WeiserMazars LLP is an independent member firm of Mazars Group.
The WeiserMazars LLP Food & Beverage Industry Study, performed in conjunction with The Food Institute, AFI and Stagnito Media, offers benchmarks against which to assess 2014 performance, insights into potential drivers for the industry in 2015, and best practices to stay ahead of the competition today and tomorrow. Where applicable, the study separates the responses of small and large firms, affording more nuanced insights.
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SECTION I: SUMMARY

2015 was projected to be a significant year for the Food & Beverage industry, with most respondents expecting growth in sales, profit and employment. The factors most likely to influence sales growth were new customers, improved sales performance and new products. The top trends predicted to drive sales growth are healthy/nutritious food and locally grown foods. The top internal concern for participants was increasing sales and the top external concerns were food safety/traceability and quality assurance. A majority of participants did not expect to increase prices in response to the new FDA menu labeling requirements.

SECTION II: COMPANY OUTLOOK

Participants anticipate better financial performance in 2015

92% of participants anticipated increased sales in 2015. 80% anticipated increased net profits. Among the firms who predicted an increase in sales, the average sales increase was expected to be 18%. Among the firms who predicted an increase in net profit, the projected average increase was 18%

Respondents were categorized in two groups: large firm respondents (firms with over $50 M in annual revenue) and small firm respondents (firms with less than $50 M in annual revenue). We analyzed the company outlook of both groups separately. The results are shown below:

<table>
<thead>
<tr>
<th></th>
<th>Large Firms</th>
<th>Small Firms</th>
<th>All Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Increase in Sales</td>
<td>22%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Average Increase in Net Profit</td>
<td>21%</td>
<td>20%</td>
<td>18%</td>
</tr>
</tbody>
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Better financial performance is spurring investments in labor

61% of participants anticipated increased employment, with an average estimated increase of 13%. However, most expected that other core elements of their business would not change, with 60% of respondents indicating there will be no change in facilities (square footage) and 69% predicting no change in R&D spending. 83% of respondents also indicated no change in acquisitions (Figure 1).

A majority of respondents expect labor costs and health care costs to grow modestly in 2015

- **Labor Costs** – 61% of respondents predicted an increase over 2014, with an expected average increase of 7%.
- **Overall Health Care Costs** – 56% of respondents predicted an increase over 2014, with the expected average increase being 12%.
- **Commodity Prices** – 36% of respondents predicted an increase over 2014, with the expected average increase being 8%.
We found that 65% of small firms anticipated increased labor costs, which were expected to grow by an average of 7%. The percentage anticipating increased labor costs among large firms was lower at 52%, although the actual increase in costs was expected to be higher – with respondents predicting an average 9% bump.

**Figure 1. Company Outlook (2014 – 2015)**

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>No Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>61%</td>
<td>35%</td>
<td>4%</td>
</tr>
<tr>
<td>Sales</td>
<td>92%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Net Profit</td>
<td>80%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Facilities (sq footage)</td>
<td>37%</td>
<td>60%</td>
<td>3%</td>
</tr>
<tr>
<td>Product Line</td>
<td>17%</td>
<td>83%</td>
<td>0%</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>36%</td>
<td>52%</td>
<td>11%</td>
</tr>
<tr>
<td>Commodity Pricing</td>
<td>28%</td>
<td>69%</td>
<td>2%</td>
</tr>
<tr>
<td>Fuel/Energy Costs</td>
<td>61%</td>
<td>32%</td>
<td>7%</td>
</tr>
<tr>
<td>R&amp;D Spending</td>
<td>24%</td>
<td>32%</td>
<td>7%</td>
</tr>
<tr>
<td>Labor Costs</td>
<td>61%</td>
<td>8%</td>
<td>29%</td>
</tr>
<tr>
<td>Overall Healthcare Costs</td>
<td>56%</td>
<td>40%</td>
<td>5%</td>
</tr>
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</table>

**Figure 2. Average and Median Growth in Productivity and Costs (2014 – 2015)**

<table>
<thead>
<tr>
<th></th>
<th>Average Increase</th>
<th>Median Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Sales</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Net profit</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Facilities (square footage)</td>
<td>33%</td>
<td>20%</td>
</tr>
<tr>
<td>Acquisitions (company/business unit)</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Commodity pricing</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>R&amp;D spending</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Labor costs</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Overall healthcare costs</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Figure 3. Company Outlook: 2015 Survey Results vs. 2014 Survey Results

(The average growth in each factor was reported by the firms that anticipated an increase in that factor.)
Factors Influencing Sales Growth

The factors most expected to influence sales growth were overwhelmingly new customers (reported by 29% of small firms and 45% of large firms), and improved sales performance (26% of small firms and 18% of large firms). A significant 14% of small firms also expected new products to influence sales growth.

Figure 4a. Factors Influencing 2015 Sales Growth – Small Firms

Percentage of companies that ranked the factor as a top influencer of 2015 sales growth
Respondents were asked to rank the industry trends that are projected to increase sales. Overall, these factors remained consistent with 2014, although the top ranked trends were different for large and small firms – with small firms expecting private label foods to have the biggest impact, and large firms expecting locally grown/produced foods to have the most importance.
Figure 5a. Industry Trends Impacting 2015 Sales Increase – Small Firms

Percentage of companies that ranked the industry trend as greatly impacting 2015 sales increase

- Private label foods: 23%
- Organic foods: 19%
- Healthy/nutritious foods: 19%
- Locally grown/produced foods: 16%
- Ethnic/international: 13%
- Allergen free/gluten free foods: 10%
Figure 5b. Industry Trends Impacting 2015 Sales Increase – Large Firms

Percentage of companies that ranked the industry trend as greatly impacting 2015 sales increase.
SECTION III: COMPANY CONCERNS

Internal Concerns

When ranking internal concerns for 2015 on a scale of 1 to 5 (where 5 is a “major concern” and 1 is “not a concern”), both small and large firms ranked reducing costs near the top (number 1 for large firms, number 2 for small firms). Both groups also ranked improving operations and improving the supply chain as significant challenges. However, while small firms considered increasing sales to be their #1 internal concern, it was much less important to large firms.

Large firms and small firms also ranked product/service innovation and employee retention as their two lowest areas of concern.

Figure 6a: Top Internal Company Concerns – Small Firms
External Concerns

There were significant similarities among large and small firms in terms of the highest-ranked external concerns. Food safety, traceability, and quality assurance was the top concern for small firms and the second-highest for large firms. However, rising commodity and other costs, the second-highest ranked concern for small firms was only fifth for large firms. Likewise, the largest concern for big firms – new government regulations related to the impending Food Safety Modernization Act – was only third-highest for small firms.
Figure 7a: Top External Company Concerns – Small Firms

- Food safety, traceability, and quality-assurance: 3.93
- Rising commodity and other costs: 3.71
- New government regulations related to the...: 3.22
- Food marketing/Advertisements effectiveness: 3.24
- Food marketing/Advertisements regulations: 2.85
- Delays at ports: 2.84
- Emergence of private-label consumer purchases: 2.59
- Currency fluctuation: 2.67
- Acquisitions: 2.45
- Emergence of ethnic brands: 2.35

Figure 7b: Top External Company Concerns – Large Firms

- New government regulations related to the...: 4.10
- Food safety, traceability, and quality-assurance: 4.00
- Food marketing/Advertisements effectiveness: 3.82
- Food marketing/Advertisements regulations: 3.73
- Rising commodity and other costs: 3.50
- Emergence of private-label consumer purchases: 3.27
- Delays at ports: 3.20
- Currency fluctuation: 3.10
- Emergence of ethnic brands: 2.73
- Acquisitions: 2.60

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SECTION IV: IMPACT OF E-COMMERCE

e-Commerce accounts for 0-10% of current sales for a majority of respondents, with fully 41% of respondents stating that none of their sales come from e-commerce (Figure 8). 2015 is not projected to be a banner year for e-commerce either, with 77% of respondents anticipating less than 10% of sales from that stream (Figure 9).

Figure 8: Current Sales from e-Commerce

Figure 9: Projected 2015 Sales from e-Commerce
Figure 10: Current Online Purchases

78%

< 10% 10-20% 20-30% 30-40% > 40%

Figure 11: Projected 2015 Online Purchases

79%

< 10% 10-20% 20-30% 30-40%
SECTION V: COMPANY STRATEGIES AND PRIORITIES

Operational Initiatives Planned or Underway

A significant percentage of respondents (30% across all companies) have already begun, or are planning to implement, process-improvement activities. Other operational initiatives lagged behind, with none being undertaken by more than 15% of respondents. Last year’s 2nd place initiative (across all firms), digital marketing/social media fell to 4th place with only 15% of respondents indicating that this strategy is underway or planned at their firm.

Figure 12: Operational Initiatives Planned or Underway – All Food and Beverage Companies

Process-improvement activities
Leadership succession
Major software implementation
Digital Marketing/Social Media
Major equipment install
Change of key supplier(s)
None of these

30%
15%
15%
15%
14%
7%
3%
New FDA Labeling Response

We discovered a significant difference between large and small firms in terms of plans to increase prices as a result of the new FDA menu labeling requirements. While a significant majority of all firms said either that they had no plans to increase prices or were undecided, 17% of large firms stated that they would increase prices as compared to a mere 5% of small firms. This indicates that FDA menu labeling will have a much greater impact on this portion of the Food & Beverage sector.

Figure 13a: Percentage of Small Companies that Anticipated Price Increases in Response to New FDA Labeling Requirements
Supply Chain Priorities

The top three supply-chain elements that small food & beverage companies (less than $50 M in revenue) are working to improve are:

- Cost of Goods – 28%
- Food Quality – 17%
- Food Safety – 16%

The top three supply chain priorities for large firms (greater than $50 M in revenue) were:

- Cost of Goods – 29%
- Regulatory Compliance – 21%
- Food Safety – 12%

Cost of Goods and Food Safety ranked #1 and #2 in last year’s survey across all respondents.
Project Implementations

Identifying the implementation level of various projects that can impact their bottom lines, respondents most commonly cited succession plans and energy-efficiency credits. 36% and 29%, respectively, have already implemented or plan to implement these projects (Figure 13a). Last year, succession plans and energy-efficiency credits took the top two spots with 20% and 19%, respectively, of respondents indicating that they have implemented or planned to implement. Respondents were least likely to be planning to implement compliance procedures for California Proposition 65 or to make use of a micro-captive insurance company (only 12% and 11% implemented or planning to implement).

Succession plans were ranked as the most popular project among small firms with Research and Development tax credits second (Figure 14b). Among larger firms, Energy Efficiency Credits took top spot, with succession plans second (Figure 14c).

Figure 14a. Corporate Implementations (Projects implemented or planning to implement)

All Food and Beverage Companies
Figure 14b. Corporate Implementations (Projects Implemented or Planning to Implement) – Small Firms
Figure 14c. Corporate Implementations (Projects Implemented or Planning to Implement) – Large Firms
CONCLUSION

The dynamic nature of the U.S. Food & Beverage industry — changing consumer trends, proposed government regulations, new companies, and new product and service offerings — challenges organizations to remain competitive. The responses we received shed light on some of the opportunities and challenges facing the industry in 2015 and beyond. The majority of the industry expects sales to increase substantially, with a relatively modest increase in costs. This is leading to forecasts of a very profitable year. Process improvement activities are taking center stage and the industry is continuing to invest in the future through succession plans and energy efficiency credits. Online purchases and e-commerce remain a small percentage of current sales and purchases — and they are not projected to increase significantly in 2015.
Profile of Food & Beverage Industry Study Participants

2015 Food & Beverage Industry Study participants reported the following:

- **Industry:** The majority of participants were wholesalers/distributors (37%) and manufacturers (38%).
- **Sales:** Study participants represented a range of annual sales volumes — 27% had sales of $10 M or less; 38% had sales of $10.1 M to $100 M; and 25% had sales of more than $100 M. 9% did not indicate their revenue size. Small firms, those with less than $50 M in sales, represented 50% of total respondents and large firms, with more than $50 M in sales, 41%.
- **Employees:** 51% of participants reported fewer than 100 employees; 27% reported 100 to 1,000 employees, 13% reported more than 1,000 employees, and 9% did not answer.
- **Ownership:** 88% of participants described their ownership structures as private, with 4% being private equity. 5% of respondents were public companies and 3% did not answer.

Food & Beverage Industry Study Methodology

WeiserMazars, The Food Institute, AFI and Stagnito Media jointly conducted the 2015 Food & Beverage Industry Study, coordinated by iLumen, an independent research firm, through an online questionnaire. Responses were received from February through May 2015, 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 iLumen have access to participants’ individual responses. Study findings are only published based on the overall sample or aggregated groups of participants.
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