

ASSOCIATION OF FOOD INDUSTRIES

THE 21ST CENTURY FOOD INDUSTRY:

New Era | New Rules | How to Win

DEBRA BACHAR
BLUEBERRY BUSINESS GROUP LTD



BEFORE WE BEGIN

As the impacts of COVID19 on the food industry are not yet fully realized, this presentation comes with caveats.

Truth is hard to find. People and businesses do not agree whether this pandemic crisis is a health issue or an economic one, whether to lockdown or open up, whether to mask or unmask.

As far as predictions, the tendency to take what is happening right now and add “more”. The other is to predict based on preferences. Both can be very misleading.

The 21st century food industry has suddenly become a world of unknowns—like the pandemic itself.

But there are things we can all count on and prepare for.



The goal of this session is not to predict the future. It is to help you prepare your organization for it.



2018-2019: BEFORE THE CRISIS

“I’VE NEVER SEEN THIS PACE OF CHANGE IN THE INDUSTRY.” - Nestle US Chief Strategy Officer

“THE FOOD INDUSTRY IS CHANGING FASTER THAN EVER BEFORE.” - Mondelez CEO

“I HAVE NEVER SEEN INDUSTRY CONDITIONS LIKE TODAY. ...REVOLUTIONARY CHANGE IN THE FOOD INDUSTRY.” - Campbells CEO



**AND THEN
CAME 2020...**

PRE-CRISIS: THE NEW INDUSTRY STRUCTURE

CHANGES TO THE WAY THE INDUSTRY WORKS

Brought about by COVID19, technology, economics, new sources of capital, labor availability, skills and costs, debt, shifting profit pools, politics.

Driven by:

- The way people live, work and play, and the way businesses do business.
- Upheavals, risks and opportunities from exponential technology progress.





PANDEMIC EFFECTS ARE PERSONAL

**IMPACTS ARE UNIQUE TO EACH INDIVIDUAL AND WILL
SPILL OVER INTO THE FOOD INDUSTRY**

We are asked every day when we think Foodservice will return, what the future of Grocery looks like, and how many companies will survive the current crisis.

The need for certainty is understood but realities may not be pleasant.

BUT...

When an organization's strategic plans go up in smoke or are no longer producing desired outcomes, seeds of new opportunity can and must be found.



RECKLESS DENIAL AND DISCONNECT

“This is a crisis...for
everyone else. We’ll be fine”

REALITY CHECK: This crisis will impact
every company in the food industry.



Ernst Lux GmbH & Co. KG
Ernst-Lux-Strasse 1
42699 Solingen, Germany
Tel: +49 212 309 1000



COVID19: THE ACCELERATOR

MAKING THE FUTURE HAPPEN FASTER.
ACCELERATING WHAT WAS ALREADY TAKING PLACE.



PRE-COVID19

Profound social & cultural shifts
x relentless technology innovation
x rate of new customer adoption
= 20 years of progress in 2 years

COVID19 NOW

Profound social & cultural shifts
x relentless technology innovation
x rate of new customer adoption
= 20 years of progress in 6 months

COVID19: THE ACCELERATOR

What's next.....?.....?

PRE-CRISIS	CRISIS NOW	UNSTOPPABLE
<p>Online grocery: 23.1% of consumers in 2018, 36.8% in 2019 (Coresight).</p>	<p>52% of consumers in April; 62.5% intend to do so in the future. Tried it, liked it.</p>	<p>Amazon: Transforming the industry.</p>
<p>Store brands: 2019 +4.1% YoY, outpacing national brands at 1.5%.</p>	<p>1Q: SB sales +29%, outpacing NB +24% (Nielsen)</p>	<p>Deep discounters: Permanent deflationary price effects on the industry.</p>
<p>Foodservice: Value perception leading to sluggish sales 12/19 (Jonathan Maze)</p>	<p>Segment collapse; 25-30% of restaurants to permanently close: unit reduction, indies.</p>	<p>Margin fight: Online and delivery costs not sustainable for supermarkets, restaurants, who will seek margin from manufacturer price/mix moves.</p>
<p>Profit Pools: Shifting downstream where access to is more important than ownership of products.</p>	<p>Fastest growing grocery apps Instacart (+552%), Shipt (+314%), Walmart (+154%), Kroger (+115%) (BofA) Will attract more development.</p>	<p>Customers = NB's biggest competitors: Sourcing for store brands +158% 2019. Will accelerate.</p>
		<p>Partnerships and tie-ups: Kroger + Walgreens as new GPO to drive purchasing efficiencies. New tie ups.</p>



THREE PERSPECTIVES FOR TODAY'S FOOD INDUSTRY

1

FROM PRODUCTS ERA TO SERVICES ERA

From product innovation to business innovation

2

CHANNEL DISRUPTION

Explosion of new routes and channels

3

END OF THE SALES FUNNEL

New paths to purchase

1

FROM PRODUCTS ERA TO SERVICES ERA

From product innovation to business innovation

Products alone occupy a smaller part of customer solutions. Easily duplicated, as indicated by the tidal wave of me-too products that add cost and stress to the system.

Services (products that improve the lives and businesses) are emerging as the true differentiator between competitors...

...and customers are more willing to pay more for them.

This type of business innovation creates barriers to exit, grows revenues, supplements product offerings.

Defined as the growing importance of services in an industry that grew with products only.



Flips the customer question from
“What can you make for me?” to
“What can you DO for me?”



1

FROM PRODUCTS ERA TO SERVICES ERA

From product innovation to business innovation

Real world examples:

CHANNELS ENHANCE CONSUMER RELATIONSHIPS

Curbside pick up, delivery, ecommerce, loyalty programs, cashier-less, package shipping, healthcare, personal finance, auto sales, interactive displays, store robots, digital shelves.

BRANDS USE SERVICES AS CONSUMER CONNECTION

P&G Tide and Laundry on Demand, Nestle and Nespresso, BabyNess and Before Brands, Mars and pet care, PepsiCo and SodaStream. Coca Cola and AHA, Coca Cola drinkables to boost skincare and sleep patterns, plant based.

HOW TO WIN

Transform product sales into experiences supplemented by products. Expand opportunities from pure-play product innovation to business innovation with high value service elements in and outside immediate categories. Difficult work, but will separate long-runners from average Joes!

2

CHANNEL DISRUPTION

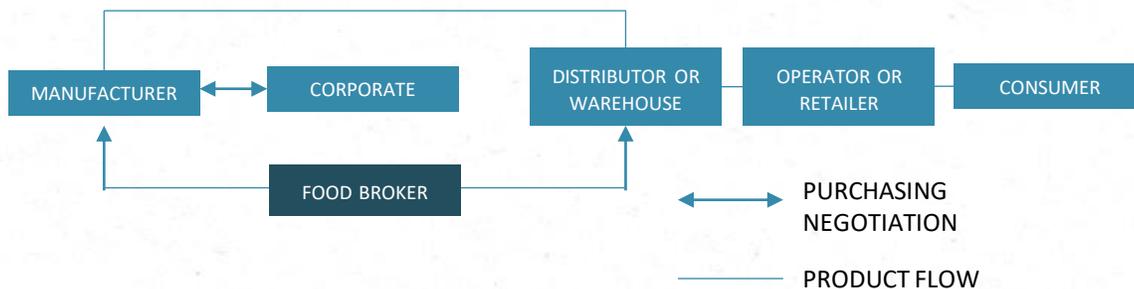
Explosion of new routes and channels

The 20th century food industry was characterized by a closed and narrow system of supply between manufacturers and consumers.

All forms of value were directed towards a constant consumer and customer base that did not require much variation.

Today, hundreds of \$ millions are migrating to new routes and channels, and food makers balance on a sharp knife.

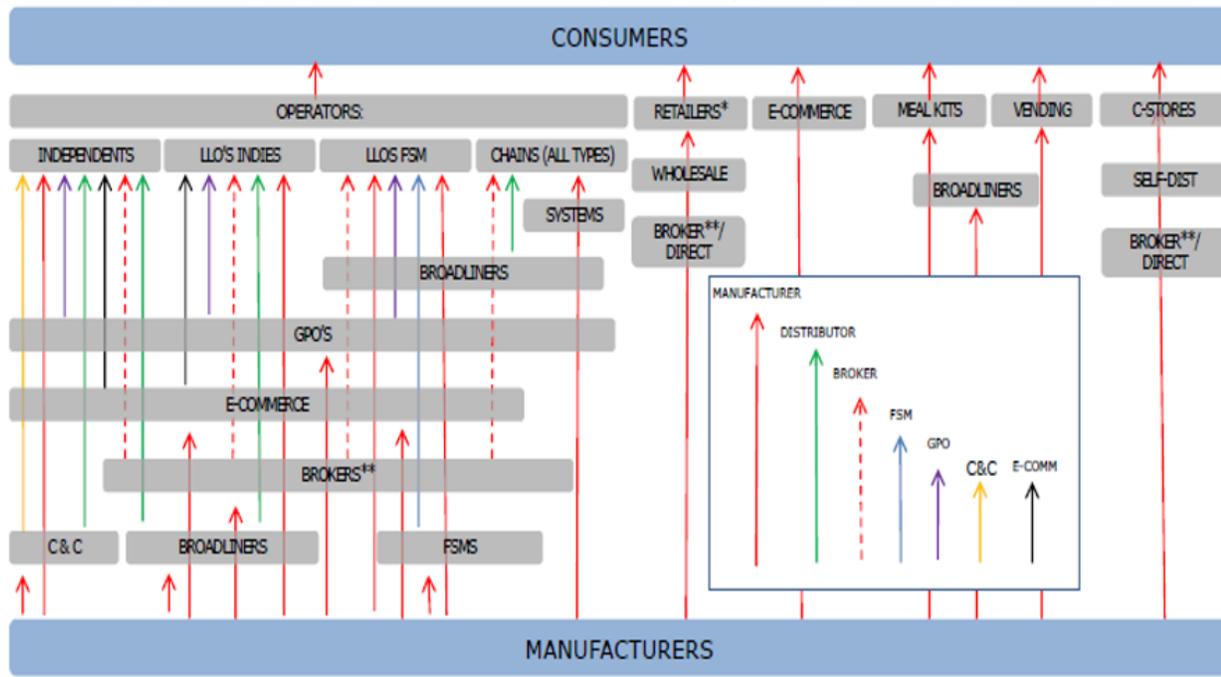
The way it was:



2

CHANNEL DISRUPTION

Explosion of new routes and channels



Today, an “open” system serves inconsistent and demanding consumers with over 30% of value trapped between food makers and consumers.

Core channel functions commoditized, and are fighting back with private brands, services, alternative revenue & profit streams.

Food makers lost bargaining power as consumers and customers are no longer passive recipients of supply.

Graphic designed by IFMA, updated by Blueberry.



2 CHANNEL DISRUPTION

Explosion of new routes and channels

Pentallect listed 10 nontraditional channels well-positioned for accelerated growth at the expense of traditional retail and foodservice segments:

- Club stores
- Community supported agriculture (CSA)
- Ethnic/neighborhood stores (e.g., bodegas)
- Farmers markets
- Food trucks
- Limited assortment stores like Aldi and Save-A-Lot
- Meal kits/home delivered meals (Blue Apron, Hello Fresh)
- Online like Amazon.com and Walmart.com
- Specialty stores (bakeries, butchers)
- Trader Joe's



Under the radar nontraditional channels are forecast to \$295 billion in 2023, up sharply from the current \$210 billion. Will account for 32% of industry growth.

2 A WORD ABOUT AMAZON

AMAZON IS A CATEGORY, NOT A CHANNEL, AND “BUILT FOR A PANDEMIC”

Experiences unmatched by traditional supermarkets and distributors, who deliver a “sea of sameness” that will produce more channel consolidation.

Channels are reactive and skittish from the entry and growth of this single game-changer in the industry.

Traditional channel business models growing outdated: Mass fulfillment, high transportation costs, overhead, driver shortage, speed of fulfillment, inventory costs, no more profit on national brands. These—along with intermediaries--contribute to unsustainable triple and quadruplication effects seen in many parts of the industry.

“No company can handle the kind of surge in demand that Amazon can,” says Mark Mahaney, the veteran tech industry analyst at RBC Capital Markets. “When the pandemic is really over, the physical retail competition will be weakened—and Amazon comes out of this a winner.” - May 17, 2020, Fortune





2 CHANNEL DISRUPTION

Food makers' largest customers are now competitors. Channel brands in foodservice and retail taking control of supply chains, customers, consumers.

With a scale advantage, traditional channels are evolving their D2C/B offering to disrupt competitors and gain share versus Amazon.

Food manufacturers will need to assemble a D2C/B system of their own as complementary to current channels.

Requires investment in content and technology to break through the noise that distract consumers and operators.

HOW TO WIN

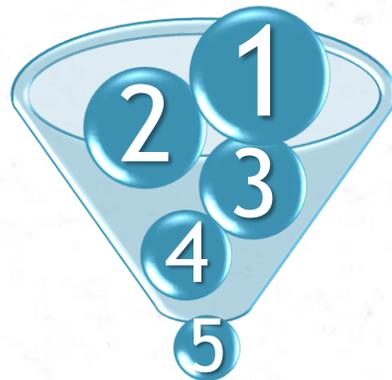
Market share dilution of major customers requires review of the foundations and assumptions around current strategy; i.e. new value propositions, category expansion, ultra premium products, exclusive items. A “direct to...” asset or capability fast becoming a non-negotiable survival imperative.

3 END OF THE SALES FUNNEL

New paths to purchase

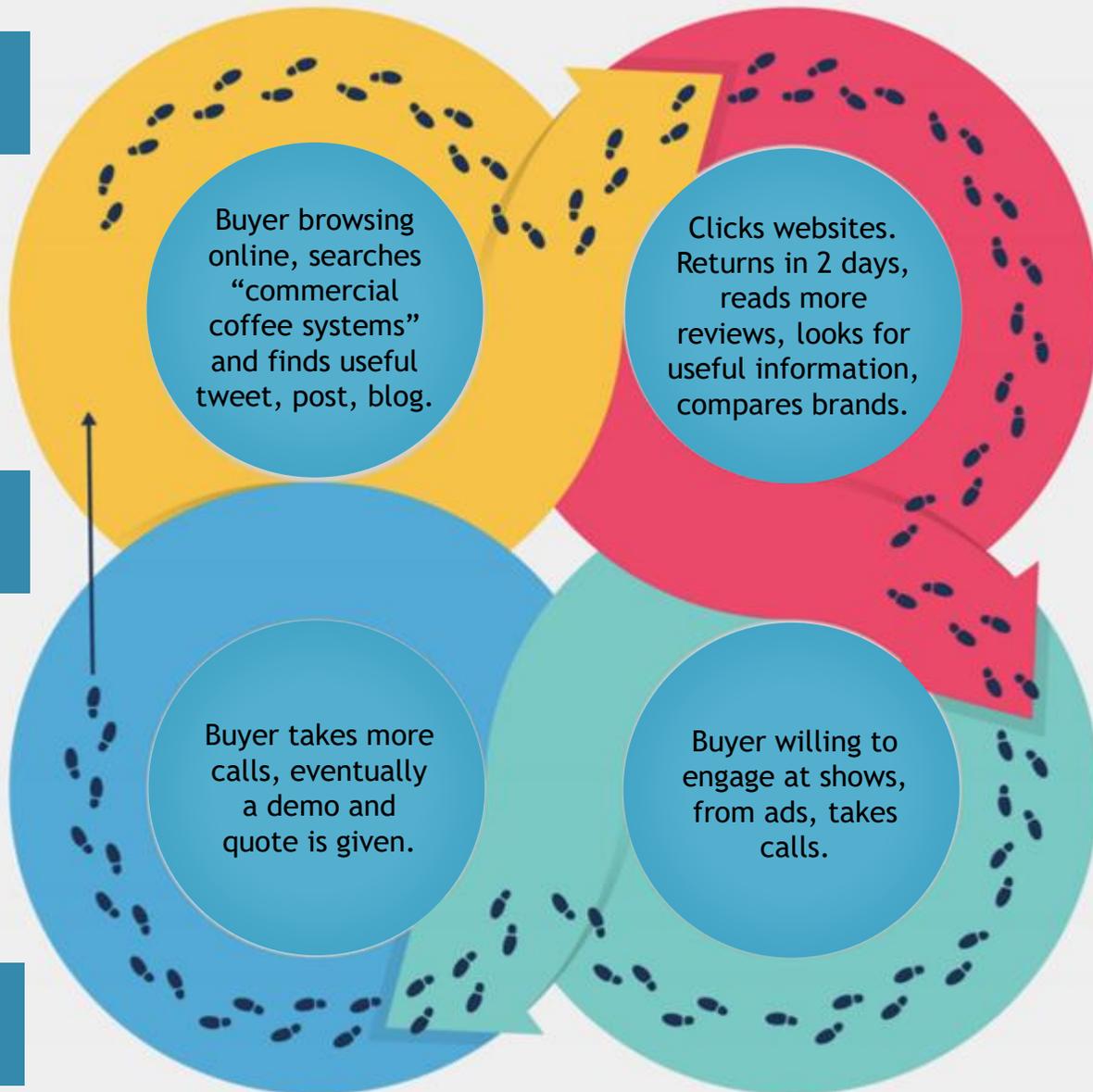
It starts at the top with lead generation or a customer appointment, sales emerge from the bottom. Guides the customer from attention to interest to purchase and assumes a linear approach to decision making.

1. Leads from tradeshows, ads, cold calls, networks, relationships
2. Sales call on prospect
3. Teach, Tailor
4. Demo and quote/negotiate
5. Sale



Introduced in 1924, the sales funnel no longer describes the way customer purchasing works or how they want to be sold in the digital era.





3

END OF THE SALES FUNNEL

New paths to purchase

ENTER THE DECISION MAZE: BUYERS AT ANY STAGE, WITH ANY SET OF EXPECTATIONS, ANY AMOUNT OF INFORMATION

Many months between steps, buyer browses online, reviewing data, attending shows, inquiring of others in their network, looking at Amazon and ratings.

A food company intercepts the maze to create awareness and desire to a broad audience, while buyers take the steps to search and refine their decision criteria outside of the person-to-person contact.

Trick for food manufacturer is knowing where to be positioned online to be seen and heard above the noise, and how and when to engage along the journey.

3

END OF THE SALES FUNNEL

New paths to purchase



Each stage now has many players (media companies, marketing companies, delivery companies, influencers, etc.) to assist in building awareness that leads to sales.

AWARENESS: **REACH**

Build trust, traffic, create lead magnets with authority content on tough business issues and big questions, provide research, social media, email campaigns, Inbound SEO. No promo, selling.

INTEREST AND INTENT: **ACT**

Conversations, live chats, booked calls, webinars, email campaigns, sales team uses lead magnets, whitepapers, testimonials to convince

DECISION: **CONVERT**

Samples, previous positive customer reviews, quotes, demos, invitations, challenger techniques.

LOYALTY: **ENGAGE** (Brand Ambassadors)

Maintain relationships, customer reviews, launch new content, continually and consistently build trust, seek testimonials.



3 END OF THE SALES FUNNEL

New paths to purchase

The internet is the most widely used source of information and has changed the nature of traditional buyer/seller relationship.

Capturing and seizing more attention on paths-to-purchase will transform companies to hyper-scale player.

HOW TO WIN

Tighten your grip on the customer journey by meeting prospects where they are on the purchasing journey. Customize your messages for each audience type. Intercept the journey earlier by finding where buyers are gathering information and become an advisor in those spaces.

Access to products is linked closely with experience, as consumers and customers appraise the value of every transaction.

IN CLOSING: JULY 1ST READINESS QUESTIONS

Waiting for customers to return is not a strategy. Neither is wondering how to fill excess production capacity. Or targeting new segments with no best-in-class value proposition.

What your company was, how it was received and perceived, changed on March 14, 2020, when lockdowns went into effect.

Same with your competitors, your complementors, your customers.

On July 1, 2020:

1. Why will your organization be doing what it's doing on July 1st?
2. What new capabilities will be in place to do what it does then?
3. How will you communicate what you do to customers, stakeholders and shareholders?



We are working with food companies to these answer these questions now. Yours will have to learn and discover an entirely new set of truths to survive all this crisis.



For a deeper dive, contact
Debra Bachar, President
Blueberry Business Group Ltd.
815-877-6200 – Office
847-769-8537 – Cell

To learn more about us, visit our website at
www.blueberrybusinessgroup.com