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重新審視企業多元化市場進入模式

雀巢收購案及內部產品開發策略案例分析

Revisiting Corporate Diversification and Entry Modes
A Case Study of Nestlé's Acquisition and Internal
Product Development

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Abstract



Functional food, which refers to products that offer additional health benefits beyond basic nutrition, has experienced significant growth over the past decade. By 2030, the functional food market is projected to generate global revenues exceeding \$500 billion (USD). This has prompted Consumer Packaged Goods (CPG) companies to expand their product ranges, focusing on both internal developments and acquisitions within the functional product category. Despite this rapid expansion, the market remains ambiguous, with unclear regulatory guidelines and boundaries. Drawing from the Resource Based-View (RBV) literature, specifically Lee and Lieberman's (2010) study on corporate entry mode strategies, I raise the question of whether the existing theories can be applied similarly in this emergent and ambiguous functional food market.

This study examines the success and failures of Nestlé's market entry strategies, both through acquisitions and internal development, complemented by consumer surveys and expert interviews. My findings suggest that as opposed to producers' view of the functional food market as an extension of the traditional food market (i.e., both functional and traditional foods are in the same domain), consumers perceive the functional food market as distinctive.

Also, while Lee and Lieberman (2010) argue that acquisition is a preferred entry mode within the same business domain, I find that in the functional food market, which lacks consensus on its boundary between producers and customers, acquisitions are still the preferred entry mode but with a different rationale. This conclusion offers novel insight into RBV's entry modes, which should be tailored to the specific market context.

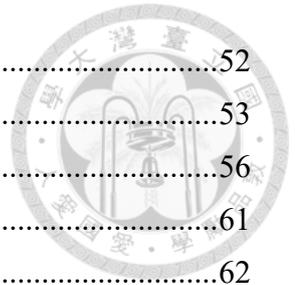
Keywords: Acquisitions, Internal Development, Product Diversification, Entry Modes, Functional Foods



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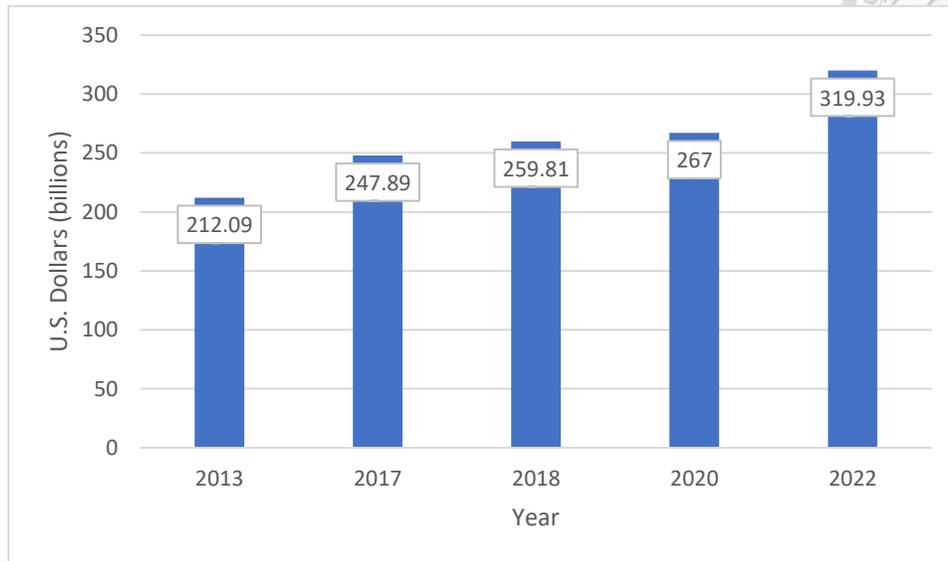


1. Introduction

In recent years, the functional food industry, which refers to products that provide enhanced benefits beyond basic nutrition, has experienced significant growth and transformation due to changing consumer preferences and demand for healthier food options. According to Agriculture and Agri-Food Canada (2019), the worldwide revenue for the functional food market in 2022 was estimated to be 319.93 billion dollars (USD). Consumers in the United States are showing a growing interest in the functional food market, driven by both rising healthcare expenses and an understanding of how the foods you eat can impact your overall well-being. Functional foods, which were first coined in Japan, provide additional health benefits beyond basic nutrition, often by including bioactive ingredients or fortified nutrients. These products appeal to consumers seeking to improve their overall well-being, manage specific health conditions, or enhance their performance (Kraus, 2015).

Consumer packaged goods (CPG) companies operating in the functional food sector face numerous challenges and opportunities in this dynamic and competitive market. Hereafter, I will refer to consumer packaged goods as CPG. To maintain a competitive edge and meet evolving consumer demands, many CPG companies have turned to strategic acquisitions and investments in startups, research firms, and technology companies specializing in functional food innovation. The growing accessibility of technology and resources has heightened consumer awareness and concern about food processing and origin, leading to a rising demand for healthier food options (Rabadán et al., 2021).

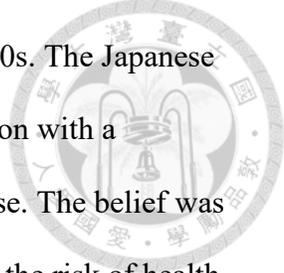
Figure 1: Market Size in the fortified/functional food market worldwide between 2013-2022



Source: Adapted from Wunsch, N.-G. (2020, November 26). *Global revenue of the fortified/functional food market 2013-2022*. Statista.

One important consideration in this research stems from the ever-evolving nature of functional food markets, marked by ongoing innovation and evolving consumer preferences. Furthermore, the absence of consistent regulatory definitions and standards for functional foods implies a degree of subjectivity in the categorization of products, with various health claims from companies, organizations, and even governments (Vasiliki, 2018). Various stakeholders may hold different interpretations of what constitutes a functional food, which adds nuance to the analysis. The complexity of the functional food category can lead to misjudgments of market conditions and evaluation potential for product acquisition or internal development. These considerations highlight the need for a mindful and comprehensive approach to navigating the ambiguity within the functional food sector.

1.1 Background



The origin of functional foods can be traced to Japan in the early 1980s. The Japanese government had become increasingly aware that it had an aging population with a multitude of chronic diseases, cancers, and cardiovascular risks on the rise. The belief was that with an active lifestyle and proper diet, an individual could decrease the risk of health issues while simultaneously saving the government on expensive health care costs. This prompted a large-scale research project on foods and various health claims that went along with them. In turn, a system was created in which various foods and products could be submitted for review and it could be approved as FOSHU, meaning “foods for specified health use” (Yamada et al., 2008). This label can then be printed on various FOSHU products, as seen below in Figure 2. Japan’s Ministry of Health, Labour, and Welfare still actively maintains this system and defines FOSHU as:

foods containing ingredient with functions for health and officially approved to claim its physiological effects on the human body. FOSHU is intended to be consumed for the maintenance / promotion of health or special health uses by people who wish to control health conditions, including blood pressure or blood cholesterol. In order to sell a food as FOSHU, the assessment for the safety of the food and effectiveness of the functions for

health is required, and the claim must be approved by the MHLW. (Japan's Ministry of Health)

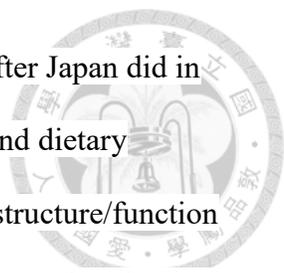


Figure 2: Seal for FOSHU Approval



Source: Japan Ministry of Health

According to Shimizu, “about 10 categories of health claim are currently permitted, which include promotion of gut and bone health, hypotension, and reduction of blood glucose and lipid levels”, with products ranging from probiotic drinks to fiber-enriched products. (Shimizu, 2019). There are still products being produced with Japan’s FOSHU labeling today, one major development has been the shift of international CPG companies’ involvement in this market. Coke-Cola’s first FOSHU-approved product, Coca-Cola +, also known as Coke Fiber +, markets a significant change in perceived health-oriented foods and how CPG companies are leveraging this opportunity. This product entered the marketplace in 2017, an effort to grow sales in the growing functional food beverage sector. Coke-Cola states, “drinking one Coca-Cola Plus per day with food will help suppress fat absorption and help moderate the levels of triglycerides in the blood after eating” (Coca-Cola).



The United States began implementing new regulations shortly after Japan did in the 1990s, including specific categories of claims that are used on food and dietary supplement labels, including health claims, nutrient content claims, and structure/function claims. Health claims describe a link between a food substance and disease risk reduction. The 1990 Nutrition Labeling and Education Act (NLEA) grants FDA authority to regulate health claims for foods and dietary supplements based on scientific evidence, with authorized claims subject to premarket review. In contrast, dietary guidance statements and structure/function claims do not undergo the same level of FDA oversight before being used on food and dietary supplement labels. The primary distinction lies in the premarket review process, with NLEA-authorized health claims requiring FDA scrutiny of scientific evidence for authorization, whereas dietary guidance statements and structure/function claims do not (Cordailat-Simmons et al., 2022). According to the FDA regarding functional foods in the United States:

terms such as "functional foods" or "nutraceuticals" are widely used in the marketplace. Such foods are regulated by the FDA under the authority of the Federal Food, Drug, and Cosmetic Act, even though they are not specifically defined by law. (FDA)

While U.S. functional food products lack a dedicated regulation agency like Japan, manufacturers and producers of these products are still obligated to comply with the established guidelines set by the FDA. This includes adhering to the NLEA policy outlined by the FDA, which applies to both functional and conventional food products. Meaning, that any food product making health claims, nutrient content claims, and structure/function claims are bound by these regulatory guidelines (FDA).



1.2 Statement of Purpose

This research aims to understand the strategies of CPG companies in entering the ambiguous and rapidly changing functional food market, which has unclear regulatory supervision and indistinct product categories. The focus is on two primary entry methods: acquisitions and internal product development, which are key to succeeding in this evolving market. There has been an increase in traditionally non-health food-related companies getting involved in the functional food industry. CPG companies are evaluating their portfolios to find ways to create healthier products and appeal to consumer trends. The research will specifically focus on the Swiss multinational corporation, Nestlé. Nestlé is the largest food and beverage company in the world with a broad range of product offerings.

In response to the growing demand for functional food products, this study examines the strategic choices made by CPG companies, particularly Nestlé, in diversifying their product portfolios through acquisitions and internal development. Nestlé has made significant strides into the functional food category to diversify their product portfolios over the last few years as one of the globe's largest CPG corporations. They have significantly shaped the industry's dynamics, with an increasing presence in health, nutrition, and wellness. This research delves into Nestlé's strategic choices, critically analyzing both their acquisitions and internal product development initiatives. This comprehensive analysis not only offers insights into Nestlé's strategic efforts but also contributes to the broader consumer-packaged goods industry. Consequently, a core research question is to be assessed in this research:

1. What entry mode is preferred to enter an emergent market that lacks clear regulatory guidelines and consensus about the boundaries?



1.3 Limitations

This study delves into Nestlé's strategic endeavors within the functional food market, with a primary emphasis on its acquisitions and internal development initiatives. However, it's essential to acknowledge that beyond these approaches, there exist other methods for entering markets. Capron & Mitchell (2012) highlight strategic partnerships, contractual relationships, and licensing as viable modes for a firm to grow and expand. While these alternative strategies offer potential paths for expansion and diversification, they haven't been explored in this research. This omission is due to the specific focus on Nestlé's predominant approach of entering new markets through acquisitions and internal development. As a result, this study is limited in its scope, and any conclusions drawn should be considered within this constraint.

1.4 Significance of Study

While there has been substantial research on various firms through the perspective of the Resource-Based View, product diversification, and relatedness—there is a research gap in determining if these frameworks apply to emerging markets that are unclearly defined or lack market boundaries. Furthermore, an important aspect to consider is whether consumer perception of functional food products impacts these traditional theories of product diversification and relatedness, which is often overlooked in strategic frameworks. Nestlé can serve as a prime example when applying the framework proposed by Lee and Lieberman (2010) in the context of the food industry. This comprehensive research from a modern perspective is necessary to fully understand the scope of the CPG industry relating

to the functional food category. Thus, the significance of this study lies in its potential to provide valuable insights into the entry mode of CPG companies in the functional food industry.



2. Literature Review

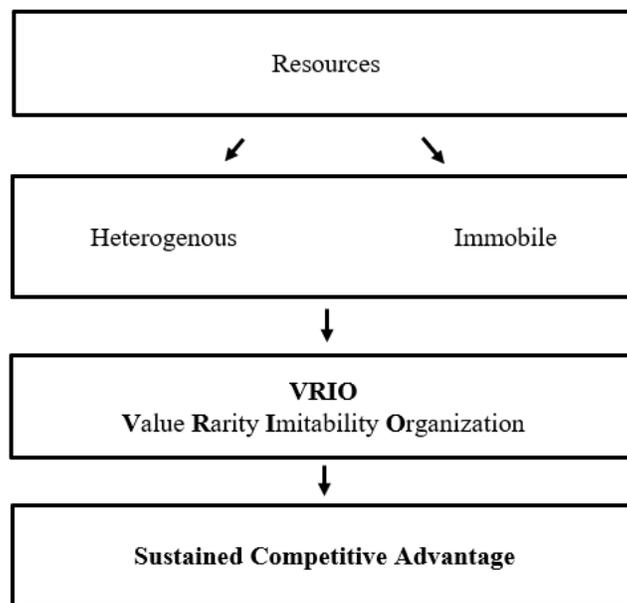
2.1 Resource-Based View Framework

The Resource-Based View (RBV) is a useful framework for analyzing both internal and external development and can guide firms in their strategic decision-making processes. Companies can identify their strengths and weaknesses, develop strategies to leverage their capabilities and gain a sustained competitive advantage over their rivals. The RBV framework also suggests that a company's sustained competitive advantage comes from its ability to identify and utilize its internal resources without looking at external factors. These resources can be classified into two categories: tangible and intangible (Barney, 1991).

According to the framework, firms must possess both heterogeneous and immobile resources to achieve competitive advantage. Heterogeneous means that skillsets, capabilities, and processes are different from other organizations. If an organization is homogenous or has the same resources, it will not be able to differentiate and will not create a competitive advantage. The second factor is that resources must have immobile resources. Immobile resources are items specific to an organization that cannot be easily transferred from one company to another. If one's resources were completely mobile then a competitor would take the same strategy and replicate it to also enter the market, therefore a need of both heterogenous and immobile resources are required for the framework.

As shown in Figure 3, once a firm has identified that its resources are both heterogeneous and immobile, Barney (1991) addressed whether resources are valuable, rare, costly to imitate, or non-substitutable. Barney later updated his framework to VRIO, considering “The Question of Organization”, addressing the organizational structure, decision-making processes within management, and various controls within an organization (Barney, 1995). He argued that analyzing the organizational component alone will not generate a competitive advantage, but can be complementary when integrated with the other high-functioning capabilities within a firm.

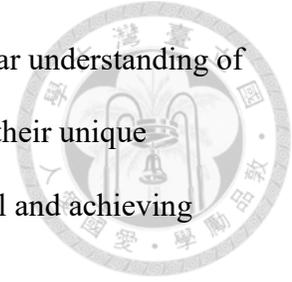
Figure 3: The Resource-Based View Framework



Source: Adapted from *Firm Resources and Sustained Competitive Advantage* by Barney, J. (1991). *Journal of Management*, 17(1), 99-120

Without the Resource-Based View, firms may overlook their unique resources and capabilities, leading to missed opportunities for differentiation and competitive advantage. This lack of understanding could result in unsuccessful strategic decisions, wasted resources, and failure to achieve sustained competitive advantage. However, by

incorporating the RBV into their strategic planning, firms can gain a clear understanding of their strengths and weaknesses, make informed decisions, and leverage their unique resources for competitive advantage, thereby reaching their full potential and achieving sustained competitive advantage in their markets.



2.1.1 Corporate Diversification

When it comes to corporate diversification, the RBV framework plays a crucial role in guiding the strategic decision-making process. Diversification involves a firm expanding its operations into different business areas. According to the RBV, firms diversify to leverage their unique knowledge, resources, and capabilities. For instance, a firm with a strong technological tool (an intangible resource) may diversify into related markets where the tool can be easily utilized and provide value.

Related diversification is a strategic pathway that a corporation takes to develop its existing business activities into related areas. Simply, a firm is using its competencies and leveraging its existing resources, such as technology, production methodologies, or distribution channels to tap into different yet related markets. This strategy can lead to synergies, cost reductions, and competitive advantages—which is one of the reasons it is suggested that this path leads to higher firm performance than unrelated diversification according to RBV (Wan et al., 2011).

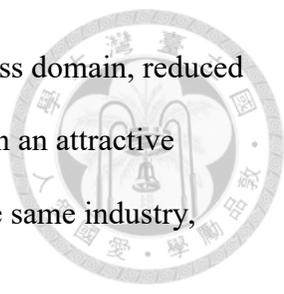
2.2 Entry Mode Strategies

Utilizing concepts from the RBV framework, firms with closely aligned resources should internally develop and when there are resource gaps or low relatedness in resources, the acquisition should be the entry mode. Building on the foundation of this framework and

the strategic implications of corporate diversification, Lee and Lieberman (2010), have conducted extensive research in furthering this model. They provide insight into the decision-making process of firms when choosing between acquisition or internal development, with a specific focus on entry strategies inside and outside of a firm's business domain. Their findings also highlight how firms leverage their resources and capabilities in different contexts, allowing for a more detailed perspective on how this impacts the decision-making process regarding market entry.

The research suggests a link between a firm's existing product portfolio and the relatedness of a potential new product. They hypothesize that “In a firm's primary business domain, the more related a new product market is to the firm's existing products, the more likely the use of acquisition as entry mode” (Lee & Lieberman, 2010). There are five main benefits identified with conducting an acquisition when there is high resource relatedness according to their findings:

1. **Cost Reduction:** Relatedness may reduce the cost of searching, evaluating, and monitoring of potential firms
2. **Time Reduction:** Relatedness may decrease the time required to integrate the acquired business entity. When relatedness improves an acquiring firm's capacity to absorb, the integration time will likely decrease.
3. **Risk Reduction:** Relatedness may reduce the risk of acquisition failure. When relatedness enables an acquiring firm to assess acquisition potentials better, the likelihood of selecting an appropriate candidate rises, reducing the probability that an acquisition will fail.

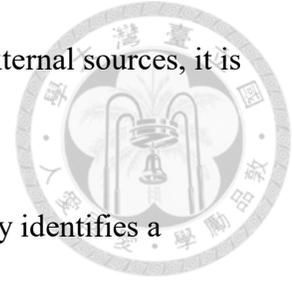
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4. **Reduced Competition:** For entries inside the primary business domain, reduced competition is an additional benefit that may make acquisition an attractive entry mode. When a firm acquires a rival that competes in the same industry, there is one less competitor in the market.
 5. **Increased Market Power:** Relatedness may increase the firm's market power completing the acquisition. Once acquired, the firm will now have a larger share in markets assuming the product being sold is within the same category, increasing market power.

Additionally, the duration of a firm's proximity to another firm with high relatedness may also influence the decision to acquire. The study suggests that if a firm has been adjacent to a new market for an extended period without making an entry, it is more likely to choose for acquisition. This is because the longer duration provides the firm with more information about potential acquisition candidates, enhancing the benefits of relatedness. It also suggests that the firm may face persistent resource gaps that impede market entry through internal development. In such cases, acquisition becomes a desirable entry mode as it offers cost, risk, time, and competition reductions (Lee & Lieberman, 2010).

Additionally, two factors may influence the decision of a company's entry mode into a new product market:

Utilizing Excess Resources: This motivation comes into play when a firm has more resources than it needs for its current operations. The firm might decide to use these surplus resources to enter a new product market. If the firm can easily assemble the necessary

resources for this new venture either from its internal sources or from external sources, it is likely to choose internal development as its entry mode.



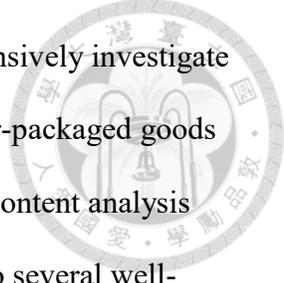
Filling Resource Gaps: This motivation is relevant when a company identifies a significant deficiency or gap in its current resource base that is required to compete effectively in a new product market. In this scenario, a company is more likely to opt for acquisition as its entry mode.

These two motivations are not mutually exclusive. A company might start with internal development when it has excess resources, and later switch to acquisition when it identifies resource gaps. A company may also choose acquisition to eliminate a competitor, enter a new market, and then with the newly acquired resources and knowledge base—shift to creating products via internal development. This flexible approach allows the company to adapt its strategy over time based on its changing needs and circumstances.

According to the research, the first step in determining an entry mode strategy is to identify the firm's primary business domain. Then, the relatedness of potential new products to the existing product portfolio should be analyzed. The study suggests that the more related a new product market is to the firm's existing products, the more likely the use of acquisition as an entry mode. However, there is a gap in the research when the primary business domain is not clear. This presents an opportunity for further analysis to understand how firms can make strategic decisions in such scenarios.

3. Research Methodology

3.1 Research Approach



This research will utilize a single case study, Nestlé, to comprehensively investigate the acquisition and internal product development strategies for consumer-packaged goods in the functional food sector. Qualitative research will involve in-depth content analysis of industry reports, consumer surveys, and expert interviews. There are also several well-known food and beverage websites and journals discussing functional food trends and product failures for analysis. Firm performance data will be drawn from primary and secondary sources, including Nestlé's Creating Shared Value and Sustainability, Financial, and Annual reports. This research analysis aims to provide a holistic understanding of acquisition strategies and internal development regarding their implications within the functional food industry, offering a well-rounded and evidence-based analysis.

Nestlé's selection as the focus for this case study is due to the fact they are the largest CPG company on a global scale. The company's diverse portfolio encompasses both conventional foods and health science nutrition, positioning itself as a high-profile player at the intersection of these two domains. Over the past few years, Nestlé has made significant changes to their portfolio in the functional food category, highlighting its commitment to adapt and evolve in response to the increased consumer demand for health and doctor-recommended foods.

These strategic decisions underscore Nestlé's competitiveness in venturing into emerging markets and product segments. Additionally, Nestlé's move into the functional food category has not been without considerable challenges as they have experienced both successes and failures in this category, providing clear examples needed for in-depth analysis. By examining Nestlé's strategic moves with product development in the functional food category, this case study provides a valuable opportunity to analyze the complexities

and intricacies that major CPG companies encounter when attempting to launch new products or acquire new brands in the functional food market.



3.2 Data Collection Method

The data for this research were collected using a multi-modal approach, focusing on surveys and interviews. The online survey garnered responses from 149 participants, with 35% of respondents from the United States and 55% from Taiwan. To provide additional analysis on the survey, four interviews were conducted with respondents selected at random. These interviews were completed via Zoom, with respondents looking over the survey as a visual aid during the interview. An expert interview was also conducted with a Sales Manager at The Wonderful Company, who has over 10 years of experience in the CPG industry.

4. Case Analysis

4.1 Brief History of Nestlé

Nestlé began creating products in 1866 with the foundation of the Anglo-Swiss Condensed Milk Company by US brothers Charles and George Page. Using the large quantities of fresh milk available in Switzerland, they started Europe's first production facility for condensed milk and sold it under the Milkmaid brand. One year later, German-born pharmacist Henri Nestlé developed a breakthrough baby food called 'farine lactée' (flour with milk) in Vevey, Switzerland. The product, which combined cow's milk, wheat flour, and sugar, was designed for infants who couldn't be breastfed, a solution to the increasing infant mortality rate in Switzerland. While these two companies initially began

as rivals, selling similar products in their initial years of business, they eventually merged forming the Nestlé Company as we know it today (Nestle).



Over the years, Nestlé has continued to expand its product offerings and has become known for its milk, chocolate, and Nescafé products. The company has always been an outward-looking company, with the majority of its sales coming from outside of Switzerland. Nestlé has utilized both internal product development and acquisition strategies throughout their history, yet in recent decades there have been fewer internal developments. Nestlé remains committed to finding new avenues to achieve long-term growth and development, with a goal of doubling its sales every ten years. Nestlé has a unique and complex structure, with fully decentralized management that allows the company to manage assets without intervening from day to day. The company has established consistent frameworks for its major brands but has also partnered with local food brands and products throughout its history. Nestlé has continued to invest heavily in food technology and research, marketing activities, and joint ventures to ensure continued growth and success (Parsons, 1996).

4.2 Nestlé: Resource Based-View

The RBV model offers a valuable framework for analyzing Nestlé's competitive advantages from an organizational standpoint. It highlights the importance of valuable resources and capabilities, providing insights into how Nestlé has been able to leverage its strengths to become a top player in the highly competitive CPG industry. Adopting the RBV perspective will provide insight into not only Nestlé's strengths but also the unused and temporary competitive advantages, competitive disadvantages, and competitive parities

within the organization. These factors are highly related seeing as excessive resources are a key factor in determining entry modes into new markets.



1. Identifying Resources

Intangible resources:

- Brand reputation, brand recognition, market position
- Strong financial position
- Strong scientific background with dedication to product innovation
- Trade secrets, trademarks, and patents

Tangible resources:

- Land, factories, warehouses
- Food manufacturing equipment, fleet vehicles
- Supplies, raw materials

As we know from the RBV framework, tangible resources do not directly link to maintaining a sustained competitive advantage because they are easily replicated or purchased by competitors in the market. Nestlé's intangible resources however provide a strong case for competitive advantage as they are differentiated from competitors and the brand name itself holds significant value.

1. Heterogenous Resources and Immobile Resources:

- Supply chain and distribution network
- Proprietary ownership of brands, trademarks, recipes, and trade secrets
- Brand recognition, trust, and reputation

- Financial capabilities with the ability to innovate, create, or acquire new products



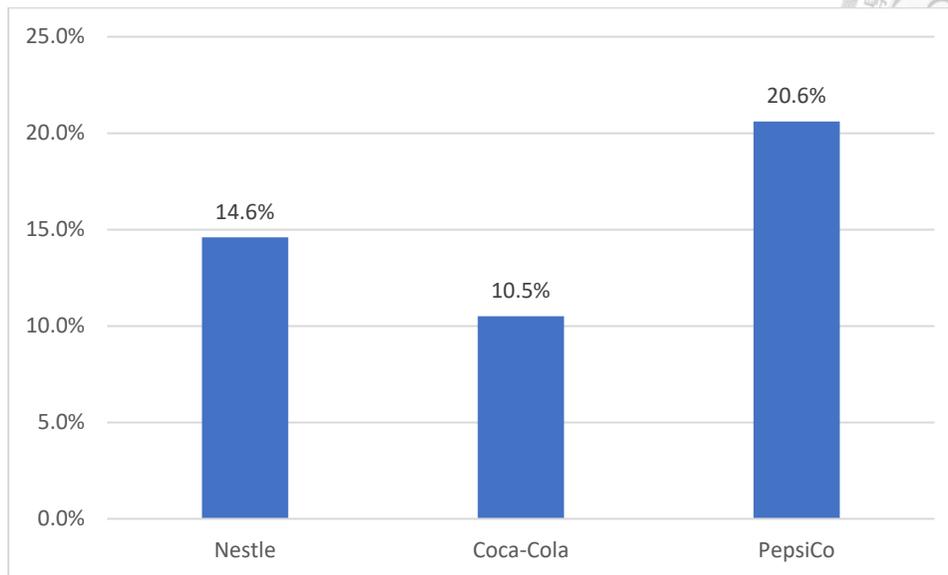
2. VRIO

Table 1: Nestlé VRIO Analysis

Resource	Value	Rarity	Inimitable	Organization	Competitive Advantage
Marketing	Yes	No			Parity
Financial Capabilities	Yes	Yes	No		Temporary
Branding	Yes	Yes	Yes	No	Unused
Research and Development Capabilities	Yes	Yes	Yes	No	Unused
Market Position	Yes	Yes	Yes	Yes	Sustained
Global Supply Chain Network	Yes	Yes	Yes	Yes	Sustained

Marketing: Nestlé’s marketing is valuable as it helps to promote its products and enhance its brand reputation. However, it is not rare to see that other companies can also develop effective marketing strategies or even replicate strategies deployed by Nestlé. As seen in Figure 6, Nestlé spent 14.6% of its revenue on marketing expenses, slightly more than Coca-Cola, but lower than PepsiCo. This results in competitive parity, which means that Nestlé does not offer a unique marketing strategy, but it is a necessary component for all CPG companies to compete in the industry.

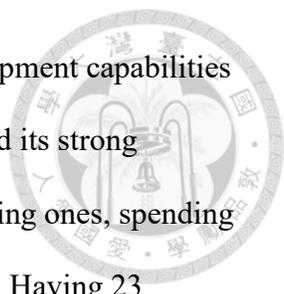
Figure 4: Percentage of Revenue Spent on Marketing Expenses in 2022



Source: Coca-Cola 10-K 2022, PepsiCo 10-K 2022, Nestlé Annual Review 2022

Financial Capabilities: Nestlé's strong financial position is valuable and rare, allowing it to invest in product development, expensive marketing campaigns, and acquisitions. In 2023, Nestlé hit \$98 billion in global sales, the highest amongst all the CPG competitors (Nestlé, 2022a). It is not however inimitable, being that other companies are also able to accumulate financial resources as well. This results in a temporary competitive advantage.

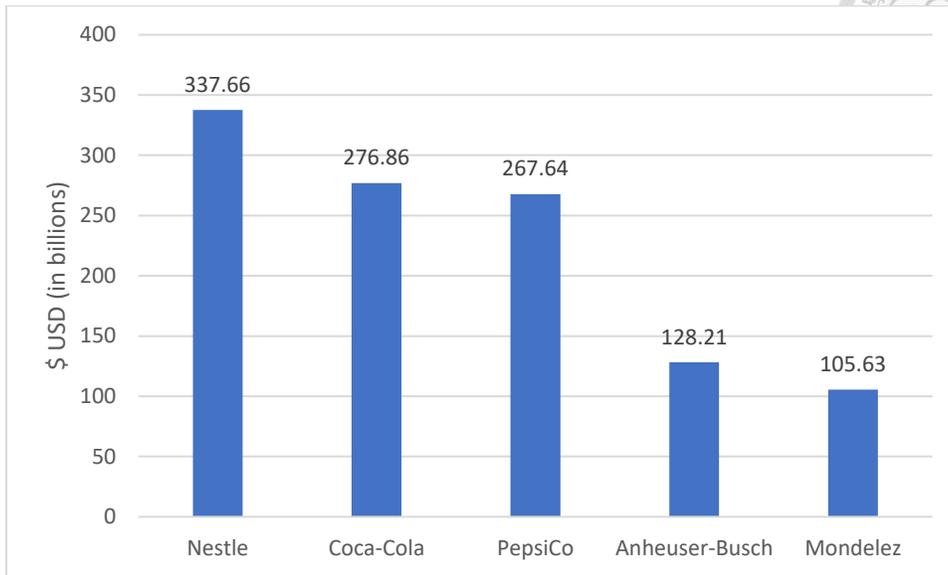
Branding: Nestlé's branding is valuable, recognized, and trusted worldwide. According to a recent annual report on top food and beverage companies, Nestlé was listed as the world's most valuable food brand ("Brand Finance,"). Despite this, Nestlé is unable to leverage its brand name when acquiring products and incorporating them into their portfolio. Successful internally developed products such as Nesquik and Nescafe have been able to leverage the Nestlé name in the brand to drive its success. There remains an unused competitive advantage for this resource, where Nestlé's branding could be leveraged more effectively.



Research and Development Capabilities: Nestlé's research and development capabilities are valuable, rare, and inimitable. Nestlé's commitment to innovation and its strong scientific background enables it to develop new products and adapt existing ones, spending over 1.9 billion USD in research and development in 2022 (*Nestle R&D*). Having 23 research and development facilities across the globe allows Nestlé to research customer tastes and preferences depending on the country. There are also several accelerator programs and facilities dedicated to partnering with entrepreneurs to get new ideas turned into real-life products to hit the market, but there have not been any major successful brand creations in terms of internal development in recent years. While Nestlé has seen success in the adaptation of Maggi Noodles and Kit Kat into different geographic markets, products both acquired not internally developed, Nestlé has been unable to create successful new brands like its famed Nescafe or Milo brands, both of which were internally developed. There have been new product extensions of existing lines and modifications to fit consumers' trends such as branching into plant-based food items, but no new independent brands. It appears that the organization and management of these resources have not been utilized to their full potential. Despite having highly developed research and development capabilities is it not being leveraged and is considered an unused competitive advantage.

Market Position: Nestlé's market position is valuable, rare, and inimitable, providing Nestlé with a sustained competitive advantage. As the leading company in the CPG industry with over 100 years of selling products and over \$300 billion in Market Value as seen in Figure 5, Nestlé has a strong presence in the industry with a diverse product portfolio, which is very difficult for competitors to replicate.

Figure 5: Top 5 Global Food & Beverage Companies by Market Value in 2022

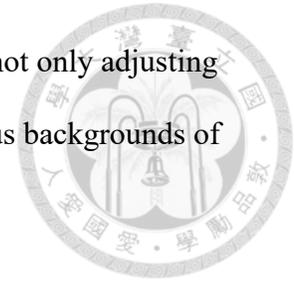


Source: Adapted from Sorvino, C. (2023, September 12). Forbes Global 2000: The World's largest food companies in 2022. Forbes.

Global Supply Chain Network: Nestlé's supply chain and distribution network are valuable, rare, and inimitable, providing a sustained competitive advantage. With over 300 factories spanning 77 countries, Nestlé has an unparalleled network of production and distribution to efficiently serve its products worldwide, ensuring a consistent supply to meet consumer demand. Nestlé currently sells its products in 188 different countries around the globe. Having a global network that operates in hundreds of countries that overcomes language barriers and logistical barriers while maintaining strong partnerships to get products to the end consumer is a difficult task for competitors to replicate.

4.3 Overview of Nestlé's Acquisitions

Nestlé has a long history of acquiring both competing and emerging companies, products, and services. With a portfolio of over 2,000 brands that are sold worldwide, Nestlé has found success in identifying popular products in one country and tailoring them



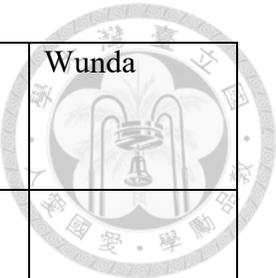
to suit local and national tastes in other markets. This process involves not only adjusting the product's flavor profile but also considering the cultural and religious backgrounds of consumers as well as their purchasing habits (Nestle, 2022b).

There have been several noteworthy acquisitions, including big brand names such as Kit-Kat, Carnation, and Maggi. These products are examples of how to successfully adapt a product from one country and reintroduce it into new markets under the Nestlé brand in different parts of the world. Due to the extensive variation in product offerings, recipes, packaging, and branding depending on which country a product is being sold, a consumer may not even be aware they are consuming a Nestlé product.

In recent years, Nestlé has strategically refocused its portfolio management strategies in the health and wellness sector, making several acquisitions in this market. As illustrated in Figure 3, Nestlé Health Science, a subsidiary of Nestlé, has focused on health nutrition, supplements, and entering the functional beverage market. Before 2021, Nestlé did not have any specific functional hydration products, which changed when they acquired both Essentia and Nuun. This move was followed by the acquisitions of The Better Health Company, Pura Vida, and Orgain in 2023, further solidifying Nestlé's commitment to health and wellness.

Table 2: Overview of Nestlé's Acquisitions, Disposals, Partnerships, and Internal Developments for food and health-related products and services over the past 10 years

Year	Acquisition	Disposal	Partnerships	Internal Development
2022	Seattle's Best Coffee The Better Health Company Puravida Orgain*			



2021	The Bountiful Company Nuun Essentia	Nestlé Waters (not premium brands)		Wunda
2020	Freshly Aimmune Therapeutics IM Health Science Vital Proteins Zenpep	Yinlu		
2019	Persona	Herta (60% + JV) Froneri		
2018		Ferrero	Starbucks	
2017	Atrium Innovations Chameleon Cold Brew-Coffee Blue Bottle Coffee Caravan	La Valle Degli Orti, Mare Fresco and Surgela brands		Yiyang Active
2015		Nestlé Ice Cream (South Africa) La Cochinera Davigel	Seres Health	
2014		Juicy Juice PowerBar		
2013	PamLab	Jenny Craig (NA/Oceania only)		

Source: Nestlé Acquisitions and Disposals

Nestlé has also been streamlining its product portfolio, disposing of products that while still profitable, no longer align with an increasing strategy of healthy innovative products. Jenny Craig was originally bought for a premium price back in 2006 of \$600 million but later sold the majority of its business, particularly its Oceania and North America divisions, 8 years later in 2013. The portfolio of weight management food options had reported sluggish sales and changing consumer habits as traditional programs such as

Jenny Craig and Weight Watchers showed declining enthusiasm after decades of gaining popularity (Martinne Geller, 2013).



Another prime example of Nestlé reevaluating its product portfolio was in 2020 when the sold off Yinlu’s popular but aging peanut milk and rice porridge products. Despite this, Yinlu will continue to manufacture and sell its growing ready-to-drink category, which includes popular products like Nescafé and Nestea. While it’s clear Nestlé’s strategic moves highlight its focus on the functional food sector, they have also been focusing on more medical and health service-based products as well. (Reuters, 2020)

Nestlé did however make several acquisitions in 2020, moving into the health science and nutrition portfolio with the acquisition of Aimmune Therapeutics, a biopharmaceutical company developing treatments for potentially life-threatening food allergies. The purchase of IM Health Science, a healthcare company with dietary management solutions for conditions such as irritable bowel syndrome, also reinforced Nestlé’s interest in wellness and preventative healthcare. They also acquired Zenpep, a medication used to treat pancreatic insufficiency, alongside ready-prepared meal company Freshly, and the popular Vital Proteins powdered supplement brand as well (*Nestle Acquisitions and Disposals*).

To further develop Nestlé’s recent successful acquisition of Nuun into its Health Science division, further analysis from the perspective of Lee and Lieberman (2010) will be conducted. This acquisition underscores the complex market boundaries and subtleties involved in assessing Nestlé’s key resources and relatedness. Additionally, the evaluation will be assessed to determine whether the benefits identified in their original study can also

be observed in this case. This will provide a more comprehensive understanding of the impact and effectiveness of Nestlé's acquisition strategy.

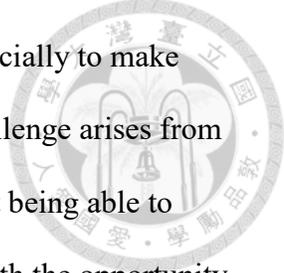


4.4 Case 1: Nuun

In 2021, Nestlé announced they would be acquiring the small yet successful hydration company Nuun, which had been gaining increasing popularity within the category, originally founded in 2004 by Triathlete Tim Moxey. Seen as a low-sugar healthy alternative to well-known players in the hydration market like Gatorade and Powerade, Nuun's flavored tablets and powders can be added to water to create an effervescent, hydrating functional beverage.

Nuun first found success with athletes as it began seeing momentum in partnering with brand ambassadors at various fitness events and marathons across North America. They moved from the small niche fitness community to those with active lifestyles seeking a portable hydration option. Nuun products were originally found at golf shops, drug stores, and their online website before launching in national chains such as Whole Foods. In 2017 the company saw revenue of over \$21 million which was a 91.3% increase from 2014(Albert-Deitch, 2023).

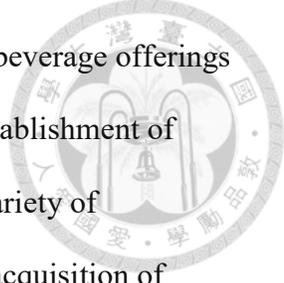
The acquisition of Nuun can be examined from the perspective of the Resource-Based View, particularly by applying the VRIO analysis depicted in Figure 6. The strategic alignment of Nestlé's acquisition of Nuun with its Health Science division underscores its strengths such as financial stability, market positioning, and supply chain network. It also presents opportunities in branding and research and development. While the financial resources of Nestlé paved the way for the acquisition of Nuun, there is only a temporary



advantage created as other CPG companies have the same capacity financially to make acquisitions in the functional beverage category as well. However, a challenge arises from the potential lack of consumer association between Nestlé and Nuun, not being able to leverage Nestlé's brand. Additionally, the acquisition provides Nestlé with the opportunity to utilize its expansive global supply chain network, maintaining a sustained competitive advantage through increased retail penetration and distribution of Nuun globally.

Lee & Lieberman (2010) suggest that a firm is more likely to pursue acquisitions when the target firm operates in the same business domain and has products closely related to its own. However, a challenge emerges when it's not immediately apparent whether the domains are shared by both parties. According to the research, firms in the same domain that are closely related can reap various benefits as outlined in the study. Following this logic, it could be understood that a firm operating in a different business domain may not experience these benefits—thus warranting further investigation.

Nestlé, a global giant in the food and beverage industry, has a diverse portfolio of various beverage options for its customers. Their offerings span across various categories, from ready-to-drink beverages, active nutrition drinks with high protein, and medical nutrition products as well. They also have several water brands including sparkling and still waters with the most notable brands being San Pellegrino, Aqua Panna, and Perrier. Additionally, Nestlé offers several ready-to-drink teas under the Nestea brand, a broad selection of chocolate drinks with Nesquik and Milo (both ready-to-drink and powder options), and coffee beverages with its brand Nescafe and partnership with Starbucks.



Nestlé has decades of experience with its conventional food and beverage offerings and has recently ventured into the health and nutrition sector with the establishment of Nestlé Health Science in 2011. This division, which primarily offers a variety of supplemental products, was significantly expanded in 2017 through the acquisition of Atrium Innovations. Nestlé Health Science operates in three main categories: medical nutrition, active lifestyle nutrition, and pharmaceuticals. Nuun is housed under the active lifestyle nutrition and represents a deviation from Nestlé’s primary business domain of conventional food and beverages. The products housed under Nestlé Health Science do not align with Nestlé’s previous experience in their traditional food and beverage categories, and may not be perceived as being a player in the functional food industry.

It is important to note that while Nuun may appear to be closely related to Nestlé’s business domain due to its acquisition, the reality is that Nestlé’s core business domain remains rooted in conventional food and beverage. The formation of Nestlé Health Science in 2011 and the subsequent acquisition of a majority of its supplement products in 2017 indicate Nestlé’s strategic entry into new health markets rather than an extension of its existing business domain.

Therefore, the acquisition of Nuun should not be viewed as a typical case of a firm acquiring a new product market closely related to its existing resources. Instead, it represents a strategic move by Nestlé to diversify its portfolio and continue to develop a new market segment by acquisition. This highlights that all products under Nestlé Health Science, including Nuun, should not be classified as products similar to Nestlé’s core food and beverage platform but rather their entrance into the new market segment.

4.4.1. Consumer Analysis

To support the claim that the primary business domain of functional and conventional food varies, a consumer survey was conducted. This survey aims to understand how Nestlé's traditional product line is perceived when comparing the recently acquired functional food brands, Nuun and Essentia. Nuun is under Nestlé's Health Science division, while Essentia is under Nestlé's conventional water portfolio, despite both being considered functional products. San Pellegrino and Acqua Panna were used in the study as core products under Nestlé's conventional water portfolio. Milo was used as another core product for this survey, also under Nestlé's conventional beverage portfolio as a ready-to-drink milk product. Nestlé introduced Essentia as a functional water product, with Nuun being introduced as a functional hydration product, which may not be immediately clear to customers the differences or similarities.

Based on the survey, compared products were given a similarity score based on the averages provided by respondents. A score of 1 would equate to very different while a score of 10 would equate to being very similar. Additionally, consumers were asked if they were familiar with the terminology of functional foods. Based on the results as seen in Figure 7, there are several unique findings from the consumer survey. In Figure 7, (FF) refers to functional foods while (C) refers to conventional foods under Nestlé's beverage portfolio.

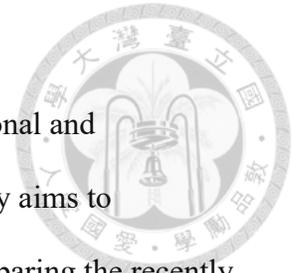


Figure 6: Consumer Product Survey: Similarity Score



Source: Consumer Product Relatedness Survey

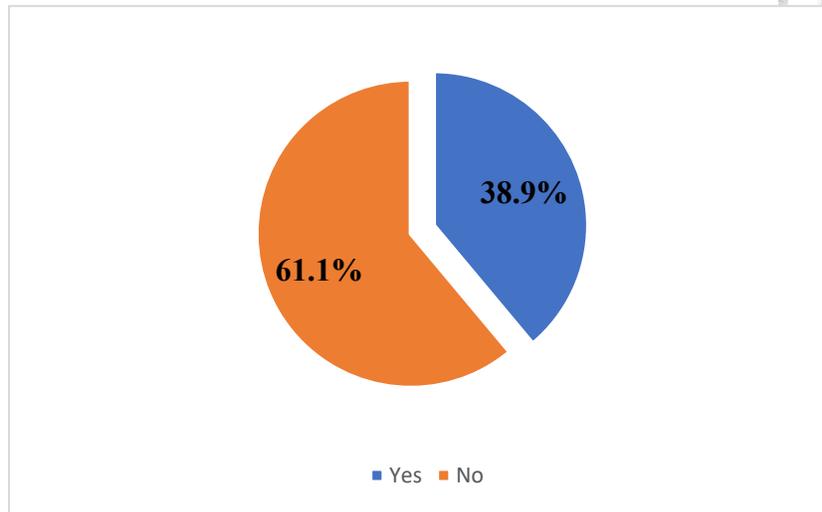
Key findings:

- 1) The products that appeared most similar were the water brands, with Acqua Panna-Essentia being the highest rated, and San Pellegrino-Essentia in second. This is understandable from the consumer perspective as Acqua Panna-Essentia are both the only non-sparkling water beverages on this survey, despite one being described as a natural spring and the other pH-balanced and alkalized, they still were viewed as similar water options. The high rating of similarity within water products even though Essentia is differentiated within the category may show that consumers tend to group all water items as similar despite each brand serving varying target audiences.
- 2) The products viewed by consumers as being the least similar were Milo and Essentia. While Milo does not label itself as a functional food, but a nutritional or milk beverage

primarily for children –Milo fits the category of a functional food seeing that it has added vitamins and nutrients. Essentia is also a functional food because of its pH-balanced alkalized properties. Despite both being functional products, consumers look at these brands as two distinct categories: milk and water—which ultimately are not viewed as similar beverage segments.

- a) Consumers viewing Essentia and Milo as least similar despite both products fitting the technical definition of functional food highlights that consumer perception is not rooted in a clear understanding of the category, but perhaps viewed by taste profile, occasion, or link due to similar ingredients. With Milo’s main ingredient being milk or milk powder and Essentia’s only ingredient being water—customers reject the possibility of these products being remotely similar.
- 3) When comparing both Nuun and Essentia, the two functional food products received a slightly higher score than others, ranking as the 3rd most similar product at 4.5, which could suggest consumers assume some similarities but are still unsure. The findings of the consumer survey do not clearly show links between Nestlé’s conventional line of beverage portfolio which contains Acqua Panna, San Pellegrino, Milo, and Essentia compared to Nestle Health Science’s Nuun

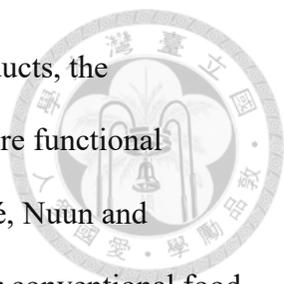
Figure 7: Consumer Product Survey: Percent of Respondents Who Have Heard of Functional Foods



Source: Consumer Product Relatedness Survey

These findings align with the view that consumers are not entirely familiar with the term functional and don't have a clear understanding of what it means. As seen in Figure 8, when asked in the survey if they had ever heard of the term before, 61.6% of the respondents reported No, they had not heard the term before. It's clear consumers are not familiar with the term, and even those who have heard of it before, may not truly understand the meaning or what products are included. To gain further insight, four additional interviews were conducted with respondents regarding their responses and understanding of the survey.

Of the four respondents who were interviewed, when asked specifically about their knowledge of functional foods, two individuals acknowledged hearing the term but were not certain of its meaning, while two were not familiar with the term. Out of the four interviewees, three individuals did however mention that functional products were in some way linked to health, either by mentioning healthcare, health foods, or health-oriented



during the interview. To further test the understanding of functional products, the interviewees were asked if any of the products featured on the survey were functional foods. There is more than one correct answer to this. According to Nestlé, Nuun and Essentia are considered functional products while the rest fall under their conventional food channels of beverages. Milo could also be viewed as a functional product by the consumer seeing as it fits the definition of functional foods, despite Nestlé not marketing it as such.

The interviewees had varying responses, further concluding that the understanding of what functional foods are from the consumer standpoint remains unclear. Two interviewees determined Essentia as being functional because of the visual look of the bottle or the keywords “pH-balanced and alkalized” in the description. The other two interviewees did not believe any water to be functional but thought that the Nuun, being that it served the purpose of hydration, was a functional product. One individual who believed Nuun was a functional food also thought that Milo was also functional—alluding to both serving post-performance goals, hydrating, or recovering from sports activities.

Additionally, questioning products being similar or different brought strong opinions from the individuals being interviewed. Two individuals provided feedback along the lines of, “water is water”, acknowledging that it just comes down to how the products are marketed despite having essentially the same ingredients. One mentions that San Pellegrino is associated with dinners or perceived as a fancy drink while Essentia looks sporty and would not be associated together. Overall, respondents felt conflicted about the mix of products, stating that Nuun being a tablet/powder felt odd to be in the same category, while Acqua Panna and San Pellegrino seemed similar, but otherwise they also did not fit with the other products featured in the survey. These consumer perspectives

support the view that Nuun is outside of Nestlé’s primary business domain and should be analyzed through the lens of a separate business domain.



The research conducted by Lee & Lieberman attributed five positive benefits of acquisition when there is high resource relatedness. Despite Nestlé and Nuun being in different business domains after a deeper analysis and determination that the core resources and offerings of both companies are different—there still may be positive benefits attributed to the acquisition. While resource relatedness could be viewed as being low, the need for further analysis is required to apply the findings of Lee & Lieberman’s study to the Nestlé-Nuun acquisition:

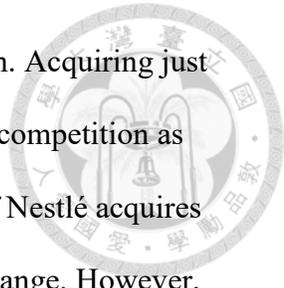
1. Cost Reduction: Nestlé has had a continued focus on health and wellness products, making several acquisitions in related fields of nutrition, but not the hydration market. Despite hydration being at the core of Nuun’s product offering—it’s not hard to imagine that with Nestlé’s global expertise in the beverage market, Nestlé was able to benefit from cost reduction when it came to conducting research and looking for candidates to acquire. There are also economies of scale that can be introduced to lower the cost of manufacturing and developing this product, as we know Nestlé has factories and distribution channels across the globe—which could also lead to significant cost reduction.
2. Time Reduction: Nestlé is known for acquiring products, integrating them into their portfolio, adjusting taste preferences depending on cultures and geographic locations, and utilizing its vast distribution network to expand its presence. Nestlé was able to also benefit from the reduction of time required to get Nuun integrated, expanded, and distributed. The benefit of time reduction and market entry is specifically advantageous for Nestlé when

acquiring products even if outside of its primary business domain seeing as it has core strengths and is a market leader with expansive distribution channels that allow for a more seamless integration.



3. Risk Reduction: Nestlé and Nuun function in separate business domains, which could escalate the risk due to a lack of specific product knowledge and experience. However, Nestlé’s extensive history in the beverage industry and the knowledge gained from the creation of the Nestlé Health and Science division in 2011, could alleviate some of these risks. The supplement and functional powdered products that Nestlé acquired in 2017 might be seen as resources related to Nuun, but they are still distinct from Nuun’s focus on functional hydration. The crucial factor in reducing risk in this acquisition will be Nestlé’s capacity to utilize its wide-ranging industry experience while effectively tackling the unique challenges of the functional hydration market. This involves understanding the particular consumer preferences of this niche market and adjusting its strategies as needed. While Nestlé’s past offers some factors that could mitigate risk, it’s not certain that these provide a substantial risk reduction benefit that would definitively indicate a successful acquisition.

4. Reduced Competition: The functional hydration market is a rapidly evolving space with a broad range of competitors. These competitors range from similar powder-based products such as Liquid IV, LMNT, and Ultima to traditional sports performance or energy drinks like Powerade or Gatorade. While Powerade and Gatorade serve the same purpose—hydration—they may not be considered direct competitors due to differences in product formulation and target market. Nestlé’s acquisition of Nuun marks its first entry into the functional hydration market. Since this is Nestlé’s first hydration solution product, it’s too



early to determine whether the acquisition has led to reduced competition. Acquiring just one brand in the hydration market doesn't necessarily equate to reduced competition as they were not previously in the competitive marketplace. In the future, if Nestlé acquires more brands in the hydration market, the competitive landscape could change. However, Nestlé's acquisition of Nuun doesn't necessarily mean reduced competition.

5. Increased Market Power: The acquisition of Nuun, complements Nestlé Health Science's existing portfolio of active lifestyle nutrition brands. Nestlé's existing products and the introduction of Nuun's offerings could increase Nestlé's market power over time. Nestlé Health Science currently is a new entrant into the active lifestyle nutritional category, which currently houses Nuun as a functional hydration product. It's too early to determine the impact of these new acquisitions on the portfolio, but if Nestlé continues to acquire competitor products that will increase their market power.

Even though Nestlé's acquisition of Nuun was outside of its primary business domain it seems that some of the advantages outlined by Lee and Lieberman (2010) were still realized. The acquisition led to reductions in cost and time however, the impact on risk reduction and competition reduction was not identified. Furthermore, the effect of the acquisition on Nestlé's market power is still uncertain, given that the acquisition only took place in 2021 and it's too early to draw definitive conclusions.

4.5 Overview of Nestlé's Internal Development

Nestlé boasts an impressive network of 23 research and development food facilities located in countries such as Chile, India, and the United States with over 4,000 employees at these facilities (*Nestle R&D*). While the company possesses the financial resources, state-



of-the-art facilities, and an expansive supply chain, its success in developing and marketing original products has been problematic in the functional food market. Despite Nestlé demonstrating remarkable agility over the decades in adapting existing products to evolving consumer preferences, such as customizing Maggi noodles to cater to diverse global tastes and introducing vegan versions of Kit-Kat bars, they have not been able to do so in the functional food market. Where they seem to encounter challenges, is when it comes to generating genuinely original product concepts such as Nescafe and Milo which were internally created and now recognized globally.

A more recent internal development was the introduction of Wunda, a pea-based milk alternative, that began hitting stores in 2021. Initially launched in parts of Europe, specifically the Netherlands, the U.K., and France, its presence in the U.K. was relatively short-lived due to less-than-ideal sales, resulting in its withdrawal from the market. This was created through Nestlé's food accelerator program that strives to connect entrepreneurial individuals with their existing food and research facilities to drive new product development. Nestlé's entry into the milk alternative market with Wunda was too late in an already crowded market with both large and small companies having success with a wide range of products already available in grocery (White, 2023).

That's not to say that Nestlé has not been able to come up with any recent successes in internally developed products. In 2017, Nestlé launched a Yiyang Active, targeted specifically for aging adults who could benefit from increased bone health, muscle strength, and joint functionality. What is unique about this product is the deep understanding of what consumers are looking for, with a partnership in a clinical study supporting its claim through Peking University Third Hospital. It is currently Nestlé's first product to receive

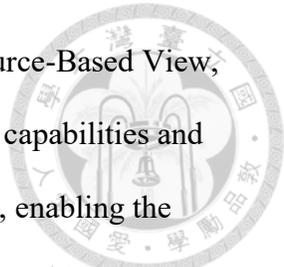
“blue hat” status which refers to an officially approved product through China’s registration system for products making functional or health claims. This is a significant achievement for Nestlé as it is the first product in the entire portfolio to receive this distinction (Koe, 2021). However, not all endeavors have been as fruitful, as seen in the failed attempt to enter the functional beverage market with Nesfluid.



4.6 Case 2: Nesfluid

Eager to join the market of functional beverages on the market, in 2010 Nestlé launched their highly anticipated Nesfluid products featuring 6 types of beverages available in France. Nestlé earned less than \$4.3 million in sales the first year with Nesfluid, despite competitive pricing and widespread distribution throughout France via the major supermarkets such as Carrefour, Fanprix, and Monoprix. This was particularly surprising as they had spent \$17.2 million on advertising and marketing for the launch. This undertaking proved to be short-lived and widely regarded as a marketing misstep with issues in taste, branding, and its confusing range of health claims and benefits ("Another failure for Nestlé’s Nutrition Ambitions?," 2011). Only 18 months after first launching Nesfluid, Nestlé decided to discontinue this product taking a significant loss.

It appears that Nestlé’s approach in this instance was an attempt to create a catch-all beverage with broad, mass-market appeal. The creation of “Hydra Nutrition” was unclear as to what exactly kind of product was being sold to the consumer, with a range of health benefits attempting to be bottled into one product. This strategy suffered from both its overly broad target audience and an inadequate marketing strategy, especially in a market segment that was experiencing rapid expansion during the early 2010s (Bouckley, 2014).

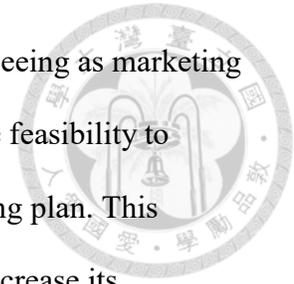


The failure of Nesfluid can be analyzed through the lens of the Resource-Based View, specifically utilizing the VRIO analysis from Figure 6. Nestlé's financial capabilities and global supply chain network provided a sustained competitive advantage, enabling the launch of a new line of 6 different Nesfluid products in France, backed by a \$12 million marketing budget, and efficient global product distribution. Despite this, Nestlé faced several challenges with Nesfluid. Their marketing campaigns failed to provide a competitive advantage, and the Nesfluid brand name did not communicate the desired message of the product to its customers, leading to an unused competitive advantage. Additionally, Nestlé's research and development failed to align the product with customer tastes or needs, indicating another unused competitive advantage. Lastly, Nesfluid's market position was poor due to unclear communication, overestimation of the potential market, and a disconnect between product benefits and customer segments. These factors ultimately led to the underperformance of the Nesfluid product line, leading to its failure.

4.6.1 Entry Mode Strategy

Lee and Lieberman (2010) discuss that internal product development can result from a firm having excess key resources that can be transferred into a new market segment. Employing this model offers a lens through which potential issues can be identified for deeper analysis. The initial phase involves identifying the essential resources necessary for Nestlé to internally create a functional beverage and assessing whether these resources are in surplus and available to transfer to the new product market. According to the VRIO Analysis from Table 1, there are six key resources that we can use to analyze in the context of identifying what resources are in excess, necessary for the creation of a functional beverage, and ultimately are able to be transferred to a new product such as Nesfluid.

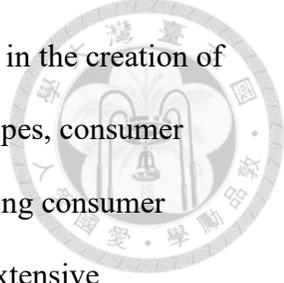
Marketing: Nestlé has a competitive parity in this resource, but seeing as marketing can be constrained by financial budgets, it's apparent that Nestlé has the feasibility to increase expenditures and transfer to the development of a new marketing plan. This resource can be viewed as excess as Nestlé has the financial means to increase its marketing efforts as it sees fit and was clearly able to do so.



Financial Capabilities: Being the most profitable CPG company in the world, it would be safe to assess the capital required to finance a research and development initiative as a non-issue. This resource can be viewed as excess and transferred to the development of creating Nesfluid.

Branding: This resource is vital to the development of a new product, as the brand conveys not just the Nestlé brand, but the value, message, and meaning of a product. To understand this resource in the scope of Nesfluid, the key resource should be viewed as whether or not Nestlé had the knowledge, understanding, and experience in functional foods to create a new product in this category. Up until the launch of Nesfluid, there were not any functional beverage products in Nestlé's portfolio, therefore they had no experience with branding this product and are unable to have excess in this key resource to transfer to Nesfluid.

Research and Development Capabilities: This remains an unused competitive advantage when looking at Nestlé as a whole, but the perspective must be shifted when analyzing this resource for how it would be through the lens of transferability and excess to Nesfluid. R&D is one of the most important key resources that need to be utilized for the success of an internally developed product entering a new market. To have an excess of this



resource would mean that there is already significant product knowledge in the creation of functional beverages held within Nestlé. This would include product recipes, consumer taste preferences, ingredient sourcing, and a deep understanding of meeting consumer needs when developing a functional beverage. While Nestlé does have extensive knowledge in adapting products to different geographical markets and success in developing coffee and powdered milk drinks—that does not provide the necessary resources for the development of functional beverages. It is clear that there is no excess in this resource and therefore is not transferable.

Market Position: With Nestlé being the top CPG player in the industry there are high levels of trust and dependability in forging sustainable partnerships. This is vital when developing new products as new distribution channels need to be created, acceptance into consumer spaces is required, and partnering with sales teams in the corporate grocery division is necessary. This resource can be viewed as excessive and is transferable.

Global Supply Chain Network: This resource can be viewed as a highly valuable resource when it comes to launching a new product. Being able to efficiently distribute the product through its expansive supply network is an important factor. Seeing as Nesfluid was only launched in France at the time and Nestlé has several factories across Europe, it's not the most important factor for developing a new product in this case. Even so, this resource can be viewed as excess and is easily transferred.

While the financial, marketing, market position, and global supply chain network can all be viewed as having excess while also being transferable, a larger issue remains. When developing a new product, it is paramount that the branding and research and

development efforts are both in excess and transferable. In this scenario, it is clear they are not as Nestlé has no prior knowledge in the functional beverage space to adequately transfer the required means to create a successful product. According to the framework by Lee and Lieberman (2010), a firm is more likely to internally develop when it can transfer resources that are in excess into the new product market—which suggests an acquisition would have resulted in a higher probability of success in the functional hydration market than internal development.

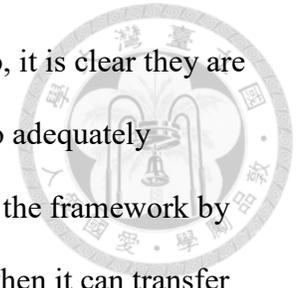
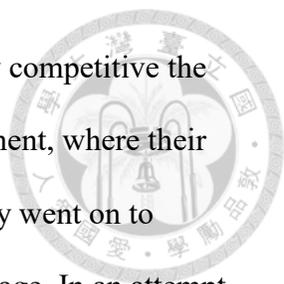


Table 3: Key Resource Identification: Excess and Transferability

Key Resource	Excess	Transferability
Marketing	Yes	Yes
Financial Capabilities	Yes	Yes
Branding	No	No
Research and Development Capabilities	No	No
Market Position	Yes	Yes

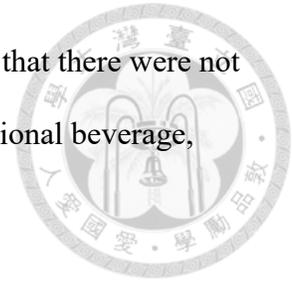
To further understand the functional beverage industry and entry modes, an interview was conducted with an industry expert in CPG with over 10 years of experience working directly with functional beverages. The interview primarily focused on the decision to internally develop or acquire while providing insight into some of the difficulties within the functional beverage category.



The interviewee started the interview by acknowledging just how competitive the functional beverage market is, specifically the super-premium juice segment, where their functional product is sold in grocery stores across the United States. They went on to discuss the difficulties in diversifying beyond their core functional beverage. In an attempt to keep up with other product trends, the company created different variations of their beverage, including blended fruit options, a light version, and even a coffee-infused option. This proved unsuccessful and despite emerging trends in the functional food landscape, the company remained committed to sticking to their core offerings. While it was discussed internally among sales teams to get involved in markets like Kombucha, the company ultimately decided their lack of expertise and late entry to the market would prove unsuccessful.

The interview also provided insight into how functional food products often extend existing conventional food portfolios for CPG companies. Brands like Coke and Pepsi, aiming to diversify their offerings, integrate healthier options into their portfolios. However, defining functional foods as an entirely distinct category poses challenges due to their diverse nature. Large CPG entities face hurdles in launching entirely new product categories, especially when their brand identity doesn't immediately align with health. Hence, the strategy of acquiring successful health-focused brands allows these large companies to diversify their market presence without the risks associated with independent product development. This strategic move enables them to tap into the growing health-conscious consumer segment without diluting their established brand messaging. The interviewee provided several examples of CPG companies acquiring products into healthier beverage options, such as Coca-Cola acquiring the sparkling water brand Topo-Chico.

The interview provided additional support to the earlier findings that there were not adequate excess transferable key resources to successfully create a functional beverage, ultimately leading to the failure of Nesfluid.



5. Conclusion

5.1 Summary of Key Findings for Nestlé's Acquisition of Nuun

In the analysis of Nestlé Health Science's acquisition of Nuun, using the framework by Lee and Lieberman (2012), two main points emerged. When analyzing the key resources of Nestlé and Nuun, it was determined that the primary business domains differed, validated through consumer perception and resource identification. According to the framework, that would imply that there would not be benefits found, but that was not the case. While there were no benefits observed in terms of reducing competition and risk mitigation, the acquisition did result in cost and time savings.

This can be attributed to Nestlé's competitive advantages, as per the VRIO analysis, where its market position and strong global distribution network were seen as beneficial post-acquisition, in addition to its experience in previous beverage markets and some newfound knowledge in the functional categories with Nestlé Health Science active lifestyle nutrition category. Also, Nestlé's longstanding experience in acquisition could also be viewed as providing a benefit of implementing Nuun into its portfolio and increasing distribution. This suggests that companies can still derive benefits from acquiring brands or products that don't closely align with their existing offerings. It underscores the complexity of the functional food sector, which may not neatly conform to conventional business models and may necessitate further analysis.



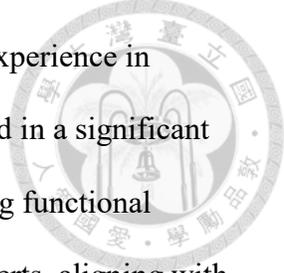
Nestlé's acquisition of Nuun can be viewed as a strategic move that allows the company to gain a foothold in the competitive hydration market, which is dominated by Gatorade and Powerade. Gatorade is owned by PepsiCo, while Powerade is owned by The Coca-Cola Company—two major competitors for Nestlé. These two brands have a strong presence in the market and have been the top choice of ready-to-drink products in the market for years. Competing directly with these established brands would be a challenging task even for Nestlé. Nuun offers a unique product that stands out in the market while still fitting in with Nestlé's growing portfolio of health and wellness-related products.

This uniqueness could attract consumers who are looking for alternatives to traditional sports drinks. By acquiring Nuun, Nestlé is not only able to enter the hydration market but also able to do so in a way that differentiates it from the competition. This strategy allows Nestlé to enter into the rapidly growing market without a costly internal development initiative that could fail.

5.2 Summary of Key Findings for the Internal Development of Nesfluid

The analysis of Nestlé's key resources reveals both opportunities and limitations for internal product development in the case of Nesfluid. The company showcases excess capabilities in financial capabilities, marketing, market position, and a global supply chain network. These resources offer transferability potential, but when it comes to internal product development, research and development, and branding are key resources identified through VRIO when creating a new product that was unfulfilled.

According to the framework, excess resources are a motivating factor when deciding to internally develop, yet branding and R&D capabilities prove to be lacking in



excess and transferability in the case of Nesfluid. Nestlé's lack of prior experience in functional beverages and insufficient R&D depth in this category resulted in a significant resource gap. This absence of surplus knowledge and expertise in crafting functional beverages appears as a substantial hurdle, as highlighted by industry experts, aligning with the industry experts' interview providing insights on how CPG companies struggle when their brand identity when it doesn't readily align with newer health-focused categories.

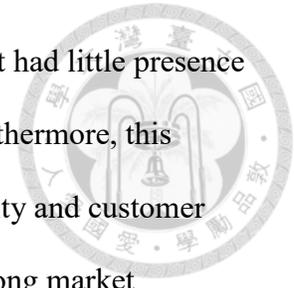
The interview also highlighted the volatility of the functional beverage industry, emphasizing the competitive nature of the market. It sheds light on the difficulties encountered by companies attempting to diversify beyond their core offerings. The example provided in the interview of unsuccessful attempts to venture into different variations of their core product mirrors Nestlé's struggle with Nesfluid. It highlights the inherent risk in pursuing internal development within unfamiliar market segments. When resource gaps exist, the traditional viewpoint is to complete an acquisition to fill those gaps, which Nestlé clearly did not.

6. Recommendations

1. CPG companies should continue to acquire when entering new markets

Acquisitions can serve as a strategic tool for companies looking to enter new markets. This approach can help mitigate risks associated with unfamiliar markets and accelerate the process of gaining market share. Research on consumer perspectives, market conditions, and relatedness to the firm's existing products should be carefully conducted before deciding on acquisition as an entry mode is decided. Nestlé's acquisition of Nuun highlights how a firm can successfully enter an emerging market. Nestlé was able to bypass

the challenges of building a new brand from scratch in a market where it had little presence and had previous costly failures in attempting to internally develop. Furthermore, this acquisition strategy enables firms to leverage pre-established brand equity and customer base, thereby reducing the time and resources required to establish a strong market presence.



2. Internal developments require extensive industry and consumer insights when entering into new markets

When planning for internal developments, it is crucial to conduct extensive research to gain a deep understanding of both the industry and consumer behavior in the functional food category. Functional products do not follow traditional product categories and are consistently changing as they adapt to new trends, science developments, and complete products in the market target. Having industry knowledge and experience in beverages does not necessarily mean you will be able to replicate that to produce a successful product in functional beverages. As noted in the Nesfluid case, having some resources that are in excess and transferable may not provide enough synergies to create a successful product. Analyzing not just the primary business domain, but the secondary and tertiary business domains of these functional foods is vital for a comprehensive understanding of the full product segment.

This could involve investing in these areas to build up internal capabilities or considering acquisitions to fill these gaps before entering into an unfamiliar market where there is currently no presence within your product portfolio. Additionally, it is vital to be aware that a company's brand identity may not readily align with newer, health-focused categories, which can pose additional challenges and require thoughtful analysis.

7. Future Research

The transition of CPG companies towards medical research and product development, also now called nutraceuticals, marks a pivotal change in the category. Nestlé's Health Science division, with its focus on medical nutrition, active lifestyle nutrition, and pharmaceuticals, serves as a prime example of this shift. The expansion in this area signifies a shifting strategy in the industry, merging the boundaries between what we perceive as traditional, functional, and medical products.

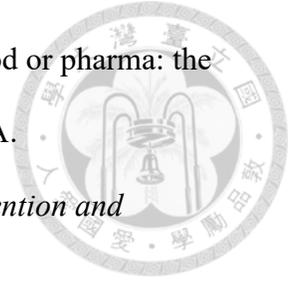
Future studies must delve deeper into this growing segment. Understanding the strategies employed by CPG companies to penetrate these emerging markets, and the consumer perception of these new offerings from established CPG companies, could provide new insights. Moreover, assessing the performance of these firms in the nutraceutical domain will also provide opportunities to see if traditional acquisition and internal development frameworks will hold true with these emergent markets. As the market continues to progress, continuous research will be necessary to enhance our comprehension of these trends and their potential impact on the future of food and health science.





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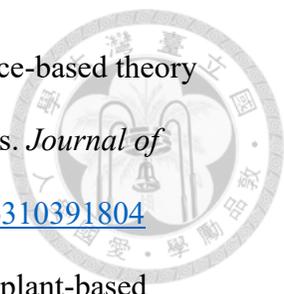
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Appendix



Appendix A. Resource Pathways Framework

The Resource Pathways Framework, developed by Capron and Mitchell (2012), aligns with the research conducted by Lee and Lieberman (2010) concerning the strategies for internal development and acquisitions, termed as “Build” or “Buy”. In addition to these strategies, Capron and Mitchell (2012) propose an alternative approach of entering markets through contractual agreements, strategic alliances, joint ventures, and licensing, which they label as “Borrow”. Their research advocates for prioritizing internal development as the optimal strategy. If this is not feasible, they recommend seeking potential alliances or joint ventures. Acquisitions are considered the last option due to their complexity, cost, and associated risks (Capron & Mitchell, 2012).

Build: This refers to a situation where a firm utilizes its existing internal resources to innovate and create new products, tools, or resources. It is viewed as the optimal choice when the firm’s current resources are relevant for the development of the new resources targeted for growth.

Borrow: When a firm creates effective relationships with external partners to obtain a required resource. It involves entering into contracts, alliances, or joint ventures—particularly when there is not the potential for a firm to create internally.

Buy: This pathway involves acquiring other firms to obtain new resources for growth. This strategy is often used when the resources needed for expansion are not able to be developed internally and cannot be effectively borrowed.

Appendix B. Consumer Product Relatedness Survey



Consumer Product Relatedness Survey

This survey is part of a research study being conducted for a master's thesis in the Global MBA program at National Taiwan University. The focus of the research is on product diversification and examining the relatedness between various products.

Please be assured that all responses will be kept confidential and used solely for academic purposes.

Thank you for your time and participation.

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* 表示必填問題

Current income level (per year) *

- Less than \$35,000 USD (\$1,100,000 NTD)
- Between \$35,000-\$75,000 USD (\$1,100,000-\$2,350,000 NTD)
- More than \$75,000 USD (\$2,350,000 NTD)

Age *

- Under 18
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65+

Education Level *

- High School
- Trade School
- Associate's Degree
- Bachelor's Degree
- Master's Degree
- Doctoral Degree or Higher

Gender *

- Male
- Female
- 其他: _____

Have you ever heard of functional foods? *

- Yes
- No

Nationality *

- American
- Taiwanese
- 其他: _____

How would you rate your level of health consciousness on a scale of 1 to 10? *

- 1 2 3 4 5 6 7 8 9 10
- Not at all health conscious Extremely health conscious

In which country do you currently reside? *

- United States of America
- Taiwan
- 其他: _____

For the following questions please determine how similar or different you feel these products are by utilizing the below scales

1 = very different (these products have different purposes)

5 = somewhat similar (these products have similar purposes)

10 = very similar (these products have identical purposes)

On a scale from 1-10, how similar are the following products? *

1. Milo
(nutritional chocolate drink)

2. Essentia
(pH-balanced alkaline bottled water)



1 2 3 4 5 6 7 8 9 10

very different ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ very similar

On a scale from 1-10, how similar are the following products? *

1. San Pellegrino
(sparkling bottled water)

2. Essentia
(pH-balanced alkaline bottled water)



1 2 3 4 5 6 7 8 9 10

very different ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ very similar

On a scale from 1-10, how similar are the following products? *

1. Milo
(nutritional chocolate drink)

2. Nuun
(hydration tablets that are added to water)



1 2 3 4 5 6 7 8 9 10

very different ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ very similar

On a scale from 1-10, how similar are the following products? *

1. San Pellegrino
(sparkling bottled water)

2. Nuun
(hydration tablets that are added to water)



1 2 3 4 5 6 7 8 9 10

very different ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ very similar

On a scale from 1-10, how similar are the following products? *

1. **Acqua Panna**
(natural mineral bottled water)

2. **Essentia**
(pH-balanced alkaline bottled water)



1 2 3 4 5 6 7 8 9 10
very different very similar

On a scale from 1-10, how similar are the following products? *

1. **Essentia**
(pH-balanced alkaline bottled water)

2. **Nuun**
(hydration tablets that are added to water)



1 2 3 4 5 6 7 8 9 10
very different very similar

On a scale from 1-10, how similar are the following products? *

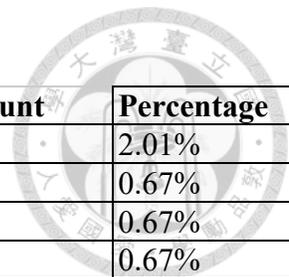
1. **Acqua Panna**
(natural mineral bottled water)

2. **Nuun**
(hydration tablets that are added to water)



1 2 3 4 5 6 7 8 9 10
very different very similar

Appendix C. Consumer Product Relatedness Survey Results



In which country do you currently reside?	Response Count	Percentage
Australia	3	2.01%
Canada	1	0.67%
Chile	1	0.67%
Germany	1	0.67%
Japan	1	0.67%
Malaysia	2	1.34%
New Zealand	1	0.67%
Taiwan	82	55.03%
Thailand	1	0.67%
The Netherlands	1	0.67%
United States of America	52	34.90%
Other	3	2.01%

Current income level (per year)	Response Count	Percentage
Between \$35,000-\$75,000 USD (\$1,100,000-\$2,350,000 NTD)	52	34.90%
Less than \$35,000 USD (\$1,100,000 NTD)	47	31.54%
More than \$75,000 USD (\$2,350,000 NTD)	50	33.56%

Education Level	Response Count	Percentage
Associate's Degree	6	4.03%
Bachelor's Degree	84	56.38%
Doctoral Degree or Higher	7	4.70%
High School	1	0.67%
Master's Degree	51	34.23%

Have you ever heard of functional foods?	Response Count	Percentage
No	91	61.07%
Yes	58	38.93%
How would you rate your level of health consciousness on a scale of 1 to 10?	Response Count	
3	4	
4	5	
5	11	
6	22	
7	45	
8	47	
9	10	
10	5	
Average	7.0	



On a scale from 1-10, how similar are the following products?	
1. Milo (nutritional chocolate drink) 2. Essentia (pH-balanced alkaline bottled water)	Response Count
1	84
2	24
3	25
4	4
5	4
6	3
7	3
8	2
Average	2.0

On a scale from 1-10, how similar are the following products?	
1. Milo (nutritional chocolate drink) 2. Nuun (hydration tablets that are added to water)	Response Count
1	61
2	16
3	35
4	11
5	12
6	6
7	3
8	4
10	1
Average	2.7



On a scale from 1-10, how similar are the following products? 1. San Pellegrino (sparkling bottled water) 2. Essentia (pH-balanced alkaline bottled water)	Response Count
1	8
2	5
3	6
4	6
5	15
6	14
7	19
8	38
9	22
10	16
Average	6.8

On a scale from 1-10, how similar are the following products? 1. San Pellegrino (sparkling bottled water) 2. Nuun (hydration tablets that are added to water)	Response Count
1	38
2	18
3	31
4	10
5	19
6	17
7	8
8	6
9	2
Average	3.5



On a scale from 1-10, how similar are the following products?	
1. Acqua Panna (natural mineral bottled water)	
2. Essentia (pH-balanced alkaline bottled water)	
	Response Count
1	6
2	2
3	3
4	6
5	11
6	8
7	23
8	32
9	26
10	32
Average	7.5

On a scale from 1-10, how similar are the following products?	
1. Acqua Panna (natural mineral bottled water)	
2. Nuun (hydration tablets that are added to water)	
	Response Count
1	29
2	18
3	29
4	13
5	20
6	16
7	9
8	8
9	5
10	2
Average	4.0



On a scale from 1-10, how similar are the following products?	
1. Essentia (pH-balanced alkaline bottled water)	
2. Nuun (hydration tablets that are added to water)	Response Count
1	26
2	13
3	24
4	16
5	19
6	12
7	14
8	14
9	3
10	8
Average	4.5

Appendix D. Interview Guide: Survey Respondents



1. What do you know about functional foods?
2. Do you think any of the products were functional foods?
3. Did any products stand out of being very similar or very different, why?
4. Did you have any other perceptions or thoughts about the products or functional foods?



Appendix E. Interview Transcripts: Survey Respondents

Interviewee 1:

1. What do you know about functional foods?

“The first thing that comes to mind is like, Superfoods. Avocados? That’s the first thing that comes to mind, something super healthy or health-oriented.”

2. Do you think any of the products featured in the survey were functional foods?

“Hmm, maybe I am rethinking avocados, maybe that actually isn’t a functional food? I guess food that maybe helps you perform well, maybe in sports, hydration tables would be considered, the milk but not the waters, not sparkling waters, I don’t really see how those are health products.”

3. Did any products stand out of being very similar or very different, why?

“For some reason, I think maybe that Milo and Nuun are related, I looked at those solving two different solutions, hydration and meal replacement or post-performance goals. They seemed to be the only items that really were related. But also, the Acqua Panna and Essentia—those seem to serve the same purpose to me, I don’t think I would serve different roles.”

4. Did you have any other perceptions or thoughts about the products?

“I really don’t see how San Pellegrino and Acqua Panna are related to functional foods, they seem like just normal waters that you would drink for leisure and water isn’t health related, I mean it’s just water we all need it.”



Interviewee 2:

1. What do you know about functional foods?

“I’ve heard the term but I don’t exactly know what it means, something about healthy food, right? Or maybe working out and fitness-related products?”

2. Do you think any of the products featured in the survey were functional foods?

“I think Essentia because it is pH balanced and alkaline although I am not really sure what that does for the body, or is that just marketing, is all water already pH balanced? Everything else just seems like drinks or water, I am not entirely sure how those hydration tablets fit in with water, besides needing water to use them.”

3. Did any products stand out of being very similar or very different, why?

“The Acqua Panna and San Pellegrino are both higher end waters that I think are separate from that other water, Essentia—that seems to be healthy just by how it’s marketed and the pH balance reference. The chocolate milk and Nuun seem very different. Milk and hydration don’t really go together, I think its weird seeing them together.”

4. Did you have any other perceptions or thoughts about the products or functional foods?

“I am wonderful if all of these products are considered functional or if just some of them are, they don’t really seem to go together except some of the waters—Nuun seems like it doesn’t belong with these all, it’s a powder? Maybe with other powdered products like smoothies or protein.”

Interviewee 3:



1. What do you know about functional foods?

“My first impression, is something with healthcare, that’s it. Or something related to working out.”

2. Do you think any of the products featured in the survey were functional foods?

“Nuun, none others honestly.”

3. Did any products stand out of being very similar or very different, why?

“Tablets [Nuun], no connection. But bottled all have a connection as being waters. Essentia has medical use based on the design of the bottle with the red logo, black, white—it reminds me of a hospital.”

4. Did you have any other perceptions or thoughts about the products or functional foods?

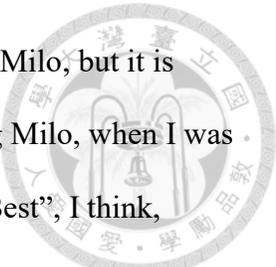
“Curious as to the link of some of these products, they seem so different, except the waters. Are all of these products’ functional foods? Milo to me was only a chocolate drink, but after taking the survey, maybe I can use it for post-workout, I never noticed the sports person on the bottle.”

Interviewee 4:

1. What do you know about functional foods?

“I have never heard of the term functional foods, so when I did the survey I was thinking, what is this? Truly, no idea.”

2. Do you think any of the products featured in the survey were functional foods?



“I am assuming some of them could be a functional food, such as Milo, but it is actually just a sweet chocolate milk drink. They did a good job marketing Milo, when I was younger my brother, he attended a basketball camp, it was called “Milo Best”, I think, which was a week long basketball camp, and then a championship game, it was perceived quite well from people around me, so my childhood I remember a lot of physical activity being advertised with Milo, but I cant speak to the science of it all.”

3. Did any products stand out of being very similar or very different, why?

“To me, water is water. I think they all taste a little different based on where they are from, but it’s just water, maybe just filtered differently and that can change the price accordingly. Pellegrino I associate with dinner or fancy drinks—but the other brands I am not familiar with but wouldn’t associate Pellegrino with sports, since Essentia looks “sporty” maybe that is special but still water”

4. Did you have any other perceptions or thoughts about the products or functional foods?

“I have never seen Nuun before and am not familiar with hydration tables, I have only ever seen the ones for Vitamin C when you are sick, obviously it looks very sporty and I would be willing to try, running or working out, it seems quite practical and I would be interested in.”

Appendix F. Interview Guide: Industry Expert



1. How does your company view functional food brands, as competitors or creating/acquiring within your company?
2. Do you view functional food products as an extension of conventional food portfolios or entirely separate categories within CPG companies
- Q3. When you think of the companies producing functional food products—do you think of large CPG companies or smaller companies, why?
4. You mentioned smaller companies, not large CPG companies producing functional products, why do you think that is?

OR

You mentioned larger CPG companies, not small companies producing functional products, why do you think that is?

5. How was the industry changed in the last 5 years regarding CPG companies and functional products acquiring or developing new products?

Appendix G. Interview Transcript: Industry Expert



Interviewee: Sales Manager, The Wonderful Company

1. How does your company view functional food brands (as competitors or creating/acquiring within your company)?

“Since our company owns a functional beverage, we definitely see a lot of competition when it comes to the super-premium juice segment. But when it comes to looking at our actual functional beverage, we have tried following some trends that other functional products were doing. Different flavors and different offerings to try to compete. Looking at our core functional beverage, we had variations adding coffee, we had a light version. We used to have supplements. We had bars, pills and so on. We had quite a few different offerings. But when it came to these different offerings, we always ended up going back to our core functional beverage. But we found when we tried to, you know, be like these other companies and organizations that are doing these different things and having blends—we failed. You know, Coke did like the coffee blend thing and I am pretty sure they failed, but think there's just quite a few different avenues that you can go.”

“But for us, we always end up sticking with our core product because it's the most profitable and we end up losing a lot of money when it comes to these other innovations, like I had mentioned previously, because none of them were successful, it's just not our strong suite. So, we really stick to our core offerings, and even if there are some exciting new functional food product hitting the market—we don't stray from our original products. A good example being Kombucha, everyone thought we should make a product but the

market was already crowded and at the end of the day—we don't know anything about kombucha.”



2. Do you view functional food products as an extension of conventional food portfolios or entirely separate categories within CPG companies?

“For this question, it makes me think of our competitors, Coke and Pepsi. And when I think of their portfolios, which is traditional conventional foods, soda, pop, and obviously Frito-Lay items with Pepsi, I think I would say that it is an extension of their conventional food portfolios, because at the end of the day, they still have, you know, their products are still being integrated with their original ones. I know these companies are trying to find healthier options of their existing products, Frito-Lay I remember acquiring Vicky's Chips which was a healthier/lighter option, so it makes sense with their current portfolio. But then again you also see Pepsi creating sugar-free sparkling waters, trying to find healthier options, and trying to diversify their portfolio with kombuchas, So I don't think it's that that far off to see it as an extension of products they already have.”

“I think it may be kind of difficult to have a separate category of functional foods just because they can vary so much in terms of what the actual product is. You know, there's lots of different beverages, there's different enhanced beverages and there's different things that suit different needs. So yeah, it is certainly a mix of products that may not be super easily defined by a customer who isn't familiar with functional food even though they are consuming them. I also think the terminology; functional food is not maybe a common everyday term that people are using or aware of. When they're consuming these products,

they look at it as being adjacent, or next to products that they have consumed before or similar products, not necessarily branching into a new food category.”

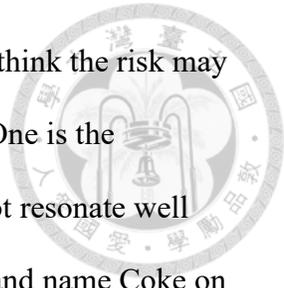


3. When you think of the companies producing functional food products—do you think of large CPG companies or smaller companies, why?

“When I think of functional food products, whether that's between, you know, larger consumer packaged goods companies or some of those smaller, natural, cooler, hipper companies, I think that there's not a whole lot of the large CPG companies that are making functional products right now. I mean, I think when we see, at least for us in our competitor space, in the super-premium juice segment, there are a lot of small, relatively unknown companies that come through, like Suja Juices. There was RBBL Juices and obviously the flurry of kombucha juices that continued to grow, all of which were not created by large companies, but rather small lesser known ones. They were all relatively unknown and gained quick popularity what seemed to be overnight and we saw them pop up and taking facings away from our core products in the juice set. So, the only thing that I can think of is, yeah, actually I can't think of a large CPG companies that has produced a functional beverage, I think Suja was actually it was acquired by Coke not created by Coke now that I am thinking about it.”

4. You mentioned larger CPG companies, not small companies producing functional products, why do you think that is?

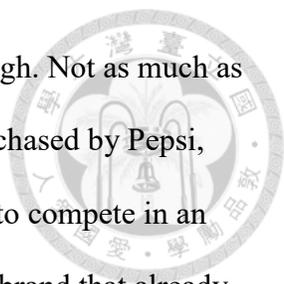
“When I think of those functional products, what we normally see is these smaller, lesser-known brands which can sometimes gain popularity very quickly and then are being purchased by these larger CPG companies. And I think, I mean, obviously these companies



have the capability to make, you know, these products themselves, but I think the risk may be too high for them to do so. I mean, I think there's a couple of things. One is the messaging. If Coke is producing a healthy beverage, it's not, or it may not resonate well with the consumer. And that's not to say the product has to have their brand name Coke on it. They can have these different names with Coca-Cola just being the parent company, but I think it's easier for the customer to see a company that has its entire core mission rooted in health and nutrition that are related to the customer's values. That isn't exactly Coke or Pepsi—you don't immediately think of health.”

“Acquiring a health beverage that can keep its popular health-focused name just under the umbrella of a large CPG could be enticing and less risky. I believe that ever since Covid-19, you know, I think people are extremely conscious of what they are eating and companies are really focusing on that. Developing a product, knowing that Coke or Pepsi is behind it and going through that entire process and getting all the product made and branded then getting shipped to stores and probably hiring a sales team to ensure that there are new product demos and sets are being configured with the new products—it's just too much risk. It's just a huge endeavor and a huge cost. And with such fluctuation in the health market and the functional food market, it's probably easier to just acquire a company and pay them out. You already know they're successful, they probably already have a line of distribution you can easily swap out with yours. There are quite a few examples I can think of where this was the case.”

“What comes to the top of my mind is the kombucha brands. I mean, they started and they were relatively unknown, but they gained a lot of market share. They took up a lot of space in the super-premium juice set in grocery stores, and we saw so many different

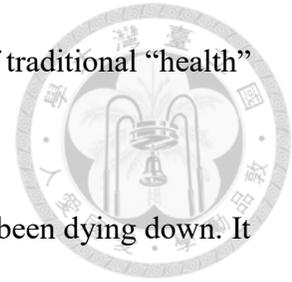


brands come through, and even now we're still seeing brands come through. Not as much as there were five or 10 years ago, but I think Kevita, for example, was purchased by Pepsi, you know? So why would Pepsi go through that entire process of trying to compete in an already crowded marketplace when it can just buy an already successful brand that already has a presence and is well-liked and use it just to diversify its portfolio? I think it's much less risky, and much more manageable for a CPG company. You don't have to worry with the messaging conflicting with your original products, and they don't have to be so concerned about, you know, developing that product on their own. Clearly, if they really wanted to, they could gather the skills or tools to make kombucha, but I don't think it's worth it for them. I don't think it's worth the risk.”

5. How was the industry changed in the last 5 years regarding CPG companies and functional products acquiring or developing new products?

“I mean I think it’s obvious that every CPG company are hyper aware of the increasing costs and rising inflation at least here in the US. Looking to see is what is going to be the future for functional or health-related categories or space, I think we are at a bit of a tipping point. I don't know, maybe 10 years ago, we used to see a lot of these smoothie juices being popular. Naked Juice, remember? They are still around but consumers are looking for something new, and that’s no longer the fastest-moving item in the super-premium juice set. Then we had a rush of consumer pressure being concerned with sugar and saw products coming following that trend of low or reduced sugars. And we're seeing things with, you know, different attributes. It’s not just no sugar, but rather ketogenic, antioxidant rich, protein-dense...etc. Maybe it's a special vitamin that we're seeing. I think

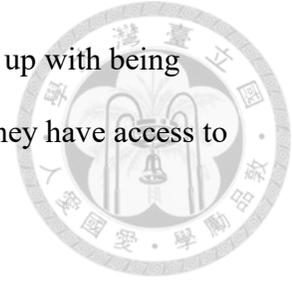
we are seeing a much savvier customer who wants something outside of traditional “health” beverages.”



“We saw probiotic shots and drinks come through, but that’s all been dying down. It seems to be quite a volatile market with brands coming and going. The claims that can be made with these various products, can state various benefits to the consumer. You know, it's not like they're exactly regulated by the US government. You obviously can't make false claims, but you have a pretty wide breadth of what marketable benefits you can advertise with your brand. I think for consumers; the messaging is quite important. And having a brand name that you can trust and see benefits impactful. I think we're seeing that under a microscope these last few years.”

“I think you can't get away with saying, you know, this has no sugar added, it’s great. Customers will want to know what else it's going to do. You know, there's a lot of ketogenic and all of these other fads that come through, and everything kind of ebbs and flows, and I think we might be at a point where we're leveling out a little bit. But I still think consumers are looking for healthy products. Reading the back of the labels, really investing in the products they're putting in their body and I don't think, you know, these large CPG companies that have a pretty large portfolio of unhealthy products are going to be able to get away with it for much longer. I mean, people are always going to buy chocolates and people are always going to have, these things that bring them joy. And that's not to say a company should not continue doing those things, but I think it, it's going to need to reevaluate and have to make decisions and evaluate their risk on if they want to create healthy products, how are they going to do that and are they even capable of doing that? You know, 25% less sugar may not be valid of being healthy, right? The industry is

slowly but surely making this shift, but consumers are quite frankly, fed up with being marketed healthy items when in fact they provide no nutritional value, they have access to information and technology after all.”



“I think that's the biggest change in the last few years, obviously because of COVID-19 too, both consumers being more aware of what they're putting in their bodies and CPG companies having to adapt to that change. CPG companies know functional foods are a volatile market, seemingly changing course on pseudo-science or internet health trends, so it's a risky place to be and I think we can see them making some safer acquisitions, one that comes to mind is Coke buying Topo-Chico. Coke already has AHA sparkling water, but Topo-Chico is well known and successful and with Coke they can spread their wings, in ways they wouldn't have been able to, don't they have Topo-Chico hard seltzer? I don't think that's something they could do with their own AHA sparkling water brand, it just doesn't command the same power as these existing brands, and I think that's another reason that makes acquisition so successful and appealing.”