



Interview with Coca-Cola Venturing & Emerging Brands (VEB)

Interviewee: Matt Hughes, Vice President of Incubation

Interviewer: Barb Stuckey, Contributor to Forbes, Mattson President & Chief Innovation Officer

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Barb Stuckey: Maybe the best place to start is if you want to just introduce yourself. Maybe a little bit of background on what you did before you were at Coke, and before you were with VEB.

Matt Hughes: Great. Okay, let's get started. So yeah, my name is Matt Hughes. I am a part of Venturing and Emerging Brands, I've been here since the beginning, the earliest days. I'm one of the founding members of the team. My role on the team, is that of, my title is vice president of incubation. And really I look after the internal innovation, the external investments we make, and helping them kind of go through the growth cycles that we've identified for emerging brands.

Matt Hughes: So, before joining Coke 12 years ago, when VEB was founded, I was a beverage entrepreneur. I started three beverage brands with Angel and Beth Smoots, friends and family money, some VC money. Before that I was, for several years, a bottler, distributor. So for about 20 years as a bottler distributor. Everything from a bottle washer, I'm not joking. All the way through to division president. So I've literally had every job you can have in the distribution business for beverages. Which was a great platform for me to build my career from.

Matt Hughes: I spent a little bit of time with a publicly held company along the way, called Jones Soda up in Seattle. In their earlier days, I was their first COO, so I got a taste of public company life as well through that experience.

Barb Stuckey: Awesome, great. Thank you. So, what we understand VEB to mean is Venturing and Emerging Brands. If you wouldn't mind, take a minute and tell us a little bit about the history, the mission, and the objectives of this Venturing and Emerging Brands Group inside Coke. And how long it's been in operation, that would be of great interest.

Matt Hughes: Sure. So the group was formed, founded in 2007 in the US market first. And really it came about because there were a series of failures that had occurred for the company. And in some cases, we launched new brands in North America that had failed, previous to this. In some other cases we had made some acquisitions of beverage brands that didn't work out. And so the company

leadership at that time, set back and said, "What's different? What's going on? And we need to change what we're doing."

Matt Hughes: So, very courageously, I think, the company invested in leadership in a small adjunct group to go about this Venturing and Emerging space in a different way, back in 2007. Really before, if you think about it, before corporate venturing and CPGs was really that popular. Now it seems everyone's got one, but we were one of the first ones in the US market. I think there were only three at the time we started.

Matt Hughes: Also, the disruption was beginning to occur in the marketplace. The US marketplace for beverages. A lot of category blurring, we had some really interesting brands that were becoming disruptive, category creators. When you think about energy was created around that early 2000s and the, you saw of course, the enhanced waters with Vitamin Water being created and becoming disruptive player. Along those lines. So there was a lot of disruption that was happening around us. And so a group was needed that could look at things through an external lens, build an ecosystem to take advantage of those trends that were occurring externally, and then finally to participate.

Matt Hughes: In terms of our mission, and vision, and objectives, you asked about. Our vision is really not in connection to the future. So that's really about this whole theme of ecosystem and the very externally focused, and iterative in how we approach things. Our mission is to discover and develop a portfolio of emerging brands and disruptive business systems with a multi-billion dollar potential. And that's been a pretty consistent mission for us through our 12 year history.

Matt Hughes: And the way we measure success is really through return on invested capital for our investments. We do want to deliver a significant percentage of the revenue growth for the company as well. And obviously we're looking at capability ability as we go through those investment and growth cycles. So, and really if you think about where we've come as a company more broadly from 12 years ago to now, we now have a global strategy around beverages for life. It's a very important growth strategy, because basically we're saying there are many, many beverage occasions, and we want to take advantage and participate in as many of those as we can, not only in the US market, but on a global basis.

Matt Hughes: And so, VEB I think fits nicely with, and it really synchronizes well with that goal of growth strategy. And I think it's just a real testament to something we started 12 years ago in the US has now really become a global mantra for Coke.

Barb Stuckey: Yeah, you guys were super early. You were in Venturing and Emerging Brands before they were cool.

- Matt Hughes: Yeah, well hopefully we got cool kids. I don't know. We're hoping the cool kids were working there then, maybe not. It's been a fun ride.
- Barb Stuckey: So if you can maybe give us a case study that would really help us understand what have been some of the investments that you've made that have worked out really well? And why? Or maybe pick one.
- Matt Hughes: Okay. Well I love them all. But I think there's two that come to mind that have been quite successful. One earlier investment, and one more recent. So, if you think about Honest Tea. We made our first investment with Honest Tea in 2007. We acquired the balance of the equity of Honest Tea in 2010, and really it's been just a wonderful story if you think about first organic ready-to-drink tea in the US market, fair trade, environmental consciousness, sustainability and growth. And also a mission that Seth Goal was the founder and CEO set out to do back in 1998. And Seth is still involved today in the business, which is a wonderful added benefit to have the founder stay involved with the business and the mission of Honest Tea.
- Matt Hughes: More recently, the one I love right now, brand, is Topo Chico, a sparkling mineral water brand from Monterrey, Mexico that we acquired in 2017. It's a great brand, it's growing in a very healthy, strong, double digit way. Very strong consumer base, and following. Very passionate consumers. They just love the brand. Authentic back story. And there's a lovely symmetry between Topo Chico in its earliest days and the Coca-Cola Company. The Topo Chico company in Monterrey, Mexico, bottled the first bottle of Coca-Cola in Latin America. About 90 years ago.
- Barb Stuckey: Wow.
- Matt Hughes: So it's just a beautiful symmetry that I think just kind of pays off if you think about those two brands coming together. Coca-Cola Company and Topo Chico. So really, two great examples, I think, of investments that we've made that are seeing growth, they've been on trend, they've had a phenomenal back story and authentic presence. And they're quite incredible in terms of how they show up as brands.
- Barb Stuckey: So, in both of these cases, you said, "We acquired them." Were they just outright acquisitions from the beginning of your relationship? Or do you go in, and take a minority position and eventually acquire? Or is it on a brand by brand, business by business case?
- Matt Hughes: Right, yeah, every deal is different, based on the needs of the founder, or the ownership. The stage of the Coca-Cola Company at the time, and so they could be spoken different based on the need. In the case of Honest, it was a multi-step

process where we came in as a minority investor, we participated with some distribution and some other support from a supply chain perspective, and then we later had a full acquisition completed to play.

Matt Hughes: In the case of Topo Chico, it was an outright M&A transaction with the owner.

Barb Stuckey: But you had known them from this previous bottling relationship? So I guess it wasn't ... You had dated?

Matt Hughes: That's right, there was connectivity there through the business in Mexico. As well as we have worked together with their management team in the US for several years through another brand that we had licensed to them.

Barb Stuckey: Got it. So, can you talk about one that you either made a minority investment and decided not to move forward, or one where you acquired and it just didn't work out? And why?

Matt Hughes: Well I don't have a good example of a minority investment that didn't work out, but I would say, we did have a good example of an internal innovation that we experimented against, that didn't work out. But I think there were significant learnings from. So perhaps I can go down that path with you?

Barb Stuckey: Yeah, of course, please.

Matt Hughes: Okay. So, the one I would love to talk about with you is a brand that we created and launched in 2008. The brand was called Cascal. C, A, S, C, A, L. And the premise of the brand was a fermented juice just able beverage. And the occasion was around what to drink when you don't drink. So, if you think about the time, fermented ... So now, kombucha and fermentation is really hot and very much on trend. We were way ahead of the curve back in 2008. Consumers did not fully understand fermentation. So we had it right on the package, and a lot of people would call us and say, or send us an email about, "This fermentation, does it got alcohol in it?" So there was a lot of confusion around the use of the term.

Matt Hughes: The company had invested in a patented technology from Bavaria, that was this double fermentation of juice. That really transforms juice into this really delicious and unique flavor profile. And it reduces calories at the same time. Sugar and calories at the same time, in that naturally occurring juice. So we thought we were onto something. And we co-ideated this with a leading natural retailer, and launched nationally with them. And again, we were experimenting, we were taking some risks with this retailer around the trend. And as a result, was resorted from it was that the marketplace was not quite ready for this fermented juice proposition. But we've learned a lot around supply chain, we learned a lot around the consumer and we knew that there was something

around fermentation that was going to happen based on the enthusiasm we had for the proposition from some consumers.

Matt Hughes: And so of course now, we know a lot more about fermentation, and really kombucha is probably just the beginning of where the fermentation platforms could go in the future of the consumer. So, I think that's an example of one where we were a bit ahead of our time, but we built some muscle around being agile, evolving a brand proposition, trying new packaging, when one package doesn't work, move to another. And around how do we communicate to a consumer, frankly at the time, something that was not well understood on the side of the fermentation.

Barb Stuckey: Well and now, fast forward 11 years, and you've got ... I don't know if it's an investment in, or a full ownership of Health Aid kombucha.

Matt Hughes: As well as we've made ... We now own a brand in Australia called Mojo kombucha, which is a beautiful brand. It's been around since 2006. And the company made a full acquisition of that brand last year.

Barb Stuckey: Got it. Well I'm really glad you brought up this internal creation process, Matt, because what we're really interested to understand about these venturing and incubation groups is why. You would think from the outside, that it would be so much cheaper for a company like Coca-Cola to develop internally, to incubate it internally. Versus paying the multiples that you pay for an acquisition. So isn't it cheaper? And why not do that? Or why are you willing to pay the multiples? Can you explain to us how that works?

Matt Hughes: Yeah, and it's going to be different depending on where you are in the company in terms of geographies. So in North America, again, we've been at this the longest in terms of this venturing and emerging space. And I think over time it might evolve around the rest of the world, but we've had a pretty healthy approach to internal innovation versus external investment. And what I mean by that is, I think there's a balance that you need to have from a portfolio perspective. You want to place bets in multiple places. Some of that's going to be through internal innovation, and some of that's going to be external investment. Some of that's going to be in the size of the opportunity. And we'd rather have a balance of small and medium, and larger brands evolving and growing over time, and we sort of segment it against that what we call the emerging.

Matt Hughes: We also have a framework that's part of our global growth strategy that I think is quite useful here, which is we talk about brands and capabilities in the scheme of explorer, challenger, and leader framework. And so think about a big funnel, at the top of the funnel, you're going to have lots of explorer brands, and then as you move through the funnel, obviously some of those explorer

brands are not going to work, and so they go away. They get replaced by other experiments and ideas.

Matt Hughes: Create some proof of concept, and hopefully-

Matt Hughes: There's plenty on our plate, and that's also around the time when we launched Tascal, internally developed it, as well as another couple of other internal innovations in '08, '09. So, we had plenty to do.

Barb Stuckey: So, I wanted to just ask about how if a small company gets some funding from Coca-Cola, and let's in this case use the example of something that you would put a minority investment into. How does that company take advantage of the fact that they're partnering with Coca-Cola? So how do they interface with the Coca-Cola company. And in what areas do they need to tap into you the most?

Matt Hughes: Well every, as I said earlier, every one of these situations is going to be different. And ED can spoke for the founder, management team of the brand that we connect with as well as the needs of the Coca-Cola Company at the time. So a lot of it starts on the very, very, very front end, which is we are constantly evolving and growing our network and ecosystem in many, many different ways. And we're building bridges to entrepreneurs and founders, and management teams. So, promising beverage companies. So, part of it is the relationship that you build, and by being externally focused, that's important. In terms of the sort of setting expectations or how can an entrepreneur or founder, or management team get the most out of this relationship with Coca-Cola and VEB, I would say again, it would be all in sort of the up front benchmarking and creating a growth strategy together.

Matt Hughes: Often times, not always, not exclusively, but often times we think about a path to ownership in our investments. So we might take a minority investment, but then we typically think about what the long term elements might be of a future state. And again, it's not always that way, but often it is. So, we'll think about that as well, and try to build out a path to success in growth and that it involves many different aspects of our business.

Matt Hughes: But to be more specific, often times entrepreneurs and smaller companies don't have all the resources and access to things that we would have. Often times, it's very simple things like knowledge and insights. Often times these founders are boot strapping and they don't have the financial wherewithal to acquire some of the information resources that we have access to. So sometimes we're helping them think about new trends and category insights development.

Matt Hughes: Often times marketing, and all the elements of marketing are an area of underinvestment or lack of affordability and we have great marketers at Coca-Cola, of course. We're best in the world at that in beverage. So, we're

often able to help brands with their thoughts on marketing and how they think about their branding. Sometimes there's a supply chain element that we can help with. Sometimes there's a distribution element we can help with. It all depends on the individual need of the brand at the time.

Barb Stuckey: Okay, so something like marketing, let's take that for example. If they are clearly in need of some marketing resources, is this something that the marketing team at Coke would do the work for the portfolio company? Or would you sort of just coach them in more of a consulting type of role? Or do you connect them with outside vendors? How does that work?

Matt Hughes: All of the above. It depends, again, on the situation. And they're all going to be unique and different. I would say the best way to describe that would be if a brand was ... Let's say innovation lifeline, we're pretty good at that here, and so we have a group here, I think you've met several of them, in VEB that really understand not only marketing holistically, but particularly around innovation from a pipeline perspective for an emerging beverage company.

Matt Hughes: So we might help think further innovation pipeline, what the implications of some of the things they might want to do might be. What some of the opportunities they may have not thought about. Expansion ideas, et cetera. So, we're again, we typically come in when the company, the brand asks for our help. And we're happy to help where we can. It's not in any heavy handed way, it's really a very consultant way, where we're supporting their team's growth.

Matt Hughes: Sometimes it does involve a third party, sometimes it's people internal. It just depends on the situation.

Barb Stuckey: Got it. Are there any instances where you made an investment or an acquisition and, let's say an investment, and maybe the founder left, or something happened at the company where you had to take control of the company maybe earlier than you had planned on?

Matt Hughes: No. I don't recall any of those situations.

Barb Stuckey: Okay. So, how do you think Coke VEB is ... How are you guys going to impact the broader system that we live in? What, as you're looking forward, maybe vision. What is success for you as a venturing and emerging brand group?

Matt Hughes: I think if we can live up to our mission, we've done a lot. So, this idea of discovering and developing a portfolio of emerging brands and disruptive businesses, that's a significant undertaking. And in the service of Coca-Cola's objectives. Right? So it's not unique to VEB, we're part of an internal ecosystem, if you will, between the Coca-Cola Company on a global basis, our modeling system on a global basis. It's a pretty significant enterprise. So we're one part of

that holistically. But if you think about what Coca-Cola stands for, we're very, very, very invested in serious, on a global basis around multiple areas.

**Matt Hughes:** Certainly, water usage is significant for us. Women empowerment is significant for us, environmental sustainability is significant for us. And so these are areas when we make investments or when we make internal innovation, as small as we may be, one part of a big system globally. Those are top of mind areas for us. Just like they are for our colleagues in the broader system. So we really do have a mission approach to things. And it's about growth for us, it's about beverages for life, it's also about the important aspects of what we're trying to do.

**Barb Stuckey:** So, could you talk about something that may seem a little bit further out for readers, or fans of the company looking in? And I'm going to use Fair Life as an example. So Fair Life being a dairy company, that sells milk and milk products. That just feels like it's a real step ... It's a couple steps further away from Coca-Cola, Sprite, and your big brands than for example a sparkling water. Or the Honest Tea was. How does that fit in, something that on the surface looks so out there, and far away?

**Matt Hughes:** Yeah, I can see how you would draw that conclusion, but again, to draw you back to we have a global framework around beverages for life. So there are eight or so beverage occasions per day for everyone in the world. And we recognize that all eight of those occasions are probably not going to be one brand, and one type. All one brand of all sparkling soda, or all one water brand, or all one juice brand, et cetera. So, we have evolved over time into a company on a global basis, with pretty wide spectrum in terms of where we want to participate. I think that's first. There's no question that we have core brands that are significant, and they're billion dollar plus brands, they're global in nature. And they're very important to the Coca-Cola Company. Today, and they have been, and they are today, and they will be tomorrow.

**Matt Hughes:** There's no question about that. We've been participating beyond the core sparkling soft drinks for many years now. It may not be as well known, but we've been in the plant based business, we've been in the fruit juice business now, we're the largest juice business in the world. We're the largest tea business in the world, the largest coffee business in the world. So we have many other categories that we participate in on a global basis. And so dairy is one of those categories that we've been developing. And we have dairy business in other parts of the world, as well as the US.

**Matt Hughes:** And so, I think what you'll see from us, is we'll continue to look at categories as if there are areas where we can expand into, we will. Plant based is really an interesting space. We do participate in plant based beverages today in different parts of the world, but that is an adjacent area to dairy from a protein perspective. So, I think you'll see things like that evolve. And I think

futuristically, we spend a lot of time in VEB and other groups around the world, thinking about the future and thinking about where consumers are going to be five or 10 years from now. And so we're very serious about that. We invest a lot of time and energy and money against that future state view.

Matt Hughes: And so we will participate appropriately as those future state trends start to evolve.

Barb Stuckey: All right, now I have the million dollar question for you. If we have to look out 30 years in the future, and you have to place a bet on one company in your portfolio, which one of them has unseated Coca-Cola as the biggest brand inside the company?

Matt Hughes: Well that's a really great question. I have no idea. I think that Coca-Cola 30 years from now, is going to be as on trend as it is today. And it really, it's more than a product, it's a lifestyle, and it's a cultural phenomenon. And it has stood the test of time, and I think it will continue to stand the test of time.

Matt Hughes: I do love many of my brands and I think they're going to be much, much bigger than they are today, and will pass my time here at Coca-Cola. And you heard my enthusiasm for Topo Chico. Body Armor is another one. I love Body Armor and what it stands for and what it's doing to disrupt the sports hydration category. And I'm sure there's Honest Tea is now in over 30 countries. So there's what? Another 170 to go? So Honest Tea has real, real momentum. And I could go on and on about the brands that we have in our portfolio today. But I'm also really bullish on Coca-Cola.

Barb Stuckey: All right. I'm going to turn the tables. Is there anything else that you'd like to tell readers of Forbes? Or anything that gets you really excited about what you're doing?

Matt Hughes: I have the best job at Coca-Cola. There's no question in my mind. I have the great pleasure to work for a wonderful global company. I have great support, we have a wonderful strategy that we believe in, the company believes in. And beverages are fun. I mean, I've been doing this a long time. I've been in the beverage industry a long time, both as an entrepreneur, as a bottler, distributor, and now in the venturing space. So, it's a dynamic space, it's evolving, it's a fast moving consumer good, so that's a wonderful place to play in. We have ... It's a dynamic space in terms of when you think about retail and customers, and food service, and all the platforms that are evolving.

Matt Hughes: So it's certainly not a boring space. It's really exciting. And it's going to change even more. The pace of change, we think has been really fast. It's going to get even faster. And I can't predict with any accuracy what that really means. But it's going to be fun and exciting and we're looking forward to it.

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