

IMPERATIVE ISSUES 2022

IDENTIFYING FOOD INDUSTRY
CHALLENGES



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THE FOOD
INDUSTRY
ASSOCIATION



OliverWyman

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About FMI

As the food Industry association, FMI works with and on behalf of the entire industry to advance a safer, healthier and more efficient consumer food supply chain. FMI brings together a wide range of members across the value chain — from retailers that sell to consumers, to producers that supply food and other products, as well as the wide variety of companies providing critical services — to amplify the collective work of the industry. **www.fmi.org.**

About Oliver Wyman

Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 5,500 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a business of Marsh McLennan [NYSE: MMC]. For more information, **visit www.oliverwyman.com.**

IMPERATIVE ISSUES

Identifying food industry challenges

INTRODUCTION

Six Imperative Issues Impacting the Food Industry



The pace of disruption has accelerated. For an industry, consumer trust is everything, and the industry rose to the challenges of the pandemic and won meal occasions from other sectors.

Looking forward, that trust is threatened by on-going product availability disruptions, labor and workforce challenges, inflationary pressures, which are not transitory, as well as threats to physical and cyber infrastructure. Today, however, disruption on several key issues has converged at an unprecedented speed. The duration of these challenges has immediate as well as longer-term implications. Food retailers, wholesalers, and suppliers of all shapes, sizes, and geographies must address these new challenges together with a renewed sense of purpose and commitment to collaborate to better serve consumers.

It is often difficult to look up from the day-to-day operations of the business and see what's coming in the next few years. This is where FMI adds significant value to its members. Through our Imperative Issues initiative, we identified and prioritized issues that will have the greatest potential to affect the food industry

in the next six to twelve months and over the next twelve to twenty-four months. What we discovered is a hierarchy to the various issues FMI members face in terms of immediate needs, imperative issues, and underlying enablers. There is broad alignment across retailers, wholesalers, and suppliers in the prioritization and urgency of the issues. As part of FMI's evolving operating model, product supplier members participated in the process for the first time. As such, there are nuances between retailers and suppliers in terms of imperative issues priorities, particularly in the context of rising ESG expectations, impacts related to labor shortage and workforce challenges, as well as the role that accelerating technology transformation will have on business models and go-to-market capabilities. We share these findings with you so you can focus on the now with a sense of urgency, while also being able to look up and ahead.

PROCESS

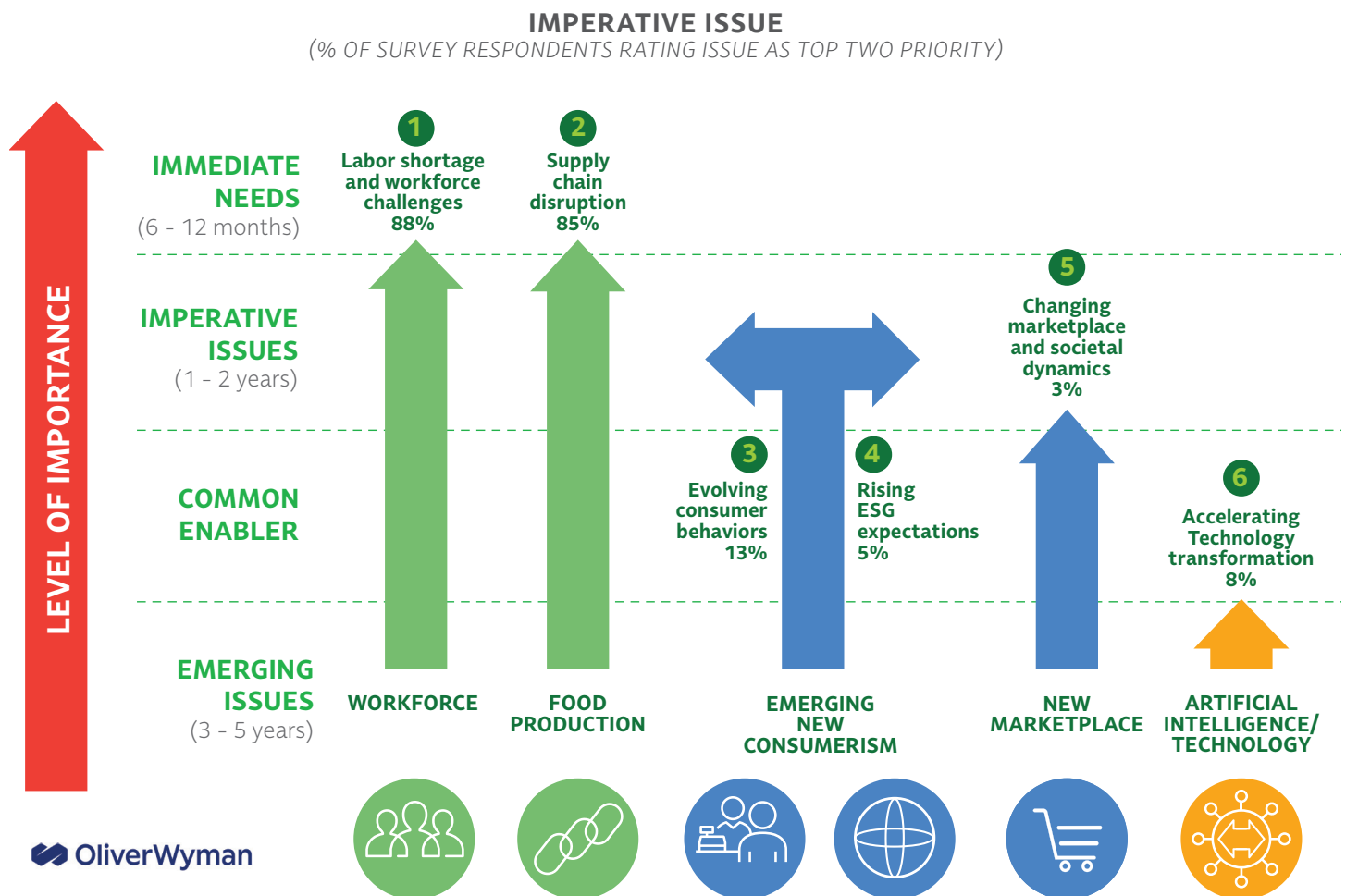
With the help of our strategic partners at Oliver Wyman, we have gathered insights from the FMI Board of Directors through a series of interviews and board surveys with forward-looking executives in the food retail, wholesale, and CPG industry. The high-level Imperative Issues process is shown on the following page.



The major imperative issues were identified through external research of the industry, internal focus groups, and discussions at meetings of the FMI Board and other FMI committees. A survey of FMI members provided insight into the importance of issues to the FMI membership. The survey of board members on FMI’s role provided feedback on where members believe FMI can make the largest impact.

SIX MAJOR ISSUES AREAS

After synthesizing findings from external research and internal focus groups, FMI has identified six major categories of imperative issues: labor shortage and workforce challenges, supply chain disruption, evolving consumer behaviors, rising ESG expectations, changing marketplace and societal dynamics, and accelerating technology transformation.



Some of these issues are immediate in terms of need to resolve, and some are far-reaching and intertwined, with the implications from one area having consequences in the others. Each of these is described in greater detail in the following sections.

LABOR SHORTAGE AND WORKFORCE CHALLENGES

IMPACT OF LABOR SHORTAGE, changing workforce expectations, and industry need to attract and retain talent at every level across the food sector

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 3)

HIGHER URGENCY

RESTORE ACCESS
TO FRONTLINE
AND SKILLED LABOR

53%

“The talent shortage will change how we go to market; the need for frontline workers is critical”



ADAPT TO
FUTURE
WORKPLACE

28%

“Labor and work/life balance are the fundamental issues that are disrupting the whole food industry ecosystem”



ENHANCE INDUSTRY
REPUTATION AND
ATTRACTIVENESS

20%

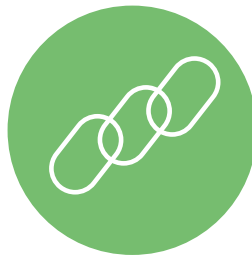
“We need to make the industry more attractive”



SUPPLY CHAIN DISRUPTION

SYSTEMIC END-TO-END CAPACITY, labor, and cost challenges that impact efficiency, resiliency, and business continuity designed to better serve consumers

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 3)

HIGHER URGENCY

**RESTORE
PRODUCT
AVAILABILITY**

93%

“We must strengthen consumer confidence by improving our ability to keep shelves fully stocked”



**EMBED GREATER
RESILIENCE INTO
THE SYSTEM**

10%

“The supply chain lacks resiliency; parts are severely broken”



**CONTINUE TO RAISE
THE BAR ON FOOD AND
PRODUCT SAFETY**

8%

“Food and product safety are foundational to everything we do”



EVOLVING CONSUMER BEHAVIORS

HOW THE INDUSTRY ADDRESSES CONSUMER VALUES, expectations, lifestyles, shopping behaviors, and meal occasion planning focused on convenience and value

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 4)

HIGHER URGENCY

RETAIN MEAL OCCASIONS

63%

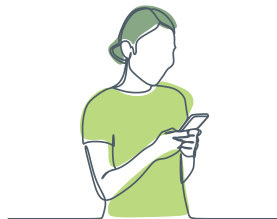
“Elevated at home meal consumption will continue for the foreseeable future”



IMPROVE OMNICHANNEL SHOPPING EXPERIENCES

15%

“The transition to e-commerce is one of the biggest challenges we face”



ADDRESS CONSUMER DEMANDS FOR TRANSPARENCY

15%

“The industry needs to be trusted by consumers”



KEEP UP WITH CONSUMER UNDERSTANDINGS OF HEALTH & WELLNESS

8%

“Consumers are seeking solutions to improve their health and well-being”



RISING ESG EXPECTATIONS

ADDRESS CONSUMER, COMPANY, AND INDUSTRY CONSCIENTIOUSNESS and responsibility on end-to-end environmental, social, and governance expectations

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 5)

HIGHER URGENCY

**REDUCE
FOOD WASTE
AND
ASSOCIATED
SHRINK**

26%

“Food waste is a chronic issue we must solve”



**FIGHT
FOOD
INSECURITY
AND
HUNGER**

26%

“We are in the business of feeding people, no one should go hungry”



**NAVIGATE
VALUES-
BASED
SOCIAL
RESPONSIBILITY**

26%

“The supermarket has become the focal point for societal issues”



**RESPONSIBLY
AND
SUSTAINABLY
STEWARD
ENVIRONMENT**

11%

“We need to leverage that we are a purpose driven industry”



**PROGRESS
TOWARD
DIVERSITY,
EQUITY &
BELONGING
GOALS**

8%

“We need to become more diverse as an industry”



CHANGING MARKETPLACE AND SOCIETAL DYNAMICS

REIMAGINED MARKETPLACE and the new role of the physical store changing society's interaction with the food industry

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 4)

HIGHER URGENCY

**PROTECT
PRO-BUSINESS
POLICIES**

55%

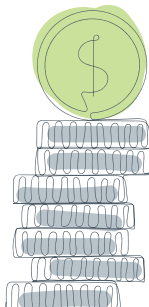
“Inflation, input costs, labor policy wages and e-commerce are challenging how we manage our business”



**IMPROVE
ECONOMICS OF
ECOMMERCE**

23%

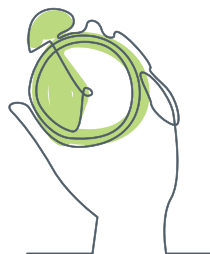
“The cost of doing business is going to get more expensive”



**INCREASE
ORGANIZATIONAL
'CLOCK SPEED' AND
AGILITY**

13%

“The pace is getting faster; are we capable of dealing with it?”



**EXPLORE NEW
REVENUE STREAMS &
PROFIT MODELS**

10%

“Marketplace disruption and uncertainty is creating new pressures that trading partners must address”



ACCELERATING TECHNOLOGY TRANSFORMATION

THE WAYS IN WHICH TECHNOLOGY WILL TRANSFORM the food industry and alter the financial structure, labor requirements and business processes, and new forms of risk management

IMPERATIVE ISSUE



FOCUS (average rating of urgency, score out of 3)

HIGHER URGENCY

**PREVENT
CYBERSECURITY
BREACHES**

63%

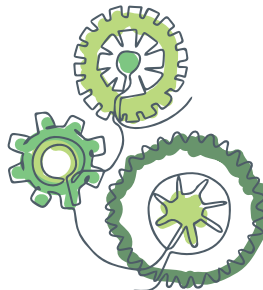
“This issue is huge, and we need to share best practices”



**ACCELERATE
ADOPTION OF
AUTOMATION**

30%

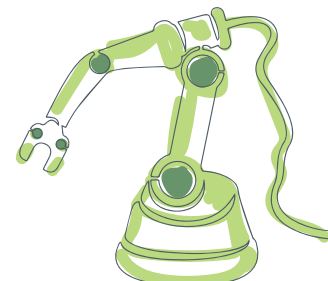
“We need to get more serious about automation as labor is a real problem”



**MAKE FULL
USE OF
AI AND ML**

8%

“The industry is behind the technology curve and machine learning has tremendous potential”



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CONCLUSION

In today's environment, it is difficult to predict the future with any certainty. The current state poses significant challenges that must be addressed with a sense of urgency more than at perhaps any time in the history of the industry.

Restoring supply chain equilibrium and addressing the significant workforce challenges will require breakthrough thinking and a new era of collaboration. The future presents new obstacles, but it also presents opportunities for those who are able to identify those obstacles early on and work toward solutions.

The industry must focus on what is controllable through advocacy, including consumer education and public relations, collaboration with peers and trading partners, and education on best practices. Food retailers and suppliers have identified key areas of focus encompassing a broad range of issues to include restoring access to frontline and skilled labor while addressing the ability to adapt to the future workplace. The longer term, enhancing industry reputation and attractiveness is a strategic opportunity as the food industry competes for talent.

The supply chain requires near-term and long-term focus to restore product availability and to embed greater resilience in the system.

Evolving consumer behaviors highlight the need to retain meal occasions, improving the omnichannel shopping experience, and addressing consumer demands for transparency and trust. Environmental and social issues have risen in importance. There is a strong willingness to reduce food waste and the need to fight food insecurity and hunger. Navigating values-based social responsibility, while responsibly and sustainably stewarding the environment, has now taken on a whole new level of importance.

The changing marketplace will require an overarching need to protect pro-business policies and improve the economics of e-commerce. A common enabler is the acceleration of technology transformation designed

to prevent cybersecurity breaches while accelerating the adoption of automation.

FMI will continue to leverage and refocus our core services in advocacy, collaboration, education, communication, and research that will help you navigate through today's unpredictable marketplace and chart a course into the future.



FMI and Oliver Wyman thank the many of you who supported and engaged in the process to ensure FMI continues to meet your needs and that of the industry moving forward.