元气森林
GENKI FOREST

Sparkle
& Consulting

Growth Strategy for GENKI FOREST in Mainland China

Bain Cup Case Competition Preliminary Round, May 2022

Executive Summery: Growth strategy of Genki Forest in China carbonated beverage market by expanding to customer and to business channels

Decision Stages

1 **Market Research**

2 **Strategy Design**

3 **Implementation**

Analytical Dimensions

1 Market Research

- **Market Overview**
  - Industry Trends
  - Industry Development Stage
- **Competitive Analysis**
- **Target Customer Analysis**
- **Distribution Channels**
  - For Non-cola Carbonates

2 Strategy Design

- **To Customer Channel**
  - Sales Team Expansion
  - Deployment of Smart Freezers and Vending Machines
- **To Business Channel**
  - Cooperate with Restaurants
  - Sales of Raw Materials
- **Product Innovation**

3 Implementation

- **Risk & Mitigation**
- **Financial Forecast**

Implications

- Genki Forest should catch up with the market trends and customer needs to find growth opportunities

- To promote growth, Genki Forest should expand channels and innovate products

Achieve future growth in Mainland China carbonates market

Source: Sparkle Analysis

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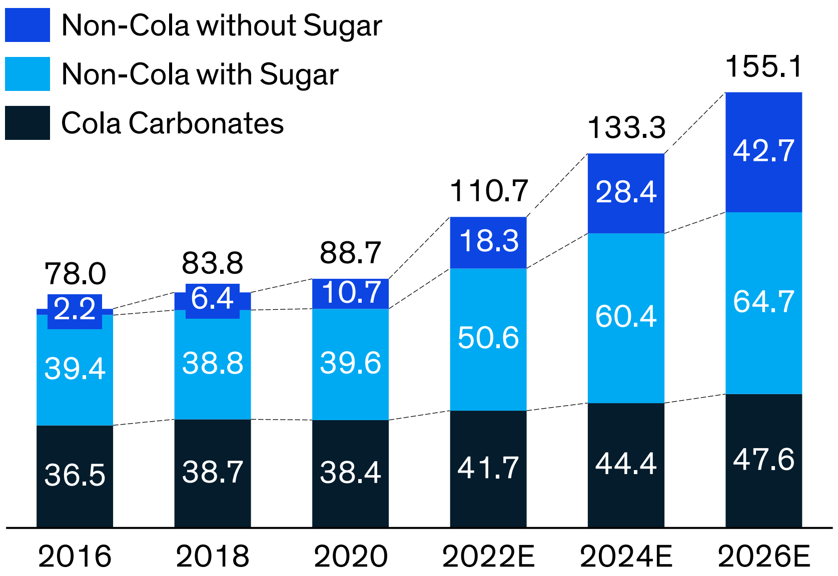
Agenda

- **Market Research**
  - Market Overview
  - Competitive Analysis
  - Consumer Profile
  - Distribution Channels
- **Strategy Design**
- **Implementation**

China non-cola carbonates market witnesses rapid growth, and modern retailing channels are catching up with traditional ones

Non-cola carbonates, especially sugar-free products, are experiencing phenomenal market expansion

China Carbonates Sales Value by Category, CNY Bn

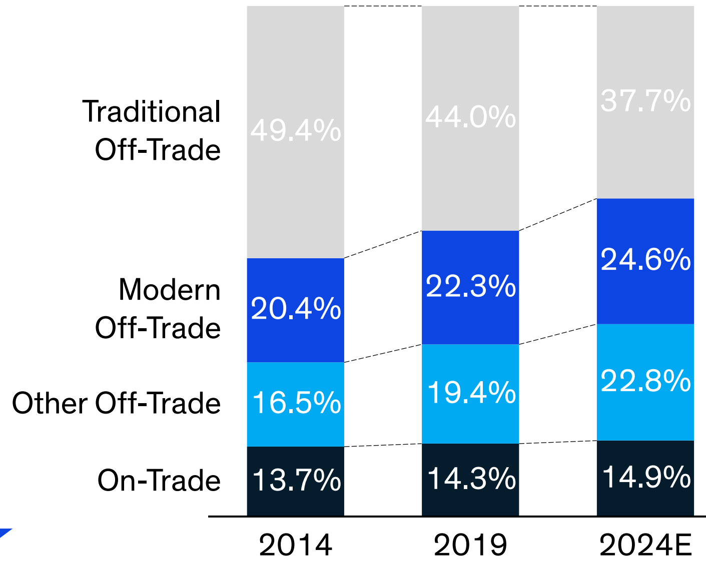


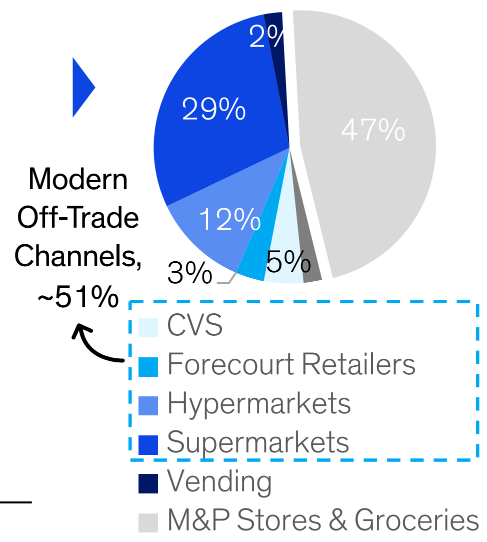
2016-21 CAGR	2021-26 CAGR
45.3%	**24.8%**
2.7%	7.6%
1.8%	3.6%

Gap between modern distribution channels and traditional ones keeps being bridged

L: China Soft-Drink Market Channel Structure, % Volume

R: Carbonate Off-Trade Channel Structure as in 2021





Drivers of Growth

❮ Demand Side | Supply Side ❯

- Call for health & enjoyment balance
- Consumer structure evolution & consumption upgrade
- New and diversified consumption scenarios

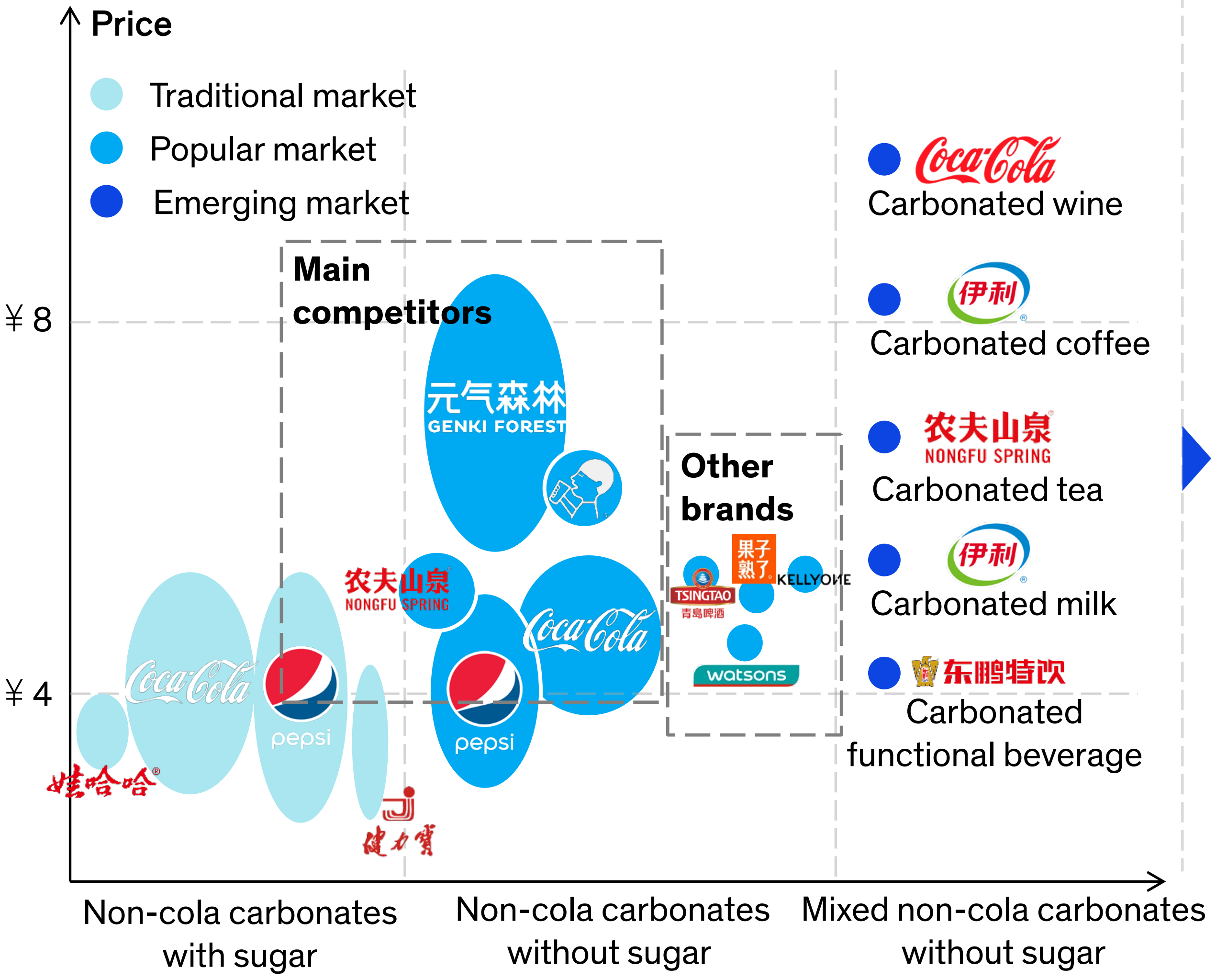
- Creative and diverse distribution channels
- Product innovation by beverage giants and new players
- Extensive use of new media & digital marketing

Source: Euromonitor, Frost & Sullivan, Chinese Academy of Sciences, Sparkle Analysis

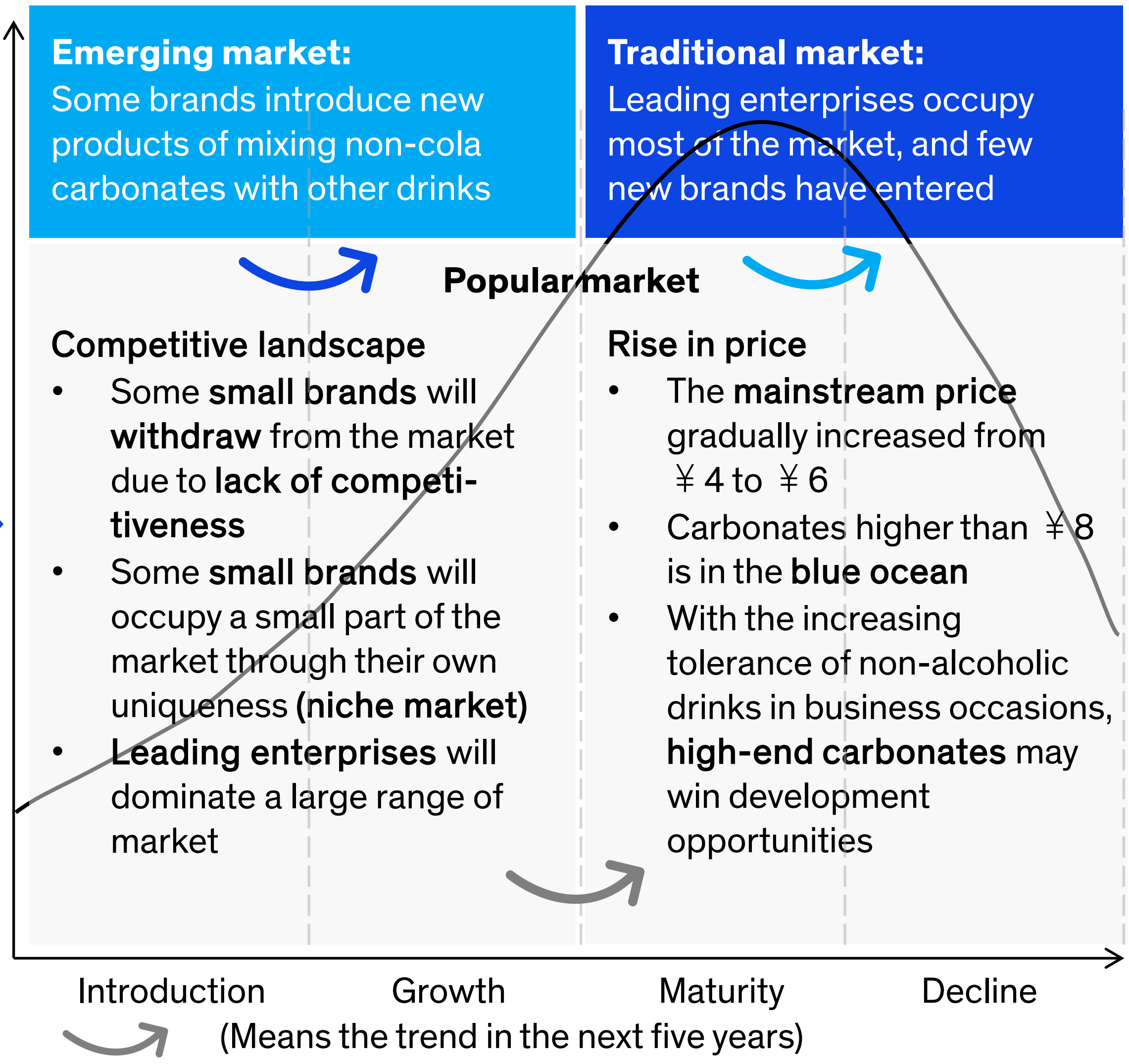
Non-cola carbonates without sugar segment is in the growth stage, and Genki Forest will face competition from both traditional and new brands

Genki Forest faces fierce competition in the popular market

Competition landscape of non-cola carbonates in China



"Reverse-smile" trends within the next five years



Emerging market: Some brands introduce new products of mixing non-cola carbonates with other drinks

Traditional market: Leading enterprises occupy most of the market, and few new brands have entered

Popular market

Competitive landscape

- Some **small brands** will **withdraw** from the market due to **lack of competitiveness**
- Some **small brands** will occupy a small part of the market through their own uniqueness **(niche market)**
- **Leading enterprises** will dominate a large range of market

Rise in price

- The **mainstream price** gradually increased from ￥4 to ￥6
- Carbonates higher than ￥8 is in the **blue ocean**
- With the increasing tolerance of non-alcoholic drinks in business occasions, **high-end carbonates** may win development opportunities

Source: Sparkle Analysis

New non-cola carbonates brand Genki Forest faces different types of strong competitors, although it has a first mover advantage and optimistic market

Main players*	General comparison		Non-cola carbonates segment comparison				
	Awareness	Co. revenue in China	Sugar-free enter time	Popularity	Categories sugar-free	Categories with sugar	Brand feature
New non-cola carbonates brand 元气森林 GENKI FOREST	◔	◔	2018	●			New brand, open the sugar-free carbonated beverage market
Traditional carbonates brand Coca-Cola	●	●	2018	◔			Famous in carbonates with sugar, launch various of non-cola carbonates without sugar in recent year
Drinking water and beverage brand 农夫山泉 NONGFU SPRING	◑	◑	2021	◔			Rich beverage product line, struggle a marketing war with Genki Forest last year
Tea brand with own stores HEYTEA 喜茶	◔	◔	2020	◔			Major in milk tea shop, have fans base and offline store, seek for new growth point with bottled drink

KPC comparison

* One representative player in each segment

Genki Forest still has a certain gap with Coca-Cola in brand awareness and company strength

Genki Forest was the first player to enter the market of Non-cola carbonates without sugar

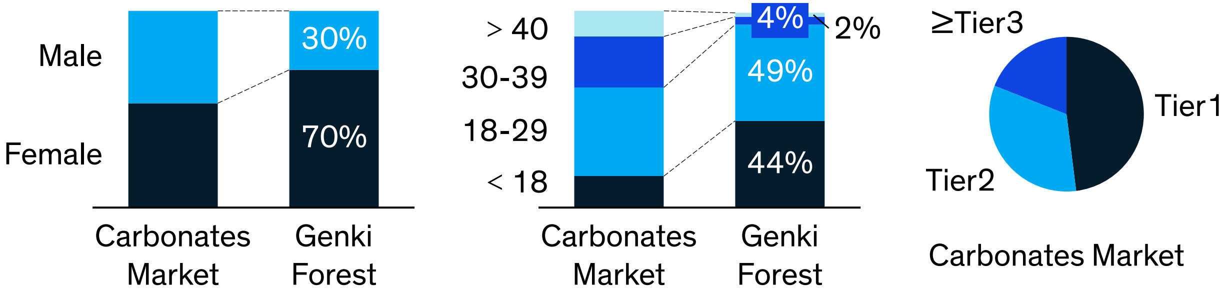
The company meets the KPC of its target customers, but it still faces the risk of other players taking over the market

Source: Official websites, Annual reports, Market survey, Sparkle Analysis

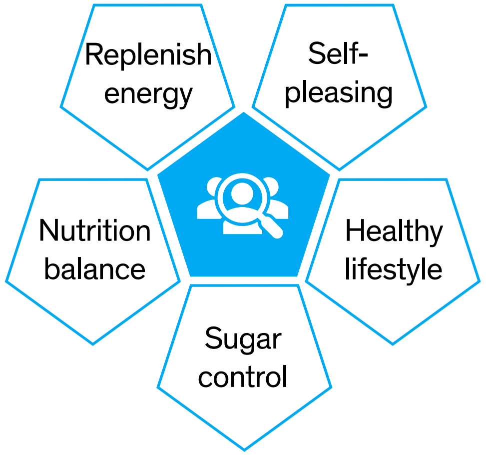
Target customers of Genki Forest are young who live in metropolitan areas and who are concerned about flavor and brand

Target Customer Analysis

Consumer profile of carbonates market and Genki Forest by gender, age and city tier, % Quantity



Consumer Purchasing Motives



Target Consumers of Genki Forest

Profile

- **Female**
- **Young:** Mainly <29 year-old
- In **Tier 1 & 2** cities

Typical Consumer

Ms. Cecile: F, 21, Tier-1 city

Scene: Daily needs, gathering

Motivation: Self-Pleasing, Taste & Health

Key Purchasing Criteria (KPC)

Flavor: Evaluated by sweetness, the texture of sparkles etc.

Brand & Reputation: Evaluated by brand awareness, quality, service

Ingredient: Natural, non-additive

New Trend of Gen Z →
Personalization
Diversification
Quality consumption →
Seasonal limited
IP co-branded
Celebrity endorsed

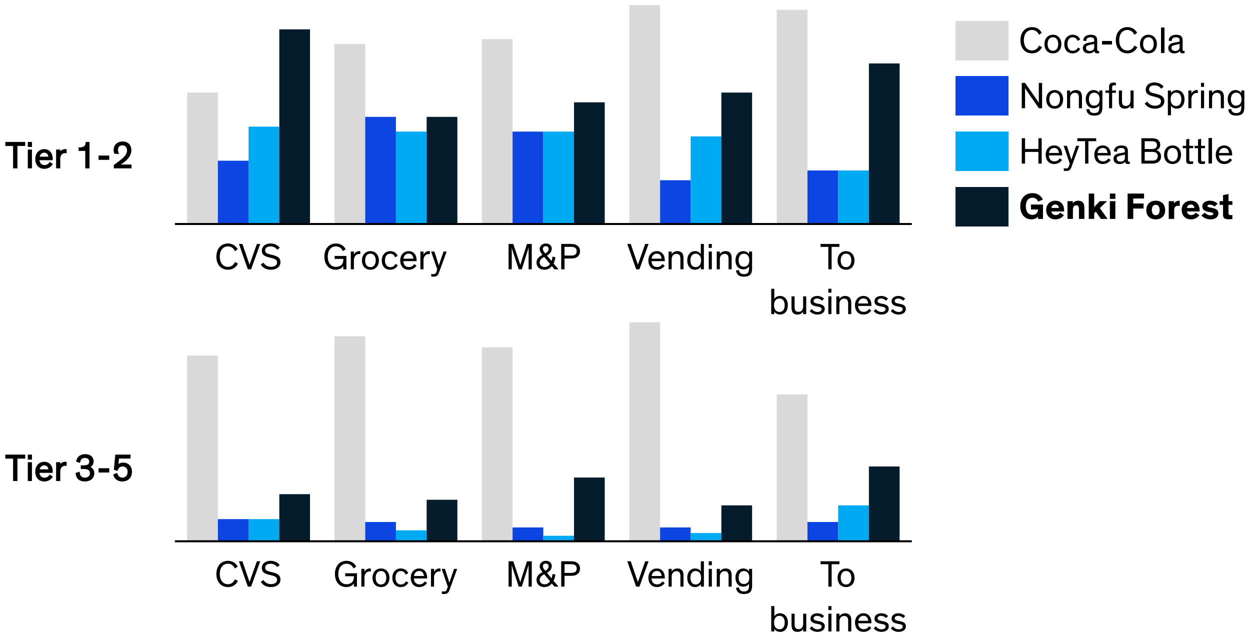
Value Proposition of Genki Forest

	Present		Future
Product	Good **quality** products with numerous **flavors** **Fill the blank** market of 0 sugar sparkling water	▶	• **Diversify** products • Increase **visibility** • Optimize distribution **channel strategy**
Brand	As a **top sugar-free brand** brings a **sense of security** **Keeping up with trends:** Crossover co-branding with brand IP, etc.	▶	• Shape unique brand **culture** • Optimise brand **value** ↓ **Increase consumer adhesion**

Source: O2O Mind; ENDATA; Sparkle analysis

Among 5 major distribution channels for non-cola carbonates, Genki Forest has good performance in T1-2 CVS channel, usually prime/sub-prime location

Main distribution channels for non-cola carbonates

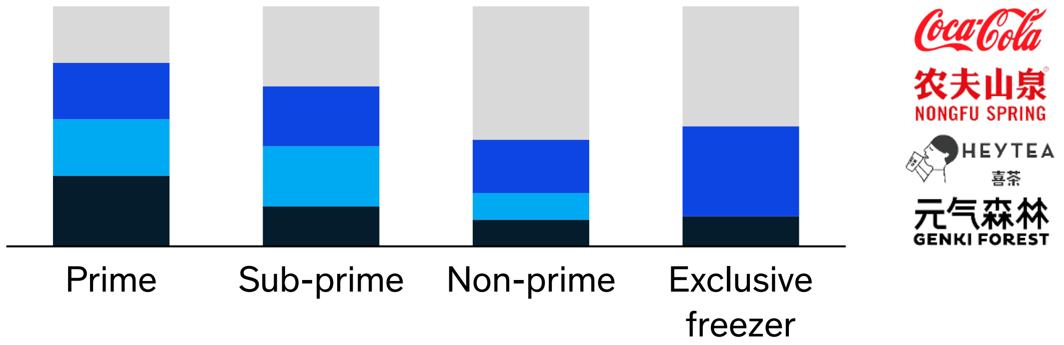


Feedback

> **A Tier-1 distributor**
>
> “Genki Forest made good profit to us and stores, but more and more brands entered the market with fierce competition over the past year.”

> **A Tier-3 grocery manager**
>
> “In the past two years, carbonate beverage with sugar sales decreased, more people were buying water and tea, rather than sugar-free carbonates.”

Display location and freezer launch



Performance of Genki Forest in channels

- Entered the market via CVS channel and got good reputation
- Became 1st sugar-free drink in all channels, while slightly better than others in grocery
- Still have some distance with Coca-Cola in total non-cola drinks, especially in Tier 3-5 cities
- Usually at prime or sub-prime location
- Has put less freezer than main competitors

Source: Store visit, Genki Forest distributor interview, RT-Mart manager interview, Sparkle Analysis

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Agenda

Market Research

▸ **Strategy Design**

- To Consumer Channel
- To Business Channel
- Product Innovation

Implementation

Strategy Landscape

Connect Different Types of Offline Channels by Expansion and Subdivision of Sales Team

Vision

Achieve a Healthy and Energetic Lifestyle

Objective

Expanding to customer and to business channels to boost Genki Forest sales and profits

Growth Strategy Design

To C Exploratory Channel

Experience stores
CBD or Business Center in Tier 1 & 1.5 cities

Traffic channel
Airport, Subway/Train/Coach Station

Entertainment channel
Cinema/Bar/Park/Gym/Amusement/Restaurant/Scenic Area

To B Exploratory Channel

Cooperate with young-oriented restaurants

- Selling bottled products or ingredients

Vending of raw materials

- Selling together with CO2 gas cans and beverage machines
- Selling raw materials for sparkling water and brand cooperation

Product Innovation

Maintain standard process for product design

- Follow consumer “insights-design-pilot-launch” process

Invent products for own brand & sub-brands

- Design products with different functions based on “Sparkling+” strategy e.g. sparkling coffee, functional drink, sparkling yogurt

- Digital management system: Realize omni-channel data flow, online and offline membership linkage
- Optimize CRM customer relationship management

Source: Sparkle Analysis

Genki Forest can expand and subdivide its sales team to connect different types of offline channels*

Existing operating model

Operating model

Store Oriented

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- Regional Manager
- Sales Manager
- Salesman
- Target Channel

Two management levels

Target

- CVS
- Grocery Store
- M&P Store

Drawbacks

- Limited target partners
- Highly competitive channel
- Increased management difficulty with more personnel

Recommended operating model

Channel Oriented

元气森林 GENKI FOREST

- Regional Manager
- Sales Manager
- Channel Leader
- Salesman
- Target Channel

Three management levels

- Consumption Channel
- Traffic Channel
- Entertainment Channel

Efficiency contribution

- Targeted expansion strategies
- High expansion efficiency

Prime Channel

Exploratory Channel

Channel Characteristics

Consumption Channel

- CVS
- Grocery Store
- M&P Store

Advantages:
- High sales
- Distributor referral

Disadvantage:
- Fierce competition

Key areas:
- Schools, communities

● ● ●

Traffic Channel

- Airport
- Subway Station
- Train Station
- Coach Station

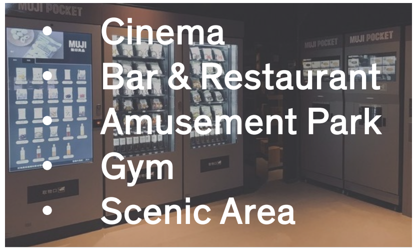
Advantages:
- High traffic
- Effective marketing

Disadvantage:
- Fewer locations

Key areas:
- Metro interchange stations

○ ● ●

Entertainment Channel



- Cinema
- Bar & Restaurant
- Amusement Park
- Gym
- Scenic Area

Advantage:
- More target customers

Disadvantage:
- Low traffic

Key areas:
- CBD

○ ○ ●

Source: Sparkle Analysis *Ref: Appendix 3

Genki Forest can deploy smart freezers and vending machines and code scanning activity, to collect data and realize omni-channel digital management

Data Collection Strategy

Sales data collection

Smart freezer

Feasible Channel:
Consumption channel
Entertainment channel

Technology:
Built-in cameras can collect sales data

Vending machine

Feasible Channel:
Traffic channel
Entertainment channel

Technology:
The machine records sales data automatically

Sales data

Consumer data collection

Offline purchasing → Log in the mini-program of Genki Forest (元气森林官方店) → Enter the code inside the bottle cap

→ Earn membership points → Redeem points for online discounts → Stimulate → Offline purchasing

Omni-channel membership system

Consumer data

Digital Management Process

Synchronized data of all channels

Design & MFG	- **Improve existing products and design new beverages** based on sales data - **Optimize manufacturing and inventory management** according to sales forecast
Channel Distribution	- **Get through dealer inventory management and company sales system**, allocate resources in time
Omni-Channel Interaction	- Collect location data by scanning the QR code (freezers, vending machines) - Provide personalized marketing based on the customer portraits from member data - Data analysis and support strategies
Customer Loyalty	**Genki mini program (membership system)** Enrich the methods to earn points, such as: - Involve in the activities of offline stores - Complete consumer surveys - Participate in Genki Forest contests

Product Mgmt.

CRM

Source: Sparkle Analysis

Genki Forest may seek to cooperate with diverse types of catering outlets that attract young people

Key criteria to select partners: **Young & Healthy**

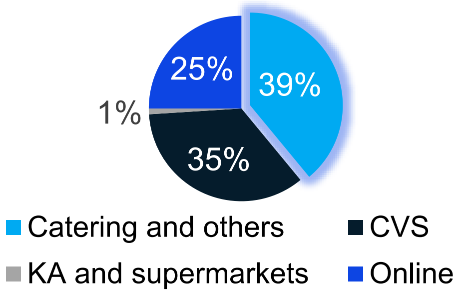
Genki Forest invested area

- *Light food*
- *Noodles chain*
- *Alcoholic drink*

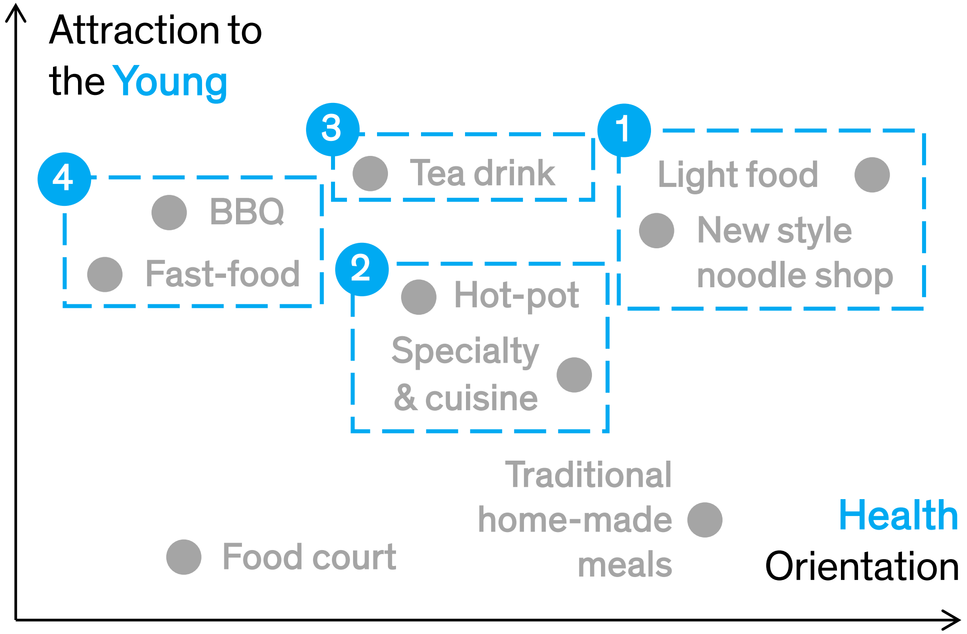
Shared concepts

Young + Healthy

Sales by channel: % Value



Catering channels landscape



Strategy for different outlets

Potential partners

① Major outlets to place freezer

✓ Shared **value** and **consumer group**

Health · Fitness · Nature | *18-29 · Female*

② Supplementary outlets to place freezer

✓ Great potential due to the **huge quantity** of these outlets

③ Outlets for co-branding & product invention

✓ In the same track and better chances to invent **new co-branded drinks**

④ Outlets to supply non-fizzy ingredients

✓ Similar to coke and can be carbonated by carbon-dioxide injecting equipment

Source: EqualOcean, CMS Research, CBN Data, Qichacha, NCBD餐宝典, Sparkle Analysis

In addition to the direct sales of finished beverages, Genki Forest can also sale ingredient products and cooperate with other brands

Outlets to supply non-fizzy ingredients

Producing with Existing Aseptic Technology

Water → **Pure Water** → **Raw materials**

- Filtered by
- RO Reverse
- Osmosis Water Purifier

- Add sugar substitute
- Thoroughly sterilized at high temperature

Packaging

Barrel the raw material
- Specification: 1L/5L

Environmentally friendly
Containers can be recycled

Distribution and Market Layout

Distribute to Tier1&2 cities

Branded Restaurants

Tea and Beverage Shops

Music Bars

Strength

- Sugar-free, additive-free health drinks **in line with the trend**
- Well-known brands cooperate, possible **launch of top-selling product**
- Freshly made sparkling drinks **taste better**

Outlets for co-branding & product invention

元気森林 × Helen's

Bartender special works with Genki Forest

Product: Genki Catalyzer

Description:
Special bartending

Advertising Slogan： Have fun with it and always be your perfect self

For Clients

Advantages
- High quality beverage ingredients
- Top sugar-free beverage brand cooperation

Incentives
- Flexible delivery methods
- Discounts on bulk purchase and long-term cooperation
- With regular promotions

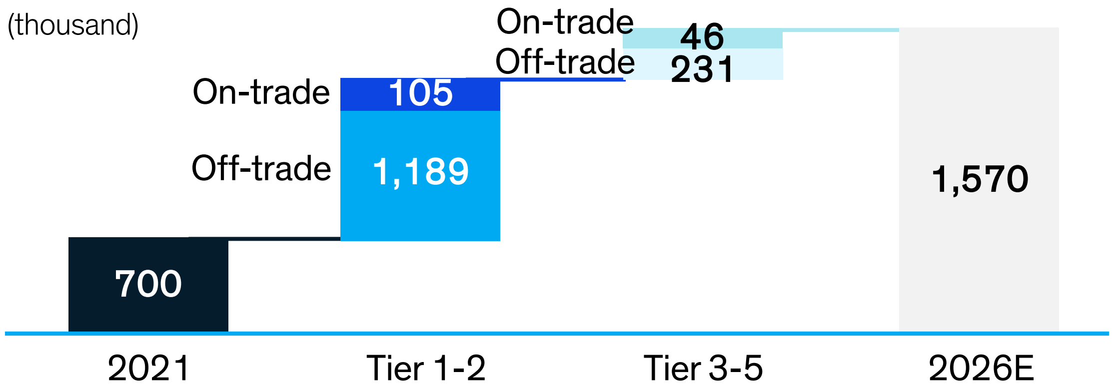
For Genki Forest

- Enhancing brand visibility, solidifying brand position
- Strengthen product supply chain line
- Strengthen strategic cooperation with other brands

Source: Genki Forest official website; Sparkle analysis

Genki Forest should mainly penetrate the channels in tier 1-2 cities, and try to expand the market in tier 3-5 cities within the five target regions after 2023

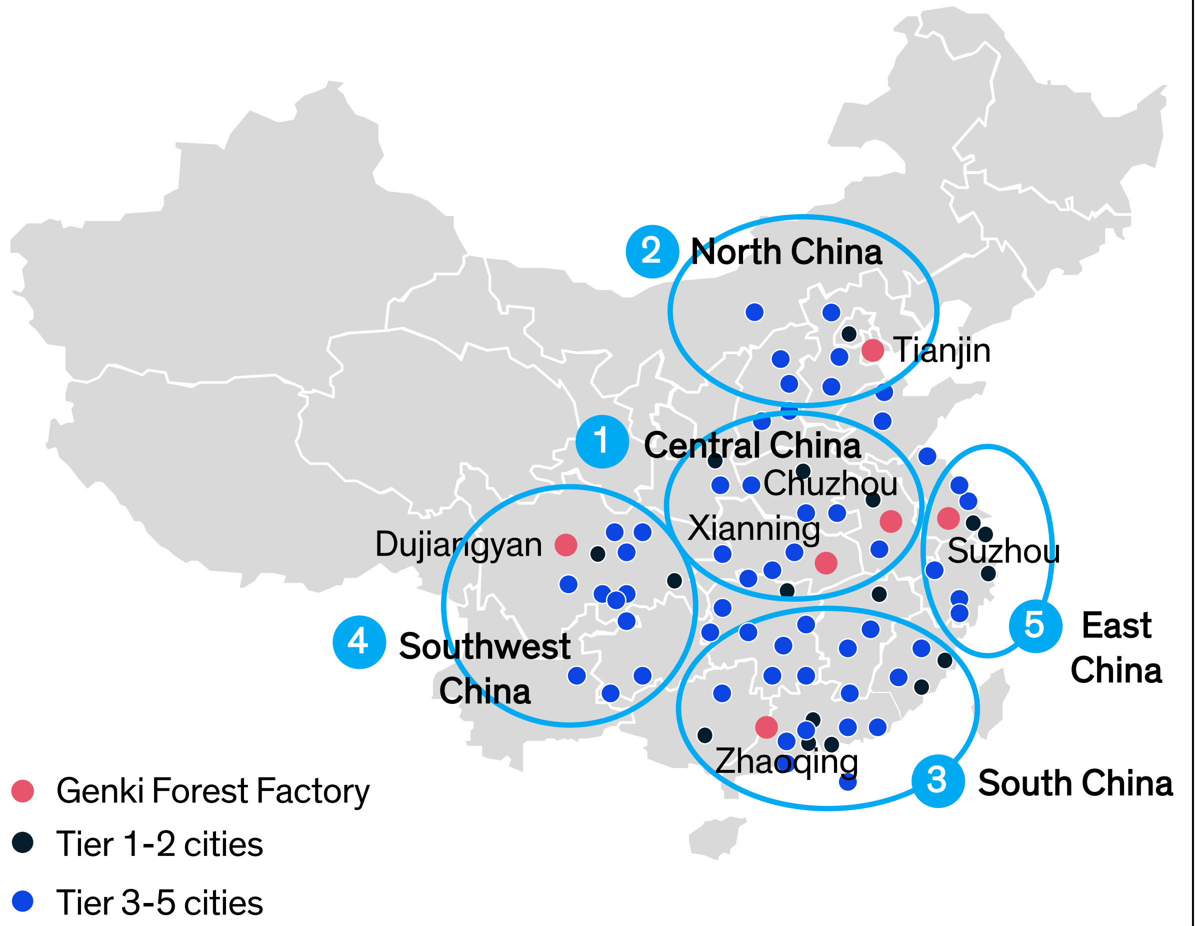
Sales terminal spots growth forecast



	2022-2026	2022-2026
Strategy	**Off-trade:** Take the retail market as the main expanding channel **On-trade:** Selectively expand the market in the on-trade channel	**2022-2023:** Take southwestern region as pilot area **2023-2026:** Expand the market in other Tier 3-5 cities
City selection criteria	**Distance** • The area covered by the factories	**Market attractiveness** • Young population • Willingness to pay

Expansion plan with regional factories as the centers

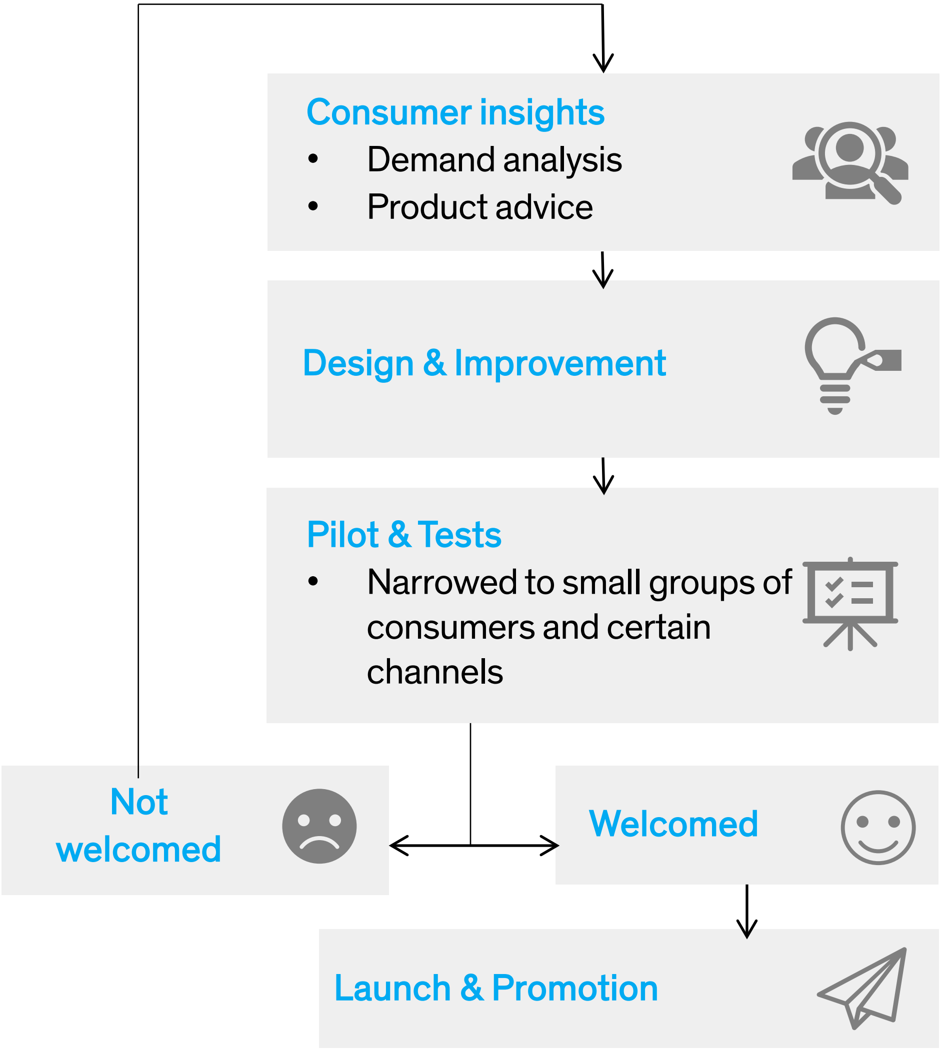
We select 20 tier 1-2 cities and 70 tier 3-5 cities to be our target cities



Source: Sparkle analysis

Genki Forest should maintain a standard process to design, pilot and launch new products

Process for Product Design



Consumer insights
- Demand analysis
- Product advice

Design & Improvement

Pilot & Tests
- Narrowed to small groups of consumers and certain channels

Not welcomed

Welcomed

Launch & Promotion

New products for own brand / …for sub-brands

New products for own brand		…for sub-brands
Sparkling coffee	**Sparkling functional drink**	**Sparkling yogurt**
• Office workers • Need to keep energetic	• Many feel stressed during the pandemic • Need to be eased and decompressed	• People who has weak gut function • Health-focusing consumers
 Refreshing taste and caffeine help white-collar stay dynamic	 L-theanine左旋茶氨酸 added has anxiolytic抗焦虑 effect	 Probiotics helps people recover from gut disorder caused by erythritol赤藓糖醇
CVS and vending machines in CBD	CVS and M&P stores near residential area	CVS and vending machines near residential area
• Received negative market feedback: too much sugar • Note to consider such problem in designing	Similar products as Soulboost™ launched by PepsiCo in N. America has received positive feedback	Similar products launched by New Hope Dairy Co has been welcomed by the market

Source: FoodTalks, Sparkle analysis

Agenda

Market Research

Strategy Design

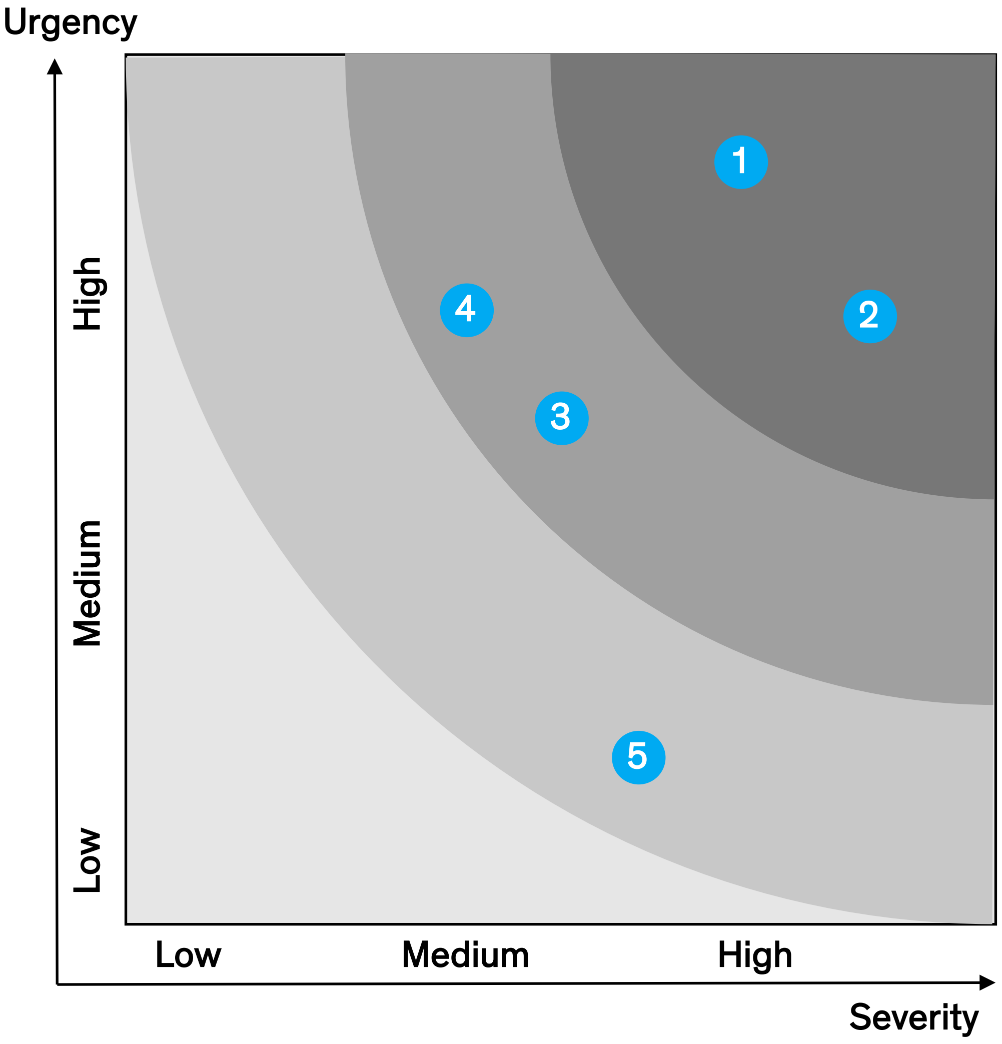
▸ **Implementation**

— Risk & Mitigation

— Financial Forecast

Genki Forest should pay attention to existing or potential risks, including raw material, manufacturing, channel, consumer and so on, ahead of the layout

Risk Mapping



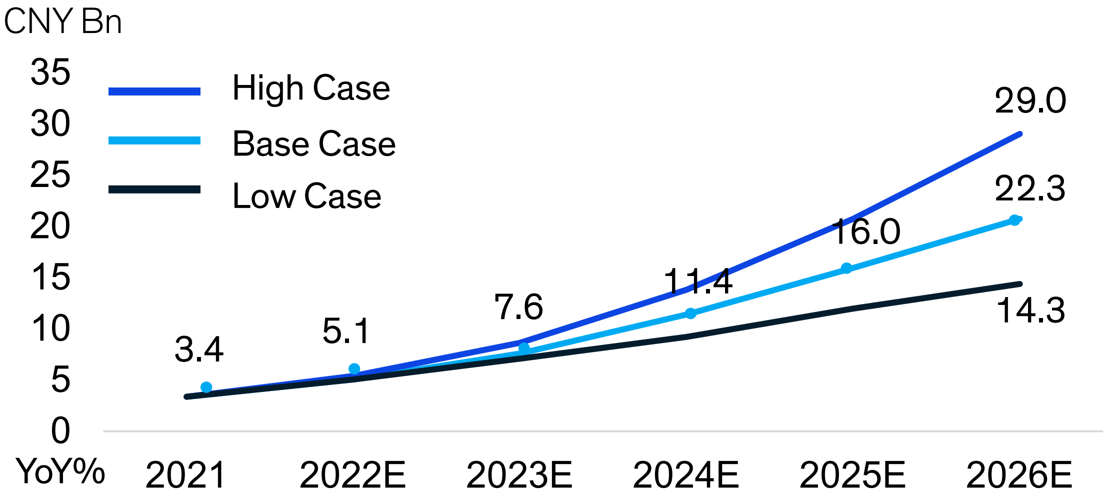
5 Major Risks to be Considered

	Risk	Mitigation
1	**Supply interruption** of agent factory	Build own factory
	Build own factory **need** a large **funds**	Before investing factory, **calculate** the **cash flow** and **project capital cost**, can choose **debt financing or equity financing** according to situation
2	Erythritol赤藓糖醇, the **raw material** of sugar substitute, is **in short supply**, and giant competitors put pressure on suppliers	**Cooperate exclusively** with some **suppliers**, make a certain reserve
3	Bubble water without sugar has **no technical barriers**, more brands begin to enter the market	Attach importance to **new product research** and development, spread risks, look for blue ocean
4	Some **competitors** have **strong** financial strength and **channels**	Combined with their own characteristics, **create a specific channel strategy**
5	The concept of **sugar-free** has **not** been generally **accepted** by consumers in Tier 3-5	**Cooperate** with competitors to complete **consumer education** and explore the market

Source: Sparkle analysis

Genki Forest is expected to achieve CNY 22 Billion in offline sales of non-cola carbonates without sugar

Offline Sales forecast of non-cola carbonates



YoY%	2021	2022E	2023E	2024E	2025E	2026E
Base case	150%	50%	50%	50%	40%	40%

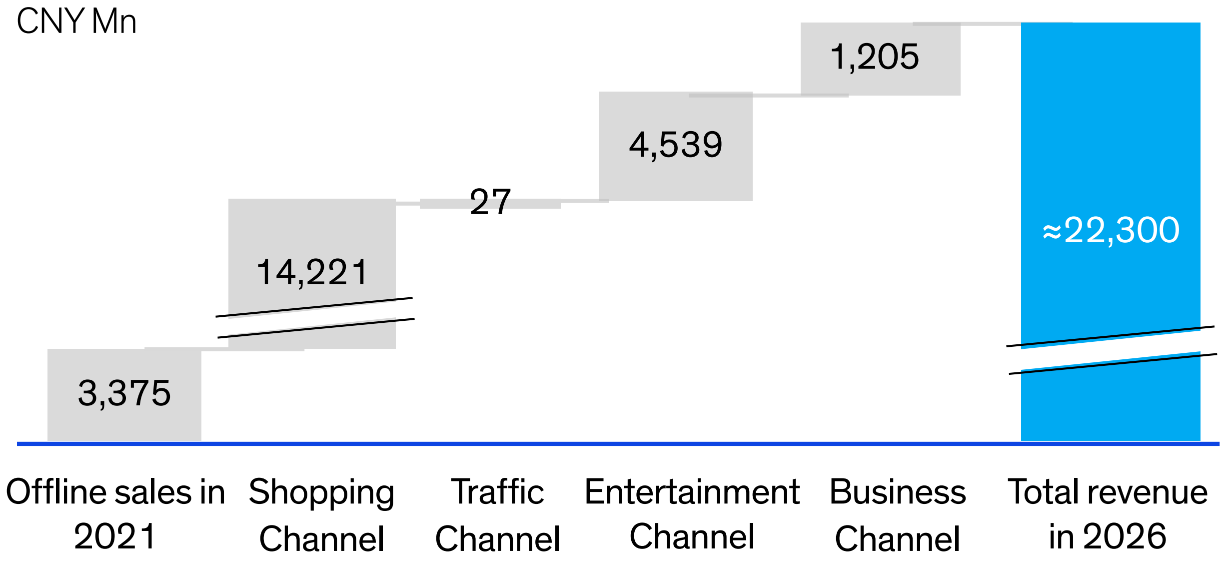
Key assumptions

- **Target growth rate in 2022-2024:**
  50%-60%
- **Market trends in 2024-2026:** The segment transition from the growth stage to the maturity stage

Key growth drivers:

- Offline channel penetration
- Improvement of CRM
- Increase in product categories

Revenue breakdown of Genki Forest in base case



Main contributing factors:

- **Tier 1-2 cities** will contribute most of the offline revenue growth
- **Shopping channels** will still be the main place to occupy the market despite fierce competition

Potential contributing factors:

- Business channels still has the potential to be explored
- Traffic channels will be effective to enhance brand awareness

Source: Company report, Sparkle analysis

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The Team

X WANG

The University of Hong Kong

X GUO

Zhejiang University

X WU

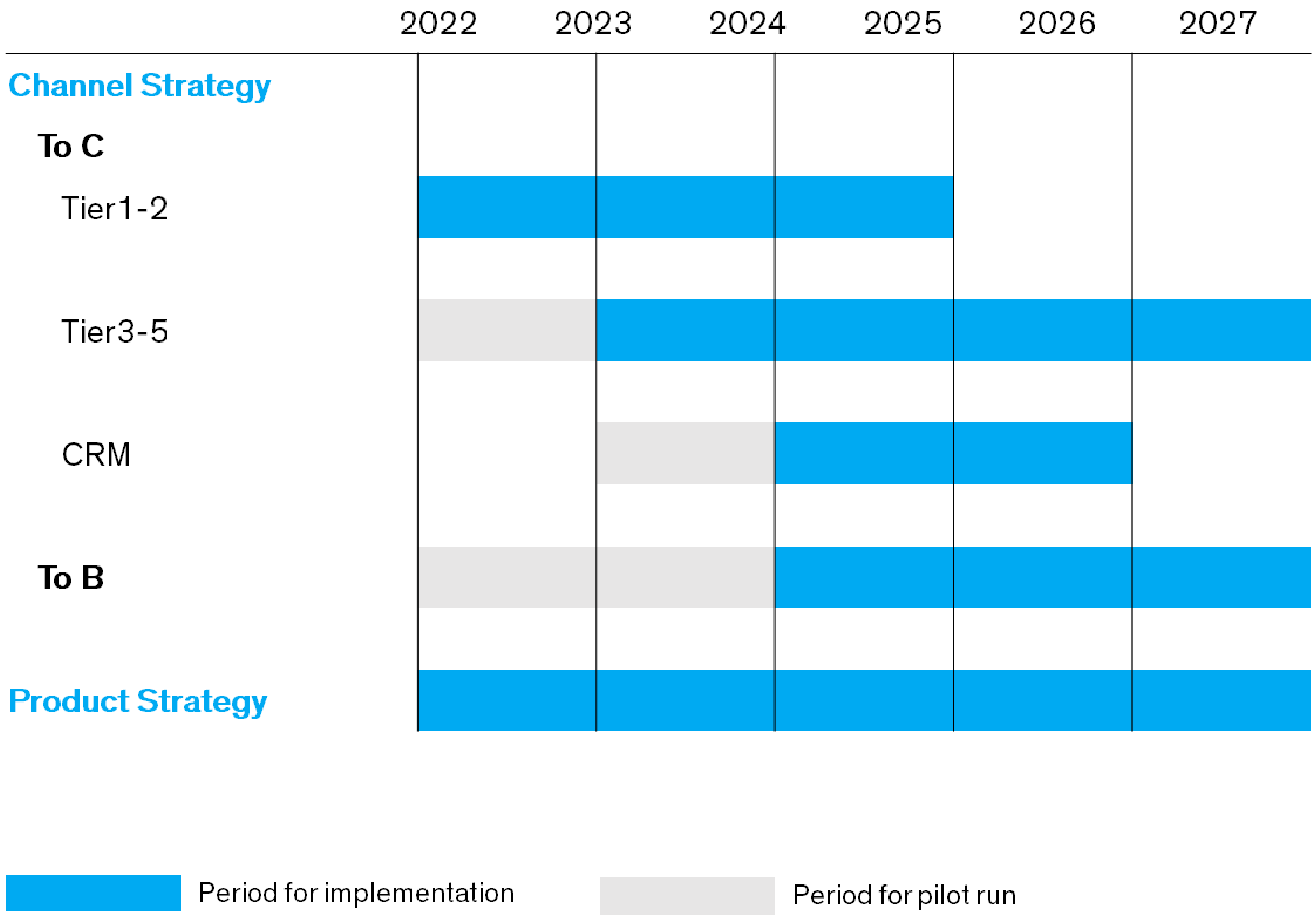
The University of Hong Kong

Haikang LIU

National University of Singapore

THANKS FOR WATCHING.

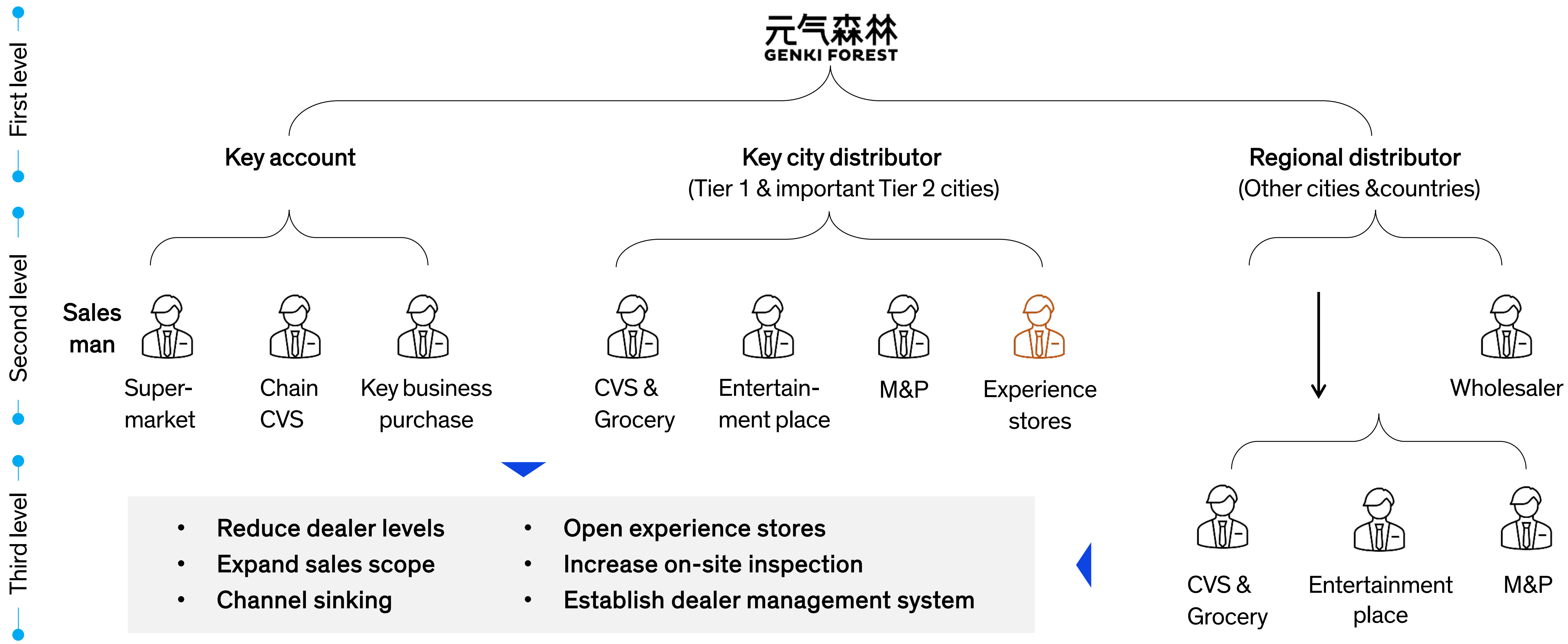
Appendix 1: Implementation Timeline



Source: Sparkle analysis

Appendix 2: Recommended channel structure

Recommended Operating Model



- Reduce dealer levels
- Expand sales scope
- Channel sinking
- Open experience stores
- Increase on-site inspection
- Establish dealer management system

Source: Sparkle analysis

Appendix 3: Detailed analysis of to customer channel

Existing channel and recommend measure

	Customer	Display	Promotion	Price Sensitivity
CVS	• White-collar • More impulse buying, willing to try new things • Immediate drink	**Place SKU:** Popular SKU(standard bottle and can), New product **Display:** Launch popularize material	Bundled with box lunches	○ ○ ●
Grocery	• Married people or children • Family purchase	**Place SKU**: Rich SKU(larger bottles) **Display:** Increase secondary display	**Foretaste**, sales with **present**, combination packaged and sold with other food or Genki drink	○ ● ●
M&P store	• Blue-collar or community • Immediate or daily purchase	**Place SKU:** Cheap and popular SKU **Display:** Put freezer or mini display shelf near cashier desk	Maintain a good relationship with store owner and ask for **recommendation**, **price discount**	● ● ●

Exploratory Channel

	Display	Impact
Experience Stores	Tier1&1.5: CBD, Business Center **Key areas:** Abundant passerby area	**Advantages：** Expand brand influence, Bring new customer **Disadvantage：** High cost
Traffic Channel	Airport, Train/ Subway/Coach Station **Key areas:** Metro interchange stations	**Advantages:** High traffic Effective marketing **Disadvantage:** Fewer locations
Entertainment Channel	Cinema, Bar & Restaurant, Gym, Amusement Park, Scenic Area **Key areas:** CBD	**Advantage：** More target customers **Disadvantage：** Low traffic

Source: Sparkle analysis

Appendix 4: Shopping channel expansion forecast

Retail		M&P Store	CVS	Grocery store
Tier 1-2	**Sales per day**	60	90	150
	Sales growth rate with more SKU	0.3	0.3	0.3
	Sales growth rate with CRM	0.3	0.3	0.3
Expension timeline	**Base case**			
2022	**Number of stores**	2,000	3,000	1,000
2023		2,500	3,500	1,500
2024		3,000	4,000	2,000
2025		3,500	4,500	1,500
2026		4,000	5,000	2,000
Number of cities	20			
Anuual sales		2,960,880,000	5,551,650,000	3,701,100,000
Tier 3-5	**Sales per day**	30	60	90
	Sales growth rate with more SKU	0.3	0.3	0.3
	Sales growth rate with CRM	0.3	0.3	0.3
Expension timeline				
2022	**Number of stores**	50	100	10
2023		100	200	25
2024		150	300	50
2025		200	400	75
2026		250	500	100
Number of cities	70			
Anuual sales		323,846,250	1,295,385,000	388,615,500

Source: Sparkle analysis

Appendix 5: Traffic channel expansion forecast

Retail		Airport	Train station	Subway station	Coach station
Tier 1-2	**Sales per day**	90	150	180	60
	Sales growth rate with more SKU	0.3	0.3	0.3	0.3
	Sales growth rate with CRM	0.3	0.3	0.3	0.3
Expension timeline	**Base case**				
2022	**Number of stores**	1	2	5	2
2023					
2024					
2025					
2026					
Number of cities	20				
Anuual sales		1,110,330	3,701,100	11,103,300	1,480,440
Tier 3-5	**Sales per day**	30	90	NA	30
	Sales growth rate with more SKU	0	0		0
	Sales growth rate with CRM	0.3	0.3		0.3
Expension timeline					
2022	**Number of stores**	1	2		1
2023					
2024					
2025					
2026					
Number of cities	70				
Anuual sales		1,295,385	7,772,310		1,295,385

Source: Sparkle analysis

Appendix 6: Entertainment channel expansion forecast

Retail		Cinema	Bar & Club	Amusement park	GYM	Scenic spot	Restaruant
Tier 1-2	**Sales per day**	180	120	60	60	160	60
	Sales growth rate with more SKU	0.3	0.3	0.3	0.3	0.3	0.3
	Sales growth rate with CRM	0.3	0.3	0.3	0.3	0.3	0.3
Expension timeline	**Base case**						
2022	**Number of stores**	50	200	2	30	10	2,000
2023		100	300	3	50	20	2,500
2024		150	400	4	70	30	3,000
2025							3,500
2026							4,000
Number of cities	20						
Anuual sales		333,099,000	592,176,000	2,960,880	51,815,400	59,217,600	2.96E+09
Tier 3-5	**Sales per day**	120	90	30	30	60	30
	Sales growth rate with more SKU	0	0	0	0	0.3	0.3
	Sales growth rate with CRM	0.3	0.3	0	0.3	0.3	0.3
Expension timeline							
2022	**Number of stores**	2	20	1	5	2	30
2023		4	30		10	4	60
2024		6	40		15	6	90
2025		8	50		20	8	120
2026		10	60		25	10	150
Number of cities	70						
Anuual sales		51,815,400	233,169,300	1,295,385	32,384,625	25,907,700	1.94E+08

Source: Sparkle analysis

Appendix 7: Business channel expansion forecast

To B		**Milk-tea store**	**Fast food & BBQ store**
Tier 1-2	**Sales per day**	90	120
Expension timeline	**Base case**		
2022	**Number of stores**	300	50
2023		600	100
2024		900	150
2025		1,200	200
2026		1,500	250
Number of cities	20		
Anuual sales		985,500,000	219,000,000
Tier 3-5	**Sales per day**	60	60
Expension timeline	**Base case**		
2022	**Number of stores**	30	20
2023		50	40
2024		70	60
2025		90	80
2026		110	100
Number of cities	70		
Anuual sales		168,630,000	153,300,000

Source: Sparkle analysis