

SCOTT Yeah, powerful chef like that.

BEN Yeah.

SCOTT We're going to another chef-centric restaurant and went to many of them with him and you get some real special behavior from the staff and the chef when you arrive at Chef Prudhomme.

BEN The true red-carpet treatment.

SCOTT So, here in Austin, I'll just give one example in case there's some people that have been there, but Fonda San Miguel was one of the places we went to.

BEN That's a very famous Interior Mexican like elevated cuisine.

SCOTT Beautiful stuff and the chef and co-founder Miguel Ravago, so both Chef Paul Prudhomme and Miguel have both passed away by now, but it was dueling thoughts in coming together. Chef Paul Prudhomme was kind of a Creole French background of Louisiana, New Orleans in particular. And Miguel's coming from Interior and Mexico City cuisine bringing it to Austin. And the amount of stuff that was off menu coming like every three minutes. There was three or four new plates and reaching across the table grabbing a bite of everything right there, we must have had 20 or 30 different dishes.

 We were there with a couple of people who had never eaten with Chef Paul too before and the sharing of the plates was important, but these two particular people including the husband was like, "I've never seen that before."

BEN Oh yeah, yeah.

SCOTT "What the hell is going on here?" They're talking a chicharron off of my plate.

BEN That's right. Yeah, "You're violating my personal space."

SCOTT I loved working with him. Everything I learned about French and Creole and Louisiana cooking was a benefit of hanging out with him as much as I got to do, and the meals were the highlight of it all.

BEN Oh, that's magical. I suspect that something like that, you know when you have that sort of insider access, it's like getting a chance to watch Picasso paint. You know? Like somebody who just owns their craft and they're just operating at another level.

SCOTT Yeah, like we all struggle at home trying to figure out how we're going to cook something incredible. It's really hard to use the microwave and cook something incredible. There's certain basics that you have to learn how to do and from someone coming from Louisiana, like Aru was really important so several of his dishes are coming from Aru-based with some sort of fat or butter that starts with and some flour to brown it. And that's the base of many meals. If you've ever tried to do that, it's really easy to screw it up, but watching a master do it, he could do it on like a little Bunsen Burner with any pan.

BEN With his eyes closed.

SCOTT Yeah.

BEN Absolutely. That's awesome. That's a great context. So, you know, one of the things that I wanted to talk with you about, we're going to, just for our listeners who don't understand the breadth and depth of your background, I do want to hit some of this stuff and then we can dive. We'll take some deep dives along the way. So, tell us a little bit about how you found yourself initially in the consumer package goods space.

SCOTT Yeah, so the first advent of it was coming out of undergraduate school in Dallas at SMU. I worked for an ad agency called The Bloom Agency. And I was lucky enough to work on several food companies. Carnation was one of them. Rainbow Bread was another brand. Kern's Nectars and so, I got that one side of the equation of a food company which was the advertising side of it.

BEN Which I think is a pretty interesting thing about your background because I think probably most people don't associate you as like starting your career as an ad agency guy. Right? You're sort of like an operator extraordinaire. But that's not how you started.

SCOTT No, I mean coming out of school, I just remember it was a great salary of 16 thousand five hundred dollars a year.

BEN Oh, man, you're a baller there.

SCOTT Yeah. It was tough man, but I had already had a car that was paid for so I could make things work. But you know you scratch around and you learn a lot. When I was there, I was there for around two years, little over two years, decided I wanted to go and get my MBA. I went to NYU and got my MBA up there. And that was all a path, kind of in the back of my mind was laid out nicely. From there I'll go work for a larger consumer products company. I was lucky enough to get a job as an Associate Brand Manager at James River Corporation, now International Paper.

So, I was working on the marketing team for a couple years there for Dixie cups and Dixie plates. That was the brands I worked on. I missed Texas. I was living in kind of the New York City area just north in South Connecticut.

BEN Despite the name Dixie, it was not Dixie.

SCOTT No, it started Dixie, but I was up there, and truth be told, I did have friendships up there. But really had built and formed a strong friendship with a lot of people in Texas and missed it.

BEN But you didn't grow up in Texas. You went to school in Texas.

SCOTT Correct. Yes, I was an east coast guy from Connecticut and Florida and back into New Hampshire boarding school in Massachusetts. Wanted to go somewhere warm so I lived in Florida and Texas and California and ended up going to SMU. But I had two friends that I had met when I was going to NYU that had met before too, but they were both in New York City at the time, displaced Texans as well, originally from Lubbock, John and

Eddie. And it was at that time that we decided that we were going to start a barbecue sauce company. Stubb, the namesake that's on the bottle was close personal friends with John and his family had moved from Lubbock.

BEN From the Lubbock area. Yeah.

SCOTT And Eddie was from Lubbock too, had moved with all of his musician friends to Austin, Texas, opened up a Stubbs Barbecue here on I35 and eventually closed it or it closed and he was kind of like trying to figure out what he was going to do next because there was no infrastructure of getting a million dollar loan to open a barbecue restaurant. And he was kind of a sole proprietor and he called up and said, "Hey man. I'm really needing to borrow some money. I think you guys could help me out." And we were all like in New York scraping nickels and dimes together to get on the subway.

But John led the effort and pulled, I think it was from all sources, like 14 hundred dollars, sent it down to Stubb so he could pay his rent at his house and he was doing some catering at weddings and stuff like that.

BEN And he was known as Stubb. He was CB.

SCOTT CB Christopher Stubblefield.

BEN Yeah, right.

SCOTT And we were like, "Oh, we just saved a guy's foreclosure of his house rent" or whatever it was. About three months later he shipped counter to counter which you can't do anymore.

BEN Yeah.

SCOTT After 911 you can do it, but he shipped a cooler full of hot barbecue that he had pulled off the smoker that morning plus some bottles of barbecue sauce. Shipped it up to us and said, "Hey, go to LaGuardia. I've got a surprise for you guys for helping me out when I needed help." And I think it was Eddie that went in a yellow cab to LaGuardia. Went inside, picked up the boxes, brought it back and we're like, "This is incredible. This tastes incredible."

BEN He took you back to Texas too, yeah.

SCOTT Yeah. And so, in the bottles of barbecue sauce which he had made himself with his ingredients, poured it in hot, put it in Old Jack Daniels bottles that he had pulled like a dozen of them from his friend Steve Wertheimer from the Continental Club on South Congress.

BEN Right.

SCOTT Had his friend Joe Ely, a famous musician, great musician too here in Austin on his Mac 1 computer, Mac 2 computer, whatever it was, designed the label and had some printed up at like Kinkos before Fed Ex bought Kinkos.

And cut them out and put them on the bottle and that became this bottle that we opened up and we were like, "Oh my God, this is the most delicious sauce I've ever had." And that was when we all started going, "Oh, this is fun living up here and working for a big company and our careers are going great, but let's start a barbecue sauce company." So, that's what we did. We started writing the business plan which we didn't even know how to write a business plan.

BEN Now that was back when people wrote business plans for things.

SCOTT Right.

BEN But you were doing your textbook thing you learned in business school at Stern.

SCOTT And then worked for a couple of years on the marketing side of a consumer products company. I just remember a catalyst of change. You make that change, you go down and you like, "Oh, the budgets you used to have verses the budgets you have."

BEN Take a few zeros off.

SCOTT Our first year of revenue at Stubbs Barbecue was something in the vicinity of like 23 or 24, 25 thousand dollars and every one of those cases was UPS'd. Like it was a box with styrofoam, driven 14 miles to the UPS station dropped off. And that's a lot of stuff.

BEN Oh yeah.

SCOTT I just remember a small little print run of sales material for the Dixie three-ounce bath cup. I spent like 50 thousand dollars on it.

BEN That's right. Just the scale is apples and oranges, absolutely.

SCOTT Yeah.

BEN You just kind of didn't think about it. In this case you probably were counting every penny of those and you knew where each one of those UPS shipments had gone too.

SCOTT Exactly. And first year or two it's really specialty stores and you're trying to figure out even how to get into supermarkets. You go and talk to the people and they're like, "Well, you know, what's your marketing plan and what's your Super Bowl advertisement plan and summer marketing?"

BEN And you're just winging it.

SCOTT Yeah, we're just trying to make payroll next week.

BEN That's right. Do you feel like at that point in your life, because you're still young but you had some formal training, did you have what you would describe now as a channel strategy at that point?

SCOTT No, not at all. We thought we could do it all for sure and there was no one and no infrastructure. There were no Podcasts. There were no accelerators. The fancy food

shows were really the only food shows back then. There were no expos east and west and whenever they started, they were 50 booths at those shows then.

BEN Just tiny.

SCOTT So, the infrastructure of knowledge was not there. There was no people to teach or tell you what to do. It was really just not taking no for an answer and trying to figure it out and learn. And that's a long learning process, so if there's not like the academia that there is now available online podcasts, accelerators, you go to Expo West or the fancy food shows they have all kinds of educators there. And they will teach you two years of brick walls to jump over in like a two-hour period of time.

But it didn't exist back then, so we had to act like we were a big company, but we only had an incredibly small amount of money to spend.

BEN Right. So, when did you guys move from New York City back to Austin?

SCOTT I'm horrible at years but let's call it 25 years ago.

BEN Was there some demarcation point where you said, "This is legit enough that we should probably now quit our jobs and move?"

SCOTT Yeah. So, the first six or nine months of it, we were still in New York. Stubb was down here. We had set him up in a small little commercial kitchen right across from the post office across Ben White Blvd. It's an old shack-y kind of place. And so, he was going to HEB, the major retailer at the time here and still here at the time and buying all of the ingredients at retail prices and putting them in like a 40-gallon bucket and stirring it.

BEN So, your margins were not incredible.

SCOTT Oh, they were so upside down. So, you're buying it at retail and selling it at wholesale. So, six-ounce cans of tomato paste that he's hand opening.

BEN Hand cranking it. And at that point, that point of Ben White and South Congress, not a nice part of town at that point.

SCOTT Pretty shady, yeah. Truth be told it was romantic, right?

BEN Sure. Yeah.

SCOTT We're like, "Stubb, this incredible barbecue legend is making barbecue sauce. He's shipping it in a pallet up to us and we're getting 40 cases of it." We're literally picking up a pallet case by case with a yellow cab and bringing it to some expensive storage place.

And going to a Balducci's which was big then. They had one store, two stores or whatever it was.

BEN Super high-end grocery store in New York.

SCOTT Yep. When that buyer said yes and bought four cases, it was like, "All right. We can't turn back now." Four cases.

BEN We made a promise, yeah. I don't even make as much as you need.

SCOTT I don't even think, we may not have even cashed that check. It was one that we had to frame when they finally paid us. It was like, "This is awesome." It was the beginning of the business, so. It sounds like I'm romanticizing it, but it is a hundred percent accurate to exactly what we were doing.

BEN You were living the dream.

SCOTT You got to keep moving forward with all these little bitty successes that happen that keep you going and learning and learning until you step into a bigger ring.

BEN So, now let's talk for a second. What was bottled barbecue sauce at that moment? It was Kraft.

SCOTT Really good question. It was Kraft.

BEN Had KC Masterpiece?

SCOTT They had and at that time it had either just been sold or was about to be sold to Clorox, so Dr. Davis in Kansas City had developed it. It was a very regional favorite but then he figured out how to broaden it. So, Kraft. There was Open Pit which you don't even hear much about, maybe in some west coast distribution.

BEN Right.

SCOTT There was another, Hunts had a brand. So, it was really the million-dollar people that had it, Heinz, Hunts, KC Masterpiece, Clorox. So, there was five or six of those and then.

BEN And they were pretty bad, and they were -

SCOTT Cheap.

BEN Yeah, everything was cheap, one of the things where the, I've talked to folks who work in the big CPG kind of things and they say in that world the packaging is more expensive than what's inside the package.

SCOTT Yeah. And that's what we always thought of too. Some of their stuff was in plastic bottles. Ours were in glass and some of them were in glass.

 We knew what we were paying for glass in a case and we knew what they were selling it for and it was like, "Wow, that's 67 cents on the shelf after whatever the retailer's margin is and they've got to make their margin at the manufacturing plant." It's like they're selling it at retail cheaper than we're buying cases of glass for.

 Wow, how are they doing that?

BEN It just feels unfair because it is kind of unfair. But, there's a path around that which we'll get to.

SCOTT And just to finish that, there were a couple of small little companies that is mostly barbecue restaurant-driven where in pockets of the Southeast or the Midwest a famous barbecue place would have sold their barbecue sauce at local stores there, but no one had really gone to the national level for an independent barbecue sauce.

BEN Kind of an artisan craft version of this.

SCOTT Yeah.

BEN Now, at that point was it, because I know that Stubbs would become synonymous with a kind of a cleaner national brand of barbecue sauce. Were you guys, were you thinking about that at that point? You were doing glass at that point and were you doing glass deliberately? Again, because you guys had some marketing savvy even at that early stage, so was it like, "Oh, we think there's an opportunity to be inspired by the Jack Daniels bottle that Stubb had already sent it to us?"

SCOTT Yes and to his credit, Stubb had a couple of requirements, right? He's like, "If it's my recipe on the bottle, it's going to be my face on the label." And we were like, "Yeah."

BEN Perfect.

SCOTT "I'm not a master. You are. You wear this great cowboy hat and you're just a genius." And bigger than life personality so we're like, "That's why we're here." It's flavor and personality, right? And authenticity, you know?

You couldn't lose with that. But we always paid three times the amount for a paper label to have a rough hume feel to it and using certain inks that were way more expensive verses driving cost down to having a label for a quarter of a penny. There were three or four cents a piece so it had that feel -

BEN You gave a little premium touch to it, yeah.

SCOTT Yeah, we wanted people to know that it was crafted and from an original recipe and speaking of the natural, there was none. You didn't talk natural then. There was no such thing as it. And so how we did it, it was Stubb's recipe. I remember being down on Sixth Street which is kind of an entertainment district here in Austin, lots of bars and live music venues and if you wanted to meet Stubb, you don't meet him at like ten o'clock in the morning. He was a night owl, like he loved going to see live music.

So, we met him at a live music place and over in the corner he's at a little round table and he literally wrote the recipe on a cocktail napkin of which still exists and that recipe was what we brought to our first quote unquote co-packer. Lea & Perrins Worcestershire Sauce.

BEN That's right.

SCOTT Such and such.

BEN Because he's just buying stuff off the grocery store shelves.

SCOTT Correct. And then because we're now converting it to a place that might make 250 gallons or 150 gallons at the time or smaller kettles, they're purchasing things in much larger lots so we can't literally, we don't have room to buy Worcestershire Sauce in its full form. But from the same company we'll buy the Worcestershire base and so they make institutional type of ingredients. They take the water out and then they can ship it more efficiently. And so, all of those ingredients, they were in some of those products, those ingredients that we were using, sulfides or sodium benzoate, or whatever and we were using high fructose corn syrup because that's what the co-packer was already using for something else, they were using.

And so, when we went through a couple of iterations of making the first batches that Stubb was like literally approving in the kettle, a little more pepper, a little more this, but still using those slightly different ingredients subsets was the most delicious barbecue sauce you'd ever had.

But still, we had to make a turn 10 years later to get into the Whole Foods of America. We had to kind of say, "All right. What can we do? What can we do to make this natural?"

BEN So it came deliberate later.

SCOTT Correct.

BEN You were just trying to do anything at that point.

SCOTT Yeah.

BEN Yeah, which makes sense because those were the available options to you at that point and you knew at some point that Stubb himself could only make so much barbecue sauce. You had to go to, now I want to point out, you said a quote unquote co-packer. And I think this is probably pretty interesting for people because again, probably most people assume that, "Oh, there's just this network of sophisticated co-packers out there and it says co-packer on the outside of the building or whatever, so we just find it." Again, this is definitely pre-internet.

SCOTT No Google back then.

BEN So, how did you find somebody who could make this thing at scale?

SCOTT That's a really good question because it doesn't seem like so far ago but to any one of your listeners, a time before the internet or Google, that's what it was.

BEN You call information?

SCOTT Yeah. So, it's friends and word of mouth and that's who introduced us to our first contract manufacturing up in the North Texas, Dallas/Fort Worth area. If you were smart enough you would have known, which we didn't know that there was a Texas Food Manufacturing Association.

BEN Right, right.

SCOTT Walked into their building here, wherever they are, I'm thinking Austin and then found the list of them all. Now there's a PLMA, Private Level Manufacturer's Association show and they have exhibitors listed on their website and so it's a lot easier now.

BEN Even that's not super easy because it says you have to like to apply to attend the show. It's not super public but yes, it's still out there. You can find it now.

SCOTT And we didn't even know what that relationship meant quite honestly. It's like, "All right, well, hopefully a lawyer friend of ours will know how to guide us on a contract on what to do to create the legal form of the relationship between us."

BEN Right. You've never seen a co-packing agreement.

SCOTT Nope. All we knew was Stubb with a kettle and a Bunsen Burner that you would do crawdads with underneath it. You know with a big wooden stick? And ladling it into bottles and then wiping off the bottle and capping it. You're like, "Okay, I think this is good."

BEN I think, yeah. Drop it in an ice bath maybe.

SCOTT We did boil it, yes and now it's going to be safe.

BEN No, it makes all the sense in the world. I love it. So, let's fast-forward a little bit. Ten years in you see an opportunity, as the market matures, you've learned a lot as you've gone along. You've become an expert at sauce, and you've developed granular knowledge of tomatoes and all the things that you had to learn about this world. Was it a difficult decision for you to kind of take this natural turn in the business?

SCOTT Yes, only because we were cognizant at that time. So, Stubb himself passed away about four, five years after we started the actual formal company and moved down to Austin. And his family inherited his shares but there was a deep yearning to make sure we maintained the authenticity. I was like, "Did anyone change Colonel Sander's seasoning mix?" I don't believe so, but at some point, you also have to move with the times. So, we're really conscious of that.

And what we didn't realize and in hindsight if we had, someone that was a super high-end COO that had been in the food manufacturing business before, we just kept continuing with the recipe. Until we're here in Austin, the headquarters for the largest natural food chain is here in Austin and we can't get in their stores because there's some ingredients on there that they just don't allow.

BEN Prohibited ingredients list.

SCOTT Correct. What the heck do we do? And they're growing and they're buying stores and opening more.

BEN Yeah, those were heady days for Whole Foods Market.

SCOTT Correct. And we're like, "Well, there's not another retailer we haven't gotten into before, but this is where the market is going, what can we do?" The majority of anything that we did was really just like, you look at the ingredient and you say, I don't want to say which one it is, so that I hurt the feelings of a company. But ultimately, we find out that most of those manufacturers of those ingredients are also making an exact same version of it without sulfide in it. Because they're big multi-billion-dollar companies. "Oh, wow. You were ahead of us." But not all of them.

BEN But they're adding those things in for preservative. Again, large industrial manufacturing, they're just trying to optimize through put so it's preservatives, it's flow agents, it's whatever. Whatever they can do to get more out at the time and make it last longer.

SCOTT And not be so spread out, last longer, shelf life for them. We're buying stuff in truckloads at a time and you don't want them going bad three months later if you're buying nine months at a time. But just by sheer fact of asking, we found out that most of the ingredients were available from the same manufacturer. We had this other version without sulfide in it.

BEN Right. We have a cleaner version of this.

SCOTT Oh, why didn't you tell us? Why didn't you ask us?

BEN Nobody asked for it.

SCOTT And there wasn't this massive push for it. It was a ground swell. It was percolating. It was bubbling. And that's when the Natural Food Expo started, and it started to grow, and more independents started. I mean, you think about the last 10 years has exploded but back then it was like, "We're just trying to get into Whole Foods." It's our hometown people, we hang out with the people.

BEN That's right. It's kind of embarrassing that we're not in there.

SCOTT It truly was. And we were literally friends with some of the buyers over there because we're all shopping there and hanging out with them.

So, it took a while though. And I think one of the things to the credit of one of the guys on our team that was really adamant about it was we went through a pretty formal process of hundreds of people going through taste tests and until it was like 97 percent of them could not tell the difference, we kept tweaking and tweaking and tweaking and it took a year. After that every product we made was all natural.

BEN Was there a temptation for you to buy for Katho Line and so you had kind of the conventional and natural Stubbs?

SCOTT No, we thought about doing it between the conventional and organic. And at that time, organic ingredients were totally unavailable unless you were in kind of a single ingredient type of thing.

BEN It can still be difficult even to this day. It was near impossible back then.

SCOTT Think of milk. If your milk is like, "Oh, I can make that because I'll just ask this farmer to have his cows only graze and not do a certain hormone treatment or something."

BEN And that farmer just looks at you sideways.

SCOTT Yeah, yeah. But I'll pay you 20 percent more, but for us it was like 14 ingredients. How could I get all of these ingredients? And we sought it out, but it just wasn't available.

BEN Right. Yeah. No, that makes a lot of sense. When did you know that Stubbs was going to work? And again, this may be taking us back in the timeline just a bit but like, when did you know that like, "This could be a pretty big deal?"

SCOTT Yeah, I think there were some false feelings of that very early on. When we were seeing what the velocities were doing in stores and we humped it man. We humped it.

BEN In yellow cabs.

SCOTT In the beginning there wasn't a Thursday, Friday, Saturday or Sunday where two of the three founders weren't at a supermarket somewhere in the country doing two demos at two locations and then the next day two and then the next day. So, we knew we had to introduce it to people by sampling it to people.

BEN Right. Well, I want to pause there a second because I find as I talk to start-up founders, I meet a lot of people who have a tendency, I meet people who want to skip steps. They think, "Oh yeah, that's cute, that's cute Scott that you guys did that, but I'm just going to outsource that. I'm going to be more efficient. I'm going to be more abstract myself out of the business really on." But what you learned about the consumer in those face to face interactions that was humping, and it was hard and grueling, and you didn't want to get out of bed probably a lot of days too. It's like you will never, even when you're big and you have access to all this really expensive data, you'll never have the same level of rich data. That's why I encourage people.

Like, if you can do a farmer's market, do a farmer's market. It's the best consumer research you will ever have access to because you're actually going to watch people interact with the product with your own eyes, no intermediaries and you can't put that into an algorithm and really grasp the depth of how people, "Yeah, I love it." But their facial expression -

SCOTT Particularly if you don't tell them you're one of the founders or owners or whatever because you got to like to put that distance between you so they're not just telling you something you want to hear.

BEN They're not performing for you.

SCOTT Yeah. I'll give you two really cool examples because it's not only consumer based but it's also the retailer base. Spending a lot of time doing your own demos in a store will give you insights in how a store director works and thinks. It will give you insights in to how busy they are. Give you insights on how the grocery manager in the store is working, so two things. One, we only had one barbecue sauce when we first started out. Got into HEB here, was the first one we got into, big chain. Through Newman Distributing San Antonio at the time.

The next one was Publix. We got into like three or four hundred Publix's through Fine Distributing out of Fort Lauderdale, great presentation, everything went well. And so, we're like in Florida and Texas and we got to do demos, right? And we got one barbecue sauce. They put a couple of facings up there. They're going to see whether or not we can do something. Doing those demos in Texas, it was like, "Ah, we're doing really well." We go down to Florida and Florida, particularly in the wintertime there's a lot of older people there and from different areas, not so spice oriented.

BEN From the Northeast.

SCOTT And we're like, "Oh my God. This is so spicy."

BEN Right, yeah. It's so true.

SCOTT I'm like, "What?" And I was like, "This isn't spicy to me" and that became this deep understanding that different regions have different likings. We went back immediately and we're like, "Same recipe. Cut the black pepper in half, cut the red pepper in half." That became mild. Then we're like, "Add 50 percent more" and 50 percent more that became spicy. So, the original one, we jiggered it out.

BEN That was medium.

SCOTT Then suddenly we had three of them.

BEN That's right.

SCOTT Just with the pepper change.

BEN Absolutely and you see that too. You know, you can go to the Northeast where you're from and you try salsa there and you're like, "What? You call this salsa?" What in the world. Yeah, it's sweet.

SCOTT How can this be?

BEN Yeah, so there are these really distinct regional tastes but you guys, you read that and because you had that face to face interaction, you actually used that as kind of fuel for your own product innovation.

SCOTT Yes and then the final little nuance. This is one of 50 things you'll learn about doing that many demos. We're in a store and I've got toothpicks and the store director, I think it was a Publix. The store director comes over and he's like, "Ah, this tastes really good." He goes, "Why the hell do you have round toothpicks in here?" And I go, "We just buy them from the store we go to. You're selling them here. I just bought them." I thought he thought I was like stealing them or something. He goes, "No, no, no, no, no. People slip and fall on round toothpicks. When you're doing a demo you only use flat or square toothpicks." And I was like, "Ah, okay. I didn't know that."

BEN He's got a safety training.

SCOTT So, like there's a lot more to learn with plastic gloves and hair nets and all that kind of stuff and how to work within the confines of that kind of stuff. How to work within the confines, no extension cords that are going to be tripped over by anyone, keep out of the way of an aisle because an aisle has enough room for two carts plus 10% to pass each other.

Once you know that, you can then know later in your life what you're dealing with, with what's going to happen inside a merchandising event at a store.

BEN Which informs how you coach your team and if you have other third parties who are doing this. Because you've been there, you know your product, you know what's actually happening in the store, you know who the decision makers are, how to activate at that store level. Because you can have that top level buy in, you're like, well, the CEO of whatever chain loves me. It doesn't matter, man. You need to know, does the department manager love you because he or she's going to be the one that keeps you from going out of stock.

SCOTT Exactly. And you were talking about this today. What are the steps that some people can skip. You can skip some of those, but they will come back eventually to bite you, or you better have someone else with the expertise that's part of your team. There was no place to learn it, but ourselves, and we weren't financing this thing with private equity money. It was friends and family, 10 to \$25,000 a check at a time.

BEN Yeah, that private equity ecosystem hadn't filled out in the same way.

SCOTT Didn't exist at all actually.

BEN Yeah, so it was people. And you hear a lot of folks from this era, Gary Hirshberg or others, you're just getting checks from anybody who's willing to write one.

SCOTT Yeah.

BEN And trying to make the best of it. Let's fast forward a little bit. How did you decide to move on from Stubb's, and then how did you end up transitioning? What did that transition look like when you found yourself at Rhythm Superfoods?

SCOTT It was 2008, 2009. The economic downturn had just happened and some of our board members and owners were you know, before it was happening, the smell was in the air that something was going to go bad.

BEN And again, for people who are maybe younger, I try not to take all this stuff for granted. Those were rough couple of years in almost every part of the economy. Funding, if you were trying to raise money, it was next to impossible to raise money. Everybody stuck their hands in their wallets and kept them in there real tight.

SCOTT And the real fear was that the whole world was going to come to an end. We see video footage of the great depression with lines of thousands of men in suits and hats trying to get a job or just a loaf of bread. And literally, that was the scare. Wall street was about to crash. And so, it was decided that we were going to pull back significantly from what we were going to do. And I had an interest in doing more, and to some degree, was at conflict with what our board, which I was on the board, but just one voice on the

board, wanted to do. I felt like there was nothing but growth to still be had as consumers started walking away from restaurant out of home.

BEN Which can be. A lot of people would say that some of the greatest opportunities are in those downturns.

SCOTT And it was. We had our next best year the next year after the crash because no one was eating out. But the small indulgent they had was entertaining at their house. And a small indulgence was a \$2.99 bottle of barbecue sauce. That made it seem okay.

BEN It was an affordable indulgence. So instead of going to fancy barbecue restaurant and paying \$20 for your brisket, you can make something yourself and you feel like you got a taste of that fancy barbecue restaurant.

SCOTT And it was an event to barbecue outside and grill, whether it's with your family or friends, it's event-ing versus getting in a car and driving to a restaurant, which is an event too. And it's an indulgence.

BEN Absolutely. I need to pause you there because even you saying event reminds me, I really want to, before we move on from the Stubbs era, how did you guys decide that there needed to be a restaurant?

This is important. For those of you who visited Austin, like Stubb's, to this day, is this iconic restaurant, mainly known as an outdoor music venue and stuff like that. But it didn't always exist.

SCOTT Yeah, Stub, himself, E. B. Stubblefield, half of his path of fame as a barbecue master and as a man was the barbecue side. He was just a brilliant chef cook. He called himself a cook. The other half of it was his love for music and musicians, and he would follow musicians anywhere. He wanted to cater any major show, whether it be Rolling Stones or Jesse Guitar Taylor playing at some smaller joint here in Austin. And since he had had several restaurants throughout his life, Stub as a brand, needed a place to hang his hat.

And so, from day one, even though there wasn't a Stubb's when we jumped in and started the sauce company, my partners and I, and Stub in particular, there wasn't a month where we weren't looking at a piece of land somewhere. And I remember there's two or three of them that came really, really close, but the location where it is right now on the corner of Eighth and Red river was something that I believe it was Eddie had found it driving around and saw it. But Stub had also independently found it and it was like one of those jinx moments where we were all together. Hey, I got to show you this place. It's over here. And we arrived there and we're like, Oh my God.

BEN Was it vacant or was it being used for anything else?

SCOTT Two things were happening there. Oh, three things. It's right on Waller Creek, which is a running creek on the backside of it right in downtown Austin, really close to sixth street and I-35 and it's a whole city block. And at the time, what was available was only about a third of what we have right now. There's three different owners of parcels connected, but there was the front part of it. It was a 160-year-old building that had been built up over time. It was Austin's first dress shop. And before that, it was a place where Mexican stone masons had moved up to help build certain buildings.

BEN Limestone facade and all that.

SCOTT Yeah. And so, it was old and had three different stone and stucco and brick. But in the back, there was a lady that was living there, and she had some pigs and chickens running around what is now the amphitheater, and just had it fenced in.

BEN Just the yard?

SCOTT Yeah, it was a yard. And then behind her was this longer building, which is now the restaurant's office. And that's where all kinds of shenanigans were going on. There was an encampment in there with needles and all kinds of stuff.

BEN Oh, yeah, because this is a, again, back then-

SCOTT Shady area.

BEN Super shady. Yeah, still can be a bit shady in that part of town to this day.

SCOTT Yeah. Once we saw that, we're like, this is perfect. It's downtown, Austin's growing. We had been looking at some stuff really far away like the Salt Lake was open then and it felt like you were going all the way to the driftwood. But this was like, wow, this is close. Let's see what we can do. We decided to buy that piece of land and gather an investment group together. Not everyone that was part of the sauce company's investment group wanted to risk their money on a restaurant.

Some of them were the same. One of my close friends, Browning family, a couple of the boys in the Browning family, Will and Bob, had put much of the money in committed first off, and then we filled it in with other people. But we did it on the cheap. We bought the land and there was a building there. And for the next year, we did it ourselves. The only things that we contracted out were the things you had to like we need some framing inside to make the building stable, all new plumbing, all new electrical. But if you're walking on the floors, I probably did the nail gun on half of those floor planks. We've redone my bad job of tiling in the bathrooms, but originally that was all my tiling work in the bathroom.

BEN Right, right. You learned. You got a book at Home Depot or something like that.

SCOTT It was nowhere near what it is right now and it's still a little bit of like hell's half acre down there. It's not clean and beautiful.

BEN What did you think it was? Was the thesis at that point that the brand, the sauce needs a showcase? And was it always food and music?

SCOTT Always. The day we opened it was live music and a smaller outdoor stage than we have right now with no cover on it because Stub just had this great network of people that wanted to be around him and play, and we wanted to continue that legacy. The sad part was we had put the investors together and let me just say it's something like 4 or \$500,000, something like that, to buy the first piece of land and a little bit of money to build out what we were doing.

BEN In the '90s or early 2000s?

SCOTT Maybe 94 or 5.

BEN Okay. Yeah, again, that's a lot of money back then. Still a lot of money today, but it's inflation. That was a big investment in a not sure thing area, Downtown wasn't as nice at that point as it is today.

SCOTT No, we knew us being there was the first cleanup of that area. It was horrible. It's still not the cleanest place, but a couple of hotels have moved in. It's getting better. colloquially have a saying, it's the perfection of the brand. The brand was on all these shelves and Stubb was who he was, and websites were just starting to happen. But if you could come visit and taste Stubb's recipe, then whatever the brand meant on a store shelf, you'd be perfecting that relationship that a consumer would have with the brand by having a place to come to.

BEN You felt like that legitimize the brand too, because for a lot of people, they do associate, and you'd mentioned this earlier, that, Oh, it's a restaurant, the restaurant makes a sauce, they bottle the sauce and then they sell it. And so, you guys did it backwards.

SCOTT Correct. Yeah, he had had his restaurants with all kinds of different levels of success or failure, but we just knew that if we had a restaurant, both of them were going to feed each other, which they still do to this day. I can't tell you the dozens and dozens and dozens, if not hundreds of people a week that come in. They happen to be here for business or a trade show or convention or whatever they're doing, and they have three bottles in their refrigerator, and they've got to have a meal at Stubb's.

BEN They do. It's a pilgrimage.

SCOTT Yeah, and likewise. If you're here eating at Stubb's, someone's going to buy it on the shelf later on.

BEN Because then you went to your hometown or home city and it reminds you of your trip to Austin. A lot of people have a really good time when they come to Austin. So, it's a favorable memory.

SCOTT Yeah, and if you go in there, there's all kinds of memorabilia, photos of Stubb backyard barbecuing, hanging out with all the greats from Dolly Parton, George Jones. He's got his arms around Johnny Cash and June Carter Cash. It's real. It's the real deal. So, we knew we had to have a place to express that authenticity.

BEN Right. Do you think that more brands should take that sort of thing seriously?

SCOTT Not every brand has to be authentic like that. I think in the category that we were in, authenticity, and not that something else can't be successful without it, but the nature of the brand of barbecuing, the people that do it a lot, they live and die on perfecting their own personal relationship with how they cook and they know their cold spots on the grill. A lot more people grill than they do smoke. So, authenticity and really delicious flavor were key. I don't know if that lends itself to the energy bar for every segment in the energy bar category. So, you just got to go run deep with what makes you, you.

BEN Right. But then sometimes, again, for some barbecue purists, they're like, well, sauce is superfluous. You don't even need this. Now, you've got to be authentic to yourselves. But then, there is a certain set that thinks, well, authentic, real barbecue sauce...

SCOTT Particularly here, we have this middle of the 1800s, the Czech and German migration of immigrants coming into this area, bringing their beer and sausage and smoking and curing. They're still here, and most of those places are not giving you a bottle of sauce or a ladle. Some of them are, but not all of them.

BEN If you ask for it sometimes. It's just not part of that. Particularly central Texas. Okay, sorry, I interrupted you, but I wanted to hear that story. Then you had said downturn, board decides we really need to scale this thing back, be more conservative. That wasn't what you were thinking needed to happen. And again, Stubb's would go on and continued after your departure and you were involved there through. And eventually sold to McCormick several years later. But well before that happened, you made a decision to try something else.

SCOTT Yeah, when we went in that direction, we were trying to figure out what we were going to do. I was still there as the CEO, but trying to figure out do we just wait this out, what are we going to do? I started getting interested myself and saying, well, been here for 18 years or 17 years, whatever it was at the time.

BEN I could get a little stale.

SCOTT I could go do something else and still stay on the board and help in that manner, whatever I can do. That's where I started spending a little bit time looking around. And I had a friend here in Austin, Clayton Christopher, who had met a guy named Keith War, who was making kale chips.

BEN He was making a lot of things, wasn't he?

SCOTT Yeah, really broad.

BEN Just this creative musician guy who was just creating stuff, smoothies and kale chips and all this stuff.

SCOTT Almost everything that he was making back then was before its time. It was always ahead of his time. All the stuff right now that's coming out and becoming successful, I'll give Keith that. He's always about five to seven years ahead of it. Talk to him now and start the business slowly.

BEN It'll be perfect. Yeah.

SCOTT The kale chips that he was making at the Daily Juice juice bar in the dehydrator were incredibly delicious. We had just gone through the process of going natural with the Stubb's brand, had been to the Expo West a couple times and I'm blown away. There's natural toothpastes and deodorants and foods and beverages.

BEN And it's growing.

SCOTT And it's growing big time. An energy there, at that time, that was almost like the new world. We just got off the ship and what can you do here in the great America? And we go to all the shows, but at the fancy food show, there was an established group of people. There's a lot of important stuff coming in.

BEN Specialty gourmet, imported.

SCOTT And that has transitioned as well into everything. But at the time, was very hardcore natural organic stuff that was going on at the Expo West. And so, I was like, whatever I'm going to do, I've been doing a lot of barbecue and I'm an expert at it. I've spent the nights at the Kansas City barbecue contests with some of the best to see how they do it. But I want to slightly do something else. And if I could pick a path, can I pick a path that, one, is economically where the world is going, two, that maybe favors my health so that barbecue and ribs and brisket isn't all that I'm known for.

BEN That's right, not the best long-term path if that's the only thing that you're eating.

SCOTT Yeah, I was thinking like, all right, well, kale chip's purity. But I loved them. And so, I just started hanging out with Robbie and Keith, and at night, go over there and see what they were doing.

BEN So there's one Daily Juice or something?

SCOTT There was two Daily Juices, a third one that just opened where they had another bigger dehydrator and they were actually selling them to a co-op here. There was one at the time and two of the Whole Foods. And they were delivering every day to the back door and scanning them in and very inefficient way of getting it done. But they couldn't keep the kale chips off the shelf. They were selling energy bars and mixes of mushroom powders and things like that.

So, there was all kinds of things they were doing, and self-delivering. And the numbers were incredible for the kale chips, 10 units or 20 units or 30 a week or whatever. They couldn't make enough because all they had was one dehydrated at the time. Then bought another dehydrator. I was like, this is special. There's something going on here. And maybe it's kale or maybe it's the other stuff or maybe it's just natural, good food. So, I took some samples and started sending them to folks outside of the zone because Austin can be a bubble. You could start to believe that everyone is as healthy as they are here in Austin.

BEN That's right, yeah.

SCOTT And the brokers and some of the buyers that I was sending the bags to, and they were coffee bags, brown paper coffee bags with a sticker on it.

BEN You line a sad little brown bag.

SCOTT Yeah. There was a lot of encouragement. And so, I started hanging out there more and, on the weekends, looking at proformas of how do we scale this, investigating equipment, and can we find co-packers for this?

BEN Now, at that point, did you think of yourself as a startup guy? Self-identity wise?

SCOTT Yeah.

BEN You did? And I you'd own it, and you'd been there, so you've been doing this now for a while. But steps had gotten bigger, and so you hadn't, in your head, said, well, I'm just a big corporate guy again or something like that?

SCOTT No, I felt scrappy and I still do like. At some point, Rhythm, where I'm at right now, it's like, I don't know where the wall is but it's somewhere ahead of me and I'm not afraid to jump in at the ground. And some people aren't comfortable there. But I am. And I know what it takes. It's just don't take no for an answer and keep pivoting.

BEN Yeah.

SCOTT We're getting positive feedback on that product and I'm indicating to my board, it's like, hey, let's get ready. I'm on my way out here and we're in good hands with folks that'll be here. And we eventually found a guy named Matt Gays, who took in a CEO role for the next four years or five years that he built it.

BEN Yeah, Matt's that's a super good guy.

SCOTT Yeah, and he did a marvelous job of getting it ready for the big time, which was preparation for getting it sold to someone. And meanwhile, I was starting this other company, which was basically an organic vegetable and now fruit snack company, that hopefully delivers more nutrition and goodness than the snacking that we're doing on a daily basis in America. That's a \$20 billion worth of sales of the other stuff.

BEN Right. Now, you mentioned that you thought, again, you came out what is at least perceived to be a commodity pantry, staples type business, and in your head, you've been seasoned through going through all these experiences, you thought snacking. That's interesting. You're thinking about the natural organic thing, you're thinking about snacking, which tend to be, as you had begun to encounter, potentially a much more high velocity category or item and that sort of thing. And that was deliberate for you, right?

SCOTT The snacking part was. The word snacking was not deliberate other than the box checking, if I remember correctly, how I was thinking. When we picked the barbecue sauce category, it was growing at 2 or 3% when we jumped in. And that's a half a point more than the population growth. So that's just slightly above grocery sales growth. In the world of being successful, there's a couple of things that you want behind you as a wave that you're going to ride. One of it is what is the growth of the category. And if you can jump on a wave that has 5, 10, 15% segment or category growth, then all people lift up nicely versus battling it out for a share. And that really was the barbecue business. If we hadn't had the authenticity-

BEN You have to take it from somebody else to get any business.

SCOTT And if we hadn't had the authenticity of Stub and the great recipes that we had, we were just then another person that was two and a half times more expensive than the guys that know how to make it cheaper.

BEN Right. Whereas, if you're a, let's say, five years ago or so, you're a kombucha, and you're creating a new category. You're not taking from other kombucha companies because there weren't any.

SCOTT Right. I think it's prescient that you said snacking because it was just starting to be at that time that there were all kinds of prognosticators that were saying here's what the next 20 years will be like, and if you can get your hands on the data that's real. And then put together, America was changing their behavior significantly at the time, and people were just starting to put their hands around what the data meant. We were not sitting down for long meals anymore. We were eating many more meals, smaller meals, snacking.

BEN On the go.

SCOTT Snacking. And so, everyone saw that, whether it was healthy or unhealthy, that's where we're going. What can you do? And if you look at a store right now and what they merchandise versus what was being merchandised 10, 15 years ago, the space that's given to grab and go, and it's not just chips.

BEN Ready to drink.

SCOTT Sandwiches, single units of yogurt.

BEN Prepared foods.

SCOTT Prepared foods that are just one thing. And so, that, whether it's refrigerated, or it's grab and go in its own aisle, that has followed through. It's been truthful. And so, snacks are continuing to be the wave of the future for how we are changing our behavior.

BEN Right. So, you found this below the radar company here in Austin, and they were down in Barton Springs or somewhere down there.

SCOTT Exactly, yeah.

BEN And so, you said, I think they're onto something. And you decided, okay, now is the time. What did you, besides having a craft paper bag of kale chips that you'd sent around to some people and validated, yeah, people actually love this stuff. What do you do next after that?

SCOTT You try to get your first door to open so that you can create a data story.

BEN But they had a couple of Whole Foods and a Wheatsville at the time. And so, was your first impulse to professionalize it or rebrand and things like that?

SCOTT Yes, definitely professionalize it. And with the partners, Keith had designed the logo. And for a very short period of time, the juice bar, the Jamba Juicy place was called Daily Juice, is called daily juice. We quickly found out that consumers got confused with that with snacks.

BEN Right. Are you juicing the kale? Yeah.

SCOTT And so, we went through a period of a month or two of self-introspection. What should we really be calling this? Let's not think so small. And the juice bars were going to start growing and open more of those. And then there's going to be confusion. Do they really help each other? So, we separated the juice bars from the food company, and split those two. I ran that. We had another person running the juice bars. And so, as a food company, we changed the name to Rhythm Superfoods.

BEN Austin's very musical.

SCOTT Musical, rhythm of your life, rhythm of your body. It was great. Except later, now, to spell it in an email is really fundamental.

BEN Second nature for you now.

SCOTT 60% of the world does an H or a Y differently. So, came up with a name and there was this professionalization. I had to get it out of the coffee bag, if you will. That took six, nine months too. We're working with designers and working with film producers. The first one was like, okay, but we had that inventory of it, so we're going to go through that, the next one. And then we start paying more for the designers. Oftentimes, not always, but oftentimes, the more you pay, the better you get. I'm not going to say it's always that way because we all find those great gems of design that are reasonable. And he or she really got us. They were able to express it. But you do find that once you can do a certain zone, you're like, all right, we need to be able to get someone that really knows what they're doing, has two or three people.

BEN Right. It's like a medical professional. At some point, a dentist, oh, you do a lot of root canals. You're probably really good at root canals.

SCOTT Exactly. And you'll see their portfolio of 20 different brands. You're like, okay, they know what they're doing.

BEN Right. So, the same thing is true with designers and brokers and other service providers and things like that?

SCOTT Yeah. We found a couple of people first using the guy locally here. Toby is no longer with us, but he did a super job at creating the brand of Rhythm Superfoods and we started, all right, it's printable bag. It's costing us a lot less than stickers and brown bags before. And now, we're producing cases, and now I've got to figure out how to scale. I can't find a co-packer because the specialty forced air warm dehydration process that is demanded for long periods of time so that you're not baking it, but just -

BEN Low temps.

SCOTT Low temp, you're having air that's dryer than what's inside the chamber blow across the moist kale that has a flavor sauce on it. And 10 to 12 hours later, or 12 to 14 hours later, depending on the machine you're working with, it's dry enough that nothing will ever grow in it. And it'll be shelf-stable for six or nine months.

BEN]. It's food safety and all that kind of stuff. Yeah.

SCOTT There were people that had dehydrators, but they were like, all right, well we've got seven of them up here, but for five months every fall, we're 24 hours a day we're -

BEN Deer Jerky.

SCOTT Or a plum or whatever.

BEN And this is a common challenge. If you're doing something innovative, if you're doing the same thing that everybody else is already doing, there's probably a lot of just plug and play. No big deal. But often, you're really trying to pioneer a new category or new product, it's going to be tough like this because there's not just an obvious solution. You may have to figure it out yourself, engineer it yourself.

SCOTT With barbecue sauce, whether we add 10 or 14 ingredients, they were always sitting in pallets in the warehouse whenever we needed to scale up. As you know with ponder foods, there's a hundred competitors around the country that have the equipment needed to put something hot and pasteurize into a bottle, and then put a label on it and a cap and make it look good. And so, the assets of those plants have been usually paid for over many years.

And so, if you come in and say, hey, I've got another 20,000 cases a month I want to deliver to you, you're like, oh my God, I can give you a great price because now, you get to spread 20,000 cases over whatever overhead you have. It's making everything more profitable.

BEN Rather than you, the brand having to pay \$1 million for a piece of it. Because all this machinery is very expensive.

SCOTT Which may only be operated for two shifts a week to begin with.

BEN Right, because you don't have the volume yet.

SCOTT Correct.

BEN So you're not gaining the efficiencies or economies of scale. It presents a lot of chicken or egg problems for a brand.

SCOTT And I think nowadays with private equity investment, there are many private equity people that don't want to get involved in the asset and capX game. They'd like their money to go to growth, but when you find yourself in where we are, there's an upside to it as well. What we have done, I'm going to say it's simple, but it's difficult. I take from an organic farmer produce out of his or her field and hopefully it hasn't rained for the past week, so you don't have to wait four weeks to get it out of the field. I take it out of there. It is in a cleaning, and if it's a carrot, the top and the tail has been cut off and a little skin has been taken off of the outside. And it's in our plant being made into a dried snack within 24 hours.

BEN You have to get as close to the source as you can possibly because if you can't ship that kale from one end of the country to the other end of the country or across borders.

SCOTT We were, and it was difficult. It presented itself with, wow. By about day seven or eight or nine, the kale starting to look limp. And this truck got caught at the border because you're sourcing from organic farmers in Mexico and California, wherever. Or it just rained in California in your contracted field. You can't get anything out of there for four or five weeks. Oh, what are you going to do? The people show up at the plant the next day no matter what. The simplicity of how we make it as simple. The supply chain of what we do is a moat.

BEN The variables that go into actually manufacturing the product are...there are hundreds of them.

SCOTT Yeah, and that's a moat though because, like you said, if you came out with a ready to drink tea right now, within Texas, there's five or 10 people that can make it and bottle it. Give them a recipe tomorrow, by next Friday, they'll do it for you. But if you say, I've got this really unique way that I'm going to make this, this and this, you may have to go out and forge your own way. Because there are no co-packers available and that's where we found ourselves.

BEN That's right.

SCOTT So, we invested hundreds and hundreds of thousands of dollars on bagging, dehydration, processing equipment, and had these quasi co-packing relationships, where we'd bring in the equipment, they Manage the raw materials and staff, the production, and then made it for us for a total fee.

BEN Those sorts of hybrid relationships, they're a unique challenge. Obviously, you talked about super capital intensive, time and attention intensive. There can be a happy accident along the way. That's the best way in the world for you and your team to really understand your product. Again, that gets back to my comment earlier about skipping steps. Even when you have an obstacle, something that is unfortunate or difficult, there can be a silver lining to it. And that is, if they were just super easy and you're just like, "Well, this co-packer relationship, it's a black box. I put in money into the black box and spits out kale chips on the other end of it." I'm great with that. Cool, but you didn't have that luxury and so it forced you and your team to actually... You had to be pretty intimately involved in understanding how one makes kale chips.

SCOTT Absolutely. Like when we were in Austin for the first two years, making it in a commercial kitchen, but we bought, I think, nine of these smaller sized Harvest Saver dehydrators and we were working 24 hours a day, seven days a week. We were moving truckloads a week in a very small space. So, I know every angle.

BEN As fast as you could crank them out.

SCOTT As fast as we could crank them out. And then we moved to another one in North Texas, expressed ourselves to the highest level that we could there. Moved to another place in Colorado and then started getting to the point where we really need to be right next to the fields so where are we going to go? Are we going to California? Are we going to the border? If you don't know, in the US, 35-40% of the produce comes from Mexico, in the US, particularly in the winter. It's like 60% and less so in the summer.

BEN Because weather.

SCOTT Yeah, weather. So, we're down in the zone in the state of Jalisco near Guadalajara in Guadalajara where the zone 150 miles around that center point right there they're growing stuff 12 months out of the year. There's a rainy and a dry season. All the major US growers are down there with big operations, whether it's tailor farms or California giant strawberries.

BEN And a few tequila operations.

SCOTT And a lot of tequila operations too. That's right, yeah. So we had to do this quasi purchase the equipment because ultimately, if you don't have the equipment and you're trying to figure it out, you're either going to go build your own plant and buy the equipment anyway or you're finding someone and asking them to buy it. Well, they have to look at your financials and know exactly that you're safe to invest \$1 million in equipment.

BEN There's a lot of risk in that for them.

SCOTT Yeah.

BEN Yeah, absolutely. And I think that that presents all those different challenges. A lot of times I tell people, you do what you have to do, right? You're running through walls; you're jumping over walls. But as a rule of thumb, the path of least resistance is you don't necessarily want to be your own manufacturer unless you're Scrooge McDuck and you just have so much money that you're bathing in it and/or you have a very specific set of skills personally or on your team where you're an industrial engineer, chemical engineer, mechanic.

 Like if you actually are an expert at this stuff, then that might make some sense for you. But in my experience, and I have a feeling in your experience, most of the natural organic food company founders, that's not their background.

SCOTT It's not. It's usually sales and marketing typically and not the operations side, and you are correct. Most people go that way to the contract packing way because it's like 70% of the problems you have is supply chain. And so unless you come straight out of the gate with an incredible team that tackles everything perfectly, it's a lot easier to tackle the sales and marketing issues that come up than what it is to tackle like, "Oh, I'm making an energy bar." Well, there's 40 people that do extruded energy bars within five hours of here, right? So why would you reinvent the wheel?

SCOTT In the end, if you were really cranking out like \$50 million a year in revenue, "Gosh, I'm giving up so much margin by giving this guy this business. I really hate that we do that."

BEN Or you wanted to make it private label for Trader Joe's or some other place like that, there might be some justification but you're exactly right, yeah.

SCOTT In the very beginning, your bars are going to cost you \$2 a bar rather than 32 cents a bar because you have bought all this asset building, paying rent and electricity and lights-

BEN Manufacturing really only works at scale. The economics work at scale. People think, "Oh, I'm going to go to a co-packer. I'm going to get it cheaper." In the beginning, no.

SCOTT No, no.

BEN But if you need, again, you need that path to be able to scale in and yes, down the road, you're going to get it for much, much cheaper, yeah.

SCOTT And so everyone in the beginning, because the prices are higher until you get to that scale, you're eating it on margin to prove out the success of the product. Because it's hard to prove out the success of the product unless you're pricing it at the price that a consumer will take it for.

BEN You've got to find that, yeah.

SCOTT You know very well having been at Siete, it's like those almond tortillas, the fresh tortillas...

BEN They were expensive.

SCOTT They were expensive. But the consumers who are really hardcore into that, whether it was paleo or keto or whatever the dietary function was, they're so passionate about it. Those were expensive to make but there was a really awesome set of consumers that were willing to pay that price. And if you want it to be more mainstream down the line, the price is going to have to go down but who knows? Maybe there's enough people to take that price.

BEN That's right. But it takes a while because we had a similar story, there were days where we had a bunch of ladies in a kitchen hand pressing, hand flipping on a griddle as fast as we could. You reached your ceiling pretty quickly at that point, right?

SCOTT Before automation kicks in.

BEN That's right, yeah. Absolutely. So then, so you grow Rhythm, it starts as kale chips, right?

SCOTT Yeah.

BEN But then over time, you're diversifying into a lot of different types of fruits and vegetables and things like that. How have you understood or grown in your understanding of what's the right path for innovation? Are you just throwing ideas against the wall or is it all data-driven or is it experimentation? Are you learning from focus groups? How do you decide, "Oh, we really need to go hard into beets or cauliflower or pineapples or whatever it is"?

SCOTT That's a really good question because I think depending on who you talk to, there's going to be different people that have different answers for this. But we embrace all of them like epiphanies. Epiphanies are just as good, but we institutionalize it by throwing ourselves in front of where epiphanies can happen. I have hired several of the top product development companies and we worked well with them and maybe we didn't get the product we wanted, but we got an idea over here. We go through the data trove of walking down the aisle, taking notes, what's a slow category that needs some revelation. And then we'll go back and see if we can find some data on that particular category and see what's going on.

And then you'll look at trends like if you're looking at a trend like grain-free and gluten-free. If it's without grain, you don't have the gluten, so what categories are still holding onto things with gluten that need help?

BEN Which is tricky by the way too. So there was a very deliberate move at Siete because at the time that we were still in the very nascent stage, there was a temptation to say, "Oh, it should be paleo." And so, it was like you should put paleo forefront and grain. The only thing that was grain-free at that time was dog food. There were some concerns like, "Oh man, we're going to have a really negative association with this."

SCOTT There wasn't anyone doing the grain-free then.

BEN No. It was a very thoughtful decision and we said, "No, we're going to just own this and put it." So, I mean, it still to this day is probably the largest font on any Siete product package, right?

SCOTT Yeah.

BEN But over time, then it becomes a trend in its own way but it's hard to detect those things at times. You almost have to read between the lines to say, "Even if people don't say grain-free, is there a market for that?"

SCOTT One other thing that we also do, we have different technologies. I call it technologies, but one of them is big commercial convection ovens. That's a way that you can process something. And we make our roasted kale that we exclusively sell at Costco in that technology.

I've got other two technologies that are vacuum related and high barometric pressure vacuums and they do something interesting with what we do. And then we have just forced air dehydration. And so, another avenue is our R&D crew, which is pretty strong, and we've got three people that are almost full time thinking about it all the time. It's like go to the store and find every fruit and every vegetable and over the next months and year or whatever see what you can do. So, let's be open to epiphany just through that direction. Meanwhile, we're hiring certain people to do certain things. We reach out and go to various trade shows and walk the aisles to see where ingredients are going and start thinking. And then we'll just do flat out four times a year whiteboard, no idea is a bad idea and see where they hit.

BEN And I think that it's that kind of experimental learners mentality that's so important because I think of it like if you're a scientist and you're doing a scientific experiment and the experiment fails, the only thing that fails is if you didn't learn something from it, right? Like actually, the exercise of running the experiment cannot fail. If you had a hypothesis, you tested the hypothesis, it came out or it didn't come out the way that you thought it was going to, then you keep iterating. That's sort of the nature of it.

SCOTT And even like with the ones that succeed and go through our gates, if you will, we'll launch them, and we have failures. Like we had one that was awesome, delicious, great. As we tried to scale its production, we could not do it. And when you first launch something, one region of whole foods is 40 stores and we're just testing it out. It's doing great, but it's like ducks on the water where the feet are scrambling below the water to try to figure it out.

BEN Right, you can barely fulfill those orders.

SCOTT We'll never get to scale here in how we are set up now and we didn't know that when we launched it. So, we're like, "Okay, we've got to pull back on this." It was a sweet potato chip; a dehydrated sweet potato chip and it was sticky. It stuck to the trays and the ability to make it quickly and at cost is going to be like \$7.99 for a small bag. We're like, "No one will ever buy it."

BEN Right, the consumer doesn't want to pay that. Yeah, yeah, exactly. Sometimes you only discover that stuff at scale too because maybe you didn't experience that when you were making it in little baking sheets or something like that, right?

SCOTT Yeah, exactly.

BEN Yeah. So now somebody could look from the outside in. They say, "Man, Scott Jensen, he's like this guy, he's a big shot. He's a co-founder of Stubbs. They learned and grew. Eventually, had this cool exit. They sold the company to McCormick. Yeah, it took a long time, but he's mentored and helped out a lot of different food and beverage startups across his career. He's now been doing Rhythm for several years. Got investment from all these, from 301 Inc. and knows everybody in the industry and that sort of thing." So, like this is easy, right? For somebody like Scott Jensen, like man, just like snap, snap, snap, just do the thing, scale it up, pop, pop. Like next challenge, right?

What's the reality of again, even somebody who has a lot of knowledge and relationships, is it that easy for you still?

SCOTT If you ask my investors, they'd be like, "When is this going to get to the level you promised?"

BEN That level, yeah.

SCOTT That you promised. Like we hit brick walls all the time. And they are product development brick walls, finalizing investment brick walls. Everyone will tell you that there's tons of money sitting on the side waiting to come in and you're like, "Okay. Well, you have to have like that one in 100 opportunity."

BEN There's tons of money if you have the right deal that everybody else wants in.

SCOTT Yeah. So, I would say that the Rhythm Superfoods company compared to Stubbs, they were equally as difficult. Early on at Stubbs, just gaining traction and sleeping in your car so that you could save the money and get to the next door to do a demo the next day and having a little wet wipe on your face, that was your shower. That's kind of difficult when I look back on it. And we did that-

BEN That's a little bit romantic though at the same time.

SCOTT The whole company, we raised like \$1.2 million of friends and family dollars.

BEN Over the whole 20 years.

SCOTT Over the whole, yeah. Then we got it all in the first six years or seven years when it became profitable. It's been 15 times that for Rhythm and we've moved faster but we haven't moved compared to where Stubbs was revenue-wise but we have been hit by the complexity of finding your efficiency in manufacturing to get your margins where you want them to be is now coming to us. But it was not in the first five or six years. And if you're not making the margins you need -

BEN You don't have the money to invest in the sales and marketing.

SCOTT Capital burn is too much. And for the first three or four years, we didn't even realize there was anyone else making kale chips when we launched them. And then we find out there was these really good companies, Brad's Raw on the East Coast and Alive & Radiant on the West Coast and suddenly, we're in like two or three regions of Whole Foods and then like, "Oh."

BEN You have competitors.

SCOTT Velocity was out of this world and then like six months later, there's two other brands on the same shelf. Now we have a third of the space and the Velocity went down in half and we're like, "What is going on here?" My spreadsheets are not going to play out like I promised. So we battled-

BEN This is going to be a dicey board meeting.

SCOTT Yeah, the kale chip industry, if you will, was suddenly three players, all well-funded.

BEN And you knew you couldn't put all of your eggs in the kale chip basket at that point too, which sort of forced your hand to, "We need to diversify across a variety of snacks."

SCOTT It did. We had blinders on and fought the fight to hold onto our shelf space and expand to those stores that deserved a kale chip. Not everyone deserves it for whatever reason. If they're in an area where there's not as many people that are really into something super healthy.

BEN You've got to find the consumers for those things.

SCOTT Yeah, once we hit the shelf, the ACV or the percentage of stores that we felt like, "All right, growth is going to start slowing down," we poured everything we had into R&D. And that's what we had to do.

BEN Right, that's the future of the company.

SCOTT New vegetable, new fruit, what are we going to do? Develop this. Focus groups, empirical research, scan through the IRI and Nielsen and SPINS data, see where there are holes in the marketplace. And we purposefully were like, "Okay, this is going to slow down. We may or may not win against our competitors. We're going to still fight that fight right there. But we have to be more than this." And we've had our blinders on for two or three years. This is more than just a kale chip company. This is an incredibly wonderful, dense, nutritional snack company that needs to expand into many, many more types of products.

BEN Right, because you saw again for projections and forecasts and things like that, you go, "Okay, well what can the domestic kale chip market be and then what's our realistic market share of that amount." And there's the ceiling, right? And so, then you look at it and you say, "Yeah, now let's take a step back and look at healthy snacking more broadly. It's a lot bigger pie."

SCOTT Correct. Yeah. From day one, we knew we were there. Keith had so many recipes that we wanted to look at.

BEN Well, and even then, you called it Rhythm Superfoods. You didn't call it Rhythm Kale.

SCOTT Correct. And we knew we were going to be more. We knew we wanted to have something healthy and the term superfood, which is it's also something that like we're kind of pulling back a little from because of the nature of how everyone is using that word.

BEN Yeah, it gets diluted through overuse. Yeah.

SCOTT But we took a ton of money kind of away from what you would say street marketing and marketing in general, trade spending and over the last, well, for the last three years, the two years at the beginning of this three-year period, a lot of dollars into R&D to develop the platform. We've got a whole pipeline now of things that we're rolling two launches per year. Some really innovative stuff that we'll be launching out next year. But it's all stuff like when we launch it, like who's going to be able to do it at scale? Only us.

BEN That's right because you've done the legwork before getting to that point. You've built the platform; you've built the manufacturing infrastructure. Now you have that kind of unfair advantage when you're like rapid cycle times too.

SCOTT Yes, exactly.

BEN So, what are other things that you, like when you first started at Rhythm and said, "I'm going to take on this challenge," did you think it would be as hard as it's been?

SCOTT No, absolutely not. Seeing the ease with which we could ramp up production because all the ingredients for barbecue sauce are kind of like stable, like they're sitting in the warehouse. You ask the co-packer, "Hey, next month, I think we're going to need 40,000 cases instead of 20." "Okay, we'll put an extra shift on." And I mean I knew how to make it. I've spent many, many days in the plant, but really, everything we made was simple to make and the supply chain of the ingredients were stable. Even once we went to purely natural stuff, the complexity of getting something fresh from the field, working with the farmers, if someone like Walmart or Whole Foods or Costco or someone comes up and says, "I really love this beet chip. I think we're going to put big displays in next month and so I'm going to need 20,000." We're like, "Well, our farmer only grows X amount."

BEN You have to actually plant the things.

SCOTT Yeah. So, it's a six-month cycle before I can get any spike above 10% spike without stealing from someone else. And we don't do that.

BEN Yeah, because there's the perishability, right? You've got just the cycle of produce and allocating farmland to a particular crop versus something else. And is this profitable enough for the farmer this year and what the commodities pricing looks like and all of that. And then you've got like on top of that, the challenges sometimes of weather, producing in a different country, having things getting held up at the border or whatever, like timing and all of the many different variables that you now have to control for.

SCOTT Yeah, and I think it's the timing of the plantings and the weather. We spread growth with different farmers. We've got four farmers we work with directly that are within 150 miles from Guadalajara and they're all great. USDA organic certified farmers, great processing stuff, like they're selling produce to all the top 10 retailers fresh. We're just buying it and processing it there. But once we have that geolocation separated, we're able to weather storms a little bit better.

So if I have something that's closer to the West Coast and a storm kind of blows in and we've got it growing at the same time somewhere else and we keep three or four weeks of inventory in the warehouse, we're kind of now at the point where we're able to weather a little bumps and grinds. But in the end, you are right. Like when I say, "Hey, we just got Whole Foods National for this item," someone has to put seeds into little trays inside a greenhouse and then three weeks later take a tractor and put them inside a row and then turn on the lines of water and then we wait and see if it's three months or it's four-and-a-half months before they're ready to be harvested.

And then there's a whole processing that takes place. Getting it to the border, getting it to our warehouse and then into our distributors' hands or retailers' hands. So, it's a six-month process of someone saying yes to and then like you said, farmer's like, "Well, I don't know. I don't have enough land right now but I've got cabbage coming out of this field in four weeks so I could do it then."

BEN Right, "Could you use some of that?"

SCOTT "And I'll turn the cabbage into beets. That's a good cross crop to put in there."

BEN Right, right.

SCOTT It's complicated.

BEN All of that complexity. Now, one thing that I think is pretty unusual, and I've told you this before about you, is that a lot of CEOs like to just kind of stay at this kind of the ethereal stratosphere of strategy and that sort of thing, and you really love the granular details. Even as you were describing the process of how the farmers work. Again, I know a lot of CEOs who and I also know you actually go to the farms. You're in the plant, you're not like this head honcho guy who's like, "No, I don't ever put on a hairnet" or whatever the thing is, right. So, you really love kind of geeking out on those details and see it as a competitive advantage. Have you always been that way? Were you always kind of like somebody who loves knowing the granular details about process?

SCOTT Yes and everyone's built different. Like my DNA is that person and it's not a micromanaging thing. I'm just intellectually curious about how to do it. And from spending time in the plants and the fields, I can talk about anything. With this company,

Rhythm Superfoods, being so produce-centric, I have to be able to talk. I go to a lot of sales presentations to our top 20 retailers. I love being there. I love hearing the feedback, trying to figure out how to solve problems that they're looking at. But when I tell them I can't do something for them for six months, I know how to talk that talk. Like you have to look at me, I'm a produce supplier. I know we're talking snack and better for you snack but I'm a produce supplier.

But I would also say is just part of my DNA, maybe that's not the right way to be. There's other successful CEOs that like fly above the dirt and maybe they do better than I do because they're not mired down into the nitty-gritty.

BEN Well, it's a different style for sure. But again, I think it also presents a number of different opportunities for you as well because you're able to talk about the process and the product in a very different way.

SCOTT And with my sales team, I go down a lot more to the plants and the fields than they do, but we brought them all down. They all kind of know the process, but someone's got to be there as the expert. And I go along with them when they need the expertise, but I'm also teaching them as well for those that haven't gone down as much as I have.

BEN Yeah, absolutely. I think that's unique. There are things that we talked a little bit about, yeah, it maybe wasn't as easy as you thought it was going to be starting out, but there are a number of things when you're a serial entrepreneur or a second, third, whatever time founder, you do have a series of advantages over a first time founder, less experienced entrepreneur. What are some of the ways that it has benefited you for Rhythm to be kind of your second go around?

SCOTT Yeah, I've got specific stuff that I can think of right off the top of my head. For instance, brokers, like there are lots of brokers and there are national brokers. There's regional, local, whatever. When you're small, you need brokers and until you even get to the huge billion dollar size, you're still using brokers and they represent your products and 20 to 50 other products in a region with professional salespeople that represent you either with you or even make presentations without you if you can't make it.

BEN And these are people who theoretically at least have very strong relationships at that headquarters level with the buyers.

SCOTT They'll live in that region where the headquarters of the retailer are. And so, you can waste a lot of time with the mailbox brokers. Like they don't do a lot of work. They tell you they're going to do a lot of work, but they check the mailbox every day and makes sure the check is there.

And if you're small, you don't even know the nuance of the friction of, "Hey, I have to do so much work for you before I even start getting a few hundred dollars a month." And they're wanting to charge you 2,500 a month as a retainer and you've got to-

BEN And 5% in all the things, yeah.

SCOTT And you may not know how to negotiate and say, "Look, I don't want to pay you anything until three months after the category reviews. When are the category reviews?"

Why would I want to pay you something now if the buyer's not going to see me for six months from now?" So those kinds of things.

BEN Understanding how that works.

SCOTT Yeah, because if you don't know those things, the relationship gets off to a bad start anywhere and you're like, "Hey, I've been paying this guy for five months and nothing's happened." Well, you didn't even know to ask that like when was the category review? Like Whole Foods only sees this category one time a year. You started paying them a retainer eight months before that was going to happen.

BEN Yeah, they don't even have an appointment for a while. Yeah.

SCOTT So there's things like that, the contracts with your distributors and retailers, that there are certain things in there that you have to really understand whether you're going to agree to do it or not agree to do it. How to present yourself with a supply chain? There are a lot of people that when they first start out, they're like buying bags from Uline and having a sticker printed and you look at them and you go, "How much does this bag cost?" And you're like, "Oh, the bag's only 11 cents." I'm like, "Oh, that's great." "Well, the sticker's 22 cents."

So, like, "Oh wow, that's 33 cents a bag." If you just committed \$8,000 upfront, you'll pay 8 cents a bag for color process printing with artwork that's beautiful. So, there's things like that on the supply chain side, freight and who you're dealing with as a freight carrier, whether you're going to negotiate slotting allowances with this retailer versus another retailer. Second time around, I'm able to help that way in a big way.

BEN Right? Because you've been burned.

SCOTT Yeah.

BEN A lot of times you've learned some lessons the hard way and again, because you're an intellectually curious person, you say, "Why does it have to be that way?" or, "Why is this agreement written that way?" Or some of the DSD contracts can be very aggressive.

SCOTT On the beverage side.

BEN Yeah, on the beverage in particular, but a lot of the DSD contracts in general can be fairly aggressive and like, "Do I have to play ball this way? Is this the only path? I don't know."

SCOTT I think in certain amount it's like when you're first starting out to, if it's your first time, you're just dying to get yeses and so you're smiling and saying yes to everything and what you don't realize is you've just been backed up into a corner that will put you out of business. You said yes to a 7% broker commission instead of negotiating the norm of five down to four early on. And instead of a \$2,500 a month retainer, it's we'll do 1,000 once you get your first purchase order.

Like there's things that you have to do, and the broker may not even see the vision of like they're putting you out of business or the distributor doesn't. You don't even know but you've said yes so, many times because you're just dying for a yes from the retailer

or whoever that suddenly, you're not making anything. You're losing a lot of money. That's hard to get back.

- BEN Absolutely. And I see this a lot with people who, like really small brands, who in their ecstatic, they think, "I just got into Walmart," I just got into Kroger National" or things like that and they think they made it and I go, "You may have just ruined your company there. Are you ready for this, buddy? Do you know what you just signed up for?" Not that you don't want to be in those accounts because they sell a lot of groceries, but you need to understand the sequencing. You need to understand, "Am I going to be able to support that account?"
- SCOTT Can you ship on time?
- BEN Yeah, because if you don't, you're done, right. And so, all the nuance, it's actually better to practice on some smaller accounts initially if you don't have the reps, right.
- SCOTT I think back when we first started, the data has become much more robust and the retailers know their data more than anyone else does. And so, they know that they should be optimizing their space to a certain amount of revenue and margin. Kroger says, "Yeah, 800 stores" or Walmart or National with Whole Foods, whoever the retailer is. And you're like, you just say yes because this is what is going to tell Uncle Jimmy that he's going to invest 250,000 into you and that's all going to fold together into getting more capacity, but you don't realize you don't have it to get that amount of product ready in time. It's ruthless to do that. And trust me, us relying on fresh produce from the field and storms and icings and stuff, In the last two years, I've had way more conversations than I want to have. So has our team.
- Saying like, "We're really sorry, but we're not going to ship you on time."
- BEN Yeah, and you get yelled at sometimes.
- SCOTT And their immediate reaction is "I can't have you have that space open so I'm going to have to give it to someone else."
- BEN That's right.
- SCOTT Tell the truth early, as soon as you know it and hopefully you can hold on to it.
- BEN To retailers, distributors and investors.
- SCOTT Yeah.
- BEN So even if things aren't going well, your investors are going to find out eventually. So, it's probably a good idea for you to just go ahead and say, "Here's what's happening, and here's my plan to get out of it."
- SCOTT Yeah.
- BEN So what other kind of common, I know you spend a lot of time and you're very generous with your time with a lot of startup founders here in Austin and certainly beyond central

Texas and across the country. What are some of the kind of other go-to pieces of advice that you find that you're often giving to these kind of early stage founders? Where should they be focusing their time and attention?

SCOTT There's all kinds of little colloquialisms that seem generic. Go where your passion is, or things like that.

BEN But they kind of spring back up at various points because they're true.

SCOTT Yeah. I deal with this because we've had the mistakes along the way. When we first started with Stubb's, the sauce was so delicious, it sold itself. We knew it, the products we then came out with afterwards, Chef Paul Prudhomme helped us develop the beef and the chicken and the pork marinade. And we worked weeks and weeks in their test kitchens with it and it was delicious. And so, having something inside the package that's truly delicious, is number one.

BEN Yeah. You can always fix the package.

SCOTT Yeah.

BEN You can always fix all this other stuff. You can be the best marketer in the world, and you can sell it one time, but if what's in that package is kind of gross.

SCOTT Yeah.

BEN Or just regular, it doesn't matter. It's hard to get to buy it at the same time.

SCOTT Take it from someone that's making kale chips.

BEN Yeah, yeah.

SCOTT That kale in and of itself, I don't know how you make it. I mean, it's in salads and you put a vinegar based something-

BEN Right, it's mixed under a lot of things, yeah.

SCOTT You put it in soup, and put it in smoothies, but you're not drinking a kale smoothie as just kale smoothie. There's going to be some cashew butter and some fruits and bananas or chocolate or whatever. And kale is difficult to make taste good. So we spent I think an inordinate amount of time on the recipes to say, "All right, the nutrition on this thing is a powerhouse, but if you just dry it by itself, it's a little bit tough to swallow" right?

Yeah, so even on our "original" we would call it seasonal. There's sunflower seed and lemon juice and salt and pepper and garlic-

BEN Trying to accentuate the notes of the kale, yeah.

SCOTT Yeah, you got to. I mean the family that it's from, which is cabbage and brussels sprouts, broccoli. When mom's making broccoli in the house because the sulfur inside that family

of vegetables expresses itself. Same thing with kale. So the product, the product is super important. You hear it over and over and over again. So, I would say that's number one.

I think number two, almost as equal to it is, know how the category of where you're going to be is already played. If you say, "I'm going to be this energy bar." Just to use a different category. You better spend a whole lot of time at the natural and the conventional channel sitting in stores. And every retailer looks at it differently and take pictures and look at it. See what the price is. Price per ounce. I would say the category of energy bars is one of the most incredible categories. It's billions and billions of dollars at retail and you think that there's no more that can happen.

But then someone, an RX bar comes out of nowhere and actually did okay in the first couple of years and then packaging, how it expressed itself changed it and then had hardcore people that I could guess were box gym kind of folks or whatever, they were looking for a certain type of protein. But you can't just go in there and say, if there's four other energy bars that are targeting women who were born on Tuesday then all you're going to do is get a slice of the women that were born on Tuesday, right?

BEN Mm-hmm (affirmative).

SCOTT But if there's no one doing women born on Thursdays then that's the segment that a buyer is going to sit there and go, "You know what? I don't have any for women born on Thursday."

BEN That's right, yeah.

SCOTT "I'm going to find the space for you."

BEN Right, because that buyer understands that in their store that the women born on Thursday are coming in and out of the store, not buying anything. And that buyer, it's in that buyer's interest to address the needs and problems of that person-

SCOTT It's added to their revenue of their set. And if you're just the fourth one that comes for women born on Tuesday you better really have some data that says you're going to double the category because your stuff is so great.

BEN Right.

SCOTT Or he's just given more space but isn't going to grow the category. So that's the mindset that they do. And time in that category.

BEN Yeah, you have to understand the table stakes. You got to understand that. I think it's important to understand the incentives. For the people who are managing those categories. Again, if you do well in a category and your margins for the retailer are worse than everybody else, then they're not incentivized to give you more facings because you're dragging down one of the key metrics that their bonus is probably calculated on.

SCOTT Very much tied to it. It's revenue growth and margin. And so, margin to them is profit. And so, if there's a buyer that has a 12-foot section of energy bars, right? Every single

SKU is in their software program, where they can see with a couple of clicks of the button which one is dragging and not performing.

BEN 33.6% here, I get 37.9% here, yeah.

SCOTT But what's my total penny profit that I'm making on a weekly basis?

BEN Dollars in units. Yeah.

SCOTT So they're looking at that and so you come in and you go, "I've looked at your category" You do this before you go see a buyer for your presentation. Cause you're going in and just saying like "Hey, you've got three bars for women that were born on Tuesday and I'm seeing some white spaces." The term people talk about, right?

BEN Right, right.

SCOTT Where's this open white space that hasn't been filled? I'll give you another example of it. Can't remember the brand. You'll probably remember it, but it was just told to me last year. If you go to the cake and cupcake decorating centers, I think there's a licensed Betty Crocker and you can write, "Happy birthday" with a little squeegee can. And there's sprinkles and nonpareils and all that stuff. It's pretty much nuclear colors and sugar, right?

And so, someone did an organic version of it or an all-natural version of it and who's not going to give them six SKUs in that space because they probably have four facings, or two facings of four different colors, eight different colors of the same can.

BEN Right.

SCOTT So that's another area, understand how you're getting your space and how the category manager, the buyer-

BEN Where the sleepy categories, the sleepy sets that there's no difference between a natural and conventional grocery store. And in the natural, people kind of feel ashamed about it.

SCOTT Yeah. Before you go and raise and use all your credit cards and mortgage your house to do it, know where it's going to be in a store. Know that there's a person in the office that tracks all that and identify yourself. Even go in there, put your little photographic things in the space and go, does it fit here? Does it work there? So how am I going to compete with all these other things? There's the price. Make a matrix of your spreadsheet, get the Excel sheet out with a photo of yours and every other brand in there.

What their call out? What makes their brand's specialty? What's the price? Price per ounce? What's a standardized can or bag or box and see where you fit in.

BEN Is it twice as tall as everybody else's, you may think, "Oh, that's so cool." And then it actually doesn't fit on the shelf.

SCOTT Yeah. So, you really got to envision down to the nuts and bolts sitting in the store saying, "I'm going to have to see this person who I don't know yet. Know that they're motivated by growth and revenue and growth and margin and what do I do to bring them something that's going to achieve? That's it. You've got to achieve those goals.

BEN Right.

BEN Yeah. And that's fundamentally there. I like to think of that grocery store, that category manager, buyer, they're a landlord and the brands are tenants, but they're revenue producing tenants.

SCOTT Yeah.

BEN And so they're swapping out revenue-producing tenants all the time. And they're saying, "If you want to make, you want me to put your thing on the shelf, I've got to take something else off."

 "You need to be able to convince me that I, as the landlord, am going to make more money by having you on the shelf rather than that other thing."

SCOTT Yeah. And they'll oftentimes charge you for that.

SCOTT Right. To get on.

BEN They de-risk it for themselves. Right. And that's again one of those kinds of dirty little secrets. As you dig into the industry that there are certain, there's some retailers who actually are making more profit from their slotting fees than from actually selling groceries.

SCOTT Yeah. There's a lot of churners out there. You just have to prepare yourself in those costs. If you're moving product out of their category in hints the velocities are good, they'll never get rid of you because they're going to make money, but they're going to review. The category review on an annual basis is there to slough off the tray, the bird that isn't going to make it out of the nest.

BEN That's right. And that's why you want to ask. And I think you should be really upfront with your buyer and say, "What are your expectations? What is good enough? How am I indexing along with the category?" "What will blow your mind if I actually can achieve this sort of velocity?"

SCOTT Yeah, and it's a mistake not to ask it because they have that information.

BEN They do.

SCOTT And nine out of 10 of them will share it with you.

BEN They will, yeah. And you know, again, the one out of 10 at least you asked.

SCOTT Yeah. And the one on 10 might be just like, "Well I don't want to tell him all my secrets because he's actually made to achieve right around here, but I make more slotting next

year from this new item and an account amount and he's going to come back and tell me what I told them a year ago."

BEN Right. But you tried. So, that's really insightful. What are you excited about? I know you mentioned you've got some new product innovations kind of coming down the pike. What makes you spring out of bed at this point in your life about kind of where Rhythm Superfoods is going in. Maybe even broadly, where, what you see like natural foods is going?

SCOTT Rhythm will have its biggest growth year this year that has ever had and the following year, too. Part of that has been a lot of careful planning and a new plant capacity that's just coming online. On things that we have not been able to sell as much last year. So that in and of itself with some really good products that we're just launching right now. We already had kind of it's in the bag, we've got it. So, I'm really pleased about that.

BEN And that's pretty normal. Like for people, I'm sure you'll debut some things at Natural Products Expo West and that that tends to be a big launch moment for people.

SCOTT Yeah, we will. Yeah. And I would say that the industry in a whole, it will follow the economic cycles. I just remember after that 2008 crash, the expos and the fancy food shows or financially, I'm sure they were okay, but it was half-full.

BEN Retailers weren't taking risks and they were trying to reduce labor.

SCOTT And people weren't shopping as much or whatever they're going to do. So economic cycles are uncontrolled. I can't control that. And so if economic cycles happen, then you'll see a lot of risk takers out there coming up with the new best collagen powder or bone broth or whatever the newest thing is.

But short of that, I would say one of the things that was so surprising to me compared to when we first started the Stubb's BAR-B-Q sauce company, there wasn't any competition. If there was, there was one, right?

BEN Right.

SCOTT And then it took another three years for another one and they were a regional one and starting to do what we did a later date. But I remember seeing the first Bonafide Bone Broth at our brokers house and it was a frozen version of it, if I remember correctly. And I'm like that's great. This is awesome. What is this? Oh, it's good for your joints and your skin and all that kind of stuff. And I'm a believer Because he's telling me and so at the next trade show, I saw them.

That was what I saw as the launch of a bone broth segment. And then the next trade show, really smart financed creative people had already figured out and I was like, "Hmm." And then Kettle & Fire, and then this brand and then there's several of them.

So the speed with which an idea not only launches but soon after has competitors. If we had an idea right now for our product, if we don't jump on it and do it, I'm certain that someone in a garage in San Mateo is thinking the same thing.

BEN They're working on it.

SCOTT As it probably is.

BEN Yeah.

SCOTT So that to me is, you could come to these trade shows 15 years ago and you would be something if you had a unique item, you could just have soup in a jar and you're the only soup in a jar, right?

BEN Yeah.

SCOTT But nowadays, it's when you show up and you've got something new and it's got the slightest velocity story going on-

BEN Because people are, they're paying attention to that data.

SCOTT Correct.

BEN Yeah.

SCOTT And the data's robust. Every broker has all the data. Half the private equity guys have all the data. They're scouring and have people that are looking to see what the new small, little nugget is. "Let's go talk to them and see if we can finance them and if we can't finance them, is there someone else that can do a little pivot over here that's in our team that could be a fast follower?"

BEN That's right.

SCOTT It's super-fast right now. And I'm saying the creativity and the financing of it is massive.

BEN So that kind of reinforces how the execution risk. You can't have a good idea and say, "Oh, look" or "I have a good idea". Can you come up with an idea? Can you execute that initial kind of prototype? Can you get it to market and can you scale that and support it well? If you stumble at any point along the way, there will be at least a handful, maybe dozens of other competitors who, once that becomes a deal, we saw it with cold brew coffee or any number of gluten free baking mixes right? One year, there's one gluten free baking mix. The next year there's two dozen of them or whatever the thing is.

SCOTT That's how fast it happens.

BEN Yeah. It's really, really quick. If you're sitting on an idea and you think this is the time, you should really kind of get after it.

SCOTT I would say also, it's a shot across the bow to those people that have been in an industry for a long time and maybe the brand hasn't been refreshed and I don't want to call out one versus another, but you could-

BEN Stagnate it, yeah.

SCOTT Yeah. I could even say coffee shops. Starbucks totally turned everyone upside down. And coffee in the store was Folgers and was Taster's Choice and Maxwell House, and

then all of a sudden, every retailer had roasted beans with a grinder, right? And then that was messy. You don't see the grinders anymore except at Costco.

What you do see, is these exceptional bags of stuff.

BEN

There's very few cans, it used to only be cans.

SCOTT

Yeah. No one's safe. And if someone is out there and they're a barbecue sauce company, I don't know if an eight HPP fresh barbecue sauce has 25% more unique, better flavor than if it was pasteurized.

BEN

Right.

SCOTT

But I'm just making that up. Not even if you've got a brand-new idea, but if you're just sitting on your chair and reading the Wall Street Journal every morning and you're running a food company and your sales are stagnant. Someone is thinking about disruption in some way somewhere and they will figure it out.

BEN

So you think in your estimation, because for a lot of the brands who are starting off their big dream or big goal is to be acquired by one of those people whose reading the Wall Street Journal in their easy chair. Is that a forever and ever trend? Or is it a moment in time where that happens more where these big food or big CPG companies are more acquisitive?

SCOTT

They go through cycles, too. I don't know if it's a Wall Street driven cycle or not, but the reason we have so many private equity investment bankers walk in the trade shows now is because there was a moment in time where all the big CPG companies were stagnant and little entrepreneurial companies were nipping at their heels and coming out with cereals and yogurts and other things and they weren't big, but suddenly people were getting bigger and they were-

BEN

In a combined way, they were really taking a significant chunk of market share.

SCOTT

And innovation at the large companies was a new flavor of something, right?

BEN

Right. It tastes new, yeah.

SCOTT

Yeah. When I think about that in the last 10 years, there's been a lot of acquisitions from the major CPG strategic companies, and that's brought in a lot of money to get entrepreneurs to build things fast. But I think there's a little shift that happens now, too. And it's not as easy for a big company to buy a \$25 million company and integrate it successfully.

So that the accretion that they thought they were going to get on earnings or whatever is actually there.

BEN

And it's meaningful to them, yeah.

SCOTT

But there's not a lot of companies in the 100 million to a billion-dollar range that are there to be acquired. So, they're all trying to figure out how to create value for their

shareholders. I don't know what the long-term is, but maybe it's an IPO for all I know versus what a private equity company has done traditionally is invest, get them ready for growth, sell it off.

BEN

Right.

SCOTT

I don't know, maybe this is IPO. Maybe it's different. But there also could be a shift happening right now where the family business, because the CPGs are going to go in a different direction and maybe there's a moment in time right now that this lifestyle company that you create can grow faster because the CPG guys are now waiting to invest their capital until you get to that two or \$300 million range.

BEN

That's right. Yeah. If you run the business right and you can run it profitably at some point, then you have some of those options available to you.

SCOTT

Hard to predict it, so probably, not want to predict it because it's changing so often.

BEN

But you are bringing up a good point, which is really to be a good target for one of those large strategic acquirers. Typically, you're going to be at, I would say at a minimum of maybe 25 million in revenue maybe north of that, right? And the only companies that are getting bought below that line are typically going to be bought by a private equity firm that maybe is doing kind of a roll-up strategy. And they're saying, "I'm going to buy six of these small cold brew coffee companies and maybe kind of combine them in some way" right?

SCOTT

And there may be the unique one that is smaller than that, that someone really big buys. But I think behind the curtain there's some very, very specific reason why. And we don't know for another year or two why. But there's a strategy behind it. They don't just do things willy-nilly at all.

BEN

Right. And the savvy ones realize that their organization is so vast that there's sort of an elephant that can accidentally sit on this tiny little brand. If you're not big enough, they'll accidentally kill you, right?

SCOTT

Yeah. Let's say you go in there and who's going to manage it? Someone has to manage it. If they buy it, you may hang on, but they know that once you've got a lot of money you're going to start thinking about that boat that you wanted to buy or take more vacations or spend time with the kids or whatever.

And so someone in that headquarters in Battle Creek or Minneapolis or wherever has to let go. All right, so I was just on Cheerios or I was on Frosted Flakes and now for the next two years I'm going to this brand that no one knows. With a budget of this.

BEN

Yeah, and what is big to you as an entrepreneur, you're like, "Oh, we're doing \$5 million a year in revenue."

SCOTT

Right.

BEN

That's the rounding error of a rounding error.

SCOTT Yeah. So, I think though that the metrics that matter, no matter what the cycle is, it's hard to do this in the very beginning. But getting healthy margins eventually or a path to healthy margins because a path to healthy margins that you can prove out will either bring investment or bring acquisition. Or profitability. And as long as you are being sensibly frugal as you grow. And it's a magic thing, I think. That there's a little bit of luck because we can't do it every time we try to develop a product. But the magic bullseye is I got to develop a product that's unique and speaks to a certain consumer that wants to buy it often.

 I need to do it at a price that gives me the margin that I need to start with to be profitable and does that price that I sell it for achieve what the consumer is expecting. And usually those are haywire in the very beginning.

BEN Right.

SCOTT It's really hard. So, you're taking it on the chin and margin, unless there's this kind of unicorn thing that comes together and you're like, "Wow, the consumers are willing to pay this price."

BEN Yeah.

SCOTT And yes, we know that if we want to broaden into a broader base, I've got to drive some cost out of it. But it's really magical when you find that item that the development of that product has come in at the price that a consumer set is willing to pay the price to give you a margin to be sustainable.

BEN Right. Yeah, I like to say that you're really trying to model your pricing and costing both bottom up and top down. Where do you need to be in the bell curve of your category? In most startup brands, as you know well know, it's a lot easier to bring your price down than up. Most of the time you're going to be a premium product and it's okay.

SCOTT Yeah.

BEN It really is okay. You shouldn't be in a position where you're competing. Your per ounce price is the same as Kellogg's, right? Like you're going to lose that every time.

SCOTT Yeah. The scale that the manufacturer had is incredible. Stubb's was the same way as we are right now where we've got the most expensive snacks on the shelf really on a per ounce basis.

BEN We have very light stuff, too. Yeah.

SCOTT Yeah, but if we could bring it down to an extruded snack price, we would have more, but the margins aren't there. Stubb's was the same way. Stubb's barbecue sauce was like \$3.99 to \$3.49 and that they've worn in \$3.99 and we ended up through scale, contracting for millions of pounds of tomato paste eventually and making 16,000 cases a day. That provides tremendous cost reduction. But it really was like the most expensive barbecue sauce on the shelf. And every buyer we talked to was like, "There's no way this stuff is going to sell." The pressure from them into their belief system is no one will pay this money for that.

And we're like "It's going to, here's the data. I swear by it." Well, it may work in Texas, but it's not going to work here.

BEN Right.

SCOTT And it worked and it worked and it worked and we weren't number one-

BEN We certainly experienced that at Siete too, right.

SCOTT Yeah.

BEN Really expensive. "Nobody's going to buy that." "Just give us a shot, it probably will."

SCOTT Yeah. And that's one of the things, if you can find something that when the pricing you come out with, it gives you the margin to immediately be like, "All right, we're going to be safe from day one."

BEN Yeah.

SCOTT That's a miracle.

BEN Then you can take a breath and you go, "Now I'm not operating out of a scarcity mentality all the time where it's desperation all the time. And always hustling and always do all that stuff. What do we want to be? What is this brand all about? What do we stand for?"

SCOTT Thinking about much smarter things.

BEN That's right. Yeah. All of that stuff. Well, this has been really a delightful conversation, as I knew it would be. So, thank you, Scott. Again, really fun to just dive deep. I'm sure that our listeners are probably, hopefully they will, they're going to hit pause, go back to the beginning and say, "Oh, I need to actually get my pen and paper out now. We need to take some notes" because there's just so many nuggets of wisdom in here that I know are tremendously useful. So, thank you for sharing today. I know you do this. Very generous with your time and wisdom with lots of founders, so thanks for sharing that with us today.

SCOTT Really enjoyed it too, Ben. Really appreciate being asked to be here and I love spreading whatever. I know we didn't have that when we started Stubb's. So, there's a pay it forward mentality from myself and any of the partners that we had at Stubb's. We just love helping people. Meanwhile, you've got a day job to go try to sell more kale chips.

BEN That's right. Absolutely. Yeah. So, you have to balance all those things. You can't take all the coffees. But it is fun to create, again, some of these advantages for founders and I feel in Austin there's a generous spirit among a lot of, particularly the food and beverage CPG entrepreneurs and who are willing to share some of those hard-won lessons.

Hopefully that means that the next generation of founders will be even smarter and more successful.

SCOTT

Yeah, build the infrastructure here for Austin as this food epicenter. So yeah, you're part of the infrastructure, Ben.

BEN

Yeah, and so are you. So again, to our listeners and viewers, thank you guys so much for listening. If you're getting a lot out of this, please share it with your friends, colleagues, people who you know are with you in the trenches and really trying to build something special and something innovative and remarkable. And you can always go to barcodestartup.com and listen to more episodes, read transcripts in full, find more resources. And really our focus is on equipping emerging consumer brands. So hopefully the content that we're sharing in the conversations really make you think differently about your business. So again, thanks for listening and watching.