

FOODLINK

U.S.

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MILLENNIALS SHAKING UP THE FOOD INDUSTRY

Millennials (mid teens to early 30s) are quickly becoming a more dominant force of consumer power in the U.S. Soon this demographic will come of age and spending power will rise, while the Baby Boomers grow older and enter the fixed income stage. This shift is poised to change the food-at-home industry, according to Jeffries AlixPartners' *Trouble in Aisle 5* report.

The root of the transformation lies in demographics. Millennials over the age of 25 will make up roughly 19% (64.1 million) of the U.S. population by 2020, up from just over 5% (17.1 million) in 2010. In contrast, Boomers will fall below 20% of the population in the next eight years.

"We envision an environment that will require increased nimbleness and a relentless focus on the consumer for established food manufacturers and retailers, and the potential for rapid growth for new concepts and products," stated David Garfield, managing director of AlixPartners and head of the firm's consumer products practice.

This new breed of consumers, unlike any prior generation, is posing both challenges and opportunities for grocery retailers and manufacturers. This young demographic, having grown up connected to the web, is accustomed to accessing information instantly and a lifestyle of immediate gratification. Millennials want what they want, when they want it!

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MILLENNIALS *Continued*

Convenience, fresh and healthy, value (not always price), variety and natural and organic all seem to be important attributes for this very independent generation. Millennials are interested in the “food movement” and are attracted to things such as organic farms, small batch jams and artisanal cheese. Even though convenience is a priority, they will go out of their way to satisfy food interests. Looking ahead, these young people will eventually be passing this way of eating to their offspring. Thus, the shift by millions of consumers from large companies and brands to small businesses selling online or the little corner shop could dramatically alter the current food market.

AMONG KEY FINDINGS IN THE TROUBLE IN AISLE 5 REPORT:

- Unlike Boomers, Millennials are much less brand loyal and are more willing to engage in different distribution models to find food. They do not hesitate to purchase food online or to look outside of the traditional grocery store to find what they want. Only 41% of millennials’ total food spending is at traditional grocers.
- Millennials are less married to the “one stop shop” concept of grocery shopping.
- Specialty (ethnic, organic/natural, and fresh) sellers—in shops and online—will benefit from changes in preference.
- Millennials—while focused on paying as little as possible for products—are also much more willing to pay more for specific attributes in food, such as organics/natural, ethnic and specialty.

This young generation is characterized as being passionate about food. However, their tastes are unique and there is no “one size fits all” formula. A number of food manufacturers and retailers already have Millennials under a microscope and are customizing products to capture their tastes and wallets.

Campbell Soup Company has a team of researchers who spend hours with Millennials. “We eat with them. Cook with them. We bar hop with them,” explained Charles Vila, VP-consumer and customer insights at Campbell. Notably, Millennials, at 50 million strong, are projected to spend \$65 billion on consumer-packaged goods in the next decade, according to Pew Research.

Campbell discovered that Millennials approach life like “hunters and gatherers, where they go through life sampling,” noted Mr. Vila. Therefore food marketers must give them experiences that offer a range of things for them to sample,” outlined *Advertising Age*. The soup maker’s research led to the creation of *Campbell’s Go*, an exotic line of soups in microwavable pouches in varieties such as Creamy Red Pepper with Smoked Gouda, Coconut Curry and Moroccan Style Chicken with Chickpeas. The exotic flavors and portable packaging is particularly attractive to these consumers with an on-the-go lifestyle. Millennials do not consume as much canned food as prior generations. In fact, Millennials eat “significantly fewer servings of canned soup each year” than their elders, pointed out John Faulkner, Campbell’s director of brand communications.

At PepsiCo’s Frito-Lay, researchers have been studying Millennials by giving them special glasses equipped with a camera, which removes the distraction of another person. The snack maker found that Millennials are looking for anything “out of the ordinary,” emphasized Christine Kalvenes, Frito-Lay’s VP-innovation. Frito-Lay rolled out an array of exotic and ethnic snack flavors, including *Doritos Jacked*, a thicker chip in flavors such as Enchilada Supreme and Smoky Chipotle Barbecue. The company also launched *Doritos Dinamita*, a chile-limon flavored chip in a rolled form.

Kraft plans to churn out 40 new food and drink products to satisfy appetites for bold flavors, flexible eating patterns and simpler product recipes. “Millennials, age 18 to early 30, are beginning to cook and don’t want to do things like their parents did,” according to the *Chicago Tribune*. A Kraft study found that 42% of millennial men do all the cooking in the household, while 76% do at least some cooking.

Millennials want brands to be fun! Some 80% want brands to entertain them, with 40% wanting brands to let them influence products via co-creation, revealed a study of 4,000 Millennials from 11 countries by Edelman Berland and online community 8095 Life. Nearly three-quarters (70%) of Millennials surveyed claimed it is their responsibility to share feedback with companies after a good or bad brand experience.

Millennials are intrigued with food and are setting trends. They have an international influence on the behaviors and brand choices of their family and friends, and even complete strangers, according to The Boston Consulting Group’s “Millennial Passions: Food, Fashion, and Friends” report. Their opinions are transmitted electronically to all!

WHAT ARE MILLENNIALS SPENDING THEIR MONEY ON?

Restaurant meals and drinks are high on the list of what this demographic likes to spend their money on—ranking above consumer electronics, apparel, footwear, beauty and cosmetic products and accessories. They eat out more often than non-Millennials (3.4 versus 2.8 times per week), regardless of their income or household composition. But you are probably not going to find them at white-table restaurants. This generation prefers fast-casual options such as Panera and Chipotle Mexican Grill. They also like takeout, Asian, exotic and organic foods more than non-Millennials do.

To win over Millennials, restaurants should focus on faster service (along with ready-to-eat and to-go options), fast-casual formats, and happy hour, late-night and bar experiences. Menus should include unusual, exotic, organic or local ingredients. Online reservations and self-ordering systems are also attractive to this tech-savvy group.

RETAIL TRENDS:

E-COMMERCE DOLLARS ONLY TIP OF SALES TECHNOLOGY ICEBERG

“Grocers have far fewer online visitors as e-commerce has yet to play a significant role in food retail,” notes a recent report from Citi Research. And that is certainly the case as The Food Institute, Upper Saddle River, NJ, has reported each month in its retail sales updates based on Commerce Department data showing food and beverage sales account for less than 1.5% of all e-commerce/mail order sales and totaled only about \$5.1 billion for all of 2012.

That \$5.1 billion in internet sales is less than 1% of the \$530 billion in sales at supermarket checkouts last year. Looking forward, e-commerce food sales are seen growing 72.5% by 2016, to \$8.8 billion—a significant percentage growth but only another \$3.7 billion in sales—still only a fraction of overall food sales and overall e-commerce sales. But this number is for sales actually made electronically, outside of the brick and mortar locations.

Still, do not think internet and mobile technology are not important to food retailers as City Research points out. For example, Safeway’s digital loyalty *Just For U* (J4U) program completed its national rollout in July 2012, and the chain expects participating households will represent 65% to 70% of its total customer households over the next two to three years as there are already 4.5 million registrants.

And that impact is seen in rising web traffic at all of Safeway’s five banners, led by Vons, which saw traffic grow 236%, and Randalls up 202% in December 2012 compared with a year earlier.

Thus, there are numerous opportunities for retailers on the internet and technology front, and Citi Research includes “Big Data” among them.

One food retailer that has already embraced this arena is Kroger, which first began implementation of customer analytics in 2003 by partnering with dunnhumby, the UK-based firm that specializes in database management, analytical services, and data mining. Dunnhumby gained fame working with Tesco’s Clubcard and evolution of analyzing data gained through loyalty card programs, compiling a database of customer

“DNA” that gave Tesco and suppliers insight to tailor prices, optimize promotions, and cater to its most-valued customers. Kroger saw this as an opportunity, acquiring a 50% stake in dunnhumby U.S.A., making it the only food retailer in the U.S. with whom dunnhumby U.S.A. can work.

This implementation gave the supermarket chain the ability to design customized offerings to various customer segments and to target its promotional spending and pricing investments toward more profitable customers, “while its direct supermarket competitors have had difficulties keeping pace.”

The *Harvard Business Review* (January-February) reports Tesco is planning to roll out a service that will provide customers who use its loyalty cards with simple access to their own shopping history and provide planning and goal setting functions. It is expected to be available via proprietary smartphones apps initially.

Meanwhile, City Research expects to see more and more retailers experimenting with and implementing customer analytics as they attempt to tailor product offerings, build loyalty and drive sales.

FIVE KEY TECHNOLOGY INTERNET THEMES FOR 2013:

- 1. Mobile Commerce**—Shopping experience from a mobile device, either through the mobile site or app
- 2. Omnichannel**—Integration of stores and online for inventory management and demand fulfillment
- 3. Big Data and Predictive Analytics**—Ability to leverage customer data to drive sales and improve service
- 4. Same-Day Delivery**—Same-day fulfillment of online orders using store-level inventory
- 5. RFID (Radio Frequency Identification)**—Item-level RFID tagging to increase on-shelf availability and drive sales

RETAIL BUZZ

Giant Eagle has installed a kiosk, called Alula, that lets consumers trade unwanted gift cards for cash. The kiosk comes from the same people who make Coinstar and Redbox kiosks and gives consumers cash almost immediately, unlike some online gift-card exchanges or resellers, which require you to mail in your unwanted card and then wait for your check or electronic money transfer. Services like Alula “make even small grocers that all-in-one shop for consumers so they can compete with the larger retailers that have wandered into the food world,” stated Nate Filler, CEO of the Ohio Grocers Association, reported *The Columbus Dispatch*. Alula kiosks are being tested in 21 central Ohio Giant Eagle grocery stores.

BevMo! (formerly Beverages and More!) will be testing a mobile coupon redemption and electronic clearing system at its Walnut Creek, CA, location noted the vice president of IT for BevMo!, which operates 130 stores. The technology allows a consumer to receive manufacturer offers on their smartphone, select items in store and then scan a QR code at the checkout to redeem the coupons, according to *Supermarket News*.



Calendar of Events

MARCH

3-5: Canada Restaurant and Foodservice Association Show*
Toronto, Canada
Direct Energy Centre
crfa.ca/tradeshows/crfashow/

4-8: International Food and Beverage Exhibition (FOODEX)*
Tokyo, Japan
Makuhari Messe (Halls 1-8)
jma.or.jp/foodex

8-10: Natural Products Expo West*
Anaheim, California
Anaheim Convention Center
expowest.com

10-12: International Boston Seafood Show*
Boston, Massachusetts
Boston Convention and Exhibition Center
bostonseafood.com

APRIL

23-25: European Seafood Exposition*
Brussels, Belgium
Brussels Exhibition & Conference Centre
euroseafood.com

30-May 2: SIAL Canada*
Toronto, Canada
Direct Energy Centre
sialcanada.com

**Food Export Association of the Midwest USA and Food Export USA-Northeast will be at this show.*

FEATURED PRODUCTS



Mini Pops

Mini Pops are an innovative addition to the U.S. snack food industry. They are made with air-popped organic sorghum grain—an ingredient similar to corn in that it pops when heated to a high temperature. Gluten-free, corn-free, organic, and all natural, Mini Pops are a crunchy, healthy snack. Another bonus: They lack the irritating hulls that get caught in the teeth and gums (and sometimes throat) with traditional popcorn. Sorghum is a non-GMO product farmed in the United States by family-owned farms. It is also known as a “green” (eco-friendly) grain, as it requires 50% less agricultural water consumption than corn. Mini Pops’ manufacturing facility is located in Stoughton, Massachusetts. Flavors include: Baby White Cheddar, Hot n’ Chilly Chili, Nano Pepper & Herb, Itsy Bitsy Chili Cheese, Subatomic Sea Salt, Itty Bitty Butter, Petite Plain, and Cutie Caramel Clusters. For more information, e-mail info@foodexport.org.



SK Food International

Fargo, North Dakota-based SK Food International has added a new item to its extensive line of premium quality ingredients: Identity Preserved Certified Organic and Conventional Non-GMO Ancient Grains. The ancient grains include amaranth, quinoa, millet, sorghum, spelt, and teff. Considered also to be heirloom grains, they received their name because they have remained unchanged by modern science and breeding technologies over time. Ancient grains often also carry another moniker—“supergrains”—due to their high level of protein and other health benefits. In addition to offering the individual grains in their whole form, SK Food also supplies ancient grains as precooked flakes and raw flours. Product applications include cereals, tortillas, snack foods, baby food, flat breads, baking mixes, energy bars, and more. Available packaging sizes include 50-pound bags and bulk totes. SK Food’s ancient grains, precooked flakes, and flours are available as certified organic or conventional non-GMO and are certified kosher through Orthodox Union. For more information, e-mail info@foodexport.org

SugarVeil Confectionery Icing

SugarVeil Confectionery Icing is a dry mix for producing unique dessert decorations and savory garnishes. Produced by Waldron LLC/SugarVeil Products in Waldron, Missouri, SugarVeil has received international awards for innovation. Lace and other decorations flexibly wrap around cakes, enhance plated desserts, or can be placed onto soups and beverages. SugarVeil Icing contains no artificial additives or preservatives, is non-gluten, non-dairy, and OU certified Kosher Pareve. For more information, e-mail info@foodexport.org.



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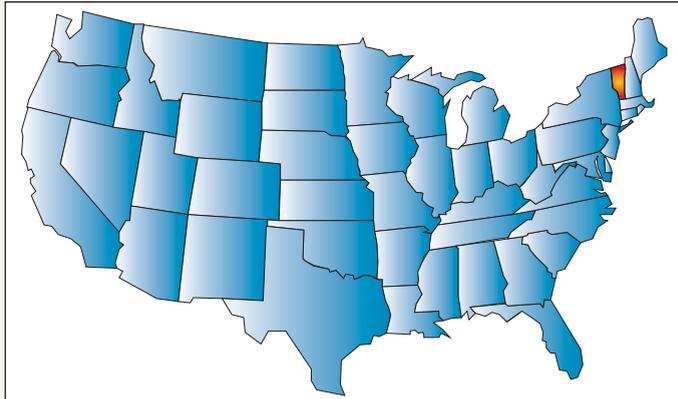
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STATE SPOTLIGHT: Vermont

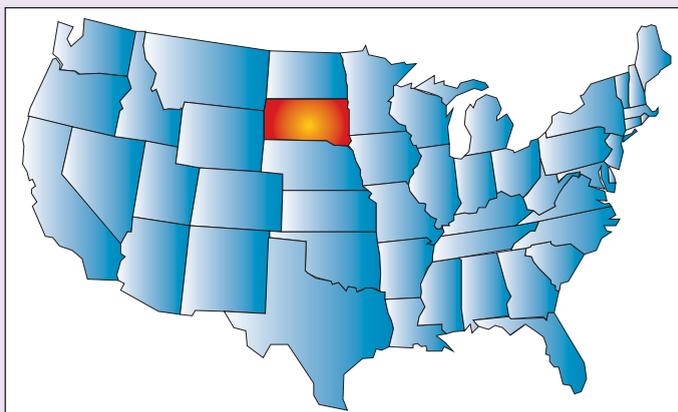


- ✓ Approximately 7,000 farms in Vermont steward 1.2 million acres, which is 21% of the land.
- ✓ Vermont is well known for high quality cheeses, apples, and grass fed beef, cranberries, and many other food products.
- ✓ Vermont is the biggest producer of maple products in the United States producing more than 40% of the nation's total output.
- ✓ Dairy is the primary farm industry in Vermont, producing more than two billion pounds of milk annually.
- ✓ Milk, cheese, ice cream, butter, yogurt, and other popular dairy foods are produced from Vermont's rich milk.
- ✓ Made in Vermont specialty foods include breakfast cereals, sauces, chocolates, fudge, mustard, mints, salsas, crackers, breads, beverages, and salad dressings.
- ✓ In 2011 Vermont exported \$143.3 million worth of processed food products with top markets including Canada, China, Mexico, Chile and Netherlands.

2011 TOP AGRICULTURAL EXPORTS:

WOOD PRODUCTS	
Total Value:	\$55.7 million
FOOD PREPARATIONS FOR INFANTS	
Total Value:	\$18.4 million
CHOCOLATE PREPARATIONS IN BLOCKS OVER 2 KILOS	
Total Value:	\$18.1 million
MISCELLANEOUS FOOD PREPARATIONS	
Total Value:	\$17.8 million
WHEY PRODUCTS	
Total Value:	\$16.7 million
CHOCOLATE PREPARATIONS NOT IN BULK FORM	
Total Value:	\$13.5 million
MILK ALBUMIN, INCLUDING CONCENTRATES	
Total Value:	\$9.9 million
COFFEE, ROASTED, NOT DECAFFEINATED	
Total Value:	\$8.4 million
SUGAR CONFECTIONERY	
Total Value:	\$6.3 million
MILK & CREAM, LOW FAT NOT CONCENTRATED	
Total Value:	\$5.4 million
FISH FILLETS AND OTHER MEAT, FRESH & CHILLED	
Total Value:	\$5.2 million
COCOA POWDER, SWEETENED	
Total Value:	\$4.2 million
MIXES & DOUGHS FOR BAKERY PRODUCTS	
Total Value:	\$3.4 million

STATE SPOTLIGHT: South Dakota



- ✓ There are 46,000 producers in South Dakota on 31,800 farms, working 43.7 million acres, or 90% of the total land.
- ✓ Each South Dakota food producer raises enough food to feed 155 people in the U.S. and around the world for a year.
- ✓ South Dakota is a national leader in crops such as hay, wheat, corn and soybeans.
- ✓ South Dakota is ranked in the top ten nationally in crops such as alfalfa, flax, sunflowers and oats.
- ✓ As a leading livestock state, South Dakota ranks near the top in several production areas including bison, pheasants, honey, sheep and lambs, cattle and calves and hogs and pigs.
- ✓ South Dakota is the first state to have a government initiated certified beef age and source verification program, South Dakota Certified™.
- ✓ Specialty crops play a small part in South Dakota agriculture, but this industry is rapidly expanding, including a rapidly growing wine industry.
- ✓ In 2011 South Dakota exported nearly \$505 million in processed foods, the top markets including Mexico, Canada, Japan, China and South Korea

2011 TOP AGRICULTURAL EXPORTS:

DISTILLER'S GRAINS	
Total Value:	\$172.2 million
FATS OF BOVINE, SHEEP OR GOAT	
Total Value:	\$85.6 million
SOYBEAN OILCAKE & SOLIDS	
Total Value:	\$67.2 million
PORK MEAT, FROZEN	
Total Value:	\$66 million
PORK HAMS & SHOULDERS, BONE IN, FRESH & CHILLED	
Total Value:	\$63.6 million
PORK MEAT, FRESH & CHILLED	
Total Value:	\$58.5 million
BEEF, BONELESS & FRESH & CHILLED	
Total Value:	\$50.6 million
PORK OFFAL, EDIBLE FROZEN	
Total Value:	\$28 million
WHEAT (NON-DURUM) & MESLIN	
Total Value:	\$16.9 million
DOG & CAT FOOD	
Total Value:	\$11.3 million
ANIMAL PRODUCTS FOR SAUSAGE CASING, TRIPE	
Total Value:	\$10.1 million
LACTOSE & LACTOSE SYRUPS	
Total Value:	\$10 million

NEWS BRIEFS

The out-of-home food and beverage market of the U.S. is growing with the changing consumption pattern of the country, according to a new report. Researchers predict recovery from the economic slowdown could lead to growth in the industry with the market reaching \$991.8 billion by 2018. Growth will be driven by increasing per capita disposable income, rising level of population and female participation in the workforce. The increasing level of advertising and promotion for food and beverage by manufacturers is providing an extra edge to the growth of the market.

American palates now prefer sweet and smoky above other popular flavors, according to a recent Kettle Brand-

commissioned national survey. Kettle Brand, part of Diamond Foods' portfolio, expects five emerging flavor themes for 2013: sweet and smoky (e.g., praline bacon with apple); hot (e.g., sriracha, habanero, wasabi); sweet and salty (e.g., salted caramel, kettle corn); tangy (e.g., kim chi, pickles, kraut); and floral (e.g., juniper, lavender, spruce shoots).

Drinking your dinner is on *Advertising Age's* list of food trends for 2013! Marketers will continue to experiment with putting traditionally solid foods into liquid form, while promoting drinks as replacements for solid meals, according to the publication. Also, look for increased visibility of the

meatless movement, and smaller health-food fast-casual chains popping up and offering items such as quinoa and Brussels sprouts.

As more people try their hand at cooking, food companies are rolling out meal kits and starters, with the idea of making people feel like they are making their meals from scratch. General Mills has a line of Progresso Recipe Starters, which are pre-made sauces in flavors such as Fire-Roasted Tomato and Creamy Portabella Mushroom that can be a base for a variety of dishes. Kraft Food's Sizzling Salads dinner kits pair a meat marinade with salad dressing. The NPD Group estimates the average number of meals eaten at home at 902 last year, up

from 870 four years earlier. At the same time, there's a growing "foodie culture" that values authenticity and fresh ingredients. The companies that make the new starters say it's too early to make sales projections but the hope is to appeal to the people who want it both ways: a home-cooked meal that doesn't require much sweat and labor. In particular, companies are aiming for those in their 20s and 30s whose cooking skills may be outmatched by their increasingly sophisticated tastes.

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