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TRUE BÜCH KOMBUCHA: PURPOSEFUL GROWTH

Candace Moody and Darrin Ambrose wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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After a long, laborious day in April 2017, Louisa and Conrad Ferrel realized that something had to change. They had known it was a huge risk, both personally and professionally, for Louisa to quit her corporate job to join Conrad so that both of them were fully committed to their kombucha brewing company, True Büch Kombucha (True Büch). However, they could not ignore the demand for their kombucha, nor could they ignore the demand that extended beyond the city of Calgary, Alberta, into neighbouring provinces, and that it continued to grow with each passing day.

The Ferrels had started True Büch just three short years ago, and it had quickly become a huge local success and something the Ferrels were immensely proud of. Now they needed help to take it to the next level, and they wondered how best to do that. Should they expand? If so, should they expand into new markets, new flavours, or both? If they expanded, they would need to make many changes internally, especially to production and distribution. The future was exciting but daunting at the same time.

HISTORY OF KOMBUCHA

Kombucha was a carbonated health drink made by fermenting tea and sugar with a “SCOBY”—a symbiotic culture of bacteria and yeast. The SCOBY, which resembled a gelatinous mushroom, was placed in sweetened black or green tea, and as the SCOBY digested the sugar, a range of organic acids like glucuronic acid, gluconic acid, lactic acid, acetic acid, butyric acid, malic acid, and usnic acid were produced, as well as amino acids, enzymes, and many vitamins, particularly vitamins B and C.[[1]](#footnote-1) Along with these products of the fermentation process, there were probiotic micro-organisms. The health benefits associated with kombucha were said to be vast, but these benefits were unsubstantiated. Despite the lack of supporting scientific research, kombucha was used to improve the immune system, detoxify the blood, improve digestion, and strengthen the kidneys and liver.[[2]](#footnote-2)

Although kombucha was a recent trend in the health food industry, it was actually an ancient product. Some of the earliest documented references to what was believed to be kombucha dated back to the Qin Dynasty in China (221–206 BCE).[[3]](#footnote-3) At that time, kombucha was known as the “tea of immortality” and was used in traditional Chinese medicine to heal many ailments. From there, kombucha made its way in 414 CE to Japan, where samurai, the ancient warriors of Japan, used it; they were said to carry kombucha in their wine skins because it gave them energy in battle.[[4]](#footnote-4) From Asia, kombucha travelled over the Silk Road to Russia and, from there, throughout Europe, where it was popular until World War II. During and immediately after the war, sugar and tea, the main ingredients in kombucha, were rationed; thus, kombucha became unavailable for many families, making kombucha a niche product with a demand that dropped significantly.[[5]](#footnote-5)

Kombucha remained a niche product limited to Asia and Europe until 1995, when a man from California, GT Dave, created GT’s Kombucha in his kitchen in Los Angeles.[[6]](#footnote-6) Over the next 20 years, GT’s Kombucha was credited with single-handedly building the kombucha market in the United States. Only two other major competitors emerged—Wonder Drink and High Country. Since 2014, GT’s Kombucha had been responsible for over 55 per cent of the US$640 million[[7]](#footnote-7) kombucha industry in the United States. By 2021, the U.S. kombucha industry was expected to reach $1.7 billion (see Exhibit 1).[[8]](#footnote-8)

While kombucha was becoming an established industry in the United States, it was still in its infancy in Canada. There were only two established nationwide Canadian market leaders—Rise Kombucha and Tonica; Tonica rose to national fame after their appearance in December 2015 on the hit television show *Dragons’ Den*.[[9]](#footnote-9) In addition, GT’s Kombucha had expanded into the Canadian market in 2015. Besides these three major players, the kombucha industry in Canada had been fragmented and served by many small, regional competitors who had been trying to gain a larger share of a rapidly growing market.

In 2015, the kombucha industry in Canada was only $2.3 million, but it had grown by over 30 per cent year-over-year for the previous five years and was expected to reach $6.0 million by 2021.[[10]](#footnote-10) A brand new industry with few competitors meant that the Canadian kombucha market was full of great opportunity.

HISTORY OF TRUE BÜCH

Conrad and Louisa Ferrel, both chartered professional accountants and both with successful corporate careers, began brewing kombucha in 2007 out of a need to find a product that Conrad could drink. Many other beverages on the market (e.g., juice, soda, beer, wine) had a negative impact on Conrad’s health. With a successful brew, the Ferrels then began taking their home-brewed kombucha to social events, which sparked an interest in the beverage among their family and friends. Most people had never heard of kombucha, but after they heard about kombucha’s potential health benefits, they wanted to know more. Conrad and Louisa continued to perfect their kombucha recipe based on feedback from family and friends and by only using the highest-quality, locally grown products available.

By 2012, local businesses had begun to inquire about the Ferrels’ home-brewed kombucha. The couple considered mass-producing their kombucha for the Calgary market, but they ultimately decided that the time was not right because kombucha was still relatively unknown. However, things began to quickly change, and in late 2014, just prior to heading out on vacation, Conrad provided a local business with four 18.16-litre (L) kegs of kombucha. Conrad thought that four kegs would last the business more than a month, but after two days, all four kegs were empty, and the business wanted to order more. Conrad and Louisa took this as a sign that it was the opportune time and that the demand existed. As a result, they turned their hobby into a business. Shortly thereafter, Conrad quit his corporate job and officially started True Büch Kombucha.[[11]](#footnote-11)

GROWTH

In October 2014, True Büch began its operations in a shared commercial kitchen in Cochrane, Alberta, just west of Calgary, which came with significant travel time to and from the new kitchen. True Büch was the first kombucha company in the Calgary market. At that time, they sold True Büch in draft from kegs at local farmers’ markets and in some health food retailers. To get the business started, Conrad and Louisa had provided the initial capital from their personal savings, which had been used to purchase the necessary equipment to produce True Büch in mass quantities. This was presented as a shareholder loan on the True Büch balance sheet (see Exhibit 2.)

In the initial stages, Conrad and Louisa committed to growing True Büch slowly and purposefully by choosing retail providers whose values aligned with their own. By selecting retailers whose values mirrored True Büch’s, the Ferrels believed that they were creating partnerships with like-minded local businesses. Additionally, they were acutely aware of their capacity constraints and always wanted to ensure that they could meet the demands of current customers before taking on new ones. They knew that they could have accelerated the growth of True Büch by raising capital through debt or equity, but Conrad and Louisa had always been averse to taking on debt. Additionally, they were not sure they wanted an equity partner, nor would they know how to give a fair valuation to the business. Instead, they chose to grow True Büch organically.

By July 2015, True Büch had outgrown the commercial kitchen and, as a result, were struggling with the challenges of sharing a production space with another company. Adding to the struggle was the significant commute required to reach the shared commercial kitchen every day. The Ferrels decided to relocate their operations to a warehouse bay in northeast Calgary. The move required a significant capital investment in production equipment, the creation of a refrigerated space within the warehouse, and the purchase of a delivery truck.

Before they even received the keys to their new space, Conrad and Louisa realized that they had already outgrown it. The competitive landscape for kombucha in Calgary had exploded, as local competitors began to surface and put pressure on True Büch. Throughout its first three years of business, True Büch had grown with purposeful intention. Except for a 10 per cent charitable donation, all profits had been reinvested into the business. But True Büch needed to grow faster, which meant that simply reinvesting profits would no longer be enough.

Despite relocating to a bigger space where they could increase production, True Büch remained very lean. They had two part-time employees who helped around the production floor and made rush deliveries to customers, while Conrad and Louisa were responsible for the many other aspects of the business, including accounting, marketing, and all other management tasks. When Conrad and Louisa committed themselves to True Büch on a full-time basis, they had hoped that it would provide them with more control over the lifestyle they wanted to live; however, that had not materialized. Additionally, Conrad and Louisa had not yet drawn a salary from the company and instead depended on the shareholder loan, when required.

CORE VALUES

Conrad and Louisa founded True Büch on the belief that improving gastrointestinal health could be both a delicious and sustainable endeavour. They were committed to handcrafting tasty, small-batch kombucha with little environmental impact while using only organic ingredients. Their goal was always for their kombucha to have a positive influence on their customers’ digestive systems and, ultimately, their lives.

The Ferrels had remained passionate about collaborating with other local businesses and supporting their employees and communities, all the while adhering to zero-waste principles.[[12]](#footnote-12) For example, they teamed up with Respect for the Earth and All People (REAP) Calgary (where Louisa was also a board member) to plant trees every year, which helped offset the carbon footprint of their production facility and delivery van. Additionally, since the company’s inception, Conrad and Louisa had donated 10 per cent of their profits to local, grassroots projects that aligned with True Büch’s passion for children, families, health, and animals.[[13]](#footnote-13)

OPERATIONS

A batch of kombucha was brewed in 15 days. True Büch used locally sourced, organic tea leaves and cane sugar, which were mixed with hot water and a SCOBY in 200 L fermentation tanks that were covered with a cloth to facilitate a 14-day fermentation process. As the tea fermented, it became less sweet and more vinegary in taste, and a trace amount of alcohol was also produced. In Canada, a serving of kombucha could have an alcohol content of 1 per cent, whereas in the United States, only 0.5 per cent was permitted.

Once the kombucha had fermented, it was transferred to a bright tank for one day for carbonation. Bright tanks allowed the kombucha to be force carbonated in a temperature-controlled environment, which was important for preserving the kombucha taste and flavour. Once the kombucha had been carbonated, they used natural ingredients to make assorted flavours. True Büch had four signature flavours: ginger, blueberry rooibos, mojito mint, and vanilla chai. They also had a different flavour of the month, which had included watermelon lime, very berry, and grapefruit sage.

When a batch of kombucha was completed, it was either transferred to 18.16 L kegs or bottled into 355-millilitre single-serving bottles. Conrad designed and created his own keg cleaner and bottling line. In one day, the homemade bottling line could fill 1,000 single-serving bottles. True Büch had been considering purchasing a CA$100,000 bottling line that would increase bottling to 500 single-serving bottles per hour.

draft KOMBUCHA

In 2014, True Büch began by selling its kombucha from reusable kegs in booths at farmers’ markets and in retail spaces throughout Calgary. Serving kombucha from a keg—draft kombucha—aligned perfectly with the company’s core values of sustainability and zero waste.

Once a retailer had been selected, True Büch delivered a “kegerator” and everything else that would be needed to set the keg up in the retail space (carbon dioxide, tubing, etc.) at no additional cost. True Büch then charged the retailer a fee of $135 for each 18.16 L keg of kombucha and provided suggested retail pricing for each retailer. True Büch also made service calls to the retailer whenever there were any issues with operating the keg and when the keg needed to be cleaned.

Delivery and service of the kegs, as well as tracking the number of kegs each retailer had, was time-consuming, labour-intensive, and costly. (Labour and chemicals to clean a reusable keg cost about $3 per keg.) To reduce the expenses, True Büch began seeking alternatives to the kegs, including the option of disposable kegs. A disposable keg, also known as a “one-way keg,” was made of plastic and could be recycled once it was empty, thus eliminating the maintenance time and costs that True Büch incurred with the reusable kegs. However, the disposable kegs were considered expensive, at a cost of $20 each.

Retailers who had kegs were also provided with True Büch–branded 1 L and 2 L bottles that the company made available for the customer to purchase and fill, and then refill as needed. The cost of the 2 L bottle was approximately $4.50, which was the price paid by the retailer, generating zero gross margin. True Büch had allowed the retailer to sell the bottle to the customer for no more than $6 so that the purchase of the refillable bottle was never an impediment to the purchase of draft kombucha. True Büch viewed these refillable bottles as a marketing expense because they aligned with True Büch’s core values of zero waste and a sustainable product.

Both the retailer and True Büch made a margin of 35 per cent on selling draft kombucha. The average cost to customers to fill their own 1 L bottle was $12, and $20 for a 2 L bottle. This margin did not include the additional revenue that a retailer earned when customers returned to the retailer’s store to refill their bottles.

Single-serving BOTTLES OF KOMBUCHA

By the end of 2015, demand for True Büch kombucha in single-serving bottles was rapidly increasing. Customers continually remarked that they would love to have the option of buying kombucha in a convenient single-serving bottle, which some of True Büch’s competitors were already offering. Responding to the demand, True Büch launched its single-serving bottles on a limited scale in early 2016 (see Exhibit 3).

While single-serving bottles required more upfront labour and specialized machinery to fill them, there were no associated maintenance costs, unlike with the kegs. As Louisa remarked, “Once you send single-serving bottles out into the world, you are done [with them].” To offset the conflict between this disposable feature of single-serving bottles and True Büch’s zero-waste principles, even though the bottles were recyclable, the company donated 50 cents from every sale of its four signature kombucha flavours in single-serving bottles to organizations that the Ferrels were passionate about. These organizations helped therapy pets make kids’ lives better, maintained a local community orchard, provided free yoga programs for underprivileged kids, and rescued leftover food from restaurants to help eliminate waste and alleviate hunger.

From December 2016 to April 2017, approximately 90 per cent of True Büch’s kombucha sales were from its kegs and only 10 per cent were from sales of its single-serving bottles (see Exhibit 4). However, this trend was expected to reverse in the future. All sales were through local retailers in Alberta.

LOOKING AHEAD

When True Büch was first created, Conrad and Louisa had a clear vision of where they wanted to go and what it would take to get them there. Their goal was to achieve $1 million in revenue by 2020, and they were prepared to devote the time and effort needed to get there.

After three years of hard work and dedication, they realized that to achieve their goal, something would need to change. While the company’s financial statements were strong, they would still need to increase revenues by 400 per cent in order to achieve their goal (see Exhibit 2). The business was successful, the product was in high demand, and the future was bright, but Conrad and Louisa needed a strategy to achieve their goal.

And, as welcome as their successes were, their achievements also brought a whole new set of problems they did not know how to solve. How could they maintain their current growth into the future? Should they expand? If so, to where? How? And if they did expand, what changes would they need to make? Would they need capital? If so, how would they obtain the capital required to make additional investments to their production line or distribution channels?

After they sat down in their warehouse, looking at the 800 bottles they had just manually capped and prepared for delivery the next day, the Ferrels realized that time was running out. There were not enough hours in the day to meet the demands of the business. They needed some help but simply did not know where to turn and what to do next.

Exhibit 1: Growth of the Kombucha Industry in the United States

(In us$ Milllions)

Source: Adapted from Svati Kirsten Narula, “The American Kombucha Craze, in One Home-Brewed Chart,” Quartz*,* March 26, 2015, accessed April 5, 2017, https://qz.com/368513/the-american-kombucha-craze-in-one-home-brewed-chart.

Exhibit 2: True Büch Kombucha Balance Sheet

as of July 31, 2016 (CA$)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | | |  |  |
|  | **Current Assets** | |  |  |
|  |  | Cash |  | 24,864 |
|  |  | Accounts Receivable |  | 108,262 |
|  |  | Inventory – Bottle 355 ml |  | 1,534 |
|  |  | Inventory – Bottles |  | 7,560 |
|  |  | Inventory – Keg Growlers |  | 1,059 |
|  |  | Damage Deposit |  | 3,175 |
|  |  | Prepaid Expenses |  | 2,018 |
|  | **Total Current Assets** | | **$ 148,472** |  |
|  | **Non-current Assets** | |  |  |
|  |  | Computers |  | 1,000 |
|  |  | Computers – Accumulated Depreciation |  | −275 |
|  |  | FF&E – Equipment |  | 86,814 |
|  |  | FF&E – Equipment – Accumulated Depreciation |  | −13,457 |
|  |  | Leasehold Improvements |  | 12,227 |
|  |  | Leasehold Improvements – Accumulated Depreciation |  | −1,019 |
|  |  | Vehicle |  | 28,679 |
|  |  | Vehicle – Accumulated Deprecation |  | −7,216 |
|  | **Total Non-current Assets** | | **$ 106,753** |  |
| Total Assets | | | **$ 255,225** |  |
|  |  |  |  |  |
| Liabilities | | |  |  |
|  | **Current Liabilities** | |  |  |
|  |  | Deposits Payable |  | 8,337 |
|  |  | GST Payable |  | 4,092 |
|  |  | Corporate Taxes Payable |  | 16,098 |
|  |  | Accounts Payable |  | 362 |
|  | **Total Current Liabilities** | | **$ 28,889** |  |
|  | **Non-current Liabilities** | |  |  |
|  |  | Loan Payable – Non-current |  | 60,633 |
|  |  | Shareholder Loan |  | 12,390 |
|  | **Total Non-current Liabilities** | | **$ 73,023** |  |
|  | **Equity** | |  |  |
|  |  | Retained Earnings |  | 133,302 |
|  |  | Share Capital |  | 20,011 |
|  | **Total Equity** | | **$ 153,313** |  |
| Total Liabilities and Equity | | | **$ 255,225** |  |

Note: ml = millilitre; FF&E = fixtures, furniture, and equipment; GST = goods and services tax.

Source: Company documents.

Exhibit 3: True Büch Kombucha single-serving Bottles



Source: Company documents.

Exhibit 4: True Büch Kombucha Income Statement

for the year ended July 31, 2016 (CA$)

|  |  |  |
| --- | --- | --- |
| **Income** | |  |
|  | Sales – Bottles – 355 ml | 11,652 |
|  | Sales – Kegs – 5 gal | 244,970 |
|  | Shipping and Delivery Income | 7,059 |
| **Total Income** | | **263,681** |
| Cost of Goods Sold | | 26,623 |
| **Gross Profit** | | **237,058** |
| **Expenses** | |  |
|  | Total Advertising/Marketing | 5,716 |
|  | Automobile | 6,686 |
|  | Bank Charges | 473 |
|  | Charitable Donations | 14,957 |
|  | Insurance | 4,419 |
|  | Meals and Entertainment | 3,542 |
|  | Office Expenses | 11,062 |
|  | Payroll Expenses | 28,191 |
|  | Rent or Lease Payments | 12,559 |
|  | Repair and Maintenance | 2,987 |
|  | Taxes and Licences | 593 |
|  | Utilities | 1,662 |
|  | Depreciation | 17,577 |
|  | Dues | 4,020 |
|  | Other | 557 |
| **Total Expenses** | | **115,001** |
| **Operating Income** | | **122,057** |
| Taxes | | 16,098 |
| **Profit** | | **105,959** |

Note: ml = millilitres; gal = gallons.

Source: Company documents.

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7. All currency amounts are in USD unless otherwise stated. [↑](#footnote-ref-7)
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10. “RTD Tea in Canada,” op. cit. [↑](#footnote-ref-10)
11. “About,” True Büch, accessed April 5, 2018, http://truebuch.com/aboutus. [↑](#footnote-ref-11)
12. Ibid. [↑](#footnote-ref-12)
13. “Who We Support,” True Büch, accessed April 15, 2017, http://truebuch.com/projects. [↑](#footnote-ref-13)