

Inko's goes organic for its bottled teas

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Natural is no longer good enough for Inko's, a brand of premium bottled iced tea.

The brand, launched in 2002, switched to organic ingredients earlier this year to help it stand out in a crowded field of ready-to-drink bottled teas. With consumers looking for healthier, lower-calorie alternatives to sweetened soft drinks, ready-to-drink teas are among the fastest-growing beverages in the United States.

Switching to an organic formula meant higher costs because organic ingredients are generally more expensive than their conventional counterparts. But it also meant that Inko's, already a premium product because it uses a rare, silver-needle white tea rather than black tea or green tea, could charge more, even as a bit of a pricing plunge goes on in the industry.

"It's a significant cost increase to do it. You have no choice but to charge more," Chief Marketing Officer Andy Horrow said of the switch to organic ingredients. "We can't have a viable business selling bottles of tea at \$1.19."

Wholesome Tea, the Willowbrook-based company that markets Inko's, is led by CEO Kevin Kotecki, whose resume includes more than five years as CEO of Pabst Brewing. Horrow's prior roles, meanwhile, included serving as chief marketing officer of Mike's Hard Lemonade and Tropicana.

To help them with the complex ingredient changes and the organic certification process, Wholesome Tea officials reached out to Sandy Mays, a partner at organic advisory firm Wolf, DiMatteo + Associates.

Mays, who leads the firm's certification and compliance practice, said organic tea and sugars are readily available for companies looking to switch, while flavors can be a little more difficult to get. Inko's flavors include white peach, strawberry and honey lemon.

"Special ingredients are costly in the organic form because in the past there hasn't been much call for them," Mays said. She added that while costs are falling, organic flavors and colors still cost more than their conventional counterparts.

With the organic switch, Inko's has raised prices to \$1.99 to \$2.09 per bottle, up from \$1.69 to \$1.89.

Inko's has not yet sought out fair-trade certification, another seal that pops up on bottles of competing drinks like Honest Tea, to show that fair wages were paid to the farmers and others that supply ingredients.

"I can't figure out yet what the value proposition is" for fair trade, Horrow said. "It's a nice-to-have, not need-to-have."

But organic, in his mind, is a need. For years, Inko's was marketed using the phrase "100% natural." But unlike organic, the term natural is not regulated by the U.S. government.

That ambiguity has led to numerous lawsuits brought against food and beverage makers over the use of the word natural. Inko's and Wholesome Tea also were sued last month by plaintiffs alleging deceptive marketing because the brand's products contain ascorbic acid, also known as vitamin C.

Kotecki, who along with a small team of investors bought Inko's last year, said they plan to defend their products in court. Their organic formulas still contain ascorbic acid.

"This suit relates to labeling that was in market for a long time prior to our purchase of the Inko's brand," Kotecki said. "Earlier this year, we transitioned to our new organic formulations and changed the labels accordingly."

Horrow said he believes using organic ingredients will help Inko's appeal to "label turners," those consumers who are picky and take the time to turn the bottles and read up on the ingredients in the products they buy.

At the same time, many consumers are looking for flavored drinks with less calories and sugar than traditional soft drinks, and they don't want artificial ingredients. They also like the health benefits of tea, such as antioxidants, while functional drinks like coconut water are also hot sellers.

Howard Telford, senior beverage analyst at Euromonitor International, said "higher-priced brands are actually performing the best" in the ready-to-drink tea market, including brands like Honest Tea. The group of smaller, higher-end brands, which are part of the firm's "others" category, "is growing almost three times as fast as the category as a whole," Telford said.

U.S. sales of ready-to-drink tea climbed to nearly \$5.32 billion in 2014, according to Euromonitor International. That's up from \$2.18 billion a decade earlier. Unilever dominates the category with the Lipton and Brisk brands, and AriZona continues to hold on to nearly a quarter of the market with products like 99-cent cans.

Wholesome Tea, which also acquired the Blue Buddha herbal tea brand, is up against tough competition, including established brands with deeper pockets.

Honest Tea was founded by Seth Goldman and Barry Nalebuff in 1998. It brought out its first organic tea in 1999, and by 2004 all of its teas were organic. Coca-Cola bought 40 percent of Honest Tea in 2008 and acquired the rest of the company in 2011.

Goldman, who continues to run the business, said he knows that rivals are also growing, but he is not fixated on the competition. Although there are now more teas that are lower calorie, that are organic or that are fair trade, he said there is not consistent competition that offers all of the same attributes as Honest Tea.

"If anything, we're in a growing category and we've continued to grow," Goldman said from his company's Bethesda, Md., headquarters.

Honest Tea's sales in 2014 topped \$130 million. Inko's, meanwhile, sold about \$2.5 million in 2014 before the organic switch. Sales are up 40 percent, Horrow said. For 2016, which will be its first full year of organic products, he anticipates sales of about \$5 million.

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