



partnering with management in emerging consumer products businesses for exponential growth

2x TREND WATCH

News, notes and nibbles from the desktop of:

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Best in 32 Year History! This week, 16,000 attendees set their eyes (and stomachs) on 80,000 products predominantly in foods and beverages, but also in personal care, home care and pet care. Among the 50+ rows of exhibitors at San Francisco's Moscone Center were 170 new exhibitors with products never before seen nationally, plus representatives from countries and regions hosting their own pavilions. Among the activities were dozens of educational seminars and a keynote address by Eric Schlosser, renowned author of Fast Food Nation, in which he talked about the role of the specialty food industry in helping America eat more healthfully. He challenged the industry to take a proactive stance. Standing room only!

Specialty No More? For years, specialty products companies were viewed as nifty little businesses that would ... well ... stay that way. However, in the latest 52 weeks according to Mintel/SPINS, the industry recorded growth of more than 15% to account for just under \$35 billion of annual sales. This booming specialty/gourmet sector is now purchased predominantly at conventional supermarkets and other mass merchants representing 71.8% of specialty retail sales, followed by the natural channel accounting for 9.1% of sales.

The "mainstreaming" of specialty and gourmet products was very evident walking through LUSH (the UK retailer bringing fresh, handmade soaps/cosmetics to 29 countries), reading new focused consumer media vehicles (see The Nibble on page 3) or touring San Francisco's Ferry Building located where Market Street meets The Embarcadero. So busy you have to move sideways at times, the 37 Ferry Building shops include both specialty prepared food destinations and market-style packaged goods retailers. Some of the must see locations include Cowgirl Creamery's Artisan Cheese Shop (creamy and stinky cheeses galore!), Golden Gate Meat Company (beautiful meats cut to order), McEvoy Ranch Olive Oil (pure heaven for dipping or cooking) and Far West Fungi (exotic mushrooms of every size and type). Plus, make sure to visit the farmers market on Saturday morning where you can meet almost 100 other purveyors of specialty goods including Affi's Marin Gourmet. Indulge heavily. We did. Which begs a question: if the old phrase "there are no calories in crumbs" were true, could I say the same applies to samples?? Sure hope so!



Gobble Gobble. As large, mainstream manufacturers observe the consumer-driven growth of specialty and gourmet sectors far outpacing the overall packaged goods market, they assess the "make versus buy" decision. Often the unique market approaches, product quality and/or manufacturing processes lead to a decision to purchase smaller companies. While most people believe the large companies are "buying growth" ... and they are ... these acquisitions are importantly a supplement to the "R" in R&D. Especially in a public company, these purchases are generally immediately accretive and more importantly they do not require 2-4 years of negative impacts to earnings. Big companies like PepsiCo, Inc. and Hershey Co. are two great examples. Both leaders in their respective categories, no one would question the capability or commitment to their own product development. However, recently, Hershey has supplemented internal efforts with add-on acquisitions of Joseph Schmidt Confections, Scharffen Berger Chocolate Maker and Dagoba Organic Chocolate while Pepsi/PepsiAmericas have purchased Stacy's pita chips, airforce Nutrisodas and Izze all-natural beverages and Naked Juice refrigerated juices and smoothies. While the list of other companies doing this is quite long, one noteworthy example is McCormick & Co. which has purchased the Zatarain's, Thai Kitchen and Simply Asia brands to expand beyond their core dry seasonings category.



Winter 2007 Fancy Food Show highlights include ...

Bug Juice No More. Sophistication of adult beverages has come a long way and no place is that more evident than in the beverage mixers and adult soda categories. Adult cocktail mixers continue to boom led by *Stirrings*, an emerging mega brand that started as a provider of *Rimmer* brand cocktail garnishes (extended initially from their *Nantucket Off-Shore* rubs). Other players to note in the space include *Freshies* and *Mixerz*. In a similar but different way, sophisticated soda pioneers like *GuS* (Grown-up Soda) and *Steaz* green tea sodas (and now *Steaz Energy*) were exhibiting alongside newcomers like *Vignette Wine Country Soda* which brings to market all-natural and non-alcoholic Chardonnay (fresh with subtle fruit) and Pinot Noir (bright with berries) varieties sweetened only with varietal wine grape juice from California vineyards. Distinctly different. Needless to mention, I sampled each and every beverage to be able to say ... cheers!



stirrings.com, freshies.com, mixerz.com, drinkgus.com, steaz.com and winecountrysoda.com

Globe Trotting. Recently, some product categories have referenced the country of origins of their ingredients. But single country or even single region origin products are about to explode. Having unique flavor components and definitely bringing unique marketing aspects to the table, this phenomenon is becoming quite common in wine, coffee and chocolates ... but also now in many other categories including tea, ice creams and even salts (such as *Sun-Salt* from Murray River in Australia). While difficult to believe, I tasted each and every flavor of Choctál ice cream (many twice!) – Pure Costa Rican Chocolate, Pure Kalimantan Chocolate, Pure Ghana Chocolate and Pure San Dominican Chocolate. They try to capture the 3000-year history and spirit of chocolate in every satisfying mouthful. Some marketing “sizzle” but lots of yummmm!



choctal.com

Other noteworthy unique finds include ...



CHILEAN CARICA – a rare and unique boutique fruit that grows in the semi-desert areas in the north of Chile, the flavor is like a combination of pineapple, apricot, mango and peach and has a light sweetness with a nice sour ending. The firm, almost crunchy texture makes for delicious snacking or use in cooking. Mmm mmm good! Bet the juice would make great martinis, too!

tamayagourmet.cl

COCONUT WATERS – Although it takes up to a year for coconuts to mature, the trees bloom up to thirteen times a year, so fruit is harvested year-round – averaging 60 coconuts annually per tree. However, long before the coconut matures and becomes brown and hairy looking, the green coconut is filled with thin, almost clear “coconut water” which has a slight almond flavor. Contrary to popular belief, this is not the coconut milk. However, in indigenous coconut-growing regions, the water is consumed as a refreshment beverage fresh from the coconut. Now there are a number of small entrants bringing packaged versions of coconut water to market including *O.N.E. Water* and *VitaCoco*. Quite refreshing!

onenaturalexperience.com, VitaCoco.com



BLISSWICH – winner of the best name award! Rich *SheerBliss* vanilla and pomegranate swirl ice cream sandwich. What more could one want ... delicious ice cream and daily dose of anti-oxidants in one!

sheerbliss.com

CONTREX – bottled at the source of a naturally occurring calcium enriched spring, *Contrex* is Nestle’s answer to women’s need for calcium. Like *San Faustino* sparkling calcium water from Umbria, *Contrex* is not fortified after the fact and therefore does not have the chalkiness of calcium fortified beverages. Ahhhhh!

contrex-usa.com, sanfaustino.com



Other Stops on the Tour. Finally, with the Bay Area having so many great restaurants, we had to visit some old standbys like dim sum at *Yank Sing* and newer dinner hot spots like *Slanted Door* (wow!). Plus, if you make a trip down to Monterey/Carmel area as we did, make sure to visit *Passionfish*, offering a unique California dining experience with serious food and wine in a fun and casual atmosphere. Their ever changing menu offers the freshest sustainable seafood, slow cooked meats, farm fresh organic greens and delectable house-made desserts. Plus, a great complement is their Wine Spectator award winning wine list, intentionally priced at well below normal margins so people can enjoy great wine at reasonable prices. And, we did – a great bottle of organic wine. Definitely worth the trip! ☺

* * *

Finally, we know that significant interest in specialty/gourmet products exist when the media pays attention and dedicated consumer vehicles begin to get marketplace traction. In the few days since the show, I’ve been contacted by reporters from newspapers in big cities but also from small towns. All want to know “what’s hot” and “what’s great.” However, no one covers the space better than *The Nibble*, an online consumer magazine and website built to meet a gap in the consumer marketplace for information about specialty foods. The editorial staff tastes more than 3,000 products each year and has an unusual and unique expertise in terms of understanding the marketplace and profiles “the best of the best”. *The Nibble* presents food enthusiasts with “great food finds” across a broad number of foods, beverages and related housewares categories. The editorial is serious and informative yet witty and entertaining, with unique reference materials and glossaries that have been developed to help consumers understand product categories. For anyone interested in the space, you must subscribe to their weekly e-mail and view the online magazine at www.TheNibble.com.



Hope these thoughts are helpful. If I can add perspective, please feel free to contact me at 312.337.9085 or asw@2xManagement.com. Notes from prior food shows, natural product shows, ethnic products shows and other consumer products industry shows are available under the News section at www.2xManagement.com.

A handwritten signature in black ink that reads 'Andy'.

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partnering with management in emerging consumer products businesses for exponential growth

OVERVIEW

2x Management partners with founders and management of emerging consumer products businesses capable of growing exponentially via an infusion of capital and management expertise. Focus areas include food, beverage, personal care, home care and pet care – particularly in the organic/natural, specialty/gourmet and ethnic sectors. Businesses are primarily within the \$1 million - \$15 million revenue range and meet the following criteria:

- ✓ Founders/management team seeking a partner, not just an investor
- ✓ Powerful consumer-driven positioning with exceptional product fulfillment
- ✓ Strong sense of “proven-ness” based on in-market performance
- ✓ Exponential growth potential to at least \$30+ million in revenue within 3 – 5 years
- ✓ Categories that immediately leverage our expertise
- ✓ Attractive go-to-market approach leading to sound long-term financial proposition

A minority ownership stake as part of a partnership is most common, but a majority interest or complete buyout is not atypical.

FORMULA FOR SUCCESS



VALUE-ADDED RESOURCES

2x Management brings extensive consumer products industry experience in building established businesses, transforming under-performing entities and creating new ventures. Seasoned *Industry Insiders* add immediate value via their expertise, contacts and connections. 2x Management partners with founders and management as appropriate for the needs of the business, including sales, marketing, operations, finance, strategy, IT, R&D or others as required for success.

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