



## How to create long-term value in a reimagined food system

A new protein created from air and water. Autonomous food delivery robots that support the campus of a large state university. The rise of electric vehicles. A grocer who offers a vibrant, fresh, locally grown produce shopping experience, as well as a dark store that ships nonperishable items directly to the consumer.

Over the past year, seismic shifts in consumer food preferences and eating behaviors have created waves of upheaval across the value chain. These changes have resulted in the largest investment in innovation that the industry has ever seen. The food system is fundamentally changing from a commodity-driven supply chain focused on scale to a personalized and value-added food and agriculture ecosystem. Disruption is coming in multiple forms, shaped by world events, consumer dynamics, technology and investments from traditional and nontraditional sources. This reality is playing out in crop inputs to grocery stores, in restaurants, in homes and everywhere in between. Industry players are simultaneously reacting to a relentless stream of new consumer demands while plotting their future in a post-pandemic world.

The transformation of the global food industry is happening now. It is a reality that is both exhilarating and daunting for the diverse range of companies that work to feed the world's nearly eight billion people. Some of these changes were simply accelerated by the pandemic; others will take a little more time to move beyond the concept stage. But make no mistake, the industry, as we know it, is undergoing systematic transformation, revolutionizing not only the way food is produced but also the way consumers engage with it. The food system is being reimagined, shaped by a focus on the consumer, the planet and connections.

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## Consumer-centricity

The shift of the food and agriculture industry from a mass production model to one that instead strives for mass personalization is fixed on one principle: consumer-centricity. Rather than anticipating what consumers want to eat, companies now need to provide information on where the food came from and how it was produced.

Consumers want short ingredient lists, clean labels and functional ingredients from ethical sources. Is there visibility into the journey the product takes before it ends up on the consumer's plate?

These trends put pressure on food producers, and the companies up and down the value chain, to examine every aspect of their business models to address the consumer at every turn.

The latest EY Future Consumer Index confirms that consumers are thinking about their health and wellness when they buy food.

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**38%** of consumers intend to increase their spend on fresh food

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**43%** plan to cook at home more often

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## Connected system

In a case of borrowing from the past to build the future, consumers have a renewed desire to be closer to producers. Gone are the days of working in silos. Producers, suppliers and sellers will need to work in unison to create the components of products that appeal to the market. Every node of the supply chain plays a role in addressing consumer behaviors and preferences. In times of crisis or disruption, like we've seen with meat plant closures and consumer stockpiling during the pandemic, this connectivity also creates resiliency that helps companies react more quickly.

In a reimagined food system, a more robust and connected supply chain will open new growth opportunities and unlock value across the ecosystem.

### The most important strategic actions to drive company growth as identified by global food and agriculture companies in the EY Capital Confidence Barometer:

Invest in accelerating the digitization of customer journeys and business processes



Adopt new pricing constructs or innovative pricing models



Adopt the supply chain for resiliency



Attract and retain customers using technology to expand existing products/services\*



*\*Attract and retain customers using technology to expand existing products/services within traditional sector boundaries*

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## Planet friendly

Sustainability has moved from table stakes to a real differentiator as pressure comes from all sides – investors, consumers and employees. In today's environment, the expectation is that food is grown and sourced responsibly, as well as packaged using environmentally friendly products.

As much as sustainability is core to the product, it must also be core to the company. Environmental, social and governance practices and ways of working, from production to delivery, are becoming increasingly important as companies look to invest in carbon programs, reduce waste, demonstrate regenerative practices and so on. The rise of transparency will also continue to shed a light on practices along the food life cycle. No matter where you sit in the supply chain, a planet-friendly strategy will no longer be optional.

As with any large-scale industry transformation, there are both risk and opportunity for each segment in the \$11.7t global food industry. Traditional approaches of “where to play and how to win” won't be enough to compete in this frenetic market. Leaders will need to conceptualize their roles in the future. They will need to rethink their place in the reimagined food system. It will require addressing tough questions. How much clarity do you have about the trends defining today's market? How can you evolve your business model to drive engagement and new value? What will power your next wave of growth? What sector convergence scenarios will create opportunities or threats? And how will data mastery create organizational agility? Defining your future is the first step in readying your company for long-term success in a reimagined food system. The complexity of the transformation ahead is real. How will you reimagine your role when the value chain is being reimaged at the same time?

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## Analyzing five key components of a food system reimaged

To create long-term value in a reimaged food system, companies must look beyond vertical silos and understand the forces reshaping the industry – from ingredients and data, to processing and products, to behaviors and digital experiences. We have identified five areas to help companies strategize their growth in a reimaged food

system. Each of these areas could equally be a place to start. They aren't mutually exclusive, but rather provide a framework to help focus your efforts. How you decide which levers best line up is based on your position in the value chain and what role you want to play.

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### 1 Reimagined growth

Revisit your strategy to develop smart, forward-looking plans that enhance portfolios to capture new opportunities and drive business results through transformed operations

- ▶ Leaders must reconfigure assets and increase portfolio reviews to capture shifting profit pools and topline growth. What happens when 70% of consumer food spending comes from dark stores or click-and-collect formats? Or, what if consumers prioritize availability and cost over brand? Strategies to address these issues must be nimble and informed by constant insights with future-facing modeling. The right business investments to manage through change and deliver transformative growth should encompass profitability, sector convergence, customer retention and market share.
- ▶ Areas that can drive growth may ultimately lead to M&A opportunities. Across the value chain, each company needs to objectively evaluate its core competencies and determine how these will play in the future system. It may be a case where your IP and assets don't apply to your own future business but do have value to someone else in this future food system. A more diverse set of potential buyers and investors is emerging – ranging from private equity and sovereign investment funds, to new vehicles, such as special purpose acquisition companies (SPACs). How do you monetize those assets for increased value in the evolving deal marketplace?

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## 2 Efficient enterprise

Capitalize on opportunities by balancing the duality of operational performance and capital agility through lean operations and financial flexibility

- ▶ It can be easy to look at building efficiency as a cost-cutting exercise, but in a world where profit pools, supply chains and consumer preferences are changing quickly, the meaning of efficiency and resiliency has transformed. Implementing change requires a clear vision for the type of organization you want to be. Ongoing asset reviews can help align against your goals, identifying where to invest or divest. Do your capital investments align with consumer trends, and are they underpinned by agile operations to achieve desired outcomes?
- ▶ Analysts would tell you that when you look at the relative maturity of industry sectors, food and agriculture aren't always at the front line. The business process improvements that can lead to both efficiency and a future of more connectivity, up and down the value chain, are the win-win opportunities that exist in the near term. Do you have the right mix of financial flexibility and technology to quickly respond to shifts in consumer preferences or market disruptions? Where will you enhance your business for your role in a reimagined food system?

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## 3 Trusted food

Re-evaluate end-to-end integration to deliver the expected level of transparency and trust consumers demand

- ▶ Value propositions that guide new working relationships with investors, governments and organizations will satisfy growing sustainability expectations while, at the same time, managing risk. Balancing regulatory compliance, risk management and certifications to address quality and safety expectations is only half the story. Leaders must also be prepared to answer where food came from and how it was treated: consumer trust is built upon safety, sustainability and traceability.
- ▶ Consumer demand for more information about what goes into the food they eat, how it has been produced and what impact it will have on the environment is growing. Data, and developing trust in that data, will be critical to succeed.

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## 4 Connected system

Reimagine the supply chain, and the role of players across the value chain, to create resiliency that allows for real-time pivots in response to local, national and global needs

- ▶ Resiliency in a just-in-case inventory environment requires new partnerships and differentiated investments that will vary from commodities, to specialty products and ingredients to consumers. Leaders will need visibility on the right data and analytics capabilities to make decisions about supply chains, business models, technology and alliances to enable the type of experience and value different customers expect.
- ▶ “Leading-class” supply chain practices have shifted from less product and cost-effective sources to building strategic reserves and enabling diversity in food-safe sourcing. Shorter, more networked supply chains driven by consumer preferences, safety and technology create greater opportunities when facing both risks and opportunities.
- ▶ Technology is pervasive in our lives as consumers and employees. Connectivity across the food and agriculture ecosystem is just as important as being connected within your own organization. And, technology is what will enable a connected system – whether considering which technology should serve as your backbone or which will drive connectedness, both at the field level and with the consumer.

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## 5 Innovation-led experience

Create an experiential, interconnected food ecosystem accountable to all stakeholders and enabled by technology and innovation

- ▶ There is a lot happening in food and agriculture, and, at times, it can seem almost frenetic – whether it is increased technology to create connections between producers and consumers, establishing increased levels of personalization or driving more R&D to meet consumers where they want to be met. Industry players need to figure out which opportunities to land on and ride a little longer and which ones to jump off to explore the next opportunity. Demand signals will continue to shift, and leading companies will think about the stakeholders, not just the shareholders, and what a particular change would mean for them. Does the idea have a market and a pathway to get there, and will it add value to the end consumer?
- ▶ Food and agribusiness companies are attracting considerable interest from equity investors, venture capital and sovereign wealth funds, and private investors. In short, this means innovation is on the table. Investments in agriculture food technology have risen to record levels in the past few years, topping \$26.1b in 2020.<sup>1</sup> Some early innovations that could take hold over the next decade include controlled environment agriculture, alternative proteins, light and dark stores, regenerative agriculture and electric vehicles. It can't be argued that there are deals to be made in the food and agriculture industry.

It's important as you're conceptualizing your future business model that you keep in mind the diverse needs of your target audience. You'll want to consider the consumers who want, and can afford, to take advantage of personalized and sustainable food, consumers who don't care about the latest food trends, consumers who cannot afford it and everyone in between. Consumer-centricity will continue being a critical factor in redefining your role in a future food system. The question is not where does the consumer fit in a reimagined system, but rather, what are they driving?

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<sup>1</sup> "2021 AgFunder AgriFoodTech Investment Report," AgFunder website, [agfunder.com/research/2021-AgFunder-agrifoodtech-investment-report/](https://agfunder.com/research/2021-AgFunder-agrifoodtech-investment-report/), accessed 2 May 2021.

## Summary

As companies embark on their own journeys to a reimagined food system, it's important to not get lost in all the noise. Disruptions will continue, leading to questions about whether your business is on the right path. Take a methodical approach to transformation, starting with the five areas, and leave yourself room to adapt to changes in your industry and the market. Think about testing and piloting different opportunities in an agile way, for instance, a technology or business model to test, learn and see which opportunities can really be proven out and which ones you want to differentially invest in.

At the beginning of 2020, few could have foreseen what was about to happen to the world's economy and the simple act of buying and eating food. The challenge now is to take the lessons learned and create a robust food and agriculture industry that can meet the challenges of today, while preparing for the opportunities that could emerge. Companies that can be proactive, with a flexible strategy that accounts for the unexpected, will be in a much stronger position to lead. What's your role in a food system reimagined, and how connected are you?

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2104-3769769  
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