THE FUTURE OF SNACK MARKETS IN LATIN AMERICA

Management Summary

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MANAGEMENT SUMMARY

Latin America is a complex region consisting of half a billion people living in 20 countries. Though no Latin American countries are considered "upper income" economies, many of them are large and growing 'middle-income' economies with strong growth prospects. The region as a whole today is in a substantially better economic position than it was in 1990 – it has benefited (and continues to do so) from the opening up of markets. Combined GDP in the region is $2 trillion.

Of this amount, almost $300 billion is spent on food, and of this total, over $20 billion on processed snackfoods (close to $45 per person). Our focus in this study is on describing this portion of Latin America, how it will change, and what the likely implications will be for snackfood companies engaged in the market.

This management summary (and the study itself) is organized as follows:

- Latin America snacks today;
- Food & snack market models;
- The snackfood industry and competition in Latin America;
- Forces for change;
- Snack markets in Latin America tomorrow; and
- Future competitive strategy

In addition, at the end of the study itself we conclude by providing case studies which draw from our findings and conclusions about the future.

Snacks in Latin America today

Latin America – Snacks snapshot 2000

	Brazil	Mexico	Cosmopolitan	Andes	Central America	Total
Population	168	97	55	116	35	**471**
Income/pc	4,300	4,400	6,700	2,300	1,700	**3,900**
Food ($b)	90	44	61	81	11	**287**
Snacks ($b)	6.7	4.4	5.5	3.8	0.6	**20.9**
Snacks/pc ($)	40	44	110	35	20	**44**
Snacks/pc (Kg)	15.5	13.5	24	6	6	**13**

Sources: World Bank, Promar estimates

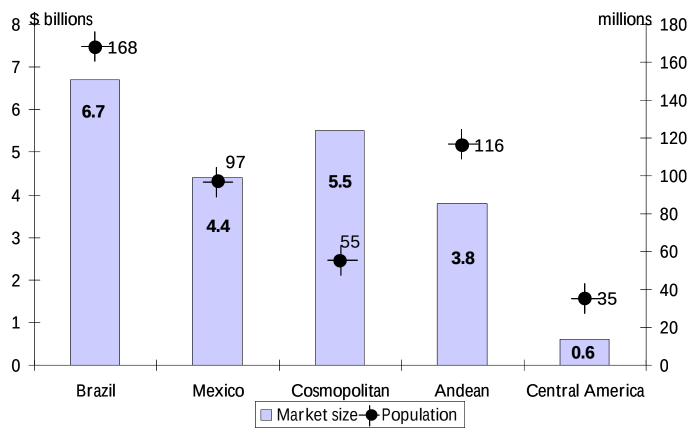
Latin American incomes are approaching $4,000 on average, and spending on processed snacks today is about $45 per person, for about 13 Kg.

Latin America has basically three snack market 'tiers:'

- Consumers in the Cosmopolitan region consume almost 25 Kg and spend over $100 per capita on processed snacks;
- In Brazil and Mexico, consumption per capita is in the 15 Kg range, and spending averages $40-$45;
- And in the Andes and Central America, consumption is about 6 Kg per capita, with spending in the $20-$35 range.

Processed snack markets in Latin America

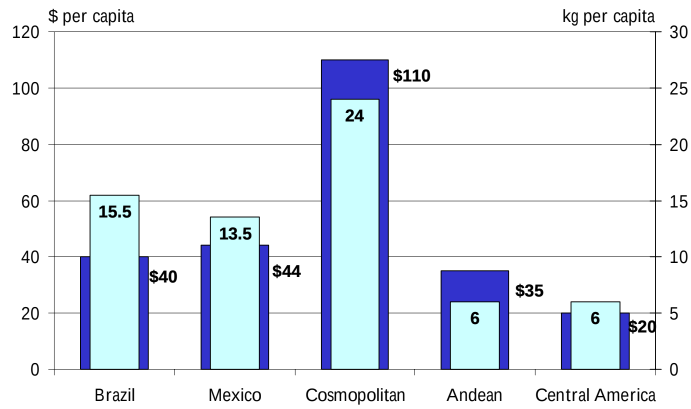
(Contrasted with population)



When one considers overall market size:

– Two 'markets' are in the $6 billion range: Brazil and Cosmopolitan.
– Next come Mexico ($4.4 billion) and Andean markets ($3.8 billion), both around the $4 billion range.
– Central America is *much* smaller, at $0.6 billion.

Processed snack markets in Latin America
(Value and volume per capita)

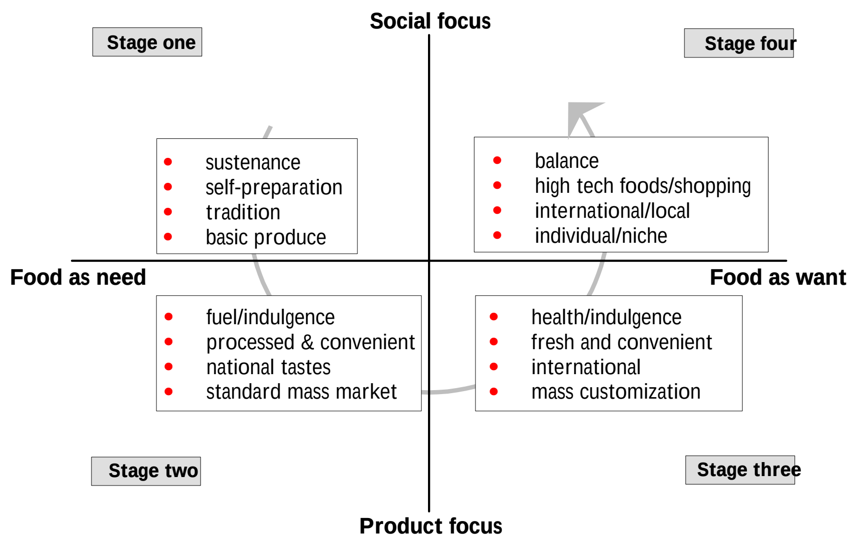


Per capita snack consumption and expenditures are highest in the Cosmopolitan region, followed by Brazil and Mexico. Consumption and spending in the Andean region and in Central America are much lower.

Food & snack market models

Food markets throughout the world generally follow a particular development pattern, moving through four distinct stages:

Food market stages



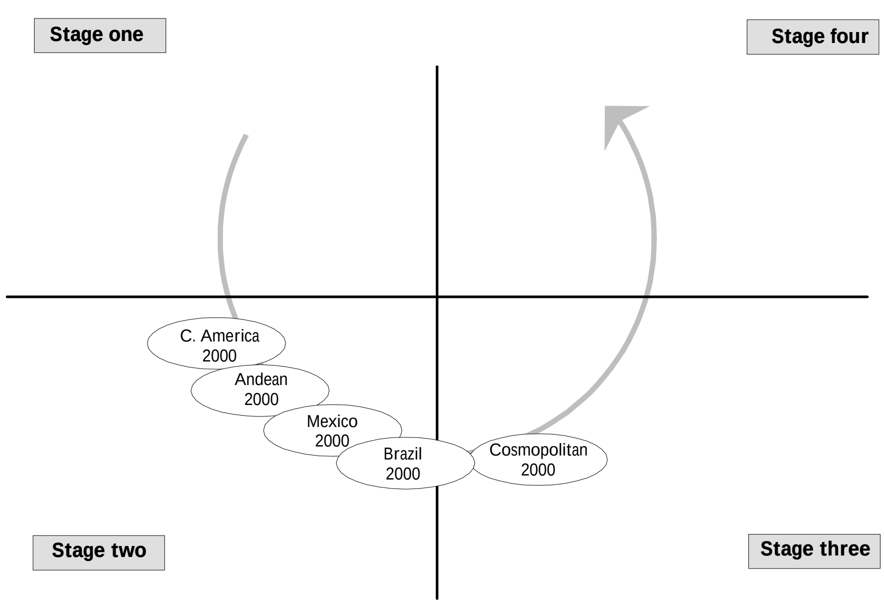
- In the first stage a market is rudimentary, goods are basic and consumers seek food for sustenance;

- In the second stage, markets are often controlled and goods mass produced, with only modest levels of added value; consumers in this stage can be quite brand conscious and the industry is often dominated by a few major players (often state-controlled);
- In the third stage, markets become more open and competitive; value is added to goods, and segmentation takes place among both consumers and producers as incomes rise and consumers have different desires and abilities to purchase value-added foods;
- By the fourth stage, the market has become organized, comprising varied, value-added goods and there is significant market segmentation; the consumer in such a market is sophisticated and seeks specific goods to fulfill specific needs, hence there is a need for a wide variety of products at different price and quality levels.

Household income levels grow approximately five-fold between stages. The following can serve as a rough guide: households (and countries) enter Stage 2 at $2,500, Stage 3 at $12,500, and Stage 4 at $62,500.

The following graphic shows where the Latin American food markets fit along this market development path relative to selected major markets:

Latin American markets by stage of development, 2000



Today, most Latin American markets have many established brands of mass produced goods. Brazil and Mexico are currently making the transition into the third stage, where competition between both domestic goods and international foods takes on greater importance; these markets are also beginning to rapidly shift their emphasis towards higher value-added foods. The Cosmopolitan markets have largely moved into this stage already, and will progress further over the next decade.

Andean and Central American markets, on the whole, lag behind. Incomes are lower, the room for processed food players is more limited; competition is less intense. Relatively small numbers of people can afford significant quantities of even mass produced foods.

The snackfood industry and competition in Latin America

Player types

The major snackfood companies in Latin America fall into five basic player types. In rough ascending order of scale and portfolio breadth, they are **National Category Players**, **Multilatinas**, **International Invaders**, **Big Outsiders**, and **Global Portfolio Players**. These types, their core characteristics, and examples of each are provided in the table below.

Snackfood player types in Latin America

Player type	Key characteristics	Examples
National Category Player	– Production driven – Limited activity outside home market; usually export driven – Limited product focus; usually snackfood only, with limited rangeWell-establised brands in home market, standard quality – Deep knowledge of (traditional) distribution, home market consumers – Often has closed ownership – Usually modest in scale (under $500 million)	– Garoto (Brazil, choc) – Noel (Colombia, conf) – Colombina (Colombia, conf) – Diana (El Salvador, salty) – Carozzi (Chile, conf.) – Canel's (Mexico, conf.)
Multilatina	– Production-driven; transitioning to market driven – Broad product portfolio of mass, standard brands; some premium – Local presence in multiple Latin American markets and beyond – Larger in scale (above $500 million) – Growth through all possible means (organic, acquisition, alliances)	– Bimbo (Mexico, bisc., conf) – Arcor (Argentina, conf) – *Ambev* (Brazil, *beverages*) – *Modelo* (Mexico, *beverages*)
Int'l Invader	– Marketing driven – Focused product range, usually premium – Broad international presence – Growth through alliances, Greenfield production – Usually larger in scale (above $1 billion)	– Ferrero (Italy, conf) – Van Melle/Perfetti (Holland/Italy, conf) – Chupa Chups (Spain, conf) – Yakult (Japan, dairy snacks)
Big Outsider	– Marketing driven – Usually focused portfolio of premium brands, built for home market – Limited presence in Latin America (usually export driven) – Larger scale (usually over $1 billion) – Tradition of independent, organic growth	– Hershey (USA, choc, conf) – Wrigley (USA conf) – Storck (Germany, conf)
Global Portfolio Player	– Marketing driven – Portfolio of standard and premium brands – Strong domestic market base – Usually active in several product categories; often outside snacks – Often leaders (#1 or #2) in their categories in many markets – Access to finance – Growth by all possible means	– Danone (France, biscuits, dairy) – Mars (USA choc, conf) – Kraft (USA conf, salty) – Unilever (UK/Netherlands, dairy) – Frito-Lay (USA, salty, biscuits) – Nestlé (Switzerland, all but salty) – Parmalat (Italy, all but salty)

In addition to these larger player types, there is a wide variety of smaller, indigenous snackfood companies throughout Latin America – these, however, often have only a limited presence (local or regional) within a single country, they generally lack access to finance, have limited distribution clout and management skills, and generally offer inferior products. Over time, some may be bought by the larger companies, but they are far more likely to go out of business. We therefore focus on the larger players, which are described in greater detail in the text that follows.

National Category Players

National Category Players (NCPs) are mostly mid-sized, home-grown snack players focusing on a limited number of snackfood segments and with limited activities outside their home market. Some of the advantages of the NCPs are their knowledge of the market, established relationships with the trade and with consumers, and well-established distribution channels. Disadvantages may include relatively limited access to finance, thinner management capabilities, and potential problems with succession in ownership and management.

National Category Players: Garoto (Brazil), Diana (El Salvador), Noel (Colombia), Carozzi (Chile), Canel's (Mexico).

National Category Player – Strengths & weaknesses

Strengths	Weaknesses
• Deep market knowledge • Brand equity • Agility (decision process) • Competitive copier ability	• Limited geographic presence • Limited product portfolio • Limited access to finance • Marketing (lack of skill) • Often, family management

Multilatinas

Multilatinas are Latin American companies that have successfully transitioned outside of their own border, building substantial activities abroad either through Greenfield operations or (more likely) by striking joint-venture and/or equity deals/acquisitions with companies in neighboring countries.

Multilatinas: Arcor, (Brazil) AmBev (Brazil), Bimbo (Mexico), Modelo (Mexico)

Multilatina – Strengths & weaknesses

Strengths	Weaknesses
• Scale/brands • Product portfolio • Production efficiency • Deep distribution access • Access to finance • Market knowledge	• Production-driven tradition • Home business model limitations • Lack of NPD ability • Risk averse • Lack of global cadre of managers

International Invaders

International Invaders are generally fairly focused in their product portfolio, concentrating in one or perhaps two major snack sub segments. They are multinational companies that have already captured the existing market niche for their products at home, and have then aggressively moved internationally to develop that same niche abroad.

Their products tend to be at the upper end of the value-added spectrum, so their markets are limited if they rely only on export efforts; they generally turn to local production to make their products more accessible. Also, quality control may be a major issue for them.

International Invaders: Yakult (Japan), Chupa Chups (Spain), Ferrero (Italy), Van Melle/Perfetti (Holland/Italy).

International Invader – Strengths & weaknesses

Strengths	Weaknesses
• Marketing know-how • Brand focus • Innovation • Niche marketing • Commitment to adapt • Local partnerships	• Premium position limits opportunities in any given market • Unwillingness/inability to adapt product to local requirements • Limited risk appetite • Limited access to finance • Narrow product portfolio

Big Outsiders

Big Outsiders are snackfood manufacturers that may have an interest in Latin America, but which have not yet made a serious move to stake out a presence in the market. They generally have large, fairly established businesses, but they generally are more risk averse and less aggressive than the International Invaders.

Other Big Outsiders: Storck (Germany), Hershey (USA), Wrigley (USA)

Big Outsider – Strengths & weaknesses

Strengths	Weaknesses
• Scale of home market • Access to finance • Brand portfolio	• Lack of presence in Latin America • Premium pricing limits opportunities • Not good localizer • Lack of local partners • Brand weakness in Latin America • Pride • Lack of flexibility/adaptability; scale inhibitions • Depends on general food importer/distributor • High cost base (imported product)

Global Portfolio Players

Global Portfolio Players (GPPs) are large, global companies whose brands are familiar with consumers across the globe. They tend to be #1/#2 in the segments in which they are active; they are aggressive marketers; and they are big, leveraging their size to advantage across their supply chains. GPP products range from standard to premium. Over time, their premium products become cash-cow standards, which in turn help fund the development of new premium products.

Global Portfolio Players: Parmalat (Italy), Danone (France), Frito-Lay (USA), Kraft (USA), Mars (USA), Nestlé (Switzerland), Unilever (UK/Netherlands)

Global Portfolio Player – Strengths & weaknesses

Strengths	Weaknesses
• Scale • Access to finance • Strong portfolio of global brands • Marketing skills • Ability to stage deals – acquire, partner	• Lack of agility • Radar too high (hurdles)

Bases of competition

Here we identify the bases upon which snackfood companies compete in Latin America today. In section five, we then show how these bases will change, along with the resulting implications these changes will have.

Today, there are five key bases of competition for Latin America's snackfood players:

- **Scale** refers to the size of the company's operations, primarily production volumes and market coverage. Historically, this has largely referred to a company's activities in a single national market, though this is changing rapidly.
- **Distribution** refers to the depth and breadth of a company's distribution network. For example, the strongest distribution networks reach many, if not most points-of-sale, including the small-operator, fragmented portion of the retail network.
- **Consumer knowledge** reflects a company's understanding of its consumer base and ability to target both marketing and products to these consumers.
- **Brand importance** reflects basic recognition and acceptance of a company's brands.
- **Product innovation** reflects the company's ability to come up with new, successful, and enduring products. Is it innovative, or does it simply copy the products successfully introduced by competitors?

Player types and their competitive strengths, today

	National Category Player	Multilatina	International Invader	Big Outsider	Global Portfolio Player
Scale (national)	+	+++	++	+	+++
Distribution (national)	++	++	+		+++
Consumer knowledge	++	++	++		++
Brand importance	++	++	++	+	+++
Product Innovation	+	++	++	+	+++

Though Global Portfolio Players have the strongest positioning, other player types (excluding the Big Outsiders) do have skills that allow them to compete: their weaker competitive position is offset by the growing nature of these markets.

Forces for change

Business environment

The changing business environment in Latin America and the gradual liberalization and growth that will take place will have important implications for snackfood manufacturers.

Changes in the business environment – implications

Key changes	Implications
External liberalization and trade growth	• More competition • Better market access for all players • More choices for consumers • Preferential trade pacts will give a relative edge to leading Latin American companies and brands
Internal policy changes (dollarization, tax reduction, privatization, infrastructure development) and economic growth	• Increased competition • Increased stability and growing investment • Growing food markets and sales opportunities • Better access to consumers for both sales and advertising - but targeting audiences with appropriate messages will become harder • Greater efficiencies/lower costs–> increasing volumes • Logistics costs in Latin America will drop over the long term, but slowly

Point of sale

The most dramatic distribution changes in Latin America will be those at point of sale: organized regional and global retailers will continue to expand aggressively throughout the region. For snackfood, fragmented points of sale will remain important both in their current independent, informal state, and as part of more organized formats.

Chained retail sales in Latin America should grow from $110 billion to $200 billion or by approximately 80% over the next decade (total food & beverage retail, meanwhile, should grow by a more modest 40%, from $300 billion to $420 billion). The degree to which this growth in chained retail will impact snack sales will vary market to market, proportional to the importance of chained retail. In markets less dependent on chained retail, the concentration of sales in traditional, fragmented points of sale will continue to be a major factor.

Key implications of point-of-sale changes

- Growth in large-format outlets, along with urbanization, will allow snack companies to more easily reach growing urban populations. Secondary markets in particular will offer new opportunities for marketers of all types (mass-market, premium, & budget), especially in Argentina and Mexico.
- The expansion of organized retail and its growing strength will lead to pressure on manufacturers to lower prices; one effect of this trend will also be to expand the consumer base for processed snacks, with volume increases helping to offset the squeeze in margins. Controlling production costs will be an important factor for mass-market manufacturers.
- Hypermarkets and supermarkets are able to stock a much broader product selection than many Latin American consumers are used to. Therefore, the visual appeal of products will be increasingly important, both to draw consumer attention and to differentiate products from those of competitors, especially since shoppers will spend much more time in the store, but visit it less often. This will be a particularly important shift in Mexico and the Cosmopolitan markets.
- New channels of distribution will grow as consumers broaden where and when they snack.

The changing Latin American consumer

While a more conducive business environment will provide snack companies new growth opportunities, and more organized point-of-sale will make getting products to consumers easier, keeping up with consumer trends and reaching out to them may prove trickier.

Consumer changes – implications

Key consumer changes	Implications
Demographics (population growth, growing workforce, aging population, shrinking household size, urbanization, migration)	• More room for market participants • Growing opportunities for food service & snacking • Rapid growth in 55+ population - opportunities for health oriented snacks • Shrinking in the relative numbers of children - room for increases in value added to products targeted at them • Urban growth - easier access to population, with increasing opportunities through organized retail
Growing incomes	• Growing opportunities for snacks in every price category - especially premium and budget categories
Working and living (squeezed lunches and shopping, working women, cultural shifts, media fragmentation)	• Food service venues, particularly fast food franchises, will experience rapid growth in an effort to serve lunch to workers who no longer have enough time for a leisurely lunch. • New distribution and market access opportunities • Latin American products more accepted throughout region and world • Use of new, much more targeted media will allow for pinpoint marketing

Snack markets in Latin America tomorrow

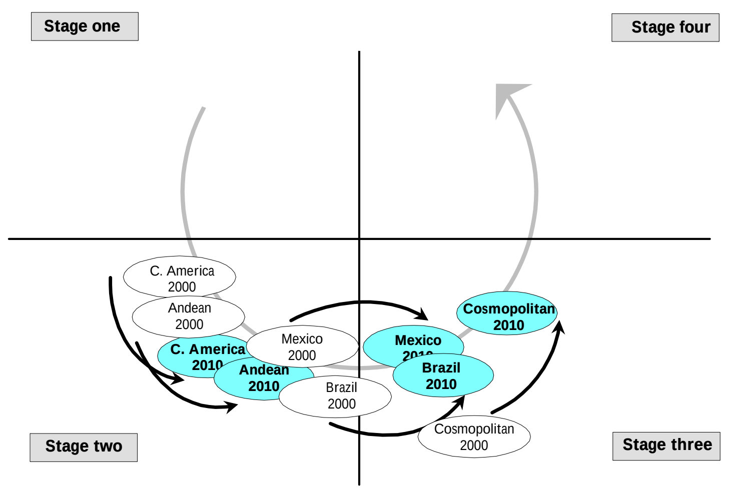
Latin America – Snacks snapshot 2010

	Brazil		Mexico		Cosmopolitan		Andean		Central America		Total	
	2000	**2010**	2000	**2010**	2000	**2010**	2000	**2010**	2000	**2010**	2000	**2010**
Population	168	**188**	97	**111**	55	**61**	116	**137**	35	**44**	471	**540**
Income/pc	4300	**5800**	4400	**6300**	6700	**9600**	2300	**3100**	1700	**2500**	3900	**5400**
Food ($b)	90	**135**	44	**71**	61	**97**	81	**129**	11	**19**	287	**451**
Snacks ($b)	6.7	**11.6**	4.4	**7.7**	5.5	**8.3**	3.8	**6.4**	0.6	**1.1**	20.9	**35.0**
Snacks/pc ($)	40	**61**	44	**69**	110	**136**	35	**47**	20	**25**	44	**65**
Snacks/pc (Kg)	15.5	**24.1**	13.5	**20.8**	24	**31.6**	6	**8.4**	6	**7.5**	13	**19**

Sources: World Bank, Promar estimates

Snack sales in Latin America are set to grow by about $15 billion this decade, from $20 to $35 billion. Per capita spending will expand from $45 to $65, while consumption grows from 13 to 19 Kg per person. The top growing regions for processed snack sales will (not surprisingly) be Brazil, Mexico, and the Cosmopolitan region – which combined should account for 75%-80% of the sales growth.

Snack evolution in Latin America through 2010, by region



Our research has shown that spending on processed foods accelerates when markets hit the $3,000-$5,000 average per capita income range. Current projections show Latin American incomes expanding from today's $3,900 to around $5,400, which suggests substantial processed food (and hence snack) sales growth - quite possibly making Latin America the fastest growing region for processed snack sales in the world. In spite of this growth, regional disparities in snack spending will persist: by 2010, consumers in Cosmopolitan countries will spend $135 on average on processed snacks, compared to $25 by Central Americans.

Latin America's regional markets will be progressing from Stage 2 towards (or into) Stage 3. This is because most consumers in these markets don't have incomes allowing them to buy quality processed snacks on a regular basis. However, each market does have income groups that can afford these products.

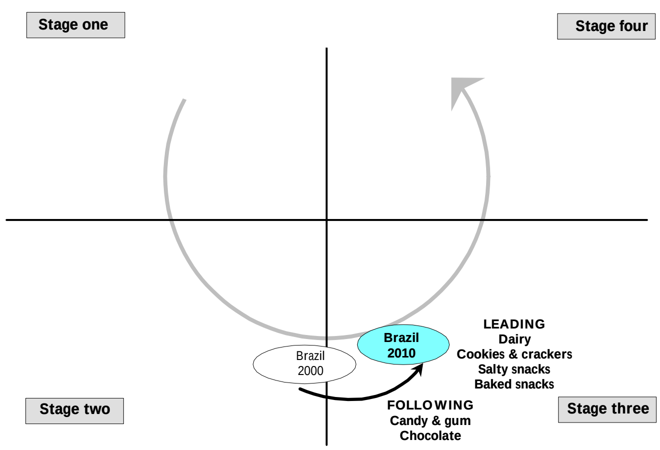
Snack markets 2010, by geography

Brazil

Brazil, by virtue of its size, growth potential, and consumer trends offers Latin America's largest growth opportunities for processed snacks over the next decade. All processed snack categories are likely to expand by substantial amounts, ranging from 50% to 100%.

Per capita processed snack consumption should expand from 15 to 24Kg, and spending from $40 to $60 – for a total market expansion of $3.6 billion.

Brazil's market and snack segment evolution



Brazil - Projected growth by snack segment, 2000-2010

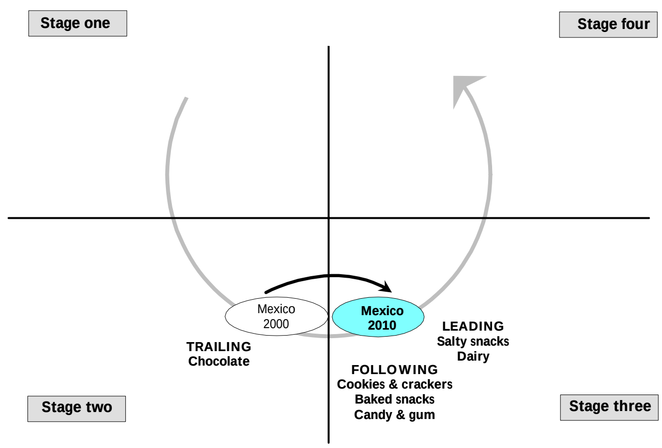
	Sales (1,000 mt)		Sales ($ millions)		Growth	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-2010**	**2000**	**2010**	**2000**	**2010**
Salty	230	460	1,100	2,200	100%	1.4	2.4	6.5	12
Biscuits	1,090	2,020	1,650	3,050	85%	6.5	10.7	9.8	15
Chocolate	300	450	1,300	1,950	50%	1.8	2.4	7.7	10
Sugar & gum	405	610	1,100	1,650	50%	2.4	3.2	6.5	9
Dairy	555	1,000	1,500	2,700	80%	3.3	5.3	8.9	14
Total	**2,580**	**4,540**	**6,650**	**11,550**	**75%**	**15.4**	**24.1**	**40**	**60**

Source: Promar International

Mexico

While Mexico presents a lesser opportunity than Brazil, it remains by far the second largest growth market in Latin America. Per capita income will rise some 57%, allowing for an increase of $3.3 Billion in snack sales over the period. Per capita spending on snacks will increase to $69, exceeding Brazil's per capita spending. This would seem to indicate opportunities for higher priced items will be greater in Mexico than in Brazil.

Mexico's market and snack segment evolution



Not surprisingly, in Mexico, salty snacks and dairy snacks will be at the forefront in terms of pace of growth over the next decade. Growth in processed snack sales will range from "good" to "outstanding," with sales growing from $4.4 to $7.7 billion (from $45 to $70 on a per capita basis).

Mexico - Projected growth by snack segment, 2000-2010

	Sales (1,000 mt)		Sales ($ millions)		Growth	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-2010**	**2000**	**2010**	**2000**	**2010**
Salty	205	410	1,100	2,200	100%	2.1	3.7	11	20
Biscuits	450	720	1,250	2,000	60%	4.7	6.5	13	18
Chocolate	45	65	175	250	40%	0.5	0.6	2	2
Sugar & gum	165	265	550	900	60%	1.7	2.4	6	8
Dairy	475	850	1,300	2,350	80%	4.9	7.7	14	20
Total	**1,340**	**2,320**	**4,375**	**7,700**	**75%**	**13.9**	**20.8**	**44**	**70**

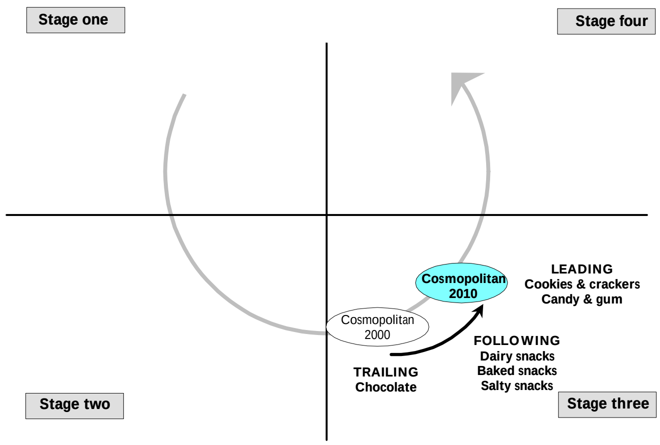
Source: Promar International

Cosmopolitan

Processed snack sales in the Cosmopolitan markets are likely to expand by approximately 50% during this decade. By 2010, sales will approach 2 million tons worth over $8 billion, with per capita spending reaching $130 and consumption exceeding 30 Kg.

Salty snacks, cookies & crackers, and candy & gum are expected to be the leading growth segments.

Cosmopolitan markets and snack segment evolution



Cosmopolitan - Projected growth by snack segment, 2000-2010

	Sales (1,000 mt)		Sales ($ millions)		Growth	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-10**	**2000**	**2010**	**2000**	**2010**
Salty	50	80	325	550	65%	0.8	1.3	6	9
Biscuits	350	580	1,335	2,200	65%	6.4	9.5	24	36
Confectionery[a]	200	290	1,650	2,550	55%	3.4	4.5	30	40
Dairy	700	1,000	2,165	3,000	40%	12.9	16.2	40	50
Total	**1,300**	**1,950**	**5,475**	**8,300**	**50%**	**23.5**	**31.5**	**100**	**130**

Source: Promar International

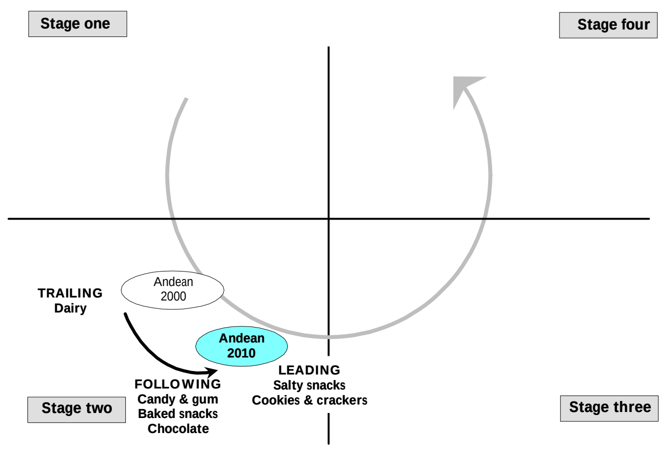
[a]Includes chocolate, sugar candy, & gum

Andes

Andean markets will grow in large part based on new consumers coming into the market for processed snacks. Segments that can provide entry-level products will grow fastest.

Overall, sales should grow from 680,000 mt to 1.2 million mt, expanding by value from $3.8 billion to $6.4 billion (70% growth). Per capita consumption should grow to 8.5 Kg (annual expenditures of $45-$50).

Andean markets and snack segment evolution



Andean markets - Projected growth by snack segment, 2000-2010

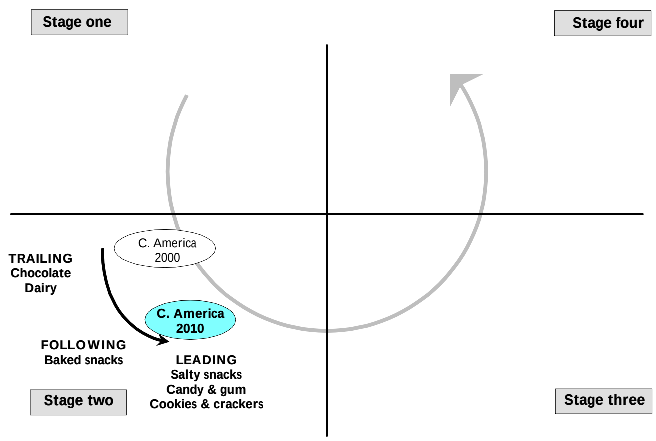
	Sales (1,000 mt)		Sales ($ millions)		Growth	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-10**	**2000**	**2010**	**2000**	**2010**
Salty	200	400	1,000	2,000	100	1.7	2.9	8	15
Biscuits	150	260	480	800	65	1.3	1.9	4	6
Confectionery[a]	180	300	1,600	2,600	60	1.6	2.2	14	19
Dairy	150	200	700	1,000	40	1.3	1.5	6	7
Total	**680**	**1,160**	**3,780**	**6,400**	**70**	**5.9**	**8.5**	**32**	**47**

Source: Promar International [a]Includes chocolate, sugar candy, & gum

Central America

Natural disasters and vulnerability to commodity price fluctuations will likely keep short-term consumer spending erratic in Central America; the relatively small size of these markets, though, along with linkages to their NAFTA neighbors, promise good long-term growth prospects.

Central American markets and segment evolution



We expect snack sales to expand by about 150,000 mt (worth an extra $450 million/year) by 2010, making the region a $1 billion+ processed snack market. Per capita consumption should grow to 7.5Kg ($25).

The relatively small size of the region, however, will mean that for many product segments, these countries will continue to represent import markets, not large enough to justify local production.

Central America - Projected growth by snack segment, 2000-2010

	Sales (1,000 mt)		Sales ($ millions)		Growth	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-10**	**2000**	**2010**	**2000**	**2010**
Salty	25	50	200	380	90	0.7	1.1	6	9
Biscuits	60	110	110	200	80	1.7	2.5	3	5
Confectionery[a]	65	115	115	200	55	1.8	2.6	3	4
Dairy	40	60	200	300	75	1.1	1.4	6	7
Total	**190**	**335**	**645**	**1080**	**80**	**5.3**	**7.6**	**18**	**25**

Source: Promar International   [a]Includes chocolate, sugar candy, & gum

Future snack sales by segment

The following table shows how we project each snack segment will grow on a Latin America-wide basis this decade.

Latin America - Projected growth by snack segment, 2000-2010

	Sales (1,000 mt)		Sales ($ millions)		Growth (%)[b]	Sales/pc (Kg)		Sales/pc ($)	
	2000	**2010**	**2000**	**2010**	**2000-10**	**2000**	**2010**	**2000**	**2010**
Salty	700	1,400	3,700	7,300	100	1.5	2.6	8	14
Biscuits & baked	2,100	3,700	4,800	8,300	75	4.5	6.9	10	16
Confectionery[a]	1,350	2,100	6,500	10,000	55	2.9	3.9	14	18
Dairy	1,900	3,100	5,900	9,400	60	4.1	5.8	12	18
Total	**6,050**	**10,300**	**20,900**	**35,000**	**70**	**13.0**	**19.2**	**44**	**66**

Source: Promar International [a]Includes chocolate, sugar candy, & gum [b]percentages rounded

We expect that

- Volumes of processed snacks will expand from 6 million mt to over 10 million tons;
- Sales will mushroom from just under $21 billion to $35 billion, for 70% growth;
- Per capita processed snack consumption will expand from 13kg to almost 20kg; and
- Latin American sales will grow from $40-$45 to approximately $65-$70 per capita.

In terms of category performance,

- **Salty snacks** and **cookies & crackers** are likely to grow the fastest. These categories will be pushed the hardest by the Global Portfolio Players (with Nestlé, Danone, and Frito-Lay spearheading this effort). Salty snacks should lead growth, (though from a modest base), with the overall market doubling or more in size. Growth in biscuits will not be quite as strong, but will still be substantial (~75%).
- **Dairy** won't be a fast-growing category everywhere, but will be in Brazil and Mexico, the largest markets. GPPs will be pushing dairy, eyeing consumer health trends.
- **Confectionery** should see strong (though not stellar) growth, with **sugar candy & gum** sales growth outpacing those of **chocolate**.
- The development of the processed **baked snack** segment will depend in large part on Bimbo's aggressiveness.

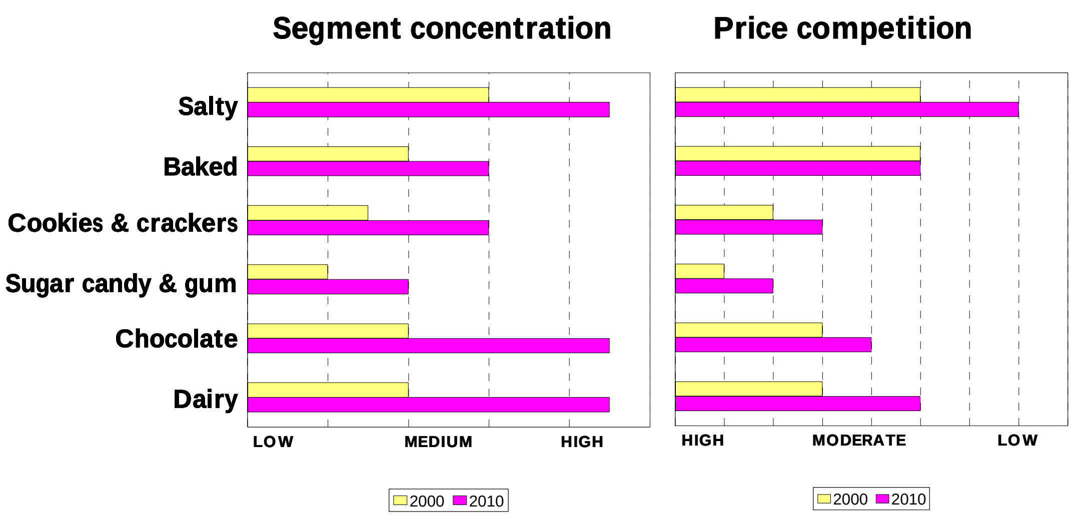
Overall Latin American snack sales growth, by segment - summary

Slowest	Moderate	Fastest
	Dairy Sugar candy & gum Baked snacks Chocolate	Salty snacks Cookies & crackers

Competitive environment by snack segment 2010

Here we identify the nature of future competition, the likelihood and reason for the entry of new competitors, and keys to success - by snack segment.

Competitive environment by snack segment in Latin America, 2000-2010



- Overall, snackfood industry concentration in Latin America is in the low/medium range today; in a decade, it will be closer to medium/high.
- Price competition, which is moderate/high today, will ease to 'moderate' tomorrow, reflecting industry consolidation.

The most inhospitable environments for new large players will be those with moderate to high segment concentration (ie presence of one or more very large established competitors) and high future price competition: **cookies & crackers** and **sugar candy & gum**. Any new entrants will have to face both low-priced competition and deep pocketed, established players. These markets will be challenging even if outsiders enter by acquisition.

Almost as challenging will be those with very high future segment concentration (i.e., **salty**, **chocolate**, and **dairy**). In these cases, however, price competition isn't quite as ruthless at the low end, so to the extent that serious acquisition opportunities still exist (namely chocolate and dairy), there is still room for large outsiders to buy their way in (not true for salty). Greenfield options, however, will not be nearly as attractive.

Baked snacks is the wild card segment. Other than Bimbo in Mexico, there are no large dominant players. Price competition isn't ruthless in this category, but outsiders will need to invest heavily in production capacity and be extremely successful at distribution and marketing to develop a big Latin American business in this area to challenge Bimbo.

Likelihood & nature of new competitors through 2010 - by snack segment

Segment	From below (small companies)	Sideways (Cross-segment entrants)	From outside (large new market participants)
Salty	Medium	Low	--
Baked snacks	Low	Moderate	Moderate
Cookie & cracker	--	Moderate	**HIGH**
Sugar candy & gum	**HIGH**	Moderate	**HIGH**
Chocolate	--	Low	Moderate
Dairy	--	Low	**HIGH**

What this means about the future competitive environment:

- **Sugar candy & gum** is the category with the greatest likelihood of significant new players because of:
  - Low cost of entry
  - Low price strategy
  - Continued heavy dependence on fragmented retail
  - Relatively lower importance of scale as a competitive advantage
  - The fact that large new participants will attempt to gain a significant presence does not necessarily mean we foresee success, just that attempts will be made.

- **Cookie & cracker** and **dairy snacks** are also categories which present strong expectation of new significant market entrants;
  - GPP's will fill out the territory for dairy snacks, transforming the smaller markets to their model, drawing consumers as purchasing power and expectations rise.
  - Cookie and cracker brands will be rationalized by consolidated players and pricing will rise as value is added to the remaining brands

- **Baked snacks** will likely draw some additional players;
  - We expect cross-category entrants in this relatively under-populated segment.
  - There could also be some new entrants from outside Latin America as well.

- **Salty snacks** will draw competition, but not from big companies;
  - Primarily tubaínas in Brazil.
  - Private label (nibbling from below)
  - Health- or ethnic-oriented entrants may emerge (as in USA in early 90's) in the more advanced markets (Cosmopolitan, Brazil, Mexico).

- The **chocolate** category is unlikely to draw any new significant mass-market players. We only foresee possible new entrants at the high end (Hershey, Lindt, Lotte)

Keys to success by segment

Segment	Keys to success
Salty	• Achieving the right mix of global and local in brand and product attributes. Frito-Lay excels at building flavors with local appeal for brands they sell globally. • Adapting distribution models to suit local conditions. Some players refer to this as *tropicalizacion*. Frito-lay has learned this in the labyrinthine micro-markets of Central America, Bimbo on the broad Pampas of Argentina. One size does not fit all markets. • Developing partnering skills to facilitate fast growth into new markets or to add new products to an existing enterprise.
Baked	• Accessing finance sufficient for long term investment • Adapting products and distribution models to suit local traditions and conditions • Acquiring local operations with promise, allowing for efficient transformation
Cookies & crackers	• Umbrella branding; that is creating brands with a regional reach. This will suit the large format retailers, and should achieve some economies of scale as well. • Production and distribution scale should be developed on regional (multi-market) basis. • Price positioning will be insufficient for new entrants – there must be a unique selling proposition for the product - not easy in the biscuit category. • Ability to appeal to consumer aspirations on a timely basis.
Sugar confectionery & gum	• Distribution suited to the product at efficient cost • Cost structure allowing for competitive advantage/parity. • For new entrants, product offerings must offer countline or premium components.
Chocolate	• Find the balance between distribution, product image and cost. • Leverage specialty distribution opportunities • Strong unique selling proposition for any new players
Dairy snacks	• Speed to market, particularly new market entry. • Consumer message coherence /timing will be of great importance. • Commitment of sufficient (substantial) financial resources.

Future competitive strategy

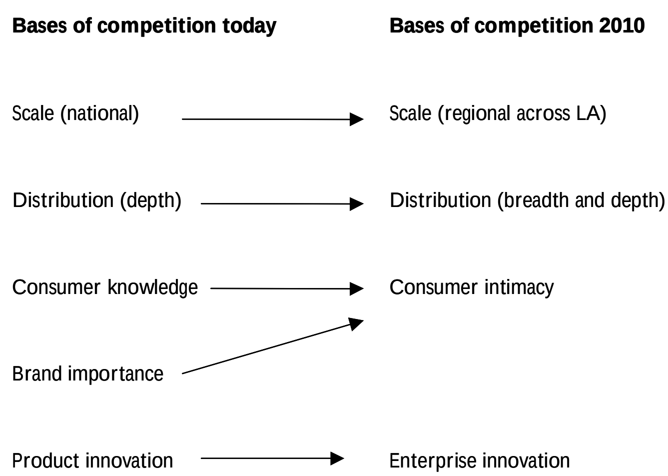
New bases of competition

The bases of competition between snack firms in Latin America will change slightly over the next decade. We expect three major changes going forward. First will be that competition through scale and distribution, heretofore largely 'domestic' in nature, will become a full cross-border phenomenon. Though most large players are aware of (and reacting to) this shift, many medium and some large players have not yet felt its full effects.

Second, we expect that two of today's bases of competition, **Consumer knowledge** and **Brand importance**, will merge to become one tomorrow: **Consumer intimacy**.

Manufacturers must get much closer to consumers: mass marketing will continue to exhibit decreasing returns as product choices expand, while media channels grow in number and consumers are increasingly segmented. Manufacturers will have to ensure that their products are always relevant.

Bases of competition, today to 2010



Finally, though product innovation has been substantial over the past five years, companies must expand **innovation** beyond products to all aspects of their enterprise.

Player types and competitive strategy tomorrow

Today, though Global Portfolio Players have the strongest positioning, most other player types have skills that allow them to compete, particularly in Latin America where most markets are exhibiting growth.

Player types and their competitive strengths, today

	National Category Player	Multilatina	International Invader	Big Outsider	Global Portfolio Player
Scale (national)	+	+++	++	+	+++
Distribution (national)	++	++	+		+++
Consumer knowledge	++	++	++		++
Brand importance	++	++	++	+	+++
Product Innovation	+	++	++	+	+++

As competition becomes more entrenched and consolidation continues, however, the advantages will increasingly accrue to the GPPs, and other player types will have to work hard to keep up.

Player types and their competitive strengths, 2010

	National Category Player	Multilatina	International Invader	Global Portfolio Player
Scale (regional)	+	++	++	+++
Distribution (regional)	+	++	+	+++
Consumer Intimacy	+	++	++	+++
Enterprise Innovation	+	++	++	+++

Tomorrow's player types will be essentially the same as they are today, with some minor changes. We expect that a National Category Player or two may succeed in transforming itself into a Multilatina; that the 'Big Outsider' category is likely to disappear, with those on the sidelines either fully committing themselves to market entry or abandoning the attempt (the window is fast closing for 'getting only toes wet' in these markets).

Consolidation will be a key (continued) feature of these markets: many local/regional/national players will lose their independence through acquisition, failure, or an inability to maintain share in a growing market – the numbers of competitors (particularly in the larger markets) will undoubtedly shrink. We also expect that tomorrow's field will offer a stronger role for the large players in the market, and that some new large entrants will enter the fray, though M&A among giants on a large scale may keep the numbers of large players in check.

National Category Players

In the future, the competitive position of the **National Category Players** will be the weakest among all the remaining player types. They will be running on borrowed time, leveraging their local knowledge and networks in an attempt to offset their shallow pockets and limited innovative ability. Limited financing, geographic reach, scale, and shallow managerial talent will in most cases limit them to organic growth.

Some will escape this fate, likely by being acquired, but possibly through some other sort of deal. And a successful few may grow into Multilatinas by expanding elsewhere in Latin America through acquisitions.

National Category Players – Opportunities & threats

Opportunities	Threats
• Alliance/merger with complementary player • Be acquired • Leverage market knowledge with others' products	• Share shrink in home market • Bigger competitors • Succession conflict

For the NCPs, partnership will be required to truly build out their potential. Specifically, to sustain growth they will need to acquire access to finance, marketing skill and broader product portfolios.

Multilatinas

Multilatinas will be competing from a reasonably strong position. However, they will still have areas of weakness they will need to overcome. They will need big brands, improved marketing skills, and access to finance (they resemble National Category Players in many ways). Although they do have a head start among native companies in the race to get bigger, smarter, and richer, this is no guarantee they will be leaders in the race over the next decade.

As they seek to extend their reach beyond familiar territory, they will become quite exposed, and their best will be of much greater corporate consequence than those of say, a Global Portfolio Player (for whom an international move is important but usually not a crucial portion of the business). Moreover, the expense and risk associated with this process will require giant steps in terms of their management culture. To succeed, they must transform not only markets, but their own management style and skills.

Multilatinas – Opportunities & threats

Opportunities	Threats
• Mergers/Acquisitions in growing markets • Learn from experience outside home market • "Host" Big Outsiders	• Innovators taking market share • Caution/reliance on home model may limit opportunities

Multilatinas will need world-class managers and marketing skills, and will need to invest in training, especially for their senior managers, building a management team that is truly professional and international in outlook. Another management issue they may face is that of succession (in cases where a family plays a strong role).

To keep up with the Global Portfolio Players, Multilatinas will also need to continue gaining in scale and product breadth and ensure they have adequate access to financial resources. Partnership with one of today's Big Outsiders may give them most of these skills, possibly with the exception of marketing skills – a shared debility of both the Multilatinas and Big Outsiders.

International Invaders

International Invaders (IIs) enjoy a head start against some of their international competitors. They have developed a presence in Latin America, often through imports, and have a greater understanding of the markets than their Big Outsider rivals. They also tend to be better marketers than many of the National Category Players. This is all to the good. In the future, however, they will face stiffer competition from the leading GPP's across the region. Moreover, the increased clout of large format retailers will also tend to squeeze IIs' because of their narrow portfolios. They may then realize the benefits of joining with another player to increase their clout.

International Invaders – Opportunities & threats

Opportunities	Threats
• Mixed strategy for market development (flexibility): invest, partner, export • M&A or Greenfield on careful basis • Global M&A to broaden portfolio • Collaborative distribution/sales	• Global competition • Lack of scale • "Weakness" in home market may increase risk aversion in new markets

IIs will need to nurture consumer intimacy to generate consumer pull that is the lifeblood of their higher margin products. This they should be able to do reasonably well. It may be, however, that they would benefit the most by joining with another player to increase their clout. Ideally, they could merge with/be acquired by a Global Portfolio Player, adding high-margin products to the GPP's broadly distributed portfolio.

Big Outsiders

To thrive in Latin American markets, snack players will need deep market knowledge, category manager strength, and broad & deep distribution (through both organized and fragmented retail channels), as well as a manufacturing platform in the region, preferably in at least one of the larger markets.

The traditional importer/distributor model is becoming almost obsolete in Latin America, because the importer/distributor cannot be the category manager, nor does it have deep distribution to fragmented retail points-of-sale. The traditional position of Big Outsider as exporter of premium-priced products is thus slated for extinction. The strategy no longer fits the market either in terms of consumer expectations or in terms of the competitive environment. All other player types will be offering quality products at prices based on local, mostly large-scale production. Global retailers will demand high service levels from local staff.

Big Outsiders – Opportunities & threats

Opportunities	Threats
• Partner/acquire local experts	• Freeze out by Global Portfolio Players, local dominators • Inability/unwillingness to adapt

Big Outsiders should be mindful that the window is closing for Latin American snacks market entry. They need to take their seat at the table now, or risk not being able to share tomorrow's meal. We believe they must move fast, either aggressively establishing local production by themselves (thus behaving like an International Invader), or joining forces with another player type—one with the local presence and savvy to leverage the Big Outsider's brands, technical expertise and deep pockets. A National Category Player or Multilatina would be the most likely candidate for such a partnership.

Global Portfolio Players

GPPs potentially hold most of the cards for tomorrow's market. They have the strengths and opportunities to take full advantage of the coming growth in Latin America: with coverage across Latin America, deep penetration (and ownership) of distribution, strong brands and consumer relationships, deep pockets and cash flow to withstand the inevitable down cycles. In a sense, these markets are theirs to lose, perhaps through hubris, ossification, myopia, inflexibility, or an inability to handle complexity.

To avoid these pitfalls, GPPs must maintain focus, be vigilant, and be humble. They will have opportunities to strike deals in new geographies and possibly new product segments. They will have the investment capacity to best all other players if they manage to maintain the balance of factors contributing to growth. Their competition will increasingly come from fellow GPP's, rather than from the National Category Players they have faced up to now. This will be stiffer competition, in most cases.

Global Portfolio Players – Opportunities & threats

Opportunities	Threats
• Ability to invest early • Long term focus allows for all kinds of pioneering	• Increased competition from other Global Portfolio Players • Foodservice growth • Entry of other players

A specific area of opportunity for GPPs (besides organic growth) would be to acquire an International Invader with a complementary product line, thus expanding their average product margins while instantly leveraging their distribution and marketing systems. GPPs need new product categories to leverage, from outside the region's mainstream, and possibly from outside the traditional snack universe. For example, in the future, Frito-Lay may choose to migrate to fresh/healthy snacks, leveraging its strong distribution network and know how.

Partnership options – A strategic assessment

Going forward, partnerships of all kinds, from distribution agreements to acquisitions, will require strong collaborative skills; players will in most cases need to be good 'integrationists.' Companies that are most skilled in collaboration/integration will have the broadest opportunities.

National Category Players are often family-led businesses, not accustomed to collaboration. Likewise, Big Outsiders are used to having their own way. When it comes to integration, Global Portfolio Players have the advantage as they are the most experienced in this area. International Invaders are also adept at using the skills and resources of others to accomplish their goals, though to a lesser extent.

What sorts of partnerships might work best? They are summarized in the following graphic.

Value of strategic snack partnerships in Latin America

	Nat'l Cat.Plyr	Multilatina	Int'l Invader	Big Outsider	GPP
Nat'l Category Player					
Multilatina	+	++			
Int'l Invader	+	++	+		
Big Outsider	+	++	+		
GPP	++	++	+++	++	+++

Legend: + Somewhat beneficial ++ Quite beneficial +++ Extremely synergistic & beneficial
(Provided product categories are complementary)

The strongest marriages would be between **International Invaders** and **Global Portfolio Players**. In these cases, the Invader would provide the GPP with a product platform that offers premium positioning (with good long-term potential given the region's economic prospects and current income distribution), and which can be almost instantly inserted into portions of the GPP's regional distribution system. At the same time, costs of the independent Invader's operations would be wrung out – in sum, much broader product distribution, but with substantial cost savings opportunities. An example of such a deal would be Mars and Chupa Chups.

GPPs must think in terms of 'empire building' on a global basis, with Latin America merely one of their playing fields. However, they need to be masters at *taking* and quickly *transforming* their acquisitions to fit in with their empire, and should be open to all sorts of partnership possibilities, not just acquisition of International Invaders. For example, Mars and Arcor might make an interesting GPP+Multilatina transaction, giving Mars instant leverage in the region, and a portfolio ranging from its own traditional premium products to the much more widely accessible Arcor budget candies.

Big Outsiders (assuming they don't Greenfield – which they probably shouldn't) might best partner with a **Multilatina**, as each bring relatively different, complementary strengths to the table: Big Outsiders would bring scale and hopefully, enterprise innovation; Multilatinas, on the other hand would bring substantial distribution strength and some consumer intimacy.

An example of such a marriage could be Hershey and Carozzi. Hershey's current stance as essentially an imported, premium American-style product will be increasingly precarious. Carozzi, on the other hand needs a big brand and deep pockets to anchor and fund regional expansion. Hershey has the deep pockets, the big brand and production expertise. They lack the local savvy that Carozzi could provide. Perhaps the biggest issue would be, who leads the enterprise—unless Hershey were to acquire Carozzi's snack units. Integration would be a challenge.

Another alternative for the Big Outsider might be the baby step of acquiring a National Category Player in one of the larger markets.

Barring serious financial and managerial difficulties, it is likely that the **Multilatinas** will continue to try to operate independently. In most cases, the strategic benefits from a marriage with a larger player are much more limited for them anyway, since they already have a fairly strong position in the region and most potential suitors are competitors rather than complementary players (so a merger fails to enlarge the market pie). However, Multilatinas are likely to seek their own acquisition opportunities outside their core markets.

National Category Players have limited partnership options – for the majority of them that will be unable to make the leap to Multilatina status, being acquired would probably put their assets to best use. Alternatively, the largest among them may be able to leverage their production and distribution system in partnership with a large outside player.