First Research Best Practices

First Research is the leading provider of industry intelligence tools that help sales and marketing teams perform faster and smarter, opening doors and closing more deals. Without adding hours to your work-day, you can infuse sales calls, business meetings, presentations, and outreach efforts with up-to-date industry information that demonstrates a thorough understanding of your prospects’ challenges and opportunities.

We do the heavy lifting for you by analyzing hundreds of sources to create insightful and easy-to-digest industry information that can be consumed very quickly. You are better able to understand a potential or existing client’s business issues, without the time-consuming and expensive research process.

The following is a sample of a First Research Industry Report with additional notes explaining the report’s contents and how you can use this valuable information. Report size varies by industry.

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Snack Foods Manufacturing

12.3.2012
NAICS CODES: 31191
SIC CODES: 2068, 2096

Industry Overview

Companies in this industry make snack foods such as nuts, chips, and popcorn, as well as peanut butter. Major companies include US-based PepsiCo’s Frito-Lay, Kraft Foods, Diamond Foods, and Snyder’s-Lance; Grupo Bimbo (Mexico), United Biscuits (UK), Calbee Foods (Japan), and Nongshim (South Korea).

Worldwide, the snack foods manufacturing industry generates about $300 billion in revenue. Europe and the US are the largest markets. Eastern Europe, Latin America, and the Asia/Pacific region are the fastest-growing snack food markets.

The US snack foods manufacturing industry includes about 500 companies with combined annual revenue of $27 billion and is expected to grow at a moderate rate over the next two years. Key growth drivers are expanding convenience store sales, tree nut sales, and spicier offerings.

Makers of cookies and candy, which are not classified as snack foods, are covered in the Cookie & Cracker Manufacturing and Candy Manufacturing industry profiles.

Competitive Landscape

Demand is driven by consumer tastes and health considerations. The profitability of individual companies depends on efficient operations, effective marketing, and a strong sales force. Large companies have advantages in raw material purchasing, manufacturing efficiencies, distribution, and marketing budgets. Small operations can compete effectively by self-distributing products, selling online, or marketing snacks as gift items. The industry is highly concentrated: the top 50 companies account for 90 percent of industry revenue.

Snack foods compete for consumer dollars against other “impulse” food items, including cookies and crackers, baked goods, fruits and vegetables, and fast food.

Products, Operations & Technology

Major products are potato chips (about 30 percent of industry revenue); corn chips, including tortilla chips (20 percent); and bulk nuts (10 percent). Other products include canned nuts, peanut butter, popcorn, hard pretzels, and other chips. Salty snack foods are found in most American households. More than half of Americans eat snacks two to three times per day, according to NPD Group. Potato chips are the most popular US snack, followed by tortilla chips, popcorn, and pretzels, according to Mintel Consumer Intelligence.
To make potato chips, manufacturers receive daily truckloads of fresh potatoes. Potatoes come from various states, but Michigan is the largest producer of potatoes used for chips. Potatoes are stored in warehouses at 40 to 45°F and warmed to room temperature prior to processing.

A conveyor belt moves the potatoes through the various stages of manufacturing. Vibrating conveyors remove debris and push the potato to an automatic peeling machine. After peeling, potatoes are washed with cold water and enter a revolving impaler. Straight blades produce regular chips; rippled blades make ridged potato chips. A secondary wash rinses off excess starch from the newly sliced potatoes. “Natural” potato chips aren’t washed and retain this starch.

The sliced potatoes move through air jets that remove excess water and enter a long trough filled with hot cottonseed, corn, or blended oil. Paddles push the chips along as they fry. Salt and flavorings are added as the chips cool. Cooled chips are conveyed to a packing machine, where computer-aided machines pack the chips and add air and nitrogen to the package prior to sealing. Workers handpack the bags into cartons and place them on pallets for warehousing. Rejected potatoes and peels are sent to farms for animal feed. The starch removed during rinsing is sold to starch processors.

A snack food manufacturer must have advanced quality control measures in place at all stages of processing. Optical sensors spot and discard defective chips. Quality control managers inspect incoming ingredients, test the viscosity of oils, and taste-sample every product, typically on the hour.

To reduce product shipping costs, companies typically operate multiple manufacturing plants across the US. Most plants are capable of manufacturing a range of products, though each plant usually specializes in one or two popular brands. Large companies manage a network of distribution centers for warehousing products prior to store delivery.

Common inputs for snacks include white potatoes; corn and wheat flour; cottonseed, corn, and soybean oil; shelled peanuts; flavorings like herbs, salt, and spices; and packaging materials. Key energy inputs include water, electricity, diesel, and natural gas.

Recent technological advances include automated quality control instrumentation, advancements in creating crunchier chips, baked snacks, and genetically modified (GM) potatoes and corn that result in more uniform chips and snacks. Most large companies manage real-time sales tracking using a network of handheld wireless devices and centralized enterprise resource planning (ERP) systems.

Sales & Marketing

Typical customers are grocery wholesalers, warehouse club stores, food service distributors, vending machine distributors, and convenience stores (“c-stores”). Depending on the customer’s needs, sales can be consumer-sized or in bulk quantities. Supermarket sales account for around 50 percent of all snack sales. Warehouse clubs and mass merchandisers represent around 10 to 15 percent of sales; vending and food service, 5 to 10 percent, according to the Snack Food Association. Several companies specialize in producing private-label brands for supermarkets and c-stores.

Major sales channels include independent distributors, third-party brokers, internal sales forces, and direct store delivery (DSD) programs, where products are stocked and pulled by the company’s own distribution arm. Many companies rely on a combination of these channels.
Major types of **marketing** include TV and radio ads; coupons in newspapers, magazines, and on the Internet; movie, TV, and celebrity tie-ins; "merchandising" through in-store discounts and end-cap promotions; sweepstakes; and product-specific websites. Social media outlets like Facebook and Twitter are popular ways to reach new customers, build brand loyalty, and test new products. Since most large snack manufacturers are a division of a food conglomerate, end-caps and in-store promotions often feature complementary products (Pepsi and Doritos). Brand extension is common (Planters Big Nut Bars, Orville Redenbacher’s Ready-to-Eat Popcorn). Companies seek to maximize merchandising lift, the marginal gain in product sales volume from a price discount, feature in a store advertisement, or in-store promotion.

**Customer service operations** are extensive, as bad publicity can severely damage a brand. Media reports of foreign objects or animals in a snack bag can quickly overwhelm customer service operations. Most companies manage toll-free help lines and web-based email submission forms to address product questions and concerns.

Companies invest heavily in **Internet** promotions, developing interactive web sites around well-known brands. Most large processors manage restricted-access Intranets or electronic data interchange (EDI) systems to facilitate ecommerce transactions and manage inventory. Some small snack companies may specialize in online sales; typically, these sales are marketed as gift tins or baskets.

Typical product prices are $0.30 an ounce for potato, tortilla, and flavored corn chips and $0.25 to $0.50 an ounce for roasted nuts, depending on the variety. Private-labels cost 20 to 40 percent less than name brand. New reduced calorie or low-salt offerings are often more expensive per ounce. Distributors typically mark up prices 20 to 30 percent from the manufacturer’s price; retailers add another 10 to 20 percent. Retailer consolidation has shifted the buying power from manufacturers to retailers.

**Finance & Regulation**

**Cash flow** is generally steady throughout the year. For snack foods, the primary ingredient (nuts, potatoes, corn) is typically the most expensive input. To limit raw material and energy costs, companies use financial hedging instruments and enter multi-year contracts with key suppliers. The industry is capital-intensive: average annual revenue per employee is about $580,000.

For many large food conglomerates, operating profits in snack foods are the highest in the company. Gross margins range from 30 to 40 percent. Finished product inventory generally represents about 60 days’ sales. Receivables range from 30 to 45 days.

Snack food manufacturers typically own their own manufacturing property and processing equipment, although companies large and small may choose to work with a **contract manufacturer** (co-packer). Contract manufacturers produce products for a number of different companies, following an agreed-upon recipe and cooking process.

The snack industry is **highly regulated** by federal and state governments. The federal regulatory climate can vary depending on industry business practices and how pressing public health is compared to other national policy matters. The FDA oversees **food safety** and sets rules regarding health claims on labels. The Food Allergen Labeling and Consumer Protection Act (FALCPA) requires that manufacturers disclose if specific allergens (milk, eggs, peanuts, tree nuts, fish, shellfish, wheat, and soy) might be present in the product or the manufacturing environment. The FDA is researching the possible negative health effects of acrylamide, a carcinogen in food resulting from frying foods at high temperatures.

The OSHA manages **workplace safety** and works to limit the dangers of combustible flour dust. The EPA, state, and local agencies monitor **environmental protections**, including wastewater treatment, air quality, and stormwater.

Over the past decade, various **state governments** have tried to control snack food consumption by enacting state “snack taxes,” a special tax on high-fat or salty snack foods. Most of these taxes have been rejected or repealed. The industry closely watches efforts to raise state revenues by taxing the snack food industry.
International Insights

The global snack foods manufacturing industry generates about $300 billion in revenue. **Worldwide revenue** from snack foods manufacturing is expected to exceed $380 billion by 2017, according to Global Industry Analysts (GIA). Europe and the US are the largest snack food markets. Major companies include Grupo Bimbo (Mexico), United Biscuits (UK), Calbee Foods (Japan), and Nongshim (South Korea).

Europe is the largest snack food manufacturing region and has high penetration in markets such as the UK, Germany, France, Spain, Italy, and Russia. The US is the next largest snack food manufacturer. Exports account for 4 percent of total US snack food production; imports account for 2 percent of the total US market.

Eastern Europe, Latin America, and the Asia/Pacific region are growing snack food markets. The Asia/Pacific market is the least developed and is expected to have the fastest growth, increasing about 6 percent annually through 2015, according to GIA. **International trade** so far has played a relatively minor role in the US snack foods manufacturing industry. Exports account for 3 percent of US snack food production; imports account for less than 2 percent of the US market.

**Competition** in the global snack food industry is fierce. In many countries, small manufacturers struggle to compete with regional branches of multinational companies. In China, the number of foreign-owned snack food companies is relatively small, but foreign companies control about half of the snack food market.

Because changing consumer tastes drive snack food sales, manufacturers must be aware of trends in different markets. Multinational companies often create new flavors to match **regional taste preferences**: Frito-Lay promotes sweet snacks in Shanghai and meat-flavored snacks in Beijing, for example. Much of the recent growth in the Western snack food market has been driven by healthy, low-calorie snacks. However, products generally considered less healthy in the US are becoming more popular in Asia, as more people incorporate Western-style food and convenience foods into their diets.

Imports of snack foods to the US come primarily from Mexico, Canada, Thailand, China, and Israel. Major export markets for US snack foods include Canada, Mexico, Japan, Hong Kong, and Taiwan.

**Change in Dollar Value of US Trade - US International Trade Commission**

**NAIC 31191 SNACK FOODS**

**Regional Highlights**

In the US, **California, Georgia, Pennsylvania**, and **Texas** are the top states for snack food manufacturing. Large US companies typically locate warehouse and distribution networks in or near major urban areas.
Human Resources

Snack food manufacturing hourly wages are moderately lower than the national average. Production workers must have basic mechanical and technical skills to operate machinery and the physical strength to lift heavy objects. The Snack Food Association (SFA) has partnered with several universities to provide online education for managers. Courses include new product development, business plan writing, and international trade.

The annual injury rate in snack food manufacturing is about 50 percent higher than the national average. Common injuries are sprains and strains, cuts, fractures, and hearing loss.

Industry Employment Growth
Bureau of Labor Statistics

Risk: Vulnerable to volatile raw material costs and litigation
Need efficient operations and effective marketing
Demand: Driven by consumer tastes and health considerations

Quarterly Industry Update
3.18.2013

Trend: Potato Chip Sales Strongest in US, Europe - New research shows that potato chip consumption is highest in the US, France, and Great Britain, where about 85 percent of consumers eat potato chips. Although China is considered a key growth market for the industry, chip consumption remains relatively low. Only about 28 percent of Chinese consumers buy potato chips. More popular snacks include cookies (chosen by 66 percent of consumers), candy (64 percent), and chocolate (44 percent). Still, some potato chip makers are making inroads with Chinese consumers. Lay’s was recently named a top brand in China, based on market size, sustained growth, brand goodwill, customer loyalty, and overall market acceptance, according to BakeryandSnacks.com.
**Industry Impact** - US snack makers seeking growth in emerging markets such as China will need to be mindful of existing consumer preferences.

12.3.2012

**Trend: Moderate Growth Forecast for Industry** - Output of US snack foods manufacturers is expected to grow 3 percent in 2013 compared to 2012, according to the latest industry forecast for First Research from INFORUM. Volatile ingredient prices will continue to challenge the industry. Corn prices, in particular, have experienced dramatic price swings in 2012 due to extreme drought conditions and the resulting crop losses. Prices paid to producers for corn increased 17.9 percent in October 2012 compared to the same time in 2011. Prices paid to producers for snacks increased by just 3.6 percent during the same period.

**Industry Impact** - Due to the competitive nature of the snack foods industry, some producers may struggle to increase prices to offset rising ingredient costs. Manufacturers may focus on snacks with higher margins to create revenue growth.

9.10.2012

**Opportunity: Meat Snacks Gain Popularity** - Sales of meat snacks, one of the industry’s fastest-growing product segments, have grown by 20 percent over the past five years, according to Mintel. Meat snacks have not traditionally been a mainstream snack, but demand from younger consumers is changing the category’s growth trajectory. Demand for higher protein and healthier snacks have also increased meat product sales. Meat snacks are primarily sold in convenience stores, which are also a growing source of snack food sales. To appeal to consumers, manufacturers are launching new meat snack flavors, such as teriyaki, jalepeño, and habanero. Traditional salty snack food makers face competition from meat product manufacturers in the meat snack category. Companies that already make snacks like pork rinds may have an easier time launching and expanding meat snack product lines, according to Convenience Store Decisions.

**Industry Impact** - Snack foods manufacturers may be able to reach new consumers and create new revenue streams by taking advantage of growing demand for meat snacks.

6.25.2012

**Responding to Demand for Gluten-Free Foods** - Aiming to capitalize on a trend in consumer demand, Frito-Lay recently announced that it will label some of its products as gluten-free. Some popular brands, such as Fritos, Lay’s, and Doritos, are already gluten-free and will receive the new label once tested for compliance with FDA standards. The labels will allow Frito-Lay, one of the world’s largest snack food manufacturers, to market gluten-free offerings without the research and development expenses associated with creating new or reformulated products. To compete, other manufacturers are likely to follow Frito-Lay’s lead and promote their own gluten-free products. About 3 million Americans have celiac disease, and many more report sensitivity to gluten. Labels may be able to increase sales opportunities by appealing to consumers concerned about gluten, according to BakeryandSnacks.com.

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**Industry Indicators**

The consumer price index for food, an indicator of snack food values, rose 1.6 percent in February 2013 compared to the same month in 2012.

US nondurable goods manufacturers’ shipments of food products, an indicator of demand for snack foods, rose 3.8 percent in January 2013 compared to the same period in 2012.

US retail sales for food and beverage stores, a potential measure of snack food demand, increased 2.3 percent in the first two months of 2013 compared to the same period in 2012.
The output of US snack foods manufacturing is forecast to grow at an annual compounded rate of 4 percent between 2013 and 2017.

Data Published: March 2013

Snack Foods Manufacturing Growth Stabilizes

First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM’s “interindustry-macro” approach to modeling the economy captures the links between industries and the aggregate economy. Forecast FAQs

Companies

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Volatile Ingredient Prices - The price of critical commodity inputs such as corn, tree nuts, soybean and cottonseed oil, and potatoes can increase significantly due to poor farm yields, unpredictable weather patterns, and market reactions to government farm subsidies. Tree nuts can represent a significant portion of the total cost of goods sold for snack foods manufacturers. While potatoes are a less expensive input, the price of round white potatoes can easily fluctuate by 25 to 50 percent from year to year.

Highly Competitive Industry - The snack food industry competes with a number of other impulse purchases and snacking options, including cookies, crackers, candy, energy bars, in-store bakery items, fast food, and baking at home. Salty snacks are among the first foods eliminated or restricted for those on a weight-management plan. Snack food brands face growing competition from private label offerings, which offer comparable value at a lower price.
**Business Challenges**

**Vulnerability to Litigation, Regulation** - Increased awareness of obesity, ingredients, and labeling has made snack food manufacturers much more vulnerable to litigation and federal regulation. Manufacturers routinely face lawsuits from individuals who blame them for manufacturing addictive, unhealthy products. Lawsuits have also targeted manufacturers’ use of the word “natural” on product labels. Some consumers argue that the natural labels are misleading because genetically modified ingredients are used to make the snacks. Companies emphasize the importance of industry self-regulation and try to stay one step ahead of potential lawsuits and federal clampdowns on advertising, ingredients, and labeling claims.

**Dependence on Large Customers** - Retail consolidation has put buying power in the hands of large supermarkets and warehouse clubs. Most large manufacturers note that their top five customers represent 30 to 50 percent of total revenues. Retailers maximize profits by tightly managing shelf space and requiring manufacturers to spend on costly advertising, promotion, and merchandising programs. Manufacturers tend to be wary of over-reliance on merchandise discounts, as overuse can lead consumers to expect lower product prices.

**Dependence on Consumer Tastes** - Companies often spend millions to reformulate products or develop new brands to capitalize on changing demographics, taste trends, and dietary fads. Brands that don’t keep up with changing consumer tastes can quickly fall by the wayside. Promising trends may already be passé by the time a product has passed through R&D, prototyping, test manufacturing, and consumer taste tests.

**Cost of Product Innovation** - Launching a truly new, exciting snack food product can be difficult and expensive; most new products fail to become profitable. Rather than offer new products, companies are often content to create new line extensions of proven brands. This strategy of product proliferation often erodes brand loyalty, particularly when snack food brands are regularly extended into products ranging from breakfast cereal to candy bars.

**Business Trends**

**Healthier Products** - Manufacturers are creating new snack products that include healthier ingredients. One of the industry’s fastest-growing category is chips made with blended fruits and vegetables. Chips may be made with ingredients like sweet potatoes, plantains, black beans, quinoa, or flax, which are often perceived as healthier. Other new products include low-sodium chips, baked chips, and oat bran pretzels. Packages designed to help consumers with portion control, such as 100-calorie sizes, also have increased in popularity.

**Private-Label Category Grows** - Market share for private-label snacks has increased despite overall category stagnation. Private-labels tend to do better in segments with lower sales volume and brand dominance (nuts, pretzels) than in the highly competitive chip industry. Private-labels have benefited by going upscale, blurring the traditional distinction between them and branded products.

**Shrinking Display Space** - The average size of supermarkets is declining. To brighten and de-clutter the retail shopping experience, supermarkets are also reducing the number of merchandising displays. Open space and freedom of movement are replacing cumbersome pyramid stacks and end-caps. Snack food manufacturers have less opportunity to promote products, making the snack aisle of the grocery store once again the primary arena for product competition.

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Engage your prospects with solution selling by first understanding their pain points, thanks to the knowledge you glean from Business Challenges.

**USE IT TO:**
- Present your solution as a way to make their life easier by overcoming frustrating obstacles.
- Improve ROI by matching the message to the customer.
Boosting Convenience Store Sales - Manufacturers are paying more attention to maximizing the sales potential of snack foods at convenience stores (c-stores) and drugstores. As grocery stores consolidate and reduce merchandising space, snack makers are revisiting their c-store sales strategy. C-stores and gas station markets make their money on impulse purchases like snacks, candy, and soda. Companies that can figure out how to promote and sell to c-stores may find that this sales channel can help boost sagging sales. Salty snacks sales at c-stores increased more than 20 percent in a recent five-year period, according to Convenience Store News.

Reinventing Nuts - High in Omega-3s, tree nuts are one of the few truly healthy snacks; however, the product category had lacked innovation until recently. As Americans become more concerned with healthy snack options, nuts have been rediscovered and by consumers and reinvented into a variety of snack options by manufacturers. Manufacturers offer nuts with different seasoning and spices, in trail mix products, and in snack bars. Planters has extended its brand into Nut-rition energy bars, for example. Nuts have also been repackaged in individual portions to appeal to consumers. Some varieties are marketed as gourmet snacks. The nut market continues to grow, offering new product opportunities to manufacturers.

Promoting Sustainability - Even though snacks are an indulgence, companies can capitalize on the growing interest in sustainability and reduced carbon footprints. Manufacturers can highlight “green” manufacturing processes, domestically sourced raw materials, lower emissions delivery vehicles, and other sustainable business endeavors. Some brands are better suited to project a sustainable image: a veggie chip line is more likely to convey this message than a bag of nacho cheese corn chips.

Spicier Flavorings - Manufacturers are creating new spicy snacks, responding to consumer interest in spicy and ethnic flavors and a growing Hispanic and Asian population. Hispanics comprise over 15 percent of the US population, one-third of whom are under 18 - a key demographic for snack food manufacturers. Popular chip flavors include chipotle, habanero, wasabi, and tequila and lime.

Industry Opportunities

The silver bullet in your arsenal, Call Prep Questions are carefully designed conversation starters (with answers) for your sales calls.

Call Prep Questions

Conversation Starters

How does the company limit the risk of volatile commodity prices? The price of critical commodity inputs such as corn, tree nuts, soybean and cottonseed oil, and potatoes can increase significantly due to poor farm yields, unpredictable weather patterns, and market reactions to government farm subsidies.

How difficult is raising prices to consumers? The snack food industry competes with a number of other impulse purchases and snacking options, including cookies, crackers, candy, energy bars, in-store bakery items, fast food, and baking at home.
How challenging are the risks of increased litigation and regulation?
Increased awareness of obesity, ingredients, and labeling has made snack food manufacturers much more vulnerable to litigation and federal regulation.

What is the company’s convenience store sales strategy?
Manufacturers are paying more attention to maximizing the sales potential of snack foods at convenience stores (cstores) and drugstores.

How can the company capitalize on the health benefits of tree nuts?
High in Omega-3s, tree nuts are one of the few truly healthy snacks; however, the product category had lacked innovation until recently.

What opportunities does the company see in promoting environmentally friendly products?
Even though snacks are an indulgence, companies can capitalize on the growing interest in sustainability and reduced carbon footprints.

Quarterly Industry Update

What challenges and opportunities has the company had in expanding outside of traditional markets?
New research shows that potato chip consumption is highest in the US, France, and Great Britain, where about 85 percent of consumers eat potato chips, compared to about 28 percent in China.

Operations, Products, and Facilities

What is the company’s main product?
The industry’s main products are potato chips (30 percent of total revenue); tortilla chips (20 percent); and bulk nuts (10 percent). Other products include canned nuts, peanut butter, popcorn, and hard pretzels.

What key raw materials does the company depend on?
Key ingredients include white potatoes, corn and wheat flour, and cooking oils.

What additional ingredients does the company use for production?
Hot cottonseed, corn, or blended oil are used for frying potato chips. Salt and flavoring are added.

What does the company do with byproducts?
Rejected potatoes and peels are sent to farms to be used for animal feed. The starch removed during rinsing is sold to starch processors.

What are the company’s quality control measures?
Optical sensors spot and discard defective chips. Quality control managers inspect incoming ingredients, test the viscosity of oils, and taste-sample every product, typically on the hour.

How many manufacturing plants does the company operate?
To reduce product shipping costs, companies typically operate multiple manufacturing plants across the US.

What are the company’s major operating expenses?
Major expenses include the primary ingredients (tree nuts, potatoes). Other expenses include diesel, natural gas, and packaging materials.

Customers, Marketing, Pricing, Competition

Who are the company’s customers?
Typical customers are grocery wholesalers, warehouse club stores, food service distributors, vending machine distributors, and convenience stores.

How much does the company rely on key accounts for sales?
Supermarket sales account for around 50 percent of all snack sales. Warehouse clubs and mass merchandisers represent around 10 to 15 percent.

What are the company’s sales channels?
Major sales channels include independent distributors, third-party brokers, internal sales forces, and direct store delivery programs.

How does the company track sales?
Most large companies manage real-time sales tracking using a network of handheld wireless devices and centralized enterprise resource planning (ERP) systems.
How does the company market its products?
Major types of marketing include TV and radio ads; social media; coupon offers; movie, TV, and celebrity tie-ins; instore discounts and end-cap promotions; sweepstakes; and product-specific websites.

How does the company respond to customer needs and inquiries?
Customer service operations are extensive, as bad publicity can severely damage a brand. Most companies manage toll-free help lines and web-based email submission forms to address product questions and concerns.

What are the typical prices received by the company?
Typical product prices are $0.30 an ounce for potato, tortilla, and flavored corn chips, and $0.25 to $0.50 an ounce for roasted nuts, depending on the variety. Private-label brands cost 20 to 40 percent less than name brand.

Regulations, R&D, Imports and Exports

How does the company ensure safety in food allergen labeling?
The Food Allergen Labeling and Consumer Protection Act (FALCPA) requires that manufacturers disclose if specific allergens are in the product.

How has the company responded to health risks associated with fried foods?
The FDA is researching the possible negative health effects of acrylamide, a carcinogen in food resulting from frying foods at high temperatures.

How does the company monitor efforts to raise state taxes on snack foods?
Over the past decade, various state governments have tried to control snack food consumption by taxing high-fat or salty snack foods. Most of these taxes have been rejected or repealed.

How does the company attract new export markets?
The US is a net exporter of snacks, though the import/export market is very small - only 4 percent of total industry production. Large companies can create unique flavors that match regional taste preferences.

Organization and Management

What skills or training does the company require of its workers?
Production workers must have basic mechanical and technical skills to operate machinery and the physical strength to lift heavy objects.

What are the company’s most common worker injuries?
The annual injury rate in snack food manufacturing is about 50 percent higher than the national average.

Financial Analysis

How does seasonality affect company cash flow?
Cash flow is generally steady throughout the year.

What percent of gross sales does the company spend on food ingredients?
Primary ingredients (nuts, potatoes, corn) are typically the most expensive input.

What is the company’s average inventory?
Companies warehouse 30 to 60 days of finished product inventory.

On average, how long does it take the company to collect from buyers?
Receivables range from 30 to 45 days.

What are the company’s gross margins?
Gross margins can be high, ranging from 30 to 40 percent of sales.

Business and Technology Strategies

What new technologies has the company invested in?
Recent advances include automated quality control instrumentation, advancements in creating crunchier chips, baked snacks, and genetically modified (GM) potatoes and corn that result in more uniform chips and snacks.

What new snack trend is the company exploring?
New snack trends include spicy snacks, healthier offerings, and nut chips.
How invested is the company in Internet marketing?
Interactive websites promote brand awareness. Most large processors manage restricted-access Intranets or electronic data interchange (EDI) systems for e-commerce transactions and inventory management. Smaller companies may specialize in online sales.

How challenging is retailer consolidation to the company’s buying power?
Retailer consolidation has shifted the buying power from manufacturers to retailers.

If a small company, how can it effectively compete against larger operations?
Small operations can compete effectively by self-distributing products, selling online, or marketing snacks as gift items.

Executive Insight

Chief Executive Officer - CEO

Identifying Optimal Product Mix
Profits in the snack food manufacturing industry depend on the right product mix, with one or two powerhouse snack brands typically leading. Most large snack food companies are divisions of large food conglomerates that depend on its snack division to produce high returns. CEOs must identify what brands can deliver solid profits, and which products are susceptible to changing consumer tastes.

Fighting Regulations and Lawsuits
Snack companies regularly face federal and state regulations and lawsuits from consumers. Profitability and future growth depend on the outcome of ingredient and labeling lawsuits, state snack taxes, and restrictions on snack foods in public schools. Companies must actively promote the benefits of a strong snack food industry and the importance of consumer choice.

Chief Financial Officer - CFO

Managing Commodity Purchases
Ingredient costs are unstable, often rising or falling 25 to 50 percent from year to year. Finance executives must know when to secure long-term agricultural commodity contracts and when to hedge against rising prices. Energy purchases are just as critical to profitability: escalating natural gas and electricity prices can erode a company’s bottom line.

Maximizing Retail Contracts
Snack food companies depend highly on large retailers like Wal-Mart. Companies must secure profitable long-term contracts with major retailers, and carefully consider the commitments required to support the needs of large buyers. A CFO must work in tandem with the company’s head of sales to establish wholesale prices, set marketing budgets, and determine the optimal size and structure of the company’s sales force.

Chief Information Officer - CIO

Fully Integrating Operations
Most snack companies are divisions of highly diversified, vertically integrated corporations. CIOs must be able to integrate snack operations with the corporation’s many sales, operations, marketing, and accounting departments. Successful technology departments know how to prioritize, set realistic timelines, and work within a budget.
Modifying Products to Match Health Trends
Modern food technology allows companies to quickly test and prototype new formulations and ingredients. R&D teams can respond to emerging health and diet trends by developing new products that come close to the taste and quality of more decadent offerings. Companies must be able to roll out new products before health trends become passé.

Human Resources - HR

Hiring Qualified Workers
Overall industry employment is flat, but the need to secure and retain qualified employees remains strong. Because of technological advances and improvements in workplace productivity, hiring managers generally look for workers with a technical or college degree. HR professionals recruit MBAs and graduates with advanced science and technology skills to fill management positions.

Training Workers on Safety
Snack manufacturers rely on fast-moving, complex machinery that must be operated with caution. Companies instruct employees how to operate equipment safely to comply with federal and state regulations and to minimize worker injuries. However, industry injury rates are still about 50 percent higher than the national average.

VP Sales/Marketing - Sales

Implementing Sales Strategy
Snack food manufacturers build and manage a complex network of salespeople. Companies invest heavily in technology to optimize the sales force, including route planning software, sales force automation, and inventory systems. Some manufacturers commit to direct store delivery and stock store shelves using a team of salespeople; others rely on a third-party distributor. Most companies use a mix of internal salespeople and a national broker network to support the team.

Increasing Marketing Effectiveness
Traditional consumer packaged goods’ advertising is increasingly ineffective. Marketing leaders are looking for new ways to capture the attention of consumers overwhelmed by advertising. Companies may transition marketing dollars from traditional advertising and merchandising in favor of in-store videos, YouTube and Facebook ads, creative promotions, and innovative packaging.

Executive Conversation Starters

Chief Executive Officer - CEO
How does the company determine its ideal product mix?
Profits in the snack food manufacturing industry depend on the right product mix, with one or two powerhouse snack brands typically leading.

How have industry regulation and consumer lawsuits impacted the company?
Snack companies regularly face federal and state regulations and lawsuits from consumers.

Chief Financial Officer - CFO
How does the company protect itself against highly volatile commodity prices?
Finance executives must know when to secure long-term agricultural commodity contracts and when to hedge against rising prices.

How does the company ensure that it’s maximizing profits from major retailers like Wal-Mart?
Companies must secure profitable long-term contracts with major retailers, and carefully consider the commitments required to support the needs of large buyers.

Chief Information Officer - CIO
How well does the company’s technology platform communicate across divisions?
CIOs must be able to integrate snack operations with the corporation’s many sales, operations, marketing, and accounting departments.
How quickly can the company modify products to match current health trends?
R&D teams can respond to emerging health and diet trends by developing new products that come close to the taste and quality of more decadent offerings.

Human Resources - HR
How is the company finding and retaining qualified employees?
Because of technological advances and improvements in workplace productivity, hiring managers generally look for workers with a technical or college degree.

What types of safety training does the company offer?
Companies instruct employees how to operate equipment safely to comply with federal and state regulations and to minimize worker injuries.

VP Sales/Marketing - Sales
How is the company’s sales force organized?
Snack food manufacturers build and manage a complex network of salespeople.

What new marketing strategies is the company pursuing?
Companies may transition marketing dollars from traditional advertising and merchandising in favor of in-store videos, YouTube and Facebook ads, creative promotions, and innovative packaging.

Get a quantified snapshot of industry performance with Financial Information

**USE IT TO:**
- Benchmark a company against its industry peer group.
- Increase your credibility by adding verifiable metrics to your presentation.

**Financial Information**

**COMPANY BENCHMARK TRENDS**

**Quick Ratio by Company Size**
The quick ratio, also known as the acid test ratio, measures a company’s ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at www.microbilt.com/firstresearch.
### COMPANY BENCHMARK INFORMATION

**NAICS: 31191**

#### Data Period

<table>
<thead>
<tr>
<th>Table Data Format</th>
<th>Mean</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
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#### Last Update January 2013

<table>
<thead>
<tr>
<th>Company Size</th>
<th>All</th>
<th>Large Over $50M</th>
<th>Medium $5M - $50M</th>
<th>Small Under $5M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Count</td>
<td>548</td>
<td>26</td>
<td>111</td>
<td>411</td>
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</table>

#### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Large Over $50M</th>
<th>Medium $5M - $50M</th>
<th>Small Under $5M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>36.2%</td>
<td>36.0%</td>
<td>36.0%</td>
<td>38.1%</td>
</tr>
<tr>
<td><strong>Officer Compensation</strong></td>
<td>1.5%</td>
<td>1.3%</td>
<td>1.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>Advertising &amp; Sales</strong></td>
<td>1.6%</td>
<td>1.8%</td>
<td>1.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Other Operating Expenses</strong></td>
<td>27.4%</td>
<td>27.5%</td>
<td>27.2%</td>
<td>27.8%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>30.5%</td>
<td>30.5%</td>
<td>30.2%</td>
<td>32.2%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>5.6%</td>
<td>5.6%</td>
<td>5.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>3.1%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

#### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Large Over $50M</th>
<th>Medium $5M - $50M</th>
<th>Small Under $5M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>9.0%</td>
<td>9.2%</td>
<td>8.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>Accounts Receivable</strong></td>
<td>15.8%</td>
<td>15.5%</td>
<td>17.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>18.1%</td>
<td>19.1%</td>
<td>15.8%</td>
<td>16.9%</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>47.5%</td>
<td>48.5%</td>
<td>45.3%</td>
<td>44.8%</td>
</tr>
<tr>
<td><strong>Property, Plant &amp; Equipment</strong></td>
<td>37.5%</td>
<td>35.0%</td>
<td>43.1%</td>
<td>42.2%</td>
</tr>
<tr>
<td><strong>Other Non-Current Assets</strong></td>
<td>15.1%</td>
<td>16.5%</td>
<td>11.6%</td>
<td>13.0%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Accounts Payable</strong></td>
<td>14.7%</td>
<td>12.8%</td>
<td>19.6%</td>
<td>17.6%</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>23.6%</td>
<td>21.3%</td>
<td>29.2%</td>
<td>27.8%</td>
</tr>
<tr>
<td><strong>Total Long Term Liabilities</strong></td>
<td>25.4%</td>
<td>24.6%</td>
<td>26.2%</td>
<td>30.5%</td>
</tr>
<tr>
<td><strong>Net Worth</strong></td>
<td>50.9%</td>
<td>54.1%</td>
<td>44.6%</td>
<td>41.8%</td>
</tr>
</tbody>
</table>

#### Financial Ratios

*(Click on any ratio for comprehensive definitions)*

<table>
<thead>
<tr>
<th>Ratio</th>
<th>All</th>
<th>Large Over $50M</th>
<th>Medium $5M - $50M</th>
<th>Small Under $5M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick Ratio</td>
<td>1.08</td>
<td>1.19</td>
<td>0.90</td>
<td>0.87</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>2.01</td>
<td>2.28</td>
<td>1.55</td>
<td>1.61</td>
</tr>
<tr>
<td>Current Liabilities to Net Worth</td>
<td>46.4%</td>
<td>39.4%</td>
<td>65.6%</td>
<td>66.5%</td>
</tr>
<tr>
<td>Current Liabilities to Inventory</td>
<td>x1.31</td>
<td>x1.12</td>
<td>x1.85</td>
<td>x1.64</td>
</tr>
<tr>
<td>Total Debt to Net Worth</td>
<td>x0.96</td>
<td>x0.85</td>
<td>x1.24</td>
<td>x1.39</td>
</tr>
</tbody>
</table>
COMPANY BENCHMARK INFORMATION

<table>
<thead>
<tr>
<th>Metric</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets to Net Worth</td>
<td>0.74</td>
<td>0.65</td>
<td>0.97</td>
<td>1.01</td>
</tr>
<tr>
<td>Days Accounts Receivable</td>
<td>125</td>
<td>125</td>
<td>126</td>
<td>116</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>1.63</td>
<td>1.51</td>
<td>2.02</td>
<td>1.63</td>
</tr>
<tr>
<td>Total Assets to Sales</td>
<td>219.3%</td>
<td>225.1%</td>
<td>202.5%</td>
<td>227.1%</td>
</tr>
<tr>
<td>Working Capital to Sales</td>
<td>52.2%</td>
<td>61.2%</td>
<td>32.6%</td>
<td>38.6%</td>
</tr>
<tr>
<td>Accounts Payable to Sales</td>
<td>32.3%</td>
<td>28.6%</td>
<td>39.8%</td>
<td>40.3%</td>
</tr>
<tr>
<td>Pre-Tax Return on Sales</td>
<td>5.0%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Pre-Tax Return on Assets</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Pre-Tax Return on Net Worth</td>
<td>4.4%</td>
<td>4.0%</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Interest Coverage</td>
<td>6.40</td>
<td>6.31</td>
<td>6.67</td>
<td>7.16</td>
</tr>
<tr>
<td>EBITDA to Sales</td>
<td>8.2%</td>
<td>8.1%</td>
<td>8.3%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Capital Expenditures to Sales</td>
<td>6.3%</td>
<td>6.8%</td>
<td>5.2%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

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ECONOMIC STATISTICS AND INFORMATION

Change in Producer Prices - Bureau of Labor Statistics

![Change in Producer Prices Chart]

Change in Consumer Prices - Bureau of Labor Statistics

![Change in Consumer Prices Chart]
VALUATION MULTIPLES

Snack Foods Manufacturing

Acquisition multiples below are calculated using at least 2 private, middle-market (valued at less than $1 billion) industry asset transactions completed between 3/2003 and 12/2009. Data updated annually. Last updated: October 2012.

<table>
<thead>
<tr>
<th>Valuation Multiple</th>
<th>MVIC/Net Sales</th>
<th>MVIC/Gross Profit</th>
<th>MVIC/EBIT</th>
<th>MVIC/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Value</td>
<td>0.5</td>
<td>1.4</td>
<td>29</td>
<td>23.4</td>
</tr>
</tbody>
</table>

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges

SOURCE: Pratts Valuation Index, Business Valuation Resources, LLC. To purchase more detailed information, please either visit or call 888-287-8258.

When you need to add more depth or breadth to your research, Industry Websites helps direct further study.

USE IT TO:
• Explore additional resources like trade magazines, industry associations, and government reports.

Industry Websites

American Bakers Association (ABA)
Trade association for bakeries and snack manufacturers.

American Institute of Baking (AIB)
Broad industry association that includes packaging companies and food suppliers.

BakeryandSnacks.com
News on industrial baking and snacks.

Baking Association of Canada
Newsletter, resources, and links.

Canadian Snack Food Association
Resources, events, and links.

Candy & Snack Today
Snack industry news, trends, and research.

Private Label Magazine
News and insights into private label manufacturing.

Snack Food and Wholesale Bakery
News, interviews, and features on salty and sweet snacks.
Snack Food Association
International trade association for the snack food industry.

Tortilla Industry Association
Industry association for tortilla and tortilla products.

Glossary of Acronyms

DSD - direct store delivery
EDI - electronic data interchange
ERP - enterprise resource planning
FALCPA - Food Allergen Labeling and Consumer Protection Act
GM - genetically modified
SFA - Snack Food Association
TIA - Tortilla Industry Association
USPB - United States Potato Board
Sample Voicemail

Voicemail:
“Good morning Ms. Jones, this is (your name). I just wanted to call to say I enjoyed talking with you at the Chamber of Commerce meeting the other night. I’ve been doing some more research on your industry since we last spoke, and I understand that strategically marketing technologically advanced products to our ageing population, and partnering with private fitness communities are definite growth opportunities for fitness equipment companies like yours.

I think I might be able to assist you with that, and I wonder if you would be open to discussing how these and other strategic issues are affecting your business. When you have a free moment, you can reach me at (your phone number)...”

Sample Letter

Dear Prospect,

In an effort to understand your business before I contacted you, I did preliminary research on the Fitness Equipment Industry. I’ve noted that key business focus issues include:

Demand Subject to Fashion: Fitness equipment manufacturers have had to contend with relatively rapid changes in consumer preferences. The popularity of various equipment types has changed over the years: exercise bikes were once the most popular aerobic fitness equipment, followed by rowing machines. Now treadmills and elliptical trainers are the mainstays of most gyms. Manufacturers must combat workout boredom with new features and new designs.

Technology Knowledge: Technology development is a driving force in the fitness equipment industry. Consumers demand enhancements through systems that reduce impact, monitor heart rate, and deliver better performance metrics. While mechanical expertise is necessary, new experiential and operations technologies will drive future growth. Fitness equipment manufacturing is dominated by large companies such as ICON that have more capital to allocate to R&D, which leads to quicker and more dramatic improvements in product design.

Competition from Imports: Foreign sports equipment makers, especially from China, have taken a greater share of the US market. The high labor content of exercise equipment favors manufacturers with low labor costs. Despite a drop in demand for imported equipment due to the recession of the late 2000s, foreign competition will likely rebound as the economy strengthens.

Differentiating your products and competing with foreign imports along with other trends seem to be important issues to companies in your industry. I would enjoy learning more about your business, its challenges, opportunities and operations.

At First Bank, we are committed to first understanding our clients’ businesses, and then offering client-centered solutions based on this knowledge. I would appreciate the opportunity to introduce myself and learn more about your business.

Sincerely,

Sarah Thomas
Relationship Manager

First Bank

DB-717 2013-04-26