

In Latin America, Demand for Plant-Based Foods is Upending the Market

Plant-based food and drinks are gaining in popularity across Latin America, where animal proteins have been a dietary staple for hundreds of years. This article looks at the growth of industry through the lens of NotCo, one of the most successful food-tech firms.

Across the U.S. and Europe, one of the biggest trends in food and beverage over the past two decades has been rising consumer interest in plant-based products. The reasons are numerous, from long-standing moral appeals for animal rights to more recent scientific evidence of greater environmental sustainability and promises of better physical health. Chief among them seems to be a large and rapidly growing base of consumers who prioritize sustainability and ethical considerations over other concerns. Innova Market Insights' Top Consumer Trends for 2022 and Vegconomist suggest environmental sustainability for the first time is poised to overtake personal health as consumers' top-cited reason for shifting to a more plant-based diet. Following these vocal consumers, savvy investors and innovative entrepreneurs are stepping up to the plate to meet the demand for more and better plant-based products.

But is the trend towards plant-based food and beverage relegated to highly developed, established markets and their more affluent consumer bases? The case of Latin America suggests otherwise. Regional consumer trends have paved the way for a new breed of plant-based food products manufacturers that are able to achieve scale without the support of distribution giants such as Unilever and Nestlé. In fact, the continent recently minted its first food-tech unicorn this year: Chile's plant-based NotCo. In 2021, just six years after its founding, NotCo attained a \$1.5 billion valuation built on a wide and innovative product portfolio that includes milk, burgers, mayonnaise, and ice cream. Until recently, all this growth was homegrown in Latin America.

Clearly, consumers across Latin America are not just interested in more and better plant-based products. They're hungry for them. Gone are the days of soy milk being the only available dairy alternative and veggie

burgers tasting like cardboard. From coconut and almond to oat and pea, dairy disruptors are garnering multibillion-dollar valuations, and plant burgers that "bleed" are upending the very definition of meat.

American Giants

The popularity of plant-based foods didn't happen overnight. Historically, countries like the United States, China, Canada, Argentina, Brazil, and Chile have had some of the highest daily meat consumption per capita in the world. However, global trends towards healthier, plant-based foods have created space for tech-centric, AI-empowered food-tech companies to engineer plant-based plates to perfection. The supermarket aisles are filled with popular brands including Oatly, Beyond Meat, Blue Diamond Almond Breeze, and Morningstar Farms.

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Impossible Foods, one of the most well-funded and well-known plant-based companies, is on a mission to “transform the global food system” with their array of products. To date, the company has focused on meat substitutes, emphasizing healthy, sustainable products that consumers can afford. Though they are U.S.-based and primarily serve the American market, the company is expanding into China. A member of Impossible Foods' International Strategy team emphasized the exciting challenge of serving plant-based chicken, beef, and fish substitutes across a region with deep cultural alignment to alternative proteins.

While Impossible is gaining shelf space in the North America and Asia, NotCo is dominating the South American region. Founded in 2011, the company has expanded from its first product, NotMayo, to add three new products to their South American portfolio: NotIceCream, NotMilk, and NotBurger. According to Martín Bergada, senior manager for Strategic Planning, NotCo decided to attack the meat and dairy categories simultaneously to raise brand awareness, leverage their strong R&D capabilities, and address the market with a holistic approach to plant-based diets. Last year, the company expanded to the U.S. market with their NotMilk drink. Wearing the badge of Chile's first unicorn company, NotCo is planning to expand in Latin America through partnerships with quick-serve restaurants (QSRs). They also plan to continue to leverage Giuseppe, their proprietary "AI chef" that analyzes the molecular structure of traditional foods, to find the perfect combination of ingredients to build tasty, plant-based alternatives to dairy and meat.

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While both Impossible and NotCo have had tremendous track records in both the board room and the dining room, they face challenges around company identity and product market fit as they scale.

Nontraditional CPG

Consumer hunger demands not only a wide offering of plant-based products but also a long-term sustainable vision of the companies that sell them. While their present is certainly exciting, what does the future look like for companies like Impossible Foods and NotCo?

On one hand, there is pressure to follow the traditional consumer packaged goods (CPG) industry path in pursuit of profitability and continued revenue growth. On the other hand, these companies have been industry pioneers by introducing groundbreaking products developed through complex, proprietary technologies.

To understand the effects of the positioning between these two paths, it is important to review some of the key implications and motivations that could arise from this decision. First, in terms of valuation, positioning a company that is following a tech path could yield higher valuation as multiples in the tech space are generally higher than traditional players. In other words, investors that view a new plant-based company as a tech company would be willing to pay more to own a stake than those that view the company as a more traditional CPG. Therefore, a company with the same net profits could attract more investment just by positioning itself as a tech firm rather than a consumer products firm.

Second, there are also cultural implications that trickle down to staff. For instance, younger generations of talent might be attracted to tech companies that want to challenge the status quo. Bergada said target customers believe there is a need to switch from traditional models towards sustainable models to generate a positive change in the world. An innovative company committed to this cause can be attractive to this type of customer, especially younger consumers living in the larger urban centers. Third, the goal of reaching a massive client base across the world resonates with positioning as a purely traditional consumer company. In order to have a robust execution, companies will need to lean on expertise from large CPG companies and use those market strategies for expansion. Although it is clear that a focus should be made to reach unpenetrated markets, this strategy can make the spirit of the company less innovative.

Having analyzed this framework, it is unclear the path that companies in the industry should follow in the next few years as there is still room to innovate and to penetrate underserved markets. They will have to balance pursuit of profitability with continued growth and investment.

An Inevitable Shift?

Consumption trends signal an inevitable shift towards more plant-based food. Moreover, these trends are accelerating. In the two years from 2019 to 2020, plant-based food retail sales increased 43% in the United States, which is nine times faster than total food sales). Players in this industry are already positioning themselves in different geographical regions and consumer segments with a wide array of products.

At first glance, Latin America might not seem to be the most attractive market for a startup in this industry, owing to a lower purchasing power and degree of awareness on the environmental impact of animal-based food relative to other regions of the world such as Europe or the United States. Furthermore, a strong culture and tradition of red meat consumption in countries such as Argentina, Brazil, and Chile, poses additional obstacles for plant-based food penetration. However, NotCo is experiencing significant demand traction in large Latin American urban centers like Buenos Aires, Santiago, and São Paulo, especially among younger generations. Initially, this Chilean company targeted vegetarian and nutrition-conscious consumers, but Bergada said they are experiencing a surging demand from young, nonvegetarian customers who assign a higher value to environmentally friendly products. By providing a high-quality product that mimics taste, texture, indulgence, appearance, and nutritional content, the company has succeeded in supplying a demanding consumer that, according to NotCo's statistics, 40% of the time did not buy plant-based products again because they did not taste good or failed in some of these categories.

The portfolio of products also varies substantially by company. Firms such as Impossible Foods or Beyond Meat are focusing on marketing substitutes for meat, while others, such as Oatly, are concentrating on dairy products. NotCo is not only marketing plant-based substitutes for meat but also dairy products. Bergada highlighted the importance of understanding how consumer preferences vary between geographies, a reasoning that guided NotCo's decision to enter the United States market in 2021 solely with their milk product line in a first stage, so as to better interpret demand response before expanding to other categories.

Challenges and Opportunities for Embracing a More Plant-Based Future

An important takeaway from the industry today is the role of new businesses in shaping the global market. Although

historically entrenched multinationals like Nestlé and Unilever have led the penetration of food and beverage products across Latin America, it seems that in the growing niche of plant-based foods, a more diverse base of fast-growing startups has led the charge. As consumer preferences in the region grow beyond local and more traditional foods, these new firms seem well-poised to shape the future of Latin America's consumption trends and habits.

As new players enter and disrupt existing markets in agriculture and food manufacturing, the conversation continues to shift away from traditional consumer products and more towards technology. As the market moves forward, it is becoming more and more important to consider whether existing players in food production and distribution will engage this growing field and begin to develop capabilities of their own.

Similar to Tesla in the automotive industry or Everlane in clothing and apparel, companies such as Impossible Foods and NotCo are increasingly threatening established giants in their industry. Whether or not they will one day eclipse their more traditional industry counterparts is yet to be seen. The range of consumer habits that vary across countries and regions make addressing a global market with a uniform product difficult. Nevertheless, it's clear that the future of this sector is full of promise. As product quality improves and the consumer base for plant-based foods continues to evolve, the future of the industry looks brighter than ever.

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