Marketing

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[THE BRIEFING]

IN CONTEXT: MARKETER

Getting juiced

Beverage maker Leading Brands tries living up to its name BY EVE LAZARUS

Leading Brands is betting the farm on blueberries, at least the ones that go into its own brand–TrueBlue, a blueberry drink that's gaining attention in Canada and the U.S. and will soon be available in Wal-Mart stores nationwide. TrueBlue has what it takes to become a leader in the highly competitive juice category, says Ralph McRae, CEO of the Vancouver-based company. That's one reason he plans to ramp up marketing for it and a few of his company's other beverages.

Such a strategy is a switch for Leading Brands, which has historically been a distributor of beverages for other, more well-known brands. Launched with an investment in Clearly Canadian in 1986, Leading Brands used its return from that venture–estimated at around $24 million–to expand into packaging and distribution of a range of drinks including licensed brands such as Stewart's Fountain Classics, private label for grocery chains and co-packing operations with companies like Coca-Cola.

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But over the last few years the company has added proprietary brands like TrueBlue, Soy.O (a line of fruit-flavoured water), Trek (billed as an all-natural sports drink) and Infinity mountain spring water.

McRae won't say how much Leading Brands plans to spend marketing these drinks, but upcoming advertising (done in-house) could include television and magazines. "Our marketing is not just media, it's from the ground up," he says. "There's a lot of sampling, there's a lot of promotion at the store level. We can't compete with national television advertising budgets, but I think those are sometimes of questionable cost benefit."

Last year Leading Brands spent US$2.5 million on discounts, rebates and slotting fees–triple that of 2004. McRae says these are significant, but necessary costs to get its products on the shelf. "It's primarily a one-time event," he says. "Once you've done that you can move on to more recognizable forms of marketing and advertising, and that's where we are at now."

Working in Leading Brands' favour is that its brands aren't competing in the traditional pop and juice categories dominated by the world's top beverage makers. According to the New York-based Beverage Marketing Corporation, the alternative beverage market is the fastest growing in the beverage category, doing around US$16.3 billion in sales in 2004.

Gary Hemphill, managing director at BMC, says the key to competing against heavy-duty marketers is to come up with a brand with a "unique proposition." Hemphill points to bottled water and energy drinks as examples of hot categories that haven't required a huge marketing expense.

In Canada, ACNielsen MarketTrack, shows that while flavoured soft drinks are by far the largest sellers in terms of volume, the increase in sales during the 52-week period to February 2006 was only 1% over the previous year. Extreme energy drinks, on the other hand, showed a 200% jump. The fruit beverage sector has been relatively flat in both countries, but with 25% fewer calories than other juices and high antioxidant content in blueberries, TrueBlue is targeted at the health-conscious demographic. McRae also hopes it will appeal to parents. "There haven't been a lot of new products in the juice aisle for a long time so I think people crave a change."

That would be good news for Leading Brands, because with annual revenues last year of US$39.3 million and a $1.3-million loss (Leading Brands is listed on the NASDAQ exchange and reports in U.S. funds), the company doesn't have the financial clout of competitors like Pepsi and Coke.

Matthew Reilly, an equity analyst for Morningstar in Chicago, follows the beverage industry in Canada and says moving from a distribution company to one that markets its own brands makes financial sense because branded products have higher margins. "Distribution of beverages is a very difficult, capital intensive industry and it's just a really hard way to make a buck," he says.