

U.S. FOODLINK

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Pet Care Market

Offers Opportunity for Food Producers

The pet food market is “exciting” compared to human food and other consumer product markets, according to Susquehanna Financial Group analyst Pablo Zuanic. At the same time, the trend toward natural and premium pet food is disrupting the industry’s traditional leaders.

Food companies such as Mars Inc., Nestle and J.M. Smucker Co. are also working to gain market share in the pet food industry. They are currently focusing on specialty products such as grain-free dog food and delicatessen-inspired cat food, and Mars’ focus on clinics and surgery may help it stand out from its rivals in the business. The company is working to diversify outside of its candy business, acquiring veterinary and dog daycare company VCA Inc. for \$7.7 billion. The move brings the company deeper into pet care, expanding its offerings to cover products and services from food to surgery, reported *The Wall Street Journal* (Jan. 10).

Nestle currently holds the biggest dollar share of the cat and dog food markets with offerings including Purina Pro Plan, Purina Dog Chow, Friskies, Beneful and Purina ONE, giving it 66.8% and 41.1% shares, respectively. J.M. Smucker has the largest share of the pet treat market at 31.8%. In comparison, Mars holds 7% of the cat food market, 29.3% of the dog food market and 20.2% of the pet treat market. Mars’ dollar sales in cat food fell 1.5% in the 52 weeks ended Dec. 31, 2016, while they grew 2.3% in the dog food market and 4.7% in the pet treat market.

Mars first entered the pet care market in 1935, when it purchased a UK-based dog food cannery. It has increased its presence in the sector since, including the ownership stake it acquired in the Banfield Pet Hospital chain in 2007. Mars became the world’s largest pet food producer in 2014 when it purchased Iams and other pet food brands from Procter & Gamble Co. for \$2.9 billion. Other brands owned by Mars include Pedigree, Sheba, Temptations, Royal Canin and Whiskas.

(Continued on page 2)



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The company's increasing investment in pet care is due to slowing sales of traditional packaged foods, including snack products. The organic trend is also being felt in the pet industry, with consumers seeking more varied medical care such as cancer treatments for cats and knee surgery for dogs. Americans spent \$16 billion on veterinary services, \$15 billion on over-the-counter medicines and supplies, and \$24 billion on pet food last year, an approximately 30% increase from 2010 levels, according to estimates by the American Pet Products Association.

Mars' deal for VCA gives it an additional 800 animal hospitals that serve 17,000 clinics and Camp Bow Wow day care centers. That is in addition to the approximately 1,100 animal hospitals Mars already owns in the U.S. Because VCA doesn't make pet food, the companies don't expect to run into any antitrust hurdles during the acquisition. While the merger could offer the opportunity for Mars to sell more of its pet food and pet care products to VCA animal hospitals, Mars officials noted the company doesn't encourage or require its veterinarians to stock or recommend specific brands.

Mars has also invested in other areas related to the pet food market, including acquiring Whistle, the producer of the "Fitbit for dogs," reported TechCrunch (March 31, 2016). Whistle helps customers keep track of their pets' health by registering steps through a special collar, which also allows users to set fitness goals, track progress and compare stats to other similar dogs. The acquisition was part of Mars' commitment to "connecting nutrition, healthcare, and technology to improve the lives of pets and their families," according to company officials.

Mars' foray into pet services doesn't mean it will abandon its confectionery business. The company's growing interest in pet care has gone on for decades, and serves as a method of complementing its snack food offerings.

J.M. Smucker became involved in the pet food industry in March 2015 with the purchase of Big Heart Pet Brands. The company's portfolio includes Meow Mix, Milk-Bone, Kibbles 'n Bits, 9Lives, Natural Balance and Nature's Recipe. Becoming involved in the pet care business represented a

third platform for growth that complemented the company's existing food and beverage businesses, according to CEO Richard Smucker. All three businesses give the



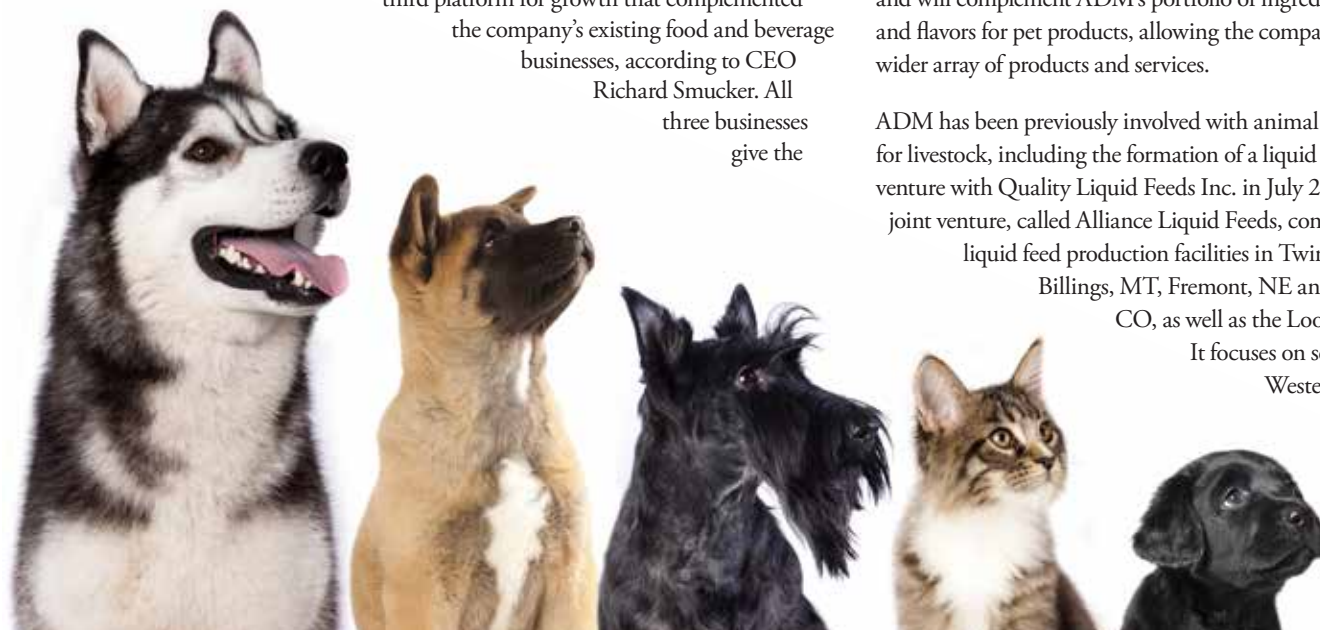
company a larger presence in the center-of-the-store product category.

Also involved in the pet food market is Archer Daniels Midland Co. (ADM), which signed an agreement to purchase Crosswind Industries Inc., a producer of dry-expanded, dual-texture, semi-dry and semi-moist treats. Like packaged food producers, ADM is interested in the pet food business because it "represents a strong opportunity for strategic growth," according to Brent Fenton, president of ADM's Animal Nutrition business.

The company already sells more than 50 ingredients and commodities used by more than 70% of North American pet food companies, and the purchase of Crosswind will help expand the company's capabilities. The deal includes five Kansas production facilities and a variety of products, and will complement ADM's portfolio of ingredients, colors and flavors for pet products, allowing the company to offer a wider array of products and services.

ADM has been previously involved with animal nutrition for livestock, including the formation of a liquid feed joint venture with Quality Liquid Feeds Inc. in July 2015. The joint venture, called Alliance Liquid Feeds, consists of liquid feed production facilities in Twin Falls, ID, Billings, MT, Fremont, NE and Johnstown, CO, as well as the Loomix brand.

It focuses on serving the Western U.S.



Farmers Markets Expanding Reach in U.S.

Direct-to-consumer food sales in the U.S., through vendors such as farmers markets and roadside farms, are rapidly increasing in popularity across the country.

Between 1994 and 2016, the number of markets in USDA's National Farmers Market Directory grew 394% to over 8,600. Sales at these markets reached \$1.4 billion in 2012. Farmers markets mostly account for goods from small and medium-sized farms, sold by farmers directly to consumers. They also increase foot traffic and sales at local businesses. Since 2008, the Farmers Market Promotion Program (FMPP) has invested \$58 million in 879 projects with the goal of supporting farmers markets and similar programs.

The program has had powerful effects on participants, with 34% of FMPP-supported markets supporting other business development by providing shared facilities, retail space and assistance to encourage the startup of new agricultural enterprises, compared to only 19% of non-supported markets. At the same time, 86% of FMPP-supported markets sponsored special events or programming, such as food tastings or youth activities, compared to 73% of non-supported markets.

Appealing to farmers market-style openness could be beneficial to any food producer, as only 16% of U.S. consumers trust health claims on food and beverage brands, according to Mintel. While 42% of consumers don't



83% of supported markets engaged in special efforts to encourage healthy diets, such as nutrition education, health screenings, or healthy cooking demonstrations.

consider their diets to be healthy, 38% say they agree that healthy foods aren't worth the extra expense and only 44% pay attention to serving sizes. Only 23% of consumers agree that the U.S. Dietary Guidelines are good for them.

The FMPP program is also beneficial for growing demand for healthy products, as 83% of supported markets engaged in special efforts to encourage healthy diets, such as nutrition education, health screenings, or healthy cooking demonstrations, compared to 60 percent on non-supported markets. Distrustful as they are, 27% of consumers say health concerns influence their choice of food, and 23% say they are more likely to purchase food with a health claim on the package.

Beyond health, farmers markets are the breeding ground for the next generation of retail food businesses. One project supported by FMPP grants was Adelante Mujeres' Sabor Color commercial kitchen project, created by Adelante Mujeres of Forest Grove, OR, a non-profit organization dedicated to educating and empowering Latina women and their families. With help from FMPP, the program gave 26 individuals courses on food safety and preservation techniques and/or other types of food handling, and 18 training participants were at various stages of developing food business by late 2013.

Six of the businesses affiliated with Sabor Color had become licensed and were selling value-added products at the Forest Grove Farmers Market, and three had grown large enough to participate at markets in multiple cities. Demand grew enough that Adelante Mujeres needed to find additional commercial kitchen space in a nearby town.

FEBRUARY

25-3/02: Gulfood Show
Dubai, United Arab Emirates
Dubai World Trade Centre
www.gulfood.com/

MARCH

4-7: AFFI Frozen Food Convention (AFFI-CON)
San Diego, California – USA
Manchester Grand Hyatt
afficon.affi.org/

6-10: FOODEX Japan
Tokyo, Japan
Makuhari Messe Tokyo
www.jma.or.jp/foodex/en/

9-10: Natural Products Expo West
Anaheim, California – USA
Anaheim Convention Center
www.expowest.com

19-21: Seafood Expo North America
Boston, Massachusetts – USA
Boston Convention and Exhibition Center
www.seafoodexpo.com/north-america/

22-24: Global Pet Expo
Orlando, Florida – USA
Orange County Convention Center
globalpetexpo.org/

23-26: Food Ingredients China
Shanghai, China
National Exhibition and Convention Center (Shanghai)
www.b-for.com/archives/events/fic-2017

APRIL

21-24: World Dairy Expo & Summit
Harbin, CHINA
<http://en.dairyexpo.com/>

25-27: Seafood Expo Global
Belgium, Brussels
<http://www.seafoodexpo.com/global/>

news briefs



Millennials are eating their vegetables! Younger consumers are driving growth in fresh and frozen vegetable consumption, according to The NPD Group. Consumers under the age of 40 increased their annual per capita consumption of fresh vegetables by 52% and frozen vegetables by 59% over the last decade. Consumers ages 60 and up decreased consumption of fresh vegetables and frozen vegetables during the same period by 30% and 4%, respectively. The change was attributed to the interest of Millennials and Generation Z in healthier diets.

Shoppers prefer stores with loyalty programs. Sixty-five percent of U.S. consumers would buy from a retailer with a loyalty program over one without if all other factors were equal, according to Nielsen. Seventy percent agreed loyalty programs make them more likely to continue doing business with a particular company, and 58% would shop at online retailers more often if they provided similar loyalty benefits to physical stores. However, loyalty programs are not one-size-fits all, and must be designed around habits of consumers frequenting the store.

Low-calorie beverages are in. Introductions of no-, low- and mid-calorie beverages outpaced introductions of full-calorie beverages in 2015, according to Keybridge LLC. Beverage calories per person decreased by 0.2% from 2014 to 2015. There was also a 2.3% decrease in calories per 8-oz. serving, but that decrease was mostly offset by a 2.2% increase in total beverage consumption. American beverage companies are supportive of this trend, and are working to heighten consumer interest in lower calories, small portion sizes and less sugar.

Consumers have low expectations for low-fat foods. A study by Ghent University found consumers, when asked to evaluate cheese from the same block of Belgian young Gouda with different labels, liked the flavor of two cheeses with "light" labels less than the others, which were labeled "cheese" and "cheese with reduced salt," reported MarketWatch. The negative effect of health labels could discourage taste-conscious consumers from even trying a product.

The healthy food trend isn't going anywhere. Executives at the Fortune MPW Next Gen conference from Campbell Soup, PepsiCo, Quaker Foods, and water startup Hint noted that health is here to stay, though it's not always about nutrition, but rather transparency, clear labeling and quality of ingredients, with quality now more important than brands to consumers. However, the desire for the occasional indulgence isn't expected to disappear, and consumers often say one thing before doing another, as seen in the billions of dollars spent each year on unhealthy foods that don't pretend to be anything else.

Most Americans equate organic with healthy. Fifty-five percent of consumers believe organic produce is healthier than conventionally grown produce, and 39% believe GMO foods are worse for health than non-GMO

foods, according to a survey by Pew Research Center. Just 41% of consumers believe there is no health difference between organic and conventional produce. Their choices represent "ideologies" that also shape their views of other products, such as 81% of those who consider organic food to be healthier also caring "a great deal" about genetically modified organisms in food.

Consumers want products from socially responsible companies. Approximately 31% of Americans plan to spend more with socially responsible companies in 2017, and 60% confirmed the importance of buying from socially responsible companies, according to Good.Must.Grow's Conscious Consumer Spending Index. How a company treats its employees was the leading indicator of social responsibility, followed by impact on the environment, transparency, corporate oversight and impact on society. At the same time, 40% of consumers cited price as a challenge to their consciousness, placing it just behind "knowledge of where to find socially responsible goods" as the leading factor negatively impacting socially responsible spending.

Less dieting, better eating? Nearly half of registered dietitians believe consumers will be less interested in dieting and more interested in mindful eating in 2017, according to a survey by Pollock Communications and Today's Dietitian. Dietitians predict that consumers will be less concerned about sustainable, GMO-free foods and more concerned about sodium-free and sugar-free options. Consumers will be looking to "eat clean," by looking to consume foods that are less processed and more whole foods such as veggies, fruits, ancient grains and green tea, as well as plant-based proteins like nuts and seeds, according to 59% of dietitians.

Natural, organic spending still rising. Nearly 50% of shoppers eat healthy foods even though they are more expensive, while 38% agree with the statement, "I often buy natural/organic products because I know they are better for me," according to Acosta Sales and Marketing's The Why? Behind The Buy report. Increased spending on natural and organic food is being driven by consumers' desire to feel good about the food they're eating. Consumers are also remaining adventurous, with 54% often checking out new items at the store and 60% enjoying the preparation of new dishes.

Millennials will be cooking at home more in 2017. Forty-nine percent of Millennials pledged to cook at home more in 2017, compared to 24% of Baby Boomers, according to a survey by Peapod and ORC International. Approximately 72% of Americans reported cooking from home four nights or more per week in 2016, and more than a third overall are planning to cook dinner at home even more in 2017. The number one factor in deciding what to cook at home, regardless of age, was the ease of preparing the dish.

MISSION STATEMENT

The U.S. Foodlink newsletter and e-mail bulletin are brought to you by the Food Export Association of the Midwest USA and Food Export USA-Northeast, two state regional trade groups located in the U.S. that promote exports of U.S. food and agriculture. Food Export-Midwest and Food Export-Northeast administer many services through Market Access Program (MAP) funding from the Foreign Agricultural Service (FAS) of the USDA. U.S. Foodlink was created to provide readers credible data and information in an easy-to-read format.

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State Spotlight

New Jersey

- Over 9,000 farms cover over 715,000 acres, or about 16% of the state's land.
- Farmers in the "Garden State" produce more than 100 different kinds of fruits and vegetables for consumers to enjoy either fresh or processed in New Jersey and elsewhere in the Northeast, Canada and in many countries around the world.
- Nationally, New Jersey is one of the top 10 producers of blueberries, cranberries, peaches, tomatoes, bell peppers, cabbage, cucumbers, snap beans, spinach, squash, and sweet corn.
- In addition, growers also produced hundreds of thousands of dollars' worth of specialty crops that added a unique flavor to the Garden State's bounty.
- Vineyards, for example, are a growing segment of the industry, enabling the state's 51 vintners to develop a wide variety of award-winning New Jersey wines.
- In 2015, New Jersey exported over \$1.7 billion in processed food products, with top markets including Canada, Mexico, Netherlands, U.K. and United Arab Emirates.
- Fish and seafood are also a valuable commodity with tons of bluefish, tilefish, flounder, hake, shellfish and other species harvested annually.
- New Jersey historically has ranked in the top ten in the nation in fish and seafood exports, totaling \$30.7 million in 2015.

2015 TOP AGRICULTURAL EXPORTS

Orange Juice, Not Frozen	\$190.4 million
Miscellaneous Food Preparations	\$186.0 million
Bananas, Fresh or Dried	\$77.8 million
Cocoa Preparations Not in Bulk Form	\$77.6 million
Vegetable Saps & Extracts	\$67.3 million
Grain Sorghum	\$63.9 million
Tea/Mate Preparations	\$63.8 million
Soybeans for Oilstock or Consumption	\$60.9 million
Wheat or Meslin Flour	\$58.9 million
Sauces, Dressings & Condiments	\$46.6 million



State Spotlight

Michigan

- Michigan is one of the nation's leaders in agricultural diversity, producing over 300 commodities commercially, on over 51,500 farms covering nearly 10 million acres across almost 28% of the land mass.
- Michigan produces more than 300 commodities on a commercial basis, ranked 2nd in the nation in agricultural diversity.
- Michigan leads the nation in the production of 18 commodities and ranks in the top 10 of 56 other commodities.
- Michigan is ranked 1st in the nation in the production of cucumbers for pickles, dry black beans, cranberry and small red beans, Niagara grapes and tart cherries, low fat ice cream mix and blueberries.
- Michigan is a national leader in producing apples, and other kinds of dry beans, floriculture products, carrots, squash, peaches, tomatoes and asparagus.
- Field crops (corn, dry beans, soybeans, sugar beets, hay and wheat) are the largest segment of Michigan agriculture, and are followed by the dairy industry and the floriculture and nursery industry.
- About one-third of the total agricultural row crop products grown in Michigan are exported each year.
- In 2015 Michigan exported \$909.7 million in processed food products with top markets including Canada, Thailand, China, Japan, Mexico and South Korea.

2015 TOP AGRICULTURAL EXPORTS

Chicken Cuts & Edible Offal, Fresh & Chilled	\$117.3 million
Soybeans for Oilstock & Consumption	\$109.4 million
Miscellaneous Food Preparations	\$109.2 million
Prepared Cereal Products	\$99.2 million
Beef, Boneless, Fresh & Chilled	\$95.1 million
Tomatoes, Fresh & Chilled	\$89.8 million
Protein Concentrates & Textured Substances	\$76.5 million
Baked Goods & Snack Foods	\$72.1 million
Peppers, Fresh & Chilled	\$49.7 million
Cheese, Fresh Including Whey Curds	\$41.9 million
Corn Seed, Certified, (Exc. Sweet Corn)	\$41.3 million

Featured Products

For more information about these Featured Products or other featured products please email: info@foodexport.org.

The Gracious Gourmet

Bridgewater, CT

Based in Bridgewater, CT, The Gracious Gourmet has created a line of all natural and award-winning spreads, tapenades, chutneys, and allergen-free pestos. Paired with cheese, meats, fish, and even ice cream, eggs, and pasta, our products can transform ordinary dishes into exceptional ones! Made in small batches, we source only the finest all-natural ingredients and we never use preservatives. With health consciousness in mind, we also minimize the use of salt and sugar and many of our products are vegan and naturally gluten free. Whether you are putting together a dinner party for a dozen or enjoying a quiet night at home, The Gracious Gourmet is here to help. Our aim is simple: to make every one of your meals a special occasion.

<https://www.thegraciousgourmet.com/>



Shullsburg Creamery

Shullsburg, Wisconsin



Simple. Versatile. Delicious.

Cheddar cheese curds from Shullsburg Creamery are produced in small batches with rGBH-free milk from local family farms. Curds are fresh, young cheddar cheese with a clean, mild flavor. They can be white or yellow in appearance and come in natural random shapes. Sometimes curds are flavored with garlic, dill, or jalapeno peppers.

Cheddar cheese curds can be enjoyed in a wide variety of ways. They melt smoothly in hot dishes such as miso ramen or Mexican chili. They are the main ingredient in poutine and can also be used to make a caprese-style salad. What is more, they can be enjoyed as a simple snack with fresh fruits or even battered and deep fried to be served with beer.

Shullsburg Creamery has over 80 years of history and is SQF Level 3 certified. Using the best ingredients, rich traditional recipes, and a hands-on approach Shullsburg Creamery produces some of the most flavorful cheese in the world.

<http://www.shullsburgcreamery.com/>

Nutorious

Waukesha, WI

Every bag is packed with Natural flavors which are full of goodness and loaded with Omega 3, premium all natural ingredients, zero trans-fat not to mention low sodium. Every batch of nuts is tested to our high standards for flavor, and crunch. "Can you try one without finishing the bag?" If the answer is yes, then we admire your self-control. Nutorious Nut Confections are a healthy alternative to traditional snacks. Perfect as a snack or sprinkled on salads, ice cream, yogurt or oatmeal.

Nutorious Nut Confections,
Manufactured by Devon's Chocolates, LLC
<http://nutoriousnuts.com/>



U.S. FOODLINK

Tim Hamilton
Executive Director
thamilton@foodexport.org

John Belmont
Communications Manager
jbeltmont@foodexport.org

Adolfo Montelongo
Communications Coordinator – Content
amontelongo@foodexport.org

Laura Buske
Communications Coordinator – Publications
lbuske@foodexport.org

FOOD EXPORT ASSOCIATION OF THE MIDWEST USA

309 W. Washington Suite 600
Chicago, IL 60606
T: 312/334-9200
F: 312/334-9230
www.foodexport.org
info@foodexport.org

Michelle Rogowski
Deputy Director
mrogowski@foodexport.org

Teresa Miller
International Marketing Program Manager
tmiller@foodexport.org

Molly Burns
Branded Program Manager
mburns@foodexport.org

Rob Lowe
Financial Manager
rlowe@foodexport.org

FOOD EXPORT USA-NORTHEAST

One Penn Center
1617 J.F.K. Boulevard, Suite 420
Philadelphia, PA 19103
T: 215/829-9111
F: 215/829-9777
www.foodexport.org
info@foodexport.org

Joshua Dillard
Deputy Director
jdillard@foodexport.org

Suzanne Milshaw
International Marketing Program Manager
smilshaw@foodexport.org

Howard Gordon
Branded Program Manager
hgordon@foodexport.org

Bruce Pansius
Financial Manager
bpansius@foodexport.org

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