

Think *breakthrough*

Achieve the *extraordinary*

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Interview with Martin Chimes CEO, Unistraw International Limited



Martin Chimes has been building successful businesses for more than 30 years. He has been a founding investor of a number of companies which have become leaders in their field. Martin was CEO of Corporate Express, Australia's largest listed office supplies company, with annual sales of over \$900 million. His latest venture is Unistraw.

Unistraw is changing the way people consume beverages, globally. The company was founded in 2004 based upon a patented delivery system for enjoying flavored milk. It has since become a world-wide food and beverage phenomena. Martin can be reached via mchimes@unistraw.com.



Interview conducted by Doug Berger, Managing Partner, INNOVATE

Doug: There are a number of interesting, creative, and novel areas of innovation at Unistraw.

1. Your intellectual property protection.
2. Your overall business model.
3. Your rapid global roll out.
4. Your uniform approach to licensing and criteria for selecting the country distributors.

With that in mind, I'm going to turn it over to you to talk about the ways in which you and the founders of the company thought about things, leading to these innovative courses of action.

Martin: The first premise from which I work is that you've got to have a product or an idea that is riding the wave of contemporary trends. It doesn't matter how good your ideas or your business are, if the time hasn't come yet, you're going to struggle.

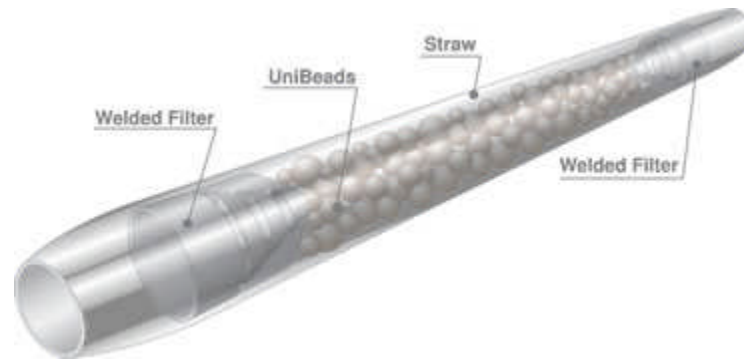
Secondly, you have to be best in class. When you do something, you've got to know in your heart of hearts that you are going to be the best operator on the planet. I fill my mind with how do I make sure that we are just absolutely best in class at what we do.

The third thing, the underpinning of it all, is that you have to have great systems. It doesn't matter how good your people are. If you don't have great systems, they are going to get beaten by the system.

These are my three basic premises for ensuring the fundamental success of our business. 1) You have to be on trend, 2) You have to be first in class, 3) You have to have great systems.

Peter Barron had independently developed this product for a period of seven years as a simple, elegant product. Peter is now our Chief Innovation Officer. When I became involved, the product had already been patented. I could see huge implications on a global scale.

The Unistraw® is a fantastic delivery system.



Our fundamental business model stands on five pillars. The first of those is our intellectual property. What we do to make sure that we can build on and expand our intellectual property throughout the globe. We are continuously working on either developing new patents or developing new design registrations, copyrights and trademarks, and lodging patent, trademark, copyright applications in multiple territories around the world. It's a costly exercise, but if you want to protect your intellectual property, it's non-negotiable.

Doug: Many of our readers are people are in consumer goods. What are some of the things that you've done in the realm of IP that they might find novel and interesting?

Martin: In addition to the many formal approaches that we are required to have, we have also developed a system of know-how internal to the company, and we're very careful about making sure that know-how is protected. For example, all formulations of our product are developed in an area that is completely remote from the rest of the business. Nobody knows what the formulations are. Even in our own company, there are only one or two people who actually know how the formulations are developed. All of those powders and blends are then shipped to manufacturing and nobody knows what the components are. Our manufacturing location for the beads which go into the straws is separate from the straw filling and packaging operations. There is nobody who really sees the full gamut of what we do. Again, high in our mind is always the protection of intellectual property.

Now, having said that, I'm not particularly concerned about barriers to entry. What we're trying to do is legitimize the use of straws as a delivery system. We can't own the market. When other companies somewhat different from who we are get into it, and start using it, the delivery system becomes more and more utilized. We see ourselves as the major player in the straw delivery business.

The second pillar has to do with low cost manufacturing. This is a strategic point for us. We realized that at some point in time, no matter how good our intellectual property, people were going to copy us. We set up manufacturing operations in China with a blend of good automated manufacturing combined with low cost packaging and low cost labor. We have positioned ourselves very well now to compete with anybody, anywhere. As we grow our business, we will be incorporating volume and scale into our operations and we'll be able to drive our costs lower and lower, making it more and more difficult for anybody to be a major competitor. That was another part of our strategy.

The third pillar was to develop our own brand. Our first product is a kids malt flavoring straw. Why kids? Well, because we feel that kids are the major beneficiary of milk in the early stages. In the formation of their young lives they

benefit from the calcium and the nutrition that's inherent in milk and our product is a natural product. It would therefore be on trend with the movement worldwide away from carbonated beverages towards those things that are more conducive to healthier kids. Not only do kids enjoy it because it's fun to drink through a straw, but mothers will strongly endorse it because they see it as an aid to getting children to drink more milk.

We launched our kids' milk flavoring product under the brand name Sipahh®. That has been followed by our next product, Mai'a™, which is aimed at a youth market, the 15 to 25 year olds. It's an iced coffee straw, also on trend with the worldwide trend towards coffee. Next year we will be coming out with our first products in water flavoring. Our strategy is to have at least one of our own brands in each beverage area.

Going back to our five pillars, the first pillar was intellectual property, then low cost manufacturing, then the developing of our brands. In order to achieve a global rapid roll out, while being a fairly private company with limited funding, although we were able to raise quite substantial funding, we decided to go with a licensing model. The fourth pillar is our licensing model, which is comprised of a number of components.

First of all, we're very stringent about the criteria for licensees and they must meet our criteria. They must be very well established in the food and beverage industry, and have all of the distribution and all of the contacts with the main retailers and grocers.

When taking on a product in the past, many of these potential licensees were accustomed to taking on a well established brand, a Heinz tomato paste, for example, and becoming an international distributor. Generally, the company behind it aids the distributor. The brand company puts their marketing dollars behind it and gives distributors terms that allow them to import the product and terms that allow them to sell the product. The payment terms are quite generous.

In contrast, our requirements for establishing a new company are more difficult. Our licensees need to commit to a minimum amount of advertising dollars that they will spend promoting and developing the brand for us. In exchange, they are promised a fairly robust contract giving them good protection on this unique property.

Secondly, when placing orders with us they have to pay deposits up front while we manufacture the product. And whenever we ship the product to them, they establish letters of credit, which are drawn down virtually on shipment, or at most within 30 days. So, we get approximately 50 percent of the money up front, or 25 percent of the money up front and another 25 percent when it ships. As soon as it lands, we get paid for the product.

This model has enabled us to grow quickly and has also given us cash flow to fund the business. I think these are all things that are quite distinctive and unique certainly within the industry areas in which we are operating.

Doug: What was the compelling point at the very early stages that had a potential distributor say "I want in."?

Martin: That comes down to the product itself. Upon first looking at that straw, before we packaged and developed the branding around it, people wondered what it was. They didn't know what to do. But as soon as they understood that you put it in a glass of milk and sipped milk slowly through the straw, and the flavor went into their mouth,

the general reaction was almost the same. "Wow, that's really good. That product delivers." Our product surprises people all the time.

Once we had developed the product, the packaging, and all the characters surrounding it, we showed it for the first time last year at the Australian Food Fair. We had a really well set up booth, in front of which was a big straw with lit up beads. People were curious. They were drawn in to try the product. Word got around. People tried it and said "Wow, that's fantastic! That's really innovative. We've never seen anything like that before." Some people did remember that 30 or 40 years ago there were old paper straws with chocolate flavoring.

Doug: Yes, I remember - Flavor Straws.

Martin: The problem with those old Flavor Straws was that they didn't have a good flavor delivery. The milk almost had to be warm in order to melt the chocolate on the inside of the straw. Now we are able to have a fairly ice cold glass of milk and the beads are layered with flavor that dissolves as you pull the drink through the straw. You get a very smooth, even flow of flavor. The product itself just really delivers.

When we showed it for the first time at the Fine Food Fair in Sydney last September, we had an overwhelming response to the product from the trade. Then we launched it into the Australian marketplace in November. In the interim, we went to Germany and showed it at the international food fair at Anuga, which is the largest food fair in the world. Again, we had exactly the same reaction. Our stand was by far the busiest stand at the trade show, where there were more than 6,000 exhibitors and hundreds of thousands of products.

In both the Fine Food Fair in Sydney and the Anuga Food Show, we were selected as the most innovative product or the best new retail product. In fact, in one year's time, since being in the marketplace, we've gone on to win five international awards.

We've got the right product, it's on trend and we've put the right systems in place.

Doug: Does each distributor have real discretion when it comes to the advertising and marketing of the product? Or, have you created the common packaging, allowing people to customize a certain advertising theme, but not allowing them to change the essentials?

Martin: Our whole strategy has been on a global basis, from day one. Right from the start we developed our Universe Partner Program. It's a very comprehensive system. If you build the systems, the systems will create a platform for you to grow the business exponentially. You don't have to be a genius. Good people having good systems will be outstanding at what they do.

For example, our licensee in South Africa, who's had an unbelievably successful launch, said the most fantastic thing about the program is not having to spend any money on developing anything because it is all done for him. Whatever we develop here in Australia, which is basically our center of excellence, is available to our partners on our partner website. All of the learnings from around the world are loaded up onto our partner website. It's very structured. There's a host of material and people can get what they need. Nobody has to go out and do anything new. They can just take it from what's already been done.

Doug: One of the things that strikes me is the criticality of your original staffing. The quality, the experience, the background, the thinking of the key people who you brought in, not only to create the systems, but to create the content going into the

systems, had to be of utmost importance. How did you go about both identifying and attracting people?

Martin: We had to make sure that we had the right people. First, we focused on building our partner program. Lane was the first person whom we hired. I found out about Lane through a fellow, Michael, who had worked for me in one of my other companies. Lane ran the partner program for Nokia. He originally developed the worldwide partner program for a company called Borland Software and later worked for Nokia, who has 6,000 partners in Australia alone. This is a man who really understands what it takes to have a robust partner program. Since joining us, he has been responsible for developing our Universe Partner Program.

Our second guy came in along the same lines. He was working for British American Tobacco, again a big multinational corporation. He developed all of our branding, the roll out of the branding and all of the characters. Our third person was an operations director from Coca Cola.

Doug: There's one other thing that I'd like to touch on, and it really deals with your own leadership, management philosophy. Given that you were hiring this hand picked cadre of top talent, what is your own personal philosophy for guiding, yet not suppressing the talent?

Martin: Again, if you were to walk into our offices, you'd see that we're pretty unconventional. First of all, I only ever wear jeans, no matter what the occasion. I only have jeans in my cupboard. I don't wear a suit. I've never worn a suit, and I don't wear a tie. Everybody in the office works in jeans and a T-shirt most of the time. I don't have an office. I just sit in the middle of everybody at a desk. I've probably got 25 people sitting around me right now. That's how we all work, in an open space.

So we have no hierarchy as such. The focus is not on authority. It's on leadership. We have one management meeting a week. That's when all of the senior guys in the company come together. We sit down in a management meeting and we chat for two hours about every aspect of what's going on in the business. Everybody is responsible for their own area completely. If people want to work at home, they work at home. If they want to work somewhere else, we don't dictate the hours. There is a lot of trust.

For example, we do a huge amount of international travel and we're a start up business. I travel economy and I stay in budget hotels. That sets the standard for the whole organization. Everybody travels economy. Everybody stays in budget hotels. That's the kind of attitude that prevails. If you can't live with that, you can't be a part of this company. It doesn't matter if you've come from large organizations and you've traveled first class, when you come here, that's how it's done.

I think that I've got a reasonably strong personality when I talk about things, but everything is open to challenge. People have enough opportunity to do their own thing and we don't monitor people's hours. We trust people. Michael, the Director of International Licensing, has spent a year traveling. I don't check his expenses because I know that Michael will be traveling in the most economical fashion and staying at the lower end budget hotels. If he decides to stay at a more expensive hotel, that may be on his own time. I know that he'll make good to the company.

We have this core team of people. We all work really closely together. We have a huge amount of trust in each other. I think that the team we've got, Lane, Michael, Tim, David, the founders of the company, myself, and Peter, have 100 percent faith and trust in those people. That trust and faith pyramids through the organization.

Lastly, to come back to our five foundational pillars, the fifth pillar is new product development. We have an infrastructure and a distribution model. We have partners all over the world. Now we need to continue developing new products. The guy who heads up our new product development area came out of Glaxo Wellcome. He's completely familiar not only with flavoring, but has a complete understanding of drug delivery as well.

We see a big opportunity for the delivery of over the counter medications, particularly to the pediatric and the geriatric markets. For the people in the community who find it most difficult to swallow capsules and tablets, an alternative delivery system is to drink it through a straw. This is very attractive to them.

The understanding from the beginning was that we were going to be an organization. We recognize that we are making our own history as we go. Every quarter, every three months, we have a little sit down session and we take photographs of the company as it is now. We document the history of the company so that one day people will look back and say, this didn't happen by accident. It was a carefully planned strategy from the very beginning.

Once we decided that this was what we wanted to do, we sat down to work out the whole strategic approach to the business and how we were going to do it, again, keeping to the theme of simplicity.

Doug: Martin, thank you for sharing your thinking with our readers. I look forward to publishing updates on Unistraw as you continue to write your own history.

Velcro Points: The 5 Pillars for building a company

1. A platform of superb products that are on trend
2. Intellectual property protection and proprietary know-how
3. Low cost manufacturing
4. Build your own brand in every relevant category
5. Great systems help people be great at what they do