New Recipe For Success: Investing In Emerging Food And Beverage Brands

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Kraft Heinz has established a joint venture with NotCo, an AI company, to quickly create plant-based ... [+] AFP VIA GETTY IMAGES

Many companies will tell you what they're doing, but lately, Kraft Heinz has been talking about what they are "Not" doing. They launched plant-based mac and (Not) cheese, Not Mayo (plant-based spread), and plant-based "Not cheese American style slices." The hot dog now has company thanks to Oscar Mayer's new "Not dog" or rather the "hot not dog." And, of course, make room for the Not sausage on the grill.

So what is Kraft Heinz "not" doing? They're "not" developing these plant-based versions of their products on their own. Not on your life!

Kraft Heinz, like many F&B companies, has been seeking to get involved in the fast-growing (if sometimes slowing) plant-based sector, but not just through R&D. Rather than seeking to reinvent itself, it formed an innovative joint venture with NotCo, an artificial intelligence company, to develop plant-based variations on Kraft Heinz classics. And the products are rolling off the assembly line relatively rapidly in what could (or, of course, could "not") be a model for partnerships, as a valiant effort to mix science with sales muscle.

Investing in Startups for Rapid Innovation

Large F&B companies often find developing new products slow and cumbersome, prompting them to buy or ... [+] GETTY

The process associated with developing new products in large F&B companies is painstakingly slow and cumbersome. That is certainly "not" a secret. It is easier to buy or fund an emerging company with an innovative product or process, giving them direction, manufacturing capacity, marketing, and distribution networks they would otherwise “not” have. It can be a win-win for both, as big F&B companies buy into the idea that partnerships can be as important as products. Still, investing in and partnering with startups brings challenges. And even when the product works, as it did with Coca-Cola and Honest Tea, it can have a less-than-happy ending.

Many giants are investing and partnering to innovate, even if some of these ventures go by the wayside. Being a startup is tough. Investing and working with them isn't easy either. Coca-Cola created its Venturing and Emerging Brands or VEB, while Kellogg launched eighteen94 Capital (although that no longer appears active). General Mills launched 301 Inc., and Campbell created Acre Venture Partners. In 2017, PepsiCo created its Greenhouse Accelerator "to accelerate sustainable, breakthrough innovations," matching more than 50 companies with money and mentors. Chobani's founder recently made news buying Anchor Brewing, but Chobani’s Food Incubator lets it invest in and partner with smaller companies.

“We’re here to help small companies with big hearts and ideas challenge the food industry," according to the Chobani Food

Incubator, founded in 2016 which now has 47 companies in its portfolio.

Kraft Heinz, the parent of Capri Sun, OscarMeyer, Classico, Jell-O, Kool-Aid,

Kraft Heinz's joint venture with Notco, Kraft Heinz Not Co, aims to revolutionize plant-based food ...

[+]

Maxwell House, Planters, and more, is taking a slightly different approach here than just investing. TheKraftHeinzNotCo, a little-noted joint venture between Kraft Heinz and Notco, is the latest breed of joint venture born between big F&B companies and startups and a different breed of innovation altogether. DIY meets ROI in this brave new F&B world. Let the money do the talking, distributing cash, not just products, to companies doing things you think can work. But this isn't just about buying a brand, but teaming to remake Kraft Heinz's own business as plants alter the planet.

Kraft Heinz Not Co says the goal is to "transform the way consumers enjoy plant-based food" by tapping the science of a startup and the know-how of a giant. It's designed to match the agility of a startup with the resources and marketing of a massive company, allowing for the best of both worlds, from brains to brands, going to market quickly with sound science and great marketing.

“The term agility is a little bit overused, but the entrepreneurs have the ability to move very quickly,” Simon Burton said back when he led eighteen94 for Kellogg.

The idea is that the best way to invest in innovation can be to fund and even buy startups. Why beat them when you can build or buy them? As funding dries up and inflation hikes costs, deals become more attractive for emerging companies. But do the matches work, and for how long and how well? The answer is that growing a small startup into a big force is tough. And even when these matches work, that doesn’t mean they will sustain the giant’s investment and attention.

Learning from the Past: Coca-Cola’s Honest Tea

Coca-Cola acquired Honest Tea in stages starting in 2008 but discontinued the brand in 2022 to focus ... [+] GETTY

Take Honest Tea, for instance, which Coca-Cola did for a while. Coca-Cola bought Honest Tea, founded in Bethesda in 1998 by Yale School of Management student Seth Goldman and professor Barry Nalebuff. Coca-Cola bought 40 percent for $43 million in 2008 and the remainder in 2011. Then, in 2022, it would discontinue Honest Tea while focusing on Gold Peak Tea and Peace Tea. Honest Tea Founders and Spike Mendelsohn later launched Just Tea rather than letting go. Although Honest Tea is history, Coca-Cola still makes and markets Honest Kids products billed as low on sugar and high on flavor. So Honest Tea may be over, but Coca-Cola hasn't entirely shut down the brand.

While Coca-Cola decided Honest Tea wasn't its cup of tea, it's too early to tell where the Kraft Heinz and Notco partnership will lead. Will this let Kraft Heinz capitalize on plant-based foods or prove a footnote? The Kraft Heinz NotCo venture hopes to use Giuseppe, NotCo's A.I. technology, to combine data from thousands of plants and identify combinations to replicate animal products on a molecular level. The hope is to “help Kraft Heinz’s iconic portfolio to be reinvented without animals 100% plant-based” as science becomes a stepping stone to sales.

Kraft Heinz Chair and former CEO Miguel Patricia believes NotCo’s technology is “revolutionary in creating delicious food with simpler ingredients, at tremendous speed, all while reducing our environmental impact.”

And NotCo CEO Matias Muchnick says he founded his company “not” just to develop products on his own, “but for other brands and manufacturers who share the same ambition” of a sustainable, plant-based future.

Kraft Heinz brings scale, go-to-market ability and a portfolio of beloved brands that, NotCo says, could be the basis for “better plant-based foods.” The Kraft Heinz Not Company, based in Chicago with R&D facilities in San Francisco, seeks to engage in “plant-based innovation across numerous product categories that Kraft Heinz currently plays in.”

Startup Partnerships in the F&B Sector

If this sounds ambitious, it isn't the first time Kraft Heinz turned to smaller companies to grow. The company launched Springboard in 2018 to nurture, scale, and accelerate the growth of "disruptive U.S. brands." It was an incubator “searching for emergent, authentic brands” in the natural, organic, specialty, craft, health, performance, and experiential fields. Kraft Heinz must hope the latest plant-based partnership is simply “not” more of the same.

“The team will be fueled by the best from both sides, along with outside subject matter experts,” according to NotCo. “We're focusing on the culture of a start-up and seeking world-class talent."

Kraft Heinz says this is "not your average joint venture," and products are popping off the assembly line "not" at average speed. The joint venture is "a critical step in the transformation of our product portfolio," Kraft Heinz Chair Patricio said. "It helps deliver on our vision to offer more clean, green, and delicious products for consumers."

Of course, as always, consumers will have the last word. Will the joint venture be a huge success or "not?" Either way, it's part of a trend as the biggest F&B companies partner with and invest in small companies, seeking to be agile and innovative and get to market quickly with the next new (and possibly "big") thing. Innovation is never easy. There are never any guarantees, and big companies have lots of brands to tend to, but when things work, the F&B giants can expand and evolve in ways they likely couldn't on their own.

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