

Customer & Market Due Diligence Of BFY Frozen Prepared Foods Brand: Establishing Brand Metrics, Competitive Positioning, And Market Growth Outlook

The Challenge: Our client, a consumer-focused PE firm, was looking to invest in a branded Better-for-You (BFY) frozen prepared foods manufacturer, attracted by the target's brand presence, fast-growing market share, and established relationships with all major food retailers. However, our client was concerned about the long-term sustainability of BFY products and wanted to validate the target's competitive positioning by benchmarking the target's sales metrics to its competitors. As such, our client asked Gotham to conduct a 3-week customer & market due diligence with the following objectives: (1) establish the target's addressable BFY frozen prepared food market size and growth outlook; and (2) establish the target's SKU performance and competitive positioning.

Data-driven Competitive Positioning Assessment: To address these objectives, Gotham undertook a multi-pronged approach, including:

- Conducting a deep-dive analysis of Nielsen IQ monthly retail sales data spanning the past 4 years at both the SKU level (~32,000 SKUs) and the brand level (~2,200 brands) within the target's served frozen prepared foods categories to determine the addressable market size and compare the target's SKU and brand metrics (e.g., price, quantity, total sales, ACV, TDP, velocity, and promotional spend) against those of key legacy and BFY competitors
- Conducting 20+ anonymous interviews with key grocery chain category buyers to establish: frozen food market dynamics; retailers' buying criteria (e.g., mainstream vs. BFY products, legacy vs. BFY brands); popularity of BFY products (e.g., penetration of BFY products on a retailer's shelf; consumption trends by each BFY claim); and target's reputation vs. its competitors' reputations
- Profiling both legacy and BFY competitors to gain insights into the competitive dynamics within the mainstream and BFY frozen food markets by leveraging information obtained from interviews, SKU analysis, and extensive primary and secondary research.

\$35B Frozen Prepared Food Segment Experienced ~13% CAGR Growth, Driven By Higher Demand And Price Increases

Frozen prepared foods consumption has been growing as the category shed its image of TV dinners with high salt content by providing healthier alternatives and better flavor profiles in attractive packaging. This growth in demand has led to an increase in space dedicated to frozen prepared foods at most grocery stores, with medium-to-large grocery stores now dedicating up to 16 freezer doors to frozen prepared food products (up from 12-14 doors a few years ago). This shift was turbocharged by COVID as consumers flocked to frozen prepared foods for their convenience and long in-the-freezer shelf life in the new environment of remote working, eating at home and not dining out, and less frequent grocery shopping trips. Half of the population have large freezer capacity in their refrigerators, with 35% having additional capacity beyond that. As the economy reopened post-COVID, the frozen prepared foods unit volume declined from COVID highs as consumers started eating out more but an increase in overall prices allowed the market to sustain growth. Our retailer interviews indicated that retailers are planning to keep their frozen food space at current levels as pandemic brought new consumers to this category who continue to remain interested in the category and there are innovations in the category.

Growing BFY Frozen Prepared Food Trend Is Evolving To Include Advanced Flavor Profiles And Extra Nutritional Attributes

BFY frozen prepared food categories grew at ~18% CAGR during the pandemic, occupying 10-30% of the total frozen prepared food shelf space at large grocery chains, and BFY freezer space is expected to grow moving forward. The fastest growing BFY claims are high protein, ethnic cuisine, and plant-based, while the share of gluten free and low carb is holding more or less steady; much of this growth is coming from products with just a "clean ingredient" claim. This growth in products with BFY claims is led by the largest BFY frozen prepared food brands (e.g., Applegate Organics, Amy's Kitchen). In response to the rise of BFY brands, legacy brand owners (e.g., Nestle, Conagra) are developing their own BFY portfolio by acquiring niche BFY brands and launching BFY products under their legacy brands. The target is perceived as a valued partner and easy to work with compared to other vendors as it is more willing to adapt its products to retailer needs. The target has been able to provide high-quality food and is also more product innovative with better packaging than other key players.

Significant Growth Opportunities Available Due To Limited Current BFY Product Penetration Across Multiple Frozen Food Categories

Gotham's deep dive into frozen prepared food categories revealed limited presence of BFY brands within many subcategories that either had no BFY products or just one BFY brand. Our analysis of historical brand and product performance revealed that when a BFY brand came into a subcategory, it exhibited rapid growth as consumers purchasing mainstream products now had a BFY option and consumers already purchasing BFY products now had a choice in an additional product category. The target has been leveraging this opportunity by introducing BFY products in underserved categories. In fact, ~90% of the target's revenue growth originated from successful new market entries, demonstrating the target's agility in aligning its product portfolio with evolving consumer trends. Leveraging the potential to tap into available whitespace, the target stands poised to sustain its above market growth.

The Outcome: Gotham's deep dive into SKU and brand metrics and interviews with key grocery store buyers provided our client with a robust understanding of the target's competitive positioning and the growth outlook of BFY frozen prepared foods. Armed with this fact-based assessment, our client was able to make informed, confident decisions regarding deal pricing and negotiations.

