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Consumer Packaged Goods and Pharmaceuticals & Medical Products Practices

Consumers with food allergies: A growing market remains underserved

A quarter of Americans now avoid allergens in the food they buy—and tell us they are hungry for innovation.

This article is a collaborative effort by leaders of McKinsey's global Consumer Packaged Goods and Pharmaceuticals & Medical Products Practices, including Gillian Almeida, Shaun Callaghan, Aamir Malik, Mher Panossian, and Warren Teichner.

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Around the world, half a billion people, including close to 85 million in the United States, avoid allergens when shopping for food and beverages. The number of American children who experience food allergies has been growing about four times faster than the population has for at least 20 years. They aren't alone: evidence suggests that food allergies are on the rise, especially among younger children, around the world—in both developed and developing countries.

Our new research shows that whether shoppers are allergic to certain ingredients or are shopping for someone who is, trying to avoid allergens makes them feel stressed in the grocery aisle. Many spend significant time reading labels, and some avoid entire categories of products. Many pay extra for the highest-quality ingredients, and while they tend to trust smaller and allergy-friendly brands more than larger brands, they often look for new products to try. In the United States, where we conducted our research, shoppers looking to avoid allergens in food spend more than average on groceries—and around $19 billion a year avoiding categories or substituting products—and that number is likely to keep rising.

Food manufacturers, particularly large companies, can serve those careful shoppers better and improve the lives of millions. Industry leaders could agree on clearer, more consistent labeling, for example, and improve consumer education and engagement. We expect the outperformers in the years ahead to include manufacturers that invest more in M&A and in-house innovation to introduce new, allergy-friendly products.

In this article, we share what we have learned about this large and growing consumer segment. We also describe the steps that food manufacturers can take to meet their needs and win their loyalty while improving their shopping and dining experiences—and their safety.

Understanding the allergen-avoidant consumer

People are allergic to more than 160 ingredients in food, but nine account for the vast majority of reactions and incidence in the United States: milk, eggs, wheat, fish, shellfish, peanuts, tree nuts,soy, and sesame. The number of children with food allergies in the United States has grown around 4 percent annually since 1997. In the past decade, the number of US emergency-department visits for food-induced anaphylaxis have more than tripled.

In addition to the 23 million Americans with histories of severe reactions to food allergens, nine million are allergic to at least one allergen outside the top nine. US immunologists focus mainly on those 32 million people, but food manufacturers can take a much broader view. Millions of people not medically classified as being allergic to certain

"It's so scary when your child has an allergy because it's literally a life-or-death situation—you can't substitute something else."

food and beverage ingredients have a physically negative reaction to them. Our research shows that regardless of whether consumers are ingredient allergic or intolerant, their attitudes and purchasing behaviors are more than 95 percent correlated.

Children don't shop for groceries, of course, which is why manufacturers need a deep understanding of the shoppers who are indirectly affected—those who avoid buying foods and beverages that contain allergens that may affect someone of their household. In sum, around 85 million American shoppers avoid a top nine food allergen in most or all of their purchasing decisions (Exhibit 1).

Valuable consumers, highly engaged in purchasing decisions

Since food safety is vitally important to allergen-avoidant consumers, about two-thirds are loyal to certain products that they trust. Finding a safe product can be time consuming and stressful, so once those shoppers have found one, they tend to buy it repeatedly (Exhibit 2). However, nearly a third of surveyed consumers say they regularly look for new products that are safe, perhaps indicating that many are not satisfied with the products on the shelves today.

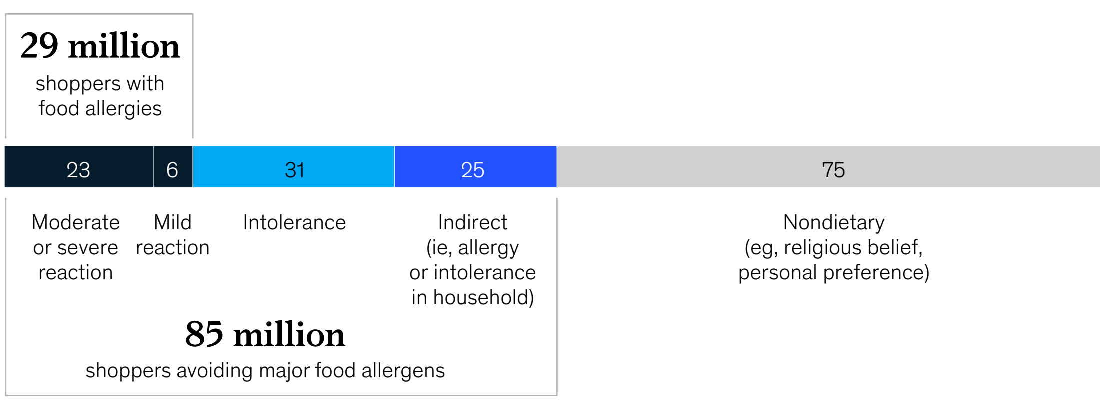
That openness to new options may present important opportunities for new brands and products to enter the market and win the loyalty of a large share of such consumers. And the loyalty of those shoppers could be especially valuable because they spend about 5 percent more on groceries each month than the average shopper does. About one in three say they are willing to spend more on the highest-quality ingredients.

The survey results also suggest that allergen-avoidant shoppers consider more than ingredients: after taste and price, trust is the most important factor in a purchase decision. They tend to trust

Exhibit 1

The group of people in the United States who avoid major allergens in food is much larger than just those who are allergic.

US shoppers who avoid ≥1 of top 9 major food allergens[1] by reason, millions



[1]Milk, eggs, wheat, fish, shellfish, peanuts, tree nuts, soy, and sesame.
Source: Food Allergy Research & Education; "Prevalence and severity of food allergies among US adults," *JAMA Network Open,* January 4, 2019, jamanetwork.com; McKinsey Food Allergy Consumer Panel Survey, March 2020 (n = 1,552)

Exhibit 2

Consumers of allergy-friendly food products are highly loyal, yet many are willing to try new options.

Shopping behaviors of allergen-avoidant food consumers

5.4	66%	38%	30%
brands considered before purchase	repurchase same brand	decide on brand they intend to buy before shopping	are always/ often looking for new products

Source: McKinsey Food Allergy Consumer Panel Survey, March 2020 (n = 1,552)

smaller and allergy-friendly brands more than large brands (Exhibit 3). Therefore, large manufacturers that can educate and engage those shoppers and gain their trust have an opportunity to serve them better.

Two main paths to revenue growth

As manufacturers look to appeal to consumers with food allergies (and those who shop for them), we believe that they should consider opportunities in two main categories of spending. The first is the $10 billion in incremental purchases of those who avoid entire categories of foods, such as bread, snacks, and frozen foods, that may contain allergens. The second is the $9 billion allergen-alternative market.

Our research suggests that around 6 percent of ingredient-allergic and -intolerant households avoid entire categories. If they were to enter the category at the spend of average consumers, they would generate a total of around $10 billion in sales across a wide range of categories.

Allergen alternatives are direct substitutes for products that typically contain allergens. Although the allergen-alternative market is dominated by dairy and gluten alternatives, alternative products for other top nine allergens have grown at around 27 percent annually for the past four years, with most of the gains going to small and allergy-friendly brands.

Satisfying underserved allergen-avoidant consumers

Consumers with food allergies say they want better labeling about allergens, more product information, and a wider array of allergy-friendly products. More than half say they spend at least a few minutes reading labels to understand if a product is safe, and labeling is a significant problem that interferes with their daily lives. Many feel constrained by allergies and wish they had more choices in grocery stores.

Working together, food manufacturers could standardize labeling and do more to educate shoppers and boost engagement. With larger investments, companies could launch more allergy-friendly products.

Standardizing labeling

Working separately or together, food manufacturers could standardize labeling for top allergens to help consumers quickly understand which products are safe for them. We foresee a five-step process:

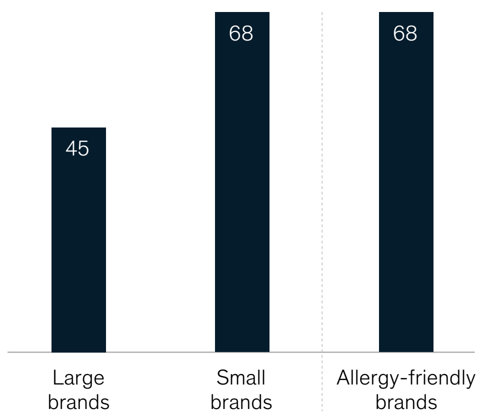
1. *Evaluate existing labels.* If companies review allergy-related labels across their portfolios, they could identify inconsistencies and areas of "overlabeling" that make shopping difficult or confusing.

2. *Define hierarchy options.* Companies could use existing labeling research or conduct their own to propose a labeling regime.

Exhibit 3

Shoppers buying allergy-friendly food products have more trust in products from small brands.

Share of food shoppers who trust[1] allergy-friendly products by type of brand, % of respondents



[1]"Trust" defined as survey respondents strongly agreeing or agreeing that they have trust in that brand category (ie, large brands, small brands) when shopping for allergy-friendly food products.
Source: McKinsey Food Allergy Consumer Panel Survey, March 2020 (n = 1,552)

3. *Determine a coordination approach.* Companies could choose to act as "first movers" or build a coalition with other manufacturers, retailers, and regulators.

4. *Test with consumers.* Companies could engage with allergen-avoidant consumers to gain insights on labeling structure, language, and design.

5. *Educate shoppers.* Working with trade associations, public-health organizations, and advocacy groups, companies could educate consumers with food allergies on new labeling structure. The process could follow the path the industry took to institute standard sell-by and use-by labeling.

Improve consumer education and engagement, particularly around manufacturing safety

Food manufacturers, especially large companies, could greatly improve consumer education and engagement on the safety precautions that they take to reduce the risk of cross-contact. Millions of consumers don't yet understand that the biggest companies go to great lengths to ensure product safety. We believe that companies can win the trust they deserve with plain, direct language about their allergen-safety programs. Again, we foresee a five-step process:

1. *Gain a deeper understanding of consumers.* Companies can work with advocacy groups that can connect with the highly engaged people in their patient registries to understand better how to win consumer trust.

2. *Assess the languages consumers use to discuss allergens.* Whenever a company discusses food allergies, in areas from websites to advertising, they can use plain language and visual cues to share food-allergy information that's easy to understand and remember. They can take cues from MadeGood and other allergy-friendly brands that use plain language to describe who their foods are safe for, reducing confusion and building transparency and trust with the allergen-avoidant community.

3. *Highlight safety procedures.* Many companies can better publicize their stringent safety protocols in manufacturing, such as where products are made and how lines are cleaned.

4. *Improve digital engagement.* Social media and other modern communication tools give large companies new ways to reach and engage specific consumers—and even emulate the intimacy of smaller brands.

5. *Work with retailers.* Manufacturers can partner with retailers and restaurants to reinforce messaging and safety in stores, on shelves, in kitchens, and on menus.

Innovate to create new, allergy-friendly products
Many consumers with food allergies say they are excited to try new brands, suggesting opportunities for manufacturers to attract and retain shoppers. Given those consumers' tendency to stay loyal to products they like and trust, the companies that get to market fastest may see outsize rewards.

M&A is usually the shortest route to innovation. The most successful M&A begins with identifying and acquiring complementary, strategically aligned assets in high-growth areas to build out an existing portfolio—for example, one that is allergy friendly. Once the new assets are on board, a quick and thorough integration is usually required to meet sales and margin targets; we would expect acquirers in the allergy-friendly field to invest in consumer education and engagement. Some larger food manufacturers have acquired or partnered with smaller allergen-free-food producers in recent years, but most of those arrangements are still in their earliest stages. So far, no one has built an allergen-free-food business at scale.

In our experience, the most effective organic innovation begins with consumer research. In the allergy-friendly marketplace, we would look for a deep understanding of specific product opportunities by allergen and category (such as peanut alternatives and snacks), tailoring product offerings to high-growth or underserved areas. We would recommend involving allergen-avoidant consumers at every step of the innovation process, using allergen alternatives when possible. R&D efforts might include evaluating new allergen-alternative ingredients that could be used across many products in a portfolio.

Next steps

The consequences of food allergies seem likely to continue to mount across the United States and around the world. They range from inconvenience and anxiety in the grocery aisle to the unhappiness of being unable to eat a favorite food and from the sudden need to use an EpiPen to the death of a child. Food manufacturers can do much more to minimize those consequences by understanding and serving the community with food allergies community better—while driving profitable growth in a marketplace that is changing faster than ever. Those that move quickly in the right direction will earn lasting and outsize rewards.

McKinsey collaborated with Food Allergy Research & Education (FARE) to research the demographics of consumers with food allergies (research can be found on foodallergy.org). Additional data sources included a panel survey of 1,552 consumers, the *World Allergy Organization Journal*, and the Northwestern University Center for Food Allergy & Asthma Research, among others.

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