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On

A Job Creation Roadmap: How America's Entrepreneurs Can Lead Our Economic Recovery

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Good Afternoon. Whenever there's a discussion of fast-growth businesses, the focus is usually on the internet, computer and biotech businesses. So I'm happy to represent a fast-growing part of our economy that is a little more traditional, by which I mean everyone can understand what we do. My company, Honest Tea, makes and markets lower-sugar, organic beverages. Our fourteen years of continuous double-digit growth have helped create 112 jobs in 22 states – jobs that create and support manufacturing jobs across the United States, and just as important, jobs that cannot be outsourced overseas.

I'm honored to be here today to share the story of how we built Honest Tea into a national brand in the hope that our experience might contribute to creating a more fertile ground for American entrepreneurs.

In 1998 I launched Honest Tea with five thermoses of tea that my co-founder and I brewed in my kitchen in Bethesda, Maryland. We pasted a label on a recycled Snapple bottle and I brought them to the local Whole Foods purchasing office just up the road in Rockville, Maryland.

We launched in the mid-Atlantic Whole Foods stores a few weeks later and spent most of that first summer pouring out samples of tea. In fact, we gave out more bottles of tea than we sold. But by the end of that first summer we had become the best-selling tea in those 17 stores. From there we expanded to other Whole Foods regions, then to the natural aisles of mainstream grocery stores. By 2006 we had become the top-selling brand in the natural foods industry. Then we started to expand to gourmet shops and delis on the Coasts, and in 2008 we took on an investment from The Coca-Cola Company, which purchased Honest Tea in 2011.

When I was launching the company out of my house, we needed to raise money to fund our first production run. My co-founder Barry and I each put our own money in and then asked for investments from the only people who couldn't say no – our parents, my sister, Barry's roommates from college. They all wrote us checks as angel investors.

Over the next ten years we raised approximately \$10 million in equity capital from angel investors. Once we had tapped out our family and friends, we took in investments from people who liked the product and wanted to see us stay in business. So how did Honest Tea manage to stay in business while dozens of other beverage companies launched and closed up shop during those 14 years?

First, we offered something that was clearly different from everything else on the market. When I made that first sales call to Whole Foods, we were offering the buyer something he didn't have – a bottled tea with only a teaspoon or two of sugar, 17-30 calories per serving, instead of 4-5 teaspoons per serving (90-100 calories per serving). Then in 1999 we became the first company to make a certified organic bottled tea, and in 2003 the first to offer Fair Trade certified tea. And we've kept innovating. In 2007 we launched Honest Kids – the first lower sugar, organic pouch drink that kids can bring to school. Today Honest Kids represents almost 1/3rd of our business.

Another reason we were able to survive is that we were careful with our cash. We shared hotel rooms, drove instead of flew (no small feat when your office is in Bethesda and your bottling plant is in Buffalo)

and our office is still filled with used desks. We'd go to trade shows, occupy a 10x10 booth and share rooms at the Best Western while our competitors bought 20x20 booths and were living it up at the Bellagio. There were more than a few occasions when I had to choose between payroll or begging our vendors for extended payment terms, and we were fortunate to have some patient vendors, many of whom we continue to work with today.

Running lean also had its advantages – it forced us to be creative with our marketing. Instead of paying for radio and TV ads, we developed creative ways to generate attention, such as our Honest City social experiment, where we set up free-standing booths in 12 major cities, and put out a sign saying \$1 per bottle on the honor system. You will be pleased to know that most of the country scored in the mid-90%'s for honesty.

Another benefit of operating on a tight budget is that we made less expensive mistakes. Every start-up enterprise makes mistakes but when you start small and spend small, you make smaller mistakes. We still made some doozies—for 6 years we owned a bottling plant that was a drain on cash, time and energy, and we tried to launch a tea bag line that never really caught on, but I'm convinced that if we had raised more money, we would have lost more money trying to make those mistakes work.

Because we were careful, in Honest Tea's first ten years we 1) managed to stay in business, and equally important, 2) we managed to keep control of the business. As a result by the time we grew to a scale where we were of interest to large food and beverage corporations, we could negotiate from a position of strength. We weren't desperate to sell, but we did need to expand our distribution, and we also felt obliged to deliver a return to our investors, whose money we had held for ten years.

Our arrangement with Coca-Cola is unusual because unlike most acquisitions, which involve relocations and layoffs, Honest Tea continues to be based up the road in Bethesda, Maryland. Our headcount has doubled since Coke invested, and our expansion has also spurred additional job growth around the country. Last October I was delighted to cut the ribbon on a new Coca-Cola owned bottling line that created 100 new manufacturing jobs in Massachusetts, and this month we are launching a new production line that is creating jobs in California.

We've been working with Coke to expand our distribution and our mission of offering healthy, lower-sugar organic drinks to people across the country. When we took in Coke's initial investment, we were in 15,000 stores across the country, which is certainly more than the 17 we started with back in 1998. But today Honest Tea can be found in over 80,000 stores across the country, and we expect to surpass the 100,000 mark this summer.

Unlike so many industries, the beverage business is one where outsourcing is not an issue. There's still no way to ship bottles through the internet cables, and the math doesn't favor manufacturing a product that's mostly water, from overseas. And then as I learned so vividly in our first year when I was doing the distribution out of a van, there's no substitute for the role that skilled professionals play in the beverage distribution chain. We were able to make a great product and deliver it to a warehouse, but until we had someone who could make sure the product got from a warehouse to the right shelf in the right store, Honest Tea was more of a conceptual business than a real one -- those last few yards from

stockroom to shelf were the most important. There's just no substitute for capable and competitively-minded sales representatives who build our brand every day in cafeterias, restaurants, grocery, drug and convenience stores across the country.

So how did the Federal government help Honest Tea? The best thing I can say about the government is that it didn't get in the way of our business. Of course, we had to make sure that all of our bottling plants and suppliers were licensed to produce our product and followed FDA and USDA regulations. We filed the stock offerings we presented to accredited investors with the relevant state entities, and complied with all the relevant payroll taxes through ADP. But other than that, we were left to build our business.

One way that the government did support our growth is through the creation of the USDA Organic standards. As I mentioned earlier, having a differentiated product was a key to Honest Tea's survival, and the USDA Organic seal, which appears on all of our products, helps consumers seek out products grown without chemical pesticides or fertilizers. It is a great example of a government program that helps establish a quality standard without any mandates or large bureaucracy.

At the same time that we've been growing Honest Tea in Bethesda, we helped set up a green business incubator at Bethesda Green, a local non-profit we helped launch five years ago. The incubator is now home to 14 entrepreneurs who are launching their own businesses, each with its own environmental point of difference. The incubator allows these entrepreneurs to confer, collaborate and occasionally commiserate as they seek to build their own enterprises. It's worth noting that Bethesda Green's incubator is a private institution, located over a branch office of Capital One, which rents the space to us for \$1 per year. Eight percent of Bethesda Green's budget comes from Montgomery County, the rest is privately funded.

My experience building Honest Tea represents all that is great about the American economic system – a group of passionate entrepreneurs and patient investors combining their dreams, their investment capital and their energy to create something out of nothing, delivering jobs, strong investment returns and healthier beverages along the way. In terms of supporting the development of more companies like ours, I would say the best policy is to let entrepreneurs and investors continue to take well-informed risks.

By definition the work we do is challenging – if it were easy or obvious, the big companies would have already done it. But at Honest Tea, we take two Chinese proverbs to heart. The first is, "If we don't change the direction we are headed, we will end up where we are going." I believe entrepreneurs are our nation's best hope for bringing innovations to life that can affect the social, health and environmental problems our society faces. Is that easy work? Of course not, and that's why the second Chinese proverb appears on the front wall of our office, "Those who say it cannot be done should not interrupt the people doing it." Thank you very much.