Consumer Trends and Industry Response

Presented by:
Ron Sterk
Sosland Publishing Company

August 8, 2017
Background on Sosland Publishing Company

History – Sosland Publishing will celebrate its 100 birthday in 2022. Focus over the years has been on grain-based foods, but over the past couple of decades we have broadened our scope to include food processing, meat and poultry, international grain markets and numerous web-based products. You can find out more at www.sosland.com.

Why sweeteners? Sugar and corn sweeteners and various other caloric and non- or low-caloric sweeteners have been a critical part of the food processing industry throughout our history, with the grain-based foods sector the largest user of sugar. Sugar also has been at the center of many health, trade, labeling, government policy and other issues, now more than ever.
I am an editor and commodity journalist at Sosland Publishing Company, not an analyst or economist.

These are my observations, comments and conclusions; I am not speaking for Sosland Publishing Company.

I am not promoting or saying that I agree with the trends that I am talking about; it’s what I am observing in our publications and others.

I have no trading position in the markets and do not stand to gain or lose financially from these comments or from news stories or prices.
Consumer Trends: Solar Eclipse
Consumer Trends: Outline

Trends and Issues

➢ Trust
  ➢ Transparency
  ➢ Clean
  ➢ Natural
  ➢ Organic
  ➢ Information/Social Media

➢ Responsibility
  ➢ Social Responsibility
  ➢ Sustainability
  ➢ Personal Responsibility

➢ Activism
  ➢ Beverage Taxes
  ➢ G.M.O.
Consumer Trends: Outline

Trends and Issues

➢ Convenience
  ➢ Millennials
  ➢ Meal Kits
  ➢ THE Merger – Amazon and Whole Foods

➢ Health and Wellness
  ➢ Sugar Avoidance

➢ Innovation
Consumer Trends: Trust

➢ Trust

➢ Transparency
➢ Clean
➢ Natural
➢ Organic
➢ Information/Social Media
Consumer Trends: Trust – Transparency

Confectionery companies committed to transparency

➢ Smart Label

➢ Program includes Mars, Nestle, Ferrero, Lindt and Ferrara.

➢ Over the next five years, 50% of individually-wrapped products will have 200 calories or fewer per pack.

➢ By 2022, 90% of products made by the companies will feature front-of-pack calorie information.

➢ Others
Regulatory: Nutrition Facts Panel 2.0

NEW LABEL / WHAT’S DIFFERENT

- Serving sizes updated
- Calories: larger type
- Updated daily values
- Actual amounts declared
- New footnote

Nutrition Facts

<table>
<thead>
<tr>
<th>Serving sizes</th>
<th>8 servings per container</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serving size</td>
<td>2/3 cup (55g)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount per serving</th>
<th>Calories</th>
<th>230</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Daily Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Fat</td>
<td>8g</td>
<td>10%</td>
</tr>
<tr>
<td>Saturated Fat</td>
<td>1g</td>
<td>5%</td>
</tr>
<tr>
<td>Trans Fat</td>
<td>0g</td>
<td></td>
</tr>
<tr>
<td>Cholesterol</td>
<td>0mg</td>
<td></td>
</tr>
<tr>
<td>Sodium</td>
<td>150mg</td>
<td>7%</td>
</tr>
<tr>
<td>Total Carbohydrate</td>
<td>23g</td>
<td>8%</td>
</tr>
<tr>
<td>Dietary Fiber</td>
<td>4g</td>
<td>14%</td>
</tr>
<tr>
<td>Total Sugars</td>
<td>12g</td>
<td></td>
</tr>
<tr>
<td>Added Sugars</td>
<td>2g</td>
<td>2%</td>
</tr>
<tr>
<td>Protein</td>
<td>5g</td>
<td>1%</td>
</tr>
</tbody>
</table>

Vitamin D 2mcg, Ab8mcg, Ca 260mg, Iron 18mg, Potassium 285mg

* % Daily Value (%DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2000 calories a day is used for general nutrition advice.
Clean – What Is Clean?

- Definition?
- Clean Label, Clean Food, Clean Eating, Clear Label
- Fewer Ingredients
- Free From
- Fresh/Less Processed
- Natural?
Consumer Trends: Trust – Natural

➢ Natural – losing its luster
  ➢ Definition?
  ➢ Unprocessed
  ➢ Close to Source
  ➢ Fresh/Less Processed
Love your licorice but trying to eat healthier? The latest twist on Red Vines’ 100-year-old artisanal licorice tradition, RED VINES Made Simple contains just five simple non-GMO ingredients: real sugar (goodbye, high-fructose corn syrup!), wheat flour, citric acid, a blend of natural berry flavors, and radish extract added for color. Each Made Simple twist mimics the taste of Original Red® to a T – so you don’t lose any of the Red Vines deliciousness you know and love.

You also get the fat-free, preservative-free, distinctive chewiness that endeared you to Red Vines products in the first place.
Organic – shining brightly

- Definition – yes.
- Specific Production Requirements
- Viewed as Better for You
- Significantly Higher Cost
- Rapid Growth
- Demand Outstrips Supply
- Control/Regulatory Issues
Consumer Trends: Trust – Information

➢ Social Media
  ➢ Drives Trends
  ➢ Replaced Traditional Sources of Information
  ➢ Factual?

➢ Food Industry Must Embrace Social Media
  ➢ Convey useful, factual information, not a sales pitch.
Consumer Trends: Responsibility

➢ Sustainability
  ➢ Social Responsibility
  ➢ Ethical Food Production

➢ Personal Responsibility

➢ Social Media
Consumer Trends: Activism

Is sugar under siege? It sure seems like it.
Consumer Trends: Activism – Taxes

➢ Are beverage taxes the new normal?
➢ Shift from health/wellness to revenue generation
➢ Just made activists’ job easier
➢ Continued significant funding by Bloomberg
### Consumer Trends: Activism – Taxes

**U.S. Municipalities**
- Berkeley, CA
- Albany, CA
- Oakland, CA
- San Francisco, CA
- Boulder, CO
- Cook County, IL
- Philadelphia, PA
- Seattle, WA (proposed)
- Others

**International**
- Mexico (2014)
- United Kingdom (April 2018)
- South Africa (2018)
- Canada (proposed)
- Thailand (in the works)
- Others
WATER SALES ON THE RISE IN PHILADELPHIA
Share of Philadelphia beverage dollars YTD vs. YAGO

Source: Nielsen Product Insider, powered by Label Insight. YTD Weeks Ending 05/27/2017 vs YAGO (Philadelphia city proper)

Copyright © 2017 The Nielsen Company (US), LLC. All Rights Reserved.
IMPACT OF BEVERAGE TAX ACROSS SUBCATEGORIES

% share of items that are taxable vs. % dollars coming from those items

Source: Nielsen Product Insider, powered by Label Insight, YTD Weeks Ending 05/27/2017 vs YA, Total U.S.

Copyright © 2017 The Nielsen Company (US), LLC. All Rights Reserved.
Consumer Trends: Activism – Taxes

Mexico
➢ 10% tax on soft drinks implemented in 2014.
➢ Goal is to reduce the number of Mexican citizens with diabetes and cardiovascular disease.
➢ Study published in BMJ in 2016 showed a 6% decline in soda sales in 2014.
➢ Sales of water and non-taxed beverages increased 4%.
➢ Sugar consumption dipped first year, now increasing

Denmark
➢ Implemented a tax on soft drinks in the 1930s.
➢ Also implemented a fat tax around that time.
➢ Fat tax was repealed in 2013.
➢ Soft drink tax was abolished in 2014.
The impact of the Vermont G.M.O. law on bulk refined beet and cane sugar prices. (cents per lb)
Consumer Trends: Activism – G.M.O.s

The spread between non-G.M.O. cane sugar and G.M.O. beet sugar prices because of the Vermont G.M.O. law. (cents per lb)
Consumer Trends: Convenience

➢ At odds with trust, sustainable, etc.? 
➢ Millennials Cook Less 
➢ The Emergence of Meal Kits 
➢ The Game-Changing Merger 
➢ Many, Many, Many More
Consumer Trends: Convenience

As Supervalu works to improve traffic trends and drive sales, meal solutions, especially meal kits and grab-and-go options, will be a key area of focus. - Mark Gross, president and chief executive officer.
Consumer Trends: Meal Kits

[Image of meal kit boxes with the label "HAPPY FOOD CO" and a "GLUTEN-FREE" sticker]
Consumer Trends: THE Merger

As Amazon’s Influence Grows, Marketers Scramble to Tailor Strategies – New York Times, July 31

Amazon.com Announces Second Quarter Sales up 25% to $38.0 Billion
Consumer Trends: Health and Wellness

- Drives Food/Beverage Sales
- Free-From Claims
- Fresh
- Added Health Benefits
- Avoid/Limit Sugars
- Artificial Sweetener Avoidance
- Stevia, “Natural” No-Calorie Sweeteners Gaining Acceptance
HEALTHFUL CLAIMS DRIVE SALES IN BEVERAGES
Top growth specifications by category

SOFT DRINK
FREE FROM ARTIFICIAL COLORS +2%
CONTAIN COCONUT +23%

ISOTONIC BEVERAGES
NATURAL SWEETENERS +142%
ANTIOXIDANTS +11%

LIQUID TEA
FREE FROM SUGAR +13%
CONTAINS CAFFEINE +11%

Source: Nielsen Product Insider, powered by Label Insight. YTD Weeks Ending 03/27/2017 vs YAGO (Total U.S.)

Copyright © 2017 The Nielsen Company (US), LLC. All Rights Reserved.
Suja has expanded its probiotic offerings with a line of drinking vinegars. The vinegars feature blends of organic Apple Cider Vinegar or Coconut Vinegar.

Lifeway Elixirs are a new line of tasty, organic, non-dairy, probiotic sparkling beverages that are low in calories and sugar. The company created the drinks based on customer feedback.

Just two of many, many examples.
Majority are trying to avoid/limit sugars

Q: Are you trying to limit or avoid sugars in your diet? (n=1,002)
Q: What action(s) are you taking to limit or avoid sugars? Select all that apply.
(Of those avoiding/limiting sugar, n=774)

Source: International Food Information Council Foundation Food & Health Survey 2017
Consumer Trends: Health and Wellness

Replacing beverages with water, eliminating certain foods are top ways consumers limit sugars

Actions Taken to Avoid/Limit Sugars?
(Of those avoiding/limiting sugars)

Source: International Food Information Council Foundation Food & Health Survey 2017
➢ In 2016, bottled water became the No. 1 beverage in the U.S. (Beverage Marketing Corp.).

➢ Ascent coincided with consumer preference for healthy refreshment.

➢ Beverage Marketing Corp. forecasts bottled water will continue to gain share.
Artificial low-, no-calorie sweeteners under pressure

➢ Study recently published in the journal Stroke links low-, no-calorie sweeteners with stroke and dementia.
➢ Research links low-, no-calorie sweeteners with promoting fat accumulation.
➢ Recent study links artificial sweeteners with weight gain.
Consumer Trends – Health and Wellness

Natural, no-calorie and low-calorie sweeteners succeed.

Lots of options, stevia appears to have come to the forefront.

Source: Grand View Research, Inc.
Beverage Industry’s Balanced Calories Initiative

➢ Goal is to reduce the beverage calories consumed per person annually by 20% by 2025.

➢ Program includes signage in stores and restaurants.

➢ A commitment by members to offer choices

➢ Clear calorie information on the front of every product.
PepsiCo, Inc. is committed that at least two-thirds of its volume will have no more than 100 calories from added sugars per 12-oz serving by 2025.

Coca-Cola Co. is committed to having low-, no-calorie options in every market.

Nestle is working to reduce added sugars in products by
Consumer Trends: Innovation

Food manufacturers must innovate to compete with each other and to attract and keep customers.

- Differentiation
- Keeping Up with Trends
- Being on Leading Edge of Trends
- Incorporating Everything Talked About Earlier
- At a Proper Price Point
➢ Tate & Lyle patents new sweetener blend.

➢ Senomyx commercially developing siratose.

➢ Numerous companies exploring ways to enhance the availability and performance of stevia.
Consumer Trends: Innovation

Innovation
Consumer Trends: Conclusion

**TRUST** – Driving many consumer trends, including transparency, clean eating, natural, organic, sustainability, labeling and many more.

**TASTE** – Still is the key factor driving consumer preference. But there is evidence transparency and related evolving drivers are gaining ground on traditional drivers of consumer decisions.

Food Manufacturers must respond “in kind” on the trust issue, be innovative in the process and deliver a profitable product.
Thank you