

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

(The NAB Company Portfolio will have lists of things that the BUS599 students would be able to sort through to conduct a SWOT Analysis and to apply to appropriate sections of the NAB Business Plan. )

### Note #1:

This is the compilation of Data, Notes, and Information that have been put together to create a Business Plan for a start-up company in the *non-alcoholic beverage* industry.

The goal of my business plan is twofold:

1. To help identify and outline all the issues I will need to address in starting this company.
2. To present to funders to help raise money to finance this company.

### NAB Background:

Melinda Cates has been selling her NAB at County Fairs for the past 7 years for \$2 a bottle. She sells an average of 10 Cardboard cartons each weekend a County Fair is open. From her calculations, it takes \$.56 to make a bottle of NAB when she calculates all the NAB ingredients and the cost of the bottle and cap. Her rich uncle, Bill, just died and left her a small monetary inheritance. However, since he so enjoyed her home-made NAB, he also left her equipment to start a small NAB business.

Melinda and I have been close, trusted friends for years. She found out that I just earned my MBA from Strayer University, and she asked me to help her get her NAB business up and running.

I have agreed to put together a NAB Business Plan, and I have agreed to be the CEO/President of the company for at least the next five years.

### NAB Today:

Parameters for New Company

Here are the parameters in which I must work.

- The business is a start-up: We are not yet in operation. We already have a “recipe” for a beverage, but we are not yet making sales at any significant level.
- Product: the only barrier is that it must be a non-alcoholic beverage (NAB). It is up to me to decide upon what type of non-alcoholic beverage I intend to make and market. It can be sold in individual sizes or wholesale.
- Market size. I will start marketing and selling the NAB in my geographical area within a 100 mile radius from my home address.
- Business size. I can grow the NAB business to any size in excess of one million dollars in revenue by year two. In other words, this cannot be intended to be a one- or two-person micro-business.
- I intend to raise money. I will be looking for funding, and I have already started with friends and family money. But at some point I will need funds from outside investors, either angels or venture capitalists, depending on how much I project I need to raise or receive from a group of individual investors on kickstarter.
- I intend to have employees and develop my own organizational hierarchy.

## **NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO**

- I do not need to raise money for my personal financial support for the first six months. In other words, I do not need to take a salary/draw for myself for six months of projections. I am assuming I can live off my personal savings.

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**Note #2:** The NAB Financial Worksheets will have the value of this equipment and inventory included.

Some of the items we currently own:

### **Owned Equipment:**

Two (2) NAB Mixers (mixes up to 200 gallons each) – \$28,500 each (value in current \$)



This Beverage Filling machine is combined with rinsing, filling and capping 3 in 1 monobloc machine, imported from Italy. Because it is equipped with constant temperature controlling system, it can be applied to fill hot or cold fruit juice, tea and other beverage into 16 oz bottles. It is suitable for normal temperature filling or hot filling 16 oz. bottles. It is one of the most advanced Filling machine at present .

Two Bottling machinery (for filling and capping bottles) - \$9,600 each (value in current \$)  
See Auto AccuSnap Capper, below.

Four Vehicles (used panel vans) – \$10,000 each (value in current \$)

Three Computers (Apple Macintosh) - \$1,200 each (value in current \$)

Graphic Software - \$750 (value in current \$)

### **Leased Equipment:**

Labeling machinery – \$450/month in current \$

Printers - \$550/month in current \$

### **Inventory:**

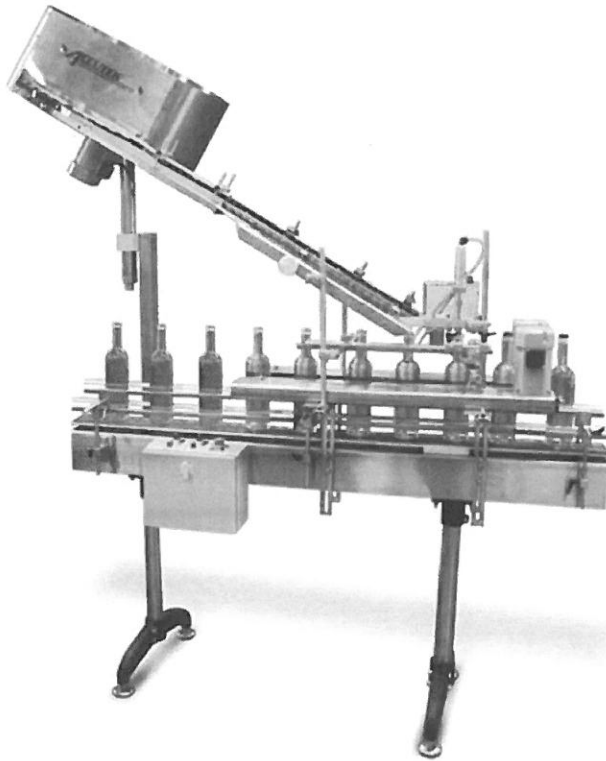
Glass Bottles, 16 oz.: 24,000 - \$3,000 (value in current \$)

Metal caps: 24,000 - \$300 (value in current \$)

Cardboard Cartons (holds 48 bottles): 500 - \$500 (value in current \$)

NAB-ingredients: enough to make 24,000 bottles - \$600 (value in current \$)

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### NOTES on EQUIPMENT

Auto AccuSnap Capper. Accutek Auto AccuCappers are continuous motion machines that replace the tedious work of manually pressing and/or placing snap caps. Accutek Snap Cappers prevent costly spills by removing human error from this process. This machine can also help prevent repetitious motion injuries and strains to your work force that can result when manually placing snap caps. Accutek Auto AccuCappers systems are available in three different styles, Belt, Roller, and Plunger in order to offer solutions to a variety of snap cap types. Milk jugs, dropper inserts,

lip balm caps, over caps, "top hat" seals, twist cap with ratcheted rip seal, bar top caps, and a variety of other cap applications are all within the capabilities of Accutek Snap Cappers. Each machine is designed to accommodate a wide variety of container types. A variety of gripper belt options are available to stabilize different types of containers.

The Auto AccuCapper feature an Accutek centrifugal bowl or cap elevator orientator. With an automated delivery device the Accutek Snap Capper can reach speeds up to 120 CPM.

#### **SnapCap007**

##### **Dimensions**

Height: 94" (238 cm)\*

Width: 24" (61 cm)\*

Length: 32" (91.4 cm)\*

##### **Weight**

800 lbs. (363 kg)

##### **Speed**

Up to 120 CPM\*\*

##### **Cap Size:**

Min: 10mm / Max: 60mm

##### **Electrical:**

110 VAC 20 Amp (220 available)

##### **Air Requirements:**

120 PSI @ 2 CFM

Current Value: \$9,600.00 new

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

### Note #3

#### Personnel:

**Myself:** I have collected \$20,000 from friends and relatives who would like to either have their seed money returned by the end of this calendar year at no interest or by the end of the second year of operation with 5% interest.

**Stephen Job:** Part Time (20 hrs/week) Computer Expert/Assistant: \$10/hr

**Melinda Cates:** NAB Creator & Master Mixer (owns the patent on the NAB): has \$40,000 inheritance

Other colleagues with specific skills and talents:

**Ian Glass:** retired PepsiCo plant production line foreman. Ian recently retired with 35 years of loyal PepsiCo service in every position from janitor to production line foreman, and he and his wife moved into your neighborhood. He is tickled that you have asked him to help develop a plan to get the NAB Company's production line going. He said he can help organize and sit on the planning committee as a non-paid member until the NAB company can hire its own Production Line Foreman. He hinted that he retired from PepsiCo with an annual salary of \$55,000, but he says that's just the starting salary that large companies pay their foremen who are in an apprenticeship program. He doesn't think the NAB Company will have to pay top dollar for someone who has the willingness to join the NAB company as a start up!

**Mary Cates, JD:** Melinda's sister who was a senior executive with the Federal Trade Commission from 2001-2012. She left the FTC after a significant 30 year career with the federal government in which she lead the research and support of numerous federal court findings against companies that violated consumer deception and unfair practices laws. She would enjoy serving on the initial company planning group to make sure her sister's recipe is successfully shared within the state!

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

**Note #4:** Here are some interesting articles I pulled off the internet about other Non-Alcoholic Company issues:

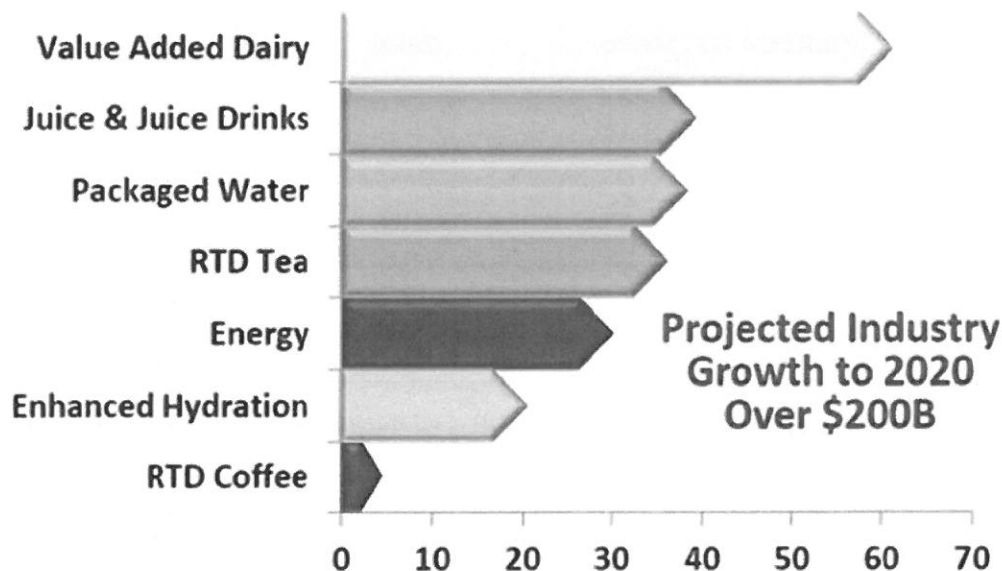
- A. In 2014, The Coca-Cola Company (KO) announced a long-term partnership with Keurig Green Mountain, Inc. (GMCR). The deal will allow people to enjoy ice-cold Coca-Cola beverages at home with the soon-to-be-released Keurig Cold machine.

<http://marketrealist.com/2014/11/strategic-deals-soft-drink-industry/>

### B. Social pressures forcing change

The carbonated soft drinks (or CSD) category of the soft drink industry has witnessed declining volumes in the past few years. Mainly, this is due to challenging conditions in developed markets and increased health awareness among consumers about the side-effects of sugar and other ingredients present in carbonated drinks.

### Growth Opportunities- Non-Alcoholic Ready-to-Drink Category



Market Realist<sup>®</sup>

Source: Euromonitor, Coca-Cola Co. Presentation

Soft drink makers are facing severe pressure from civil society groups and governments to reduce the calories in soft drinks. In the September 2014 Clinton Global Initiative, the three largest US soda companies—The Coca-Cola Company (KO), PepsiCo, Inc. (PEP), and the Dr Pepper Snapple Group, Inc. (DPS)—pledged to reduce the number of sugary drink calories that Americans consume by 20% over the next decade. To achieve this target, the three big players

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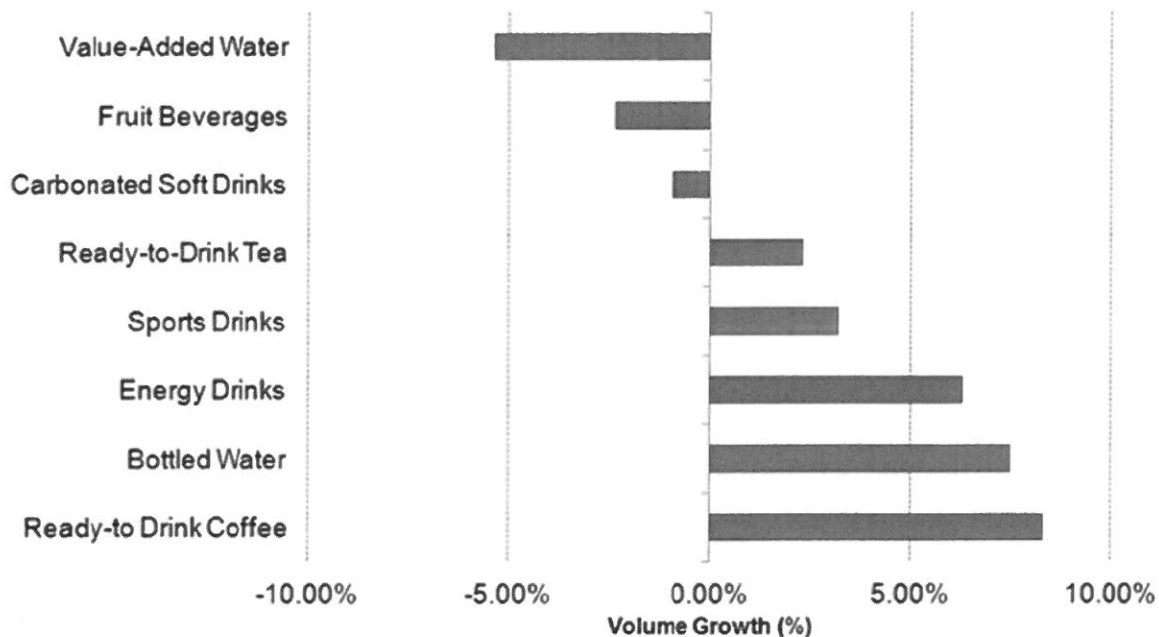
plan to expand low-calorie product portfolios, introduce smaller portion containers, and educate consumers about healthier alternatives.

The change in consumer preferences has provided a new opportunity for CSD manufacturers to grow into the still beverages, or the non-carbonated category of the ready-to-drink market.

### Ready-to-drink beverages

The non-alcoholic, ready-to-drink (or NARTD) market is projected to grow at a compounded annual growth rate of 5% between 2014 and 2017. A large proportion of this growth will come from emerging economies. Since 2010, NARTD retail value has increased by \$135 billion and Euromonitor International estimates this category will grow by more than \$200 billion by 2020.

### U.S. Liquid Refreshments - Volume Growth



Market Realist<sup>Q</sup>

Source: Beverage Marketing Corporation (Data for First Half 2014)

In the first half of 2014, ready-to-drink tea and coffee, sports and energy drinks, and bottled water recorded strong growth. Coca-Cola and PepsiCo have a strong presence across these categories and are investing heavily for further portfolio expansion. Other companies including Dr Pepper Snapple and Monster Beverage Corporation ([MNST](#)) are also investing in product development in these categories in an attempt to cater to changing consumer tastes.

This new focus on healthier and nutritious products based on changing consumer preferences and increasing health consciousness will be a key growth driver for the non-alcoholic beverage industry.

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The Consumer Staples Select Sector SPDR ETF ([XLP](#)) provides an attractive avenue to invest in soft drink companies.

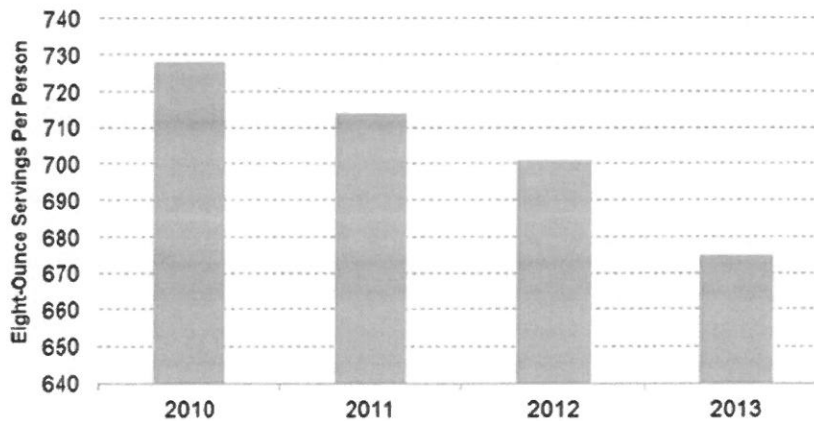
### C. Why growth is sluggish in the non-alcoholic beverage industry

By Sharon Bailey • Nov 20, 2014 12:09 pm EST

#### Falling demand

The non-alcoholic beverage industry is facing challenges. Carbonated beverage volumes are falling, primarily in developed markets. *Beverage Digest* indicates a 3% fall in 2013 overall carbonated soft drink (or CSD) volumes in the US, making it the ninth straight year in which demand has declined. Previously, US CSD volumes declined by 1.2% and 1% in 2012 and 2011, respectively.

**US Per Capita Carbonated Soft Drink Consumption**



Market Realist<sup>Q</sup>

Source: Beverage Digest

#### Key indicator—per capita consumption

The per capita CSD consumption in the US fell to about 675 8-ounce servings per person in 2013, from 701 8-ounce servings in 2012. Reduced consumption reflects the declining volumes and a slower rate of US population growth.

One of the reasons for the continued decline in soft drink volumes over the past few years is weak consumer spending, caused by adverse macroeconomic conditions, especially in the US and Europe.

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### Note #5

#### Health concerns

Another major reason is the shift in consumer preferences toward healthier products. Carbonated soft drink makers have faced severe criticism from health officials, governments, and communities alike for the ill-effects of high sugar content, artificial sweeteners, and other harmful ingredients in their products, including those in diet soda variants. Consumers are also more conscious of the health risks associated with soft drinks such as obesity and nutritional deficiencies, especially in youth. As a result, they're opting for other beverages that are non-carbonated and have fewer calories.

The World Health Organization suggests that sugar should account for only 5% of total energy intake per day. That's around 25 grams of sugar per day for an adult of normal body mass index. Health officials feel that this percentage should be even lower for a better quality of life. A single soda can contains around 40 grams of sugar.

#### The soda tax

Mexico, which has the highest rates of obesity in the world, has imposed a 10% tax on sugary beverages to discourage the consumption of these drinks. There is a strong possibility that many other countries will introduce a soda tax to reduce sugar consumption through carbonated drinks.

In the next part of this series, we'll discuss how soft drink makers including The Coca-Cola Company ([KO](#)), PepsiCo, Inc. ([PEP](#)), Dr Pepper Snapple Group, Inc. ([DPS](#)), and Monster Beverage Corporation ([MNST](#)) are sustaining business under such challenging conditions. Coca-Cola and PepsiCo are part of the Consumer Staples Select Sector SPDR ETF ([XLP](#)).

### D. Key indicators of the non-alcoholic beverage industry

By Sharon Bailey • Nov 20, 2014 12:09 pm EST

#### Factors influencing sector growth

The non-alcoholic beverage industry falls under the consumer staples category ([XLP](#)), which is non-cyclical in nature compared to the consumer discretionary sector. In this part of the series, we'll look at the factors that impact the growth of the non-alcoholic beverage industry.

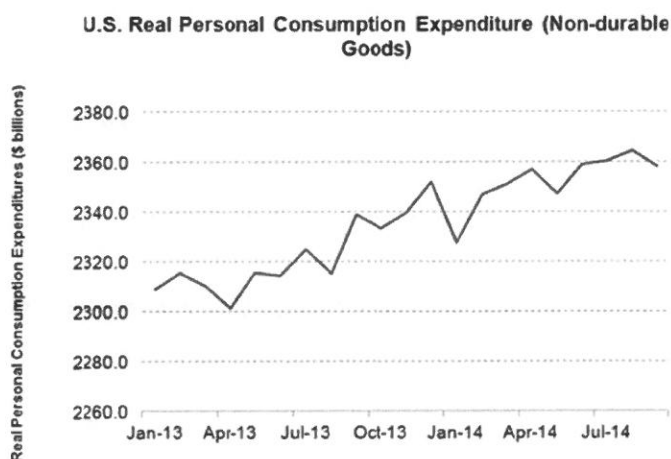
#### Consumption expenditure

The Bureau of Economic Analysis (or BEA) releases the personal income and outlays monthly reports that indicate changes in individuals' personal incomes, savings, and expenditures.

US consumption spending accounts for over two-thirds of the country's gross domestic product (or GDP). The US real personal consumption expenditure for non-durable goods measures

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consumer spending on non-durable goods, such as food and beverages, on an inflation-adjusted basis.



Market Realist

Source: Bureau of Economic Analysis

### Disposable income and consumer confidence

Consumption expenditure depends on disposable income, which is measured as personal income less personal current taxes. People tend to spend more with a rise in their disposable income. Increase in consumer confidence also increases consumption expenditure. In the US, the Conference Board and the University of Michigan each provide monthly reports on the consumer confidence index, which indicates the degree of optimism about the state of the economy as reflected in consumer spending and saving activities.

According to market-intelligence firm Euromonitor International, consumer-expenditure growth in emerging markets has surpassed that in developed markets every year since 2000, and is expected to continue doing so.

A favorable trend in consumer spending on non-durable goods is a positive indicator for the non-alcoholic beverage industry. It's also good for the performance of exchange-traded funds (or ETFs) that invest in the consumer staple sector. The Consumer Staples Select Sector SPDR ETF ([XLP](#)) has holdings in the major soft drink companies like The Coca-Cola Company ([KO](#)), PepsiCo, Inc. ([PEP](#)), Dr. Pepper Snapple Group, Inc. ([DPS](#)), and Monster Beverage Corporation ([MNST](#)).

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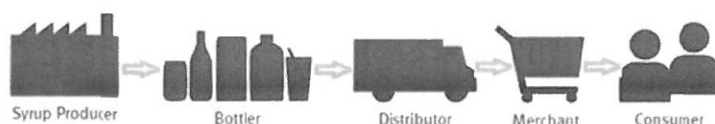
### E. Understanding the value chain of the soft drink industry

By Sharon Bailey • Nov 20, 2014 12:08 pm EST

#### Industry Partners

Soft drinks constitute a major part of the US food and beverage industry. Syrup or concentrate producers and bottlers play a vital role in the value chain of the soft drink industry.

Value Chain - Soft Drink Industry



Market Realist<sup>®</sup>

Source: ChangeLab Solutions

#### Bottling and distribution network

Companies in the soft drink industry reach the end market in two ways. One way is by selling finished products, made at company-owned bottling facilities, to distributors and retailers.

Another, is by selling beverage concentrates and syrups to authorized bottling partners, who then make the final product by combining the concentrates with still or carbonated water, sweeteners, and other ingredients. The bottlers then package the product in containers and sell these beverages to distributors or directly to retailers.

Also, both bottling partners and companies manufacture fountain syrups and sell them to fountain retailers. Fountain retailers include restaurants and convenience stores, which produce beverages for immediate consumption.

#### Distribution: Third-party products

The extensive reach of The Coca-Cola Company (KO) and PepsiCo, Inc. (PEP) allows them to produce or distribute third-party brands. For instance, Coca-Cola is licensed to produce and distribute certain brands of Dr Pepper Snapple Group, Inc. (DPS) and Monster Beverage Corporation (MNST). PepsiCo sells Lipton and Starbucks brands under partnerships with Unilever and Starbucks, respectively.

#### Pricing power

Coca-Cola and PepsiCo's wide distribution network gives them significant pricing power. Carbonated soft drinks have similar prices due to the intense competition in the industry. Often, soft drink companies extend lower prices under promotional offers. In recent times, such

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promotional offers have been used to boost volumes of the carbonated soft drinks. That's because they're under pressure due to rising health concerns and competition from healthy substitutes such as tea, energy drinks, and water.

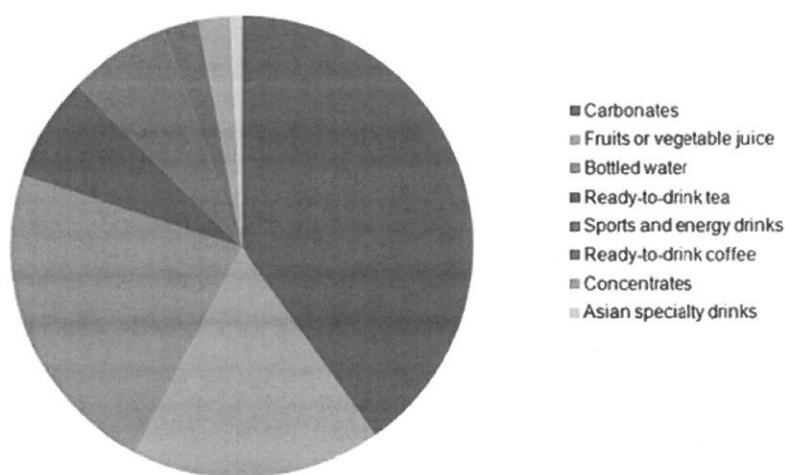
The non-alcoholic beverage industry is part of the consumer staples sector. You can invest in this sector through the Consumer Staples Select Sector SPDR ETF ([XLP](#)), which has notable holdings in Coca-Cola and PepsiCo.

**F. A guide to the non-alcoholic beverage industry**  
By Sharon Bailey • Nov 20, 2014 12:08 pm EST

### Industry overview

The non-alcoholic beverage industry broadly includes soft drinks and hot drinks. Soft drinks contain carbonated or non-carbonated water, a sweetener, and a flavor, and hot drinks include coffee and tea. The soft drink category dominates the industry and includes carbonates, juice, bottled water, ready-to-drink tea and coffee, and sports and energy drinks. Soft drinks are sometimes referred to as liquid refreshment beverages (or LRBs). In the US, LRBs lead food and beverage retail sales. In this series, we'll focus on the soft drink or LRB market.

**Global Soft Drink Market Size - 2013 (\$840.6 billion)**



Market Realist<sup>®</sup>

Source: Euromonitor International

### Dominant carbonates category

The global soft drink market is led by carbonated soft drinks (or CSDs), which had a market size of \$337.8 billion in 2013. In the same year, CSDs were followed by bottled water, with a market size of \$189.1 billion, and juice, with a market size of \$146.2 billion. In a later part of this series,

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we'll discuss why CSDs have been losing popularity, and why sales of other beverages, including juices and ready-to-drink tea, are increasing.

### Major companies

The non-alcoholic beverage market is a highly competitive industry that includes two behemoths —The Coca-Cola Company (KO) and PepsiCo, Inc. (PEP). Collectively, these companies hold about 70% of the US CSD market. Dr Pepper Snapple Group, Inc. (DPS), Monster Beverage Corporation (MNST), and Cott Corporation (COT) are some other key players in the CSD market.

Many international markets are also dominated by Coca-Cola and PepsiCo, but include other companies such as Groupe Danone, Nestle SA, and Suntory Holdings Limited.

Non-alcoholic beverage manufacturers, like Coca-Cola and PepsiCo, are part of the consumer staple sector. You can invest in these companies through the Consumer Staples Select Sector SPDR ETF (XLP).

### G. Statistics and facts on non-alcoholic beverages and soft drinks

The non-alcoholic beverages industry encompasses liquid refreshment beverages (LRB) such as bottled water, carbonated soft drinks, energy drinks, fruit beverages, ready-to-drink coffee and tea, sports beverages and value-added water.

This is a great site to find statistics:

<http://www.statista.com/topics/1662/non-alcoholic-beverages-and-soft-drinks-in-the-us/>

H. NY Times Article, February 2015

### BEVERAGES - NON-ALCOHOLIC

| TODAY  | 5 DAY  | 1 MONTH | 1 YEAR  | MKT CAP |
|--------|--------|---------|---------|---------|
| +0.16% | -0.37% | +0.67%  | +20.48% | 136.1B  |

The Beverages - Non-Alcoholic industry group consists of companies engaged in manufacturing non-alcoholic beverages, such as water, fruit drinks, soft drinks, iced coffee and tea, as well as other flavored beverages. The Beverages - Non-Alcoholic industry excludes tea bags and instant coffee manufacturing, fruit juices and concentrates, classified in Food Processing.

### Beverages - Non-Alcoholic

|                            | 1-day | 1-month | YTD    | Low    | High | 52-week |
|----------------------------|-------|---------|--------|--------|------|---------|
| Market                     | %     | %       | %      |        |      |         |
| Defined by Thomson Reuters | cap.  | change  | change | change |      |         |

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| Defined by Thomson Reuters                      | Market cap. | 1-day    | 1-month  | YTD      | Low High 52-week |  |
|-------------------------------------------------|-------------|----------|----------|----------|------------------|--|
|                                                 |             | % change | % change | % change |                  |  |
| <u>Coca-Cola Enterpri...</u> CCE: NYSE          | 10.5B       | +0.54    | +3.14    | +1.11    |                  |  |
| <u>Coca-Cola FEMSA, S...</u> KOF: NYSE          | 6.0B        | +2.42    | +1.91    | +0.90    |                  |  |
| <u>Dr Pepper Snapple ...</u> DPS: NYSE          | 15.2B       | +0.77    | +0.39    | +9.96    |                  |  |
| <u>Embotelladora Andi...</u> AKO.B: NYSE        | 2.5B        | -0.97    | +3.04    | +1.82    |                  |  |
| <u>Fomento Economico ...</u> FMX: NYSE          | 31.0B       | +2.01    | +2.06    | +1.70    |                  |  |
| <u>Monster Beverage C...</u> MNST:<br>NASDAQ    | 20.3B       | +0.11    | +1.63    | +11.92   |                  |  |
| <u>PepsiCo, Inc.</u> PEP: NYSE                  | 146.8B      | +0.34    | +0.54    | +4.76    |                  |  |
| <u>Sodastream Interna...</u> SODA:<br>NASDAQ    | 393.3M      | -0.37    | -2.75    | -6.91    |                  |  |
| <u>The Coca-Cola Co</u> KO: NYSE                | 183.8B      | -0.33    | -3.09    | -0.59    |                  |  |
| <u>Coca-Cola Bottling...</u> COKE:<br>NASDAQ    | 947.9M      | +0.44    | -1.70    | +16.14   |                  |  |
| <u>National Beverage ...</u> FIZZ: NASDAQ       | 1.0B        | -1.53    | -2.77    | -0.53    |                  |  |
| <u>Youngevity Interna...</u> YGYI: OTHER<br>OTC | 94.5M       | +3.15    | +1.00    | +1.00    |                  |  |
| <u>Alkaline Water Com...</u> WTER:<br>OTHER OTC | 14.4M       | +23.33   | +78.31   | +50.00   |                  |  |
| <u>Cott Corporation (...</u> COT: NYSE          | 748.2M      | +1.14    | +0.88    | +16.13   |                  |  |
| <u>DNA Brands, Inc.</u> DNAX: OTHER<br>OTC      | 24.0K       | 0.00     | -50.00   | 0.00     |                  |  |
| <u>Hangover Joe's Hol...</u> HJOE: OTCBB        | 778.0K      | -21.67   | +11.90   | -12.96   |                  |  |

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| Defined by Thomson Reuters                   | Market cap. | 1-day    | 1-month  | YTD      | Low | High | 52-week |
|----------------------------------------------|-------------|----------|----------|----------|-----|------|---------|
|                                              |             | % change | % change | % change |     |      |         |
| <u>Jones Soda Co. ( U...</u> JSDA: OTHER OTC | 17.0M       | -0.36    | +18.89   | +18.86   |     |      |         |
| <u>Konared Corp</u> KRED: OTHER OTC          | 8.0M        | +16.28   | -6.54    | -29.08   |     |      |         |
| <u>NOHO Inc</u> DRNK: OTCBB                  | 275.0K      | +13.60   | -38.26   | -71.60   |     |      |         |
| <u>Pulse Beverage Cor...</u> PLSB: OTHER OTC | 8.4M        | -7.99    | -13.46   | -46.63   |     |      |         |

### Beverages - Non-Alcoholic

| Defined by Thomson Reuters                   | Market cap. | 1-day    | 1-month  | YTD      | Low | High | 52-week |
|----------------------------------------------|-------------|----------|----------|----------|-----|------|---------|
|                                              |             | % change | % change | % change |     |      |         |
| <u>Puresafe Water Sys...</u> PSWS: OTHER OTC | 383.3K      | 0.00     | 0.00     | 0.00     |     |      |         |
| <u>Reed's, Inc.</u> REED: AMEX               | 71.1M       | 0.00     | +0.37    | -7.95    |     |      |         |
| <u>Uplift Nutrition L...</u> UPNT: OTCBB     | 555.7K      | 0.00     | -50.00   | +28.62   |     |      |         |
| <u>Crystal Rock Holdi...</u> CRVP: AMEX      | 15.8M       | 0.00     | +1.37    | -2.95    |     |      |         |
| <u>Global Future City...</u> FTCY: OTHER OTC | 19.1M       | 0.00     | +131.82  | +100.00  |     |      |         |
| <u>MOJO Organics Inc</u> MOJO: OTHER OTC     | 3.4M        | 0.00     | -4.81    | 0.00     |     |      |         |
| <u>New Leaf Brands In...</u> NLEF: OTHER OTC | 505.6K      | 0.00     | -16.67   | +36.36   |     |      |         |

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Note #5:

### I. History of American Beverage Association



The non-alcoholic beverage industry plays an important role in the U.S. economy. Our industry has a direct economic impact of \$141.22 billion, provides more than 233,000 jobs and helps to support hundreds of thousands more that depend, in part, on beverage sales for their livelihoods. Beverage companies and their employees, and the firms and employees indirectly employed by the industry, provide significant tax revenues - more than \$14 billion at the state level and \$22.7 billion at the federal level - and contribute more than \$765 million to charitable causes in communities across the nation.

The American Beverage Association (ABA) is the trade association that represents America's non-alcoholic beverage industry. ABA was founded in 1919 as the American Bottlers of Carbonated Beverages, and renamed the National Soft Drink Association in 1966. Today the ABA represents hundreds of beverage producers, distributors, franchise companies and support industries. Together, they bring to market hundreds of brands, flavors and packages, including regular and diet soft drinks, bottled water and water beverages, 100 percent juice and juice drinks, sports drinks, energy drinks and ready-to-drink teas.

ABA provides a neutral forum in which members convene to discuss common issues while maintaining their tradition of spirited competition in the American marketplace. The Association also serves as liaison between the industry, government and the public, and provides a unified voice in legislative and regulatory matters. As the national voice for the non-alcoholic refreshment beverage industry, the American Beverage Association staff of legislative, scientific, technical, regulatory, legal and communications experts effectively represent members' interests.



J.

In-depth articles on research and development trends, new products and formulation advancements.

#### 1.) Cognitive health appeals to all demographics

*Omega-3s popular ingredient for brain health*

By Jamie Popp

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

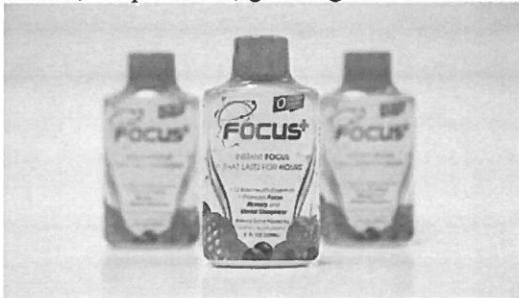
An estimated 5.2 million Americans suffer from Alzheimer's disease, and although the majority are older than 65, younger-onset Alzheimer's impacted 200,000 people last year, according to the Alzheimer's Association, Chicago. Furthermore, total payments in 2014 for all individuals with Alzheimer's disease and other dementias were estimated at \$214 billion, the association adds.

Increasingly, attention is being put on brain health and preventative measures such as diet and exercise in line with consumers, particularly baby boomers, expressing concerns about memory loss and dementia. However, ingredients that help consumers maintain their cognitive abilities are emerging to help all age groups to support brain development, focus and more.



“Cognitive health applies to all ages, as newborns and children develop cognition early, [middle-aged people] count on it for their careers, and the older generation strives for maintenance for as long as possible,” says Volker Berl, founder and chief executive officer at Oceans Omega, Montvale, N.J. “Consumers are naturally interested in maximizing intake of the right ingredients to maintain cognition for a lifetime, supporting memory, alertness, attention, mood and focus.”

Many ingredients are associated with cognitive health, but omega-3 DHA has the strongest body of scientific support, according to Berl. But vitamin D; coenzyme Q10; phosphatidylserine; magnesium; resveratrol; pycnogenol; vitamin E; and botanicals such as ashwagandha, ginkgo biloba, vinpocetine, ginseng and curcumin also are considerations, he adds.



Oceans Omega offers a range of stable omega-3 ingredients that are water soluble and clear because of its stabilization technology and sustainable sources of omega-3s from ingredient partners such as DSM Nutritional Products, Kaiseraugst, Switzerland, and Nutegrity, Irvine, Calif. OTEC 300LDHA delivers life's DHA from DSM, a fish free, vegetarian and sustainable source of DHA from algae, the company says. OTEC 250CL-K delivers OmegaActiv from Nutegrity, a pure, sustainable, vertically integrated source of omega-3s from menhaden that contains a balanced level of omega-3s DHA, EPA and DPA, according to the company.

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Used in clear beverages and liquid nutritionals, OTEC ingredients increase shelf life for finished products at ambient temperatures, the company says. They also are compatible with most beverage processing conditions such as hot fill, cold fill, carbonation and pasteurization, according to the company.

### Mental energy

Nutegrity closely follows the advent of brain health and the focus of today's consumers on products that provide a memory boost or afternoon edge.

"The [brain health] category is interesting to us because of aging baby boomers and challenges from cognitive function, but millennials and their brains are hardwired to go fast, and they are looking for some type of edge," says Matt Phillips, chief commercial officer at Nutegrity.



The focus is not only on memory and improved cognitive function, but also on general brain health as well as antioxidants and anti-inflammation specific to brain inflammation in relation to diseases, he says.

Nutegrity, a division of Omega Protein Corp., Houston, focuses its primary business in fishing and omega-3s, Phillips says. From a beverage standpoint, milk companies can use omega-3s in their formulations, but the company also produces dairy protein as well as a line of nutraceuticals.

"Most of the work we're doing is focused on antioxidants and higher concentrations of omega-3s," Phillips says. "At one time, most companies were doing product development and spending time on ingredients, and now they are looking to ingredient suppliers to ... come to the table with a turnkey solution."

Focus formulas and energy drinks openly tout the cognitive benefits of the ingredients to appeal to a wide audience, but the claims have to be backed by scientific evidence or beverages risk being pulled from store shelves. As a result, many companies dedicate considerable time substantiating new and existing claims and discovering ways to use their ingredients based on findings in clinical trials.

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Oceans Omega closely follows studies related to adolescents and brain health. For example, to determine the effects of algal DHA supplementation on reading and behavior in healthy school-aged children, researchers conducted the Docosahexaenoic Acid Oxford Learning and Behavior (DOLAB) Trial and reported that supplementation with 600 mg each day with algal DHA for 16 weeks improved reading and behavior in healthy school-aged children, aged 7 to 9 years old, with low reading scores.

“We work on educating the end producer,” says Karen Todd, director of global brand marketing at New York City-based Kyowa Hakko U.S.A. Inc. The company’s Cognizin product features citicoline, which increases cellular synthesis and energy, she says. Ingredients such as Cognizin are associated with boosting brain energy, supporting mitochondrial health, and boosting levels of ATP, according to the company’s research. This ingredient also is associated with increased focus and concentration as well as memory storage and recall.

“We do clinical studies on raw materials [with healthy subjects], and results of that help us identify what levels are appropriate to make claims,” Todd says. “The producer and finished product company do their pre-market test, but they’re looking at the science behind it to support their claims from the start.”

Kyowa Hakko is replicating clinical trials done with millennials, pre-menopausal women and baby boomers with more targeted groups including adolescents and athletes.

Futureceuticals, Momence, Ill., also sees the value of clinical trials and is in the midst of several that involve its ingredients including CoffeeBerry coffee fruit, a line of powders and concentrates of the fruit of the coffee plant, including the bean.

“We consider demographics when we’re choosing outcomes to focus on for our claims,” says Brad Evers, vice president of business development. “In the case of CoffeeBerry coffee fruit extract, we discovered that it has a unique capacity to increase serum levels of brain-derived neurotrophic factor (BDNF), which is a key neuro-protein involved in cognition, mood and other key neuro-processes. We chose to focus on cognition and mood, given the enormous public interest in cognitive and mental health at all age levels. Baby boomers frequently cite cognitive health as their No. 1 concern, and younger people are motivated to take action now to help ensure a higher quality of life as they age.”

Major research facilities around the globe are focusing on BDNF, and Futureceuticals has two studies that indicate that coffee fruit stimulates the body to produce BDNF, which is something brewed coffee does not do, according to the company.

“Our research on our coffee fruit products is at the forefront of new discoveries for cognitive health,” Evers says. “CoffeeBerry meets the demand for functional beverage ingredients that are natural and offer a value proposition.”

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### Focus on claims

Regulations as well as the flavor of the ingredients in their natural state can have an impact on beverages designed to improve memory and focus or reduce the impact of aging on the brain.

“The biggest trend with cognitive ingredients is really attention given to caffeine and energy drinks by the Food and Drug Administration (FDA) and [the decision to] crack down on amounts,” Kyowa Hakko’s Todd says. “Cognizin is a non-stimulant without negative side effects. Energy drinks use Cognizin [as a replacement for caffeine], and many companies are looking to reformulate and include it at the efficacious dose.”

But special treatment is required for cognitive ingredients to be beverage compatible, shelf stable, soluble and taste free. “Antioxidant beverages, focus beverages, and general brain-health and protein beverage ingredients are bitter, and [beverage-makers] have to figure out a way to mask [them],” Nutegrity’s Phillips says. “Another big challenge is solubility, and we’re finding ways through agglomeration or other techniques to make them suspend in a liquid.”

Oceans Omega is able to counteract the instability and protect them from oxidizing with new technologies, but aftertaste still is a challenge.

“Polyunsaturated fatty acids have the propensity to oxidize quickly and develop very repugnant odor and taste offnotes,” Berl says. “Many [omega-3] products still have a fishy or marine aftertaste, and their manufacturing requires an increased complexity in processing and handling these sensitive ingredients in the production processes.”

Certain nutrients also just don’t mix well, according to Russ Hazen, North American premix innovation manager for Fortitech Inc., Schenectady, N.Y.

“Certain iron compounds can have unfavorable effects on product quality and consumer acceptance by increasing the oxidation of polyunsaturated fatty acids,” Hazen says. “On the other hand, inclusion of suitable amounts of antioxidants, like vitamin E, is important to protect polyunsaturated fatty acids from oxidation. In liquid beverages, adverse interactions between calcium and phosphorus can be tricky and can result in unsightly mineral precipitation products under certain conditions”

When bitterness is a factor, masking agents can address this issue as well, according to Kyowa Hakko’s Todd. Futureceuticals, however, will provide its bitter CoffeeBerry products and extracts as-is because the more natural state is preferred by its customers, Evers says.

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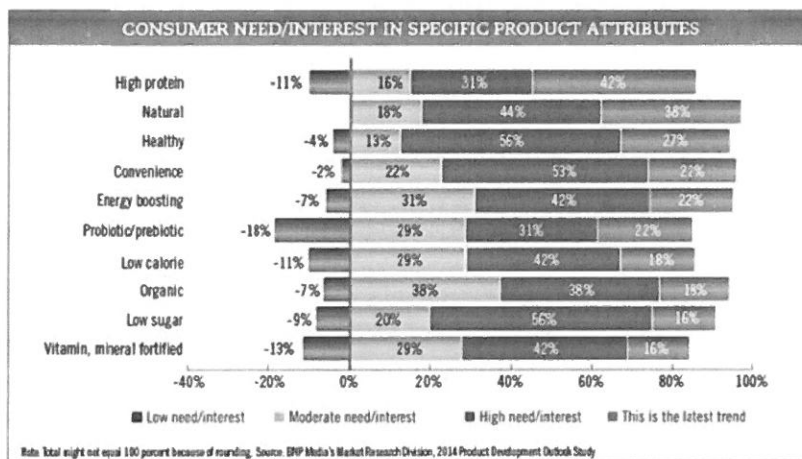
### 2.) 2015 New Product Development Outlook

#### *Survey-takers report using nearly 12 flavors in 2014*

By Jessica Jacobsen

January 12, 2015

If the groundhog's ability to predict the end of winter held true on an annual basis, it would make planning the last six weeks of winter much easier for many people. Although not as temperamental as the weather, many beverage-makers probably wish they had an ability to see into the beverage market future to predict the latest trends. However, the database of marketplace analytics, company sales information and more have helped beverage manufacturers gain a deeper insight into what to expect for the coming year.



According to respondents of Beverage Industry's annual New Product Development Outlook survey, "high protein" and "natural" are most likely to be the latest trends for 2015. Last year, "healthy" was the leader of consumer need/interest in specific product attributes and fell only two spots this year. However, "high protein" made significant strides in this year's survey,

moving up from the No. 10 spot to the No. 1 spot, with 42 percent of survey-takers listing the product attribute as a latest trend.

One area that saw significant contraction was "organic." With 27 percent of respondents naming this attribute as a latest trend last year, only 18 percent listed it as such this year, dropping it from No. 3 to No. 8. This year's survey also saw "low glycemic" (No. 7 last year) and "low fat" (No. 9 last year) drop out of the Top 10, being replaced with "probiotic/prebiotic" (No. 6) and "vitamin, mineral fortified" (No. 10).

Although "low glycemic" was not in the Top 10 for latest trends, it still was recognized by many survey-takers as a high need/interest for consumers. Other attributes also receiving this designation were "beauty enhancing," "cognitive health," "country of labeling," "ethnic," "Fair Trade," "low salt," "indulgent" and "portion controlled."

Attributes that ranked as having a low need/interest were "bone health" and "relaxation benefits."

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### The right flavor mix

With all of the flavors that are out there, beverage-makers are not at a loss for options from which to choose. According to Beverage Industry's survey, each respondent reported using on average 11.5 flavors in 2014.

When selecting which flavors they wanted to utilize, survey-takers opted for more traditional options in 2014, with orange, vanilla, lemon, strawberry and peach rounding out the Top 5. This is slightly different from last year's survey in which the top flavors were vanilla, lemon, strawberry, mango and peach. Orange's usage jumped up eight percentage points this year to 49 percent, compared with last year's 41 percent. Tied with orange at 49 percent, vanilla's usage remains fairly consistent with last year's survey, seeing an increase of one percentage point.

Other flavors that also saw modest growth were lemon (up one percentage point), strawberry (up two percentage points), peach (up one percentage point) and chocolate (up four percentage points). Flavors from last year's Top 10 that saw contractions in 2014 were mango (down three percentage points), raspberry (down eight percentage points), apple (down four percentage points) and fruit punch (down 17 percentage points).

Making up for some of these drop offs were lime (up seven percentage points), berry (up eight percentage points) and coffee (up six percentage points).

Although orange was the most-used flavor in 2014, it did not come in as the top-selling flavor for the year. Taking the top spot was chocolate at 29 percent. Although chocolate moved up only one spot from No. 2 to No. 1 compared with last year's survey, its percentage point increase was 15. Taking a hit, however, was strawberry. Last year's No. 1 top-selling flavor dropped out of the Top 10 as the percentage of respondents listing it as a top-selling flavor dropped from 25 percent to 7 percent.

However, not all flavors saw such a strong drop off in 2014. Vanilla moved up one spot to the No. 2 top-selling flavor after seeing its percent usage increase from 14 percent to 24 percent. Mango also had a positive year, jumping from No. 10 to No. 3. The tropical flavor saw its reported sales status increase from 10 percent to 22 percent.

This year's survey also saw a handful of new flavors make the Top 10 list. Raspberry, coffee, black tea, orange and peach all made the top-selling flavors in 2014 list, knocking out apple, berry, fruit punch, lime and, as previously mentioned, strawberry.

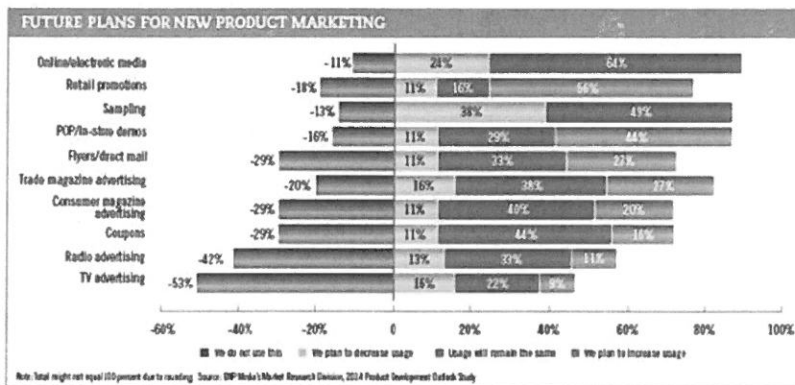
As beverage-makers prepare for 2015, the top sellers for 2014 are expected to carry over into the next calendar year. Chocolate is listed as the No. 1 anticipated top-selling flavor for 2015, with 29 percent of respondents naming the indulgent variety. This is a strong increase from last year's survey results in which only 17 percent of respondents listed it as a top-selling flavor. Also making significant gains is coffee, which entered the Top 10 in the No. 2 spot after being left off last year's list. Making a more modest increase, vanilla's anticipated selling performance increased one percentage point from 19 to 20 percent to round out the Top 3.

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### Developing for the masses

As beverage-makers prepare for 2015, many Beverage Industry survey-takers indicated that dairy-based and dairy-alternative drinks will be a category of focus.

Forty-two percent named the category as an area of new product development. This is up from the 35 percent that listed the category last year. Sports and energy drinks declined six percentage points to take the No. 2 position, while coffee and tea declined nine percentage points to round out the Top 3. Seeing double-digit declines in new product development were the water and juice categories, with only 24 percent of respondents listing the categories compared with 41 percent last year.



When it comes to deciding what areas of influence drive the development of new product ideas, more than three-quarters of respondents said they use consumer trends. Sixty-four percent noted customers/customer demand, while 62 percent listed research and development (R&D) departments. Marketing and sales and consumer research/testing filled out the Top 5 with 60 and 58 percent, respectively.

Natural attributes are of interest for many beverage-makers in 2015. Approximately 70 percent of survey-takers stated they will incorporate natural flavors into their new products. Of those respondents, nearly half indicated that this is an increase from last year's portfolio. Respondents were allowed to leave an open-ended response for their reason for this increase, and many listed cleaner labels and consumer demand as the influences.

Colors usage also shows an affinity for natural sources, with more than two-thirds of respondents planning to use natural colors in their new product development this year. Of those who plan to use natural colors, 43 percent named this as an increase from the previous year. Consumer demand and clean labels also were the Top 2 reasons for this increase.

### Team effort

Compared with last year's survey, this year's respondents represent the more entrepreneurial side of the business.

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For instance, the mean and median of the number of employees for this year's survey are 201 and 63 employees, respectively. However, last year's survey-takers reported a mean 1,278 employees and a median of 180 employees.

This team size also affected the number of employees who are working on developing new products. Last year, the survey found a mean of 60 employees and a median of eight employees working on new product development. This year, the teams are much smaller, with the mean and median at 10 and four employees, respectively.

Although the company sizes and new product development teams of respondents are from a smaller base than last year, their outsourcing portions did not differ too much. Twenty-nine percent stated they outsource a portion of their new product development versus the 35 percent that said the same last year. However, the main difference was the areas of new product development that they outsourced.

Sixty-two percent of respondents reported outsourcing prototype development, followed by 46 percent for concept and product testing, and 38 percent for market research. Last year, market research and prototype development tied for first with 46 percent naming those as areas of outsourcing. Concept and product testing rounded out last year's Top 3, with 42 percent naming this as an area of new product development.

Holding steady with last year's numbers, though, was the amount of respondents stating that a team approach is utilized in new product development. Ninety-three percent (the same number as last year) indicated using a team environment. Among those who use a team approach, 81 percent said sales and marketing are involved, while 79 percent listed R&D. This is slight flip from last year's survey in which 80 percent of respondents named R&D, and 77 percent reported sales and marketing.

Upper management also remains a constant for survey-takers, with 62 percent listing their involvement compared with last year's 61 percent.

Slightly higher than last year's survey results, nearly nine out of 10 respondents whose upper management is regularly included on new product development projects have involvement from their chief executive officers. This is up from last year's more than three-quarters of respondents. This variation could be reflective of the significant difference in the company size mean and medians between the two years.

Fifty-eight percent of survey-takers also indicated supplier involvement in new product development, compared with last year's 61 percent.

The length of time to develop a new product also saw an uptick in this year's survey, with mean time from inception to launch equating to 11 months. This is up from last year's nine months; however, one-third of this year's respondents noted that this is faster for them than in previous years.

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Perhaps reflective of the company size decrease from last year's survey-takers, the mean number of products developed in 2014 was 24, compared with 40 in 2013. Following suit, the mean number of those released decreased from 17 in 2013 to nine in 2014. The number of successful new product launches also experienced contraction, with the mean equating to five in 2014 versus 11 in 2013.

### What the future holds

Looking ahead to 2015, respondents remained optimistic about their new product releases, with more than half indicating that they plan to launch more new products in the market in 2015 versus 2014.

Planning and assessments also will be staples with survey-takers, as 60 percent said they have a definitive new product development plan. Post-launch assessment was even higher, with 76 percent having that in place. This is an increase from last year's results in which 62 percent indicated they had a definitive new product development plan, and 65 percent reported having a post-launch assessment.

Total cost to new product development also experienced some fluctuations between the two surveys. This year's had a mean and median of \$209,080 and \$37,500, respectively. Last year's respondents had a mean of \$348,717 and a median of \$20,000.

However, when it came to R&D budget comparisons, the numbers were fairly similar, with 44 percent listing an increase in their budget versus 41 percent last year.

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*Beverage Industry's New Product Development Outlook* survey was conducted by BNP Media's Market Research Division. The online survey was conducted between Sept. 29 and Oct. 13, 2014, and included a systematic random sample of the domestic circulation of Beverage Industry and its sister publications *Dairy Foods* and *Prepared Foods*.

Of the respondents, 44 percent process juice and juice drinks, 40 percent process coffee and tea, 33 percent process dairy-based drinks, 29 percent process sports drinks, 24 percent process water, 22 percent process energy drinks, 18 percent process spirits, 13 percent process carbonated soft drinks, 13 percent process wine, and 9 percent process beer.

Thirty-one percent of respondents were from companies with less than \$10 million in annual revenue. Another 31 percent of respondents were from companies with revenue between \$10 million and \$50 million. A total of 9 percent were from companies in the mid-size range of \$50 million to less than \$100 million. Thirteen percent were from companies with revenue between \$100 million to less than \$500 million. In the \$500 million to less than \$1 billion range were 9 percent of respondents. Representing the large-size range of more than \$1 billion in company revenue were 9 percent of respondents.

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Males accounted for 67 percent of the respondents, and the average age equated to 43. For industry experience, 20 percent indicated one to three years; 18 percent reported four to 10 years; 33 percent said 11-20 years; 20 percent listed 21-30 years; and 9 percent had 31-40 years of experience.

Regionally, 33 percent said they currently live in the South, 27 percent indicated the Northeast, 24 percent listed the Midwest, and 16 percent reported living in the Western portion of the United States.

### **K. Nielsen identifies consumer health concerns**

#### ***ABA, brand owners proactive in offering solutions***

By Jessica Jacobsen

February 16, 2015

Aside from the Valentine's Day candy and treats on the store shelves, the first quarter of a new year tends to be filled with diet- and exercise-related products to appeal to those consumers who resolved to lose weight or eat healthier in the new year.

For myself, my resolution to lose weight will likely come around mid- to late summer when I get the OK from the doctor to lose my baby weight. However, many other consumers have expressed the need to address their health and weight issues, which could become an opportunity for food and beverage manufacturers.

According to Nielsen's Global Health & Wellness Survey, nearly half (49 percent) of the global respondents consider themselves overweight. Citing the 2013 Global Burden of Disease Study, the New York-based market research firm says that an estimated 2.1 billion people, or nearly 30 percent of the global population, are overweight or obese. However, Nielsen's study shows that consumers are willing to take charge of their health and are willing to pay a premium to do so.

Because of the vast number of consumers who are concerned about obesity and other health-related issues, Nielsen suggests that brand owners should better align their offerings with these consumer need states in order to see growth benefits.

"There is a tremendous opportunity for food manufacturers and retailers to lead a healthy movement by providing the products and services that consumers want and need," said Susan Dunn, executive vice president of global professional services with Nielsen, in a statement. "While diet fads come and go over time, innovative, back-to-basics foods that taste good, are easy to prepare, and provide healthful benefits will have staying power. The first step is knowing where to put your product development efforts."

In the beverage space, we already are seeing brands and associations addressing this trend. This month's Special Report article on health and wellness (page 18) details how leading advocacy groups including the American Beverage Association and brand owners such as The Coca-Cola Co., PepsiCo Inc. and Dr Pepper Snapple Group (DPS) have pledged to reduce the number of

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calories that each American consumes on a national level by 20 percent by 2025.

Beyond this pledge from non-alcohol industry leaders, the beverage marketplace is seeing more low-calorie brands find a home with consumers as their products expand distribution. In this month's cover story on Bai Brands LLC (page 24), Chief Executive Officer Ben Weiss details how the company's national distribution agreement with DPS has allowed the enhanced-water brand to share its Bai5 and newest innovation, Bai Bubbles, with a broader audience that was looking for a healthy beverage solution.

As some consumers search for solutions to their health and wellness needs, it's great to see so many in the beverage space being proactive in delivering products that address them.

<http://www.bevindustry.com/articles/88194-nielsen-identifies-consumer-health-concerns>

L. Other ways to bottle our beverage. (NVE perhaps?)

<http://www.bevindustry.com/videos?bctid=946203236001>

### **M. Zico to send fan to Sochi 2014 Winter Olympic Games**

*Winner will meet gold medal skier Julia Mancuso*

November 5, 2013

El Segundo, Calif.-based Zico Beverages LLC's same-named coconut water brand announced a sweepstakes through which fans can enter to win a trip for them and a friend to attend the Sochi 2014 Winter Olympic Games and meet 2006 Olympic champion Julia Mancuso.

The winner will receive round-trip tickets to Russia, a four-night stay in a hotel overlooking the Black Sea, and tickets to some of the most popular Olympic events including snowboarding, speedskating and alpine skiing. The sweepstakes runs through Nov. 21, and fans can enter at [zico.com/sochi2014](http://zico.com/sochi2014).

Mancuso, who will compete in alpine skiing at the Winter Olympics, will represent Zico as a brand ambassador.

"Zico has already been an amazing partner hydrating me on and off the slopes," Mancuso said in a statement. "Now, they're giving two winners a chance to come to Sochi. How cool is that?"

Chief Executive Officer and Founder of Zico Beverages LLC Mark Rampolla added in a statement: "Zico has always supported athletes at every level by providing them with the naturally replenishing powers of coconut water. We're honored to be part of the world's most prestigious sporting event and to be hydrating the top athletes in the world."

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Additionally, from now through the Sochi Winter Games, Mancuso will share her training tips and favorite Zico recipes on the brand's Facebook page.

Through its relationship with The Coca-Cola Co., Atlanta, Zico is the official coconut water of the Olympic Games.

<http://www.bevindustry.com/articles/86916-zico-to-send-fan-to-sochi-2014-winter-olympic-games>

### **N. Bai Brands disrupts CPG space with low-calorie, all-natural solutions**

*Enhanced-water brand anticipates strong sales with support from expanded distribution, marketing efforts*

By Jessica Jacobsen

February 12, 2015

Usually when people think about a disruption, it comes with a negative connotation: the neighbors upstairs who sounds like they have a personal bowling alley, the fire alarm testing in the middle of the workday, or the road construction that takes a major roadway down to one lane. However, in the consumer packaged goods (CPG) space, a disruption can be the catalyst that creates the next iconic brand for a generation.

For Princeton, N.J., based Bai Brands, disruption is part of its DNA. "We innovate to disrupt," says Ben Weiss, chief executive officer and founder of Bai Brands. "We believe being disruptive in a mature industry like beverages is critical to creating a competitive advantage."



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Bai has been disrupting the marketplace since August 2009 when it launched its Bai and Bai5 beverage lines. Since then, the company has seen its enhanced-water brand post strong year-over-year sales numbers, expanded its product lineups, and taken its distribution to a national level.

### **Delivering solutions**

Emphasizing the widespread concerns related to obesity, diabetes and artificial ingredients, Weiss notes that the ideation behind Bai was to offer a healthy solution to these problems.

“For us, health and wellness is about delivering a truly flavorful experience but doing it in a very responsible way with ingredients that are pure and not artificial, delivering antioxidants as a functionality, and doing without the use of calories and sugar,” he says. “I think we’re doing our part to address an epidemic. The industry overall is looking for that solution.”

With 5 calories in each serving, Bai5 features a sweetener blend of what Weiss calls “smart sweeteners,” namely organic stevia and erythritol, but also offers fresh fruit flavor that is infused with antioxidant-rich coffee fruit.

Coffee fruit, the fruit that grows on the coffee plant and contains the coffee bean, is an attribute that helps Bai5 deliver on its health and wellness promises. The all-natural ingredient had not been widely used in beverages until recently, and the coffee fruit that Bai uses is rich in antioxidants, Weiss notes.

Until recently, this fruit commonly was discarded during the coffee-farming process, he adds. Understanding the antioxidant power within the fruit, Bai saw an opportunity to harness this into an edible commodity.

“Personal health benefits are only part of the mission,” Weiss says. “Eliminating waste wherever possible is the duty of every person on this planet; as is helping your neighbors achieve a better life. When traditional — wasteful — coffee-harvesting methods are used, the discarded fruit ends up in waterways by the coffee plantation. Massive amounts of rotting coffee fruit pollute surrounding streams with a buildup of ochratoxins, aflatoxins and caffeine. By turning this composted material into a consumable product, Bai is keeping the waterways clean and the ecosystem in balance, generating a new revenue stream for local farmers, and blazing the trail for a healthier environment.”

In finding what Weiss calls its “holy grail” with Bai5, the company also made a strategic decision in 2012 when it discontinued production of its mid-calorie product, Bai. Although the mid-calorie product contained some of the company’s strongest-performing flavors, Weiss decided to discontinue the line in order to avoid consumer confusion. “It was really an intent to not confuse our consumer, and it was a belief that what we had at that time [in Bai5] was becoming a bigger part of our portfolio,” he says.

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Even though it was a difficult decision to discontinue the mid-calorie offering, the company has not looked back and has posted approximately 300 percent growth each year dating back to 2011, Weiss says.

The Bai5 lineup now features 10 SKUs: Brasilia Blueberry, Malawi Mango, Ipanema Pomegranate, Molokai Coconut, Costa Rica Clementine, Tanzania Lemonade Tea, Sumatra Dragonfruit, Congo Pear, Panama Peach and Limu Lemon. Molokai Coconut and Brasilia Blueberry are the brand's Top 2 performers, followed by Tanzania Lemonade Tea, which has a more limited distribution model than the other SKUs, Weiss notes. However, the top performers are not runaway leaders, as the difference between the 10 SKUs is in the single digits.

"When you have a portfolio of 10 drinks that has single-digit variance, that says something," Weiss adds. "Our shopper shops across the lineup."

Although Weiss believes Bai5 offers the perfect balance between low calories, full flavor and all-natural ingredients in the still beverage market, the company took those same principles and applied them to the sparkling beverage segment.

In late 2014, the company put an effervescent spin on its Bai5 beverages with its new Bai Bubbles line. Originally available in the New York City metropolitan area, Bai Bubbles blends antioxidants from coffee fruit with exotic fruit flavors and natural sweeteners and contains 5 calories and 1 gram of sugar in each 11.5-ounce can. With nationwide distribution planned for early 2015, the new lineup is set to consist of seven flavors — Bolivia Black Cherry, Peru Pineapple, Gimbi Pink Grapefruit, Waikiki Coconut, Jamaica Blood Orange, Indonesia Nashi Pear and Guatemala Guava — each of which pays homage to popular coffee-growing regions.

Weiss notes that the inspiration for launching Bai Bubbles stemmed from his time exploring the market and looking at what consumer need states needed addressing. "I spend a lot of time in the market, and I tend to think like a consumer," he says. "I just saw a marketplace that was moving away from artificial ingredients, and I knew that we were addressing that market with Bai5, but I didn't see that solution out there in carbonated."

Adding that the company is filled with innovators and disruptors to the marketplace, Weiss explains that the idea-to-shelf process for Bai Bubbles took only three months. "When we focus on what we want to do, and it's the right time to do it, we can get it done pretty quickly," he says.

Although it still is too early to call out any variety leaders for the sparkling line, Weiss says because of its planned national launch through its distribution network and an agreement with national retailers including Target Corp., Minneapolis, the company is anticipating Bai Bubbles to be a \$25 million business in its first year.

With 17 total SKUs between its two lines, Weiss adds that the company still is no stranger to flavor innovations. Although he can't share any specifics, Weiss notes that the company always is developing new flavors and new innovations.

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

### National news

The announcement of Bai Bubbles wasn't the only big news Bai was able to share in 2014. The company also signed a distribution agreement with Plano, Texas-based Dr Pepper Snapple Group (DPS). The companies had previously worked together in the two years prior to the agreement, but the new agreement allowed Bai Brands to further capitalize on DPS' direct-to-store and warehouse delivery capabilities on a national level. New retailers that were added following the agreement included Kroger, Target, Sam's Club, Walmart, Publix, Stop & Shop, Duane Reade and Safeway, plus more than 100 additional Costco stores throughout the country.

"We have tested the Bai brand in select markets with great success over the last several quarters," said Jeff Conrad, vice president of market development for DPS, in a statement at the time of its announcement. "There is no question that Bai fits exceedingly well with our portfolio of leading brands, and we expect this new choice to be very well received by consumers from coast to coast."

Weiss notes that the deal signed with DPS was finalized in late January/early February of 2014, which resulted in Bai Brands missing out on the 2014 planning meetings. However, that aspect didn't hamper the expanded relationship with the companies.

"We still had this amazing year of growth; still very disciplined," Weiss says. "It was highlighted by our emerging relationship at the time with Target, which was the first national retailer to really go aggressive with the brand. They're coming off a great year with Bai, and we started 2015 in a very aggressive way with them as well. But this is where we're taking all of our learnings, we're in true scale-up mode, and we're going to build out our [all-commodity volume] (ACV) across all channels. It's an exciting year for Bai."

He adds that to be able to have full national distribution is every beverage company's goal, and to have that by year five is a feat he is very proud of. "Not many brands can say that," Weiss says. "I'm very proud of the pace at which we did that now that it's up and running. DPS will cover close to 70 percent of the country, so there are still distributors that we have engaged to provide full national distribution.

"When you are looking to activate chains, you're going to need to prove to that chain that you have the ability to get to every one of their stores," he continues. "If you can't do that, you're not going to get much support from that chain. To be able to check that box and say, 'Yes, we have a route to market [and] we can deliver to every one of your locations, whether you're Sam's Club, Costco, Target [or] whomever,' is critical."

Because DPS does not cover all regions across the United States, Bai also has agreements with many other distribution networks including Hensley Beverage Co. for Arizona, John Lenore & Co. for the San Diego market, Polar Beverages for the New England area, The Honickman Group in the mid-Atlantic, and Admiral Beverage Corp. for the mountain regions.

Through this expanded distribution network, Bai has learned that the key to reaching this success is all about winning at retail.

## NON-ALCOHOLIC BEVERAGE COMPANY PORTFOLIO

“It’s all about developing a relationship with a consumer that’s stronger than any other relationship,” Weiss says. “If you and your consumer are aligned, then everybody else will fall into place, whether it is the retailer and ultimately the distributor.”

Weiss adds that in the competitive beverage market, Bai is able to stand out because of the promises it delivers on health and wellness. “The beverage category is extremely competitive with new brands emerging almost routinely,” he says. “However no one has delivered on consumers’ needs like Bai. In a world increasingly seeking healthier options, Bai provides consumers a variety of beverage options that not only have great flavor but [make] people feel good about drinking. Bai’s ability to uniquely satisfy customer’s desires is reaffirmed in its strong sales growth across all retail channels. Bai’s performance paints a compelling story that has enabled solid increases in distribution.”

Additionally, if a brand is able to be data driven and show through sales reports how it’s performing in the market, the distribution will follow, Weiss explains. Those on-paper numbers were crucial to Bai Brands achieving its distribution success.

“When you look at the numbers, you’d have to be foolish to not stand strong behind the brand, and that’s what’s happening,” he says. “The retailers see Bai’s strong momentum and say, ‘Wow I get it. You’re my salvation to enhanced water, and I’m going to now give you this,’ and then you take that to a distributor and say, ‘We’ve got to deliver,’ [and] it becomes a lot easier.”

### **The support tool**

With so much in place for 2015, the company is expecting more great things to come this year, Weiss says. “You’re going to see the product become ubiquitous in all channels. I truly believe that this is the next iconic beverage in the making, and everyone else is going to get to hopefully share in that opinion this year.”

Beyond the expanded lineup, the increased distribution network and the industry accolades, Bai aspires to have a voice: a voice that addresses the dilemma.

“I founded Bai because I believed that building a great beverage experience would improve people’s lives,” Weiss says. “Over the past five years, I have marveled at the serendipitous timing of this idea and the way our customers have accepted what Bai stands for and responded to the way we go about bringing it into their lives. As a team, we have pushed hard to increase our sales velocity and improve our retail execution while focusing on the ‘big bets’ that will make a difference within the lives of our consumers.”

When it comes to innovation and Bai’s future, Weiss remains optimistic about what is to come. “Bai Bubbles is an example of how our continued innovation can play a very relevant role in providing a breadth of health and wellness with great flavor and unmatched purity to a beverage experience,” he says. “There is no doubt that a cultural shift is happening within the beverage industry. This shift is unprecedented in magnitude and will change the course of beverage for generations to come.

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“Bai is at the precipice of this change and, in many ways, is defining the ‘smart-age’ of beverage,” Weiss continues. “What will we make of this moment? How will we engage with an emerging beverage culture, defined not by age or income but by the people determined to change the practices of the businesses that bring beverages into their lives? The answer is simple: We will disrupt. Today the opportunities are greater than ever, and Bai is innovating in an attempt to capture the potential of this moment. By doing so, we are reshaping our company, reshaping our industry, and along the way, finding our voice.”

<http://www.bevindustry.com/articles/88184-bai-brands-disrupts-cpg-space-with-low-calorie-all-natural-solutions>