ANALYSIS-Can Reed's add more fizz to Jones Soda?

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* Deal could revive struggling Jones

* To reduce operating costs, build scale

By Nivedita Bhattacharjee

BANGALORE, March 12 (Reuters) - After hawking itself for over a year, Jones Soda Co's proposed sale to rival Reed's at a deep discount may represent the U.S. soft drink maker's best bet in an industry dominated by international giants.

Reed's Inc could revive struggling Jones Soda by cutting costs and refocusing on the core brand. In turn, Jones' loyal fan base will help Reed's take its brands to a wider audience.

"Jones is much better known than Reed's... we both are playing pretty wildly against the big soda companies," Reed's Chief Executive Chris Reed said in an interview with Reuters.

While the core Jones brand will continue after the merger, Reed's, which makes beverages like ginger ale and natural sodas, may pull the plug on some of Jones' ancillary lines, which include candies and root beer.

"I think if (Jones) had just stayed with the core brand and not tried to get into everything from teas to vitamin waters, they probably would have done a whole lot better with the brand," CEO Reed said.

Once a hot investor pick famed for its unusual flavors including bubblegum and mashed-potato, Jones had been struggling with falling sales when it signed a letter of intent to be bought by Reed's on March 9.

The deal values Jones' stock at about 37 cents, a 56 percent discount to its immediate previous close of 84 cents, and a steep decline from the $20 levels it was trading at three years ago.

BUILDING SCALE

"Jones is a very good small brand, and I think it makes sense for some of these small brands to consolidate so that the surviving company has more scale and more importance to retail customers," said John Sicher, the editor and publisher of industry publication Beverage Digest.

Seattle-based Jones has not made a profit since the quarter ended June 2007. That was the year the company expanded the brand into canned sodas -- pitting itself more directly against giants Coca Cola Co and Pepsico Inc

"The soft drinks industry in the US has been declining for the past 6 years and we estimated it fell by 4.6 pct in 2009," said Areeb Pirani, beverage industry analyst with market research firm IBISWorld Inc said, adding that Jones' premium product took a bigger hit during the recession.

Pirani agreed that the proposed consolidation gives them a better footing as the companies share operational costs and distribution channels.

However, even as a combined entity, they will be too small to affect the big three of the soft-drinks world -- Coca Cola, Pepsi and Dr Pepper Snapple Group Inc, Pirani said.

RIGHTING PAST WRONGS

What the companies have to concentrate on is to balance their niche positioning with practical approaches to marketing and brand management.

"As separate companies, the operating expenses are running close to $13 million, and we see the combined expenses post merger down around $9 million," CEO Reed said.

Tom Pirko, founder of beverage industry consulting firm Bevmark LLC, said Jones' failure stemmed from a "lack of marketing and sales expertise."

Jones had dabbled in too many businesses like iced-tea and candies that did not resonate well with customers, and the company tried and failed to compete on price with market leaders Pepsi and Coke.

And while Jones' off-beat flavors still have some loyal customers, Reed's will have to work at getting Jones to be more than just a footnote in the U.S beverage industry.

"You could buy a great car that still has a life ahead of it, if you know how to go in and reengineer it and repaint it," Pirko said. (Reporting by Nivedita Bhattacharjee in Bangalore, additional reporting by Martinne Geller in New York; Editing by Anthony Kurian, Jarshad Kakkrakandy)
