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## **Kashi: Growing the Supply Chain for Organic Food**

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# **Kashi Company: Growing the Supply Chain for Organic Food**

On November 23, 2015, an equity analyst at investment bank, Credit Suisse, upgraded his outlook for Kellogg Company stock to ‘outperform,’ stating, “We expect Kellogg’s cereal business (45% of sales) to return to growth in 2016 behind the revitalization of the Kashi and Special K brands.”<sup>1</sup> This was an important vote of confidence in Kashi, which was going through an especially difficult turnaround.

Kashi had alienated a significant portion of its customer base in 2011-2012, when it was reported that its products, marketed as ‘natural,’ contained genetically modified ingredients. Kashi’s passionate customers felt betrayed, abandoning the brand and precipitating a 4-year sales slump that erased one-third of the company’s annual sales.

Restoring growth at Kashi would be a crucial milestone for Kellogg, which had posted sequentially declining sales in five of the previous six quarters.<sup>2</sup> Kellogg CEO, John Bryant, had publicly called Kashi’s performance “a source of weakness for us over the last couple of years.”<sup>3</sup> The Credit Suisse analyst believed that management was “feeling more pressure than normal to turn around the business, either from an activist investor or just from a dissatisfied board of directors.”<sup>4</sup> A potential sale of Kellogg to an “eager” Kraft Heinz was seen as a possibility. However, a turnaround at Kashi, Kellogg’s standard-bearer in the fast-growing natural foods sector, might appease Wall Street and point the way toward a resumption of growth at Kellogg overall.

Nine months later, on August 30, 2016, Credit Suisse sounded less bullish, noting that, “while management sounds confident that its Kashi brand has regained its stature with organic/natural foods consumers ... the brand has yet to recover in measured channels. Our data indicates sales down 16% over the past 12 and 52 weeks with big declines in snack bars, crackers, and pizza.”<sup>5</sup> In comparison, the healthy cereal and snack categories in which they competed were growing faster than the overall food market.<sup>6</sup> Then, on December 7, 2016, Credit Suisse downgraded its rating on Kellogg to Neutral.<sup>7</sup>

The view from CEO David Denholm’s office in Solana Beach, California, was not nearly as gloomy as the analyst’s. During the November 2015 meeting that had impressed the Credit Suisse analyst, Denholm was quoted saying, “We are going to reinstate Kashi as a leader in the food movement. ... All of this culminates in what we believe is a \$1 billion business opportunity.”<sup>8</sup> This was an ambitious target, considering that 2014 sales were just under \$400 million and falling.

Denholm had a healthy appreciation for the challenges involved in turning around the tarnished brand, whose most committed and influential consumers were quick to question corporate communications and slow to forgive perceived transgressions like Kashi’s. But sales trends were beginning to shift in Kashi’s favor and a major new initiative, launched in May 2016, seemed to

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*Adjunct Instructor Chet Van Wert wrote this case solely as the basis for class discussion. The case is not intended to serve as an endorsement, source of primary data, or illustration of either effective or ineffective management.*

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be on track. The new team Denholm had hired the previous year had made clear progress, although they had not yet restored growth. Would the new initiative be the needed catalyst for a turnaround?

## **A Nutrition Pioneer Grows Up**

Kashi Company was founded in 1984 by Philip and Gayle Tauber, a husband-and-wife team who set out to offer consumers a healthy alternative to conventional breakfast foods. They created high-protein, ready-to-eat cereals made with no artificial ingredients. A whole-grain frozen pizza was launched in the early 1990s, followed by other meals, shakes and cereal-based snack bars. Sales grew to about \$25 million in 2000, when the Taubers sold the company to Kellogg.

In 2000, when it acquired Kashi, Kellogg's revenues were almost \$7 billion. Although Kashi's \$25 million was significantly less than 1% of Kellogg's total sales, the parent company saw the acquisition as a strong entry into a high-growth market. Announcing the acquisition, John Cook, president of Kellogg North America, said, "Kashi will enhance our leadership position in the RTEC [ready-to-eat cereal] category and further extend our commitment to build our consumer base in the rapidly growing natural foods marketplace."<sup>9</sup>

For ten years, the investment paid off enormously well, as Kashi revenues grew by a factor of more than 20 times, from \$25 million to almost \$600 million, just under 5% of Kellogg's total revenue in 2010 (Exhibit 1). In Kellogg's brand portfolio, Kashi was a high-profile success story and an important stake in a fast-growing market. Kashi was managed fairly independently and remained in Southern California, where it was founded, allowing its West Coast entrepreneurial counter-culture to flourish.

## **The Natural and Organic Foods Market**

Kashi's founders sought to help consumers achieve better health by offering less-processed foods without artificial ingredients. Over the course of the 30 years the company had existed, the market evolved, as growing numbers of consumers became concerned about the health and environmental risks of agricultural chemicals and genetically modified crops. This led to the development of sub-markets for organic, non-genetically modified, and locally grown foods.

Natural Foods: The term 'natural' was often used to mean foods made with no artificial ingredients. However, there was no regulation in the U.S. that defined what could or could not be marketed as 'natural'.

GMOs: In 1996, Monsanto, a major producer of agricultural chemicals, began selling genetically modified (GMO) seeds for key commercial crops. Many were engineered to tolerate spraying of Monsanto's glyphosphate herbicide, RoundUp<sup>TM</sup>. These crops' tolerance for the herbicide led to increased spraying by farmers to manage weeds. GMO soybean farmers were found to use as much as 28% more glyphosphate than Non-GMO farmers, and their usage was increasing year to year as weeds evolved a tolerance for the chemical. As a result, GMO crops tended to reach consumers with higher levels of chemical residues than Non-GMO crops.<sup>10</sup>

Consumer groups had tried and failed to prevent the commercial release of GMOs in the 1990s. In the 2000s, legislation was proposed that would require food manufacturers to disclose GMO

ingredients on food packaging. These efforts also failed, as large food companies, including Kellogg, opposed them with strong lobbying efforts.

Organic Foods: In 2002, the U.S. Department of Agriculture (USDA) established organic farming standards, which prohibited the use of most agricultural chemicals and prescribed practices meant to preserve and regenerate the fertility of the soil. Unlike ‘natural’ foods, a description that was not regulated, rigorous standards were set for foods that could be marketed as ‘organic.’ GMOs were specifically excluded from the USDA’s definition of organic.

## **An Early Advocate of Organic Foods**

Kashi’s entrepreneurial culture valued innovation and, for many years, kept the company at the leading edge of the market’s evolution from ‘natural’ to ‘organic’ foods. Before the Kellogg acquisition and the establishment of USDA standards, the small company had developed its own organic certification program, Veri-Pure™, which was managed by an independent testing organization. In 1999, Kashi used organically grown ingredients in a line of hot cereals. And after the Kellogg acquisition, when the USDA Organic Certification program was launched in 2002, Kashi produced the first line of USDA Organic Certified cereals.

As the market evolved, it was clear that many consumers did not understand the distinctions between natural and organic foods. Many mistakenly assumed that ‘natural’ and ‘organic’ were the same, more or less (Exhibit 2).

## **Organic Food Consumers**

Overall, American consumers were very selective about buying organic foods. In 2015, according to *Consumer Reports*, “Around eight in 10 households currently buy at least some certified organic products – mostly produce and dairy.”<sup>11</sup> Still, the Organic Trade Association reported that less than 5% of food sold in the U.S. that year was organic.<sup>12</sup> Clearly, many consumers were devoting a very small share of their grocery spending to organic products. Some of the reasons often cited were:

- Price: The same *Consumer Reports* study found that the most commonly purchased organic produce, meat and dairy products cost, on average, 47% more than their conventional counterparts.<sup>13</sup>
- Fragmentation: The ‘natural foods’ market was not homogeneous. Segments had evolved to serve unique sets of consumer values, including local, GMO-free, vegan, gluten-free, ‘free-range’ and antibiotic-free meats and eggs, ethically caught seafood, and others, in addition to organic.
- Consumer Confusion: A consumer checking the packages on a supermarket shelf would find numerous certifications and marketing claims whose meaning was not entirely clear. ‘Natural’ was not a regulated term, whereas USDA Certified Organic products had to meet rigorous guidelines. Confused consumers might be reporting that they purchased organic foods when, in fact, what they bought was labeled ‘natural.’

Despite these obstacles, the organic food market was growing robustly. While total U.S. food sales grew 3% in 2015, organic food sales were up 11%. During the 15-year period from 2000 to

2015, organic food sales grew more than 550%, from \$6.1 billion to \$39.7 billion, while the total food market grew just over 60% (Exhibit 3).<sup>14</sup>

Organic food consumers had a variety of motivations, including personal health, environmental protection, support for small farmers and for the local economy. Their food choices were no longer about personal nutrition alone, but reflected their deeply held personal, political, and social values. They saw their food choices as contributing to the kind of society in which they wanted to live.

The Hartman Group, a well-known food industry researcher and consultant, found that the most dedicated, 'Core' organic consumers prioritized several values when they made a purchase<sup>15</sup>:

- the greater good (“improving people’s lives, the environment and ‘the system’”);
- brand authenticity (“evidence that sustainable actions flow from a company’s orientation” and not from a marketing pitch);
- company transparency (“company values, policies and practices”); and
- knowledge (“companies that proactively help consumers learn more”).

According to The Hartman Group, the Core segment of consumers most committed to buying natural and organic foods – and most willing to pay a premium for them – made up about 13% of the total market in 2016. At the other end of the spectrum, a Periphery segment, comprising 20% to 25% of consumers, had little to no interest in natural foods. Between these two extremes were consumers who expressed moderate preferences for natural and organic foods, but demonstrated little willingness to pay a premium or go out of their way to find natural and organic foods (Exhibit 4).

## **Organic Farming: An Inefficient Supply Chain**

Despite consistently strong growth in organic food sales, which by 2015 represented almost 5% of total U.S. food sales, less than 1% of U.S. farmland was certified organic. Since 2000, while organic food demand had grown 550%, certified organic farmland had expanded just 204% (Exhibit 5). The gap in supply was filled by imports.

Although organic crops commanded premium prices, farmers faced significant obstacles when they considered converting conventional farmland to organic. Farmland had to be managed according to organic protocols for at least three years before a farmer can apply for his/her crops to be certified as organic. The real challenge was that farmers did not receive a premium price for their crops during the three-year transition period, while the productivity of their land often declined during this period (Exhibit 6).

In other words, lower income and higher costs during the transition period were certain, while the possible benefit of premium prices for organic crops four or more years in the future was not. This combination did not add up to an appealing opportunity for many farmers, and it was a growing problem for Kashi, the industry, and organic food consumers. Growth in the supply of organic crops continually lagged growth in consumer demand for organic foods.

## Kashi's GMO Crisis

In August 2011, Kashi was sued by consumers who objected to its 'all natural' label. Testing had revealed high levels of GMO soy in Kashi products.<sup>16</sup> In October 2011, The Cornucopia Institute, an agricultural research and educational organization, issued a report with similar claims. Cornucopia had tested Kashi's cereals, among other brands, and found them to contain genetically modified (GMO) soy. The report also noted that GMO soy tested separately by the USDA contained high levels of pesticides. Then, in April 2012, John Wood, owner of The Green Grocer natural foods store in Portsmouth, R.I., who had read The Cornucopia Institute's report<sup>17</sup>, removed all Kashi products from his shelves and posted a note to customers saying,

"You might be wondering where your favorite Kashi cereals have gone. It has recently come to our attention that 100% of the soy used in Kashi products is genetically modified, and that when the USDA tested the grains used there were found to be pesticides that are known carcinogens and hormone disruptors."<sup>18</sup>

Customers posted a picture of Wood's sign on Kashi's Facebook news feed, asking for an explanation, and the information soon 'went viral,' generating a torrent of angry consumer responses and declining sales at the cash register (Exhibit 7).

Kashi was not prepared for the consumer backlash. Kashi's Facebook feed quickly filled with thousands of antagonistic comments. Customer service phone lines were swamped. For a short time, calls went unanswered. Then, customer service representatives told callers that the Cornucopia report was not based on actual product testing. When Cornucopia refuted Kashi's claim, Kashi posted a video in which a spokesperson implied that the GMOs found in Kashi products were incidental, saying:

"Factors outside our control such as pollen drift from nearby crops, and current practices in agricultural storage, handling and shipping have led to an environment where GMOs are not sufficiently controlled."<sup>19</sup>

Cornucopia responded:

"One of the bits of the subterfuge is they suggest in the video that GMOs are in the environment, like they're all over the place.... If we were talking about trace GMOs, which are under 1 percent, you could say [Kashi] was making a good faith effort and that maybe someone didn't clean the trucks out properly that transported the grain or the storage bins ... We tested their product, their Go Lean cereal product, which gets its protein from soy, and it tests 100 percent genetically engineered."<sup>20</sup>

Finally, Kashi's General Manager took a different tack, justifying Kashi's 'natural' claims by noting that, "The FDA has chosen not to regulate the term 'natural'." The comment seemed to demonstrate a lack of understanding and empathy for customer concerns, and it raised the level of consumer indignation.<sup>21</sup>

One consumer post on Kashi's Facebook page stated, "Everything you supposedly stand for is a lie."<sup>22</sup> It seemed that many consumers believed that products labeled 'natural' would not contain genetically modified ingredients or significant levels of agricultural chemicals. Many had assumed that all Kashi products were organic and Non-GMO (Exhibit 8).

Consumers who believed that their quest to live healthier lives had been exploited and that their values had been betrayed were not quick to forgive or forget. Almost anything Kashi posted on Facebook for well over a year, regardless of topic, was met with angry comments about GMOs and betrayal. A year and a half later, in October 2013, when Kashi published a post celebrating Non-GMO Month, a flurry of angry comments ensued, including, “You guys are despicable and should be ashamed” (Exhibit 9).

An important element of Kashi’s messaging was lost in the heat of emotions generated by what consumers perceived as a cover-up: Kashi had already enrolled in the Non-GMO Project – a nonprofit that certified products made without GMO ingredients – before the negative publicity storm. In April 2012, seven of its cereals were already Non-GMO Verified. This represented what a Kashi staffer described on Facebook as “the first step in our phased approach, and we’re committed to this journey!”

Kashi’s Non-GMO messaging (for example, see Exhibit 8) was quite possibly a factor that contributed to consumers’ mistaken beliefs and feelings of betrayal. It did not communicate the nuances of a semi-GMO product line and the long-term “journey” to a fully Non-GMO product line.

The truth was that Kashi could not simply convert all of its products to non-GMO. It was a prisoner of its supply chain. USDA data show that GMO soy took over the U.S. supply chain rapidly, growing from 7% in 1996 to over 50% in 1999, to over 80% in 2003. In fact, 93% of the U.S. soy crop was GMO by the time of Kashi’s 2012 crisis (Exhibit 10). A Kashi press release dated April 30, 2012, described it this way:

“[T]he company expects to nearly double its organic ingredient purchasing over the next few years. Because many of these supply chains don’t exist yet, in order to fulfill its organic and Non-GMO Project Verified plan, Kashi has been working with farmers and suppliers for several years to help evolve more Non-GMO and organic ingredients.”<sup>23</sup>

Since soy was a key ingredient in many Kashi products, finding and contracting for adequate supplies of Non-GMO ingredients to support its entire product line was a major challenge that the company had not anticipated. The result: a one-time innovator and leader of the organic foods movement had been trapped using a soy supply chain that rapidly became dominated by GMOs. Kashi compounded the problem by promoting a Non-GMO message, not understanding how its customers would interpret its use of GMO ingredients, and not being prepared to answer their questions.

Kashi had been accused of being subservient to its Big Food parent company’s agenda. Kellogg then took action that seemed to confirm this conclusion: In March 2013, it stepped in and moved Kashi from Southern California to Kellogg’s Battle Creek, Michigan, headquarters. Most employees chose not to make the move. Kellogg restaffed the unit and took a greater role in managing it.

Following the move to Michigan, Kashi sales continued to decline. By mid-2014, sales were down one-third from their \$600 million peak to \$400 million – during a period in which the natural foods sector overall continued its strong growth. From 2010 to 2015, the energy and nutrition bar segment grew by 87%, while Kashi’s sales (overall) fell by 33%. Healthy snack bar maker, Kind, saw sales increase 36% in 2014 alone.<sup>24</sup> Privately held competitor, Kind, was said to have reached \$1 billion in sales that year, making it more than twice Kashi’s size.<sup>25</sup>

## Rebuilding

Kellogg changed course again. David Denholm, a one-time Kellogg and Kashi executive, and then President of Chobani Yogurt, was brought back as Kashi's new CEO. Between August 2014 and January 2015, Denholm engineered the return of Kashi's headquarters to Southern California and began hiring a new team. Some former staffers rejoined the company – Denholm called them 'boomerangs' – and new team members were added.

The staff rebuilding process took a substantial part of 2015. Denholm, a 'boomerang' himself, was trying to recapture an essential element of Kashi's earlier success – the drive to innovate on the leading edge of food trends. He commented that, "Our success will be a function of this inventor's mindset. It's our cultural legacy from Philip and Gayle Tauber and the people they hired. They were passionate about pushing boundaries, not accepting the status quo, and bringing a pioneering edge to our products and our brand. We are very focused on hiring for this inventor's mindset."

In 2015, the new team completed the conversion of the entire product line to Non-GMO ingredients by renovating 14 products, comprising 40 stock-keeping units (SKUs), and creating a supply chain of over 500 Non-GMO Project Verified ingredients. At the same time, they launched nine new products comprising 20 SKUs (Exhibit 11).

Putting the GMO controversy behind them and launching a wave of new products was necessary, but not sufficient, for the brand's rebirth. As one Kashi staffer succinctly put it, "20% more berries isn't going to do the job." And indeed, while the rate of sales decline had slowed significantly, the trend had not yet turned positive.

Fortunately, a potential breakthrough innovation had been incubated during the first few months of Denholm's tenure, one that seemed to tap into the inventor's mindset.

## Seed of a Breakthrough

About the time that Denholm returned to Kashi in the summer of 2014, a marketing executive organized a field trip for a dozen or so Kashi staffers to a local Michigan farm that was run on "more than organic" principles. The visit was intended to be both a learning experience and a team-building exercise.

During the farm tour, Karen Lubbers, the farm's owner, told her story, which centered on nursing her nine-year-old daughter back to health after a bout of cancer. Karen believed that pure food was an essential part of that healing process; in fact, her commitment to "real food" was the reason she had become an organic farmer. Listening to Karen, one of the Kashi marketing executives, David Uzzell, experienced a moment of epiphany, which he described this way:

"I was personally inspired by the farm and by Karen's story. We had been there two hours or so and I was all fired up, when someone asked her, 'What do you think about organic certification? What does it mean to you?' Although Karen's farming practices are very pure, her farm isn't certified organic. Her customer base doesn't care about the label, because they are mostly local, they know her, and they trust the quality of her food.



“Karen talked about the paperwork, the certification process, and the three years it takes to convert a conventional farm to organic. And then, probably without even thinking twice about it, she said, ‘You know what? Organic is nice, but I’d be more likely to support someone who is in transition to organic than someone who is already certified. I’d want to support that farmer’s effort and intention to make the change.’

“I was struck by that statement. I thought, ‘Oh man, this is the best idea I’ve every heard. Kashi can do something with this. We have a role to play in this process.’ I looked at Arwen Kimmell, our marketing insights leader, and she looked at me. We both knew that was a breakthrough moment. I had come to Kashi to make a difference, to use its scale to improve our food system and people’s health, so I felt the need to do something with the idea. It was just so impactful, so helpful, and so commercially actionable.”

Driving home from the farm visit, Uzzell called his father, a long-time agricultural extension agent. What did his father think of the idea of creating a cereal from grain produced by farmers going through the transition to organic and paying them a premium price for their crops? Uzzell’s father thought that it would make a big difference to farmers who were hesitating to make the transition because of the financial risk.

Uzzell dove into the process of evaluating how this idea might be turned into a real product that would make a difference to farmers – removing a barrier and stimulating the conversion of more conventional farmland to organic. He talked to supply chain managers, sustainability managers, and Kashi’s specialty grain supplier, Hesco, Inc.

“At first, I thought, this is so obvious. Something like it must already exist, or else there’s a good reason why it doesn’t. But the experts at Hesco, people whose entire life is grain, said, ‘Hmm. That’s a really good idea. We haven’t heard of anything like that.’ I thought, ‘Really? Are you kidding?’ And they said, ‘That’s a really good idea. We could do that.’”

Working with Kashi’s sustainability and supply chain managers, Uzzell began to explore how to create a cereal made from grain grown on farms in transition. How would the supply chain work? How would growing, harvesting, transporting, and manufacturing specifications be developed? Should Kashi convert existing products to use transitional grain, or should new products be created specifically for transitional grain? How would transitional grain be certified? And then, how would Kashi communicate the concept to consumers, and would there be a market for it?

## **Selling the Transitional Initiative Internally**

In January 2015, as Kashi was staffing up and new team members were coming on board, Uzzell happened to pass a conference room in Kashi’s temporary office space near La Jolla, California, late on a Friday afternoon. The new heads of Sales, Supply Chain, and Innovation were working on a large whiteboard, mapping out two years of product development schedules. There, in one place, were the people whose support Uzzell needed to line up in order to take the Transitional proposal to Denholm.

“So I just went in full speed ahead and made the pitch for Transitional as an idea that we had to do. Everyone agreed that it was a great idea, but there was a lot of concern that it was going to be really, really hard. Would it be worth the effort? It would have been much easier to launch a new organic cereal.”

The Transitional initiative involved making changes to the whole supply chain, developing new operational processes that Kellogg plants had to schedule, and creating a highly technical certification protocol. There were understandable reservations about whether it was the best use of Kashi's limited time and resources – especially in the crucial rebuilding period that the company had just begun. But although the team was new, it had been selected for members' personal commitments to promoting healthy food and a better food system.

Louise Cotterill, head of Communications and a key staffer who had guided the team rebuilding process, put it this way:

“In business, it's so easy to say no. It's much harder to say yes. But the kind of personal commitment we had selected for created a team that wanted to say yes. We're driven by personal beliefs. When we went home at the end of the day and talked to our families about this project, we said, ‘You won't believe what we're doing. It's amazing.’”

The team was excited about the concept, and most were unwilling to put the project on hold. It supported Kashi's growth as well as the entire organic food industry's. It benefitted farmers. Most important, it was a redemption story for the Kashi brand. Jason Moraff, a manager on the Innovation team, put it this way:

“Lots of consumers view Kashi as having broken their trust. That's very difficult to repair. Words can't recapture that trust, only actions can. It's our obligation to take actions like this in the marketplace, for the benefit of the food movement as a whole. That's what will rebuild their trust.”

## **Creating ‘Dark Cocoa Karma’**

Moraff was tasked with formulating the specific products Kashi would produce with Transitional ingredients. Early concepts that had been considered included breakfast and snack bars, but they required a variety of ingredients, including nuts, honey, and various grains. That would complicate a brand new supply chain for transitional ingredients. The product concept the team settled on was a cocoa-flavored shredded wheat biscuit. ‘Dark Cocoa Karma’ required only one Transitional ingredient: wheat. That kept it simple. (The cocoa and other ingredients were certified organic.)

Dark Cocoa Karma was envisioned as a product that would continue to use Transitional wheat for the foreseeable future. As Transitional farmers graduated to Certified Organic status, their wheat would qualify for use in other, higher-value Certified Organic products. Dark Cocoa Karma and future Transitional products would remain demand generators for Transitional wheat as long as they were needed to power the growth of the organic supply chain.

In March 2015, Uzzell attended a trade show and met with Hesco representatives and Kashi's new Supply Chain and Sustainability lead, Nicole Nestojko. To get a product to market in 2016, Hesco needed an agreement right away. They had planting and harvesting cycles to work around as they secured commitments from farmers. Nestojko agreed, and the Transitional initiative was underway.

## Building a Resilient Supply Chain

As it gathered momentum, the Transitional program became a catalyst that helped re-establish Kashi's corporate culture and the inventor's mindset that Denholm was after. Every department from Supply Chain to Sales to Finance was involved and shared a stake in the project's success. Most important, everyone felt that the project mattered in a larger sense. According to Moraff:

“This was the most important thing I did last year. Things like this are the reason I came back to Kashi – to create change on a large scale. I believe business can deliver economic, social and environmental benefits – the triple bottom line concept. That's how I'm making the world a better place for my kids.”

The GMO crisis had been partly precipitated by a supply chain failure, when the supply of Non-GMO soy rapidly disappeared and Kashi could no longer secure an adequate supply. The growth of the organic foods market and the dwindling supply of Non-GMO soy were trends moving in opposite directions.

The supply of other ingredients was also a problem. According to one staff member, “There's not enough Non-GMO honey in the whole United States for our supply chain. So when we go to bid, we're bidding against Germany – the country – for enough non-GMO honey.” To keep up with consumer demand, conventional farmland would have to be converted to organic faster. Otherwise, the company's and the industry's future growth would again be hostage to a dysfunctional supply chain.

Kashi's competitors responded to this supply chain failure in different ways. One approach was outright ownership of organic farmland. Cascadian Farms, which General Mills had purchased at about the same time that Kellogg bought Kashi, had its roots in a working organic farm. It continued to expand its holdings of organic farmland as one way of guaranteeing its own future grain supply.

Ardent Mills, the largest organic flour miller in the U.S., took a different approach. In December 2015, it announced an initiative designed “to help farmers double U.S. organic wheat acres by 2019.” Ardent offered long-term purchase contracts at favorable prices to farmers who agreed to convert conventional farmland to organic.<sup>26</sup>

Kashi positioned its Transitional initiative as a third approach. Denholm described it this way at an industry conference:

“What I observe in the marketplace is the economic concept of vertical integration. What's happening is that companies are buying up their own organic farmland. Companies are putting in place long-term contracts for organic supply. Vertical integration, in economic theory, should only occur when there is a market failure. Economic theory tells us that vertical integration does not achieve an efficient and effective allocation of economic resources. At Kashi, we believe that vertical integration alone will not get us there. It will not get us beyond 1%, 5%, 10%. We believe that we need a more collective, open-source approach to this challenge.... This opportunity is bigger than any one company, bigger than any one brand. This is a challenge for all of us.”<sup>27</sup>

The market was failing to balance supply and demand. Higher prices for organic crops, which theory says are the mechanism for balancing supply and demand, were not working. The three-year transition gap and uncertainty over future pricing introduced significant risk into the farmer's decision process, which short-term prices could not offset. The costs of the transition were definite and immediate; the benefits were uncertain and years in the future.

To remove this obstacle, Denholm believed that a market-driven process was needed to close the gap. Kashi would try to create an industry-wide, robust market for transitional crops at a premium price (vs. conventional crops). The hope was that this would offer farmers sufficient incentive to undertake the conversion process.

Kashi's solution also required the stimulation of consumer demand for Transitional products and a willingness to pay a premium for them compared with conventional products. As Cotterill put it, "Unless you can get the consumer to pay a premium for it, you can't pay the supplier a premium. And if the consumer doesn't understand it and believe in it, why would they pay a premium?"

## Consumer Insights

Would consumers understand the Transitional concept? Would they care enough to support it by paying even a small price premium? Would Core organic consumers accept Transitional grain products as a means to a shared goal, or would they avoid them because they were not organic? Crucially, would former Kashi customers and Core organic consumers believe Kashi's story or, really, anything Kashi told them? Clearly, they held a grudge. Kashi needed answers to these questions.

Kimmell quickly fielded an online research study as the Transitional product concept was being considered. Analyzing both quantitative and qualitative responses, she found that the concept tested strongly positive in three crucial ways:

- It evoked real passion from consumers – they said they would buy it and probably even pay a slight premium for it;
- It had mass-market appeal beyond the Core organic consumer – it would expand the market; and
- It had the potential to convert Kashi haters into fans.

Kimmel used a 5-point Likert scale, as many researchers did, to measure how positive or negative consumers felt about the Transitional concept. Most often, responses cluster around the middle or the 'somewhat positive' rating. In this case, 49% of Core consumers gave the concept their highest positive rating. Another 29% gave it a somewhat positive score. Together, that was an outstanding 78% "top two boxes" score, an enormously encouraging number (Exhibit 12).

In a promotional video Kashi produced in 2016, an interviewer asks people on the street, "What percentage of U.S. farmland do you think is organic?" People respond with figures ranging from 5% to 25% and 30%. Then the interviewer reveals the truth: "It's less than 1%." Consumers respond with concern, saying, "That's scary," "What is wrong with everybody?" and "That's really sad."<sup>28</sup>

Kimmel was impressed with the passion expressed by consumers who were exposed to the Transitional story (Exhibit 12). She said, "When the results came in, I had to do a word count on

exclamation points. I've been in consumer research for a long time and typically you'll get 3 or 4 exclamation points. We got 92!"

## Proprietary vs. Open Source

Transitional crops, and the consumer products made with them, would have to be certified to validate them and justify the premium price – just as organic products were certified. In thinking about the certification process, the Kashi team had a critical choice to make. They considered trademarking the initiative as Kashi Transitional Grains. That would let Kashi take credit for the initiative, but would also limit its impact – competitors would be unlikely to participate in a Kashi-branded program. The Kashi team was rebuilding the Kashi brand, but it was also focused on a larger goal: accelerating growth in the organic foods market.

The team agreed that Transitional would have to be open to all companies in order to have the hoped-for impact. By addressing not just Kashi's supply needs, but all organic food producers' needs, the program had a chance of incentivizing farmland conversion on a much larger scale. The proprietary approach would be too limited and would not deliver the market transformation they were aiming for.

Denholm put this strategy in perspective:

“You need to focus on what you're great at. What we want to be great at is pursuing our mission of delivering ‘powerful, uplifting health through plant-based foods.’ Do we want to get into farming or make long-term commitments? No. That's not our core competence. But if we can get consumers, with the help of retailers, to engage with the idea that 1% of farmland being organic is simply not enough – and in doing that, forge an emotional connection with farmers undertaking transition – then our market-driven solution will go so much further than any approach incorporating vertical integration.”

At least three factors had to line up for Kashi's strategy to drive the large-scale changes Denholm hoped to stimulate:

1. **Consumers:** Consumers had to serve as the demand engine for Transitional products. They would have to buy Transitional products and pay a premium price for them. That would provide farmers with the safety net they needed. But would consumers pay attention long enough to understand the Transitional story? And would they care enough to pay a premium, even a small one, for a product not certified as organic?
2. **Competitors:** To drive the large-scale change Denholm was seeking, Kashi's competitors would also have to bring Certified Transitional products to market. This was the practical reason for making the certification process open. Would competitors see it as an industry-wide opportunity, as Denholm hoped, or would they see a Kashi initiative they didn't want to support for competitive reasons? After all, some of Kashi's largest competitors had their own solutions in place.

Now, with the Transitional initiative, Kashi was trying to remove the barriers to balancing supply and demand by creating a market-based solution that would benefit everyone: farmers, the organic foods business, and consumers. Would the free market support Kashi's needs, and the industry's, this time?

## **Creating a New Industry Standard**

To create a Certified Transitional standard that competitors might adopt – in fact, a standard the entire industry might adopt – Kashi turned to Quality Assurance International (QAI), one of a number of certifying agencies that verified that organic farms were meeting the USDA's standards. (The USDA did not do any certifying itself.)

QAI independently developed the Certified Transitional standard with input from Kashi, other brands, retailers, and NGOs. The goal was to produce a standard that applied to crops used in a wide range of products, from fashion to food, in parallel to organic certification. QAI also performed the audits and testing that Transitional farms would have to undergo to be certified. The requirements QAI developed were increasingly stringent for each of the three years in transition, with the goal of getting farms ready for organic certification once they had completed the transition process. Transitional was not a permanent state.

After the QAI standard was announced in May 2016, other organic certifying organizations announced their own transitional certification programs and the Organic Trade Association submitted a unifying national standard for consideration by the USDA. However, the proposed USDA standard would apply to farmland only, not to finished consumer products. And the standards offered by other certifying organizations were not designed to be marketed to consumers and create consumer demand. QAI's (Kashi's) standard was the only one with that aspiration – a crucial goal for helping farmers fund the costs of transition.

Denholm saw all of these programs as confirmations that an open market-based approach really could inspire the widespread support that was needed to transform the American farm landscape. The more brands and certifying agencies that took part in the initiative, the faster the industry could bring about the needed changes. However, in October 2016, while many of Kashi's competitors had talked to QAI to learn about the Certified Transitional program, none had yet committed.

## **Marketing Communications**

Although the Transitional initiative focused on expanding the supply of organic crops and ingredients, its ultimate success depended on the consumer. This was an important challenge for the Kashi team. The story behind Transitional grain and the need for a Transitional market seemed like a fairly esoteric concept to communicate to consumers. Breakfast cereals and snack bars are not high involvement products. It seemed unrealistic to expect consumers to grasp the Transitional story while shopping the cereal aisle. Cotterill described it this way:

“How do you tell this story so that the consumer cares? There is no way to communicate

what Transitional is on the front of the box. So the food has to sell itself. Initially, the consumer won't be buying the Certified Transitional seal, they'll be buying the food. After that, our communications plan will start to work, using the back of the box and social media (Exhibits 13 and 14). It's nice to learn about Transitional after you buy the product.

“Our goal is to increase awareness so that eventually Transitional is a reason people are buying the product. But the story needs breathing room. It needs to be told by many people over a longer period of time, and eventually the consumer will get it. It's OK with us that a few weeks out of the gate they don't know what Transitional is. But if they still don't know it in two years, I won't be doing my job well.”

The Transitional program was simply a strategy to open up the pipeline of Certified Organic ingredients. Yet two key steps in Kashi's plan required substantially more time than a typical new product launch. Communicating to consumers the indirect value proposition for Transitional products – as a means of increasing the supply of organic foods – required patience. Then, as demand ramped up (assuming it succeeded), the new stream of Transitional crops it created wouldn't roll into the pool of Certified Organic ingredients for three years. Could Kashi wait that long? Could the industry?

## **Taking the Transitional Product to Market**

As the Kashi team discussed the Transitional concept with buyers at their big retail customers, they encountered the same passionate response that Kimmell had found among consumers. According to Moraff:

“I've had a dozen meetings with key buyers in the past year. We talk about trends and innovation and marketing. Nothing has sparked the kind of excitement with those buyer teams like Transitional. I've been launching new products for ten years and I've never seen the kind of uptake and acceptance this has gotten. It's the first time I've ever had anyone say, 'When can you launch more?' Or, 'How can I support this with you?'”

Dark Cocoa Karma, the first Transitional cereal to market, reached retail shelves in June 2016. Encouragingly, retailers were ordering it in addition to the Kashi products they already carried – in other words, Dark Cocoa Karma was expanding the Kashi brand's shelf space in the cereal aisle.

## **Looking Ahead**

As Denholm looked back at the progress the new team had made in a short time, he felt both encouraged and anxious. He and his team had moved the company back to its California home, hired a highly motivated new staff, re-established a culture grounded in the inventor's mindset, completed the Non-GMO renovation of the entire product line, launched 60 new SKUs in 2015, and brought the open-standard Certified Transitional initiative to market. Consumers and retailers seemed to love the idea.

Despite all that, it was too soon to celebrate. Denholm still had that ambitious \$1 billion revenue goal to work toward, and sales trends had not yet turned positive. Things were moving in the right

direction, but if Kashi didn't deliver sales growth soon and maintain the pace of innovation, he wondered how long the market, Kellogg management, and the investor community would keep the faith.

Cotterill maintained that getting the story across to consumers was a long-term effort. How long would it take, and would it make enough of an impact?

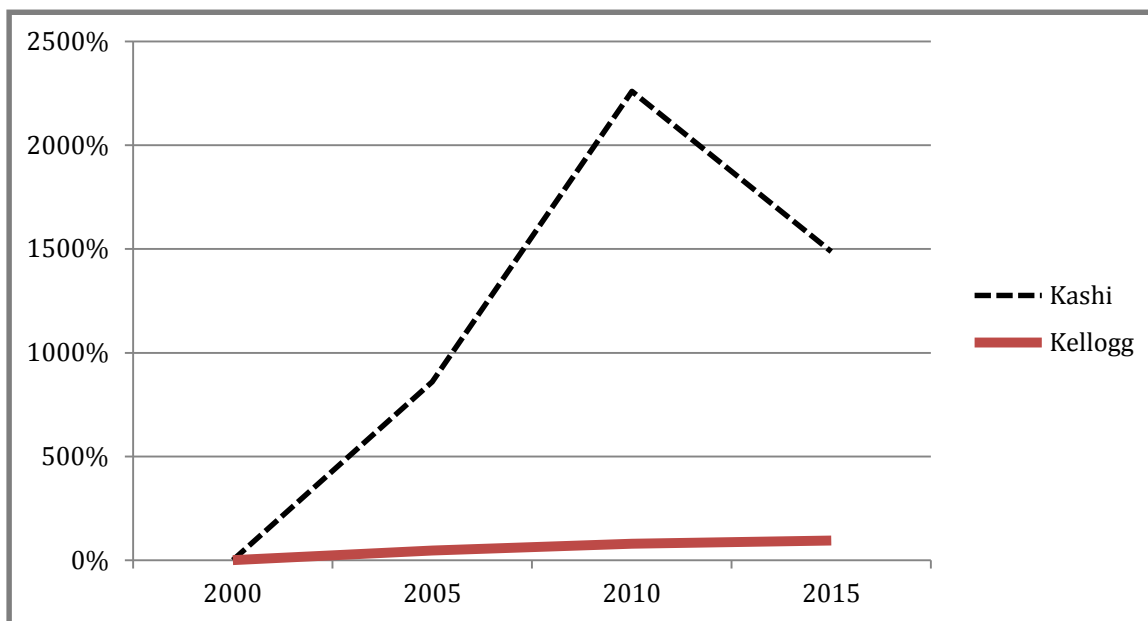
Among both retailers and consumers, the Certified Transitional initiative seemed to have the potential to restore at least some of the Kashi brand's lost luster. As a strategic initiative, was it enough to transform perception of the brand among all the stakeholders Denholm had to satisfy? Was it enough to drive the revenue gains that Kashi needed over the next couple of years?

As he thought about the supply-chain transformation that was the goal of the Transitional initiative, Denholm wondered whether the industry would see the same opportunity to accelerate the growth of the organic supply chain that Kashi had. QAI had heard from many of Kashi's competitors, who were interested in the program, but none had yet committed to it.

Cotterill was right. This was a story that needed time and patience to unfold. Did Kashi have enough time?



**Exhibit 1. Kashi vs Kellogg Sales Growth**  
*(Cumulative % Change from Year 2000)*



**Kashi & Kellogg Sales**  
*(\$ Million)*

	2000	2005	2010	2015
Kashi Company	25	240	590	397
Kellogg Company	6,954	10,177	12,397	13,525
Kashi % Kellogg Sales	0.4%	2.4%	4.8%	3.0%

Sources:

Kashi:

- 2000-2005: <http://investor.kelloggs.com/~media/Files/K/Kellogg-IR/reports-and-presentations/2009/kashi-desouza.pdf>
- 2010: <http://www.wsj.com/articles/inside-kelloggs-effort-to-cash-in-on-the-health-food-craze-1441073082>
- 2015: <http://www.wsj.com/articles/inside-kelloggs-effort-to-cash-in-on-the-health-food-craze-1441073082>

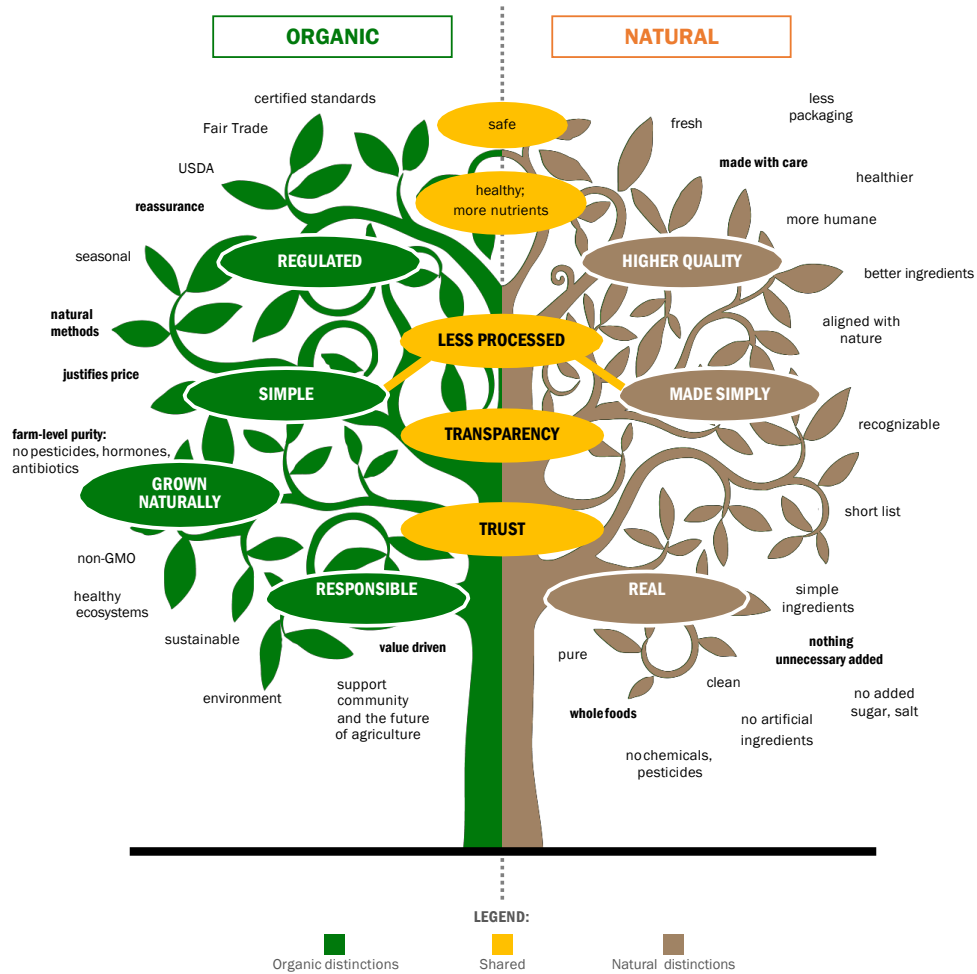
Kellogg & Company annual reports accessed at:

- 2000: [http://media.corporate-ir.net/media\\_files/IROL/10/108555/reports/ar2000.pdf](http://media.corporate-ir.net/media_files/IROL/10/108555/reports/ar2000.pdf)
- 2005: <http://www.slideshare.net/finance23/kellogg-annual-reports-2005>
- 2010: <http://investor.kelloggs.com/financials#annual-reports>
- 2015: <http://investor.kelloggs.com/financials#annual-reports>

## Exhibit 2. ‘Natural’ vs. ‘Organic’: Consumer Perceptions (The Hartman Group)

# CONSUMER DISTINCTIONS BETWEEN ORGANIC & NATURAL

There is considerable consternation among consumers when they encounter the terms “organic” and “natural.” They are two terms that have come to mean so many things to consumers that they now represent no one thing for everyone. Here we depict the language and other factors of how consumers understand the relationship between organic and natural food and beverage products.



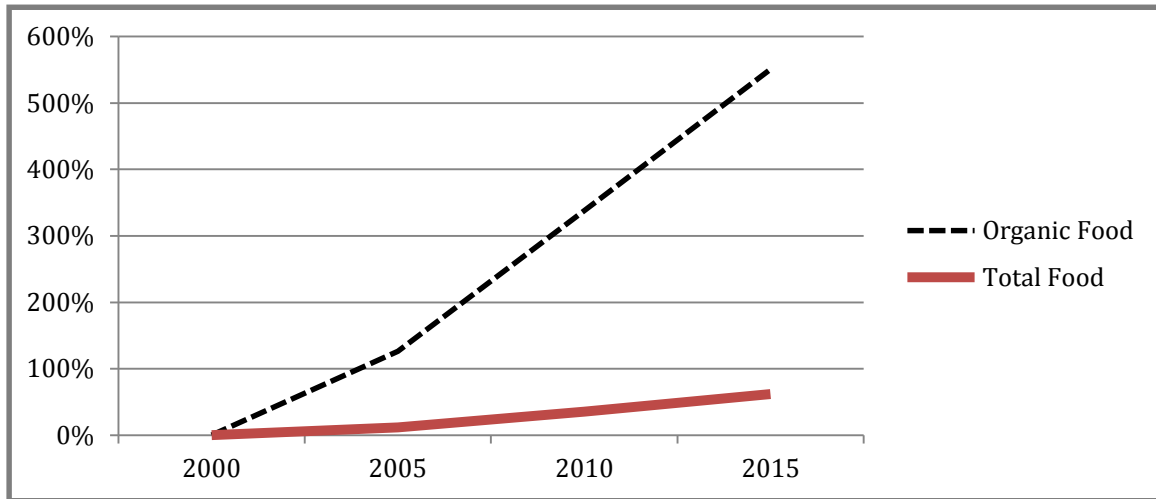
Source: [Organic & Natural 2016](#) report, The Hartman Group

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**Exhibit 3. U.S. Organic Food Sales vs. Total Food Sales 2000 – 2015**  
*(Cumulative % Change from Year 2000)*



**U.S. Organic Food Sales vs. Total Food Sales 2000 – 2015**  
*(\$ Billion)*

	2000	2005	2010	2015
Organic Food (\$ Billion)	6.1	13.8	26.7	39.7
Total Food (\$ Billion)	498.4	556.8	673	805
Organic % of Total Food	1.2%	2.5%	4.0%	4.9%

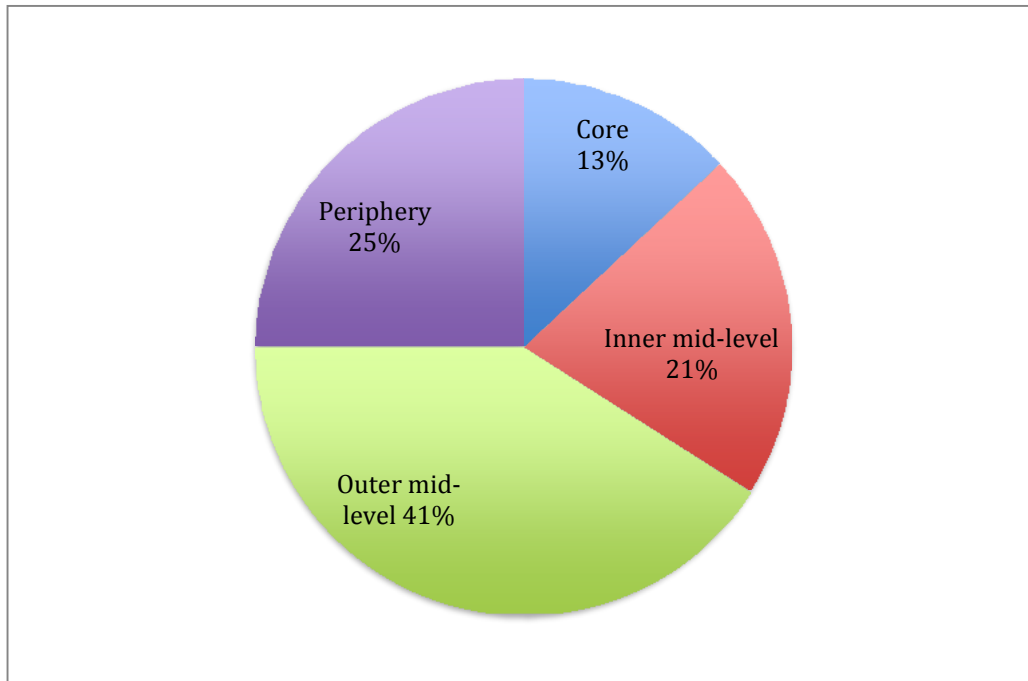
Sources:

Organic Food:

- 2000: [http://www.agmrc.org/media/cms/2007ExecutiveSummary\\_EAF54EE25943E.pdf](http://www.agmrc.org/media/cms/2007ExecutiveSummary_EAF54EE25943E.pdf)
- 2005: [http://www.agmrc.org/media/cms/2007ExecutiveSummary\\_EAF54EE25943E.pdf](http://www.agmrc.org/media/cms/2007ExecutiveSummary_EAF54EE25943E.pdf)
- 2010: <http://www.foodbusinessnews.net/news/news-home/consumer-trends/2012/4/organic-food-sales-increase-more-than-9.aspx>
- 2015: [http://ota.com/sites/default/files/indexed\\_files/OTA\\_StateofIndustry\\_2016.pdf](http://ota.com/sites/default/files/indexed_files/OTA_StateofIndustry_2016.pdf)

Total Food: <http://www.ers.usda.gov/data-products/food-expenditures.aspx#26636>

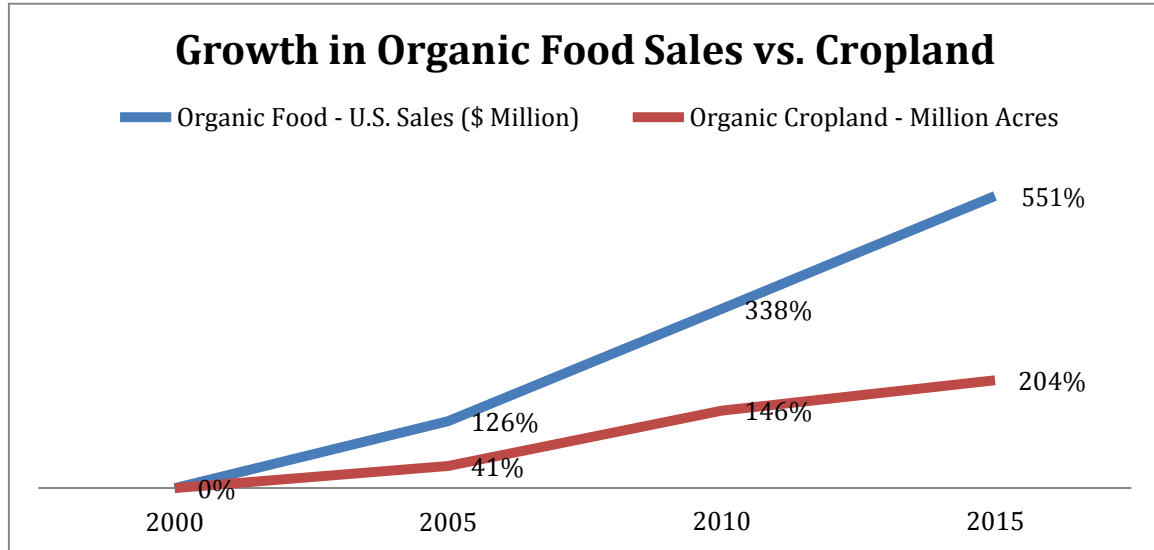
**Exhibit 4.** Market Segmentation: U.S. Food Consumers  
(The Hartman Group)



Core	Most intensely involved with Health and Wellness
Inner Mid-level	Adopt Core attitudes and behaviors but with less consistency
Outer mid-level	Experiment with Health and Wellness but tends to prioritize other concerns
Periphery	Least involved with Health and Wellness

Source: The Hartman Group, accessed 30 Dec. 2016 at <http://store.hartman-group.com/content/health-and-wellness-2015-overview.pdf>  
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**Exhibit 5. U.S. Organic Food Sales vs. Cropland**  
*(Cumulative % Change from Year 2000)*



	2000	2005	2010	2015	% Change 2000-2015
Organic Food - U.S. Sales (\$ Million)	6.1	13.8	26.7	39.7	551%
Organic Cropland - Million Acres	1.2	1.7	3.0	3.7	204%

Sources:

**Organic Food Sales:**

2000-2005: Organic Trade Association’s 2007 Manufacturer Survey, accessed at [http://www.agmrc.org/media/cms/2007ExecutiveSummary\\_EAF54EE25943E.pdf](http://www.agmrc.org/media/cms/2007ExecutiveSummary_EAF54EE25943E.pdf)

2010: Organic Trade Association data as reported by Statista, accessed at <https://www.statista.com/statistics/196952/organic-food-sales-in-the-us-since-2000/>

2015: Organic Trade Association release, accessed at <https://www.ota.com/news/press-releases/19031>

**Cropland:**

Years 2000-2010: MarketResearch.com, “Natural and Organic Foods in US, July 2014

Year 2015: Organic Farming Research Foundation, <http://ofrf.org/organic-faqs> accessed on 10/5/2015

**Exhibit 6.** The 3-Year Transition Process for Organic Farmland

	<b>Conventional Farmland / Crops</b>	<b>Transitional Farmland / Crops</b>	<b>Organic Farmland / Crops</b>
	<b>Pre-transition</b>	<b>Years 1 – 3</b>	<b>Years 4+</b>
<b>PRE-INITIATIVE – ESTABLISHED CASE</b>			
<b>Pricing</b>	Commodity	<b>Commodity (unchanged)</b>	Organic Premium
<b>Productivity</b>	Base Case	Typically declines about 18%	Recovers to base case
<b>Farmer revenue</b>	Base Case	<b>18% lower than Base Case</b>	Higher than Base Case
<b>KASHI INITIATIVE</b>			
<b>Pricing Under Kashi Initiative</b>	Commodity	<b>Transitional Premium</b>	Organic Premium
<b>Productivity</b>	Base case	Typically declines about 18%	Recovers to base case
<b>Farmer revenue</b>	Base Case	<b>Equal to or slightly lower than Base Case</b>	Higher than Base Case

(The Rodale Institute found that farmland productivity declined initially during the transition period, but then rebounded over a period of roughly five years under an organic regime.<sup>29</sup>)

## Exhibit 7. John Wood's Sign Posted on Kashi's Facebook Page

[redacted] Thanks for sharing [redacted] I saw this too, and would love to hear from Kashi.

April 23, 2012 at 10:19am · Like · 4

[redacted] I am on Kashi's FB page to inquire about Dan's link also. Please, elaborate.

April 23, 2012 at 10:41am · Like · 6

[redacted] funny, cause this just popped up in some stores....<https://www.facebook.com/photo.php?fbid=352185168162014&set=a.160026807377852.29732.160017120712154&type=1&theater>



[redacted]  
April 23, 2012 · 3

Like Page

Please share. Bummer for Kashi fans like myself. As much as I'd like to be a GMO free person, it's tough! ~MM

Thanks to [redacted] for spreading the word.

April 23, 2012 at 10:50am · Like · 5

[redacted] Why are you "working toward" non-gmo ingredients? Why wasn't this always a consideration - not only when it became widespread knowledge??

April 23, 2012 at 11:00am · Like · 17

[redacted] I too am a faithful Kashi customer, but after seeing that I will not be buying anything from Kashi until their use of GMO ingredients ceases.

April 23, 2012 at 12:35pm · Like · 8

[redacted] Just bought my last box. Sorry Kashi. No GMO in my house. Sort of gives your "7 Whole Grains on a Mission" a new meaning. What a bait and switch....

**Exhibit 8.** Selected Consumer Comments, Facebook, April-May 2012

**Kashi** at La Jolla, CA. ▼  
April 22, 2012 ·

Happy Earth Day! We're working toward Non-GMO Project Verification to show our love for the Earth. Got an idea for making our planet even better? Share it below. Let's make every day Earth Day.

Like   Comment   Share  

56

1 share

[View 43 more comments](#)

Once upon a time, I trusted Kashi and bought your products in an attempt to be more conscious of what I put in my body, only to find out that after all these years, you've mislead loyal customers like myself with false marketing/advertising. I'm disgusted by Kashi and will never buy food from you or Kellogg's brand. People before profits!!!  
May 22, 2012 at 1:59pm · Like



**Exhibit 8 (continued).** Selected Consumer Comments, Facebook, April-May 2012

- ▶ “Come on Kashi. Really? If you wanted to make a positive change then you should have made it your SOCIAL RESPONSIBILITY to NEVER use GMO’s in ANY of your products. EVER. You know better!!! ... Blaming the USDA for having a poor definition of ‘natural’ so you can skirt the line of minimum quality standards is what has sealed your fate for me. I will be personally advocating for everyone I know to BOYCOTT Kashi moving forward. In the end, you have LOST OUR TRUST.”
- ▶ “I think when a company like this breaks consumer trust in such a huge way, it can’t be regained. Perhaps your commercials of the future should show your nature lady in a factory in China. I will never buy another Kashi product. #fail”
- ▶ “Why are you ‘working toward’ non-gmo ingredients? Why wasn’t this always a consideration – not only when it became widespread knowledge??”
- ▶ “What fakers and deceivers. YUCK.”
- ▶ “Ditch the GMO’s and stop marketing a ‘sustainable’ and ‘healthy living’ message while you’re filling your boxes with pesticides.”
- ▶ “you are a wolf in sheep’s clothing.....your guise of being a company that cares about the health of people and the planet is an insult to all of us who DO care about the health of people and the planet. No integrity, just lies....and all for MONEY....sickening.”
- ▶ “How dare you? I have been feeding Kashi to my 4 year old daughter believing I was giving her healthy food. Done with Kashi.”
- ▶ “Shame on you, Kashi. Never again. Your company deserves the class action lawsuit that was filed, and I hope you lose.”
- ▶ “I hope the backlash from using GMO’s kills this brand!”

**Exhibit 9.** Selected Consumer Comments on Kashi's Non-GMO Month post, October 1, 2013



**Kashi**

October 1, 2013 · 🌐

October is Non-GMO Month and we're celebrating by continuing to make progress on our goal to have over half our food Non-GMO Project Verified by the end of 2015.

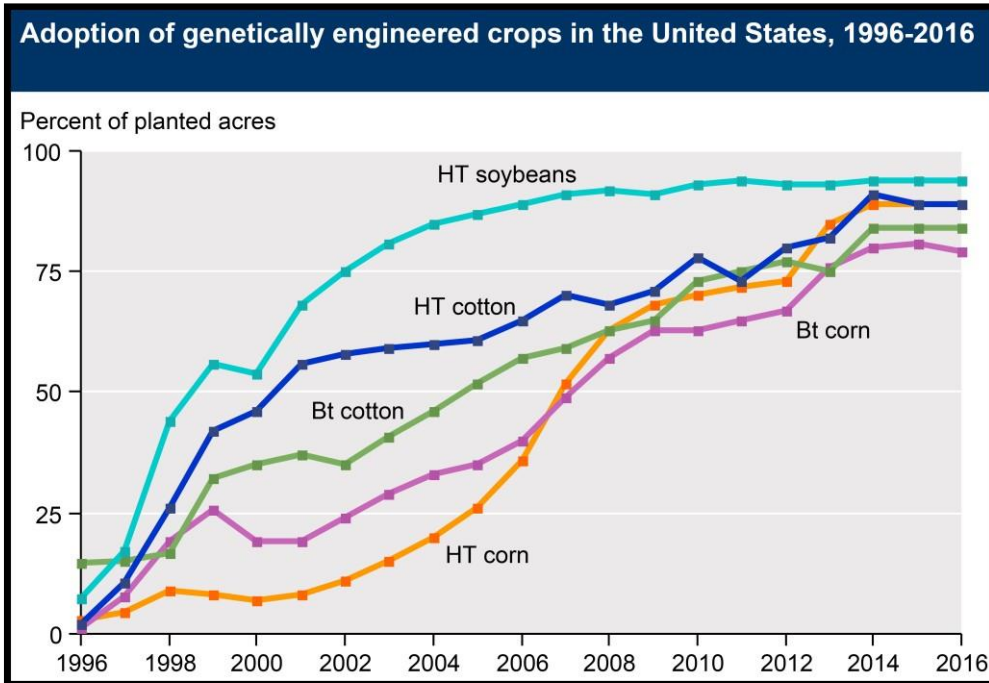
<https://www.kashi.com/what-we-believe/our-commitment>



**Exhibit 9 (continued).** Selected Consumer Comments on Non-GMO Month Post, October 1, 2013

- ▶ “only half? I think this is a step in the right direction but geez, you should not be using any GMOs at all...ever”
- ▶ “If Kashi hadn't hid the fact that it was using GMOs, or fighting the disclosure of its' use of them, I could see myself buying Kashi products. But the fact remains...only due to extreme public pressure are they changing. No thanks. I'll pass.”
- ▶ “From someone who used to be a fan of your products, would you speed up the over-half-of-our-food-Non-GMO-Project-Verified? I'm a vegetarian cancer survivor and would definitely prefer the safest food I can get. Thank you.”
- ▶ “Your products are LOADED with GMOs. You guys are despicable and should be ashamed. I hope people do deeper research into your company and discover the millions of dollars your company and parent company spend to restrict labeling laws. It is horrible what companies like you are doing to Americans....”
- ▶ “I am very sorry to learn that Kashi's parent company (Kellogg's) donated significantly to defeat the GMO labelling bill in California, and now has donated to the Grocery Manufacturers Association's efforts to defeat the proposed bill in Washington. My family will no longer be purchasing any Kashi or Kellogg's products. We have the right to know and the right to choose.”
- ▶ “If you are so committed, then why are you against the labeling initiative in WA state? I was ready to start buying your products again, but now have changed my mind.”

**Exhibit 10.** Adoption of GMO Crops, 1996-2016



	HT soybeans	HT cotton	Bt cotton	Bt corn	HT corn
1996	7	2	15	1	3
1997	17	11	15	8	4
1998	44	26	17	19	9
1999	56	42	32	26	8
2000	54	46	35	19	7
2001	68	56	37	19	8
2002	75	58	35	24	11
2003	81	59	41	29	15
2004	85	60	46	33	20
2005	87	61	52	35	26
2006	89	65	57	40	36
2007	91	70	59	49	52
2008	92	68	63	57	63
2009	91	71	65	63	68
2010	93	78	73	63	70
2011	94	73	75	65	72
2012	93	80	77	67	73
2013	93	82	75	76	85
2014	94	91	84	80	89
2015	94	89	84	81	89
2016	94	89	84	79	89

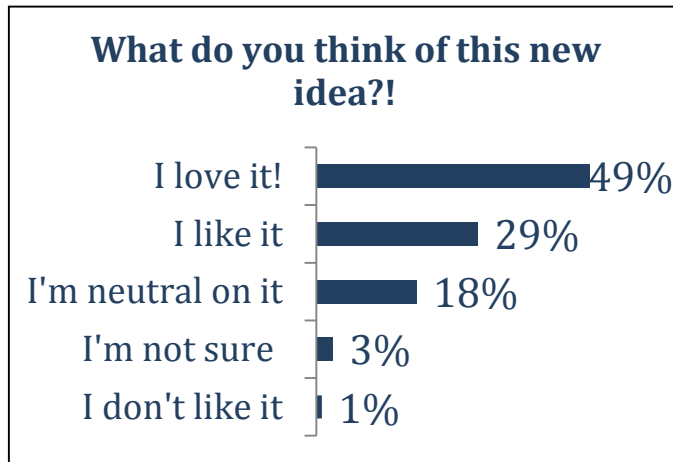
Data for each crop category include varieties with both HT and Bt (stacked) traits. Sources: USDA, Economic Research Service using data from Fernandez-Cornejo and McBride (2002) for the years 1996-99 and USDA, National Agricultural Statistics Service, June Agricultural Survey for the years 2000-16. See the documentation section for more details on data sources for the various years.

"Recent Trends in GE Adoption." USDA ERS - Recent Trends in GE Adoption. U.S. Dept. of Agriculture, 3 Nov. 2016. Web. 30 Dec. 2016. <<http://www.ers.usda.gov/data-products/adoption-of-genetically-engineered-crops-in-the-us/recent-trends-in-ge-adoption.aspx>>.

**Exhibit 11. Kashi's 2015 Product Launches**

Type	Product	SKUs
<b>New Products</b>		
	Overnight Muesli Cups	3
	Sweet Potato Flake	1
	Granola	2
	Soft & Chewy Granola Bars	3
	Bear Naked Sea Salt Caramel Apple Granola	1
	Bear Naked Coconut Almond Curry Granola	1
	GOLEAN Non-Soy, Gluten Free Bars	4
	Kashi Gluten-Free Waffles	2
	Stretch Island Organic Fruit Strips	3
	<i>Total New Products</i>	<i>20</i>
<b>Non-GMO Renovation (Existing Products)</b>		
	GOLEAN Original	1
	GOLEAN Vanilla Graham Cluster	1
	GOLEAN Non-Soy, Gluten Free Cereal	4
	Organic Heart-to-Heart Honey & Warm Cinnamon	2
	Organic Heart-to-Heart Oat Flakes & Blueberry Clusters	1
	Kashi 7 Grain Nuggets	1
	Kashi Cereal Bars	2
	Kashi Chewy Granola Bars	6
	Kashi Crunchy Granola Bars	3
	Kashi Layered Granola Bars	2
	Kashi Crackers & Pita Crisps	4
	Kashi Eggless Waffles	2
	Kashi Entrée	2
	Bear Naked Portfolio	9
	<i>Total New Products</i>	<i>40</i>

## Exhibit 12. Consumer Research Results, 2015



### Word counts from verbatim feedback:

- 36 “Love”
- 79 “Great”
- 15 “Wonderful”
- 29 “Good”
- 17 “Awesome”
- 6 “Amazing”
- 92 Exclamation points

Sample consumer comments (note: research tested a snack bar product made from Transitional oats, not the Dark Cocoa Karma cereal that was actually launched):

- ▶ “Reading about this definitely makes me feel proud to purchase Kashi again.”
- ▶ “OH man that is amazing! I am really impressed and happy about this, thank you Kashi for taking the initiative and improving your brand in this way.”
- ▶ “I think this is a really great idea! I didn't know it was so difficult and expensive for farmers to switch over to organic growing methods. Incorporating in-transition farm products into a well-known brand like Kashi would probably make it easier to have a cleaner, healthier environment.”
- ▶ “That kashi is working with farms to make going organic more affordable for them! I love the idea!”
- ▶ “I love that you are helping out farmers and making organic things more available to everyone.”

**Exhibit 12 (continued).** Consumer Research Results, 2015

- ▶ “I like that there is no added sugar. I like that this is a Non GMO product. I think the explanation of the Certified Transitional Oats is excellent as I had no idea what that meant but am super excited about it now that I know.”
- ▶ “I like that there is no sugar added. I also like the definition of transitional oats - I had no idea this existed (or the process involved) and love the idea of organic so would be willing to help support more farmers in that transition.”
- ▶ “Even though I think these are a bit pricy... because of the story, I would purchase them.”
- ▶ “I LOVE that they describe the whole "organic" and "transitional" situation for farmers and are making an effort to buy their oats.”
- ▶ “It looks tasty. It sounds tasty. I like that you are supporting farmers in their switch to organic. With support like this, we can have more organic growers- good for all of us!”
- ▶ “Thank you for explaining everything. I especially like that you are partnering with farmers to transition to organic. In a market driven economy, partnerships are a win-win for everyone...including the consumer.”
- ▶ “It seems as if buying this product would help farmers AND give my family a tasty treat.”

**Exhibit 13.** Consumer Responses to Transitional Story, Twitter, September 2016



**@KashiFoods** Love the new Dark Cocoa Karma cereal, and the Transitional Farms Initiative even more! Tell Newton that we appreciate his work!



**Exhibit 13 (continued).** Consumer Responses to Transitional Story, Twitter, September 2016

@KashiFoods ❤️❤️❤️ seeing this initiative! #transitionalfarming #organic #gmofree



**This cereal is not organic.**

But hang on. That's the point.

The truth is, less than 1% of farmland

return on their investment immediately, and they may be less motivated to make the change.

No, let's do something about it. The Kashi Transitional farms initiative was created so together we can help farmers like Newton transition their farmland. During Newton's three-year conversion

process they are grown using sustainable practices that avoid genetically modified seed and synthetic pesticides or fertilizers. And we use them to make this cereal.

Our hope is to convert more acreage every year—which is why our Certified Transitional cereals will always be made with transitional grains. The more



## Exhibit 14. Back-of-box Copy and the Certified Transitional Seal

<h3>This cereal is not organic.</h3>	<p>return on their investment immediately, and they may be less motivated to make the change.</p>	<p>ensure they are grown using sustainable practices that avoid genetically modified seed and synthetic pesticides or fertilizers. And we use them to make this cereal.</p>
<p>But hang on. That's the point.</p>	<p>So, let's do something about it. The Kashi Transitional farms initiative was created so together we can help farmers like Newton transition their farmland. During Newton's three-year conversion process, we're buying some of his transitional grains—which are certified by Quality Assurance International to</p>	<p>Our hope is to convert more acreage every year—which is why our Certified Transitional cereals will always be made with transitional grains. The more we all become aware, the more farmers we can help to make a difference together. Thanks for joining us.</p>
<p>The truth is, less than 1% of farmland in the US is certified organic and transitioning conventional farmland to organic is difficult. Farmers like Newton (pictured above) often want to do it but they have to implement more costly methods for at least three years to become certified. And while that's good for all of us, it means farmers don't see a</p>	 <p>Look for the mark of the movement.</p>	<p>Visit <a href="http://KashiStories.com">KashiStories.com</a> to learn about how you can support the Transitional movement and keep the good Karma flowing.</p>



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## Endnotes

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