Interview with 301 Inc., General Mills
Interviewee: John Haugen – Founder & Managing Director
Interviewer: Barb Stuckey, Contributor to Forbes, Mattson President & Chief Innovation Officer
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**Note: Due to poor quality of recording first 10 minutes were not possible to transcribe, the following captures the remaining 50 minutes of conversation.*

John Haugen: We actually have ... I mean, it was about three, four years ago that we made the decision to kind of go inside out, if you will, and launch as a venture capital model where we find really promising food startups, and then take that investment capital and combine it with that access to resources to help them grow. So that's what we've been doing over the last roughly four years. Ten investments in the portfolio today, and obviously I'm happy to talk a lot more about those. But that's where we are today, and we're really excited about the progress we've made.

Barb Stuckey: So that's really interesting that you mentioned the seven-year overnight success. And it sounds like it took you guys a couple of years to figure out the model as well. I have a question, having worked with a lot of big companies, and you talk about this, how the time horizon to get a new business going and get traction is quite long. It requires the founders to take a lot of risk, which a startup has tolerance for. Is that what makes this model so compelling, that someone else is shouldering the risk for you?

John Haugen: I think that's a big part of it. You know, maybe not the only part of it, but I think that's a significant consideration. But, when you think about ... just some basic things, Barb, like continuity. The people oftentimes in big companies stay with the current job for less than seven years. I mean, you've worked with a lot of big companies. You've worked with on strategic R&D projects. You probably have gotten that phone call, nine months into a project that you're feeling really great about, and then someone says, "Hey, guess what? I'm rotating into another area."

John Haugen: And then you take a deep breath and you're like, oh man, we were doing so great with this person, and then now we have to start up with this other person. I mean that would be ... I mean, not to say that there's not turnover in, small entrepreneurial companies. I work with a lot of them and there's a lot of turnover, too. But not the really key people who are setting the course and really sort of the heartbeat of the brand and the company.

Barb Stuckey: Right. Well you mentioned resources and knowledge that you have. And then you mentioned that even these first three years that you spent in incubator mode, you really learned what these growing entrepreneurial companies need. What do they need? What do they need most?

John Haugen: Yeah, I'm glad you mentioned that because you know, in in some ways, the first three years of what we'd done, in a lot of ways you would think about there was, there was a sense of, hey, we failed and we weren't able to operate in the way that we intended to do it. But, I think we took a page out of the way entrepreneurs think about it, is that failure is a necessary part of a learning process. And so we were able to really take a lot of the activities that we had started and say, okay, how do we apply this? From what we've learned and trying to do this ourselves, how can we take this learning and apply it to the entrepreneur? That is one of the most powerful things I think that helped us, and frankly, I think it gave us a little bit ...It helped us build empathy with our partners As we told our story to them, I think they said, "Okay, these guys, you know, look like they're probably okay. Maybe we don't have it right, and we're learning along the way. You know, I would say, there's a number of things entrepreneurs need, and there's some that they don't. Let me start off with what I think they don't need. They don't need us to come in and run their business. And it's one of the most important things, that when we work with entrepreneurs, we say, "The first thing you need to know is how to run your business.

John Haugen: I think it's, dangerous thinking to say that, you know, we can come in and do it better than they can. So that's the first thing. So what we try to do is we try to take a step back and say, what are the goals and, key milestones that we collectively, in working with them, that the management sets ... You know, most of the companies we have obviously have a board. So we work really collaboratively with them to build out those goals, and we say, okay, where are the gaps to help you really, truly accelerate?

John Haugen: They tend to be ... The types of things they need tend to fall in three or four different buckets. Certainly the most important thing is that they deliver product, every day on time, to their customers. So that user and consumer experience can be one that is going to bring them back. I would say, and I know you've lived in the Bay Area. And there are great restaurants in San Francisco. You might have some of the best in the world. But I guarantee if you go to a great restaurant there and have a very, very average meal, you're probably not going to go back. And so one of the things that we do is we try to make sure that we get the basics around the product and that that delivery and that experience can be consistently great.

John Haugen: So there's a lot of things that go into that, whether it's supply chain, capacity expansion, logistics, quality, food safety. Things go into it on the sort of technical and supply chain side, and we've got resources to help out with that. The second area is-

Barb Stuckey: Hey John, question on that.

John Haugen: Yeah.

Barb Stuckey: When you say you've got resources, is it more consultative, or are you actually doing the work side by side with them?

John Haugen: That's a great question. Really good question, because I do think a lot about how do we think differentially, or what do we think makes us stand out?

John Haugen: First of all, I'm not here to disparage any other investors, whether they're financial investors, whether other ... You know. I wish them all the best, and, you know, I can really just focus on having us play our best game. But I think one of things that is that we have roughly 20 or so fully dedicated people to serve our partners which is a lot about what does it mean to be an indispensable partner for growth. And that's what we try to do. So we've got people across the disciplines of R&D, supply chain logistics, sales and channel development, consumer insights, marketing, finance, et cetera.

John Haugen: We have those resources fully dedicated on our team. What we're not trying to do is we're not trying to be prescriptive or have our people come sit on the management teams, or the leadership teams. Again, we want these companies to run themselves. But I will say our team is much more than consultative. I mean, we travel all week. We are really actively involved in the plants. We're helping on new innovation, and product development. We're very active in terms of, okay, if there's a specific meeting with a customer--I'll probably be mindful not to mention specific customers--We don't talk about customers here. But if they have a major account presentation, perhaps in a city like Cincinnati, there are resources across General Mills who have a lot of experience in selling into that account, and we could think about category management approaches.

John Haugen: So, you know, when we tell our portfolio companies that our goal is to be that indispensable partner for growth, we have people who can do that.

John Haugen: Another sort of term that I like to use to try to describe our approach, is there's venture capital, which is, you know, often behind businesses, and they try to make prudent investments. But we try to take it, maybe one step further. I always call it venture capable, because it's really the combination of that investment, but also along with access to capabilities and resources to help those businesses. I think that's one of the things that we've been really focused on trying to deliver to our partners.

Barb Stuckey: There's a lot of big companies like General Mills who, for things like branding, or consumer insights, or product development and innovation services, outsource to companies like us.

John Haugen: For sure.

Barb Stuckey: Do you connect them or are you doing the work internally, or both?

John Haugen: I would say it's some of both. You've referenced brands in our stable that have worked with you guys. I'll give you another example is, if there's an upside of the product R&D space, think about a company that is sort of a first generation brand, on their launch. You know, Beyond Meat, there's this ... and again, you know, everybody wants to talk about Beyond Meat. But I could also tell you about Good Culture, or any other brand in our group. They got to the point where they said, "We think we kind of know what our brand positioning is...we help them make sure that we communicate it in effective ways.

John Haugen: So, long story short, we shepherded Beyond Meat, and now there's probably half of our brands are being shepherded through new full brand designs, and brand strategy. So we have a team here, but we have tapped into other design firms, for instance, in that situation, to help shepherd that process. Most, not all, but most of the brands, they've never actually done an RFP to a brand design agency.

John Haugen: So often they don’t know who to talk to. They don't know what to ask for. They don't know, once they get the proposal back, they get, you know, some Cadillac version, and they say ... I guess for you, I should use an electric car version.

Barb Stuckey: Tesla!

John Haugen: Exactly. Some Tesla version. But they don't kind of know how to think about it, and/or they see the first round of designs and they say, "Okay, then we want to try to get that on the shelf next month." And we say, "You know, you might want to just like give it three weeks." And you know, that's when we can custom design some work with their core consumers and key influencers. Then say, "Okay, is this ... are we in accord here with where we're going with the brand?

Barb Stuckey: So, in terms of your investments, and the portfolio, can you give us a case study? We'd love to understand the journey that you've taken with one of your companies, and maybe give us an example of one that worked out great. Maybe even one that just didn't work out, wasn't a fit, didn't pan out. Let's start with the positives, because everybody wants to hear about that.

John Haugen: Uh-oh. I mean, you know, asking me to talk about the brands in the portfolio, I'm a little bit about ... You know, I've got four kids, and sort of what you're asking me to say which one I love best. So it's always a little dangerous, because you know, there's aspects that we really like about all the brands in our portfolio. Yeah, I guess probably I'll stay sort of close to home to you, with the brand, kind of in your neck of the woods, a brand like Kite Hill. Because, you know, it's the brand that we've been involved with now for over three years. What I'm telling you is all public information that you can go back and look at.

John Haugen: You know, years ago, we were already investors in Beyond Meat. But we certainly saw this growing momentum behind people looking for plant based solutions, and everything we do ultimately has to be driven by the consumer, and has to be driven by areas of consumer needs. We always think about consumer needs versus categories. I think categories are a very dangerous way ... You know, just because Nielsen finds something a certain way doesn't mean that that's the way to think about it.

John Haugen: So we knew, for a variety of reasons, whether it was environmental issues, health issues, what have you, we knew that plant-based, both in terms of meat and dairy, were going to continue to evolve. I think certainly we had seen that play out in the marketplace. The brand that we've been involved with now for, like I said, about three, three-and-a-half years from our original investment ... We probably don't have time to talk about all the work that we've done in terms of the collaboration with them. But we've got a significant partnership, innovation, supply chain. We were really instrumental in ... working with their purchasing, manufacturing facility, about a year ago. We have been really involved with hiring in and partnering with the new leadership team, which is completely different today than it was certainly when we were first involved.

John Haugen: Obviously we're really, really excited about where the plant-based category is going. We've got a lot of resources because, as you might imagine, we're a significant player in the yogurt business, and so a lot of those, you know resources--aside from the product being milk, and one being almonds or other plant-based products--there's a lot of ways that we're helping them. And we like where the category is going. We think it's going to continue to grow, and I think we feel really great about where the partnership's going. You know, the future of that will be determined. That's an example of one that we feel obviously really good about.

Barb Stuckey: So okay. You mentioned Kite Hill, a plant-based yogurt company. And you've got this enormous, huge yogurt business that's dairy-based. Does the investment in Kite Hill [under the 301 Inc. venture group: does that necessarily prohibit a Yoplait from doing a plant-based yogurt? Is that kind of how you draw lines, or no?

John Haugen: It's a good question. I think when you're doing a venture capital sort of unit or capability that's tagged onto a large company ... And you know, I serve on the board of Kite Hill, and so I mean, first and foremost, one of the ways I think that benefits us is distinct and separate from the ongoing business units. And at General Mills, we are fully dedicated to the work of investing and innovation in our core brands.

John Haugen: General Mills being into lots of different specific product categories, I think just in general, I would say operate relatively independently from kind of the core alliance of the company itself. So, in general, would General Mills be precluded from launching a plant-based yogurt? I would say no. They're, you know, relative to the states of the partnership or something like that, there may be other ways that we would think about that. But the fact that we are sort of separate from the day-to-day operations of General Mills allows us to kind of operate independently.

John Haugen: Did you want me to comment on what didn't work?

Barb Stuckey: Okay, yeah. Please.

John Haugen: Yeah, no problem. I'll give you two things. First of all, I would say there's nothing in our portfolio that hasn't worked, to date. There are businesses that have performed better than others. We look at two successful outcomes, right? The first is, we certainly, we're investing, General Mills, and so we want to make sure that we drive a competitive rate of return with the company, capital-wise, and so that's one success criteria, and the other criteria is [inaudible 00:23:20] we do believe that.

John Haugen: Our goal is for some of these businesses to become fully acquired brands within the General Mills portfolio, over a period of time. You know, it works. We're still relatively early in that journey. You know, where our most tenured investments we've had for about three years. What we've had to accept, you know, Beyond Meat certainly being the one that caught everybody's attention, that on a brand called Tio, and you know Tio's, we were excited about that exit.

You know it was a more, I would say, nascent area of investment, from a category perspective, and something that didn't work out. It probably tended to be a space that developed a little bit more slowly, than what we thought. One of the challenges that we sometimes have with brands is that they're great products, but sometimes it's hard for the consumer to navigate exactly what the benefit is, and where to find it in the store.

John Haugen: So, I think that's why we're still excited about the exit, and I think the brand still really has a really promising future. You know, and then the other thing I think we've already said. You know, sometimes we've built capabilities for our brand partners, and we've thought, hey, this is going to really be seen as value added, and I think we've learned six months later that that isn't as value-added as we thought, and so it's probably more effort than the return that we're getting in a specific area. So we continue to learn every day, as we go, and you know, overall I'd say that the portfolio continues to grow, both in terms of organic growth in the brands in the portfolio, but also we'll continue to add new brands as we go.

Barb Stuckey: Well, and I'm a huge fan of the HPP gazpacho, Tio, actually.

John Haugen: Yeah.

Barb Stuckey: I tried to keep you guys alive, let me tell you.

John Haugen: It is a phenomenal product. The brand is great, and it's just, I think we just, you know, I mean you're in the product biz, so the specific thing on that, you know, consumers ... It was difficult to find in the store, because it was, you know, five different places in five different retailers.

Also, is this a veggie smoothie? Is it supposed to be a refreshing complement to the meal, or is it the meal? Or is it a snack? And I think it was just, you know, we worked through two or three different iterations, and then it came time where there was the company that made the purchase stepped forward, and we said, you know what? I think that's the right home for that business, and so that's when we made that move.

Barb Stuckey: Got it. Okay. Just in terms of external innovation, you talked a little bit about some of the challenges of developing new brands, and products in-house. Let's talk about the financial incentives in investments, and comparing doing it internally versus the sort of external investment that would hopefully, as you mentioned, lead to acquisition.

Am I correct in assuming that it's cheaper for you to do it in-house? Or is that not a correct assumption?

John Haugen: Well, loaded question. I would say it would be cheaper to do it in-house, and as you know, most new innovation is unsuccessful.

Barb Stuckey: Yeah.

John Haugen: Or if it is successful, there's different types of innovation, right? There's immediate scale innovation, and there's emerging scale innovation. So, we feel continued, very smart and well-executed brand expansion and brand extension, for General Mills brands, I think, is always going to be critical. That's always going to continue to keep us fresh, new, dynamic. So the need to continue to bring relevant, modern benefits to core brands is why brands like Cheerios have been around. So I believe in General Mills brands. I believe in the ability to innovate on those brands.

John Haugen: As it relates to new innovation ... Before I leave that, one of our more successful innovations is certainly the Oui products by Yoplait, for instance. Massively successful new launch for General Mills. You know, so we benefited and tagged onto the yogurt core business that we have, and so when you look at truly new innovation, true innovation that is more emerging in nature, is where it's more difficult.

John Haugen: And again, just living it with some of the brands, it takes time, and it's costly, and it's certainly worth it if you do it internally and it's successful. But I think what nobody really calculates is given the high failure rate, the cost to do that type of innovation internally. People tend to only think about, when you actually look at the cost of the ones that didn't work, especially once you start to put in real investment, you know a bunch of very small scale lemonade stands, you know, kind of scrappy, lean startup type of stuff. That's fair, right? But eventually, you have to now invest behind capacity, and you have to ... There's a number of things that take time, and again I think internal innovation is always going to be ... efficient, when it works. But I think the reality is that most new innovation doesn't work.

John Haugen: So, if you fully load the cost of the ones that worked with the nine that didn't work, then I think you have a more fair comparison to what you're looking at. If you have investment in a brand, and you have been an indispensable partner to help them grow, and that brand does become part of your portfolio ...

John Haugen: You know, people talk about why acquisitions fail. Sometimes they fail. Sometimes you make a good deal, but they fail because it's not well integrated. I would say that the integration of a new brand, that if you have a high level of familiarity and cooperation, right, things should go a lot more smoothly, because it's ... You know the brand, and you know if there are things that need to be addressed, you know that going in.

Barb Stuckey: Excellent. From a multiple perspective, if you were to just go out on the market and acquire a brand, versus taking one of your portfolio investments and saying, okay, we want to acquire you wholly, how does the multiple differ?

John Haugen: You know, I probably would kind of have to pass on that one, because I think it's always going to ... I mean it's a classic, "It depends." Right? Because we're going to have the specific opportunity, the space that it plays in, the specific mechanics, their business model. I mean, you know, if the business is profitable, you know, that multiple, that probably has an impact on the multiple. Right?

John Haugen: It's just, there's so many variables that go into that, I think, we understand, and we co-invest with other investors as well. We know that price, and that there's always a premium on great ideas, and our approach is that we want to be competitive, and we think our point of difference is that we can offer that investment capital, but also that access to those capabilities that we think can help reduce the scaling risk for the brand.

John Haugen: And so the question is, for them, and maybe for the investors, is that what value do you put on that. Right? But I think it's going to vary at different stages.

Barb Stuckey: So it seems like from our vantage point, we look across the industry, and we see Chobani, Coca Cola, and PepsiCo, and everybody's got a whatever they call it, an incubator, an ecosystem. And every day, someone new is announcing it. There's now retailers that are starting their own incubators, and it feels like every time someone announces it, there's a little bit of this FOMO, this fear of missing out, like are they doing it because everybody else is doing it. So, my question for you is, is this wise, for every company? And which company should and shouldn't? And what's your perspective on that? Is it FOMO?

John Haugen: It's a great question. I will say, I've been in the food business for 29 years. I mean first of all I just have to say, this is the most exciting time to be in the food industry than any of the times that I've been at General Mills, and specifically it's such a dynamic time of change, and evolving consumer [inaudible 00:35:44] and food [inaudible 00:35:47], and there's no other place I'd rather be right now than working with these brands. It's the most exciting thing.

John Haugen: That wasn't your question. I understand. The question is, what should you do about that, and the reason I said that is that there's no denying what's happening in the marketplace. The question is, what to do about it. And I think what you're seeing is everybody reacting ... So I think we were early in. I'll chalk that up to the team at Coke VEB who were helpful as we were kind of thinking through this a number of years ago. But we were among the first ...

John Haugen: Should everybody be doing it? Please don't take this as saying that I've got total clairvoyance on this. What I would suggest is to understand what your value proposition is, to the industry if you will, your point of difference, and then also what is sort of the strategic objective? Because I do think, and I'm not going to comment on anybody specifically, but I do believe some are like, "Hey, you know, we need to have a venture, and we need to have a funky name, and ...," that that is the thought that is happening.

John Haugen: I think what I would say, and really I can only really talk about 301 and what it is that we have in our portfolio. I think the biggest thing is that we do have the dedicated resources to do this, and I think we've been able to be really clear with our partners, you know, what is it that we're trying to do? How is it that we're trying to support you? And what's a success, moving forward?

John Haugen: That, I think, is really long term, those are the things that I think are going to separate your authentically doing this versus ones that say, well we probably ... we need to look like we're in here, so we're going to try to shingle in, and we're going to launch a venture scheme here, without really fully thinking through kind of a strategic construct for what they're trying to do. Does that make sense?

Barb Stuckey: Mm-hmm (affirmative). Totally. Yeah. And you're speaking from having three years to think about it.

John Haugen: Yeah, and again, I appreciate you bringing that back up, because I don't think we could have been here ... I don't think we could have learned and been in the place we are, had we not gone through that other phase.

Barb Stuckey: Mm-hmm (affirmative).

John Haugen: I do see certainly a lot of these other incubators and I'm looking at something, and I'm saying, I mean are they asking the same questions? I wonder how they're defining success. Well they intend to play sort of within this unique ecosystem. And I mean I could say that some of the time I'm just trying to figure out our stuff, but we'll see how all these other things shake out, as time goes on. For sure.

Barb Stuckey: Yeah. Okay, let's put the question to you. How do you define success?

John Haugen: We're trying to ... everything we do, I think, ultimately follows the consumer. We're trying to keep pace with changing consumer preferences and food values. I think we've acknowledged that the best ideas are based on things happening, and so what we're really looking to do is to be ultra-connected to the industry in a unique way that allows us to identify a truly remarkable emerging brand, where we can invest capital, but also combine that to the dedicated resources that we have. We want to help those businesses grow and begin to scale. And then we have over time many cases, that those businesses can become part of the growth portfolio of General Mills.

John Haugen: I think you don't need to look and then, you know, what's happening in the food industry right now, and the key buzz word is growth. And so it's nothing short of really defining and informing the future growth of General Mills. That is what success looks like to me. That's what will make us successful. I could tell you what gets us excited is working with founders who have a vision and they want to see that vision come to life. And give more people access to the business and the brand that they have capacity to create. That's what gets our team excited.

John Haugen: All (small) companies think about ... They're all worried about what it means to be a big company. But I could tell you, they're all excited to talk about what their vision means at scale, which is another way of saying at some point you're going to get big. But we try to help them kind of think through that scale, so that they don't lose their soul and the magic juice that made their product truly stand for something. That's what we're trying to do, and that's what fires my team up as much as anything, is working directly with leadership teams and the people on the ground at those companies, to help build scale, and continue to build those brands.

Barb Stuckey: My last question for you is, and depending on how much time we have left, you can ask anything of us. We are looking at this phenomenon, and it seems like there's a lot of activity happening in this incubator venture space. You have to think that this strong economy that we're enjoying has something to do with it. We're also trying to think of when it's not. You know, what happens when the economy implodes, or God forbid we have something that happens, which, you know ... So, what is your vision? Like what do you think will happen to 301 INC? What's going to happen to the others in the industry that are doing this? Is it just a really strong economy?

John Haugen: I think that a part of it, and I think that's one of the reasons why as there's just a lot of, in dollars, available, and that's why ... You brought up the point it seems like every week you pick up something, and someone else is launching, you know, food over the last couple of years has also become ... in vogue to get into, and you've seen it, as have I, is that now even celebrities want to be in food.

John Haugen: Interesting, once they realize what it actually means to run a food business, they may be slightly less interested. Because, you know, they realize that if you have a famous name, you know, the Kroger re-set happens when the Kroger re-set happens. And they think that maybe they can make a phone call and change it, and then they realize no. So it is hard to run a food business, but there's no question that I believe the robust economy is driving investment. And possibly even heating the market, and/or allowing brands that maybe wouldn't otherwise get funding to attract funding. I mean I think that would be a fair statement.

John Haugen: I mean obviously if there’s a deep recession, you know, I mean I think if there's a downtrend or kind of a tightening of the belt, I think brands that are a truly remarkable and resonate in a powerful way with the consumer, and especially, you know, strong on strategy, food, taste, some things like that, I think those are going to have access to funding. I think it's more you're going to see a washout of the kind of next tier, fringe brands that you know maybe just didn't have a strong value proposition to begin with, in the first place, but benefited from the market, and there's certainly ... I think even in funding you will see a reduction of people launching new food funds. I think you just will. I think it's just a natural outcome.

John Haugen: But I think, and again not for what we're doing at 301 Inc. We're always going to be looking for ways to find growth for a great product, with every partnership that we have. So, at the end of the day I can only ... [inaudible 00:47:20] doing this, because this is where we believe it's going to be a significant part of the future of the food industry, and that's [inaudible 00:47:30] to play a part.

John Haugen: You know, we're going to stay at it, and I think you control the things that you can control, right, and I know what we can control, and I know that we've got really strong support internally with what we're doing here, and hey, externally, you know I would extend the same offer to you. You know, in terms of what it means to be that indispensable partner. I talk till I'm blue in the face, but if you really want to find out what a good partner we are, I think all you need to do is talk to any one of the brands in our portfolio, and put them on truth serum and ... I certainly could connect you with them, but obviously via LinkedIn and other ways, there's easy ways for you to get to them.

John Haugen: At the end of the day, that's really where it's at, is did we not only say what we were going to do, and I think that's where I kind of ... I step back and I let our brands do the talking, and I think they're ultimately pleased.

Barb Stuckey: That's great. Well, I guess we're out of time at this point. Perfect.

John Haugen: Outstanding.