

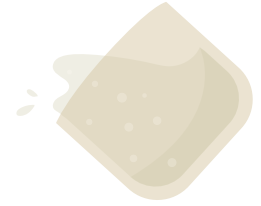
Drinkworks Home Bar

GEE - Second Case Study

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Case Study Introduction

Nathaniel Davis, the CEO of [Drinkworks](#), was exploring the results of his company's most recent market study in the summer of 2018.

Davis's team at Drinkworks created a home bar appliance that, similarly to a Keurig's coffee machine, used "pods" to make single-serving cocktails or beer with a touch of a button. It was developed through a joint venture between home coffee-brewing and soft drink giant Keurig Dr. Pepper and global beer-brewing company Anheuser-Busch InBev.

Before diving deep into this area, they want to know more about their product and research the market before launching the final product.



Problem Identification

This case study analysis aims to provide recommendations to Nathaniel Davis and his team about the possible actions that could be taken regarding their brand new product.

They need 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.

Taking all of this into account, Nathaniel Davis was also aware that AB InBev was looking for new growth opportunities. Could Drinkworks be the company's next billion-dollar opportunity?



1. Is Drinkworks a good product? What problem is it trying to solve? What is its frame of reference?

Although we think that Drinkworks product is an interesting idea, it has some flaws.

Drinkworks tries to solve some problems:

- Increase the ease of mixing cocktails;
- Having fast drinks at home;

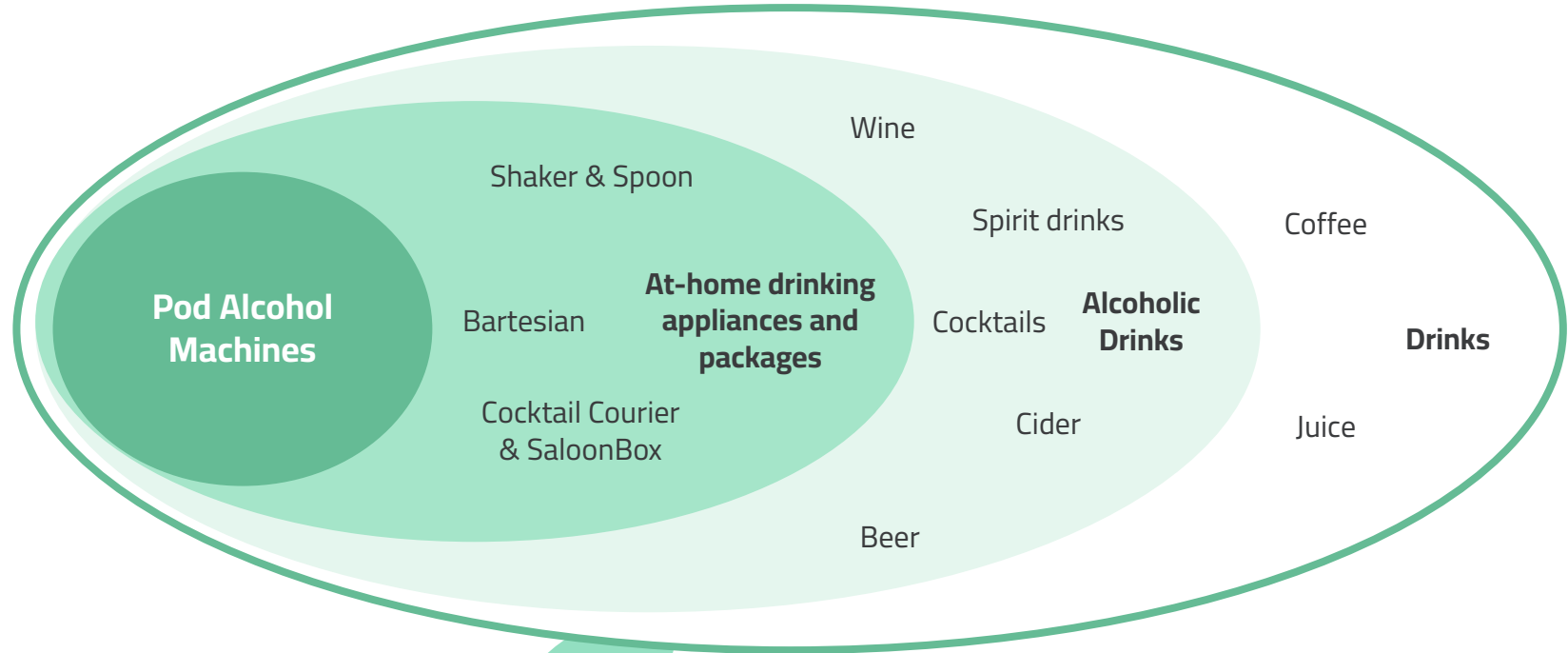
While this product increases the ease of use, it does not solve the problem of having fast drinks at home. The machine takes 10 minutes to startup. However, in that time is possible to mix and do a cocktail.

Because of the difficulty of distributing alcoholic drinks in the USA, there is the option of non-alcoholic pods. With this approach, it would be a machine similar to the Bartsian's product. The end-user would be mixing the drinks by himself, razing to the ground the purpose of this machine.

Also, using a digital marketing strategy to promote the product would not convince the end-user of the quality of the pods and, consequently, would not avoid misconceptions regarding the quality of the drinks.



1. Is **Drinkworks** a good product? What problem is it trying to solve? **What is its frame of reference?**

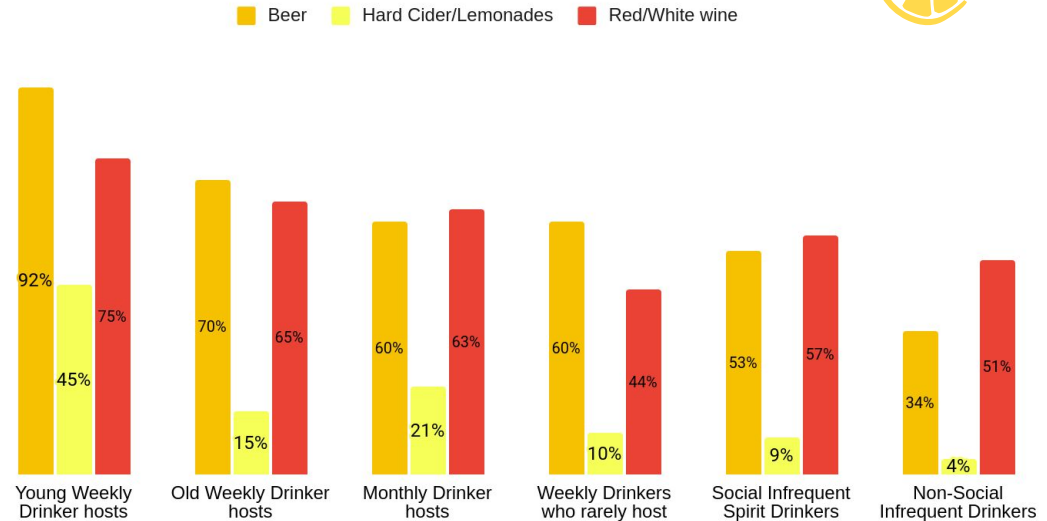


2. How do you characterize the target market segment(s) of Drinkworks? What is its potential target market size?

Target Market Segments

In order to create market segments, some characteristics of the clients were analyzed, such as:

- People who drink at home
- People who host parties
- Social Drinkers
- Age
 - Young Drinkers
 - Old Drinkers
- Alcohol Frequency Consumption
 - Weekly Drinkers
 - Monthly Drinkers
- Type of Alcohol Consumed



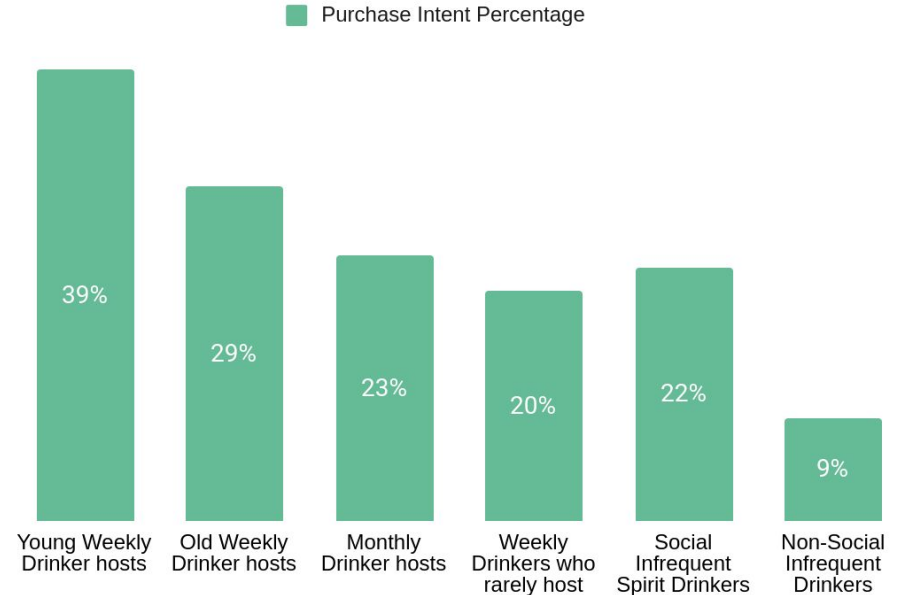
Six market segments were created, which are displayed in the following bar chart.

The most influent segment is Weekly Drinkers which frequently host parties and are part of a younger age group.

2. How do you characterize the target market segment(s) of Drinkworks? What is its potential target market size?

Target Market Size

- In 2017, an online survey was conducted to 1,800 qualified respondents between the ages of 25 and 64, who had consumed any type of alcohol in the last four weeks, which represents 59% of the 120.5 million U.S. householders.
- In 2017, \$130 billion dollars of total sales were associated with in-home alcohol consumption.
- In October 2017, another survey was made regarding the benefits from drinking cocktails at home and buying a Drinkworks machine.
- Most responses associated the device with positive emotion. However, about 12% indicated a negative response citing the device perceived a lack of purpose, high price point and complexity.



3. What is Drinkworks' value proposition, and what is its positioning in the market? What Pods should be introduced?

*"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."*

Functional Benefits

1. **Convenience/Simplicity/Time-efficiency:**
 - Ease the process of making drinks at home by providing pods that only require a simple touch of a button. Doesn't require any receipt, extra ingredients or experience in beverage preparation;
 - Consistent with consumers' perception of Keurig's coffee machines.
2. **Quality:** good-quality cocktail at home, with top technology that verifies the quality of the drink and determines the recipe;
3. **Flexibility/Diversity/Customizability:** provide different varieties of pods, alcoholic and non-alcoholic, cocktails, beer and cider.

Emotional Benefits

1. **Excitement/Happiness/Relaxation:**
Consumers are excited to make their own alcoholic drinks at home with low effort.
2. **Premium Feeling:** Consumers get to experience a state-of-the-art technique of making their own alcoholic drinks with the tap of a button, and with the possibility of monitoring the quality of the drinks with their mobile device.



Drinkworks' Value Proposition

Drinkworks' brings the ease and convenience of making quality beverages from the comfort of your home, with a single press of a button. The top-level technology of its device and pods offer a new at-home drinking experience, where customers can relax and enjoy a diversity of high quality drinks, even cocktails, without any effort.

3. What is Drinkworks' value proposition, and what is its positioning in the market? What Pods should be introduced?

Competition

Companies trying to remove the barriers to at-home cocktail consumption with:

RTD cocktails, in bottles and cans (Cardinal Spirits):

- Focused on recognizable spirit brands, rather than on personalized cocktails;
- More about portable packaging and quality than at-home experience;

Cocktail-making subscription boxes & kits:

- **Cocktail Courier & SaloonBox:** offer packs with everything included, but the knowledge to make the cocktails and time spent making them is still a disadvantage;
- **Shaker & Spoon:** only non-alcoholic beverages;

Home appliances for cocktails:

- Biggest competition (**Bartesian**): similar device and non-alcoholic pods - missing variety, particularly alcoholic drinks;

Points of parity

- Can provide non-alcoholic beverages in a similar fashion as Bartesian;
- Does not require extra ingredients or time to make the drinks, like RTD and Bartesian.

Points of difference

- **Convenience:** just one button press to quickly make alcoholic or nonalcoholic drinks at home, without extra ingredients and receipts;
- **Premium, relaxing, satisfying feeling:** modern technology that allows you to make a cocktail at home, without effort, with a single button press.



Drinkworks' Positioning Statement

Among regular drinkers and hosts who are looking forward to stepping up their at-home drinking experience and enjoying a relaxing new way of creating personalized cocktails and beverages at home, Drinkworks offers the convenience of creating a variety of high-quality drinks with a single press of a button, because its revolutionary technology and its proven experience with related products, like Keurig's coffee machines, allows Drinkworks to provide intuitive, upscale and state-of-the-art at-home drink-making appliances that go beyond customers expectations.

3. What is Drinkworks' value proposition, and what is its positioning in the market? **What Pods should be introduced?**



Cocktail Pods (with alcohol)

- Ease and convenience
- Provide all ingredients in a single pod
- Distribution problems
- More Expensive
- Ideal for Hosts and frequent cocktail drinkers



Mixer Pods (without alcohol)

- Cheaper
- No distribution problems
- Easier to understand by customers
- Allows drink customization
- Ideal for Hosts and frequent cocktail drinkers



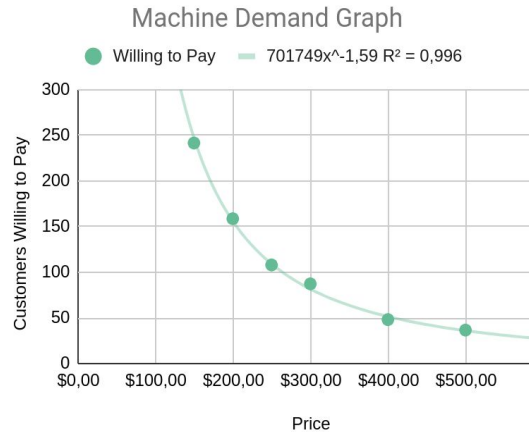
Beer/Cider Pods

- Doesn't solve a significant problem, but...
- Huge demand in the U.S.
- Adds variety, better suiting the target groups

4. How should the **device** and pods be priced?

- **Surveyed Customers:** 2300
- **Fixed Costs:** \$250,00

Price	Willing to Pay (%)	Willing to Pay
\$149,00	10,50%	241,5
\$199,00	6,90%	158,7
\$249,00	4,70%	108,1
\$299,00	3,80%	87,4
\$399,00	2,10%	48,3
\$499,00	1,60%	36,8



Price	Willing to Pay	Profit
149,00	247,166	-\$24 963,8
199,00	156,065	-\$7 959,3
249,00	109,300	-\$109,3
299,00	81,722	\$4 004,4
349,00	63,919	\$6 328,0
399,00	51,670	\$7 698,8
499,00	36,216	\$9 017,8
599,00	27,093	\$9 455,3
699,00	21,199	\$9 518,2
799,00	17,141	\$9 410,4

4. How should the **device** and pods be priced?

Recommended Machine Price: \$349

- Results in a considerable profit
- Price is only slightly higher than the competition, which is acceptable as more than 90% of the surveyed customers consider this product to be premium
- In most cases it is superior to sales breakeven prices in the various types of distribution

Retail Margins	Min	Max
Wholesalers	20%	25%
Liquor Retail Stores	25%	35%
Traditional Retail Stores	25%	35%
E-commerce	15%	25%
Sales Breakeven Price	Min	Max
Wholesalers	\$312,50	\$333,33
Liquor Retail Stores	\$333,33	\$384,62
Traditional Retail Stores	\$333,33	\$384,62
E-commerce	\$294,12	\$333,33

4. How should the device and pods be priced?

Some calculations were also made to determine the best price for pods.

	Alcoholic Cocktail Pods						Non-Alcoholic Mixer Pods					Beer Pods				
Price	\$6	\$5	\$4.5	\$4	\$3	\$2	\$4	\$3	\$2.5	\$2	\$1	\$4	\$3	\$2.5	\$2	\$1
Cost	\$1.20						\$0.95					\$1.10				
Profit Per Pod	\$4.8	\$3.8	\$3.3	\$2.8	\$1.8	\$0.8	\$3.05	\$2.05	\$1.55	\$1.05	\$0.05	\$2.9	\$1.9	\$1.4	\$0.9	(\$0.1)
Willing to Pay (%)	39.1	45.5	46	51.5	57.4	72.8	7.2	15.2	21.6	31.8	72.7	35.3	42	44.5	51.7	55.1
Profit per Pod per 100 Customers	\$187.7	\$172.9	\$151.8	\$144.2	\$103.3	\$58.2	\$22.0	\$31.2	\$33.5	\$33.4	\$3.7	\$102.4	\$79.8	\$62.3	\$46.5	(\$5.5)

4. How should the device and pods be priced?

Relatively to the pods, some conclusions were made:


- All the recommended prices are above the break-even price for the maximum retail margins;
- Although maximizing profit, values are still below the ones practiced by bars or restaurants.

	Breakeven Price		Recommended Price
	Min	Max	
Alcoholic Cocktail Pods	\$1.66	\$2.05	\$6.00
Non-Alcoholic Mixer Pods	\$1.27	\$1.66	\$2.50
Beer Pods	\$1.54	\$1.89	\$4.00

5. Will Drinkworks be the next billion-dollar opportunity of Keurig and AB InBev? What are the **risks and opportunities**, and what would you recommend Keurig to do to address them?


Opportunities

1. Market to explore in an area with significant consumer demand
2. People drink more alcohol at home than they do outside, but the cocktail market is yet to be explored
3. Product makes cocktail preparation easier, perhaps drawing more people
4. From 2017 to 2022, ready-to-drink cocktails in cans and bottles are predicted to grow by 24%, reversing a previous decrease
5. The final product is already developed and functioning, with positive feedback as a premium product
6. Different distribution possibilities can be explored
7. When selling non-alcoholic pods, there are no or almost no restrictions



5. Will Drinkworks be the next billion-dollar opportunity of Keurig and AB InBev? What are the **risks and opportunities**, and what would you recommend Keurig to do to address them?

Risks

1. Not the first company to offer a cocktail machine for domestic use
 2. Low willingness to pay for profitable value feedback, with only 4.1% of inquiries agreeing to pay more than the \$250 manufacturing and distribution mean value
 3. Expensive manufacturing, making it difficult to lower the retail price
 4. A large number of restrictions when selling alcoholic pods, which vary by state and make some distribution options unfeasible
 5. Only a 5-year durability term, necessitating substantial maintenance (change CO2 canister and water filter regularly) and a 10-minute wait time to be ready to use
 6. High initial investment could result in even more losses
 7. If non-alcoholic pods are used, the machine will be similar to the competition
 8. Possibility of having to buy machines and pods from two different places
 9. Selling permits could be an issue
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Recommendations

Target audience: Younger generations, such as social people aged 21 to 29 from metropolitan locations with a higher household income level, that tend to drink regularly and to host parties;

Types of pods: Drinkworks should opt for providing a diversity of pods:

- with alcohol, trying to reach a new target audience yet to explore;
- beer pods and non-alcoholic pods, to provide a wider range of possibilities.

Device Price: 349\$, because the percentage of individuals willing to pay for the machine at this price is still profitable.

Pods Price: 6\$ for alcoholic pods, 2.5\$ for non-alcoholic pods and 4\$ for beer/cider pods.

Strategy: Gradually introduce new business concepts, new recipes to encourage product repurchase;

Distribution:

- **Pods:**
 - Online (Amazon and own website) ⇒ lower breakeven price, bigger profit margin, sell machine + pods pack, avoid retail margin;
 - Liquor Stores ⇒ where AB InBev has ties and may sell alcoholic pods, which cannot be easily sold online;
- **Machines:**
 - Online ⇒ lower breakeven price, bigger profit margin;
 - Traditional Retail Stores ⇒ broaden the market, raise customer awareness, partnerships (meanwhile wholesalers and liquor retail stores have already proven to not be the ideal place to sell appliances, having little success).

5. Will Drinkworks be the next billion-dollar opportunity of Keurig and AB InBev?

What are the risk opportunities, and what would you recommend Keurig to do to address them?

Billion-dollar opportunity?

No! Although it has a big potential and is still a very good opportunity, there are some strong adversities:

- The Keurig Kold beverage system, which brewed single-serve cold beverages from pods, was a similar machine on the market. Because of the low sales of this machine, Keurig decided to discontinue it, which may also happen with Drinkworks Home Bar.
- We share some concerns with Davis when it comes to associating an alcoholic beverage with other businesses that sell other products, like coffee, which may cause people to question the quality of the pods.
- It may also be hard to sell the goods throughout the country since regulations for alcohol sales vary from state to state and even county to county. Some states limit alcohol sales by setting legal hours of purchase, while others have banned Liquor sales on Sundays.

