

2015 Sage Survey



# Food and Beverage Regulatory Environment Challenges



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# Regulatory pressures weigh heavily

## New business and regulatory pressures weigh heavily on natural products companies

Consumer interest in natural products is growing with no signs of slowing, and that generates new business growth opportunities for producers, distributors and retailers. However, there is a parallel rise in consumer and government scrutiny that creates new business and regulatory compliance challenges such as how to effectively market products, dealing with ever-fluctuating supply and demand, and meeting the requirements of the FDA's Food Safety Modernization Act (FSMA).

To determine how companies are trying to address these issues, in early March Sage 2015 attended the [35th annual Natural Products Expo West](#), the world's largest natural, organic, and healthy products event, at the Anaheim Convention Center in California. Sage surveyed more than 300 attendees and found that a majority feel conflicted about how to provide the level of transparency that consumers demand and how to ensure FSMA compliance. These questions and conflicted feelings about what customers wants, what the government demands, and what's best for their businesses can lead to indecisiveness and increase the risk of noncompliance.

Sage surveyed 324 attendees in person on the expo floor. A large portion (41 percent) were owners or executive-level managers, and 27 percent were senior managers. Eighty eight percent of the companies the respondents represented are based in North America, with most (35 percent) in California.

The number of attendees and exhibitors mirrors the market's growth. According to the event's producer, New Hope Natural Media, attendance was just over 7 percent higher than at the 2014 event, and attracted over 71,000 industry members. More than 2,700 organizations were exhibitors, including 634 who made their first appearances. These statistics come as no surprise considering that NEXT Forecast, a leading natural products industry guide produced by New Hope Natural Media's Nutrition Business Journal and the Sterling-Rice Group, estimates the industry natural and organic products industry is expected to grow to \$252 billion by 2019.

That growth is not limited to food products. The Organic Trade Association says nonfood sales like textiles and personal care items jumped almost 14 percent last year and totaled more than \$3 billion.

Yet even as the industry could revel in its success during the expo, the Sage survey found respondents face a variety of tough challenges that 40 percent called "somewhat" or "extreme."

## Methodology

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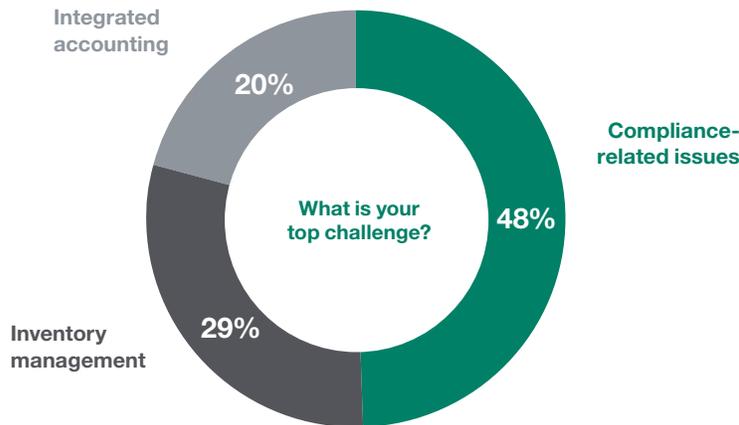
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1 Source: New Hope Natural Media: <http://www.expowest.com/ew15/CUSTOM/Uploads/ew15-PostShow2015.pdf>

2 Source: FOX News, "Consumers increasingly buy organic products despite some supply shortages in industry," April 15, 2015.

<http://www.foxbusiness.com/markets/2015/04/15/consumers-increasingly-buy-organic-products-despite-some-supply-shortages-in/>

Among that group of respondents, 48 percent cited compliance-related issues (such as FSMA, GMO labeling, and lot tracking) as their top challenge, followed by inventory management (29 percent) and integrated accounting (20 percent).

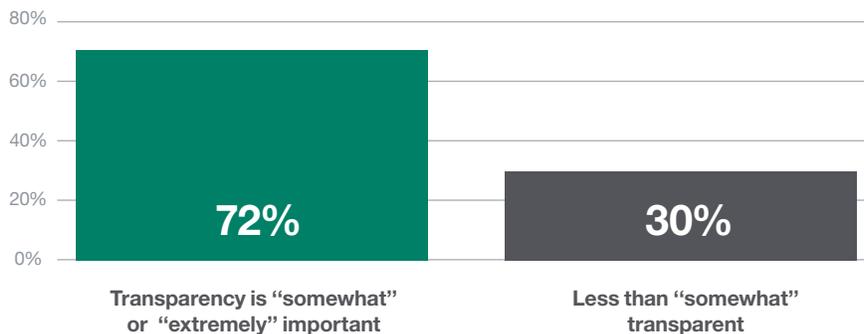


“Consumers are increasingly demanding to know what is in their food, and brands are trying to respond by using technology and other innovations to provide greater transparency and traceability for their products.”

New Hope Natural Media  
editors and analysts

The Sage survey also found respondents are conflicted about how to achieve the levels of transparency customers require. Seventy two percent of respondents say transparency is “somewhat” or “extremely” important to their customers, yet 30 percent admit their companies are less than “somewhat” transparent. That is not for a lack of spending money: The typical spend on transparency efforts averages \$15,000-\$20,000 annually.

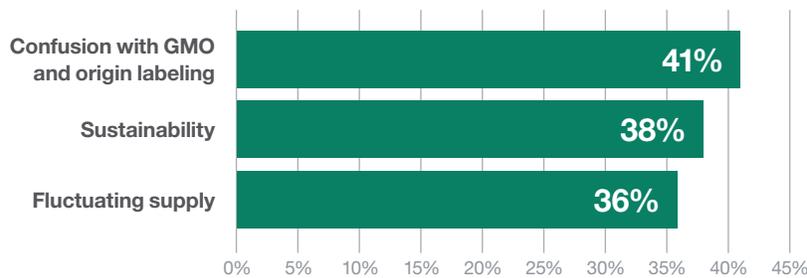
**Respondents are conflicted about how to achieve the levels of transparency customers require**



It's an issue that New Hope Natural Media's team of editors and analysts also identified during the expo as one of five macro trends influencing the marketplace: "consumers are increasingly demanding to know what is in their food, and brands are trying to respond by using technology and other innovations to provide greater transparency and traceability for their products."

Sage survey respondents cited several factors that contribute to the struggle to achieve this transparency. The majority (41 percent) point to confusion over GMO and origin labeling, followed by sustainability (38 percent) and fluctuating supply and demand (36 percent).

**There are several factors that contribute to the struggle with transparency**



The Associated Press reports the supply and demand issues is due primarily to a shortage of organic ingredients. Much of the shortage is in organic milk and eggs, due to low inventories of organic corn and soybeans that feed cattle and poultry. There have also been some shortages of fruits and vegetables, which make up the largest sector of the organic market, due to difficulties finding land suitable for organic farming.

Thirty five percent of respondents also cited "compliance" as another issue handicapping their transparency efforts, so Sage also used its survey as an opportunity to take a closer look at the law that came up repeatedly on the expo floor: the [Food Safety Modernization Act \(FSMA\)](#).

FSMA is arguably the most significant reform to the nation's food safety laws in more than 70 years. It was signed into law in January 2011, and the FDA states its primary goal is "to ensure the U.S. food supply is safe by shifting the focus from responding to contamination to preventing it."

FSMA is seen by its advocates as the law that finally gives the FDA more "teeth" when it comes to policing and enforcing its mandates. Indeed, the penalties for noncompliance can be severe.

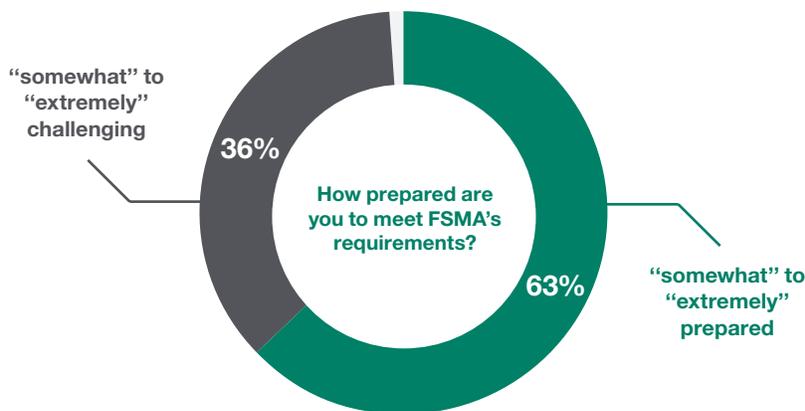
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4 Source: The Acheson Group, "FSMA Non-Compliance: How Will FDA Know? What Will FDA Do?" November 6, 2014. <http://achesongroup.com/2014/11/fsma-non-compliance-will-fda-know-will-fda/>

The FDA can stop farms from distributing products, or at least work with states to embargo those products. Importers can have their lots rejected and find themselves placed on the unofficial federal “watch” list. And for any facility that must register with the FDA, the penalties can include pulling that registration if the violation is deemed to be severe enough—meaning that the company can no longer conduct business. For any business, there is the additional punishment of brand and reputation damage the negative PR will inevitably create.

Sixty three percent of Sage’s survey respondents believe they are “somewhat” or “extremely” prepared to meet FSMA’s requirements. Yet, 36 percent find FSMA mandates “somewhat” to “extremely” challenging to meet, particularly allergy tracking (26 percent), tracking processes (26 percent), and traceability (25) percent.

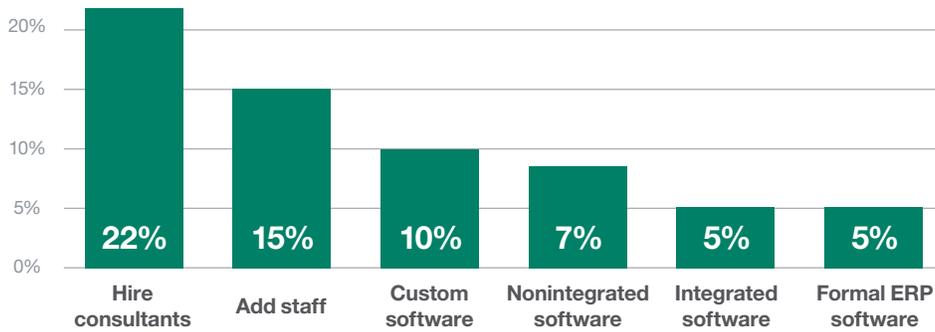
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Fifty percent of all respondents still “don’t know yet” how they plan to comply with FSMA. Others are allocating budget dollars—typically \$15,000 annually—to bring in expertise, new technology tools, or a combination of the two:

- Thirty seven percent have either hired consultants or added staff, or plan to.
- Nearly a third are using software tools, or plan to implement one of a variety of approaches.
  - A slim majority (10 percent) are using systems custom-built for FSMA compliance.
  - Seven percent turn to commercially available software that is separate from their accounting systems.
  - Five percent use commercial software that is integrated with their accounting systems.
  - Five percent use formal ERP software.

How do you plan to comply with FSMA?



Sage recommends working with its preferred solutions provider and integrator that can recommend and install commercially available software, as well as provide training and support.

Of course, every company is different. Some are smaller independent farms and retailers that now find themselves competing against some of the biggest brands in the food industry such as General Mills and Kellogg. The larger companies have the budgets and IT staff to develop and implement custom-built software solutions. But for smaller companies, the CEO may also be the CFO, CMO, or sales director. They do not have time, the IT expertise, or the budgets of their larger competitors. However, they do realize the benefits technology can play in improving transparency and demonstrating compliance.

For the small and medium-sized business, a modern business management solution is the answer. Sage recommends working with its preferred solutions provider and integrator that can recommend and install commercially available software, as well as provide training and support. The solutions provider will also be able to ensure the various systems integrate seamlessly with one another, ideally with a single dashboard, so that managing accounting, customers, inventory, services, employees, and compliance monitoring can all be done in one centralized system.

When it comes to maintaining compliance with regulations and laws, particularly FSMA, follow the simple advice from John Acheson of The Acheson Group, which helps food companies achieve operational efficiency and risk control: “Don’t assume that you can hide below the radar and not worry about FSMA. The FDA has long tentacles, and those tentacles can sting.” And, with nearly half of all respondents reporting FSMA compliancy as their top challenge, Acheson’s advice underscores the reality of these issues and the importance of businesses to address them.

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