

Megatrends

A summary of major forces changing food markets of the future... and how to make sense of them

fresh *agenda*

Overview

A vital component in developing strategy

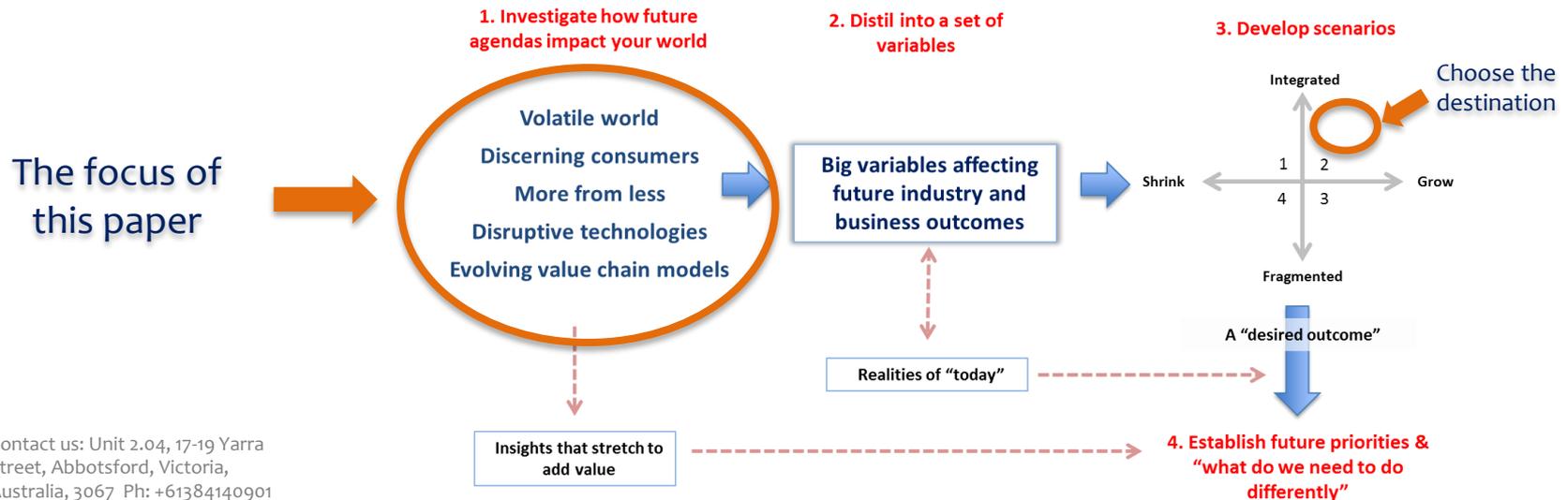
We have identified a set of major megatrends affecting the future of food that combine to provide the key inputs to industry or enterprise strategic planning built on future scenarios.

This paper outlines these megatrends – highlighted below – explains what they mean, how they are playing out, and how they fit together. These forces might be nice to know, and great to stimulate thinking, but how do you harness them?

As shown in the process summarised below, understanding these forces, articulating how they are affecting your industry and business outcomes in future, and drawing insights from them to stretch future thinking, are a key component that can provide impetus and context to strategy development.

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Our process for developing strategy using scenarios – see page 10



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Megatrends we are seeing

A framework for thinking about the future

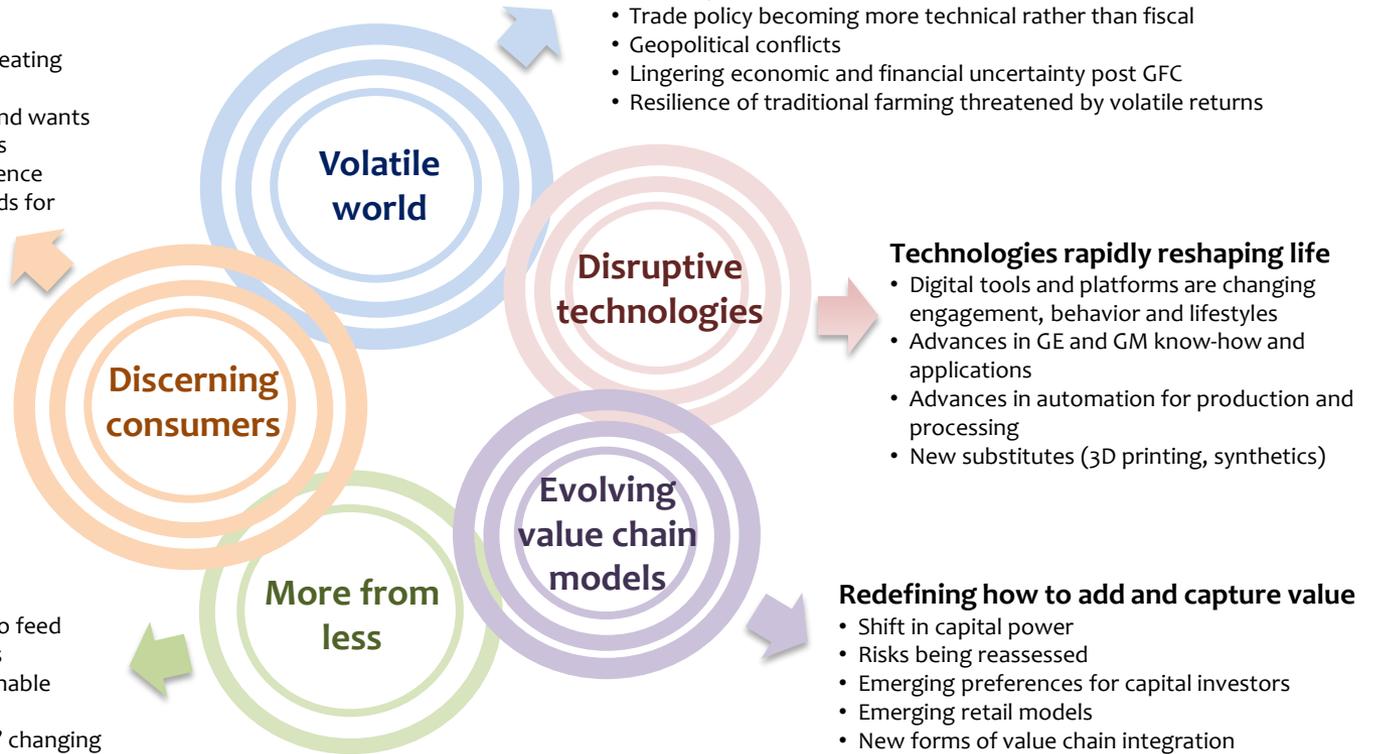
We have identified five major megatrends that combine to provide a basis for future planning scenarios.

A diverse set of influences

- Increasing developing world affluence creating new consumers
- New channels of influence on behavior and wants
- More complex segments and preferences affecting value, ethics, health and indulgence
- Competing demands driving greater needs for convenience
- Aging demographics in developed world

Limited resources and capacities

- Growing populations – more mouths to feed over time from finite natural resources
- Greater community concern for sustainable production systems
- Sustainability agendas balancing “3Ps” changing value chain relationships
- Policy unevenness and short-termism



Our Horizons newsletter tracks ongoing trends, innovations and other insights relevant to these five trend areas affecting food markets

Volatile World

The world's food markets are more complex and unpredictable

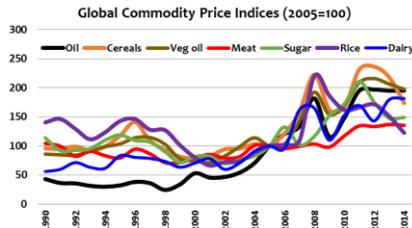
Unreliable climates affecting food supply

Are we dealing with human-driven global warming or just a further phase of the long evolution of the world's climate?

Who cares – but what is clear that weather patterns are far less reliable, events (floods, droughts) are more severe and pervasive in their impact. These are and will continue to cause major disruptions to food production and supply, with knock-on effects for prices and costs in commodity value chains.

Nervous commodity markets

Global food markets are and will continue to be more interconnected than ever. The knock-on effects of shortages and gluts are no longer confined to single regions or sectors. With a much wider set of influences affecting commodity values, speculation will continue **to be more anxious...** and have greater impact on incomes and costs of producers.



Source: IMF



Post-GFC uncertainty

The GFC scarred financial markets and caused a massive recalibration of risk for investors, financiers and consumers. The disruption and upheaval has redrawn the maps of capital and income movements.

The waves of impacts have continued since the eruption in the US in 2007, and spread to the Eurozone and beyond. In future instead of major banks or sectors of the economy going down, the risks are around unviable nations that might drag others down.

Trade policy gets technical

It has long been unsustainable for major exporters such as the EU and US to fund large export subsidies as part of social policy, while tariff barriers are on the decline as part of reform agreements. Internal market support measures are also being phased out.

However, expanding technical barriers have rapidly replaced fiscal barriers and other supports. As concerns for food safety and biosecurity controls become increase in importance (and are more convenient forms of protectionism), so will the complexity and unpredictability of the hurdles to get across.



Traditional farming less resilient

The increased complexity and volatility of commodity markets is stretching the capacity of the traditional family farm model, still the backbone of global food production. The higher demands on management will support more extreme supply responses, but also see many hang on in survival mode.



Pop-up protectionism

Not all the players in global food markets see merit in playing fair. Meaningful binding agreement on unilateral trade deals won't be achieved, leaving scope for nervous leaders in unstable nations to continue the practices of protecting farmers and consumers – or both – through pop-up trade barriers.

India, Russia, Argentina are the usual suspects but we will see others taking such steps to make the world more complex.

Geopolitics warming up

While we're in theory seeing far less feuding across borders, hot spots will remain a feature of the landscape, extending their reach and influence. Ethnic recognition, religious conflict and increasingly access to scarce resources will likely be at the core of these issues, but access to affordable food will underlie the happiness of affected societies.



Discerning consumers

Affluence, diverse influences and aging is making consumers more choosy

Developing world affluence



The steady, reliable growth in average incomes for populations in the developing world is creating a larger population of mobile, affluent and increasingly discerning consumers.

The incomes trickle down to more people and, coupled with the rising urban drift of populations, will create massive changes in behaviour, expectations and spending habits. Diets will evolve and access to packaged nutritious foods become more important.

Comfort through savings and trust



There are two major pillars of comfort for the expanding numbers of consumers – seeking value for money and the desire to trust – trust of brands in retail, food products, outlets.

The focus and complexity of “trust” shifts as affluence increases and we move across cultures. From the most basic issues such as safety, rising through health and through to the story of where food has journeyed and whether the “right things” have been done in the process.



Time and new values drive convenience



The desire to save time remains the major driver of what is “convenient”. There is nothing new to see here: It simply becomes stronger and wider as a force over time as a growing number of people enjoy the spoils of affluence and balance busy work and home lives. They want to save time shopping, preparing meals and dining out.

But other dimensions of convenience are evolving – the need to package some dimension of time-saving with other outcomes and solutions – caring for the planet, and managing health the most important.

Aging affects all regions



The challenges of aging populations are relevant to all regions – it’s just happening at different speeds across developed and developing worlds and with different societal adjustments.

These cultural and demographic differences affect not only the ways in which the community cares for their aging and what priorities are apparent for retailers, product developers and marketers.

More complex & diverse wants



As western and developing worlds evolve, the segments of the consuming population become more diverse and complex sub-groups.

These are being influenced by a wider set of factors –

- how they travel
- the way they adopt and use technologies,
- the degree of care for a range of “ethical” outcomes, and
- the degree of care for self and family health
- image and status .

More than ever, tailoring of approach is needed across countries and even within larger markets, across different regions and cities.

More from less

Realisation: We have finite resources and capacities to meet future food demand

More cashed-up mouths to feed



The growth in populations in the developed world, combined with the rise in average incomes that flows from more accessible urban jobs means there will be strong reliable growth in the number of mouths to feed.

This goes past the straight growth in populations. It means a ramping up in the sophistication of food demands and delivery.

Fragile resource base

The challenge to keep up with growing food demand is heightened by limits on fresh quality water, farming land, skilled food producers and fossil fuel energy. The maths make the challenge a very steep one.

The greater unreliability of weather adds a layer of complexity to future scenarios, and to the vulnerability of natural and human resources.



Rising community guilt – cost or care



There is greater sensitivity to issues and impacts on environmental outcomes. But while a large portion of the population express this concern, the cut through to actual purchasing or consuming behaviour is far smaller – and probably dwindling.

The trade-off between cost and care is played out in more ways, but concerns for personal security outweigh the motivation to take positive action for a collective future benefit.



Political realities

Governments have been slow to act on community interest in decisive, affirmative action on reducing reliance on finite resources and eradicating pollution. Short-term political necessity will continue to block unilateral action on these agendas that could potentially affect jobs and trade. Any policy action is either selective, uneven and/or late, creating diseconomies.

Citizens and consumers speak loudest, and government decide which forces they need to act on to remain relevant.

The sustainable corporate culture



What was once corporate social responsibility (CSR) has been spun and redressed into Sustainability or the 3Ps (balancing people, planet, profit), as a proposition that stands behind corporate and product brands.

The positioning by retailer, brand-owner and manufacturers, and the extent that this drives strategy and investment, will vary considerably. The best players are those that evolve this into a risk management approach to business resourcing. Concern for image may have been at the origin of this trend, but properly executed with full effect becomes a profit driver in its own right.

Spot-fires won't tackle waste



Curbing waste is an obvious part of the solution to food and resource shortages, but unless measured and integrated along supply chains, it will remain lip service as a cute element in sustainability pledges.

Piecemeal efforts in isolated channels and outlets will grow in their prominence, but unilateral change with only come once incidence is effectively measured and understood. Limited investment from the community through government and sector efforts will keep any genuine and comprehensive solutions at bay.

Disruptive technologies

Technologies are changing how we make things and how we connect

Platforms altering engagement



It might all be about devices and apps, but the substance of this trend is that technology is rapidly reshaping how consumers are influenced in their behaviour including their browsing, purchase decisions and how they pay for things.

It goes even wider than simple purchase decisions affecting food and meals however – how people use their down time, what stimulates them and the hunger to be informed with immediacy, which drives new dimensions of convenience.

Big data spins out of this, with more diverse forms of interaction to watch and capture.



Blindsiding substitutes



As technologies advance and alter product forms, experiences, communication, and hence consumer markets, the risk or scope to be blindsided by something you didn't see gets larger.

Obsolescence of established ways will come faster and more decisively. This doesn't only apply to individual products but also to formerly viable careers, businesses and sectors, and right down to how tasks are performed.

Automation saving time and cost



Rapid advances in automation will continue to take time out of capturing, making and monitoring.

This goes way beyond the use of robotics to remove menial repetitive tasks in assembly and sorting, but the enormous and expanding scope for producing products and equipment using 3D printing.

These technologies will be critical to the competitiveness of supply chains, particularly in developed western economies but also in developing ones.

Natural v sustainable?



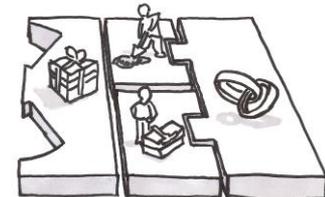
It seems inconceivable that we might be able to feed the world without successfully applying genetic engineering and modification to enhance the reliability of food production.

The wider acceptance of these technologies will change once the proponents learn to successfully engage with the ultimate consumers of food.

Consumers will continue to be polarised into segments. Self is all important in this space – the affluent will continue to resist these technologies in preference for “natural”.

New business models??

New technologies help redefine the element of what we call the conventional business model – the source of revenue, exposure to cost, relationships, and the nature and role of partners in the delivery of propositions to end-users.



Evolving value chain models

Business models are evolving to redefine how value will be created and captured

The shift in capital power



Economic power has migrated to the East, and after the quakes and aftershocks of the GFC, the East is effectively bankrolling the West.

While fast growth will continue in less-developed countries, the mature west and Japan will eke out slow growth. Industries exposed to low growth and inflexible costs will corrode. Those tapped into feeding the burgeoning markets for affordable food will flourish.

Risks are being reassessed



Large amounts of money have been placed and more is being aimed at investments in food production. This is not about a revision of values by fund managers and wealth funds toward an altruistic view of the importance of food to the future of the human society – but an expectation that food shortages will exist and unit prices of commodities (and farm profits) will rise.

Investments in farming are being seen as safe and dependable in an increasingly uncertain world. The extent to which this sees positions taken with an exposure to management and market risks varies, but new models are evolving to share these with skilled producers.

New investors seeking food security



The risks of running short of food in the quest to feed the explosion in middle class consumers in China, Middle East and India see downstream buyers taking much greater control of product from the source.

But these are not straightforward purchases of farms and factories – but rather a set of models that partner buyers, capital providers, and operator/custodians.

Emerging retail models



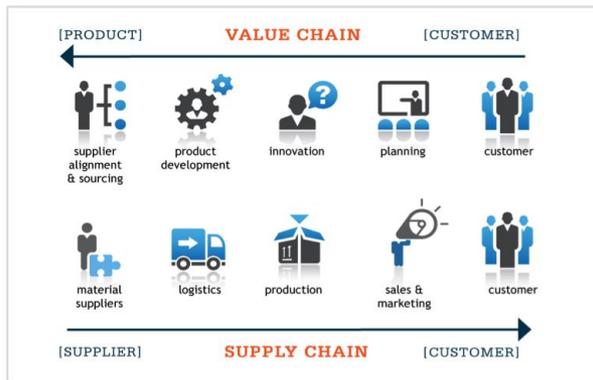
With easier access to technologies that influence how consumers make choices, payments and facilitate delivery, conventional retail in vulnerable categories and formats is challenged to reinvent.

Consumers are embracing new models with greater trust than many bricks and mortar brands.

The common challenge regardless of format is how to attract, stimulate and engage. Conventional models – whether for discretionary or staple lines must continue to offer personalised engagement to satisfy and succeed.

New forms of integration

It is not essential to “own” in order to forward or backward integrate. New models are making better use of capital, spreading risk and sharing returns along value chains. Technology provides greater means to integrate at low cost and achieve direct engagement without intermediaries. This redefines rivalry and the basis of competitive advantage.



Megatrends in action

The intersecting trends

The five megatrends do not stand alone, and intersect on many levels. These examples come from the foregoing outline, but when you take these into an industry or market context, many more will become apparent.



Big data industry

Platforms create vast fields of data on interaction to mine for improving retailer intimacy and empathy for greater loyalty

Redefining trust

Online engagement has for many consumers – especially in developing markets - quickly gained more trust than buying through traditional retail



Tools drive immediacy

New platforms fuel the need for immediacy, forcing greater demands in convenience



Value trade-off

Weighing up the compulsion to act on higher-priced sustainable products, and the cost to the household



Packaged wants

Ways to cut waste are being packaged into food and brand propositions

Fragile farming

Variable profitability undermines the appetite for investment in sustainable practices



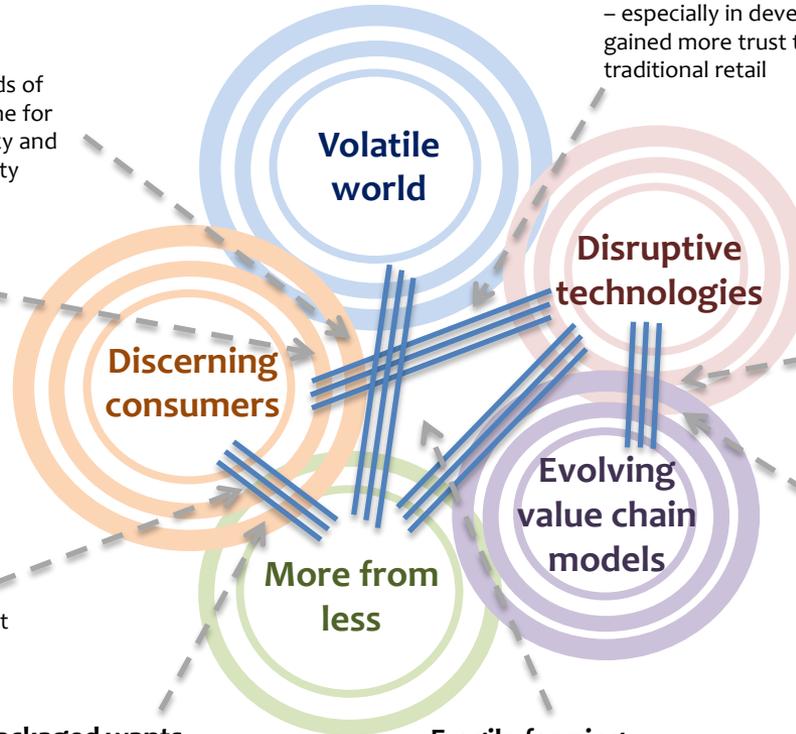
Shrinking product costs

Emerging 3D printing capacity is shrinking equipment and processing costs and will create new nutritional food products



Changing tasks

The expanding influence of social media redefining marketing functions and tasks and creating new business models



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Using scenarios in strategic planning

Taking insights into strategy using future scenarios

This process draws on the relevant insights from megatrends and integrates them into strategic planning for industries and enterprises:

1. Investigate how future trends impact your world

Volatile world
Discerning consumers
More from less
Disruptive technologies
Evolving value chain models

Insights that stretch to add value

2. Distil into a set of variables

Big variables affecting future industry and business outcomes

Realities of "today"

3. Develop scenarios

The axes are set based on key variables affecting your future

Shrink

Integrated

1

2

4

3

Fragmented

Choose your destination based on a desired future outcome

Grow

A "desired outcome"

A well-articulated picture of the future state

4. Establish future priorities & "what do we need to do differently"