Overview of the Frozen Potato Market

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Major Potato Processing Plants of North America
(Lamb-Weston, McCain Foods, JR Simplot Company and Cavendish Farms)

EAST
- Maine: Easton
  - New Brunswick: Florenceville, Grand Falls
  - PEI: Charlottetown, New Annan

WEST
- Alberta: Coaldale, Lethbridge, Taber
- Idaho: Aberdeen, American Falls, Burley, Caldwell, Nampa, Twin Falls
- Washington: Cornell, Moses Lake, Othello, Pasco, Quincy, Richland, Wenatchee
- Oregon: Boardman, Hermiston, Ontario

UPPER MIDWEST
- Manitoba: Carberry, Portage La Prairie (2)
- Minnesota: Park Rapids
- North Dakota: Grand Forks, Jamestown
- Wisconsin: Plover
Potato Market

- Potato market is broken up into segments
  - Fresh
  - Frozen
  - Dehy
  - Chip
  - Seed
Why should you care about the frozen potato market?

- There are just over 100,000,000 cwt. of potatoes shipped fresh in North America
- There are more than 200,000,000 cwt. of potatoes used for frozen processing in North America
- Surplus potatoes from our segment could flood your segment and your price would plummet
What is different about the frozen potato market?

- Nearly 99% of all of the potatoes processed in the frozen potato segment are grown under preseason contracts.
- Contracts are usually negotiated annually.
- Have historically been very stable.
- Grower profit margins have been shrinking in the past 5 years.
What drives the frozen potato market?

- Food service
  - Quick service restaurants (QSR)
  - Local or regional chains

- Industrial
  - Cafeterias
  - Schools
  - Prison
  - Military

- Retail
Food Service

Asia Pacific leads in size
- 41% of total food service dollars

Latin America leads in growth

North American domestic market has been flat but is starting to rise
Why does Asia have such growth potential?

- U.S. consumption is 28.2 pounds of potato/potato products per capita annually.
  - Population of the U.S. - 320 million

- Asia consumes .6 pounds of potato/potato products per capita annually.
  - Population of Asia – 3.9 billion
World Market

- Slightly over 26 billion pounds consumed in 2016
  - North America was 12 billion pounds
  - E.U. was 8 billion pounds

- Between 2011 and 2016 the world market grew by 2.7 billion pounds

- Recent forecast call for 2.5 billion pound growth for 2018-2020
World Market

- Forecast was calling for 1% growth in North America.
- If forecast was met, market would be 30 billion pounds in 2020.

However
- The last 18 months in North America has seen more than 2% annual growth.
- At 2% annual growth, world market would be 31.2 billion pounds in 2020.
What is driving the growth?

Restaurant openings

- McDonalds alone is opening 2000 new stores in China in the next 5 years. That is more than 1 store per day.
- Many other restaurants are expanding and more restaurants are wanting to put frozen potato products on their menus but can’t because of supply constraints due to the lack of processing capacity.
Restaurant Opportunities

- All day breakfast
  - McDonalds and many others once the capacity is available
  - Added 150,000,000 pounds of capacity just for hash brown patties in 2017

- New menu items
  - Taco Bell with over 1,000 stores in the U.S. is now featuring frozen potato products in several of their food offerings
Where is all of this growth happening?

- 80% of all food service sales happen outside of the U.S.
  - China is the largest
  - North America is 2\textsuperscript{nd}
  - Asia Pacific is 3\textsuperscript{rd}
  - Europe is 4\textsuperscript{th}

- In the U.S. – QSR chains represent more than 50% of the sales of frozen potato products.
Exports drive our segment

- 6 billion pounds of frozen potato products get truly exported each year.
- U.S. share is 2.1 billion pounds or 35%
- Canada exports 400 million pounds
- Total for North America is 2.5 billion pounds or 41% of the export market

- The EU is our biggest competitor
  - They provide 50% of all the world’s exports
  - Their share in 2011 was only 41% North America was 47%
What are some threats to our segment?

- Politics
  - Tariffs, trade sanctions, etc.
  - Labor issues
    - Port worker slow down in 2014-15 is still impacting us.
    - Many major markets saw a decline in North America's share as much as 50%
    - Slowly working our way back to pre labor strife levels.
How can we impact the fresh market

Positively

- Expansion will require some shifting of acres in the PNW from fresh to frozen processing.
- Projected needs of the processors should not allow for any surplus potatoes to hit the fresh market.
- Contract returns should remain high enough that growers will not want to expand into the fresh market.
How can we impact the fresh market?

- Negatively
  - Politics
    - Any type of trade embargo, tariffs, currency swings
    - Food safety
    - MRLs
Expansion

2017

- 1.4 Billion pounds of new capacity
  - North America - 450 million
  - South America - 300 million
  - EU – 420 million
  - China – 225 million
Expansion

2018

- 1.75 Billion pounds of new capacity
  - North America – 400 million
  - South America – 265 million
  - EU – 785 million
  - China 300 million
Expansion

2019

- 1.5 Billion pounds of new capacity
  - North America – 600 million pounds
  - Rest of the world – 900 million pounds

2020

- 550 Million pounds of new capacity already announced.
  - 450 million of that in North America
Capacity Constraints

- Has limited the use of fries in restaurant promotions
- Limited the use in value meals
  - Fries are the most profited food item on a menu
- Nearly stopped all limited time offers (LTOs) which help get new cuts or uses of fries to consumers
- Missed opportunities to grab bigger shares of emerging markets – both export and domestic
Domestic growth opportunities

- All day breakfast exceeded anyone’s wildest expectations
- Only 59% of all restaurants have frozen potato products on the menu
  - Coffee houses
  - Donut shops
  - Deli style sandwiches (Subway, Jimmy John’s)
  - Pizza parlors
Capacity Constraints

- Has allowed for processors to get major price increases
- Mega chain accounts like McDonalds have been virtually flat
- Smaller chains have been seeing double digit percentage increases in price the past 2 years
- Processors have been recording record profits annually.
2018-19 Contract Pricing

- First multi-year contract in the Columbia Basin in more than 30 years.
  - 5% price increase in 2018
    - Every grower is guaranteed at least 2017 volume
  - 4.1% price increase in 2019
    - Every grower is guaranteed the greater of 2017 or 2018 volume.
Thank you!