COVID-19 is a Silver Lining for Plant-Based Protein

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For most new technologies, including those in the food & ag sectors, one of the hardest things to do is move from early adoption to mass market consumption. However, COVID-19 is providing an unexpected boost to the plant-based protein sector. With several meat processing facilities idled or running well below capacity due to COVID-19 spreading among their employees, parts of the U.S. are starting to experience a meat shortage or, where it is available, higher prices. Of course, the lack of animal protein and higher prices might end up only being a short-term issue, but the impact on protein consumption patterns could be significant and longer lasting as consumers, faced with limited animal protein options, begin purchasing plant-based protein varieties, even if reluctantly at first. For alternative-protein industry leaders, Beyond Meat and Impossible Foods, and lesser known brands trying to attract new consumers, this could be their opportunity to go more mainstream and land in the carts of the majority of U.S. consumers that have yet to try plant-based proteins.

Despite the highly successful roll-out of plant-based burgers, nuggets, and breakfast sausages at fast food chains and supermarkets, plant-based protein remains a small part of the overall protein market, at well below 5 percent market share in 2019, according to Nielsen. Although plant-based proteins are just a small component of all protein sales today, many leading animal protein companies (Cargill, JBS, Maple Leaf Foods, Perdue, Tyson) have already responded to the strong year-over-year (YOY) sales growth of alternative protein products by developing their own plant-based protein brands and using their strong balance sheets and distribution capabilities to try to blunt the growth potential of smaller, pureplay alternative protein companies. However, these traditional animal protein companies might not be reacting to the growth of alternative protein products fast enough, if the experience of the dairy sector is anything to go by. Dairy alternatives, typically made from nuts or plants, achieved U.S. sales of almost $2 billion, or 16 percent of the U.S. dairy market in 2019, according to Nielsen.

Research firm Mintel found that in the U.K., almost a quarter of Britons consumed plant-based milk alternatives in 2019. Not surprisingly, the shift toward plant-based proteins has been led by younger consumers (Millennials and Gen Z), over one-third of whom consumed plant-based milk alternatives in 2019. While milk sales still significantly outperform non-dairy alternatives, the average person's milk consumption in the U.K. has fallen 50 percent since the 1950s. Additionally, according to Mintel, the strong growth in non-dairy replacements is being driven by concerns that dairy farming has a negative impact on the environment. Irrespective of any short-term changes to food consumption patterns during the COVID-19 pandemic, the dairy sector provides a clear vision of the future for the alternative protein sector. This means that if alternative protein is able to achieve even a 10 percent market share of the global protein sector, a lower percentage than dairy replacement has today, it would generate $140 billion in sales.

Even prior to concerns about the availability and rising price of meat, supermarket sales of plant-based proteins were robust, increasing 67 percent in 2019, according to Nielsen. The pandemic has even helped growth accelerate in 2020: Beyond Meat's Q1 2020 quarterly sales were $97 million, an almost 150 percent increase compared to the $40 million sales in Q1 2019. In early March 2020, following the outbreak of COVID-19, grocery store sales of fresh meat alternatives experienced YOY growth of over 250 percent, according to Nielsen, and accelerated to above 400 percent YOY growth towards the end of March. This growth is particularly impressive as many consumers, even if they've tried plant-based proteins in a restaurant, won't be familiar with the best way to cook them at home and will have to overcome their reluctance.

It isn't just home chefs who have embraced plant-based protein; Wall Street has made Beyond Meat one of the stock market darlings during the COVID-19 pandemic. While the financial markets started to recover by the middle of March and the Dow Jones is up roughly 20 percent since that time, Beyond Meat's stock has significantly outperformed the overall market, closing at $129.51 on May 11, an almost 150 percent increase over the $52.05 closing price on March 19. This stock price appreciation is likely due in part to Beyond Meat's announcement that Q1 2020 operating income was $1.81 million, a significant improvement from an operating loss of $5.3 million in Q1 2019. The fact that Beyond Meat achieved profitability, even during tough economic times, provides investors with confidence that as the company grows, it can benefit further from economies of scale. Additionally, Ethan Brown, Beyond Meat's CEO, recently announced that it would begin selling value packs, and discount prices for its products, which typically sell for a significant premium to traditional protein. This is a savvy move to appeal further to more budget conscious consumers looking to save money as unemployment spikes and the country enters a recession.

In response to surging sales of alternative protein and Beyond Meat's plan to discount pricing, Tyson, one of the largest U.S. beef producers, announced the company plans to lower grocery store prices for its ground beef, roasts and other beef products by as much as 20 to 30 percent. Noel White, Tyson's chief executive, said that discounting the price of its beef products will help preserve consumer demand and keep beef affordable. It is worth noting that Tyson was an early investor in Beyond Meat, although it sold its full equity stake before Beyond Meat's IPO, and instead, went on to launch its own line of alternative meat products. With this announcement, it is apparent that Tyson realizes, more than other beef producers, the real challenge posed by the alternative protein sector to the trillion-dollar meat industry.

Coming on the heels of strong 2019 sales growth, Impossible Foods, the main competitor of Beyond Meat, announced a $500 million financing round on March 27, bringing total capital raised to almost $1.3 billion. Impossible Foods announced that this capital will fund a ramp-up of manufacturing operations, an expanded retail presence both in the U.S. and abroad, and the commercialization of its next-generation products. This capital was quickly deployed as, according to Reuters, Impossible Foods launched its products at 1,700 Kroger-owned stores in 29 U.S. states. This growth is even more impressive when one considers that Impossible Foods had products at only 150 stores throughout the U.S. at the end of 2019, and now they are available at over 2,000 U.S. stores. This broad rollout in the retail sector is a significant change for Impossible Foods, which initially focused on sales to restaurants and the broader food service sector. Additionally, the timing of this rollout looks fortuitous as, with large parts of the food service sector closed or running well below capacity, the retail sector has become significantly more important for food producers. While most of the current sales are plant-based burgers, another question is whether beef and pork shortages will expand to other product categories like eggs, poultry, and seafood, and open up new opportunities to companies like Alpha Foods, Finless Foods, Good Catch, JUST, New Wave Foods, Ocean Hugger Foods, and Zero Egg.

It is not only supermarkets with meat availability issues. A growing number of Wendy's restaurants have been forced to stop selling burgers, and aren't able to offer anything besides chicken products. Wendy's has been particularly hard hit due to its exclusive use of fresh beef. Ironically, Wendy's is one of the only major fast food chains that doesn't have plant-based burgers on its menu in the U.S. It will be interesting to see if its greatly reduced menu options will lead Wendy's to introduce a plant-based option in the near future and even make Wendy's rethink its strategy of using only fresh beef.

I will also be looking out for any type of consumer backlash against animal protein due to the fact that COVID-19 and a number of other serious viruses (Ebola, MERS, and SARS) originated in animals, even if none of us are planning to eat bats, camels, or pangolin. The suspected wet-market origins of COVID-19, coupled with its rapid spread at meat processing plants, is causing a growing number of people to question the health and safety of the animal protein supply chain. Furthermore, the CDC estimates that of the 48 million Americans who get sick each year from a foodborne illness, 128,000 end up hospitalized, and 3,000 die, including a large number resulting from eating undercooked meat.

As we head into the summer, it will be interesting to see whether consumers continue to increase their consumption of alternative protein. Additionally, plant-based protein companies will continue to refine their technology to optimize taste and nutrition, all the while driving down costs. As more consumers try different plant-based protein options, it is highly likely that more of them will find the taste better than expected and be willing to purchase a variety of alternative protein replacements in the future, thereby impacting consumption of traditional animal protein (beef, chicken, pork and seafood). There is no doubt that the conclusion in my December 2019 article "Plant-Based Protein is Here to Stay" is accurate. The question becomes how rapidly this shift will occur and whether the impact of COVID-19 on the meat industry will join sustainability, animal welfare and health & nutrition as key factors driving the adoption of plant-based protein.