



## Coca-Cola searches the globe for the next billion-dollar brand

By [Jeremiah McWilliams](#)  
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Deep inside Coca-Cola's headquarters on North Avenue, a row of shelves in a small conference room brim with brightly-colored drinks and packages from across the world.

This is the epicenter of Coca-Cola's search for the next billion-dollar brand.

Coca-Cola's Venturing and Emerging Brands team meets here every two weeks to track dozens of brands most people have never heard of. The core team of VEB, as it is called at Coca-Cola, consists of about 15 people from Coke and outside the beverage industry. Part investor group, part think tank and part entrepreneurial adviser, the team shares one mission: to never let Coca-Cola be surprised by trends.

"That's exactly why VEB exists, to try to identify the next big thing," said Deryck van Rensburg, the South African-born president and general manager of the group. "Look outside the borders of our company and partner with these entrepreneurs."

It is on the leading edge of Coca-Cola's efforts to boost its innovation efforts and find hot niche brands, areas where Coca-Cola has had a mixed record. Coke Zero was a big success, but Coca-Cola has struggled with teas and its energy drink brands are far behind the market leaders.

Many large beverage companies, including Coca-Cola, PepsiCo and Anheuser-Busch InBev, have historically struggled to consistently create and incubate niche products. Small brands give them "a great deal of trouble," said John Sicher, editor and publisher of Beverage Digest. "They're much better at growing their big, core brands."

A decade ago, Coca-Cola overpaid for two ill-advised acquisitions of niche brands. Planet Java and Mad River Traders died on the vine after the company spent millions for them. The goal of Venturing and Emerging Brands is to do it better next time, to help Coke better focus on very small brands and entrepreneurial companies.

VEB borrows tactics from companies such as Cisco, Johnson & Johnson and Sony, but its approach is unique in the beverage industry.

PepsiCo of Purchase, N.Y. uses internal R&D teams led by chief scientific officer Mehmood Khan, who guides the company's long-term research strategy. The company also has a program called "Learning Labs," which bottlers designed to test niche brands in incubation territories. PepsiCo wants to use the program to get access to promising brands in emerging categories.

Inside the controlled and buttoned-up atmosphere of Coca-Cola, VEB has a license to experiment.

In the three years since it was formed, VEB has invested in entrepreneurial brands, imported others into the U.S., and crafted others from scratch. Through a joint venture with an Italian company, it created espresso in a can. It imports something called Krushka & Bochka Kvass, a dark Russian soda fermented with rye and barley. It blended skim milk and sparkling water to create a "vibrancy drink" called Vio, and borrowed an idea from Coca-Cola's French operations by making Cascal, a soda that comes in flavors such as black currant and cherries, in the U.S. It accepts that some brands may not develop into powerhouses for the better part of a decade.

In 2008, Coca-Cola also bought 40 percent of Maryland-based Honest Tea, a maker of organic bottled teas. It has an option to buy a majority stake next year. Last year, Coca-Cola grabbed a minority stake in Zico, a seller of coconut water, for less than \$15 million.

VEB won't disclose its exact areas of interest, but brands that emphasize health and wellness, social responsibility and the environment are clearly on its radar screen. Van Rensburg said the group would even consider products that came in non-liquid forms, such as snack bars or powders.

VEB's approach is to be patient and take a much longer view than Coke has in the past, said Gerry Khermouch, editor of Beverage Business Insights. The "old Coke" wanted control and would simply buy companies out. "As soon as they saw a glimmer of success, they'd say 'Okay, hit the gas,' and suddenly it was rolling out and getting big ad campaigns. And that didn't work."

Now, "they seem to recognize that it's a slow process, with a lot of twist and turns," he said. "If you rush it, you almost guarantee it's not going

to work."

Coca-Cola has become a formidable competitor to private equity shops in the hunt for hot brands. As tight finances have crimped private equity's ability to make deals, Coca-Cola has muscled into the arena with its own pitch.

"Traditional venture capital offers money, maybe a seasoned beverage executive," said van Rensburg. But because VEB offers help with marketing, distribution and a range of business questions, Coca-Cola has become a crucial stop for entrepreneurs seeking a partner. "We're in it forever, not just to make the deal," he said.

VEB staffers review about 100 business plans per year, weeding through scores of unsolicited pitches. The team spends much of its time on the road: riding on trucks with distributors, calling on retailers, displaying products on the shelves and giving samples to consumers. Coca-Cola is setting up a similar group in Europe.

Mark Rampolla, founder of Zico, said he was surprised that VEB made its investment in a matter of months. "I didn't really expect them to jump right on it, because we were still pretty small," he said.

Seth Goldman, co-founder of Honest Tea, said his company had very little expertise in navigating the web of relationships with bottlers. But VEB has helped guide the brand through Coke's massive organization. "With large companies, in the past, if you were a small company without the resources and staff, you would just get lost," Goldman said.

Tom Pirko, president of California consulting firm Bevmark and a longtime adviser to both Coca-Cola and PepsiCo, said the key question is whether Coca-Cola will follow through and give VEB enough resources.

"The question always remains, how serious are they?" he said. "We have two companies, red and blue (Coca-Cola and PepsiCo), that are notorious for abandoning brands. The innovation comes from far afield, and not from the juggernaut R&D departments of Atlanta or Purchase. It's not a question of them being smart -- they're very smart. The question is, will they transfer resources?"

VEB is part of Coca-Cola's overall drive to turn around its North American territory, where sales shrank for more than two years before growing in the second quarter of this year. Coca-Cola is throwing resources into new packaging, a high-tech fountain machine called Freestyle and other moves to keep the growth going, especially in its mainstay soft drink business.

Coca-Cola wants to get footholds in niche categories without having to spend massive sums, such as it did when it laid out more than \$4 billion to buy Vitaminwater three years ago. "It was a good acquisition," Sicher said. "But in the future, they'd like to not have to spend several billion dollars to buy a brand."

Now, for tens of millions of dollars, Coca-Cola can try a whole stable of little brands. The choices are head-spinning. There were about 3,500 non-alcoholic beverage brands in the U.S. in 2006, according to research VEB did three years ago. A third of the industry's growth in 2006 came from categories and brands that didn't exist five years earlier. Little brands were only 20 percent of the industry's \$100 billion in retail sales, but they contributed at least half the growth. These days, entrepreneurs generate perhaps 300 new brands every year.

"It's incumbent on Coke to take the kind of risk that it's taking with these small products," said Sicher. "It's very hard to know what the next big hit will be."

### How we got the story

Reporter Jeremiah McWilliams had his first real exposure to the work of Coca-Cola's Venturing and Emerging Brands business unit when he tried a Dixie cup of Kvass at Coca-Cola's annual meeting this spring. Since then, he has interviewed Coca-Cola executives, trade journalists, consultants and entrepreneurs to get a sense of how VEB operates, and how it is changing Coca-Cola. For two days during the writing of this story, McWilliams was the best-hydrated reporter in the AJC's newsroom, sampling VEB's work: soft drinks, coconut water, chilled coffee and yet more Kvass.

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