BMK 710ZZT - Drinkworks: Home Bar by Keurig

[redacted]

Contents

Drinkworks Overview and Project Recap

Joint Venture between AB InBev and KDP since 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 sync with the device

Project overview:

1. Drinkworks Home Bar is 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.

Situation Analysis - How are things looking like currently

Company

Core strength of Drinkworks is technical expertise of the joint venture of Keuring and AB inBev. Keurig has a Brand Reputation of industry pioneer with its coffee pods and machine.

Customers

Nearly 48% US population drinks alcohol. Addressable market for Drinkworks in nearly 24 Mn.

It is difficult to convince user to choose cocktail pods, since may like to have own choice of alcohol. Others may find difficult to assume beer condensed in a pod.

Market research has provided insights on

Collaborators

Government poses multiple and complex regulations on sale of alcoholic pods as well as excise tax. This will affect profit margins for the company and limit operation on scale.

Competition

Bartesian already attracted pre-orders on Kickstarter and has been quoted as "Keurig of Cocktails". There are likely to enjoy first mover advantage in the market if Keurig is not aggressive in its approach.

Context

The industry is attractive for home bar appliances and pods though, substitutes like RTD cocktails and complex regulations on alcohol distribution pose considerable challenges.

There are many new entrants in the RTD cocktails market, forcing threat of substitution.

Industry insights - U.S Market

- The in-home alcohol consumption market is worth an estimated $130 billion.
- A 2017 survey suggest that consumers find drinking at home ***cheaper*** (61%) and ***relaxing*** (64%).
- Casual drinking of alcohol is consumed at home more frequently than away from home.
- Those who consume alcohol at home prefer to drink wine (58%), beer (54%) and spirits (53%).
- Analysts project that demand of read-to-drink (RTD) would increase 24% between 2017 and 2022.

Analyzing our competitors

- Cardinal Spirits and St. Agrestis offers cheaper alternative with RTD cocktails in cans.
  - Price: $12 to $15 for a pack of four cans.
  - Current size: Small with indication of falling sales and demand
  - Potential entrants: Medium to High

- Cocktail Courier, Saloon Box and Shaker & Spoon are offering cocktail themed subscription model inclusive of all ingredients required to make a cocktail.
  - Price: $30 to $50 per month
  - Current size : Small due to no nation-wide distribution
  - Potential entrants: Low to Medium

- Other companies developing home appliances namely Bartesian.
  - Price: $299 device | $20 non-alcoholic pods
  - Current size: Expanding as they recently launched nationwide
  - Potential entrants: Low

Problem Statement

The joint venture between AB Inbev and KDP wants to enter an untapped home bar appliance industry with RTD pods. The joint venture is yet to finalize how to enter the market, gain market share and position it.

Drinkworks operates in the market offering compact and convenient bar solutions

Criteria / Alternatives	Is it how consumers view the market? Do they see the products as reasonable substitutes?	Does the market include all strategically important direct and indirect competitors?	Does the market definition consider all the solutions a customer considers to get their job done?	Is the Market big enough?	Will the market provide us with an untapped opportunity?	Can we participate in the market?	Summary
Bar Pods for Beer, cocktail or mixers.	**No.** Consumers don't relate with alcoholic pods.	**No.** It will leave out appliances and RTD cans/bottles.	**No.** Defining market as Pods alone will not consider all solutions.	**No.** People may prefer buying alcohol directly than beer pods.	**Yes.** Pods have been limited to coffee and growing number of people are inclining towards RTD options.	**Yes.** We have the relevant expertise. Keurig is well known brand for coffee pods.	This excludes most of other players in the industry.
Automated Bar Systems. (Consumer Electronics)	**No.** There aren't players making home bar machines, hence it's a novel idea for consumers.	**No.** It will leave out RTD cocktails brands.	**No.** This leaves out information about alcohol or cocktail.	**Yes.** Considerable amount of people would love to host parties.	**No.** It only allows one time payment and is not so profitable.	**Yes.** We have the relevant expertise. Keurig is well known brand for coffee machine.	This doesn't enable us to define the customer experience associated with our offerings.
Ready-to-drink Cocktails.	**Yes.** This is well flourishing market.	**No.** It will leave out brands making automated bar systems.	**Yes.** This definition allows them quick solutions for bar arrangements at home.	**Yes.** This is a growing market with many new players as well.	**No.** There are many players in the market.	**Yes.** Partnering with AB inBev, we can offer the products.	Although a good option, this won't help with a competitive edge.
Compact and Convenient Bar solutions	**Yes.** Urban Consumers seek convenience and differentiate such products.	**Yes.** It includes appliances as well as RTD cocktail brands.	**Yes.** This definition addresses two major problems of the consumers.	**Yes.** 48% of US population drinks alcohol.	**Yes.** People are looking for convenient bar solutions to enjoy social gatherings.	**Yes.** We have the relevant expertise of Keurig and AB InBev.	**This correctly leverage Brands core strengths. This definition also allows brand an opportunity to scale in future.**

Market Definition

The Market Situation

The 2017 survey suggests that there is an emerging marketing of stay-home drinkers who enjoys the convenience and relaxation of drinking at home. The drink at home market comprises of mostly wine (58%), beer (54%) and spirits (53%). Data suggests that people drink at home more frequently, however their preference is wine or beer. For the cocktail drinkers, there are few subscription models and drink out of the can cocktails. However, there very few players in the market who offers RTD cocktail pods (alcoholic/non-alcoholic). Provided that we are able to mitigate the regulations of alcohol consumption and distribution by state, Keurig Drinkworks can position itself as one of the first mover to an emerging market of stay at home drinkers.

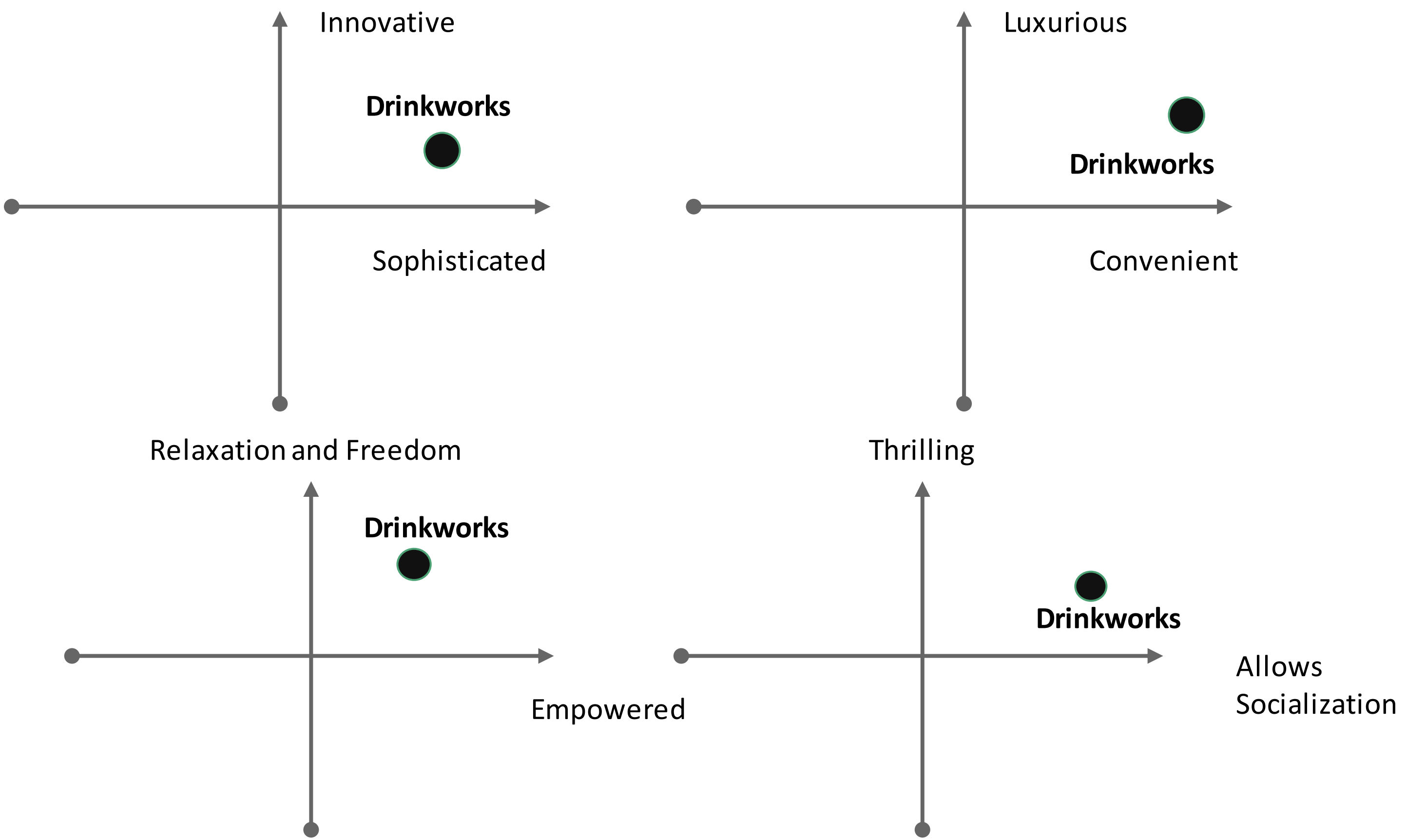
Market Opportunities:

- Huge market - estimated $130 billion.
- Consumers find drinking at home cheaper and more relaxing.
- Consumers consumed alcohol at home more frequently than away from home.
- Increasing projected sales of RTD drinks.
- Data provided from customers using the app.
- Well established distribution channels
- Rich R&D resources to innovate and launch products

Benefits Ladder

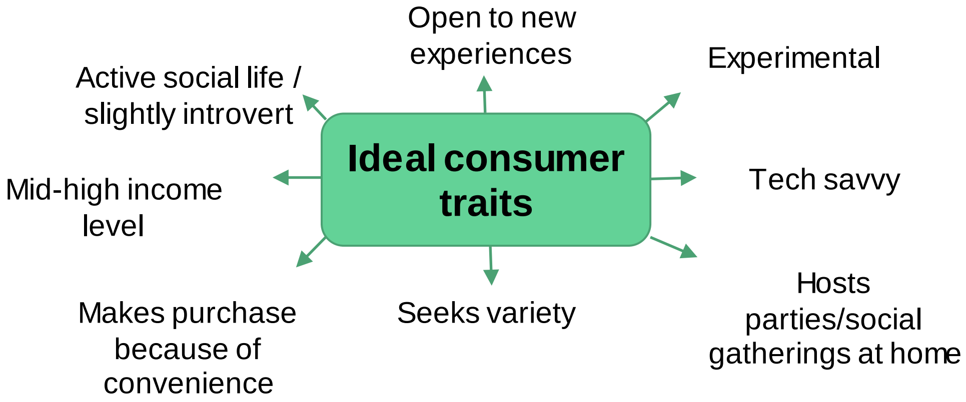
Benefits Ladder			
Emotional	Relaxation	Confidence among peers, Fun to Socialize	Happiness and Excitement
Functional	Variety of Cocktails	Saves shopping time	Sophisticated set up, feels luxurious
Technical	Easy to use, No preparation required	Efficient Drinkmaker	Consistent Quality
			Convenient

Perceptual Maps



Which consumer group to target and which consumer traits are we looking for?

Geographic Segmentation	Demographic Segmentation (Age)	Income Segmentation
Urban	University students (19-29)	No income (parent's allowance)
Semi-Urban	**Young adults (30-45)**	Lower income (part time/student jobs)
Semi-Rural	**Middle aged adults (46-59)**	**Mid range (executive level)**
Rural	Elderly (60 and above)	**High income (manager level and above)**



Segmenting our consumers and solving their frustrations

The experimenter

Like to try new drinks

Demographics: Male, female, Age 19-29, Legally allowed to drink, living independent.
Psychographic: Open to try new things, value for money, budget drinking
Behavioural: New/Social drinkers.
"You only live once"
What are they like: Career/study focused but likes to sneak a night out or blow some steam off at the end of the day.
Frustrations: Limited income, work-life balance. Still living on pocket money

The Technophile

Owns new & fancy gadgets

Demographics: Male, female, Age 30-45.
Psychographic: Tech savvy, technology driven.
Behavioural: Stay home and chill, regular dinker, has a home bar. ***"I have an app for that"***
What are they like: Prefers nights at home, hangs out with the four close friends most of the time,
Frustrations: Going out too much, wasting time and expensive pricing at bars.

The Social Butterfly

Hosts the party

Demographics: Male, female, Age 35-50.
Psychographic: Trend setters, extensive social circle, public figure,
Behavioural: Social drinkers, gossipers. "***Did you RSVP yet?"***
What are they like: Often host social gatherings, kitty parties, game nights, exclusive close knit events.
Frustrations: Spending too much money on expensive drinks outside, are very particular about their drinks. No privacy outdoors.

What kind of emotional/functional benefits will the product give to our target consumers?

The Experimenter

Emotional benefits

- Getting a sense of thrill when using the home bar device and alcohol/non-alcoholic pods to make a drink.

- Saving more money in the long run while enjoying the drinks.

- Something cool to show off in the next house party.

Functional benefits:

- The device sits nicely in small kitchens as these group doesn't have large spaces.

- The device doesn't require any high maintenance.

The Technophile

Emotional benefits

- The joy of seeing a device replace the bartender to make a drink for these tech savvy people.

- The 'coolness' of having a digital bartender.

Functional benefits:

- The device can be connected to their phones and it's updated using wi-fi.

- The product is more environmentally sustainable.

The Social Butterfly

Emotional benefits

- The thrill of making a drink at the convenience of your fingertips.

- The awe of people when you pour them a drink made by a device.

- The bragging rights of "Oh, have you seen that product at Mia's house?"

Functional benefits:

- The device is easy to maintain and not complicated to use.

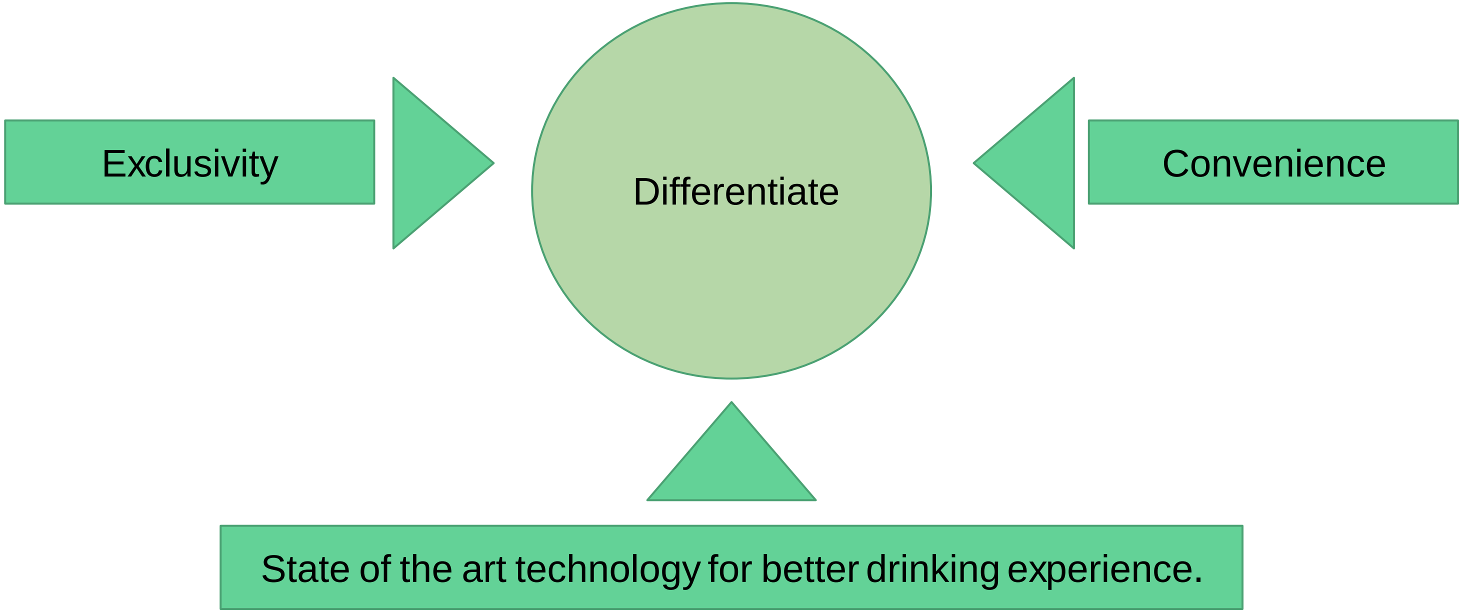
- The device can make drinks very efficiently and rather quickly when the water is chilled.

Which consumer group should we target?

Criteria / Alternative	Does our brand/product image resonate with this sub segment of consumers?	Is this consumer group willing to continue their investment on the pods?	Will this consumer group yield most revenue?	Is this consumer group influential to convince others to purchase?	Summary
The experimenter (Age 19-29)	Yes, these consumer groups are open to experimenting and would be enticed by the 'coolness' of the product.	No (doubtful), these group of consumers may find it difficult to continue purchasing the pods after the initial purchase.	No, they are in the lower income range. Despite their interest to drink they do not have the spending power to provide continuous returns in revenue.	No, it's likely these group of consumers will seek value out of the device and its possible for these groups to purchase the device/pods through shared ownership.	They are an exciting market who are enthusiastic drinkers but lacks affordability. However, this segment will potentially increase their income range soon which is why we should target them.
The technophile (Age 30-45)	Yes, these group of consumers resonate to the device due to its innovative appeal.	Yes, these consumer groups research before making a purchase and consumers who will purchase this product is likely to follow up with repeat pod purchase.	No, but this consumer group can significant add to our revenue.	No, these group of people are generally introverts. We can expect this group to influence a wide range of people to purchase our product.	**This group of consumers are financially stable, they are tech enthusiasts and will be lured by the features of our product.**
The Social butterfly (Age 35-50)	Yes, these consumer segment would find our product/brand desirable based on the product's convenience.	Yes, this consumer group's lifestyle and social circle would ensure that they make repeat purchase for the pod's.	Yes, this group of people have active social life and are most likely to contribute the most financially.	Yes, given their extensive social circle and influence, the product can reach a wide audience.	**The most attractive consumer segment that matches all our criterias. They are highly influential coupled with greater spending power.**
The elderly (60 above)	No, they will find the product complicated to use and are not casual drinkers.	No, they will find it an issue to refill pods upon first purchase.	No, this consumer group are unlikely to be the key contributor to our revenue.	No, they have very small circle to influence others to make the purchase.	This group of consumers are not the segment we should target.

Positioning Statement

To **frequent cocktail drinkers and party hosts**, Drinkworks is a brand for **innovative at-home bar solutions that offers an electronic bartender which makes variety of drinks and cocktails at the simple touch of a button** through a convenient all-in-one compact drink pod, because Keurig has been a champion in creating automated pod systems for more than 10 years.



Audience Segmentation Analysis

The audience segment Drinkworks should align their focus towards is:

The Social Butterfly.

Being of the age of 35-50, most of these are homeowners and have gadgets to make their lives easier and willing to invest in latest technologies. E.g. Coffee maker, Karaoke machine etc.

They host events and social gatherings which puts them in a position to influence their closed circle and promote the product in word of mouth channel.

Being financially comfortable they have the spending power for repeat sales.

To launch or not to launch?

	Criteria				
Alternatives	**Does it appeal to our target audience?**	**Will it differentiate us from the competition?**	**Is it within the scope and financial abilities?**	**Does this make drinks accessible to our target audience?**	**Summary**
Do not launch Home Bar	No, not launching a product does not make an appeal.	No, because there will be no change from the current situation.	Yes, since there are no changes made from the current business model.	No, this approach fails to meet the target audience.	This will be not be a ideal alternative since we are losing market share.
Launch Home Bar	Yes, the projections shows that users perceived drinkworks device as being innovative, convenient and upscale.	Yes, it differentiates drinkworks from the competitors as it launches a programme to recycle beverage pods.	No, this would need investment and marketing efforts.	Yes, it will attract new customers and through retail sales it will be accessible.	**This is the most recommended alternative as there will e an increase in customer base and the market share.**

Recommendations

Should we focus on Beer/cider pods or only cocktail pods?

- Keurig should focus on both cocktail pods as well as beer/cider pods
- Projected demand
  - Beer/Cider Pods: 44.5%
  - Cocktail pods: 22.6%
- Having both on the product line suits out target audience better
- Potential Profitability
  - Beer/cider pods: $87 million
  - Cocktail pods: $164 million

Annual Gross Profit ($m) from Devices AND Cocktail Pods for 24 million Target Customers

	Cocktail Pods Price					
Device Price	$6.00	$5.00	$4.50	$4.00	$3.00	$2.00
$499	82,771,384	56,980,560	31,538,630	13,046,227	(27,372,361)	(87,874,376)
$399	108,637,442	74,786,985	41,394,452	17,123,173	(35,926,224)	(115,335,118)
$299	196,582,038	135,328,830	74,904,247	30,984,790	(65,009,357)	(208,701,642)
$249	243,140,941	167,380,395	92,644,727	38,323,292	(80,406,310)	(258,130,979)
$199	356,951,595	245,728,665	136,010,344	56,261,855	(118,043,307)	(378,958,245)
$149	543,187,210	373,934,925	206,972,262	85,615,866	(179,631,119)	(576,675,590)

Annual Gross Profit ($m) from Beer/Cider for 24 million Target Customers

	Beer/Cider Pods Price				
Device Price	$4.00	$3.00	$2.50	$2.00	$1.00
$499	36,635,639	24,331,507	12,523,368	-851,685	(33,736,011)
$399	48,084,276	31,935,103	16,436,921	-1,117,837	(44,278,514)
$299	87,009,643	57,787,330	29,742,999	-2,022,752	(80,123,026)
$249	107,617,190	71,473,802	36,787,394	-2,501,825	(99,099,532)
$199	157,991,193	104,929,625	54,007,025	-3,672,892	(145,486,547)
$149	240,421,381	159,675,516	82,184,603	-5,589,184	(221,392,571)

How should we price the device and the pods

Device	$299.00
Cocktail pods	$5.00
Mixer pods	$3.00
Beer/Cider pods	$4.00

Annual Gross Profit ($m) from Devices AND Cocktail Pods for 24 million Target Customers

		Cocktail Pods Price					
Device Price		**$6.00**	**$5.00**	**$4.50**	**$4.00**	**$3.00**	**$2.00**
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$399		108,637,442	74,786,985	41,394,452	17,123,173	(35,926,224)	(115,335,118)
$299		196,582,038	**135,328,830**	74,904,247	30,984,790	(65,009,357)	(208,701,642)
$249		243,140,941	167,380,395	92,644,727	38,323,292	(80,406,310)	(258,130,979)
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How can Drinkworks retain the customers?

Depending on the industry, bringing in new customers can cost anywhere from **five to 25 times more** than selling current customers. That's why holding on to customers and inspiring loyalty is one of the most important things a business can do. Following are some ways through which we can do so:

- Engage with targeted audience through post purchase communications.
- Delivering personalized touch adds value and worth while approaching the customers.
- Integrating data in the CRM softwares to improve customer experience and preferences.
- Promotional sales and offers on festivals and special occasions.

Summary

- After evaluating all the options and considering the positive margins on all pods we believe AB Inbev and KDP should initially launch the Beer/Cider pods and Cocktail pods with alcohol, introducing these pods should generate profit.

- Eventually AB Inbev and KDP should launch the Mixer pods without alcohol to maximise the market share.

How to encourage repeat purchase of pods?

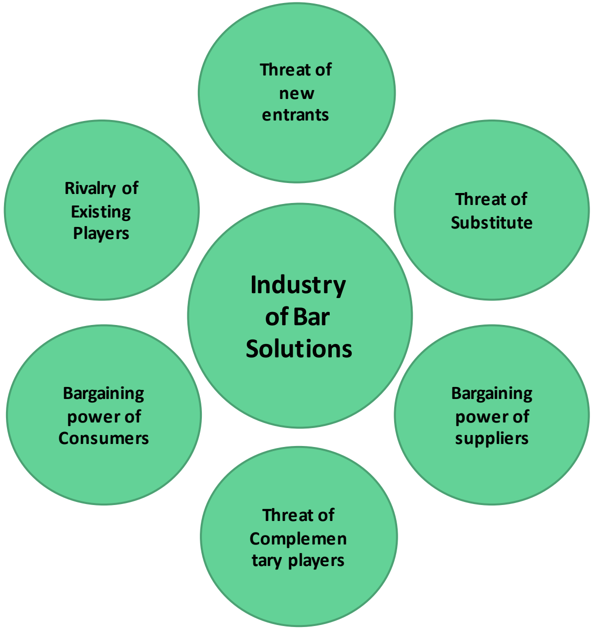
- Engage with the target audience with specific repeat purchase messaging
- Adding an emotional touch to the message
- Initiate a loyalty programme and have special offers for them.
- Such as special offers during the

Appendix I - Porters' 6 forces Analysis

The high cost of producing the home bar machine is a deterrent to enter in the market. However, lot of new players have entered the tangential RTD cocktail bottles and cans business.

Bartesian is the only competitor which offers automated cocktail system and pods. It has already attracted pre-orders on Kickstarter and has been quoted as "Keurig of Cocktails". There are likely to enjoy first mover advantage in the market if Keurig is not aggressive in its approach.

Since RTD cocktail cans are cheaper than one time investment of home bar machine, consumer has a higher bargaining power. However, once a home bar consumer, switching cost will be high. Additionally, it requires considerable investment in promotions to convince user to choose cocktail pods, since some may have their own choice of alcohol. Others may find difficult to assume beer condensed in a pod.



RTD cocktail market is expected to grow by 24% between 2017 to 2022. There are many company offering subscription boxes for alcohol, mixers and ingredients. Some companies are also offering on demand cocktail kits. This force is quite strong.

Keurig and AB inBev have established distribution channels. However, distribution of alcoholic RTD cocktails or pods is geographically limited due to state regulations. They will also attract an excise tax.

There are number of companies with RTD cocktail cans, hence, force by suppliers is fairly strong.

Alcohols and Spirits have mostly been price inelastic, hence demand may not fluctuate in the market.

Appendix II - VRIO Analysis

Resource/Capability	Valuable	Rare	Inimitable	Organized	Competitive advantage
Brand reputation	**Yes.** Keurig enjoys high brand recognition and a positive brand equity.	**No.** Though difficult to achieve, competitors can achieve the same by improving product offerings.	**Yes.** The brand image has been developed over a long time, and through continuous effort and quality product offering.	**Yes.** Keurig has been able to establish its' name in the Coffee pods and appliances market.	Competitive parity
Product innovation and Technical Expertise	**Yes.** Keurig has the expertise in the market to make quality products.	**Yes.** Keurig is one of the few brands offering compact drinking solutions.	**Yes.** It requires Reach and expertise to attain the level of quality.	**Yes.** Keurig is well known for its' coffee pods and machine.	**Competitive advantage**
Partnerships	**Yes.** Partnerships with market leaders gains user trust.	**Yes.** No other competitor has such credible partnerships.	**No.** Other brands are easily partner with other spirit giants.	**Yes** Keurig has been able to partner with ABinBev for the Drinkworks	Competitive parity
First entrant advantage	**Yes.** It allows opportunity to disrupt market and command monopoly.	**Yes.** Yes, only first brand will enjoy the benefits.	**Yes.** Market opportunity once captured is difficult to imitate by others.	**Yes.** Brand is ready for launch.	**Competitive advantage**
Customer Experience	**Yes.** Builds customer loyalty	**Yes.** There aren't many brands offering the same experience.	**No.** Other brands can replicate same experience.	**Yes.** This can be strengthened though marketing communication.	Competitive parity
Ability to raise Capital	**Yes.** It helps scale business..	**No** Brands can raise capital through right resources.	**No.** Brands can raise capital through right resources.	**Yes.** Keurig has partnered with bigger names to provide capital.	Competitive parity

Drinkworks Home Bar by Keurig has partial competitive advantage over the product innovation and strong financial position and the resources available from the joint venture. The brand reputation, especially having made home barista devices before coupled with the R&D resources gives us sustainable competitive advantage. Keurig can enjoy a high competitive advantage by combining it's financial resources, R&D, product innovation and brand reputation by launching the Home Bar appliance which can give the brand a first-entrant advantage despite the existence of Bartisan, the market remains fairly untapped.

Appendix III - Calculations

Annual Gross Profit ($m) from Cocktail Pods for 24 million Target Customers							
				Cocktail Pods Price			
Device Price		$6.00	$5.00	$4.50	$4.00	$3.00	$2.00
$499		82,876,485	69,333,264	56,391,878	47,792,659	19,069,290	(19,188,449)
$399		108,775,387	90,999,909	74,014,340	62,727,865	25,028,443	(25,184,840)
$299		196,831,652	164,666,502	133,930,711	113,507,566	45,289,564	(45,572,567)
$249		243,449,675	203,666,463	165,651,143	140,390,936	56,016,040	(56,366,070)
$199		357,404,842	298,999,701	243,189,976	206,105,843	82,236,314	(82,750,188)
$149		543,876,934	454,999,545	370,071,702	313,639,326	125,142,217	(125,924,198)

Annual Gross Profit ($m) from Devices AND Cocktail Pods for 24 million Target Customers							
				Cocktail Pods Price			
Device Price		$6.00	$5.00	$4.50	$4.00	$3.00	$2.00
$499		82,771,384	56,980,560	31,538,630	13,046,227	(27,372,361)	(87,874,376)
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Appendix IV - Calculations

Annual Gross Profit ($m) from Mixer Pods for 24 million Target Customers						
				Mixer Pods Price		
Device Price		$4.00	$3.00	$2.50	$2.00	$1.00
$499		14,628,557	19,197,235	18,977,587	15,715,814	(19,960,512)
$399		19,199,981	25,196,371	24,908,083	20,627,006	(26,198,172)
$299		34,742,822	45,593,434	45,071,770	37,325,059	(47,406,216)
$249		42,971,386	56,391,878	55,746,662	46,165,205	(58,634,004)
$199		63,085,651	82,788,077	81,840,845	67,774,450	(86,079,708)
$149		95,999,904	125,981,856	124,540,416	103,135,032	(130,990,860)

Annual Gross Profit ($m) from Devices AND Mixer Pods for 24 million Target Customers						
				Mixer Pods Price		
Device Price		$4.00	$3.00	$2.50	$2.00	$1.00
$499		14,609,203	15,070,618	7,307,366	(5,739,264)	(78,781,210)
$399		19,174,579	19,780,186	9,590,918	(7,532,784)	(103,400,338)
$299		34,696,858	35,792,717	17,354,995	(13,630,752)	(187,105,373)
$249		42,914,534	44,269,939	21,465,389	(16,859,088)	(231,419,803)
$199		63,002,189	64,992,038	31,513,018	(24,750,576)	(339,743,966)
$149		95,872,896	98,900,928	47,954,592	(37,663,920)	(517,001,688)

Appendix V - Calculations

Annual Gross Profit ($m) from Beer/Cider for 24 million Target Customers					
	Beer/Cider Pods Price				
Device Price	$4.00	$3.00	$2.50	$2.00	$1.00
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Device Price	$4.00	$3.00	$2.50	$2.00	$1.00
$499	36,540,753	12,929,011	(11,519,448)	(35,733,055)	(78,316,760)
$399	47,959,738	16,969,327	(15,119,276)	(46,899,634)	(102,790,747)
$299	86,784,288	30,706,402	(27,358,689)	(84,866,005)	(186,002,304)
$249	107,338,461	37,978,970	(33,838,379)	(104,965,848)	(230,055,482)
$199	157,581,996	55,756,361	(49,677,620)	(154,098,798)	(337,741,026)
$149	239,798,689	84,846,636	(75,596,378)	(234,498,172)	(513,953,735)