

FODY FOODS: EATING LIFE TO THE FULLEST

Robert Mackalski, Marc Ducusin, Marika Lapointe, and Emma Clayton wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It's really awesome to be able to build a business that helps make people feel better and live happier lives.
Steven Singer, founder and chief executive officer, FODY Foods Co. Inc.

Part dreamer, part visionary, and all entrepreneur, Steven Singer launched FODY Foods Co. Inc. (Fody) in April 2016 as a follow-up venture to Glutino, his wildly successful company that trailblazed the space of gluten-free consumer packaged goods (CPGs). But Fody, the manufacturer and marketer of a line of food products that were low in fermentable oligosaccharides, disaccharides, monosaccharides, and polyols (FODMAPs) for people suffering from irritable bowel syndrome (IBS), was a more daunting bet. With one billion people worldwide suffering from IBS-type symptoms,¹ research in 2018 indicated a potentially enormous market. And, while awareness of the condition was growing, only a small portion of those afflicted with IBS knew, or were able to follow, the constraints of a low-FODMAP diet.

Singer was a young, dynamic figure whose approachable, down-to-earth demeanour and genuine care for the life-changing potential of his products were as vital to his success as his entrepreneurial drive. In October 2018, Singer peered through the window of his office in downtown Montreal overlooking the crowded streets below and thought of all the people he could help. Could his start-up create a new category of consumer—and how? What were the best ways to market and grow their business? How should they communicate the sensitive issue of IBS, a condition that often went undiagnosed and was accompanied by symptoms shrouded in stigma and social taboo? Working with five dedicated employees, Singer had assembled a tight, streamlined team. But together they were taking on a gargantuan challenge—a multi-faceted project that involved not only creating new and delicious low-FODMAP products but also educating the public and carving out a new space in the retail market.

BACKGROUND

Glutino Experience

Mapping out a non-existent category was already familiar territory for Singer. In 1999, Singer's instinct led him, at the age of 26, to develop the then-untapped market of gluten-free products. After extensive

¹ International Foundation for Gastrointestinal Disorders, "Facts about IBS," About IBS, November 24, 2016, accessed April 25, 2018, www.aboutibs.org/facts-about-ibs.html.

research and consultation with nutritionists and physicians, Singer co-founded Glutino when he acquired a small importer of Italian baked goods that was shutting down. Singer reorganized Glutino and marketed cereal bars, cookies, and other CPGs for gluten-intolerant people. At the time, Singer estimated that three million Americans suffered from celiac disease,² and thousands more followed gluten-free diets to quell a variety of digestive issues. Despite these numbers, no one had endeavoured to offer solutions that would facilitate the formidable task of gluten-free eating. Over the next 11 years, Singer grew Glutino from start-up to a gluten-free leader, generating CA\$100 million in revenue before selling the company in 2011.

Starting FODY

I read an article from a medical journal on IBS and thought, “This needs to be solved.”
Steven Singer

Singer learned about IBS in 2014 after reading a research paper detailing a new diet-based approach to managing the syndrome. Researchers at Monash University in Melbourne, Australia, had discovered that short-chain carbohydrates, identified as FODMAPs, exacerbated the symptoms of irritable bowel syndrome, which included constipation, diarrhea, bloating, pain, and distension.³ Eliminating FODMAPs from one’s diet had proven to be an effective way to diminish the pain, discomfort, and potential embarrassment associated with IBS.

The next step for Singer was careful research on IBS, the day-to-day challenges sufferers faced, the science behind IBS and low-FODMAP diets, and the market that served IBS sufferers. Researchers estimated that one in seven people worldwide were affected by IBS, with new sufferers diagnosed every year. In contrast, only one in 133 people suffered from celiac disease, while the gluten-free market increased steadily between 2013 and 2015, representing US\$4.21 billion in sales in 2014, with growth predictions of over US\$7 billion by 2020.⁴

Singer reasoned that if Fody could reach a fraction of its target market, sales numbers could rise to the billions. Not only were some IBS sufferers seeking solutions, but medical professionals had also started looking for FODMAP foods; they were eager to have a solution to offer their patients because the burden of IBS on the Canadian health care system was considerable, accounting for CA\$6.5 billion in spending and CA\$8 billion in lost productivity. Research showed that 40 per cent of IBS sufferers in Canada who sought medical attention were diagnosed and followed treatment plans for their digestive problems,⁵ leaving 60 per cent of sufferers unaware of their condition.

Although dietitians and doctors supported the science behind the low-FODMAP diet, it had not yet entered common knowledge. In addition, retailer purchasers had not heard of low-FODMAP diets, nor did they have any analytics to demonstrate how such products would perform on their shelves. There was also a challenge in marketing a product meant to ease uncomfortable and often embarrassing symptoms. Despite its prevalence, IBS remained a largely taboo subject. Some sufferers turned to online communities, blogs, and influencers to gain knowledge of symptom management, but online reach topped off at a few thousand followers per network. The low-FODMAP conversation was still under the radar.

² The University of Chicago Celiac Disease Center, Celiac Disease Facts and Figures, accessed February 19, 2018, www.uchospitals.edu/pdf/uch_007937.pdf.

³ Monash FODMAP, “Discover the Research behind the Low FODMAP Diet,” Monash University, accessed April 10, 2018, www.monashfodmap.com/ibs-central/i-have-ibs/research.

⁴ “Global Gluten-Free Food Market Value in 2016 and 2021 (in Billion US Dollars),” Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/248467/global-gluten-free-food-market-size.

⁵ “Statistics,” Canadian Digestive Health Foundation, accessed February 10, 2018, www.cdhf.ca/en/statistics.

THE TEAM

Singer had begun to build a small but highly energetic and enthusiastic team of young professionals to get his start-up off the ground. Each team member brought their own unique skills to Fody's day-to-day management and fit the mould of Singer's hard-working but also fun-loving culture.⁶ Sean Surkis was the chief operating officer and was playfully referred to as the "glue" of the company, while Delaney Brown, the brand manager, was known as the "megaphone." Operations manager Seb Soch was the company's "Rubik's cube," and project manager Arielle Levine was the "stethoscope." Registered dietitian and educator Kate Scarlata contributed her specialized knowledge of low-FODMAP diets.

The dedication of the Fody team was a testament to their cohesiveness and to the dynamism and leadership of their chief executive officer. Surkis had spent 15 years in the food industry generating multi-million-dollar growth for some of the biggest brands in North America, but he joined Fody because he had faith in the product and knew that working for Singer was an unmissable opportunity. Surkis also knew that the key to the company's success would be handling product development wisely and adopting a business model that would allow them to adapt to a quickly changing market.

INVESTMENT

Within the first few months of operations, Singer had lined up strategic investment for Fody:

I approached Jonathan Goodman, who has had amazing success in the pharmaceutical industry. He immediately understood the IBS market and its size. When I told him there was a diet that alleviates any IBS symptom, he wanted to invest. He understands what we are trying to do and is incredibly supportive.

While Goodman was bullish about the market opportunity, he was also enthusiastic about Singer himself:

My father and founder of Pharmascience Inc., Quebec's largest employer in the life sciences, has an expression: "Find something that you like to do and you will never work a day in your life." Steven isn't working at Fody; he is just unleashing his unbridled passion for helping people. You can't help but get excited about what he's doing. And, the food he is creating is delicious—and based on science.

PRODUCT STRATEGY

Fody's product offering was carefully tailored to meet the needs of people with IBS. Maintaining a low-FODMAP diet was a complicated endeavour, so Fody tried to simplify the process for IBS sufferers. Fody's original product line was launched with six items, including pasta sauces, salsas, and chocolate-and-nut cereal bars, but more products were made available because Singer believed that a complete diet was the best solution for IBS sufferers. The line was expanded and diversified to include soups, spices, salad dressings, olive oil, snacks, and other foods (see Exhibit 1). Their top three sellers were their Dark Chocolate, Nuts & Sea Salt Bars; Mild Salsa; and Tomato & Basil Pasta Sauce.

Taste was a crucial consideration for their brand, and new products were developed with care. Fody did not want their products to taste good for low-FODMAP foods—they wanted their products to taste good,

⁶ "About FODY Foods Co.," Fody, accessed April 25, 2018, <https://www.fodyfoods.com/pages/about-fody-foods#team>.

period. It was also paramount for them to know where their ingredients were sourced and that they were processed ethically and under good working conditions for all involved. All products were certified low FODMAP by Monash University. Products also carried a combination of USDA organic, Ecocert, vegan, and kosher certifications. Fody wanted to invest in building not only a brand but also a culture.

To create new products quickly, the company decided early on to outsource production. For instance, Fody's ketchup was made in eastern Europe because the supplying company not only made a great-tasting ketchup but also had smaller minimum order quantities. The outsourcing model shortened the development-to-production period significantly. "From brief to new product launch is 12 to 18 months in a large company," Surkis remarked. "In our world, we do it in three to four months. Things get done so quickly here, but going faster can't be an excuse for a lack of quality or launching the right product." Outsourcing also allowed Fody to better answer their customers' needs, which Fody ascertained from frequent feedback.

Consumer feedback attested to the appreciable changes that Fody's products brought to people's lives. Levine took pride in reading the glowing reviews and letters of thanks sent by IBS sufferers who had regained a part of their lives thanks to the low-FODMAP diet that Fody had facilitated for them. Levine described one particularly moving exchange with a young customer.

"There was a phone call from a young boy—maybe 10 or 11 years old," Levine recalled. "His mom ordered for him, and he just called to say thank you and that we changed his life. He said, 'You took the hard part of the diet and made it easy and fun. You revamped my life.' I got goosebumps from head to toe."

To keep the logistical aspects on track, Soch had to keep a close eye on all their contributors to ensure strong supply chain management. The entirety of the Fody line of products was being manufactured and shipped through third party warehouses; food never went through the Fody offices in Montreal. With the bulk of sales processed online, and only a few deliveries made to bricks-and-mortar grocery stores, it was possible for one person to oversee all third-party service providers. But with considerable growth on the horizon, the team would have to carefully re-evaluate how to manage their supply chain should they find themselves in all major grocery chains in North America.

DISTRIBUTION AND PRICING

Fody distributed their products online through the company's American and Canadian websites, Amazon.com Inc. (Amazon), and other online stores, in keeping with the growth of online sales in the industry. In 2016, US online grocery sales represented 3 per cent of the market and were expected to reach 10 per cent by 2020 (see Exhibit 2). Amazon and Walmart Inc. were the two biggest players in the online-grocery arena (see Exhibit 3), with other chains across Canada and the United States beginning to tap into the market. Traditional grocery stores, too, were beginning to implement online sales options (see Exhibit 4).

After launching the first line of products on their US website, FodyFoods.com, the Fody team was quickly able to list their full product line on Amazon, Vitacost.com, and, subsequently, their Canadian site, FodyFoods.ca. Product price points put them firmly between private label and gourmet products. Month after month, their sales increased through a loyal fan base of repeat customers. Not only were their customers coming back—they were also buying more and more products (see Exhibit 5).

In addition to providing online sales, the Fody website furnished visitors with information about FODMAPs and recipes to make at home. The online shop allowed Fody to quickly get the product on the market with low overhead and wide reach. Consumers could order items online, and the costs per product

were above the prices of leading national store-bought brands but less than gourmet prices. Free shipping was offered on orders over CA\$75.

The website additionally allowed Soch to track their sales, gauge interest in product categories, tweak the product offerings, adjust production, and seek new product ideas. “Launching new products online has been gold for us,” said Soch. “We try something online, monitor repeat sales, and our customers give us immediate feedback.” The feedback also gave the company valuable input on their bestselling products and enabled them to create a database of customers for developing and maintaining relationships.

With the success of their online sales, Singer wondered how quickly Fody should pursue traditional retail. Although online shopping had steadily increased, bricks-and-mortar store sales were enormous and still represented 97 per cent of grocery sales in North America. In Canada, for example, retail sales of supermarkets and other grocery stores increased from CA\$75.74 billion to CA\$81.76 billion from 2012 to 2016.⁷ From 2013 to 2018, forecasted retail sales of Canadian supermarkets increased from CA\$36.95 billion to CA\$42.58 billion.⁸ Supermarket and other grocery store sales in the United States increased from US\$310 billion to US\$600 billion from 1992 to 2016,⁹ while global sales of supermarkets and neighbourhood stores worldwide increased from US\$786 billion to US\$1.08 trillion between 2008 and 2018.¹⁰

The Fody team thus knew that they had to get their product on grocery store shelves to begin tracking sales performance, but there remained the question of whether Fody should be in a special section of IBS products or interspersed with regular products. They further had to consider why a retailer, faced with limited shelf space, would want to replace an existing stock-keeping unit (SKU) with an unproven young brand.

In 2017, Fody approached Wegmans Food Markets Inc., a US supermarket chain based in the northeast; Hy-Vee, a midwestern US grocery chain; and Planet Organic Markets, a small UK organic-foods market chain. All three companies understood the Fody mission and signed on to list the full 22-SKU product line. In 2017, Fody products were sold in 125 stores. By 2019, that number was expected to jump to 2,400. The distribution rollout targeted large grocery chains such as Whole Foods Market Inc., Kroger Co., Safeway Inc., Vitamin Cottage Natural Food Markets Inc., Publix Super Markets Inc., and Meijer Inc., with an anticipated presence in 10,800 stores by 2021.

Getting Fody’s products in stores was a result of Singer’s strong track record and past dealings with Glutino, which had not invested a single marketing dollar for shelf space. The initial response in the retail space was satisfactory, but if Fody wanted their sales to reflect the potential market share, they had to make some important decisions that would dictate the direction of their marketing mix.

COMMUNICATIONS AND BRANDING

Vital to Fody’s communications was company “megaphone” Brown, an avid foodie at heart who believed strongly in the benefits of the low-FODMAP diet. Brown emphasized the brand’s focus on living the best

⁷ “Retail Sales of Supermarkets and Other Grocery Stores in Canada from 2012 to 2016 (in Billion Canadian Dollars),” Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/432696/retail-sales-of-supermarkets-and-other-grocery-stores-in-canada.

⁸ “Forecasted Retail Sales of Supermarkets in Canada from 2013 to 2018 (in Billion Canadian Dollars),” Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/481009/forecasted-retail-sales-of-supermarkets-canada.

⁹ “Supermarket and Other Grocery Store Sales in the United States from 1992 to 2016 (in Billion US Dollars),” Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/197626/annual-supermarket-and-other-grocery-store-sales-in-the-us-since-1992.

¹⁰ “Sales of Supermarkets and Neighbourhood Stores Worldwide from 2008 to 2018 (in Billion US Dollars),” Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/311330/sales-of-supermarkets-and-neighbourhood-stores-worldwide.

life through health-conscious food choices. Her goal was to get Fody products in the right customers' hands and help them restore a healthy relationship with eating. The company's online communications welcomed customers to "FODYLand," which Brown described as "a world where people can eat life to the fullest. It's not just about being alive but being able to thrive." Brown knew their target audience numbered in the millions, but they were spread over all demographics of age, race, and income, so careful branding was paramount. With a limited marketing spend, mindful investment would be essential. Fody would use half of their budget to build their category and the other half to build their brand.

As the first to market, Fody bore the onus of raising awareness about the low-FODMAP diet. Health care culture was steeped in a pharmaceutical first-and-only mindset, but Fody had set out to change that. If low FODMAP was to become an integral part of the grocery market, Singer felt it first needed to become synonymous with IBS, but there was little way of guaranteeing that the market was ready to embrace this new way of eating.

To spread their message, Fody started to use Google AdWords ("low fodmap"), consumer digital promotion (with heavy social media, including prominent Facebook advertisements), public relations (PR), and trade promotion at trade shows. The company developed relationships with key influencers like nutritionists and gastrointestinal physicians (GIs) who believed in low FODMAP. As Singer pointed out, "If GIs, dietitians, and nutritionists don't believe in the diet, if they don't know the diet, if they don't understand the diet, they're not going to promote the diet."

Fody teamed up with a PR firm in Boulder, Colorado, to target health care professionals who could educate IBS patients on the merits of eliminating FODMAPS from their diet. Singer and his team attended events such as Natural Products Expo West, Digestive Disease Week, and other nutrition conferences to talk about FODMAPs and the Fody product line. The company relied heavily on grassroots marketing and raising awareness through word of mouth within the IBS community. Influencers picked up the product line and featured the company on their websites. In early 2018, some of Fody's category ground work paid off: one food-industry media outlet touted the low-FODMAP diet as one of the year's up-and-coming health trends.

Online, Fody maintained a fresh and friendly presence on Facebook, Instagram, and Twitter, aligning themselves with other health blogs and websites. Their actively updated Instagram page offered appealing images and information about many types of low-FODMAP foods, along with links to recipes. Internally, there was a debate in the company: Was this the right messaging? What should the balance be among consumer efforts, channel influencers, and trade? As a start-up, how could they stretch their marketing dollars to get the greatest return for their money?

COMPETITION

As a trailblazer in the low-FODMAP category, Fody was not yet facing much competition. A few small companies were offering limited ranges of products, focusing mostly on cookies and snacks. However, Singer knew that once the low-FODMAP diet started picking up steam, well-financed and major consumer-packaged-goods players like Nestlé S.A. and Kraft Foods Group Inc. and specialty food companies would "hop on the bandwagon" and become competitors. Fody would have to stay as nimble as ever, keeping their development and production dynamic while expanding their production-volume capabilities.

NEXT STEPS

Singer and his passionate team were seeing the results of their work, but with increased demand came heavier workloads. Managing producers, manufacturers, warehouses, online orders, deliveries, development, marketing, and category creation was becoming more than the small team could carry. They were growing quickly, but their rapid expansion did not leave much time to pause, reflect, and plan. And, underneath the enthusiasm and excitement, Singer wondered if his entrepreneurial firm had the right plan to succeed in a potentially enormous, but socially sensitive and misunderstood, new category. How should he position the company and communicate the offering? Singer reflected on the best ways to approach distribution and product mix.

Despite all of these unknowns and all of the pivotal decisions left to make, the ever-driven Singer still trusted the gut feeling that landed him there, two stories up from the old Montreal Forum, formerly the home of a historic indoor arena. In that moment, he knew it would pay off to follow the advice of one of the greatest hockey players of all time, Wayne Gretzky: “Skate to where the puck is going to be, not where it has been.” For all of the successes that Singer and his team had scored, the game was just beginning.

This case was prepared by Professor Robert Mackalski (McGill University, Desautels Faculty of Management); Dr. Marc Ducusin (McGill University); and case researchers Marika Lapointe and Emma Clayton.

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EXHIBIT 1: SAMPLE OF FODY FOODS PRODUCT OFFERINGS AND PRICES (IN US\$)

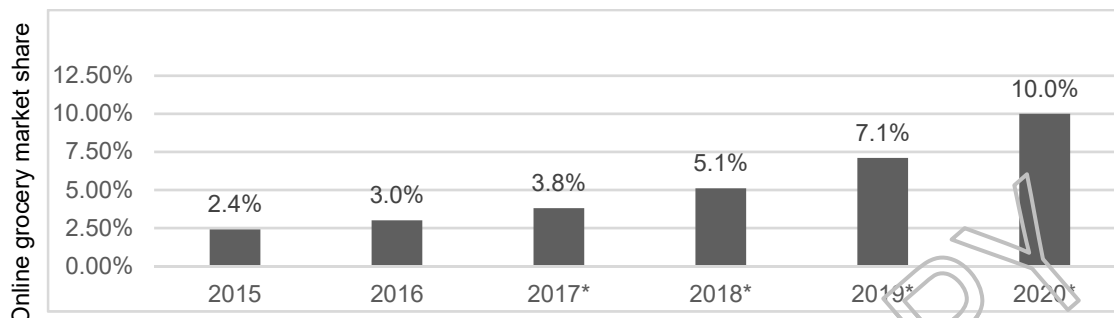
 <p>453 g / 16 oz. Salsas Made in the United States \$5.99</p>	 <p>236 ml / 8 fl. oz. Salad dressings (assorted flavours) Made in the United States \$5.99</p>	 <p>475 g / 16.8 oz. Ketchup Made in the Czech Republic \$6.99</p>
 <p>550 g / 19.4 oz. Tomato Basil Pasta Sauce Made in Italy \$5.99</p>	 <p>550 g / 19.4 oz. Marinara Pasta Sauce Made in Italy \$5.99</p>	 <p>340 g / 12 oz. Barbecue sauces Made in the United States \$5.49</p>
 <p>110 g / 3.88 oz. Spices (taco, steak, and lemon and herb) Made in the United States \$7.99</p>	 <p>12 x 40 g / 12 x 1.4 oz. bars Bars Made in Canada \$24.99</p>	 <p>250 ml / 8.45 fl. oz. Olive oils Made in Italy \$16.99</p>

Note: g = grams; oz. = ounces; ml = millilitres; fl. oz. = fluid ounces.

Source: Company documents.

EXHIBIT 2: ONLINE GROCERY MARKET SHARE IN THE UNITED STATES, 2015–2020

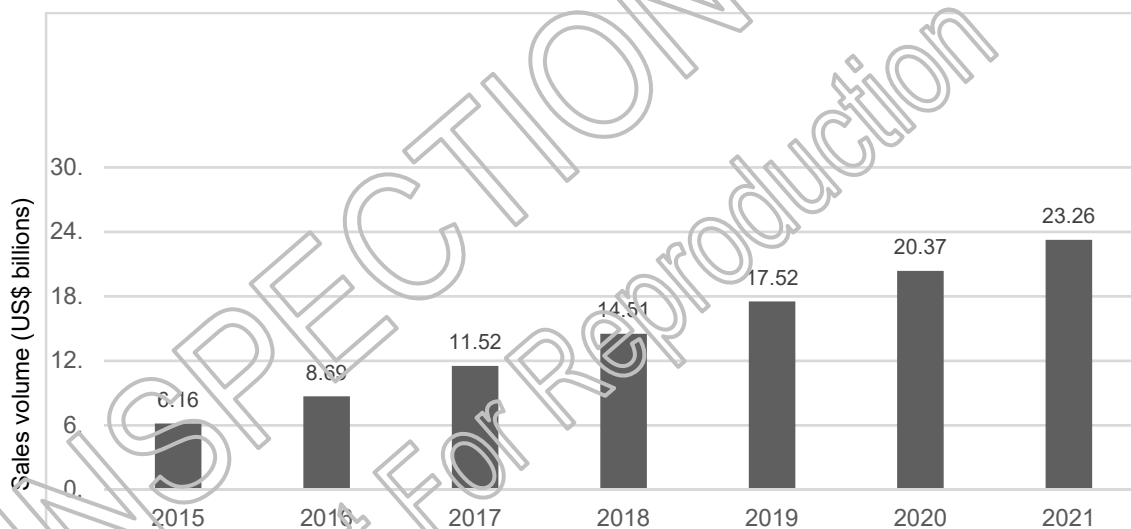
The US online grocery market had a share of 3 per cent of total grocery sales in 2016. The market share was expected to grow to 10 per cent by 2020.



Note: * Years 2017–2020 are estimated.

Source: "Online Grocery Market Share in the United States from 2015 to 2020," Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/531189/online-grocery-market-share-united-states

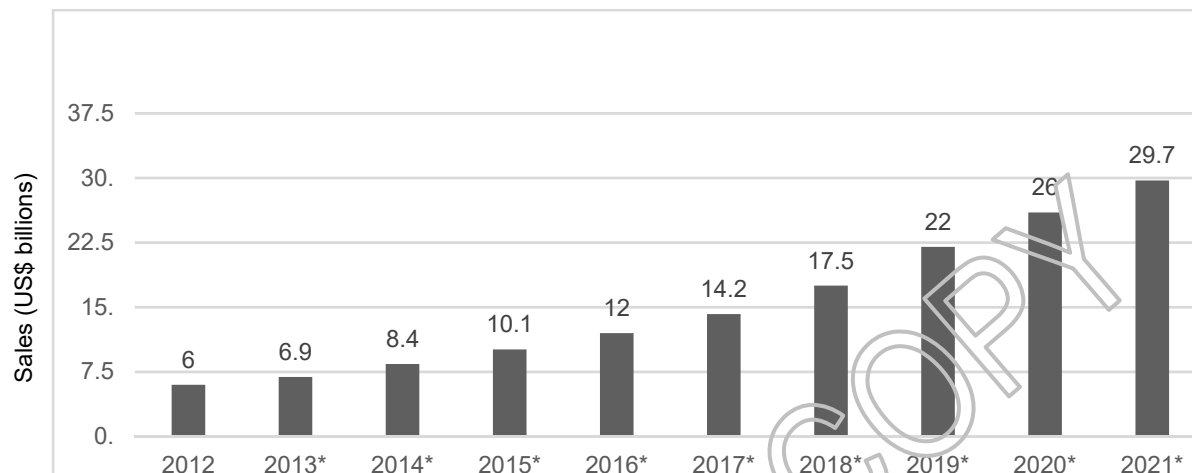
EXHIBIT 3: PROJECTED ONLINE FOOD-AND-BEVERAGE GROSS MERCHANDISE SALES VOLUME OF AMAZON IN THE UNITED STATES, 2015–2021 (IN US\$ BILLIONS)



Source: "Projected Online Food and Beverage Gross Merchandise Sales Volume of Amazon in the United States from 2015 to 2021 (in Billion US Dollars)," Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/545906/amazon-us-grocery-gmv.

**EXHIBIT 4: SALES OF ONLINE GROCERY SHOPPING IN THE UNITED STATES, 2012–2021
(IN US\$ BILLIONS)**

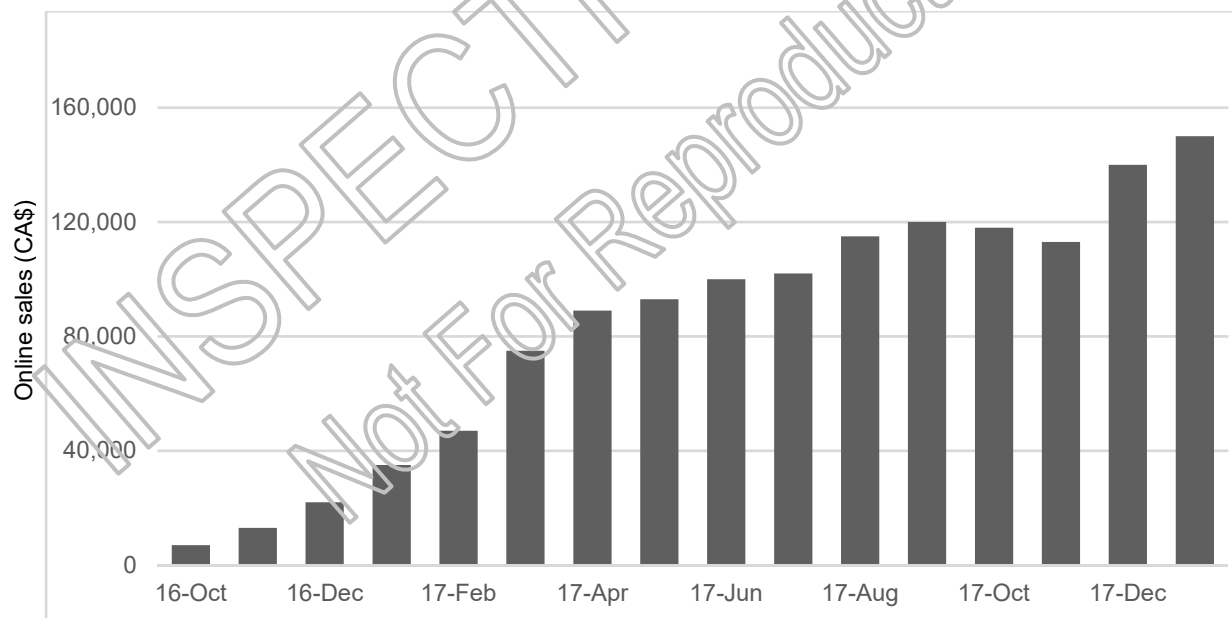
Amazon.com Inc. and Walmart Inc. were among the leading online food-and-beverage retailers in 2017.



Note: * Years 2013–2021 are estimated.

Source: "Online Grocery Shopping Sales in the United States from 2012 to 2021 in Billion US Dollars," Statista, 2018, accessed February 14, 2018, www.statista.com/statistics/293707/us-online-grocery-sales.

EXHIBIT 5: FODY FOODS ONLINE SALES, 2016–2017 (IN CA\$)



Source: Company documents.