

FPENTREPRENEUR

GROWTH STRATEGIES

Dragons' Den: Custom sodas try to go up against the big guys, with an all-natural offering

[Mary Teresa Bitti](#) | March 29, 2017 | Last Updated: Mar 29 11:46 AM ET



CBC *Millie Holmgren and Jason Cox of People's Craffhouse soda to the Den.*

Each week, Financial Post contributor Mary Teresa Bitti revisits the previous week's episode of CBC's Dragons' Den. She captures what the cameras didn't, and in the process provides a case study for readers, zeroing in on what pitchers and dragons were thinking and what the challenges for the deal will be going forward. This is the final episode of the current season.

The pitch CBC decided to shake things up for this season's finale. They paired similar businesses and had entrepreneurs face off in a 90-second battle round in order to earn the right to make a full pitch to the Dragons. Dragons were prohibited from asking questions. Jason Cox and Millie Holmgren of Penticton, B.C.-based People's Craffthouse Soda bested Bastien Poulain, of Montreal-based 1642 Sodas in a battle of craft soda makers.

A one-time commercial banker, Cox left banking and purchased a wine- and beer-making business in 2012. It wasn't long before he became aware of craft root beers and sodas. A colleague from the local Chamber of Commerce got him started making his own line of craft sodas.

"He has a gourmet burger shop and started talking about how root beer and hamburgers go well together and he wished there was a local root beer he could offer his customers," said Cox. "I told him I'd been thinking about doing one." That was it. Cox set about meeting the regulatory requirements and researching and experimenting with recipes. "If the first 10 people hadn't liked it, we probably wouldn't be here."

It took off. In addition to his own brand of all-natural sodas, Cox also produces custom-branded sodas for other organizations. In 2014, after his successful start with root beer, he began making other traditional flavours, such as cola and ginger ale, and taking flavour requests. "People would come in and ask, 'Do you make an elderflower?' and I'd say, 'Yes.' Then Millie would develop the recipe and make it happen."

The product: "We are essentially making soda the way it was originally made, with real, natural ingredients," said Cox. "If it doesn't exist in nature, we don't use it. We don't want to deviate from that. This sets us apart."

To date, Cox has done no marketing. The People's Craffthouse Sodas are sold in restaurants, wineries and craft distilleries. "Wine tasting is a huge industry (in B.C.). But it's more than just about the tasting. Wineries are destinations with people bringing the whole family. Wineries began calling me to expand their appeal by offering craft sodas to cater to children and designated drivers," said Cox.

When he appeared on the Den, his facilities were at capacity and struggling to keep up with demand. "This was all business coming to us, which is why we went on Dragons' Den. We were looking for help to automate some of our processes to meet that demand, not realizing due diligence would take months," said Cox.

The deal Cox asked for \$60,000 in exchange for a 30% equity stake, valuing the business at \$200,000. That money was targeted to build up inventory, increase efficiency, realize savings through bulk purchasing and

boost gross margins, which sit at about 63%. Sales had been growing by 300% plus year over year and hit **the \$70,000 range in 2016.** “Even more than the investment, we were hoping for an experienced partner,” said Cox. That partner is Manjit Minhas, who asked for a 35% equity stake. The terms of the deal have changed but both parties appear eager to close. Post filming, Cox sold his wine-and-beer shop to focus on craft soda. He used those funds to build a new facility in Penticton that will open **next month.** “It’s larger, we have better work flow and there is room to add automation,” said Cox. He also partnered with a restaurant to share the space and drive foot traffic. The vision for the next one to three years is to expand sales beyond British Columbia. Cox wants to continue to focus on food services, wineries and distilleries and, he hopes, **with Manjit Minhas’ help, to move into grocery stores. He’s also interested, as per Minhas’ suggestion, in creating a hard soda.** “A big part of what drives craft sodas is the growing cocktail culture,” said Cox. “People buy these quality craft spirits and don’t want to kill them with high fructose-based sodas. They want complementary flavours. It makes sense to do a premixed product.”

A dragon’s point of view If the deal closes, Minhas says her focus will be on expansion in People’s Crafthouse’s offerings and retail locations across Canada first and then the U.S. “They’ve got a lot going for them. It’s a great-tasting product, and the resurgence of craft cocktails is a plus. Hard soda is a massive trend across North America. We have proprietary technology to make malt hard sodas to enhance the product. Craft sodas are not as popular in Canada as in the U.S.; we are hoping the hard-soda trend will parlay into the craft-soda space.” She also hopes to help them reduce costs and get distribution with Sysco, which also carries Minhas sodas. “There is a big market for them as long as they can keep up, keep the product stable and raise awareness.”

An expert’s opinion Brad Cherniak, partner at Toronto-based business advisory firm Sapient Capital Partners, likes the low-sugar, all-natural aspect of the product but says the entrepreneurs will be going up against the giants such as Coke and Pepsi, which have been acquiring craft brands and which will get preference in terms of shelf space. “Focusing on quality ingredients is smart. The idea of going with traditional flavours, like cola and root beer, builds credibility right away. But I’m puzzled by his choice of branding. The Marxist-Leninist symbolism may be problematic in the U.S. If I were advising him, I’d say you are still early enough to change the brand significantly.”