Fizzling out: Soda producers will refresh product lines to slow falling demand
About this Industry

**Industry Definition**

Firms in the Soda Production industry blend various ingredients with carbonated water and also package and distribute these beverages for resale. While it includes all carbonated beverage production except carbonated water and functional beverages like energy drinks, this industry excludes still beverage producers, ice manufacturers and companies that only produce beverage ingredients or distribute beverages.

**Main Activities**

The primary activities of this industry are:

- Carbonated beverage manufacturing
- Brand promotion
- Research and development

**Similar Industries**

**31131 Sugar Processing in the US**
Companies in this industry manufacture raw sugar, liquid sugar and refined sugar from sugarcane, raw cane sugar and sugar beets.

**31193 Syrup & Flavoring Production in the US**
This industry includes companies that manufacture flavoring syrup drink concentrates and related products for soda fountain use or for manufacturing soft drinks.

**31199 Baking Mix & Prepared Food Manufacturing in the US**
Companies in this industry manufacture food, including mixing purchased dried or dehydrated ingredients for foods such as soup mixes and bouillon.

**31211b Bottled Water Production in the US**
This industry includes companies that purify and bottle water for resale.

**31211c Juice Production in the US**
Companies in this industry produce still beverages, such as fruit juice, functional beverages or ready-to-drink tea and coffee.
About this Industry

Additional Resources

For additional information on this industry

www.ameribev.org
American Beverage Association

www.beverageworld.com
Beverage World

www.beverage-digest.com
Beverage-Digest

IBISWorld writes over 700 US industry reports, which are updated up to four times a year. To see all reports, go to www.ibisworld.com
Industry at a Glance
Soda Production in 2013

Key Statistics
Snapshot

Revenue $17.6bn
Annual Growth 08-13 -3.0%
Annual Growth 13-18 -1.0%
Profit $739.2m
Exports $421.1m
Businesses 146

Revenue vs. employment growth
Per capita soft drink consumption

Market Share
The Coca-Cola Company 37.6%
PepsiCo Inc. 17.0%
Dr Pepper Snapple Group Inc. 16.5%

Key External Drivers
Per capita soft drink consumption
Demand from supermarkets and grocery stores
External competition
Price of sugar

Products and services segmentation (2013)

Industry Structure

Life Cycle Stage Decline
Revenue Volatility Medium
Capital Intensity Medium
Industry Assistance Low
Concentration Level High
Regulation Level Medium
Technology Change Medium
Barriers to Entry High
Industry Globalization High
Competition Level High

For additional statistics and time series see the appendix on page 33.
Industry Performance

Executive Summary

Falling per capita carbonated soft drink (CSD) consumption and increasing health awareness are pushing down Soda Production industry revenue. Revenue slumped 8.8% in 2009 when Americans reduced regular spending on discretionary items like soft drinks and instead bought more items in bulk as a result of low disposable income due to high unemployment. In 2013, CSD consumption in the United States is estimated to be 38.6 gallons per person compared with 42.1 in 2008, representing a 3.5-gallon per capita decrease. Consequently, revenue is estimated to decline at an annualized rate of 2.9% during the five years to 2013, including a 3.6% decline in 2013 to $17.6 billion.

To mitigate losses from such a drop in consumption, the industry has consolidated operations. This has included reducing workers at an annualized 9.1% rate during the past five years to total 19,049 people in 2013. It also spurred a 6.2% revenue increase in 2010 as The Coca-Cola Company and PepsiCo capitalized on bringing their bottlers in-house and raised product prices.

Health-focused soft drinks will pique consumer interest and steal market share

The steady decline in the per capita consumption of CSDs has also led the industry to innovate and create market alternatives to attract increasingly health-conscious consumers. Major players responded to near-saturation in the CSD market by enlarging their product ranges and expanding into sports and energy drinks, ready-to-drink tea and coffee, bottled water and newer beverage categories. These segments are growing at a faster rate than the CSD segment and are taking some sales away from CSDs. Such products are targeted at market niches and attract a larger premium than CSDs. As a result, the Juice Production industry (IBISWorld industry report 31211C), which includes such alternative beverages, surpassed the Soda Production industry in size in 2008.

During the five years to 2018, the industry will face a difficult operating environment as publicity campaigns promoting healthier consumption offset rising consumer sentiment and discretionary spending. Competing manufacturers are anticipated to enter the beverage market by offering health-focused drinks that will pique consumer interest. As a result, IBISWorld expects that private-label CSD sales will grow, almost balancing out flat consumption. From 2013, industry revenue is forecast to decrease at an average rate of 1.0% per year to $16.7 billion in 2018.

Key External Drivers

Per capita soft drink consumption

Lower per capita consumption of soft drinks means that wholesalers, retailers and food services will need to purchase fewer products from soft drink manufacturers, which dents industry revenue. It also results in squeezed profitability as producers spend more on marketing efforts to entice consumers to buy their products. Furthermore, price-based competition intensifies in response to weakened demand, which can negatively affect revenue and profitability. Per capita soft drink consumption is expected to decrease in 2013, representing a threat to industry operators.
Industry Performance

Key External Drivers continued

Demand from supermarkets and grocery stores
Grocery stores are one of the most critical sales links to American households, so the performance of this retail channel is a driver of industry revenue. Demand from such retailers has a significant effect on manufacturers’ ability to implement price increases or boost sales volumes by participating in other types of in-store marketing. Demand from supermarkets and grocery stores is expected to increase slowly during 2013, representing a potential opportunity for the industry.

External competition
Alternative beverage categories have stepped up their marketing campaigns and gained market share as a result, hampering some of the traditional demand for carbonated soft drinks. Top competitor categories include ready-to-drink teas and coffees and energy drinks. External competition is expected to increase during 2013.

Price of sugar
Soft drink syrup concentrate is made primarily from sugar or artificial sweeteners. Soft drink syrup concentrate is a significant raw material in soft drink and energy drink production, so its unit costs directly affect industry value added and profit. The price of sugar is expected to decrease during 2013.
Industry Performance

Current Performance

The Soda Production industry has experienced falling revenue during the five years to 2013 caused by declines in sales volumes and consumer sentiment. Substitution among beverages is occurring as consumers switch to healthier alternatives, such as sports and energy drinks (which are not included in this industry). However, strong brand recognition allows major players to charge premium prices for their products because, although some consumers substitute with private-label products, many are loyal to the Coke, Pepsi and Dr. Pepper brands. This industry excludes bottled water, fruit juice, functional beverages and ice producers.

Industry revenue is expected to decline 3.6% in 2013 to $17.6 billion. This decrease follows more significant revenue drops that were due to lower consumer spending in response to high unemployment as well as rising consumer health awareness. Decreased consumer sentiment led soda drinkers to switch to cheaper brands. Simultaneously, health awareness and education led people to switch away from sugary carbonated soft drinks (CSDs) altogether, which has had an ongoing negative effect on industry revenue. As a result, industry revenue is anticipated to decline an average of 2.9% per year during the five years to 2013. The declines in consumption were softened by vertical integration when The Coca-Cola Company (TCCC) and PepsiCo, two major companies, acquired bottlers in 2010 and capitalized on publicity and heightened production capabilities to generate a 6.2% industry revenue increase that year.

Challenged profit

Profitability has become a challenge during the past five years, with rising soft drink prices outpacing growth in ingredient costs and making up for the drop in volume sold. Sugar prices have been rising at an annualized rate of 12.0% in the five years to 2013, and plastic material prices grew at an average annual rate of 2.4%. In the same period, CSD prices are estimated to have grown at an average rate of just 3.5% per year. They have not balanced out rising input costs, let alone the increased marketing budgets that companies have implemented to retain consumers. Average industry profit is expected to decrease from 4.9% of revenue in 2008 to 4.2% in 2013.

Yet major companies earn higher profit. These corporations grew their profit margins during this time by increasing product pricing in response to declining demand. They maintain pricing power despite competition because of the strong brand loyalty of their consumers, which they have strengthened by effective marketing campaigns including celebrity endorsements and aggressive advertising campaigns. Also, major companies produce soda at a lower per-unit cost than smaller companies due to their bulk purchasing power and highly efficient production; the resulting savings from further efficiencies gained through consolidation in 2010 further contributed to their bottom lines.
Industry Performance

Healthy pop

After years of strong growth, increased health concerns have dampened consumer demand for CSDs. Once the largest beverage segment, CSDs are have declined in terms of volume during the five years to 2013. Increased consumer concerns about the unhealthy content of CSDs stimulated a decline in consumption. Major companies are attempting to address consumer concerns, not only through increased marketing and publicity campaigns that align them with fitness activities but also through product development to offer all-natural or other “better-for-you” CSDs to consumers. Nevertheless, a consumer shift toward diet drinks, smaller bottles and cans and alternative soft drinks has not canceled out the general fall of CSDs.

Although health campaigners have targeted the industry as a contributor to childhood obesity, soda producers managed to successfully lobby against a federal soda tax during the past five years. Producers have voluntarily shifted to selling alternative drinks in many schools, however, which has contributed to lower industry revenue. Additionally, some city governments have boosted local taxes on soda or implemented restrictions for sales, which has further stimulated public health awareness and has also directly detracted from industry revenue. For example, in 2010, San Francisco outlawed vending machines on city property containing “calorically sweetened [beverages] (examples include sports drinks, non-diet sodas, artificially sweetened water products),” and also restricted diet soda to make up no more than 25.0% of all drinks sold in such machines.

Price sensitivity and consolidation

Like many grocery-line items, large retailers are increasingly stocking private-label (or house label) soft drinks and bottled water. Large retailers are more likely to stock generic-brand CSDs because branding and marketing are not always strong determinants of consumption. The rise of generic CSDs benefited manufacturers that successfully negotiated to supply these retailers, though to the detriment of large brand owners.

Private labels provide strong price competition for branded products and are anticipated to contribute to relatively low price growth. Due to escalating competition, the number of industry enterprises has dropped during the five years to 2013 at an annualized rate of 6.2% to 146 firms. Price competition and squeezed profitability have also led the industry to consolidate.

Prior to 2010, two business models existed within the industry. Some companies were vertically integrated, creating new flavors, producing syrups, bottling beverages, conducting marketing and distributing. However, major companies TCCC and PepsiCo, kept their bottling and distribution at arm’s length and focused on the core aspects of the business. Since TCCC and PepsiCo bought their largest bottlers in 2010, they have opportunities to better manage the widening portfolio of beverages required to satisfy numerous consumer niches. It also enables them to capitalize on synergies for marketing and distribution strategies. As a result of such synergies, the drop in industry employment has been even more significant than consolidation, with an estimated annual average drop of 9.1% since 2008 to total 19,049 workers by 2013.

Increasingly health-conscious consumers are buying fewer soft drinks, denting revenue
Industry Performance

Industry Outlook

Industry revenue will decline as consumers continue to switch away from high-calorie, sugary drinks. Downstream demand from retailers is also expected to stagnate as a result. During the five years to 2018, IBISWorld forecasts that industry revenue will decrease at a slower annual average rate of 1.0% to total $16.7 billion. In 2014, revenue is anticipated to decline 1.0% as macroeconomic conditions slowly recover but consumers stick to healthier habits. Although companies are expected to boost marketing spending to stimulate demand for soda, strong brand loyalty will also enable mainstream producers to continue significant markup practices.

Profit squeezed

Competition in the Soda Production industry will remain intense and stimulate further consolidation. Although companies will continue streamlining operations, the industry’s bottom line is expected to suffer due to high marketing spending and rising input prices. At the same time, input price volatility is anticipated to slow slightly during the next five years, and the industry should be helped by slower growth in plastic and sugar prices. Nonetheless, profit is expected to decrease from an estimated 4.2% of revenue in 2013 to about 3.4% by 2018. The Coca-Cola Company (TCCC) and PepsiCo are anticipated to continue layoffs as they integrate with their bottlers. For this reason, industry employment is forecast to decline 2.9% in 2014, contributing to an annualized decrease of 2.9% through 2018 to 16,406 workers. Smaller companies expanding their operations will keep employee numbers from falling too significantly.

Growth in prices for inputs like sugar will slow significantly, mitigating profit loss

Branding and health

Health concerns have been the major driver of consumer product innovation and will increasingly support demand for the Soda Production industry. The industry will strive to present consumers with healthier, yet still tasty, options by rolling out new products. Companies are anticipated to attract consumers with creative packaging and exotic flavors.

As a result of this shift toward healthier consumption, the number of companies in the industry is projected to fall during the next five years, decreasing at an estimated average rate of 3.1% per year to 125 companies by 2018. This slow decline will reflect the trend of traditional cola producers consolidating with newer manufacturers to produce alternative sodas like grown-up soda (GuS) or dry soda; however, new players will be small and unable to offset industry-wide revenue and employment declines.

Many state governments are seeking to further limit carbonated soft drink (CSD) sales based on evidence linking regular CSD consumption to obesity. However, the launch of Coke Zero and other sugarless beverages is one of several moves by major industry players to quell criticism for the industry’s contribution to obesity, as well as boost demand among health-conscious consumers. On a positive note, sugarless soda provided CSD companies some positive media coverage.
Branching and health continued

and an opportunity to continue exposing future generations to their brands. Furthermore, companies like major players The Coca-Cola Company (TCCC) and PepsiCo have invested heavily in “better-for-you” branding, including a 2013 advertisement from TCCC that encourages consumers to exercise.

New product innovation

Producers of alternative sodas are also anticipated to gain market share during the next five years as consumers switch to various CSD alternatives like GuS or dry soda. These products are marketed as less sweet and less caloric and are targeted toward a mature demographic, although these products are also expected to gain traction as a staple in some school vending machines. Such sodas are often marketed as premium beverages with higher price points, which will help negate some revenue losses in traditional industry product categories.

Industry operators are also expected to adopt new technologies that will make personalized sodas cheaper to manufacture in the next five years. Already, TCCC introduced a soda machine that enables consumers to mix their own flavors of soda. Additionally, innovations in bottling technologies and new machines, like Innofill Glass or Solo-Mas, are expected to allow companies to print more customized labels and create smaller runs of uniquely flavored sodas based on small-batch orders from consumers. Premium pricing on customized products is expected to contribute to some companies’ growth.
Industry Performance

Industry value added is expected to contract despite GDP growth in the 10 years to 2018

New products have expanded consumer choices in the market, indicating industry diversification

Rapidly declining per capita consumption of CSDs is restricting demand and boosting competition

Key Features of a Decline Industry
- Revenue grows slower than economy
- Falling company numbers; large firms dominate
- Little technology & process change
- Declining per capita consumption of good
- Stable & clearly segmented products & brands

Quality Growth
- High growth in economic importance; weaker companies close down; developed technology and markets

Maturity
- Company consolidation; level of economic importance stable

Quantity Growth
- Many new companies; minor growth in economic importance; substantial technology change

Decline
- Shrinking economic importance

Life Cycle Stage

SOURCE: WWW.IBISWORLD.COM
Industry Performance

Industry Life Cycle

Greater consumer concerns about the unhealthy content of industry products stimulated a decline in carbonated soft drink (CSD) consumption. Once the largest beverage industry segment, CSD consumption is expected to decline significantly in terms of volume during the 10 years to 2018, at an estimated average rate of 1.4% per year. These declines indicate that the industry’s contribution to GDP is contracting. GDP is expected to grow at an average 2.1% rate annually during the 10 years to 2018, and the industry’s value added is projected to decrease at an annualized rate of 4.9%.

There have been successful introductions of new drinks, particularly dry soda; however, these growth segments have not offset the effects of strong declines in CSD consumption. These are growing product lines, as consumers are becoming more conscious of their well-being. Industry beverage sales rely heavily on traditional channels, principally retailers, which have not changed dramatically during recent years. Despite niche products resulting in some new enterprises, consolidation is rapidly occurring as beverage behemoths like The Coca-Cola Company, PepsiCo and Dr. Pepper Snapple snap up competitors to hang on to their market share.

Major publicly listed players are also acquiring some small regional operators and their bottlers, and the overall number of enterprises is expected to decline over the 10-year period at an annualized rate of 4.6% through 2018, with 125 companies operating in 2018. The industry is anticipated to continue declining and contribute a contracting share to GDP.
Soda includes carbonated soft drinks (CSDs) that can be heavily advertised branded drinks, or lesser-known house brands sold through supermarkets. They are sometimes known as sparkling beverages because the carbonation produces bubbles in the liquid that make it sparkle. However, CSDs’ share of revenue is falling rapidly due to poor consumer sentiment and the growing popularity of healthier alternatives to soda during the past five years.

In 2013, the major brands sold include Coke (about 17.0% of the soda market), Diet Coke (9.6%), Pepsi-Cola (9.2%), Mountain Dew (6.7%) and Dr Pepper (6.4%) according to the latest industry data collected by Beverage Digest. In 2011, Diet Coke replaced Pepsi-cola as the second most-popular beverage. During the five years to 2013, cheaper beverages, such
Demand Determinants

Demand for the industry’s products is relatively price elastic. That is, consumers change their soft drink buying habits when relative prices and incomes change. Consumers may switch brands in response to changes in relative prices, or may switch to other nonalcoholic beverages.

Households with higher incomes spent significantly less on industry products from 2008 through 2010. Depressed incomes resulted in decreased consumption of the industry’s products as demand was relatively income elastic. In addition, consumers switched to eating at home more often, where they were less likely to consume traditional CSDs than in a restaurant. This trend is slowly reversing as incomes recover in 2013 and beyond.

The introduction of lightweight, plastic, screw top bottles has enabled CSDs to be purchased with groceries, without being heavy and unmanageable. Growth in impulse sales outlets (e.g. convenience stores

Products & Services continued

as Dr Pepper or private-label brands, have been steadily increasing in market share while the majority of name-brand products have declined.

Coke

Although consumers shifted away from brand name products like Coke during the recession, this brand has maintained its share of the Soda Production industry by boosting the price of its products. In 2008, the brand had a market share of 17.3% according to Beverage Digest data, before dropping to and sustaining a 17.0% market share since 2010.

Diet Coke

Diet Coke had a market share of 10% in 2008; however it was ranked behind Pepsi-Cola as the third-most popular brand. The slide in market share to 9.6% was due in part to consumers’ limited budgets, which led to substitution toward cheaper brands. Price increases to accommodate rising input costs further aggravated this trend, as did intensifying competition from energy drinks (see IBISWorld report 31211c: Juice Production). It managed to outcompete Pepsi in 2011 as consumers, concerned about the caloric content of regular soda, substituted toward diet drinks.

Pepsi-Cola

Pepsi-Cola’s market share and ranking slid during the past five years, for reasons similar to those that led to higher substitution away from Coke and Diet Coke. Furthermore, the brand was cannibalized by similar products like Pepsi Max, Pepsi Natural, Pepsi One and Pepsi Throwback. In 2008 the brand controlled a 10.3% market share, compared to an estimated 9.2% in 2013.

Mountain Dew and Dr. Pepper

Mountain Dew slightly decreased its market share, falling from about 6.8% of the market in 2008 to an estimated 6.7% in 2013. As a highly caffeinated soda, it has suffered from consumer substitution toward newer beverage categories including energy drinks, ready-to-drink tea and ready-to-drink coffee. However it also benefited during the period of low disposable income because it is a cheaper alternative to those newer products.

Dr. Pepper gained market share during the past five years, unlike its major competitors (above). Dr. Pepper’s market share rose from just 6.1% of the 2008 market to about 6.4% in 2013. Significantly higher marketing spending on this brand, partly due to its lower price point, has contributed to its growing popularity during the past five years.
Demand Determinants continued

and vending machines) has had a positive effect on demand.

**Lifestyle**
The industry is losing ground as a result of the debate about nutrition. Although new products were developed to counter these views, like low-calorie, low sugar and preservative-free soda, most Americans perceive CSDs as unhealthy. Additionally, many non-carbonated substitutes like POM have developed nationwide distribution deals due to their increasing appeal to health-conscious consumers.

The industry has gained from the frantic pace of life. With people trying to accomplish more in each day, with less time for rest, caffeinated drinks are becoming an important source of sustenance. However, people are turning more to higher doses of caffeine from beverages in the functional drink category such as energy drinks, ready-to-drink tea and coffee. As a result, this segment has experienced rapid growth.

Consumption of CSDs tends to increase in the hotter months and in periods of unusually hot weather. This can result in peak demand during summer and a fall in demand in winter. Weather conditions also account for stronger demand in southern states.

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**Major Markets**

**Grocery stores**
Grocery stores represent the largest single market for sale of soft drinks and bottled water. This market segment is a reliable source of sales for soft drink and non-carbonated water manufacturers and is the critical link with final consumers. Therefore, this market segment has remained a steady source of sales in the five years to 2013 at about 39.9% of revenue.

**Gas stations and convenience stores**
Gas stations and convenience stores are a key market, especially because they are often open 24-hours a day and therefore maintain a high volume of sales. Their share of industry revenue has increased steadily during the past five years. This segment includes standalone convenience stores, as well as stores attached to gas stations, and generates about 29.5% of industry revenue.
### Products & Markets

#### Major Markets continued

**Warehouse clubs and supercenters**

The next largest market includes warehouse clubs and supercenters. Since the 2008 economic downturn, more people have been regularly buying soda in bulk, and so the sale of CSDs to this segment rose. Many food-service retailers and businesses also buy soda in bulk from this retail segment, which accounts for about 19.2% of 2013 revenue.

**Vending machine operators**

Vending machines and individual vendors are convenient outlets for consumers, placed in locations such as rail and bus stations where no alternative vendors exist. Thus, they represent an important market for impulse sales. This segment has declined during the past five years to about 7.5% of revenue because consumers consciously cut down on impulse sales during this period of low disposable income.

**Other**

Other domestic retailers include pharmacies, liquor stores and online sales, which make up the majority of the other market segment and account for another 7.3% of industry revenue. The proliferation of online sales is driving growth in this segment.

Export markets, which include Canada, Japan and Mexico, are small in relation to the Soda Production industry, because major industry players typically license the manufacture of their beverages or they have production plants in countries where CSD demand is high. Exports represent about 2.4% of industry revenue in 2013.

#### International Trade

**Level & Trend**

- Exports in the industry are **Low and Increasing**
- Imports in the industry are **Low and Increasing**

International trade in soft drinks is low because the products are of low value in comparison to the cost of their transport. The transport costs are relatively high since the products are both heavy and bulky relative to the sale price. Instead, there is significant international trade in syrups, which are the product of the Syrup and Flavoring Production industry (see IBISWorld report number 31193). Therefore, exports have accounted for less than 1.5% of revenue each year over the past five years.

IBISWorld expects the value of exports to reach $421.1 million in 2013. The major export markets are Canada, Japan and Mexico. Exports are forecast to increase as a share of revenue, as disposable income in these markets improves during the next five years. Exports are projected to total just 2.8% of industry revenue in 2018.

Imports of soft drinks have also remained low due to these same logistics costs. And most imports are sourced also from Mexico and Canada. During the five years to 2013, imports expanded from 2.1% to 2.6% of domestic demand and grew at an annualized rate of 1.1% per year to $464.9 million. This trend is anticipated to quicken during the following five years.
Business Locations

The geographic distribution of establishments primarily engaged in manufacturing carbonated soft drinks has followed both major population centers and areas that commonly experience prolonged periods of hot weather. Therefore, it is not surprising that the Southeast of the country holds 26.8% of all establishments within this industry. These establishments are spread across all states within this region since all are accustomed to long and hot summers.

The Mid-Atlantic is home to 15.2% of establishments, dominated by the densely populated states of New York and Pennsylvania. For similar reasons, many manufacturers in this industry are located in the Great Lakes area and most establishments are quite evenly spread throughout. Due to the relatively cool weather conditions in New England, this region houses 6.0% of the total establishments within this industry. The majority of manufacturing plants in this region are located in Massachusetts.

The West (mostly California) accounts for 15.0% of the nation’s establishments within this industry. It is becoming an increasingly popular area for producers because it is close to a large and growing market, which has strong year-round demand conditions due to the warm climate in Hawaii, California and Nevada. Due to relatively hot weather and growing population centers, the Southwest holds 9.3% of establishments, most of which are in Texas. State-based analysis reveals that there are a large number of establishments in California, Texas, New York and Florida. With the exception of New York, these states have high average temperatures. However, the population of each state is the most significant explanatory factor in determining the number of establishments in any one state. For example, according to the US Census Bureau, California is the most populous state, followed by Texas, New York and Florida (the same order of ranking for industry establishments).
Soda Production in the US

June 2013

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Cost Structure

Benchmarks

Profit
The industry’s average profit, earnings before interest and taxes, of 4.2% dipped in 2013 due to high marketing expenditures and decreasing volume sales. This figure is below the average profit of major players because their established brands allow them to charge higher prices relative to smaller soft drink producers and even relative to their own, less popular brands. Industry profit is expected to continue contracting during the next five years to 3.4% of industry revenue in 2018 as marketing spend and input prices continue to rise. However, industry profit has remained relatively steady as a proportion of revenue from 4.9% of 2008 revenue due to lower operating costs as companies have consolidated.

Key Success Factors

Distribution management
Efficient and effective marketing channels are critical in this industry to minimize logistics costs and maximize sales at retail stores.

Marketing products
Image is everything in this industry, so product positioning, through package design and advertising, is a key to attracting new customers.

Economies of scale
Minimizing marginal and average production costs by buying inputs at bulk prices and producing more enables companies to sell at a lower price and still maintain profit. Otherwise, firms need to charge higher prices to maintain profitability.

Economies of scope
The ability to switch production to multiple products will enable a producer to diversify its product portfolio, thereby appealing to wider markets.

Ability to manage external contracts
The management and effective use of outsourcing noncore functions can reduce costs and contribute to success.

Market Share Concentration

The top four producers account for about 71.0% of the total market. The dominant players, The Coca Cola Company and PepsiCo, are currently undergoing major structural changes. These companies previously licensed a limited number of bottlers to produce finished beverages under their brand name but are now incorporating these operations into their company structure. They engage in significant marketing and brand promotion activities in order to generate brand loyalty, which translates to a larger market share for these carbonated soft drink (CSD) manufacturers.

Few small producers have managed to develop a niche market in their particular region of the country and only a select few have expanded their sales to other states. Because the cost associated with transporting these goods over large distances is very high relative to the value of the product, larger producers have had to establish operations in all regions throughout the United States to reach their market, decreasing their efficiency savings from large operations. As a result, small CSD makers have spread throughout the country and thus offer significant regionally based competition to the major players.

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Level
Concentration in this industry is High
Cost Structure

Purchases
Although the markup over the cost of raw materials is high, other costs such as advertising and distribution have a significant effect on profit. The most significant costs to this industry are purchases of raw materials. The industry makes a product that is heavily dependent on packaging. Hence, containers and other packaging materials and other purchases, including liquid beverage bases, sugar, high fructose corn syrup, water, carbon dioxide gas, caffeine, acidulants, preservatives, potassium and sodium, make up 42.3% of industry revenue. The purchases segment is forecast to increase as a share of revenue during the five years to 2018 because ingredient and packaging prices are projected to continue to rise.

Wages
Labor costs comprise about 5.6% of revenue, which is near the average for all beverage manufacturing industries. Labor’s proportion of revenue has fallen during the five years to 2013, from an estimated 7.3% in 2008. This has been due to stagnant wage growth in manufacturing combined with industry layoffs and increased capital intensity. This trend is anticipated to continue through 2018 as producers continue to cut costs in order to supplement profit.

Marketing
Marketing expenditure is expected to account for 7.9% of industry revenue. Advertising and promotions are a much higher proportion of industry costs in 2013 than in 2008 because of Coke and Pepsi’s integration with bottlers. Previously, these companies were solely syrup and flavoring producers and paid for the majority of brand marketing outside of the scope of the Soda Sector vs. Industry Costs

Average Costs of all Industries in sector (2013)

Industry Costs (2013)

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<th>Percentage of revenue</th>
<th>Profit</th>
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<th>Depreciation</th>
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</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM
Competitive Landscape

Basis of Competition

Internal competition
Competition in this industry increased as sales volumes decreased with low consumer spending resulting from high unemployment. Competition is anticipated to continue to increase over the five years as new players enter the industry, and as Coke and Pepsi continue exerting price pressures as they take advantage of efficiencies from consolidation.

The range of products that a manufacturer produces can also be relevant to its ability to compete. Incumbent producers have a range of beverages that they produce. This gives them a competitive advantage when dealing with wholesalers and supermarkets, as well as with shifts in consumer preferences. Wholesalers and large retailers are able to reduce their transaction costs by sourcing a range of beverages from one producer.

To some extent competition is limited by licensing activities of the major players. However, after Pepsi and Coke merged with their major bottlers and streamlined operations, the companies withheld license renewals to producers in certain market segments and took over through their in-house companies.

Price is an important competitive element for this industry. This is illustrated by the importance of house brands and generics with respect to market share. Product differentiation can be sought by promoting brand names to consumers, and by developing attractive and convenient packaging.

Differentiation can be sought to increase

Cost Structure

Production industry. Marketing expenses accounted for only 4.3% of industry revenue before the mergers.

Other
Depreciation comprises about 1.8% of revenue. It has risen slightly due to significant mechanization within the industry. Other expenditures make up 31.7% of revenue and include legal and administrative costs.

This industry is also significantly affected by the activities of upstream beverage syrup and flavoring producers (see IBISWorld report 31193, Syrup and Flavoring Production). Because of the high degree of interdependence between soft drink bottlers and syrup and flavoring producers, the cost structure of this upstream industry has an effect on soft drink producers. In particular, marketing undertaken by syrup and flavoring producers generate brand loyalty and therefore consumer demand for the finished beverages. This is relevant after Coke and Pepsi’s major bottlers’ merged with their respective companies because they continue to sell syrup to smaller distributors in various regional markets throughout the country.

Distribution
Distribution costs represent a significant and rising proportion of industry revenue at 5.5%. Companies generally account for this expenditure as part of selling and administrative expenses. Producers ship their products significant distances to a large number of markets. These activities are done in-house by larger producers, but are outsourced by smaller producers (often to this industry’s larger players). Distribution can also occur through a wholesaler; however this also represents a cost to the company.

Rent and utilities
Utility costs include electricity, gas and water expenses and represent 3.2% of revenue, and rent is 3.5% because of the large facilities in urban areas that are necessary to supply products at low distribution costs.

Level & Trend
Competition in this industry is High and the trend is Steady

Cost Structure

Benchmarks continued
Competitive Landscape

Basis of Competition continued

Entry into the market may be hindered by saturation of the domestic market by existing brands. New entrants must differentiate themselves from other products or find specific niches in which to operate. In addition, many incumbent producers will manufacture a range of beverages that increases their overall distribution capabilities and market intelligence. It may be difficult for new entrants to gain access to existing distribution channels. In most markets, these are controlled by existing producers and establishment of new distribution channels is costly. However, this competition does not constitute a formal barrier to entry, since new companies can enter the market nonetheless.

Supermarkets usually carry a number of lower price products that are not heavily advertised or branded. These products are usually at a lower price point to appeal to price sensitive consumers. However, retailers generally have limited shelf space, so the range of products offered is limited. Many soft drink producers begin by distributing locally before signing deals with supermarkets, convenience stores or other venues.

External competition

Competition with substitute beverages has intensified during the five years to 2013. Growth in the Juice Production industry (IBISWorld report 31211c), such as that from energy drinks and ready-to-drink tea, has siphoned revenue away from CSD companies by providing consumers with direct substitutes for soda. Some of these substitutes are also viewed as more healthy by the general public and are anticipated to continue intensifying competition against the Soda Production industry.

Other beverage industries are also competitors, albeit less directly. People may substitute soda with coffee or tea products, especially as their producers increase marketing activities and provide more convenient methods of coffee and tea consumption. For instance, coffee shop locations are projected to expand over the next five years, and companies such as Starbucks are increasing their instant and in-home brands with new lines like Starbucks Via instant coffee. Alcoholic beverages like beer and wine are also substitutes for soda consumption, though spirits are often mixed with soda and may be less competition as a result.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are High and Steady
Competitive Landscape

Barriers to Entry continued

Some capital investment is required in the mass production of soft drinks. Producers that are already established in the market have achieved economies of scale, and would have a lower average cost of production than new entrants. Major players are exploiting these efficiencies further by merging the bottling plants they own, operate or license, and through use of an extensive wholesale and retail distribution chain. New industry entrants generally do not have such well-developed processes (or volume of demand) to fully exploit scale economies. Furthermore, high returns over these costs of production facilitate spending on branding and marketing. However, entrants can outsource labeling and distribution operations in order to benefit from some scale efficiency.

The establishment of exclusive agreements between syrup producers and bottlers prevent new entrants from producing particular brands of soft drinks. An example is the use of exclusive licensing agreements by Coca Cola that cover a particular geographic area. In such cases new entrants must compete against established brands that have the benefit of significant marketing and brand recognition. In some cases, the producer of the syrup may provide assistance to the bottler in order to ensure dominance of its brand in a domestic market place. Such assistance includes funds for marketing and promotions. This is the case because the syrup recipes that each producer uses are secret and trademarked, which prevents competition from other companies that might have made identical products had the recipes been public.

<table>
<thead>
<tr>
<th>Barriers to Entry checklist</th>
<th>Level</th>
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<tbody>
<tr>
<td>Competition</td>
<td>High</td>
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<tr>
<td>Concentration</td>
<td>High</td>
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<td>Life Cycle Stage</td>
<td>Decline</td>
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<tr>
<td>Capital Intensity</td>
<td>Medium</td>
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<td>Technology Change</td>
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<tr>
<td>Regulation &amp; Policy</td>
<td>Medium</td>
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<tr>
<td>Industry Assistance</td>
<td>Low</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM
Competitive Landscape

**Industry Globalization**

**Level & Trend**
Globalization in this industry is **High** and the trend is **Increasing**

Although trade is low, the major companies earn a significant and increasing share of their soda production revenue abroad. These companies are also rapidly expanding into developing markets in hopes of benefiting from the faster growth potential of such markets in terms of demographics and rising per capita disposable income. The increasing international focus of other major players means that globalization is steadily rising.

International trade is a major determinant of an industry’s level of globalization.

Exports offer growth opportunities for firms. However, there are legal, economic, and political risks associated with dealing in foreign countries.

Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.

**Trade Globalization**

**Going Global: Soda Production 2000-2013**

SOURCE: WWW.IBISWORLD.COM
The Coca-Cola Company (TCCC) owns more than 500 brands of refreshments, which are distributed worldwide. It was founded in the late 1800s as a wine producer, but when a local prohibition law was passed, Coca-Cola became the world’s first flavored soda. The top three brands in North America for 2009 (latest data available) were Coca-Cola classic, Diet Coke and Sprite. The company has acquired a variety of beverage brands over the past five years to diversify the business and make it less dependent on carbonated soft drinks. For example, it purchased Honest Tea, a company that manufactures ready-to-drink iced tea beverages.

TCCC sold rights to mix and bottle its trademark beverages for over a century. However, TCCC acquired Coca-Cola Enterprises’ (CCE) North America division through a noncash transaction in 2010. This move resulted in a subdivision of TCCC called Coca-Cola Refreshments USA Inc. (CCR-USA), which combines TCCC’s national fountain, juice, distribution, marketing and other bottling operations with those of CCE.

**Financial performance**

Company revenue from US operations is on track to increase at a five-year annualized rate of 7.3% to $6.6 billion by 2013. During this time, the acquisition of CCE was the main revenue growth driver, bolstering revenue by about 44.2% overall from 2010 to 2011. However, demand for this division’s products has dwindled as a result of decreased soda consumption. Price increases for Coca-Cola’s soda products have slowed revenue declines during the past five years; nevertheless, revenue is expected to decline 0.1% in 2013 as consumers continue to demand less soda.

### The Coca-Cola Company (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
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<td>-0.1</td>
<td>1,421.5</td>
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</table>

*Estimates

**SOURCE:** ANNUAL REPORT AND IBISWORLD
Founded in 1898, PepsiCo is an international food and beverage manufacturer that employs over 285,000 people worldwide. Its US operations are headquartered in New York and employ about 70,000 workers. The company manufactures Pepsi brands, as well as non-Pepsi brands in select markets, including Dr Pepper, Crush, ROCKSTAR and Muscle Milk.

In July 2009, PepsiCo began to reintegrate its bottling business with its wholly owned subsidiary Pepsi-Cola Metropolitan Bottling Company. It acquired The Pepsi Bottling Group (PBG) and PepsiAmericas (PAS) for a joint $7.8 billion. The acquisition was completed in February 2010, and the two companies plus the subsidiary are a part of a newly formed division called PepsiCo Americas Beverages (PAB) that covers the North American and Latin American markets. PAB generates about 23.0% of PepsiCo’s net revenue and 25.0% of the company’s operating profit. About 52.0% of PepsiCo’s net revenue is generated in the United States.

**Financial performance**

Consolidation helped to boost the company’s soft drink revenue during the five years to 2013. IBISWorld expects that revenue will grow at an annualized rate of 11.9% in the five years to 2013 to $3.0 billion. However, organic revenue growth from existing operations has been on a declining trajectory as consumers switch away from soda. As a result, segment revenue is anticipated to decline 0.6% in 2013.

### PepsiCo Inc. (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
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<tr>
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<td>442.0</td>
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</table>

*Estimates

**SOURCE:** ANNUAL REPORT AND IBISWORLD
Dr Pepper Snapple (DPS) was a division of Cadbury Schweppes Americas Beverages before it split into several different companies in 2008. DPS is an integrated brand owner, bottler and distributor of a large array of products. Until 2010, this consolidated system distinguished DPS from its main competitors and gave it a major advantage in its route to market. Integration has the advantage of aligned economic interests of its divisions, makes the company more financially flexible and gives it more incentive to be responsive to the needs of its customers.

Prior to the spinoff from Cadbury, the American Beverage Business, as it was called then, grew its market share. Cadbury Schweppes’ CEO reported that the business had performed well in a tough market. However, that revenue growth was largely from acquisitions. In terms of organic revenue growth, the division performed poorly compared with the rest of the industry in the years leading up to the 2008 split. Yet, the division did not experience as great a revenue loss as its competitors in 2009, indicating that the company is strengthening its position within the industry and streamlining operations.

As DPS is facing significant competition from other healthier brands in the marketplace, the relatively small size of this company has put it behind Coke and Pepsi in developing new sodas and alternatives. Its traditional focus on CSDs and fruit drinks will hurt the company in the five years to 2018 because consumers perceive these products as less healthy.

Financial performance
DPS’s industry-specific segment is expected to earn $2.9 billion in revenue in 2013. This number represents a 2.8% increase from 2012 and five-year 0.8% annualized growth since 2008. This growth is the result of steadier demand for the company’s cheaper products relative to Pepsi and Coca-Cola. For example, about 17.0% of DPS bottled beverage sales are to Walmart. Nonetheless, revenue is slumping due to abating consumer demand for sugary beverages.

In 2010, the company received a $715.0 million one-time payment from TCCC and another $900.0 million from PepsiCo for rights to bottle and distribute DPS brands over the next 20 and 25 years, respectively. This move partly balanced out significant declines in revenue that year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
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<tr>
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<td>2013</td>
<td>2,912.4</td>
<td>2.8</td>
<td>477.6</td>
<td>3.3</td>
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</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Other Companies

**Cott Corporation**

Estimated market share: 2.6%

Toronto-based Cott Corporation is the world’s largest manufacturer of retailer-brand (or private label) soft drinks and the fourth-largest soft drink maker in the world. It sells to Safeway and J Sainsbury, which label the beverages with their respective store brands. The company’s top-10 customers generate over 50.0% of its US revenue, which is about 64.8% of total company revenue. IBISWorld expects that Cott will earn about $457.8 million in 2013 from US CSD sales, representing a 3.5% decline from 2012.

Cott was able to carve a niche in the Canadian drinks manufacturing market by lowering production costs, while maintaining quality and improving packaging graphics. This move allowed expansion into the US market, largely via acquisitions. Cott announced that it would purchase Cliffstar Corporation, a private-label beverage producer, in the third quarter 2010 for $500.0 million, diversifying Cott’s US product line and providing the company with an additional revenue stream.
Operating Conditions

Capital Intensity

Most manufacturing and packaging processes are automated and mechanized, necessitating considerable capital investment. Investment in plant and equipment for soft drink and ice production has been significant and has increased substantially since 2008. This is also consistent with the mature nature of this industry, as output levels are fairly steady and efficiency is increasingly dependent on automation. For every dollar spent on labor, the industry spends an average $0.28 on capital.

![Capital Intensity Graph](source: www.ibisworld.com)

Dotted line shows a high level of capital intensity

Tools of the Trade: Growth Strategies for Success

New Age Economy

Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Investment Economy

Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Traditional Service Economy

Wholesale and Retail. Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Old Economy

Agriculture and Manufacturing. Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.

Change in Share of the Economy

SOURCE: WWW.IBISWORLD.COM
The process for manufacturing soft drinks is relatively simple. It involves combining water, flavorings and sweeteners, and in the soft drink segment carbonating this mix, and then packaging. It has changed only moderately during the past five years. Yet many kinds of technological advancements are being made regularly. CSD producers constantly evaluate where they can cut costs and gain efficiencies, such as evaluating whether to refurbish or replace equipment when it breaks or is not up to par with efficiency standards.

**Ingredients**
Beverage technological advancements are being used by the industry to improve the health of its consumers. Advances in natural sweeteners have produced more beverages with limited calorie content that are perceived as more healthy by consumers. Such innovations are important to sales growth within this industry. Before sweeteners can be used in beverage formulation, they must be approved by the Food and Drug Administration, and recognized as safe for human consumption. An example of an artificial sweetener is S2383 sucralose enhancer, which has been approved by the FDA and is used as a sweetener for a wide range of beverage applications at a relatively lower cost. It is, however, going to be transitioned out by companies and replaced by stevia root extracts and other natural sweeteners during the five years to 2018 in an attempt by soft drink producers to regain market share. Exotic fruit flavors emerged on the CSD market in 2011, especially as small niche companies seek to attract more attention to their brands through product innovation.

**Packaging**
Such technological change that has occurred in recent years has been associated with improvements in quality control and with automating and computerizing production processes. There are several kinds of fast and efficient technologies that major beverage manufacturers are upgrading to. These include hybrid palletizing, which uses a robotic interface to adjust one machine’s specifications to produce several kinds of pallets, or those that have reduced energy and air consumption. A high-speed palletizer is the P45 which packs two pallets at a time at 70,000 bottles per hour for six packs of 1.5-liter bottles, and even quicker for smaller packages.

Many major companies are transitioning to use biodegradable plastic bottles. For bottle caps, the trend has been toward small screw caps with a tamper-evident band. This decreases the use of plastic by using a smaller amount of material and letting consumers reseal it. This trend began in 2011 and is expected to continue on in the coming years.

**Water stewardship**
Companies are also decreasing water usage in order to cut costs and as green measures that earn them positive press. For instance, Coca Cola Enterprises decreased its water usage by 3.0% in the past year. TCCC also opened a facility in Oregon that uses only 1.2 liters of water for every liter produced, which means that in addition to each liter of beverage content, the plant uses 0.2 liters of water to produce it. This is low compared to the industry average of about 2 liters of water usage per liter produced.

**Distribution**
Major players Coke, Pepsi and Dr Pepper Snapple have upgraded their vehicle fleets and use them to tout green practices via advertising on the trucks themselves. Regional manufacturers are picking up and trying to combine such positive press with fuel savings.

Many manufacturers have developed online ordering systems, part of...
Operating Conditions

Technology & Systems continued

e-commerce strategies that generally aim to build client (retailer) relationships and improve supply chain management. Coca-Cola is one of the country’s leaders in this field. Some small manufacturers benefit from online retail, especially direct sales to consumers who located outside their distributor’s reach.

Revenue Volatility

The narrow range of products provided by this industry exposes revenue to changes in consumer tastes. For example, demand relies partly on weather conditions, where warm weather conditions result in higher sales. As consumer preferences shift in the longer-term toward healthier alternative beverages, this industry is not as flexible in adjusting the products it produces to meet market demand because of its narrow definition, yet its major players are well diversified and increasingly participate in other beverage industries. With an overall decrease in spending throughout the recession, and intensified publicity regarding health concerns linked to CSDs, revenue did decrease significantly. This also spurred vertical consolidation, which stimulated a jump in revenue in 2010. In the five years to 2013, revenue fell most in 2009, by 8.8%, and grew most, by 6.2%, in 2010.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment. When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.

Volatility vs Growth

Revenue volatility (%)

Hazardous

Rollercoaster

Soda Production

Stagnant

Blue Chip

Five year annualized revenue growth (%)  

Five year annualized revenue growth (%)

* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Regulation & Policy

During the past five years the Soda Production industry has self-regulated and lobbied in order to maintain a positive public image and prevent laws that could harm the industry from being deemed necessary by the public and courts. Members of the American Beverage Association (ABA) have voluntarily eliminated non-diet sodas from schools nationwide. Also, they have donated to health-promoting campaigns. This has preempted many schools from passing soda sale restrictions on their premises, retaining valuable young customers and revenue streams for industry participants.

Nonetheless, public officials are debating various ways of increasing...
regulation for soda producers. Several cities, including large cities like San Francisco and New York, have passed policies that limit soda sales. Such regulatory measures not only decrease the availability of CSDs but also raise public awareness about the health concerns related to drinking soda; this is contributing to revenue declines.

**Labeling**

The Federal Food, Drug, and Cosmetic Act and the Fair Packaging and Labeling Act govern production and labeling in this industry. The FDA has stated that “Informed consumers are essential to the fair and efficient functioning of a free market economy. Packages and their labels should enable consumers to obtain accurate information as to the quantity of the contents and should facilitate value comparisons. Therefore, it is hereby declared to be the policy of the Congress to assist consumers and manufacturers in reaching these goals in the marketing of consumer goods.” Therefore, the Fair Packaging and Labeling Act (which took effect on July 1, 1967) established a range of labeling requirements that must be followed by soda producers. These requirements relate to unfair and deceptive packaging or labeling and statements of quantity.

**Industry Assistance**

Assistance with respect to research and development and representation on key issues is provided by the American Beverage Association (ABA), which is the trade association for the Soda Production industry. Founded in 1919 as the American Bottlers of Carbonated Beverages, ABA today represents hundreds of soft drink bottling firms, franchise companies and support industries, including the three major players in this industry. ABA provides a neutral forum in which members convene to discuss common issues while maintaining spirited competition in the American marketplace. The association also serves as liaison between the industry, government and the public, and provides a unified voice in legislative and regulatory matters. It spent over $10.0 million in the first half of 2010 battling soda taxes in various states and preventing it from becoming part of Obama’s health reform, the Patient Protection and Affordable Care Act (PPACA). (latest data available) ABA provides information on legislation, science, technology, recycling and the law.

**Taxes**

A sales tax applies to soft drinks in most states. Through the ABA, the industry has successfully lobbied to prevent a soda tax from being included in the national health reform legislation. Soft drink producers are now battling states attempting to pass “soda taxes,” which tax drinks that contain high levels of sugar or caffeine.

Through the ABA, producers have been able to successfully oppose the federal taxes through 2012. Washington state was an exception, and legislators approved a two-cent tax on every 12 ounces of soft drinks sold. These taxes cut into industry profit because of the price-sensitive nature of the drinks and the high level of competition within the industry. Several states, including New York and California, have been debating a soda tax for several years; however, they have not been able to pass it.
Key Statistics

Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports ($m)</th>
<th>Imports ($m)</th>
<th>Wages ($m)</th>
<th>Domestic Demand ($m)</th>
<th>Price of Sugar (Cents per pound)</th>
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Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.

Key Ratios

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<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($1,000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage ($)</th>
<th>Share of the Economy</th>
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SOURCE: WWW.IBISWORLD.COM
## Jargon & Glossary

### Industry Jargon

**BOTTLING AGREEMENT** An agreement between a brand owner and a bottler under which the producer manufactures, packages, sells and distributes the beverages that bear the applicable trademark.

**CARBONATED SOFT DRINK (CSD)** A nonalcoholic beverage that contains carbonation and generally some form of sweetener or flavor.

**PRIVATE LABEL** Products sold as the house brand of a particular supermarket or retail chain, rather than the specific manufacturer.

**READY-TO-DRINK** A beverage produced and packaged for immediate consumption.

**SPARKLING BEVERAGE** A nonalcoholic beverage with carbonation, including energy drinks, waters and flavored waters.

**STILL BEVERAGE** A nonalcoholic beverage without carbonation, including juices, juice drinks, teas, coffees, sports drinks, waters and flavored waters.

**VERTICAL INTEGRATION** Owning different parts of the supply chain, either in the form of forward integration (owning upstream suppliers) or backward integration (owning downstream buyers).

### IBISWorld Glossary

**BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

**CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

**DOMESTIC DEMAND** Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT** The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPORTS** Total value of industry goods and services sold by US companies to customers abroad.

**IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in the United States.

**INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

**INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

**INDUSTRY VALUE ADDED (IVA)** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

**INTERNATIONAL TRADE** The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

**LIFE CYCLE** All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

**NONEMPLOYING ESTABLISHMENT** Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.
Jargon & Glossary

**PROFIT** IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

**VOLATILITY** The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

**WAGES** The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs.