SELLING MIDWEST HAZELNUTS DURING INDUSTRY ESTABLISHMENT

A STUDY OF MARKETS AND CONSUMERS, INDUSTRY CONSTRAINTS AND OPPORTUNITIES

by

Will Pipkin
Lead Researcher

Lucas Phillips
Research Assistant

Copy That
Ashland, Wisconsin
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This study is part of a larger project called

Increasing The Production, Processing, and Sale of Locally Grown Hazelnuts in the Upper Midwest

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USDA Local Food Promotion Program

The project involves these partners:

University of Wisconsin Extension
University of Minnesota
American Hazelnut Company
Copy That, of Ashland, Wisconsin

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715-682-6567

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Summary

Midwest-grown hazelnuts are an emerging crop with a promising future. The establishment of a Midwest hazelnut industry is in its early stages. This study illuminates that a substantial industry footprint is likely at least a dozen years away.

NUTS ARE A VERY BIG DEAL

This study confirms several widely accepted notions. Nuts are a popular food category and demand for nuts has grown for many years. All forecasters agree: nut consumption will continue to grow dynamically, globally, and in the United States. Hazelnuts represent a modest share of the overall nut market, but demand for them is expected to grow. Turkish and European-grown hazelnuts dominate the global hazelnut market, while Oregon-grown hazelnuts dominate the US-grown market. Midwest-grown hazelnuts are a very small portion of US hazelnut production. Nut consumption by consumers is driven by several factors including increases in snacking, awareness of the health benefits of eating nuts, interest in plant-based diets, demand for gluten-free options, and an increased interest in local, sustainably-farmed foods. All of these factors make this an exciting time for the industry to be scaling up.

MIDWEST HAZELNUT INDUSTRY CHALLENGES

Demand for Midwest-grown hazelnut products far exceeds production, a dynamic that is very likely to persist for many years. The very young Midwest hazelnut industry faces a number of challenges. The most pressing ones are propagation of tested clonal varieties at a scale and cost which facilitates more and larger plantings, and recruiting growers. Some progress is being made on solving these problems. However, because of the 7-year timeframe to get from new plantings to harvestable nuts, the industry will be in establishment-phase until at least 2030.

Aside from those overarching hurdles to industry development, Midwest hazelnut growers are looking for markets for byproducts (husks and shells) and seeking opportunities to serve new markets where meager supplies may be redirected to achieve higher prices (cosmetics, chefs, food manufacturers). Midwest growers are considering how to distinguish Midwest hazelnuts from those grown elsewhere and they are considering direct and cooperative marketing.

GEO-AG BRANDING

This study finds support for branding of crops by geography: geo-ag branding. A regional hazelnut brand is being considered. The research team will likely develop that brand later in this project, and this report will outline factors important in that process.

CONSUMER KNOWLEDGE

Solid information on what consumers do and don't know about hazelnuts, or about their specific hazelnut buying habits or interests, was not located in publicly available data. The research team will pursue answers to questions about Midwesterners' consumer knowledge, product preferences, and price points through original research (surveys and focus groups) conducted later in this LFPP project.

MARKET SEGMENTATION

A principal goal of the study was to identify up to three market segments most ripe for being targeted in hazelnut marketing. The researchers have proposed that the most important market segment is the widely-studied group of "LOHAS" consumers (lifestyles of health and sustainability). These are people who make many purchasing decisions based on their perceptions of the ecological

sustainability of a product and/or based on the product's contribution to healthy living. Analysts agree that the people in this market segment are prime innovators needed to help new products break into the marketplace.

Consumers who care about local goods are also a key demographic. These people seek out locally-grown food and locally-made products. Finally, millennials are also important because of their preferences for special experiences and higher quality items. These three market segments (LOHAS, local, and millennial) overlap. That overlap will allow for more detailed analysis as these segments are studied in the next phase of the project. During the next phase of the project, research will be done with commercial food professionals: chefs, grocers, and food manufacturers.

MAX PRICING

Growers need to get the very best price for the hazelnuts they are producing. Though demand is high, pricing remains a challenge for producers as the prices of competing products tend to create a ceiling for what consumers are willing to pay. In this report, the researchers discuss a variety of marketing and branding tactics which may allow producers to raise prices to levels which make hazelnuts a profitable crop in the Midwest, even as the industry is developing. Three of the tactics outweigh the importance of others: a) differentiating Midwest hazelnuts from other hazelnuts; b) education is vital to reaching information-seeking LOHAS consumers, and c) premiumization pricing strategies are key to helping consumers become committed to a product. A case study of Kodiak brand oatmeal products provides a strong material basis for Midwest hazelnuts to pursue premiumization pricing strategy.

HYPOTHESIS: KNOWLEDGE = BUYING POWER

The conventional wisdom is that most people don't know much about hazelnuts and most Midwesterners are not aware that hazelnuts are being grown here. The research team will test this during the later stage of this LFPP project when consumers' knowledge will be evaluated. If consumers indeed have a low amount of information about hazelnuts, then educating them is likely to have an impact on their purchasing decisions. If this hypothesis is supported by further study, it will have implications for brand story, brand identity, packaging, social media, earned media, and other marketing and branding tools.

PROMISING FUTURE

The promising future of Midwest hazelnuts is substantiated by these linked factors: the unique story of native hazelnuts in the region; the extraordinary versatility of the crop; the favorable qualities of the nuts, especially health and sustainability benefits; the promise of continued high demand for hazelnut products globally and nationally; the many ecological services provided by hazelnuts, including their resilience during drought and other expected effects of climate change; the existence of thriving local foods and sustainable farming movements in the region; robust institutional supports; stabilized harvest and production methods; and the passion of growers and ag researchers.

RECOMMENDATIONS

The research team considered recommendations in these time-frames: near-term of 1-5 years (2023-2027), medium term of 6-12 years (2028-2034), and long term of 14-20 years (2035-2042). A total of 15 specific marketing, branding, and product-development recommendations appear throughout this report. They are compiled into one list on pages 31-32.

Introduction

THIS RESEARCH IS PART OF A LARGER PROJECT

This document reports the findings of a research project into the nut and hazelnut industries, markets, and consumers. The research has been conducted as part of a larger project funded by a USDA Local Food Promotion Program (LFPP) grant, with the title of "Increasing The Production, Processing, and Sale of Locally Grown Hazelnuts in the Upper Midwest". The project encompasses five objectives:

1. Gain a better understanding of how to market hazelnuts and hazelnut products to consumers in the Upper Midwest.
2. Gain a better understanding of the market interest, demand, and key drivers for hazelnuts to small-to-midscale food businesses.
3. Develop a comprehensive brand plan for Midwest-grown hazelnuts AND the grower-owned American Hazelnut Company.
4. Increase sales of locally grown hazelnuts through enhanced marketing of American Hazelnut Company products.
5. Improve post-harvest processing capacity to increase throughput and reduce costs .

The research covered in this report has been in support of Objective 1 of the overall project.

The LFPP project has these partners: University of Wisconsin Extension, University of Minnesota Forever Green program, American Hazelnut Company, and Copy That of Ashland, Wisconsin.

RESEARCH TEAM

This study was conducted by a team of two: **Will Pipkin** (Lead Researcher) and **Lucas Phillips** (Research Assistant) both of Copy That, based in Ashland, Wisconsin. Will and Lucas were also backed-up by the rest of the staff at Copy That, which provides branding and marketing services, in addition to print and graphic design. **Craig Schowalter** of Business Plans Etc. has consulted with the team on methods, ethics, and content, and compiling comparables for this project.

Will Pipkin is a graphic designer, branding consultant, market researcher, and organization development specialist. Will has direct experience operating a food-based business (Big Flavor Foods, 2012-2013) and he has an active interest in hazelnuts. During the timeframe of this research project Will began clearing a field and has plans to plant hazelnuts there. While he has not previously conducted a similar market/consumer study Will's experience in food, research, branding, marketing, and program evaluation constitutes a tested and functional skill set for carrying out this kind of research.

Lucas Phillips is an experienced researcher, with marketing experience in several different fields.

Craig Schowalter is a very experienced market and consumer researcher. His 40+ years of experience date back to product development work for both General Mills and Pillsbury. As an independent planner and researcher with Business Plans, Etc. (BPE) Craig brings decades of experience in market and consumer research to this project. Over the past 36 years plans created by BPE have generated over $867 million in investments into businesses.

RESEARCH METHODS

This research project was conducted *independently*. The research team worked separately from other partner organizations involved in the wider LFPP project. The partners had no overt influence over the research timeline, resources gathered, analysis conducted, or recommendations formulated by the research team. The research team did provide the partners with an early draft summary to preview the direction and scope of the report. They also shared a draft of their industry analysis for their feedback in order to ensure accuracy (especially regarding the state of the Midwest hazelnut industry). Aside from these brief glimpses the partners were uninvolved in the research – other than being interviewed by the researchers to gather data.

The team surveyed hundreds of articles, studies, and books which were publicly available. They also worked directly with growers in plenary presentations and discussions of branding and marketing at the 2022 UMHDI hazelnut growers conference in La Crosse, Wisconsin.

CONFLICTS AND BIASES

The researchers declare that they have no conflicts of interest pertaining to this research.

Bias in research is inevitable, though the researchers have endeavored to acknowledge and self-police their biases. Lead Researcher Will Pipkin has long had an interest in Midwestern hazelnuts, and, as mentioned above, he has a long-running interest in growing them. He has had a professional relationship with Jason Fischbach, a key figure in the Midwestern hazelnut movement. This connection and Will's clear affection for hazelnuts could easily have an effect on all aspects of this research. The team managed this by constantly checking on Will's inherent biases. They also stayed focused on the intended primary beneficiaries of this work: the growers.

The researchers feel a certain amount of bias can be positive, as it can help motivate anyone conducting this kind of study. Thus, Will's aspiration to become a hazelnut grower has helped ensure that this research is thorough and focused on producing information useful to growers.

FINDINGS AND RECOMMENDATIONS

The findings and recommendations found in this report are strictly the opinions and suggestions of the researchers themselves and are based solely on the information gathered during the research.

The research team was challenged by its consultant Craig Schowalter to apply plenty of long-range thinking to both analysis and recommendations. He said stretching one's analysis that way helps reveal unexpected ideas and concerns. Specifically, he encouraged the research team to articulate some 20-year recommendations.

Written recommendations appear throughout the report. A complete compilation is on pages 31-32.

ACKNOWLEDGEMENTS

The researchers acknowledge and appreciate the contributions of others to their efforts. Craig Schowalter was generous with his insights and advice. Mark Babel and Daisy Perez of Copy That patiently supported the researchers, and Abi Fergus provided editorial assistance.

Industry and Market Analysis

The research team studied the nut industry overall and the hazelnut industry specifically in order to recommend branding and marketing strategies for Midwest hazelnuts. Understanding the global, national, and regional hazelnut industries provides a critical foundation for creating marketing and branding strategies.

STATE OF THE INDUSTRY GLOBALLY AND IN NORTH AMERICA

Nuts are a large consumer category and the industry which supplies nuts to the public is also very large. The exact size of the market isn't absolutely clear, as analysts provide widely varying figures on global sales. Moreover, some analysts combine tree nuts and peanuts, while others analyze nuts and fruits together, so teasing out the details is difficult.

Hazelnuts are classified as tree nuts, a nut category which does not include peanuts. In its report from 2019/2020, the International Nut and Dried Fruit Council (INC) assessed the size of the global tree nut market as 4.6 million tonnes for the year (see Figure 1 below). In terms of production, hazelnuts rank fifth, behind almonds, walnuts, cashews, and pistachios, but ahead of Brazil nuts, pecans, macadamia nuts, and pine nuts. Figure 1 displays data on global nut production. The researchers consider these data from INC to be a general, relevant, and useful overview, even though the numbers may not be exactly accurate.

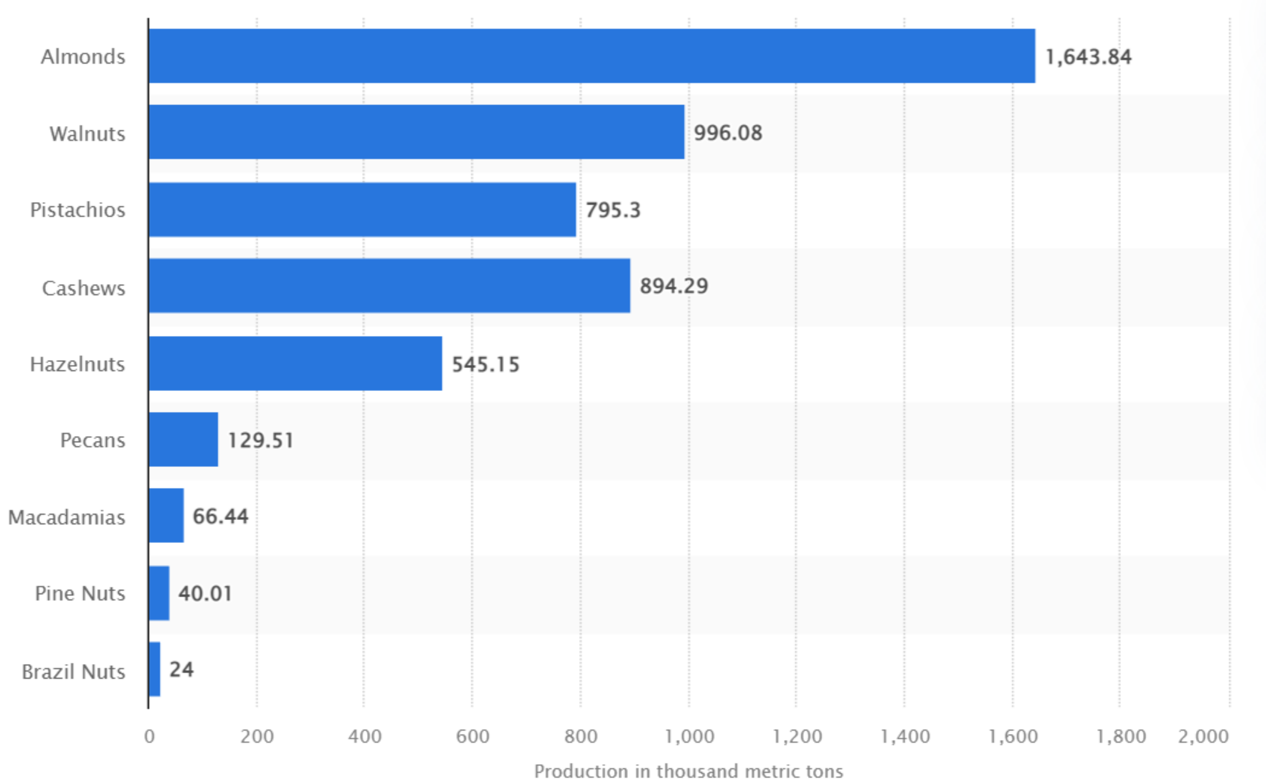

FIGURE 1 Global Production by Type of Nut

SOURCE OF GRAPHIC: Statista,
SOURCE OF DATA: International Nut & Dried Fruit Council

United Nations data indicates 1.1 million metric tonnes of in-shell hazelnuts are estimated to be produced annually around the world (Figure 2), which is twice what INC documents. UN data indicates global acres in production to be increasing more rapidly over the last eight years and the slower growth in acreage prior to 2015.

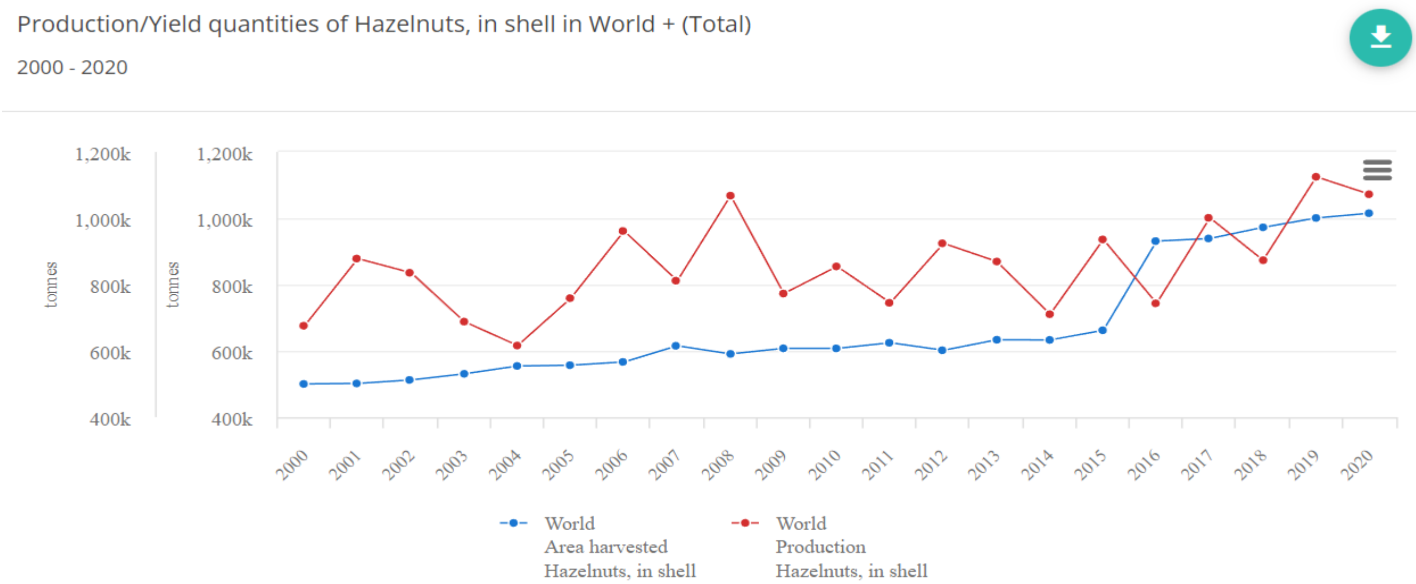

FIGURE 2 [UN Food and Agriculture Organization](#) (2020 data)

The hazelnut industry is well established in Europe, with the majority of hazelnuts grown in Turkey (approximately 75% of global production, according to the Agricultural Marketing Resource Center). In North America, an estimated 99% of hazelnuts are grown in Oregon's Willamette Valley, with much smaller amounts being grown commercially in Washington, Ontario, New York, and the Midwest. Arbor Day Research plantings also exist in New Jersey, but no meaningful commercialization appears to be starting yet. Rutgers

Canadian production has been given a boost by the involvement of Ferrero, the manufacturer of Nutella. In 2013, Ferrero signed an agreement to help boost the production of hazelnuts in Ontario with a goal of 11,000 tons of hazelnuts by 2023, using cultivars developed in Canada. Focus on Ferrero It is unclear if they are on track to meet this goal. Having a major investor involved in production, processing, and purchasing of hazelnuts will be an enormous boost to the Canadian hazelnut industry.

While the hazelnut industry is predicted to grow along with the increased consumer demand for all nuts, the crop is vulnerable to damage by disease, pests, climate change, and other environmental and economic forces. Eastern Filbert Blight (EFB) remains a concern, particularly in eastern North America and this has been a major hurdle to the growth of the industry in much of the country. Significant weather events such as drought and frost have impacted crop yields both in the US and Turkey in recent years, which have – and will continue to – impact hazelnut commodity prices.

The ongoing effects of the pandemic and political uncertainty overseas create market conditions which cause shifts in the value of agricultural products, which is typical of commodity markets. The recent release of per-pound pricing minimums by Oregon's Hazelnut Growers Bargaining Association shows a significantly decreased minimum price per pound compared to previous years.

The association attributes the shift to many factors including increased yields in 2021 and 2022, China's COVID lockdowns, and geopolitical issues – especially the crash of Turkey's currency driving down prices for Turkish-grown nuts.

International buyers have flocked to Turkish hazelnuts which are now available at globally-depressed prices. Oregon growers previously had been selling internationally, but now can only do so at depressed wholesale prices. As a result, growers in the US Northwest have very recently begun moving more Oregon nuts in North America via retailers and online outlets such as Amazon.

The researchers have anecdotally noted this shift even throughout the timeframe of doing this research. For example, Oregon-sourced hazelnuts recently began appearing in Trader Joe's stores with Trader Joe's branded packaging. They currently can be found on Amazon.com, two pounds for $16.75 (as of 11/28/22). The extremely basic packaging contains absolutely no information about hazelnuts – itself an indicator that the Trader Joe's venture is possibly an effort to quickly move surplus supply at prevailing retail prices. Moreover, a further examination of hazelnut packaging from the Northwest indicates that the industry in that region is, at this time, doing very little to create branding about hazelnuts which addresses any specific market segments. Packaging contains little technical information about hazelnuts, and little effort to foster consumers' connections to growers or to products. While all sellers the researchers studied have value-added entries in their product portfolios (especially chocolate covered hazelnuts) none appear to be pursuing premium pricing on any items. All of these developments are indicators that the hazelnut industry in the Northwest is only now beginning to move away from treating their crop as a commodity.

Analysts uniformly assert there is a rosy long term future for the hazelnut industry as a whole. The vast majority of market research supports that analysis, including that new acres will be planted. However, short term realities on the ground are often less rosy. Recent upheaval in the commodities market has created some slow-down in planting new acres. Some growers are even saying that if the market continues this way, they may turn existing hazelnut acreage over to other crops. Oregon Public Broadcasting Long-term forecasts don't sweat the short term bumps. This research team is inclined to believe the substantial consensus among market analysts.

STATE OF THE INDUSTRY IN THE MIDWEST

The work to build a hazelnut industry in the Midwest began in the 1990s. Badgersett Research Corporation and Forest Agriculture Enterprises, two private breeders, collected seed from their best hybrid plants, propagated seedlings from those seeds, and sold them to some early adopters. These plants had variable qualities, with some more successful than others. In 2007, the University of Wisconsin and University of Minnesota launched the Upper Midwest Hazelnut Development Initiative (UMHDI). The Initiative partners conduct germplasm research and development, and conduct outreach to farmers to whom they provide education, training, and consultation to farmers. UMHDI also facilitates development of the industry – its infrastructure, products, and markets. The Initiative also hosts an annual conference for growers and enthusiasts. The conference location rotates between Wisconsin, Minnesota and Iowa. UMHDI is funded primarily by grants.

A major achievement of the UMHDI has been the development of a unique hazelnut hybrid which is based on DNA from European, Beaked, and native hazelnuts (Corylus americana). Roughly ten genotypes have been developed, which the UMHDI refers to as its *first generation selections*. Five of these hybridized selections will soon be released to growers. The exact timeline is not yet known. The UMHDI is currently creating a name for the series, and names for each of the five cultivars in the series. Research on second-generation hybrids is underway, but those cultivars are still 5-10 years away from being commercially available as seedlings.

The Midwest hazelnut industry is quite small, though it continues to grow. There is scant reliable regional data on the number of growers, total acres in production, total acres planted (but not yet producing), or pounds of kernels produced annually. The UMHDI says it has identified 130 Midwestern growers with 135 planted acres, though the data is acknowledged to be incomplete. That information, however, does indicate that there are plenty of very-small-scale growers, many of whom are hobbyists and presumably have no aspirations to become commercial growers. There is one hazelnut company in the Midwest, the American Hazelnut Company (AHC)[1] which aggregates nuts harvested by its growers, and markets them online, in retail stores, and at farmer's markets. According to the company, they currently have 26 member-growers in Minnesota, Iowa, Illinois, and Wisconsin. AHC does not have information on the number of acres planted or in production among its members, though in recent years annual yields have been between 900 and 1,500 pounds of kernels,[2] including 2022. Of the AHC kernels produced in 2021, roughly 20 percent were ground into flour and separated into oil, around 30 percent were processed into Hazelnut Snackers, and about 50 percent were packaged for sale as plain kernels which are lightly roasted. Figure 3 shows AHC's product line with its online pricing. Retail and wholesale pricing differ.

PRODUCT	Kernel Source	Product Size	Product Price
Gluten Free Hazelnut Flour	10% Midwest 90% Oregon kernels	16 oz package	$16.00
Hazelnut Oil	10% Midwest 90% Oregon kernels	2 bottles @ 8 oz each	$18.00
Lightly Roasted Hazelnuts	100% Midwest kernels	8 oz package	$14.00
		16 oz package	$20.00
Hazelnut Snackers Simply Salted / Spicy Maple / Roasted Rosemary	100% Midwest kernels	3 oz package	$6.00
Chef Pack Hazelnut Oil / Hazelnut Flour	10% Midwest 90% Oregon kernels	oil: one 8 oz bottle flour: one 16 oz pkg	$29.00
Snack Pack Hazelnut Oil / Lightly Roasted Hazelnuts	oil: 10% Midwest nuts: 100% Midwest	oil: one 8 oz bottle nuts: one 16 oz pkg	$32.50

FIGURE 3 American Hazelnut Company products and online pricing

AHC's hazelnut flour and hazelnut oil contains 10% Midwest kernels. The remaining 90 percent of the kernels used to make these products are Oregon-grown kernels purchased wholesale by AHC.

[1] The American Hazelnut Company (AHC) is a partner in the larger branding and marketing project to which this study is connected. This study, however, was conducted completely separately from AHC. The company and the other institutional partners have had no direct involvement in this research, nor in the analysis of data, nor in the formulation of recommendations.

[2] These figures are for kernels, while the global production figures quoted above are for in-shell nuts. European kernels are roughly 45% of in-shell weights, and Midwestern kernels are about 30% of in-shell weight.

CHALLENGES TO DEVELOPMENT OF MIDWEST INDUSTRY

Efforts to grow the hazelnut industry in the Midwest are ongoing. UMHDI continues to reach out to potential growers with twice-yearly informational field days, though the pace of adding new growers is unsteady. Midwestern hazelnut advocates report that technical challenges around harvesting and processing have been largely solved in recent years. The largest hurdle facing the Midwest hazelnut industry is efficient and economic propagation of planting stock.

Experimentation by nurseries with propagation methods has recently made progress; several methods are being evaluated. Researchers anticipate solving the propagation puzzle by spring of 2023. Existing growers and potential growers report being anxious for a more plentiful supply of healthy seedlings, which promises to lead to more acres being planted as soon as propagation is in full swing, though there are no predictions of how many new acres may be planted in 2023 as a result. Infrastructure developments are key to continuing to grow the industry within the region.

Large scale growers have not yet set up shop in the Midwest. The largest known plantings of hybridized hazelnuts in the Midwest on a single farm are under ten acres. Current growers are anxious about the potential of large-scale plantings of hundreds or thousands of acres by deep-pocketed corporate farmers and are tremendously concerned about how that may affect the regional industry. That will certainly not happen until propagation techniques are perfected and may not happen until second generation cultivar development is further along.

Consumer Analysis

PURCHASING INFORMATION ABOUT NUTS AND HAZELNUTS

<u>*NUT PURCHASING*</u>

Nuts are a popular food category. Many people purchase and enjoy nuts. According to government research, those who buy nuts spend, on average, $58.45 a year on nuts and products which include nuts. Older people buy more nuts as do wealthier people. Figure 4 shows data from the 2016 Consumer Expenditures Survey (CES), conducted by the Bureau of Labor Statistics, which illustrates who buys nuts and how much they buy, calculated by both age and income.
[Also find similar information about oils in the appendix, on page 33.]

SPENDING BY **AGE**		
AGE RANGES	ANNUAL HOUSEHOLD SPENDING	% OF THE AVERAGE
<25 years	$15.68	27%
25-34	$41.84	72%
35-44	$49.54	85%
45-54	$71.93	123%
55-64	$83.73	143%
65-74	$66.46	114%
<75	$47.56	81%

SPENDING BY **INCOME**		
INCOME RANGES	ANNUAL HOUSEHOLD SPENDING	% OF THE AVERAGE
< $20K	$29.16	50%
$20K+	$42.06	72%
$40K+	$48.49	83%
$50K+	$52.16	89%
$70K+	$62.25	100%
$80K+	$80.98	139%
$100K+	$102.79	176%

SOURCE Consumer Expenditures Survey, US Bureau of Labor Statistics, 2016

FIGURE 4 Nut Consumption in the United States by Age and by Income

A wide variety of dietary guidelines encourage people to eat nuts, including the USDA's MyPlate Dietary Guidelines:

> In regard to nuts in general, mentions in the 2020-2025 [USDA MyPlate] Dietary Guidelines are relatively consistent with previous recommendations. Nuts are included in the protein and oil categories and listed as examples within these core elements that make up a healthy dietary pattern. **Nuts are recommended as part of all three dietary patterns included in the guidelines: Healthy U.S.-Style, Mediterranean-Style, and Vegetarian-Style.**
>
> 2020-2025 Dietary Guidelines for Americans, walnut.org

Almost everyone eats nuts, with roughly 40% of the population consuming nuts daily (CDC), most often in the form of nut spreads (peanut butter, or similar). Of course there are exceptions. Some people don't eat them due to preference and taste. And nut allergies are somewhat common and can be life threatening. Estimates vary about the prevalence of tree nut allergies, though according to the Molecular Allergology User Guide 7.3% of people in the USA are allergic to hazelnuts.

Nuts appear in a wide range of products: granolas, cereals, cakes, cookies, coatings, pastries, ice cream, trail mixes, gorp, breads, energy bars, candies, veggie burgers, and many ethnic foods. Hazelnuts are commonly found in spreads, especially with chocolate, namely the popular *Nutella* product. Nutella is the most widely-known and consumed hazelnut-based product in the USA.

Beyond who consumes nuts, the researchers were interested in who makes purchasing decisions about nuts. Figure 4 (above) shows aggregate information by age and income. The researchers do not have specific information about nut purchasing habits by gender. However, FONA points out that women make a whopping 93% of food purchases and the researchers assume that is largely true of nuts as well.

Snacking is one of the main drivers of nut consumption. Everyone snacks: men and women, children, all incomes, all races, all parts of the country. (Mondelez) Several analysts stress the explosive nature of the snacking market and the ways nuts are part of that growth. Many purchasing decisions about snacks are impulse buys, or are made separately from regular household grocery shopping, and thus may somewhat diminish the buying leverage of female shoppers representing households.

Market analysts agree that nut consumption is expected to grow over the foreseeable future. The best proof of this belief can be found in their rosy financial analysis for the nut industry.

When financial analysts calculate how much a long term investment might return they typically calculate the compound annual growth rate (CAGR). Expressed as a percentage, the CAGR is the "rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span." Investopedia Any CAGR calculation is predicated on an analyst's assumptions about how things will be in the future. Many factors are considered: where supply and demand might be, possible advancements in production, expected volatility, labor supply, changes in costs, etc. The calculation portrays possible annual financial yields over time, but ignores inevitable short term risks and volatility.

Nuts have an especially secure future, according to market analysts. They almost uniformly predict large growth for the nut industry; CAGRs for nuts are high: 6.1 percent (Globe Newswire), 7.09 percent (Marketwatch), and 11.1 percent (Innova Market Insights). These few samples reflect the spread of CAGR predictions for nuts, lowest to highest found by the researchers. By comparison, here are some average CAGRs for other food categories: fresh fruit - 5.53% (Statista); potato chips

- 4.40% (EIN News); and breakfast cereal - 7.4% (MarketWatch). In the food world nuts have a reputation as a very steady industry.

CAGRs for hazelnuts are similarly high. There is a range for them as well - 5% (EIN); 8.1% (Marketwatch); 8.9%t (Globe Newswire); and 10.35% (Prophecy).

These predictions bode very well for nut producers. Demand is virtually guaranteed, leaving these as the main “unknowns” for anyone selling hazelnuts: product development, pricing, marketing, and branding. The researchers believe the promise of demand-over-supply dynamics is a critical opportunity for the development of the Midwestern hazelnut industry.

HAZELNUT PURCHASING

The research team was unable to locate detailed publicly-available data on hazelnut sales at either a global or national scale. However, in 2020 global production was 1.1 million tonnes, generating US$4.58 billion in gross sales in 2021 (Technavio). This information is too general to be useful for analyzing global or national sales.

There is no industry-wide data on sales in the Midwest, though, the sole corporate purveyor of Midwest hazelnuts, the American Hazelnut Company, does have production and sales figures. While that information is proprietary the AHC routinely sells all of its aggregated supply, and remains eager for additional in-shell nuts to be supplied by its members. The AHC reports robust sales growth which has been exceeding budgets. Its 2021 sales were 50% more than in 2020, and 2022 sales were more than doubled over 2021. The AHC credits improved sales at least somewhat to having hired a capable part-time staffer working on marketing.

There are a number of unknown growers. Their production and sales information is also unknown. Thus, information about Midwest sales of hazelnuts is limited to AHC data.

CONSUMER KNOWLEDGE ABOUT NUTS AND HAZELNUTS

NUT KNOWLEDGE

Most people believe nuts are healthy to eat and around 40% of Americans eat nuts on any given day. (Washington Post) However, old myths die hard. Many people still believe nuts are fattening. This is based on earlier misinformation that eating fat leads to gaining fat, though, in actuality sugar and carbohydrates are the fattening foods. Despite the widespread dissemination of nutrition guidelines, since that time, which say nuts are part of a healthy diet, some people still avoid nuts due to concerns about weight.

HAZELNUT KNOWLEDGE

No publicly-available data was found which details what people know and do not know about hazelnuts. Following the consumer, market, and industry analysis stage of the LFPP hazelnut project – the culmination of which is this report – the researchers will begin gathering information on what Midwestern consumers know about hazelnuts. At the same time, messaging will be tested to see what ways of pitching hazelnuts to consumers work best. During that work information through multiple focus groups and through online surveys.

RECOMMENDATION 1: ASSESS CONSUMERS' HAZELNUT KNOWLEDGE

near-term: 2023-2027

Additional consumer research should seek answers to a range of questions about Midwestern consumers' knowledge about hazelnuts:

- Do people in the Midwest know what hazelnuts are? Who has that knowledge?
- Who has eaten hazelnuts before? Which products?
- What do people know about hazelnuts?
- Who knows that hazelnuts are grown in the Midwest?
- What are people's opinions about hazelnuts?
- How much would people pay for different hazelnut products?
- Do people know where hazelnuts are grown?
- When people learn more about hazelnuts does that:
    a) change their opinion of hazelnuts?
    b) change how much they are willing to pay for hazelnut products?
- Who is aware of hazelnut oil?
- Who is aware of hazelnut flour?

MARKET SEGMENTATION

This study has focused on seeking an understanding of industries, consumers, and markets – for nuts in general and hazelnuts specifically. The research team has been particularly curious about consumers and what may motivate them to pay higher prices for hazelnuts. Which segment of the market may be most ready to pay more? This is what marketers call a *market segment*.

Segmenting markets is simply a way of slicing up potential customers into different groupings. Different groups have divergent needs, habits, and interests. There are different ways to communicate with them – different messages, different media, different designs. Segmentation is a very flexible tool. One could segment on the basis of just one factor such as age, income, marital status, or location. But by mixing factors, one can target more specific groupings of consumers. The most common types of segmentation are:

- **Demographic:** age, years of education, income, family size, gender, race, marital status
- **Geographic:** rural/urban, climate, radius, neighborhood, nearby resources and amenities
- **Psychographic:** activities, interests and opinions, personality, attitudes, values
- **Behavioral:** purchasing history, usage habits, brand loyalty, purchase reasoning

Library of Congress Research Guides, Doing Consumer Research: A Resource Guide, MARKET SEGMENTATION

There are no "standard" segmentations. Every marketing effort creates its own segmentation which depends on the product and what is known about how the product sells. Marketers make predictions about which consumers to target and about what marketing, sales, and pricing strategies will best reach those particular kinds of customers. Many segmentations are centered on demographic characteristics and sometimes products are developed with market segments in mind. There's two kinds of electric razors: razors made for men and marketed to men and razors made for women and marketed to women. Companies making children's toys market them to two age groups: the children themselves and the adults who make most toy purchases. Sometimes a segmentation is simple: people who live west of Main Street. Other times segmentation is complex: people over 40 in Pittsburgh with high income who love old television shows and eat out more than once a week. Segmentation is the tool used by marketers to figure out who the most likely customer is. From there they figure out where those consumers shop, how they make purchasing decisions, and (primarily), what are the best ways to market to that group, which is commonly known as the *target audience*.

The researchers considered a range of demographic, psychographic, and behavioral segmentations. Geographic segmentation is presumed; that is, the Midwest is the region where Midwest hazelnuts will be sold, at least for the foreseeable future. There is not enough supply now or in the near future to warrant selling Midwest hazelnuts in other areas of the country. The researchers thus saw no value in more detailed geographic segmentation, at least during this nascent phase of the Midwest hazelnut industry. In the future, there may be value in distinguishing between urban, rural, and suburban consumers within the Midwest.

THREE PRIME SEGMENTATIONS

Several segmentations were considered by the researchers for continued study, including women with children, young snackers, older snackers, food co-op members, farmer's market shoppers, people with gluten allergies, people with athletic lifestyles, people who dine out frequently, and heart-healthy eaters. While all of these segments are likely to be at least somewhat responsive to Midwestern hazelnuts, the researchers believe three key segmentations are the most relevant for direct research into how best to market Midwest hazelnuts:

RECOMMENDATION 2: INITIAL MARKET SEGMENTATION

near-term: 2023-2027

Additional consumer research should **focus on three market segments during the early stages of development of the Midwest hazelnut industry:**

- **LOHAS** – lifestyles of health and sustainability (page 15)
- **Local** – preference for locally-sourced products (page 18)
- **Millennials** – born 1981-1996 (page 19)

RECOMMENDATION 3: STUDY INITIAL MARKET SEGMENTATION

near-term: 2023-2027

Over the next five years, producers should gather evidence to prove whether or not the chosen segments remain relevant. Sellers should gather these kinds of data:

- Sales
- Sales by customer (where possible)
- Customers' reactions to products (reviews and comments at farmers' markets and in-store sampling events)
- Demographic data of customers, especially:

    a) their "LOHAS quotient"
    b) their "local quotient"

RECOMMENDATION 4: REVISE THE MARKET SEGMENTATION

medium-term: 2028-2034 and long-term: 2035-2042

Evaluation of segmentation choices should be ongoing and should continue through the entire period of early industry development. It is important that segmentation keep up with developments in production, product development, and supply/demand dynamics.

After roughly five years, the Midwest hazelnut industry should undertake a fresh study of segmentation options. While the researchers are confident that the three proposed prime segmentations will be relevant for at least ten years, it is recommended that they be evaluated in five to seven years to verify their value, and re-set, if necessary.

Another segmentation study should be conducted in 12 to 15 years (2035-2042). After each study the mix of targeted segmentations will be reset.

LOHAS SEGMENT

The widely-studied group of "LOHAS" consumers (lifestyles of health and sustainability) are people who make many purchasing decisions based on their perceptions of the ecological sustainability of a product, the product's contribution to healthy living, or both. The term LOHAS was coined in 2000 by Paul Ray, an American sociologist, in his book "The Cultural Creatives". Allianz

Ray recognized growing concerns about sustainability and about personal health and healthy living. He defined the group from a sociological perspective. Marketers and analysts then applied his theories to market segmentation and they have utilized the LOHAS segmentation concept for many years. Thus, a great deal is known about who these consumers are and how best to reach them.

The LOHAS segment is psychographic. It is defined by the attitudes, beliefs, and values of these consumers. A substantial number of consumers who care about health and/or sustainability are making shopping decisions guided by those concerns. They make health-oriented consumer choices and lifestyle choices. They want to know not just that a product will be good for them; they want to know ***how*** it is going to be good for them. They look carefully at products in order to assess whether or not they are environmentally clean, sustainably produced, and contributing to a fair economy. They are looking at how products are made, where they come from, and who made them. As shoppers, they are led by their values and by their judgements about what's good for them, what is good for their community, and what they believe is good for the world.

The LOHAS segment is also defined by the interests and activities of these consumers. Peoples' concern about health leads directly to many of them being physically active. Thus, these consumers are engaged in a wide variety of recreational activities, which means they tend to snack more due to having a more physically active and on-the-go lifestyle. *Health-conscious* consumers also make careful decisions about what foods they eat; they want to know all about what they're eating, where it comes from, and who made it. On the other hand, *sustainability-conscious* consumers are very interested in local products, especially locally-produced foods and organically-grown foods, and like their health-conscious counterparts they want to know where the food was grown, who grew it, and how it was grown. Health concerns and sustainability concerns often lead to these kinds of overlapping psychographic motivations.

The LOHAS segment is not based on demographics. In fact, LOHAS consumers are found across every demographic category: age, gender, race, location, education, and class. This segment has built-in diversity. Like any segment there is a rainbow of individual differences among the consumers in this category. Some are more concerned with health benefits and others more concerned about sustainability. Some are foodies. Some are exercise fanatics. Some are seriously committed to a healthy lifestyle choice and others have commitments which are more casual and intermittent. And in some cases lifestyle goals are simply aspirational. Regardless of how committed they are, they're all making values-based consumer choices.

There is one key demographic factor. LOHAS consumers tend to have higher education levels than other market segments. Natural Marketing Institute The higher education level of LOHAS consumers is in line with their desire for more information about the products that they spend money on – particularly those where they intentionally purchase more sustainable products. As the Natural Marketing Institute notes in their LOHAS report:

> "The sources of influence in food and beverage purchasing are different for LOHAS compared to the general population. While LOHAS consumers' top two influences are still package labels and friends/relatives, the absolute percent of mentions is significantly higher. In fact, the proportion of mentions for all measures is higher, indicative of LOHAS consumers utilizing multiple sources of validation. …LOHAS consumers are information junkies who seek a vast array and quantity of information. The impact of the Internet is notably stronger for LOHAS than the general population. Within this "self-discovery" medium, the detailed background and product information provided on Web sites can appeal to LOHAS targets. This also allows information to be available only to those consumers who seek it out, unlike traditional mass advertising. Furthermore, LOHAS are clearly more influenced by government agencies and advocacy groups than is the general population, suggesting third-party claims would be a successful marketing approach for this group." (Natural Marketing Institute, pg 148)

The importance of the LOHAS segment cannot be ignored. The segment is large and growing. The Natural Marketing Institute says the segment grew one percent a year between 2005 and 2007 – from 17 percent to 19 percent. According to Cognizant the segment is now believed to comprise over a third of the US population. By all accounts, the COVID pandemic has facilitated continued growth, and the growth rate appears to be accelerating due to several factors:

- growing concerns around health and wellbeing,
- escalating concerns about climate change,
- disenchantment with global food systems, and
- a general increase in interest in localism.

Analysts agree that the people in this market segment are prime innovators needed to help new products break into the marketplace. (Natural Marketing Institute)

LOHAS consumers are especially well-suited to hazelnut marketing pitches. They are thirsty for information in a world where there's an information void regarding hazelnuts in general and Midwest hazelnuts in particular. These consumers are likely very ready to learn. LOHAS-oriented consumers who care about health are likely to be persuaded to buy and eat more hazelnuts once they learn about the nuts' health benefits. They care about sustainability and hazelnuts provide extensive environmental services, are drought tolerant, and are a significant addition to locally-grown food products.

LOHAS consumers crave information about the things they care about. They will not be moved by vague claims of "healthy" or "natural". Instead, they want specific details which help them determine if a product meets their personal standards. This dramatically raises the importance of consumer education. LOHAS consumers tend to be highly educated and are inclined to seek out information regarding products that they purchase. Honest, concrete information will be important for effectively communicating with this market segment.

RECOMMENDATION 5: FOCUS MARKETING STRATEGY PRIMARILY ON LOHAS CONSUMERS

near-term: 2023-2027 – medium-term: 2028-2034

Midwest growers, for at least the next five years, and likely for the next 12 years, should pursue these kinds of tactics for greater appeal to LOHAS consumers**.** These tactics should be employed in a range of media: packaging, website, online marketing, social media, blogs, promotional videos, stories in retailers' newsletters, in-store signage, shelf teasers, fliers, rack cards, etc.

- **Focus on Health and Sustainability** – Highlight things about Midwest hazelnuts which will appeal to people who lead lives of health and sustainability. Point to studies and statistics which substantiate the qualities worth promoting.
- **Tell Your Story** – Share the story of your unique product and growing industry. [Also see Recommendation 15 on page 29.]
- **Sell Differentiation** – Explain how your product is different from what competitors offer. [Also see Recommendations 6, 7, and 8 on page 21.]
- **On-package Information** – On the BACK of packages, share details about benefits and value of Midwest hazelnuts, and tell your story. [Also see recommendation 15 on page 29.] On the FRONT of packages, add simple images and words which make consumers pick up the package and then turn it around to read more. Once it is available, include the official Midwest hazelnut icon.
- **In-store Information** – Highlight key health and sustainability benefits on shelf teasers, fliers, posters, in-store newsletters.
- **Pursue Earned Media** – Get bloggers and influencers to write about and create media stories about your product, people, and industry. Let them tell your story for free. More mentions and more information will attract and keep LOHAS consumers.
- **Keep a Strong Digital Footprint** – Operate boldly in the digital realm. Gather customer data from online purchases. Use QR codes to provide digital channels for customers' curiosity. Keep websites and social media up-to-date. Use them to promote growers, localism, health benefits, and ecological benefits. LOHAS consumers will find and use this information.

  Please note that in Recommendations 3 and 4 segmentation is tagged for ongoing evaluation and complete reviews in 5-6 years and in 12-15 years.

LOHAS consumers are keen on doing their own research to find products they view as healthy and/or ethically/sustainably produced. They are motivated by authenticity, and are likely to see through any attempts at "greenwashing" products. Third-party certifications of claims about health or sustainability – such as being a B Corporation, joining other sustainability related programs, or independent laboratory analysis – help communicate a company's commitment to its principles. The LOHAS consumers most ardently committed to principles of sustainability and healthy living may find vague claims – such as "natural", "fresh", or "real", for example – to lack credibility.

Technical and functional differences of the Midwest nut from other nuts could be a key driver in product development, marketing, and branding. However, those differences must be documented to have credibility with this segment of consumers.

Differentiation is a key marketing strategy discussed below which has implications for marketing Midwestern hazelnuts to LOHAS consumers. Product differences are important to this group so long as those differences are real and have substance to either health or sustainability, or both.

Similarly, the role of the crop in fighting climate change will also be important to LOHAS customers. A number of Midwest hazelnut advocates tout the ecological services provided by Midwestern hazelnuts. Before making such claims to LOHAS consumers the details of ecological services – and especially the differences between Midwestern hazelnuts and their counterparts – should be well-studied (if they aren't already), with proof readily available for consumers to discover.

The concept of a LOHAS type of consumer, and the term itself are only recently beginning to become more widely recognized by the public in the US, despite both sustainability and healthy living becoming a growing priority for more and more consumers. The term appears to be more widely recognized by the public in Asia and Europe. Public awareness of the concept or term does not enhance or diminish the importance or power of the segment.

LOCAL SEGMENT

Another psychographic market segment is people who seek out local products. Concern about local sourcing has been on the rise for at least twenty years and is one manifestation of a localism movement of people and institutions seeking alternative economic models to globalism.

> At a general level, localism is a growing international trend focusing on re-establishing communities and protecting and rebuilding local economies (Hines 2013). It is about encouraging local livelihood through local production and consumption, and promotion of local identity. Localism can be considered a counter-movement to globalization which has had economic, political, social, and ecological implications.
>
> Lin M. Dybdal, Business Model Innovation for Sustainability Through Localism, 2019

Many people care about localism to the point that they prefer to buy locally-made products. A simple web search will reveal a large number of studies which contend that 50 percent to 75 percent of consumers prefer to buy local to some extent. Intuit, the accounting services company, reports the trend is growing in its article, "Buying Local Statistics for 2021: Survey Finds 70% of Americans Shop Small." Still, global and national brands continue to dominate the marketplace. Presumably, much of the pro-local sentiment may simply be sentiment. It is likely that not all of that sentiment has been activated into actually buying local. Some of the sentiment may not be able to be turned into action because local options aren't available. And some of the sentiment is likely to be aspirational – they like the idea but don't shop that way all the time.

Many writings on localism refer to it as a movement and a rejection of globalism. The movement has political, social, and economic aspects. By all accounts, it remains a growing trend.

For those who are truly motivated by localism there are a range of concerns:

- ecological health
- environmental sustainability

- local economics
- geographic allegiance
- freshness of foods
- opposition to global supply chains
- nurturing their home community

These consumers want to feel connected to their area, their community, and to local businesses. They take action through their purchases, actions which they believe are in service to their values or beliefs.

According to ZypMedia, most locally-oriented consumers believe spending money at local businesses helps the *community* (84 percent) and they believe doing so helps the local *economy* (54 percent). In the 2011 study, "Consumer Preference For Locally Grown Produce: An Analysis Of Willingness-To-Pay And Geographic Scale," researchers found that when producers are closer, customers are willing to pay higher prices.

So strong is the trend of localism that large multinational corporations are using "multi-localism" strategies to better connect to markets at the local level – from Nike developing city-specific shoes to fast food restaurants adding locally-inspired foods to their menus. Kearney's Global Business Policy Council reports that 89 percent of companies are pursuing or considering adding localization strategies to their business model.

The vast majority of analysts point to food as the most developed part of consumers' desire for local products. The growth of the local foods movement in the US has been reflected in the development of farmer's markets and CSAs (community supported agriculture farms operating on a subscription basis). While the quantity of farmer's markets has remained steady since around 2011 (USDA ERS), and the development of CSAs has slowed, the overall interest in local foods has not diminished.

Because Midwest hazelnuts are specific to the region, the research team believes they are an especially good target for branding and marketing which is focused on the Midwest and addressed specifically to consumers who themselves are locally-focused.

MILLENNIAL SEGMENT

The research team proposes millennials, the people coming of age at the beginning of the new millennium, as the lone demographic segment warranting further study. This generation is generally defined as people who were born between 1981 and 1996, now aged 28 to 42. According to Goldman Sachs, they are the largest generational cohort in US history – with 92 million members – and a prime market segment.

Despite being a large, diverse generation, there are some noted trends in millennial consumer habits.

- Millennials are the first generation of digital natives. They are a tech-savvy generation which is globally connected via social media.
- Millennials prefer to shop with companies which align with their values.
- They are heavy snackers and are generally regarded as having a strong interest in hazelnuts. (PR Newswire)

HubSpot notes that millennials' top two ways of discovering new products are via social media and web search. These consumers favor Facebook and Instagram when it comes to social media sites, and having a strong brand presence on these sites is crucial to build trust and interest in products among this group. Millennials heavily favor using their phone to search and shop online, highlighting the importance of having mobile-friendly ways to reach these consumers.

According to snack giant Mondelez in their *State of Snacking Report*, more than half of global consumers (55%) say social media has inspired them to try a new snack in the past year, including even greater majorities of Gen Zs (70%) and millennials (71%). Substituting snacks for meals has been a global trend that has accelerated during the course of the COVID pandemic, with Mondelez reporting that 64% of consumers have replaced a meal with a snack, with higher adoption among younger generations (Gen Zs: 75% and millennials: 69%).

Millennials increasingly expect companies to take a stand with social issues – with 41% of millennials wanting companies to do so, and 39% of those list climate change as an area of priority. HubSpot This is an example of the overlap between LOHAS and millennial consumers, a number of which are members of both market segments.

While millennials face financial challenges, they are still a prime target for premiumization (discussed in more detail below), as they are willing to "pay more to get more" – both in terms of perceived benefits for themselves (health, appearance, self care) and perceived benefits for the world (sustainability). IRI reports that a key way to attract millennial consumers is by promoting the "experience" of products – particularly of premium products – in order to differentiate from similar products.

All of these characteristics make millennials a prime target for marketing Midwest hazelnuts.

Branding and Marketing Strategies

The following marketing and branding strategies will, the researchers believe, be important to getting the best pricing when selling Midwest hazelnuts during establishment of the industry.

DIFFERENTIATION

Distinguishing the Midwestern hazelnut from other hazelnuts will likely be very important to all three targeted segmentations. A product's background information is more important to consumers in the targeted segments (LOHAS, local, and millennial) than it is to other kinds of consumers.

The researchers find that there are three areas to consider for differentiation:

- Technical and functional differences
- Kernel size
- Ecological services and locally-grown

Technical and functional differences could be found in several areas: **nutrition** (carbohydrates, proteins, fats, vitamins, minerals, dietary fiber); **flavor** of the kernels and bitterness of the skins; and the **smoke point** of oil. There are likely to be additional factors worth considering. [See recommendation #6 below.]

RECOMMENDATION 6: STUDY TECHNICAL AND FUNCTIONAL DIFFERENCES: MIDWEST VS. OTHERS

near-term: 2023-2027

Midwest hazelnut advocates should, very soon, take steps to study the qualities of Midwestern nuts vs. commercially-grown nuts from Europe and Oregon. These studies should thoroughly evaluate the **functional** and **technical** properties of each one so that comparisons can be made. Advocates should begin by gathering expert advice about what tests to conduct and which properties to evaluate.

The size of kernels is an obvious area of difference. Midwestern hybrids produce kernels which are smaller than their counterparts. This difference presents a marketing and branding challenge. Given the prevailing cultural values about foods and other products in the USA – namely that *bigger is better*, any messaging about size will have to turn conventional thinking upside down. If size difference is to be promoted to consumers it will have to be with a pitch based on the idea that *smaller is better*. The researchers are not yet convinced that this difference can be turned into a selling point, but do believe it should be investigated, likely during the focus group stage.

RECOMMENDATION 7: CONSIDER A SMALLER-IS-BETTER PITCH

near-term: 2023-2027

When additional research is done on which messages work with which customers that research should explore the idea of promoting Midwestern hazelnuts with a smaller-is-better message. While this approach may not win in the long run, or may not be necessary, it should be tested.

Another technical or functional difference will likely be found in the area of ecological services. Many advocates of Midwestern hazelnuts tout the ecological services of the crop: water infiltration and drought resistance, carbon sequestration, and support for wildlife and biodiversity, among others. These differences will be very important to LOHAS consumers, as sustainability is front-of-mind for most of them. Yet, like any other claim these notions about Midwestern hazelnuts must be documented in order to have credibility with this discerning market segment.

So long as Midwestern hazelnuts are marketed only within the region one obvious ecological difference from hazelnuts grown elsewhere will be the carbon footprint. The energy it takes to process and transport Midwestern hazelnuts to market will be a small fraction of what it takes to process and ship hazelnuts from Turkey, Italy, or Oregon. Messages about this are likely to resonate with core consumers from all of the target segments.

RECOMMENDATION 8: DOCUMENT ECOLOGICAL SERVICES

near-term: 2023-2027

Midwest hazelnut advocates should document the various ecological services provided by Midwestern hazelnuts, and compare that information to what is known about other types of hazelnuts and the growing practices in other parts of the world. All claims about various ecological services should be verified by authorities independent from growers.

RECOMMENDATION 9: *PROMOTE ECOLOGICAL DIFFERENCES*

near-term: 2023-2027

Creating graphics which illustrate the differences in plants and growing systems should be considered. Once claims about ecological differences between the Midwest system and other systems can be confirmed, these should be promoted as much as possible to differentiate from other hazelnuts and other less environmentally friendly nut products.

GEOGRAPHIC AGRICULTURE BRANDING

Midwestern hazelnut growers have been considering branding their crop as a unique agricultural product. This would be similar to popularly known branding for products such as Florida orange juice, California almonds, or Wisconsin dairy. The researchers explored related branding strategies in order to better understand the opportunity for that kind of marketing for Midwest hazelnuts.

The term *ingredient branding* usually refers to component parts inside of another product. Examples of this are: *Intel Inside*™ computer chips in computers; Shimano brand gearing in bicycles; and Teflon™ material in a wide range of products.

The term *place branding* typically refers to branding a specific state, region, or community. Examples include “Water Park Capital of the World” for Wisconsin Dells, the iconic “I 💗NY” for New York State, and “Open For Happiness” for people headed to Fiji. Graphic representations are common for place branding. In the case of place branding for food products, there are typically graphic icons to use on packaging which notify consumers that the product has a provenance: that the location of production matters.

Place branding around foods is widespread. Almost all US states have some kind of effort to promote agriculture and food products in their state. This is a form of place branding – creating promotional materials and messages (mainly online) which help consumers find and understand products which are unique to one place.

Most ingredient branding and place branding efforts are not directly comparable to the situation of Midwest hazelnuts. The researchers have not found a standing term to describe the process combining both forms of branding: a specific type of agricultural product (hazelnuts) from a specific place (the Midwest). The research team proposes that this be called *geographic agricultural branding* or *geo-ag branding*.

A geo-ag branding strategy has several advantages for Midwest hazelnuts. A specific brand should address all aspects of a well-constructed brand:

- Market
- Brand Identity
- Brand Story
- Brand Value
- Brand Promise
- Brand Strategy
- Brand Messages
- The Look

An illustrated overview of branding is found in the appendices, on page 42.

The researchers make recommendations below regarding creating and maintaining a **brand plan** for Midwest hazelnuts which addresses all of these elements of a brand.

Assuming geo-ag branding of Midwest hazelnuts emphasizes the Midwest provenance of the product, such a brand could be a constructive vehicle which could be used to accomplish things like:

- Set standards for how Midwest hazelnuts are grown
- Help bring growers together with increased cooperation and collaboration
- Provide a structure for collective promotion of the crop
- Provide a vehicle for differentiating Midwest hazelnuts from other hazelnuts
- Educate consumers about the crop
- Facilitate industry development
- Tell the story of Midwest hazelnuts

The research team led discussion of this strategy at the 2022 Midwest Hazelnut Growers Conference in LaCrosse, Wisconsin.[3] There was widespread support for this strategy and near-consensus that it should be pursued. All stakeholders understood that the brand look would contain more than one graphic asset: a full-format **presiding logo** used in all communications and a small-format **packaging icon** to be used on all packaging. The icon would quickly show consumers that the Midwestern hazelnuts in a particular product are indeed certified as the genuine article.

Those discussions by growers and enthusiasts revealed some of the challenges of geo-ag branding Midwest hazelnuts:

- A unified brand would likely require a philosophical discussion about *how hazelnuts should be grown* in the Midwest. There are varying factors – the value of inter-planting hazelnuts with other plants or crops vs. monoculture plantations; using organic vs. conventional practices; the use of native DNA (*Corylus Americana*) in hybrids. Whether or not to require certain growing methods or genetics will be a key choice-point in brand development.

- A specific entity would need to control the brand, and that entity must represent the interests of all growers. One specific hazelnut company or grower cannot own the brand for the brand to be trusted by all growers. All geo-ag brands and agricultural product brands are owned, maintained, and operated by an association of producers. Midwest hazelnut growers would have to create a new entity to hold the brand, or identify an existing entity to take on the responsibility.

- The owner of the brand would need to be accountable to the growers. Mechanisms would need to be set in place which keep the holder of the brand well-aligned with producers.

- A main reason to create geo-ag branding for Midwest hazelnut is to make distinctions between Midwest hazelnuts and other commercial hazelnuts grown elsewhere. The brand holders should thoroughly investigate what is different about Midwest hazelnuts – every difference which can be measured: nutritional, chemical, taste/flavor, oil smoke point, size, color, etc. Growers and sellers must understand all of the differences and must use that information in their pitches to shoppers.

- The brand-holder would have to define the geographic territory for where nuts could be grown and still be called Midwest hazelnuts.

[3] At the time the concept was referred to simply as *ingredient branding*.

In the resources and examples studied where ag products have been branded, no one has addressed the question of when the branding process should take place during the course of developing the product or industry. To the researchers, it appears that development of a regionally-based geographic agriculture brand should go hand-in-hand with development of the industry. The researchers believe now is the time for this industry to pursue this strategy as the brand itself could be a critical tool for introducing customers to these nuts.

RECOMMENDATION 10: PROCEED WITH GEO-AG BRANDING

near-term: 2023-2027

The Midwest hazelnut industry should soon begin taking these steps toward a brand for Midwest hazelnuts:

1. **Develop a Brand Holder** – Create a new organization (or pick an existing one) which will own and manage the brand. The group must have industry-wide trust and independence from any single hazelnut company or grower.
2. **Develop the Brand** – The brand holder, probably with expert assistance, creates all aspects of the brand. A written brand plan should be a product of this process, as well as a brand logo and icon.
3. **Implement the Brand** - Begin using the brand plan and brand assets in the development of marketing plans, promotions, website, social media, and packaging.

A brand could just be focused on the crop or product and introducing it to customers. In this case, however, the brand could also be a tool for industry development.

RECOMMENDATION 11: USE A MIDWESTERN HAZELNUT BRAND TO ELEVATE THE INDUSTRY

near-term: 2023-2027 – medium-term: 2028-2034 – long-term: 2035-2042

Create a brand which is designed to support industry development:

- Make the case that the industry can contribute to a vibrant local economy.
- Equate the brand with innovation and Midwestern stick-to-it-tiveness.
- Push the idea that this industry can effectively contribute to efforts to abate climate change, support healthy living, and make a significant contribution to localism.
- Use the brand to unify and empower growers.
- Collaborate with others: cosmetics companies, food professionals, grocers. etc.
- Use the brand to help shield small scale growers from commodity fluctuations and predatory corporate farms.

PREMIUMIZATION PRICING STRATEGY

Premiumization is a pricing strategy where a seller offers products at a range of prices, from more affordable products up to a product with a luxury price. When the seller can offer a unique product with **technical** or **functional** differences, those differences can be used to support luxury pricing on the highest level products. Customers pick from the ladder of options for the product they are ready to try. As they get familiar with a product line, some customers will climb the ladder of options and try more expensive options. This is the ultimate value-added strategy. It goes beyond simply adding a mundane level of value to adding an extraordinary level of value. It is not just a ladder of prices, but a ladder of benefits and values.

Premiumization typically happens when a product has been somehow altered – usually by adding something, or processing it differently – and that technical or functional difference (health benefit, social benefit, extra quality, chemical composition, different flavor, etc.) is what makes the product special, and thus, worth the price. When that product is sold as part of an array of products at a range of prices that is the "ladder of options".

A good example of this can be found at White Winter Winery in Iron River, Wisconsin. They first considered a premiumization pricing strategy when they realized one of their products did indeed have functional/technical differences, a limited edition sweet apple dessert wine called Eiszider (2021), which they originally sold at well under $20 for a small (375ml) bottle. They felt its lively, complex flavor made it easy to differentiate, and thus a good candidate for a luxury price. The owner was nervous about more than doubling the price to $49.95 a bottle. But when they did, sales of that product went up dramatically and it sold out quickly. White Winter now routinely uses premium pricing, often with the luxury-priced items at around $50 and (sometimes more), along with their many other products which start as low as $9.95.

Premiumization runs against conventional economic thinking where customers are assumed to be primarily focused on saving money and where sellers are assumed to strive for lower prices in order to meet those customer inclinations. In premiumization, the seller is attempting to attract customers to make luxury-level purchases of a product which has extraordinary value or of a unique product which outshines the competition. Premiumization strategies rely on helping customers make an emotionally-based purchasing decision. The special characteristics of the product warrant a desire to have the best or to indulge in a special occasion. Such a purchase can help someone feel special or pampered. The purchase might make a customer feel important or with-it. It may make them feel engaged with or connected to the producer. There can be many emotional outcomes with such a purchase, but a premiumization purchase is almost always an emotional purchase.

This process typically relies heavily on astute and intentional product development, with two different development paths – creating a new product from scratch or significantly upgrading an existing commodity product. These paths can be combined; the development of Samuel Adams beer is an example. One of the first craft beers and a great example of premiumization, Sam Adams was able to differentiate its product from mass-produced "commodity" type beers by developing a beer based on a heritage recipe, but with upgraded ingredients, and therefore a more "premium" product. These moves not only led the company to extraordinary earnings, it helped change the beer industry.

Premiumization typically requires that there are demonstrable **technical** and **functional** differences between the premium product and the commodity product, which justifies the luxury pricing. These differences can be in the composition of the product itself, the inclusion of value added ingredients, or the methods of raising/growing/harvesting the product. Some marketers have pointed out that premiumization techniques are now being used to promote products at non-premium prices. What they are doing is selling *experiences* with unique products and the promise of an experience is what sells the product.

One benefit of premiumization is that consumers' emotional attachments to a brand, which in turn protects a brand against competitors. Luxury pricing on key products can create a cult-like following for a product, partly because of the real or perceived differences and partly because of the price.

In premiumization the functional or technical differences must be relayed to the consumer, using storytelling, labeling, and brand messaging. It is imperative that customers understand the difference between the premium product and the commodity product. When customers perceive the difference, and when that difference speaks to them on an emotional level, they are ready to make an emotional purchase or have an emotional experience.

Generally speaking, the unique qualities of the premium product need to be tangible in order for consumers to know or feel the difference between it and regular products.

Case Study: Kodiak Oatmeal [4]

Kodiak Cakes was started based on a family recipe and expanded into an untapped niche by adding protein to oatmeal and pancake/waffle mixes. They also packaged their products in convenient, portable, shelf-stable cups. Oatmeal consumers have historically been price sensitive and are prone to substituting generic store brand products for name brand products. These on-the-go cups were marketed to "non-core" oatmeal consumers – those (primarily younger generations) who weren't already purchasing oatmeal.

Kodiak was able to take advantage of premiumization and justify considerably higher prices by:

- Having a technical/functional difference (adding whey protein)
- Convenience – single-serving, shelf stable cups handy for "on the go" consumers
- Supports active lifestyle via serving method and ingredients

Despite being 800 percent more expensive than standard commodity oats ($2.79/1.4 oz cup for Kodiak vs $2.49/10 oz generic store brand oats), the growth of Kodiak cup sales has been a tremendous success (see Figure 5):

Cup Sales Trend
(shown in millions $)

2021	$50.0
2020	40.4
2019	37.0
2018	14.8

FIGURE 5 Kodiak cup sales trends (Scholwalter, Craig)

This comes out to a 338 percent increase over four years or a remarkable 85 percent increase per year. Brand loyalty has ensured a stable customer base for Kodiak, while expansions into different types of protein-enhanced products (muffins, waffles, protein bars) allow for customers to integrate Kodiak products into their lifestyle in new ways.

[4] The researchers commissioned a separate comparables study regarding premiumization. Craig Schowalter, of Business Plans, Etc. submitted a report which can be found in full on page 24 in the appendices. This subsection is based on his work.

This case study provides a strong material basis for using this approach with Midwest hazelnuts.

RECOMMENDATION 12: ***DEVELOP PRODUCTS WITH THE GOAL OF CREATING LUXURY ITEMS***

near-term: 2023-2027 – medium-term: 2028-2034

Over the next ten to twelve years Midwest producers should engage in continuous product development. Producers should always have an eye toward how technical or functional differences can be added to Midwest hazelnuts and thus develop products worthy of premium pricing.

Key Differences Could Be Inherent

It is possible that substantial technical differences may already exist within the Midwest hazelnut itself. If substantiated, built-in properties which are noteworthy and technical differences from other hazelnuts could justify significantly higher pricing for all Midwest hazelnut products. This would, effectively, premiumize the whole industry. Of course, that would only be revealed with more robust testing of hazelnuts as discussed above under Differentiation. If such differences are found they will make it easier to develop truly highly premiumized products, luxuries that will fetch luxury prices.

COSMETICS

Hazelnut oil is high in vitamin E which has been shown to have healing and moisturizing properties for skin. Some manufacturers and herbalists use hazelnut oil to treat scars, and moisturize and balance skin. Some cosmetic makers use hazelnut oil as a carrier oil, or as a supporting ingredient for massage oil, hair or beard oil, lotions, and creams.

The researchers were not able to locate exact quantities purchased by or prices being paid by cosmetics companies. With a lack of reliable data, this team is left to speculate that making cosmetics could be a prime value-added opportunity for producers who are so inclined, or at least a prime market opportunity for selling hazelnut oil. This could be a useful strategy either for a larger company, such as American Hazelnut Company, or for individual growers.

The researchers have found that there are many cosmetics companies of various scales in Wisconsin, Minnesota, and Iowa. If Illinois is included the number would certainly be larger. However, time constraints meant the research team was not able to survey these companies. The team speculates that at least some of them have an interest in local sourcing and sustainability. Some also have Midwest-centered branding, and an alliance with Midwest hazelnuts is a natural fit. Collaboration could be a powerful strategy for product development, marketing, and branding.

Some growers may choose a cosmetics focus by making their own commercial cosmetics as a way of tying several farm outputs into one line of from-the-farm personal care products. Or they may supply oil to a nearby small-scale cosmetics producer.

Interested cosmetics companies will likely be curious about the technical profile of Midwestern hazelnut oil, and may be open to a collaborative role in further analysis of the product.

A focus on cosmetics would be both a production strategy and a marketing strategy at any level: single producer, aggregator, or the whole industry. When hazelnuts are turned into oil the other product is flour. Thus, anyone putting an emphasis on cosmetics would be producing fewer kernels, snack products, and specialty foods, yet producing more flour.

Premiumization as a sales strategy (discussed above) could be a good fit for cosmetics-focused producers as cosmetics already tend to have higher retail prices and consumers often expect luxury pricing for specialized cosmetic products.

A benefit of producing for cosmetics would be the reduced production costs for value-added products as handling oil for cosmetics manufacture is not subject to food handling rules and food production regulations. Avoiding the overhead associated with food production would allow producers to more easily make a profit when selling oil to cosmetics companies.

RECOMMENDATION 13: ***EXPLORE A COSMETICS FOCUS***

near-term: 2023-2027

During the next few years, producers should explore the strategy of supplying the cosmetics industry with hazelnut oil. They should network with cosmetics makers, especially those within the region. They should gather detailed information about quantities of oil cosmetics manufacturers require and current prices they are paying, and then develop production and sales plans to evaluate the approach.

The researchers further recommend that additional nutritional and chemical analysis be pursued in partnership with Midwestern cosmetics companies.

COMMIT TO BEING MIDWESTERN

The emerging UMHDI-developed hazelnut varieties are not just Midwest-grown; they ARE Midwestern. Their DNA has Midwestern roots. The scientists who bred and nurtured them are from the Midwest. The farmers who grow them are Midwesterners. While they are indeed *grown* in the Midwest their “Midwesterness” goes way beyond where they’re grown.

As mentioned elsewhere in this report, it is expected that the entire harvest of Midwest hazelnuts will be sold and consumed in the Midwest. The market is more than large enough to absorb all the nuts produced by this nascent industry. The researchers believe that will be true for another 20 years.

So it’s ***ALL*** Midwestern: the product, the producers, the land, and the consumers.

Careful readers will note that in this report the researchers mainly use the term “Midwest hazelnuts” more frequently than “Midwest-grown hazelnuts”, precisely because the nuts are not regular old hazelnuts which just happen to be planted here. They are uniquely Midwestern.

The research team believes the most effective way to brand these nuts is to strongly tie them to Midwestern characteristics and values. Don’t just say that they’re Midwest-grown, say that they’re Midwestern. Equate the positive characteristics of hazelnuts with positive characteristics of Midwesterners. Create the idea that hazelnuts are just like us Midwesterners; wholesome, honest, and practical. Portray them as good neighbors and part of the community (and in a community we take care of each other). Anoint Midwest hazelnuts as a core Midwestern product, similar to things like cheese curds, bratwurst, hot dish, and fish fry.

This kind of brand commitment creates an opportunity to appeal to Midwesterners based on their identity, their sense of place, and their modest and solid Midwestern values.

RECOMMENDATION 14: FOLLOW A MIDWESTERN PATH

near-term: 2023-2027 – medium-term: 2028-2034 – long-term: 2035-2042

Throughout the next 20 years of industry development the Midwestern hazelnut industry should**:**

- **Sell Only in the Midwest** – For the foreseeable future (20 years) there won't be enough production to warrant selling Midwest hazelnuts outside the region.
- **Avoid "Midwest-grown"** – Instead, use *Midwest* hazelnut, or *Midwestern hazelnut*. In doing so you are distinguishing the variety, in addition to identifying where it's grown.
- **Pursue a Midwestern Identity for the Brand** – Conflate Midwestern hazelnuts with Midwestern style, values, and characteristics. Use "Midwesternism" to define the product and connect it to the consumers. Continually evaluate all aspects of the brand. [Also see Recommendation 11 on page 24.]

This approach may need to be switched up once production is such that the Midwestern market is saturated. The researchers doubt that will happen within 30 years.

TELL THE STORY OF MIDWEST HAZELNUTS

Story-telling is a critically-important, yet often-overlooked marketing tool. Every venture has a story to tell – how it got started, who created it, who operates it, why they are doing it, why are they so good at it, and the ins and outs of how things have developed. Narratives engage customers. Stories stick to brains better than facts. If you tell consumers a story they will listen longer, retain more information, and are more likely to become emotionally engaged.

While storytelling is a powerful tool for selling to anyone, this tactic is particularly effective with all three market segments recommended here for further study: LOHAS, local, and millennials. Each of these groups want to know more, and they want to know how a product was developed, and they need context for deciding if something is truly healthy, sustainable, local, or special.

RECOMMENDATION 15: WRITE A MIDWEST BRAND STORY

near-term: 2023-2027 – medium-term: 2028-2035 – long-term: 2036-2043

Hazelnut advocates should tell the story about the development of this crop and the industry.

- **Create a slate of stories** – Start by writing out the whole story at length**.** Create a variety of shorter versions to use in various settings – blog posts, social media, videos, in-store messaging, packaging, and other consumer-focused marketing.
- **Make it a Midwestern Story** – Use the story to emphasize Midwesterness. Explain how Midwestern hazelnuts are like Midwesterners themselves. Use the story to illustrate the characteristics shared by Midwest hazelnuts and Midwesterners themselves.
- **Continually Refine the Story** – Keep your story-telling fresh. Track how customers react to the story, and how well they connect with each part of the story. Use those insights to revise the story over time.

Juggling Supply and Demand

All industries must strategize how to balance product supply with customer demand – especially those that are just getting established. In the case of Midwest hazelnuts where demand is high (and expected to stay that way) and supplies are low (and expected to stay that way), a key challenge for growers is choosing a path which fetches the best prices. This means making choices not just about branding and marketing, but production, product development, and pricing.

The researchers find that there are two main strategies for how producers can juggle their supply of kernels while maximizing income using the tools presented in this paper:

1. **Diversify and Develop** – Offer a range of products from kernels to specialty items. Develop one or a few premium products. Strive to offer at least one product at luxury pricing.

2. **Focus and Hold** – Focus on one or two products which promise higher pricing and hold onto that position until supply improves. Producing oil for cosmetics and flour/meal for bakers would be a candidate for this approach.

Other less strategic options are available. One is to raise prices across the board, at least 5% to 10% above commodity pricing. Another is to abandon in-store sales in favor of direct-to-consumer sales. Producers could hold stocks for future increased prices.

Promising Future of Midwest Hazelnuts

The research team feels the future of Midwest hazelnuts is full of promise. A number of factors mean that there is a perfect storm of opportunities for this crop.

Midwest hazelnuts have a **unique story**. With linkages to native hazelnuts and at least 25 years of early development there is lots of brand value in the history of this emerging industry. The **versatility** of hazelnuts creates opportunities for a wide variety of value-added products and specialty markets. The positive **health benefits** of hazelnuts are numerous, making it easier to market this crop to increasingly health-conscious consumers.

There is **high demand** for the crop and it's expected to stay that way. **Market prices** are also high, which makes it easier to attract new growers and generally advance industry development. **Industry support** by institutions is substantial, **infrastructure development** has progressed, and **systems of production**, such as propagation, harvesting, and nut-processing are fairly well developed. 2023 is likely to see many **new acres** planted.

Midwest hazelnuts provide important **ecological services** not present in other hazelnut agriculture. This not only **benefits the environment** but provides channels for promoting the crop to people who are concerned about **sustainability**. It is a perfect crop for those who care about **local foods** as the hybrids contain **native plant genetics** and producers are spread out all over the region.

Finally, the **passion** of growers and ag researchers is giving this new crop a firm footing for development of a new ag industry in the Midwest.

Recommendations (compiled)

RECOMMENDATIONS		NEAR-TERM 2023-2027	MEDIUM-TERM 2028-2034	LONG-TERM 2035-2042
1 PAGE 13	ASSESS CONSUMERS' HAZELNUT KNOWLEDGE	• Do people in the Midwest know what hazelnuts are? Who has that knowledge? • Who has eaten hazelnuts before? Which products? • What do people know about hazelnuts? • Who knows that hazelnuts are grown in the Midwest? • What are people's opinions about hazelnuts? • How much would people pay for different hazelnut products? • Do people know where hazelnuts are grown? • When people learn more about hazelnuts does that change their opinion of hazelnuts? • Does that change how much they are willing to pay? • Who is aware of hazelnut oil? • Who is aware of hazelnut flour?		
2 PAGE 14	INITIAL MARKET SEGMENTATION	Focus on these segments: • LOHAS – lifestyles of health and sustainability (p 15) • Local – preference for locally-sourced products (p 18) • Millennials – born 1981-1996 (p 19)		
3 PAGE 14	STUDY INITIAL MARKET SEGMENTATION	Keep tabs on market segmentation by tracking: • Sales, and sales by customer (if possible). • Customers' reactions to products (comments at farmers' markets and in-store sampling events) • Demographic data of online customers • The "LOHAS quotient" of known customers • The "local quotient" of known customers		
4 PAGE 15	REVISE MARKET SEGMENTATION		• Ongoing segmentation evaluation during industry development. • Re-evaluation of segmentation options and new segmentation plans in 5-6 years and in 12 to 15 years.	
5 PAGE 17	FOCUS MARKETING STRATEGY PRIMARILY ON LOHAS CONSUMERS	Use these tactics to appeal to LOHAS consumers • Focus on health and sustainability aspects of Midwest hazelnuts • Substantiate health and sustainability claims. • Tell your story. • Explain how your product is different from what competitors offer. • Back-of-package Information: share details of benefits and value, and tell your story • Front-of-package information: simple images and words to prompt reading more on back • Use the official Midwest hazelnut icon on package fronts (once it is available) • In-store information: list key benefits on shelf teasers, fliers, posters, in-store newsletters. • Pursue earned media: stories on blogs, newspapers, social media. etc. • Keep a strong digital footprint – robust and up-to-date website & social media, QR codes		
6 PAGE 21	STUDY TECHNICAL AND FUNCTIONAL DIFFERENCES: MIDWEST VS. OTHERS	• Study comparative qualities of Midwestern nuts to commercially-grown nuts from Europe and Oregon. • Evaluate the functional and technical properties. • Gather expert advice about what tests to conduct and which properties to evaluate.		
7 PAGE 21	CONSIDER A SMALLER-IS-BETTER PITCH	• Test effectiveness of a smaller-is-better message.		
8 PAGE 21	DOCUMENT ECOLOGICAL SERVICES	• Document ecological services provided by Midwestern hazelnuts. • Compare that info to what is known about other types of hazelnuts and growing practices. • All claims should be verified by authorities independent from growers.		

continued on next page

Recommendations (compiled) CONTINUED

RECOMMENDATIONS		NEAR-TERM 2023-2027	MEDIUM-TERM 2028-2034	LONG-TERM 2035-2042
9 PAGE 22	**PROMOTE ECOLOGICAL DIFFERENCES**	• Widely promote the differences. • Illustrate the differences in plants and growing systems with graphics.		
10 PAGE 24	**PROCEED WITH GEO-AG BRANDING**	• Take these steps toward a brand for Midwest hazelnuts: • Develop a Brand Holder – new or existing organization to own & manage the brand, must have industry-wide trust and independence. • Develop the Brand – Create written brand plan which addresses all aspects of branding, plus brand logo & icon. • Implement the Brand – develop marketing plans, widely utilize graphic assets.		
11 PAGE 24	**USE A MIDWESTERN HAZELNUT BRAND TO ELEVATE THE INDUSTRY**	Create a brand which is designed to support industry development: • Make the case that the industry can contribute to a vibrant local economy. • Equate the brand with innovation and Midwestern stick-to-it-tiveness. • Push the idea that this industry can effectively contribute to efforts to abate climate change, support healthy living, and make a significant contribution to localism. • Use the brand to unify and empower growers. • Collaborate with others: cosmetics companies, food professionals, grocers. etc. • Use the brand to help shield small scale growers from commodity fluctuations and predatory corporate farms.		
12 PAGE 27	**DEVELOP PRODUCTS WITH THE GOAL OF CREATING LUXURY ITEMS**	• Over the next ten to twelve years engage in continuous product development. • Strive to find ways to add technical or functional differences which make products worthy of premium pricing.		
13 PAGE 28	**EXPLORE A COSMETICS FOCUS**	• Explore the strategy of supplying the cosmetics industry with hazelnut oil. • Network with cosmetics makers in the region. • Gather detailed information about quantities used, current prices they are paying • Develop production and sales plans to evaluate the approach. • Pursue additional nutritional and chemical analysis in partnership with Midwestern cosmetics companies.		
14 PAGE 29	**FOLLOW A MIDWESTERN PATH**	Throughout the next 20 years of industry development the Midwestern hazelnut industry should: • Sell Only in the Midwest – For the foreseeable future (20 years) there won't be enough production to warrant selling Midwest hazelnuts outside the region. • Avoid "Midwest-grown" – Instead, use Midwest hazelnut, or Midwestern hazelnut. In doing so you are distinguishing the variety, in addition to identifying where it's grown. • Pursue a Midwestern Identity for the Brand – Conflate Midwestern hazelnuts with Midwestern style, values, and characteristics. Use "Midwesternism" to define the product and connect it to the consumers. Continually evaluate all aspects of the brand.		
15 PAGE 29	**WRITE A MIDWEST BRAND STORY**	• Tell the story about the development of this crop and the industry. • Create a slate of stories – Write out the whole story at length. Create shorter versions to use in various settings. • Make it a Midwestern Story – Use the story to emphasize Midwesterness and cast Midwestern hazelnuts as being like Midwesterners themselves, and list common cahracteristics. • Continually Refine the Story – Keep the story fresh. Track how customers react to different parts of the story, and revise the story over time based on customer data.		

Appendices

2016 Nut and Oils & Fats Expenditures CES Bureau of Labor Statistics

The U.S. Bureau of Labor Statistics conducts the Consumer Expenditure Survey (CES) using a statistically representative and valid sample for the total U.S. population. CES findings are used with the site population, and demand is calculated after an adjustment for average household income and consumer price inflation. The result is a "site specific" estimate to be used as "material basis" for research and development.

CONSUMER EXPEDITURES ON NUTS

Inouts (sample)

Index ($)	1.25
Income Factor	n/a
Sample Size	127,006,000
Ave Spending/CU	$8,449

Outputs (age/income)
(amounts shown as 2021$)

	Spending ($/CU)	Indexed (%)
Nuts (total)	$ 58.45	100
<25 years	15.68	27
25-34	41.84	72
35-44	49.54	85
45-54	71.93	123
55-64	83.73	143
65-74	66.46	114
>75	47.56	81
<$20,000	$ 29.16	50
20,000-39,999	42.06	72
40,000-49,999	48.49	83
50,000-68,888	52.16	89
70,000-79,999	62.25	100
80,000-99,999	80.98	139
>$100,000	102.79	176

CONSUMER EXPEDITURES ON OILS AND FATS

Inouts (sample)

Index ($)	1.25
Income Factor	n/a
Sample Size	127,006,000
Ave Spending/CU	$6,759

Outputs (age/income)
(amounts shown as 2021$)

	Spending ($/CU)	Indexed (%)
Fats & Oils (total)	$ 45.03	100
<25 years	$ 27.80	62
25-34	41.46	92
35-44	53.43	119
45-54	53.71	119
55-64	48.74	108
65-74	40.66	90
>75	30.14	67
<$20,000	$ 34.09	76
20,000-39,999	37.83	84
40,000-49,999	45.61	101
50,000-68,888	39.83	94
70,000-79,999	39.56	88
80,000-99,999	57.98	129
>$100,000	60.78	135

Schowalter, Craig:
Product Premiumization: Paying More to Get More

PRODUCT PREMIUMIZATION
Paying more to get more

Premiumization is a process which can create luxury products that respond differently than standard commodity products. While they cost more to research and design, the dividends can be significant and the product life-span is extended.

Commodity Products	Luxury Products
no technical differences	real technical differences
no functional differences	real functional differences
demand is price sensitive	demand is not price sensitive
price up/demand down	price up/demand up
many alternatives	no alternatives
single standard product	multiple products w/benefits
direct competition	no direct competition
price decreases w/time	price increases w/time
no upgrades	upgrades/enhancements
licensing not possible	licensing possible

The Power of Product Development

Intentional product design, careful product development and branding can demonstrate wealth creation principles. A well designed product can minimize the need for advertising. But, "Success does not just happen".

Development Paths

The two ways to develop a luxury product are to upgrade an existing standard commodity product or to develop a superior product from scratch.

Samuel Adams beer was the first craft beer and was developed to have measurable technical and functional differences. The inspiration came from an upgrade of a heritage recipe. which led to the stronger flavor profile. As such, it was a hybrid, using both development paths.

Development Path Options

develop from scratch
upgrade an existing commodity product

Creating a Monopoly with Product Development

With measurable technical and functional differences known, brand building outcomes can become emotional differences. The consumers become ambassadors and brand apostles. The product creates almost a "cult" following despite a price which is 200+% more than the closest commodity product. If a product is developed intentionally, it may achieve a market dominance which is held for many years, providing a monopoly.

Small Differences Can Make a Big Difference

The technical and functional differences can be small but must be real, measurable and create a difference that matters and can be sensed or known by the consumer. Differences can also be tied to things "bigger than self".

For example, the Kodiak brand attracts apostles with products and by making a $1.00 donation to wildlife conservation for each purchase.

Luxury Products are Durable

A great example of durability is the Graham Cracker. It was conceived by a Methodist priest as a way to improve health for the average person. A whole grain flour was developed and used to make crackers. The crackers provided fiber, nutrients and a unique whole grain taste.

Sylvester Graham designed the cracker in the 1800's. It led to creation of the National Biscuit Company (Nabisco).

While foods cannot be patented, products and formulas can be licensed. Graham crackers are still sold under license today and global market revenues are in the billions of dollars.

Coke vs Pepsi Difference

The technical difference between Pepsi and Coca Cola is that the Pepsi formula has hints of lemon and lime. The difference can be measured using high pressure liquid chromatography. An original functional difference for Coca Cola was the cocaine bio-active which carries psychoactive properties. Caffeine is a legal psychoactive that both product formulas still share.

Sugar water with caramel coloring should be a tough sell, but Pepsi and Coke have spent millions of dollars each year to advertise. They share a cult like following and "Americana" image and emotional ties to multiple generations.

While it has nothing to due with the product formula, Coke outsells Pepsi due to having more retail channels, especially vending. Both products allow manufacture and bottling by any qualified and licensed third party. Manufacture and bottling adjacent to densely populated urban markets has been used to eliminate inventory, storage and reduce distribution costs.

Adding Value to Oatmeal

Oatmeal is a commodity product which is price sensitive and not differentiated. The market was owned by Quaker as a long standing dominant brand. Generic store brands emerged after the Great Recession. No detectable or meaningful difference exited to support continued loyalty to the Quaker brand. As a result, non-core consumers traded down to a store brand.

Quaker wrongly assumed the loyalty of three generations would give them iconic status. Price became the primary determinant of purchase for oats and Quaker lost the non-core customers.

Kodiak Oatmeal

A recipe from grandma was used to create a branded oatmeal which was "good enough" to enter the commodity market, but was enhanced by adding protein and portioning it into cups providing portability, convenience and speed of preparation.

The primary target market is "non-core" consumers of oatmeal. The recipe was upgraded further to attract "non-users" by adding whey protein which is the most bio-active, expensive protein supplement. This enhancement supports active living, performance and health, regardless of age. Careful product development connected oatmeal to an entirely new consumer.

Emphasis was placed on measurable technical and functional differences. The goal was to appeal to an active population that demands more from food than a cheap way to get a meal. Raw oats are dirt cheap, victim of many years of commodity product pricing, price ceilings and market pressure.

The brand name selected was Kodiak and the significance is a "bigger than self" tie a non-profit they started with mission of preserving and restoring wildlife habitat.

The brand name, values and product designs have meaning for non-core younger generations. Oatmeal users were typically older. The same design and brand benefits are shared by three products and used to launch the company.

Core Benefits of Kodiak Cups
(oatmeal, pancakes and waffles)

100% whole grain no white flour
whole grains taste better
increased protein (whey)
reduced sugar
increased fiber
slower/sustained energy release
improved recovery
supports active lifestyle
portable and shelf stable
pre-measured portion
cooks in microwave 1 minute
customize with fruit/nuts and yogurt

Evidence Supporting Product Development

The research done by Kodiak was proprietary and unpublished, yet was basically just a commercialization. Material basis for the research has been completed by the U.S. government using random sampling which allows findings to represent the nations entire population. (USDA Food Guidelines for Americans 2021).

Evidence was taken from SKU data purchased from third party vendors that compile retail scan data, not including WalMart. Kodiak also sampled consumers and their findings only speak to the sample selected, but speak to a general trend.

Material Basis for Development

61% of consumers sampled are looking for healthier versions of foods already eaten.

51% of consumers sampled have switched from traditional snack products to high protein, low sugar alternatives.

It is most efficient to meet consumers "where they are" using a large variety of market channels (omni-channel retail), not just wholesale distribution to grocery stores.

Based on retail SKU data, Kodiak is now #1 "better for you" cup brand in the U.S.. Household penetration in the U.S. is 3.9 million.

The USDA Food Guidelines for Americans (2021) supports the trend to a diet which is more "plant based". The center of the plate is now whole grains, vegetables, fruits and lean protein. This recommendation was made despite the lobby of the meat and dairy industries.

Value Creation by Product Development

The value added by good product development starts day 1 and continues for the life of the product. The product life cycle growth phase can be extended by product enhancements which add benefits over time. The best way to protect products is to periodically attack them yourself. Be your own competitor.

Kodiak Added Value
(commodity vs premiumized)

Standard Commodity Oats
Container (10 oz) sells for \$2.49 — \$0.25 per oz
(generic store brand)

Premium Oats w/protein
Cup (1.4 oz) sells for \$2.79 — \$1.99 per oz
(Kodiak brand)

The Luxury Difference

Remember that premiumization is the process by which luxury products are created. These products act 180 degrees opposite of standard commodity products in the marketplace. Kodiak is priced 800% above generic store brands, yet it outsells them.

Adding Market Channels

Research evidence is validated by a Beta Site Market Test. This can be followed by addition of market channels (omni-channel retail).

Market Channels
(omni-channel retail/wholesale)

Direct retail (3 margins captured)
- product catalog
- sell sheets/phone
- home delivery
- subscription
- online (10-20%)
- workplace/school
- vending
- grab n go

Direct wholesale (2 margins captured)
- restaurants
- hotels/Resorts
- c-stores/retail

Wholesale distributor (1 margins captured)

Priority should be given to retail (3 margins captured). The internet is only generating 10-20% of total U.S. retail (U.S. Dept of Commerce 2022). For new products, direct retail is critical for success.

The power of product design and development is demonstrated by manifesting outcomes. From 2018-2021 Kodiak cup sales grew from $14.8 million to $50.0 million. This is a 338% increase is four years (85% increase per year).

Cup Sales Trend
(shown in millions $)

2021	$50.0
2020	40.4
2019	37.0
2018	14.8

Adding Products

Once the market propositions and assumptions are validated, new products and extensions are added to the increase pull, revenue capture and market penetration. The principle is to use existing relationships to increase the average spend per person (ASP). Sales are supported by brand loyalty built by the high quality of the products introduced.

Kodiak Products Developed
(protein enhanced sub-brand = "power")

oatmeal cups
flapjack cups
waffle cups
muffin cups
toaster flapjacks
toaster waffles
oatmeal protein bars
oatmeal protein cookies
maple pecan butter syrup

Power oatmeal is the core product although the same people buy power flapjacks, waffles and muffins. While the bars and cookies are not meal replacements, they make healthy snacks.

Possible Future Enhancements

no added sugar/natural sweeteners
double strength Bourbon Vanilla
cookie/bar meal replacements
health impacts/lowers serum cholesterol

Bulk Blends for Foodservice

Bulk packages of flapjack, waffle and muffin mix are sold to restaurants. A "pay more get more" proposition holds for the restaurant operator and consumer. Restaurants charge $2 more for Kodiak pancakes, yet the cost only increases from $0.25 to $0.32 per portion.

The bulk packages represent the lowest level of value, yet due to added protein, the blend is still superior to the standard commodity oat products.

Product Development Principles Used

pay more to get more
increase nutrient density to add value
create a value chain/ladder of benefits
target non-users of alternative products
use disruptive innovation targeting own products
continually improve and enhance products
increase range of prices (low to high)
increase range of benefits (none to many)
create enough value to support "rocketing"
meet consumers where they are (omni-channel retail)
use technical/functional differences to support price
offer products in multiple categories (meals, snacks)
free shipping (minimum order/subscriptions
oatmeal as a carrier of bio-actives and nutrients
leverage emotions for causes "bigger than self"
create products and position/price as luxury goods

Copy That:

Marketing Overview: The Umbrella of Marketing

Copy That:
Branding Overview: The Tree of Branding