
Memo

TO: ...

FROM: Yalen, Alex

SUBJECT: Annie's Frozen Pizza Strategy

DATE: 5.12.2012

My recommendations can be boiled down to the following four points:

First, the success of Annie's frozen pizza product relies on converting Prime Prospects into Core Consumers. For that to happen, the product needs to be a premium product, priced accordingly, and launched where Prime Prospects shop.

Second, Mass (Target) is the ideal launch pad, not Natural Foods. Annie's frozen pizza needs to capture Prime Prospect attention and wallets *en masse*, early. Natural Foods has a key place in the portfolio -- but nothing retails like Target.

Third, this will create channel conflict with natural food and traditional grocery. Good; distributors should demand access to premium products.

Fourth, Annie's should promote frozen pizza with greater intent than the underground, word-of-mouth methodology that has carried the firm thus far.

I believe Annie's is perfectly positioned to become a frozen pizza leader, and then potentially a frozen food leader, marrying quality to quantity.

Capturing Prime Prospects is Everything.

There are about 1.9 million Core Consumers willing to spend \$179 per week on food. Meanwhile, there are an estimated 2.5 million Prime Prospects spending \$217 per week on food.¹ So, there's about one-third more Prospects than Core Consumers, and the Prospects spend about 20 percent more on food per week than Core Consumers do.

These facts alone would justify centering the Prospect segment. When I examined them qualitatively, I found them even more tantalizing.

They are generally younger and working professionals. They identify with progressive beliefs; they are health-conscious and yes, they believe in the goodness that is mac-n-cheese. But they're also less kid-focused than the Core Consumer; they are busy and have adult needs for convenient food.

These are *ideal* frozen-pizza buyers.

Because there are so many more Prospects than Core consumers, the obvious next concern is how to reach them. Even before that, it's critical to consider what pizzas and at what price.

Certified Organic, or Don't Do It.

Simply put, cutting any corners on the frozen pizza product should be considered a

¹ Exhibit 1.

value-destructive non-starter.

“Made with” organic is a label that attempts to create subtle distinctions; in this case, that label will only create disarray. Suddenly, the Prime Prospects are going to see some Annie’s food that is “certified,” and some Annie’s “made with.” Suddenly, the question isn’t about food at all; it’s about what else Annie’s isn’t saying.

Annie’s sells to an educated audience that seeks out (and is bombarded with) healthy options and sub-clauses and sub-texts. Why confuse them? Why create any doubt, at any point in their journey, about the quality of what’s being sold?

Premium Pricing Works.

Exhibit 8 shows that Annie’s best-selling SKUs consistently sell at higher prices than Kraft, no matter which channel, *including* promotions.

Traditional Grocery commands the highest premium over Kraft (78%) but both Mass (Target) and Natural Food channels have a consumer that is primed to pay at least 60% more for Annie’s products than they would for Kraft. Not coincidentally, these premium-priced products are -- uniformly -- certified organic. Annie’s pricing strategy is in sync with the product mix, and it clearly works.²

Will it work for frozen pizza?

The frozen pizza market is intensely competitive. Overall, the market saw a 4.6% (\$3B) decline in sales last year. All top 10 brands experienced declines – the only brands that didn’t lose money were the two market leaders: Di Giorno and private labels.³

This is all dour news, but I’m not sure what it has to do with Annie’s. Annie’s is a differentiated brand and product. A dozen indistinguishable firms aiming to produce cheap food that consumers know is cheap doesn’t indicate much about what *this* company should do.

If Annie’s frozen pizzas are priced at a 20% or even 25% premium against the competition, that product would still be at the *bottom end* of Annie’s mac-n-cheese premiums, and we know consumers will support that pricing because they’re doing it consistently, everywhere these products are offered.

Reconsider the Distribution Hierarchy.

In general, a boutique food product like this would launch through a Natural Food or similar specialty channel, targeting the Core Consumer. Let me ask this in reverse: why *not* do that?

Annie’s own research indicates that the Core Consumers aren’t positively inclined toward frozen food. What frozen demand exists, exists for deserts and snacks and options perceived as “less healthy.”⁴

Why debut a new product in a venue where frozen foods, particularly frozen dinners, are looked down upon? The Natural Food channel doesn’t expand Annie’s reach as a brand; the company is already known and sought out there. While sales are roughly evenly split

² Exhibit 8.

³ Exhibit 9.

⁴ Case, p.3.

between Grocery, Mass, Natural, Natural makes up the smallest percentage of sales.⁵

So let me propose an alternative.

Target is one of the retail wonders of the world. Target does bulk food, frozen food and fresh produce.

Launching the product at Target exposes a superior product to the widest possible audience, quickly. This includes Prime Prospects, who -- like tens of millions of other Americans -- use Target as a touchpoint for dozens of daily life needs. I'm arguing that frequent contact with Target for *anything* will induce a volume of pizza sales that no Natural Foods channel could match. Launching with Target also allows Annie's to utilize a massive, pre-existing promotional ecosystem.

Is this a departure from norms? Absolutely. Good. Let Annie's signal to the rest of the market that this firm is serious about challenging the biggest brands on their mass-market terms *before* they try to compete with Annie's in Natural. Play offense.

Finally, I understand Annie's concern that Target may want extensive input into the brand, and I totally agree this is a delicate proposition. I would counter-argue that Annie's should welcome some input from a retail behemoth, with its microscopic consumer information. Working with Target might allow Annie's to refine how it segments its own market. I also think Annie's should consider that Target is smart enough to understand how Annie's idiosyncrasies are central to the partnership.

Channel Conflict Actually Creates Value

I understand that Annie's has worked hard to keep every distribution channel happy.⁶ My question is: why?

It's true that Grocery has been the fastest-growing element of Annie's channel portfolio, doing about 38% of the firm's business. I think this trend masks some exceedingly important shifts in the market. Amazon Grocery started in 2007. To me, it's only a matter of time until Amazon figures out Grocery. This, combined with Target and Walmart both moving successfully into food, places extreme pressure on traditional grocers. Annie's has long and successful relationships there, but it's my view that the firm needs to ask itself: how relevant will those relationships be in 2020? I'm not arguing that Grocery should be cut out entirely, but I am arguing that Grocery firms shouldn't *overvalue* their own importance to Annie's.

To me, the greatest challenge would be explaining to Natural Food channels (Whole Foods, etc.) why the firm is launching somewhere else.

One possible answer is this:

Research is clear that Natural Food doesn't excel at frozen dinner/frozen pizza. Why not let Annie's be the leader that brings not only frozen pizza but other high-quality frozen dinners into your frozen section? I would explain that part of the long-term strategy is not only to capture our Prime Prospects, but then to funnel them to specific, exclusive products. It's difficult but not impossible to create "Whole Foods Curious" consumers -- people who were turned on by one product and want to see what else is "similar but different."

⁵ Exhibit 2.

⁶ Case, p.4.

Promote Aggressively.

The big problem I see is that health-conscious audiences are conditioned to accept that frozen foods are inferior. So, they have to be counter-programmed.

Annie's pizzas should make their way onto food trucks and open-air food markets. This set needs to see Annie's pizza product not at home, as something "frozen," but in the flesh, as a legitimate, quality slice.

In terms of overt advertising, Annie's needs its name on the Bravo network specifically, because that's where both Prime Prospects and Core Consumers are.

I would particularly focus my investments on the Top Chef series. Annie's is an ideal candidate to become more than a major sponsor; the products should be involved in the show's weekly competition challenges, potentially even as guest judges. Further, Annie's should consider collaborating with Top Chef contestants in the development of future food products.

These are a few relatively simple ways to begin rewiring the consumer.

Capturing the Frozen Pizza Market is Possible.

I believe that Annie's can win first and foremost by producing the highest quality product and selling it at a premium. That's the differentiator. Getting that product in front of as many Prime Prospects as possible is the logical conclusion. That consumer mass is best achieved with an aggressive launch through Target. Target is pushing into high-quality food; Annie's gives them credibility there, Target gives Annie's massive retail credibility in return, as well as a data-rich promotional ecosystem. This, in turn, creates new Annie's consumers, who specifically seek out Annie's products wherever they can be found – which, in turn, creates new opportunities for Natural Food retailers. This is a virtuous cycle, and frozen pizza could anchor it.