



THE BARCODE PODCAST

Episode 003

How to Find and Work with Co-Packers

Welcome to The Barcode Podcast, where we equip emerging consumer brands. I'm Ben Ponder, and at Barcode, we're here to give our listeners the knowledge and tools you need to thrive in the marketplace.

As we discussed in Episode 1, a fundamental principle here at Barcode is "begin with the end in mind." Though it feels like growing a startup is a messy combination of luck and good karma, if you're looking ahead, there are things you can plan for.

As a consumer product goods company, one of the most important relationships you can have is with your co-packer or contract manufacturer. This firm produces finished or semi-finished goods to your specifications. Because this is something that can make or break your business, we wanted to revisit this live Barcode meeting from a couple of months ago where we go into the ins and outs of using a co-packer in detail.

To accompany this episode, we have a cheat sheet of questions you can use to make sure you're thinking through the details of this co-packer relationship. We go through the sheet in detail in this episode, but wanted you to have the printed version as well. Visit barcodestartup.com to download the cheat sheet.

First, we're going to examine a pretty fundamental question that so many CPG startups overlook - should you even be looking to outsource this?

BEN

The first section here, insourcing versus outsourcing. This is a larger question around your business that is not exclusive to the co-packing question, but it, it relates to how you handle marketing, how you handle finance and a-a number of other things. And again, some framing questions for you to ask yourself is, do you want your primary business to be manufacturing or marketing? And you have to be a little bit self-reflective about what you're good at and what your capability is. It is rare and very difficult and expensive to do both at the same time.

It's not impossible, but it's a very high degree of difficulty. So, you need to understand like, am I really good at this manufacturing thing or am I better on the brand side, and selling and telling the brand story. And then, you know, fundamentally, where are your and your team's strengths. And so there's not a one size fits all answer here, because some of you are awesome at

manufacturing and co-packing and your chemical engineers or mechanical engineer, all this sort of stuff. Like if that's what you're really good at, then you should probably take that pretty seriously. But for a lot of you, that's not what you do. And most of the time, co-packing or contract manufacturing, we'll get to that in a second, is a probably more realistic option for you to scale up. Okay. Scaling up is almost never as easy as you think it's going to be.

So, you're making it in a kitchen or even a commercial kitchen and you're making one pound or even a hundred pounds of something at a time and making a thousand pounds or like on up and up is not the same thing. It's not like, yeah, on some level there's, there's proportions to the, to your recipes and-and things like that. But there's a reason why chefs are often not the people who create CPG brands. Because what works at a very sort of bespoke, individual plated basis doesn't often translate when you're making a massive vat of something, right? Just a little bit different process, different mindset. So just kind of keep that in mind.

So, a co-packer, again, I like to not assume things. So co-packers that's industry jargon slang for contract packer. It sometimes called a co-man or a contract manufacturer. It's really just a firm that produces finished or semi-finished goods up to a brand's specifications. So there's a brand out there, you-you may be that brand and you find somebody else who's going to manufacture your product. Now there's certain circles where a co-packer actually literally just packs things, so that is the version. Now, most of the time in food and beverage, we're talking about somebody who's doing more than just that. So, these are people typically who are making on some fundamental level, the product on your behalf, to your specifications. So there are two basic types of packers, and again, these aren't like industry terms necessarily. This is just my own observations. So feel free to say, oh, he's full of it. He just made this stuff up, 'cause I did.

What I've found is you-you roughly have two types. You have dedicated co-packers and then you have what I'm calling surplus co-packers. And that is, a dedicated co-packer is someone or a firm where their primary business is co-packing. This is what they do. They typically do this for 20 to 30 or more different companies or brands and then surplus co-packing which again is one reason why people often say where all the co-packers? Well, it depends. Co-Packer, the surplus, what I'm calling the surplus co-packer is somebody who makes a product and they're not making it three shifts a day, seven days a week. They have some surplus line time. And so they're looking to make extra money or maybe their product is more seasonal and that sort of thing. And so they're trying to solve their own business problem by bringing on additional work in their already running existing factory.

And so, what you might or might not know is that a lot of co-packers don't hang their shingle out to be a co-packer. That's not what they do. So if you say, I need a co-packer and you only ever look for people who are professional co-packers, you might be missing a big chunk of the industry. And that big chunk of the industry is, you're looking for people who make stuff kind of like what you make, right? And even if they don't have a big billboard that says "for hire" or something like that, if you have a conversation, sometimes you can find that they might be interested in taking on an additional client because they have some surplus capacity.

So, what problem or problems do co-packers solve? And you guys who, who've been part of Barcode for a long time, know that I'm pretty fixated on this set of questions. A lot of times I'll ask you probably ad nauseum like what problem are you solving and for whom? And so, specifically, you don't need a co-packer just 'cause, 'cause everybody else says you need a co-packer. What problem or problems are they solving? So specifically they, they're solving or should solve. And this is important. Favorable cash flow management, lack of in house procurement, manufacturing or distribution expertise, lack of capital for equipment investment, rapid scale up capacity, certifications and compliance, allowing the brand team to run lean and

process or product innovation assistance. And again, I'm not going to dwell on those, but it's really important for you to understand that, if your co-packing relationship is successful, then your co-packer should solve some of these problems for you. If your co-packer is not solving these problems for you, then I would question whether it's a good relationship for you.

Does that make sense? So if, and I see this a lot where people have really terrible favorable cashflow management. So, if your distributors and retailers, let's say you have net 30 terms or net 45 terms or something like that with the, with a distributor or retailer. And your co-packer has COD or net 5 terms, meaning you have to pay them within five days of when they invoice you, it is very, very difficult to grow in that environment because you're always going to be out of money. So ideally, if you have a successful co-packing relationship, that co-packer is going to work with you and it will be aligned. Ideally you want that your accounts receivable and accounts payable, and we've talked about this before, are in alignment.

A question I get a lot - how do I know if I actually need a co-packer? It could be that you don't. There are two specific scenarios where you likely don't need a co-packer.

BEN

If you're making six of a product, you do not need a co-packer. You love to be a hands on maker. Like this is what you do, this is what you love to do and-and then you want to do this for decades, which again, some people do, some people would like genuinely love to make the thing and they- they see themselves running either a large commercial kitchen or a small batch manufacturing facility, that's great. And if that's what you want to do, that's what you love to do, then you should do that. And you probably shouldn't waste your time looking for a co-packer, because you don't have a co-packing problem.

On the other side, when you don't need a co-packer, if you have a proprietary process, uh, innovation that you are very cautious about anyone in the world knowing how to do, it's like co-packers, they're people, they're trying, some of them are very good at keeping secrets and that sort of thing. But the moment you start making your product in an, in a facility where like 20 other brands are also making their facility and they actually have access to that same facility and some things, it's hard to keep everything under lock and key, it can happen. I'm just saying if you think you've created this amazing competitive moat and no one could ever figure out your sort of secret formula for Coca-Cola, don't outsource it.

So next, how to find a co-packer for your product or products. A few tips here. Capability is greater than proximity, but close is nice. So it's cool to have something in Texas because you can visit your co-packer. That's awesome. But if your co-packer in Texas fundamentally doesn't know how to make your product, then make it in Wyoming. You can find some places and it's okay to travel. It's not ideal, but the first thing is, can this firm or these people make my product with great fidelity to what I expect in the standards and specifications that I have for it.

So how do you find, how do you find the co-packer? I mean, fundamentally it's searching and sleuthing. I think this is one of those filtering mechanisms to show how resourceful you are. And you will find some things if you do the Google, but it's not all out there on the Google. And so you're going to have to go to grocery stores and you're going to find people and you're going to start noticing different products or ingredients that show up in other products. And you're just

going to start asking around and you're going to be very persistent and you're going to start connecting the dots. And you're going to say, hold on a second. This is manufactured in Thailand. And so is this similar product it's manufactured in Thailand. And I noticed they both have this really strange ingredient that they only like phrase it in a particular way. And I wonder if I like do some looking into who makes that ingredient and then I can back into it. So you have to be pretty resourceful and scrappy, but you can more often than not figure out. Like again, if you're doing something innovative, there's not that many people who do it, right? So, you have to just kind of ask around, not, you know, not be bashful and, and really be persistent.

Co-packers have booths at Expo West or Fancy Foods or other types of industry events that you're going to, but you can find stuff. And again, you can just keep asking and digging. And sometimes when you talk to ingredient manufacturers or suppliers, they'll, you can be like, hey, do you know anybody who makes, you know, like you're buying whatever your ingredient from, from this distributor. And you say, do you know anybody who also works with this type of thing? And you can often find some of that stuff.

Equipment manufacturers are also a really great source. 'Cause an equipment manufacturer wants to sell more equipment, right? And they sell equipment mainly to co-packers. And so if you're driving business to their co-packers and they sell more equipment, so then if you find who, if there's like two manufacturers that make the kind of equipment that you know you need to make for your specialty weird thing, then you can actually reach out to that sales rep. Sales reps, you know, no offense to all the salespeople, but like they talk and-and so you can like, because, and partly because they're selling, they're, they're kind of bragging a little bit too. And they're like, "Yeah, we work with all the biggest ones, you know, like a-and that sort of thing." You're like, cool, which ones? And, um, and so you can actually learn a lot just by talking to different equipment manufacturers as well.

You've done some digging and found a co-packer that fits your product and company. Now, you've got to get everything in writing.

BEN Okay. Co-packing agreements. This is one that we could spend like literally hours on. We're not going to, don't worry. But a couple of just tips. So first thing is, use an experienced attorney. That means like, don't use your cousin Vinny who does divorce law. That's not what this is for. And in general when you're dealing with these kinds of issues, you want somebody who has some experience and expertise in the area because even if they're more expensive, if it takes your cousin Vinny two weeks, 'cause he's like Googling how to figure out how to do all this stuff, like it's actually better for you to uh, to pay somebody a higher hourly rate because they've done 17,000 times. Okay?

So, getting an experienced attorney to at least review your-your co-packing agreement and not just taking whatever a co-packer hands you, is pretty like table stakes, level advice. Language and terms matter a ton. I am pretty passionate about these sorts of things. Like I like to structure co-packing agreements so that there is an immutable core to the agreement, that like we all agree on. And then you have a lot of exhibits and things like that. So pricing I don't like to have in, in this sort of meat of the agreement I like is pricing can change over time and other things like that. So, there's strategies around this, but know that if any of you've ever like been in this world,

if you've ever been sued, if you've ever had anything kind of crazy happen in business or otherwise, like there's English, and we all speak English, and then there's legalese English.

And so, words that you assume you know in a legal contract do not necessarily mean what you think them to mean. Right? So, they like they have very specific legal meanings. And so if you just assume, oh yeah, they use this term like whatever, no big deal. That could actually be signing you up for something you didn't mean to sign up for. So, so that's why, again, back to the attorney thing. So just make sure you're paying attention and actually read it. This is not your Apple terms and conditions, like you actually read this one (laughing). Expect six months plus for negotiation, signing, onboarding, et cetera. This is not going to happen overnight. When you're so excited because you got into Whole Foods, or you got into HEB or you got into whatever the thing is and you're like, and they want your product on shelves in three months and you're like, okay, cool. And then you're just now starting to think about how you actually make enough to fulfill that order. This takes time to find and to negotiate because again, most of us are pretty small, right? So you're not coming in and you're like, "Hi, I am Trader Joe's." And they're like, yes, yes sir. Yes ma'am. How-how can I work with you? You're, you're actually having to sell them on you and what you're doing and that what you're doing is going to be a really big deal. And that takes a little bit of time. And even if you have the best relationship, negotiating these agreements, there's a lot of back and forth and people are busy. So don't think that you're going to like crank this out in two weeks. It's going to take time. So you want to start working on it before you really need it. But you can see on the horizon that you're going to need it.

Important considerations. Again, very high level stuff here. Things you want to like, think about and look out for minimums. Every co-packer is going to have a minimum. You cannot go in. If you make a, you know, hoagie roll, uh, you, you can't say, I'd like to order a dozen, right? It because they, it costs them thousands of dollars to shut down their equipment, clean it. They have a crew and all the things that go into that and they're going to fire up the electricity and the boilers and all the other things and they, and they're going to say, you're going to pay me a lot of thousands of dollars typically to-to turn on this equipment, even to test your product, especially when you're running it.

You want to learn, what are the minimums? Because it might be if you're making like, you know, two dozen of your thing, uh, and then their minimum is like \$20,000. You need to really rethink your strategy a little bit, right? So like, just know that everybody has minimums and you're going to ask what those minimums are and you might even negotiate those minimums.

So pricing again, uh, there's so much, but this is going to seem super obvious, but like you can't sell your product for less than you make it for and even more. Like, you have to have like a healthy margin, and you're going to sell it to UNEFI or KE or whoever you're, there's a distributor, they want their margin, the retailer, they want their margin. So if you think, oh, like I just plucked a number out of the sky and I'm going to sell my product for \$4 a-a unit, and then your co-packer says, "Ah, yeah, here's your price. It's \$3.50 a unit."

Like, no, it can't be, it's not going to work. You're going to be out of business before you're ever in business. So you have to understand how your pricing works and it has to make sense for where you're trying to get to at the retail shelf. Payment terms, again, we, I touched on that. I want more lead times again, like how long? Like if they say you have to give us six month's notice before you have an order and you're like, well my distributor doesn't give me six month's notice. So, I kind of need those to line up. So all of these terms.

Storage, will they store your product? Will they store ingredients? Will they store, uh, anything else that you need and are, are there charges related to that? And what's their capacity? And- and are they going to get mad and throw things, all of that. Like you need to know that upfront.

Inventory management, do they have a system? So the dirty old secret about co-packers is a lot of folks never intended in life to become a co-packer. They, right? So it's, it's kind of like, like uncle Jimmy, uh, who's probably related to cousin Vinny, uh, and that sort of thing. And Uncle Jimmy just sort of like got grand-dad's factory and, and he's been doing it for a while and he's not the most sophisticated operator ever. Some of them are, but a lot of them aren't. And so things along the lines like, oh, how do you keep track of inventory? And they're like, "Oh, we look at the shelves" (laughing). Right? So, so there's um, like how are they keeping track of your inventory and their inventory to make sure that you have enough? Just want to ask questions about that.

And capacity, like how-how much can they make? Because if it turns out you're really excited about getting into your co-packer, you spend two years working on this project and then it turns out that they can only make enough and they only have enough capacity for you to service one region of Whole Foods and like seven regions of Whole Foods actually want your product, then you kind of have a problem, right? So you need to have these discussions like how much can you make? How much are you adding on? Or is there, is there more capacity coming online, et cetera. References, ask for references, just like you're hiring somebody. Say, is this person good to work with? Are they honest? Are they fair? Et cetera.

Equipment. Do they have existing or modified equipment? Because every time they have to buy new equipment, guess who's paying for it? They're not paying for it. You're paying for it. They'll charge you to like plug something in. You know, it's like, it's like going to a trade show and you're like, oh, it's \$500 for to plug this in. What in the world? Like so like you want to ask, oh, what's that charge for? I didn't know that, that, that, that there was a-a whisk fee (laughing) or whatever the thing is.

So finished goods versus tolling. This is kind of the basic like high, high level, like how you pay for this stuff. Are you paying for a finished unit of the thing, like in the package? Or are they saying, yeah, you're going to provide this, that and whatever and we're just going to charge you sort of a few cents to run it through our equipment. Both can be fine, both can be uh, kind of risky. It all depends, but you want to know what's their model and what, what model works for you.

And there sometimes can be cashflow implications for how that structured additional fees and expenses, just ask. Do they have a recall history? And again, there'll be like, ah, well anyway, did you see, uh, see the game last night? What, what sort of, uh, product recalls, uh, FDA, have you uh, done any voluntary withdrawals for other brands? How did you handle that? What are your, uh, what are your procedures that you have in place for handling that? Do you have a crisis management plan and a product recall plan? Is that something that you could share with us? You're like, and is it in English? Or you know, like when's the last time your people looked at it, et cetera? Like just asking this questions keeps a lot of people pretty honest.

Quality and safety programs and lab testing - are-are they actually testing the products that are coming out for, again, like a lot of you are working with oils or other things like that. Are they checking for, uh, you know, kind of volatile compounds and, and oxidation and, and all these different things that, that could make your product go bad pretty soon. And are they, you know, you-you plan on sending something to the West Coast? Sending something, what they call over the mountain, right? You've got to test it under pressure to make sure the bag doesn't pop in the rocky mountains, right? Because any of you have ever had a bag of chips. And in Denver it's a little more full than it is here in Texas. Right? The things expand at, at altitude. And so, what you

don't want to have happen is the seal on your bag, like bursts and you have a whole like pallet or even a truckload or whatever. The thing is that goes bad because you never tested it and you never asked it and your co-packer doesn't have the resources to test these things. So you're just trying to anticipate all the stuff and ask them, keep them holding them accountable on that.

Protection of proprietary information. Like what are their procedures and safeguards. If you walk in, here's a quick trick. If you can figure out who they're manufacturing for by walking into their facility, somebody else can figure out that they're manufacturing for you. If you can see all the ingredients for somebody else, just out on a bunch of shelves in, you know, like in that, in that facility, they're probably going to do the same thing for you. So just know that if one of your bigger competitors were to walk in and they'd be like, oh, I didn't realize they got there, whatever Lima beans from that farm, 'cause it's all going to be there. So, what are their procedures to make sure that your proprietary or confidential information is actually kept that way. And then gotchas and bait & switch, you can get this from references and other things, but like, like you're-you're just making sure that everything in your agreement and your relationship is free of anything that we don't like surprises in this business. Right? So no surprises. Like is there anything else I need to know? Okay, so moving ahead.

Certifications, licenses and insurance. This is also one reason why you might use a co-packer and that is you're not like you, you need to be SQF certified for instance, in order to work with somebody and you like your commercial kitchen is not SQF certified and you don't even know what SQF stands for. Safe Quality Food. But the, uh, so, so like you're going to actually look for a co-packer who is SQF certified.

And so you want to get into a retailer. These are, these are questions you ask them. Some retailers, uh, will not allow products to be sold in their stores if they are made at a facility that is not SQF or BRC certified. And you see those acronyms in there. Those are roughly comparable food safety programs. So if your facility, you're very excited about this co-packer, but you're trying to get into Costco and Costco says you've got to be this and then your co-packer is not that. Then can you make the thing there and selling Costco? No. Then you need to evaluate your options, right? So, just every retailer, some distributors have their, have different things that they're looking for.

Um, again, you can ask for, hey, uh, hey co-packer what, what's your insurance look like? Do you, uh, do you have a general liability? Yeah. How much? Um, can, uh, like how does that, how does that transfer in our co-packing agreement to us? Does it protect us? Uh, and that sort of thing. Are you going to be, if somebody sues us, can we waterfall that down to you? Because you're the one who actually made the thing that went bad and made people sick, right? Like, so you want to actually have those conversations in this, this can be kind of uncomfortable conversations, but if something goes bad again, your blueberry ice cream and-and you're, is co-packing like, you don't want to be the one left holding the bag 'cause you were the nice guy in the negotiation. Right?

Do they have product recon contamination, insurance workers compensation? Like if somebody chops off a hand in the thing, are they going to get like shut down and do they have a quality safety plans? All of that stuff, right? Again, so here's the fun thing. If you go in, even if you don't know this stuff and you just have like this, you know, cheat sheet like list and you just start asking them, they're going to be like, this person is not a rookie. Like I, they, they're sort of assuming that they can snow you, probably most of the time, 'cause they were like I call you're a little cute brand or that sort of thing. But if you walk in and start asking them a bunch of questions like this, they'll be like, "Oh man, okay." We've got to, I actually have to really work on this one. And so that's a good thing for you. You want them to work on your behalf. Okay.

So last little things here. Relationship Management. Fundamentally you get an agreement, you get all the testing, they can make your product. Things are good, products going out the door, rah, rah, you have a relationship. This is probably, if not the most important relationship in your business, it's one of the most important relationships in your business, because certain things, certain partners can go away and certain partners can't go away. If they go away, your business is out of business, right? So if you're in-in most early stage brands and you want to over time get to the point where you're diversifying and you have a variety of different co-packing facilities and relationships, but are you aligned in, in your expectations and in your values? Are you, are, are they accessible? Can you talk to them? Can you get to them when you need to get to them? If they think they're too important for you, uh, especially in the sales process, that's not a good indication that they're going to actually be the next thing responsive to you. So, when you call, like can you text them? Can you text the owner? Right? Are they too, are they too much of a big shot? 'Cause if they're too much of a big shot, then you know where you stand. And again, you're going to be small and it's going to be a challenge. And maybe all this doesn't happen for you on day one. But, uh, over time you want to, you want to have a-a direct relationship with the key decision makers there, because you're about to be a big deal and, and you're going to amount to a significant portion of their business. And we're, we're going to, I'm not going to talk to your assistant's assistant, right?

So, that's how you're getting the relationship off on the right foot. Are they collaborative? Are they committed? And and are is everybody learning and improving together? So just like any relationship, it requires a lot of management and it requires management at different stages and as you continue to grow and do all the things that you hope to do.

Okay. So that's, that's my, uh, not quite auctioneer level, uh, uh, busting through that list. Uh, let's, let's take time for, uh, maybe two or three questions.

The questions were a bit tricky to hear, so I'll repeat them here. First question - How do you figure out what size of co-packer to work with when it comes to minimums?

BEN

Totally varies depending on the, uh, the size of the co-packer, the type of product. So again, co-packers there isn't one co-packer, right? So they're, there are co-packers who are, you know, in 2000 square foot kitchens, right? That, so any firm that is manufacturing product for another brand is a co-packer. Then there are firms that are 500,000 square foot facilities. You know, maybe they have 25 lines that are sub maybe all making the same thing or they're making different things and that sort of thing. So it's very, it varies case by case. And it also varies, uh, depending on the complexity of the product. If you're, you know, if you're typically beverages might be a little bit higher, uh, because think about like a-a giant bottling facility and you've got like glass and all the things that are happening there.

Like and if you're working with a bigger facility, they're not going to do these like short runs unless you're working with a very small, uh, regional co-packer, which is not a bad thing. And you don't have to only ever work with one co-packer either. You're even like you're going to graduate at various points along the way as your business' more successful, you're going to max out any

co-packer that you work with. Uh, that's, that's an awesome problem. And even if you don't max them out, you, you're going to want that, that duplication and diversification of your business so that if-if their co-packing facility burns to the ground, you're not out of business.

So, it's nice to have two co-packing facilities that are in different parts of the country that like, they aren't both in like Southern California. So, if there's an earthquake they're-they're both wiped out like are. And then also as your business grows, you, your transportation costs are really big deal. So you don't want to always be shipping from Southern California to the Northeast or uh, vice versa. And, but when you're little, you have to, it's okay, you're going to pay way too much for shipping and freight and all that stuff. Just part of the deal over time, when your business grows, your volumes increase, you're going to have a lot more opportunity.

And so, there's-there's not a single size fits all. But you can also ask them. Um, and a lot of times I'll ask a co-packer. So how long, how many shifts do you run? So in a week, uh, and they'll say, you know, we're one shift a day, five days a week. That's usually, that's fine and quaint. And usually that means they're not like maximum capacity. This is not like a graveyard shift type operation. And then you go, okay, so, uh, for a product like mine, how, how many units or cases or whatever the quantity uh, that they use or pounds, how much can you make in one shift, approximately? And then you'll know. And so, probably, their minimum, most of the time, it's going to be roughly a shift. Because as soon as they stopped doing your thing, they have to, especially if it's like allergen specific, or there's anything else, they're, they're sanitizing, they're scrubbing everything down.

So they're starting over and they've just, if they have an eight hour shift and your thing only took two hours, they wasted six hours. Right? So, so, so think from their perspective about like, it's-it's pretty logical, you'll be able to figure out pretty quickly and then you may say, well, do you have, just ask them, do you have minimum, uh, either minimum volume or a minimum charge for a shift? Because sometimes again, 'cause this is like uncle Jimmy, he might be like, yeah, \$5,000. And-and you do the math and you're like, I'll pay that. Because like otherwise you say, well, I guess I got to need to make eight hours' worth of my product and you do the math and you're like, that's actually \$20,000 worth of product that I don't have a customer for, so I'll pay \$5,000. Yeah. You know, or like, so you just kind of do the math and say what, what makes more sense for us.

Next question - how open do you think co-packers are to modifying their processes for your product? If you have to put in your own special equipment or special steps that are a little bit different from theirs - are they open to that?

BEN Depends on how hungry they are. Uh, so, so thing a-again, co-packer is running his or her own own business and sometimes they've been in business for a long time. Sometimes they're relatively new businesses. Sometimes they had a really big customer who left them for some reason, and so they, they're kind of scrambling or they're a little bit more desperate. The person who's hungry or desperate, much more open. The person who's like has, has a waiting list, not so open. And what you'll find is even when you're small, you, you need to be prepared for this one reason that people sometimes raise money, which is a little bit counterintuitive. Um, sometimes you have to raise some equity capital - part of the equity capital that you're raising at an early stage. It's actually to pay for equipment, because not everybody has the assets to collateralize and backup, like equipment, like this kind of equipment is expensive, right?

So you're like, ah, I see this little tabletop thing that's cute and you're like, it's \$80,000 (laughing) you're like, whoa? (laughing). Uh, and so like, and then you see the big thing and you're like, oh, that's a million and a half dollars. So it's pretty expensive stuff. If your equipment, uh, is very specific and nobody else uses your equipment, you might find that you have to buy your own equipment or find a way to get some, and more often than not, you're going to get used equipment. Sadly, used equipment still very expensive. It's kind of like pickup trucks in Texas. It just doesn't depreciate. Um, so you're like, oh, the 1984 truck and you're like, it's \$35,000. Uh, so it's the same thing. It just, it just holds its value quite well.

If you make a product and it's made with very conventional ingredients that that same co-packer buys all the time, of course they'll, they'll do that. If you make a product that's made with weird ingredients or exotic ingredients, truthfully that applies to most of your stuff and probably should because that's part of the innovative stuff that you guys are doing. And part of your competitive moat is that you're not making a, you know, you're not making crackers out of the exact same ingredient deck that Nabisco is. Right? It's like that's kind of the deal. And so you're, you're, you have to look for these more exotic obscure suppliers and sometimes you're gonna have to come alongside your co-packer 'cause they don't even know.

And at the end of the day, what we want here at Barcode is for all of you to win. To create great products that change people's lives. To be wise and take advantage of what the people who have gone before you have learned, and to achieve a successful exit that gives you the freedom to solve new problems and to positively impact even more people's lives.