



THE NEW FLAVOR

The coronavirus pandemic changed the way people shop for food—and the importance of the once little-known ingredient and flavoring industry.



The problem:

Changing consumer tastes, coupled with the coronavirus pandemic, have dramatically altered how food ingredient companies operate.

Why it matters:

Ingredient and flavor companies are playing a bigger and more influential role in food production.

The solution:

Increase innovation—and the talent behind it—in this growing sector.

This much is clear from the coronavirus pandemic: not all food is distributed equally. Throughout the crisis, supply hasn't been an issue—farmers have lots of chickens, cows, and hogs, as well as fruits and vegetables. The issue has been processing the food and getting them into grocery stores and the hands of consumers at an affordable price.

As headlines this spring showed, many major food-processing facilities were forced to shut down amid too many workers contracting the coronavirus. That pushed shoppers to grab more prepackaged and nonperishable items—things many people in the early pandemic panic were already snatching up in large volumes, particularly from more familiar, traditional brands that gave them a sense of comfort. All of which only underscored the importance of an industry that goes unnoticed by most shoppers: the food ingredient and flavor firms that are part and parcel of any prepared food we buy.

Indeed, this is a sector that keeps growing—and is expected to hit \$72.4 billion globally by 2024. Its initial growth started long before the pandemic, when packaged-food firms looked to them for ingredients like high fructose syrup or cornstarches. Now, however, consumers are starved for more plant-based items, like the Impossible Burger or Beyond Meat. Indeed, meat shortages resulting from the pandemic provide yet another reason—beyond health and sustainability—for even more people to switch to plant-based diets either in the short term or intermittently as part of their regular diets. “People want fewer ingredients in their food because they believe it should be healthier, but they still want it to have the taste they are accustomed to and to taste good,” says Silvia Sigaud, global sector leader for Korn Ferry’s Agribusiness practice. “The plant-based movement requires a lot of rethinking about what ingredients work in terms of texture, taste, and color.”

Other dynamics are also at work for these firms, which include companies such as Ingredion, Givaudan, Tate & Lyle, and Archer Daniels Midland. Consumers are now spending more money on food prepared out of the home than in it, for instance, with sales of prepared foods, premade dinners, and the like surging to upwards of 50% of all food consumed in some countries, like the US. Globalization is also playing a role, with flavors and tastes more international than ever. The result, says Mathys Boeren, a flavor business specialist who has worked for Givaudan, Symrise AG, and Kerry, is that food ingredient companies are responsible “for coming up with flavor combinations to make products like meal kits work better.”

Ultimately, such dynamics are upending how food ingredient companies operate. Navigating the changes successfully requires new and different approaches to culture, innovation, sales, and talent. And that was even before the coronavirus outbreak.



Perhaps the biggest change is that product creation is coming from the consumer, not the corporation. User behavior, to draw an analogy to the tech world, is dictating product development.

As a result, food ingredient companies are working more closely with independent food makers and start-ups, which are much closer to the consumer than large, global conglomerates. Nowhere is that more evident than in the financial results of food ingredient companies. Consumer packaged goods (CPG) firms used to account for upwards of 60% of a food ingredient company's total revenue. Over the last decade, however, the reliance on CPG companies has been steadily declining, now accounting for less than 50% of revenue at the largest food ingredient companies.

Despite a shift in focus to a smaller, far more fragmented customer base, the scale and major growth opportunities that investors seek still reside with major CPG firms. As they struggle to keep stride with this change in the markets, they are increasingly relying on food ingredient companies for innovation, says Sean McBurney, a senior client partner at Korn Ferry and sector leader of the firm's North America Food and Agriculture practice. Each customer requires a unique and different approach to relationship management. "Today, you need a much more solutions- and systems-oriented approach," says McBurney. "It's more of a consultative and value-add sale,

where the solution is generated from being integrated with customers, walking the halls, and being in the lab with the product and applications specialists."

That means sales and account management talent must have a high emotional intelligence quotient, with the influence to create buy-in for new ideas and collaborations. This is a key area of change from the past, when the ingredient companies were more commodity or single-ingredient focused. They also need something else that wasn't in much demand before: digital acumen. "There's a need for digital capability by which to engage with customers and process information," says McBurney, adding that the increased use of digital has become a paramount concern for clients in light of the COVID-19 outbreak.

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Changing the Recipe

Even before the coronavirus pandemic, sustainability, traceability, health and wellness, and other consumer trends were dramatically altering the food ingredient business.



ORIGINAL RECIPE:

NEW RECIPE:

Single-ingredient focus



Multi-ingredient combinations

Client-driven product creation



Consumer-driven product creation

Long development cycles



Shorter development cycles with more product offerings

Siloed operations



More collaboration with independent food makers and start-ups

Sales-driven model



Service-driven total solution model

Technical skills talent focus



Creative and digital skills talent focus



“It takes a high degree of technical know-how to understand how to make a food product at scale that tastes fresh.”

Food ingredient company leaders also need to have a far more innovative mindset, says Tony DeLio, head of strategy and innovation at Ingredion, one of the world's largest food ingredient companies. Consumer tastes are notoriously fickle, creating bigger churn in the lifecycle of a food product. “The development time for new offerings is getting smaller and smaller,” says DeLio, noting that where it used to take two years to go from development to store shelves, now it is between six and nine months. The COVID-19 outbreak has significantly slowed the process, of course, in part because consumer testing has all but come to a halt.

The shrinking development cycle works against large CPG companies, which can't move as fast as start-ups and independent food service firms. But the start-ups and independents don't have specialists with deep enough expertise to put new products together. Food ingredient companies can play to both ends of the spectrum, helping CPG companies innovate faster and independent companies and start-ups develop new products that taste great and are safe, says Tjerk de Ruiter, former CEO of the Dutch food ingredient company Corbion. “It takes a high degree of technical know-how to understand how to make a food product at scale that tastes fresh,” he says.

The growing importance of food ingredient and flavor companies makes them prime acquisition targets for the industry's biggest conglomerates. Think of it as akin to large beer and spirits companies acquiring craft breweries and micro-distilleries. Deals for and between ingredient companies topped the list of food and beverage M&As in 2019, for instance. One of the biggest deals saw DuPont combine its Nutrition and Biosciences unit with International Flavors and Fragrances (IFF) in a roughly \$45 billion merger. Other recent deals include Spain's Iberchem buying Malaysia's Flavor Inn Corporation and China's Duomei, and Givaudan buying US-based Ungerer.

Matthias Heinzl, president of DuPont's Nutrition and Biosciences unit, says merging with IFF combines two complementary businesses and creates "the industry's leading integrated solutions provider." The deal brings IFF's strong flavor and natural taste portfolio and DuPont's natural and plant-based specialty food ingredients together under one roof. Heinzl cites, as an example, how the merger will give the new company all the solutions to build a plant-based burger in-house.

Making these deals pay dividends, however, requires a shift in the talent profile of ingredient companies from product specialists working alone on a single flavor to technicians working with multiple ingredients in collaboration with others in the food production chain. Under the traditional model, for instance, a product specialist was at the top of the, well, food chain, possessing deep expertise in understanding how, for instance, a particular fat can be used as an emulsifier to stabilize processed foods. In the new system, however, there is a greater need for technicians who can marshal a broad range of ingredients to create a flavorful product at scale and in-line with rapidly evolving consumer tastes.

That change has dramatically altered how and where food ingredient companies source talent. Instead of recruiting scientists from the chemical industry, they are now going to culinary schools and restaurants to hire line cooks and chefs. "There's been a trend toward chefs who can lead an army of ingredient specialists to create a dish at industrial scale," says Boeren, "so that when the dish is finished, you can make money on it."



"There's been a trend toward chefs who can lead an army of ingredient specialists to create a dish at scale."

Not unlike pretty much every other industry, the COVID-19 outbreak has severely impacted the food ingredient supply chain, underscoring how the large number of people who handle food can create all kinds of opportunities for contamination of either the food or the people processing it. But the pandemic's impact is compounded by the fact that food ingredient companies were already in the midst of a massive shift in its supply chain when it hit. Changing consumer tastes dictated a supply chain change away from animal-based products and artificial flavors and sweeteners, and toward plant-based eating and natural extracts. Frederika Tielenius Kruythoff, a senior client partner with Korn Ferry's Chemical and Agriculture practice in Europe, the Middle East, and Asia, says the rapid growth of the plant protein category means sourcing and procuring peas, lentils, chickpeas, and other green ingredients on a much bigger scale than ever before.

"This channel wasn't that big or important just five years ago," says Kruythoff. "Now it's huge." And the bigger it gets, the more challenges it poses. Where should these proteins grow? How close to production facilities can they be sourced? Can they be procured at the scale needed? Should they be organic? How can they be brought together and utilized in the production process?

Food ingredient companies were well on their way to figuring out the answers to those questions—including piloting a blockchain-enabled platform to better manage, ship, and trace food trading—when the coronavirus outbreak totally obscured any visibility they had into this new supply chain. For the time being, similar to every other industry, food ingredient companies are working in shifts, with some people in laboratories and others at home. As a result, manufacturing has been limited to focusing on certain products either because they are in demand



or easier to produce. For example, instead of producing confectioneries, they prefer to produce snacks, soups, and broths to be able to have fewer people working in the factory. “The safety and health of our employees while ensuring continued production and delivery of essential products to our customers have been our key priorities during this time,” says DuPont’s Heinzl. “Our employees have been extremely flexible with the peaks we’ve seen in demand while adjusting our processes to keep everyone safe and our plants running.”

And that mindset, experts say, is likely to remain long after the pandemic is gone.

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