

Beverage[®] INDUSTRY

Covering production, marketing, technology & distribution

IN THIS ISSUE:
SOFT DRINK
REPORT sponsored by
JUNONAMERICA
Aspartame
FORMULATING
DIET DRINKS
CASE PACKERS
& WRAPPERS



odwalla[®]

odwalla[®]

Michael Saint John, senior vice president and general manager of Coca-Cola's Minute Maid division; Ashley Schmidt, brand manager, Odwalla; Barr Hogen, creative chef; and Steven McCormick, general manager and chief operating officer, Odwalla

growing naturally

The Odwalla juice brand first hit the market back when health and wellness was a fringe concept, not the driving force that it is today. But the super-premium juice brand stayed true to its natural roots, picked up an unlikely backer along the way and finds itself today in exactly the right place at the right time. The brand that began as a fresh juice product in

California has expanded to cover major markets all over the country, and is enjoying double-digit sales growth. And while the product has been part of the largest company in the beverage business for the past four years, it looks and feels very much like the niche brand that made it popular with the whole foods crowd, and continues to gain appeal with today's wellness seekers.

Odwalla was founded in 1980 by a group of friends who distributed fresh-squeezed juice from a Volkswagen bus using catch phrases such as "soil to soul, people to planet and nourishing the body whole" — not exactly the kind of product you'd expect to find at The Coca-Cola Co. But the cola giant acquired the juice company in 2001 as part of an effort to expand into new parts of the beverage base.

ness, giving it the resources to turn a hippie-inspired theme into one of today's hottest beverage categories. It now functions as a wholly owned subsidiary and takes advantage of synergies with the company's Minute Maid division while maintaining its unique personality.

"One of the good things about the marriage of Odwalla and Coca-Cola is we've allowed them to run autonomously within the company," says Michael Saint John, senior vice president and general manager of Coca-Cola's Minute Maid business unit. "Where the Coca-Cola Co. can add people, systems or capital — put in more routes or accelerate the expansion — that's where we've added a lot of value."

"If you look at The Coca-Cola Co., it's really a total beverage company," he continues. "We have everything from water to juice and juice drinks, teas, coffees, carbonated soft drinks, etc. From a consumer needs state, where soft drinks fit more in the area of refreshment, Odwalla fits squarely into the area of health and wellness. That's a huge growth category, so as you look at the Coca-Cola portfolio, it's very important to us."

'The trend we see in health and wellness — great-tasting, easy access to nourishment — is not a fad, it's a deep-seated trend.'

— Steven McCormick,
General manager and chief operating officer,
Odwalla

The Odwalla team has spent much of the past four years adding distribution and expanding geographically, but it says two-thirds of the brand's growth last year, which was twice the growth of the previous year, came from same-store sales.

"That's a real indicator of a healthy brand and a healthy category," says Steven McCormick, general manager and chief operating officer for Odwalla. "The trend we see in health and wellness — great-tasting, easy access to nourishment — is not a fad, it's a deep-seated trend."

Platform brand

The Odwalla brand today encompasses several product lines such as nutritional beverages, smoothies, 100-percent juices and juiced-based Quenchers. The company expanded into food bars several years ago, and next month will roll out Odwalla Soymilk, a refrigerated soymilk that will retail in the dairy case. These product extensions are only a few of the ideas the company has for the brand, which it feels is a "natural nourishment platform brand" that has potential in a number of categories and retail channels.

"This is very much a platform brand that is quickly moving from

its narrow footprint in natural foods to become a brand that's embraced not only by people who are seeking natural foods alternatives but also a much broader mainstream consumer," McCormick says. "It is rapidly becoming accepted in channels and geographies throughout the United States."

Odwalla products traditionally have been sold in branded coolers located in grocery produce sections, playing up the products' fresh imagery and providing a self-contained space that has allowed the company to introduce new products with greater freedom than typical retail space allows.

"The great thing about having your own cooler is you have the flexibility to get things out there more rapidly," says Ashley Schmidt, Odwalla brand manager. "A lot of the categories only reset twice a year. Because we have our own cooler, we have the flexibility to launch as soon as we recognize that there is a consumer need and we can get that product ready."

The company feels equal freedom to pull a product that isn't working, she says, referring to Odwalla as "a continuously learning brand."

"If something doesn't succeed, if it's not working for the consumer, we're not going to leave it out there just because we thought it was a good idea," she says.

Saint John says the willingness to experiment is a quality that drew The Coca-Cola Co. to Odwalla, and says the company as a whole benefits from that attitude.

"[Odwalla's] strategy on innovation is fail often — fail early to succeed sooner," he says. "The Coca-Cola approach had always been test often — test a lot to succeed in the market. Right now we're recreating the entire innovation model and process at Coca-Cola and a lot of it is based on the way Odwalla goes to market ... We can add value with capital or systems, for example, but in terms of us trying to take our marketing and our innovation, it's actually gone the other way."



Creative Chef Barr Hogen, who was with the company prior to the acquisition, is largely responsible for research and development, and is credited with staying on top of flavor and wellness trends.

"Barr is looking much farther out than what's happening today or what consumers are looking for this year," Schmidt says. "Consumers are seeking easy solutions through food for health benefits and to be healthier in their diets. So even if something is three years off, if we can get on it now, it will move into the mainstream and we will be able to succeed there."

Hogen adds: "I'm always intrigued by new ingredients, by new foods and new cultures, what they're looking at and how they consume their products. That's very much a part of my creative process. I try to marry the two things: what do people need and what are some of the flavor profiles and foods that people are looking for."

One of the company's newest products is PomaGrand, a line of three 100-percent juices that launched in January and has a pomegranate base as well as chokeberry, black currant, elderberry and blueberry for antioxidant punch. "We upped the anthocyanin profile by adding a wildberry extract, so you're getting a complete spectrum of the reds and blues in this drink," Hogen says.

The company also is getting ready to roll out new Odwalla Soymilk in April. Launching in Plain, Vanilla Being and Choc-ahh-lot flavors, the product contains soluble fiber in the form of inulin, and Martek DHA (docosahexaenoic acid), an omega-3 fatty acid that is an important brain nutrient. Unlike the company's soy protein drinks, the new soymilk

continued on page 34



COVER STORY

continued from page 33

will retail in the dairy case in 64-ounce cartons as a milk alternative.

No matter which category the brand enters, a key difference for Odwalla products is that they are minimally processed. Products are "flash pasteurized" at high temperatures for a very short period to ensure product safety while maintaining the flavor and nutrient content. "For us, everything comes from nature," Schmidt says. "Barr combines it into these really unique combinations ... [but] we do as little to it as possible to give the consumer the best they can get from nature."

In addition, Hogen says a creative goal of every Odwalla product is the blend of flavors that comes from using whole ingredients. "We want our consumers to be able to identify with their taste buds every single ingredient in the bottle," she says.

Production and sourcing ingredients is one of Odwalla's assets, and the company has made a significant investment in its production facility in Dinuba, Calif. The plant operates on what the company calls a "juiced-in-time" basis, producing juice products not from concentrate but from whole fruit.

"We produce the majority of our products out of that facility," McCormick says. "We have expanded that facility in a number of areas and have been able to take the output and the production capability to a whole new level since the acquisition."

From niche to mainstream

Odwalla sees its core consumer as 25- to 45-year-olds seeking health and wellness products. But the motivations for buying wellness products differ from college students looking for a meal replacement to middle age consumers looking for functional benefits. The company considers its flagship product to be Odwalla Superfood, a green-colored drink containing ingredients such as spirulina, wheat grass, barley grass, wheat sprouts and Jerusalem artichokes in addition to five types of fruit. Odwalla Superfood is a decidedly non-mainstream product, but Saint John says consumers often start with familiar flavors and ingredients and then move to more functional products.

"What's unique about Odwalla is that it has a broad portfolio or spectrum of products," he says. "As it becomes more and more mainstream, it's the smoothies and the Quenchers and some of the other things that bring in the more mainstream consumers, and then over time, they move to the core; they find their way to Superfood."

In keeping with the brand's grassroots appeal, the company uses education and spon-

sorship of favorite causes as its main forms of marketing. Product information can be found on point-of-sale materials and the company's branded coolers. In addition, sampling is one of the best ways the company has of getting new consumers to try unfamiliar products.

"Sampling is a critical part of our business," McCormick says. "A lot of our products, like Superfood, are not intuitive products. It takes a little bit of educating and understanding. We're a premium-priced brand so we want folks to have an entree into the product by experiencing it. When you open one of our bottles and you smell it and taste it, you have it. Getting folks to try it for the first time is really important."

Conservation International and also to the Organic Farming Research Foundation, two organizations that represent what we stand for."

Getting to market

One of the most significant benefits to being part of The Coca-Cola Co. is the distribution expertise Odwalla products now enjoy. Most Odwalla products go to market through a refrigerated direct store delivery system, and as part of Coca-Cola and Minute Maid, the company has access to warehouse delivery, foodservice distribution and even uses third-party distributors in situations where a customer has a preferred distributor.

"That's a flexibility that we believe adds substantial value to the Odwalla brand," McCormick says. "We can flexibly manage our distribution system to whatever meets the needs in certain categories."

Odwalla got its start in the natural foods grocery channel, and the company says that is still a mainstay for the brand. But as it has grown, the brand has found itself in a wider range of retail outlets.

"We've seen a lot of our mainstream retail partners expanding their produce sections and natural foods sections to bring in natural and organic, minimally processed products because consumers are moving down a health and wellness pathway," McCormick says.

Saint John adds: "The whole natural foods class of trade is the heart of what Odwalla is all about. Where the Coca-Cola system helped was in expanding into these other channels of distribution and markets."

The West Coast and the Northeast remain the brand's strongest markets, while the newer areas of the Midwest and Southeast have taken off during the past year or so. The Odwalla team feels the brand and the super-premium juice category as a whole have a number of uncharted markets, leaving room for even more expansion.

"There is still an enormous amount of growth that will come just through distribution alone for the category," McCormick says. "There are a lot of places where natural health beverages, as a category, aren't available."

And, he points out, there are a lot of areas of the store where Odwalla currently does not have products that could be filled with a natural nourishment brand. "We still believe there are a lot of places the brand can go, including beverage, that we're constantly evaluating and challenging ourselves on," he says. "Natural nourishment ... is a platform that could really hang across potential categories that are broader than we're playing in today." **BI**



The company recently used the Sundance Film Festival, the indie movie fest in Park City, Utah, to sample the PomaGrand juices, and has been a sponsor of the Cherry Creek Arts Festival in Denver and similar events around the country.

It also has teamed with the Arizona School of Integrated Medicine for public relations expertise and as a sponsor of the group's nutrition conference.

"Another thing that we do that is marketing-related but is also just about the philosophy of Odwalla is that we make donations every year to organizations that align with our beliefs," Schmidt says. "Last year we made a donation to