Coca-Cola and Pepsi

The Shifting Landscape of the Carbonated Soft Drink Industry

Introduction

Following 100 years of growth, the carbonated soft drink industry (CSD) was a $36 billion market (see **Exhibit 1**), and Coca-Cola and Pepsi had the top selling soft drinks in the world. In 2015, sales of Pepsi and Coca-Cola products made up 70.8 percent of sales in the U.S. CSD industry (see Exhibit 1).

The year 2016 marked the 124th anniversary of Coca-Cola. After ten consecutive years as the world's most valuable brand, Coca-Cola slipped for the last five years to number three.[1] Coca-Cola products were sold in more than 200 countries. It had the world's largest beverage distribution system and owned or licensed more than 500 beverage brands. The company estimated that more than 1.7 billion servings of beverages bearing trademarks that it owned or licensed were consumed worldwide every day. Coca-Cola's 140,000 employees worked to generate nearly $42 billion in revenue in 2016[2] and the company had paid an increasing dividend to shareholders for the past 49 consecutive years.[3]

Although the Coca-Cola brand was valued at $70 billion and the Pepsi brand was valued at only $14 billion,[4] PepsiCo was the second-largest food and beverage company in the world. It owned or licensed 19 brands that each generated at least $1 billion in annual revenues. Its top brand, Pepsi-Cola reached over 2 billion in sales in 2016 through retail channels alone. The company's total 2016 revenues were more than $62 billion (see **Exhibit 3**).[5] Pepsi employed more than 285,000 people and was listed on both the *Forbes* and *Fast Company* lists of the World's Most Innovative Companies in 2011. (See Exhibit 3 for each company's historical revenues.)

But the picture was not as rosy as it might appear. The carbonated soft drink market was no longer growing as it had a few decades earlier, during the 1970s and 1980s. In fact, the CSD market was in decline. Sales of carbonated soft drinks in the largest market, the United States, had been weakening since the turn of the century, declining over 8 percent between 2000 and 2010, with forecasts of continued weak sales.[6] After a small bump in sales in 2011, the industry continued its slow downward slide.[7] This trend continued through 2016, even in the diet soft drink segment of the market, a segment that Coke and Pepsi both thought would be more impervious to changing consumer tastes. From 2012 to 2013, regular soft drink sales dropped 2.2 percent, continuing a trend begun in 2000, while diet drinks plunged 6.8 percent, shaking the confidence of executives in both firms.[8] Entering 2017, Coca-Cola and Pepsi both faced important questions of how to continue their success despite the changes they were facing in the CSD industry.

EXHIBIT 1 **Selected U.S. CSD Company & Brand Market Share Figures (At Current Prices, in Millions)***

		2008		2009		2010		2011		2012		2013		2014		2015	
	Company	Sales	Market Share	Sales	Market Share	Sales	Market Share	Sales	Market Share	Sales	Market Share	Sales	Market Share	Sales	Market Share	Sales	Market Share
CSD market total†		$13,401		$13,500		$13,343		$37,430		$36,890		$36,070		$36,020		$36,050	
CSD Companies																	
Coca-Cola		$5,128	38.27%	$5,103	37.80%	$4,955	37.14%	$7,647	39.00%	$7,572	39.00%	$7,465	45.6%	$7,551	40.2%	$7,576	40.5%
PepsiCo		$4,288	32.00%	$4,290	31.78%	$4,036	30.25%	$6,120	31.20%	$6,029	31.20%	$5,834	31.0%	$5,770	30.7%	$5,693	30.3%
Dr. Pepper		$2,649	19.77%	$2,699	19.99%	$2,862	21.45%	$4,124	21.00%	$4,082	21.10%	$4,000	22.2%	$3,999	21.3%	$4,058	21.5%
Private Label		$819	6.11%	$874	6.47%	$940	7.04%	$1,191	6.10%	$1,096	5.70%	$971	5.1%	$574	4.6%	$823	4.4%
other		$517	3.86%	$534	3.96%	$550	4.12%	$528	2.70%	$537	2.80%	$637	3.4%	$552	3.0%	$595	3.2%
Selected CSD brands																	
Coke Classic	Coca-Cola	$1,870	13.95%	$1,880	13.93%	$1,758	13.18%	$2,988	15.10%	$2,970	15.30%	$3,261	17.0%	$3,363	25.9%	$3,426	25.9%
Pepsi	Pepsi	$1,430	10.67%	$1,415	10.48%	$1,290	9.67%	$1,958	9.90%	$1,897	9.80%	$2,067	10.9%	$2,130	16.4%	$2,125	16.1%
Diet Coke	Coca-Cola	$1,179	8.80%	$1,183	8.76%	$1,152	8.63%	$1,712	8.90%	$1,660	8.60%	$1,934	10.4%	$1,830	31.8%	$1,759	31.8%
Mountain Dew	Pepsi	$745	5.56%	$772	5.72%	$747	5.60%	$1,384	7.00%	$1,414	7.30%	$1,537	8.0%	$1,608	12.4%	$1,658	12.5%
Diet Pepsi	Pepsi	$779	5.81%	$744	5.51%	$697	5.22%	$953	4.90%	$907	4.70%	$1,097	5.9%	$1,056	18.4%	$1,004	18.2%
Dr. Pepper	DPSG	$602	4.49%	$615	4.56%	$638	4.78%	$1,117	5.70%	$1,121	5.30%	$1,220	6.4%	$1,226	9.4%	$1,266	9.6%
Sprite	Coca-Cola	$551	4.11%	$547	4.05%	$541	4.05%	$919	4.70%	$921	4.80%	$946	5.0%	$983	7.6%	$1,030	7.8%
Diet Dr. Pepper	DPSG	$297	2.22%	$295	2.19%	$338	2.53%	$485	2.50%	$472	2.40%	$519	2.8%	$488	8.5%	$483	8.7%
Diet Mountain Dew	Pepsi	$273	2.04%	$293	2.17%	$314	2.35%	$539	2.80%	$549	2.90%	$564	3.0%	$554	9.6%	$534	9.7%
Coke Zero	Coca-Cola	$199	1.48%	$251	1.86%	$299	2.24%	$491	2.60%	$507	2.70%	$595	3.2%	$583	10.1%	$568	10.3%
Caffeine Free Diet Coke	Coca-Cola	$329	2.46%	$312	2.31%	$295	2.21%	$360	1.90%	$337	1.80%						
7 UP	DPSG	$217	1.62%	$215	1.59%	$198	1.48%	$258	1.30%	$255	1.30%	$292	1.5%	$297	2.3%	$281	2.1%
Sunkist	DPSG	$196	1.46%	$206	1.53%	$160	1.20%	$218	1.10%	$213	1.10%	$210	1.1%	$214	1.6%	$210	1.6%
Caffeine Free Diet Pepsi	Pepsi	$210	1.57%	$190	1.41%	$159	1.19%	$176	0.90%	$156	0.80%						
Sierra Mist	Pepsi	$181	1.35%	$181	1.34%	$131	0.98%	$181	0.90%	$169	0.90%	$153	0.8%	$130	1.0%	$108	0.8%
Fanta	Coca-Cola	$105	0.78%	$116	0.86%	$119	0.89%	$222	1.10%	$244	1.30%	$240	1.3%	$278	2.1%	$290	2.2%
Diet 7 UP	DPSG	$116	0.87%	$118	0.87%	$113	0.85%	$139	0.70%	$138	0.70%	$146	1.3%	$138	2.4%	$130	2.4%
								$171	0.90%	$158	0.80%	$147	0.8%	$144	2.5%	$139	2.5%
								$154	0.80%	$137	0.70%	$109	0.6%	$86	1.5%	$74	1.3%
								$97	0.50%	$90	0.50%	$90	0.5%	$74	1.3%	$71	1.3%
								$70	0.40%	$67	0.30%	$65	0.4%	$54	0.9%	$43	0.8%

*The data for 2008–2010 are derived from FDMx sales data which is Food, Drug, and Mass sales data excluding Walmart sales. This and other exhibits based on FDMx data are not reflective of the entire beverage market.

†The data for 2011–2015 are based on MULO sales data from Information Resources, Inc., InfoScan Reviews. MULO is defined as Multi Outlet, representative of the following channels: total U.S. Grocery, Mass, Total U.S. Drug, Total Walmart, Dollar, Military, and Club. MULO data are much more complete. That is why there is such a big difference in the sales numbers from 2010 to 2011.

Figures may not equal 100% as some data is only available for particular years and some small labels are left out of the table.

Source 2008–2010: Mintel Group Ltd., "Non-Alcoholic Beverages: The Market – US" (April 2011).

Source 2011–2015: Information Resources, Inc., InfoScan Reviews/Mintel.

At the time of printing data was not yet available for 2016 and beyond.

Current Industry Dynamics

The carbonated soft drink industry encompasses carbonated, nonalcoholic beverages, including colas and noncola drinks, such as root beer, orange, lemon-lime, and other flavors. Americans consume, year in and year out, more soft drinks than any other category of drinks even with the move toward BFY (better for you) beverages.

The CSD Industry saw an annual growth of roughly 10 percent between the early 1970s and late 1990s.[9] Americans consumed an average of 23 gallons of CSD annually in 1970, and consumption grew by 3 percent per year for the next 30 years.[10] By the early 2000s, however, attitudes toward soda had begun to change. Americans were down to drinking roughly 46 gallons of CSD per year, significantly less than their consumption levels in the late 1980s. Cola was still the majority of CSD consumption, but it dropped from 71 percent of all CSD in 1990 to 55 percent in 2009.[11] U.S. CSD sales further fell by 0.2 percent in 2005, 0.6 percent in 2006 and 2.3 percent in 2007.[12] Citing decreasing consumer spending in general and increased consumer preferences for healthier foods, industry analysts expected CSD industry revenues to decline even more, by 2 percent per year from 2011 through 2021.[13]

Some of the decline in sales is due to the rise of substitute products. Many substitute products are available at varying price points, including water, dairy, juice, coffee, tea, energy drinks, and more (see **Exhibit 2a and 2b**). Take Red Bull, for instance. Red Bull entered the US soft drinks market in 1997 with a niche product: a carbonated energy drink retailing at $2 for an 8.3-ounce can—twice what you would pay for a Coke or a Pepsi. The company designed its cans as narrow, tall cylinders, so retailers could stack them in small spaces. It started by selling Red Bull through unconventional outlets such as bars, where bartenders mixed it with alcohol, and nightclubs, where 20-somethings gulped down the caffeine-rich drink so they could dance all night. After gaining a loyal following, Red Bull used the pull of high margins to elbow its way into the corner store, where it now sits in refrigerated bins within arm's length of Coke and Pepsi. In the United States, where Red Bull enjoyed the highest market share of the $12 billion energy drink market in 2015, its sales are growing at about 35 percent a year. Red Bull is privately held, but all the signs suggest that it's profitable.

Although substitutes have taken a large bite out of Coca-Cola and Pepsi's profits, companies trying to directly enter the CSD market haven't been as successful. For instance, in 1998, Virgin Drinks launched its own cola, advertising heavily and trying to get into all the retail outlets that stocked the leading brands. At Virgin Cola's US launch, Virgin Group CEO Richard Branson drove a tank through a wall of cans in New York's Times Square to symbolize the war he wished to wage on Coca-Cola and Pepsi. However, the leaders' viselike grip on shelf space in grocery stores and other retail outlets proved impossible for Virgin Drinks to break. In July 2000, the company's marketing vice president admitted to a trade publication that "There are people who are saying, 'We've been looking for years, and we can't find it [Virgin Cola].'" Virgin Drinks was never able to garner more than a 1 percent share of the US cola market.

For both a new entrant and an established firm such as Coca-Cola and Pepsi, the process of CSD production is similar. It essentially involves combining raw ingredients and packaging for shipment to its buyers. Participants in the process include: raw material suppliers; manufacturers of concentrates—flavor syrups not yet diluted with carbonated water—who purchase some raw materials; bottlers, who purchase concentrate and additional raw materials; and retailers. Concentrate manufacturers and bottlers are the two major players during the production process.