

Customer & Market Due Diligence Of In-Store Bakery Supplier: Establishing Consumer Conversion Opportunity By Quantifying Available Whitespace

The Challenge: One of our long-time PE clients was pursuing a large, family-owned B2B bakery supply distributor serving in-store bakery departments of food retailers as well as independent bakeries. The target had recently acquired its largest competitor and ascended to a market-leading position. While our client was excited about the business, they believed that to prevail in this hotly contested auction they would need to find additional growth opportunities beyond the management case. From an initial review, Gotham quickly established that there is a significant opportunity to bring more consumers to the target's product categories and the target's new market leadership position allowed it to move beyond its traditional B2B focus to become more consumer-oriented and grow the category. Our client then asked us to validate this consumer conversion opportunity and more precisely establish the target's growth potential.

2-Phased Approach To Support Investment Committee Go-Ahead Decision At An Early Stage: Given that investment committee approval for pursuing the deal hinged on the consumer conversion opportunity, Gotham structured the due diligence effort to start with a **2-week Phase I** to quickly validate the consumer conversion opportunity via:

- An online survey of a 1,116-consumer panel to determine consumers' grocery purchasing behavior, baked goods purchases by occasion, trends/outlook moving forward, and attitudes regarding the target's products.
- Interviews with 37 bakery executives, in-store bakery buyers, and store-level bakery managers at leading supermarkets, club, and mass food retailers (e.g., Kroger, Albertsons, Ahold, Publix, Costco, Walmart) to understand: current penetration of the target's products, market trends, and growth rates; their plans for in-store bakeries and for the target's product categories; and the target's reputation and competitive positioning.
- A high-level review of retailer bakery market dynamics leveraging available industry data.

Gotham's Phase I effort indicated a significant whitespace opportunity and consumers' favorable attitude towards the target's products. The investment committee, now comfortable with the target's growth potential, gave the go-ahead to pursue the target aggressively. The deal team asked Gotham to conduct a **2-week Phase II** due diligence effort to drill down on the growth opportunity, with our effort including:

- A follow-on survey of a 2,233-consumer panel to collect in-depth data on consumer purchases and attitudes for 7 product types for 34 occasions and test potential product and marketing ideas to convert consumers.
- An online survey of 276 store-level bakery employees to gain deeper insights on the current state, growth plans, and competitive situation at the store level.
- A complex occasion-level model to establish the size of the addressable market and the current penetration level of the target's products using data/insights from consumer survey, insights from retailer interviews/survey, and Nielsen Fresh data

Target A Key Supplier To The High Margin, Fast Growing In-Store Bakery Department

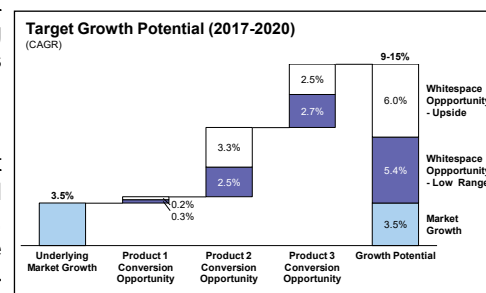
Gotham's research and retailer interviews quickly established that the in-store bakery department is a priority department for food retailers as it is benefitting from the consumer shift from the center of the store (primarily packaged goods) to the perimeter of the store (traditionally containing perishable goods—bakery, produce, dairy, etc.). Retailers indicated they are positioning in-store bakery as a destination department and the target's product categories are some of the highest margin products in the store. As consumers convert to the target's products, the average ticket size goes up and thus margins. Target was perceived as a high-quality, reliable supplier and retailers indicated that the target can help them grow the category by bringing more consumers to the category.

A Significant Whitespace Opportunity As Target Currently Capturing Only <20% Of Addressable Market

Gotham's multi-pronged assessment of the whitespace opportunity established that the target was only capturing <20% of the potential opportunity and that there are multiple pathways to capturing additional consumer purchases. We established that the target had an opportunity to drive consumer conversion through better marketing of its offerings – via consumer marketing and supporting retailers with in-store shopper marketing, broadening its product portfolio beyond its child-focused assortment to products targeted towards young adults and additional occasions, and reducing buying friction through better tools for consumers and retailers.

9-15% CAGR Growth Possible For The Target Over Next 3 Years

To provide input to our client's valuation model, we determined that the target can achieve a 9-15% CAGR growth over the next 3 years based on the potential whitespace conversion opportunity. For each of the target's product categories, we converted insights from the consumer survey into actionable strategies the target can pursue to convert consumers. We also modeled the potential penetration level for the target's products over the next 3 years.



The Outcome: Armed with fact-based, actionable insights and reliable numbers from Gotham at each stage of the process, our client was able to navigate through a hotly-contested auction and justify the conviction to submit the winning bid. After the deal closed, Gotham conducted an all-day workshop with all key executives of the target to share our findings and provide actionable input to their strategic planning process.