



AMID RISING PRICES on everything from gas to electricity to groceries, Average Joe consumer is looking for a little more bang for his buck on every purchase.

It's an opportunity for truly functional drinks to shine – but only if they're competitively priced and well-marketed, says Brent Knudsen, founder and managing partner of San Francisco-based Partnership Capital Growth Advisors. "Sometimes you get these great, knockout beverages, but no one's going to pay \$12 for a 12 oz. bottle of anything," he says. "These days a beverage has to work economically and be within the range where consumers will buy it and the manufacturer can make money. And if the product doesn't stand out in the market, you've got to go back to the drawing board."

He ought to know. As both a financial advising firm and an investor that specializes in healthy and sustainable products, PCG Advisors has influenced plenty of successful brands, including vitaminwater, Naked Juice, Sambazon and CytoSport. In April, it served as exclusive financial advisor on organic, fair-trade coffee company Adina for Life's \$6.6 million private equity financing, led by Boston-based Sherbrooke Capital. Knudsen himself has more than 25 years of experience in the market, having served previously as one of the original partners at North Castle Partners.

We talked to Knudsen about what it takes to get a little attention from distributors and consumers in today's market:

***Beverage Spectrum:* How important is innovation right now?**

Brent Knudsen: Critical. Right now the beverage industry is just so packed. You really have to be innovative to break out of the pack, to get the enthusiasm of distributors -- which gets the product on the shelf -- and to get the enthusiasm of consumers who will buy it. It has to be a combination. There aren't that many beverages that have broken through by consumer enthusiasm alone; Jones Soda is maybe the one exception to that. The success of products like Snapple, SoBe and more recently, Muscle Milk (made by CytoSport), are also driven by enthusiasm from the distributors to promote a new, interesting and innovative product.

Which ongoing trends do you see potential in?

There's a lot of innovation in function and functional drinks right now, things that are really good for people. Muscle Milk is one of the more innovative products out there right now, because it took an area nobody focused on and offered a real health benefit with protein and good taste. Adina is innovative in its fair-trade coffee and all-organic ingredients.

What's overplayed?

Water is obviously out of control, overdone and overcrowded. All the big guys out there do flavored water. People recognize that vitaminwater wasn't necessarily efficacious, but that it was innovative at the time and a huge success. They've tried to improve on it, by either turning it into a real vitamin-water that's really efficacious or by lowering the calories while adding flavor, like OWater. I think that's a standout; the idea of a flat, non-juicy flavored water is really innovative.

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You focus on healthy, active, sustainable living. How does that intersect with the beverage industry?

Fundamentally, it's a huge growth area. Just look at what's on the magazine covers today and you find "healthy," "active" and "sustainable" on nearly every one. People want to be healthier. And as those of us in the Baby Boom era age we look for things by which we can be healthier, so it's obvious that this is a very, very high growth area. Beverages, I think I just laid it out, are where the action is: they can be healthy in regard to function, active with regard to the energy drinks, and sustainable, with market players like Adina who focus on fair trade, organic, and sustainable.

Consumers are concerned about this idea of "greenwashing" – exaggerated claims about a product's eco qualities. How do you separate the truly innovative products from those with more marketing hype?

That's a good point. Consumers have become more sophisticated at differentiating between products. Before, when there was just one and it claimed it was green, it's the best thing consumers could find. They felt better about drinking something that sounded good. But as the choices increase, those days are on the wane. Some of the innovative products are truly functional, and good marketers will point that out. As a consumer, if there's something that says it's green versus something that really is, you're going to choose the real thing.

How have your earlier beverage clients shaped your interest in the market?

Some of our earlier investments were before industry learned a lot with regard to treatments against E. coli and the effect of pasteurization. The advancements opened everybody's eyes on how to treat perishable products, like orange and carrot juice, in a non-invasive way to maintain the health benefits and take these products to a broader consumer base. Carrot juice, at the time we first invested in Naked Juice, had a 10- to 14-day shelf life. It was nearly impossible to really distribute it broadly, because by the time you get it to the warehouse for a day or two, get it on the truck, get to the location, you've got only a couple of days to sell it before you have to take it off the shelf. Now technology allows you to put a product like that out there for 60 days or more, a really good product, and that permits a more massive distribution process.

Muscle Milk is another great example. It's a shelf-stable product, ships very efficiently, and has up to a 12-month shelf life. One of the lessons learned there was one of shelf appeal. They went from a Tetra-Pak to a plastic bottle, because it looked more like what people are used to, and, so, more appealing.

When you're looking to invest, what catches your eye about a product or company?

Innovation in the product and the opportunity to take advantage of a large, open market. Adina is a good example of that, as a ready-to-drink, organic, fair-trade coffee. Now, understand that the ready-to-drink coffee market really has only one player -- Starbucks, which thanks to their joint venture with Pepsi and the Pepsi distribution system has north of 70 percent of the market. It's a unique opportunity for us: a huge, huge market with only one major player. So Adina comes in with what I think is a better product, one that's organic and fair trade and can take advantage of that market opportunity. As a company, they had already shown traction and are profitable. We look for, if not a strong bottom line, then a strong growth margin and a controllable profit line before considering marketing and sales.

How do you like to see your money used?

We like to see it go to product development, sales and marketing, and helping the infrastructure of the company to promote future growth -- probably in that order. You need a great product for marketing and distribution, and you need the right infrastructure, but that has to be incremental so you're not ahead of yourself in expenses.

Do you have different preferences when you're advising?

Our focus is on partnership and finding the very best partners for businesses whatever that partnership might be. We only advise companies that would be a good long-term investment for the investor or ourselves, so similar criteria to our investing. We don't relax the criteria much, with one exception: there are some products or businesses that would be a great fit for a strategic buyer who is already in that market, but would be nearly impossible for a financial investor to buy. We're working on one such foreign company now, but I can't tell you any more about that.

What else can manufacturers do to get your attention?

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