

CPG Investor Perspectives - Show 4

Expected Changes in the CPG Segment

In today's show, you'll hear investor perspectives on COVID-19's impact on the CPG sector.

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

It's the time of COVID-19. The consumer product goods space is currently undergoing tremendous change across the U.S. The lockdown has disrupted the supply chain, manufacturing, and distribution. Retail is undergoing transformation as consumer products move online and the market shifts to functional benefits prioritizing wellness. We have investors and startup founders describe the impact of COVID-19 on the consumer product goods market.

Our guests are:

1. [Ronan McGovern](#), Founder, [Point 5 Brewing](#)
2. [Paul Janowitz](#), CEO & Founder, [MANTRA Labs](#)
3. [Sarah Foley](#), Partner, [SWAT Equity Partners](#)
4. [Richard G Riccardi](#), CEO, [Riccardi Ventures](#)
5. [Cisco Sacasa](#), Operating Partner, [Bee Cave Capital](#)

I hope you enjoy this episode.

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Music courtesy of [Bensound](#).

Our first guest is Ronan McGovern, Founder, Point 5 Brewing

[00:12:08] **Hall Martin:** So what changes do you expect to see in the coming 12 months in this space?

[00:12:21] **Ronan McGovern:** Well, we can see the emergence of more venture backed companies, there's probably about three, four, maybe five that have done significant kind of series A's at this point. So certainly, I think more entrance into the market. What I see is, I see a higher price point level in the US than, significantly higher, way higher than Europe, like, mainland Europe and even higher than Ireland and the UK. And I think that there's going to be strong downward pressure on prices over, the next 12 months is a short timeline, but definitely over the next 24 months. And I think consumers are, you know, they're going to be looking for more value on top of the quality in the nonalcoholic products that they buy.

[00:13:05] **Hall Martin:** I gotcha. Well, the last few minutes that we have here, what else should we cover that we haven't about this space?

[00:13:13] **Ronan McGovern:** The amount of people that haven't tried nonalcoholic beer is still pretty big over here. So for your listeners, I'd just encourage them to try one out for themselves. The technology really has improved and so the taste, certainly, we take a lot of pride in how close we're able to get to original beer, and yeah, if your listeners are interested, they can get a discount by using the code CONNECT for \$2.5 off point5brewing.com.

[00:13:41] **Hall Martin:** Great. So how best for listeners to get back in touch with you if they have any questions?

[00:13:47] **Ronan McGovern:** They can say hello by emailing hello@point5brewing.com. They can also catch me on Twitter, I'm at RonanKMcGovern, that's for Kilian, Ronan, K McGovern. Or they can find Point 5 Brewing handle on Twitter, Facebook, Instagram.

[00:14:02] **Hall Martin:** Great. Well, I want to thank you for joining us today and hope to have you back for a follow up soon.

[00:14:07] **Ronan McGovern:** Yeah. Cheers, Hall.

Our next guest is Paul Janowitz, CEO & Founder, MANTRA Labs

[00:12:32] **Hall Martin:** That's very helpful. What else should we cover that we haven't?

[00:12:38] **Paul Janowitz:** You know, in this day and age, I think we're talking about functional, and a lot of us think functional applies only to sports or physical but mental health is top and

forefront both in the news and pandemic stress teaching from home. So as we think about what we put in our bodies, thinking about how it impacts our mental health as well, has become super important, and it's a pillar of our company as well. We donate a portion of all sales to mental health organizations. And our goal is to really, from our marketing, the way we talk about health, talk about it holistically, so mind and body health, you kind of read that in our description at the beginning, that everything we do is made to support the mind and body, one without the other doesn't do us a whole lot of good. But too often, especially in the health and fitness culture, we forget that there is a mind, and an unhappy mind and a healthy body is still not a very good day. So focusing on just getting out and moving every day, eating as many whole foods as you possibly can, drinking plenty of water, and then just being willing to be part of a community and help others is the healthiest thing you can do. After that, you can start thinking about supplements or buying our products. But first, go for a walk, smile at somebody, eat a vegetable and do good that way.

[00:14:03] **Hall Martin:** That's great advice. So how best for listeners to get back in touch with you?

[00:14:07] **Paul Janowitz:** Yeah, so they can reach us through our Instagram, gomantralabs, so @gomantralabs or gomantralabs.com.

[00:14:16] **Hall Martin:** Great. I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:14:21] **Paul Janowitz:** Absolutely a pleasure. Thank you so much.

Our next guest is Sarah Foley, Partner, SWAT Equity Partners

[00:21:24] **Hall Martin:** That's a good point. So on the functional beverage segment, what changes do you think we're going to see in the next 12 months?

[00:21:32] **Sarah Foley:** Well, in this particular time, I do think there's been an even more heightened focus around wellness and calm and just anti-anxiety oriented products that help us all manage a very uncertain time. So I mentioned _____ beginning that I do think cognitive functionality is a big and growing trend in beverage, and understanding the kind of ingredients set that is available to address ways in which you can get both taste and efficacy, because remember, the product definitely has to taste good, that is table stakes. But do consumers actually feel calmer or less anxious or more focused after they've taken that energy or focused shot or a beverage that they can consume after a coffee, something that they feel is really effective, and gives them the kind of feeling they're looking for?

[00:22:35] **Hall Martin:** Is that trend driven by the COVID pandemic, or is it more general broad based trend?

[00:22:41] **Sarah Foley:** I think it's more broad based, because it was certainly around, I think, late, end 20, late 2018, and definitely all of last year, but I do think it's been accelerated over the course of 2020.

[00:22:55] **Hall Martin:** Okay. Well, good. Well, in the last few minutes that we have here, what else should we cover that we haven't about this segment?

[00:23:06] **Sarah Foley:** Ecommerce. Remember, like, 18 to 24 months ago, looking at the statistics of what kind of penetration ecommerce in food and beverage and kind of grocery shopping has had, and it was very small in the kind of single digits zone of the overall grocery market. This environment has certainly accelerated and that has grown, you know, _____ by an order of magnitude as people are just focused on CD as they should be and contact list types of delivery, whether that is an Amazon order, direct from that beverage company's website or Thrive or it is from a Walmart order that I can pick up and it's loaded into the back of the car. But it's still very contactless oriented. I just think more and more people are ordering for their products via a website, and the demographic that has adopted that behavior has expanded and grown quite a bit on the older consumer side, somebody who's not grown up with an iPhone or an iPad or another device kind of attached to their hand for a long time. So I'm thrilled that that's the case, and if it's opened up accessibility and more and more people can shop at the, you know, in the convenience of their home. So I think that's a big one that's come out of something we haven't really talked a lot about, but a benefit to a lot of businesses that are getting started.

[00:24:40] **Hall Martin:** In your investing, do you overweight companies that have a strong ecommerce program versus those that don't?

[00:24:49] **Sarah Foley:** I think I do. I think if they don't have an ecommerce strategy, they are now racing to catch up, and that does require investment on behalf of the brand. It's one thing to work with an e-tailer, it's a different thing to really design your own ecommerce site that may have been for educational purposes than for commerce, and to make sure it is constructed properly to get a consumer to click through as quickly as possible to deposit that item in their basket, and then move on to checkout. There have been some nice companies come up like Goldbelly who can help those businesses that don't necessarily have the ecommerce functionality available at their fingertips, gain access to shipping products across the country. So that's great, but it typically is a bit more expensive, because you put in a couple more layers in the _____ in the kind of chain, if you will, between company and consumer. So yes, I think we definitely pay attention in the food and beverage sector to those who have an ecommerce functionality, if they're getting started now, and they still want to have a strong connection with their consumer.

[00:26:13] **Hall Martin:** I've noticed a new category of service companies, those that help you be more successful on Amazon, they know how the system works, they know how to promote, they know how to drive traffic and how to generate leads. In some cases, they're actually doing fulfillment, but in many cases, they're not; they're just simply driving traffic. What's your take on those companies for CPG or functional beverage users?

[00:26:34] **Sarah Foley:** I think they're excellent resources. Most of the time, they are former employees of that large e-tailer, in this case, Amazon, in our example, that has kind of spun out on their own; and they're consulting with brands on how best to merchandise their products on Amazon for success, how to maximize the customer review process which is a big, big part of I think the discovery benefit of the power of Amazon. So I don't, I encourage our brands when they're exploring, if they aren't yet on Amazon, how best to work with them, because they are the largest ecommerce company in the world, not in the world, but certainly in the US, and you've got to at least understand how to work with somebody like that; if you choose not to, you have your own reasons, but I think it's great that those types of services are – an expertise is being made available to more and more brands.

[00:27:35] **Hall Martin:** Great. Well, I appreciate you joining us today and sharing this with us. How best for listeners to get back in touch with you?

[00:27:43] **Sarah Foley:** They are welcome to contact me directly using my email address which is Sarah, sarah@swatequitypartners.com, that's swatequity and partners plural dot com. I'd love to hear from you.

[00:28:02] **Hall Martin:** Great. We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:28:07] **Sarah Foley:** Thank you. I enjoyed it too. Have a wonderful weekend. And I look forward to staying in touch.

[00:28:12] **Hall Martin:** You too

Our next guest is Richard G Riccardi, CEO, Riccardi Ventures.

[00:17:49] **Hall Martin:** What else should we cover that we haven't?

[00:17:54] **Richard Riccardi:** Well, and I don't want to sound so negative about beverages, because we all drink them, and – but I think there's a lot of – there's a couple of headwinds, significant headwinds for beverage. And I think the first one for packaged beverages, I think the first one is environmental issues surrounding the use of natural resources and waste. So, I mean, instead of opening your tap, you're buying bottled water or any sort of bottled beverage that could – that acts as a substitute for water, that consumes glass or plastic or aluminum. And so, that's a use of resources that people are uncomfortable with. Plus, then there's the waste. And we all know recycling rates are extremely poor. So while it seems nice that you throw that bottle in – your plastic bottle into your recycle bin, most likely that's just going to the trash heap. I think even 9 – only 10% of the bottles are recycled. So I think there is great consumer awareness and sensitivity to the resources and waste around beverages. Not to mention, let me throw this on top of it, is the transportation cost. Think about the transportation of _____ this water all over the country. And so, that also leads to the next barrier. So we know that one

of the emerging commercial or retail channels is online. Well, transporting water online or any sort of beverage online is extremely heavy, extremely expensive. And again, there's a great deal of sensitivity about not only the expense that might incur but the resources used and all that transportation. Of course, again, I can't be and I won't be entirely negative because, for every issue, there's an opportunity. And I think there's a great opportunity in functional beverages for powders that can be mixed with waters or tablets that can be mixed with waters or perhaps _____ type things that you're not shipping the water but you can use, of course _____ those cups are a little bit environmentally not too friendly, but it's certainly much more friendly than transporting a bunch of water. I'm an avid cyclist, and so, I use one of those products as a tablet that dissolves in water that hydrates me during long bike rides. So I think there's a great opportunity there, and maybe that will be the future of beverages. At the same time, while I say all this, the reality is, we're drinking more packaged fluid beverages than we ever have. And so, some of these concerns that I'm alluding to certainly have not come to fruition. But I think from an overall perspective, clearly that any product today or many products today need to have a functional component in order to be successful, not just I'm allergen free, but I'm doing something positive and good for you. So I think there's a place for functional beverages, and the question is, how we will deliver them, and how the market will respond to those delivery to delivery of those things.

[00:21:09] **Hall Martin:** Great. Well, there's certainly a lot of challenges, but also quite a few opportunities as well, and looking for good creatives to come and take that over and make that work. And so, but how best for listeners to get back in touch with you?

[00:21:23] **Richard Riccardi:** You can contact me on LinkedIn also, that will take certainly a longer period of time for me to respond to that. I'm happy to hear from people. If they've got investment opportunities or if they just want to discuss about the F, the food and beverage CPG landscape, obviously, because the DFW CPG, I'm involved in a lot of that, enjoy having those conversations.

[00:21:52] **Hall Martin:** Great. We'll put that in the show notes and I want to thank you for joining us today and hope to have you back for a follow up soon.

[00:21:57] **Richard Riccardi:** Absolutely. Thank you, Hall, for having me. And thanks for all you do for the investment community. I think you provide a lot of valuable programming for us that I certainly subscribe to and enjoy watching.

[00:22:09] **Hall Martin:** I appreciate that. Well, thanks so much and appreciate all your feedback and support as well.

Our final guest is Cisco Sacasa, Operating Partner, Bee Cave Capital

[00:16:28] **Hall Martin:** Great. Well, so what changes do you expect to see in the coming 12 months?

[00:16:33] **Cisco Sacasa:** Well, the coming 12 months are going to be interesting, because we're still dealing with COVID, we're still an epidemic. And it'll be interesting to see how those consumer behaviors, whether they stay like we're seeing now, where we're seeing very strong, direct to consumer sales, very strong ecommerce, or whether consumers start going back to the store and actually see retail come back, particularly in the grocery space, there's been a massive shift in consumer behavior, in that, before you used to walk into the store, sometimes many times a week, you might go buy lunch at a wholesale and Whole Foods, you'll walk physically into the store, and as you walk into the store, you have an opportunity for seeing new brands and tasting new things, so particularly doing taste test of new products. If you're a new company in CPG, and you need to bring that to market, now the consumer's not even walking into the store, so how do you grab their attention? So many times now they're buying at curbside, they're going into the cart just doing repeat purchase of what they'll be buying, doing curbside pickup, and they never walk into the store. They never get the opportunity to see your product introductions, and they definitely don't get the opportunity to taste test your new product. So it's a real challenge for CPG companies on how to break through that. In the next 12 months, we believe we're going to see a shift back, that at some point we're going to come back to "normal". Consumers are going to come back to the grocery store, and all those opportunities are going to start opening up again. DTC and ecommerce are here to stay. Those channels are not going away. They're going to continue to grow and they're going to continue to outpace in-store purchases. But what we've seen over the last nine months is abnormal, and that in-store promotions and in-store purchases will come back; and we fully expect that, will it be three months, six months, nine months, 12 months, nobody knows, but it will come back at some point.

[00:18:45] **Hall Martin:** What else should we cover that we haven't?

[00:18:50] **Cisco Sacasa:** Well we kind of touched a little bit on health and fitness, the movement to health and fitness, things like _____ meatless and vegetable based proteins, low sugars, no sugars, and all the different types of diets, it's an ongoing trend that will continue. We don't invest in fads; anything that's a fad, short term, we don't invest it. But there's a difference between a fad and a trend, and you just never know which one it is. So you kind of have to guess where are the consumer tastes going, and is that a long term trend or is that a blip, a short term fad that's going to like go by the wayside. We believe that the movement to healthy living and continuing to move away from sugar, fats and salts will continue. This will always be there and there will always be consumer needs in that space. But the growth of the natural channel and the healthy alternatives, that's a long term trend and it's not going to slow down, if anything, we think it's going to speed up, and that creates a tremendous opportunity for new CPG brands to continue to innovate and move into this space.

[00:20:11] **Hall Martin:** It seems like millennials are driving a lot of this new brand creation, they just don't want boomer brands, they want their own, _____ do you think it is they want just healthy foods versus they want their own brands, and have their own names and not grandpa's brands or whatever you might want to call it?

[00:20:28] **Cisco Sacasa:** Oh no, I think it is about finding alternatives that are not available, so new needs in the marketplace don't exist. There's something to be said about nostalgia, the various segments they grew up on certain brands, and there's some nostalgia of buying brands that you grew up with. So I don't know, it could be, but I think it's more about there's changes in consumer needs and consumer preferences, that are not enough for those new brands and products available, and that creates opportunity for innovation and new products to come out. And you're seeing the millennials particularly, taking that opportunity, they're leaving their "corporate jobs" and starting their own companies, starting their own brands, and really driving innovation in this space, and it's very exciting to see it.

[00:21:27] **Hall Martin:** Yeah, it's great to see all the new innovation going on in the space and the better foods that are coming out of it as well. So how best for listeners to get back in touch with you?

[00:21:36] **Cisco Sacasa:** You know, both LinkedIn and email are probably the two best channels to reach me, and I'm always looking at expanding my network and meeting folks on LinkedIn, and then you have my email address. For anyone that has either a product or a company that is looking at funding, I'd be interested in talking to those. We'd love to see what it is and see how we can help.

[00:22:00] **Hall Martin:** Great. Well, we'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:22:06] **Cisco Sacasa:** Yeah, I loved it, that was a lot of fun. Thank you for having me.

[00:22:09] **Hall Martin:** You bet.