

# Key drivers in the food processing industry in the next five years



The food processing sector is undergoing a period of rapid transformation. Revenue/profit stagnation and investor pressure for dividends have led many food processors to engage in acquisitions to boost revenues and/or are aggressively cutting costs for profitability growth. Workers, who have helped to build the companies they've worked at for many years, are paying the price for these cost cuts.

This document explores current and future trends in the food processing sector affecting IUF membership and other workers. It additionally investigates the impact of these trends and poses solutions to mitigate these impacts.



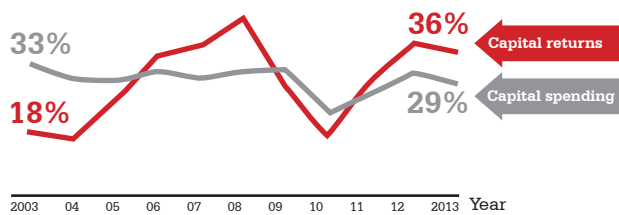
## Financialization of food processing

Food processing is a mature industry defined by saturated markets in most parts of the developed world. Shareholders of food processing companies continue pressing for dividends while interest rates (the cost of borrowing debt) remain low. This pressure has forced companies to maximize free cash flow while sacrificing investments in innovation. For companies to continue expanding net sales and capital spending, they are engaging in business consolidations and purchases of other food businesses instead of increasing their sales organically through new product lines i.e. innovation. Companies are also attempting margin growth through sophisticated financial engineering using leveraged/debt-led financing typical of private equity firms, aggressive cost cuts and restructuring. Rising competitive pressures and a focus on short-term profitability (e.g. quarterly operating margins) place food workers in a position of heightened vulnerability and permanent insecurity. Workers in the sector have been experiencing a steady erosion of wages, benefits, and retirement security; financially-driven consolidation is rapidly undermining employment security through chronic plant closures and production transfers.

An international response (e.g. the IUF Mondelez campaign) would be at the top of the list for working to mitigate the potential job loss caused by this trend. Policy initiatives such as strengthening anti-takeover governmental provisions could also be helpful in preventing unsolicited takeovers by predatory companies such as Kraft Heinz. New member organizing/ existing member education and mobilization in cases where production transfers do occur is also crucial. Environmental criticism and sustainability can also be strategic counterweights to financial short-termism. Environmental concerns influence company investments and product launches (e.g. material recyclability); investment viability can be in part determined by potential short and long-term environmental impacts.

## RETURNS ARE OUTPACING SPENDING...

Percentage of operating cashflow



In 2014, US public companies spent 95% of their net income on dividends and buybacks - up from 2% in 1981

Source: S&P Capital (WSJ) Note: Data are median of S&P 500 companies, as of June 1 each year

## Shifts in consumer consumption patterns

There is a continued shift in consumer consumption patterns, particularly in developed markets, towards natural, organic, healthy eating, which often includes GMO- and antibiotic-free food. This shift is influencing manufacturers' product offerings and leading to acquisitions of companies by transnational companies (TNCs) wishing to expand their product range. Tyson, for example, announced in October 2016 that it was investing an undisclosed amount for a 5 percent stake in Beyond Meat, which makes protein alternatives from sources like soy and peas. Danone has purchased WhiteWave Foods, which manufactures branded plant-based foods and beverages. Nestlé has recently acquired a number of niche companies in the plant-based foods, meal delivery, gourmet coffee and premium pet food categories. Institutions, such as the Los Angeles Unified School District, have also passed measures that require antibiotic- and hormone-free chicken thereby increasing the demand for these types of products in certain markets.

In contrast to developed markets where there is greater product segmentation, in developing markets there are two consumer markets – middle class higher end products and lower priced products where manufacturers' profit is derived from volume based growth.

## Regulatory environment

As the private sector has shown a general inability to police itself, regulations can be very necessary. Regulations most importantly protect worker/consumer health and safety, the environment, public health, etc. An example of increased concern for consumer health is in the European Union where governments are preparing guidelines or taking legislative initiatives for the food industry on reducing sugar and salt in their products.

No \* 1 \*  
**CORN FLAKES**  
750 g



PRIVATE LABEL IS PARTICULARLY DEVELOPED IN EUROPE AND ACCOUNTS FOR \$1 OF EVERY \$3 SPENT IN THE CONSUMER PACKAGED GOODS (CPG) MARKET.

SWITZERLAND HAS THE HIGHEST PRIVATE-LABEL SHARE (IN THE REGION AND AROUND THE WORLD) AT 45%, FOLLOWED CLOSELY BY THE U.K. AND SPAIN AT 41% EACH.

Switzerland 45%

Spain 41%

UK 41%





**There is a continued shift in consumer consumption patterns, particularly in developed markets, towards natural, organic, healthy eating, which often includes GMO- and antibiotic-free food.**

There will be costs borne by food processors to be in compliance with these new regulations. As a result, the industry will seek union support in opposing these regulations. IUF union affiliates must maintain an independent position that may not necessarily be in line with industry objectives.

## Need for transparency

Food consumers are increasingly interested in food transparency. They want to know where their food is sourced from, under what conditions it is produced, and often the impact on the environment. Certification schemes have arisen over the past few decades in an effort to address this trend. While certification schemes can direct consumers towards goods manufactured/sourced under more favourable conditions, there are many instances of food (e.g. chocolate, bananas) despite certification and auditing schemes that are sourced from plantations where workers' rights to freedom of association, collective bargaining and other basic rights are violated. A supply chain approach where production workers mobilize and pressure their employers to ensure appropriate standards exist within the supply chain e.g. the right to freedom of association and also higher purchasing prices for inputs, occupational health and safety worker training and so on, is a better way to boost worker standards on plantations and small farms.

## Growing income inequality

In countries such as the United States, the United Kingdom, Ireland, and Australia, for example, income inequality has grown since the 1970s. Lower income individuals want lower priced products. Food processors are therefore under pressure as retailers, which they supply, face pressure to sell food at a lower price. Additionally, retail buyer power has grown. Downward pressure on prices means downward pressure on labour costs i.e. tougher collective bargaining for IUF affiliates with members in food processing. Being well organized is important to push back against unfavourable company demands during negotiations, etc.

## Niche markets and private brands

Private label brands continue to grow in popularity as retailers use them in part to differentiate themselves to consumers, though the extent of private label use varies by product category and retailer. Europe and North America lead the way in private label. Private label is particularly developed in Europe and accounts for \$1 of every \$3 spent in the consumer packaged goods (CPG) market<sup>1</sup>.

Switzerland has the highest private-label share (in the region and around the world) at 45%, followed closely by the U.K. and Spain at 41% each. The use of private label in North America is less pronounced “with dollar shares of 17.5% in the U.S. and 18.4% in Canada.”<sup>2</sup> Private label products have placed pressure on branded product manufacturers as consumers seek out cheaper products and branded product manufacturers have lost market share to private label products. This has translated to increased pressure on workers/unions who work for manufacturers of branded products (e.g. Unilever, Nestle, Kraft Heinz, etc.).

## Automation and robotization

Robotization and technological change is a continuing trend that affects workers across all IUF sectors, not just food processing. Technology, like financial engineering in the food processing sector, has and will continue to displace workers. But, the fight continues for quality union jobs. In food processing, technology has the ability to reduce employers' labour costs and increase worker safety “if safety, health and work organization factors are built in during [technology] design and development”<sup>3</sup>. Advances in robotics make it possible to automate tasks such as processing poultry and vegetables. We must organize and bargain for job/safety protections and increased workplace standards as the general retreat from regulation have opened a space for employers to weaken or eliminate workplace health and safety protection. IUF affiliates should also seek to bargain over the introduction of new technology and the impacts thereof.

## Changing nature of retail

The changing way that consumers are shopping is impacting not only on the retail food sector, but also its suppliers i.e. food processors. The challenge for food processors is “how to ensure its broad portfolio of brands and products are effectively placed and priced in traditional and emerging retail channels<sup>4</sup>” i.e. Amazon and other online retailers selling food.

In developing markets, product placement in convenience store chains such as 7 Eleven is very important; the retailer buyer power that these convenience store chains have place downward pressure on prices and impact how goods are distributed to those stores.

Shifts in production and distribution will likely accompany the changing retail marketplace in both developed and developing markets thereby encouraging intense downward pressure on both workforce levels but also productivity speed-up.

## Growth in emerging markets

While North American and European markets are largely saturated by companies in the food processing sector, this is not the case in emerging markets.

**“By 2030, E7 countries (China, India, Brazil, Mexico, Russia, Indonesia, Turkey) will overtake the G7 (Canada, France, Germany, Italy, Japan, UK, US) in size and purchasing power...65% of the world's middle class will be living in the Asia Pacific region by 2030. The increasing disposable income in emerging economies will drive demand for manufactured food products.”<sup>5</sup>**

The squeeze on workers will continue in E7, G7, developed markets, and emerging ones as companies seek ever increasing profitability and cash flow to generate shareholder dividends and share buybacks. International TNC strategies and coordination are needed to mitigate the impacts of this behaviour. Support of IUF efforts to achieve recognition with food processing and other TNCs is also crucial as recognition has created more favourable organizing conditions in many instances and has allowed the IUF and its affiliates to negotiate over rights issues as they arise. In many cases, militant struggles by affiliates in emerging market countries have been crucial to the IUF winning recognition and a broad bargaining platform on rights issues for members throughout these companies.

<sup>1</sup> Source: <http://www.nielsen.com/content/dam/nielsen-global/kr/docs/global-report/2014/Nielsen%20Global%20Private%20Label%20Report%20November%202014.pdf> (Accessed November 9, 2017) | <sup>2</sup> Source: Ibid. | <sup>3</sup> Source: <https://www.bls.gov/opub/mlr/1985/08/rpt4full.pdf> (Accessed November 9, 2017) | <sup>4</sup> Source: [http://www.foodbusinessnews.net/articles/news\\_home/Financial-Performance/2017/11/The\\_Kraft\\_Heinz\\_Co\\_challenged.aspx?ID=%7B897CF430-9FA2-4E81-BEBF-88E0988385C2%7D](http://www.foodbusinessnews.net/articles/news_home/Financial-Performance/2017/11/The_Kraft_Heinz_Co_challenged.aspx?ID=%7B897CF430-9FA2-4E81-BEBF-88E0988385C2%7D) (Accessed November 6, 2017) | <sup>5</sup> Source: <https://www.rentokil.com/food-processing/global-trends/> (Accessed November 9, 2017)

**Ultimately, the only way to mitigate many of these impacts is strong union organization. The IUF Secretariat encourages its many affiliated unions with food processing membership to get involved with food processing sector and TNC organizing efforts.**

**For further information, please contact the IUF Secretariat at [iuf@iuf.org](mailto:iuf@iuf.org)**

