The Cost of Clean Label

Challenges and Solutions for Managing a Clean Label Supply Chain

Will Lennon
Chief Operating Officer
March 28, 2018
About Imbibe
# Development Across Categories

## Categories

<table>
<thead>
<tr>
<th>Icon</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Icon" /></td>
<td>Functional Beverages</td>
</tr>
<tr>
<td><img src="image2.png" alt="Icon" /></td>
<td>Protein</td>
</tr>
<tr>
<td><img src="image3.png" alt="Icon" /></td>
<td>Coffee</td>
</tr>
<tr>
<td><img src="image4.png" alt="Icon" /></td>
<td>Tea</td>
</tr>
<tr>
<td><img src="image5.png" alt="Icon" /></td>
<td>Dairy</td>
</tr>
<tr>
<td><img src="image6.png" alt="Icon" /></td>
<td>Non-Dairy / Plant-Based</td>
</tr>
<tr>
<td><img src="image7.png" alt="Icon" /></td>
<td>Energy</td>
</tr>
<tr>
<td><img src="image8.png" alt="Icon" /></td>
<td>Juice</td>
</tr>
<tr>
<td><img src="image9.png" alt="Icon" /></td>
<td>Cocktail Mixers</td>
</tr>
</tbody>
</table>

## Formats

<table>
<thead>
<tr>
<th>Icon</th>
<th>Format</th>
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</thead>
<tbody>
<tr>
<td><img src="image10.png" alt="Icon" /></td>
<td>Pump</td>
</tr>
<tr>
<td><img src="image11.png" alt="Icon" /></td>
<td>Concentrates</td>
</tr>
<tr>
<td><img src="image12.png" alt="Icon" /></td>
<td>Liquid Water Enhancers</td>
</tr>
<tr>
<td><img src="image13.png" alt="Icon" /></td>
<td>Powdered Beverages</td>
</tr>
<tr>
<td><img src="image14.png" alt="Icon" /></td>
<td>RTDs</td>
</tr>
<tr>
<td><img src="image15.png" alt="Icon" /></td>
<td>Frozen Dispensed Beverages</td>
</tr>
</tbody>
</table>

## Channels

<table>
<thead>
<tr>
<th>Icon</th>
<th>Channel</th>
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</thead>
<tbody>
<tr>
<td><img src="image16.png" alt="Icon" /></td>
<td>Convenience Store</td>
</tr>
<tr>
<td><img src="image17.png" alt="Icon" /></td>
<td>QSR / Fast Casual</td>
</tr>
<tr>
<td><img src="image18.png" alt="Icon" /></td>
<td>Health &amp; Sports Nutrition</td>
</tr>
<tr>
<td><img src="image19.png" alt="Icon" /></td>
<td>Institutional</td>
</tr>
<tr>
<td><img src="image20.png" alt="Icon" /></td>
<td>Retail</td>
</tr>
<tr>
<td><img src="image21.png" alt="Icon" /></td>
<td>Private Label</td>
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Agenda

1. CLEAN LABEL: AT WHAT COST?
   a. Raw Ingredients
   b. Capacity
   c. New Suppliers & New Ingredients
   d. Unforeseeable Costs: The Hashtag Effect & California

2. INVESTING IN CLEAN LABEL

3. CONCLUSIONS & TAKEAWAYS
Clean Label: At What Cost?
# Raw Ingredients

<table>
<thead>
<tr>
<th>Ingredient Category</th>
<th>Artificial Ingredients</th>
<th>Clean Label Alternative</th>
<th>Cost Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweeteners</td>
<td>Sucralose, Ace-K</td>
<td>Stevia, Monk fruit</td>
<td>• $18-$85/kg vs $132/kg</td>
</tr>
<tr>
<td>Preservatives</td>
<td>Sodium Benzoate, Potassium Sorbate</td>
<td>Hot fill or aseptic processing and/or packaging</td>
<td>• Higher MOQs&lt;br&gt;• Increased packaging cost&lt;br&gt;• Cold Fill PET - $0.15&lt;br&gt;• Hot Fill PET - $0.20&lt;br&gt;• Aseptic HDPE - $0.25</td>
</tr>
<tr>
<td>Colors</td>
<td>Red 40, Yellow 5, Blue 2</td>
<td>Carotenoids (annatto, beta carotene) Anthocyanins (beet juice, berry extracts) paprika, turmeric, spirulina</td>
<td>• $5.02/gal vs $26.40/gal (beet juice)&lt;br&gt;• Need to use more “natural” color</td>
</tr>
</tbody>
</table>
Raw Ingredients Case Study: Creative Solutions

Helpful Hints:
• Press suppliers to work with you
• Hierarchy of client needs
Capacity

- Un-forecasted demand
- Building new facilities to accommodate demand
Capacity Culprits

- Kellogg's
- Mondelez International
- Caribou Coffee
Capacity Case Study: The Case of the Brown Rice Protein

Helpful Hints:
• Unquantifiable costs related to capacity: reputation, launching a product
New Suppliers & New Ingredients

- Less established
- Not as well-versed in documentation
- Learnings: certifications & undeclared ingredients
Unforeseeable Costs: The Hashtag Effect & California

BUILDING HYPE AWARENESS

#TRENDSETTING

#carrageenan #caramelcolor

#highfructosecornsyrup #cellulosegum #artificial

PROP. 65 WARNING
The State of California contains one or more chemicals known to the State of California to cause cancer, birth defects, or other reproductive harm.
Investing in Clean Label
Organizational Overhead

- Regulatory
- Strategic Sourcing
- R&D
Consumer Testing

- Implications of reformulating
  - shelf studies
  - packaging
- Consumer testing
Conclusion & Takeaways
Recap

THE GOOD

More suppliers offering clean label ingredients
Amenable to cumbersome documentation

THE NOT-AS-GOOD

Challenges remain
- Burden on suppliers
- Obsolete ingredients
- Ingredients from abroad

THE FUTURE

Clean label revolution
(And evolution)
Stay Connected

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