

## 2014 Food and Beverage Industry Outlook

*We've developed a list of five issues we foresee as having an impact on the food and beverage industry in 2014.*

Here we are at the cusp of another year. The overall food and beverage industry appears to have enjoyed 2013, as financial reports through the first three quarters of the year were stellar at most public companies. But how will 2014 play out?

Success often depends on dealing well with difficult issues and following the trends or, better still, being ahead of the next one. There's no telling how 2014 will unfold, but at this point in time, a handful of issues seem apparent to us – some trends, some challenges, all opportunities.

We scanned all the new year predictions that came our way via press releases in the waning days of 2013 and surveyed our Editorial Advisory Board, regular contributors and others we trust. The following thoughts are the consensus we came up with. We'll see how they hold up as the year progresses.

### **It's a small globe after all**

We've highlighted international opportunities in the past, and that was much of our motivation for choosing Heinz as our 2011 Processor of the Year – "the most global U.S. food company," as our headline put it.

### **New Food Products Resource Center**

*Food Processing reports on a variety of new food products. Find consumer market research for particular products, monthly product roll-out roundups and other monthly features in one place.*

The subject never goes away, but some 2013 events really seemed to stoke that fire. Mondelez International came into its own after its late-2012 spinoff from Kraft Foods. The new name holds many familiar snack brands, Nabisco among them, but there also are many unfamiliar ones: Barni, Bel Vita, Lacta, Lu, Milka, Tuc. This American-based processor and marketer made and sold 80 percent of its products outside the U.S. and Canada.

Our [news section](#) carried such headlines as [Hershey pays \\$600M for Shanghai confectioner](#). And a big, nationally debated news story last year was the purchase of Smithfield Foods, the world's biggest pork company and No. 8 on [our Top 100 list](#), to Chinese meat firm [Shuanghui International](#).

It's not just about companies changing ownership and citizenship status. Finished goods are moving from one country's port to another's at an accelerating pace, and a lot of those shipments are stamped Made in the U.S.A.

Through the first 10 months of 2013, \$63.3 billion worth of domestically produced food and beverage products went off shore, 26.6 percent more than four years earlier, according to data collected by the Foreign Trade Div. of the U.S. Census Bureau. They were worth about \$12 billion more than the food & beverage products imported into the U.S., and the trend is toward even greater contributions from processed foods to the balance of trade.

Imported beer apparently is prized the world over, and in some places that means imported American brews. Beer exports from this country were only \$448 million behind imports, compared to a \$2 billion beer trade deficit in 2009, primarily because exports more than doubled. And what is likely a first, the value of processed foods exported exceeded the value of agricultural exports.

The growing popularity of American-made food can be found in many categories. Take dairy products, for example. Based on shipments through October 2013, the U.S. Dairy Export Council projected the value of 2013 exports would top an unprecedented \$6.6 billion, 30 percent higher than they were in 2012. In terms of total solids -- the 12 percent of raw milk that isn't water -- 16.3 percent of October's U.S. production was exported. Put another way, the output of one out of six cows went offshore.

And it wasn't all dry products. People in Asia, the Middle East and South of the border have developed a taste for American cheese. Shipments topped 25,000 tons for eight consecutive months, beginning in March, with October's 27,074 tons representing a 42 percent increase over October 2012. Exports of butterfat tripled between June and October, reaching 71,640 tons for the first 10 months. Most of the increased demand came from Saudi Arabia and Iran (No extra charge for the GMO feed, ayatollah). The absence of melamine in American dairy products apparently is attractive to the Chinese, who doubled their purchases in October compared to the year-earlier period.

Shipments of packaged foods also are surging. Kellogg Co., which buys grain by the metric ton and sells it by the ounce, generates a third of its sales in Europe, Latin America and Asia Pacific, and growth in those markets is offsetting declining snack and cereal sales domestically. The boxes of corn flakes sold in Ireland and Istanbul are produced in places like Battle Creek, Mich., and Memphis, with value added by American machines and men (and women).

Trading in another country requires adapting business practices to local sensibilities. Globalization becomes an exercise in best practices, with U.S. food companies often bringing higher standards for food safety and worker protection along with production know-how when they set up shop in a foreign land. It works the other way, as well. Corporate social responsibility (CSR) was a hot button in Europe before it was on the American radar, and virtually all the U.S. multinationals have responded with CSR reports that extol their efforts to reduce waste and the consumption of energy and water in production.

American companies step gingerly around the sustainability issue, careful not to offend climate-change deniers or invite a carbon tax on emissions. Not so their European counterparts: Unilever's CSR unabashedly acknowledges the scientific rationale for lower emissions and waste. As a consequence, the company will attain supply chain efficiencies that U.S. firms will have to match to avoid a competitive disadvantage. The price of crude oil, after all, quadrupled in the past decade.

Unilever's Sustainable Living Plan calls for 40 percent reductions in water use and CO2 emissions per unit of production by 2020, and the company's manufacturing facilities are on target to achieve them. Unilever's U.S. facilities have cut water use 26 percent in four years, with the Covington, Ky., ice cream facility setting the pace with a 75 percent cut in water use via process improvements. That's either a testament to American ingenuity or evidence of previously profligate use.

Will American food companies maintain and even strengthen their position at the top of the global food network? Or will trade in value-added foods follow the pattern of commodities, with currency valuations and other factors creating volatility? With their unparalleled throughput capacities and low cost of production, domestic processors hold the inside rail.

### **The end of trans fats?**

It wasn't a complete shock when the [FDA announced on Nov. 7](#) it no longer considered partially hydrogenated oils (PHOs), a precursor to trans fats, a generally recognized as safe (GRAS) food ingredient. But it sent off shock waves all the same.

Citing scientific evidence, the FDA said removal of PHOs from the food supply could prevent up to 7,000 deaths from heart disease each year. The agency called its announcement a preliminary determination and opened a 60-day comment period – which at the end of last year was extended till March 8, in response to numerous stakeholder requests to provide additional time for comments.

Hydrogenation seemed like such a great idea when it was introduced widely early in the past century, not only a practical solution to several problems but apparently better than saturated fats. But it was discovered PHOs are just as bad as sat fats in raising LDL "bad" cholesterol, and they also lower HDL "good" cholesterol, unlike saturates, perhaps doing more damage than sat fats. Damage especially in the way of heart disease.

In 2006, the FDA required food processors to declare the amount of trans fat in their products on the Nutrition Facts label. With public awareness growing of the health threat, many food processors already reformulated to reduce or eliminate trans fat in their products, but a substantial number of products still contain PHOs.

One product developer at a very large firm said the bigger processors either have already phased them out or are in the process of doing so, as much for their own healthier food and labeling corporate initiatives. But smaller processors may not have the technical resources or the funds to do it, so a ban may be toughest on them.

Most food processors we contacted for the initial news story said they saw this coming, whether they had eliminated trans fats or not. But General Mills, at least, indicated it might put up a fight.

"General Mills will be very responsive to this new FDA request for comment," said a spokesperson. "Partially-hydrogenated oil has always been considered safe for use by FDA, and by the food industry as well. General Mills has been working to reduce the use of PHOs for some time – and more than 90 percent of our U.S. retail products are already labeled zero grams trans fat. But FDA has requested comment on this question, and we will."

Still, an eventual ban appears likely, although the agency indicates it will give food processors a fair amount of time to reformulate. It could even take years before these oils are completely phased out. We will, of course, chronicle the progress. Processors can submit comments electronically at [www.regulations.gov](http://www.regulations.gov) -- use docket number FDA-2013-N-1317.

### **Make or break year for GMOs**

2014 could be a make-or-break year for genetically engineered food ingredients (most often called GMOs, for genetically modified organisms). A very vocal but slight minority (like 49 percent) of consumers appears concerned, and groups continue to lobby the FDA for some kind of ruling, probably involving labeling.

We say slight minority because the only real quantitative votes on the subject were ballot initiatives in California in November 2012 and in Washington state last November, and they were close. The California vote to require labeling lost 51.4 percent to 48.6 percent, and the Washington one failed 55-45. Similar referenda are being discussed in New Mexico, Connecticut and Vermont.

So, especially in light of the two close but failed referenda, the question is: Is the momentum building or fading?

There are two salient but opposing facts about GMOs:

- No credible scientific evidence has proven they carry any dangers.
- Consumers increasingly are concerned about them and want to know if they are present in the foods they buy.

Because of that second point, natural and organic products retailers are seeing growing demand for products that don't use genetically engineered ingredients. Whole Foods Market "set a deadline that, [by 2018](#), all products in our U.S. and Canadian stores must be labeled to indicate whether they contain genetically modified organisms (GMOs)," the company explains on its website.

Not a ban on them, just a label. "Whole Foods Market has long believed that consumers have a right to know how their food was produced," the statement continues. "We strongly support mandatory labeling of GMO-derived food. We believe that government-mandated labeling of GMO ingredients would enable shoppers, retailers and manufacturers to make purchasing decisions that reflect their beliefs."

And that appears to be the real crux of the matter: Letting people know if their foods contain GMOs and letting them decide if they want to buy them or not. It's hard to look any consumer in the eye and tell her she doesn't have the right to know what's in the food she buys.

While opponents would like a complete ban on GMO ingredients, labeling appears the only practical patch because genetic engineering at the seed level has become so pervasive. Estimates of genetically engineered crops in the U.S. in 2011, according to the Non-GMO Project:

- Canola - 90%
- Corn 88%
- Soy 94%
- Sugar Beets 95%

Legislative or regulatory efforts at labeling may become moot because the market and private enterprise already have instituted de facto labeling. The [Non-GMO Project](#) was established in 2005 and has a rigorous certification program. Many products already wear the group's "Non-GMO Project Verified" button and many more are in the certification pipeline.

"In more than 60 countries around the world, including Australia, Japan, and all of the countries in the European Union, there are significant restrictions or outright bans on the production and sale of GMOs," says the Non-GMO Project.

So between those facts and the pressures from natural retailers like Whole Foods, this issue is not going away, even if there aren't governmental regulations coming this year.

### **Is private label still ascendant?**

Cheerleaders for private label products have touted growth in store brands since 1982, when the Private Label Manufacturers Assn. (PLMA) staged its first show in Rosemont, Ill. The 2008 financial crisis and an anemic economic recovery has meant good times in recent years for private label.

If recession is good for private label, economic collapse is even better. In Greece, supermarkets and hypermarkets doubled their private label sales over five years, according to a report by IRI, a Chicago-based market research firm. Store brands also are ascendant in Spain, another economic basket case, commanding 41.5 percent of the market. But overall growth across the continent may be maxing out. "There is some evidence that too much private label in any category can damage margins for all and reduce shopper traffic," the IRI report cautions.

With its \$4.95 billion bet last year on Ralcorp, ConAgra doesn't think America is anywhere close to a private label ceiling. The conglomerate sees nothing but upside in specialty and store brands. Executives even suggest they will alter the innovation landscape with first-to-market changes in private label, rather than sticking with a fast-follower game plan.

Hundreds of tomato canneries populated Indiana and Ohio in the 1950s. Today, Hirzel Canning Co. in northwest Ohio and Red Gold Inc. in central Indiana are about the only canners still standing. Both are privately held, family-owned operations with three production facilities each. Both are survivors, but only one is thriving. What separates the two?

“Eighteen years ago, they decided to focus on private label,” president Steve Hirzel says, a bit wistfully about the competition over at Red Gold. Today, Red Gold dominates multiple segments of the canned tomato-based private label market, while Hirzel hopes for a rebound driven by its Dei Fratelli brand.

But Dei Fratelli isn't Coke, or Cheerios, or one of the other iconic brand images created by food companies. Those brand owners invest billions every year to burnish images and quality reputations. Do they know something PLMA doesn't? Perception, not rational considerations, often drives purchase decisions, and the perception of quality sustains brands like Dean, which commands a healthy premium for its standardized milk products – even as its clandestine private label milk is in the adjacent color.

PLMA has trumpeted the imminent triumph of private label for 30 years. While store brands command impressive shares in many categories, the growth curve is wavy and reflective of general economic conditions. For the 52 weeks ending July 14, IRI reported total store private label sales were flat, while branded goods registered a 0.43 percent gain.

Grocers derive an average margin of 35 percent from store brands and 25.9 percent from national brands, a study by the Food Marketing Institute concluded. Retailers would love to see continued growth in private label when the economy gets back on track, a trend that would defy the boom-bust cycles of the past 30 years. Regardless of how matters play out, one thing is certain: Any food processor with excess capacity -- that is, virtually every processor -- can produce both branded and private label products, depending on market demand.

### **Convenience remains king**

Convenience, along with preservation, is the point of food processing. Making foods and beverages easier to consume has been a driving force in 21st Century product development, spawning thousands of innovations for microwavable entrees, single-serve packages and just-add-water beverages.

What makes convenience a challenging and dynamic opportunity is the shifting nature of the American population. Efforts to close the borders aside, diversity is on the rise, and today's demographics will not be the same as tomorrow's, creating an opportunity for more innovation.

Smaller household sizes, particularly the growth of single-person households, are an obvious change with big implications. The U.S. Census Bureau calculates the average household consists of 2.55 people, down from 3.67 when the first baby

boomer was born. Dragging down the average is the boom in single-person households, which increased five-fold in that period and now constitutes 27 percent of all households. They're not swinging singles, either: The head of one in 10 households is over the age of 75, a proportion destined to increase as those boomers enter their geriatric stage.

A convenience breakthrough in the past decade is not a consumable but a delivery mechanism: the Keurig single-serve coffee machine. Flavored coffee was the first application, and that has expanded to include tea, lemonade, cider, hot chocolate and a milk-frothing element for espresso. More intriguing is the anticipated launch this year of [Keurig-delivered Campbell soups](#). The launch is in partnership with Green Mountain Coffee Roasters, the Vermont firm that paid \$160 million in 2003 to acquire the 57 percent of Keurig it didn't already own. Campbell plans to include packets of dry pasta and vegetable blends that users will place in an empty cup before water is injected into that little cup/pod containing the broth.

According to Campbell, the convenience items will appeal to Americans' penchant for snacking. People are consuming fewer items at their breakfast, lunch and dinner occasions and opting instead to snack throughout the day. A study by NPD Group concludes 53 percent of Americans now snack two to three times daily.

The burgeoning older-America segment is another opportunity for convenience. Texture modifications to help seniors with chewing problems and swallowing dysfunctions will be a convenience opportunity in the coming years. Innovations for a changing population will remain a top priority for food processors.

Source : <http://www.foodprocessing.com/articles/2014/2014-food-and-beverage-industry-outlook/?show=all>