



ALL EARS!!

*The Litchfield Fund
Weekly Newsletter*

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

“A wealth of information creates a poverty of attention,” is certainly true in today’s world of media bombardment! The quote was part of economist Herbert Simon’s theory of *bounded rationality* – that humans cannot possibly have all the information necessary to make a perfect decision. Even if they did, the human mind is incapable of digesting it all & bounded by its own cognitive limits. For Dr. Simon, all decisions had consequences which needed to be managed. *Dryer-than-dry* comedian Steven Wright had his own decision-making theory: *If you must choose between two evils, pick the one you’ve never tried before!*

Satisficing: Dr. Simon was much more than an economist; he was also a sociologist, psychologist, political scientist & computer scientist. His research & work ranged across many fields, finding many applications for his decision-making theory. He is considered a forefather of organizational behavior theory & a forerunner in thinking about artificial intelligence. He won the 1978 Nobel Prize for economics. Until Dr. Simon, economists believed decisions were made purely on optimizing the benefit – a totally economic behavior. But Dr. Simon referred to his theory as *“satisficing”*, a combination of two words: *“satisfy”* & *“suffice.”* Think of this in terms of the consumer looking at the overabundance of CPG products or beverages on the shelves. What *satisfices*, both *satisfying* their desires for taste & pleasure while *sufficing* their needs for health benefits, diet restrictions & cost? Entrepreneurs face decisions every day & seek the information they need to make those decisions. In Dr. Simon’s work, *economic man* seeks all the information, believing there is a specified outcome with a specific benefit. *Administrative man*, however, makes decisions knowing his information is incomplete & that outcomes have consequences that need to be managed. They make a choice that *satisfices*. While entrepreneurs need to be diligent in making decisions, they should be just as ready & flexible to manage through all the possible outcomes & fallout. Unless of course they have a secret weapon to help them with their decision-making, for as Dr. Simon said, *“...if somebody delivers a secret weapon to you, you better use it!”*

Industry News: *Castanea Partners* took an undisclosed stake in cold treat maker *Yasso*, who will begin to offer frozen pints. David Barber (co-owner of *Blue Hill* farm & restaurant) has debuted *Almanac Investments*, a \$30 million investment fund targeting CPG products & hospitality services, with an initial investment in *Nona Lim*. *Ingredion* & Chicago’s *The Hatchery*, a non-profit food business incubator, will partner to offer classes, webinars & mentorship to Chicago-area entrepreneurs as part of the *Ingredion for Emerging Business* initiative. Newly established health-focused snack company, *Evolve Brands*, has agreed to acquire raw bar & snack company, *Gorilly Goods & Supernola*, maker of grain-free paleo granola. While we usually do not report on the distilled beverage industry, it is hard not to mention *Bacardi*’s \$5.1B purchase of *Patron Spirits* in which they had an existing stake.

Sales & earnings both rose 21% at *McCormick* for 4th QTR, reaping the reward of recent acquisitions. Management expects \$100M in 2018 cost savings with 13% to 15% growth. There are reports that *Kroger* & Chinese tech giant *Ali Baba* will work together to widen on-line & in-store sales. *Ali Baba* owns *Walmart*-like retail outlets & some supermarkets. *Ahold Delhaize* reported 4th QTR net sales of \$19.7B (up 1.6%), a 0.6% comp increase at *Ahold USA* & a 23% increase in on-line sales to \$3.5B. *Albertsons* is creating a new platform, *Albertsons Performance Media*, to use point-of-sale data to allow suppliers to target ads & measure success across a variety of digital channels. *Target* acquired *Shipt* in December, will start same-day delivery in February in Florida & Alabama & continue to roll out through the year. *Walmart* will partner with Japan's largest e-commerce retailer, *Rakuten*, to launch on-line grocery delivery in Japan & sell e-books in the USA. *Know Brainer Foods* (MCT oil & grass-fed butter creamers) & *Nestlé* will partner to develop collagen protein products. *Simply 7 Snacks* is partnering with chef Giada De Laurentiis to launch a new line of ready-to-eat, Italian-inspired artisan popcorn. *Amazon* opened its first check-out-less store in Seattle. *ADM* opened an innovation facility in Singapore for flavor & ingredient creation, application & development. *Harmless Harvest* CEO Giannella Alvarez stepped down this month & the company is seeking a new CEO. The *Wall Street Journal* reports that activist investor fund *Third Point*, with a 1.25% stake in *Nestlé*, is asking the candy company for changes, including selling its cosmetic line to *L'Oreal*.

Per *NACS*, sales of healthier snack items increase 34% when mainstreamed within the traditional snack sections. *Specialty Food Association* research shows that cheese & cheese alternatives have a 7.5% share of the specialty foods segment (\$127B), with 75% based on cow's milk. Also, *Mintel* reported that the specialty foods segment will grow at 7.9%, from 14.8% of the market to 18%, by 2021. Per *IRI*, more shoppers are shopping on-line, (28% versus 23%, quarter to quarter) with 51% saying they can limit impulse buys & 40% using store pick-up to save money. With NAFTA negotiations underway, the avocado industry is worried about impacts to the popular fruit's supply & price. Newly organized *Food & Beverage Canada (F&BC)* was launched to be a national voice for this growing segment of Canada's economy. In a USDA report, 62% of millennials purchased deli food, carry-out, delivery or fast food within the last seven days compared to 47% of traditionalists & 56% of Gen X-ers. The driver is convenience & cleanup, as millennials spend much less time preparing meals & cleaning up afterwards. The report shows this to be true across millennial income levels, suggesting it is a generational attribute.

Market News: Markets again closed at record highs this week with the DOW above 26,600 & the Nasdaq above 7,500. Strong earnings, a 62% year-over-year 4th QTR GDP growth & additional companies announcing employee bonuses due to tax reform were among the drivers.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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