

## Episode 33: Emerging Brands and the Online Opportunity

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**Keith  
Anderson:**

Hello, and welcome to another episode of The Profitero Podcast. I'm Keith Anderson, of Profitero's strategy and insight team. Today, my guest is Arnold Ventura, head of business development for Califia Farms, plant based beverage manufacturer from California. Arnold and I talk about some of the many opportunities and challenges for both leading incumbent brands and emerging brands in the online channel. We talk about some of the supply chain logistics and economic complexity to CPG, particularly in the beverage category. We talked about some of the opportunities in rationales for going direct to consumer which Califia has done relatively recently and is sort of in stealth mode.

Speaking of direct to consumer, Arnold was generous enough to offer our audience a special discount code to try Califia products directly from their site. If you go to [califiafarms.com](https://califiafarms.com), use promo code, Profitero20, you'll get a 20% discount on your order from the site. Also, Arnold is eager to make friends in the industry. To get your feedback, so he shares how to reach him, but if you are going to be at the Natural Products Expo West, coming up in Anaheim California on march 9th, drop Arnold a note and look for him there. Anyway, I'm sure you'll enjoy our conversation, I certainly did. Here is Arnold Ventura of Califia Farms.

Our guest today is Arnold Ventura, VP Business Development at Califia Farms, Arnold, thanks so much for joining us.

**Arnold** Thank you for having me, I appreciate it.

**Ventura:**

**Keith** Am I correct you are in sunny Los Angeles California right now?

**Anderson:**

**Arnold** Yes. Although it has been raining a fair amount as of late but we are happy to have the water. No complaints here.

**Ventura:**

**Keith** We've got about a foot of snow here in Boston. I wish I had offered to record this there with you in your California. If you don't mind, maybe you can walk our audience through what you do now with Califia and some of your experience prior to joining just to start things.

**Anderson:**

**Arnold** Sure. I think as the most recently here, at Califia, ultimately heading up eCommerce, generally trying to tackle some of the strategic projects for our CEO. Prior to this it was Natural Food Channels. My background has really been in kind of what other folks might term kind of like the emerging channels of trade and eCommerce certainly being one of those that's emerging today, although it's been around for quite a bit as we all know. Prior to here at Califia Farms I was at Pepsi, part of their founding Global eCommerce Steering Committee and did a number of things there related to eCommerce as we were trying to get smart on that space.

**Ventura:**

**Keith** You are an entrepreneur as well, correct?

**Anderson:**

**Arnold** Yeah. Some years past. Definitely can empathize and resonate with folks of all walks of life, whether it'd be in that startup phase, working in your home or part of a big corporation and ultimately trying to get alignment to pull of projects in a new space without budget.

**Ventura:**

**Keith** For those who may not be familiar with Califia Farms, can you just speak for a minute about the portfolio? What do you manufacture?

**Anderson:**

**Arnold** Absolutely. We focus on plant based products. We really do see ourselves as currently a beverage company but I think we have a lot of clients of just being an overall greater food and beverage company of the future. We are based here in California and we participate in a number categories. We are most notably known for our nut based, or our almond milks. We also have ready to drink coffee products along with non dairy creamers and [inaudible 00:04:36].

**Ventura:**

**Keith** Got you.

**Anderson:**

**Arnold** They are all ready to drink products. They come in multi-serve formats as well single serve.

**Ventura:**

**Keith** You've seen the eCommerce landscape from inside a couple big companies, both of what which happen to be beverage companies. You used that term emerging channel I think of brand like Califia is an example of what we often call emerging brands.

**Anderson:**

**Arnold** Absolutely.

**Ventura:**

**Keith**

**Anderson:**

What would you tell us about the affinity between eCommerce and certain eCommerce models and brands that may not be the number one and number two player in the category nationally as defined by traditional market segmentation, but within a certain subsegment, or a niche or really rapidly emerging? What's the relationship between a growth channel like eCommerce and a brand like yours?

**Arnold**

**Ventura:**

It's a great question. It's an amazing time, whether you are at a big corporation or CPG startups. It's not often in this industry that we get a whole new marketplace. Some folks might call it a channel. Here, our CEO Greg Steltenpohl has really chilled it down that ultimately we see eCommerce not only as a whole new opportunity but it is its own separate marketplace that will provide a lot of growth going forward.

I think, what's really exciting is that if you just kind of look at some of the numbers, some of the statistics around where are trials happening? You can see that if you have a young brand that's relatively still trying to get trial and awareness, digital is one of those places, I think a stat that I read or I've seen before, almost said it's 36% of consumers tried a CPG brand for the first time online. I think that was with grocery as the focus.

For up and coming brands, there is a chance for us to get ultimately into consumers households in a whole different format. Also just what I've seen is this, in moving fast and in moving earlier I should say, there is a chance to grab a disproportionate amount of market share versus incumbents. While we might be still a minority share compared to some pretty big incumbents and the conventional brick and mortar grocery store, in digital we have a chance to really get out first. We are able to do this in certain channels of trade, like the Natural Foods Channel. Places like Whole Foods, Sprouts is and other key retailers of that channel that allow for trial. You have consumers that are looking more to discover brands and have experimentation, but ultimately in eCommerce there is a whole another opportunity for that.

I think if you look at what's happening in folks' carts, and what they are ultimately checking out with, we are seeing that, we are seeing more behavior in grocery. Even within grocery if you sort of look at that basket, not only are the basket sizes larger but one of the two top categories or segments that's in that basket is, you have meat and dairy kind of interchangeably swapped at that number spot and produce number two, depending on what study you are looking at, you get my drift.

Given that we are a brand that's participating in nondairy part of where we are sourcing business from to some extent is the fluid dairy milk segment. To be in a category that's over indexing in grocery and eCommerce, and to have a brand that is still looking to drive trial and awareness versus some large incumbents. The commerce marketplace certainly represents a strategic opportunity for us to participate and then hopefully ultimately grab more than a fair share of market in the process.

**Keith Anderson:** I'm glad you conclude the thought with that phrase, more than fair share because too often, in the discussion around how to define success in eCommerce or in any channel but especially in eCommerce, people think about either a peer growth orientation, can we outpace the growth of our category in this channel? Imply there is gaining share or can we meet or exceed our fair share online with fair share usually defined as whatever our share is in the overall retail market. Can we meet or exceed that in this emerging channel?

**Arnold Ventura:** It depends where you are starting at. Not to interrupt but it's kind of where we were at when I was at Pepsi. Ultimately I was in our naked emerging brands business unit. There I oversaw our naked juice brands, naked coconut water. O.N.E or one coconut water and is this sparkling juice with regards to eCommerce? There the conversation starter was, this is, at Pep it's a whole different perspective. It was like, "This is the share that we have in brick and mortar. If we get that same amount of share in eCommerce this is what it's going to amount to in terms of total dollar sales. Here is where we are at today. How do we go about grabbing that share?"

There was that traditional kind of top down viewpoint. That's certainly one area to start but for the space that I've spent most of my beverage career in being on this kind of [inaudible 00:10:29] startup side of it, it's truly exciting. There is a whole different kind of opportunity in front of us. Ultimately incumbents understand that and that's why they are leaning in, they are getting more involved, they are doing more merchandising activation because they know, and I saw this before in that if you don't spend the money now, testing and learning, when the business is small and ultimately the investment is relatively cheap, the magnitude that you are going to have to spend years down the road to acquire that same amount of market share is just going to be disproportionately more expensive. It's certainly a race to get into the game now.

**Keith Anderson:** I agree. I think especially for the incumbents, the downside risk of waiting is more motivational than the upside potential of gaining share. In other words, if you are already number one in your category it's not that you are going to get to number one and a half in your category by doing eCommerce. You might not drop from number one to number four if you defend your share. It's a very different dynamic if you are an incumbent across the entire landscape. We've looked carefully at why there is this pattern in the winners and losers online, especially at a retailer like Amazon, in contrast to the total landscape, smaller brands and niche items tend to outperform.

I think some of the reasons we can see our items that are tougher to find offline, but have demand are inherently more findable online. There is an expectation that pretty much anything that's available anywhere will be available at Amazon and that's not entirely true. Most people start by looking for something on Amazon if they can't find it elsewhere. Secondly because it's such a search dominated shopping dynamic. If your product has certain features or benefits or attributes that somebody is looking for, plant based, dairy alternative, unlike in a physical environment where somebody has got to find the right part of that store, they just type or say, "Hey, I'm looking for

almond milk," and there it is. What have you learned about that relationships between items that are emerging, a niche and why they outperform on online?

**Arnold  
Ventura:**

You are absolutely right and I think that marketers are trying to figure it out today. In today's world most of the vernacular that we are hearing, especially with a lot of CPGs is, how do we develop an overall strategy for omnipresence? Consumers do want to find you everywhere and they are going to start those searches on Amazon, and they are looking for long-tail products. I think there is, and eCommerce not only has it's own kind of incremental revenue potential but it also, that's just one of the core objectives in terms of how we think of it. Ultimately in terms of driving brand equity, I think there is a Deloitte's study out there that shows something like, two thirds of brick and mortar purchases have actually been informed in online.

I think that's within the world of CPG or fast moving consumer goods. There is certainly pressure to not only have a strategy for your peer place like Amazon but also to have your own direct consumer set up. Ultimately that's something that we rolled out at Califia in early Q4 last year. To your point, what we've learned is, we turn this side on, it's shoppable, we had the site certainly before but it was never shoppable. We make it shoppable the first time, we don't know what do we put in the fulfillment centers? Do we work off of what we know about our brick and mortar business or do we kind of take a gamble and think about the long-tail items?

We played it a little more conservatively and sure enough, the products that we were selling out of the gate were all the long-tail products. That really makes you point and further what's interesting, what we've noticed is that we've come across a unique issue in terms of our platform in verifying of addresses, mailing addresses, things that we seem to be over-indexing with an issue of then the regular customer of verifying an address as it's identified by the United States Postal Service. We have a number of these issues that pop up probably every week.

It's like, where are these products going? They are going to these remote locations across the country but these are people that ultimately they have an infinity for our brand, our clean products and are looking to stock up on a case of them. We certainly are seeing sales of long-tail products going to parts of the country where they might not be able to find our full assortment in their local cargo or whatever it might be.

**Keith  
Anderson:**

Was offering your full assortment in one place the primary motivation for launching your own direct consumer platform or?

**Arnold  
Ventura:**

Not necessarily. I think there always has to be a North Star that has to be what is your ideal execution. I don't think we are there yet on, internally we call it project.com. I don't think we are there on dot com. I think it's, we are actually ... While we have most of our skews available on there, the assortment is another big part of the unlock. Do we have, while we have variety packs and mixed packs, do we have the right combination. You can even go to, you've seen brands put together variety packs that are, at a club store like COSCO, and maybe it's too varied, in that there is too

many skews and then that kind of turns the consumer away. Do we have that same issue with our variety packs or do we have the right lock in?

I've seen, if executed properly I've seen variety packs outsell straight packs 24, 22 to 1. A mixed pack can perform anywhere from 10 to 1 to 2 to 1 versus a straight pack. Optimizing the assortment. The other part is just the overall secondary packaging at the vehicle. There is a lot of optimization that we are still working on there. We are in certain pack configurations today that ... On one part I do feel that we are ideal in terms of part of our products. The there other part I feel that it was more important to get out first. Kind of where we started the conversation in terms of eCommerce being a place where it's important to get out first, to gain that share, to gain that kind of, not only share of market but share of mind. We wanted to do that. While we continue to optimize our assortment, that wasn't going to stop us from launching.

**Keith** Are you doing any virtual bundling or virtual variety packs on the site?

**Anderson:**

**Arnold**

**Ventura:**

We want to go there right now. We wanted to take out that variability at launch. We are still not too far off our launch. In many ways we still kind of remain in a bit of a stealth mode, but we would like to have that variability introduced to our fulfillment centers. We just kind of wanted to measure out the different kind of variables that could cause complications. Right now they are all predetermined assortments and case packs, but we would like folks to, and we get some comments coming in at the customer service desk of what people would like to see. I think that's all there for us in the future.

**Keith**

**Anderson:**

Stealth mode is over now that you are I guess on the Profitero Podcast. The word is out. You mentioned pack configuration, beyond variety versus individual variants, I think you are touching on one of the most interesting and challenging aspects of this channel, especially for many CPG products. You've worked at a couple of beverage companies now. If you think about the dynamic in beverage, the price to weight ratio can be challenging. You have questions about leakage or spillage and then in some cases there is the temperature control. What have you learned and what do you sort of focus on as opportunities or challenges as it relates to a category like beverages online.

**Arnold**

**Ventura:**

Those are unique challenges. I remember in fact, my first kind of top to top meeting with Amazon. We were, it was not exactly what I thought we'd be talking about. We admittedly dived into certain box sizes and overall weights and we had to think about that. I totally get that in terms of background, learned what it's like to ship glass and have glass break and understand how to design a frustration free packaging that's going to allow it to pass Amazon 17 Drop Test so that no corner is too vulnerable. Those are the challenges there and then if we think about what we have today with Califia Farms, we are just shy of 70 skews or even just going over that now with some new items coming out, like 95% of those are perishable.

All of a sudden, how do we get products to consumer doorsteps in two days or less to 99% of visit codes, and keep it cold? It has its set of challenges and that's why you

don't see too many people doing it. We were committed to it here at Califia and it's something that we wanted to figure out. Ultimately, part of it is in finding the right partners too. Ultimately where we are at now, it's a proof of concept for us. It's something that we continue to evolve and work on. The secondary packaging has a little bit of complexity in that part of what we also wanted to execute is carried through to our mission and value of including sustainability and overall environmental sensitivity in all aspects of our execution.

As we thought about our secondary packaging, the last thing we wanted to do is consumers receive this huge styrofoam igloo that was going to house a relatively a swarm number of products and its lifecycle could be a little more harmful than necessary. There are recycled options out there, but they also as you might imagine are a little more costly. The burden on the overall profitability can be tough. We try to think about those things. We haven't quite totally figured it out but we actually, what I hold really near and dear to us is our overall company's contribution margin in brick and mortar and I'm always trying to aim for parity as it relates to our eCommerce marketplace. In some places we are there and in some places we are not and in some places we are better.

It's kind of a bit of a mixed bag and you continue to look at your revenue and optimize and understand what that mix looks like. We've made good progress but we continue to, there is still tons of opportunity out there for us. In fact, I welcome any comments to build following the release of this, we'd love to kind of understand people's experience. We still have yet to even touch the whole unboxing experience. There is a huge kind of branding component still built into, or still out there for us as it relates to coming from our direct consumer side.

**Keith  
Anderson:**

I think in our experience, questions about where to play? We actually just did a webinar with General Mills that was sort of on this topic of how do you approach different online retail formats differently? We sort of bucketed things into national-ship, spearfishing models like amazon.com. The second model was what we call boxes like Prime pantry or boxed and third it was the full basket players. There are very different supply chain implications and economic models and distribution decisions you would make for each one of those. Obviously you can't really do anything sensitive in the national-ship spearfishing or boxes rather models but you see ...

**Arnold  
Ventura:**

The marketplace is changing a little bit. I totally agree, and just to put this out there. The eCommerce marketplace is bigger than Amazon, to all those players that just mentioned. There is a number of awesome peer plays that have unique platforms in which our execution there is even more optimal. We really enjoy the partnerships that we have with everyone from Thrive Market, Fresh Direct, and new ones coming out all the time. Certainly now you have Jet coming around the corner. What's really interesting is certain the drop ship market place. That's to your point about some of these, Amazon for one is a good example of dot com, doesn't do perishable shipping from their own direct fulfillment. That's why they have Amazon fresh. Now with drop ship enabled there is a chance for retailers and brands to figure that piece out. Drop

ship is becoming even more enabled than it was in the past, in terms of all their merchandise and levers that you have at your, that are available to you.

Then separately from Amazon, Walmart is not one to be left out either. They are opening up their third party marketplace. When was this? Maybe four or five months ago that for the first time majority of Amazon sales came from a third party marketplace. Walmart certainly hit to that and they are looking at enabling drop ship for vendors. While perishability can be tough, if you can figure out the right secondary packaging mix, if you can figure out the right procurement, have the right value chain in place, that ultimately is the bed rock of eCommerce, at least as it relates to CPG. You have to have the right value chain in place to support everything else. If that's all there then I think the opportunity is quite vast and it goes well beyond direct consumer.

**Keith Anderson:** I totally agree. You've been operating in the channel for a while. I'm sure you've learned lessons or tricks of the trade there for driving performance. For anybody who's just getting started or trying to get more advanced in the channel, let's say on a supply chain side but more in the demand chain side of, you mentioned earlier, driving awareness, attracting people and converting shoppers to buyers. Where would you encourage people to focus?

**Arnold Ventura:** I can't quite give away all the tricks, at least, and I'm still learning.

**Keith Anderson:** Not all of them, just like one maybe two max.

**Arnold Ventura:** I think conceptually I think that every, the test and learn is huge. With every platform that we engage with and even our own, continually wanting to understand what are all the merchandising levers? What is going to be the least, what's in that ROI for that matter? The reality is that, just because one lever works well for Califia doesn't mean it's going to work well for the next perishable brand. Each brand responds differently to the platform and the consumers there as well. Each merchandising activity is going to have a different result. I know that we were running something at Eazy sometimes back and the Bai folks, the B-A-I, I remember them watching that very closely and following thereafter and vice versa.

What we are doing today at Califia is kind of a mixed bag of all of our learnings but at the same time anytime we see anything new out there, we like to kind of test and invest in it at a very small amount and understand what the impact that has. Then if it did move the needle maybe we give that greater priority and double down the the following year. We are always trying to optimize our investment while the investment is still relatively small and kind of learn fast that way.

**Keith Anderson:** Makes a ton of sense. Do you go into those experiments with a hypothesis on? If it would work, how it would work? I ask because I see a lot of companies try to test and learn but to me the essence of experimentation is having a hypothesis that you are testing.

**Arnold Ventura:** Absolutely. Certainly, I haven't been a consultant in my career but the one one thing I do take away from my friends that do that is that it always starts with a good hypothesis. We try to, just for ... We don't have a whole lot of fund at the end of the day. Every investment has to be a wise choice, and we need to mitigate risk along the way. We are definitely trying to develop hypothesis and make smart investments and understand what we think the end conclusion might look like or what success could possibly look like. We just try to keep our expectations down in terms of what might actually come off that.

I think that's more for brands that are in these [inaudible 00:28:07] startup phase. I think as far as something that they could resonate with. Even for large CPG brand that have to plan out a year where I think there remains an interesting opportunity for the incumbents is that there the budgets are quite large, and it's not uncommon for getting close to the end of the year. Maybe not all the marketing dollars have been spent, and it's kind of a use it or lose it type of thing. There is a chance for those incumbents to, they have more in their arsenal there to use. It's just a question of whether they are [inaudible 00:28:39] and watching.

**Keith Anderson:** Absolutely. Arnold, this has been really interesting and it sounds like you are open to hearing from some of our listeners. I'm sure some of them will want to reach you. What is the best way to connect with you?

**Arnold Ventura:** Email, arnold@califiafarms.com. I'll just ... Again, just a little disclaimer. The secondary packaging is in its bare bones, it's still. I guess we got to rent it up very quickly if we are getting out of stealth mode here after going with you guys live on Profitero. We'll have to get some branding going there. Certainly welcome to the feedback and hoping to hear some good comments.

**Keith Anderson:** I'm certainly going to place an order so that I can give you my two cents. I encourage everybody else to do the same.

**Arnold Ventura:** Right on.

**Keith Anderson:** Thanks again Arnold.

**Arnold Ventura:** Keith, we'll follow up, maybe we can give a little Profitero promo code.

**Keith Anderson:** There you go. I guess you'll just have to listen till the end to see. Thank you very much Arnold, I appreciate it.

**Arnold Ventura:** Thank you. I really do appreciate it.