

Report on Business MAGAZINE

Even candy will be good for you

Even when every other industry's future can appear murky, one thing remains clear: The world's gotta eat. The question is, what are you going to put on your plate?

DON GILLMOR

From Friday's Globe and Mail

October 25, 2007 at 7:00 AM EDT

The giant yellow, red and green M&M's that greet people at All Candy Expo are, in fact, the mute, stiffly waving, non-melting foot soldiers in the candy wars. A crowd of 15,000 confectionery and snack professionals have gathered here in Chicago for the industry's annual North American trade show, and even as the three-day event opens, the battle line has been drawn between traditional manufacturers like Mars (a multibillion-dollar empire that includes M&Ms, Snickers, Dove and 3 Musketeers) and the fast-growing organic alternatives—the oxymoronic healthy-candy makers. As big chain-store buyers begin marching across the neon-coloured, ankle-deep carpets of McCormick Place on Lake Michigan, seeking the newest treat that kids will covet, the two sides gird for action. At stake is the \$275-billion (U.S.) annual snack industry, and 500 exhibitors have gathered to claim a piece of it.

At the back of the convention floor, in a glassed-in war room, a Mars spokesman is giving a PowerPoint presentation titled the Mars Stand. "Our chocolate will not change," the representative declares. The company's chocolate is somewhere in the middle of the healthy-snacking spectrum: a commercial grade that is not dark and organic, but is still made from cocoa butter rather than palm oil. Mars is hedging its bets with some new products that have darker chocolate, and a Dove Beautiful bar that has "skin-nourishing vitamins." Mostly, though, Mars, Hershey's and Nestlé represent the old guard. Lined up alongside them, rallying behind the enduring appeal of nostalgia, toxins, stickiness and sin, are hundreds of Willy Wonka confections that shout their worth: Lightning Bugs ("Light it up! Eat it up!"), a gummy candy that lights up when squeezed with a set of tongs equipped with an LED light; Nuclear Neon Gummi Worms; Fizz Bombs; WarHeads; Airheads; Lemonheads; Suck-ups; Xtra Sour Goo; Toxic Waste Sour Candy Spray (spraying, along with illumination, seems to be a trend); Stix in the Mud ("Eat one. Don't be one."); and Big Fat Hissee Fit Gummi Snakes. There are jelly beans that come in ear wax, booger and baby-wipes flavours. The tastes range from the sublime (the

seductive Belgian chocolate) to the ridiculous (grape-flavoured crystals exploding in my mouth). Everywhere are the ingredients of my childhood—the glucose, corn syrup, modified corn starch, potassium sorbate, palm oil, the citric acid, ammonium bicarbonate and mononitrates that buoyed me, those humble chemicals upon which empires have been built.

The new guard is Pure Fun, an organic, vegan, kosher, pesticide-free non-GMO (genetically modified organism) candy maker. In the Pure Fun booth, president Luna Roth delivers a speech on traditional candy additives, preservatives and artificial colouring. "Do you really want to put that in your body?" she asks. The Toronto-based confectioner is four years old and part of a growing trend—lining up on the organic side are Green & Black's organic chocolate, GoNaturally Organic hard candies, RJ's all-natural black and raspberry licorice, Seeds of Change and a few dozen others.

On the sidelines in Chicago are the Europeans and their superior chocolate: the Germans (Bahlsen, Ritter Sport), the perennially neutral Swiss (Toblerone, Lindt) and the feared Belgians. Present, but keeping a very low profile, are the Chinese, the elephant in every room these days.

The sub-theme at the convention is speed, emphasized by the presence of two race cars (one for Wrigley's Juicy Fruit, the other for Snickers) and a fleet of NASCAR tie-ins (driver Dale Earnhardt Jr.'s image is used to flog the Big Mo' chocolate bar). The alliance is not incidental: While concern grows about hyperactivity in children, the overworked, deeply stressed parents are nodding off. For them, there is Jolt Cola, Jolt Energy Gum, Extreme Sport Beans ("Start me up!"), Kickers 80 Hour Energy Spray and supercharged sunflower seeds that have been roasted in caffeine.

Selling all these ideas, praying that Wal-Mart will visit their booth and take them to the Promised Land, is a glucose-addled, fizz-popped, extreme-beaned, dangerously jolted sales force whose natural conversational level already carries the enthusiasm of birthday clowns. By the end of the second day, their supplies—hundreds of kilos of free samples—are dwindling. But as the sweating soldiers grow weary in their candy costumes, and the spokesmodels' electric smiles wane in the Day-Glo light, the din of war reaches a crescendo. "Do you have any idea what you are putting in your child's body..." comes the cry from the Organics. At the Hershey's booth, the rallying troops offer a response: "It's chocolate. You eat it. It makes you happy."

The candy business looks a bit like the car industry did 35 years ago, when the Japanese were making inroads in North America by selling cheap cars to students while the Big Three basked in the afterglow of the Sixties car culture. And now Toyota is the No. 2 car manufacturer in the U.S. Ten years ago, organic/natural food manufacturers held less than 1% of the North American market. But currently, theirs is the fastest-growing segment, and by 2010 it could represent 15% of the snack market, according to some estimates. The road to the future is paved with brown-rice syrup.

Luna Roth established Pure Fun four years ago to create candy without synthetic additives, preservatives, artificial colours or flavours. A heavy smoker who was diagnosed with lung cancer several years ago, Roth survived, and her ruthlessly organic daughter tutored her on the virtues of a healthy diet. The idea for healthy candy followed.

Roth is in her late 50s and possesses a Mary Tyler Moore perkiness; she's an evangelist in the cause of organic candy. The timing is certainly right: A week before All Candy Expo came the widely reported news that food additives contribute to hyperactivity, based on a study published in *The Lancet*. This was good news for Pure Fun, which has been preaching a version of this message for years. "We don't know what the cumulative effects are," Roth says. "These ingredients are slow killers."

Corn syrup, for example, a staple ingredient in candy, and one of the least dangerous-looking, presents problems, as the corn that is sometimes used is engineered with a virus to introduce a neurotoxic insecticidal protein that causes paralysis in the bugs that eat it. This is a familiar pattern, one that has followed candy ingredients for decades. You can spend a really depressing hour googling the ingredients from the wrapper of the candy you just ate. The ongoing theme, more than anything, is doubt: possibly carcinogenic; may cause diarrhea, blindness and nausea; did produce tumours in laboratory rats. "We just don't know what these ingredients are doing," Roth says. "Why take the chance?"

The history of candy's first battleground—sugar—isn't encouraging. Saccharin, the first artificial sweetener, was developed in the 19th century, and in 1977 the Food and Drug Administration proposed a ban when animal studies showed a link with cancer. Saccharin was followed by cyclamate, aspartame and sucralose, which are all connected to dismal side effects. "Sugar-free" remains a tricky area.

Pure Fun uses brown-rice syrup, evaporated cane juice and colours derived from beets, alfalfa and other fruits and vegetables to sweeten everything from bubble-gum-flavoured cotton candy to ginger "jaw boulders." "It's a return to the natural order," says Roth, "to how things were once made." The candy tastes good, if sometimes unfamiliar—a re-emergence of actual rather than engineered flavours.

The postwar consumer explosion begat the chemical era of candy. Chemicals were cheaper than natural ingredients, and they made the product stable and controllable. Candy makers were no longer at the mercy of the cherry crop for cherry flavour. The common dyes in candy—red #40, yellow #5 and #6, and blue #1—have been banned in many developed nations, but are still in use in Canada and the U.S. Yellow #5, for example, is a synthetic dye derived from coal tar and linked to allergies and cancer. All have sparked scientific debate, and all were present in the Generation Max cookies I was given (and ate) by a giant yellow M&M.

Pure Fun sells in health food stores in Canada and the U.S, and is planning to launch in Canadian supermarkets on Jan. 14. Some U.S. supermarkets already carry the company's

products, and about 80% of Pure Fun's business is in the U.S. What Roth hopes to find at All Candy Expo is a factory with excess capacity so she can do her own manufacturing, and broader distribution. "The biggest challenge," Roth says, "is to reduce price points." If Pure Fun can get bigger, it can bring down costs.

And cost is at the crux of the industry. On the one hand, organic foods are a growing trend. But they are more expensive to produce, and the profit margins aren't as high. A bag of Pure Fun Mint Pinwheels sells for \$4.99, roughly three times the price of a generic Chinese-manufactured hard candy. Meanwhile, retail space is at a premium. At a seminar on how manufacturers can deal with finite shelf space in grocery and drug stores, the answer was to put increasingly higher-margin products there. Large public companies are dealing with the challenge of maximizing shareholder value in the short term, while embracing the growing, inevitable organic trend for the long term—a difficult balance.

"The large companies don't have a strategy for dealing with organic candy," Roth says. Some are nominally adapting by introducing darker chocolate, and some are considering the response the car manufacturers had: Buy up the competition. In 2005, Hershey's bought Scharffen Berger, a California-based premium dark chocolate manufacturer, and last year purchased Dagoba, a boutique organic chocolate maker. Two years ago, Cadbury Schweppes bought Green & Black's. Others will surely follow—possibly even Pure Fun. "If we could take advantage of the infrastructure of a large manufacturer, sure, of course," Roth says. "Anything to get our message to more people."

How fast the organic candy revolution happens depends on the consumer. If the masses turn against maltitol, red #40 and sucralose, then it will be sooner rather than later. Roth declares the trade show a success: She made inroads with Shoppers Drug Mart and had interest from U.S. retailers. But the old guard is still holding on: Willy Wonka himself is here in Chicago, seven feet tall in purple velour, working for Nestlé these days, scouting the floor for his ideal customer, the defiantly gluttonous Augustus Gloop. He doesn't have to look far.

Who doesn't want candy?

The United States has the biggest appetite for candy in the world, making up about 20%—or \$28.1 billion (U.S.)—of the world's confectionery sales last year. But candy manufacturers are eyeing the developing world as the next big market for treats. Last year, confectionery sales in the Asia-Pacific region rose by 9%, according to the trade publication Candy Industry, while Eastern Europeans and Latin Americans increased their consumption by 18% and 23%, respectively. The fastest-growing markets for impulse-food products (salted and baked snacks as well as sweets) include China, India, South Korea, Vietnam and Indonesia.