CALIFORNIA
EST. 1992
Olive Oil
COUNCIL
Celebrating 25 Years

Specialty Foods in 2017: What's Selling, Who Is Buying and Why

Ron Tanner
Vice President, Philanthropy, Government & Industry Relations
Specialty Food Association

An Insider's Look at the Future

- Specialty food sales in 2016 topped $127.4 billion
- Nearly 22% of specialty food sales are in foodservice
- Online sales took market share away from brick-and-mortar in 2016
- Grocery accounts for 61% of specialty food sales

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

An Insider's Look at the Future

- Sustainable is becoming a more important product claim for specialty food manufacturers
- Sales of oils and vinegars increased by 19.6% between 2014 and 2016
- Oils and vinegars became a $1 billion-plus category in 2016

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Market Recap: $120.5 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

SHARE OF U.S. SALES OF SPECIALTY FOOD
RETAIL **78%**
FOODSERVICE **22%**

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

*Includes 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.

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Retail channel sales breakdown

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 following channels: Total US Grocery, Mass, Total US Drug, Total Walmart, Dollar, Military, and Club
Does not include sales through Whole Foods Market or Trader Joe's
Does not include private label sales or random weight (PLU) items

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Largest product 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

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Highest penetration of all food sales: Top 10 segments

14.1%: Specialty food's market share in the total retail food market in 2015

	2015 Specialty Share of All Sales %
Refrigerated Meat Alternatives	93.4
Tofu	79.7
Refrigerated Salsas and Dips	57.4
Tea (non-RTD)	51.5
Refrigerated Condiments	46.8
Energy Bars and Gels	44.9
Refrigerated Pasta and Pizza Sauces	44.6
Refrigerated Pasta	43.5
Refrigerated Non-Dairy Beverages	40.0
Beans, Grains, and Rice	35.1

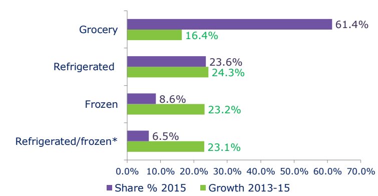
Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Sales growth vs. all food:
Top 10 segments

	Specialty Market % Change 2013 - 2015 %	Total Market % Change 2013 - 2015 %	Variance % Points
Refrigerated RTD Tea and Coffee	262.2	29.6	232.6
Eggs	218.2	35.4	182.8
Jerky and Other Meat Snacks	68.4	21.2	47.2
Refrigerated Pasta	58.3	14.4	43.8
Refrigerated Pasta and Pizza Sauces	51.3	7.6	43.7
Water	51.4	14.8	36.6
Rice Cakes	35.1	0.9	34.1
Refrigerated Juices and Functional Beverages	36.8	2.9	34.0
Frozen Meat Alternatives	36.0	3.9	32.1
Other Dairy and Alternatives	38.5	7.1	31.4

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Share of specialty food sales by department



* Meat, poultry, and seafood (Fz, Rf) is the only segment that includes both frozen and refrigerated items

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Manufacturers

2015-AT-A-GLANCE			
Mean Annual Sales	$2,843,750	Own Manufacturing Facility	50%
Mean # of SKUs	32	Co-Pack for Other Manufacturers	41%
Largest Share of Total Expenses:	Raw Materials	Co-Pack Private Labels for Retailers	57%
Mean Net Profit	19%		
Mean # of Staff	24 Full-time 22 Part-time		

Source: Mintel

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Manufacturer: "Food Away From Home"

50% of specialty food manufacturers sold to foodservice in 2015

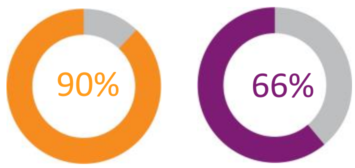
THE MANUFACTURER VIEWPOINT: FOODSERVICE CHANNEL SALES GROWTH	2015 %
Institutions (e.g., schools, universities, hotels)	**23**
Fine-Dining Restaurants	19
Travel-Related (e.g., airports, airlines, trains and stations, cruise ships)	19
Fast-Casual Restaurants (e.g., Chipotle, Panera Bread)	9
Full-Service Casual Restaurants (e.g., Chili's, Applebee's, etc.)	9
Food Trucks	0
Other	21

Source: Mintel

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Americans Love Restaurants

Percent of consumers who say they enjoy going to:



Restaurants | Grocery Stores

Source: National Restaurant Association, 2015

Top 5 States:

Restaurant Sales 2015

	$ Billion
California	$72.3
Texas	44.5
Florida	36.4
New York	35.8
Illinois	23.0

Source: National Restaurant Association, 2015

MANUFACTURER SALES BY CHANNEL

	2015 Share of Total Sales Mean %
Distributors—Retail	36
Direct to Retail	33
Direct to Consumer	12
Distributors—Foodservice	8
Direct to Foodservice	5
Other	6

Source: Mintel

SALES COMES FROM:

PRODUCTS YOU SELL ONLY TO THE FOODSERVICE CHANNEL
44%

PRODUCTS YOU ALSO SELL TO RETAIL
51%

INGREDIENTS YOU SELL TO FOODSERVICE
5%

PRODUCT INNOVATION MANUFACTURER PLANS FOR 2016

Gluten-Free	52
Non-GMO*	49
Convenient/Easy to Prepare	46
Indulgent	32
Functional	29
Allergen-Free (dairy, nut, soy, etc.)	26
Organic*	26
Portable	26
Low/No/Reduced Sugar*	24
Less Indulgent and More Healthful	21
High Protein	9
Other	18

* New in 2016
Results add up to more than 100 percent because multiple answers are accepted.
Source: Mintel

Retailers

2015-AT-A-GLANCE

Average Store Size	6,014 square feet
Mean # of SKUs	2,077
Mean Annual Sales	$3,990,611
Average Transaction Size	$34
Average Inventory Value	$181,134
Mean # of Suppliers	66

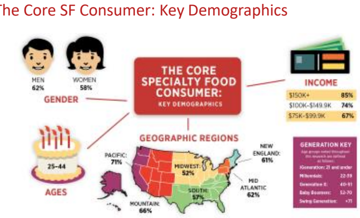
Source: Mintel

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

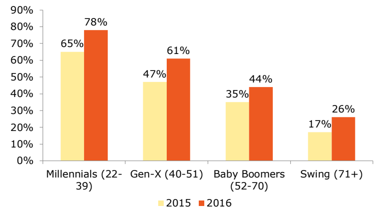
Source: Mintel

The Core SF Consumer: Key Demographics



The core specialty food consumer: Young, curious, values oriented

Purchase Likelihood



Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Millennials

How Millennials Use Specialty Foods:
Everyday meals or snacking; treats; gifts; to serve guests; for special occasions; to share at the office.

Most Likely to Shop at:
Natural food stores; mass merchants; club stores; specialty food stores; online; convenience stores; department stores; and other outlets.

Purchase Drivers:
Impulse; convenience; social or environmental concerns; to entertain or impress.

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Gen X

How Gen Xers Use Specialty Foods:
Everyday meals and snacking; to treat themselves; special occasions.

Most likely to Shop at:
Farmers Markets.

Purchase Drivers:
Health; recommedations from others.

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Boomers

How Boomers Use Specialty Foods:
Everyday meals; treats.

Most Likely to Shop at:
Supermarkets.

Purchase Drivers:
Excitement and health.

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Branding and Service—Generational Preferences

- Millennials
  - Want retail staff to educate them about specialty foods
  - Most likely consumer group to ask about recipes and preparation techniques
  - A company's values matter just as much as its products
- Gen X
  - Personal connections with retailers are important
  - Like to hear the story/heritage behind the stores where they shop
  - Like to shop where they know the owners
- Baby Boomers
  - Like to shop where employees have product knowledge
  - Want to shop where they agree with the company's values or philosophy

Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Purchases by Generation—What's Next

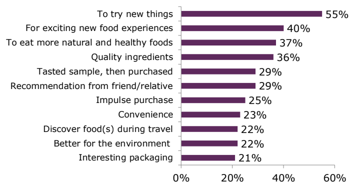
Millennials
- Ready-to-drink nutritional beverages
- Vegetarian or vegan meat
- Foods made with alternative protein

Gen Xers
- Nose-to-tail or root-to-stalk foods
- Raw foods
- Foods that are free of common allergens

Boomers
- High-protein snacks (salty or sweet)
- Kale and other vegetable-based snacks
- Seasonal foods

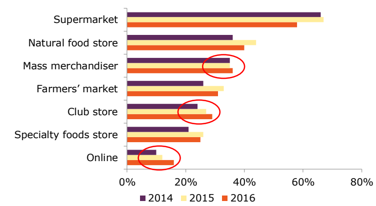
Specialty Foods in 2017: What's Selling, Who Is Buying and Why, California Olive Oil Council, March 11, 2017

Why Do SF Consumers Buy Specialty Foods?



Where SF Consumers Shop

Top retailers where specialty foods are purchased 2014-2016



How Much SF Consumers Spend

MEAN WEEKLY SPENDING ON FOOD FOR SPECIALTY FOOD CONSUMERS

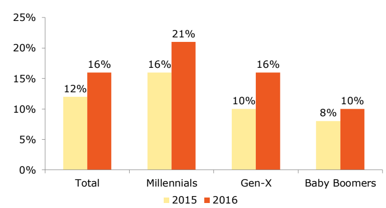
OVERALL
Cook/prepare at home: $113 — From restaurants: $77

MILLENNIALS
Cook/prepare at home: $118 — From restaurants: $95

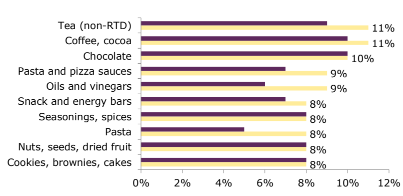
GEN XERS
Cook/prepare at home: $104 — From restaurants: $62

BABY BOOMERS
Cook/prepare at home: $109 — From restaurants: $56

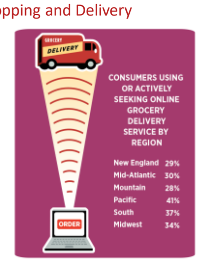
Specialty Food **Online** Purchases by Generation



Online Specialty Food Purchases (Top 10)



Online Shopping and Delivery



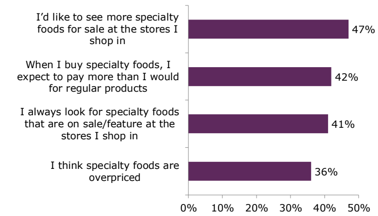
Positioning Claims of Importance

MEAN PERCENTAGE SPENT ON SPECIAL-INTEREST CATEGORIES

Base: Internet users aged 18+ whohave purchased any specialty foods in the past six months and any of these types of food.	Total	Millennials 22–39	Gen-X 40–51	Boomers 52–70
	1,292	614	287	258
All natural	34%	36%	35%	30%
Non-GMO	29%	29%	31%	28%
Organic	29%	31%	30%	26%
Artisanal	28%	31%	35%	19%
Ethical	24%	25%	26%	20%
Eco-friendly	23%	24%	25%	18%
Gluten-free	23%	26%	24%	20%
Locally-sourced	23%	23%	26%	20%
Sustainable	23%	24%	23%	20%
Fair trade	22%	25%	19%	19%
Kosher/halal	19%	21%	17%	14%

Results express mean percent of specialty foods for each positioning claim.
Data do not sum to 100. Swing Generation not included due to very small sample size
Source: Mintel

Price Sensitivity and Preferences



The Future of Specialty Foods

- Center-store is alive and well
- Fresh segments are road to growth
- Foodservice is ticket to incremental sales
- The dilemma of allergen-free specialty food

The Future of Specialty Foods

- Manufacturers will up their direct-to-consumer game
- There will be expansion on all fronts (distribution in retail, innovation, foodservice)
- Natural/ethical is the new norm in specialty

The Future of Specialty Foods

- The "mature" specialty food market still has a lot of upside opportunity
- The top ten segments dominate the market in sales and growth
- Center-store is essential to this market, but fresh is where the growth lies
- Channel strategy should center on conventional markets for sales, and natural/specialty stores for growth

specialty food association™

rtanner@specialtyfood.com