Food for thought: Disruption in the food and beverage industry

Speaker 1: How was your business impacted by disruptive change?

Speaker 1: Welcome to Food for Thought, a podcast series designed to bring you bite-sized information on the latest trends and hot topics in the food and beverage industry.

Speaker 1: Today, we discuss the disrupters facing food and beverage companies and key considerations when developing a strategic plan.

Darren Gifford: Hello. I'm Daron Gifford, a partner with Plante Moran and our strategy and operations practice. Today, I'm joined by Dave Henkes of Technomic.

Darren Gifford: Dave, thanks so much for joining us.

Dave Henkes: Thanks Daron for having me. And just by way of introduction, Technomic is a 52-year-old food and beverage research and consulting firm. I'm a senior principal at the firm, and I've been here just over 22 years.

Darren Gifford: Can you tell us what are some of the threats and opportunities or disruptive changes that you're seeing out in the marketplace?

Dave Henkes: Well, I think that when we look at what's driving change and especially as we focus on what's impacting the food manufacturer, the processor community, there's really probably five or six big disruptors or big-change agents that we're looking at.

Dave Henkes: One is the change in consumer. The consumer today is much different than the consumer five or 10 years ago. They're not really looking for big brands or big anything and so this idea of local or smaller really resonates with the consumer.

Dave Henkes: We're seeing a consumer that's demanding a lot more transparency. Not only in what they're eating but also transparency throughout the corporate and corporate social responsibility and how a corporation goes to market and runs its business.

Dave Henkes: Technology and big data is certainly impacting the business. We're seeing some polarization from the consumer and from the business so that things are really either going, as an example, either very high end or sort of more commodity. We're sort of losing that middle ground in a lot of ways. And again, that's impacting some brands that are kind of caught in the middle. And as a result,
I think we're seeing a lot more specialization.

Dave Henkes: And so those trends, on a kind of very macro level, are things that are making it a lot harder today to be successful, to be a food processor, or for a food manufacturer than perhaps it was five or 10 years ago.

Darren Gifford: Let's talk about a few of those in a little more detail, if that's okay, Dave.

Darren Gifford: Yeah, one of the things that I know, and there's been a number of different studies and conferences, a lot of discussion, but for example, one of the things that the CEO for Bunge recently commented on was that he thought one of the most disruptive forces in the future was this idea of this health consciousness amongst the consumers, which I think leads to that social responsibility and the transparency.

Darren Gifford: Could you elaborate on that a little bit, and what might be some of the impacts on the food and beverage makers and distributors?

Dave Henkes: Well, yeah. And I think when you look at health and wellness, right? And this whole idea that the, you know, the consumer is increasingly more health-oriented. That's a little bit...There's different definition of what health and wellness means now to the consumer and a lot of it does relate back to really more of a ...It's not low calorie or it's not low fat anymore. It's not really what's taken out of a product but more what it can do.

Dave Henkes: And so, there's sort of a functional attribute to health and wellness. And I think that also leads then into the fact that because functionality is so important; things like natural or how it's grown or that organic nature of a product really starts to play a role in the perception of health and wellness for consumers. What that further leads then into is the idea that big, processed brands are less in favor from the consumer and consumers tend to migrate and associate healthier, better-for-you products with more local, i.e. smaller brands.

Dave Henkes: And so, I think when you look at big brands and whether it's Nestle, or General Mills, or a lot of these big CPG companies, Kraft Heinz, they really struggle with this because they've essentially built their whole business around being large corporate, multinational organizations. And now, the tide to a large degree has turned, and a lot of consumers are looking at the exact opposite of what these companies represent and what they offer. I think they've struggled with that and a lot of that has to do with (sort of) health and wellness leading into some of these demands for smaller, more local offerings from the manufacturing community.

Darren Gifford: It sounds like it's tough to be a large food and beverage manufacturer right now, isn't it?

Dave Henkes: Well, it is and local, right? This whole idea of local — Local's not necessarily a geographic mindset for consumers. Local really consumers start to equate with fresh and clean and natural. This whole idea, we've heard a lot about it, of food with a story and being able to tell the backstory for where a product comes from and who the farmer is and how it's grown.

Dave Henkes: And so, I think big brands have a real tough time telling a story in terms of what their brands stand for and where they come from. That's one of the things that these smaller brands really excel on is telling that story and creating a sustainable perception among consumers.

Darren Gifford: Yeah, yeah, that's true. Another, just to branch off into a related area, recently the CEO from Mondela has also commented that his view of the disruptive forces were all around this idea that consumer wants it online, anytime, as you said, anywhere, just about. That really starts to blur some of the channels, at least the traditional channels, doesn't it?

Darren Gifford: How do the manufacturers work with that? Or how do they get the data they need about the consumers?

Dave Henkes: Well, I think we certainly look at — and Technomic got its start really — doing food service research, right? My 22 years at Technomic, a lot of my research has been around food service and really over the past five to seven years, there's been such a blurring of channels as grocery and retail gets more into prepared foods. And as restaurants get more into creating meal kits and creating away- from-home options for delivery, take out, et cetera. And then you see the rise of these food courts, and you see the rise of food trucks and other things and convenience stores and other retailers that are really getting into the food game.

Dave Henkes: So, this blurring of channels is real, and I think that's (ya know) an additional challenge for manufacturers because they don't necessarily take an omni-channel view of the consumer. I mean, right? They tend to look at the retail consumer or the restaurant consumer or the food service consumer.

Dave Henkes: We've been increasingly working with our manufacturer clients and partners to help them understand consumer behavior as it relates across all channels. And I think it requires a little bit of a different mindset for manufacturers because in essence, they're really siloed. You've got a retail, you've got a grocery team that focused on growing business within Kroger or within the larger grocery channel. And then you've got a food service national accounts team, and you got a team that's selling to Sysco and US Foods and other distributors.

Dave Henkes: And nobody's really taking a holistic view of the consumer and what they want and where they want. And I think that's going to needs to change over the next several years as consumers are online. They can get food whenever they want it, whenever, wherever they want it. It has profound implications on how the manufacturer ultimately goes to market.

Darren Gifford: Yeah, it's really — I think, technology is probably one of the key drivers in here. In fact, one of the other comments that I noted was that recently, the CEOs from Mcdonalds and Domino's both cited this idea of disruptive change they thought was really built around all the advances of technology that were happening on a — It's really fast right now. What do you see from the technology side? What kind of things do you think are happening on the technology side that are going to change this industry?

Dave Henkes: Well, there's a lot happening. There's (sort of) the consumer-facing technology and so a lot of that within restaurants and even within grocery has to do with online ordering, the rise of Instacart and the rise of GrubHub and UberEats and sort of this gig economy that's driven by technology.

Dave Henkes: That's sort of an easy one for consumers to see. Within restaurants, we're also seeing technology that's being used increasingly in operations i.e. kiosks and other things, and there’re things that will ultimately probably help alleviate a labor situation that a lot of restaurants have.

Dave Henkes: But then there's also the technology that we see that's not necessarily visible to the consumer in any kind of tangible way. A lot of that is big data or back-of-house type applications where increasingly consumers are being tracked through their credit card and through their loyalty programs. Retailers and restaurants and ultimately manufacturers know more about their consumers today than they ever did. That technology, while I think most companies are still trying to get their arms around the amount of data that's out there, I think the big-changing change agent for technology is ultimately how that big data and how companies actually really learn to understand their consumer better.

Dave Henkes: It goes back to what I talked about earlier about understanding the consumer holistically. The more you can understand them in their behaviors at home, away from home, where they're shopping, who else they're buying from. Do Chili's customers also go to Applebee's, and what's the competitive set that they're actually considering and where else are they spending money — all of these things are hugely important and so this idea that big data and technology and the ability to crunch massive amounts of data that get fed into it from things like these online ordering apps and all of the different things that consumers willingly sign up for.

Dave Henkes: I think that's the disrupter that's ultimately going to help drive the industry forward is just this knowledge of the consumer that comes from so many different sources that the consumer has opted into that give companies a better sense of who their consumer is and how they shop.

Darren Gifford: Mm-hmm (affirmative), yeah. What a great challenge but a great opportunity.

Dave Henkes: Absolutely and it's a little bit of both. I don't know that anyone really is a best-in-class technology company yet. Everyone's still sort of figuring out how to use the data and what value is there.

Dave Henkes: I think retail probably just has a head start on it just because of all of the shopper insights that have been out there and the ability to track consumers back through their grocery cart purchases and things like that. bBt that's really in a small part of where they spend money on food and beverage. And I think being able to link all of that with their away-from-home behavior is really going to be the opportunity.

Darren Gifford: And one last thing on technology. We can't stop talking about technology until we at least talk a little bit about blockchain. So, what are your thoughts on blockchain? Does it work in this industry? Or what do you think will happen?

Dave Henkes: Yeah, I think when we look at blockchain, and blockchain is such a new technology, when we talk to our food service partners about it, we'd still get a lot of glossy eyes in terms of really just understanding what it is and how it can be used.

Dave Henkes: I think when we look at the applications, given that it's really an unhackable technology that sort of builds upon each other and — We've seen applications throughout supply chain in terms of tracing products back. In the news today, there's, here in Chicago, in Illinois, McDonalds is pulling a lot of salads from their restaurants because of some consumers getting sick.

Dave Henkes: The ability to be able to track things back is hugely important for the industry and to understand where these products come from and tracing it back. We always hear these discussions about farm to fork and this traceability and transparency in the supply chain that still, in a lot of ways, doesn't exist. I think blockchain as a technology probably adds to and brings some additional transparency and some additional traceability to products that really will be critical to help manufacturers throughout their supply chain.

Dave Henkes: That's one big application. I don't know, do you see any additional applications in terms of what you've seen with blockchain?

Darren Gifford: Well, it's interesting. As a whole as a society, we're all somewhat neophytes as to what blockchain's potential could be. When I recently met with some startups, actually, looking at building blockchain application really that takes that supply chain that you’re talking about and is trying to address how to make that, frankly, and internal trading center, if you want to think of it that way, so that these various aspects, as you said from farm to fork would actually then use their blockchain, quote "crypto devices or currency" in this case to actually provide that transparency and make it very real-time as far as how that would work.

Darren Gifford: That's a little bit of science fiction at this point but it has some tremendous potential in the future as far as really making that supply chain more efficient and more real-time and responsive.

Dave Henkes: Yeah. There's no question that technology, and this goes back to your earlier question about technology. I mean, blockchain's a brand new technology that really within the food industry is just starting to get noticed and, again, it's something that we think over the next three to five years will have a profound impact but I think we're still very nascent in terms of its current applications.

Darren Gifford: Mm-hmm (affirmative). Yeah. Well, recognizing all of this disruption, and especially from a technology standpoint but that's related to everything else, is one comment that also came from the CEO of Domino's recently was around that investments that may be made today, may be obsolete in five years because these advances and technologies and changes in consumer preferences may do that to them.

Darren Gifford: Recognizing all that, how would you advise a company that's trying to figure out how to deal with these, with their day-to-day business challenges but also all these long-term technology challenges? How do they deal with that and how would you tell them to approach things?

Dave Henkes: Well, I think it's, the challenge, and I think you get mixed messages from customers regarding technology and regarding what they're asking for from whether it's restaurant chains or whether it's from the brands, the food and beverage brands that they consume. Consumers want you to stay on trend and be innovative and do different things but they don't necessarily want you to change their product. They want you to produce better quality but they're not willing, necessarily, to pay more.

Dave Henkes: We see a lot of restaurants streamlining their menu but they want new products. And so, for companies’ long-term growth really is about execution. It's coupled with staying ahead of trends. One of the things that we talk about with our food manufacturers certainly is, the growth equation if you look at it, is relevance, staying relevant to your customer through trend leadership while differentiating yourself and then while doing that, making sure you're executing against what they're looking for.

Dave Henkes: Certainly things like technology investment, I mean there's always going to be things that are obsolete in three to five years, and I think strategically, the way you need to look at that is more, how do we stay relevant and how do we continue to be ahead of trends and lead on trends? And more importantly, how do we differentiate ourselves?

Dave Henkes: There are players like Domino's and a number of quick service chains that have done a really good job of growing and differentiating themselves through technology. But at some point, other competitors are going to catch up. So, is your unique selling proposition, is your differentiation really the technology? Or is it something that consumers can't get anywhere else? Is it the food you're offering? Is it some new and innovative menu items or products? And how well are you executing against what the consumers look for.

Dave Henkes: Certainly, I look at investment in technology as something that's necessary for everyone throughout the channel but really more strategically, you've got to stay ahead of what consumers or your customers are asking for. Differentiate yourself and execute against all of those expectations.

Darren Gifford: Yeah, one of the things that we work with our clients on and we tell them that it's really ... It was always important but especially now, it's really important to develop your strategic plan around what you think is some of these opportunities and threats from technology will be. But then, it needs to be a pretty flexible strategic plan to really think proactively about how are you really going to approach these things before you get shocked by it — before you have to react to them.

Dave Henkes: Well, that's exactly right. And I think today's supplier and really anyone within the food industry, the food and beverage channel, they need to take risks. I think just selling existing products to existing customers ... Listen, we're in a low to no-growth, real environment, and so we're in really a take-share business. How then, do you really grow, incrementally grow? You've got to take some risks in terms of new products, new services, perhaps new approaches to delivery. New competitive arenas, new products, new geographies. And if you're not taking risks and doing some things, you've got to set lower expectations for growth.

Dave Henkes: I think it's a wake-up call that the way you've done things for the last 10, 15, 20 years is not going to be the way you're going to be successful for the next, call it three to five years, anyway. It's hard to take a longer horizon viewpoint than that but I think that's the reality of today's situation.

Darren Gifford: Yeah. You've got to really flex with the environment, don't you?

Dave Henkes: That's exactly right, yeah.

Darren Gifford: Well, Dave, thanks so much for joining us today. If you take away one thing from today's podcast, and as Dave and I would both tell you, is this food and beverage industry, like so many others you hear about out there, is facing a mountain of disruptive change. Heavily from these technology advances and changes that are happening. So, now is really the time to figure it out and how it's going to impact you and your business.

Darren Gifford: Thank you very much for listening today and remember to check out our additional food and beverage resources at plantemoran.com.