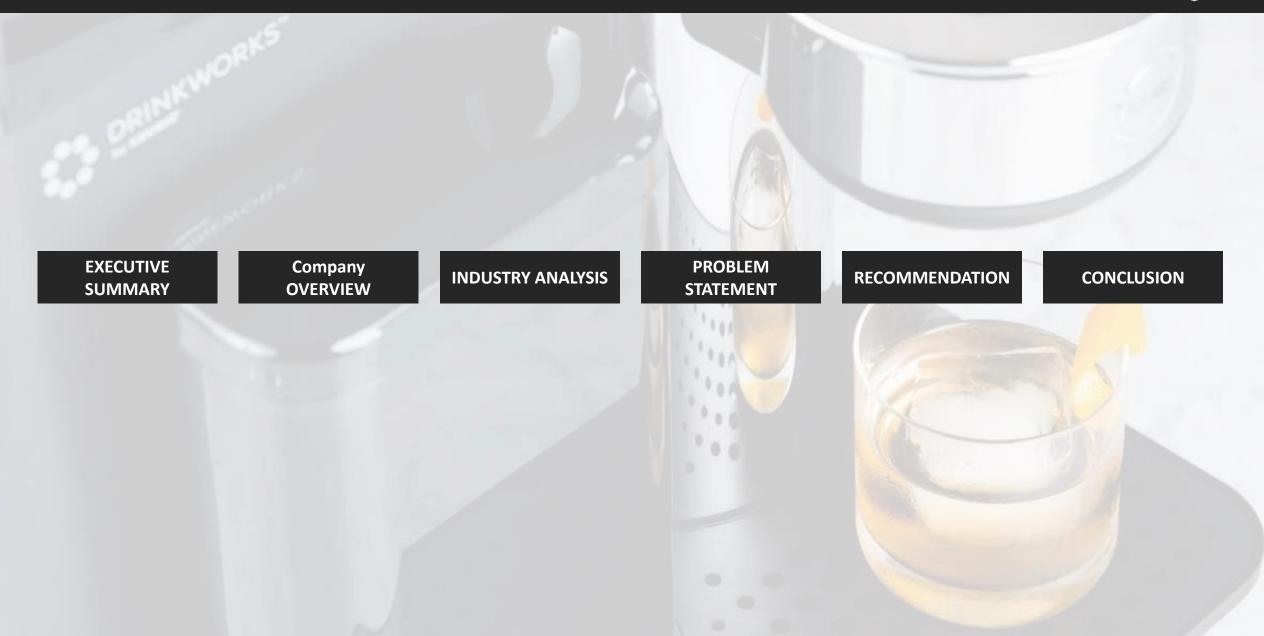


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How should Keurig go about launching DRINKWORKS home bar technology for US market?

<u>Customer Segment:</u> University students and Adults who like social gatherings.

Value Proposition: Convenience, exclusivity, state-of-the-art technology.

Product Offering:

- Should Introduce pods with alcohol because it has a higher margin despite of fewer distribution channels.
- Should focus on both cocktails and beer as our customer group is likely to want both.

Pricing

- Machine \$399
- Cocktail Pods \$6.50
- Mixer Pods \$2.50
- Beer Pods \$5.50

COMPANY OVERVIEW





Joint Venture between **AB InBev** and **KDP** in 2016.



Co-develop a **new home appliance** and pod system for chilled alcoholic beverages



- 1) A countertop appliance with removable components.
- 2) Three types of pods.
- 3) Corresponding **mobile application** synched with the device



Key Value Proposition is **Convenience**



- 1) Lead by President and CEO of Drinkworks, Nathaniel Davis with a background in Innovation and Development
- 2) Team size of 100 employees
- 3) Experienced leaders for departments like Engineering, Product Design and Finance.

SW Analysis Matrix

Strengths Weaknesses Strong Brand Image **Established Distribution** Channel Well-equipped leaders and External employees **Opportunities Threats** Rich R&D **Positive** Negative

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SW Analysis Matrix

• New entry to the Internal **Strengths** Weaknesses industry Negative outcome of the previous research External **Opportunities Threats** work. **Positive** Negative

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MARKET OPPORTUNITIES



- Huge market estimated \$130 billion.
- Consumers find drinking at home cheaper and more relaxing.
- Consumers consumed alcohol at home <u>more frequently</u> than away from home.
- Increasing <u>projected sales</u> of RTD drinks.
- Data provided from customers <u>using the app</u>.

MARKET CHALLENGES and THREATS



- Sales of RTD drinks fell between 2012 and 2017.
- Several <u>new firms entering</u> in the ready-to-drink cocktails space.
- Complex regulations relating to the distribution, sale, and consumption of alcohol.
- Multi-year <u>distribution agreement</u> between Bartesian and Hamilton Beach Brands.

COMPETITIVE ANALYSIS



- □ A cheaper alternative to home appliance device is available- existing competitors like Cardinal Spirits and St. Agrestis providing RTD cocktails in cans.
 - > **Pricing**: \$12 to \$15 for a pack of four cans
 - > Current Size: Relatively small, falling sales/demand
 - > Potential Entrants: Medium to High
- □ Availability of a cocktail-themed subscription model and DIY cocktail kits by existing competitors like Cocktail Courier, SaloonBox and Shaker & Spoon.
 - > **Pricing**: \$30 to \$50 per month with all ingredients
 - > Current Size: Relatively small since not nationwide
 - > Potential Entrants: Low to Medium
- □ Few other companies developing home appliances namely, Bartesian.
 - > **Pricing**: \$299 for the device, \$20 for 12 non-alcoholic pods
 - Current Size: Recently launched nationwide
 - > Potential Entrants: Low

PROBLEM STATEMENT



"An established beverage brewing Joint Venture with state-of-the-art technology wants to step into an untapped home bar appliance industry. However, it is yet to be decided how the market will be entered and captured, and how the product will be positioned."



Which customer segment should he target?

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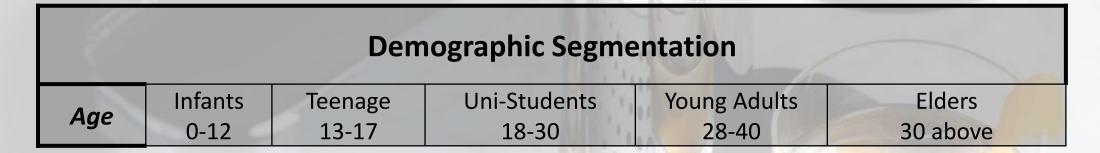
RECOMMENDATION

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RECOMMENDATION: SEGMENTATION



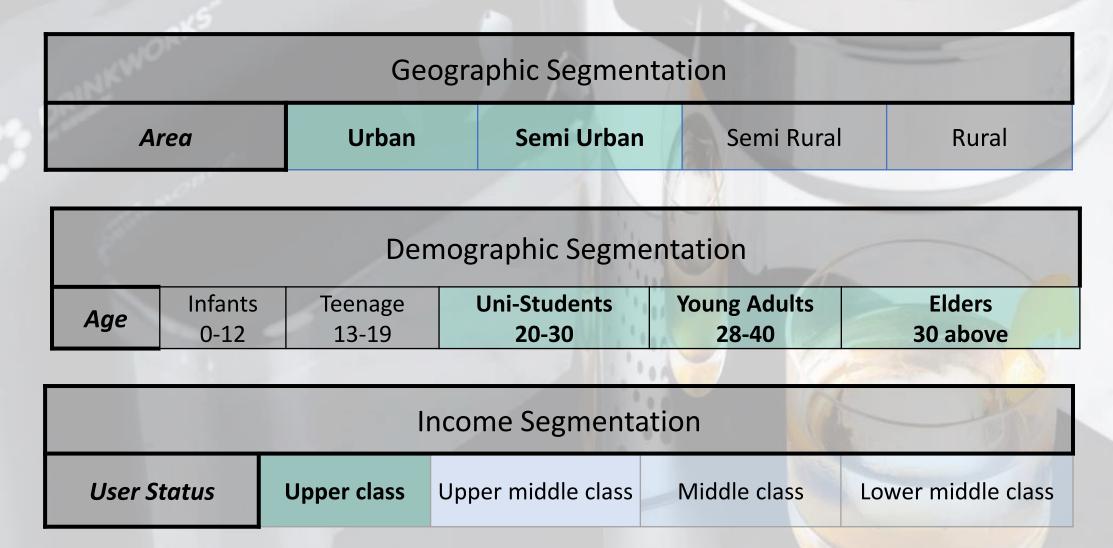




User Status	Upper class	Upper middle class	Middle class	Lower middle class

RECOMMENDATION: TARGETING





RECOMMENDED SOLUTION: STP



CUSTOMER PROFILE



RECOMMENDATION



- University and College students
- ✓ Age: 20-30

 Frequently host party
- ✓ Open to new experience
- Prefer diverse taste

TARGET GROUP 1



TARGET GROUP 2

- ✓ Adults who love social gatherings
 - ✓ Social Bachelors
 - ✓ Office workers
 - ✓ Social Elders
- Desire the taste of drinks without the hassle

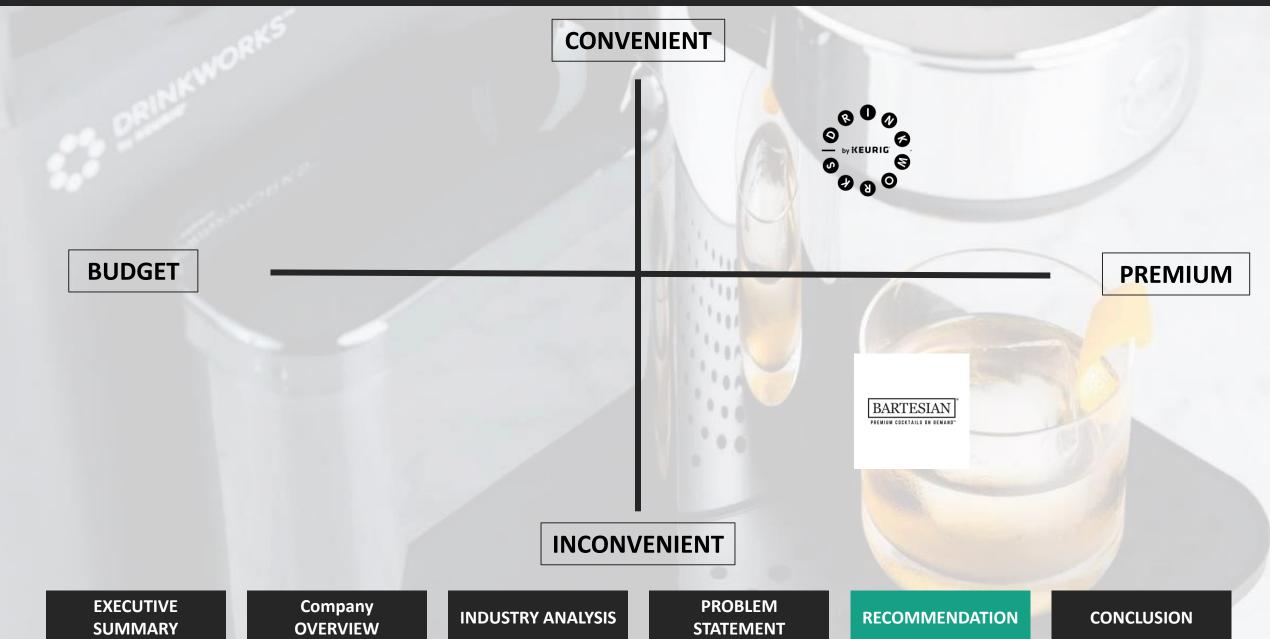


Which customer segment should he target?

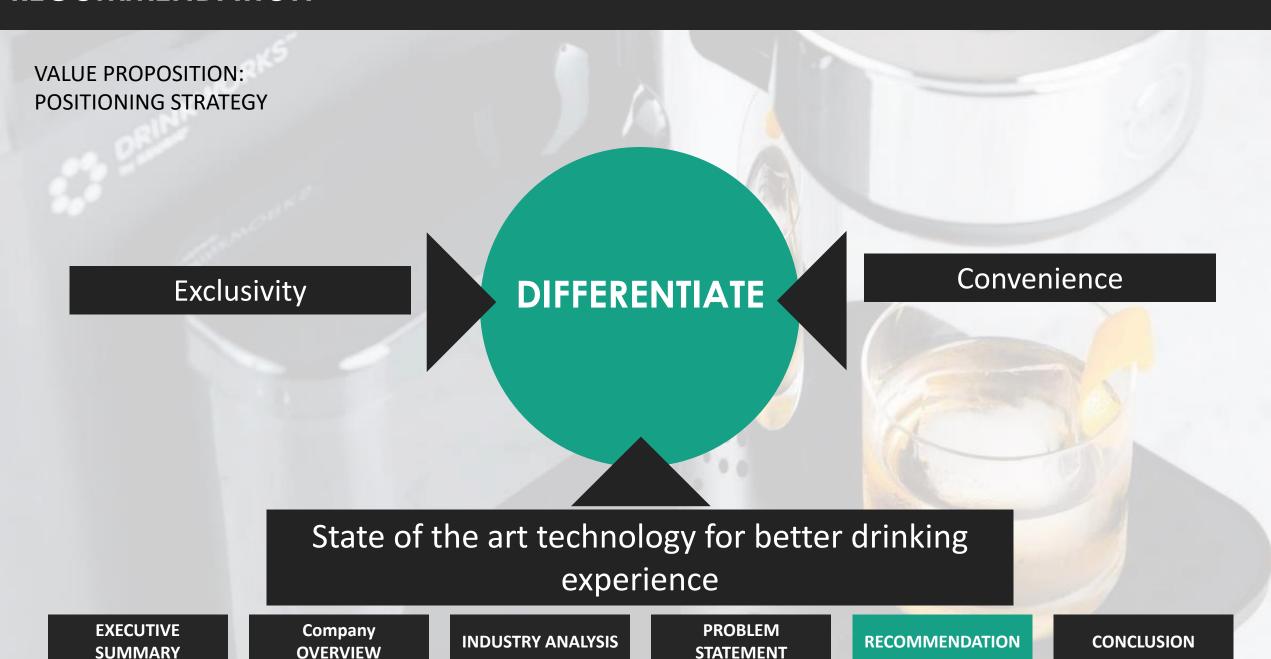
Target Segment	%	Description	Yes/No
Weekly "Drinker + Hosts" (Younger Demo)	21%	Young beverage enthusiasts who live alone, with partners, or with a family, and who host frequently.	Yes
Weekly "Drinker + Hosts" (Older Demo)	13%	Empty nesters who host frequently and want to offer their guests whatever they request	Yes
Monthly "Drinker + Hosts"	10%	Middle-aged men and women for whom alcohol quality is important; they are willing to pay to serve top-quality drinks with friends when the occasion arises.	Yes
Weekly Drinkers Who Rarely Host	12%	Spanning all ages, this group rarely hosts at home but would use a machine for cocktails on special occasions; they value convenience	No
Social Infrequent Spirit Drinkers	17%	Primarily women who do not frequently drink spirits; many prefer wine while some prefer beer. This group frequently socializes both at home and outside of the home.	No
Non-Social Infrequent Drinkers	27%	Less social couples who aren't very interested in alcohol.	No

RECOMMENDED SOLUTION: STP





RECOMMENDATION





What should Drinkworks' value proposition be?

A statement that should represent Drinkworks' VP:



Quick, easy and the best of the bar at your fingertips with Each Pod containing premium spirits and precisely measured drinks infused with the highest quality of ingredients.



How should the machine and pods be priced?					
Machine	\$	399.00			
Cocktail Pods	\$	6.50			
Mixer Pods	\$	2.50			
Beer Pods	\$	5.50			

Should he focus only on cocktails or also on beer?











Both Beer and Cocktails

- Projected Demand for Beer Pods 93.22% (26666)
- Projected demand for
 <u>Cocktail Pods</u> 0.29%
 (84)

Having both better suits our <u>target</u> groups.

Potential profitability for beer pods is \$117,330.58



Exhibit 5						
Drinkworks Appliance						
Price	\$ 499	\$ 399	\$ 299	\$ 249	\$ 199	\$ 149
% Willing To Pay	1.60%	2.10%	3.80%	4.70%	6.90%	10.50%
Cocktail Pods						
Price	\$ 6.00	\$ 5.00	\$ 4.50	\$ 4.00	\$3.00	\$ 2.00
% Willing To Pay	39.10%	45.50%	46.00%	51.50%	57.40%	72.80%
Non-Alcoholic Mixer Pods						
Price	\$ 4.00	\$3.00	\$ 2.50	\$ 2.00	\$ 1.00	X
% Willing To Pay	7.20%	15.20%	21.60%	31.80%	72.70%	X
Beer / Cider Pods						
Price	\$ 4.00	\$3.00	\$ 2.50	\$ 2.00	\$ 1.00	X
% Willing To Pay	35.30%	42%	44.50%	51.70%	55.10%	X



Exhibit 6				
Weekly Attachment Rate	Avg. Pods Consu	med Per W	eek Per F	lousehold
4/6/2018	8.3			
4/13/2018	8.6			
4/20/2018	7.9			
4/27/2018	7.7			
5/4/2018	7.8			
5/11/2018	7.6			
5/18/2018	7.5			
5/25/2018	7.7			
6/1/2018	7.4			
6/8/2018	7.2			
6/15/2018	7			
6/22/2018	6.7			
6/29/2018	6.5			
Target: High Class Customer	(Premium)			



Target: High Class Customer (Premium)				
Wholesale Margin	20% to 25%			
Liquor Retail Store Margin	25% to 35%			
Spirits Excise Tax	\$0.10 to \$0.15			
Retail Store Margin	25% to 35%			
No Alcohol				
Amazon Margin	15% to 25%			
Customer Acquisition Cost	\$100			



Manufacturing Cost		
Drinkworks Home Bar	\$ 250.00	
Variable Cost		
Alcoholic Cocktail Pods	\$ 1.20	
Non-Alcoholic Mixer Pods	\$ 0.95	
Beer Pods	\$ 1.10	
Pricing Notes		
Number of People Recruited	100%	2300
People Agreed on Premium	90%	2070
Appliance at \$0	42%	966
Appliance at \$199	6.90%	158.7
Appliance at \$299	3.80%	87.4
Appliance at \$399	2.10%	48.3
Total Respondents	55%	1260.4
Cocktail at \$4	50%	1150
Mixer at \$4	7%	161
Beer at \$4	35%	805



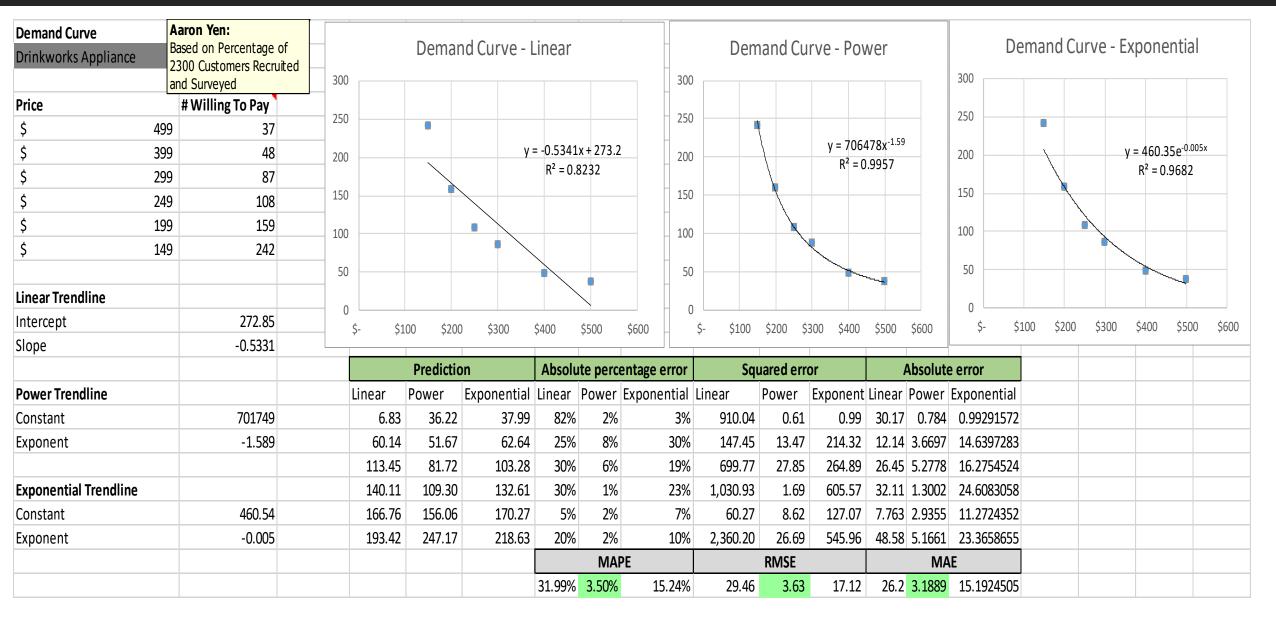
Cost-Plus Pricing Model								
			Appliance	Cocktail Pod	Mix	er Pod	Вее	er Pod
Manufacturing Cost		Manufacturing Cost / Excise Tax	\$ 250.00	\$ 0.13	\$	0.13	\$	0.13
Drinkworks Home Bar	\$ 250.00	Variable Cost	\$ -	\$ 1.20	\$	0.95	\$	1.10
Variable Cost		Wholesale						
Alcoholic Cocktail Pods	\$ 1.20	Retail Margin (Low)	20%	20%		20%		20%
Non-Alcoholic Mixer Pods	\$ 0.95	Retail Margin (High)	25%	25%		25%		25%
Beer Pods	\$ 1.10							
		Sales Breakeven Price (Low)	\$ 312.50	\$ 1.66	\$	1.34	\$	1.53
Wholesale Margin	20% to 25%	Sales Breakeven Price (High)	\$ 333.33	\$ 1.77	\$	1.43	\$	1.63
Liquor Retail Store Margin	25% to 35%	Liquor Retail						
Spirits Excise Tax	\$0.10 to \$0.15	Retail Margin (Low)	25%	25%		25%		25%
	7 32 7	Retail Margin (High)	35%			35%		35%
Retail Store Margin	25% to 35%							
No Alcohol		Sales Breakeven Price (Low)	\$ 333.33	\$ 1.77	\$	1.43	\$	1.63
		Sales Breakeven Price (High)	\$ 384.62	\$ 2.04	\$	1.65	\$	1.88
Amazon Margin	15% to 25%	Traditional Retail						
		Retail Margin (Low)	25%	0%		25%		0%
Customer Acquisition Cost	\$100	Retail Margin (High)	35%	0%		35%		0%
		Sales Breakeven Price (Low)	\$ 333.33	\$ -	\$	1.43	\$	_
		Sales Breakeven Price (High)	\$ 384.62	•	\$	1.65	-	-
		eCommerce Retail						
		Retail Margin (Low)	15%	0%		15%		0%
		Retail Margin (High)	25%	0%		25%		0%
		Sales Breakeven Price (Low)	\$ 294.12	\$ -	\$	1.26	\$	_
		Sales Breakeven Price (High)	\$ 333.33	•	\$	1.43	\$	_
		53.55 2.53	Ţ 300.00	T	7		~	



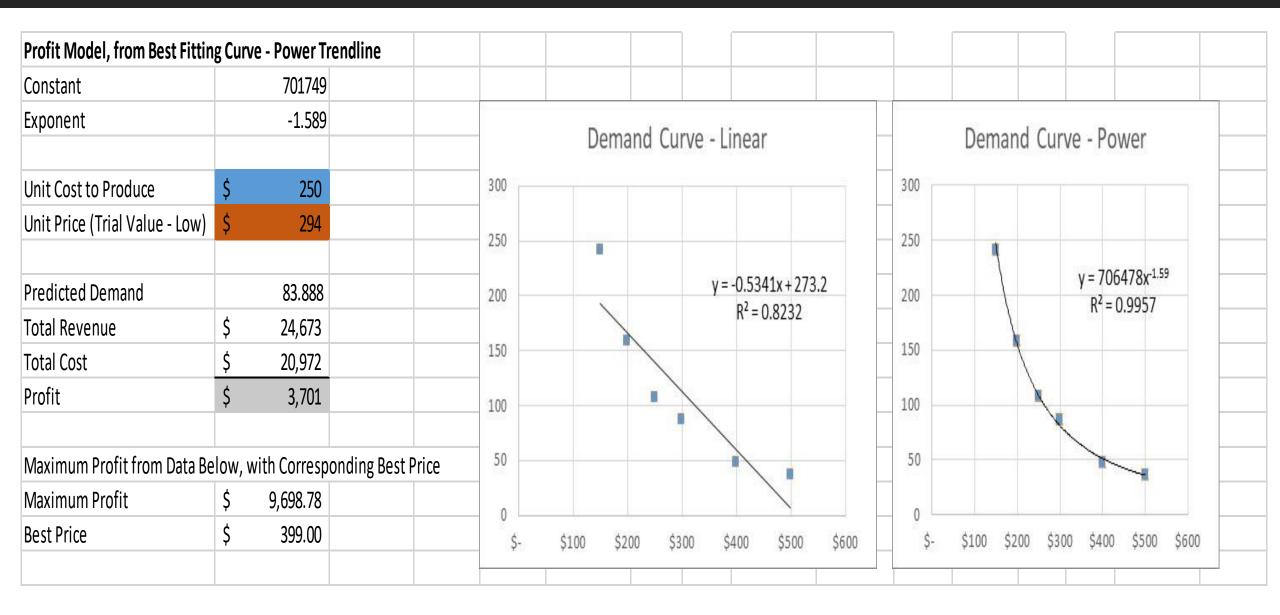
Contribution Margin Per Product					
	Breakeven	Price (Low)	Variable Cost	Contribution Margin	Ratio
Cocktail Pod	\$	1.66	1.2	\$ 0.46	27.5%
Mixer Pod	\$	1.34	0.95	\$ 0.39	29.3%
Beer Pod	\$	1.53	1.1	\$ 0.43	28.2%
	Breakeven	Price (Mid)	Variable Cost	Contribution Margin	Ratio
Cocktail Pod	\$	1.77	1.2	\$ 0.57	32.1%
Mixer Pod	\$	1.43	0.95	\$ 0.48	33.7%
Beer Pod	\$	1.63	1.1	\$ 0.53	32.7%
	Breakeven	Price (High)	Variable Cost	Contribution Margin	Ratio
Cocktail Pod	\$	2.04	1.2	\$ 0.84	41.1%
Mixer Pod	\$	1.65	0.95	\$ 0.70	42.6%
Beer Pod	\$	1.88	1.1	\$ 0.78	41.6%

If a product's contribution margin is negative, the company is losing money with each unit it produces, and it should either drop the product or increase prices. If a product has a positive contribution margin, it's probably worth keeping.





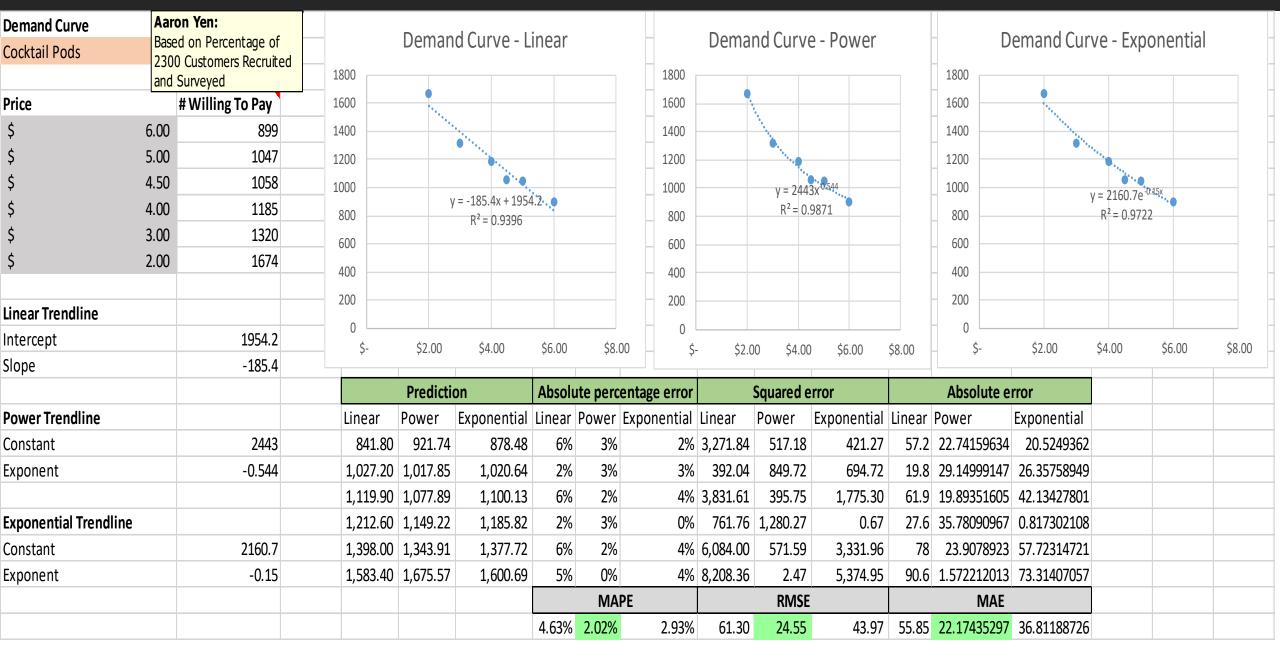






Unit Price	Profit	
	\$	3,701
149	-\$	24,963.77
199	-\$	7,959.29
249	-\$	109.30
299	\$	6,004.39
349	\$	8,328.01
399	\$	9,698.78
449	\$	9,023.45
499	\$	9,017.77
549	\$	9,304.06
599	\$	9,455.32
649	\$	9,516.95
699	\$	9,518.18
749	\$	9,478.31
799	\$	9,410.38
849	\$	9,323.40
899	\$	9,223.64
949	\$	9,115.55
999	\$	9,002.31



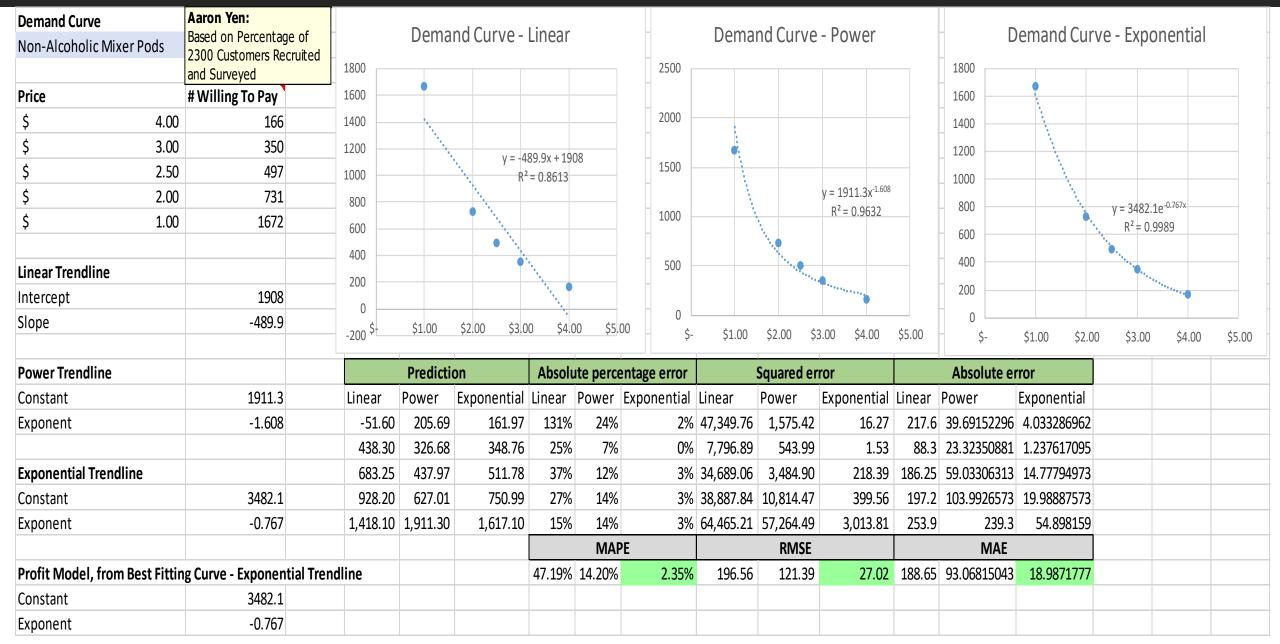




Profit Model, from Best Fitting Curve - Power Trendline					
Constant		2443			
Exponent		-0.544			
Unit Cost to Produce	\$	1.20			
Unit Price (Trial Value - Low)	\$	1.66			
Predicted Demand		1,856.603			
Total Revenue	\$	3,075			
Total Cost	\$	2,228			
Profit	\$	847			
Maximum Profit from Data Be	low,	with Corresp	onding Be	st Price	
Maximum Profit	\$	4,677.08			
Best Price	\$	6.50			

Unit Price		Profit	
		\$	847
\$	2.00	\$	1,340
\$	2.50	\$	1,929
\$	3.00	\$	2,419
\$	3.50	\$	2,842
\$	4.00	\$	3,218
\$	4.50	\$	3,557
\$	5.00	\$	3,868
\$	5.50	\$	4,156
\$	6.00	\$	4,424
\$	6.50	\$	4,677
\$	7.00	\$	4,916
\$	7.50	\$	5,143
\$	8.00	\$	5,360
\$	8.50	\$	5,567
\$	9.00	\$	5,766
\$	9.50	\$	5,958
\$	10.00	\$	6,143

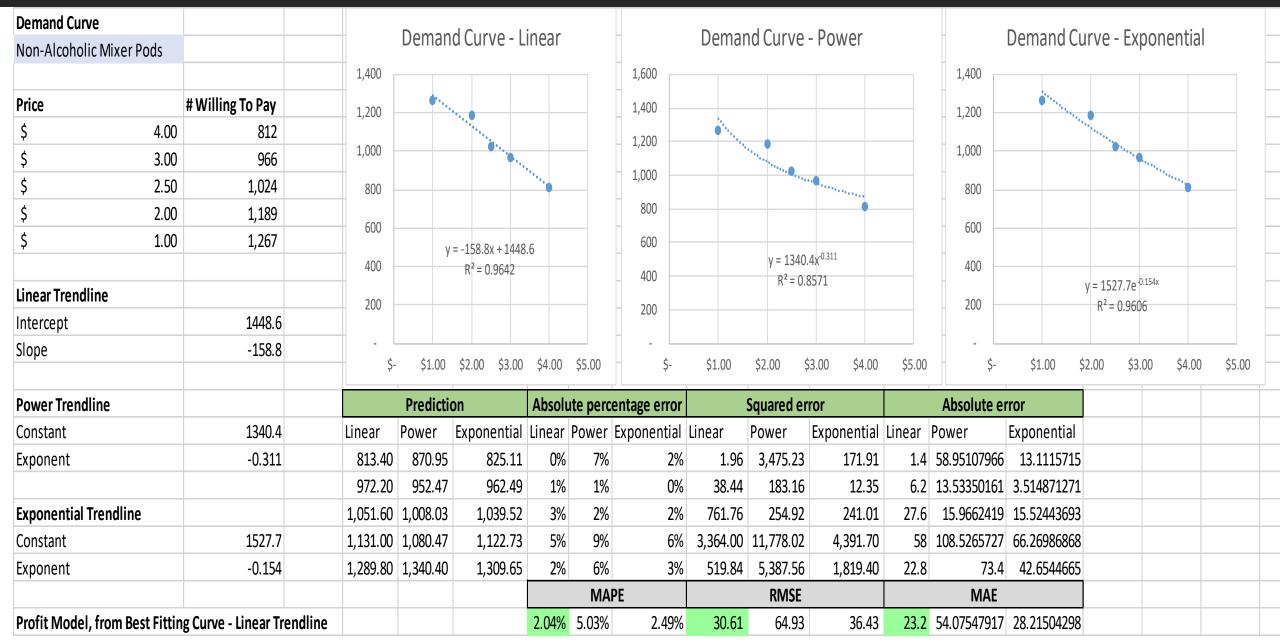






Profit Model, from Best Fitti	g Curv	e - Exponen	tial Trend	line
Constant		3482.1		
Exponent		-0.767		
Unit Cost to Produce	\$	0.95		
Unit Price (Trial Value - Low)		1.34		
Office (That Value - LOW)	\$	1.54		
Predicted Demand		1,242.318		
Total Revenue	\$	1,669		
Total Cost	\$	1,180		
Profit	\$	489		
Maximum Profit from Data Bo	low, w	ith Corresp	onding Be	st Price
Maximum Profit	\$	793.26		
Best Price	\$	2.50		
Unit Price	Profit			
f 1.00	\$	489		
\$ 1.00		80.85509205		
\$ 1.50		06.1053636		
\$ 2.00 \$ 2.50		88.5383195		
		714 06388		
\$ 3.00 \$ 3.50		714.962885 606.0631558		
\$ 3.30		193.9984748		
\$ 4.50		391.8340634		
\$ 5.00		391.8340834 304.6329838		
\$ 5.50		233.2283629		
\$ 6.00		76.4043993		
\$ 6.50		32.1171154		
\$ 7.00		98.1453076		
\$ 7.50	7	2.41083108		
\$ 8.00		3.11282667		







Profit Model, from Best Fit	ting C	urve - Linear Tr	endline	
Constant		1448.6		
Exponent		-158.8		
Unit Cost to Produce	\$	1.10		
Unit Price (Trial Value - Low	/) \$	1.53		
Predicted Demand		26,666.040		
Total Revenue	\$	40,832		
Total Cost	\$ \$	29,333		
Profit	\$	11,500		
Maximum Profit from Data			onding Be	st Price
Maximum Profit	\$	117,330.58		
Best Price	\$	5.50		
Unit Price		ofit		
	\$	11,500		
\$ 1.0		-2666.604		
\$ 1.5		10666.416		
\$ 2.0		23999.436		
\$ 2.5 \$ 3.0		37332.456		
\$ 3.0		50665.476		
\$ 3.5		63998.496		
\$ 4.0		77331.516		
\$ 4.5 \$ 5.0		90664.536		
\$ 5.0		103997.556		
\$ 5.5		117330.576		
\$ 6.0 \$ 6.5 \$ 7.0 \$ 7.5		130663.596		
\$ 6.5		143996.616		
\$ 7.C		157329.636		
		170662.656		
\$ 8.0	00	183995.676		



Should he introduce pods with or without alcohol?

Considering a <u>positive Contribution Margin</u> on all pods, introducing pods with alcohol should generate profit, despite fewer distribution channels.





How could Drinkworks encourage repeat purchases of pods?



Engage with <u>targeted post-purchase</u> messaging



Deliver <u>personalized touch</u> for the customer



Use the <u>data</u> from the app to improve on <u>customer preferences</u>



Promotional sales and offers on special occassions



What would be the best channel of distribution?



- The traditional retail stores.
- High margin compared to other distribution channels
- The eradication of the regulatory process
- Contractual deal
- Retailers can be used as point of sale promotion platform.
- E-commerce platforms of the retail stores





And could he assure the boards of AB InBev and Keurig that Drinkworks could be the next billion-dollar product?





GE/ McKinsey Matrix: HIGH BUSINESS STRENGTH



- Strong Brand Equity
- Market Share
- Strong R&D
- Team size of 100 employees
- Lead by President and CEO of Drinkworks,
 Nathaniel Davis with a background in
 Innovation and Development.

- Solid business Strategy
- Established Distribution Channel
- High Production capacity
- Bigger Profit Margin in relation with to the competitor
- Experienced leaders for departments like Engineering, Product Design and Finance



GE/ McKinsey Matrix : HIGH Market Attraction



• Market Size: Huge market of estimated \$130 billion for alcohol in-home consumption that can be captured



• Sales Growth Rate Projection: Analysts projected sales of ready-to-drink cocktails would increase 24% between 2017 and 2022.



• Consumers' Positive Perception: Results showed that users perceived the Drinkworks device as being innovative, convenient, and upscale.



 Global prospect: As automation and technological disruption have been taking place, people from around world have been inclined to embrace technologies like Drinkworks.

Ansoff Matrix: The Product-Market Growth Matrix

Products Existing Market **Product Development Penetration** Market Market **Diversification Development**



Diversification is the final alternative. It calls for a simultaneous departure from the present product line and the present market structure.



Existing

New

-- H. Igor Ansoff, 1957

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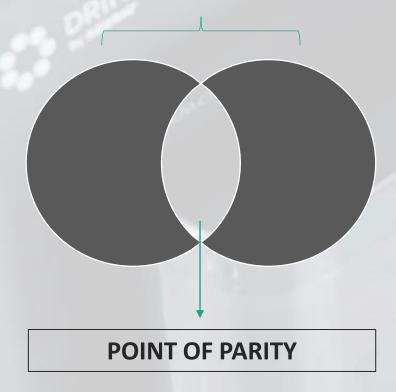
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POINT OF **PARITY** & POINT OF **DIFFERENCE**



POINT OF DIFFERENCE



Greater longevity of the device (5 years)

Most Convenient

Always up-to-date variety due to Wi-Fi connectivity, automatic software updates

Provides different drinks with the assistance of updated software

MONITORING AND EVALUATION







2 EMPOWERING AND INVESTING MORE ON R&D

MAINTAINGING COMPETETIVE
ADVANTAGE WITH SUSTAINABLE CORE
COMPETENCIES

CONTINGENCY PLAN



1 ANALYZE THE OVERALL FEEDBACK



2 EVALUATE THE PLAN, FIND LACKINGS

Success: No Change Failure: New marketing, distribution efforts, Increase frequency

TEAM ZEPHYR









Md Khaled Morshed



Aaron Yen



Sshrey Sheth