NEW PRODUCTS, TRENDS, AND INNOVATION

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MAGAZINE

FEBRUARY 10, 2012

BURNIN'
A Legend Fires Up Relaxation

NEW MOMENTUM FOR RECOVERY DRINKS

THE PEPSI PENDULUM

EXPERT INSIGHT: NUMBERS RULE

2012 SERVICE & SUPPLIER GUIDE

FORMERLY BEVERAGE SPECTRUM

 By Michael Burgmaier

6.17
dollar share type chg

487,863,289
unit sales

FOR BUYERS and INVESTORS,

-1.08
avg price per unit chg

+39.86
unit sales % chg

the NUMBERS Rule.

$614,387,600
dollar sales

+45.96%
dollar sales % Chg

187,523,680
case sales

1.37
avg price per unit

As we wrapped up 2011, there was nearly $1 trillion worth of private equity waiting to be deployed. Additionally, according to those who track such things, angel investors (individuals) invested nearly $9 billion across 26,000 companies during the first half of 2011 – mostly in early-stage companies.

On both accounts, that's a lot of money. So we know it's out there.

But If you are a company in need of capital, or you are looking to sell your business, what makes investors and buyers say yes? Of course, team and product matter – a high-quality product led by a strong team are must-haves. But how do you distinguish your company in a non-subjective manner? One tried and true way is to let the numbers do the talking for you. This article explores the numbers investors and buyers (used interchangeably below) like to see when they're considering opening the checkbook.

Why do the numbers matter? Risk. By definition, angel and venture capital investments are high-risk investments. An estimated 1/3 of venture investments end in a complete capital loss for the investor, and that number tends be around 1/2 of every investment for the average angel investor. So as investors look to mitigate the risk they assume, they look for data as proof points and as a window to the future. Numbers help create a fact-based dialog, thereby increasing the credibility of the company's pitch.

Evidence from which you can extrapolate. In selling a company to a buyer, you are selling the promise of the future, and the only harbinger of the future is the past. Your need is to find the numbers (and run your business in a way that creates the right numbers) that spin your story. To simplify things, I break the numbers you need into four key questions:

1. Who are you and how did you get here?
2. What's happening with you?
3. How big can you get?
4. How much will it cost me?

The more your answers to these questions fit what an investor wants to hear, the more likely they are not only to invest in or buy your business, but also to do so with a strong valuation as well.

So in answering who you are, remember that numbers define you. Every number matters. Revenue, run-rate and growth rates prove traction; the higher the numbers, the better (with the "leaky bucket' caveat – see below). And displaying capital efficiency (the ratio of invested capital to revenue – the lower, the better), provides evidence that you can spend wisely to achieve future growth. What do they want to hear, then? Something like this: "Over the past three years we built a $15 million business, growing 50 percent per year, currently on a $20 million run-rate, with just two million dollars of capital."

Also remember that the numbers talk about how you're really doing: These data help explain what drives the top-line numbers. Is your growth from pipeline fill or sell-through? Without the latter, the former is useless. The "leaky bucket" i referenced above happens when overall sales grow (the bucket fills up), but the sales at existing retailers begin to lessen. For example, let's say a company is growing 100 percent -- there were $5MM of sales last year and $10MM this year. But $7MM of that $10MM came from sales to new customers; sales at last-years accounts went from $5MM to $3MM. The bucket's leaking and the business is in trouble. The key numbers here almost always relate to "velocity" (the rate at which your product sells off the shelf). The trend must always be increasing. Same-store sales are paramount – the goal should be for this to happen everywhere, but if not in all stores, you must find somewhere where it is (you are selling a growth story, remember?). What's your lift during a promotion or demo and what's the new baseline sales level afterwards? How long does it take for marketing payback? Some key sources for measuring such data include IRI/ Nielsen, SPINS, the Whole Foods Market Vendor Portal (it's free) and Data Garden (a tool to better understand Portal data). Also, try to curry favors from retailers and distributors to get the data. Other key numbers that matter reflect product differentiation (run a focus group or taste test – even if it's just 50 people), end-customer demographics (don't say you are too small to get this data – be creative – use Facebook fans), and your current retail and distribution penetration (those show where you are in order to show where you can go).

The numbers show not just where you're going, but how big you can be when you get there. Make sure your brand potential numbers are trending in the right directions – if not, maybe change your business mid-course. Those key brand potential data points include market size and related growth rates and company/ competitive market share and trends. Don't rely just on overall market data. Get account-level data for retailers in which you sell. Are you growing? Are you growing the category? Are you taking share from your competitors? What's your relative market share in certain geography or a certain retailer? If you've gone deep in a certain city, in how many channels (grocery, C-store, drug store, club, etc...) have you proven you can successfully sell? Tell the story.

ANGEL INVESTORS INVESTED NEARLY $9 BILLION ACROSS 26,000 COMPANIES DURING THE FIRST HALF OF 2011 - MOST IN EARLY STAGE COMPANIES

How much will it cost? Don't forget key financial metrics such as gross margin, contribution margin, average days of inventory (which show working capital requirements) and marketing spend per case. For gross margin, try to use a margin closer to GAAP standards – where MCBs, OIs, deductions and allowances are subtracted from gross revenue to get to net revenue – how else can you know that your margin is sufficient to support overhead, SG&A and that necessary marketing spend you say you need? If your margins are weak now due to sub-scale production, get data to show they improve. Show the buckets of spend (ingredients, bottles, freight, tolling fees) and show how each individually will go down with scale (and get quotes to prove it).

THE NUMBERS SHOW NOT JUST WHERE YOU'RE GOING, BUT HOW BIG YOU CAN BE WHEN YOU GET THERE

The last two questions – how big at what price – will be answered together with forecasted pro-forma financials. Ask them why they pass on deals, and both angel investors and VCs will say the most critical mistake that entrepreneurs make in their business plan is unrealistic projections. So although you want to show how big you can get and that it won't cost much to get there, think twice about what your real numbers tell you. The best models rely on real-world assumptions. These assumptions come from company- and market-based numbers: sales cycle, sell-through (and sales ramp), category norms, average SKUs per retailer (and all of these numbers will likely differ by channel). On the cost side, don't forget to carefully think through timing of personnel needs and costs and your working capital assumptions (cited by one large beverage giant as off in around nine of ten business plans reviewed by a factor of two to three).

So there you have it, your plan is complete and the numbers tell your story for you: The turns off-shelf for your product are above category averages and increasing. The market for your product is large and growing, with growth coming from you growing the category and from taking share. You've proven that you are not playing a zero-sum game. Customers love your product, as the data clearly says yours tastes best and after trial, 50 percent convert. Your projections are based on today's velocities, with a slight uptick for increased marketing spend, as reflected in tests in California. The business model is sound and based on above-market gross margins, which are all done according to Generally Accepted Accounting Principles.

As mentioned at the beginning of this article though, although numbers matter greatly in the investment decision, they are not everything. An idea on a napkin doesn't have much data behind it and a gut feel about investing in someone (which is much of what happens with early-stage deals) may be devoid of much of the data above, so intuition matters as well. But let's take your genius as a given; the next step on your road to riches is to let the numbers help you loosen Mr. Corporation's, Mr. V.C.s or Mr. Angel's wallet.