

The food market in 2017 - the need-to-know US consumer trends

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While health will remain growing part of US food market, nostalgia will be another driver

A seismic shift in the US consumer landscape has redefined the country's food market in recent years, challenging big food and making it harder for legacy brands to grow sales. The US's largest food makers have been working to tap into growing demand for niche categories, where smaller entrepreneurial businesses have unlocked sector growth. This is being achieved to varying degrees of success through both product innovation and M&A.

Trends that gained steam in the US during 2016 include the rise of the "clean label", a growing awareness of GMOs, increased concern over sugar consumption and higher demand for free-from products. These will remain influential factors in 2017 but here just-food takes a look at some of the other emerging consumer trends that are set to shape the food US food sector over the coming 12 months and beyond.

Organic and onwards

Demand for organic food continues to balloon in the US as the sector expands its appeal to mainstream consumers.

According to the Organic Trade Association's 2016 organic industry survey, growth in the sector is reaching new highs. During 2015, US organic product sales hit US\$43.3bn, up 11% from the previous year and outstripping the overall food market's growth rate of 3%.

This kind of growth rate is expected to continue – and even accelerate – as food makers work to increase the supply of organic ingredients, as well as raising levels of investment in "infrastructure and education", OTA CEO and executive director Laura Batcha suggests.

Increased availability in mainstream retailers is also propelling the sector, Batcha says. Produce and dairy continue to account for the lion's share of organic sales in the US, accounting for around one-half of the market. However, the US is also witnessing increased growth in organic packaged foods. For example, the OTA reveals, the size of the organic snack category has tripled over the last ten years and, in 2015, sales stood at \$2.3bn, up almost 14% from 2014.

Busy schedules and the erosion of traditional meal patterns mean US consumers snack more today than ever before. At the same time, growing awareness of health and wellness issues mean that organic snacks are well-placed to capitalise. This category, therefore, looks poised to expand ahead of the organic sector's overall growth rate during 2017.

Organic sales are well short of reaching stagnation and growth in this area is likely to continue apace in the coming 12 months. However, looking further into the future, emergent agricultural techniques gaining a growing following include practices such as regenerative agriculture. With issues around climate change and environmentalism expected to take a back seat in the US for the next four years at least, some in the organic movement hope to use consumer demand to help extend these practices. This is not a trend that will make its mark on the consumer scene overnight. But, for forward-thinking companies looking to the next big ethical consumption trend, regenerative agriculture should be on the radar.

Grass-fed dairy

Product development and marketing messages focusing on dairy cows that have been grass-fed are likely to continue to rise in the US during 2017 as the sector builds further momentum.

"The idea of grass fed meat resonates with consumers," Eric Pierce, director of business insight at health-focused media and events business New Hope Network, notes. "There is already a lot of grass fed dairy... We see the broader market getting behind it."

Speaking to just-food last year at the sidelines of an event for the natural products sector, Danone-owned organic dairy business Stonyfield told just-food that grass-fed dairy sales are significantly outpacing the category. "There is a huge increase in interest for grass-fed. It is growing six times faster than the rest of the cabinet," a spokesperson observed.

The growth means grass-fed claims are likely to be extended beyond the big sellers like milk and yogurt to more niche products, US industry expert and chef Mareya Ibrahim predicts. "Expect to see the grass-fed moniker emblazoned across everything from butter and ghee, to yogurt, cheese, milk and ice cream to protein powder and even dietary supplements."

However, there are some lingering issues that could inhibit growth of grass-fed products. The lack of a national standard means some products from grass-fed cattle also contain milk from other sources. This threatens to undermine consumer confidence in grass-fed claims and erode the premium that consumers are currently willing to pay. The higher cost of grass-fed dairy cattle versus industrially farmed cows could also dampen industry enthusiasm.

The next generation of meat alternatives

We have already seen dramatic growth in the plant-based category as a growing number of consumers take up vegan, vegetarian and so-called "flexitarian" diets, meaning meat-free protein alternatives are also likely to continue to gain traction in the coming 12 months.

In part, this growth is being driven by ethical purchasing decisions. Fewer CO₂ emissions are produced in their manufacture and animal welfare issues arising from factory farming techniques are not an issue. Questions around health and wellness are also addressed by meat-free products with a large body of evidence supporting the health benefits of reduced meat consumption. With mixed projections for the 2017 economic outlook, it is also worth noting plant-based protein can be cheaper than meat products.

Possibly the greatest driver of growth for vegan and vegetarian products, however, is evolving perceptions around the taste, convenience and quality of the products available. Gone are the days when meat-free food was thought of as musty lentils or cardboard-like textured vegetable protein that needed to be soaked for hours before it was ready to cook. The freezer aisle of any Target or Wal-Mart now offers a choice of ethnic-inspired, exotic-sounding meat-free convenience meals and the increased availability has spurred growth in the sector.

If innovation has supported growth, this looks set to accelerate as investment in the next generation of meat-free alternatives increases. Brands like the now Tyson Foods-backed Beyond Meat, Impossible Foods, Perfect Day and CellPod are moving into mainstream markets with animal-free proteins that are molecularly identical to meat.

Expect to see further growth here well beyond 2017 as companies like these mass market foods that are healthier, better for the environment, address animal welfare concerns, offer improved food safety and longer shelf lives.

Nutrition to promote health

A growing number of US consumers are coming to view food as a means of promoting health through positive nutrition and the prevention of chronic disease. Products that answer consumer interest in eating for health broadly fall into two categories, those that rely on 'ancient wisdom' and those based on current scientific thinking.

Ingredients like goji berries have attracted popular acclaim having been adopted by various Hollywood A-listers for their health benefits. They have been used in Chinese medicine for more than 6,000 years and are said to boost immunity, digestion and wellbeing as well as combating cardiovascular disease and cancer. Likewise, wheatgrass is said to increase red blood cell production, while it has been suggested that eating pomegranates can reduce carotid artery stenosis and prevent heart disease. The popularity of beets among US consumers is also on the rise as food makers touting their health benefits find new ways to present what was once viewed by many as a relatively unappetising vegetable.

According to the British Dietetic Association and advice offered by the UK's NHS Choices service, however, evidence to support many of these claims is thin on the ground and often inconclusive. Alison Hornby, a dietitian and BDA spokesperson, stresses it makes sense to eat "a range of fruit and vegetables" as part of a healthy diet. On pomegranates, for example, she notes "research suggests there may be a benefit, but we've not shown it yet".

Products that combat obesity and diabetes or promote cognitive and gut health are of particular interest to consumers and health policy makers. With an ageing global population, the food sector has an important role to play in answering the need for healthy ageing products.

Science-based positive nutrition is an area where some of the world's largest food companies are focusing their R&D resources. [Nestle, for instance, is using its extensive R&D network as part of its Nestle Health Science division to focus on healthy ageing.](#) Nutrition has a key role in addressing health issues linked to an ageing population and improving quality of life in extended old age and Nestle believes that this represents a significant long-term commercial opportunity. Meanwhile, in October, Nestle launched ProNourish, a low-FODMAP drink it says can help people with "digestive sensitivities". And, of course, companies including Danone remain among those at the forefront of marketing products as supporting gut health.

A polarised market

Smaller entrepreneurial brands touting products that are healthier, more ethical or more sustainable stole share from large US businesses during 2016.

According to research from AT Kearney and The Hartman Group, the top 25 food companies in the US by revenue – including the likes of Nestle, General Mills, Kraft Heinz and Kellogg – have ceded 300 basis points to small and mid-sized competitors since 2012, on average booking low-single digit growth compared to the average mid-double digit growth seen at smaller competitors.

"Large established food manufacturers need to give consumers real reasons to remain loyal," suggests Randy Burt, a partner with AT Kearney and co-author of the report.

According to Burt, defensive efforts should include "innovative products that meet consumers' current and emerging needs" as well as "transparency and authenticity in sourcing, production, and marketing."

With consumer preferences evolving at a rapid pace, Morningstar analyst Erin Lash says that product development alone does not ensure success.

"Just bringing on-trend products to market is insufficient to winning in this marketplace, as even value-added new products can fail if consumers don't know about them. In this light, we believe that maintaining - or even increasing - brand spending will be crucial to beef up brand awareness," she observes.

Big brands can be reinvigorated by on-point innovation and increased marketing budgets. But, with listed food companies continuing to drill down on cost reduction efforts in order to boost returns for shareholders, it is unclear whether corporations will be willing to take the margin adjustment that this strategy would require.

When we talk about market demand in the US, the focus is frequently placed on sustainable, transparent, ethical, healthy products. This is not, however, the only area that is witnessing

growth. There is also an appetite for brands that appeal to people's sense of nostalgia. This demand could even be viewed as part of the wider polarisation of opinion that has contributed to recent political turmoil in the US. A large section of the population isn't interested in something because it is described as 'artisan', or 'specialty', or even healthy.

The enduring appeal of brands that take consumers back to a time before they worried about sugar content or clean labels can be witnessed in the stellar year-to-date performance of Twinkies and HoHos maker Hostess Brands, which booked a near 16% increase in sales during the first nine months of 2016. This was supported by "white space" distribution gains and – importantly – an increase in marketing investment.

While foods that are natural or organic may be some of the fastest growing areas of the US food sector, it is worth keeping in mind that they do remain a relatively small drop in a much larger ocean. Brands with a nostalgic edge and a hint of Americana that defy the attention-grabbing 'real food' movement also stand to gain in 2017, provided they are given the appropriate brand support.