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# Winning strategies in the soft drinks industry

Finding opportunities in a changing competitive environment



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# Introduction

Soft drinks constitute the largest beverage segment

The soft drinks sector is the largest beverage segment within cold drinks (apart from tap water) with a global production of 500 billion litres in 2005, representing a total consumer value of USD 350 billion. While carbonates and bottled water are the largest categories within the soft drinks sector, the sector also includes other drinks: still drinks, juices and dilutables.

There is strong competition among different soft drinks

All these different beverages, and especially carbonates and bottled water, are competing intensively to gain consumers' favour. It appears that bottled water is winning the battle thanks to the 'wellness' concern of the Western and richer Asian consumers and the growing demand for safe water in the rapidly-growing urban areas of Asia. Worldwide demand for fruit juices and nectars is growing as well, and wellness and convenience also play an important role in this growth as busy consumers look for drinks that give them a 'five fruits (and/or vegetables) daily quota shot' in one bottle.

Concerns about obesity have damaged the image of carbonated drinks

The image of traditional carbonates has been damaged by concerns regarding obesity. Manufacturers must consequently devise ways to attract consumers either by launching new products or by re-launching low calorie alternatives of existing brands. While mainstream brands are suffering, niche players seem to manage to overcome this negative image of carbonates by targeting specific customer segments.

Traditional boundaries between different soft drinks segments are changing

The traditional boundaries between carbonates, water and juices are changing as all three industries are making new blends to attract consumer attention with new features. Thanks to the food ingredients industry, there seem to be utterly endless possibilities for developing new drinks, not only with new (natural) tastes, but also with functional ingredients such as vitamins and other additives that have health claims. Unless brand owners are able to persuade distributors and consumers that their product is unique, they will be forced to enter the price-driven competition that is affecting the margins of undifferentiated products.

Local players can either remain independent or become part of larger groups

The way forward for some brands that have a strong local footprint is to either become part of a larger group or to leverage their local advantage as is shown in the Gatorade and Mizone cases.

Successful soft drinks gain shelf space and are chosen by the consumer

This report will discuss the key success factors for companies within the soft drinks industry. In order to be successful within the very competitive soft drinks industry, brand owners must ensure the following two crucial and correlated elements: the product must be placed on the shelves and must be chosen by consumers. In addition to the need for hydration and the pleasant taste, consumers are attracted to these products for different reasons. In some cases the familiarity of the brand

is key, while in other instances the perceived benefits of the products in terms of healthiness and well-being are what attract consumers. Convenience is also a major factor in today's fast-moving world. And that means availability in the right format at the right moment.

Winning strategies are based on brand differentiation, a diversified portfolio, innovative strength, product fit and cost advantage

This report will present striking case studies, which are based exclusively on public information, to examine the winning strategies for soft drink companies in Western markets. These strategies can be based on brand differentiation, a broad portfolio, innovative strength, product fit (in line with consumer trends or targeting a specific niche) or cost advantage (if aiming to be a private label supplier).

While the soft drinks industry is globally dominated by large multinationals such as Coca-Cola, PepsiCo, Nestlé and Danone, instead of analysing their success stories, which would be difficult for smaller players to emulate, this report will focus on other cases in which players have managed to become successful, despite the competition from the giants.

This study has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of Food & Agribusiness Research and Advisory.