



PET FOOD AND COFFEE

FOOD MARKET TRENDS FOR NATIVE PRODUCERS



QUARTERLY AG REPORT

JANUARY 13, 2021



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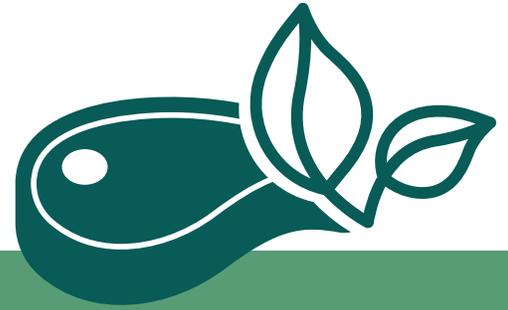
WHAT'S AHEAD FOR FOOD IN 2022?

Tis the season when predictions start flowing regarding key food trends for the coming year. The Crystal Ball for 2022 is clouded a bit by the continuing impact of COVID-19 on both retailers and foodservice operators. But here are a few key insights gleaned from some very divergent sources, including major natural retail stores, Hello Fresh home delivery service, Specialty Foods trade association and ADM ingredients manufacturer.

Each of these companies has a unique perspective on the food marketplace, yet there are some common threads in their 2022 forecasts. Here's how some of those trends can impact Native American food companies and products:

WHAT'S AHEAD...

Continued from Page 2



THE PROTEIN WARS WILL CONTINUE

Nearly all 2022 forecasts place continued growth of plant-based proteins toward the top of their lists. That doesn't mean that meat, poultry and seafood are going away. Specialty Foods predicts a growth in "flexitarian" diets, while a major natural retailer describes the same trends as "re-reductionarianism." Both stress that—while many consumers are cutting back on meat, dairy and eggs--they will be more selective when choosing traditional proteins. The natural retailer notes, "When animal products are on the menus, reductionarians opt for premium grass-fed beef or pasture-raised eggs."



FOOD TRANSPARENCY

The disruption in the industrial food system, and a growing number of food safety concerns are driving consumer demand for a more transparent food system. ADM describes this as consumers wanting "their foodstuffs to consist of 'real' kitchen-level ingredients." More than 35% of the people surveyed by Hello Fresh reported that they are interested in the origin of the food they eat.

WHAT'S AHEAD...

Continued from Page 3

GRANDE
CUSTOM INGREDIENTS GROUP



FOOD AS MEDICINE

More consumers now view their diets as a foundation of their personal health. Grande Ingredients Group notes that immune boosting claims are popping up everywhere. “Foods that naturally contain these types of ingredients without modification are more appealing to consumers. ADM notes that 37% of consumers expect the snacks they eat to improve their mental well-being, and 55% of consumers are looking for foods, beverages and supplements that support gut health and overall well-being.

LOCAL AND SUSTAINABLE

This is related to Transparency. Hello Fresh reports that 31% of adults are trying to shop more sustainably, while 30% are actively looking for local. ADM notes, “Consumers see sustainability as a moral imperative as they connect it to what is right and ethical in their community and the environment.



In addition to the trends identified in several of these forecasts, there are some nuggets that caught our attention in some of the individual predictions. Those include:

ANCIENT GRAINS



The major natural retailer predicts that these two segments will grow rapidly in 2022 as consumers move away from highly processed commodity grains.



SUNFLOWER SEEDS

Another natural retailer prediction. The retailer notes that sunflower seeds are popping up in crackers, ice cream and creamy cheeses.



A RETURN TO TRADITIONAL PROTEINS

Grande Ingredients Group predicts that meat-eaters who wanted to try plant-based proteins will return to their traditional steaks and burgers. “Traditionalists and average consumers on a budget don’t want to sacrifice flavor, texture and the sensory pleasures of eating.”



HUMANIZATION OF PETS

Humanization of Pets – ADM notes that 30% of pet owners globally are spending a significant amount of time researching the best food options for their furry companions.

INTRODUCING: NAAF QUARTERLY MARKET BASKET REPORT



The Native American Agriculture Fund Market Basket Report is a new data service developed through our partnership with SPINS market reporting service.

This report will provide a quarterly snapshot of 34 food products' current performance, compared to the same period one year earlier. The SPINS service allows us to provide reports for products in two distinct retail channels, conventional and natural.

KEY FINDINGS IN EACH REPORT

-  Average Retail Price – The average price a shopper may pay in all of the retail outlets in that particular channel (conventional or natural). This measure flattens out the effect of promotional pricing strategies, as well as pricing differences between individual retailers.
-  Average Retail Price Year Ago – This provides the comparison price for the same item in the same stores one year earlier (in this report, October 31 is the reporting period).
-  Average Retail Price Change vs year Ago – The actual price difference per item across all outlets. Percent Price Change vs. year Ago – The percent price increase (or decrease) from the previous year. increases, rather than market growth.

KEY FINDINGS IN EACH REPORT CONT.

Continued from Page 6



Total Dollar Sales Change vs. Year Ago – This is the actual increase in sales of the product, measured in dollars, for all stores measured by SPINS.



Total Units Sold vs. Year Ago – This is the actual volume of items that were sold in all stores, compared to the previous year.

Note: The last two columns provide the best snapshot of a product's overall performance. In some cases, the actual dollar sales may increase, while the number of units sold decreases. This indicates that the company may be relying on price increases, rather than market growth.

WHY THIS MATTERS

As Tribal enterprises enter the food and beverage marketplace, it's vital to understand the playing field. Products have to be produced and priced in a manner that will make them competitive with existing items the retailers carry. It's also important to understand the common size for products in retail stores. Many manufacturers keep their products competitive by offering slightly smaller sizes than competitors, which allows them to have a higher price per ounce.

It's also important to know if an overall category is growing or shrinking. Looking at the overall performance in the dollars sold and the units sold, over the past year can help provide that information. In comparing product sales and pricing this year compared to 2020, it's important to look at the impact that the COVID-induced shopping had in last year's retail sales.

All Stores Tracked

52 week period ending

December 26, 2021

NAAF MARKET BASKET REPORT

	Average Retail Price	Avg. Retail Price Year Ago	Avg. Retail Price Change vs. Year Ago	Percent Price Change vs. Year Ago	Total Dollar Sales Change vs. Year Ago**	Total Units Sold vs. Year Ago***
MEAT PRODUCTS						
Refrigerated/Frozen Beef/Pork Cuts (1.5 lb.)	\$7.04	\$6.67	\$0.37	5.5%	-0.1%	-5.3%
Refrigerated/Frozen Burgers (2 lb.)	\$9.13	\$8.88	\$0.25	2.8%	2.5%	-0.3%
Refrigerated/Frozen Meat Cuts (Other)* (20 oz.)	\$9.84	\$9.42	\$0.42	4.4%	-1.3%	-5.5%
Refrigerated/Frozen Bacon (1 lb.)	\$5.98	\$5.34	\$0.63	11.9%	2.4%	-8.5%
Refrigerated/Frozen Seafood (20 oz.)	\$9.96	\$9.58	\$0.38	3.9%	4.8%	0.8%
Jerky (5 oz.)	\$5.91	\$5.53	\$0.38	6.9%	21.3%	13.4%
Shelf Stable Meat Snacks (4 oz.)	\$3.17	\$2.92	\$0.26	8.8%	22.1%	12.3%

FROZEN FRUIT & VEGETABLES						
Frozen Fruit (25 oz.)	\$5.25	\$5.16	\$0.09	1.7%	2.5%	0.7%
Frozen Potatoes (28 oz.)	\$2.90	\$2.84	\$0.06	2.0%	-2.7%	-4.6%
Frozen Vegetables (1 lb.)	\$2.03	\$2.02	\$0.02	0.8%	-8.4%	-9.1%

PRODUCE						
Packaged Fruit (pak size not reported)	\$3.80	\$3.52	\$0.28	8.0%	11.5%	3.2%
Packaged Herbs (pak size not reported)	\$2.55	\$2.50	\$0.05	1.9%	8.9%	6.9%
Packaged Salads & Greens (pak size not reported)	\$3.07	\$2.98	\$0.09	3.1%	5.6%	2.4%
Packaged Vegetables (pak size not reported)	\$2.90	\$2.84	\$0.06	2.1%	0.5%	-1.5%

REFRIGERATED PRODUCTS						
Cheese (12 oz.)	\$4.47	\$4.39	\$0.08	1.9%	-2.9%	-4.6%
Shredded & Grated Cheese (12 oz.)	\$3.45	\$3.39	\$0.06	1.8%	-3.8%	-5.5%
Sliced & Snack Cheese (12 oz.)	\$3.68	\$3.61	\$0.06	1.8%	-0.3%	-2.1%
Salsas (16 oz.)	\$3.76	\$3.75	\$0.02	0.4%	-1.5%	-1.9%

Conventional...

	Average Retail Price	Avg. Retail Price Year Ago	Avg. Retail Price Change vs. Year Ago	Percent Price Change vs. Year Ago	Total Dollar Sales Change vs. Year Ago**	Total Units Sold vs. Year Ago***
GROCERY (SHELF STABLE)						
Dry Beans (18.5 oz.)	\$2.21	\$2.12	\$0.09	4.4%	-19.2%	-22.6%
Bouillon (16 oz.)	\$2.73	\$2.58	\$0.15	5.9%	0.5%	-5.1%
Chili (16 oz.)	\$2.07	\$2.01	\$0.06	2.8%	-9.7%	-12.2%
Coffee - Ground & Whole Bean (16 oz.)	\$7.91	\$7.58	\$0.33	4.3%	-0.8%	-4.9%
Canola Oil (4.5 lb.)	\$4.34	\$3.62	\$0.73	20.1%	2.1%	-14.9%
Dried Fruit (10 oz.)	\$3.79	\$3.69	\$0.10	2.7%	0.9%	-1.8%
Nuts (13 oz.)	\$5.34	\$5.22	\$0.11	2.2%	-0.4%	-2.5%
Pancake & Waffle Mix (28.5 oz.)	\$3.05	\$2.98	\$0.06	2.1%	-12.9%	-14.7%
Peanut Butter (25 oz.)	\$3.83	\$3.62	\$0.20	5.6%	-7.2%	-12.2%
Dry Rice (60 oz.)	\$4.11	\$4.07	\$0.04	0.9%	-5.7%	-6.5%
Salsa (18 oz.)	\$2.94	\$2.89	\$0.05	1.7%	-9.1%	-10.6%
Ready-to-eat Soup (16 oz.)	\$1.74	\$1.71	\$0.03	1.9%	-10.8%	-12.5%
Herbal Tea (18.5 oz.)	\$3.20	\$3.14	\$0.06	2.1%	-0.7%	-2.7%
Canned Tomatoes (16 oz.)	\$1.11	\$1.09	\$0.02	1.9%	-14.3%	-15.9%

PET FOOD

Cat Food (1.5 lb.)	\$2.31	\$2.13	\$0.18	8.3%	6.6%	-1.6%
Dog Food (5.5 lb.)	\$6.47	\$6.02	\$0.46	7.6%	5.8%	-1.7%

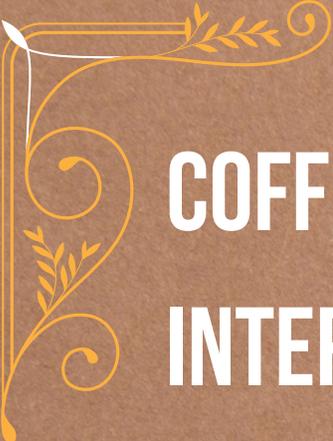
* Includes bison, venison and elk

** Percent change in dollars sold in all conventional stores tracked by SPINS

*** Percent change in the number of units sold in all conventional stores tracked by SPINS

PERSPECTIVE:

COFFEE'S WHAT'S HOT FOR MANY TRIBES



**COFFEE HAS BEEN AN
INTERNATIONAL DRINK
SINCE IT WAS FIRST
CARRIED OUT OF
ETHIOPIA IN THE 15TH
CENTURY. NOW, COFFEE
ROASTING IS TAKING
ROOT ON NATIVE
AMERICAN NATIONS
ACROSS THE COUNTRY.**



AMERICANS DRINK

646

MILLION CUPS OF COFFEE PER DAY PER YEAR

According to one report compiled on Reddit, at least 19 Native American Coffee Roasters are operating in the United States. There are a lot of coffee cups to fill across the country. According to a survey conducted by the National Coffee Association, Americans drank an average of 646 million cups of coffee per day during the past year.

According to the association's survey, 58% of Americans reported drinking coffee within the past day. That's down just 2% from January of 2020 and 4% from 2019, although it's a point higher than the 2017 level.

ADDITIONAL FINDINGS:

- 85% of coffee drinkers said they had at least one cup of coffee at home. That's up 8% since last January and 10% since 2017.
- A whopping 23% of coffee drinkers bought a new coffee machine of some kind during the year.
- Drive-through coffee ordering was up 30%
- App-based ordering increased by 30%
- Past-day coffee consumption in January 2021 saw dramatic declines at other locations, including:
 - Coffee shops: -33%
 - Workplaces: -55%
 - Full-service restaurants: -50%
 - Quick-service restaurants: -33%



NATIVE AMERICAN OWNED COFFEE ROASTERS

Note: Here is a list of the Native American coffee roasters we were able to identify for this update (If we missed any, please let us know, and we'll up-date the information on our website).

- Arcadia Valley Roasting Company(MO) formerly Osage or Illini land
- Beaver Tales Coffee (local pick up in Skagit County, WA)
- Birch Bark Coffee Company: Online coffee company. Ojibwe
- Bison Coffeeshouse (OR) (formerly land of the Chinook people)
- Ekowah Coffee (OK) formerly Osage or Kiowa land
- Expedition Joe Coffee Company
- Native Blend Coffee (CA)
- Native Coffee Traders (NY) Patachogue nation
- Native Harvest (MN) White Earth Reservation, Ojibwe people
- O-Gah-Pah (MO) Quapaw-owned
- Salish Grounds (WA) (formerly land of the Lushootseed people)
- Sacred Grounds Coffee (AK) formerly Tlingit land
- Spirit Mountain Roasting Co. (CA) (on Quechan Land)
- Star Village Coffee (NV) (formerly Washoe land)
- Spotted Horse Coffees (MN) (formerly Ojibwe land)
- Takelma Roasting Co. (OR)
- Thunder Island Coffee Roasters (NY) Shinnecock-owned
- Tribal Grounds Coffee (NC) (was part of Cherokee land)
- Yeego Coffee (Kinłání Dook-o-oosłííd Biyaagi) Navajo-owned

FROM SPINS: INSIGHTS INTO THE COFFEE CATEGORY

PRODUCT GROUP DYNAMICS

Dollars Sold 52 Weeks Ending 12/26/2021

	Combined Channel	Natural Enhanced Channel	Multi-Outlet Channel	Convenience Channel
Natural Products	1.6B	134.2M	1.4B	9.8M
Specialty and Wellness Products	3.2B	56.7M	3.1B	3.9M
Conventional Products	6.1B	14.4M	6.1B	65.0M
Total Universe	10.9B	205.3M	10.6B	78.7M

PRODUCT GROUP DYNAMICS

Absolute Dollar Change - 52 Weeks Ending 12/26/21

	Combined Channel	Natural Enhanced Channel	Multi-Outlet Channel	Convenience Channel
Natural Products	13.8M	-927.1K	14.9M	-140.3K
Specialty and Wellness Products	44.5M	-3.8M	48.0M	206.1K
Conventional Products	-150.5M	-2.4M	-148.7M	556.3K
Total Universe	-92.2M	-7.0M	-85.8M	622.1K

PRODUCT GROUP DYNAMICS

Dollar % Change - 52 Weeks Ending 12/26/21

	Combined Channel	Natural Enhanced Channel	Multi-Outlet Channel	Convenience Channel
Natural Products	0.9%	-0.7%	1.1%	-1.4%
Specialty and Wellness Products	1.4%	-6.2%	1.6%	5.6%
Conventional Products	-2.4%	-14.1%	-2.4%	0.9%
Total Universe	-0.8%	-3.3%	-0.8%	0.8%

- Coffee sales through December 26, 2021 were \$10.9 billion
- Natural brands account for \$1.6 billion of sales through December 26, 2021
- Overall YTD sales decline of 0.8% vs. same period 2020 reflects large spike in at-home consumption during pandemic.
- Natural brands sales grew slightly despite declines in the coffee category.
- Most of the growth for natural brands was in conventional (multi-outlet) stores. Specialty coffees are showing the fastest growth, particularly in the natural and convenience channels.

BIGGER ISN'T ALWAYS BEST..A SNAPSHOT OF SIX BRANDS

Here's a peek into the performance of six major coffee brands.

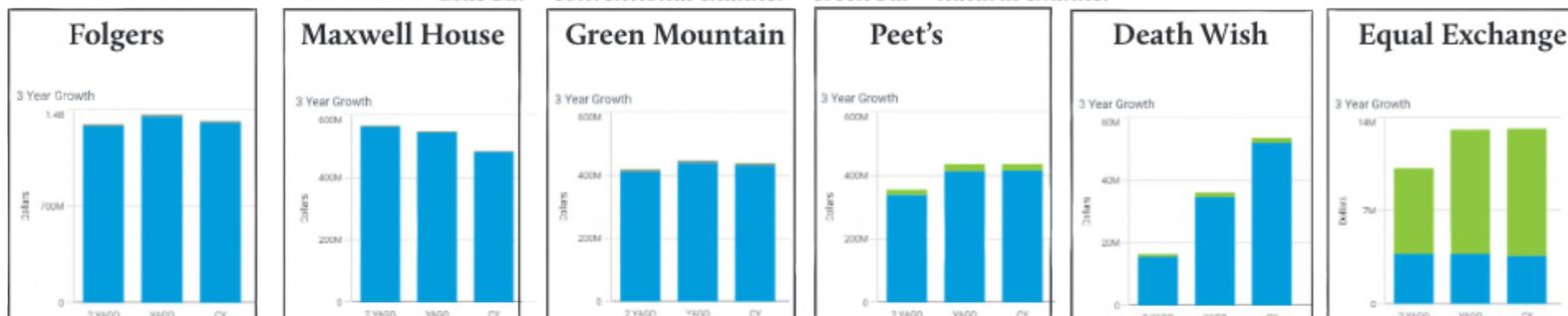
- Folgers, Maxwell House and Green Mountain are leaders in the conventional channel.
- Peet's, Death Wish and Equal Ex-change are leaders in the natural channel, although all are distributed in conventional stores as well.

Brand	52-Week Sales (Million \$\$)	No. of SKU's*	2-Year CAGR**	What % of Stores Carry this Brand		
				Natural	Conventional	Convenience
Folgers	\$ 1,583.2	210	1.0%	38.0%	99.5%	57.3%
Maxwell House	\$ 578.0	173	-7.0%	25.1%	96.4%	13.4%
Green Mountain	\$ 522.9	152	2.3%	28.0%	93.1%	2.2%
Peet's	\$ 526.5	180	10.9%	66.5%	74.6%	0.0%
Death Wish	\$ 66.2	12	73.8%	44.8%	63.9%	0.0%
Equal Exchange	\$ 15.5	74	12.6%	41.6%	7.7%	0.0%

* Same Kind Unit (Each size of a unit = one SKU)

**Compound Annual Growth Rate

Three-Year Growth Rate *Blue bar = conventional channel Green bar = natural channel*



Product Claims

- None
- Specialty - 4 SKU's
- Paleo - 1 SKU
- Natural - 149 SKU's
- Fair Trade - 48 SKU's
- Organic - 5 SKU's
- Certified Fair Trade - 3 SKU's
- Natural - 178 SKU's
- Organic - 10SKU's
- Fair Trade - 3 SKU's
- Natural - 12 SKU's
- Fair Trade - 11 SKU's
- Organic - 10 SKU's
- Certified Fair Trade - 4 SKU's
- Natural - 74 SKU's
- Organic - 61 SKU's
- Fair Trade - 59 SKU's

TAKE-AWAYS

- Legacy brands are dominant, but stagnant in terms of growth.
- Special claims are helping small brands grow (a strong opportunity for Native American roasters).
- Brands dominating the natural channel are also in conventional stores.

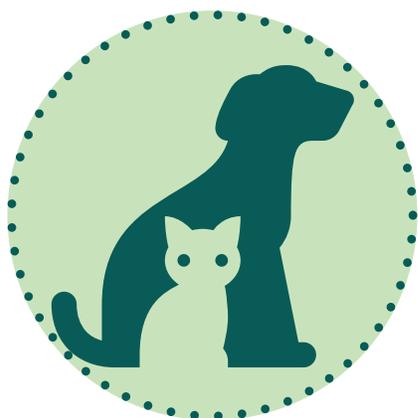
FROM SPINS: PROMISES AND PITFALLS IN PRODUCING PET FOODS

As discussed in a previous newsletter pet products offer a strong potential for Tribal producers.

Here are some key factors:

- The pet industry topped \$100 billion in 2020, with pet food and treats accounting for \$42 billion in sales.
- Changing consumer attitudes are driving an increase in demand for higher quality pet food ingredients.
- Pet food is highly regulated, and those regulations are extremely confusing.
- Consumers distrust the claims made on many pet products.

To understand the opportunity, it's important to know some of the factors involved in manufacturing and distributing pet products. Let's take a look at some of those factors.



DEFINITIONS

The language used in pet food and treat ingredient panels, as well as on the package label, are highly regulated under the rules developed by the Association of American Feed Control Officials (AAFCO), the body that essentially governs pet food production and labeling.

Here are just a few examples:

- **Poultry and Meat** – This must include the whole muscle meat of the animal (flesh and skin”, with or without the accompanying bone, excluding feathers or hide, heads, feet and viscera. This can include hearts (because they are a muscle) but excludes items like livers and kidneys.
- **Poultry and Meat By-Products** – This is defined as “the secondary parts produced in addition to the principal part” of the animal. This includes the viscera, livers, kidneys and other organs.
- **Meat or Poultry Meal** – Meals are the staple of most dry pet foods because they are high in protein and very low in moisture. The terms Meat meal, poultry meal and bone meal apply to products that are rendered from the animal tissues, including bone, but excluding added blood, hair, feathers, hoof, horn, hide trimmings, manure, stomach and rumen contents.
- **Meat or Poultry Byproduct Meal** – This describes ingredients that are rendered by the byproducts (described above).
- **Human Grade** – This claim can only be used on a label if all of the ingredients are “stored, handled, processed and transported in a manner that is approved for human grade food.

CREATION OF PET FOOD



The manufacture of pet food is highly regulated. That's because pets (at least in theory) rely on their daily bowl of food for all of their nutritional needs. To be labeled as "food," the products must meet the definition of "complete and balanced," as determined by AAFCO. This requires the formulations to comply with requirements for the precise levels for amino acids (proteins) minerals and vitamins.

Chicken is the predominant protein used in pet foods, followed by beef, lamb, salmon, turkey, tuna, and other fish. Eggs are widely used as well, and there is growing demand for bison, venison and elk.

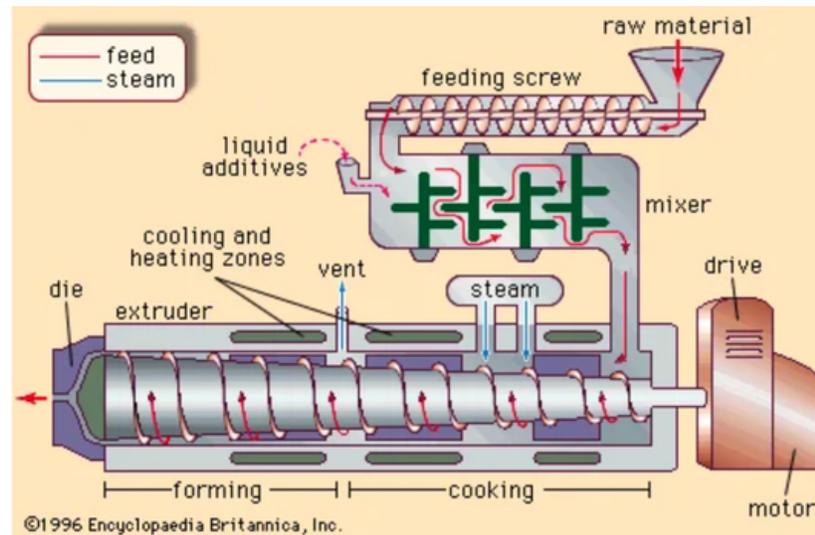
Most ingredients do not travel directly from the slaughterhouses to the pet food manufacturers. Instead, they are collected by companies that specialize in pre-processing those ingredients for the manufacturers.

Some companies specialize in rendering the ingredients into meals (powder) that are

utilized in manufacturing most dog and cat kibble. Other companies specialize in producing slurries, which are a finely ground blend of the proteins needed for specific formulas. These slurries are then produced as nude frozen blocks, are as combos (large bins, usually weighing about 1,000 lbs.) Those companies will also produce ground and chopped ingredients which are used to make some wet (canned) products.

The manufacturers then purchase the meals and slurries, along with other ingredients (corn, wheat, blueberries, etc.) from these pre-processors. The ingredients are then manufactured into dry or wet

products. Dry pet food is primarily manufactured utilizing extruders, which utilize steam and extreme pressure to cook the formula, comprised of the slurry, meal and other ingredients. Canned products are primarily manufactured using retorts, which cook the product inside the cans. There is also growth in refrigerated products (e.g., Freshpet), as well as products that are baked, rather than extruded. Because most pet food ingredients are transported, pre-processed and manufactured in facilities that are not approved for human food, products produced with those ingredients cannot be labeled as "human grade."



TYPICAL EXTRUDER CONSTRUCTION



EXAMPLE OF RETORT



PET TREATS

SPINS REPORT

PET TREAT MARKETPLACE

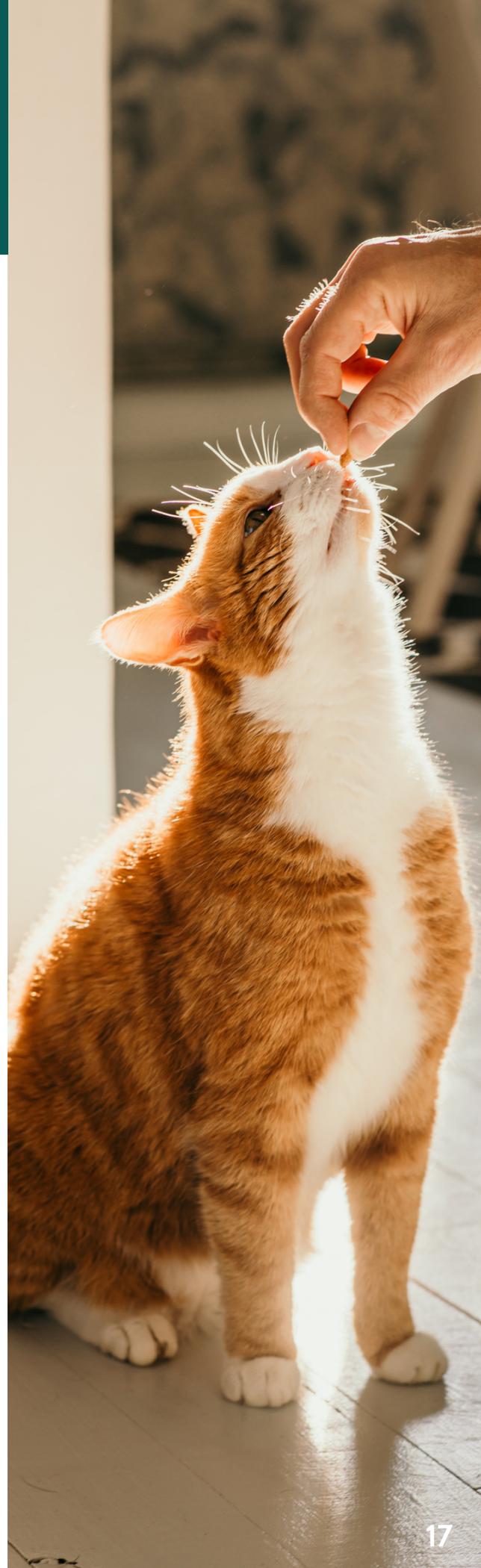
The market for treats is much smaller than for pet food. According to the Packaged Facts, pet treats accounted for about \$7 billion in sales last year, compared to \$35 billion for pet food.

But treats offer a much more viable opportunity for Tribal meat processors. Because treats are defined as products “ provided occasionally for enjoyment, training, entertainment, or other purposes” they are not required to meet any type of nutritional standard.

Many treats can be produced utilizing equipment already in place in many meat processing facilities. One meat processor manufactures human jerky and pet jerky treats utilizing the same recipe and the same equipment...only the labels are different.

Additionally, treats manufactured in this method can legally carry the label claim of “human grade” because all of the ingredients are human grade, and all manufacturing was conducted on equipment approved for human food.

Although treats do not have to carry any nutritional guarantees, the language used on the label, and in the ingredient panel, must comply with all AAFCO rules.





WHY MARKET INFORMATION MATTERS

Producer-led food processing initiatives are sprouting all across Indian country. Those initiatives are bringing to fruition NAAF's vision for a network of regional food hubs.

Each initiative will require significant capital, which means that producers will need to connect with potential lenders or investors. Those potential partners will want assurance that the initiative has a sound marketing strategy before they open the purse strings to help underwrite a project. NAAF is developing these periodic reports to help provide Tribal entrepreneurs with data and market information that can assure potential lenders and investors with the assurance that the new enterprise can successfully build a profitable market for their products.

Let us know if there is a particular market category you would like analyzed, and we'll feature it in an upcoming newsletter, as well as in our quarterly market report webinar. And NAAF grantees are welcome to request specific information from our SPINS database.

NAAF Marketplace Updates & Insights is compiled periodically with input from NAAF staff, the folks at Crystal Springs Consulting, Inc. who work alongside many Tribes embarking on food enterprises and digs into the data-rich environment of the SPINS Market Database, the premier food market information and data platform used throughout the food sector.

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