

THE VOICE OF BEVERAGE RETAILING

BEVERAGE SPECTRUM

OCTOBER 2006

HEAVYWEIGHT

How the Izze
purchase changes
your cooler.



// ALSO THIS ISSUE //

**HOLIDAY
PROMOTIONS**

**WINE: INSIDE
THE BOX**

**SPORTS DRINKS:
A NUTTY IDEA?**



PUBLISHED BY
BEVNET



IZZE
SPARKLING JUICE

Quietly Hedging for the Future

In the world of Wall Street deals, it was so slight an acquisition it didn't even merit a mention in any of the daily news sections I read: PepsiCo paid what insiders said was \$75 million – pocket change – for privately-held-Izze Beverage.

What Pepsi got for its outlay is a healthier-alternative soda that couldn't have been doing much more than a million cases in annual volume – some in Starbucks, some in gourmet stores and supermarkets, some in schools. So obscure is Izze in the bigger realm of soft drinks that a Pepsi acquaintance of mine confided that, aside from the odd mention in trade journals he reads, it wasn't a brand that was even on his radar.

So imagine his surprise when, mentioning at breakfast that Pepsi was about to announce the acquisition, his teenage daughter excitedly revealed that she was a closet fan of Izze. Apparently, now that it was entering the Pepsi orbit she could afford to admit it!

But that's how these brands are. For those of us who tend to focus on big-volume brands launching in-your-face media assaults and grand merchandising displays at retail, brands like Izze and Switch and GuS and Fizzy Lizzy really are beneath notice. Still, they have loyal followings – even, it seems, within Pepsi households – and since many of these loyalists are young, these brands can't be entirely written off without a hard look at the future.

In Izze's case, the brand commands a premium price, has won a soft spot in moms' hearts

and is packed in classy glass bottles that provide a distinctive shelf presence next to the ocean of CSD line extensions packed in metal and plastic. It's also a nifty on-premise play for delis, pizza parlors and corporate cafeterias looking to strike an upscale note or two. Like Frappuccino and Ethos Water, also in the Pepsi portfolio, it has a very visible presence in the aura-conferring Starbucks cold box. Not least, if Coca-Cola were to decide to counter Pepsi's move, it's hard to see what other brand in this segment has quite the presence of Izze, small as awareness is even for Izze.

Let's not kid ourselves, though. Historically, this segment – what I think of as fizzy juices – has been quite problematic. I got worked up when Crystal Geyser's Juice Squeeze turned up in my local Starbucks in the 1990, earning the honor of becoming the first beverage sold in Starbucks that my kids actually enjoyed. With 72 percent juice and 28 percent sparkling spring water, it seemed a parent's dream. (We hadn't learned to be scared of juice yet.) It didn't go anywhere, though: it wasn't "refreshing" enough for mainstream tastes, my more seasoned friends in the business explained to me, and there were punishing economics that made it hard to make a buck.

Now, driven in part by the backlash against conventional CSDs, these drinks may finally be about to break out (though the economics haven't gotten any friendlier). So count Pepsi as showing a subtle intelligence in picking out

the choicest alt-soda brand in the batch, recognizing that – despite the absence of any significant entry barrier – neither its soft-drink nor its Tropicana units are likely to be able to KO it convincingly – and being willing to pay a "strategic" price (read: one day's sales in Minnesota) to get it. Also smartly, I think, Pepsi is resisting the urge to fold it into its headquarters development operation and its bottler network. Instead, taking a cue from its experience with SoBe – an acquisition that went inert fairly quickly once sku-pinching marketers and bottlers went to work – it's said it will let the brand breathe. We'll see, if the brand gathers momentum, whether Pepsi maintains that approach. So far, though, it's looking like a good way to proceed with what may prove to be a very smart buy.



Longtime beverage-watcher Gerry Khermouch is executive editor of Beverage Business Insights, a twice-weekly e-newsletter covering the nonalcoholic beverage sector.

Boutique Sodas:

The

Shrinking

Space Race

By Jeffrey Klineman

The deal is done. PepsiCo went and swallowed **Izze**, the biggest jewel in the alternative soda shop earlier this month.



At two million cases last year, the sale of the sparkling juice company marks a major change in the high-end CSD segment. Whether it's a validation of a growing category or the beginning of the end remains to be seen, however.

For retailers, the \$75 million purchase, on face, shouldn't make it any harder to get hold of their stock of Izze – or any harder than it's been to get hold of to date, that is. Word from Pepsi and Izze at the time of the sale indicated that the Boulder-based company would be left to maintain its own distribution network – despite recent changes the company had been forced to implement to increase its ability to fulfill orders.

Still, if you're in the business of making high-end sodas – and it has been a growing business, estimated at \$495 million by **Jones Soda** CEO

Peter van Stolk during a recent shareholders' meeting, you've either got to look at it as a positive development, or else throw in the towel. And soda makers are a pretty resilient bunch.

The positive spin comes from spunky fighters like **Cricket Cola's** Mary Heron, who insists that the purchase showed larger companies "have opened their eyes to upscale products, ones that, like Izze, are better for you, come in a glass bottle and have great packaging."

But at the same time, there are fears that that discovery is going to result in squeezed routes to market for the products that don't get picked up. With the purchase of Izze, there's bound to be a counterstrike or two, she agrees. The question of whether big companies like Coke or Cadbury Schweppes will pick up more sparkling juice companies (like **Fizzy Lizzy** or **The Switch**) or go prospecting for more gourmet versions of their own products (**Pop Soda** or **Boylan's**) is just part of what will determine the direction of the business. The fact that there are now a couple of clearly positioned leaders in the production of alternative CSDs is another: in scooping up Izze, (as well as smaller functional soda maker **Air-force Nutrisoda**), Pepsi has grabbed one of the best-known properties available, one that has a considerable amount of marketing momentum.

The question of whether other pure carbonated juice companies will be able to stake a national claim has to hang heavy in the air for

those companies, as well as the retailers and distributors who carry them. But there is nevertheless some optimism that carbonated juice makers will be able to take advantage of the purchase in much the same way Monster Energy slid onto vacant trucks after competing brand Rockstar signed a near-exclusive distribution deal with Coca-Cola Enterprises.

"Some of their distributors have already been calling," says Richard Beswick, the national sales manager for **The Switch**. "They're worried about losing the money they've spent building the brand and they want to have something else to cover it. The same thing happened with **Snapple**."



Beswick makes it clear that he's not concerned that shelf space will dry up.

"If you're in the right market, the audience is still there," he says. "Grocery stores are all putting in natural sections that deal with our product."

"But if you're in gourmet sodas," he adds, "It's just poorly defined."

In saying that, Beswick taps into the issues facing the larger contingent of non-juice alternative soda makers: some are anchored in tradition and nostalgia, while others appeal to a new breed of aspirational gourmets. Depending on consumer response, the effect of the Izzé purchase on them is likely to be more tangential, but a much larger question is the direction of the soda category overall. While CSDs are still the most widely purchased beverage product in the country, they are quickly losing share overall, leaving craft CSDs facing the prospect of becoming a very good anachronism.

"We're considering taking the word 'soda' off the (White Rock Organics) bottle," says Larry Bodkin, White Rock's president. "When we sample, people say to us, 'I just don't drink soda anymore.'"

At forward-looking Jones, things have taken a slightly less gourmet direction, as it has hooked up with bargain soda maker National Beverage and plans to start selling through K-Mart. Still, K-Mart isn't exactly Whole Foods, and Jones seems satisfied to be a well-distributed alternative to mainstream sodas rather than one that stakes its claim in the high ground of gourmet authenticity. Jones' pipeline approach should appeal to retailers who find their customers overlapping with Jones' current direction. Hansen's, with its re-tooled **Blue Sky** soda, is taking a similar middlebrow approach, only in the natural foods galaxy.

As for smaller producers, expect them to keep plugging away, hoping to catch lightning in their bottles, and then hoping to get those bottles into your cooler. Companies like **Maine Root**, **GuS**, **Virgil's** and Cadbury's own **Stewart's** have their own regional fan bases, and some have built strong on-premise followings, as well. The stronger the following, of course, the more likely they'll attract some attention.

For a homegrown soda maker like Cricket's Heron, the option of slowly, organically building market share at a select set of retailers has its romance; she, like many other soda makers, are always hunting for someone new to give them a try on their shelves.

But she recognizes that Izzé's route has its own advantages, as well.

"Hey, that model is a good one," Heron says. "Acquisition is a pretty nice thing to have happen." //

Guarana Sodas: Tiny Market Share, Growing Opportunity?

Amidst all the discussion of "energy sodas" **Vault** and **Mountain Dew MDX**, there is another attempt to cross the streams of energy drinks and sodas, only this time, it's the energy drinks who are trying to leap into the CSD pool.

Products like **Bawls Guarana**, **Sol Maté** and **Golly Guarana** are taking a micro-soda approach to traditional energy drink ingredients like the guarana berry and yerba mate extract, brewing these natural caffeine sources up into CSD's that range from 50 to 100 percent more caffeine than your average Coke or Pepsi.

The idea is one that Pepsi actually attempted itself prior to the energy drink craze with a short-lived guarana soda called **Josta**, which launched in the mid-1990s. The beverage lasted just a few years.

It might be time for a revival, though. With the nation becoming more caffeine-aware, the guarana and yerba mate sodas might have the potential to take double advantage of that increased knowledge. For some consumers, the idea that they're drinking a naturally-occurring caffeine product would top an artificial source. For caffeine junkies, however, the idea that these products actually have twice the boost of a regular soda could be a major attraction.

Bawls is still marketed largely as an energy drink – and has achieved a small level of success in that form, making the top 20 in that category. **Sol Maté**, which has high-power yerba maté as its caffeine analog, hasn't quite figured out where it stands with regard to the energy drink/CSD divide. But both come in upscale, design-heavy glass bottles that could easily translate into a spot on a gourmet soda shelf set. **Golly Guarana**, with a 12 oz. can and 20 oz. bottle, has more of a mainstream look.

The key element of success for all three, however, is the ever-present consumer education component. Given the massive growth of energy drink consumption, it's likely that many more consumers have consumed guarana than could actually discuss what it is.

"I don't know if the benefit of guarana is mainstreamed yet," says Mary Heron, CEO of Cricket Cola, a green tea soda that spent years waiting for that now red-hot additive to break into the mainstream. "I have trouble even pronouncing it."

That might be true, but with both guarana and yerba maté consumption on the rise, and caffeine awareness growing, retailers might find it to be something worth learning.



Izze — Representatives of IZZE Beverage Company and Project REACH recently drove a trailer packed with English and ESL books and educational materials to the farm working community in Yakima Valley, Washington, one of three current farm working communities supported by Project REACH. Founded in 2004, Project REACH (a non-profit program fully managed and funded by the IZZE Beverage Company) supports and creates education-based development for farm workers and their families in the communities where IZZE buys its fruit. Izze was also purchased by PepsiCo last month.