

FOODLINK

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THE FUTURE OF ONLINE GROCERY SHOPPING

While online grocery shopping in the U.S. got off to a slow start following its inception in the late 1990s, it is poised for growth in this increasingly digital environment. Digital communication channels have become a permanent part of our lives and are transforming shopping behaviors. Presently, online grocery shopping represents only a small fraction of the market primarily because of the cost of performing the service. However, online grocery shopping is emerging as an important customer need and more shopping will be done through this channel in the years immediately ahead, according to a study by Brick Meets Click, surveying more than 22,000 grocery shoppers.

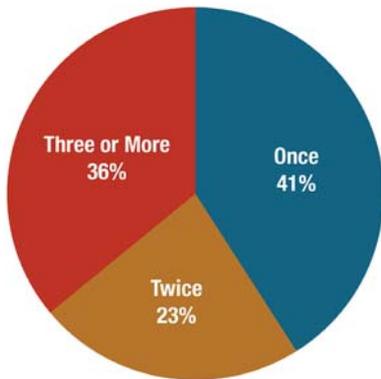
Eleven percent of all shoppers are buying some grocery products online, revealed the newly released study highlighted by Bill Bishop, chief architect of Brick Meets Click. Slightly more than 40% of shoppers report buying groceries online once a month, but the majority are shopping more and making it an integral part of their lives. More than a third (36%) of shoppers make three or more online grocery purchases per month, which indicates that this group is doing quite a bit of their routine replenishment online. As satisfaction with the online shopping experience grows, so does usage.

And, more frequent online shoppers are spending a much larger percentage of their grocery dollars online. Once-a-month shoppers do 17% of their grocery spending online but for three-times-a-month shoppers, spending soars to 42% of total grocery spending.

(Continued on page 2)

ONLINE GROCERY SHOPPING *Continued*

Frequency of Online Grocery Purchases
Percent of Shoppers Who Bought Groceries Online in the Past 30 Days



Why are shoppers purchasing groceries through this channel? The top reason—chosen by 61%—is to be able to buy products that they cannot always find in their stores. No. 2—chosen by 50%—is to save time. This is followed closely by saving money. Survey respondents say they generally will buy more items that are on sale, and make fewer impulse purchases.

Two groups of shoppers are poised to lead the adoption of online grocery shopping:

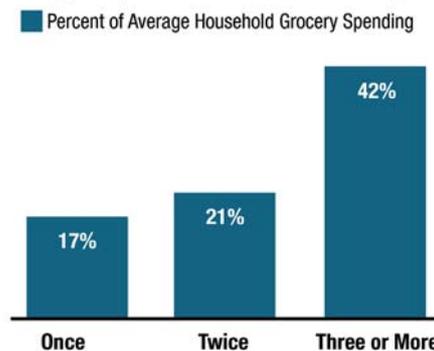
- Higher income shoppers with strong values-driven preferences for food that they serve to their household. This group includes those interested in natural/organic products and those who like to search out unique, artisan-prepared food products. While they represent only a small portion of shoppers, they are important to food retailers since they spend more per week on food and often purchase higher-margin products.
- Young millennial grocery shoppers who have already shifted much of their communication and some of their non-grocery shopping online. Ecommerce is already embedded in these shoppers' lives. Millennials already have experience buying other things online so it will be easy for them to buy groceries online. However, since they have less money to spend than the first group, millennials will be more sensitive to the added cost of home delivery. They will choose less expensive pick-up options. Millennials will also be receptive to the ease and convenience of ordering from mobile devices.

Combined, these two groups represent 20% of all grocery shoppers, according to new ways of segmenting shoppers that are being developed by The Hartman Group and others.

The top source for online grocery purchases was Amazon. Thirty-nine percent of all online grocery shoppers bought from Amazon. Grocery retailers collectively served 28% of online shoppers. Other online retailers handle 8% of customers, and manufacturers served 4%.

Many players in the retail grocery industry have their eyes on web giant Amazon.com. The company expanded its fresh grocery delivery to its third city, San Francisco, in December 2013. The expansion came only five months after debuting AmazonFresh in Los Angeles. The company has been testing grocery delivery in Seattle for nearly six years. The San Francisco launch highlighted shipping speed, according to *The Seattle Times*. "Place an order by 10 a.m. and get items by dinner, or order by 10 p.m. and get items by breakfast," stated Amazon. Customers can order fruit, vegetables and other food items in addition to books, electronics and other nonfood items from a list of some 500,000 items.

Online Share of Grocery Spending by Frequency of Purchase in Last 30 Days



Four characteristics are needed to grow online grocery shopping, emphasized Mr. Bishop: Market Presence, Ease of Use, Fulfillment Options and Competitive Prices.

Ten percent or more of the grocery business could move online within the next 10 years, projects Brick Meets Click. That is the "most likely" forecast, according to Brick Meets Click, which made two other forecasts for online growth in 10 years—6.7% (conservative) and 16.9% (aggressive).



"If these forecasts prove even close to accurate, the shopper's shift of spending to online will have a disruptive effect on current retail competition; it will increase price competition, put more pressure on margins and profits, and accelerate competition," reports Brick Meets Click.

ONLINE GROCERY BUZZ

- Instacart, the only service that can deliver groceries from multiple local stores within an hour, has added four North Shore neighborhoods to its territory in Chicago, boosting the number of vicinities it serves to 27. The company's Chicago service, started in September 2013, is growing at double the rate of San Francisco, where it was initially launched in May 2012.
- IBISWorld forecasts the online grocery industry will grow at a compounded annual rate of 9.5% and reach \$9.47 billion in 2017—up from about \$6 billion today. Also, the number of industry participants in the U.S. will grow at an average annual rate of 5.8% to reach 2,147 grocery stores by 2017.
- While 92% of consumer packaged goods executives agree ecommerce is a strategic sales channel, there is a disconnect between the expressed opinions of the executives and the readiness of their companies to execute, according to a Deloitte study. Only 43% of the executives think their company has a clear, well-understood digital commerce strategy.

FOOD SERVICE TRENDS:

NOVEL TWISTS FOR 2014



Boneless lamb neck, sweetbreads, buckwheat, fluke, cauliflower, chicken skin, Mexican sandwiches, coconut and Jerusalem artichokes are among the 30 buzzwords that will be creating a stir in 2014, according to food and restaurant consultant group Baum & Whiteman LLC. The New York-based company also identified 12 hot trends for restaurants and hotel dining in 2014.

1. Restaurants in Retail Stores

Retailers, large and small, are discovering the magic of "dwell time." If you keep hungry customers on the premises longer, they buy much more. For example, Tommy Bahama's stores with restaurants generate two-and-a-half times the sales per square foot. In Chicago, Saks is opening its first Sophie's global-American restaurant.

2. Proliferation of Tasting-Only Menus

A three-year bull-market is driving the rise of tasting menus around the country. However, tasting menus will move beyond upscale restaurants, where some dinners cost \$1,000 for two with wine. There will be "trickle-downs"—less elite restaurants with tasting options to a la cart menus, costing the same as filling up your SUV, noted Baum & Whiteman.

3. Chicken: No Longer Humble

Chefs around the country are boosting prices as they unveil novel chicken dishes.

In Boston, Cragie on Main features roast chicken for two (\$74) cooked sous vide in chicken fat and spices, then finished with butter and togarashi salt.

4. Goodbye Food Courts, Hello Food Halls

Cookie-cutter mall food courts serving chain food are on the downside. Look for upscale food halls—artisan food staffed by local, name-brand restaurants.

5. Fishy Fish

Anchovies, the no-no of Caesar salads, are in! Particularly popular are Spanish salt-packed ones called bocquerones, and even fresh anchovies. You will find them on salads and fresh mozzarella, or tossed with breadcrumbs on pasta. Look for sardines on the menu too, served warm. Americans are even giving mackerel, another oily fish, a second glance.

6. Bubbling, Fizzing Beverage Trends

With Starbucks committed to converting Americans to tea, watch for others to do the same. SodaStream equipment has consumers experimenting with sodas at home, and even making carbonated cocktails. Craft brewers are turning out fragrant but really sour beers. Juiceterias are on the rise, and pressed juice is even making its way into premium cocktails.

7. When Butter's Not Enough

Look for a variety of chef-driven spreads to spice up a meal. The Pass in Houston, whips up black garlic mostarda, vanilla tapenade, tomato jam, and salted butter.

8. Green Is the Color

Lots of veggies and healthy fare on menus. Tossed, based in New York, is expanding across the country with its 50-item toss-in options.

9. Pop-ups, Food Fairs, and the Single-Item Restaurant

Weekend pop-up markets (Smorgasburg, Brooklyn, NY; Ferry Terminal, San Francisco, food truck fairs) make room for unusual food creations that often graduate to brick-and-mortar restaurants. Meatball shops are popping up around the country, along with waffle shops, Mexican

sandwiches, dumplings, Belgian frites and cross-cultural egg rolls.

Some recent one-item restaurants: a baked potato concept, Greek yogurt, churros, and a Nutella Bar is coming to Chicago's Eataly.

10. I Lost My Dinner in the Funhouse

Restaurants are enhancing the dining experience by toying with customers' senses. Currently, swings in room temperature, lighting, music, smells, and dining in the dark contribute to sensory experiences.



11. New Wave of Asian Flavors

Shichimi togarash, Japanese seven-spice of sesame seeds, ginger, nori and hot peppers, is sprinkled on chicken wings, salads, grille fish; it's a new salt-and-pepper. Look out for gochujane, a sweet-spicy Korean amalgam of fermented hot chili paste and soy. Thai and Vietnamese fish sauce is being incorporated into Western dishes that need a boost.

12. Look Again at Mideast Cooking

Forget Spain and Greece, the south side of the Mediterranean and Levant are where new tastes and dishes are coming from: Turkey, Israel, Morocco, Iraq and Iran. Zaatar and pomegranate molasses are already being used in kitchens here. And, freekeh, toasted green wheat, is catching on with chefs looking to stay ahead of the quinoa curve.

Get ready for newfangled cobb salads, with additions such as fried avocados or jerk chicken, to pop up on menus, according to 2014 predictions outlined by Andrew Freeman, chief executive of California-based hospitality consulting firm Andrew Freeman & Co. Additional predictions by the consultant, according to *Nation's Restaurant News* include: Upgraded comfort food like peanut butter panna cotta; nontraditional chips such as beef tendon chips served at San Francisco's Hi Lo BBQ; portable desserts (ice cream sandwiches); shift from chicken to less conventional proteins—catfish, pork belly and goat; and expanded seafood choices.



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STATE SPOTLIGHT: Ohio

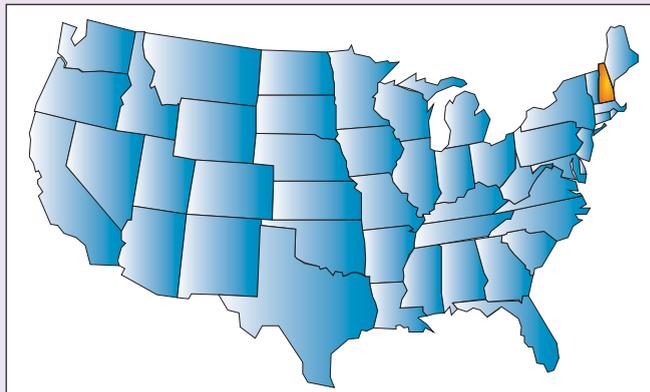


- ✓ Ohio is one of only four U.S. states in which over 50% of its land is classified as prime farmland.
- ✓ Ohio is a diverse agricultural region that produces more than 200 crops.
- ✓ Ohio is a leading producer of tomatoes, corn, soybeans, lettuce, specialty foods, Swiss cheese and eggs.
- ✓ Much of the raw material produced on Ohio's nearly 75,000 farms is the basis for the state's more than 1,000 food processing businesses and other manufacturers.
- ✓ Ohio operates the world's largest pizza plant, has the largest soup factory in the world, and makes more ketchup than anywhere else in the world.
- ✓ Ohio also ranks 1st out of every state in the United States in frozen food shipments and Ohio's frozen food industry accounts for over 20% of the United States' frozen food processing.
- ✓ Ohio's roads, rail, waterways, and international airports provide many viable and reliable options for moving products to their global destinations.

TOP AGRICULTURAL EXPORTS:

SOYBEANS, WHETHER OR NOT BROKEN	Total Value: \$530.7 million
WOOD PRODUCTS	Total Value: \$252.4 million
BAKED GOODS & SNACK FOODS	Total Value: \$101 million
DOG & CAT FOOD	Total Value: \$94.8 million
PORK MEAT, PREPARED & PRESERVED	Total Value: \$54.1 million
BOVINE SEMEN	Total Value: \$45.8 million
BOVINE ANIMALS, LIVE, PUREBRED BREEDING	Total Value: \$43 million
ANIMAL FEED PREPARATIONS	Total Value: \$41.4 million
BEER MADE FROM MALT	Total Value: \$35.4 million
CORN, OTHER THAN SEED CORN	Total Value: \$33.1 million
MISCELLANEOUS FOOD PREPARATIONS	Total Value: \$33.1 million
COOKIES, SWEET BISCUITS	Total Value: \$31.7 million

STATE SPOTLIGHT: New Hampshire



- ✓ Some 4,150 farms steward nearly a half million New Hampshire acres.
- ✓ Greenhouse and nursery products account for 33% of agricultural output.
- ✓ Apples, sweet corn, hay, and maple products round out New Hampshire's top five crops.
- ✓ Over 180 apple growers in New Hampshire produce about one million bushels of apples annually that are sold throughout the Eastern U.S. and Europe.
- ✓ In the livestock and livestock products category, dairy products lead the way and provide almost 30% of the state's total agricultural production.
- ✓ Cattle and calves and chicken eggs are other livestock products of the state.
- ✓ New Hampshire's aquaculture revolves, for the most part, around farm-raised trout.
- ✓ Nearly 40 million gallons of milk are produced each year on 140 New Hampshire dairy farms.
- ✓ Food manufacturing in New Hampshire includes dairy products, bakery products, confectionery, beverages, and seafood products.

TOP AGRICULTURAL EXPORTS:

WOOD PRODUCTS	Total Value: \$45 million
MAPLE SUGAR AND MAPLE SYRUP	Total Value: \$9.8 million
HIDES, SKINS & LEATHER	Total Value: \$9.2 million
SCALLOPS FROZEN, DRIED/SALTED/IN BRINE	Total Value: \$6.6 million
FISH, PREPARED & PRESERVED	Total Value: \$4 million
LOBSTERS, INCLUDING IN SHELL, FROZEN	Total Value: \$2.5 million
FISH FILLETS, FROZEN	Total Value: \$1.7 million
DOG FISH & OTHER SHARK, FROZEN	Total Value: \$1.7 million
VEGETABLE FATS & OILS	Total Value: \$1.6 million
SUGAR CONFECTIONS	Total Value: \$1.3 million
FISH WITH BONES, FROZEN	Total Value: \$1.1 million

NEWS BRIEFS

Restaurant sales are heading in a positive direction, projected to exceed \$683 billion in 2014, an increase of 3.6% from 2013, according to a forecast released by the National Restaurant Association. Menu price inflation is expected to account for 2.4% of the sales growth, Hudson Riehle, NRA's senior vice president of research and knowledge, told Reuters in an interview. Meanwhile, while there has been much emphasis on the influence of Millennials (18 through early 30s), this demographic actually began cutting back on restaurant spending in 2013, according to market research firm The NPD Group. Boomers, not Millennials, are keeping the restaurant industry afloat, pointed out Bonnie Riggs, NPD's restaurant industry analyst, according to *Nation's Restaurant News*. At 77 million strong, Boomers, still the largest generation group in the U.S., ate out more last year and that behavior is expected to continue in 2014, predicts The NPD Group.

Sour Flavors are increasing in popularity and will be big this year, according to *Nation's Restaurant News*' 2014 Forecast & Trends. Deep-fried pickles, on the menu at Unami Burger, depict the trend. Chefs are adding numerous sour options to menus including house-made sauerkraut, kimchi, potatoes, vegetables preserved in whey, Southeast Asian fermented fish and shrimp. Also, sour beers, which gained popularity in Chicago and San Francisco, are expanding to other cities.

Eating breakfast outside the home is generating greater appeal. A new Technomic study shows that 20% of consumers are now eating breakfast away from home more than they were a year ago. The research firm identified two types of breakfast diners, the "limited-service" customer and the "full-service" customer. The "limited-service" customer looks for value menus, breakfast sandwiches and portability. The "full-service" customer is interested in menu variety, all-day availability and signature dishes. Above all, coffee is a key component of breakfast, reported Chicago Business Journal. A majority (64%) of consumers surveyed said they drink coffee for breakfast.

Men are becoming more visible in grocery aisles. Fifty-two percent of primary male shoppers in the U.S. are personally responsible for about 78% of all groceries purchased for their household in a recent month, according to Daymon's Men on a Mission study. Male shoppers approach the task of grocery shopping much differently than women, noted Andres Seifken, Daymon chief marketing officer. "They are much less likely to make lists, cut coupons or look at store circulars, but will spend more time doing the actual shopping. They also are more likely to shop alone and prefer afternoon, weekday store visits, added the CMO.

The global market for organic food is expected to grow at an annual rate of 12.9% through 2015, reaching \$104.7 billion in sales. North America's market is estimated to grow approximately 12% each year, according to a report from Transparency Market Research.

Sophisticated sweets, savory yogurt and bolder burgers are three of the inspirational food trends to watch for in 2014 as identified by Campbell's Culinary & Baking Institute (CCBI), a global network of chefs, bakers and culinary professionals at Campbell Soup Company. Sophisticated sweets include spices, botanical and fresh takes on fruit hitting the dessert scene. Greek-style yogurt is appearing in savory, non-spoonable applications like condiments, baked goods and snacks. Burgers, America's iconic sandwich, are evolving with the times. Novel buns, unique burger patty options such as chicken, lamb, elk and brisket and a broad range of toppings are redefining what a burger is.

Cell phones are rapidly altering the shopping experience. Nearly 75% of smartphone owners are using their device as part of their overall shopping experience, according to The NPD Group. Almost three quarters of smartphone users are using retailer websites, but only 57% of consumers are accessing retailer apps. Nearly all (91%) of U.S. adults had a cell phone in 3013, with 56% owning smartphones, according to the Pew Internet & American Life Project. Of that 91%, 63% said they used their cell phones to go online—double the number since 2009.

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