

Food & Beverage Market



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Global Outlook

According to Statista, total revenues in the food and beverage industry currently stand at around \$108 billion in 2019. This is expected to grow at an annual rate of 11.4% during the period between 2018-2022, with total revenues reaching \$144 billion by 2022. The report adds that user penetration, which currently stands at 21.7%, is expected to grow to 26.3% by 2022. The average revenue per user (“ARPU”) currently amounts to \$96.09. The key drivers of growth in this industry are increasing disposable incomes, growing population, significant strengthening of the economy in many countries and a focus on healthier lifestyle from people of all age groups. Some of the prominent challenges faced by the food and beverage industry are raw material quality, ever increasing customer expectations with regards to product value and continuously changing government regulations in many countries across the globe.

Asia Pacific with its large, growing population and expanding middle class, is a region with strong potential in all F&B categories, but with high birth rates, rapidly expanding cities and growing employment, it is the combined Middle East and African regions that offer the highest level of potential growth.

Media and national campaigns, regulation and unsubstantiated packaging claims are challenging consumers’ purchasing decisions in more mature markets such as Europe, Australasia and North America. Increasing label scrutiny underlies most consumer choices today as they search for natural, health-supportive ingredients with local sourcing and low processing. Online services are also well established now, but consumers still like to look at, feel and taste new products of local retailers.



Demographic Shifts Reshaping Purchasing Decisions

The unprecedented shift from rural to urban living is a major population change impacting global consumption habits. A portrait of tomorrow’s consumer would look young, likely below the age of 30, urbanised and potentially living in sub-Saharan Africa, Asia Pacific or Latin America. This demographic group is the fastest growing and largest contributor to value sales growth of F&B with its increasing purchasing power and affinity towards Westernised, convenient and easy-to-prepare foods and beverages.

On the other hand, growing middle class consumers with rising income, specifically in emerging markets like China, are creating their own ripple in consumption trends by encouraging premiumisation, i.e. driving demand for high quality packaged food that includes organic and locally produced products.



Premiumisation

Changing consumer preference for food and beverage demand has created more opportunities for innovation within the industry with a focus on premiumisation and value-adding features and/or ingredients. Premiumisation is not a new trend, but it is increasingly being embraced by a larger consumer base, fuelled by an expanding middle class with higher disposable incomes and an increasing appetite for quality and unique flavours. For packaged F&B players, investing in innovating premium products has led to improved profitability prospects, with consumers displaying an improved willingness to pay higher prices for products that offer the perception of value.

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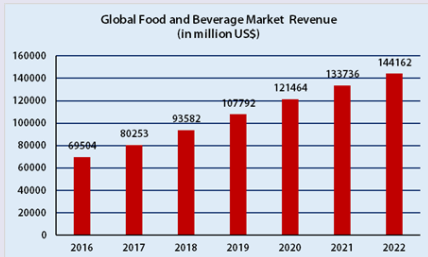


Fig 1 Global food and beverage market revenue

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Digital Transformation



Digital transformation has brought a significant change in the sales percentage of the food and beverage companies. Today, sales through own sites and third-party e-commerce platforms form a large part of the total revenues. This is in spite of the fact that customers aren't still as comfortable in ordering food and beverages online as they are for other products such as electronics. The demand for subscription-based food services and online delivery will continue to soar as consumers are increasingly preferring doorstep delivery. Since the home delivery option is convenient and fast becoming widely popular, this service is expected to grow in demand in demand significantly in the coming years



Food Sales in the UK

The UK food and beverage sector is one of the most sophisticated in the world. The four leading supermarket chains in the UK compete fiercely for customers with an ever-growing popularity of the discount chains. The food and beverage sector continues to record the strongest growth in retailing in the UK, driven by modern retailers. Convenience stores, discounters and online retailing are the formats which have been seeing the strongest expansion in the past few years, with major chains opening smaller stores in city and town centres whilst limiting the expansions of large-format outlets in out-of-town locations.

By 2021, the total value of the UK food and beverage market is projected to grow 9.9% to £196.9 billion. Online food and beverage shopping is expected to increase 68% over the next 5 years. Also, by 2021, discounters will be worth £24.9 billion and convenience stores will remain the third fastest growing sector with sales increasing from £37.5 billion in 2016 to £41.9 billion by 2021. Click and Collect sales will continue to increase rapidly. Discounters will continue to be the fastest growing channel as both quality and value are recognised by consumers. By 2021, they are expected to account for £1 of every £8 being spent on food and beverages.



Innovation and Dif

The growth in rate of consumption of processed and convenience food products, primarily in the emerging markets such as countries in the Asia Pacific region, is contributing significantly to the rising sales of malt ingredients. Various factors such as rise in consumer awareness regarding the health benefits of malt ingredients and the wide range of applications in food industry are driving market growth. Going forward, experts expect this trend to gain further prominence, opening up additional opportunities for players in this industry.



Foods that Suffice Wellness Goals

Interest in healthy eating is on the rise. New diets arise all the time—keto, paleo, 5:2, Dukan, Atkins, and others are popular among consumers today. Each of these diets increase demand for food substitutions. For example, many choose “courgetti” in place of pasta, cauliflower for rice, and lettuce for wraps.

Moreover, people are also seeking out foods that improve brain health. Maturing adults value foods rich in omega-3 fatty acids, B vitamins, and antioxidants such as oily fish and leafy greens to boost brain power. This trend of demand for foods that suffice wellness goals is not limited to mature

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markets like Europe and USA only but is also becoming increasingly prominent in various emerging markets in Asia Pacific and Africa

Economic Impact of Coronavirus

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy.

Effect on Global Demand

Restaurants, cinemas and shops around the world have emptied, while flights, road traffic and energy use have fallen steeply. Oil prices have plummeted leading to oil producers slashing outputs.

The retail industry has been hit hard. Lockdowns in many major economies until the middle of May 2020, with only essential shops being allowed to open has meant huge losses for retailers, leading to many retailers shutting up shop.

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This will lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

Food and Beverage Sector

According to the IGC (International Grains Council) “Food usage is expected to rise at close to the long-term pace. However, while foodservice sectors are reopening in many countries, the outlook for overall use remains uncertain because of the potential for further coronavirus-related disruptions in the year ahead as well as a weak economic outlook, which could curb demand growth.”

Will Surman, Director of Public Affairs & Communications of FoodDrinkEurope explained, “Usually, EU consumers spend approximately one-third of their food and drink budget in restaurants, bars and cafés and so it follows that the hospitality sector has been particularly hard hit due to the COVID-19 pandemic. Thousands of companies, in particular micro-enterprises and SMEs, are struggling to survive, while others face insolvency.”

When asked about the long-term implications of COVID-19, Surman highlighted, “The multiplication of online shopping seems to be here to stay. Consumers are also looking to prioritise local products and businesses will be looking at their supply chains to see how they can shorten them while maintaining the quality and affordability of their products.”

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Cautious but Increasing Optimism

As major economies gradually emerge out of lockdown, not all is doom and gloom. The most recent McKinsey Global Survey on the economy suggests increasing optimism. Executives report ever-more-positive expectations for company demand and profitability—two months after reporting record pessimism on both fronts—and for their countries' economic prospects.

While executives' views on company profits remain more negative than positive, the share expecting increased profitability has grown. Respondents are more likely to expect customer demand will increase than decrease; two months ago, the opposite was true.

By industry, more than half of respondents in retail and in high tech and telecom expect demand to rise. Retail executives also report a much more optimistic view on demand since the April 2020 survey, as do those in capital projects and infrastructure.

When asked about the economy's future, respondents were cautiously but increasingly optimistic. Fifty-one percent said the world economy will be better six months from now, a share that has grown throughout 2020. Similarly, one-half of respondents expect conditions in their home economies to improve; in May, 43 percent said so, up from 36 percent in April and 26 percent in March.

Global Economic Forecast

Labelling the projected decline in global economic activity as the “Great Lockdown,” the IMF released an updated forecast recently. The IMF concluded that the global economy would experience its “worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago.”

In addition, the IMF estimated in its baseline projection that the global economy could decline by 4.9% in 2020, down from its April 2020 projection of a negative 3.0%, before growing by 5.4% in 2021; global trade was projected to fall in 2020 by 11.9% and oil prices were projected to fall by 41%.

In contrast, the OECD's single-wave scenario projects a global economic contraction of 7.6% in 2020 and a growth rate of 2.8% in 2021, delaying a return to full recovery until 2022.

Furthermore, the IMF forecast reflects an estimated larger decline in consumption than previously assumed as consumers curtail spending to increase their savings and the effects on economic activity of social distancing. The IMF also stated that many countries were facing a multi-layered crisis that included a health crisis, a domestic economic crisis, falling external demand, capital outflows, and a collapse in commodity prices.

Advanced economies as a group were forecast to experience an economic contraction in 2020 of 8.0% of GDP, with the U.S. economy also projected by the IMF to decline by 8.0%, about four times the rate of decline experienced in 2009 during the financial crisis.

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The rate of economic growth in the Euro area was projected to decline by 10.2% of GDP. While most developing and emerging economies were projected to experience a decline in the rate of economic growth of 3.0%, reflecting tightening global financial conditions and falling global trade and commodity prices.

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