Disrupting a Traditional Industry by Breaking its Rules

An INSEAD alumnus takes on the global beverage business.

The global non-alcoholic beverage market is a US$500bn+ industry dominated by a few large conglomerates that own hundreds of brands. They leverage supply chains, and hold critical retail space and significant marketing budgets. Profitability requires a massive scale, millions of dollars in marketing spend and a very strong brand to maintain loyalty against thousands of similar competitors.

Due to the low product complexity, the industry is deceptively easy to enter. Thousands of new drinks flood the market every year; there is hardly a colour, function, taste or size of beverage not yet invented. Yet, in an industry where winning is about being the last one standing, survival is notoriously difficult.

No matter how brilliant the beverage concept, as Warren Buffet said, “When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.”

KVELL, an Austrian company founded by an INSEAD alumnus, has flipped the industry logic – instead of adding to its complexity – by creating a microdrink. Its product, waterdrop, a small cube of natural aromas, superfood extracts and vitamins, can be popped into any bottle or glass of water, at any time, adding taste, vitamins and subtle carbonation. It aims to empower customers to stay hydrated and make healthier choices by drinking more water and fewer sugary additives. The company is taking three fundamental steps which are crucial to entering or disrupting a competitive market.

Challenging the rules of the game

KVELL has started by identifying and challenging the structural weaknesses of the global non-alcoholic beverage industry:

1. Most beverages contain abhorrent amounts of sugar and preservatives, despite consumers slowly turning their backs on readily available chemical concoctions as their health awareness increases.
2. Packaging, as a second variable, has changed in shape and form the prevalence of plastic and aluminium demand for sustainable and innovative solutions.
3. The point of sale, and the holy grail of retail in particular, requires negotiating power and leverage to secure a sound position.
4. Transport costs are enormous since liquid beverages must be bottled, packaged, and shipped to their destination making scale a necessity and a CO2 emissions driver.

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Changing the winning team

The global beverage industry, in short, is the relationship between liquid and packaging. So why change a winning team? As dynamic as it may seem, the beverage industry hasn't changed for decades. Companies add liquid to a common type of packaging such as a bottle or can and sell it to retailers or restaurants, which in turn sell it to customers with a margin.

KVELL's idea seems simple yet elicits a question that the industry has thus far failed to answer: Why should a beverage be limited to a liquid form and rudimentary packaging? They spent 18 months on R&D, bringing experts from different industries together to create a new team and a different game plan. It combined the knowledge of from suppliers of world-class natural ingredients, chemists, designers and pharmaceutical experts to create waterdrop.

Rather than overloading the already saturated market with yet another water, carbonated soft-drink or juice, the concept has ingeniously captured health and hydration trends by creating a new microdrink using water as its platform. With its unique packaging and non-liquid form, the compact, individually wrapped waterdrop turns the industry standard on its head by no longer restricting a “beverage” to liquid and packaging.

Water – tap water or bottled water of any type or brand – is ubiquitous. Although large conglomerates have been buying branded water for decades, customer loyalty to water is much lower than with conventional soft drinks. Water is a commodity, despite attempts by marketing departments to suggest differently. Instead of engaging in the battle of water brands, waterdrop uses the existing supply chain.

Understanding customer pain points and the importance of the USP

But that is not enough. Big and small players have unsuccessfully tried and launched similar concepts before. Unlike these players, KVELL has researched customer pain points to develop an original and innovative brand positioning which demonstrates its unique selling proposition (USP) across multiple dimensions as it establishes the new category of microdrinks. Firstly, KVELL has shown customer-focus, with choice, convenience and awareness of the consumer trend towards self-improvement and well-being. Secondly, the design of waterdrop carries the hallmark of eco-innovation with its unique approach to convenience, customisation and aesthetics, mirroring approaches taken by Apple and Nespresso. Thirdly, the customer is liberated from traditional points of sale and binding moments of consumption. Fourthly, compact, lightweight waterdrop cubes allow for speed and scalability without the logistical and environmental burden.

While still in its early stages, waterdrop has soft-launched in the business-to-business (B2B) sector with plans to start selling to consumers in 2017 by offering smaller ‘on-the-go’ cases and customised subscription models. The company is confident that its innovative approach and unique positioning of waterdrop will successfully challenge the status quo and give consumers real choice.

In industries dominated by key players the motto ‘if you can’t beat them, join them’ prevails with many firms choosing to play by the rules for their place in the market. Today, modern entrepreneurs see innovation and new technologies as an opportunity to change the game in existing industries. This example highlights how innovation can suddenly change competitive positions and open opportunities for new enterprises. The multibillion-dollar global beverage industry is a significant target for those who dare to rethink status quo and push the boundaries of the playing field with its significant issues and structural weakness offering opportunities to redefine drinking. Time will show how innovative ideas manage to build brands and connect to users by daring to do things differently.

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