



Food for Thought

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Snack Foods in Growth Mode as Marketplace Evolves

Snacks represent one of the biggest aisles in the grocery store—as well as one of the most dynamic. Changes in consumer behavior, social trends, product innovation, and technology are combining to drive the category's growth. In this edition of Food For Thought, we highlight three major themes of winning brands in the category and discuss the increasing importance of e-commerce and sustainability.

Have a Craving for Growth? Look to These Demand Drivers

Snacks is one of the largest categories in consumer-packaged food. U.S. consumers spend almost \$50 billion on snacks every year, which represents over 10% of total retail spend on consumer-packaged food, excluding beverages. The largest categories are salty snacks (about 60% of sales) and snack bars and nuts (about 25%), with dried meat snacks, fruit and trail mixes, popcorn, and others making up the rest. Snack food sales have increased at a midsingle-digit CAGR over the past several years, well ahead of the grocery sector as a whole.¹

Growth in snacks sales is being driven by changes in eating habits, social trends, product innovation, and e-commerce. Snacking is becoming more central to consumer eating habits, and snack manufacturers are innovating to keep up, including creating healthier and more functional options that appeal to a wider range of tastes and needs.

We identify three key demand drivers underpinning sales growth in snacks. Companies that are positioned at the leading edge of these themes are expected to outperform and attract increasing attention from financial sponsors and strategic buyers.

1 - Health and Wellness

Consumers are increasingly aware of the role of eating habits in overall health and wellness. They are focusing particularly on ingredients—organic, natural, clean, and simple—and they are more knowledgeable about macronutrient profiles today than ever before. Sales of snacks targeting health and wellness themes have grown at double-digit rates over the past few years, more than twice that of the overall snack category.¹

Companies that exemplify the health and wellness theme include Sensible Portions (Hain), Late July (Campbell's), Lesser Evil, Nature's Bakery (Mars), Sonoma Creamery, Perfect Bar (Mondelez), PeaTos (Snack It Forward), and Chomps. William Blair served as financial advisor to Nature's Bakery on its sale to KIND, a subsidiary of Mars, Incorporated, in December 2020 and Chomps on its minority investment from Stride Consumer Partners in December 2021.



2 - Diet/Lifestyle Needs

Growing understanding of nutrition and chronic diseases, along with innovation in snack food formulations, have spurred demand for snack products that target specific lifestyle needs. Snacks in this category address dietary themes (gluten-free, vegan, etc.) and special functions (weight, energy, and sleep management). The CDC estimates that over 17% of U.S. adults are on a special diet at any given time, and special diets are more common among women and adults ages 40 and over.² Lifestyle-oriented snack foods with product attributes such as weight management, plant-based, low carbohydrate/sugar, and high protein have seen particularly strong growth.

Companies that represent this theme include From The Ground Up and Hippeas, which are focused on special diets; Atkins (Simply Good) and FitCrunch (Pervine Foods), which have a functional focus; and Siete, which focuses on ingredient profile.



3 - Use-Cases

Consumers are growing more active and less tied to the traditional three meals per day convention. Small, frequent meals are increasingly seen as not only convenient, but nourishing and metabolically sound. As a result, people are snacking more often and looking for snacks to cover more use cases, including on-the-go, core nutrition, and permissible indulgences.

Companies that highlight this theme include Quest (Simply Good), Epic (General Mills), Bobo's, Honey Mama's, Popcornopolis (Barcel), Tillamook

Country Smoker, Whisps, and G.H. Cretors (Eagle Foods). William Blair served as financial advisor to Popcornopolis, a portfolio company of NexPhase Capital, in connection with its sale to Barcel, a division of Grupo Bimbo, in September 2021..



Snacking on the Internet: The Rise of E-commerce

Snacks are participating in the growth of e-commerce in CPG retailing, with a boost from the COVID-19 pandemic. More than 10% of snack food sales now take place online, and this share is expected to double over the next few years.³ To remain competitive, snack companies increasingly need a strong online presence and creative strategies for generating demand in the virtual grocery, as well as ensuring efficient fulfillment.

Online shopping habits appear to be stickier than in-store habits, with more repeat purchases, so it is important to establish a brand early. Also, snacks are associated with impulse purchases in-store, so snack companies need to find ways of simulating this behavior online. Their strategies include strong product assortments, careful merchandising, and active use of digital content and social media. Snacks companies are also forging close ties with big online grocers, because snack sales are often add-ons to a core shopping basket. Currently, around half of online snack food sales take place through the Walmart and Amazon platforms.⁴

Online subscription and refill services enhance brand loyalty and repeat

purchases. Fast delivery, click-and-collect, and voice ordering all combine to support online sales growth. Click-and-collect was the dominant fulfillment method for snacks in 2020, beating out delivery four to one.³

An unintended consequence of the growth of e-commerce in snack foods may be rising concentration among fewer SKUs in any given category. Online searches are inherently hierarchical—most consumers focus on first-page items, perhaps the top 10 or 15. This compares to the store, where dozens or hundreds of products may be arrayed in aisles. Mobile devices with limited screen space and smart speakers exacerbate the trend. This suggests further fragmentation of the industry, and potentially greater M&A activity in the future.

Increasing Appetite for Sustainability

Snack foods are packaging-intensive, and most of that packaging is plastic-based. It contributes to the 14.5 million tons of plastic packaging waste generated annually in the U.S., most of which ends up in landfills.⁵

Commitment to sustainability is a brand-forward feature. Most snacks companies are working to ensure their plastic packaging is recyclable, compostable, biodegradable, or reusable. Many have set goals for reducing or altering packaging materials to lessen environmental impact. Some are moving to paper-based packaging. Others are partnering with firms such as Terra-Cycle, which helps customers establish closed-loop recycling systems. Sales of snacks with recyclable or sustainability-certified packaging grew at double-digit rates in 2020.³

Social practice is another focus. Snack food companies often have far-flung global supply chains, which puts the spotlight on equitable labor practices. Many companies seek out Fair Trade certification. The industry has also become increasingly involved in the Child Labor Monitoring and Remediation System, which tackles child labor usage through

2. CDC: Stierman B, Ansai N, Mishra S, Hales CM. Special diets among adults: United States, 2015–2018 NCHS Data Brief, no 389. Hyattsville, MD: National Center for Health Statistics. 2020.

3. IRI, "The Snacking Frenzy in 2021 and Beyond," April 2021

4. IRI, "It's Time for Snack Brands to Take a Bigger Bite Into E-Commerce"

5. US Environmental Protection Agency, Plastics: Material-Specific Data, 2018—<https://www.epa.gov/facts-and-figures-about-materials-waste-and-recycling/plastics-material-specific-data>

supply chains and local community organization. Participants include companies such as Mondelez, Hershey, and Nestle.

A number of snack food companies have also sought out B-corp certification, which demonstrates commitment to the needs of a broad range of stakeholders (employees, consumers, communities, and suppliers, as well as investors). Amy's, Once Upon a Farm, Ripple, Rebbl, Sir Kensington's, The GFB, Thrive Market, Vita Coco, and Zevia are all B-corps. Sales of snacks from companies with strong social credentials are outperforming the category as a whole.⁶

If you have any questions about the trends driving growth in the snacks industry or specific companies at the forefront of these themes, please don't hesitate to contact us.

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6. IRI, "The Snacking Frenzy in 2021 and Beyond," April 2021