

# Innocent smoothie 12c framework analysis



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## **Introduction**

This assignment is about the Innocent company, its brand portfolio and the potential entry into the Spanish market. In the first part I give information about the company itself including its history, its current operations, markets and distribution channels. In the third section I conduct a macro environmental analysis and a more market-specific analysis by the 12C – framework as well as the Porters Five Forces – model. The fourth section comprises an assessment of the principal challenges that the Spanish market represents to the company in selling its products. The last part involves a personal evaluation of relevant entry modes for the company into the Spanish market.

## **The Innocent company**

### **History and Facts**

The ‘Innocent’ company is originally a manufacturer and distributor of smoothies. It was founded in 1999 by Richard Reed, Adam Balon and Jon Wright (Datamonitor, 2009).

Their business of selling fruit drinks without adding sugar or concentrates growth rapidly. Starting with a turnover of £0.2 millions in 1999 they could record revenue of £114 millions in 2007 with a 71 % value share of the UK smoothie market. This success is lead back to the constant expansion of new product lines and markets. Innocent developed the new brand ‘This water’ and launched it in 2007. To extend its product range the company initiate ‘Orange juice’ and ‘Vegetable pots’ in 2008. Starting from offering their products within the UK, the company expend its markets inside Europe and operates now in Ireland, Norway, Sweden, Finland, Denmark, the

Netherlands, Belgium, France, Germany, Switzerland and Austria (Innocent, 2008).

The company is headquartered in London and according to Hollensen classes among the LSEs with its 275 employees (Datamonitor, 2009).

The main competitors of Innocent within the UK are Merrydown Plc, Princes Limited, Britvic Plc, SHS Group Ltd., Kallo Foods Ltd that all operate in the beverage or beverage and food industry. (Datamonitor, 2009)

### **The Marketing Mix**

The product portfolio of Innocent comprises smoothies, veg pots, kids smoothies, super fruit smoothies, thickies – a yoghurt drink, orange juice and pure fruit squeezies – designed as a snack for kids. (Datamonitor, 2009).

Most of the offered products are available in different flavours and package sizes including multipacks, 1 litre cartons, 750 ml and 250 ml PET bottles.

Innocent applies a premium price strategy by demanding relatively high prices for its brand products in comparison to its competitors. To promote its products the company uses different forms of publicity including television, print, press and outdoor advertising. It also communicates to its customers via the company's website consisting of a blog, a press section and a part for children. Moreover a monthly online-newsletter informs interested people about the current companies' operations. To raise the brand awareness and loyalty, Innocent has published recipe books and also organise each year a free musical festival called ' Fruitstock'. (wwwInnocent, 2009) Every summer they run a sampling-campaign on their own road show by distributing drinks at events and innocent stockists. To place its ads the company works

together with a media agency. The total marketing spend has increased each year and amounted to £8 Million in 2008. (www. pdf).

With its intensive distribution strategy, ‘ Innocent’ provides over 10, 000 retailers to achieve a wide spread market coverage. (Datamonitor, 2009) Within the UK the company’s products are available in supermarkets such as Sainsbury’s, Waitrose and Somerfield, in selected branches of Budgens, Tesco, Asda, Morrisons and Safeway as well as in some chains like Booths or Starbucks. The beverages can also be obtained in several sandwich shops, delis, health food places and meditation centres. In the foreign markets the products are also distributed in supermarkets, cafes etc. (wwwInnocent, 2009) Depending on the market size of the foreign country, Innocent apply export or hierarchical entry modes. For launching their products in Finland and Belgium, Innocent works with a distributor. In France and Germany, the company build up an own team consisting of people both from the head office and the foreign country to combine the experiences in marketing, sales and services. (Innocentbook, 2008)

I assume that with its integrated marketing-mix, the company primarily target the children-, family- and the health-conscious, busy adult-segment. There is no age-limit within the target group but at least a medially income is necessary to afford the premium products.

### **The strategy**

The strategy of Innocent is to build up a high-quality, tasteful, healthy, social and environmentally friendly image for its company and products. The ‘ fun-and-casual’ characteristic of the brand is emphasized through the halo-logo,

visible on each product. On its website Innocent states some ethics to “become a truly sustainable business” (www. Innocent, 2009) These values include the usage of 100% natural ingredients and recycled or renewable packaging material, well selected or certified farms that care about their employees and environment, plans to reduce carbon and water footprint and an annual donation of 10 % of the company’s profit to charity (www. Innocent, 2009).

In the last years the company was criticised for some of its decisions particularly concerning their image. In 2007 Innocent offered its smoothies as part of the ‘ Happy Meal’ of Mc Donald’s for a 6 month-trial period in a few restaurants in England (marketline. newsandinfo, 2007). The sale of a minority stake to Coca Cola in April 2009 was also followed by a controversial discussion about the cooperation with a seller of unhealthy drinks.

(dailytelegraph, 2009)

### **The Spanish market**

#### **The 12C framework**

The 12C framework is a tool for analysing international markets in examining twelve facts including the country, concentration, culture/consumer behaviour, choices, consumption, contractual obligations, commitment, channels, communication, capacity to pay, currency and caveats. The ‘ Porter’s Five Forces’ model is implemented in this framework referring to new entrants, suppliers, buyers, substitutes and market competitors (Hollensen, 2008).

**Country**

Spain is located in the southeast of Europe, bordering Portugal, France, Andorra, Gibraltar, Mediterranean Sea and the North Atlantic Ocean and measures about 500, 000 km<sup>2</sup>. The capital is Madrid and the population averages 40 Million people with a GDP per Capita of \$34, 600.

(Datamonitor10, 2009)

The political field is characterized by the centre left PSOE, the incumbent party in Spain that could not get the absolute majority in the 2008 election. Being a membership of the EU, Spain profits of the provided subsidies. The public administration system is improved caused by the national reform plan. A potent threat is the presence of terrorist groups including Islamic extremists and the ETA that fighting for the independent of the Basque region one of Spain's autonomous regional units. Through the fiscal crisis, the government faces economic slowdown, declining inflation and high unemployment rates. Spain's economic growth decreased to 2. 1% in 2008. The social background is indicated by an aging population as well as a growing income inequality. The northern and eastern part of Spain is modern, more urbanized and industrialized as the rest of Spain. However the nation income increased in general. Spain lags behind other EU countries regarding the adaptation of technological advancement as well as concerning the internet penetration rate. (Datamonitor13ff, 2009)

**Concentration**

Spain is separated into cities, provinces and 17 Autonomous Regions. Moreover it has a population density of 89. 3 per km<sup>2</sup>. About 3 Million people live in the capital Madrid. Other big towns which are mainly situated along

the east and south coast are Barcelona, Valencia, Sevilla, Zaragoza and Málaga. (Effective 01. 01. 2007) (ICEX, 2008)

In 2008 the general urbanization rate amounts to 77 % of the total population with a majority located around Madrid. 67. 4 % of the Spanish population aged between 15 and 64, 14. 5 % are under 18. 1 years and 16. 7 % are 65 years old and above. (CIAFactbook, 2009)

### **Culture/consumer behaviour**

The country's ethnic composition contains Mediterranean and Nordics. The major religion is Roman Catholic with 94 % and the official language is Castilian Spanish. The literacy rate amounts to 97. 7 % of the total population aged above 14 (CIAFactbook, 2009)

### **Choices**

The competition in the Spanish juice market is relatively strong because the market growth in the last years has not been very strong. The direct competitors of Innocent in the juice market are Juver Alimentacion, Pepsi Co and J. Garcia Carrion, whereby Juver Alimentacion is the company with the highest market share by volume with 13. 3% (Datamonitor, 2009).

This enterprise has a versatile product portfolio including juices, nectars, milk- and cereal-drinks, energy-drinks, conserves and jam (Datamonitor, 2009) Juver Alimentacion respond to different segments including children, health-conscious consumers and relatively affluent customers with its brand Juver Seleccion (Juver, 2009).

Pepsi Co, the global beverage and snack enterprise, supplies the Spanish market since 2005. It offers various products among others a premium fruit  
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juice by its brand 'Tropicana'. (Datamonitor, 2009). J. Garcia Carrion penetrates the Spanish market with wine just as fruit, milk and vegetable juices and vegetable soups. Its offers include products with different flavours as well as soft-drinks which support the health image of the company (<http://www.packaging-gateway.com/contractors/closures/bericap/press12.html>, 2007).

## **Dan International?**

### **Consumption**

The Spanish juices market is comprised of fruit drinks (0-29% juice), vegetable juice, nectar (30-99% juice), 100% fruit juice (not from concentrate) and 100 % fruit juice (from concentrate). The compound annual growth rate amounted to 2. 2% in the 2004-2008 periods representing a €1, 606. 2 million market value and is forecast to increase to 2. 5% from 2008 to 2013. Whereas fruit drinks (0-29% juice) were the most demanded juices in the market realising 36. 3% of the total revenues in 2008, followed by vegetable juice with 21%, Nectar with 19. 1%, 100 % fruit juice (not from concentrate) with 16. 6 % and 100% fruit juice (from concentrate) with 7. 1% market share by value. (Datamonitorspanishjuice, 2009)

The juice market is threatened by substitutes from the soft-drink market such as water and carbonated drinks. This threat is generated by nominal switching costs for end-users and retailers. The Mediterranean climate of Spain supports a high consumption of non-fruit drinks. Furthermore some substitutes need not to be stocked in refrigerated shelves and thus the retailers could save money. Homemade-juices would lower the demand of



commercial juices. Generally the threat from substitutes is negligible (Datamonitorspanishjuice, 2009).

### **Contractual obligations**

The legal and regulatory framework in Spain is transparent and comparable with those of other EU nations and is open to foreign investments.

Nevertheless there are still some segments which are regulated by the government with limited competition e. g. the retail sector. (Datamonitor, 2009)

### **Commitment**

The Spanish Trade System does not include any quantitative restrictions or necessary licences for trading with EU member states except for a few special products which are not relevant for this investigation. Free trade conditions will be used for the import of agricultural goods from non-EU members. Even so the AGRIM import certificate has to be presented. Customs duties are excluded for import goods from EU member countries. Imports from non-EU states are dependent on the Common Customs Tariff duties of the EU. Furthermore the Spanish Tax System consists of three forms of Value Added Tax including the general rate of 16 %, the 7 % reduced rate and the super-reduced one of 4 %. (ICEX, 2008)

### **Channels**

Spain offers an easy access to the European and Latin American markets through its geographic location. It has a well developed infrastructure including rail-, air- and water transportation. The beverage retail sector in Spain is not as concentrated as in other European countries. One of the most important distribution channel is the on-trade retail, representing 27. 9% of

the total volume in 2008, followed by independent retailers with 25.2% and supermarkets and hypermarkets with 24.9%. The strong buyer power is represented by larger supermarkets and chains. (Datamonitor, 2009).

### **Communication**

The Spanish media landscape has not any specific regulations that one has to consider when operating in the countries juice market. In comparison to other EU countries, the newspapers in Spain have

### **Capacity to pay**

#### **Currency**

The currency is Euro and the exchange rate amounts to 0.86p = 1 Euro in July 2009. (Eurostat, 2009)

The Spain inflation rate amounted to 4.4% in 2008. (Datamonitor, 2009)

### **Caveats**

4 The challenges of the Spanish market

- low growth of Spanish market à strong competition

### **Relevant entry modes**

- Datamonitor: Juice market (S. 17)

### **Summary**

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