



Food and Beverage Processing Industry Overview

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U.S. consumers spent over \$2 trillion on food and beverages last year, or about 10 percent of 2020 GDP. Some 1.8 million people are employed in the U.S. food and beverage industry—an industry not prone to distant offshoring, somewhat recession-proof and one with a number of unique and demanding site selection requirements.

In the U.S., some 36,500 companies are classified as food and beverage processors. Company rosters continue to grow, although total employment due to automation and innovative production processes has moderated in recent years. As in other advanced manufacturing sectors, the automation trend underscores the importance of workforce training, both in-house and through cooperative arrangements with local vocational institutions, that include the latest training in automation, robotics and production software.

Aside from the restaurant industry and those food processors serving it, the pandemic's major impact on the food industry has been a major shift of buying patterns. Some home bound consumers reached for snacks and comfort foods to get by, while others took a more healthy approach focusing on real food, fresh and nutritious. With restaurants shut down and a return to the home kitchen, consumers spent significantly more money on groceries in 2020 than ever before. The monthly grocery bill for the average American household peaked at \$525, up 30 percent from the previous year.

Production Hubs and Costs

In today's global economy, comparative costs are influencing corporate relocation and investment decisions like never before. This is especially true within the food processing sector which has generally low profit margins, stiff competition and the added cost burden of regulatory review, including by the Food Safety and Modernization Act (FSMA). Signed into law during the Obama administration, the act enables the Food and Drug Administration (FDA) to better oversee public health by strengthening the food safety system. Its aim is to focus more on preventing food safety problems rather than relying primarily on reacting to problems after they occur. FSMA is the most extensive and far-reaching update of federal food safety laws since 1938.

New FSMA regulations are expected under the Biden administration, including stricter traceability rules for certain farm-to-table food products in order to better contain and manage contamination when it occurs. Recently, the FDA has suggested implementing additional traceability recordkeeping requirements that go above and beyond existing regulations for operations that manufacture, process, pack or hold farm-to-table foods to help address food safety risks. The FDA hopes that better leveraging digital capabilities within a more tech-enabled traceability system will also help it maintain more accurate and timely data.

A new 2021 BizCosts® Report of our firm identifies 15 leading U.S. hubs of the food and beverage processing industry and charts comparative operating costs (labor, real estate and utilities) in each of those hubs. (See Figure 1). Annual operating costs in the report range from a high of \$44.2 million in Portland, Oregon, to a low of \$36.6 million in Omaha, Nebraska, an operating cost differential of 17.2 percent. (See Figure 2).

Figure 1

Food Processing Hub	Some Leading Companies
Modesto, CA	Del Monte, Seneca, Athwal Almonds
Denver, CO	Cargill, PepsiCo, Molson-Coors, J.M. Smuckers, Hain Celestial, Dazbog
Atlanta, GA	Coca-Cola, Kraft Foods, Koch Foods, Pilgrim's Pride, Tyson, Flowers Foods, U.S. Foods
Boise, ID	JR Simplot, Albertsons, GoGo squeeZ
Chicago, IL	Mondelez, Tootsie Roll, Tree House, Kraft/Heinz
Minneapolis, MN	General Mills, Land O'Lakes, Caribou Coffee, Kemps, Orange Julius
St. Louis, MO	Anheuser Busch, Post, Bissinger, John Volpi, Ice Cream Specialties
Omaha, NE	ConAgra, Armour Foods, Henningsen, Kellogg, Tyson, Hormel, Omaha Steaks
Buffalo, NY	Rich Products, Fieldbrook Farms, Associated Brands, Lactalis American
Richmond, VA	Tyson, Sabra, Maruchan, Massimo Zanetti Beverage
Cincinnati, OH	General Mills, Flavor Systems, WILD Flavors
Portland, OR	Heritage Foods, Bridgetown Natural Foods, Mondelez
Hershey/Lebanon, PA	Hershey, Pepperidge Farm, Tyson
Dallas, TX	Frito-Lay, Saputo, Dean Foods, Jamba Juice, Dr. Pepper Snapple Group, Sysco
Kennewick-Richland, WA	Lamb Weston, First Fruits, Reser's, Columbia Crest Winery, AgriNorthwest, Broetje Orchards

Figure 2

COMPARATIVE ANNUAL OPERATING COST SIMULATION SUMMARY(1)				
	Portland OR	Modesto CA	Boise ID	Omaha NE
Nonexempt Labor Costs				
Weighted Average Hourly Earnings	\$32.28	\$30.77	\$29.57	\$26.85
Annual Base Payroll Costs	\$30,730,560	\$29,293,040	\$28,150,640	\$25,561,200
Fringe Benefits	\$11,063,002	\$10,545,494	\$10,134,230	\$9,202,032
Total Annual Labor Costs	\$41,793,562	\$39,838,534	\$38,284,870	\$34,763,232
Energy Costs				
Electric Power Costs	\$489,060	\$788,580	\$438,360	\$419,640
Natural Gas Costs	\$419,077	\$607,469	\$326,803	\$276,821
Industrial Lease Costs	\$1,590,000	\$1,420,000	\$1,366,000	\$1,176,000
Total Annual Geographically-Variable Operating Costs	\$44,291,699	\$42,654,583	\$40,416,033	\$36,635,693
NOTES:				
(1) Includes all major geographically-variable operating costs for a 200,000 sq. ft. (18,581 sq. m) food processing plant employing 500 workers. All costs are in U.S. dollars.				
Source: 2021 Boyd BizCosts® Food & Beverage Processing Industry Benchmark Snapshot.				

Site Selection Drivers

For any industry, the site selection decision is one of the most demanding and far-reaching that a company can make. A less than perfect location can create cost penalties and a compromise of competitive position that can persist for years. Beyond those considerations common to most Boyd corporate site selection engagements like labor, real estate, transportation, taxes and incentives, some of the more pivotal factors especially relevant to our food and beverage location projects include:

- Availability and quality of local water supplies as food and beverage plants have sizeable water requirements.
- Wastewater considerations and the local municipality's capacity for treatment. While a private, on-site treatment plant can be a solution, it entails additional one-time and recurring costs.
- Source of incoming ingredients and the destination of finished products. Processing plants requiring fresh produce, milk and other dairy ingredients, e.g., tend to locate in the proximate region while most food and beverage plant site decisions are no longer tied to ag production proximity due to today's sophisticated supply chain systems.
- Proximity of other supplies, especially specialty packaging, food lab services and contract food manufacturers.
- Product shelf life, its water weight, special environmental requirements during shipping.

Growth Sector: Private Label

Private label or “store brands” is a huge and booming segment of the food and beverage industry. Many retailers are now using their unique store brand as way to distinguish themselves from their rivals. Some of the growing number of private label brands that we now see in stores include: 365 (Whole Foods), Lucerne (Albertsons), Simple Truth (Kroger), HT Traders (Harris Teeter), GreenWise (Publix), Archer Farms (Target), Gold Emblem (CVS), Great Value (Wal-Mart), Wellsley Farms (BJ’s), Specially Selected (Aldi), Good & Smart (Dollar General), 7-Select (7-Eleven), Kirkland (Costco) and others.

Private label was on a roll prior to COVID-19 and now it is gaining even more steam. For those consumers late to get on the private label band wagon, supply shortages of certain branded items during the pandemic brought more of them over to private label and they were pleased with the switch. The cost savings were a bonus. Long gone are the days where private label meant good price, but sketchy quality.

While Trader Joe’s has a long history in private label, retail giant Target rolled out its Good & Gather brand a year ago with 650 items, growing to a billion-dollar private label player in less than a year. Target is planning to add another 600 items from dairy to deli and bread to beverages as it looks to expand to nearly 2,000 items. The Good & Gather line has become another vehicle to help distinguish Target and its “brand” in the eyes of consumers.

Throughout 2020, the pandemic had consumers stocking up on groceries for weeks to months at a time, but due to so many people being out of work, those purchases had to be at a lower price point. Looking beyond the pandemic, our food clients are telling us to expect a cornucopia of new private label brands to retain its new customers in growing categories like dairy alternative milks, immunity beverages and alcohol.

At the end of the day, private label is still much about costs, so site selection investigations for private label manufacturers must keep this consideration in mind along with other basic food processing considerations relating to water, energy and wastewater treatment challenges.

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Growth Sector: High Tech Functional Foods

With some 110 million Americans aged 50 or older and 49 million aged 65 and older, lifestyle issues and conditions of aging have gained in importance and have become major drivers within the food and beverage processing industry. Meeting this new demand is the growing functional foods sector, comprised of foods that offer health benefits beyond their nutritional value. In addition to nutrient-rich ingredients like fruits and veggies, the category also includes foods fortified with vitamins, minerals, probiotics and fiber and comprised of nutritious items linked to a number of powerful health benefits. For example, they may protect against disease, prevent nutrient deficiencies and promote proper growth and development.

Silicon Valley Global Ventures is an advisory firm that invests in early-stage technology companies, many in the functional food and beverage sector. Our firm knows its founder and CEO, John Hartnett, well. In 2018, our firm attended a presentation in New York City with John, former Salinas, California, Mayor Joe Gunter and Bruce Taylor, CEO of Taylor Farms, the world's largest processor of fresh-cut vegetables, and last year, we participated in a sustainable food conference via Zoom with John and Agricultural Secretary Sonny Purdue.

A great example of the marriage of high tech and food is the firm Nuritas, which received funding by John Hartnett's SVG Ventures along with singer-songwriter, philanthropist and venture capitalist, Bono. Based in Dublin, Ireland, Nuritas combines artificial intelligence and genomics to unlock natural bioactive peptides that can be used in a range of products including functional and medical foods, pharmaceuticals and dietary supplements. Nuritas peptides address muscle health, anti-inflammation, skin care, glucose management and food preservation. Swiss food processing giant Nestlé is now collaborating with Nuritas to discover new health-promoting peptides that can be added to its line of functional foods for people with certain medical conditions like diabetes.

Growth Sector 2.0: CBD

A great many U.S. consumers have already given their thumbs up for CBD in several possible formulations. Cannabidiol, or CBD for short, is a non-intoxicating cannabinoid found in cannabis. Cannabidiol is the second-most abundant cannabinoid in the plant after tetrahydrocannabinol (THC) and has several promising therapeutic benefits, including anti-inflammatory, analgesic, anti-anxiety and seizure-suppressant properties.

The last Farm Bill, enacted in 2018 and expiring in 2023, was a pivotal year for CBD. Though stopping short of "decriminalizing," the Farm Bill that year declassified hemp and its derivatives as "controlled substances." This is viewed by industry observers as a signal that a new federal regulatory framework will be forthcoming. Despite cannabis being legal in 36 states, clear FDA guidelines are still needed for the CBD industry to reach its full potential. The industry views the

new administration, including Attorney General Merrick Garland, as looking favorably on such a rollout.

Food manufacturers are actively lobbying for CBD approved as an ingredient. BDS Analytics, a market research firm, estimates the market for cannabinoid-infused food and beverages will reach \$5.9 billion by 2024 across all channels, including cannabis dispensaries. A mix of celebrities and household brands are already entering the CBD market. Canopy Growth Corp. acquired majority stake in BioSteel Sports Nutrition, Inc., whose sports nutrition products are used by major sports leagues in North America and endorsed by athletes like “The Great One,” NHL legend Wayne Gretzky.

Fortune 500 beverage giant Constellation Brands—the maker of Corona and Modelo beer— has recently invested some \$4 billion in Smiths Falls, Ontario-based Canopy Growth Corp. Alcohol companies, in a competitive battle for market-share amongst millennials, are keenly interested in the CBD beverage market. In Canada, which has already legalized cannabis, Canopy Growth has developed four new sparkling water beverages, branded Quatreau, with each containing 20 mg of CBD.

From a corporate site selection perspective, we see food and beverage CBD production facilities gravitating to areas not only rich in traditional food and beverage assets (requisite skill sets, reliable power, water and supply chain, etc.) but also markets that present compelling social impact opportunities for the nascent CBD industry. We are seeing states like New Jersey and Illinois planning to dedicate sales tax revenue from marijuana to promote “equitable development” and help distressed and minority communities. This will help urban areas whose populations have been disproportionately impacted by the “War on Drugs” to attract CBD projects and jobs.

FOOD MANUFACTURERS ARE ACTIVELY LOBBYING FOR CBD APPROVED AS AN INGREDIENT. BDS ANALYTICS, A MARKET RESEARCH FIRM, ESTIMATES THE MARKET FOR CANNABINOID-INFUSED FOOD AND BEVERAGES WILL REACH \$5.9 BILLION BY 2024 ACROSS ALL CHANNELS, INCLUDING CANNABIS DISPENSARIES.



Ten Notable Food & Beverage Projects

Here are some of the more notable new plants and expansions within the food & beverage industry over the past year.

Mark Anthony Brewing is constructing a new \$400 million state-of-the-art brewery in Richland County, South Carolina. The facility will be one of the largest breweries built in the U.S. in over 25 years. The facility will produce White Claw Hard Seltzer, Mike's Hard Lemonade, Mike's Harder Lemonade and Cayman Jack Cocktails. The new facility will provide needed capacity to meet growing consumer demand in the southern U.S. Warehousing and distribution operations will also be located on-site.

Nestlé Purina is building a 1.2 million sq. ft. pet food production facility near Cincinnati. The \$550 million facility will be the first completely new Purina plant built from scratch since 1975 and is expected to be completed by 2024.

CJ Foods USA Inc., the U.S.-based affiliate of South Korean food processor CJ CheilJedang, is constructing a 700,000 sq. ft. plant in Sioux Falls, South Dakota. The plant will have production lines for Asian-style foods to be sold and distributed by CJ Foods and Schwan's, another U.S.-based affiliate of CJ Foods.

Italian chocolatier Ferrero is building a new chocolate manufacturing center in Bloomington, Illinois. It will be Ferrero's first chocolate production plant in North America and will make chocolate for Crunch, 100Grand, SnoCaps, Raisinets, Goobers, Ferrero Rocher and other Ferrero products made in North America.

McKee Foods, maker of the popular Little Debbie snack line, plans a 15-year investment of more than \$500 million to expand its Collegedale plant. A 2016 Boyd BizCosts® study named the Collegedale/Cleveland area in East Tennessee one of the most cost efficient locations for new food processing operations.

New Jersey-based Goya Foods, America's largest Hispanic-owned food company and one of the leading providers of Latin cuisine, is undertaking an \$80 million expansion of its manufacturing and distribution facility in Brookshire, Texas, just west of Houston.

SVC Manufacturing, a PepsiCo subsidiary that makes Gatorade, is investing \$30 million to expand and upgrade its production facility in Osceola, Florida. In 1965, a group of doctors invented the popular sports drink in a science lab on the University of Florida's Gainesville campus. Hence the name, inspired by the Florida Gators.

Atlanta-based Chick-fil-A is constructing a \$52 million distribution center in Mebane, North Carolina, to meet the explosive demand for its product line, especially coming from the Northeast U.S. Chick-fil-A is now the third-largest fast-food chain in America, only McDonalds and Starbucks are larger.

McCain Foods – the world’s largest manufacturer of frozen potato products – has resumed construction on its \$300 million expansion of its Othello, Washington, plant after a pause due to COVID-19 restrictions. The plant, toured by Boyd prior to the pandemic, is the largest supplier of French fries to fast food restaurants in China and throughout Asia, shipping product via the Port of Seattle.

Hershey Co. is spending \$135 million to expand its candy manufacturing operation in Stuart’s Draft, Virginia, near Staunton. This is Hershey’s second recent expansion there, with a previous one announced in 2019 with a \$104 million price tag. The expansions included a new line for Reese’s products to be made at the plant, which already was specializing in peanut-containing confections. Reese’s has become Hershey’s biggest brand and continues to grow.

About the Author: John H. (“Jack”) Boyd: A thought leader and well-known pioneer of the modern era of corporate site selection, Jack has done much to advance the profession setting best practice standards of independence, objectivity, integrity and confidentiality.

An economist by training, Jack’s corporate site selection focus traces back to his academic research in Puerto Rico studying the Island’s commonwealth political status, unique tax structure and why U.S. corporations were locating there. As a Bevier Fellow in economics at the Rutgers Graduate School, Jack expanded his research in the field of corporate relocation and Latin American economic development.

Following work as a site selection analyst with Dun & Bradstreet’s Management Consulting Division based New York City, Jack established the Boyd firm in Princeton, NJ’s historic Twenty Nassau Building overlooking the Princeton University campus in 1975. The Boyd Co. serves a broad spectrum of Fortune 500 and up-and-coming companies. Boyd clients in the food and beverage sector include: PepsiCo, Gerber Products, Hershey Foods, Masterfoods, USA, Michael Foods, Frito-Lay and Mars.