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Louis Biscotti recaps his presentation for the NYS Liquor Authority event hosted by Long Island Food Council:

So a little bit about the state of the F&B Industry.

- It is Projected to reach \$9 trillion globally by 2026, with a CAGR of around 6%
- Imports are huge:
- 15% of all food products are imported into the US
- 94% of all seafood
- 55% of fresh fruit
- 32% of fresh vegetables
- from 125,000 farms and facilities in over 200 countries. It makes you really pause when thinking about the impact of tariffs with these statistics.
- It's not as susceptible as other industries to economic cycles because it is essential to everyday living
- Also when I say Farm to Fork, it means agribusiness, MFGRS, distributors, retailers and eating and drinking facilities. It includes distilleries, breweries and wineries.

Major Challenges:

- World population doubling and resources are scarce
- Agriculture uses 38% of the world's land and 70% of our water.
- In addition to population and scarce resources, there are many other challenges:
- High Interest rates, Inflation, Fuel costs, Climate change, Labor issues with staffing shortages, labor disputes, and costs.
- Increased Technology requirements, Supply Chain disruptions, Food safety concerns, regulations and Sustainability
- Speaking of regulations:
- It is Highly Regulated as these folks can attest to.
- We have the FDA and USDA. We have FSMA and FSVP. Let's not forget about OSHA. Or Department of labor or immigration. CGMP (current good mfg practices), HACCP (hazard analysis and Control points) and SQF (safe quality foods). There are so many terms that we created a f&b glossary of terms for use by our professionals.

- Then there's Tariffs, Wars, Volatility of input prices, dominance of major customers, and finally Changing Consumer Preferences.
- Changing Consumer Preferences have forced companies to reformulate products and 98% of companies have reformulated products to health and wellness while 70% have reduced sugar and salt in over 320,000 products since 2015

These challenges are exacerbated by Consumer trends:

- Everyone is selling food and beverages-C stores, supermarkets, drug stores, club stores and traditional retailers
- Everyone is delivering food and beverages, including drones and robots
- Everyone is ordering online which is projected for 80% growth
- Top of mind for consumers is Convenience, MAHA, Health and Wellness (GLP1), Label Transparency for Natural, Organic, Non-GMO and more recently ultra processed foods and dyes, Snacking, (Grab and go), and Ethnic products and flavors.

I also must mention Product Trends:

- Private Label is huge. Just think Kirkland sales are \$85B.
- Frozen products are back in vogue and Direct to Consumer is growing.
- Cannabis, Meat-less Meat although it's having recent difficulties, Milk-less Milk, Plant Based, Cell Based, Insect based, Fermented, Craft, Probiotics, Organic and clean label
- And of all terrible things, a decline of alcoholic beverages. In a recent law just passed, the limits for THC infused beverages is .4 milligrams which will wipe out 95% of a \$28B industry and is a big win for Beer and Spirits Giants.
- In addition, F&B M&A is struggling in 2025 with less deals as Deal flow and values are still below the record numbers seen in 2021–2022.
- Rising interest rates have disproportionately affected private equity buyers, resulting in a more cautious approach to new acquisitions

Despite all this, we still had some doozies in the billions:

- Treehouse just sold for \$3B
- JM. Smucker Co. Bought Hostess Brands for approximately \$5.6 billion
- Ferrero bought WK Kellogg for \$3.1B
- KDP bought JDE Peets for \$18B
- Campbells bought Rao's for \$2.7B

- PepsiCo bought Poppi for \$2B

Moving to Technology which is an absolute must for F&B companies:

- Integration is very complex and expensive
- Cybersecurity and controls are major concerns along with Governance and compliance
- Data and Analytics and AI are huge. Things like supply chain management, forecasting, consumer engagement, shelf and inventory management, strategic vendor selection, and much, much more
- Robotics and Robotic Process automation are gaining momentum. Robots are experiencing 30% growth

To Better Understand the Sectors of F&B and how they are affected, I'd like to summarize a few facts about each.

Retailers:

- AI is becoming mandatory for retailers with all the previously mentioned (supply chain management, forecasting, consumer engagement, shelf and inventory management, pricing and strategic vendor selection)
- Private label is also a must. Every retailer should have three types of private label:
 - *low price, premium, and organic or specialty*
- Everyone is delivering and Convenience is key
- Grocery e-commerce is rapidly growing (up 30% YOY)
- Prepared foods are high margin as 60% of consumers buy these
- Retailers are faced with many Labor issues-Minimum wage and overtime pay impact, labor shortages
- Same store sales are declining, and bankruptcies have increased
- New players are storming in, names like Lidl, Aldi, Amazon, Ahold.
- Center of the store is starting to make a comeback

Eating and drinking facilities

- Declining sales are a major problem
- Menu Labeling requirements are required for greater than 20 locations along with cleaner menus
- The Gap between At home and away-from-home prices is the biggest in 10 years
- Big Movement to earlier dinner times
- Fast casuals are the fastest growing
- Technology is key: Ordering kiosks, mobile payment options, on- line ordering, Rewards programs
- There's a 73% turnover in restaurants, coupled with labor shortages immigration issues and minimum wage and overtime pay
- And now the new tax law for tips and overtime pay

Manufacturers

- There's a Major Disruption factor here: New players are beating Big Food and Brand Loyalty is declining
- Over the last seven years, large food manufacturers ("Bigs") have grown revenue by just 1.8%, while small companies have grown by 11% and medium-sized companies by 15%.
- Corporates are scrambling, forming and then closing VC Arms, and some are divesting (Kraft Heinz)
- I question will Direct to Consumer grow in the future?
- Manufacturers are reducing contents, rather than a complete overhaul (shrinkflation)
- New regulations are causing major cost increases FSMA, FSVP, labeling. Maybe Blockchain will help.
- Manufacturers Include Spirits, wineries and breweries-major declines in alcoholic beverages
- There are lawsuits popping up:
- Mondolez suing Aldi Oreos and Chips ahoy

- Smucker suing Trader Joe over uncrustables
- Danone suing Chobani -cold brew packaging

Distributors

- Food away from home, home delivery and on-line ordering are having a major negative impact. Distributors may not be able to Survive
- It's dominated by large distributors: SYSCO, Chef's Warehouse
- Consolidation is increasing, UNFI bought Haddon House, C&S acquired Associated, US Foods possible merger?
- Includes Beer, Alcohol, and non-alcohol distributors. One owner predicts All on one truck.
- Tough bottom line business 2%
- Technology and logistics are key
- Driver Shortages are a serious problem

Agriculture

- Agri includes agribusiness and aqua business
- Cannabis is big
- Farmers are very technologically sound, drones, vertical farming, "autonomous farming" and the use of AI
- PACA (USDA) and FD&C (FDA)
- Water is a major issue
- Vertical Farms have potential but are struggling

So, Wow, after all that, I'd like to suggest some real solutions for F&B

- Upgrade your technology now and use AI. You will not be able to survive without the latest and greatest.
- Investigate methods to reduce costs (input costs, labor, insurance, and employee benefits)
- Be agile, innovate but stay within the law
- Maximize the private label, convenience, health and wellness
- Do all you can to attract and retain employees
- Utilize PPA and CPA
- Have alternate suppliers and be aware of tariff issues (First sale rule)
- Study consumer preferences
- Use every available tax reduction:
 - R&D
 - Cost Segregation
 - Accelerated Depreciation
 - Opportunity and Empowerment zones
 - Federal fuel tax credits
 - Investment Credits
 - Contributions of food
 - SALT review
 - LIFO