



BUILDING A SUCCESSFUL RETAIL BUSINESS FOR A FOODSERVICE MANUFACTURER

Business Type: Egg Breaking and Processing

Manufacturing Capability (in 1990): Extensive

Financial Strength (in 1990): Excellent

Relevant Retail Category: Refrigerated and Frozen Egg Products

The Challenge: Entering the retail channel

Foodservice manufacturers often possess outstanding production capabilities. Yet, they frequently lack the relevant knowledge regarding retail product development and distribution. If entering the retail channel is a corporate objective, foodservice manufacturers have to either hire the talent required to open this channel or outsource the challenge to a team such as Foodmark. Fourteen years ago, one of our earliest clients faced this decision.

By 1990, a little known group of specialized processors, known as egg breakers, had literally transformed the way in which industrial and foodservice accounts purchased eggs. Any number of products, including whole eggs, yolks and egg whites, could now be acquired “outside the shell.” Convenience and pasteurization were the primary selling points. In addition, due to the sheer processing power of egg breakers, the new liquid products offered significant cost savings when labor and other factors were considered. The industry had experienced a paradigm shift...shell eggs were no longer the form of purchase for large-scale users.

Relative to the industrial and foodservice markets, the consumer market was in its infancy in 1990. *Egg Beaters*, a cholesterol free alternative to shell eggs, was the only widely distributed egg product. It was sold in the breakfast section of the freezer case and positioned directly and solely to those consumers seeking to reduce their intake of cholesterol. In 1990, sales of *Egg Beaters* were approximately \$88 million in the retail channel.

Meanwhile, another egg substitute brand, *Second Nature*, was growing in the dairy section. Similar to *Egg Beaters*, the brand was cholesterol free and fat free. The advantages of being merchandised in the dairy case were clear: proximity to shell eggs allowed the user base to be easily expanded and a refrigerated product wouldn't require thawing. In 1990, sales of *Second Nature* were approximately \$12 million.

The Solution: Avoiding the Entrenched Competitor by Launching in a Different Category

As we reviewed the opportunities for our client, several trends and two specific opportunities became clear. First and foremost, the dairy category presented the greatest opportunity for current and future growth. We viewed the egg substitute category as similar to the juice category. As product development improved, a refrigerated product would be preferred to a frozen product simply due to ease of use or convenience. In addition, the dairy category would allow merchandising adjacent to shell eggs, the very category where our future consumers were already shopping. Real growth would only occur if we could expand the user base by switching them from shell eggs.

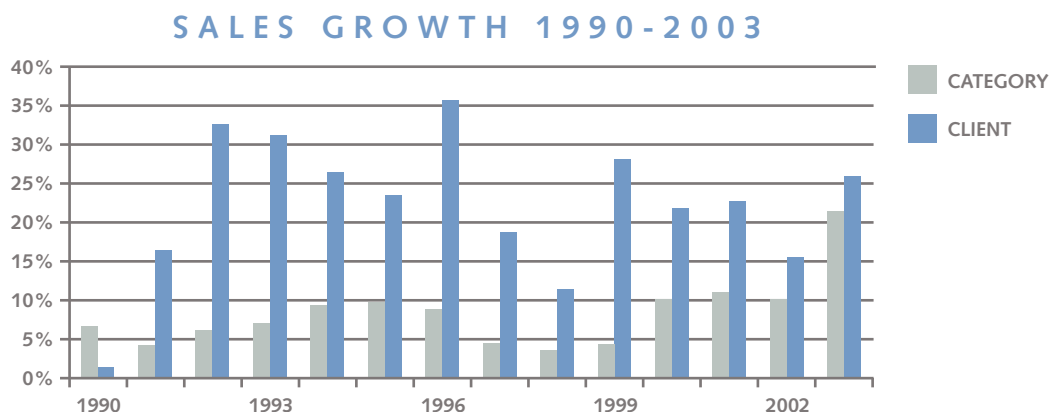
The dairy category also piqued our interest due to purchasing behavior. The frozen category had been established for 20 years. *Egg Beaters* had developed strong consumer awareness and it would be costly to pull consumers into our franchise. Conversely, the dairy category had only recently been created. Buying habits had not been formed. In our opinion, *Second Nature* didn't present the same challenges as *Egg Beaters* did in the frozen case. Therefore, we were confident that we could launch a refrigerated brand and compete against the existing players.

In addition to the branded introduction, we saw a second opportunity in the growth of private label sales. In 1990, retailers were committed to developing and growing their private label sales. Even though egg substitutes might be viewed as a fringe or esoteric category, we were confident that the dairy category allowed a significant opportunity for private label sales. We knew that private label items usually became the number one or two selling brand in its category...butter, orange juice, yogurt...even shell eggs! Therefore, the pursuit of private label would be our second strategic goal.

The Results: Sales Increased at 2-3 Times the Category!

Through the period 1990-2003, our client's sales increased at 2-3x the category's annual growth rate.

Our two-pronged attack into the refrigerated category required significant investment by our client, but delivered a healthy and profitable business. Today, the introduction of additional value-added products, along with the addition of specialized processing capabilities, allows this manufacturer to be one of two players participating in the egg substitute category.



Egg Beaters is a registered trademark of Conagra. *Second Nature* is registered trademark of Dean Food.