

Introduction

The food and beverages industry is all companies involved in processing raw food materials, packaging, and distributing them. This includes fresh, prepared foods as well as packaged foods, and alcoholic and nonalcoholic beverages. Any product meant for human consumption, a side from pharmaceuticals, passes through this industry.



Industry Composition

Deriving from the agriculture industry in our definition, the food and beverage industry is divided into two major segments. Those two segments are production and distribution of edible goods. Production includes the processing of meats and cheeses and the creating of soft drinks, alcoholic beverages, packaged foods, and other modified foods. The production segment of this industry excludes foods that were directly produced via farming and other forms of agriculture, as those are encompassed by our definition of the agriculture industry. Distribution involves transporting the finished food product into the hands of consumers.

The industry is much more focused on technology and mechanical manipulation of raw foods to create more value-added food products than the agricultural industry. Under our definition of these industries, grocery stores are excluded as they are considered a retail store. Distribution includes companies that ship food to retail outlets, restaurants, or directly to consumers.

Industry Leaders and Fragmentation

* All amounts are given in Billions USD

| Company | Country | Sales | Profits | Market Value |
|---------------------------|---------|-------|---------|--------------|
| Nestle | 225 | 91.2 | 7.3 | 237.3 |
| Royal Ahold Delhaize N.V. | 216 | 72.4 | 2.2 | 28.8 |
| PepsiCo | 161 | 64 | 4.9 | 138.1 |
| Sysco | 161 | 57.8 | 1.3 | 32.7 |
| Anheuser-Busch InBev | 195 | 56.4 | 7.9 | 184.3 |



Profitability and Demand Drivers

Primary Demand Drivers:

- Food consumption
- Population growth

Profitability Drivers:

- Efficient operations, because products are commodities subject to intense price competition

Trends

Due to the recent economic meltdown, consumers are looking to save as much money as possible. One major way that consumers are doing so is by purchasing more generic foods and making their own meals, not going out to eat. This is causing food processing companies to become more innovative to decrease the cost of goods sold, attract more customers, and increase profit margins.

The large amount of obesity in the world has a major effect on the food and beverage industry. There has been an increase in demand for health foods and more informative nutritional labeling. Both of these trends have caused companies to release lower calorie foods and to better control how their brand is viewed. Companies want to be viewed as a healthy brand and are promoting activities, such as youth sports, that show this healthy image. There also is mention of a tax on foods known to lead to obesity in order to curb consumers' usage of them.

Rising costs of factors of production are a major factor to this industry as well. Since commodity prices went up in the past year, food companies have had to increase prices of the final product as well. With the economic collapse, this affected them two-fold, as consumers were less likely to want or even have the money to pay the higher prices. Fortunately, commodity costs have been decreasing in the last few months, which forecasts a lower final price for the products in this industry is to come.

The industry also has to deal with their reputation, as there have been incidents of unsafe food being released in the past. These outbreaks have two major potential consequences: loss of consumer confidence and increased regulation. Already, research has shown that consumers do not trust their food suppliers as much as they used to and nearly half of them have switched brands in the past year, either to save money or because they believe the new food will be safer. Government control of the food process has increased with the passage of new laws as well.