

Market Study For Foodservice Fresh Produce Distributor: Establishing Customer Buying Behavior And Competitive Positioning

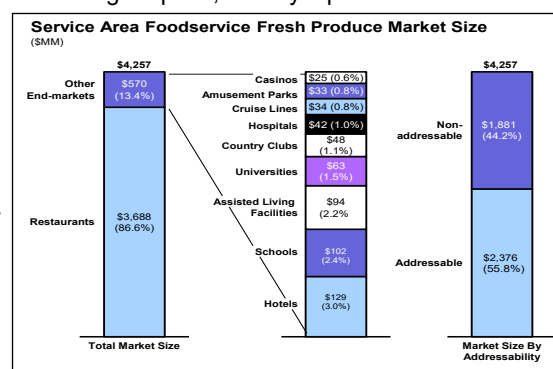
The Challenge: Our client, a fresh produce distributor serving foodservice customers, was experiencing elevated levels of customer attrition and below-budget EBITDA 2 years into a PE investment. The company's management and sales team believed that market conditions were putting pressure on top-line growth and margins but the PE firm wanted clarity on the market to understand whether the company's performance challenges were being driven by market conditions or by internal execution. As such, our client asked Gotham to conduct a fact-based market assessment to establish: 1) fresh produce foodservice customer buying behavior; 2) the company's competitive positioning; and 3) the addressable market size for foodservice fresh produce distribution.

Foodservice Distribution Market & Competitive Dynamics Assessment: Gotham undertook a robust, multi-pronged assessment that involved:

- Conducting 55 anonymous interviews with and collecting 134 online survey responses from foodservice fresh produce buyers to gain insights into: customer purchasing criteria and price sensitivity; buying behavior; positioning of our client and its key competitors; and end-market performance and growth outlook
- Building bottom-up market sizing models for each end-market (restaurants, hotels, schools, assisted living facilities, universities, country clubs, hospitals, cruise lines, amusement parks, and casinos) by: generating a dataset of fresh produce foodservice customers at a granular zip-code- or establishment-level, segmented by tier (e.g., luxury hotel vs. upper midscale), cuisine, and size; and leveraging client data, interview, and survey responses, as well as secondary research to establish fresh produce purchasing benchmarks by end-market.

Specialty Fresh Produce Distributors Primarily Serve More Than Half (\$2.4B) Of The Total \$4.3B Foodservice Fresh Produce Distribution Market In The Company's Service Area

Specialty fresh produce distributors offer a higher level of quality and service for a higher price, so only a portion of the market is addressable, with that portion depending on produce quality needed and size of the produce spend. Cuisine also matters as different cuisine types require varying levels of produce quality, e.g., Mexican restaurants typically have more basic produce requirements and can be served by headline distributors, while American cuisine restaurants place a greater emphasis on produce quality for their salads and vegetable dishes. Further, smaller restaurants typically purchase from Restaurant Depot or jobbers because they don't have enough produce spend to justify the high delivery cost of specialty distributors, while large national chains are typically contracted through headline and national distributors. Thus, the company's core addressable customer base tends to be higher-end restaurants, country clubs, and luxury hotels, all segments that were less impacted by recent economic challenges, including rising labor, product, and energy costs.



Product Quality Is Table Stakes In The Fresh Produce Distribution Industry, With Customers Expecting Reliable Delivery And Responsive Service At Competitive Prices

Fresh produce is a relationship-driven business – while customers expect high quality, they understand that issues will arise with quality, availability, and delivery, given the nature of fresh produce but want to be notified ahead of time of any issues and expect their sales rep to fix the problem promptly. Sales reps and distributors who are responsive and provide good service are rewarded by long-term relationships with chefs that often carry over when chefs change restaurants. Thus, customers typically have 1 primary distributor getting 70-90% of their total fresh produce spend and 1-2 secondary distributors that are used for specific products or as backup in case of quality, availability, or delivery issues. While customers do not buy solely on price, they compare prices across distributors regularly and expect prices to be competitive. Most customers would require a significant (>10%) price difference to consider shifting their purchases to another distributor, with larger customers tending to be less price sensitive.

The Company Is One Of 6 Specialty Fresh Produce Distributors In The Market Who Offer Similar Products And Services

Our client and its key competitors all scored similarly on NPS and were comparably rated on customer selection criteria, generally receiving high ratings because customers gravitate towards distributors they like working with. As distributors have minor differences in product selection, quality, delivery performance, customer service, and prices, their ability to execute well and respond to delivery issues and customer requests promptly serve as key differentiators in this market. Gotham established that our client was underperforming some of its key competitors on several key operational metrics and that one of its larger competitors was struggling due to a recent management change, presenting an opportunity for our client to gain share by improving on sales and operational execution. Also, the client's recent add-on acquisition provided a warehouse in a nearby secondary market, allowing it to respond more quickly to issues and customer needs, strengthening its competitive positioning in this secondary market.

The Outcome: Gotham established that while there are some market challenges, the market has not gone and is not going off a cliff, and is not the cause of the company's performance issues in the last 2 years. Further, Gotham provided clarity on the company's competitive positioning as one of 6 similarly positioned specialty produce distributors in its market, establishing that customers are looking for a vendor that is competitive on price and executes well. By identifying executional areas where the company was underperforming its competitors, Gotham guided management's focus on sales and operational execution improvement opportunities to improve the company's competitive positioning, reduce customer attrition, and drive growth.