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A Seismic Shift in How People Eat

By HANS TAPARIA and PAMELA KOCH NOV. 6, 2015

IT'S easy to make fun of people in big cities for their obsession with gluten, or chia seeds, or cleanses.

But urbanites are not the only ones turning away from the products created by big food companies. Eating habits are changing across the country and food companies are struggling to keep up.

General Mills will drop all artificial colors and flavors from its cereals. Perdue, Tyson and Foster Farm have begun to limit the use of antibiotics in their chicken. Kraft declared it was dropping artificial dyes from its macaroni and cheese. Hershey's will begin to move away from ingredients such as the emulsifier polyglycerol polyricinoleate to "simple and easy-to-understand ingredients" like "fresh milk from local farms, roasted California almonds, cocoa beans and sugar."

Those announcements reflect a new reality: Consumers are walking away from America's most iconic food brands. Big food manufacturers are reacting by cleaning up their ingredient labels, acquiring healthier brands and coming out with a prodigious array of new products. Last year, General Mills purchased the organic pasta maker Annie's Homegrown for $820 million — a price that was over four times the company's revenues, likening it to valuations more often seen in Silicon Valley. The company also introduced more than 200 new products, ranging from Cheerios Protein to Betty Crocker gluten-free cookie mix, to capitalize on the latest consumer fads.

Food companies are moving in the right direction, but it won't be enough to save them. If they are to survive changes in eating habits, they need a fundamental shift in their approach.

The food movement over the past couple of decades has substantially altered consumer behavior and reshaped the competitive landscape. Chains like Sweetgreen, a salad purveyor, are grabbing market share from traditional fast food companies. Brands such as Amy's Kitchen, with its organic products, and Kind bars are taking some of the space on shelves once consumed by Nestlé's Lean Cuisine and Mars.

For the large established food companies, this is having disastrous consequences. Per capita soda sales are down 25 percent since 1998, mostly replaced by water. Orange juice, a drink once seen as an important part of a healthy breakfast, has seen per capita consumption drop 45 percent in the same period. It is now more correctly considered a serious carrier of free sugar, stripped of its natural fibers. Sales of packaged cereals, also heavily sugar-laden, are down over 25 percent since 2000, with yogurt and granola taking their place. Frozen dinner sales are down nearly 12 percent from 2007 to 2013. Sales per outlet at McDonald's have been on a downward spiral for nearly three years, with no end in sight.

To survive, the food industry will need more than its current bag of tricks. There is a consumer shift at play that calls into question the reason packaged foods exist. There was a time when consumers used to walk through every aisle of the grocery store, but today much of their time is being spent in the perimeter of the store with its vast collection of fresh products — raw produce, meats, bakery items and fresh prepared foods. Sales of fresh prepared foods have grown nearly 30 percent since 2009, while sales of center-of-store packaged goods have started to fall. Sales of raw fruits and vegetables are also growing — among children and young adults, per capita consumption of vegetables is up 10 percent over the past five years.

The outlook for the center of the store is so glum that industry insiders have begun to refer to that space as the morgue. For consumers today, packaged goods conjure up the image of foods stripped of their nutrition and loaded with sugar. Also, decades of deceptive marketing, corporate-sponsored research and government lobbying have left large food companies with brands that are fast becoming liabilities. According to one recent survey, 42 percent of millennial consumers, ages 20 to 37, don't trust large food companies, compared with 18 percent of non-millennial consumers who feel that way.

Food companies can't merely tinker. Nor will acquisition-driven strategies prove sufficient, because most acquisitions are too small to shift fortunes quickly. Acquired brands such as Annie's Homegrown, Happy Baby and Honest Tea account for 1 percent or less of their buyers' revenues. Moreover, these brands, along with their missions and culture, tend to get quickly lost in the sales and marketing machine of big food companies. It is easy for them to get orphaned.

For legacy food companies to have any hope of survival, they will have to make bold changes in their core product offerings. Companies will have to drastically cut sugar; process less; go local and organic; use more fruits, vegetables and other whole foods; and develop fresh offerings. General Mills needs to do more than just drop the artificial ingredients from Trix. It needs to drop the sugar substantially, move to 100 percent whole grains, and increase ingredient diversity by expanding to other grains besides corn.

Instead of throwing good money after bad for its lagging frozen products, Nestlé, which is investing in a new $50 million frozen research and development facility, should introduce a range of healthy, fresh prepared meals for deli counters across the country.

McDonalds needs to do more than use antibiotic-free chicken. The back of the house for its 36,000 restaurants currently looks like a mini-factory serving fried frozen patties and french fries. It needs to look more like a kitchen serving freshly prepared meals with locally sourced vegetables and grains — and it still needs to taste great and be affordable.

These changes would require a complete overhaul of their supply chains, major organizational restructuring and billions of dollars of investment, but these corporations have the resources. It may be their last chance.

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