

FOODLINK

U.S.

THE BI-MONTHLY NEWSLETTER FOR IMPORTERS OF U.S. FOODS

AUGUST/SEPTEMBER 2015

VOL. 11 No. 4



FOOD INGREDIENTS: CONSUMERS DRIVING PROFOUND CHANGES

The wheels of food development are in a constant state of motion as the industry feverishly strives to keep pace with evolving trends. Food ingredient companies, manufacturers and restaurants are busy adding and subtracting ingredients to meet current consumer demands.

American consumers, in strong pursuit of a healthy lifestyle, are actively seeking out foods and beverages that contribute to their well being as opposed to just satisfying hunger. The key focus is on a more natural food experience, often reminiscent of simpler times. Health-conscious consumers, now avid label readers, are steering away from products with long lists of unrecognizable ingredients. The seismic shift away from artificial ingredients and heavily processed foods is strong, and the industry is aggressively responding to satisfy consumer demands.

CONTENT AND TRANSPARENCY

Today, less is more when it comes to ingredients. Two out of three consumers prefer food items with fewer and simpler ingredients, and take nutritional content, ingredient-free and health benefit

statements into consideration when buying food and beverage items, according to Packaged Facts, a division of MarketResearch.com. These concerns reflect the growing back-to-basics trend and the desire for increased transparency. Presently, 87% of Americans read the Nutrition Facts panel at least sometimes, while more than half actively seek out more nutrition information. Major industry initiatives impacting retail and food service sectors include eliminating artificial coloring and flavorings, replacing artificial preservatives with natural ones, reducing added sugars and reducing or eliminating routine antibiotics given to animals.

The volume of industry initiatives aimed at improving nutritional profiles and enhancing transparency is increasing daily.

Some recent moves to meet new consumer demands include the following:

- Nestle USA unveiled plans to remove artificial flavors and reduce sodium in its frozen pizza and snack products by the end of 2015. This move will affect more than 250 products across six brands. Also, the company will address specific health needs with the launch of California Pizza Kitchen Gluten-Free Crispy Thin Crust pizzas.

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FOOD INGREDIENTS *Continued*

- The Hershey Company will remove PGPR (an emulsifier) and vanillin from its chocolate bars by the end of this year. Natural vanilla will be used in the remake. This marks the first time in 120 years that Hershey's iconic milk chocolate bar will be altered.
- Pizza Hut, a unit of Yum! Brands, Inc., is removing artificial flavors and colors from its pizzas this summer. Earlier, the company eliminated partially hydrogenated oils and MSG and has reduced the sodium in its pizzas, reported *Milling & Baking News*.
- In late April, Chipotle Mexican Grill became the first chain to remove all genetically modified ingredients from its menu. This is another step for the 1,831-unit chain to further differentiate itself from competitors. The brand has prided itself for using meats raised responsibly without hormones or antibiotics, and organic and local produce where possible. Only its tortillas include artificial ingredients and it is working to eliminate these, according to *Nation's Restaurant News*.
- Kraft Foods will take artificial preservatives and synthetic colors out of its original Macaroni & Cheese brand. Synthetic colors are being replaced with "those derived from natural sources like paprika, annatto and turmeric," outlined *Advertising Age*.
- Retailer Target is revamping its grocery offerings in favor of less processed foods. The Minneapolis-based chain will be carrying "more natural products, more organic, more gluten-free items that have simple, cleaner ingredient labels," said CEO Brian Cornell.

TRENDING INGREDIENTS

While the race is on to subtract undesirable ingredients, many companies are adding beneficial ingredients such as pea protein, ancient grains, soy, fiber, tea leaves, fruits, vegetables, spices, nuts, seaweed and other items to enhance product profiles and stay competitive.

Protein is hot, especially plant-based protein due to the heightening focus on sustainability, cost savings vs. animal protein, dairy allergies and needs of vegetarians and vegans. This ingredient is being sought throughout the population. Millennials, the younger demographic, are seeking protein as a means to build muscle and curb appetite, while Baby Boomers



are consuming it to maintain muscle mass, boost energy and for general health reasons.

The majority of Americans (89%) feel it is very important to get enough protein in their diets, according to the International Food Information Council Foundation's *2015 Food & Health Survey: Consumer Attitudes Towards Food Safety, Nutrition & Health* report. Most, 86%, perceive protein as being heart healthy.

The range of food and beverage products incorporating protein is expanding quickly. Protein is being highlighted in products spanning from snack bars, cereal, yogurt, chips, pasta and shakes to salad dressings. A more unusual, and perhaps less attractive innovation is cricket flour. Although this source of protein has not taken off yet in this country, a handful of optimistic U.S. companies are trying to pave the way with the launch of snacks, cookies and power bars based on insect flour. With sustainability a major advantage in contrast to raising animals, the market for insect protein bears watching.

Ancient grains with functional benefits and interesting textures such as quinoa, chia, teff and amaranth are making their debut in all kinds of products, including beverages, bars, cereals, soups, salad dressings and yogurt.

"Ancient grains have been used fairly broadly in baked goods to date, but we also see applicability in side dishes such as hot or cold grain salads, soups and even dessert items," said Colleen Zammer, director of product marketing for Massachusetts-bay Bay State Milling. "Their flavors are diverse from earthy to peppery, and therefore they can add flavor and texture dimension to a wide range of sweet and savory foods," added Ms. Zammer, according to *FoodBusinessNews*.

While beverages with chia seeds are already popular, categories outside

beverages are being explored. Wisconsin-based Glanbia Nutritional unveiled ice pops with chia seeds at the Institute of Food Technologists' annual meeting and exposition in July.

WHAT'S NEXT?

The spotlight is on wheatgrass, according to Innova Market Insights research, citing the young grass' rapid emergence as a health ingredient in the mainstream food and drinks market. Wheatgrass, long a staple at health food stores, is increasingly being used in combination with other components with a healthy image or perceived health benefits.

Global launches of food and drinks products featuring wheatgrass posted a double-digit increase over the past year, revealed Innova Market Insights, according to Nutraceuticals World. Europe and North America had the highest launch number over the past year. Significant growth occurred in food and beverage introductions, which accounted for 40% of launches featuring wheatgrass, vs. supplement-type products.



Health-focused products will continue to surge! Approximately 80% of food and beverage executives expect new products to propel their expansion, and they are analyzing a number of rising trends to find the next hot one, according to a new survey by McGladrey LLP. Companies are leveraging at least four trends to compete in today's marketplace: a health and wellness focus using natural or organic foods, introducing ethnic foods or beverages, seeking locally sourced products, and enhancing convenience and simplicity, revealed the survey.

RETAIL TRENDS:

FRESH FORMAT, LIMITED ASSORTMENT AND E-COMMERCE TO POST STRONG GROWTH THROUGH 2019

Sales in the traditional grocery channel rose 4.7% to \$547.4 billion in 2014 and market share increased slightly to 46.3%, according to Willard Bishop's *The Future of Food Retailing Report*. Notably, the traditional grocery channel gained a slight 0.3% dollar share—the first share gain in more than a decade.

Fresh format stores continued to experience impressive growth of 13.5% to \$15.9 billion and the largest increase in stores among all formats to nearly 1,200 in 2014. This strong growth reflects the expanding health and wellness trend. Consumers are seeking fresh, healthful products. The Fresh Market and Sprouts Farmers Market posted double-digit sales growth for the second consecutive year. Sprouts is testing a new deli format (i.e., front-facing salad bar, protein case, juice offering and sandwich station) and plans to expand it to more stores in 2016.

Limited-assortment stores exhibited a significant sales increase of 11.3% to \$34.6 billion. Aldi continued to expand with a 5.8% rise in store count to 1,375 stores in 2014. Plans call for 650 more stores, including an expansion into Southern California and Texas, bringing its total U.S. store count to 2,000 by 2018.

The super warehouse format experienced a modest increase of 4.0% to \$21.6 billion in 2014. Winco celebrated the opening of its 100th store, the first of nine stores planned for 2015. Smart & Final's consumer-focused Extra stores will continue to be the key to new store growth with 20 additional stores this year.

Traditional supermarkets saw sales rise 4.1%, reaching \$462.3 billion in 2014. Store counts inched up 1.3% to 26,490 stores last year. A number of traditional supermarket retailers recorded significant sales growth in 2014.

Convenience stores displayed consistent in-store growth of 4.6% to \$177.7 billion in 2014. The year concluded with nearly 160,000 stores. The industry's emphasis on quick, easy and convenient access to food has been key to its success.

Non-traditional grocery channel sales increased 2.7% to \$453.7 billion. Market share slipped by almost half a percentage point to 38.6% for non-traditional food outlets, which was driven in part by the growth in limited-assortment and fresh format stores, according to Willard Bishop.



Wholesale club sales rose 3.6% to \$102.1 billion. Costco enjoyed a same-store sales increase of 5.0% in 2014 and expanded to nearly 470 clubs in the U.S. In 2015, the company expects to open 19 stores in the U.S. and 12 abroad.

Supercenter sales increased at a steady pace of 3.6% in 2014 to reach \$207.5 billion, while store count climbed 3.1% to 3,947 stores. Meanwhile, the mass format saw a slight decline of 1.2% to \$47.9 billion and a 6.3% dip in store count to 3,074 stores. Kmart, which continues to struggle, is in the process of converting approximately half of its remaining supercenters to a new concept called K-Fresh. This concept will feature a wider selection of grocery items than traditional Kmart stores.

The dollar format continued its modest growth with a 5.7% increase to \$30.3 billion, while store counts increased by 3.9% to more than 28,000 stores in 2014. With the acquisition of Family Dollar this year, Dollar Tree will become the top retailer in this format in terms of store count and second to Dollar General in sales.

Food and consumable product sales in drug stores decreased slightly by 0.3% to \$61.1 billion and market share slipped to 5.2% last year. CVS posted same-store declines of 4.0% in 2014. The company unveiled plans to acquire Target's in-store pharmacies. The purchase will enable Target to increase focus in the areas of on-demand shopping and innovation, while CVS re-brands Target's existing in-store pharmacies under the CVS MinuteClinic banner, noted Willard Bishop.

The military format sales slipped a mere 1.2% to under \$4.8 billion.

E-commerce sales for food and consumables rose by 13.5% to \$24.4 billion. Amazon continues to meet consumers' needs by offering food and consumables

at reasonable prices via a quick and simple shopping experience. Meanwhile, an increasing number of brick-and-mortar grocery retailers (e.g., Ahold, Albertson's, Kroger, Safeway and ShopRite) are boosting their e-commerce efforts to compete. This year, Meijer announced plans to expand curbside delivery to all stores.

OUTLOOK FOR 2019

Willard Bishop projects the market share for traditional grocery will slip 0.2% to 46.1%, while market share for non-traditional grocery will increase slightly to 38.8% and convenience store share will remain steady at 15.1%.

Within the traditional grocery segment, fresh format stores are expected to continue their strong growth during the next five years at a rate of 11.7% annually. Limited-assortment will also experience healthy growth of 7%. Super warehouse will maintain its steady 3.5% annual growth rate. Small grocery will experience a relatively low growth rate of 2.1%. Traditional supermarkets' market share is projected to dip to 36.8% by 2019 from 39.2% in 2014.

Looking at non-traditional grocery, supercenters are expected to continue sales growth at a rate of 2.9% per year into 2019 and market share will hit 18.3% from 17.6%. Both dollar and wholesale club will continue to perform well with annual growth rates of 3.8% and 3.3%, respectively. Drug stores will see slight growth annually of 2.0%. Mass stores will continue to experience a decrease in annual sales of 3.0% into 2019 and a decline in market share to 3.2%, as more conventional mass stores are converted to superstores.

E-commerce food and consumable sales will sustain its strong growth rate of 12.1% a year.

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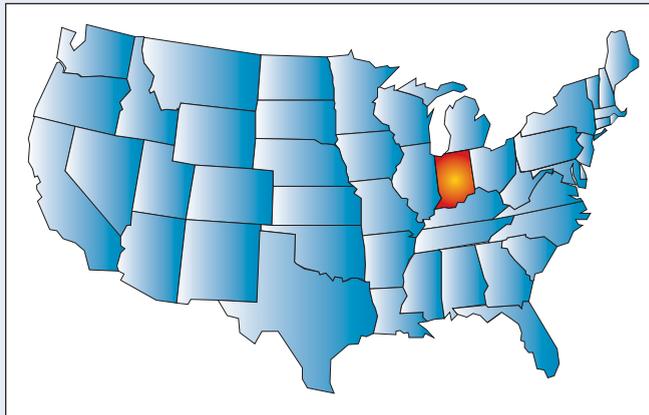
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STATE SPOTLIGHT: Indiana

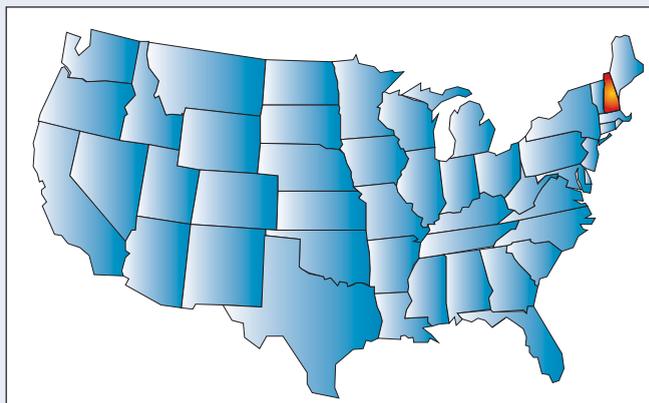


- ✓ There are over 58,000 farms in Indiana working 14.7 million acres, nearly two thirds of the total land.
- ✓ The U.S. Department of Agriculture estimates that up to one third of the production acres in Indiana are to be exported to international customers.
- ✓ Indiana has developed a global reputation for excellence in hardwood tree production and product manufacturing.
- ✓ Indiana is ranked 10th in the nation for total agricultural production and is also in the top five for crop production, especially corn and soybeans.
- ✓ Indiana's principle agricultural commodities include corn for grain, soybeans, and hogs, dairy and chicken.
- ✓ In 2014 Indiana exported over \$1.1 billion in manufactured food products, the top markets include Canada, Mexico, Japan, China and U.K.
- ✓ Indiana's food processing industry includes pet food and feed manufacturing, grain and oilseed milling, fruit and vegetable processing and specialty foods manufacturing.

2014 TOP AGRICULTURAL EXPORTS:

ANIMAL FEED	
Total Value:	\$145.3 million
PORK MEAT, FRESH & CHILLED	
Total Value:	\$138.8 million
FOOD PREPARATIONS FOR INFANTS	
Total Value:	\$90.8 million
MISCELLANEOUS FOOD PREPARATIONS	
Total Value:	\$78.9 million
CORN, OTHER THAN SEED CORN	
Total Value:	\$61.5 million
OTHER FRUCTOSE & SYRUPS	
Total Value:	\$60.3 million
PORK MEAT, FROZEN	
Total Value:	\$58.9 million
CORN SEED, EXCLUDING SWEET CORN	
Total Value:	\$56.5 million
DISTILLER'S GRAINS	
Total Value:	\$44.8 million
NUTS (EX. PEANUTS), PREPARED & PRESERVED	
Total Value:	\$37.7 million
DOG & CAT FOOD	
Total Value:	\$32.1 million
PORK SHOULDERS & HAMS, BONE-IN, FRESH	
Total Value:	\$30.5 million
FRUCTOSE SOLIDS	
Total Value:	\$26.9 million

STATE SPOTLIGHT: New Hampshire



- ✓ There are some 4,400 individual farm operations of all sizes in New Hampshire, managing more than 470,000 acres.
- ✓ New Hampshire's more than 400 maple operations produce over 112,000 gallons of maple syrup annually.
- ✓ Greenhouse, nursery and dairy products are New Hampshire's most important commodities, adding up to almost 2/3 of the state's total agricultural production in cash receipts.
- ✓ About 34 million gallons of milk are produced each year on 140 New Hampshire dairy farms.
- ✓ Apples, vegetables and sweet corn, and maple products round out New Hampshire's top crops.
- ✓ Food manufacturing in New Hampshire includes dairy products, bakery products, confectionery, beverages and seafood products.
- ✓ Top livestock categories, after dairy, are poultry, cattle and calves, and other livestock.
- ✓ In 2014 New Hampshire exported \$64.2 million of manufactured food products, with top markets including Canada, Australia, Germany, Mexico and Netherlands.
- ✓ More than 180 apple growers in New Hampshire produced 590,000 kilos (13 million pounds) in 2014.

2014 TOP AGRICULTURAL EXPORTS:

COCOA PREPARATIONS NOT IN BULK FORM	
Total Value:	\$36.9 million
ANIMAL OR VEGETABLE FATS AND OILS	
Total Value:	\$14.2 million
MAPLE SUGAR AND MAPLE SYRUP	
Total Value:	\$7.2 million
LOBSTER, PREPARED & PRESERVED	
Total Value:	\$6.6 million
SCALLOPS FROZEN, DRIED/SALTED/IN BRINE	
Total Value:	\$5.1 million
DISTILLER'S GRAINS	
Total Value:	\$2.7 million
LOBSTERS, INCLUDING IN SHELL, FROZEN	
Total Value:	\$2.5 million
SHRIMPS & PRAWNS, FROZEN	
Total Value:	\$2.4 million
DOG FISH AND OTHER SHARKS, FROZEN	
Total Value:	\$2.2 million
SUGAR CONFECTIONS	
Total Value:	\$2.2 million
CHOCOLATE & OTHER COCOA PREPS	
Total Value:	\$2 million

Calendar of Events

SEPTEMBER

8-11: Food Ingredients Asia*
Bangkok, Thailand
Bangkok International Trade and Exhibition Centre
<http://www.figlobal.com>

8-10: Seafood Expo Asia*
Wanchai, Hong Kong
Hong Kong Convention & Exhibition Centre
<http://www.seafoodexpo.com/asia/>

OCTOBER

10-14: ANUGA*
Cologne, Germany
Koelnmesse
<http://www.anuga.com>

29-31: Busan International Seafood & Fisheries Expo*
Busan, Korea
Bexco Exhibition Center
<http://www.bisfe.com>

NOVEMBER

4-6: China Fisheries & Seafood Expo*
Qingdao, China
Qingdao International Expo Center
<http://chinaseafoodnews.com>

7-9: SIAL Middle East*
Abu Dhabi, United Arab Emirates
Abu Dhabi National Exhibition Centre
<http://sialme.com>

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

FEATURED PRODUCTS:

Ramsey Popcorn – Ramsey, IN

For over 70 years, Ramsey Popcorn has supplied a full line of popcorn products including Butterfly, Mushroom, White popcorn and now is introducing new Cousin Willie's Simply Better Mauve Popcorn™. This new variety is full of antioxidants—700% higher than regular popcorn—and is non-GMO, Kosher certified, and 100% natural. It is virtually hull-less with a great crunch. You can taste the difference. This exciting new popcorn can be packed for microwave use or other appropriate applications. For more information, e-mail info@foodexport.org.



LiveSmart – Oak Park, MI

LiveSmart, has extended its family of products to include Simply Smart, a great tasting line of certified gluten-free, Non GMO project verified and vegan line of snack bars with chia and flax. These new products are positioned well to meet the consumer demand for clean labeled convenient snacks that feature wholesome natural ingredients, healthy protein and are low in sugar. Unlike many of the snack bars on shelves today, consumers can feel good about the Simply Smart ingredients which include almonds, flax and chia. With 10g of vegan protein delivering fiber, nutrients and vitamins, nobody will accuse this snack powerhouse of being a candy bar in disguise. Flavors include: Awesome Chocolate, Cranberry Pumpkin Seed, Fruit and Nut and Flax Essentials. For more information, e-mail info@foodexport.org.



Rabbit Creek Products – Louisburg, KS

Rabbit Creek Products has a new variation on their wonderful Seed Crunch snacks. The ready-to-eat snacks are now available in individual serving packages, each containing 4 grams of protein in a 23 gram serving size. All three original flavors are available in this new configuration: original, blueberry, and quinoa. For more than 30 years Rabbit Creek Products has been bringing customers delicious and easy baking mixes, now with the addition of the ready-to-eat Seed Crunch snacks that are equally delicious. For more information, e-mail info@foodexport.com.

