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Gluten-free products: key drivers of competition

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Creating value in wheat and gluten-free based bakery production chain

14-15 May 2015 - Cork

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EBN – Innovation Network

WHO WE ARE

EBN is a network of around **150 quality-certified EU|BICs** (business and innovation centres) and **100 other organisations** that support the development and growth of innovative entrepreneurs, start-ups and SMEs. EBN is also a **community of professionals** whose day-to-day work helps these businesses to grow in the most effective, efficient and sustainable way

OUR SERVICES

- **EU|BIC Services:** a unique "certification & benchmarking system" for technology-based incubators & accelerators
- **International Hub:** an international networking platform for intermediaries and an international soft-landing business platform for Start-ups SMEs and Entrepreneurs
- **Projects Lab:** an exceptionally efficient "EU-funded projects" collaborative factory
- **Networking as a Service**
- **Events & Exchange Forum**
- **EU Gateway:** an unquestioned reputation within European Government circles (EC, EP, EIB, ESA), National/Regional Public Authorities, and non-EU agencies
- **Open innovation**

AGENDA

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- VALUE CHAIN
- TARGET OF CONSUMERS
- DISTRIBUTION
- COMPETITION
- PRICING STRATEGY

Supply and processing of raw materials are key phases

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- **Product innovation** aimed at improving **quality**
- QUALITY = **similarity** with conventional products

RESEARCH & DEVELOPMENT

RAW MATERIALS SUPPLY → RAW MATERIALS PROCESSING → PRODUCTS DISTRIBUTION → MARKETING & SERVICES

KEY TOPICS

RAW MATERIALS SUPPLY — DIRECT CONTROL

- Trustworthy relationship with suppliers
- Quality of raw materials
- Competitive prices

RAW MATERIALS PROCESSING — DIRECT CONTROL

- Strict monitoring of each step
- Technology-driven
- Therapeutic products

PRODUCTS DISTRIBUTION

- One-stop shop vs specialized retailers
- Relationship with mass market retailers
- Wide choice of products

MARKETING & SERVICES — DIRECT CONTROL

- Information and awareness
- Brand identity
- Customer care

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Is the number of consumers going to decline or not?

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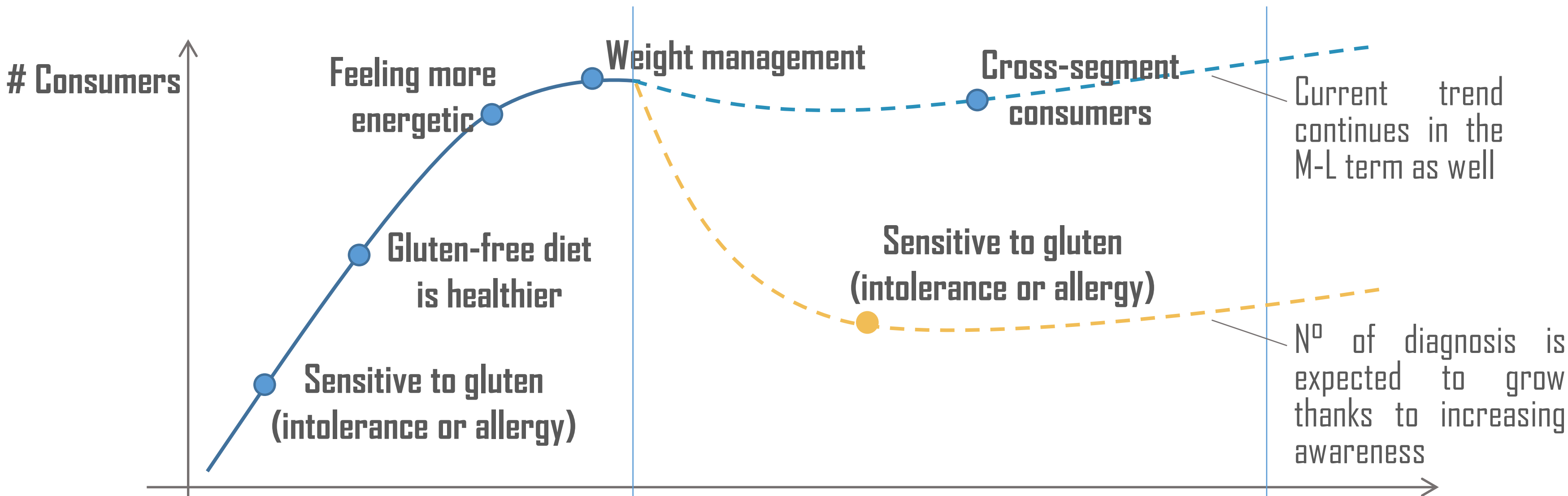

CURRENT PHASE

- Market is still growing at significant rates, even if they are lower than in the past
- Gluten-free diet for non-sensitive consumers might be a temporary fad

TREND IN THE MEDIUM-LONG TERM

- In the medium-long term the market could experience a decline in the number of consumers since the fad could end
- Consumers = only those gaining functional benefits from consumption?

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The importance of mass market retailers is growing

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DISTRIBUTION CHANNELS OF GLUTEN-FREE PRODUCTS IN EUROPE

Mass market retailers

- Growing importance across EU over the last few years
- Increasing offer of Private Labels products

Small specialized retailers

- Declining incidence in favour of the mass market retailers
- Offer some advantages if compared to super and hypermarkets

Pharmacies / Drugstore

- **Italy:** the incidence of pharmacies is around 2/3 of the total market
- **UK:** drugstore incidence is above EU average

Sales assistance is still valuable for the consumers

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		CONSUMERS	PRODUCERS
MASS RETAILERS	+	• One stop shop • Competitive prices • Additional choice of PL products	• Capillarity of distribution • International reach • Higher volumes • Growing channel of distribution
	−	• No purchase assistance • Lower depth of offer	• Bargaining power • Price pressure (promotions, discounts, etc) • On-the-shelf competition
SMALL RETAILERS*	+	• Specialized assistance during purchase • Wider variety of products	• Relationship building with customers through the sales assistance • Higher marginality
	−	• Usually higher prices • Additional stop during grocery's shopping	• Limited capillarity • Declining or marginal channel of distribution

* Specialized retailers and pharmacies/drugstores

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The market in Western Europe is highly fragmented

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- Dr Schaer is the market leader
- Private labels holds a significant market share (stable over the last 4 years)
- Besides Dr Schaer, top 5 single players in the market hold a market share of 3-4%

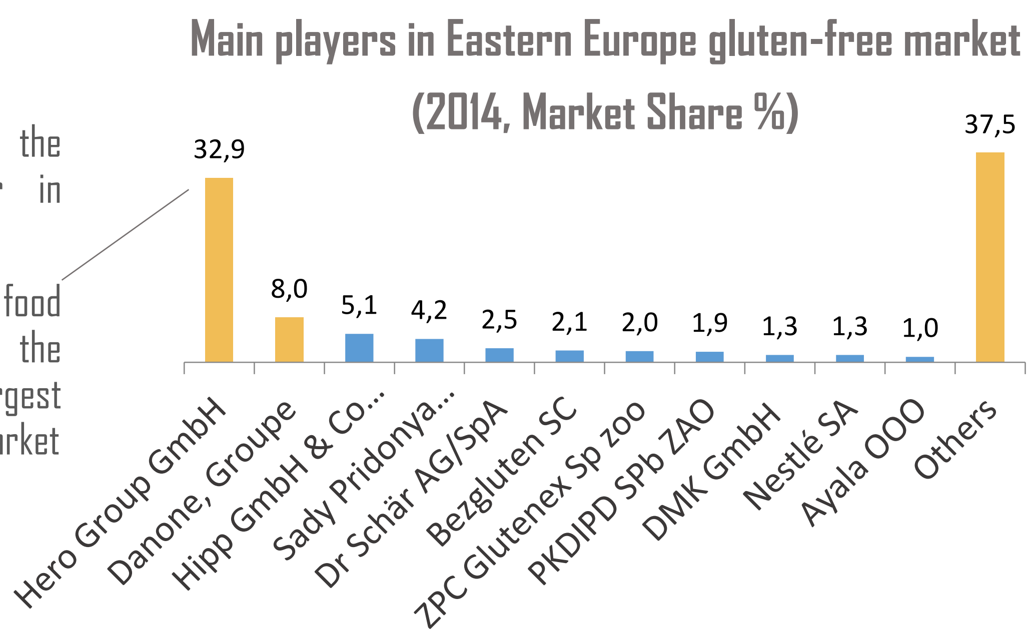
- Hundreds of minor players hold 26% of the Western-Europe gluten-free market
- Average market share for each of them is far below 1%

Low brand loyalty: total consumption is composed by products from several different brands

Source: Euromonitor International

The number of major players in Eastern Europe is limited

- Hero Group is the market leader in Eastern Europe
- Another food multinational is the second largest player in the market



- The aggregation of other minor players holds the largest market share
- Gluten-free food sector in Eastern Europe appears to be more fragmented than in Western Europe
- Large multinationals play a more important role in the market than in Western Europe

This market is not densely populated probably because of its small size if compared to Western Europe (6x)

Source: Euromonitor International

Level of competition is not expected to boost in the future

The market is appealing to players already competing in the food sector thanks to the current and expected growth rates. Players more likely to increase their presence are **food multinationals** and **private labels**

Nevertheless it is reasonable to assume that the level of competition is not going to boost mainly because:

- **The market size, even if growing at significant rates, is still relatively small, especially if compared to the current markets of food multinationals and conventional PL products**
- **The production process is more complex than in the case of conventional products and requires ad-hoc investments and suppliers, as well as dedicated R&D**

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Technical features have a strong impact on the selling price

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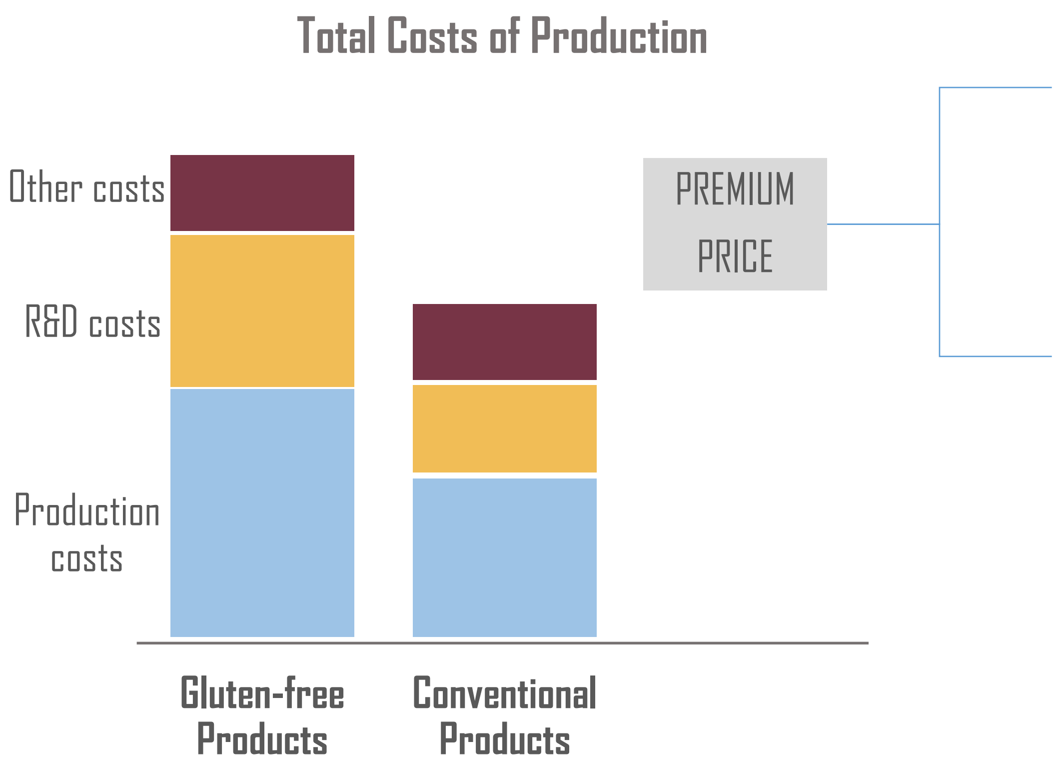

CONSUMERS' PERSPECTIVE: are they willing to pay an extra cost, and in exchange for what?

PRODUCERS' PERSPECTIVE: is it possible to keep a sustainable premium price strategy?

Premium price might be an issue for mass retailers distribution

PREMIUM PRICE OF GLUTEN-FREE PRODUCTS

CONSUMER'S PERSPECTIVE:

- WtP of non-sensitive consumers vs WtP of sensitive consumers
- WtP of **sensitive consumers** is assumed to be **higher**, proven the fact that expectations in terms of **consumption experience** (taste, texture, etc.) are met
- WtP of **non-sensitive consumers** is assumed to be **lower** due to the fact that in their case the functional benefits can be retrieved from several **substitutes products**

PRODUCER'S PERSPECTIVE

- Premium price could be an issue in some channels of distribution
- Premium price may not be maintained in order to satisfy the commercial requests of **mass market retailers** (promotions, private labels, etc.), while it should not be an issue in specialized small retailers and in pharmacies
- Firms could increase WtP of consumers through **awareness actions** focused on explaining the reasons underlying the extra costs