

Business Lessons from a Former Chipotle Exec

Tim Spong, CEO of NectarTek, was with Chipotle from the beginning. Now he's bringing that experience to the cannabis space.

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Our special guest on this week's podcast is Tim Spong, CEO of NectarTek, a hemp extractor that produces CBD isolate and distillate. Prior to getting into hemp, Tim worked at Chipotle Mexican Grill for 25 years, most recently as Executive Director of Supply Chain and Operations Services, a job which included managing that company's food safety crisis in 2015. Tim talks about why he left Chipotle to run a cannabis startup and the strategies he's brought to his new business.

Jon: If you could just give me the pitch of what NectarTek does.

Tim: Let's see. I'll give you our core values first: safety, quality, and reliability, in that order. Our mission is to bring the highest quality CBD products to the market at accessible prices. What we do is at present we have three facilities comprising about 33,000 square feet, and we are a hemp extractor.

We take what's called in the industry a biomass and we process that and we turn it into the highest quality CBD isolate and the highest quality – we have a new product now, which is our water soluble isolate, and then we have regular isolate. Then we sell that to other folks, product people, who then make products that they sell to consumers. So at present we're

business-to-business.

Jon: Right, so you don't have your own brand under NectarTek as far as your own CBD product.

Tim: Well, other than what we sell to industry, it's consumer product, yes.

Jon: And this is hemp primarily, or it's just cannabis and hemp?

Tim: It's all federally legal and compliant hemp by operation of the 2018 farm bill and its predecessor, the 2014 farm bill.

Jon: This is not your background; you did not start in the hemp business. You transitioned to this. I'm curious if you could tell me a little bit about what you were doing before. Did you create NectarTek? Is it your brainchild?

Tim: Darren Badger is the president, and he and I together created it and got it funded. We started it in October of 2018.

Jon: Before that, what were you doing?

Tim: I had worked at Chipotle Mexican Grill since 2006. But before then I was outside counsel for Chipotle from '92 through '98, and then an investor from '98 to '06.

Jon: Wow, so you've been there really from the beginning.

Tim: I'm an attorney by trade.

Jon: But you've been with Chipotle really, really early on.

Tim: Yeah, before it started.

Jon: Before it started, even. That's amazing. What were you doing at Chipotle during your tenure there when you were on staff?

Tim: I had a variety of executive positions there. The last position I held was Executive Director of Operations Services, which had training, customer service, incident response, new menu items, innovation in the restaurants, facilities department rolling up to me, and then I was also, at the same time, Executive Director of Supply Chain. So I had the global supply chain rolling up to me. I did that from December of '15 through May of '18, the supply chain role.

That was the global supply chain and food safety, buying essentially all the food for the restaurants system-wide.

Jon: I have to ask – and if this is a topic you don't want to talk about – you mentioned food safety, and we know that Chipotle was in the news a few years ago, an incident where a lot of people got sick.

Tim: I took over the supply chain in the middle of that crisis. If you look at the timeline, December of 2015 was the middle of the crisis. I took over the supply chain role in the middle of that, and yes, I was very much involved in putting together the food safety systems, along with Dr. James Marsden, that today Chipotle uses. It makes Chipotle food very, very safe.

Jon: You mentioned safety as your number one core value at NectarTek, so this is obviously a very important issue to you. Before we get there, though, I want to find out why you transitioned from Chipotle, which is a mainstream brand, to the hemp business, which is a new – well, relatively new legal industry. Tell me a little bit about your decision-making behind that decision.

Tim: I practiced law for 14 years as an attorney and then I thought, well, I'll join this burrito operation. I did that for 12 years. I was in a place where I was in a financial position to take a flyer on something, and I had a hankering to run something.

I did a lot of due diligence in the hemp space in 2018, and I came to understand that here was an industry that was in its infancy, sort of like Chipotle was unique back in '92, the idea of quick-serve. Chipotle actually invented the category. I got to see it firsthand going from just an idea to one restaurant to 2,500 restaurants. So I knew it was possible for real, regular people to build a big brand.

I looked into the hemp business and understood that the federal legislation was very likely to pass – which it did in December, thankfully. [laughs] But it looked as though that was set up to pass and build on the 2014 farm bill. The people that I spoke with inside and outside of the industry thought – and these were people whose judgment I trusted – that hemp had potential to be in many, many, many products and be used across many industries, everything from pet food to animal feed to topicals to food products, once the regulatory framework all shook out.

The time to get into an industry is when it is at a point of uncertainty, and then you have the first mover advantage. So it was the right time for me professionally, and hemp seemed to be an industry that had just absolutely explosive potential to grow. I look at it as an industry that for the next decade is going to have a lot of growth, and that's how I looked at it a year ago, and that's why I jumped into it.

Jon: Can you tell me some of the similarities you see between the early days of Chipotle and what you're doing now at NectarTek?

Tim: I guess one of the things that Steve Ells – he was the founder of Chipotle, and he's still Executive Chairman – one of the things he did was he always valued his relationships with farmers. He would visit the farms, he would get to know them, and he built relationships with them, many of which have lasted 20+ years. That was always foundational at Chipotle, that tie to the farmers.

There's farmers behind the hemp biomass that supply us, and they're real people, and what they do is not easy. They're subject to many hazards with the weather and that they get the right plant genetics. On the backend, they need a consumer of their hemp biomass that's reliable, that's trustworthy, and that's going to treat them decently.

So I wanted NectarTek to really replicate that supply chain relationship here and build long-term relationships, not short-term transactions with farmers. That was certainly a value I took from Chipotle.

Jon: I'm not that familiar with Chipotle's model, but do they work with local farmers in different regions?

Tim: Yeah. Chipotle's model is "food with integrity," is what it's called, and it's different from the rest of the restaurant industry because there's protocols that the meat suppliers, among others, have to meet. Humanitarian raised, vegetarian fed, no antibiotics and no growth hormones. That meant that Chipotle could only buy from a fairly narrow group of farmers who were willing to meet those protocols.

For Chipotle it was really necessary to cultivate those relationships, and I saw the value in those relationships, as I ran the supply chain and over the years there, that that created for the brand and for the farmers. So for me, the relationship with the farmers and treating them well and being honest and reliable with them is foundational for the long-term success of NectarTek.

Jon: That's really interesting. If you wouldn't mind – I don't want you to relive a bad moment in your life, because I'm sure it was a very stressful moment when this happened at Chipotle – but I'm curious as an entrepreneur. Entrepreneurs are always curious about the process of what happened. You said you took over the supply chain, so I assume you weren't at that time running the supply chain. Can you tell me what you ended up

doing there?

Tim: I'm under nondisclosure. I really can't go into any detail, but suffice it to say that working with Dr. Marsden, we looked at every single input, every ingredient, and made sure that we had validated interventions – building on already good food safety processes – and we did that in the restaurants as well. We just did a thorough top to bottom assessment and implemented interventions at every step. But beyond that I'm not at liberty to go into detail.

Jon: Let's talk about safety, though, because it's interesting – again, like I said, at the top of the interview that was one of the first core values that you mentioned. Obviously from your experience at Chipotle and now at NectarTek, tell me why safety is so important to you.

Tim: Well, obviously if you don't have safety, you don't have a business, and you shouldn't be in business if you can't conduct your business with safety to your employees and to your ultimate consumer. That has to be the first non-negotiable thing that you attain. We've made investments into safety and into training in safety that for a small company aren't normally done, but it's just a foundational value.

It's not worth enough to me to go about business other than in a very ethical and safe way. It's also not good business to have workers' comp claims that are avoidable or any safety issues with your product.

Jon: Do you think some of this was informed by your experience at – without getting into too many details.

Tim: You take your experience with you, of course, yes.

Jon: There's a lot of CBD farms popping up, hemp farms. How are you guys differentiating yourselves in the marketplace?

Tim: We're not a farm. We don't grow, but in terms of CBD –

Jon: Extraction, yes, I'm sorry.

Tim: I think differentiation is a function of the quality of the product. Through our proprietary processes, we go the extra mile to ensure that our bare product is consistently of very high quality.

In an isolate, for example, there are differentiators that are objective. One of them is the color. Our CBD isolate is always perfectly snow white in color.

Another is the bouquet. Ours has a very slight bouquet. It's not completely odorless because it comes from a plant, but it's got a very slight bouquet. If you have CBD isolate and it's got a huge odor to it, that means there's still quite a bit of impurities in there.

Then the third thing is, of course, the testing, which is objectively measurable. Consistently, the product we deliver for our customers, when you include the CBD and the CBDV in there, we're consistently at 99.7%, 99.8%, 99.9% purity, which is a very high benchmark. To be able to do that consistently is a differentiator.

And then, of course, you differentiate on service. We make sure that if ever there is a problem, it's taken care of swiftly and in the customer's favor. The customer service department also rolled up to me at Chipotle for years, so I learned there the value of very rapid response to a problem as opposed to letting things fester.

So I think if you have product that is objectively of the very highest quality and you combine that with just a zealous pursuit of excellent customer service for your buyers, then you're going to differentiate yourself over time. Not instantaneously, because we're new, but we're starting to see some of the fruit of that differentiation in the market as we're winning clients.

Jon: Talking about those two issues, service and quality, I want to go back again to your experience at Chipotle, because it's interesting to me when somebody brings from a very successful company some of their learnings to a new endeavor. Let's start with quality. Was that something at Chipotle that was very much – was that a big value of that company? Was that something you brought over?

Tim: Yeah, it was. We at Chipotle invested more in our food – food costs at Chipotle were always way higher than the industry. Our food costs ranged from 31-35% of sales, and our competitors in the same segment had food costs of 24-26%. The difference there was we paid a premium for the highest quality ingredients. That was always a huge part of it there.

Jon: Are you in a similar way at NectarTek dealing with the best hemp that you can find?

Tim: Our hemp, we use ISO certified labs to test the hemp. But when you're isolating CBD – if you think about the product that we sell, CBD starts out on the hemp plant as a very, very, very tiny crystal. If you had a very, very tiny set of tweezers and very small hands and you could just perfectly pick off those very tiny crystals perfectly and set them in a pile, that's what we're after, those crystals.

Of course, you want to have a plant that doesn't have pesticides or any issues with it, so we test it with an ISO certified third party lab. Once it's there, the whole process is about getting those crystals off of the plant efficiently and selling that pure CBD isolate. Isolate means isolated, so we're really just taking crystals and selling the crystals.

When it's 99.7%, 99.8%, 99.9% pure CBD, the rest that's in there is not an impurity; it's just the other cannabinoids that you find in the plant. There's 100+ cannabinoids in the plant, whether it's CBG, CBC, CBN, THC, and those are that other tiny little bit that's left. So they're not really

impurities; they're just other elements of the plant that are in there. But certainly we want to start with good quality biomass.

But there isn't in the CBD market yet any sort of really recognized FDA organic or quality differentiation beyond the profile that you get from the testing that you do. But we'll reject biomass and have rejected biomass that doesn't meet our strict quality criteria.

Jon: I've written that CBD does have a bit of a snake oil problem because there is no federal regulation. The FDA is now just starting to become interested in it. There are a lot of bad actors in the space, as there will be when there's no regulation. Does that concern you overall with the market? Are you finding that your customers are demanding really high quality?

Tim: I guess I would say we don't operate in an environment with no regulation. We have a hemp handlers license, we are regulated by the state of Nevada, and there are federal regulations that pertain to our industry that are promulgated and are being promulgated. When the act passed – was it December 2018? Was it the 22nd? When it passed, the framework was to give the FDA a year to come up with the regulatory framework on a federal level. So there's been some regulatory guidance issued already. There will be more.

But we're selling to fairly sophisticated buyers. We're selling to folks that want to ensure that they're getting very high quality CBD isolate. When they receive our product, they're doing their own testing on it to validate that their testing aligns with our testing. I'm not some anarchist in favor of a complete free market, but the market is undertaking mechanisms like using lots of testing to validate that our product is what it says it is.

Are there issues? Sure. I think we have to be very careful

about imports from certain countries, be they China, Germany, or Turkey. Some product came into the market this year from places like that that was of inferior quality, and it was pushed around. But the buyers figured it out, and I don't think that's so much of an issue now.

But certainly part of any regulatory framework needs to address imports to ensure that they're meeting American standards for quality so we can have a well-functioning market, because it would obviously be a bad thing for the whole industry if some product came in from another country that was of poor quality and wound up getting into product, and then people are displeased with the experience they're having with that product.

Jon: Are you able to reveal who some of your clients are?

Tim: I have pretty much nondisclosures.

Jon: Fair enough. Lastly let's talk about – I'd have to go back and listen to your three core values, but I know that you had safety...

Tim: Safety, quality, reliability. Those were the three things that we saw as the opportunity, that if we could deliver these consistently, we'd be able to forge a successful path in the industry.

Jon: Just to go back a little bit to your learnings from Chipotle – reliability. Was that something that was a core value at that company as well?

Tim: I don't know. People could pretty much show up at Chipotle and get a burrito any day of the week. That was sort of the given. But in the CBD industry, I think that isn't so much of a given with some of the folks involved. For me, reliability is something as simple as when I've been paid for my product, I'm going to ship that product that day. And I'll ship it one-day mail. My buyer is going to literally get

product the next day after they pay me. It blows people away. I shouldn't even tell you this, because it just blows our buyers away to get that level of reliability.

Jon: Honestly, it does not surprise me from what I've heard from other people.

Tim: Yeah, twisting in the wind for a week, or "oh, we've got your money, but we'll send you the product in three weeks." We don't take money unless we've got saleable product on hand that we can ship.

And then the consistency of if we tell you it's going to be a certain grade, it is a certain grade. Just being able to consistently do that. That's the way, over the long haul, we're going to be successful in the marketplace, because people need that. If you're formulating a product, you've got to have that consistency in your supply chain.

Jon: Last comparison to Chipotle. You mentioned service as a core value. Again, just to draw comparisons, were there things that you learned in your many years at Chipotle and the service part of their business that you've applied?

Tim: This was said publicly a lot at Chipotle, but we knew that our very best restaurants – the very best ones with the best managers who just had a terrific crew – they were phenomenally successful from a business standpoint. Their sales were better, their margins were better, customer satisfaction was better, sales growth was better. Then the ones where you might've had a manager that wasn't as experienced or didn't have his act together quite as much.

So I saw, front row seat, here's what happens when you have fantastic service and here's what happens when we're not quite up to our ideals. Other than that couple years where we had the food safety, Chipotle was always at the top of all the surveys, best restaurant, best service. We were always there in the top tier, and I think they're back there now.

So yeah, being crazy about service is just common sense, right? That's how Amazon won. That's how anybody who's been successful on the internet has won. It's through delivering a great customer experience. Even though our customers aren't individual consumers, it's the industry that's our customers, and if we can just really, really take good care of them, then they'll order from us again and again. And we've seen that even in our little short lifespan at this point.

Jon: This has been so enlightening. Thank you so much for sharing your wisdom, and good luck with the business. Sounds like you're off to a great start.

Tim: Thank you. Yeah, it's certainly an exciting business. There's lots of change, and it's on warp speed.

Jon: Yeah. Any advice to other people seeking to get into this business? In any capacity in the hemp business, whether it's extracting, growing, brand.

Tim: Figure out what you want your niche to be, do your due diligence, and talk to people who are in it. Get out to tradeshow. There's a lot of avoidable errors that you can avoid. Talk to your state regulators. I think in Nevada and Colorado and the states I've had contact with, the regulatory folks want the business to be successful, but they want things to be done in a quality way.

So talk to your regulators, and get out – there's so many tradeshow where there are a wealth of people. There's sort of an ethos in the business, I would say, of wanting the business to succeed, wanting hemp and CBD and the other cannabinoids to be beneficial for consumers, ultimately. A lot of people in this business really believe in their hearts that they're doing the right thing and that they're in the right place to benefit other people. A lot of the people I've hired, I hired on because they came from within the industry and they really believe in the consumer benefits of this crystal.

But I think there's no substitute for due diligence, and then when you get into it, it's not going to be easy. It's not an easy business. It's a tough business where you have to do everything right, and where there's much that can go wrong. And like every business – there's no easy business, I don't think. I mean, maybe software. There's an easy business for you. Learn how to code, write some code, and then a million people buy it and you just take all the money. That's why my son is studying computer science at NYU.

Jon: [laughs] Right, you don't actually have to deal with the physical product. That's smart. Thank you again.

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