

The South Asian Food Supplier Sector Experiences Consolidation as Investors Capitalize on the Diversified British Palate



While the UK's grocery market has experienced little growth in recent years, the authentic South Asian cuisine market—offerings that incorporate ingredients, spices and food staples from India, Pakistan and Bangladesh—has proven to be a bright spot in the space. The market is projected to grow by 4% per annum between 2017 and 2021 and is whetting the appetite of investors looking to build a platform.

The UK leads in South Asian cuisine driven by its large ethnic Indian population. Of the 2.2 million ethnic Indian people living in Europe, 1.5 million are living in the UK—driving demand for these food offerings.

An influx in immigration from North Africa and the Middle East has made for a more diverse European population. While these more recent arrivals have different cuisines, many of the ingredients, spices, pulses and lentils overlap with South Asian varieties, boosting demand for UK based South Asian brands across Europe.

According to a 2019 survey, 52% of UK consumers are also striving to eat a healthier diet, up from 48% just two years prior. Similarly, an estimated 29% of all evening meals consumed by the UK population in 2018 were vegetarian or vegan. This rise in healthy eating and vegetarianism across the population has contributed to demand for South Asian ingredients and cuisine as consumers look for flavorful, vibrant, colorful and tasty better-for-you alternatives. The range of spices, pulses, lentils and oils used in South Asian cuisine is hard to match in western vegetarian diets. Furthermore, there are other perceived health and environmental benefits of a spice and lentil rich diet such as providing a metabolic boost and plant-based proteins being significantly less resource and water intensive.

Supermarkets are responding to the shift, clearing shelf space to introduce new products that meet the growing demand for healthy or vegetarian options from consumers. As supermarkets adjust their strategy, the door has opened for more South Asian cuisine to break into the shelves of the world food aisle and beyond.

Against this backdrop of rising consumer interest in authentic South Asian food staples, private equity investors are actively seeking strong brands to fold into their platforms, and South Asian food suppliers are taking advantage of the opportunity to sell.

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LINCOLN PERSPECTIVE:

From 2012 to 2017, the presence of a world food aisle in UK grocery stores has grown by 7%, with more than half of supermarkets containing a world food aisle today. Where consumers once had to look to South Asian-specialty grocers to obtain authentic offerings, brands can now sell to consumers via national supermarkets.

In turn, family-owned South Asian cuisine businesses need to invest and evolve to be able to service these new distribution channels—building brand reputation, new sales teams or looking toward private equity investors and corporate buyers who can provide the infrastructure to compete. It is vital for these businesses to be well prepared, as the large supermarkets are sophisticated buyers who demand high service levels.

In tandem, international demand across Europe is there for the taking for companies able to build a platform and penetrate additional European markets. Germany and Italy, for example, are seeing increased demand for Indian food products in conjunction with the rising immigrant population in those countries.

As a result, we are seeing an increased interest in South Asian food suppliers from investors and buyers looking to seize the opportunity to quickly scale customers through larger supermarket and international distribution channels. Further consolidation is on the horizon.

For business owners eager to extract the hard-earned value of their company by contemplating a sale, keep in mind that valuations and buyer appetite are often determined by the following factors:

Brand Recognition: To demonstrate that an offering will be successful in a supermarket setting, food brands must demonstrate strong brand recognition across a broad customer base. Lincoln recommends that business owners dedicate funding to marketing efforts to expand their brand awareness and consumer base. If South Asian food suppliers can demonstrate the value of their brands, over and above a commodity-only producer, acquirers will attribute value to this as it can be seen as a gateway to supermarket shelf listings beyond the world food aisle.

Financial Metrics: In order to support the marketing budget necessary to build the brand to a level that it can sustain a presence in supermarkets, Lincoln recommends that the company's gross margins be above 35%.

Effective Succession Planning: For many of the family-owned companies in the market, a turning point is approaching—leadership teams are nearing retirement age, but for many second-generation family businesses, the next generation hasn't chosen to enter the family business. The best acquisition targets will have a clear changing of the guard in order and will have identified and groomed the younger generation of managers who are attached to the company and familiar with its heritage and history.

For small business owners of South Asian cuisine companies ready to retire, a sale can be a profitable exit strategy. However, to prepare their business for a potential transaction, owners must make diligent plans to ensure they set themselves up for a successful sale.

Keeping updated monthly financial records and a detailed history of your business, cultivating the next generation of leaders within the organization and ensuring a growth trajectory and commitment to marketing the brand will help ensure family owners extract the full value of their business when selling.

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