THE STATE OF THE SPECIALTY FOOD INDUSTRY 2014

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BY RON TANNER

Sales of specialty foods continue to boom. From 2011 to 2013, sales increased by 18.4 percent. In 2013, retail dollar sales grew an impressive 8 percent. Working with Mintel International and SPINS, the Specialty Food Association has tracked sales of specialty foods through supermarkets, specialty food stores, and natural food retailers, as well as gathered benchmarking data from the supply chain. Here are some of the highlights:

- Total specialty food sales in 2013 topped $88.3 billion.
- Approximately 80 percent of specialty food sales are at retail.
- Cheese and Cheese Alternatives is the largest category, with $3.99 billion in sales in 2013, and a growth rate of 16.1 percent between 2011 and 2013.
- The fastest-growing categories include Nut and Seed Butters (51.6 percent), Eggs (35.9 percent), and Frozen Desserts (28.2 percent).
- Categories with the most significant penetration are Refrigerated Salsas and Dips (49.8 percent) and Tea (40.1 percent).
- With growth slowing in mainstream supermarkets, unit sales were also sluggish, showing a -0.8 percent change from 2011 to 2013. Unit sales in natural food stores and specialty food stores grew more rapidly: 23.2 percent and 21.1 percent, respectively, according to data from SPINS tracked channels.
- In retail segments, specialty food stores recorded the biggest sales increase, at 42.4 percent between 2011 and 2013, followed by natural food stores, at 33.8 percent.
- More than 8 in 10 specialty food manufacturers recorded positive sales in 2013.
- Distributors say non-GMO has the highest potential for growth of all product claims over the next three years.
- Importers report that Latin and Mediterranean are two of the fastest-growing cuisines.
- The size of the average specialty food store is 4,748 square feet, with 1,877 SKUs. Average transactions per week exceed 2,500.
- Seven in 10 specialty food retailers report that Local is the most important product claim.

ABOUT THE RESEARCH

The Specialty Food Association's State of the Specialty Food Industry is a joint research project prepared by Mintel International and SPINS. The research encompasses three years of sales data for 59 specialty food categories, pulled from the SPINS database of mainstream and natural food stores. In addition, Mintel surveyed specialty food manufacturers, importers, distributors, brokers, and retailers to develop the statistics presented in this report.

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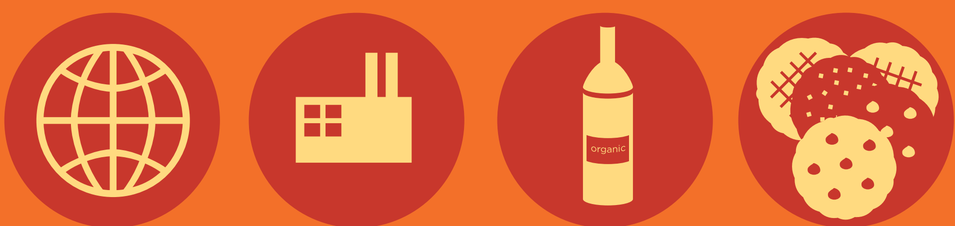
FOR INFORMATION, including definitions and brand examples of specialty food segments researched for this report, visit specialtyfood.com/stateindustry2014



THE SIZE OF THE SPECIALTY FOOD INDUSTRY AT RETAIL AND FOODSERVICE

TOTAL U.S. SALES OF SPECIALTY FOODS

	2011 $ Million	2012 $ Million	2013 $ Million	% Share	% Change 2011–2013
Retail	59,312	64,995	70,200	79.5	18.4
Foodservice	15,294	16,760	18,102	20.5	18.4
Total	**74,606**	**81,755**	**88,302**	**100.0**	**18.4**

Source: Mintel/SPINS/Nielsen

The specialty food sector rose 18.4 percent during 2011-2013. Some signs indicate the market is beginning to mature, but the growth rate has not faded much; during 2010–2012, the rate of change was 22.1 percent. The foodservice and retail channels continue to grow at about the same pace, such that foodservice continues to account for a 20.5 percent share, while all retail outlets combined transact 79.5 percent.

TOTAL U.S. RETAIL DOLLAR SALES OF SPECIALTY FOODS

	Sales at Current Prices			Sales at Inflation-Adjusted Prices*		
	$ Million	% Change	Index	$ Million	% Change	Index
2011	59,312	—	100	61,875	—	100
2012	64,995	9.6	110	66,425	7.4	107
2013	70,200	8.0	118	70,200	5.7	113

Includes PLU, Trader Joe's, and Whole Foods Market, but not Walmart
*Adjusted for inflation using the All Items CPI

Source: Mintel/SPINS/Nielsen

With strong dollar sales growth year after year, it becomes more challenging for the market to continue its expansion rate. Retail growth of 18.4 percent during 2011–2013 is impressive, but lower than the 2010–2012 retail growth rate of 22.3 percent.

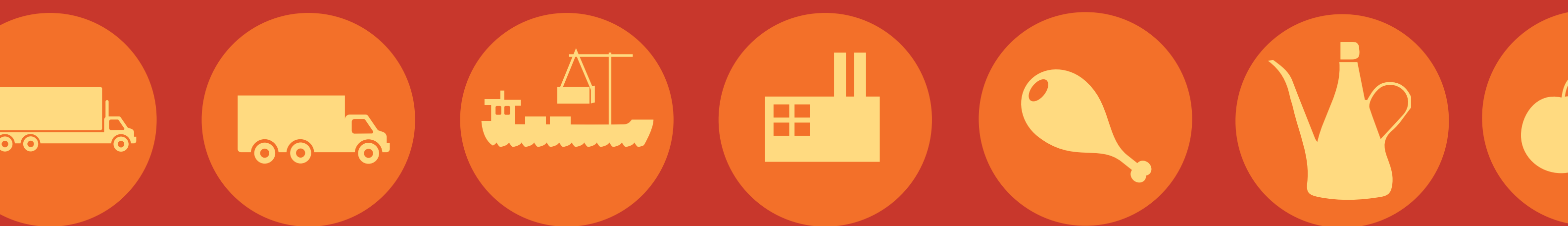
SALES OF SPECIALTY FOODS BY RETAIL CHANNEL

	2011		2012		2013		% Change
	$ Million	% Share	$ Million	% Share	$ Million	% Share	2011–2013
Mainstream	25,504	72.5	26,508	69.6	27,259	66.9	6.9
Specialty Food Stores	6,772	19.3	8,178	21.5	9,641	23.6	42.4
Natural Food Stores	2,894	8.2	3,384	8.9	3,873	9.5	33.8
Total	**35,170**	**100.0**	**38,070**	**100.0**	**40,773**	**100.0**	**15.9**

Does not include private-label sales, PLU items, or sales through Trader Joe's, Whole Foods Market, or Walmart. Data may not equal totals due to rounding.

Source: Mintel/SPINS/Nielsen

While mainstream supermarkets still account for more than two-thirds of specialty food sales, their share has been steadily slipping over the past three years. In contrast, specialty food stores leaped 42.4 percent to $9.6 billion and now account for 23.6 percent of sales. Natural retailers grew nearly as fast as specialty food stores, at 34 percent, to reach $3.9 billion in 2013.



Editor's note: The market size for the specialty food industry has been calculated as follows: SPINS provides three-year scanner sales data for food, drug, and mass segments and natural supermarkets (excluding Trader Joe's, Walmart, and Whole Foods Market) for sales in 59 segments. To reach the U.S. sales total, Mintel added estimated sales of products that were not collected by scanner data. This includes PLU sales through all channels, including specialty food stores, as well as sales through Trader Joe's and Whole Foods Market, but not Walmart.

SPECIALTY FOODS' PERFORMANCE BY SEGMENT

Product Category	2011 $ Million	2013 $ Million	% Change 2011-2013
Largest Segments			
Cheese and Cheese Alternatives	3,440	3,994	16.1
Frozen and Refrigerated Meats, Poultry, and Seafood	1,921	2,260	17.6
Chips, Pretzels, and Snacks	1,838	2,189	19.1
Coffee, Coffee Substitutes, and Cocoa	1,703	2,098	23.2
Yogurt and Kefir	1,628	1,960	20.4
Fastest-Growing Segments			
Nut and Seed Butters	153	231	51.6
Eggs	168	228	35.9
Frozen Desserts	1,048	1,343	28.2
Refrigerated Condiments	298	382	28.1
Ready-to-Drink Tea and Coffee	451	565	25.4
Slowest-Growing Large Segments			
Condiments, Dressings, and Marinades	1,439	1,579	9.7
Bread and Baked Goods	1,634	1,753	7.3
Frozen Lunch and Dinner Entrees	1,121	1,179	5.2
Specialty Segments with Highest Share vs. Non-Specialty Equivalents	**Total Market $ Million**	**Specialty Market $ Million**	**Specialty % of All Sales**
Refrigerated Salsas and Dips	1,647	821	49.8
Tea	1,877	752	40.1
Refrigerated Pasta and Pizza Sauces	55	17	30.9
Pickles, Peppers, Olives, and Other Vegetables	2,683	795	29.6
Yogurt and Kefir	7,459	1,960	26.3

Does not include private-label sales, PLU items, or sales through Trader Joe's, Walmart, or Whole Foods Market. Data may not equal totals due to rounding

Source: Mintel/SPINS/Nielsen

Across all specialty food segments, sales rose 15.9 percent during 2011–2013, triple the 5.2 percent growth in the overall food and beverage market. The five largest segments remain the same from 2012, though Yogurt and Kefir fell from second to fifth while Frozen and Refrigerated Meats, Poultry, and Seafood climbed from fifth to second.

The fastest-growing segments shift nearly every year, and this year is no different. Nut and Seed Butters, Eggs, and Frozen Desserts lead the way, with Frozen Desserts being the largest segment among the fast-growers. Almost no segments declined in dollar sales in 2011–2013, but three segments among the top 10 in sales had below-average single-digit growth: Bread and Baked Goods; Condiments, Dressings, and Marinades; and Frozen Lunch and Dinner Entrees.

SALES OF SPECIALTY FOODS AT RETAIL

Product Category	2011 $ Million	% Share	2013 $ Million	% Share	% Change 2011-2013	% Unit Sales Change 2011-2013
Cheese and Cheese Alternatives	3,440	9.8	3,994	9.8	16.1	1.9
Frozen & Refrigerated Meats, Poultry & Seafood	1,921	5.5	2,260	5.5	17.6	-1.1
Chips, Pretzels, and Snacks	1,838	5.2	2,189	5.4	19.1	2.7
Coffee, Coffee Substitutes, and Cocoa	1,703	4.8	2,098	5.1	23.2	3.1
Yogurt and Kefir	1,628	4.6	1,960	4.8	20.4	4.3
Bread and Baked Goods	1,634	4.6	1,753	4.3	7.3	-2.5
Condiments, Dressings, and Marinades	1,439	4.1	1,579	3.9	9.7	0.6
Frozen Desserts	1,048	3.0	1,343	3.3	28.2	-1.9
Candy and Individual Snacks	1,087	3.1	1,274	3.1	17.3	-4.9
Frozen Lunch and Dinner Entrees	1,121	3.2	1,179	2.9	5.2	-4.2
Milk	947	2.7	1,055	2.6	11.4	-3.2
Cookies and Snack Bars	838	2.4	939	2.3	12.1	0.3
Refrigerated Salsas and Dips	660	1.9	821	2.0	24.4	13.5
Nuts, Seeds, Dried Fruit, and Trail Mixes	701	2	819	2.0	16.9	-1.2
Pickles, Peppers, Olives & Other Vegetables	682	1.9	795	2.0	16.5	-2.8
Tea	658	1.9	752	1.8	14.3	-10.2
Refrigerated Juice and Functional Beverages	609	1.7	736	1.8	20.9	-4.8
Baking Mixes, Supplies, and Flour	649	1.8	723	1.8	11.4	-1.5
Shelf-Stable Fruits and Vegetables	628	1.8	710	1.7	13.1	-3.4
Oils and Vinegars	618	1.8	704	1.7	14.0	3.6
Cold Cereals	616	1.8	649	1.6	5.3	-5.1
Energy Bars and Gels	526	1.5	642	1.6	21.9	6.1
Crackers and Crispbreads	527	1.5	599	1.5	13.8	3.6
Water	500	1.4	591	1.4	18.1	12.5
Seasonings	509	1.4	590	1.4	16.0	2.4
Shelf-Stable Juices	560	1.6	583	1.4	4.2	-5.2
Ready-to-Drink Tea and Coffee	451	1.3	565	1.4	25.4	9.0
Soup	510	1.5	558	1.4	9.3	-0.1
Shelf-Stable Pasta and Pizza Sauces	488	1.4	539	1.3	10.4	-3.8
Shelf-Stable Pastas	444	1.3	482	1.2	8.6	-1.6
Carbonated Beverages	427	1.2	478	1.2	11.9	4.7
Beans, Grains, and Rice	398	1.1	421	1.0	5.9	0.9
Entrees and Mixes	386	1.1	411	1.0	6.5	-1.8
Refrigerated Condiments	298	0.8	382	0.9	28.1	66
Frozen Fruits and Vegetables	286	0.8	357	0.9	24.9	-0.7
Shelf-Stable Meats, Poultry, and Seafood	314	0.9	355	0.9	13.0	-4.1
Sweeteners	315	0.9	339	0.8	7.4	-0.4
Other Dairy and Alternatives	273	0.8	301	0.7	10.1	-2.4
Shelf-Stable Salsas and Dips	254	0.7	282	0.7	10.8	6.0
Frozen Appetizers and Snacks	246	0.7	265	0.7	7.6	3.9
Nut and Seed Butters	153	0.4	231	0.6	51.6	6.6
Eggs	168	0.5	228	0.6	35.9	1.8
Shelf-Stable Functional Beverages	143	0.4	177	0.4	24.1	9.2
Conserves, Jams, and Spreads	130	0.4	144	0.4	10.3	-0.9
Pudding and Shelf-Stable Desserts	135	0.4	140	0.3	3.6	-2.5
Frozen Breakfast Foods	109	0.3	123	0.3	13.0	5.8
Hot Cereals	86	0.2	96	0.2	11.2	1.0
Refrigerated Pastas	45	0.1	52	0.1	17.5	9.0
Rice Cakes	21	0.1	21	0.1	3.5	-11.9
Refrigerated Pasta and Pizza Sauces	15	0	17	0	12.2	12.1
Frozen Juice and Beverages	7	0	6	0	-3.4	-22
Other*	1,980	5.7	2,465	3.5	24.5	2.2
TOTAL	**35,169**	**100.0**	**40,772**	**100.0**	**15.9**	**-0.8**

Editor's Note: The total size of the U.S. food market and the numbers presented here are different because this product category data does not include PLU items (such as prepared foods, meat, bread, pastries), private label sales, or sales through Trader Joe's, Walmart, and Whole Foods Market. Mintel estimates that total sales can be as much as 40 percent higher when PLU, private-label, and product data from these chain retailers are included.

Does not include private-label sales, PLU items, or sales through Trader Joe's, Walmart, or Whole Foods Market. Data may not equal totals due to rounding.

Unit data is only from channels tracked by SPINS/Nielsen.

*"Other" comprises eight additional segments that are less significant and not itemized. However, sales are included in the total.

Source: Mintel/SPINS/Nielsen

Dollar sales of specialty foods grew in nearly every segment during 2011-2013, the majority by double-digit percentages. With mainstream supermarkets experiencing slowing growth of 6.9 percent, unit sales are also sluggish, recording a -0.8 percent change between 2011 and 2013. Specialty food stores and natural food stores grew at a more rapid rate: unit sales grew 21.1 percent and 23.2 percent, respectively, according to data from SPINS/Nielsen tracked channels.

RETAIL SALES OF ALL FOODS

Product Category	2011 $Million	% Share	2013 $Million	% Share	Change 2011-2013
Frozen and Refrigerated Meats, Poultry, and Seafood	30,454	8.2	32,149	8.2	5.6
Bread and Baked Goods	22,655	6.1	23,122	5.9	2.1
Milk	20,395	5.5	20,764	5.3	1.8
Carbonated Beverages	20,628	5.6	19,953	5.1	-3.3
Chips, Pretzels, and Snacks	16,716	4.5	18,382	4.7	10.0
Candy and Individual Snacks	16,921	4.6	18,009	4.6	6.4
Cheese and Cheese Alternatives	16,760	4.5	17,846	4.6	6.5
Frozen Lunch and Dinner Entrees	15,364	4.1	14,901	3.8	-3.0
Frozen Desserts	13,501	3.6	13,937	3.6	3.2
Condiments, Dressings, and Marinades	10,800	2.9	10,995	2.8	1.8
Cold Cereals	9,652	2.6	9,456	2.4	-2.0
Coffee, Coffee Substitutes, and Cocoa	7,894	2.1	9,370	2.4	18.7
Shelf-Stable Juices	9,334	2.5	9,151	2.3	-2.0
Water	7,889	2.1	8,700	2.2	10.3
Entrees and Mixes	7,937	2.1	8,162	2.1	2.8
Shelf-Stable Fruits and Vegetables	7,904	2.1	8,096	2.1	2.4
Yogurt and Kefir	6,400	1.7	7,459	1.9	16.5
Cookies and Snack Bars	6,714	1.8	7,261	1.9	8.1
Nuts, Seeds, Dried Fruit, and Trail Mixes	6,358	1.7	7,013	1.8	10.3
Crackers and Crispbreads	6,293	1.7	6,946	1.8	10.4
Refrigerated Juice and Functional Beverages	6,101	1.6	6,398	1.6	4.9
Other Dairy and Alternatives	6,296	1.7	6,153	1.6	-2.3
Soup	5,752	1.6	5,981	1.5	4.0
Shelf-Stable Functional Beverages	5,297	1.4	5,748	1.5	8.5
Frozen Fruits and Vegetables	5,300	1.4	5,625	1.4	6.1
Eggs	4,925	1.3	5,432	1.4	10.3
Shelf-Stable Meat, Poultry, and Seafood	4,887	1.3	5,421	1.4	10.9
Baking Mixes, Supplies, and Flour	5,109	1.4	5,397	1.4	5.6
Energy Bars and Gels	4,384	1.2	4,858	1.2	10.8
Oils and Vinegars	3,977	1.1	4,210	1.1	5.9
Sweeteners	3,793	1.0	3,667	0.9	-3.3
Beans, Grains, and Rice	3,415	0.9	3,583	0.9	4.9
Seasonings	2,990	0.8	3,345	0.9	11.9
Ready-to-Drink Coffee and Tea	2,867	0.8	3,288	0.8	14.7
Frozen Breakfast Foods	2,713	0.7	3,035	0.8	11.9
Pudding and Shelf-Stable Desserts	2,904	0.8	2,908	0.7	0.1
Pickles, Peppers, Olives, and Other Vegetables	2,572	0.7	2,683	0.7	4.3
Nut and Seed Butters	1,877	0.5	2,472	0.6	31.7
Shelf-Stable Pasta and Pizza Sauces	2,308	0.6	2,345	0.6	1.6
Shelf-Stable Pastas	2,303	0.6	2,338	0.6	1.5
Refrigerated Condiments	1,848	0.5	2,027	0.5	9.7
Frozen Appetizers and Snacks	1,952	0.5	2,002	0.5	2.5
Tea	1,702	0.5	1,877	0.5	10.3
Shelf-Stable Salsas and Dips	1,582	0.4	1,717	0.4	8.6
Refrigerated Salsas and Dips	1,358	0.4	1,647	0.4	21.3
Conserves, Jams, and Spreads	1,377	0.4	1,465	0.4	6.3
Hot Cereals	1,208	0.3	1,276	0.3	5.6
Frozen Juice and Beverages	461	0.1	394	0.1	-14.7
Refrigerated Pasta	302	0.1	333	0.1	10.3
Rice Cakes	242	0.1	208	0.1	-14.1
Refrigerated Pasta and Pizza Sauces	50	0	55	0	10.0
Other*	18,322	3.2	20,642	3.4	12.7
TOTAL	**370,743**	**100.0**	**390,202**	**100.0**	**5.2**

Specialty food is growing more than three times faster than all food. Overall retail sales of all food grew 5.2 percent, compared with specialty's 15.9 percent.

Total market is based on Symphony IRI InfoScan Reviews; does not include private-label sales or PLU items.
Data may not equal totals due to rounding.
Does not include sales through Trader Joe's, Walmart, or Whole Foods Market

Source: Mintel/SPINS/Nielsen/Symphony IRI InfoScan Reviews

SPECIALTY FOODS SHARE OF ALL FOODS SALES BY CATEGORY

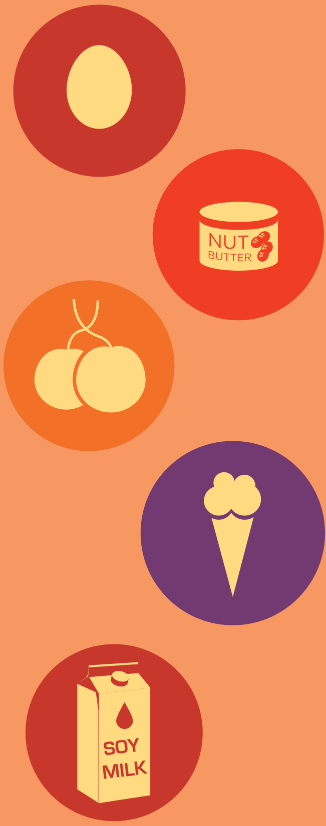
Specialty Product Category	Share of All Sales %
Refrigerated Salsas and Dips	49.8
Tea	40.1
Refrigerated Pasta and Pizza Sauces	30.9
Pickles, Peppers, Olives, and Other Vegetables	29.6
Yogurt and Kefir	26.3
Shelf-Stable Pasta and Pizza Sauces	23.0
Coffee, Coffee Substitutes, and Cocoa	22.4
Cheese and Cheese Alternatives	22.4
Shelf-Stable Pastas	20.6
Refrigerated Condiments	18.9
Seasonings	17.6
Ready-to-Drink Tea and Coffee	17.2
Oils and Vinegars	16.7
Shelf-Stable Salsas and Dips	16.4
Refrigerated Pastas	15.7
Condiments, Dressings, and Marinades	14.4
Baking Mixes, Supplies, and Flour	13.4
Frozen Appetizers and Snacks	13.2
Energy Bars and Gels	13.2
Cookies and Snack Bars	12.9
Chips, Pretzels, and Snacks	11.9
Beans, Grains, and Rice	11.8
Nuts, Seeds, Dried Fruit, and Trail Mixes	11.7
Refrigerated Juice and Functional Beverages	11.5
Rice Cakes	10.3
Conserves, Jams, and Spreads	9.8
Frozen Desserts	9.6
Nut and Seed Butters	9.3
Soup	9.3
Sweeteners	9.2
Shelf-Stable Fruits and Vegetables	8.8
Crackers and Crispbreads	8.6
Frozen Lunch and Dinner Entrees	7.9
Bread and Baked Goods	7.6
Hot Cereals	7.5
Candy and Individual Snacks	7.1
Frozen and Refrigerated Meats, Poultry, and Seafood	7.0
Cold Cereals	6.9
Water	6.8
Shelf-Stable Meat, Poultry, and Seafood	6.6
Shelf-Stable Juices	6.4
Frozen Fruits and Vegetables	6.3
Milk	5.1
Entrees and Mixes	5.0
Other Dairy and Alternatives	4.9
Pudding and Shelf-Stable Desserts	4.8
Eggs	4.2
Frozen Breakfast Foods	4.1
Shelf-Stable Functional Beverages	3.1
Carbonated Beverages	2.4
Frozen Juice and Beverages	1.6
Other*	11.9
TOTAL SHARE OF MARKET	**10.4**

Specialty foods accounted for 10.4 percent of the total retail food market in 2013. While many of the 59 segments represented in this report have a share near that overall marker, several segments boast much higher penetration. The five top segments, each with 25 to 50 percent share, are Refrigerated Salsas and Dips; Tea; Refrigerated Pasta and Pizza Sauces; Pickles, Peppers, Olives, and Other Vegetables (gaining the most share); and Yogurt and Kefir.

Specialty market does not include private-label sales, PLU items, or sales through Trader Joe's, Walmart, or Whole Foods Market.
Total market is based on Symphony IRI InfoScan Reviews; does not include private-label sales or PLU items.
Data may not equal totals due to rounding.
Source: Mintel/SPINS/Nielsen/Symphony IRI InfoScan Reviews

SALES GROWTH OR DECLINE BY PRODUCT CATEGORY

Product Category	Specialty Foods % Change 2011-2013	All Foods % Change 2011-2013	Variance (% point)
Eggs	35.9	10.3	25.6
Frozen Desserts	28.2	3.2	25.0
Nut and Seed Butters	51.6	31.7	19.8
Frozen Fruits and Vegetables	24.9	6.1	18.8
Refrigerated Condiments	28.1	9.7	18.4
Rice Cakes	3.5	-14.1	17.6
Refrigerated Juice and Functional Beverages	20.9	4.9	16.0
Shelf-Stable Functional Beverages	24.1	8.5	15.6
Carbonated Beverages	11.9	-3.3	15.2
Other Dairy and Alternatives	10.1	-2.3	12.4
Pickles, Peppers, Olives, and Other Vegetables	16.5	4.3	12.2
Frozen and Refrigerated Meats, Poultry, and Seafood	17.6	5.6	12.1
Frozen Juice and Beverages	-3.4	-14.7	11.3
Energy Bars and Gels	21.9	10.8	11.1
Candy and Individual Snacks	17.3	6.4	10.9
Sweeteners	7.4	-3.3	10.7
Shelf-Stable Fruits and Vegetables	13.1	2.4	10.7
Ready-to-Drink Tea and Coffee	25.4	14.7	10.7
Cheese and Cheese Alternatives	16.1	6.5	9.6
Milk	11.4	1.8	9.6
Chips, Pretzels, and Snacks	19.1	10.0	9.1
Shelf-Stable Pasta and Pizza Sauces	10.4	1.6	8.8
Frozen Lunch and Dinner Entrees	5.2	-3.0	8.2
Oils and Vinegars	14.0	5.9	8.1
Condiments, Dressings, and Marinades	9.7	1.8	7.9
Water	18.1	10.3	7.8
Cold Cereals	5.3	-2.0	7.3
Refrigerated Pasta	17.5	10.3	7.2
Shelf-Stable Pastas	8.6	1.5	7.0
Nuts, Seeds, Dried Fruit, and Trail Mixes	16.9	10.3	6.6
Shelf-Stable Juices	4.2	-2.0	6.2
Baking Mixes, Supplies, and Flour	11.4	5.6	5.7
Hot Cereals	11.2	5.6	5.6
Soup	9.3	4.0	5.3
Bread and Baked Goods	7.3	2.1	5.2
Frozen Appetizers and Snacks	7.6	2.5	5.1
Coffee, Coffee Substitutes, and Cocoa	23.2	18.7	4.5
Seasonings	16.0	11.9	4.1
Conserves, Jams, and Spreads	10.3	6.3	4.0
Tea	14.3	10.3	4.0
Cookies and Snack Bars	12.1	8.1	3.9
Yogurt and Kefir	20.4	16.5	3.8
Entrees and Mixes	6.5	2.8	3.7
Pudding and Shelf-Stable Desserts	3.6	0.1	3.5
Crackers and Crispbreads	13.8	10.4	3.4
Refrigerated Salsas and Dips	24.4	21.3	3.1
Shelf-Stable Salsas and Dips	10.8	8.6	2.3
Refrigerated Pasta and Pizza Sauces	12.2	10.0	2.2
Shelf-Stable Meat, Poultry, and Seafood	13.0	10.9	2.1
Frozen Breakfast Foods	13.0	11.9	1.2
Beans, Grains, and Rice	5.9	4.9	1.0
Other	24.5	12.7	11.8
Total	**15.9**	**5.2**	**10.7**



This chart compares dollar sales growth rates for specialty categories with all foods. Fastest growers are often from smaller or mid-size segments, and change from year to year based on trends in the marketplace. For 2011-2013, the specialty segments that outperformed the total market by the widest margin are Eggs; Frozen Desserts; Nut and Seed Butters; Frozen Fruits and Vegetables; and Refrigerated Condiments. These leaders show how the specialty market is growing throughout the store, with two of the categories in the refrigerated case, two in frozen, and one shelf-stable.

Total market is based on Symphony IRI InfoScan Reviews; does not include private-label sales, PLU items, or sales through Trader Joe's, Walmart, or Whole Foods Market. Data may not equal totals due to rounding.

Source: Mintel/SPINS/Nielsen/Symphony IRI Infoscan Reviews

THE SPECIALTY FOOD SUPPLY CHAIN

AVERAGE ANNUAL SALES BY SUPPLIER TYPE

	2012 AVG $ SALES	2013 AVG $ SALES
Manufacturers	1,711,983	1,904,400
Importers	1,773,334	2,055,900
Distributors	4,681,250	6,753,350
Brokers	3,046,875	2,582,950

Source: Mintel

The average annual sales figures for each supply chain participant, with the notable exception of brokers, increased in 2013 as the industry grew. Importers' growth was slightly stronger than that of manufacturers. The wide range of entities in the distributor and broker segments make the average sales less significant than for manufacturers and importers.

AVERAGE SKUS BY SUPPLIER TYPE

	2012	2013
Manufacturers	37	41
Importers	94	181
Distributors	1,638	1,849
Brokers	2,422	1,607

Source: Mintel

As the economy has improved, specialty food manufacturers and importers are increasing the average number of SKUs that they sell, to 41 and 181, respectively. Distributors have also increased the average number of SKUs that they represent, although the amount varies widely, from small distributors with 500 products to major distributors with more than 40,000 SKUs.

IN THEIR OWN WORDS

MANUFACTURERS

What is the biggest threat to your business?

- "Rises in commodity costs and government regulation."
- "Balance between increasing production and maintenance of quality."
- "Constant changes in governmental food policy."
- "Continued consolidation of large grocers and distributors."

IMPORTERS

What are you planning to do differently in 2014?

- "Growing distribution, adding new sales staff."
- "Expanding our product reach to other parts of the country."
- "Continue upgrading warehousing and packing facilities for FSMA compliance."

DISTRIBUTORS

What is your biggest gripe about the specialty food industry?

- "Ability to get listings in stores who prefer their own private label."
- "Certain government regulations that favor the larger companies."
- "Non-merchandising costs, i.e. slotting fees, advertising, etc."

BROKERS

What is your biggest gripe about the specialty food industry?

- "The number of people trying to get into business who have no idea what they're doing."
- "Increasing emphasis on nutritional value rather than taste and quality."
- "Pack sizes still too large, specialty distributors' margins too high."

SPECIALTY FOOD RETAILERS

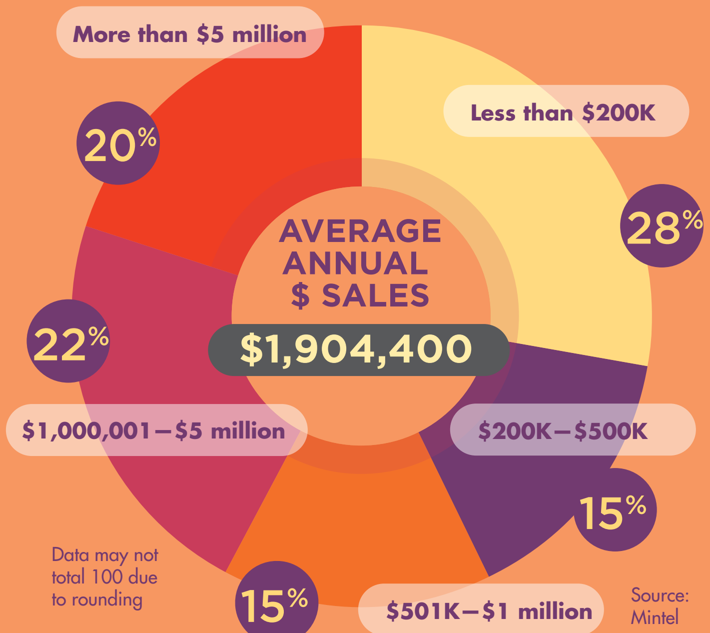
What is the biggest challenge to you as a specialty food retailer?

- "It is difficult to have a clear identity when we are trying to appeal to as many people as possible."
- "Keeping on top of trends and marketing to our diverse customers."
- "Finding new and interesting products that fit within our business brand and are low enough cost for people to buy them."
- "To turn over product before expiration. Manufacturers are putting too early a date just so they can sell more."
- "Teaching our customers and employees the stories behind our foods."

SPECIALTY FOOD MANUFACTURERS

Average Annual Sales: $1,904,400
Average Number of SKUs: 41

AVERAGE ANNUAL SPECIALTY FOOD SALES



More than 40 percent of specialty food manufacturers report annual sales of less than $500,000, and nearly three in 10 collect less than $200,000. The industry remains filled with small players that are selling either to a small geographical area or niche channels.

NUMBER OF SKUs PRODUCED

Number of SKUs	2012 %	2013 %
10 or fewer	36	28
11–25	21	26
26–50	17	17
51–100	9	13
101 or more	17	17
Average # of SKUs sold	**37**	**41**

Data may not total 100 due to rounding
Source: Mintel

The average number of SKUs sold during 2013 was up 11 percent from 2012. Most manufacturers continue to be small, with more than half having 25 SKUs or less.

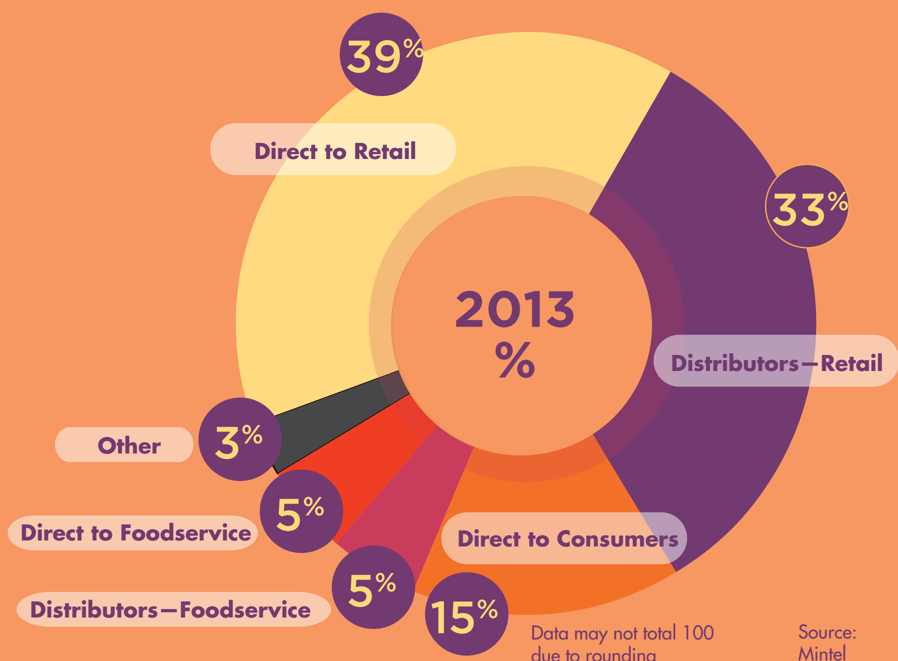
DOLLAR SALES CHANGE IN THE PAST YEAR

	%
Up 20% or more	43
Up 10–19%	26
Up 1–9%	16
Unchanged	8
Down 1–9%	7
Down 10–19%	1
Down 20% or more	0

Data may not total 100 due to rounding
Source: Mintel

A strong 85 percent of manufacturers reports positive sales in 2013, with 43 percent sporting an increase above 20 percent. Only 8 percent experienced a sales decline.

MANUFACTURER SALES BY CHANNEL



The share of specialty food manufacturers' annual sales by channel has remained constant since 2010. About 44 percent sell direct to retail and foodservice, whereas 38 percent sell through distributors. Sales to consumers were unchanged in 2013 from the previous year.

SPECIALTY FOOD MANUFACTURERS

MANUFACTURER EXPENSES BY TYPE

	2012 %	2013 %
Raw Materials	35	29
Production, Warehousing, Shipping, and Labor	24	21
Packaging	14	12
Advertising and Marketing	11	10
Administrative	10	9
Net Profit	–	14

Data may not total 100 due to rounding

Source: Mintel

Raw materials and production, warehousing, shipping, and labor account for half of manufacturers' expenses. The cost of raw materials dropped significantly due to better agricultural prices. The 14 percent estimate of net profit was recorded for the first time.

INFLUENTIAL PRODUCT CLAIMS

	% Manufacture this Type of Product	Estimated % of Sales
All Natural	92	79
Non-GMO	42	31
Sustainable	24	18
Eco-friendly	23	18
Organic	22	10
Fair Trade	8	4

Multiple answers accepted

Source: Mintel

The past year saw a drop in companies that manufacture products that claim to be sustainable (9 points), eco-friendly (7 points), and fair trade (7 points). Likewise, the estimated percentage of sales from these categories declined. New in 2013 was the discussion around non-GMO products. This attribute ranks the second-highest in both manufacturing and percent of sales (42 percent and 31 percent, respectively).

MANUFACTURING AND CO-PACKING

	2012 %	2013 %
Own a Manufacturing Facility	56	53
Co-pack for Other Manufacturers	37	49
Private Label for Retailers	50	55

Multiple answers accepted

Source: Mintel

More than half of specialty food manufacturers own a manufacturing facility. To keep their plants busy, they co-pack for other manufacturers and also private label for retailers. Both the co-packing and private label business jumped in 2013.

SPECIALTY FOOD INNOVATION PLANS FOR 2014

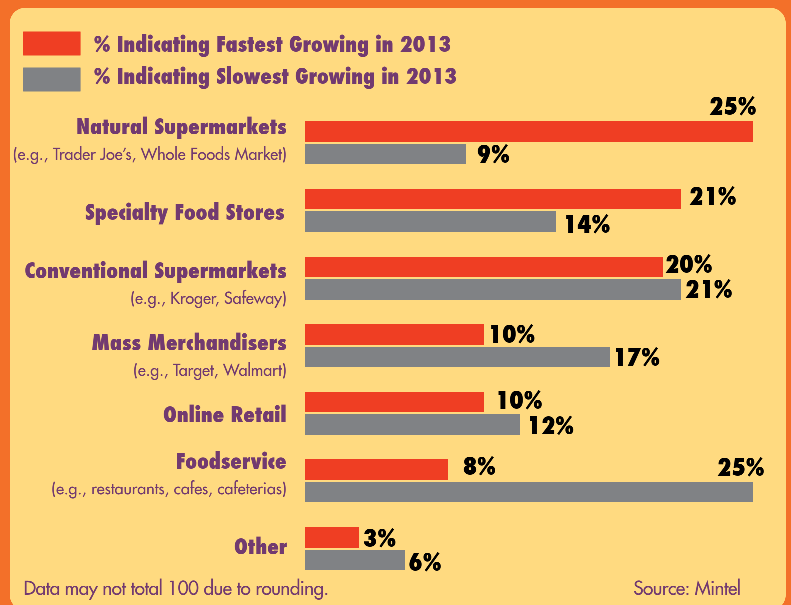
I plan to develop specialty food that is also...	%
Gluten-free	43
Convenient/Easy to Prepare	38
Indulgent	32
Less Indulgent and More Healthful	26
Functional	26
Portable	20
Allergen-free	18
Other	19

Multiple answers accepted

Source: Mintel

Gluten-free remains an important specialty food offering, as 43 percent of manufacturers report it to be in their 2014 innovation plans. Also worth noting is the continued emphasis on convenient/easy-to-prepare foods. The largest drop in 2013 was seen in plans for specialty food products that are less indulgent and more healthful.

THE MANUFACTURER VIEWPOINT: CHANNEL SALES GROWTH



Data may not total 100 due to rounding.

Source: Mintel

In 2013, natural supermarkets top the list again as the channel where manufacturers report the fastest growth, at 25 percent. Specialty food stores and conventional supermarkets present an interesting dynamic: they rank as the second- and third-most cited channel for fast growth (by 21 percent and 20 percent of manufacturers, respectively), yet also show a strong portion of manufacturers claiming that they are slow-growing (14 percent and 21 percent, respectively). Foodservice appears to be suffering, with 25 percent reporting it as the slowest growing.

SPECIALTY FOOD IMPORTERS

Average Annual Sales: $2,055,900
Average Number of SKUs: 181

DOLLAR SALES CHANGE

	%
Up 20% or more	8
Up 10–19%	46
Up 1–9%	23
Unchanged	23
Down 1–9%	–
Down 10–19%	–
Down 20% or more	–

Data may not total 100 due to rounding
Source: Mintel

For importers, 2013 was a good year. More than half reported sales increases above 10 percent and none reported a sales decline.

IMPORTER SALES BY CHANNEL

Share of Total Sales	2013 % of Sales
Distributors—Retail	38
Direct to Retail	25
Distributors—Foodservice	16
Other	12
Direct to Foodservice	8
Direct to Consumer	1

Data may not total 100 due to rounding.
Source: Mintel

Importers indicate that retail distributors account for the majority of sales, at 38 percent. In contrast to manufacturers, importers have embraced the foodservice channel, with both foodservice distributor and direct to foodservice channel sales increasing over 2012 numbers.

THE IMPORTER VIEWPOINT: CHANNEL SALES GROWTH

	% Indicating Fastest Growing in 2013	% Indicating Slowest Growing in 2013
Specialty Food Stores	38	8
Natural Supermarkets (e.g., Trader Joe's, Whole Foods Market)	23	23
Online Retail	15	8
Conventional Supermarkets (e.g., Kroger, Safeway)	8	15
Foodservice (e.g., restaurants, cafes, cafeterias)	8	15
Mass Merchandisers (e.g., Target, Walmart)	8	31
Other	–	–

Data may not total 100 due to rounding
Source: Mintel

Importers have noted a shift in channel growth from 2012, with 38 percent reporting that specialty food stores were the fastest-growing channel in 2013. Natural supermarkets remain a strong channel, as shown by nearly a quarter citing them as another fast-growing channel. Mass merchandisers have continued to slow for importers.

THE IMPORTER VIEWPOINT: EMERGING CUISINES

Region	% of Importers
Latin, other than Mexican	54
Mediterranean	54
Indian	31
African	23
Thai	23
Vietnamese	23
Chinese	15
Eastern European	15
Italian	15
Japanese	15
Mexican	15
Korean	8
Russian	8
Spanish	8
French	–
Caribbean	–
Other	31

Multiple answers accepted
Source: Mintel

As in 2013, Latin and Mediterranean cuisines remain at the top of the list of cuisines expected to emerge in 2014. African, Indian, and Thai all showed significant increases over the past year in the percentage of importers reporting them as cuisines to watch in the next year.

NATURAL/ETHICAL SOURCING OF PRODUCTS

	% Import this Type of Product	Estimated % of Sales
All Natural	100	67
Non-GMO	77	49
Eco-friendly	69	25
Organic	69	14
Fair Trade	62	12
Sustainable	62	13

Multiple answers accepted
Source: Mintel

All importers reported doing business in all natural in 2013. Noticeably different, though, is the percent of sales these items account for; all-natural products accounted for 67 percent of sales in 2013, a drop of 11 points from 2012. Non-GMO offerings have become a big factor, with 77 percent importing this type of product, representing nearly half of sales.

SPECIALTY FOOD DISTRIBUTORS

Average Annual Sales: $6,753,350
Average Number of SKUs: 1,849

DOLLAR SALES CHANGE

	%
Up 20% or more	–
Up 10–19%	36
Up 1–9%	50
Unchanged	–
Down 1–9%	7
Down 10–19%	7
Down 20% or more	–

Data may not total 100 due to rounding.
Source: Mintel

The vast majority of distributors, at 86 percent, indicate some growth, but that growth was modest, as no distributors reported a sales change of more than 20 percent.

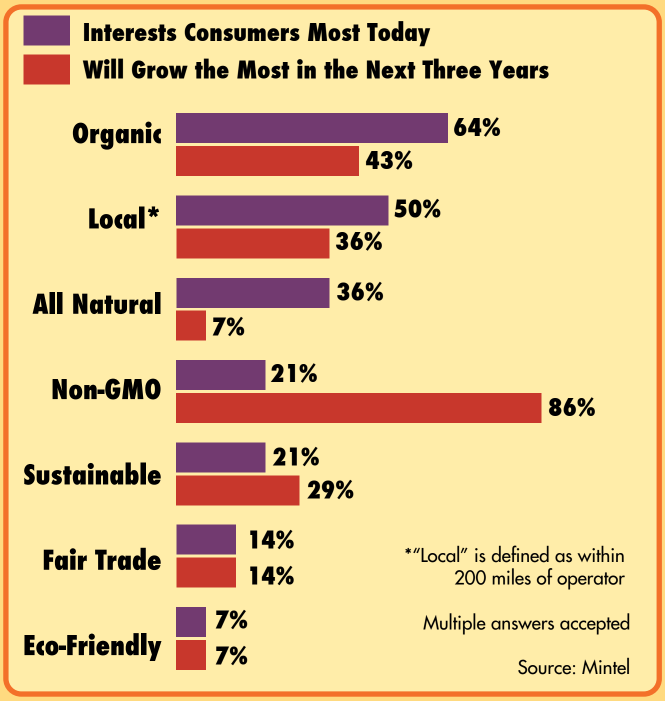
THE DISTRIBUTOR VIEWPOINT: CHANNEL SALES GROWTH

	% Indicating Fastest Growing in 2013	% Indicating Slowest Growing in 2013
Conventional Supermarkets (e.g., Kroger, Safeway)	36	21
Online Retail	36	7
Natural Supermarkets (e.g., Trader Joe's, Whole Foods Market)	14	29
Specialty Food Stores	7	7
Foodservice (e.g., restaurants, cafes, cafeterias)	7	—
Mass Merchandisers (e.g., Target, Walmart)	—	36
Other	—	—

Data may not total 100 due to rounding. Source: Mintel

In contrast to manufacturers and importers, more distributors note that conventional supermarkets represented the fastest-growing channel throughout 2013, along with online retail. Also of note is the slow growth of mass merchandisers, which 36 percent of distributors report as the slowest-growing channel.

THE DISTRIBUTOR VIEWPOINT: NATURAL/ETHICAL CLAIMS



Distributors believe that all-natural offerings will decline in popularity (by 29 points), and will be of minimal interest to consumers in the next three years. Distributors are highly optimistic that non-GMO claims will draw consumer interest in the coming years, while the majority report that organic claims are capturing attention in today's market.

DISTRIBUTOR SALES BY CHANNEL

	Sales by %
Conventional Supermarkets	35
Specialty Food Stores	21
Foodservice (e.g., restaurants, cafes, cafeterias)	14
Natural Supermarkets (e.g., Trader Joe's, Whole Foods Market)	12
Other	10
Mass Merchandisers (e.g., Target, Walmart)	6
Delis	1
Gift Stores	1
Club Stores (e.g., Costco, Sam's Club)	1

Data may not total 100 due to rounding. Source: Mintel

As in 2012, supermarkets remain the channel accounting for the largest share of sales, at 35 percent. Specialty food stores account for fewer sales, as some distributors focus on volume retailers.

SPECIALTY FOOD BROKERS

Average Annual Sales: $2,582,950
Average Number of SKUs: 1,607

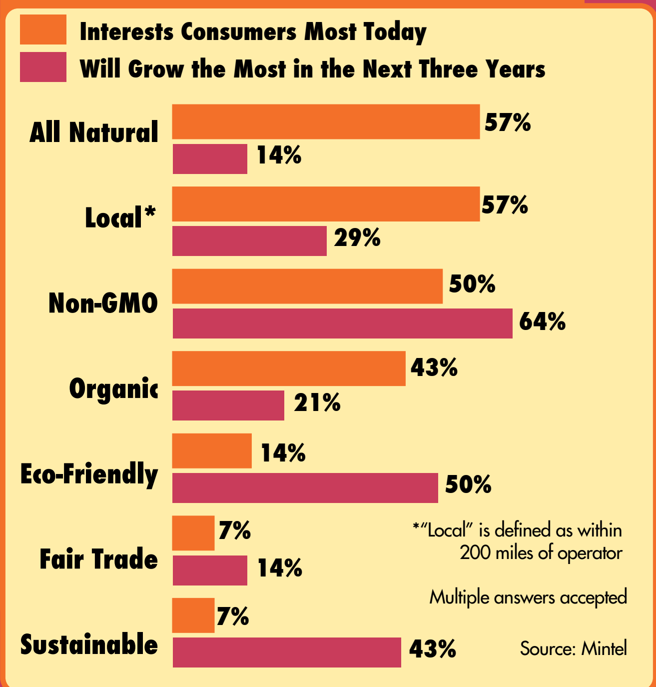
CHANNELS SERVICED AND FASTEST-GROWING CHANNELS

	Channels Serviced in 2013 %	% Indicating Fastest-Growing Channel
Specialty Food Stores	100	29
Natural Supermarkets (e.g., Trader Joe's, Whole Foods Market)	79	14
Conventional Supermarkets (e.g., Kroger, Safeway)	71	14
Foodservice (e.g., restaurants, cafes, cafeterias)	43	7
Mass Merchandisers (e.g., Target, Walmart)	36	14
Online	29	7
Other	–	14

Channels Serviced: Multiple answers accepted. Source: Mintel
Fastest Growing Channels: Data may not total 100 due to rounding

Among channels serviced by specialty food brokers, 100 percent service specialty food stores; brokers also see that segment as the fastest growing.

THE BROKER VIEWPOINT: NATURAL/ETHICAL CLAIMS



More than half of brokers surveyed report seeing that local offerings continue to be of interest, and all natural is keeping pace. As seen among manufacturers and distributors, half of brokers note significant interest surrounding the non-GMO claim now, and even more (64 percent) see it growing in the years to come.

DOLLAR SALES CHANGE

	2012 %	2013 %
Up 20% or more	12	14
Up 10–19%	19	43
Up 1–9%	44	21
Unchanged	12	14
Down 1–9%	12	7
Down 10–19%	–	–
Down 20% or more	–	–

Data may not total 100 due to rounding Source: Mintel

Nearly four in five brokers reported positive sales growth in 2013. The highest percentage recorded growth between 10 and 19 percent.

SPECIALTY FOOD RETAILERS

Average Annual Sales: $4.97 million
Average Sales per Square Foot: $1,045

KEY STORE STATS

	2010 Avg	2011 Avg	2012 Avg	2013 Avg
Square Footage	4,430	5,010	5,113	4,748
SKUs	1,719	2,112	1,366	1,877
Transactions per Week	2,592	3,144	1,925	2,563
Transaction Size	$32.45	$28.05	$32.73	$37.26
Value of Inventory	$282,566	$315,357	$156,187	$317,075

Source: Mintel

Specialty food retailers that participated in the 2013 survey appear to be slightly smaller in store size compared with 2012, yet carry more SKUs per store as well as a significantly larger value of inventory.

DOLLAR SALES CHANGE

	2013 %
Up 20% or more	10
Up 10–19%	25
Up 1–9%	37
Unchanged	23
Down 1–9%	4
Down 10–19%	–
Down 20% or more	1

Data may not equal totals due to rounding
Source: Mintel

Retailers continue to report growth in sales, with 35 percent reporting increases of more than 10 percent. Only one in 20 recorded a decrease.

NUMBER OF SPECIALTY FOOD SUPPLIERS

	2011	2012	2013
Average # of Suppliers	88	67	92

Source: Mintel

In 2012, the vast majority (88 percent) of retailers said they used fewer than 100 specialty suppliers, with the average number being 67. In 2013, the percentage of operators using fewer than 100 specialty suppliers dropped to 77 percent, yet the average number of suppliers jumped to 92—the highest in the history of this research. This shift is likely due to increased purchasing from local vendors.

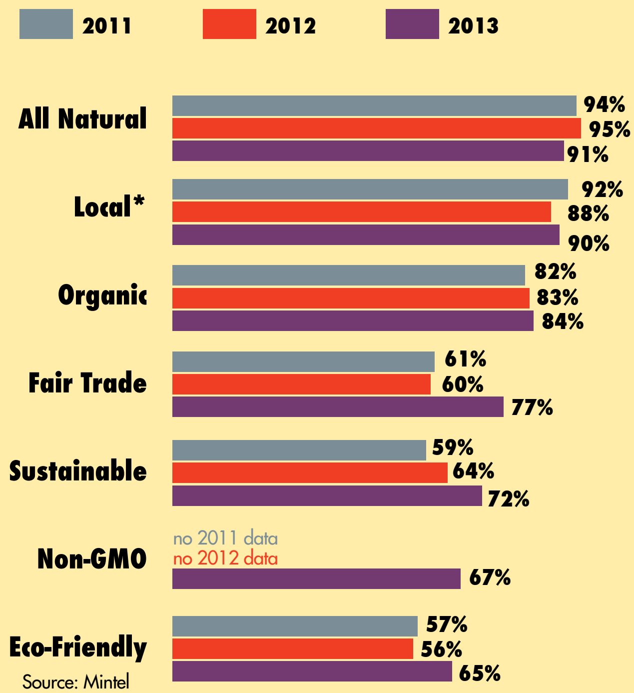
PERCENTAGE OF SALES BY DEPARTMENT

	%
Specialty Grocery	27
Deli and Prepared Foods	21
Meat and Seafood	16
Wine and Other Alcoholic Beverages	15
Cheese	15
Produce	12
Bakery	8
Non-foods	13
Other	10

Source: Mintel

Retailers were asked whether they have given departments in their stores. Based on "yes" responses, they were then asked the percentage of total store sales that these departments represent. Consequently, results do not sum to 100 and should be interpreted individually. A major shift seen since 2010 is a decline in sales from bakery departments. Other departments have stayed roughly at the same share.

CHARACTERISTICS OF PRODUCTS SOLD



Source: Mintel

*"Local" is defined as within 200 miles of operator Multiple answers accepted

In 2013, specialty food retailers continue to focus on all natural, local, and organic offerings, as these characteristics account for the majority of products sold in stores, the same as in previous years. The change in 2013, though, is the dramatic rise in sustainable, fair trade, and eco-friendly products. Non-GMO was new to the 2013 survey, and a notable 67 percent of retailers reported selling products with this feature.

SPECIALTY FOOD RETAILERS

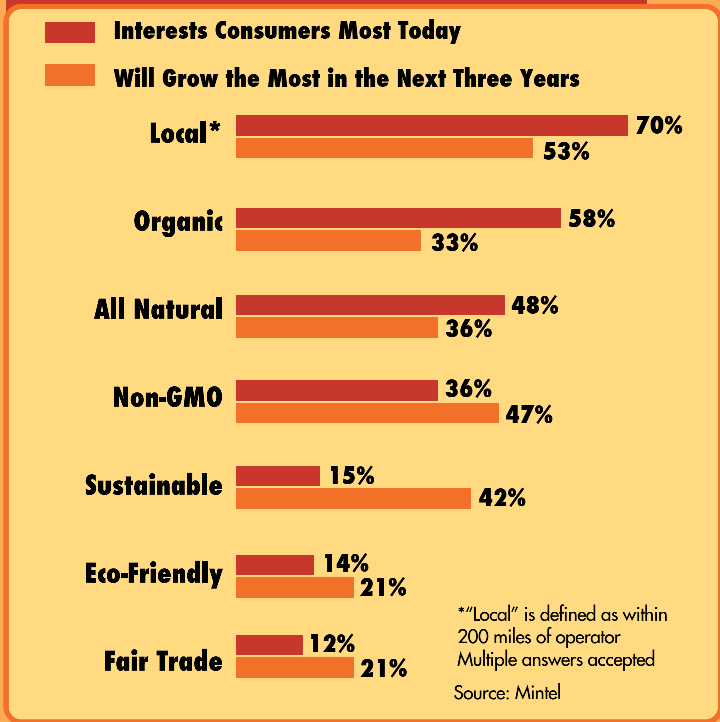
THE RETAILER VIEWPOINT: WHAT ARE THE EMERGING CUISINES?

	%
Mediterranean	47
Spanish	31
Latin, other than Mexican	26
Thai	25
Vietnamese	25
Indian	22
Italian	22
African	21
Korean	21
Eastern European	15
French	15
Caribbean	14
Other	12
Japanese	10
Mexican	10
Chinese	2
Russian	1

Multiple answers accepted Source: Mintel

The top emerging cuisine according to retailers is once again Mediterranean, with 47 percent predicting this cuisine type will emerge in 2014.

THE RETAILER VIEWPOINT: NATURAL/ETHICAL CLAIMS



Specialty food retailers continue to show faith in the power of local products: 53 percent report it as the claim to show the most growth in the next three years. Unlike some of the other supply chain participants, retailers are more optimistic about all-natural products. New entrant non-GMO saw 36 percent of retailers reporting it as a trait of interest to consumers today, and 47 percent say it will grow the most in the next three years.

SHARE OF NATURAL/ETHICAL PRODUCT SALES

	2012 % Sales	2013 % Sales
All Natural	40	41
Non-GMO	–	27
Local*	21	23
Organic	13	18
Sustainable	15	18
Eco-Friendly	9	15
Fair Trade	6	10

*"Local" is defined as within 200 miles of operator. Data may total 100 due to rounding. Source: Mintel

All-natural products continue to prove their worth, as they account for a larger share of sales, up from one-third in 2010 to 41 percent in 2013. Non-GMO makes a splash on the market with a greater share of sales than most other claims. Sales are increasing slightly across nearly all six claims.

NON GMO

As a service to Specialty Food Association members, Mintel/Specialty Food Association will be offering complimentary access to the entire 2014 State of the Specialty Food Industry research online. Access will be available beginning April 15.

Ron Tanner is Specialty Food Association's vice president, philanthropy, government, and industry relations.