Big Food Brands Challenged by Next Generation Natural Foods

Big Food Brands Losing Ground in the Market

If you're a regular visitor to the grocery store, you've probably noticed several subtle changes to the products you see. For decades, packaged foods sold by big food brands have reigned the shelves. Since their inception, they primarily catered to the consumer's need for convenience in an era when more households were becoming dual-income, reducing the time people had to cook and consume. The current business landscape, however, fueled by an influx of Millennials, is seeing an evolution in flexible or remote work, which naturally changes people's eating habits. These work scenarios, coupled with greater consumer value on transparency and "natural" products as well as a decrease in brand loyalty, are having a significant impact on the big brands.

Recent reports show that sales for many of the major food brands, including Mondelez, Kraft Heinz, Kellogg, Campbell, and Conagra, have all fallen anywhere from 1.9% to 4.8% over the last quarter. Furthermore, in the last year, not one of the ten largest US-based food companies have outperformed the S&P 500. This impact on revenue is not because consumers are suddenly spending less on groceries; on the contrary, the US consumer-price index for food eaten at home remains relatively similar to what it was three years ago. So what's going on behind the scenes?

The Changing Habits of Consumers

Millennials are rapidly becoming a massive portion of the overall population, and their values matter significantly to the food sector. A recent Nielsen study shows that 81% of them want knowledge of how their food was produced. While they appreciate convenience as much as their predecessors, they're also more than four times as likely to read packaging labels than Baby Boomers. They want food with health benefits, and are much more likely to choose a brand that is sustainable, with a positive impact on society and the environment.

This trend towards natural food isn't just apparent in the Millennial generation. As the link between food and overall health and wellness is made ever clearer – coupled by rising healthcare costs that all too often result from preventable disease – many adults, especially parents, are eschewing processed foods, opting for alternatives without preservatives and additives. This healthier approach to food means that the perimeter of grocery stores – where produce, dairy, baked goods, meat, and seafood are sold – is gaining ground while the center of store – the traditional home of packaged goods – is falling out of favor.

The Rise of Next Generation Food Brands

This shift towards fresh and natural ingredients has not gone unnoticed by smaller, more entrepreneurial food brands. The innovation of these companies, typically coupled with more transparent practices and social and environment awareness, is a natural attractor for Millennials. Companies such as KIND Snacks, RXBar, Plum Organics, Annie's, and more, started out with a focus on what was missing in the market and why. They zeroed in on what consumers, especially Millennials, want from their food. In many cases, that was all-natural ingredients in the convenience of one package. Take RXBar, for example. The company was founded out of frustration with the market's existing protein bar selection. The founders were driven by trends like CrossFit and Paleo, and started the brand in their own kitchen. The brand quickly gained a significant portion of the market, and was recently bought by Kellogg.

It's not an uncommon story. These next generation food brands are born out of innovation and a deep need to identify the true desires of the evolving consumer. As customer habits continue to evolve, this seems to be a winning recipe. Thus, a recent Reuters report claims that small food brands are set to increase from a 5% share of the $464 billion sector to 15% in just a decade.

Buying Up the Small Brands

Big food brands have struggled to reach today's consumers in new ways. Often this means redesigning their product packaging. In fact, a report from Consumer Goods Forum found that 2016 saw 180,000 redesigned products around the globe. With customers demanding healthier food and "clean" ingredients, much of the new labeling is found to call out specific ingredients – or lack of artificial ingredients. Coca-Cola, for example, recently underwent a health-focused rebrand of their Coke Zero product to Coke Zero Sugar.

But rebranding only seems to go so far. Many big food brands have turned to acquisition of next generation food companies to bolster their product portfolio and revenue. As mentioned, Kellogg Co. recently acquired RXBar, but it's far from the only example. General Mills bought Annie's back in 2014, while others include Conagra's acquisition of Angie's Boomchickapop, Campbell's acquisition of Pacific Foods, Nestle's acquisition of Blue Bottle Coffee, and Mondelez's acquisition of Enjoy Life Foods.

These acquisitions represent a subtle acknowledgement that many big food brands are unable to reach the level of innovation that consumers are demanding. By buying next generation food companies, these organizations are building a portfolio of trendier, healthier brands that can supplement their own and help them reach a growing niche of important consumers. It's also an opportunity to learn deeply from these smaller brands about how to identify with customer values through the products they manufacture.

Investing in innovative brands is just one part of the puzzle. Some larger food brands are also recognizing that they need to overhaul both their R&D initiatives and marketing and advertising efforts. One study found that some of the biggest food companies spend significantly more – up to six times more – on marketing for existing older products than they do on new products. Another report from PwC breaks down which sectors spend the most on R&D; while the computer, healthcare, and automotive sectors make up 62% of global R&D spend, the food industry makes up a mere 3%. Some organizations are actively responding to this discrepancy. Companies like General Mills, Kellogg, Tyson, and Campbell have created venture capital arms to invest in startups that are addressing emerging trends in the food industry. The hope is that they will be able to jump on trends in the early stage, reaching consumers before niche competitors can gain too much of a market share.

Focusing on the Future

Turning large ships around to adjust to a shifting current takes time as well as skillful leaders at the helm. Big food brands still have time to acclimate to changing consumer values, but only if they are forward thinking.
How is your company adapting to the changing tides of the food industry?

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