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UW Extension Business & Entrepreneurship

Edible Summit

Tera-Trends: 2016



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Our Agenda

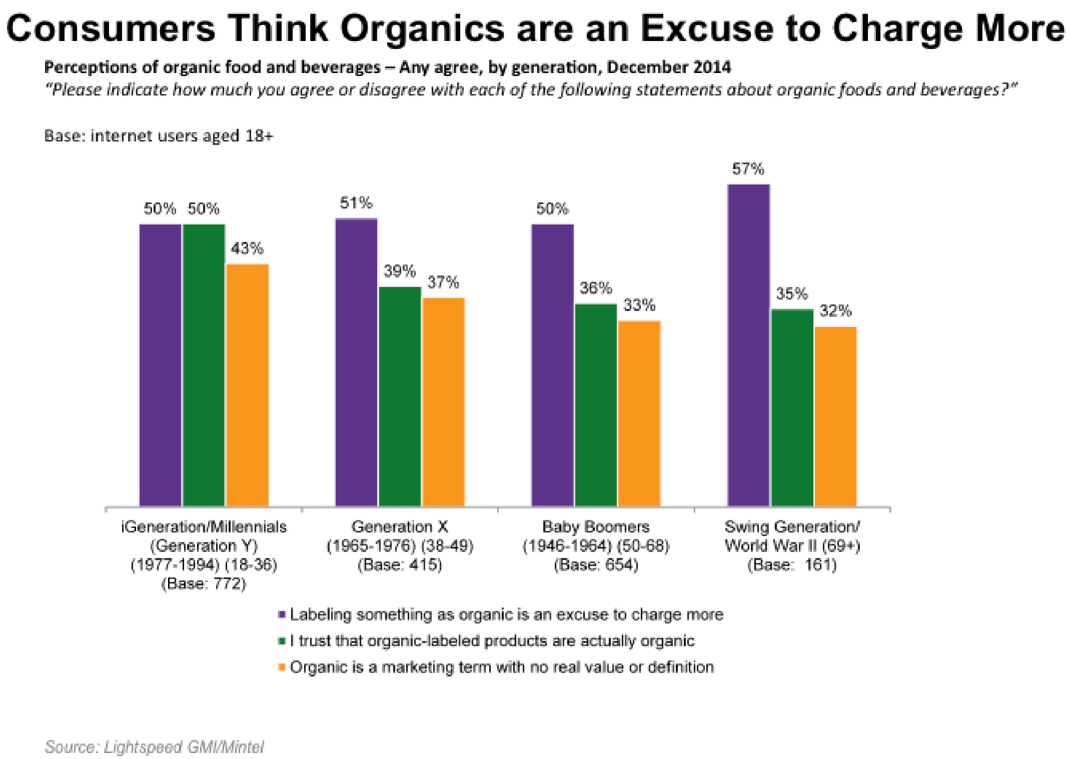
- Consumer Yin and Yang
- Welcome to the Balkans
- Food Tech, Meet Cognitive Neuroscience
- What This Means for You

Consumer Yin and Yang

- Local and Organic
- Free-From
- Snacks

Organics

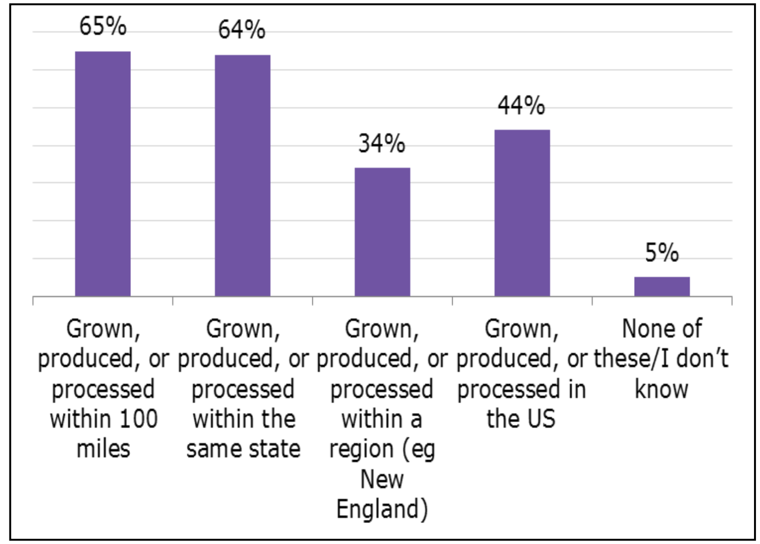
- Evidence of plateau in organic penetration starting in 2015
- Millennials are buying organics at mass retailers, dollar stores, and other non traditional venues; older consumers buy them at traditional retailers.
- Consumers of all ages don't fully understand the value proposition of organics
- Health is the primary driver for organic purchases, not taste
- Geography matters – Midwest is least likely to purchase organic (40%), even lower than the south (43%). West coast is most likely (50%).

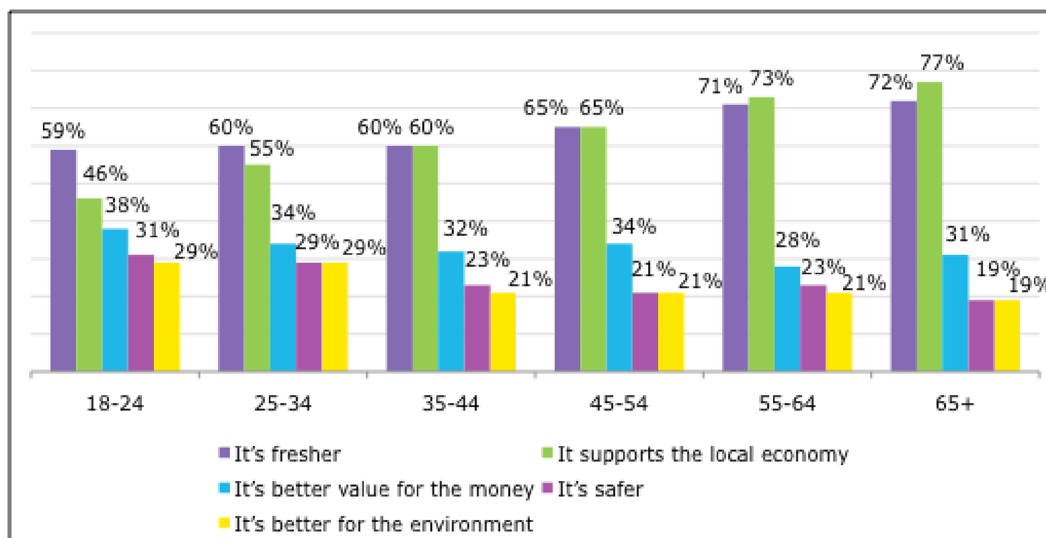


Local is in the Eyes of the Beholder

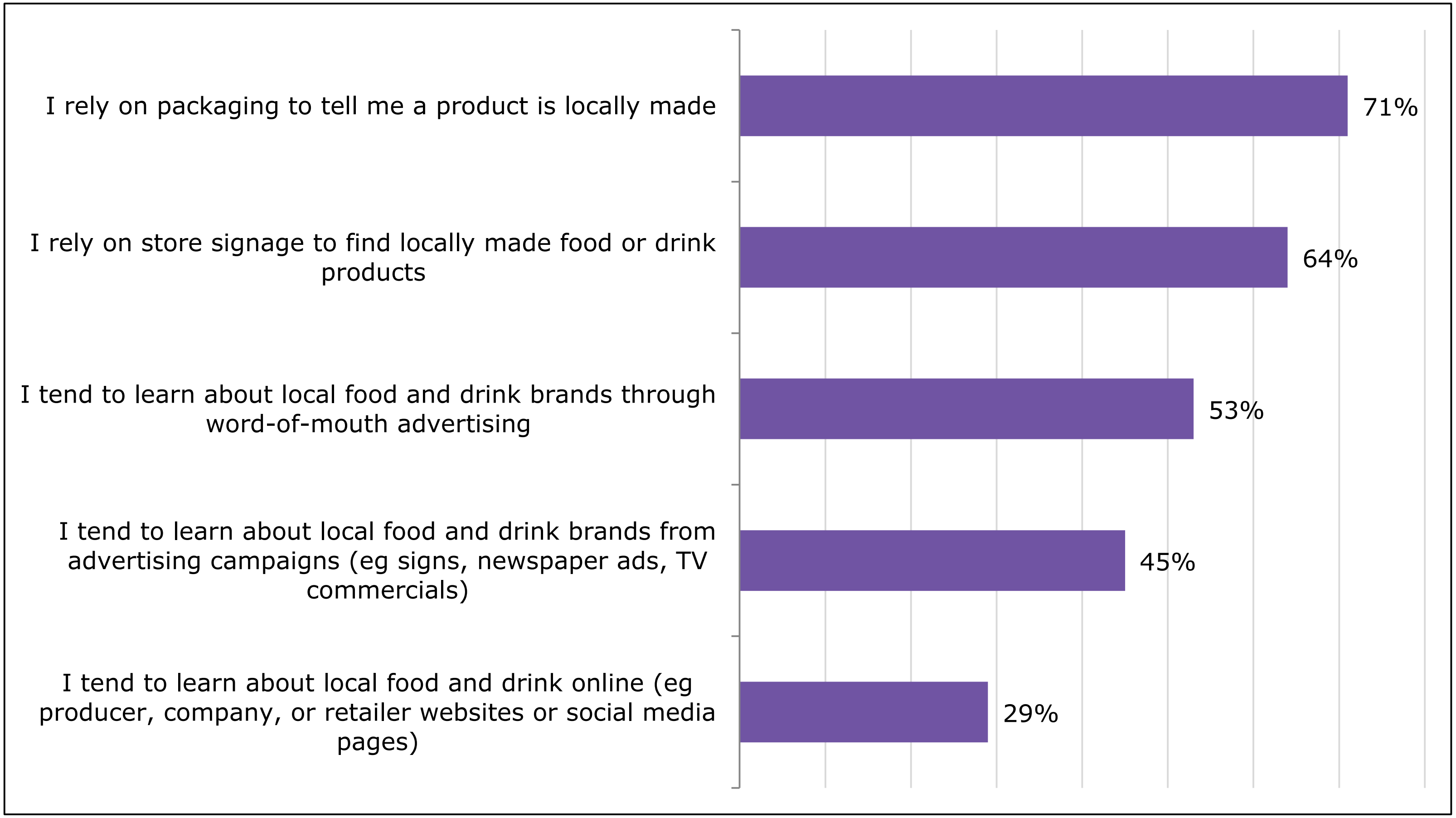
- Younger people tend to include a wider geography in their definition of local
- Older people are more likely to purchase local because it supports the local economy
- Most food businesses need a broader definition of local to achieve sufficient scale to be profitable

Mintel
Base: 2,000 internet users aged 18+





How Do Consumers Learn About Local Products?



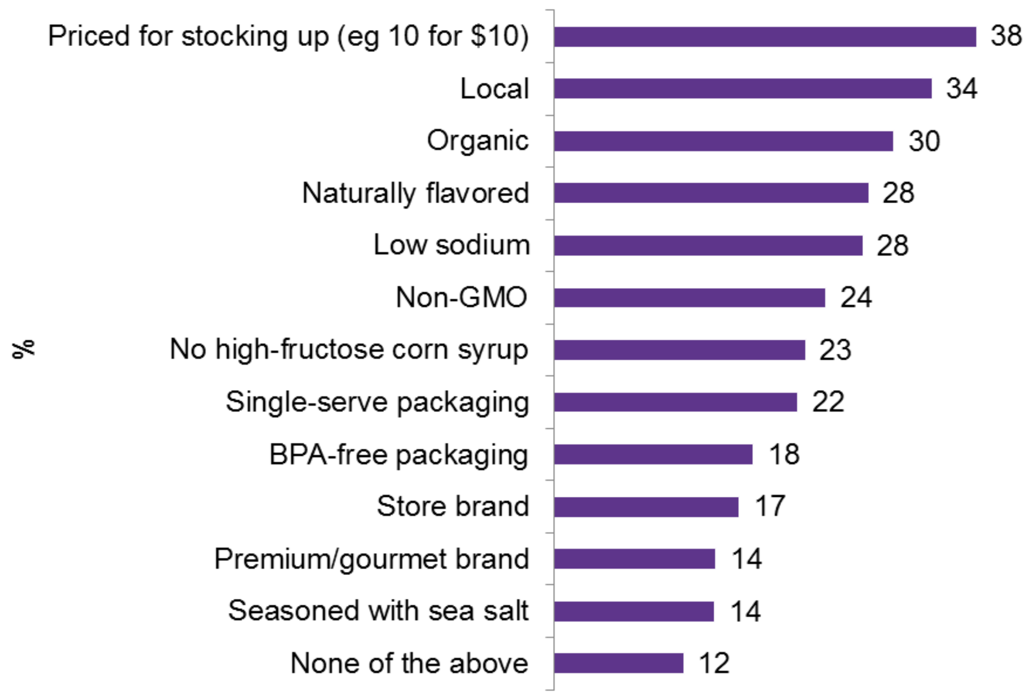
Source: Lightspeed GMI/Mintel, The Local Consumer, 2015

Price, Local, Organic Positioning Rresonate with Consumers

FACTORS INFLUENCING PURCHASE, FEBRUARY 2016

Base: 1,837 internet users aged 18+ who share in or do all household food shopping and purchase vegetables

"Which of the following factors, if any, would influence you to purchase more vegetables (fresh, shelf-stable, or frozen)? Please select up to 5."



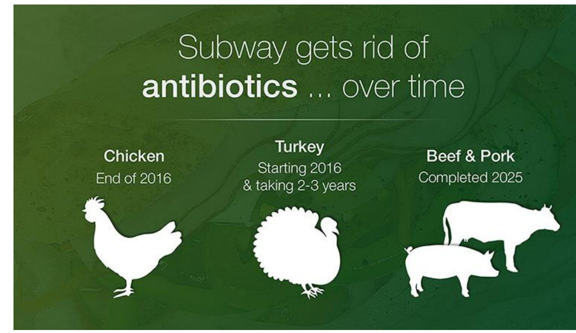
Local claims (34%) rank high as influential purchase drivers, especially with older generations, non-parents, and Non-Hispanics. Organic claims are most influential with iGeneration, Millennials, Parents, and Hispanics".

Source: Lightspeed GMI/Mintel

Free-From

5539 new product launches

3851 new product launches



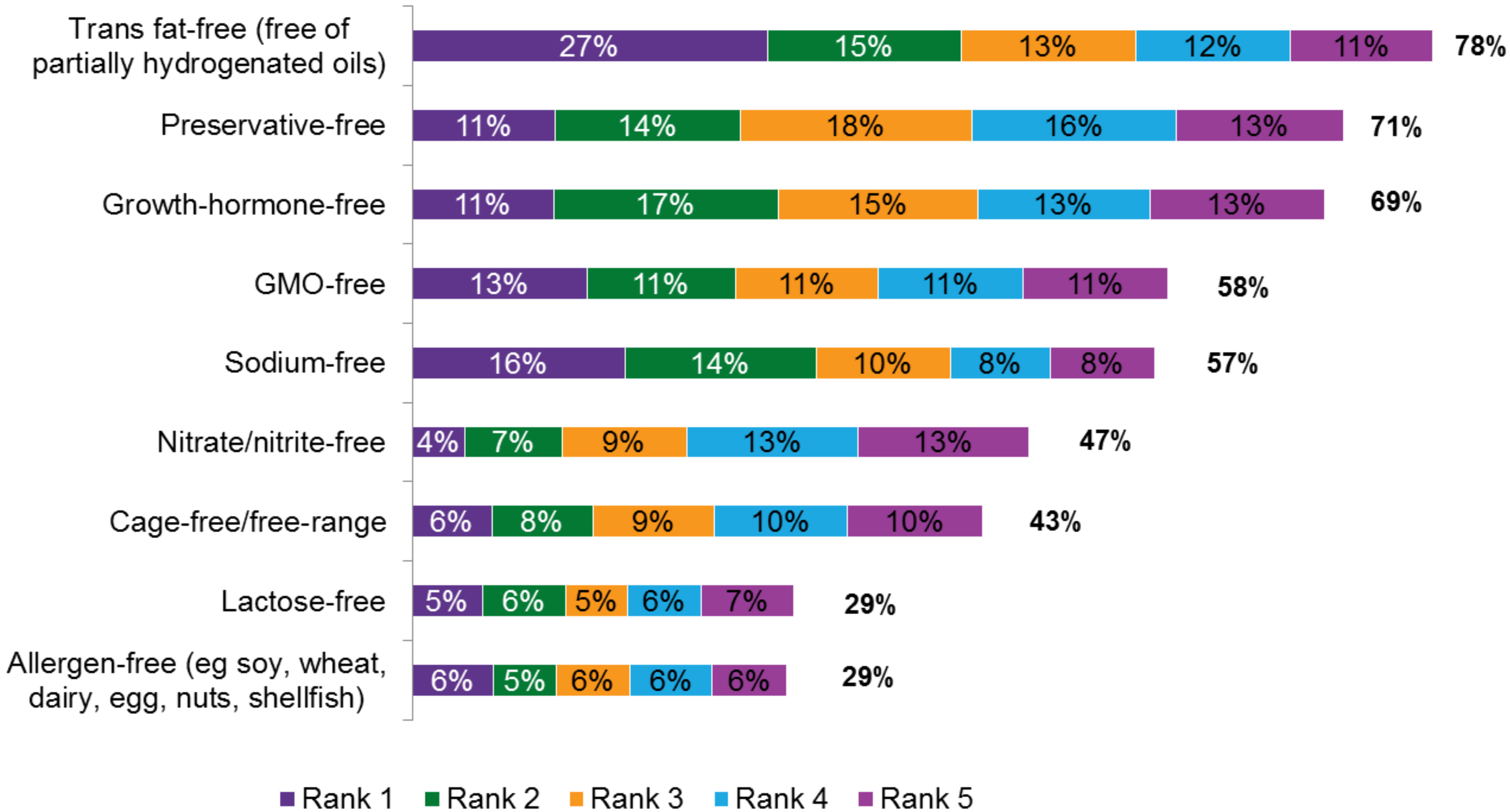
179 new product launches

Source: Mintel, GNPD, queried August, 2016

Health Issues Compel Most Free-From Purchases

Importance of free-from food claims, February 2015

"Thinking about the following claims found on food you buy at supermarkets, mass merchandisers, natural food stores, etc., to eat at home, please rank the following claims in order of importance to you."



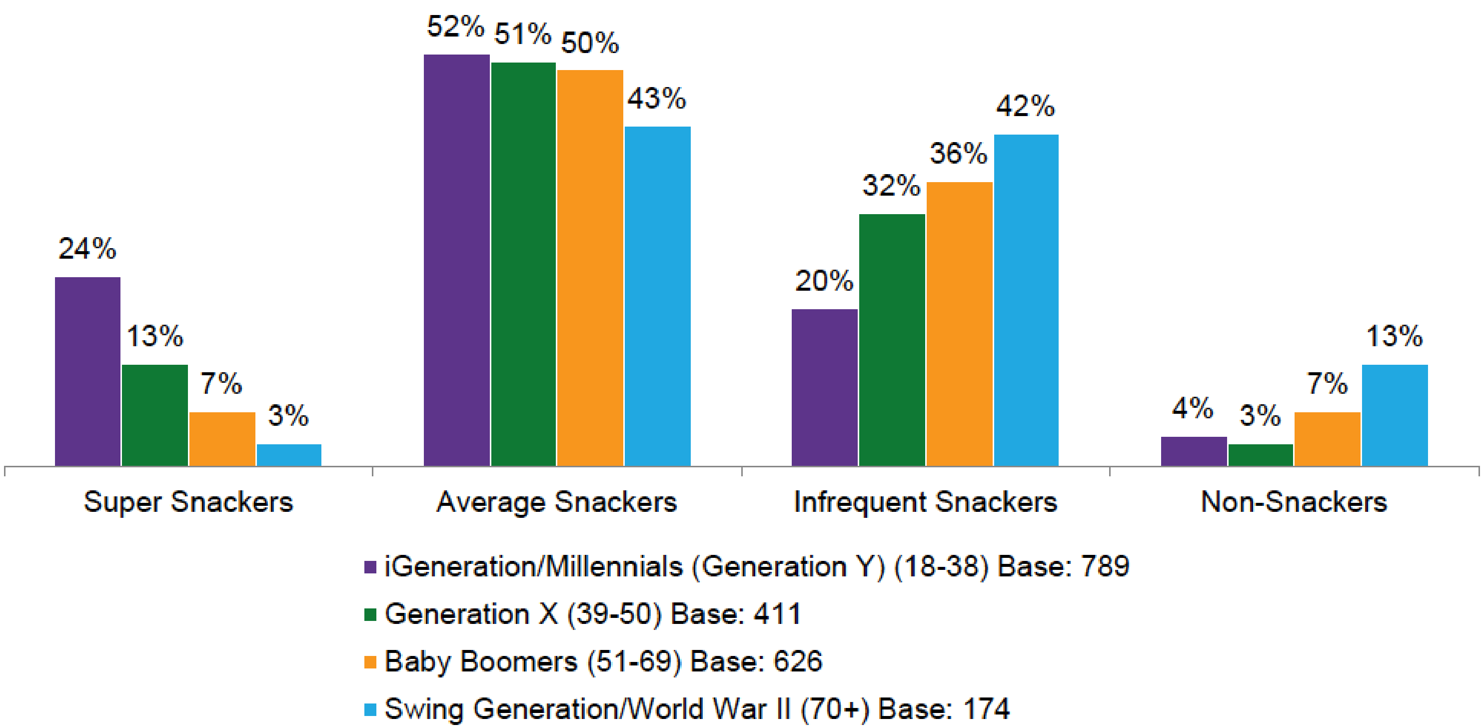
Base: internet users aged 18+ who purchase any free-from food; total top five rankings in bold

Source: Lightspeed GMI/Mintel

Who Snacks?

FIGURE 8: DAILY SNACKING FREQUENCY, BY GENERATION, JANUARY 2015

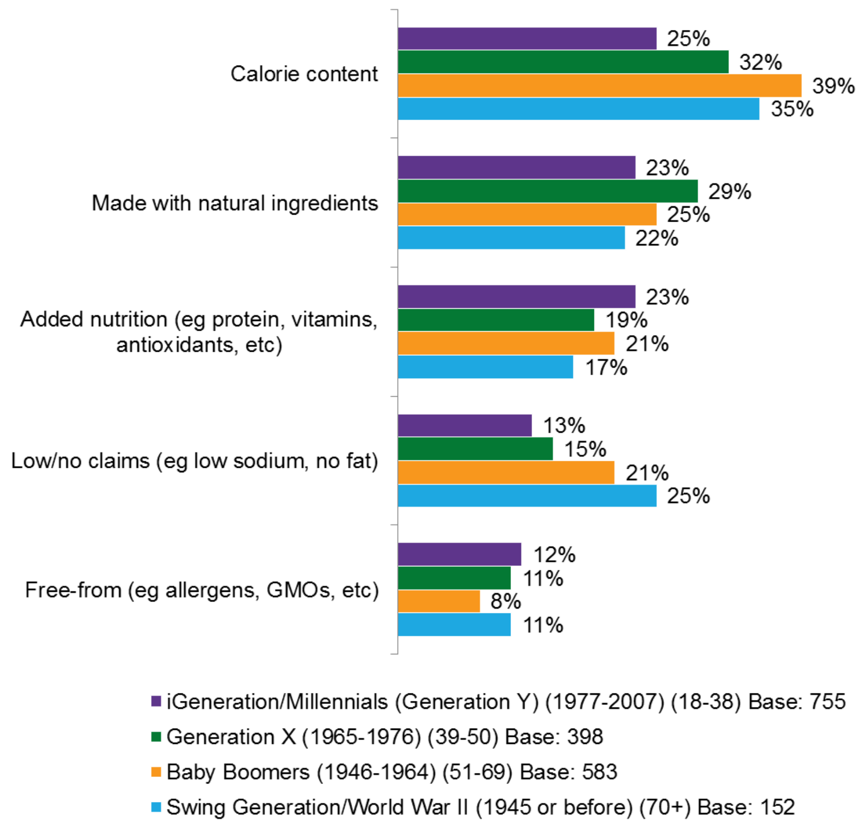
"How many times per day do you eat foods or drinks specifically as a snack? Please select one."



Source: Lightspeed GMI/Mintel

Snacking or Grazing?

IMPORTANT FEATURES WHEN EATING A SNACK, BY GENERATIONS, TOP FIVE, JANUARY 2015



Base: 1,888 internet users aged 18+ who snack

SOURCE: LIGHTSPEED GMI/MINTEL

Emotional, functional reasons key snacking drivers

- ***Consumers snack mainly to satisfy a craving (62%)***. This is a strong driver for older consumers. Older consumers did not grow up with all-day snacking and may continue to view snacks as treats, compared to younger consumers.
- ***One quarter snack because they are bored, while 16% do so because they are stressed***.
- ***Millennials are more likely to snack because they are always hungry, or for energy.*** They also are slightly more likely than older generations to indicate snacks with added nutrition are important to them and may be drawn to products with high fiber, energizing claims, or protein content to stay satiated.

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Source: Mintel, GNPD, queried August, 2016

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Source: Mintel, GNPD, queried August, 2016

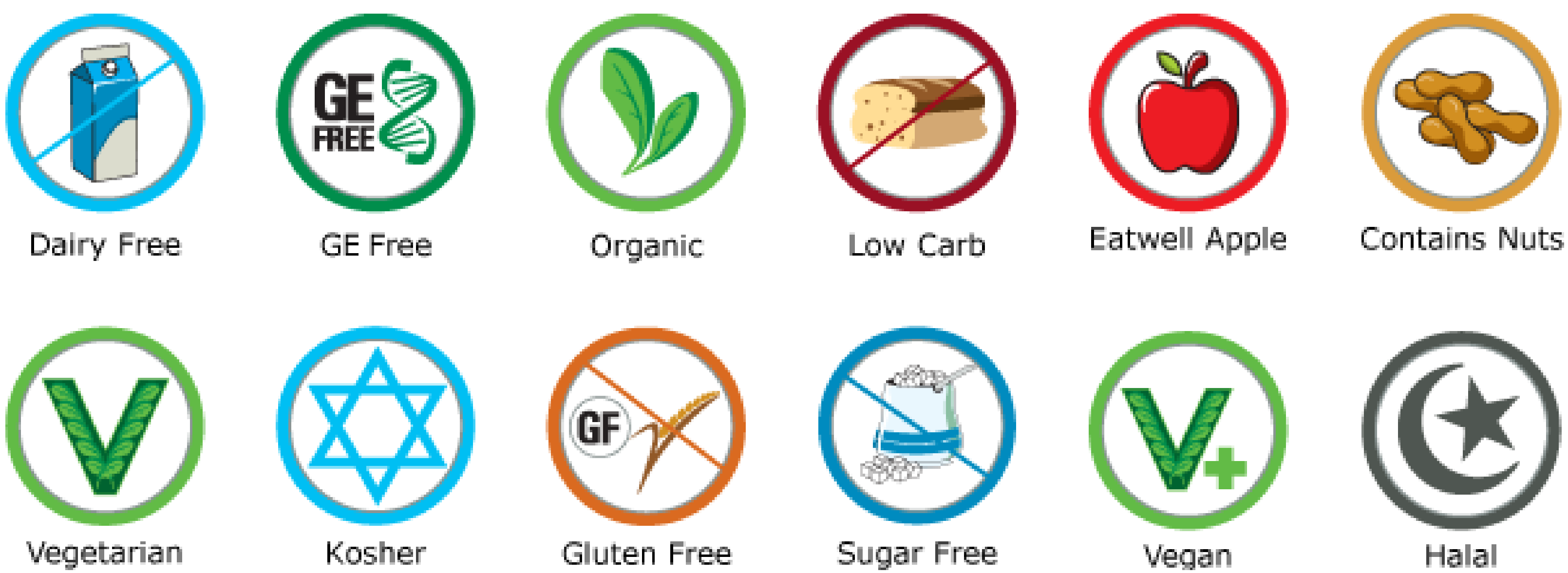
Welcome to the Balkans

Balkanize - transitive verb

1: to break up (as a region or group) into smaller and often hostile units
2: divide, compartmentalize. Now pop culture has been balkanized, it is full of niches, with different groups watching and playing their own things

Dietary Balkanization

- Paleo
- Gluten-Free, and the rest of the free's
- Vegetarian, vegan
- Raw
- Religious
- Allergens



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Product Balkanization

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Brand Balkanization

Channel Balkanization

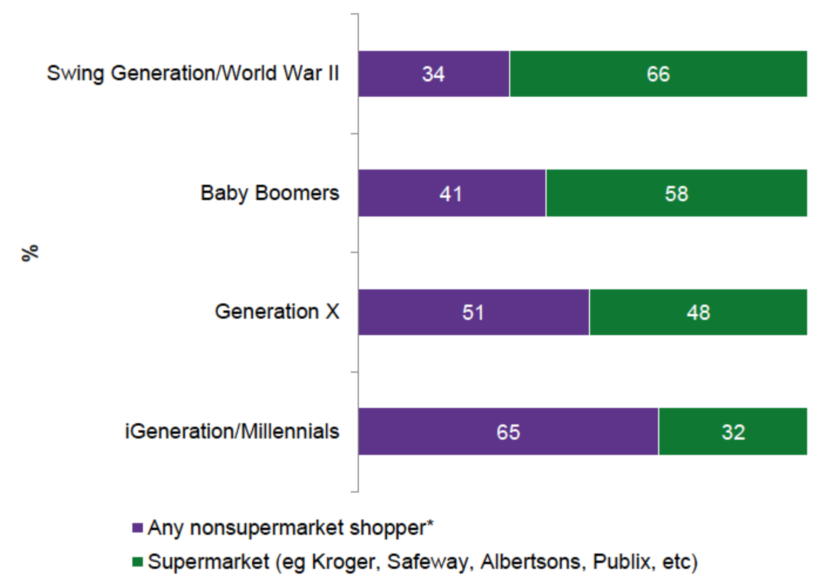
2005 - 2015

- Dollar sales at supercenters/clubs grew 61%
- Specialty food/other grocery grew 72%
- Supermarket sales were down 3%

Generational Shifts

FIGURE 16: PRIMARY SHOPPING LOCATION FOR FOOD AND DRINK, BY GENERATION, MARCH 2015

"Which of the following is your primary shopping location for food and drink (ie, the location you purchase most of your weekly food and drink)?"



Base: 1,946 internet users aged 18+ who are responsible for at least some of the grocery shopping for themselves/their household

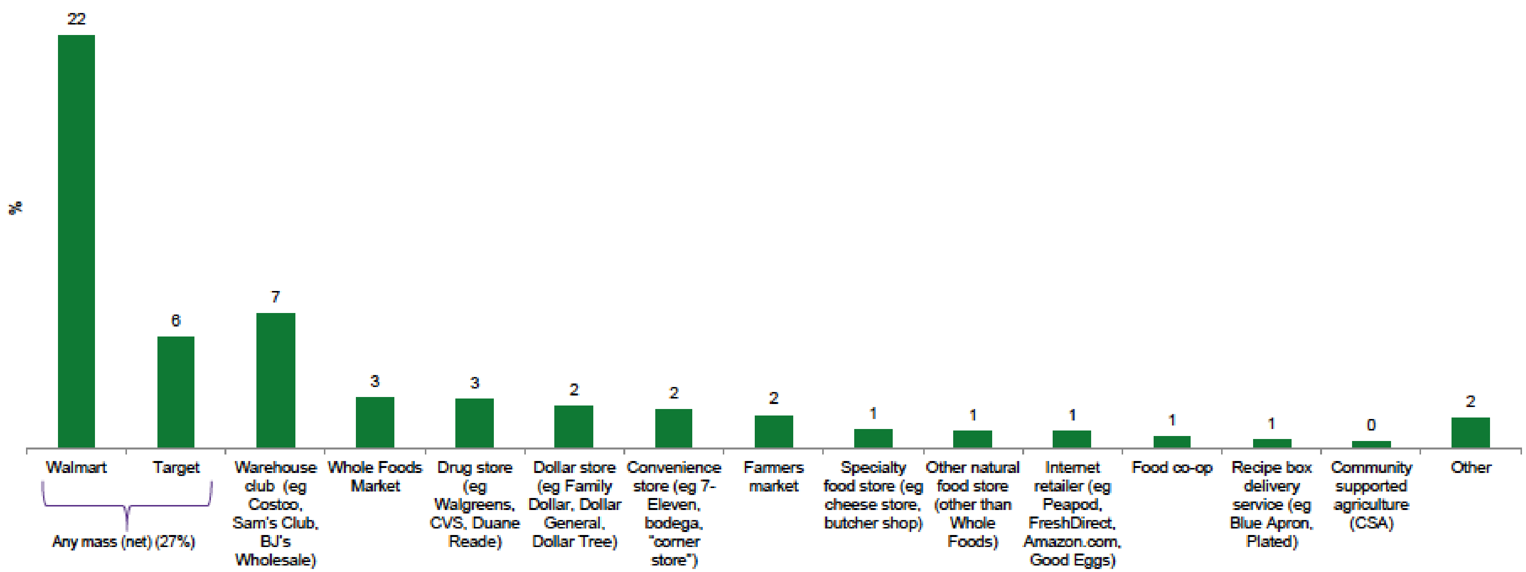
* net of other locations (see Figure 18)

Source: Lightspeed GMI/Mintel

Shopping Price and Experience

FIGURE 18: PRIMARY SHOPPING LOCATION FOR FOOD AND DRINK (NONSUPERMARKET LOCATIONS), MARCH 2015

"Which of the following is your primary shopping location for food and drink (ie, the location you purchase most of your weekly food and drink)?"



Base: 1,946 internet users aged 18+ who are responsible for at least some of the grocery shopping for themselves/their household

Source: Lightspeed GMI/Mintel

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The Consumer is Overwhelmed by Choice

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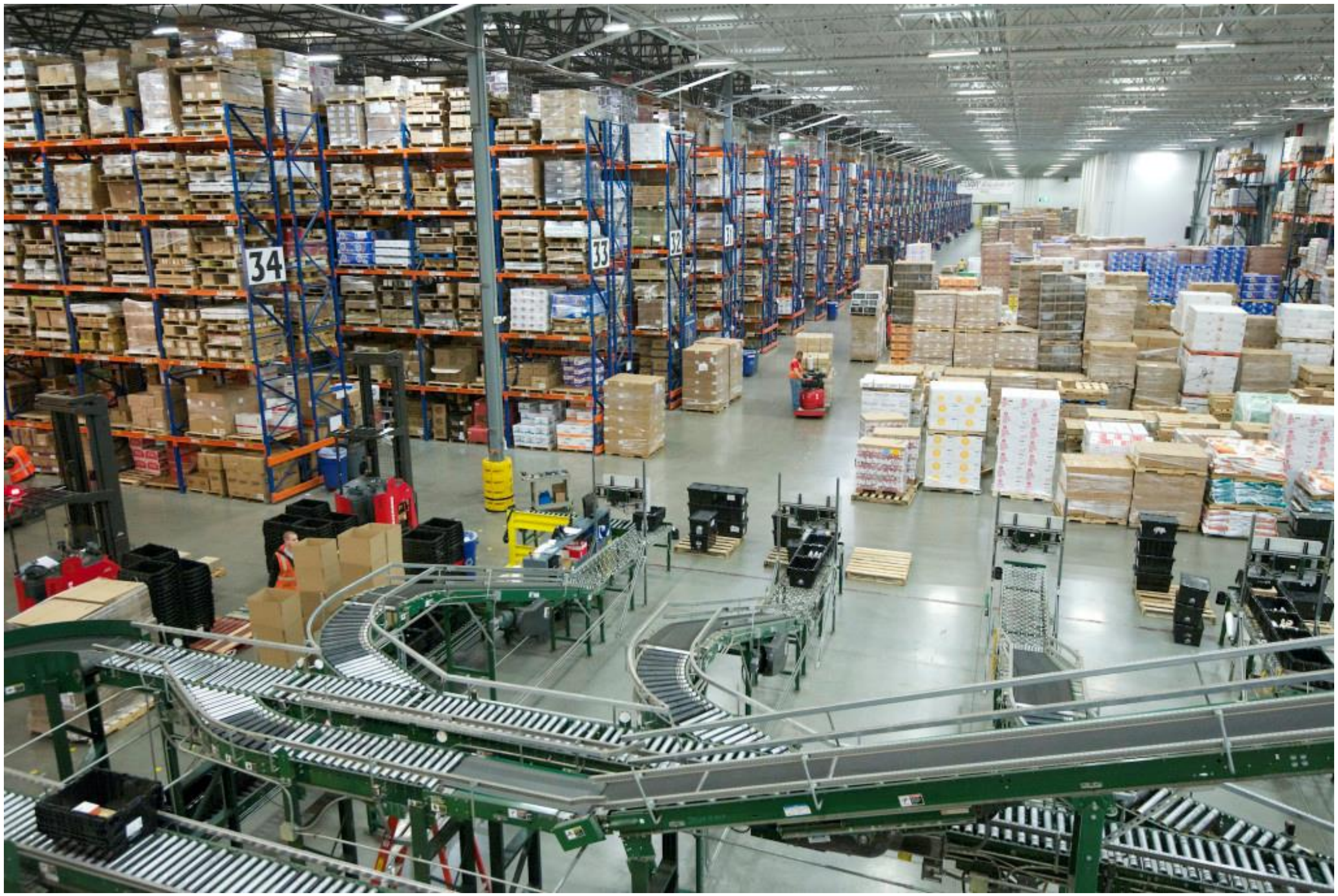
Channel Partners are Overwhelmed by Scale



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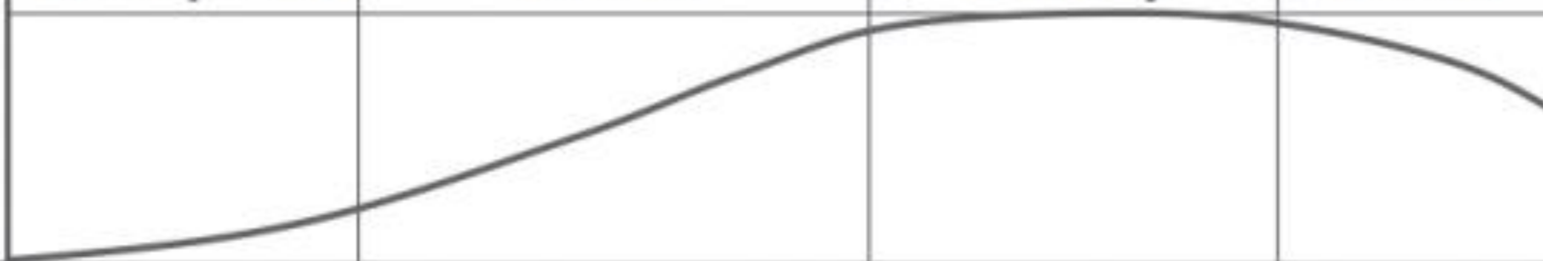
The Cost of Sales is Increasing Dramatically

- Slotting Fees
- Free-fills
- Charge-backs
- Penalties for Out of Stocks
- Mandatory Promotions
- Chef Samples
- Product Formulation
- Brand Positioning
- Labels

A Shakeout is Starting

Dynamics of Industry Lifecycle



	Development	Growth	Maturity	Decline
Users/ buyers	Few: trial of early adopters	Growing adopters: trial of product/service	Saturation of users Repeat purchase reliance	Drop-off in usage
Competitive conditions	Few: competitors	Entry of competitors Attempt to achieve trial Fight for share Undifferentiated products/ services	Fight to maintain share Difficulties in gaining/ taking share Emphasis on efficiency/ low cost	Exit of some competitors

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What Makes You Defensibly Unique?

- Product
- Ingredients
- Varietals
- Terroir
- Brand
- Packaging
- Availability
- Personal Relationships
- Customer Experience

Food Tech, Meet Cognitive Neuroscience

This is the year that Food Tech took off.....

Sort of.....

GrubHub Acquires LAbite. The Los Angeles, CA-based restaurant delivery service will allow the Chicago, IL-based mobile app for restaurant delivery to expand its delivery network. Labite diners ordered almost $80 million in gross food sales, with most of the volume coming from the greater LA area. Labite previously acquired WaitersonWheels (San Francisco Bay Area) and EatOutIn (Austin, Huston, and San Antonia) in 2015. GrubHub currently works with over 44,000 restaurants in over 1,000 cities in the US and London. Announced: 05/03/16 Terms: $65M cash. Previous investment: Not Disclosed. Founded 2001

Food + Tech Connect, August, 2016

Chef'd Raises $12.27m. The El Segundo, CA-based meal and recipe kit delivery service offers over 200 recipes for consumers to choose from, and recently partnered with the NY Times. Customers select meals and kits with recipes and prepared ingredients are delivered to their homes within 48 hours. The investment will be used for expansion. Announced: 05/17/16 Stage: Series A Participating Institutional Investors Not Disclosed Previous Investment $5.2 million Founded 2013

ResQ

ResQ Raises $446k. The Helsinki, Finland-based meal club "rescues" leftover food from restaurants and bakeries that would otherwise be thrown away or not consumed. Customers can buy these foods for 40-70% discounted prices. Currently ResQ has over 17,000 customers and over 150 provider partners. With the funding, ResQ has announced its expansion to 3 locations in Sweden. Announced: 05/25/16 Stage: Seed Participating Institutional Investors: Cleantech Invest Oyi Previous Investment: Not Disclosed Founded: 2106

Food + Tech Connect, August, 2016

Now for the Cautionary Tales

Instacart - $220M invested in Series C; $2 Billion valuation in 2015, then came the legal challenge to their employee-less business model. Now they're hiring full time employees, cutting staff, focusing on key geographic markets.

Farmigo - $26M invested; shutting down because they discovered this wasn't a software business, it's a logistics business.

Food + Tech Connect, August, 2016

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What Shoppers Say About On-Line Food Shopping

FIGURE 34: LIMITATIONS TO FOOD/DRINK SHOPPING ONLINE, BY DEMOGRAPHICS, MARCH 2015

"Which of the following reasons describe why you don't buy food/drink from internet retailers more often? Please select ALL that."

Base: 1,813 internet users aged 18+ who are responsible for at least some of the grocery shopping for themselves/ their household and who shop for food/drink online a few times per month or less often

Source: Lightspeed GMI/Mintel

Cognitive Neuroscience of Food Foraging & Consumption

"John Kenneth Galbraith once said that an ordinary person wheeling a shopping cart through the aisles of a supermarket is in touch with her deepest emotions".

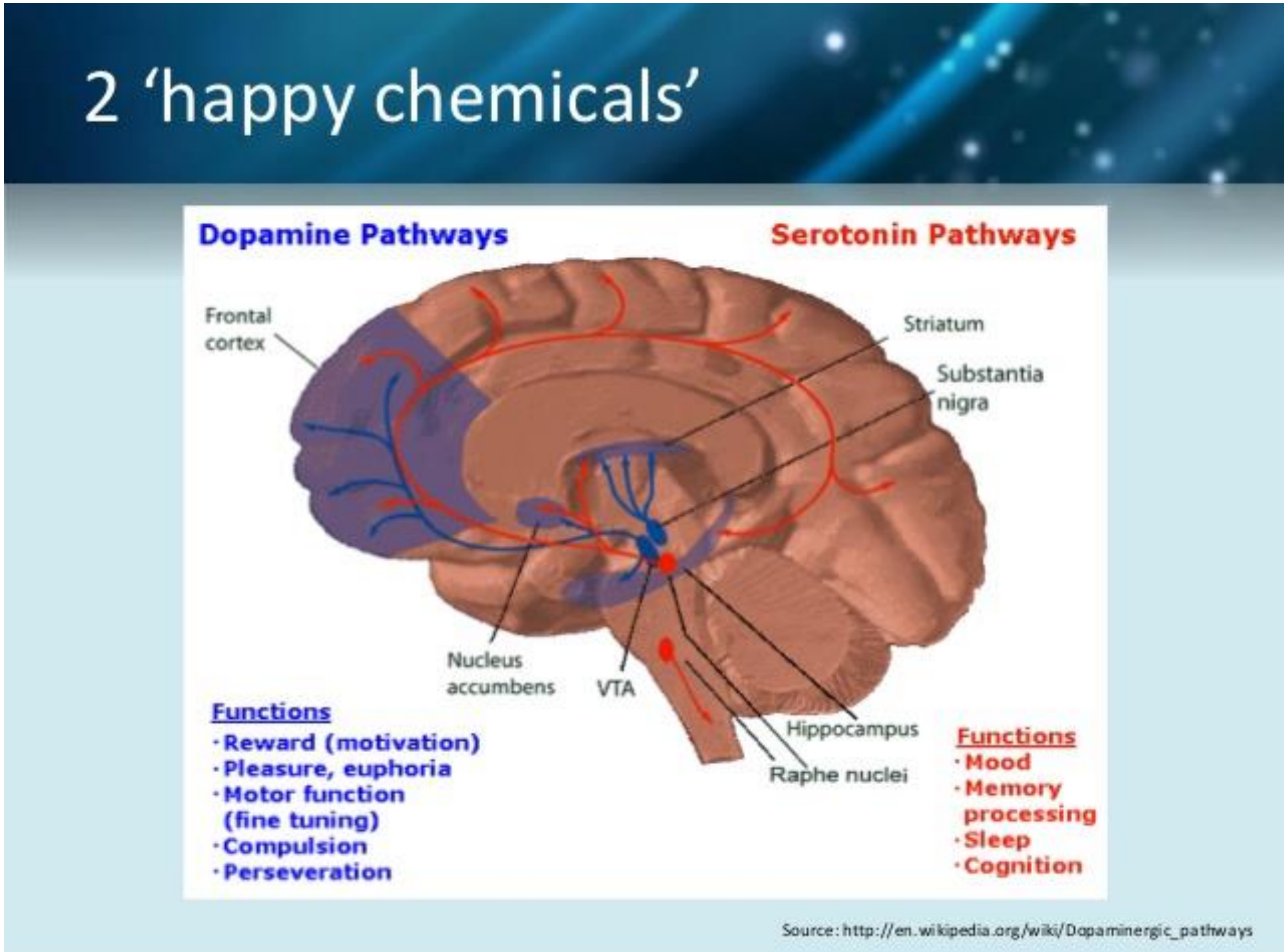
Source: Wall street Journal, "The Neuroscience of Retailing", May 15, 2008.

Our Drive to Forage is Hard-Wired

"That little voice in your head that never shuts up goes a mile a minute as buying decisions based on old stories and new curiosities are made in consultation with the logical and emotional centers of your brain. It is a totally absorbing, totally human process. And in the end, after all the subliminal cogitation is said and done, it simply has to do with the way you feel about the products arrayed before you and the experience you're having in the moment."

Source: Wall street Journal, "The Neuroscience of Retailing", May 15, 2008.

Dopamine and Serotonin are Released ***When We Shop*** Not Just When We Eat



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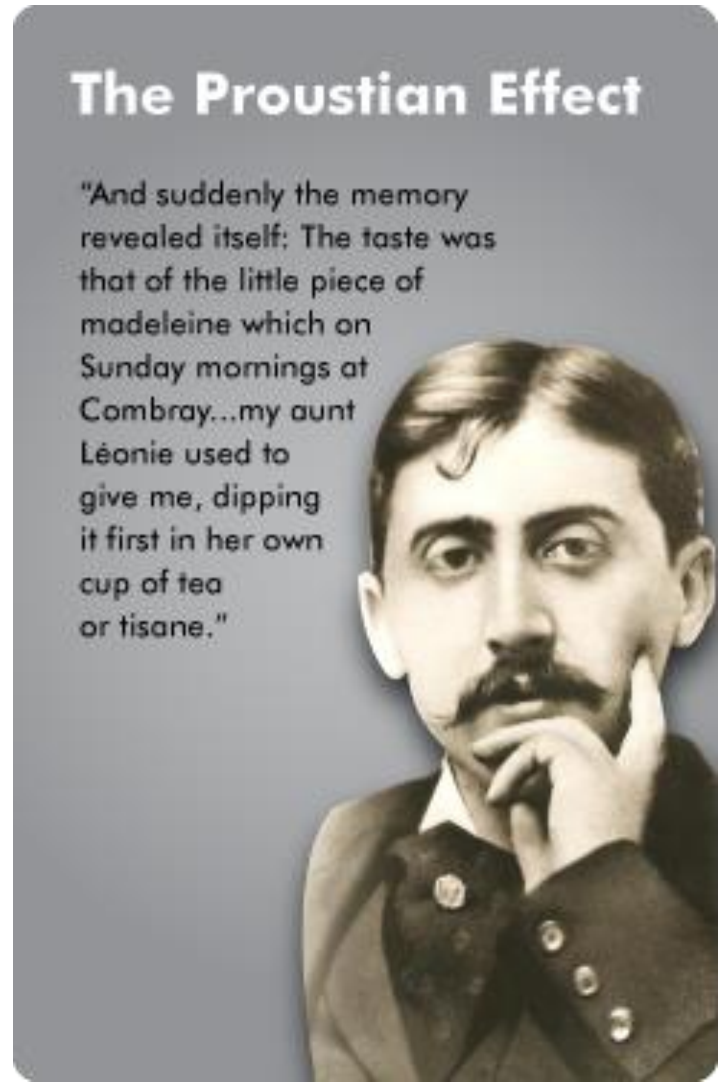
Implications for Food Tech

- We don't want other people shopping for us, or cooking for us, even though we're busy, and we can't explain why
- Cognitive neuroscience research shows that we were hard-wired to do these things in order for our species to survive
- Food Tech companies that succeed are likely to be the ones that use this to their advantage rather than trying to fight it



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What This Means for You

- The cost of starting a financially successful food business has gone up, paradoxically because we've made it cheaper and easier to start financially unsustainable food businesses.
- There is a huge shakeout coming. Defensibly unique businesses will be the ones that survive and thrive.
- Financially sustainable food businesses of the future will have in-house manufacturing, a consumer facing element, or both.
- Target marketing products that are on-trend is more important than ever.
- Food Tech need to recognize that our deep-seated relationship to food will not be easy to change.
- Get ready to be raising money over and over again.