Food Industry Forecast: Key Trends Through 2020
Crucial Trends Transforming the Industry

David Henkes
Technomic
Technomic Is…

– Founded in 1966, Technomic is a fact-based consulting and research firm focused on the F&B channel

– Our mission: To be the first call you make for insights and intelligence
Where We’ve Been

1. Consistent growth
2. Chain-driven expansion
3. Few disruptions
4. Predictable costs
5. Relatively “clear sailing”
What’s Next

A More Challenging Environment

- Politically
- Economically
- Environmentally
- Healthfully
- Competitively

An Industry Transformation

- Structure
- Operating environment
- Business practices
What Will Drive Change Within the Industry?

1. Consumer Demands
2. Localization
3. Transparency
4. Technology/Big Data
5. Polarization
6. Specialization/Deconsolidation
Against a Backdrop of Rapidly Escalating Costs

### Labor
- 50–100% rise in costs*
- $13–$15 mandated minimum wage by 2020
- Worker shortages
- Benefits, especially health care

### Commodities/Inputs
- Prices, availability, global demand

### Regulatory compliance costs up minimum 50%*
- Food (sourcing, traceability, labeling, nutrition)
- Labor (licensing, training)

*Within 5–7 years*
Against a Backdrop of Rapidly Escalating Costs

Transportation/Logistics costs up 50–100%*

- Infrastructure disrepair
- Intermodal rates (rail capacity issues)
- Severe driver shortages
- Congestion/delays

Weather-related

- Utilities, especially heating/cooling
- Insurance
- Property damage
- Delays

User fees/special assessments/taxes

* Within 5–7 years
Consumer Demands Intensifying

More consumers becoming increasingly...

- **“Health-oriented”**
  Want fresh, natural, additive-free food

- **Polarized**
  Different priorities on value and service

- **Ethnic**
  Want bold, authentic, adventurous meals

- **Activist**
  Demand transparent, local, sustainable practices, often through regulation/mandates

- **Urban**
  Want convenient, sophisticated experiences

...but will remain highly value-oriented.
Consumers Require Operators to Meet Their New Demands

Operators agreeing that “________ will have a great or moderate influence on purchase decisions in the future.”

- Health & wellness: 89%
- Buying local: 84%
- No chemicals/pesticides: 84%
- Clean labels: 82%
- Sustainably produced: 82%
- No hormones/antibiotics: 79%
- Humane animal treatment: 79%
“(Farm-to-counter) is not a passing fad. It’s only going to get stronger.”

— National Restaurant Association
“Local” Becoming a Major Factor That Consumers Equate With…

- socially responsible
- fresh
- clean
- food with a story
- natural
- small business
- high quality
- sustainable
- healthier
Shift to “Local” Will Affect

- Menus
- Operations
- Purchasing
- Marketing
- Distribution
- Sourcing
Definition of Local Is Subjective, Multifaceted

- Fresh and natural
- Family-owned producer
- Delivered direct by producer
- Artisan/craft
- Small-sized producer
- Within 150 miles
Chains Seek Out Ways to Showcase Local Ingredients

S’mores “concrete” made with pie from a local bakery

Crispy chicken and grilled watermelon wedge from a local farm
Short of Local, “Food With a Story”
“When questions don’t appear to be answered or to be clearly addressed, the assumption is we are hiding something.”

— Linda Eatherton

global food and nutrition practice, Ketchum
Transparency Has Many Facets

**Products**
- Ingredients, additives
- Growing and processing methods
- Origins
- Sustainability

**Prices**
- “True” net cost
- Unbundled cost

**Performance**
- Living wages/health insurance
- Fair trade
- Diversity
- Executive compensation

**Planet**
- Environmental impact
- Animal welfare
- Conservation
Operations, Menus Under Scrutiny

“Why does your food look different in the advertising than what is in the store?”

“Do you use pink slime in your meat?”

“WHERE DOES YOUR POTATOES COME FROM?”

“How is it that a McDonalds burger does not rot?”

“whats really in the mc chicken”

OUR FOOD. YOUR QUESTIONS.
Transparency in Pricing Will Change Operator Behaviors

- Today: inefficient
- Today: 10 operators, 10 prices
- Tomorrow: alternate channels introduce transparency
“We make decisions not based on what you bought today, but what you have bought over the last two years. You don’t have to know, but we know.”

— Nishat Mehta, EVP of global partnerships, dunnhumby, exclusive marketer for Kroger
“Food quality is still important, but it’s not No. 1 anymore. Now it’s data, it’s analytics.”

— Jeff Wineman

EVP of new business development at Levy Restaurants, after losing a concession contract to the more data-savvy Aramark
Technology/Big Data Poised to Impact

- Pricing
- Product assortment
- Demand planning/forecasting
- Market reach and effectiveness
Online Options Expanding

plated
MagicKitchen.com
FRESHOLOGY
PINK dot
Instacart
Blue Apron
amazon fresh
Peapod
sprig
FreshDirect
Google Shopping
Netgrocer.com
Walmart.com
mySupermarket
HelloFresh
The shrinking middle class is not going out as much because they can’t afford it. [Operators] have to address this group.”

— NPD Group
Polarization Is a Growing Factor

- Industry growth
- Pricing and profitability
- Policy
Value-oriented Consumers Becoming Critical to Growth

“If you look at the last 10 quarters in the industry, the price/value customer growth has been stronger than the non-value customer.”

— Wendy’s CEO Emil Brolick after disappointing third quarter sales
At the Other End of the Spectrum
Opportunities Will Lie in Affordable Quality

Price: $6.25
Specialization Is on the Rise

- Menus
- Operations
- Number and type of industry participants
- Blurring of segments
- Overall market structure
Single-item Specialists Will Flourish
Traditional retail and innovative “foodservice alternatives” will take share by diminishing restaurant advantages of enjoyable experience, quality and convenience.
Consumer Options Expand

- Fresh meals/kits
- Subscriptions
- Grocerants
- Fresh prepared foods
- Personal chefs
- Food trucks
- Next generation vending
- Snack boxes
FINAL THOUGHTS
Market Structure Changing

Traditional retail and innovative “foodservice alternatives” will take share by diminishing restaurant advantages of enjoyable experience, quality and convenience.

- Subscription/delivery services/food lockers (e.g., Amazon Fresh, Instacart, community-supported agriculture)
- Traditional retail FPF will grow dramatically
- “Grocerants”/food as theater (e.g., Eataly)
- 3–5K mini fresh stores (e.g., Little Waitrose, Rewe on the Go)
- Expanded, year-round “farmers” markets
Market Structure Changing

- Traditional retail and innovative “foodservice alternatives” will take share by diminishing restaurant advantages of enjoyable experience, quality and convenience.

- Fresh-delivered meal kits (e.g., Blue Apron) will grow to $3–$5B
- “Next generation” vending, kiosks, pop-up stores will be to $10–$20B
- Private dinners (e.g., Feastly, Airbnb)
- Private chefs for everyday meals and special occasions
- Personalized delivered foods (e.g., cereal, coffee)
Food Industry Sales Growth ($B)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2014–24 Annual Growth</th>
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<tbody>
<tr>
<td>Retail</td>
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<tr>
<td>Traditional /1</td>
<td>$393</td>
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<td>Nontraditional /2</td>
<td>$262</td>
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<tr>
<td>Foodservice</td>
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<tr>
<td>Top 500 chains</td>
<td>$245</td>
<td>3.0%</td>
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<tr>
<td>Independent restaurants /3</td>
<td>$187</td>
<td>4.5%</td>
</tr>
<tr>
<td>All other</td>
<td>$210</td>
<td>3.5%</td>
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</tbody>
</table>

1. Includes supermarkets, super centers and mass merchants
2. Includes club stores, dollar stores, c-stores, fresh format, limited assortment, drug, online and other
3. Includes small chains
## Food Industry Sales Growth ($B)

<table>
<thead>
<tr>
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<th>2014</th>
<th>2024</th>
<th>$\Delta$</th>
<th>% Share of Growth</th>
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<tr>
<td><strong>Retail</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Traditional /1</td>
<td>31%</td>
<td>26%</td>
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<td>13</td>
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<tr>
<td>Nontraditional /2</td>
<td>20%</td>
<td>24%</td>
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<tr>
<td><strong>Foodservice</strong></td>
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<tr>
<td>Top 500 chains</td>
<td>19%</td>
<td>18%</td>
<td>84</td>
<td>17</td>
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<tr>
<td>Independent restaurants /3</td>
<td>14%</td>
<td>16%</td>
<td>103</td>
<td>21</td>
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<tr>
<td>All other</td>
<td>16%</td>
<td>16%</td>
<td>79</td>
<td>16</td>
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<tr>
<td><strong>Total</strong></td>
<td>$1,307</td>
<td>$1,804</td>
<td>$497</td>
<td>100%</td>
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Conclusions

1. Business is fundamentally changing
2. Change has major implications
3. Supply chain will undergo a revamp
4. Innovation, reach and efficiency are critical
5. May need new “game plan”
Questions