TME 33 Ep MiLa_Full Episode

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SPEAKERS

Brad Ebenhoeh, Caleb Wang

B Brad Ebenhoeh 00:01

Welcome to The Month End CPG community chat, The Month End will provide emergent CPG brands real life knowledge into the accounting, finance and operational world. Our guests will be key stakeholders from those same brands as well as other key contributors in the industry.

B Brad Ebenhoeh 00:18

Welcome to Episode 33 of The Month End podcast today we have Caleb Wang from Mila. How're you doing today, Caleb?

C Caleb Wang 00:23

Doing great. Thanks for having me, Brad. Glad to be here.

B Brad Ebenhoeh 00:27

I'm looking forward to learning more about Mila, your brand and then kind of your role there and how you handle kind of some of the Finance, Accounting operations of the business. So let's get started on MiLa. What is it? What are you selling? How long have you been in business? And then also kind of what's your role? And what do you do on a day to day standpoint?

C Caleb Wang 00:45

Yeah, good question. So MiLa is modern Chinese food company, we actually got started on the DTC side during COVID, where we started shipping our frozen soup dumplings nationwide. And that's been the big driver of the business to date. But this year, very excitingly, we're expanding to retail as well, which is much bigger market for food specifically. And then kind of the other leg of growth other than channel is just products. So starting with soup dumplings, we launched noodles last year, and there's a lot more products to, to launch in Chinese food. For my role. I'm the CEO, and I cover a lot of the finance and operation pieces supply chain as well as kind of the revenue sources.

B Brad Ebenhoeh 01:30

Awesome. Awesome. So basically, then from a product standpoint, I guess what, what stands out about your product? And what makes it unique? And what's your, I guess, proposition to your clients or your customers?

C Caleb Wang 01:40

Yeah, totally. So the Chinese food market, there's just not that much innovation and making authentic, high quality Chinese food. And so that's the gap that we're filling. And we actually got started as a restaurant. And so our kind of ethos was always to make everything in-house, make a high quality, restaurant quality, and compete against like a restaurant experience. So then when we started the D2C side that was still there. And we're doing things like making everything in house, we're fully vertically integrated with a big R&D team that makes sure the recipes are authentic and high quality. And then that team communicates with our in house production team to do all the complex steps needed to make the the product, high quality as well. And then outside of the product, we're just very customer obsessed on kind of everything that could possibly go wrong. In the experience, as you can imagine, like shipping frozen soup dumplings, it can melt, there could be a carrier delay, someone could just not bring it up from the porch, they could cook it wrong. So we're doing all the work on the back end to make sure as many people are having a good experience as possible.

B Brad Ebenhoeh 02:43

So you still have a restaurant open?

C Caleb Wang 02:46

Yes, the restaurant. So we have restaurant open and then the DTC business as well. And then a growing retail business.

B Brad Ebenhoeh 02:54

And from a retail standpoint, are you talking about like distribution through some of the big natural food providers or direct to big retailers or, what does that look like?

C Caleb Wang 03:03

Yeah, so to date, we've launched in a couple of retailers in the Pacific Northwest, which is our home base out of town and country met market QFC. We've also launched in Costco in the Bay Area and Pacific Northwest. And then by the end of this year, and next year, there'll the logos will keep growing.

B

Brad Ebenhoeh 03:22

Awesome. Awesome. All right. So let's start on kind of, I think on the sales side, because this is kind of interesting. So you you coming from, I think the world of finance as well, and looking at a restaurant accounting of what it takes to succeed in that business to then direct consumer success from, you know, unit economics, and now moving over retail, every one of them, it's got his own little business model within the business model. So I guess, from your aspect, how do you manage different like I guess, are going to manage what you did retail like success of the different channels? Like how would you like what KPIs or how do you view that?

C

Caleb Wang 03:55

Yeah, good question. And I'll just spend time talking about at D2C and retail, because that's really the main business. So I think, taking a step back philosophically, it's super important to just under understand benchmarking, and what average looks like what best in class look like, and what from a first principles perspective, unit economics should be and be hyper focused on the unit economics and every single driver of unit economics. So for DTC, it's really kind of AOB, product cost, shipping costs to get you to contribution margin before marketing, then your CAC and then are you making money on the first order, and our philosophy is we should always be making money on the first order. We're not trying to play the LTV payback game of "lose money, and then hopefully make money over time". It just doesn't create a sustainable business. And you're too reliant on one algo change or just things that are out of your control. So we always make sure we're making money on the first order. And then because our product is high quality, we have high repeat rates and then the LTV is quite strong as well. So that's like philosophically and the D2C side but in order to make the math work, especially for for us in food, which has high shipping costs, we hyper obsess on the product, so that we can charge a reasonable price. And people are willing to pay for it such that the CACs are low. And then we're also vertically integrating. So we're taking a lot of costs out of the equation, and then passing that benefit into back over to the customer. So that's on the DTC side. And then we model it down all the way down to contribution margin. And then we have our fixed overhead, right. And then so historically, our DTC business has had has to cover the overhead. But increasingly, retail can become a contributor to that as well. And retail, you know, it's relatively similar product costs are the same, but your revenues are lower because you record net revenues instead of gross. And the difference is, it's you sell it for a cheaper amount to the distributor, who then marks it up to the retailer who then marks it up to the consumer. So retail revenues are roughly 50%, lower, but you also see a ton of benefits because your, your shipping costs are lower than D2C, and there's no marketing cost associated. So it's just a different kind of unit economics. But we're hyper focused on every single line item that can make a difference.

B

Brad Ebenhoeh 04:18

Definitely. And I think the biggest one of the biggest factors of them clearly, like outside of the p&l structures, basically, that you just mentioned, is the cash cycle, right? How do you get to manage like the retail or distribution cash cycle? Because it's much longer you have AR versus pure, D2C? Where you're getting that money, you know, via credit card deposits?

C Caleb Wang 06:31

Yeah. Good. Good question. So for us, because we're vertically integrated, we won't see that much of a difference. And I'll explain why. So DTC, we get the money up front. However, we have to produce the product well in advance, and we're holding many weeks of inventory at our fulfillment centers to be able to deliver next day. On the retail side, we're almost producing to Pio. And so though we're not, we're not getting paid yet. And the best scenario seven days, in the worst scenario, 60 days, that's still eight weeks of inventory that we were holding on GTC as well. So I don't think it will impact our cash conversion cycle that much net net, but inventory, especially as we're growing so quickly, managing inventory, and just making sure you're not putting too much cash. Or at least variable to fund it somehow. That is something that we're focused on, and it's challenging.

B Brad Ebenhoeh 07:21

So then from a guy was actually gonna bring up inventory. So perfect timing here. So you you in house manufacture all your products?

C Caleb Wang 07:28

Yep.

B Brad Ebenhoeh 07:30

Did you I know you started the restaurant, like you always started in that realm when you went over to the DTC game, or that?

C Caleb Wang 07:37

Yeah, so never what Jen and I are both from outside the industry. I was in finance, she was in health tech, it never occurred to us that you can use a co Packer or like the like we didn't understand. So we're like, oh, we want to make a good product. Like, let's just do it. And then once we started scaling, we're like, "oh, like we can, there's co packers that exists, let's go reach out to them and see, like, why don't we just use them seems great", like way more efficient. And then as we started talking to them, we realized that at least for Chinese food, that Co-packing ecosystem is pretty is not mature. And so they're just not able to produce the the spec that we want, whether it's like dough thickness, or the amount of filling or just the cost structure. And so if our Northstar is to produce a really high quality product, we had to do it in house.

B Brad Ebenhoeh 08:22

Super cool, super cool story there on that. So from an inventory kind of planning standpoint, or manufacturing, right, like initially, you had to buy equipment to handle all this, again, from what you're saying is, from this conversation for those 10 minutes, I'm getting like, Hey, we're going to build up and get to win, like to support the actual sales that we're doing. So how did you finance that? How did you plan that initially? And now kind of of how are you, you know, the growth of the scale of your manufacturing facility? Like how do you handle all that?

C Caleb Wang 08:52

Yeah, so there's a couple of, I would say, phases. The first thing is because we're for sort of profitable that helps, right? So we're not, you know, that that definitely is a key component. And then, however, now we're at a stage where we basically just have this massive Google Sheets. I think, internally, we call it like the beast, where it pulls in all the demand from every single channel we run, because, like DTC is like how much marketing spend, do you have every single day or every single week over the last, you know, years? What's the SKU distribution, and then we plan out over the next six months, and you have to factor in seasonality. And then you have to because we have our fulfillment centers as well, you have to split up to five or six different fulfillment centers. So that all kind of lives somewhere, and so the demand side comes in for DTC. The advance side comes in for a retail, which all has different SKU counts and permutations. And then that first feeds into a production plan of like, what are we actually going to produce? Then there's this whole other like, calculus that goes into Okay, here's a production plan. What do we need to buy at what time but we don't want to buy too much because too you don't want to hold damaged inventory, So that's another piece of analysis. Another piece of analysis is once you produce it, where do you ship it? And then And then so that that's something that we just do on a weekly basis for super tactical stuff. And then monthly analysis in case demand changes, or we get another retailer or, or velocities are higher than we expected. So that's kind of our process that we kind of go through.

B Brad Ebenhoeh 10:28

So it's a great process. And I I'm envisioning this Google Sheets, I think I understand why it's called the beast after you just explained that.

C Caleb Wang 10:36

It wasn't. It was in Excel, and then it broke. So liquid moving, I think we're moving to Google Sheets, it's probably still in Excel. Yeah.

B Brad Ebenhoeh 10:45

Are you do you envision your where you want to move? You're gonna move to like, maybe like more like a NetSuite or something at some point in the future? Are you thinking about that? Or like, Do you have any thoughts on that?

C

Caleb Wang 10:55

Yeah, so we're moving to fulfill as our ERP, and it's like, halfway done. And that will get at least a historicals in place. Because like, right now, there's still a lot of like, separate Google Sheets to at least like get the answer of like, what inventory is and things like that. However, I would imagine, there's still a lot of the calculations still happens. And like the logic happens in something flexible, like a Google sheet or Excel?

B

Brad Ebenhoeh 11:19

Definitely. How do you want it? What are the kind of key metrics that you guys are using and just pure, like SKU? SKU success, you know, whether it's sales, profitability? You know, how do you how do you look at like, when you launch a product, is it successful or not?

C

Caleb Wang 11:36

Yeah, I think the metrics are different. So like, from a philosophical perspective, on DTC, you can test and learn much more quickly than a retail. So we want to launch more broad skews onto etc. and just see if it sells, right, just the velocity is the most important thing and see if we can get it for sort of profitable by running ads. And if that happens, then we're like, "okay, like, this is something that should work that resonates with folks". Over the long term, we look at retention as well to see what people are asking for and what the repeat buyers look like. So those are the metrics for success on DTC. And then retail, we kind of pick the best SKUs that we have on DTC and then we're like, okay, these are the ones who brought appeal, we will kind of sell through in in the, you know, the Targets of the world, the Costcos of the world. And there, it's really velocity. So like, comparing how many units per week we're selling, versus everything else in the frozen aisle, not just Chinese food, because we're competing against the entire freezer. And that helps, we're trying to drive value to our retail partners and buyers and driving incremental sales. And we want to, we want to show that our our products are generating revenue and gross margin dollars for them.

B

Brad Ebenhoeh 12:50

Very cool. Um, as a, as a fellow business owner, who is in business with my wife, as you are like, how has that been? Like, what are the what are the failures, the success is just from a pure personal relationship, business relationship, what's worked well, what's what's what's not worked well on your guys's end?

C

Caleb Wang 13:07

Yeah, very luckily, and we didn't plan for this, it has worked out very well. And I think the reason it's worked out well is because we're very complementary backgrounds and skill sets. So I can do all the stuff that we just talked through finance operations, she's really strong at product marketing, high level company strategy. And she's also worked at a high growth startup in the past, whereas I've only worked at really small kind of boring finance companies. So she can help scale the business a lot more. And then also, she has a really good Northstar of like, what our customer value prop should be, and she like, is the one who holds the company to a really high standards. So really, really good kind of mix of skill sets, which has allowed us to scale faster, because you don't need to find other senior leaders to put those roles. On the negative side, it's just like you're working 24/7 And like, where do you draw the boundaries? And my definition of quality time is we're talking about like, business strategy and she's like, Nope, that's not quality time. Like we had to like have phones out during dinner. So like getting we reached one there but like, there's there's growing pains, especially with kid as well. So just just the balance, it was point of friction at some point.

B

Brad Ebenhoeh 14:26

Yeah, ya know, similar to us, it's like, you know, we complement different departments different you know, stay away from each other, let them be you know, each other's things and and try to create some personal boundaries at home with the kids and just just have some relationship standpoint. So, a couple like final questions number one, like is there a big kind of regret or a big mistake that you guys made that you really learn from in the operational right finance cash standpoint that then you'll always remember as you guys go forward?

C

Caleb Wang 14:54

Yeah, definitely a couple. I think the first thing is just under estimating the infrastructure and the resources needed to like run the ship well. And so before we had the money base, we had nothing. So like, then all of a sudden, I remember a point last year where I was like, hey, our inventories like way too high for what our planning was. And I had thought that had communicated to everyone at the company, everyone's on the same page. And like, as you grow, you just realize that you need explicit like a tool or a source of truth, or some like cadence or some process where it's not just scrambling every single day looking at ad hoc analyses. So like, that's what helped us create this internal tool. So that's one interesting learning. And then the second interesting learning is on the finance side, it just takes a lot more work and systems and people and process to get data to a point where you can concretely make decisions, I kind of came from the finance background. So I was I didn't really fully appreciate accounting or process and how to resource that appropriately. And so we're now stepping up the team a lot more. A lot more than we have in the past to get the data in a place where we where we would like it.

B

Brad Ebenhoeh 16:06

Awesome. Awesome. All right, so the final two questions, we always end every kind of episode with this. And you know, the the listeners out there are kind of emerging CPG brands. So taking these learnings that you know, you were talking about here, but I guess so for the listeners out there, what is one CPG industry "do" for an emerging CPG brand founder?

C

Caleb Wang 16:29

I think, do try to figure out where you're adding value to the customer. Because ultimately, that's your mode. And ultimately, that's how you scale. So if you you have the real like it has to be you have to try to be differentiated in some way that's meaningful, where people like even be you have to try to be differentiated in some way that's meaningful, where people like even two to three years from now, it will still be differentiated. And so for us, it's no one's really focused on authentic Chinese food. And we've also built the mode of vertical integration. So in order for someone to do soup dumplings, it will just take a lot of investment internally and a lot of complexity. So doesn't mean it's not going to it's going to be moved forever. But that buys us some time. Simply kind of picking a different flavor for you know, a chip, like may not do as well, because it's easier for you to get into the market. But it's also easier for other folks to copy. And so that's you have to you have to know exactly what that that is. So that's the bet, then you start to have a plan of how you're building that motivated overtime.

Brad Ebenhoeh 17:29

Gotcha. And then on the opposite side of that, what is one "don't"?

Caleb Wang 17:33

Don't price your product with low gross margins. So I guess the opposite is to try to make money on every order to be sustainable.

Brad Ebenhoeh 17:42

Yeah, I know. It's it's one thing that I try to and I think the industry is which the last kind of nine to 12 months with what's happening economically really, it's getting back to business basics, right? Profitability, cashflow like, you know, expense management versus just pure, you know, grow top line, raise money, it district has changed. I think getting more into that aspect now is is getting better into the practice of the small business owner versus just grow top line and will raise money and grow top line and raise money. It's like no profitability at some point. That's what people are going to look at free cash flow. So awesome. Oh, Caleb, this was great. Congrats on all the success of MiLa to date. And I guess while we're wrapping up, where can people give me love? What's new? What should they be looking at when they when they go to your website? Or where should they buy your product?

Caleb Wang 18:28

Yeah, you can go to our website eatmila.com. And then increasingly, you'll probably start to see us popping up in retail locations. Probably towards the end of this year nationwide, and then in larger scale next year.

Brad Ebenhoeh 18:42

Awesome. All right, Caleb Wang from MiLa. Really enjoyed the chat episode 33 of The Month End podcast. This was awesome. Take care.

Caleb Wang 18:49

Awesome. Thanks so much.