



Functional Ingredients & Connected Foods in the American Market



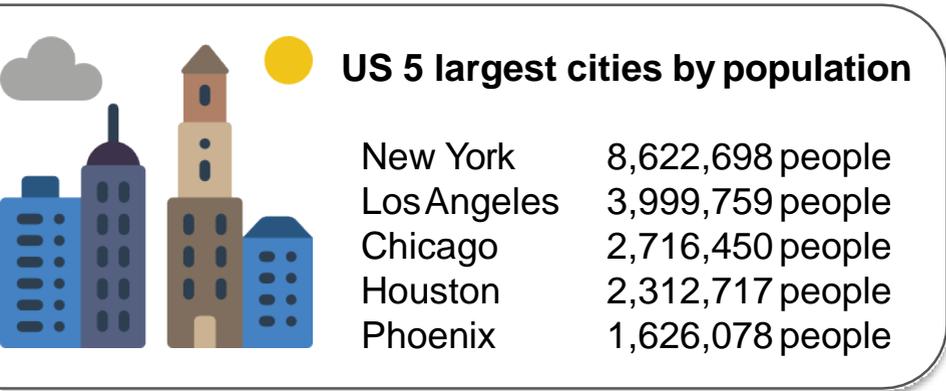
Index

- 1) Market Overview
 - 1) General Data
 - 2) Economic Data
 - 3) Demographic Changes
 - 4) Food and Beverage Industry USA 1.5)
Opportunities in the American Market
- 2) Trade Relations –USA & EU
 - 2.1) General Trade Data
 - 2.2) US- EU Agri-food Trade
 - 2.3) Commercial Agreements with EU
- 3) Exporting to the USA
 - 1) Considerations prior to entering the American Market
 - 3.2) Customs Regulations and taxes
 - 3) Certifications
 - 4) Labelling Regulations
 - 5) Strategies for Market Entry
 - 3.6) Resources
- 4) Consumer Analysis: Health-related trends
 - 1) Overview
 - 2) Functional Foods in the US
 - 4.3) Healthy Snacking
 - 4.4) Plant-based Protein
- 5) Trend Analysis: Connected Foods
 - 5.1) Overview
 - 2) Connected Foods supporting Sustainability
 - 3) Connected Foods and the Healthy Consumer 5.4)
Connected Foods and the Connected Consumer

1. Market Overview

1.1 General data

Covering a land area of over 9,572,900 sq km, the United States of America (US) is the fourth largest country in the world. The US currently has over 327 million people, making it the third largest country by population (US Census 2018). Over 80% of this population lives in an urban environment, with the largest cities being New York on the east coast (8.6 million) and Los Angeles on the west coast (4.0 million).



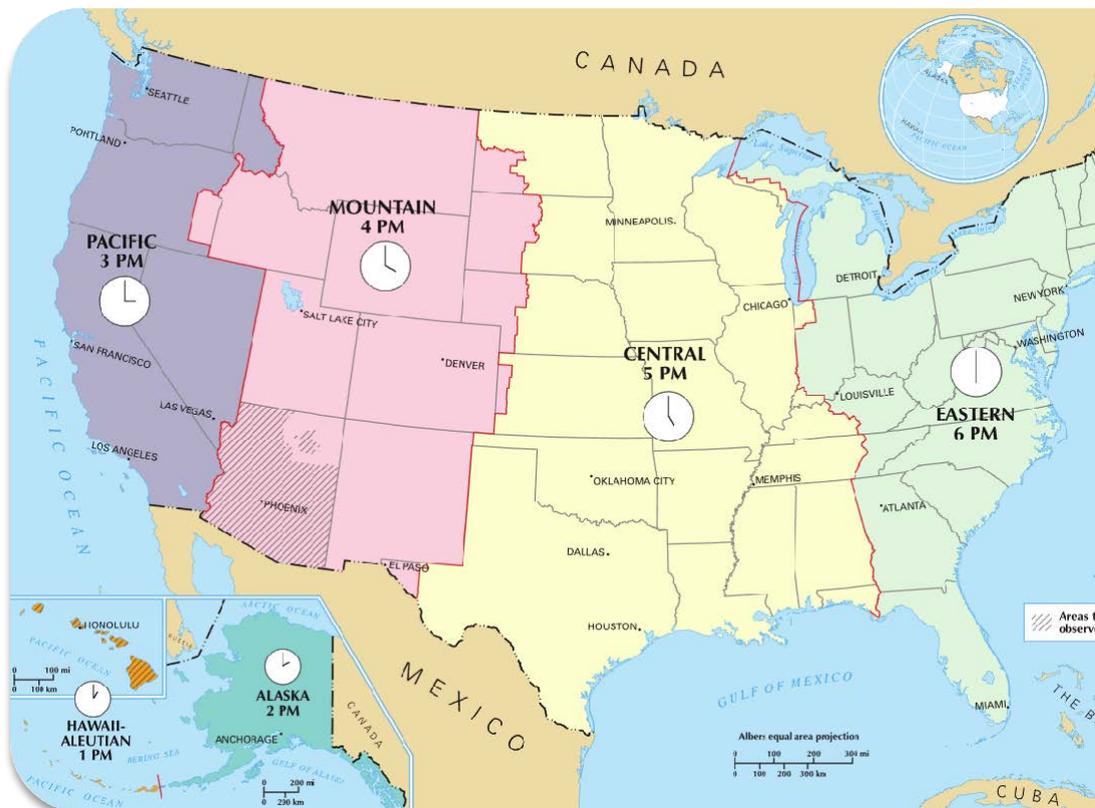
The US is a federation of fifty states, forty-eight of which are on the mainland; the other two being Alaska, to the north-west of Canada, and Hawaii located in the Pacific Ocean. Covering nine different time zones (with four across the lower forty-eight states) and a highly diverse national geography, there are many factors to

consider when looking at doing business in the US. Given the high degree of regionality within the country, business planning and approaches should focus on a regional, state, or even city level approaches.

82.3%

Urban population in the US

Source: US Census 2018

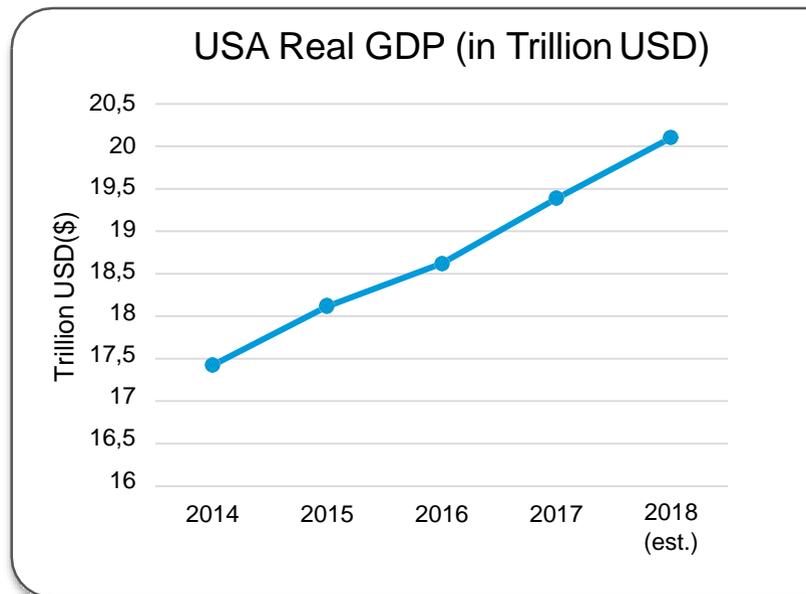


1.2 Economic Data

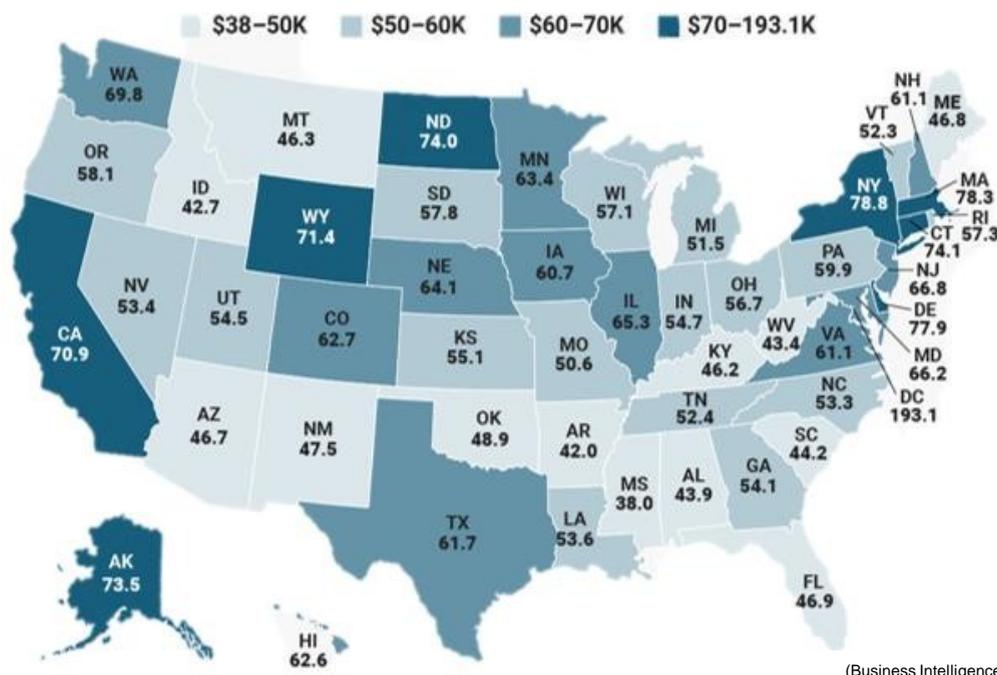
Despite facing numerous domestic challenges along with a rapidly transforming global landscape, the US economy is still the largest and most important in the world, representing 20% of total global output. In 2017, the Real GDP of the US was 19.39 trillion USD. (World Bank)

In 2017, US per capita GDP was \$59,531 USD, a number which has consistently been rising since 2009. This places the US ahead of the EU average (\$41,119 USD), and alongside countries such as Ireland (\$68,711 USD), Qatar (\$61,025 USD), Singapore (\$57,713 USD), Denmark (\$56,631 USD).

It is important to note that due to the size of the country, there is a great deal of disparity from state to state, which is something that should be considered when exploring this market. As shown in the map, California in the west and several states in the North-East, all have strong GDPs per capita along with substantial populations. Several states showing strong GDP per capita (e.g. Wyoming, North Dakota, Nebraska) have relatively small populations when compared to the rest of the country.



GDP per capita by US state (Q4 2017)



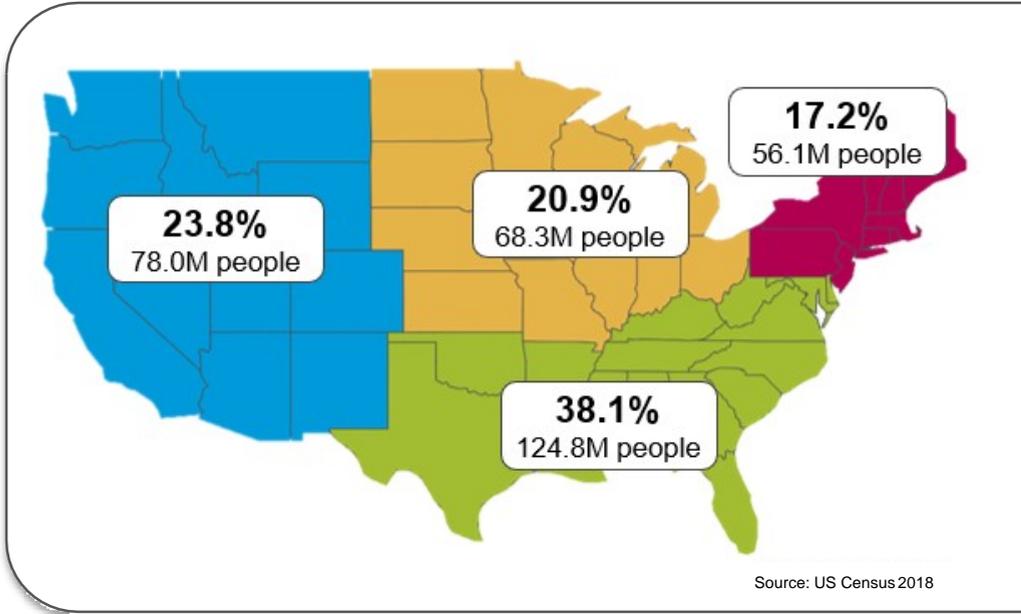
In 2017, the US exported a total of 1.55 trillion USD of goods and services. While the service sector accounts for most of its output, the American manufacturing base is strong, representing about 15% of the nation's output. The bulk of this manufacturing is seen in "high value" industries (automotive, aerospace, machinery, etc.), with only 2% of total output coming from the agri-food sector. In 2017, US total imports totaled 2.3 trillion USD, with 80% of these imports being goods. (Focus Economics)

1.3 Demographic Changes

As of 2018, the US had the third largest population in the world with over 327 million people. Given the size of the country, this population is spread out quite widely across the nation.

There are two dominant age-groups which tend to be the focus for those planning US market actions. Millennials (those born 1981 through 1994) numbered 71 million in 2016 and are rapidly

approaching the Baby Boomer generation (born early 1940s through early 1960s) who numbered 74 million in population in 2016. In fact, Millennials are projected to surpass them as the nation's largest living adult generation in 2019. (PEW). Despite this large Millennial population, the US has not seen any signs of a "baby boom" from them, as they appear to be waiting longer to have children than previous generations. According to experts, when the Millennial generation does begin to have children, the numbers are not expected to surge as much in previous generations. (Forbes)



Fertility Rate:

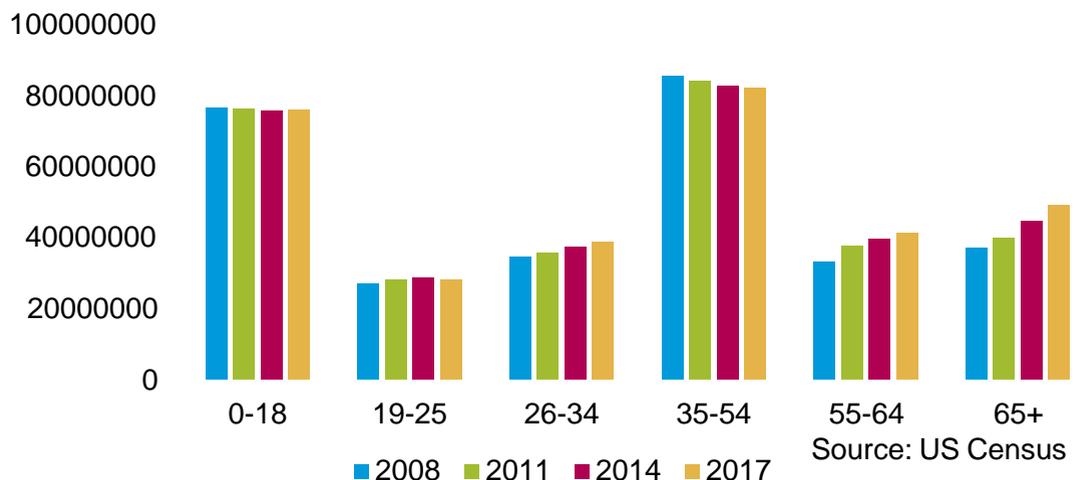
1.8

births per woman

Source: UN 2016

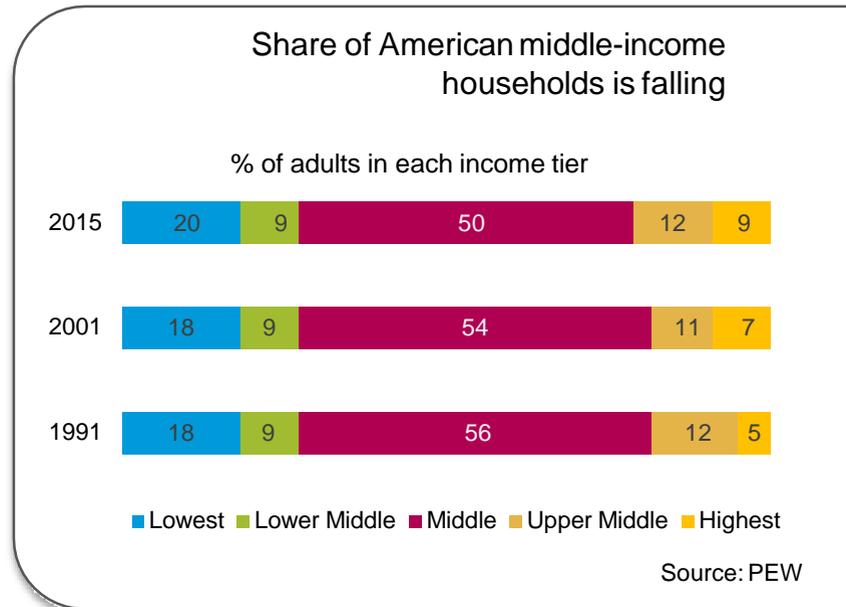


US Population by Age Group



Once the dominant socio-economic class in the US, the middle class has fallen both in prevalence and status in recent years. In 2015, about 50% of US households were considered middle class, and those in this group earned about 43% of the national aggregate income. In comparison to previous years, these middle-class households have less money to spend on household necessities – which can be seen in the rise of dollar stores, convenience stores, warehouse clubs and off-price stores, across the US. (PEW)

Another demographic shift which is on the horizon is seen in the racial mix of the country. It is predicted that in 2050, Caucasian Americans will no longer constitute the majority of the country. This change will be driven primarily through increasing immigration, with immigrants and their children expected to make up 88% of population growth through 2050. Currently Asian Americans make up 6% of the total population, however they are expected to become the most dominant foreign-born ethnic group in the country by 2055. (PEW)



Many retailers are attempting to engage with these different populations with targeted merchandise and marketing, as well as packaging/signage in different languages. In this area, experts indicate that many niches exist for smaller specialty businesses. (PEW)

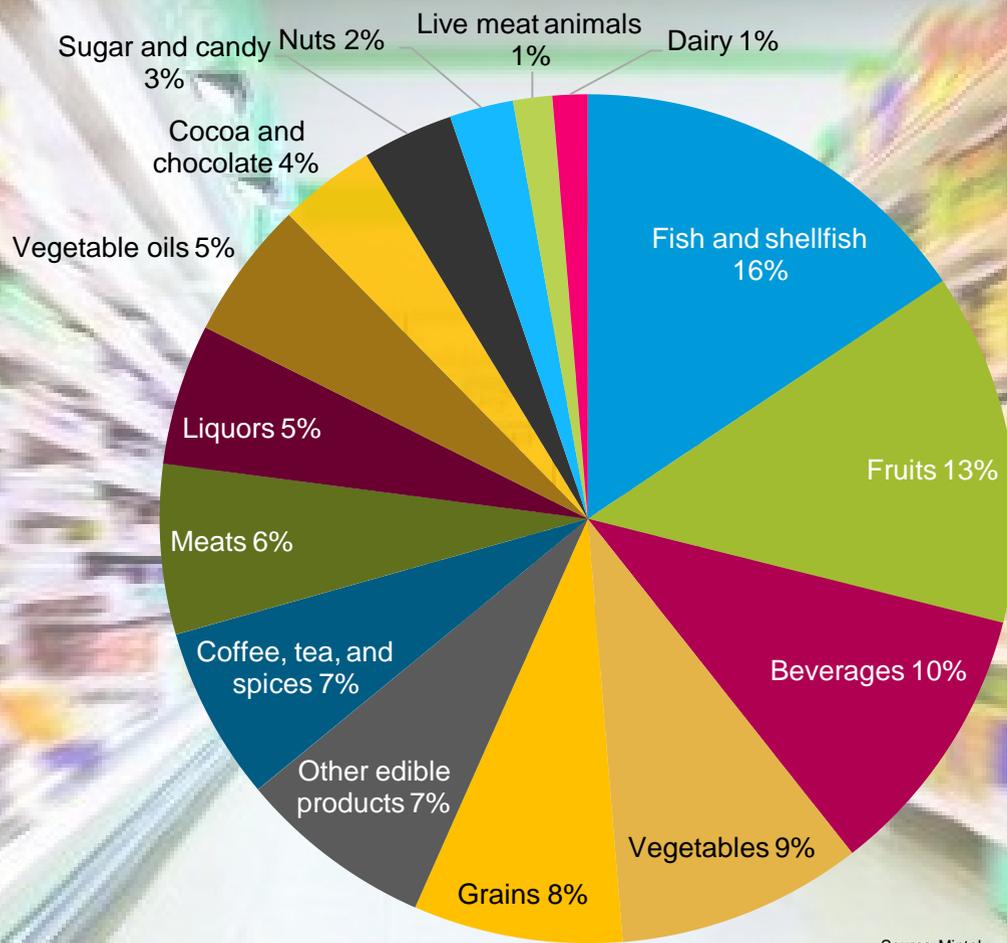
1.4. Food and Beverage Industry USA

The US food and beverage industry is one of the countries strong employers with a total of 1.46 million employed in 2012 (13% of US manufacturing workers). This industry is spread out across the country with presence to some degree in all regions and states and is widely distributed across numerous production sectors.

Only two percent of the country's total exports are from the agri-food sector, however despite that, the country is a net exporter of food and the largest agricultural exporting country in the world.



US Food Imports – Top Categories (2017)



1.5 Opportunities in the American Market

Despite being the world's most dominant agrifood exporter, there is a great demand for international products in the US. In 2017, US total imports (all goods and services) totaled 2.3 trillion USD. More than 80% of total imports brought to the United States from abroad were goods, with about 5% of these goods coming from the food and beverage category. These imports were split widely across different categories, with the top food imports being Fish and Shellfish, Fruits, Beverages, Vegetables, and Grains, as is highlighted above.

There is certain potential for international products in the country, with opportunities existing in many segments and regional markets. With the strength of the "minority" populations in the country, most consumers are accustomed to internationally inspired foods and are open to trying new products; thus, there is a great deal of product innovation present.

Manufacturers who are able to adapt to unique niche opportunities may find success in the US. As a leader in innovative food products and the market which drives many world consumer trends, it is important for companies to stay aware of what is occurring in the American marketplace to remain relevant to both the American consumer and to identify potential future trends for other global markets.

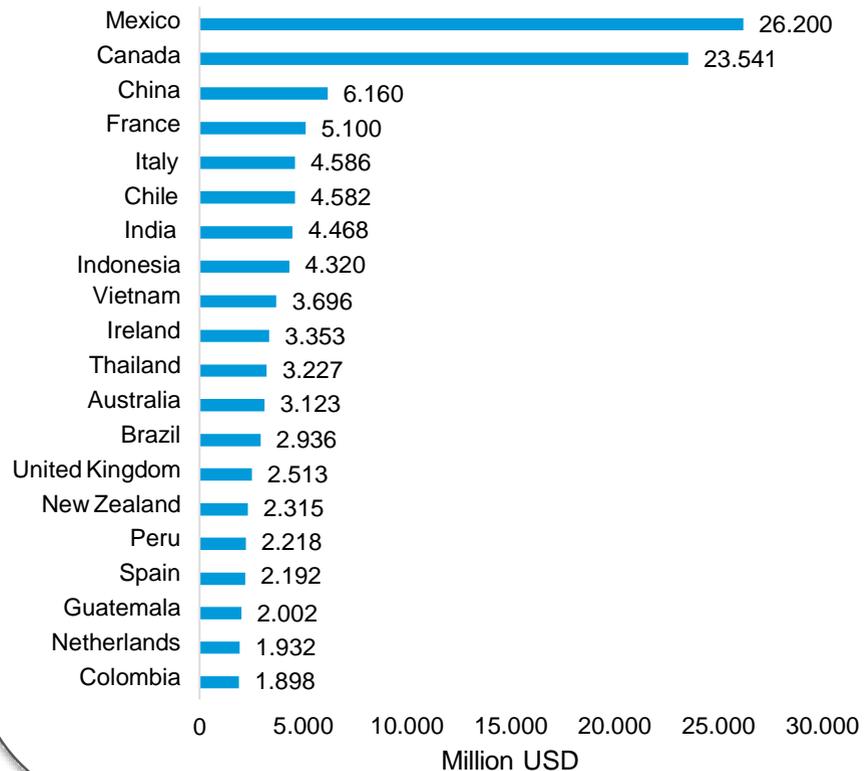
2. Trade Relations – USA & EU

1. General Trade Data

In 2017, the United States was the largest global importer of goods with 18% of total world imports. The most important trade partners of the U.S. are Canada, Mexico, and China who accounted for more than 45% of U.S. international trade in 2017, however combined EU countries represented 18.46% of total US imports/exports. When considering only imports, the EU holds the second spot (with 18.56%) behind China (21.58%) for total goods imported into the US. These US imports from the EU totaled \$416 billion USD in 2016.

In the agrifood sector, the dominance of the trade relationship with Mexico, Canada and China remain, with France and Italy also ranking highly.

Top 20 Countries exporting to US
Food products (2017)

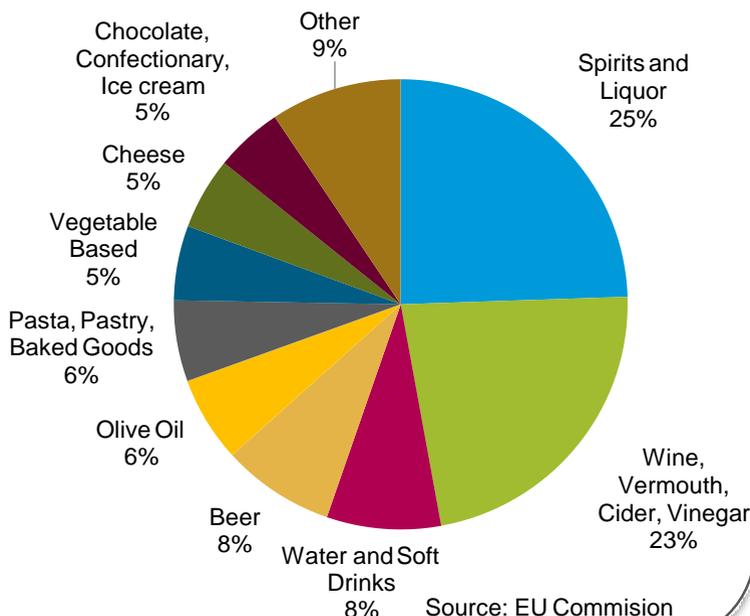


Source: EU Commission

2. US- EU Agri-food Trade

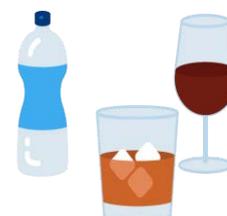
The US is one of the EU's largest trading partners, as the primary recipient of EU exports of goods in 2017 and the second largest provider of EU imports.

EU Processed
Agri-food exports to USA 2017



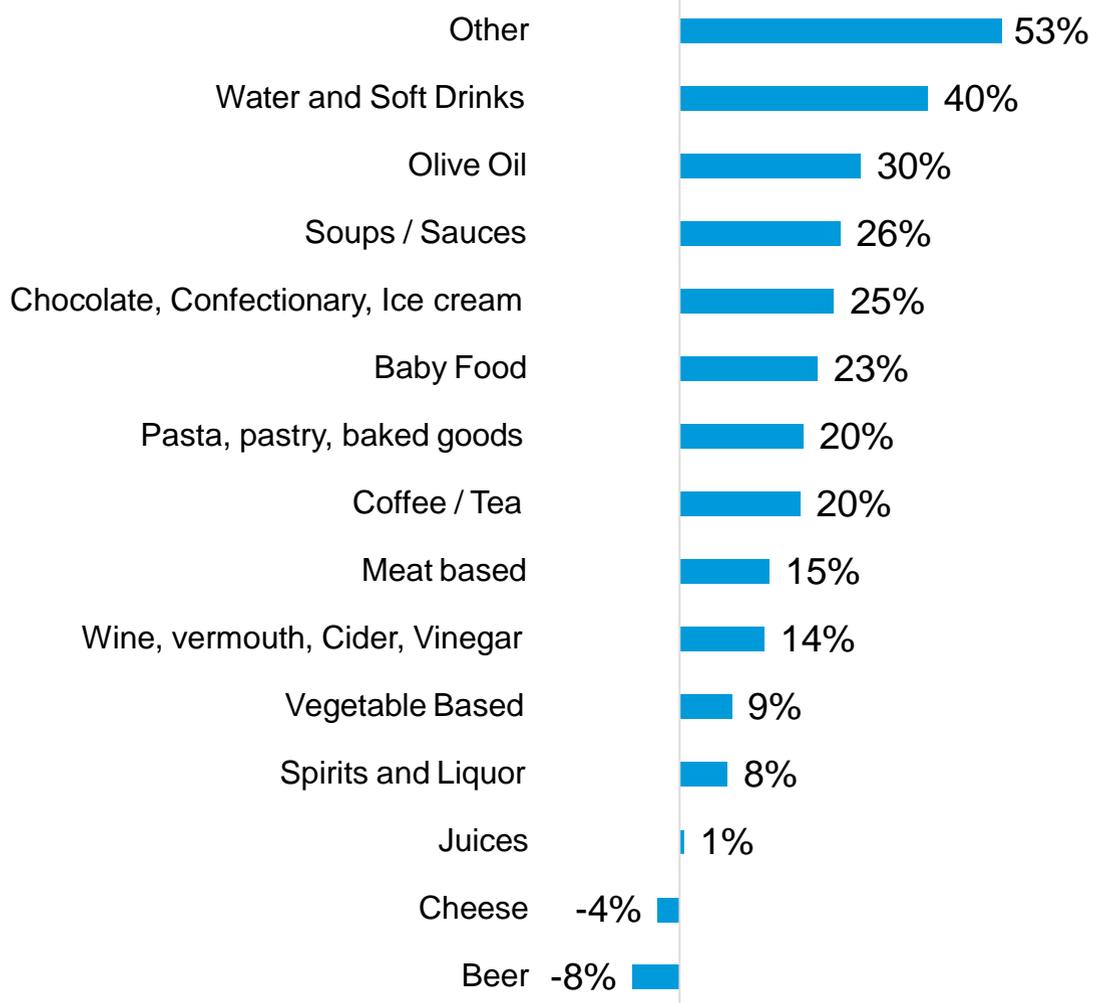
Source: EU Commission

Imports of agricultural products (including agri-foods) from the EU to US in 2016 totaled \$20.6 billion USD, including leading categories such as: wine and beer (\$5.5 billion USD), snack foods (\$1.5 billion), vegetable oils (\$1.3 billion), and processed fruits and vegetables (\$1.1 billion). (USTR)



Beverages represent 48.6% of EU exports to the US

Export Category Growth (among top categories) 2015-2017



Source: EU Commission

Food exports from the EU to the US have largely seen positive growth in recent years, with almost all categories increasing in export value from 2015-2017.

2.3 Commercial Agreements with the EU

The diplomatic relationship between the European Union (EU) and the USA was formalized with the Transatlantic Declaration in 1990 and the New Transatlantic Agenda (NTA) in 1995. It was further strengthened during the following years through new treaties and initiatives that boosted the transatlantic cooperation. The areas for joint action between the EU and USA include the commitment to promote development, to address global challenges and to contribute to the liberalization and expansion of world trade (ECCP).

As a consequence of these efforts, the EU-USA bilateral trade relationship is the most integrated economic relationship in the world.



According to the European Commission:

- Total US investment in the EU is three times higher than in all of Asia.
- EU investment in the US is around eight times the amount of EU investment in India and China together.
- EU and US investments are the real driver of the transatlantic relationship, contributing to growth and jobs on both sides of the Atlantic. It is estimated that a third of the trade across the Atlantic actually consists of intra-company transfers.
- The transatlantic relationship also defines the shape of the global economy as a whole. Either the EU or the US is the largest trade and investment partner for almost all other countries in the global economy.
- The EU and the US economies account together for about half the entire world GDP and for nearly a third of world trade flows

Recognizing the potential for a broader trade agreement for both sides, the EU and the US launched negotiations on the Transatlantic Trade and Investment Partnership (TTIP) at the beginning of 2013. This idea of this agreement was to align EU and US standards and regulations, and remove tariffs and red-tape on trade and investment.

Following 15 rounds of talks, negotiations were stopped without conclusion at the end of 2016, following the change of Administration in Washington. The logic for developing this stronger transatlantic trade and investment relationship remains compelling, however presently it is difficult to say when new rounds of negotiations might begin.



3. Exporting to the USA

3.1 Considerations prior to entering the American market

The American opportunity is a unique opportunity for food and beverage brands due to its size, growth trends, and potentially attractive economics. It is important that any company entering into this marketplace takes the time to understand the difficulties and costs of doing business in the US and the time and investment needed to gain marketshare. (Emerton)

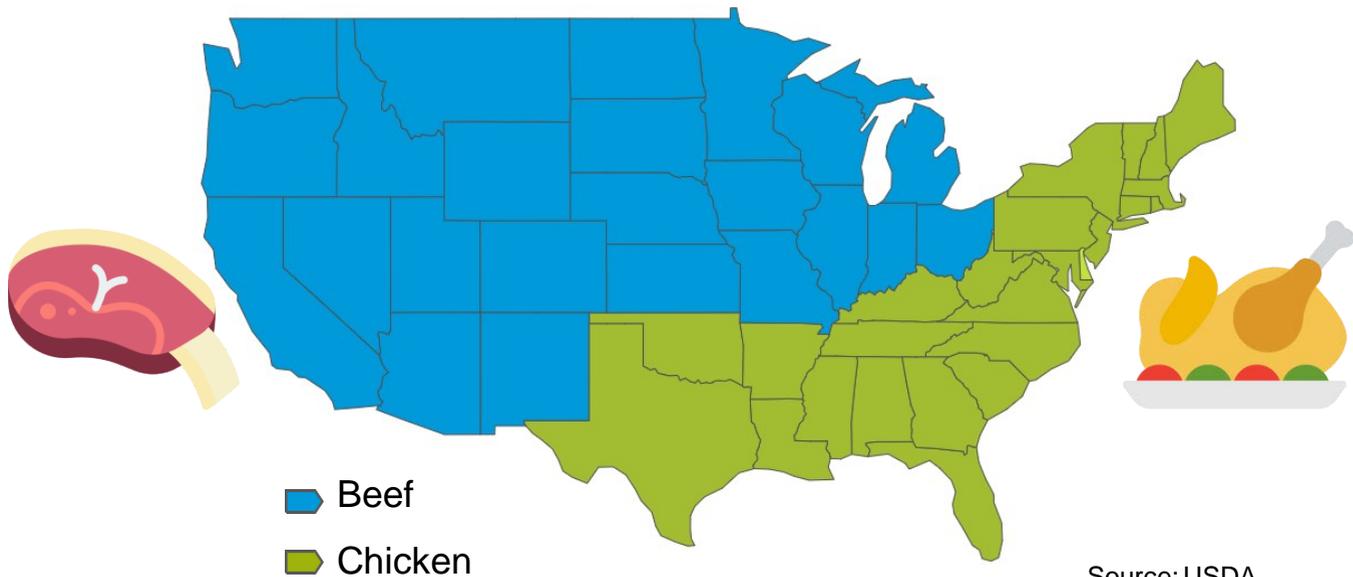
The US market can be particularly appealing to EU companies due to:

- Higher GDP and disposable income per capita than most European countries and developing economies such as China
- More familiar language and culture
- Higher profitability for manufacturers
- Higher prices on average than in Europe

However new brands entering the marketplace must compete against established brands, which is a daunting task in the US. Increasing brand and product awareness is a key step for any company from the very beginning.

Gaining a solid understanding of your target consumer within the American marketplace is a crucial first step to entering the market. While it may seem obvious, it is important to realize that American consumers do not behave in the same manner as European consumers and furthermore vary greatly by region. What may have been a successful product in Europe, will not necessary succeed in all American regionalmarkets.

Most Consumed Meat by State (lbs. per capita)



Source: USDA

Developing trade can be a long process, as finding and working with the ideal distribution partner takes time. With the vast geography of the US, most distribution occurs on a local or regional level, and there are few national opportunities. This increases the time and contacts necessary to begin business in the country but is a step which must be taken.

Given the potential of the US market, it is a target for many national and international brands, meaning that distributors and retailers are hesitant to take risks on products which have not yet been proven. New products must fit their criteria from the beginning and have a very short chance to “prove themselves” on the shelf. When launching in the market, it is important that the necessary resources to support new products in the market (e.g. marketing materials/campaigns) are ready to go as soon as distribution is achieved.

“The failure rate of innovation in Food & Beverage is 75-90%. This means that there are spots that open up on shelves but also that success has to come quickly in order to stay on the shelves.

If we see a product that is not moving quickly enough, we give a 90-day notice to increase the turn rate before being delisted.”

*-US National Food Distributor
(Emerton)*

3.2 Customs Regulations and taxes

Prior to attempting to import into the US, it is advisable to contact and consult with a Customs Broker or directly with the US Custom and Border Protection agency (CBP), whose import specialists may advise on a case by case basis. As the process is very extensive, with a great deal of detail, and one misstep can result in the seizure of goods; the CBP typically recommends hiring a customers broker.

The first step in importing to the US is the registration of the foreign manufacturer and/or distributor with the US Food and Drug Administration (FDA). This is followed by the filing of Prior Notice with the CBP, which may lead to requests for specific permits, health certifications, etc., depending on the country of origin and the ingredients in the product (those containing meat, egg, milk, poultry, animal origin products are typically more difficult to import). Any goods which arrive to a US port of entry without these two requirements will not be released into the US by the CBP.

The US Department of Agriculture (USDA) and FDA determine admissibility of all food products imported into the country, and if the product is from a wildlife source (e.g. seafood), the US Fish & Wildlife Service are also involved.

Upon proper arrival to a port of entry, goods may be held while these agencies take samples and review, prior to directing the CBP how to proceed. Any discrepancies or irregularities in the shipment and paperwork at this stage can result in goods being denied entry.

Alcohol follows a slightly different protocol, as it is overseen by yet another agency, the Alcohol and Tobacco Tax and Trade Bureau (TTB). In order to import distilled spirits, wines or malt beverages, businesses must first apply for an import permit from the TTB. Depending on which state the shipment is for, a different set of protocols and requirements are necessary, which are in turn enforced by the CBP. Other agencies, such as the FDA, may be involved in the review of each shipment.

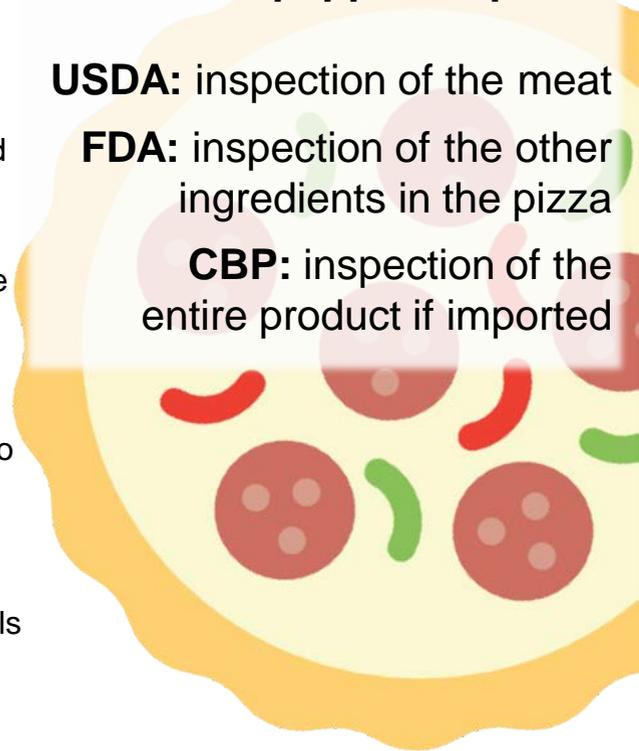
Trade tariffs vary widely by product category and are detailed in the Harmonized Tariff schedule (<https://hts.usitc.gov/current>). This document details the trade duty for all imports as well as any additional duties which may apply. As all states have differing trade duties, it is important to review this information prior to choosing a shipping destination within the US. At the point of entry CBP will also collect any additional tax owing, such as the Federal Excise Tax for all alcoholic beverages.

Example of Federal Regulation for a pepperoni pizza:

USDA: inspection of the meat

FDA: inspection of the other ingredients in the pizza

CBP: inspection of the entire product if imported



In addition to the duties and taxes collected at the port of entry, user fees (Merchandise Processing Fees) will also be charged depending on which port of entry and which shipping method is used. For any shipments by sea-freight, a further Harbour maintenance Fee will also be applied to any shipment.

State Sales Tax

Each state in the US sets its own sales tax, which range from 0% to 7.25%, and can grow further with local/regional taxes added as well. The CBP does not collect the state sales tax at the point of entry, however they do share data with state officials, so it is important to be aware of financial obligations when importing into the country.

3.3 - Certifications

For some products, authorities require compliance with specific regulations related to certain certification claims or specialty claims. The three dominant claim categories defined by statute or FDA regulation are health claims, nutrient content claims, and structure/function claims. Depending on exactly how the product is positioned, these claims may imply additional reviews which can take a great deal of time.

Health claims relate to any product that relates a specific substance (food, ingredient, component) to a disease or health related condition, and are regulated by the FDA. Approval must be gained prior to use with any product containing specific health claims. Health claims are considered the most difficult type of claims to list with a product, and require significant evidence (typically through clinic trials) to prove a product's effect on a specific condition or disease.

Nutrient claims include products which use terms such as free, high, and low, or which compare the level of a nutrient in a food to that of another food, using terms such as more, reduced, and lite. The Nutrition Labeling and Education Act of 1990 (NLEA) allows such claims provided they are authorized by the FDA. Generally factual statements are largely permitted, such as "100mg of sodium", however by adding comparative wording, such as "only 100mg of sodium", the product would have to be reviewed alongside the guidelines for low sodium amounts in foods.

Functional health claims are regulated by the Dietary Supplement Health and Education Act of 1994 (DSHEA). True functional claims which describe an overall effect a product might have, not in reference to a specific disease, may be exempt from FDA regulation. It is important to review this carefully, as the difference between functional claims and health claims is very slight.

For all such health related claims, it is crucial to review products alongside current legislation to ensure that labelling and positioning is in line with FDA standards.

Organic products

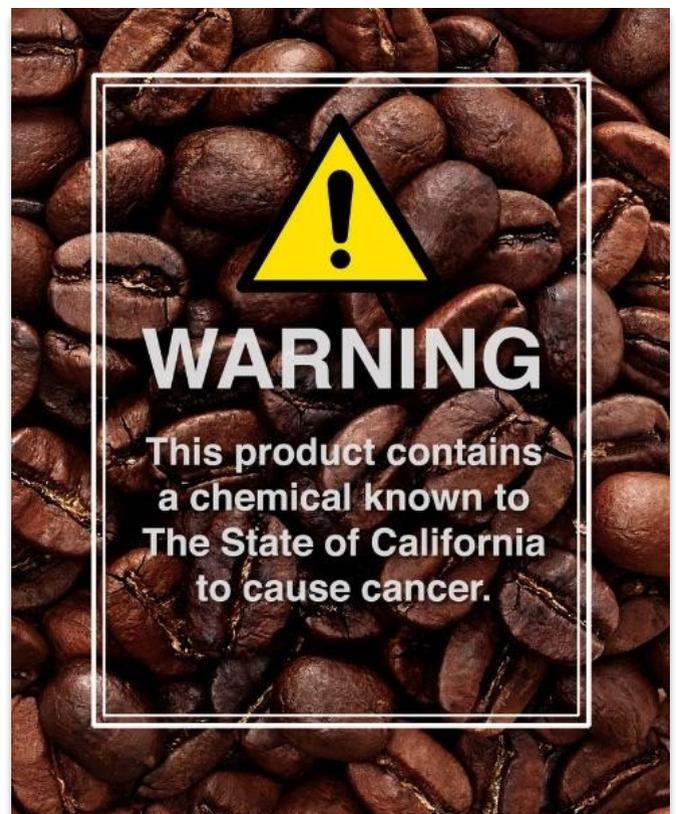
The FDA is not responsible for overseeing organic labelling in food and beverage, instead this is overseen by the National Organic Program (NOP) a framework which is in turn governed and enforced by the USDA.

The U.S. has an equivalence arrangement with the EU, meaning that provided the terms of the arrangement are met, organic operations certified to the USDA organic or EU organic standards may be labeled and sold as organic in both countries. The only exceptions for EU products in the US are agricultural products from animals treated with antibiotics, and any aquatic animal. (AMS-USDA)

As consumer product regulations can be defined at all three different levels of government, by separate institutions, they can occasionally be contradictory. As such, a thorough review prior to developing products, creating labels, and exporting, are necessary steps before headlining into any US regional or local market.

3.4 – Labelling Regulations

The Food and Drug Administration (FDA) is responsible for assuring that foods sold in the United States are safe, wholesome and properly labeled, which applies to both domestic and foreign food products. To import in to the US, consumer food products must meet the same requirements as domestically produced food items. Labelling of products is governed by The Federal Food, Drug, and Cosmetic Act (FD&C Act) and the Fair Packaging and Labeling Act, as well as the Nutrition Labeling and Education Act (NLEA) which amends earlier laws regarding nutrition information, health information and claims. The Federal Alcohol Administration Act sets the standards for labeling and advertising of wine, distilled spirits and malt beverages.



One example of state specific guidelines is the **California Safe Drinking Water and Toxic Enforcement Act of 1986**, better known as **Proposition 65**, which is enforced by civil lawsuits but not by any government agency.

The act states that any product known to contain a hazardous chemical (based upon a list maintained by the state) must declare it to consumers, in particular that those which can cause cancer, birth defects, or other reproductive harm.

Given the ever expanding nature of the hazardous chemical list, this act has led to a number of unexpected court-cases with outcomes such as coffee products having to carry a cancer warning (due Acrylamide, a naturally occurring chemical in coffee, being deemed hazardous).

US food & beverage labelling rules are complex, and many products possess unique characteristics which do not fall under specifically defined labelling categories. It is important to review these thoroughly and request expert opinion for any uncertainties to avoid having products rejected upon entry. There are many peculiarities which may vary by state for specific products. As a general overview, food packaging in the US typically must contain:

- a statement of identity (describing the product is)
- net weight or volume of product must be declared in both metric (grams, kilograms, milliliters, liters) and U.S. Customary System (ounces, pounds, fluid ounces)
- labels must include the country of origin (necessary even if a local distribution firm is also listed on the label)
- all required label statements must appear in English (can also include a second language provided all statements are equally translated)
- nutritional information (there are strict guidelines for the appearance and structure of this section)
- Ingredients list (in order of predominance of weight- from the heaviest to the lightest ingredient, this also includes identifying any allergens)

Nutrition Facts

8 servings per container	
Serving size	2/3 cup (55g)
Amount per serving	
Calories	230
% Daily Value*	
Total Fat 8g	10%
Saturated Fat 1g	5%
<i>Trans Fat</i> 0g	
Cholesterol 0mg	0%
Sodium 160mg	7%
Total Carbohydrate 37g	13%
Dietary Fiber 4g	14%
Total Sugars 12g	
Includes 10g Added Sugars	20%
Protein 3g	
Vitamin D 2mcg	10%
Calcium 260mg	20%
Iron 8mg	45%
Potassium 235mg	6%

* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.

Example of
US nutrition labelling format

3.5 Strategies for Market Entry

Prior to entering the US Market, it is important that companies do their research to identify true market opportunities for their products. The US should not be regarded as one single market, as each region/state presents a diverse and unique set of demographics, each with varying needs and demands.

The first step in building a market entry strategy is to define your target customer and understand how your product will meet their needs in a competitive manner through extensive market research. With this information in hand, the next step is to develop an export marketing strategy. While there are endless ways to develop such a strategy, one method is the 4-P approach for examining the elements of a marketing mix:

- **Product:** how does your product stand out? Can your product in its present form be imported into the US? What is necessary for the labelling/to have it compete in the US supermarket?

- **Price:** What are customers willing to pay in your identified target? What pricing strategy is in place based on local competition and your launch plan in the market?
- **Place:** How will you get your product in the hands of consumers? What types of stores will be targeted (supermarkets, warehouse stores, specialty shops) and how will you get this product placed there (directly, through distributors, etc.)?
- **Promotion:** How will you market this product to the American consumer –(e.g. sampling actions, media, online promotion, etc.)?

To find buyers and distributors, there are numerous specialty fairs targeted to different product segments which can be attended by brands. There is a great deal of competition for space on the US retail shelves, so companies must be prepared to act fast and efficiently in response to any offers.

Exporters may only have once chance to make a good impression, so it is crucial to use this opportunity well. Often the first request from distributors/buyers will include: Pricing, technical specifications of the product, quality and safety certifications, and photos of the product. Exporting companies should have their website available in English, with clear links to the sales contacts responsible for the US market. When US importers request samples of the product, companies should be capable of fulfilling this request in a timely and efficient manner to prove their ability to deliver with future full product shipments.



The Fancy Food Show is an example of one of the many food industry fairs which occur annually in the US. These events represent a great opportunity for food brands to meet with potential distributors/importers, and to develop interest/sales in the US market.

3.6 Resources

United States Government
 US Department of State
 US Food and Drug Administration
 US Customs & Border Patrol
 US Tax and Trade Bureau
 National Organic Program
 American Association of Importers and Exporters
 Internal Revenue Service (IRS)
 US Census Bureau

www.usa.gov

www.state.gov

www.fda.gov

www.cbp.gov

www.ttb.gov

<https://www.ams.usda.gov/about-ams>

www.aaei.org

www.irs.gov

www.census.gov

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