feeding the minds that feed the world

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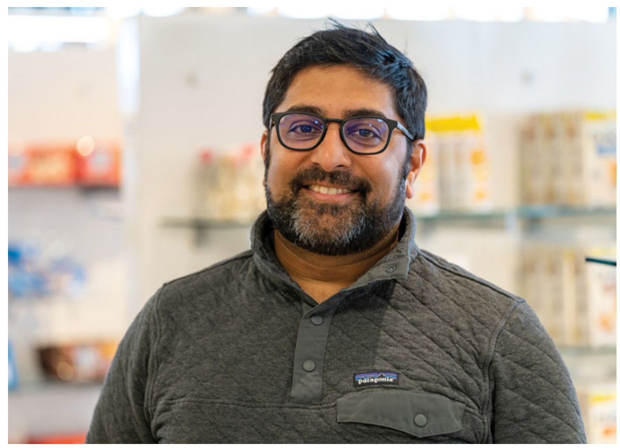
After the Acquisition

Startups & Innovators | INNOVATIONS

By Dale Buss

Many food companies in the better-for-you era have been founded by individuals motivated by their passion to address a personal dietary challenge or a desire to come up with better things to feed their kids. Others have simply relied upon the classic entrepreneur's recognition of a white space in the market. The successful ones have managed to build products, brands, and businesses around something that may have begun haphazardly, and some have amassed enterprises that reach up to hundreds of millions of dollars a year in sales.

But at some point, the companies they've founded progress to where the original inspiration of the entrepreneur has served its purpose, and there's a new inflection point. The startup may need to spread its wings to enter the next phase of growth. The founder may want to cash out or phase out of his or her brainchild to do something else, or to retire. What does all of that mean for the company, and how does the enterprise go through that transition successfully?

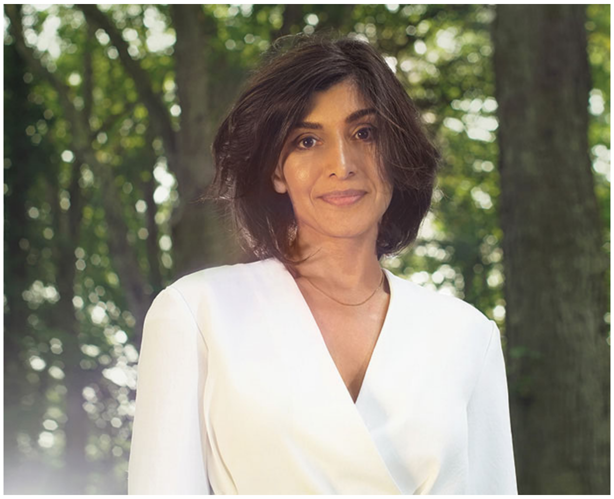


Tapan Shah, director of venture capital for Mondelēz SnackFutures, says the best companies are mission driven. Photo courtesy of Mondelēz SnackFutures

"The best companies are rooted in a mission, in a goal and desire, and a consumer insight into it that helped the founder create the company in the first place," says Tapan Shah, director of venture capital for Mondelēz SnackFutures. "If the founder leaves, but the soul of why they built the business is still maintained, they've done a really incredible job and have built something that is meaningful.

"But sometimes the founder leaves and the company does things it otherwise never would have done, maybe moves into unwise categories or launches a rebrand that is a 180-degree turn from what the company was doing," Shah continues. "Then you wonder what it was built on and why the founder left in the first place. What it accomplishes afterward speaks a lot to what the founder actually built."

Much of the success of transitions, of course, depends on the motives and abilities of the acquiring companies. Mainly, acquirers break down into "strategic" buyers (often, corporations working to advance their own strategies via purchasing another company) and private equity groups that typically are



Happy Family founder Shazi Visram found an ideal partner in Danone, which embraced her vision and leadership. Photo courtesy of Shazi Visram

hoping to restructure a target and sell it for a handsome financial return within three to five years.

More often than not, both types of buyers want to see entrepreneurial founders hang around for a while in some capacity. “In the food company sector, talent—inclusive of founders and beyond—is a highly valuable and important asset,” says Lorin DeMordaunt, leader of the consumer business group for Deloitte Corporate Finance.

But the goals and desires of the founder also are crucial. “Some entrepreneurs just want to take money off the table and get access to capital, but they’re not looking for a change,” says investment banker Lloyd Greif, president and CEO of Greif & Co., who has arranged many mid-market deals in the food business. “Some want to take ‘two bites of the apple’ and sell out over time. Either way, they’ve got to cede some control to the buyer as long as the company continues to grow and prosper, and more control if it doesn’t.”

A Productive Partnership

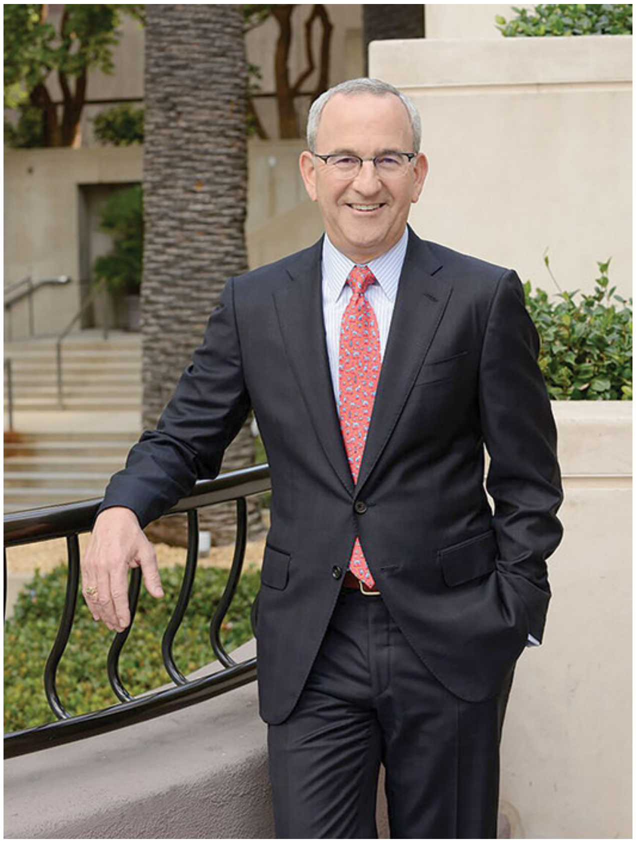
For Shazi Visram, founder of baby food maker Happy Family Organics, an acquisition worked out well—both for her and for the company. One among a wave of “mompreneurs” who reinvented the category, Visram established Happy Family in 2006 with a better-for-baby positioning for its pouched products. Visram grew her company and sold nearly all of it to Danone in 2013 for $250 million out of a conviction that “we had a like-minded vision and mission,” she says.

“They recognized part of what makes Happy Family so magical and unique is having authentic leadership that created the business around mission first,” Visram says. “The great thing is they embraced that as a way to grow moving forward.” In fact, Danone was an ideal strategic buyer because the dairy giant didn’t have an organic baby food brand in the United States and so wanted chiefly to learn from Happy Family and help it grow by providing resources for scalability, without taking over the brand. Happy Family didn’t need much help with new product innovation or R&D, for example. “We’re an innovation machine,” says Visram.

Visram also believes that Happy Family’s readiness to discuss its brand and mission publicly encouraged Danone to share more stories about its own mission, which the company defined several years ago as building a healthier world through food. “I felt they needed to do more storytelling, especially to millennial consumers,” Visram says. “So I’m happy they made the shift to be more public facing.”

Visram stayed on as chairwoman for several years, helping Happy Family grow into a $250-million brand and giving Danone an innovative edge in childhood nutrition while the Paris-based giant provided resources for scaling its acquisition. Visram, who has gone on to help fund and guide other female-owned food startups, was able to handpick her successor.

Anne Laraway, who joined Happy Family in 2011, became CEO four years ago and has been on the same page with Visram and Danone from the start. “We weren’t sure how integrated we would become,” Laraway says. “Part of our approach was



Founders who sell their businesses must be prepared to cede some control to the acquirer, says Lloyd Greif. Photo courtesy of Lloyd Greif

to reap the benefits of being owned by a big company and get that support from all different angles. But part of us also knew that we had something really special in Happy Family and that we didn't want to be overly integrated."

Pain Points

Not all companies the founders leave behind can continue to succeed. "The ones who can't don't know how to develop the company past a certain point because their investment thesis is flawed and, as a result, they founder," says Ken Harris, managing partner of Cadent, a CPG consultancy, and former chairman of Enjoy Life Foods.

"Transitions between old and new management are very important," Greif says. "If you screw that up, you can alienate the employee base, and you don't want to do that unless you're just looking at cost savings. That's a calculation that the buyer has to make—focus not just on retaining the people but on preserving the culture."

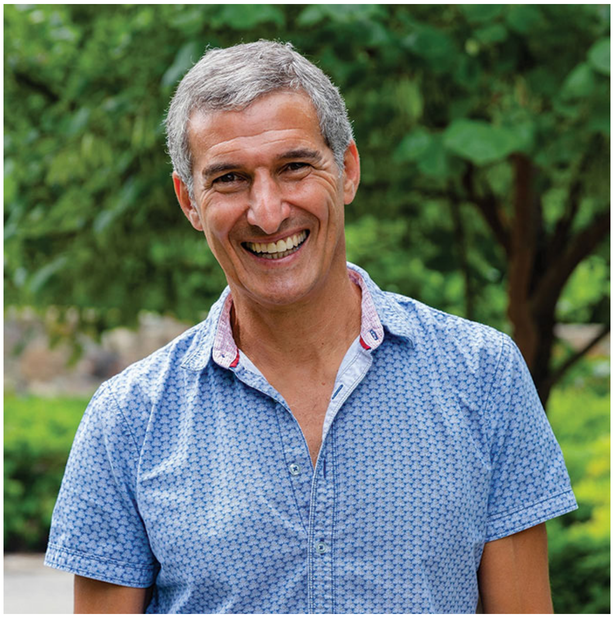
One of the most common problems, Greif says, is that "so many buyers think they're the conqueror, and the company they acquired is the 'conqueree.' They can't resist meddling and, more often than not, that is counterproductive. If the company is doing great, just leave it alone—if it's not broken, don't fix it."

How Honest Tea Made It Work

Honest Tea has fared well with such realities in mind on both sides of the transaction. Seth Goldman co-founded the company in 1998 and quickly built it into America's biggest organic tea brand. In 2008, he sold 40% of the company to Coca-Cola, which was looking for new growth categories, and the beverage giant acquired the rest of Honest Tea in 2011.

Goldman stayed on with his brand's huge parent, overseeing the tiny brand's growth with vast new resources now at his disposal, holding on to a piece of equity in Honest Tea until 2017, and helping guide Coca-Cola's overall strategy for dealing with emerging beverage niches. "I still enjoyed the work, and we could do things I'd dreamed about, like launching the brand in McDonald's and internationally," recalls Goldman.

Coke was remarkably hands-off, Goldman says, "with no ground rules. During the three years Coke was a minority investor, we had demonstrated that we could grow the business with integrity and transparency, so they let us continue to do that once they owned it. The guardrails for the brand had already been established, so there wasn't



Honest Tea co-founder Seth Goldman enjoyed the benefits of new resources with few constraints after his company was acquired by Coca-Cola. Photo courtesy of Seth Goldman

a temptation for Coke to tinker with those.

"And I occasionally stood up when the folks managing the brand felt they couldn't stand up [to Coke executives]," Goldman continues. He stayed with Honest Tea until 2019 and, in the meantime, became executive chairman of Beyond Meat as well as founder of a new sustainability-based snack brand, Eat the Change.

Tricky Transitions

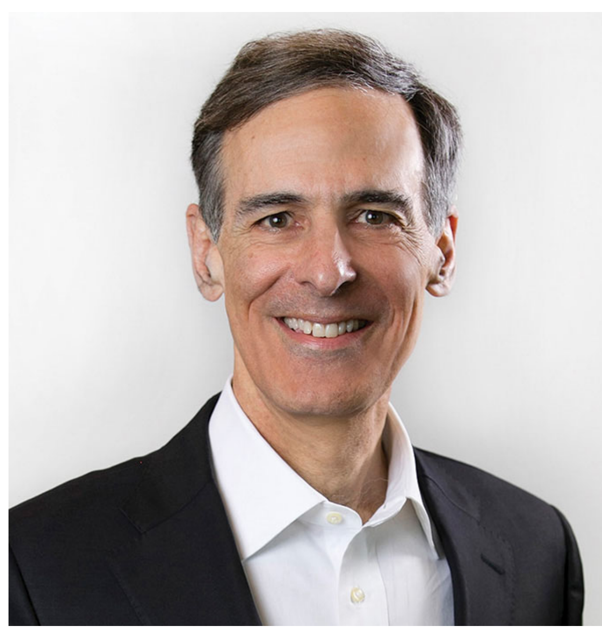
Not all transitions have worked so well. Dave Asprey, for instance, came up with the notion of butter-enhanced coffee as part of a ketogenic diet and founded Bulletproof in 2014, building the functional java brand, which is now also a purveyor of collagen bars, creamers, and other products, to north of $100 million. Asprey also was crafting a huge public persona as a "biohacker" and founded another company, Danger Coffee, based on the idea of avoiding mycotoxins that grow on coffee beans.

So he stepped aside as CEO of Bulletproof in 2019. But then Bulletproof's new CEO, Larry Bodner, "turned down the chance to [sell] Danger Coffee," Asprey complains. He declines to provide more details about how the relationship broke down. But, in any event, soon Asprey was giving up the board seats he controlled at Bulletproof and now considers himself a "100% outsider" as he builds Danger and his new health technology startup, Upgrade Labs.

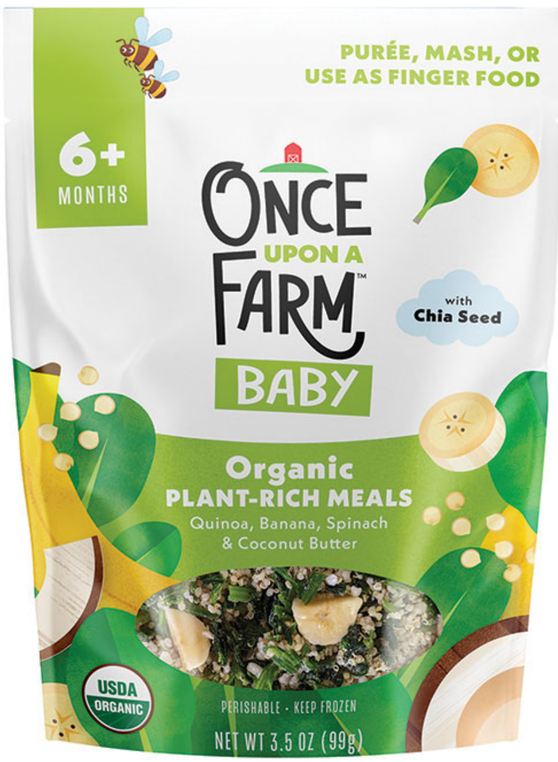
The jury is still out on other transitions. Former Starbucks Chairman and CEO Howard Schultz recently returned to helm Starbucks for a third run. He established the brand in 1987 hoping to create a "third place" for consumers in addition to home and work. His first tour as chief ended in 2000, but he came back after the chain began to falter amid the Great Recession. In 2017, Schultz stepped down again, this time exploring a U.S. presidential bid. Now Schultz has returned yet again, citing the need to reorient Starbucks after the pandemic boosted the to-go share of orders to 70%, obviating the need for cozy physical spaces.

Lessons From a Master

A select few entrepreneurs are so good at this that they and



A flawed investment thesis gets in the way of growth when a startup is acquired, observes consultant Ken Harris. Photo courtesy of Ken Harris



Former Annie's executive John Foraker applied his entrepreneurial skills to expanding the Once Upon a Farm brand. Photo courtesy of Once Upon a Farm

their companies prosper on both sides of M&A. John Foraker is one. First, he built Annie's Homegrown organic food company into a better-for-you powerhouse in the center aisle and sold it to General Mills for $820 million in 2014. Then he spent three years under General Mills helping to harness Annie's growth potential to the giant company's considerable R&D, financial, and distribution resources, and advising his new partners on investments in other fast-growing companies.

"The last thing I wanted to do was leave General Mills before I thought [Annie's] was perfectly situated to succeed in the long term," Foraker says. "I thought that was going to take a year, but it took three. Integrations are really complicated."

In 2017, Foraker pivoted to his next venture by recruiting actress Jennifer Garner to join him in buying into Once Upon a Farm, a maker of organic baby food, where she began acting as chief brand officer, lending her fame to raise awareness. Foraker's Midas touch continued, as he and Garner helped the original co-founders break into new distributors, rationalize product lines, leverage e-commerce, emphasize the uniqueness of the brand's refrigerated format, and multiply revenues.

Foraker has been very effective in leveraging the "people and culture" factors that are so key. To Once Upon a Farm, he brought people upon whom he knew he could depend. "It was about the team I'd assembled at Annie's," he says. "We accomplished a lot but thought we could have done a lot better. What if we could do it again? It became clear this is what I should really do."

In the food business and beyond, says Shah, Foraker is a rare example of "people who have built phenomenal networks and an army of people who believe in their vision and carry that vision time and again. Building a family and a village around you allows you to build a template around you that you can take and be successful more times than not. You now have an army of smart, hardworking people who kind of have the same work, family, and personal brand-building philosophy, where you can lock yourselves in a room and go do what you want to do."

Yet Foraker also embraced Once Upon a Farm's co-founders. "I enjoyed a great opportunity to sit at the feet of the master and absorb as much as I could," says Ari Raz, a co-founder of Once Upon a Farm who in 2021 moved on to become CEO of another startup. Foraker was "a very inclusive leader and wanted to include me [and co-founder Cassandra Curtis] as much as possible," says Raz.