



*Notes from the desktop of:*

**Andrew S. Whitman**, Managing Partner  
1634 N. Larrabee | Chicago, IL 60614  
asw@2xManagement.com  
www.2xManagement.com  
Phone: 312.337.9085  
Fax: 312.873.4509

March, 2004  
Anaheim, California

## Low-Carb Craze As Far As The Eye Can See ... Plus Ideas that Will Last

In a world where trade shows are a declining business, this was the “grand-daddy of them all” – by far the biggest number of exhibitors and largest attended *Natural Products Expo* ever. Industry heavyweight companies like Hain-Celestial, Eden Foods, and UNFI were exhibitors as were large consumer products companies with natural products units such as Kellogg’s (*Morningstar Farms*) and Nestlé (*PowerBar*). Attendees included retailers from the natural channel, conventional grocery, drug, club, and all other imaginable formats as well as many consultants, vendors, investors, and the media. The following are a few key observations from the show – starting with the low-carb products since it felt like almost one-third of the booths were about low-carb products.

### Low-Carb Not Here to Stay in Present Form ...

There must have been hundreds of dedicated low-carbohydrate brands and many hundred more line extensions to existing businesses. For people that recall low fat and other consumer crazes of the last two decades, it feels like “déjà vu all over again.” Some had first rate tastes and others forgot they were in the food business where people eat the products and prefer them not to taste like the box they came in!

Recently, *ACNielsen* released in-depth panel-based data regarding behavior of people on low-carbohydrate diets. In short, the number of households reporting that someone was formerly on a low-carb diet (19.2%) exceeded that of households with someone currently on the diet (17.2%). While *ACNielsen* concluded “the jury is still out as to whether the low-carb diet has staying power,” I believe that there will be considerable trial. However, the longer-term implications are three-fold:

1. Consumers will forever understand that wildly eating a high-carb diet is not healthy and therefore categories like potatoes and breads have and will decline for a few years and then level-off at pre-1980 levels
2. True no-carb and extreme low-carb diets are too difficult to maintain for most consumers
3. Willingness to try/maintain a low-carb diet is drastically reduced by the poor taste profiles of most of the products so hurriedly introduced to “catch the wave”

Therefore, I believe the watch-word should be carb-aware and there will be three types of survivors in the low-carb world: products inseparably linked with the diets for the loyalists (*Atkins* branded for example), products that truly do not sacrifice on taste (not many of those so far), and ones with a better balanced taste profile but assisting in a reduced-carb lifestyle (one of my personal favorites is *Hi Lo* – a line of natural cereals, bars, etc. with more balanced approach to carbohydrate management and taste).

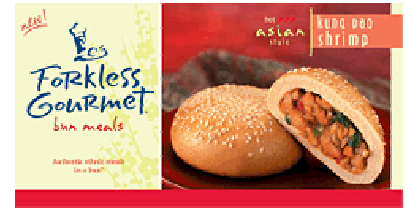


### The Bigger Brands Are Impressive in Brand Building and Brand Extension Efforts ...

Many brands in the natural channel continue to be power brands in the making within the broader consumer products world: *Horizon Organic* and *Kashi* for example. Similarly, some great brands are extending into adjacent categories with first rate entries. *ClifBar*’s *Builder Bar* is a new protein bar (but not one for muscle-men) and *Back to Nature* introduced 34 new SKUs in record time across dozens of categories.

At least three truly innovative new and/or breakout businesses ...

- In a shock to Expo attendees, there were active picketers. What would cause them to picket and yell “no more forks”? Well – it was staged as part of the promotional efforts to support the BIG natural foods coming out party for *Forkless Gourmet* ... a handheld entry from the Chicago-based “bun meal entrepreneurs” that 5 or so years ago brought *Boca Burger* to the nation. Great tasting Asian and Mexican flavors will be a hit – both in the natural versions showcased at *Expo* and additional SKUs available in the conventional grocery world. Bravo!



www.forklessgourmet.com



- *Elixir* is a line of “invigorating tonics for the mind, body, and spirit” that are both rich with wellness imagery and taste great. With flavors like *Virtual Buddha* (an elation-by-the-glass tonic containing peaches and herbs like Asian ginseng, epimedium, reishi, sweet-team wine, mandarin, et al.) and *Mind Over Muddle* (a mental prowess power tonic containing raspberries, plums, and herbs like ginkgo leaf, eleuthero, schizandra berries, gotu kola, et al.), this tiny business is growing like crazy and ready for a breakout! Visit their showcase on Melrose Boulevard in West Hollywood if you get the chance.

www.elixir.net

- *Method* is a booming businesses that New York Magazine called “about as stylish as a household cleaner can get.” Well, they are right. The San Francisco based folks at *Method* have built a tremendous business on the premise that cleaning products need not look bad, smell bad or contain ingredients that make you want to hide them away. And, when on a counter, they are used up quicker! Show off your dish soap with pleasure ... and smirk all the way to the bank.



www.methodhome.com

Hope these thoughts are helpful. If I can add insights, please feel free to contact me at 312.337.9085 or [asw@2xManagement.com](mailto:asw@2xManagement.com). Notes from prior Expo shows and other consumer products industry shows are available under the News section at [www.2xManagement.com](http://www.2xManagement.com). The next major set of consumer shows are the FMI/Fancy Food Show/All Things Organic shows (co-located) in Chicago in May. Please let me know if you’ll be attending.

*Andy*

**About 2x Management, LLC**

www.2xManagement.com

2x Management invests in consumer products businesses capable of growing exponentially via infusion of capital and management expertise. 2x Management’s investment profile includes businesses with \$20–200 million in revenue. Focus areas include food and beverages, organic/natural and ethnic products, pet care, and other non-durable branded consumer products. 2x Management provides capital in conjunction with leading private equity firm with an exclusive focus on providing growth equity capital to middle market consumer companies in North America. Capital under management totals \$1 billion.