Talking Points: The View from Big Food

Maintaining the Momentum After an "Exceptional Year"

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Summary

In this edition, as we lap a truly "exceptional year," let's turn our attention to how large food companies plan to maintain their sales momentum in the years ahead, inspired in part by last month's virtual CAGNY (Consumer Analyst Group of New York) conference. Here then, are three themes worth highlighting:

- Business, not as usual
- Homecentricity – a shift in the center of gravity of food consumption
- Pressing all the growth levers:

- Lever #1: Ecommerce – "the big winner of 2020"

- Lever #2: Data/Analytics - "customizing our relationship with customers to enhance growth"

- Lever #3. ESG – "transforming as we are performing"

Business, Not as Usual

Despite the impressive vaccine roll out in the US, it still remains very unclear how 2021 will play out (if we take home one lesson from last year, it is that we never quite know what's around the corner). Clearly for food companies, they hope the boost they received in 2020 will sustain them to greater success and beyond. As one senior leader put it, debating what will stick, "this, is an obsession we have." Recall at the start of 2020, before all the "hellaciousness" began, the three-year average (organic) sales growth of the largest of the large publicly-traded food companies in North America had been hovering at around zero. Admittedly, some companies had started to turn a corner, having abandoned their focus on cost cutting to one of returning the top line to growth a couple of years before.

What a difference a year makes! As Jim Zaille of Ingredion noted, last year was "the most challenging year in my 35 years in the food industry." And given the loss of life and collective suffering of last year it is rather distasteful to talk about sectors having a "great year" but certainly many of the big packaged food companies were net beneficiaries of pandemic trends reporting high single-digit (and in some cases double-digit growth). The Kellogg's CEO could easily have spoken for the industry when he observed, "we are a stronger company today than we were just one year ago." The cash is flowing. Turns out the pandemic created the mother of all forced trial sampling events, where companies across the board found new customers and increased their household penetration. ConAgra brands said it had gained almost five years' worth of new customers in one year (and they were on the younger side) and not to be outdone, Smucker's claimed to have added more new households than any other branded food company.

Although none came close to the 38% growth in sales that Amazon experienced last year, looking back over the past decade, given that the sales of the US packaged food industry grew by about 10% last year, many of these companies have never had it so good. According to IRI, companies like Bimbo, General Mills and ConAgra Brands recorded double-digit growth in both dollar sales and volumes. Unprecedented.

Certainly, some of the category growth numbers look startling. Just looking at the number of food categories with high single-digit to double-digit growth, it seems every aisle of the supermarket was on fire last year. We were snacking more on cookies, meat snacks, salty snacks, and bought more frozen foods, ranging from breakfast foods, baked goods, pizza, vegetables, meat and entrees. And more shelf stable foods too, from canned meats, beans and vegetables, to pasta sauces, breakfast cereals and flour, peanut butter, and, of course, being America, ketchup. And top of the list with 45% growth was meat alternatives. I think I just described everyone's shopping list in 2020?

Savvy companies were quick to use their windfall gains to pay down debt and talk openly about their openness to future acquisitions in their growth categories and of course the obligatory nod to 'bolt-ons' – as if integration was ever that seamless. Some North American companies had even gone so far as to raise their growth expectations from the default 1%-2% range, to an upbeat 3%, figures which companies often haven't enjoyed for a decade.

Home-Centricity – a Shift in the Center of Gravity of Food Consumption

2020 was the year our food expenditures flipped as we learnt to "live more from home." According to the USDA, food dollar sales away-from-home (at restaurants and entertainment venues for example) fell by 18% in 2020, and rose by 8% for food at home (as we shopped more from supermarkets), resulting in an overall decline in sales to USD 1.6trn. For the first time since 2016, food at home expenditures were more than half of our food dollar spend, leaping from 48% in 2019 to 55% in 2020, to a level the US has not seen since the turn of the century. The million-dollar question here is, "Are we witnessing a structural change or an historic aberration that will erode as we revert back to the golden mean of our old habits?"

The big ongoing assumption by the food companies is that we will all be eating more of their products from home for the foreseeable future (i.e. into 2022), largely because many of the workforce continue to work from home and our food habits are adapting in response (about 60% of employees, excluding the self-employed, are estimated to be able to work from home some of the time).

Other home-centric eating occasion arguments food companies are using in the hope they maintain their momentum include:

- The Mother of All Sampling Events. The forced trial of many packaged foods has reminded us of their better-than-expected taste and convenience (cereals for breakfast, canned soup or a microwaveable frozen meal for a quick lunch in-between zoom calls, etc.).

- More Gadgets. Consumers have bought a ton of gadgets (Keurig for example, sold an extra 1m new units last year) to improve the at-home experience, and companies are catering to that "coffeeshop at home" experience. Ditto for instant-pots, air fryers, etc.

- **More Cooking and Eating Together**. Millions of us have learnt to cook and appreciate cooking as a family activity (especially with children) and eating together.

- **More Affordable**. The recession is ongoing and consumers will see the value in dining at home as the cheaper option. Consumers will pay more attention to value such as bigger packs with lower unit pricing.

- **More Pets**. There are now over 12m new pet households in the US all needing to be fed and entertained. Snacks too!

- **More Netflix Snacking**. About half of us are snacking more during Covid, which "did not reduce the desire to snack." Globally, with over 1.1bn digital subscriptions pointing us towards more in-home entertainment (and gaming), this is leading to greater snacking opportunities such as microwaveable popcorn as we Netflix more. Over two-thirds of consumer now prefer to watch new movies at home.

- **More innovation** focused on at-home dining. As the WSJ reported, the CEO of Kellogg's talked to the need for innovation and relevance so consumers don't get bored with their products and make eating at home exciting "so that people are not using our food because they have to but because they want to."

However, US consumers have been spending more on food eaten away from home year-on-year for over twenty years. In that context, do we really expect the forced trial and rediscovering of home cooking to be such a pivotal discovery that it reverses a decades long trend that sends us all back to our kitchens for good? Susan Schwaille from The NPG Group argues the best way to look at this is in terms of how consumers will access food in the future, recognizing both foodservice and retail are changing dramatically in terms of ghost kitchens, dark stores, greater meal delivery, curbside pickup and the provision of meal solutions (for meal assembly rather than cooking from scratch.) As Agfunder's annual showed, there is a lot of money flowing in, with grocery delivery companies such as Instacart raising USD 225m in 2020 as did, "online meal delivery apps, online restaurants, and cloud kitchens, which also attracted major funding during the year."

This is a topic we will no doubt return to but for now it is safe to assume that home-based meals will remain elevated for at least the short- to medium term, until the world fully reopens and consumers reacquaint themselves with the joy of restaurants

Pressing All the Growth Levers

Food companies will naturally, as Michelle Buck, CEO of Hershey pointed out, try and retain their Covid gains and "hold on to as much as we can." Simply put, they have more consumers now and want to keep them. If it still acceptable to use an analog term in this digital age, here are three inter-connected levers that companies are pushing down on to maintain momentum:

Lever #1: E-commerce – "the big winner of 2020"

The rapid acceleration or "step-change" in the move to online shopping was picked up in our recent readership survey, and the billion-dollar e-commerce business created by the large companies bore this out. For example, Mondelēz's online sales grew by 75% to 5% of their overall sales and Kellogg's doubled to 8%. Unilever's online sales were up 61% to 9% of sales, and ConAgra Brands now has about USD 1bn in online sales, almost 10% of its overall total. Kraft-Heinz, a relative latecomer, doubled its market in a year to 6%. Given that in the wider industry, e-commerce sales rose by over 25%, to 14% of total retail sales (reported by the US Commerce Department), there is still potential for food companies to play catch up. This online drive by food companies as a new route to the consumer will also be welcomed by retailers such as Kroger and Walmart who aspire for their own websites and online platforms to become so essential to customers that they will, like FaceBook or Amazon, generate advertising revenues. A lot of course depends on the category. Nestlé's online pet food business in the US, for example, grew by about 65% last year and is close to 20% of sales (pet food works well on e-commerce – the bulkiness and long shelf life lends itself to subscription models.) Unilever too felt that direct-to-consumer models worked best in high value density products and a very sticky consumer need that is being solved with a subscription model.

Lever #2: Data/Analytics – "customizing our relationship with customers to enhance growth"

Tied in with the acceleration of their e-commerce platforms, companies have been getting a lot smarter with their data. At last year's CAGNY I wrote about how companies had started to invest in "Big Data", in the analytic capabilities to better sell to, communicate with and understand the consumer (and catch up with the analytical tools retailers have been developing). At this year's CAGNY, many companies shone a light on their inner-nerd, boasting about their newly-acquired tech skills with their talk of proprietary data, machine learning, real-time analysis allowing optimization of media and generating content "at the speed of culture," all with the net effect of lowering costs, raising returns on digital advertising and raising revenues.

In a break with the past, it was certainly fascinating to hear companies talk with such confidence about having a more measurable return on investment in their marketing and online activities, compared with old-school tv adverts (filmed at the start of the year with a wish and a prayer they resonated with the audience). Nowadays, big food companies are claiming their own stake in social media platforms that were once considered the hunting ground for start-ups, and are gleaning better insights. In the past too often the term "big data" was thrown around (like "blockchain") as the solution but with no real clear path to execution. Now we are hearing examples of how companies have better insights based on "mining billions of data points" and are able to target consumers "in a very individualistic way" with "hyper-targeted YouTube video campaigns," and help establish an online emotional connection with their brands "by showing consumers content they want to see, when and where they want to see it, and adjusting content on the fly." For example, Kellogg's, which is making better use of their proprietary data from their loyalty programs such as Kellogg's Family Rewards, provides access to almost 60m households worldwide or using TikTok in Europe to encourage consumers to create their own content and in doing so engender loyalty and intimacy.

Lever #3. ESG – "Transforming as we are performing"

With their new found skills in the use of digital marketing and social media, food companies are also using the platforms to promote their company's values (and the values of their brands) to consumers and with the wider community, on a range of environmental, social and governance issues. Rather than being pushed aside by the pandemic, the importance of issues such climate change seems to have accelerated because "there has been a step change in how consumers think about sustainability." General Mills cited data that 80% of consumers would prefer to buy a sustainable version of their favorite brands if it became available.

In response, companies have, with varying levels of commitment, begun that journey. Companies such as Nestlé and General Mills are now committed to be Net Zero by 2050 (only 115 quarters away!), with others focusing more on greater recycling or use of recyclable materials or waste, energy and water use reduction, as well as certified sourcing schemes for key agricultural commodities. Some companies viewed their expansion into plant-based foods as part of this trend, extolling how their more plant-based portfolios generate lower carbon emissions than others – "emissions from the production of a bacon breakfast sandwich could be as much as double the greenhouse gas emissions compared to cereal and milk."

Companies were also at pains to stress such goals were compatible with growth. Laurent Freixe, EVP & Head of Zone Americas at Nestlé, with one of the better soundbites of the conference, talked about "transforming as we are performing" by focusing on key growth areas where sustainability was integral to their growth strategy. Unilever was equally ambitious in its aim to be a global leader in sustainable business "defined by an era where consumers expect businesses to play an important role." But equally bluntly, Unilever's CEO reminding everyone "we are not an NGO" (a not for profit organisation), which brings us to Danone. Multi-tasking is never easy, especially as the drivers of consumer purchasing decisions become ever more complex (taste, price, convenience and now the values associated with ESG) and the need to satisfy a wider group of stakeholders (not just shareholders). The recent exit of Emmanuel Faber at Danone provides a case study in the need to walk the talk on both mission and profits. If you permit me to misquote Adam Smith, it is not from the benevolence of the butcher, the brewer, or the yogurt maker that we expect our dinner, but from their regard to their own interest.

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