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Fizzling out: Soda producers will refresh product lines to decelerate falling demand

IBISWorld Industry Report 31211a

Soda Production in the US

November 2013

Hester Jeon

About this Industry

Industry Definition

Firms in the Soda Production industry manufacture soft drinks by blending various ingredients with artificially carbonated water. Producers of naturally carbonated water, functional beverages like energy drinks and ice manufacturers are excluded from this industry.

Main Activities

The primary activities of this industry are

- Carbonated beverage manufacturing
- Brand promotion
- Research and development

The major products and services in this industry are

- Diet Carbonated Soft Drinks
- Regular Carbonated Soft Drinks
- Sparkling Water

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 Production 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 still and carbonated 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.

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

Industry at a Glance

Soda Production in 2013

Key Statistics Snapshot

Revenue
$19.7bn

Annual Growth 08-13
-1.3%

Annual Growth 13-18
-1.0%

Profit
$807.6m

Exports
$623.9m

Businesses
194

Market Share

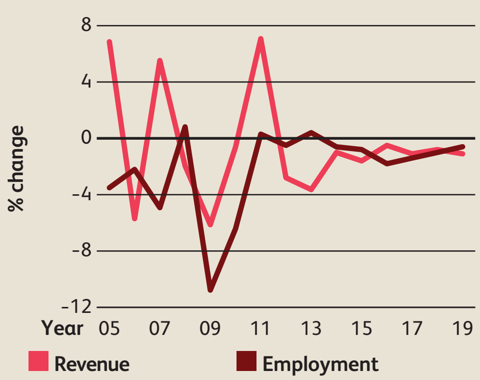
The Coca-Cola Company
41.9%

PepsiCo Inc.
30.3%

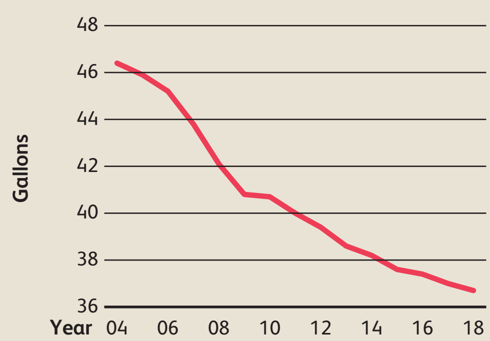
Dr Pepper Snapple Group Inc.
14.8%

p. 25

Revenue vs. employment growth



Per capita soft drink consumption



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

Per capita soft drink consumption

Demand from supermarkets and grocery stores

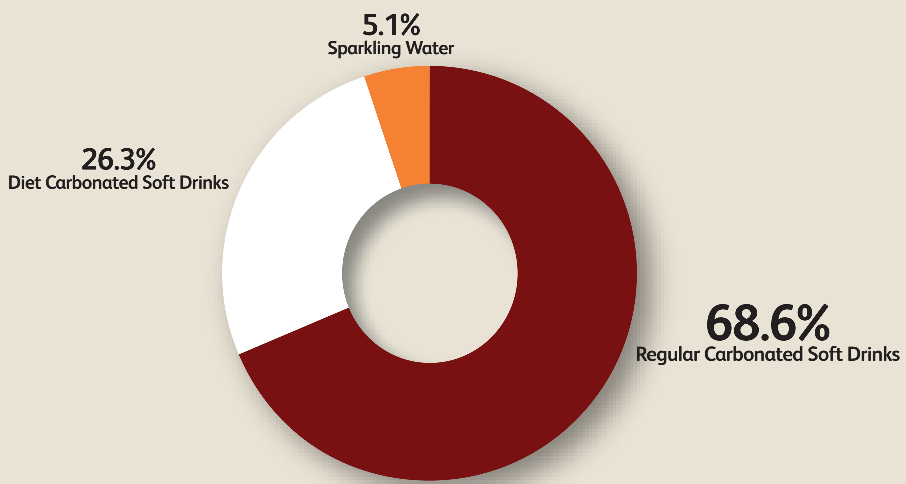
External competition for the Soda Production industry

Price of corn

Healthy eating index

p. 4

Products and services segmentation (2013)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

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

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 33

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

Falling per capita soft drink consumption and increasing health awareness have placed downward pressure on the Soda Production industry's revenue over the past five years. Revenue slumped 6.1% in 2009 when lower disposable income levels caused Americans to reduce spending on discretionary items like soft drinks and turn to more affordable substitutes such as tap and bottled water. Additionally, the introduction of innovative substitutes such as ready-to-drink tea and coffee has further contributed to the decline of soda. In 2013, the average American is anticipated to consume 38.6 gallons of soda, representing a decline from 42.1 gallons per capita in 2008. Consequently, industry revenue is estimated to decline an annualized 1.3% to $19.7 billion over the five years to 2013, including a decline of 3.6% in 2013.

Soda producers have introduced new products to mitigate losses

To mitigate the losses from a decline in consumption volume, major soda producers have introduced new soda products and consolidated their operations. Two of the leading soda producers, PepsiCo and Dr Pepper Snapple Group, launched new mid-calorie soda products that appeal to consumers who dislike the taste of diet soda but do not want to consume the calories in regular soda. Furthermore, The Coca-Cola Company and PepsiCo integrated independent bottling companies into their business in 2010, helping boost industry revenue by 7.1% in 2011. As industry operators faced slimming profit margins due to lower demand and higher input costs, larger producers passed on some of the cost increases to downstream markets in the form of higher prices. Smaller producers that were unable to increase their product prices exited the industry as their operations became unprofitable.

Over the five years to 2018, the industry will face a difficult operating environment, as government campaigns promoting healthier drinking habits cause consumers to purchase less soda despite improving disposable income levels. Despite producers' efforts to introduce healthier soda products, volume consumption is anticipated to further decline as more soda taxes and bans are implemented at the state and city levels of government. Also, growing imports, particularly from Mexico, is also expected to dampen demand for industry products. As a result, IBISWorld forecasts industry revenue to decrease at an average annual rate of 1.0% to $18.7 billion in the five years to 2018.

Key External Drivers

Per capita soft drink consumption

As per capita soft drink consumption declines, demand from downstream markets, such as wholesalers and retailers, will decline and negatively impact industry revenue. Furthermore, price-based competition intensifies in response to weakened demand, which can negatively affect producers' revenue and profitability. Per capita soft drink consumption is expected to decrease in 2014, representing a threat to industry operators.

Demand from supermarkets and grocery stores

Supermarkets and grocery stores represent the largest downstream market for soda producers, making the demand from this market a strong indicator of industry performance. Moreover, as demand from grocery stores increases,

Industry Performance

Key External Drivers continued

industry revenue grows in response. Demand from supermarkets and grocery stores is anticipated to increase in 2014, representing a potential opportunity for industry operators.

External competition for the Soda Production industry

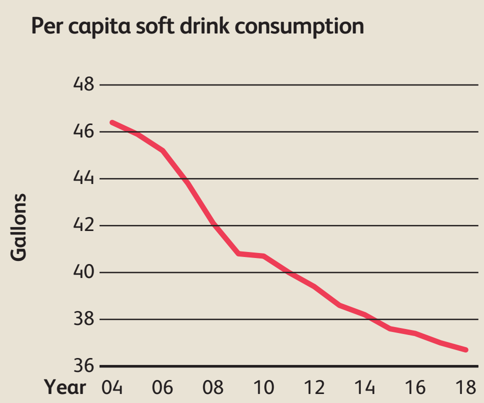
In recent years, more beverage producers have introduced a variety of healthy alternatives to soda, such as ready-to-drink iced tea and flavored bottled water. As the number of alternative beverage products grows, demand for soda declines. External competition is expected to increase during 2014.

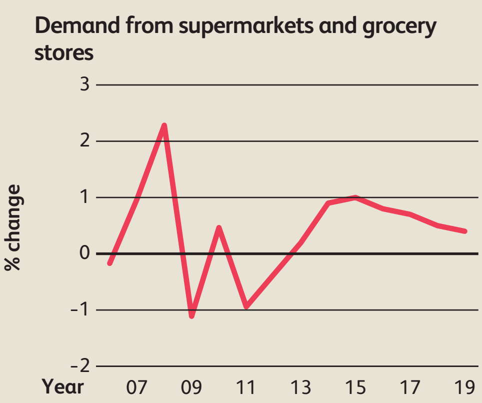
Price of corn

High fructose corn syrup is a key ingredient used to produce regular soda. A rise in the price of corn causes producers to either pass along the cost increase to downstream markets in the form of higher prices, or absorb the cost to the detriment of their profit margins. The price of corn is expected to decrease in 2014.

Healthy eating index

As a growing number of consumers abide become m health conscious, indicated by a rise in the healthy eating index, demand for calorie-laden regular soda is expected to decline. Furthermore, consumers have become more aware of the negative health consequences of drinking both regular and diet soda, in recent years. In 2014, the healthy eating index is expected to slightly increase.



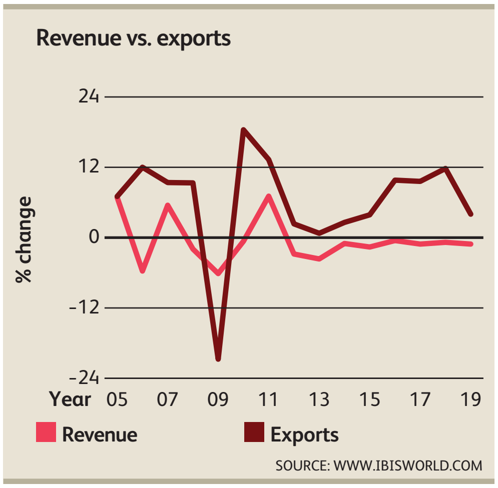


SOURCE: WWW.IBISWORLD.COM

Industry Performance

Current Performance

The Soda Production industry has been negatively impacted by growing health concerns and the pervasiveness of diet-related diseases like diabetes. Consequently, many consumers have begun to substitute soda for healthier beverages, such as flavored bottled water and sports drinks, while others have eliminated soda from their diets altogether. However, strong brand loyalty to the leading soda brands has allowed major producers to maintain growth by charging higher prices for these products. Industry revenue declined significantly during the recession as consumer spending plummeted. Furthermore, some consumers traded down from branded labels to generic brands of soda, while others drank less soda and opted for more affordable substitutes such as tap and bottled water. Additionally, imports have also declined an annualized 0.3% to $1.0 billion over the five years to 2013, dipping 26.6% in 2009 alone due to lower income levels. Overall, industry revenue is anticipated to shrink an annualized 1.3% to $19.7 billion over the five years to 2013, including a decrease of 3.6% in 2013. The declines in sales volume were softened by the vertical integration of The Coca-Cola Company (TCCC) and PepsiCo in 2010 when they acquired independent bottling companies, helping boost industry revenue by 7.1% in 2011.



Contracting profit

Demand for carbonated soft drinks (CSDs) has waned over the past five years, as consumers have become more aware of the negative health effects of drinking soda. The government, media and even soft drink producers themselves have vocalized the consequences of consuming artificially-sweetened diet soda and how drinking large volumes of regular soda can lead to obesity. The idea of implementing a tax on soda products to curb consumption was first introduced in 1994 and has since been applied by 33 states. More recently, Mayor Michael Bloomberg championed a soda ban that would prohibit the sale of sweetened drinks more than 16 ounces in volume in fast-food restaurants, full-service restaurants, delis, movie theaters, sports stadiums and food carts throughout New York City. While this ban has not been passed yet, laws that prohibit the sale of large servings of sugary beverages can significantly dampen the demand for soda in such cities and cause other major cities to pass similar regulations. Meanwhile, leading soda producer TCCC launched an advertising campaign in the first half of 2013 that clearly communicates the calorie content of a regular can of Coca-Cola. Such initiatives launched by manufacturers and the government have contributed to declining demand for soda in recent years.

Soda producers have struggled to maintain profitability in the past five years, as the cost of inputs continued to rise while the demand for both regular and diet soda dwindled. A number of the

Industry Performance

Contracting profit continued

key inputs for soda production, such as corn, sugar and plastic, experienced drastic price increases. For instance, the price of corn is anticipated to rise at an average annual rate of 6.7% in the five years to 2013, including a growth of 58.0% in 2011. In the same period, CSD prices are estimated to have grown at an average rate of 3.5% per year. As the cost of inputs rose faster than the price that soda producers charged downstream markets, industry profit is estimated to have declined from 5.9% of revenue in 2008 to 4.1% in 2013. Due to slimming profit margins, smaller producers exited the industry, causing enterprises to decline an annualized 0.4% to 194 over the five years to 2013. The number of workers employed in this industry decreased even faster, at an average annual rate of 3.6% to 21,211 over the same period, as larger firms laid off employees in order to boost profitability.

Despite a decline in industry profitability, major companies have maintained their relatively high profit margins. Moreover, these corporations have improved their profit margins by increasing product prices after the recession, albeit at a conservative rate, in response to declining demand. Companies like PepsiCo and TCCC also invested heavily in advertising, spending on average $3.5 million to $4.0 million for thirty-second advertisement spots during the 2012 Super Bowl alone, according to Kapitall Inc. Advertising, which further strengthened brand loyalty among consumers and allowed producers to charge a premium for their products. Finally, major companies produce soda at a lower per-unit cost than smaller companies due to economies of scale, and the vertical integration of independent bottling partners into TCCC and PepsiCo further contributed to their bottom lines.

Competition and innovation

As more consumers sought cost savings in the grocery store during the recession, the demand for generic soda products rose slightly in 2009. As competition from more affordable private-label brands increased while overall demand for soda continued to decline, major companies such as Dr Pepper Snapple Group (DPS) and PepsiCo took several proactive steps to entice consumers to purchase their products. For instance, the leading soda producers expanded the availability of their products, particularly regional soda brands, in multiple channels including fast-food restaurants and convenience stores.

New soda products were also introduced by the leading soda manufacturers to further differentiate themselves from generic soda brands. For example, PepsiCo and DPS both introduced low-calorie soda products to appeal to a consumer group that dislikes

> The industry will continue to innovate to present consumers with healthier drink options

the taste of diet soda but is wary of consuming the calories in regular soda. Dr Pepper Ten, which has only ten calories per serving, was launched in 2011 and helped boost the company's industry-specific revenue that year. PepsiCo also launched Pepsi Next, a mid-calorie soda containing 30% less sugar than regular Pepsi, in 2012. While the growth of these new products has not offset the overall decline of volume sales, new varieties have helped decelerate declining demand for industry products. Additionally, while soda exports only account for an estimated 3.2% of industry

Industry Performance

Competition and innovation continued

revenue in 2013, exports are anticipated to increase an annualized 1.9% to $623.9 million over the five years to 2013, helping offset demand declines in the United States. Exports have historically remained very low due to the high transport costs associated with ready-to-drink CSDs.

Industry Outlook

Industry revenue is anticipated to follow its downward trend as consumers continue to turn away from sugar- and artificially-sweetened beverages. Demand from downstream markets is expected to stagnate as state and local governments continue to push for the passage of additional taxes on soda. Also, growing health consciousness will cause some consumers to drink substitute beverages that are considered healthier than carbonated soft drinks (CSDs). Over the five years to 2018, IBISWorld forecasts industry revenue to decrease at an average annual rate of 1.0% to $18.7 billion, which is a slower decline than the previous five-year period. In 2014, revenue is anticipated to moderately decline by 1.0%, as macroeconomic conditions continue to recover but more consumers commit to healthier eating and drinking habits. Producers will gradually lower the price they charge downstream markets to entice consumers to purchase their products.

Increasingly health-conscious consumers will buy fewer soft drinks, denting revenue

Health concerns and product innovation

Demand for regular and diet CSDs is anticipated to decline further in the next five-year period, due to growing health concerns. Many state and local governments will seek different ways to further limit the sale of CSDs in the upcoming years. For instance, more states will implement a soda tax to discourage consumers from purchasing soda frequently. According to a study conducted by the American Journal of Public Health, a significant increase in the price of regular CSDs can lower the sales of regular soft drinks and cause some people to turn to substitute beverages. Additionally, the possible passage of the soda ban in New York City will dampen demand for soda in one of the largest cities in the United States. The passage of such a law can also spur on similar regulations in other cities and towns throughout the country, which would further lower the demand for soda in the upcoming years. Finally, initiatives such as Michelle Obama's recent "Drink Up!" campaign will encourage Americans to drink more water and purifying beverages instead of artificial, caffeinated drinks like soda.

In order to combat declining demand, producers will continue to introduce new products that satisfy the health and nutrition needs of consumers. In particular, leading companies like PepsiCo are expected to create new low- and zero-calorie soda products that are sweetened with only natural sweeteners instead of artificial sweeteners or a combination of natural and artificial sweeteners. New soda products that are branded as all natural will help boost demand and slow the

Industry Performance

Health concerns and product innovation continued

decline of the overall beverage category. All-natural soda brands such as Dry Soda have been in the market for years, but as major producers move into the all-natural soda business, demand for this subcategory is expected to take off.

Another factor that is anticipated to dampen the demand for industry goods is the growth of imported soda. Although imports are only expected to account for 5.0% of domestic demand in 2013, imported soda is projected to grow an annualized 7.8% to $1.5 billion in 2018. As the Mexican immigrant population continues to rise, demand for imported CSDs from Mexico will contribute to the growth of imports, increasing the competition for domestic producers.

Steady profit

Competition in the Soda Production industry will remain intense, stimulating industry consolidation. Major companies are expected to continue streamlining operations for cost savings. For instance, TCCC plans to further integrate bottling operations around the country to obtain greater control of its bottling and distributing processes and boost profitability. Additionally, the price of corn, a key ingredient used to produce soda, is anticipated to decline an annualized 2.6% over the five years to 2018, helping producers maintain their profit margins. Also, as larger companies like TCCC and PepsiCo acquire smaller regional or specialty soda brands to expand their market reach, the number of enterprises is anticipated to decline at an average annual rate of 1.5% to 180 during this time period. The number of industry employees is expected to drop 1.1% to 20,048 over the five years to 2018, as the industry consolidates and producers benefit from efficiency gains.

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

Cost savings will allow producers to lower the prices they charge downstream markets in order to boost demand for CSDs in the next five years. Consequently, industry profit is anticipated to remain unchanged from 2008, accounting for 4.1% of industry revenue in 2018. While profit margins remain stable due to lower costs, revenue will decline as demand for soda continues to dwindle. However, exports will help slow the decline of industry revenue, as exports are anticipated to grow an annualized 7.5% to $894.7 million over the five years to 2018.

Industry Performance

Life Cycle Stage

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

SOURCE: WWW.IBISWORLD.COM

Industry Performance

Industry Life Cycle

This industry is **Declining**

The Soda Production industry is in the declining stage of its life cycle. Over the 10 years to 2018, industry value added (IVA), which measures an industry's contribution to the economy, is forecast to decrease an annualized 2.7%. In comparison, GDP is projected to grow 2.1% per year on average over the same period. IVA is anticipated to decline every year during this period, excluding an increase in 2011 when industry revenue boosted due to PepsiCo's and The Coca-Cola Company's vertical integration of independent bottling companies into their businesses.

Heightened consumer awareness of the negative health effects of drinking both regular and diet soda has contributed to the decline of demand for industry products. There have been successful new product introductions in the past five years, most of them being either zero- or low-calorie products. However, the two distinct product segments in this industry, regular and diet soft drinks, have both experienced volume sales declines. While new, all-natural soda brands, like Dry Soda, have enticed consumers seeking healthier alternatives, they have not been able to slow the decline of the overall beverage category. Furthermore, the number of establishments is anticipated to decline at an average annual rate of 0.4% to 328 over the 10 years to 2018 as smaller companies become unprofitable and exit the industry. The number of enterprises is expected to decline at an even faster rate per year over the same period as larger producers acquire smaller regional operators and their bottling operations to gain efficiencies and enter new markets.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

42449	**Soft Drink, Baked Goods & Other Grocery Wholesaling in the US** Soft drink producers sell their products to distributors for resale to retailers.
45421	**Vending Machine Operators in the US** Some CSD producers sell their products to vending machine operators for resale to the public.
99	**Consumers in the US** Many small CSD manufacturers sell soda directly to consumers through their websites or on factory tours.

KEY SELLING INDUSTRIES

31131	**Sugar Processing in the US** This is a major raw material required for making soft drinks.
31193	**Syrup & Flavoring Production in the US** Liquid beverage bases, colorings and flavorings are purchased from this industry.
31199	**Baking Mix & Prepared Food Production in the US** Other ingredients, such as caffeine, non-sugar sweeteners, acidulants, preservatives, potassium and sodium are purchased from various specialist manufacturers.

Products & Services

Soda produced by industry manufacturers are bottled in cans, glass bottles and plastic bottles in either single-serve or multi-serve portion sizes. Manufacturers have added a variety of can and bottle sizes to their product lines, particularly smaller single-serve bottles, to appeal to busy consumers and also those who want to consume less calories in liquid form. Producers have tried to combat declining demand for both regular and diet soda by introducing new flavors and brand extensions that are made with natural sweeteners such as stevia.

Regular Carbonated Soft Drinks

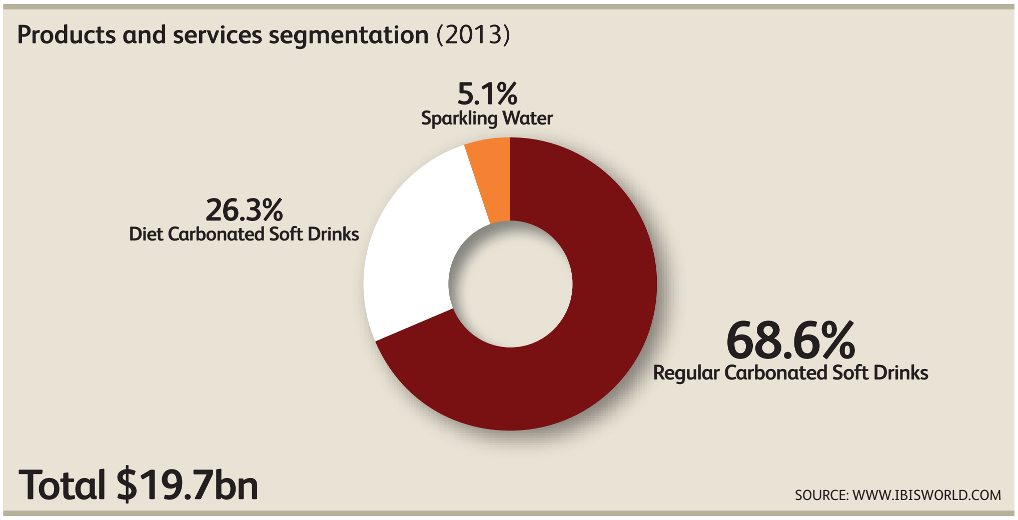
Sodas that are sweetened with sugar, corn syrup and other natural sweeteners are included in this product category. Some of the more popular flavors include cola and noncola flavors such as pepper, lemon-lime, orange and root beer. Due to growing health-consciousness and the prevalence of health complications such as diabetes, Americans have become wary of consuming sugary beverages like regular soda in recent years. Consequently, regular variants of soda have lost share of industry revenue to diet variants since the early 2000s. In 2013, regular CSDs are estimated to account for 68.6% of the Soda Production industry's revenue.

Diet Carbonated Soft Drinks

Soda that is sweetened with artificial sweeteners like aspartame, sucralose and stevia are included in this product segment. Many consumers choose diet CSDs over regular CSDs because they prefer not to consume the calories in regular soda, whereas some consumers prefer the taste of diet soda. While volume sales of diet CSDs increased in the early 2000s, benefiting from popular diet trends, volume sales have declined in the past five years as consumers have become wary of consuming artificial sweeteners. While sales of traditional diet soda products like Diet Coke have declined in recent years, newer products that taste more like regular soda, such as Coke Zero, have helped producers maintain market share. Moreover, the addition of a greater variety of low-

Products & Markets

Products & Services continued



calorie products such as Dr Pepper Ten and Pepsi Next have decelerated the decline of diet soda products. Altogether, the diet CSD segment is expected to account for 26.3% of industry revenue in 2013.

Sparkling Water

Sales of sparkling water, including plain and flavored varieties, have grown over the past five years, accounting for a greater share of industry revenue. Despite a decline of volume sales during the recession, demand has grown rapidly as many consumers have substituted sugary regular soda and unhealthy diet soda products for carbonated sparkling water. Also, the introduction of new flavors such as peach nectarine and crisp apple have helped boost this product segment's revenue. As such, sparkling water is anticipated to account for 5.1% of industry revenue in 2013.

Demand Determinants

Demand for industry products depends on a number of factors including price levels, consumers' health concerns and product innovation. Generally, higher prices for soda will place downward pressure on all varieties of CSDs. Due to the homogeneous characteristic of soda, when the price of branded products increases at the retail level, many consumers opt for more affordable branded products or trade down to generic brands. However, many soda drinkers are also very brand-loyal and will purchase their favorite brand despite price increases. Additionally, higher per capita disposable income can allow consumers to purchase more soda, whereas a dip in disposable income levels will deter consumers from purchasing industry goods. Furthermore, when disposable income levels dropped during the recession, demand from food service establishments declined as consumers dined out at restaurants less frequently than before.

Growing health and nutrition concerns have negatively impacted demand for soda in recent years. Although producers introduced a greater variety of low-calorie and naturally sweetened soda, Americans still perceive CSDs as unhealthy when compared with bottled water, iced tea and functional beverages. In response to changing lifestyles,

Products & Markets

Demand Determinants continued

producers introduced a greater variety of soda bottle sizes in recent years. For instance, Coca-Cola launched its 16.0 ounce bottle and 7.5 ounce “mini” can in 2010 which was followed by the introduction of its 12.5 ounce bottle in 2011. Smaller serving sizes appeal to consumers who are wary of consuming calories in liquid form and those who are sensitive to prices because these products are more affordable than larger serving sizes. Despite the influx of new products, the introduction of new noncarbonated beverages such as bottled iced tea, bottled iced coffee and sparkling fruit drinks has also placed downward pressure on the demand for soda.

Major Markets

Supermarkets and grocery stores

Grocery stores represent the largest single market soda producers. This market segment is a reliable source of sales for soft drink manufacturers and is the most important retail channel for consumers. Due to growing health consciousness in recent years, consumers have purchased less soda from this retail channel than in prior years. Despite a decline in demand from supermarkets, this market segment’s share of industry revenue has remained steady over the five years to 2013, as the demand from other retail channels have declined at a faster rate. In 2013, supermarkets are anticipated to account for about 39.9% of revenue.

Gas stations and convenience stores

Gas stations and convenience stores constitute a key market for soda manufacturers, especially because they are often open 24 hours per day, making them an ideal location for impulse purchases of beverages and snacks. Their share of industry revenue has increased steadily over the past five years due to consumers’ growing need for convenience. This segment includes standalone convenience stores, as well as stores attached to gas stations and generates about 29.5% of industry revenue.

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, which increased the sale of CSDs in this retail channel. Additionally, major retailers in this channel, such as Walmart, have allocated more space within their stores to food and beverages in recent years. Consequently, more consumers have begun to rely on this retail channel to purchase groceries. Finally, many food service businesses also purchase soda in bulk from this retail segment, which is estimated to account for about 19.2% of industry revenue in 2013.

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 purchases of soda. This segment has declined over the past five years to account for about 7.5% of revenue in 2013. Many consumers consciously cut down on impulse sales during this period due to low disposable income. Also, soda has been eliminated from most vending machines in public schools due to growing childhood obesity in the United States.

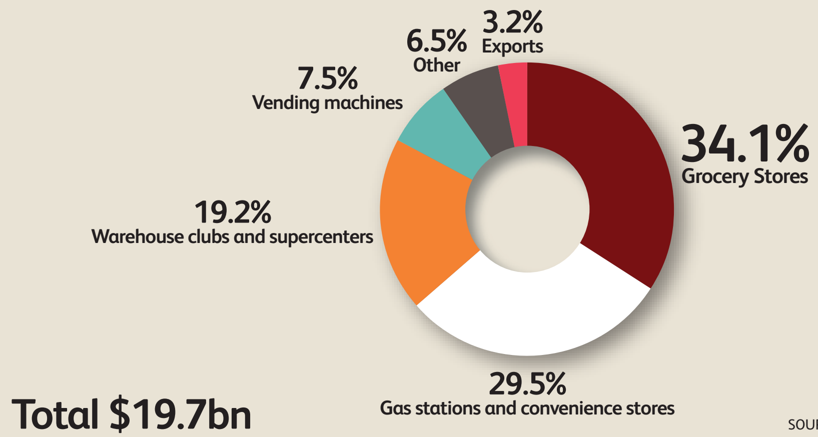
Other

Other domestic retailers include pharmacies, liquor stores and online

Products & Markets

Major Markets continued

Major market segmentation (2013)



SOURCE: WWW.IBISWORLD.COM

sales, which make up the majority of the other market segment and account for another 7.5% of industry revenue. The proliferation of online sales is driving the growth of this segment. In addition, while food service businesses such as fast food and full-service restaurants primarily purchase flavoring syrup for soda fountains, a small portion of restaurants also purchase bottled and canned soda from industry operators. Finally, exports account for a smaller share of industry revenue because major soda producers typically license the production of their beverages or they have production plants in countries where soda demand is high. Consequently, exports are expected to represent 3.2% of industry revenue in 2013.

International Trade

Level & Trend
Exports in the industry are **Low** and **Steady**

Imports in the industry are **Low** and **Steady**

International trade of carbonated soft drinks is low because the value of the products are low when compared with the cost of transporting and distributing. However, there is significant international trade of fountain soft drink syrups, which are produced by the Syrup and Flavoring Production industry (IBISWorld report number 31193). Therefore, exports have accounted for less than 4.0% of revenue over the past five years.

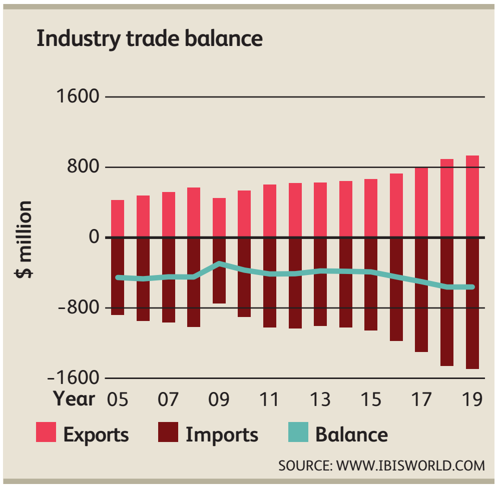
IBISWorld expects the value of exports to reach $623.9 million in 2013. The major export markets include Canada, Mexico, China and Japan. Canada and Mexico enjoy close proximity to the United States and benefit from favorable trade conditions through the North American Free Trade Agreement. Exports have grown an annualized 1.9% over the past five years, with its share of revenue having increased from 2.7% in 2008 to 3.2% in 2013. Exports are forecast to increase as a share of revenue as disposable income levels in these markets improve over the next five years.

Imports of soda have also remained low due to high transportation and distribution costs. As with exports,

Products & Markets

International Trade continued

Canada and Mexico represent two of the leading sources of industry imports. Imports from Mexico have grown as the Mexican immigrant population has grown in recent years. However, imports declined by 26.6% in 2009 due to lower disposable income levels that negatively impacted domestic demand for soda. Over the five years to 2013, imports are expected to decline an annualized 0.3% to $1.0 billion. However, imports' share of domestic demand grew from 4.7% in 2008 to 5.0% in 2013. As demand for imported soda grows in the upcoming years, imports' share of domestic demand is anticipated to increase.



Products & Markets

Business Locations 2013

SOURCE: WWW.IBISWORLD.COM

Products & Markets

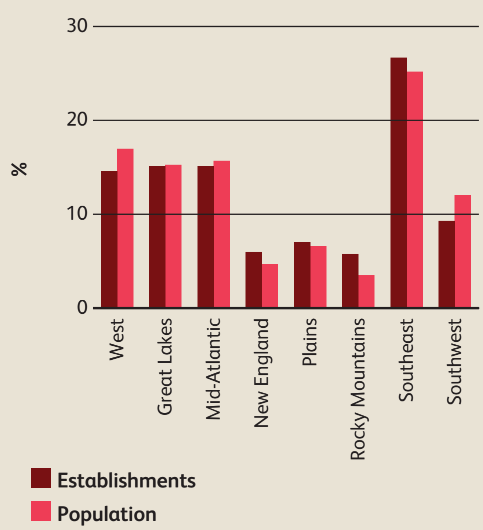
Business Locations

The geographic distribution of establishments primarily engaged in manufacturing carbonated soft drinks is aligned with both heavily populated areas and warmer cities. Therefore, it is not surprising that 26.8% of industry establishments are located in the Southeast region of the United States. Establishments are spread out fairly evenly throughout this region.

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 evenly spread throughout this region. 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 accounts for 15.0% of the industry establishments, with California being the most densely populated. It is becoming an increasingly popular area for producers because it is close to a large and growing market that benefits from a large Mexican immigrant population. Additionally, California is close to East Asia and major export destinations such as China and Japan. Due to the hot weather and growing population centers, the Southwest holds 9.3% of establishments, most of which are located in Texas where Dr Pepper Snapple Group is headquartered.

Distribution of establishments vs. population



SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **High**

The Soda Production industry exhibits a high level of concentration. IBISWorld estimates that the four largest players account for a combined 89.9% of industry revenue. Market share has increased over the past five years from 61.8% in 2008 as the leading producers, The Coca Cola Company and PepsiCo, have undergone major structural changes. These companies previously partnered with a number of bottlers to produce finished beverages under their brand names but have recently acquired these bottling operations to obtain greater control of the production process. They also engage in significant marketing and brand promotion activities in order to generate brand loyalty. Finally, the leading soda manufacturers have historically purchased regional brands to expand their presence in the market and diversify their product portfolios, which has raised the level of concentration in this industry.

Key Success Factors

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

Control of distribution arrangements
Efficient and effective marketing channels are critical in this industry to minimize logistical costs and maximize sales at retail stores.

Aggressive marketing – given the high level of competition
Due to the high level of competition that exists among soda brands, the leading competitors heavily invest in advertising and promotions to drive demand for their products.

Economies of Scale
Operators that produce a greater number of output benefit from lower production costs which help boost profitability.

Economies of scope
Producing a number of different carbonated soft drinks allows manufacturers to appeal to a wider consumer group and enjoy lower production costs.

Ability to manage external contracts
Outsourcing noncore functions can reduce costs and allow companies to focus on marketing and innovation.

Production of goods currently favored by the market
Successful producers must respond to consumers' growing health concerns and shifting tastes by introducing new products that satisfy their needs.

Cost Structure Benchmarks

The industry's cost structure is based on estimates for total enterprises, and thus, primary costs such as purchases and wages will vary from producer to producer. While changes in demand can significantly impact smaller operators' profit margins, multinational companies with greater resources are able to adjust quickly to market conditions.

Profit
The industry's average profit, defined as earnings before interest and taxes, accounted for an estimated 4.1% of industry revenue in 2013. This figure represents a decline from 5.9% in 2008. While the profit margins for the leading producers in this industry are much higher than the average, regional soft drink and private label producers who are unable to charge higher prices for their products are much less profitable. As competition intensified and demand for soda declined over the past five years, many producers were pressured to lower the prices they charge downstream

Competitive Landscape

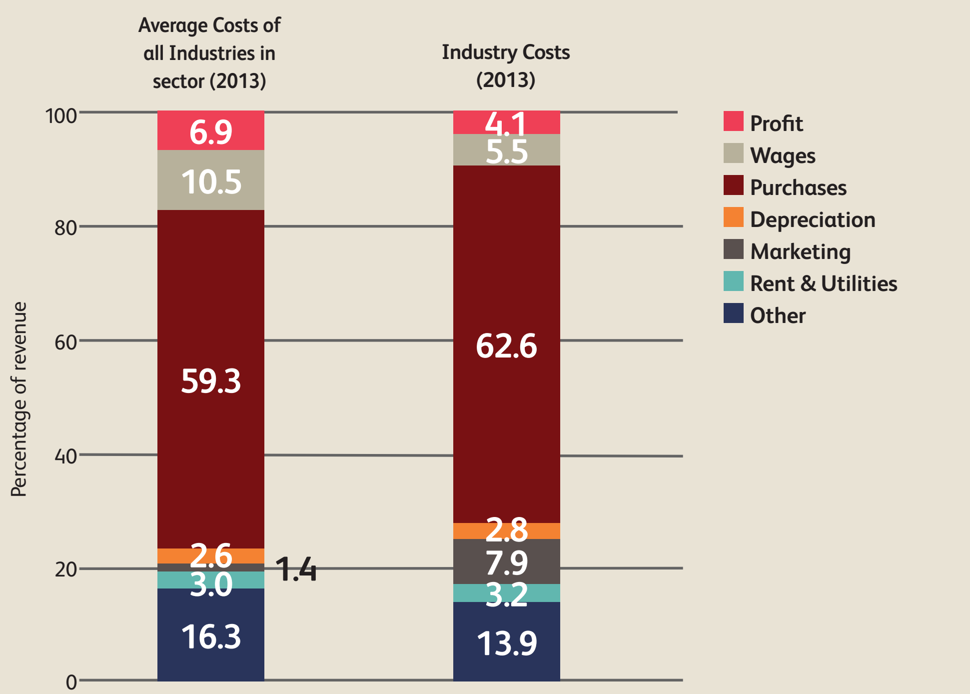
Cost Structure Benchmarks continued

markets while investing in advertising and promotional campaigns. Therefore, a decline in revenue and increase in expenditures placed downward pressure on industry profit. Over the next five-year period, profitability is anticipated to remain steady as the leading producers benefit from lower costs achieved through consolidation and efficiency gains.

Purchases

Although the markup for soda over the cost of raw materials is high, purchases of raw material account for the largest expense for soda producers. Manufacturers purchase ingredients such as carbon dioxide gas, sugar, artificial sweeteners, high fructose corn syrup, caffeine, flavorings and food color. A significant rise in the price of certain commodities during the recession increased the cost of purchases for soda producers. For instance, the price of sugar rose 17.0% in 2009 and another 44.3% in the following year. In addition to the ingredients used to make soda, manufacturers purchase aluminum cans and plastic bottles to produce finished goods. Furthermore, the price of aluminum grew an annualized 2.1% while the price of plastic materials and resin increased at an average annual rate of 2.6% over the five years to 2013. Also, as producers extended their brand portfolios by introducing new bottle and can sizes, the cost of purchases increased. Overall, purchases are anticipated to account for 62.6% of industry revenue in 2013. Purchases' share of revenue is expected to moderately increase over the next five years as the cost of key inputs continue to rise.

Sector vs. Industry Costs



SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Cost Structure Benchmarks continued

Wages

Labor costs comprise about 5.5% of revenue, which is close the average for all beverage manufacturing industries. This figure represents a decline from 5.9% in 2008. The decline in wage costs can be attributed to fairly stagnant wage growth in manufacturing combined with industry layoffs. Employment is anticipated to decline at an average annual rate of 3.5% to 21,211 over the five years to 2013, as operators face declining demand for soda. This trend is anticipated to continue through 2018 as producers continue to cut costs in order to maintain 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 Production industry. Marketing expenses accounted for only 4.3% of industry revenue before the acquisitions. Historically, soda producers have invested heavily in marketing compared with other manufacturing industries due to the high degree of competition that exists among soda brands.

Distribution

Distribution costs represent a significant and rising proportion of industry revenue at 5.5%. Companies generally account for this expenditure as a part of selling and administrative expenses. Producers ship their products significant distances to various markets. These activities are done in-house by larger producers but are outsourced by smaller producers, often to this industry's larger competitors who operate extensive distribution routes. Producers also turn to wholesalers and distributors who specialize in specific regions and retail channels.

Other

Depreciation comprises about 2.8% of revenue. It has risen slightly due to a rise in mechanization within the industry. Other expenditures make up 13.9% of revenue and include legal and administrative costs. Utility costs include electricity, gas and water expenses and represent 3.2% of revenue. Finally, rent accounts for 3.5% of industry revenue because of the large facilities in urban areas that are necessary to supply products at low distribution 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 generates brand loyalty among consumers. This has become relevant particularly after the vertical integration of The Coca-Cola Company and PepsiCo they continue to sell syrup to smaller distributors in various regional markets throughout the country.

Competitive Landscape

Basis of Competition

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

Soda producers compete based on a number of factors including price levels, range of products offered, product innovation and marketing. While soda is a low ticket item for consumers, price levels became more important during the recession when per capita disposable income dropped significantly. As demand for industry goods declined due to lower consumer spending and growing health concerns, producers temporarily slashed the prices they charged downstream markets to boost demand. Additionally, the growth of private-label brands has also intensified price competition among manufacturers.

While price levels are important, many consumers are loyal to specific soda brands and are willing to pay a premium for their brand of choice. The leading soda producers invest heavily in marketing and promotions to further drive brand loyalty among consumers. Due to shifting consumer tastes and growing health concerns, producers have introduced a variety of brand extensions that are made with healthier sweeteners and contain less calories. To capitalize on the growing popularity of natural zero-calorie sweeteners and low-calorie beverages, soda producers competed in recent years to be the first to introduce alternative low-calorie soda beverages.

The range of products that a manufacturer produces is also an important basis of competition. Industry operators produce a variety of soda products in different flavors, container types, container sizes and caloric content. Offering a range of products gives producers a competitive advantage when dealing with retailers, boosts brand loyalty among consumers and allows producers to tap into new markets and consumer groups. Additionally, wholesalers and large retailers prefer to source a variety of goods from one producer rather than several producers to reduce their transaction costs, further incentivizing producers to expand their product portfolios.

Finally, industry operators also compete for favorable contracts with retailers. While large retailers, such as Walmart and Safeway, possess abundant shelf space to offer a variety of soda brands, smaller downstream markets usually carry a limited number of products. Many convenience stores, vending machines and food service operators limit their soda offerings to one manufacturer. For instance, many vending machines only carry Pepsi products or Coca-Cola products, which makes it even more difficult for smaller competitors to win contracts with downstream markets.

External competition

Competition with producers of other ready-to-drink beverages has intensified over the five years to 2013. In particular, growth of the Bottled Water industry (IBISWorld report 31211b) and Juice Production industry (IBISWorld report 31211c) have hampered revenue growth for soda producers. Products that are manufactured by juice producers such as ready-to-drink (RTD) tea, sports drinks, energy drinks and sparkling fruit drinks have all grown in recent years. While larger manufacturers like PepsiCo and The Coca-Cola Company also produce noncarbonated beverages, the emergence of companies that specialize in these smaller beverage categories continue to threaten the position of the major soda producers. Additionally, external competition has grown as consumers have become more health-conscious, seeking healthier alternatives to soda.

Operators in other beverage industries also compete with soda producers, albeit less directly. People may substitute soda with coffee or tea products, particularly those who seek caffeinated beverages. Furthermore, operators in the Coffee and Snack Shop industry (IBISWorld report

Competitive Landscape

Basis of Competition continued

72221b) have enjoyed steady growth in the past decade and are anticipated to expand their operations in the upcoming years. The leading coffee and snack shops, like Starbucks, have also expanded their product portfolio to include RTD tea, coffee and juice, which has further intensified competition from this industry.

More recently, the advent of SodaStream, a home carbonation product, has also hurt the performance of soda producers. This system allows consumers to turn still water into sparkling water, sparkling juice and soda. SodaStream has appealed to consumers who drink sparkling beverages frequently, providing cost savings as the liquid mixes used with SodaStream cost significantly less than prepacked, RTD beverages.

Barriers to Entry

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

There are significant barriers to entry into the Soda Production industry including the high initial capital investments, market saturation, industry concentration and the declining demand for soda. Significant capital investments are required to either purchase or lease facilities and acquire expensive machinery and equipment to produce soda. Additionally, new entrants must be able to offer differentiated products that either taste significantly better than the existing products in the market or invest heavily in marketing to position and promote their brand.

A high degree of market saturation also acts as a barrier to entry. Not only is the market saturated, but demand for soda has been declining in the United States. While niche producers that target specific regions and consumer groups have appeared in recent years, they have not been able to obtain significant market share. However, a number of private-label brands were introduced during the recession when consumers sought more affordable alternatives at supermarkets. Furthermore, the three leading soda producers are anticipated to account for 89.9% of industry revenue in 2013. The popularity of the leading soda brands deters prospective producers from entering this industry because these brands enjoy a high degree of brand loyalty among consumers. Additionally, these leading producers occupy a majority of the shelf space dedicated to soda in grocery stores and supermarkets, making it difficult for smaller producers to obtain contracts with downstream markets.

Barriers to Entry checklist	Level
Competition	High
Concentration	High
Life Cycle Stage	Decline
Capital Intensity	High
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Industry Globalization

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

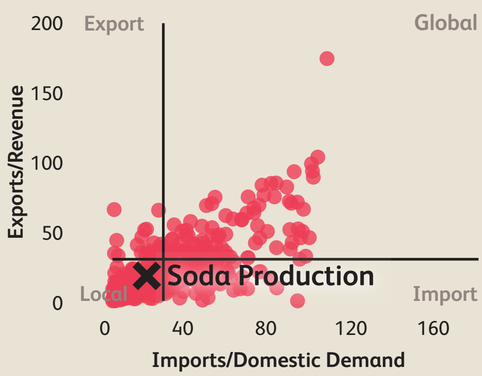
While international trade is low, the leading soda producers are multinational companies that operate production facilities and distribution networks all over the world. These companies are also rapidly expanding into developing markets as consumer adoption of soda and disposable income levels continue to rise in Asia, Africa and Latin America. Therefore, the level of industry globalization is high and is anticipated to grow as producers expand their distribution in developing countries.

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

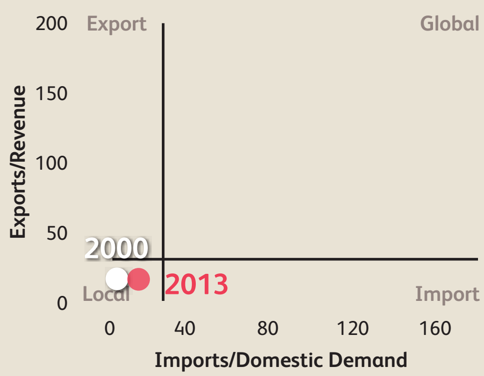
Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries.

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

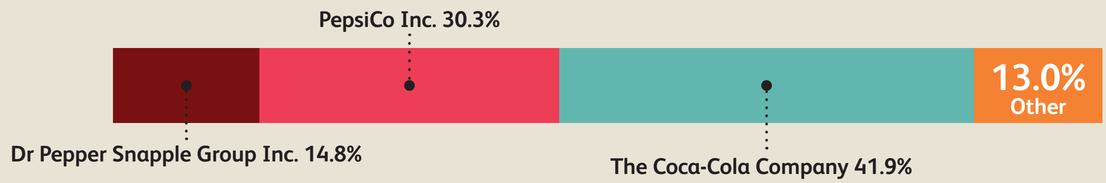


SOURCE: WWW.IBISWORLD.COM

Major Companies

The Coca-Cola Company | PepsiCo Inc.
Dr Pepper Snapple Group Inc. | Other Companies

Major players
(Market share)



SOURCE: WWW.IBISWORLD.COM

Player Performance

The Coca-Cola Company
Market share: 41.9 %

Industry Brand Names
Coca-Cola
Diet Coke
Fanta
Sprite
Coca-Cola Zero
Barq's
Vanilla Coke
Cherry Coke
Mello Yello

The Coca-Cola Company is the world's largest beverage manufacturing company, with more than 500 brands of refreshments sold in over 200 countries. The company was originally founded in 1886 when John S. Pemberton created the world's first flavored carbonated drink. Coca-Cola has seven operating segments: Eurasia and Africa, Europe, Latin America, North America, Pacific, Bottling Investments and Corporate. Some of the most popular beverage brands produced by the company include Coca-Cola, Sprite, Dasani and Monster. Coca-Cola has also acquired a variety of beverage brands over the past five years to diversify the business and reduce its dependence on carbonated soft drinks. Consequently, the industry leader earned total revenue of $48.0 billion in 2012.

Coca-Cola sold rights to mix and bottle its trademark beverages for more than a century. However, the company acquired Coca-Cola Enterprises' (CCE) North America division through a noncash transaction in 2010, which boosted the North America segment's revenue significantly. This move resulted in the creation of a subdivision called Coca-Cola Refreshments USA Inc., which combines the company's national fountain, juice, distribution, marketing and other bottling operations with those of CCE.

Financial performance

In recent years, the company's still beverage category, which is excluded from this industry, has grown. However, consumption of its carbonated beverage products declined due to growing health concerns among consumers. Despite declining soda consumption, the company's Coca-Cola and Fanta brands have performed well, benefiting from

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

Year	Revenue ($ million)	(% change)	Operating Income ($ million)	(% change)
2008	5,670.1	N/C	1,499.2	N/C
2009	5,500.7	-3	1,461.0	-2.5
2010	6,233.6	13.3	1,493.3	2.2
2011	8,144.9	30.7	1,780.3	19.2
2012	8,403.0	3.2	1,866.3	4.8
2013	8,253.0	-1.8	1,963.2	5.2

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

zero and low-calorie brand extensions. Company revenue from US operations is on track to increase an annualized 7.8% to an estimated $8.3 billion over the five years to 2013. During this time, the acquisition of CCE was the main revenue growth driver, bolstering revenue by about 30.7% 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 over the past five years. Nevertheless, revenue is expected to decline 1.8% in 2013, as consumers continue to drink less soda.

Player Performance

PepsiCo Inc.
Market share: 30.3 %

Industry Brand Names
Pepsi
Mountain Dew
Sierra Mist
Mug Root Beer
Izze
Diet Pepsi
Pepsi ONE
Pepsi Max

Founded in 1898, PepsiCo is an international food and beverage manufacturer that employs more than 285,000 people worldwide. Its US operations are headquartered in New York and employs about 70,000 workers. The company manufactures and distributes Pepsi brands, such as Gatorade, Aquafina and Pepsi, as well as non-Pepsi brands in select markets, including Dr Pepper, Crush, ROCKSTAR and Muscle Milk. Furthermore, Dr Pepper and Crush are brands that operate within this industry. Operations are divided into six business segments, which include Frito-Lay North America; Quaker Foods North America; Latin American food and snack; Pepsico Americas Beverages (PAB); Europe; and Asia, Middle East and Africa. The industry-relevant segment is PAB. Altogether, the six segments earned $65.5 billion in 2012.

The PAB business unit produces both carbonated and noncarbonated beverages. As with its competitors, PAB offers beverage concentrate, fountain syrups and finished beverages for its food-service clients. In July 2009, PepsiCo began to reintegrate its bottling business with its wholly owned subsidiary Pepsi-Cola Metropolitan Bottling Company. The company acquired The Pepsi Bottling Group and PepsiAmericas for a combined $7.8 billion. The acquisition was finalized in February 2010, forming the new division called PepsiCo Americas Beverages (PAB), which covers the North American and Latin American markets. PepsiCo acquired these bottling businesses in response to a shifting beverage market landscape. Furthermore, integrated operations allow the parent company to become more efficient and boost profitability.

As with its competitors, PepsiCo has introduced new carbonated-beverage lines that feature reduced or no calories. For instance, the company launched Pepsi Next in 2012, a low-calorie soda that is targeted to people who dislike the taste of diet sodas but do not want to consumer the calories in regular soda. However, the company has focused more on its noncarbonated beverage portfolio than on carbonated soft drinks, to the detriment of its industry-related revenue.

Financial performance

Over the past five years, PepsiCo has struggled to maintain demand for its carbonated soft drink products, as American consumers have continued to cut back on their consumption of soda. The company's most popular soda brands, including Pepsi, Sierra Mist and Mountain Dew, generally experienced volume declines during this period. While volume sales have declined, revenue has benefited from an increase in prices. Also, while North American volume sales are down, Latin American volume sales are growing. Moreover, the company's acquisitions of its bottling partners in 2010 more than doubled its

Major Companies

Player Performance continued

revenue from carbonated soft drinks. IBISWorld expects PAB's revenue to grow an annualized 14.0% to $6.0 billion in the five years to 2013. However, organic revenue growth from its existing operations has declined, as soda consumption continues to decrease among consumers. As a result, segment revenue is anticipated to decline 0.4% in 2013.

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

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)
2008	3,106.1	N/C	575.4	N/C
2009	2,872.9	-7.5	616.8	7.2
2010	5,793.9	101.7	788.4	27.8
2011	6,277.0	8.3	916.4	16.2
2012	5,994.2	-4.5	822.4	-10.3
2013	5,968.5	-0.4	844.5	2.7

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Dr Pepper Snapple Group Inc.
Market share: 14.8 %

Industry Brand Names
Dr Pepper
7-UP
Schweppes
A&W Root Beer
Canada Dry
RC Cola
Sun Drop
Sunkist

Dr Pepper Snapple Group (DPS) was established in 2008 when it spun off from Cadbury Schweppes PLC's Cadbury Schweppes Americas Beverages division. DPS is an integrated brand owner, bottler and distributor of a large array of products. The company's three operating segments are beverage concentrates, packaged beverages and Latin America beverages. DPS has historically built its business by acquiring brands such as Mott's, Canada Dry and Snapple. DPS earned total revenue of about $6.0 billion in 2012, with 89.0% of sales generated in the United States.

Not including the Dr Pepper brand, the group's five core carbonated soft drink brands include Canada Dry, 7UP, A&W, Sunkist and Sun Drop. Interestingly, over the past five years, four of these five brands have struggled to increase sales volumes, as Americans have become more health-conscious and turned away from sugary drinks. The only brand that has achieved growth in sales volume was Canada Dry, which benefited from its unsweetened variants such as plain and flavored tonic water. This particular brand has also benefited from the growing popularity of low-calorie cocktails, which usually include club soda and tonic waters. Despite declining volume sales, DPS has strategically positioned itself within the Soda Production industry by specializing in flavored sodas. While its expertise in flavored varieties of soda has helped the company enjoy strong brand recognition among consumers, DPS has trailed behind Coca-Cola and Pepsi in product innovation. For instance, the Dr Pepper Ten brand extension, which is targeted to men, was introduced after Coca-Cola launched Coke Zero and Pepsi launched Pepsi Max.

Financial performance

DPS's industry-specific segment is expected to earn $2.9 billion in revenue in 2013. This number represents a 0.5% increase from 2012 and annualized growth of 0.3% over the five years to

Major Companies

Player Performance continued

2013. In 2010, the company received a $715.0-million, one-time payment from TCCC and another $900.0-million payment from PepsiCo for the 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. Although health consciousness has placed downward pressure on the demand for the company's soda brands, new products such as Dr Pepper Ten and increased distribution of Sun Drop boosted industry-relevant revenue in 2011. Dr Pepper is expected to grow in 2013, as it introduces additional Ten products under the 7UP, A&W, Sunkist, Canada Dry and RC brands. The company also plans on expanding the distribution of its regional brands such as Sun Drop and RC, which will further boost revenue in the upcoming years.

Dr Pepper Snapple Group Inc. (US industry-specific segment) – financial performance*

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)
2008	2,871.4	N/C	322.2	N/C
2009	2,742.0	-4.5	382.2	18.6
2010	2,733.4	-0.3	357.5	-6.5
2011	2,862.8	4.7	346.2	-3.2
2012	2,906.8	1.5	359.5	3.8
2013	2,921.3	0.5	362.7	0.9

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

Cott Corporation

Estimated market share: 2.9 %

Toronto-based Cott Corporation is the world's largest manufacturer of private-label soft drinks and the fourth-largest soft drink maker in the world. In addition to carbonated soft drinks, the company produces shelf-stable juices, energy drinks, sports drinks and ready-to-drink iced tea, among other beverage products. The company sells its products to Safeway and J Sainsbury, which label the beverages with their respective store brands. The company's top 10 customers generate more than 50.0% of its US revenue, which accounts for about 64.8% of total company revenue. In 2012, soda sales accounted for 39.1% of Cott's sales. IBISWorld expects that Cott will earn about $570.1 million in 2013 from US carbonated-soda 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 design. 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 of 2010 for $500.0 million, diversifying Cott's US product line and providing the company with an additional revenue stream. As a result of this acquisition, Cott's revenue increased by 29.5% in 2011.

Operating Conditions

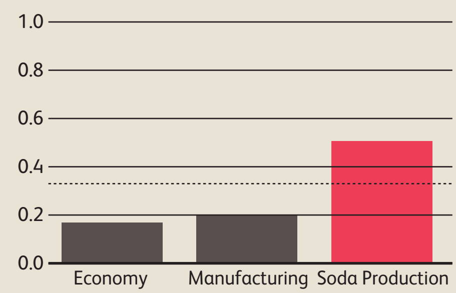
Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity is **High**

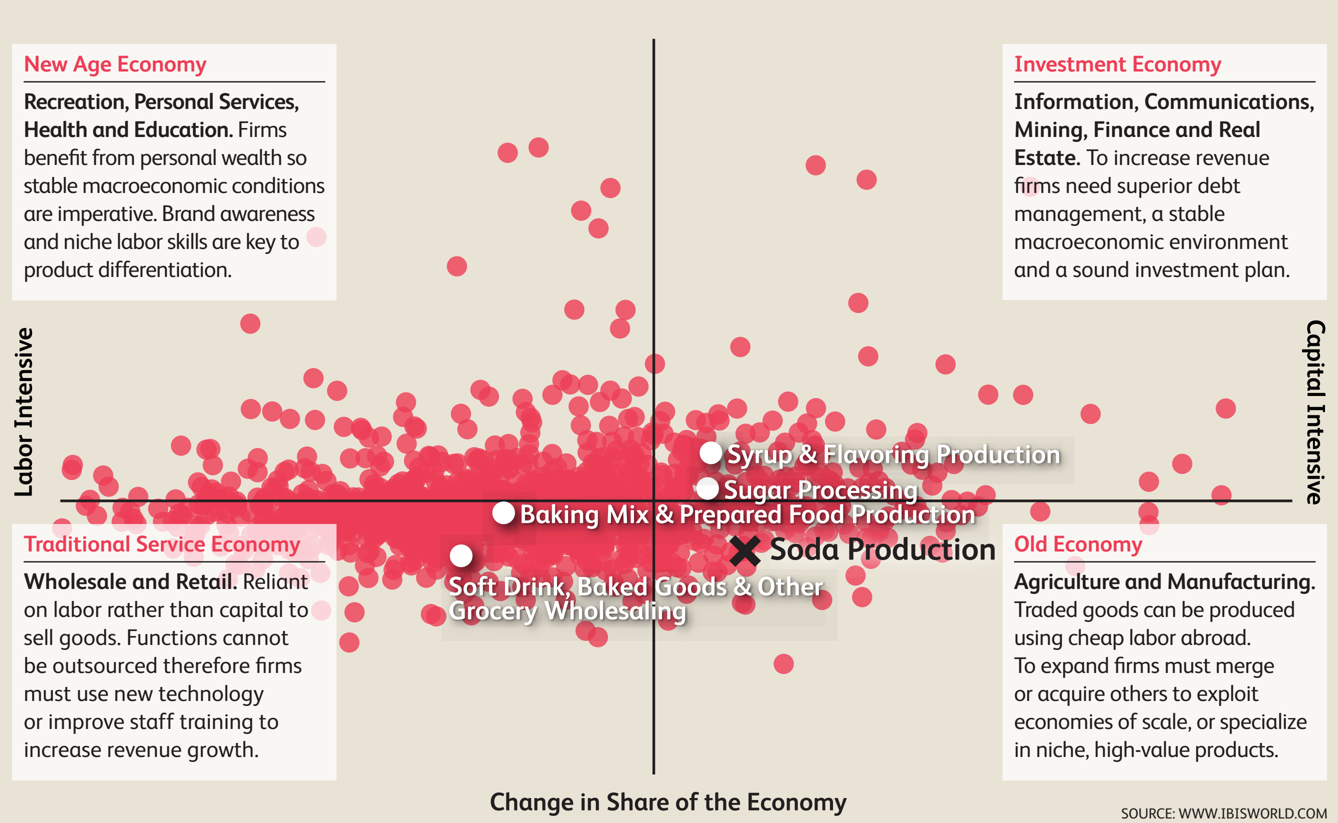
The Soda Production industry exhibits a high level of capital intensity. Using wages as a proxy for labor and depreciation as a proxy for capital, IBISWorld estimates that for every dollar spent on labor in the industry, $0.52 will be spent on capital in 2013. This figure represents a slight increase from $0.48 in 2008. Capital expenditure is required in this industry to purchase and maintain machinery and equipment that operators rely on to produce a high volume of soda on a daily basis. While depreciation has remained steady over the past five years, wages have declined an annualized 2.5% as operators laid off employees to maintain their profit margins.

Capital intensity
Capital units per labor unit



Dotted line shows a high level of capital intensity
SOURCE: WWW.IBISWORLD.COM

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Technology & Systems

Level
The level of Technology Change is **Medium**

The process for manufacturing soft drinks involves many steps and the use of technologically advanced machines and equipment. The steps involved in producing soda include combining different ingredients with water, carbonating the mix and bottling. While the process has generally remained the same for decades, automated machines have made the process faster and much more efficient over the years. Additionally, advanced software is used to track distribution networks, monitor the level of supply and demand in different retail channels and manage inventory.

Operators have invested in more R&D and technology for the advent of alternative sweeteners in recent years. Due to the growing health concerns among Americans, soda producers have tried to reformulate their products and introduce products that are made with natural sweeteners. For instance, Zevia is a brand of soda that is made with the natural, zero-calorie sweetener from the stevia plant. Operators also employ flavorists and sensory scientists to analyze the taste of new products to ensure that they provide exactly what consumers are looking for.

One of the technological advancements implemented with regards to packaging is hybrid palletizing, which uses a robotic interface to adjust a machine's specifications to produce several kinds of pallets, or those that have reduced energy and air consumption. An example of 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. Additionally, many major companies are transitioning to use biodegradable plastic bottles.

Companies are also decreasing water usage in order to cut costs and as the world supply of natural water declines. 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. This amount is low compared to the industry average of about 2 liters of water usage per liter produced. Furthermore, producers have benefited from desalination technology including Multi-Stage Flash, Multi-Effect Distillation and Reverse Osmosis. Desalination is a process that removes salt from saline water.

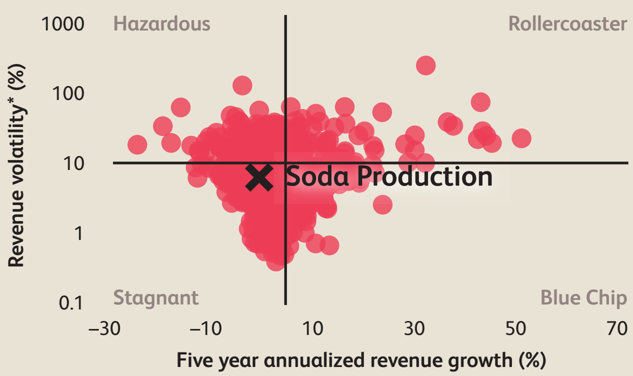
Revenue Volatility

Level
The level of Volatility is **Medium**

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



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Revenue Volatility continued

Industry revenue exhibits a medium level of volatility. Due to the discretionary nature of soda, fluctuations in the price that producers charge downstream markets can impact the demand for industry goods. At the same time, growing health concerns have caused consumers to be wary of consuming both regular and diet soda. Consequently, health trends have placed downward pressure on industry revenue growth, while the introduction of new products that are made with zero-calorie sweeteners have slightly raised the demand for soda, making industry revenue more volatile. Also, the growing popularity of substitute beverages such as bottled water, energy drinks, sports drinks, RTD coffee and RTD tea have also placed downward pressure on revenue growth. Consumer shopping and dining trends can also impact the demand from downstream markets. For instance, consumers dined out less frequently at fast food restaurants and full-service restaurants during the recession, causing revenue sourced from this market to decline.

Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Increasing**

Over the past five years, the Soda Production industry has self-regulated in order to maintain a positive public image and prevent the passage of laws that could harm the industry's performance. For example, members of the American Beverage Association have voluntarily eliminated non-diet sodas from public schools nationwide. They have also donated to health-promoting campaigns and proactively placed new calorie labels on the front of every soda bottle. 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 have contemplated 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 carbonated soft drinks but also raise awareness of the health effects of consuming both regular and diet soda. Furthermore, the Food and Drug Administration's Federal Food, Drug, and Cosmetic Act and the Fair Packaging and Labeling Act of 1967 govern the Soda Production industry's production and labeling processes. The labeling requirements established by this act relate to unfair and deceptive packaging or labeling and statements of quantity.

Industry Assistance

Level & Trend
The level of Industry Assistance is **Low** and the trend is **Increasing**

The American Beverage Association (ABA), a trade association for soda manufacturers, provides assistance for research and development initiatives and acts as a liaison between manufacturers and the government. Founded in 1919 as the American Bottlers of Carbonated Beverages, ABA today represents hundreds of soft drink bottling firms, franchise companies and support industries. ABA provides a neutral forum in which members convene to discuss common issues. The association also serves as liaison between the industry, government and the public, and provides a unified voice in legislative and regulatory matters. For instance, over $10.0 million was spent in the first half of

Operating Conditions

Industry Assistance continued

2010 battling soda taxes in various states and preventing a soda tax from becoming part of Obama's health reform, the Patient Protection and Affordable Care Act.

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 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 debated passing a soda tax for several years.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establish-ments	Enterprises	Employment	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand	Price of Sugar (Cents per lb.)
2004	20,191.7	2,753.4	393	235	28,030	396.8	796.8	1,440.9	20,591.7	20.5
2005	21,576.5	2,917.8	380	225	27,047	424.7	878.1	1,342.7	22,029.9	21.3
2006	20,346.0	2,528.5	376	222	26,450	475.7	944.3	1,307.8	20,814.6	22.1
2007	21,470.7	3,155.2	371	220	25,148	520.4	966.3	1,265.8	21,916.6	21.0
2008	21,053.1	3,064.3	351	198	25,353	569.0	1,016.8	1,232.7	21,500.9	21.3
2009	19,761.6	2,715.0	344	198	22,621	451.0	745.9	1,134.1	20,056.5	24.9
2010	19,639.6	2,492.5	335	194	21,169	534.0	903.5	1,117.7	20,009.1	36.0
2011	21,029.3	2,609.4	333	192	21,232	605.1	1,018.7	1,095.3	21,442.9	38.1
2012	20,441.0	2,558.3	332	192	21,126	619.3	1,030.2	1,086.6	20,851.9	28.9
2013	**19,697.3**	**2,467.5**	**335**	**194**	**21,211**	**623.9**	**1,002.8**	**1,088.7**	**20,076.2**	**23.7**
2014	19,500.4	2,450.5	334	191	21,083	640.1	1,022.9	1,085.4	19,883.2	23.4
2015	19,188.3	2,443.5	333	189	20,915	665.0	1,054.6	1,081.1	19,577.9	24.9
2016	19,092.4	2,442.8	330	187	20,538	730.2	1,176.9	1,068.1	19,539.1	25.4
2017	18,882.4	2,376.0	329	181	20,251	800.3	1,301.7	1,054.2	19,383.8	27.4
2018	18,731.3	2,336.2	328	180	20,048	894.7	1,456.6	1,043.7	19,293.2	26.7
Sector Rank	**90/411**	**129/411**	**176/411**	**197/411**	**144/411**	**184/381**	**176/381**	**140/411**	**98/381**	**N/A**
Economy Rank	**410/1313**	**641/1313**	**971/1312**	**995/1312**	**736/1313**	**216/440**	**196/441**	**696/1313**	**117/440**	**N/A**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establish-ments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Price of Sugar (%)
2005	6.9	6.0	-3.3	-4.3	-3.5	7.0	10.2	-6.8	7.0	4.0
2006	-5.7	-13.3	-1.1	-1.3	-2.2	12.0	7.5	-2.6	-5.5	4.0
2007	5.5	24.8	-1.3	-0.9	-4.9	9.4	2.3	-3.2	5.3	-5.2
2008	-1.9	-2.9	-5.4	-10.0	0.8	9.3	5.2	-2.6	-1.9	1.5
2009	-6.1	-11.4	-2.0	0.0	-10.8	-20.7	-26.6	-8.0	-6.7	17.0
2010	-0.6	-8.2	-2.6	-2.0	-6.4	18.4	21.1	-1.4	-0.2	44.3
2011	7.1	4.7	-0.6	-1.0	0.3	13.3	12.8	-2.0	7.2	5.9
2012	-2.8	-2.0	-0.3	0.0	-0.5	2.3	1.1	-0.8	-2.8	-24.1
2013	**-3.6**	**-3.5**	**0.9**	**1.0**	**0.4**	**0.7**	**-2.7**	**0.2**	**-3.7**	**-18.0**
2014	-1.0	-0.7	-0.3	-1.5	-0.6	2.6	2.0	-0.3	-1.0	-1.3
2015	-1.6	-0.3	-0.3	-1.0	-0.8	3.9	3.1	-0.4	-1.5	6.4
2016	-0.5	0.0	-0.9	-1.1	-1.8	9.8	11.6	-1.2	-0.2	2.0
2017	-1.1	-2.7	-0.3	-3.2	-1.4	9.6	10.6	-1.3	-0.8	7.9
2018	-0.8	-1.7	-0.3	-0.6	-1.0	11.8	11.9	-1.0	-0.5	-2.6
Sector Rank	**392/411**	**372/411**	**161/411**	**128/411**	**220/411**	**264/381**	**327/381**	**262/411**	**362/381**	**N/A**
Economy Rank	**1271/1313**	**1230/1313**	**724/1312**	**616/1312**	**901/1313**	**302/440**	**366/441**	**979/1313**	**409/440**	**N/A**

Key Ratios

	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2004	13.64	3.87	1.97	720.36	7.14	71.32	51,405.64	0.02
2005	13.52	3.99	1.97	797.74	6.22	71.18	49,643.21	0.02
2006	12.43	4.54	2.34	769.22	6.43	70.35	49,444.23	0.02
2007	14.70	4.41	2.42	853.77	5.90	67.78	50,334.02	0.02
2008	14.56	4.73	2.70	830.40	5.86	72.23	48,621.46	0.02
2009	13.74	3.72	2.28	873.60	5.74	65.76	50,134.83	0.02
2010	12.69	4.52	2.72	927.75	5.69	63.19	52,798.90	0.02
2011	12.41	4.75	2.88	990.45	5.21	63.76	51,587.23	0.02
2012	12.52	4.94	3.03	967.58	5.32	63.63	51,434.25	0.02
2013	**12.53**	**4.99**	**3.17**	**928.64**	**5.53**	**63.32**	**51,327.14**	**0.02**
2014	12.57	5.14	3.28	924.93	5.57	63.12	51,482.24	0.02
2015	12.73	5.39	3.47	917.44	5.63	62.81	51,690.17	0.02
2016	12.79	6.02	3.82	929.61	5.59	62.24	52,006.04	0.02
2017	12.58	6.72	4.24	932.42	5.58	61.55	52,056.69	0.02
2018	12.47	7.55	4.78	934.32	5.57	61.12	52,060.06	0.01
Sector Rank	**395/411**	**331/381**	**341/381**	**46/411**	**379/411**	**127/411**	**214/411**	**129/411**
Economy Rank	**1223/1313**	**364/440**	**387/440**	**130/1313**	**1210/1313**	**183/1312**	**581/1313**	**641/1313**

Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.

SOURCE: WWW.IBISWORLD.COM

Jargon & Glossary

Industry Jargon

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

IBISWorld Glossary continued

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.

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