Chapter 1

Introduction

1.1 Introduction

Today's consumers are more demanding for an increasing level of fun and variety. Anything that surrounds them for too long jades them. With the dawn of every fresh day, these modern day customers demand for quality and healthy food that is offered as per their convenience and changing cultural needs. The survival of any food outlet or the industry is also highly dependent on them; their palate can either make or break the existence of these companies. This has wrought a great challenge on the marketers of the food industry who intentionally resort to unethical practices that had sourced many lively international debates on ethical and marketing practices of the food industry besides the intervention of regulatory authorities to implement necessary legislation wherever required to reduce the ill-effects on the society.

In an increasingly complex world, individuals and businesses are faced with more and more choices but seemingly have less and less time to make those choices. The ability of strong brand to simplify consumer decision making, reduce risk, and set expectations is thus invaluable. Creating strong brands that deliver on that promise, maintaining and enhancing the strength of those brands over time is thus a management imperative.

Consumer research insights have long played an important role in managerial decision making in many areas of marketing, for example, in the development of
advertising, pricing, and channel strategies. Branding involves the process of endowing products and services with the advantages that accrue to building a strong brand (e.g., enhanced loyalty, price premiums, etc.). Branding’s emergence as a management priority has led to a similar need to inform practicing managers of concepts, theories, and guidelines from consumer research to facilitate their brand stewardship.

Marketers are desperate for consumer behavior learning that will improve their understanding of branding and their design and implementation of brand-building marketing programs. The importance of consumer research to marketing practice has perhaps never been higher as managers struggle to adapt to a fast-changing marketing environment characterized by savvier consumers and increased competition, as well as the decreased effectiveness of traditional marketing tactics and the emergence of new marketing tools.

In this complex marketing world, marketers find themselves having to grapple with difficult issues about branding and their brands. What are the most effective and efficient means of building a strong brand? What are the proper roles for popularized marketing approaches such as buzz marketing, permission marketing, one-to-one marketing, experiential marketing, and so on? How do you measure the strength and value of a brand? How do you decide when and where to expand a brand, for example, into new product categories or new market segments? How do you keep brand relevant and contemporary while preserving its heritage and sources of equity? In many cases, a deeper understanding of how consumers feel, think, and act could provide valuable guidance to address these brand-management challenges.
One area of increasing importance is the brand-leveraging process, that is, the effects on consumers of linking a brand to another person, place, thing, or brand. Analyzing this leveraging process requires understanding (1) what in fact consumers know about a brand and (2) how this knowledge might be affected by linking the brand to other entities.

1.2 Brief History of Branding

According to the American Marketing Association (AMA), a brand is a “name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.”

The word brand originally meant anything hot or burning, and for hundreds of years was associated with the process of marking an animal with a unique symbol so that the owner could identify it at a later date. The practice involved heating a branding iron that was fashioned into a symbol, letter or name, in a fire, which would then be pressed against the hide of an animal, burning the hair and skin and leaving a permanent scar on the body. The term brand now has a wider meaning, and is used to describe a name, logo or slogan associated with a particular company, product or service. Brands came about as a way to identity a companies' products from similar products of rival businesses, but of course branding could also be used to disguise an inferior product as one of higher quality; in ancient China, merchants sometimes used branding to falsely pass off lower grade garden tea as higher grade hill tea, by using names such as "Misty Mountain Tea", or "Garden in the Sky Tea". A brand is all about how a customer
perceives a product or company. A successful brand is recognizable and creates an instant association with a product or service. For example, people see a McDonald’s Restaurant, and they know they can get quick and cheap food there. Building a brand can take a long time and is a combination of having a consistent product, as well as strong advertising and marketing. The highest level of achievement in the world of branding is to create a brand that is instantly recognizable even without the name of the company present. This takes years of marketing and huge amounts of investment; companies that have achieved this include Nike (with its "swoosh"), McDonald’s (with its Golden Arches), Playboy (with the Playboy Bunny) and several car manufacturers such as Mercedes, Jaguar and Mitsubishi. These days, companies spend thousands of dollars building and promoting their brands, keeping up on the latest media news and advancements. A company's brand is vital to its success and therefore it's imperative that a company monitors its brand image to ensure that it is being perceived in the way it wants to be. Negative press relating to a particular brand can have extremely detrimental effects and can mean that the public associate a brand with negative aspects, which is obviously bad for business, and a damaged brand can take months or even years to recover, if it ever recovers at all.

There are different roles that brands can play for consumers as well as manufacturers:

Consumers:

i. Identifying the source of the product

ii. Assignment of responsibility to product maker
iii. Risk reducer

iv. Search cost reducer

v. Promise, bond, or pact with maker of product

vi. Symbolic device

vii. Signal of quality

Manufacturers:

i. Means of identification to simplify handling or tracing

ii. Means of legally protecting unique features

iii. Signal of quality level to satisfied customers

iv. Means of endowing products with unique associations

v. Source of competitive advantage

vi. Source of financial returns

A brand is a perceptual entity that is rooted in reality, but it is also more than that, reflecting the perceptions and perhaps even the idiosyncrasies of consumers.

To brand a product, it is necessary to teach consumers “who” the product is – by giving it a name and using other brand elements to help identify it- as well as what the product does and why consumers should care. In other words, to brand a product or service, it is necessary to give consumers a label for the product (i.e., “here’s how you can identify a product”) and to provide meaning for the brand to
consumers (i.e., ‘here’s what this particular product can do for you and why it is special and different from other brand name products’). Branding involves creating mental structures and helping consumers organize their knowledge about product and services in a way that clarifies their decision making and, in the process, provides value to the firms. The key to branding is that consumers perceive differences among brands in a product category. Brand differences often are related to attributes or benefits of the product itself. In other cases, however, brand differences may be related to more intangible image considerations.

Whenever and whatever consumers are deciding between alternatives, brands can play an important decision-making role. Accordingly marketers can benefit from branding whenever consumers are in a choice situation.

1.3 Branding Challenges and Opportunities

The various challenges and opportunities related to branding are listed below:

a. Savvy Customers
b. Complex brand families and portfolios
c. Maturing markets
d. Sophisticated and increasing competition
e. Difficulty in differentiating
f. Decreasing brand loyalty in many categories
g. Growth of private labels
h. Increasing trade power

i. Fragmenting media coverage

j. Eroding traditional media effectiveness

k. Emerging new communication options

l. Increasing promotional expenditure

m. Decreasing advertising expenditure

n. Increasing cost of product introduction and support

o. Short term performance orientation

p. Increasing job turnover

Some of the marketing advantages of strong brands are:

I. Improved perceptions of product performance

II. Greater loyalty

III. Less vulnerability to competitive marketing actions

IV. Larger margins

V. More inelastic consumer response to price increases

VI. More elastic consumer response to price decrease

VII. Greater trade cooperation and support
1.4 Attitude

1.4.1 Tricomponents Model of Attitude

According to tricomponent model of attitude (figure 1.1), consumer attitudes are a composite of a consumer’s (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object, within the context of marketing, usually a brand or retail store.

These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

Beliefs: The first component is beliefs. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative beliefs (e.g., coffee is easily spilled and stains papers). In addition, some beliefs may be neutral (coffee is black), and some may be differ in valance depending on the person or the situation (e.g., coffee is hot and stimulates--good on a cold morning, but not good on a hot summer evening when one wants to sleep). Note also that the beliefs that consumers hold need not be accurate (e.g., that pork contains little fat), and some beliefs may, upon closer examination, be
contradictory (e.g., that a historical figure was a good person but also owned slaves).

Since a consumer holds many beliefs, it may often be difficult to get down to a “bottom line” overall belief about whether an object such as McDonald’s is overall good or bad.

The Multiattribute (also sometimes known as the Fishbein) Model attempts to summarize overall attitudes into one score using the equation: \[ A_b = \sum_{i=1}^{n} W_i X_{ib} \]

That is, for each belief, we take the weight or importance (Wi) of that belief and multiply it with its evaluation (Xib). For example, a consumer believes that the taste of a beverage is moderately important, or a 4 on a scale from 1 to 7. He or she believes that coffee tastes very good, or a 6 on a scale from 1 to 7. Thus, the product here is 4(6) = 24. On the other hand, he or she believes that the potential of a drink to stain is extremely important (7), and coffee fares moderately badly, at a score -4, on this attribute (since this is a negative belief, we now take negative numbers from -1 to -7, with -7 being worst). Thus, we now have 7(-4) = -28. Had these two beliefs been the only beliefs the consumer held, his or her total, or aggregated, attitude would have been 24 + (-28) = -4. In practice, of course, consumers tend to have many more beliefs that must each be added to obtain an accurate measurement.

**Affect:** Consumers also hold certain feelings toward brands or other objects. Sometimes these feelings are based on the beliefs (e.g., a person feels nauseated when thinking about a hamburger because of the tremendous amount of fat it contains), but there may also be feelings which are relatively independent of
beliefs. For example, an extreme environmentalist may believe that cutting down trees is morally wrong, but may have positive affect toward Christmas trees because he or she unconsciously associates these trees with the experience that he or she had at Christmas as a child.

**Behavioral Intention:** The behavioral intention is what the consumer plans to do with respect to the object (e.g., buy or not buy the brand). As with affect, this is sometimes a logical consequence of beliefs (or affect), but may sometimes reflect other circumstances--e.g., although a consumer does not really like a restaurant, he or she will go there because it is a hangout for his or her friends.

### 1.4.2 Attitude - Behavior Consistency

Consumers often do not behave consistently with their attitudes for several reasons:

- **Ability.** He or she may be unable to do so. Although junior high school student likes pick-up trucks and would like to buy one, she may lack a driver’s license.

- **Competing demands for resources.** Although the above student would like to buy a pickup truck on her sixteenth birthday, she would rather have a computer, and has money for only one of the two.

- **Social influence.** A student thinks that smoking is really cool, but since his friends think it’s disgusting, he does not smoke.

- **Measurement problems.** Measuring attitudes is difficult. In many situations, consumers do not consciously set out to enumerate how positively or negatively
they feel about mopeds, and when a market researcher asks them about their beliefs about mopeds, how important these beliefs are, and their evaluation of the performance of mopeds with respect to these beliefs, consumers often do not give very reliable answers. Thus, the consumers may act consistently with their attitudes, which were never uncovered because an erroneous measurement was made.

1.4.3 Attitude Change Strategies

Changing attitudes is generally very difficult, particularly when consumers suspect that the marketer has a self-serving agenda in bringing about this change (e.g., to get the consumer to buy more or to switch brands).

*Changing Affect.* One approach is to try to change affect, which may or may not involve getting consumers to change their beliefs. One strategy uses the approach of classical conditioning try to “pair” the product with a liked stimulus. For example, we “pair” a car with a beautiful woman. Alternatively, we can try to get people to like the advertisement and hope that this liking will “spill over” into the purchase of a product. For example, the Pillsbury Doughboy does not really emphasize the conveyance of much information to the consumer; instead, it attempts to create a warm, fuzzy image. Although Energizer Bunny ads try to get people to believe that their batteries last longer, the main emphasis is on the likeable bunny. Finally, products which are better known, through the mere exposure effect, tend to be better liked--that is, the more a product is advertised and seen in stores, the more it will generally be liked, even if consumers to do not develop any specific beliefs about the product.
Changing Behavior. People like to believe that their behavior is rational; thus, once they use our products, chances are that they will continue unless someone is able to get them to switch. One way to get people to switch to our brand is to use temporary price discounts and coupons; however, when consumers buy a product on deal, they may justify the purchase based on that deal (i.e., the low price) and may then switch to other brands on deal later. A better way to get people to switch to our brand is to at least temporarily obtain better shelf space so that the product is more convenient. Consumers are less likely to use this availability as a rationale for their purchase and may continue to buy the product even when the product is less conveniently located.

Changing Beliefs. Although attempting to change beliefs is the obvious way to attempt attitude change, particularly when consumers hold unfavorable or inaccurate ones, this is often difficult to achieve because consumers tend to resist. Several approaches to belief change exist:

1. Change currently held beliefs. It is generally very difficult to attempt to change beliefs that people hold, particularly those that are strongly held, even if they are inaccurate. For example, the petroleum industry advertised for a long time that its profits were lower than were commonly believed, and provided extensive factual evidence in its advertising to support this reality. Consumers were suspicious and rejected this information, however.

2. Change the importance of beliefs. Although the sugar manufacturers would undoubtedly like to decrease the importance of healthy teeth, it is usually not feasible to make beliefs less important--consumers are likely to reason, why,
then, would you bother bringing them up in the first place? However, it may be possible to strengthen beliefs that favor us--e.g., a vitamin supplement manufacturer may advertise that it is extremely important for women to replace iron lost through menstruation. Most consumers already agree with this, but the belief can be made stronger.

3. *Add beliefs.* Consumers are less likely to resist the addition of beliefs so long as they do not conflict with existing beliefs. Thus, the beef industry has added beliefs that beef (1) is convenient and (2) can be used to make a number of creative dishes. Vitamin manufacturers attempt to add the belief that stress causes vitamin depletion, which sounds quite plausible to most people.

4. *Change ideal.* It usually difficult, and very risky, to attempt to change ideals, and only few firms succeed. For example, Hard Candy may have attempted to change the ideal away from traditional beauty toward more unique self expression.

### 1.5 Decision Making

#### 1.5.1 Problem Recognition

One model of consumer decision making involves several steps.

![Figure 1.2 Decision Making Process](image)

The first one is *problem recognition*—one may realize that something is not as it should be. Perhaps, for example, the car is getting more difficult to start and is not accelerating well. The second step *information search*—what are some
alternative ways of solving the problem? One might buy a new car, buy a used car, take his/her car in for repair, ride the bus, ride a taxi, or ride a skateboard to work. The third step involves evaluation of alternatives. A skateboard is inexpensive, but may be ill-suited for long distances and for rainy days. Finally, there is the purchase stage, and sometimes a post-purchase stage (e.g., one may return a product to the store because he/she did not find it satisfactory). In reality, people may go back and forth between the stages.

Consumer involvement will tend to vary dramatically depending on the type of product. In general, consumer involvement will be higher for products that are very expensive (e.g., a home, a car) or are highly significant in the consumer’s life in some other way (e.g., a word processing program or acne medication).

It is important to consider the consumer’s motivation for buying products; For example, a consumer may see that a car has a large engine, leading to fast acceleration, leading to a feeling of performance, leading to a feeling of power, which ultimately improves the consumer’s self-esteem. A handgun may aim bullets with precision, which enables the user to kill an intruder, which means that the intruder will not be able to harm the consumer’s family, which achieves the desired end-state of security. In advertising, it is important to portray the desired end-states. Focusing on the large motor will do less good than portraying a successful person driving the car.

1.5.2 Information Search and Decision making

Consumers engage in both internal and external information search.
Internal search involves the consumer identifying alternatives from his or her memory. For certain low involvement products, it is very important that marketing programs achieve “top of mind” awareness. For example, few people will search the Yellow Pages for fast food restaurants; thus, the consumer must be able to retrieve one’s restaurant from memory before it will be considered. For high involvement products, consumers are more likely to use an external search. Before buying a car, for example, the consumer may ask friends’ opinions, read reviews in Consumer Reports, consult several web sites, and visit several dealerships. Thus, firms that make products that are selected predominantly through external search must invest in having information available to the consumer in need—e.g., through brochures, web sites, or news coverage.

A compensatory decision involves the consumer “trading off” good and bad attributes of a product. For example, a car may have a low price and good gas mileage but slow acceleration. If the price is sufficiently inexpensive and gas efficient, the consumer may then select it over a car with better acceleration that costs more and uses more gas. Occasionally, a decision will involve a non-compensatory strategy. For example, a parent may reject all soft drinks that contain artificial sweeteners. Here, other good features such as taste and low calories cannot overcome this one “non-negotiable” attribute.

The amount of effort a consumer puts into searching depends on a number of factors such as the market (how many competitors are there, and how great are differences between brands expected to be?), product characteristics (how important is this product? How complex is the product? How obvious are
indications of quality?), consumer characteristics (how interested is a consumer, generally, in analyzing product characteristics and making the best possible deal?), and situational characteristics. Two interesting issues in decisions are:

- **Variety seeking** (where consumers seek to try new brands not because these brands are expected to be “better” in any way, but rather because the consumer wants a “change of pace,” and

- **Impulse purchases**—unplanned buys. This represents a somewhat fuzzy group. For example, a shopper may plan to buy vegetables but only decide in the store to actually buy broccoli and corn. Alternatively, a person may buy an item which is currently on sale, or one that he or she remembers that is needed only once inside the store.

A number of factors involve consumer choices. In some cases, consumers will be more motivated. For example, one may be more careful choosing a gift for an in-law than when buying the same thing for one self. Some consumers are also more motivated to comparison shop for the best prices, while others are more convenience oriented. Personality impacts decisions. Some like variety more than others, and some are more receptive to stimulation and excitement in trying new stores. Perception influences decisions. Some people, for example, can taste the difference between generic and name brand foods while many cannot. Selective perception occurs when a person is paying attention only to information of interest. For example, when looking for a new car, the consumer may pay more attention to car ads than when this is not in the horizon. Some consumers are put off by perceived risk. Thus, many marketers offer a money back
guarantee. Consumers will tend to change their behavior through learning—e.g., they will avoid restaurants they have found to be crowded and will settle on brands that best meet their tastes. Consumers differ in the values they hold (e.g., some people are more committed to recycling than others who will not want to go through the hassle).

Meeting changing customer needs by providing the right products/services has been an ongoing marketing challenge for retailing in competitive global markets. Consumers may choose particular products/brands not only because these products provide the functional or performance benefits expected, but also because products can be used to express consumers’ personality, social status or affiliation (symbolic purposes) or to fulfill their internal psychological needs, such as the need for change or newness (emotional purposes). Consumer needs, to be fulfilled through consumption of particular products or brands, however, vary considerably with the socio-economic and cultural differences among consumer markets. According to Yau (1994), consumers’ product choice and preference for a particular product or brand are generally affected by very complex social influences. Thus, consumers’ values, which reflect social influences and environment, should affect needs to be fulfilled through purchase and consumption decisions, and therefore consumption behavior. Consumers’ preferences for certain products also change over time as their consumption situation and environment change.¹

Personal values have been shown to be the underlying determinant of consumer attitudes and consumption behavior (Scott and Lamont, 1977²; Homer and Kahle, 1988³). According to social adaptation theory (Piner and Kahle, 1984⁴), values
are a type of social cognition that functions to facilitate adaptation to one’s environment through continuous assimilation, accommodation, organization, and integration of environmental information. Earlier research on values and behaviors by Williams (1979)\(^5\) demonstrated the role of consumer values in subsequent behavior noting that “actual selections of behavior result from concrete motivations in specific situations which are partly determined by prior beliefs and values of the actors”. Homer and Kahle (1988)\(^3\) and Erdem et al. (1999)\(^6\) referenced several previous studies on values-behaviors to support the linkage of values, attitude and behavior, showing that individual value differences are related to significant differences in a variety of attitudinal and behavioral outcomes with respect to automobile purchase, mass media subscription, cigarette smoking, etc.

### 1.6 Understanding Brand Knowledge

Consumer brand knowledge relates to the cognitive representation of the brand (Peter and Olson 2001).\(^7\) Consumer brand knowledge can be defined in terms of the personal meaning about a brand stored in consumer memory, that all descriptive and evaluative brand-related information. Researchers have studied consumer brand knowledge for decades, with different areas receiving greater emphasis depending on the dominant research paradigm and thrust the time. For example, reflecting in part a strong methodological interest in information-display boards, researchers studying the organization of consumer memory at one point debated whether brand-knowledge structures were organized by attributes or by brands, as well as the effects different information-processing factors such as consumer goals, brand familiarity, and so on.\(^8,9\)
The reality that emerges from the varied research activity in branding through the years is that all different kinds of information may become linked to a brand, including the following:

1. Awareness—category identification and needs satisfied by the brand.

2. Attributes—descriptive features that characterize the brand name product either intrinsically (e.g., related to product performance) or extrinsically (e.g., related to brand personality or heritage).

3. Benefits—personal value and meaning that consumers attach to the brand’s product attributes (e.g., functional, symbolic, or experiential consequences from the brand’s purchase or consumption).

4. Images—visual information, either concrete or abstract in nature.

5. Thoughts—personal cognitive responses to any brand-related information.

6. Feelings—personal affective responses to any brand-related information.

7. Attitudes—summary judgments and overall evaluations to any brand-related information.

8. Experiences—purchase and consumption behaviors and any other brand-related episodes.

Broadly, these different kinds of information can be seen as some of the key dimensions of brand knowledge. These dimensions of brand knowledge vary on all sorts of considerations beyond their content, for example, abstractness, valence, strength, uniqueness, and so on. Importantly, all of these different kinds
of information may become a part of consumer memory and affect consumer response to marketing activities. By creating differential consumer responses and affecting the success of brand building marketing programs, brand knowledge is the source of brand equity.

These different dimensions of brand knowledge have seen concerted research efforts through the years, albeit in varying degrees, for understanding their marketing effects, but these efforts have often been in comparative isolation. An important future research challenge, however, is to develop holistic perspectives toward brand knowledge that would encompass the full range of all the different kinds of information involved, for example, approaches to create and apply detailed mental maps for brands. An ideal mental map representation would be a blueprint of brand knowledge, as comprehensive while also as parsimonious as possible, that would provide the necessary depth and breadth of understanding of consumer behavior and marketing activity.

Developing broader perspectives toward brand knowledge is important given the reality (1) that marketing activity creates or affects multiple dimensions of brand knowledge and (2) that multiple dimensions of brand knowledge, in turn, influence consumer response to marketing activity. Integrating the different dimensions of brand knowledge could improve the ability of researchers to model consumer response and of marketers to focus their marketing programs better. For example, it may be useful to decompose consumer response to a well-known and well-liked brand in terms of to what extent the response is being driven by brand familiarity versus brand likeability. By assembling the different dimensions of brand knowledge, their comparative effects could be traced and valued to
address causal questions such as the relative importance of brand personality or other imagery and brand feelings, which different dimensions of brand knowledge have to be created to gain the benefits from branding, and so on.

Moreover, different dimensions of brand knowledge are likely to have interactive effects. For example, strong brand awareness and familiarity may be a prerequisite for certain types of thoughts, feelings, or attitudes to occur. How do the different dimensions of brand knowledge function as antecedents to or consequences with respect to other dimensions? How malleable or changeable are these different dimensions over time? Holistic approaches are thus needed that attempt to capture more dimensions of brand knowledge, both methodologically in terms of tools and models for creating mental maps as well as conceptually and managerially in terms of recognizing the range of effects in brand knowledge arising from and influencing marketing activity.

For example, in terms of the former, Janiszewski and Osselaer (2000) provide a demonstration of a connectionist model where consumers are assumed to be adaptive learners who are “learning to value.” This model is an example of an approach with potential to contribute to mental mapping. In terms of the latter, unlike the static nature of mental maps, models that capture the interplay between brand knowledge and consumer response to marketing activity necessarily will need to be dynamic, with appropriate updating mechanisms of consumer memory. One challenge here is the wide range of marketing activity involved and the potential wide range of dimensions of brand knowledge that may come into play. The next section considers one particularly important form of marketing
activity, brand leveraging, and its potentially broad impact on knowledge for the brand.

A number of theories and processes have been proposed to explain how brand leveraging effects might be manifested, for example, source credibility, affect transfer, cognitive consistency, categorization models, and so on. One potentially fruitful research direction is how the various concepts and mechanisms proposed in one area might be relevant and provide insight into other areas. For example, how might source credibility be applied to country-of-origin effects? How are countries deemed expert, trustworthy, or likable? Such applications could yield insight as to how broadly the various theories and processes can generalize.

A deeper understanding of how knowledge for a brand and other linked entities interact is thus of paramount importance. Ideally, to provide comparable insight and guidance, an abstract model would be developed that encompassed all the different means of leveraging brand knowledge. Along those lines, three factors would seem to be particularly important in predicting the extent of leveraging that might result from linking a brand to another entity in some manner:

1. Knowledge of the entity—the same dimensions identified for brand knowledge could be applied to these other entities; in this case, what knowledge exists about the entity and has the potential to transfer to the brand?

2. Meaningfulness of the knowledge of the entity—given that the other entity has some potentially relevant knowledge, to what extent might this knowledge be deemed meaningful for a brand?
3. Transferability of the knowledge of the entity—assuming that some potentially meaningful knowledge exists for the other entity and could possibly be transferred to a brand, to what extent will this knowledge actually become linked to the brand or affect existing knowledge? In other words, the basic questions with leveraging secondary knowledge of any type of other entity would seem to be (1) What do consumers know about the other entity? (2) Does any of this knowledge affect what they think about a brand when it becomes linked to or associated in some fashion with this other entity? Theoretically, any aspect of knowledge may be inferred as a result of other entities being linked to the brand, although some types of entities are inherently more likely to create or affect certain kinds of brand knowledge than would other types of entities. For example, events may be especially conducive to the creation of experiences, people may be especially effective for the elicitation of feelings, other brands may be especially well suited for establishing particular attributes and benefits, and so on. At the same time, any one entity may be associated with multiple dimensions of knowledge, each of which may affect brand knowledge directly or indirectly. For example, consider the effects on knowledge of linking the brand to a cause. Identification of the brand with a cause (e.g., Avon’s Breast Cancer Crusade) could have multiple effects on brand knowledge.

A cause marketing program could build brand awareness via recall and recognition, enhance brand image in terms of attributes such as user imagery (e.g., kind and generous) and brand personality (e.g., sincere), evoke brand feelings (e.g., social approval and self-respect), establish brand attitudes (e.g.,
credibility judgments such as trustworthy and likable), and create experiences (e.g., through a sense of community and participation in cause-related activities).

1.7 Soft Drink Industry

**Carbonated Drinks:** In late 18th century, scientists made important progress in replicating naturally carbonated mineral water. In 1767, Englishman Joseph Priestly first discovered a method of infusing water with carbon dioxide to make carbonated water when he suspended a bowl of distilled water above a beer vat at a local brewery in Leeds, England. His invention of carbonated water, (also known as soda water), is the major and defining component of most soft drinks.

Priestley found water thus treated had a pleasant taste, and he offered it to friends as a refreshing drink. In 1772, Priestley published a paper entitled Impregnating Water with Fixed Air in which he describes dripping oil of vitriol (or sulfuric acid as it is now called) onto chalk to produce carbon dioxide gas, and encouraging the gas to dissolve into an agitated bowl of water.

Another Englishman, John Mervin Nooth, improved Priestley's design and sold his apparatus for commercial use in pharmacies.

Swedish chemist Torbern Bergman invented a generating apparatus that made carbonated water from chalk by the use of sulfuric acid. Bergman's apparatus allowed imitation mineral water to be produced in large amounts. Swedish chemist Jons Jacob Berzelius started to add flavors (spices, juices and wine) to carbonated water in the late 18th century.¹¹
**Soft Drinks:** A soft drink (also referred to as soda, pop, soda pop, coke or fizzy drink) is a drink that typically contains no alcohol, though may contain small amounts (typically less than 0.5% by volume) and is usually referred to as a sugary drink. Soft drinks are often carbonated and commonly consumed while chilled or at room temperature. Some of the most common soft drinks include cola, flavored water, sparkling water, iced tea, sweet tea, sparkling lemonade (or other lemon-lime soft drinks), squash, fruit punch, root beer, orange soda, grape soda, cream soda, and ginger ale.

The term "soft" is employed in opposition to "hard", i.e. drinks with high alcoholic content by volume. Generally it is also implied that the drink does not contain milk or other dairy products.

Hot chocolate, hot tea, coffee, tap water, juice, schorle or spritzer and milkshake also do not fall into this classification. Many carbonated soft drinks are optionally available in versions sweetened with sugar or with non-caloric sweeteners, such as diet soda.

**History of Soft Drinks:** Soft drinks trace their history back to the mineral waters found in natural springs. Ancient societies believed that bathing in natural springs and/or drinking mineral waters could cure many diseases.

Early scientists who studied mineral waters included Jabir ibn Hayyan, Alkindus, Rhazes, Paracelsus, Robert Boyle, Fredrich Hoffmann, Antoine Laurent Lavoisier, Hermann Boerhaave, William Brownrig, Gabriel F. Venel, Joseph Black, and David Macbride.
The earliest soft drinks were sherbets developed by Arabic chemists and originally served in the medieval Near East.

"Alkaline Substances", "A kind of Saltwort" from which soda is obtained, probably from Arabic suwwad, the name of a variety of saltwort exported from North Africa to Sicily in the Middle Ages, related to sawad "black," the color of the plant. These were juiced soft drinks made of crushed fruit, herbs, or flowers.12

From around 1265, a popular drink known as Dandelion & Burdock appeared in England, made from fermented dandelion (Taraxacum officinale) and burdock (Arctium lappa) roots, and is naturally carbonated. The drink (similar to sarsaparilla) is still available today, but is made with flavorings and carbonated water, since the safrole in the original recipe was found to be carcinogenic.

The first marketed soft drinks (non-carbonated) in the Western world appeared in the 17th century. They were made from water and lemon juice sweetened with honey.11

In 1676, the Compagnie des Limonadiers of Paris was granted a monopoly for the sale of lemonade soft drinks. Vendors carried tanks of lemonade on their backs and dispensed cups of the soft drink to thirsty Parisians.13

**Regional Names;** The terms used for soft drinks vary widely both by country and regionally within some countries are mentioned in Table 1.1.
### Table 1.1 Terms Used for Soft Drink in Various Countries

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<tr>
<th>Country</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Nooshabeh (Persian), Coke refers to all soda not specifically to Coca-Cola</td>
</tr>
<tr>
<td>Arab states of the Persian</td>
<td>Bared(Cold), cola</td>
</tr>
<tr>
<td>Gulf</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>soft drinks, fizzy drink, cool drink Some parts of</td>
</tr>
<tr>
<td></td>
<td>minerals, pronounced &quot;mina-ral&quot; in some parts</td>
</tr>
<tr>
<td>Africa</td>
<td>pop, soft drink, (brand name)</td>
</tr>
<tr>
<td>Canada</td>
<td>sodavand</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>cold drink(s), cool drink(s), soft drinks(formal)</td>
</tr>
<tr>
<td>West India</td>
<td>Sweet Drinks</td>
</tr>
<tr>
<td>Iran</td>
<td>Nooshabeh</td>
</tr>
<tr>
<td>United States</td>
<td>Coke, cola, phosphate, pop, soda, soda-pop, soft drink, tonic</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Soft drinks, fizzy drinks, pop, coke</td>
</tr>
</tbody>
</table>

**Soft Drink Bottling Industry:** Over 1,500 U.S. patents were filed for a cork, cap, or lid for the carbonated drink bottle tops during the early days of the bottling industry. Carbonated drink bottles are under great pressure from the gas. Inventors were trying to find the best way to prevent the carbon dioxide or bubbles from escaping. In 1892, the "Crown Cork Bottle Seal" was patented by William Painter, a Baltimore machine shop operator. It was the first very successful method of keeping the bubbles in the bottle.

In 1899, the first patent was issued for a glass-blowing machine for the automatic production of glass bottles. Earlier glass bottles had all been hand-blown. Four years later, the new bottle-blowing machine was in operation. It was first
operated by the inventor, Michael Owens, an employee of Libby Glass Company. Within a few years, glass bottle production increased from 1,400 bottles a day to about 58,000 bottles a day. During the 1920s, the first "Home-Paks" were invented. "Home-Paks" are the familiar six-pack cartons made from cardboard. Automatic vending machines also began to appear in the 1920s.15

**Soft Drink Production:** Soft drinks are made either by mixing dry ingredients and/or fresh ingredients (e.g. lemons, oranges, etc.) with water. Production of soft drinks can be done at factories, or at home. Soft drinks can be made at home by mixing either syrup or dry ingredients with carbonated water. Carbonated water is made using a home carbonation system or by dropping dry ice into water. Syrups are commercially sold by companies such as Soda-Club.11

**Raw Materials used in Soft Drinks:** There are different types of raw materials used in different soft drinks. Most of the raw materials are as under:

1. Water: The simple sweetened soft drink contains about 90% of water, while in diet drinks; it contains 95% of water.

2. Flavor: Flavor is of great importance in soft drink. Even water from different places has different taste. The flavor for taste added can be natural or artificial, acidic, caffeine.

3. Artificial Flavour: These are the flavors manufactured from natural extracts; this is used to give greater choice, in taste to consumers.

4. Acids: Acids like citric acid & phosphoric acid are added to give refreshing tartness or bite & help in preserving the quality of a drink.
5. Natural Flavours: These are the flavours, which are extracted from fruits, vegetables, nuts, barks, leaves etc. in soft drink containing natural flavours & fruit juice.

6. Caffeine: Caffeine has special kind of taste makes the taste of soft drink a royal one. Caffeine was added to soft drink from its introduction to a commercial market but now caffeine free soft drinks are also available. Its quality is ¼ than compared with same amount of coffee.

7. Carbon Dioxide: Carbon Dioxide is a colorless & smell less gas, which is added to cold drink to get bubble & it also help in keeping drink strong & fresh.

8. Color: Along with taste of soft drink is also of very important, the company tries to maintain both taste & color of the soft drink everywhere in the world.

9. Sugar: Sugar syrup is added to the drink at around 75 degree C0 to the pure drinking water, this is to make soft drink taste sweet. Even artificial sweetness is also used.

**Formula of Natural Flavorings:** The exact formula of Coca-Cola's natural flavorings (but not its other ingredients which are listed on the side of the bottle or can) is a trade secret. The original copy of the formula is held in SunTrust Bank's main vault in Atlanta. Its predecessor, the Trust Company, was the underwriter for the Coca-Cola Company's initial public offering in 1919. A popular myth states that only two executives have access to the formula, with each executive having only half the formula. The truth is that while Coca-Cola does have a rule restricting access to only two executives, each knows the entire
formula and others, in addition to the prescribed duo, have known the formulation process.\textsuperscript{11}

**Distributions of Soft Drinks;** The soft drinks can be distributed on the basis of two concepts.

*Distribution according to taste:* The soft drinks can be distributed in Cola & non–cola taste. Non cola taste consist of drink of orange, lime, mango etc. & lime taste can further divided in to cloudy lime & clear lime. Orange taste market is occupied by brands like Fanta, Mirinda Orange & Crush. Mango taste market is occupied by brands like Slice, Maaza and Mangola. Cloudy lime taste is occupied by brands like Limca, Mirinda Lime etc. Clear lime taste is occupied by 7 UP, Sprite, Canada Dry etc. This is basically produced in green bottle as sunlight spoils the taste of the drinks; its colour is transparent like water.

*Distribution according to the consumption:* 80% of soft drinks are consumed on the spot, where it is sold at place like cinemas, railway stations etc. Other 20% of the market of soft drink is consumed at home or other places.

**Soft Drink Industry Analysis;** Barbara Murray (2006)\textsuperscript{16} explained the soft drink industry by stating, “For years the story in the nonalcoholic sector centered on the power struggle between Coke and Pepsi. But as the pop fight has topped out, the industry's giants have begun relying on new product flavors and looking to noncarbonated beverages for growth.” In order to fully understand the soft drink industry, the following should be considered: the dominant economic factors, five competitive sources, industry trends, and the industry’s key factors. Based on the
analyses of the industry, specific recommendations for competitors can then be created.

**Dominant Economic Factors:** Market size, growth rate and overall profitability are three economic indicators that can be used to evaluate the soft drink industry. The market size of this industry has been changing. Soft drink consumption has a market share of 46.8% within the non-alcoholic drink industry (Table 1.2). Datamonitor (2005)\(^7\) also found that the total market value of soft drinks reached $307.2 billion in 2004 with a market value forecast of $367.1 billion in 2009. Further, the 2004 soft drink volume was 325,367.2 million liters (Table 1.3). Clearly, the soft drink industry is lucrative with a potential for high profits, but there are several obstacles to overcome in order to capture the market share.

**Table 1.2 Global Soft drinks Market Segmentation I - 2004**

<table>
<thead>
<tr>
<th>Category</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbonates</td>
<td>46.80%</td>
</tr>
<tr>
<td>Bottled water</td>
<td>18.40%</td>
</tr>
<tr>
<td>Juices</td>
<td>14.90%</td>
</tr>
<tr>
<td>RTD tea &amp; coffee</td>
<td>8.50%</td>
</tr>
<tr>
<td>Functional drinks</td>
<td>7.60%</td>
</tr>
<tr>
<td>Concentrates</td>
<td>3.90%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Datamonitor\(^7\)
Table 1.3  Global Soft Drink Market Volume, 2000-2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Liters million</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>284,971.7</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>296,389.3</td>
<td>4.00%</td>
</tr>
<tr>
<td>2002</td>
<td>305,486.1</td>
<td>3.10%</td>
</tr>
<tr>
<td>2003</td>
<td>316,032.3</td>
<td>3.50%</td>
</tr>
<tr>
<td>2004</td>
<td>325,367.2</td>
<td>3.00%</td>
</tr>
<tr>
<td><strong>CAGR, 2000-2004</strong></td>
<td><strong>3.4%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Datamonitor

The growth rate has been recently criticized due to the U.S. market saturation of soft drinks. Datamonitor (2005) stated, “Looking ahead, despite solid growth in consumption, the global soft drinks market is expected to slightly decelerate, reflecting stagnation of market prices.” The change is attributed to the other growing sectors of the non-alcoholic industry including tea and coffee 11.8% and bottled water 9.3%. Sports drinks and energy drinks are also expected to increase in growth as competitors start adopting new product lines.

Profitability in the soft drink industry will remain rather solid, but market saturation especially in the U.S. has caused analysts to suspect a slight deceleration of growth in the industry (2005). Because of this, soft drink leaders are establishing themselves in alternative markets such as the snack, confections, bottled water, and sports drinks industries (Barbara Murray, 2006). In order for soft drink companies to continue to grow and increase profits they will need to diversify their product offerings.
The geographic scope of the competitive rivalry explains some of the economic features found in the soft drink industry. According to Barbara Murray (2006), “The sector is dominated by three major players; Coca-Cola is king of the soft drink-empire and boasts a global market share of around 50%, followed by PepsiCo at about 21%, and Cadbury Schweppes at 7%.” Aside from these major players, smaller companies such as Cott Corporation and National Beverage Company make up the remaining market share. All five of these companies make a portion of their profits outside of the United States. Table 1.4 shows that the US does not hold the highest percentage of the global market share, therefore companies need to be able to compete globally in order to be successful.

Table 1.5 indicates that Coca-Cola has a similar distribution of sales in Europe, North America, and Asia. On the other hand, the majority of PepsiCo’s profits come from the United States (Table 1.6).

**Table 1.4 Global Soft drink Market Segmentation II: % Share - 2004**

<table>
<thead>
<tr>
<th>Geography</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>37.10%</td>
</tr>
<tr>
<td>US</td>
<td>30.90%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>19.80%</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>12.30%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Datamonitor\textsuperscript{17}
Table 1.5 Coca-Cola Sales - 2004

<table>
<thead>
<tr>
<th>Geographic Segments</th>
<th>$ mil.</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe/ Eurasia/ Middle East</td>
<td>7,195</td>
<td>33%</td>
</tr>
<tr>
<td>North America</td>
<td>6,643</td>
<td>30%</td>
</tr>
<tr>
<td>Asia</td>
<td>4,691</td>
<td>21%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2,123</td>
<td>10%</td>
</tr>
<tr>
<td>Africa</td>
<td>1,067</td>
<td>5%</td>
</tr>
<tr>
<td>Corporate</td>
<td>243</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21,962</td>
<td>100%</td>
</tr>
</tbody>
</table>


Table 1.6 Pepsi Co. Sales - 2004

<table>
<thead>
<tr>
<th>Geographic Segments</th>
<th>$ mil.</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>18,329</td>
<td>63%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2,724</td>
<td>9%</td>
</tr>
<tr>
<td>UK</td>
<td>1,692</td>
<td>6%</td>
</tr>
<tr>
<td>Canada</td>
<td>1,309</td>
<td>4%</td>
</tr>
<tr>
<td>Other countries</td>
<td>5,207</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,261</td>
<td>100%</td>
</tr>
</tbody>
</table>

Data Source: Murray, Barbara. (2006)

The saturation of the US markets has increased the global expansion by soft drink leaders to increase their profits. The ease of entry and exit does not cause competitive pressure on the major soft drink companies. It would be very difficult for a new company to enter this industry because they would not be able to
compete with the established brand names, distribution channels, and high capital investment. Likewise, leaving this industry would be difficult with the significant loss of money from the fixed costs, binding contracts with distribution channels, and advertisements used to create the strong brand images. This industry is well established already, and it would be difficult for any company to enter or exit successfully.¹⁶

According to the Coca-Cola annual report (2004), it has the most soft drink sales with $22 billion.¹⁸ The Coca-Cola product line has several popular soft drinks including Coca-Cola, Diet Coke, Fanta, Barq’s, and Sprite, selling over 400 drink brands in about 200 nations (Murray 2006).¹⁶ PepsiCo is the next top competitor with soft drink sales grossing $18 billion for the two beverage subsidiaries, PepsiCo Beverages North America and PepsiCo International (PepsiCo Inc., 2004). PepsiCo’s soft drink product line includes Pepsi, Mountain Dew, and Slice which make up more than one-quarter of its sales. Cadbury Schweppes had soft drink sales of $6 billion with a product line consisting of soft drinks such as A&W Root Beer, Canada Dry, and Dr. Pepper.

**Financial Analysis:** The carbonated beverage industry is a highly competitive global industry as illustrated in the financial statements. According to John Sicher of Beverage Digest (2005), Coca-Cola was the number one brand with around 4.5 billion cases sold in 2004. Pepsi followed with 3.2 billion cases, and Cadbury had 1.5 billion cases sold. However, the market share shows a different picture. Coca-Cola and PepsiCo control the market share with Coca-Cola holding 43.1% and Pepsi with 31.7%; however these market shares for both Coca-Cola and PepsiCo have slightly decreased from 2003 to 2004. Coca-Cola’s volume has also
decreased 1.0% since 2003, whereas PepsiCo’s volume has increased 0.4%. Diet Coke posted a 5% growth, but Coca-Cola’s other top 10 brands declined (Sicher, 2005). Overall, Coca-Cola’s market position has declined in 2004.¹⁹

The American Beverage Association (2006) states that in 2004, the retail sales for the entire soft-drink industry were $65.9 billion.²⁰ Barbara Murray (2006) analyzed the industry averages for 2004 and average net profit margin was 11.29%. The current ratio average was 1.11 and the quick ratio average was 0.8. These figures help analyze the financial statements of the major corporations in the industry. Coca-Cola has seen their net profit margin increase from 20.7% to 22.1% from 2003 to 2004. According to Coca-Cola’s annual report (2004), 80% of their sales are from soft drinks; therefore the total sales amount was used for their financial analysis. These figures show that their profits are increasing, but at a slow rate. This is in line with what is happening in the soft drink industry. The market is highly competitive and growth has remained at a stable level. The slight increase in Coca-Cola’s profit margin is most likely from their new energy drink product line. This industry is currently expanding rapidly, and is allowing the major beverage companies to increase their profits.¹⁸

According to Coca Cola annual report, Coca-Cola’s working capital was around $1.1 billion in 2004. This is a large increase from 2003 at only $500 million. This shows that they have sufficient funds to pursue new opportunities. However, their current ratio and quick ratio are a cause for concern. A current ratio of 2 or better is considered good and Coca-Cola’s was 1.102. This number shows that they may not have enough funds to cover short term claims. The quick ratio for 2004 was at 0.906 and is considered good when it is greater than 1. This illustrates that
Coca-Cola may not have the ability to pay short term debt without selling inventory. These two numbers are a concern because they are not able to satisfy their short term obligations. The current and quick ratios are in line with the industry averages, however (Murray, 2006), Coca-Cola needs to improve these ratios in order focus on long-term plans (Coca-Cola Company, 2004). PepsiCo’s financial statements cannot be analyzed for only the soft drinks industry because they do not distinguish between businesses. Over half their profits are from snacks or other beverage items; however there are sales and profit figures for their two beverage subsidiaries. These sales figures grew from almost $16.5 billion in 2003 to $18 billion in 2004 (Pepsi Co. Inc., 2004). Their operating profit margin also increased 1% from 2003 to 2004. This shows that beverage profits are increasing for them, but also at a slow rate. The increase could be due to the increase in market share that the Pepsi products gained in 2004 (Sicher 2004). The PepsiCo. Annual Report (2004) stated that beverage volume increased 3% in 2004, but was driven by the high growth of the non-carbonated beverage industry.

Overall, the financial statements of the two top competitors in the soft drink industry show that the industry is highly competitive and has little growth. Net profit margins increased for both corporations, however only at a small rate. It also seems that both companies lack sufficient current and quick ratios, but within a reasonable range of the industry average. This may be due to expanding their product lines to include energy drinks and non-carbonated beverages in order to increase profits and diversify their business. The soft drinks market is now in the matured stage of the life cycle. Growth in the industry has remained
stagnant, and the financial statements of the major corporations in the industry illustrate that their sales and income are following this trend. The companies are in good financial positions; gross profits and net profit margins are continuing to increase each year. The leverage and activity ratios are all within reasonable range. However, one area both corporations need to improve on is the liquidity ratios. Their quick and current ratios are low and need to be increased so they are able to meet short-term obligations.

**Profitability of Soft Drink Industry:** An industry analysis through Porter’s Five Forces reveals that market forces are favorable for profitability.

*Defining the industry:* Both concentrate producers (CP) and bottlers are profitable. These two parts of the industry are extremely interdependent, sharing costs in procurement, production, marketing and distribution. Many of their functions overlap; for instance, CPs do some bottling, and bottlers conduct many promotional activities. The industry is already vertically integrated to some extent. They also deal with similar suppliers and buyers. Entry into the industry would involve developing operations in either or both disciplines. Beverage substitutes would threaten both CPs and their associated bottlers. Because of operational overlap and similarities in their market environment, both CPs and bottlers could be defined as soft drink industry. In 1993, CPs earned 29% pretax profits on their sales, while bottlers earned 9% profits on their sales, for a total industry profitability of 14%. This industry as a whole generates positive economic profits.
Rivalry: Revenues are extremely concentrated in this industry, with Coke and Pepsi, together with their associated bottlers, commanding 73% of the case market in 1994. Adding in the next tier of soft drink companies, the top six controlled 89% of the market. In fact, one could characterize the soft drink market as an oligopoly, or even a duopoly between Coke and Pepsi, resulting in positive economic profits. To be sure, there was tough competition between Coke and Pepsi for market share, and this occasionally hampered profitability. For example, price wars resulted in weak brand loyalty and eroded margins for both companies in the 1980s. The Pepsi Challenge, meanwhile, affected market share without hampering per case profitability, as Pepsi was able to compete on attributes other than price.

Substitutes: Through the early 1960s, soft drinks were synonymous with “colas” in the mind of consumers. Over time, however, other beverages, from bottled water to teas, became more popular, especially in the 1980s and 1990s. Coke and Pepsi responded by expanding their offerings, through alliances (e.g. Coke and Nestea), acquisitions (e.g. Coke and Minute Maid), and internal product innovation (e.g. Pepsi creating Orange Slice), capturing the value of increasingly popular substitutes internally. Proliferation in the number of brands did threaten the profitability of bottlers through 1986, as they more frequent line set-ups, increased capital investment, and development of special management skills for more complex manufacturing operations and distribution. Bottlers were able to overcome these operational challenges through consolidation to achieve economies of scale. Overall, because of the CPs efforts in diversification, however, substitutes became less of a threat.
Power of Suppliers: The inputs for Coke and Pepsi’s products were primarily sugar and packaging. Sugar could be purchased from many sources on the open market, and if sugar became too expensive, the firms could easily switch to corn syrup, as they did in the early 1980s. So suppliers of nutritive sweeteners did not have much bargaining power against Coke, Pepsi, or their bottlers. NutraSweet, meanwhile, had recently come off patent in 1992, and the soft drink industry gained another supplier, Holland Sweetener, which reduced Searle’s bargaining power and lowering the price of aspartame.

With an abundant supply of inexpensive aluminum in the early 1990s and several can companies competing for contracts with bottlers, can suppliers had very little supplier power. Furthermore, Coke and Pepsi effectively further reduced the supplier of can makers by negotiating on behalf of their bottlers, thereby reducing the number of major contracts available to two. With more than two companies vying for these contracts, Coke and Pepsi were able to negotiate extremely favorable agreements. In the plastic bottle business, again there were more suppliers than major contracts, so direct negotiation by the CPs was again effective at reducing supplier power.

Power of buyers: The soft drink industry sold to consumers through five principal channels: food stores, convenience and gas, fountain, vending, and mass merchandisers.

Supermarkets, the principal customer for soft drink makers, were a highly fragmented industry. The stores counted on soft drinks to generate consumer traffic, so they needed Coke and Pepsi products. But due to their tremendous
degree of fragmentation (the biggest chain made up 6% of food retail sales, and the largest chains controlled up to 25% of a region), these stores did not have much bargaining power. Their only power was control over premium shelf space, which could be allocated to Coke or Pepsi products. This power did give them some control over soft drink profitability. Furthermore, consumers expected to pay less through this channel, so prices were lower, resulting in somewhat lower profitability.

National mass merchandising chains such as Wal-Mart, on the other hand, had much more bargaining power. While these stores did carry both Coke and Pepsi products, they could negotiate more effectively due to their scale and the magnitude of their contracts. For this reason, the mass merchandiser channel was relatively less profitable for soft drink makers.

The least profitable channel for soft drinks, however, was fountain sales. Profitability at these locations was so abysmal for Coke and Pepsi that they considered this channel “paid sampling.” This was because buyers at major fast food chains only needed to stock the products of one manufacturer, so they could negotiate for optimal pricing. Coke and Pepsi found these channels important, however, as an avenue to build brand recognition and loyalty, so they invested in the fountain equipment and cups that were used to serve their products at these outlets. As a result, while Coke and Pepsi gained only 5% margins, fast food chains made 75% gross margin on fountain drinks.

Vending, meanwhile, was the most profitable channel for the soft drink industry. Essentially there were no buyers to bargain with at these locations, where Coke
and Pepsi bottlers could sell directly to consumers through machines owned by bottlers. Property owners were paid a sales commission on Coke and Pepsi products sold through machines on their property, so their incentives were properly aligned with those of the soft drink makers, and prices remained high. The customer in this case was the consumer, who was generally limited on thirst quenching alternatives.

The final channel to consider is convenience stores and gas stations. If Mobil or Seven-Eleven were to negotiate on behalf of its stations, it would be able to exert significant buyer power in transactions with Coke and Pepsi. Apparently, though, this was not the nature of the relationship between soft drink producers and this channel, where bottlers’ profits were relatively high, at $0.40 per case, in 1993. With this high profitability, it seems likely that Coke and Pepsi bottlers negotiated directly with convenience store and gas station owners.

So the only buyers with dominant power were fast food outlets. Although these outlets captured most of the soft drink profitability in their channel, they accounted for less than 20% of total soft drink sales. Through other markets, however, the industry enjoyed substantial profitability because of limited buyer power.

*Barriers to Entry:* It would be nearly impossible for either a new CP or a new bottler to enter the industry. New CPs would need to overcome the tremendous marketing muscle and market presence of Coke, Pepsi, and a few others, who had established brand names that were as much as a century old. Through their DSD practices, these companies had intimate relationships with their retail channels
and would be able to defend their positions effectively through discounting or other tactics. So, although the CP industry is not very capital intensive, other barriers would prevent entry. Entering bottling, meanwhile, would require substantial capital investment, which would deter entry. Further complicating entry into this market, existing bottlers had exclusive territories in which to distribute their products. Regulatory approval of intrabrand exclusive territories, via the Soft Drink Interbrand Competition Act of 1980, ratified this strategy, making it impossible for new bottlers to get started in any region where an existing bottler operated.

In conclusion, an industry analysis by Porter’s Five Forces reveals that the soft drink industry in 1994 was favorable for positive economic profitability, as evidenced in companies’ financial outcomes.

In some ways, the economics of the concentrate business and the bottling business should be inextricably linked. The CPs negotiates on behalf of their suppliers, and they are ultimately dependent on the same customers. Even in the case of materials, such as aspartame which are incorporated directly into concentrates, CPs pass along any negotiated savings directly to their bottlers. Yet the industries are quite different in terms of profitability.

The fundamental difference between CPs and bottlers is added value. The biggest source of added value for CPs is their proprietary, branded products. Coke has protected its recipe for over a hundred years as a trade secret, and has gone to great lengths to prevent others from learning its cola formula. The company even left a billion-person market (India) to avoid revealing this information. As a result
of extended histories and successful advertising efforts, Coke and Pepsi are respected household names, giving their products an aura of value that cannot be easily replicated. Also hard to replicate are Coke and Pepsi’s sophisticated strategic and operational management practices, another source of added value.

Bottlers have significantly less added value. Unlike their CP counterparts, they do not have branded products or unique formulas. Their added value stems from their relationships with CPs and with their customers. They have repeatedly negotiated contracts with their customers, with whom they work on an ongoing basis, and whose idiosyncratic needs are familiar to them. Through long-term, in depth relationships with their customers, they are able to serve customers effectively. Through DSD programs, they lower their customers’ costs, making it possible for their customers to purchase and sell more products. In this way, bottlers are able to grow the pie of the soft drink market. Their other source of profitability is their contract relationships with CPs, which grant them exclusive territories and share some cost savings. Exclusive territories prevent intrabrand competition, creating oligopolies at the bottler level, which reduce rivalry and allow profits.

Between 1986 and 1993, the differences in added value between CPs and bottlers resulted in a major shift in profitability within the industry. While industry profitability increased by 11%, CP profits rose by 130% on a per case basis, from $0.10 to $0.23. During this period, bottler profits actually dropped on a per case basis by 23%, from $0.35 to 0.27.
One possibility is that product line expansion in defense against new age beverages helped CPs but hurt bottlers. This would be expected if bottler’s per case costs increased due to the operational challenges and capital costs of producing and distributing broader product lines. This, however, was not the case; cost of sales per case decreased for both CPs and bottlers by 27% during this period, mostly due to economies of scale developed through consolidation. The real difference between the fortunes of CPs and bottlers through this period, then, is in top line revenues. While CPs were able to charge more for their products, bottlers faced price pressure, resulting in lower revenues per case.

These per case revenue changes occurred during a period of slowing growth in the industry. Growth in per capita consumption of soft drinks slowed to a 1.2% CAGR in the period 1989 to 1993, while case volume growth tapered to 2.3%.

In a struggle to secure limited shelf space with more products and slower overall growth, bottlers were probably forced to give up more margins on their products. CPs, meanwhile, could continue increasing the prices for their concentrates with the consumer price index.

Coke had negotiated this flexibility into its Master Bottling Contract in 1986, and Pepsi had worked price increases based on the CPI into its bottling contracts. So, while the bottlers faced increasing price pressure in a slowing market, CPs could continue raising their prices. Despite improvements in per case costs, bottlers could not improve their profitability as a percent of total sales. As a result, through the period of 1986 to 1993, bottlers did not gain any of the profitability gains enjoyed by CPs.
Industry Changes; The soft drink industry is affected by macro environmental factors of the industry that will lead to change. First, the entry/exit of major firms is a trend in the industry that will likely lead to change. More specifically, merger and consolidation has been prevalent in the soft drinks market, causing some firms to exit the industry and then re-enter themselves. Several leading companies have been looking to drive revenue growth and improve market share through the increased economies of scale found through mergers and acquisitions. One specific example is how PepsiCo acquired Quaker Oats, who bought Gatorade which will help expand PepsiCo’s energy drink sector (Datamonitor, 2005). This trend has increased competition as firms’ diversification of products is increasing.

A second trend in the macro environment is globalization. With the growing use of the internet and other electronic technologies, global communication is rapidly increasing. This is allowing firms to collaborate within the country market and expand into world markets. It has driven competition greatly as companies strive to be first-movers. Specifically, the global soft drink market’s compound annual growth rate (CAGR) is expected to expand to 3.6% from 2004 to 2009 (Datamonitor, 2005).

Third, changing societal concerns, attitudes, and lifestyles are important trends. In the United States and Europe, people are becoming more concerned with a healthy lifestyle. “Consumer awareness of health problems arising from obesity and inactive lifestyles represent a serious risk to the carbonated drinks sector”. The trend is causing the industry’s business environment to change, as firms are differentiating their products in order to increase sales in a stagnant market. Thus,
the long-term industry growth rate, the fourth trend, shows low growth in recent years. Since 2000, the CAGR is 1.5 per cent. The low growth rates are of concern for soft drink companies, and several are creating new strategies to combat the low rates.17

This leads to the fifth trend of growing buyer preferences for differentiated products. Because soft drinks have been around since as early as 1798 (American Beverage Association), buyers want innovation with the products they buy.20 In today’s globalizing society, being plain is not good enough. According to Barbara Murray (2006), “The key for all of these beverage companies is differentiation. The giants have new formulations and appearances. Whatever the strategy, be it a new color, flavor, or formula, companies will strive to create the greatest brand awareness in the minds of the consumer in the hopes of crowding out its competitors.” Thus, the last trend, product innovation, is necessary to combat buyers need for a variety of tastes. Firms are already differentiating by taste, with the Coca-Cola Company as an example. The firm’s product line includes regular Coca-Cola, Diet Coke, Diet cherry Coke, cherry Coke, Vanilla Coke, Coca-Cola with Lime, Coca-Cola with lemon and many more.16

1.8 Soft Drinks and Consumer Behavior

Cola is a soft drink product which can be seen as a product to reduce the need of thirst. However, thirst could also be reduced by drinking water or another soft drink, so the consumption of cola to satisfy the need thirst is better described as a want. The choice of drinking cola when one is thirsty depends on a consumer's cultural environment, his learning experiences and his history. For example, in
western countries it is quite normal to drink cola when you are thirsty, while in developing countries people will satisfy this need with water. Based on what is learned and what the cultural conditions are, people will or will not drink cola. Therefore cola is a want instead of a need. People do not need cola, they want it.

Soft drink satisfies in the first place a utilitarian need, namely it takes away the thirst of a consumer. But cola can also be seen as to satisfy a hedonic need. Consumers who drink cola can experience a refreshing moment, which is more an emotional response. This satisfaction of a hedonic need can particular be seen in the commercials of soft drink producers, who often show the consumption of soft drink as a refreshing and fun experience.

So consumers' motivation to buy soft drink depends on how strong they feel about satisfying the needs and wants described before. This will depend largely on their culture and how they are raised. Also, the consumption of soft drink can cause an approach-avoidance conflict. Although it takes away your thirst and can give you a refreshing moment, it also contains a lot of sugar which is not good for health. Therefore some people can be less motivated to buy cola. Because soft drink satisfies in the first place a utilitarian need, it is assumed that consumers are not very involved when they buy soft drink. Especially in western countries, where soft drink is more of an everyday product, people purchase soft drinks based on inertia, or in other words habit. Research has even proven that when consumers do not see the brand they are drinking, they do not taste any difference. It seems that the choice of soft drink brand depends on how the different soft drink producers position their product in a consumer's mind.
The two leading brands in the soft drink market both have successful marketing strategies that distinguish them from the uniform quality. Pepsi and Coca-Cola have spent a lot of money on advertisements to enhance consumer awareness and motivation. The packaging of both, are appealing and outstanding by the vivid color and designed shape. Celebrities are invited to boost brand awareness. Sensational memories like music are implemented as well. The multilevel marketing strategies both companies use, give them a strong establishment in the western market.

Coca-Cola Company and PepsiCo Inc. are very successful and dominate the cola as well as other soft drink markets. For the product category cola, Coca-Cola and Pepsi are perfect substitutes without noticeable taste difference; however, the two products are not substitutes for most of the people. Cola as a drink is a low involvement product, but marketers for both Coca-Cola and Pepsi have tried to increase consumers' involvements throughout various advertisement campaigns and sponsoring various events. Taking a good look at their marketing actions and the consumer reactions to it will provide important information regarding the cola products.

Needs and Wants: Coca-Cola and Pepsi appeal to different people, because they satisfy different needs and wants of the consumers. Of course, both satisfy the physiological, utilitarian need thirst, but marketers of both companies have tried to make cola a product that also satisfies higher level needs such as hedonic needs, ego needs and self-actualization. They try to make consumers believe that drinking their product involves a refreshing, exiting experience in a way that is only satisfied with their product. For example in Coca-Cola commercials, people
who drink Coca-Cola are seen as “being cool”. Pepsi tries to reach consumers by
stressing out the relaxing experience of drinking Pepsi.

**Motivation and Involvement:** The motivation of people to buy cola depends on
how strong they feel about satisfying their needs and wants. This also has
influence on their involvement with the product. Both Coca-Cola and Pepsi have
strong campaigns to increase the motivation and involvement with their product.
The Coca-Cola Company held a “Fire-passing” activity to pass the fire of the
Olympic Games, in preparation of the Beijing 2008 Olympic Games. Not only
can this raise the brand awareness of Coca-Cola in the new market of China, it
can also enhance the involvement of consumer from a low one to a high one,
making them to feel like Coca-Cola being a part of their lives. This will increase
their motivation to buy Coca-Cola. Apart from appealing to music fans, Pepsi has
been one of the sponsors for the Super bowl for years. It associates Pepsi with
this sport event and makes Pepsi appeal to the football fans. In one of the
advertisement, Pepsi's vending machine is playing on the field during the Super
bowl. This gives Pepsi the character of a good football player and creates the
image that when being a football fan, Pepsi is the choice. Both Pepsi and Coca-
Cola have spent a lot of money on advertisements, these shape the perception of
consumers towards the brands. At the same time, the advertisement campaigns
raise consumers' awareness of what the two brands provide, rather than the actual
products. These campaigns first increase consumers' motivation to buy the
products and hence, increase consumers' involvement with the products.

**Attract Attention:** In an oligopolistic market such as the cola market, in which the
two main competitors offer similar products, it is very important to attract the
attention of consumers in order to make them buy their product. Both Coca-Cola and PepsiCo Inc use good techniques to ensure their products are noticed. Coca-Cola and Pepsi use bright and vivid colors for their packaging and their logos to attract the attention of consumers. Through the enormous exposure of these logos to consumers, people recognize these logos and associate these colors with these brands. For Coca-Cola this is the color red and for Pepsi the color blue. This association makes sure their products are stored in the long term memory of consumers. Pepsi and Coca-Cola both use famous people to attract the attention of consumers. Think for example of Beyonce, Britney Spears and Christina Aguilera who have participated in commercials of Coca-Cola and Pepsi. By showing that these famous people drink their product and are willing to recommend it, they hope to persuade people to buy their product. Also, they offered saving campaigns, where consumers could get points when they bought their products. These campaigns caused repeated purchases of the same brand and hopefully created brand loyalty.

*Memory:* In order to create brand awareness and loyalty, it is very important for a company to make sure that their product is stored in the long term memory of consumers. Coca-Cola and Pepsi use effective techniques to achieve successful long term memory storage. Coca-Cola uses a lot of jingles and songs in their commercials. Through the use of classical conditioning they try to link their product with these jingles and songs. Every time the consumers hear this song on TV or the radio they remember Coca-Cola. This is a very smart but also cheap way of advertising, because the classical conditioning will evoke a thought of Coca-Cola even when this is not even the intention and through this repetition the
product is stored in the long term memory of consumers. Both Pepsi and Coca-Cola expose consumers a lot to their brands. Through sponsoring of big events and organizing very intensive campaigns, they repeatedly create awareness of their products. This way their products are put in the long term memories of consumers.

**Persuasion:** In order to increase sales, Coca-Cola and Pepsi use different techniques to persuade people to buy their product. By making light variants of their products and associating their brands with sport activities, Coca-Cola and Pepsi try to take away the approach-avoidance conflict people can have towards their products. They try to decrease the unhealthy aspect of their products. This way they hope to persuade more people to buy their products. Especially Coca-Cola makes use of vicarious reinforcement. It shows happy and laughing people in their advertisements when they drink Coca-Cola. These people serve as models for consumers. If consumers perceive the models' happy and fun moment as being caused by Coca-Cola, they are motivated to buy Coca-Cola too. This way Coca-Cola tries to persuade people to buy their product.

**Cultures and Subcultures:** Coca-Cola and Pepsi try to appeal to different subcultures by stressing out different values. The values that Coca-Cola wants to stress are family, friendship, happiness, exercise, and being cool. Their product appeals therefore to a broad range of people. It is a product for everyone, every time, everywhere. For Pepsi these values are enjoyment, relaxing and energy. Pepsi appeals more to young, active and sportive people. Although these values are somewhat different, they are all western values, so will appeal more to western cultures. To also reach consumers in non-western cultures and countries,
both companies make different advertisements campaigns for these regions. Failure to cope with the local cultures might lead to negative associations with a product. For example, there are large billboards of Coca-Cola in the Mainland China. People in China are used to large billboard with slogans on new government policies. Since many of those policies have proven to be a wrong step in the country's development (e.g. the “Big Steel Refining Campaign”, which turned out to be a mass production of scrap metal), the credibility of such billboards is very low from Chinese people's point of view. Therefore, the aim to raise the brand awareness in this new market is not achieved. Instead, this gives a negative image of the Coca-Cola Company.

1.9 Soft Drink Brands

According to energyfiend.com, top ten soft drink brands in global market are:

1. Coca-cola Classic (*Coca Cola*)
2. Pepsi-cola (*PepsiCo*)
3. Diet Coke (*Coca Cola*)
4. Mountain Dew (*PepsiCo*)
5. Diet Pepsi (*PepsiCo*)
6. Dr Pepper (*Cadbury-Schweppes*)
7. Sprite (*Coca Cola*)
8. Fanta (*Coca Cola*)
9. Caffeine-Free Diet Coke (*Coca Cola*)
10. Diet Mountain Dew (*PepsiCo*)
1.10 Soft Drinks in India

The soft drinks industry continued on its path to recovery from the low growth seen between 2005 and 2006, with higher volume growth in 2008 than that seen in 2007. The mature sectors of bottled water, fruit/vegetable juice and carbonates saw a dynamic year, with companies refreshing their products’ brand image and packaging to attract new consumers. Emerging product categories, such as energy drinks and reconstituted 100% juice, saw high double-digit growth rates, as companies increased their products’ penetration in India. Off-trade volume growth was slightly higher than on-trade volume growth, as convenient on-the-go packaging, company sponsored chillers in kiranases and attractive supermarket displays fuelled off-trade sales across the market (Euromonitor International).\(^\text{22}\)

**Modern retailing thrives alongside kiranases:** With companies increasing their spend on below-the-line marketing activities, the ubiquitous kiranases were the beneficiaries of efforts such as branded glass door refrigerators, regional language banners and displays and the roll-out of on-the-go packaging for carbonates and juice drinks. Supermarkets, which are still something of a novelty in many small cities, continued to attract a combination of regular grocery shoppers and young impulse buyers.

**Consumption of Soft Drink in India:** India is one of the lowest soft drink consuming countries in the world. According to per capita in India is around 6 bottles per year, while highest consumption in USA of 800 bottles per year. Lower, Lower middle & upper middle class consume 91% of soft drink market.
**Soft Drinks Market in India:** India is one of the top five markets in terms of growth of the soft drinks market. The per capita consumption of soft drinks in the country was around 6 bottles per annum in the year 2003. It is very low compared to the corresponding figures in US. But being one of the fastest growing markets and by the sheer volumes, India is a promising market for soft drinks.

The major players in the soft drinks market in India are PepsiCo and Coca-Cola Co, like elsewhere in the world. Coca-Cola acquired a number of local brands like Limca, Gold Spot and Thums Up when it entered Indian market for the second time. Pepsi Co’s soft drink portfolio also consists of Miranda and 7Up along with Pepsi. The market share of each of the company is more or less the same, though there is a conflict in the estimates quoted by different sources. The compound annual growth rate in India is estimated to be 5.4% in 2013(Table 1.7).

**Table 1.7 Soft drink market overview in India**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Soft Drinks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index, 2006=100</td>
<td>100</td>
<td>105</td>
<td>112</td>
<td>116</td>
<td>126</td>
<td>134</td>
<td>143</td>
<td>152</td>
</tr>
</tbody>
</table>

**Forecast Market**

| CAGR - 2006-2013 | 5.4% |

Source: Gobi International, 2010

As it is shown in the Graph 1.1, the Indian market forecast growth index is higher than the South Asian forecast growth index which indicates that India is a very important market in South Asia.
According to Graph 1.2, the Indian market forecast growth index is much faster than the World forecast growth index which indicates that India is one of the most important markets in the world.

Source: Gobi International, 2010
Consumption Patterns in India; In Tier 1, 2 and 3 cities in India, 29% of Indian consumers report consuming carbonated beverages/soft drinks during a fixed time of the day suggesting consumption has become a routine part of their day, with most consumption taking place during the 'afternoon to evening' time period. Not surprisingly, consumption is highest in Tier I cities such as Mumbai, Delhi, Kolkata, Chennai, Hyderabad and Bangalore. The level of consumption is seen to increase with rising household incomes (with the exception of the highest income level) while decreasing with age.

The Indian soft drinks market is not under any regulation. Prevention of Food adulteration act 1954 does not include soft drinks. None of the BIS standards that existed before August 2003 had any guidelines or set criteria for the residue levels of pesticides in the soft drinks. But different lie agencies have set standards for the residue levels of pesticides. The European Economic Community (EEC) sets the maximum admissible concentration of individual pesticides and related products in drinking water at 0.1 parts per billion to ensure that the toxicity is not dangerous to human beings. For a few pesticides like aldrin, dieldin and heptachlor epoxide the admissible limit is even more stringent, i.e., 0.03 parts per billion.

The Indian Beverage Market; India’s one billion people, growing middle class, and low per capita consumption of soft drinks made it a highly contested prize in the global CSD market in the early twenty-first century. Ten percent of the country’s population lived in urban areas or large cities and drank ten bottles of soda per year while the vast remainder lived in rural areas, villages, and small towns where annual per capita consumption was less than four bottles. Coke and
Pepsi dominated the market and together had a consolidated market share above 95%. While soft drinks were once considered products only for the affluent, by 2003 91% of sales were made to the lower, middle and upper middle classes. Soft drink sales in India grew 76% between 1998 and 2002, from 5,670 million bottles to over 10,000 million (Table 1.8) and were expected to grow at least 10% per year through 2012.

Table 1.8  Soft Drink Sales in India

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Million Bottles Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>5670</td>
</tr>
<tr>
<td>1999-2000</td>
<td>6230</td>
</tr>
<tr>
<td>2000-2001</td>
<td>6450</td>
</tr>
<tr>
<td>2001-2002</td>
<td>6600</td>
</tr>
<tr>
<td>2002-2003</td>
<td>10000</td>
</tr>
</tbody>
</table>

Source: Datamonitor

In spite of this growth, annual per capita consumption was only 6 bottles versus 17 in Pakistan, 73 in Thailand, 173 in the Philippines and 800 in the United States. With its large population and low consumption, the rural market represented a significant opportunity for penetration and a critical battleground for market dominance. In 2001, Coca-Cola recognized that to compete with traditional refreshments including lemon water, green coconut water, fruit juices, tea, and lassi, competitive pricing was essential. In response, Coke launched a smaller bottle priced at almost 50% of the traditional package. Soft drink sale was about 11000 billion dollars in 2006 and is estimated to be about 17000 billion dollars by 2013 (Graph 1.3).
Market Share in India: The two global majors Pepsi & Coca – Cola dominate the soft drink industry market. Coca – Cola, which had winded up its business from India during the introduction of IERA regime reentered in India after 16 years letter in 1993. Coca – Cola has acquired a major soft drink market by buying out local brands like Thums up, Limca & Gold Spot from Parle Beverages. Pepsi although started a couple of years before Coca – Cola in 1991, right now it has lower market share. It has brought over Mumbai based Dukes range of soft drinks. Led by strong double-digit growth in India and other emerging markets, global soft drink giant Coca-Cola reported 20 per cent growth in consolidated net income at $1.6 billion for the quarter ended April 2, 2010 (Businesstoday). The company, which reported a net income of $1.36 billion in the same period last year, attributed the jump to growth across developing markets including India, which posted the highest volume growth of 29 per cent
during the period. According to the company statements "The strong brand Coca-Cola growth came from a diversity of global markets, including double-digit growth in India, Vietnam, the Philippines, Brazil, Russia and Egypt," The company reported a five per cent increase in its net operating revenue to $7.5 billion in the first quarter of this year as against $7.1 per cent in the corresponding period in 2009. In India, Coca-Cola growth in unit case volume of 29 per cent involved share gains across key beverage categories in the market. According to Coca-Cola India and South West Asia President and CEO Atul Singh, "This was our 15th consecutive quarter of growth. We are seeing strong growth across our portfolio both in sparkling and in stills. Brand Coca-Cola too registered double-digit growth during the same quarter." The broad-based growth in unit case volume was led by a 29 per cent increase in India and share gain across key beverage categories in that market. India had 76% market share of South Asian market in 2008 which shows the importance of Indian market in South Asia (Graph 1.4).

**Graph 1.4  India’s Share of the South Asian Soft Drink Market (2008)**

<table>
<thead>
<tr>
<th>South Asia Market Share</th>
<th>India 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Drinks</td>
<td></td>
</tr>
</tbody>
</table>

The pie chart below shows India’s share of the South Asian market.

Source: Gobi International, 2010
India’s share of the world soft drink market was 4.6% in 2008 which indicates that despite of the high population in India, Indians drink less comparing to other countries in the world, this shows that there is a great market growth potential in India which has to be enhanced by soft drink companies (Graph 1.5).

**Graph 1.5 India’s Share of the World Soft Drink Market (2008)**

The pie chart below shows India’s share of the world market.

Source: Gobi International, 2010

1.11 Soft Drinks in Iran

According to Euromonitor International, in 2005, the Iranian Ministry of Health and Medical Education launched a new wave of negative initiatives targeted at carbonates. Many articles were published on the contribution of carbonates to obesity problems and diabetes. This had an important impact on the perception of carbonates among Iranian consumers. People reacted by switching from carbonates to healthier alternatives such as drinking yoghurt or non-alcoholic beer.22
The Compound Annual Growth Rate (CAGR) 2006-2013 is estimated to be 4.2% (Table 1.9).

**Table 1.9  Compound Annual Growth Rate of Soft Drink Market in Iran**

<table>
<thead>
<tr>
<th>Market Overview</th>
<th>Iran</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Soft Drinks</strong></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>1.338</td>
</tr>
<tr>
<td>2007</td>
<td>1.398</td>
</tr>
<tr>
<td>2008</td>
<td>1.467</td>
</tr>
<tr>
<td>2009</td>
<td>1.521</td>
</tr>
<tr>
<td>2010</td>
<td>1.602</td>
</tr>
<tr>
<td>2011</td>
<td>1.683</td>
</tr>
<tr>
<td>2012</td>
<td>1.769</td>
</tr>
<tr>
<td>2013</td>
<td>1.858</td>
</tr>
</tbody>
</table>

*Source: Gobi International, 2010*

The Sales of Soft drink in Iran was 13,000 US Billion Dollars in 2006 which is estimated to be about 19,000 US Billion Dollars by 2013(Graph 1.6).

**Graph 1.6  Soft drink Market Forecast in Iran**

The market forecast is shown in the graphic below.

*Source: Gobi International, 2010*
Share of Iran in the soft drink market of the Middle East was 17% in 2008 (Graph 1.7) and the forecast growth index of Iran is faster than the forecast growth index of Middle East (Graph 1.8).

**Graph 1.7  Iran’s Share of the Middle East Soft Drink Market (2008)**

The pie chart below shows Iran's share of the Middle Eastern market.

![Pie Chart](image)

Source: Gobi International, 2010

**Graph 1.8  Forecast Growth Index of Iran Compared to Middle East**

The Iranian market forecast is compared to the Middle Eastern forecast in the index below.

![Scatter Plot](image)

Source: Gobi International, 2010
Although Iran has a high forecast growth index in Middle East, but the share of Iran in the world market was 0.6% in 2008 (Graph 1.9) and the forecast growth index of Iran is faster than forecast growth index of the World (Graph 1.10).

Graph 1.9   Iran’s Share of the World Soft Drink Market (2008)

<table>
<thead>
<tr>
<th>World Market Share</th>
<th>Iran</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Drinks</td>
<td>2008</td>
</tr>
</tbody>
</table>

The pie chart below shows Iran's share of the world market.

Source: Gobi International, 2010

Graph 1.10   Forecast Growth Index of Iran Compared to the World

<table>
<thead>
<tr>
<th>Comparative World Forecast Growth Index (2006=100)</th>
<th>Iran</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Drinks</td>
<td></td>
</tr>
</tbody>
</table>

The Iranian market forecast is compared to the world forecast in the index below.

Source: Gobi International, 2010
Iranian government strongly believes that The Coca-Cola Co and PepsiCo Inc are Zionist companies, which provide financial support to Israel. During the Israeli invasion of Gaza in early 2009, there were rumors about the boycotting of Coca-Cola. Khoshgovar Mashhad Co denied direct dealings with The Coca-Cola Co, and stated that the multinational has no property or ownership in Iran. In 2009, young Iranians continued to consume brands such as Pepsi and Coca-Cola, without giving thought to any political ramifications. Domestic suppliers dominate soft drinks in Iran, due to their low costs of production and affordable products. Even Coca-Cola and Pepsi are produced domestically, by the importation of concentrates.

In some niche categories, such as functional drinks, the limited capability of domestic production leaves room for multinationals to enter. In 2009, the off-trade channel continued to dominate sales of soft drinks in Iran. Off-trade sales take place predominantly through independent small grocers and supermarkets/hypermarkets, although other types of retail outlets also offer the products. Sales through vending machines grew positively during the review period, with machines appearing in cinemas and other public places. Although these machines offered fruit/vegetable juice, carbonates and bottled water, sales through vending remained marginal at the end of the review period.

**Zam Zam Company:** Zam Zam Tehran Company history Founded 30.09.1334 under No. 4488 in the Companies Registration Office and registered according to the minutes of extraordinary general meeting dated 19/12/1354 Type of Corporation common shares has changed. Now one company Zam Zam Tehran Companies Group Food and Beverages Industry Foundation is dispossessed of
the Islamic Revolution. Zam Zam Tehran company with annual capacity 165 million liters of non-alcoholic soft drinks (Cola, orange, lemon, mango, soda and diet drinks in different range of flavors) and annual production capacity of 10 million liters of drinking water and biggest manufacturer of soft drinks and water in the country.

The director of the Zam Zam Cola Company is Ahmad-Haddad Moghaddam. The Zam Zam Cola Company is owned by the Bonyade Mostazafan va Janbazan.

**Zam Zam Cola**, Zam Zam Cola is a cola-flavored soft drink produced in Iran by Zam Zam Soft Drink Mfg. Co.; It is particularly popular in Iran and parts of the Arab World, having gained a cult status there as a Muslim alternative to "Western" products such as Coca-Cola and Pepsi. Zam Zam is also one of the few remaining soda companies in Iran that uses refillable glass bottles.

**History of the Brand;** Originally a subsidiary of Pepsi created in Iran in 1954 as the first Iranian carbonated soft drink producer.

Following the 2002 boycott of Coca-Cola by Saudi Arabia, Zam Zam was unofficially dubbed the soft drink of the Hajj. It is also sold in Europe and in some parts of Asia. The product's name is a reference to the Well of Zam Zam in Mecca, which is one of the stops on the Islamic pilgrimage of the Haji.

The headquarters of Zam Zam are in Tehran, Iran. The bottling facility in Tehran is a popular attraction where people can see the drink being bottled. Due to the bottling facility's proximity to Mehrebad airport tourists often stop to look.
The production was at first a single production line, and now it owns seventeen beverage plants in Iran as well as several international companies, which produce and distribute Zam Zam products under its license. The Zam Zam Company has developed the most well equipped beverage concentrate plant in the Middle East. Zam Zam Iran Co has had significant presence in domestic and international markets, and produces over one hundred diverse products including Cola, Lemon, Orange, Lemonade, Mango, Mineral Water, non-alcoholic malt beverage etc.\textsuperscript{23}

\textbf{Iran's Cola War;} According to Fortune Magazine, American drinks giants Coca-Cola and PepsiCo are able to pour thousands of gallons of concentrate into Iran via Irish subsidiaries and that has allowed these brands, so much a symbol of America - and so much an affront to Iran's conservative clerics - to open another front in their global cola war. After just a few years back in Iran, Coke and Pepsi have grabbed about half the national soft drink sales in what is one of the Middle East's biggest drinks market.

Iranians drink Zam Zam Cola, named after a blessed well in Mecca, the holiest place in Islam, or other local brands produced by Khoshgovar, which licenses Coke, and Sasan, which has the Pepsi franchise.

Zam Zam's 17 plants bottled Pepsi before the 1979 Islamist revolution. Now the company is controlled by the Foundation of the Dispossessed, a powerful bonyad, one of many religious charities.

Coke and Pepsi are in Iranian market by licensing products in Iran through their concentrate subsidiaries in Ireland. According to Pepsi spokesman Dick Detwiler, "PepsiCo has no equity investment in Sasan or any other enterprise in Iran and
has no relationship with the government of Iran. They sell in strict accordance with all applicable U.S. laws and restrictions."

According to Coke spokesman Charles Sutlive echoes Pepsi's line, adding that Coke, which also licenses Fanta, Sprite and Dasani water through Khoshgovar, has "no tangible assets in Iran."

1.12 The Coca-Cola Company

The Coca Cola Company is a beverage company, manufacturer, distributor, and marketer of non-alcoholic beverage concentrates and syrups. The company is best known for its flagship product Coca-Cola, invented by pharmacist John Stith Pemberton in 1886. The Coca-Cola formula and brand was bought in 1889 by Asa Candler who incorporated The Coca-Cola Company in 1892. Besides its namesake Coca-Cola beverage, Coca-Cola currently offers more than 400 brands in over 200 countries or territories and serves 1.6 billion servings each day.

The company operates a franchised distribution system dating from 1889 where The Coca-Cola Company only produces syrup concentrate which is then sold to various bottlers throughout the world who hold an exclusive territory.

The Coca-Cola Company is headquartered in Atlanta, Georgia. Its stock is listed on the New York Stock Exchange (NYSE) and is part of Dow Jones International Average (DJIA), S&P 500 Index, the Russel 1000 Index and the Russell 1000 Growth Stock Index.

History of Coca-Cola Company; The Coca-Cola Company was originally established in 1891 as the J. S. Pemberton Medicine Company, a co-partnership
between Dr. John Stith and Ed Holland. The company was formed to sell three main products: Pemberton's French Wine Cola (later known as Coca-Cola), Pemberton's Indian Queen Hair Dye, and Pemberton's Globe Flower Cough Syrup.

In 1884, the company became a stock company and the name was changed to Pemberton Chemical Company. The new president was D. D. Doe while Ed Holland became the new Vice-President. Pemberton stayed on as the superintendent. The company's factory was located at No. 107, Marietta St. Three years later, the company was again changed to Pemberton Medicine Company, another co-partnership, this time between Pemberton, A. O. Murphy, E. H. Bloodworth, and J. C. Mayfield. Finally in October 1888, the company received a charter with an authorized capital of $50,000. The charter became official on January 15, 1889. By this time, the company had expanded its offerings to include Pemberton's Orange and Lemon Elixir.

According to the 2005 Annual Report, the company sells beverage products in more than 200 countries. The report further states that of the more than 50 billion beverage servings of all types consumed worldwide every day, beverages bearing the trademarks owned by or licensed to Coca-Cola account for approximately 1.5 billion. Of these, beverages bearing the trademark "Coca-Cola" or "Coke" accounted for approximately 78% of the Company's total gallon sales. Also according to the 2007 Annual Report, Coca-Cola had gallon sales distributed as follows:

- 37% in the United States
• 43% in Mexico, India, Brazil, Japan and the People's Republic of China

• 20% spread throughout the rest of the world

In 2010 it was announced that Coca-Cola had become the first brand to top £1 billion in annual UK grocery sales.

**Worldwide Coca-Cola Consumption:** According to Coca-Cola's most recent annual report, between 1998 and 2009, global consumption of Coca-Cola beverages rose from sixty-five servings per capita to eighty-six. The average worldwide per capita consumption of Coca Cola company beverage products in 2009 (Based on U.S. 8 fluid ounces of a finished beverage) was 86 while this figure was highest in Mexico 665 followed by Malta 598, Chile 426 and US 399 while this figure was less than 10 in India and Iran.

**Graph 1.11 Per Capita Consumption of Coca Cola Company Products**

![Graph 1.11 Per Capita Consumption of Coca Cola Company Products](image)

Source: Coca-Cola's annual report, 1998-2009
Five Competitive Forces for Coca-Cola Company; The soft drink industry is very competitive for all corporations involved, with the greatest competition being that from rival sellers within the industry. All soft drink companies have to think about the pressures; that from rival sellers within the industry, new entrants to the industry, substitute products, suppliers, and buyers.

The competitive pressure from rival sellers is the greatest competition that Coca-Cola faces in the soft drink industry. Coca-Cola, Pepsi Co., and Cadbury Schweppes are the largest competitors in this industry, and they are all globally established which creates a great amount of competition. Though Coca-Cola owns four of the top five soft drink brands (Coca-Cola, Diet Coke, Fanta, and Sprite), it had lower sales in 2005 than did PepsiCo (Murray, 2006). However, Coca-Cola has higher sales in the global market than PepsiCo. In 2004, PepsiCo dominated North America with sales of $22 billion, whereas Coca-Cola only had about $6.6 billion, with more of their sales coming from overseas. PepsiCo is the main competitor for Coca-Cola and these two brands have been in a power struggle for years (Murray, 2006).

Brand name loyalty is another competitive pressure. The Brand Keys’ Customer Loyalty Leaders Survey (2004) shows the brands with the greatest customer loyalty in all industries. Diet Pepsi ranked 17th and Diet Coke ranked 36th as having the most loyal customers to their brands. Refer to List 15 for the brand loyalty rankings of the various competitors. The new competition between rival sellers is to create new varieties of soft drinks, such as vanilla and cherry, in order to keep increasing sales and enticing new customers (Murray, 2006).
New entrants are not a strong competitive pressure for the soft drink industry. Coca-Cola and Pepsi Co dominate the industry with their strong brand name and great distribution channels. In addition, the soft-drink industry is fully saturated and growth is small. This makes it very difficult for new, unknown entrants to start competing against the existing firms. Another barrier to entry is the high fixed costs for warehouses, trucks, and labor, and economies of scale. New entrants cannot compete in price without economies of scale. These high capital requirements and market saturation make it extremely difficult for companies to enter the soft drink industry; therefore new entrants are not a strong competitive force.

Substitute products are those competitors that are not in the soft drink industry. Such substitutes for Coca-Cola products are bottled water, sports drinks, coffee, and tea. Bottled water and sports drinks are increasingly popular with the trend to be a more health conscious consumer. There are progressively more varieties in the water and sports drinks that appeal to different consumers’ tastes, but also appear healthier than soft drinks. In addition, coffee and tea are competitive substitutes because they provide caffeine. The consumers who purchase a lot of soft drinks may substitute coffee if they want to keep the caffeine and lose the sugar and carbonation. Specialty blend coffees are also becoming more popular with the increasing number of Starbucks stores that offer many different flavors to appeal to all consumer markets. It is also very cheap for consumers to switch to these substitutes making the threat of substitute products very strong (Datamonitor, 2005).
Suppliers for the soft drink industry do not hold much competitive pressure. Suppliers to Coca-Cola are bottling equipment manufacturers and secondary packaging suppliers. Although Coca-Cola does not do any bottling, the company owns about 36% of Coca-Cola Enterprises which is the largest Coke bottler in the world (Murray, 2006). Since Coca-Cola owns the majority of the bottler, that particular supplier does not hold much bargaining power. In terms of equipment manufacturers, the suppliers are generally providing the same products. The number of equipment suppliers is not in short supply, so it is fairly easy for a company to switch suppliers. This takes away much of suppliers’ bargaining power.

The buyers of the Coca-Cola and other soft drinks are mainly large grocers, discount stores, and restaurants. The soft drink companies distribute the beverages to these stores, for resale to the consumer. The bargaining power of the buyers is very evident and strong. Large grocers and discount stores buy large volumes of the soft drinks, allowing them to buy at lower prices. Restaurants have less bargaining power because they do not order a large volume. However, with the number of people are drinking less soft drinks, the bargaining power of buyers could start increasing due to decreasing buyer demand (Murray, 2006).

Porter’s Five Forces Model identifies the five forces of competition for any company. The recognition of the strength of these forces helps to see where Coca-Cola stands in the industry. Of the five forces, rivalry within the soft drink industry, especially from PepsiCo, is the greatest source of competition for Coca-Cola.
1.12.1 Coca-Cola India

Established in 1886, Coca-Cola is the world’s most ubiquitous brand. The company and its subsidiaries are present in over 200 countries employing over 49,000 individuals and generating revenues to the tune of US$ 21 billion. The Coca-Cola Company markets four of the world’s top-five soft drink brands; its beverage products encompass nearly 400 brands, including non-carbonated beverages such as waters, juices, sports drinks, teas and coffees. The company’s net income registered a CAGR of 7.2 per cent over a 10-year period. Till date, Coca-Cola has invested over US$ 1 billion in India and employs over 5,000 people. The Coca-Cola system in India comprises 25 wholly owned bottling operations. A network of 27 contracts - packers also manufacture a range of products for the company.

A large and Thriving Business in India; Coca-Cola is a leading player in the Indian beverage market with a 60 per cent share in the carbonated soft drinks segment, 36 per cent share in fruit drinks segment and 33 per cent share in the packaged water segment. In 2004, Coca-Cola sold 7 billion packs of its brands to more than 230 million consumers across 4,700 towns and 175,000 villages. The company has doubled its volumes and trebled its profits between 2001 and 2004. Coca-Cola continues to re-affirm its commitment to India through active ‘Citizenship Efforts.” All its plants in India partner with local NGOs to alleviate local community issues in numerous small ways. It boasts of impeccable credentials on quality.
Coca-Cola was the leading soft drink brand in India until 1977 when it left rather than reveal its formula to the government and reduce its equity stake as required under the Foreign Exchange Regulation Act (FERA) which governed the operations of foreign companies in India. After a 16-year absence, Coca-Cola returned to India in 1993, cementing its presence with a deal that gave Coca-Cola ownership of the nation's top soft-drink brands and bottling network. Coke’s acquisition of local popular Indian brands including Thums Up (the most trusted brand in India), Limca, Maaza, Citra and Gold Spot provided not only physical manufacturing, bottling, and distribution assets but also strong consumer preference. This combination of local and global brands enabled Coca-Cola to exploit the benefits of global branding and global trends in tastes while also tapping into traditional domestic markets. Leading Indian brands joined the Company's international family of brands, including CocaCola, diet Coke, Sprite and Fanta, plus the Schweppes product range. In 2000, the company launched the Kinley water brand and in 2001, Shock energy drink and the powdered concentrate Sunfill hit the market.

From 1993 to 2003, Coca-Cola invested more than US$1 billion in India, making it one of the country’s top international investors.

By 2003, Coca-Cola India had won the prestigious Woodruf Cup from among divisions of the Company based on three broad parameters of volume, profitability, and quality. Coca-Cola India achieved 39% volume growth in 2002 while the industry grew 23% nationally and the Company reached breakeven profitability in the region for the first time. Encouraged by its 2002 performance,
Coca-Cola India announced plans to double its capacity at an investment of $125 million (Rs. 750 crore) between September 2002 and March 2003.

Coca-Cola India produced its beverages with 7,000 local employees at its twenty-seven wholly-owned bottling operations supplemented by seventeen franchisee-owned bottling operations and a network of twenty-nine contract-packers to manufacture a range of products for the company. The complete manufacturing process had a documented quality control and assurance program including over 400 tests performed throughout the process.

The complexity of the consumer soft drink market demanded a distribution process to support 700,000 retail outlets serviced by a fleet that includes 10-ton trucks, open-bay three wheelers, and trademarked tricycles and pushcarts that were used to navigate the narrow alleyways of the cities.

In addition to its own employees, Coke indirectly created employment for another 125,000 Indians through its procurement, supply, and distribution networks.

Sanjiv Gupta, President and CEO of Coca-Cola India, joined Coke in 1997 as Vice President, Marketing and was instrumental to the company’s success in developing a brand relevant to the Indian consumer and in tapping India’s vast rural market potential. Following his marketing responsibilities, Gupta served as Head of Operations for Company-owned bottling operations and then as Deputy President. Seen as the driving force behind recent successful forays into packaged drinking water, powdered drinks, and ready-to-serve tea and coffee, Gupta and his marketing prowess were critical to the continued growth of the Company.
**Marketing Cola in India:** The post-liberalization period in India saw the comeback of cola but Pepsi had already beaten Coca-Cola to the punch, creatively entering the market in the 1980’s in advance of liberalization by way of a joint venture. As early as 1985, Pepsi tried to gain entry into India and finally succeeded with the Pepsi Foods Limited Project in 1988, as a JV of PepsiCo, Punjab government-owned Punjab Agro Industrial Corporation (PAIC), and Voltas India Limited. Pepsi was marketed and sold as Lehar Pepsi until 1991 when the use of foreign brands was allowed under the new economic policy and Pepsi ultimately bought out its partners, becoming a fully-owned subsidiary and ending the JV relationship in 1994.

While the joint venture was only marginally successful in its own right, it allowed Pepsi to gain precious early experience with the Indian market and also served as an introduction of the Pepsi brand to the Indian consumer such that it was well-poised to reap the benefits when liberalization came. Though Coke benefited from Pepsi creating demand and developing the market, Pepsi’s head-start gave Coke a disadvantage in the mind of the consumer. Pepsi’s appeal focused on youth and when Coke entered India in 1993 and approached the market selling an American way of life, it failed to resonate as expected. Coca-Cola CEO Douglas Daft set the direction for the next generation of success for his global brand with a “Think local, act local” mantra. Recognizing that a single global strategy or single global campaign wouldn’t work, locally relevant executions became an increasingly important element of supporting Coke’s global brand strategy. In 2001, after almost a decade of lagging rival Pepsi in the region, Coke India re-examined its approach in an attempt to gain leadership in
the Indian market and capitalize on significant growth potential, particularly in rural markets. The foundation of the new strategy grounded brand positioning and marketing communications in consumer insights, acknowledging that urban versus rural India were two distinct markets on a variety of important dimensions. The soft drink category’s role in people’s lives, the degree of differentiation between consumer segments and their reasons for entering the category, and the degree to which brands in the category projected different perceptions to consumers were among the many important differences between how urban and rural consumers approached the market for refreshment.

In rural markets, where both the soft drink category and individual brands were undeveloped, the task was to broaden the brand positioning while in urban markets, with higher category and brand development, the task was to narrow the brand positioning, focusing on differentiation through offering unique and compelling value. This lens, informed by consumer insights, gave Coke direction on the tradeoff between focus and breadth a brand needed in a given market and made clear that to succeed in either segment, unique marketing strategies were required in urban versus rural India.24

1.12.2 Coca Cola Brand Localization Strategy: The Two Indias

India A: “Life ho to aisi” ; “India A,” the designation Coca-Cola gave to the market segment including metropolitan areas and large towns, represented 4% of the country’s population.

This segment sought social bonding as a need and responded to aspirational messages, celebrating the benefits of their increasing social and economic
freedoms. “Life ho to aisi,” (life as it should be) was the successful and relevant tagline found in Coca-Cola’s advertising to this audience.

India B: “Thanda Matlab Coca-Cola”; Coca-Cola India believed that the first brand to offer communication targeted to the smaller towns would own the rural market and went after that objective with a comprehensive strategy. “India B” included small towns and rural areas, comprising the other 96% of the nation’s population. This segment’s primary need was out-of-home thirst-quenching and the soft drink category was undifferentiated in the minds of rural consumers. Additionally, with an average Coke costing Rs. 10 and an average day’s wages around Rs. 100, Coke was perceived as a luxury that few could afford.

In an effort to make the price point of Coke within reach of this high-potential market, Coca-Cola launched the Accessibility Campaign, introducing a new 200ml bottle, smaller than the traditional 300ml bottle found in urban markets, and concurrently cutting the price in half, to Rs. 5. This pricing strategy closed the gap between Coke and basic refreshments like lemonade and tea, making soft drinks truly accessible for the first time. At the same time, Coke invested in distribution infrastructure to effectively serve a disbursed population and doubled the number of retail outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, increasing market penetration from 13 to 25%.

Coke’s advertising and promotion strategy pulled the marketing plan together using local language and idiomatic expressions. “Thanda,” meaning cool/cold is also generic for cold beverages and gave “Thanda Matlab Coca-Cola” delicious multiple meanings. Literally translated to “Coke means refreshment,” the phrase
directly addressed both the primary need of this segment for cold refreshment while at the same time positioning Coke as a “Thanda” or generic cold beverage just like tea, lassi, or lemonade. As a result of the Thanda campaign, Coca-Cola won Advertiser of the Year and Campaign of the Year in 2003.

**Coca-Cola Rural Success:** Comprising 74% of the country's population, 41% of its middle class, and 58% of its disposable income, the rural market was an attractive target and it delivered results.

Coke experienced 37% growth in 2003 in this segment versus the 24% growth seen in urban areas. Driven by the launch of the new Rs. 5 product, per capita consumption doubled between 2001 - 2003. This market accounted for 80% of India’s new Coke drinkers, 30% of 2002 volume, and was expected to account for 50% of the company’s sales in 2003.

### 1.12.3 Factors for Success

Coca-Cola has succeeded in spite of an extremely price-sensitive consumer with entrenched beverage consumption habits – tea, nimbu-paani (lemonade) and a fragmented and geographically dispersed retail market, and a high tax environment.

**Diverse Product Portfolio:** In keeping with its goal of emerging as the single largest entity in the beverage market, Coca-Cola has a presence in multiple segments.

- In the carbonated soft drinks (Coke, Diet Coke, Fanta, Thums Up, Sprite and Limca), fruit juice based drinks (Maaza), powdered soft drinks (Sunfill) and
coffee and tea (Georgia), bottled water (Kinley) and bottled soda (Kinley Soda).

- The company leverages this comprehensive which includes a mix of its global brands portfolio, as well as the locally acquired brands like Thums Up, Limca and Maaza.
- It sells these beverages in multiple volumes of 200 ml, 300ml, 500ml, 1.5 l bottles, tetra packs as well as through vendors (fountain machines).
- Explores new markets with the introduction of new drinks (Georgia, coffee and tea segment) and flavours (Vanilla Coke).

**Intensive Brand Building;** Coca-Cola follows an intensive brand-building program. The company has used some of the following methods to build its brands in the country:

- The company focuses on understanding the Indian consumer and in using these local insights to build powerful connects for its brands. On the back of an effective advertising strategy, Coca-Cola has created a brand that stands for affordability and is inalienable to the common man.
- Given the widespread popularity of cricket and movie stars, the company has roped in a host of cricketers and Indian movie stars to endorse its products.
- Activating local Indian festivals and occasions through below-the-line promotions.
- Creating a distinct identity for each of its flagship brands. For instance Sprite, a drink is promoted as a youth icon standing for a straightforward and honest attitude.
Affordable Entry-Price Point and Strong Brand Pull; The company undertook the Affordability Strategy in 2002 by introducing the 200ml RGB Bottle at US$ 0.1 to bring about the optimal affordable price value equation. The lead-pack in the market was the 300ml at US$ 0.16.

Coca-Cola experienced unprecedented growth rates (above 40 per cent) in 2002 by virtue of its Affordability Strategy. It continues to grow in strong double digits since then. It has also significantly grown its consumer base from 162 million in 2001 to 233 million in 2004.

Creating an Ultra Low Cost Model; In light of the company’s Affordability Strategy, Coca-Cola went about bringing a cost-focus culture in the company. This included procurement efficiencies through focus on key input materials, trade discipline and control and proactive tax management through tax incentives, excise duty reduction and creating marketing companies. These measures have reduced the costs of operations and increased profit margins.

Outsourcing Distribution and Manufacturing; Coca-Cola India minimized its capital needs by meeting new manufacturing capacity needs through external co-packers, outsourcing its distribution and meeting its in-market-refrigeration and cooling needs by giving incentives to retailers to self-fund the same through its “Own Your Fridge Scheme.”

Today, the company has an extensive rural and urban distribution network. Coca-Cola adopts a hub and spoke format distribution network ensuring that large loads travel longer distances and short loads travel short distances. The company has increased its village penetration from 9 per cent in 2000 to 28 per cent in
2004 and covers approximately 175,000 villages today. Rural India now accounts for 30 per cent of Coca-Cola’s sales volumes.

**Future Plans:** Increasing the per capita consumption of its beverage, Coca-Cola continues its efforts at increasing the per capita consumption of its beverages in the country. India PCC currently is at 11 Servings a Year (up from 7 in 2001). This requires a comprehensive activation of the Indian market by addressing acceptability, affordability and availability of its products. Expanding its distribution networks the company had also decided to expand its retail network by 18 per cent during the financial year 2004-05 taking the total number of retailers to 1.3 million across the country. Leading the beverage revolution in India the company continues to build on its foundations in India. While it continues to maximize its carbonated soft drink potential through various pack, pricing, occasion-based strategies across town-classes in India, it is exploring other categories like juice, water and tea and coffee. It is poised to lead the beverage revolution in India.

Some of the Coca-Cola Company carbonated soft drink brands in India include:

- Coca-Cola
- Fanta
- Sprite
- Thums Up

**Coca Cola:** In India Coca-Cola was the leading soft-drink till 1977 when government policies necessitated its departure. Coca-Cola made its return to the
country in 1993 and made significant investments to ensure that the beverage is available to more and more people, even in the remote and inaccessible parts of the nation.

**Fanta:** Internationally, Fanta the ‘orange’ drink of the Coca-Cola Company is seen as one of the favorite drinks since 1940’s.

*History:* Fanta originated when a trading ban was placed on Nazi Germany by the Allies during World War II. The Coca-Cola GmbH, therefore was not able to import the syrup needed to produce Coca-Cola in Germany. As a result, Max Keith, the man in charge of Coca-Cola's operations in Germany during the Second World War, decided to create a new product for the German market, using only ingredients available in Germany at the time, including whey and pomace – the "leftovers of leftovers", as Keith later recalled. The name was the result of a brief brainstorming session, which started with Keith exhorting his team to "use their imagination" ("Fantasie" in German), to which one of his salesman, Joe Knipp, immediately retorted "Fanta!", Fanta entered the Indian market in 1993.

*Marketing:* Fanta is known for its upbeat advertising; in the United States, it showcases The Fantanas, a casted group of young female spokesmodels each of which promotes an individual Fanta flavour. For the re-introduction of Fanta in the United States, Coca-Cola worked with the ad agency Ogilvy (NYC) in 2002. After a brainstorming session, the Ogilvy creative team of Andrea Scaglione, Andrew Ladden and Bill Davaris, created the tagline "Wanta Fanta?" which became the jingle for the Fantanas in the broadcast campaign. In mid-2009, Fanta
began its search for a member to become the fourth Fantana. Over the years Fanta has occupied a strong market place and is identified as “The Fun Catalyst”. Perceived as the fun youth brand, Fanta stands for its vibrant color, tempting taste, and tingling bubbles that not just uplifts feelings but also helps free spirit thus encouraging one to indulge in the moment. This positive imagery is associated with happy, cheerful and special times with friends.

**Sprite:** Worldwide Sprite is ranked as the No. 4 soft drink and is sold in more than 190 countries. Sprite is a transparent, lemon-lime flavored, caffeine free soft drink, produced by the Coca-Cola Company. It was introduced in the United States in 1961. This was Coke's response to the popularity of 7 Up, which had begun as "Lithiated Lemon" in 1929. It comes in a primarily silver, green, and blue can or a green translucent bottle with a primarily green and blue label. In 1978, Sprite became the market leader position in the lemon soda category. Sprite is very popular in Canada as well. The annual sales rate of Sprite in Canada is 15 million per year.

In India, Sprite was launched in year 1999 and today it has grown to be one of the fastest growing soft drink, leading the Clear lime category.

**History:** Sprite was introduced to the United States in 1961 to compete against 7 Up. Early magazine advertisements promoted it as a somewhat sophisticated, tart and not-too-sweet drink mixer, to be used (similar to tonic water or ginger ale) with alcoholic beverages such as Whiskey and Vodka. In the 1980s, many years after Sprite's introduction, Coke pressured its large bottlers that distributed 7 Up to replace the soda with the Coca-Cola product. In a large part due to the strength
of the Coca-Cola system of bottlers, Sprite finally became the leader position in the lemon soda category in 1978.

Marketing: Today Sprite is perceived as a youth icon. Why? With a strong appeal to the youth, Sprite has stood for a straightforward and honest attitude. Its clear crisp refreshing taste encourages the today’s youth to trust their instincts, influence them to be true to who they are and to obey their thirst.

Sprite became popular in marketing in the 1960s through 1970s when they started making advertisements for the soda pop which was soon referenced in songs. Sprite also became popular through the late 1970s through early 1980s, when they made slogan ads for the pop. In the late 1980s, Sprite became popular through the teenage group. During the 1990s, the soda started to be featured in TV and radio ads. In 2000, Sprite commissioned Temper to design a can which saw the design on 300 million cans across Europe. During 2005 the company changed its logo, then again in 2009.

Thums Up: Strong Cola Taste, Macho Personality. Thums Up is a leading sparkling soft drink and one of the most trusted brands in India. Originally introduced in 1977, Thums Up was acquired by Coca-Cola Company in 1993. Thums Up is known for its strong, fizzy taste and its confident, mature and uniquely masculine attitude. This brand clearly seeks to separate the men from the boys.

History: is a carbonated soft drink brand in India, where its bold, red thumbs up logo is common. It is similar in flavor to other colas but has a unique taste reminiscent of betel nut. Introduced in 1977 to offset the expulsion of The Coca-
Cola Company and other foreign companies from India, Thums Up, Limca, and Campa Cola gained nationwide acceptance. The brand was bought out by Coca-Cola which, after unsuccessful attempts at killing the brand, later re-launched it in order to compete against Pepsi. During the late 1970s, the American cola giant Coca-Cola abandoned operations in India rather than make a forced sale of 60% of their equity to an Indian company. Following this, the Parle brothers, Ramesh Chauhan and Prakash Chauhan, along with then CEO Bhanu Vakil, launched Thums Up as their flagship drink, adding to their portfolio of older brands Limca (lime flavor) and Gold Spot (orange flavor). Thums Up was basically a cola drink, but the company never claimed it as such. The formula was just as closely guarded as the famous Coke formula. During the same time, the owners of Coca-Cola’s bottling plant, Pure Drinks Ltd., launched Campa Cola and Campa Orange, both of which had a higher dose of Carbon Dioxide.

**Marketing:** The Thums Up logo was a red 'thumbs up' hand gesture with a slanted white sans-serif typeface. This would later be modified by Coca-Cola with blue strokes and a more modern-looking typeface. This was mainly done to reduce the dominant red color in their signage. The picture shows the Thums Up mountain or, Thums Up pahaad (in Hindi), Manmad hills which has a natural top like the thums up logo and is a popular sight from trains. Its famous caption until the early 1980s was, “Happy days are here again”, coined by then famous copywriter Vasant Kumar, whose father was spiritual philosopher U. G. Krishnamurti. The caption became "I want My Thunder." It is currently "Taste the thunder!"

Thums Up enjoyed a near monopoly with a much stronger market share often overshadowing its other rivals like Campa cola, Double seven and Dukes, but
there were many small regional players who had their own market. It even withstood liquor giant United Breweries Group (makers of Kingfisher Beer) Mcdowell's Crush, which was another Cola drink, and Double Cola. It was one of the major advertisers throughout the 1980s. In the mid-80’s it had a brief threat from a newcomer Double Cola which suddenly disappeared within a few years.

In 1990, when the Indian government opened the market to multinationals, Pepsi was the first to come in. Thums Up went up against the international giant for an intense onslaught with neither side giving any quarter. With Pepsi roping in major Indian movie stars like Juhi Chawla, to thwart the Indian brand, Thums Up increased its spending on Cricket sponsorship. Then the capacity went from 250ml to 300ml, aptly named MahaCola. This nickname gained popularity in smaller towns where people would ask for "Maha Cola" instead of Thums Up. The consumers were divided where some felt Pepsi’s mild taste was rather bland.

In 1993 Coca-Cola re-entered India after a prolonged absence from 1977 to 1993. But Coca-Cola’s entry made things even more complicated and the fight became a three-way battle. That same year, in a move that baffled many, Parle sold out to Coke for a meagre US$ 60 million (considering the market share it had). Some assumed Parle had lost the appetite for a fight against the two largest cola brands; others surmised that the international brands seemingly endless cash reserves psyched-out Parle. Either way, it was now Coca-Cola’s, and Coke has a habit of killing brands in its portfolio that might overshadow it. Coca-Cola soon introduced its cola in cans which was all the rage in India, with Thums Up introduced alongside, albeit in minuscule numbers. Later Coca-Cola started
pulling out the Thums Up brand which at that time still had more than 30% market share.

Re-launch: Despite its strong overall equity, the brand was losing its popularity among the core cola drinking age group of 12 to 25 year olds, partly due to nil advertising.

Coca-Cola apparently did try to kill Thums Up, but soon realized that Pepsi would benefit more than Coke if Thums Up was withdrawn from the market. Instead, Coke decided to use Thums Up to attack Pepsi. The Coca-Cola Company by this time had about 60.5% share of the Indian soft-drink market but much to its dismay found out that if it took out Thums Up, it would remain with only 28.72% of the market (according to a report by NGO Finance& Trade in India), hence it once again dusted out the Thums Up brand and re-launched it targeting the 30 to 45 year olds.

The brand was re-positioned as a “manly” drink, drawing on its strong taste qualities. Known to be a strong drink with more power packed into it than other colas, it was a favorite in Rum based Cocktails, as in “rum and Thums Up.” Thums Up kick-started an aggressive campaign directly attacking Pepsi’s TV ads, focusing on the strength of the drink hoping that the depiction of an “adult” drink would appeal to young consumers. “Grow up to Thums Up” was a successful campaign. The brand’s market share and equity soared. The brand was unshakeable and Coca-Cola’s declaration that Thums Up was India’s premier cola brand in terms of market share did not surprise many.
Other campaigns from Thums Up build on its “strength” and its perception as a macho drink. Ads showing the Thums Up man, riding through the desert in search of a cantina that sells Thums Up rather than drink another cola, stuck in the minds of many Indians and caught the imagination of youngsters who want to be seen as men.

*Sponsorship:* Thums Up was a major sponsor of cricket matches. In the early 1980s, it came out with several postcards featuring Sunil Gavaskar and Imran Khan. Besides cricketers, Thums Up's celebrity endorsers include Akshay Kumar and Salman Khan popular south Indian actors Megastar Chiranjeevi and Mahesh Babu. Besides this, Parle’s southern bottler was a major sponsor of Indian motorsport in the 80s. In addition to sponsoring several Indian track drivers in Sholavaram races, they sponsored several regional car and bike rallies.

1.12.4 Local Competitors

Pepsi is usually second to Coke in sales, but outsells Coca-Cola in some markets. Around the world, some local brands compete with Coke. In South and Central America Kola Real, known as Big Cola in Mexico, is a fast-growing competitor to Coca-Cola. On the French island of Corsica, Corsica Cola, made by brewers of the local Pietra beer, is a growing competitor to Coca-Cola. In the French region of Brittany, Breizh Cola is available. In Peru, Inca Kola outsells Coca-Cola, which led The Coca-Cola Company to purchase the brand in 1999. In Sweden, Julmust outsells Coca-Cola during the Christmas season. In Scotland, the locally produced Irn-Bru was more popular than Coca-Cola until 2005, when Coca-Cola and Diet Coke began to outpace its sales. In India, Coca-Cola ranked third behind
the leader, Pepsi-Cola, and local drink Thums Up. The Coca-Cola Company purchased Thums Up in 1993. As of 2004, Coca-Cola held a 60.9% market-share in India. Tropicola, a domestic drink, is served in Cuba instead of Coca-Cola, due to a United States embargo. French brand Mecca Cola and British brand Qibla Cola, popular in the Middle East, are competitors to Coca-Cola. In Turkey, Cola Turka is a major competitor to Coca-Cola. In Iran and many countries of Middle East, Zam Zam Cola and Parsi Cola are major competitors to Coca-Cola. In some parts of China Future Cola is a competitor. In Slovenia, the locally produced Cockta is a major competitor to Coca-Cola, as is the inexpensive Mercator Cola, which is sold only in the country's biggest supermarket, Mercator. Classiko Cola, made by Tiko Group, the largest manufacturing company in Madagascar, is a serious competitor to Coca-Cola in many regions. Laranjada is the top-selling soft drink on the Portuguese island of Madera. Coca-Cola has stated that Pepsi was not its main rival in the UK, but rather Robinsons drinks.

1.13 Health Effects

Since studies indicate "soda and sweetened drinks are the main source of calories in American diet", most nutritionists advise that Coca-Cola and other soft drinks can be harmful if consumed excessively, particularly to young children whose soft drink consumption competes with, rather than complements, a balanced diet. Studies have shown that regular soft drink users have a lower intake of calcium, magnesium, ascorbic acid, riboflavin, and vitamin A. The drink has also aroused criticism for its use of caffeine, which can cause physical dependence. A link has been shown between long-term regular cola intake and osteoporosis in older women (but not men). This was thought to be due to the presence of phosphoric
acid, and the risk was found to be same for caffeinated and non caffeinated colas, as well as the same for diet and sugared colas.

The use of Coca-Cola has also been associated with an increase of tumors in laboratory rat, based on research by the Ramazzini Foundation in 2006.

A common criticism of Coke based on its allegedly toxic acidity levels has been found to be baseless by researchers; lawsuits based on these notions have been dismissed by several American courts for this reason. Although numerous court cases have been filed against The Coca-Cola Company since the 1920s, alleging that the acidity of the drink is dangerous, no evidence corroborating this claim has been found. Under normal conditions, scientific evidence indicates Coca-Cola's acidity causes no immediate harm. Since 1985 in the U.S., Coke has been made with high-fructose syrup (HFCS) instead of the more expensive cane-sugar. Some nutritionists caution against consumption of HFCS because it may aggravate obesity and type-2 diabetes more than cane sugar. Also, a 2009 study found that almost half of tested samples of commercial HFCS contained mercury, a toxic substance.

In India, there is a major controversy whether there are pesticides and other harmful chemicals in bottled products, including Coca-Cola. In 2003 the Centre for Science and Environment (CSE), a non-governmental organization in New Delhi, said aerated waters produced by soft drinks manufacturers in India, including multinational giants PepsiCo and Coca-Cola, contained toxins including lindane, DDT, malathion and chlorpyrifos — pesticides that can contribute to cancer and a breakdown of the immune system. CSE found that the
Indian produced Pepsi's soft drink products had 36 times the level of pesticide residues permitted under European Union regulations; Coca-Cola's soft drink was found to have 30 times the permitted amount. CSE said it had tested the same products sold in the U.S. and found no such residues. After the pesticide allegations were made in 2003, Coca-Cola sales in India declined by 15 percent. In 2004 an Indian parliamentary committee backed up CSE's findings and a government-appointed committee was tasked with developing the world's first pesticide standards for soft drinks. The Coca-Cola Company has responded that its plants filter water to remove potential contaminants and that its products are tested for pesticides and must meet minimum health standards before they are distributed. In the Indian state of Kerala sale and production of Coca-Cola, along with other soft drinks, was initially banned after the allegations, until the High Court in Kerala overturned ruled that only the federal government can ban food products. Coca-Cola has also been accused of excessive water usage in India.

The 2008 Ig Nobel Prize (a parody of the Nobel Prizes) in Chemistry was awarded to Sheree Umpierre, Joseph Hill, and Deborah Anderson, for discovering that Coca-Cola is an effective spermicide, and to C.Y. Hong, C.C. Shieh, P. Wu, and B.N. Chiang for proving it is not.

1.14 Pepsi Company

PepsiCo is a an American multinational corporation headquartered in New York, with interests in manufacturing and marketing a wide variety of carbonated and non-carbonated beverages, as well as salty, sweet and cereal-based snacks, and other foods. Besides the Pepsi brands, the company owns the brands Quaker
Oats, Gatorade, Frito-Lay, SoBe, Naked, Tropicana, Copella, Mountain Dew, Mirinda and 7 Up (outside the USA). Indra Krishnamurthy Nooyi has been the chief executive of PepsiCo since 2006, and the company's beverage distribution and bottling is undertaken primarily by associated companies such as The Pepsi Bottling Group (NYSE:PBG) and Pepsi Americas (NYSE:PAS). Driven by robust volume growth in its snacks and beverage businesses in developing markets like India, US-based PepsiCo reported a 13 per cent growth in net income at $1.4 billion for the first quarter of 2010.

The company had a net income of $1.1 billion in the year-ago period. Its net revenue grew by 13 per cent to $9.3 billion against $8.2 billion recorded in the first quarter last year.

According to PepsiCo, Asia, the Middle East, Africa (AMEA) posted strong growth in key developing markets such as India and China, where both snacks and beverages posted double-digit volume growth.25

**PepsiCo Brands:** PepsiCo owns 5 different billion-dollar brands. These are Pepsi, Tropicana, Frito-Lay, Quaker, and Gatorade. The company owns many other brands as which some of them are as bellow:

- Pepsi, Caffeine-Free Pepsi, Diet Pepsi/Pepsi Light, Caffeine-Free Diet Pepsi, Caffeine-Free Pepsi Light, Wild Cherry Pepsi, Pepsi Lime, Pepsi Max, Pepsi Twist and Pepsi One.
- Other U.S. carbonated soft drinks, including Mountain Dew, Crush, Mug Root Beer, Sierra Mist, Tropicana Twister Soda and Frawg,
• 7 Up (Globally, outside the USA)

• Other U.S. beverages, including Aquafina (Flavor Splash, Alive, and Twist/Burst), Tava, Dole, Gatorade, Izze, AMP Energy, Propel Fitness Water, SoBe, Quaker Milk Chillers, and Trropicana.

• Fritolay brands: Barcel, Bocabites, Cheese Tris, Cheetos, Chester’s and etc.

• Quaker Oats brands: Aunt Jemima, Cap’n Crunch, Chewy Granola bars and ets.

• In 2005 PepsiCo launched Sting Energy Drink (carbonated) in Vietnam, and in some Asian countries in 2010 including Pakistan, Philippines & Malaysia.

• In 2007, Nooyi spent $1.3 billion on healthier-alternative brands like Naked Juice, a California maker of soy drinks and organic juice.

**PepsiCo India;** PepsiCo gained entry to India in 1988 by creating a joint venture with the Punjab government-owned Punjab Agro Industrial Corporation (PAIC) and Voltas India Limited. This joint venture marketed and sold Lehar Pepsi until 1991, when the use of foreign brands was allowed; PepsiCo bought out its partners and ended the joint venture in 1994. Others claim that firstly Pepsi was banned from import in India, in 1970, for having refused to release the list of its ingredients and in 1993, the ban was lifted, with Pepsi arriving on the market shortly afterwards. These controversies are a reminder of "India's sometimes acrimonious relationship with huge multinational companies." Indeed, some argue that PepsiCo and The Coca-Cola Company have "been major targets in part because they are well-known foreign companies that draw plenty of attention."
As of 2005, The Coca-Cola Company and PepsiCo together hold 95% market share of soft-drink sales in India. PepsiCo has also been accused by the Puthussery panchayat in the Palakkad district in Kerala, India, of practicing "water piracy" due to its role in exploitation of ground water resources resulting in scarcity of drinking water for the panchayat's residents, who have been pressuring the government to close down the PepsiCo unit in the village.

In 2006, the CSE again found that soda drinks, including both Pepsi and Coca-Cola, had high levels of pesticides in their drinks. Both PepsiCo and The Coca-Cola Company maintain that their drinks are safe for consumption and have published newspaper advertisements that say pesticide levels in their products are less than those in other foods such as tea, fruit and dairy products. In the Indian state of Kerala, sale and production of Pepsi-Cola, along with other soft drinks, was banned by the state government in 2006, but this was reversed by the Kerala High Court merely a month later. Five other Indian states have announced partial bans on the drinks in schools, colleges and hospitals.

PepsiCo nourishes consumers with a range of products from treats to healthy eats that deliver joy as well as nutrition and always, good taste. PepsiCo India’s expansive portfolio includes iconic refreshment beverages Pepsi, 7 UP, Mirinda and Mountain Dew, in addition to low calorie options such as Diet Pepsi, hydrating and nutritional beverages such as Aquafina drinking water, isotonic sports drinks - Gatorade, Tropicana 100% fruit juices, and juice based drinks – Tropicana Nectars, Tropicana Twister and Slice, non-carbonated beverage and a new innovation Nimbooz by 7Up. Local brands – Lehar Evervess Soda, Dukes Lemonade and Mangola add to the diverse range of brands.
The group has built an expansive beverage and foods business. To support its operations, PepsiCo has 36 bottling plants in India, of which 13 are company owned and 23 are franchisee owned.

PepsiCo established its business operations in India in 1989 and has grown to become one of the country’s leading food and beverage companies. One of the largest multinational investors in the country, PepsiCo has established a business which aims to serve the long term dynamic needs of consumers in India. PepsiCo India provides direct and indirect employment to 150,000 people including suppliers and distributor.

Some of the PepsiCo brands in India are as below:

- Pepsi
- 7 Up
- Mountain Dew
- Mirinda

**Pepsi:** Pepsi is a carbonated soft drink produced and manufactured by PepsiCo. The drink was first made in the 1890s by pharmacist Caleb Bradham in New Bern, North Carolina. The brand was trademarked on June 16, 1903. There have been many Pepsi variants produced over the years since 1898.

*Brand History:* It was first introduced as "Brad's Drink" in New Bern, North Carolina in 1898 by Caleb Bradham, who made it at his pharmacy where the drink was sold. It was later named Pepsi Cola, possibly due to the digestive
enzyme pepsin and kola nuts used in the recipe. Bradham sought to create a fountain drink that was delicious and would aid in digestion and boost energy.

In 1903, Bradham moved the bottling of Pepsi-Cola from his drugstore to a rented warehouse. That year, Bradham sold 7,968 gallons of syrup. The next year, Pepsi was sold in six-ounce bottles, and sales increased to 19,848 gallons. In 1909, automobile race pioneer Barney Oldfield was the first celebrity to endorse Pepsi-Cola, describing it as "A bully drink...refreshing, invigorating, a fine bracer before a race". The advertising theme "Delicious and Healthful" was then used over the next two decades. In 1926, Pepsi received its first logo redesign since the original design of 1905.

In 1931, at the depth of the Great Depression, the Pepsi-Cola Company entered bankruptcy - in large part due to financial losses incurred by speculating on wildly fluctuating sugar prices as a result of World War I. Assets were sold and Roy C. Megargel bought the Pepsi trademark. Eight years later, the company went bankrupt again. Pepsi's assets were then purchased by Charles Guth, the President of Loft Inc. Loft was a candy manufacturer with retail stores that contained soda fountains. He sought to replace Coca-Cola at his stores' fountains after Coke refused to give him a discount on syrup. Guth then had Loft's chemists reformulate the Pepsi-Cola syrup formula.

On three separate occasions between 1922 and 1933, the Coca-Cola Company was offered the opportunity to purchase the Pepsi-Cola company and it declined on each occasion.
Rise: During the Great Depression, Pepsi gained popularity following the introduction in 1936 of a 12-ounce bottle. Initially priced at 10 cents, sales were slow, but when the price was slashed to five cents, sales increased substantially. With a radio advertising campaign featuring the jingle "Pepsi-Cola hits the spot / Twelve full ounces, that's a lot / Twice as much for a nickel, too / Pepsi-Cola is the drink for you," arranged in such a way that the jingle never ends. Pepsi encouraged price-watching consumers to switch, obliquely referring to the Coca-Cola standard of six ounces per bottle for the price of five cents (a nickel), instead of the 12 ounces Pepsi sold at the same price. Coming at a time of economic crisis, the campaign succeeded in boosting Pepsi's status. In 1937 500,000,000 bottles of Pepsi were consumed. From 1936 to 1938, Pepsi-Cola's profits doubled.

Marketing: In 1975, Pepsi introduced the Pepsi Challenge marketing campaign where PepsiCo set up a blind tasting between Pepsi-Cola and rival Coca-Cola. During these blind taste tests the majority of participants picked Pepsi as the better tasting of the two soft drinks. PepsiCo took great advantage of the campaign with television commercials reporting the results to the public.

In 1976 Pepsi, RKO Bottlers in Toledo, Ohio hired the first female Pepsi salesperson, Denise Muck, to coincide with the United States bicentennial celebration. In 1996, PepsiCo launched the highly successful Pepsi Stuff marketing strategy. By 2002, the strategy was cited by Promo Magazine as one of 16 "Ageless Wonders" that "helped redefine promotion marketing."
In 2007, PepsiCo redesigned their cans for the fourteenth time, and for the first time, included more than thirty different backgrounds on each can, introducing a new background every three weeks. One of their background designs includes a string of repetitive numbers 73774. This is a numerical expression from a telephone keypad of the word "Pepsi."

In late 2008, Pepsi overhauled their entire brand, simultaneously introducing a new logo and a minimalist label design. The redesign was comparable to Coca-Cola's earlier simplification of their can and bottle designs. Also in 4th quarter of 2008 Pepsi teamed up with Google/YouTube to produce the first daily entertainment show on Youtube, Poptub. This daily show deals with pop culture, internet viral videos, and celebrity gossip. Poptub is updated daily from Pepsi.

In 2009, "Bring Home the Cup," changed to "Team Up and Bring Home the Cup." The new installment of the campaign asks for team involvement and an advocate to submit content on behalf of their team for the chance to have the Stanley Cup delivered to the team's hometown by Mark Messier.

Pepsi has official sponsorship deals with three of the four major North American professional sports leagues: the National Football League, National Hockey League and Major League Baseball. Pepsi also sponsors Major League Soccer. Pepsi also has sponsorship deals in international cricket teams. The Pakistan cricket team is just one of the teams that the brand sponsors. The team wears the Pepsi logo on the front of their test and ODI test match clothing.

On July 6, 2009, Pepsi announced it would make a $1 billion investment in Russia over three years, bringing the total Pepsi investment in the country to $4
billion. In July 2009, Pepsi started marketing itself as Pecsi in Argentina in response to its name being mispronounced by 25% of the population and as a way to connect more with all of the population. In October 2008, Pepsi announced that it would be redesigning its logo and re-branding many of its products by early 2009. In 2009, Pepsi, Diet Pepsi and Pepsi Max began using all lower-case fonts for name brands, and Diet Pepsi Max was re-branded as Pepsi Max. The brand's blue and red globe trademark became a series of "smiles," with the central white band arcing at different angles depending on the product. Pepsi released this logo in U.S. in late 2008, and later it was released in 2009 in Canada (the first country outside of the United States for Pepsi's new logo), Brazil, Bolivia, Guatemala, Nicaragua, Honduras, El Salvador, Colombia, Argentina, Puerto Rico, Costa Rica, Panama, Chile, Dominican Republic, the Philippines and Australia; in the rest of the world the new logo will be released in 2010, meaning the old logo has been phased out entirely (most recently, France and Mexico switched to Pepsi's current logo). As of Present, The UK has started to use the new pepsi logo on cans in an order different from the US can.

*Brand Advantage:* Pepsi has become a friend to the youth and has led many youth cultures. Youngsters over the generations have grown up with Pepsi and share an emotional connect with it.

Pepsi, Cricket and Bollywood have been joined at the hip since the beginning. Shah Rukh Khan, Sachin Tendulkar, Saif Ali Khan, Amitabh Bachchan, Kareena Kapoor, Priyanka Chopra, Virender Sehwag, M. S. Dhoni, John Abraham, Ranbir Kapoor and Deepika Padukone are some celebrities who will go any length for a chilled Pepsi.
7UP: The refreshing clear drink with natural lemon and lime flavour was created in 1929. 7UP was launched in India in 1990 and its international mascot Fido Dido was used for advertising in 1992 to position the brand as a cool drink for youngsters. Fido became an instant hit with his trendy look, laid back attitude and refreshing take on life. During the brand’s early years in India, 7UP gained market leader status in the lemon lime category by being one of the first to be nationally distributed as well as being marketed as a healthier alternative to other soft drinks.

Brand Advantage: For the past 2 years, 7UP’s ambition as a brand has been to capture and own the lemon refreshment territory within the clear lime category. Lemon has proven to be a clear and relevant differentiator for the brand. Further, it has allowed the brand to ladder up to an emotional payoff of uplifting refreshment.

After establishing itself as “The Lemon Drink ”, in Jan 2009, 7UP continued to build further on the theme of mood upliftment with its new tagline "Mood ko do Lemon ka Lift”. 7UP’s brand communication is premised on the product’s natural lemon flavor , guaranteed to provide uplifting lemon refreshment that raises one’s spirits.

There are many theories for the origin of the 7UP name. According to Professor Gary Yu (UCSB) and researchers for the popular "Uncle John's Bathroom Reader" the name is derived from the atomic mass of Lithium, 7, which was originally one of the key ingredients of the drink (as lithium citrate). However, there are numerous myths explaining the name. Such as:
• It's creator named the soft drink after winning at a casino with 3 rolls of 7 and the letter U.

• The drink was formulated with seven flavours plus the bubbles from the drink's carbonation (the bubbles go up).

• The original bottle contained seven ounces; its creator came up with the name while playing dice.

• 7UP was the 7th large commercial lemonade brand that tasted the same.

• Before the formula changed in 2006, a can of 7UP included seven ingredients.

• The "Up" in the drink's name might refer to the original inclusion of lithium citrate, when it was marketed as a patent medicine to cure hangovers.

• The name "7UP" was a reference to the Esotericism concept of the Seven Planes, made famous by the internet series The Arrivals.

• The name came at the Seventh-inning stretch "7UP" in baseball tradition.

**Mountain Dew:** The main formula of Mountain Dew was invented in Virginia, named and first marketed in Johnson City, Tennessee and Knoxville, Tennessee in 1948.

In India, Mountain Dew set the soft drink category ablaze in 2003 with their iconic launch campaign “Cheetah Bhi Peeta Hai”. It is a soft drink that exhilarated like no other because of its daring, high-energy, active, extreme citrus taste. Challenge, a can do attitude, adventure and exhilaration is deeply
entrenched in its brand DNA and the brand has always celebrated the bold and adventurous spirit of the youth. This exhilaration and excitement of Mountain Dew has always been reflected in the high-adrenaline advertising of the brand that connected it to outdoor adventure. "Darr Ke Aage Jeet Hai": In 2007, the brand was re-launched with a completely new, punchier formulation with communication that aimed at forging a strong emotional connect with our audience. Thus came about the "Darr Ke Aage Jeet Hai" campaign, which acknowledged that fear was a very real and relevant aspect of the adventurous world and Mountain Dew, as a brand wanted to encourage all youth in their moment of fear, to believe in themselves and just go for it because beyond fear, lies victory.

**Mirinda:** is an international soft drink brand from Spain that was launched in India in 1991. Now when we think Mirinda, we think orange. But this soft drink brand has many other fruit flavors; Mirinda Lemon was launched in 1998 & other flavors like Apple & Batberry that were launched as in & outs. Mirinda has always been about a great orange taste, which is now synonymous with the brand. These were communicated through our great campaigns; Mirinda Orange launched in India 1991 and Mirinda Lemon launched in India 1998.

**Brand Advantage:** In 2008, the brand decided to up the ante on the brand from a being led by physical attribute-taste, to deliver a brand philosophy that resonates with the audience. Now, Mirinda's bold and vibrant color, great orangey taste and sparkling bubbles encourages one to be more carefree, spontaneous and playful.
1.15 Coca-Cola Co. – PepsiCo Rivalry

According to Consumer Reports, in the 1970s, the rivalry continued to heat up the market. Pepsi conducted blind taste tests in stores, in what was called the "Pepsi Challenge". These tests suggested that more consumers preferred the taste of Pepsi (which is believed to have more lemon oil, less orange oil, and uses vanillin rather than vanilla) to Coke. The sales of Pepsi started to climb, and Pepsi kicked off the "Challenge" across the nation. This became known as the "Cola Wars". In 1985, The Coca-Cola Company, amid much publicity, changed its formula. The theory has been advanced that New Coke, as the reformulated drink came to be known, was invented specifically in response to the Pepsi Challenge. However, a consumer backlash led to Coca-Cola quickly introducing a modified version of the original formula as Coke "Classic". According to Beverage Digest's 2008 report on carbonated soft drinks, PepsiCo's U.S. market share is 30.8 percent, while The Coca-Cola Company's is 42.7 percent. Overall, Coca-Cola continues to outsell Pepsi in almost all areas of the world. However, exceptions include India; Saudi Arabia; Pakistan (Pepsi has been a dominant sponsor of the Pakistan cricket team since the 1990s); the Dominican Republic; Guatemala the Canadian provinces of Quebec, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island; and Northern Ontario. By most accounts, Coca-Cola was India's leading soft drink until 1977 when it left India after a new government ordered The Coca-Cola Company to turn over its secret formula for Coke and dilute its stake in its Indian unit as required by the Foreign Exchange Regulation Act (FERA). In 1988, PepsiCo gained entry to India by creating a joint venture with the Punjab government-owned Punjab Agro Industrial
Corporation (PAIC) and Voltas India Limited. This joint venture marketed and sold Lehar Pepsi until 1991 when the use of foreign brands was allowed; PepsiCo bought out its partners and ended the joint venture in 1994. In 1993, The Coca-Cola Company returned in pursuance of India's Liberalization policy. In 2005, The Coca-Cola Company and PepsiCo together held 95% market share of soft-drink sales in India. Coca-Cola India's market share was 52.5%. In Russia, Pepsi initially had a larger market share than Coke but it was undercut once the Cold War ended. In 1972, PepsiCo struck a barter agreement with the then government of the Soviet Union, in which PepsiCo was granted exportation and Western marketing rights to Stolichnaya vodka in exchange for importation and Soviet marketing of Pepsi-Cola. This exchange led to Pepsi-Cola being the first foreign product sanctioned for sale in the U.S.S.R. Coca-Cola Co. slightly increased its lead over rival Pepsi-Cola Co. in 2002, by the successful launch of Vanilla Coke and the growth of Diet Coke, according to U.S. soft drink industry rankings. Coke gained 0.6 percentage points in market share and increased its case volume by 2.1 percent, according to Beverage Digest/Maxwell, a New York-based industry newsletter and data service. The company captured a larger share of the market even though its Coke Classic brand fell 0.6 percentage points in market share. Coca-Cola dominates 44.3 percent of the U.S. soft drink market, but saw its market share drop between 1999 and 2001. With the latest gains, it's only 0.2 percentage points away from where it stood in 1998 at 44.5. Pepsi-Cola lost 0.2 percentage points in market share. The No. 2 company commands 31.4 percent of the U.S. soft drink market. Overall, the carbonated soft drink industry posted modest growth, with case volume up 0.8 percent.26
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