

THE INGREDIENT MARKET

Infant Formula: A Young & Dynamic Market

The global market for infant milk formula amounted to more than US\$45 billion in 2016, with a total sales volume of more than 2.4 million tons. Asia accounted for the majority of total sales.

by Tage Affertsholt and Daniel Pedersen

The infant milk formula sector is an industry dedicated to satisfying the nutritional needs of infants aged between 0-3 years as a substitute for human breast milk, approximating its nutritional composition as closely as possible. Infant formula products are available in liquid, powder and ready-to-use formats, with dairy being the main ingredient over all types of products.

Infant formula products are typically classified according to the age of the baby. Categories are: Standard infant formula (Formula 1) for 0-6 months, Follow-on infant formula (Formula 2) for 6-12 months, Toddler infant formula (Formula 3) for 1-3 years and a Special infant formula category covering products such as hypo-allergenic-, lactose-free- and anti-reflux formulas for all ages.

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in 2016, with a total sales volume of more than 2.4 million tons, with Asia accounting for the majority of total sales.

Several key drivers for expansion of the infant formula market exist. The increasing number of working mothers, driven by economic growth creating jobs that bring more women into the workforce, is a key driver of growth for the infant formula market. Another is the increasing number of middle class households, resulting from economic and population growth that can afford infant milk formula. This is especially the case in emerging markets. In general, the number of infants born is another important driver.

Formula 3 is the largest and also the fastest growing infant formula category, with a value amounting to more than US\$18 billion in 2016, having grown by around 15% annually between 2010 and 2015.

Formula 1 is the second largest infant

formula category in terms of value, due to these products being required to meet certain microbiological standards. They are more expensive when compared to Formula 3. Special infant formula is the smallest category, also exhibiting the slowest growth rate.

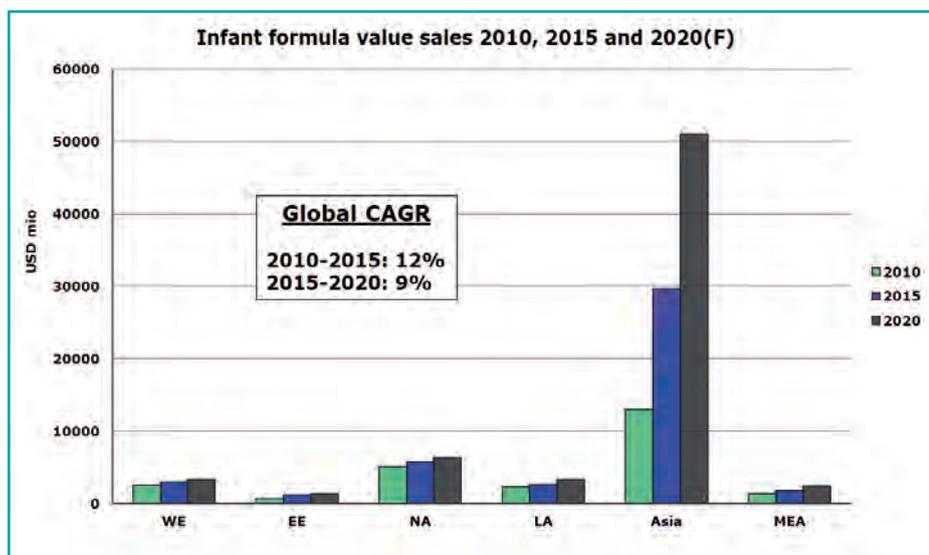
A Value Slowdown

Sales value growth of all infant formulas is expected to slow down to 9% annually between 2016 and 2020, from a recorded 12% annual growth between 2010 and 2015.

Sales of Formula 3 still exhibit the highest growth rate. Volume growth is slightly slower than value growth at around 7%.

Sales of infant formula is still growing strongly in Asia and will have almost tripled in 2020, as compared with 2010. This development is mainly driven by China, a market comprising more than 50% of the total Asian market and one-third of the global market for infant formula. Apart from previously mentioned growth drivers, factors such as change in distribution channels, urbanization and abandonment of the one-child policy are also driving Chinese demand for infant formula.

Western Europe is the second-largest market for infant milk formula, accounting for around 15% of global sales volume in 2015. The major Western European markets for infant formula remain France, the



SOURCE: INNOVAMARKET INSIGHTS

› Dutch Lady First Steps Stage 2 Milk Formula For Babies From 6 To 12 Months (China)

UK, Spain, Germany, Turkey and Italy, with France being the largest market and Turkey showing the best growth rate. The Western European infant formula market is growing at a relative slow pace, which can be partly attributed to low birth rates and the introduction of several initiatives that support mothers breastfeeding.

The Big Players

The infant formula market has seen substantial consolidation, which has led to four multi-national companies dominating the industry.

These companies are: Nestlé, Danone, Abbott and Mead Johnson. Nestlé is the largest player in infant formula, possessing a market share of 22%, followed by Danone (12%). Abbott and Mead Johnson control 7% and 5%, respectively.

While Nestlé and Danone dominate in all four infant formula categories, Abbott and Mead Johnson possess their relative strength in the Formula 1 and Formula 2 product categories. Mead Johnson is also particularly strong in the special infant formula category.

In China, however, the world's largest national market for infant formula, these four companies meet a great deal of competition from both small, medium and large domestic companies.

Smaller international players are also competing for share in this immense market for infant formula.

These domestic companies include Beingmate, Yili and Biostime, while other international players competing include Royal FrieslandCampina, Fonterra, Sodiaal, Arla and other dairy companies.

China Consolidates

Despite the more fragmented market structure compared to other infant formula markets, the Chinese market is moving towards more consolidation. The importance and fragmentation of the Chinese market becomes even more apparent

when looking at the most active national markets for new product launches, where China clearly dominates.

The most active companies within infant formula in China are primarily Chinese, with Synutra being the most active.

The top 10 most active companies between 2011 and 2016, which also includes Nestlé (Wyeth) and Abbott as the only foreign companies, only accounts for one-third of total new product launches in China over this period of time.

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Globally, the top 10 most active companies in infant formula account for more than 50% of new products launched in the same period.

In contrast, Western Europe is a highly consolidated market, dominated by a relatively small number of companies.

Nestlé and Danone hold the major market shares in most Western European countries, while several other companies competing in Western Europe are only present in a few markets.

Meeting Specific Needs

The use of dairy ingredients in infant milk formula varies across the four product categories, in order to meet the specific nutritional needs of infants at all stages.

Skimmed milk powder is the major dairy ingredient used in infant formula in terms of volume, with most going into the large Formula 3 category where less changes to product composition are needed.

The skimmed milk powder going into the other infant formula categories is a higher quality "infant formula grade" skimmed milk powder, due to the higher microbiological requirements in these products.

Due to different protein compositions between human breast milk and cow's milk, in terms of whey-to-casein ratio

[being lower in the latter], whey proteins are added to infant formula products.

The main whey ingredients used are demineralized whey powder, whey protein concentrate and also whey protein hydrolyzate, which is mostly used in special infant formula.

Components on the Rise

Lactose is the major source of dairy carbohydrates in infant formula, but this dairy ingredient is both sourced as a pure product and included in

e.g. maltodextrin.

Maltodextrin is more commonly added to Formula 3, with the lactose included in these products often stemming from added skimmed milk powder. Galacto-oligosaccharides is another major ingredient showing constant growth

Several minor dairy ingredients, such as alpha-lactalbumin, phospholipids, milk fat globule membrane and osteopontin, are beginning to emerge, as infant formula manufacturers seek to improve their products to more closely resemble human milk.▼

This is an extract from the report "Global Market for Infant Formula and Dairy Ingredients 2015-2020," which was published in September 2016. In the report, the forecasted volumes of dairy ingredients used in infant formula are calculated. For more information, contact 3A Business Consulting, mail: ta@3abc.dk

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