



2015 State Of The Industry:

## Food and Beverage

Senior executives at food and beverage companies face many critical and strategic questions in 2015. Here, L.E.K. Consulting shares its views on the current state of the industry, as well as the biggest challenges and opportunities facing food and beverage companies.



### What is the Current State of the U.S. Food and Beverage Industry?

Amidst an improving economy, consumer optimism and bullish expectations for growth, there is a fight for consumer dollars in food and beverage. While food in aggregate is a slow growth game, millions of dollars are pouring into food and beverage from unlikely sources including Silicon Valley venture capitalists, and well-heeled private equity and international companies targeting the U.S. market. The net result is an intensive competitive environment where growth is at a premium.

Several brands took 2014 by storm, making it the year of the “hot brand.” Many deals were hatched for brands that have captured share and are growing quickly. From large brands like Chobani and Annie’s to smaller brands such as Noosa and Tate’s Bakery, these deals represent the tip of the iceberg in what is expected to be an unprecedented wave of food deals.

Consolidation was a common theme of 2014, affecting every part of the food value chain: from ingredients (ADM/Wild), manufacturers (Hillshire/Tyson), and distributors (US Foods/Sysco) to food retailers (Safeway/Albertson), M&A activity permeated the food and beverage industry. This trend promises to continue this year as companies with well-shored balance sheets, riding mostly favorable commodity trends, work to position themselves for growth and profitability.



### What are the Key Challenges and Opportunities?

Given the highly competitive environment, companies see challenges in reaching millennials and coping with high valuations:

- **Connecting with millennials through brand revitalization.** Capturing the hearts and minds of the largest growing consumer segment continues to be the biggest hurdle facing food executives. Millennials are fickle, anti-establishment, uber-information users who are quick to share their opinions. Keeping up with this group of consumers and providing products that resonate with their beliefs, social image, dietary needs and budget will be a continuing challenge.
- **Valuation.** Many of L.E.K.’s clients mention that valuations are too high. Relative to historical data, they are right. Average EBITDA multiples for food have risen from 8.9x in 2009 to 12.3x in 2014. The bar set by General Mills and Annie’s acquisition of nearly 28x earnings is unlikely to be repeated. Nevertheless, it highlights a common challenge for food and beverage companies. Creating value whether through synergies or in a holding period is challenging in the face of historically high valuations.

At the same time, opportunities exist in premium grocery and foodservice:

- **Participating in faster growing channels, both premium and online.** There are a few appealing channels in food and beverage that are continuing to attract attention. For instance, premium grocery is now more than just a niche industry at \$20 billion and posting double-digit growth. The online channel is slightly behind in size, but exhibiting faster growth and increasingly offering food manufacturers an opportunity to connect with consumers. This channel is also launching new products more efficiently to meet the needs of today’s savvy shopper.

- **Foodservice.** In L.E.K.'s 2014 Foodservice Operators survey, we highlighted the optimism and opportunity in this channel. Most respondents were bullish about the growth prospects in foodservice over the next three years. Despite a difficult beginning to 2014, that optimism was rewarded with higher growth and a robust outlook for 2015. Foodservice continues its historical trend of outpacing retail growth and maintaining its status as a key part for any food strategy.



## What Burning Issues are Senior Executives Facing?

We see three key issues for the food and beverage C-suite:

- 1. How balanced is your channel strategy?** Whether you are in foodservice, premium grocery or the online space, having a strategy that allows you to participate in faster growing channels and maintaining the ability to meet the needs of your consumers is critical. Companies that have been one dimensional or overexposed in some channels should review and reconsider their footprint to capitalize on key growth trends.
- 2. Do you have a clear acquisition strategy and synergy case?** In light of high valuations, it becomes imperative for companies to have a proactive vs. reactive acquisition strategy. Building capabilities to foster synergies, integrate acquisitions and conduct value-creating transactions is critical in this environment.
- 3. Do you have enough focus on innovation and new product development?** The best strategies are only as good as your product. If the Greek yogurt craze has taught us anything, consumers are willing to pay for high-quality products that meet their needs. Consumers will also quickly abandon products that don't have value relative to alternatives. A new commercial model that more directly links consumer/channel feedback through the supply chain is required to constantly innovate, stay on-trend and drive sustainable growth

## Our Food and Beverage Practice

L.E.K. has completed more than 700 engagements in the food and beverage industry, including over 160 engagements in transaction support for private equity firms. L.E.K. is a trusted advisor to leading global food companies across a variety of categories and the food and beverage value chain. We deliver insights with impact to help food and beverage manufacturers and retailers design and activate strategic programs, gain loyalty with fickle consumers, pinpoint overlooked and underserved customer segments within a market, pioneer new markets and product categories, improve operational efficiency, optimize trade spend and engineer efficient supply chains.

## Meet Our Leaders



**Jon Weber**  
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