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Talking Points: Catching Up With Big Food Companies

Insights From CAGNY 2022

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Summary

Here are four themes that emerged from the recent (online) get-together at the Consumer Analyst Group of New York (CAGNY) conference that I believe are worth taking note of:

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First, Ukraine

Initially this note was going to be purely about catching up on what some of the larger food companies are up to courtesy of the recent CAGNY conference at the end of February – that annual get-together of the largest of the large food companies. But before that, a couple of observations on the Russian invasion of Ukraine. First, let me refer you to the many reports my colleagues have written on this tragedy in Rabobank's dossier on the Russia-Ukraine conflict, including the recent podcast, "What the War in Ukraine Means for Food" by my colleagues Cyrille Filott and Maria Castroviejo in discussion with Rabobank macro strategist Michael Every.

Second, during the CAGNY conference, where most companies presented before the invasion began on February 24, many of the questions asked of food companies about Russia and Ukraine were framed around what the impact on the companies themselves (i.e. their operations) would be, rather than on the impact companies themselves could make. As the horror of the situation unfolded, that framing has reversed. As of mid-March, in response to the "unspeakable suffering to innocent people" – to quote the CEO of McDonald's – many global food companies, including those present at CAGNY, conscious of the demands of their staff and consumers, have joined the growing list of businesses that have condemned the "aggression and violence" and sanctioned and/or scaled back, to varying degrees, their operations in Russia.

There is no easy segue, but moving back to CAGNY, the remainder of this note dives into four prominent themes that emerged from the conference.

1) We’re Back! – Companies Were Keen To Discuss How Much Stronger They Have Become

Had the presentations not all been pre-recorded, I imagine most of the CEOs and CFOs would have strutted their way to the speaker’s podium to proudly report back on just how well they have been doing. From the video presentations we heard variations on the message, “We have emerged stronger.” We heard how companies had maintained their “strong momentum,” and as we (hopefully) move past Covid-19, how businesses are optimistic about the future: “We are a much better company than we went in.” And after all the tough years, who could not forgive them for a bit of backslapping and self-congratulation? Recall, it wasn’t that long ago that these companies looked like they were going to follow the baby boomers (at the time, their core demographic) into retirement. What a difference a pandemic makes! Despite, and perhaps because of the ”unprecedented challenging environment,” the large food companies have clearly stepped up and delivered. Within this, a few themes:

- **“Our strategy is working”** – The turnaround, they argued, wasn’t all down to The Pandemic and Lady Luck. Many cited the strategies they had implemented back in 2017 and 2018, as companies fell out of love with all their cost-cutting projects and refocused on investing in and driving the top line.
- **“The base business is healthy”** – Company executives expressed a much greater belief in and respect for their core portfolios – from their iconic global brands to ‘local gems.’ It was a far cry from the days when these were downplayed as cash cows as companies fell under the spell of emerging brands. As one CEO put it in their video presentation, ”We don’t have a portfolio we are trying to run away from.” Instead, companies had found their inner Captain Kirk and were ”boldly building brands” and innovating around core products rather than just buying in cool stuff. Examples include products coming out of General Mills’ venture capital arm, G-Works, such as Bold Cultr cream cheese, which uses Perfect Day’s non-dairy fermented whey as well as packaging innovations such as multipacks and pantry packs for all those newly expanded at-home snacking opportunities. Let’s also not forget just how much consumers love some of their food brands. Hershey did a nice piece in their video presentation on what their brands mean to their customers (and staff), and the significance they have in people’s lives. That companies have brands that consumers love – brands that provide comfort, connection, and celebration – should not be trivialized.
- **Big works** – Who said small is sexy? For these guys, bigger is definitely better. Companies reported how their big brands are driving growth, noting that with scale also come higher margins. For example, Unilever’s top-13 billion-euro brands (not all food) grew at an average of 6.4% last year. Scale was once considered a disadvantage, but not anymore. According to the CEO of Kraft Heinz, “It is now working for us.” As an example, he cited how bringing the company’s size, breadth of skillset, and mainstream brands such as Oscar Mayer to their new collaboration with the tiny plant-based foodtech company NotCo creates “the opportunity to democratize the plant-based market.”
- **Keeping it simple** – Covid has also given these companies a crash course in the arts of simplification and speed. For example, the pandemic taught them the benefit of localizing decision-making and using third-party manufacturers to speed up their innovation processes. The result? The ability to introduce new products into the market within months rather than years. “Why,” one asked, “would we go back to pre-Covid sluggishness?” Companies were also able to simplify their portfolios by reducing the number of products with surprisingly little consumer pushback.

2) The Portfolio Reformation – The Core Is Strong But Interest in M&A Remains

Despite the renewed faith in many of their core brands, buying cool companies does remain important for the big players. Every CFO worth their salt has memorized the same jargon-fueled response to any question on M&A: We are always looking for a "strategic fit." We are "very disciplined," looking for "accretive, scalable, cost synergies" where we can "leverage our capabilities" and "have the right to win." These may be "opportunistic bolt-ons" in "adjacent or core categories." We are also open to "bold transformative acquisitions" and our "strong balance sheet" gives us "dry powder" to execute across "platforms and geographies."

But what was striking this year was how all their 'portfolio reshaping' – both prior to and during the pandemic – seems to have given them more confidence that they will maintain (and sometimes improve) their long-term growth forecasts. This year companies were very keen to talk about just how much they have shifted their portfolios into faster growing segments such as snacking (including confectionery) and other advantaged categories (where private label is less of a threat) that will continue to outpace regular food sales, while dropping low-growth brands where they are not uniquely positioned to win. For example, General Mills talked about how they have turned over about 15% of their business through acquisitions and divestitures to expose the company to more growth, ultimately adding 1% to their sales growth rate. Out with those European yogurt brands! Time to pivot into pet food (and pet snacks) such as Blue Buffalo and Top Chews. Similarly, Unilever has moved out of tea and spreads and deeper into health & wellness with products such as plant-based foods and functional nutrition (vitamins, minerals, etc.). And everyone else, it seems, wants to become a "global snacking powerhouse" or a pet food company. It feels like all this portfolio shifting makes the term Big Food even less relevant today. Going forward, Big Snack or Big Pet are much more accurate monikers.

3) Demand Is Holding Up – Consumers Are Stomaching Higher Prices, for Now

One pleasant surprise for most food companies was how, compared to historic trends, consumer demand for their products was holding up despite rising prices. For now, it appears that consumers are willing to pay for their loved and trusted brands (a nod to all the value proposition building companies have done to their brands) to the point where private labels' share has declined overall. (This may change when Covid-related benefits expire in April.) Companies lined up to discuss how their "unprecedented cost headwinds," from commodities, energy, labor, and transport were pressuring their margins and profitability. In response, companies were attempting to offset higher costs through efficiency gains and being as creative as possible in their "price pack architecture," but were unavoidably phasing in higher prices.

4) The Covid Booster Shots – Helping To Keep Demand Elevated

We've discussed these many times before, but companies still cite the permanence of customer Covid habits and new ways of doing business as growth drivers. These include:

- **E-commerce** – This is the fastest growing new route to the consumer. All the food companies are selling more online, both on third-party retail and supermarket sites as well as via their own direct-to-consumer operations. For example, General Mills' online sales are up from 4% pre-pandemic to over 10% of total sales today.

- **Companies are now more tech-savvy** – Beyond e-commerce, companies have embraced the wider adoption of technology across their business operations. From marketing and selling to the consumer as well as production, "everything now has a digital component." Online shopping, online communities, and social media are all providing data insights to allow companies to improve their marketing, understand and anticipate consumer needs, and "create unique consumer experiences." (Although it seems no one has quite figured how to 'crack' TikTok.) Similarly, for production, technology is being used to improve supply chain efficiency, create greater flexibility, and improve revenue and supplier relationship management.
- **More at-home eating** – The consensus remains that consumers will continue to spend more time at home, including eating meals and snacks at home. McCormick reported that 60% of consumers say they will work from home more and 75% of consumers see cooking at home as a better source for healthy eating. This shift to home consumption means billions more at-home eating occasions. Companies are keen to provide new solutions here, such as pantry and fridge packs for "greater shareability" of snacks, as well as provide more online content to inspire consumers and "help keep their cooking muscles toned."

Imprint

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