

# Making Money on Munchies

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What's so special about a bag of popcorn? Kernels, oil, salt; maybe a little butter, or at least "butter flavoring." Everyone sells popcorn. You can even make it yourself. But Angie's Boomchickapop, born in a Mankato garage in 2001, became something more than just popcorn.

The name itself was explosive, as the neon-bright bags practically jumped off the shelves. The better-for-you popcorn pitch struck a chord with people looking for healthier food options. Chicago-based food giant ConAgra Brands Inc. liked it too—so much that it paid \$250 million in October to own the brand.

The deal marked the end of a remarkable journey for founders Angie and Dan Bastian since they began making their first product in their garage under the name Angie's Kettle Corn. But it also spotlighted the rarely explored world of Minnesota's snack industry, from giant Golden Valley-based General Mills (20 percent of its \$10 billion+ in North American sales are now in snacks) to the medium-sized Roseville-based Old Dutch Foods Inc. and startups such as St. Louis Park-based JonnyPops.

It's a timely topic, given how much this niche in the food world is growing. Salty snacks alone now constitute a \$28 billion-a-year industry in the United States. In fact, snacking has never been more popular: 91 percent of consumers are now snacking several times in a day, as the

sit-down, three-meals-a-day tradition continues to wane, according to Bellevue, Wash.-based Hartman Group. Its research also found that 22 percent of people reported in 2016 that they were snacking more often than they did five years ago.

What constitutes a “snack” has changed, too. From popcorn and potato chips to granola bars, beef jerky, Skippy P.B. bites and fruit bars, Americans’ consumption of different kinds of foods between meals has grown faster than their waistlines. And since those waistlines have indeed been growing (70 percent of Americans are now overweight or obese, compared with 56 percent in 1990), the number of new “good for you” snack options is increasing as well.

“Snackification” is becoming an increasingly common way to describe industry trends, according to Steve Sorensen, director of center store for Edina-based Lund Food Holdings Inc., which operates 26 Lunds & Byerly’s locations.

Snacks account for about 10 percent of all store sales, but are now contributing to 20 percent of the company’s sales growth, he says. The privately held company does not disclose revenue.

“We kind of have to rethink what the center of the store looks like,” says Sorensen, who says that the company is grouping more types of snacks in a single spot in the store. “We’re really having to rethink the way that we think about snacks in our store.”

Despite the trend toward healthier snacks, he adds that Lunds & Byerly’s is seeing strong growth for both “better-for-you” snacks and their less healthy “indulgent” counterparts. That’s in line with industry analyst reports, which show growth in both categories, though faster growth in the “indulgent” category.

As customers increasingly gravitate to healthier products made closer to home, large packaged-food companies such as General Mills, along with private equity firms, are often looking to buy smaller companies that have drawn a dedicated base of customers.

The Angie’s deal is a good example, and it popped because of a confluence of factors, according to Chris Bradley, managing director at New York-based Mistral Equity Partners, a private equity firm that has backed many food companies. Consumers increasingly want ready-to-eat snacks, but also want their munchies to be healthy. He says that Angie’s also had strong packaging, a stellar sales force pushing the product to retailers and the backing of respected investors.

“Millennials decided that they as a generation were really lazy and they didn’t want to have to take the time to have to microwave their own popcorn,” says Bradley. All indicators point to how it has perhaps never been a better time to be in the snack-making business. Here’s a look at how Minnesota is well positioned to take advantage of this.

## Hormel’s New Snack

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Is Spam a snack? Historically, no. In the future—who knows? Austin-based Hormel Foods Corp. is known for Spam and its large portfolio of meat products. Hormel does not have a category for snacks in its annual sales figures. Yet.

But in July, the company introduced four flavors of a new snack product: Natural Choice. The new line of snacks combines deli meat, cheese and chocolate. One offering, for example, combines turkey, cheddar cheese and pretzels covered in dark chocolate.

The company's current snack portfolio includes products like Skippy P.B. bites, Hormel Natural Choice snacks, Muscle Milk® protein products, Hormel REV wraps and Wholly Guacamole minis.

## All the right ingredients

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Minnesota has a unique ecosystem supporting snack-oriented businesses, in large part due to its limitless supply of ingredients ranging from wheat and potatoes to sugar beets. And it has a long history of making snacks out of them.

At the beginning of the 20th century, Minneapolis was known as the flour capital of the world, with several mills producing products for what became Pillsbury Co., General Mills and International Multifoods. Home cooks made a variety of snacks out of those products, and General Mills' Betty Crocker Cookbook helped continue that habit for generations.

Over the years, the flour producers began to expand their offerings beyond traditional baking needs, first with breakfast cereal and later with ready-to-bake breads. In the 1970s, General Mills invented the granola bar, and Pillsbury invented the microwaveable popcorn bag. (This was later improved by Golden Valley Microwave Foods, which invented the nation's first mass-marketed microwave popcorn, ACT II, in 1984. ConAgra purchased it in 1991 and Act II became the largest microwave popcorn brand in the world.) While J.M. Smucker acquired Multifoods and moved most of its jobs out of the state, General Mills acquired Pillsbury and continued to advance its snack offerings.

Meanwhile, there are potatoes. Idaho and Washington state produce the most spuds in the country; Wisconsin ranks third, North Dakota ranks sixth and Minnesota comes in at eighth. This means we're practically swimming in potatoes. Minnesota has taken advantage of this bounty by creating two significantly successful potato chip companies: Barrel O' Fun out of Perham and Old Dutch out of Roseville.

For the sweet snacks out there, Moorhead is home to American Crystal Sugar, the nation's largest producer of sugar from sugar beets, and Minnesota produces the most sugar beets in the U.S. This has led to local candy companies such as Pearson's Candy Co. in St. Paul, Kenny's Candy in Perham and Burnsville-based Abdallah Candies Inc.

The state also ranks second for wild rice; third for dry beans and oats; fourth for corn, soybeans and flaxseed; and fifth for rye. For livestock, Minnesota is No. 1 in the nation for production of turkeys and No. 2 for hogs. The state also ranks sixth in production of cheese



and honey, and eighth for milk. All of these ingredients have grown increasingly essential for a widening array of “healthy” snacks.

Other ingredients of successful snack-making are marketing and distribution. Not only have local powerhouses such as General Mills and retailer Target done well with snack foods, they’ve employed people who have since left and started, or helped others start, their own snack food businesses.

There are also a host of other companies playing a role in snack-making and distribution based in the state, including Austin-based Hormel Foods Corp., Arden Hills-based Land O’ Lakes Inc. and Inver Grove Heights-based CHS Inc.

At the grassroots retail level, there are more food co-ops per capita in Minnesota than anywhere else in the nation, according to Iowa-based National Co-Op Grocers. NCG counts 20 member co-ops operating 28 store locations in Minnesota. Many entrepreneurs looking to create healthier snack foods often start out on shelves at a local co-op.

## Pass the Salt

\* Even as eating habits change, Americans still crave salty snacks such as chips, popcorn and meat snacks above all other categories for between-meal munchies.



**This data covers  
the 52-week period  
ending on April 1, 2017,  
for sales in Nielsen-  
tracked U.S.  
retail stores.**

SOURCE: THE NIELSEN COMPANY

## Golden Valley powerhouse

While many people may still think of General Mills as a cereal or yogurt company, its U.S. snack sales of \$2.1 billion are at almost the same level as its domestic cereal sales and now account for 21 percent of its total domestic revenues. The company is a dominant player in many snack-bar categories. Sales numbers for 2015 from the Chicago-based data and analytics company IRI showed that Nature Valley products were the two top-selling granola bars in the U.S. In the nutrition/health bar category, the company had two of the top four, with Fiber One and Nature Valley Protein. (General Mills is a custom publishing client of MSP-C, a division of Twin Cities Business' parent company MSP Communications.)

Those numbers underscore how the business is changing. Ten years ago, in fiscal 2007, General Mills saw \$1.1 billion in U.S. snack sales, which represented 12.6 percent of its domestic retail sales. Over the last decade, General Mills has seen its snack sales climb 97 percent.

But what counts as a snack? General Mills' snack division includes snack bars under a variety of brand names: Nature Valley, Fiber One, Lärabar, Epic and Annie's. The Annie's brand recently added popcorn and cheese puffs, new snacks under that brand name. The company's Yoplait yogurt business is counted as a separate category, even if many customers consider their cup of yogurt a snack.

The challenge for big food companies like General Mills has been declining overall sales. For the quarter ending August 27, sales declined 3.5 percent. Snack sales were also down, but the decline was smaller than other segments. For North American retail sales, overall sales were down 5 percent. U.S. cereal sales were down 7 percent, but U.S. snacks were down by only 2 percent.

That's one reason more snack bars are in the future for General Mills. The company's current strategy calls for "investing in differential growth opportunities," similar to its acquisition two years ago this month of Austin, Texas-based Epic Provisions. Epic makes meat snacks sold in Whole Foods and similar retail outlets. Epic was founded in 2013, and its first bar was a heretofore unheard-of combination of meat, fruit and nuts. The average consumer likely has no idea that the product is now owned by General Mills.

But it's the General Millses of the world that help spur new snack startups. Some of its former employees are now starting their own businesses or helping others do so. Meanwhile, its appetite for acquiring new snack concepts gives "snackpreneurs" hope that a larger organization may someday buy their small businesses. There's usually a critically important first step, though: attracting private equity—and the intelligence it brings that can help a company make it big.

## A big boom

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For the first three years in business, the Bastians primarily sold popcorn at amateur baseball games and high school athletic events. At one point, they sent 120 bags of popcorn to the Minnesota Vikings (the team's training camp was based in Mankato for decades). That led to a

sponsorship deal with the team, which then led to a connection with local retailers. In 2004, Angie's Kettle Corn went on sale at a grand total of four retail stores: three metro Lunds & Byerlys locations and a co-op in St. Peter. Word of mouth brought it to more and more stores.

At a key juncture in 2009, the company hired its first-ever national sales director, Jim Lee, a veteran of Arden Hills-based Land O'Lakes Inc. Another turning point was landing its first private equity investment in 2011 from Wellesley, Mass.-based private equity firm Sherbrooke Capital.

Following this, the company started rebranding Angie's Kettle Corn to Angie's Boomchickapop in 2012, a move that further accelerated sales. "Target was key; they let us test it," says Angie Bastian of the transition to Boomchickapop. "They loved the brand and they loved the design."

Bastian says that sales grew from \$11 million to \$80 million a year during Sherbrooke's tenure. The firm then exited in 2014 when Fort Worth, Texas-based private equity firm TPG Growth bought a majority stake in 2014. At that point, "we were no longer in charge, but we still had influence," says Bastian. She credits TPG with helping to further build out the company's sales and distribution network, while creating a strong executive team.

In the wake of the ConAgra deal, the Bastians no longer have any ownership stake. They are also no longer employees of the operation, but continue to serve as consultants. Bradley says that there was a lot of competition among companies looking to acquire Angie's.

"When you have the category trends behind you, that gets people excited," says Bradley. "But when you have quality investors and quality financial representatives presenting your company to the market, it only enhances your desirability to the investors."

Many new food companies have similar startup stories. That's exactly how Minneapolis-based WholeMe, which makes a line of granola-like "clusters," began.

"My husband was diagnosed with Type 1 diabetes, so we just started changing how we ate, which meant eliminating preservatives and unnecessary sugars from what we were eating," says Mary Kosir, co-founder and CEO of WholeMe. "We're a grain-free, gluten-free, naturally sweetened snack food company."

Kosir's test market? Her local Cross-Fit gym. "I was bringing in bars and clusters and things like that to the gym, and based on their popularity there I started actually making things for events at the gym," recalls Kosir. "I had enough people say 'You should start a company' that I actually took it to heart."

Kosir and co-founder Krista Steinbach raised more than \$40,000 through a Kickstarter campaign to help launch the business and start retail sales in 2014. Kosir cites Woodbury-based Kowalski's Markets as an early supportive retailer.

WholeMe raised \$1 million in its first round of financing in June 2016. Kosir says that the company will need another financing round in 2018 to keep growing. The product is now available in more than 2,000 stores.

“We’re at a point now where we’ve got a lot of ideas and pipeline products ready to roll, but we don’t necessarily have the cash flow to make it happen,” says Kosir. Will the company be bought? Kosir says that they’re open to “strategic partnerships” that could “accelerate growth.”

Kosir says that the company has mapped out a pipeline of new products for 2018 and 2019. She advises food entrepreneurs to look for investors who can bring industry expertise for the long-term health of the company.

“I think it’s important to have investors who can really bring some knowledge and insights and connections to the table. Otherwise, if it’s just money, I would say not all money is created equal.”

Eden Prairie-based Doctor in the Kitchen LLC was co-founded by Dr. Alison Levitt, an integrative medicine physician, who was making flaxseed crackers for patients. The company’s co-founder and CEO Donn Kelly brings food industry experience with General Mills and Pillsbury. The firm sells six flavors of Flackers, an organic, vegan, non-GMO flaxseed cracker.

Building a brand takes a lot of work, says Kelly. First you need a product that resonates with consumers, but also one that food companies are persistent about building a distribution network for and steadily promoting. That often means offering discounts or other promotions.

“In the early days, I was dropping product off in my Jeep at the stores [in 2008] ... and I would come back later and demo the product,” says Kelly. “Where people discover products is at the shelf, mainly.”

The company started out with just a few local co-ops selling the product, and at the time, not as many consumers were looking for healthier snack options. But over the last decade, he has seen a big shift.

“The market has considerably changed,” says Kelly. “I think we were probably a couple years ahead of the curve.”

Kelly says that they have tried to be strategic about growth.

“We also placed our bets on hiring brokers in other parts of the country where we thought our product would work well, like on the West Coast for example; Southern California now is probably our biggest market,” says Kelly. “Amazon is a big customer of ours as well. Amazon is growing in food like crazy and we’re benefitting from that.”

Kelly says current revenue is under \$5 million, and they’re working to raise the company’s first round of financing. Ultimately, Kelly acknowledges, the likely plan is to sell the company to a larger player.

“I’ve had some conversations with some of the strategic food companies, the investment arms of some food companies,” says Kelly. “That is definitely the end game, I think: to find a home that is right for it, that continues to build the business.”

A recent snack food deal caught the attention of startup entrepreneurs everywhere. In October, Michigan-based Kellogg Co., maker of Frosted Flakes and Pringles, announced plans to buy the Chicago-based maker of RXBAR protein bars for \$600 million. Chicago Bar Co. LLC was less than five years old.

But Kelly says businesses shouldn't count on winning the acquisition lottery after just a few years in operation. "So when you think about the exit, you've got to have a sense of reality."

## Snacks Increasing Share of General Mills Sales

\* Consumers know Golden Valley-based General Mills Inc. for cereals like Cheerios, Wheaties and Lucky Charms. But the snack category, including products such as Fiber One and Nature Valley granola and protein bars, is an increasing slice of the company's North American retail sales. As the company's overall sales are declining, snack sales are becoming an increasingly larger slice of its business. The company currently breaks down its domestic retail sales into four categories: meals and baking, cereal, snacks and "yogurt and other."

| General Mills Inc. |                        |                  |                           |
|--------------------|------------------------|------------------|---------------------------|
| Fiscal Year        | Total U.S Retail Sales | U.S. Snack Sales | Percentage of Total Sales |
| 2017               | \$10.2 billion         | \$2.1 billion    | 20.6 percent              |
| 2016               | \$10.9 billion         | \$2.1 billion    | 19.1 percent              |
| 2015               | \$11.6 billion         | \$2.1 billion    | 18.4 percent              |

SOURCE: GENERAL MILLS INC., 10-K FILINGS WITH U.S. SECURITIES AND EXCHANGE COMMISSION

## The next win?

Live Better Brands LLC, makers of Way Better Snacks, is a strong candidate for the next sizable Minnesota food company that could be acquired by a larger, national company. The company was founded in New York in 2011, but relocated to Minneapolis in 2013, setting up shop in the North Loop area of downtown Minneapolis. Founder and CEO Jim Breen is a Twin Cities native.

At the time of the move, Breen gave the Star Tribune one: the Twin Cities was the company's biggest market and said: "Consumers here get what we are doing."

The company acquired Ontario-based food manufacturer BioEssential Botanicals in 2014. Twin Cities Business profiled Breen in its "Small Business Success Stories" in January 2015. At that time, Breen was forecasting revenue of \$20 million to \$24 million for 2014.

In June 2015, the company announced that private equity firm Alliance Consumer Growth, based in New York and Los Angeles, made a minority equity investment in Live Better Brands. Those funds were slated to be used to boost nationwide distribution and new product development.

Breen did not respond to recent requests for comment from Twin Cities Business.



Meanwhile, there's Minong, Wis.-based Jack Link's Protein Snacks, which opened its first retail store on the skyway level of the renovated Target Center in downtown Minneapolis last year. The maker of Jack Link's beef jerky is also opening a new, expanded local office with 300 employees across the street from the arena at Mayo Clinic Square.

The company sees Minneapolis as a "recruiting and talent hub" that is now "our second home," says T.D. Dixon, chief marketing officer.

Minong is a town of less than 1,000 people roughly halfway between Duluth and Eau Claire in northern Wisconsin. But jerky is big business: The company posted sales of \$1.2 billion for 2016. Dixon says that sales have been up 5.5 percent in 2017. The company, founded by Jack Link in 1986, is privately owned with no outside investors.

"Snacking is on the rise, and people's desire for protein is on the rise," says Dixon. "The store represents bringing our brand to life. We feel like we're more than a beef jerky company. We think of ourselves as a protein snacking company and we think of the brand as a lifestyle brand."

Beyond an array of jerky, the store sells apparel and other Jack Link's memorabilia. Dixon says that the Minneapolis store is something of a prototype concept for more retail locations. "We have aspirations to build others," says Dixon. The company recently launched its Jack Link's A.M., a new line of breakfast snacks.

"Having a store, I think, is very smart because then you have the opportunity to reintroduce the whole story," says Bradley.

## Would a Snack by Any Other Name Taste as Sweet? Or Salty?

\* One emerging industry trend is the increasingly blurry line among traditional snack food categories. Popcorn, for example, is a salty snack, but now there's a wide array of popped products touting "better for you" ingredients and attributes. Snacks may be salty or sweet. Healthy or indulgent. But now some snacks could arguably be both.



Chicago-based market research firm IRI, which takes a comprehensive look at snacking trends, has classified snacks into four broad categories:



### Core Healthier

Granola bars, trail mixes, no fat/reduced fat cookies or crackers, non-sweet popcorn.



### Core Indulgent

Chocolate candy, salty snacks, sweet popcorn, bakery snacks, regular fat cookies and crackers.



### Extended Healthier

No fat/low fat cream cheese, peanut butter, olives, pickles, refrigerated juice and drink smoothies.



### Extended Indulgent

Regular cream cheese, bagels, luncheon meats, pizza.

SOURCE: "2017 STATE OF THE SNACK FOOD INDUSTRY" REPORT, INFORMATION RESOURCES INC. (IRI).

## Legacy players still in the game

Minnesota also has a couple of significant-sized snack businesses who've been around for a while.

Old Dutch Foods Inc. was founded in 1934 and remains a family-owned, regionally focused company with its products available in seven Upper Midwest states. It is focused only on the salty snack category, led by its line of potato chips, still the company's biggest seller.

Over the last 10 years, sales have grown nearly 5 percent every year says Matt Colford, director of marketing and strategic selling. The changing eating habits of Americans are a big factor in that growth. "People are using snacks as a meal. Families are just so busy," he says.

Old Dutch is led by second-generation family members Steve Aanenson, who is president and CEO, and his brother Eric, senior vice president and chief operating officer. The company wouldn't say whether any third-generation family members are employed; it also keeps its annual revenue numbers private.

Colford says that the snack category has grown more crowded and fragmented in recent years, with the influx of new products, brands and flavors. But for Old Dutch, its mainstream salty snack business continues to be robust.

"There was an explosion in ready-to-eat popcorn over the last three years," says Colford, who cites sales of ready-to-eat popcorn climbing from 2 percent to 7.5 percent of the salty snack market in the Twin Cities in the last half-dozen years. With more than 80 years in the business, Colford says the company has seen trends come and go. Even the popcorn segment is flattening a bit, he says.

Old Dutch has 500 U.S. employees. The company's potato chips are manufactured in Roseville; corn snacks are produced at another facility in St. Anthony. The company still delivers its products directly to retailers and does not use a distributor.

The company's operations in Canada are much larger. North of the border, Old Dutch has 1,500 employees and sells its products from coast to coast. Old Dutch acquired Canadian company Humpty Dumpty Snack Foods in 2006. The Canadian Old Dutch Foods Ltd. and the Minnesota-based Old Dutch Foods Inc. are technically two different companies, but are owned by the same family.

There are only minor differences in the tastes of U.S. and Canadian customers. "In Canada, ketchup-flavored potato chips are still very popular," says Colford. "The ketchup just has not caught on here in the U.S. market."

While most people probably don't think of Old Dutch snacks as health food, Colford knows that customers are reading labels more closely, to the company's benefit. "We haven't used artificial seasonings or artificial colors for years. All of our products are gluten-free," says Colford. "We have a number of low-sodium offerings."

Another venerable Minnesota snack company is Perham-based KLN Family Brands. Darrell "Tuffy" Nelson and his son, Kenny, are perhaps Minnesota's most successful snack entrepreneurs, growing their KLN Family Brands into what once ranked as one of the nation's top four privately owned snack food companies and Minnesota's second-largest candy company.

Nine years after Darrell launched Tuffy's Pet Foods in Perham in 1964, he and Kenny launched a salty snack food business called Barrel O' Fun. They later founded Kenny's Candy (licorice and other confections) and NutHeads Chocolate Factory, which makes Kookamunga Crunch (chocolate-covered potato chips, almonds, popcorn and more). Those two units were combined in 2016 as Kenny's Candy & Confections.

The company's newest brand has an arguably edgy name: Sweet Chaos. It's not a better-for-you snack. Sweet Chaos Peanut Butter, for example, includes kettle corn, pretzel sticks, peanut butter-covered pretzels and crushed peanut cups, all drizzled in chocolate. In the Twin Cities, the product can be found at Holiday gas station convenience stores.

"The phrase that we use a lot is 'permissible indulgence,' " says Chase Rasmussen, general manager for Kenny's Candy & Confections. "It was envisioned for those who have a very chaotic lifestyle," as an indulgent snack.

In early 2018 the company will roll out three new Sweet Chaos flavors, co-branded with Cold Stone Creamery, the Arizona-based ice cream parlor chain.

Barrel O'Fun made potato chips (including Rachel's Kettle Chips), cheese snacks and popcorn (including Vic's) and was highly successful in Minnesota and elsewhere in the country. Ohio-based Shearer's Snacks bought Barrel O' Fun in 2015 for \$125 million, including working capital. But they continue to own their sweet-snack and pet food companies, and now employ about 450 people in Perham.

What does the future hold? "We're looking into expanding our offerings in the snack category," says Rasmussen. "Right now we would be looking at expanding our current brands."

And more chaos—Sweet Chaos, of course.

*Burl Gilyard is TCB's senior writer.*