

Fresh-Food Nation: The Economic Promise of the 'Farm-to-Fork' Strategy

In 1921, the advertising department of Washburn Crosby Company, the precursor to General Mills, created Betty Crocker, a fictional character named after a former director of the company, to answer advice about a baking contest. Betty Crocker would become an American mainstay, authoring cookbooks, hosting a radio show and branding a hugely popular line of ready-to-cook baking products that is still on shelves today. Between 1946 and 1985, over 1.5 million Americans visited her fabricated kitchen in Minnesota, and she was once voted the second most popular woman in America in a magazine poll behind Eleanor Roosevelt – all despite the fact that she never existed.

The world has changed. Food shoppers today are less trustful of major food companies, and less likely to accept established brands as a guarantee of wholesomeness or quality. Instead, a growing number of consumers are looking beyond the logo to seek out products containing basic, natural ingredients delivered through simplified, transparent supply chains. Specialty companies offering organic, fair-trade and natural products have greatly outperformed traditional, mass-market food companies of late, and the market is trending in their favor: Generation Y – the fastest growing segment of U.S. consumers – particularly values food products that make clear the provenance of their ingredients, and offer a so-called "farm-to-fork" proposition.

Major food companies have an opportunity to evolve and capitalize on this trend. Counterintuitively, it will be cutting edge innovations in food science, packaging, marketing and distribution that will fully monetize the farm-to-fork promise. Big Food is uniquely well-positioned to offer the attributes of fresh, natural products that consumers seek while also realizing the same economics and supply-chain efficiencies that have made them the profitable giants they are today.

Start at the Beginning

Farm-to-fork principles do not fit naturally within major food companies, which typically focus their attention and spending on downstream operations and end-products. Attention upstream on the source is usually centered around controlling costs and ensuring the quality of supply, with limited support for growers. It is not an uncommon practice in the food industry for companies to spend more on packaging than ingredients (bottled water and cereal are classic examples of this). To capture the farm-to-fork market, this emphasis needs to change. Instead of focusing on developing new variations and extensions of existing product lines and brands, food companies can shift their attention up the value chain by identifying promising, natural ingredients and finding new ways and occasions for consumers to enjoy them.

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Consider Ocean Spray's successful exploitation of the cranberry. The Massachusetts-based cooperative, which experienced record profitability and gross sales last year, has driven its sales growth over the years through the launch of innovative, natural cranberry products such as juice blends and the now-ubiquitous Craisin. It supported these products with a marketing campaign that educated consumers about the digestive and urological health benefits of cranberries. It also successfully exploited the grapefruit, and it recently identified blueberries as the next innovative product that will drive sales growth.

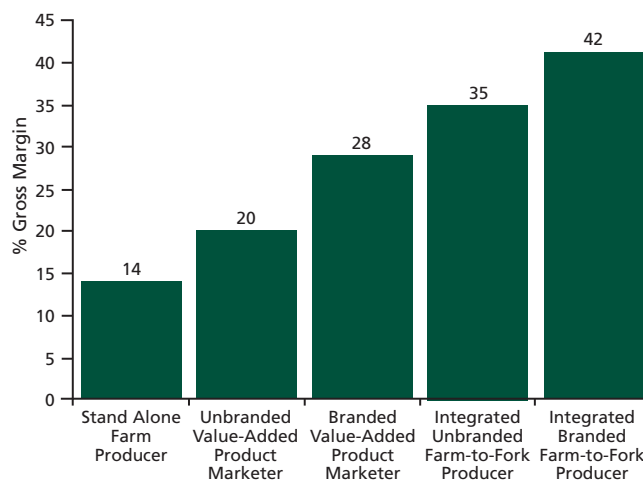
Make the Farmer Your Friend

Tellingly, Ocean Spray is a cooperative of 750 grower families, which gives them credibility in delivering an authentic value proposition to the consumer, advantages in ensuring the consistency of the fruit and food safety, and access to shared expertise in growing and harvesting. At the very least, a successful farm-to-fork strategy will require major food companies to adjust their traditionally adversarial supplier relationship with farmers and growers, in which the focus has historically been on negotiating the lowest price. Consumers perceive food companies that grow their own ingredients – or form meaningful partnerships with farmers who do – as caring more about their final product, which results in brand loyalty and less price sensitivity. Indeed, L.E.K.'s research shows that branded, fully-integrated food companies earn higher gross margins than those focused on fewer areas of the supply chain (see Figure 1).

Farmers and growers that can form cooperatives to gain scale may be able to disintermediate food companies entirely (see sidebar on pg. 3). The U.S. government seems to be encouraging just that, adding a provision in the most recent farm bill to support farmers' efforts to bring their products directly to market. More likely, we suspect that burgeoning farm-to-fork companies will be attractive acquisition targets for larger players. Big Food's natural strengths – product innovation, logistics, marketing, etc. – still add tremendous value to the farm-to-fork proposition, and are difficult to replicate.

Figure 1

Branded, Fully Vertically Integrated Companies Earn Higher Gross Margins Than Those Focused on Fewer Areas of the Supply Chain
Indicative Gross Margins (without distribution/brokerage)



Source: L.E.K. analysis

Indeed, advanced food science – particularly in the arena of packaging and preservation – will be essential if farm-to-fork is to move from specialty channels to the mainstream. Packaged-fresh salad, after all, was only a promising idea until Fresh Express Farms used modified atmosphere packaging (MAP) to remove most of the oxygen from around the product, thereby keeping washed, peeled and diced roughage and raw vegetables from turning brown inside the bag. The innovation helped create what is today a \$12 billion category of washed and packaged fruit and vegetables in the U.S. alone. Flash pasteurization was the key breakthrough for fresh-tasting orange juice and, more recently, high-pressure pasteurization (HPP) has allowed food companies to bring guacamole, gourmet sliced meat, and other natural products to market. Such technological breakthroughs can be the difference in the battle for market share: Driscoll now owns approximately 85% of the U.S. fresh raspberry market due to its ability to drastically increase the shelf life of raspberries by cultivating a proprietary varietal of the fruit.

Keep it Real

Farm products may conjure images of humble, unadorned foodstuffs, but product innovation and marketing can be incredibly successful for farm-to-fork offerings as well. Last year, Campbell's Soup spent \$1.5 billion to buy Bolthouse Farms, the second largest carrot producer in the United States. Bolthouse's success came primarily from their innovative marketing of baby carrots as a snack food. The company ran ad campaigns that positioned the "baby carrot" – in fact, regular carrots ground, peeled, washed and chopped into bite-size pieces – as a natural alternative to processed snacks. The company advertised the product's "extreme carrot" taste. It also expanded into supplementary products such as juices, smoothies and protein shakes.

What similar farm-to-fork opportunities are out there for food companies to exploit? Can mass-market food companies leverage their formidable scientific, marketing and distribution acumen to feed and stimulate demand for products containing simple, wholesome ingredients from a clear provenance? We believe they can. Trust is a powerful market force. Currently, traditional food companies risk losing market share to specialty companies that exploit a farm-to-fork proposition. Betty Crocker and other beloved brands will continue to occupy a space in the hearts and stomachs of U.S. consumers for the foreseeable future. But new products that offer fresh, natural attributes can help food companies respond to consumer preferences and enjoy improved economics through long-term partnerships with growers.

What Farm-to-Fork Means for Farms

Growers wishing to capture more value from the farm-to-fork supply chain by extending their participation downstream have various options available to them – from forming deeper partnerships with food companies to attempting to disintermediate them entirely. Different strategies will appeal to different players, but regardless of their course of action, all growers should consider a number of steps that will position them to capitalize on the farm-to-fork trend.

- **Partner for Scale.** Selling and shipping product to meet the increasing demands of today's consolidating retail channels is hard enough in itself. Developing and nurturing proprietary products and brands is something well beyond the capabilities of any independent grower. The solution is to organize into partnerships with like-minded growers and then recruit an experienced commercial-development team who can build new sources of value above the raw fruit product.

- **Pursue propriety varietals.** Discovering and designing better ingredients provides a powerful advantage. Growers should consider setting up partnerships with universities and nurseries to develop propriety varietals that increase attributes such as taste, shelf-life, size and color.

- **Coordinate across growing regions.** Consumers are seeking farm-to-fork products, but they want them to be available year-round, even when their local farms are out of season. Coverage that extends south from the U.S. to ensure near-continuous production looks enticing on paper, but requires a complex operation. Growers who wish to form partnerships such as joint ventures with South and Central American companies, or pool funds with other growers to purchase and operate land in foreign countries, must ensure they have the international business expertise to make the undertaking successful.

- **Offer innovative products.** When growers invest in production they can create significant value. Apple growers, for example, can look downstream to offer apple slices, purees, frozen apples, frozen apple pieces and other products to food companies and restaurant chains to use in their offerings or sell as discrete items. All growers should look for similar opportunities.

- **Build the brand.** Farmers can find better ways to tell consumers who they are and what they offer; from a credibility standpoint, no spin is required. Enlisting celebrity chefs, social media campaigns and other innovative marketing techniques should not be reserved only for the major food companies.

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