Trends in Specialty Foods

California Olive Oil Council

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Introduction: Trends in Specialty Foods

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ABOUT THE SPECIALTY FOOD ASSOCIATION

WHO WE ARE

The **Specialty Food Association** is a thriving community of food artisans, purveyors, importers and entrepreneurs who bring craft, care and joy to the distinctive foods they sell. Established in 1952 in New York, the not-for-profit trade association provides its 3,000+ members in the U.S. and abroad the tools, knowledge and connections to champion and nurture their companies in an always-evolving marketplace. The Association (formerly the National Association for the Specialty Food Trade, Inc.) owns and produces the Winter and Summer Fancy Food Shows, and presents the sofi Awards honoring excellence in specialty food.

The State of the Specialty Food Industry

Study Highlights

- Total specialty food industry sales in 2015 topped $120.4 billion
- 78% of sales are at retail; 22% through foodservice
- Between 2013 and 2015, sales of specialty food jumped by 21.2% while sales of all food increased by just 4.4%
- Specialty food represents 14.4% of all food sales at retail

Study Highlights

- Cheese and cheese alternatives are the biggest category, at nearly $4.3 billion
- Among the fastest growing categories are RTD Tea and Coffee (+301%), Eggs (+162%) and Jerky and Other Meat Snacks (+60%)
- Mainstream supermarkets account for more than 81% of sales, but their share is slipping while sales at specialty food stores are booming, up 20.2% between 2013 and 2015

Study Highlights

- Manufacturers and retailers agree that in sourcing natural/ethical products, all natural and non-GMO items account for the largest share of sales. Sustainable, eco-friendly and organic are of strong second-tier importance, followed by fair trade.

- At the top of the list for future product innovation are Gluten Free, Non-GMO and Convenient/Easy to Prepare

Market recap: $120.4 billion in 2015

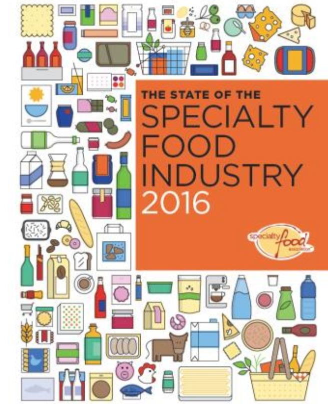
TOTAL U.S. SALES OF SPECIALTY FOOD

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

Source: Mintel/SPINS/IRI

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

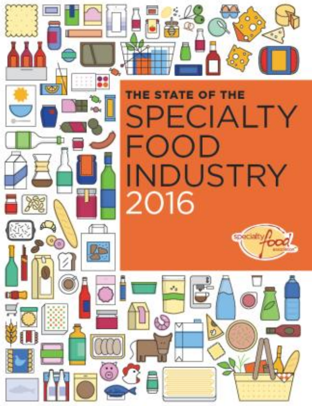
Largest Segments

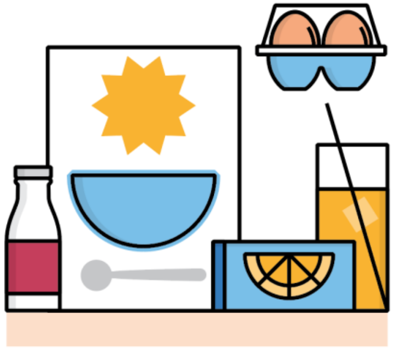


RETAIL SALES OF SPECIALTY FOOD: TOP 10 CATEGORIES

		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

Fastest Growing Segments





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

Specialty Food - Up Next

2015 CHANNEL GROWTH

Fastest: Natural Supermarkets

Slowest: Conventional Supermarkets, Specialty Food Stores, Department Stores

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

THE FUTURE

Product Innovation Plans:

- Gluten-free
- Non-GMO
- Convenient/Easy-to-Prepare

Most Important Natural or Ethical Claim to Consumers:

TODAY: ORGANIC

IN 3 YEARS: NON-GMO

HOW DO YOU SELL DIRECTLY TO CONSUMERS?

85% OWN WEBSITE

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

15% FARMERS MARKET

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

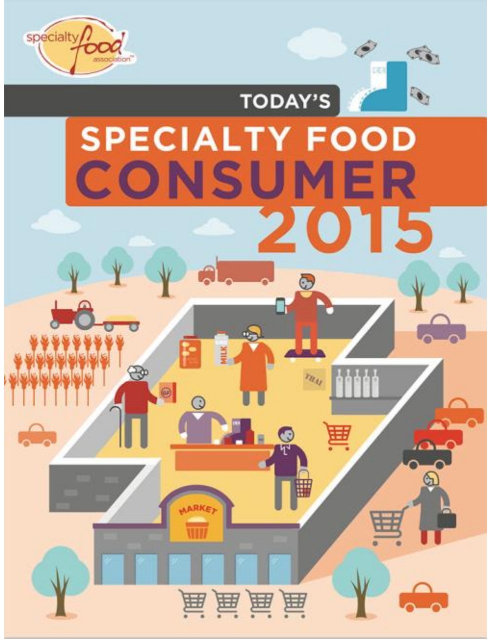
MORE NON-GMO COMING

Today’s Specialty Food Consumer 2015

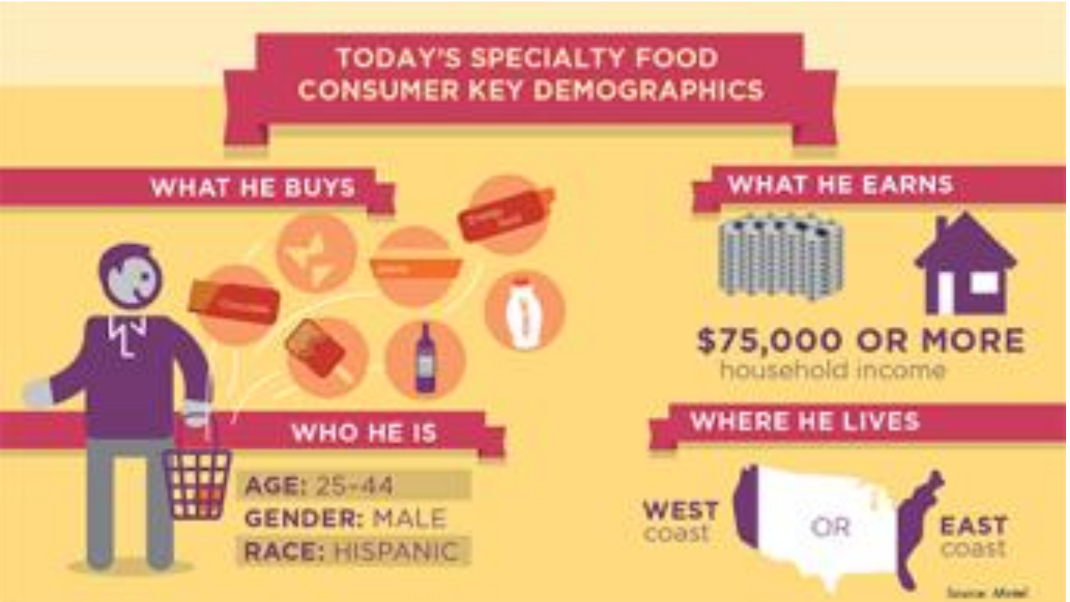
Today’s Specialty Food Consumer Report

- Published each Fall with groundbreaking research from
  - Specialty Food Association
  - Mintel International Group

- Summary Format
  - Highlights published in *Specialty Food Magazine*



Key Demographics



- Millennials are core consumers, but their needs are changing.

- For first time, men slightly more likely than women to buy specialty foods.

- Affluent, but opportunities with lower-income consumers.

What Specialty Food Consumers Buy

THE TOP FIVE
MOST PURCHASED SEGMENTS

Cheese and cheese alternatives	34%
Ice cream and frozen desserts	34%
Chocolate	31%
Coffee, coffee substitutes, and cocoa	29%
Cookies, brownies, cakes, and pies	28%

Perennial favorites: Cheese and Chocolate

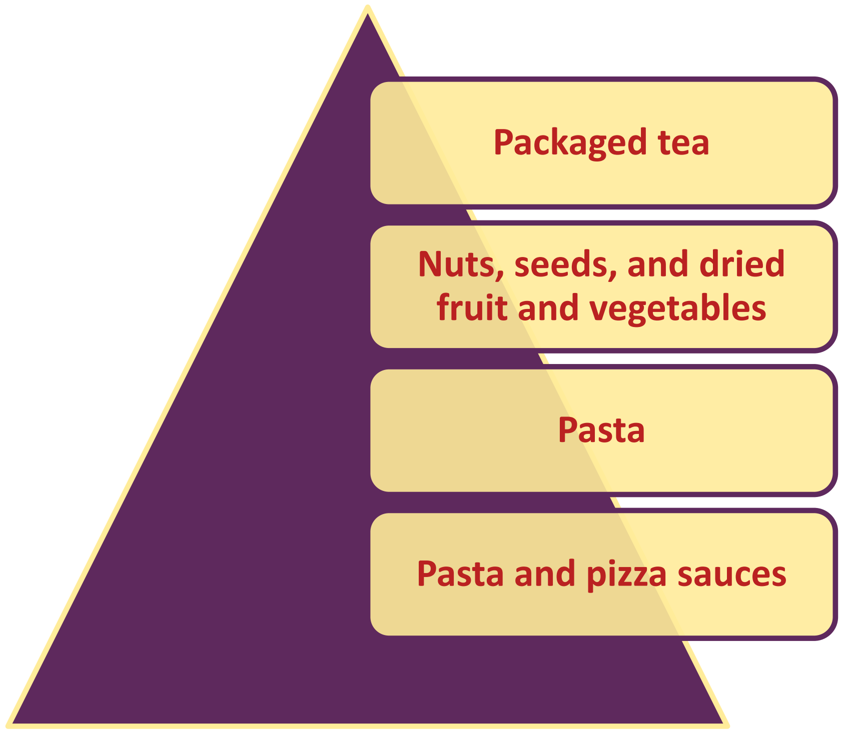
More sweets this year

Rounding out top 10:

- Oils and vinegars
- Tea
- Pasta
- Yogurt and kefir
- Meat, poultry, and seafood

What Specialty Food Consumers Buy

Biggest growth since 2014:



Where They Shop

How Much They Spend

32% Specialty food consumers spend 32 percent of their food dollars on specialty foods and beverages.

In 2015, specialty food consumers spent a mean of $113 per week on food cooked at home and a mean of $80 per week in restaurants. These numbers have increased significantly from more conservative growth in the previous three years.

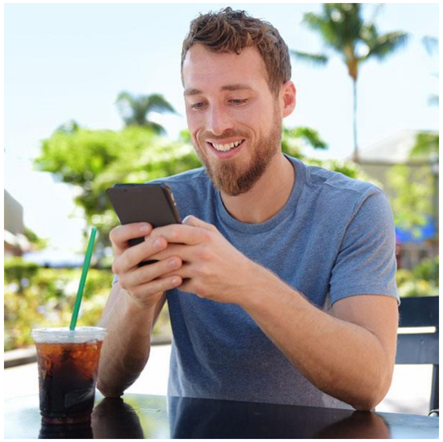
Online Shopping and Delivery

The why behind the buy

Snacking increasingly drives usage in this market, meaning innovation here makes great sense.

MINTEL
Intelligence in time

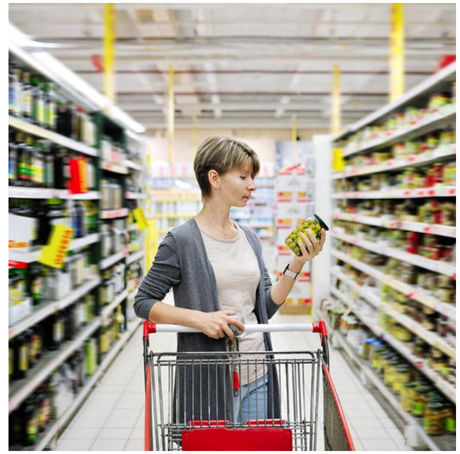
By Generation: Millennials



MILLENNIALS

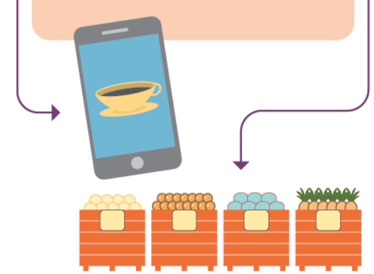
- Buy eco-friendly, artisanal, and gluten-free foods
- Most aware of the term *specialty food*
- Use specialty foods most to bring to the office, have on hand for unexpected guests, give as a gift
- Purchasing drivers: need something special when entertaining; eat more natural and healthy foods; dietary or health concerns
- Enjoy planning parties for friends and family
- Believe GMOs should never be used in food and beverages
- Spend the most per week in restaurants

By Generation: Gen Xers



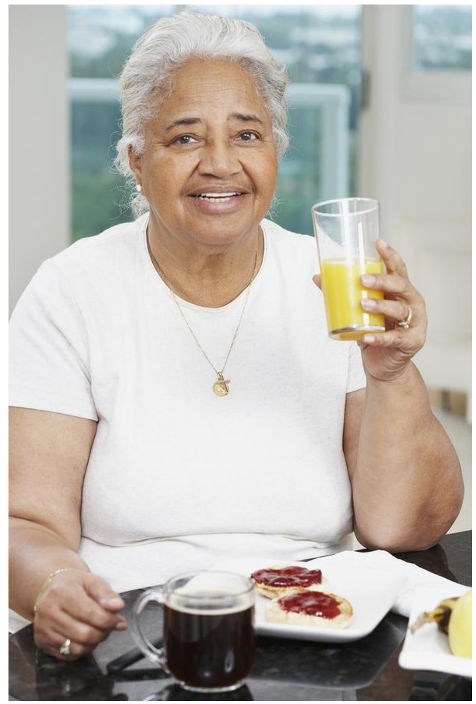
GENERATION X

- Use specialty foods most for everyday snacking and for special occasions
- Purchasing drivers: quality ingredients listed on packaging; recommendation from a friend or relative; impulse purchase; environmentally friendly
- Most likely to shop at farmers markets
- Shop for all-natural and ethical foods
- Buy coffee online
- Spend the most per week on cooking or preparing food at home
- Most likely to read nutritional labels



MINTEL
Intelligence in time

By Generation: Baby Boomers



BABY BOOMERS

- Use specialty foods for every-day meals at home
- Purchasing drivers: like to try new things; eat more natural and healthy ingredients; looking for exciting new experiences; convenience; recommendation from a friend or relative; impulse purchase
- Consider themselves knowledge-able about food
- Shop for locally sourced, non-GMO, and fair trade foods
- Believe GMOs are OK to use but only if disclosed on label
- Least likely group to shop for food online
- Most likely to prepare meals from scratch

Future

- The aging US population may lead to long-term flattening in the specialty food industry's growth.

- Online sales will make gains driven by Millennials and $100K+ HHs. Order size and category breadth to rise.

- Expect more value-positioned product development.

- Millennials will drive this market forward.

Future

- The next generation (iGen/Gen Z) will expect natural, organic, ethical, local, non-GMO food as a matter of course.

- Company and brand values matter as much as the food itself to SFCs.

- Social media to play increasingly influential role for consumers wishing to gauge/comment on brand efficacy.

Thank you!

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