2022 MARCUM
FOOD & BEVERAGE SURVEY

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> "The F&B industry continues to be one of the most vibrant, interesting, challenging, and rewarding industries, both in the U.S. and globally.

We are thrilled to present the report of our inaugural Food & Beverage (F&B) Industry Survey and thank the many business leaders who took the time to respond. As you will see in this survey, there is much optimism regarding the future for F&B companies as well as the overall industry. Honestly, this was a bit of a surprise to me considering the many challenges facing the industry: record inflation, higher interest rates and a looming recession, supply chain disruptions, regulatory and labeling issues, labor shortages, the lagging effects of the pandemic, consolidation, and acceleration of technology needs.

The F&B industry continues to be one of the most vibrant, interesting, challenging, and rewarding industries, both in the U.S. and globally. There are nuances and issues for each of the subsectors within F&B -- agriculture and aquaculture, manufacturers, distributors, retailers and eating and drinking facilities. Since Marcum works with each of these subsectors, we were particularly interested to see the results, by sector as well as geographically and by size of company. Our clients and industry friends and insiders enable us to compare these results to what we see and learn every day.

Faced with many changing trends, the industry must adapt and companies who don't get rapidly left behind. From plant based to non-GMO, meatless meat, fishless fish, "smeals," pet foods, super foods, sustainability, ESG, shrinkflation, in order to stay ahead of the curve, profitability is key in this environment. The need for advanced technology becomes paramount. Companies must take advantage of every available tool to enable them to do more with less. It is no longer a world of simple solutions and requires an integrated approach with customers, suppliers, and employees.

As you review the results, we hope you benchmark them against your strategies, your results, and your challenges. Let us know how Marcum can help achieve your objectives. Enjoy the read!

Louis Biscotti
National Food and Beverage
Industry Services Leader

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Thanks to our friends in the industry for their help publicizing our survey:

The Food Institute

NEW JERSEY FOOD COUNCIL

LIFC

Marcum's Food & Beverage Services

Marcum's Food & Beverage Services group has the perfect recipe of knowledge and service capabilities to help you stay flexible. Our professionals provide the accounting, tax, and consulting services so that you can concentrate on the growth of your business.

Just as our service capabilities are diverse, so, too, are the types of food and beverage clients we serve, including distributors and manufacturers, importers, restaurant chains, processors and packaging, agribusinesses, and retailers.

Marcum LLP is a national accounting and advisory services firm dedicated to helping entrepreneurial, middle-market companies and high net worth individuals achieve their goals. Since 1951, clients have chosen Marcum for our deep expertise and insightful guidance in helping them forge pathways to success, whatever challenges they're facing.

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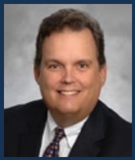

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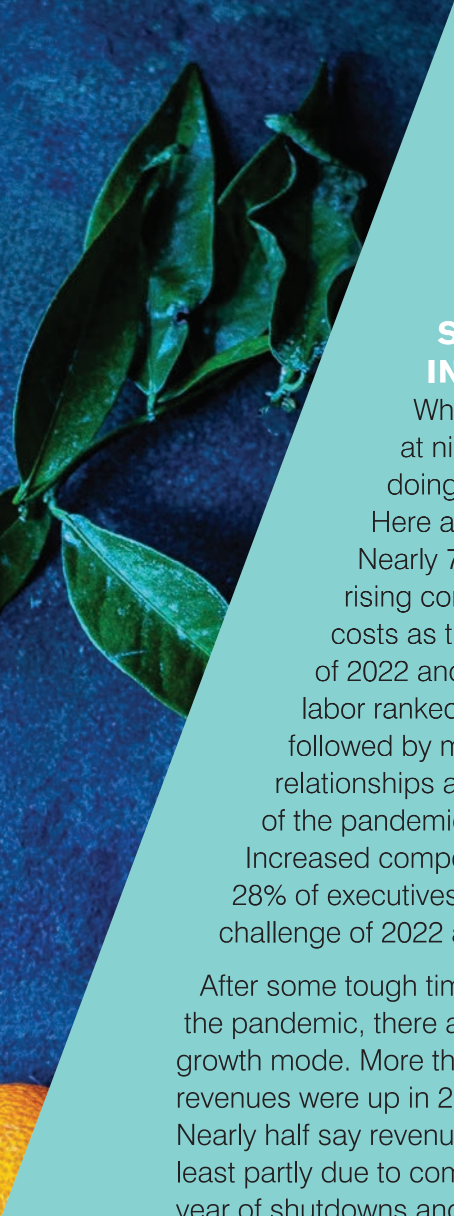
Technology Committee Chair

The 2022 Marcum F&B Survey was administered in October 2022.
To make sure you are among the respondents for Marcum's 2023 F&B Survey, contact flo.federman@marcumllp.com.

Marcum's Inaugural Food and Beverage Industry Survey

The food and beverage industry has always been a fundamental part of the economy, but during the pandemic it was declared "essential." Over the past few years, it also has been an industry in flux amid change and challenges, managing a pandemic, facing the headwinds of inflation, and innovating as more purchases shift online. F&B companies have diversified sourcing, boosted revenues, increased wages, revamped technology, and often tap into tax benefits and incentives – although not always as much as possible. Revenues are up, optimism is on the rise, and change is everywhere even as the supply chain struggles and labor shortages persist. With the peak of the pandemic behind us, executives are facing a new era and eyeing the future. It's a watershed moment for the industry with companies and customer habits changing, sourcing becoming more flexible, data becoming a driver of efficiency, M&A going strong, and efforts to innovate and boost margins as competition sharpens.

We can't think of a timelier moment to present Marcum's first Food and Beverage industry survey, providing a view of the state of the industry from priorities to problems and solutions. We would like to thank the industry executives who provided data and comments. We are heartened by the optimism, signs of growth and solutions even as we are aware of ongoing struggles to find skilled labor and tame the dragons of rising costs, dwindling supplies, and labor shortages.



STATE OF THE INDUSTRY

What keeps executives awake at night and what are they doing to ease those concerns? Here are some principal findings. Nearly 70% ranked inflation, rising commodity prices, and other costs as the greatest challenges of 2022 and 2023. Securing skilled labor ranked second with 49% followed by managing supply chain relationships at nearly 40%. The impact of the pandemic ranked fourth at 33%. Increased competition ranked fifth with 28% of executives naming it as the greatest challenge of 2022 and 2023.

After some tough times during the peak of the pandemic, there are signs of an industry in growth mode. More than 70% of executives say revenues were up in 2022 compared to 2021. Nearly half say revenue is up 10% or more, at least partly due to comparisons with a difficult year of shutdowns and slowdowns. Whatever the reason, rising revenues are a sign of growth.

Revenues aren't the only thing on the upswing. In a possible sign of recovery, 45% of respondents grew their workforce by 5% or more over the last 12 months and about 20% grew their workforce by 10% or more. However, 40% say that their labor force remained the same. To retain and attract workers, executives are doing everything from boosting compensation to improving work-life balance. F&B companies need to compete not just for customers, but employees.

More than 70% ranked product and service expansion and innovation as a top business strategy. What are other ways companies are adapting to challenging times still rife with opportunity? Cutting costs is the top priority for 45%. While 25% view competing on price as a top business strategy, 26% see raising prices as a key strategy. One executive put it simply: "Crisis brings extraordinary opportunity." While some companies closed, others are well positioned. Nearly half of executives anticipate growing their workforce and nearly 70% expect revenues to grow over the next 12 months. More than 64% have a positive outlook on the industry for the coming year, while about 15% have a negative view.

TOOLS OF THE TRADE

In the following pages, we present information, ideas, trends, and a snapshot not only of your business, but your industry. We want you to see that you're not alone and to offer some information and insight to give you strength in your decisions. We are grateful to the executives who made this survey possible. There are often no easy answers, but there are always options. We supplemented your answers, information, and insights with our experience and interpretation. Marcum has a far-reaching F&B practice, broad in scope and expertise, and we leveraged that here to provide a look at best practices from manufacturers to distributors and suppliers. Our goal is to produce a survey and study that gives you a broader view of the industry and a tool to use. What forces, fears, factors, findings, and solutions are shaping the industry? What are the problems, strategies, opportunities, and successes? What follows is a more detailed look at forces shaping the F&B industry, many likely affecting your business, what's on executives' minds and what are some ways executives are addressing problems and achieving growth.

Key Findings

REVENUE

71% Reported revenue rose from 2021 to 2022

69% Project revenue rising over the next 12 months

64% Have a positive/very positive outlook for the industry over the next year project

ATTRACTING & RETAINING LABOR

45% Reported workforce growth over the last 12 months

46% Project workforce growth over the next 12 months

49% Anticipate securing skilled labor to be among the greatest challenges of 2022/2023

72% Plan to increase average compensation including benefits over the next 2 years

58% Are increasing wages to attract and retain skilled labor

38% Are offering bonuses to attract and retain skilled labor

54% Are planning to improve work life balance

TAX OPPORTUNITIES

34% Are NOT taking advantage of various tax incentives

60% Are NOT taking advantage of employee retention tax credits

CHALLENGES AND STRATEGIES

69% Anticipate inflation, rising commodity and other costs among the greatest challenges

72% Place product/service expansion and innovation as their top business strategy

35% Place geographic expansion as their top business strategy

63% Say the pandemic permanently changed the way they manage their supply chain

62% Plan to address inflation in the coming year by reducing expenses

57% Plan to address inflation in the coming year by raising prices

55% Are not confident that their technology is protected from cyber threats

52% Are unsure their technology can handle current and future goals

66% Experiences shipping delays as a global supply chain issue

35% Place geographic expansion as their top business strategy

> These are very challenging times (with) inflation, supply chain issues (and the) struggle to find quality labor. The companies that are resourceful and figure out a way to meet demand will be the ones who succeed.
>
> – SURVEY RESPONDENT

Financial Snapshot

FINDING F&B FUNDING

Business may not be all about the numbers, but numbers can be a good place to begin to understand what's happening. During the pandemic, while some F&B businesses adapted and grew, others closed. More than 10% of U.S. restaurants, or just under 80,000, permanently shut down during the pandemic, according to Datassential. Funding during the peak of the pandemic was often readily available through government programs. More than $18 billion in often-forgivable Paycheck Protection Program loans went to restaurants and hotels, according to RestaurantBusinessOnline.com. The Restaurant Revitalization Fund provided up to $10 million per business and $5 million per location spent on eligible uses no later than March 11, 2023. What's the state of funding today?

POST PANDEMIC FINANCING

The pandemic financing programs no longer provide cash to prime the pump. As companies seek to grow, many are finding obtaining capital challenging. More than 26% of executives placed lending and access to capital among their greatest challenges in 2022 and 2023. "Our biggest challenge is funding," one executive says. "I am still bootstrapping." Others cited liquidity and the importance of "having the correct financial partners with aligned goals." Banking relationships matter. Especially amid challenging financial times, it's important to be able to work with financial partners. Leverage banking relationships and seek to reduce the need for capital by using data to better align product with demand.

FINANCIAL STRATEGIES

The funding gap shortage is a key issue on the minds of CFOs and board members. Companies are looking at ways to cut carrying costs. About 34% of executives are addressing inflation by changing their approach to inventory, avoiding the purchase of excess product or raw materials. Consider using predictive analysis to determine what you'll sell, and buy the materials accordingly. Companies are trying to time out their purchases to minimize financing costs. Rising interest rates also are having a negative impact on raising capital, the supply chain, and costs. Some are building that into contracts and pricing. Depending on how companies structure deals, interest rates could have a big impact. If companies can't move product off their shelves quickly enough, their carrying costs grow.

A rapid pace of change is making a closer look at financials even more important. When we asked how often management reviews and discuses financials and KPIs, we got a wide range of responses. About a quarter review financials weekly, which would let them monitor and react to trends. A little more than 35% do this monthly, nearly 18% do this quarterly and about 20% do this annually. With today's pace, you almost need yesterday's information today. You need to be drilling down into every component of the business, even if it's not a full set of financials, to monitor key KPIs. Without appropriate contribution margin analysis by channel, you won't be able to leverage data. And if you don't do a flash report, you're not aware of that data. A large percent (66%) of survey respondents are using data analytics.

KEEPING COVENANTS

The impact of rising interest rates is already being felt. And companies can easily find themselves in violation of covenants as inventory cost increases. Lending capacity is impacted by covenants. It's wise to have predictive conversations with your bank regarding your supply chain. It's a smart business move to renegotiate covenants, where possible. Banks can say they don't like the way companies are violating covenants but may be flexible. In general, companies are seeking to renegotiate. About 35% of executives are renegotiating with suppliers to address inflation and about 14% are renegotiating contracts with customers. Reading, writing, and renegotiation can be the three "Rs" in times of rapid change.

THE IMPACT OF INFLATION

Everything seems to cost more than it did, even if inflation's rise has begun to slow. Executives are finding inflation is acting like an economic tax they didn't expect. 69% of executives placed inflation, rising commodities, and other costs as the top challenge for 2022 and 2023, more than 20 points ahead of finding skilled labor (49%), supply chain (40%) and the persistent impact of the pandemic (33%). The annual inflation rate for the United States was 7.7% for the 12 months ended October 2022, according to the U.S. Department of Labor. One executive says inflation's impact on costs has "never been this bad in the 30 years I've been in business." Rent was up 7.5% as of October with little sign of economic anxiety subsiding. Did revenues increase purely because of inflation or were unit sales increasing?

GLOBAL FORCES, LOCAL IMPACTS

The F&B industry is at once fiercely local and increasingly global with ingredients sourced from around the world. The Russia-Ukraine war has led to economic sanctions, rising commodity prices, and supply chain disruption. Ukraine and Russia provide nearly 30% of the world's wheat, according to Food Dive. Global grain prices reached near record highs as the global supply was squeezed. Meanwhile, energy costs were up 17.6% as of October. Shipping is also leading to sticker shock. A study by the Food Shippers of America and supply chain firm FourKites said more than one third (39%) of shippers indicated transportation capacity was among their biggest concerns, second only to labor (49%). One executive in our survey says a national distributor increased their freight charges. Transportation increased expenses. Nearly 67% of executives in the Marcum survey cited supply delays among global supply issues. Time is money and it is taking many companies longer to get raw materials, adding costs. Alternative sourcing, technology allowing flexibility, and data that fuels decision-making can all provide some relief.

RISING COSTS

F&B expenses often are rising, even as companies raise prices. The cost of food in the U.S.rose 11.2% from a year ago, according to the Department of Labor. As of October, groceries were up 12.4% year-over-year, while restaurants prices went up by 8.6%. High-end product makers in our survey worried consumers might flee to lower price points. One executive at a luxury food company says due to inflation "we may be cut out of people's food budgets." Consumers faced inflation and shrinkflation as companies tried to grow margins even as expenses rose.

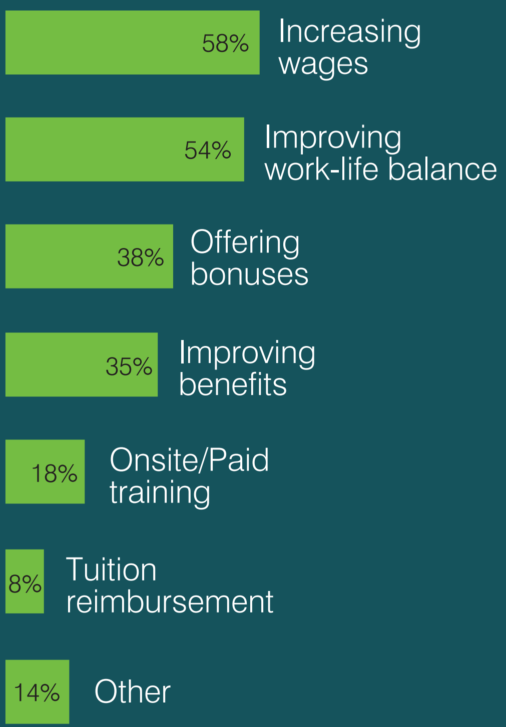
There are two general ways to battle inflation -- raising prices and cutting costs. Executives are trying to do both -- 62%, say they would cut expenses, while 58% say they would raise prices to counter inflation. Hiking prices boosted revenues with more than 70% reporting revenues up about 5% or more while nearly 16% were flat. Again, how much of the increase is due to prices and not units? Customers often are paying higher prices, at least so far, as inflation becomes expected.

Labor Pains

Labor was a big issue during Covid and continues to be. 45% of executives say their workforce grew by at least 5% in the last year. But 40% say it stayed the same. It's a mixed bag. One executive says conditions are challenging "based on staff availability" and for another, growth is "hampered somewhat by labor availability," while a third says it's "tough to grow with staff levels." Statistically, we got similar feedback overall. Nearly half of executives place securing skilled labor among their top four challenges in 2022 and 2023.

What are executives doing to gain and retain workers? More than half (58%) say they are increasing wages, potentially fueling inflation, while 54% say they are improving work-life balance. Companies are taking different paths to increase compensation. More than a third are offering bonuses (a one-time reward), while 35% are improving benefits. Meanwhile, 18% are offering onsite or paid training and others are investing in improving the workplace. Retaining and retraining workers is much cheaper than hiring and training new employees.

What are you doing to attract and retain skilled labor?



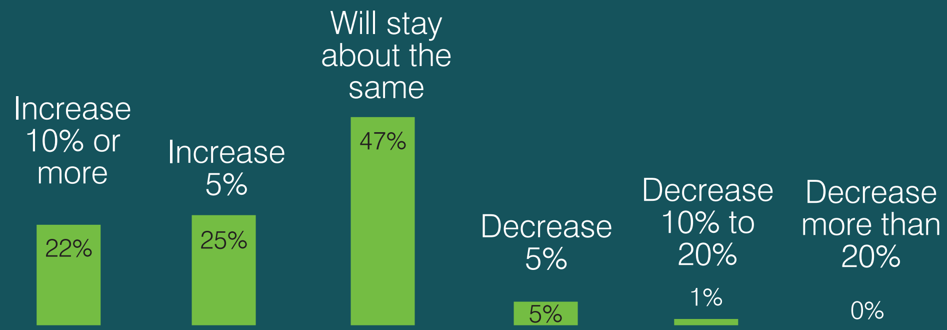
> Our concerns are the health of our customers and their ability to obtain/retain labor.
>
> – SURVEY RESPONDENT

GROWTH STRATEGIES

During the peak of the pandemic simple survival was the goal for some, but these days executives often are focusing on growth. One executive says they opened a second business unit in 2022 and plan to open a third in 2023. Another feels as more bars and restaurants reopen, they are selling more beer. And yet another thinks suppliers are confident in selling to them because of how they navigated the pandemic. Companies that navigated the pandemic well may reap rewards later. Nearly three quarters (72%) ranked product and service expansion and innovation as their top growth strategy. A little more than 35% ranked geographic expansion as their top strategy.

In terms of growth by subsector, manufacturers have been expanding their facilities, while retailers eye geographic expansion. More than 30% view raising prices as a top strategy, while nearly 25% plan to compete on price. One company says they are growing by helping customers "alleviate some of their costs." Another plans on growth by partnering on international sales, while some are focusing "on just sustaining."

Growth means winning over customers and employees. "Work hard," one executive says. "Size up the situation. Seize the opportunity." One executive wants to improve ties with the community, hoping it will boost business. "We must be the most aggressive in biz development," another says, "to outperform our competition." A winemaker is working on expanding their tasting room business and distribution. Another is adding new services. Adversity breeds opportunity, if you're able to take advantage of it.



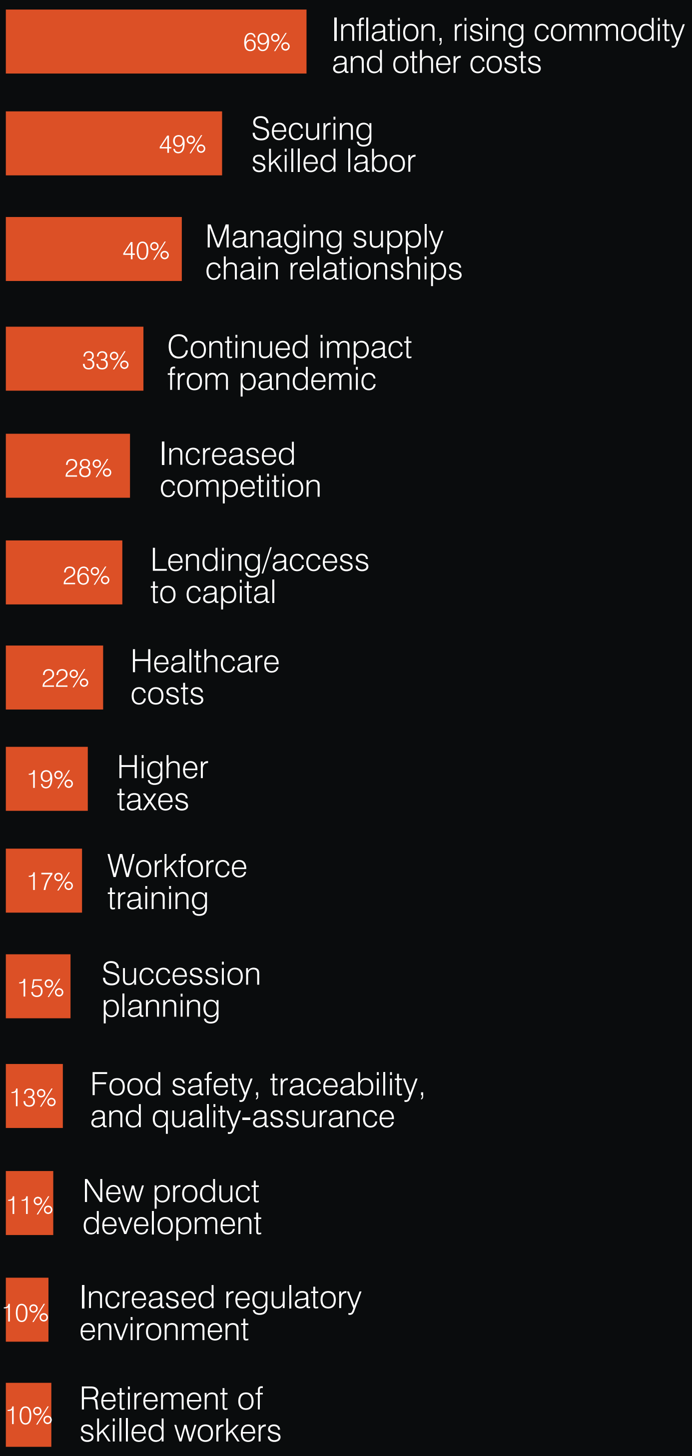
Looking ahead to the next 12 months, describe your workforce growth.

Lingering Pandemic Effects

The pandemic hit F&B like an earthquake, but many companies emerged changed, chastened, and sometimes, more efficient. Still, the pandemic's effect is far from over and may have left structural changes in place. About one third of executives cite continued impact from the pandemic as one of their greatest challenges for 2022 and 2023. The impact varies based on sector and region. Agriculture, manufacturers, distributors, retailers, and eating and drinking facilities experienced different impacts. But the economic impact of the pandemic is still being felt. One executive cites a "slow recovery to normal business levels post pandemic." In some cases, sales are down because customers bought so much during the pandemic, out of a concern over scarcity, that they don't have to buy now.

The pandemic has led to possibly permanent changes in how we do business. 63% of executives feel the pandemic changed how they manage the supply chain, while nearly 55% say it caused them to do more with less. It has also changed logistics for 47%. Customers have moved to shopping online, forcing companies to change the way they do business as well. About 38% say it has changed the workforce environment, including making transparent barriers permanent and a continued reliance on Zoom and work from home arrangements. A company's culture can remain the same, but still allow for change.

What do you anticipate will be your greatest challenges in 2022 and 2023?



Supply Chain Matters

Seek and ye shall find? It's not always just that easy. Nearly 40% of executives rank managing supply chain relationships as among the biggest challenges of 2022 and 2023. Shipping and global sourcing both got a lot more complicated. Executives cite product shortages, insufficient resources, and difficulty finding ingredients. One company blames issues on "sourcing raw materials and receiving them on time." Another executive says, "ingredient availability will continue to be an issue." One company mentions "constant problems, mistakes, issues" in getting materials from sources to customers. Staff shortages and lack of training lead to mistakes, compounding supply side struggles. Companies can use data to get a deeper look into their supply chain, making it more transparent, identifying problems, reacting, and reducing risk.

More than a quarter of our respondents rank supply chain diversification (including onshoring) as their top strategy. Companies are trying to buy closer to home. And companies faced with problems sourcing often pivot to alternatives and substitutions. Sit-down restaurants, fast food, and fast casual eateries all faced problems getting supplies. When companies shifted sourcing, was that a permanent or temporary change? Companies are getting jammed with costs related to supplies. They are using technology and diversifying. Unless companies protect themselves by having alternative vendors and backup methods of purchasing, they can get hurt.

SOURCING THROUGH TECHNOLOGY

Executives are using technology to strategically source and using data to predict demand more realistically. They can use this for seasonal items such as pumpkin and spice lattes as well as more standard offerings. Companies are using data from past years to build the right inventory. Data analytics create data lakes where systems are integrated. It allows you to keep track of both the amount of people you are serving to how many are working on a shop floor. Companies can build self-service business intelligence models with big buckets of data analytics. If systems are not well integrated, though, that's where the challenge comes in. You're not leveraging data to build the right predictive model.

> "Currently we are experiencing higher sales due to suppliers' confidence in our experience in navigating these markets, which has given us an advantage in having a fairly strong supply chain.
>
> – SURVEY RESPONDENT

MARCUM

Diversification In Product Offerings

The pandemic and an aging population have made healthier foods more popular, and executives are taking note. Marketing, labeling, and more thorough information for search engines make it easier to find products that fit particular diets. More than one third of executives in our survey say they offer gluten free products, and a quarter offer organic and vegan products. About one quarter of executives also say they offer non-GMO products. One executive sees huge opportunity in the "allergen free world." Another thinks the "trends behind health and wellness" are strong, particularly tea. Healthier products are often racking up healthy numbers. Food Dive noted that organic food sales rose about 2% in 2021 to $57.5 billion, according to the Organic Trade Association's annual industry survey. The global gluten free food market expanded from $5.6 billion in 2021 to $5.8 billion in 2022 and is expected to hit $6.8 billion by 2026, according to BusinessResearchCompany.com.

Diversification in product offerings takes varied forms. Alternatives to traditional milk are becoming popular. Plant-based meat substitutes are making their way into restaurants as well as homes. Pesticide-free foods are catching on amid consumers' hunger for healthy food. Customers accustomed to highly processed foods are seeking more organic, naturally produced and locally sourced options.

Environmental, social, and governance (or ESG) also is playing a bigger role in marketing and attracting investment. What is your carbon footprint? How are you running your facility from manufacturing to distribution? These ingredients can be as important as the ingredients in a recipe, or at least helpful when it comes to growing sales.

"Times have changed and people have new habits. We are identifying those habits and tailoring our business to meet those needs.

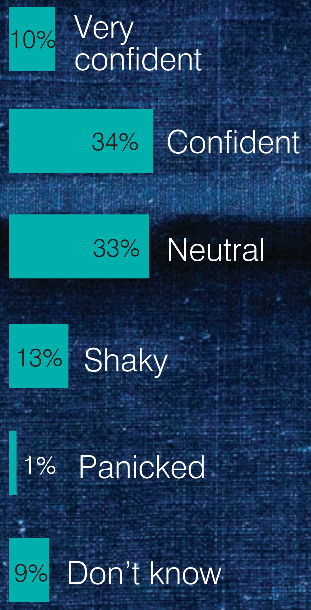
– SURVEY RESPONDENT

Technology's Time

The pandemic led to an accelerated reliance on technology, transforming the way F&B companies do business. And that is likely to continue into the future. An industry that historically changed slowly suddenly found itself on the front lines of the pandemic necessitating swift technological changes. About 20% of executives believes investing in technology is a top priority, while 40% say it is certainly in their top three in the list of priorities. One executive says they are adopting technology "for digital marketing to increase sales." Another cites "manufacturing efficiency." At many companies, tech infrastructure was forced to transform during the pandemic. If you were a manufacturer, you wanted more portals for vendors and customers. The same was true for food and beverage outlets. Covid accelerated this technological transformation. Using Zoom, Teams, or other platforms for remote work became commonplace and has permanently changed the way we do business.

And companies began using technology in their delivery solutions, which often grew revenues but chipped away at margins. Ghost kitchens can sell the same recipes through GrubHub and Uber Eats. Technology helps drive innovation -- from artificial intelligence to robotics to software that lets you see into your business. Knowledge truly is power as companies build self-service business intelligence models with big buckets of data analytics. Well integrated systems allow you to not only have data, but analyze it to find efficiencies.

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



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It's all about exposure and engaging with the customers.

– SURVEY RESPONDENT

TECHNOLOGICAL OPPORTUNITIES

Though technology matters more than ever, many companies aren't closely monitoring their core IT, such as ERP. Only 48% of executives in this survey have evaluated their core IT within the last year. About 22% evaluated their IT one to two years ago and fully 11% have not evaluated their IT in more than three years. There is tremendous opportunity here. Companies need to make sure their tech is up to date and able to efficiently serve the business and their customers. Those without a solid, integrated system and improperly integrated technology are set up for vulnerabilities.

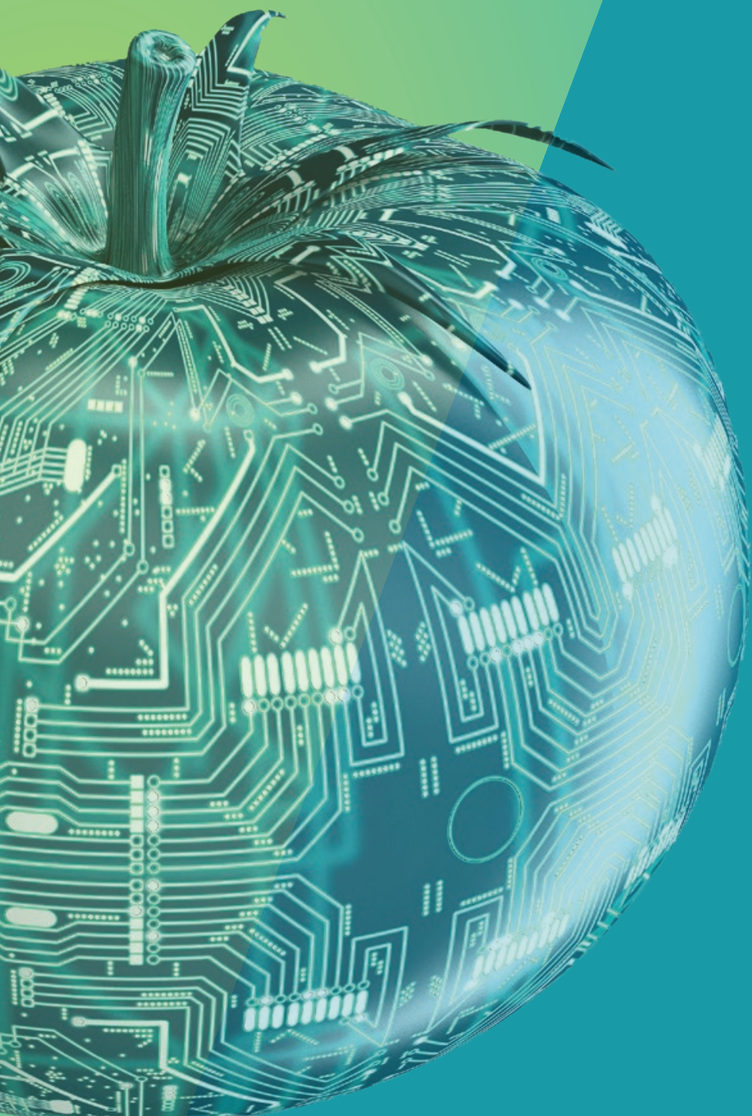
CYBER INSECURITY

Of the 18 choices listed for the greatest challenge of 2022 and 2023, our respondents ranked cybersecurity dead last. Nearly half of companies (45%) feel confident or very confident they are protected against cyber threats. Only 14% admit to being shaky or panicked about the prospect of a breach. So, how well protected are F&B companies? Cybersecurity threats are still a major issue and it's certainly not limited to the F&B industry. Those impacted by a breach can spend 12 months or more in remediation.

In our survey 48% feel confident in their IT systems, present and future. Though companies implemented new systems with cyber controls, they need solid, integrated systems to protect against breaches. We believe some systems may not be integrated in a way to protect against breaches. Band Aid solutions that are not done in a seamless or automated fashion can create opportunities for attacks, resulting in breaches and lost data. Smaller companies often have a false sense of confidence because they think they're not as vulnerable, since there are bigger targets. But that assumption may not be aligned with reality. Cyber attacks are real. For those who say they're confident in their cybersecurity procedures, yet haven't done an assessment in the last 12 months -- how confident can they be? For F&B companies, which already operate with such small margins, a cyber attack can be devastating.

Safeguarding Against Cyberattacks in the F&B Industry

By **WAQQAS MAHMOOD**,
Marcum F&B Technology Leader



As the post-COVID-19 world embraces digitization, legacy IT systems have become increasingly vulnerable to cyberattacks. As this survey shows, a majority of respondents reporting that their technology systems are insufficient to meet customer demand and safeguard their enterprises from cyberattack. For food and beverage (F&B) businesses (ranging from manufacturing, retail, and restaurants to bars and grocery outlets), capturing, storing, and protecting customer data has become a paramount necessity.

More than half of respondents (approximately 55%) are not confident that their technology is protected from cyber threats. Larger businesses are often targeted by cyber threats based on their perceived ability to pay higher ransoms, while smaller entities, particularly those in the earlier stages of digitizing their processes, may be seen as soft targets. In either scenario a formal cybersecurity scan can provide true analysis of a business's risk posture and systems reliability. Especially for F&B businesses that have direct-to customer/vendor web portals and e-commerce revenues channels. These external facing web portals are prone to cyber-attacks, and hacks of customer Personal Identifiable Information (PII) and Personal Credit card Information (PCI) data. In addition, by performing a thorough

IT system assessment to understand which systems are vulnerable and prone to cyber-attacks can provide a realistic analysis of where the business should focus. An IT system assessment and subsequently developing a roadmap of initiatives around mitigating risks and modernizing legacy IT assets can provide a more confident and secure IT ecosystem.

More than half of respondents (approximately 53%) say their technologies are insufficient to handle the current increase in customer volume and global economic challenges. As consumer become more conscious of the kinds of food they eat, how it is sourced, and the processes it follows to reach their plates, manufacturers have upped their game. It is an exciting new arena where new innovations are being developed in step with customers' needs and changing tastes. In many respects, this is a coalescence of innovation and technology, the prime factors that helped save nearly every company in the beleaguered F&B industry as they navigated their way through the COVID-19 contactless age. Current state of global economic challenges is calling for F&B businesses to optimize their capital and right-size product offerings and inventory levels. By leveraging advanced technologies, such as Artificial Intelligence and Machine Learning algorithms to analyze historic sales data, the F&B businesses are able to predict more realistically what their inventory should be, including seasonal specialty products.

To leverage data, aggregated from customer-facing web portals and core enterprise IT systems, such as Enterprise Resource Planning (ERP), Customer Relationship Management (CRM) etc., need to be integrated and within a cyber-protected environment. Having a diligent risk management, and multi-level redundant IT ecosystem can provide higher levels of business performance and customer satisfaction. All of this requires updated and fully supported IT applications and devices that can be better understood with an overall IT system assessment.

COUNT ON MARCUM

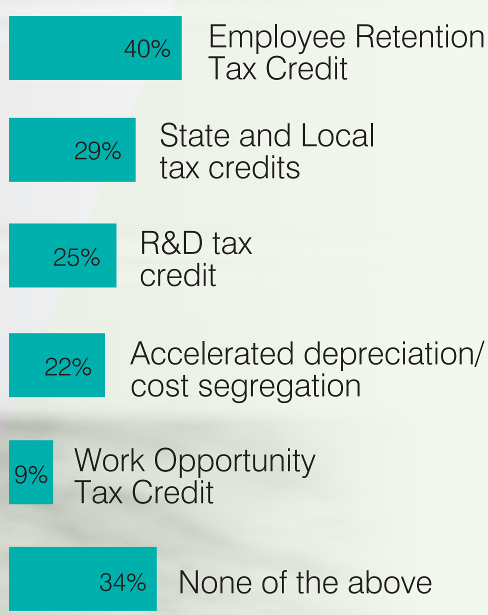
As food and beverage manufacturers look to improve their assets with advanced connected technologies, companies will have to find ways to move closer to Industry 4.0, while balancing security risks. Cyberattacks and aging IT systems will remain a threat in the business landscape for some time to come. And large and small companies alike will need to take proactive steps to safeguard their operations to ensure that service to customers remains at optimal levels. Speak with your Marcum advisor to learn what you can do to improve your F&B business's ability to offset potential risks.

The Urge to Merge

While merging has always been a tried-and-true way of growing in F&B, the pandemic exploded the mergers and acquisitions (M&A) market. More than 26% of executives in this survey ranked M&A opportunities as a top strategy. One executive says it is difficult to grow organically. Although they'd like to acquire companies, the executive says, "acquisitions are too expensive." Still, M&A has long been a major force in F&B and private equity has continued to fuel a steady stream of deals. Because of Covid fatigue, some businesses put themselves up for sale. Mergers can lead to bigger margins if companies take out excess administrative costs and make production more efficient.

Buyers have been throwing around attractive multiples to keep the deals coming. A study by Kroll as of Q3 2022 noted nine consecutive quarters with over 70 F&B deals announced in North America. Expect a tenth. As Baby Boomers age, we could see a bumper crop of M&A deals in F&B. While increased borrowing costs and higher interest rates may slow the pace, private equity is likely to continue to pour into the F&B space. Money is flowing and, although the pace may slow amid rising interest rates, the good deals will close.

Are you taking advantage of the following tax incentives?



> We must be the most aggressive in business development to outperform our competition.
>
> – SURVEY RESPONDENT

Tax Incentives

What you don't know can hurt you or at least prevent you from getting available help. One third of companies in our survey are confident they know about tax incentives and programs out there. But two thirds admit they have no idea what tax incentives and programs are being offered. These are missed opportunities. Though nearly 40% say they take advantage of employee retention tax credits, many more might qualify. About 30% are tapping into state and local tax credits – that leave 70% who are not. And only about 25% are capitalizing on research and development (R&D) tax credits. This tells us that many companies are leaving tax credits on the table. Many F&B companies don't consider R&D credits, but it goes far beyond scientists in white smocks. The only way to know whether you qualify for a R&D tax credit is to examine your business and speak to a qualified expert.

There are lots of other missed tax opportunities. More companies could also benefit from accelerated depreciation and cost segregation, though only 22% surveyed say they already do. Only about 9% are tapping the work opportunity tax credit. At a time when some companies are looking at shrinking margins, these credits could be both more attractive and more welcome than ever. Not many executives admit that they're missing out on tax incentives. 64% surveyed say they are somewhat confident to very confident that they know how to tap potential grants and tax programs, while nearly 36% aren't confident at all. No matter you confidence level, it's always a good idea to bring in an advisor, consultant, or otherwise pursue these potential benefits.

The Power of the R&D Tax Credit

by **William Kuhlman**, CPA and **David Oksenhorn**, CPA

The past couple of years were full of challenges and setbacks for the food and beverage (F&B) industry. Companies tried different tactics to stay afloat, including relying heavily on grants and loans.

As we approach the end of 2022, many F&B companies are only now starting to see signs of recovery. And yet as tax planning ramps up and industry leaders consider the future outlook, many are focused on lingering supply chain issues and increasing costs — as well as the looming possibility of a recession.

With so much uncertainty during the last few years, you might as well ask a Magic 8 Ball what comes next. Still, it's helpful to consider where the signs point.

One thing that thankfully has remained available and should not be forgotten is the research and development (R&D) tax credit, one of the more powerful tax credits available.

The R&D tax credit is a federal tax subsidy available to F&B companies that invest in product development, formulations, recipes, techniques, and manufacturing processes. Companies may not realize that everyday activities might qualify as R&D. With this credit, companies can save up to 10% of every eligible dollar invested, either on a one-for-one basis in federal tax reduction or in payroll tax expense rebates.

Also keep in mind that small to medium-sized businesses can use R&D credits generated in tax years beginning on or after January 1, 2016, to offset alternative minimum tax (AMT) liabilities. A small or medium-sized qualifying entity is defined as a business with $50 million or less in gross receipts, determined by taking an average of the prior three years' receipts. Credits may reduce AMT in the prior year or carry forward for up to 20 years.

For qualified small businesses, the R&D credit may also be applied against the employer's FICA (Social Security) portion of payroll taxes. A qualified small business is defined as one with less than $5 million in annual gross receipts for the tax year and no gross receipts for any tax year before the five-year period ending with the tax year.

This means qualifying F&B companies can receive an immediate benefit from a payroll tax credit even if they are not profitable. This is a huge win and could result in significant cash savings.

The payroll credit is limited to $250,000 per year for up to five years, and any unused portion can be carried forward to future years. The tax credit may also be claimed if the business uses a certified professional employer organization (PEO). On this note, there is already some good news going into the new year. Effective January 1, 2023, the payroll credit limitation increases to $500,000 per year and allows the credit to be applied against employer-paid Medicare payroll tax in addition to employer-paid FICA.

The credit is calculated for three types of qualifying research expenditures: wages and supplies used for conducting qualified research activities, and a percentage (65%) of third-party contract research.

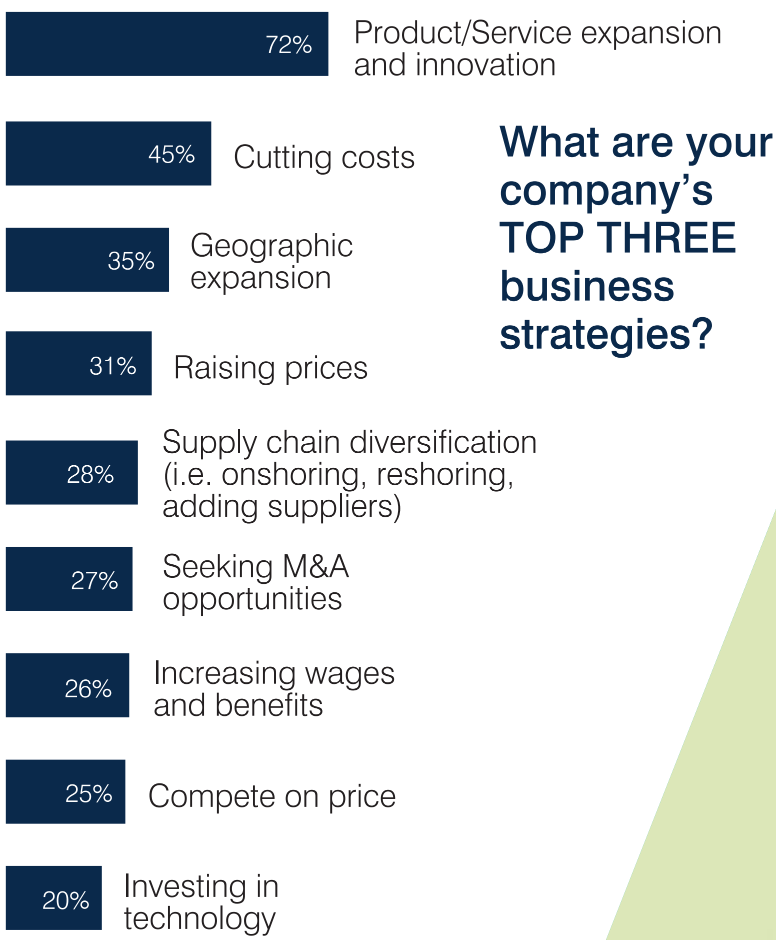
It's important to be aware that effective January 1, 2022, because of the Tax Cuts and Jobs Act, research expenses must be capitalized and amortized over a five-year period for research conducted within the U.S., and a fifteen-year period for research done abroad. Computer software must also be capitalized and amortized under this provision. Prior to January 1, 2022, under Internal Revenue Code Section 174, taxpayers had the option of immediately expensing R&D expenses or electing to treat these expenses as deferred. If they deferred, they could amortize over a period of no less than 60 months, beginning with the month the taxpayer first realized benefits from the expenses. There has been much opposition to this, and it is not clear if it will possibly be further deferred or removed altogether.

Finally, keep in mind that in addition to the benefits and availability of the federal R&D tax credit, many states have R&D credits that follow rules similar to those of the federal R&D credit and may also yield a significant benefit. F&B companies should evaluate investments for R&D credit qualification since it permanently reduces federal effective tax rates and may provide an opportunity to monetize the tax credit sooner than previously allowed.

With an unknown future ahead, feel free to give that Magic 8 Ball a good shake — but more importantly, don't forget about the power of the R&D tax credit.

Innovation

The saying that "necessity is the mother of invention" has never been more relevant than in the last few years. The pandemic turned into a time of unprecedented innovation for the F&B industry. Restaurants went into ghost kitchen mode, leveraged tech to deliver food, and curbside pickup became the norm. Artificial intelligence is being used to compile menus, which are linked to QR codes, and suggest add-ons. A century of change has been crammed into just a few years. In fact, "product and service expansion and innovation" is the number one business strategy for those surveyed. One executive says they are focusing on "innovation and new customers," while another says innovation is "driving new distribution" and another referred to their "new innovative products and offerings" For the 28% of executives who cite increased competition as a major challenge, innovation can create a point of differentiation, attracting customers and helping cut costs, grow market share, and stay ahead of competitors.



The Future Of F&B

As companies try to put the impacts of the pandemic behind them, what is on the horizon? Nearly 70% expect revenues for the next 12 months to increase, though 21% anticipate they will remain flat and nearly 10% predict a decrease. Growth may driven, in part, by inflation, with higher prices lifting revenues. Companies plan to keep hiring over the next 12 months, with nearly half surveyed aiming to grow by 5% or more, while about 47% plan to stay the same size. Only about 7% plan to decrease the size of their workforce. Growth is on executives' minds and in their game plans.

Executives also are eyeing other increases, to retain and gain workers. Over the next two years, nearly three quarters (73%) of those surveyed plan to increase compensation. That's a high number and a sign of wage inflation. More than half of respondents plan to increase compensation by at least 5%, while nearly 16% plan to hike compensation by more than 10%. That could fuel inflationary pressure, driving up prices. To retain and attract staff, nearly 40% would increase bonuses and 35% would increase benefits. Companies are looking at other ways to win over workers, with nearly 18% planning to offer onsite or paid training.

Compensation is only one reason workers quit. Emotional as well as economic forces lead people to leave their employer. Many companies are keenly aware they are competing not only for customers, but for employees. Turnover brings training and other costs. Fully 54% plan to improve work-life balance.

One executive believes "market volatility and continued inflationary trends will influence consumer confidence." When all is said and done, though, most executives have a positive outlook. Of course, hope is not a strategy or a solution, though optimism fueled by engagement can be. About 64% of executives are somewhat or very positive regarding the industry for the upcoming year. Only about 15% view the future negatively. The majority of the executive surveyed are going into 2023 with high hopes, despite high costs, and high prices. And some executives believe staying nimble can benefit your company. "Times have changed and people have new habits," one executive says, adding that companies can grow their sales by "identifying those habits" and tailoring their business to that.

> "I think there's certainly room for growth, though the industry as a whole has several challenges to face.
>
> – SURVEY RESPONDENT

Survey Results

What is your primary business?

Manufacturer	46%
Restaurant or Eating/Drinking Facility	25%
Distributor	13%
Retailer	4%
Agriculture/Aquaculture	3%
Other	10%

Product Attributes?

Gluten Free	38%
Natural	33%
Organic	26%
Vegan	26%
GMO Free	25%
Vegetarian	23%
Medical Claims	4%
Other	16%

How does your company's 2022 revenues compare to 2021?

Up 10% or more	48%
Up about 5%	23%
Flat (no growth)	16%
Down about 5%	9%
Down 10% to 20%	3%
Down more than 20%	1%

Looking ahead the next 12 months, you see your revenues...

Increasing	69%
Decreasing	10%
Staying the same	21%

Rate your outlook for the industry for the coming year

Very positive	20%
Somewhat positive	44%
Neutral	20%
Somewhat negative	15%
Very negative	1%

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

Grew 10% or more	20%
Grew 5%	25%
Stayed about the same	40%
Shrunk 5%	10%
Shrunk 10% to 20%	4%
Shrunk more than 20%	1%

Looking ahead to the next 12 months, describe your workforce growth:

Increase 10% or more	22%
Increase 5%	25%
Will stay about the same	47%
Decrease 5%	5%
Decrease 10% to 20%	1%
Decrease more than 20%	0%

Over the next two years, do you expect to adjust average compensation (including benefits)?

More than 10%	16%
5 – 10%	39%
Less than 5%	18%
We will not adjust compensation	15%
We will be decreasing compensation	0%
Unsure	13%

What are you doing to attract and retain skilled labor? (Check all that apply)

Increasing wages	58%
Offering bonuses	38%
Improving benefits	35%
Onsite/paid training	18%
Tuition reimbursement	8%
Improving work-life balance	54%
Other	14%

What do you anticipate will be your greatest challenges in 2022 and 2023?

Inflation, rising commodity and other costs	69%
Securing skilled labor	49%
Managing supply chain relationships	40%
Continued impact from pandemic	33%
Increased competition	28%
Lending/access to capital	26%
Healthcare costs	22%
Higher taxes	19%
Workforce training	17%
Succession planning	15%
Food safety, traceability, and quality-assurance	13%
New product development	11%
Increased regulatory environment	10%
Retirement of skilled workers	10%
Keeping up with technology/innovation	8%
Workplace health and safety	6%
Other	4%
Cybersecurity	1%

What are your company's TOP THREE business strategies?

Product/Service expansion and innovation	72%
Geographic expansion	35%
Seeking M&A opportunities	27%
Compete on price	25%
Investing in technology	20%
Cutting costs	45%
Supply chain diversification (i.e. onshoring, reshoring, adding suppliers)	28%
Raising prices	31%
Increasing wages and benefits	26%

Has/will the pandemic permanently changed the way you manage?

Supply chain	63%
Do more with less	54%
Logistics	47%
Pricing products/menus	46%
Workplace environment	38%
Workforce headcount	34%
Adoption and deployment of technology	25%
Workforce safety measures	19%
Acquisitions	4%
Other	5%

How does your company plan to address inflation in the coming year?

Reducing expenses	62%
Raising prices	57%
Altering/renegotiating with suppliers	35%
Changing approach to inventory	34%
Adjusting worker compensation	6%
We're not changing our approach	11%

How has your company been affected by global supply chain issues?

Shipping delays	66%
Cost control	56%
Production delays	49%
Finding new suppliers	48%
Raw material sourcing	40%
Stockpiling supplies/inventory	27%
Unable to meet customer demand	20%
Renegotiating customer agreements	14%
Order cancelations/refunds issued	10%
Food safety	4%
We have not been affected	4%
Other	2%

Are you taking advantage of the following tax incentives?

Employee Retention Tax Credit	40%
State and Local tax credits	29%
R&D tax credit	25%
Accelerated depreciation/cost segregation	22%
Work Opportunity Tax Credit	9%
None of the above	34%

How confident are you that you know how to leverage all potential grants and tax programs that could benefit your company?

Very confident	9%
Confident	25%
Somewhat confident	30%
Not confident	36%

How often does the management team review and discuss your financials and KPIs (Key Performance Indicators)?

Weekly	26%
Monthly	36%
Quarterly	18%
Annually	20%

If you are selling your product in multiple states, have you addressed your sales tax liability?

Yes	37%
No	7%
Don't Know	7%
N/A	49%

Are you using data analytics in your company?

Yes	66%
No	31%
Don't Know	3%

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

Very confident	10%
Confident	34%
Neutral	33%
Shaky	13%
Panicked	1%
Don't know	9%

How confident are you that your IT/technology organization is equiped to handle your company's current and future goals?

Very confident	13%
Confident	35%
Neutral	26%
Shaky	20%
Panicked	0%
Don't know	6%

Which one of these Enterprise Resource Planning (ERP) do you use?

QuickBooks	49%
Microsoft - (e.g. Dynamics, Great Plains, D365, Business Central)	18%
SAP BatchMaster	4%
Oracle Netsuite	2%
Plex Systems	1%
Other	15%
None	10%

When was the last time your organization evaluated its core IT systems, such as ERP, CRM, Finance and Accounting (e.g. Sage Intaact, Quickbooks, Compeat etc.), Human Resource Information Systems (e.g. Workday, Jamis, Ceridian etc.)?

Within the last 12 months	48%
1 - 2 years ago	22%
2 - 3 years ago	14%
More than 3 years ago	11%
I don't know what these are	5%

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