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Drinkworks: Home Bar by Keurig

In the summer of 2018, Nathaniel Davis, CEO of Drinkworks, was going through the results of his company's latest market research. Developed through a joint venture (JV) between home coffee-brewing and soft drink giant Keurig Dr. Pepper (KDP; operating as Keurig Green Mountain at the time) and global beer-brewing company Anheuser-Busch InBev (AB InBev), Davis's team at Drinkworks created a home bar appliance that, similar to a Keurig coffee machine, used "pods" to make single-serving cocktails or beer with a touch of a button.

Since the founding of the JV, and leveraging technology from previous research and development (R&D) efforts of both parent companies, Davis and his team had developed and iterated the technology for the device, and now had to decide which target segment to focus on, whether to launch alcoholic cocktail pods or non-alcoholic cocktail mixer pods, and how to price both the device and the pods. Davis was aware that AB InBev, a global leader in beer with \$56.4 billion in sales,¹ was looking for new growth opportunities. Could Drinkworks be the company's next billion-dollar opportunity?

U.S. Market for Alcoholic Beverages

In 2017, total U.S. sales of alcoholic beverages—including sales for on-premise and off-premise consumption—were \$234 billion, including about \$110 billion for beer, \$63 billion for wine, and \$61 billion for distilled spirits.² Of total sales, an estimated \$130 billion related to in-home consumption.³

At-Home Cocktail Consumption

In a 2017 survey, those who had consumed alcohol at home during the past three months cited relaxation (63%), holidays (51%), drinking with meals (49%), and spending time with friends (39%) as the most frequent reasons.⁴ When deciding to drink at home rather than at a bar or restaurant, consumers were usually driven by the fact that drinking at home was more relaxing (64%) and cheaper (61%).⁵ Of those who consumed drinks at home, 58% reported drinking wine, 54% beer, and 53% spirits (including mixed drinks, cocktails, shots, and drinks on the rocks).⁶

At-home alcohol consumption was often related to social gatherings, including people purchasing alcohol to bring to parties or those buying alcohol before hosting gatherings. In an April 2018 survey,

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77% of adults reported that they had hosted at least one party at their homes in the past three years.⁷ Of those, 77% reported purchasing non-alcoholic drinks beforehand; 67% purchased beer or wine; and 50% purchased hard alcohol.⁸ Fifty-one percent of hosts noted that they tried to provide types of alcohol their friends would like, and 49% offered multiple types of alcohol at their parties.⁹

People consumed alcohol at home more frequently than away from home, but cocktail consumption did not follow this trend. In a 2018 survey, 23% of respondents reported consuming cocktails outside the home during the past three months, while 19% consumed them at home.¹⁰ Unlike beer and wine, which could be consumed immediately upon opening the bottle or can, cocktails required multiple ingredients and additional preparation time, making them less ideal for at-home consumption. For instance, to make a Mai Tai, consumers needed light and dark rum, orange or pineapple juice, orgeat (almond) syrup, simple syrup, orange curacao liqueur, lime juice, and pineapple or cherry to garnish.

Some companies had developed businesses designed to remove the barriers to at-home cocktail consumption. For example, many companies offered ready-to-drink (RTD) cocktails in cans or bottles. Although United States sales of RTD spirits-based cocktails had declined from 2012 to 2017, analysts projected sales would increase 24% between 2017 and 2022, due to updated and more portable packaging (e.g., cans instead of bottles) as well as efforts to position these products as premium.¹¹ Several new players, such as Cardinal Spirits, had recently entered the space, with a greater emphasis on quality than earlier RTD cocktail offerings.¹² A four-pack of canned cocktails typically retailed for \$12 to \$15. For another option, some companies, such as St. Agrestis, offered boxed RTD cocktails.¹³ Davis noted, “None of them are really taking off yet, but we’ll see more activity in this high-end, pre-mixed cocktail space, whereas before, the RTD market was dominated by flavored malt beverages bearing recognizable spirit brand names such as Smirnoff Ice.”

Some companies offered convenience by selling cocktail-themed subscription boxes and cocktail-making kits. For example, Cocktail Courier and SaloonBox offered monthly cocktail kit subscription services, which typically cost \$30-\$50 per month and included cocktail recipes along with alcohol, mixers, and ingredients.¹⁴ Shaker & Spoon offered a monthly cocktail subscription box for \$50 per month, but did not include alcohol.¹⁵ Other start-ups, such as Instapour, delivered cocktail kits on demand.¹⁶ While Shaker & Spoon was able to operate nationwide because its kits did not include alcohol, companies selling alcohol operated in select geographic areas due to regulations.¹⁷

A handful of companies were starting to develop home appliances for cocktails. Aside from Drinkworks, the most notable of these was Bartesian. Founded by three entrepreneurs, in July 2015 Bartesian attracted 6,500 preorders on Kickstarter and was called “the Keurig of cocktails” by Business Insider.¹⁸ It planned to sell its device for \$299 and non-alcoholic pods—containing non-alcoholic liqueur, bitters, juices, and other mixers—in packs of 12 for \$20.¹⁹ Users would supply their own liquor and pour it into labeled canisters that slotted into the Bartesian device.²⁰ After several years of production delays, Bartesian now planned to launch nationwide in late 2018.²¹

Regulation

In the U.S., the sale of alcohol was highly regulated. U.S. federal law dictated that only adults over 21 years old could legally purchase alcohol. Individual states and counties also passed their own legislation regulating alcohol sales. In some areas, regulations dictated when alcohol could be sold (e.g., certain hours of the day).²² Twelve states banned liquor sales on Sundays.²³

Many laws placed limits on permissible sales channels. Some areas mandated that alcohol only be sold by state-run liquor commissions; others prohibited vertical integration in the alcohol industry—meaning that companies could only produce, distribute, or retail alcohol, but not a combination of the

three.²⁴ In most states, alcohol could only be purchased at licensed bars, restaurants, liquor stores, and grocery stores. In the vast majority of counties, bars and restaurants were only allowed to sell alcoholic beverages for on-premise consumption. All but two states allowed beer to be sold in at least some grocery stores; more than half prohibited the sale of liquor at grocery stores.²⁵ Most states allowed alcohol to be sold online, but conditions on these sales—such as permissible order size—varied.²⁶

AB InBev and Keurig

Headquartered in Belgium, AB InBev reported \$56.4 billion in revenue for 2017.²⁷ It sold more than 500 different beer brands in more than 100 countries.²⁸ The company's best-known brands included Budweiser, Stella Artois, and Corona. In the U.S., AB InBev held an estimated 43% of the beer market.²⁹

In 2017, KDP—created from the 2018 merger of Dr. Pepper Snapple Group and Keurig Green Mountain—generated \$10.8 billion in sales.³⁰ One of KDP's biggest revenue drivers was its Keurig business, which reported \$4.5 billion in net sales in fiscal 2015.³¹ The Keurig business was driven by home coffee-brewing devices, which made single servings of coffee by adding hot water to K-Cup pods containing ground coffee and flavoring. Keurig sold K-Cups under its in-house brand names, including Green Mountain, and partnered with other companies to offer branded coffee, tea, and hot cocoa.

In addition to coffee, Keurig had spent more than six years developing its Keurig Kold beverage system, which made single-serve cold beverages (e.g., soda) from pods.³² To support Kold, which was released in 2015, Keurig formed partnerships with The Coca-Cola Company and Dr. Pepper Snapple Group.³³ The Kold device retailed for \$299 to \$369, and the pods retailed for \$1 to \$1.25 each.³⁴ However, Kold sales were lackluster, prompting Keurig to discontinue it in mid-2016.³⁵

Before establishing Drinkworks, AB InBev started researching the market opportunity for a home appliance and potential applications of beer concentrate. By reducing beer to concentrate, AB InBev would significantly reduce beer's transportation costs, a major percent of its overall cost. Furthermore, beer concentrate could be employed in a drink-making device that could save water, packaging material, and space, and open up interesting experiences in home consumption.

In 2016, KDP and AB InBev launched Drinkworks as a JV, with a substantial initial investment and AB InBev as the majority shareholder. Davis was selected as Drinkworks's president and CEO. He had previously spent nearly two decades at Anheuser-Busch (the U.S.-based subsidiary of AB InBev) and AB InBev, beginning his career as a front-line manager at one of Anheuser-Busch's breweries and eventually becoming AB InBev's Global Vice President, Innovation & Development.

The goal of the JV was to co-develop a new home appliance and pod system for chilled alcoholic beverages. Davis noted, "With the Kold concept, KDP had invented some revolutionary technology around carbonation, blending, pods for liquid, and cooling. AB InBev had distribution muscle, regulatory know-how for navigating the alcohol space, and operational know-how for high-speed filling of liquid into pods." The new appliance would be marketed using the Keurig name to indicate that its functionality and quality were similar to those of a Keurig coffee-maker.

The JV was not a typical startup and had been staffed with around 100 people, including a significant contingent of Keurig's R&D and Engineering teams, led by former Keurig executives Tom Novak and Bob McCall. Marc Drucker, formerly of AB InBev's Global Exploratory Technology team and with a long history of entrepreneurship and industrial design, led the Product team in design and feature decisions. Bill Lehman was the JV's Chief Financial Officer, and was also responsible for procurement, IT and back-office infrastructure, and negotiating potential brand partnerships. Chris

Williams, a veteran of both beer and spirits retail sales, was tapped as Chief Sales Officer. Scott King, a former Accenture executive, brought his multi-industry experience to bear in creating the venture's complex set of supply chains across durable goods and regulated alcohol production and distribution. By mid-2018, Drinkworks had invested millions of dollars in research and development of its device.

The Drinkworks Home Bar by Keurig

The Drinkworks Home Bar by Keurig was a countertop appliance that worked very similarly to Keurig coffee-makers. (See **Figure A**.) The device included a removable water tank, a water filter, a cooling tank to chill water, and a carbon dioxide (CO₂) canister to add carbonation. The water filter and CO₂ canister needed to be replaced on a regular basis. Chilling the water took about 10 minutes, so Drinkworks users needed to leave their devices plugged in and prepped in order to minimize wait times and have the best user experience.

Figure A Drinkworks System



Source: Company documents.

To make a drink, the user would insert a pod—either a non-alcoholic mixer pod or an alcoholic pod (pre-mixed cocktail, beer, or cider)—into the pod holder, and simply press a button to make a drink. Each Drinkworks pod would contain a trust mark that would verify the quality of the pod contents and tell the appliance what type of drink the user was trying to make. Depending on the drink, the device would determine the recipe of water and carbonation concentration, and blend to the recipe's specifications. It would take less than a minute to make a drink such as a Manhattan, margarita, or Moscow mule.

Devices would connect to users' Wi-Fi and allow the device to easily download software updates. Davis said, "With connectivity, we can change the software and introduce different drinks or update how drinks are made." Users could also download a corresponding mobile application that monitored the device's CO₂ levels and water temperature, and let them purchase pods, CO₂ canisters, and other items. Users had the option to share aggregated usage data with Drinkworks, giving the company insight into how often consumers used the device, which drinks they made, and what time of day they made them. The device could last five or more years.

Pod Types

Pods could fall into three categories: cocktail pods with alcohol, mixer pods without alcohol, and beer/cider pods. The choice of selling pods with or without alcohol presented many pros and cons.

Mixer pods without alcohol would contain all the ingredients necessary for a particular cocktail and users would simply add their own alcohol to it—an approach used by Bartsian. Mixer pods could be cheaper and might avoid regulatory problems for distribution. They were also easier for consumers to comprehend. Davis explained, “The non-alcoholic pod is more readily conceivable. People understand: ‘I put in a pod, then I pour in the spirit.’ With the alcoholic pod using concentrate technology, there’s an aspect where people don’t understand how we could possibly fit a whole drink in the pod.” Mixer pods also gave consumers the option to add their own preferred brand and amount of alcohol. Davis noted, “If you ask people if they care about what brand of alcohol they drink, the answer is a very clear ‘yes.’ They will pay more for premium vodka because they perceive it to be better.”

Pods with alcohol would provide the ease and convenience of making a cocktail at the touch of a button. Davis believed that convenience could be the main value proposition that would distinguish Drinkworks from other players in the market. It would also be consistent with consumers’ perception of Keurig’s coffee machines. However, pods with alcohol would face distribution hurdles and would not be able to offer consumers’ preferred brand of liquor.

Market Size and Consumer Segments

Davis was convinced that Drinkworks was solving a key pain point for consumers. At-home cocktail consumption was limited because most consumers were either unsure how to make a cocktail or intimidated by the idea of making it themselves. Initial research seemed to suggest that the idea of a cocktail-making device had a significant appeal among consumers.

The Drinkworks Home Bar was a novel idea, so there were no established benchmarks to estimate market size or the right target consumers. Davis knew that Drinkworks had to appeal to a large market to get support from his stakeholders. He explained, “We operated as if we were going to close down this business if we didn’t have a very clear problem to solve for a large number of people.” To assess market size and potential target segments, Davis and his team commissioned research studies.

An online survey was conducted in 2017 with approximately 1,800 qualified respondents between the ages of 25 and 64, who had consumed any type of alcohol in the last four weeks. About 59% of the 120.5 million U.S. households met these criteria. The survey asked respondents about their frequency of alcohol consumption and their interest in a potential drink-making appliance. Based on their responses, Drinkworks established a list of six target customer profiles, based primarily on alcohol consumption frequency, hosting frequency, age, and Keurig device ownership. (See **Exhibit 1** for customer segmentation and **Exhibit 2** for alcohol consumption by segment.) In Davis’s view, “The target customer tends to be a ‘hoster.’ They love exploring. They’re multi-category drinkers—beer, wine, and spirits—who want to step up the experience when they’re hosting.” Survey respondents’ interest in purchasing a \$199 drink-making device and \$4 pods varied by customer segment and ranged from 9% to 39%. (See **Exhibit 3** for purchase intent by segment at these prices.)

To understand consumers’ motivation and emotional benefits from drinking cocktails at home and for buying the Drinkworks machine, the company conducted additional research in October 2017. Respondents were asked to select images related to metaphors, feelings, and desires evoked by the concept of drinking cocktails at home, the product, and different cocktails, and then explain why. Results showed that users perceived the Drinkworks device as being innovative, convenient, and upscale. “People like the experiential elements of pressing a button, dispensing, and serving, particularly when it comes to hosting and relaxing,” noted Davis. Most respondents associated the device with positive emotions, such as happiness, excitement, and relaxation. However, about 12%

indicated a negative emotional response to the device, citing its perceived lack of purpose, high price point, and complexity. (See **Exhibit 4**.)

Pricing

In October 2017, Drinkworks conducted an experiment using an online auction to estimate consumers' willingness to pay for the device and its pods. Drinkworks ran an auction where consumers placed bids at various prices to actually buy the machine. It recruited about 2,300 people between the ages of 21 and 65 years old, who consumed alcoholic beverages at least once per month, and had an annual household income greater than \$50,000. First, respondents were shown a video and information about the Drinkworks device and the three pod options—cocktail (with alcohol), mixer (without alcohol), and beer. Then, if respondents were interested, they could place bids on the device and each pod option. Davis said, "We did a reverse auction to see how many people would purchase the machine at each price. When they pressed the button to buy it, they thought they were actually buying it." At the end of the experiment, Drinkworks told participants that the device did not yet exist and instead provided them with a coupon. The device auction started at \$999 and went down in \$50 increments. Mixer and beer pods prices started at \$4.00 and went down by \$0.25, and cocktail pods prices ranged down from \$7.50 in steps of \$0.50. By comparison, bars and restaurants often priced cocktails between \$8 and \$15.

Results showed that more than 90% of respondents viewed the Drinkworks Home Bar device as a premium product. Forty-two percent of respondents were not interested in purchasing the device at any price, while 6.9% of respondents were willing to pay at least \$199, about 3.8% were willing to pay at least \$299, and 2.1% were willing to pay at least \$399. (See **Exhibit 5** for willingness to pay for the Drinkworks machine and pods.) The respondents who were willing to pay at least \$299 were more likely to be between the ages of 21 and 29, live in an urban area, socialize at home at least once a week, and have higher household income levels.

For the pods, Drinkworks looked only at respondents who were interested in the concept. About half of these respondents were willing to pay at least \$4 per cocktail pod; only about 7% were willing to pay \$4 per mixer pod; and 35% were willing to pay at least \$4 per beer/cider pod (refer to **Exhibit 5**). Generally, those who indicated higher willingness to pay for the device also tended to project slightly higher device usage.

At scale, each Drinkworks Home Bar would cost approximately \$250 to manufacture and distribute, accounting for returns, warranty replacements, promotions, fulfillment, and freight. The variable costs to manufacture alcoholic cocktail pods, non-alcoholic mixer pods, and beer pods were \$1.20, \$0.95, and \$1.10, respectively.

Usage Frequency

While conducting research, Drinkworks had been building a device and repurposing and upgrading the Kold technology. By 2018, the company had a working prototype. Davis explained:

Durable goods typically have a very slow development process. With a traditional process, it could be 10 times more expensive to develop, the market would be lost, and you'd have built the wrong thing. We ran a three-year product development program in 18 months using our agile operating system. We did it on a small scale, failed if we needed

to fail, and moved quickly enough that we could learn and retool three times in the time that it would have taken to do it the flawless, risk-free, big company way.

Using early prototypes, Davis wanted to do an in-home use test that allowed consumers to buy and sample the drinks and decide whether or not they wanted to buy the pods again and again. In February 2018, Drinkworks ran a simulated marketplace. They recruited 50 target consumers between the ages of 25 and 69, who had an annual household income of at least \$60,000, consumed alcohol at least twice per month, and met the user behavior profile. Each participant received a prototype Home Bar device. They had to be willing to connect their devices to Wi-Fi so that Drinkworks could monitor their device usage. During the experiment, participants could purchase 15 different types of cocktail pods, 10 types of mixer pods, and 5 different beer/cider pods. Cocktail and mixer pods were priced at \$4 and \$2 each, respectively. At the experiment's 1-, 4-, 8-, and 12-week marks, Drinkworks surveyed the group, asking questions about usage, net promoter score (NPS) and perceived value. Of the experiment, Davis said, "It took a heavy lift, but it was way cheaper and faster than launching and failing."

Drinkworks completed the experiment in June 2018. In the fourth survey, almost 65% of participants reported that the machine design met their expectations, and 89% reported that the Drinkworks concept was very or somewhat appealing. Similarly, 94% of respondents said the drink selection met, exceeded, or far exceeded their expectations, while 86% said the same about drink quality. Forty percent indicated that they would probably or definitely spend at least \$249 to purchase a Drinkworks machine, while 47% remained undecided at that price point. Only 8% said that they thought the cocktail pods were an excellent or very good value, down from 16% in the first survey.

Over the course of the survey, Drinkworks's NPS ranged from -20 after the first week to +8 after the fourth. Detractors indicated pod value and the size of drink pours as potential concerns. Usage rates, however, were high, with weekly attachment rate (number of pods consumed per week) varying from over 8 at the beginning to around 6 at the end of the experiment (see **Exhibit 6**). Davis expected that, over time, household attachment rates would normalize to around 5 to 6 pods per week.

Go to Market

Distribution

Davis and his team also had to decide where to sell the device and the pods. There were three broad options for distribution:

Liquor stores Distribution through stores licensed for alcohol sales was a major strength of Anheuser-Busch. The company had a vast network of wholesalers and retailers and long relationships built with them over decades. Being one of the largest breweries in the U.S., AB InBev was a significant profit generator for retailers and wholesalers. If Drinkworks decided to offer beer/cider pods and cocktail pods with alcohol, then it had to distribute them through licensed liquor or grocery stores to meet federal and state regulatory requirement. Wholesalers took a margin of 20% to 25% on wholesale selling price, and retail stores expected a margin of 25% to 35% on retail selling price. Drinkworks would also have to pay spirits excise tax of around \$0.10 to \$0.15 per pod.

However, liquor retailers were generally not keen to sell appliances, which tended to be slow-moving, non-repeat items with low margins when compared to alcohol beverage products. Past attempts to commercialize home draft beer systems, including appliances, through AB InBev's wholesaler network had not been successful.

Traditional retail stores A second option was to sell the machine at traditional home appliance retailers, such as Target or Best Buy. In March 2018, Bartsian entered an exclusive, multi-year distribution agreement with Hamilton Beach Brands, Inc., a leader in small household appliances.³⁶ Hamilton Beach had a significant presence in traditional retail stores, where it was expected to begin distributing the Bartsian machine. Keurig had also been distributing its coffee machines in traditional retail stores. Retailers' margins typically ranged from 25% to 35%.

Traditional retail stores would provide broader market coverage, but they would not be able to sell beer/cider or alcoholic cocktail pods. Davis wondered if consumers would buy from Drinkworks if they had to buy the machine in traditional retail stores and cocktail/beer pods in liquor stores.

E-commerce Drinkworks could sell its appliance and non-alcoholic mixer pods directly to consumers through its own website or through e-commerce channels such as Amazon. Some companies, such as The Cocktail Box Co., sold mixer pods through Amazon. Shaker & Spoon was a direct-to-consumer subscription service that offered mixers. Retail margins for e-commerce channels like Amazon were 15% to 25%. Drinkworks could avoid paying a retail margin if appliances and mixer pods were sold directly through its own website. However, Drinkworks or the consumer would be responsible for paying shipping costs.

A direct-to-consumer e-commerce model would likely make the best use of the Drinkworks device's Wi-Fi connectivity, especially for repeat purchases of pods and other accessories, such as CO₂ canisters. However, while Keurig had a substantial online appliance business, Drinkworks and AB InBev had relatively little experience in e-commerce and Davis was also unsure if consumers would buy a novel product like Drinkworks without seeing it.

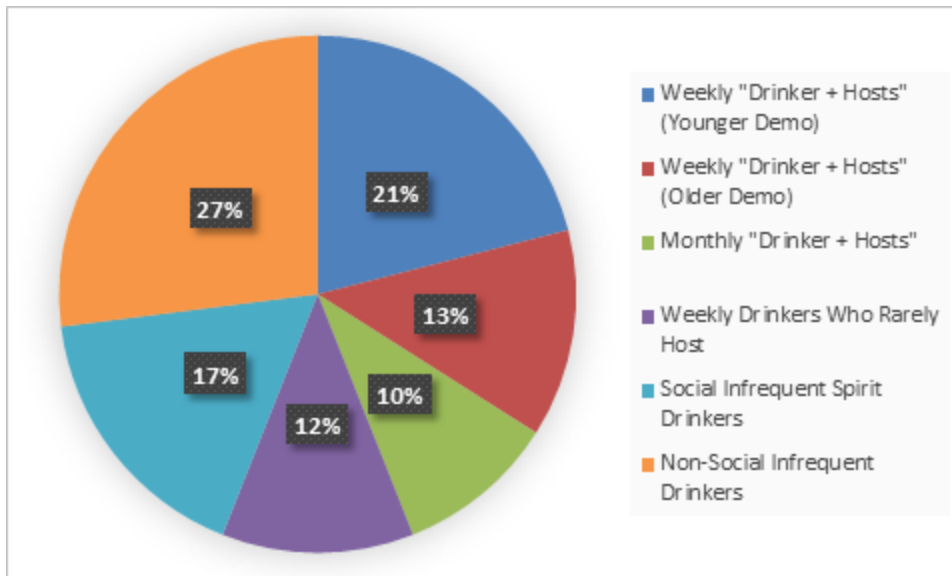
While non-alcoholic pods could be sold online, selling alcoholic pods online would be complex since regulations for online alcohol sales varied by state and even by county. Davis said, "E-commerce for alcohol is confusing and full of friction because of the state-by-state laws and the costs involved."

Marketing

Davis believed that Drinkworks's association with Keurig could be a significant asset in generating demand. Most consumers were aware of Keurig's coffee machines, coffee pods, and one-touch operation. However, generating demand for a cocktail machine would require overcoming consumers' skepticism that they could get a good-quality cocktail at home from a pod with the touch of a button. Davis said, "You have to get over the hurdle of credibility. People might think, 'Keurig makes great coffee—but what are they doing making alcoholic drinks?'" It was also unclear if consumers would buy the machine and the pods sight unseen or they would want to sample it first. Davis and his team planned to rely heavily on digital marketing to generate awareness, and they expected average customer acquisition cost to be about \$100.

Decisions for Market Launch

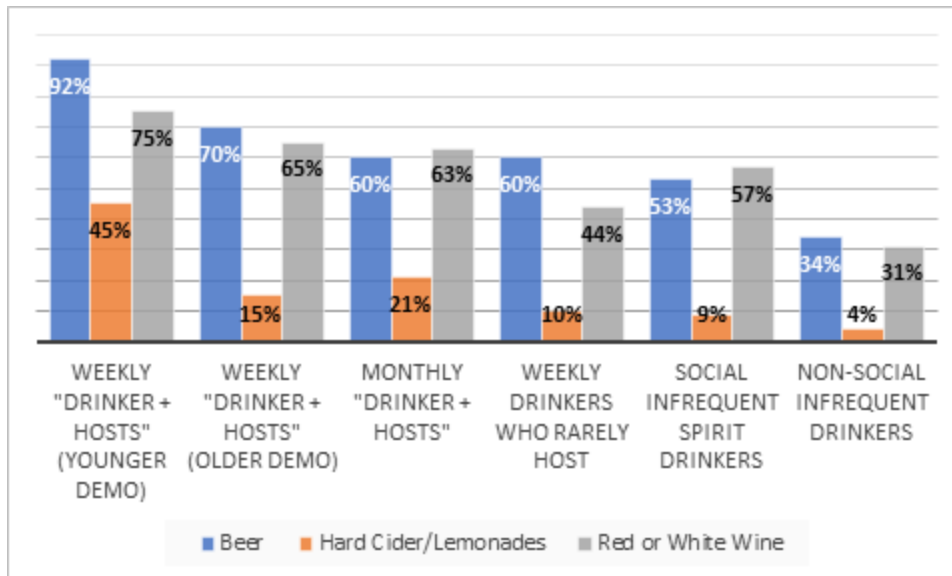
After several years of research and product development and millions of dollars in investment, it was now time to make critical decisions for market launch. Davis reflected on a series of questions. Which customer segment should he target? What should Drinkworks's value proposition be? Should he introduce pods with or without alcohol? Should he focus only on cocktails or also on beer? How should the machine and pods be priced? How could Drinkworks encourage repeat purchases of pods? What would be the best channel of distribution? And could he assure the boards of AB InBev and Keurig that Drinkworks could be the next billion-dollar product?

Exhibit 1 Customer Segmentation, 2017

Weekly "Drinker + Hosts" (Younger Demo)	21%	Young beverage enthusiasts who live alone, with partners, or with a family, and who host frequently.
Weekly "Drinker + Hosts" (Older Demo)	13%	Empty nesters who host frequently and want to offer their guests whatever they request.
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.
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.
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.
Non-Social Infrequent Drinkers	27%	Less social couples who aren't very interested in alcohol.

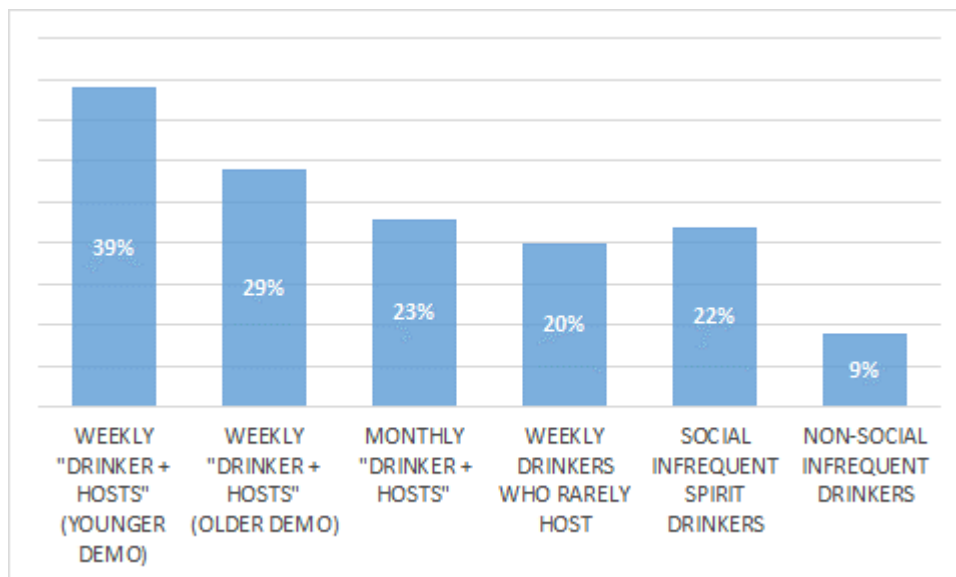
Source: Drinkworks Segmentation Research, 2017.

Note: N = 1,800. Data are disguised to protect confidentiality.

Exhibit 2 Alcohol Consumption by Segment (Within a Typical Month), 2017

Source: Drinkworks Segmentation Research, 2017.

Note: N = 1,800. Data are disguised to protect confidentiality.

Exhibit 3 Purchase Intent by Segment for Device Priced at \$199 and Pods Priced at \$4, 2017


Source: Drinkworks Segmentation Research, 2017.

Note: N = 1,800. Percentages represent the respondents who demonstrated purchase intent for both the device and the pod at the stated prices. Data are disguised to protect confidentiality.


Exhibit 4 Consumers' Perception of Drinking Cocktails at Home and of Drinkworks Device, 2017

SUMMARY

Cocktails at Home Category




When alone or with a close friend/significant other, cocktails serve the purpose of **enhancing a cozy, intimate moment** such that it offers an opportunity for a kind of escape to a better, happier place




When entertaining a small group of guests, cocktails serve the purpose of **amplifying the experience** to immerse the consumer fully in the moment to share good times and build/nurture relationships

DrinkWorks Product


DrinkWorks is an **innovative** and **modern** product, perceived as **trendy** as well as **sophisticated**. It would make cocktail preparation easy and efficient



DrinkWorks sparks good times, creating an atmosphere of joy and happiness (or a burst of energy/thrill). It brings people together, creating shared memories. Furthermore, it promotes discovery and exploration, and puts the host in control. And, it grants freedom and the ability for a worry-free and relaxing life overall




Cocktail Varieties & Beer




**Daiquiri
Margarita
Mojito**

- A drink to curl up with on the beach
- A summery drink heavily related to its Mexican origins
- Refreshing drink that, like a vacation, relieves stress




**Martini
Old Fashioned**

- A sophisticated drink for more formal occasions
- A classic, smooth drink with an upscale energy




**Moscow Mule
Negroni**

- Provide refreshment with a bit of a punch
- Pull from their Italian roots to offer an especially flavorful taste




Cosmo

- Hip, city drinks to be shared with friends



**Gin & Tonic
Long Island Iced Tea
Whiskey Sour**

- Don't strongly own a space or territory, but get some credit for being refreshing, or being powerful or fun with an extra kick



Beer







- Tasty
- Relax
- Quality
- Happy
- Social
- Treat

THE PRODUCT IS PERCEIVED AS...







Theme	Description	Representative Quotes	
Innovative	The product is modern and on the cutting edge , perceived as being something trendy and intriguing .	 <p>"It makes me feel like I'm much more advanced than most of my friends. I can have the newest technology while serving and surprising my guests. I feel beyond my years with the doors this product will open for me."</p>	 <p>"I view the keurig cocktail machine as something being modern and high tech. The image of the earth and moon represent technology and having a modern sleekness."</p>
Convenient	The product makes cocktail preparation easy , fast , and generally more efficient .	 <p>"So hard to remember ingredients for all the drinks, and this machine will make everything less burdensome, so convenient and so precise, no more mistake, great drinks every time."</p>	 <p>"It makes me feel like I'm using new technology to keep everyone happy and quickly. Drinks can be made fast and effortlessly. This takes the headache out of making multiple things for different people."</p>
Upscale	The product seems luxurious , like an item that is intended to be sophisticated and fancy .	 <p>"The image of the product seems fancy and sophisticated. Like having a high end night club bartender right in your own kitchen. Something you see in a large city as shown."</p>	 <p>"Both the photo and the product look high end and expensive. The product is a machine like a watch and does the work for you instead of bartending yourself."</p>

Exhibit 4 (continued) Consumers' Perception of Drinking Cocktails at Home and of Drinkworks Device, 2017

THE PRODUCT EVOKES...

Theme	Description	Representative Quotes	
Happiness & Joy	Would spark more good times and create an atmosphere of joy and general happiness.	 <p>"This image captures how the machine would make me feel which is happy and glad the machine makes drinks easier to make. Less time to make them more time for drinking and fun."</p>	 <p>"This image captures fun, carefree, lets enjoy this moment kind of feeling. I am assuming that their are other friends, family there to enjoy a day at the lake and have fun."</p>
Excitement & Thrill	Elicits a burst of high energy and thrill especially for use on special occasions.	 <p>"The fireworks represent a celebration, showing bright lights and loud explosions to get everyone involved in the action. Fireworks also are exciting to watch and are often fun to see even when you are not actually involved in launching them."</p>	 <p>"I selected this picture because having that drink Keurig machine makes me feel so excited; I'm bursting with joy. Just like lava bursting out of a volcano. It's exciting to know that I could have my own drink maker at home"</p>
Togetherness & Socializing	Allows people to connect with each other and share memories together.	 <p>"This product would make me feel excited to have a get together. I like to play poker with friends and it would be neat if people could just make a drink with a push of a button. Almost like we have our own bartender."</p>	 <p>"It is a special time with friends to share stories, a day of just celebrating friendship and experiencing something new or something refreshing that helps add to the memories you are creating"</p>

THE PRODUCT EVOKES...

Theme	Description	Representative Quotes	
Exploration & Creation	Promotes imagination and discovery for those who want to try new things and experiences.	 <p>"The Keurig machine would make me feel like a scientist mixing various drinks. I would be able to experiment with new cocktails and offer a variety of them to my guests. It would be a way to be creative."</p>	 <p>"This product would allow you thousands of cocktails at your fingertips just like a variety of crayons in a box. It would be fantastic for cocktail challenged people."</p>
Relaxation & Freedom	Allows the user to live a worry-free, calm, and refreshing life. Grants them freedom.	 <p>"I chose this image because it looks like an easy, relaxing day at the beach. I'd imagine that the product would make hosting easier, more relaxing."</p>	 <p>"Happy, simplified life. A drink that I was is able to be made in just moments. I can work on something else while the drink is being made so once I am ready to sit and relax, my drink is ready"</p>
Empowerment & Control	Will boost a host's confidence and help a host to have more control, empowering them.	 <p>"This car makes me feel successful and at the height of power. Sleek design, with high tech and ready for peak performance. Truly ready for the challenges that the day presents."</p>	 <p>"It makes me feel prepared, confident and in charge. I can make awesome flavorful drinks with my new machine and impress all my guests. Everything will taste fabulous."</p>

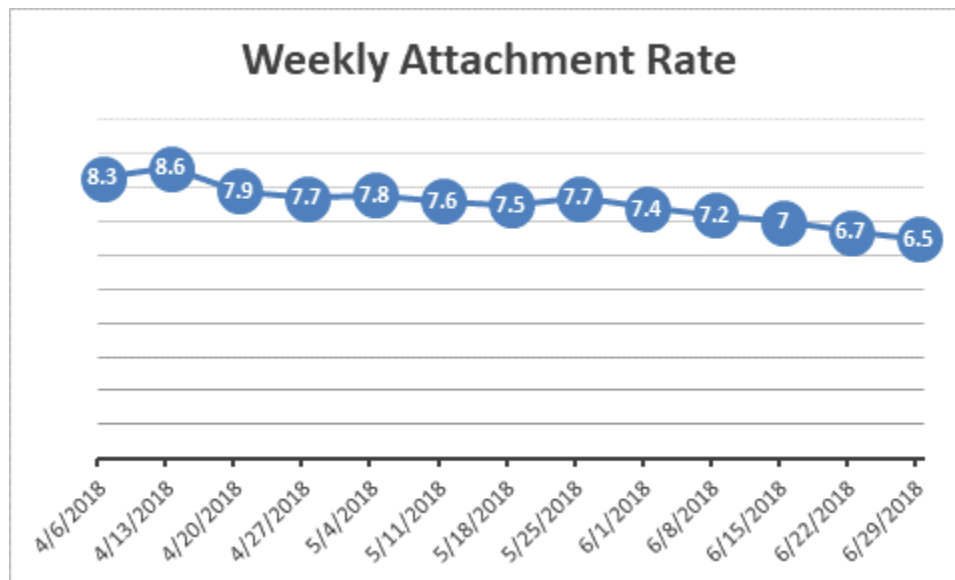
Source: Drinkworks Research, October 2017.

Exhibit 5 Willingness to Pay for Drinkworks Machine and Pods, 2017

DRINKWORKS APPLIANCE						
Price	\$499	\$399	\$299	\$249	\$199	\$149
% Willing to Pay	1.6%	2.1%	3.8%	4.7%	6.9%	10.5%
COCKTAIL PODS						
Price	\$6.00	\$5.00	\$4.50	\$4.00	\$3.00	\$2.00
% Willing to Pay	39.1%	45.5%	46.0%	51.5%	57.4%	72.8%
NON-ALC MIXER PODS						
Price	\$4.00	\$3.00	\$2.50	\$2.00	\$1.00	
% Willing to Pay	7.2%	15.2%	21.6%	31.8%	72.7%	
BEER / CIDER PODS						
Price	\$4.00	\$3.00	\$2.50	\$2.00	\$1.00	
% Willing to Pay	35.3%	42.0%	44.5%	51.7%	55.1%	

Source: Drinkworks Research, October 2017.

Note: N = 2,300. Data are disguised to protect confidentiality.

Exhibit 6 Usage Experiment Results, 2018

Source: Drinkworks Attachment Rate Study, 2018.

Note: N = 50. Weekly attachment rate is the average number of pods consumed per week per total household. Data are disguised to protect confidentiality.

Endnotes

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- ⁴ "Alcoholic Beverage Drinking Occasions," March 2018, Mintel Group Ltd., p. 10.
- ⁵ "Alcoholic Beverage Drinking Occasions," March 2018, Mintel Group Ltd., p. 11.
- ⁶ "Alcoholic Beverage Drinking Occasions," March 2018, Mintel Group Ltd., p. 31.
- ⁷ "Party Planning and Home Entertaining," June 2018, Mintel Group Ltd., p. 34.
- ⁸ "Party Planning and Home Entertaining," June 2018, Mintel Group Ltd., p. 41.
- ⁹ "Party Planning and Home Entertaining," June 2018, Mintel Group Ltd., p. 49.
- ¹⁰ "Alcoholic Beverage Drinking Occasions," March 2018, Mintel Group Ltd., p. 34.
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- ¹² Andrew Kaplan, "The Rise of Ready-to-Drink Cocktails," *SevenFiftyDaily*, December 7, 2017, <https://daily.sevenfifty.com/the-rise-of-ready-to-drink-cocktails/>, accessed July 2020.
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- ¹⁷ Kell, "These startups are delivering cocktails to your doorstep."
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