



## Tea Time: Coke buys 40% of Honest Tea

By Theresa Howard, USA TODAY

NEW YORK — Coca-Cola (**COKE**) spent millions to showcase its flagship Coke Classic brand in Super Bowl ads on Sunday, but the \$40 million it invested Tuesday in a trendy tea company may be a better indicator of where its sales growth plans are aimed.

The deal for 40% of Honest Tea — with the option to purchase the company outright in three years — is another deal that adds to Coke's lineup of better-for-you and non-carbonated products. In May, Coke bought Glacéau Vitaminwater for \$4.1 billion.

Such drinks are where the growth is in the beverage business. Companies are seeing slower growth or even sales declines for many brands of traditional fizzy soft drinks.

"Coke is working very hard to build up its portfolio of non-carbonated brands," says John Sicher, editor of *Beverage Digest*. "Going back some years, that area of the beverage business was not its strength. Coke is showing that it knows what it needs to do and is doing it."

Bottled tea volume was up 24% in the first nine months of 2007 compared with 2006, according to *Beverage Digest*. Traditional soft drinks, meanwhile, were down 6% in the same period.

Honest Tea is tiny compared with Vitaminwater: *Beverage Digest* estimates that volume for Honest Tea was about 2.5 million cases in 2007, while Vitaminwater's volume was about 100 million.

Despite its small size, Honest Tea is growing fast, with sales up 70% in 2007 vs. 2006. The deal also adds a premium tea brand for Coke, with such flavors as Citrus Spice Decaf and Moroccan Mint Green.

Coke is No. 4 in bottled tea sales, primarily through its licensed, mainstream Nestea line. Pepsi (**PEP**) is the leader with its licensed line of Lipton bottled teas. It's followed by independent AriZona Iced Tea and Cadbury Schweppes' Snapple.

Bethesda, Md.-based Honest Tea straddles two hot trends in beverages: Its products are low-calorie, and they are organic. Honest Teas have from zero to 40 calories per 8 ounces, Honest Ade juice drinks have 50 calories, and Honest Kids juices have 40 calories.

"A healthier premium tea is something they don't have," says Seth Goldman, who founded Honest Tea 10 years ago and was approached by Coke in the fall.

"The calorie profile also works. On average, our products have at least half the calories of a mainstream alternative. And a commitment to organics is a big part of our identity."

Coke has made a goal of scouting for such small, entrepreneurial brands, and a year ago formed a Venturing and Emerging Brands unit to find them. In addition to Honest Tea, it has brought vitamin-packed Fuze drinks and bottled coffee brand Brain Twist into the Coke beverage portfolio.

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