Consumer behavior during COVID-19: Investor perspectives on the new normal

This is a transcript of one of the sessions from the UT Nutrition Institute's 2nd Annual Taste of Texas event that took place virtually on October 2nd, 2020 via a video conferencing software.

Session Description: How we spend our dollars directs the industry—from the products we buy to the trends we follow to the retailers we patron. How are new buying patterns shaping the way investors finance new ventures?

[Panel Introductions]

Marissa Duswalt Epstein
So, today's conversation is really gaining perspectives on people who are looking at the entire market and developing positions on how this extraordinary time that we're living in might play out. So, we're gonna hear from our panelists on how we spend our dollars directs the industry from the products we buy, to the trends we follow, to the retailers we patron. But everything seems to have changed since the start of the pandemic, so how are new buying patterns shaping the way you all think about financing new ventures?

So, to start let me introduce Linnea Roberts of Gingerbread Capital. Linnea launched Gingerbread Capital in 2016 to build and invest in women's entrepreneurial success and encourage other women to do the same. It's fitting that after retiring from a successful 30-year career in investment banking, one of her first investments in a woman-led venture under the mantle of GBC was the 2016 feature film "Equity" about women on Wall Street. Linnea spent the latter half of her career on Wall Street as a partner in the technology sector at Goldman Sachs where she led many a startup from launch to IPO. Linnea continues to mentor women pursuing financial careers through her involvement with her alma mater, The University of Chicago Booth School of Business, where she received her MBA in finance. She also holds a BA in business administration and management from Valparaiso University. Linnea, thank you so much for joining us.

Linnea Roberts
Happy to be here.

Marissa
Next, I want to introduce Genevieve Gilbreath of Springdale ventures. Genevieve has been an active entrepreneur in consumer goods since 2002. And from her experience launching and

growing two import/export supplement companies, she's now pivoted into an investing role at Springdale Ventures. From 2016 to 2018 she served as the managing director of SKU, an organization you've heard a lot about today, which is the first leading consumer products accelerator in the US. But most recently, she co-founded the Austin-based Springdale Ventures, an early-stage consumer goods investment fund.

She's also developed cross-cultural educational curriculums for Princeton University and served as an adjunct professor at Baylor. Genevieve earned an undergraduate degree in Fine Arts from Pacific University and a Master of Science from Baylor.

And then, finally, joining us today is Jon Sebastiani. Jon great to have you on representing the west coast with Linnea. Jon Sebastiani founded Sonoma brands in January of 2016 and leads all aspects of the firm's investment strategy and portfolio company management. Prior to founding Sonoma brands, you may have heard of Jon as the founder and CEO of Krave Pure Foods. He's always been an avid runner, and when he was training for the New York City marathon in 2009, Jon realized the opportunity to turn a commonly used training food into something truly special. And with encouragement from his mentor, Steve Blank, Jon founded Krave with the intent on making jerky that tastes good without chemicals and additives. Krave went on to become one of the fastest growing CPG companies in the country. Jon received his BS in economics from Santa Clara University and his dual MBA from the Haas School of Business University of California, Berkeley and Columbus Business School.

So, without further ado, I don't think we could have a more stellar triage of experts in the room to talk to us about what the world is going to look like after COVID-19.

[How has the pandemic affected your portfolios?]

Marissa
So, let me start there. Give us a high-level overview of how the pandemic has affected your portfolios, individually. And Jon if you don't mind me putting you on the spot, we'll start with you.

Jon
Thank you very much. Absolutely an honor to be here, and, as was indicated, we manage a portfolio of approximately 15 businesses that are comprised between food and beverage and personal care. And we feel like what we've seen through the pandemic are simply the acceleration of many trends that were previously taking place. And as we think about the portfolio at-large and how has the pandemic benefited or hurt our portfolio companies, like, kind of think about it with one lens, which is how progressed was and were our companies

from a digital architecture standpoint? How quickly could the management teams pivot their storytelling and marketing to a digital standpoint?

We have some brands, such as this beverage I'm drinking right here, a Guayakí Yerba Mate that is a highly sold in convenience stores and college campuses. This business suffered because it's a product that doesn't necessarily support a strong digital direct-to-consumer standpoint. The level of architecture that we built to support that was not fully built out. And as we monitored foot traffic through many of the critical retailers that sold this product, those foot traffics were down 40-50%. So, that's an example of a brand that will come back but temporarily had a setback.

On the flip side, we have brands like Milk Bar that—I can do a little show and tell here for folks that've never seen these. This is a great New York-based business but I couldn't think of a business that I was more paranoid about that would be dramatically effective, because we're based in New York. We have 18 brick-and-mortar locations. Obviously, we shut those down. But what we did have is a very progressive digital architecture to support an e-commerce platform that we pivoted our marketing. We took our founder, Christina Tosi, and created content that drove eyeballs from home that literally took our e-commerce business up 5-6x and made up for all of the lost revenue in brick-and-mortar.

So, furthermore, the last thing that we're really seeing is a strong desire for health and wellness and immunity. So, we have a few investments that are centered in immunity or wellness. HUM nutrition is one, and Beekeeper's Naturals is the other. These two businesses have experienced explosive growth both on their own .com, Amazon, and then, in one case, sephora.com, and others. So, by and large e-commerce—we all know that intuitively—but I think where our portfolio... those that were prepared were able to take advantage of it. Those that were not are going to have to wait for foot traffic to return to the supermarket.

Marissa
And the supermarket's changing a lot, as you all know. So, we'll come back to that point as well. Linnea, walk us through what you experienced in your portfolio over the last few months.

Linnea
Sure, thanks. And hello to Jon and Gen. And thank you, Marissa, for including me in this.

So, Gingerbread Capital we have a broad-based portfolio. So, we're not just food, but I happen to love food and bev, so we definitely have some good investments there. I would just double down on one of the things that Jon said that if we saw issues in a company pre-COVID, it was sort of like we got out a big spotlight and we shined it on all of the issues. But I always fall back on, "Never waste a good crisis." And so, on the acceleration into digital and online—if we were dabblers before, that had to move front and center.

You know, we—I'll give you an example. You know, Smitten Ice Cream, which is largely brick-and-mortar, it's a extremely perishable product because it's frozen. And it also does not contain any gums or fillers or stabilizers. So, relatively hard on the scale of shipping, which I'm sure you've talked a lot about today. And we had to go from not being able to ship to being able to ship a lot. You know, pretty much overnight. Grocery became, you know, increasingly important for all of our food and bev vendors.

And then, the other thing I would say just to add on to what Jon was saying is that a lot of this pivoting is still going on. So, there's been a lot of rationalization over, you know... when this first happened we thought, "Oh, we're just going to be in this two weeks. Can we survive shut down for two weeks?" And now it's like, "Okay, how do we actually make it through the middle of next year? And make sure that we can keep our doors open?"

So, I have one business, a coffee business, that was largely brick-and-mortar. We've upped our online and basically, we are, you know, re-envisioning one of our—our largest location—into a provisions location in Hollywood. Mostly because there's a pretty high need, but also, we don't anticipate people coming into restaurants. We've definitely dabbled at reopening at certain levels in places that do have brick-and-mortar, and what we've seen is that people have very mixed views in terms of just their own risk tolerance for going to restaurants.

So, we think it's still going to be pretty rocky, but it has, you know, just forced the hand of all of these things that we needed to get a lot more focused on. And the great thing about online is that, you know, for most manufacturers it's just your highest margin business. So, I almost look back and kind of say, I wish we would have put more effort into it earlier, but we are where we are. And so, I think that's pretty important as well.

Marissa
Thanks. So many comments there to come back to in a moment. Genevieve, Springdale's portfolio... focused on very early-stage emerging brands. I can only imagine the challenges that you've seen compared to companies in Jon's family. Walk us through how the pandemic affected Springdale.

Genevieve
Overall, I feel like we've been really lucky and a lot of the companies in our portfolio have really benefited from the situation. You know, when you look at the companies across our portfolio, it's a split of companies that are actually in retail locations to those who are primarily direct-to-consumer. And then again across the kind of the e-com platform. But, you

know, by and large the companies have all really done well. And we saw, you know, a number of them in Q2 really had what I think we're all calling "the COVID bump." So, they had this, you know, unprecedented growth spike that happened—that we're seeing to start to level out now. It's still... you know, we're still seeing these companies having strong growth throughout the rest of the year, but this kind of... I don't know if it was the panic buying that was happening or if it was just the larger number of buyers who were on the e-com or digital platforms that were jumping in in Q2.

But kind of, you know, across the board, too, when we think about e-commerce—and that's something that, you know, everybody just intuitively again like Jon said knows has grown. But, you know, I guess I'm trying to think of even the years that it took from... I think it was 2000 to now, it grew at, you know, such a rate, and then, essentially, in the eight weeks of first COVID that doubled again. And I don't think that we're gonna see consumers going back to buying retail in the same way that they were prior to this because they're, you know, getting habituated to buying e-com.

And, you know, companies—like, Kos is one of our portfolio companies, Kos naturals, they're a natural plant-based supplement line. And they were really strong on Amazon, and so the brands that, you know—thankfully food and beverage and a lot of the supplements were still considered essential, so they didn't have very much disruption when Amazon went through the initial period of COVID where they had to essentially stop shipping things that weren't considered essentials. So, we saw them continue to grow. But consumers were really looking for, you know, connecting with them on Amazon and then on other platforms as well because of the, you know, backlog that Amazon had.

So, other platforms, you know, whether it was their own websites or other e-commerce sites were able to gain a little bit of a bump from that. And, you know, we saw that the companies that really did have that digital architecture and had, you know, even on top of that just the ability to connect with the consumers in a very authentic way online by providing experience or a really great customer service experience were the ones that did really well.

If you look at our portfolio company, Atlas Coffee—I believe Michael was on earlier—and, you know, they had a huge bump during the early COVID period. And I think part of that was that they have an ability to really provide an experience to their customer in their home that other companies may not be able to. Like, they have always seen the value of, you know, giving a postcard from the country that the coffee is from and kind of taking them on a journey. And I think the companies that are able to provide that sort of a journey have done really well. So, I'm excited to see how other companies in our portfolio and elsewhere will pivot to employing that.

Marissa
Yeah.

[A changing retail experience and critical adaptions]

Marissa
There was, pre-pandemic, that brand experience that you could create in the store, whether it was sampling or experiencing the packaging in a physical way. It obviously disappeared overnight.

And so, this kind of gets me into the next set of insights I'm hoping to learn from you all which is how the retail experience changed for the consumer and what adaptations you felt were critical to be successful. And then we'll kind of get into the capabilities that you're now looking for in new brands that are, kind of, "new requirements" post-pandemic.

But take me back to the learning that you experienced in those first few weeks, back in March and April, as grocery stores are running out of toilet paper and you're monitoring the insights coming in and the numbers coming in from your brands and seeing how the shift was happening. What did that change in retail demand from your founders and your executive teams? Jon, we'll start with you again.

Jon
Sure. I think, you know, as soon as the pandemic reality squarely hit us and we realized that this was now a very real thing, we pulled our investment team together and crafted a three-part focus that we instilled into every portfolio company.

The first, the most important factor was staff. And making sure that each company had an HR policy that was progressive and practicing safe working standards, whether that meant a work from home environment—of course, work from home now is so common. But, at that time, we were building up, really, the architecture on how our employees and salespeople and marketers... and how are we going to do team meetings and sales calls and supply? We were buying companies. And how are we going to do diligence through Zoom? And all kinds of things. But HR and staff was one.

Number two was cash. Of course, we had to make sure that cash was sufficient because the capital markets, we figured, would be closed. Pencils down for an undetermined amount of time. As an investor myself–which perhaps as a side tangent—we knew that unique opportunities would emerge through this pandemic.

But then three, we focused on supply. To make sure that we had—if we were manufacturing our goods—that we immediately set up teams so that we had A team, B team, C team. So that in the event that anybody did get COVID that it wouldn't sideline our entire supply chain. Obviously, businesses that were getting supplies internationally set up a more complex approach. So, those were the first things that we did with our portfolio companies.

The second thing is, I think, more of the intent of the question was what happened at retail? And then, how did we pivot and make sure that we were delivering against the objectives of the business? Because as we were monitoring the retail experience from Target to Safeway to Wegmans to H-E-B, traffic was down 50-60%. We knew that retailers we're going to respond very quickly by setting up pickup programs. So that, whether it's Instacart, whether it's, you know, any sort of Uber Eats or a Postmates type environment where delivery can occur to the home. But, furthermore, that retailers were going to set up an order entry system where your order will be ready, you pull into the lot, they'll bring it out to you.

So, obviously, Sonoma brands, we invest in emerging brands. So, the average size of our businesses are somewhere between, you know, 10 million of revenue to 100 million on the high side. You know, we don't have the budget to necessarily afford to buy the right placement on the H-E-B.com portal. It gives the advantage back to the big food strategics that have those budgets. There's a degree of comfort from consumers to return to Campbell's or return to Kellogg's and their products. And so, we had to figure out a creative way of reaching through the channels that we knew how to reach. So, if it's Target, we instantly started spending our capital on Roundel services, which are in-store marketing programs, so that customers that are using their mobile devices or that are online choosing their products, we are front and center. We have to figure out how to drive trial. Be top of mind.

And, in addition, digital couponing. We leaned heavy into Ibotta. We leaned heavy into other platforms. There are specific social platforms. Like @targetdoesitagain, which is an independent social platform that drives users into Target. So, there's a series of focused groups and strategies to drive eyeballs to a digital landing page that would encourage those customers to buy our products. And those are just a few of the top. I mean, we went through a comprehensive, more detailed approach on how to survive.

I think, again, we've seen the traffic come back a little bit, but I just feel—and be interested in the rest of the panel—like, do we ever come back to the type of environment that we were in a year ago? Are we really now in a digital landscape where pick up at store and delivery to the home is now +50% of consumers buying habits? We're trying to prepare our portfolio for that reality.

Marissa
Yeah. Linnea, Gen?

Linnea
Yeah, I think a lot of things have changed permanently. Think about the number of people who had never ordered their groceries online that got really good at Instacart. And, you know, Instacart was a business model that was being largely questioned over the last several years. And now, you know, seems like a no-brainer. I think we're gonna continue—we just made an investment in a company called Zero Grocery, which is a zero-waste grocery fulfiller. And they completely, you know, just piggybacked on the fact that people were just more and more comfortable having their groceries delivered to their home, and just have obtained a certain facility with it. You know, to Genevieve's earlier point, the—how do you actually create and bridge the experience that they once had and provide some of that remotely? But also give them that experience.

And so, I don't think people will go, you know, full scale back to it. I think people really miss, kind of, doing that shopping. I know, for myself, our Target runs were sort of our, you know, big day out during the year.

Marissa
They were pandemic entertainment.

Linnea
It was definitely a form of entertainment. And so, I think people... but I think people's expectations will have gone up in terms of, you know, just the convenience of: I can order it online; I can pick it up in the store if I don't feel like going in. I think that will stay. And then, I think, when they actually go into the store, they're going to be looking for a much richer experience. And an experience that is potentially bridged at home through someone's media presence or online presence.

Genevieve
I would just add on top of that, you know, when customers are going into stores these days... it's... they spend probably a little bit less time than they would before just because this is the effort to go in and get something and get out so you don't expose yourself too much at this point.

So, you know, to Jon's point, that's why a lot of customers are kind of going back to the Kellogg's the General Mills or whatnot. And you've even seen that in several retail outlets have been cutting smaller brands because they don't have the, you know, the dollars to support the programs that, you know, the General Mills and the Kellogg's do have. So, we've experienced that with one of our brands. Even though they had great velocity, the buyer was just like, "Oh we're just cutting off all the small brands and we're going back to the big guys because it's a lot more... it's easier and more efficient for us to deal with at this point in time." So, I think that that's a risk for smaller brands right now.

When you look at our company costs this time last year, they were in I think 10 stores and now they're in—they have about 9,000 points of distribution. So, they really did their amounts of expansion during the COVID period.

And one of the things that I think they did really well was—because they were started off as a digitally native brand—they really understood the power of that and how to translate that into store by using really creative influencer programs where they would have the influencers go in store and take pictures of themselves with the products. And it was just one of the things that they did. But, again, it was kind of tying that experience between digital and into store. So, not only did that, you know, make help to increase their presence with their actual consumers, it also increased confidence with the retailers by showing them that they had this creative, scrappy way to draw customers into store through influencers. And so, that I think that that helped them both on the consumer side and the buyer side.

Yeah, I don't think we'll see people going back into stores the same way that we did a year ago. Not to say that, you know, the foot traffic won't go back up, but I think, it's just gonna be a different buying experience all together. I mean I know, personally, like, if it's my weekly grocery run, I'd much rather just put in an order to H-E-B or Whole Foods and bring it out to the car. So, that is going to make it harder—a lot harder—for discovery until—unless the companies understand how to bridge that gap.

[COVID-19 impact on deal screening process criteria]

Marissa
Yeah. So, you guys brought up two important forces that are working against small brands. One is the consumer's reticence to try new brands. And then, the second is the physical difficulty in doing so because of the retailer’s reticence to bring them in store. As you guys are focused on emerging brands in your portfolios, what additional criteria is now part of your deal screening process that didn't exist prior to the pandemic?

Genevieve
I would say—

Linnea
You know, the first thing that comes to my mind is those people that know how to leverage

partnerships. So, just because you're a small brand doesn't mean you need to be small. And there's so many—whether it's large retailers or strategic investors—that actually are looking for this. That are willing to... you know, they're looking for ways to add to that portfolio.

And so, while I think it's a little bit harder, I think one of the things I look for is: does someone have a good sense of their landscape and who they need to be working with? So that it's not just them going at it alone. And that can take the form of, you know, a very capable investor with lots of leverage across a lot of different brands; It could take the form of a relationship with someone that really knows their, you know, their particular product and that genre of product; and it could take the form of distribution partners. And so, that's definitely something I'm very, very focused on.

Genevieve
I think that's great, and definitely something we're looking at. One of the things that we've seen with some just studying some of the research—my friends at a company called Bamboo [Worldwide] Inc., an innovation firm, did a really interesting qualitative study on how COVID is changing both how people are living and how they're consuming. And one of the things that they saw was that customers are very concerned now about how companies are treating their employees. You know, and how they're talking about it. So, you know, do they have good safety plans in place? Are they taking care of them when they're working at home?

So, those are things that, you know, we would look at before, certainly—looking at company culture and employees, but it's kind of even more front and center now when we're looking at the research and what consumers are really caring about. So, as we look at companies that is something that—given this situation—that we want to know that they're really able to build a good culture and take care of their employees as they're working at home. Because it's even more challenging now than it ever was. So, that's something, I think, that is new for us.

Marissa
Yeah. We just heard from H-E-B, prior to this panel, and spoke at length about the rationale and then the effects of them giving immediate raises to all of their employees—whom they call partners—at retail. And then how that benefited the customer base. It actually deepened trust between the customer and the retailer, during a time like this. Jon, what additional criteria are you looking for now in the deals that you see?

Jon
Yeah, I think we all can understand the businesses that are running these retailers and store managers that are trying to keep health and wellness to their essential workers simply creates a very difficult environment to reset shelves, to introduce new items. It's just been a necessary part of their business on some predetermined frequency, whether it's twice a year or once a

year. But given the staff load to engage in those resets, that creates an unsafe environment... it's prepared the perfect excuse. I kind of use it as an excuse, because I'm very close to Target. So, on the one hand, Target wants to say we're going to support emerging brands now more than ever... as they launch their private label, Good & Gather program.

And they still want that Target experience that you talked about. Like, "It's an experience! It's our outing because we love to discover things in Target." But the way the pandemic has forced staff—they've been forced to rationalize SKUs. So, it's just a fundamental reality that they are saying 20% of the SKUs that are currently on shelf will be eliminated. And so, it's a very, more competitive environment that favors "Big Food" because they have the larger checkbooks to write the larger sliding fees or promise a certain amount of spend on the digital platforms on those sites.

So, all that being said, I'm now looking for brands—because I still believe that the consumer wants the better-for-you emerging brand. They still want to support brands that are speaking about transparency of ingredients and health and wellness and eco-friendly packaging and all of those very, very important factors.

We're looking for brands that are growing up on the digital landscape. They're digitally native—that have built these major tribes online. And that they may have a million active consumers through their social channels, through their active e-commerce engagement. And that I can walk into a retailer with that background of their tribe—and they have a founder that's got that X factor that's delivering the product—but that I am kind of bringing in a no-brainer opportunity to the retailers because behind the brand has this multi-year mature architecture with millions of active consumers.

That's what's needed now for retailers to give emerging brands a shot. If you don't have that and you've just got a great new idea because I've made a better widget in this category, but I don't have a lot of proof, I don't have a lot of momentum or data to back it up, you know, it's just going to be a harder sell.

So, I think brands when they get their start—it's certainly not impossible to start your business into traditional CPG—but, I do think that the more successful businesses are starting digitally native. They're building out their proof of concept; they're building out the repeat purchasing rates; their AOV and how much does it cost to acquire a customer, and building these tribes. And then bringing them into the retail [inaudible] trade.

Marissa
Any follow-up thoughts on that from you or—from Linnea or Genevieve?

Linnea
No, I would just reinforce that. Well, it's definitely tougher for smaller brands. I think those brands that are focused on wellness—and Jon you mentioned transparency. I think that that is becoming increasingly important.

And then I think those that can—there's a big existential threat out there which is: one, when you're managing in a difficult environment, potentially furloughing employees, having to make rationalizations, also what's going on in the backdrop of our country, there's so, many footfalls that companies can have.

And so, Genevieve, what you said around just being able to have the right cultural reputation for caring about your employees and also caring about your customers enough to be honest with them. And so, you know, I definitely, you know, I think we've all had to make sure that safety and the right values have moved much more front and center. And I'm actually hoping that that is something that stays.

[Eco-packaging and packaging innovation]

Marissa
One of those values we always see come up as a secondary or tertiary purchasing driver is sustainability in packaging. On the one hand, this was kind of a movement that was building pre-pandemic that at least for my observation I thought, “This is getting extraordinary traction. Is 2020 gonna be the year of no plastic?” And then the pandemic hits and we all threw that out the window and said, "Whatever plastic I need to use to stay safe, I'm using it"—whether that was restaurant delivery or grocery delivery. All the physical manifestations of keeping our food safe.

Where do you guys see that now in the value system of the customer? And then, secondarily, you know, historically green or sustainable packaging was really difficult because it just wasn't available. And what was available was really expensive—especially for emerging brands to tap into.

Do you see this propelling innovation in that space and making—if there is consumer interest, based on your position, do you see there being greater availability there or lesser so in the supply chain to emerging brands?

Genevieve
I think it might have a hiccup for a short period of time, but I think that it's something that is still really building. And we're starting... like even as we're getting samples from really small brands that are up and coming, it's in compostable packaging. And so, they're making that a

priority as they're growing the business. And, you know, like you said, for really small brands it's hard on the margins to invest in this more sustainable packaging. But you see the entrepreneur is really making it a priority.

And, as you're mentioning, you know, when the pandemic hit kind of threw some of these concerns out the window in order to stay safe but, you know, what we were seeing was that people were leaning harder in to organic and into healthier foods. And, you know, those two things often go hand in hand. So, I think it was almost even like a by-product of not necessarily going for the sustainable option, but more for the, you know, "I know this is better for my body," organic, healthy option.

So, I think that it may have a temporary hiccup as we're, you know, as people are being more value conscious, at the moment. But I think it's still something that's going to continue to build, and hopefully quickly.

Linnea
I think you're always going to have a slice of the universe that doesn't care that much. Then, you're going to have everyone who's—we're now all self-loathing plastic users because we've seen just our own use—

Marissa
Great way to put it. [chuckles]

Linnea
—go from old standards to our new standards.

So, I think there's some pent-up demand for getting back to, you know, bringing my own shopping bag. I mean, I can't do that anymore. It's like you used to get shamed for not having your bag, now you get shame for whipping out your bag. So, I think there's definitely some pent-up demand.

But I think the biggest thing is cost and behavior. So, the good news is I've seen a lot more companies and a lot more capital going into these areas. So, funds—specific funds—set up focused around sustainability and just trying to tackle this problem. And it is at this stage very much a capital issue because there's a lot of solutions out there but they're expensive. And then, how do you actually change the behaviors of it—whether it's large manufacturers or consumers?

And... so, think about the Instacart example. So, you know, think about like, you know, seven years ago when you said, "Okay, I'm going to order my groceries online. Well, no, no, no. I like to pick my own tomato. Why would I have some random person in a store do that? And wait, they're going to drop it off where?" And so, behaviors can be modified, but we have to make it really seamless for people.

And so, one of the—I think we should take a beat from what we've learned now around COVID is that: one, people who probably never would adopted these practices have adopted them. But we also had to get a lot better at how we actually go about... whether it's food delivery, grocery, etcetera—and meal delivery. And all those improvements will improve for the long term. And I think the same thing is going to happen in and around sustainability. But I think it starts with a company ethos if that's important to them.

[What qualities do you look for in CEOs?]

Marissa
So, speaking of company ethos, one of my fascinations with your roles as investors is how you work with, interact with, and sometimes have to help manage your founders and your CEOs. And in a time like this, CEO personality really becomes a dimension that can dictate a company's trajectory through a crisis.

What qualities of your CEOs do you—have you elevated in in your mindset as critically important—watching them manage their teams, and watching them be challenged in managing those teams—that you would say are now qualities that you'll look for in future portfolio additions? Jon, you want to start us off here?

Jon
Yeah. I mean, having been a founder myself and guiding the company through an exit—not necessarily through a pandemic, but certainly recalls and minor crises that invariably come up—I look for kindness. I think it's an extremely important understated talent. Empathy, compassion. Obviously, those characteristics need to be met with resiliency and grit. Getting through this is not easy, and it takes resiliency and grit which is going to take a lot of time.

In the form of kindness, I have a large company—one of the larger companies in our portfolio—that the CEO/founder stepped in and immediately stopped her salary—and to the point where she's still not paying herself. So, we're seven months into the pandemic, in my mind we have plenty of cash, yet it was important to the organization that the team at large understand that our founder is going to put herself last to make sure that the entirety of the organization is paid in full, and that there are no pay cuts. That there are no furloughs and layoffs. No change to benefits. And those types of characteristics speak such profound vision around the brand's, you know, priorities.

And, I think, teams—it's a significant area that we study before we make an investment is the jockey, if you will, we are jockey investors. And, I think, there are countless obstacles and challenges and surprises that come along during the journey of building a business. And we're living through a pandemic now which exemplifies that to the nth degree, and, I think, those fundamental characteristics are important—versus a founder that's letting go critical employees to maintain their own compensation, or cutting corners on key vendors so that they can make different decisions. It's grit, resiliency, kindness that are critical.

Marissa
You... just a touch back on a comment you made earlier—a little bit of a throwaway, but one I'm fascinated by, too. You mentioned the "X" factor. What's that about?

Jon
You know, I think that that the "X" factor is that there is that extra level of magic that can manifest itself in different ways. It can be such a degree of his or her founding story. Many founding stories can come out of such pain or a really unfortunate experience in life. It can be an ex-founder of an immigrant that came to America and brought with them their family's secret recipe that creates—or it's a product that was passed down from grandma. It can be charisma of a really strong talent. But it's the "X" factor that we invest into, the jockey, is the sort of sense of magic that creates the ability to tell a really authentic story.

And, I think, in today's consumer space, we're all telling stories. We're all stealing a share of a sto—piece of stomach share. And, I think, the brands that—everybody expects the products to be good. Everybody now expects them to be somewhat good for you. And, of course, there are nuances of how good is that for you versus this...but by and large we're making purchasing decisions on what's good for you. But, I think, now we want our brands to entertain us. We want our brands to teach us something. There has to be something more. And, I think, often we find that in the founder.

Marissa
Genevieve, Linnea? Founder stories you want to share and insights you're taking away on future founders and your funds?

Genevieve
You know, I would just echo what Jon says in terms of resiliency and grit. Like, that cannot be underestimated. And, you know, I think that's something, having been a founder as well—my co-founder at the fund has also been a founder—is that you just start... you recognize that pretty quickly in people. It's hard to kind of fake that. And, you know, in terms of kindness, absolutely. One of the things—I mean, I like to think of it as kind of resiliency, grit, and grace. It's like having that ability to, you know, remove yourself from the situation, realizing that this

company is not you. It is something more than you, and there's a team around it that helps you build and create it.

And so, those are things, I think, that, you know, we always like, you know, like Jon—and especially because we're even earlier stage—it is, we are betting on the founding team 100%. Because the products are probably going to change. All kinds of strategies are changed, so it's all about the founders.

I don't know that it's we really changed how we've looked at it since the pandemic. I mean, it's certainly—I think everything is just kind of amplified. But I think that, you know, the resiliency and grit we have always, has kind of been there. But it's just, it is that sense of grace and how you're running your team and how you're dealing with your partners. It's even more highlighted now.

Marissa
Yeah. Well, in many ways, especially in your portfolio Gen, this may have been the first major crisis that a few of your founders experienced. You know, and as a former operator yourself—and Jon this applies to you as well—you kind of have these at-bats over the years that get you ready for a moment like this. But for brands who started, you know, mid... just prior to the pandemic, you know, they're managing on the fly. Genevieve—I mean, Linnea, did you see some of this, too? And how did how did it change your thinking at all about founders?

Linnea
So, my new favorite adjective is scrappy. And if they can't be scrappy and they don't have hustle, then they probably already would have lost this game. So, definitely focus on that.

But I always have had a marriage test with my founders, and it's sort of like if you're picking your partner in life. Is someone you can work through really difficult times with? And one of the things we do know about working with startups is that they are going to face that issue at some point. There's going to be a massive problem. And so, I think I just have doubled down on making sure that I asked myself that question. Is this the founder that will get in the ring with me and try and work it out? Or are they just going to say, you know, "This is too hard."?

I think the other thing is, no one's good at everything. And that's—I just learned that lesson a million times. And so, you know, making sure that the founder knows how to complement his or herself in terms of what they do and their own skill set. So, you know, that "X" factor founder sometimes needs that, you know, operational nerd to make sure that we have a balance of the, you know, just a balance of kind of execution ability. And so, I think I've just, you know, made sure that I'm asking those questions, you know, 10 more times before making an investment.

Marissa
Yeah. Dating lasts a little bit longer now, maybe.

Linnea
Exactly.

Marissa
I probably could have learned from that with marriage in the real term, but yeah, that makes sense. I'm kidding. My husband's great.

[Jon, how did you think about reacquiring Krave?]

Marissa
Jon, there's a question for you coming up from Q&A. It's a good one. You reacquired Krave mid-pandemic. Whoa. Tell us how you thought about making that move? Speaking—! And you could talk about the founder of Krave, too, if you want to and your hesitations on getting married back to him.

Jon
Yes. No, it's a very good way to phrase that. You know, I obviously—I did reacquire the brand from Hershey. It's funny. I started the business, and five years later, I sold it to Hershey. And then five years later, I've now bought it back.

I don't know if we have enough time to necessarily go through, like, what happened to the brand while it was inside the Hershey portfolio. I think somehow it... they moved it to Austin and it just died. [Joking:] So, there's something wrong down there in Austin! I'm not quite sure what it is.

Marissa
We're trying to talk you out of that thesis!

Jon
Maybe, Marissa, you can help me understand what goes on down there. But they—Hershey bought the asset. The CEO looked me in the eye and said a major part of Krave's magic is Sonoma. I'm in the heart of the wine country in Sonoma-Napa. We have a lot of forward-thinking culinary chefs and entrepreneurs who are at the forefront of flavor and pairing, and they felt the heartbeat of our community was an important part for Krave. They knew that the mothership of Hershey in Pennsylvania would kill a small brand, right. We were about a hundred-million-dollar brand at the time. So, they did the right thing within the first two years, but then they bought Amplify, and Amplify was, at the time, a holding company that was a public company. And their major asset was Skinny Pop, the popcorn, and that was a major,

major acquisition for them. And what they ended up deciding to do after my consulting period was over is they moved Krave to Austin where Amplify was housed.

They made one very, very crucial mistake, which was they allowed manufacturing to deliver a subpar product. So, everything that we're talking about today—like, if your product doesn't taste amazing every single time, you have to go back to the drawing board. Because that is the fundamental. Consumers expect that. And we built this amazing premium brand built on the best product in the marketplace. They let that slip. Sales began to decelerate. Hershey wants to be a good steward in our ecosystem; They called me—they knew, they understand I'm an investor now. They said, "Would you like to buy it back? We're calling you first. We want to keep the good graces of our relationship intact here. We're sorry we kind of screwed up your baby." And I structured an extremely attractive price point. I mean, like, the type of price there's just no way in the world you could say no to. And so, now I have sort of Krave 2.0 where I'm meeting the old founder, as you point out Marissa, and it's requiring... I have to fix it now.

So, it's a turnaround. It's a little bit different when you're, you know, you're the leader of the pack, and all you got to do... you've got all the momentum, the winds at your back. Now, I've got the wind in my face, and I'm kind of... the brand is a has-been. And there's a lot of other premium brands that have caught up, but we think we have the skill set, the team to fix quality, re-invest into innovation, reposition the brand into still a growing category.

We've also acquired a second premium brand so that now we're playing a portfolio program where we have premium brand, multiple premium brands. And we're going to go after it, you know. But the critical part here, to the investors in the room, is we bought it ready. So, we don't need the Krave exit that I had five years ago to provide a really strong return. I just need to tweak things, get it back to a position of stability. And I think that the M&A space is still interested in assets like this.

[What does a strong digital strategy look like now?]

Marissa
So, I want to tie this into a question that's really come up that from the audience and that we touched on a little bit around e-commerce and digital strategy. Jon, you've got this opportunity to take now a company that you've ran before and re-emerge it into a new era. And this gets to—Genevieve and Linnea y'all's insights, too—what does a strong digital strategy look like right now? And, Jon, specifically for Krave, how are you playing it? How are

you rolling out that playbook there? So, while you can take a moment: Linnea, Genevieve what does strong digital capability strategy look like now?

Linnea
Well, I would say comprehensive. So, it's not just e-com. It's... who's your customer? And how are you engaging with them in a digital way? And so, that can take any form. It can take an experiential form. It can take a completely free, you know, we're just going to provide this information for you.

We have a company in our portfolio that went from 50,000 Instagram followers to 200,000 overnight by just providing more information about what it is—about what they were, what their expertise is. And so, that was sort of staggering to see. No ads, just information. And so, people are really starved for just... they want to be knowledgeable about things.

Data. Customer data, customer data, customer data. And, I think, we definitely saw that. Too many of our e-com strategies we either allow other people to own our data and to mine that data and use that data, and we don't have as much touch into who our customers are.

And then, I think the thing that's going to be really important as people come back is making sure that your customers feel really, really welcome and embraced. And not taken for granted because I think it will be very selective in terms of who, how, where, and why they go back to certain brands.

Marissa
Thanks.

Genevieve
I would say for us, you know, looking across digital and really thinking of, you know, how we used to think—or we do think about retail—as a multi-channel landscape. And thinking about the digital landscape in the same way. It's like now... e-commerce is now a multi-channel landscape. And so, making sure that, you know, you have a really strong strategy as it pertains to Amazon and your own website and other, you know, potential vendor websites.

And then, as we've been looking—you know, we look at early-stage brands—and part of the founding team now is, you know, we're really looking for a founding team that includes somebody who is really strong on growth. Whether they have a data science background or they... maybe it's a, you know, a founder who's very product-focused.

But making sure that they know that first hire and second hire is probably gonna need to be somebody who is super strong in digital growth. And knowing even how to find and work with that person is really important, because, you know, in traditional CPG that wasn't something that has necessarily been a skill set or even a way of thinking.

So, I think that that's something that we're really looking for in terms of looking for early-stage companies that have strong digital strategy. You know, and yeah, applying it to that. So, those are, I think, the two key things for us.

Marissa
Jon, you've got a 20 bench deep growth marketers for Krave?

Jon
Yeah, I think we kind of think about, you know, digital strategy a couple different ways. I mean, certainly, you know, we understand the size of the opportunity at Amazon. Just, by the way, it's like an 80 million dollar a year opportunity on Amazon. That's a pretty big addressable space. But, of course, we have our own .com. And then there's a slew of target.com. Every meaningful retailer has its own .com, so. The level of fluency in understanding the growth drivers of how to access and advertise and reach consumers in each of those channels requires a growth marketer or several on the team, hands down. That being said, you know, as we think about a digital strategy... it's not all about just asking for a sale. It actually needs to begin with telling your story.

But you gotta teach these consumers, and oftentimes, you know, we like to leverage partnerships of, you know, investors that join us in that effort. So, in the case of Krave and Chef's Cut, the two businesses in our portfolio, we really wanted to address the female audience. I mean, it's probably not too difficult to imagine that men are the dominant consumers of jerky. Well, why? They're really—it's a better-for-you product, and 51% of our population are women. So, what can we do to drive more awareness around women snacking on meat snacks?

So, we did a great partnership with Jillian Michaels who brings to the table health and wellness and fitness and really a sort of active person to teach you about why meat—eating pure, healthy, animal meats is a very good, you know, part of your diet. We partnered with Carly Lloyd, and had hoped the 2020 Olympics were going to happen—now we hope it's in 21. And these types of opportunities really give us a loud megaphone to drive people to our website and drive people to our social handles where we can then tell a more refined story about the product attributes, our supply chain, everything that makes us different. And then, you know, of course, men are a little bit easier to find, but we work with David Ortiz and we work with Michael Phelps.

And so, you kind of have to have a large funnel to try to get these consumers into your website, onto your social handles, so that you can begin to tell these more regular stories.

So, the larger these—this tribe becomes, your own customers become your best ambassadors. And if you have the right product with the right, you know, ethos around it, they will create that sense of virality which not only then drives purchasing behavior online, but then that kind of seeps into retail, as well. So, it's a huge, you know, comprehensive strategy that needs to be built, and that's what we're doing right now with these two jerky brands.

[Personal growth pandemic learnings]

Marissa
So, I'm looking at the time. I can't believe it's gone by already. We've got—I'm gonna keep you for one last round robin question. We've talked about the stories of other brands in your portfolios, but I know each of you are actually deeply connected to food and beverage in a personal way over the course of your lifetimes. And Linnea you've even mentioned now the interest has driven an entire pivot for you career-wise. What's the single most salient learning that you have about yourselves coming out of this turn into the final quarter of 2020?

[Jon chuckles]

Marissa
Jon, if you laugh, I'm going to make you go.

Jon
Oh, no! Somebody walked in the room real quick!

Marissa
Linnea, you want to kick us off?

Linnea
Sure. Most salient learning about myself... look, I think we've all learned about our just infallibility. And, you know, as some—I thank the tech sector for, you know, three decades. And when you go back and you think about... so, when I started the business there definitely wasn't internet and there was no communications equipment industry. And so, I saw companies like Cisco get created.

If you go back to the advent of any time and, you know, to try and put yourself back where, you were your ability to pick early on is really very minimal. And so, I'm just been constantly reminded of that. That, one, you're gonna make mistakes. Two, making mistakes with the right partner with the right people is a very different experience than making mistakes when you're partnered with the wrong people.

And if you think that you're smarter than everyone else, you're probably not. And so, what does your own decision matrix look like? And then, I think, sticking to it. And then, you know, the other thing is to focus on making the right decisions, for the right time so, you know. It's like this is—this just shines the big spotlight on that, you know.

We had a lot of plans going into 2009, and one company that has been a beneficiary of COVID in a huge way—and we're just talking about like we have to put forward a much more modest growth plan—and then their sales went through the roof during COVID because they provide learning materials. And so, we had to just do a complete about face. And so, not hanging on to, you know, old views. And I think that's gonna I, you know, strengthen me throughout the rest of this. Because nobody really knows what we're up against for the next six to nine months—and let's hope it's just that. So, we better be pretty nimble and have the right people in our corners.

Marissa
Thanks.

Genevieve
I'll build on that because the last thing you said is really kind of, I think, my biggest takeaway. You know, I have a nine-year-old at home who is still being homeschooled, and so this has been intense. And...as anybody who has young kids at home knows right now.

Linnea
They haven't popped in! I had my mother popping in for a moment.

Genevieve
I've got the background going! There was popping in happening here but, you know, it's just everything is so, it becomes so, much more I think acute and focused. So, you know, it's even more... you know, I've always been a big believer in making sure that you're working with the right people that, you know, that feed you and don't drain you, and I think that's something that's been really amplified for me this year—whether it's founders that we're bringing in, team members, partners of any kind... it's just, you know, going with your gut.

And, you know... what is it? Can't remember who said this, but, you know, when somebody shows you who they are the first time believe them. So, that's something that I think that I have less tolerance for this year, is like making sure they're working for people that are really genuine and authentic. So, I think that's my that's my best takeaway. And I really can see that I need a haircut, watching myself on this video. [laughing] Second big takeaway from me.

Marissa
Jon, you want to bring us home?

Jon
Sure. You know, I—Marissa, as you mentioned, sort of my founding epiphany for Krave 10 years ago was running this marathon, and I still today run my marathons. And I find so much sort of... so many metaphors and examples that have come out of it. And, you know, if anybody's ever run a marathon at about mile 22 or 23 you hit the wall. And at that moment every part of your body is telling your mind you've got to stop. Stop to walk. Stop to freshen your legs. To catch your breath. You can't listen to that. You have to dig deep and find the determination and the resiliency to keep on going. And for me through this pandemic, our teams, our companies, our communities, our country, needs leadership. And oftentimes, it can be so overwhelming with so many questions that we don't have the answers to. This isn't a time to stop and catch our breath. This is a time to lean in and keep going, and whether we can run or walk or crawl, we must keep going.

And I found a deep reservoir of energy for me that just finds inspiration in being that leader to our teams, to our investors, that no matter, what we are going to keep fighting and make it. And some companies are thriving, but the ones that aren't... we're not giving up. So, that's mine.

Marissa
Well that's a great note to end on. Thank you all for spending time. This has been indulgent for me because I could listen to you talk all day, but I know that it's been especially insightful for our audience. We really appreciate you joining from where you're at to be part of the Taste of Texas 2020, and I wish the very, very best to each of you. Of course, from an investment perspective, but also personally as you're so willing to share with generous spirits what you know with other people. So, thank you guys so much for being here.

Genevieve
Thank you for having me.

Linnea
Thank you, guys.

Marissa
Have a great weekend and hopefully we'll talk to soon.

Jon
Bye, bye.

Linnea
Bye.