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Talking Points: How Will the Consumer Hold Up This Year?

Highlights From Our Latest Readership Survey

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Summary

How time flies. It's a little later than normal, but in my first note of the year let me share some of the highlights from the latest annual readership survey. This time around I returned to the "We Didn't See That Coming" theme by asking the readership: In the world of food, what surprised you the most over the last twelve months?

Three recurring themes from your responses caught my attention: 1) inflation, 2) the resilience of consumer spending, and 3) the collapse of the plant-based meat alternative market. I'll discuss readers' reactions to each of these topics in detail, plus share a quick-fire round of quotes on a range of subjects that were less easy to group together.

As always, there were some great responses on a range of subjects. I'm extremely grateful for the time you all found to write in and give me your two cents in this always insightful survey. But before we delve into the three themes that generated the most discussion, let's recognize that for many the biggest surprise of last year was the situation in Ukraine. As one reader put it, "the obvious one is that Russia actually invaded Ukraine." Almost a year ago, on February 24, 2022, Russia escalated a war it began in 2014, causing untold death and suffering, including the greatest refugee crisis in Europe since World War II. As my colleagues have documented over the past year, the ongoing conflict has impacted the global food system in a number of ways, from food and beverage companies exiting Russia to rising energy costs and increased price volatility for fertilizers and grains – all putting even more pressure on a food system that is still struggling with the disruption caused by the pandemic. As one reader put it, "The invasion made a difficult situation for the global food industry even trickier, exacerbating cost-of-living inflationary pressures." Another reflected on the compounding effect of the war and "the resulting pressure put on supply chains – both food ingredients as well as the surge in energy costs." This is a good segue into the first big theme from the survey: inflation and the cost-of-living crisis.

1. Inflation, Inflation, and More Inflation

Even though it was headline news all year, certain aspects of inflation – such as the double-digit levels it reached, its duration, and the speed and frequency at which prices were passed along to the public – made it one of the top surprises of 2022 for many readers. For example, more than a few felt they "saw inflation coming, but the level of inflation not seen in decades still came as a surprise." And not just the level, which some felt "was anticipated," but also "just how much food prices have risen, and that most people think inflation will remain high." For context, let's remind ourselves that in the US, the Consumer Price Index (CPI) rose by 6.5% over 2022 (peaking in June in at 9.1%) but with the food component still remaining in double digits (10.4% for the year and peaking at 11.4% in August). And on the speed of passing higher prices on along the food chain,

readers were not expecting “how relatively quickly food prices increased following the increased costs of production.” For example, most of the large US food companies raised their prices multiple times last year and, according to Alexia Howard, one of Wall Street’s finest, at levels she has never seen in over 15 years of covering the food industry. These increases were no doubt a contributing factor in explaining why most publicly traded food companies outperformed the S&P 500 last year.

One reader tried to rationalize the speed and frequency of rising retail food prices by arguing, “I don’t know if this was partly due to the ‘just in time’ inventories that had supply chains taking expensive alternative transportation or more general shortages, etc. At any rate, the speed with which prices rose was quite unprecedented.” Although many expressed a hope that inflation had indeed peaked, few felt it would dissipate as quickly as it had taken off. As one put it, “There is end in sight to the rampant inflation, restaurant prices are out of sight and you need a Brink’s truck to go buy groceries for a week.” And one reader sought partial solace in the rise in inflation: “While there are many detriments to increased food prices, reduced food waste will likely be a silver lining.”

Another expressed concern about how inflation and the cost-of-living crisis have “diverted attention away from more radical action to redress the problems associated with global warming and consumer health,” instead turning focus toward any initiative that might reduce pressure on food prices. For example, in the UK, controls on the sale of so-called high in fat, salt and sugar (HFSS) foods were delayed by a year out of fear it would add to pressure on food prices. In a similar vein, one reader observed how “consumers, in light of inflationary pressures, seem to be far less interested in ‘health and nutrition’ lately,” and that it is probably, “short-lived but a bit surprising to see how the food industry narrative has quieted when it comes to ‘better-for-you.’”

An additional driver of cost-push inflation was pandemic-related supply chain disruptions. As one put it, “not enough truck drivers, rampant ingredient shortages (starch, lecithin, sugar) that leads to product shortages in restaurants and grocery stores alike.” Indeed, several respondents spoke of their surprise at the shortages of certain ingredients, “usually ample supplies of certain critical items such as starches, flavors, flours, and sugars.” “My understanding is that all of the big players have been running short, delaying shipments, declining to take new customers.” One baker, for example, had struggled to get a consistent supply of corn starch, forcing him to test other varieties of starch in recipes.

Taking a step back, others expressed surprise at how they kept hearing the rather lazy thinking of “the food system has broken.” In fact, to one reader it came as a surprise just “how resilient supply chains are in managing out the Covid mess, which allowed all of us to enjoy most products.” Another reader thought this resilience was given short shrift: “The fact that the global food markets quickly rebalanced after the initial shock of the war; I was expecting the effect to be more severe.” My colleagues were particularly vociferous on this point. From one, “After all the headlines about high inflation, a broken food system, people going hungry, etc., I thought it was important to point out the supply chain adapted and people were fed.” And another, “The food system is not broken, though it can be improved. It is extremely resilient in the face of Covid and supply chain disruptions from the war. In the past year or two, people got fed. Those that didn’t were more the result of politics and price, not because the food supply broke down.”

2. The Continued Resilience of Consumer Spending

Moving on, a related surprise to the readership was, “definitely, the consumer resilience all around the world.” One leading food manufacturing executive commented, “Consumers in emerging and developed countries endured high prices and waves of pricing while maintaining, in many categories, the consumption habits and preferences that they developed during Covid.” Here are several observations on the strength and resilience of consumers:

- “The resilience of food and beverage categories which have shown strong price-driven growth but also resilience in volumes.”
- “I did not expect the levels of consumer spending to continue so strongly and food pricing to be so inelastic. It’s an economy we have no experience with largely due to a tight labor market.”
- “The persistently high food price inflation coupled with no noticeable uptick in food insecurity.”
- “The continued resilience of consumer spending. From what I’ve seen there’s been little trading down from restaurants to retail, restaurants are still packed, consumers are still spending... probably because unemployment remains remarkably low but still...”
- “The resilience of volumes despite substantial price increases being put through by the industry. And not just retail, for the foreseeable future.”

Let’s dwell a little more on “how seemingly price insensitive many consumers have proven to be” with examples from two different sectors. From the cereal grain industry: “Our premium grain ingredients within our wheat and oat platforms continue to grow in unit volumes despite the higher costs in a recessionary environment.” But also, “Overall unit demand for the more commoditized elements of wheat-based and oat-based foods have also grown.” “This may be that our ingredients, even the premium ones, are still relatively affordable in the overall market share of stomach, so in the hunt for value and extending the purchasing power of food, consumers at all levels are trading down into more wheat- and oat-based consumption.”

Secondly, in the beef industry, a colleague thought the biggest surprise was that “demand of high-quality beef remained relatively strong through the year despite all the headwinds that have faced the consumer’s personal income as inflationary pressures escalated.” He felt that one contributing factor, certainly for the beef market, was how the pandemic had taught the consumer to cook and that during the lockdowns beef suppliers started to offer retailers higher-quality cuts (that were normally reserved for fine dining restaurants). “Even when restaurants reopened across the US, retailers wanted to maintain SKUs for those items as consumers are willing to pay \$20 per steak at a grocery store versus \$60 at a white tablecloth restaurant.”

Readers offered up some interesting explanations as to what might be going on:

- “I do wonder if most people are simply tired of being restricted in any way and just don’t care about debt at the moment? I wonder if some will simply expect the government to bail them out down the road – with some of the events of the pandemic I can see that assumption being out there.”
- A reader in Australia expressed pleasant surprise at “how consumers here in Australia have accepted the considerable increases in prices for fresh fruit and vegetables after major floods and other weather events in key growing regions.”
- “I’m not that surprised by the low elasticity on retail food prices. If Covid did anything, it solidified the emotional comfort and stability households obtain with their go-to food and beverage favorites. This means that, beyond functionality, consumers are willing to pay much more to keep these items in their pantries. It maintains a sense of normalcy even during these turbulent times.”

Others were seeing more expected behavior such as growing interest in private label as consumers traded down but also, more surprisingly, a decline in interest in premium brands. On private label, a lot had to do with quality. “Even upscale consumers are willing to trade down to private label on certain products and even trade down on retailers, such as the \$100k/year crowd becoming Walmart shoppers. This is because private label is higher quality than it used to be and Walmart has earned trust as grocers up the scale.”

A founder of an emerging brand highlighted the difference between the smaller and larger players where, “price increases by large brands were largely ignored by consumers but hit many smaller, more premium brands. We watched our competitors’ sales go down and decided not to take a price increase.” And on premium brands, one reader felt he was seeing category declines for premium products and was surprised by this because, “The established narrative was that premium outperforms in recessions because high-earning consumers are largely more resilient” (with the assumption that high-growth categories to continue to grow but at a slower pace). Two explanations were offered up. First, that premium is a much larger and more mainstream category than it has ever been. Secondly, that premium may also be “incrementally less differentiated versus conventional products than it was during the last downturn.”

3. The Collapse of the Plant-based Meat Alternative Market

We keep coming back to this topic and, personally, I was surprised by how often contributors used the word “collapse” to describe what has been happening in the US market. Some claimed the collapse itself was not a surprise, but rather the speed as well as the “poor execution” of some of the leading players. “While the industry needed to see a shakeout given the oversaturation of brands, products, etc., the extent of the pushback in the space has been surprising,” wrote one reader. As a result, many companies have “overshot the mark with respect to their investment in a category that will likely have very limited appeal for the foreseeable future.”

A few weren’t surprised that consumer interest in alternative meats collapsed but “the speed and pace (of the collapse) was unexpectedly quick.” Still, some felt it was too soon to write off the category. This comment was representative: “The collapse of the alt-protein makers was not such a surprise but I would expect them to make a comeback.” One chap was surprised by the speed at which people were writing off the sector, “how quickly conventional wisdom condemned the popular kid (plant-based meat) to be the loser. I have a feeling that the alt-meat obituaries that have become trendy will be proven to be a bit premature.” Similarly, an industry player hinted they were “starting to see more encouraging responses to pricing” and “some very positive things opening up in QSR.” One veteran reminded us, “History shows that food substitutes evolve and gain share over time; we aren’t done with plant-based burgers yet.”

Another respondent expressed frustration with the failure of “the folks driving frontier technologies such as alternative meats” because “the world needs these products.” The reader thought these companies had let us down because they “seem to have forgotten the most important pieces: the consumer and the financial model that goes with it.” Or to put that last comment slightly differently, “Companies need to be managed as a real ‘business’ and not as a ‘mission,’ meaning they need to be deliberate and prudent in their approach.”

Let’s end this section by summarizing some of the reflections from readers on the factors that might be driving this downturn:

Price

- “They are being hit by inflation more than other products because they were already at a price premium.”
- “Tough economic times makes it harder for people to pay more for these products. Really highlights the need to compete not just on taste but on cost too.”

Taste

- “[It’s surprising] how many big food companies got into the plant-based arena with such lousy products; it is less surprising that some have now started to pull back.”
- “We know that what’s most important to consumers is that the foods they buy taste good (environmental concerns fall MUCH lower), so if the plant-based products don’t deliver on taste, I believe consumers will simply turn to something else.”

Ingredients

- “It was taste, price, and ingredient panel complexity. Whatever happened to the simplicity of the veggie burger?”
- “Just too many ingredients and processing compared to a single-source natural protein product.”

Market potential

- “The category far too quickly got saturated, before there was broader education and adoption. It went a mile wide but only an inch deep, far too many ‘me too’ products, many of them really terrible that turned a lot of people off.”
- “The messaging and communication in the category was off, certainly for broader mainstream appeal and adoption. There was simply not enough education on the benefits and value proposition.”

4. Quick-fire Round: From the Success of Hostess Brands to Cultivated Meat Getting the Green Light From the FDA

In respect to the breadth of topics mentioned, let’s end with a quick-fire round of quotes on a range of subjects that (sometimes pleasantly) surprised our readership:

- “The success of Hostess. The company’s success is a great example of truly knowing your consumer and not being sucked in by the latest-coolest-greatest trend.”
- “How big companies have walked away from the aspiration many had in the 2010s to appeal to all consumers, whether it is Kellogg’s moving away from plant-based foods, JBS shutting down Planterra, or Pepsi’s divestment of Naked and Tropicana.”
- “How so many food companies believed that pandemic changes would be permanent.”
- “The lack of progress in the meat industry in tapping into the consumer desire to decarbonize.”
- “The White House Conference on Hunger doesn’t appear to have generated any sustained action/momentum toward policy outcomes.”
- “The resiliency of small food businesses. Hoping the toll hasn’t been pushed a little into the future with consumers changing habits with inflation hurting small food businesses.”
- “A huge and happy surprise for me was all the emission reductions/climate-positive tenants of the Inflation Reduction Act, which will be a boon to investment in less extractive food production and distribution methods.”
- “How rapidly the concept of ultraprocessed foods has become mainstream.”
- “Tight labor markets – where did all the workers go?”
- “Upcycling and food recovery-based business coming on as strongly as they did in the Angel/VC stage; I’m seeing them everywhere.”
- “The ongoing financial challenges third-party delivery companies continue to face.”
- “The rapid appearance of stores in NYC (and other cities) selling CBD and delta-8-THC edibles of all kinds, not just gummy candies but also baked goods, drinks, and treats for dogs and cats. All of these are illegal under current FDA rules.”

- “Didn’t predict grocery stores would be swapping out nutritionists on staff to have armed guards in every store.”
- “The never-ending growth of the energy drink market. Who knew there was such a large market for so much caffeine in RTD form.”
- “How little importance food systems had in COP27. It is a third of the problem and a massive solution to climate change.”
- “The impact of marketing driving the success of Liquid Death in of one of the most commoditized products, water.”
- “Having the right procurement contracts (price, availability) could give you a competitive advantage and in some cases, even margin expansion.”
- “In spite of the risks to the global food system, the gulf between one end of the value chain to the other seems almost wider.”
- “Upside Foods getting the green light from the FDA was a pleasant surprise for the future of cultivated meat.”

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