



Meat substitutes

Will the protein industry survive or thrive through the disruption?



OC&C
Strategy consultants

uncommon sense

The rapid rise of meat substitutes has all the hallmarks of a classic market bubble - lots of new entrants trying to cash in on the gold rush, a wide range of competing (often as yet unproven) technologies vying for recognition and investment - and huge hype, perhaps only matched by the heady valuations being realised.



A woman with curly hair is shown from the side, eating from a paper bag. She is wearing a colorful striped shirt. The background is a solid red color. The text is overlaid on the right side of the image.

Introduction

Beneath the fanfare there are fundamental shifts in consumer behaviour that are driving the rapid growth and which, we believe, will cause major disruption to the protein industry.

Indeed we believe that 10-20% of current protein production will likely be displaced by substitutes, and their rise will create a much more profound impact on the industry and its competitive balance than mere volume loss alone.

We have been working with our clients in this space, and are keenly watching these developments. Whether you view this as a time to act or a time to wait whilst the dust settles, the meat substitute trend cannot be ignored by the protein industry. In our view it represents both the biggest threat and the biggest opportunity that the industry has seen in years. Whether you agree or disagree with that perspective, this is a pivotal time for the industry to engage in the debate.

The rise of meat alternatives

Over the last few years there has been rapid growth in plant-based options across a number of applications which would traditionally have contained meat.

Plant based alternatives are no longer the niche, little-known products occupying a corner of the fixture - they are now becoming well-known, accepted alternatives to meat, with retailers offering them more and more shelf space. The meat-free markets in the US and UK were worth €1.6bn and £1.3bn respectively in 2018 and displaying strong, double-digit growth, with the trend expected to continue.

Foodservice players (particularly in the US) have been quick to capitalise on this shift towards plant-based, contributing to acceleration of growth in 2019.

On the surface this shift in consumer behaviour is well documented and manifests in an increase in the number of 'meat reducers' and in the uptake of various non-meat diets.

However, these consumer groups are not homogeneous. They display divergent drivers and attitudes and have a host of different motivations which are causing this shift in consumption patterns.

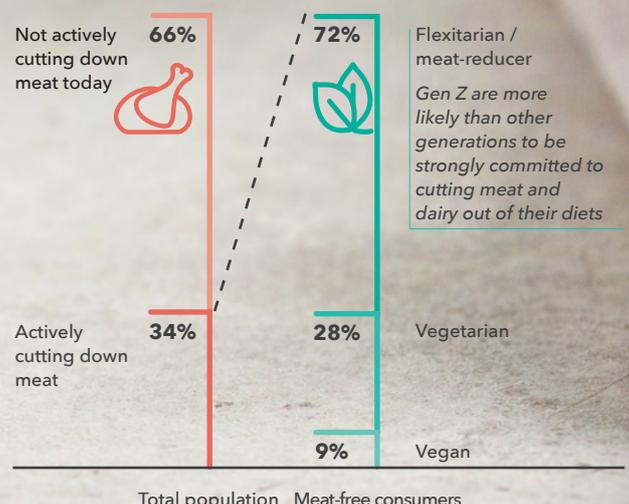
These attitudes appear well entrenched and their impact has been highly visible across and within a range of food categories in recent years;

- 1. Health considerations** - Growing awareness of the health benefits of plant-based versus meat and dairy diets
- 2. Environmental awareness** - Increased awareness of the environmental impact of the farming and consumption of meat-related products
- 3. Animal welfare concerns** - The rise of the conscious consumer has led to an increase in the number of people factoring in animal welfare into their purchase decisions
- 4. Cost of animal-based products** - The price of traditional cuts of meat has risen faster than that of meat alternatives, closing the gap and making meat-free products more appealing

MARKET GROWTH OF SUBSTITUTES

Country	Market size	15-25% pa	15-25% pa
	€1.6bn	17%	15%
	£1.3bn	15%	12%

UNDERSTANDING CONSUMERS



(The needs and product types that these consumer groups want is likely to differ)





The impact on the protein industry

Hoping to cash in on this growing market are a huge number of new entrants, with capital being deployed behind an array of differing brands, technologies and capabilities.

Indeed in 2019, Beyond Meat, one of the world's largest meat free alternatives brands went public at a valuation of \$1.5bn and major international consumer businesses are focusing in on the opportunity. This growth is being supported by the leading retail and foodservice operators further broadening their offer to capitalise on the trend.

We believe the meat-free trend will be a major disruptor for the protein industry, and expect 10-20% of current protein production to be displaced by substitutes. Indeed trends in comparable industries have achieved or exceeded this impact, such as dairy-free milk.

However, we expect the rise of meat substitutes to have a much more profound impact on the protein industry that mere volume loss alone.

Given differing consumer drivers, attitudes and motivations we expect materially different growth in meat substitutes across meal occasions, meal types, product categories and proteins. As you can see in exhibit 3, growth varies significantly by category and between the chiller and freezer.

Indeed for each of these consumer groups we expect different competitive scenarios to play out reflecting very different consumer requirements and preferences. Each 'battleground' will display its own 'recipe for success'.



How to react

A clearer understanding of where these changes in consumer behaviour are likely to happen, and what implications they may have for your business and its relative competitive position is the foundation of an effective response.

Those businesses that have a clear view on the likely implications on carcass economics and capacity decisions will be a step ahead to mitigate the impact and take advantage of the commercial opportunities that the disruption will create.

The emergence and commercialisation of new protein sources and technologies is progressing at a dizzying rate, with a concurrent improvement in their economics. Those players who take the time to consider whether, where and how to participate will hold relative advantage as the industry shifts accelerate. Indeed many major players across the protein industry have already begun to take a position.

How can you ensure your business both survives and thrives in the new industry environment?

If you would like to discuss any of the themes covered in this report we'd be delighted to talk.

MARKET GROWTH OF SUBSTITUTES, BY CATEGORY (UK EXAMPLE)

Chilled	
	Value growth 2017-18
Snacks	19%
Deli	16%
Ingredients	30%
Sausages	11%
Ready meals	27%
Pastry	39%
Grills	23%
Burgers	45%
Meal centres	32%

↑
Increasing category volume

Frozen	
	Value growth 2017-18
Ingredients	9%
Sausages	15%
Meal centres	26%
Burgers	19%
Pastry	-3%
Grills	9%
Ready meals	-9%
Snacks	150%

↑
Increasing category volume

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