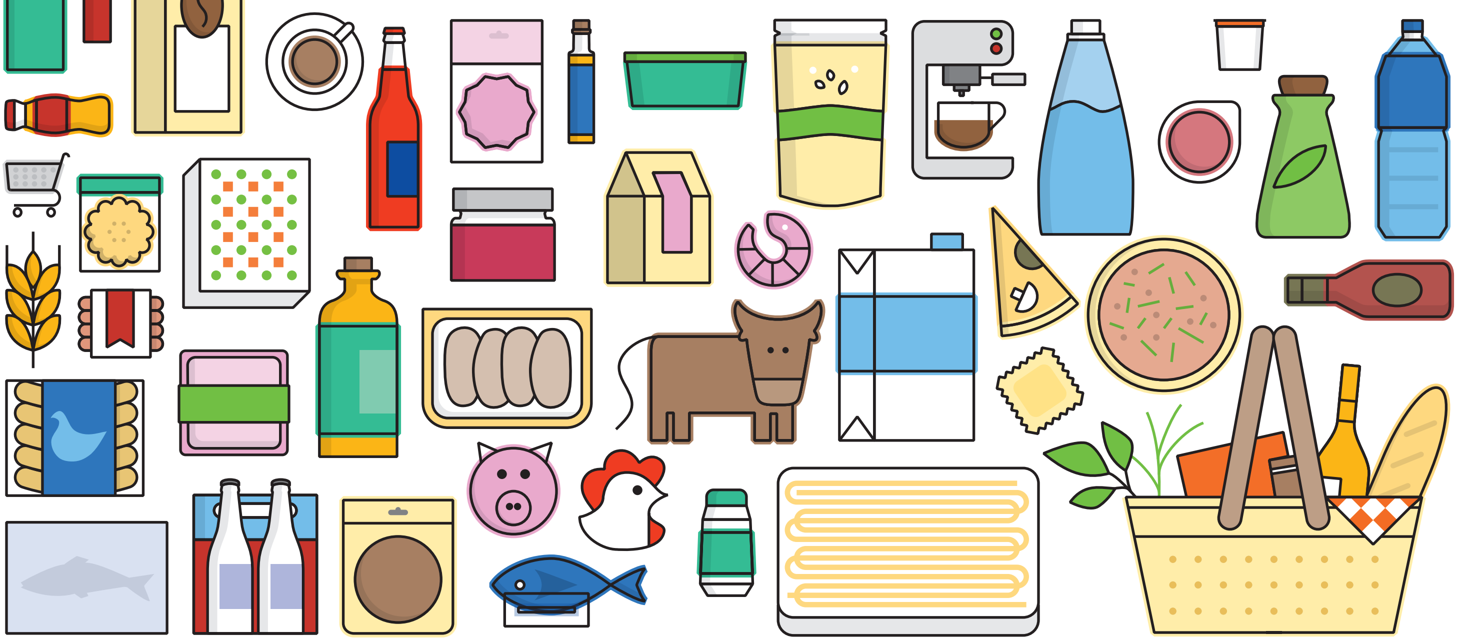
THE STATE OF THE

SPECIALTY FOOD INDUSTRY 2016

specialty food association™



THE STATE OF THE SPECIALTY FOOD INDUSTRY

Dollar sales grew

21.2%

since 2013, and unit sales increased

13.7%

ABOUT THE RESEARCH

The Specialty Food Association's State of the Specialty Food Industry is a joint research project prepared by Mintel and SPINS/IRI.

The research encompasses the three most recent calendar years of sales data and includes figures for 61 specialty food categories, pulled from the SPINS database of mainstream and natural food stores.

In addition, Mintel surveyed specialty food manufacturers, importers, distributors, brokers, and retailers to develop the statistics presented in this report.

Specialty food sales hit **$120.5 billion** in the U.S. in 2015, according to this year's **State of the Specialty Food Industry report**, produced by the Specialty Food Association and Mintel.

Here are some takeaways:

1. Though mainstream retailers account for the largest share of specialty food sales, they are growing at an almost equal rate as specialty food and natural food stores. According to supply chain data, sales potential may be biggest in natural stores.
2. Specialty food sales through foodservice are growing faster than retail sales: 27 percent versus 19.7 percent. More U.S. consumers are dining out and seeking high-quality, flavorful foods when doing so.
3. Fifty-eight out of 61 specialty food categories enjoyed double-digit sales growth in 2015, and two categories grew by more than 200 percent. Fresh, protein, and convenience are three trends holding steady as evidenced in the specialty food categories showing the most sales growth: refrigerated RTD tea and coffee; eggs; jerky and other meat snacks; refrigerated pasta; and water.
4. The supply chain has embraced the importance of e-commerce as a way to sell directly to consumers. Eighty-five percent of manufacturers sell via their own website and 49 percent use a third-party platform like Amazon. Importers cite online sales as one of their fastest-growing channels.
5. Manufacturers say retail sales—whether through distributors or direct—are their biggest and fastest-growing sales channel. However, they are enjoying success via the foodservice market as well, with an almost equal amount of sales coming from products made exclusively for foodservice as products also sold to retail.
6. Many in the supply chain believe non-GMO will be a product claim of growing importance to consumers. Forty-nine percent of manufacturers plan to introduce products that are non-GMO in 2016.
7. Local products are still an important way retailers differentiate their offerings.

The following pages offer more highlights of key data from the research. A summary version with charts and more data is available for download at specialtyfood.com/stateindustry2016, along with definitions and brand examples for the 61 specialty food categories used in this report.

Download a summary report with full charts and data as well as more information at **specialtyfood.com/stateindustry2016**

Infographics by Newhouse Design

THE SIZE OF THE SPECIALTY FOOD INDUSTRY AT RETAIL AND FOODSERVICE

Specialty food sales at retail grew to $94 billion in 2015, a 19.7 percent jump since 2013, driven by product innovations and wider availability of specialty foods through mass-market outlets. Sales through foodservice outlets grew at a faster clip—27 percent to hit $26.5 billion—as U.S. consumers continue to make more away-from-home meal purchases.

Mainstream retailers such as Kroger, Costco, and Target account for more than four-fifths of sales as these chains have expanded their presence in specialty foods significantly. But sales of specialty food appear promising across channels: Growth among mainstream, natural food, and specialty food stores has been relatively equal from 2013 to 2015, at about 20 percent, with specialty food stores enjoying a slight edge.

TOTAL U.S. SALES OF SPECIALTY FOOD

	2015 $ Million
Retail Channels*	$93,982
Foodservice	$26,508
Total	**$120,490**

Source: Mintel/SPINS/IRI

* Retail channels include sales from natural, specialty, and MULO** outlets as well as an estimate for specialty food perishables (PLU or random-weight specialty items sold in bakery, deli, meat, and seafood) sold in these outlets. In addition, these figures include estimated specialty food sales from Trader Joe's and Whole Foods Market.

** MULO or multi outlet, is representative of the following channels: total U.S. grocery, mass, total U.S. drug, total Walmart, dollar, military, and club.

SPECIALTY FOOD SALES BY RETAIL CHANNEL

	2015 $ Million	% Share	% Change 2013 – 2015
Mainstream Stores*	$45,850	81.7	19.0
Specialty Food Stores	$6,226	11.1	20.2
Natural Food Stores	$4,024	7.2	19.5
Total	**$56,100**	**100.0**	**19.2**

Source: Mintel/SPINS/IRI

* MULO or multi outlet, which is representative of the following channels: total U.S. grocery, mass, total U.S. drug, total Walmart, dollar, military, and club.

Does not include private-label sales, random weight (PLU) items, or sales through Trader Joe's or Whole Foods Market.

Retail sales of specialty foods in the U.S. grew 19.7% between 2013 and 2015.

SHARE OF U.S. SALES OF SPECIALTY FOOD

FOODSERVICE
22%

RETAIL
78%

Editor's note: The market size for the specialty food industry has been calculated as follows: SPINS provides three-year scanner data sales for food, drug, and mass segments and natural supermarkets (excluding Trader Joe's, Walmart, and Whole Foods Market) for sales in 61 segments. To reach the U.S. sales total, Mintel added estimated sales of products that were not collected by scanner data. This includes PLU sales through all channels, including specialty food stores, as well as sales through Trader Joe's and Whole Foods Market, but not Walmart.

SALES OF SPECIALTY FOOD BY SEGMENTS

Fifty-eight out of the 61 specialty food categories included in this year's report grew between 2013 and 2015, many by double digits. Two categories—refrigerated RTD tea and coffee and eggs—leapt by triple digits.

The 10 top-selling categories are similar to last year. Cheese and cheese alternatives remains at the top and has grown 14.7 percent, but frozen and refrigerated meat, poultry, and seafood and chips, pretzels, and snacks have inched up to the number-two and -three spots, respectively. Refrigerated entrees and prepared meals joined the top 10 after experiencing a 34.5 percent sales increase over the past two years.

Unit sales of specialty foods grew 13.7 percent overall to 15.6 billion. Growth was led by refrigerated RTD tea and coffee, which grew a whopping 301.6 percent.

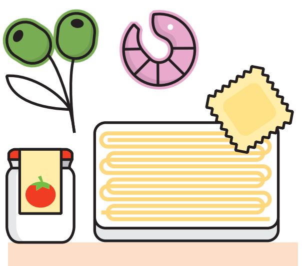
Specialty food's market share of all food sales is 14.1 percent. Categories with the biggest growth in penetration are refrigerated pasta and pizza sauces; refrigerated pasta; and refrigerated RTD tea and coffee; and frozen meat alternatives.

RETAIL SALES OF SPECIALTY FOOD: TOP 10 CATEGORIES

		2015 $ Million	% Share	Change 2013 – 2015
1	Cheese and Cheese Alternatives	$4,312	7.7	14.7
2	Frozen and Refrigerated Meat, Poultry, and Seafood	$3,631	6.5	23.1
3	Chips, Pretzels, and Snacks	$3,448	6.1	22.3
4	Coffee, Coffee Substitutes, and Cocoa (non-RTD)	$3,183	5.7	17.3
5	Bread and Baked Goods	$2,578	4.6	14.7
6	Candy and Individual Snacks	$2,160	3.9	21.4
7	Frozen Lunch and Dinner Entrées	$1,891	3.4	21.4
8	Condiments, Dressings, and Marinades	$1,862	3.3	10.4
9	Yogurt and Kefir	$1,819	3.2	27.6
10	Refrigerated Entrées and Prepared Meals	$1,743	3.1	34.5

TOP 5 SPECIALTY FOOD CATEGORIES WITH HIGHEST SALES GROWTH

		Dollar Sales % Change 2013 – 2015	Unit Sales % Change 2013 – 2015
1	Refrigerated RTD Tea and Coffee	262.2	301.6
2	Eggs	218.2	162.3
3	Jerky and Other Meat Snacks	68.4	60.1
4	Refrigerated Pasta	58.3	49.7
5	Water	51.4	43.9



TOP 5 SPECIALTY FOOD CATEGORIES WITH LOWEST SALES GROWTH

		Dollar Sales % Change 2013 – 2015	Unit Sales % Change 2013 – 2015
1	Frozen Juices and Beverages	-45.0	-43.3
2	Shelf-Stable Non-dairy Beverages	-5.4	-8.2
3	Cold Cereals	-5.2	-7.3
4	Shelf-Stable Pasta	3.0	1.8
5	Pickles, Peppers, Olives, Other Vegetables	5.6	3.4

THE SPECIALTY FOOD SUPPLY CHAIN: MANUFACTURERS

Specialty food manufacturers surveyed enjoyed a strong 2015, with 64 percent seeing sales gains of 10 percent or more.

2015-AT-A-GLANCE

Mean Annual Sales	$2,843,750
Mean # of SKUs	32
Largest Share of Total Expenses:	
Raw Materials	
Mean Net Profit	19%
Mean # of Staff	
24 Full-time	
22 Part-time	

Own Manufacturing Facility	50%
Co-Pack for Other Manufacturers	41%
Co-Pack Private Labels for Retailers	57%
Fastest-Growing Sales Sources:	
Retail—Through Distributors	
Retail—Direct	

DOLLAR SALES CHANGE IN THE PAST YEAR

	2015 %
Up 30% or more	24
Up 20 – 29%	21
Up 10 – 19%	19
Up 1 – 9%	11
Unchanged	13
Down 1 – 9%	9
Down 10 – 19%	2
Down 20 – 29%	1
Down 30% or more	2

Source: Mintel/SPINS/IRI

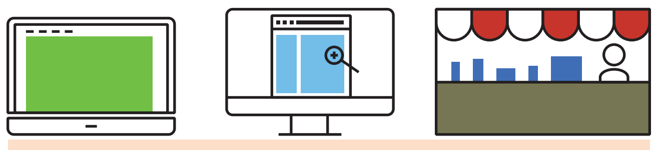
2015 CHANNEL GROWTH

Fastest: Natural Supermarkets

Slowest: Conventional Supermarkets, Specialty Food Stores, Department Stores

Fastest-Growing Foodservice Channel: Institutions (Universities, Hotels, etc.)

HOW DO YOU SELL DIRECTLY TO CONSUMERS?



85% OWN WEBSITE

49% THIRD-PARTY PLATFORM (AMAZON, MOUTH.COM, ETC.)

15% FARMERS MARKET

THE FUTURE

Product Innovation Plans:
- Gluten-free
- Non-GMO
- Convenient/Easy-to-Prepare

67% Seeking to Create/Market New Products with Existing Brands

Most Important Natural or Ethical Claim to Consumers:

TODAY: ORGANIC

IN 3 YEARS: NON-GMO

MORE NON-GMO COMING

WHAT PERCENTAGE OF YOUR FOODSERVICE SALES COMES FROM:

PACKAGED PRODUCTS YOU SELL ONLY TO THE FOODSERVICE CHANNEL

26%

PACKAGED PRODUCTS YOU ALSO SELL TO RETAIL

22%

INGREDIENTS YOU SELL ONLY TO FOODSERVICE

3%

IN THEIR OWN WORDS

How, if at all, will the upcoming FDA hearing and subsequent rules for the term "natural" on food and beverage labels affect manufacturers' business plans?

"It would help by getting rid of fraudulent claimers."

"I'd like the government to stay out of it. They messed up the organic industry."

"NATURAL?"

THE SPECIALTY FOOD SUPPLY CHAIN: IMPORTERS

Four in five importers surveyed reported sales gains in 2015, with 45 percent reporting increases above 10 percent.

2015-AT-A-GLANCE

Mean Annual Sales	$3,130,000
Mean # of SKUs	211
Mean # of Countries Imported From	2.9

Prime Importing Sources:
- Europe
- Asia
- South America
- Central America

DOLLAR SALES CHANGE IN THE PAST YEAR

	2015 %
Up 30% or more	10
Up 20 – 29%	10
Up 10 – 19%	25
Up 1 – 9%	35
Unchanged	10
Down 1 – 9%	5
Down 10 – 19%	5
Down 20 – 29%	0
Down 30% or more	0

Source: Mintel/SPINS/IRI

2015 CHANNEL GROWTH

Fastest: Foodservice, Online

Slowest: Conventional Supermarkets, Department Stores

Top Natural or Ethical Product Claims Imported:

ALL-NATURAL

NON-GMO

ORGANIC

Most Important Natural or Ethical Claim to Consumers:

TODAY: ALL-NATURAL

65%

Seeking to Expand Specialty Food Offerings

HALF OF IMPORTER SALES GO THROUGH DISTRIBUTORS:

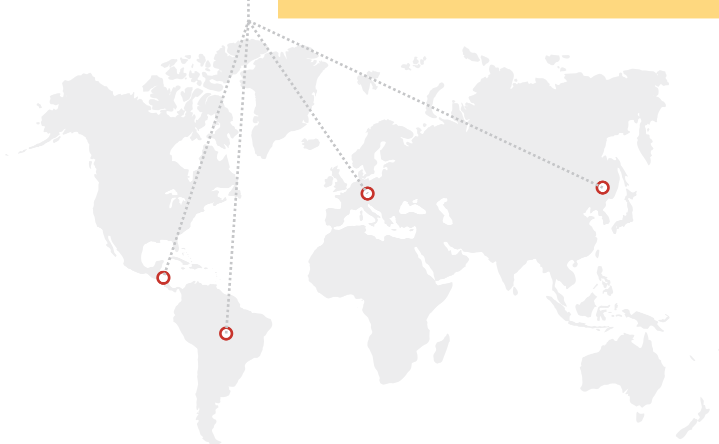
RETAIL DISTRIBUTORS

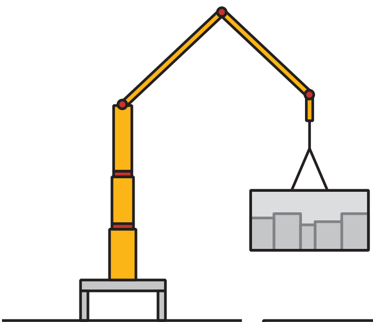
39%

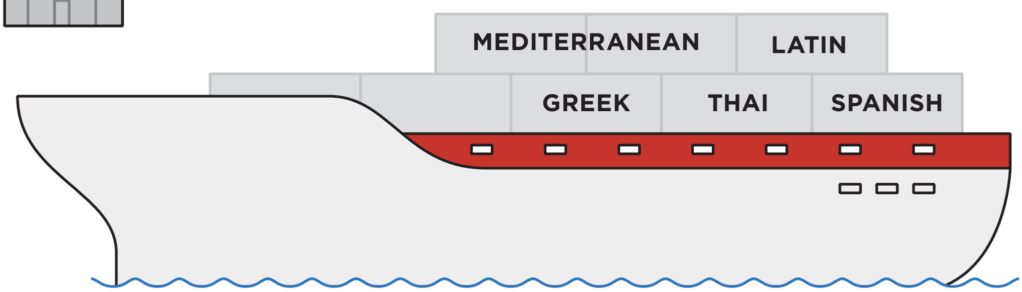
and

FOODSERVICE DISTRIBUTORS

11%







IN THEIR OWN WORDS

What are importers' biggest gripes about the specialty food industry?

"The overblown focus of consumers for locally sourced foods and gluten-free foods."

THE FUTURE

Top 5 Emerging Cuisines:

1. Mediterranean
2. Latin
3. Greek
4. Spanish
5. Thai

Most Important Natural or Ethical Claim to Consumers:

ORGANIC

THE SPECIALTY FOOD SUPPLY CHAIN: DISTRIBUTORS

Sixty percent of distributors surveyed saw sales increases of greater than 10 percent. None experienced sales decreases but 40 percent said sales were flat.

2015-AT-A-GLANCE

Mean Annual Sales	$7,220,000
Mean # of SKUs	2,061
Mean # of Stores Serviced	2,421

Largest sales channels: Natural supermarkets, conventional supermarkets, mass merchandisers, and specialty food stores

2015 CHANNEL GROWTH

Fastest: Natural Supermarkets

Slowest: Specialty Food Stores

Most Important Natural or Ethical Claim to Consumers:

TODAY: ORGANIC

IN 3 YEARS: ORGANIC, ALL-NATURAL

THE FUTURE

Seeking to Expand Specialty Food Offerings: 60%

Seeking to Expand/Add Private-Label Products: 60%

DOLLAR SALES CHANGE IN THE PAST YEAR

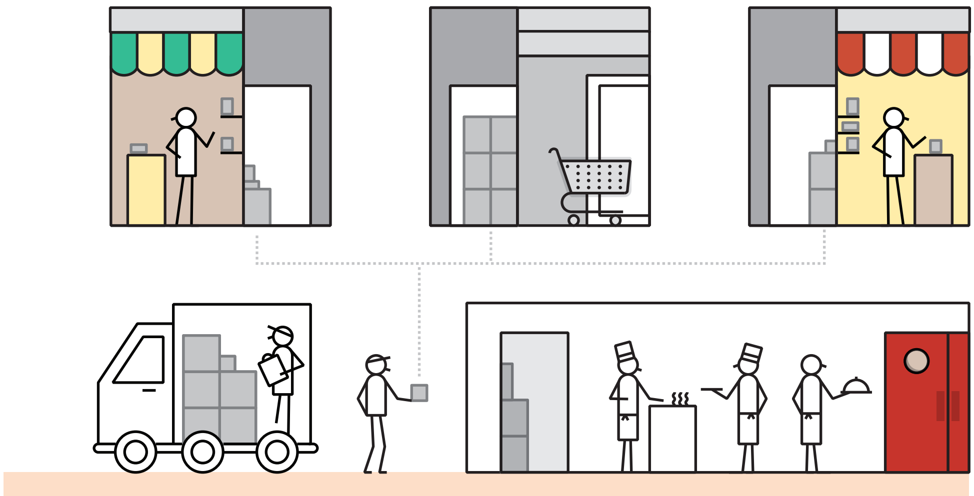
	2015 %
Up 30% or more	20
Up 20 – 29%	20
Up 10 – 19%	20
Up 1 – 9%	0
Unchanged	40
Down 1 – 9%	0
Down 10 – 19%	0
Down 20 – 29%	0
Down 30% or more	0

Source: Mintel/SPINS/IRI

IN THEIR OWN WORDS

What plans have distributors implemented to address the new FSMA laws?

"We are SQF certified so as of now we are up to date for FSMA as well. Importing restrictions and laws might cause significant changes in how business is done and understanding those challenges will be a huge focus this year."



THE SPECIALTY FOOD SUPPLY CHAIN: BROKERS

While more than half of brokers saw sales increases in 2015, 42 percent reported sales as either flat (21 percent) or down (21 percent). Much of this downturn is related to weakness in specialty food store sales reported by brokers in this survey.

2015-AT-A-GLANCE

Mean Annual Sales	$3,350,000
Mean # of SKUs	2,804
Online Ordering Capability	36%

2015 CHANNEL GROWTH

Fastest: Natural Supermarkets

Slowest: Specialty Food Stores

Most Important Natural or Ethical Claim to Consumers:

TODAY: LOCAL

IN 3 YEARS: NON-GMO

THE FUTURE

Seeking to Expand Specialty Food Offerings: 64%

Seeking to Expand/Add Private-Label Products: 36%

DOLLAR SALES CHANGE IN THE PAST YEAR

	2015 %
Up 30% or more	0
Up 20 – 29%	0
Up 10 – 19%	36
Up 1 – 9%	21
Unchanged	21
Down 1 – 9%	14
Down 10 – 19%	7
Down 20 – 29%	0
Down 30% or more	0

Source: Mintel/SPINS/IRI

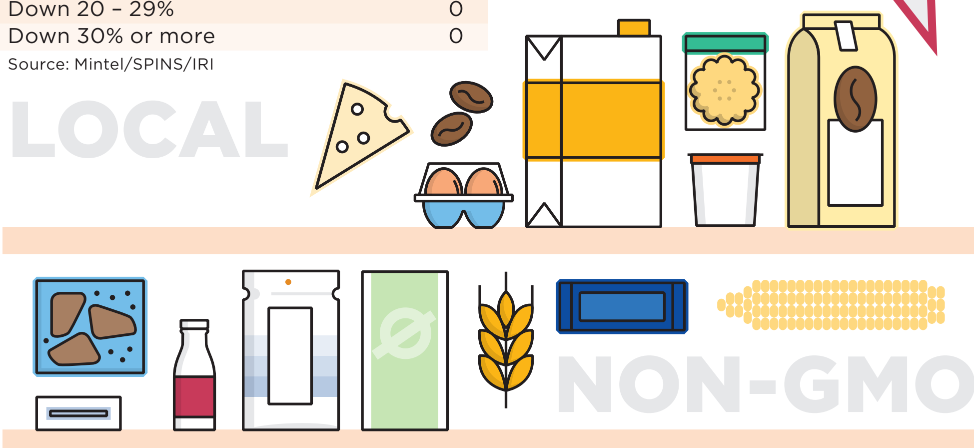
IN THEIR OWN WORDS

What is the biggest threat to brokers' businesses?

"Amazon and e-tailers."

"An aging sales force."

"The decline of center store in grocery stores."



THE SPECIALTY FOOD SUPPLY CHAIN: SPECIALTY FOOD RETAILERS

Specialty food retailers are experiencing sales growth, with 28 percent reporting increases greater than 10 percent. However, this growth is not across all stores, as 32 percent are recording flat or negative growth. This is the result of increasing competition from other brick-and-mortar outlets and online retailers.

2015-AT-A-GLANCE

Average Store Size	6,014 square feet
Mean # of SKUs	2,077
Mean Annual Sales	$3,990,661
Average Transaction Size	$34
Average Inventory Value	$181,134
Mean # of Suppliers	66

Percent of Purchases	
Through Distributors	53%
Direct from Non-Local Suppliers	25%
Direct from Local Suppliers	21%
Top Departments in Sales	
Specialty Grocery	28%
Other & Non-Foods	14%
Deli and Prepared Foods	11%
Cheese	11%
Confectionery	10%
Wine and Other Alcoholic Beverages	9%
Meat and Seafood	6%
Produce	5%
Bakery	5%

2015 CHANNEL GROWTH

Fastest: Natural Supermarkets

Slowest: Specialty Food Stores

DOLLAR SALES CHANGE IN THE PAST YEAR

	2015 %
Up 30% or more	1
Up 20 – 29%	7
Up 10 – 19%	20
Up 6 – 9%	13
Up 1 -5%	27
Unchanged	17
Down 1 – 5%	7
Down 6 - 9%	3
Down 10 – 19%	5
Down 20 – 29%	0
Down 30% or more	0

Source: Mintel/SPINS/IRI

Most Important Natural or Ethical Claim to Consumers:

TODAY: LOCAL
IN 3 YEARS: NON-GMO

THE FUTURE

Seeking to expand number of products: 56%

Seeking to Expand/Add Private-Label Products: 35%

TOP 3 UP-AND-COMING CUISINES FOR 2016

1. Mediterranean
2. Middle Eastern
3. Thai

IN THEIR OWN WORDS

What do retailers see as the key emerging trends in specialty foods?

"Home delivery."
"Micro-local, very small batch, changing inventory often."
"Large retailers mimicking small indies."

Written by Ron Tanner, Specialty Food Association's vice president, philanthropy, government, and industry relations, and Denise Purcell, editor of *Specialty Food Magazine.*