



Rabobank

Talking Points: What Have We Changed Our Minds About?

Part One

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Summary

Let's welcome in the New Year by sharing some of the highlights of the latest readership survey. If you recall, I invited you to join me in a celebration of our fallibility and flexibility by answering, "What over the last twelve months have you changed your mind about?" As always, there were some great responses on a range of subjects (enough to cover two notes – this is Part One). I'm extremely grateful for the time you all found to contribute and, as you will see, eloquently engage with me in this informal survey. Here then are four themes that caught my attention. More good stuff to follow in February.

1. Covid-19, Consumer Resiliency, and Complexity – In 2021, Many of Us Realized "Covid Is Not Going Away"
2. Inflation – So, Not Transitory Then
3. Plant-based Meat Alternatives – Pressing Pause on World Domination
4. Supply Chains – More Fragile Than Flexible

1) Covid-19, Consumer Resiliency, and Complexity

I often get asked what I changed my mind about, and it turns out this year many of you shared my belief. It appears that 2021 was the year that many of us realized "Covid isn't going away." As we transition from pandemic to endemic, we recognize that "we will likely be dealing with it for a while" and that we are a "long way from getting back to any sense of normalcy." Thinking through the implications for our world:

- **The good and the bad** – As we enter year three of the pandemic, there are equal measures of both optimism and pessimism. In the downer corner one wrote, "my opinion on the duration of the Covid crisis and its repercussion on the economic situation in the world would be the factors I was too optimistic about." For our food world, one reader felt that, "it has changed the dynamics of how we enjoy food with others, with far more caution on getting together and traveling – experiences we once took for granted" and more bleakly, "how we eat, shop, manufacture, distribute, and grow food is forever changed by 2021." But others definitely looked on the bright side, and for this cynical Brit, it was refreshing just how optimistic many of you felt. One wrote, "I recently sent a message to our leadership team about that very topic of no longer looking for an end to the Covid event but rather embracing the journey we are on and finding the good and the positive from all we are learning."
- **Consumer resiliency** – Keeping with the positive, one reader had learned to "never underestimate how engaged Americans are with food and their adaptability to get exactly what they want. The ingenuity and adaptability seen in American kitchens during the pandemic is impressive. Investment in kitchen tools and appliances. New ways of cooking. New ways of ordering. New ways of finding inspiration. New ways of food shopping." Or another: "I am

surprised by the resiliency of our consumers and the continued penetration of branded food products into all households. I love to see how our consumers are being more creative and open to eat our products in many different ways as a result of the time they have spent at home.” Talk about possibilities and opportunities for the industry!

- **Complexity** – With the recognition that Covid is going to be around for some time, also came a greater appreciation of complexity, that the world is a lot more complex than we like to give it credit for. One respondent felt “it hasn’t been easy for any organization to make decisions amid the uncertainty of these past 21 months. I think we’ve all learned how quickly our lives can change.” Paradoxically, this complexity can also lead to recognizing that some stuff takes longer and timelines need to be pushed out: “I have changed my mind about the timeline it will take to accelerate food production changes, in that I thought it would be shorter than it will be.” More specifically, as an example (and we will come to this topic in Part Two) one reader had revised his opinion on “the possibility we might be able to produce hamburgers from cell-cultured meat at a competitive price in a few years.”

2) Inflation – So, Not Transitory Then

The impact of rising prices seems to have topped a number of top ten lists of most-read articles last year, and it was also front of mind for our readers, who felt it was increasingly unlikely to be as transitory as first thought. One commented, “in the spring I anticipated food price inflation to return to more normal levels, and by the summer it did, but the rise this fall was unexpected.” Similarly, another felt, “for me, it would have to be the way inflation has played out through the course of 2021. Supply shortages, labor shortages, freight markets, and the resulting impact on inflation.” Ever ahead of the curve, many had changed their minds months ahead of Federal Reserve Chairman Jerome Powell’s public comments, finally dropping the transitory mantra in mid-January of this year when he called high inflation a “severe threat.” This was late in coming for many readers who felt “flabbergasted about the Fed’s persistence that the ‘minor’ amount of inflation we are experiencing is going to correct itself in the first or second quarter of 2022.” Or another: “What I have changed my mind about, in contradiction to our economists, is that inflation will not be transitory.”

Given the latest CPI data in the US putting inflation in 2021 at 7%, the highest in nearly forty years, there was a universal belief that inflation will remain front of mind in the years ahead. Recall that the latest US consumer price index data recorded supermarket food prices rising by 6.5% in 2021 compared to the ten-year average of just 1.5%. Similarly, restaurant prices rose by 6%, a rate not seen since 1982. Some felt, even when supply chain blockages and bottlenecks have become unstuck, other factors would kick in. For example, “in the world of packaging and packaging materials I think that the future costs of decarbonization and new taxes on plastics will add costs that someone will have to pay for.”

One reader believed the affordability of food is “no longer a given” and will become increasingly important to those on fixed and/or low incomes: “With inflation pushing costs higher and transportation issues causing supply problems, we are reminded that food costs matter a lot.” Because of higher prices, one noted, “Americans are changing their household budgets. Schools are scrambling to get basic supplies to feed children, including for those who rely on school meals for nutrition.” One asked, “Will the US food system continue to prioritize making food affordable and available for all?” Food affordability was on the mind of another reader too: “It’s hard to think we could go back to levels experienced in the 70s, but developed markets haven’t experienced the significant jumps in inflation that we are now dealing with. And at what point do people start making harder decisions on ‘nice-to-have’ products (many of which are already premium priced) versus just good old-fashioned sustenance?”

Despite rising prices, and although the latest figures put retail sales down, one survey respondent commented late last year on being impressed by “the continued strength of consumer demand despite inflation across the board.” Take the beef market, for example. “Beef demand is still elevated well above pre-pandemic levels and near the 2020 pandemic highs.” This led one to change their mind on the resilience of demand driven perhaps by savings or higher wages or entrenched food choices. “Of course, there is still time for demand to fall, but consumers are proving much more resilient than I expected. The voices complaining of high meat prices keep getting louder, but actual spending and demand keep chugging along.”

3) Plant-based Meat Alternatives – Pressing Pause on World Domination

Perhaps the strongest readership volte-face came over “the media-fueled love affair” with veggie burgers and all things plant-based in light of the slowdown (and in some case declines) in consumption of this category interpreted as the “stalling of demand for alternative meats in the US.” Others put it more bluntly, “I am throwing in the towel for now as far as hoping that plant-based meat alternatives will skyrocket” and “I thought they were about to take over the world, but they are going to have to go back to the drawing board. For now, I have lost faith due to the lackluster performance across the board.” One described it as a “collapse” in US demand and revenues, but “significant reduction” was more common.

Let’s unpick a few strands here, starting with trying to answer this chap’s question: “I am intensely curious of why consumers in North America have pulled back on plant protein?!” He was not alone. After jaw-dropping growth over the past few years, the declining sales of plant-based has left a lot of folks scratching their heads and gave us a shopping list of potential faults with the current market:

- **Capricious consumers** – “I learned demand growth for plant-based may be fickler than originally anticipated.” Is plant-based perhaps the latest hyped up consumer craze and “no longer trendy?” Perhaps, “novelty was a big draw for many people, and now that it’s no longer new, a saturation point has been reached for the ‘core’ consumers of the products?” Or has all the “in-and-out of big fast-food players and others shown that a lot of consumers tried the products over the past two years, but that many of them have become either very infrequent users or have gone back out of the category?”
- **The Twinkie-esque ingredient list** – The most popular explanation was concern about what’s under the hood, leading to doubt that “plant-based is a good alternative” to meat. Readers felt the lengthy ingredient list and “nutrient analysis” was now part of the story and that “clean labels may have something to do with it.” Initially, the assumption was that the other benefits of the plant-based value proposition, such as their ESG credentials, would excuse the ingredients list, but perhaps this is no longer proving to be the case? The move toward cleaner labels and less processed foods was a well-established trend, and arguably plant-based foods are now being critiqued in the same way as other packaged foods. One thought consumers are concluding they are “still full of too many unhealthy ingredients and highly processed sounding stuff” and another said “the ‘processed food’ stigma for plant-based meat is actually bigger than I thought it would be with a mainstream audience.” To sum up: “I am less and less inclined to believe the hype around all the plant-based foods claiming to be better than real meat and fish. If you dig a little, they are over-processed, contain significant amounts of salt and fats and other muck to give them taste and texture and are probably no more energy efficient to produce than the real stuff.” In short, “companies need to be paying attention to this.”
- **Sustainable, really?** – As mentioned, the smaller environmental footprint of plant-based products is part of their appeal, but I had not heard this criticism before: “My biggest learning this year was that the plant-based protein industry is not as sustainable as they claim. There are

many by-products such as spent grain or fiber, that eventually end up in landfill or worse, end up as animal feed.”

- **Taste, of course** – For some, the answer was simple: it came down to taste. Despite all the iterations and reformulations, “the products are not yet good enough, inexpensive enough?” The price disparity, especially in this inflationary environment, was also flagged, “we are still pretty far away from price parity when it comes to plant-based meats and dairy alternatives.”
- **Backing the wrong strategy and horse** – That the leading players were having to “reset their strategies” was not lost on many, but one felt “they are making bad moves by proliferating the product portfolio rather than fixing the core issue of “too many light users, too low depth-of-repeat, too much buyer churn.” On a related theme, another had changed his mind that the momentum behind the first-mover advantage of the leading brands would prove unstoppable. As one put it, “I’ve changed my mind on who the long-term ‘winners’ will be in the plant-based meat space. I’d long operated under the assumption (that today’s leaders) had such a head start, capital advantage, and momentum that they would be extraordinarily difficult to catch in this space. Other plant-based and even cell-based meat companies are raising oceans of capital and bringing products that will be very competitive on all these measures. So for me, the jury is now completely out on who the long-term winners will be in this space.”
- **The ultimate prize is huge** – Interestingly, less doubt was cast on the longer-term prospects, just how long it would take to get there. As one put it, “the (plant-based) game is not over and, in many ways, it is just beginning.”

And seeing as we have been pouring a bucket or two of cold water on this market, let’s end with a counterargument. “In 2021, I have become much more comfortable in plant-based proteins being the main (or sole) protein source in my diet. This is being driven primarily through their increased acceptance and availability in grocery retail, restaurants, and QSRs. To me, these products are mainstream now and will continue to grow in popularity. However, with respect to other meat protein alternatives, I am a long way from being able to chomp on a cricket, regardless of whether it was fried in truffle oil or baked in a garlic-basil aioli.”

4) Supply Chains – More Fragile Than Flexible

Many readers also changed their minds about the resiliency and flexibility of supply chains, their ability to respond to rapid changes, and, as in the case of inflation, the timeline, “the time it will take to resolve supply chain disruptions.” As one put it, “I was of the opinion that global supply chains would adapt and plug market gaps much faster than now seems evident.” Or from the consumer perspective, “I definitely appreciate the well-stocked supermarkets more. I used to take them for granted and the supply chain scares this year showed me how fragile the supply chain can be and it only takes one thing to go wrong for our shelves to be empty.”

The wake-up call for many was triggered by “the scope, severity, and long-run consequences of disruptions all along food chains in 2021, all over the world,” noting that “the situation in 2021 was far worse than it was in 2020. I think many, myself included, are used to things getting fixed right away.”

The year 2021 showed, according to one, “how precarious the balance between supply and demand is. It takes very little supply chain disruption, or any other disruption, to cause a massive impact.” And another noted, “commodities always take time to react, but the physical disruptions showed that capacity hadn’t been ‘parked’ but eliminated.” Supply chain issues, including the whole “logistic dimension,” have loomed large over the C-suite. One executive was “finding that I need to contemplate more logistical issues than at any time in the past,” noting that “the impact has been the overwhelming issue affecting my export business. It has forced us to change our business model.”

This led some to comment on how these disruptions had led to revisiting the idea of more local, shorter supply chains. One supply chain veteran observed, “given higher cost of freight and transportation, local, smaller food producers are becoming more competitive than large-scale food suppliers in the dairy and produce industry, for example.” One took it a step further pronouncing that “globalization of the supply chain has seen its heyday: the pandemic and politics are moving us closer to domestic in-sourcing and diversification.” This was echoed by another who believed that the “principle of make it where you sell it” was beginning to prevail. For example, “the shorter and the more local the supply chain, the better. And not just because of environmental sustainability considerations.” Similarly, others were reconsidering how for some consumer packaged goods companies, “owning manufacturing is a good thing as it ensures resiliency,” whereas previously return on capital would have been the main decision maker. Although I’m struggling to think of any food company that has already announced plans to bring manufacturing back to the US or North America, like the previous comment, the reader felt it would start with ingredient sourcing.

Finally, besides local supply chains, some looked to automation as “there aren’t enough trained people who can be mobilized to get things going again quickly.” One emailed to say “I’ve become more favorable on the viability of robotics back-of-house (beyond equipment automation) and the viability of last-mile drone delivery for non-prepared foods.”

Imprint

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