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Surging sales prove healthy snacking concept

By Dale Buss and Julian Mellentin

If anyone had any doubts about the growth potential for cheese as a healthy wholefood snack, they should be dispelled by the success of Sargento Balanced Breaks, arguably the 8th or 9th most-successful new product launched in the US in 2015.

Balanced Breaks is a simple two-compartment combination, one consisting of cheese cubes, the other a mix of dried fruit pieces and nuts, each serving providing 7g of protein and less than 200 calories. Balanced Breaks come in four varieties of mixtures, in a three-pack of containers, retailing for a suggested \$3.69 (€3.29).

Balanced Breaks skyrocketed to sales of nearly \$67 million (€60 million) for the 52 weeks ended April 17, after only a year or so on the market, according to SymphonyIRI, a market-research firm that measures sales in US supermarkets, drug stores, mass discounters and convenience stores.

That performance was enough to rank Balanced Breaks in a select group of "Rising Stars" among foods and beverages designated by SymphonyIRI in its widely watched Pacesetters Awards for 2016. Impressively, the performance of Balanced Breaks is close behind the \$87 million (€77.6 million) in sales of Fairlife

high-protein, low-lactose milk. Marketed by Coca-Cola and trumpeted by Coke as a major success, Fairlife has had the advantage of marketing spend which dwarfs that of Balanced Breaks.

Balanced Breaks' maker, Sargento, has been one of America's biggest cheese producers and brands for more than a half century, and in that time the Wisconsin-based company has figured out nearly every way to manipulate and process cheese into new and popular products: sliced, diced and shredded, for consumer kitchen applications, snacks, school lunches and lots of foodservice clients. But the company hasn't had

a product take off as fast as Balanced Breaks.

By conjuring a productive way to add value for a company that has been highly dependent on a single and largely undifferentiated and often price-drive commodity, Balanced Breaks helped privately held Sargento to register its strongest growth in four years in 2015, according to Boston Consulting Group.

In fact, Sargento registered as No. 11 among the best-performing mid-size US CPG companies in 2015, found an analysis by Boston Consulting and SymphonyIRI, "driven" by Balanced Breaks, they concluded. Balanced Breaks



BALANCED BREAKS®

WE DIDN'T
INVENT
SNACKING.
BUT WE MAY HAVE JUST
PERFECTED
IT.

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makeover for
ice cream**



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Cut-price coconut targets mass market

It may not seem that the American market has room for yet another coconut-water brand. But when you're Coconut Beach, and you retail for \$0.99, specialise in dollar-store distribution and offer other unique coconut-based products to boot, you can find some space on the shelves. By DALE BUSS.

Introduced just last year by a trio of entrepreneurs who enjoy close ties to Asian production of coconuts and coconut water, the Coconut Beach brand comprises a family of products that retail for as low as \$1.00 (€0.87) at the exploding number of Dollar Tree discount stores and at other low-price outlets – in stark contrast to the pricey coconut-water pioneers that still sell for three times as much at Whole Foods Market and other high-priced supermarkets.

“We’re willing to provide our product at a discount,” co-founder Mike Reidy told *New Nutrition Business* about the California-based startup that already has pierced the \$1-million-revenue mark after being available only since last fall. “We’re not trying to get rich overnight. This is something that’s going to last and set the industry standard for why people shouldn’t have to over-pay for the same stuff.”

The Coconut Beach lineup includes several products that retail for \$1: a 100% coconut water in a 16.5oz (488ml) can; a coconut water with pulp in the same-size can; coconut “chips” in a 1.45oz (41g) bag; similar honey-coconut chips and dark chocolate-covered coconut chips; banana chips; chocolate-covered banana chips; coconut milk; and a beverage blending aloe vera water with coconut water. Coconut Beach also sells extra virgin coconut oil and organic coconut flour.

The three friends were variously pursuing business ventures in California – including operating a night club and a post-Great Recession business in

distressed real estate – when they took a four-day vacation road trip to Cabo San Lucas, Mexico. On the way, Coconut Beach was hatched.

Reidy was born in Singapore and grew up on coconut water straight out of the fruit. Co-founder Kent Harrington’s family had close ties to Asian coconut growers. The three men – also including Mitch Compton – mused that they could establish a thriving business selling coconut water at reasonable prices, and maybe other coconut-based products, at US discount stores.

“I was drinking the first coconut-water products in the US, Zico and Vita Coco, and saw their ridiculous growth, but the price point caught me off guard,” Reidy said. “People were paying close to \$3 for a beverage, but I knew from my background in Asia how cheap you could get the stuff; you could get a whole coconut chopped open for you for less than \$1. So it was pretty eye-opening.

“We saw an opportunity there. We can’t be on the same shelf space with the big guys, who now have big backing because they’ve sold out to large corporations. With the money they’re spending [in slotting allowances and marketing], there’s no way a smaller brand like us could bootstrap our way in there. Our key was thinking of high volumes and low margins.

“We can bring a quality product, something we’re

proud of, in both foods and beverages at a low price point to discount chains where there’s little to no competition in shelf space. As long as we can keep our price point, it’s there for the taking.”

“SWEET SPOT”

The big break came for the budding coconut-water entrepreneurs in the spring of 2015 when they met with buyers at Dollar Tree. At the time, Dollar Tree was a fast-growing chain of about 5,000 stores around the US and one of the biggest players in the exploding dollar-store format which, with its easy-to-understand pricing scheme and smaller retail footprints, was taking huge chunks of business away from traditional discounters such as Walmart and Target.

Within a few months, Dollar Tree had wrapped up a merger with Family Dollar stores to create a 13,000-store empire with \$19



billion (€16.6 billion) in annual sales – and Coconut Beach products potentially landing on the shelves of every one of them.

Coconut Beach is in some discount-priced supermarkets as well and online via Amazon. “Right now we’re doing very well in discount chains,” Reidy said. “We’ve found our sweet spot.”

NOT JUST WATER

Offering coconut-based products other than coconut water per se is another important aspect of the company’s business model, Reidy insisted. He believes it was important to be first to market with coconut chips, for example, based on the advantage that the first US marketers of coconut water gained – simply by doing it first.

Coconuts “are amazing nuts that are used for things in Asia but not so much in the US,” he said. The chips are pieces of the actual meat of the coconut, for instance, roasted and flavoured with a bit of salt and sugar. “It comes out as a small, sweet and salty snack with some health benefits,” he said. “You see a lot of junk in the snack market that doesn’t have any nutritional value. And everyone likes the sweet-and-salty combination. We see this as something that a lot of people would end up preferring over a pretzel. And it’s something that could be handed out on airline flights.”

COCONUT COMMODITIES

As is the case with anything involving coconuts, the most touted nutritional benefit of Coconut Beach Coconut Chips is ample potassium, a heart-healthy element. The chips also contain fibre and “some good fats,” Reidy noted, and they check “a lot of key boxes” including “no preservatives,” “no cholesterol,” “vegan” and “never fried” as well as being gluten-free and non-GMO.

But while coconut chips and the brand’s banana chips are making their way onto discount-store shelves along with Coconut Beach coconut waters,

the company also has begun distributing other coconut-based commodities including oil, flour and “milk”.

“Coconut oil is one product that seems to do everything,” Reidy said; and, indeed, more American consumers are valuing this substance for applications ranging from cooking to skin hydration. Coconut Beach’s suggested retail price for its coconut oil is about \$4.50 (€3.91) for a 32oz (907g) container “versus about \$8 at Trader Joe’s,” he said.

But the company isn’t ready to roll these other products out to bricks-and-mortar retailers, Reidy said, for two reasons. First, at higher prices, they sit outside the business model that Coconut Beach has worked so effectively with discount prices for its coconut water. And second, the company is still just building trust and relationships with retailers whom they believe will begin ordering coconut oil and the other related products later.

Crucial to the development of this comprehensive product line is that Coconut Beach’s supply chain begins in Thailand with the coconut trade that they know well. Harrington’s family has worked with some farms for generations.

“Doing business in Asia and getting access to these farms and these items isn’t easy,” Reidy said. “It’s based on personal relationships that we’ve established over there. You can’t just show up with a bunch of money.”

And because of these relationships, Coconut Beach’s founders contend that they enjoy full transparency about the sources of their products and quality levels even without a Fair Trade certification or something similar.

In any event, the company buys coconuts, processes them and packages its products in Thailand. If Coconut Beach exported its raw materials to the United States as concentrate, the owners believe, they wouldn’t end up with high-quality products.

Similarly important to its

success, Reidy said, is not being tempted to pursue coconut-water margins that larger brands have become accustomed to. Even beyond the price points for Zico and similar brands, he said, there are possibilities for super-premium coconut water using high-pressure pasteurization (HPP), similar to how brands of super-premium juices such as Suja have created a stratospheric layer of the juice segment above merely premium-priced juices such as Naked.

But one coconut-water brand which harnessed HPP, Harmless Harvest, ran afoul of the US Food & Drug Administration last fall after its first-in-the-market process was found to be suspect in keeping botulism toxins at bay in such a low-acid beverage. “Some day in the future, we might want to do an all-organic HPP water that would push our price point up,” Reidy said. “But right now it’s all about helping consumers get value for their dollars.”

Beyond gaining retail traction for the auxiliary products, and spreading the discount footprint of its coconut waters, Coconut Beach’s plans include “other items we’re looking into that are very new,” Reidy said without adding specifics. “We’ve got plenty to do with what we’re doing at the moment. We don’t want to push too fast.”

