



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



1

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

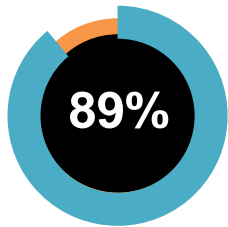
Want convenient,
sophisticated
experiences

...but will remain highly value-oriented.

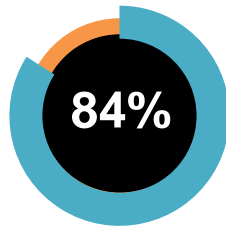
Consumers Require Operators to Meet Their New Demands

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

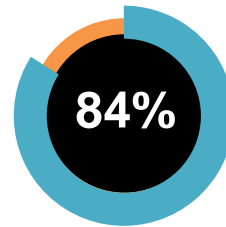
Health & wellness



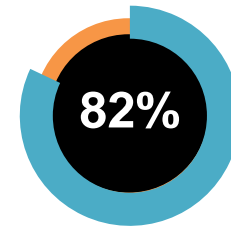
Buying local



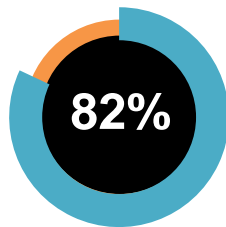
No chemicals/ pesticides



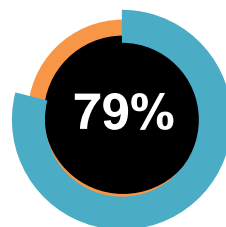
Clean labels



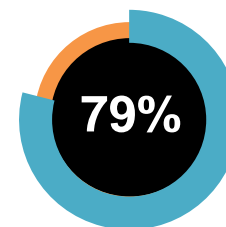
Sustainably produced



No hormones/ antibiotics



Humane animal treatment



2

Rise of Local

*“(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



Short of Local, “Food With a Story”



3 Transparency

*“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



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



- “True” net cost
- Unbundled cost



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



- Environmental impact
- Animal welfare
- Conservation

Operations, Menus Under Scrutiny

 <p>ISABEL M. from Toronto, ON asked:</p> <p>“Why does your food look different in the advertising than what is in the store?”</p>	 <p>STEVE M. from Mississauga, ON asked:</p> <p>“Do you use pink slime in your meat?”</p>	 <p>BARRY N. from Etobicoke, ON asked:</p> <p>“WHERE DOES YOUR POTATOES COME FROM?”</p>
 <p>LAURA B. from Toronto, ON asked:</p> <p>“How is it that a McDonalds burger does not rot?”</p>	 <p>DYLAN P. from Toronto, ON asked:</p> <p>“whats really in the mc chicken”</p>	 <p>OUR FOOD. YOUR QUESTIONS.</p>

Transparency in Pricing Will Change Operator Behaviors

- ✔ Today: inefficient
- ✔ Today: 10 operators, 10 prices
- ✔ Tomorrow: alternate channels introduce transparency



4 Big Data Will Have Dramatic Impact

*“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



Foodservice Also Will Benefit From Big Data

“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
effective-
ness**



Online Options Expanding



Restaurant Equipment

Find the right type of restaurant equipment for your business.



Cooking Equipment

Equip your kitchen with top quality commercial cooking equipment. We carry reputable brands at prices that can't be beat.

[ALL COOKING EQUIPMENT](#)



Commercial Restaurant Ranges



Electric Countertop Griddles



Gas Floor Fryers



Electric Countertop Fryers

WebstaurantStore



Commercial Ovens

From conveyor models to convection, we've got the right type of oven for your pizzeria, bakery, cafeteria, and other foodservice operation.

[ALL COMMERCIAL OVENS](#)



Convection Ovens



Conveyor Ovens and Impinger Ovens



Commercial Microwave Ovens



Commercial Rice Cookers

Dish Washing Equipment

Your dishes and glassware will always be spotless thanks to our great selection of dish washing equipment.

[DISH WASHING EQUIPMENT](#)

Work Tables & Stations

Whether you need economy or top of the line, undershelf or open base, we have the perfect work table for you.

[WORK TABLES & STATIONS](#)

Commercial Sinks

With hand sinks, bar sinks, pot washing sinks, and much more, you'll find the perfect model at an industry-leading price.

[COMMERCIAL SINKS](#)

Plumbing & Faucets

Find the right faucet, spray valve or plumbing component here. We stock only the best brands.

[PLUMBING & FAUCETS](#)



5

Polarization

“The shrinking middle class is not going out as much because they can’t afford it. [Operators] have to address this group.”

— NPD Group

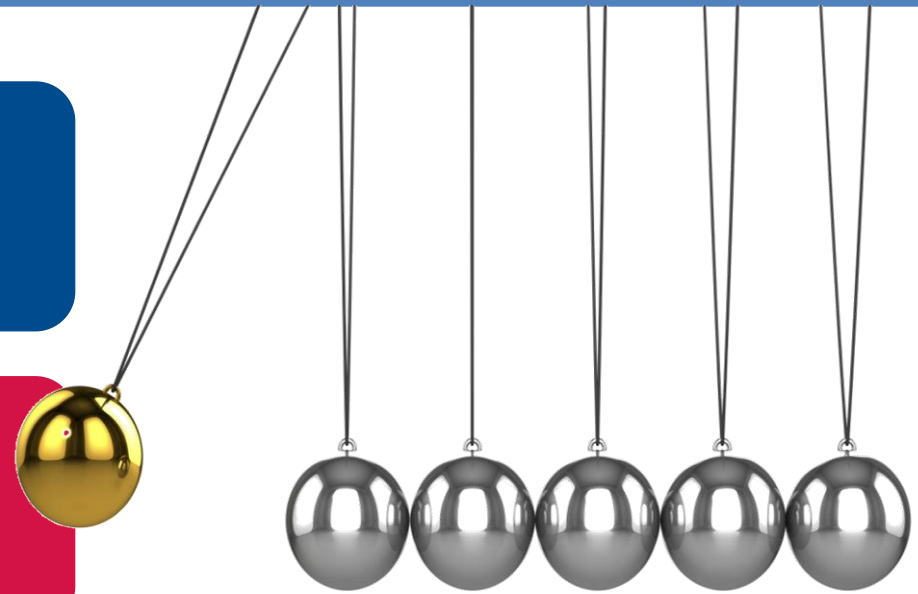


Polarization Is a Growing Factor

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**



6

Specialization Is on the Rise

Menus

Operations

Number and type of industry participants

Blurring of segments

Overall market structure

Single-item Specialists Will Flourish



NORTH SIDE *trattoria*

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)**

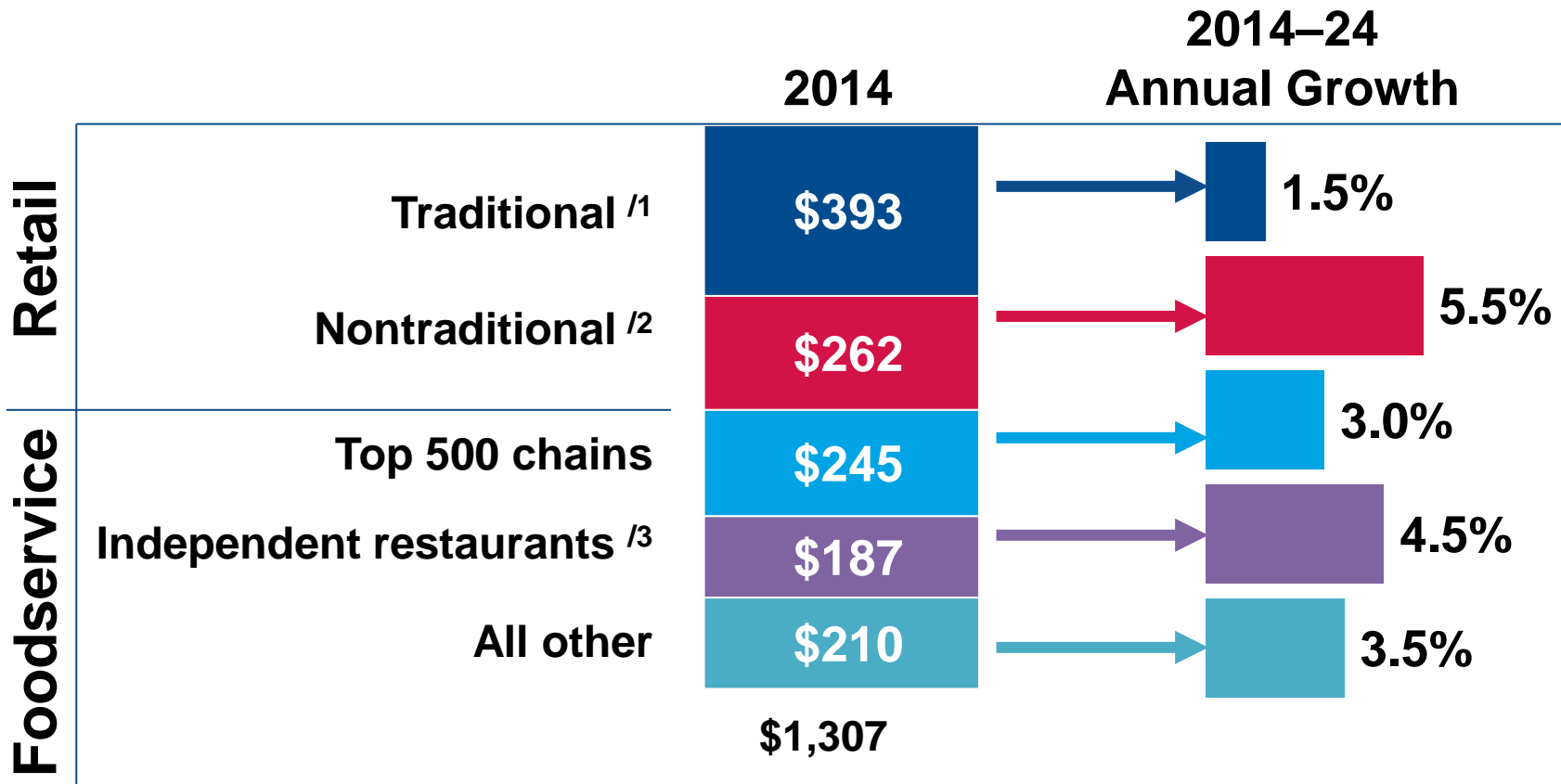
- ▶ **Expanded, year-round “farmers” markets**

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)

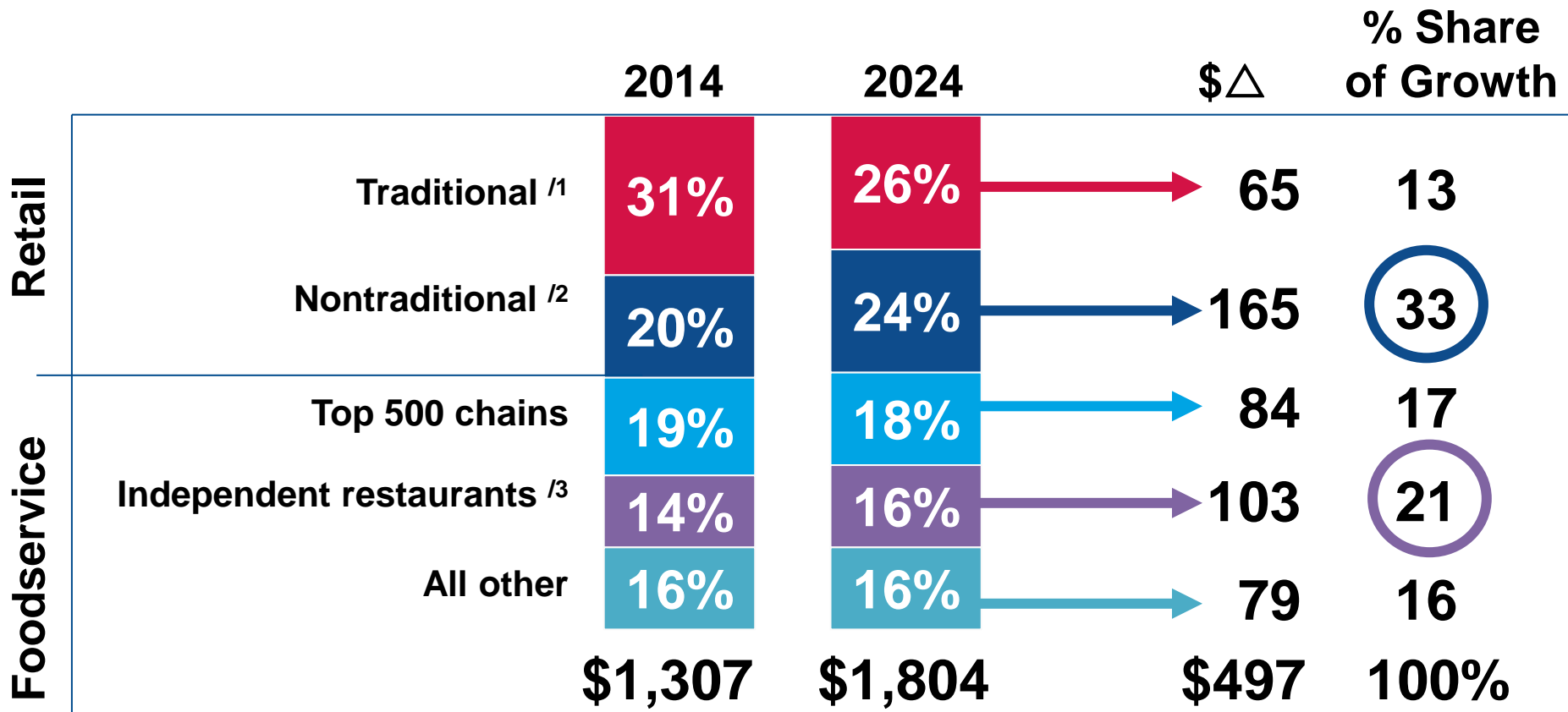


2. Includes club stores, dollar stores, c-stores, fresh format, limited assortment, drug, online and other

3. Includes small chains



Food Industry Sales Growth (\$B)



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



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

