Growth Projected in Food and Beverage Industry

The food and beverage industry provides an almost ideal lens through which to view the general state of the economy. The industry is directly connected to the consumer and it has been actively responding to consumers who eagerly use social media and mobile technology channels to help them make buying decisions. New technologies, such as data and analytics, among other tools, have also been embraced by the industry and are being used to improve business models and profitability.

With these trends in mind, KPMG recently surveyed over 100 food and beverage executives to gain added insights about their industry and the general economy.

Growth is a priority

Growth is a priority for executives in this sector and was the number one initiative. In fact, more than half (58 percent) of respondents said that they planned to invest capital to drive growth. The key areas in which they plan to invest are acquiring a business (33 percent), expanding existing facilities (31 percent), and investing in new products or services (28 percent). Almost half of respondents (48 percent) indicated they also expect to increase spending for geographic expansion.

Industry revenues continue to climb dramatically this year; the percentage of respondents whose companies experienced an increase rose from 57 percent in 2012 to 84 percent in 2013. And revenue growth is expected to continue. According to the survey, 81 percent of the executives predict that their companies' revenues will increase next year as well, with over a third (38 percent) expecting growth of six percent or more.

How will food and beverage companies be able to maintain these revenue increases? Growth drivers include product innovations (38 percent), attracting new customers (35 percent), capturing alternative sales channels (25 percent), focusing on healthier and specialty products (23 percent), and through M&A activity (20 percent).

However, the economy is still challenging for many consumers and limiting the ability of food and beverage companies to raise prices. Pricing pressure continues to be identified as the highest barrier to growth for these companies. In fact, the percentage of respondents citing this concern increased from 42 percent in 2012 to 51 percent this year. Other significant growth barriers are volatile commodity prices (31 percent), labor costs (28 percent), and regulatory and legislative pressure (21 percent).

According to respondents, the most significant threats to profit margins over the next 12 months result from the costs of inputs or merchandise (46 percent), discounting and other sales incentives (40 percent), and decreased sales volume (38 percent).[1]

Data and analytics aids operations and profitability

Data and analytics is becoming increasingly important for this consumer driven industry and it is enabling companies to know their customers better. In addition to obtaining insights into customer preferences, companies are leveraging data and analytics to support brand and product management decisions, pricing decisions, and to optimize operations. For example, these tools can be used to better predict the combined tax, regulatory, and business impacts of a planned global expansion. Risk management can also be improved as a supplier's upstream and downstream financial and operational health becomes more transparent.

[1] Multiple responses permitted.

Specifically, 59 percent of respondents said they use data and analytics for customer insight, 58 percent said they use it for brand and product management, 56 percent use it for pricing decisions, and 52 percent use it for operating model optimization.[2] The best use of data and analytics was found to be in driving operational improvements (49 percent), followed by product positioning (42 percent), acquiring customers (35 percent), and competitive intelligence (32 percent).[3]

More than half of those surveyed (53 percent) said that their company has high literacy or is rapidly moving towards high literacy in this area. However, 46 percent of survey participants rate the data and analytics capability of their companies as average or below, indicating that this is an area where companies can improve. Leveraging this capability is expected to be a key enabler for better performing companies in the future.

Another transformative technology cited by respondents is social media. Forty-six percent said that social media (Facebook, Twitter, Pinterest) is having a significant impact on their businesses. Other important technology-related trends include mobile/online consumer engagement (45 percent), mobile/online promotions (31 percent), mobile/online shopping (24 percent), and the ability to use technology to compare products and prices (23 percent).[4] Not surprisingly, learning how to respond to consumers through social media is an important priority.

Modest economic improvement expected, but challenges remain

Food and beverage executives expect modest improvement in U.S. business conditions will continue. More than half (52 percent) believe that the economy will improve in the coming year. Most executives (79 percent) predict that the industry will experience growth in 2014, with modest gains of five percent or less anticipated by the majority of those surveyed (62 percent).

Improved but still relatively weak consumer confidence (cited by 52 percent), and prolonged unemployment (cited by 42 percent), continue to plague the industry and remain the top two factors limiting their companies' prospects. Other issues expected to hinder industry growth include increased government regulation (41 percent), uncertainty in the credit markets (16 percent), and limited access to credit for consumers (15 percent).[5] In terms of regulations, the Food Safety Modernization Act, which requires sweeping changes to the nation's food safety laws, was the piece of legislation that most executives were focused on (82 percent). Thirty-eight percent were concerned with healthcare reform, 36 percent were concerned with product recalls, and 20 percent were worried about labor and immigration laws.[6]

When asked about the biggest threat to their business models, the largest percentage of respondents (42 percent) cited losing share to low cost producers. Other worrisome issues included political/ regulatory uncertainty (35 percent), energy costs (29 percent), and lack of a qualified workforce (25 percent).

Conclusion

KPMG's survey confirms that the industry continues to make positive improvements, with most executives expecting continued increases in revenues, as well as considerable investment in growth initiatives, including M&A. Companies are responding to tech-savvy consumers and using new technologies, such as data and analytics, to better respond to consumer needs and help increase operational efficiency and profitability. However, the food and beverage sector is challenged by pricing pressures, volatile input costs, and discounting. Acquirers of food and beverage companies should consider all of these factors and in their due diligence.

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2 Multiple responses permitted.
3 Multiple responses permitted.
4 Multiple responses permitted.
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For more information, please contact:

Rob Coble
Partner, Transactions & Restructuring
Consumer Markets Leader
T: 404-222-3014
E: rcoble@kpmg.com