

# food Processing Prosperes

**BY CATERING TO NICHE MARKETS** and expanding their use of technology, U.S. food manufacturers are staying ahead of global challengers.

With growing worldwide competition, the food industry is looking at new ways to remain viable and productive, including implementing state-of-the-art technology, continuing to expand overseas, and increasing their focus on niche marketing.

According to the U.S. Department of Commerce's (DOC) Office of Health and Consumer Goods, the food manufacturing industry accounts for more than 10 percent of all manufacturing shipments, making it one of the

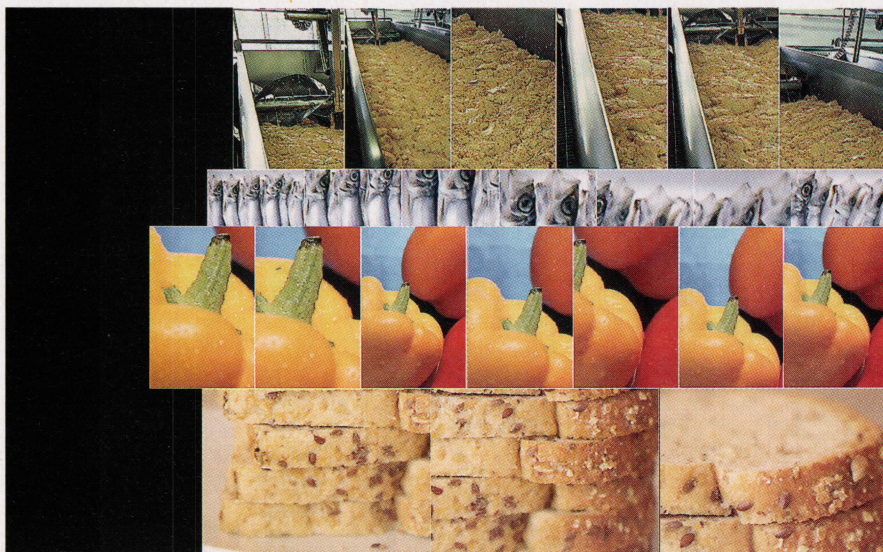
United States' largest manufacturing sectors. From 1997–2004, the DOC says the processed food industry experienced steady growth, with 2004 posting the value of food shipments at \$511.5 billion, an increase of 21 percent from 1997.

## GOING TO MARKET

According to *Food Processing* magazine, the 10 largest U.S. food companies in 2005 were Tyson Foods, Kraft Foods, PepsiCo, Nestle, ConAgra, Anheuser-Busch, Dean Foods, Sara Lee, Mars, and Smithfield Foods. However, smaller companies are exercising increasing clout to level the playing field, according to David Zepponi, president of the Northwest Food Processing Association in Portland Oregon.

"We are looking at achieving a new equilibrium between the niche and the commodities (traditional) food manufacturers," he says. "Each of them supports the other, which is essential for the survival of the industry."

By CYNTHIA SCANLON





One of the strongest growth niche markets today is organic food, which grew an estimated 20 percent per year through the 1990s, according to the U.S. Department of Agriculture (USDA). Organic foods have become so popular that they can now be found in traditional supermarkets, natural food stores, and other retail markets. The USDA estimates that retail organic product sales accounted for more than \$10 billion in the United States in 2003 and sales are expected to grow 9–16

Unilever (England), Kirin Brewery (Japan), Cadbury Schweppes (England), Heineken (Netherlands), and Asahi Breweries (Japan). “Food processing and agriculture is a global industry, and our true competition is regions around the world,” says Zepponi. He cites China, Chile, Australia, New Zealand, and Canada as examples.

Craig Wyvill, president of the Midwest Food Processors Association, which represents food processors in Illinois, Minnesota, and Wisconsin, says

where operating costs tend to be more inexpensive, while others are locating their operations near ports because much of their business is done overseas.

“Local companies in our three-state region [Washington, Oregon, and Idaho] view themselves as competitors, but they are friendly competitors in that they work together to solve larger global issues,” says Zepponi. “When you are competing against a major economic system somewhere on the globe, you need to be at strength with them or better than them in order to compete well. So we are collaborating to improve our productivity.”

Food processing manufacturers, particularly those located in the Southwest, also now have easier access to the Mexican markets, thanks to the North American Free Trade Agreement (NAFTA). NAFTA has eliminated most tariffs on U.S. processed food exports, which were as high as 20 percent before NAFTA took effect. Today, U.S. manufacturers enjoy a price advantage over competitors, who are required to pay an average 24 percent tariff in Mexico’s market.

**How do you maintain product security, yet still let products flow through? Those bananas can’t sit in a shipping port for days waiting for an inspector.**

percent per year through 2010.

Ethnic foods are also driving the niche market, according to the DOC. For instance, the Hispanic population continues to increase, and many processed food companies are developing new products for this population. Also, many traditionally ethnic food products are crossing over into the mainstream population.

### LOCATION, LOCATION, LOCATION

Not surprisingly, the processed food industry is a major player in the global economy, with more than one-third of the world’s top-50 food and beverage processing firms headquartered in the United States, according to *Food Engineering* magazine. Major foreign competitors include Nestle (Switzerland),

that despite global competition, the United States is still in the driver’s seat when it comes to the food processing industry. “In some food markets, we have a decided advantage domestically because our food processing plants are here in the U.S., and some products don’t necessarily travel well,” he says. “We have a fairly healthy domestic market, and our processors are taking full advantage of that.”

Steve Hensley, president of Blue Sky Logistics, a supply chain software company, agrees that location can be important. “You have to have grocery stores where the people are, and distribution centers need to cluster around where a company’s stores are located,” he says. He points to companies now locating their distribution centers in rural areas

### MERGERS, ACQUISITIONS, AND EMPLOYMENT

According to the Food Institute, the food manufacturing industry completed 320 mergers and acquisitions in 2005, down slightly from 395 in 2004. An additional 75 were announced but not completed by the end of 2005.

Wyvill notes that the industry is indeed compressing, and soon a handful of companies may control a dominant share of the market. However, he sees continued opportunities for smaller companies to take niche markets away from the larger food processing companies because of their ability to better focus on available niche opportunities. “I think there are going to be healthy markets in those niche areas for smaller companies to continue to operate,” he says.

### EMPLOYMENT TRENDS

According to the Bureau of Labor Statistics (BLS), employment in the food processing industry declined six percent from 1996 to 2005, which represented a decrease from 1.56 million to 1.47 million people. Better technology and

South Texas is **BOOMING!**

Fastest Growing MSA in Texas!

Find out more... Start here!

**www.MISSIONEDA.org**

Request 4710 on Executive Inquiry Card



automation allowed companies to increase production while relying on fewer employees. The BLS expects overall wage and salary employment in food manufacturing to increase by four percent over the 2004–2014 period.

As might be expected, California employs the largest percentage of workers in the industry, making up 11 percent of the industry work force in 2005, according to the DOC, which also reports that Texas, Illinois, and Pennsylvania employed significant percentages of the food processing work force.

### IMPORTS/EXPORTS

In 2005, the U.S. processed food industry exported \$28.8 billion of product and imported \$29.8 billion. Meat products and meat packaging products made up the largest share of the \$29.8 billion in overall processed food imports (22 percent). This was followed by fruit and vegetable preserves and specialty foods (16 percent), sugar and confectionery products (14 percent), miscellaneous foods (14 percent), and grain and

oilseed milling products (13 percent). Five countries accounted for 52 percent of U.S. imports of processed food products in 2005: Canada (29 percent), Mexico (8 percent), China (5 percent), Australia (5 percent), and New Zealand (5 percent), according to the DOC.

The United States is the world's largest exporter of processed food. The DOC reports that meat products and meat packaging products also made up the largest share of the \$28.8 billion food exports (33 percent). This was followed by grain and oilseed milling products (22 percent), miscellaneous foods (15 percent), and fruit and vegetable preserves and specialty foods (10 percent). According to the USDA, in 2005, five foreign countries accounted for 62 percent of U.S. processed food exports: Canada (23 percent), Mexico (19 percent), Japan (12 percent), China (4 percent), and Korea (4 percent).

### TECHNOLOGY

Food manufacturers are increasingly concerned with implementing greater

automation and technological solutions in their manufacturing processes. Of the technology currently available, perhaps none is more important today than being able to track and trace shipments around the world. "From a logistics perspective, the food distribution industry has the toughest time because if they don't [ship or receive] products in a timely fashion, those products can go bad," says Hensley. "So it's all about speed through the supply chain. You have a short window to get, say, bananas, from the tree to someone's countertop. We monitor all the transactional data that occurs across the supply chain and let customers know when there is an opportunity to fix something before it goes wrong."

One innovative piece of tracking technology being used today is the radiofrequency identification tag (RFID). RFID tags are increasingly being used to track shipments, much like an "electronic luggage tag." They hold information such as content, amounts, and final location of products being shipped on pallets, and

Start with the Middle in Mind...

Accessible  
**Transportation  
Links**



"We serve 870 grocery stores in 12 states. Good transportation links are key to providing the 24/7 level of service demanded by our customers. The Norfolk and northeast Nebraska location offers a pipeline to a highway network that allows our company and local manufacturing plants to provide reliable distribution to our customers."

MARTIN ARTER, PRESIDENT  
Affiliated Foods, NORFOLK, NEBRASKA

402-371-8142 · [rj@evedc.org](mailto:rj@evedc.org)  
Contact R.J. Baker, CECD · Executive Director

**ELKHORN VALLEY  
ECONOMIC  
DEVELOPMENT**  
Committed to the Success of Business  
Norfolk, Nebraska / Elkhorn Valley Region

[www.elkhornedc.com](http://www.elkhornedc.com)

Request 2511 on Executive Inquiry Card

"Location was very important to us..."



...We looked at pretty much every city of a certain size within 700 miles of Connecticut, and slowly narrowed it down to Roanoke."

- David Wenzel  
Plant Manager, Integrity Windows

**The Roanoke Valley of Virginia**  
Read more about Integrity Windows at  
[www.roanoke.org/testimonials](http://www.roanoke.org/testimonials)

Request 539 on Executive Inquiry Card



allow goods to be tracked from factory floor to the store. According to a 2004 *Food Engineering* survey, 22 percent of respondents indicated that their companies had RFID tag initiatives underway.

Zeponi says that while many people don't usually look at food processing as a place to invest in technology and innovation, doing so is crucial to the industry: "We are standing up as an industry and saying we deserve to be recognized as a critical part of the economy; and, if we are going to continue to be a critical part of the economy, we need to have investment dollars going into innovation and productivity improvement technologies in our plants."

### SECURITY MEASURES

Perhaps where technology plays the most key role today is in security, particularly in tracking products from overseas. "Homeland Security can see if anything fell into an odd category, or disappeared, or didn't arrive on an expected timeline," says Hensley. "The growers, brokers, shippers, and grocery store chains all benefit from this."

Admittedly, Homeland Security adds another layer to the import/export equation, which is already fraught with possible delays. Still, the ramifications of not having tight border and port security in our manufacturing and transportation systems are too great to ignore. "So, how do you maintain product security, yet still let products flow through in a fashion where people can do business?" asks Hensley. "Those bananas can't sit in a shipping port for days waiting for an inspector." He says companies able to show that a shipment was closely tracked will fare best in our post-9/11 environment.

Zeponi echoes this sentiment. "We've had the greatest food safety program in the world for a hundred years," he says. "Yes, it adds complexity, but it's the state of the world."

### THE FUTURE

The future of the processed food industry looks bright, according to Wyvill. To ensure that the industry remains competitive, he believes that many companies will continue to take a hard look at controlling the growth of their labor base, particularly by using newer technologies. "And, they will also use technology in the overall management of operations to do a more efficient job," he says.

Zeponi believes that basic "com-

modity" or traditional processed food sectors will also need future incentives to bring in new equipment and new processes to remain productive. He also sees dedicated employees at the center of continued success for the industry. "We are moving positively in the right direction by learning how to work together," he says. "We are attracting high quality people, and that pool is getting bigger. It's those people that are going to make the difference." **AREA**



## Carolina On Your Mind?

### Let Us Put It On Your Desk.

Tell us what you need in a business location. Within 48 hours, we'll send you a detailed report on North Carolina areas that match your specifications, including descriptions and photos of available sites and buildings.



We're **Electricities**, an electric service organization representing more than 70 municipally owned utilities. And we can help you plug into a state where generous incentives, pro-business attitudes, and affordable, productive labor combine with outstanding quality of life to create one of the best places in America to do business.

For quick and confidential answers to your questions about North Carolina, call Brenda Daniels at 1-800-768-7697 or email [bdaniels@electricities.org](mailto:bdaniels@electricities.org).

Plug Into North Carolina

**ELECTRICITIES**

1427 Meadow Wood Blvd. • Raleigh, NC 27604 • 919-760-6363 / 800-768-7697, Ext. #6363  
[www.electricities.com](http://www.electricities.com)

Request 457 on Executive Inquiry Card