Soft Drink Industry

Megan Sutton, Courtney Beauvais, Will Van Ullen, and Jamie Levine
Why We Chose This Industry

- Interesting that industry dominated by two firms
- Two of us did accounting project last year comparing the financials of Coca-Cola and Pepsi and we were interested to see how they compare from an advertising standpoint
Background

- Industry produces a wide variety of generally carbonated, flavored, and sweetened water-based beverages
  - Regular carbonated soft drinks
  - Diet carbonated soft drinks and sparkling water
  - Energy and Sport drinks

- Basic Technology:
  - Carbonated water, sweetener, and other flavorings or ingredients
  - Mix dry or fresh ingredients with carbonated water which can be made with pressurized vessels or home soda siphon systems
  - May contain colorings, caffeine, or preservatives
Industry At a Glance

- Revenue: $43.1bn
- Annual Growth 10-15: -1.2%
- Annual Growth 15-20: -1.1%
- Profit: $2.7bn
- Exports: $1.1bn
- Businesses: 249
### Key Statistics

<table>
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<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>IVA ($m)</th>
<th>Establishments (Units)</th>
<th>Enterprises (Units)</th>
<th>Employment (Units)</th>
<th>Exports ($m)</th>
<th>Imports ($m)</th>
<th>Wages ($m)</th>
<th>Domestic Demand ($m)</th>
<th>Healthy Eating Index (%)</th>
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<td>2019</td>
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<td>236</td>
<td>46,561</td>
<td>1,248.6</td>
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<td>3,156.7</td>
<td>2,445.9</td>
<td>42,578.9</td>
<td>68.3</td>
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</table>

- Exports are consistently less than imports
- Employment has seen a decline and is predicted to continue decreasing
- Revenue has been decreasing and predicted to continue this trend while the healthy eating index has been increasing
Industry Structure

- Mature Industry
- Barriers to Entry: High
- Competition: High
- HHI: 1,651.66
  - Concentrated Industry
  - Note: this is estimate, “other” not included
- 4 Firm Concentration Ratio: 71%
- Regulation: Medium
Regulation in Industry

- Several cities passed policies limiting soda sales
  - Decreases availability of sodas and raises awareness of health effects
  - Set labeling requirements as result of unfair and deceptive packaging or labeling
- Sales tax applied to soft drinks in most states
Children’s Food and Beverage Advertising Initiative (CFBAI)

- Enacted in November 2006
- Coca-Cola and Pepsi agreed to voluntarily comply with initiative, agreeing to:
  - Devote at least 50% of ads directed towards kids 12 and under to promoting good nutrition and healthy lifestyles
  - Not pay for/actively seek product placement in editorial/entertainment content that is primarily targeted towards kids 12 and under
  - Not advertise food or beverage products in elementary schools
The Supply Chain - Bottled CSD

Syrup Producer
- Blend raw materials to form syrup concentrate for specific beverage
- Is this a diet beverage? YES
  - Add artificial sweetener to syrup concentrate
  - Package syrup concentrate for shipment
- NO

Bottler
- Receive syrup concentrate
- Is this a diet beverage? NO
  - Add sugar/HFCS to syrup
  - Add water, carbonate, and bottle in appropriate container
  - Package for shipment and ship
- YES

Distributor
- Receive product
- Repackage if necessary
- Send to merchant or final customer
- Receive product

Merchandiser/Final Customer
- Make available to consumer

Industry Background | Advertising Strategies | Raw Data Analysis | Recommendations
The Supply Chain - Fountain Soda

Concentrate Producer

- Blend raw materials to form syrup concentrate for specific beverage
- Add artificial sweetener/sugar/HFCS to syrup concentrate
- Package syrup concentrate for shipment
- Ship direct to final customer

Fountain Distributor

- Receive product
- Send to merchant or final customer

Final Customer (Institutions, Restaurants, etc.)

- Receive product
- Attach to fountain
- Fountain dilutes concentrate with carbonated water when dispensed
- Make available to consumer
Key Buying Industries

Major market segmentation (2015)

- 40.9% Grocery Stores
- 19.4% Gas stations and convenience stores
- 15.7% Warehouse clubs and supercenters
- 14.8% Vending machines
- 9.2% Other

Total $43.1bn

SOURCE: WWW.IBISWORLD.COM
Key Economic Drivers

- Per capita soft drink consumption
- Healthy eating index
- Per capita disposable income
- Per capita sugar and sweetener consumption
- Price of corn
The Coca-Cola Company

- Brands
  - Coca-Cola
  - Diet Coke
  - Coca-Cola Zero
  - Coca-Cola Light
  - Cherry Coke
  - Sprite
  - Fanta
  - Fresca
  - Powerade

- Highest Market Share: 29%
- Highest Estimated revenue: $12,485.2 million
PepsiCo

- Brands
  - Pepsi
  - Pepsi Max
  - Diet Pepsi
  - Mountain Dew
  - Diet Mountain Dew
  - Gatorade
  - 7 Up
  - Sierra Mist
  - Mug Root Beer

- Second highest market share: 25.4%
- Estimated revenue: $10,945.2 million
Ad-to-Sales Ratio

![Bar chart showing Ad-to-Sales ratio for Coca-Cola and Pepsi in 2014 and 2015. Coca-Cola has a higher ratio in both years.](image-url)
## Coding: Pepsi vs. Coke

### PEPSI

<table>
<thead>
<tr>
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<td>Joy of Pepsi</td>
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<td>yes</td>
<td>yes</td>
<td>active, fun</td>
<td>no</td>
<td>20-30</td>
<td>Shown and Said</td>
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<td>Jamal Lyon’s Train Ride</td>
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<td>20-30</td>
<td>Shown and Said</td>
<td>Through</td>
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<td>no</td>
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### COKE

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**Coding Takeaways**

**Pepsi**
- Almost half promotional or related to event
- Some comparative and persuasive ads
- Majority had celebrity
- Targets young adults
- Active, fun, carefree

**Coke**
- Always uses tagline
- More confident in brand
- No celebrities
- Targets families
  - Shown last on mostly family channels
- Active, happy, emotional
“Taste the Feeling” Campaign

- Coke’s first new global advertising campaign in 7 years
- “One-brand” approach
- Goal of helping to remind people why they love the brand as much as the product
- Shows the company’s commitment to choice - offering to consumers whichever Coca-Cola product suites their taste, lifestyle, and diet
2015 Relaunch of the “Pepsi Challenge”

- Working with celebrities to recruit consumers to participate in a series of challenges meant for the social media generation
- Monthly, a new challenge is introduced through social media, often times blending social responsibility with pop culture
- Centered around modern culture, digital communications, and social purpose
- Targets Millennials
- Tagline: “Live for Now”
“Share a Coke” vs. PepsiMoji

- Goal of personalization within a large brand
- 250 most popular names
- Consumers can go online and personalize their own products

- Emoji-clad packaging campaign
- 100s of emoji designs for local and global markets
- Fun, fresh, and shareable way for consumers to express their emotions
Sponsorships

Coca-Cola
- All Olympic Games
- FIFA World Cup
- American Idol
- NASCAR
- NCAA

Pepsi
- NFL
- NFL Halftime Show
- NBA
- MLB
- UEFA Champions League
Endorsements

- Coca-Cola
  - Taylor Swift
  - Maroon 5
  - Ryan Seacrest
  - Apolo Ohno
  - Michelle Kwan
- 2016 Rio Olympics
  - Alex Morgan
  - Nathan Adrian
  - Nastia Liukin
  - Ashton Eaton
  - Tatyana McFadden
  - Leo Manzano
Endorsements

- PepsiCo.
  - Michael Jackson
  - Mariah Carey
  - Nicki Minaj
  - Beyonce
  - Sofia Vergara
  - Calvin Harris
  - David Beckham
  - Leo Messi
  - Sergio Ramos
  - Drew Brees
  - Marshawn Lynch
Social Media

Twitter

3.23M

Facebook

97.51M

Coca-Cola

2.99M

Pepsi

35.16M
Coca-Cola Ad Data Per Month

Coca-Cola # of Ads and Average Ad Spending

- **# of Ads**
- **Average $**

**Axes:**
- X-axis: Months (January to December)
- Y-axis: Number of Ads and Average Ad Spending ($0.00 to $800,000.00)

**Graph:**
- January to February: High number of ads and spending.
- March to April: Moderate number of ads and decreasing spending.
- May to June: Lower number of ads and further decreasing spending.
- July to October: Steady number of ads with moderate spending.
- November: Moderate number of ads and spending.

**Key Points:**
- February has the highest number of ads and spending.
- December has a higher number of ads compared to other months.
- Average spending shows a trend of decreasing from February to November, then increasing.
Pepsi Ad Data Per Month

Pepsi # of Ads and Average Ad Spending

January: $0.00, February: $0.00, March: $40,000, April: $0.00, May: $10,000, June: $0.00, July: $10,000, August: $20,000, September: $30,000, October: $10,000, November: $0.00, December: $50,000.
Coca-Cola Ad Data Per Weekday

- Wednesday is when American Idol airs
- Many Winter Olympic ads were aired on Wednesdays
Pepsi Ad Data Per Weekday

- Situational comedies and dramas were most often on Mondays and Wednesdays
Change in TV Advertisement Channels

**TV Channels Coke 2008**

- ABC: 76%
- CBS: 7%
- CW: 1%
- FOX: 1%
- NBC: 15%

**ABC - NASCAR**
**CBS - College Basketball**
**CW - Family Entertainment**
**FOX - Slice of Life (American Idol), Sports**
**NBC - Slice of Life, Summer Olympics**

**TV Channels Coke 2014**

- ABC: 19%
- CBS: 20%
- CW: 40%
- FOX: 17%
- NBC: 4%

**ABC - Slice of Life, Dramas, Situation Comedies**
**CBS - College Basketball**
**CW - Dramas, Game Shows, Slice of Life**
**FOX - Slice of Life (American Idol)**
**NBC - Winter Olympics**
Change in TV Advertisement Channels

TV Channels Pepsi 2008

- ABC: 76%
- CBS: 21%
- FOX: 1%
- NBC: 2%

- ABC: Game Shows, Slice of Life
- CBS: Documentary
- FOX: Situation Comedies, Dramas, Slice of Life, Game Shows
- NBC: New Year’s Eve

TV Channels Pepsi 2014

- ABC: 35%
- CBS: 14%
- CW: 9%
- FOX: 21%
- NBC: 11%

- ABC: Dramas, Slice of Life, Situation Comedies
- CBS: Dramas, Situation Comedies
- CW: Dramas
- FOX: Situation Comedies, Dramas, Sports
- NBC: Dramas, Sports, Slice of Life, Game Shows
Variety of TV Creatives

Number of TV Creatives vs. Number of Total Commercials 2014

- Coca-Cola
- Pepsi

TV Creatives
- 42
- 10

Total Commercials
- 248
- 181
Investment Recommendation

- Recommend don’t invest in industry
- Industry very mature and not growing
- Revenue is declining over time
- Per capita consumption of soft drinks decreasing

![Industry revenue graph](image1)
![Per capita soft drink consumption graph](image2)
Advertising Recommendation

● Trend of more health conscious individuals
  ○ Should focus more on healthier brands and less on soda
  ○ Start showing ads for these products
  ○ Over time will pay off
  ○ Associate parent company name with those products
Questions?