

## Sell Without Selling Out

Frederick Schilling grew his company, Dagoba Organic Chocolate, to seven-figure sales in five years flat.

The Ashland, Oregon-based brand was a hit with health-conscious consumers and was sold in health-food stores and upscale markets around the country.

Then Schilling, 37, did something a lot of his customers didn't expect: In 2006, he sold Dagoba to chocolate giant The Hershey Company.

Some people in Schilling's hometown branded him a sellout, even though Dagoba continues to operate independently and Schilling remains involved. For Schilling, the sale was simply a chance to grow Dagoba and reach a larger audience.

For Frederick Schilling, selling his company to a large conglomerate didn't mean giving up its socially responsible mission.



**AU NATUREL:** WHILE THIS YEAR'S NATURAL PRODUCTS EXPO WEST IN ANAHEIM, CALIFORNIA, SAW MANY VETERAN EXHIBITORS AND RETURNING CATEGORIES, THERE WERE SOME FRESH IDEAS ON THE SCENE:

■ **PACKAGING:** Companies are differentiating themselves with hip, contemporary packaging.

■ **SUPERFOODS:** Überhealthy foods and fruits continue to sprout, including goji berries, yerba maté, yumberries, hemp milk and mangosteen.

■ **CERTIFICATION:** From kosher to fair-trade, organizations are setting standards to identify legit companies.

■ **REUSABLE/BIODEGRADABLE:** Watch for more reusable and recyclable products and packaging—otherwise, it's probably biodegradable.

■ **SNACKS:** New appearances include more whole-grain snacks, chips and cookies as well as kid-friendly sizes and options. —LINDSAY HOLLOWAY

“There’s only so much impact a small company can have on environmental restoration and social justice for farmers,” he says. “Now I can use Hershey’s distribution framework to reach more customers and bring Dagoba to full fruition.”

In the past, organic-food entrepreneurs prided themselves on being independent and feared losing control to big conglomerates, but in recent years, more founders of organic and natural consumer-products companies have been thinking like Schilling and handing over the reins.

The changing attitudes on both sides of these deals have spurred an acquisition frenzy. Conglomerates have shown increased interest because the sector is growing fast, while entrepreneurs see selling as an opportunity to grow their brands and spread their values to a broader audience—and perhaps even influence the business practices of their new owners.

The sector is as hot as a chili-flavored organic corn chip. A Michigan State University study released last year found that from 2000 to 2006, organic food sales doubled to \$3.6 billion, with an estimated 71 percent in additional growth expected by 2011. Together, organic food and beverage sales hit a total of \$13.8 billion in 2006.

In the past two years, PepsiCo Inc., hoping to profit from the trend, has snapped up Naked Juice and Stacy’s Pita Chip Co. The Coca-Cola Company bought nutrition-infused drink company Fuze Beverage LLC last year, and in February it bought a 40 percent stake in organic-beverage brand Honest Tea for a reported \$43 million with an option to buy in three years.

Seth Goldman, 42, and Barry Nalebuff, 49, the founders of Bethesda, Maryland-based Honest Tea, were roasted by critics. But they’ve reassured customers through their blog that the

Coke deal won’t change their product quality and will make Honest Tea more widely available. By increasing sales, Honest Tea can buy more organic tea leaves and help grow demand for those leaves, potentially creating a broader environmental impact, explains Goldman. “The brand’s ready to be taken to the next level. Now we [have] a partner that can help get us there.”

Goldman is hoping to influence The Coca-Cola Company to focus on sustainability, and he says he’s optimistic that can happen. “It’s not about making Honest Tea more like Coke,” Goldman says. “It’s the opposite.”

Another natural-products niche that’s receiving a lot of attention from conglomerates is personal care, says Stephen Tardio, managing director of investment banking firm HT Capital Advisors. One example is the purchase of the Burt’s Bee’s personal-care brand for more than \$1 billion by The Clorox Company last November. The biggest development in the past five years in the personal-care sector has been large companies’ interest in acquiring much smaller businesses. “Natural personal-care products are just starting to take off,” Tardio says. “We’re seeing large cosmetics companies looking to buy \$3 million or \$5 million companies.”

The Hain Celestial Group Inc. is another major player in acquiring organic and natural brands. Known for the organic/health-food brands it began with, Hain has made 10 acquisitions in the past two years, including Avalon Natural Products’ personal-care lines, Linda McCartney meat-free products and WhiteWave Foods’ tofu products.

Some entrepreneurs still shun the mainstream conglomerates in favor of aligning with companies like Hain or Dean Foods (another health-food company that’s been in acquisition mode). As former CEO of chlorine-free diaper company TenderCare International Inc., Edward Reiss turned down offers from mainstream conglomerates and sold to Hain for \$3.9 million in December. He plans to grow TenderCare’s sales by teaming with another Hain brand, Earth’s Best, to produce an Earth’s Best branded diaper line. “With Hain,” Reiss says, “I think we have more of a chance to get the best diaper out there.”

—CAROL TICE



**LAST CALL** The UPS Store and Entrepreneur are proud to announce *Entrepreneur* magazine’s 2008 Entrepreneur of the Year award. We’re awarding two winners—one for an emerging business (less than five years in business with fewer than five employees) and one for an established business owner. Candidates will be judged based on the positive impact they’ve had on their industries, customers, employees and communities. The lucky winners will be featured in *Entrepreneur* magazine and honored at a luncheon in Long Beach, California, in December 2008. For more information and to enter, go to [entrepreneur.com/eoy](http://entrepreneur.com/eoy). But hurry, because time is running out—the deadline to enter is June 30, 2008.