

**Maintaining Your Company's Brand through a Buyout:**  
**An analysis of the Coca Cola Company's partial Buyout of Honest Tea**

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## EXECUTIVE SUMMARY:

When a company faces a buyout by a larger company it seems nearly impossible for that organization to maintain their business policies and current brand image, especially when that company is a small, socially oriented organization. Often times, small companies are bought up and then absorbed by their parent company to become synonymous with the parent company's long established image. The smaller company's social mission is set to the side and profit enhancing is pushed to the forefront. The smaller company's original stakeholders can end up feeling alienated and disappointed by what they would see as more of "selling out" than buying out. When this happens, that company risks facing backlash from its core customer base, as was seen when Odwalla was bought out by The Coca Cola Company in 1991. As American society has become more aware of social and environmental issues, Americans have shifted their demand to more socially responsible organizations. Large corporations, recognizing this shift, have begun to buy up these small companies in order to bring money back into their pockets. Over the past two decades many socially responsible companies have been added to the portfolios of major corporations, and many of these companies have lost touch with their original missions and social orientation. In a sense, they have lost their brands. However, some companies have found ways to use buyouts to further their company's mission and brand, and in rare cases even affect the business policies of their parent organization. Stonyfield Farms has been particularly successful at utilizing their buyout by Groupe Danone to enhance their organic brand. These small, socially minded companies can in effect turn the tables and build their brand image off the backs of a corporate buyout.

In February The Coca Cola Company bought 40% of Honest Tea for \$43 million with the option to buy the rest of the company in three years. Last year Honest Tea grossed \$23 million. Due to the buyout the company is now valued at approximately \$110 million (which can be derived by assuming that the value of the company is \$43 million at 40% and therefore \$107.5million at 100%). Honest Tea hoped to gain wider distribution and resources from the buyout, while Coca Cola was looking to diversify its brand portfolio to include more non-soda beverages. This buyout will have a major cross-functional influence on Honest Tea. The buyout will increase Honest Tea's cash position, give the company access to bigger promotions, enhance the company's distribution, and create greater access to people and resources. However, while the company will be getting these benefits, Honest Tea will likely face backlash in their organic, small company niche for being partnered with Coca Cola. Therefore, Honest Tea must focus on securing its brand image and gaining the trust of its customers over the next three years while the current organizational structure and leadership remains the same. To do this Honest Tea should focus on reconnecting with current suppliers and customers, promote a strong brand image, and prepare the company to withstand the potential full buyout in three years.

Since the buyout in February 2008, Coca Cola has seen a sharp increase in their first quarter profits, partially due to their international sales and partially due to their acquiring of non-soda beverage companies like Honest Tea. Honest Tea will be releasing five new products designed and distributed for the first time to the mass market.

## BACKGROUND:

### **Honest Tea<sup>1</sup>**

Honest Tea was launched in 1998 by Seth Goldman and Barry Nalebuff. The company offered five varieties and was sold in local stores. The company's first big retailer was with the organic friendly store, Whole Foods, whom they partnered with beginning in 1999. After the first year, Honest Tea sales were \$250,000. Their mission is focused on being a socially responsible business. Honest Tea strives to work with their suppliers to promote higher standards. The company aims to address the needs of economically disadvantaged communities. A year later the company was grossing over \$1 million in sales.

Over the years, Honest Tea introduced more new flavors and options for their customers. They continued to offer more and more organic products as well. Staying close to their mission of social responsibility, the company partnered with the program City Year (a program that brings young people together for a year of community service) in 2001. In 2003 Honest Tea began selling the first Fair Trade certified bottled tea. In the same year the company was ranked as the fastest growing food and beverage company on Inc.'s 500 fastest growing private company list. Their sales had reached \$5.5 million. In 2004, Honest Tea was the only tea company to offer all organic certified products. They also introduced new recycling friendly plastic bottles, which are a huge success for the organization.

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<sup>1</sup> Information in Honest Tea Background Section was found at: Honest Tea, <http://www.honesttea.com>

In 2007 Honest Tea was selling 17 varieties in both plastic and glass bottles. While they have yet to turn profit, the company's sales increased 70 percent in 2007 to \$23 million. The company has three beverage product categories: Honest Teas, Honest Ades, and Honest Kids, and they continue to expand their product line and distribution.

### **The Coca Cola Company<sup>2</sup>**

The Coca Cola Company is the largest manufacturer and distributor of non-alcoholic beverages in the world. Coca Cola was incorporated in 1892 and now has nearly 400 brands in its portfolio. In 2007, the company's revenues were \$28.9 billion (78% from their signature beverage Coca Cola). Coca Cola's beverage products are sold in over 300 countries and territories around the world. The company's main advertiser is McCann Erickson. The company operates under a franchised distribution system, where they manufacture their secret formula syrup and sell it to bottling companies around the globe. Coca Cola bottlers hold exclusive territory contracts with the corporation. It is these bottlers who ultimately distribute the Coca Cola product into stores and vending machines and everywhere else we find the beverage. When Glacéau was bought out by Coca Cola, Coca Cola bottlers began to distribute Glacéau products along with Glacéau's original distributors.

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<sup>2</sup> Information from the Coca Cola Background Section is from:

"Coca-Cola Announces Glaceau Distribution Plans," Reuters, 30 Aug 2007

<http://www.reuters.com/article/consumerproducts-SP/idUSWEN074420070830>

Howard, Theresa, "Tea Time: Coke Buys 40% of Honest Tea," USA Today,

[http://www.usatoday.com/money/industries/food/2008-02-05-coke-honest-tea\\_N.htm](http://www.usatoday.com/money/industries/food/2008-02-05-coke-honest-tea_N.htm)

"The Coca Cola Company," Wikipedia, [http://en.wikipedia.org/wiki/The\\_Coca-Cola\\_Company](http://en.wikipedia.org/wiki/The_Coca-Cola_Company)

The Coca Cola Company, <http://www.thecoca-colacompany.com/>

However, sales of soft drinks were down six percent industry wide during the first nine months of 2007 (compared to tea sales which were up 24% during the same period). Coca Cola is number four in terms of bottled tea sales. Some criticism of Coca Cola has been over the company's monopolistic practices, labor practices, and environmental policies.

### **Honest Tea Buyout<sup>3</sup>**

In early February of 2008, The Coca Cola Company bought 40 percent of Honest Tea for \$43 million. The cost of the buyout was reached through a private agreement between the two organizations, of which the terms will not be publicly disclosed. This buyout brought the value of Honest Tea to approximately \$110 million (the value of 100% of the company if 40% is considered to be worth \$43 million). Although the cost of \$43 million is relatively insignificant to a large corporation like Coca Cola, it is significant for Honest Tea who was only worth \$23 million in sales in 2007. It is likely that Coca Cola was willing to pay more for the company, because of Honest Tea's considerable growth potential as well as the growth potential in the bottled tea industry as a whole. Coca Cola has the option for a full buyout in three years. Honest Tea will continue to operate as an independent business under its existing leadership of Seth Goldman for the next three years. Honest Tea will also continue to control the company's board of directors.

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<sup>3</sup> Information in the Honest Tea Buyout Section is from:  
Del Rey, Jason. "Honest Tea's New Deal with Coke: Just a Tad Sweet," Inc. 11 Feb 2008.  
<http://www.inc.com/articles/2008/02/sweet.html>  
Rosenwald, Michael S. "A Stronger Brew?" Washington Post. 6 Feb 2008.  
<http://www.washingtonpost.com/wp-dyn/content/story/2008/02/05/ST2008020503613.html>

The Coca Cola Company offers Honest Tea wider distribution options and access to its many resources internationally. Honest Tea can break into Coca Cola's exclusive contracts like those with McDonald's and private universities. Honest Tea offers Coca Cola greater portfolio diversification and a chance to boost their bottled tea sales to offset lost sales in the declining soda market (last year Coca Cola purchased Glacéau for \$4.1 billion for the same purposes). Goldman believes that the buyout will offer Honest Tea the opportunity to expand the organization's reach, and not serve as a threat to its current brand image.

The buyout has been met with considerable skepticism. Just last year, C.E.O., Seth Goldman, commented on the buying up of small companies by larger organizations saying that although the company had been approached by larger organizations, it was not a step that Honest Tea was ready to make.<sup>4</sup> This left many stakeholders and onlookers wondering what had changed in the last year so significantly to reverse Goldman's original decision.

### **Coca Cola Brands: Odwalla<sup>5</sup>**

The Coca Cola Company has nearly 400 brands. Last year the company bought out VitaminWater's owner Glaceau for \$4.1 billion. In 2001, the Coca Cola Company bought Odwalla for \$181 million, which at the time was another small, socially conscious

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<sup>4</sup> "Purchasing Power," Beverage World, 15 Mar 2007  
<http://www.beverageworld.com/content/view/33085/158/>

<sup>5</sup> Information about Odwalla is from:  
Hoffman, Steve. "Does Odwalla Go Better with Coke?" GreenMoneyJournal.com, <http://www.greenmoney.org/article.mpl?articleid=278&newsletterid=2>  
Sinton, Peter. "Odwalla OKs Acquisition by Coca-Cola," SFGate, 31 Oct 2001. <http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2001/10/31/BU109477.DTL&type=business>

beverage company. Sales that year for Odwall rose 37 percent from \$93.5 million to \$128.3 million. In 2007, Odwalla's sales had risen to \$187.9 million, an increase of over 46 percent since 2001.

Odwalla faced backlash after its buyout by Coca Cola. The company, which was founded on the statement "Soul to soil, people to planet," was seen as to great a contrast from the mega corporation of Coca Cola. Customers and distributors felt the company had sold-out and was no longer dedicated to their mission. Retailers pulled the brand from their shelves because they felt Coca Cola's issues with human rights and environmental violations should not be connected with the Odwalla brand.<sup>6</sup> However, the Odwalla brand continued to grow and cited the Coca Cola buyout as bringing in better talent, expanding their distribution and infrastructure, and creating more capital.

### **Stoneyfield Farms<sup>7</sup>**

Stoneyfield Farms began as an organic farming school in the early 1980's in New Hampshire. With seven cows the company, led by Gary Hirshberg, who now serves on the board at Honest Tea, began selling organic yogurt in 1983. That year the company's sales were \$56,000. In 1988 the company opened a new plant 30 miles away and has

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<sup>6</sup> Welch, Janet. "Odwalla Pulled From Shelves," Food Co-op. [http://www.foodcoop.coop/index.php?page=odwalla\\_pulled](http://www.foodcoop.coop/index.php?page=odwalla_pulled)

<sup>7</sup> Information about StoneyField Farms Section is from:

"Can a Small Do-Gooder Company Remain True to its Founding Values After a Mega-Corporation Buy-out?" Ideal Bite, 28 April 2006

[http://www.idealbite.com/tiplibrary/greenchipshowcase/gcs\\_moooving\\_n\\_grooving\\_at\\_stoneyfield\\_farm](http://www.idealbite.com/tiplibrary/greenchipshowcase/gcs_moooving_n_grooving_at_stoneyfield_farm)

Haberman, Shir. "Stoneyfield CEO: Consumers Have World of Power," Seacoast Online, 23 Mar 2008

<http://www.seacoastonline.com/apps/pbcs.dll/article?AID=/20080323/BIZ/803230322/-1/NEWS19>

Kenney, Brad. "Green Spot: Stoneyfield Farm: A Culture of Leadership," Industry Week, 9 Jan 2008.

<http://www.industryweek.com/ReadArticle.aspx?ArticleID=15585>

Stoneyfield Farms, <http://www.stoneyfieldfarms.com/>

sales of over \$1 million. The company continued to stay true to their organic and environmentally friendly business policies and starts up the Adopt-a-Cow program in 1990 to support small farmers. In 1993, after 10 years in business, Stonyfield's sales rose to over \$12 million. Each year the company continues to focus on important environmental causes like global warming, where they were the first company to cut their manufacturing carbon emissions by 100%. In 2001, with annual sales of over \$8 million, Stonyfield was bought out by Groupe Danone. Following the buyout, Stonyfield was able to expand their product line to include smoothies and soy products amongst many new additions. The company continues to stay involved in environmental causes and in 2007 funded the creation of a non-profit organization, Climate Counts. In 2007, the company was also finally able to become 100% certified organic. Today, Stonyfields Farms is the largest organic yogurt company in the world with sales of over \$300 million.

Stonyfield Farms was able to utilize the buyout by Groupe Danone to enhance their brand. They were able to do this because Gary Hirshberg, the company's C.E.O., demanded that certain conditions be met in order to agree to the buyout. These conditions included allowing Hirshberg to continue running the company as well as keeping the company's social mission in place.<sup>8</sup> Groupe Danone bought out 40% of Stonyfield in 2001 and then was able to buy majority stake of the company three years later under those specific conditions. In 2001, at the time of the initial partial buyout, Stonyfield was met with a lot of skepticism. Not many people believed that the organization would be able to maintain their current business policies after the big corporate buyout. However,

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<sup>8</sup> Goodman, David. "Culture Change," Mother Jones, Jan/Feb 2003.  
[http://www.motherjones.com/news/feature/2003/01/ma\\_209\\_01.html](http://www.motherjones.com/news/feature/2003/01/ma_209_01.html)



Stonyfield proved these skeptics wrong by not only increasing their profits three fold, but also by maintaining their socially responsible brand. In the past Groupe Danone has been criticized for poor environmental practices, but this year they will be partnering with Stonyfield around various environmental initiatives, thus proving that the international parent corporation can indeed be influenced by its small, socially responsible organization that began with only seven cows in New Hampshire.

### **Brand Image**

Branding is a process of demonstrating through various methods the purpose of a product or service. Companies must be able to convey their brand to their customers so that the customers will believe what the company wants them to believe about the product. Once a company establishes a brand it is important to send consistent messages to customers about the brand, since the brand image is how customers interpret the company's product.

If Honest Tea's brand has been built on being a small, fair trade, organic, and socially responsible organization then it is vital to the success of the company to maintain and expand upon this brand. Some of the backlash Honest Tea will face over their partial buyout by Coca Cola is based on the belief that Honest Tea will lose touch with its brand.

### **ACCOMPLISHMENTS TO-DATE:<sup>9</sup>**

Honest Tea sold 32 million bottled drinks in 2007 and grossed \$23 million. Sales increased 70 percent in 2007. The Coca Cola 40 percent buyout at \$43 million brings

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<sup>9</sup> Information about Accomplishments To Date is from: Honest Tea, [www.honesttea.com](http://www.honesttea.com)

Honest Tea's value to nearly \$110 million. Honest Tea bought 2.5 million pounds of organic ingredients in 2007. Honest Tea is currently sold by many grocery retailers around the country, including Whole Foods, Safeway, and 7-11 among many others, as well as being sold online. Honest Tea was the first company to sell Fair Trade and Organic Teas. Honest Tea has expanded their product line greatly since their beginnings 10 years ago to include a variety of products in both plastic and glass bottles as well as recycled pouches and tea bags. Honest Tea has been on Inc.'s top 500 fastest growing private businesses list for several years.

#### PROBLEMS OUTSTANDING:

Honest Tea may face several problems in their near future. Some potential problems may be the result of their buyout by Coca Cola. Other problems may be the result of losing the Coca Cola funding. I foresee three major issues Honest Tea may encounter.

#### **Honest Tea will lose its investment from Coca Cola and therefore lose capital.**

The expansion that Honest Tea has planned for the next several years is contingent upon their relationship with and subsequent funding by The Coca Cola Company. If they lose this relationship and Coca Cola chooses not to continue with their buyout in three years, then Honest Tea will lose millions of dollars in expected income. Along with the loss of expected income, Honest Tea will lose out on the vast connections and resources they were hoping to gain from this buyout. One of Honest Tea's greatest setbacks so far has been their inability to break into various markets within the United States and also

internationally. The company forged their relationship with Coca Cola in order to gain a broader reach, and if they lose this relationship they will lose the huge international network too. This does not necessarily mean that without the Coca Cola investment and resources Honest Tea will cease to exist, but it does mean that they will face a much more difficult path to business expansion.

### **Coca Cola will change the company and therefore the brand image**

Perhaps the biggest and most realistic fear of Honest Tea stakeholders is the loss of the company's already established socially responsible brand image. Many people have been drawn to Honest Tea for its mission and image. These same people are turned off by the image and business practices of The Coca Cola Company. Unfortunately, several cases in the past have shown that when a smaller company was bought out by a larger corporation it was forced to relinquish its brand image in order to fit in with the brand image of the parent company as well as to become more mainstream. The mainstream consumer may not be looking for a bottled tea that is only a tad sweet. The mainstream consumer is used to an overly sweet, high fructose corn syrup product that is a staple ingredient in Coca Cola beverages. Since the mass market may not be ready for the organic, fair trade, less sweet products provided by Honest Tea, Coca Cola may want to change Honest Tea's products and therefore ultimately its brand image. While this move may be good for the company's profits, it does not fit with the intended brand established by Honest Tea.

## **Honest Tea stakeholders will lose confidence in the brand and therefore no longer do business with the company**

If Honest Tea stakeholders (including, but not limited to customers, manufacturers, employees, and distributors) lose confidence in the brand, they will take their business elsewhere. In the past, stakeholders who were disappointed by the changing direction of a company or by its questionable partnerships have stopped selling and buying that company's products. Some stakeholders have already expressed their concerns with Honest Tea's relationship with The Coca Cola Company.<sup>10</sup> They are concerned that despite the intentions of the company, it will be forced to change its product and brand. It will steer away from its original mission of social responsibility, which would no longer appeal to those stakeholders. While it is important to the success of Honest Tea that it is able to expand and grow its stakeholder base, it is equally important that they do not alienate their current stakeholders in the process. The success of many company's is dependent on a strong and consistent brand image, if stakeholders lose confidence in that brand image they will no longer be sure what the company stands for. Often when there is confusion in the minds of consumers about a company and its brand, the sales will suffer.

## **RECOMMENDATIONS:**

In order to combat the problems that Honest Tea may face in the near future, I have suggested three major recommendations aimed at maintaining and enhancing the

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<sup>10</sup> Information found on Honest Tea Blog: "An Honest Dialogue with a Disappointed Consumer." Honest Tea, 25 Feb 2008 <http://www.honesttea.com/blog/index.php/category/from-seth-and-barry/>

company's brand. If each of these recommendations is successful and the company continues to generate sales then the risk of losing The Coca Cola investment will be highly unlikely. These recommendations include:

- Reconnecting with current stakeholders
- Promoting a strong brand image
- Preparing the company for potential full buyout in three years

#### ACTION PLAN:

##### **Reconnect with current stakeholders**

One of the problems Odwalla faced when it was bought out by Coca Cola was that its current customers, distributors, and suppliers felt alienated. They felt they did not fit with Coca Cola, its big business mentality, or the controversies surrounding the company's ethical policies. As a result many retailers dropped the Odwalla product line and customers vowed to no longer buy the product. Already, Honest Tea's blog indicates that some of its customers feel the same way. This is why it is important for Honest Tea to reconnect with its current stakeholders. In order to reconnect with its stakeholders, I have suggested the following course of action for Honest Tea.

##### **- Continue to blog on Honest Tea website about the positive changes in the company**

Blogs are an important form of communication in today's business world. More and more company's (including Stonyfield Farms) have created blogs as a way to connect with their stakeholders. Blogs are both informal and personal. Blogs give stakeholders a

chance to see a side of a company that is not immediately clear in other ways. Honest Tea already has a blog run by Seth Goldman. This is helpful, because they will not need to go through setting up a blog or the potential difficulty associated with learning how to run a blog. Both new and loyal customers will be looking to their blog for information about the changes within the company. A blog can be a more controlled environment than public relations and Seth Goldman can directly answer any questions posed by stakeholders. In late February, Goldman was able to address the concerns of one of his loyal customers about the Coca Cola buyout. Not only does this possibly instill new found interest in that customer, but it creates an interaction with all of the blog readers. Just recently, Goldman posted about his visit to a tea garden, which supplies ingredients for one of Honest Tea's new beverages. Honest Tea should continue to write post and to promote this blog in order to connect to the stakeholders and inform them of each positive change that the company is experiencing, instead of focusing on the potential problems from the buyout.

**-Continue to sell same types of products (Organic, Fair Trade, natural sugar)**

It is important that Honest Tea maintain their brand in order to restore confidence in their original customers. Selling the same types of products helps to establish their continued efforts to maintaining their brand as organic and fair trade. It will also be important to help differentiate themselves from their parent company, The Coca Cola Company. Coca Cola beverages use high fructose corn syrup, while Honest Tea uses natural cane sugar. Stonyfield Farms was able to capitalize on their buyout by extending their original organic product line instead of diminishing it. By simply maintaining their product

quality and ingredients they will be sending a vital message to their stakeholders about the future of Honest Tea.

**- Meet with current suppliers and distributors and ask for their continued support**

Honest Tea's small fair trade suppliers and distributors will likely be concerned that they will no longer be a part of the Honest Tea organization. Honest Tea should ensure them that they will continue to be an integral part of the Honest Tea team if they so choose.

Honest Tea should meet with their suppliers and distributors and show them that they will be maintaining the same fair trade business practices and that these original suppliers and distributors are integral to the growth of the organization. Then these stakeholders will feel more connected to the company and more interested in its long term success. The personal interaction will add to the feeling of commitment as well. Goldman's recent trip to a tea garden supplier is a good example of how to put a face to his message of continuing the brand with its core mission.

**Promote a strong brand image**

It is important to many current customers and to potential new customers that Honest Tea stays true to who it is. The brand image is just as important as the product they are selling. The Coca Cola buyout is an excellent chance for Honest Tea to use their increased funding to spread the word about the company. The key factor is that Honest Tea maintains a small company feel, while using big company funds. In order to promote a strong brand image, I have suggested the following course of action for Honest Tea.

**- Use Coca Cola advertising connections to create buzz about Honest Tea brand**

Currently Coca Cola's biggest advertiser is the agency McCann Erickson. Honest Tea could use this connection or one of the many other agencies that The Coca Cola Company is associated with through their various brands. Advertisement is one of the easiest ways to reach a mass audience. This is important, because Honest Tea is now just being introduced to the mass market. An advertising campaign can help create buzz around Honest Tea as well as alert people to the fact that the product can be found in a variety of retail outlets.

**- Use Coca Cola distribution channels to promote Honest Tea in new regions**

Coca Cola is distributed in over 300 countries across the world. The corporation uses a franchise distribution system where bottlers have exclusive rights to bottle and distribute Coca Cola in certain areas. After Coca Cola took over Glacéau last year, the corporation used both their huge distribution network as well as Glacéau's existing network to distribute the product.<sup>11</sup> This method would also work for Honest Tea who wants to remain committed to their original suppliers and distributors, as well find ways to grow their brand and gain a greater reach.

**- Continue small, grassroots campaigns to promote Honest Tea in regions where it is already popular**

It is important that while Honest Tea utilizes their new big corporation connections they still maintain a small company feel, especially for their existing stakeholders. Honest Tea

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<sup>11</sup> "Coca-Cola Announces Glaceau Distribution Plans," Reuters, 30 Aug 2007  
<http://www.reuters.com/article/consumerproducts-SP/idUSWEN074420070830>



is already popular in some regions of the country. In these regions, Honest Tea is popular for its original brand, not for its connection with Coca Cola. In order to continue promoting the brand in these areas, Honest Tea should focus on small, grassroots campaigns. Often in the past these campaigns have included just traveling around the area with an Honest Tea truck and distributing samples to people, or traveling to local events and setting up an Honest Tea stand. The company takes pictures of these campaigns and posts them on their website where customer's can see themselves or others, which is another great way to promote interaction with the brand.

### **Prepare company for potential full buyout**

In three years, Coca Cola will have the option to buy majority stake in Honest Tea. Currently Honest Tea is operating as an independent entity, with the same organizational structure and leadership. Many customers are continuing their business with Honest Tea solely for this reason. If a full buyout does occur, there is a good chance that many changes will take place. New leadership may be brought in and the company may become more commercialized. In order to maintain the Honest Tea brand image, the company should prepare itself for this now. I have suggested the following course of action for Honest Tea to prepare.

**- Honest Tea executives should draft a buyout contract that holds any future owners to maintain the current brand image.**

This contract should allow for current Honest Tea leaders to remain on with the business. An important leader in the company has been, C.E.O. Seth Goldman. As part of this

contract he could maintain his position at Honest Tea after the full buyout or he would be responsible for choosing a replacement. The contract should also state that Honest Tea will continue to operate under its current business practices, following their socially responsible model. The contract could be modeled after the conditions set by Gary Hirshberg at Stonyfield Farms when his company was facing a potential buyout. Stonyfield Farms shows that it is possible for a small socially responsible company to dictate the terms of a buyout even with a large international corporation.

**- Honest Tea should educate Coca Cola on the benefits of not changing the current business model and products.**

People are migrating away from soda for a reason. Consumers are looking for healthier and more organic options. Honest Tea products should remain a good alternative to soda, not a replica of it. Honest Tea has been incredibly successful, and in some ways more successful than Coca Cola recently, not only because of its products but because of its business model. Consumers value organizations that are socially responsible, and this is continuing to become a more important issue influencing buying decisions. The Coca Cola Company purchased Honest Tea as a way to diversify their portfolio knowing that Honest Tea sold a different product and had a different business model. It would be ideal if The Coca Cola Company could learn some social responsibility from Honest Tea, in the way that Groupe Danone is beginning to from Stonyfield Farms, but it is vital that Honest Tea educates its parent company to understand and value its current business model so that Coca Cola will not want to change Honest Tea after a full buyout.

**- Honest Tea should hire the necessary people to prepare for continued expansion**

Over the next few years Honest Tea will be facing a lot of expansion and changes. It is important to hire the right people into the company while they still have full control over personnel. This will likely include additional suppliers and distributors as well as internal employees. In order to maximize their growth potential, they have to have the necessary resources, including people, ready and able to deal with the growth.

**CONCLUSION:**

Honest Tea will face many changes as a result of the 40% buyout by The Coca Cola Company in February 2008 and the potential full buyout that could take place in three years. There are many positive changes that Honest Tea will see as a result of the buyout. This buyout will bring in more cash to the company which will allow Honest Tea to increase production and promotions amongst many other things like furthering their socially responsible mission. The buyout will also give the company access to Coca Cola's vast distribution channels and resources. The Coca Cola Company will also encounter different benefits from this buyout, most importantly though, they will be able to diversify their portfolio, push further into the bottled tea industry, and attempt to offset negative perceptions of their company by connecting with this socially responsible organization.

Although there are many positive changes to come, there is still a risk of negative repercussions from the buyout; most significantly may be the loss of the brand image and

the subsequent loss of current and future stakeholders. If Honest Tea cannot remain successful through these next three years and convince their core customers that they can maintain their current brand image, then Honest Tea may also lose The Coca Cola Company investment and all the benefits associated with that.

Therefore, it is vital that Honest Tea stays true to its current brand image. Current stakeholders are already concerned with the buyout and Coca Cola's image as a large corporation. This is why it is important for Honest Tea to prove to those people that it is capable of utilizing this buyout as a chance to further promote their product and continue offering a beneficial product. Honest Tea must control its own company and not allow Coca Cola to do so. Honest Tea should follow in the steps of another organic, socially oriented company, Stonyfield Farms, which also faced a buyout in 2001. Although Stonyfield Farms was bought out by a large international corporation with differing values from its own, Stonyfield still managed to maintain their image and use the buyout as a means to enhance their mission.

In order to mitigate the risks, I have suggested that Honest Tea follow several recommendations. Honest Tea should reconnect with its current stakeholders by continuing their blog, selling the same types of products, and confirming relationships with their current suppliers and distributors. Honest Tea should also promote a strong brand image by using Coca Cola's advertising and distribution connects, as well as continuing their small grassroots campaigns in areas that their product is already popular. Finally, I have suggested that Honest Tea develops a plan to handle the potential full

buyout in three years. This plan should include drafting a buyout contract to maintain current brand image and mission, educating Coca Cola on the value of their business practices, and hiring the necessary people to continue the brand through the buyout.

While many companies have been lost in buyouts, their original missions destroyed by their new, bigger parent company, other companies have been successful at maintaining their brand through a buyout. Not only have these companies been able to maintain their original brand and enhance it to be more effective, but they have also continued to be profitable organizations. Honest Tea has the opportunity to follow in the footsteps of these companies and enhance their mission and extend their global reach, as long as they focus on maintaining their already successful and highly valued brand image.

#### SINCE THE BUYOUT:<sup>12</sup>

Since Honest Tea's buyout in February, both Honest Tea and The Coca Cola Company are already seeing changes. The Coca Cola Company reported profit increases during the first quarter and Honest Tea will be producing its first mass distributed beverages.

#### APPENDIX:

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<sup>12</sup> Information about Since the Buyout is from:

Hein, Kenneth. "Honest Tea Brews Mainstream Product Line," BrandWeek, 26 Mar 2008

[http://www.brandweek.com/bw/news/recent\\_display.jsp?vnu\\_content\\_id=1003742157&imw=Y](http://www.brandweek.com/bw/news/recent_display.jsp?vnu_content_id=1003742157&imw=Y)

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## Finance

Honest Tea Income Statement prediction was based off Peet's Coffee and Tea, Inc.'s statement, which takes in approximately 10.8 times more in revenues in 2007. The calculations for 2006 were based off the 70% growth rate by Honest Tea in that time period.

### HonestTea

#### CONSOLIDATED STATEMENTS OF INCOME (PREDICTED) (Unaudited, in thousands, except per share amounts)

	Fifty-two weeks ended	
	December 30, 2007	December 31, 2006
Retail stores	\$ 15,592	\$ 4,677
Specialty sales	7,500	2,250
Net revenue	23,092	6,927
Cost of sales and related occupancy expenses	10,962	3,289
Operating expenses	7,944	2,383
General and administrative expenses	2,100	630
Depreciation and amortization expenses	1,010	303
Total costs and expenses from operations	22,016	6,605
Income from operations	1,075	323
Interest income	134	40
Income before income taxes	1,209	363
Income tax provision	433	130
Net income	\$ 776	\$ 233

**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited, in thousands, except per share amounts)

	Fifty-two weeks ended	
	December 30, 2007	December 31, 2006
	\$	\$
Retail stores	168,392	141,377
Specialty sales	80,997	69,116
Net revenue	249,389	210,493
Cost of sales and related occupancy expenses	118,389	98,928
Operating expenses	85,800	72,272
General and administrative expenses	22,682	20,634
Depreciation and amortization expenses	10,912	8,609
Total costs and expenses from operations	237,783	200,443
Income from operations	11,606	10,050
Interest income	1,446	2,456
Income before income taxes	13,052	12,506
Income tax provision	4,675	4,690
Net income	\$ 8,377	\$ 7,816