

FOOD AND BEVERAGE INDUSTRY GUIDE

Five underestimated risks of GLP-1 product transformation — and how to manage them

It's not an overstatement to say GLP-1 drugs for weight loss are causing major shifts in demand for food and beverage products. Sales show a pivot toward options like lean proteins and non-alcoholic beverages and away from products such as high-calorie snack foods and beer.

Food and beverage producers have quickly adjusted but may overlook distinct risks as they change or reformulate products. Here are five fundamental risks associated with the GLP-1 drug revolution in the food and beverage industry, along with ways to address them.

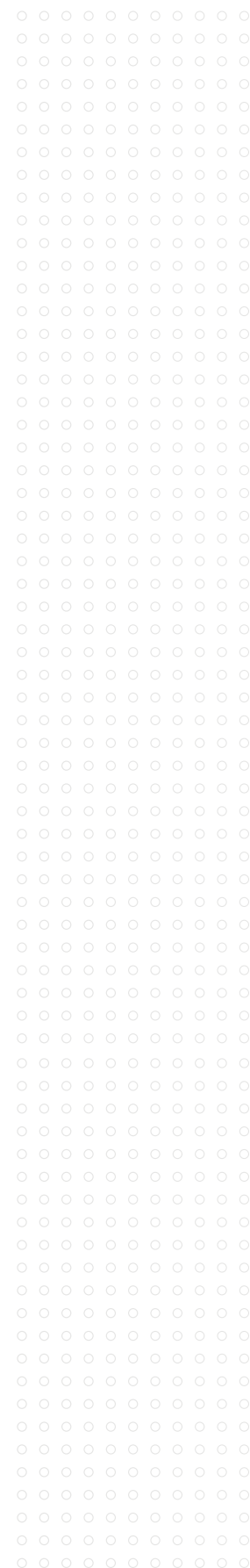
1. Supply chain risk

When manufacturers in any business change their products, they will use new ingredients, packaging and suppliers, representing a major supply chain risk. For companies turning to protein-rich products, competition from other manufacturers can lead to bottlenecks, even when there are no issues with vendors, shipping or global food supply.

Managing supply chain risk

- Quantify the risk of losing a key supplier
- Establish alternative suppliers and diversify the supply chain if possible
- Develop contingency plans for different scenarios if supply chains are locked
- Combine risk management elements with business interruption insurance to create an effective backstop





2. Production line risk

When changing the product line, food and beverage makers often need to purchase equipment or modify existing production processes, thereby increasing property risk. The change could also require retooling of production lines and plant layouts, making them more prone to production line failures and equipment malfunctions or damage.

Managing production line risk

- Re-evaluate the cost of capital and ensure adequate protection in case of a disaster
- Monitor equipment and audit production line procedures, especially as new lines commence production
- Ensure property insurance covers full cost of equipment.
- Strengthen business interruption coverage in case of equipment failure

3. Recall risk

Product recalls are usually inevitable in the food and beverage business — it's not if but when one occurs. And when producing a novel product with unfamiliar ingredients or those used in a new manner, the risk of contamination, mislabeling and allergen issues only rises.

Managing recall risk

- Create a process to check labeling prior to releasing a product
- Monitor equipment and audit production line procedures, especially as new lines commence production
- Create a recall plan and team to handle incidents
- Maximize recall insurance coverage in a soft market

4. Safety risk

Altering the product line often means workers manning new equipment, new hires with new responsibilities and new processes and procedures. Done too quickly, it's a recipe for injuries and workers' compensation claims.

Managing safety risk

- Establish safety protocols and procedures in dealing with new equipment
- Encourage a culture of safety through safety audits, incentive programs to encourage safe behavior and constant reinforcement of safety standards
- Ensure workers' compensation coverage is adequate
- Improve ergonomics and balance production line speed with safety

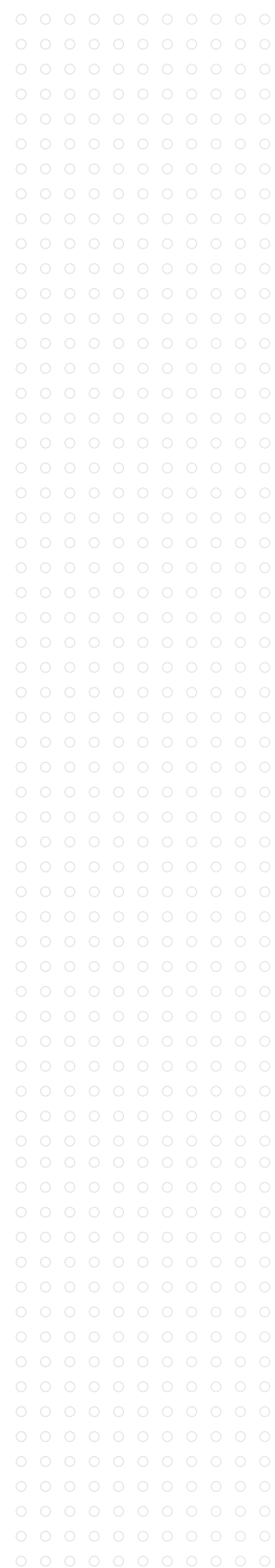
5. Packaging risk

Class-action lawsuits tied to packaging misrepresentation around phrases like “all natural” have been on the rise. Marketing products as “GLP-1 adjacent” can attract similar scrutiny, making careful packaging labeling essential. In addition, the risk of mislabeling ingredients or allergens increases with a new product line.

Managing packaging risk

- Consult with legal counsel and your insurance broker before approving new packaging
- Generally avoid packaging that says “GLP-1 friendly” or “GLP-1 compliant,” as such designations can translate into litigation
- Strive for balance between marketing and legal considerations





Putting things into action

Before a change, consider the risk involved.

Identifying the risks involved when changing products should happen before you take the first steps in transforming the business. When a company transitions from deli meats to healthier proteins, it means new ingredients, new production setups, new worker responsibilities and often new equipment. Always consult with your broker before making radical moves.

Prioritize risks by how much it will affect your business.

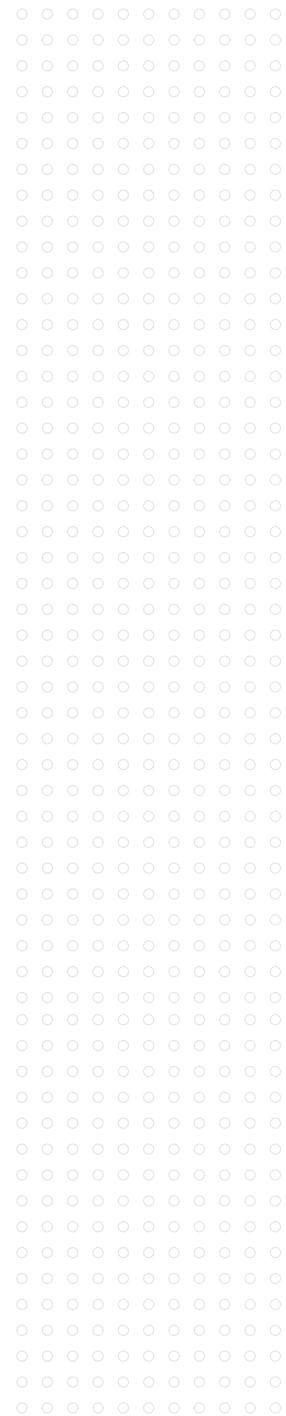
If the GLP-1 drug revolution has shown one thing, it's how fickle consumer demand is. Even though the change to the food and beverage market is permanent, that doesn't mean all new and reformulated products will succeed. A sudden shift in demand or a strangled supply chain represents an existential threat, and breakdowns in equipment or production lines can permanently damage the business.

Address the greatest risks immediately.

A functional supply chain is essential to every food and beverage maker — and when introducing new products, it becomes even more critical. What many executives may not consider is that competitors are often moving to the same product reformulations, increasing demand for specific ingredients and further straining the supply chain. Your insurance broker can help quantify the risk and protect you against it.

Readjust with underwriters.

Insurers need to know the change in product production immediately — and what you've done to address the risks. Underwriters don't want surprises, so waiting until renewal to readjust your insurance strategy probably won't get you optimal coverage at a price you can afford.



Strategic support that puts you in control.

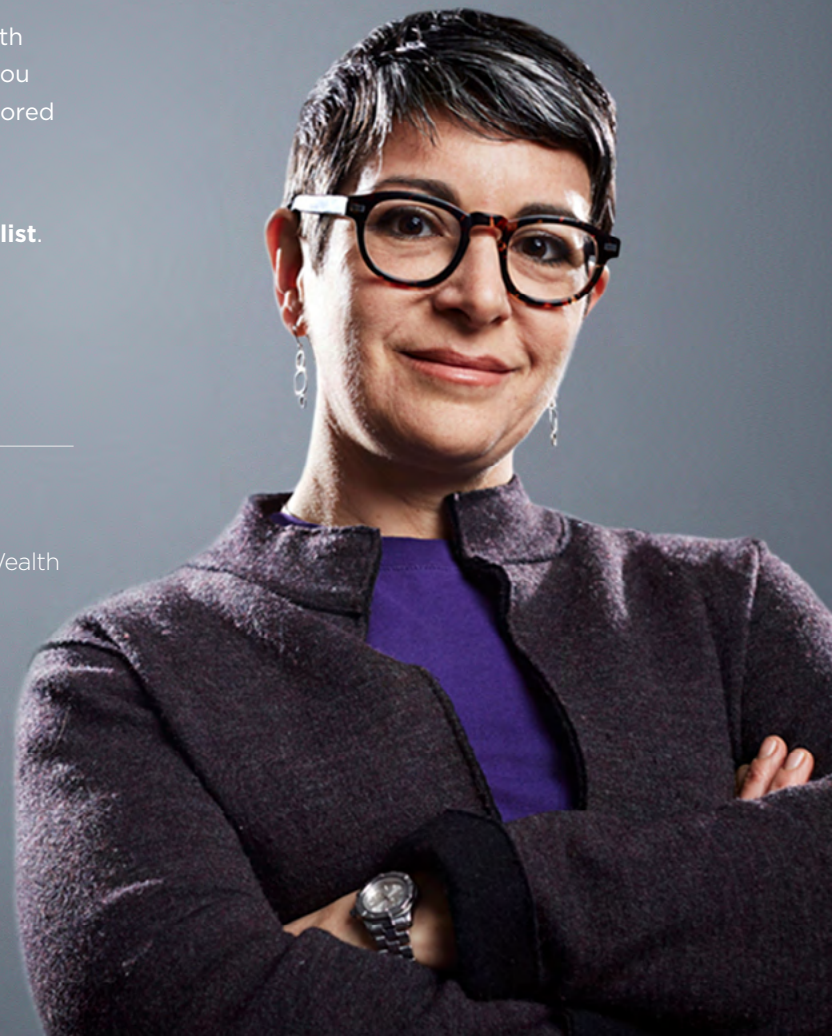
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