I. Introduction

This brief study outlines the potential for specialty food products. This is a growing part of the food industry accounting for $88 billion in sales in 2013 and continues to grow faster than the food system as a whole (Mintel, p.18). Specialty foods are no longer for special occasions, they have become everyday items. After an extended period of stagnant or declining incomes, a slowly recovering economy is also driving the increase in demand for specialty food products.

The analysis includes those industries that appear to have the most potential for growth as well as the demand drivers that have the most appeal to consumers. The demand drivers are rather broad; in addition to the traditional demand drivers of wellness, convenience, indulgence, and ethnic, locally produced and GMO free are growing in importance to a subset of consumers. Indulgence is a product attribute that is particularly well suited to specialty foods. Some consumers are also interested products that appeal to their moral or ethical beliefs, this could include products that emphasize environmental sustainability, animal husbandry practices, paying a “living wage” to workers or other attributes. Increasingly consumers are demanding verification of various product claims.

There are also a wide range of product categories that also have potential. In dairy, yogurt, cheese, and frozen desserts retain their strong potential for new product introductions. Other sectors that have potential are meat products, potato chips and snacks, and some processed vegetable products.

For the purpose of this study, specialty foods are defined as products that generally have a limited distribution and a reputation for high quality (Mintel, p.8). However, the traditional shopping outlets are becoming more interested in specialty foods as the interest for these products has increased. The reputation for high quality also generally means that the product can be sold for a higher price than generic products.

II. Distribution Channels

Traditional outlets dominate the special specialty food market. In 2011, traditional retailers accounted for 72.5 percent of all specialty food sales, that number declined to 66.9 percent in 2013 although sales in dollar terms increased from 2011 through 2013. The market share of specialty food stores increased from 19.3 percent to 23.6 percent from 2011 through 2013; and the market share at natural food stores increased from 8.2 percent to 9.5 percent during that time period (Mintel, p.19).

The primary difficulty for a small specialty food manufacturer or marketer is having enough capacity to meet the needs of a traditional retailer, especially if the product is successful and the retailer wants to put the product in all of its outlets. Smaller outlets such as specialty food stores and natural food stores may be more flexible and require smaller quantities of products.
Restaurants also provide a distribution option. More than 20 percent of specialty food sales are restaurants (Mintel, p.32), and people now spend more money on restaurant food than at the grocery store. Many restaurants, especially white table cloth or tourism dependent restaurants are likely to be interested in specialty foods. Foods with a local connection may be of particular interest to restaurants.

Specialty food manufacturers tend to be rather small with an average reported sales level of $1.9 million in 2013. More than half operate their own manufacturing facility and almost half report co-packing for other firms (Mintel, p.95). When surveyed some of the issues identified by specialty food manufacturers included competition, obtaining access to large chains, and consolidation in the retail sector (Mintel, p.103).

### III. Product Sectors with the Most and Least Potential

The largest segments with the most potential in Michigan are cheese and cheese alternatives, frozen desserts, frozen and refrigerated meats, chips pretzels and snacks, yogurt and other cultured dairy products and some vegetables. All of these segments are amongst the largest specialty food segments in the U.S. and they all show strong rates of growth (Mintel, p.21). Frozen desserts are also growing rapidly (Mintel, p.21).

Specialty cheese sales now account for 22.4 percent of all cheese sales (Mintel, p.43). There are a wide range of cheeses that have potential. These include cheeses from dairy cows and well as goats. Cheeses infused with fruit, such as blueberries and cherries may find a market. Yogurt also has fairly broad opportunities. The explosive growth of Greek yogurt has shown there is an interest in different types of yogurt; while the Greek yogurt market is now fairly mature other types of products such as Icelandic yogurt or yogurts with a Middle Eastern profile or infused with citrus flavors may have potential.

Potato chips and snacks also have a great deal of potential. Consumers are interested in snack items that healthy or at least healthier than existing snack items. Michigan is well suited to potato production and has several potato chip manufacturers.

The final product category that has potential is various types of meat products. There is a great deal of interest in developing and expanding the Michigan meat sector. This includes all species but beef and lamb appear to have particular potential. The lamb market could appeal to the large Arab population in the state. However, access to processing appears to be a barrier. Without increased processing capacity it may be difficult to develop specialty meat products, although it should be noted that the scarcity of processing capacity does create opportunities for firms interested in meeting this need.

Almost 30 percent of sales of pickles, peppers olives and other vegetables are specialty sales (Mintel, p.57). Michigan is in a strong position to expand its position as a supplier of these products due to its history as a producer of processed vegetable products. Some entrepreneurs have some success selling specialty pickles processed asparagus and other items. Consumers who buy these products tend to be interested in products that tell a story and heirloom varieties of vegetables (Mintel, p.57).
Products that show the least potential are condiments, dressing and marinades and frozen lunch and dinner entrees (Mintel, p.21). The condiments, dressing and marinades segment has a great deal of competition and finding shelf space may be difficult. Unfortunately, many small food entrepreneurs operate in this sector.

IV. Product Attributes with the Most Potential

One product attribute with a great deal of developing interest is GMO free (Mintel, p.23). Consumers are increasingly interested in this as a product attribute. Both ethical considerations and possible health concerns may be driving this interest.

Another product characteristic with some potential is organic. Organic sales remain strong; according to the USDA organic sales were $39 billion in 2014, an increase of 11 percent. However, it should be noted that the organic market is becoming increasingly crowded and as a result profit margins will decline with the passage of time.

Locally produced food continues to generate a lot of interest. Some consumers feel that locally produced food is fresher and healthier. Others believe it helps the local economy, and supports small businesses and supports a more environmentally sustainable business model. Given the wide variety of agricultural commodities produced and the pride Michigan residents have in their state, Michigan specialty food products are well positioned to take advantage of this trend.

In the cheese segment exotic and premium attributes are of interest to consumers. There also appears to be interest in cheeses that appeal to different regions of the country (Mintel, p.44). Fast growing reasons for the growth of specialty cheeses are to support the local economy and to buy foods that are perceived to be safer than traditional products (Mintel, p.43).

The yogurt segment has a great deal of potential. Frozen yogurts and products that appeal to children have potential (Mintel, p.47). Ethnic yogurt items beyond Greek yogurt could also find a market. Examples would be Icelandic yogurt and yogurts that appeal to people who eat Mediterranean foods.

Frozen dairy desserts also have a great deal of potential. Currently, the specialty frozen dessert market is relatively small which shows a potential for growth (Mintel, p.50). There are a wide range of flavors that could appeal to consumers. Also, single serve packaging could be used to appeal to single person households and could also be used to appeal to indulgence, as an occasional treat. One issue both yogurt and frozen desserts may face is access to space in stores. Both the frozen food and the dairy section of stores are relatively difficult to obtain space.

The primary reason for the increased interest in meat products is the concern about food safety. Another important reason is the increased interest in insuring that animals are raised in a humane way (Mintel, p.44). A good traceability program could be used to address these issues and create a demand for a meat or set of meat products.
There are many demand drivers in the potato chip and snack food category. People continue to eat on the go and chips and snacks are a naturally convenient food. Non-traditional grains appeal to consumers looking for something different. When asked, consumers ranked natural, multigrain, organic and gluten free as the most important product attributes (Mintel, p.45).

V. Summary

There is a fair amount of potential in the specialty food sector. The primary product categories with the most potential are cheese, yogurt, frozen desserts, meat products, selected processed vegetable products, and potato chips and snack foods. Demand drivers of growing importance are GMO free, natural, locally produced as well as traditional demand drivers of convenience, wellness and truly ethnic. Livestock handling practices are of importance to some consumers of meat and dairy products.

These desirable product attributes can be stacked. For example a product could be both GMO free and locally produced. This would allow a product to be marketed to multiple groups of consumers. Implicit in these demand drivers is the expectation that the food manufacturer is transparent in its activities, that is to say, their claims are easy to verify.

The primary outlet for specialty food products remains traditional retailers which can make it difficult for some smaller producers of specialty products. However, smaller retailers and health food store are growing in importance. Restaurants also account for about 20 percent of specialty food sales which presents another opportunity.

VI. References