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INTELLIGENCE FOR THE GLOBAL DRINKS BUSINESS

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BEVERAGEWORLD

INTO THE Mix

Heading up our HIT List this year, artisanal soda makers give the CSD category a healthy dose of grassroots passion and creativity.

» CHRISTOPHER REED, president and CEO of Reed's Inc.

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SOME *Serious* SODA

These *are* your grandfather's sodas, with more natural flavors, local ingredients, retro packaging and an entrepreneurial spirit. *By Andrew Kaplan*

It is a mid-October afternoon in the lounge of a Manhattan hotel, and Chris Reed, founder of the artisanal soda company that bears his name, is taking a break from his team's sales blitz of the city to talk about the state of the soft drink industry. The conversation has drifted to a subject he knows quite well: ginger ale.

The question now on the table: "How do you feel when you sit down in a restaurant, order a ginger ale and they serve you a blend of cola and lemon-lime soda instead?" It's what's known as a "soft ball question" for this particular interviewee. And he replies, as one would expect, "That's horrible!"

And in Reed's world, and that of a growing cadre of artisanal soda makers, it really is. After all, there are not many cases where a consumer orders something in a restaurant and is given a sad copy, a concoction meant to fool them into thinking they are getting what they ordered. And yet somehow, when it comes to ginger ale anyway, that is the

quite acceptable case today.

Reed and his compatriots are out to change that. And change it not just for ginger ale. Many artisanal soda makers believe that there is just something not right about the state of soda today—when it comes to taste, when it comes to quality and when it comes to ingredients.

As Reed adds about the faux "ginger ale" often served at chain and other restaurants, "You can be annoyed at mixing Coke and Sprite or 7UP for your ginger ale, but what's even more annoying to me is ginger ale that doesn't even have any ginger in it. So the next level up is they actually give you a ginger ale, but it's a far cry from what real ginger ale tastes like. There's a super premium category for just about every category in the US and there's only one industry that I know of sorely lacking the super premium category—it's called the soft drink industry."

While sales of artisanal soft drinks remain small (see sidebar on page 21), there is no doubt that their impact is being heard throughout the industry. Perhaps it is the fact that the closest thing to them on the beer side, the craft brew-



« REED'S FOUNDER Chris Reed shows them how it's done. The craft of making artisanal soda is often a hands-on and intensely personal one.

PHOTO: NOA ABRAMS

ers, have seen sales continue to skyrocket, even during a down economy, while the mainstream brewers' sales stagnate.

So this year, *Beverage World* adds artisanal sodas to its annual HIT list. Not so much because of the impact they have already made, but because of the potential they have to change the industry in the future. All trends are pointing to their continued growth.

The Time is Right

Despite the dominance of just a few major players in the soft drink industry today, artisanal soft drink makers seem to have always been around in one form or another. For a quarter of a century, for instance, the Sprecher Brewing Co. in Wisconsin has been brewing its root beer to the delight of millions of Midwesterners.

"Root beer's been bigger than everything we do, beer and soda combined, for 18 years," says Randall Sprecher, the company's founder. "Everything else grows, it grows even more."

Passionate about his product, Sprecher will talk to you at length about his use of gas-fired kettles, the largest being 3,300 gallons, with a smaller one on the way. "We do have concentrate aging tanks," he quickly adds. "Which is to some extent essential. It makes a big difference in the finish of the soda. Fresh root beer is not as good to me as three-to-six-month-old root beer."

He then adds, as if to defend his years-old formulation from today's headlines, "We do use high fructose corn syrup, but I just use mountains of raw honey as well. I get 3,000-pound totes of the stuff left, right and center."

While Sprecher continues to churn out his root beer in Wisconsin, across the country, in Seattle, he has been joined by a newcomer to the artisanal soft drink scene. But it's really hard to find much in

common between Sprecher and Sharelle Klaus, the CEO and founder of DRY Soda, other than they both are passionate about the soft drinks they are producing.

Klaus, a mother of four, used to work in the high-tech industry (surprise, this is Seattle, after all). But during her pregnancies, she became increasingly frustrated by her lack of drink choices. "It was amazing to me that there really was nothing for me to drink when I was pregnant," she says. "I was stuck with either water or a Coke."

So Klaus, like most mothers would do, of course, decided to found her own beverage company, DRY Soda, and solve the problem once and for all. DRY's concept is a simple one—there are a sizable number of consumers, like Klaus herself, who are looking for a better-for-you soft drink option. Her solution is an all-natural beverage, low in calories, and with just four ingredients: pure cane sugar, purified carbonated water, natural extract for flavoring and phosphoric acid.

She considers DRY to be an entirely new category of soda. "Something that is better-for-you but also that you can really

pair with food and really let the flavors shine through," she says. "Because gosh, carbonated soft drinks are the highest per capita beverage in the United States but we've had almost no innovation."

This lack of innovation has opened up the carbonated soft drink industry to the likes of DRY Soda and other newcomers, who are putting their modern twist on an old product.

Part of the problem facing the mainstream soda makers, says Bill Germano, CEO of another artisanal soda maker, the Portland, Ore.-based Thomas Kemper Soda Co., is the "commoditization" of their product.

"Traditional soda, frankly, is just not a difficult product to make so over time it has become so widely available," he says.

"And because the pricing has been commoditized, most of the companies have had to find ways over the years to reduce their cost of production. It doesn't necessarily mean they make cheaper products, but it means that they really automate things. And that does take away some flexibility of making creative and unique products because you have to

be very efficient. You have to get a lot of bottles or cans per minute because you have to go out into the marketplace and compete against the other guy because it's all a price equation out there."

Artisanal soda makers aren't boxed into that same "price equation." In fact, Germano says he "tries very hard" not to have his higher-priced sodas displayed on the supermarket shelves next to the mainstream brands, otherwise it invites "a price comparison to some of the consumers and puts us at a real disadvantage."

"Our product from the very beginning is hand-made," he adds, "and the only way I can possibly get away with that is to sell it at a higher price."

As a result of that price differential, artisanal soft drink makers like to position their drinks as an indulgence or affordable luxury, another factor that might be behind their steady sales despite the weak economy.

"We consider Capt'n Eli's to be a treat," explains Scott Doyle, that soda brand's manager for the Portland, Maine-based Shipyard Brewing Co. "Consider it giving yourself a 15-minute vacation to sit back, enjoy an Eli's and maybe even remember what it was like to be a kid."

Capt'n Eli's has seen sales rise 25 percent this year and is currently selling about 55,000 cases in New England, Florida and on the West Coast.

As for Reed, however, he views his line of completely natural sodas, which include Reed's Ginger Brews, Reed's Rx (a natural nausea-relief ginger drink), Virgil's Root Beer, China Cola and Sonoma Sparklers (non-alcoholic sparkling juices), as less an indulgence and more an alternative to the dominant brands on the market today. "Coke refers to this as the 'adult luxury soda' category," he says, a hint of sarcasm in his voice, "a frivolous drink that if you have extra money to throw at it, you'd buy for yourself. But that's not my category. My category is super premium, all-natural and



« AT THE ROOT OF IT ALL for many artisanal soda companies has been a strong, and often nostalgic, root beer offering.

quite frankly, they're tonics. Our Ginger Brew has ginger in it. There are several studies on ginger and cancer, ginger and arthritis, ginger on post-chemo nausea. I mean, hell, my stuff's so functional I have an over-the-counter medicine in CVS, Publix, Ralph's, Fred Meyer's, under my brand, Reed's RX Nausea Relief."

And consumers seem to be unable to get enough of it. After being waylaid by the economic meltdown a couple of years ago, Reed's has bounced back stronger than ever. The company is on target to see a \$5 million increase in sales this year on top of the \$15 million it did in 2009.

"Every so often," Reed says, "I run into someone who says, 'Damn you, Mr. Reed. I was off sodas. I have cleaned up my life. I am drinking waters now and juices, but you have brought me back into sodas.' We're definitely bringing people back into soda who have blown it off for its negative health connotations."

He points out that when he started in the natural foods business some 25 years ago, it was a \$2 billion business. "Now it's a \$70 billion business," he says. "I have bet my life and my career on the trend of natural health and wellness. And I'm here to tell you the next 25 years will match the last 25 years in terms of sheer volume of people concerned about quality of life, longevity and healthy eating."

"People are going to care more and more about what goes into their body. And Reed's is positioning itself for that," Reed says. **BW**

Room to Grow

Just how big of an impact artisanal sodas will have on the mainstream soda category remains to be seen. While some trends point to a bright future for these higher-end products, there are still some major hurdles they need to overcome.

The first and foremost, says Garima Goel Lal, senior consumer analyst for market research firm Mintel, is getting major distribution into the mainstream grocery channel, which she says has yet to occur.

So for now, they remain barely a blip on the radar of the Cokes, Pepsis and Dr Peppers of the world.

"And that's what the status of artisanal soda will be for at least the next five years," she predicts.

But Goel Lal agrees that several trends are in their favor: consumers are increasingly interested in healthier, natural drinks; they like locally produced products because of their perceived quality and reduced carbon footprint and younger consumers, who are the main target for these natural sodas, are more open than other demographic groups to try something new.

And Goel Lal adds that when it comes to marketing, social networking could be a very good fit for artisanal soda brands trying to reach younger consumers, along with word-of-mouth marketing, which has proven to work well for craft brewers. —A. K.



« LOCAL AND ORIGINAL FLAVORS help artisanal sodas stand out from the mainstream competition.