

Food and Beverage Processing Trends in 2019: So much is changing - So much has stayed the same

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Much is changing in the food and beverage (F&B) processing sector. Yet, much has stayed the same from previous years. What's changing and why? First, consumer preferences always dictate how food manufacturers create new products, which often times results in new production facilities, or at the very least, a shift in production lines (which is a significant equipment expense). And with millennials and Generation Z consumers driving much of the product changes, expect even more product evolution for healthier, better-for-you foods.

But first, let's go through the numbers. Nearly 2 million people across the United States work in the F&B sectors, according to the Bureau of Labor Statistics. Combined from both sectors (food processing and beverage processing), there are about 43,000 companies that are defined as F&B facilities in the United States (this does not include cold storage establishments). California leads the way with nearly 6,500 facilities employing more than 220,000 workers, followed by New York, Texas, Illinois, Florida, Washington, Pennsylvania, Oregon, New Jersey and Michigan rounding out the top 10. Growth in the F&B sector is rising more rapidly in beverages, but with continued changes to a healthier diet, evidence is pointing to new growth in the food sector.

What's not changed?

1. **Food safety** is of paramount importance to the health of consumers, and the financial health of F&B companies. The Food Safety Modernization Act (FSMA) was signed into law in 2011 and gives the FDA authority to regulate the way foods are grown, harvested and processed. The law grants the FDA a number of new powers, including mandatory recall authority. The law was prompted after many reported incidents of foodborne illnesses during the first decade of the 2000's and was largely crafted by members of the Grocery Manufacturers Association. Tainted food has cost the food industry billions of dollars in recalls, lost sales and legal expenses.



2. **Health and wellness** foods. Though this trend began in the first part of the 2000's, it continues to transform and evolve - significantly. Though all age demographics are causing this, including an aging baby boomer population that is health conscious, the millennial and Generation Z age groups are driving the push. Companies like Hershey and General Foods have announced plans to expand their portfolios to appeal to younger consumers who want healthier snacks. Probiotics are attractive to food companies and are making their way into a variety of foods, not just yogurt. Again, not new since the trend has been around for at least 10 years, but clearly adapting and evolving.



3. **Beverages.** Sugar is the devil and conventional sugar soft drinks have been on a downward spiral with sales for several years. There is an increased and still growing demand for energy drinks and beverages infused with nutraceuticals, e.g. vitamin water, green teas and fruit drinks. This has an impact on product lines and beverage processing facilities as companies either re-tool the lines or build new facilities.



4. **Sustainability** first got its legs in the 1990's with environmental activists as a way for the populous to understand how what we eat, how it's grown and packaged, have an effect on the environment. Over time and through significant media attention sustainability has garnered over the years, shoppers have been willing to pay more for sustainable practices as a way to feel they are helping the environment. Many large F&B companies, including Walmart, have announced sustainability efforts from processing to packaging. Compostable packaging is getting more shelf space, which means that this packaging sub-sector offers promise for economic development practitioners looking for new target industry opportunities.



What's new or on the horizon?

1. **Cannabis.** Yes, weed. The Farm Bill of 2018 legalizes the cultivation of hemp, a plant in the cannabis family. Derivatives of hemp such as CBD (cannabinoid), is known as an aid for relaxation, anxiety and pain. It is no longer illegal, but the FDA still prohibits food and beverage products with CBD ingredients from crossing state lines. As soon as that prohibition ends, and it will eventually, there will be a rush for companies to incorporate ingredients of CBD into food products. Marijuana is now legal in 33 states and the District of Columbia. Industry watchers and government lobbyists believe it will receive full federal legalization by 2021. That also depends on elections.



2. **Mergers and acquisitions (M&A)** are new and old. During the Great Recession of 2009, many mid to small sized F&B companies were bought out by larger companies, or they went out of business. With the hot economy we are now experiencing, M&A activity is at a feverish pace. Companies like Conagra, General Mills, Campbell Soup, Coca-Cola, and Nutella have all made recent acquisitions. Those that were sold or acquired include Blue Buffalo Pet Foods, Pinnacle Foods, Snyders/Lance, Costa Coffee, and on and on. These acquisitions may mean that new product lines are being considered and new locations. Any time there is an M&A, it opens the possible door for a new location for an F&B facility. Economic developers, take note!



3. **Plant-based meat** is a new phenomenon. The days of the veggie burger are gone. This new process and science combine aminos, minerals, lipids and water and give it a meat texture and taste. Hamburger chains have latched on to it, including White Castle. Fish is next. New product lines equal new locations. Check out The Beyond Burger by Beyond Meat at your favorite grocer.



What about cold storage facilities (refrigerated storage)?

Cold storage units are not technically part of the food and beverage family and have a different NAICS (North American Industry Classification System) code (49312). But cold storage facilities are an integral and necessary part of the F&B supply chain. At the end of 2018, cold storage facilities employed 56,000 people with over 1,600 businesses in the U.S. Wages for this industry are over \$2.6bn and annual revenue is in excess of \$5.9bn. Is there any wonder why economic developers, communities and electric utility providers don't have these companies on their radar as a targeted industry sector? A "typical" new cold storage facility investment may have a capital outlay of over \$60mm and 50-75 jobs. In a very tight labor market, this type of project is ideal for communities.



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Site Selection Requirements: What does all of this mean for your community and economic development professionals working to attract F&B and cold storage facilities to a locality? New trends, processes and products typically mean new opportunities. Often a new product line could mean a new facility, based on an existing facility's footprint. So, what are the key factors needed in attracting F&B companies?

- Water and wastewater treatment capacity. Simply put, no water, no project. Water is the most important ingredient in the site selection process for F&B companies. If it's not used as an ingredient, it is always used for sanitation. Having excess water capacity of 500,000 MGD is a start.
- Low or competitive energy rates. F&B companies and cold storage facilities are big users of energy. Having competitive electric and gas rates are important.
- Access to four-lane roads. An interstate location will trump a non-interstate location. Four-lane access roads will always trump two-lane roads. Gas and diesel are big components of energy costs, and accessibility has a direct impact on operating costs.
- *"No product – No Project."* Shovel ready sites are needed for speed to market. An existing USDA/FDA grade building is a benefit, depending on the size, but hard to find. Eighty-five percent of all new F&B site searches start with a desire to find an existing facility. It's rare that one is found, so those searches turn into a greenfield project.
- A workforce within a 45-minute drive time of those key occupations that F&B companies consider necessary is a benefit. Talent is always important.

These are the essential ingredients that will allow communities to compete effectively in this constantly growing sector.

Food and beverage company executives consider the factors listed below as what's on their mind most days, and in this order (according to foodprocessing.com, 2016):

- Food safety
- Cost control
- Automation
- Worker safety
- Capacity expansion (that's a direct impact for economic developers)
- Environmental/sustainability issues
- Training

- Sourcing (where is the commodity coming from?)

Understanding what drives these decision makers of food and beverage companies will help economic developers craft the narrative and value proposition for your community. Good hunting!

Sources: Bureau of Labor Statistics; Food Dive; foodprocessioing.com; Ibisworld



About Jay Garner: Jay A. Garner, CEcD, CCE is the president and founder of Garner Economics LLC, an economic development and site location consulting firm headquartered in Atlanta, Georgia, with representative offices in North Carolina; Berlin, Germany; and Seoul, Korea. Jay often lectures and provides counsel on creating and implementing proactive global business development strategies and tactics. His firm is also a leader in assisting corporate clients such as Anchor Glass, Academy Sports, Hatfield Quality Meats, Hill's Pet Foods, Stork Food Systems, Future Pipe Industries, and others in their site selection process.



Garner Economics and Primus Builders have partnered to create one of the most extensive site certification initiatives in the economic development and Food & Beverage sector. Their goal is to help communities prepare for the location of F&B projects, which also helps companies in that industry sector (many of whom are our current clients) understand that a community's site or building has met Primus/Garner's rigorous review requirements. To learn more about the Primus/Garner Food Site Certification designation, see the link at <https://garnereconomics.com/services/food-processing-site-certification>.



About Garner Economics LLC: We are data driven strategists helping companies, communities and organizations, large and small, urban and rural, achieve success.

The firm offers location advisory analysis, analytical research, industry targeting, strategic planning and organizational assessments with a wealth of expertise to companies, communities, and organizations globally.

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