Market Analysis of the UK Functional Food Industry for the Japanese Products

Case Study of Okinawan Drinking Vinegar

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Abstract

Europe is the third largest functional food market in value behind that of Japan and the US. Whereas the overall functional food market is relatively stagnant in the UK in contrast, the functional foods and drinks market seems to have a long-term opportunity for steady growth.

People are eating more calories than they need. They are eating too many unhealthy foods and to compound the problem do not take enough exercise. The consequences are dramatically increasing lifestyle related diseases such as obesity and high blood pressure amongst the UK population.

On the other hand, Okinawa prefecture in Japan is the leading area for longevity in the world. The Okinawan Government has set up the 'Okinawa Industry Support Fund' to provide grants that will help to facilitate the commercialization of small and medium enterprises which take advantage of local resources, particularly for business from health food industry. However, shipment of Okinawan Health food has been in decline for five consecutive years. Market development and strengthening of research and development of new products have become issues in the industry.

The objective of this paper is to identify and determine potential customers and establish the profile of UK 'health food consumers' through their purchasing behavior, attitudes and motives for functional foods in general and particular Okinawan health food product.

Through this research, we understood that the outlook for health food and health products is bright, with favorable demographic changes helping to boost demand. Consumers are becoming increasingly aware of health eating and are also more prepared to take control of their own destiny with healthcare products and remedies.

Introduction

Okinawa prefecture is the southern group of islands between mainland Japan and Taiwan. The prefecture is well known as the leading area for longevity in the world.

The Okinawan government has set up the 'Okinawa Industry Support Fund' to provide grants that will

help to facilitate the commercialization of small and medium enterprises which take advantage of local resources, particularly for businesses from the bio-technology, tourism and health food industries. With this fund they hope to encourage self-sustaining business management, and achieve the target of the economic development plan for Okinawa Prefecture.

The Government expects that this program will lead to the expansion of employment and industrial revitalization of the regional economy, however such results will not be realized without facing challenges. In the case of the health food industry, shipments of 96, 490 million yen in fiscal year 2009 have been reduced to less than half of the 2004 total, 200,510 million yen, and have been in decline for five consecutive years (the Okinawa Health Food Industry Committee). Market development and strengthening of research and development of new products have become issues in the industry.

On the other hand, Europe is the third largest functional food market in value behind that of Japan and the U.S. The goal of our research project is to identify the market potential of Okinawan health food in the UK.

Therefore, this paper mainly focuses on the UK health food market. There are currently three main groups of foods marketed and perceived by the public as healthy, “Organic,”“Whole” and “Functional foods.” All of these groups are distinct and well defined. Organic food has strict legal guidelines, however, the functional foods and whole foods are in some ways opposites in that functional foods are those with something added for a health benefit whereas whole foods are those with nothing taken away (Marketline, 2006).

According to Goldberg(1994,p3),functional foods are "in addition to their basic nutritive value and natural being, well contain the proper balance of ingredients which will help us to function better and more effectively in many aspects of our lives, including help us directly in the prevention and treatment of illness and disease." In UK, British Nutrition Foundation (BNF) also defined functional foods as foods with particular health-promoting benefits or disease-prevention properties, in addition to their inherent nutritional values. This market comprises largely:

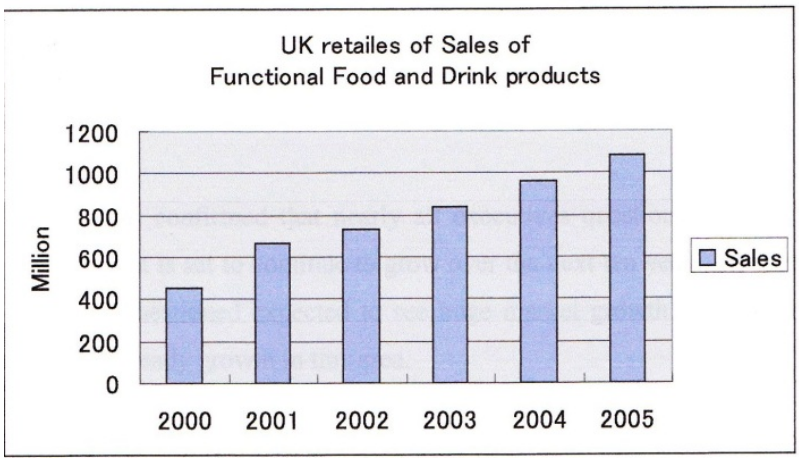
- Foods in which the levels of existing health-giving ingredients have been increased(fortified foods).
- Foods to which beneficial products have been added.
- Foods produced by fermentation, which contain beneficial bacteria.

Literature Review

1. Market size and trends of the health food industry in the UK

Since 2000, sales have grown by 143% at current price to reach almost £1.1 billion, with an average annual growth rate of around 13%. Sales of functional food and drinks continue to grow strongly. This is due to the repositioning of some large established brands, as well as the success of new product introductions and product range extensions (Mintel, 2006).

Figure 1: Functional Food Sales

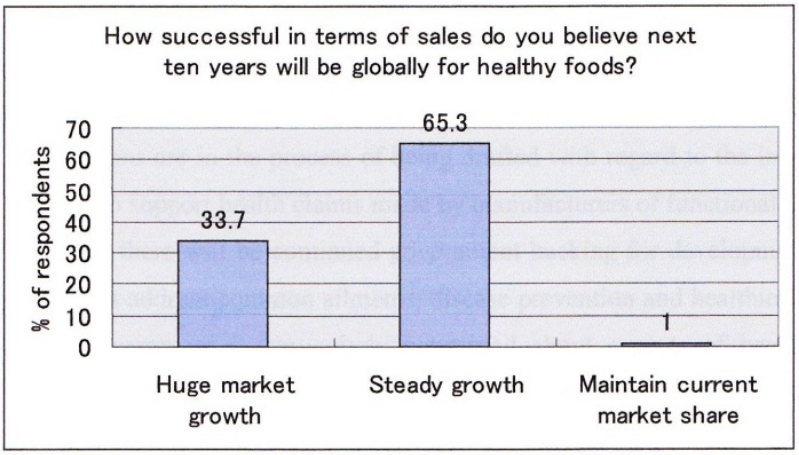


Source: Mintel (2006)

This growth may be due to functional foods and drinks becoming much more accepted over the years since initial launches, and have grown significantly in sales terms. This can be attributed to the fact that they represent a method of eating more healthily without changing one's diet. Furthermore, they are sold through traditional grocery outlets rather than health-food shops or chemist outlets (Key note, 2007).

The strong rate of growth in recent years has attracted international food manufacturers, such as Heinz, Unilever and Muller. Below is another graph from Business Insight(2005), which surveyed executives from 100 leading companies in the health food industry.

Figure 2: Growth Expectancy



Business Insight (2005)

The Figure2 result confirmed that nearly all executives questioned believe that the healthy foods market is set to continue to grow over the next ten years. Roughly a third of the companies questioned expected to see huge market growth. Almost two thirds only expect to see steady growth in this area.

The functional food industry is a young industry, but it is extremely optimistic. It is unlikely that the

functional food industry will achieve the huge market growth that it predicts (Business Insight, 2005).

2. Potential Customer Analysis

2.1. UK Life Style

The increase in weight problems in recent years has been blamed on inactivity and over consumption of fatty, sugary and oily foods. People are eating more calories than they need because they are consuming unhealthy foods and do not get enough exercise (www.nhsdirect.uk).

Over the last 10 years there has been a notable increase in the number of people who eat out on a weekly basis. A fifth of all consumers now eat out weekly which is a rise of 5 percentage points in the last two years. Habits vary amongst different segments of the population even larger proportion of younger consumers dining out at least a week (Mintel, 2004).

The restaurant meal portions today are often much bigger than people would normally give themselves at home and also have higher calorific and fat content. In other words, most people put on excess weight because their lifestyle include an unhealthy diet and a lack of physical activity(www.bupa.co.uk).

It is certainly easier than ever before for people to become overweight. High calorie foods, such as fast food and confectionery, are abundant, relatively cheap and heavily promoted specifically at the younger generation which has become an interest area for politicians in recent years (e.g. the debate about school dinners).

Exercise is no longer a regular part of everyone's day. Some people never walk or cycle to school or the office, or play any kind of sport. It is not unusual to spend hours in fort of a television at home or a computer at work (this recent development has given rise to the modern concept or the "couch potato").

In 1998, 24% of males and 28% of females in England aged 16 years over reported that they took no exercise. The 1998 Scottish Health Survey found that 23% of men and 24% of women aged 16 to 74 reported no participation in physical activity(WHO report,2004).

Those concerned therefore have a higher risk of developing serious health problem in later life, including stroke, heat attack, type 2 diabetes and high blood pressure. The risk of the health problems increase the more overweight a person becomes(WHO report, 2004).

2.2. Obesity and being overweight

Being overweight and obese is now a big problem in the United Kingdom. The United Kingdom has some of the highest rates of excess weight in Europe. According to WHO report (2004), 63%of men and 53%women are overweight. Date limited to England show that 21% of the men and 23% women are obese.

Obesity among children is fast becoming a major health problem too. The proportion of overweight and obese children in the UK is rocketing. According to self-reported date on height and weight collected in schools in the UK, 14% of 15 years old boys are pre-obese and about 4% obese. 11% of 15 years old girls are pre-obese and 3% obese. From 1995 to 2002, the prevalence of being overweight and obese rose steadily in England. This trend affected children and adults, male and female, but was more marked in the manual that in non-manual social classes (WHO report, 2004)

2.3. Diabetes

There are estimated to be 1.8 million sufferers of diabetes in the UK. While the minority of diabetics suffer the more serious Type I insulin-dependent condition, it is the rise in Type Ⅱcases that has soared. Currently, there are 1.5 million Type Ⅱdiabetes sufferers whose numbers are directly linked to poor diet and a lack of exercise, as well as an ageing population, and an increase into the UK of ethnic minorities which are more prone to the disease. Not only has type Ⅱ diabetes risen directly in relation to obesity but the age profile of sufferers has altered dramatically: having been found almost entirely in middle-age adults, the condition is now being diagnosed in much younger consumer as their obesity levels rise including children (www.diaetes.org.uk).

Table1: Prevalence of Diagnosed Diabetes in UK, 2004

Nation	Type I diabetes	Type II diabetes	Total
England	200,000	1,280,000	1,480,000
Scotland	18,000	130,000	148,000
Wales	12,000	80,000	92,000
Northern Ireland	7,000	40,000	47,000
UK	237,000	1,530,000	1,767,000

Source: Diabetes in the UK, Diabetes UK, October 2004

2.4. The Ageing Population

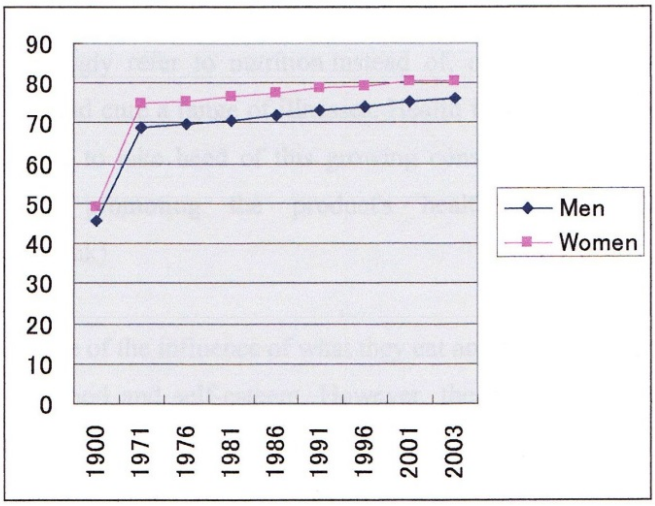
As mentioned before, the rising aging population in UK will imply a growing demand for functional foods market. (Kotleret, 2005) By 2031, the percentage of those aged 45 and over is forecast to grow to 47.1% within a population that will have grown to 67 million (Date Monitor, 2005). This will support the industry further, with suppliers of functional foods benefiting from the fact that people want not just to live longer, but also to be in good health throughout their lifetimes in order to enjoy an increasing number of leisure activities. In developed countries, the over 40 age group is growing faster than the population as whole (Business Insight, 2005).

National statistic stared life expectancy has grown dramatically over the decades. Figure 15 charts the historical growth trend in life expectancy for both men and women between 1990 and 2003.

Life expectancy rose from 45.5years for men and 49 years for women in 1900, to 76.3 years for men and 80.7 years for women by 2003. It is forecast to rise further, to 77.6 years for men and 82.6 years for women by

2021 (National Statistics, 2003).

Figure 3: Trends in Life Expectancy by Gender (years)



Source: National Statistics-Health Statistics Quarterly

3. Consumer Spending for Healthy Options

People want to live longer, healthier and happier lives and often turn to food and drink products for the answers. According to Keynote, encouragingly, 87.5% of the sample said that they were making an effort to eat more healthily.

Consumers increasingly refer to nutrition instead of,or as well as, medicine in an attempt to prevent and cure a range of this growing consumer interest in nutrition and enhance this by promoting the product's health benefits where possible (www.nhsdirect.nhs.uk).

Consumers are aware of the influence of what they eat and that it makes a big difference to energy levels, mood and self-esteem. However the notion that food and drink is positive rather than negative, fattening, unhealthy or expensive is still not fully understood by consumers or the industry itself(Mintel, 2006).

Understanding consumers' health concerns and the relationship between nutrition and purchasing habits can open the door to new profit opportunities and growth strategies. Consumers are becoming increasingly self-aware and self-medicating. The industry needs to not only keep up with consumers' requirements and education but also help continue this positive relationship with food and drinks through new product development, marketing, promotions, distribution and sourcing.

The "Consumer Concerns and Healthy Issues" industry opinion survey attracted responses from 255 senior food and drinks industry executives from around the globe and was conducted in July 2004.

This graph indicates the importance of consumer concerns on the development of the food and drinks industry.

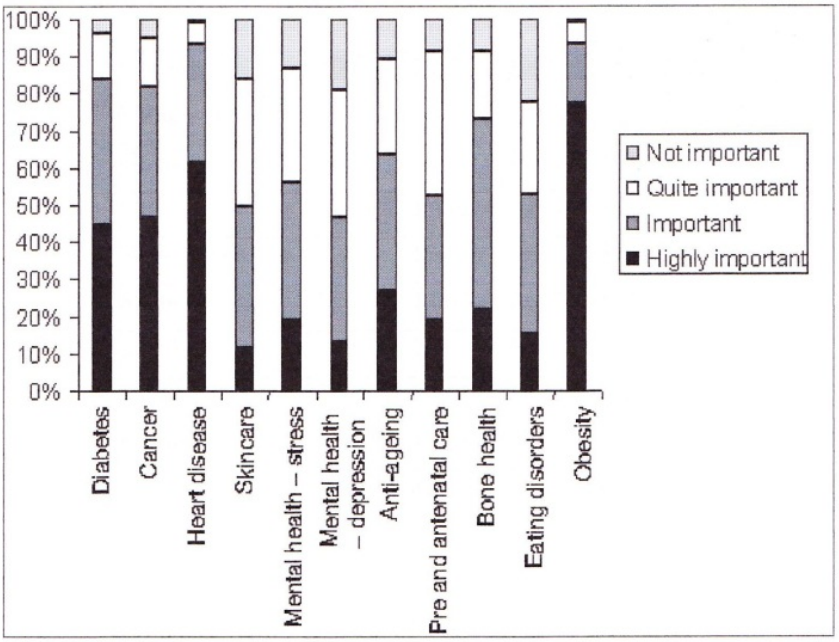
Figure 4: Importance of Customer Concerns

	Highly important	Important	Quite important	Not important
1. Obesity	77%	16%	6%	1%
2. Heart disease	61%	31%	6%	1%
3. Cancer	47%	35%	13%	5%
4. Diabetes	45%	39%	12%	4%
5. Anti-ageing	27%	36%	26%	10%
6. Bone health	22%	51%	18%	9%
7. Pre and antenatal care	19%	33%	39%	9%
8. Mental health – stress	19%	37%	30%	13%
9. Eating Disorders	15%	37%	25%	22%
10. Mental health – depression	13%	33%	34%	19%
11. Skincare	11%	38%	34%	16%

Source: Business Insight (2004)

Business Insight(2004) found thee most of the health food manufacturer would like to launch healthy food products that address major diseases and disorders, such as cancer, heart disease and obesity. These are highly important consumer concerns in respect to the potential future impact on food and drink developments.

Figure 5: Potential Future Impact



Source: Consumer concerns and healthy issues industry opinion survey, August 2004)

4. Current Market Situation in UK

There are more than 7000 of health food retailers in UK, retailers have been categorized into 4 main types

1. Health food specialist chains (Holland and Barrett, GNC)
2. Independent specialists
3. Chemists
4. Organic Shops

Supermarkets also started launching many types of health food include functional food. The leading supermarkets account for two-third of health food sales. Most of them offer an ever-increasing range of products, some even feature their own label of functional foods such as "&More'" from Marks and Spencers for example. Thus, promoting U.K. organic production and encouraging conventional growers to convert to healthy eating products (www.marksadspencer.com).

Moreover, in support of above, Fillson and Arazi (2002) contends that majority of food retailers have been identified as the chains which offer the largest range of healthy eating categories of foods and drink. In addition to food retailers, there are an increasing number of independents retailers selling organic products, functional foods and drink and vitamin supplements.

UK multiple retailer Marks and Spencer currently manufactures several health and wellbeing brands through the St Michael private label. Their primary healthy eating line is 'Count On Us'. This brand is a line of ready-made low calorie slimming products, which has become one of the top ten brands in the UK only 18 months after its launch. They also consider their organic, vegetarian and children's ranges a success, with fifteen new children's food lines being introduced to UK stores in August 2001.

According to the trends in the UK retail food industry, consumers have become more conscious of the composition of their foods (Harper and Makatouni, 2002). This way, supermarkets can add value to the service they offer and attract more shoppers to visit the store by considering lifestyle and current health issues.

Several major companies in the industry such as boots and HJ Heinz began investing in sections of the health foods market within the past 3 years (Boots with complementary therapies, Heinz with organic foods). This suggests that there may not have been a big enough consumer base for health foods and drinks to justify the necessary investment by these companies. However, that the market can be better served by specialists than by mainstream companies.

On the other hand, many of the smaller and medium-sized specialist companies are already finding it difficult to survive in the current regulation and financial climate, as demonstrated by the recent spate of mergers and acquisitions including the purchase of GNC by Holland Barrett/NBTY. It is very likely that there will be further activity of this Sort during the next few years (Mintel, 2005).

Healthy foods can be marketed successfully in the same way as any other consumer products. However, additional consumer confidence must be won for full maturation of the product.

5. Advertisement and Promotion Activities

In competitive terms, success will go to those who deliver the most effective message in conjunction with beneficial product that is a pleasing experience advertised in an ethical matter (Johnson and Scholes and

Whittington, 2005).

Because of increasing competition companies spend more and more advertising. Main monitored advertising expenditure on functional dairy products almost doubled over the review period from 2001 to 2005, although this masks some fluctuation in spends over the five years (Mintel, 2006).

According to date from Nielsen Media Research (NMR), main media advertising expenditure was £44.3 million on functional foods grew by 48.4% in the year ending July 2005.

Unilever is now the largest advertiser in the functional foods market, with its expenditure rising to £11.5 million in 2005/2006 from £6.2 million in 2004/2005. The second company spending advertisement cost is Danone. Danone spent main media advertising expenditure of £20.7 million in 2005/2006. These two companies together accounted for just under 55% of total spending on above-the-line promotion of functional foods in 2005/2006 (Mintel, 2004).

The functional element of some foods is also highlighted by on—pack messages regarding such as Nestle's breakfast cereal packets which contain the line "may help to keep your heart healthy", and Bannerol margarine claiming that it is "clinically proven to reduce cholesterol as part of a healthy diet," and that it "helps to lower blood cholesterol levels when eaten as part of a low fat diet" (Key Note,2006).

Flora proactive is approved by the Family Heart Association, and Nestle run "Helping Hearts" Campaign in conjunction with the British Heart Foundation through a £1 voucher donation scheme (Mintel,2006).

The advertising of functional products (and indeed advertising in general) tends to be greatest in food and drink sectors where brands are still strong and important. Although retailer own-label activity is also strong in most of these sectors, the major food and drink companies involved(such as Kellogg, Danone and Unilever),and the levels of innovation necessary to support brand shares, have resulted in large budgets being put behind new launches such as drinking yoghurts and cholesterol-lowering margarines. (Mintel, 2006)

The trend over recent years has been for an increasing share of the advertising budget to be put into television advertising, rather than newspapers, magazines, or outdoor campaigns. TV is the dominant form of above theline advertising in the functional dairy food sector. The immediacy of a TV campaign is particularly forceful when communicating the overall "feel good" benefits of individual products, whilst also serving to raise total brand awareness. Yakult, however, has also used TV advertising to communicate the `science' behind its product, with its series of `geek' executions explaining how probiotics act as friendly bacteria within the gut. However, expenditure on TV campaigns have fluctuated during the review period, there has been a considerable increase over the last two years as the leading companies have begun to compete head on across all product categories.

Although, advertising on the Internet by establishing a web site appears to be an important element for commercial links. Like all other media formats, internet users have distinct demographic and psychographic characteristics (Dibb, Simkin, Pride and Ferrell 2011).

Conclusion

Europe is the third largest functional food market in value behind that of Japan and the US. Whereas the

overall food market is relatively stagnant in the UK in contrast, the functional foods and drinks market seems to have a long-term opportunity for steady growth.

People are eating more calories than they need. They are eating far too many unhealthy foods and to compound the problem do not take enough exercise. The consequences are dramatically increasing lifestyle related diseases such as obesity and high blood pressure amongst the UK population.

Through this research, we understood that the outlook for health food and health products is bright, with favorable demographic changes helping to boost demand. Consumers are becoming increasingly aware of health eating and are also more prepared to take control of their own destiny with healthcare products and remedies. Further study will be more extensive and intensive research to find out the potential of Okinawan functional food industry in UK.

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