



Honest Tea Applies Systemic Principles that Lead to Success in the Beverage Industry

Seth Goldman and Barry Nalebuff set out to start an innovative and honest company when they founded Honest Tea in 1998. In practice they have created a new way of doing business that extends all their operations to benefit their many community partners, which we can see through their results and impacts over the years.

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Honest Tea founders, Seth Goldman and Barry Nalebuff, present their story as that of student and his former business professor who got together to create a less sweet tea.^{1,2} Honest Tea, their creation, was meant to fill a void in the beverage market—a drink for those who didn't want a heavily sweetened tea. They jumped in to the business feet-first, with friends and family as early investors, expanding in scope of distribution and volume of production over time. Honest Tea now buys over 5 million pounds of organic ingredients a year and distributes only Fair Trade and USDA Approved Organic products.³

Big Picture Systems Add Value

Honest Tea looks beyond the ingredients in their bottles to important systemic questions like where those ingredients come from and what happens to their packages after use. Innovative initiatives, such as their partnership with a woman-owned company located on an Indian reservation in Montana, I'tchik Herb, demonstrate their commitment to the bigger picture.^{1,4} I'tchik Herb provides the peppermint for Honest Tea's teas and this partnership is a testament to the good intentions of Honest Tea to work with

social and economic benefits, helping to create valuable infrastructure and set a precedent for these best practices.

Similarly, Honest Tea also addresses the physical elements of their product, the bottle or container in which the product is delivered.¹ Through many iterations, Honest Tea has worked to find a material and design for their bottles that uses less plastic, while still delivering high levels of performance—not denting, breaking, or squishing—as the product is put in the bottles at high temperatures and delivered around the world.

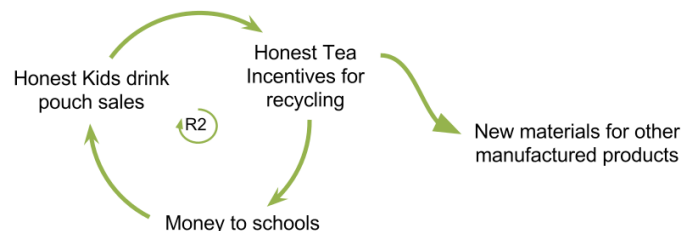


Figure 1. When recycling their Honest Kids drink pouches wasn't a feasible option, Honest Tea created a viable way to upcycle the drink pouches. Their upcycle process provides money to schools to mail pouches in, and material to manufacturers who use the pouches to create bags, pencil cases, and other products.

Source: Leverage Networks

When Honest Tea launched their Honest Kids in 2007, they made a kid-friendly version of a low-sweetener drink—but couldn't find an easily recyclable design for the drink pouches.^{1,4} Instead of giving up, Honest Tea teamed up with Terracycle to create a recycling program where schools can mail in used drink pouches, receiving \$0.02 for each pouch it mails in. In turn, Terracycle uses the drink pouches to make products like pencil cases and messenger bags—upcycling the containers for another round of use.

Innovative Investment Foundation Creates Platform for Success

From the start, Goldman and Nalebuff worked to carry out smart decisions that make a difference. They flipped traditional models on their heads with their investment policy. At the start, investors owned 100% of the company. It was only after the investors' initial investments were doubled that Goldman and Nalebuff would receive any shares.^{1, p. 52} This innovative investment policy demonstrated that their commitment to putting investors ahead of themselves.

Original Values Contribute to Longevity in the Marketplace

Honesty is the backbone of Honest Tea's business. When a bottling problem meant there could be glass shards in their product, Goldman and Nalebuff recalled all their product to protect their consumers. This honesty carried over to their take-over by Coca-Cola, who in 2008 gained 40% control of the company. In 2011, Coca-Cola took over the majority of shares in Honest Tea, but allowed Goldman to retain his shares as an indication of his continued involvement with the company.⁵ Since Coke's ownership change, Goldman and Nalebuff have continued their policy of transparency and innovation, working within Coke's infrastructure to continue the innovative Honest Tea work.

Underlying Systemic Elements Contribute to 2010's \$71.7 Million in Sales



Nalebuff and Goldman set out to do business differently—to have a product they cared about, sustainable business practices guiding them, and a positive impact on the world. Their guiding principles, and the ideas by which they run their business are inherently systemic, which we'll take a look at here in the form of causal loop diagrams.

Honest Tea is organized around the idea that small improvements will lead to larger improvements. The more organic, loose-leaf tea they buy from farmers, the more tea they have the potential to sell; selling more tea allows them the opportunity to return to buy more from the tea farmers, thus sustaining the organic loose-leaf tea farmers (Fig. 2).



Figure 2. By only using ingredients that had the positive impact they were looking for from the beginning, Goldman and Nalebuff ensured that their product had an impact on the small farmers and cooperatives growing their tea. Source: Leverage Networks

This reinforcing loop could have negative impacts for the farmers if Honest Tea suddenly doesn't sell as well, but overall the positive growth of the company has a positive impact on the farmers. Similarly, this loop doesn't exist in a vacuum—there are limits and other factors that will impact how much tea they sell, and how quickly, but this fundamental system has an impact on small whole-leaf tea farmers.

Social Good Message Converts Buyers and Increases Good Ingredients in the Market

With this reinforcing loop at its core, Goldman and Nalebuff tapped into a larger system—a larger market—of social innovation. By creating an honest product and an honest company, Goldman and Nalebuff recruited buyers to their less-sweet product. This less-sweet product has a positive health impact

In 2013, Nalebuff and Goldman released Mission In a Bottle: The Honest Guide to Doing Business Differently—and Succeeding.

In this graphic novel business book, Nalebuff and Goldman tell the story of Honest Tea, from its founding to its acquisition by Coca-Cola. Along the way, economics lessons from Nalebuff's Yale Course augment the easy-to-read narrative of their successes and failures as a start-up.

By highlighting the details, whether a salesperson who didn't perform as needed, or the introduction of plastic bottles in addition to glass bottles, Goldman and Nalebuff provide a clear and strong articulation of their path. The underlying systemic insights are of value to both industry veterans and newcomers alike. Similarly, the accessible tone and style make this read a go-to for those just getting started, while the innovative practices and problem solving discussed provide interesting insight for other business leaders.

for consumers who are choosing Honest Tea as an alternative to highly sweetened drinks. Additionally, the more consumers who buy Honest Tea as an alternative, the more money is going to those smaller farmers, and helping to expand the organic farming industry. The product also appeals to those who prefer all natural and organic foods, as well as those who care about sustainable business.

This transition could be new drink-buyers coming to the market because of the presence of a new product that meets their previously unmet desire: a less sweet drink. However, the consumer population could also include conversions of drinkers who are switching (or, as the case may be, occasionally switching) from higher calorie alternatives. So not only does this indicate a preference for a "good" product, but it also means there are fewer artificial sweeteners and products being used. Even if this is a small reduction within the industry, it is still creating a bigger-picture systemic change that can have positive impacts on the environment and individuals impacted.

Coca-Cola Takeover Allows for Bigger Positive Impacts

In typical Honest Tea fashion, their acquisition by Coca-Cola has allowed for widespread positive changes to take place. Coke first bought 40% of the shares of Honest Tea in 2008, with the option to buy-in entirely in 2011. Honest Tea has maintained their product lines, expanded in meaningful ways, and continued to grow the base of consumers interested in their products.

Because of Honest Tea's connection with Coke, they are able to distribute in 100,000 stores, instead of the 15,000 stores they were in before the acquisition.⁶ This wider range of distribution means that they're also buying more ingredients, which is changing the market of available goods. Their larger impact made possible through their connection with Coke means they can be involved in substantial systemic change, both in terms of materials and market availability, as well as potential impact on Coca-Cola's bigger picture sustainability.

Systemic Structure Contributes to Financial Payoff

Founder Seth Goldman has earned tens of millions of dollars from starting Honest Tea.⁶ The underlying systemic foundation has contributed to the profitability of the company—as well as the open and honest business policies Goldman and Nalebuff followed from the beginning. Their unique product won over consumers, and their transparency created the following they have today. But, perhaps most importantly, Goldman and Nalebuff have created a company that cares about multiple bottom lines: the social and environmental impacts of their products, as well as the economic bottom line.

These policies and impacts can be modeled across industries and through wide ranging difficulties and hurdles. By maintaining a set of principles that they did not waver from, Goldman and Nalebuff demonstrated their commitment to excellence and to creating products they believe in.



Sources

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