

Tough cookie for international players

by ArabianBusiness.com staff writer on Tuesday, 31 October 2006

While sales of sweet biscuits are in decline in many Western countries such as the UK, where some categories have declined by 4.89% in value terms according to Euromonitor International, the Middle East is experiencing healthy growth. And while multinational food producers such as McVities and Nabisco are keen to take a share of the region's biscuit sector, the industry remains largely dominated by local producers.

For example, in Saudi Arabia, Deemah, a local company, is the largest player with a 19.8% market share according to MEMRB, a market research company. This is followed by Tea Shop, another local player which has a market share of 19%, and Ulker, which has an 18% share of the market.

Mohammad El Rayes, regional manager of Jeddah, KSA-based National Food Company's Americana Cake division, estimates that the GCC's biscuit sector is worth about AED608 million (US \$165.5 million). He said that while biscuits produced by National Food company dominate in a number of the biscuit sector's sub segments in different GCC countries, different companies tend to be the leading player in the overall category in different countries.

"You will find different key players in different markets, for example in KSA it's Deemah which has local production there. In the UAE it's Tiffany. In Oman it's Nabil," he said. "Every market has the local producer as number-one." This is mainly because the mainstream biscuits category is extremely competitive, which makes the shipping and logistics costs a significant burden for imported brands, El Rayes added.

El Rayes estimates that the total biscuit sector in the Middle East has increased by about 13% in volume and 15% in value in the past 12 months compared with the previous year. "We're seeing very healthy growth in this market. There are more sales in the higher value products and this means the total market is getting more profitable and our cookies are really driving the premium part of this market," he said.

The multinational companies that have a presence in the region, such as McVities, Nabisco and Lu, also tend to be more involved with niche products, rather than having a full portfolio of biscuits in the region, and this gives these companies a lower market share.

"Nabisco has the Chips Ahoy and nothing else. Loco has only the wafers, so if you look at the total market and the percentage that they get, it's only a niche percentage," El Rayes said.

He added that the biscuit sector can be split into different categories such as plain biscuits, wafers, digestives, filled biscuits, and cookies. Americana is a key player in the cookies segment, which is the third category in size after plain biscuits and wafers. "In the cookies market, we are the highest selling regional producer and the number two selling universally after the Danish producers, which are of course the best selling," El Rayes said.

National Food Company has biscuits that cover three or four of the sub-segments within the biscuit category, although the most lucrative brand is Americana cookies. "The most important is the cookies which have a very good market share. We are the number one player in about half our markets and we are number two in the rest," he said.

Americana is the number-one brand of cookies in the UAE with a market share of about 12%, and this share is still increasing. The company has seen its cookie sales increase by about 60% in the past year, partly as a result of the boycott of Danish products, and partly because the company has launched new SKUs such as its Choco Chip cookies. "We're very proud of them and they are doing well," El Rayes said of the cookies. "All of our products are manufactured in Saudi Arabia but especially in the cookies range we get the best quality ingredients. We get the butter from Sweden."

National Food Company hopes to dominate the cookies sector in the region, and thinks that its packaging, which includes tins, will help it achieve this aim. "There are no other chocolate chip cookies in tins – so with this we hope to dominate this category, which is the most premium category within the biscuits market. This is the most profitable category for us in the total biscuits market and means more value for us."

Americana cookies are available across the Middle East, and National Food Company also exports them

to Africa and the USA.

The cookies are experiencing particularly rapid growth in Qatar, El Rayes said. The company is also exporting some products to Iraq, although this is a "very problematic" market, according to El Rayes. "Of course it has potential but it really depends on the security situation there. In months when it is good and the distributor can do his job, we can get good sales there, but when the security conditions deteriorate nobody can operate and sales are very bad. It fluctuates, but once it's stable I'm sure we're going to be having very good sales in Iraq."

National Food Company also has other biscuits including plain tea biscuits, honey biscuits, and cream biscuits. It is planning to launch wafers and crackers in the next year. The company is concentrating on quality and higher end products because the main trend in the sector is a move towards premium products. "Value growth in the market is higher than volume growth, which means more healthy business for us and means that our cookies are really successful," El Rayes said. "Growth is very high compared to the stable or relatively stable cakes market. I see the same level of growth continuing because the modern trade is increasing. It's having more and more weight in the market, especially in Saudi Arabia, so this means more and more branded products. Growth of hypermarkets and supermarkets is also good for the company."

Kamal Khoury, area manager for the Danone Biscuits in the Middle East and Mediterranean, is equally as optimistic about the sector as El Rayes. He thinks the sector is growing by about 12% compared with last year. The company, which has a market share of about 5% in the region's biscuit sector, has seen its best growth in Yemen, Kuwait, Lebanon, the UAE and Bahrain, according to Khoury. Saudi Arabia remains the biggest market for biscuits in the region, with about 38,000 tonnes sold annually. Traditional biscuits such as sandwich biscuits account for about a third of Danone's sales in the region, as do sweet biscuits. Khoury added that wafers are experiencing the biggest growth, but that sandwich and dry biscuits remain the biggest sellers.

The sector is performing particularly strongly in Qatar, mainly because of the country's rising population. "In the 2000 census, there were 522,000 people. Now there are closer to one million and they expect to reach 1,050,000 soon because of all those universities opening up and the economy is booming," Khoury said. "The GDP per capita is now the biggest in the world. That could be the reason why."

Danone's main products in the region are Prince Family and Tuc. The company is present in all MENA countries except Yemen, although its presence in each market varies according to purchasing power, consumption habits and legislation – which prevents the company from penetrating some markets. Saudi Arabia represents almost 50% of Danone's business.

About 50% of Danone's biscuit sales in the region are through supermarkets and hypermarkets. "In our range we have the family pack, the premium range and count lines which are individual packs at a low price point," Khoury said. He added that the company also sells products, particularly count lines, through wholesalers and the lower trade.

Khoury also handles markets in the Levant and some Mediterranean countries, such as Cyprus and Malta. Trends in these markets often act as a good indicator of what might happen in the Middle East, Khoury said. "They [Levant, Cyprus and Malta] are different from the rest of the GCC and they are more fashion forward," he said. "For example, new biscuit technologies, and new low fat biscuits become the fashion in these markets before the GCC. The GCC is a bit slower. The biggest trend here is the move from imported biscuits to local biscuits. Everything is becoming localised."

For Khoury, one of the main challenges of the market is that it is fragmented. "If you go to Western Europe or North America there will be about three champions, two or three challengers and maybe two or three others that are struggling," he said. "In our region, there are many people in the category and we have a lot of competition in terms of local brands," he added.

Advertising is done mainly through below-the-line activities, according to Khoury. He said the company does not do any television advertising in the region for biscuits because the channels are fragmented. Indeed, there are so many channels catering for different groups of people that it would be difficult to target a wide audience. "Across the pan-Arab region there are so many cultures and each has a variety of TV stations," Khoury said. "We find a better return on investment when we advertise inside the stores. For me, below-the-line is becoming more like above-the-line. Hypermarkets are huge and are a source of information for a lot of people. This is where they spend their weekends."

While all of Danone's biscuit brands are currently imported to the Middle East, the company does have a factory planned for Egypt, which is expected to open in 2007 or 2008. This will initially cater for the Egyptian market, but could start supplying countries in the Middle East later.



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