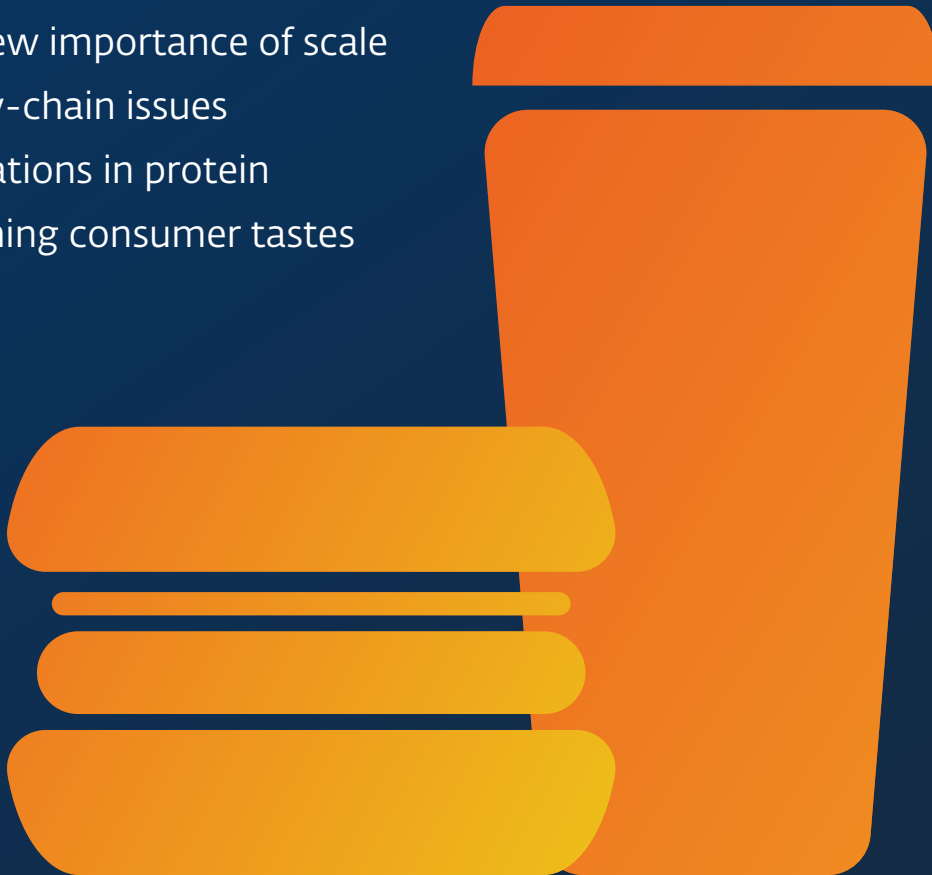


# Q3 | Dealmaker 2020 | Roundup

Winners and Losers in the COVID-era  
Food and Beverage Industry

- The new importance of scale
- Supply-chain issues
- Innovations in protein
- Morphing consumer tastes



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## Winners and Losers in the COVID-era Food and Beverage Industry



This report is based on an edited transcript of a recent Privcap podcast.

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**Privcap: Dan, you specialize in consumer investments, including food and beverage. In the midst of the COVID crisis, are deals happening?**

**Dan Costello, TSG Consumer:** We're still seeing a very active market right now. Total activities may be down, but businesses that are performing are still very attractive and garnering strong valuations from financial investors and strategics. Some of the processes that were put on hold at the onset of COVID are starting to come back to market.

**Christopher Shaker, RSM:** There are a lot of deals happening. The question is whether or not the smaller operators will lack some of the scale to be able to compete with price and resources and technology. A lot of the movement toward digital and online – especially in light of the COVID pandemic – require some investment and a lot of those investments tend to be scalable across organizations that have more units. We could see some consolidation in the retail food space, with some of those smaller operators that have a really good brand and good presence, but they're just not really able to adapt to the changes that are taking place in the industry.

**Tom Martin, RSM:** We've gotten really busy, and I certainly expect that to continue. I think of it in two buckets. There are a lot of quality companies that I would say are really well positioned going into the pandemic. They've come out with very strong assets and they're getting a lot of attention when they come to market. Other companies weren't quite as well-positioned for a variety of reasons. Think of an energy bar business going into gyms, or a food service company selling into offices. Those are getting a lot of minority investments, cash infusions and the like.

**Privcap: Further to that observation, which types of companies are set to thrive in the pandemic, and which are not?**

**Costello:** Companies that have continued to invest in innovation and have differentiated products are performing really well through this pandemic. Some of the bigger companies that have more diversified supply chains and brand awareness are doing well. Think about a consumer going into the grocery store and trying to get out as quick as possible. The companies that have gotten themselves into trouble maybe weren't as diversified from a distribution or supplier standpoint. I think diversification and brand strength have really helped benefit some of the companies that are performing well through this.

It just comes back to product innovation, in terms of product. The price-value equation needs to be compelling to the consumer. That is what's going to help businesses succeed over the long run. Some retailers are focusing on consumer shopping safety and have pulled back on some of the planogram resets. They have focused on bigger brands with stronger awareness and they are trying to drive consumers to those types of purchasing decisions.

**Privcap: What trends furthered by the COVID crisis are going to become permanent as opposed to temporary?**

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**Martin:** There is an acceleration of digital that was already happening. So, if you weren't connected into those channels – the Shopify effect – it might be harder to catch up now.

Innovation remains key, for example, in the better-for-you trend: Spiked seltzer taking over for beer, caffeinated waters, lower-sugar snacks and healthy proteins. People got a chance to try these because of shortages, or maybe they had more time to think about it and cook from home. Innovation on convenience is important, too. People are going out to eat less. I think all of that will be certainly long-lasting. I do think there will be a return to branding, and it's going to be harder for some companies who don't have continuity within their supply chain.

**Shaker:** Online grocery was only about three percent of total sales before the pandemic.

Anecdotally, I'm surprised by the number of people I've spoken with who have bought groceries online either for the first time or more frequently. And they seem to have had a positive experience.

**Privcap: What are the top trends in the protein and meat space?**

**Costello:** There's been a growing push from consumers for protein. And that's not just your traditional protein, but also alternative product formats. Think about beverage brands like Muscle Milk and Super Coffee. There's a big push in the bar category. What's really starting to thrive is this shift to meatless proteins. There's continued demand for protein from consumers and companies that are bringing innovation to the market.

**Privcap: In the supermarket business, there's a concept called the "center aisle," which means the big prepackaged food brands that in years past were staples in American homes and perhaps fell a bit out of favor in recent years. Now, in the middle of a pandemic, the center aisle is suddenly performing very well. Why?**

**Martin:** Over the year, there was a push to fresh and local. The outer aisles were where the grocery stores made their money on the prepared food and things of that nature. During the pandemic, there was a drive to stock up on shelf-stable goods. There's good value there. This trend may have been partly due to the unemployment stimulus. That might last a bit longer, but it also plays into alternative proteins and people being creative. A lot of companies have done really well showing creative ways to dress up a can of beans. That feels sustainable. But you're also seeing value and this better-for-me theme collide in the center aisle with innovation. It's all the better-for-you vegetables in disguise: veggie tots and cauliflower rings. It's a bit more sustainable, so you can stock up on it.

## Direct-to-Consumer

**Privap: What has happened to the direct-to-consumer model? For example, Blue Apron is one among several direct-to-consumer meal-kit companies that was not necessarily thriving in the pre-COVID era, and now is. What happened and do you think that's sustainable?**

**Shaker:** Technology happened. The lines have blurred significantly in the entire consumer ecosystem because of the ability of manufacturers – who had primarily sold only through retail previously – to go direct to consumers. That has shaken things up considerably and that trend will continue. If you look at the millennial generation, their spending power is still getting stronger. They are starting to have families. The ability to have food, or even now a lot of meal kits, delivered to their doors is really going to be preferred over bringing their kids to the grocery store. And let's not forget that this generation essentially grew up with mobile devices in their hands.

**Martin:** And the direct-to-consumer trend is not constrained to human food. Chewy is the Amazon for pets. We're seeing a lot of pet companies partner with Chewy. Once you're native on that, they've got your reorder status. It's super easy. It shows up on your doorstep when you need it, with recommendations, and that ability to really interact and touch customers directly is hugely powerful.



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**Shaker:** A lot of people are realizing that the quality of frozen foods has really improved – both the quality of food itself and also the technology available for flash-freezing.

**Costello:** Some of the products we've seen in the market from candy all the way to the other end of the spectrum are from innovative and great companies. They have been able to bring products to the market with great taste profiles.

### **Privcap: What do investors need to understand about supply-chain dynamics in the food and beverage industry?**

**Martin:** You saw over the last decade a complication within the supply chain trying to really run it very tightly. You certainly saw that with the meat producers. There wasn't a lot of room for error, with just-in-time and outsourcing to other people. There was a lot of capacity with contract manufacturers that doesn't give you the ability to be nimble. It doesn't give you the ability to innovate as quickly as you might want to. A lot of the larger companies simplified their supply chain and even their production. The number of SKUs – where you might have to produce 100 different products to fill up a shelf – decreased to just the ones they knew they could get supply on or that they could sell through. So, maybe they went down to producing just five for a period of time. It's very hard to do that if you've got a very structured supply chain and with a bunch of channel partners.

**Costello:** A lot of it comes down to predictability. There's no one-size-fits-all supply chain for every company. It's so important to make sure the product you're putting on the market is consistent with what the consumers are expecting. The ingredients that are on the packaging have to have good quality-control standards, too. There definitely is a safety element to it, but also delivering on the nutritional content consumers are expecting when they make that purchase.

### **Privcap: What makes you excited to be part of the food and beverage industry going forward?**

**Martin:** The heightened level of disruption is certainly going to be a key driver of M&A activity. The most exciting part for us is helping our clients navigate the acceleration of trends we've been discussing.

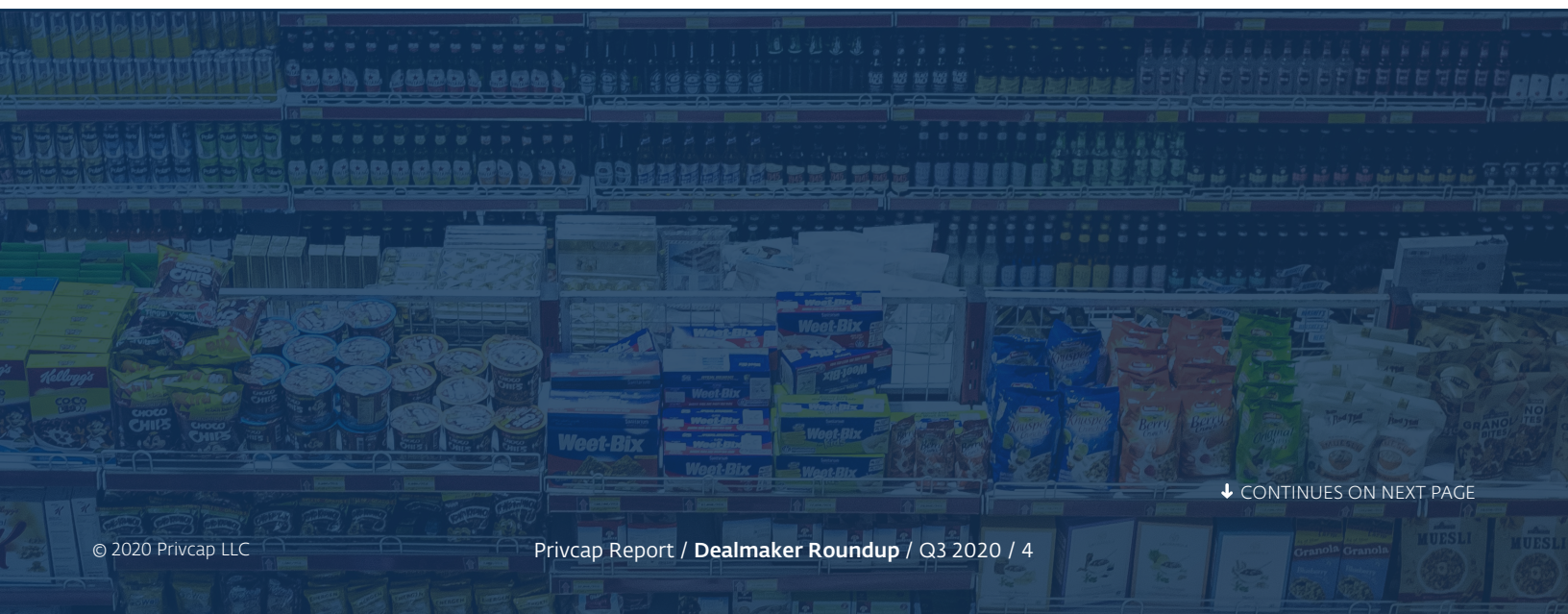
**Costello:** It's a unique industry in that the entrepreneurs that have started a lot of these great businesses have such passion and conviction around their purpose for the brand. Being able to partner and ride along that journey is really fruitful, and it's something that we've been really fortunate to be a part of and are looking forward to continuing.

### **Privcap: When you last walked into a grocery store, did you see something that made you say, "Huh, this is going to impact my profession?"**

**Martin:** It's been a very long time since I walked into a grocery store. I've fully adopted delivery and virtual orders. The trend about how you position yourself virtually really matters. If you can't physically interact with something, you need information on it and reviews. It's become so much more important to me over the last few months. How can people shop for food without being able to touch it? Boy, if you haven't done a good job positioning yourself online, you're way behind right now.

### **Privcap: Chris, to Tom's point, you don't mind having someone else select your avocado?**

**Shaker:** I'll tell you that during the height of the lockdown, my wife and I were having our food delivered. So, we were having our produce picked for us and we were very hesitant about that. Surprisingly, the quality wasn't that bad. And some people who are trying these things who maybe were a bit hesitant before are having an okay experience with it. ■



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**Q3** Dealmaker  
2020 Roundup

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**Dealmaker Roundup | Q3 2020**  
*Winners and Losers in the COVID-Era Food and Beverage Industry*

- The rise of mega-food brands
- Protein as an innovation case study
- Critical of supply chain
- Good-for-you redefined

*With Expert Commentary by:*

 Dan Costello Managing Director TSG Consumer	 Tom Martin Partner RSM US LLP	 Christopher Shaker Partner RSM US LLP
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