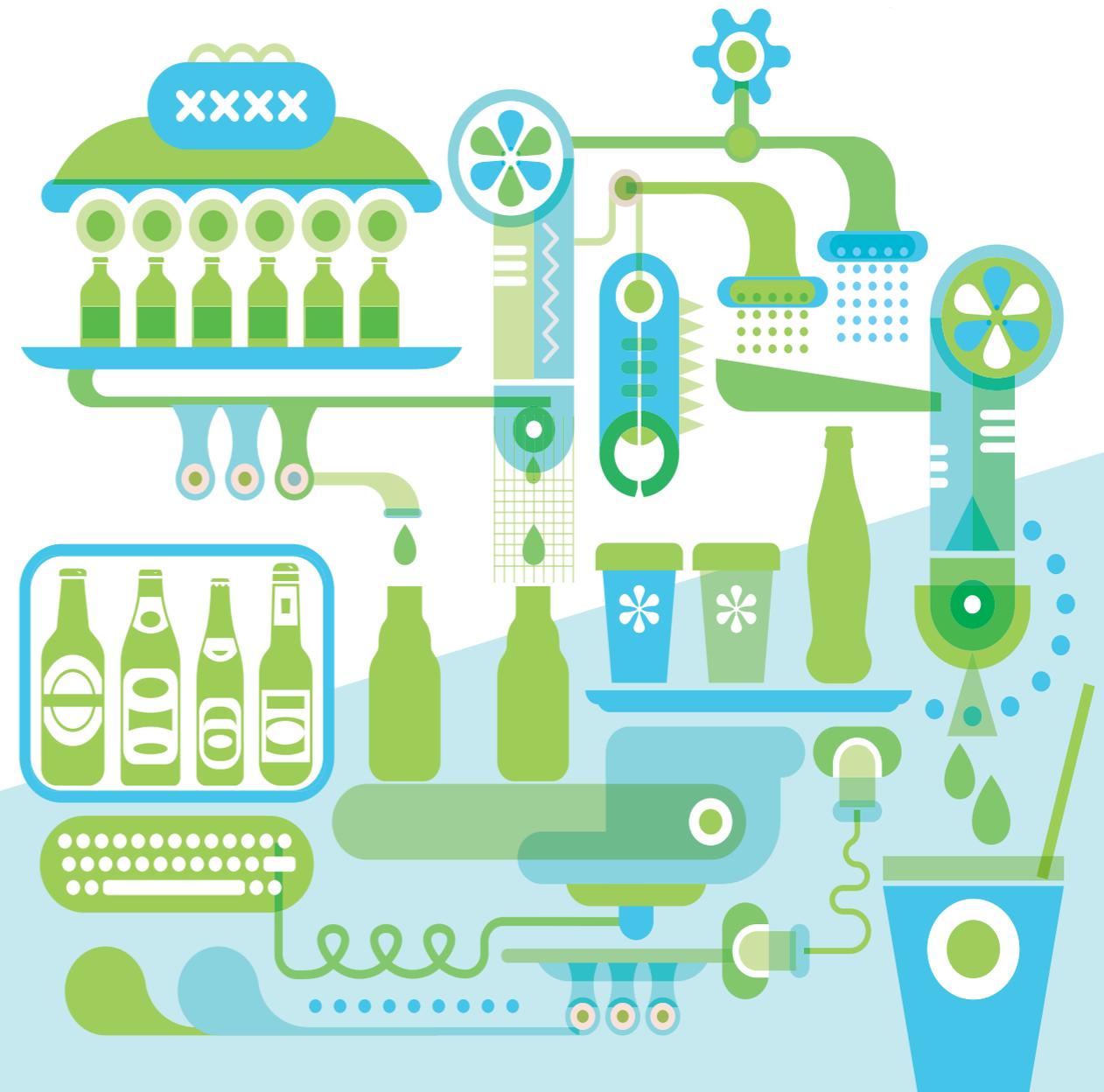


Beverage Industry Outlook

Innovation is the name of the game in the beverage industry today as beverage manufacturers seek to keep a winning portfolio with shifting consumer preferences. Inventive ways to deliver healthy flavors are disrupting the beverage market dominated by sodas. Customization through do-it-yourself (DIY) flavors and drink delivery mechanisms, like at-home soda machines, is giving consumers the keys to create their own flavors on their own time. When it comes to alcohols, craft beers are emerging in spades, and wines and spirits are looking to serve up exclusive takes on trusted brands.

While some manufacturers are investing in-house to produce the next big thing in beverage, many are looking outside their companies to collaborate with or acquire brands to help them on their journey to new products or new markets. Regardless of the path, having processes and tools in place to support an iterative go to market strategy with shopper insights will put new products on the road to success.

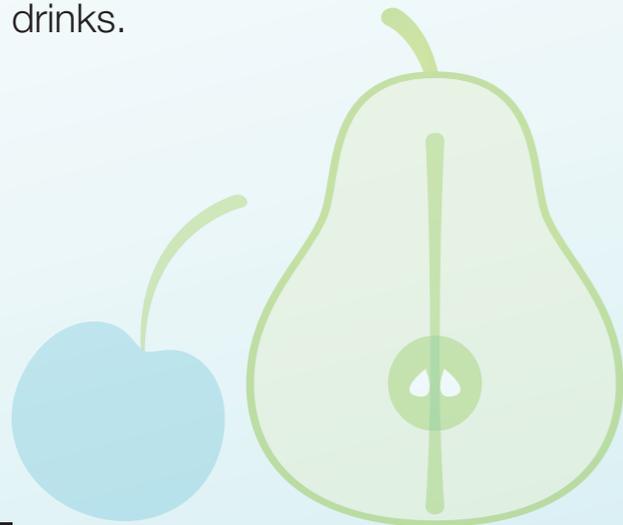


Establishing Alternatives to Meet Consumer Trends - With consumer tastes changing rapidly, manufactures must renovate their portfolio mix to align with consumer preferences.

Merging into new Markets - To boost in-house innovation, beverage companies are purchasing new brands and investing in new markets to improve their portfolio mix.

Establishing Alternatives to Meet Consumer Trends

With consumer tastes changing rapidly, beverage manufacturers are renovating their portfolio mix to align with consumer preferences. Beverage companies are releasing lower calorie alternatives to classic sugary drinks by using various alternative sweeteners. The Do-it-Yourself (DIY) trend put the power of flavor in the consumers' hands or dispensing machine. Looking for ways to tap into local sentiment, some beverage companies are getting creative with small batch, artisanal, and locally focused drinks.



Substitute the Sweeteners

With stagnant sales volume of carbonated beverages and mounting social, political, and regulatory pressures,¹ beverage makers are seeking to produce alternatives that feel good to drink. Better-for-you sugar substitutes, real fruits and vegetables, and drinks that are made locally are finding popularity.

Companies are seeking exclusive rights and patents to the next big thing in sweeteners, like PepsiCo's exclusive rights to Sweetmyx this year. Many health-aware consumers are skipping the added sweeteners altogether and harnessing the taste and benefits of real fruits and vegetables. This trend is moving out of the yoga studio and into the home, endorsed by millennials, celebrities, and the health conscious across the nation. Consumers are seeking drinks with health benefits and peace of mind knowing how to pronounce every ingredient in a ready to drink (RTD) beverage. As beverage manufacturers respond to this trend, and walk the line of boasting health benefits, they may be at risk of opening the door to increasing regulation of functional foods.



DIY Drink-ology

There is a huge burst of creative DIY drink making that ranges from mixing flavors to getting your favorite coffee shop flavors at home. Whether they're liquid or powder flavor additives, or single serving drinks, beverage manufacturers are finding success in getting drinks to consumers exactly how they want them. DIY opportunities are at every turn; Coke has seen a double digit increase in servings from its Free-style machines across the U.S. Leveraging new technology, these machines mix known Coke brands with flavor additives like vanilla or orange using smaller cartridges instead of bulky syrups combined with soda water.



Establishing Alternatives to Meet Consumer Trends

Local Sentiment

Craft beer and craft soda are steadily growing segments that address consumers' desire for rich, local flavor that feels nostalgic and homegrown. Spirit manufacturers and cocktail artists are getting creative with small-batch and artisanal drinks. The well-known vodka brand, Absolut, owned by Pernod Ricard, is kicking off the Our/Vodka initiative to bring micro-distilleries to several cities across the U.S. and other countries. These municipal partnerships will focus on creating a single Absolut product using local ingredients and tapping into the local communities through tastings, communal forums, and other events. Drink manufacturers have an opportunity to hit the crossroads of transparency and customization for consumers by letting them know exactly what is in their beverages or where and how they are made.

Manufacturer Impact:

Product Development : Drink manufacturers cannot rest on their sugary laurels; consumers desire simpler, healthier beverages that they can customize and access any time. In what ways do your products interact with communities to incorporate local flavors? How can you offer a custom experience with your products?

Value Chain: A change in ingredients can often mean a change in storage and transportation processes. It can even change the area of the retail store where your product is sold. Where in the store does your new product belong – with the fresh, fast-paced store perimeter or with the bulk of drink selections in the non-perishable center of the store? Do you have the right sales channels for desired product placement?

Analytics: Do you have tools and metrics in place to measure the impact of new products? Access to real-time analysis of end user data can also guide decisions about marketing and brand integrity. It helps combat any

nonconformity events and address recall situations thoroughly and immediately. Analytics also create a more agile innovation pipeline to quickly respond to the market.

Promotions and New Product Introductions: While innovation is great, there are many challenges incorporating the ever growing SKUs into promotional processes and systems. Do you have a mature sales organization equipped to get your products on the shelves without cannibalizing your current sales? Are your systems and processes ready to incorporate the many new SKUs and product types to help you achieve the impact of your new investment products?



Merging into New Markets

Many consumer products companies today are purchasing new brands and investing in new technologies and markets to help them establish the right portfolio mix. Searching for diverse product offerings through mergers or acquisition is often times more beneficial and efficient than trying to break into a new market alone.

The Risks with Brand Acquisition

The mixing of culture and identity of two companies is often not a primary consideration during M&A. Some have found that gobbling up smaller brands with core values that are greatly different than the parent can be more harm than help to the identities of each brand. Recently, companies on both sides of an acquisition have faced loss of consumer trust with petitions and boycotts accusing the smaller brand of “selling out.” According to a Forrester study, brand resonance, brand referral, and brand preference all correlate with consumer trust at over 80%. While M&A can be a great opportunity for smaller companies to gain a greater audience and make their message heard, they must be selective such to maintain their loyal consumer base and stay true to their core values.

Spirits Are Up in Emerging Markets

In addition to emerging products and segments, brand identity should be top of mind while expanding products to new audiences or regions. The global share of emerging markets reached 40% in 2010, and this number is expected to surpass developed markets by 2020.² The beverage industry in emerging markets grew from \$3 billion in 2001 to over \$38 billion in 2012 and has created a rush to dominate in the largest emerging markets.³

Rising standards of living across the world and growing middle classes set the stage for global alcohol manufacturers to establish brand loyalty and grow in tandem. However, the premium image, price points and flavors that bring success to spirit manufacturers in developed markets may not garner the same success in today’s emerging markets. Several factors affect strategies around brand image and distribution: cultural traditions, regulatory environments, local market protectionism, logistics networks and the pace of economic growth.

Manufacturer Impact

M&A for Innovation: If you want to take advantage of new segments or emerging markets, consider the implications of in-house development versus M&A activity. How do consumers relate to your brand, and does that message align with potential acquisition targets? Are there attractive targets with distribution capabilities or brand recognition that are missing in your current enterprise?

Value Chain: When looking to move into the M&A game, what is your strategy to ensure the new brand can be fully leveraged? Do you have a plan of merging the financials, processes, and systems? Having a good M&A model will allow you to expedite your integration time without losing consumers.

Culture is Key: Not only do employees care about preserving cultures, but now, your consumers do too. Do you have a way to preserve the culture of brands you are acquiring to ensure your consumer base and employee base will not disengage? Full organizational change management assessments can help you manage through these turbulent transitions.



Continue the Discussion



About the Author

Kristine Pettoni is a solution advisor with Clarkston Consulting and a leader in Clarkston's sales, marketing and trade management practice. Kristine has over 10 years of experience working in Consumer Products with Beverage companies and has expertise in sales and retail execution, trade promotion and pricing, trade promotion optimization, customer segmentation and downstream data and analytics.



Maggie Seeds is a Food and Beverage consultant enthusiastic about applying her insights and experi-

ences to move the industry forward. Maggie's cross-functional background leaves her interested in a myriad of issues faced by the industry, from technical opportunities to strategic ventures and global concerns.

Additional Reading

- Trade Marketing & Demand Planning Alignment for Improved Forecasting
- Commodity Mapping for Assessing Supply Chain Risks
- Saving My Calories for the Weekend
- Is One Supply Chain the Right Strategy?
- Build an Effective Merger, Acquisition and Divestiture Execution Capability

To continue the discussion on the Beverage Industry, contact kpettoni@clarkstonconsulting.com.

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- 1 Soda Sales are Failing, The Motley Fool, <http://www.fool.com/investing/general/2014/02/20/soda-sales-are-falling-should-coke-be-worried.aspx>
- 2 Brand Breakout, Nirmalya Kumar and Jan-Benedict Steenkamp
- 3 Growing Taste for Emerging-Market Drinks, Wall Street Journal, <http://online.wsj.com/news/articles/SB10000872396390444100404577641252020063614>

CLARKSTON

Headquarters
2655 Meridian Parkway
Durham, NC 27713
Phone: 800-652-4274

www.clarkstonconsulting.com

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