

NEW PRODUCTS, TRENDS & INNOVATION

BEVERAGE SPECTRUM

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POWDERPOWER



Single Serves Grow,
Drink Mixes Reach \$1 Billion



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POWDER POWDER

BY MATT CASEY



Admittedly, powdered beverage mixes aren't new technology. Tang, after all, has been around long enough to have been used during NASA's Gemini program in the 1960s, and, early on, Gatorade sold in canisters as often as it sold in bottles. But modern marketers have taken a new twist on powdered drinks. Instead of relegating drink mixes to tubs that sit in mom's cabinet, new powdered beverages come in single-shot sleeves, called "sticks," that can go everywhere that bottled water can.

"The stick is very portable," said Ryan Alarid, co-owner of Zizzazz Explosive Energy Mix. "It's not like the old Gatorade canisters... you can't take that anywhere."

That convenience, along with price, profit margin and customizability pushed the overall powdered beverage market segment to a respectable 7 percent growth rate between 2006 and 2007 according to Mintel market research—growth that, in all likelihood, has continued to increase in 2008. As powdered drinks near \$1 billion in yearly sales, Gatorade, Propel, AriZona, Zizzazz, Jones Soda and others have added new single-serve options. While those companies package their powders in envelopes, some companies have taken a more innovative tack on quick-mix drinks, incorporating powders into cap-delivery systems or condensing the whole formula into an Alka-Seltzer-like tablet.

BIRTH OF A TREND

Before there was a trend, there was Crystal Light. The sugar-free mix debuted in 1984, and powered sales through its low-calorie status – and an endorsement from Dynasty star Linda Evans. (She played Krystle Carrington, don't-cha-know.) Even though Dynasty ended in 1989, and big hair soon followed, Crystal Light pushed on with a revolving cast of spokeswomen and the banner of "I believe in Crystal Light because I believe in me." Along the way, Kraft sold the product in both large canisters and in multi-packs of individually-packaged tubs pre-measured to mix with a pitcher of water.

As a brand in touch with its mostly-female customer base, Crystal Light noticed when its customers started carrying bottles of water everywhere. In 2006, Kraft introduced Crystal Light "On the Go" packs, now found in individual packs and ten-stick boxes. The brand also changed its focus from low-cal to low-cal and high function. Crystal Light pushes antioxidants in their tea mixes, vitamin-C in their "Sunrise" powders, and energy, hydration and immunity in their "Enhanced" line. That shift not only parallels the modern beverage industry, it also serves as a microcosm for the whole powdered-drink segment.

"The major growth has come from energy drink mixes and sports drink mixes," said Mintel Analyst Garima Goel Lal. "Consumers are usually ready to pay higher prices for

value-added products."

Despite those higher prices, drink mixes still ring in as inexpensive refreshments and appeal to "price sensitive" consumers, Goel Lal said – which falls directly in line with the history of powdered drinks.

Kool-Aid, the first powdered drink, hit the market in 1927, according to the Hastings Museum. Long before cult suicides made "drinking the Kool-Aid" into a popular epithet for brainwashing, the brand rose to popularity as an attainable luxury, a step up from pedestrian water. During the Great Depression, inventor Edwin Perkins sold packets for 5 cents each, and cash-strapped families snapped the product off the shelves. Perkins' company churned out as many as one million packets of the powder per day by the time he sold the brand to Kraft in 1953. Powdered iced teas, lemonades and other products arrived later, and firms also introduced the large-format economy canisters that gave rise to the American standbys of "bug juice" at summer camp and Gatorade showers at the Super Bowl.

But the segment had matured and slowed by the time Bevology co-founder Tom Hicks, about to leave Naked, first contemplated his drink mixes in tablet form. AC Nielsen's scanner data showed that the segment actually shrunk by 1.1 percent in 2005 in food, drug and mass merchandiser channels (excluding Wal-Mart – a likely source of even more sales). Since then, there's been



an explosion of brands including Emergen-C, ZipFizz, Easy Drink Packs, and Zym. Nielsen's data shows that the segment's dollar value has grown by 25 percent in those channels, as marketers have pegged their powders to functional claims and rolled out individual servings.

A typical single-serve drink mix costs between 35 and 55 cents and tops out around 70 cents. Adding a bottle of water raises the total price to a range similar to that of an RTD, but tap water and a tall glass or reusable bottle works just as well as store-bought water in a 16.9-oz PET. That not only makes the carbon-footprint crowd happy, but also puts mixes within the reach of Goel Lal's price-sensitive consumers. Because of that, she projects powdered drink mixes will add sales to their respective segments.

Zizzazz's Alarid also noted that customers don't have to use water as the base liquid for drink mixes. Other beverages, he said, make interesting options – especially alcohol. He pointed to the example of Red Bull. The brand holds a special place in bars where it makes up one half of the now-ubiquitous Red Bull and vodka Favorite or not, it doesn't allow bartenders any room for creativity. Zizzazz, Alarid said, lets them experiment with four different flavors while still mixing caffeine with liquor.

While versatility with intoxicants might rank as a big perk in bars, consumers can also customize their drink mixes in most situations by simply using more or less water than suggested. Hicks said his wife, for example, drops one Zenergize tablet into a liter

of water instead of the suggested half liter to create a drink with a lighter flavor.

Major RTD brands introducing powdered mixes might not like consumers tinkering with their formula, but Gatorade Spokeswoman Jill Kinney said powder extensions buttress the core product.

"With the Powder Packs, we're providing our consumer with the opportunity to take their Gatorade on-the-go in the event the portability of a ready-to-drink product is a barrier to usage," she said. "With placement in the powdered drink aisle, we have also created a new point of interaction with our consumers in-store."

Consumers can find Gatorade Powder Packs near the brand's sister-product, Propel Fit Powder. Kinney said Propel Fit Powder met at "extremely" positive consumer response on the strength of its low-carb and low-calorie credentials as well as its vitamin payload. She added that the product's successful debut cleared the way for Gatorade to appear in a compact, quick-mix form.

While that's all good news for beverage marketers, the benefits of powdered drinks extend to retailers and distributors.

ALL THOSE INCHES

As ultra-compact products, drink mixes run at a higher price-per square inch than other beverages, and could translate to more coin in your cash drawer. AriZona's Tea Stix, for example, come in 30-count counter packs that take up 18.75 square inches of shelf space – a space that could hold just three 16 oz. energy drinks – and yield total revenue of

\$10.50 to \$15.00. Selling three 16 oz. energy drinks, on the other hand, would yield a total sale of \$6-9. As a bonus, powdered beverages don't need to be refrigerated, and can be strategically located in otherwise hard-to-use spaces. Crystal Light offers stick-holders that hang on cooler doors, but beverage mixes present a profitable use of space even in bulk. Bevology's Zenergize products come in 10-tablet tubes that retail for \$6.99 and occupy less than an inch of shelf space.

That compact nature offers an additional benefit to retailers – lowered transportation costs – according to Zizzazz's Alarid.

"For the convenience stores, the margins are much higher than your average drink – mainly because of fuel costs," he said.

Zizzazz's 72-count retail boxes weigh less than two pounds, 30 pounds less than 72 8 oz. Red Bulls would weigh. Factor in the much smaller package, and the shipping costs for mixes approach zero when compared to RTDs. Where shipping costs fall, so do environmental impacts, and Hicks noted that the compact nature of the products reduces waste.

"Do you want to recycle one of these small tubes, or do you want to recycle 10 bottles?" Hicks said.

Some stores have even exploited this angle by selling his Zenergize tablets with Sigg, a fast-growing line of metal water bottles, he added.

CAPS AND TABS

Hicks' brand represents a twist on ready-to-go beverages. Instead of packing a breath's

» REHYDRATED OPPORTUNITIES

Many of the products entering the powdered beverage market are extensions of ready-to-drink beverages, but a couple have gone in the opposite direction. Both Jones Soda's 24c and Alacer's Emergen-C existed as powdered products before finding their way – pre-mixed – into a bottle.

Alacer introduced their Emergen-C Health and Energy Water in March, as an RTD extension of the company's existing powdered products. Bruce



Sweyd, Alacer's vice president for powders and tablets, said powdered Emergen-C has been on shelves for two decades and leads the category in sales, but its appeal is limited to the vitamin aisle – a place

many consumers rarely visit. However, the company saw an opportunity to expand its audience amid the surge in enhanced waters.

"We felt like, who could be better positioned to provide a better ready-to-drink [enhanced water] than Alacer?" Sweyd said.

In that spirit, Alacer launched 16 oz. RTDs with the same vitamin content as their powder packets. Sweyd said the product is performing well in natural channels, and reaches a different

consumer than the powdered product.

Jones' 24c presents a different story. Jones wanted to enter the growing enhanced water category, and liked the idea of using '24' in the brand name. They discovered, however, that a company called 24c already existed, and peddled powdered vitamin beverages in a tiny distribution area in Costa Mesa, Cali. – so they bought it.

Jones Spokesman Seth Godwin said the two products offer different ad-

vantages – the RTD form tastes better, while the powdered form contains more vitamins – and give consumers two options for drinkable vitamin supplements. The RTD version sells in Target nationwide, and in DSD accounts throughout the country. Godwin said it performs particularly well in the Northeast, but the company didn't have a strategy prepared for entering the powdered beverage market. "We're still kind of figuring out... how to go to market



with the powders." Godwin said.

While Jones feels out the best way to approach the segment, they've signed 24c with a strong distribution partner: Whole Foods.

BRAND NEWS

worth of powder in a sleeve, he packed his powdered drinks into effervescent tablets. (read: “plop-plop, fizz-fizz...”) Zenergize and Superfly dissolve in water, mixing themselves and giving off bubbles. However, that self-mixing process takes about three minutes compared to the few seconds required to properly stir a powdered mix, and the tablets don’t fit through the mouth of a standard PET bottle. The tablets must also stay in their specially-treated tubes prior to use, or moisture in the air could dissolve them prematurely. And don’t put the tablets in your mouth, unless you have a sudden need to appear rabid.

Those complications appear surmountable, as Hicks said Bevology is currently shipping product to Costco – and his company will likely enjoy limited competition in its sub-category for the foreseeable future. Hicks said the brand’s packaging “went through probably 67 changes” before they settled on a final design, and the tablets themselves required extensive development to reduce their dissolve-time to three minutes. Each new flavor also requires intense trial and error because the tablets must weigh exactly 5.5 grams.

“Anytime you take something out you have to add something back in,” he said.

While fizz-tabs might shun the standard PET bottle, other mixes are putting themselves right on top of them. Delivery-caps are put powders in innovative packages. A handful of companies, including Liquid Health Labs and Blast Cap Technologies, have produced cap-mounted delivery mechanisms for drink mixes. Both companies license their

technology to beverage brands that market the caps with attached bottles of water, but a few companies have sold the caps as stand-alone products. At 99 cents to \$1.50 each, the caps retail for a higher price than either sleeved-powders or tablets, but they bring a hint of novelty and more convenience to consumers.

“I think it is a new category,” said Ken Milligan, executive vice president of Liquid Health Labs. “It’s not an RTD, it’s an ‘RTG’ (ready-to-go.)” (See our earlier story on delivery caps, available online at BevSpectrum.com)

Products using that kind of packaging innovation are subject to pricing pressures, to be sure. On the other hand, they are playing in the fast-growing arena of functionality – with enhanced waters the fastest-growing part of the category – and there’s an argument that a packet helps keep those functional ingredients fresher than premixed beverages. Now, companies are rushing mixes into the market. Once relegated to bug juice and elementary school lemonade stands, mixes are moving into gym bags and purses.

But are they mainstream? It’s hard to tell, especially since some of these products are moving in the other direction, like Alacer’s push to put Emergen-C into an RTD form. Still, it wouldn’t be doing so without a strong powder aisle base from which it could grow. More mainstream brands are entering the segment, and Alarid, for one, expects all major energy drinks to introduce powdered versions. Maybe one day soon, everybody will be able to carry dry versions of their favorite drink in their pocket. •

ZYM Catapult

ZYM recently added “Catapult” to its line of tablet-based drink mixes. Infused with 100mg of natural Guaraná caffeine, Catapult is a supercharged version of ZYM Endurance, the hydration drink introduced two years ago by BE Innovations. Catapult adds B12 vitamins to the mix as well, for a hydration drink that fights dehydration, fatigue, muscle pain, and lactic acid build-up.

Phix

Phix, Inc. announced the launch of Phix Energy. The all-natural powdered energy drink mix promotes improved energy and mental clarity. It contains green tea anti-oxidants, yerba maté and NADH. Phix Energy is now available online at Whole Foods Markets, Metropolitan Markets and New Seasons Markets in the Northwest.

Açai Daily Drink Packs

Manufactured by Easy Drink Pack LLC of Norcross, Georgia, the açai packs contain a powdered, freeze-dried form of the berry’s pulp – without sugar or other additives. The new Açai Daily Drink Packs are USDA certified fully organic and natural.

Zipfizz

Zipfizz recently expanded its distribution channels by adding CVS, Target, Rite Aid and Odom distributors, and announced a new flavor: Grape. All Zipfizz flavors can be purchased in 20 count boxes and three-packs as powdered-filled tubes.

Zenergize

Zenergize, originally sold in 10-count tubes, recently added 32-count canisters of individually-wrapped enhanced-water tablets for national distribution in Costco.

Zizzazz

Zizzazz energy drink mix recently diversified its line to include a workout mix, a drink mix for kids (Kidz Zazz), a weight loss mix and a non-caffeinated mix. All ZizZazZ products come in stick packs. •



SPORTS DRINK MIX	Dollar Sales	Change vs. year earlier
CATEGORY TOTAL	\$66,422,150	31.0%
Propel	\$30,801,850	75.9%
Gatorade	\$23,413,370	9.4%
Crystal Light Energy On The Go	\$6,051,213	39.7%
Gatorade Frost	\$2,791,256	-16.1%
Capri Sun Sport On The Go	\$1,079,592	-42.8%
Private Label	\$663,846	49.6%
Powerade	\$657,485	-25.5%
Gatorade Fierce	\$334,694	-23.9%
Power Bar	\$193,218	N/A
Replenish	\$103,199	132.5%
Power Edge	\$74,515	269.1%
4C Totally Light 2Go	\$74,294	N/A
Gleukos	\$48,173	43.8%
Power Bar Recovery	\$41,695	94.7%
Power Bar Endurance	\$36,613	73.8%

SOURCE: Information Resources Inc. Total food/drug/mass excluding Wal-Mart