WEISERMAZARS LLP

2016 FOOD & BEVERAGE INDUSTRY STUDY

FOOD & BEVERAGE INDUSTRY STUDY – PROVIDING BENCHMARKS FOR BETTER MANAGEMENT

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ABOUT THE WEISERMAZARS FOOD & BEVERAGE INDUSTRY STUDY

The WeiserMazars 2016 U.S. Food & Beverage Industry Survey was developed to seek the views of leaders and decision makers in the food & beverage industry. The survey results found in this report are meant to define industry trends and build a knowledge base of food & beverage challenges, opportunities, and other factors that are critical to shape the future of the food & beverage industry.

The WeiserMazars 2016 Food & Beverage Industry Study, offers benchmarks against which to assess 2015 performance, insights into potential drivers for the industry in 2016, and indentifies best practices to stay ahead of the competition today and in the future. Where applicable, the study separates the responses of small and large firms, affording more nuanced insights into industry trends.

ABOUT THE WEISERMAZARS FOOD & BEVERAGE PRACTICE

The WeiserMazars Food & Beverage Practice is led by Partner, National Director and Global Leader, Louis Biscotti. Louis J. Biscotti has been a leader in the field of accounting for more than 40 years, focusing his practice on improving company growth and profitability. Lou's clients represent a variety of industries, but he is particularly well known for his work in the manufacturing and distribution sector, especially the food industry. He has helped many of these firms to grow from small emerging companies into organizations worth hundreds of millions of dollars.

WeiserMazars has developed the perfect mixture of key ingredients - knowledge, experience, trust, and independence. Our professionals specialize in growing the business of our food industry clients by adjusting the recipe for success for the unique needs of each client. We pride ourselves in providing quality products and timely services while cultivating relationships. We are quick to react to our clients' needs and take a proactive approach when the ideas or solutions are stale. Learn more about the WeiserMazars Food & Beverage Practice at www.weisermazars.com/industries/food-beverage.

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SECTION I: SUMMARY

2016 was projected to be a modest year of growth for the Food & Beverage industry, with most respondents expecting growth in sales, profit and employment, albeit at a decreased level from 2015. The factors most likely to influence sales growth were new customers, improved sales performance and new products, which remain virtually unchanged from 2015. The top trends predicted to drive sales growth are private label foods and healthy/nutritious foods. The top internal concern for participants was increasing sales and the top external concerns were food safety/traceability and the new government regulations related to the food safety and modernization act. A majority of participants (58 percent) did not expect to increase prices in response to the new FDA menu labeling requirements.

SECTION II: COMPANY OUTLOOK

Participants anticipate growth in sales and margins in 2016

47% of participants anticipated increased sales in 2016. 59% anticipated increased net profits. Among the firms who predicted an increase in sales, the average sales increase was expected to be 14%. Among the firms who predicted an increase in net profit, the projected average increase was 10%.

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:

	Large Firms	Small Firms	All Firms
Average Increase in Sales	12%	17%	14%
Average Increase in Net Profit	10%	11%	10%

Anticipated 2016 increase in employment

55% 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 71% of respondents indicating there will be no change in facilities (square footage) and 73% predicting no change in R&D spending. 85% of respondents also indicated no change in acquisitions (See Figure 1 on the next page).

A majority of respondents expect labor costs and healthcare costs to grow modestly in 2016 while commodity prices are expected to remain steady

- ***Labor Costs*** – 63% of respondents predicted an increase over 2015, with an expected average increase of 5%.
- ***Overall Healthcare Costs*** – 60% of respondents predicted an increase over 2015, with the expected average increase being 11%.
- ***Commodity Prices –*** 46% of respondents predicted no change over 2015, while 30% expected commodity prices to decrease.

Comparing big and small firms, we found that 58% of small firms anticipated increased labor costs, which were expected to grow by an average of 5%. The percentage anticipating increased labor costs among large firms was much higher at 71%, although the average increase in costs was expected to be more modest – with respondents predicting an average 4% growth.

The modest increases in sales as well as costs contributed to the anticipation of a modest net profit growth of 10% in 2016.

Figure 1. Company Outlook: 2015 – 2016 change

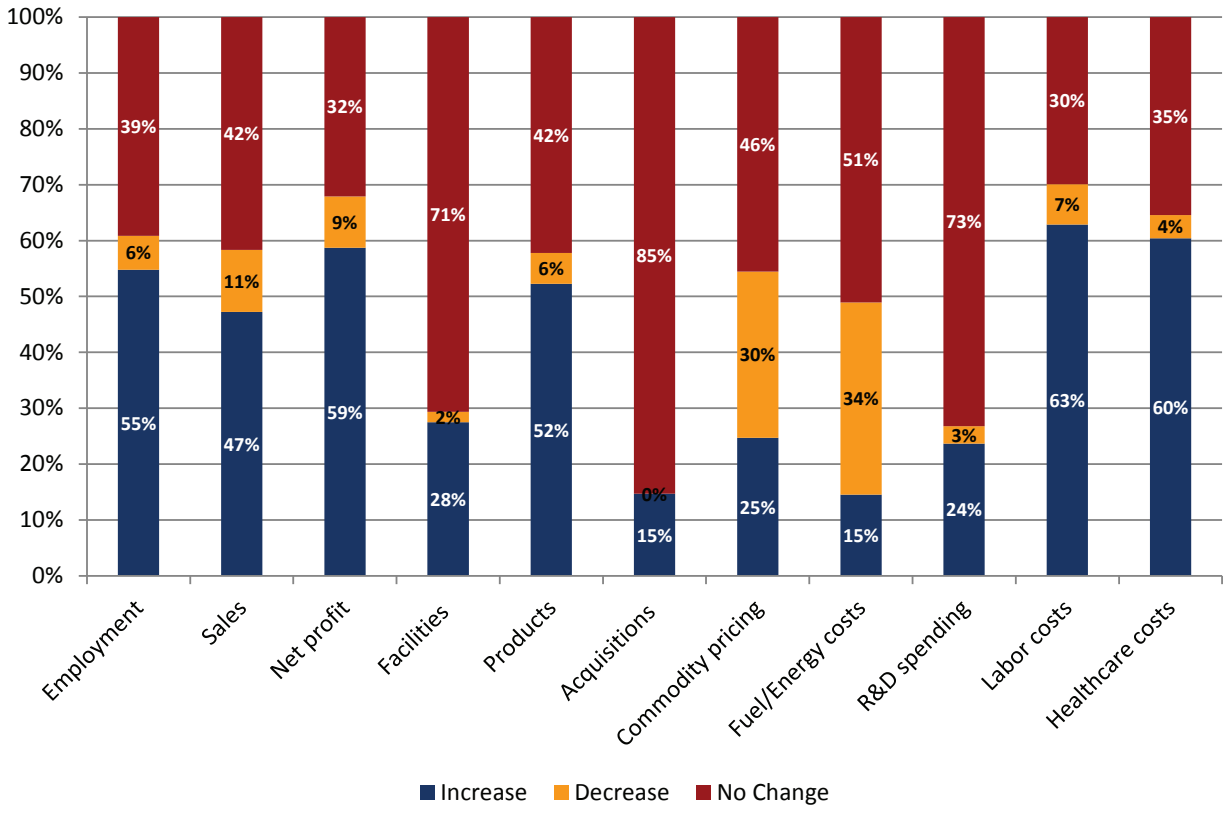
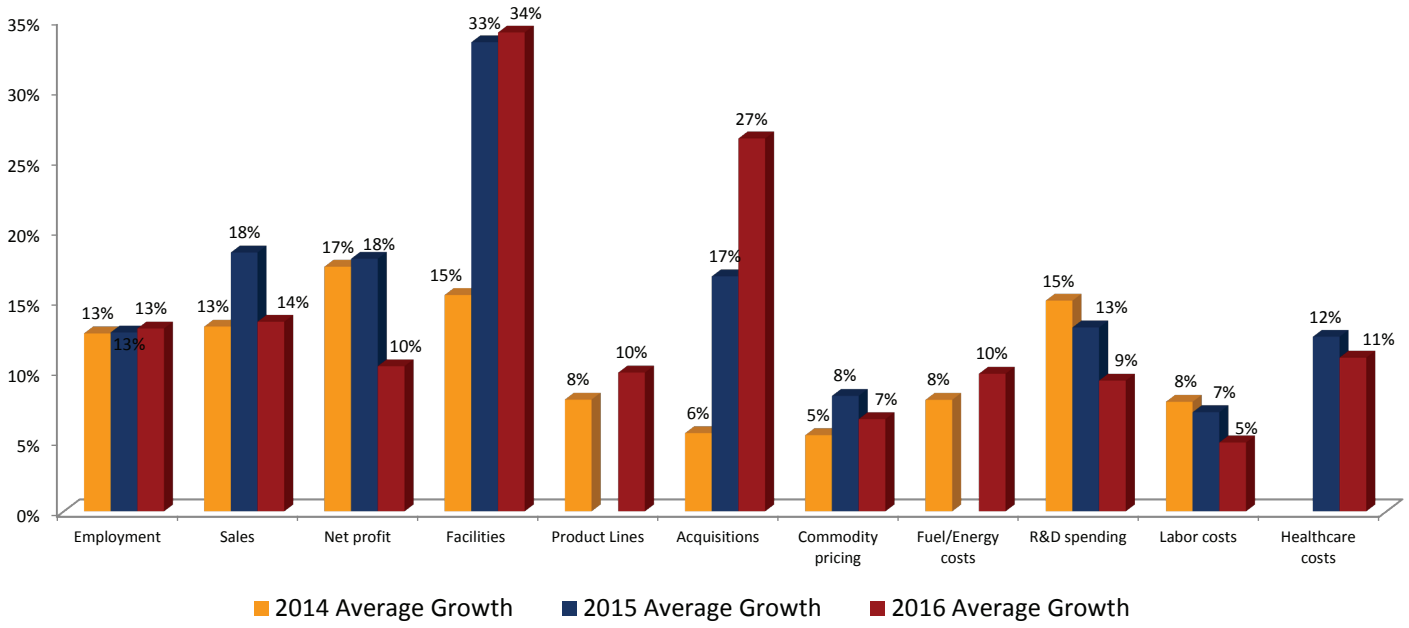


Figure 2. Average and Median Growth in Productivity and Costs (2015 – 2016)

	Average Increase	Median Increase
Employment	13%	10%
Sales	14%	5%
Net profit	10%	5%
Facilities	34%	12%
Product Lines	10%	5%
Acquisitions	27%	7%
Commodity pricing	7%	5%
Fuel/Energy costs	10%	11%
R&D spending	9%	10%
Labor costs	5%	4%
Overall healthcare costs	11%	10%

(The percentage increase responses were limited to the firms who indicated an anticipated increase in each factor, as indicated in Figure 1).

Figure 3. Company Outlook: Comparisons of Average Growths in 2014, 2015 and 2016



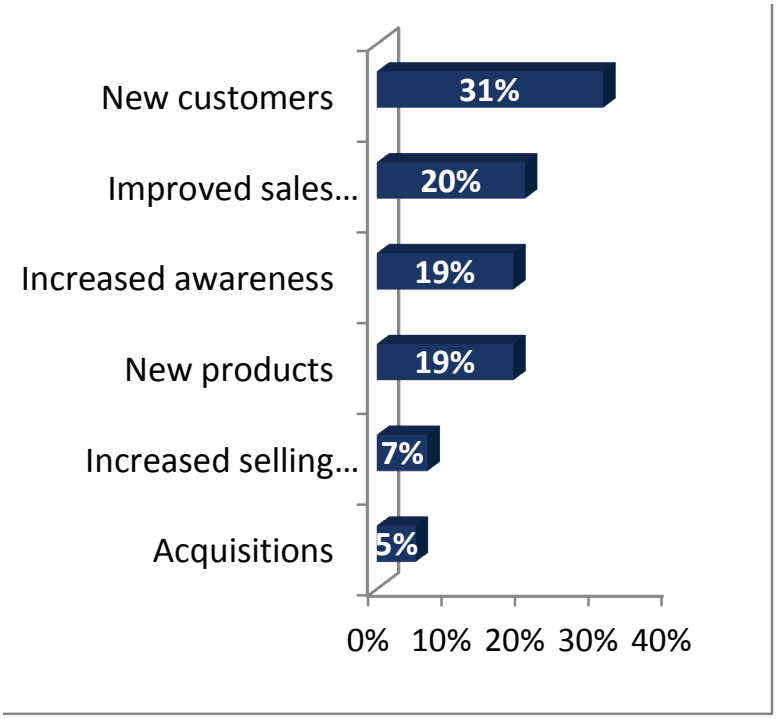
(The average growth in each factor was reported by the firms that anticipated an increase in that factor. Please note that the data for Product Lines and Fuel/Energy Costs were not captured in 2015 and the data for Healthcare Costs was not captured in 2014. This accounts for the gap in data for these factors).

Factors Influencing Sales Growth

Firms were asked to rank a list of internal factors influencing sales growth. New Customers, Improved Sales Performance and Increased Awareness were ranked as the top three factors. The ranking was consistent across small and large firms.

Figure 4: Factors Influencing 2016 Sales Growth

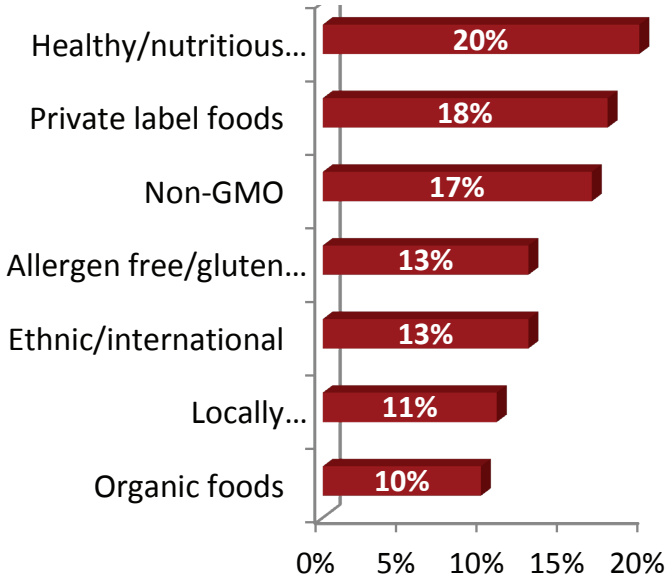
Sales Growth Influencers – All Companies



Percentage of companies that ranked the factor as a top influencer of 2016 sales growth.

Figure 5a. Industry Trends Impacting 2016 Sales Increase – Small Firms

Sales Impact from Industry Trends – Companies with less than $50 M Revenue



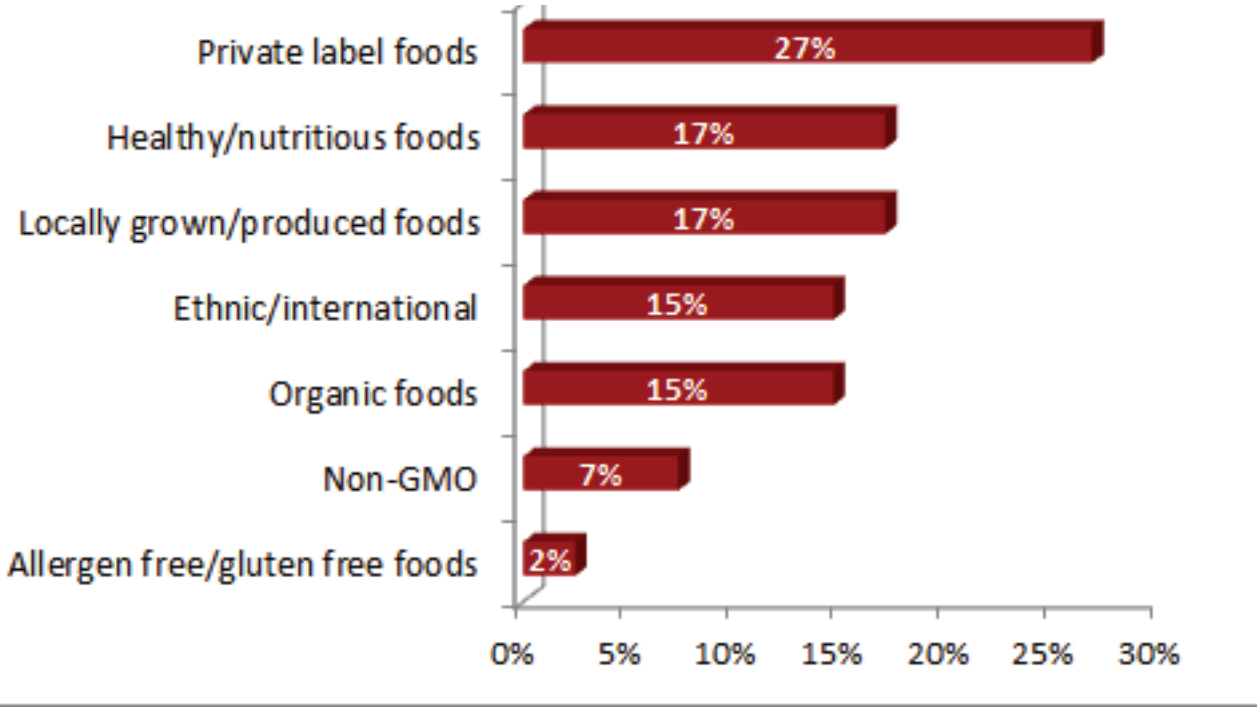
The figure shows the percentage of companies that ranked the industry trend as greatly impacting 2016 sales increase.

Respondents were asked to rank the Industry trends that are projected to increase sales. Overall, private label foods, healthy/nutritious food and non-GMO foods took the top 3 spots; however there were differences in the top ranked trends for large and small firms. In small firms (less than $50 M in revenue) healthy/nutritious food and private label foods emerged as the top two trends with 20% and 18% of respondents ranking them at the top respectively (Figure 5a). In large firms (more than $50 M in revenue), the top two were reversed with private label foods and healthy/nutritious foods being 1 and 2 respectively. 27% of respondents ranked private label foods as the top trend, compared to 18% in small firms (Figure 5b).

Non-GMO was a 2016 addition to the list of industry trends available for respondents. There was a significant difference in how small and large firms regarded non-GMO foods. 17% of small firms' ranked non-GMO as a top trend contrasted to only 7% of large firms.

Figure 5b. Industry Trends Impacting 2016 Sales Increase – Large Firms

Sales Impact from Industry Trends – Companies with greater than $50 M Revenue



The figure shows the percentage of companies that ranked the industry trend as greatly impacting 2016 sales increase.

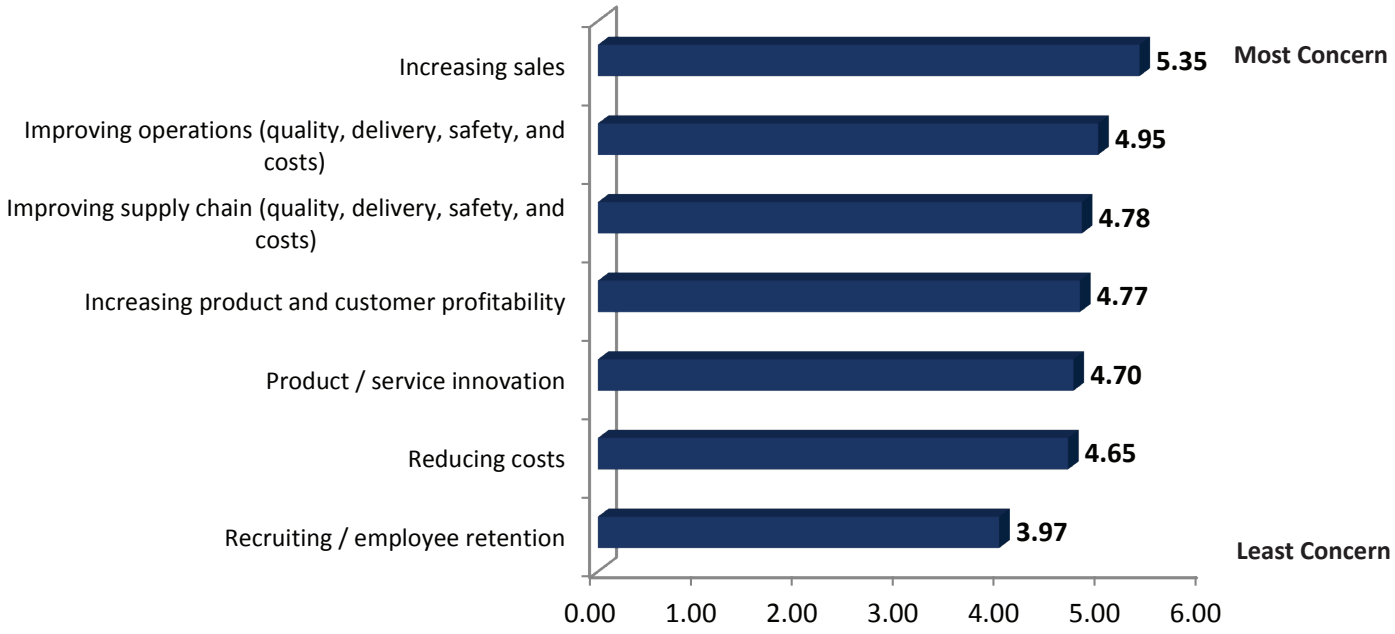
SECTION III: COMPANY CONCERNS

Internal Concerns

Respondents were asked to rank their internal concerns for 2016 on a 1 to 6 scale where 6 is a "major concern" and 1 is "not a concern." The top ranked concerns among the whole respondent group were increasing sales, improving operations and improving supply chain. Recruiting/employee retention was ranked the lowest. (Fig. 6) The internal concerns of small and large firms were strikingly similar. Increasing sales and improving operations were the top two concerns for both.

Figure 6: Ranking of Internal Company Concerns

Top Internal Concerns – All Companies

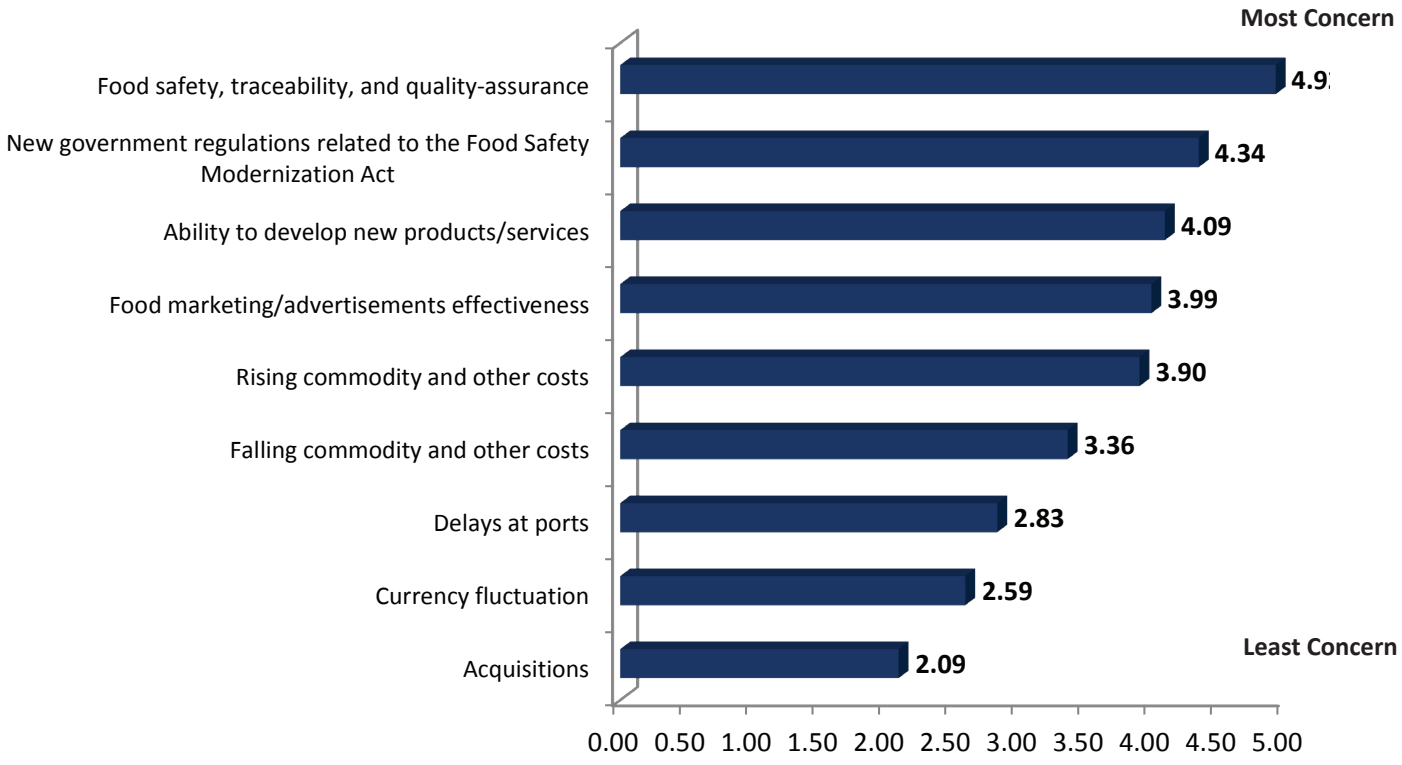


External Concerns

The top external/environmental issues overall were food safety, traceability and quality assurance, and new government regulations related to the Food Safety Modernization Act. This was consistent across companies of all sizes. The least concern was expressed about currency fluctuations and acquisitions.

Figure 7: Ranking of External Company Concerns

Top External Concerns – All Companies



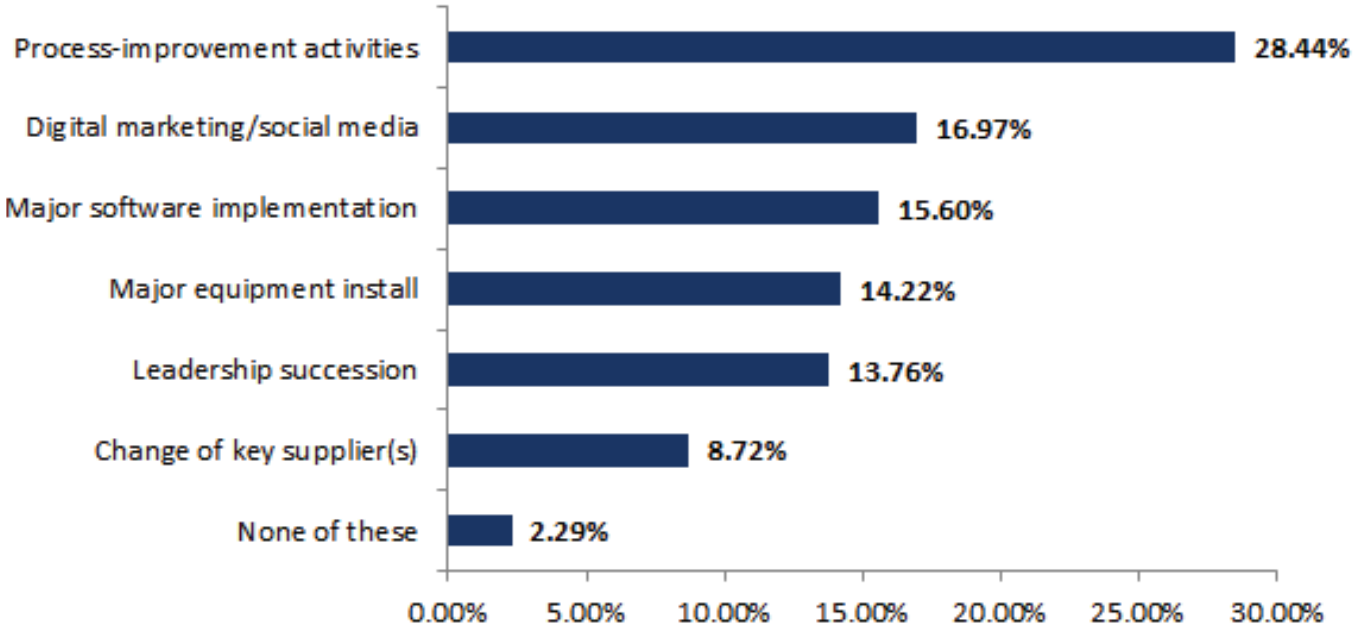
SECTION IV: COMPANY STRATEGIES AND PRIORITIES

Operational Initiatives Planned or Underway

The most common operational initiatives that are underway or planned for 2016 are process-improvement activities (28% of participants) followed by digital marketing/social media (17%). 2015's second common activity, leadership succession fell to 5th place in 2016 (Figure 8). The responses of small and large firms were similar.

Figure 8: Operations Strategies Planned or Underway – All Firms

All Food and Beverage Companies



New FDA Labeling Response

Respondents were asked if they would increase prices as a result of the new FDA menu labeling requirements. 58% of all respondents stated that they would not, and 36% were undecided. Only 6% said that they would increase prices due to the new requirements. Comparing large and small firms, none of the large firms indicated they would raise prices, while 11% of small firms planned on increasing prices. The undecided remained consistent among small and large firms at around 35%.

Figure 9a: Percentage of small firms that anticipated price increases in response to new FDA labeling requirements

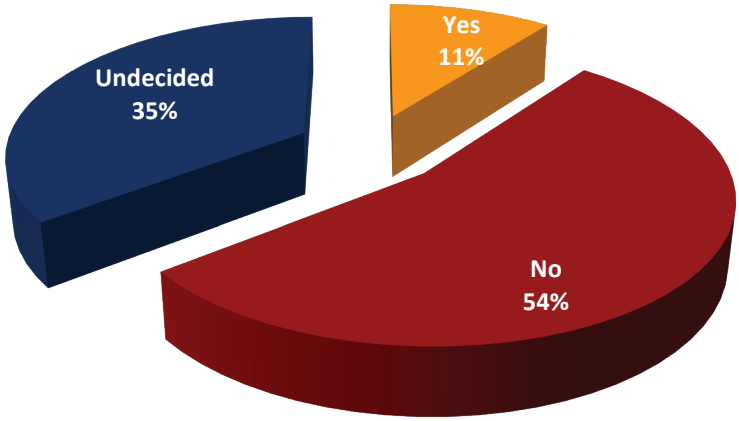
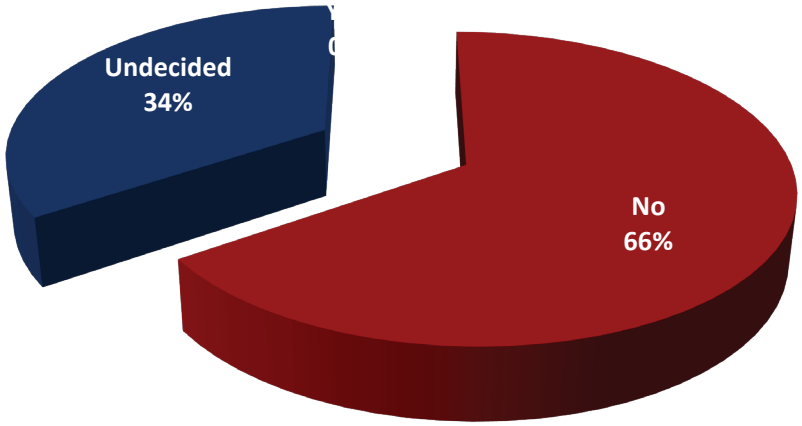


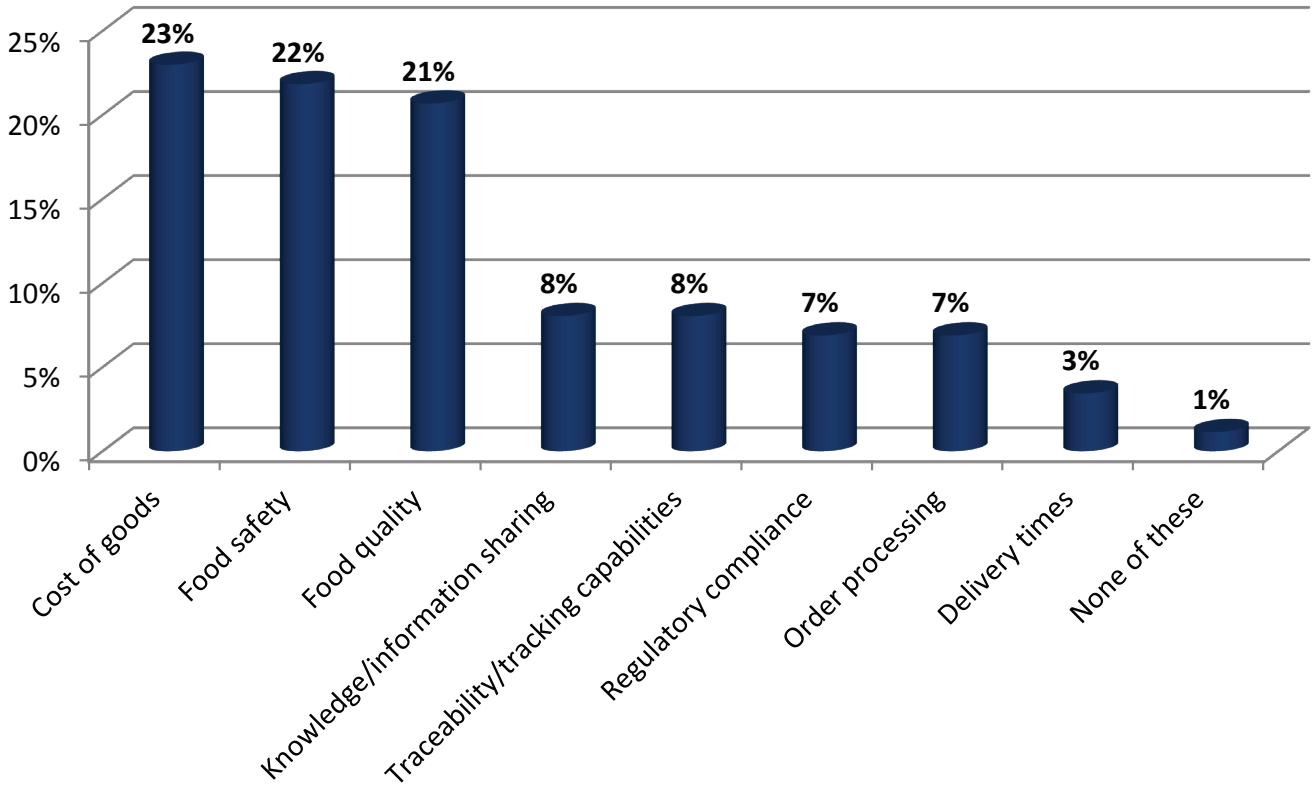
Figure 9b: Percentage of large firms that anticipated price increases in response to new FDA labeling requirements



SUPPLY CHAIN PRIORITIES

The top three supply-chain elements across all companies were cost of goods, food safety and food quality. This was consistent with 2015 observations. No major differences were noted between the large and small firms in supply chain priorities.

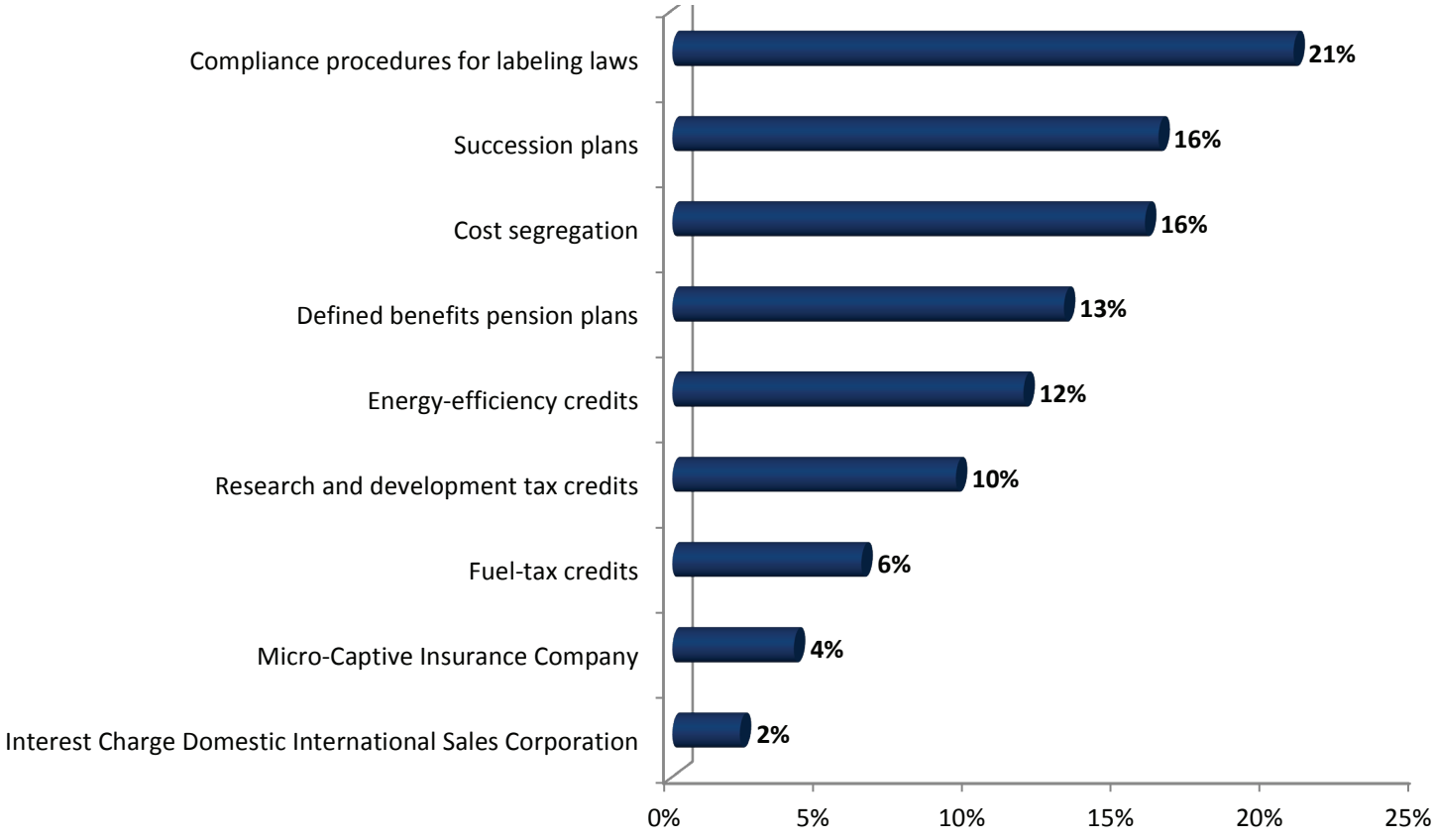
Figure 10: Supply Chain Priorities across all Companies

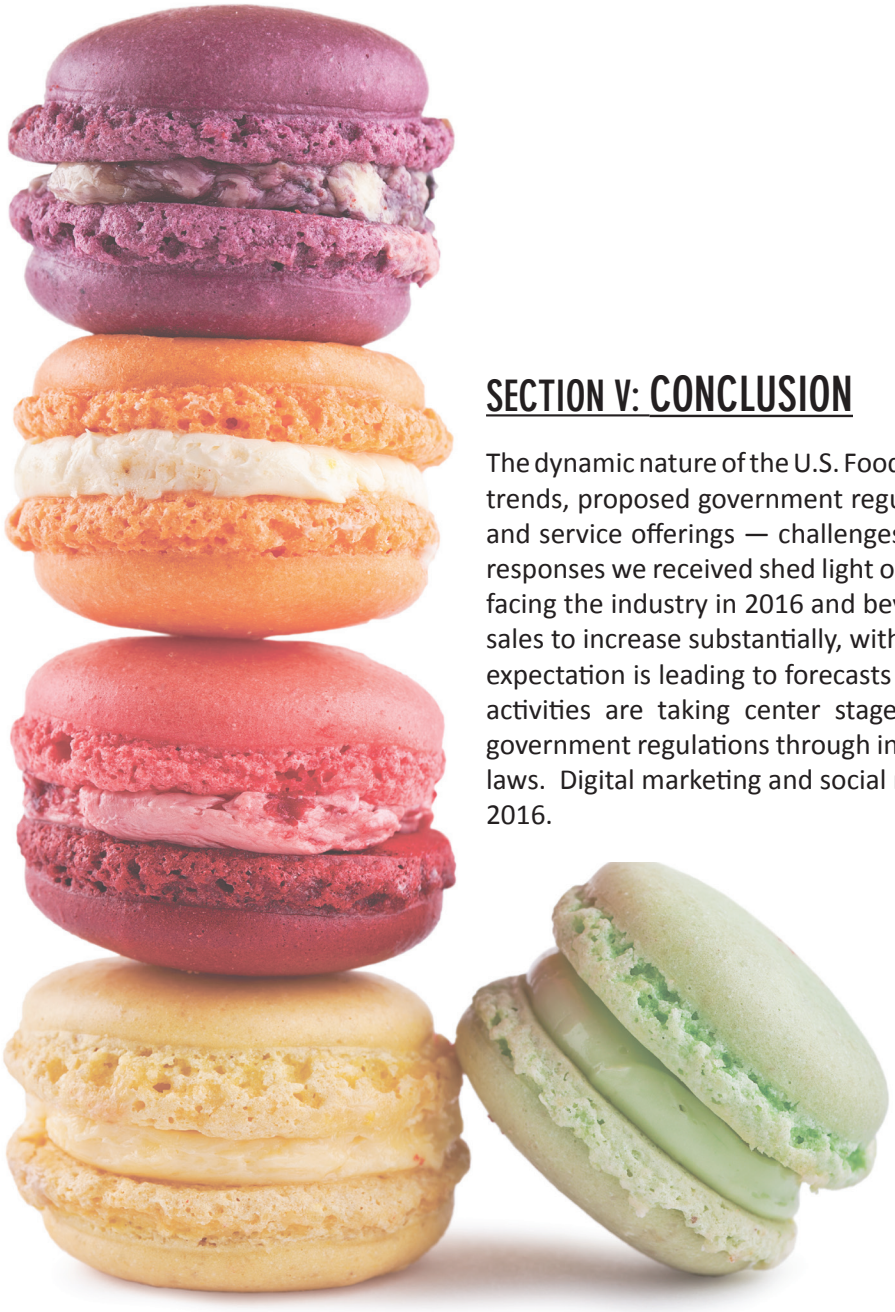


PROJECT IMPLEMENTATIONS

Food & Beverage companies were asked to identify the implementation state of various projects that can impact their bottom lines. The most common projects are compliance procedures for labeling laws and succession plans - 21% and 16% respectively have already implemented or plan to implement these projects. Last year, succession plans and energy-efficiency credits took the top two spots with 20% and 16% respectively of respondents indicating that they have implemented or planned to implement. Respondents were least likely to be planning to implement Interest Charge Domestic International Sales Corporation or to make use of a micro-captive insurance company (only 2% and 4% implemented or planning to implement).

Figure 11. Corporate Implementations (Projects implemented or plan to implement) – All Firms





SECTION V: 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 2016 and beyond. The majority of the industry expects sales to increase substantially, with a relatively modest increase in costs. This expectation is leading to forecasts of a profitable year. Process improvement activities are taking center stage and the industry is responding to new government regulations through investments to comply with the new labeling laws. Digital marketing and social media continue to be a main focus through 2016.

Profile of Food & Beverage Industry Study Participants

2016 Food & Beverage Industry Study participants reported the following:

- Industry: The majority of participants were wholesalers/distributors (35%) and manufacturers (41%).
- Sales: Study participants represented a range of annual sales volumes — 64% had sales of $50 million and less with 14% of respondents having sales of less than a million. 36% had sales of more than $50 million, with 10% reporting sales of more than $500 million.
- Employees: 65% of participants reported fewer than 100 employees, while 10% reported more than 1,000.
- Ownership: 89% of participants described their ownership structures as private, with 6% being private equity. 2% of respondents were public companies and 3% did not answer.

Food & Beverage Industry Study Methodology

WeiserMazars, conducted the 2016 Food & Beverage Industry Study, coordinated by iLumen, an independent research firm, through an online questionnaire. Responses were received from February through April 2016, 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.

Visit us at: www.weisermazars.com

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