All for One

HGGC applies an old-school PE approach to acquiring MyWebGrocer

BY JERRY SOVERINSKY

HGGC LEADERSHIP//
(from left): Farouk J. Hussein, vice president; J. Steven Young, managing partner and co-founder; Philip S. Sampognaro, associate; Hudson D. Smith Jr., principal; and Richard F. Lawson, managing partner, co-founder and CEO.

Photos by Craig Sherod

On any given day in Chicago, a network of large, green Peapod delivery trucks buzz about the city's streets, delivering groceries to homes and businesses. The trucks have become ubiquitous of late, especially on the heels of a particularly brutal winter that prompted many residents to embrace the convenience of home-grocery delivery.

Peapod and its rivals have caused an upheaval in how consumers shop for food, influencing mega-retailers, including Amazon and Wal-Mart, to enter the market with the intent of capturing a growing segment of digital-centric shoppers. They have also created a conundrum for traditional grocery chains unable to offer these services.

"The percentage of spending grocery shoppers will do online over the next 10 years will increase dramatically," says Bill Bishop, chairman of Brick Meets Click, a Barrington, Ill.-based firm that consults on the use of technology in shopping and retail business models. "The most conservative market-level estimates are 3 percent to 7 percent, and the most aggressive are upwards of 16 or 17 percent," he says.

HQ//
MyWebGrocer purchased The Champlain Mill in Winooski, Vt., in 2011 to house its burgeoning business.

PARTNERS // HGGC's Richard F. Lawson (left) and Steven J. Young.

Since online giant Amazon launched its AmazonFresh home grocery delivery service in Seattle in 2007, the company has expanded to Los Angeles and announced ambitions to take its grocery delivery model to as many as 40 U.S. markets. Meanwhile, brick-and-mortar grocery stores, in their own efforts to defend market share, have been looking for ways to offer similar 24/7 digital access for their customers, along with the pickup or delivery options that AmazonFresh, Peapod and others are promising.

That need is a primary reason MyWebGrocer became such an appealing target for Palo Alto, Calif.-based HGGC™, a middle-market private equity firm that invested $154 million to gain a controlling interest in the Winooski, Vt.-based company. MyWebGrocer provides e-commerce and e-marketing solutions to grocers and consumer packaged goods companies looking for the chance to compete in a burgeoning e-commerce market.

"MWG is empowering traditional grocery retailers to more effectively compete with emerging online entrants such as Amazon that are searching for large new markets to enter as [Amazon] looks to maintain its growth rate," says Richard F. Lawson, co-founder, CEO and managing partner of HGGC.

Though now a leading player in the Internet grocery space, MyWebGrocer, founded in 1999, doesn't operate a fleet of delivery trucks or have warehouses filled with rows of perishables stacked floor to ceiling. Instead, the company provides web-based tools that let grocery stores offer a robust Internet presence, using integrated online and mobile platforms allowing shoppers to order food for delivery or pickup. These tools integrate seamlessly into a retailer's existing operations, eliminating the need to create an additional distribution model.

Rich Tarrant, founder and CEO of MyWebGrocer, says the company's original goal was to be the "anti-Webvan," referring to an earlier online grocery service with capital-intensive costs, including a string of warehouses in the Northwest and a large fleet of trucks. Those costs proved overwhelming, eventually forcing the dot-com startup to file for bankruptcy in 2001.

"The problem with the Webvan model is that it requires an expensive infrastructure and complicated supply chain logistics, which are difficult to maintain in a low-margin business where products are ubiquitous," Tarrant says.

Maintaining MyWebGrocer's e-commerce platform is a complex initiative, requiring the management of a website on behalf of retailers with up to 80,000 individual products, whose prices and offer promotions change frequently. "We spent the first five years building out the e-commerce component," he says.

CONNECTING WITH RETAILERS

Focusing on technology was critical and allowed MyWebGrocer to realize early successes where others had failed. "We were profitable and grew the company organically," Tarrant says. "We build a good product and bring it to the retailer cost-effectively. It's a valuable service that they need."

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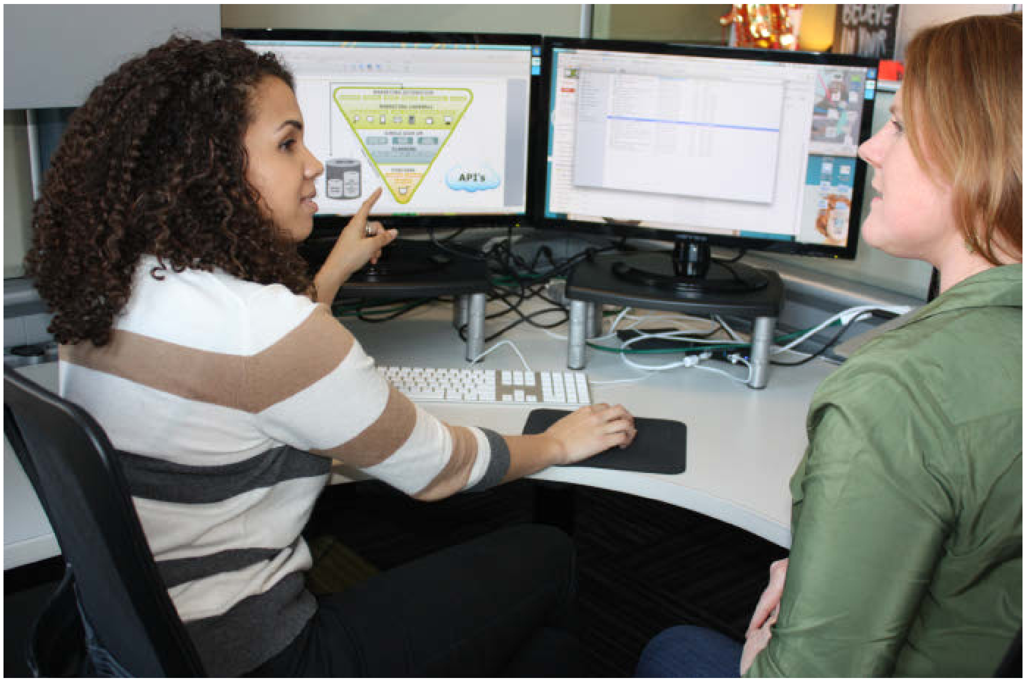

WORKING TOGETHER // MyWebGrocer employs more than 300 people at its Vermont headquarters, including the two staff members shown at left.

MyWebGrocer's ability to maintain a digital presence resonates strongly among retailers, Bishop says. "MyWebGrocer found a really good place to play because it allows them to give the retailer a chance to be an online grocery business and better able to defend themselves from the likes of Amazon and others," he says.

Retailers have responded to the model; over the past decade, MyWebGrocer has grown sales steadily. "We've seen 25 percent to 40 percent growth year-over-year, which is robust growth by anyone's measure," Tarrant says.

PRIVATE EQUITY ROUND NO. 1

In 2009, Stripes Group, an investment firm focused on technology and consumer products companies, took a $13 million equity position in MyWebGrocer to help maximize growth opportunities. The investment went largely toward expanding operations, with U.S. head count mushrooming to 200 from 75 in four years.

By 2013, Stripes was nearing the end of its investment cycle. Tarrant decided to recapitalize MyWebGrocer, bringing on a partner to help take the company to the next level, aiming for either an initial public offering or international expansion.

“WE LIKED THE E-COMMERCE SOFTWARE MODEL MYWEBGROCER HAS FOR GROCERY. GROCERY IS A UNIQUE VERTICAL, ONE OF THE LARGEST ... AND [MYWEBGROCER'S] ECONOMIC MODEL IS UNIQUE.”

Hudson J. Smith Jr. (above)
an HGGC principal

PRIVATE EQUITY ROUND NO. 2: HGGC

At the same time, HGGC became a major player in the e-commerce space with its investment in Hybris Software, which provides e-commerce services to corporations. While working in that space, HGGC became aware of MyWebGrocer's success and identified the company as an appealing investment target.

HGGC bought its controlling share of MyWebGrocer in June 2013, leaving MyWebGrocer's management team virtually intact; the team became committed partners.

“We liked the e-commerce software model MyWebGrocer has for grocery,” says Hudson J. Smith Jr., an HGGC principal. “Grocery is a unique vertical, one of the largest … and [MyWebGrocer's] economic model is unique.

Lawson says HGGC takes an old-school approach toward investing (think 1990s), selecting companies whose executive team is strong and committed to reinvesting in its future. "We never acquire 100 percent of a company outright…We are a back-to-basics private equity firm," he says, adding: "One of the important distinctions of our partnership with MyWebGrocer is that they reinvested a significant portion of their proceeds, becoming both a seller and buyer."

Lawson says the strategy was popularized in the mid-1990s. Superior returns were driven by PE firms that worked closely with company founders, focusing on no more than three or four companies per fund cycle. Today, by contrast, most PE deals have become "an assets under management strategy," he says.

Such an approach is certainly unique, especially with e-commerce companies, Smith says. "Many firms have a playbook, especially in technology; they want to implement management teams they've worked with, and so they tend to make changes that are substantial," he says. "What Rich liked about us is that we've been successful with founders, [we understand that] they're the lifeblood of these businesses and the employees are very loyal to them.

"It's more of a partnership. We're in control as control investors, but we wouldn't do things without their consent. That's a differentiator in the controlled buyout model."

Such collaboration was welcomed by Tarrant and his team and helped to cement the deal. "HGGC made it clear from day one of the interview process that their goal is to support us in building a very large and successful company," Tarrant says. "They simply wanted to know what we needed."

HIDDEN OPPORTUNITIES

While the e-commerce toolkit MyWebGrocer provides retailers was its most visible offering, it was the company's less visible assets—big data—that offered perhaps the strongest appeal for HGGC. In addition to online ordering

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capabilities, MyWebGrocer offers additional tools, including website creation, digital circulars and a shopping list portal. Those features provide opportunities for consumer packaged goods (CPG) companies—the makers of the products on grocery shelves—to connect with consumers.

For instance, retailers that partner with MyWebGrocer allow their customers to compose digital shopping lists or build recipes, providing additional insight into consumer behavior that can be monetized to CPG companies for ad placement or other communications.

"CPG companies are huge consumers of media, and we expect growth in that area ... the future is just starting in terms of online grocery," Tarrant says.

Smith says CPG companies spend $90 billion annually on promotions in the grocery area, with two-thirds on shopper marketing. The future looks bright for attracting those advertising dollars, especially as GPS-enabled smartphones become pervasive shopping tools.

"We understood the software piece on the grocery side, but the data and digital advertising growth that could be monetized … that's a big attraction," Smith says. "That's a very valuable impression opportunity for CPG companies."

MyWebGrocer has already tapped large CPG companies for these revenue opportunities, including Kellogg, Procter & Gamble, Nestle, Kraft, Campbell Soup and Unilever.

LOOKING FORWARD

HGGC wasted little time in helping MyWebGrocer achieve its goal of an overseas presence, acquiring Irish online e-commerce software vendor Buy4Now Technology Group in February 2014. Buy4Now provides web and e-commerce solutions to clients wanting to broaden their business by adding an online platform. With software that supports multiple currencies and languages, Buy4Now lets MyWebGrocer begin competing effectively in the European market. "The combined suite of solutions across both MyWebGrocer and Buy4Now will provide retailers and CPGs with a compelling value proposition in Europe," Smith says.

Lawson offers a bullish outlook for MyWebGrocer with a portfolio of products attractive to both retailers and CPG companies. "We provide the picks and shovels, the [grocers] then decide how to give their shoppers a better shopping experience. Access, not demand, has driven this into a half-trillion dollar industry," he says.

STRATEGY // HGGC's Philip S. Sampognaro (left) and Hudson D. Smith Jr.

"The industry is poised for a lot of change, and our goal is to help Rich [Tarrant] build the largest global independent provider of solutions to this market. Not only in the United States, but in Asia, Europe and the Middle East," Lawson says. "This [AmazonFresh] thing is just the beginning; that's a harbinger of things to come."

For MyWebGrocer, success will be a direct result of Tarrant and the rest of his management team having the autonomy to continue flexing their operational expertise to help the company maximize its growth opportunities.

"We're backing the management team, not augmenting them," Lawson says. "We saw in Rich an opportunity to back somebody who we knew would be tremendously successful. And we bet that his team would be successful, too.

"We're focused on underwriting great people," he says. "We simply provide the capital to help them grow." //