

Nestle: The New 800 Pound Gorilla in Frozen Foods

About: CAG / CPKI / GIS / HNZ / KFT / NSRGY.PK

By Rick Shea

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MINNEAPOLIS (SeekingAlpha.com) – Nestle's (NSRGY.PK) recent acquisition of the Kraft (KFT) frozen pizza division makes them the dominant player in frozen foods. With the acquisition, they add such well known brands as DiGiorno, Tombstone and California Pizza Kitchen (CPKI) to their already powerful frozen entrees and snacks brands (Stouffers, Lean Cuisine, Hot Pockets) With sales of more than \$5.6 B in frozen foods they are more than triple their next major competitor Conagra (CAG) with sales of \$1.8B.

Nestle's pizza brands will now own more than 50% of the frozen pizza market. This is more than twice the share of their next major frozen pizza competitor Schwan's Foods, maker of Red Baron, Tony's and Freshetta brands, who hold slightly less than a 25% share of the category. The frozen pizza market continues to perform well as consumers continue to seek value and convenience and are trading down from delivery and restaurant pizza companies (Domino's, Pizza Hut, Papa Johns). Nestle also owns the supermarket rights for the California Pizza Kitchen brand and this brand continues to perform well as consumers seek variety in their pizza toppings.

For sure the category will remain competitive but Nestle's new found scale and critical mass will provide it with more leverage with top retailers in the all important areas of shelf space, merchandising and leveraging distribution costs. Other pizza competitors like Schwan's, General Mills (GIS) (Totino's, Jenos'), Pinnacle, Great Kitchens, Little Lady, Palermo's and Nations Pizza products will find it difficult to compete against the size and scale of Nestle's offerings. The biggest threat to Nestle's dominance will come from private label pizza offerings where several of these players compete. Private label sales have been strong in frozen and take and bake pizzas as retailers continue to seek a greater piece of the pie (sorry, no pun intended).

It will be interesting to see how Nestle's leverages its size in frozen entrees with their scale in frozen pizza. In the frozen entree section their Stouffers and Lean Cuisine brands compete with Conagra's Healthy Choice, Banquet and Marie Callendars brands. There are also other key players like Bellisio Foods (Michelin's), Heinz (HNZ) (Weight Watchers) and Pinnacle Foods (Swanson), but again Nestle dominates on a market share basis.

To use a tired old cliché "Size does matter ". Nestle is clearly the 800 pound gorilla in frozen foods and should continue to dominate for years to come.

Disclosure: No positions. Mr. Shea was a former VP of Marketing for top food companies. He led the introduction of the first frozen pizza positioned against home delivery and his team was awarded the Kraft Chairman's award for best new product introduction.

