

Food-processing industry is ever-growing



Area Development Site and Facility Planning

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Already a giant in the global economy, the food-processing industry's role is expected to intensify, particularly in the Asian and Latin American markets.

GOT FOOD? Unlike residents of most nations, if you're a consumer in the United States you have access to an almost dizzying assortment of processed-food choices, thanks to this country's robust food-processing industry.

While some industries choose to tread softly into the new world of globalization, the U.S. processed-food industry is marching triumphantly forward. Already recognized as a powerhouse player in the global economy its role will only expand in the coming decades. Presently the United States represents about 25 percent of the industrialized world's production of processed foods and beverages, according to the U.S. Industry & Trade Outlook '99, a U.S. Department of Commerce Publication. Seven of the largest 10 - and 22 of the largest 50 - food-processing firms on the planet have chosen to operate their headquarters in America.

The food-processing industry is the nation's largest manufacturing sector (second-largest manufacturing sector in terms of value), accounting for almost one sixth of industrial activity. Business es in this industry include those that "manufacture or process foods and beverages for human consumption, and related products such as manufactured ice, chewing gum, vegetable and animal fats and oils, and prepared feeds for animals and fowl." Subsectors include red meats and poultry, snack food, and alcoholic beverages.

While the value of the industry's shipments was estimated to be at least \$480.5 billion in 1998, this year the Commerce Department predicts values in shipments will be about \$499.8 billion. Since 1992, U.S. exports of processed foods have increased at an average annual rate of 7 percent. It's estimated that at least 20,000 companies in America process food. The three states with the most processing plants are Texas,

California, and Florida (source: John Connor, author of Food Processing: An Industrial Powerhouse in Transition).

In general, key site selection factors for food-processing plants include:

An abundant labor supply willing to work at a relatively low wage

Plant flexibility

Access to raw materials

Proximity to consumer markets

Availability of water- and wastetreatment facilities

Challenges for a Changing Industry At the same time that healthy globalization predictions for the U.S. foodprocessing industry are being made, the industry has experienced a bit of an upheaval, positively resulting in "leaner but meaner" companies. Current industry trends include corporate consolidations -- provoked by a mature market with intense competition and decreased profit margins resulting in some plant closures and personnel cuts. This translates into many food processors currently choosing to expand existing facilities instead of moving to new ones - unless they can find sweetened financial incentives making it worth their while to relocate and build new plants. In the meantime, many existing plants are becoming more adept at changing or adding to their production lines in response to whimsical consumer tastes and product innovations.

The world's largest association of food, beverage, and consumer product companies is the Grocery Manufacturers of America (GMA). Its members employ more than 2.5 million workers in all 50 states and represent U.S. sales in excess of \$450 billion. In GMA's annual state of the industry address this year, President and CEO C. Manly Molpus outlined issues that will confront GMA well into the next century, and a few trends for the coming year.

Concerning Y 2K, Molpus asserted that the food and consumer products industry is "taking no chances with the Y 2K problem." Although the vast majority of manufacturers and retailers have been "quietly tackling the Y 2K problem for the past five years," he admitted there will be "a few glitches. But consumers should see no difference in the way they shop for food on Jan. 1, 2000."

Globalization will remain a major buzzword for the industry, according to Molpus, since U.S. markets are becoming more saturated and the world population is set to

grow by three billion in the next 25 years. Long-term strategies are expected to include expansion into the emerging Asian and Latin American markets.

This year functional foods will finally find a solid place in the supermarket aisles, "to the tune of some \$15 billion in sales," he added. Calling them the "biggest innovation by the food industry in decades," these foods provide new health benefits - e.g., cholesterol-lowering margarine, psyllium-enhanced food which helps reduce the risk of heart disease -- along with basic nutrition.

The food-processing industry is also aggressively exploring the world of electronic commerce in terms of communicating with trading partners and consumers. "Look for the development of the first-ever industry 'Extranet' in 1999," Molpus said, "which will allow us to move from the current system of one-on-one communication between trading partners to an open and interactive environment among manufacturers, distributors, and consumers." As more and more savvy shoppers on the Internet look for products delivering convenience and value, they will affect the industry, too, he maintained. "We project the 'consumer direct' channel to comprise 8 to 12 percent of the market by 2005."

What about food prices? Molpus remarked that consumers can expect them to remain at or near their current levels in the coming years. "Competition will continue to flourish, and raising prices will not be a viable option for most manufacturers. Instead. . . [they'll] continue to look for new ways to drive costs out of the supply chain and streamline efficiencies within their own companies."

Iowa: Mecca for Food-Processing Plants

Since Iowa has been feeding the world for generations, it's one of the states we've chosen to highlight as a key participant in the processed-food and -beverages industry. Hands down, "agriculture" is the synonym for "economic development" here. Its agricultural producers consistently rank extremely high nationally in corn, soybean, red meat, and oatmeal production. Food processing in particular is a major industry, employing more than 50,000 people and serving as the largest manufacturing employer.

Barilla, the world's largest pasta maker, opened its first U.S. pasta plant in Ames in 1998. The \$137 million, 240-acre facility is the largest pasta manufacturing plant in the nation, producing 200 million pounds of product annually and employing about 150 Iowans.

Barilla executives say they chose Ames because the location allows the company to easily and inexpensively bring in trainloads of the durum wheat needed to create its

world-famous "al dente" pasta. Moreover, the site allows Barilla to distribute its finished product to the East and West coasts via truck.

Former KPMG consultant Thomas H. Wenksterm worked with Barilla to find Ames. Site selection criteria Ames provided, he recalls, included its smalltown atmosphere, the "world-class agricultural and engineering curriculum" at nearby Iowa State University, and the "excellent-quality water."

Also among Iowa's food-processing giants is Hunt-Wesson, Inc., which opened a new \$50 million, 200,000square-foot, state-of-the-art pudding plant in Waterloo in 1998. It's the only aseptic (shelf-stable) production facility of its land in the world, producing nine million cases of Snack Pack puddings each year. After a four-state search, Waterloo was selected because it best met the company's criteria: lowcost national distribution, a businessfriendly environment, and a technically skilled, available work force with a good work ethic.

Recently Well's Dairy, the world's largest ice cream plant, announced plans to add 120,000 square feet to its Le Mars facility, a move that will create 400 jobs. And two years ago the world's largest producer of gelatin, Kind & Knox Gelatine, Inc., completed a \$50 million expansion that doubled the size of its gelatin plant in Sergeant Bluff. The plant is located here due to its proximity to meat-processing plants providing raw materials (connective tissue found in cattle bones and pork skins) used to make 250 kinds of gelatin.

Iowa's universities play a large part, not only in contributing to a productive work force, but also in supplying varied and cutting-edge technological support and innovations to agribusinesses. For example, Iowa State University researchers are exploring new ways to maintain and enhance the safe handling of beef, pork, and poultry as it moves from the farm to the kitchen table. The school has a \$6 million facility housing a food irradiator, used to study irradiation's effectiveness as a method of killing pathogenic bacteria in fresh meat, vegetables, fruits, and spices. This vital research benefits food processors, ingredient and equipment suppliers, and other food industry firms.

Against the backdrop of all these endeavors, Governor Tom Vilsack announced in February numerous government initiatives to make Iowa the "food capital of the world." Besides Iowa's abundance of raw materials, he cites its expertise in technology, labor, international business, and capital as assets that should allow the state to claim such an illustrious designation in the future. Part of the plan calls for the state to invest nearly \$100,000 during the next three years in new infrared technology, used by Iowa grain producers to analyze the "value components" of grain

at time of sale. An estimated \$2 million will fund high-tech agricultural research via a center of excellence in fundamental plant science at Iowa State University.

Virginia Is for Food Lovers

Food processing in Virginia is the state's largest manufacturing industry in terms of employment and shipment values, employing 50,000 people (9 percent of the state's work force) through about 440 food processors. It's also one of the state's oldest industries.

Virginia food manufacturers produced \$11 billion worth of processed food products in 1996. That same year, they exported food worth more than \$234 million, with top export markets including Canada, Russia, and Hong Kong. Nationally known major food producers in the state include Hershey Chocolate Co., Nestle Foods, Anheuser-Busch, Coors Brewing Co., Perdue Farms Inc., Tyson Foods, Nabisco, Lipton Tea, and Boars Head Provision Co.

Since 1990, food processors here have invested more than \$913 million in 84 new plants or expansions, creating 5,607 new jobs. For example, Hershey Chocolate poured in \$45 million; Coors Brewing, \$15 million (expansion); and Rocco Inc., \$11 million (expansion). And just last year 13 foodprocessing firms announced investments in Virginia, expected to add 400 positions. Among them were Neptune Fisheries (\$5 million), Smithfield Foods (\$2.5 million), and Kraft Foods (\$15 million).

Kraft's decision to expand its Winchester facility "is a true testament to Virginia's positive business environment," declared Governor Jim Gilmore upon announcing the investment last October. When completed this year, the expansion will allow the facility to add Oscar Mayer Lunchables lunch combinations to its products; increase the manufacturing capacity for a current product, Capri Sun All Natural juice drinks; and add 200 jobs. "The plant is well-positioned to supply our East Coast market with these products, and the infrastructure either exists or can be made available," notes Kraft Foods spokeswoman Cathy Pernu.

Household Names in Central Eastern Pennsylvania

About two dozen of the best-known companies in the food industry are located in central eastern Pennsylvania, a 29-county, 10,000-square-mile region. The area boasts a mix of medium and large businesses as well as smaller family-owned firms producing many of the tasty snack foods, chocolates, and beverages consumed by Americans. Its celebrated firms include ConAgra, General Mills, Kellogg Co., Coca-Cola Bottling Co., Kraft General Foods, M&M Mars, Pepperidge Farms, The Pillsbury Co., Quaker Oats Beverage, Tyson Foods, and Hershey Foods Corp.

Access to major highways and rail connections was a determining factor when Heinz Pet Products chose to locate in Bloomsburg in 1987. Since then the firm has invested \$73 million, added 700 jobs, and expanded its plant (now more than one million square feet), which thermally processes canned pet food. On the global front, Haribo of Germany will soon open its first U.S. operation in Hazelton; the facility will eventually encompass 400,000 square feet. (The firm manufactures Gummy Bears and related products.)

Statewide, Pennsylvania's food-processing industry is strong and diverse, ranking among the nation's top-five food-processing states. Its 2,300 foodprocessing companies employ more than 85,000 workers (1.7 percent of employment). Access to raw materials is a major advantage. Dominant agricultural products include milk, fruits and vegetables, poultry, eggs, and mushrooms.

Other advantages include the world's largest freshwater port and inland port, a rail system covering 6,000 miles, the nation's fourth-largest highway system, and a centralized location to market to consumers. The state's universities also help pioneer the food-processing industry by offering various food science and food marketing programs. Penn State University has one of the finest such programs in the nation.

For more information about the U.S. food-processing industry, contact: The National Food Processors Association (NFPA), 1350 I Street, NW, Suite 300, Washington, D.C. 20005-3305 (www.nfpa-food.org); Food Marketing Institute (www.fmi.org); Grocery Manufacturers of America, 1010 Wisconsin Avenue NW, Suite 900, Washington D.C. 20007, 202-337-9400 (www.gmabrands.com).

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