

Britvic buys a rising star

Ian Marcousé examines Britvic's acquisition of Jimmy's Iced Coffee



Soft-drinks manufacturer Britvic has acquired Jimmy's Iced Coffee. The Dorset-based ready-to-drink iced coffee brand was founded by Jim Cregan and his sister Suzie Owen in 2010. It now has more than 10,000 distribution outlets. Britvic said that the purchase would expand its offering in the iced coffee category, which is 'both large and fast-growing' with a retail sales value of £280 million last year.

In the year to June 2023, Jimmy's Iced Coffee generated a retail sales value of £17 million, representing a 43% growth on the previous year. Britvic said that it intends to further accelerate the growth of the brand through its customer relationships to drive new listing and increase distribution, while increasing cost efficiency through its supply chain. In a statement the drinks distributor, which has Fruit Shoot, Robinsons, Tango and Pepsi in its product portfolio, said that Jimmy's is 'well aligned' to its 'healthier people, healthier planet' pillar, with lower calories per serving than the category average and fully recyclable packaging.

In July 2023, Simon Litherland, Britvic's chief executive officer, said, 'Trading in the quarter has been strong, with revenue increasing 9.9%, driven by positive price/mix and volume growth. [...] In Great Britain, we will expand our portfolio through the addition of Jimmy's Iced Coffee, another highly appealing consumer brand in a strongly growing market segment.'

Jim Cregan said, 'We are so delighted with this deal which is the culmination of twelve years of monumental hard work by my sister and I. We have poured our heart and souls into making this business what it is today. We are excited to watch the next

chapter of the journey unfold and look forward to Jimmy's Iced Coffee becoming even more well known and enjoyed.'

Britvic's purchase of Jimmy's Iced Coffee is unusual for the company, as it usually prioritises its own new product development. It is an acknowledgement of the opportunities involved in the UK's £280 million ready-to-drink coffee market, as well as the challenge posed by the dominance of Starbucks in this market (£122 million a year). Second in the sector is Costa Coffee, with ready-to-drink sales of £20.8 million in 2022. Britvic may think that its distribution muscle should help Jimmy's overtake Costa to become the nearest challenger to Starbucks.

Questions

30 marks, 35 minutes

- 1 Assess two factors that might have made it 'monumental hard work' to take Jimmy's Iced Coffee from birth to sales of £17 million a year. (8 marks)
- 2 Assess why Britvic might think it is better to buy a rising star such as Jimmy's than rely on its own new product development. (12 marks)
- 3 Assess the possible reasons why, even though Costa UK has a bigger share of the coffee shop market than Starbucks, the latter outsells Costa 6:1 in ready-to-drink coffee. (10 marks)

Answers and marking

- 1 One factor would have been achieving high enough distribution levels to succeed. The text mentions 10,000 distribution outlets, most of which will have been fought for. Shops don't simply welcome

unknown brands to take a place on their shelves because it's easier to sell big brands such as Starbucks and Costa. However, negotiation with the head office of a grocery business such as the Co-op could mean getting stocked at 500–1,000 shops, so not all 10,000 outlets need to be visited separately.

A second factor is the direct competition from massive multinational brands, such as Starbucks and Costa (owned by Coca-Cola). All business start-ups find it tough but taking on an established brand (with $\text{£122m} \div \text{£280m} \times 100 = 43.6\%$ market share) is an immense task. If Starbucks chose to use predatory pricing, Jimmy's would never have been able to compete. However, it might be that Jimmy's low profile and small stature made the two multinationals complacent, allowing it to grow and develop in a way that would probably never have happened if a new iced coffee was launched by PepsiCo.

- 2** The text says that Jimmy's has sales of £17 million, up 43% on the previous year. It's only a little behind Costa's iced coffee and Costa is a massive name in the UK coffee market (and backed by Coca-Cola). However impressive Britvic's research and development and market research teams may be, they would struggle to come up with a new product that could achieve Jimmy's level of sales.

It's also important that the founding pair took 12 years to build sales to £17 million. This longevity gives the brand authenticity, which adds value and therefore allows for a higher margin between price and production costs. In other words, centilitre for centilitre Jimmy's is likely to be able to charge a higher price than a new Britvic brand.

It's not only the higher value added. Jimmy's is growing at 43%. This would be impressive at any time in a brand's life cycle, but especially after 12 years. It implies that the brand strikes an important chord with customers. It is a rising star, and no-one should underestimate how hard it is to produce one.

On the other hand, it could be argued that Britvic is focusing too much on short-term gains. If it wants to create a steady flow of great new product ideas, it needs to trust its development staff. It's not only

that they might have been able to come up with a new niche product with sales that exceed Jimmy's, the team involved also needs to know that they are trusted. If the bosses simply buy competitor brands, why stay in the development team? Why not find an employer with a greater commitment to development?

- 3** One possible reason, from the viewpoint of the design mix, is function. Perhaps the Starbucks product fits better with what consumers want from iced coffee, in terms of convenience and easy opening, resealable or easy to carry. Or perhaps the aesthetics are in Starbucks' favour, such as the taste, smell or look of the product. Perhaps it's simply that the Starbucks product is better, making its customer more loyal, and making them keen to tell others of their discovery.

At least as likely, though, is that Starbucks launched first, perhaps with a range of products perfected in the USA over many years — giving them a substantial first-mover advantage. The key to that advantage is that if your product is in first, it can be difficult for rivals to match your distribution levels. If Jimmy's is in 10,000 distribution outlets, how many is Starbucks in? Usually, the market leader has a strong advantage that proves hard to whittle away by those that launch later into the market.

On the other hand, the anomaly may be the other way round — it's unexpected that Costa outsells Starbucks in the standard coffee bar market. This could also be due to distribution deals, such as the apparent agreed monopolies that exist at many motorway service stations, with Costa the only brand on offer as a fresh coffee.

Whatever the reason, the effect is interesting and reminds us that nothing in marketing is predictable. Just because Costa dominates UK coffee bars gives it no right to domination in iced coffee.

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