

FOOD & BEVERAGE

Navigating the Sea of Disruption in 2023 & Beyond





Table of Contents

Introduction	3
Understanding the Waves of Change	4
Weathering the Tides of Change with Data	7
Common Challenges Capsizing Growth	9
Steering Your Organization Toward Growth	11
Conclusion	12

Introduction

By 2030, the global population is projected to reach 8.5 B¹. Undoubtedly, this will add pressure on the food and beverage industry to meet that demand, but it isn't the only challenge they face.

Food and beverage companies must also grapple with shifting consumer behaviors, tighter government regulations, shrinking margins, new technologies, and addressing the skills-gap shortage. Yet, most are not prepared to deal with these new realities.

As the tide of change forces food processors and manufacturers to rethink their business strategies, they must adopt a data-driven culture to remain competitive in today's digital economy. This starts by connecting all systems to create a single source of truth.

Leveraging an ERP platform such as Microsoft Dynamics 365 is a step in the right direction, but without a roadmap it could easily lead to failure. To successfully navigate the sea of disruption in 2023 and beyond, food and beverage companies have to change the way they think of technology to attain business goals.

They must be both lean and agile to proactively capitalize on new opportunities, while differentiating their product offerings in today's increasingly saturated marketplace. And data is the key to steering food and beverage companies toward sustainable long-term growth.



Understanding the Waves of Change

The food and beverage industry is undergoing a huge transition. Changing consumer preferences, demographic shifts, and the proliferation of smart technologies are shaping the way companies do business in the digital age.

Food processors and manufacturers who want to gain a competitive edge in this new reality must understand the trends impacting their industry to pinpoint where their current opportunities and challenges lie. The five most significant trends are:

Changing Consumer Preferences

It's no secret that today's consumers are at the forefront of driving change in the food and beverage industry. Since 2010, we have seen a dramatic increase toward more organic and health-conscious products. By 2025, the organic and health foods market is expected to exceed \$70.4B².

While consumers are pushing for alternative food sources such as plant-based meat replacements, that's not the only thing they are demanding. They are also pushing for increased transparency and sustainability. Customers want to know where the food is being sourced, how it's being made, and who is involved in its production. Plus, they want it at the right price.

Companies that can be open and transparent with their customers will be rewarded with their loyalty. As customer preferences evolve, food and beverage companies will be confronted with making sense of an increasingly complex

supply chain while considering alternate business models to combat shrinking margins.

They will be forced to invest in new equipment and technology to improve traceability and efficiency across the production line. In addition, food processors and manufacturers will need to focus on the customer experience to differentiate themselves as new players enter the marketplace.

“By 2025, the the organic and health foods market is expected to exceed \$70.4B.”

Hexa Research

Tighter Regulations

According to the U.S. Department of Agriculture, the financial impact of foodborne illnesses is estimated at \$15.5B annually³. The food and beverage industry is bearing the brunt of it in loss of market share, brand reputation, and profitability.

Legislation like the FDA Food and Safety Modernization Act (FSMA) has been enacted to proactively protect the public's safety while ensuring the economic viability of the industry. The law calls for greater compliance and transparency in the handling and preparation of foreign and domestic products.

Inadvertently, these regulations add negative pressure to the bottom line. According to the National Association of Manufacturers, the average manufacturer pays upwards of \$9,991 per employee to comply with federal regulations⁴.

Consequently, more and more companies will continue to explore blockchain technology to track raw materials from farm to table. In turn, food processors and manufacturers will be better able to identify a product recall before it hits the market, reduce waste, and streamline business operations to drive productivity.

If there is one thing that is certain, it is that technology will continue to play a central role in helping the food and beverage industry better address future regulatory challenges.

Smart Technologies

The increase of smart technologies like blockchain, automation, IoT, AI, robotics, and sensors are helping food and beverage companies become more agile than ever. It has even given birth to a new term: Industry 4.0.

In this new reality, manufacturing facilities are being retrofitted with a number of interconnected cloud-based systems. These cloud-based systems allow companies to automate business processes while aggregating the multitude of data points they produce to facilitate better decision making.

Blockchain, for example, provides greater visibility into a product's traceability. It also makes it easier to keep stock levels in check and give food and beverage leaders a better way to forecast demand.

Sensors, on the other hand, can be used to collect real-time data and decrease equipment downtime through preventive maintenance alerts. Robots equipped with AI can reduce the time spent in QA and alert the production line to a flawed product, thereby decreasing the number of recalls.

Organizations that can marry real-time AI with IoT can potentially see an uplift in profitability of 38% by 2035. It's therefore no surprise that the global intelligent manufacturing market size will exceed \$74.80B⁵.



Increased Tariffs

In a recent study we conducted on the manufacturing industry, in which food and beverage made up the largest segment of respondents, participants reported that tariffs and trade agreements are top of mind in 2023.

When tariffs are enforced, it creates a waterfall effect. It leads to an increase in production costs, shrinks the workforce, and further tightens margins. In turn, the increased pressure from tariffs, among other concerns, can keep food and beverage companies from taking on digital initiatives.

To successfully navigate this uncertain environment, companies must figure out how to leverage digital tools to develop cost-effective strategies that lead to other avenues of growth.

Mergers and Acquisitions

By the end of 2018, there were 527 mergers and acquisitions in the industry (M&A), down 11% when compared to 2017⁶. While it is safe to say that M&As are cooling off, this particular growth strategy is still attractive for many food and beverage companies. This is especially true for those on the smaller side that make up the vast majority of U.S manufacturing companies⁷.

An M&A, when executed well, can help a company tap into another revenue stream, diversify its product mix, and enhance its core competencies. Often, when companies undertake an M&A, the largest barrier holding them back from success is the merging of multiple systems and cultures.



Companies that successfully complete an M&A to increase their market presence have returned 7% more shareholder value than those who have not⁸. In fact, the overall deal value of M&As in 2019 has increased by 35% despite the decrease in deal activity⁹. Deloitte attributes this change to more scale transactions focused on product, customer, and geographic expansions.

Weathering the Tides of Change With Data

As industry trends force companies to reevaluate their business strategies, they must make do with the reality that data will play a key role in determining their successes in the upcoming decade. According to IDC, 80% of manufacturers will have to extensively restructure their organization, with data serving as the foundation.

Companies can no longer rely on outdated methods that require manual entry, collection, and analysis. Why? Because by the time the information has been sourced across the many disparate systems, the data acquired is no longer actionable or accurate. It's just historical data that shows how the company has performed. There is no insight into how a

company can pivot and change their trajectory to meet their established business goals.

Navigating an organization's future in today's digital economy without data is like steering a boat without a compass. There is no telling if the company has veered off course and no way to know what course corrections it needs to make to capitalize on new opportunities.

To develop a data-driven culture requires the implementation of a software solution such as an ERP that can serve as the single source of truth. While previous ERP solutions were implemented to handle back-office operations, today's modern ERP solutions are the heartbeat of an organization.



From finance to warehousing, to marketing and more, modern ERPs can integrate all data-generating systems under one dashboard, providing food and beverage companies with greater visibility into their operations.

An ERP solution like Microsoft Dynamics 365 will connect all systems. It will also leverage built-in business intelligence apps to aggregate data and produce analysis-based metrics a company wants to measure. The result is better-informed decisions to drive revenue growth.

A robust ERP solution will provide an organization with actionable data that allows it to:

- Proactively react to changing customer preferences and market fundamentals
- Decrease equipment downtime by actively monitoring and scheduling preventative maintenance
- Improve supply chain management and work order fulfillment
- Better forecast demand and make agile decisions with real-time reporting and analytics
- Improve QA, reduce waste, decrease product recalls, and enhance product quality
- Adjust resource allocation to boost productivity with capital investments and workforce planning

While implementing a new ERP system can seem daunting to most food and beverage companies, failing to do so can be the difference between surviving or thriving in today's environment.



Organizations that have invested in this digital initiative have been able to recoup the cost of a new ERP implementation in 1.67 years¹¹. More importantly, they were able to realize ROI less than two years after the implementation.

Common Challenges Capsizing Growth

Understanding the industry's latest trends, opportunities, and challenges is imperative for getting ahead of the competition. Moving upstream toward a digitally focused business model is not an easy task. It requires a holistic digital intelligence strategy and a robust modern ERP.

Generally, there are three common roadblocks that hold most food and beverage companies back: data silos, outdated equipment, and a rapidly aging workforce.

Data Silos

The food and beverage industry has a history of neglecting technological advancement, except when it comes to optimizing production processes on the plant floor. In the past, ERP systems were implemented to handle back-office operations. Any additional software that was purchased was to fulfill a specific job function.

Because there was no digital data strategy in place when implementing and acquiring new technology, many food and beverage companies have never been able to derive any useful business intelligence to make informed decisions.

As a result, companies are struggling with getting a handle on their disparate systems. Not only does the lack of cohesion negatively impact productivity because of the time it takes to collect and make sense of the data, it also creates data silos that keep organizations from capitalizing on opportunities for growth.

Outdated Equipment

Much of the equipment in current use in the food and beverage industry is obsolete, and the cost of replacing it can prove too much for a company to handle. As a result, many food and beverage companies can find themselves putting off investments in capital projects.

However, they do so at their own peril. Federal regulations are increasing, and most legacy systems today are not equipped to keep up with these changes, which can negatively impact a company's bottom line.

Fortunately, our research on Manufacturing Trends indicates that the majority of manufacturers today plan to continue expanding capital project investments. In fact, the global food and beverage processing market is expected to grow 7% between 2019 and 2027, reaching a value of \$82.5B by 2024¹².





Workforce Crisis

There is a current workforce crisis in the food and beverage industry. According to a joint study by Deloitte and the Manufacturing Industry Institute, approximately 2.4M jobs will go unfilled between 2019 and 2025¹³. This skills-gap shortage put \$454B in manufacturing GDP at risk in 2018, and the shortage is expected to increase to more than \$2.5T over the next decade.

The situation is further impacted by the industry's rapidly aging workforce, who will be taking with them a wealth of knowledge that today's younger professionals simply lack. Consequently, many food and beverage companies are finding themselves paying higher salaries to attract and retain top talent, while also spending money to upskill them to perform on the job.

Investing in a modern ERP would help address this challenge. First, it provides today's workforce with an intuitive interface that aligns

with what they expect from the modern work environment. Second, it enhances employee satisfaction on the job by automating repetitive tasks, helping them focus on more value-add tasks that contribute to the company's growth.

“Approximately 2.4M jobs will go unfilled between 2019 and 2025...putting \$485B in manufacturing GDP at risk.”

Deloitte & Manufacturing Institute, 2019

And third, the tool captures the knowledge of more seasoned workers, decreasing the time spent onboarding new employees while increasing collaboration and knowledge share among workers.

Steering Your Organization Toward Growth

Approximately 63% of complex IT initiatives fail, but that should not deter food and beverage companies from modernizing their operations to streamline and drive revenue growth¹⁴. One reason why most digital projects end in failure is that most organizations take a set it and forget it approach.

Companies often view the implementation of a digital initiative as the purview of IT. While IT will own the initiative in the long term, it is the responsibility of the whole organization to oversee its successful implementation.

Heads of IT should take care to involve all stakeholders that will benefit from the implementation of a new project, like an ERP solution, early on in the process. Many companies believe that the simple act of implementing a new tool is enough to solve their problems when in fact, it should be approached as an ongoing process that requires leadership buy-in and continuous training to reinforce adoption.

Food and beverage companies that have seen the most success understand that technology is not a means to an end, but the vehicle that helps drive its business strategies forward. But it does not stop there. Implementation is just the first step. To ensure successful adoption of a new technology, heads of IT should partner with heads of training to develop a robust training program post-implementation.

A great way to ensure the success of a digital initiative is to connect with an implementation partner. An implementation partner will take

the time to understand the unique business processes an organization has and create a customized roadmap for them. It will also keep the company from diverting internal resources from their primary responsibilities.

In addition, the implementation partner will ensure the success of the software or ERP solution adoption by helping create a robust training program. They will work with key subject matter experts in the company to equip them to own the software and continue training the staff after implementation.



Conclusion

The food and beverage industry is evolving at the speed of light. According to the market outlook, the annual projected growth rate for food and beverage is 3.2%, with an estimated market volume of \$8,546M by 2030¹⁵.

To reap the rewards of these exciting times, companies must harness the power of data and agility to remain competitive. However, it takes more than implementing a new ERP system and trading out old equipment to play in the new digital world.

It requires a fundamental shift in organizational culture from implementing a new IT solution to committing to an ongoing initiative that requires buy-in from the top down. Technology, while useful, should be approached strategically with a clear understanding of how it contributes to ROI.

Interested in getting up to speed in the digital age?

Get in touch to learn more.

[CONTACT US](#)



Sources

1. "UN Projects World Population to Reach 8.5 Billion by 2030, Driven by Growth in Developing Countries." United Nations. United Nations, January 29, 2015. <https://www.un.org/sustainabledevelopment/blog/2015/07/un-projects-world-population-to-reach-8-5-billion-by-2030-driven-by-growth-in-developing-countries/>.
2. By, "U.S. Organic Food Market Size Worth \$70.4 Billion by 2025: Hexa Research," MarketWatch, July 18, 2018, <https://www.marketwatch.com/press-release/us-organic-food-market-size-worth-704-billion-by-2025-hexa-research-2018-07-18>.
3. Dan Flynn, "USDA: U.S. Foodborne Illnesses Cost More Than \$15.6 Billion Annually," Food Safety News, July 31, 2018, <https://www.foodsafetynews.com/2014/10/foodborne-illnesses-cost-usa-15-6-billion-annually/>.
4. W Mark Crain and Nicole V. Crain, "The Cost of Federal Regulation," NAM (The National Association of Manufacturers, September 10, 2014), <https://www.nam.org/the-cost-of-federal-regulation/>
5. 2019 Manufacturing Trends Report. <https://info.microsoft.com/rs/157-GQE-382/images/EN-US-CNTNT-Report-2019-Manufacturing-Trends.pdf>.
6. Dave Fusaro, ed., "Food Industry Acquisition Activity Cooled a Bit in 2018," foodprocessing.com (Food Processing , August 12, 2019), <https://www.foodprocessing.com/articles/2019/food-industry-acquisition-activity/>.
7. "Facts About Manufacturing," NAM (The National Association of Manufacturers, n.d.), <https://www.nam.org/facts-about-manufacturing/>.
8. Nick Santhanam et al., "What's Ahead for Food Processing and Handling?," McKinsey & Company (McKinsey & Company, May 2018), <https://www.mckinsey.com/industries/advanced-electronics/our-insights/whats-ahead-for-food-processing-and-handling>.
9. Paul Wellener, "2020 Manufacturing Industry Outlook," Deloitte (Deloitte, December 2, 2019), <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/manufacturing-industry-outlook.html>.
10. Reid Paquin , "IDC FutureScape: Worldwide Manufacturing 2019 Predictions," ManufacturingTomorrow (IDC, January 2, 2019), <https://www.manufacturingtomorrow.com/article/2018/12/idc-futurescape-worldwide-manufacturing-2019-predictions/12640>.
11. "Is 2019 (Finally) The Time to Purchase A New ERP for Manufacturing?," Alithya (Mint Jutras , March 2019), <https://www.alithya.com/hubfs/en/insights/ebooks/is-it-finally-time-for-a-new-erp-system.pdf>.
12. "Food and Beverages Processing Equipment Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2019-2024," imarc, n.d., <https://www.imarcgroup.com/food-beverages-processing-equipment-market>.
13. "Future of Manufacturing Depends on Building Workforce," NAM (The National Association of Manufacturers, May 28, 2019), <https://www.nam.org/how-manufacturers-are-closing-the-skills-gap-3323/?stream=series-practical-insights>.
14. "63% Of CRM Initiatives Fail," DMNews.com, July 17, 2013, <https://www.dmnews.com/customer-experience/news/13059003/63-of-crm-initiatives-fail>.
15. "Food & Beverages - United States: Statista Market Forecast," Statista (Statista, n.d.), <https://www.statista.com/outlook/253/109/food-beverages/united-states#market-ecommerceDbRevenue>.



About Alithya

Alithya is a leading strategy and digital technology company with over 2,000 highly skilled professionals delivering solutions across Canada, the US and Europe. Alithya's Microsoft practice covers a wide array of capabilities including Dynamics, Azure, business analytics, digital solutions, advanced analytics, application development and architecture. Focused on business outcomes, our combined companies have delivered Microsoft ERP, CRM, BI and digital solutions to over 1,200 clients. Alithya's global offering is to deliver strategy and digital technology services.

alithya.com | MSsales@alithya.com | 866-420-7624