Customer & Market Due Diligence Of Salty Snack Manufacturer: Understanding Market Performance And Opportunities In Value Tier And Private Label

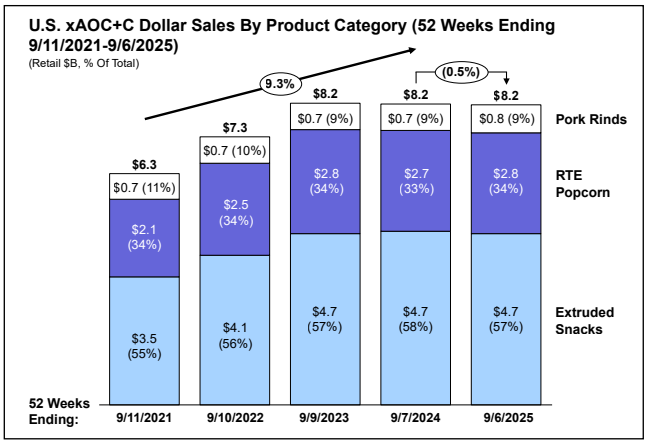
The Challenge: Our client, a mid-market PE firm, was evaluating an investment in a value-tier salty snack manufacturer with strong branded and private label presence across several product categories, including pork rinds, RTE popcorn, and extruded snacks, and significant presence in the Southeast. While the target was a popular regional brand, our client was concerned about the recent underperformance in the overall salty snack market and the potential negative impact of evolving macro challenges (e.g., SNAP cuts, GLP-1 drugs, MAHA, consumer financial stress) on the target's product categories. As such, the client asked Gotham to conduct a 3-week customer & market due diligence to: 1) understand the salty snack market performance and outlook; 2) evaluate the positioning of value-tier options within the target's product categories; and 3) establish the target's growth opportunity within private label.

Branded And Private Label Opportunity Assessment: Gotham undertook a robust, multi-pronged assessment that involved:

- Conducting 33 anonymous interviews with salty snack retail category buyers/executives and manufacturers to establish: shelf presence of the target's categories, as well as retailers' category and private label plans moving forward; buyers' decision-making criteria and the target's positioning vis-à-vis its competitors; and retailers' pricing strategy and ability to pass price increases on to consumers
- Analyzing Nielsen data and the target's sales history to establish: the size of the target's product categories relative to the overall salty snacks market; value-tier and private label share within each product category; and top competitors' brand performance and the target's share in each product category
- Leveraging available government/industry data, SEC filings, and industry research to understand salty snack consumption behavior and trends and to establish the impact of inflation and macroeconomic conditions on salty snack consumption
- Profiling salty snack manufacturers in the target's categories, including their size, manufacturing footprint, product portfolio, and private label manufacturing capabilities.

Recent Salty Snack Market Performance Was Muted Due To Inflationary Price Increases, Opening An Opportunity For Value Tier

The salty snack market grew at 12.5% CAGR post-covid, driven primarily by inflation, and then flattened out in the last 2 years, with unit volume declining at 1% CAGR. Frito-Lay, which controls ~50% of the salty snack market, pushed aggressive 17% and 10% price increases in 2022 and 2023, respectively. This price inflation, combined with stress on consumer finances from wages not keeping up with inflation and post-pandemic cuts to SNAP benefits, has caused consumers to trade down and trade out of salty snack categories. Looking ahead, future SNAP cuts will continue putting stress on lower income consumers, who look for value-tier options to avoid cutting out snacking entirely.



The Target Plays In Attractive Salty Snack Categories Benefitting From A Shift Towards Healthy Eating

The recent BFY eating trend is driving consumers to look for healthier snack options, particularly high-protein, low-sugar, and low-carb alternatives. At the same time, increasing adoption of GLP-1 drugs is driving users to reduce overall calories and cut out high-fat and sugary foods specifically. The target's primary offering, pork rinds, benefited from the keto trend in recent years and is well-positioned as a high-protein option for GLP-1 users. RTE popcorn, similarly is perceived as a healthier option because it is low-calorie and high-fiber. Extruded snacks are trending positively because of bold flavor innovation and healthy perception due to their aerier texture and crunchy mouth feel.

Private Label Penetration in Salty Snack Categories Still Relatively Low, With Growth Opportunity From Consumers Searching For Value Options

Private label penetration in salty snacks grew from 7.9% to 8.5% over the past 3 years but still trails significantly behind the 18% penetration in overall grocery. Retailer shelves are typically structured to include a mainstream brand, a few regional brands, and a private label offering; in recent years, however, mainstream grocery retailers have also looked to add a lower-tier private label option to better compete with the dollar channel. Although snacks have historically been viewed as an indulgence, with consumers loyal to national brands, private label quality has improved to match national brands. Because consumers' finances are stressed, they are open to trying private label. Given the limited private label manufacturing capacity available, with only 1 national player and several regional brands having private label products, the target is well positioned to benefit from the shift to private label given its proven ability to meet retailers' private label cost points.

The Outcome: Gotham's fact-based approach gave the client a clear view of the positioning of value-tier salty snacks and the target's brand positioning within value-tier. Gotham also addressed key concerns around recent market underperformance and the impact of various macroeconomic and healthy eating trends, while also identifying actionable growth opportunities, enabling the client to gain confidence in the target's future potential and move forward in the bid process.

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