FOOD & BEVERAGE INDUSTRY STUDY

BENCHMARKS FOR BETTER MANAGEMENT

PRESENTED BY:

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The Food Institute
As the top exporter of agricultural products in the world, the U.S. food and beverage (F&B) industry provides a secure food source for countries across the globe, while also employing millions of Americans and generating wealth for tens of thousands of businesses and their owners.

The F&B industry is both large and extremely complex, consisting of multi-tiered supply chains. It is also subject to extreme competition and a heavy regulatory burden. Overnight trends can make or break companies. A well-informed management team is the first line of defense in this tough environment.

To assist F&B decision-makers, in late 2012 WeiserMazars and The Food Institute conducted the 2012 F&B Industry Study. This research offers benchmarks against which to assess 2012 performance, insights into potential drivers for the industry in 2013, and best practices to stay ahead of the competition today and tomorrow.

Financials and Costs

F&B Industry Study participants expected year-end sales to increase by an average of 13.7 percent in 2012 as compared to 2011, with net profit likely to increase by an average 5.8 percent. However, 18 percent of participants indicated profit would decline, while another 33 percent reported that profit would remain unchanged. (Figure 1). The fiscal cliff drama in Congress kept many companies in a holding pattern with regard to business decisions late in the year, unwilling to proceed with investments before having a clearer picture of tax and regulatory policies in 2013. For many investment categories, a majority of executives reported either no change or a decrease in 2012. Nonetheless, most investment statistics still trended upward:

- *Capital expenditures* — increased by an average of 9.3 percent.
- *Expansion or new facilities based on facility square footage* — increased by an average of 9.1 percent.
- *Product lines* — increased by an average of 4.9 percent.
- *Employment* — increased by an average of 2.1 percent.
- *R&D spending* — increased by an average of 1.7 percent.
- *Promotions/rebates* — averaged no change, although 19 percent of participants did indicate an increase in promotions/rebates.
Increases in sales were offset by rising costs, contributing to modest net profit. Commodity prices were expected to increase by an average 7.3 percent in 2012 vs. 2011. Similarly, fuel/energy costs were expected to increase by an average 7.2 percent, and labor costs were expected to go up by an average 2.2 percent. To maintain profits amid rising costs, F&B companies raised prices in 2012 by an average 5.2 percent.

Most likely to influence sales growth are new customers (noted by 59 percent of study participants), new products (51 percent), and increased selling prices (40 percent). Spending for new product lines (as indicated in Figure 1) appear commensurate with those efforts, but promotions/rebates are also used to acquire new customers.

Given the wide array of F&B industry niches, it’s important for executives to seek benchmark performance information for their sectors. For example, sales and net profit were expected to rise on average by 7.1 percent and 7.4 percent, respectively, among F&B wholesalers/distributors.1 Benchmarking can help organizations build realistic goals for the performance necessary to generate growth in 2013.

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1 20 companies in the F&B Industry Study: despite a smaller sample and correspondingly wider margin of error, these figures provide a benchmark with which to evaluate competitiveness.
**Business Concerns and Food Trends**

The top issues for F&B companies are rising commodity and other costs (69 percent of study participants), health insurance (61 percent), income taxes (47 percent), ability to develop new products/services (41 percent), and supply-chain issues (40 percent) (*Figure 2*). A majority of participants also cited “other” concerns, identifying factors such as the state of the economy and their ability to obtain financing.

*Figure 2. Industry Concerns*

The top three concerns are likely to continue to be concerns throughout 2013, as F&B companies seek to:

- Offset commodity-cost increases through internal improvements, improved management of suppliers, and strategic procurement;
- Navigate healthcare changes contained in the Affordable Care Act, such as the employer mandate and increased premiums; and
- Prepare for the new tax environment that emerged from the fiscal-cliff deal, one that is generally more favorable than executives feared going into the political showdown. Only 23 percent of participants indicated that they were “fully prepared” to react to federal tax and/or regulatory changes that may occur in the next 12 months, which is not surprising, given fluid political conditions at the time of their responses (*Figure 3*).
Healthy/nutritious foods were noted as the industry trend most likely to impact company sales in 2013 (47 percent of study participants), with other trends each affecting approximately one quarter of organizations (Figure 4). This, again, indicates the need for F&B companies to focus on trends impacting their particular sector or region, and, when possible, to develop offerings that can take advantage of multiple trends concurrently. For example, some businesses, stores, and restaurants provide products that address all five of the noted trends simultaneously.

* participants could select more than one answer
Sales and Operations

Two-thirds of F&B companies (68 percent) reported that their brands are either “highly” or “somewhat” recognized, but a sizeable percentage of organizations still struggle with brand identity. 18 percent reported the brand is “not well recognized” and 14 percent reported “no brand.” This contributes to 43 percent of participants indicating that they need substantial help in increasing sales (Figure 5). F&B companies reported that they need the most help increasing sales, followed by increasing product and customer profitability (33 percent). Half of participants indicated other specific areas of need, which included commodity purchasing and recruitment.

Figure 5. Industry assistance required

The most common operations strategies, whether planned or already underway, are process-improvement activities (51 percent of study participants) and major software implementation (32 percent). The top five supply-chain factors that F&B companies are working to improve are:

- **Cost of goods** — 66 percent of study participants,
- **Traceability/tracking capabilities** — 42 percent
- **Delivery times** — 40 percent
- **Knowledge/information sharing** — 36 percent
- **Food safety** — 35 percent
Addressing three of the top five concerns — traceability/tracking, food safety, and knowledge/information sharing — will be necessary if the U.S. FDA enacts two new food safety rules proposed in January 2013 to help prevent foodborne illness under the recently passed FDA Food Safety Modernization Act. One rule would require makers of food sold in the United States, whether produced at a foreign- or domestic-based facility, to develop a formal plan for preventing food products from causing foodborne illness while also requiring plans for correcting problems that do arise. The other rule would apply enforceable science- and risk-based safety standards for production and harvesting of produce on farms.²

“The FDA knows that food safety, from farm to fork, requires partnership with industry, consumers, local, state and tribal governments, and our international trading partners,” said FDA Commissioner Margaret A. Hamburg, in the rules announcement. “Our proposed rules reflect the input we have received from these stakeholders and we look forward to working with the public as they review the proposed rules.”³

F&B companies were asked to identify the implementation level of various efforts that can impact their organizations for years to come. The most common implementations are energy-efficiency credits (21 percent of study participants have already implemented); succession plans (21 percent implemented with another 23 percent planning to implement); and defined benefit pension plans (20 percent implemented) (Figure 6).

Figure 6. Corporate Implementations

<table>
<thead>
<tr>
<th>Implemented</th>
<th>Plan to implement</th>
<th>Understand issue and considering</th>
<th>No plans to implement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy-efficiency credits</td>
<td>29%</td>
<td>10%</td>
<td>22%</td>
</tr>
<tr>
<td>Succession plans</td>
<td>21%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Defined benefit pension plans</td>
<td>20%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Cost segregation study (for building owners)</td>
<td>19%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Fuel-tax credits</td>
<td>16%</td>
<td>7%</td>
<td>26%</td>
</tr>
<tr>
<td>Research and development credits</td>
<td>11%</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Interest Charge Domestic International Sales Corporation (IC Disc) (for exporters)</td>
<td>6%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Compliance procedures for California Proposition 65</td>
<td>9%</td>
<td>4%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Conclusion

The dynamic nature of the U.S. F&B industry — changing consumer trends, proposed government regulations, new companies, and new product and service offerings — challenges organizations to remain competitive. Savvy F&B executives can help their companies thrive amid these conditions by better understanding the markets in which they operate, benchmarking other organizations for best practices and strategies, and relying on outside resources for skills beyond their core capabilities.

Profile of F&B Industry Study Participants

F&B Industry Study participants reported the following:

- **Industry:** The majority of participants were manufacturers (36 percent) and wholesalers/distributors (35 percent).
- **Sales:** Study participants represented a range of annual sales volumes — 34 percent with $10 million or less; 42 percent with $10.1 million to $100 million; and 24 percent with reported sales of more than $100 million.
- **Profitable:** The vast majority of participants (88 percent) reported that their companies were profitable.
- **Employees:** 53 percent of participants reported fewer than 100 employees and 47 percent reported 100 employees or more.
- **Ownership:** 90 percent of participants described their ownership structures as “private.”

F&B Industry Study Methodology

WeiserMazars and The Food Institute jointly conducted the 2012 F&B Industry Study, coordinated by The MPI Group, an independent research firm, through an online questionnaire. Responses were received from October to December 2012, and then entered into a database, edited, and cleansed to ensure answers were plausible, where necessary.

All responses to the survey are confidential. Participants who provided contact information were offered specialized industry insights based on the study, along with other work of the study sponsors.

Only study sponsors and The MPI Group have access to participants’ individual responses. Study findings are only published based on the overall sample or aggregated groups of participants (e.g., by industry sector).

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