

2014 Food Trends

Consumers are increasingly making their voices heard. They are demanding more healthy food choices, increased product transparency, and new innovative packaging. They expect food companies to make immediate adjustments to meet their needs. Regulatory bodies are also putting pressure on food companies in some of these same areas including restrictions on unhealthy product ingredients, product labeling, food safety, and traceability. To meet these demands and further direct the business as a whole, food companies must collect and analyze data from many sources – suppliers, wholesalers, retailers and consumers – to ultimately translate this data into action.

This trends paper highlights four key trends impacting food companies and provides guidance on how to successfully navigate each.



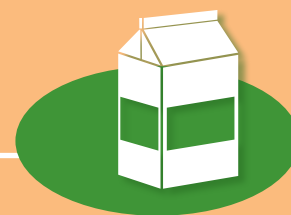
Health Conscious Consumers

What is your company's long-term product portfolio plan to respond to the health-conscious consumer?



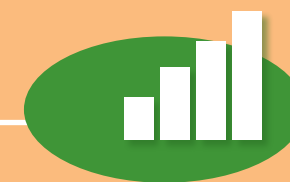
Food Safety

What processes and tools do you have in place to facilitate your company's food safety and traceability strategy?



Packaging

Have you conducted a life cycle assessment for your key products to identify packaging impacts across the supply chain?



Data Sources & Analytics

How are you leveraging structured and unstructured data from your trading partners and consumers to drive decision making?

Health Conscious Consumers



Consumer interests evolve quickly in the consumer products industry, with companies using countless hours and resources to cater to consumer tastes and live up to brand promises. While some consumer trends may be short-lived, the lifestyle shift of consumers who want trustworthy, healthy food they can feel good about is here to stay.

Gluten-free is on the mind of many in the CPG industry – even those whose products never had gluten in them in the first place – as consumers flock toward a gluten-free diet. The FDA responded to the trend by releasing a definition of gluten-free this year. The FDA also announced its preliminary determination that trans fats will no longer fall into the agency's category of "generally regarded as safe" (GRAS), effectively beginning to phase them out of food production.

Outside of regulatory requirements, companies are working to be clearer about what ingredients are in their products; think Pinnacle's new Farmer's Garden by Vlasic pickle marketing. It is likely that increased legislation on CPG companies will come in the next few years as the state-by-state fight heats up for required labeling on products with genetically modified ingredients.

Seventy percent of U.S. healthcare spending is on lifestyle related diseases, with ninety percent spent on treatment rather than prevention¹. Companies with an emphasis on better-for-you options and organic offerings are hoping to see continued growth in the segment of consumers who are looking to protect their health by choosing healthier food and beverage options.

Keeping up with changes in consumer trends can be exhausting for companies without a long-term plan. Finding the right path through consumer fads and longer term shifts that aligns with brands and products needs a holistic approach that maps out the effects across the value chain and doesn't cannibalize its own business.

Navigating this Trend

- Create a long-term product portfolio plan that responds to the health-conscious consumer while still aligning to your product and brand vision
- Identify consumer fads and create your approach for how best to navigate these short-term trends as they arise
- Ensure all key stakeholders, internal and external, are aligned when regulatory changes are pending
- Invest in research to determine what your key customer segments recognize as "healthy," and how your products can align with that definition



Food Safety



In reaction to food borne illness outbreaks and the globalization of food manufacture in countries with various food safety regulations, many retailers and foodservice operators are mandating certain certifications or traceability measures upstream in their supply chains. Including a focus on the typically overlooked distribution area, companies are seeking to trace food from farm to fork to ensure safety at all points in the value chain.

The Food Safety Modernization Act (FSMA) has stepped up the level of food safety assurance for imported foods. The Act requires foreign food importers to identify hazards and formulate a mitigation plan. It has set up a program to accredit third party auditors of foreign food facilities. The Act allows for more frequent mock recalls that require time and resources from several departments across an organization. The FSMA also gives the FDA power to issue fines and even suspend a company's registration without a court order. Retailers and restaurants are also pushing for their suppliers to comply with traceability initiatives, like the Produce Traceability Initiative (PTI), which allows tracking from manufacture by lot number through the supply chain.

To effectively manage recall situations or avoid them all together, many food and beverage companies are investing in traceability efforts. GS1 is a not-for-profit

organization that creates global traceability standards. Standardization of industry traceability efforts has benefits beyond food safety; standardization drives economies of scale and productivity gains in long term operations.

While retailer mandates and regulation are justification for investment in food safety initiatives, comprehensive food safety programs function as brand protection insurance policies, especially in enterprises that utilize extended supply chains with many trading partners.

Consumers are more interested in food origin as the supply chain becomes more complex, and food suppliers can answer the call with increased labeling. According to Innova Research, global product launches in the first half of 2013 featuring the word 'origin' increased 45% over the second half of 2012².

Navigating this Trend

- Define a food safety and traceability strategy that aligns with your goals and the goals of your supply chain partners
- Design traceability processes that align with global traceability standards to stay ahead of the curve
- Leverage tools, like Grower Relationship Management (GRM), to help automate and facilitate food safety management, traceability, and recalls
- Report on and market the impacts of process and technology improvements to consumers



Packaging



With the rising pace of product innovation, companies are using packaging as vehicles to grab the attention of their consumers and give them products they enjoy using. The sweet spot of packaging innovation lies somewhere between captivating consumers, ease of use, and sustainable production and waste disposal. Finding the perfect convergence of these three ideas to craft a packaging model takes an understanding of the product's entire value chain.

Heinz has had remarkable success with the Dip & Squeeze®, along with similar victories of Wholly Guacamole®'s new peel and serve trays and Pepsi's new ergonomic bottle design. Method flipped the home cleaning segment on its head by creating a packaging design that consumers did not want to hide beneath the kitchen sink. The number of consumers who value environmentally friendly packaging is on the rise, as is the number of consumers irritated by excess packaging waste.

Product collaboration is popular – combining products or flavors that pair well into one single serving or easy to use package. Pretzel chips and hummus or

vegetables with ranch dip or peanut butter are popular examples today. Ease of use is critical to retaining consumer loyalty to a product while branching into new packaging techniques. Pre-washed or pre-cut packaged produce is on the rise, like pre-washed potatoes with a special shrink wrap that allows for microwave steaming.

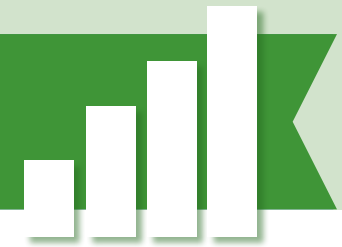
Thinking outside the box is crucial to creating and maintaining brand loyalty. Life cycle assessments provide a method of identifying potential economic, social, and environmental risks and opportunities at each stage of a product's life cycle. Companies would be wise to consider life cycle assessments to realize the impact of a packaging innovation across the value chain, from manufacturing to transportation to storage and consumer use.

Navigating this Trend

- Engage consumers for product collaboration and packaging ideas
- Create and maintain a culture of innovation throughout the organization
- Conduct a life cycle assessment for key products to identify packaging impacts across the supply chain
- Promote economic, social, and environmental improvements as a result of improvements made after life cycle assessment
- Seek innovation that drives efficiencies in logistics and reduces transportation cost per package



Data Sources & Analytics



Companies are using a wide variety of customer demographic software to better serve consumer needs. There is now an ocean of data available to examine the various facets of business that requires careful thought and planning for optimal navigation. Some small firms are repurposing the use of security cameras with other software to track in-store traffic and customer demographics. Other retailers are using advanced eye-tracking or heat sensing software to find out where customers are spending time.

Mondelez is adopting the use of a prototyped smart shelf to identify the age and gender of customers in the checkout aisle to better market potential impulse buys for that shopper. These additional data sources provide companies with valuable information that they can share with their supply chain to better serve multiple parties on better store traffic patterns, cutting down cashier lines, optimizing promotions, and much more. For example, data on store traffic at various times of day can help pinpoint the habits of various consumer demographics so that promotions can be most effective.

Strategizing with retailers on which of this data will be of use to a manufacturer and tracking and analyzing the data regularly will put food and beverage companies ahead of the curve. Companies who partner with their retail and wholesale partners and growers will have the upper hand when using multiple sources of data, including transactional, video surveillance, weather patterns, and social media, among others. However, companies must be careful not to tread on consumers' sense of privacy through these pursuits to avoid estranging a consumer base.

Navigating this Trend

- Identify key structured and unstructured data needed to drive decision making
- Partner with retailers, wholesalers and other third parties to acquire and share helpful data
- Leverage Business Intelligence tools for performance dashboards and summary analytics to drive action
- Be mindful of consumers' privacy



Continue the Discussion



About the Authors

Tom Finegan has guided Clarkston's vision since co-founding the firm 20 years ago. Tom

is a recognized expert in business corporate, business unit, and transformational strategy development for global Life Sciences and Consumer Products companies.



Maggie Seeds is a Food and Beverage consultant enthusiastic about applying her insights and experi-

ences to move the industry forward. Maggie's cross-functional background leaves her interested in a myriad of issues faced by the industry, from technical opportunities to strategic ventures and global concerns.



Health Conscious Consumers

- Case Study: *Predictive Trade Promotion Planning*
- Research Brief: *Managing the Variable Demand of New Products*



Food Safety

- FoodLogiQ Solution: *Grower Relationship Management*



Packaging

- Research Report: *Navigating the Retail Revolution*



Data Sources & Analytics

- Research Brief: *Analytics & Insights Indicator*
- VIEWpoint: *Voice of the Customer: Why it still matters for Consumer Products Companies*

For more information, contact Maggie Seeds:

mseeds@clarkstonconsulting.com

Access Maggie's blog here. Access Tom's blog here.

References

1. Mike Miliken, *If We're Going to Change the World*, October 2013; *Review Health Reform*, The Milken Institute Review, First Quarter 2010
2. Innova Research, *Top 10 Food and Beverage Trends 2014*, November 2013

CLARKSTON

Headquarters
2655 Meridian Parkway
Durham, NC 27703
Phone: 800-652-4274

www.clarkstonconsulting.com

Copyright © 2014 Clarkston Consulting. All rights reserved. 0877_1213

About Clarkston Consulting

Clarkston Consulting is a different kind of management and technology consulting firm. We deliver a unique experience for market leaders within the Consumer Products and Life Sciences industries. Considering professionalism, expertise, and value as prerequisites, we take service a step further through our unyielding commitment to the success of people as individuals, both our clients and our employees. By combining integrity, adaptability, and a whatever-it-takes attitude, we have achieved an extremely high rate of referral and repeat business and a 10-year average client satisfaction rating of 97%.

