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Healthy Choice for millennials? Conagra hopes to rework old brands to lure in new consumers

Barbara Soderlin / World-Herald staff writer Apr 16, 2017 Updated 7 hrs ago

CONAGRA BRANDS

Healthy Choice will launch Power Bowls they year as a high-protein, higher-priced option on their menu.

Former ConAgra CEO Mike Harper didn't just survive a heart attack. He leveraged his health scare to launch a new food brand — Healthy Choice — that grew in just a few years to $1 billion in annual sales.

His successful launch made a splash in 1989. It put the executive on a food industry magazine cover, and he pitched the brand in national TV spots and product demonstrations. But today? Food executives could only dream of a brand launch that big, experts say — even in 2017 dollars.

Packaged food companies now are in a double bind: Launching big-time brands in a market crowded with niche products is a steeper climb, while many established brands — including Healthy Choice — are watching sales erode. Partly to blame are millennial shoppers, many of whom reject their parents' old name-brand staples as they spread their food dollars around at specialty stores and online.

Healthy Choice tallied about $520 million in frozen food sales in the year ending in June 2016, the vast majority of the brand's sales today. To compare those sales with its heyday, when considering inflation, its $1 billion in sales in 1993 would have been nearly $1.7 billion in 2016.

Even so, Healthy Choice's maker — now called Conagra Brands — sees growth potential in the '80s name, still one of its biggest sellers. This year Conagra is launching a new product line in Healthy Choice, trying to jump-start sales and win new consumers with on-trend, high-protein, higher-priced Power Bowls of, say, chicken, brown and red rice, and vegetables.

Also coming to supermarkets are higher-priced versions of Conagra's traditionally low-budget Banquet meals: Mega Meals and Mega Bowls with more meat. Outside of the frozen food case, Conagra is launching premium versions of its Slim Jim meat sticks, non-dairy versions of Reddi-wip topping, new P.F. Chang's cooking sauces and non-aerosol versions of Pam cooking spray.

Can Conagra and its packaged food rivals — who face the same challenges with their old brands — succeed? There are signs of struggle, with some companies saying their goal with these supermarket staples is only to see sales decline more slowly this year than last.

But some industry experts say old brands can have new life, especially by taking the tack Conagra said it is, looking for pockets of growth rather than the mass appeal of yesterday.

Conagra, in shedding its frozen potato business and its private-label unit, has pinned its success on the strength of its current and future brands and its ability to manage them for profit and growth. At stake are Conagra's share value, the size of its workforce and its strength as a company in an industry that has seen its share of mergers and acquisitions.

Some of the work is going on in the Omaha area, with new products created at Conagra's downtown research and development center and manufactured at its Council Bluffs frozen foods plant. (The company, born in Omaha, now is based in Chicago after moving its headquarters in 2016.)

Meanwhile, Conagra has its skeptics, including a longtime food industry executive who helped the Healthy Choice brand fly so high in the first place. Steve Hughes' career illustrates the trouble in the grocery aisle for big food companies.

Working under Harper in Omaha, Hughes was executive vice president in charge of the Healthy Choice brand for ConAgra in the late '80s and early '90s — a time he remembers as a "wild, four-year ride."

ConAgra put its new label on more than 300 products: Healthy Choice frozen dinners, Healthy Choice ice cream, Healthy Choice canned soup, Healthy Choice ground beef, Healthy Choice lunch meat and cheese. Analysts warned at the time ConAgra expanded too fast and didn't build the brand on a solid foundation.

But it was good while it lasted. ConAgra profited from the low-fat diet craze, and the money Hughes made put his three kids through college and then some.

Those kids are now the kind of millennial consumers Hughes courts in his current job: CEO of Sunrise Strategic Partners. The Boulder, Colorado, group invests in natural and specialty foods brands aimed at a powerful demographic Hughes calls "millennial moms with money." Millennials are people generally born between 1981 and 1997, as the Pew Research Center defines the generation. The brands in Sunrise's portfolio that appeal to them include Kodiak Cakes high-protein pancake mix and Vital Farms pasture-raised eggs.

[The old brands and the new: Who's gaining ground, and who's trying to keep up]

They're brands with simple ingredients and what Hughes calls authentic back stories. Hughes invests in them when they have $10 million to $20 million in annual revenue, and looks to build them up to sales of $100 million to $200 million, then sell them to companies like Conagra with billions of dollars in annual sales.

Does Hughes think Conagra's brand revivals will succeed with these shoppers?

"I don't care what you put on a plate of Healthy Choice, millennials are not going to buy it," Hughes said.

Hughes said the consumer shift away from big brands caught food companies flatfooted. Sales of specialty foods are growing much faster than sales of mass-market food brands: 15 percent over the past two years, compared with 2.3 percent of all retail food sales, according to a March report from the Specialty Food Association and market research firm Mintel.

Hughes predicts more corporate shake-ups to come as millennials use their growing purchasing power to buy into new brands. The industry has seen several years of acquisitions, spin-offs, deep cost cutting, shake-ups by activist investors, executive turnover and headquarters relocation — not just at Conagra, but at Kraft Heinz, Sara Lee, Campbell Soup and others.

Recapturing growth for companies like Conagra means bringing consumers back to old brands and enticing them with new brands, and each comes with its own challenges.

Conagra leaders admit they have work ahead. Still, the company's chief executive, Sean Connolly, asserts he is on the right path, at the same time he asks Wall Street analysts to be patient.

Conagra has been giving up on slow-selling products, like many varieties of classic Healthy Choice dinners. It's willing to lose sales now to focus on faster-selling, higher-profit foods in the future.

Starting this summer, Connolly expects sales to start to grow again, and in 2019 and 2020, investors can expect growth to accelerate, which will have all the more impact on profits because the company has cut costs, he says.

How will they do it? Conagra is using new sources of data, like sales data from natural and specialty foods stores, to adapt brands now to emerging trends, and not wait until there is a problem with a brand to launch a fix, said Bob Nolan, Conagra's senior vice president of insights and analytics.

He says he's not deterred by the notion that millennials won't buy Healthy Choice. In fact, he doesn't agree.

While the brand's sales as a whole have declined, a newer format, Cafe Steamers, has gained, especially since a new version called Simply Cafe Steamers launched in 2015 with no artificial ingredients. Cafe Steamers sales grew 16 percent over the company's last three full fiscal years. They made up 80 percent of Healthy Choice net sales in 2016, from about half in 2013.

Nolan said the Power Bowls coming out later this year will have even stronger appeal for younger consumers, who he said look to food for its positive attributes, like nutrition and energy, not because it's low in fat or sodium.

Power Bowls are perfect, he said, for millennials who love the bowl trend at food halls and restaurants but can't afford to eat out all the time, and don't yet have the cooking skills, or desire, to make these meals at home.

"I think for every brand there is a path to success, no matter how old, if you understand the consumer intimately and you're delivering what they need," Nolan said.

Other industry experts agree it is possible to turn around falling sales on an old brand — at least in some cases. Food industry consultant Hartman Group pointed to a few examples in an October report, but warned that only one in five of legacy brands that were struggling in the past decade have been able to reverse a sales decline.

From 2011 to 2014, Hartman said, Campbell's successfully revamped its Pace picante sauce line. Pace launched new flavors and styles without going too high-end with the brand.

Nabisco turned around falling sales of Nutter Butter by launching new formats of the peanut butter cookie, like snack-size bits, and by partnering with restaurants like Dairy Queen to include the cookies as an ingredient in shakes.

And Kraft, which hadn't invested much in Velveeta, saw sales rise from 2010 to 2014 when it launched a new ad campaign and new product formats, like Cheesy Skillets dinner mixes. But what works for Kraft and Velveeta might not work for every brand.

Pepsi and Unilever launched a premium tea brand, Lipton Pure Leaf, in 2007, but didn't see the growth they expected, Hartman said. Facing competition from Coke's Gold Peak, they relaunched it in 2012 without the Lipton name prominently on the label, and growth skyrocketed. They discovered it's hard to convince consumers a legacy brand can serve up a premium product, Hartman said.

Kellogg is having a similar problem with its top-selling cereal brand, Special K, the company has said. Sales plunged as consumers were turned off by the brand's diet-focused message. Kellogg has restaged it with a wholesome image focused on wellness, offering high-protein drinks and new snacks outside of the cereal aisle, and investing in advertising. But the turnaround is slow. Company executives said this winter it hopes only to see a "sharp decline in the rate of decline" in Special K this year.

Conagra's Nolan said he looks to learn more from what fast-growing smaller companies are doing right than at how other big food companies are handling brand declines. Successful start-up brands are finding pockets of high growth within an overall slow-growing food industry.

Food industry consultant IRI agreed small brands are succeeding by targeting their niche audience in stores and online, and making them feel they're part of a community or lifestyle. The firm said packaged food companies can do the same with niche products from big brands, or can buy or launch smaller brands for growth in niche areas — as Conagra is doing with its acquisitions of Blake's All Natural Foods and Frontera Foods.

"One of the things the small companies are doing really well is understanding where their consumers are," said Susan Viamari, IRI vice president.

Smaller and midsize companies are having a bigger share of new brand launches, she said. That's because the grocery market is so fractured, with growth outside of traditional supermarkets. People are buying more food online, at gas stations, at specialty stores and at discount stores like Aldi.

But new brand launches — whether for startups or big conglomerates — are not coming close to the size of what ConAgra saw in the '80s with Healthy Choice. Even a $100 million product launch is rare, IRI reports. Most successful new products and brands saw less than $20 million in sales last year, IRI reported.

So, even strong growth in these new brands might not offset a slip in a big brand like Healthy Choice, Morningstar analyst Erin Lash said.

Lash also doubts Conagra's older brands have the pull to persuade shoppers to pay more for a revamped product. They lack this pricing power compared with their competitors, she said.

“We remain skeptical that consumers will ultimately opt to pay up for the firm’s mix of second- and third-tier brands,” she said in a March report.

Watching Conagra’s sales drop in the last several quarters underscores the difficulty of Conagra’s effort to launch new products and cut back on sales and coupons, she said, forecasting only modest growth in sales and volume for Conagra in the coming decade.

Several big food companies are watching their “brand value” erode, partly because of consumer perception about the healthfulness of the products, British firm Brand Finance said in a new report, which did not mention Conagra. That value includes the trust that makes shoppers pay more for a brand-name product.

In choosing to renovate an old brand, “You really have to look at whether the return on investment is going to be significant enough, and whether a brand can credibly be revived to suit changing consumer trends,” firm director Robert Haigh said.

Haigh said there’s less brand loyalty today than 20 years ago. That’s true for shoppers like Nikki Evert, a west Omaha mother of three who works in her family business. Her changing habits mirror what the food industry frets about:

She’s been doing more of her shopping at Aldi and Fresh Thyme, lower-priced stores that are heavy on store brands, not name brands. She can’t remember the last time she bought a frozen TV dinner, or one of the Knorr rice sides she used to serve all the time. She tries to cook more from scratch to save money, like homemade waffles instead of Eggo.

She’s open to new brands, like Wallaby or Siggi’s yogurt. Any kind with less sugar, she said. “But it’s not the Yoplait.”

Consumers are looking for authenticity, transparency and brands they trust, said John Stanton, a professor of food marketing at St. Joseph’s University in Philadelphia. The brand has to mean something to shoppers, and he’s skeptical that labels like Healthy Choice, that baby boomers have long been familiar with, will carry meaning for 20-somethings.

“You get permission to renovate brands from your board of directors, but you get permission to sell those brands from consumers,” Stanton said.

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