



Rabobank

Talking Points

We Didn't See That Coming

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In this month's Talking Points, we're excited to share the main findings of our annual We Didn't See That Coming survey of food trends. We received a smorgasbord of responses from over 200 food industry players – ranging from start-up founders to CEOs of zillion-dollar companies, and everyone in between. As usual, we asked (in confidence) our evergreen question: "In the world of food, what surprised you the most over the last twelve months?" (Past experience has taught us that the developments that surprised our readership last year are the ones they will keep a closer eye on in 2019 and beyond.) In addition, we also posed a second question: "What single piece of advice would you give to the CEO of a Big Food company on how to respond better to today's consumer?" We received some great answers from this informal survey and are very appreciative of the time everyone put in to reply. In this note, we will focus more on the key themes from the first question, saving the second one to feed into later editions.

1. "Everything changes"

"The rapid pace of the industry on all fronts."

"There is still plenty of resistance to change... but there has been an abundance of positive change, and the food industry, as well as the consumer, has benefited."

Shock at the "accelerated pace of change" has been a constant theme for many of our readers since 2016; clearly food is no longer the sleepy 'safe bet' category that it once was. The accelerated pace of change theme plays out throughout this note (including the last section, which highlights the breadth of the changes across the food system that have taken our readership's breath away), but let us begin by recognizing the welcome abundance of positive change. Several readers were pleasantly surprised and felt the industry deserved a collective pat on the back for "the amount of change the food industry has undertaken" over the last twelve months, including "the rapid growth in start-ups that have an emphasis on new foods and beverages" where "start-ups are attacking every aspect of the traditional value chain." One summed it up: "From delivering new products, changing business models, adjusting to consumer shifts, investing in innovation in various forms, and facing tough realities, the world of food is markedly different." Heads are no longer being buried in the sand, as "it seems that everyone suddenly woke up."

2. The Future Is Flexitarian

“The continuous growth and enthusiasm behind all things plant-based.”

“The acceleration of plant-based foods – and the growing acceptance of the products by non-vegan, non-vegetarian consumers regardless if their motivation is for health, animal welfare, or environment.”

“The rapid growth in interest, investment, and sales of meat alternatives.”

The breakneck advancement of plant-based food and beverages was easily the biggest surprise to our readership (certainly in terms of the total number of comments), and the numbers seem to back this up. For example, sourcing data from Nielsen, SPINS, and the Good Food Institute (a nonprofit that promotes plant-based alternatives), retail sales of plant-based meat alternatives had risen by almost one-quarter to an estimated USD 770m in the twelve months up to August 2018. The wider range of plant-based alternatives to conventional animal foods (including milk, cheese, yogurt, etc.) is estimated to be USD 4.1bn (up 17% in the past twelve months). Although a drop in the bucket compared to the USD 200bn of retail sales by the U.S. meat industry, these impressive growth rates capture the attention of our readers. Equally impressive are the number of new entrants and players in the “new protein landscape.” Compare these two graphics from the Alternative Protein Show. [This one](#) from the start of 2018, and [this one](#) from last month.

Although the readership has expressed surprise in the rise of novel proteins and meat alternatives (from cellular agriculture to crickets) since the inception of these surveys in 2015, including Tyson’s game changing investment in Beyond Meat in October 2016, specific points to note this time around include:

- **Not just a fad.** Several readers were at pains to stress this was not a flash-in-the-pan craze, but an enduring trend with broad appeal. It was not, as one put it, “just for hippies and millennials.” There was also surprise at the geographic dispersion of the trend, with the emergence of start-ups outside the “most developed” meat-alternative markets in North America and Europe, such as Green Monday in Hong Kong.
- **Not a tofu burger.** To the relief of many, we have moved beyond tofu. Where once plant-based meat alternatives meant soy, “all kind of alternative or plant-based protein consumer products nowadays claim to be soy-free”, and this has led to a huge improvement in quality. As one noted, although veggie burgers have been around for quite some time and checked the “dietary, ethical, or religious needs and expectations of certain consumer subgroups”, they failed miserably in terms of taste and texture and “did not come close to matching burgers made from real meat for real meat eaters.” And now? There’s “a new breed of plant-based food products” from the likes of IPO-bound Beyond Meat, Impossible Foods, and Nestle with the upcoming spring launch of their Incredible Burger. Even traditional fast-food operators such as the roller-skating Sonic are (with the help of the Culinary Institute of America’s “plant-forward” Menus of Change initiative) getting into the act with their mushroom-blended-with-meat umami burger.
- **Not for everyone.** Among our readership, it was not a complete vegan-fest for all things plant-based. Voicing the concerns of several, one commented: “Despite all the money flowing into replacement meat products, I don’t see the evidence of consumer desires for these products.” This was not the only call-out of the “mismatch between what the media is writing about and reality.” Some responses also referenced “the success of states in preventing companies from using terms like milk and meat for plant-based products.” One considered this a pyrrhic victory and lamented the “somewhat predictable and sad response by traditional agriculture”, warning that their attempts to “contest labels and demonize ‘Frankenmeat’ to defend their position will only serve to drive those interested in meat alternatives further away from animal protein.”

3. Food Loves Tech, Sometimes

“People seem to be warming to the idea of ‘Frankenfood’ more than ever.”

“Technology is playing a bigger part in foods - from the farm gate, through quality, through processing, and, in the end, how we get to market.”

“The rising tendency for people to selectively believe science only when it aligns with their beliefs.”

More than a few of our readers were sensing a thawing in relations between food and science. While many recognized that “consumers have been rejecting science more and more over the past decade” (such as the non-GMO movement), there was growing appreciation of the role of technology in many aspects of food and agricultural production. For example, the use of plant-based heme (leghemoglobin) in the Impossible Burger (made from genetically-engineered yeast) has not halted its stellar trajectory (available in 5,000 food service outlets, and a retail rollout planned for 2019). Even lab grown meat now “seems more acceptable than ever to a general audience.” As one commented, “It’s not our mom’s kitchen anymore.”

One boffin enthused about the “uptick in the use of mathematical algorithms to better design crops and proteins.” Another was impressed by “the acceleration of the adoption/integration of technology into food business, such as Walmart’s blockchain mandate.” And another commented on the “surprising growth in the frozen food category”, which “people had written it off for dead, but it surprised us all. As an excellent technology for preserving foods, it makes total sense from a food scientific perspective.”

Others were less impressed by the love-in and suspected the appreciation of science was only happening if it first aligned (rather than challenged) one’s beliefs. One respondent criticized “hipster consumers” for a somewhat inconsistent reception to science depending on its pitch – “GMO heme was no problem if it is going to save the environment, but GMO corn that only helps farmers and agrochemical companies in my cereal? No way!” One suggested, “All food companies and upstream industry can learn from this as they look to develop and deploy science for the future.”

Another group of survey responders were surprised by the lack of pushback against the anti-science bias in food. One wrote in to say, “What continues to baffle me is that food companies, the scientific community, and policy makers have not been more responsible.” For example, one was surprised by “the willingness of some food companies to ignore science and chase consumer fads.” Examples included the proliferation of free-from claims on “products that never have, nor will have, certain ingredients.” Gluten-free water anyone? Or companies failing to “help correct the course of the runaway clean label trend that exploits the confusion between what is natural and artificial, and what processing means to make foods safe.” One reader was surprised that “even the biggest brands” were taking “advantage of ignorant consumers with meaningless claims of ‘minimally processed’ and ‘containing non-GMO materials.’” Although such tactics might play out well in the short-term, one reader thought it would not end well, predicting a negative impact on “the long-term credibility of those companies.”

4. Campbell's Implosion and the Ongoing Misfortunes of Big Food

"Campbell's, obviously."

"That big-food-brands companies are still struggling to grow despite most of them revising strategies and replacing CEOs."

"The collective actions of big CPG are not enough... to counter the broad change in food values and the generational change in food-buying power."

The unending public spectacle that is Big Food continues to surprise and elicit little sympathy among the readership. Despite the positive comments we began with at the start of this note, the vast majority of respondents commenting specifically on Big Food took turns to twist the knife. This comment neatly summed up many we received, where the reader was surprised that "the troubles faced by the Big CPGs, with brands my mom and grandparents used to buy, seemed to get worse over the past year despite so much renovation and reconfiguration of operations and marketing approaches." More specifically, our readership expressed bewilderment over:

- **"What happened to Campbell's?"** This could be a note in itself with people wondering, "where did it all go wrong?" Some believed it began with their acquisition of Snyder's-Lance. Others were simply left scratching their heads, wondering how, despite having "a very progressive strategy," the company could "implode" and "fall apart so spectacularly", as well as questioning the need to "divest so much business."
- **More time please.** Although people were less surprised by the "continued share loss of large-cap players", there was more consternation that, even in late 2018, Big Food companies are still saying they "haven't solved it yet" and "need more time to figure it out, when it comes to retooling their brands for the current consumer." "Why is Big Food unable to adjust to the rapidly changing market?", asked one, when "they have all the research to know what is happening and what the future consumers are looking for."
- **CEO bloodbath.** Who could not have been surprised by the "massive CEO turnover over the past 12 months?"
- **The desperation of M&A.** As Big Food "fights for growth", today's mantra seems to be: if it is small and growing, then buy it. As one industry veteran of 25-plus years saw it, "the large multinationals are snapping up these innovative companies at a pace I haven't seen before." Many were equally surprised at the "price multiple being paid to buy promising companies. It's crazy high and showcases the desperation in companies that are losing market share." The desperation of Big Food was cited a few times, such as "an increasing desperation to achieve top-line growth via overpriced acquisitions that are shareholder wealth destructive ", and "companies continue to chase the unicorns by overpaying because they have few ideas of their own and got desperate." And not just overpaying for those bright young things. One "gobsmacked" reader was stunned by the price "Ferrero paid for Nestle's U.S. confectionery portfolio."

5. The “Wild West” of CBD

“The amount of drinks companies investing in cannabis”

“The explosion of interest in CBD- and THC-infused beverages and foodstuffs. This isn’t just a fad. And it should be fun, too.”

The “explosion of interest” in CBD (cannabidiol – a non-intoxicating cannabinoid found in cannabis and hemp) was something of surprise, as we heard for the first time. As one noted, “I’ve been surprised by how quickly capital and ideas are flowing to the nascent and undefined world of CBD, both in food and beverages.” For some, it was less about how quickly the market was growing, as after all, “everyone is always looking for the next hot ingredient”, but how quickly “significant large players, such as Coca-Cola and Constellation, are getting into the space without much hesitation.” One expressed surprise that food companies and retailers (7-Eleven and Walmart to name two) are “embracing CBD given regulatory uncertainty, not to mention uncertainty around its effectiveness, proper dosage, etc.” One more legally minded respondent was astonished by the industry’s willingness to “ignore repeated and unambiguous statements from the federal government declaring that CBD is an illegal food ingredient – and to introduce it to foods, beverages, and supplements regardless.” It was this sudden dive into the unknown that left one to conclude, “Sure feels like the Wild West.”

With the passing of the latest Farm Bill taking industrial hemp off the list of Schedule 1 narcotics (as defined by the Controlled Substance Act), further growth and commercial interest is expected with one predicting, “I almost see this as a space that can be as deep and wide as alcoholic beverages, and large strategics are having to act quickly to determine whether or not they want to take the risk of playing in this space (or not).” Clearly a space to watch.

6. “Nothing surprises me anymore”

“The biggest surprise perhaps is that we did not have any truly big surprises.”

“That 3G has still failed to make an acquisition.”

We always get a few responses along the lines of “nothing surprises me anymore”, but this year it was more in the context of seeing more of the same but at “an accelerated speed.” As we approach the two-year anniversary of Kraft Heinz’s failed USD 143bn bid to buy Unilever, some readers lamented “the lack of big deals”, that there was “no further major consolidation”, and that “we have not seen any massive changes.” Others recognized that today’s trends have no respect for the Gregorian calendar; what was trending in 2017 continued to play out and evolve over the last twelve months (and yes, into 2019 too). Like a doctor examining her patient, one commented, “all the previous trends continue to present themselves” (such as “plant-based protein”, “sustainability”, “organic”, “convenience”, “health & wellness”, “food waste”, etc.), and the “continued momentum of small food companies offering products with a purpose and how the consumer is gravitating towards actually doing what they say and buying these products.”

7. In Other Surprises...

Finally, to give a flavor of some of the other surprise events of 2018, here is a selection of notable quotes on a range of subjects from #MeToo to Marion Nestle:

- **#MeToo**

- “The velocity and breadth at which #MeToo rippled through the restaurant industry, resulting in rapid response and swift changes.”

- **Blockchain**

- "Continued hype around blockchain when (there is) so much more to overcome before it can really be valuable - it's not a magic pill that will create good data!"

- **Cellular Agriculture**

- "Despite all the interest in cultured meat we are 'many years away from a commercially viable (reasonable cost) product.' The conferences I have attended this past year make it sound like it's around the corner."

- **Environmental Issues**

- "This year we did not see coming the food industry disruption associated with use of plastic straws."

- **Food as Medicine**

- "I'm surprised and encouraged by the momentum happening around healthcare reimbursement for food as medicine interventions."

- **Food Safety**

- "There have been three separate salad recalls for foodborne illness. I think the industry is about to face more stringent regulation"

- **Ketogenic Diets**

- "The growth of 'keto' and how quickly it's been adopted by the mass market." "The continued popularity of keto and other high-commitment, high-priced diet trends."

- **Last Women Standing**

- "How, in a blink of an eye, the only female CEOs left in food/bev majors are Michelle Buck and Beth Ford."

- **R&D**

- "How rapidly innovation is moving from CPG to other sources. I see it coming from start-ups, ingredient companies, development shops, and retailers."

- **Retail**

- "On Walmart's resurgence, I was surprised how well they have fought Amazon on online food."

- "The lack of any big changes to Whole Foods (pricing, synergies with Amazon) after the acquisition."

- **Social Conscience**

- "The fact that more companies weren't charitable or socially conscious with the tax reform money"

- **Start-Ups Can Suck Too**

- "I've been surprised by how homogenous a lot of emerging brands' branding has become. The market is saturated with millennial minimalist designs, and it has become a sea of sameness."

- **The Empire Strikes Back**

- "Reverse imperialism: East conquering the West. Successful South-Eastern Asian food companies starting to aggressively look into saturated western markets."

- **The Online Tsunami**

- "There still seems to be a strong disbelief from management teams at big CPGs that food is going to sell online."

- **Trade Wars**

- "Farmers have stuck by Trump in spite of the trade war, which has really screwed them over."

- "The rapidity with which the trade war with China escalated, the resultant tariffs, and their impacts on fruit and nut producers in the U.S."

- **We'll Give the Last Word to Marion "Calories Count" Nestle:**

- "I'm most surprised by the ferocity of the arguments about whether low-fat or low-carbohydrate diets are better for weight status. Really, both work, provided people adhere to them, and calories really do matter."

Imprint

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