



**MARCUM**  
ACCOUNTANTS ▲ ADVISORS

**2024**  
MARCUM FOOD &  
BEVERAGE INDUSTRY  
**ANNUAL REPORT**



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We will need to change the way we do business to stay in business — venturing in new areas to continue growth.

— Marcum F&B Survey respondent



Welcome to the inaugural edition of Marcum’s Food and Beverage (F&B) Annual Report, which serves up essential insights and analyses for this dynamic sector. Crafted by our industry veterans, this report provides key takeaways from our

annual F&B survey and illuminates the path forward with up-to-date data spanning the entirety of the F&B arena. We examine 2023 and look forward to 2024, providing a state-of-the-industry report filled with insights into the challenges, possible solutions, and trends.

This report provides a concise overview of the F&B industry, with links for further exploration and personalized guidance from our thought leaders.

## INDUSTRY OUTLOOK: BEYOND THE PANDEMIC

The F&B industry across all sectors has seen systemic change. As a new normal sets in, we see a resilient sector adapt to inflation and rising interest rates. Companies are hiking prices, sometimes shrinking product sizes, and becoming adept at sourcing and using AI, self-service kiosks, and restaurant software to increase efficiency amid competition. While staffing limits growth, companies are growing with a renewed focus on retention and recruiting. Software is helping companies become more agile with supply and sourcing. Training and technology are two key trends. Mergers and acquisitions are also major forces as venture capital (VC) flows into F&B, particularly to foodtech. Many companies remain so focused on day-to-day operations that they continue to underutilize tax strategies that can grow earnings. The R&D credit, among other tax tools, remains unused in many toolboxes.

As the initial tumult stirred by the pandemic subsides, its enduring ripples continue to shape the industry. Various issues are coming together to create a sense of uncertainty in the marketplace. Inflation, rising interest rates, concerns about climate change, geopolitical tensions, labor shortages, the need for sustainability, safety requirements, technological advances, and

regulatory framework changes all create an industry in flux. These factors contribute to a feeling of caution among those involved in the market.

Despite current challenges, our annual survey revealed optimism for the future — although a decelerating workforce cannot be ignored. Companies are increasing training and compensation to address the challenges of growing their workforce. They must find the agility to adapt to consumers’ shifting tastes, both reacting and being proactive to ingredient, health, and delivery trends. F&B executives are deploying new solutions to solve old problems. Embracing technology and artificial intelligence is now more crucial than ever.

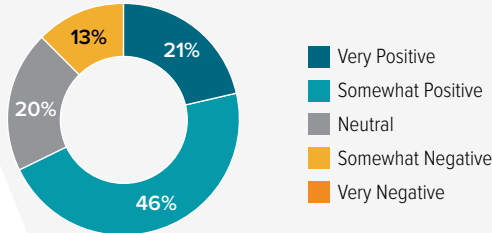
## THE NEW F&B HORIZON

This report uncovers burgeoning trends that demand attention. The allure of the private label is intensifying and now challenges the dominance of established brands. The cultural shift towards snacking, “grab and go,” frozen delights, and convenience echoes the pulse of contemporary lifestyles. Moreover, the quest for organic, plant-based, nourishing options and a transparent supply chain is no longer a niche — it’s a necessity. Finally, the growth of online and direct-to-consumer channels continues its relentless expansion. It is at once a challenging and exciting time for the F&B industry and a perfect time to launch this annual report.

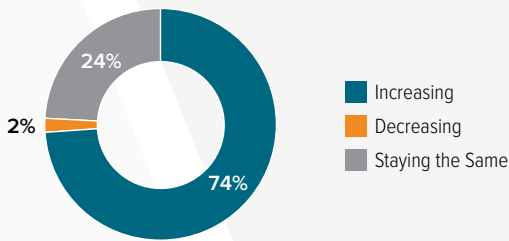
Our team of more than 100 F&B experts, led by 14 regional leaders, are keenly aware of the industry’s challenges and trends — and actions that can alleviate or solve problems. Please enjoy the report, and don’t hesitate to #AskMarcum if our insights prompt questions or ideas on moving your business forward.

**Louis Biscotti**  
National Food and Beverage  
Industry Services Leader

Rate your outlook for the industry/sector for the coming year:



Looking ahead to the next 12 months, do you see your revenues:



Post-pandemic, labor costs remain high with not much of an increase in productivity.

— Marcum F&B Survey respondent

## F&B TRENDS

### CAUTIOUS OPTIMISM

While staffing remains a pervasive obstacle, a strong undercurrent of optimism remains in the F&B industry. In 2023, about 68% of those Marcum surveyed were somewhat or very positive about their sector, up from 64% a year ago. Only 12% were somewhat or very negative, down from 16% the prior year. The F&B industry is growing in sector spending, which may fuel that forward-looking approach. If the pandemic kept people at home, they seem eager to get out of the house today, returning to restaurants and spending on food at home. According to the latest full-year USDA data, the food sector accounted for 12.8% of U.S. households' spending in 2022, up from 12.4% in 2021. 41% of companies we surveyed said they expect full-year 2023 revenues to be up 10% or more, down from nearly 48% of companies in 2022. Overall, 74% see revenues increasing over the next 12 months, up from about 70% a year ago. These figures are the backdrop against which the rest of the data is set.

### INFLATION AND INCREASED COSTS

Inflation boosted F&B's top and bottom lines as companies passed costs onto customers. Raising prices was the number one answer companies gave in 2023 to address inflation, followed by cutting costs — an order reversed in the prior year. Companies also said they were seeking to renegotiate with suppliers or change their approach to inventory. As of December 2023, the restaurant purchase consumer price index (CPI) was up 5.2% from a year ago as materials, labor, and borrowing costs rose. "Labor costs are really high with not much increase in productivity," one executive told us. Spoonshot, a food-and-beverage advanced analytics company, said consumer interest in affordability rose 70%, and business interest grew by 26%. Rising costs provide a window of opportunity for companies that can hold the line on hikes while not eroding margins.

## LABOR PAINS AND PROMISES

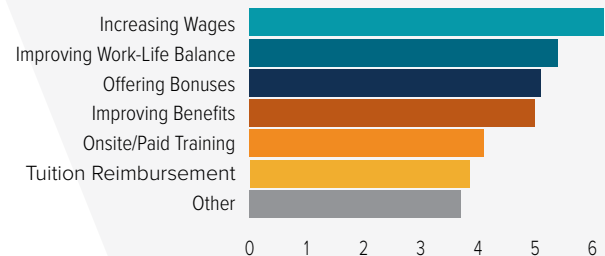
“Help wanted” remains a persistent phrase in F&B, especially with a nation at 3.7% unemployment at the end of 2023. Hiring skilled labor is the number one challenge, followed by workforce training, according to Marcum’s F&B survey. Some executives cited staffing and hiring experienced labor and qualified workers as their big challenge. Others noted the challenge of “keeping people motivated.”

F&B companies are growing their workforce but at a slower rate than the prior year. About 30% of our survey respondents said they grew their workforce over the past 12 months, well under the 45% from a year ago. Nearly 40% plan to expand their workforce in the next 12 months, down from 46% in 2022. Increasing wages was the biggest measure to attract and retain skilled labor in 2023, followed by improving work-life balance. One executive in our survey said they are using “employee incentives and focusing more on retention.” Other hiring incentives include bonuses, improving benefits, and offering additional training.

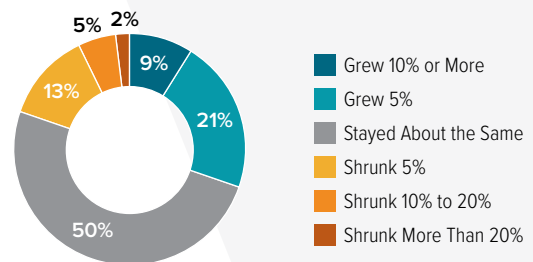
## PLANT-BASED POTENTIAL

Consumers want healthy, nutritious, low-calorie alternatives with appealing tastes. Manufacturers and retailers are obliging through products with less sugar, salt, and fat, and more vitamins and minerals. Beyond Meat and Impossible Foods turned plant-based meat alternatives into mainstream main courses. U.S. retail plant-based alternatives reportedly accounted for \$8 billion in 2022, with about 70% of the U.S. population consuming plant-based foods. In 2024, the Food Network predicts plant-based protein will be “everywhere – including the snack aisle.” Consumers expect their consumption to increase in the next two years after steady increases over the past two years, according to research by OFI, a sustainable food supplier. Plant-based chicken and fish are joining beef as this grows into an industry in its own right.

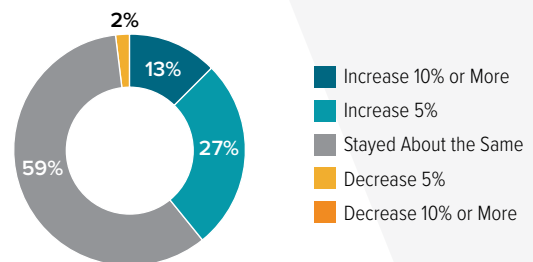
### What are you doing to attract and retain skilled labor:



### Looking back on the last 12 months, describe your workforce growth:



### Looking ahead to the next 12 months, what is your expected workforce growth:



Still, not all is rosy for plant-based foods. Burger King recently said it will wait to expand U.S. plant-based options, and Beyond Meat said demand was weaker than expected. CoBank’s 2023 press release, “Plant-Based Meat Alternatives Struggle to Maintain Early Momentum,” cites higher prices, negative perception, and taste issues.

## SUSTAINABILITY STORY

As environmental, social, and corporate governance (ESG) momentum spreads, customers want to buy from companies that share their views on the environment. This is pushing businesses to adopt sustainable practices, such as renewable energy, reducing water usage, and minimizing food waste. Packaging is also undergoing a major shift, focusing on recyclable, compostable, and biodegradable materials. The increasing demand for healthy products, plant-based products, and an environmentally friendly mindset can increase costs, but manufacturers must adapt. There is a need to cut costs and increase efficiency by investing in automation and robotics. Environment and economics are converging as “doing right” becomes a path to “doing well.”

## SUPPLY CHAIN STILL AN ISSUE

Many companies consider the supply chain the number one thing affected by the pandemic, which remains a key challenge. “Despite the unprecedented supply chain troubles of the past few years, many global F&B companies proved to be far more adaptable and resilient than ever imagined,” according to TraceGains’ 2023 Food and Beverage CPG Innovation Report. Sourcing raw materials, the availability of ingredients, and even supplier mistakes impact the industry. Companies are using data to look deeper into their supply chain, making it more transparent and allowing them to identify and react to problems sooner.



Our biggest challenge is liquidity, given the state of capital markets and the timing of growth.

— Marcum F&B Survey respondent

## F&B OPPORTUNITIES: TAX

While inflation has been raising costs, many tax tools are available to F&B companies. Those engaging in research and development (R&D) activities may qualify for tax credits in ways they don't realize. Companies that hire individuals from certain groups facing employment barriers may qualify for work opportunity tax credits. And employee retention credits, introduced in response to the COVID-19 pandemic, can still be claimed retroactively for eligible periods. Conducting cost segregation studies can accelerate depreciation deductions on certain assets. Companies investing in energy-efficient improvements may qualify for deductions under Section 179D of the U.S. tax code. Bonus depreciation and Section 179 expensing allow businesses to immediately deduct a significant portion of the purchase price of eligible business assets in the year they are placed in service. Value-added tax (VAT) recovery can help companies operating internationally to reclaim business-related taxes paid in certain jurisdictions. Also, F&B companies involved in agricultural activities may be eligible for tax credits and incentives.

Reviewing accounting methods under tax laws may also provide favorable treatment unique to F&B companies.

Donating food inventory can help those in need while providing enhanced tax deductions. Some government entities offer tax-exempt bonds to help finance the construction or improvement of manufacturing facilities. And companies that export goods may be able to take advantage of tax incentives designed to promote exports.

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## F&B OPPORTUNITIES: ASSURANCE

Significant changes in accounting principles have impacted private F&B companies over the past few years. Companies were required to adopt new standards for leases and changes regarding financial instruments and credit losses. As a result, as companies modify and amend existing leases, upon analysis of the modification, lessees could be required to account for the modification as a new lease, a termination of the existing lease (which could result in a gain or loss recorded in current year's net income), or as an adjustment to the existing lease. The new standard on credit losses changed the timing of recognizing losses on financial instruments, from when losses are probable to when they are "expected." In addition to considering historical losses and current economic conditions, companies must consider reasonable and supportable forecasts. We believe most companies' reserves for credit losses will be higher under the new standard.

## F&B OPPORTUNITIES: **MERGERS & ACQUISITIONS**

The urge to merge has been strong in the F&B industry and continues to drive expansion for many. M&A across all sectors slowed to \$3 trillion in 2023, the second lowest number in a decade, according to PitchBook. But they note 37,300 deals, the third most they have recorded. M&A in F&B continues to drive deals big and small as a means of expansion, especially as aging Baby Boomers seek exits, albeit more carefully, through better exit readiness planning and de-risking to maximize value.

Last year, Nestlé announced the acquisition of Seattle's Best Coffee brand from Starbucks for an undisclosed sum, while J.M. Smucker Co. announced its \$5.6 billion acquisition of Hostess Brands. As of last year, Coca-Cola was still working to "integrate its \$5.6 billion purchase of BodyArmor," according to FoodDive. Other companies must balance brands within their portfolio, sometimes selling them off. F&B deals are attracting interest and investment as companies expand into new sectors and grow in existing ones.

### **F&B AND VENTURE CAPITAL (VC)**

F&B is attracting VC, especially for the foodtech sector. The U.S. attracted \$4 billion in 2023, the most funding for foodtech startups, followed by the United Kingdom, at just over \$800 million, according to Dealroom.co. They also say agritech, such as aquaculture, regenerative agriculture, and vertical farming, is attracting billions. In 2023, foodtech related to pet food attracted \$1 billion, while sustainable packaging attracted \$900 million. Software for restaurants attracted \$800 million, and regenerative agriculture and B2B marketplaces for food attracted half a billion dollars each. Plant-based products attracted \$500 million in VC in 2023, food waste tech attracted \$400 million, and vertical farming attracted \$200 million. Many predict further growth. Pitchbook cited a "growing popularity of other foodtech segments including alt-proteins, food production, and restaurant and retail tech."



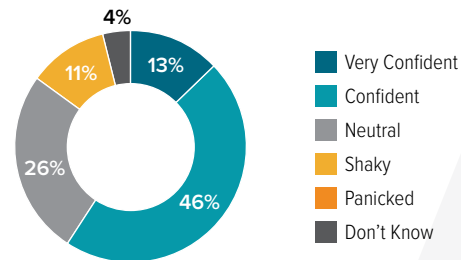


## F&B OPPORTUNITIES: TECHNOLOGY

Technology can alleviate margin pressure amid increasing labor and supply chain costs, from agriculture to retail. Robot kitchen assistants and connected kitchens can reduce labor costs while improving product quality and consistency. “We are leveraging digital and data-backed insights to better understand our consumers,” Coca-Cola Company CEO and Chairman James Quincey said in a 2023 conference call. The adoption of self-checkout systems increased, allowing customers to scan and pay without cashiers, reducing wait times and labor costs. Robots are being used for inventory management, cleaning, and assisting customers in finding products. Companies are implementing automated warehouse systems and exploring robotic delivery options to streamline online order fulfillment. And more sophisticated technology is improving sourcing. More data improves transparency and agility in decision-making, but cyber threats remain a concern. Nearly 60% of companies in the Marcum survey were confident they were protected against cyber threats, up from 45% a year ago — which still leaves much room to improve.

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### How confident are you that your technology is protected against cyber threats?



### F&B AND AI

Artificial intelligence is creating tremendous opportunities in the F&B industry. ChatGPT and other systems offer meaningful, high-impact opportunities when combined with a comprehensive business transformation approach. Companies can leverage generative AI through their vendor ecosystem, helping with content development, writing, creative images, creating new recipes, monitoring, and reacting to trends. Though a recent Goldman Sachs study found that generative AI could impact 300 million full-time jobs worldwide — leading to a “significant disruption” in the job market — it could also provide great opportunities. Don’t just leave AI to tech professionals; leverage these skills across your organization. AI can revolutionize product development, providing a faster, cost-effective model and quicker go-to-market timeline. It can even be used in beverage mixology and cocktail creation, generating recipes based on flavor profiles, preferred liquors, and ingredients. This can help bars and restaurants offer unique drink menus.



We are looking to expand and diversify our product line in order to increase our market share.

— Marcum F&B Survey respondent

## F&B SUBSECTOR: MANUFACTURING

The F&B industry is undergoing a significant transformation as it adapts to changing consumer demands, technological advancements, and sustainability concerns. The market has shifted in the last few years, and consumers want healthy alternatives for their families that are nutritious and taste great. Manufacturers are responding by reformulating products to reduce sodium and sugar and include additional vitamins and minerals. Environmental concerns are pushing manufacturers to implement more sustainable practices, including renewable energy, minimization of food waste, and reduced water usage. Packaging is also experiencing a shift, with a new focus on materials that are recyclable, compostable, and biodegradable. The increasing demand for health-conscious and environmentally-friendly products can increase costs; but manufacturers must remain nimble.

Technologies like automation and robotics not only speed up production but also improve consistency, quality control, and profitability. Robert E. Jagenburg, president of Fruitcrown Products Corp., tells us the “old days “ of simply heating and packing products in

pails are gone. According to him, “more sophisticated ingredient attributes demand more technological and expensive advanced manufacturing equipment and techniques.” The F&B industry is becoming more responsive to consumers’ evolving preferences, more efficient through technological innovation, and more environmentally responsible. As the industry evolves, these trends will likely become standard practice.

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— Robert E. Jagenburg, president of Fruitcrown

## F&B SUBSECTOR: RESTAURANTS

Although the restaurant industry, in particular, faced massive pandemic headwinds, the sector is now rebounding. The National Restaurant Association summed things up in its 2023 report, indicating “a new normal takes hold.” Online booking, take-out, healthier choices, and more ingredient information are now standard. As people work from home, restaurants’ ability to provide an escape matters even more. The report highlights, “consumers’ desire for the restaurant experience is as strong as ever and will play a critical role in the industry’s recovery.”

The food service industry was forecast to reach \$997 billion in sales in 2023, driven partly by higher menu prices. Restaurants are seeking savings as material and labor costs rise. Technology touches nearly every aspect

of the restaurant business. Ghost kitchens offer lower overhead with delivery-only business models, and virtual brands are proliferating online without brick-and-mortar locations. Companies like Tenzo and Winnow developed AI-based technologies to help restaurants reduce food waste. Less waste can mean more profit, providing economic and environmental benefits. To mitigate risks, restaurants are developing more resilient supply chains, including local sourcing and vertical integration.

Training, along with tech, is becoming crucial. Considering labor challenges, some restaurants are focusing more on workforce development, with increased investment in employee training, career progression opportunities, and technology to streamline labor-intensive tasks.

## F&B SUBSECTOR: RETAIL

The retail segment of the F&B industry is experiencing a period of transformative change driven by evolving consumer behavior, technological advancements, and competitive dynamics. We are seeing a shift towards fresh, organic, and locally sourced products on shelves. Supermarkets are improving their online presence, tailoring products to diets and conditions, and providing more delivery options. Amazon continues to test new technology at supermarkets and use data to better manage its Whole Foods stores. Supermarkets increasingly offer information as well as inventory.

Spoonshot said consumer interest in affordability rose by 70%, and business interest grew by 26%. European chains such as Lidl and Aldi are injecting new competition and more private labels. Costco's Kirkland brand generates \$60 billion in annual revenues, while Walmart's Great Value is valued at about \$27 billion in 2023, according to the Motley Fool. Quality, variety, affordability, and loyalty can make private labels a formidable force.

## F&B SUBSECTOR: AGRICULTURE

The agriculture landscape is changing rapidly as regulations shift, sustainability shapes decisions (including consumers), tastes for "natural" products soar, and technology intervenes. Plant-based products and scientifically-crafted substitutes are transforming the industry. Vertical farming — growing in layers and not just on land — lets farmers produce more in less space. Accounting can also be a vital tool for agriculture companies that face challenges such as valuing assets like livestock and crops due to rapidly changing market prices, revenue recognition issues due to the industry's seasonal nature, and inventory valuation due to volatility.

Weather injects even more uncertainty along with feed costs, disease outbreaks among livestock, global trade dynamics, and changes in consumer preferences. Managing uncertainty matters more than ever, not simply to avoid losing sleep but to avoid reducing revenues and profits. Farmers can and do use financial instruments and strategies such as options to hedge against price volatility. The treatment of leases in financial statements can be complex, especially with new lease accounting standards. Agriculture companies can use accounting strategies among the financial tools they rely on to meet and manage challenges.

## POSITIONED FOR PROGRESS

The F&B industry faces persistent challenges such as inflation, workforce issues, and supply chain disruptions. However, it is also embracing innovative solutions such as AI, self-service kiosks, advanced software, and sustainability measures. Businesses are also adapting to trends and consumer demands by using technology and data analytics to improve their operations and offerings. On top of these opportunities, significant and often

underutilized tax and assurance strategies are available to help companies navigate economic pressures. Our report reveals a mix of optimism and caution. Despite this, the industry is set for growth and innovation, and Marcum can be a guiding resource to businesses seeking to thrive amid these dynamic changes.

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