

## Customer & Market Due Diligence Of Better-For-You Sweet Treats Brand: Establishing Brand Positioning and Category Expansion Opportunity

**The Challenge:** One of Gotham's PE clients was considering investing in a leading stevia-sweetened sweet snack brand experiencing rapid growth in an expanding market for healthy sweet snack alternatives. Our client was attracted by the target's strong brand recognition, loyal customer base, high-quality products, and potential to expand distribution channels and product offerings. Given a crowded market with emerging premium brands and product introductions by legacy brands, our client wanted to better understand the target's competitive positioning – overall and within each retailer. Additionally, our client wanted to pin down/confirm the target's growth outlook. As such, Gotham was asked to conduct a 3-week customer & market due diligence of the target with the following objectives: (1) establish the health and growth profile of the target's current product categories; and (2) validate the target's product category expansion opportunities.

**Brand Positioning and Uptake Analysis:** Gotham's multi-pronged, data-driven effort included:

- Analyzing retailer-/SKU-level NielsenIQ data to determine: market size and growth trends for each of the target's current and potential product categories; the target's market position by product, retailer, and channel; the target's retail sales metrics, such as ACV, TDP, and SKU velocity; and the impact of COVID on (month-by-month analysis of sales before and during COVID)
- Conducting a survey of over 2,500 consumers to gain insights into: consumer sweet snack buying behavior; consumer awareness of and willingness to buy low/no sugar sweet snacks; consumer acceptance of stevia as a sweetener; the impact of COVID on purchasing behavior; and brand reputation of the target and its competitors
- Conducting interviews with key food retailers and distributors to gain insights into: the target's existing shelf presence; retailer decision-making criteria and plans for expanding the target's product categories to additional locations; current consumers' willingness to try additional varieties of the target's product; and the target's likelihood of penetrating new customers.

### Low/No Sugar Chocolate Category Is Growing At 41% CAGR Driven By The Healthy Eating Trend

As consumer preferences are shifting toward healthier food choices, low/no sugar sweet treats are becoming an increasingly popular alternative to traditional sweets. As consumers seek better-for-you alternatives, low/no sugar chocolate products have grown from 0.9% of total sales in 2017 to 1.9% of total sales in 2020. While many other alternative sweeteners are viewed as artificial or unhealthy, stevia is among the fastest growing and most well-liked alternative sweetener available. Stevia-sweetened foods grew at a 77% CAGR from 2017 to 2020. Gotham's interviews with buyers from national chains indicated stevia has become an increasingly popular alternative to sugar in their merchandising decisions. As better-for-you chocolates are gaining popularity, consumers have demonstrated a desire for premium, health-conscious alternatives to traditional chocolates. In fact, over half of surveyed consumers said they would be willing to pay a premium for a naturally sweetened low sugar product.

### The Target Is An Early Category Leader Now Competing With More Brands In A Growing Category

As better-for-you sweets have become increasingly popular, many large companies are introducing products to compete in the market. Despite the increased competition, the target tripled its low/no sugar core products market share from ~10% to ~30% between 2017 and 2020. While consumers were initially attracted to the target's brand because of reduced sugar, consumers stay with the brand for its taste and natural ingredients and are very satisfied with the product. As a result, the target is competing not just within low/no sugar alternatives, but within the premium chocolates market as well. The target entered and established itself in trend-setting grocery chains such as Whole Foods, Publix, and Wegmans, way before competitors entered the market. Despite expanding its distribution, the target has low ACV and SKU count relative to its legacy competitors, which indicates significant room for growth as the target expands its distribution and SKU count at leading retailers.

### There Are Significant Category Expansion Opportunities Available To The Target

Due to the target's high degree of brand loyalty, consumers indicate a desire to try different products in current and new expansion categories. As a disruptor in the market, the target has developed a strong following among its consumers, the vast majority of which plan to maintain or increase their consumption of the target's product offerings. Despite being a smaller player in the baking chips market, Gotham's survey revealed that the target had one of the highest NPS scores among its competitors. After finding initial success with its chocolate bars and baking chips, the target has opportunities to expand product offerings to other types of sweets. In fact, Gotham's consumer survey revealed that over half of the target's consumers would be likely to try cookies or ice cream made by the target. As the target's consumers are loyal, health-conscious, wealthy, and more likely to have dietary restrictions than traditional consumers, they are interested in trying new products affording the target an opportunity to build a broad stevia-based product portfolio.

**The Outcome:** Gotham's in-depth analysis of the low/no-sugar sweet snacks market, the target's brand positioning, and the target's growth opportunities provided our client with the robust and reliable fact base necessary to compete aggressively and confidently in a hotly-contested auction. Ultimately, a large strategic bidder prevailed in the auction as it was able to offer a significant premium over our client's bid given that it would be able to leverage its ubiquitous channel presence to increase distribution

