

The Food and Beverage Industry in Los Angeles

A Roundtable Discussion

THE food and beverage industry as a whole is unique in many ways – and here in Los Angeles, where we have some of the best dining and food-for-purchase options in the nation, there's perhaps an even more finely tuned set of rules for success. Stir in an improving economy and you've got a sector of Southern California business that continues to evolve as swiftly as any other.

To make some sense of this exciting and unpredictable realm, the Los Angeles Business Journal has once again turned to some of the leading experts in the region to get their diverse insights and assessments regarding the current state of the industry that Angelenos most certainly couldn't live without!



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'If the company does not have experienced in-house advisors or expertise, then they should hire knowledgeable and experienced counsel and advisors to assist them in this regard. When looking for folks for these purposes, it is important to keep in mind that effective lawyers and advisors should not only keep up with the myriad of regulatory changes applicable to the F&B industry, but also should have maintained good working relationships with the regulators (i.e., the individuals who will have the ability to "make or break" the business).'

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'As consumers continue to amass smart devices, they're turning to them more frequently than ever for more uses than ever—including to engage brands, find deals and make purchase decisions—even while they're shopping in the grocery aisle. Innovative companies have created mobile apps, designed to both improve the online customer experience and simplify in-store navigation. Most include elements such as the store's advertisement, digital coupons, product details, customizable shopping lists, a store locator and recipes—some even provide virtual access to the in-store pharmacy.'

DEAN JOAQUIN



◆ How are veteran food and beverage companies leveraging opportunities to reconnect, rebrand and revitalize?

JOAQUIN: To take advantage of the overwhelming popularity of social media over other, more traditional marketing channels for millennials, F&B brands should recognize that to feel authentic and organic, social media outreach will have to be integrated as a natural component or step in a brand's overall customer communication strategy. The group will also demand that brands come to terms with the reality that much of what constitutes "relationship" for them doesn't end in a sale—at least not in the near term. Establishing an omnichannel outreach plan for millennials that encompasses mobile, digital and in-store engagement is key, as this group knows what it wants—and not just in terms of technology.

◆ Are there any licensing issues specific to California that out-of-state restaurant owner/operators need to be aware of?

COSTALES: California has several complex issues in the licensing area. If the restaurant is going to sell alcoholic beverages of any type, then it will need to be licensed by the Department of Alcoholic Beverage Control (ABC), a very time-consuming process by which most of the owners/operators will need to be "qualified" to have an interest in a liquor license. This means that they will have to disclose personal and financial information, be fingerprinted and be subject to a criminal background check. In addition, if the restaurant is located in an area where local zoning does not permit sales of alcohol, then a conditional use permit (CUP) will be required from the local planning department. (The liquor license and CUP alone can add up to a year for a new restaurant project.) Owners/operators also will need health permits and, most likely, Prop 65 warnings.

◆ How can food and beverage companies keep up with regulatory changes?

COSTALES: If the company does not have experienced in-house advisors or expertise, then they should hire knowledgeable and experienced counsel and advisors to assist them in this regard. When looking for folks for these purposes, it is important to keep in mind that effective lawyers and advisors should not only keep up with the myriad of regulatory changes applicable to the F&B industry, but also should have maintained good working relationships with the regulators (i.e., the individuals who will have the ability to "make or break" the business). Even if the company is fairly large and has in-house counsel or business persons who are in charge of regulatory issues, engaging outside counsel may be necessary to ensure that nothing is overlooked or omitted. The cost of outside advice may be fairly significant, but it will pale in comparison to what the company will face if it is not in compliance.

◆ What are some of the newest consumer-driven trends affecting the industry today?

JOAQUIN: As connected consumers continue to gain greater access to everything from product information to communities of like-minded individuals, these types of shopper-driven requirements are likely to be on the rise moving forward. There also continues to be a trend for healthier food alternatives in fast-food restaurants. Traceability of food sources is important for the F&B industry – recalls, sourcing, reliability (and associated legal and operational costs) are challenging areas. Finally, there is a continuing trend for people to eat less meals at home, which has caused an uptick in demand for quick, grab-n-go meal alternatives in grocery and convenience stores. For the remainder of 2016, the onus will continue to be on F&B executives and their teams to find a semblance of balance amid these dynamic, shifting, expanding priorities.

◆ What advice would you offer to an early stage company seeking growth capital?

SNYDER: Make sure you have a business plan and you can demonstrate the steps you've taken to meet your goals. Early-stage food and beverage businesses should be relatively simple organizations in which the owner is the main manager. At this stage, innovation, proof of concept, and sample or batch runs (even trial runs) should have occurred. Owners should be able to speak clearly to how they have or will obtain customers and how they will deliver products and services. It's also important to be out there meeting people. Industry conferences and workshops are an excellent way to learn and meet many people—you never know who can be the right contact that will lead you to that next growth step.

COSTALES: With very few exceptions (such financing from traditional institutions and, perhaps, through crowdfunding), any investors who will acquire 10% or more of the equity in the company will need to be qualified by the ABC. In addition to determining whether those investors have any criminal histories, the restaurant company will need to disclose whether any of those investors has an interest – direct or indirect – in any alcohol manufacturer or distributor. Criminal charges and/or such interests in other tiers of the beverage alcohol industry could be problematic in terms of the restaurant's liquor license. So my advice would be to pre-screen your investors in order to avoid any issues with the ABC.

◆ What are the top industry-driven and technology trends in the food and beverage world?

JOAQUIN: Another fast-growing retail segment trending in the F&B industry is online grocery. As consumers continue to amass smart devices, they're turning to them more frequently than ever for more uses than ever—including to engage brands, find deals and make purchase deci-

sions—even while they're shopping in the grocery aisle. Innovative companies have created mobile apps, designed to both improve the online customer experience and simplify in-store navigation. Most include elements such as the store's advertisement, digital coupons, product details, customizable shopping lists, a store locator and recipes—some even provide virtual access to the in-store pharmacy.

◆ How are food and beverage companies advancing and automating?

JOAQUIN: While the specific applications chosen by F&B firms are likely to vary, based on diverse external criteria and specific corporate goals, the wide-reaching benefits of automation are driving many of these companies to ensure their implementations connect every component of their operations in an effort to increase speed, improve consistency and respond more quickly to employee and customer pain points.

◆ What does a growing food and beverage company need to do to move from start-up to the next stage of growth?

SNYDER: Businesses in the start-up stage are relatively simple organizations where the owner typically still manages the company's operations. The main concern is attaining the necessary revenues to fund growth, and the major goal continues to be surviving. To get to the next level, it will be important to make sure manufacturing and supply chain capabilities can meet an increased level of demand, and that professional management is in place in critical functions. Businesses may also require working capital and growth capital to fund the growth. Green Hasson Janks will be taking an in-depth look at growth in our upcoming whitepaper: *Beyond Start-up: Whetting the Appetite for Growth*, which will be released at our annual Food and Beverage Conference in late September.

◆ Once it has gotten past the emerging growth phase, what are the next steps a food and beverage company should take to sustain growth?

SNYDER: At this stage, the primary concern is how to finance growth and maintain adequate cash flow. Additional growth may come from expanding into new geographies and/or product lines. The business may again need additional financial resources in terms of extended credit facilities, expansion loans, or even additional equity. Strategic partners or even a sale could also be options.

◆ How can food and beverage companies attract and retain more women in leadership roles?

COSTALES: Like any other industry, the food and beverage industry needs to invest in its middle managers and

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offer policies that give women (and men) the flexibility to raise a family while continuing to move up the ranks. It also requires commitment from senior management to include women in succession planning and offering women the kinds of varied experiences needed to enter the C-suite, and requires senior management to forego making outdated assumptions about travel time or evening events that result in fewer women joining those ranks.

SNYDER: We're not seeing as many women in leadership roles as we should, especially since they are by far the major share of consumers in this space. Green Hasson Janks looked at this issue in our 2015 survey and whitepaper: *Women in the Food and Beverage Industry*, and survey respondents said that women held less than 25 percent of the total leadership roles at their company. Industry leaders are beginning to see women as an emerging force, however, reporting that women leaders possess unique benefits like the ability to inspire public trust and to create a positive public image. To get more women into leadership roles, it takes a top-down commitment. There will only be movement when a company makes the advancement of women a cultural priority. To read our whitepaper, just visit our website at greenhassonjanks.com.

◆ **At what stage is a company ready for venture capital or private equity funding and how does it attract the interest of such investors?**

SNYDER: As food and beverage companies expand and start to achieve significant size, they should be looking at bringing on additional financial resources and managerial talent. Primary concerns include how to grow rapidly and how to finance that growth—and delegation and cash flow are common concerns. Growth may come from expanding geographies and product lines. The business may again need additional financial resources in terms of extended credit facilities, expansion loans, or even additional equity. At this point, operations and finance should have been brought up to the level where no red flags would be seen by investors. A very solid business plan should be crafted and honed and future growth strategies should be clearly identified. After that, a company will be well positioned to attract investors — it's time to do the hard work of networking with the investor community. At this stage, strategic partners and/or exit could also be an option.

◆ **How important is it to train restaurant staff on workplace legal matters such as discrimination and harassment issues before they become lawsuits?**

COSTALES: It's *critically* important. In California, employers can be held liable for harassment even if

they were not made aware of the behavior. Managers need to keep their eyes and ears open — they can't assume silence means employees find offensive conduct welcoming or even acceptable. Training managers and staff at time of hire sends a strong message that discrimination or harassment won't be tolerated. Policies and complaint procedures should be translated for employees for whom English is a second language. Employees also need to know they can approach a manager with a complaint without retaliation. Also, it is critically important that restaurant staff — especially those tending bar and serving alcoholic beverages — be trained on legal matters involving service to minors (including ABC-authorized underage decoys) and obviously intoxicated persons. Violations in this area are severe, and can even lead to suspension or revocation of the restaurant's liquor license.

◆ **How are food and beverage companies simplifying product management through enterprise resource planning?**

JOAQUIN: When data and information exist in silos, spread out across a variety of systems, the disparate and disconnected nature of the structure itself creates isolation and a lack of cohesion that contributes to confusion and delays among employees and can ultimately erode supply chain functionality, resulting in diminished product security and integrity. To address precisely these types of challenges, F&B companies are investing heavily in initiatives that promote integration—specifically, enterprise-wide software systems designed to collect, connect, manage and distribute information, while also enabling collaboration and providing real-time visibility into critical areas of business operations and the supply chain. Enterprise resource planning (ERP) software systems, such as Microsoft Dynamics AX—which offers an extensive range of vertical-specific functionality and capabilities—have been enthusiastically embraced within the industry.

◆ **How is food safety impacting the food and beverage industry?**

JOAQUIN: According to our 2015 food and beverage survey, F&B executives are aware of the continued need to navigate the challenging paradox that has always defined their industry—how to simultaneously achieve both competitiveness and compliance—if they hoped to continue expansion. Leading their list of internal and external concerns was how they would manage to reduce costs to meet customer price point expectations, while simultaneously maintaining compliance with regulatory measures and standards for food safety. One area of compliance that is an area of concern to F&B executives—the Food and Drug Administration's (FDA's) Food Safety Modernization Act (FSMA), which con-

tinues to expand for areas that included: preventive controls for human and animal food, produce safety, foreign supplier verifications programs and accredited, third-party certifications.

◆ **Can anything be done to expedite liquor licensing procedures?**

COSTALES: Unfortunately, very little can be done in this regard. There is no "expedited process" that one can obtain from the ABC, which continues to be understaffed in relation to the number of applications it receives each year. Liquor license forms, while online, cannot be filed electronically. Our recommendation to clients is to plan for at least 90 to 120 days for the liquor license process to run its course, to apply for zoning variances or CUPs as early as possible, and to make sure their zoning and liquor license applications are as complete as possible before filing them. (Incomplete applications can cause major delays, and can be avoided by hiring an experienced and effective attorney or consultant to assist.) We also recommend filing applications in person rather than by mail, as the regulators sometimes treat the former with a bit more "urgency" than the latter.

◆ **Should food manufacturing and distribution executives be looking for acquisitions as a core growth strategy in today's environment?**

SNYDER: Acquisitions are an excellent way to gain additional brands, SKUs and geographies. Some growing food and beverage companies use this as their primary growth strategy to great success. An acquisition needs to make sense on numerous levels, however. For example, the product lines should work together, either in tandem or as extensions of existing lines. Also, disparate systems may make post-acquisition integration difficult and expensive. Culture fit is also important, since the teams need to effectively merge along with the products. All that said, acquisition can be a complex and difficult process, but it can be very rewarding.

JOAQUIN: While consumer products businesses may not have control over the global macro environment, those willing to invest in the sales drivers the changing consumer has shown are effective, in addition to actively managing financial and currency risks in a slow-growth environment, will be able to outperform. Valuations remain expensive on the M&A front, but concepts and brands that are able to outpace GDP will serve as attractive acquisition targets. This is especially the case in an environment where strategic acquirers are looking to find more transformational and accretive deals that can move revenue growth higher in a shorter time frame.

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◆ **What are the emerging markets and fast-growing channels in food and beverage currently?**

JOAQUIN: One major food trend influencing F&B retailers is the rise of the premium grocery store (e.g., Wegmans, Whole Foods Market, The Fresh Market). From live piano music to grilling stations and sushi bars, these stores are designed to cater to all five senses of their well-heeled customers, turning a quick trip to the grocery store into a mesmerizing, luxurious, immersive journey. As the market continues to grow, premium grocers will need to rely on differentiation to set them apart from competitors, fueling brand loyalty by offering unique and specialized services and items not offered anywhere else.

◆ **What is a good piece of advice you would share with an entrepreneur entering the food and beverage industry for the first time?**

SNYDER: Follow your passion. That’s what got you into this business and that’s what will sustain you during the long hours and hard work of a start-up. If you start to drift off into other products or lines without carefully planning, you will set yourself up for trouble. Get great advice, too — it’s unlikely you’ll have all the expertise you need in every aspect of the business.

COSTALES: Be prepared for anything and everything, but *especially* delays. In the beverage alcohol area, an

entrepreneur should try to get a basic understanding of California law and the ABC’s rules so s/he can formulate a realistic and workable business plan and can communicate effectively with potential investors or funding sources. Also, because wage and hour laws in California are more complex than in other states, it is crucial that an entrepreneur understand those laws. For example, tip credit is not permitted here (but tip pooling is), and minimum wage is required for all hours worked by an employee. An entrepreneur needs to understand how to implement policies that meet California labor law requirements – which will allow for more control over cash flow in the early months when the first round of investment from savings or angel investors is likely to be limited.



Brew it. Distill it.
Age it. Bottle it.
License it. Ship it.
Distribute it. **Sell it.**

MAKING IT HAPPEN.

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You define success. Together, we make *it* happen.

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