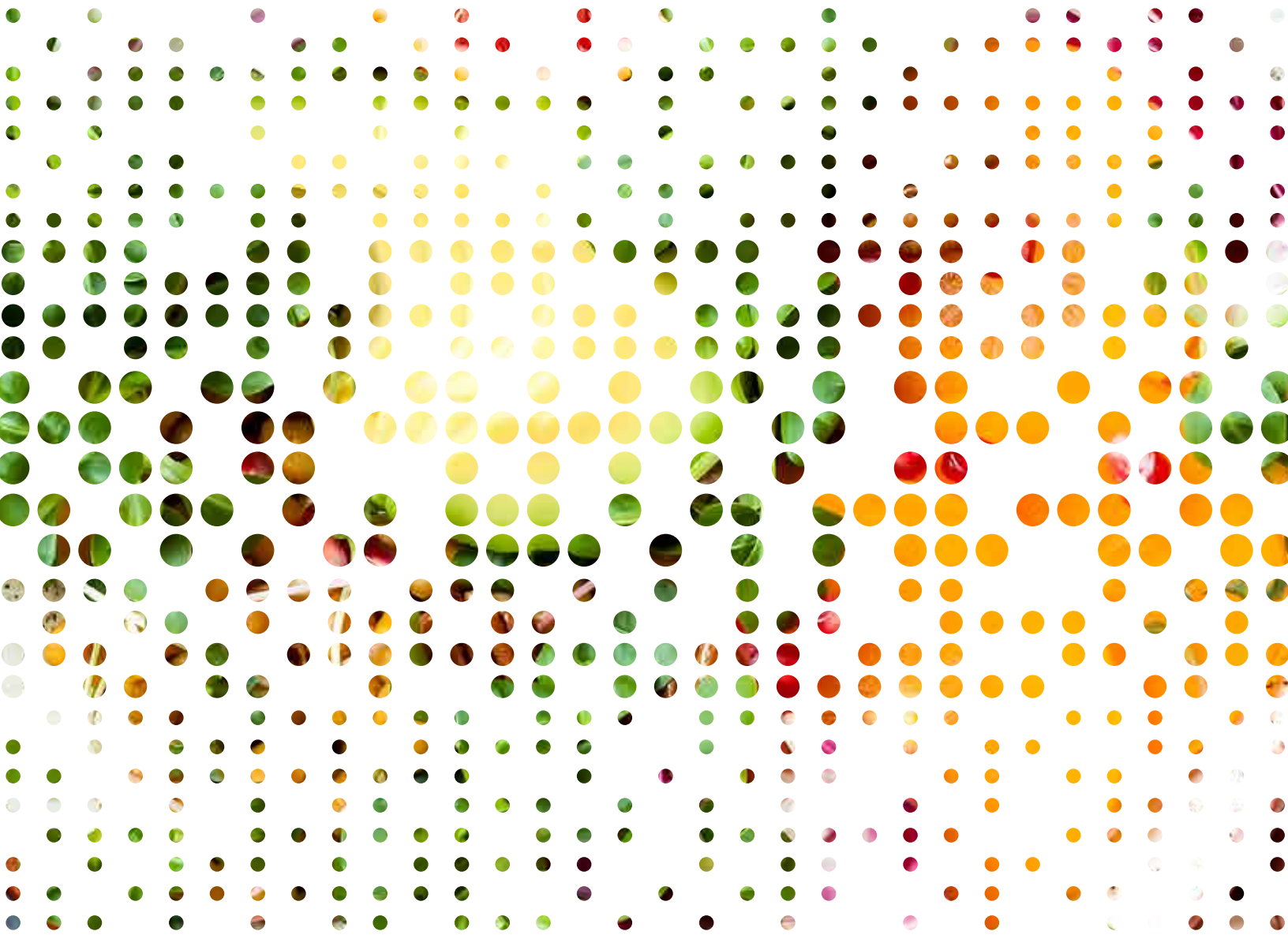


Five forces disrupting the future of food





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In 2018, sales of natural, organic and functional food and beverage grew 6.6 percent to \$152 billion, while sales of conventional food and beverage contracted 0.2 percent, indicating strong consumer desire for cleaner products. As more consumers understand the merits of healthy, less processed foods and beverages—and more capital floods into the market enabling natural entrepreneurs to feed this growing demand with exciting new brands—natural products are primed to continue their impressive growth.

That's not to say there aren't challenges to the natural products industry. Maintaining reliable natural and organic ingredient supply is difficult, cash-flow issues regularly stifle startup growth and fervent competition squeezes precious shelf space. Despite many efforts, the natural products industry is still plagued by pressing issues such as single-use plastics and an increasingly fragmented retail environment. These barriers contribute to studies that suggest a whopping 85 percent of food and beverage startups fail within just two years of launching.

But the industry is also rife with opportunity and strong forces drastically altering the food and beverage landscape for the better. From improved technology support to palpable shifts in consumer eating habits, these five disruptors are shaping the future of food.

DISRUPTOR: **Omnichannel retail**

The shifting retail environment is pushing brands to get smarter—and more creative—with how they go to market. While traditional brick-and-mortar food and beverage retail was centered on grocery, which required brands to depend on distributors or unscalable self-delivery, many new brands are launching their products online through a direct-to-consumer model.

According to a New Hope Network survey of 299 manufacturers, e-commerce has become the most popular route to market among new brands. Of the brands that launched within the last three years, more than half did so online, compared to just 23 percent of brands that launched there three to five years ago. Amazon, other online retailers and e-commerce companies have lower barriers of entry for new manufacturers—there's no lengthy contract to sign with distributors, and no buy-backs if product doesn't move on shelf. "E-commerce helps democratize access to the market,"

says John Bek, segment leader for Oracle NetSuite Food and Beverage, who adds that you don't need much capital up front to sell a product on Amazon.

Legacy brands, such as Murray's Cheese, also benefit from optimizing online retail channels. Founded in 1940, the cheesemonger started as a brick-and-mortar company. Over the years the company evolved into an e-commerce innovator, building an excellent customer experience online, which included not only recipes and community forums for cheese lovers, but also Cheese of The Month clubs. Murray's strong direct-to-consumer online presence and brand recognition was a big factor in the brand being purchased by Kroger in 2017.

In addition to an improved customer experience, online retail allows all brands to mine real-time data to better understand what products truly resonate with consumers, aiding them in the tough work of figuring out what shoppers want. "Business decisions are now driven by key performance data, not historical practices or best guesses," says Bek. "Real-time visibility and insight can now be the difference between thriving and barely surviving."



DISRUPTOR: The changing consumer

Consumer preferences—increasingly shifting towards plant-based, allergen-free alternatives, more mission-based brands and environmentally-conscious products—are a critical part of the food disruptor conversation. Driving the evolving natural consumer is a heightened awareness of how purchasing and consumption decisions impact the world around them. Brands are stepping up to serve these more conscious, mindful shoppers with product offerings that contain consciously sourced ingredients, offer stronger nutrition profiles and give back to the community.

There is big opportunity for brands proactively shifting their focus to meet shopper's desires, particularly "connected consumers," who are using social media as a way to connect with brands. This is about committing to sustainable business practices and healthier products—and communicating the brand story and mission in an authentic and meaningful way—in order to build trust and loyalty among these consumers.

New Hope Network reached out to health- and wellness-focused influencers who in turn reached out to their followers to have them respond to a consumer research survey. In these responses, New Hope discovered "connected consumers," are more likely to care about values related to social, climate, health and animal issues than the general population and therefore are more likely to choose natural companies that have a story to tell.

But it's not just about what consumers are buying, it's also about how they're buying. The rise of the gig economy—which allows anyone to have a side hustle ... or three—and an increasingly productivity-minded social environment means convenience is king.

A focus on seamless buying is reshaping everything from product types to grocery layout. Notice how the



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grab-and-go section of grocery stores has expanded? That's no accident. As Katie Paul, vice president of category management and growth solutions at KeHE remarked, "We are in a culture of time starvation and time-starved eating." Formulating convenient products—and easily getting them into the hands of shoppers—is one way natural and organic companies can best cater to changing consumers.



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DISRUPTOR: Sustainability

You can't go a day without reading news of how today's business practices and lifestyles are having a negative impact on the environment. The good news: Whether through developing packaging alternatives, creating less resource-intensive supply chains or committing to more regenerative agriculture practices, companies are stepping up to be a part of the sustainability solution. Increasingly, too, companies are realizing that a more sustainable approach to business can also be smart business.

One way food and beverage companies are creating more sustainable supply chains is through vertical integration – where a company acquires business operations within the same production vertical. This strategy shortens a company's supply chain, enabling it to make its own sustainable choices for its farming or production processes. It also means fewer outside resources are needed, allowing it to be more environmentally-friendly. By owning every piece of their supply chain, brands, especially those in challenging product categories, can achieve deep levels of trust and more transparency, making their company more sustainable while also meeting consumers' desire for quality and value.

When it comes to tackling global climate issues specifically, regenerative agriculture is one area where natural and organic companies are putting their attention. It requires practices such as cover cropping, growing unhybridized plants with deep root systems, holistically managing animals and more. Brands that pursue regenerative and other types of sustainable agriculture must be dedicated for the long term. The recently launched Regenerative Organic Certification offers high-bar criteria to brands interested in regenerative practices, and it has been adopted by advocate brands such as Patagonia and Dr. Bronner's.

Recognizing that sustainable products start with sustainable business models, brands such as Coda Coffee have become B Corp Certified to communicate to their stakeholders that people, planet and profit are all a part of the business ecosystem. The company, which partners with farmers to create sustainable agricultural systems, uses technology as a way to be fully transparent, tracking progress around sustainability and making this information available to its business partners as it grows.

DISRUPTOR: Reducing waste

In 2015, marine biologist Christine Figgenger posted a video of her team painfully extracting a plastic straw out of the nostril of a sea turtle. Four years and 36 million views later, consumer advocacy groups have called upon the food industry to eliminate plastic straws and other single-use plastics from their businesses.

Leaders in the natural food and beverage industry are collaborating to discover solutions to traditional plastic wrappers, which are rarely recyclable. The newly launched coalition OSC2 brings brands big and small together to share ideas and research ways to reduce or eliminate packaging waste upstream and downstream from manufacturing options.

Compostable, bio-based plastics are a clear way to both keep food safe and slash petroleum-based materials in food manufacturing. The bioplastics available today are not perfect—but they are proving to be one of the next big disruptors in natural food and beverage. Beyond packaging, plant-based product companies are also getting creative to reduce waste by putting all parts of their ingredients to use, whether through unique partnerships where a non-competitive company can utilize the ingredients or by launching new SKUs (think: juice company making chips out of the pulp or a winemaker launching a grape-based skin care company). Such efforts are not only better for the planet but also for a company's bottom line.

DISRUPTOR: Technology

Smartphone apps, blockchain technology, supply chain automation, oh my! Technology is greatly impacting both how consumers get information and make decisions, as well as how brands are approaching manufacturing, product innovation and supply chain efficiency and transparency.

One of the top technology challenges food and beverage companies face today, according to Bek, is the onus put on businesses to choose, update and optimize their back-end systems, which requires resources and time. Yet updating back-end systems is critical for success, leading to a range of benefits, including real time visibility into the business and eliminating cumbersome manual processes so more attention can be placed on product development, marketing and ultimately more sales. “The innovator, the thought leader of the product, has to focus on the tedium of details to get product into the hands of the consumer, from supply chain to distribution,” says Bek. “NetSuite offers a single, plug-and-play platform that leverages third-party logistics, such as established warehouse, supply chain and accounting management systems to streamline back-end business options.”

With modern business management technology, food and beverage manufacturers and distributors don't have to juggle several software systems to run their business. These disparate, siloed systems can lead to major inefficiencies. Instead, NetSuite's complete suite of supply chain solutions help to proactively address this issue. Streamlining systems, says Bek, has the potential to help food and beverage companies get an operation up and running in as little as 90 days—which brings food and beverage ideas to life.

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