

Food and Beverage Industry

“It’s about telling your story”

- William Freeman, CEO of Patxi’s Pizza



Introduction

On Wednesday, October 28, we gathered an intimate group of C-level executives from San Francisco Bay Area Food and Beverage companies to discuss issues in their industry and provide a networking forum for attendees. Below is a summary of the key points of this discussion.

With over 3,000 firms in the Food and Beverage industry in the Bay Area, it has grown more challenging keeping up to date with consumer demand and technology. Companies are faced with new issues, such as; on-demand service apps, consumer thirst for ingredient knowledge and the need to be more creative than ever before. Consumers are looking for top-quality products that are unique and are willing to pay more for them. With this demand there are pro’s and con’s.

Sheila Stanziale, CEO of Mighty Leaf Tea, stated that you have to “premiumize the menu” in order to meet customer expectations. For many consumers, it’s not always about the right ingredients or sustainable sourcing, they also want a feel-good story and a humble message to back up their purchase. For many companies, trying to find that new spectacular SKU can be overwhelming. Promoting premium products requires companies to increase selling prices to maintain healthy margins. The real question is whether all customers are willing to pick up that spike in price.

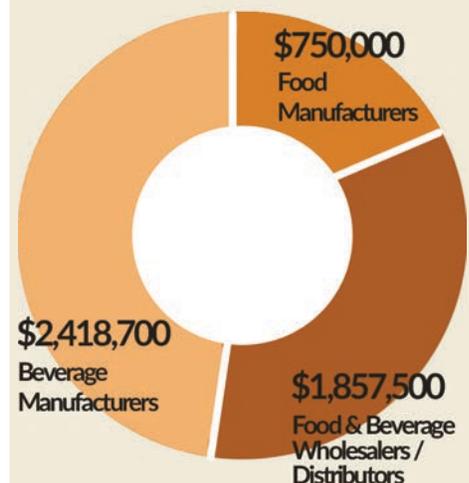
Consumers Want to Be Educated and Informed

Being socially responsible when sourcing your ingredients has become publicized and shared across all platforms of social media, if you make one mishap it can damage your reputation. Campaigning this information can often bring confusion. Similar to the great ingredient debate, it can be difficult understanding what “Fair Trade” really means.

THE CHALLENGE

- Educating the general consumer on ingredients
- Meeting the demand for premium and unique goods
- Staying transparent and being socially responsible
- Keeping up with innovation and competing with the technology industry
- Maintaining strong workforce in today's economy

Average Annual Revenue per firm, 2013



San Francisco Planning Department. (2014). Makers and Movers: Economic Cluster Strategy.

Michael Littleton, VP of Finance at GU Energy Gel, stated that, “like Patagonia, GU Energy Gel has begun to focus on similar tactics and is in the early stages of educating its customers on how it sources ingredients via its website.”

“It’s about telling your story,” agreed William Freeman, CEO of Patxi’s Pizza. Freeman went on to state, “there’s always a new higher-level of consumer expectations.” It’s no longer solely based on cost, consumers are expecting companies to keep them informed on a regular basis and to make better choices when it comes to producing goods they consume.

The Social Media Effect



#FOODIE

Customers want to learn and share good food and drink with their peers on all levels, especially on social media with the hashtag #foodie. Food & Beverage consumers are constantly looking for new trends and seem to be open to trying just about anything you put in front of them.

Millennials especially have really embraced the food love. They want healthy, smart and unique products, with a quick education of what their palate is experiencing. The group noticed that some of the leading trends for 2015 include:

- cooking with beer
- substituting honey for sugar
- gluten-free
- protein heavy products
- herb infused cocktails

Not only does your product need to taste fierce, but it has to be photogenic as well. Companies are using Instagram and Pinterest in order to gain the attention of new customers. Consumers are doing a bit of the leg work as well by posting food “pics” and hash tagging them.

Power of Innovation

In an industry, including Food and Beverage, innovation is necessary to drive growth. How do you innovate effectively? Stanziale stated, “If you don’t do too many funky things, you’re good.” Tom Smallhorn, CMO of Mighty Leaf Tea, suggested, “to keep your products simple, not over designed.”

Within this growing economy and the challenges at hand, you have to have the ability to adapt. Stanziale stated, “Being under stress makes you figure out a way to generate revenue and get it done.” You have to be innovative and not just once, consumers want to see fresh ideas on a constant basis. Smallhorn stated that “they were changing their website to be more mobile friendly” after they discovered a third of their consumers are using mobile platforms to access their site on a daily basis.

“If you don’t do too many funky things, you’re good.”

- Sheila Stanziale,
CEO of Mighty Leaf Tea

Branding For Your Audience

After spending dollars on innovation and “premiumisation,” how do you get consumers to pay more for your products? One way to drive the price up is to promote your brand. With everything wrapped up and perfectly presented, sometimes you have to rebrand yourself in order to reach multiple audiences. “Sometimes we leave out the labelling details and only include the graphic,” advised Marty Sanchez, Owner of Casa Sanchez.

Sanchez discussed the benefits of branding your product to different audiences and strategizing various marketing tactics for different age ranges. She noted that “a recent initiative to connect their brand with a younger audience at an event included Casa Sanchez passing out temporary tattoos of their logo.” Sanchez advised that their logo was friendly and universally welcomed across all age ranges, but how they use it varies depending on who they are trying to reach.

Growing Your Business In a Booming Economy

Everyone agreed that in the Bay Area, there is a growing gap between the wealthy consumers with higher disposable income willing to pay extra for premium goods and the regular working class who are not able to absorb higher prices and thus are moving out of the Bay Area. There is a growing challenge in recruiting and retaining talent. Working class, the heart and soul of the industry, is leaving to other geographical areas or other companies that pay more. Freeman discussed how he has lost delivery drivers to the tech industries growing service apps, such as Postmates and Grubhub.

Recruiting and retaining executive teams is also a struggle. Tim O’Shea, CEO of Cleanfish, found a good COO candidate out-of-state but knew that this candidate moving here would negatively affect his family’s lifestyle. O’Shea has been exploring options on how to make this work for him and his potential new hire, one major possibility for the candidate, would be for him to work remotely to keep his lower cost of living. Stanziale, chimed in to state that “this was a similar issue she had been facing when looking to build their team.” Don Raphael, General Manager of Italfoods, Inc., stated “It’s been challenging the last two to three years, not bad, but challenging.”

Real Estate

Real estate has become another hurdle when trying to grow your business and position your company within the appropriate territory of your target market. Older local companies are throwing in the towel because they can’t meet the new rent requirements and sell enough product in order to stay afloat. Even long-term businesses, like Shreve & Co. have been forced to move after 109 years at 200 Post St. in Union Square.



Investing and M&A

2015 was a record year for M&A activity in the Food and Beverage industry, and the multiples were impressive. New companies were popping up weekly and some of them seemed to be doing it effortlessly. The upside of having the tech industry move in, is that they are investing. Todd Masonis, Chocolate maker at Dandelion Chocolate, mentioned “There’s not just the downside. We have Kickstarter, Angellist, individual investors, and capital is flowing into new, non-tech businesses. So there are also advantages.”

Closing Statement

This is an exciting time for the Food and Beverage industry in general, and companies located in the Bay Area in particular. In this fast paced environment, keeping abreast of the industry trends and being open to change is extremely important. Prioritizing initiatives and having the right team to execute those initiatives is as important. We recommend our clients to stay connected to others within the industry and ask their trusted advisors for professional advice when needed.

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