Coke and Kombucha—How the Internet is Killing Traditional Brands

I am in no position to be critical of the world's greatest investor—my investing mistakes are bigger and more frequent than his.

But Warren Buffett's slip ups over the past decade have lessons for us all. Giant global consumer brands—which Buffett thought had large and impenetrable competitive moats—are under assault.

Most recently, Kraft Heinz—which Buffett's Berkshire Hathaway owns 27% of—has been in the headlines posting disappointing sales and profit numbers. Gillette's decline also caught Buffett by surprise:

> *"It really surprised me that Gillette lost position. Men don't like to experiment much. Women are better at experimenting," he said. "But when you were a kid, 'Gillette Cavalcade of Sports' was your pal, and brought you the Rose Bowl, and the World Series, and all that sort of thing. You just shaved with Gillette the rest of your life. And you still do, to a great degree."*

Even his beloved Coca-Cola Company has returned less than 7% per annum over the past five years, including dividends.

Are their moats no longer impenetrable?

Losing the arm wrestle with giant retailers

So far the focus has been on the dynamic unfolding between retailers and brands. "There's always that struggle [with] the brands", Buffett says, "and there always will be." "But the retailers, net, it has been moving in their direction."

Homebrand products have improved dramatically in quality. Sales of Costco's Kirkland homebrand now dwarf the whole of Kraft Heinz. Majority homebrand grocers like Aldi and Lidl are stealing market share from higher-priced competitors who stock far more external brands.

Both dynamics are putting pressure on established brands. Sales are not growing. And the brand owners are under immense pressure to cut prices or be cut from shelves.

There's another aspect to the changing retail landscape, though, that is less discussed but just as important. And that is big brands' former chokehold on advertising.

The broken monopoly on advertising

Have you ever wondered why the only ads you see on TV are for cars, alcohol and Coca-Cola?

When an advertiser pays for a slot on television, they pay for every set of eyeballs watching that station at that time. While they can target the most appropriate channel and the most appropriate program, there are always going to be people watching who aren't the slightest bit interested in the advertiser's product.

It's a broad medium, and a lot of money is wasted marketing to the wrong people. But the brands that waste the least are the ones with the broadest appeal. So you tend to see products advertised that are consumed by a majority of the population. And, within each product category, the brand with the broadest appeal gets the most value out of the advertising slot.

Newspapers, radio and outdoor advertising all suffer from the same dynamic. Dominant brands get the most value out of the advertising slot, which means they can pay the most for it, which results in them staying dominant.

Niche brands can market again

Digital marketing is different. If I have a gluten free, vegan muesli that I want to sell, I can now market to a very narrow universe on Facebook. Give me all the yoga-loving vegetarians from Byron Bay.

You'll still end up paying for some uninterested eyeballs, but it's a medium that is vastly superior for niche brands and products. It allows them to build a brand by marketing only to a small subset of the population.

It's no secret that the advertising dollars are shifting online and killing traditional media businesses. Less discussed is how symbiotic those traditional media companies were with the big brands.

From craft beers to kombucha drinks, you are now seeing challengers pop up all over the place. These niche products are not going to replace the staples—my coke-loving father is never going to pay $6 for a bottle of fermented kombucha. But they are going to keep eating away at the edges when the core is already under assault.

Acquisition no panacea

One solution is to buy the new challengers. **Coca-Cola Amatil** (CCA) recently bought the largest kombucha brand in Australia and global beer companies are swallowing craft beer brands every second week.

But it is a game of whack-a-mole that is proving very expensive to play. A CCA spokesperson celebrated their purchase with glowing praise of the Organic & Raw brand: "In just over eight years, Organic & Raw has gone from selling MOJO at a local farmers' market to producing one of Australia's leading organic kombucha brands".

He should see those eight years as a sign of problems to come. They have lost their monopoly on advertising and it has never been easier to take on the big boys. There are plenty more MOJOs lining up to do exactly that.

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