EXECUTIVE INSIGHTS

The Pent-Up Need for Capex in Food and Beverages

Despite steady revenue growth over the past five years, even during the COVID-19 pandemic, many North American food and beverage (F&B) companies have delayed making large capital investments, citing uncertainty around demand, supply chain and pricing, including raw materials cost inflation.

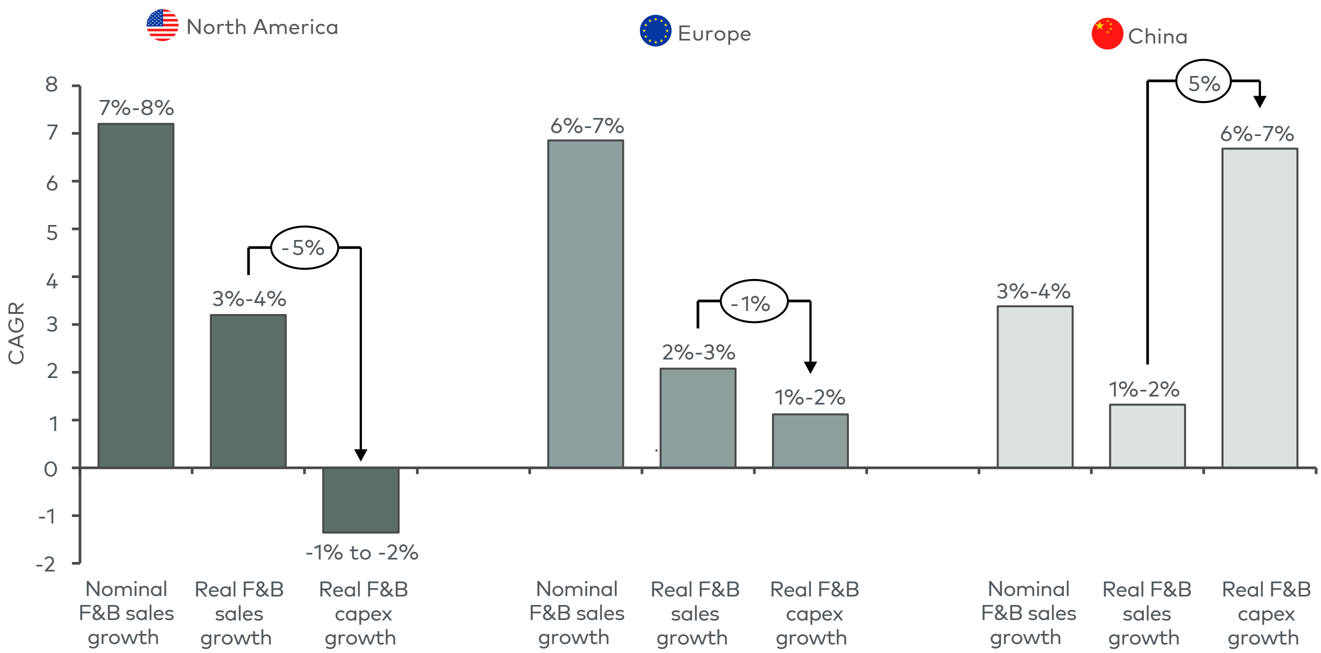
As a result, there is now a significant capital expenditure (capex) versus revenue growth imbalance across several F&B categories in the region. In practice, that means many F&B companies don't have enough capacity to meet consumer demand for their products.

To meet consumer demand and fuel market expansion, in both the near and long term, F&B companies urgently need to invest in capital infrastructure.

Why F&B capex growth stalled

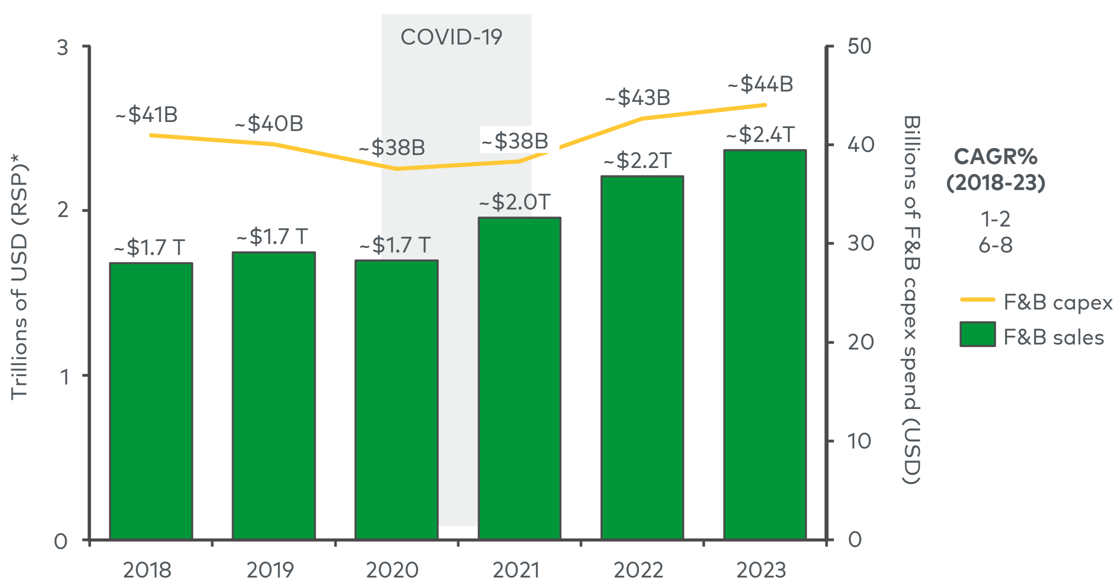
While demand, supply chain and pricing uncertainty was at its height during the pandemic, the war in Ukraine and the U.S.-China trade conflict further fueled market volatility, disrupting the supply chain and delaying companies' ability to secure essential equipment and materials. As a result, many major F&B players, especially those in North America, were disincentivized to increase investment across key categories (see Figures 1 and 2).

Figure 1
Annual food and beverage nominal sales* vs. capital expenditure growth, by region (2018-22)



*Based on Euromonitor F&B sales growth for cooking ingredients and meals, dairy products and alternatives, staple foods, and snacks
Note: CAGR=compound annual growth rate; F&B=food and beverage; capex=capital expenditure
Source: Euromonitor; Oxford Economics; L.E.K. research and analysis

Figure 2
Annual US food and beverage sales and capital expenditure (2018-23)



*Based on USDA nominal estimates, inclusive of tax and tips, excluding "retail stores and vending" subchannel; foodservice includes expenditures in commercial (e.g., full-service restaurants, limited-service restaurants, QSRs) and noncommercial (e.g., schools and colleges, hotels and motels, recreational places) foodservice establishments; also includes grocery, convenience, club, home delivery and other retail stores
Note: RSP=retail selling price; CAGR=compound annual growth rate; F&B=food and beverage; capex=capital expenditure; QSR=quick-service restaurant; USDA=U.S. Department of Agriculture
Source: USDA Economic Research Service; Oxford Economics; L.E.K. interviews, research and analysis

But demand across F&B categories, in particular those categories that involve aseptic food processing, is expected to support sustained growth into the future, driven by shifting consumption patterns toward high-nutrition value products, ready-to-eat stock-keeping units (SKUs) and more novelty formats, as well as processing efficiency and extended shelf life (see Figure 3).

Figure 3
Expected growth across F&B categories

	Aseptic	Retort	Hot fill	HPP
Clean label (considered clean label if no chemicals are added)	✔	✔	✔	✔
Shelf-life extension	Significant	Moderate	Moderate	Significant
Impact on quality	Maintains	Degrades	Degrades	Maintains
SKU/packaging robustness				

Applicability across packaging formats/SKU sizes
Key: Extensive Limited

Note: F&B=food and beverage; HPP=high pressure processing; SKU=stock-keeping unit
Source: L.E.K. research and analysis

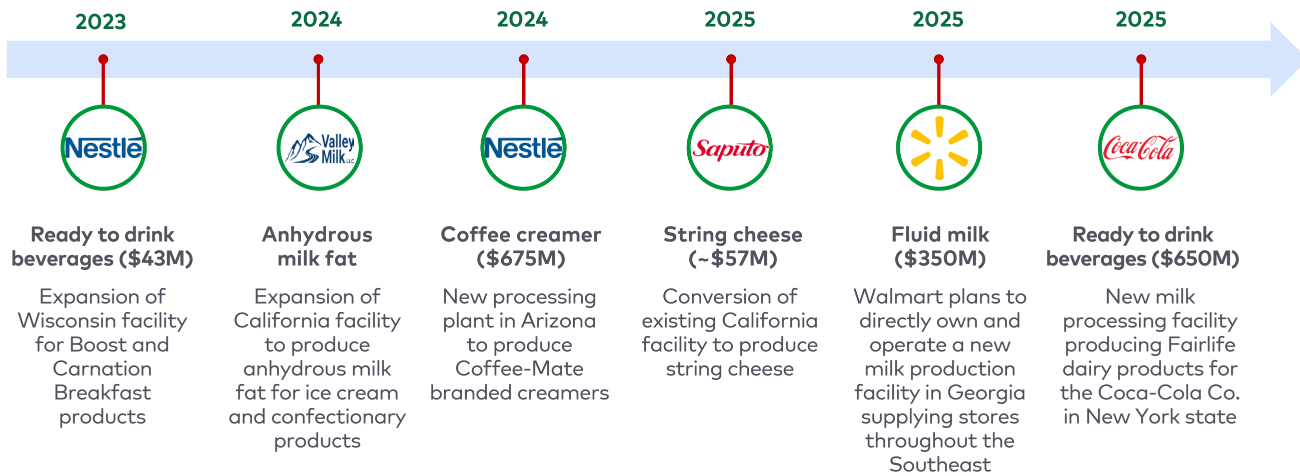
In the meantime, the lack of investment, primarily across high-growth categories, has resulted in many F&B companies running at or near full capacity. In order to expand their facilities and/or ramp up their production to be in line with demand — for both the near and long term — they urgently need to make additional capital investments.

Opportunities abound

F&B categories that are currently experiencing high utilization levels and are forecast to experience dynamic customer demand in the near and long term offer attractive opportunities for F&B players to invest across the fragmented supply chain — all while unlocking substantial value. Indeed, the strong demand forecast makes clear the need for a steady influx of investment for capital equipment upgrades and capacity expansion.

Some F&B players have begun heeding the call for capex, in particular when it comes to capacity expansion and facility upgrades for key categories. Many leading F&B players, among them Nestlé and Coca-Cola, have begun to expand — or have unveiled plans to expand — capacity and/or upgrade existing facilities through 2025 (see Figure 4).

Figure 4
Market announcements for dairy product investments in North America



Source: Company websites; Thomson Reuters; Food Manufacturing; VolumeOne; Dairy Reporter; Food Business News; Just Food; L.E.K. research and analysis

With the current macroeconomic and supply chain disruptions expected to persist, incumbents can benefit from prioritizing investment in capacity and capability development, including evaluating capital expenditures and maximizing return on invested capital across projects. Doing so will enable them to navigate any near-term uncertainty while establishing the right infrastructure to capitalize on long-term growth trends.

That said, any investment would require them to carefully assess the stability of the supply side and to shore up their operations in ways that maximize their return on investment.

In addition to investing in equipment capacity, F&B players will want to optimize their distribution networks and related services — and upgrade their technology — to better capture the market momentum, further increase market coverage and set themselves up for additional growth over the long term.

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