

McKinsey
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Current trends in Food & Beverage

Culinary Chefs Conference

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McKinsey facilitators



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Objectives for this session



Share McKinsey's latest perspectives on current trends in the foodservice industry



Review strategies that foodservice players can use to adapt in this changing environment



Address questions through Q&A

Growth in foodservice may be challenged and shaped by several trends impacting the industry

Shocks



- 1 Supply chain constraints**
Heightened vulnerability to supply disruptions and vulnerabilities (e.g., transportation capacity, raw material availability, etc.)
- 2 Inflation**
Raw material input costs and commodity volatility; increased labor costs
- 3 Consumer behaviors & preferences**
Rapidly evolving; increased focus on health and sustainability

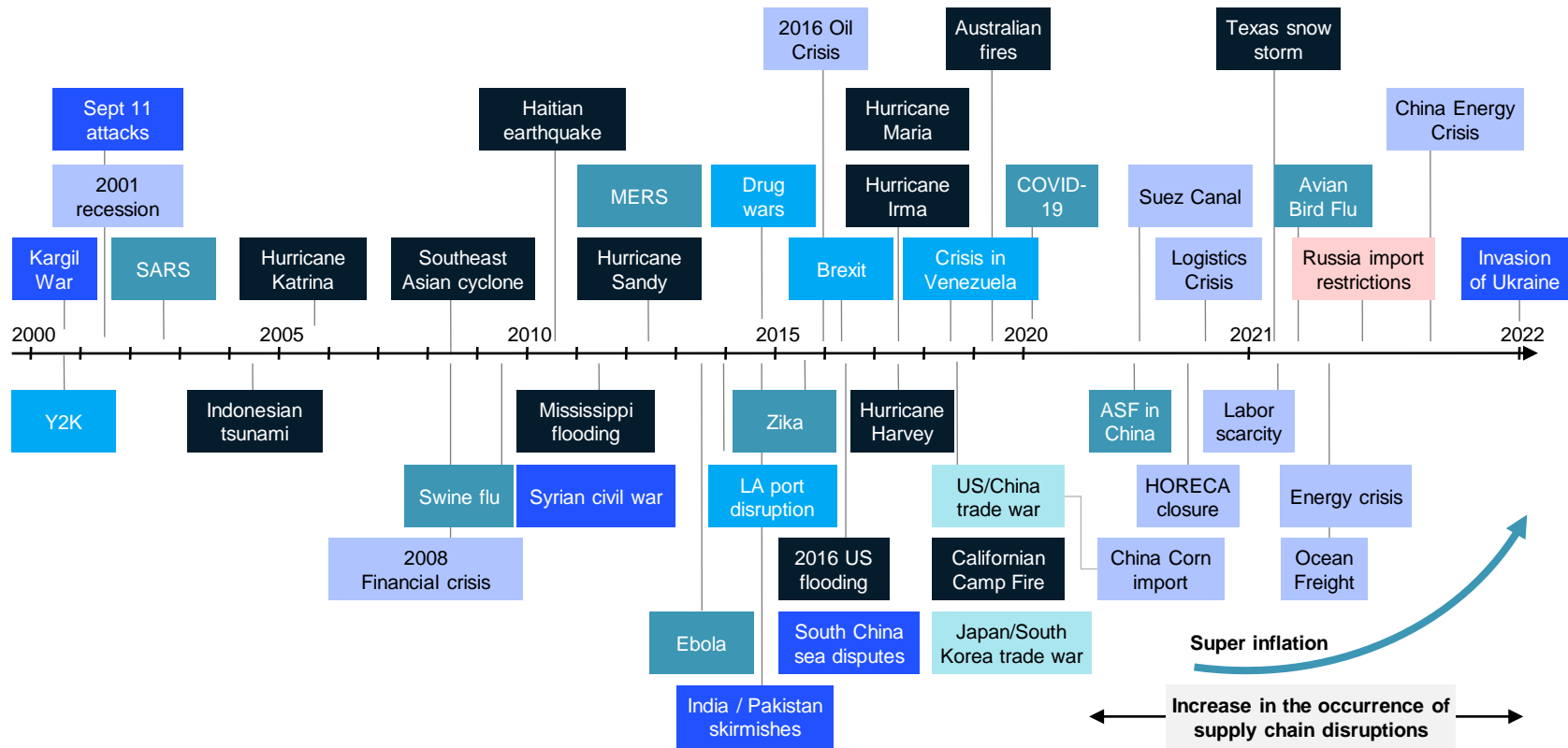
Foodservice players that respond and adapt to trends will likely be in the best position to drive value



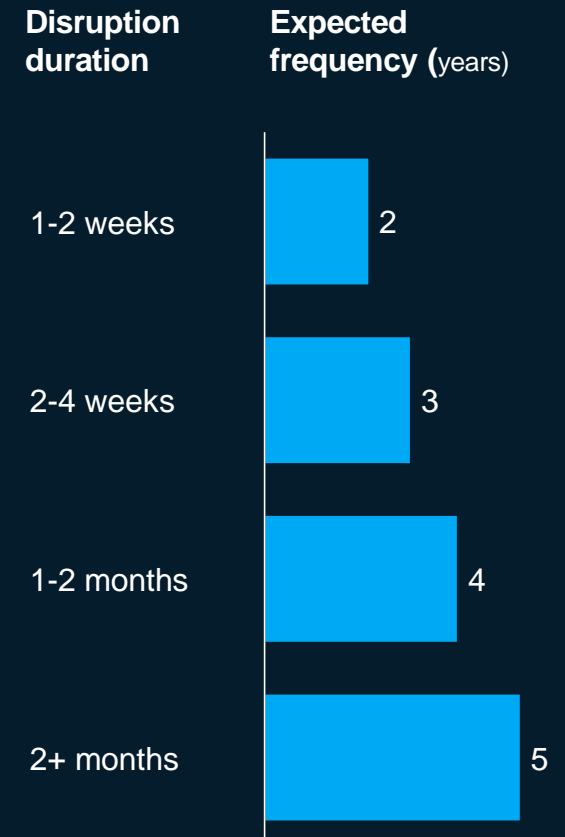
1. Multiple risk categories are causing more frequent and longer supply chain disruptions

■ Natural disasters
 ■ Political crises
 ■ Armed conflicts
 ■ Trade wars
 ■ Pandemics
 ■ Economic crises

Two decades of SC disruption



Disruption frequency



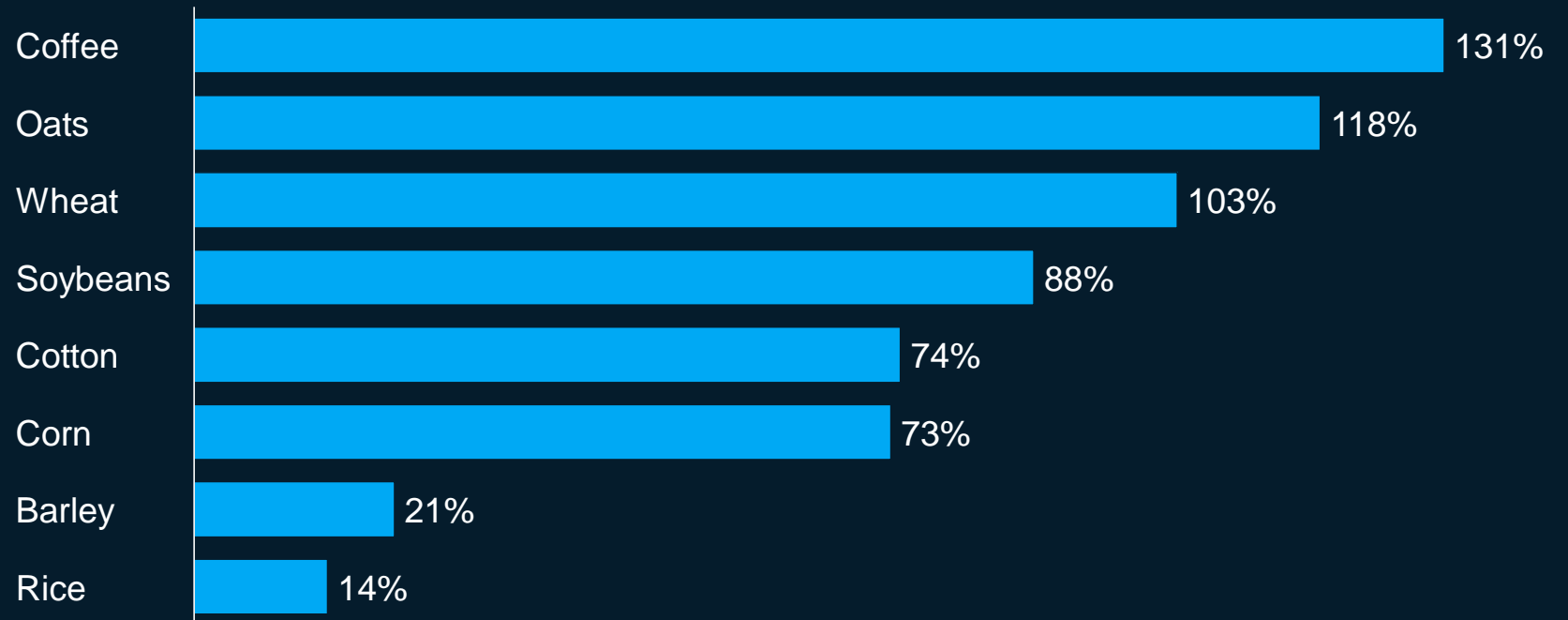
Source: McKinsey Global Institute analysis, Expert interviews

2. Basic ingredients have significantly increased in price, further putting pressure on foodservice

Primarily driven by below-trend yields over multiple years

As of May 2022

Change in price since February 2020, %^{1,2}



1. Based on US Department of Agriculture Foreign Agricultural Service global supply and demand data, and commodity farming and labor input costs.

2. Change in price based on May'22 commodity prices

Source: US Department of Agriculture Foreign Agricultural Service, IHSMarkit, Statistics Canada, Bloomberg, expert interviews

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2. Price discovery in futures markets has priced in economic equilibriums at elevated prices into 2024

— Historical - - Forward Curve Above latest price spike Above pre-boom price level Below pre-boom price level

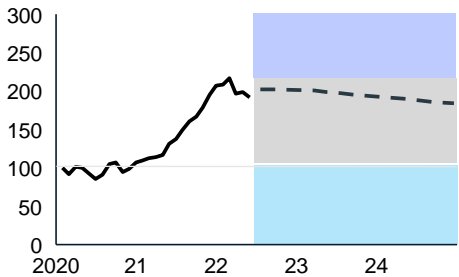
Forward curves indicate the market has priced in economic equilibriums above pre-boom price levels...



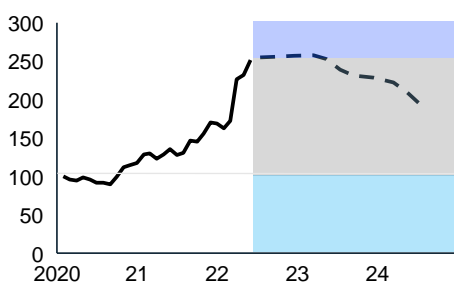
... which we think will continue to be impacted by...

Historical price and current forward curve, Q2 2022

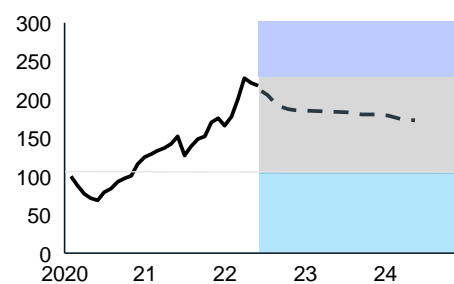
Arabica coffee, price index (2020=100)



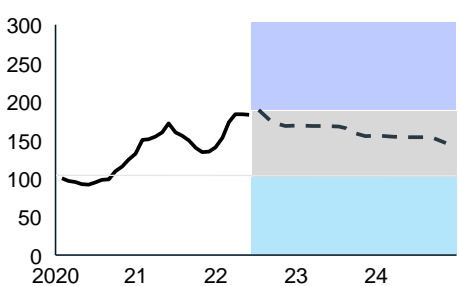
Wheat, price index (2020=100)



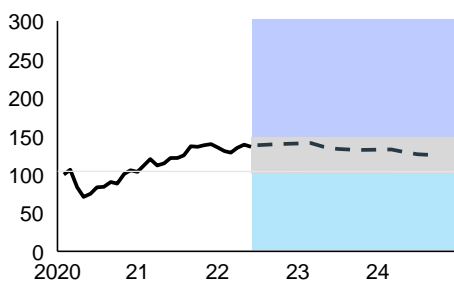
Palm Oil, price index (2020=100)



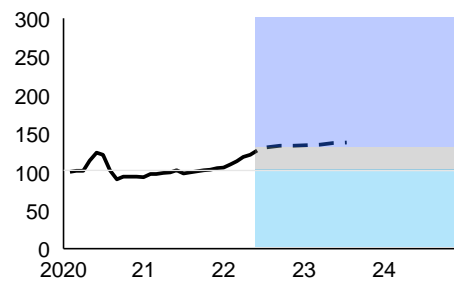
Soybeans, price index (2020=100)



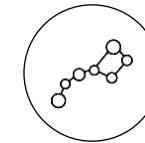
Sugar, price index (2020=100)



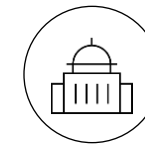
Rice, price index (2020=100)



Supply and demand changes from shifts in crop yield and new consumption trends (e.g., HVO)



Agricultural input cost evolution (e.g., fertilizer, crude)



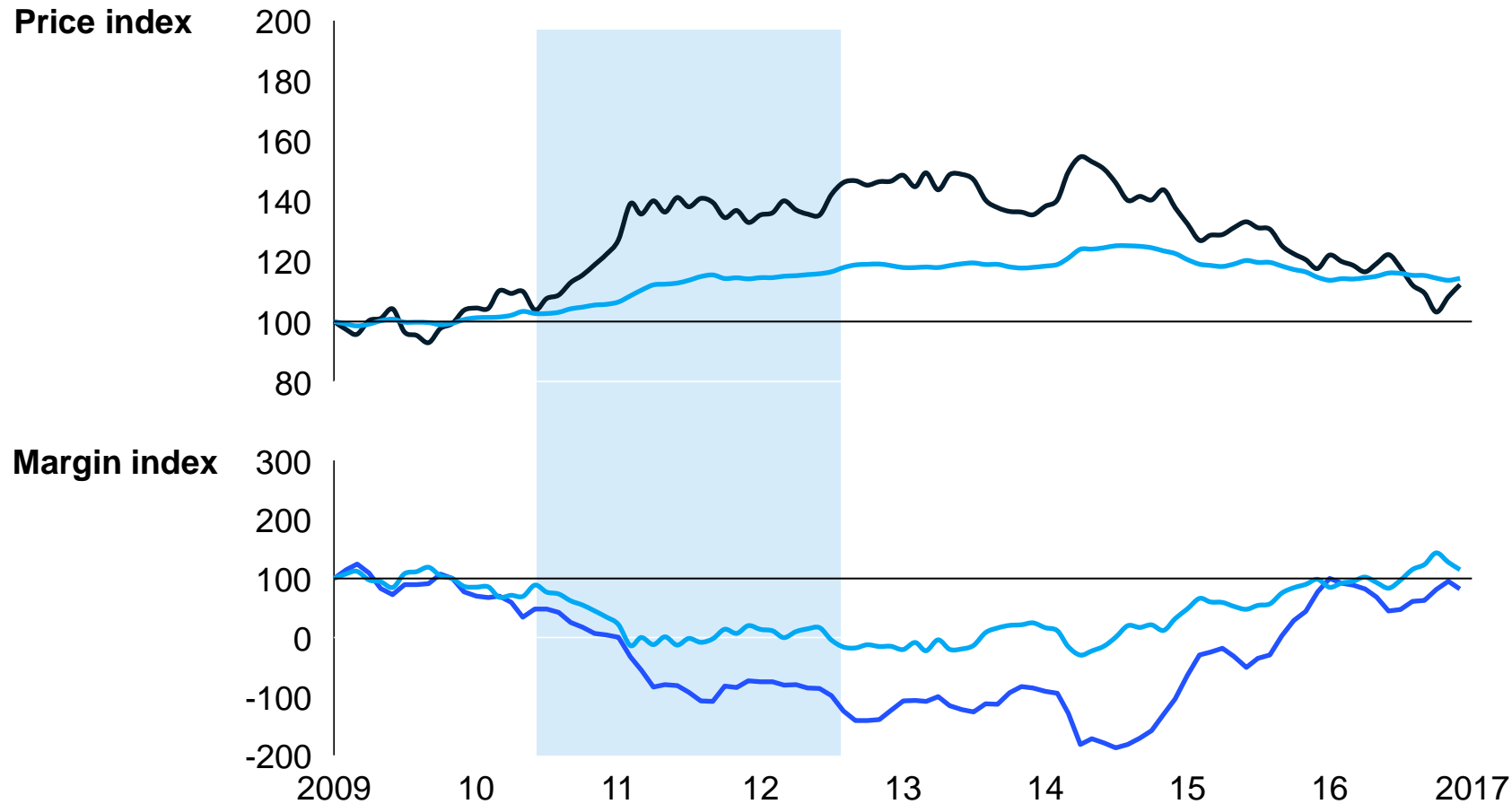
Geopolitical factors that constrain trade flows or stimulate demand or production

2. At the industry level, downstream players have historically absorbed commodity price increases

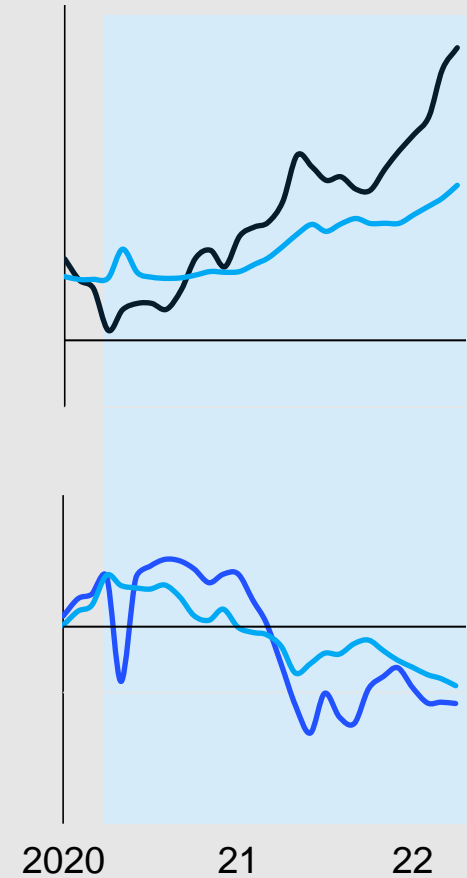
US price and margin indexes 2009-2017 and 2020-2022, Indexed (January 2009 = 100)

■ Focus for discussion — Farm production — Food manufacturing — Retail & Foodservice

In 2011-15 downstream players absorbed commodity price increases, leading to reductions in margin



Similar trajectory observed in 2021-22



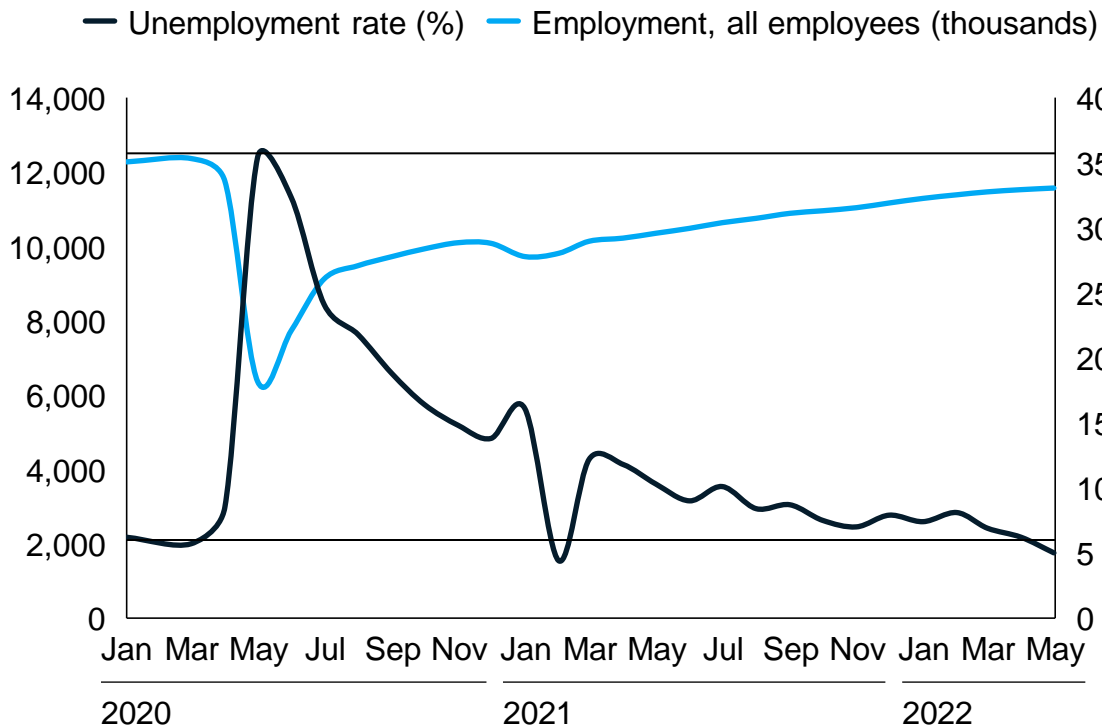
Source: US Bureau of Labor and Statistics, US Federal Reserve Bank of Kansas City

2. Labor shortages have increased foodservice wages and continue to make it challenging for foodservice to find, pay, and retain talent

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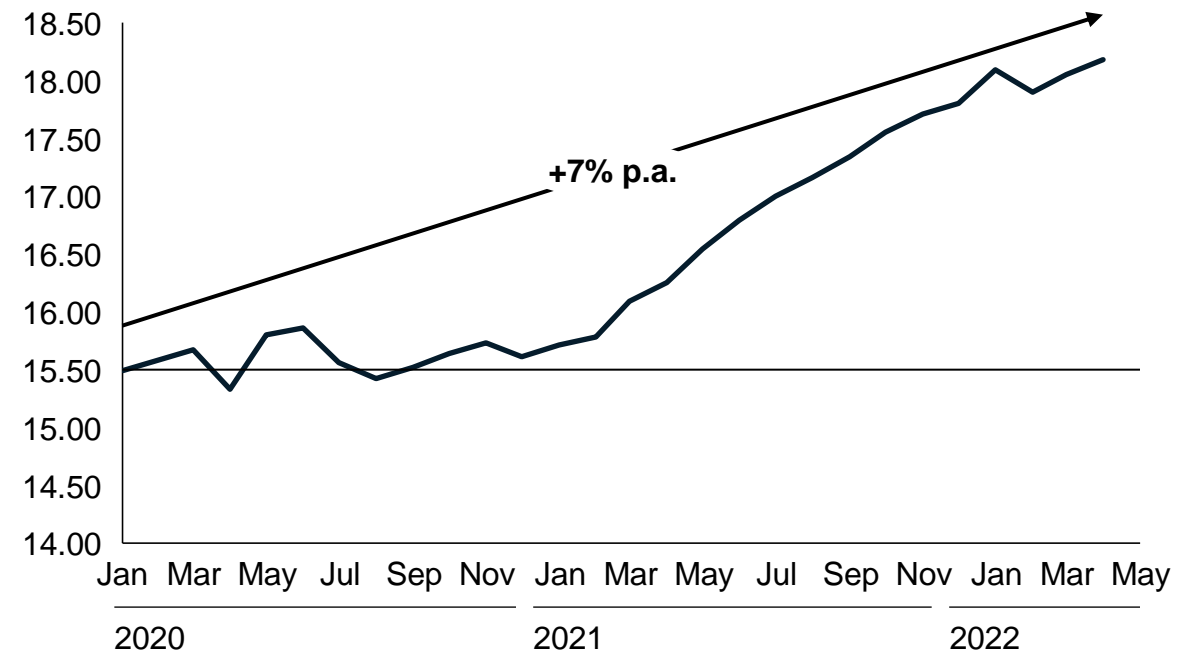
Employment has yet to reach pre-pandemic levels while unemployment has fallen below

All employees, food services and drinking places, seasonally adjusted vs. unemployment rate



Wages have increased significantly above pre-pandemic levels

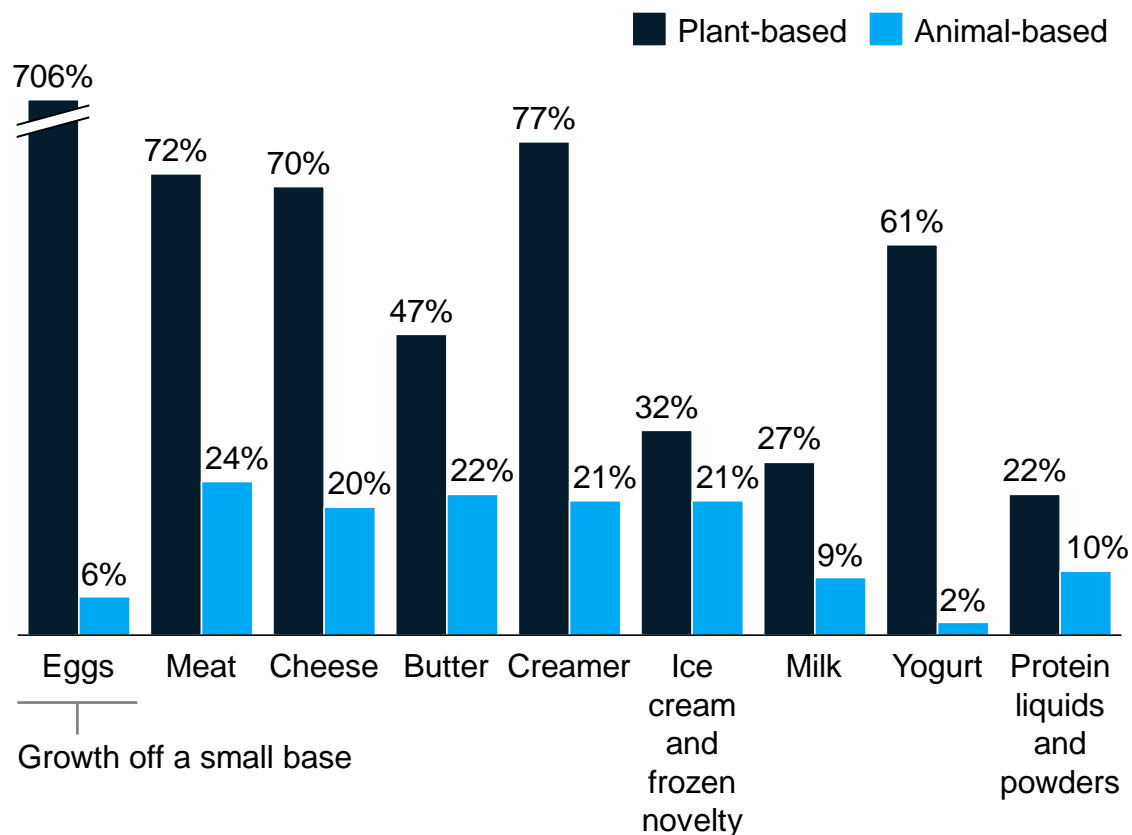
Average hourly earnings of all employees, food services and drinking places, not seasonally adjusted, USD



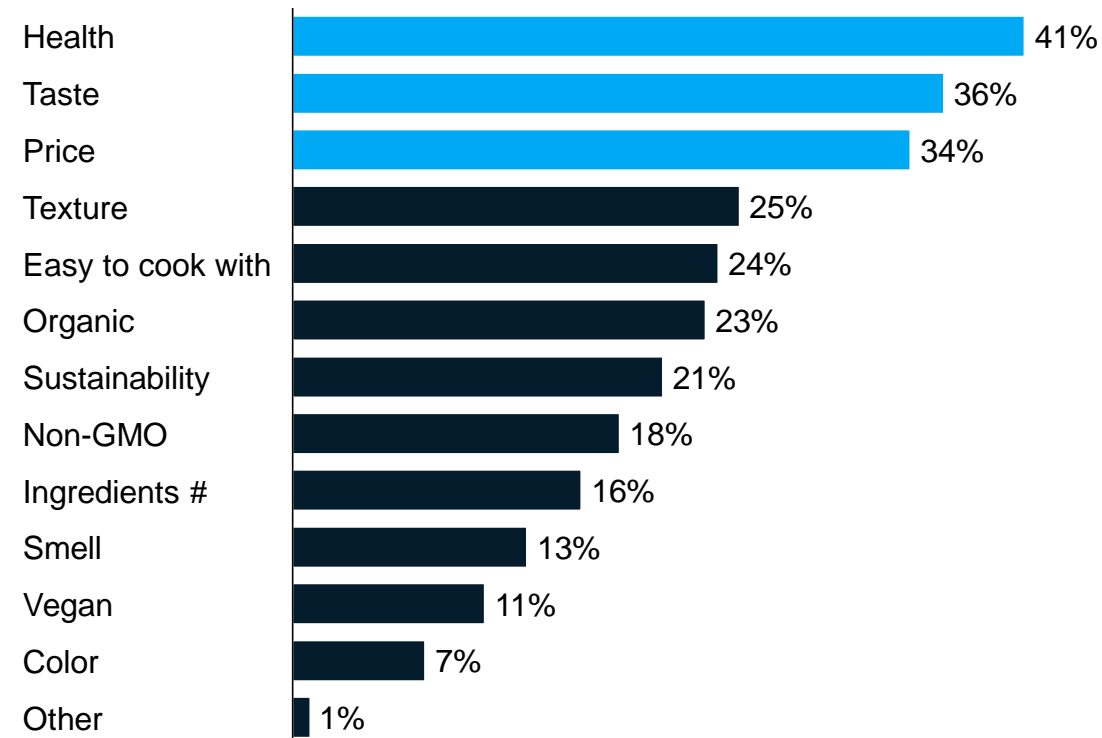
Source: US Bureau of labor Statistics, food services and drinking places (NAICS code: 722)

3. Plant-based products have been experiencing tremendous growth across categories as consumers look for healthy foods

Plant-based and animal-based two-year sales growth comparison
Growth vs 2020



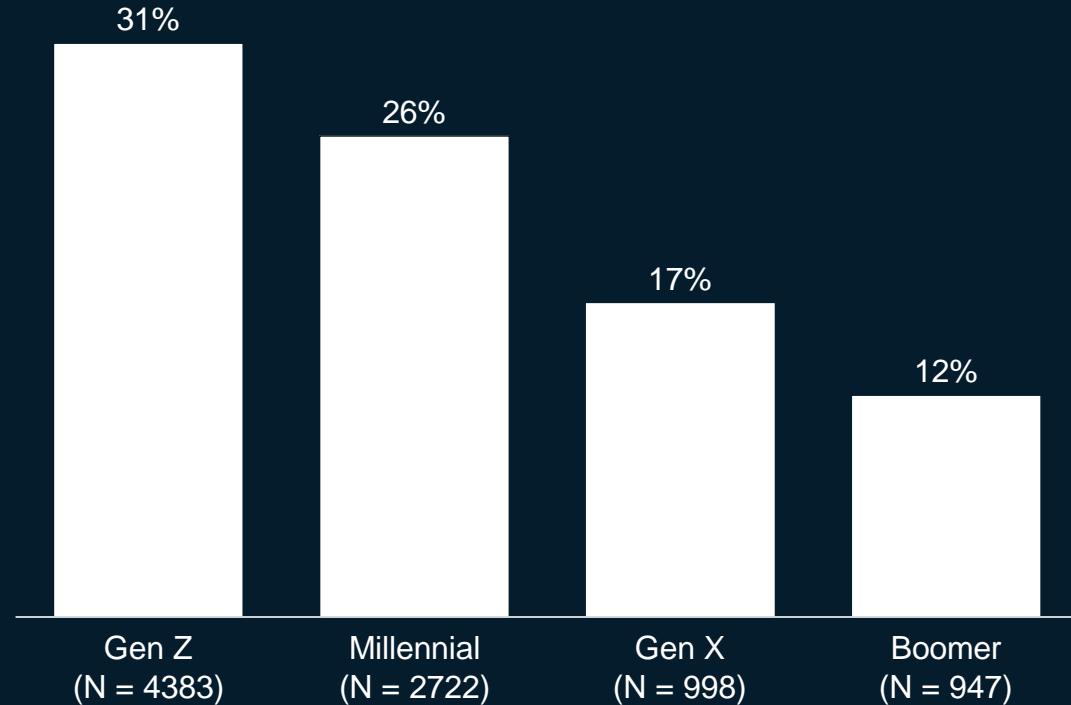
Key buying factors for plant-based consumers¹
% responses tagging buying factor as top 3



1. Consumers who have purchased plant-based meat in last 3 months; top KBFs defined by those who selected item as top 3 factor
2. Tried but have not purchased in last 3 months

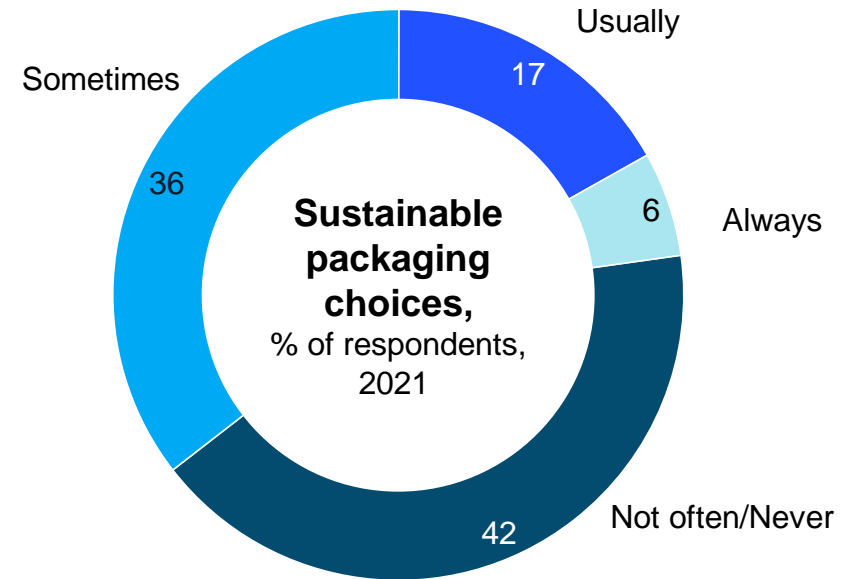
3. Younger consumers care more about sustainable packaging and products

% that answered strongly agree or agree to survey question, "I will pay more for products that have the least negative impact on the environment"

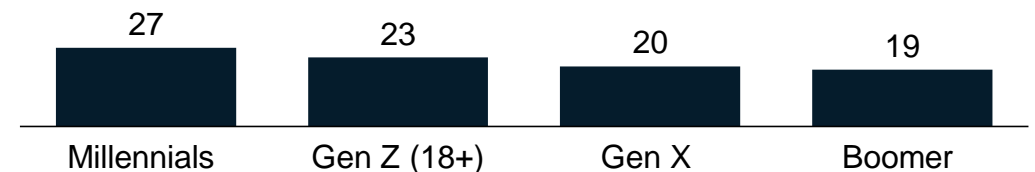


Source: McKinsey Jan'22 Global Sentiment Survey (answers collected in Sept'21), McKinsey Gen Z and Millennial Survey July 2019 (N=9000)

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Making sustainable packaging choices (always/usually) by age, % of respondents, 2021



Example mitigating actions to address challenges and trends impacting foodservice

Non-exhaustive

-
- 1 Supply chain constraints**
Expand supplier base to ensure supply continuity:
 - Identify high risk (availability or cost) inputs
 - Identify strategic partners and adapt contracting strategies
 - Source key ingredients and/or services from multiple regions/suppliers to increase resilience
 - 2 Inflation**
Recognize and manage costs:
 - Create cost transparency and understand current and forward-looking sources of cost inflation (e.g., ingredients/materials, production, labor)
 - On material inputs, identify specification, product, and menu optimization opportunities (focused on cost mitigation)
 - On labor, explore new talent sources (e.g., transition programs, reskilling from declining occupations) and make changes beyond wages (e.g., schedules, benefits)
 - 3 Consumer behaviors & preferences**
Align to consumer preferences in a cost-efficient manner:
 - Identify consumer value driving/premiumization (e.g., plant-based offerings) opportunities from better delivering against consumer expectations and key drivers of consumer likeability
 - Redesign products, menu and simplify portfolio/ offerings
-

Q&A



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