



Rabobank

Talking Points: In Search of Real Food

Reflections on a Not-so-natural Food Expo

RaboResearch

Food & Agribusiness
far.rabobank.com

Nicholas Fereday

Executive Director
+1 347 215 4158

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Summary

For me, this year travel seems to have come back in a big, big way including some fantastic Rabobank events in Sydney, Australia. But during a lull last month I did finally get around to thinking about takeaways from the Natural Products Expo in March, an annual check-in to see what is new or still trending in that always interesting space. After a short gap, it was interesting to see what had stuck in my mind.

The expo is always a huge, enthralling event and this year did not disappoint. What's not to like about hanging out with 67,000 food-loving attendees and 3,000 exhibiting companies showcasing their latest natural, organic, better-for-you (and not-so-better-for-you) foods and beverages? I'm constantly impressed by the entrepreneurial spirit and the different pathways people have taken to establish their businesses. For example, some folks are on their second or third career (including a subset of former bankers!), while others had an important life-changing event (from a health scare to becoming a parent for the first time, for example). And at Expo West they all come together to share and commercialize their products.

This year I was also fortunate to have many of my US and European colleagues present to provide their perspective. So, now that the buzz of the event has worn off, here are some things we'll remember from this year's show. But first let's start with some context.

1. Not Business as Usual

Although this is the second year the show is back in person and we could wander around maskless, not everything is back to normal. We are still living in 'interesting times' and all the disruption the food industry (and wider economy) has experienced over the last few years – the "most difficult and challenging operating environ in living memory," according to the CEO of Kellogg's – continues to have an impact, whether it is rising interest rates or persistently high food inflation. Add to this the drama and subsequent demise of Silicon Valley Bank, banker to many food and beverage startups, that blew up mid-show and brought a greater focus on future funding for the industry. AgFunder tells us industry funding rocketed over the last decade from USD 3bn in 2012 to USD 30bn last year. But the fact that it was USD 52bn in 2021 has led to concern that there may not be much gas left in the tank.

Obviously, one year and one data point do not make a trend, and there are a lot of moving parts. But there are other signs, such as sales data and the talk from Big Food, that we may be at a crossroads. For the longest time, at least a decade, we have become used to seeing data showing how the specialty food market has been growing at a multiple of the conventional market. Cool trumps boring, and that's why everyone has been so excited about emerging brands. But last year, according to estimates from the Nutrition Business Journal, sales of the cool stuff, (natural,

organic, and functional food and beverages) were up about 7% to USD 200bn, compared to 9% growth in the larger USD 800bn mainstream retail market. If we factor in the inflation rates in 2022 (6.5% for CPI, 11.8% for food in supermarkets), we are seeing real declines (and presumably volumes too).

Judging by the level of interest from corporates on Rabobank's [Foodbytes platform](#), which connects F&A startups, corporates, and investors, we can say with confidence that the established global players are still very much interested in finding out about the smaller guys – to form relationships early, to check out their tech, and to track their progress over time. That said, many of the larger players have emerged from the last three years much stronger, more resilient, and with a greater belief in their own abilities. They are not, compared to a decade ago, looking to emerging brands to solve their problems for them. A cursory glance at the latest quarterly earnings reports reveal how Big Food is focused on core products, with companies consistently delivering “better-than-expected” results, or, in the case of Mondelez, the “best quarter ever.” For emerging brands without a clear pathway to growth and profitability, it is going to be more of a challenge to attract Big Food’s attention. Back in the good old days, ZICO coconut water (now owned by PowerPlant Partners) took nine years to get to profitability. That timeframe might be a hard sell in today’s environment with Big Food’s appetite to invest in smaller companies (especially at an earlier stage) down.

2. Not Everything Tasted Great or Seemed That Natural

Look, I’m a huge fan of the show and how far the industry has come in the last 20 years I’ve been covering it, and I have a deep respect for the companies and players. But let’s begin with a bit of tough love, be a little critical, and call out some of the inconsistencies. Here, I have to thank my European and Brazilian colleagues, who were also visiting the show for client meetings and Rabobank-sponsored events, for their endearing but oftentimes brutally honest opinions. Let’s break it down into five threads:

- a) **No second bite.** The show organizers may have adopted the theme of “growth reimaged,” which included challenging the image of natural products “tasting like cardboard,” but as we slurped, chewed, crunched, and bit our way through the show, it soon became quite apparent to my colleagues and me that there are “a lot of bad products out there.” Not necessarily unsalvageable, but certainly “requiring a lot more thought and work to make them tasteful.” As my colleague Cyrille pondered in a [follow-up episode of the Consumer Foods To Go podcast](#), “one wonders who gave the green light to commercialize?”
- b) **Too rushed?** Following on, this begs the question: “Why so bad?” My colleague Tom thought some of this could be just down to too much of a rush to market, possibly triggered by funding pressures. Or were founders too distracted with marketing or raising funds or one of the 101 other things that take up an entrepreneur’s time? As another colleague, Rogier, put it, “Taste and texture still seems to be a struggle for many companies that then they try to make up for it with marketing.” It seems that somewhere along the line, some companies may have lost sight of making a good-tasting differentiated product. Kevin Ryan from Malachite recently told me that most food and beverage startups fail within the first two years. A lot of this is to do with things the company cannot control, such as the external environment as well as the vagaries of Lady Luck. Isn’t it amazing how frequently food companies drop the ball on the importance of taste and quality? Again, as Tom pointed out about all the chocolate flavored and enrobed products, “Chocolate has a great power to camouflage other undesired flavors, but there is a limit.”
- c) **Culinarily challenged.** Or, it could just be that the inferior nature of the product talks more to the skill set of some of these food companies. Many of these entrepreneurs are working out of small kitchens and they don’t have the tech, insights, or culinary capabilities of larger

companies/experienced chefs – and that’s part of the problem. Similarly, the companies may not have a real understanding of what consumers are really after. As we have learned from the changing fortunes in the US alt-meat market, food is not software. When it comes to what we put in our mouth we don’t want to wait for a better version before the ‘bugs’ are fixed. That first bite is important.

- d) **Copycat.** Many of my colleagues were also surprised at the sheer number – “the zillions of undifferentiated products” – among those 3,000 booths. As one put it, “still too many bars, plant-based products, and too much water and tea.” But maybe that’s just the role of the show, where Expo West acts as the filter and testing ground, the trial and discovery phase for retailers, letting them weed out the bad and focus on the products they see as having potential.
- e) **In search of natural.** For my colleague Maria, the “lack of ‘natural’ in a sea of processed foods” was a big surprise. Ditto for our colleague JP, who was “expecting more natural and healthy products in a natural and healthy lifestyle show.” For example, “there was still limited awareness about gut health and the role of fibers to our body functioning. And the (few) products that could fit this category were not using it as a main differentiating factor.” Many plant-based companies were focusing on their protein content and not on the wider nutritional values of plants and whole foods.

3. Not Plants, the Future Is Fungi?

Although the show was, as my colleague Caroline observed, full of products where “plant-based marketing claims are still being leveraged as much as possible,” it appears mushrooms are having a moment, with many companies boasting their nutrition profile as well as their added functionality as ‘adaptogens.’ Many of my colleagues left the show very much converts to the benefits of mushrooms, mycelium, adaptogens, and all things fungi. For Sebastiaan, “Mushrooms were in everything, including coffee and energy drinks.” Both the familiar ones such as portobello and shiitake, reishi and chaga, but also the extravagantly named ‘lion’s mane’ and the HBO-esque, *The Last of Us*, zombie-inducing mind-controlling cordyceps. The food media are already estimating this is fast approaching a USD 200m market, growing at double digits. Most of the growth is in snacks such as snack bars and cookies, but also in chips, jerky (that’s been around a while, such as Eat the Change and Pan’s), and beverages, including sodas and kombucha. Steve, our beverage strategist, was a little puzzled by the value proposition/need for a mushroom-based soft drink: “I get the value proposition of mushrooms for some types of products, but when I crave refreshment, my mind doesn’t automatically jump to mushrooms.”

Taste issues aside, the adaptogenic health claims being used by mushroom companies was also of interest to many of my colleagues. First, because it is not a term used much in Europe: “We’ve never heard of it before.” The term ‘adaptogen’ relates to ingredients that are believed to manage stress and a little more vaguely, ‘restore balance.’ For example, Space Tea, “the world’s first mushroom tea and lemonade,” comes in a colorful space-themed can with a list of functional benefits as long as the line for Liquid Death.

4. Not Just for Hydration

Every year, my colleagues and I are constantly blown away by the amount of innovation in a product that possibly needs no improvement or innovation: bottled water. As Jeremy put it, “I’m surprised by the continued proliferation of undifferentiated water brands and aluminum bottled waters. Even Jelly Belly (jelly beans) launched a branded flavored water.” But maybe the water story is all about “beyond hydration”? There were, according to Illias, “a few more [insert healthy substance here – such as adaptogen, nootropics, prebiotics and probiotics] infused water companies than last year.” Or, in a nice turn of phrase from Rogier, “an ongoing inflow of water

brands.” Caroline was more upbeat: “I noticed a lot of waters at the show – new ways of delivering on hydration and making drinking water more fun.”

But for a second year, Liquid Death stole the show for many. For Steve, observing the “huge variations in sophistication around branding,” Liquid Death was in a class of its own. “It reminds me of Grey Goose,” he said. “Building a premium brand in a highly commoditized, undifferentiated space.” Tom zeroed in on the energy, coolness, and humor of the brand, noting that it is more than branding, it is entertainment. The brand is also very egalitarian, it is not trying to become “hipster water,” but rather appeal to a national audience.

5. Not Anymore?

There were quite a few categories that seem to have peaked (for now). Cyrille, who had not visited the show since pre-Covid times, had a cracking list of AWOLs that were less or no longer prominent. These included:

- **Snacks bars.** This category has evolved. There were far fewer bar companies, and hardly any chilled bars. I did notice other shapes and forms such as squares and cubes. But the hype is most definitely over.
- **Popcorn.** It was nowhere to be seen.
- **Protein.** Front-of-pack claims on protein content are now less aggressive. It is no longer the USP.
- **CBD.** Without FDA approval, nothing doing.
- **Keto.** It was everywhere last year and seems to have gone the way of paleo.

Let me end with a personal observation on the theme of what’s missing. Having [written about food processing](#) in the context of the NOVA food classification system and the rise of ultraprocessed foods that account for over half of calories in the average American diet (one recent study put it at 73%!), I was curious about the extent to which companies were talking about their manufacturing processes, how their products were made and the degree of processing. We have been hearing a lot about clean labels, fewer ingredients, no HFCS, and so on. But as I noted last year, how much are food companies using their degree of processing as a differentiator to consumers? The good news is that I saw quite a lot of clean labels and limited ingredient products, but these were not necessarily marketed as minimally processed foods. The focus was more on the ingredients and that doesn’t necessarily talk to the degree of processing. It says something when companies at a natural food show have to promote their “real ingredients.” One would have assumed that was a qualification to get admission. I had more than a few conversations with exhibitors, and it almost felt like an inside joke when I said, “Finally, real food.” Strangely, only a small subset could answer my slightly weird question, “How many processing steps were involved in the manufacturing of your product?”

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RaboResearch

Food & Agribusiness
far.rabobank.com

Nicholas Fereday

Executive Director

nicholas.fereday@rabobank.com
+1 347 215 4158

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