

Blacksmith: Building a New OTC Business

Peter Mann brings a track record for building companies from scratch to his role as the chief executive of a new business seeking a path to success in the OTC marketplace.

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» Blacksmith Brands chief executive and co-founder Peter Mann plans to build a significant OTC platform by acquiring and nurturing well-known brands “suffering from a lack of attention.” The firm is a newcomer, having launched in November with an acquisition of brands from McNeil Consumer Healthcare, but Mann is a long-time entrepreneur who repeatedly has cashed in on OTC businesses he founded or helped grow.

Mann said his goal is to grow privately held Blacksmith “into a major independent OTC company” and then “realize the value creation either by becoming a public company like Prestige [Brands] did or by a potential sale to a Sanofi-Aventis, like Chattem did, or any permutation of those,” he said in a recent interview with *The Tan Sheet*. (An edited version of that article from the March 22 issue is reprinted here with permission.)

“Five years from now there will be a strong demand for OTC platform companies and that can only work well for shareholders of Blacksmith,” added Mann, who has followed this plan with previous firms he managed. Mann ran family-owned Block Drug before selling it to GlaxoSmithKline in 2000. He also founded Medtech Products, which through

business combinations with two other companies formed the basis of Prestige Brands. In turn, as chief executive and chairman of Prestige, Mann oversaw the firm’s initial public offering in February 2005.

Mann said he left Prestige in 2009 to start Blacksmith after he realized he “wasn’t having as much fun running a public company” as he was when he “started something from scratch.”

With this in mind, Mann said that he will apply to Blacksmith what he calls “the Prestige model.”

That model involves outsourcing all or most of the non-marketing functions, such as manufacturing, customer relations and invoicing. Outsourcing frees time and resources so Mann can manage an \$80 million dollar business with just nine employees, he said. Those nine employees include “the core of the management team that started Prestige,” who followed Mann to Blacksmith, and who have experience in many OTC categories and are “pretty experienced deal-making people,” he said.

While Mann hopes to add a few more administrative positions in the next few months, he maintained, “We can run a company our size with 20 people easily.”

A BOOST FOR MARKETING

Mann plans to grow Blacksmith significantly in the next year in part by aggressively marketing and



Peter Mann

expanding the five brands it bought from McNeil. Blacksmith launched a series of radio commercials this winter promoting Luden’s cough drops as “an American iconic brand that people know and love.” The ads “have spurred a nice jump in business,” Mann said. “We think Luden’s has extraordinary growth potential.” Sales for Luden’s increased 4.2 percent to \$20.2 million in the 52 weeks ending Feb. 21, according to Information Resources Inc., a Chicago-based firm that tracks product sales from food, drug and mass merchandising outlets excluding Walmart.

Blacksmith also will build the brand through two recently launched line extensions – a wild honey flavored drop, which is the only major brand that is “all honey”

flavored compared to lemon-honey or another flavor combination, and a sugar-free version of its wild cherry flavored drop, Mann said.

In addition, Blacksmith completely overhauled Luden's packaging, creating a modernized bag with a re-sealable zipper and new graphics.

Blacksmith will take a similar approach to Efferdent Plus with the goal of making it No. 1 in its category.

"Efferdent is one of the two leading denture cleansers, and for a long time it was the No. 1 brand. But when I was running Block Drug we took the number one position away from [Efferdent], and now we are going to try and get it back," Mann said.

Blacksmith will run new television spots for the denture cleansers "momentarily," and plans to launch new items under the brand. "People who wear dentures are like anybody else. They are prone to and interested in new things. So if you can offer them something that either promises them better cleaning or better flavor or fragrance – those are all powerful motivators," he added.

Blacksmith also hopes to expand its share of the denture adhesive market by promoting its Effergrip as a zinc-free product, Mann said. He explained that the negative media attention surrounding lawsuits alleging that zinc in denture cream may cause neurological problems could boost sales of Effergrip as consumers seek alternative adhesives without zinc.

The initial suite of brands acquired from McNeil also includes Pediacare children's cough and cold products and Nasalcrom allergy spray.

"Five years from now, there will be a strong demand for OTC platform companies," – Peter Mann

UNDERNOURISHED BRANDS

Mann also plans to build Blacksmith through strategic acquisitions from "across the gamut of OTC categories," he said. Blacksmith has "a significant amount of money available to us" from Charlesbank Capital Partners, which funded the firm's acquisition of its five existing brands, he said. Now is "a good time to be acquiring businesses," Mann said. "There are indications that a lot of big pharmaceutical companies are trying to streamline their OTC portfolios to focus on fewer, more global brands.

"We can be relatively indifferent of OTC categories because our management group has experience in almost every category.

"We have no limitations, other than we will stay in the OTC and personal care area. We won't get into beauty products and we won't get into mass markets, like toothpaste or mouthwash, unless we had a product that had a very unique segment," Mann said, explaining, "Our goal is not to compete with the giant companies in categories that are important to them."

Rather, Blacksmith is more interested in brands "like the ones we bought – well-known brands that are suffering from a lack of attention,

lack of purpose and a lack of advertising," Mann said. He explained that the brands Blacksmith acquired from McNeil "were running themselves" and no one was responsible for their success. He added, "Ultimately, it takes human beings with time, effort and energy," to grow a brand, which is what Blacksmith can provide.

As long as a brand is big enough to generate enough income to support advertising and promotion activities, Blacksmith is interested, Mann added. "We are perfectly willing to take on brands that are declining so long as we think that with the right support, maybe with some new items, we can turn that decline around," Mann said.

Efferdent Plus was declining slightly when Blacksmith bought it, but "it was big enough that we could afford ... enough advertising, promotion, couponing support [and] that sort of thing."

In addition, Mann looks for brands with "good consumer levels of awareness, good consumer trust, recognition and all those kinds of things." Blacksmith evaluated consumer awareness of Luden's prior to the acquisition by asking consumers how they became aware of the cough drop brand, how they feel about it and how they feel about it compared to such competitors as Halls and Ricola. Luden's scored high levels of consumer awareness and trust even though McNeil did not heavily advertise the products. This was "very comforting" to Blacksmith because it signaled the brand "should bounce back" with new advertising, Mann said. <<