Issues, trends and challenges facing the food and drink industry – forecasts to 2014

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Issues, trends and challenges facing the food and drink industry – forecasts to 2014

By Helen Lewis

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Chapter 1 Introduction

Report introduction

This market research report explores the global food and drink market in today’s challenging climate with analysis of trends and conditions expected to influence sales value and volume growth over the next five years.

Inevitably, the global economic downturn that made an impact in 2008 is covered in the report. The credit crunch/recession will continue to rage in many countries throughout 2009, and is expected to influence consumer purchasing habits, food and drink sales and innovation over the next 12 to 18 months at least.

Global branding in the food and drinks industry has never been more challenging than it is today. Manufacturers are accustomed to working in a fast-moving consumer goods industry but recently the pace of change has altered and now varies widely between sectors and countries/regions.

In many established Western food and drink markets, competitiveness has risen in line with falling margins (the latter being a result of market saturation and rising raw material costs).

Retailers provide intense competition to brands with private-label ranges offering the best of both worlds: from economy ranges to premium products. Appealing to quality concerns, the premium offerings compete directly with brands in terms of value and flavour appeal. The economy/discount ranges, meanwhile, are proving invaluable during times of financial difficulty (the role of private label is considered in Chapter 3).

Businesses are now forced to re-consider their growth strategies in the face of internal and external factors to deliver on consumer expectations. Consumer demands are evolving (Chapter 7) and manufacturers must re-formulate strategies to deliver on these demands.

Over the next five years, consumers will become more marketing-savvy, wise to, and sometimes increasingly sceptical of the branding and advertising techniques employed by the food and drink industry (alongside other FMCG
Chapter 2 Climate change (food miles, carbon footprints, going local)

Introduction to ‘environmental’ terms used in this chapter

**Carbon footprint** – the total amount of carbon dioxide (CO$_2$) and other greenhouse gases (GHGs) that are emitted over the full life cycle of a product or service. Carbon footprints are attributed to individual companies, products and services, and also to people. It is typically expressed as grams of CO$_2$ (other GHG are allocated a CO$_2$ equivalent). Life cycle assessment (LCA) is one of the established calculation methods, which has been standardised by the International Organisation for Standardisation.

**Carbon neutral** – equates to zero carbon emissions, i.e. a neutral carbon footprint. This is achieved by reducing/eliminating carbon emissions, balancing the burning of fossil fuels with renewable energy, and offsetting unavoidable carbon emissions.

**Carbon offsetting** – there are many ways of offsetting GHG emissions, such as carbon trading schemes, which allow companies with higher emissions to purchase ‘credits’ from lower emitting or carbon-neutral companies. Legal bodies regulate these schemes, although some voluntary, non-regulated carbon-offsetting schemes are emerging. Planting trees was one of the first ways of offsetting carbon emissions.

**Climate change** – the term refers to changes in the modern climate, which according to the Intergovernmental Panel on Climate Change (IPCC) are xx-xx% likely to have been in part caused by human activity.

**Food miles** – the distance travelled from the origin of the food/drink to the consumer. It is sometimes referred to as the journey from ‘field to fork’. There is a growing focus on how the food has travelled and not just the distance, i.e. by road, by rail, by sea or by air. While this has been an important way or raising consumer awareness of the environmental issue, the shelf-life of this buzzword has arguably expired. There is a growing understanding that food
Chapter 3 The global credit crunch

Introduction
The economic downturn has already made a far-reaching impact on the global food and drink industry and will continue to change the way consumers shop, manufacturers invest and retailers promote over the next two to three years. Forward-thinking functional companies are already planning for the recovery, as well as how to deal with the inevitable decrease in frequency of purchase of more premium products during the recession. Consumers are more likely to consume fewer higher-priced goods before trading down to cheaper products in general.

Issue overview
No two recessions are the same so companies that are reviewing past activity and making direct comparisons, i.e. between the 1990s and now, will find it difficult to make assumptions. The organic food and drink market is steadfast in its opinion that consumers that have already bought into the concept and were previously purchasing organic produce on a regular basis will not reduce ethical consumption because of the recession (for as long as it is financially viable for them as a household/individual).

During a recession, it is more important than ever to monitor consumer behaviour and identify new strategies (in terms of consumption occasions, ingredients etc) to unlock opportunities. Brands that are empathetic to the situation consumers find themselves in during a recession (without being patronising!) will resonate with existing and potential customers more than those that continue with a ‘business as usual’ attitude during a recession.

Some companies are seriously struggling during the global economic downturn. In September 2008, Nestlé in the UK withdrew its functional smoothie range, Boosted, just four months after its launch. Poor sales and a lack of supermarket listings reportedly forced the decision. The economic downturn has, according to Nestlé, seen the smoothies category move into decline and consumers are switching to cheaper options such as chilled juice. According to Jon Walsh, Nestlé UK’s managing director of new business (in a
Chapter 4 Obesity and diet-related illness

Introduction

Obesity and morbid obesity are measured using the body mass index (BMI). Obesity defined as a person having a BMI of 30-39 and morbid obesity is 40-50. Although some obese people are relatively healthy with no major complications such as diabetes, most obese and morbidly obese people also experience serious medical conditions.

The US morbid obesity rate is growing much faster than the obesity rate according to a study by the non-profit institution RAND. From 2000 to 2005, RAND economist Roland Sturm found that the US obesity rate increased by xx%. The number of people with a BMI over xx grew twice as fast. The number of people with a BMI over xx grew three times as fast.

Worldwide, the World Health Organisation (WHO) estimates that there are currently xxxbn overweight adults, and at least xxxm of them are classified as obese. The WHO predicts that by 2015, approximately xxxbn adults will be overweight with more than xxxm classed as obese.

Rates of obesity vary among different demographic/ethnic groups and on a country-by-country basis. The WHO estimates that the average adult BMI levels in Africa and Asia are xx-xx, while the average is xx-xx in North America, Europe, parts of Latin America, North Africa and certain Pacific countries.

The US has previously been known as the most overweight nation in the world, but in October 2008, a report found that it had been outstripped by a shock contender: Australia. The comprehensive obesity study indicated that xx% of adult Australians – almost xm – are now obese, xm more than previously identified in the AusDiab study in 1999. The report, entitled Australia’s Future Fat Bomb, was published in time for the Federal government’s obesity inquiry. It showed the results of height and weight checks of xxxxxx adult Australians nationwide. The report found that xm adults have a BMI over xx, making them overweight or obese, an increase from xm.
Chapter 5 Food safety

Introduction
Food safety stories are never far from the global headlines. There are many challenges facing the modern food and drink industry concerning safety that continue each year primarily due to the huge scale of the processed industry. Globalisation of the food and drink industry has led to a rising number of international recalls and outbreaks as the food supply chain grows longer and longer. At the other end of the scale, there are ongoing concerns of the possibility of bioterrorism and economic/chemical terrorism that would have a huge impact on food safety on a global scale.

On a smaller scale, however, local food is not without its food safety challenges. Regional and local produce is not necessarily guaranteed to be free from the flaws of products produced on a more global scale. Regular inspections are a necessity and smaller and start-up producers should be subjected to rigorous health and safety checks before the products are available for general purchase and consumption.

Issue overview
E. coli strains and animal to human contamination are also major food safety issues in today’s modern food and drink market. Dioxin in Irish pigs and melamine in Chinese chickens are just two examples of food scares in the past year that have had a detrimental effect on consumption patterns (albeit temporarily) and a longer-term impact on the category’s reputation.

Awareness of food safety issues can now spread quicker than the problem itself thanks to modern communication channels. News of a food scare in one part of the world can be immediately traced on the internet on the other side of the world.

Counterfeiting is another major problem in the global food industry. It is estimated that fraudulent activity is valued at US$xxbn each year (according to the Michigan State University’s Food Safety Policy Centre in 2008). Food fraud is predicted to increase in line with food price rises. Not all fraudulent food
Chapter 6 Evolving consumer demands: Focus on simplicity

Introduction
The food and drink industry must strive to keep up with consumers' changing needs, shopping and purchasing patterns and spending habits. Reflecting the major challenges and issues highlighted in this report (climate change, the global economic downturn, weight management and food safety), just-food predicts ‘simplicity’ to be a hugely influential trend for branding, marketing and NPD strategies to 2014. For some brands, the original key messages are gradually diluted over time, as companies attempt to expand their target audience/boost sales. This strategy, which often happens over time without any deliberate intention, can result in mixed messages for consumers and a lack of identity in an extremely crowded marketplace.

Trend overview
Simplicity will be a major trend in the food and drink market over the next year because consumers are looking for brands that have been stripped back to basics and that will offer real, genuine and honest values (and will deliver on flavour and the other claims – particularly health claims). Trust is vital in today's market and promoting simplicity as part of the overall company ethos can help to encourage and maintain customer loyalty and confidence.

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