RAMPING YOUR BRAND

HOW TO RIDE THE KILLER CPG GROWTH CURVE

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INTRODUCTION

It was 1:00 on a sweltering July afternoon in Phoenix, Arizona. I was sitting with a four-person team, roughly five hours into a two-day strategic planning session. Lunch had settled nicely in our bellies. As the discussion moved forward, a random thought came to me: *So, that's why everyone down here sets their AC thermostats to 80 degrees. Not only does it save money, but that's still 30 degrees colder than outside! No wonder these folks started a soft drinks company.*

Yes, my mind had wandered, and not just because of the stifling room temperature and post-lunch brain fog. Mostly, I was dreading the most awkward point in the two-day session: setting the 2019 revenue goal. Of course, my client didn't think it was going to be awkward at all. The founders had already shared their goal with me. Over the last four years, they had built a local business up to about $800,000 in gross sales—mainly in foodservice channels, with only a small portion in less stable traditional retail. Now, they had flown me in from Seattle to help plan a national launch to get them to $6 million in 12 months.

My client's revenue target might sound reasonable to someone new to the beverage industry and to the entrepreneurial path within it. What my client didn't realize was that the growth model they'd chosen was based on a hedge-fund level of risk for a new consumer packaged goods (CPG) brand. In their case, the draft plan involved stacking up national accounts (which they hadn't even approached yet) while simultaneously raising $7 million in investment capital. It could work out, if they had about $10 million on hand. Since they had

only one-twentieth of that amount, it could wind up being a terribly short-lived, soft drink Ponzi scheme.

My case study and client work suggest that the vast majority of these types of premature national brand expansions result in lost retail accounts and wasted launch fees by the following year. Some lose more ground than others. The founders then go through a retrenchment that is painful, embarrassing, and damaging to the company's reputation in a well-connected trade. In many cases, the business simply goes under, because even angel investors are unlikely to continue donating to a business that is going downhill. No one likes to fund a small business rescue. Not even your parents.

That's why I felt obligated to reset my Arizona soft-drink client's most fundamental goal. Because it was just not wise. It was also strategically unnecessary in order to grow at a reasonably fast rate. The breakneck pace the founders had proposed would risk throwing away four years of hard work that was just beginning to pay off.

So now, halfway through the first day of their national-growth planning session, I had to convince my clients to slash their 2019 revenue goal. . . . And hope they wouldn't chase me out of the room and refuse to pay my second invoice. "We paid you for a plan to six million, bucko!"

Here is how that conversation unfolded:

Me: "So, Amy, remind me again of your revenue goal for next year." I casually broached the topic with the company's founder, as if I hadn't been dwelling on it for five days straight.

Amy: "Well, we'd like to be at six million."

Me: "Can you tell me how you and the team came to that figure?" I posed this open-ended question hoping to get a story. I needed to understand what was behind the most critical assumption of their otherwise professional 35–page business plan.

Amy: Five seconds or so of awkward silence. "Well . . . it's really the numbers that came out of the business plan."

Me: "Right, I know. But is there some specific reason why you want to grow more than six-fold in one calendar year?" I used the word *want* to subtly prompt her to see the goal's optionality and to reassess the assumptions and what-ifs upon which the goal was based.

Amy: "We just want to make more money," she said, her voice thick with emotion, suggestive of many hours of internal debate that had not been fully resolved.

Me: Looking directly into her eyes, I said, "Amy, I think that's great. You all deserve it. You're out there every weekend busting your ass in the Arizona heat, doing sampling. But what is really driving the need to suddenly make that much more money next year?"

Amy: She glanced at her husband, a co-founder who had to freelance in his old field to help make ends meet, and let out a deep sigh. "We've been working so hard for four years. We want to bring home more income from the business."

Me: "So, you want to pay yourselves more?"

Amy: "Yes," she said, her eyes lighting up as if I had acknowledged some dirty company secret that they weren't supposed to discuss.

Me: "Like I said, you all deserve it. I've never seen people work so damn hard at this phase of the business. What if you grossed two million next year? Would you be able to pay yourselves more?"

Amy: She paused to do some mental math, based on her fresh business plan. "Yes, that would work."

Me: "Great! Let's set that as our goal for the rest of our time together. Just so you understand, I didn't pick two million because I looked at how much your salaries would go up. I picked it because, at your current trailing revenue, doubling your size is the absolute highest you want to set your sights. It puts you on the path of exponential growth—which, if you sustain it, will bring you the money needed to scale fast and to generate sustainable profits. Make sense?"

Amy: "Yes," she said. Then she sighed again, as if some invisible burden had just floated off her shoulders.

Me: "So, if you agree, the question before us now is, how do we double your business in 2019?"

Amy relaxed back into her chair, as though even she felt their original target wasn't realistic. Phew! With that sticking point settled, I felt more confident the rest of the session would go okay. And we moved into the gritty details of planning the actions and potential reactions that would enable them to grow by $2 million year-over-year (YoY) in a strategically defensible manner.

Why do so many CPG entrepreneurs who want to grow fast get sucked into unrealistic forecasts and stretch targets that are counterproductive, not based on bottoms-up data, and often financially ruinous?

The cynical might say, *It's greed, James*. But that is simply unfair and rarely the case. When you actually spend time with CPG entrepreneurs, you quickly realize most of these folks work long, hard hours to build their businesses and for very little, if any, pay. If these people are greedy, they're the dumbest greedy people I've ever met. Trust me, the greedy don't last 12 months as entrepreneurs in CPG.

I believe that CPG entrepreneurs fall into this trap for the same reason Amy confessed in our session. They're exhausted. They are tired of the low pay, the long hours, and the pay-off seeming to recede into the distance with every passing year. Who wouldn't feel like that at some point in the process of producing a business out of thin air?

Nevertheless, one law of CPG businesses is true no matter what the products or who launches them: To be profitable, you need to scale—not necessarily to $100 million but certainly not to only $500,000. Accelerated growth tends to solve the most fundamental entrepreneurial problem: low profitability and lack of available cash on hand. Sure, rapid growth often causes short-term cash-flow problems. But since fast growth makes the brand more attractive to investors and the retail trade, it's a problem you want to have.

Many entrepreneurial CPG brands struggle for growth early on. This is largely due to the product design itself, which simply doesn't attract retailer interest. In that case, the founders struggle to convince retail buyers to take them on. In other cases, they follow the bad advice of certain advisors and chase growth by increasing store counts and distribution, without doing the hard work to create memorability with consumers. Regardless of the cause of underperformance, many early-stage CPG brands grow almost linearly, crawling up the growth-rate equivalent of an ADA wheelchair ramp. Most never make it to anywhere near $100 million in retail sales.

The question founders should ask themselves isn't, *Should I grow fast?* It's, *How fast can I reasonably grow and sustain that growth?*

Optimal Growth Pace for New CPG Brands

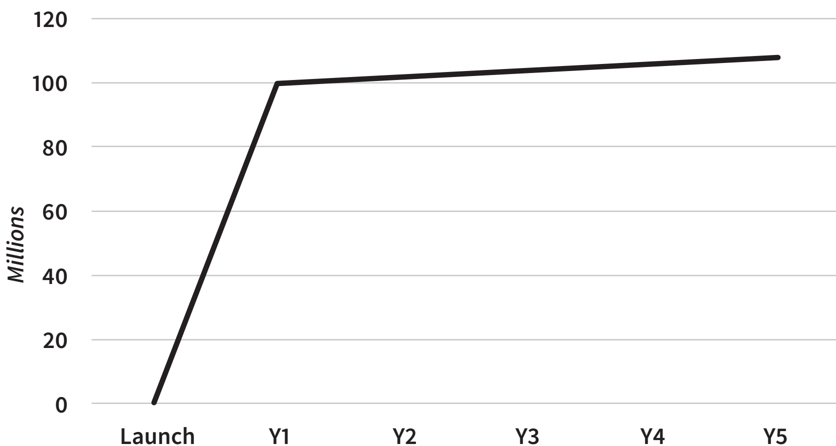
Numerous existing books (and textbooks) describe the basic growth principles of the CPG sector. So, you might be wondering why I've written a book about optimizing growth specifically for *young* CPG brands. Quite simply, my Arizona client is far from being the only budding CPG brand to shoot for the moon.

Every year, I meet more smart and capable entrepreneurs who either set unrealistically fast growth rates or want to grow quickly but struggle to grow fast enough to gain leverage with the trade. Many have a distorted view of what their optimal growth pace should be. This is due, in part, to the lack of transparency around the actual growth rates of new CPG brands and to the media's excessive coverage of unicorns (e.g. Caulipower).

Another contributing factor is that some CPG founders are influenced by the nearly vertical growth that happens when large public firms launch new brands or product-line extensions. That is definitely not an optimal (or even possible) growth pace for entrepreneurial CPG brands. BigCo's approach to growth only sets irrational expectations for founders who futilely aim for that kind of trajectory. (Figure 1)

No entrepreneurial CPG brand has *ever* matched the year-one (Y1) pace to scale shown in Figure 1. Not Halo Top®. Not Chobani®.

Figure 1: BigCo CPG Growth Model



This graphic represents a typical growth rate of a BigCo launch of a new brand or product-line extension. It is based on a composite of real-world cases from prior client work, not on actual sales data.

Not Bai®. Not Caulipower®. Not CORE®. No one. Nielsen calls these rare BigCo launches the *Sprinters*. For today's CPG entrepreneur, they are simply a mirage. Media-darling, early-stage, unicorn brands do grow slower than the BigCo launch model, but only slightly. These brands reach peak scale in two years instead of one. But that is still unrealistically fast for any founder to contemplate. Much too fast.

So, how can CPG entrepreneurs set a reasonably fast growth rate?

The fastest growth curve that CPG entrepreneurs can realistically plan to achieve looks like something no brand manager has seen before. This mystery curve is something I call the *Skate Ramp*. (Figure 2) The Skate Ramp is simply my name for the first half of the *Sigmoid curve*, or *S-curve*. This graphic representation of sales-volume growth over time is actually not new to business strategists. However, The

Figure 2: The Skate Ramp

Four years of quad-week (every four weeks) data for a premium soft drink brand.[2]

Hartman Group made waves when it re-awoke everyone's attention to it in a seminal 2013 industry white paper.[1]

The Skate Ramp is based on at least doubling sales every year—again and again and again. If you open a blank Excel worksheet and enter 250,000 in any cell and then double it repeatedly, moving to the right in a series, you will generate a line chart that looks awfully similar to a quarter-pipe ramp at your local skate park.

The logarithmic math behind the curve is exponential. Typically, however, the YoY growth rate decelerates as revenues approach $100 million (unless you're Kind®, Chobani, or Skinnypop). The most important feature of this growth model is that the vast majority of growth is generated on the back half of the curve. In other words, founders are rewarded for their patience in scaling.

Over and again, the Skate Ramp has allowed CPG innovators to sneak up on arrogant and complacent category leaders—who, by the

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1. *Hartbeat Exec*, "Riding the Killer Curves of Growth," Volume 3, Issue 2, 2013; The Hartman Group, Inc.
2. AC Nielsen Scantrack, xAOC channels, past four years, quad week ending 05/18/2019.

time they realize what is going on, can't get to market fast enough to block the challenger's growth. They become fast followers, at best. Fingers start pointing. Middle-aged general managers quit to open yoga studios.

The most famous example of a Skate Ramp attack in the last 25 years was Chobani's utter thrashing of the flat-footed yogurt incumbents in the United States market. Even more incredible was that the author of this stunning upset was *not* an Ivy-league educated MBA brand manager with years of brand marketing experience. And, trust me, this was incredibly humbling for general managers in other categories, as well. The faces of executives throughout the industry took on the solemn gaze of funeral attendees whenever the name *Chobani* came up.

A recent, internal study at The Hartman Group determined roughly 70 percent of early-stage, premium food/beverage brands that crossed the nine-figure threshold since the Great Recession of 2008–2009 rode the Skate Ramp all the way.[3] The inference we made at the time is that the Skate Ramp is the growth curve that best predicts a new CPG brand's capability to scale into a middle-market company.

Today, I still believe the Skate Ramp is the competitively advantaged growth model for most entrepreneurial CPG brands. Not the Unicorn ramp. Certainly not the Wheelchair ramp. (Figure 3) This book will uncover what this exponential growth curve reveals about the power of the branded product line driving it.

Another fascinating aspect of the Skate Ramp is that you can mathematically determine if you're on it anytime you'd like, as long you have 18–24 months of rolling quad week point-of-sale (POS) data. You don't need to wait five years and then look in the rear-view mirror.

Around 30–35 percent of premium CPG brands launched each year ride the Skate Ramp for at least their first three years, with an

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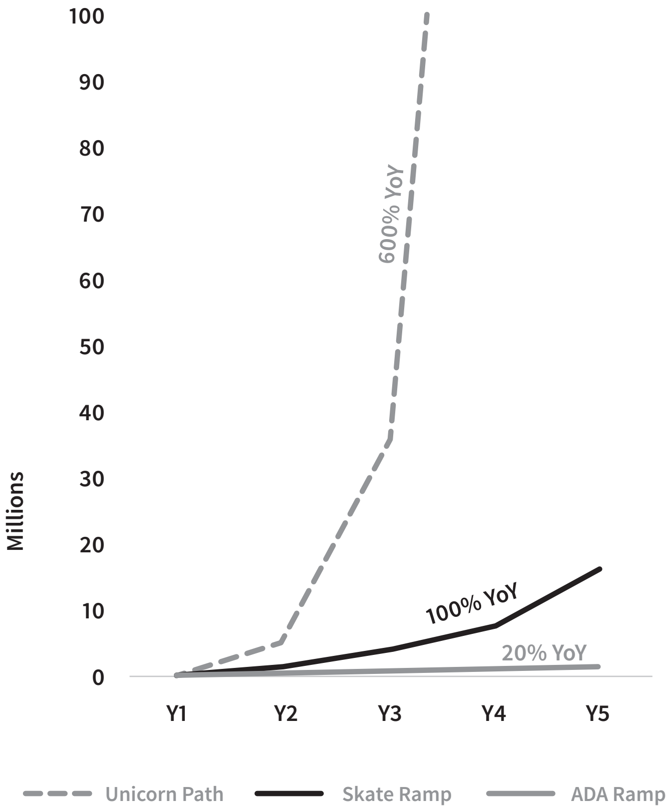
3. This figure is approximate, based on internal Hartman Group research conducted in 2017, using multiple sources of information (Euromonitor 2017; AC Nielsen Scantrack, xAOC channels, past four years, week ending 12/31/2016; and public sources). Analysis courtesy of The Hartman Group, Inc.

Figure 3: Entrepreneurial Growth Paths



In comparing the Skate Ramp (exponential) growth path with the Unicorn (steep) and Wheelchair (linear) growth paths, it is easy to see which one is the most reasonable, sustainable, and desirable for early-stage CPG brands.

average year-one (Y1) revenue of $134,000.[4] This is a bit misleadingly optimistic, though, because the analysis upon which it is based included brands that grew fast off of a tiny year-one revenue base, and quite frankly, the sample was small (28 of the 72 premium food/beverage brands that launched in 2011).

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4. AC Nielsen Scantrack, xAOC+C channels, past five years, week ending 11/21/2015; analysis courtesy of The Hartman Group, Inc.

Staying on this ambitious growth curve gets much more difficult over time. Many brands fall off the Skate Ramp as they grow, much like the newbies who invade the neighborhood skate park and don't make it halfway up the steeper ramps before losing momentum and their balance. That's why only about 10 percent of early-stage premium CPG brands are riding the Skate Ramp at any given time.[5] That's also why, once they leave the giddy early years of launching, only 2 percent of such brands selling between $1 million and $100 million in point-of-sale (POS) revenue are still riding it.[6]

The Ramp is challenging. But you *can* learn to ride it.

....to be continued....

5. AC Nielsen Scantrack, xAOC+C channels, past five years, week ending 11/21/2015; analysis courtesy of The Hartman Group, Inc.
6. AC Nielsen Scantrack, xAOC+C channels, past five years, week ending 11/21/2015; analysis courtesy of The Hartman Group, Inc.