Talking Points: What a Difference a Month Makes

A Line of Demarcation

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Contents

Summary

For this month's Talking Points, we initially planned to discuss some of the emerging themes we were seeing among the larger food companies, inspired in part by last month's annual Consumer Analyst Group of New York (CAGNY) get-together in Boca Raton, Fl. Clearly, (in a typical British understatement) quite a lot has happened since then. Any talk of trends will, in the short to medium term, be overshadowed by the Covid-19 pandemic. Here then are five themes that were front of mind for the large players pre-crisis. Given the fluidity of the current situation right now, we are reserving judgement on the extent to which these trends will remain relevant down the line, but we believe they are still worth stating as a line of demarcation.

1. **A Focus on the Top Line.** In pursuit of growth, food companies have begun to open up their pocketbooks and wallets, investing in innovation as well as marketing.
2. **Jumping on the Plant-Based Food Trend.** Compared to a year ago, the large players were all pivoting towards the double-digit growth market in plant-based foods.
3. **The Need for an Indulgent and Fun Platform.** Most companies have been talking up their wellness platforms in recent years, but this year it came home just how important it is to have an "indulgent and fun" platform.
4. **Investing in Big Data**. Many companies have invested in data analysis in an effort to catch up with what the analytical tools retailers have been developing.
5. **Some Issues Are Just Too Much for One Company to Tackle by Themselves.** Companies talked up the need to have purpose, and purposeful brands were prioritized in their presentations.

What a Difference a Month Makes

Although it seems a little odd to even mention it now, the tone at that conference was generally upbeat compared to previous years, with one going as far as to say they were entering 2020 in their "best condition in a very long time." Those were the days.

Clearly, a lot has happened since the conference, and any talk of trends will, in the short to medium term, be overshadowed by the Covid-19 'black swan' event – the latest reminder that plans often run up against, as The Bard put it, "outrageous fortune" or, less poetically in techno-speak, the challenges of operating in a complex, non-linear, dynamic environment. (For those who wish to follow Rabobank's latest views on the pandemic, click here.)

On that point, a note of optimism: it is worth recalling that many of these larger players have a strong track record of fending off such "slings and arrows." Most of them have been around for over a century, and in some cases, their roots go back – like Rabobank's – to the 19th century.

General Mills, for example, traces its origins back to 1856, while Nestlé, Campbell Soup Company, and Heinz were all founded in the 1860s. Tyson Foods, the octogenarian, is practically a baby in comparison to its food company peers, and even British-based Nomad Foods (a very young Gen Z company) owns brands, such as Birds Eye, that date back to the 1920s.

In US food retail, these companies remain huge and an important driver of traffic. According to data presented by Conagra Brands (from IRI), the combined retail sales of the top 15 food companies in the last twelve months was about USD 150bn. PepsiCo took the largest chunk of this with USD 23bn in sales, followed by Kraft Heinz with USD 19bn, and even the fifteenth company, Unilever, had sales of USD 4bn. The point here is that, if history is any guide, these companies are likely to successfully navigate through this current period of uncertainty (no doubt with a few wobbles). With all that in mind – and we here at Rabobank maintain a very long-term view on food – here are the five themes:

1. A Focus on the Top Line

As we mentioned in last month's note, the "issues" with Kraft Heinz a year ago have helped companies pivot the conversation with their investors from margin expansion to a renewed focus on growing sales. At CAGNY, CEOs lined up to talk about the need to "restart consistent, profitable growth" or "restore top-line momentum," with one in full 'Captain T. Kirk' mode on the need "to boldly build our brands." The talk now is of the need to "relentlessly innovate," with one even being "obsessed with innovation," recognizing that growth needs continual investments. Although no one wants to throw away their hard-won margins, there has to be compromise, as the investment and other capital expenditure dollars need to come from somewhere. In pursuit of this elusive growth, food companies have begun, or at least started talking about the need, to open up their pocketbooks and wallets, investing in innovation as well as marketing (see below). Here are four of the areas flagged for future growth:

- **Snacks**. Snacking – we were told – is a trend that is not slowing down, and everyone is getting on board.
- **Pet food**. Food companies are getting excited about the "humanization of pets" trend.
- **Plant-based foods**. The "growing consumer interest in plant-based foods" was on everyone's lips (see below).
- **Premiumization**. Shifting portfolios from value to premium was implied in many presentations. Most explicit was Nestlé, who attributed their strong US sales in 2019 to premium products, in part because one-quarter of their sales now come from premium products compared to just one-fifth a decade ago.

Of course, with greater innovation comes the risk of failure and, arguably, the need for greater focus. Not every new product will fly. Smucker's recently abandoned their Power Ups snack range, and PepsiCo's Quaker Oat Beverage was a miss, despite their category growing by triple digits last year. Coca-Cola spoke of the need to focus and shared how they killed over 600 failing "zombie" projects last year. Similarly, as the Wall Street Journal reported, Kraft Heinz's "new" strategy was a return to one espoused about seven years ago by the then-CEO Tony Vernon, with a focus on fewer, bigger-bet innovations. Unilever too talked about the need to reduce the number of projects around small local brands and dial up innovation globally, as there have been too many local tickets and not enough global big tickets. While the need to focus certainly sounds like a plausible strategy, as my colleague Cyrille Filott pointed out, this runs counter to what we had previously been told by many CPGs about what the consumer is actually looking for, namely greater specialization and even personalization.

2. Jumping on the Plant-Based Food Trend

Certainly, compared to a year ago, the large players were all pivoting towards the double-digit growth market in plant-based foods. According to SPINS data cited by The Good Food Institute (a lobby group for the plant-based foods industry), the sales of plant-based foods grew by 11% last year to around USD 5bn. Around USD 1bn of these sales was attributable to plant-based meat alternatives, further evidence that everyone is coming up with their own veggie burger. It is also interesting to see how the trend is extending into other categories. Conagra, for example, cited IRI data on how, in the US, plant-based condiments are growing at 17% per year (a USD 200m market) and veggie-based pasta is now worth about USD 135m and growing at double-digits too.

Tyson, who makes about 20% of their USD 42bn revenue from prepared meals (their highest margin business), seems excited about this emerging market, believing "alternative protein shows tremendous promise." PepsiCo too felt that plant-based foods were an "incremental opportunity." Nomad's CEO was perhaps the most emphatic: "This was not a fad." Ingredion seems convinced of that too and have invested about USD 200m in plant-based protein ingredients, as they expect demand for plant-based ingredients to outstrip supply in the US for some considerable time.

3. The Need for an Indulgent and Fun Platform

We have spoken a lot in the past about health & wellness trends, but as one reader reminded us in our last survey, "I was most surprised by the continued growth of indulgent categories. Despite all the talk of health & wellness, and headlines around more nutritious diets, the fact is that people like a treat." For companies that play in those "advantaged" categories, such as candy and snacking, it is always sunny in Boca. Although not immune to changing consumer tastes, such as cleaner labels or business model fads, companies such as Mondelēz, Kellogg's, or PepsiCo can play to human's primal (sugar, salt, fat) cravings for a bit of fun, pleasure, and enjoyment. And given the current environment, why not?

Most companies have been talking up their wellness platforms in recent years, but this year it came home just how important it is to have an "indulgent and fun" platform too. Although growth in the candy category is down from the historical sugar highs of 4%, it continues to grow at a highly respectable 2% a year. In cookies, just look at Oreos. Now a USD 3bn global brand, Oreo provides a case study in enduring success and in remaining relevant to consumers. Cookies, like candy, are well-placed to satisfy some of our basic needs from food, such as indulgent treats, comfort, and fun.

Although Jim Zallie, the CEO of Ingredion, reminded us that 81% of global consumers are checking the sugar content of their foods and 54% are looking to eat less sugar, he also talked about "instant consumer gratification." But it was Dirk Van de Put, the CEO of Mondelēz, who did the math for us on why focusing on health & wellness might not be the biggest driver of future sales. According to their data, the so-called 'healthy snack' category remains relatively small at USD 100bn (15% of the global USD 700bn market), and, even at higher percentage growth, the absolute dollar growth of the market will be "substantially lower" than in their "priority categories" of cookies and candy because the market is smaller. Bottom line: if you want to drive sales through volume growth, then you need to, in effect, give up on health & wellness and play in the indulgence categories.

None of this, of course, is news to many companies. Three examples will suffice:

- Kellogg's talked about "bringing fun" back to the cereal aisle as it was the fun aspect of the category, such as Fruit Loops and their new Eggo cereal, that was growing the fastest relative to the adult health & wellness cereal market, which remains more of a challenge.
- Conagra too talked about the need for indulgent meal innovation; not everything has to be a "Healthy Choice."
- PepsiCo talked about creating "more smiles with every sip and bite."

4. Investing in Big Data

The "tremendous investment" in data was another theme for many food companies and touched upon many aspects of their businesses, including "how we sell to, communicate with, and understand consumers." Let's highlight three areas:

- **Catching up with grocery retailers**. Many companies have invested in data analysis in an effort to catch up with what the analytical tools retailers have been developing and to level the playing field, especially in price negotiations. Data insights are, for example, helping to make suggestions for store assortment, relying less and less on intuition and hunches. As The Wall Street Journal reported, one CEO recently conceded that "Our retailers have better information now." Retailers also seem less dependent on CPG companies to manage categories for them (an odd concept in itself), and it is felt that this has accelerated the trend of losing retail points of distribution (often to private label). Citing Nielsen data, the same WSJ article reported that the large food companies have lost about 3% of their points of distribution over the past year.
- **Understanding the consumer**. Data is more revealing than what consumers say, as it helps to unmask what they are actually doing. PepsiCo and Coca-Cola spoke of the need to "turn data into insights" and to become more data-driven to "understand the consumer in a more individualized way" (which runs counter to the innovation strategy pursued by other CPGs to have fewer and more focused projects, as discussed above.) This is not just in terms of targeted marketing, but in terms of "data-driven predictive analytics" to satisfy that 'holy grail' of meeting unmet needs by innovating more effectively by "getting closer to the consumer."
- **Not always expensive**. The larger players are also getting better at competing with emerging brands on social media and learning too that it doesn't necessarily involve throwing a lot of money at the problem, though most marketing budgets are now geared to the world of "always on" digital marketing, such as ads on retailer platforms, search engines, and social media. (Instagram is a mecca for brands). One advantage of digital marketing or social media is how brand fans can become powerful brand advocates and (unlike paid social influencers) come with a zero price tag. Who knew, for example, that Slim Jim has over 800,000 followers on Instagram (and had just 10,000 a year ago).
- **Managing complexity**. PepsiCo talked about how, in an increasingly fragmented market, tech allows them to manage this complexity more easily. No surprise, therefore, that some companies are now appointing a Chief Digital Officer. Tyson went one better by poaching Dean Banks and his tech insights from the 'hush hush' Alphabet company X (formerly Google X) to be their new president. Think about that.

5. Some Issues Are Just Too Much for One Company to Tackle by Themselves

Finally, companies talked up the need to have purpose, and purposeful brands were prioritized in their presentations (as opposed to being more of an afterthought towards the end of their presentations). For some, it was even in their titles. PepsiCo's presentation was "Winning with Purpose," and not to be outdone, Coca-Cola's was "Make a Difference."

Most companies' purpose centered around leveraging their scale, what they were doing in terms of climate change, how they fared in sustainability rankings, and their precise targets around sustainability issues, such as sourcing, the virtues of the circular economy with respect to high-value plastics, helping solve the problems of zero waste, lowering their carbon footprint, and, in the case of General Mills, regenerative agriculture. As one CEO summed it up, "we are using the scale of our business and the power of our brands to lead in the fight against climate change." Companies such as Tyson – with their Coalition for Global Protein "Imagining new and creative solutions for the future of sustainable protein" – were also recognizing that industry collaborations are necessary.

Imprint

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