



The Ingredients of Success

Food and beverage suppliers adapt to emerging trends and tighter regulations

Food ingredient manufacturers must anticipate trends to remain current — and profitable. Their customers — food and beverage processors — demand new additives and flavors to meet changing consumer tastes, even as increased regulation makes production ever more complex.

It's an era of great opportunity — and great challenges. Successful food ingredient manufacturers will be those best able to:

- Predict the next food trend
- Anticipate operational challenges driven by changing markets
- Manage regulatory changes that could erode margins — or close markets altogether.

Capitalize on emerging food trends

Developing, testing, and launching new food ingredients is a complex and time-intensive process. Even more challenging is identifying *what* to make — the flavor profiles that consumers will want next year, or the year after. Predicting the next global food trend may be more art than science, but is critical to profitability; if executives choose poorly, their companies will stockpile expensive ingredients that never sell.

In 2016 executives are watching four major trends:

- *Health, wellness, and flavor:* Consumers' appetite for healthier foods has been strong for years, but now they're demanding flavor, too. Food producers want ingredient suppliers to combine health and wellness ingredients *with* enhanced flavor. For example, some mineral and fiber additives add nutritional value *and* unique flavor profiles.
- *Natural/non-artificial products:* Many food ingredients are natural — salt, soybean-based, beet-based — allowing F&B producers to promote their products as “natural” to consumers seeking local, organic, and natural ingredients. This represents an ongoing opportunity for ingredient-makers: help F&B manufacturers put a *natural* crop on product labels, instead of synthetic additives or coloring agents.



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- *Non-GMO and allergen-free products:* In July 2016, new legislation came into effect that will require food packaging to carry a label — text, symbol, or electronic code — indicating that the product contains genetically modified ingredients (GMOs). Although the Agricultural Department has two years to draft specific rules, compliance with the new standard will be challenging for ingredient manufacturers, many of which have not tracked the GMO characteristics of their supply base. They’ll need to adopt best practices from their own initiatives for allergen-free ingredient sourcing, production, and labeling with products such as peanuts, shellfish, and soy.
- *New ingredient sources:* Ingredient makers are developing ways to incorporate algae, baobab, insects, and other “exotic” raw materials into their goods, supporting F&B processors with additives for taste, texture, and appearance that make these emerging foods palatable to consumers.

Trends dramatically impact operations

An increasing number of consumers view the food-ingredient industry as “big business” in stereotypical ways. They worry that “food engineering” in profit-driven R&D labs will create artificial products — and potential health hazards.

Executives in the food ingredient industry know better; their products are essential in delivering shelf-stable products to large populations. But they also realize that there is a distinction in consumer minds between *legally allowable* and *acceptable*. Ingredients such as sodium benzoate, potassium benzoate, and butylated hydroxyanisole have been cited as potentially carcinogenic, despite FDA approval. At the same time, certain food ingredients approved for use in the United States are banned in other countries, creating recipe and production issues for global ingredient makers.

One path around consumer objections is to develop new products that meet new expectations for fresher foods and non-synthetic ingredients — while still retaining product stability. This typically requires ingredient makers to move away from big-batch processing toward smaller, customized production runs. Inventory optimization is critical during this transition, as plant leaders incorporate new equipment and processes while minimizing waste and delivering to customers on time.

Emerging trends are also forcing ingredient makers to evaluate their supply chains. Can current suppliers provide new ingredients via altered crops and techniques, or are new vendors required? Neither approach is easy or quick, especially when confronting demand patterns that differ by country and region.

Prepare for increased regulatory scrutiny

Packaging material used by F&B companies also can influence a consumer's perception of clean (e.g., a simple, brown-bag wrapper seems “natural”) and support shopper preferences and lifestyles related to clean label, such as recycling. Some processors and retailers also use transparent packaging, allowing consumers to gauge quality themselves (although transparency can diminish the quality and shelf-life of some products).

Shorter-shelf lives also require functional changes in packaging, such as oxidation prevention, and may require temperature-sensitive capabilities. Still other packaging methods help draw attention to locally sourced goods, with open containers of “growing” herbs and vegetables. All these methods require diligence on the part of retailers to keep products looking salable as they age.

Labeling

The F&B industry and food ingredient makers are under heightened regulatory scrutiny around the globe. How well this regulatory burden is managed will determine a company's profitability — or survival.

In the United States, the Food Safety Modernization Act is now in full effect. The Act shifts the focus from *responding* to product contamination to *prevention* by improving:

- Ability to prevent food safety problems (e.g., standards for produce safety)
- Capabilities in detecting and responding to food safety problems (e.g., enhanced tracing and tracking of foods and recordkeeping)
- Safety of imported food (e.g., foreign supplier verification program)
- Miscellaneous provisions (e.g., employee protections).¹

Another new law presents different issues. The Nutrition Facts label required by the U.S. Food and Drug Administration will change how F&B companies label their goods. These new labels will:

- Highlight “calories” and “servings”
- Identify serving sizes that more closely reflect the amount that people eat
- Specify types of fat in the product (“Total Fat,” “Saturated Fat,” and “Trans Fat”)
- Standardize language regarding nutrient-content and health-benefit claims.²

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¹ Food Safety Modernization Act, U.S. Food and Drug Administration.

² Label Claims for Conventional Foods and Dietary Supplements, U.S. Food and Drug Administration.



A label change with major impact on ingredient makers is the separation of “total sugars” and “added sugars” — sugars that are either added during the processing of foods, or are packaged to be used with the product. These include free, mono- and disaccharide sugars; sugars from syrups and honey; and sugars from concentrated fruit or vegetable juices in excess of what would be expected from the same volume of 100 percent fruit or vegetable juice of the same type.³

Other regulator challenges loom as well. Many food-ingredient executives are already developing internal standards that meet or surpass current safety and sanitation requirements, expecting more — not less — oversight to come, whether national or local food laws (e.g., limits on sweetened drinks). Given the potential for penalties, litigation, and criminal prosecution related to contaminated or fraudulent food products, these leaders are also investing in improved testing processes and enhanced traceability and reporting capabilities.

Build a foundation for the future

Forward-thinking food ingredient makers are crafting strategies that will allow them to manage profitably today while preparing for even greater success tomorrow. These typically focus on five key areas for improvement:

- *Talent management:* Scientific skills are critical throughout this industry, from R&D to plant management to the executive suite. Comprehensive talent-management is required to find, develop, and leverage talent.
- *Operations:* A full 32 percent of F&B plants report only “some progress” toward world-class manufacturing status, while 14% more report “no progress.”⁴ Big-batch processes and legacy equipment can make process improvement difficult, but management and work teams can still streamline workflows and boost machine reliability and agility. Improvements can also occur on the plant floor, in R&D (faster innovation approaches), and to office processes (e.g., improved knowledge and document management, speedier cash-to-cash cycles, targeted sales efforts).
- *Information and production technology:* Ingredient makers need adaptive technologies to meet changing consumer demands. With cloud computing, executives can choose state-of-the-art business systems and applications (e.g., recipe management solutions, supply-chain management) and deploy them selectively — whether across the

³ *Changes to Nutrition Facts Label*, U.S. Food and Drug Administration.

⁴ MPI Manufacturing Study, The MPI Group.

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enterprise or within specific functions. Internet of Things (IoT) technologies can capture, share, and react to real-time manufacturing information; improved automation can make batch processes more flexible, producing different batches on the same line.

- *Growth and expansion planning:* New trends mean new opportunities — and dangers. Which trends— in products, packaging, and regions — offer the highest returns and smallest risks? Business analytics can help in identifying profitable new trends and markets, as well as the best ways to manage growth, whether via new facilities, new suppliers, and/or new partners (e.g., joint ventures, mergers and acquisitions).

What are *your* ingredients for a successful future?

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