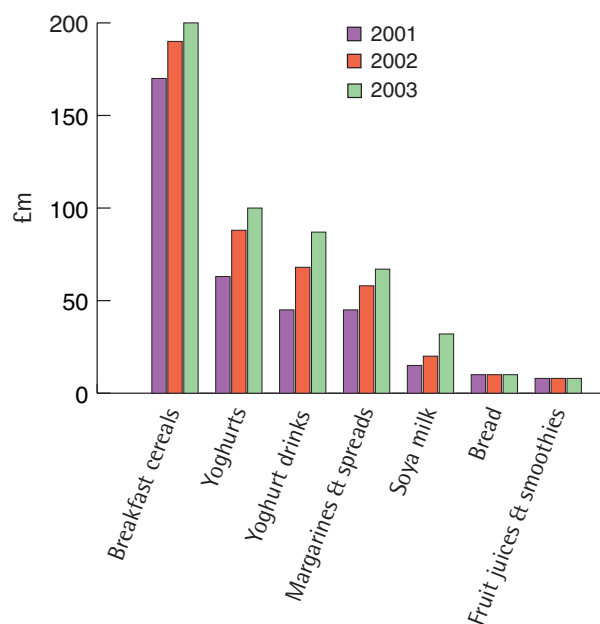
It has been claimed that the first functional food appeared in the 1960s – the calcium-enriched powdered drink Tang. Since then, a wide variety of food and drink sectors have developed functional products, making the market fragmented and difficult to classify as an individual sector. However, the ongoing public interest in healthy eating indicates that functional foods continue to be an area of relatively strong growth, in comparison with traditional food and drink markets. The choice of products classified as 'functional' are linked to improving health, although the market contains products that make actual health claims and those that make lesser or no specific claims to health (such as products fortified with fibre, vitamins and minerals).

### Variations on a theme

The functional foods market principally involves fibre/mineral/vitamin-fortified breakfast cereals, probiotic yoghurts and yoghurt drinks containing 'friendly' bacteria, and cholesterol-lowering margarines containing plant stanols or sterols sectors. However, the functional market has been expanding over the years to include variants within the bread, ready meal, fruit juice and bottled water sectors. A further category of significant and rapid growth recently identified by Key Note has been soya milk. The main target of these products is to address the problems associated with skeletal, heart and digestive health that become more prevalent with age.

### Growth factors

Key Note found that growth in the functional foods market can also be attributed to a number of other factors.



Sales of selected functional foods by value (£m), years ending October 2001–03

Source: Breakfast cereals – Key Note estimates. Other products – IRI and/or estimates from Key Note

These include:

- ❖ A widening range of product launches
- ❖ An ageing population profile, with greater healthcare needs
- ❖ Government initiatives aimed at encouraging people to take greater control of their own health

### Healthy debate

The functional foods market still seems to be growing at a faster rate than that of traditional foods. It is seen to represent an evolving stage in food marketing, rather than just a single health-related trend or a high-margin marketing opportunity for food manufacturers. Market growth for functional foods is significantly linked to the continuing interest in healthy eating and healthy lifestyles among various sectors of the population. There have been numerous articles in magazines on the subject of reducing the likelihood of illness (particularly related to heart health). This interest has resulted in consumers wanting to take more control of

their health, in ways that reduce the need to take prescription or over-the-counter medicines. However, growth may be limited by the fact that the public has shown some scepticism towards claims made by functional foods manufacturers – a view shared, in some cases, by food critics and experts.

### Government guidelines

Several factors will have a positive effect on the growth of the market in the future. Key Note reports that these include:

- ❖ The continued general interest in healthy living and healthy eating
- ❖ The UK Government's support of any food benefiting the public's health
- ❖ Widening functional product ranges
- ❖ The general acceptance of the importance of 'functionality' in several food sectors
- ❖ The ageing population, as older people are much more likely to benefit from functional food and drinks, and are generally able to afford their higher prices.

However, the growth rate in the market has been falling recently, owing to some maturity in products and purchasers. Nonetheless, it is anticipated that the functional foods and drinks market will still perform better than the total grocery market in the period up to 2008.

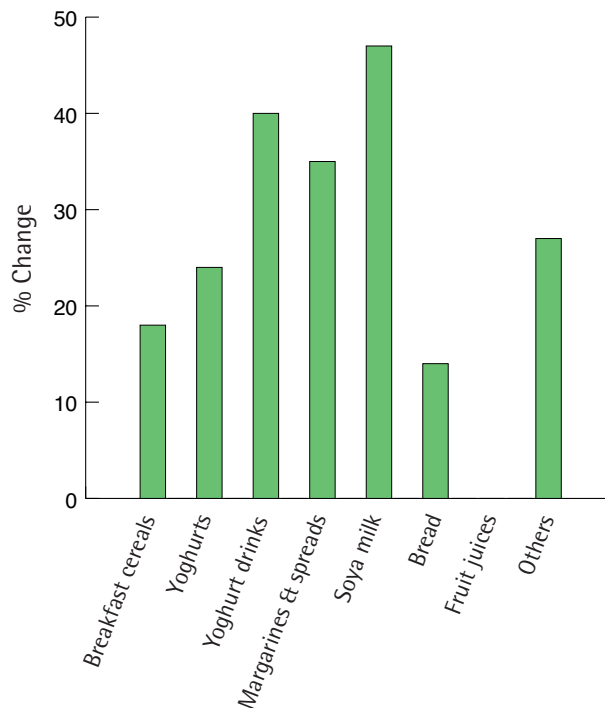
### Serial innovation

Although the market for breakfast cereals has been in slow decline in recent years, the sector remains the largest for functional foods – with functional cereals accounting for an estimated 38.1 per cent value share of the total functional foods market in the year ending October 2003. Indeed, the interest in a healthy digestive system and heart has stimulated functional cereals' share, as manufacturers have reformulated and promoted this advantage by offering extra fibre, vitamin and mineral content in their brands.

### Raise the bar

The cereal bar market has grown strongly in recent years, and is now valued at about £190m, at retail level – an increase from around £115m in 2001. The major manufacturer continues to be Kellogg, with its Nutrigrain bars and other brand extensions from the company's breakfast cereals, including Special K and Frosties bars.

Although several companies have recently entered the market (for example, Weetabix with its Alpen bars and United Biscuits' McVities with cereal bars in its low-fat Go Ahead! Range) to compete with the major producers, the functional element of the market is still largely represented by McNeil Consumer Nutritional's Benecol bars, which offer cholesterol-lowering properties. The total value of functional cereal bars sales is therefore currently estimated at £1m at retail level – although this only accounts for a 0.5 per cent share of the total cereal bars market.



The forecast UK functional foods market by sector by value (£m), 2004-08

### A positive outlook

A number of factors will continue to have a positive effect on the functional foods market in the forecast period to 2008. There will undoubtedly be continued interest in healthy eating and healthy living, supported by the government as a part of its ongoing efforts to empower the public to take better care of its general health.

The ageing population, coupled with increasingly long life spans for both men and women, means that functional foods are becoming ever more relevant in today's market. Older people are better educated about their health and also better off financially than ever before, enabling them to afford higher priced functional variants of foods and drinks.

The functional foods market has shown a declining growth rate in the 12 months to 2003, which can be attributed in part to the sales maturity of established functional products. The amount of new regular users will also have slowed down, and growth will become more dependent on sales to less frequent purchasers. Nevertheless, sales growth in the near future is still anticipated to exceed that of the total grocery market.

Forecast sales figures to 2008 include the assumption that few functional foods of note will appear on the market during the period, and consequently, growth will fall to that of the traditional grocery market. However, if new, substantial and successful functional products are launched, then high growth rates are set to continue. ●