DIGITAL IQ INDEX®

# BEVERAGES

September 29, 2014

# Fizzle

The "sugar water" business is going from bad to worse. In 1998, the average American drank more than 50 gallons of soda per year.[1] Fifteen years later, consumption is down nearly 20 percent—with "diet" drinks declining faster than any other beverage category due to increased scrutiny of aspartame and other artificial sweeteners.[2]

Although cola conglomerates have attempted triage by launching anti-obesity campaigns, testing stevia-based reformulations (e.g., Coca-Cola Life, Pepsi NEXT), and doubling down on marketing expenditures—nothing can stem the tide.[3,4] Last April, Coca-Cola announced its first global dip in soda volume since 1999, signaling the spread of the disease beyond the United States.[5]

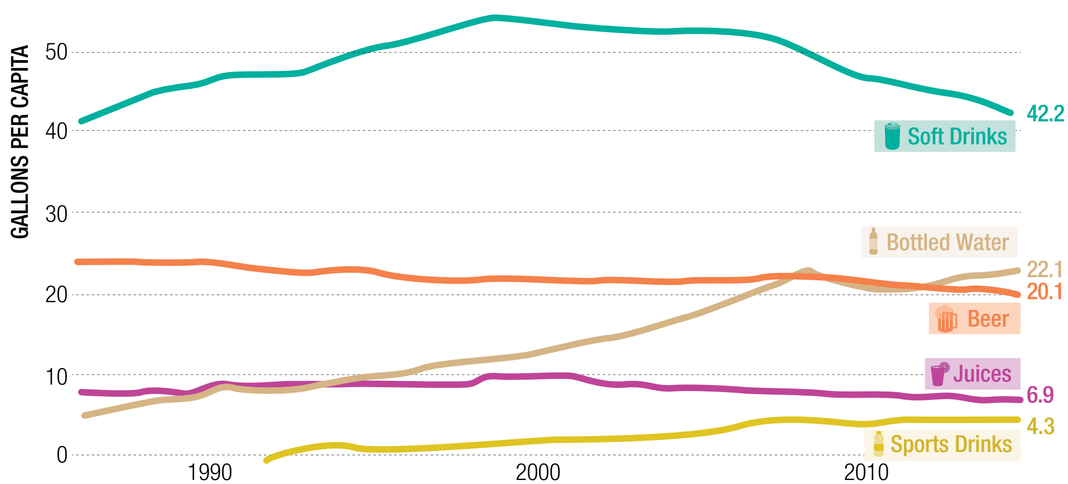
## Too Little, Too Late?

As reality sets in, beverage titans are slowly rethinking business fundamentals. In 2007, Coca-Cola embarked on a diversification binge (e.g., Glacéau, Honest Tea, Zico)—culminating in a $2 billion investment in Monster Energy last August.[6,7] In 2013, the company reversed course by selling costly distribution operations it acquired as recently as 2010.[8] In September, Coca-Cola experimented with its first exclusive distribution deal with Amazon (see page 48). Although such investments signal a positive shift away from denial, analysts

1. "Soda Losing Its Grip on America," Jim Avilia & Serena Marshall, ABC News, April 2, 2014.
2. "Diet Sodas' Glass Is Half Empty," Mike Esterl, The Wall Street Journal, December 8, 2013.
3. "Pepsi and Coke's new cola war challenger? Zevia." Phil Wahba, Fortune, June 27, 2014.
4. "Coca-Cola Maintains Marketing Spend Amid Sluggish Demand," Natalie Zmuda, Ad Age, July 22, 2014.
5. "Coke Under Pressure as Sales Abroad Weaken," Mike Esterl, The Wall Street Journal, July 30, 2014.
6. "Coke Confronts Its Big Fat Problem," Claire Suddath & Duane Stanford, Bloomberg Businessweek, July 31, 2014.
7. "Coke to Buy Stake in Monster Beverage for $2.15 Billion," David Gelles, The New York Times, August 14, 2014.
8. "Coca-Cola to return some distribution to U.S. franchisers," Martinne Geller, Reuters, April 16, 2013.

### Beverages: Annual Per Capita Consumption by Category

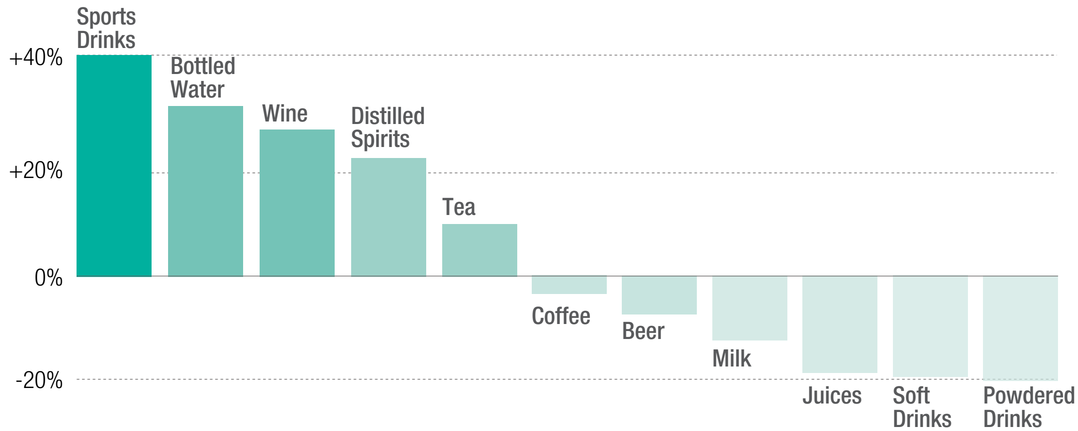
U.S., 1987–2013




Source: Beverages Digest, July 2014.

### Beverages: Change in Per Capital Consumption by Category

U.S., 2003–2013




Source: Beverage Information Group, July 2014.

are asking if they are too little, too late.[9] Representing only $1 in every $100 dollars spent in supermarkets, online grocery remains in its infancy.[10] However, future winners and losers on Amazon Fresh, Walmart Grocery, and Google Shopping Express are being determined now. Four of the 10 top-selling soda brands (Mountain Dew, Dr Pepper, Diet Pepsi, and Diet Mountain Dew) are not present among the 20 best-selling soft drinks on Amazon—displaced by Zevia, Fever Tree, and Hansen's.[11]

With food and beverages products demonstrating the lowest customer loyalty of any category measured (approximately 40 percent of buyers identify as "not loyal"), it is imperative that beverage brands reassess their online visibility and explore how digital properties reward frequent buyers.[12]

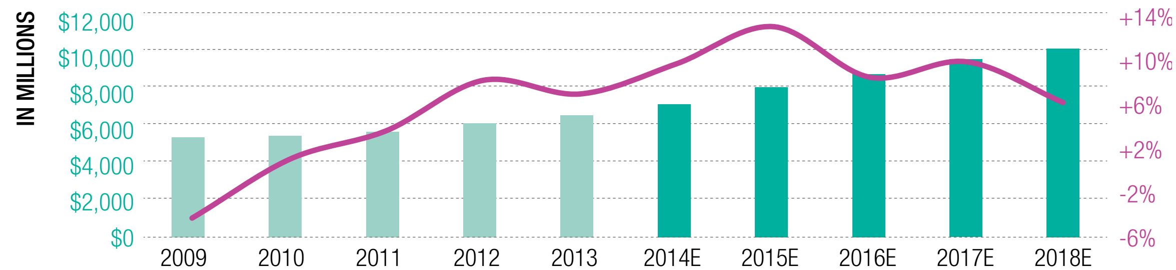
## Digital IQ = Shareholder Value

This study attempts to quantify the digital competence of 54 beverage brands in the U.S. market. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses, helping managers achieve greater return on incremental investment. Like the medium we are assessing, our approach is dynamic. Please reach out with comments that improve our methodology and findings.

Regards,
**L2**

### Beverages: Online Grocery Sales

U.S., 2009–2018E ■ Annual Revenue ■ Annual Change

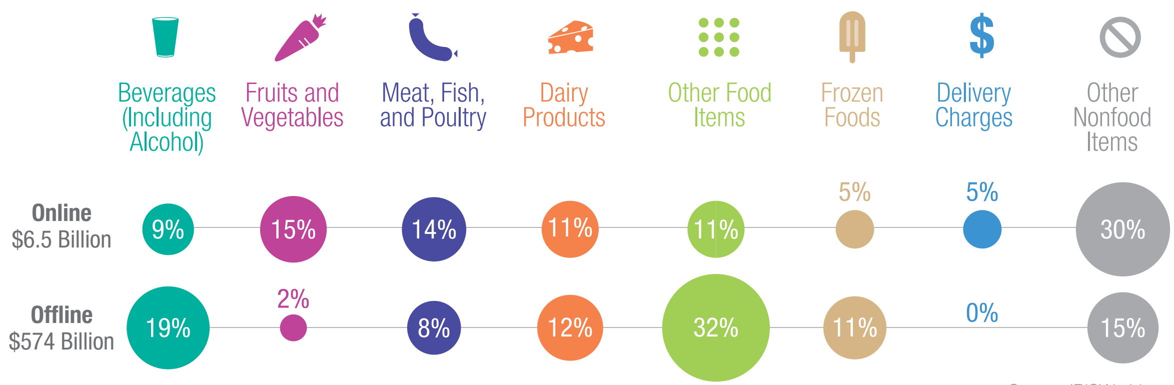



| | 2013 Size | 2008–2013 CAGR | 2013–2018E CAGR |
|---|---|---|---|
| **Online** | $6.5 Billion | +3% | +9.2% |
| **Offline** | $574 Billion | +1.5% | +0.7% |

Source: IBISWorld.

### Beverages: Online vs. Offline Grocery Product Segmentation

U.S., 2013




Source: IBISWorld.

9. "Coke, Pepsi…These guys aren't cracking beverage innovation," Ben Bouckley, Beverage Daily, May 16, 2014.
10. "How E-Commerce Is Finally Disrupting The $600 Billion-A-Year Grocery Industry," Cooper Smith, Business Insider, September 10, 2014.
11. "Special Issue: U.S. Beverage Results for 2013," Beverage-Digest, March 31, 2014.
12. "84 Percent of Global Respondents More Likely to Visit Retailers That Offer a Loyalty Program," Press Release, Nielsen, November 12, 2013.

# DIGITAL IQ RANKING

DIGITAL IQ INDEX® **BEVERAGES**

GENIUS GIFTED AVERAGE

| RANK | BRAND | DIGITAL IQ |
|---|---|---|
| 1 | Red Bull | 151 |
| 2 | Anheuser-Busch InBev | 143 |
| 3 | The Coca-Cola Co. | 139 |
| 4 | Anheuser-Busch InBev | 138 |
| 5 | PepsiCo | 137 |
| 6 | PepsiCo | 131 |
| 7 | Monster Beverage Corp. | 129 |
| 8 | PepsiCo | 128 |
| 9 | Heineken | 127 |
| 10 | The Coca-Cola Co. | 115 |
| 11 | The Boston Beer Co. | 113 |
| 11 | The Coca-Cola Co. | 113 |
| 13 | Unilever Group | 112 |
| 13 | Anheuser-Busch InBev | 112 |
| 15 | Dr Pepper Snapple Group | 111 |
| 16 | The Coca-Cola Co. | 109 |

**GENIUS**
Red Bull
Bud Light

**GIFTED**
Coca-Cola
Budweiser
Gatorade
Pepsi
Monster Energy
Mountain Dew
Heineken
Diet Coke
Samuel Adams
Sprite
Lipton
Stella Artois
Dr Pepper

**AVERAGE**
Coca-Cola Zero
Rockstar
Powerade
Coors Light
Corona Extra
Miller Lite
Sierra Nevada
Shock Top
5-Hour Energy
Snapple
Guinness
Michelob Ultra
Vitamin Water
NOS
Vitacoco
Zico

**CHALLENGED**
Fanta
7-Up
Arizona
Schweppes
Fuze
Nestea

**FEEBLE**
Amstel
Busch
SoBe
Sierra Mist
Hoegaarden
Leffe
Natural
Shasta
Keystone Light
AMP
Canada Dry
Foster's
Modelo
Beck's
Kronenbourg
Miller Genuine Draft
Full Throttle

# DIGITAL IQ RANKING

DIGITAL IQ INDEX® **BEVERAGES**

**AVERAGE** **CHALLENGED**

| RANK | BRAND | DIGITAL IQ |
|---|---|---|
| 17 | Rockstar | 108 |
| 18 | Powerade — The Coca-Cola Co. | 106 |
| 19 | Coors Light — Molson Coors Brewing Co. | 105 |
| 20 | Corona Extra — Constellation Brands | 99 |
| 20 | Miller Lite — SABMiller | 99 |
| 22 | Sierra Nevada — Sierra Nevada Brewing Co. | 98 |
| 23 | Shock Top — Anheuser-Busch InBev | 96 |
| 24 | 5-hour Energy — Living Essentials | 95 |
| 24 | Snapple — Dr Pepper Snapple Group | 95 |
| 26 | Guinness — Diageo | 93 |
| 27 | Michelob Ultra — Anheuser-Busch InBev | 92 |
| 27 | Glacéau vitaminwater — The Coca-Cola Co. | 92 |
| 29 | NOS — The Coca-Cola Co. | 91 |
| 29 | Vita Coco — All Market | 91 |
| 29 | Zico — The Coca-Cola Co. | 91 |
| 32 | Fanta — The Coca-Cola Co. | 89 |
| 33 | 7UP — Dr Pepper Snapple Group | 88 |
| 34 | AriZona — AriZona Beverage Co. | 85 |
| 35 | Schweppes — Suntory Holdings | 81 |
| 36 | Fuze — The Coca-Cola Co. | 79 |
| 37 | Nestea — Nestlé | 72 |

**GENIUS**
Red Bull
Bud Light

**GIFTED**
Coca-Cola
Budweiser
Gatorade
Pepsi
Monster Energy
Mountain Dew
Heineken
Diet Coke
Samuel Adams
Sprite
Lipton
Stella Artois
Dr Pepper

**AVERAGE**
Coca-Cola Zero
Rockstar
Powerade
Coors Light
Corona Extra
Miller Lite
Sierra Nevada
Shock Top
5-Hour Energy
Snapple
Guinness
Michelob Ultra
Vitamin Water
NOS
Vitacoco
Zico

**CHALLENGED**
Fanta
7-Up
Arizona
Schweppes
Fuze
Nestea

**FEEBLE**
Amstel
Busch
SoBe
Sierra Mist
Hoegaarden
Leffe
Natural
Shasta
Keystone Light
AMP
Canada Dry
Foster's
Modelo
Beck's
Kronenbourg
Miller Genuine Draft
Full Throttle

# DIGITAL IQ RANKING

DIGITAL IQ INDEX® **BEVERAGES**

L2

## FEEBLE

| RANK | BRAND | DIGITAL IQ |
|---|---|---|
| 38 | Amstel — Heineken | 67 |
| 38 | Busch Beer — Anheuser-Busch InBev | 67 |
| 38 | SoBe — PepsiCo | 67 |
| 41 | Sierra Mist — PepsiCo | 63 |
| 42 | Hoegaarden — Anheuser-Busch InBev | 61 |
| 43 | Leffe — Anheuser-Busch InBev | 57 |
| 43 | Natural Light — Anheuser-Busch InBev | 57 |
| 45 | Shasta — National Beverage Corp. | 56 |
| 46 | Keystone Light — Molson Coors Brewing Co. | 53 |
| 47 | AMP Energy — PepsiCo | 52 |
| 48 | Canada Dry — Dr Pepper Snapple Group | 51 |
| 49 | Foster's — SABMiller | 50 |
| 49 | Modelo Especial — Constellation Brands | 50 |
| 51 | Beck's — Anheuser-Busch InBev | 49 |
| 51 | Kronenbourg — Carlsberg Group | 49 |
| 53 | Miller Genuine Draft — SABMiller | 42 |
| 54 | Full Throttle — The Coca-Cola Co. | 17 |

**GENIUS**
Red Bull
Bud Light

**GIFTED**
Coca-Cola
Budweiser
Gatorade
Pepsi
Monster Energy
Mountain Dew
Heineken
Diet Coke
Samuel Adams
Sprite
Lipton
Stella Artois
Dr Pepper

**AVERAGE**
Coca-Cola Zero
Rockstar
Powerade
Coors Light
Corona Extra
Miller Lite
Sierra Nevada
Shock Top
5-Hour Energy
Snapple
Guinness
Michelob Ultra
Vitamin Water
NOS
Vitacoco
Zico

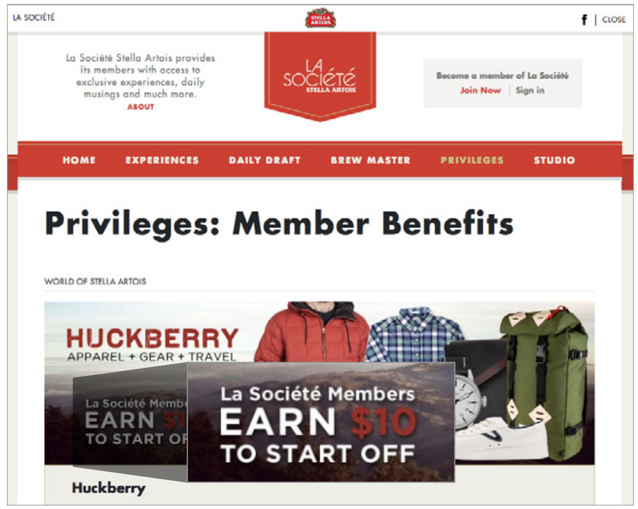
**CHALLENGED**
Fanta
7-Up
Arizona
Schweppes
Fuze
Nestea

**FEEBLE**
Amstel
Busch
SoBe
Sierra Mist
Hoegaarden
Leffe
Natural
Shasta
Keystone Light
AMP
Canada Dry
Foster's
Modelo
Beck's
Kronenbourg
Miller Genuine Draft
Full Throttle

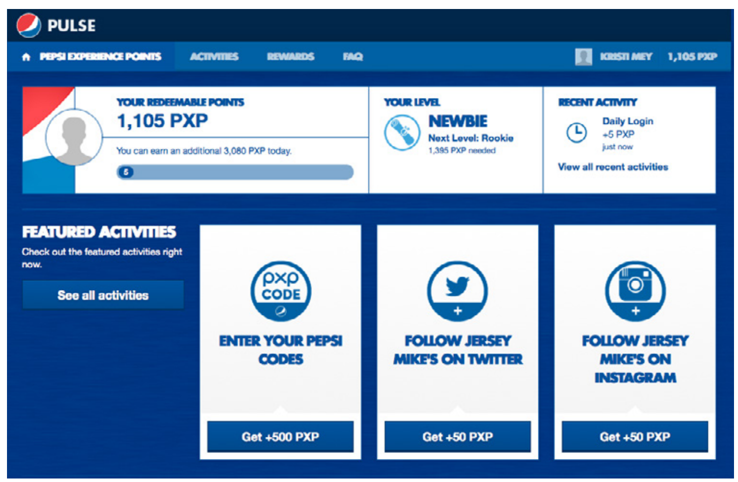
## Loyalty

Across 16 categories of products, Food & Beverage registers the lowest level of customer loyalty recorded—with approximately 40 percent of global consumers indicating their likelihood to switch brands across both alcoholic and carbonated beverages.[13] Beverage brands would be wise to take a cue from peers in the Retail sector, where 23 percent of consumers indicate their loyalty to a brand increased due to an adherence program.[14]

Despite evidence for how to combat a persistent problem, less than one in three beverage brands are leveraging customer relationship management (CRM) capabilities to enable user-specific accounts. Of these, only a third encourage purchases via transactional loyalty programs (e.g., bottle cap code redemption programs). Several brands, including Budweiser and Dr Pepper, offer account creation with no clear incentive for users to volunteer personal information. This stands in stark contrast to Stella Artois' "La Société" initiative, which offers various discounts to lifestyle brands in line with the pilsner.




Stella Artois' La Société offers participants a range of member benefits, including discounts on apparel and special events.




Pepsi's answer to My Coke Rewards (see page 18) is Pepsi Experience Points, which can be acquired by interacting with brand's digital properties.

### Beverages: Site Account Features

Percent of Brands Incorporating the Following

September 2014, n=17

| | |
|---|---|
| Facebook Connect | 100% |
| Transactional Loyalty Program | 35% |
| Mailing Address Capture | 35% |
| Listing Offline Events | 24% |
| Mobile Alert Opt-In | 18% |
| Product Preference Capture | 12% |

13. "Nielsen Survey: 84 Percent of Global Respondents More Likely to Visit Retailers That Offer A Loyalty Program," Nielsen, November 12, 2013.
14. "How Seamless are You?" Consumer Research Results, Accenture, March 24, 2014.

## Retailers: Online Grocery

The food and beverage industry may be the last industry to be disrupted by e-commerce, with only 1 percent of the $600 billion in sales attributed to online purchases.[15] However, while most brands know where and how their products are stocked on physical store shelves, location and prominence online is much murkier and proves largely immune to brand influence (for now).

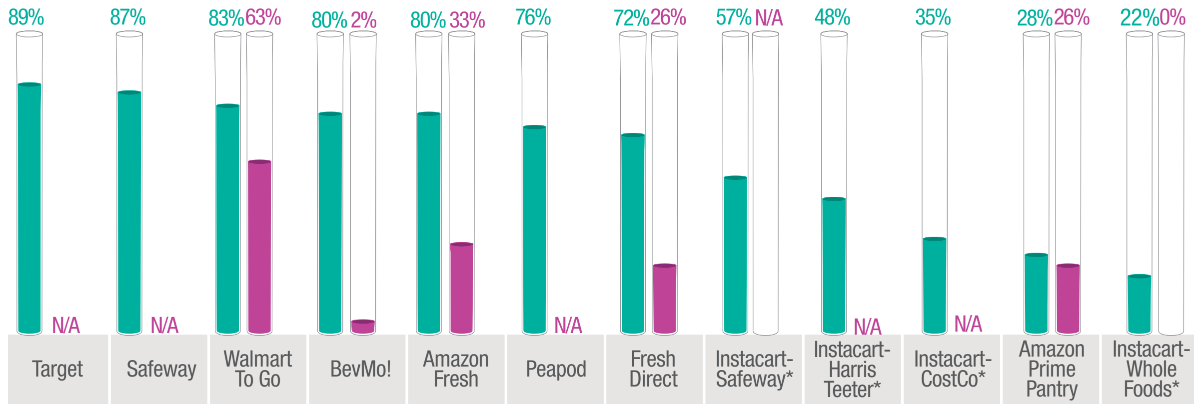
Amazon.com remains in prime position to own the online grocery market because of its physical distribution network, 20-million-strong Prime membership program, Amazon Fresh expansion, and as of April, Amazon Prime Pantry offering for household staples.

15. "How E-Commerce Is Finally Disrupting The $600 Billion-A-Year Grocery Industry," Cooper Smith, Business Insider, September 10, 2014.

### Beverages: Brand Visibility on Retailer.com

September 2014 ■ Stocks Brand ■ Brand Appears on First Page of Category Search

Locations selected, when necessary: Amazon Fresh- Seattle, Fresh Direct- Manhattan, Peapod- Chicago,Instacart- Washington D.C., Safeway- Washington D.C., Walmart To Go- Philadelphia. *Note: Instacart does not support purchases of alcohol.




### Beverages: Online Pricing of Diet Coke

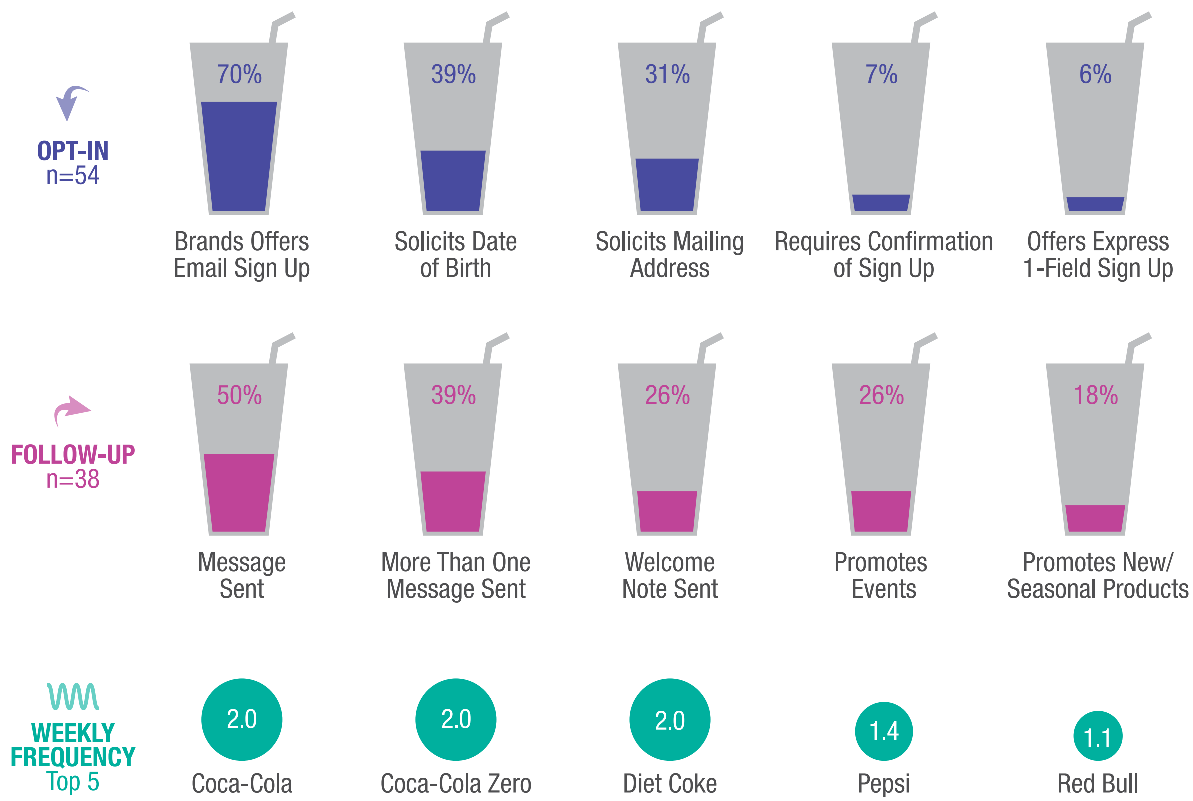
September 2014

| Retailer | Price, 12 Pack, 12 oz. Cans | Standard Shipping Cost |
|---|---|---|
| Safeway | $6.59 | $12.95 |
| Walmart Grocery | $4.38 | $9.99 |
| BevMo! | $7.49 | Variable |
| amazon fresh | $4.12 | $9.99 |
| Peapod | $4.00 | $9.95 |
| freshdirect | $4.99 | $5.99 |
| Instacart Safeway | $7.39 | $7.99 |
| Instacart Harris Teeter | $8.29 | $7.99 |
| amazon.com PrimePantry | $4.89 | $5.99 |

## Email

Much like the Beer industry, the wider Beverages category is consistently underinvested in email marketing, despite evidence that 14 to 28 percent of shoppers conduct digital research food purchases prior to shopping.[16] While seven in ten brands offer email sign up, only half of those followed up with even a single message. The category averages just 0.27 messages per week—ahead of the Beer industry's 0.07 and Spirits' 0.04, but behind the Food industry's 0.40. All three industries significantly trail e-commerce heavy brands in sectors such as Specialty Retail, which send between three and four emails per week.

**Beverages: Email Marketing Efforts**
September 2014




16. "What Happens Online Before a Consumer Ever Walks into a Grocery Store?" eMarketer, August 28, 2014.

## Social Media

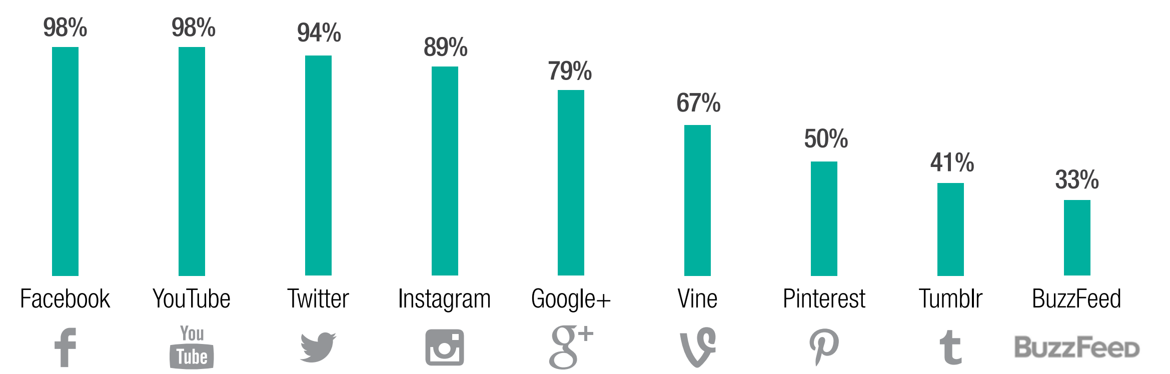
Beverage brands are heavily invested in social platforms as the digital media of choice. All but one (Full Throttle) has a Facebook page. Only one brand (Canada Dry) fails to maintain a YouTube channel. All but three are active on Twitter—and all but four have profiles on Instagram. While eight in 10 brands are on Google+, only three have communities exceeding a million followers (Coca-Cola, Pepsi, and Red Bull). Consistent across all categories L2 tracks, Tumblr continues to trail in terms of traction and significance.

Facebook delivers the largest average community size across competing social platforms, but Instagram continues to differentiate itself with an average engagement rate 35 times that of its (big) sister platform. On Pinterest, Coca-Cola is the only brand that has attracted more than 4,500 followers.

### Beverages: Social Media Adoption

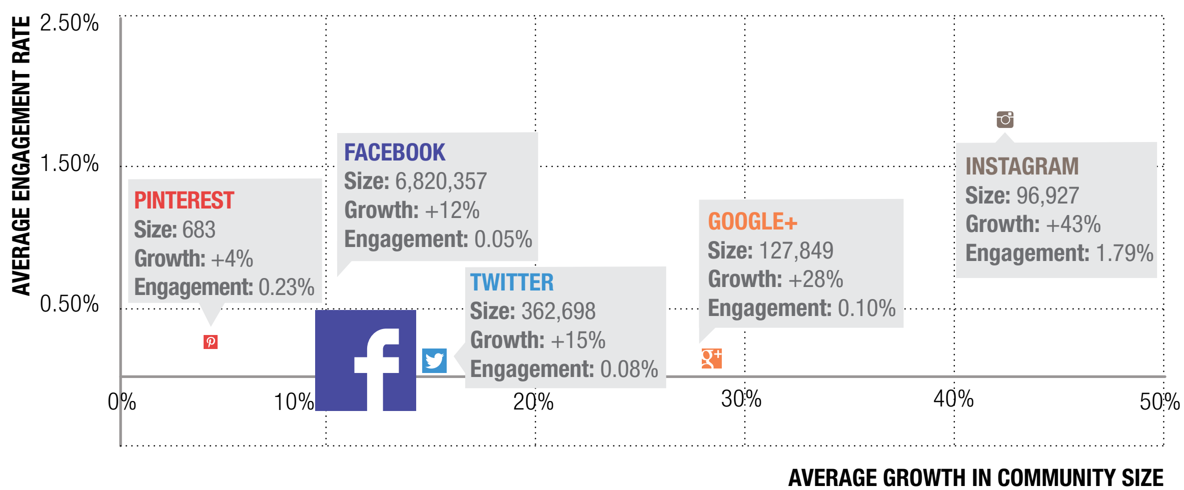
Percentage of Brands with Official Presence by Platform

September 2014, n=54




### Beverages: Social Platform Performance by Size, Growth, and Engagement

June–September 2014



## Mobile & Tablet

Although 70 percent of consumers prefer mobile devices for tasks tied to grocery shopping, an explicit preference for smartphones versus tablets varies by activity type.[17] For example, nearly three times as many consumers prefer smartphones to tablets for managing shopping lists, but nearly twice as many consumers prefer tablets for browsing recipes. Usage is similar on both devices when it comes to looking up nutritional information. The consumer's propensity to switch devices leading up to purchase requires Beverage brands to ensure broad site compatibility while optimizing select features to conform to user behavior.

Sixty-three percent of Beverage brands have adopted mobile-optimized sites, but only 17 percent have implemented UI/UX templates distinct to the tablet.

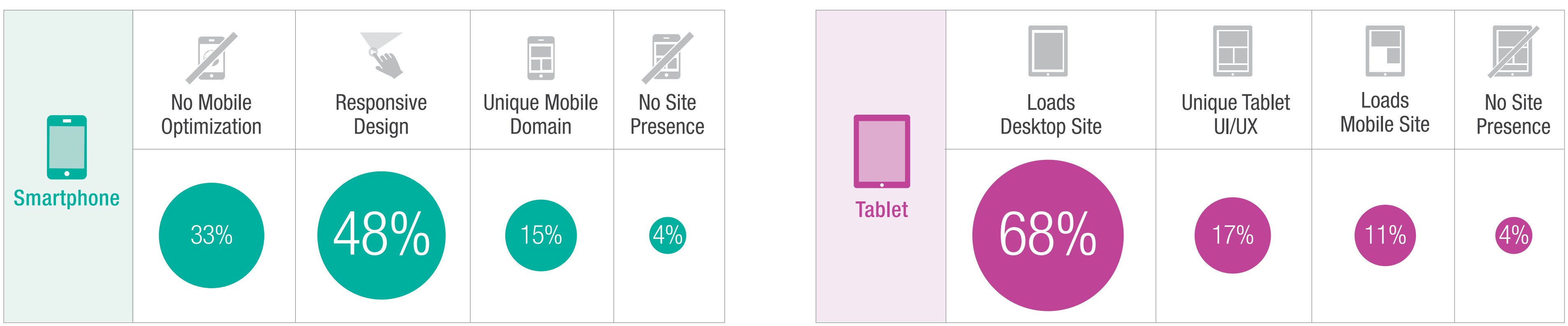
17. "Mobile Audience Q3 2013 Insight Report," CPG Research & Purchase Behaviors, Ninth Decimal, September 2013.
18. *Ibid.*

Overreliance on desktop sites compounds errors rates on the tablet form factor. A third of brand sites feature broken or buggy elements, with one in 10 requiring Adobe Flash to load select pages. The severity of these errors can range from dead landing pages (DrinkArizona.com) to diminished interactivity on multimedia-rich destinations (Fanta).

Across mobile sites, brands demonstrate little effort to rethink feature implementation beyond navigational elements. Although "availability in-store" ranks among the top five influencers to add a CPG product to shopping lists,[18] only 41 percent of Beverage brands support retail finders on the small screen. Of these, less than 1-in-4 take advantage of geolocation. Gatorade provides a prime example of rethinking "Where to Buy" for mobile users.

### Beverages: Site Configuration on Mobile and Tablet Devices

September 2014, n=54



# TABLE OF CONTENTS

DIGITAL IQ INDEX® BEVERAGES

## L2 business intelligence for digital.

*We are a membership organization that brings together thought leadership from academia and industry to drive digital marketing innovation.*

### RESEARCH

**Digital IQ Index®:** The definitive benchmark for online competence, Digital IQ Index® reports score brands against peers on more than 850 quantitative and qualitative data points, diagnosing their digital strengths and weaknesses.

**Intelligence Reports:** Intelligence Reports complement L2's flagship Digital IQ Index® with a deeper dive on platforms or geographies of future growth. Critical areas of investigation include: Mobile, Video, Emerging Platforms, APAC and Brazil Russia India.

**L2 Collective®:** Series of benchmarking reports designed to help member brands better understand resources, human capital, budgets, and priorities supporting digital strategies.

### EVENTS

**Forums:** Big-picture thinking and game-changing innovations meet education and entertainment. The largest gathering of CPG executives in North America.
*300+ attendees*

**Clinics:** Executive education in a classroom setting with a balance of theory, tactics, and case studies.
*120–180 attendees*

**Working Lunches:** Members-only lunches led by digital thought leaders and academics. Topic immersion in a relaxed environment that encourages open discussion.
*40–80 attendees*

### MEMBERSHIP

For membership info and inquiries: membership@L2ThinkTank.com

## *Upcoming Events*

**LUNCH: CONTENT & COMMERCE BRIEFING**

*October 22, 2014 · Paris*

**BREAKFAST: CONTENT & COMMERCE BRIEFING**

*October 23, 2014 · London*

*October 23, 2014 · New York City*

**FORUM**

*November 10, 2014 · New York City*

## *Upcoming Research*

**DIGITAL IQ INDEX® REPORTS:**

*Personal Care: U.S.*

*Specialty Retail*

*Russia Luxury*

**L2 INTELLIGENCE REPORTS:**

*Social Platforms*

*Content and Commerce*

**L2 INSIGHT REPORTS:**

*Prestige Hotels: China*

*Auto: International Sites*

*Amazon: Beauty*

*Amazon: Fashion and Watches & Jewelry*

*Food: Online Grocery*

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