

THE MONTH END

EPISODE 22

MIGUEL LEAL

SHOW NOTES



SOMOS

SPEAKER BIO

Miguel Leal is the co-founder and CEO of SOMOS, a plant based and gluten free convenient Mexican food brand, made in the heart of Mexico. Miguel grew up in Mexico, started his career in engineering, and then after working for several CPG business, started SOMOS with his two co-founders, Rodrigo and Daniel in 2021.

TAKEAWAYS

On Starting Out Direct To Consumer:

We really wanted to start with direct to consumer. We thought that direct to consumer could be a great trial generator engine for the brand. And what we do on direct to consumers is we sell kits. So we put all the ingredients that you need to have a taco or a chilaquiles at home, for family of four for under 10 minutes. All of our products are pre-cooked, ready to heat, and we thought for people doing Taco Tuesday or any night of the week, that would be the easiest. So we launched our beta program in September of last year, just with chips and salsa, mostly friends and family, trying to run water through the pipes, make sure that all the systems were connecting with each other. And then we open it up with 16 different boxes in January. We always thought that we would establish the brand in direct to consumer first, and make sure that we were getting the right feedback, and we were getting the right users and choices.

TAKEAWAYS (Cont'd)

On Sales Channel Surprises:

What really surprised us was how much traction we got that at retail. We are gonna be in 4,000 stores, starting next month. We received our first two customers at the end of February. And now we're going to be close to 4,000 stores next month.

And a couple of other things that surprised us, and we're actually pivoting our business model as a result of these. We definitely designed the business to be subscription. Three out of four households, during the pandemic, either cooked with a Mexican ingredient, or brought Mexican food into their homes. It surpassed Italian food as the number one ethnic food in the country last year, and it was this phenomenon of Taco Tuesday of people figuring out something that they could do that was easy that everybody liked. And we didn't feel like there was a good entry point. Everything in our opinion was a little bit clunky. You have to buy the ground beef in one place, the taco seasoning in another, then you have to buy the hard shell and none of it was really Mexican, it was more like Tex- Mex or Cal-Mex. And nothing wrong with those two scenes, but we wanted to bring something similar that was authentically Mexican, and more convenient, and also better for you. So that's that's how we designed these these direct to consumer kits.

And the pivot. What surprised us is that most of our orders became people mixing and matching their own meals. Well, what what we are seeing a lot of is consumers buying the chips, the salsa, and the beans to make chilaquiles, but then they add cheese, and they add a fried egg on top of it. Or making a very easy pollo la plancha recipe where you grill a couple of chicken breasts and then you add our smokey Chipotle mushrooms on top of that. And we are pivoting our model to do that. That requires a different fulfillment center when you are picking and packing different recipes.

TAKEAWAYS (Cont'd)

On Establishing An Authentic Mexican Brand:

I admired the Cholula brand even before I worked there. When I worked there, I realized to have an authentic Mexican brand, you need to be working with farmers and manufacturers in Mexico. That not only gave Cholula a lot of authenticity, but the difference between using Mexican peppers versus peppers from other parts of the globe make a big difference in the taste and in the consumer preference. And when I envision Somos, I envisioned it very similar. Where we grow a lot of our vegetables, that family is in the fourth generation of growing vegetables in Mexico. And we were going to follow traditional Mexican cooking processes. So for example, our salsas follow a cooking process in which you fire roast the vegetables with the peppers together, and you get thickness in the salsa that is very different from the other products in the market, it's almost pure pulp. And that makes a big difference when you put it on your taco. Because the tortilla doesn't get soggy from the separation of the product. Same thing with our chips. Our chips use nixtamalization corn, which is an old Aztec process of treating the corn and then we stone ground that, which makes it a lot thicker than the rest of the products out there.

So long story short, we had to make these products in Mexico, we have to grow them in Mexico, we have to cook them in Mexico. And our biggest challenge was not manufacturing, or sourcing. In Mexico, the biggest issue was establishing a supply chain that was plant-based, gluten-free, and non-GMO. Because those certifications don't really exist in Mexico. So that became our biggest challenge on how to get that done. You know, rice is gluten-free from the source. But sometimes it can get contaminated in transit. And establishing all of those pieces through the supply chain, was our biggest challenge last year, as we were building our portfolio, and it's probably becoming the biggest blessing this year, because we have dedicated supply chains for Somos now.

TAKEAWAYS (Cont'd)

On Managing Inventory And Cash Flow:

That is something that we review every month formally with Equilibra, who is our partner in Somos. And cashflow from the beginning has been a big priority from us. Something that we've learned is that terms in Mexico sometimes are more general than terms in the US. So that has helped us with working capital. But also inventory has been a big piece. There's been a couple of surprises, but because of the shelf life of our product, we can err a little bit more on the inventory side, and be able to have really good fill rates in the high 90s with our customers. So I think the categories are great, because they don't have a ton of seasonality, and they do have a lot of variability, by accounts and by regions. But because of the shelf life it would be very different. Like I remember, when I worked in the yogurt category, you have a product that you have 45 days to consume it from manufacturing. So I think we are just very blessed with this with these categories.

On Building A Team:

I've always had a blueprint in mind. And Cholula was a great blueprint, because of all the similarities that I mentioned, but we operate in very different categories. So it cannot be the same. But it was always my blueprint. I thought it was a very efficient organization, the way that that was built, but we were starting from scratch, right? Like we you know, Cholula was built over 25 years. So that's where it became opportunistic, more than anything.

I think at the beginning, we were very lucky that because, you know, I am involved in the business and Daniel, my partner who is the founder of Kind, he's also co-founder here, we were lucky that we had people that were Cholula alumni, and Kind alumni that wanted to join, that we knew were experienced work great together, had the values that we wanted to do. So, you know, we started with supply chain, finance, and retail sales, because that was the talent that we could get. It has always been our point of view that if you can pick up a 10, you should pick up a 10. You know, every hire makes a huge difference in the business.

TAKEAWAYS (Cont'd)

And then, you know, we had an opportunity to complement the rest of the team with head of e-commerce and a head of marketing. And then after that all those team members were either Kind alumni or Cholula alumni. So we needed some diversity. And we knew that after that we wanted to hire people with different backgrounds so they can also bring different points of view. At the beginning for the first team, especially in COVID, it was great that all of us had worked together, but now I'm just loving getting people with different backgrounds that can help us and challenge us. In the beginning, your blueprint is wrong, the day that you put it together, you have to have people with different backgrounds come in and ask why are we doing this this way? Why don't we do this? There's a better way. It has been one of my favorite things of doing the startup.

On KPIs To Review:

And I've always had the same three KPIs which are net sales, gross margin, and share.

CPG BUSINESS DO'S AND DON'TS

CPG Business Do:

I like to talk to a lot of other founders for my benefit. And this industry is is very collaborative. I'm gonna call them the little guys, I might be the smallest one but, let's say it all the brands under 50 million in sales, we love helping each other out. And the pieces that I can that I have more experience than than my fellow founders, which is probably on the marketing and sales and commercial side. My CPG do is separating the decisions of growing the brand and growing the business. Like I see a lot of fellow founders doing a fantastic job growing the brand, being out there spending money in marketing, but then when you look at the business, the business still needs a lot of love in distribution, or needs a lot of love on margin and you cannot do both of them at the same time. On the other side, I see businesses that are fantastic and have great repeat rates, great margins, great themes, but are not promoting the brand enough. So I think when you give yourself as a founder, or as a CEO your rating, separating it on those two sides, I think, especially in food is super important. And the brands that do it great, the Kinds of the world, really separate themselves from the others.

CPG BUSINESS DO'S AND DON'TS (Cont'd)

CPG Business Don't:

This probably like, half of the feedback that I give to other founders or other companies that I've invested in is to use the right marketing mix for the distribution that you have. So I see these mistakes done over and over again. We have a tendency to spend a lot of time looking at our competitors. What are our competitors doing? And if they are doing this, if they are doing TV, I should be on TV, if they are on Facebook, I should be on Facebook, if they are doing influencer, I should be doing influencer. And to make this very simple if you're only in 10% of a store, so roughly the universe between mass grocery and natural is 25 to 30,000 stores, if you only have 2,000 stores and doing 10% of distribution, those awareness tactics are not going to work out especially when they are national.

What works great when you have a small distribution? Marketing in the store, building displays, doing sampling, if you have a product of immediate consumption that can be sampled, doing geo targeting, you know around your stores like that is what is going to give you the highest ROI. And I don't know if I did a quick math I think you know 25% of companies, one out of every four do it right. And understanding that piece. How you should be moving your marketing mix, depending on the distribution that you have.

NOTABLE SHOW QUOTES

Miguel on starting SOMOS:

"I was predestined to be doing this. I don't think I could have connected the dots forward, but now it's very easy to connect them backwards."

Miguel on the right way to eat SOMOS:

"There is really no right way to eat Somos."

Miguel on getting feedback from the team:

"I do try to push a lot of decisions into the team when possible."

Brad on upward communication:

"Upward communication really is needed across any organization, then you can kind of analyze and identify to how to better support the team"

Miguel on having a successful food business:

"In food, if you have a product that tastes great, and people try it and they repeat the purchase, and you have a good gross margin, then you can make a good business. If people are not buying you back, and you don't make money when they buy you back, then you better do something else. "



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