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The Food Industry Center
UNIVERSITY OF MINNESOTA

TFIC NEWSLETTER

<http://foodindustrycenter.umn.edu>

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How Many Food Companies are in Minnesota?

Previous estimates of the number of food companies in Minnesota approximated 400 companies. A 2009 report published by The Food Industry Center calculates 2,436 food companies conduct business in Minnesota. The 2009 Minnesota Food Companies Report was compiled by Center researcher Dr. Koel Ghosh using the North American Industrial Classification System codes and Dunn and Bradstreet data to identify “food only” companies and determine their sales and employment figures. This exclusive TFIC report explains who these food companies are, how they were counted, and what they contribute to the state of Minnesota in terms of sales revenue and employment. As is part of the Center’s mission, the report incorporated feedback and data from industry representatives to provide local knowledge and the most accurate picture of this Minnesota industry.



Ghosh

The report found that fifty-five percent of the \$334.2 billion sales generated by Minnesota food companies in 2008-09 was generated by the top five \$10 billion plus companies (Cargill, SuperValu, Target, General Mills, CHS) in the state. Food companies employ 5% of Minnesota employees, 60% of which are in food service and 20% in retail businesses. However, it is the processors/ manufacturers and retail companies that contribute 54% and 25%, respectively, of all sales by food companies. Food manufacturing (frozen, cereal, snack, confectionary, spice etc...) makes up 42% of the processor/manufacturer companies followed by dairy at 14%. General line grocery (36%) is the dominant business type among the wholesaler/distributor companies, with supermarkets (52%) representing more than half of the retail companies.

“Counting the food companies in our home state was a matter of curiosity that turned out to be a matter of tenacity” said Director Jean Kinsey. “With frequent mergers and acquisitions, large companies with multiple divisions operating in multiple locations, companies engaged in multiple businesses (food as well as other products), and

private companies not found on public records, counting is indeed complicated. I would like to compliment Dr. Ghosh for her patience and investigation skills in compiling this report.”

Minnesota has always had a large food and agricultural industry, stretching from farms to retail stores and restaurants. The purpose of the research report was to find how many Minnesota food companies make up the entire food supply chain – post farm gate. Minnesota can proudly report it has at least 2,436 food companies owning one or more individual enterprises, excluding individual franchises such as fast food stores.

The 2009 Minnesota Food Companies Report is the first time any such research has been conducted on Minnesota food companies. A summary of the report is available online at http://foodindustrycenter.umn.edu/vd/Research/MNFoodCompanies_Report_Summary.pdf

UPCOMING EVENTS

Food Industry Networking Social

Tuesday, February 9, 2010

Pomeroy Student-Alumni Learning Center
University of Minnesota, St. Paul Campus

The Opportunities and Challenges of Social Media in the Food Industry

2010 Spring Symposium

Wednesday, April 28, 2010

8:00 am - 4:30 pm

Cowles Auditorium, Humphrey Institute
University of Minnesota, Minneapolis Campus

Tracking the U.S. Economic Recovery

2010 James P. Houck Lecture on
Food and Consumer Policy

Dr. Rebecca Blank

U.S. Department of Commerce

Monday, May 10, 2010

3:00 pm

St. Paul Student Center Theater
University of Minnesota, St. Paul Campus

Director's Note

Many have compared the latest recession to the "great depression." One similarity upon which there has been great speculation, and much written, is whether consumers will permanently change their spending habits after the economy recovers. Most of us have heard stories about how those who lived through the 1930's became frugal, saved everything from money to bread bags, and conserved on energy use. Will a similar behavior take hold going forward from 2009?



Kinsey

The answer seems to be yes, but in a different way. During this recession, many consumers learned the plethora of products with lower price tags performed just as well as those for which they formerly paid premium prices. So, many are asking themselves why they should return to national or designer brands with extraordinary prices when they do not deliver better performance. How does this play out in the food business?

After the fastest increase in food prices in decades, a 9.5% increase from 2007 to 2008, price increases settled down to around 5 percent in 2009. However, retail competition for consumers whose incomes were declining became fiercer than ever. Pushed by the big box store's low prices and \$1.00 hamburgers, mainline supermarkets and restaurants found themselves cutting prices and not being able to make up margins on products that were not on sale. Consumers have taken to shopping harder, to "cherry-picking" sales and to trading down to less expensive brands and less expensive stores.

Like other retail products, many of these less expensive food brands perform well. This encourages further "store brand" expansion which rose to over 22% of food market share in 2009. Buying private label store brands allegedly saves consumers up to 30% on a grocery bill. In an article in the Spring 2008 TFIC Newsletter, I wrote that U.S. consumers spend an average of 10% of their income on food. Every economist knows that as incomes rise, people spend a decreasing amount of each additional dollar on food, so high income consumers end up spending only about 3-4% of their income on food. In contrast, as incomes fall, people will allocate an increased amount of their declining dollars on food, so the percent spent on food increases. Bargains become more important, increasing the pressure on retailers to cut prices and find ways to deliver enduring value to customers. The real question is how customers' long-term values change as incomes fall and then (presumably) rise again. Will they come to expect fewer services? Will they seek out local and private label foods? Will they be empowered by a do-it-yourself lifestyle? Will they find it prestigious to be frugal?

Trends that will reinforce this continued conservation and thrift are environmental conservation, healthier (lower volume) diets, an aging population that is living on lower retirement expectations as well as smaller meals, and rising health care costs. Fewer people in the family formation stage (ages 20-40) compared to the elderly (over age 65) foretell a slow down in household formation and expenditures on all consumer goods. Increases in demand will come from immigrants and non-white populations and/or from consumers who opt for higher quality products. However, let's not forget that after the 1930's and WWII, we had a sustained splurge in consumer spending. It could happen again. We will know in another 5-10 years.

Jean Kinsey Receives Alumni Achievement Award

TFIC Director Jean Kinsey was awarded St. Olaf College's Alumni Achievement Award on November 6, 2009 for her influential role and research in consumer economics, agriculture, and public policy. An article highlighting her accomplishments is featured in the current issue of St. Olaf Magazine at http://www.stolaf.edu/magazine/2009fall/Fall09_AlumniPortraits.pdf#zoom=100.

TFIC Completes Food Recall Case Studies Project

This fall, TFIC completed the third of a three-part case studies series on food recall incidents in the United States. With funding from the National Center for Food Protection and Defense at the University of Minnesota, TFIC explored the health, economic, and communication implications from the Castleberry's, Natural Selection, and Westland/Hallmark recall incidents that occurred between 2006 and 2008.



Seltzer



Rush

officials, consumers and others to reveal what happens throughout the food system during a recall process. The studies also provide a quantification of the health and economic implications of a food recall. By analyzing the recall process of these companies' incidents, the case studies offer a more in-depth analysis of the food supply chain footprint and business strategies during a recall session.

Researchers Jon Seltzer (left) and Jeff Rush (right) conducted 30 interviews with company personnel, government

The Center's analysis of the complex recall process has received high praise from industry practitioners and academic researchers. The studies are published online on The Food Industry Center's website at http://foodindustrycenter.umn.edu/Case_Studies.html.

Local Foods the Topic of Discussion at the Fall 2009 Networking Conference

"Local Foods and Consumer Demand" was the topic of discussion at The Food Industry Center's 2009 Fall Networking Conference. The event, held on November 10, welcomed nearly one hundred students and participants from seventeen different industry, government, and non-profit organizations interested in learning more about the latest research on this emerging sector of the food industry. The cross-disciplinary program provided economic, food science, and marketing presentations from University researchers in order to explore the local foods topic from multiple perspectives.

The afternoon session began with a presentation on "Supply and Marketing Issues in Local Food and Supply Chains" by Robert P. King, Professor of Applied Economics at the University of Minnesota. King shared some early lessons from a pilot study on supply chains of local food products. He noted that relationships play a key role in selling local food products. Specifically, close relationships with supply chain partners are critical as is direct contact with customers for building a customer base. Francisco Diez-Gonzalez, Professor of Food Science and Nutrition, provided an overview of food safety concerns in organic foods in his presentation "Microbial Safety and Risks of Organic and Natural Foods." He noted that pathogen prevalence in organic foods is similar to conventional foods. Furthermore, the epidemiological data does not indicate a greater risk in organic foods, yet this analysis does not account for organic foods smaller market share. Rebecca Monro, Associate Program Director for the Institute of Research in Marketing at the University's Carlson School of Management and Board Member of the Seward Co-op in Minneapolis, MN, compared the co-op and corporation operating models in her pre-

sentation "The Cooperative Business Model: Hip Not Hippie". She then provided a discussion on the impact of local food production in the local economy noting local farmers who sell directly to consumers receive a larger share of the profit for their food, which in turn gets spent in the local economy. In addition, for every \$100 spent locally, \$54 stays in the local economy (Civic Economics, Oct. 2004).

The program also featured a group of talented University students working their way through the Food Science program. Graduate students Katie Baures, Catherine Lee, Melinda Murray and Hetvi Damodhar presented Mighty Micky's, their product concept of vegetable snacks for kids in the shape of Disney characters. Their idea won top honors at the Nutritious Foods for Kids competition at the 2009 Institute of Food Technologists annual meeting in June. We congratulate the group on their innovative idea and recognition by IFT.

The Fall Networking Conference was sponsored by four of the Center's Sponsoring Member Companies – CHS, Inc.; General Mills; H. Brooks and Co.; and Nash Finch Co. Their sponsorships provided free registration for University students who represented over half of the day's participants. Students from the College of Food, Agricultural, and Natural Resource Sciences and the Carlson School of Management took advantage of this occasion to talk with recruiters from sponsoring companies and leaders from the industry to learn more about career paths and opportunities, new products, and new industry trends.



Conference Speakers



Conference Sponsors Speak with Students

Copies of the presentations from the Fall Networking Conference are available online at foodindustrycenter.umn.edu/pastevents.html.

Students Take Advantage of Opportunities Outside the Classroom

As participants in SUPERVALU's MASTER MARKETER PROGRAM, University of Minnesota students are gaining valuable marketing experience to supplement their University economic and food marketing education. Three students from the Applied Economics Department and the NAMA Club (National Agricultural Marketing Association) were judges again this year in the fall 2009 MASTER MARKETER PROGRAM. The program,

sponsored by SUPERVALU, Inc., acknowledges all retailers that make an extraordinary effort in advertising, promotions, merchandising, marketing and community service throughout the year. Retailers submit their promotions for consideration in twelve categories to be recognized as one of the best in class Master Marketers. Their entries are judged on creativity, clarity and effectiveness and program winners receive an all inclusive trip for two to the 2010 National Grocers Association (NGA) convention in Las Vegas this February. The awards were presented at a

gala dinner in December.

Robert Thatcher, Kristy Mussman, and Rebecca Vanderplas were the University of Minnesota judges for this year's competition and helped to select the winners. They also attended the gala dinner along with NAMA advisor Professor Ward Nefsted. Adding to their industry experience, Thatcher and Mussman will be attending the NGA convention as student interns. We want to acknowledge the contributions of these students and thank them for participation at this industry event.

Did You Know?

Food Stamps Up. The number of locations that accept food stamps (now called SNAP or Supplemental Nutritional Assistance Program) increased 21% between 2005 and 2008 as did the overall spending on food stamps. By 2008, 193,753 locations in the U.S. accepted food stamps for food; \$34.4 billion was spent on this program. In some locations (Sacramento specifically) the number of household using food stamps increased 45% in wake of the recession and un-employment. (<http://www.ers.usda.gov/AmberWaves/September09/Findings/Snap-Benefits.htm>)

Obesity Stabilizes: The rate of increase in obesity in the U.S. leveled off for women and children over the decade ending in 2008, but continued to increase for men and boys up until 2009. Overall 32.2 percent of men, 35.5 percent of women and 17 percent of children are obese. This continues to be a major health care and health cost issue (Reuters: Jan. 13, 2010).

Calorie Information Reduces Calorie Intake – a little. In New York City, a Starbucks posting the calories in their food and drinks led to a reduction in calories per sales transaction of 6 percent, mostly in the food consumed, not the drinks. It had no negative effect on the company profits. (Study done at Stanford University reported by Reuters: Jan. 7, 2010).

Total food expenditures: Food-at-home prices, led by fats and oils and cereal and bakery product prices increased 6.4 percent, while food-away-from-home prices rose 4.4 percent in 2008. Expenditures for all food consumed in the U.S. in 2008 was \$1.2 trillion dollars, a 3.3-percent increase with spending on food away from home comprising 48.5 percent of the total. Expenditures rose less than food inflation due to a change in the mix of foods purchased to hold down expenditures (<http://www.ers.usda.gov/Briefing/CPIFoodAndEx->

penditures/).

Imported Food: The aggregate import share of U.S. food consumption in 2005 was 7 percent when based on value, but 15 percent based on volume. The two food types with the largest share of imports are fish and shellfish (79%) and fruits and nuts (39%). (<http://www.ers.usda.gov/AmberWaves/February08/DataFeature/>)

Identify Menu Fish: Match the following names of fish as they appear on a restaurant menus to the name of the fish as it appears in the ocean.

Menu names: 1. Ahi 2. Ono 3. Lehi 4. Onaga 5. Opakapaka 6. Ulua

Ocean fish. A. Pink Snapper B. Silver Mouthed Snapper C. Tuna D. Wahoo E. Pompano/Papio F. Long Tailed Red Snapper

Answers: 1.C, 2.D, 3.B, 4.F, 5.A, 6.E