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COVER STORY

Beverage future is smaller, non-alcoholic, lawyer says

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Allen Matkins Leck Gamble Mallory & Natsis LLP partner Matthew J. Ertman said he is trying to help small beverage companies capitalize on a trend toward non-alcoholic and healthier drinks.

LOS ANGELES — They've got kombucha on tap at Allen Matkins Leck Gamble Mallory & Natsis LLP's Los Angeles office.

The taps, as you might expect, used to hold beer. But firm partner Matthew J. Ertman said the office made the switch after the light alcohol tea drink caught on in popularity. Beer drinkers may want to check the fridge as the second tap's also been earmarked for trendy new drinks.

The office is a microcosm of the consumer group Ertman and the companies he works with are trying to capture. Much of Ertman's transactional practice is comprised of deals done on behalf of investors in the beverage industry, who are always on the lookout for the next big drink.

Ertman has represented clients in deals for craft sodas, organic juices, and just about every other beverage that's become prominent on drink menus over the last few years. There's been enormous growth within the non-alcoholic beverage industry, Ertman said, with projections indicating the market will have grown from roughly $160 billion in 2008 to almost $190 billion by 2020. Much of that growth has been driven by small and emerging "better for you" brands, he said.

There's no shortage of drivers behind the industry growth, Ertman said, chief among them that people are more health-conscious these days. With the surge in popularity of effective sugar substitutes like aspartame, Ertman said people are opting for healthier alternatives to the high calorie soda drink and more flavorful alternatives to water.

"There's so many substitute beverages for water now that you didn't have before. I think in the past you'd have a binary division, a water or a soda, and if you choose a soda, you're making a lifestyle decision," Ertman said. "Now, it's a different decision."

Much of Ertman's work comes down to trend identification and network building, both of which are done in large part through industry group meetings and yearly conventions. There are hurdles within the industry that can make something as simple as getting your drink onto a stand at a Starbucks an insurmountable task, if you're unfamiliar with the way the system works.

That's important, Ertman said, in an industry that's become increasingly about the promotion of smaller, "premium" brands. Statistics provided by First Beverage Group, an investment company that's among Ertman's top clients, show there was approximately $35 billion worth of market share in play last year for small brands.

A beverage investment practice wasn't a niche Ertman said he planned to land in, viewing it more as a natural evolution to meet the needs of the clients he was representing. Bob Nakisone, managing director for First Beverage Group, said it's helped to have outside counsel who can keep up with the latest, given how rapidly consumer demands evolve.

"It's a value to have a guy available to us who's got a genuine interest in what we're doing," Nakisone said. "With the deals we're getting into and the transactions that may be occurring, we want that additional perspective."

What are investors betting is the next big drink? Ertman feels there's no reason to think the trend towards healthier, smaller brands will die down anytime soon. Millennials, who will continue to grow in influence as consumers, are thirsty for premium health conscious drinks, Ertman said.

"With a more green, more socially conscious and health conscious population, I think you'll keep seeing more in that space," Ertman said.

One of his investors is backing VitaCup, a line of Keurig-compatible vitamin-infused coffee and teas. He's started to hear ads for it while stuck in traffic on the freeway, which he's taking as a good sign.

"There's probably going to be a lot more collaboration like that," Ertman said. "A lot more spinoff products."