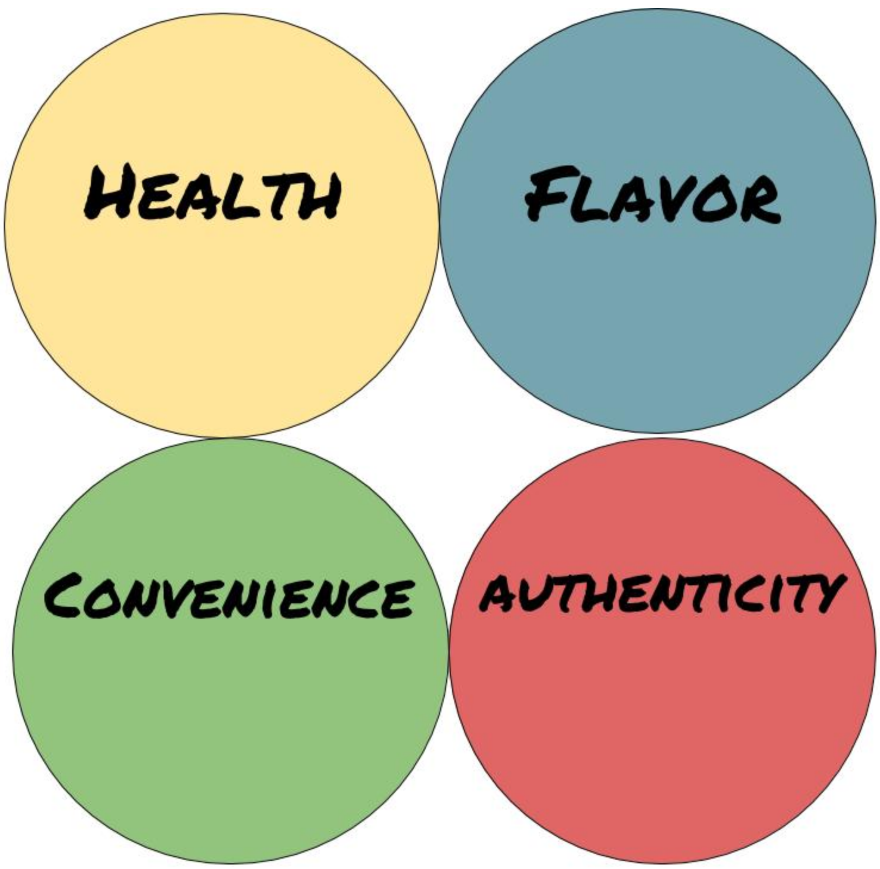
Market Opportunities for Maine Processed Foods



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For
Coastal Enterprises, Incorporated's Tastemaker program
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Executive Summary

In order to succeed, most Maine food processing companies will need to develop unique niches focused on specific customer segments. The four key ingredients of a successful niche food product are health, convenience, flavor, and authenticity. The meanings of all four of these ingredients are changing in the eyes of the consumer in fundamental ways. This is creating disruption in some established food industries while creating opportunity for niche producers.

The New Healthy Diet focuses on “guiding principles” of fresh, nutrient dense, and digestion-aiding foods. Green brassicas and berry fruit have seen strong gains in demand thanks to the New Healthy; while dairy and grain producers will have to adapt their product lineups to stay current. The New Convenient focuses on delivering food that’s more ready-to-eat in smaller packaging; this present opportunity for niche producers to add to their net margins without having to grow. The New Flavor Palate is diversifying and broadening. The New Authenticity focuses on food that is small-scale, non-industrial and personal. Transparency in marketing is a cornerstone of the New Authenticity. There is strong crossover between consumers who value healthy eating and those who look for authenticity and transparency; this 19% of the market is a likely target segment for Maine food processors.

Successful niche food marketing depends on developing a brand that delivers health, convenience, flavor, and authenticity to its core customers across time, while changing its product lineup to meet current trends. Participants in the Tastemakers program have the opportunity to develop further marketing plans using the research gathered by this project.

Introduction

The purpose of this report is to advise on the marketing opportunities for Maine processed foods. I’ll start with a brief anecdote told me by an ecology professor who taught a class I took in business school. He told our class story of a long-ago population of finches, which subsisted primarily on the pine nuts from pine trees. This particular population grew at a faster rate that the available pine trees.

At this point, you might have expected the population to collapse, due to starvation or intraspecies fighting. Instead, the species bifurcated. One group of birds became larger, and stuck to eating the easy-to-access nuts. Another group developed longer beaks, and was able to pry open the difficult-to-access pine cones and eat nuts the larger birds could find. Rather than competing, each group found its niche, and the overall population grew.

I’ve never checked the professor’s story for factual accuracy. But the fable rings true in the marketplace for Maine producers. Within the state, different companies might rank themselves as “big” or “small.” But, compared with the larger food processing industry, Maine is state full of Small Birds - which means we need to find niches that the Big Birds can’t or won’t access in order to thrive.

A niche is a specific product with specific origins targeted to a specific type of customer. Brand-driven niche marketing is driving growth in many food retail categories right now - for instance, the Organic Trade Association notes that, “Brands are driving innovation in [organic and value added] produce.”[1] Processing food is often an essential way to differentiate a product and establish a niche -

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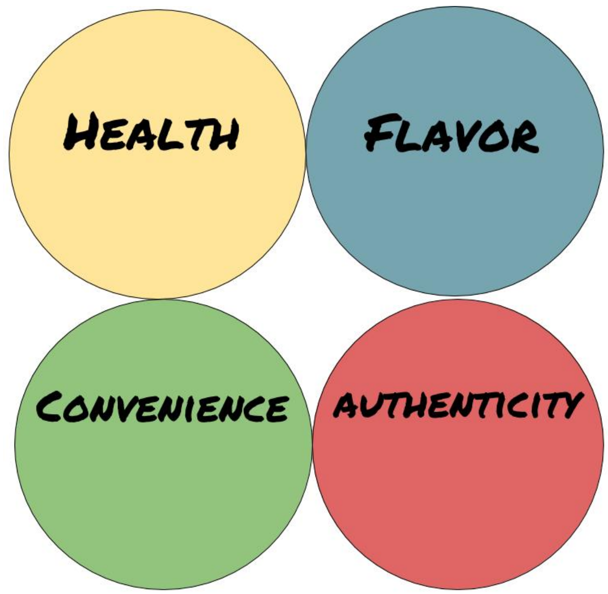
[1] *The State of Organic Produce.* Organic Trade Association.

it's a lot to easier to create and protect a niche for a certain kind of salad kit featuring specific ingredients than it is a for a generic head of green lettuce.

For this project, I spoke with buyers from the retail and foodservice sectors; analyzed consumption data from the USDA Economic Research Service's Food Availability Per Capita database and the Nielsen company; and analysed the results of a Pew Center American Trends Panel Survey conducted from May to June of 2016, along with the accompanying Pew report entitled, "The New Food Fights." My goal during the research process was to uncover some of the emerging niches that Maine food processors might be able to take advantage of - and, more importantly, to develop a formula by which a Maine business could evaluate the niche-marketability of any type of food, from seafood to chocolate and anywhere in between.



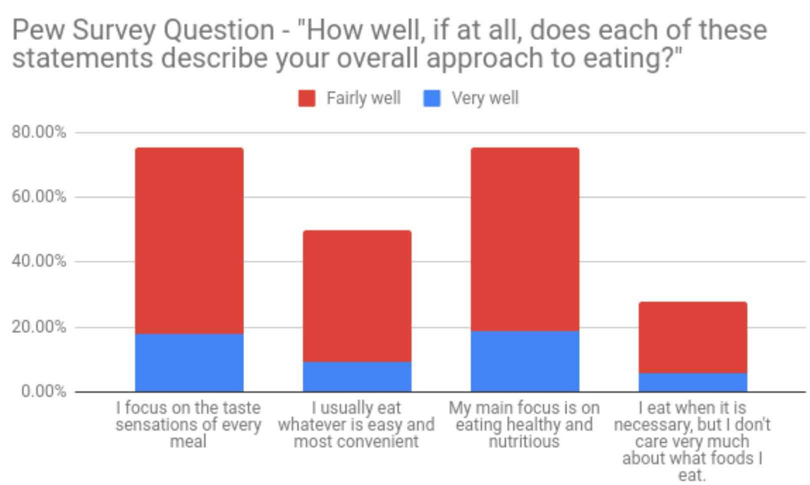
The Four Ingredients of a Successful Niche Food Product

I came with a list - the essential four ingredients of a successful niche food product. They are:

- Health
- Convenience
- Flavor
- Authenticity

To succeed, a food must deliver some combination of these four "ingredients" to its customers. More importantly, a niche product must deliver a *unique combination* of these four ingredients to their customers - something that the Big Birds have trouble copying.

The Pew Center study results demonstrate the importance of three of these ingredients. When asked, "How well, if at all, do each of the following statements describe your overall approach to eating?", the three most popular answers focused flavor, health, and convenience.



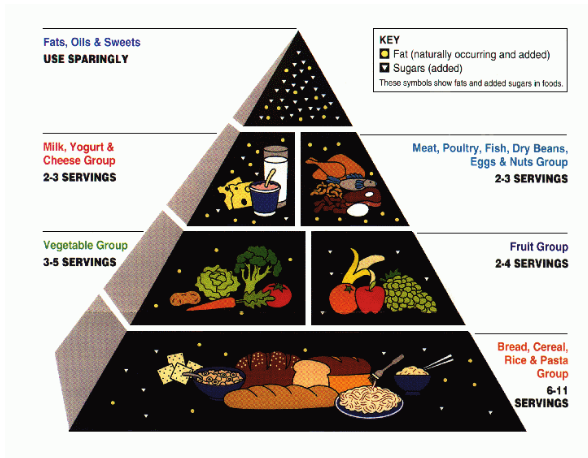
The Pew study didn't ask about "authenticity" - that's an ingredient that came to the fore during buyer conversations.

Taken by themselves, these four main ingredients probably aren't very surprising. Of course things like flavor and health are important to consumers when they make purchasing decisions.

What is interesting though, is that the definitions of all four of these ingredients are changing in some pretty fundamental ways in the eyes of the consumer - and these changes are causing some significant disruptions for some established food industries, as well as opportunities for niche-focused companies.

The Changing Definition of Health

Many of us probably remember the old USDA food pyramid from the 1980's. From bottom to top, the food groups you were supposed to eat the most of were breads, cereals, and grains, followed by fruits and vegetables, followed by dairy and meat, and (at the top) all fats, oils, and sweets. This pyramid represented the "ideal diet" that we were all supposed to eat to be healthy.



Fast forward to 2018 - things have changed. The Hartman Group, a marketing firm known for its expertise in natural foods and healthy living, published what it has dubbed the "New Food Pyramid," which the Group says it assembled by studying the purchase data of consumers who consider themselves healthy eaters - and by asking those consumers why they eat what they do.

There are some significant changes. The new food pyramid has, at its base, not specific food groups, but what the Hartman Group calls it, "Guiding Principles": a diet that's "fresh, less processed, nutrient dense, diverse, digestion & energy supporting." The new pyramid has, in order of highest level of consumption to least:

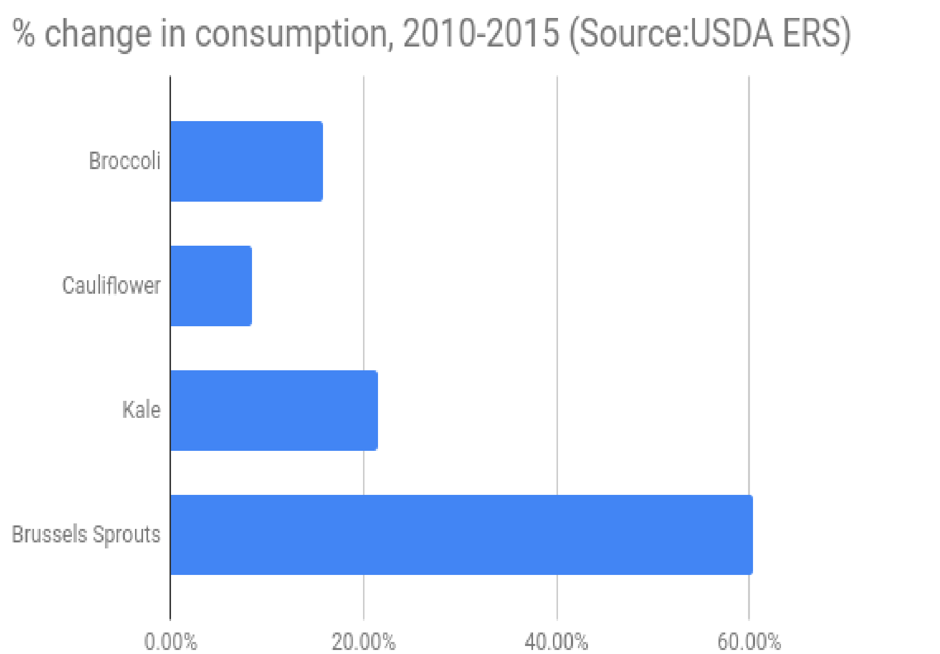
1. Green and colorful vegetables, water, healthy beverages (eg, kombucha).
2. Healthy fats (now split away from the "unhealthy fats" which were all lumped together at the top of the old pyramid), and plant-based protein (Now split away from meats)
3. Herbs, spices and fruit.
4. Whole grains and starchy vegetables (these are now bumped from the bottom of the old pyramid to up near the top).
5. Dairy, eggs, fish
6. Sugars, meat

This reorganizing of the ideal healthy diet is having some profound effects on some crops commonly grown in in Maine. Here are a few examples:

Brassicas are on the rise

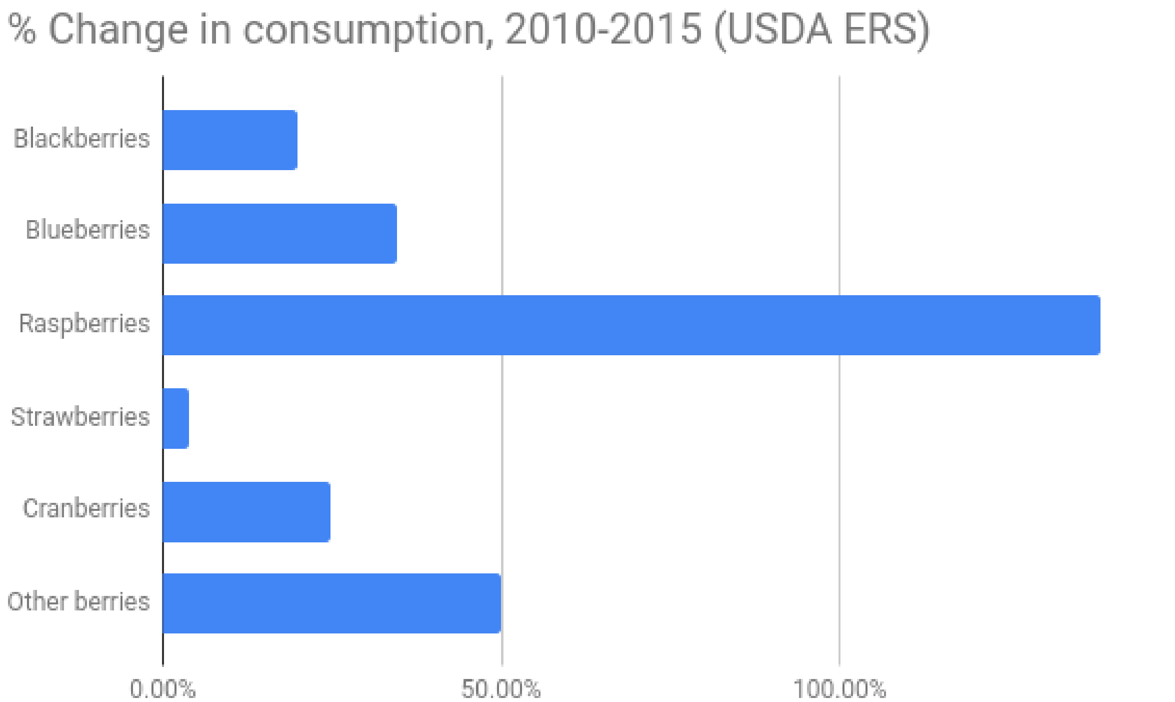
Crops in the brassica family, especially dark green brassicas such as kale, brussels sprouts, and broccoli, all have seen strong upticks in consumption over the last decade. These crops provide a good supply of the nutrient density found at the coveted bottom of the new food pyramid.

All the buyers interviewed for this study expressed a strong desire to purchase more brassica crops, especially frozen brassicas and especially frozen broccoli. According to Nielsen data, frozen broccoli, kale, cauliflower, and brussels sprouts composed a market of 16.6 million pounds annually in New England retail. Frozen broccoli accounts for nearly half of all sales of frozen vegetables.



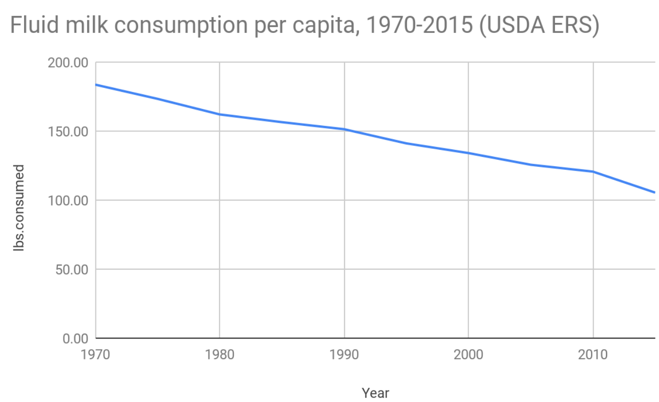
Berries are on the rise

Prized for their nutrient density, berries join green brassicas at the bottom of the new food pyramid. Per capita consumption of raspberries, in particular, have risen nearly 150% in ten years from 2005-2015, according to USDA statistics.



Dairy is being repositioned

Dairy, on the other hand, is an industry that is currently undergoing significant structural changes. Per capita consumption of fluid milk has been going down since 1970, and there does not appear to be an end to this trend in sight. The glass of milk, once considered a staple in the American diet, is now viewed with suspicion, especially amongst health-focused consumers.

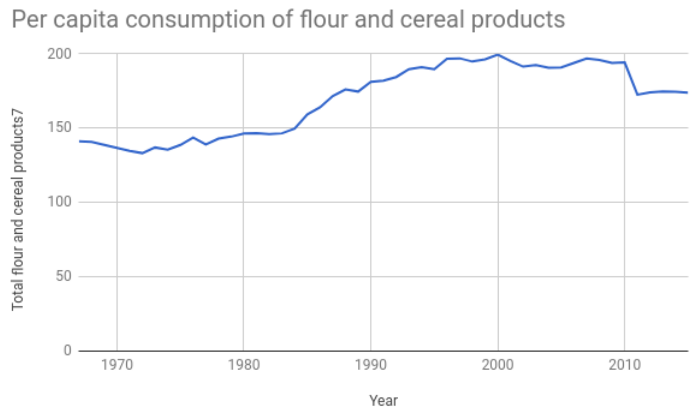


There are bright spots for dairy, however. Yogurt and other lactofermented foods such as kefir are on the rise; they provide consumers with digestion-aiding probiotics in the New Healthy. And there is potential for grass-fed butter to take advantage of the rising interest in healthy fats, if it were marketed effectively to that end.

Grains are being repositioned

Once at the base of the food pyramid, grains are now viewed with suspicion in the New Healthy. A series of anti- “carb” diets in the 2000’s, combined with the rise of the belief that gluten is bad for you, caused consumption of grains to decline since a high peak in the year 2000.

However, grains, too, have their place in the New Healthy, albeit a reduced one. Rather than being a primary source of caloric energy, grains are now viewed as a source of nutrients and plant-based protein. This is especially evident in the rise of so-called “ancient” or “Heritage” grains such as quinoa, farro, and amaranth; these grains tend to be higher in protein and lower in gluten and "empty" carbs than the conventional wheat flours. Alternative flours that are marketed are gluten-free and high in protein - such as almond flour and coconut flour - are rapidly increasing their share of the relatively stagnant flour market.



Profile of the Health Seeking Customer

While the food pyramid represents the ideal diet that is generally aspired to by the population as a whole, a particular segment of the market prioritizes healthy food purchases more than the rest. This "health seeking customer" represent about 19% of the population, according the Pew Center data. This segment is more likely than the overall population by a factor at least 10% to:

- Believe that healthy eating habits and exercise matter more than genetics in determining health.
- Believe that they are already eating a healthy diet.
- Buy organic food, and believe that organic foods are healthier.
- Buy local
- Buy non-GMO, and to care about whether or not foods are GMO
- Have friends and family who also eat healthy.
- Trust what small farmers say more than food industry leaders and other experts.
- Be female
- Have a high level of religious commitment
- Have an income of $30k-$40k. There is less statistical correlation between healthy eaters and higher income than you might expect, although there are are certainly consumers in this segment that are at the higher end of the income bracket.

Changes in Convenience

It is important to note that, while the changes described above constitute a shift toward the new healthy diet, this diet remains as much an idealization of what people should be eating as it is what we do eat. More than half of the respondents to the Pew survey agreed with the statement that, "Most of the time I should be eating healthier."

Why aren't more of us eating healthier? One of the major reasons has to do with the level of convenience a food offers. While convenience may sound like a relatively simple concept - more food in less procurement, prep, cooking, and cleanup time, right? - it's actually a complex and dynamic concept whole definition is also changing as consumers demand the fresher, more diversified, minimally processed foods associated with the new healthy diet.

The Hartman Group's *Food Shopping in America 2017* notes that, while "convenience" is something that American consumers have aspired to for a long time, the notion of what is convenient has changed. It notes:

"Given how time-starved many consumers feel, one would expect a simplification of shopping routines. Yet the opposite is often true — most shoppers seem to have complex routines

characterized by cross-shopping multiple grocery retailers. . . Despite complaints of being "so busy" all the time, . . these are the same consumers who willingly spend 30 minutes strolling around their local specialty food retailer simply because they enjoy the experience and are looking to be inspired. . . Convenience is still a key grocery-shopping need. But, much like value, consumers' ideas of what convenience means have matured. . . The desire for quick and easy is increasingly matched by an unwillingness to sacrifice flexibility in choice, a positive experience and personal needs."

Old Convenience	New Convenience
Easy... known layout	**Flexibility...** immediate consumption, spontaneity
Quick... short lines, plentiful parking	**Experience...** atmosphere, staff interaction
Accessible... easy-to-access location	**Well Designed...** grab & go, inspirational, meets my (nutrition, taste, portion size) needs

Source: The Hartman Group, *Food Shopping in America 2017*

If shopping routines are getting more complicated, but the desire to save time still exists, how does the new convenience express itself? Generally it translates to products that save on cooking and prep time. Products that are sold in a more finished, ready-to-eat form, often in smaller packaging, are hallmarks of the new convenience.

Here are some examples of how this desire for convenience is expressing itself in the marketplace:

- **Salad kits** are one of the fastest growing segments of the produce category. Led by brands such as Fresh Express, these kits provide consumers with a chopped, washed, ready-to-eat mixture of greens and other shredded vegetables - sometime complete with dressing.
- **Chopped/Peeled/Washed Produce**. Closely related to salad kits, more and more produce is sold in a "cookpan or salad bowl-ready" format. Examples include cauliflower rice, stir-fry kits, and chopped kale. For example, according to Nielsen data, sales of carrots are relatively stagnant. Sales of whole raw carrots are declining steadily, while sales of shredded, coined, or even pre-cooked carrots are rising to compensate.
- **Grab and go.** Meals that are ready-to-eat right out of the packaging are on the rise. These include ready-to-eat noodle bowls such as Mann's Nourish Bowls, yogurt parfaits, and grain bowls.
- **Meal kits** offered by companies like Blue Apron.

For A Niche Producer, Adding Convenience Often Adds Net Margin

At first, adding all this convenience can seem like a pain to a small scale producer. Washing, peeling, cooking, packing in smaller units - this all adds cost and complication. But, for a niche producer, adding convenience is often the best way to add your net margin. This is because - generally - consumers are willing to pay more for the added convenience that what it costs you to add that convenience. For example, if it costs you $2 per 8 ounce clamshell to convert your lettuce into a salad kit, the consumer is often willing to $3 or even $4 more for that convenience. This means that you can meet your profit goals at a lower scale of production by adding convenience.

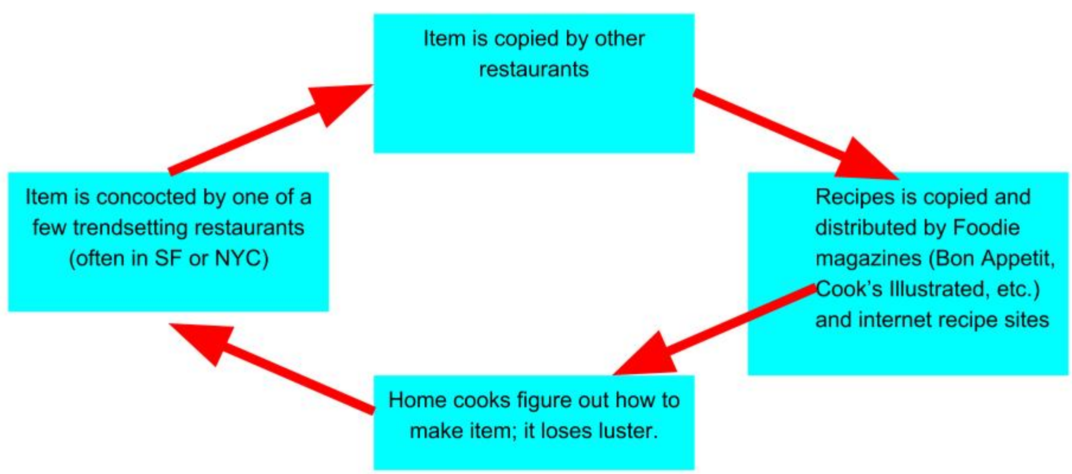
For example, the average price per lb. for whole chicken in the New England retail market is $1.99 - but the average price per lb. for chicken sausage is $5.44. This is an increase of 2.73 - and it usually costs less than 2.73 times as much to convert whole chicken to sausage.

Changes in Flavor

The American consumers' definition of what constitutes good "flavor" has broadened and diversified over the last decade, as more types of cuisine are added to the general palate. Examples of 2017-18 fine dining trends: asian noodle bowls, pickles and other lactofermented foods.

This desire for new, innovative flavor experiences is best personified by the customer segment that the US potato board dubs the "Food Enthusiast," which is about 25% of the population. Colloquially, we call this segment, "Foodies." The Pew data indicates that this group is more likely than the overall population to value convenience, and to be non-vegetarian.

While changing flavor trends can propel a brand or product to popularity very quickly, the life cycle of flavor trend (as illustrated below) can be brutally short - sometimes less than two years. It is generally better to focus on delivering health, convenience, and authenticity over time, rather than trying to chase a particular food trend.



Changes in Authenticity

Perhaps the least measurable - but most important - ingredient is the desire for authenticity. The desire for authenticity is rooted in an anxiety that the way we eat today is somehow "fake" or less real than the way we should be eating. In its report, *Transformation of the American Meal,* the Hartman Group summarizes this desire:

[There has been a] "deprioritization of the mealtime ritual and of cooking in general. . . .Though these changes have helped erode traditional mealtime routines, especially around breakfast and lunch, consumers continue to aspire to an ideal meal based on an imagined past. . . Few want to return to this

vision . . . but consumers do want the imagined meal that results."

The Imagined Past is Changing

The aspiration to attain a more "real" or authentic diet based on an imagined past is not new. However, the imagined past itself is changing - it is only an *imagined* past, after all - resulting in a reorientation of what "authentic" food means.

In the 1990's, authenticity had more to do with being connected to a particular family or ethnic heritage. For instance, Italian restaurants enjoyed a great renaissance during this period, as many new eateries shed their red-checked tablecloth stereotypes, and we discovered new "authentic" Italian recipes such as risotto. This was also the age of espresso; for instance, Starbucks developed its business model explicitly to capture the feel of an "authentic" European cafe experience.

Now, the imagined past is focused less on a particular heritage, and more about being personal and small scale. The foil in the New Authentic is the industrial, cookie-cutter food system that produces impersonal and indistinguishable food from faraway factories. In its place, brands that espouse the New Authentic use phrases like "craft" and "artisanal" to call out the fact that their food is unique and particular; that it comes from a specific place and it is made by specific people, with love, for you. For instance, bags of coffee are now regularly sold with big pictures of the smiling coffee farmers on the bag; the intent here is to make the consumer feel as though this coffee was grown by someone particular in a particular place; it's more authentic. One New York buyer I talked with refused to list any particular food product when I asked him what he was looking for; over and over he kept saying, "I'll buying anything with a unique Maine story. It has to tell a story about where it's from."

The Changing Nature of Authenticity		
	Then	**Now**
Imagined Past	Focus on family or ethnic heritage	Focuses on small scale, non-industrial, more personal
Examples	Italian cooking; rediscovering "authentic" dishes like risotto, etc.	"Artisanal", "Craft"
	"Authentic" European espresso bars	Bags of coffee with pictures of the coffee farmers on the bag
		Tells a story about its origins; "I want anything that tells a unique Maine story" (NY grocery buyer)
Ingredients	Judged by how exactly they mimic the original, authentic recipe from the past.	Transparent about how the product was made, where it came from, and what's in the package.

Transparency is a cornerstone of the New Authenticity

Transparency - that is, telling a prospective customer as honestly as possible *what's* in the package, *how* it was made, and *who* made it - is an essential component of marketing the New Authenticity.

Increasingly, consumers have become less trusting of claims made by experts on food packaging. Rather, they would would prefer to be told the how, what, and who, and make their own decisions.

This is especially true of the health conscious consumer, who is less likely than the national average to believe what food industry experts say, and more likely to trust what their local farmer says, about a food product. In these consumers' minds, authenticity is in some ways inextricably linked to health. The health-focused consumer is in many ways the prime potential target for Maine processed foods.

Summary/Next Steps

The changing nature of how consumers think about health, convenience, flavor, and authenticity is creating real disruption in the food marketing landscape. It also creates opportunities for a niche brand to find a develop a loyal base of customers for its products. The key to doing this is to develop a brand that can deliver a unique combination of these four ingredients across time, while changing its product lineup to meet current trends.

Next Steps

Participants in the Tastemakers project can pursue this market research further if they are interested. We can work with you to:

- Identify trends within your product category.
- Estimate the total market size for your products.
- Identify your competition, their pricing strategies, and their share of the market.
- Compare how you and you competitors deliver **health, convenience, flavor, and authenticity** to your customers.
- Put you in touch with potential buyers.

For Further Reading

Pew Research Center, December, 2016, "The New Food Fights: U.S. Public Divides Over Food Science". Datasets from this survey were also used in this report.

Hartman Group Reports

Transformation of the American Meal 2017
Food Shopping in America 2017
Sustainability 2015 Overview