



The Chartered
Institute of Marketing

Professional Diploma in Marketing (Level 6)

Unit 2 – Delivering Customer Value Through Marketing

Case Study

NEW SYLLABUS

Specimen

The Fruit Juice Revolution



Specimen

Important notes for candidates

The examination is designed to assess your knowledge and understanding of the syllabus in the context of the chosen case study. The examiners will be marking your scripts on the basis of questions put to you in the examination room. You are advised to pay particular attention to the mark allocation on the examination paper and plan your time accordingly.

Your role is outlined in the Candidate's Brief and you will be required to recommend clear courses of action.

You are advised not to waste valuable time collecting unnecessary data. The cases are based upon real-life situations and all the information you will require about the chosen organisation is contained within the case study. No useful purpose will therefore be served by contacting companies in the industry and you are strictly instructed not to do so as it may cause unnecessary confusion.

As in real life, anomalies may be found in the information provided within this Case Study. Please simply state your assumptions, where necessary, when answering questions. The Chartered Institute of Marketing is not in a position to answer queries on case data. You are tested on your overall understanding of the case and its key issues, not on minor details. There are no catch questions.

As part of your preparation for the examination, you need to carry out a detailed analysis of this Case Study. You will then need to condense your analysis into both a PESTEL and a SWOT analysis (a maximum of **FOUR** sides of A4, no smaller than font size 11). Although no marks are awarded for the analyses, you will be awarded marks for how you use them to answer the questions set. The analyses must be attached, with a treasury tag, to your answer booklet at the end of the examination.

The copying of pre-prepared 'group' answers, including those written by consultants/tutors, or by any third party, is strictly forbidden and will be penalised by failure. The questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

Important Notice

The following data has been based on real-life organisations, but details have been changed for assessment purposes and do not necessarily reflect current management practices of the industry or the views and opinions of The Chartered Institute of Marketing.

Candidates are strictly instructed **NOT** to contact individuals or organisations mentioned in the Case Study or any other organisations in the industry. Copies of the Case Study can be downloaded from the CIM student website www.cimlearningzone.co.uk

PROFESSIONAL DIPLOMA IN MARKETING

DELIVERING CUSTOMER VALUE THROUGH MARKETING

Case Study: The Fruit Juice Revolution

Preparation

In preparation for the examination you will need to analyse the organisation, on the basis of the case material provided. You will be given a clean copy of the Case Study on the day of the examination, but you should bring the analysis with you into the examination. Your written analysis should not exceed **FOUR** A4 pages, no smaller than font size 11, and must and must include your CIM membership number on each page. The written analyses should be submitted with your answer book on completion of the examination.

Guidance on the preparation of the analyses

Candidates are encouraged to use a range of analytical tools and models in order to undertake a thorough investigation of the key aspects of the case. This will improve their understanding of the case and the issues faced by the organisation(s) and/or industry sectors to which it relates.

Clearly, the analysis required will vary depending on the specific case content but, as a guide, candidates should consider undertaking the following:-

- SWOT analysis
- Value chain analysis
- Analysis of the external environment using PESTEL analysis
- Analysis of the competitive environment using Porter's Five Forces model
- Strategic review using Ansoff's matrix and/or Porter's generic strategies
- Stakeholder analysis
- Detailed review/analysis of each of the marketing mix elements
- Product/portfolio analysis (e.g. using product life cycle analysis, Boston Consulting Group matrix, GE-McKinsey matrix).

Further information on undertaking strategic analysis and other analytical tools and methods can be found in Johnson, G., Scholes, K., and Whittingham, R. (2008), *Exploring Corporate Strategy*, 8th Ed, Pearson Education.

PROFESSIONAL DIPLOMA IN MARKETING

DELIVERING CUSTOMER VALUE THROUGH MARKETING

Case Study: The Fruit Juice Revolution

Candidate's Brief

You work as a Marketing Consultant and have a specialist interest in the fruit juice and soft drinks sector. You have been asked by the Board of Innocent Drinks to advise the company on a number of marketing related issues. In order to do this, you have been asked to review the case study profiling the company and the fruit juice sector in preparation for your meeting with the Board.

Specimen

PROFESSIONAL DIPLOMA IN MARKETING

DELIVERING CUSTOMER VALUE THROUGH MARKETING

The Fruit Juice Revolution

Specimen Case Study

Introduction

The UK juice and smoothies¹ market is fiercely competitive and has grown significantly in recent years, largely due to changes in consumer demand for healthier drinks, supported by an increase in the number of suppliers and the range of drinks available.

The healthier living campaign

'Increasing fruit and vegetable consumption is a national priority. Cancer and coronary heart disease account for 60% of all early deaths. A key feature of the UK Government's prevention strategy to reduce deaths from these diseases is action to improve diet and nutrition. [...]

'Current recommendations are that everyone should eat at least five portions of a variety [of] fruit and vegetables each day, to reduce the risks of cancer and coronary heart disease and many other chronic diseases. Yet average fruit and vegetable consumption among the population in England is less than three portions a day. Consumption tends to be lower among children and people on low incomes.'²

The Government has identified two main barriers which prevent people from consuming more fruit and vegetables. The first is access and availability, i.e. whether people have access to the right quality of fruit and vegetables locally, and at an affordable price. The second barrier is attitude and awareness. The Government has made considerable efforts to communicate the message to the population, because changing habits in terms of food consumption will have a significant longer-term benefit on the national costs of healthcare. However, an issue for a large number of people is that they lack the required skills and knowledge to buy and prepare the best fruit and vegetables.

In order to drive home the message and reinforce the importance of regularly consuming fruit and vegetables, the Government has introduced a 'Five a Day' programme, which, amongst other things, focuses on a national school fruit scheme (raising awareness in schools across the UK) and a national communications programme to inform the population about the importance of eating five portions of fruit and vegetables every day.

The UK market

The total UK juices and smoothies market is valued at £1.4billion³, with growth of 7.9% in 2007, following 16.7% growth in 2006. According to the TNS research, smoothies account for 9.3% of the market, with total sales of just over £130 million per annum. This was the fastest growing sector, with market growth of 37.6% year on year. The largest types of drinks, by market share, are juice drinks and those which are made from fruit concentrate. These

¹ blended drinks made from fresh fruit, usually with fruit juice and water or [frozen yogurt](#)

² UK Government Department of Health, www.dh.gov.uk (August 2008)

³ TNS Worldpanel, December 2007 (published in *The Grocer*, 15 March 2008)

represent 31.9% and 35.5% of the market respectively. However, annual growth in these has been low; juice drinks have remained at the same level year on year and juices made from concentrate have grown at just 2.2%.

Again according to the TNS research, the number of people buying juice drinks and smoothies has remained stable, with shoppers tending to buy drinks less often but spending more when they do make a purchase.

Some terminology

There is much jargon used in the drinks industry and manufacturers have to exercise care so as not to mislead consumers about the content and nutritional value of drinks being marketed.

A smoothie is a drink which is produced by blending the whole fruit and a juice drink is where the juice has been extracted from the fruit. So, a smoothie contains the whole fruit including the skin. 100% pure fruit smoothies contain no other additives. Nutritionists point out that the key difference between a smoothie and a juice drink is that with a juice drink some nutrients which would be present in the skin and the pulp are missing. These nutrients would be present in a smoothie as it contains the whole fruit.

A high proportion of fruit drinks are made from 'fruit concentrate'. The 'concentrate' is made by taking fruit juice and heating it through a process in order to evaporate off the water content. This reduces the overall content volume and makes it easier to ship around the world. When it is manufactured back into drink form, water is added so that the juice returns to its original strength. Nutritionists believe that concentrated juice drinks are not as healthy as those made from pure fruit ingredients.

Freshly squeezed juice drinks are made from juice which has been locally squeezed into the bottle, i.e. at the point of bottling. Therefore, the fruit has not been tampered with in the same way as concentrated juices and, as a result, these juice drinks will retain their original nutritional content.

Customers

The TNS research concludes that fruit juices are consumed across all age groups, although they are becoming more important within the younger groups.

According to research undertaken by Visuality⁴, 86% of purchases of juices and smoothies are planned, with the remaining 14% being purchased on impulse. In the case of impulse purchases, shoppers are heavily influenced by in-store displays, advertising and promotional offers.

The Visuality research identifies a high level of brand loyalty, with 60% of respondents buying the same brand of juices and smoothies each time they shopped. A quarter of respondents preferred not to buy drinks at all if their usual brand was unavailable. However, 89% of shoppers said that they would be willing to consider the supermarket's own label varieties, if available.

⁴ Visuality Group Limited; research undertaken in February 2008 (published in *The Grocer*, 15 March 2008)

Innocent Drinks⁵

The UK's best known smoothies are under the 'Innocent' brand. The business has been a major success story and now has a market leading position in the UK, with annual sales of around £130 million. Its growth has been significant, and the company has achieved considerable successes in the ten years since its launch.

In 1998 three friends embarked on an idea that was to put the word 'smoothie' on the map. Richard Reed, Adam Balon and Jon Wright met when they were students at Cambridge University and had always thought about running their own business.

Innocent Drinks began life selling from a stall at a music festival in London. Richard, Adam and Jon had developed a number of fruit smoothie recipes and spent £500 on fruit for the event. They had asked for customer feedback by returning empty drinks bottles in bins to answer the question 'Should we give up our jobs to make these smoothies?' One bin was marked 'yes' and the other marked 'no'. By the end of the event the 'yes' bin was full. Based on this success, they all gave up their jobs so they could concentrate full-time on developing the Innocent Drinks business.

Innocent has built its reputation on recipes containing 100% pure fresh fruit. No sugar, water or any other additives, just pure fruit. From its original smoothies in 250ml bottles it has now extended its range to include 1 and 1.5 litre cartons, smoothies for kids and 'thickies' (a low-fat probiotic yoghurt with oats, fruit and honey).

The business has gone from strength to strength and has been a Sunday Times Fast Track 100⁶ business in the last four consecutive years.

Annual sales topped £10 million in 2003 and had grown to more than £100 million by 2007. Today, more than 2 million Innocent smoothies are sold each week. The company's workforce has grown from the three founder members in 1998 to around 250 today.

Innocent's priority has been to produce drinks which taste good, using simple but 100% pure ingredients. An important aspect of its success to date has been its focus on developing new recipes and on innovation. It has maintained a programme of revitalising its range with new recipes continually being introduced.

A significant product development was the introduction of its kids smoothies in March 2005 and there are now four flavours available. A key stage in the development of the kids range was the agreement, in September 2006, by 550 schools in the UK to stock the drinks at a subsidised price, providing school children with affordable access to healthy fruit drinks.

The company now has a range of 30 different recipes, distributed via leading supermarkets (including Waitrose, Sainsbury's, Tesco, Asda, Somerfield and Morrisons), coffee shops (including Starbucks), other national retailers (including Boots) and numerous other food and drink outlets around the UK and the Republic of Ireland. In total, Innocent drinks are available from more than 12,000 retailers across the UK, Ireland, France, Denmark, Sweden, Germany, Holland and Belgium.

In 2007, Innocent took a major decision to run a trial to sell its kids smoothies in McDonalds outlets. Its motives were driven by research which suggested that children, in particular, were failing to take their recommended daily intake of fruit and vegetables. So, on the basis that a large number of families visit McDonalds outlets, Innocent decided to run the trial with the

⁵ Information has been obtained from www.innocentdrinks.co.uk (August 2008)

⁶ The Sunday Times Fast Track 100 recognises the fastest growing privately owned companies in the UK. Results of the 2007 review were published on 2 December 2007

burger chain. As a result, Innocent received considerable negative press about their association with McDonalds, despite the fact that market research that they undertook prior to the trial indicated that 74% of people thought that it was a good idea.⁷

It has built its reputation on healthy drinks made from natural ingredients. But the Innocent brand means much more than that. It has built an image of the 'innocent family', communicating regularly with customers, continually seeking their views and ideas for new recipes.

It has also built a reputation for being highly innovative and creative. Its vehicles, for example, stand out as they are painted like cows or covered in grass. Its website is very distinctive, with a high emphasis on fun.

Innocent has also built a reputation for having high standards of corporate social responsibility. It uses only natural ingredients purchased from environmentally and socially aware organisations. Its packaging has the highest levels of sustainability and it has set targets to reduce significantly its carbon footprint ('from farm to fridge').

Due to its success story, its focus on healthy food consumption and its 'quirky' brand image, Innocent has enjoyed much media attention, which has helped to build awareness and create a unique brand identity for the business. As the market has become more competitive, Innocent has had to invest more money in advertising (see Appendix Three).

Its customer base is diverse, from children to the elderly, students to senior executives, the health conscious to those who just love the taste of a fresh fruit smoothie. Its highly visible brand has quickly established a very loyal following and at August 2007, the Innocent range of drinks enjoyed a 71% share of the UK smoothie market.

Distribution

The UK supermarket chains are the largest retailers, by market share, of juices and smoothies, with the following supplying the largest quantities: Morrisons, Tesco, Asda, Sainsbury's, Somerfield and Waitrose. In-branch promotions are key to driving sales and to persuading consumers to switch brands and try new products.

But more recently in the UK, specialist retail outlets selling their own juices and smoothies have been opening, fuelled by the message to the population to eat and drink more healthily. Two such brands are Boost Juice Bars and Crussh.

The Boost Juice Bars⁸ brand came into existence in 2000 in Australia, when mother of three Janine Allis became frustrated at the lack of healthy options for her and her children. She was inspired following a trip to the US, where juice bars (similar to coffee shops) were becoming popular.

Boost Juice Bars now have more than 200 outlets around the world, including in the UK, in Manchester, Sheffield, Essex, Nottingham and Oxford. Boost sells a range of juice-based drinks and smoothies, although its range has extended into the hot drinks market, with a range of drinks and soups, such as Hotchocana, which is a creamy hot chocolate drink blended with banana. It has also introduced a selection of healthy wraps (sandwich fillings wrapped in a soft flatbread) to its menu.

⁷ 1,000 people surveyed, Innocent 2007 annual report .

⁸ www.boostjuicebars.com (August 2008)

Crussh⁹ is another specialist retailer of its own branded drinks. It opened its first store in London in 1998 and is now the UK's biggest smoothie chain, with 23 outlets, in central London and at Bluewater shopping centre in Kent.

Recognising that smoothies and juices have more seasonal demand, Crussh also sells its own branded range of soups, porridge and coffee, as well as sandwiches, wraps and toasties (toasted sandwiches using ciabatta bread).

The challenge for all fruit juice and smoothies retailers, and manufacturers, is that in the UK demand is seasonal. This, together with the unpredictability of the British weather, has resulted in a trend emerging of opening fruit juice bars at indoor sites, such as shopping centres and airports. In addition, specialist retailers have moved into selling food and hot drinks to cater more for all-year-round demand.

Other players

PJ Smoothies¹⁰ claims to have founded the UK's smoothie market in 1994. The company began when its founder, Harry Cragoe, discovered the fruit-based drinks in California. On his return to the UK, Harry got together with Patrick Folkes and decided to produce their own smoothie drinks.

The brand was originally called Pete & Johnny's and was acquired by Pepsico in 2005. According to IRI Infoscand, its market share has reduced to 13% (year to September 2007), largely due to the dominance of the Innocent brand in the market. However, Pepsico has decided to reposition the brand and is determined to win back market share.

Pepsico also owns the Tropicana (which includes Tropicana Smoothies) and Copella ranges.

Other key brands offering juice and smoothie drinks include Coca Cola, Robinsons, Ribena, Ocean Spray and several smaller organic producers. In addition, the high street retailers are attacking the market with their own branded lines, including M&S and Tesco.

And if the competition in the UK is not already intensive enough, the world's largest smoothie chain has yet to enter the market. Jamba Juice¹¹ is a US-based manufacturer and retailer of its own branded range of smoothies and juices. At the end of its 2007 financial year, it had an extensive network of more than 700 stores across the US, including in excess of 500 stores that were company-owned and operated (the remainder operating as franchise units, but carrying the Jamba Juice brand and range of products).

⁹ www.crussh.com (August 2008)

¹⁰ www.pj-smoothies.co.uk (August 2008)

¹¹ www.jamba.com (August 2008)

APPENDIX ONE

The first ever innocent annual report

http://www.innocentdrinks.co.uk/AGM/innocent_annual_report_2007.pdf

please download from the above weblink.

Specimen

APPENDIX TWO

Smoothies for the masses

PepsiCo's decision to slash the price of its PJ Smoothies brand and reduce its product range may well prompt a lift in sales but critics argue that repeated revamps have confused consumers and resulted in PJ's losing its "mojo".

It emerged last week that PepsiCo is to reposition PJ's as a more mainstream offering by cutting its price by 30% and reducing the size of the range by half in an effort to lure new customers to the fast-growing smoothie category.

PepsiCo claims that price is a major barrier to consumption across the sector. It wants to position PJ's as an alternative to supermarkets' own-label offerings and its 250ml smoothies will now cost 99p. This is in sharp contrast to rival Innocent, which charges between £1.79 and £1.99 for the same size bottle.

PJ's founded the smoothie market in 1994 but has seen its dominance shattered by Innocent, which has a UK market share of more than 70%. PJ's market share fell to 13% in the year to September 8, 2007, according to IRI Infoscan.

PepsiCo is backing the move with a marketing campaign from Abbott Mead Vickers BBDO later this year. A spokesman says: "In a recent survey, price was the biggest barrier to smoothie consumption. By removing this barrier, we hope PJ's can open the smoothie market to consumers not currently buying into the category."

To help finance the strategy change, exotic fruits will be replaced with cheaper, more mainstream fruits such as apples and oranges. And flavours such as Rainforest Acai will be replaced by four, more traditional combinations: Orange, Mandarin & Guava; Strawberry & Banana; Apple, Kiwi & Lime; and Strawberry, Apple & Rhubarb.

The move marks a change in strategy for PepsiCo, which acquired the brand in 2005. The brand was originally called Pete & Johnny's but was renamed PJ Smoothies when it was relaunched with a more corporate look that replaced its original simple and quirky design. When this failed, the brand relaunched again, moving back towards its original design.

Inject fun

Derek Johnston, creative director of Landor Associates, which worked on both redesigns, says: "The first redesign was all about appealing to the mass market. Although it helped improve sales, the brand lost a lot of its quirkiness. The strategy is now to inject more fun into the brand."

While retail insiders have broadly backed the move to reduce prices and believe the brand is still a significant player across the category, some observers claim the latest rethink is risky and that PJ's will have a fight on its hands to wrest sales from supermarket own-label smoothies.

Claire Nutall, client director at brand agency Dragon, says: "It will be interesting to see how much additional brand power PJ's has over own-label if it offers the same simple range for the same price. Taste is such a powerful driver in this area and retailers are pretty good at developing great tasting new flavour variants."

Innocent, which some say imitated PJ's original quirky marketing style, claims to be unsurprised by the move, arguing that its rival has not been performing well of late and adds that it is "unclear what the brand now represents".

While sales of PJ's were up almost 7% to more than £24m in the year to October 2007, sales of Innocent surged more than 60% to over £130m, according to Nielsen.

But while PepsiCo maintains it is committed to the brand, some question just how important PJ's, which was reportedly acquired for just £20m, is to its US owner, whose portfolio includes Walkers Crisps, Tropicana and Pepsi cola.

Sales of PepsiCo's market-leading pure juice brand Tropicana hit £200m in the UK in 2006, dwarfing that of PJ's, and the company has another successful juice brand, Copella, in its line-up.

One former PepsiCo employee says that big corporate companies and smoothie brands are not natural bedfellows. He adds: "For PJ's, getting a share of the voice among the company's monolithic brands has been an issue. I am not sure the smoothie market lends itself to the corporate style. Innocent's success has been down to its style, being informal and non-corporate."

Marketing budget

While Tropicana has enjoyed vast marketing support, Nielsen Media Research figures show the PJ's marketing budget was reduced from £1m in 2006 to less than £150,000 for most of 2007.

PepsiCo has successfully launched brand extensions to Tropicana, including Tropicana Go aimed at the children's market, and has a smoothie range in the US, which observers say is likely to be launched in the UK this year. Pepsi-Co has tried and failed to do this before. But if PepsiCo can succeed this time, another of its brands could end up further eroding PJ's sales.

The latest PJ's rethink has polarised the industry, with some calling it a last-gasp attempt to grow its market share and others hailing it [as] an astute move that has wrong-footed rivals.

Mark Rae, business development director at Brandhouse, says: "Smoothies are perceived as a bit of a treat and expensive. Reducing the price could give PJ's more appeal. The challenge is to manage the price cut so there is no change in the perception of quality or health benefits."

Rae adds that reducing a brand's range may not indicate weakness, pointing to the success of the Proct[e]r & Gamble-owned Head and Shoulders brand, which saw sales grow 10% when P&G cut the number of variants of Head and Shoulders from 26 to 15.

Brand experience

Others believe the brand has "lost its way" and think PepsiCo should better engage with consumers. Jonathan Gabay, founder of Brand Forensics, says: "One way for PepsiCo to be distinctive is to concentrate on its Tropicana brand. However, the smoothie market is now so important it must also find something for PJ's which turns the drink into a complete brand experience."

He suggests one way of achieving this would be to add an extra ingredient that sets it apart from competitors. PJ's could also engage better with the market on healthy issues, according to Gabay.

PepsiCo can point to the appointment of former [British government] health secretary Alan Milburn to its recently established UK board of advisers as an effort to bolster its health and wellness credentials (MW May 10, 2007).

Such a move indicates that the company recognises the growing importance of health when marketing its products, but whether it can halt the rise of Innocent in what is still a niche market, and reinvigorate interest in its UK smoothie brand is an entirely different proposition.

Source: Marketing Week, John Reynolds, 31-Jan-08

Specimen

APPENDIX THREE

Main Media Advertising Expenditure on Fruit Juices and Still Drinks (£000), Years Ending 2005 and 2006

	2005	2006
Tropicana		
Essentials drink range	452	181
Fruit juice range	105	-
Go Juice range	-	1,026
Pure Premium Orange	4,672	2,531
Pure Premium product range	186	826
Total Tropicana	5,415	4,564
Unilever – Vie Shots	1,771	3,908
Adez drinks range	-	3,666
Innocent		
Smoothies	1,083	3,003
Smoothies for Kids	-	152
Total Innocent	1,083	3,155
Campbells V8 Juice	439	1,814
Coca-Cola		
Froot Refresh Minute Maid	314	-
Minute Maid	2,140	1,493
Bottlers – Fruice	119	94
Total Coca-Cola	2,573	1,587
Oasis – drink	-	1,432
Hero – Fruit 2 Day drink	-	1,215
Britvic J20	1,695	1,196
Robinsons		
Fruit drinks	85	-
Fruit Shoot range	1,321	387
Fruit Spring range	-	348
High Juice range	-	395
Total Robinsons	1,406	1,130
PJ Smoothies – fruit drink	-	989
Capri-Sun – drinks range	965	836
Copella		
Apple juice	712	261
Fruit juice range	-	411
Total Copella	712	672
Ocean Spray – cranberry juice	1,481	582
Welch's – purple grape juice	-	527

Rubicon – exotic fruit juice	452	444
Panda Pops – still	-	441
Sunsweet	-	396
V8 Fruit/Veg Juice	-	312
RJA Foods – Pomgreat	-	280
Ribena – Original Blackcurrant	-	180
Knorr – Vie Shots	-	167
Ella's Kitchen	-	142
Sunny D		
Sunny D Caribbean fruit drink	77	-
Sunny D fruit drink	1,223	105
Total Sunny D	1,300	105
Del Monte		
Fruit juice range	255	-
World Fruit Drinks range	134	-
World Fruit Drinks range	88	-
Total Del Monte	477	-
Five Alive		
Berry Blast juice	136	-
Citrus Burst	300	-
Total Five Alive	436	-
Grove Fresh – organic fruit juice	235	-
St Clements – squeeze fruit juice	96	-
Danone – Shape water drink	1,047	-
Sub-threshold brands	474	503
Total	22,056	30,242
Note: totals do not sum due to rounding.		
Source: Nielsen Media Research		

Source: Fruit juices and still drinks – Media advertising expenditure on Fruit Juices and Still Drinks (£000), Years Ending 2005 and 2006, Key Note Limited 2007

APPENDIX FOUR

Smoothies that came of age

By Jenny Wiggins

Published: May 8 2007 03:00

It seems Innocent's days of innocence are over.

Over the past eight years, the smoothie group – which made millions of pounds out of squashing and bottling fruit – has become one of the UK's leading soft drink brands, selling more than Oasis or Sprite.

Retail sales shot up 140 per cent last year to hit £96m, bringing Innocent into the "Top 100" grocery brands for the first time as it expanded its smoothie range from individual bottles into one-litre cartons and kids' drinks.

But the group, which has built its family-friendly brand by promoting "natural products", appears in danger of alienating some of its loyal customers. More than a few smoothie drinkers have been outraged at the group's recent decision to embark on a six-month trial selling kids' smoothies in 80 McDonald's restaurants.

"What were you thinking of - McJuice, McSmoothie or McDollar?" complained one irate drinker last week on a blog on Innocent's website. "McSell Out," wrote a second. "Another bunch of hippy capitalists sells out . . . just like Body Shop. You just lost another customer," protested a third.

Adam Balon, one of Innocent's three co-founders and its "Chief Squeezer", says the decision to sell smoothies through the fast-food chain was not taken lightly. "McDonald's is a magnet for huge amounts of criticism," he acknowledges.

Mr Balon argues Innocent is acting in kids' best interests. "It's better that a kid will drink a smoothie than a fizzy cola."

Arguments about health benefits aside, children are becoming an increasingly important part of Innocent's business. It expects to sell about £25m of kids' smoothies this year, nearly three times as much as last year, and hopes to be stocked in as many as 1,350 schools by the end of the year – up from just five schools last year.

Customers should not be surprised that Innocent wants to sell its kids' drinks through a multinational fast-food chain, given that its drinks have been on the shelves of Starbucks in the UK and Ireland for more than four years.

It is also using Starbucks as a vehicle for international expansion. Last month, it started selling smoothies in 85 German Starbucks stores.

Innocent now draws 10 per cent of its sales from abroad – from Scandinavia, Belgium, France and the Netherlands as well as Germany and Ireland – and the group is hoping international sales will reach more than 30 per cent by 2010.

The privately held company still makes all its drinks in the UK, but is setting up "cool little funky offices" throughout Europe to help among other things to man local depots for its "banana phones".

The banana phone is Innocent's version of a customer care line. "You get people just calling up, saying 'Hi, I'm bored' and you just start a conversation with people," Mr Balon says. "Sometimes they're just phoning to see whether there is a human on the end of the line. Sometimes they're like, 'Tell me a joke'; sometimes they're like, 'Sing me a song'."

Innocent believes the banana phone is a way to keep its business "natural" as it stops employees hiding behind "corporate barriers".

Innocent has tried hard to retain the feeling of a fun start-up as it expands. Last month it extended its offices in Shepherd's Bush in west London, giving it six times more space to house its 200 employees.

Mr Balon says the expansion has not changed Innocent's culture. "It's still got grass on the floor, it's still very Innocent."

But it is clear that some customers will take further convincing that Innocent is not showing signs of becoming just another corporation. "Innocent and McDonald's don't go together in the same sentence," one blogger complained last week. "Let's face it, nobody will believe it's about anything but money."

Innocent facts

- * It bottles 21 different types of fruit and has 25 different drinks recipes
- * Its most exotic fruit is a coconut from a small island in Indonesia accessible only by boat
- * Sales of its Detox smoothie, containing bananas, pomegranates, oranges, blueberries and acai berries, are rising the fastest
- * It has its own YouTube channel
- * Its head office is called Fruit Towers
- * It is petitioning the government to cut taxes on fruit juices from 17.5 per cent to 5 per cent
- * It has nearly 70 per cent of the UK smoothie market
- * It is going to stop using compostable bottles made from corn because they are difficult to recycle in the UK and will use bottles made from recycled plastic

Source: [Copyright](#) The Financial Times Limited 2008

APPENDIX FIVE

Nestlé seeks to boost sales

By Jenny Wiggins

Published: April 6 2008 20:00

Nestlé has teamed up with Boost Juice, the chain of Australian juice bars, to attack Innocent Drinks' dominance of the smoothie market.

The two companies will this month start selling four kinds of co-branded smoothies.

"Boosted Smoothies" will go on sale in supermarkets, including Asda and Sainsbury's. Nestlé and Boost Juice will spend £5m on a marketing campaign.

Nestlé is overhauling its UK business by focusing on its core confectionery brands such as Kit Kat – which returned to profitable growth last year after losing sales and market share – and also on its "health and wellness" products.

Smoothies remain one of the fastest-growing parts of the soft drinks market. Marks & Spencer and other retailers sell own-brand smoothies to compete with market leaders Innocent and PJ Smoothies, which is owned by PepsiCo.

Total take-home sales of smoothies rose 31 per cent last year to £214m, according to the Britvic soft drinks report. Innocent, whose sales rose 46 per cent to £141m, controls more than half the market.

If Nestlé's smoothies are successful in the UK it will expand sales of the drinks to other countries.

Multinational food and drink companies are increasingly trialling products in the UK because they believe British consumers are on the leading edge of trends.

PepsiCo recently started selling Pepsi Raw, made with cane sugar and extract of natural plants such as the kola nut, in the UK to see how consumers would respond to an almost completely natural version of the soft drink.

Simon Lowden, the chief marketing officer of Pepsi International, said: "We certainly expect it to be more broadly available than just the UK."

This is the first time Nestlé has sold a smoothie made from fresh juices in the UK. The Swiss company spent 18 months developing the drink with Boost Juice, which has about 180 stores globally, including eight in Britain.

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APPENDIX SIX

Not such a smooth ride for Innocent

By Jonathan Sibun

4 August 2008

Last Updated: 2:14PM BST 22 Sep 2008

Innocent, the ethically minded, soft and fluffy fruit juice maker, is at war.

The independent company, which celebrates its 10th birthday next year, is finding out that growing up brings its usual share of challenges as it faces the dual threat of a consumer downturn and the efforts of a bigger rival to force it out of business.

Having introduced smoothies to the UK and watched the love affair grow spectacularly, Innocent has been forced to contend with the entrance of PepsiCo into the market, one of the food and drink industry's global giants.

"Our competitor is regarded as one of the most ferociously competitive on the planet. They have launched smoothies this year and we are their target," says Richard Reed, one of Innocent's three founders.

"We are at the beginning of a drawn-out fight. They have fired off their big gun and are waiting for the smoke to clear. We are still standing, but they have a lot more guns."

But just as Pepsi has been taking on Innocent in its own backyard, so the drinks manufacturer is preparing to sneak on to its rival's patch. The strategy is mouth-wateringly simple - Innocent is to move into the orange juice market with its product hitting the shops on Monday.

Reed, dressed in a funky floral shirt underneath an Innocent lab jacket, jokes about the move - "shock headline: juice company launches orange juice" - but in future years it could be seen as a key point in the company's fortunes. Success could multiply annual sales of £100m many times over. Failure, and the impact that would have on the smoothies brand, could leave the dreams of the company's founders in tatters.

Those dreams nearly never became reality. The idea behind the business was born when Cambridge graduates Reed, Adam Balon and Jon Wright - all now in their mid-30s - set up a stall selling fresh-fruit smoothies at a music festival in the summer of 1998. They asked customers to put empty bottles in 'yes' and 'no' bins to help them decide whether they should give up their day jobs. By the end of the weekend, the three had decided to launch Innocent.

Having raised £250,000 from a US investor after a last-ditch email to friends entitled "Do you know anyone rich?" bore fruit, the company was established. Today Innocent's smoothies are sold in 11 countries and the founders are worth an estimated £41m each, according to The Sunday Times Rich List.

Innocent has grown hand-in-hand with its ethical image, but industry observers suggest growth and pressure from bigger rivals will make it impossible for the founders to stick to their ideals - a charge that Reed denies. "When we started out we had a belief that if you're making something that people consume you have an absolute responsibility to make that thing natural and healthy," he insists. Pointing out that the company sources fruit from ethically aware farms, uses 100pc recyclable bottles and ploughs 10pc of its profits into charity.

"But then we were three 26-year-olds who couldn't get our phone calls returned. Now I have three people just pushing on supply chain ethics. As Innocent has got bigger we have got more innocent."

There is a genuine religious zeal behind the strategy but Reed and his colleagues are clever enough to know that ethics sell and the company's image has been key to its success.

Despite criticism about its green credentials and last year's tie-up with fast food chain McDonald's, Innocent is making a good fist at balancing size and ethics. Reed claims the company has more than a 70pc share of the £169m UK smoothie market but admits the company is under pressure like never before.

Pepsi's decision to launch Tropicana smoothies has shaken up the market. The drinks giant already had its PJs product - smoothies from concentrate - but the Tropicana fresh fruit version presents a more formidable challenge.

"Pepsi is out there offering supermarkets hundreds of thousands of pounds to delist our smoothie lines," Reed claims. "That is what they do. If you look at any market they come into, their stance is to take on the independents by running crazy promotions, take their business and then raise prices. Look at Walkers Crisps - they completely caned the competitors and became a virtual monopoly."

According to Reed - who is swift to add that Pepsi is doing "just what businesses do" - while the drinks giant has had some success, the battle is at an early stage.

"We have lost some listings to Tropicana but we're slowly getting them back. People will try anything new once, especially if it's half the price."

Innocent's biggest problem is that it is not facing Pepsi on an equal footing. While Innocent offers the market's leading smoothie, Pepsi has a whole shopping trolley of leading food and drink brands.

"We're in a David and Goliath situation. If you go into the chilled fruit fridge in the supermarket, it is all owned by PepsiCo," Reed says, referring to a strategy called 'The Power of One' where Pepsi creates listings for one product by threatening to limit supply of another. "It's a tough fight for us because Pepsi might call up the supermarkets and say: if you don't give us what we want on orange juice, we're not going to give you what you want on Walkers Crisps."

Reed claims retailers are "excited" about Innocent's orange juice launch - "this is the only brand they've seen which might make inroads" - but is well aware of the challenge.

The smoothies market makes up 17pc of the near £1bn UK juice market and the opportunities for Innocent are huge.

"We're going in with a promise of taste, quality and ethics, while Pepsi is about cheaper prices," Reed says.

"It gives us an opportunity to dramatically widen the demographics of the brand. A litre of smoothie is £2.99, a litre of orange juice will be £1.89. People can buy into the Innocent ideals at a lower price point."

Pepsi's threat is not the only challenge Innocent faces. Reed admits the company has already seen sales fall in the wake of the consumer downturn, though he claims Innocent is taking market share.

Reed believes Innocent is well placed to weather a downturn, though he appears to be relying on consumers focusing on smoothies' health properties rather than price. He refuses, however, to rule out price cuts. "We would [reduce prices] if we had to," he says. "We're looking at smaller pack sizes. We've got to find a way to make quality affordable."

Innocent is also keeping watch on overheads - plans to hire 50 new staff this year have been scaled back to 15.

As Reed prepares for Innocent's annual music and comedy festival in London's Regent's Park today, he insists the founders are not ready to bail out and sell the company, despite the challenges.

"We genuinely do care. As long as we're proud of it, excited by it and challenged by it, what the hell else are we going to do? We're trying to prove that there's profit in ethics and we haven't done that yet."

Source: The Daily Telegraph. Telegraph.co.uk

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