oikos Sustainability Case Writing Competition 2005

3rd Prize

Phoenix Organic – Valuing Sustainability while Desiring Growth

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Phoenix Organic:

Valuing Sustainability While Desiring Growth

"I believe that there are some significant issues related to sustainability for businesses that get beyond a certain point" *Chris Morrison, Managing Director*

For business school students wanting to do business differently, Phoenix Organic should be an inspiration. Start by collecting empty beer bottles after a night at the pub(s), wash off the labels and cigarette butts, and refill them with potent home brew. Sell them at a profit to a cult market and 17 years later in 2004, lean back and enjoy the fruits of a $NZ6.5 million business. You don't even have to finish your degree.

All of the above is correct but it wasn't that simple. The reality was that the founders of Auckland-based Phoenix Organic made a series of strategic decisions that, coupled with some good luck and more hard work, allowed them to claim a niche in New Zealand's beverage industry. And they did it while maintaining their vision to create a business that was good for the planet and good for the health of its people.

How It All Started

"It was all very subsistence. We literally just were hanging in there and I worked nights doing dishes in a restaurant, and we were definitely hand-to-mouth," remembered Roger Harris, Director of Sales and Marketing and also one of Phoenix's founders. Phoenix relied on government business development money and personal scrimping to get the company going in those early days.

Harris met Managing Director, Chris Morrison, and partner Deborah Cairns in 1987 – all part of a circle of people involved in organic urban gardening. Morrison and Cairns had started a small business making naturally fermented ginger fizz in their Auckland flat. "We used to go around the pubs and pick up the old Steinlager bottles and take them home and soak them in our bath to get the cigarette butts out and all that filthy stuff," Morrison remembered. A friendly restaurant owner let them sterilise the bottles, which they then took back and refilled with ginger fizz using a jug and funnel. "All very primitive," Morrison admitted, but a product whose natural properties they all felt attuned to.

Inspection copy

Morrison and Cairns made ginger fizz for about a year. The business started to grow, taking over more of the couple's time. Cairns dropped out of the course she was taking and the couple had the first of four children. All was well, if hectic and slightly chaotic, when Morrison met Harris. "He had a similar vision to us – to make a healthy alternative to the drinks out there, one with a premium edge," Morrison said. Harris tells it slightly differently. "I think they saw me as the big mouth that wouldn't shut up … that could be quite useful out there in the trade, selling," he said.

Harris had his work cut out for him. Ginger fizz was developing a strong following, but was a challenge to market and sell to cafes. "I was out there growing distribution, but the product was not ideal. One of the problems was that it really needed to be treated as a very volatile,

fresh product, but the perception was that it was just another soft drink." He had to explain to puzzled café owners that the ginger fizz had to be handled gently and refrigerated - or it would blow up! The ginger fizz had a kick that could be downright dangerous. In hot weather it could explode and ricochet around the old van that Harris used for deliveries. Once a crate took off like a rocket and smashed against the roof of the van. Harris decided the business needed to upgrade. "I thought, there's got to be a better way, we can't keep doing this, it's going to kill me," Harris said.

From a Flat to a Firm

Phoenix began as a part-time partnership - almost a hobby for the three founders. "We had lived it quite fluid and loose and I think that was a good idea because you just don't know what is going to happen," Harris said. But moving to a professional business required the trio to make some very strategic decisions about what they wanted to achieve.

Harris believed there was one key decision that saw Phoenix grow from a little known bathtub brew to an internationally recognised brand: pasteurisation. "That was a significant quantum leap for us, the day we learnt finally how to pasteurise," he said. With that technological leap, a whole range of new opportunities opened up, including the chance to modify its only product, its flagship ginger fizz. The three realised that there were a number of negatives with the brand – not the least of which was its tendency to explode.

"I could see at that point that we needed to re-brand and we needed to exit from ginger fizz for a number of reasons. It was a real enthusiast product and it had a lot of cult around it, but it needed to change, it needed to reflect what we now knew about the market and where we wanted to head. So we made that change," Harris said.

Morrison agreed that the technological advance of pasteurisation changed the company dramatically. "It expanded our range," he said, which meant moving into new premises and hiring more staff. Since its bathtub beginnings, the company had moved three times, most recently to a two-acre property with custom-built premises and plenty of room for expansion.

Making a Range of Drinks

The process for making drinks was pretty simple. First, ingredients were inspected and tested to ensure they were of the required standard before being blended each evening for the following day's production. Usually two drinks in the same bottle format were prepared – two organic juices, or two sparkling waters, for example. More quality assurance tests were carried out prior to bottling. Phoenix had two fillers – one for juice products and one for carbonated products, each operating at around 100 bottles per minute. Once filled, bottles were sealed with aluminium caps applied in a three head roll-on capper, and passed through a spray tunnel pasteuriser to ensure the drinks were free of micro-organisms. Bottles were then labeled and boxed before being sent to the onsite warehouse awaiting delivery to point of sale. With a shelf-life of twelve months, drinks were produced to order and distributed within three weeks. Waste and recalls were minimal.

The product range had expanded from the early ginger fizz. First to be added was lemonade and cola in 1990, both with honey as the sweetener. Then came a range of sparkling fruit flavoured waters, including the unusual feijoa - seldom found outside New Zealand. Later came sparkling mineral water, vegetable juice and Chai tea (see Exhibit 1 for a complete list of Phoenix products). In 2004, the company was considering adding a liquid chocolate that

cafes could use to make hot chocolate. Phoenix produced five to six million bottles of drinks each year. Ginger beer (without the explosive fizz) was still one of its leading products, at around 7% of sales. Very close behind were orange mango, apple and feijoa juice. Organic juices were increasing in popularity, 30-50% annually. Sparkling feijoa water was also popular.

Filling the Niche

The company's founders wanted Phoenix to be something new, something different. "We knew at the beginning that we wanted to break the monotony, the sameness and the oligopoly of the brand in those days. Seventeen years ago it was Coke and Frucor and if you wanted anything else, you were looking at the wrong country," Harris said.

Phoenix intentionally targeted the developing café culture. Coca-Cola had dominated for years. But Harris argued that while Coca-Cola made plenty of money, it also left a gap in the market. "There was a whole trade that was emerging called the café trade and it needed products that were packaged, that had the point of difference, that reflected the premium, that could command those margins, that could carry the retail value," he said. Phoenix tried to tap into that new market by developing what cafes needed and wanted.

Early on, Phoenix spotted that cafes needed to distinguish themselves in ways that would justify charging $NZ3-$NZ4 for a drink. Harris said that Coca-Cola's approach had been to go in and offer café owners the standard "big red box" (the fridge that distributors supply with their products) and the usual beverage suspects. But the Coca-Cola brand, which was so powerful in many ways, was a handicap here. "Coke was going to, just by the presence of their branding alone, to say something to the audience about what the product was. It says, 'lunchbar, lunchbar, lunchbar'. And that turns off big chunks of their audience."

According to Harris, café owners knew that they did not have many realistic choices. Phoenix, small and smart enough to be flexible and innovative, attempted to fill that niche. Its success was demonstrated by its presence in some 2,000 cafes in New Zealand, a market penetration of close to 70 percent.

Harris would go to cafés and say, "I know you have needs over and above what I can meet. So what I'll get you is a fridge where we'll design the product layout, and we'll put Coke in there. We'll put water in there; we'll put fresh orange juice in there. All we want is an agreement with you that gives us enough of the fridge to get the volume we need to pay for the fridge and make this a profitable business." In return, Phoenix got to occupy prime fridge real estate. "We own eye level, we own down to your navel, and they can have the rest," Harris commented.

The Ties That Bind

Ask Chris Morrison why he thinks Phoenix has been so successful and he will cite the relationships Phoenix had built up with suppliers and customers. "We've built up respect and trust with our market and those things don't happen over night. We're not a flash in the pan, we've done the hard yards, and we've built it up with no money. I think that's why we've been successful and why we're in quite a strong position now - because we've paid our dues, and really been fairly modest about it. And made sure that we have good relationships with people, not only customers, but our suppliers, and the whole spectrum of people we deal with in the company."

Even though it had grown into a multi-million dollar company, Phoenix still had a strong 'family business' flavour to it. Morrison preferred to deal with small companies that could buy into "the Phoenix way of doing things." And in return, he said, "We really cement the relationship, people feel like they are being looked after by us, it's very much a personal approach."

The emphasis on strong relationships extended to the company's 25 staff (See Exhibit 2 for Phoenix's organisation chart). The company prides itself on upskilling staff, listening to their needs and being responsive. Having staff that were relatively happy at their work meant that productivity went up and turnover went down. "That's a huge benefit to the company, and so I think it's very important to put a lot of energy in that area", Morrison said. "We are very fortunate to have great staff at Phoenix and we try very hard to look after everyone."

Morrison also realised that some jobs were repetitive and of limited scope by their very nature. "It's damn hard for people to come to work every day and work on a production line and load bottles eight hours a day…that can be pretty tough," he said. So, social activities outside work were seen as important too. At the end of each summer (the company's busy period) staff went away for an all-expenses-paid long weekend within New Zealand. In 2003 they went to Great Barrier Island. In the winter they went skiing in Queenstown for four days, with the company paying 50 percent of the costs. Morrison said these events had been a great success.

Riding the Organic Wave

Harris saw Phoenix benefiting from a growing global public awareness of food safety issues such as mad cow disease. "The owners of the supermarkets in New Zealand suddenly lit up one day and said, 'hey, what are organics?'" Harris said. Suddenly, supermarket buyers were being told to start taking organics seriously. "It was just unprecedented," Harris recalled.

Phoenix decided to take advantage of the significant market shift represented by the new interest in organics. The company had been tracking world media for a long time and believed that organics was a global trend that would eventually hit New Zealand. When Morrison and Harris started to get early intelligence that suggested the wave was coming soon, they moved. "We had a strategy session about three years ago that decided we wanted to create an umbrella organic brand," Harris said. "Chris and I thought, 'We've been in organics forever, we're not going to be left on the sideline. This is our opportunity.'"

The plan was designed to work with the café trade, but also be the vehicle to help Phoenix make it big in supermarkets. The plan was to develop an organic food brand, starting with

jams and salsas, complementary to its beverage products, ultimately making Phoenix a household name for all organics. It seemed like a great idea at the time. It wasn't.

Harris was upfront about what he thinks went wrong. "It's a mistake for organisations which are fast growing and relatively light in terms of size to try and pick off too many different diverse areas. It becomes a distraction. It's incredibly tempting. You're really growth-addicted."

Phoenix encountered a number of difficulties with the organic food concept. The big supermarkets did take more organic products, but they often segregated them into small organic sections instead of mainstreaming them with similar products. In Harris's words, they were 'ghetto-ised.' For Phoenix, it was the kiss of death. "I could see this problem of having too diverse an offer and not having the resources to really do the thing properly," Harris said. "We were going to run the risk of basically stretching ourselves too thin, exhausting our resources trying to keep too many different balls up in the air."

Phoenix did not abandon the supermarket channel for its beverages, however, Harris found specialists to help Phoenix tailor beverage products to that trade. In 2004, Phoenix's beverages were in all the national supermarket chains and accounted for about 20 percent of its business. But selling to supermarkets demanded new strategic thinking. "As we start to develop product for supermarkets, we're looking at what the need is there and we're starting to see that the single serve beverage isn't actually the main answer. We need cluster packs, we need one litre bottles, we need bulk," Harris said. However, Phoenix could approach both the two main supermarket chains in New Zealand and others as "the largest organic beverage company in the country".

Getting Enough

Phoenix was totally committed to organics and in the future hoped to have all of its beverages fully certified as organic by BioGro, New Zealand's leading internationally accredited organic certification body. Some products were 'natural' rather than 'organic' (see box insert below for a definition of organic food). Going organic raised some significant issues for the company. "Our ingredients are often up to 100% more expensive, plus we often have to carry ingredients from season to season," Morrison said. And organics aside, Operations Manager John Evans pointed out that the natural flavours used by Phoenix could cost two to three times more than did artificial substitutes.

With the market overall, and supermarkets in particular, wanting to give only a 20% premium for organic products there was little margin. "This has meant we have had to work more efficiently and smarter than our competitors. Sourcing a range and quantity of ingredients is also difficult and requires good long term planning and strong relationships with suppliers," Morrison said. "Strategically it's tough. But we're market leaders in this area, and it gives us an edge. And it also keeps our competitors at bay. They'll have a look at it and think the margins aren't there, it's too hard, it's too difficult. There's only a certain amount of suppliers and Phoenix already has good relationships with them."

In addition to the challenge of tight profit margins, the demand for organic ingredients far outstripped supply. "We can't just go out in the middle of the down season and say I'd like some more strawberries, because there aren't that many organic strawberry growers," Morrison noted. About 60% of the company's production was organic. Some of Phoenix's natural products were being converted to organic, but it remained a challenge merely to source enough certified organic ingredients.

Organic Food is …
Grown naturally without the routine use of synthetic agricultural chemicals such as fungicides, herbicides, insecticides, growth regulators, and soluble fertilisers
Processed with nil or minimal use of synthetic additives like stablisers, emulsifiers, antioxidants, preservatives, colours, and flavour enhancers
Much more than spray-free or residue-free because it is produced under positive agri-ecological management systems which work in harmony with nature

Source: BioGro

Saving the World and Making Money

Phoenix was a privately held company. Morrison estimated total sales at about $NZ6.5 million in 2004, up from $NZ4 million in 2002 and $NZ5 million in 2003. Phoenix had been growing at 25-30 percent per annum with similar predictions for the immediate future. Morrison acknowledged that it was not easy for a business to grow at that rate without outside capital. “Cash flow is extremely tight,” he said, although inventory turnover was relatively efficient at under three weeks. The land Phoenix bought in 2001 and its new buildings and planned extensions for 2004, were mainly financed through borrowing. Profits were continually ploughed back into the business.

Exports made up 10 percent of sales and were, Morrison predicted, the most likely source for future growth. Sales in Australia had increased from less than $NZ10,000 a month to $NZ60-70,000 a month with the deployment of personnel into Sydney on a one-week-a-month basis. When considering further expansion into Australia, Morrison suggested that the next step might be to use a contract manufacturer. He felt that investing in plant and equipment in Australia would be too expensive given current debt levels. Morrison was reluctant to accept the compromises and loss of control that would likely come with outside capital. “We built this company. We don’t necessarily want somebody else telling us to do it a different way. We’re quite happy with the results we’ve achieved; we think we’re doing it quite well.”

Social and environmental sustainability was one aspect of the business that Morrison, also Chair of New Zealand’s Sustainable Business Network, was unwilling to compromise on. Even in the bathtub days, the three founders always tried to make their products in an ethical manner, providing a healthy, natural premium product with the least impact on the environment. They believed that the market had caught up to their early thinking. “In the last 10 years we’ve seen more interest from the market in things that are important to us – safety, accountability, values, integrity and sustainability,” Morrison said.

Gradually, Phoenix had evolved from an instinctive, ad hoc approach to sustainability to adopting internationally recognised sustainability protocols. In 1996, the local council’s Cleaner Production Programme got Phoenix management thinking more about its water, waste and energy reduction systems. Three years later the founders were introduced to The Natural Step, a Swedish framework for sustainability that they implemented at Phoenix. The company even had a Sustainability Director, employed part-time, Rachel Brown. “My role is to ensure that everything the company does operates in a way that is environmentally and socially responsible,” Brown said. From her earlier cleaner production role involving Phoenix, Brown had gone on to the Auckland Environmental Business Network which

Morrison eventually chaired before it went nationwide as the Sustainable Business Network in 2002.

Creating (and Implementing) a Strategic Sustainability Plan

Meanwhile, back at Phoenix, Brown, Morrison and others spent time coming up with a long-term sustainability plan that covered five key areas. The plan considered staffing issues, reduction of fossil fuel use, avoiding persistent chemicals, protecting the environment and using resources efficiently. Sticking to this plan meant some hard choices. To offset the environmental impacts of the fossil fuels used in transportation, Phoenix ran a Greenfleet programme and encouraged Auckland distributors to use low sulphur diesel.

The choice between glass and plastic illustrated the dilemmas associated with having a sustainability philosophy. It would have been a lot cheaper for the company to stop using glass bottles and put everything into plastic. Plus, plastic was lighter than glass was and required less fuel per shipment. But plastic was a non-renewable resource and Brown believed that plastic contamination of the beverages could potentially cause long-term health effects for people. Glass also fitted better with the company's upmarket image. "What are the social implications? What are the economic implications? So we have to go through those for all the major decisions," Brown said.

Phoenix was also constrained in how far it could unilaterally take its sustainability programme. The company would prefer glass bottles that were returnable and refillable, but the only provider of glass bottles in New Zealand – ACI - did not make refillable glass. On its own, Phoenix was not big enough to influence that market dynamic, but it was an active participant in the local organic cluster of many small enterprises.

The company's sustainability ethic also limited its product options. Bottled water would seem to have been a natural for Phoenix, but most water was sold in plastic. Brown also pointed out that there should have been no reason for people in New Zealand to be drinking bottled water. "The fact that our rivers have become polluted or that people are not feeling confident about drinking water out of the tap is really a worry," she said. Instead of joining the rush to make a profit from bottled water, the Phoenix philosophy suggested New Zealand should look seriously at how to restore people's confidence in drinking tap water.

Another critical issue for the company was genetic engineering. The company had a clear stand promoting a 'GE free' New Zealand. "Not only is there a question over the damage to our natural ecosystems, but there seems to me a strong economic case for remaining G.E. free," Morrison said.

Morrison also suggested that Phoenix was targeted more by competitors eager to tarnish its environmental good guy image. "The whole sustainability thing is interesting because you go down that track and you start talking about what good business is about etc. from a sustainable perspective, and then you're opening yourself up to criticism. People are just desperate to knock you down." He didn't really mind the extra scrutiny, however. "I think it's really important for organic businesses to make sure that they're squeaky clean."

Despite the challenges, Phoenix's directors clearly saw its social and environmental sustainability image as a winning combination and the company had collected a number of awards for its sustainable business practices. "The fact that they're doing all this sustainability stuff keeps this loyal customer base going. It makes it very difficult for other

companies to copy because the company brand is so interlinked with the owners, and their beliefs systems, and their value base," Brown said.

Mapping the Beverage Landscape

Phoenix was pretty much out on its own in the organics beverage market, the only player of any real size. But it was selling in a market where not everyone was concerned whether their drinks were organic or not. So, the wider non-alcoholic beverage industry whose players were arguably less environmentally and socially concerned made for a very competitive landscape. Per capita consumption of soft drinks (carbonated beverages) in New Zealand was high by world standards at 360 bottles per year (although lower than the U.S. at 450). However, the market was considered mature and had been growing at 4-5% annually[1]. Coca-Cola New Zealand had dominated soft drinks since coming to New Zealand in 1939 and in 2004 continued to sell the majority of soft drinks in New Zealand, including the top six brands. Private label soft drinks had eaten into the virtual monopoly of Coca-Cola in recent years, while Pepsi had remained a minor player in New Zealand with less than 10% market share.

Coca-Cola was also active in other non-alcoholic beverage segments beyond soft drinks. The 2002 acquisition of Rio Beverages had gained Coca-Cola access to New Zealand's second largest juice company. Key brands from the acquisition - Keri and Robinsons - accounted for 20% of Coca-Cola's New Zealand production in 2004. The largest juice company in New Zealand was Frucor – itself acquired by the French multinational Groupe Danone in January 2002. Frucor's origins dated back to the 1961 launch of Fresh-Up under the old Apple & Pear Marketing Board. In 1988, Frucor had been spun-off from the Marketing Board and in 1999 Frucor had acquired the Pepsi bottling business in New Zealand from Lion Nathan.

Table 1: Grocery Sales By Category*

	2003 (NZ$)	2002 (NZ$)
Carbonated Beverages	199,864,802	180,314,022
New Age Beverages	27,219,073	25,789,626
Fruit Juice & Drinks	124,039,971	115,803,445
Non-Carbonated Beverages	44,123,295	44,589,664
Non-Carbonated Mineral Water	20,448,717	13,490,378

Source: Grocers' Review, October 2003; AC Neilson
* Without being exact, a Frucor spokesperson kindly estimated that sales through non-grocery channels were generally similar in scale to grocery sales for the industry overall.

Both Frucor and Coca-Cola had brands in other segments such as bottled water and energy drinks. Bottled water was the fastest growing beverage segment in New Zealand – as it was throughout the Asia-Pacific region. Energy drinks had also shown strong growth, with Frucor's V brand being number 1 in Australasia. Coca-Cola's new regional managing director, George Adams, saw real growth potential in both water and juice: "New Zealand is a very small bottled-water consumer because no one has taken the market and built it, no one has told consumers it tastes better than tap water, that it is treated and convenient. The juice business is low due to a reasonably underdeveloped market, which needs a big player with serious distribution money to grow it. We want to lift juice – it is a market which responds to innovation in packaging and flavours. Over the next two years we will bring more innovation

[1] Kennedy, G. (2004, February 5) 'Kiwi's thirsty enough?' *National Business Review*, p. 28.

to the business."[2] Frucor had a stronger reputation for innovation stemming from its introduction of V and Mizone.

Coca-Cola planned growth in soft drinks from a strategy of 'expandable consumption' – based on research that showed it didn't seem to matter how many bottles were bought, it all got drunk. "If soft drinks are in the home they will be used, so we are constantly widening our distribution to have the product within an arm's length of desire," argued George Adams, "Seventy percent of product is bought on impulse. It's all about … understanding placement and making it easy for people to buy."[3]

Table 2: Phoenix versus the Big Dogs in New Zealand, 2003

Company	Staff	Advertising ($000)	Key Brands	Corporate Global Sales (NZ$m)
Phoenix	25	40	Phoenix	6.5
Frucor	500	13,619	V, Fresh Up, Just Juice, G Force, Mizone, Evian, Pepsi	25,265
Coca-Cola	1000	28,298	Coca-Cola, Fanta, Sprite, L&P, Pump, Keri, Powerade	33,500

Sources: Phoenix, Coca-Cola, Frucor, Groupe Danone, Neilson Media research

Aside from Coca-Cola and Frucor, other competitors with Phoenix included Arano, Juice Express and Charlies in juices. The overlap with Phoenix was not that large and Phoenix had co-operated with Arano in the past, with Phoenix supplying carbonated drinks and Arano juices to specific events. The closest competitor to Phoenix in terms of products and style was probably San Pellegrino. Having already established a high-end position in Australia, San Pellegrino had made in-roads into the café and restaurant market in New Zealand. Manufactured in Italy, San Pellegrino offered a collection of lightly carbonated flavoured mineral waters. Exhibit 3 shows the range of drinks in a typical Auckland café, along with the relative selling price of the different drink options.

The Australian non-alcoholic beverages market was similar to New Zealand in both preferences and trends. Key differences were in terms of size – where the Australian market was approximately five times as large – and in terms of a larger number of competitors.

Future Challenges…

Ironically, Phoenix's successes had started to work against it in some segments of the market. There were some very top end cafés that would not take the Phoenix brand because it was getting more commonplace. The company was also attracting more attention from the big players in the New Zealand beverage industry, which was one of the reasons Phoenix was looking so closely at its Australian options. To continue operating only in New Zealand <u>and</u> maintain historical growth levels, Harris said Phoenix would have to find ways to take the brand bigger, which would mean selling cheaper or launching other products. Either option would likely draw fire from bigger competitors like Coca-Cola and Frucor.

[2] Ibid.
[3] Ibid.

The company was leery about going head-to-head with the really big players. "Going directly against Coke or Frucor is inherently stupid in my opinion," Harris said. He found the Phoenix niche a safer scene. "There are certain rules for survival in this game and a lot of them are around understanding your market, understanding your niche. Once you get that down, you know your niche, then you can see what your tolerance is for other decisions."

The recent growth trends augured well for Phoenix's immediate future; however Morrison was aware of the risks. "We've still got to be realistic. We're not a huge company and we're still vulnerable. There could be something that happened that pulled us down." One risk he saw was the danger of growing too big and losing the focus on sustainability. "I believe that there are some significant issues related to sustainability for businesses that get beyond a certain point. Issues that the Stephen Tindalls of this world face every single day." Tindall was owner of New Zealand's largest discount retailer and chairman of the New Zealand Business Council for Sustainable Development, a complementary but somewhat rival organisation to the one Morrison chaired. Going out on the hustings for sustainability didn't worry Morrison. He was committed to the idea and believed there was much work to be done in convincing others to take up what he saw as a necessary but ongoing challenge, even for businesses like his own.

…and Opportunities

To maintain growth, Phoenix was hoping to get its products into more service stations and more distant overseas markets such as Japan and Malaysia. But the biggest growth was coming from supermarkets and Australia. "With our brand and our type of product, after the service stations, my view has been that we need more export business, we need Australia," Harris said.

In terms of new products, the Phoenix team accepted that Phoenix was going to remain a beverage company. But within that frame there was plenty of room for innovation. Hot drinks were one possibility, Harris pointed out. "The trade we work with deals in hot and cold beverage, and we want to be meaningful and useful to our trade, and give our salespeople a year round opportunity." The company was already marketing "the Chai experience." Chai is a creamy, milky, spicy tea – and Harris was enthusiastic about its potential. "We're talking about students…we're talking about people who haven't become coffee fanatics yet. They're looking for something that maybe isn't the mainstream, that isn't like everyone else." Phoenix wanted to increase its focus on organics, but knew that could prove difficult in a number of ways.

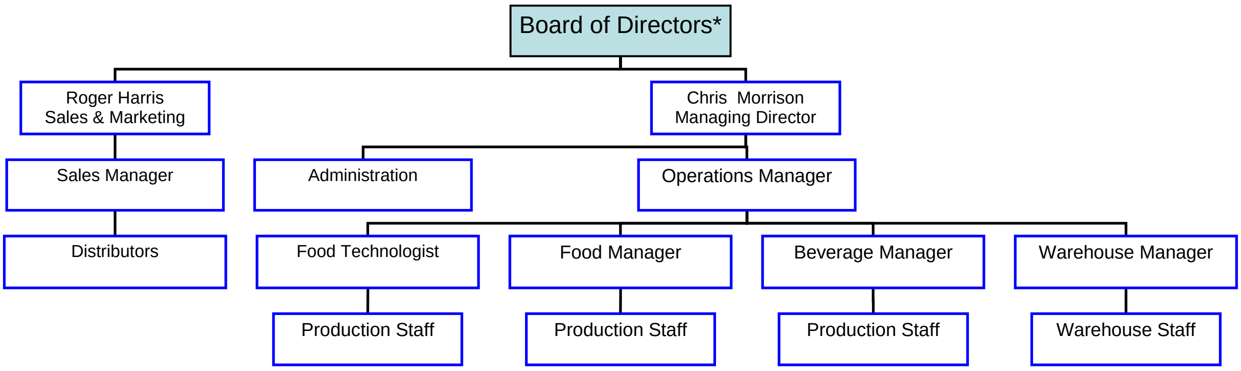
Not surprisingly, the founders had considered the what-if scenario of a buyout by a larger corporation. Morrison was unenthusiastic, acknowledging the hard work done by Phoenix in establishing the organic beverage niche. What if organics became much more popular? Would one of the big players suddenly become very interested? Morrison did not dismiss the possibility entirely but saw a danger that public companies and shareholders would be completely focused on the financial bottom line. Plus, Morrison still maintained his enthusiasm for the job, "I don't think we're halfway through the journey and I'm very keen to see us grow. I find it very stimulating and exciting and get a huge amount of my personal needs met out of business."

So growth remained very much part of Phoenix's agenda in May 2004. The relevant questions were how would growth impinge on the business's core sustainability values? And which growth options would be most sustainable all round?

Exhibit 1 - Phoenix Organic Products

Range	Products	Container	Ingredients (varies per product)	Claims
Honey Sweetened Drinks	Lemonade Natural cola Ginger beer	330ml resealable green glass bottle	Carbonated water, honey, juice, concentrate natural flavour, yeast, root ginger	
Sparkling Fruit Flavoured Waters	Lime Blackcurrant Melon Feijoa	330ml resealable clear glass bottle	Carbonated water, honey, juice or juice concentrate, natural fruit flavour, vitamin C (ascorbic acid)	
Sparkling Mineral Water	Sparkling mineral water	330 ml resealable clear glass bottle	Carbonated mineral water	Sourced from a deep aquifier naturally filtered through 220 metres of solid rock for over 50 years. Bottled straight from New Zealand source
Vegetable Juices	Vegetable juice	250ml & 1l resealable clear glass bottles	Organic vegetable juices, tomato 62%, carrot 27%, celery 9.9%, spinach 0.9%, beetroot 0.5%, sea salt	Can cleanse and repair the body
Organic Juices	Orange mango & apple juice* Pear & apple juice* Apple juice* Feijoa & apple juice* Guava & apple juice Boysenberry & apple juice	275ml resealable clear glass bottles * Also available in 1l resealable clear glass bottles	Organic juice/juice concentrate, organic puree, natural fruit flavour, natural fruit aroma, vitamin C (ascorbic acid)	
Organic Drinks	Organic lemonade Organic cola Organic ginger beer	330ml resealable green glass bottles Also cluster packs of 4	Carbonated water, organic sugar, organic fruit concentrate, natural flavouring, yeast, root ginger	
Natural Herbal Drinks	Wildberry herbal, Orange Mango herbal, Guava Apple herbal	250ml clear glass bottles	Filtered water, fruit juice concentrate, fruit puree, natural flavour, vitamin C, herbal extracts	Revitalise, energise, relax
Chai	Phoenix chai (Chai latte)	Concentrate	Filtered water, spices, tea, organic sugar, natural flavours, emulsifier (lecithin), sea salt, citric acid. Contains caffeine	

Exhibit 2 – Phoenix Organic Management and Board Structure



The Board comprised founders Chris Morrison, Deborah Cairns and Roger Harris together with Independent Directors, Rachel Brown and John

Exhibit 3 - Drinks Available at an Auckland CBD Café in March 2004

Main Refrigerator	Producer	**Product Description**	**Selling Price $NZ**	**Container**	**Size**	**Claims**
Top Shelf	Arano juice	Spirulina fruit cocktail	4.00	Plastic bottle	375 ml	No preservatives, no animal protein
		Berri-licious fruit smoothie with Echinacea and acerola	4.00	Plastic bottle	375 ml	Medicinal herbs
		Orange juice	3.00	Plastic bottle	250, ml	No preservatives
	Takaneti Agri (Iran)	Pomegranate juice	2.50	Tetrapak	200 cc	
	Fresh n' Fruity Yoghurt to go	Wildberry • Peach & Passionfruit • Strawberry Sensation	2.50	Plastic bottle	3ooml	National Heart Foundation approved 99.5% fat free
2nd Shelf	Phoenix organic	Guava & Apple Juice • Pear & Apple Juice • Orange Mango & Apple Juice • Feijoa & Apple Juice	3.00	Glass bottle	275 ml	Organic
	Sanpellegrino (Italy)	**Pompelmo — sparkling grapefruit beverage** Aranciata Rossa — red sparkling orange beverage Limonata — sparkling lemon beverage	3.00	Glass bottle	200 ml	
3rd Shelf	Valfrutta Co-operative Agricole (Italy)	Pera —Suco & Polpe (thick pear juice) Pesca gialla — Succo & Polpe (thick peach juice)	2.00	Glass bottle	125 ml	
4th Shelf	Coca-Cola Amatil (Australia)	Diet Coke Coca-Cola	2.50	Glass bottle	330 ml	
	Red Bull Gmbtt (Austria)	Red Bull Energy Drink	4.00	Aluminium can	250 ml	Vitalises body and mind
	Frucor Beverages	V Guarana Energy Drink	2.50	Aluminium can	250 ml	Invigorates, replenishes energy.
5th Shelf	San Pellegrino (Italy)	Sparkling Natural Water Sparkling Natural Water	5.00 3.00	Glass bottle	500 ml	Natural, with natural CO_2
	Bundaberg (Australia)	Ginger Beer — brewed soft drink	3.50	Glass bottle	375 ml	Naturally brewed to be better
	Rutaruru Water	Pump Mini Spring Water	1.50	Plastic bottle	400 ml	
Separate Refrigerator		Primo Flavoured Milk • Chocolate, Banana & Strawberry	2.00	Plastic bottle	350 ml	Reduced fat, a big dose of calcium, and zero preservatives. Natural.

Other Options		**$NZ**
	Water (Self help)	Free
Coffee		
	Short black	3.00
	Cappucino • Long black • Flat white	3.50
	Latte • Mochacino • Hot Chocolate	4.00
	Soy Milk	.50
Tea		
	English breakfast • Earl Grey • Lemon and Ginger • Green Peppermint • Chamomile	3.50
Milkshakes		
	Kafien Krazy • Chocoholic • Strawberry Fields • Bananarama • Vanilla Ice • Sublime • Creaming Soda	4.50