



## **SACRED SERVE: THE PLANT-BASED GELATO BUSINESS IS HEATING UP**

Less than eighteen months into the company's relaunch, Kailey Donewald and her team in metro Chicago are enjoying a pivotal year in their nascent company's history. Despite the growing global supply chain crisis and a virtual ban on in-store product demonstrations/sampling due to the pandemic, they are on track to hit nearly half a million dollars in sales in 2021, forecasting sales of \$1.2 million in 2022 and \$3 million in 2023 with their plant-based gelato business. Having accepted \$750,000 in seed funding earlier this year, Sacred Serve is positioned well for future growth. The question is which growth channels and investments she and her team should prioritize.

### **BACKGROUND**

Donewald graduated from the Kelley School of Business with a degree in finance in 2009. A few years into her career with a global consulting firm, Donewald took a 1-month sabbatical to Bali, Indonesia, in 2013. While on this trip, she undertook a plant-based cleanse where she eliminated all animal products and animal by-products from her diet. Having endured chronic allergies and asthma since childhood, this 2-week cleanse left Donewald feeling as though she was "breathing for the first time" and had completely eliminated the symptoms of both conditions. Knowing that a large percentage of Americans share in her struggles with allergies and asthma, the demand for healthier solutions was evident and she began toying with the idea of pursuing opportunities in this space.

The experience in Bali set her on a path to better understand the relationship between food and health, first returning to school to become a health coach. Though she had a very purposeful impact with her clients in the years following this training, she quickly realized that it would be challenging to scale a service-based business such as holistic health coaching, so Donewald began experimenting with recipes. Ice cream and gelato was at the top of her list of potential plant-based food products.

### **PRODUCT DEVELOPMENT**

Spending time in India and Southeast Asia exposed Donewald to numerous ingredients that are less known in her native United States. From the very first time she experimented with her Cuisinart countertop ice cream maker, coconut flesh (or coconut "meat") – first discovered while living in Bali, was a central component to the dairy-free gelato. Not only does coconut provide an ideal texture for making a frozen treat, it also contains 17 of 20 amino acids and several key minerals, such as manganese and copper. Another "hero ingredient" according to Donewald is tiger nut flour, which is actually a root vegetable or tuber rather than a nut. The tiger nut flour has a lengthy list of health benefits as well, with antioxidants and fiber being at the

top of that list. Many people are familiar with this ingredient because of the popular Spanish drink horchata. These ingredients and others used for specific flavors, such as matcha and saffron, follow her ethos of “food as medicine.”

In 2016, still experimenting in her kitchen, Donewald began moving forward with the intention of launching a plant-based gelato company. Like many food startups, she soon vacated her personal kitchen for rented space within a larger community kitchen for production when she officially launched the business in 2017. She then moved production operations to a shared space with a kombucha tea company before ultimately moving into their own dedicated manufacturing space. This manufacturing space is located in metro Chicago and is currently operating at 80% of total capacity with their current menu of five flavors: Chaga Chocolate, Matcha Mint Chip, Tigernut Cookies N Crème, Coconut Salted Caramel, and Saffron Chai Spice. Given the growth trajectory of the company, current plans are to partner with a nearby co-manufacturer before eventually expanding operations to the east and west coasts for a more robust supply network.

Another key aspect of the Sacred Serve strategic positioning is their innovative and sustainable packaging. Through their packaging partner, Midland Paper Company, they have been the first in the frozen desserts space to use DeliPac’s natural barrier packaging, which is plastic-free, compostable, recyclable and biodegradable. Sacred Serve expects and welcomes the adoption of this packaging technology by their competitors, such as Ben & Jerry’s, in the near future. DeliPac is located in the UK and meets the European Union single-use plastics regulation, positioning Sacred Serve well ahead of US packaging regulations.

## INDUSTRY LANDSCAPE

Ice Cream and Frozen Desserts (NAICS 31152) is a well-established industry with a number of traditional legacy brands, such as Breyer’s, Häagen-Dazs, Blue Bell, and Ben & Jerry’s. Many of these well-known brands have launched non-dairy versions of their product in recent years and have been joined in the industry by Halo Top and SO Delicious, both of which have achieved wide national distribution in the US. In addition, there are several emerging brands in Snow Monkey, NadaMoo, Cado and others. On the east coast, Sun Scoop is a comparable player to Sacred Serve. And, on the west coast, Frankie & Jo’s stands out.

The US ice cream industry will hit \$8.7 billion in 2021 (IBIS World), a 3.5% increase over the previous year. This is an improvement as the industry had been flat to a slight decline for each of the previous 4 years. According to Euromonitor Passport, the non-dairy ice cream subsegment that Sacred Serve competes within was \$641 million in 2019. The entire non-dairy space is now more than \$20 billion, driven in large part by so-called Flexitarians. Flexitarians are people who choose dairy alternatives for a variety of reasons, notably “concerning indigestion and allergies/intolerances, and changes in consumer beliefs around sustainability and animal welfare” (Euromonitor *Post-Dairy Era: The Unstoppable Rise of Plant-Based Alternatives*, March 2020). It is important to note that nearly half of non-dairy alternatives are consumed by people who do not adhere to a strict vegan diet, hence the descriptor speaking to their flexible diet. The National Digestive Diseases Information Clearinghouse and Cornell University

estimate that as many as 50 million Americans are intolerant or allergic to cow milk dairy products.

While Asia continues to make up the largest percentage of the entire non-dairy space, the highest growth rates are being observed in North America and Western European consumer markets. For milk alternatives such as soy, almond, and cashew milk, the US is the largest market following China.

Whereas soy alternatives to dairy had dominated for many years, non-soy alternatives are driving tremendous growth more recently. The UK (28.6% CAGR), France (24.6% CAGR), and Germany (14.4% CAGR) saw particularly strong growth for the 5-year period ending in 2019 for non-soy alternatives. Several outlets report that price premiums (relative to traditional dairy items) are a major hindrance to growth in many geographic markets.

## **RETAIL PARTNERS**

With only 5-10% of sales occurring direct-to-consumer through their website, retail distribution is a critical aspect of Sacred Serve's operations. After temporarily pulling back from distribution in 2017 to rebrand and relaunch, Donewald was able to launch in 20 Whole Foods locations beginning in May 2019. This test went well, and the store count has been steadily increasing with 70 Whole Foods stores carrying product today. In addition, Sacred Serve is on the shelves of numerous regional retail chains. Notably, Sacred Serve recently launched in all 46 Mariano's locations in Illinois. Mariano's is a well-known upper Midwest chain that was acquired by Kroger Co. in 2015. The remainder of Sacred Serve's nearly 300-store retail presence is made up largely of independent health-focused stores and coops. Illinois and California represent nearly 60% of Sacred Serve's current distribution store count with 36% and 23% of store count, respectively. At this point in time, Sacred Serve is only sold in the US.

Donewald has stated that Sprouts Farmers Market, a Phoenix-based chain of more than 340 locations, is at the top of her wish list of future distribution partners. The company is well-known in the organic food space and shares many values with Sacred Serve. Sprouts' Healthy Communities Foundation has awarded more than \$10 million for local initiatives focused on health and wellness since launching in 2015. In addition, Sprouts has been recognized for their efforts in sustainability and making investments to achieve "zero waste". The US Environmental Protection Agency (EPA) has recognized Sprouts as part of its GreenChill program, a program focused on reducing refrigerant emissions in the cold chain.

## **TODAY SHOW**

Recognizing that the company was performing well and gaining traction, Donewald chose to hire an outside public relations firm to increase visibility for the brand, packaging innovation, and the product category overall. This paid off quickly as they caught the attention of the Today Show, a leading US morning show with 3.2 million average viewers. Donewald was interviewed by Today's Dylan Dreyer in July 2021. The nearly five-minute spot touched on the

origin of the company and Donewald's purpose-driven passion for health. The results were immediate with \$25,000 in sales coming from 260 new individual customers and 1400 new email subscribers on their website. In store, a 3.5 times increase in units sold was enjoyed at Whole Foods with an extended lift. This experience reinforced that sustainability is a big driver for media hits, though the correlation to customer purchase decisions long-term is less clear.

In addition to the external PR firm mentioned above, Sacred Serve utilizes an outside firm for their social media accounts and other marketing needs. Instagram is Sacred Serve's most important platform with 6,448 followers, while their Facebook (1.1k likes) and Twitter (21 followers) accounts are updated less frequently. Donewald herself, as founder and CEO, is active on LinkedIn where she has nearly 2k followers and engages on topics relevant to her industry, particularly in the sustainability space.

## **2021 AND BEYOND**

Like many companies, the pandemic and the related supply chain bottlenecks are impacting Sacred Serve in a multitude of ways. They are experiencing an additional 60 to 90 days to ingredient lead times due to port delays and labor shortages in transportation. And, due to record high inflation and other economic factors, they are seeing increases to raw materials prices as well. Given these obstacles, Sacred Serve is still performing well and hitting performance targets for their investors. They are expected to reach more than \$400,000 in sales for 2021, a more than 300% increase over 2020. Sales projections for 2022 and 2023 are \$1.2 million and \$3 million, respectively.

Donewald is now the CEO of a VC-funded firm that employs 7 people and relies on partnerships with several key partners in supply chain, retail distribution, and marketing. Her initial investment of \$60,000 has been supplemented by \$60,000 from friends and family and the \$750,000 seed funding (which equated to a 25% equity stake) received earlier this year. Her team is committed to growth and open to strategic recommendations that can accelerate their current plans whether that be through new geographic regions, new products, new customer segments, or strategic marketing initiatives. While many ideas have been discussed internally, such as expansion into new non-gelato frozen food categories or international distribution through exporters, a choice has not been made. Knowing that their team is open to any growth strategies, how should Sacred Serve grow their business?