



United States of America Food & Beverage Market Study

June 2013

1. Introduction

This research was carried out by Global Strategy, Inc. (www.consultgsi.com), a U.S. business development and market research consulting firm on behalf of OSEC Business Network, from March to May 2013.

Research Objective

The main objective of the study is to provide Swiss food & beverage exporters a solid understanding of historical, current and future trends of the U.S. food & beverage market, focusing on the following topics:

Regulatory environment

- Key segments
- Forecasts and growth drivers
- Market and consumer trends
- Distribution
- Recommendations on successful market entry
- Trade events, publications and associations

Geography

United States of America

Period of analysis

2009 – 2012

Target categories

- Specialty and gourmet stores
- Organic and natural foods
- Functional foods
- Processed foods
- Dairy
- Beverages
- Private label
- Foodservice

Food Industry Overview



40,229 grocery stores
\$634.2 billion in revenues

55,683 Non-traditional food-sellers **\$450 billion**

Wholesale clubs

154,373 convenience stores
\$165.6 billion



United States Food & Beverage Market

- The U.S. Food & Beverage industry is both large and extremely complex, consisting of multi-tiered supply chains.
- It is subject to extreme competition and a heavy regulatory burden.
- The industry is fragmented, with production divided among all types of companies.

2. The United States Market

Primary Demand Drivers

- Demographics
(particularly trends in population, age, household size, and disposable income)
- Consumer trends

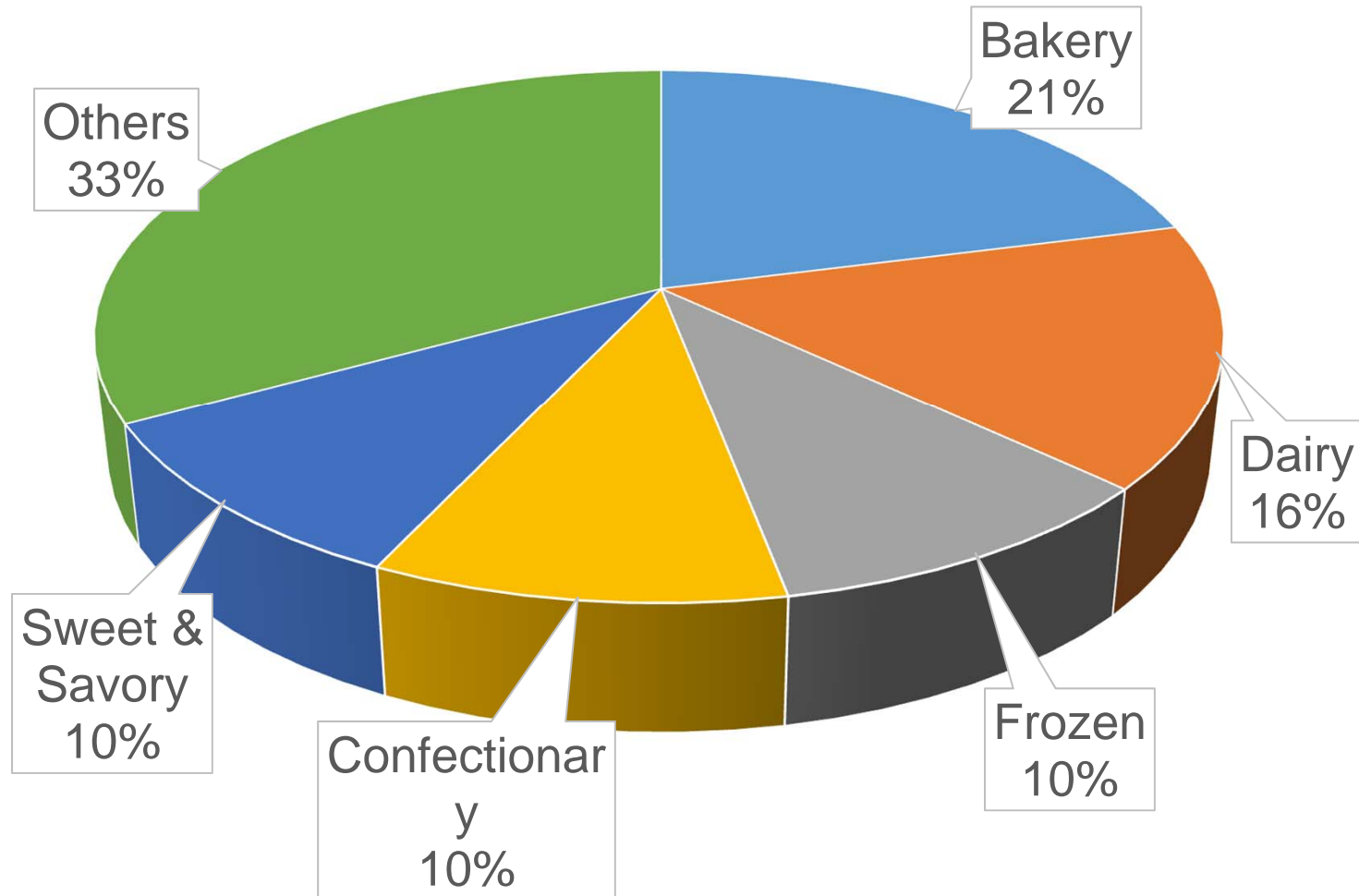
Profitability Drivers

- Good product mix
- Efficient operations
- Superior service
- Effective marketing

Product Categories

Packaged Food Sales

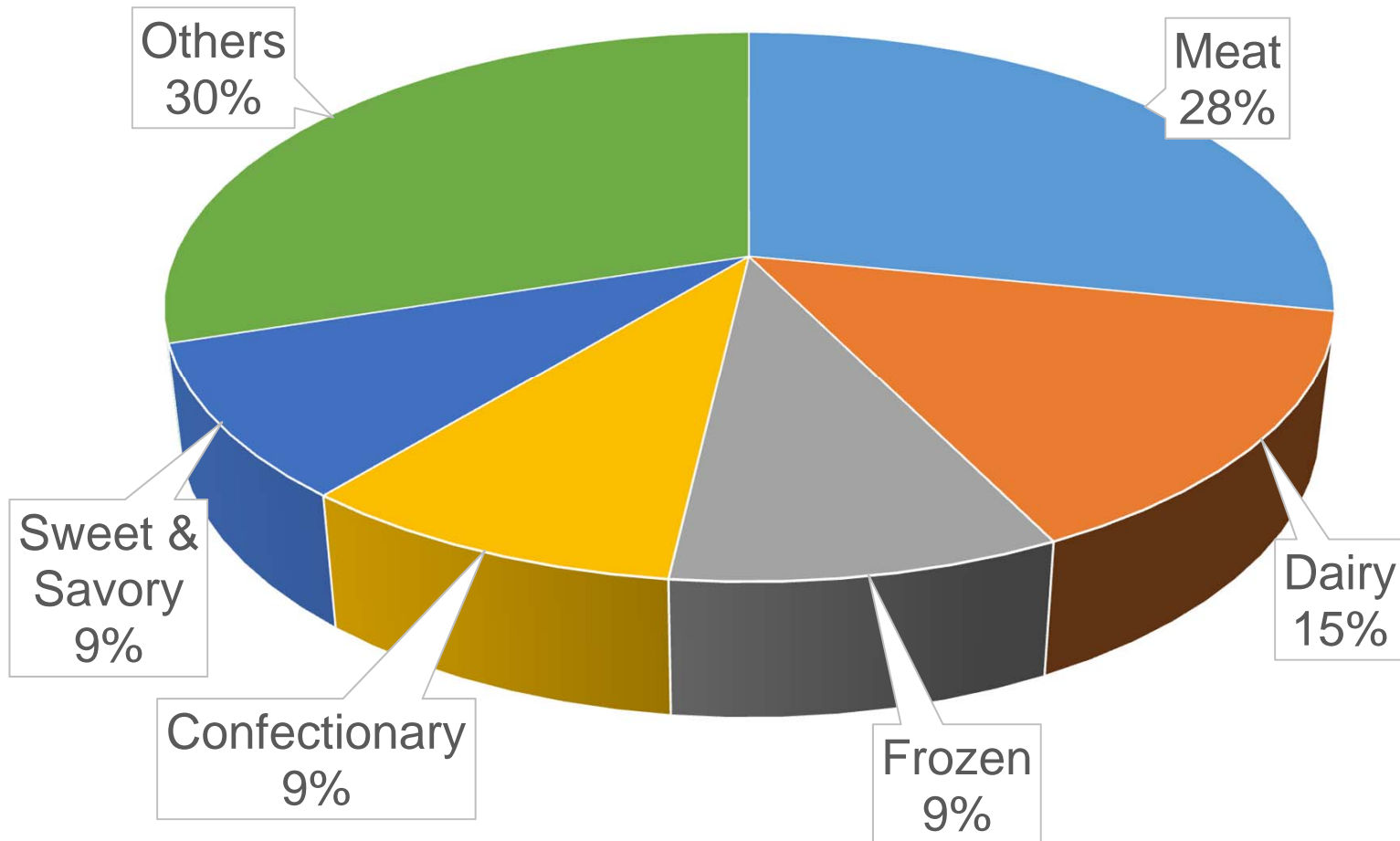
Sales: \$331.9 Billion



Product Categories

Fresh Food Sales

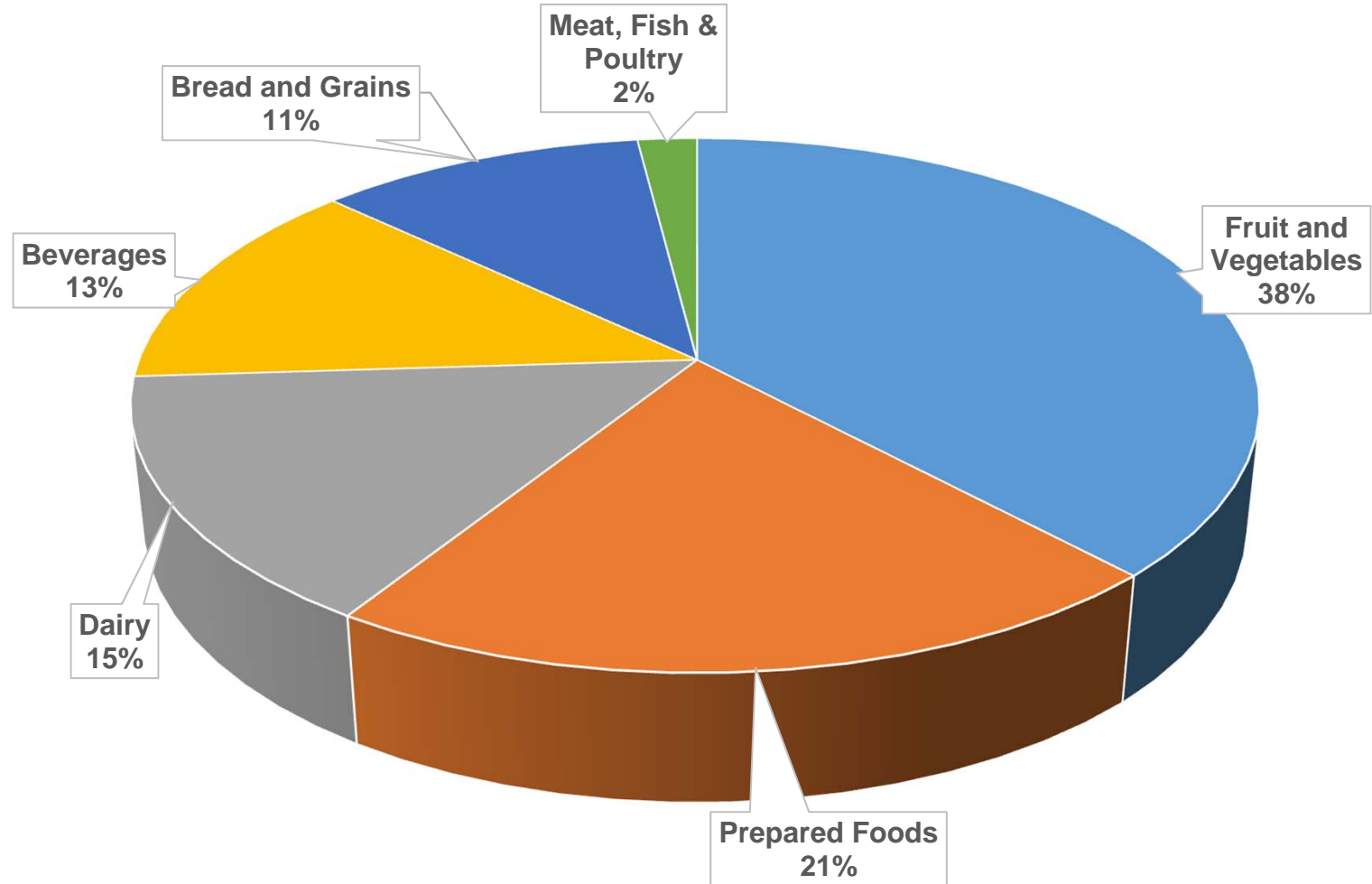
Sales: \$12 Billion



Product Categories

Organic Food Sales

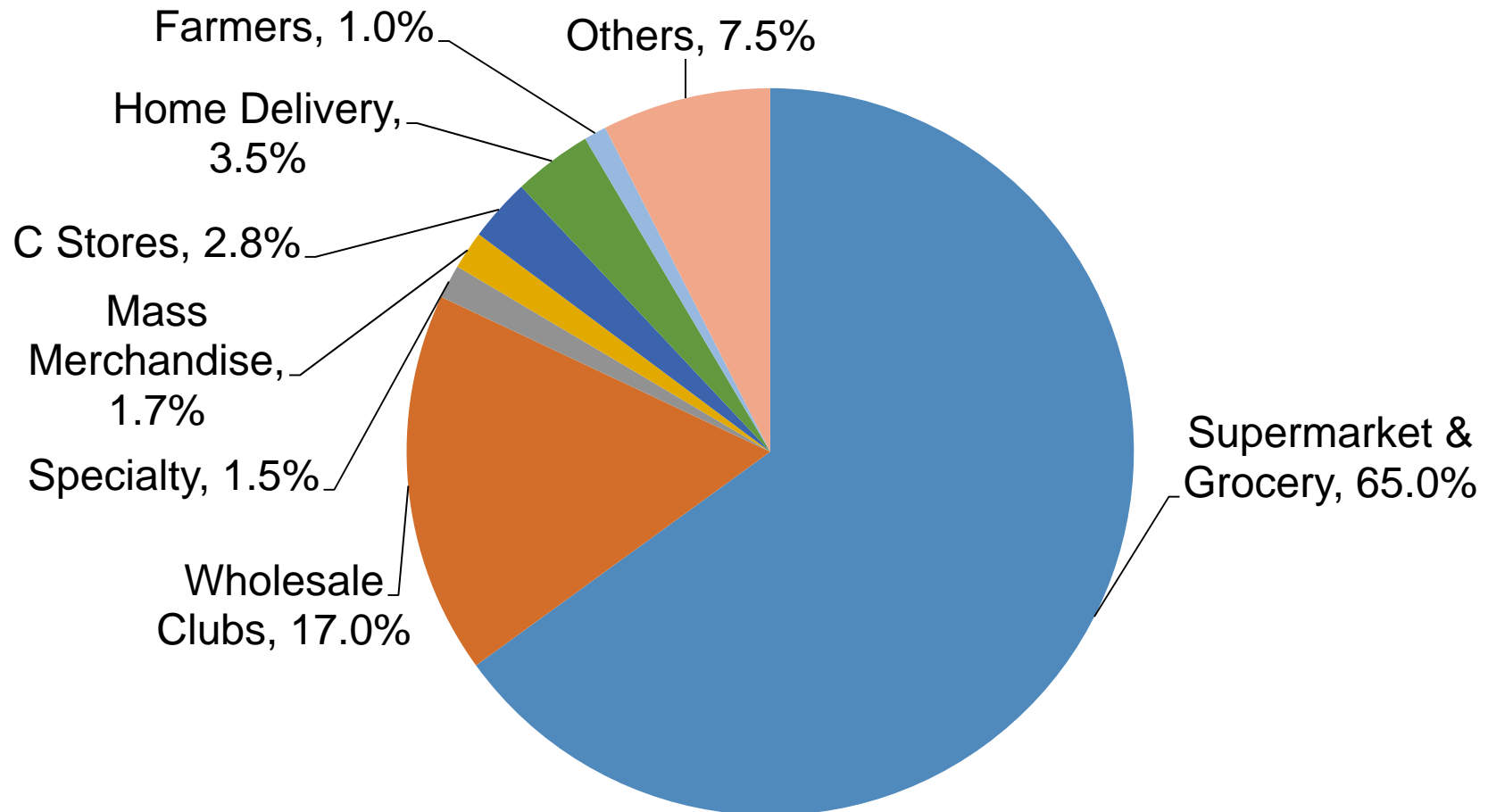
Sales: \$29.2 Billion



Distribution Channels

Grocery Retail Sales

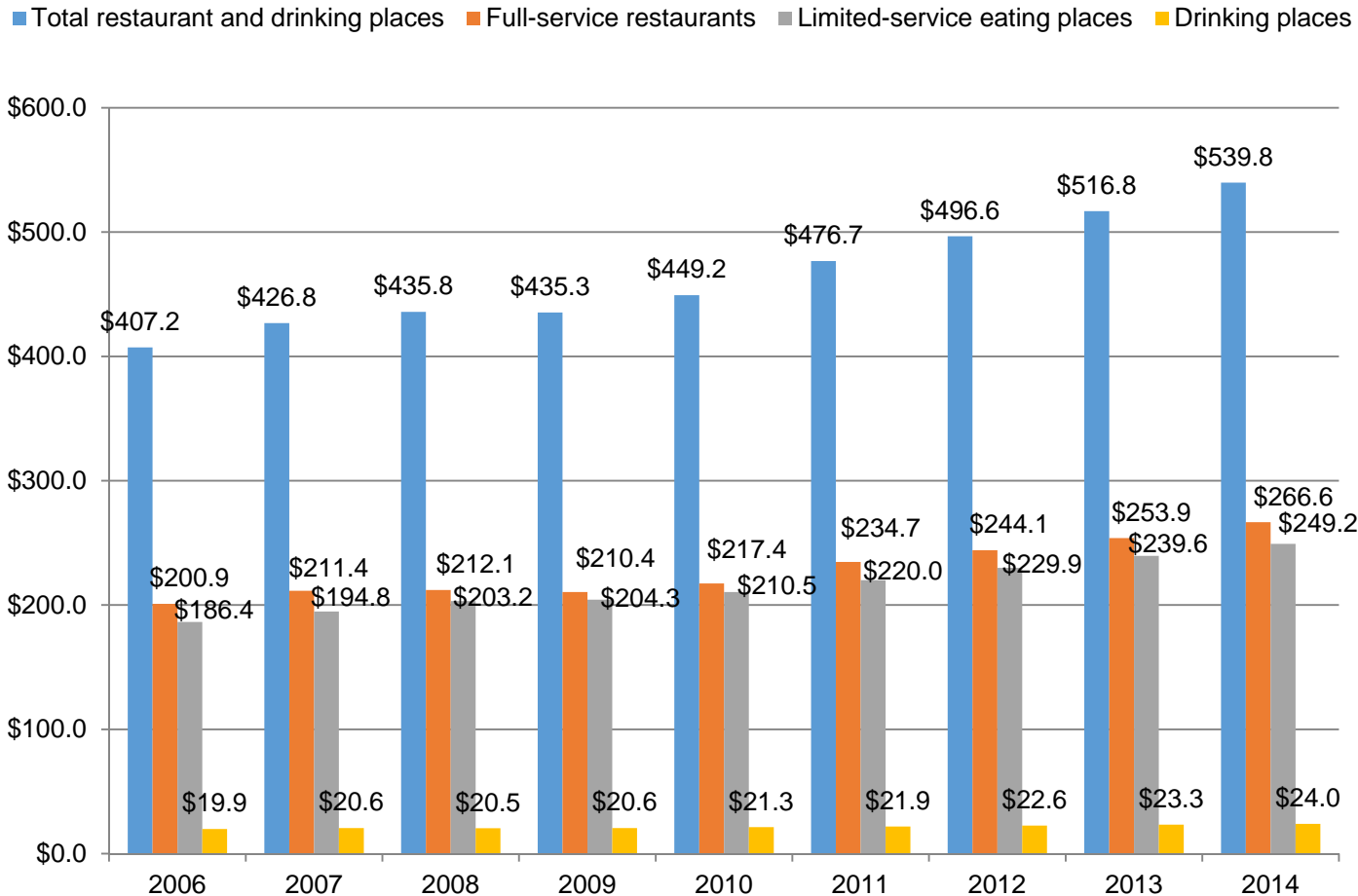
Sales: \$571 Billion



Distribution Channels

Foodservice Sales

Sales: \$497 Billion



Distribution Channels

Primary Demand Drivers

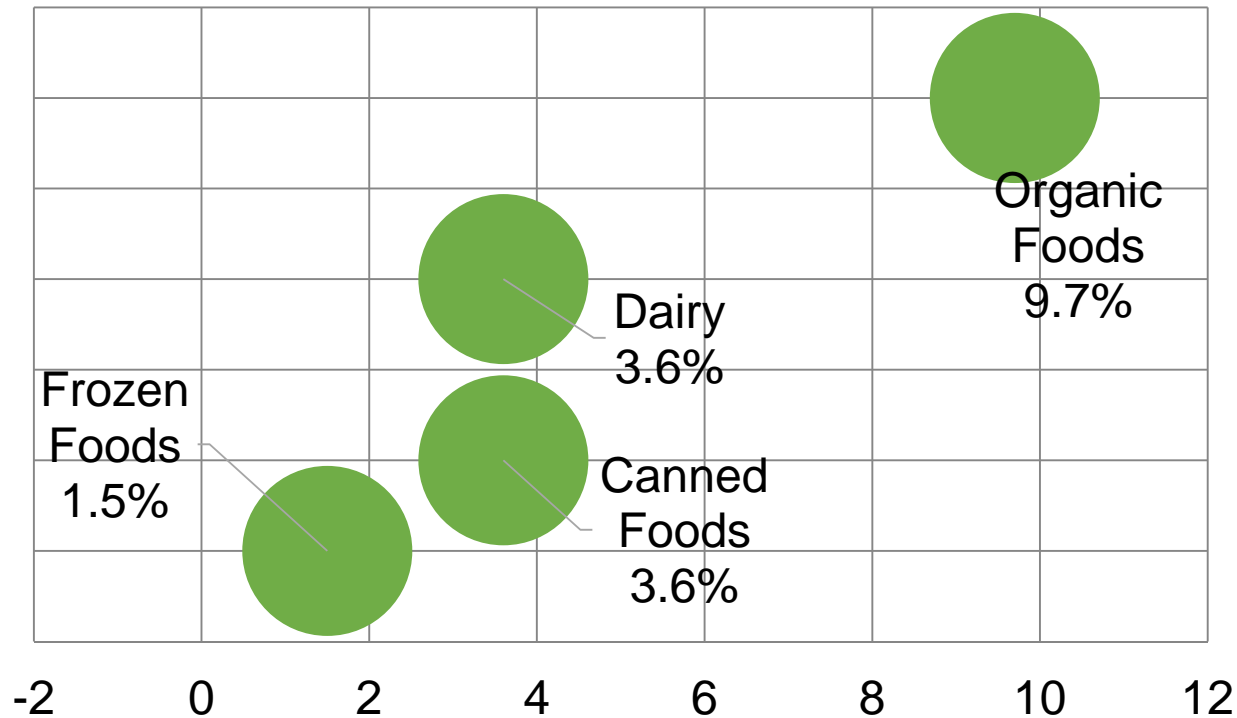
- Demographics
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- Consumer trends

Profitability Drivers

- Good product mix
- Efficient operations
- Superior service
- Effective marketing

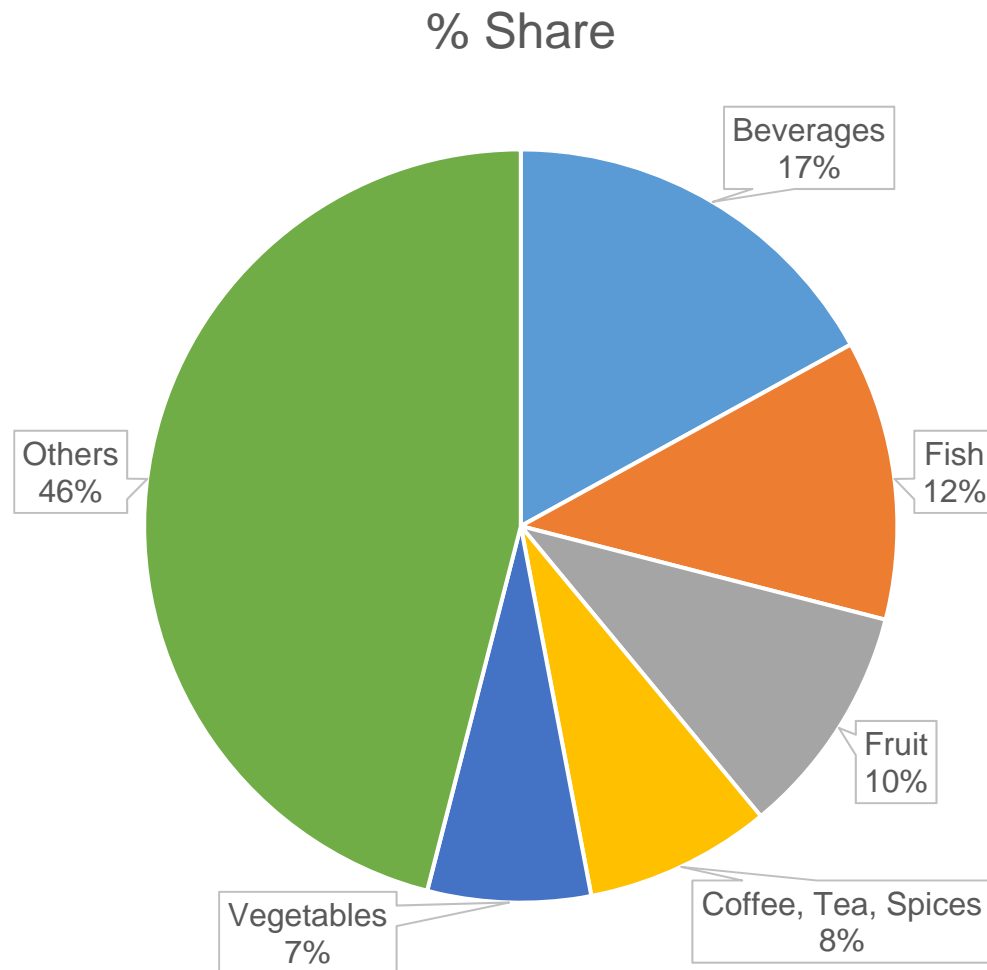
Distribution Channels

Market Potential CAGR to 2016



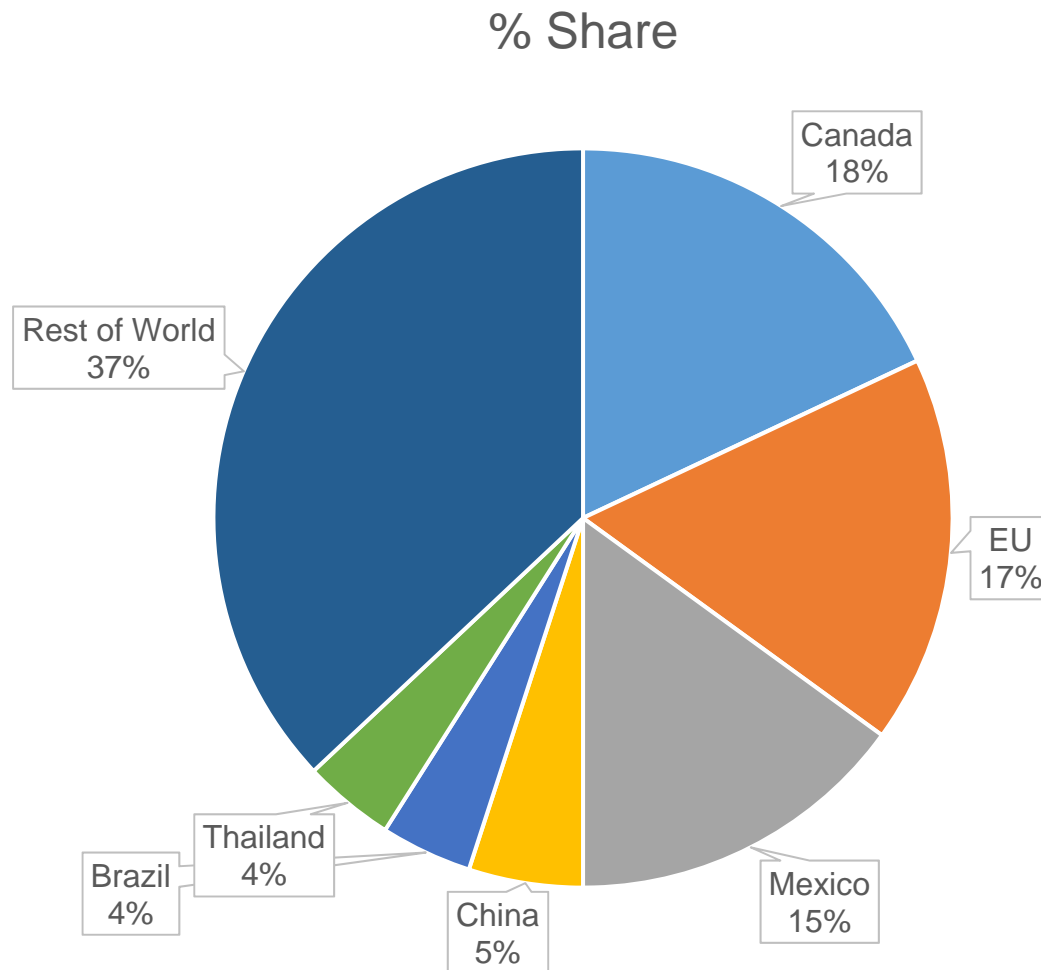
Import Trends

Top food and beverage imports to the United States include beverages, with 17 percent share, fish (12 percent), fruit (10 percent), coffee, tea and spices (8 percent) and vegetables (7 percent).



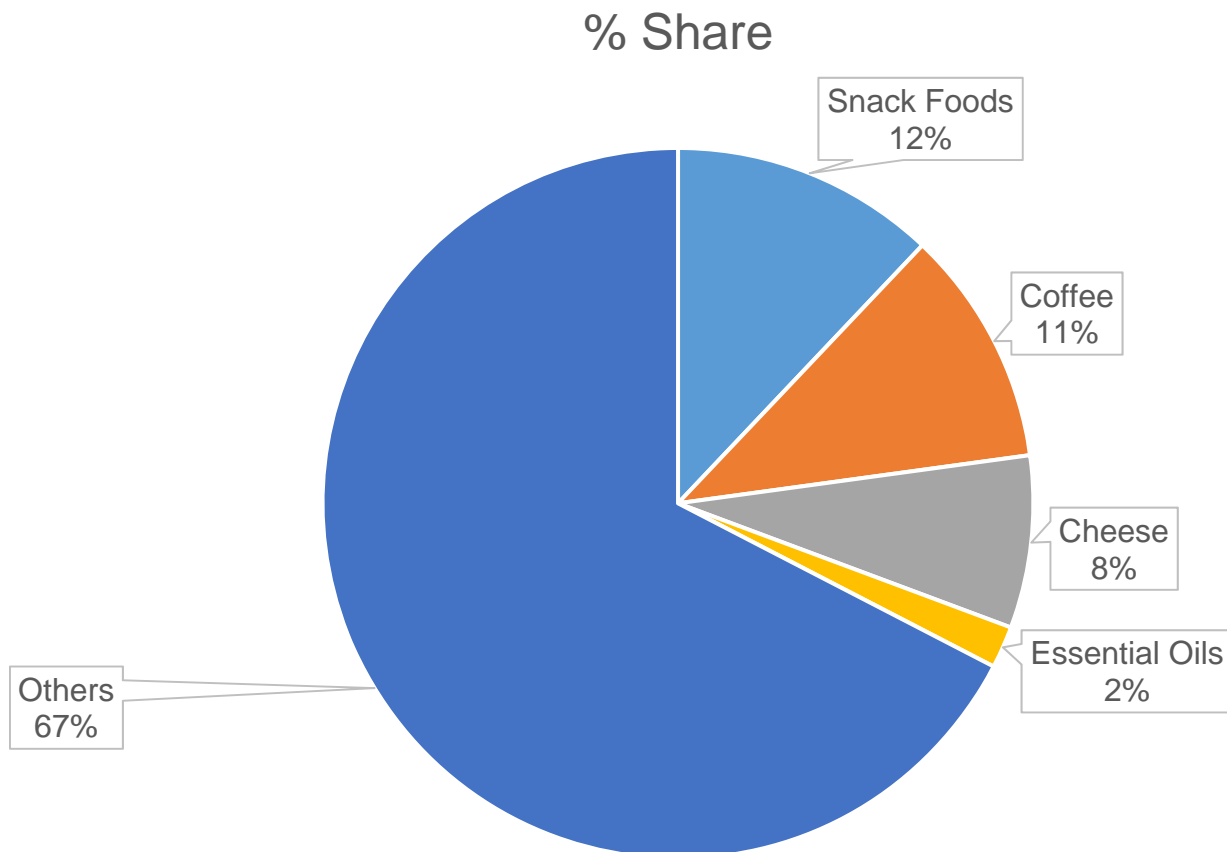
Import Trends

Canada was the United States' largest import source, with 18 percent share, followed by EU (17 percent), Mexico (15 percent), China (5 percent), Brazil (4 percent) and Thailand (4 percent).



Import Trends

U.S. imports of agricultural products from Switzerland totaled \$807 million in 2012. Leading categories include: snack foods, including chocolate (\$98 million), roasted and instant coffee, (\$86 million), cheese (\$63 million), and essential oils (\$15 million).



3. Food Industry Overview

All things considered, \$1.75 to \$1.85 trillion is a reasonable projection for total U.S. retail food and beverage industry revenues for 2013.

3. Food Industry Overview

- The entire food industry, from growing to processing to retailing, is an extremely competitive field where profit margins are typically so low that it is often challenging to maintain profitability.
- Consumers are shopping for bargains. Generic store brands are growing in market share while higher-priced name brands have suffered from slower sales.

3. Food Industry Overview

- Growing health concerns are significantly impacting all sectors of the food industry, as obesity levels continue to rise to alarming proportions in the U.S.
- American food processors are dramatically altering their strategies to serve consumers who are concerned about better nutrition and fewer sugars and fats in their foods.

3. Food Industry Overview

- In North America (as well as Asia, Europe and elsewhere), producers and retailers of foods (including restaurants) are now faced with the challenge of positioning their brands to represent consistent quality and food safety. Companies that rise to this challenge will have significant competitive advantage.

4. Regulatory Environment

- Two regulatory bodies oversee food and beverage safety in the United States. Eighty percent of the food supply is governed by the Food & Drug Administration (FDA) which safeguards against food adulteration and food labeling.
- The United States Department of Agriculture (USDA) accounts for the other twenty percent and oversees meat (beef, lamb, pork), poultry, eggs, and products made from them.

4. Regulatory Environment

- FDA food label regulations include requirements concerning mandatory declarations of most information contained on food labels, such as the statement of identity, net quantity, ingredients, Nutrition Facts, allergen risks, and food label claims.
- Nutrition Facts declarations must conform to very specific requirements related to formatting, nutrient names and amounts, and Percent Daily Value calculations.

4. Regulatory Environment

- Foreign food manufacturers and foreign beverage manufacturers that are subject to FDA Food Facility Registration requirements must also appoint a U.S. Agent for FDA purposes. The FDA U.S. Agent acts as FDA's primary point of contact for the foreign food or beverage manufacturer.

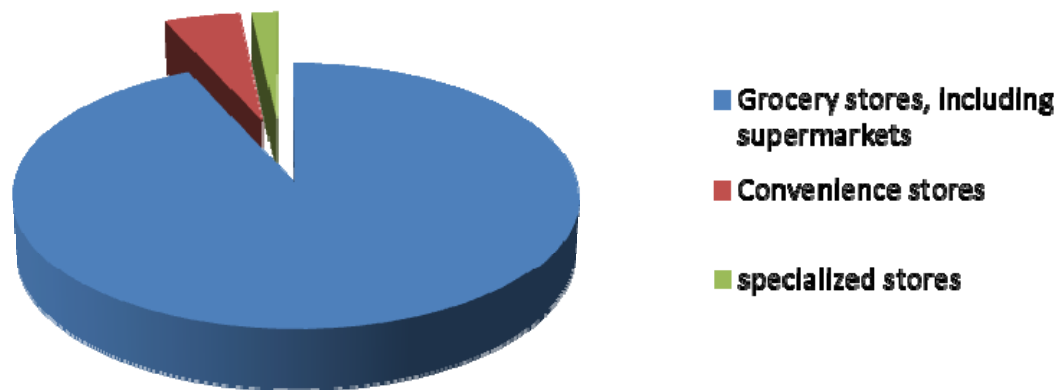
5. Food Industry

SALES AND SALES GROWTH

The 212,000 traditional food stores in the U.S. sold \$571 billion of retail food and nonfood products in 2011. Grocery stores, including supermarkets, accounted for the largest share of food store sales (91.0 percent), followed by convenience stores without gasoline (5.5 percent). Specialized food stores, including meat and seafood markets, produce markets, retail bakeries, and candy and nut stores, accounted for the remaining 3.4 percent of the total.

Traditional food store sales by segment, 2011

Retail food and nonfood sales were \$571 billion in 2011



Source: U.S. Census Bureau, Annual Retail Trade Report, 2011

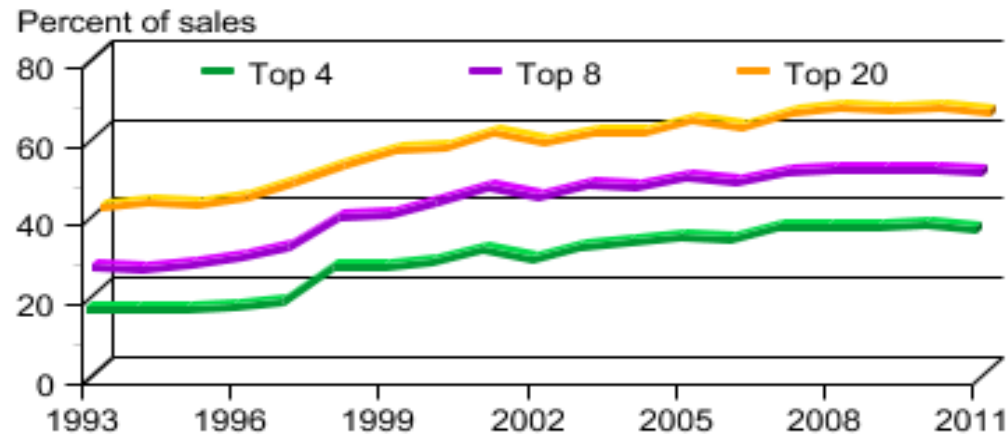
5. Food Industry

INDUSTRY STRUCTURE

Sales by the 20 largest food retailers totaled \$418.0 billion in 2011. The long term trend shows an increasing concentration of sales among the largest grocery retailers.

Top 4, 8, and 20 firms' share of U.S. grocery store sales, 1993-2011

The 2007-09 recession has dampened rising shares of sales in recent years



Note: Sales based on North American Industry Classification System (NAICS).

Source: USDA, ERS calculations using data from U.S. Census Bureau, Monthly Retail Trade Survey, 1992-2012; and company annual reports.

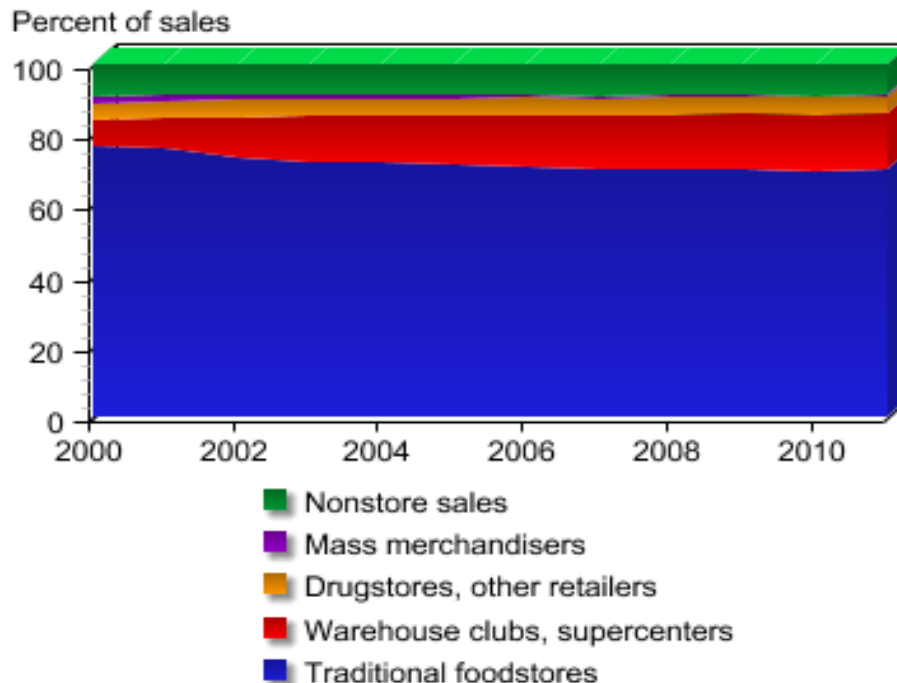
5. Food Industry

TRENDS AND DEVELOPMENTS

Nontraditional stores' share of food-at-home sales increased from 13.7 percent in 2000 to 21.5 percent in 2011 (traditional food stores and non-store food sales—such as mail order, home delivery, and direct sales by farms, processors, and wholesalers—account for the remaining shares).

Food-at-home sales by type of outlet, 2000-11

The share of food sales at nontraditional food retailers continued to increase relative to the share at traditional foodstores



5. Food Industry

THE INTERNET AND CONSUMER EMPOWERMENT: SOCIAL MEDIA

- The emergence of user-generated content (UGC) via social media channels from the Web 2.0 era has had a dramatic impact on the current commercial environment. Businesses can no longer simply publish content they wish potential customers to see; the social media landscape has instigated a power shift from the business towards the consumer.



5. Food Industry

Consumer Trends: Online Grocery Shopping

As the popularity of online shopping grows, consumers are beginning to explore new digital shopping categories, including groceries.

A variety of reasons were cited as plusses to shopping the virtual supermarket aisles, including the following:

- Saves time
- Less likely to impulse buy because you're not tempted by the items in the store
- Saves money sometimes because there are better prices
- Makes it easier to plan menus because you can add items to your virtual "cart" throughout the week
- Can help you eat healthier because you're not tempted to buy junk food



6. Specialty and Gourmet Stores

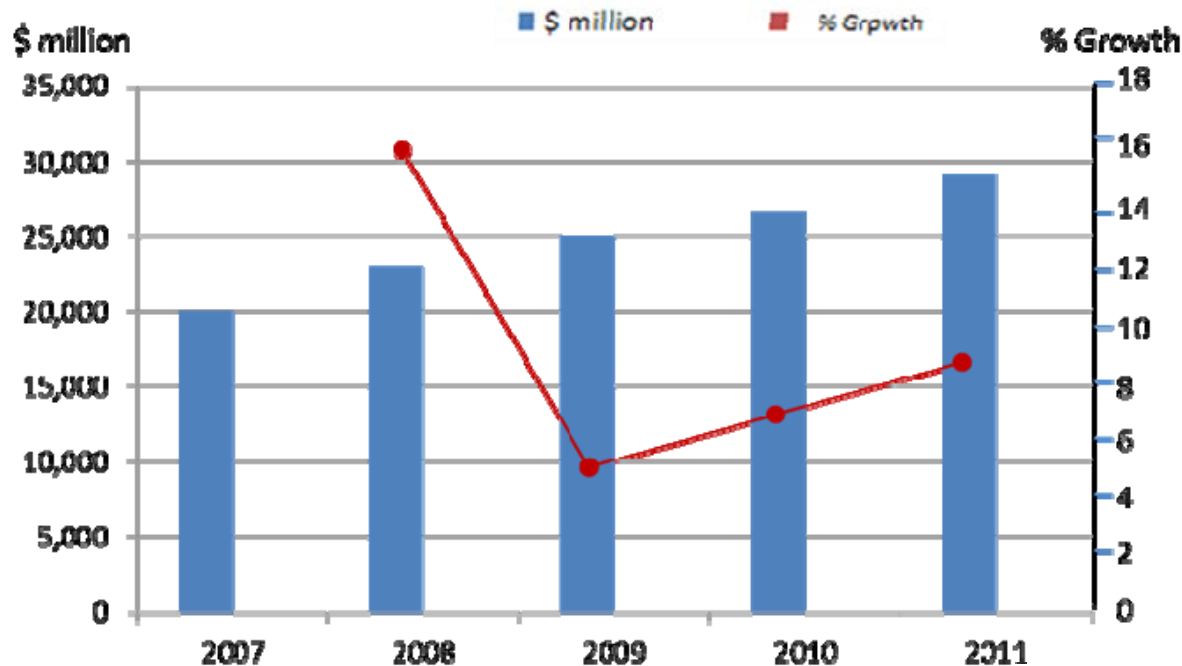
OVERVIEW

- With grocery stores and supermarkets accounting for 91% of the \$571 billion food retail market in the United States, there is little room for other food retailers to get a foot in the door. Specialty food stores cannot compete with large supermarkets on price, but they can capture a share of food retail based on quality, expertise and uniqueness.
- Because of the specialized nature of goods sold in this industry, the majority of sales come with a high level of added value. Industry margins are traditionally high per unit sold, relative to the thin earnings of their supermarket counterparts. In 2013, this sector is projected to have revenue of about \$8.1 Billion.

7. Organic and Natural Food

- The US organic food market has experienced strong growth in recent years. Over the forecast period ending 2016, the market is predicted to continue to experience strong growth.
- The US organic food market had total revenues of \$29.2 billion in 2011, representing a compound annual growth rate (CAGR) of 9.4% between 2007 and 2011.

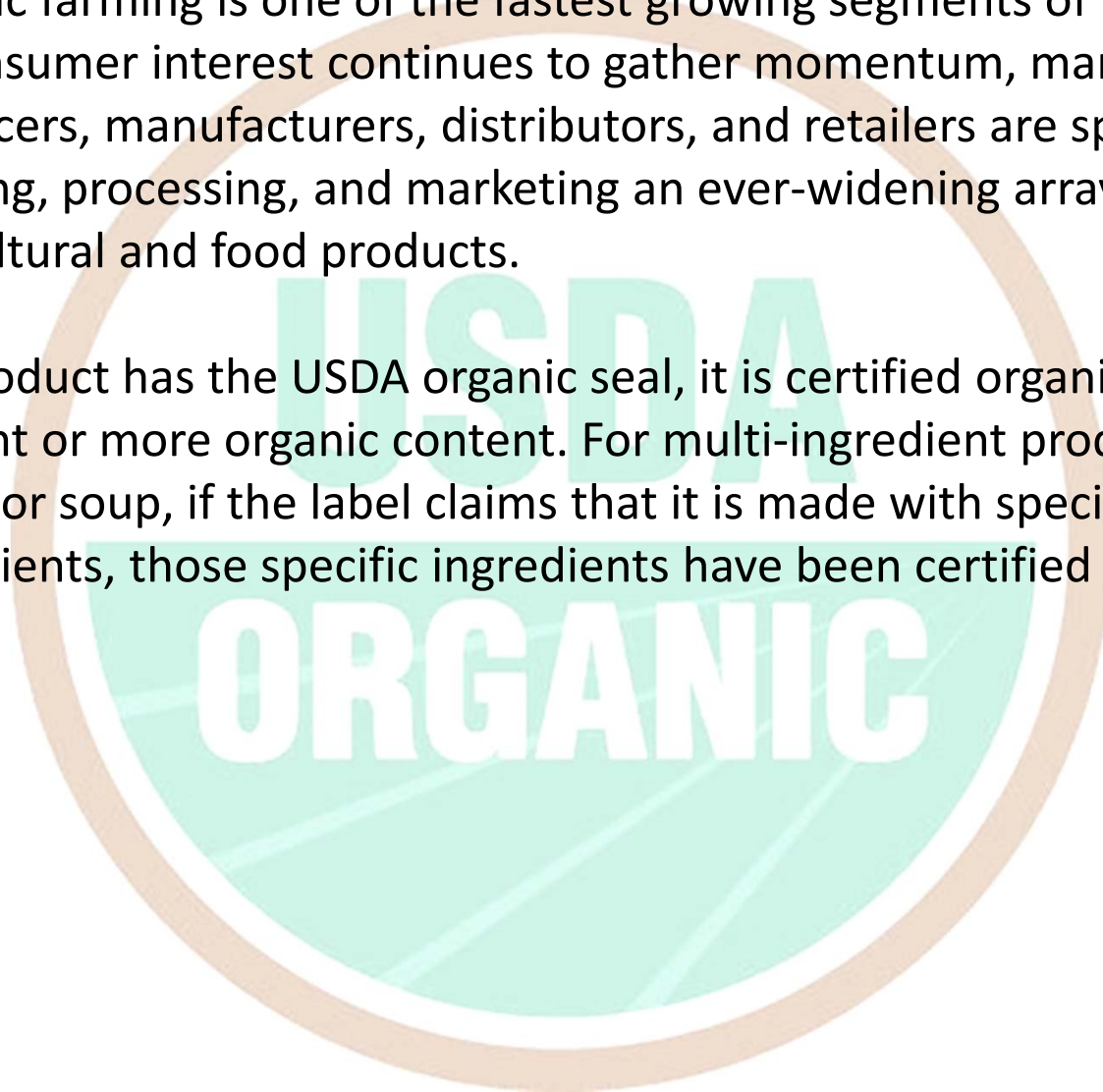
United States organic food market value: \$ million 2007 - 2011



7. Organic and Natural Food

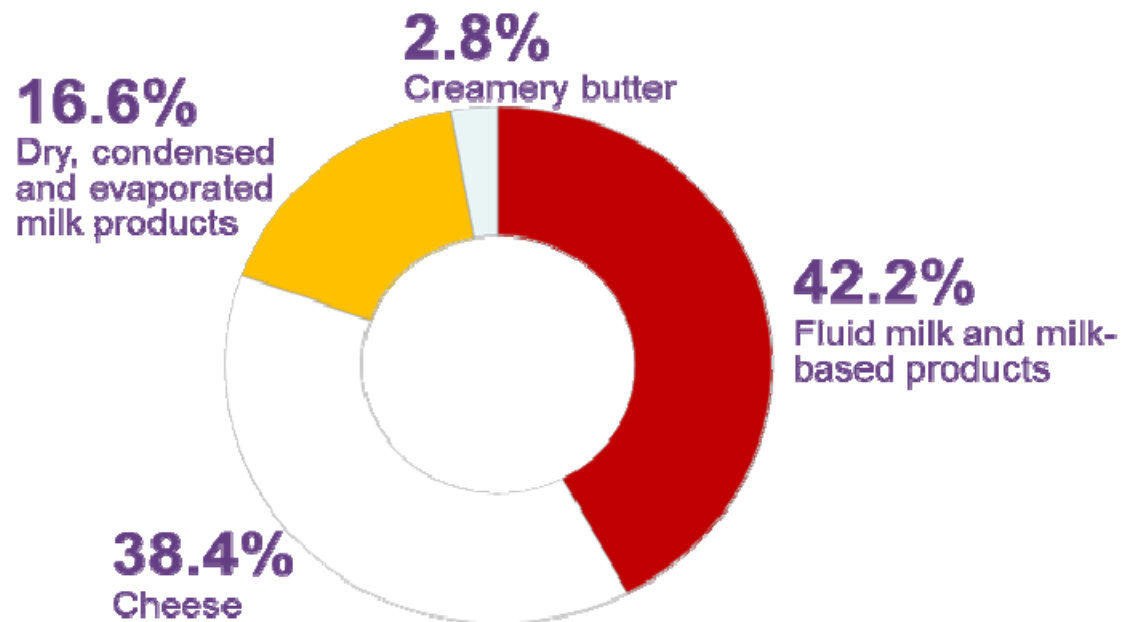
REGULATIONS AND LABELING

- Organic farming is one of the fastest growing segments of U.S. agriculture. As consumer interest continues to gather momentum, many U.S. producers, manufacturers, distributors, and retailers are specializing in growing, processing, and marketing an ever-widening array of organic agricultural and food products.
- If a product has the USDA organic seal, it is certified organic and has 95 percent or more organic content. For multi-ingredient products such as bread or soup, if the label claims that it is made with specified organic ingredients, those specific ingredients have been certified organic.



8. Dairy

- Rapidly rising demand from growing foreign economies drove up milk and dairy product exports during the past five years, benefiting the US Dairy product industry's revenue. In 2012, higher consumer spending was expected to boost revenue 1.0% to an estimated \$89.3 billion.
- Cheese dominates the market, with 40 percent share, followed by milk (34 percent), yogurt, cream cheese and cottage cheese (12 percent), spreadable fats (8 percent), cream (5 percent) and chilled desserts (1 percent).



8. Dairy

PRODUCTS AND MARKETS

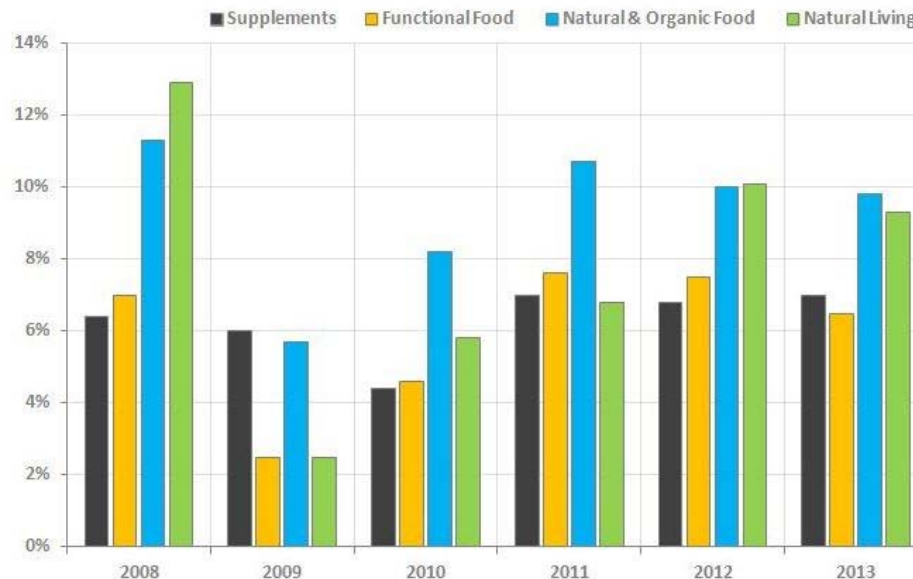
- Cheese is expected to make up the second-largest product segment at 38.4% of revenue in 2012. The segment includes cheddar, Swiss, mozzarella, Monterey jack, blue and cream cheeses.
- US cheese consumption is on the rise. Increased consumption of fast foods and ethnic foods, which often use large portions of cheese, greater varieties, increasing food sophistication and more convenient packaging are driving cheese sales.
- In America, mozzarella cheese consumption reached 11.3 pounds per capita and cheddar reached 10.4 pounds per capita in 2010. The two cheeses are the most popular single-cheese varieties, with cheddar cheese accounting for more than 75.0% of all American-type cheese production.



9. Functional Food

INDUSTRY OVERVIEW

- The U.S. functional foods market was valued at \$7.1 billion in 2009 and is projected to grow to \$8.6 billion in 2015, a 21% increase driven by the increasing popularity of energy drinks and growing demand for fortified dairy products such as probiotic yogurts.
- After beverages, cereal products were the next largest category, with whole grain and oat content leading the way with heart health claims. Following that were soy products. Together, these 3 categories represent 85% of the U.S. functional food category.



9. Functional Food

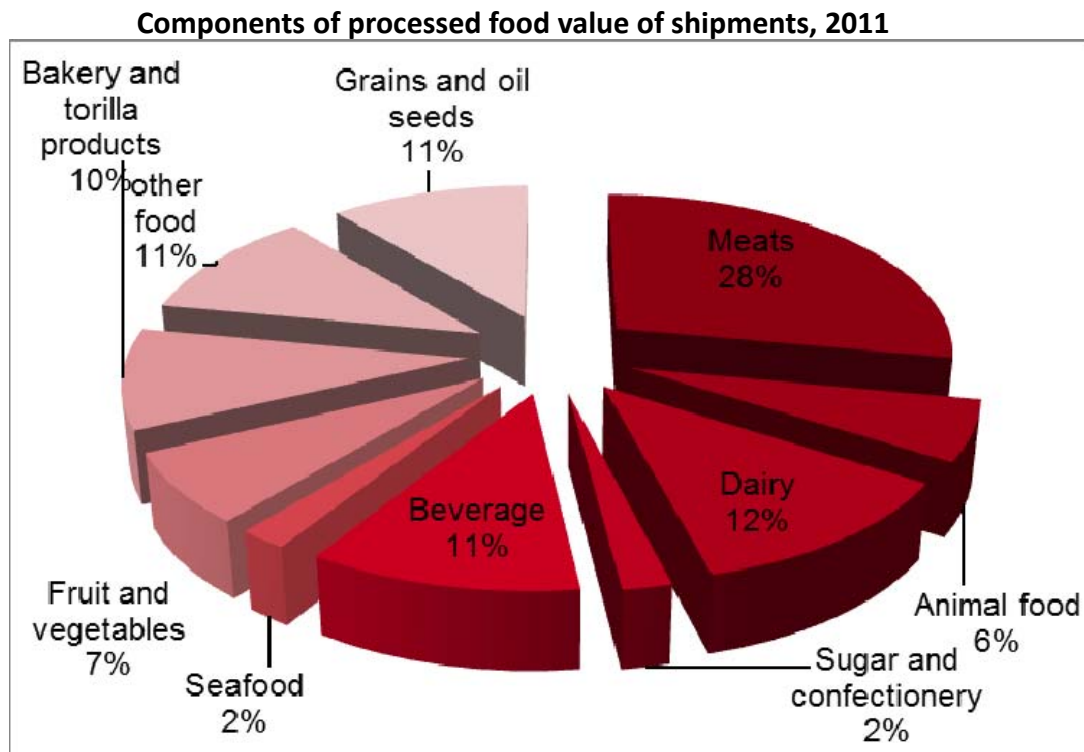
Soft Drinks, Dairy and Energy Foods

- Functional foods are categorized both by food and by health benefit. Soft drinks and dairy products constitute 60 percent of the market among foods. The soft drink category includes enhanced water, which has grown in popularity as consumers seek alternatives to carbonated beverages.
- Dairy is gaining in popularity, driven in large part by innovations in yogurts.
- Foods claiming to boost energy levels constitute 29 percent of the market categorized by benefit.
- Products for enhanced cognitive health, such as omega-3 fatty acids, are expected to be an \$8 billion market by 2013. Other areas of growth are expected to be products for weight management, mood enhancement, and those that promote healthy, beautiful skin.

10. Processed Food

Industry Characteristics

Food and beverage manufacturing plants transform raw agricultural materials into products for intermediate or final consumption by applying labor, machinery, energy, and scientific knowledge. Some products may serve as inputs for further processing (such as syrup for manufacturing soda). In 2011, these plants accounted for 14.7 percent of the value of shipments from all U.S. manufacturing plants.

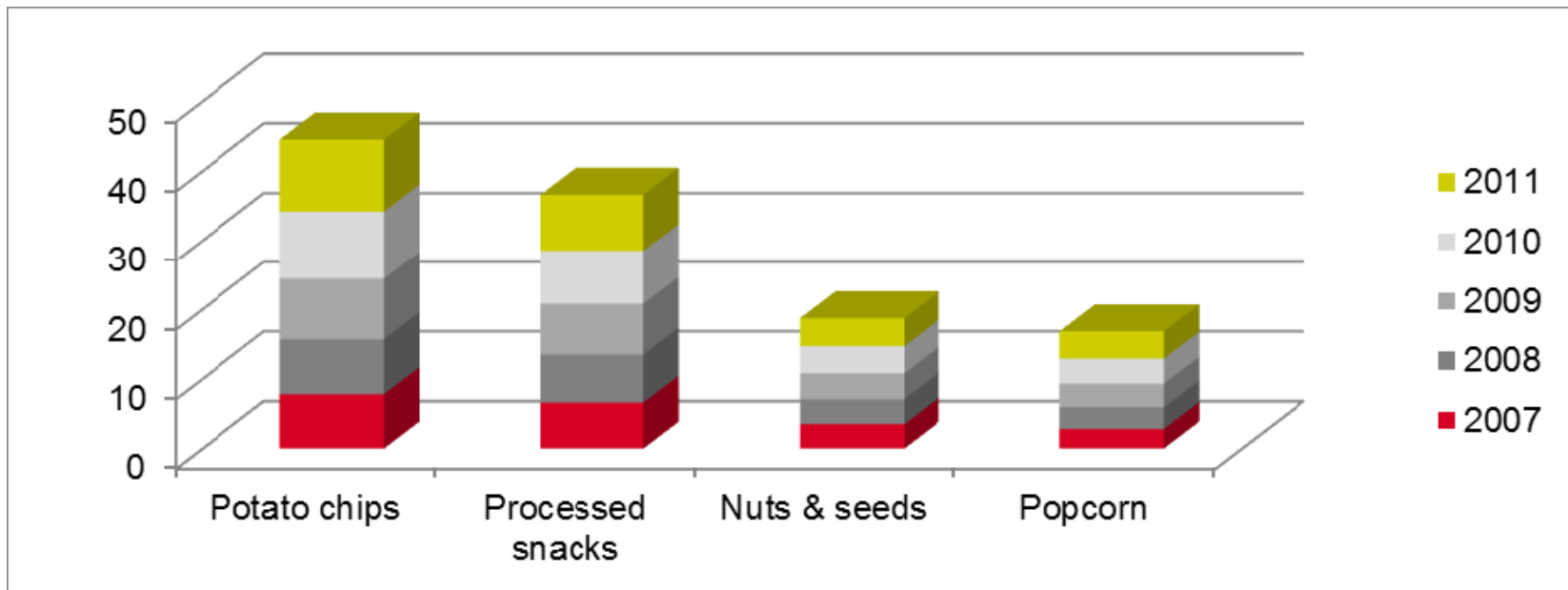


11. Savory Snacks

MARKET SIZE AND VALUE

The US savory snacks market has been growing at a strong rate in recent years. Gradual deceleration is expected towards the end of the forecast period, with annual rate dropping below 4%.

The US savory snacks market had total revenues of \$26.4 billion in 2011, representing a compound annual growth rate (CAGR) of 6.3% between 2007 and 2011.

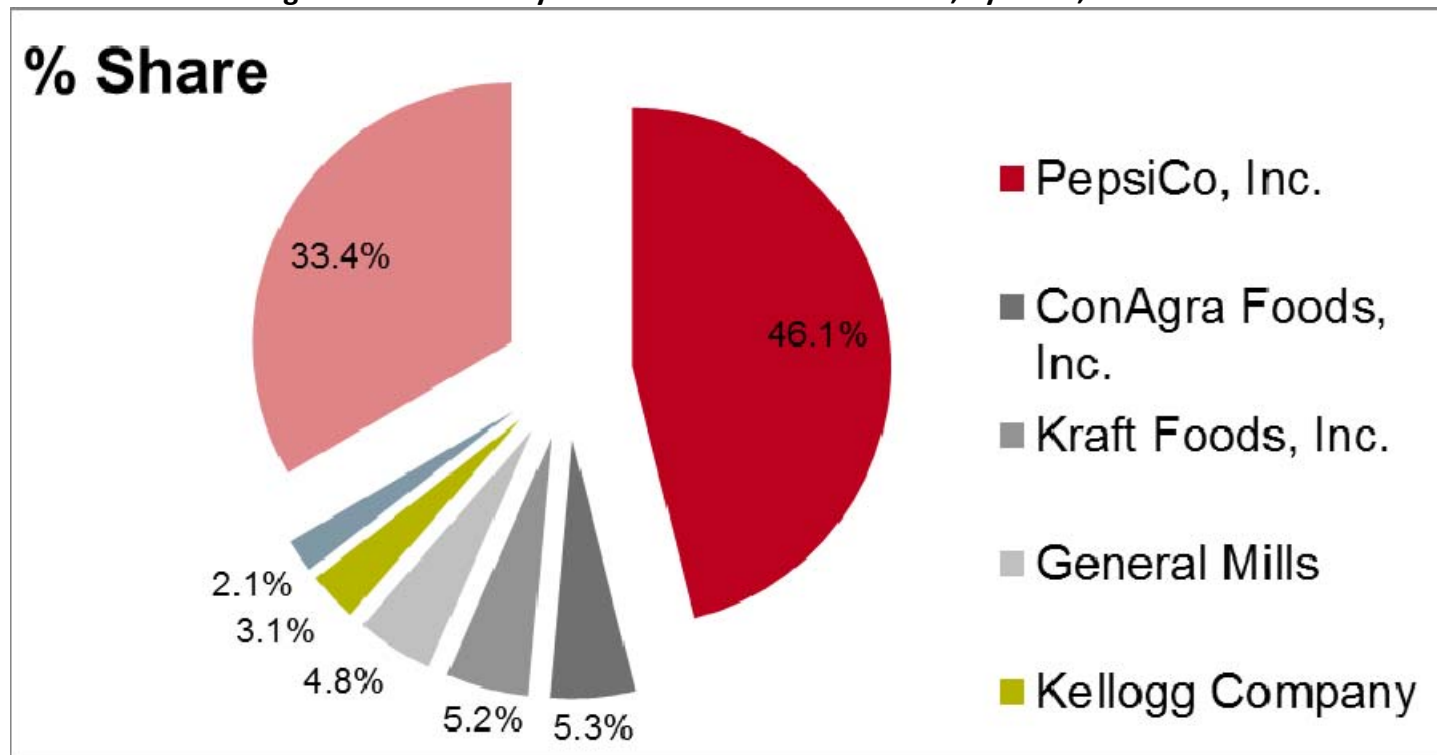


11. Savory Snacks

MARKET SHARE

The Snack Food Production industry is moderately concentrated, with the top four players estimated to account for 61.4% of the market in 2012. This percentage represents an increase from 58.8% in 2007, mainly because larger players have engaged in acquisitions to expand their product mix and market reach.

Figure 24: U.S. Savory Snack Market Shares: % share, by value, 2012



12. Beverages

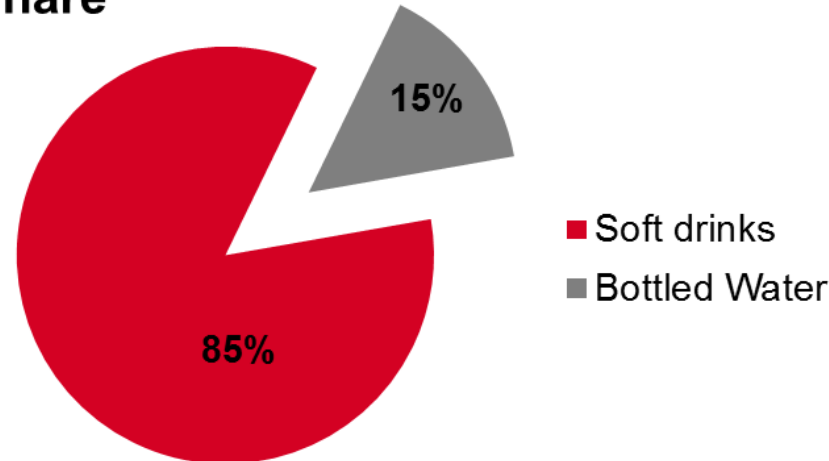
- Companies in this industry produce soft drinks, bottled water, and other nonalcoholic beverages. Major companies include Britvic (UK), Coca-Cola (US), Cott (Canada), Dr Pepper Snapple Group (US), Nestlé (Switzerland), PepsiCo (US), and Red Bull (Austria).
- The US nonalcoholic beverage manufacturing industry includes about 1,500 companies with combined annual revenue of about \$55 billion. Low growth is forecast for the next two years. Sodas account for about 60 percent of the market.
- The market for U.S. milk and dairy products, both domestically and internationally has been growing dramatically in recent decades. As a result, U.S. farm milk production has grown to about 190 billion pounds per year.

12. Beverages

Soda and Bottle Water Production

- The US beverage manufacturing and bottling industry includes about 3,000 companies. Major beverage companies include Coca-Cola, PepsiCo and the Dr Pepper Snapple Group. The industry includes manufacturers and distributors of soft drinks and bottled water.
- Soft drink manufacturing is a \$47 billion industry in the United States based on revenue. It was forecast to generate a profit of \$2 billion in 2012. The industry's annual growth was 1.8% from 2005 to 2010, and it is expected to maintain this growth rate between 2010 and 2015.

Market Share

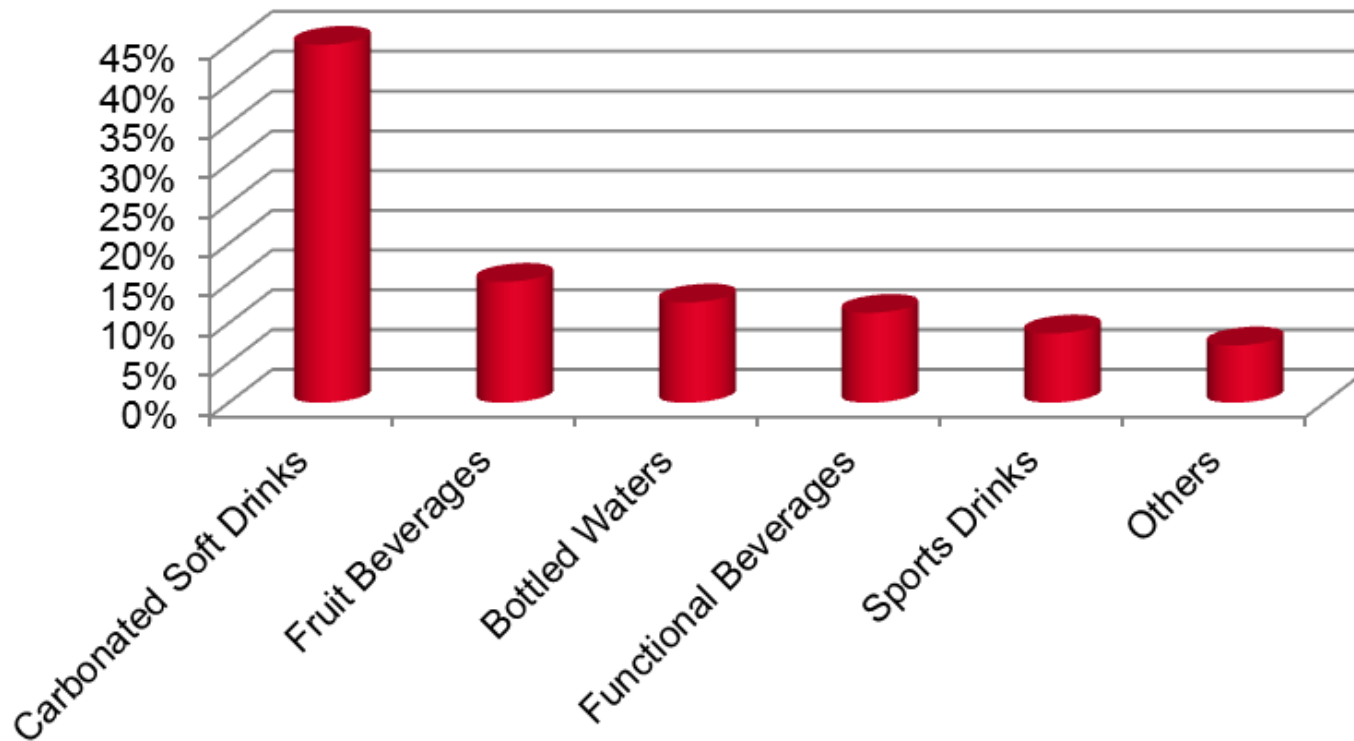


12. Beverages

PRODUCT SEGMENTS AND MAJOR MARKET BRANDS

Products broadly referred to as soft drinks but can be further divided into six main segments based on industry revenue:

Market Share



13. Private Label

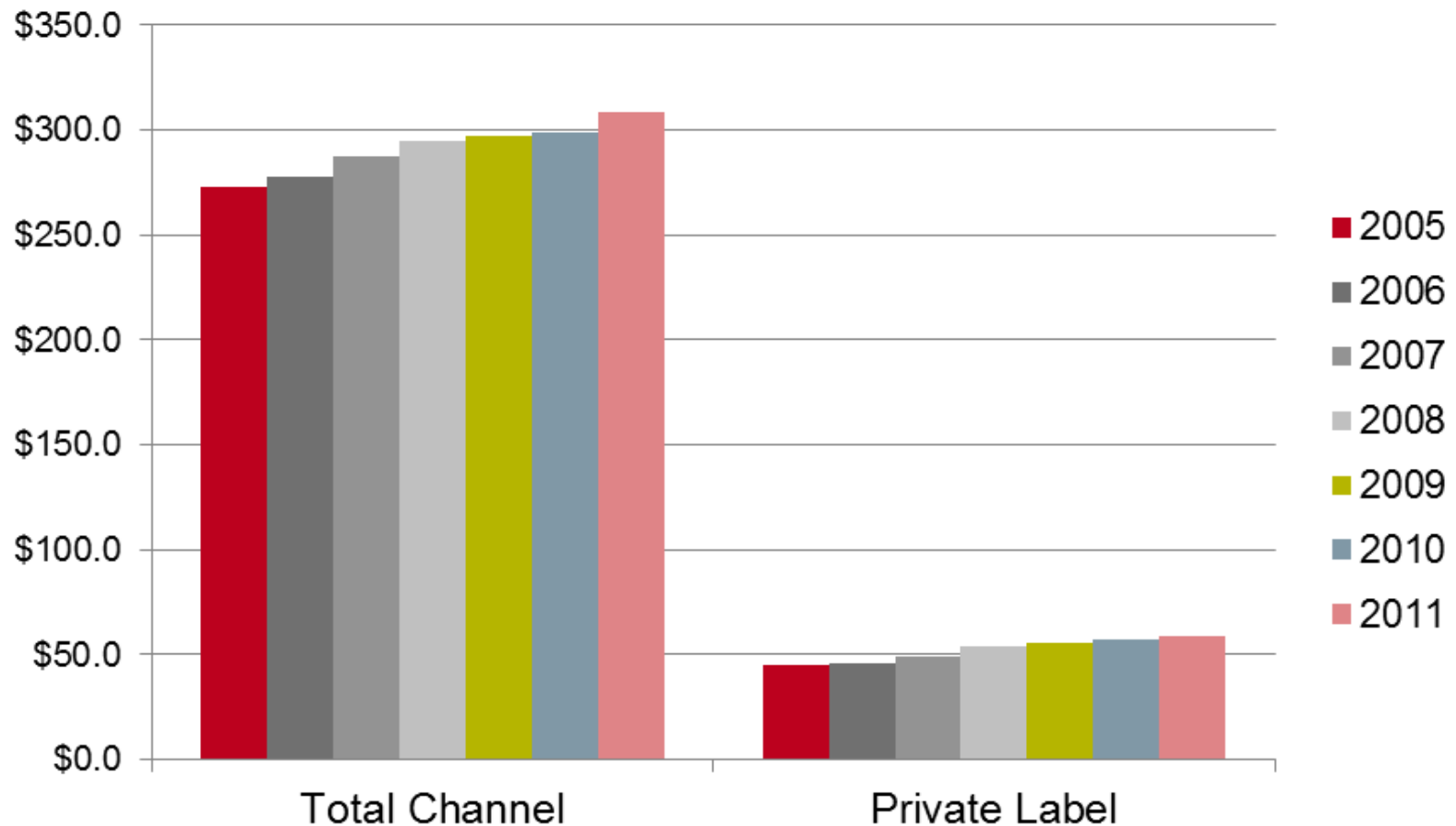
U.S. retailer food brands, i.e. private label brands, are on track to achieve market penetration of between 25% and 30% in the next decade, up from their current market share of under 20%.

Retailer Brands Are Powerful Competitors

- Retailer brands have grown 6% over the past five years, compared with the sales of national branded packaged food manufacturers which have grown just 2%.
- The increasing competitive strength of retailer brands reflects a power shift from consumer packaged goods companies (CPGs) to food retailers, as well as the growing trust and loyalty consumers have to today's innovative and high quality retailer brands.
- On grocery shelves around the U.S., from convenience stores to upscale supermarkets, retail brands now compete successfully and often win against national brands, earning consumer trust in terms of pricing, quality, image and value.

13. Private Label

Dollar Trend Sales for Supermarkets (\$ Billion)



13. Private Label

BEVERAGES

Currently, some of the strongest private label beverage categories are bottled water, powdered beverage concentrates and 100 percent juice. Bottled water and 100 percent juice are commodity-based categories, so the price of the product becomes more important. Powdered beverage concentrates is a category that's sold on value.

According to SymphonyIRI Group, Chicago, in the 52 weeks ending July 10, 2011 in supermarkets, drug stores, mass merchandisers, club stores, gas and convenience stores, excluding Walmart, U.S. dollar sales for national branded bottled water products totaled \$4.9 billion, while private label bottled water dollar sales totaled nearly \$1.3 billion. Using the same qualifications, national branded bottled juices totaled \$3.8 billion, while private label totaled \$666.6 million.

In the soft drinks category, national brands have worked to build brand equity, keeping many consumers from even considering private label soft drinks.

With regard to carbonated soft drinks, most analysts believe that Coke and Pepsi have done a very good job over the years of establishing their brands and what people expect from it, and private label's not as strong in carbonates.

But that doesn't mean private label beverages can't adapt. Although many retailers are competing with national brands, some are offering unique and innovative varieties. Save-A-Lot, Earth City, Mo., recently introduced a soft drink called Mountain Holler Red Howl, which is a citrus-flavored beverage with a taste of cherry.

Some of the strong private label brands are the upper-tier store brands where retailers are offering a quality product for a good price, Haffner says. He notes that private label products are getting more competitive in the ready-to-drink tea segment.

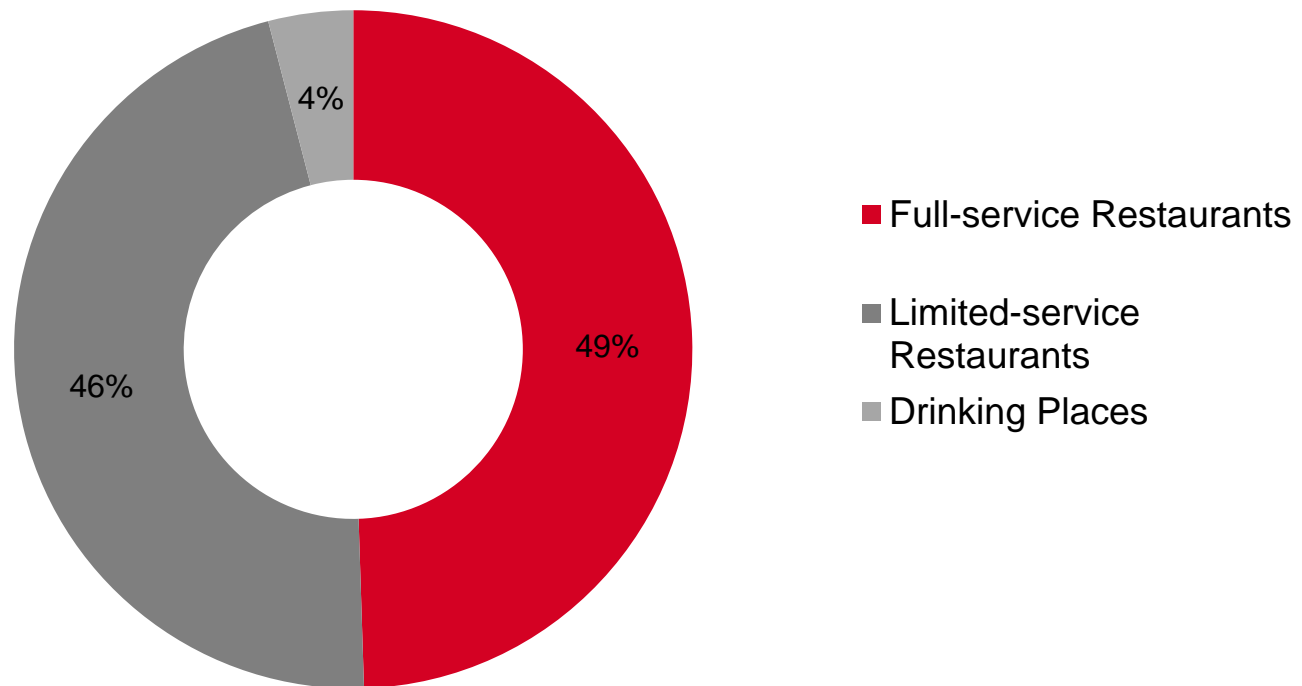
The RTD tea segment] has grown substantially, so it's becoming a much larger segment that is able to attract the attention of private label.

For the 52 weeks ending July 10, 2011 national brands of canned and bottled tea totaled nearly \$1.3 billion while private label brands of canned and bottled tea totaled \$34.5 million, according to SymphonyIRI Group, in supermarkets, drug stores, mass merchandisers, club stores, gas and convenience stores, excluding Walmart.

14. Foodservice

The Foodservice Industry is generally categorized based on type of eating establishment, such as full service restaurant, limited service restaurant, fast casual restaurant (also referred to as quick service restaurant or QSR) and snack and beverage restaurant.

2011 Market Share



15. Innovation

INDUSTRY INNOVATION

There are many ways to classify the degree of newness of a product. One useful example uses seven categories:

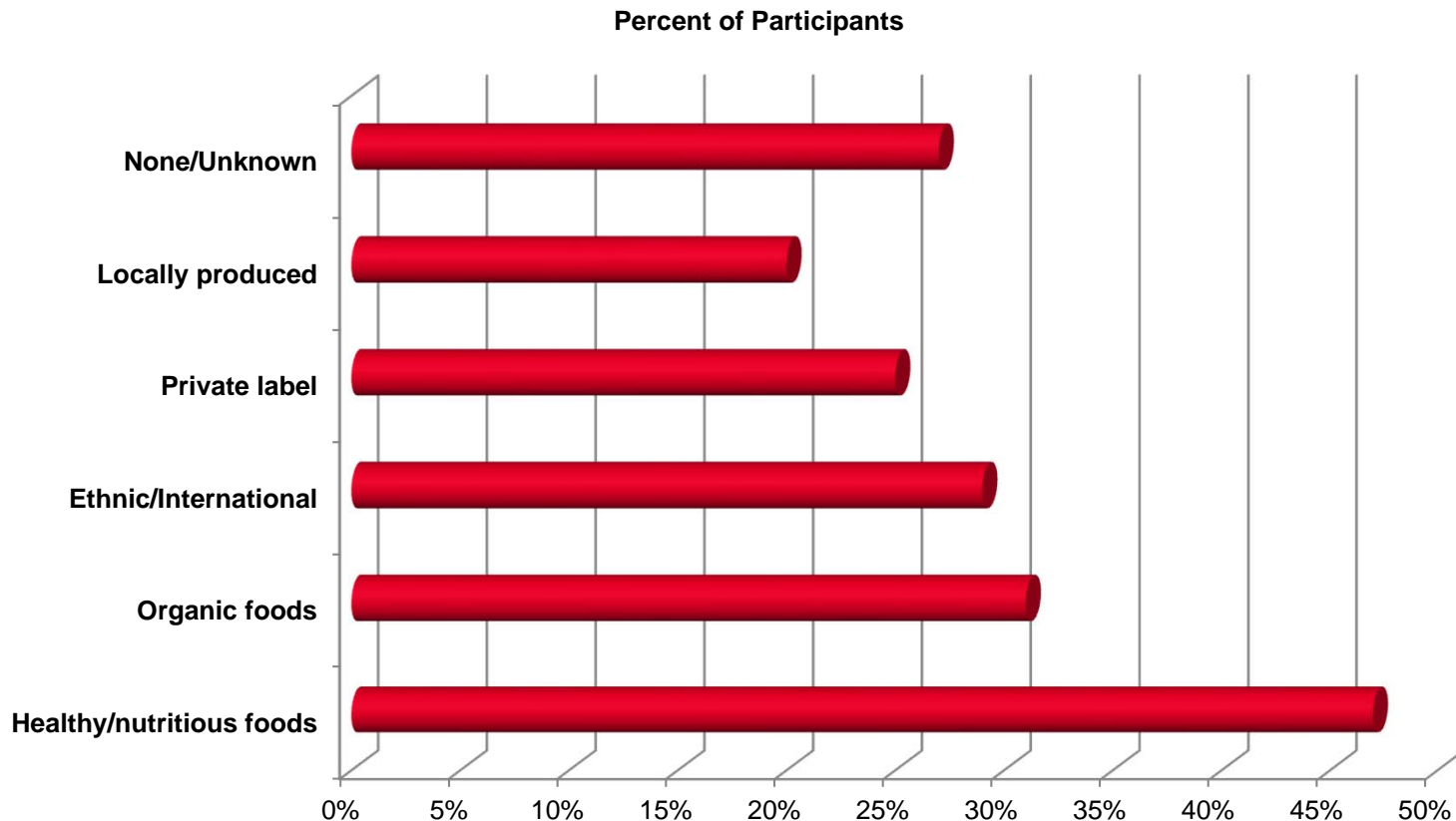
1. creative products
2. innovative products
3. new packaging of existing products
4. reformulation of existing products
5. new forms of existing products
6. repositioned existing products
7. line extensions



The challenge for product development is to develop a product which is acceptable to the target consumer.

16. Industry Trends

According to the first annual U.S. Food & Beverage Industry Study by WeiserMazars LLP, a leading accounting, tax and advisory services firm, food companies look to new customers for the majority of increased product sales in 2013. The top four trends to impact the industry in 2013 were reported as healthy/nutritious, organic, ethnic/international, and private label foods.



16. Industry Trends

Major trends shaping the food & beverage industry today:

- In the past, policymakers were consumer's food educators. Now, chefs have taken on this role.
- Retailers are benefiting as private label sales continue to strengthen
- Consumer preference for health and wellness focused products is increasing in response to the rise of obesity and weight related diseases
- Consumers are increasingly focused on how and where their products are produced.

17. Consumer Trends

Consumers Continue to Define Health and Wellness as a “High Quality of Life”

TRENDING IN



Real butter
Grass-fed meat
Sea salt



Healthy fats
Stevia
Chicken thigh/dark meat
Local, seasonal superfruits



Whole eggs, cage free
Farmstead cheese
The Family Dinner



Heirloom marbled pork
Fresh produce
Portion control
Dance/Zumba



Craft beer
Kettle potato chips
Eating dark leafy greens

TRENDING OUT



Margarine
Processed soy protein
Low Sodium



Fat Free
Artificial sweeteners
Chicken breast/white meat



Superfruits from afar
Egg whites
Processed factory cheese
Activities trumping meal time



The Other White Meat
Excessive supplements
Elimination diets (carbs, sugar, wheat)
Treadmills



Ultra Lite beer
Baked potato chips
Drinking wheat grass shots

18. Distribution and Marketing

FOOD DISTRIBUTION CHANNELS

The food system encompasses many activities, from harvest to processing, retailing, and consuming. The main middlemen in the distribution channel are as follows.

Food distributors purchase products from a manufacturer or from another distributor and sell and distribute the products to retailers, foodservice companies, and other distributors.

Food brokers act as food manufacturers' representatives and facilitate sales between manufacturers and retailers. They do not take ownership or physical possession of products.

Food wholesale distributors are very similar to distributors, but they do not perform as many services, such as stocking and managing retail shelves.

Foodservice distributors and brokers are similar to retail brokers and distributors, except that they focus on servicing foodservice customers.

18. Distribution and Marketing

ROUTE TO MARKET CONSIDERATIONS

Step 1. Test the waters

Many new food manufacturers introduce their product at small, local retail markets. This is a great way to test the waters. Starting locally gives you an opportunity to tweak your product, packaging, and promotions.

Step 2. Hire a broker

While some new food manufacturers have the skills to sell successfully, most do not. A broker can help you with this job. Securing a broker takes time, money, and effort. For a broker, the costs and energy required to launch a new product are great. On average, brokers will take a 3 to 5 percent commission.

Step 3. Find a distributor

Distributors purchase, inventory, transport, and sell products to retail accounts that the manufacturer has set up. They also assist in gaining new retail accounts. Distributors act as logistics experts for food distribution. Markups can range from 10 to 35 percent of the wholesale price, depending on the product, category, distributor, and retail customer.

Step 4. Secure retail accounts

Choosing the right retail accounts is crucial. All retailers are different and have different requirements. It is important to know the retailers. Do research and know who's competing in your product category. New food businesses usually find it best to start small for financial and logistical reasons.

20. How to Enter the U.S. Market

COMPANY ASSESSMENT CHECKLIST

- ✓ International sales experience?
- ✓ English language capabilities?
- ✓ Streamlined customer service?
- ✓ English website and online ordering capability?
- ✓ Strong domestic sales? Sufficient capacity to target international sales?
- ✓ Working capital to focus on international sales?
- ✓ Competitive products & defined target market?
- ✓ Working capital to grow the brand?

COMPETITIVE, CUSTOMER AND MARKET LANDSCAPE ASSESSMENT

- Varieties available and packaging/size
- Retail price points
- How often they are on promotion
- Retail point-of-sale support
- What stores are they sold in
- What regions of the country do they focus on
- What trade shows do they attend
- What brokers and distributors do they work with

20. How to Enter the U.S. Market

BRANDING

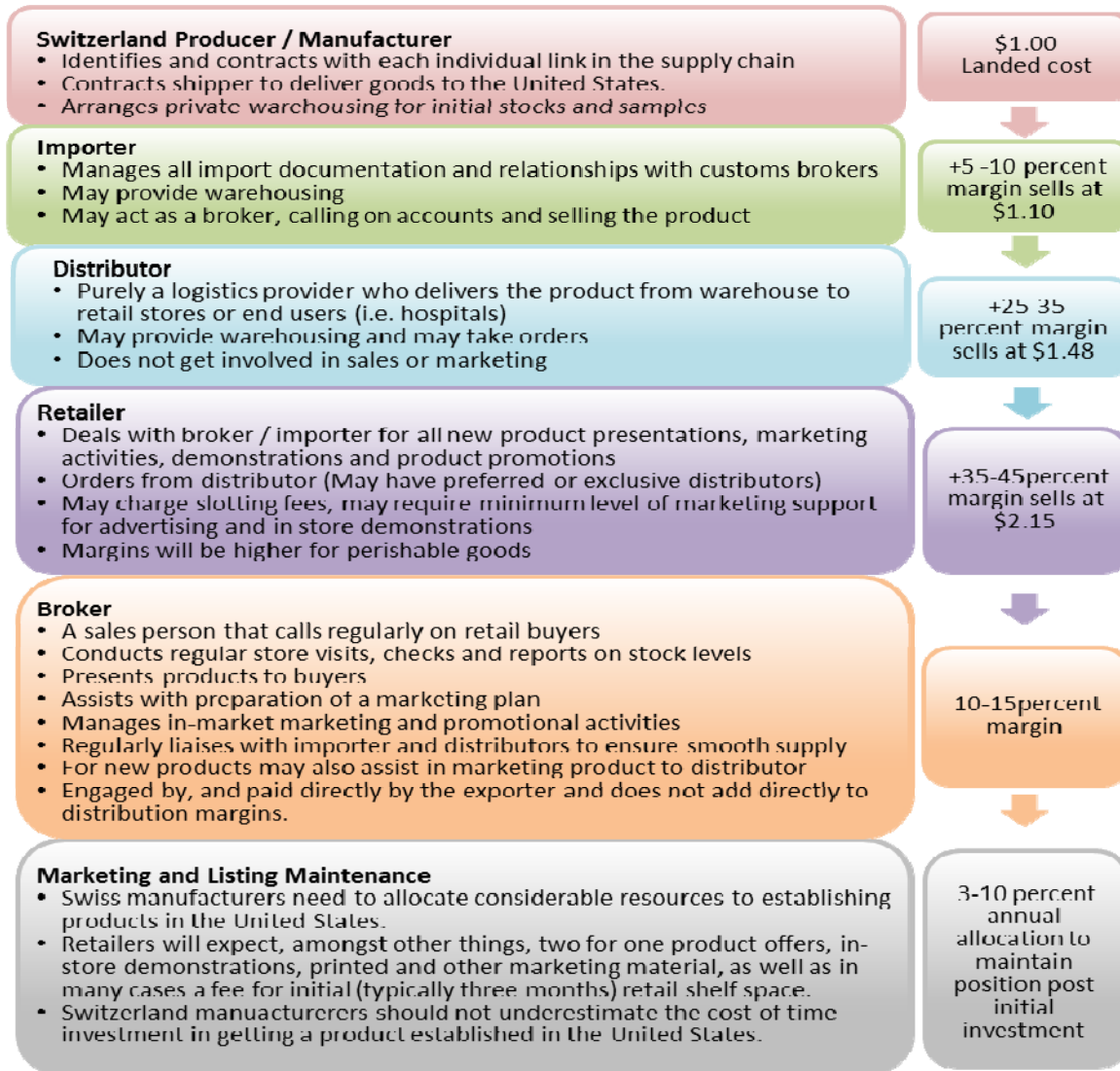
Developing a brand for a specialty food product is perhaps the most important aspect of product development, as it becomes the public face of both the manufacturer and the product itself. When developing a brand for specialty food products, it is important to note a few key questions, including:

- What is the most important thing you want to say about your product?
- Who are you communicating with?
- What is the corporate culture you are trying to convey?
- Are consumers familiar with the product type?
- What tone or attitude do you want to convey?
- Will consumers know how to use this product?
- What history or information do you want to share?
- What would the consumer like to see?

20. How to enter the market

PRICING

The following chart describes the channels and margins for companies when importing to the U.S.



21. Summary

- Key priorities for Swiss companies will be to create a customer-facing organization through value differentiation, growth, innovation, and improved channel management.
- Also, companies will need to streamline and standardize key processes such as creating an optimized supply chain while implementing effective risk management practices.
- The dynamic nature of the U.S. food and beverage industry - changing consumer trends, proposed government regulations, new companies, and new product and service offerings - challenges organizations to remain competitive.

THANK YOU

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