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Bob Evans' prepared-foods unit growing while restaurants struggle

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By **JD Malone**

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In a refrigerated case at a QFC grocery store in Portland, Ore., mashed potatoes and macaroni and cheese bearing the red and white Bob Evans Farms logo await the hands of hungry shoppers.

The side dishes are almost 1,800 miles from the nearest Bob Evans restaurant (in suburban Kansas City, as it happens) and they are selling like, well, hotcakes.

“Most people who grow up here think of Bob Evans and they think sausage,” said Mike Townsley, president of Bob Evans Foods, the company’s prepared-foods division. “We sell more mashed potatoes than sausage.”



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Bob Evans’ side dishes are in more than 30,000 stores in every state and parts of Canada. The lack of brand awareness — the company’s 547 restaurants are in just 18 states, mostly in the Midwest — hasn’t dampened sales at all. Bob Evans side dishes command 50 percent of the market and have three times as much market share as the closest competitor, Hormel.

“When we first introduced into QFC (a subsidiary of Kroger) in the Portland area, within the first three months, Bob Evans was the leading item in the category,” Townsley said.

Bob Evans, based in New Albany, launched side dishes and breakfast sandwiches in the 1990s to complement its retail sausage business. Sales of side dishes grew so much the company bought its largest supplier, Kettle Creations, in 2012 and invested \$25 million to expand a plant in Lima, Ohio which can now make about 100 million pounds of mashed potatoes and macaroni and cheese a year.

The company is spending \$20 million this year to increase capacity in Lima by 30 to 40 percent.

Bob Evans restaurants have wrestled for years with declining traffic and sales, but the food division has been a very different story. Though it makes up less than a third of the company’s overall revenue, the food division has made more money than the restaurants in recent quarters and is growing at a double-digit clip.

The success at Bob Evans’ prepared food division has made it a target for activist investor Thomas Sandell, who has called for the division to be sold or spun off. In December, Sandell released a letter stating that at least one potential buyer had stepped forward and he believed the sale price could approach \$1 billion. Sandell hopes to reward shareholders like himself with a windfall dividend or expansive share buybacks.

At least one analyst agrees. It is time to sell the division now that a new CEO, Saed Mohseni, is on board, said

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Gordon sees all those side dishes as a distraction. In his view, Bob Evans' core business is restaurants and needs the company's full attention.

Townsley said his team tries to ignore the chatter, but admits that it is human to be distracted by such talk.

"Our business is doing very well and let's stay focused on what we can control," Townsley counsels his staff. "If we do all those things, everything will work out just fine."

The same market forces that have sent former Bob Evans and Bravo Brio patrons to faster, cheaper and more convenient options like Wendy's and Panera are also apparent in grocery stores, said John Rand, senior vice president of retail insights at Kantar Retail.

"Refrigerated side dishes are a huge time saver at what is perceived as moderate expense," Rand said.

And to Gordon's point that the two Bob Evans' divisions have diverged: At the grocery store, the brand name doesn't matter; product perception is everything in the cold case, Rand said.

"The restaurant's own brand may be largely irrelevant. It may assist early trial and adoption, but the item has a stand-alone value even if a shopper is not particularly aware of the restaurant chain," Rand said.

Households headed by a pair of working adults seek out food items that make life easier, no matter where they live, Rand said. That means even in Portland, Ore., people who have never sunk a fork into Bob Evans' pancakes or sausage will buy its side dishes.

Townsley thinks it is even simpler than that.

"Once we get the product in people's mouths, the quality of that product sells itself," he said. "I'm sure your mom and grandmother can make great mashed potatoes, but not in 5 minutes. That's the crux of it."

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