How Palladium saved Wise

Palladium’s investment in iconic potato chip maker Wise took a rapid nosedive when the company was hammered by the Atkins diet craze in the early 2000s.

Marcos Rodriguez, founder of Palladium Equity Partners, remembers eating Wise potato chips while he was growing up in Manhattan’s tough Washington Heights neighborhood. The iconic brand was part of his – and many New Yorker’s – childhood. And when he saw the chance to acquire Wise Foods in 2000 from its corporate parent at the time, Borden, he didn’t hesitate. “What I loved about the company was it was really an iconic American brand,” Rodriguez tells PEI at the offices of his private equity firm, Palladium Equity Partners, in June. “I’ve been eating Wise potato chips since I was six.”

The company had been founded in 1921 by Earl Wise in rural Berwick, Pennsylvania, who decided to make use of excess potatoes at his delicatessen by frying them up and distributing them in brown paper bags. Four years after making his first chips, Wise opened his first production plant. In the 1960s, the company was taken over by consumer foods conglomerate Borden, and in 2000, was sold to Palladium for about $96 million.

However, the deal quickly went sideways as the Atkins diet craze – which eschews carbohydrates in favour of protein – spread across the country. Potato chips, bread and pasta were out – and Wise, like other purveyors of salty snacks, suffered accordingly. At the lowest point, Palladium marked its $60 million equity investment in Wise Foods down to $3 million; this was a major blow to Fund II, since Wise was the largest investment in the vehicle, according to a market source. The partners were faced with a difficult decision: was it time to “hand the keys over to the bank and walk away”?

In the end, the firm decided to stick with the investment – but make some big changes. And in December 2012, the famous potato chip maker that had seemed at one point to be a lost cause was sold to Arca Continental, generating a successful 2.7x return.

The success not only benefitted Palladium and its limited partners; the turnaround also helped secure the jobs of close to 1,000 workers at Wise, many of whom are second or even third generation employees at the company. Here’s how Palladium did it.

1. BUILDING THE RIGHT MANAGEMENT TEAM

“People are always going to be eating potato chips. It is a great brand; the awareness is very good. We felt that if we got the right people in, and we repositioned the company to play [to its] strengths, we could at least get our LPs’ money back,” Rodriguez says.

The first step in turning around Wise was putting in the right management team. Previous management favoured a rapid national expansion for Wise, and also had ideas about coming up with a healthy line of snacks.

Edward Lambert joined Wise in 2004 as part of a restructuring team put together by The Meridian Group, and became chief executive officer in 2006. Lambert’s vision was more pragmatic: “He said: ‘Find out what our core strengths are and get down to a size that makes sense’. Once that was stabilised, then it was: ‘Now how do we grow’,” Rodriguez says. In 2008, the company began grooming Mike Scott and Dewey Armstrong to take over leadership of the company, which they did in 2011, with Scott becoming CEO and Armstrong president.

2. GOING BACK TO ITS ROOTS

Earlier in the turnaround, Palladium recognised the need for Wise to reinvigorate sales around its traditional market, the “up and down the street” ‘mom and pop’ network. Wise had always been very strong on the East Coast and especially in urban areas, according to Alex Ventosa, a managing director at Palladium.

As part of that effort, Palladium and management worked to reposition Wise toward the heavily Hispanic bodega market, and hired top sales personnel from rival Frito Lay to manage that channel. Wise also launched some grass-roots promotions to re-establish its appeal to its traditional blue collar customer base.
For instance, the company struck a promotional deal with The New York Mets to become the team’s official potato chip. In 2009, Wise and The Mets held a promotion called Big City Crunch, where everyone in the stadium was given a bag of chips, and at the designated time, took a bite of the chip. The promotion made the Guinness Book of World Records for the most people “crunching” a potato chip at the same time.

“It got blasted all over television – so we probably ended up having hundreds of thousands worth of promotional or marketing dollars equivalent spent,” says Yue Bonnet, a vice president at Palladium.

This brand rejuvenation put the brakes on declining revenue and led to more than 20 percent sales growth in key Hispanic markets by 2012, according to the firm.

3. PRICING STRATEGY
Wise shifted a greater portion of the portfolio to “everyday low price”, a concept that eschews frequent discounts and two-for-one deals in favour of a consistently low price. It’s based on the notion that consumers become fatigued by constantly changing prices in stores. Wal-Mart is one major retailer that follows this sort of ‘everyday low price’ strategy, according to Ventosa.

Along with the implementation of everyday low price, Wise phased out its 25 cents bag in favour of a 50 cent bag. Another notable change was the addition of a $2 bag of potato chips that included a bright red tag saying ‘$2’. This did so well the firm thought competitors would quickly introduce their own versions, but it took them two years to come out with similar products.

All told, this pricing strategy helped Wise overcome the $13 million in commodity price increases that occurred between 2008 and 2009.

4. TAKING IT NATIONAL
By 2010, the company was stable, and management could begin to work on growth. The main focus was taking the brand national. Wise tripled the size of its national sales team and started selling the brand directly to national retailers.

The company tested the market through a few early promotions with national chains, who quickly discovered that the product was flying off the shelves, Ventosa says. “It showed us that even in areas where we never advertised before, [the product] sold,” he says.

Eventually, Wise was able to win an account with Family Dollar to sell its products, which in turn caught the attention of other national chains. The growing exposure helped take that national business from zero to almost a quarter of Wise’s total revenue in two to three years.

In June 2012, Wise and Palladium began talking to Mexican corporation Arca Continental, which eventually agreed to buy the company. Palladium declined to disclose financial details of the transaction, which closed in December 2012, but sources in the market have pegged the exit at about 2.7x cost.

“Knowing the difference of when to pull the plug on a company and when to tough it out, that’s the hardest part of our business,” Rodriguez says. “In 2008, it looked like we made the wrong decision; in 2012, it was clear we had made the right one.”

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