Food Export Association of the Midwest USA®/Food Export USA®-Northeast

FOODLINK U.S.

The Bi-Monthly newsletter for importers of U.S. Foods

February/March 2015

Vol. 11 No. 1

RETAILERS' CONCERNS:

COMPETITION, CUSTOMER LOYALTY, TECHNOLOGY

Competition is ranked near the top of the Food Marketing Institute's (FMI's) Worry Index, according to the company's new report *Food Retailing Industry Speaks 2014*. The annual FMI *Speaks* report surveys senior leaders in the food industry on issues that affect their ability to succeed in the marketplace. Respondents were asked to rate issues that impact their business on a scale of 1 to 10, with 10 having the highest impact.

While supercenters have been a bigger concern than rival supermarkets in the past, these formats swapped positions in FMI's latest poll. Independents, which may be isolated from supercenters geographically, were significantly less concerned about the impact of supercenters compared to chains. The greatest concern among independents is existing supermarkets (rated 6.9 out of 10), followed by new supermarkets opening in their territory (rated 5.9).

Competition is largely being driven by consumers, who report using approximately 2.5 different channels fairly often, according to FMI's *U.S. Grocery Shopper Trends 2014* report. This has affected supercenters more than supermarkets. While 54% of consumers listed supermarkets as their primary store, supercenters fell to 22% in 2014 from 28% in 2011.

This trend is impacting all venues, however, and the portion of consumers claiming no primary store has grown from 2% to 9%, more than tripling over the past several years. Consumers are taking advantage of the multitude of specialized options available for food purchases.

Retailers are employing various strategies to retain customer loyalty. The most common is placing emphasis on perishables, which has been a consistent top differentiation strategy. Retailers overall gave its success an 8.4 out of 10, and strongly predict they will continue making investments in fresh food. The emphasis on fresh clearly supports the popular health and wellness trend.

Technological innovation was also a commonly cited tool for attracting customers. However, 2014 was the first year for which its adoption was reported.

Emphasis on private label products is a common strategy across all grocers, but chains and regionals are embracing it more than independents. While it has been adopted by 96.2% of chain stores, only 76.2% of independents have followed suit.

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RETAILERS' CONCERNS *Continued*

While one-third of consumers look for private label products when they are trying to save money, more than 80% feel that private label products are just as high quality or better than their national brand counterparts, according to a new IRI report, *Private Label & National Brands: Dialing in on Core Shoppers*. Many consumers have some difficulty even differentiating between private label and national brands. A Mintel survey found 87% of consumers misidentified at least one private label food brand.

The focus on ethnic products rose dramatically in the latest report, with 83.3% of stores taking advantage of the popularity of these items, compared to 57.6% in 2011. Even stores that do not consider ethnic food part of their overall strategy are carrying some. Retailers are not only catering to a variety of ethnic groups but are targeting Millennials with their increasingly global palates.

Price differentiation continues to be a common tactic employed by retailers and it has a high success rate. However, only half (54.2%) of retailers utilized it a year ago, compared to 86.6% in 2011, outlined FMI's *Speaks* 2014.

ONLINE SHOPPING AND NEW PURCHASING PATTERNS

Online shopping, a constant in an increasingly digitized world, is a growing concern among traditional retailers, as is changes in the way consumers shop, according to FMI *Speaks* 2014. The survey, which measured the impact of online services for the first time, found it to be of moderate concern. Independents expressed slightly more concern about online competition from larger grocers.

The arrival of Millennials to the marketplace has created new expectations for grocers. In addition to being extremely technology-savvy, members of this generation plan their meals less, putting more emphasis on immediate or same-day consumption. Millennials, unlike the older Boomer demographic, are more likely to purchase items for a recipe rather than stock up on groceries for a week and cook what they have in their pantry. Online grocery operations can excel in this environment, with an increasing number of services offering same-day or even hourly delivery.

While online food sales are growing, it still represents a small part of the overall market. Presently, only 8% of shoppers order groceries online. However, nearly half of shoppers (46%) make use of electronic devices to plan their shopping trip as technology becomes an everyday part of food shopping.

Among the consumers who ordered groceries online in 2014, 49% claimed they do so at least monthly. While the most popular items purchased are non-perishable and shelf-stable, companies are designing business models that will allow for the delivery or pick-up of fresh food. Concerns regarding quality and freshness have been preventing consumers from fully embracing online grocery options.

The integration of technology with grocery shopping has led to payment apps, loyalty programs and the rise of another issue, customer privacy. Many in the industry are working diligently to find a balance between personalized marketing and a shopper's right to privacy. While customers are enthusiastic about the benefits of loyalty programs, they worry about sharing information with stores.

Today's consumers are continually on the prowl for quick, ready-to-eat meals and snacks. While grocery stores are meeting the demand for evolving shopping patterns, offering fresh prepared meats, salads, sandwiches, sushi and beverages, other competitors have also embarked on this trend. Convenience stores are catering to consumers with customized sandwiches, omelets, salads and other prepared foods, while drug stores are increasingly offering items such as fresh fruit, coffee and yogurt.

Food safety is an ongoing concern among the industry and consumers. Since its inclusion in the FMI Worry Index, food safety has ranked in the top third of leader concerns and registered a 6.5 rating in *Speaks 2014*. While shoppers usually take some responsibility for ensuring that their food is safe, the percentage of shoppers who rely on food retailers to take a stronger role has risen from 25% in 2009 to 42% in 2014.

Environmental concerns are on the minds of retailers but are on the low end of the FMI Worry Index, recording only 3.9 out of 10. Many retailers are already actively aiming to improve sustainability and have projects underway.

FMI's survey revealed that 94.7% of retailers offered reusable bags, while 50.9% offered incentives, monetary or otherwise, for their use. Electric vehicle charging stations are also being made available, with 28.1% of retailers having them in some capacity.

Here's a look at what specific retailers are doing to help minimize food waste:

Ralphs/Food for Less uses organic matter from unsaleable products along with wastewater to produce biogas, which is converted to electricity. In addition to the power savings, the program avoids sending organic material to landfills.

Wegman's supplies some of its stores with organic produce from a company-owned farm. These stores in turn send their waste to a biofuel processor, and the residuals go back to the farm to be used as compost.

Perceived Competitive Impact by Retail Format

(Source: Food Marketing Institute)

	Average Level of Impact on a Scale of 1-10*		
Format	All Companies	Independents (1-20 Stores)	Regionals and Chains (21+ Stores)
Current Supermarkets in Market	7.2	6.9	7.5
Supercenters	6.5	4.7	8.0
New Supermarkets Opening In area	6.4	5.9	6.8
Warehouse Clubs	5.4	4.4	6.2
Natural or Organic Food Stores	4.8	4.9	4.6
Dollar Stores	4.5	3.7	5.0
Drug Stores	4.4	3.8	4.8
Restaurants/Foodservice	4.0	3.6	4.4
Online/Internet Retailer	3.8	4.2	3.3
Convenience Stores	3.5	3.2	3.7
Limited Assortment Stores	3.4	2.6	3.9
Ethnic Food Stores	2.9	2.4	3.3

**Where 10 is the most extreme impact and 1 is no impact*

Food Service Trends:

TOP CULINARY PREDICTIONS

Local sourcing of meat, seafood and produce, environmental sustainability and healthful kids' meals top the menu trends for the current year, according to the National Restaurant Association's "What's Hot in 2015" culinary forecast. The latest findings were based on the NRA's survey of nearly 1,300 chefs, all members of the American Culinary Federation.

Particularly noteworthy shifts among the hottest trends include natural ingredients/ minimally processed foods' leap into fifth place, marking its debut in the top 20. Gluten-free items, last year's fifth place trend, slipped to twelfth place.

A number of trends were revealed among individual categories. Chefs expect vegetarian options to be especially prominent among appetizers, along with house-cured meats and ethnic inspired plates. Main dishes will feature locally sourced meat and seafood, new cuts of meat, sustainable seafood, non-traditional fish and grass-fed beef. When it comes to side items, non-wheat noodles, ancient grains, quinoa, black rice and pickled vegetables will take the spotlight. In the produce category, "locally grown" is the buzzword. Expect to see heirloom apples, unusual herbs, organic produce and exotic fruits. What beverages (non-alcoholic) will be quenching consumers' thirsts? Gourmet lemonade tops the list, followed by specialty iced teas, house-made soft drinks, organic coffee and coconut water. For dessert, house-made ice cream, bite-size desserts, as well as savory and smoked treats are expected to grow in popularity.

TOP 10 MENU TRENDS FOR 2015

1. Locally sourced meats and seafood
2. Locally grown produce
3. Environmental sustainability
4. Healthful kids' meals
5. Natural ingredients/minimally processed foods
6. New cuts of meat
7. Hyper-local sourcing
8. Sustainable food
9. Food waste reduction/management
10. Farm/estate branded items

The NRA has identified several overall trends to watch out for this year:

- **WASTE NOT, WANT NOT**
  Environmental sustainability will continue as a major trend for restaurants and will develop subtrends as the concept matures. Food waste reduction and management is at the forefront in 2015, including composting, recycling and donating. These strategies have the added bonus of social responsibility as well.
- **OUR HOUSE**
  Local sourcing remains hot in 2015, and the hyper-local subtrend will sprout as well. Restaurant gardens, house-made, farm branded and artisan items will all generate interest as part of the hyper-local movement. From ice cream to cheese, pickles, bacon, lemonade and beer, restaurants are creating their own signature menu items.
- **IN A PICKLE**
  Pickling and fermenting are making a strong comeback, but with a modern twist. Restaurants are introducing small batches of house-made pickles, ethnic flavors and specialty vinegars, and pickles made from less traditional vegetables.
- **GOING (MORE) GLOBAL**
  Ethnic cuisine will continue its inroads into mainstream menus as restaurants reflect more sophisticated American palates. Micro-trending in this category includes fusion, authentic and regional cuisines. Ethnic ingredients, including cheeses, flour and condiments, are increasingly being incorporated into non-ethnic dishes. Specific dishes, such as ramen, ethnic street food and kids' entrees are gaining momentum.
- **MINI GOURMET**
  Some of the restaurant industry's hottest trends include children, according to NRA's latest culinary forecast. Children's menus are featuring gourmet selections, and moving beyond traditional hot dogs and food in the shape of licensed characters. More and more children's menu items are adapted from adult menu items with adventurous flavor profiles. The healthy food trend is the focus of great attention. Whole grains, fresh fruits, vegetables, oven-baked items and entrée salads are finding a place on children's menus and expanding.

- **SHOOTING MENU STARS**
  While some items are heating up on the menu, others are losing steam. The rise of hybrid desserts, such as the croissant-donut, is beginning to reverse and shift downward. While gluten-free cuisine is still a growing trend, its pace is slowing down. Greek yogurt is currently undergoing a similar experience, losing momentum but still a popular trend.

In addition to identifying the up-and-coming trends of 2015, the NRA released a list of foods that have remained popular through the years.

Topping the list of perennial favorites are barbecue, Italian cuisine, fried chicken, French toast, frying, oatmeal, comfort foods, fruit desserts, pulled pork and chicken wings.

"There's a reason these foods are tenured menu favorites—they have appeal with a wide range of diners and occasions," stated Annika Stensson, the National Restaurant Association's senior manager of research communications. "Many are also quite versatile and can fit into different restaurant concepts, menu themes and dayparts."

Rounding out the top 20 perennial favorites are: milkshakes (no. 11), followed by hot tea, Eggs Benedict, Mexican cuisine, zucchini, waffles, bacon, macaroni and cheese, doughnuts and bread baskets.

EXTENDED OUTLOOK

When chefs were asked which currenvt food trend will be the hottest culinary trend 10 years from now, environmental sustainability topped the list, followed by local sourcing, nutrition, and ethnic cuisine and flavors. The gluten free trend, which lost a little steam this year, was the fifth most popular answer, as chefs continue to view it as a hot trend in 2025.

Calendar of Events

MARCH

1-3: Restaurants Canada Show*
Toronto, Canada
Direct Energy Centre
http://www.restaurantshow.ca/

3-6: International Food and Beverage Exhibition (FOODEX)*
Tokyo, Japan
Makuhari Messe (Halls 1-8)
http://www.jma.or.jp/foodex

18-20: Expo ANTAD*
Guadalajara, Mexico
Expo Guadalajara
http://www.expoantad.net/expo2015/

APRIL

21-23: Food & Hotel Vietnam*
Ho Chi Minh City, Vietnam
Saigon Exhibition and Convention Center
http://foodnhotelvietnam.com/

21-23 Seafood Expo Global*
Brussels, Belgium
BRUSSELS EXPO
http://www.seafoodexpo.com/global/

28-28: SIAL Canada*
Toronto, Canada
Direct Energy Centre
http://www.sialcanada.com/

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

Featured Products:

The Gluten Free Bar

At The GFB: The Gluten Free Bar, their mission is simple: make the world's best gluten-free protein snacks. They do that through a relentless focus on amazing taste and using only simple, wholesome ingredients. Based in Grand Rapids, MI, The Gluten Free Bar makes creative flavors such as Cranberry Toasted Almond, Cashew Coconut Crunch, and Chocolate Cherry almond. All products are certified gluten-free, certified vegan, non-GMO, soy-free, dairy-free, as well as a good source of fiber and protein. For more information, email info@foodexport.org.

Rufus Teague

Rufus Teague is a true Midwest Kansas City style BBQ sauce. Founded in 2004 in Kansas City, Rufus Teague BBQ is the result of many years of competitions in the best of the best BBQ contests in the United States. Rufus Teague manufacturers gluten-free, all natural ingredients; MSG-free BBQ sauces, steak/dippin sauces, and meat rubs. Rufus BBQ flavors are "Honey Sweet", "Touch O' Heat", "Whiskey Maple", and "Blazin' Hot". Rufus Steak/Dippin sauces flavors are "Regular and Spicy". Rufus Meat Rub flavors are "Regular Meat Rub", "Spicy Meat Rub", "Fish Rub", and "Steak Rub". Rufus Teague's unique whiskey flask packaging has proven consumer appeal in the retail segment and along with high quality, all natural ingredients creates an extremely loyal customer base. For more information, email info@foodexport.org.

Trophy Nut Company–Flavor Adventures

Trophy Nut Company has captured riveting flavors that take peanuts to a new level. Trophy's new line of "Flavor Adventures" has everyone talking about the six new flavors. Buffalo Blast, Wasabi Soy, Chipotle Tequila Lime Zing, Smokey Bacon Cheddar, Honey BBQ Bash and Tomato Basil, all show unique flavors of remarkable depth and freshness. Trophy Nut's outstanding reputation is well deserved as a top quality roaster, and they feature a complete line of all nut products in cans, jars, and bags. Currently exporting to Asia, Europe, South America, Central America, and the Middle East, Trophy Nut is prepared to assist with all your importing needs. For more information, email info@foodexport.org.

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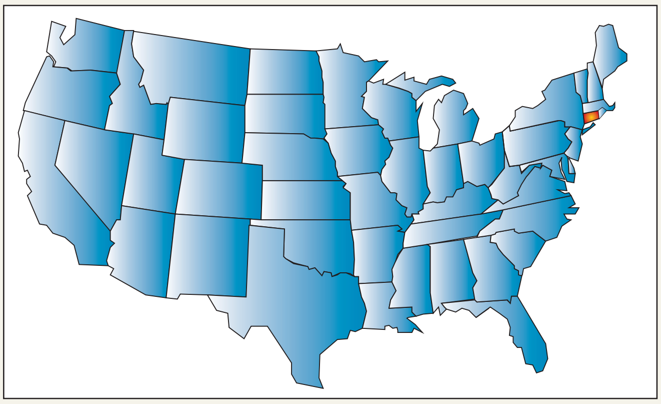
STATE SPOTLIGHT: Connecticut

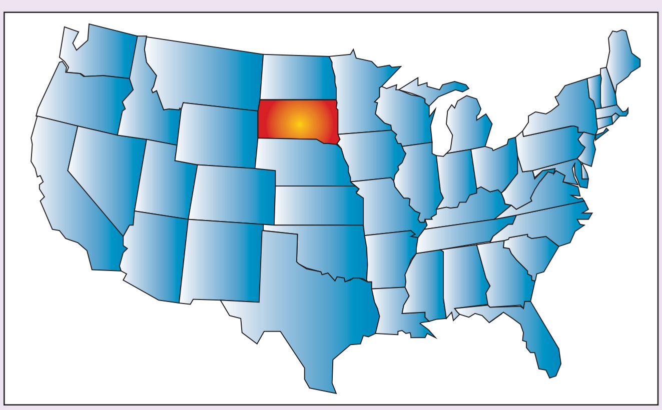


- Although small in size with only 4,872 square miles, Connecticut is a large farming state with approximately 4,900 farms.
- Nursery and Greenhouse products are the top crops in Connecticut accounting for over 40% of farm receipts.
- Other important crops include sweet corn, apples, tobacco and hay.
- The state's most important livestock group products are dairy products, followed by eggs, cattle, calves and hogs.
- Connecticut leads the Northeast in aquaculture production by virtue of its oyster industry with more than 70,000 acres of shellfish farms now under cultivation in Connecticut's coastal waters.
- Many farms have added commercial kitchens and bakeries to help diversify their product lines.
- Connecticut tomatoes, onions and peppers, or apples, pears and berries have now been transformed into sauces, salsas, dressings, jams, jellies, muffins, breads, cookies and other specialty food items.
- In 2013 Connecticut exported $159.8 million in processed food products, the top destinations including Canada, Russian Federation, Mexico, the Netherlands and Malaysia.

2013 TOP AGRICULTURAL EXPORTS:

Product	Total Value
PROTEIN CONCENTRATES, TEXTURED PROTEIN SUBSTANCES	$52.9 million
MISCELLANEOUS FOOD PREPARATIONS	$37.6 million
DOG AND CAT FOOD	$19.7 million
TOBACCO, STEMMED, STRIPPED	$16.5 million
BAKED GOODS AND SNACK FOODS	$9.4 million
REFINED SUGAR	$8.8 million
FRESH EGGS	$6 million
UNDENATURED ETHYL ALCOHOL	$3.7 million
TOMATO KETCHUP & SAUCES	$3.5 million
SAUCES, CONDIMENTS & SEASONINGS	$3.1 million

STATE SPOTLIGHT: South Dakota



- There are 46,000 producers in South Dakota on 33,000 farms, working 43.3 million acres, or over 89% 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, hay, wheat, corn, soybean and oats. This tremendous variety speaks to the productivity of the land and the skill of the producers.
- As a leading livestock state, South Dakota ranks near the top in several production areas including bison, 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™.
- The specialty crops industry is rapidly expanding, including a rapidly growing wine industry, having produced 3.3 million bottles of wine since 1997.
- In 2013 South Dakota exported nearly $535.1 million in processed foods, the top markets including Canada, Mexico, Japan, China, South Korea and Singapore.

2013 TOP AGRICULTURAL EXPORTS:

Product	Total Value
SOYBEAN OILCAKE & SOLIDS	$115 million
DISTILLER'S GRAINS	$98.2 million
PORK HAMS & SHOULDERS, BONE IN, FRESH & CHILLED	$70.9 million
TALLOW OF BOVINE, SHEEP OR GOAT	$51.6 million
BEEF, BONELESS & FRESH & CHILLED	$42.8 million
PORK MEAT, FROZEN	$34.1 million
DENATURED ETHYL ALCOHOL & OTHER SPIRITS	$20.9 million
ANIMAL PRODUCTS FOR SAUSAGE CASING, TRIPE	$20.7 million
PORK OFFAL, EDIBLE FROZEN	$19.1 million
CORN, OTHER THAN SEED CORN	$18.4 million
DOG & CAT FOOD PUT UP FOR RETAIL SALE	$13.1 million
SOYBEANS FOR OILSTOCK OR CONSUMPTION	$12.7 million

News Briefs

Meat trends identified for 2015. Traceable, natural, organic and smaller portion products are propelling growth in supermarket meat departments, revealed *Progressive Grocer's* 2015 Retail Meat Review. Sixty-eight percent of respondents (retail meat executives from around the country) reported that smaller portions/pack sizes increased as the foremost department driver, followed by value-price cuts (ground, flat steaks, etc.). Additionally, grass-fed beef, domestic wild caught seafood, and premium-brand beef are also gaining popularity among some 50% of respondents. Value-added products, such as oven- and grill-ready, marinated, kebabs, gourmet burgers, loaves and meatballs also continue to gain traction.

Innovative products heading to grocers' shelves. Novel takes on cheese, all day breakfast, turmeric, cruciferous vegetables and products enhanced with vanilla were the top five trends spotted at the Specialty Food Association's Winter Fancy Food Show. Products such as Caramel & Cheddar Mix, Strawberry Waffle Wild Milk Chocolate, Turmeric Ginger Tea and Arugula Cabbage Veggie Crunch are making their way to store shelves. Also, expect to see peanut butter in adult flavors, kombucha, chickpeas and seaweed snacks, according to a panel of food trend experts.

Customer counts at restaurants up at dinner. Sixty-four percent of consumers purchase dinner away from home at least once per week, compared with only 52% in 2011, according to Technomic's *Dinner & Late Night Consumer Trend Report*. Menu items that are viewed as higher quality, such as those listed as artisan, local or sustainable, are more likely to drive evening and late-night traffic than those seen as simply healthy. Smaller plates and snacks also attract customers, as 32% of respondents say they make a dinner out of appetizers when dining out.

Sausage in the spotlight. Sausage is the fastest growing sandwich protein, according to Datassential *MenuTrends*, which tracks menu mentions of items at more than 4,000 chains and independent restaurants across the country. The research found that sausage sandwiches are on 10% more menus than they were a year ago.

Shakeup of vending machine fare! Vending machines are showcasing new offerings to reflect consumers' current demands. Similar to the restaurant industry, the focus is on healthier fare. Offerings such as salads, yogurt, fresh fruits, nuts, energy bars and tea are replacing traditional vending machine snacks such as candy and chips. Unattended retail kiosks that offer a variety of healthy options are taking off. Currently there are 5,000 micro-markets in operation but the number will soar to 35,000 in five years, detailed the *Los Angeles Times*.

Flavor forecast for 2015. Global spice blends, liquid flavor enhancers and sour, salty flavors will be among the top trends in 2015, according to McCormick's *Flavor Forecast*. Middle Eastern dips, smoked spices, decadent cookies, slow-cooked foods and umami vegetables (mushrooms, sweet potatoes and tomatoes etc.) will also gain popularity.

Fresh food trend sparked by young consumers. Consumption of fresh foods (fruits, vegetables, meat, poultry, fish and eggs) grew by 20% from 2003 to 2013, and the youngest generations, Generation Z and Millennials, are driving the trend, according to The NPD Group's *The Future of Eating: Who's Eating What in 2018?* In the next five years, all three main meals will get fresher. Fresh food consumed at breakfast is forecast to grow the most, increasing 9% by 2018, and fresh food consumption will grow 7% at lunch and 5% at dinner. Also, fresh foods such as fruits will be a key factor in the growth of ready-to-eat better-for-you snacking during the next five years. Again, the youngest generations are fueling the growth of better-for-you snacking. In addition to consuming more fresh foods, Generation Z and Millennial consumers are also interested in eating more organic foods, according to NPD's newly released report.

MISSION STATEMENT

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