



Mercanti Group report: Healthy living trend spurs changes among food makers and retailers

The saying goes, “You are what you eat.” And these days the food industry is learning that increasingly Americans are turning to natural, organic and healthy foods in their diets, so much so that these products can now be considered “mainstream.” Investment banking firm, The Mercanti Group, reports that healthy diets have created an opportunistic and ironic shift at all levels of the food chain, for small as well as large producers, and for traditional retail chains, which are devoting more and more shelf space to organic and functional food items.

“While our diets have become less healthy over the last 30 years and childhood obesity continues to spin out of control, we have seen a response in that 54 percent of consumers now watch their diets for health reasons and demand is growing for ‘better-for-you’ food products,” says Mercanti’s Eric Groman, who authored the latest Mercanti Chronicle entitled “Healthy Eating: Why and How We Are Changing What We Eat.”

As a reaction to consumer demand and because of a health need, the report states, major food companies are devoting a larger portion of their product development and marketing strategies toward organic and natural alternatives to conventional food and beverage products. It also has resulted in intensified interest in vitamin- and nutrient-fortified versions of already-popular consumer brands, with recent examples ranging from Coca-Cola’s vitamin-fortified Diet Coke Plus to Kraft Food’s LiveActive probiotic line, notes the report.

Groman points out that, “while nutrient-fortified goods catering to health enthusiasts have long existed, taste, texture and solubility issues have often limited the types of ingredients that could be added to foods and beverages; their presence, however, has been dramatically expanded as developments in ingredient technology have allowed food marketers to find new ways to merge consumer tastes with their nutritional needs.” He cites as examples soymilk, which began entering the mainstream when marketers came up with improved processing methods and flavors to mask soy’s undesirable “beany” flavor and chalky texture, and omega-3 fatty acids, which have become more prevalent as methods have been developed to remove their inherent “fishy” taste.

Along with accelerating advances in product development, the industry has also been shifting its general marketing strategy. While some of the changes have been defensive, as Groman reports, in an attempt to offset food manufacturers’ alleged role in America’s obesity epidemic, companies accounting for an estimated two-thirds of children’s food and beverage advertising recently enlisted in a program to limit marketing of its products and, in some cases, plan reformulations to comply with new nutritional standards.

Along with product development initiatives, the industry’s major food providers also

have been actively expanding via acquisitions. Alongside these strategic moves, the report says, private equity interest has also mounted in the natural, organic and functional food sectors. In the organic market specifically, acquisitions have enabled the global food marketers to control a large portion of the industry; however, there remain a range of independent organic marketers, including Amy's Kitchen, Clif Bar and Kettle Foods, among others.

Supermarkets as well have jumped on the trend. "Whole Foods has set the standard for marketing to today's health-conscious consumer; however mainstream retailers like Safeway have rolled out "fresh" formats and retail giant Wal-Mart has made its own commitment to selling organic and healthier products," says Groman. "As it is, they are not alone. As a result of competitive and consumer demand dynamics, nearly all of the U.S.'s larger supermarket chains have initiated natural and health-oriented formats."

"In the food and beverage industry," the report concludes, "where fads come and go quickly, the movement toward healthier 'better-for-you' alternatives has been firmly established and is driving a rapidly evolving product, retailer and transaction environment. Our aging and overweight population is plainly in need of healthy alternatives, and a more pervasive health consciousness across consumer demographics continues to drive demand in the industry. Once perceived as a fringe, 'granola' segment of the food market, healthy food and beverages have entered the American mainstream, as leading food marketers and retailers continue to modify their business strategies to align with demands for healthy living."