Talking points: Reflections on the CAGNY "Big Food" conference

All sun, no sustainability?

RaboResearch
Food & Agribusiness
far.rabobank.com

Nicholas Fereday
Executive Director
+1 347 215 4158

Contents

Summary

Last month, most of the major US food and beverage companies gathered at the annual Consumer Analyst Group of New York (CAGNY) conference in sunny Boca Raton, Florida. Here are five points that are worth taking note of:

1. When will sales volumes return to growth? How will many companies drive future growth now that consumers are buying less of their stuff? The answer appears to be: by doubling down on core products with incremental innovation and an assumption that things will get better by themselves.

2. AI and celebrities to the rescue. Companies are employing generative AI and the pulling power of celebrities such as Dolly Parton and Shaquille O'Neal to help improve sales.

3. Are we over GLP-1s already? There was a lack of real discussion on the new class of drugs for the treatment of obesity that mimic natural satiety gut hormones like GLP-1. This was a missed opportunity for companies to tell shareholders how they plan to address what is highly likely to become a permanent fixture of the consumer and food landscape.

4. The last slide in the deck. Higher callings and a sense of purpose have slipped down the agenda of many food companies. Sustainability? Healthier food options? The soul of the company? Maybe some shareholders just don't care.

5. Remaining relevant? It may be a little premature to ask, but do the declining volumes, the focus on core products and incremental innovation, and the muted response to a growing number of threats including GLP-1s hint at the start of a growing disconnect between large food companies and the consumer? Are we cycling back to the 2010s, when big food brands' failure to remain relevant to new demographics and changing consumer tastes helped kick open the door to a host of new companies and emerging brands?

1. When will volume sales return to growth?

Time moves quickly in the food world. It was only two Consumer Analyst Group of New York (CAGNY) conferences ago that US companies were keen to discuss how they had emerged much stronger from the extremely challenging Covid pandemic. Food companies appeared to have strong momentum as consumer demand remained resilient aided by online sales, the fastest-growing new route to the consumer.

Of course, a lot has changed since then, not least the ongoing war in Ukraine and supply chain disruptions, the decline in SNAP food assistance benefits, and the return of inflation. The latter has led to double-digit food price rises that hit many of these companies' sales volumes over the past year as value- (not values-) seeking consumers switched to cheaper private label options in retail and discount channels.

This year, as if reading from the same menu, big food companies all pitched their ambition to deliver strong and consistent long-term shareholder returns. They spoke of a brighter future based, in part, on the transformations, new strategies, and "accelerate platforms" they had put in place over the past five years or so. Strategies include modernizing portfolios, focusing on greater efficiency, and seeking cost reductions. Companies recited the standard incantation of looking for accretive, strategic fits in M&A that "leverage our capabilities." To date, none of the companies seem to have sensed a need to change course.

At times it felt like there was a little too much wishful thinking of a turnaround in 2024 and a little too much attention on impressive five-year compound annual growth rates, rather than a focus on the less impressive last couple of years. There was almost an assumption that sales volumes will simply return by themselves without companies really spelling out exactly how they are going to make that happen. Of course, there are reasons to be optimistic: Consumer confidence has picked up this year, the economy continues to grow, and the labor market remains strong.

However, the talk of new product innovation to spur growth was not particularly exciting. This may change now that some companies are talking about increasing their R&D spending, but for the immediate future, areas where companies did see future growth were largely focused on incremental developments within their core brands. Companies' "innovations" include:

- Widening distribution, including global expansion into emerging markets to keep portfolios "within an arm's reach of desire."
- Adding new flavors, like the raspberry-flavored Uncrustables from Smucker's, so we can all enjoy a different flavor each day of the week.
- Creating brand extensions where "the next element of our innovation is expanding the appeal of our existing brands with brand extensions," like a high-protein version of mac and cheese.
- Playing around with packaging sizes, from single servings to multipacks, or offering more "minis" – smaller versions of iconic brands.

Such incremental innovation may be all that is required to keep consumers content at this stage of the business cycle. They may not be looking for disruption.

2. AI and celebrities to the rescue

Two other notable levers that companies are pressing to help drive growth are artificial intelligence and collaborations with human global celebrities:

- **The generative AI step change.** Companies have been talking up their nerdy side for the past few years about how data and tech have transformed their supply chain operations and marketing. This year, the discussion continues with companies talking a lot about generative AI, with the hope it will take them to a new level "to solve problems," and provide an "increasingly granular approach to the consumer opportunity." Applications include much greater personalization of marketing, search engine optimizing, and targeted ads. It will be interesting to see how this plays out. It is not immediately clear how, for example, the scatter-gun approach of having "six million models that generate more than 500 million individual predictions" delivers to the top line. We shall see.
- **Cashing in on celebrity credibility.** But don't discount humans, especially human superstars who may help improve sales. Depending on your personal preferences, the highlight of the conference was either Hershey announcing its partnership with Shaquille O'Neal for Jolly Rancher candy or Dolly Parton's new association with Conagra's Duncan Hines bakery products.

3. Are we over GLP-1s already?

One big surprise was the lack of real discussion, both in terms of risks and opportunities, on the new class of drugs for treating obesity. These drugs, which mimic natural appetite-suppressing hormones such as GLP-1 and have weird-sounding brand names like Ozempic, Wegovy, Zepbound, will become a permanent feature of the food landscape, especially now that the FDA has approved Wegovy for heart health protection. These drugs are only going to get better and more accessible. Patients on these drugs eat less, and the challenge for food companies is to figure out how to respond to falling volumes and unlock the opportunities around "value addition" that these drugs present. This is doubly so if, as early reports suggest, the drugs curb one's cravings, which is likely to affect demand for most snacks, including candy, that are typically impulse buys.

Out of all the companies presenting, Conagra referenced this class of drugs the most. The company spoke optimistically about the opportunities within its existing portfolio, such as stronger sales of "better for you" frozen meals and meat snacks by patients on the drugs. In contrast, Mark Schneider, the CEO of Nestlé in Europe, seemed more willing to address the issue head on. He said, "I think it has brought the whole topic of dieting and weight loss back to the top of the agenda… To put it in slightly flippant terms, diets are cool again." In a gift to other food companies, Schneider helpfully identified "three key areas" for providing "competitive offerings": muscle mass preservation (protein), micronutrient deficiencies (fortification), and gut health (pre-, pro-, and postbiotics).

4. The last slide in the deck

Judging by their presentations, higher callings and a sense of purpose, though sometimes mentioned, have slipped down the agenda of many food companies, in some cases, to the last slide of their decks. Four CAGNY conferences ago, environmental sustainability and a sense of purpose took center stage in company presentations, responding to calls to become a greater force for good in society. For the larger companies, this was clear in their response to the growing public concern over the climate crisis. Many seemed to realize that, to address some of the fundamental constraints to their businesses, they had to regain the trust of consumers. Standing for issues that resonated with their customers was one way to do that.

This year, "sustainable" was mainly used in the context of reassuring the audience of shareholders of companies' plans for long-term sustainable growth, "sustained momentum," or their "sustainable growth strategy." One company managed to say "sustained growth" eight times and "environmental sustainability" just once as they wrapped up their 70+ slide deck. To be fair, just because they are not talking as prominently about sustainability does not mean that companies have stopped executing on existing targets (such as Mondelēz now sourcing 85% of its cocoa from its Cocoa Life program). Maybe the companies had nothing new to say on the subject? My Google searches and even a couple of the generative AI apps did not find any new significant sustainability initiatives in the last 12 months (sustainable packaging in the form of recyclable bottlecaps just doesn't cut it). Or maybe, when the immediate focus is on growth and reliable, ever-increasing dividends, some investors may not be that interested in the topic. The story might have been different if the big European players, such as Nestlé, Unilever, or Danone, had turned up. And those that did, such as Nomad Foods and Kerry Group, talked about sustainability the most.

5. Remaining relevant?

It may be a little premature to make this call, but my lasting impression of this year's conference was a sense that we might be cycling back to the mid-2010s, when many of the big companies struggled to remain relevant amid changing consumer tastes and priorities. In so doing, they helped create the white space for a host of new companies and emerging brands. In writing up the 2017 CAGNY conference, I noted, "The fundamental problem big food is facing remains the negative to flat growth in their food categories… declining sales were attributed to shrinking volumes – with fewer folk buying their stuff."

As I said earlier, with respect to innovation, companies may well be doing all that is necessary for now to keep consumers engaged. It is not immediately clear that consumers are looking for more disruptive innovation in the near future. But this does not mean companies will be able to get away with incremental innovation forever. I'll leave this question hanging: In the US, do declining volumes, incremental innovations focused on core products, and little response to a growing number of threats including GLP-1s (and healthier foods, which I will cover in a later note) all hint at a growing disconnect between large food companies and the needs of the consumer? It will be interesting to see what is being offered up by the smaller players at trade shows like the Natural Products Expos and the Fancy Food Shows this year.

Imprint

RaboResearch
Food & Agribusiness
far.rabobank.com

Nicholas Fereday	Executive Director	nicholas.fereday@rabobank.com +1 347 215 4158