

THE MONTH END

EPISODE 25



ADAM KOST

SHOW NOTES



SPEAKER BIO

Adam is the Founder and CEO of **Country Luau**, a purpose-driven beverage company that produces flavorful cocktails mixed with spirits. Adam is a big beverage marketing veteran who is using his hard seltzer brand to make a difference for burgeoning musicians.

TAKEAWAYS

A little background on Country Luau and it's purpose:

Country Luau was just a really awesome take on this Gulf Western genre that I've been really passionate about, since I was a young guy growing up in Texas and hitting the Galveston beaches and traveling around the Gulf Coast on family adventures. I wanted to create something that was spirits-based, behaved a little bit like beer, and then obviously knew how to develop some really good flavors. From my time at Waterloo, I created this unique brand in a crowded space that really stood out and addressed a market that was really underserved. We wanted it to be really fun, laid back, unpretentious. For me to do my own company, it really needed to have a purpose as well. When you look at things that I'm passionate about, and what our consumers are passionate about, building out our Mixed for Music platform, where we give 2% of revenue back to musicians and music organizations was a really big pillar of our company and something that was really missing in the alcohol industry.

TAKEAWAYS (Cont'd)

On ways they are making a difference for musicians:

One is through a grant program which musicians can find on our website, where they apply, essentially, for a grant. We review their application with a lot of our partners, and we decide to give them money to fund things like studio hours or mastering an album or a piece of equipment they need or, over the summer there was a case where it was gasoline, so they could make it to a show in another state. We're really focused on the emerging musician in that space. Then what we like is that scalable to every local market around the country and being able to recruit emerging musicians in those music economies. Secondly, we support music organizations like Music Health Alliance, which is a national music organization. They focus on health insurance or health problems that musicians (who are usually under-insured) experience, by giving them the medical support they need, which can be a really critical need for musicians once they get ill. We love working with those guys, we believe there's a national and scalable partnership with them as well. We also support an organization called Himele, which is a Hawaiian music organization that is focused on the steel guitar, and the continued education of the steel guitar, which has found popularity in country music. Country music owes a lot to the state of Hawaii, for their contribution to modern country music and that tropical sound that you can find in a lot of classic songs.

On what Adam's day to day looks like:

So far, technically, I wear all the hats, but I've been able to find partners like Accountfully to support me on the finance end of things, and a good agency called Proof to help me on the creative end of things, as well as finding partners to help us outsource some of our sales functionality.

Before you build out an organization, find really good partners to help you in the early phases that act as extensions of the company. You don't need to necessarily hire those out day one.

Then, of course, I'm really ingrained in the marketing side of things and our distributor expansion strategy, and route to market strategy.

TAKEAWAYS (Cont'd)

On supply chain:

Supply chain is a weird one. You know, you think it's going to be easier than it is, and then it turns out, really, you hit all these fun roadblocks along the way. It's really critical to any startup to really focus on supply chain and the right partners in that space. Who do you source your spirits from? Are they quality? A sustainable source? What is their service level?

Trying to evaluate multiple vendors versus just the available vendor. We got really lucky, really early on product development, where we locked up with a flavor company and an ingredient company that loved our idea, and ended up doing all of our product development for us pro bono, because they believed in the brand, which was really, really cool. Then we had some hiccups along the way with our co-manufacturing, which I invite everyone to be hypercritical on. We had a facility early on that we thought we'd be with longer than we were. As we transitioned out of them, it gave us the opportunity to re-evaluate our co-manufacturing capability, where we found an even better partner.

Sometimes problems in your supply chain world can turn into benefits as well. It's really interesting how it works. Problems, solutions - can turn into really big positives. It's a wild one out there in finding the right partners who are going to be fair with you on pricing along the way and are going to deliver consistent quality as well, because there is some variability out there in quality. You just have to be super careful and mindful of all things supply chain all the time.

TAKEAWAYS (Cont'd)

On KPIs:

Well obviously on the co-man side, you're always looking at yields, right? So what percentage yield do you get out of your raw materials that you're working with? For us, we're not at such volumes yet. So some of our ingredients that we buy, we do have some spoilage on because we don't use all of them. You have to build that into your margin structure as well.

Lead times are not necessarily a KPI but something to be mindful of because your longest lead time ingredient is your bottleneck to your next production run, right?

Then payment terms and working capital flow is obviously very critical to how you want to build inventories, and your ability to forecast the future is hyper critical to working with partners and making sure you have the space to produce when you need it. That's not necessarily a KPI either.

The master KPI is continually looking at margin improvement, you know, on the supply chain, co-manufacturer side, ingredients side ... it's always putting pressure on that. I think a lot of young founders that I've advised in the past don't really keep an eye on it as much. They're more concerned about revenue. They're just like, "wow, we have revenue, it's very exciting". But, you know, we found a 10% increase in margin between our first run the second run, that's a fist pump, and so it's really that one KPI is going to kind of dictate your future. So working capital and margin are critical.

On cash conversion cycle:

The cash conversion cycle is really important. I think it's better to be de-risked on the co-manufacturing side, obviously. Minimum order quantity will also push you up into taking more inventory on in the early phase, especially if you want to get into a quality co-man. Most of them won't allow you to do low MOQs. It's a perfect storm for risk, or having some sort of failure along the way.

TAKEAWAYS (Cont'd)

Early on, if you are fortunate enough to raise enough capital, you can build an inventory, and you can be mindful of the inventory cycle. Or you can be less concerned about always producing a new batch of product, but you have to design the product well, and it all starts from concept. Not all brands are designed that way. So it's different for every founder and team.

On who to start with when building a team:

A really gangster head of sales. Invest in things that create revenue, right? It's nice to have a really talented marketer to market with, or play with in the sandbox of marketing, but, invest in things that help you create revenue and make a difference at retail.

CPG BUSINESS DO'S AND DON'TS

CPG Business Do:

Understand your consumer and, if it's a two part answer, understand your consumer and understand your market and your market size. Super critical exercises; do the research, spend the time, validate your insights, do research on the insights again, revalidate them before you push off the dock, super critical.

CPG Business Don't:

Don't panic. I think, don't spend money where you don't need to spend money. I think, again, it's about patience. When you're starting a new business, you can get attracted to a lot of shiny objects. You can look at competition and get lured into doing you know monkeys see monkey do strategy. Don't over invest in things that don't produce revenue-be smart with your money.



NOTABLE SHOW QUOTES

Adam on finding partners:

"Before you build out an organization, find really good partners to help you in the early phases that act as extensions of the company."

Adam on working for a fast growing company:

"I just kind of got to get in there and pour a little bit more gasoline on something that was growing really well."

Adam on better solutions coming from problems:

"Sometimes problems in your supply chain world can really kind of turn into benefits as well. So it's really interesting how it works. Problems, solutions can turn into really big kind of positives."

Adam on always thinking margin:

"It's kind of like the Snoop Dogg quote. You know, 'I got my mind on my margins and my margins on my mind.'"

Adam on KPI:

"The master KPI is continually looking at margin improvement on the supply chain."

Brad on margins:

"It always goes back to the basics."

Adam on where to spend your money:

"Invest in things that help you create revenue and make a difference at retail."



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