



State of Food Manufacturing

in New York & New Jersey

A Survey Conducted By:

NJFPA NEW JERSEY
FOOD PROCESSORS
ASSOCIATION

GRASSI
ADVISORS & ACCOUNTANTS

Coming out of the worst of the pandemic, the New York and New Jersey food manufacturing industry saw rising growth and profit in 2022. A survey of decision makers conducted in January and February, 2023 showed a continuing post-lockdown rebound despite inflation, supply chain disruptions and higher labor costs.

The positive report was spread almost completely across the board: two-thirds of those surveyed said their revenues increased (compared to 53 percent the previous year) and a mere seven percent saw revenues decline. And this wasn't merely growth at the margins—the average increase was a sturdy 27 percent.

And, while inflation took a bite, profits stayed strong, with 58 percent of respondents increasing their profits over the previous year (compared to 51 percent in 2021), with an average increase in profits of 22 percent.

Those surveyed (60 percent of whom were C-Level or above) credited this success to improved employee productivity—thanks partly to more streamlined processes and automation. Improvements in customer relations, marketing/sales strategies and workplace safety were also cited as crucial to the success they attained in 2022. A lesser but still significant number also noted product innovation and expanded sales into new channels. The companies that increased revenue in 2022 most commonly reported improved productivity and worker safety.

Supply chain woes ranked highest of the year's challenges (especially for smaller companies), with inflation and increased labor costs ranking second and third. Companies are facing an average increase of 17 percent in raw material costs. When asked what strategies they are employing to combat rising costs, absorbing a portion of the costs ranked highest, followed closely by renegotiating costs with vendors and passing some of the costs on to consumers. Food manufacturers, however, know they may be hitting the ceiling on cost increases that they can pass along to customers without facing steeper pushback.

While challenges remain, optimism reigns throughout the sector. A strong majority—82 percent—of those food manufacturers

surveyed were confident that revenues would continue to climb in 2023, even stronger than last year. Confidence was highest among those who had experienced growth in 2022 and among larger companies with more than 500 employees.

Rising operating costs have food manufacturers concerned that profits will not keep pace, but they are looking to product innovation, strengthening customer relationships within existing businesses and increasing the use of technology and automation to boost productivity and lower labor costs.

To keep a good thing going, companies are poised, despite rising interest rates, to spend money to make money: just over two-thirds (69 percent) expect to increase capital spending this year. Not surprisingly, that number is even higher (73 percent) among those who had revenue growth in 2022 or among those who expect 2023 to yield higher revenues (77 percent).

In an increasingly technology-driven society, 65 percent said they plan to invest in IT and new technology. Expanding production lines was a close second (56 percent), with enhancing facilities and buildings coming in third (48 percent). But the human part of the equation remains present: nearly 60 percent are concerned about staffing levels for 2023, including nearly three-fourths of those at larger companies. While businesses reported looking into more line automation (49 percent) as a solution and hiring temporary workers (38 percent), a greater emphasis is on their employees, with 54 percent looking at flexible scheduling and 53 percent offering financial incentives.

Ultimately, food manufacturers said resiliency and innovation, which enable diversification and opens new revenue sources, are crucial to continued growth. The pandemic forced companies to innovate to survive. Now is the time to innovate in order to thrive.

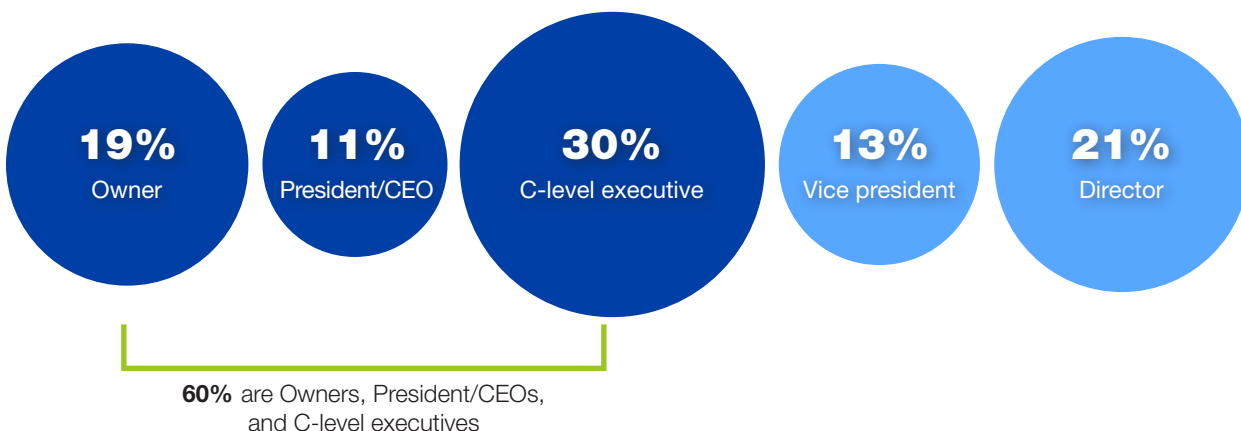
2023 SURVEY OBJECTIVES

- 1** Assess the state of the food manufacturing industry in New York and New Jersey at the beginning of 2023
- 2** Look back at industry trends in 2022
- 3** Collect a view of key industry opportunities and challenges in the year ahead
- 4** Use these snapshots to help industry leaders understand where their organization stands in comparison to their peers and provide useful strategic insights to drive business growth
- 5** Continue longitudinal benchmark of the industry's health in these two states

METHODOLOGY

- 11-minute online survey conducted January 3-24, 2023
- 90-minute focus groups conducted on January 25, 26 & February 2, 2023
- 141 survey respondents
- 20 focus group participants
- Survey conducted by Crain's Content Studio - New York

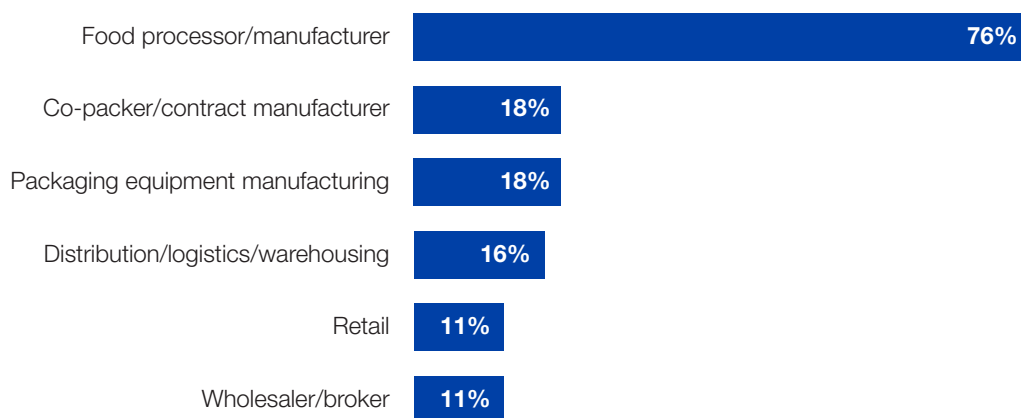
The majority of respondents are C-Level or above



Survey respondents represent companies from across the industry, with food manufacturers strongly represented

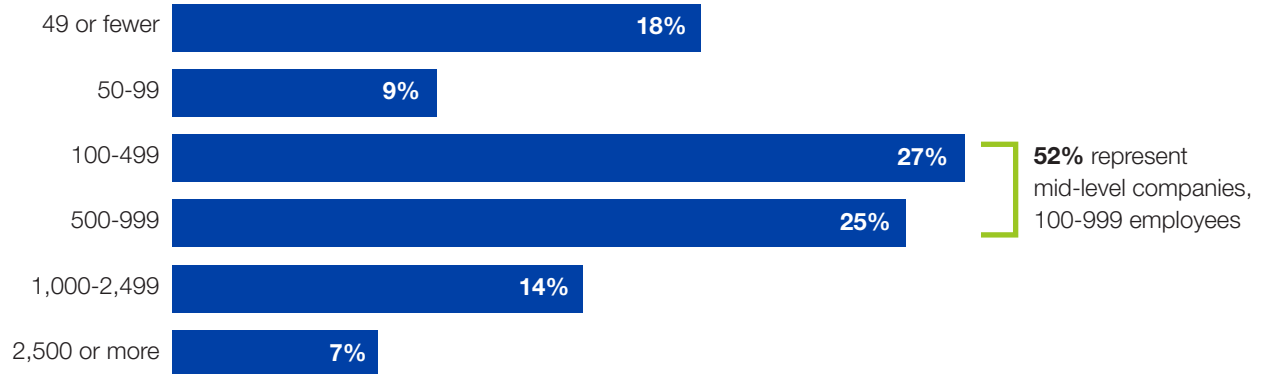
INDUSTRIES

(Companies were able to select multiple industries)

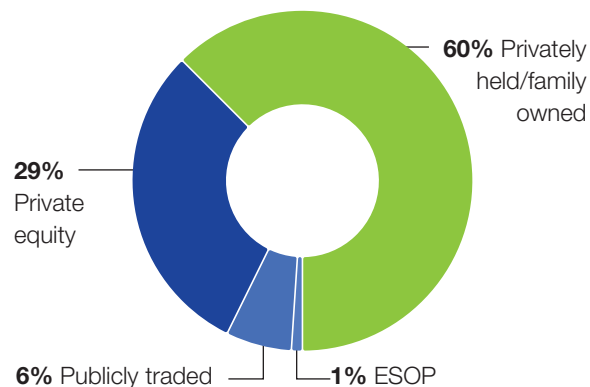


Q2: Which categories best describe your food manufacturing business?
Q3: Which best describes your current job level? n=141

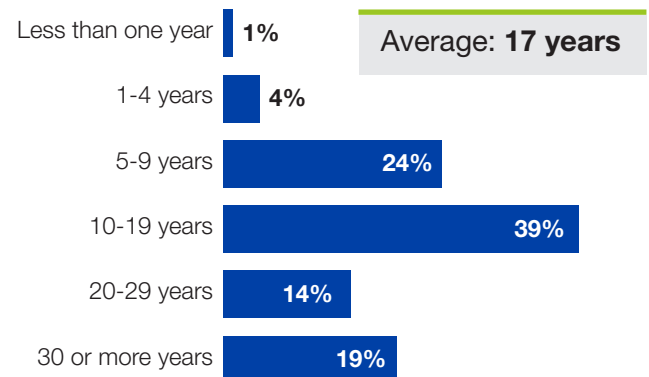
NUMBER OF EMPLOYEES



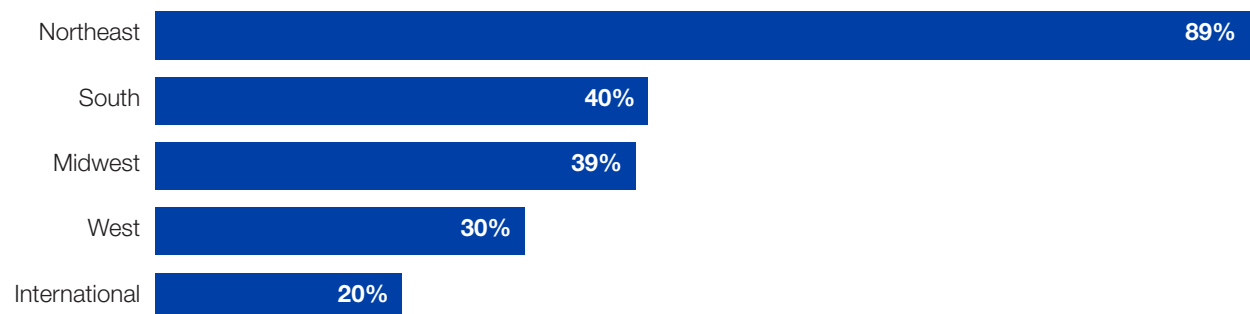
Majority of companies are privately held/family owned



Over two-thirds have been in business 10+ years



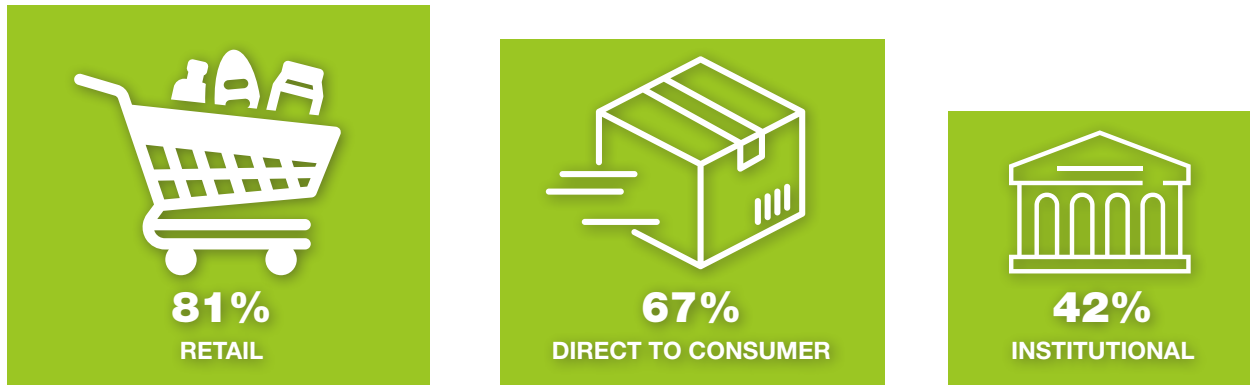
The overwhelming majority of the companies operate in the Northeast



Q32: How many people are employed by your company? Q33: What is your ownership structure?
Q34: Which regions does your business serve? Q35: How long has your company been in business? n=135

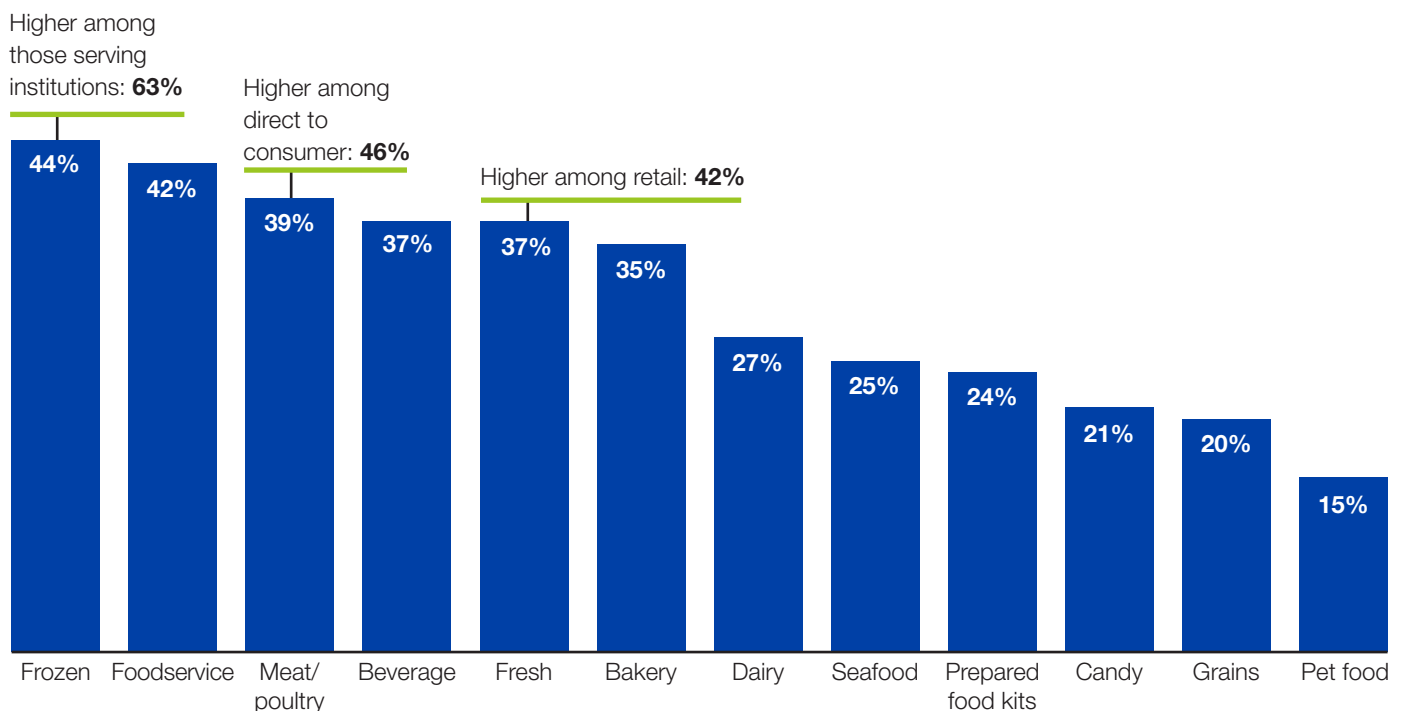
Most companies work in multiple sectors with a strong majority operating in retail, followed by direct to consumer and then institutional

FOOD SECTORS INVOLVED IN



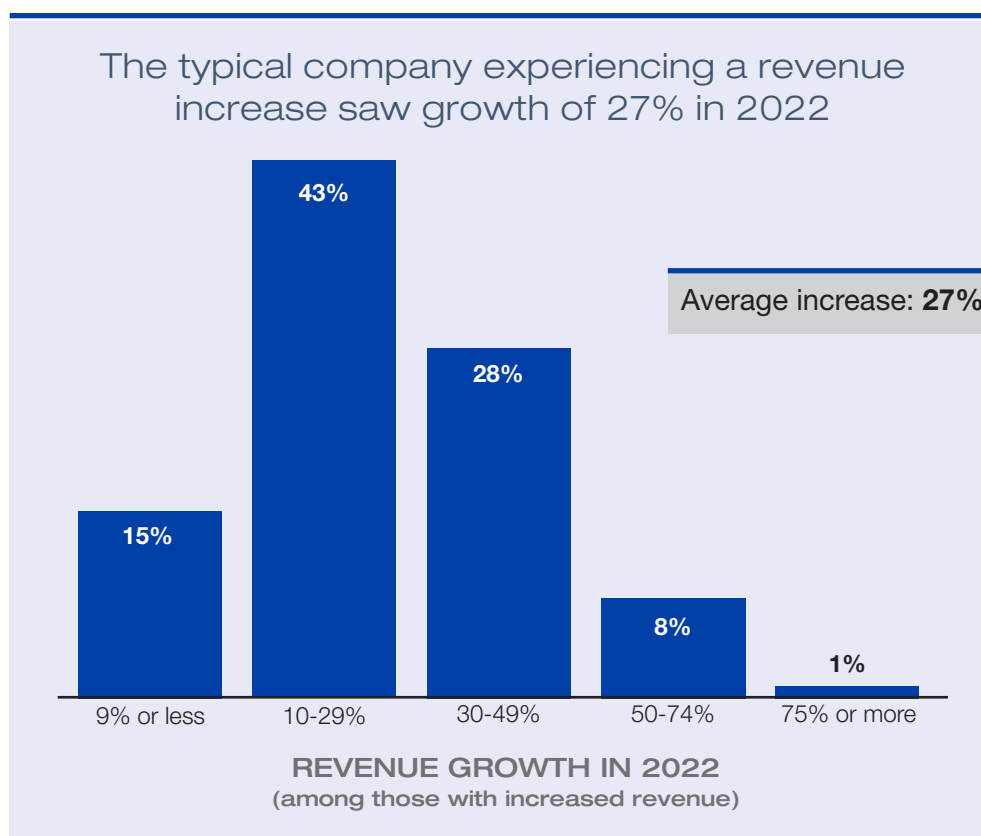
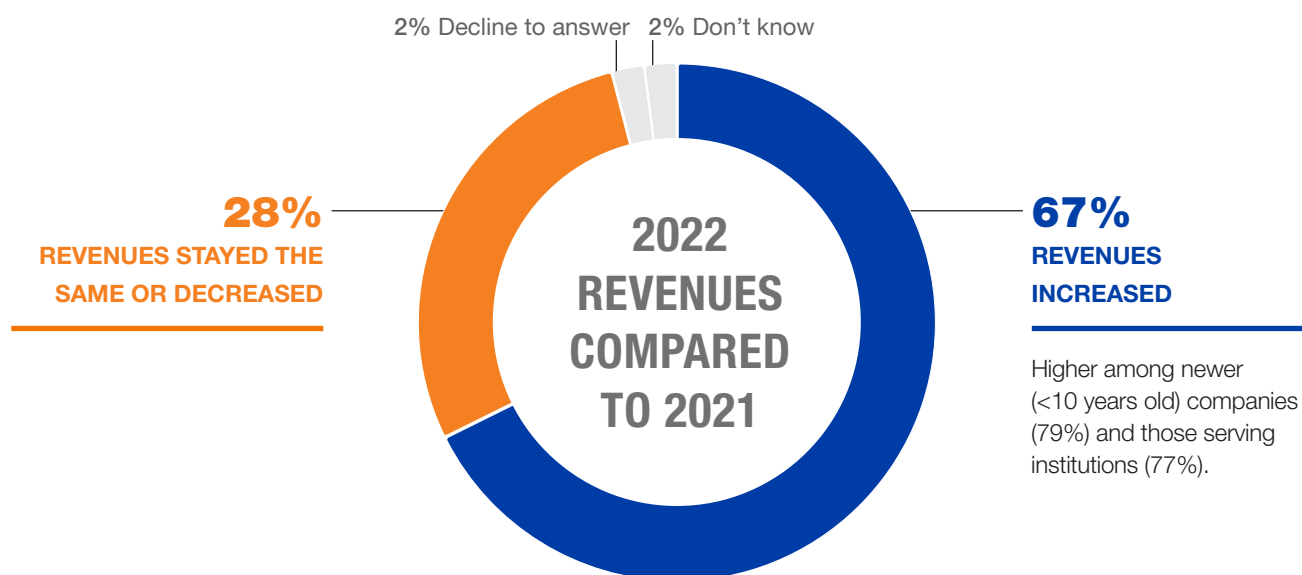
Frozen, foodservice, meat/poultry, beverage, fresh, and bakery are the top categories

FOOD CATEGORIES COVERED



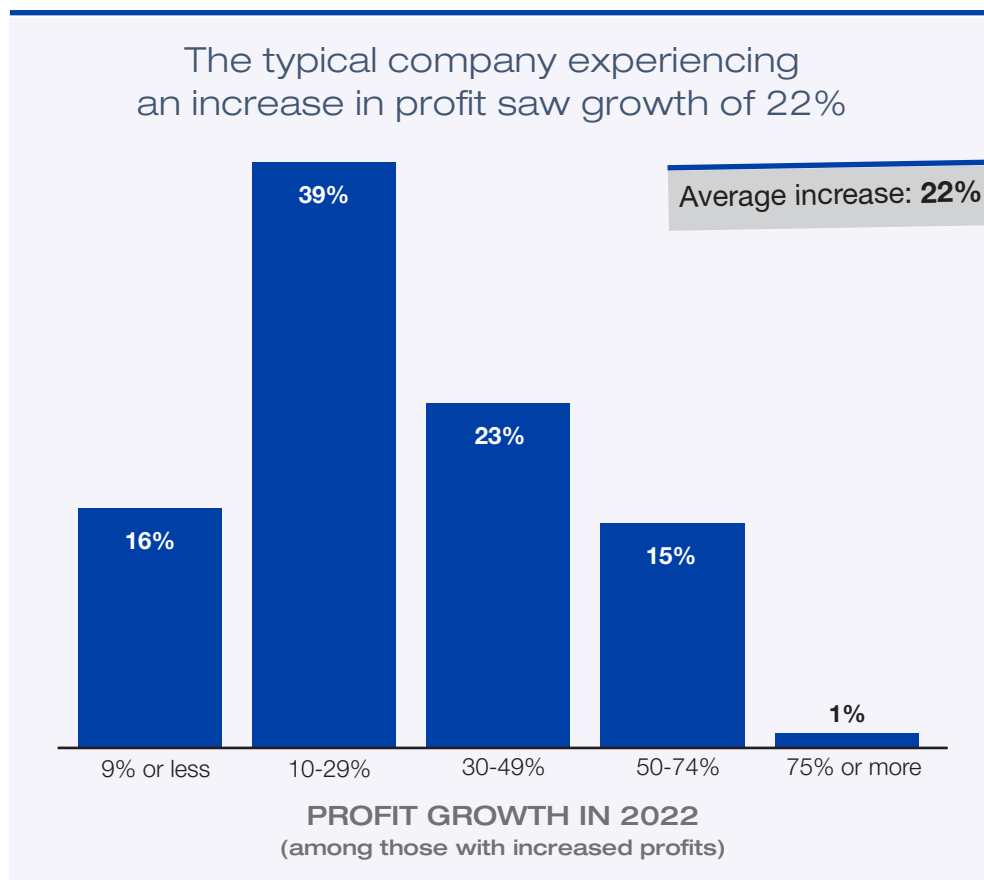
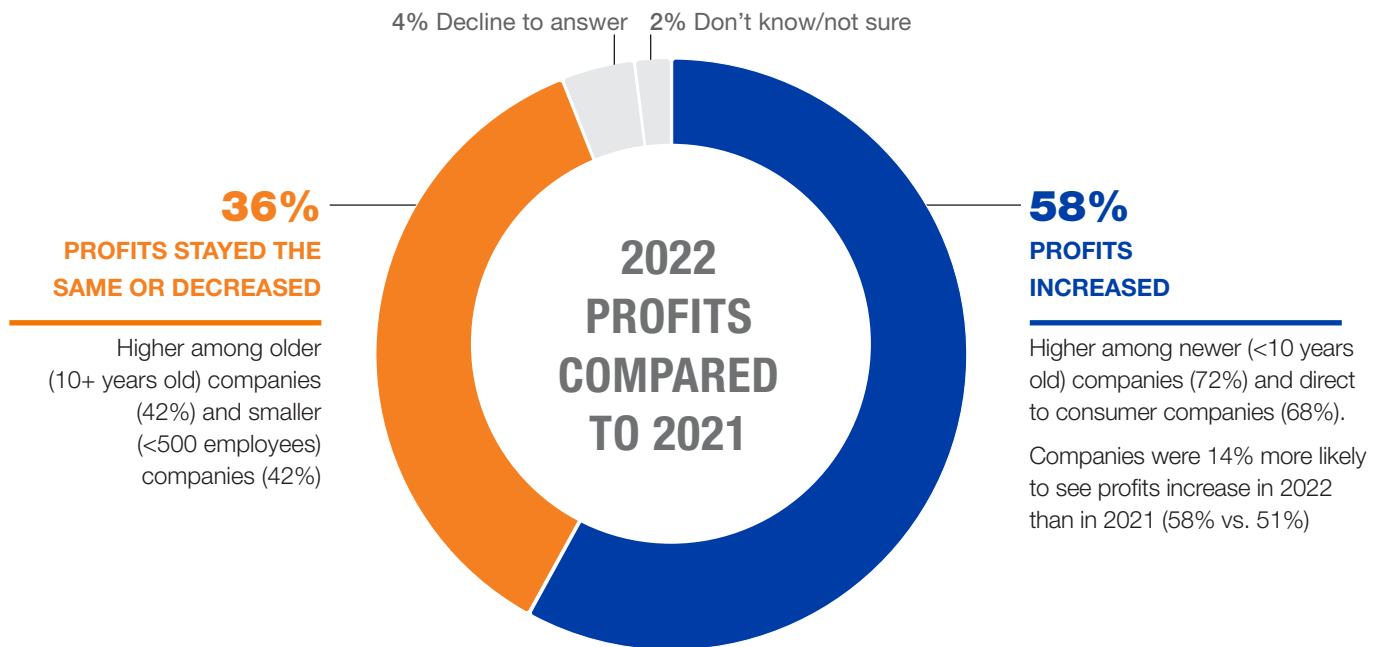
Q37: Which sectors of food manufacturing are you active in? n=114
Q36: Which food categories does your business cover? n=135

Two-thirds saw revenues increase in 2022



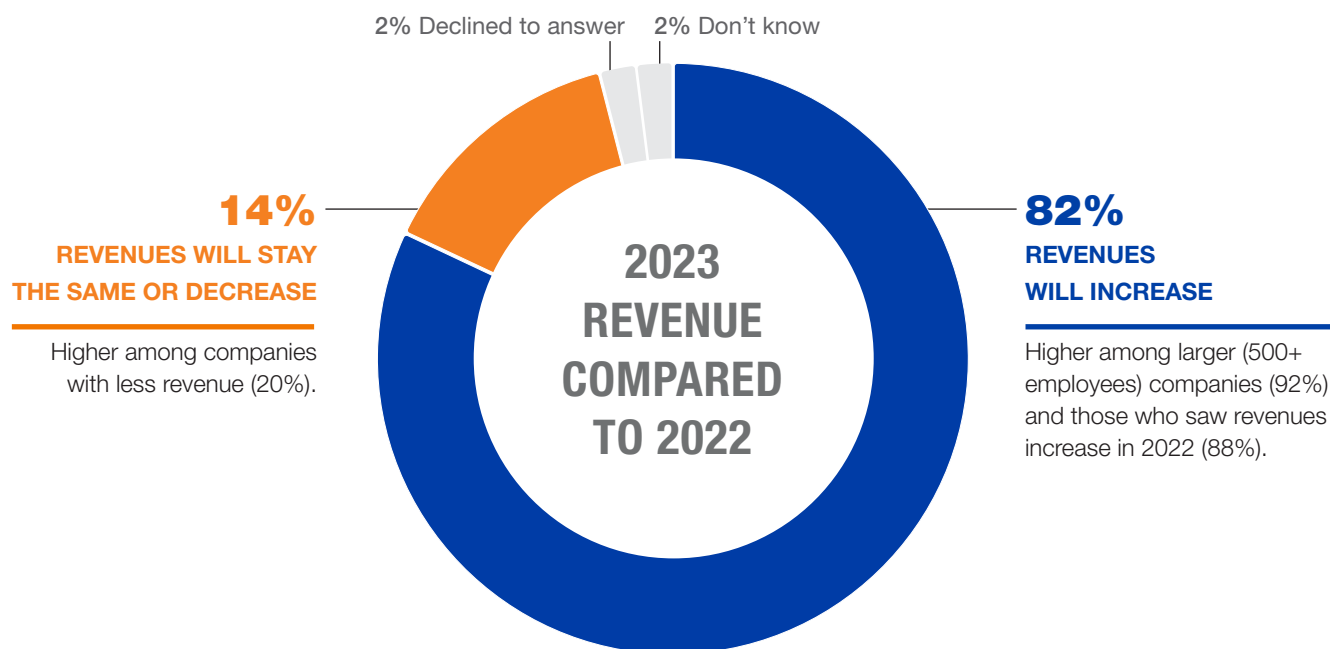
Q15: Compared to 2021, how were revenues in 2022? n=137
 Q17: How much did revenues increase in 2022? n=92

The majority saw an increase in profits in 2022



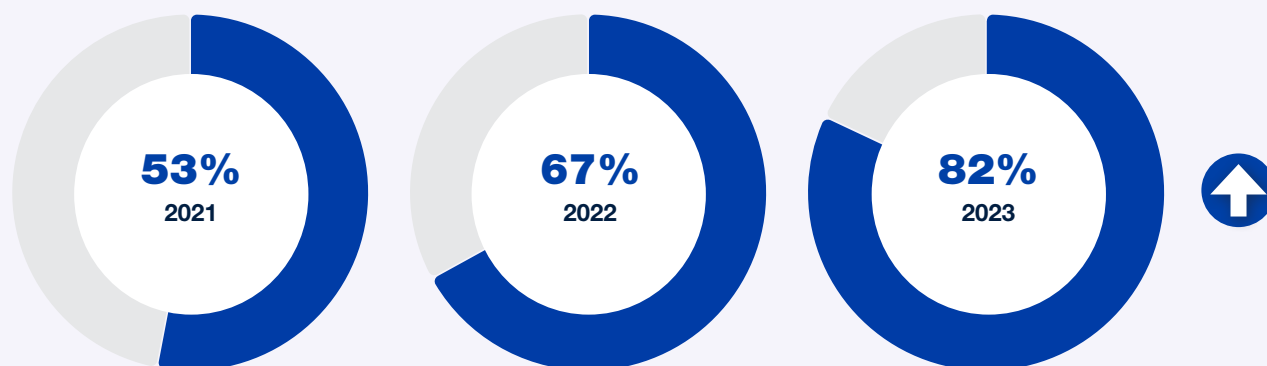
Q18: Compared to 2021, how were profits in 2022? n=137
Q20: How much did profits increase in 2022? n=79

The vast majority expect revenues to rise in 2023



Revenues have been continually rising since 2020 at an increasing rate

PERCENT WITH YEAR-OVER-YEAR REVENUE INCREASES



Q28: What are your revenue expectations for 2023 compared to 2022? n=136

Despite the increase in revenue, food manufacturers expect profits to stay stable or only slightly increase in 2023

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Off to a great start in 2023 but you gotta find ways to take stress off a business.

And if you are going to have stress on the business it better be dropped into the bottom line, or it's not worth it.

The majority of our customers are public companies. Wall Street is holding them to the profit level they made in the past few years. So, they're all trying to make that same profit that they made during the pandemic, and if they don't, they basically beat up their manufacturers on price. **It's the food manufacturers' margins that are suffering.**

Margins are squeezed.

We're going to work harder than last year and make about the same.

We're still working through to finalize our forecast, but we're expecting double digit growth on the top line side, 15% or so.

But our margins are again squeezed.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANTS)

SUCCESSES

Food manufacturers experienced many successes and opportunities in 2022, especially improving employee productivity, customer relationships, marketing and sales strategies and workplace safety



Companies with increasing revenue were more likely to report improved employee productivity (66%) and improved workplace safety (60%) as successes in the past 12 months.

Companies with steady or declining revenues were less likely to cite improved employee productivity (49%), streamlined processes (41%), or increased focus on online/digital platforms (41%).



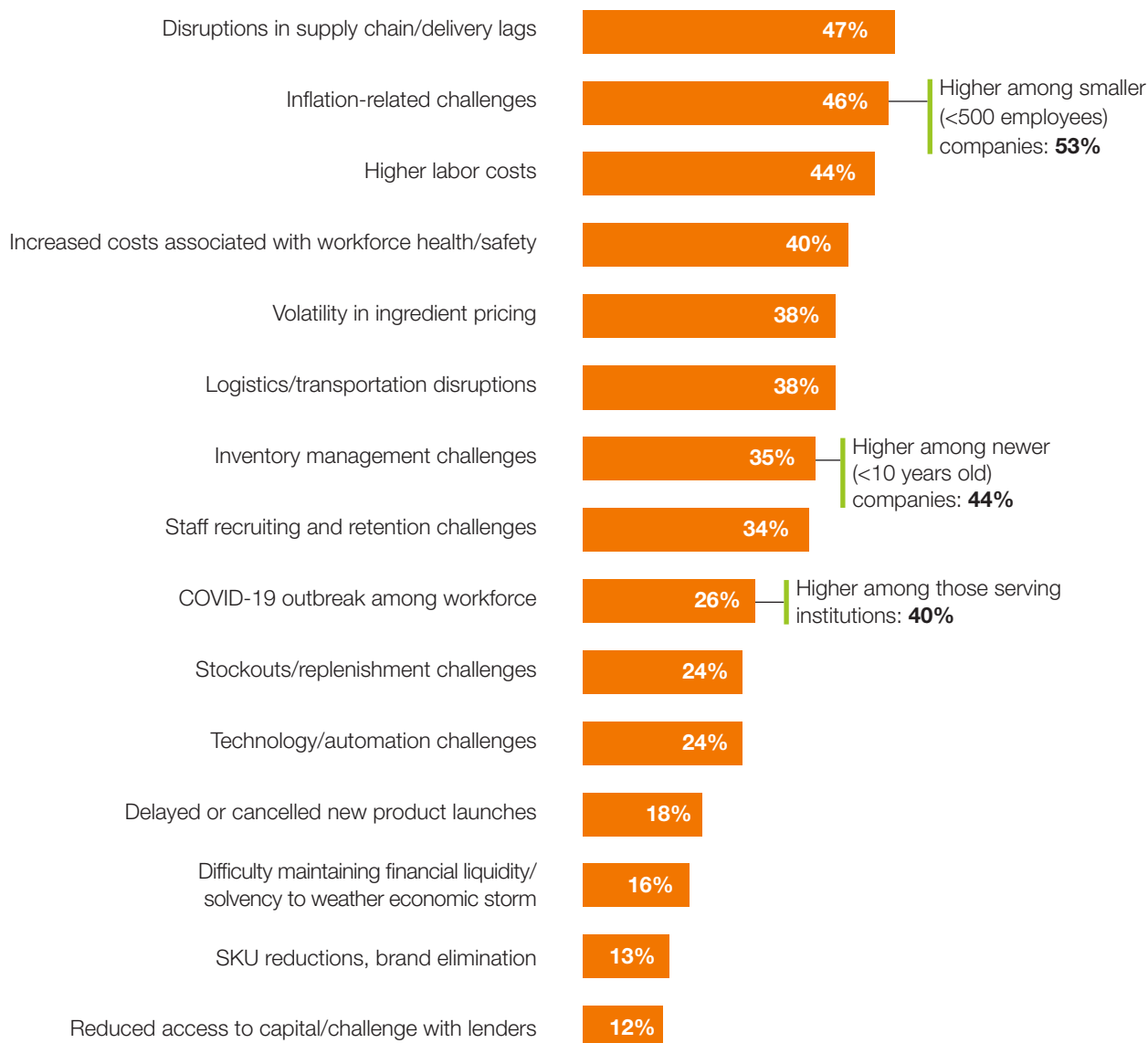
“ I think those who survived the pandemic **had to become more innovative** and are constantly thinking right now: what’s the next avenue? Because if they don’t find it, they’re not ready for the next change that comes.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q5: Which of these successes and opportunities did your business experience in the past 12 months? n=141

CHALLENGES

Disruptions to the supply chain, inflation and higher labor costs topped the challenges that companies faced in 2022



Companies with increasing revenue were more likely to report inventory management challenges (40%) but less likely to report increased costs associated with workforce health/safety (35%).

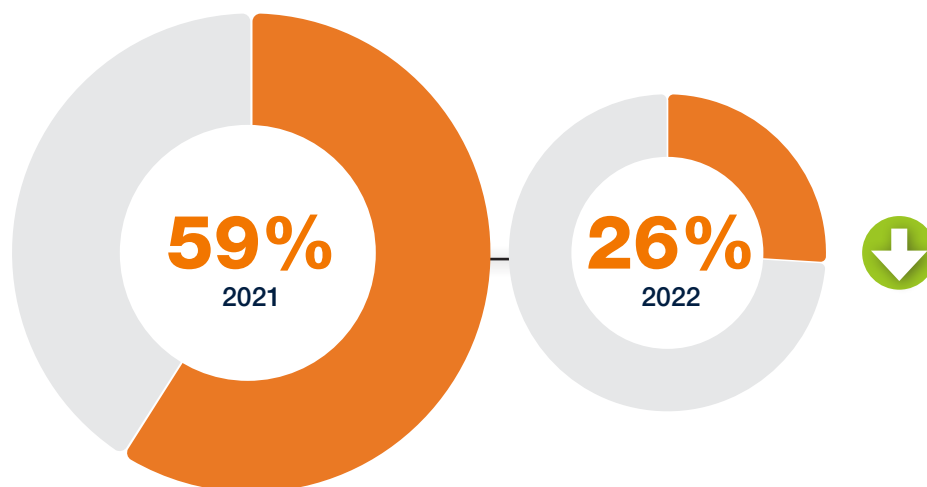


Companies with steady or declining revenues were more likely to report increased costs associated with workforce health/safety (46%) and SKU deductions/brand eliminations (23%), but less likely to report volatility in ingredient pricing (31%) or staff recruitment and retention challenges (26%).

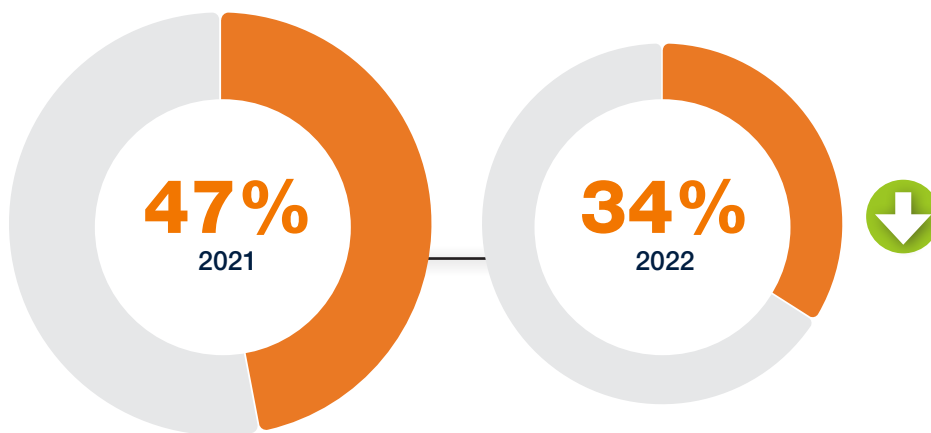
Q6: Which of these challenges did your business experience in the past 12 months? n=141

COVID outbreaks and staffing challenges have decreased significantly year-over-year

EXPERIENCED A COVID OUTBREAK



EXPERIENCED STAFFING CHALLENGES



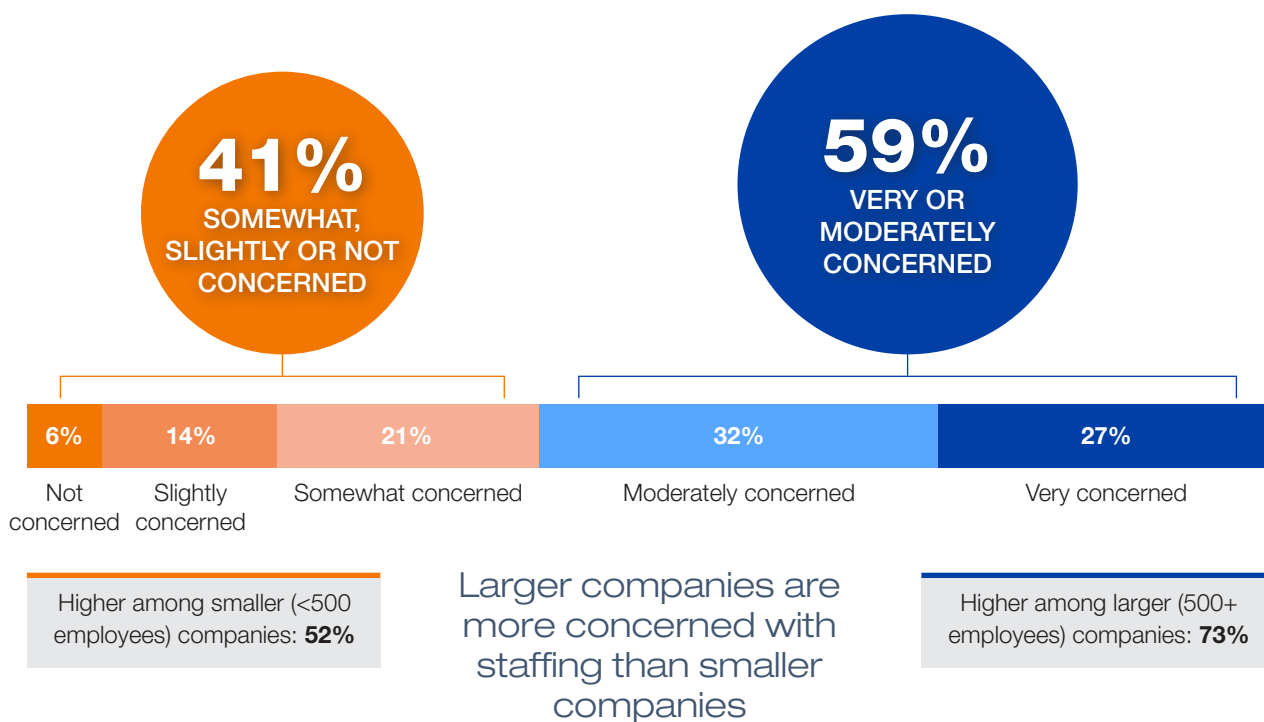
I think we're getting better now than it was 6-7 months ago.
We're still having issues, but it's better;
 nowhere near where it was.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q6 - Which of these challenges did your business experience in the past 12 months? n=125-148, n=114-141

Most are concerned with their ability to maintain staffing levels in 2023

CONCERN WITH 2023 STAFFING LEVELS



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It's a constant work in progress, but I'm feeling a bit more optimistic about it because I am seeing a lot more responses when I post job openings. I don't know if it's turnover, people moving from job to job, or more people on the market, but

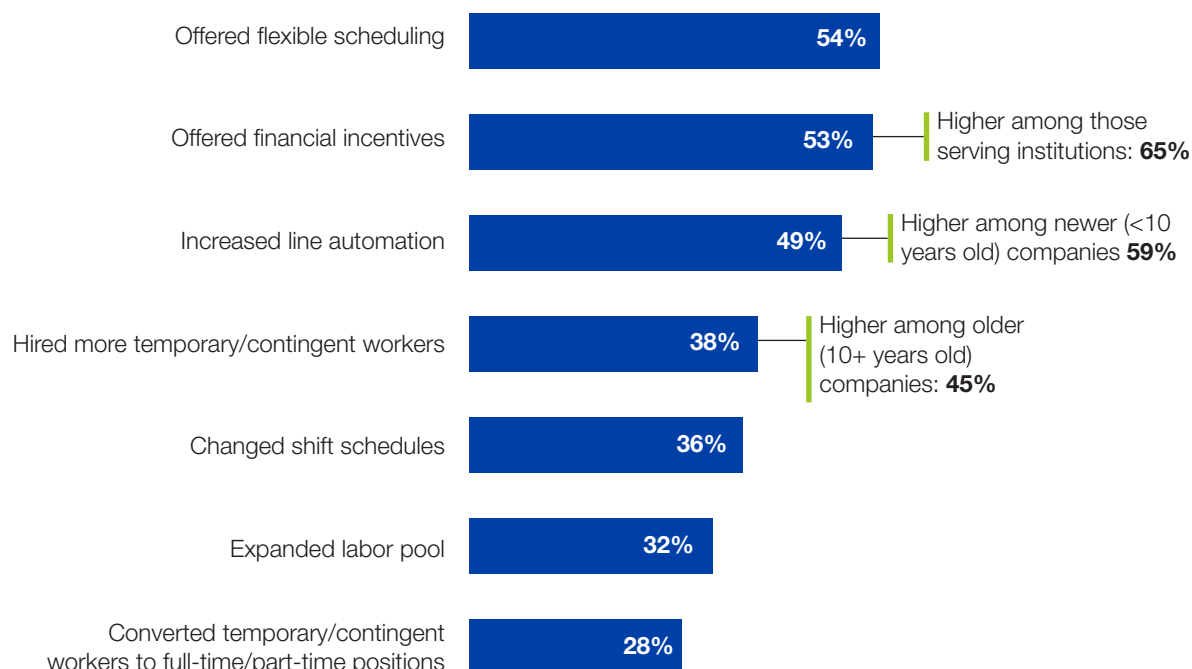
I'm feeling more optimistic about the labor force.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q7: How concerned are you with your ability to maintain the staffing level necessary to effectively operate your business in 2023? n=139

Businesses are looking into flexible scheduling, financial incentives and increased automation as ways to mitigate staffing risks

STRATEGIES TO MITIGATE STAFFING RISKS



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We started using a temp agency and they have been fantastic.

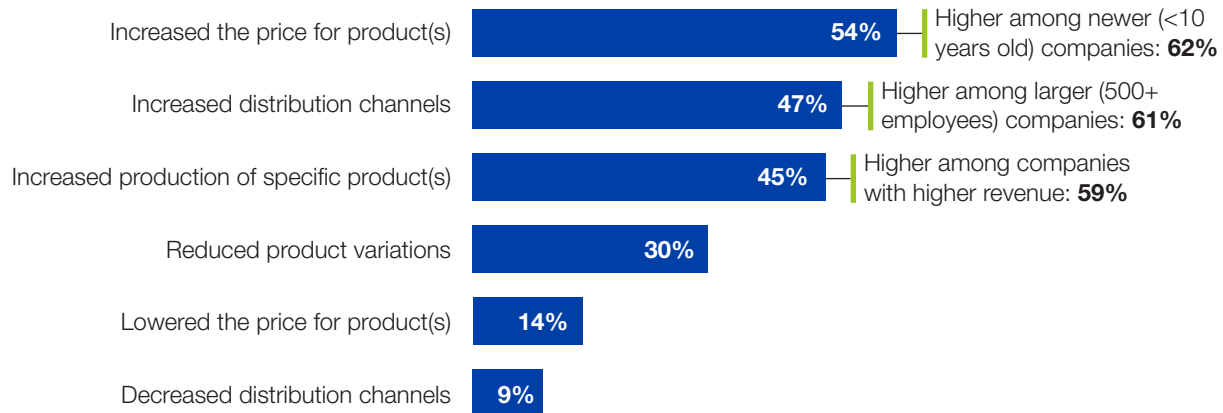
We actually ended up hiring two people from that platform, and we have another guy who we still pay the agency to hire every day to work for us.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q8: What labor strategies have you implemented to mitigate staffing risks? n=138

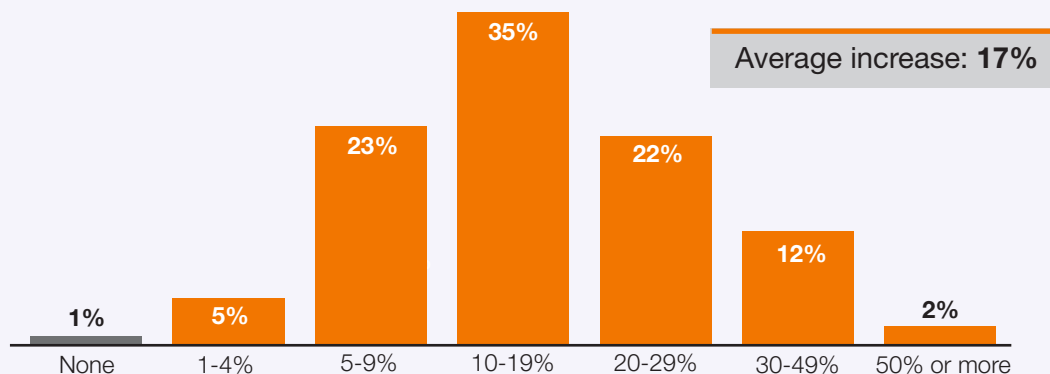
Inflation is a big challenge with companies primarily coping by increasing the price for their products

STRATEGIES IMPLEMENTED DUE TO INFLATION



Nearly every business is experiencing raw material cost increases, typically an increase of 17%

RAW MATERIAL PRICE INCREASES



Our delivery costs have doubled. We just got a price increase from our tea supplier due to inflation.

The cost rises are just continuing.

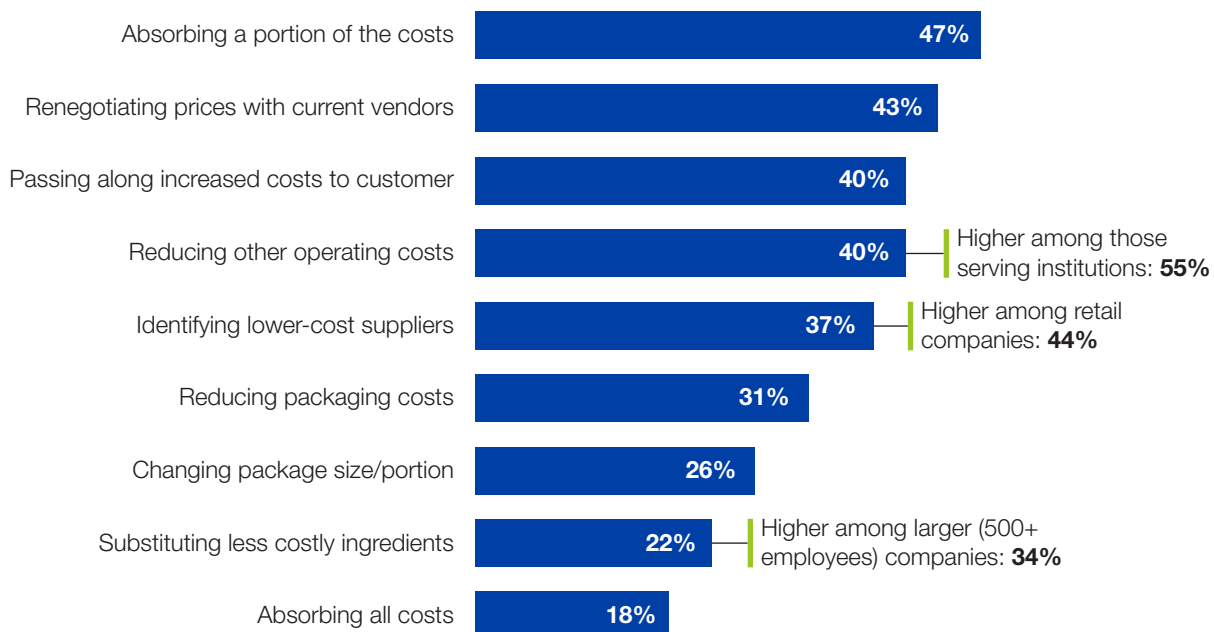
2023 will be another challenging year.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q14: Have you changed your production or marketing strategies due to inflation n=137
Q10: What percentage increase in cost are you experiencing on raw materials? n=130

Companies are handling these increased costs in a variety of ways

STRATEGIES TO ADDRESS RAW MATERIALS PRICE INCREASES



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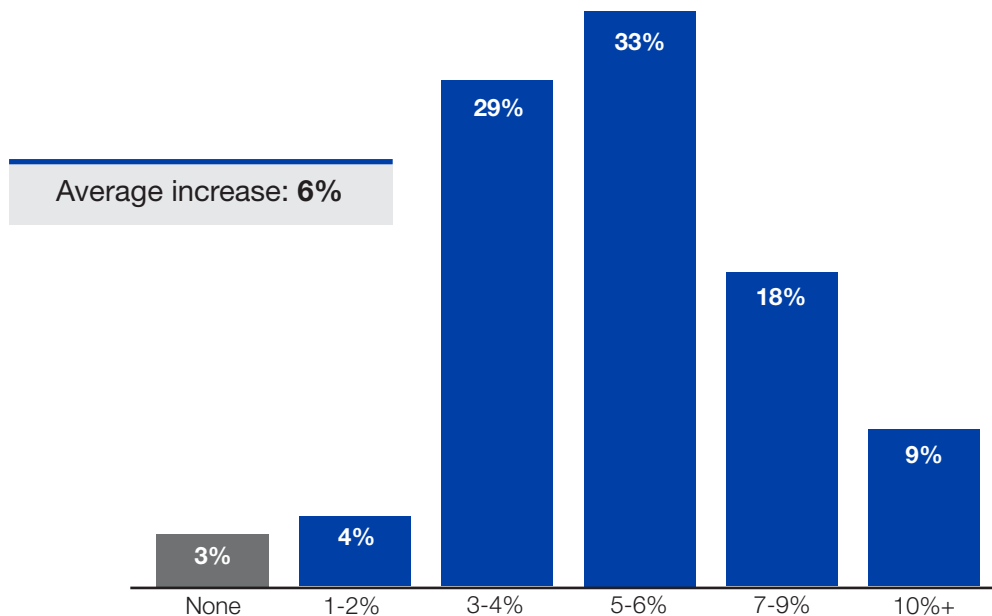
Our customers basically refuse price increases.

So, we either have to walk away and lose the business, eat the margin, or try to find lower cost suppliers.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q11: What is your strategy to address raw material price increases? n=129

Nearly every business has increased their prices,
typically a 6% increase



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2022 was a tough year because inflation was crazy; it was labor, supply, everything. So, we just tried to hit it from every angle to make sure we covered ourselves.

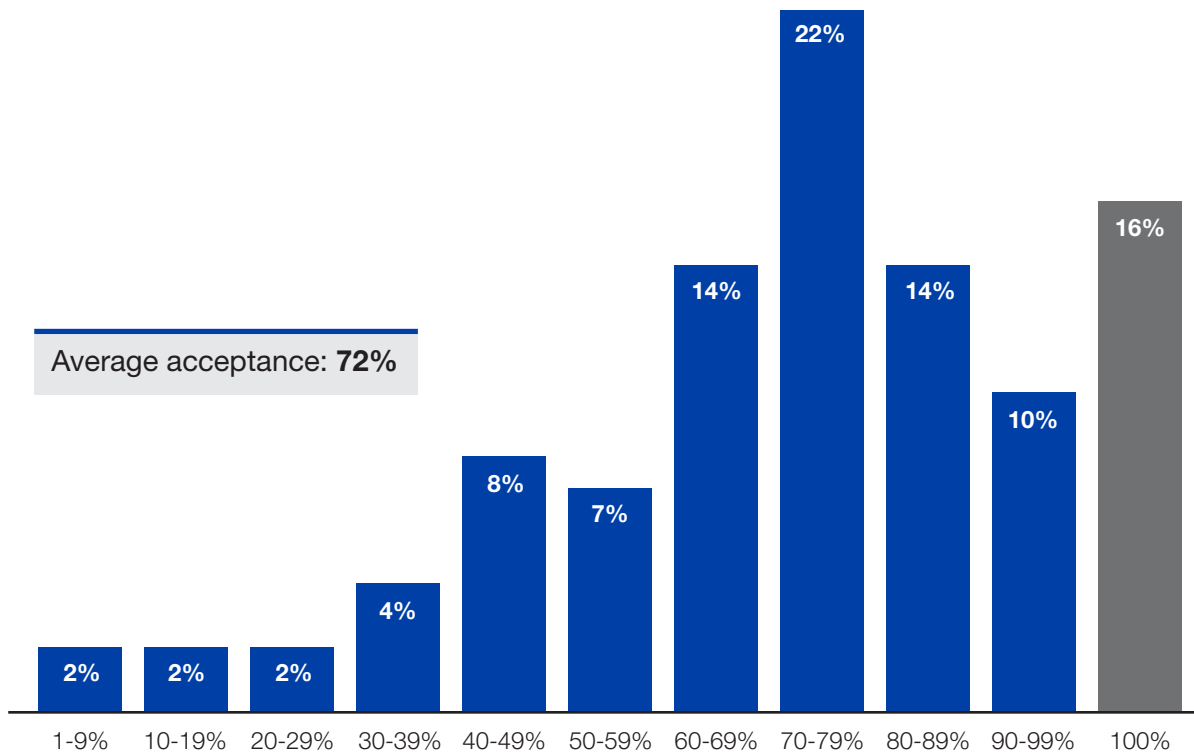
We first got whacked with packaging cost increases 2 years ago. So that led to a 10% round of price increases. Then late 2021, maybe early 2022, we had big increases in food costs **which led to a 5% price increase at the retail level for us.**

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANTS)

Q12: How much have you raised average product prices over product lines for customers over the past 12 months? n=138

Three-quarters of customers have accepted the price increases, though some are worried the ceiling has been reached on future price increases

PERCENT OF CUSTOMERS ACCEPTING PRICE INCREASES



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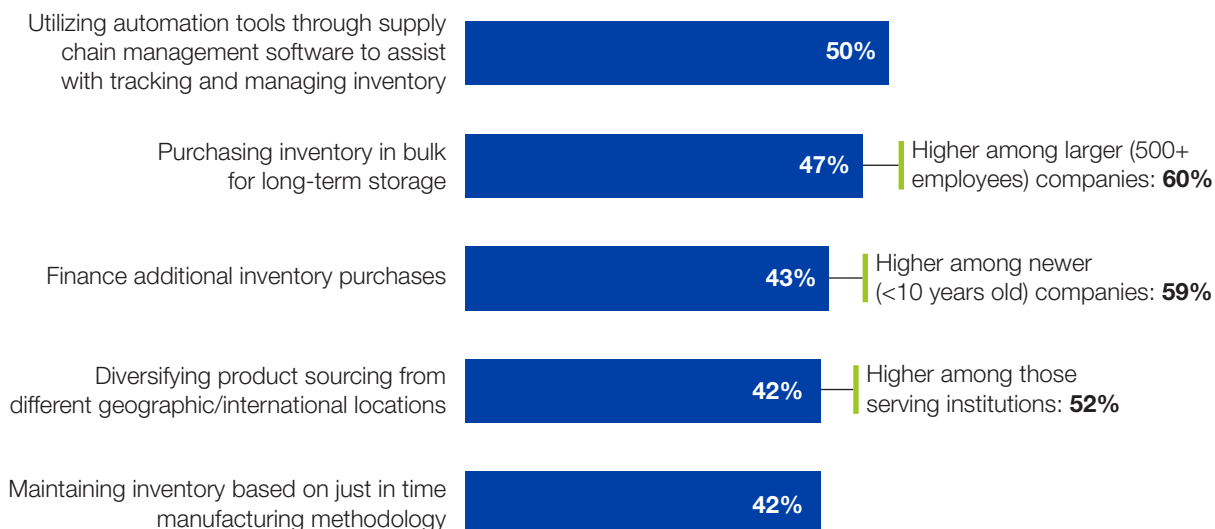
The jig is up. Up to this point we were able to pass along price increases. The concern on my part is that the increases from our suppliers aren't slowing down, **but we're going to have a harder time passing along from this point forward.**

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q13: Approximately what percent of your customers accepted your price increase(s)? n=125

Companies are using a variety of methods to manage inventory levels, especially automation tools and purchasing inventory in bulk

STRATEGIES TO MANAGE INVENTORY LEVELS



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We knew we needed a warehouse management system.

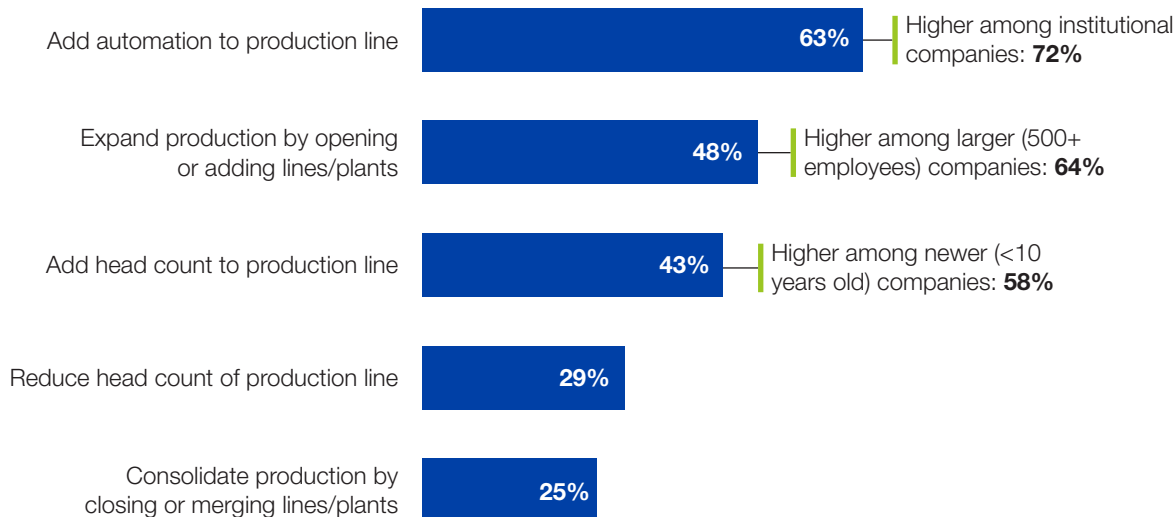
We already had an ERP that was suitable. We know how critical WMS is, so we found the best WMS for our needs and our ERP provider said they'd support the third-party integration. We implemented the first phase WMS last year. In the next four weeks, we'll begin picking and shipping with the new warehouse management system.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q9: How is your company managing inventory levels? n=138

As 2023 begins, most companies plans include expanding production

2023 PRODUCTION PLANS



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We're just finishing up installation of a high-speed packing machine. We had in the works for the last couple of years.
We'll get probably 30 or 40% more speed out of that machine.

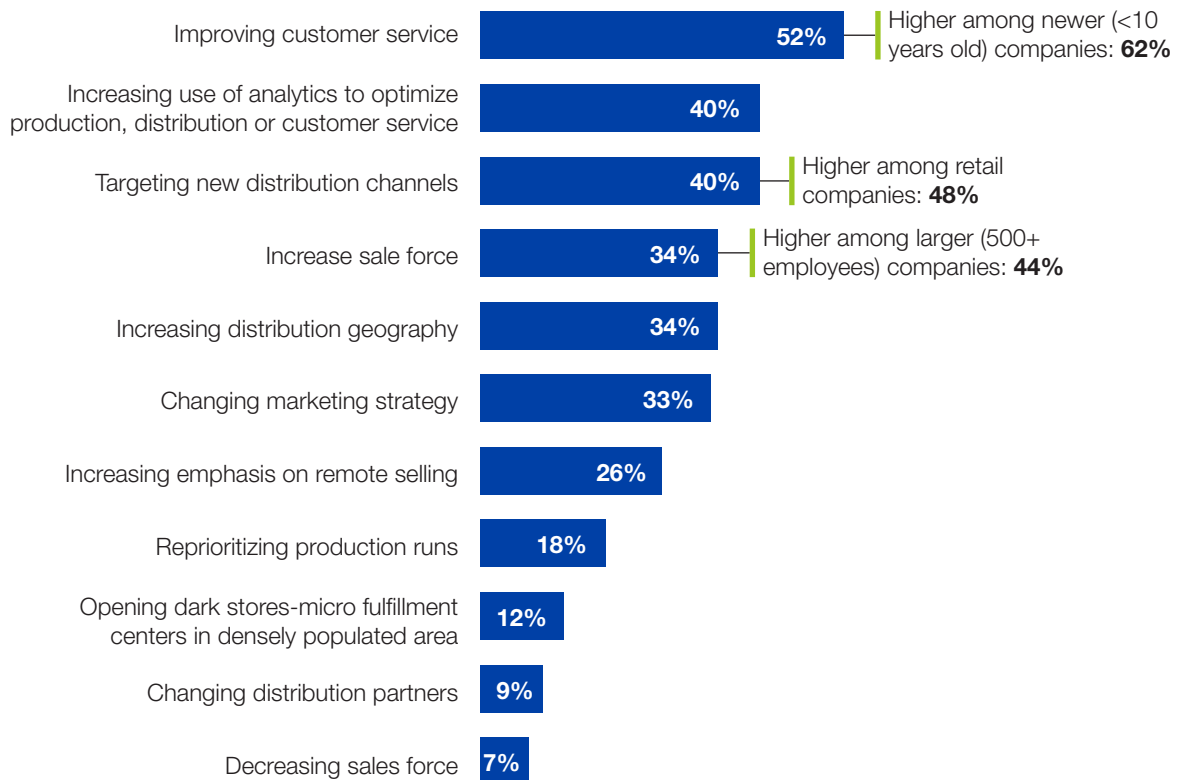
Every time I buy a machine all of the employees panic.
 And in every case, **every time I bought a machine, I've had to hire more people.**
 It's just magic, as far as increasing productivity, which then allows you to take on an extra job or a different job or something else.”

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANTS)

Q21: in terms of production for 2023, is your company planning to...? n=111

The top distribution strategies being contemplated in 2023 are improving customer service, increased use of analytics and targeting new distribution channels

2023 DISTRIBUTION STRATEGIES BEING CONSIDERED



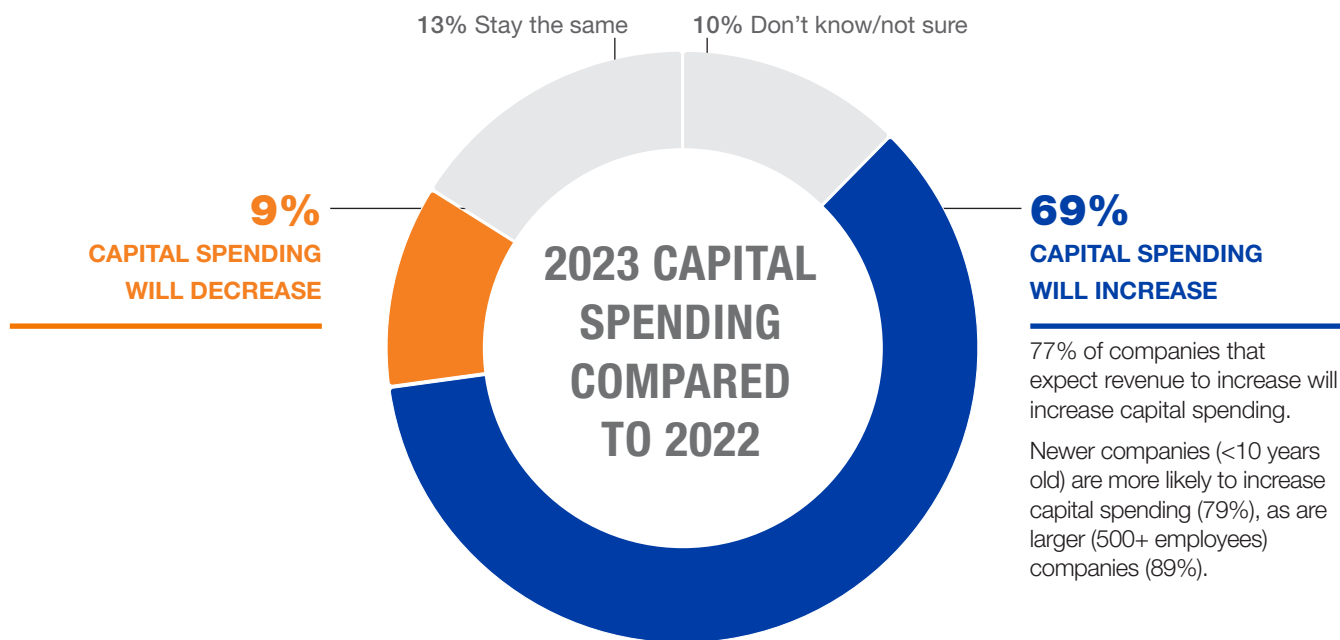
“

We've tried to break down some functional silos in distribution and in the warehouse. Overall, especially as we introduce new systems, like the warehouse management system and continuous improvement, it has helped.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q22: What changes in your distribution strategy are you considering in 2023? n=137

Two-thirds of respondents expect to increase capital spending in 2023



-5.8%

The average expected decrease in capital spending among companies that plan to decrease capital spending.



4.8%

The average expected increase in capital spending among companies that plan to increase capital spending.



The flip side of high interest rates — it's certainly a barrier to entry for any of our competitors right now who may or may not have been in our exact business line.

There's a much larger barrier to entry just to procure the facility.

There is some advantage if you're positioned right at this point, with the interest rates rising.

Harder to build a facility at 7% than 1.9%.

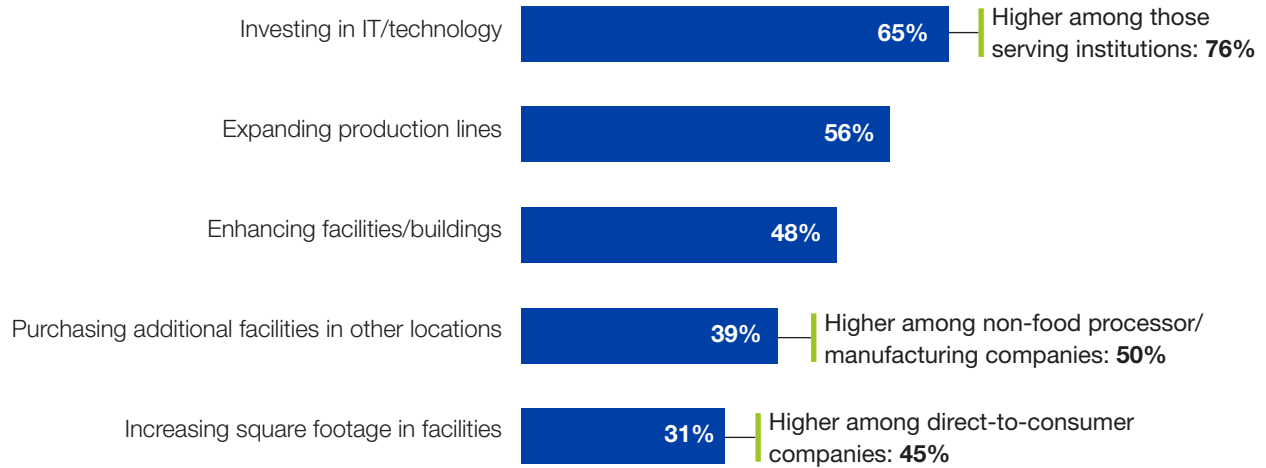
- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q29: What are your company's capital spending plans for 2023 compared to 2022? n=136

Those planning on increasing capital spending
are most likely to invest in IT/technology
and expanding production lines

AREAS OF INCREASED CAPITAL SPENDING

(among those increasing capital spending)



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**We're spending
on technology**

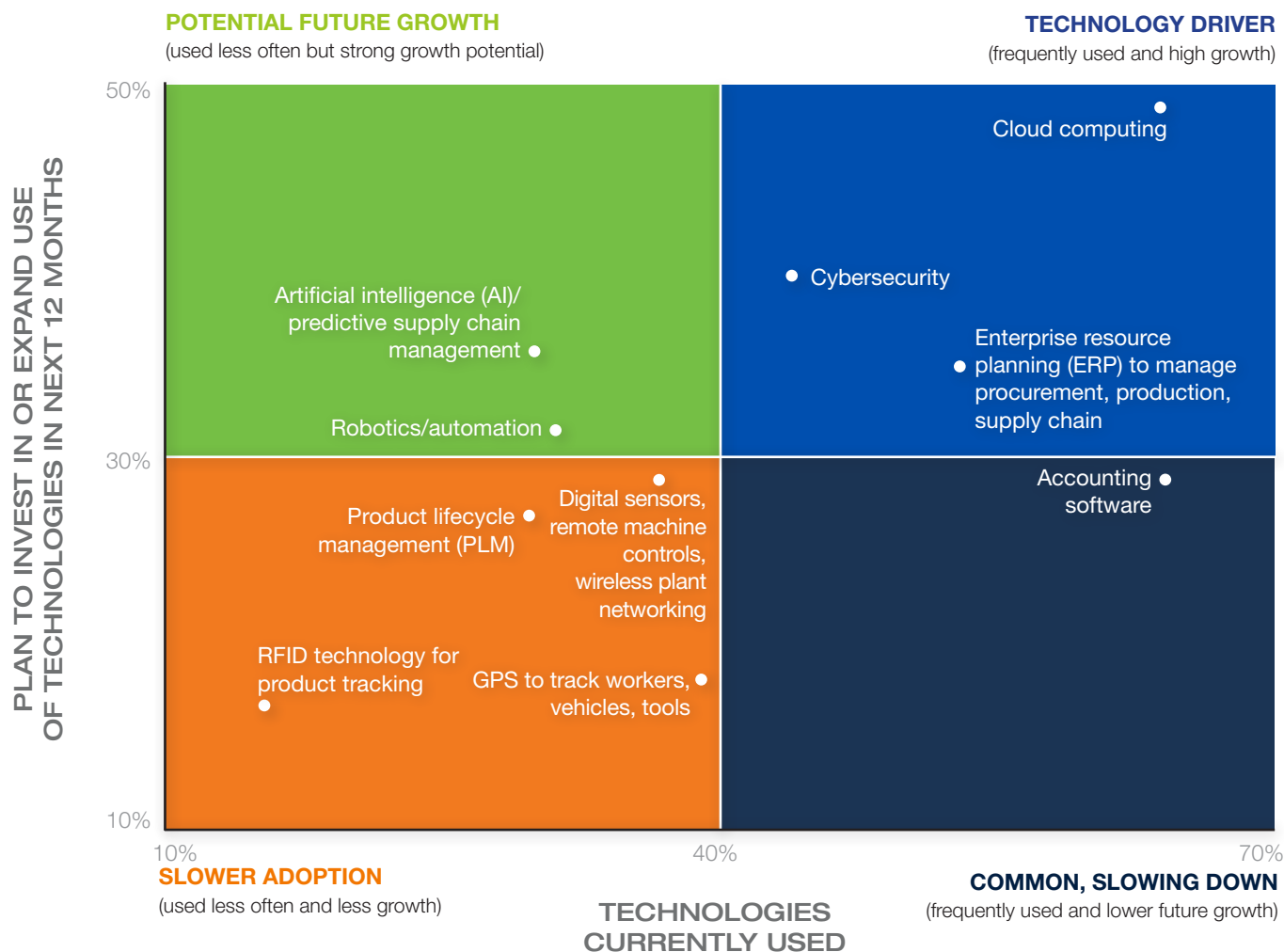
to upgrade our server, improve our
process controls, improve our yields,
focus on reducing labor costs, and
reduce our overhead costs.

**We automated the
majority of our lines,**
so we went from a production line
requiring 12 people down to 5 people.

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANTS)

Q30: In which way(s) are you planning on increasing capital spending in 2023? n=93

Cloud computing, cybersecurity, and ERP are industry technology drivers while predictive supply chain management and automation technologies have future growth potential



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When it comes to **cybersecurity**, our system is really old now. We rely very heavily on a simple cloud application. We have a very complex system of spreadsheets that are connecting, integrating all the different systems, **so it's extremely vulnerable.**

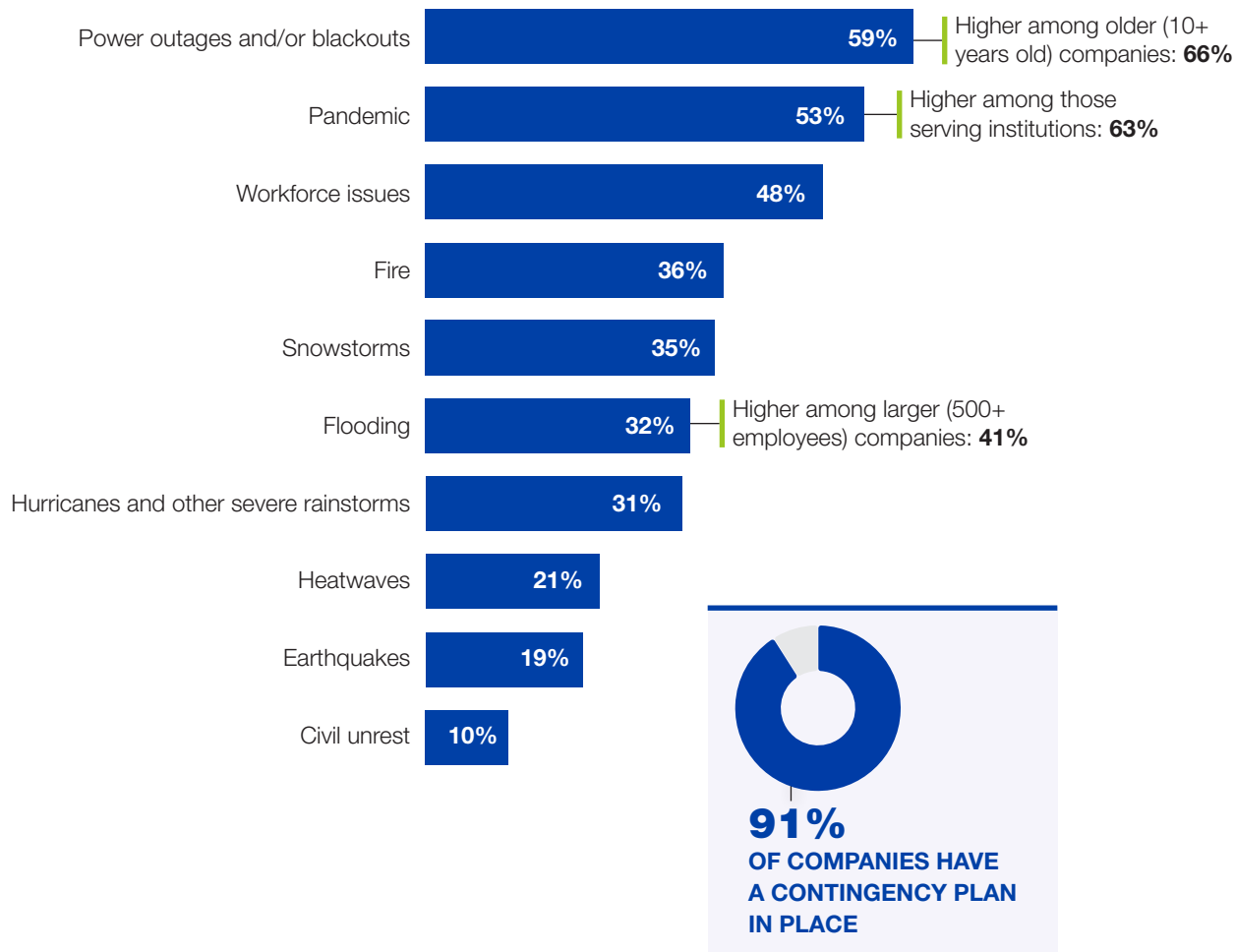
- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q23: Which technologies are used by your firm? n=137

Q24: In the next 12 months, does your company plan to invest in or expand the use of any of the following technologies? n=136

Nearly all companies have production contingency plans in place

PERCENT WITH CONTINGENCY PLANS FOR ADVERSE SITUATIONS

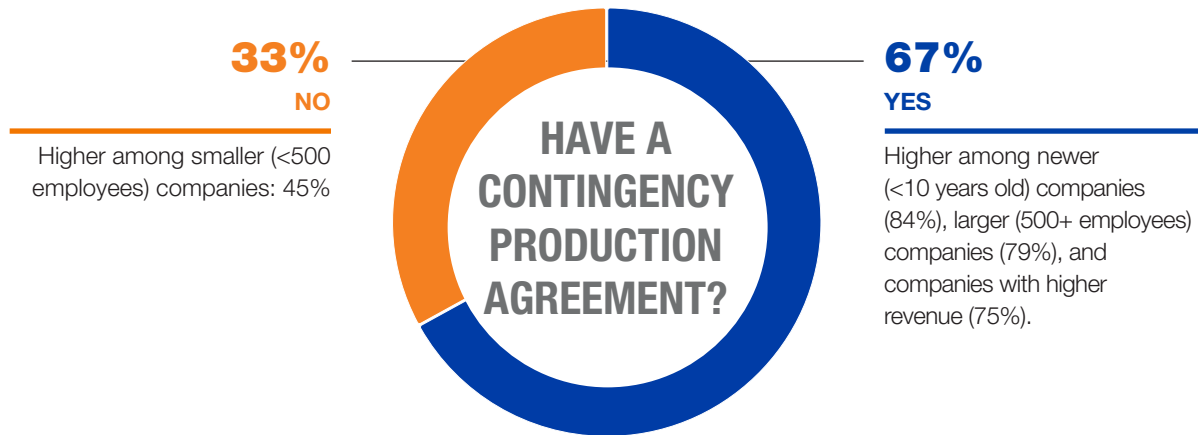


Most people have to be prepared. If you went through the last few years and didn't make any changes or think it can't happen again, **you're setting yourself up for a problem.**

- NJ/NY FOOD MANUFACTURER (FOCUS GROUP PARTICIPANT)

Q25: Do you have production contingency plans in place to ensure production delays do not occur for any of the following events? n=118

It is very common for companies' contingency plans to include agreements with other facilities, especially in larger companies



Q26: Does your contingency plan include a contingency production agreement with another processing facility? n=107

ABOUT US

GET THE GUIDANCE YOU NEED TO MOVE FORWARD

Our Resources Are Committed to Your Industry

GRASSI ADVISORS & ACCOUNTANTS

To schedule a complimentary consultation to review your firm's operations and tap into Grassi's full suite of consulting, audit and tax solutions visit grassicpas.com or contact Robert E. Grote, Manufacturing & Distribution Leader, at rgrote@grassicpas.com or 516.336.2468.

Grassi professionals are committed to helping food and beverage companies meet their business objectives and remain profitable in any economic climate. Leveraging deep industry expertise and a client-focused approach, the team provides proactive advice and customized solutions to help food and beverage manufacturers operate at peak performance and mitigate risk.

NEW JERSEY FOOD PROCESSORS ASSOCIATION

For more details on the many benefits of membership in the New Jersey Food Processors Association, visit njfoodprocessors.org or contact Michele Von Deak, Executive Director, at info@njfoodprocessors.org or 888.859.8832.

NJFPA is a community of food and beverage companies, suppliers and service organizations that promotes industry growth throughout the tri-state area through education, resource sharing and strong partnerships. NJFPA members have access to the resources necessary to strengthen their companies, network with their peers, participate on committees and learn about best practices in their areas of expertise.



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