

# Future success strategies for carbonated soft drinks (CSDs) 2010 edition

In this report sample you'll find an overview of the report, a full table of contents and list of data tables and figures, plus one sample page of each chapter.

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## Overview

The carbonates beverages market forms a large and significant part of the global soft drinks industry. Penetration levels for carbonated soft drinks such as cola are high across many parts of the globe, and the sector is contested by some of the world's leading multinational drinks groups. Although it still accounts for a leading 40% volume share of the global soft drinks industry, the market for carbonated soft drinks (CSDs) is not without its challenges. Growth has been hampered by the continued decline in popularity of carbonated beverages such as cola amongst large sections of the world's population, as well as lower consumer spending levels as a result of the economic recession. Over recent years the industry has also faced fierce competition from emerging drinks trends and had to address issues not previously considered, namely health, flavour innovation, performance/lifestyle, environment and packaging.

Dominant in this sector are The Coca-Cola Company, PepsiCo Inc, Dr Pepper Snapple and Red Bull. The global leaders have extensive brand portfolios, and are present in all of the world's main regions.

So, how can the leading CSD producers find growth in this mature market?

This latest addition to our growing portfolio of market research reports addresses this question by reviewing the key issues and provides market size and trends for this US\$175bn industry. The report examines some of the recent strategies and brand activity by the drinks companies, discusses areas where future growth in the market is likely to be highest and we provide our analysis of likely future success strategies for each major CSD producer.

Key coverage includes:

Market size and trends - including sports and energy drinks

Major suppliers and brands

The health issue - including regulation, consumer opinions, ingredients and sweeteners

Flavour innovation - tropical and superfruits

Performance/lifestyle drinks - analysis of 'anti-energy' drinks

Packaging developments - different materials, packaging innovations

Future strategic directions - general directions that key sectors in the industry may choose to follow that could lead to growth across the global CSDs market  
Data includes global CSD and sports and energy drinks' market values and volumes, from 2004 to 2014, plus country per capita consumption.

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## Chapter 1 Executive summary

Although it still accounts for a leading xx% volume share of the global soft drinks industry, the market for carbonated soft drinks (CSDs) faces numerous challenges. Other drinks such as fruit juices and bottled water have grown at the expense of carbonated beverages during the last couple of decades, mainly for health reasons. The market remains large, although consumption levels are either static or declining in many parts of the developed world. It is for this reason that many leading suppliers have been targeting emerging economies such as China and India in search of growth.

The global market for carbonated soft drinks is primarily contested by The Coca-Cola Company and PepsiCo, which together account for over xx% of value sales. Their leading competitors occupy only a relatively small niche within the market, focusing upon particular product sectors or regions. The market features some of the world's leading drinks brands, which are present in most parts of the globe.

Consumer health concerns continue to shape corporate strategy, with diet and low-calorie varieties having captured a xx% share of the global market. The industry has moved far beyond simply offering low or reduced-sugar versions of their brands, reformulating their products to include natural rather than artificial additives. Suppliers have also been addressing portion sizes, as well as restricting the availability of their drinks in places such as schools.

Although flavours such as cola, orange and lemon continue to dominate the market, consumers are increasingly seeking out more novel and innovative flavours. Examples include flavours based on superfruits and tropical fruits (the former of which carry a certain degree of health appeal), as well as old favourites remembered from yesteryear. Greater fusion of flavours is also occurring, which increases the drink's novelty value while providing a new taste experience.

The sports and energy drinks sector continues to grow, and now accounts for just over xx% of the global carbonated soft drinks market. Due to its recent success, many leading suppliers have been keen to increase their presence in the market, as well as developing new varieties offering different benefits to

## Chapter 2 Introduction

The carbonates beverages market forms a large and significant part of the global soft drinks industry. Penetration levels for carbonated soft drinks such as cola are high across many parts of the globe, and the sector is contested by some of the world's leading multinational drinks groups.

This report examines some of the recent strategies undertaken by these drinks companies, as well as discussing areas where future growth in the market is likely to be highest. Suppliers of carbonated soft drinks are facing a number of challenges at present, not least the worldwide trend towards healthier beverages such as fruit juices and bottled water, which has resulted in static or declining consumption levels in many leading markets.

For the purposes of this report, the carbonated soft drinks market includes the following sectors:

- cola-style drinks;
- lemonade;
- fruit-flavoured carbonates (e.g. orangeade and lemon-lime drinks);
- other flavoured carbonates (e.g. ginger ale, ginger beer, cream soda and mixers);
- sports drinks (isotonic, hypotonic and hypertonic products);
- energy drinks (mainly stimulant drinks).

Geographically, this report mainly focuses on regions and markets where sales of carbonated soft drinks are highest, which also tend to be where the world's leading suppliers are headquartered. Examples include Western Europe, North America and Japan. The US dollar (US\$) is used as a common currency throughout most of this report.



## Chapter 3 Market size and trends

The carbonated beverages market represents one of the largest and most well-established sectors of the global soft drinks industry. In volume terms, the carbonated sector currently accounts for around xx% of global soft drinks sales. However, its share has fallen during the last decade as more consumers around the world switch towards beverages perceived as healthier, examples of which include juices and other fruit-based drinks, as well as bottled water. As such, manufacturers of carbonated soft drinks have faced increasing competition for what might be termed 'share of throat.'

In 2009, global market value for the carbonated drinks sector reached US\$xxx bn, a figure which rose by just xx% from the previous year. Growth has been hampered by the continued decline in popularity of carbonated beverages such as cola amongst large sections of the world's population, as well as lower consumer spending levels as a result of the economic recession. Since 2004, global market value has increased by just over xx%.

**Table 1: Global carbonated soft drinks market by value and volume, 2004-2009 (US\$bn, bn litres and %)**

	2004	2005	2006	2007	2008	2009
<b>Value (US\$bn)</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Percentage change (%)</b>	-	xxx	xxx	xxx	xxx	xxx
<b>Volume (bn litres)</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Percentage change (%)</b>	-	xxx	xxx	xxx	xxx	xxx

**Source: just-drinks**

Global market volume is currently worth xxx bn litres, a figure which increased by xxx % from the previous year. Much of this increase has come from less developed parts of the world, where growth in demand for carbonated soft drinks is more apparent in regions such as Eastern Europe, Latin America and parts of Asia. Much of the recent growth within the carbonated soft drinks market in regions such as Europe and North America has come from the sports and energy drinks category, which will be reviewed separately later in this chapter.

## Chapter 4 Major suppliers and brands

The global market for carbonated soft drinks is primarily contested by a few multinational companies, of which The Coca-Cola Company and PepsiCo are the largest. Together, these two companies account for over xx% of global market value, while they also account for a sizeable percentage of the world market for sports and energy drinks, together with Red Bull. Most of the remaining companies occupy only a small niche within the market, although it is worth noting that two Japanese firms – Suntory and Asahi Soft Drinks – have expanded geographically within the last couple of years.

The global leaders have extensive brand portfolios, and are present in all of the world's main regions. Much of their recent activity has been geared towards improving the perceived healthiness of their brands, as well as introducing new flavour varieties.

### The Coca-Cola Company

#### Background

First established at the end of the 19th century, The Coca-Cola Company leads the world market for carbonated beverages. The company's portfolio includes over xxx brands, which are sold in more than 200 countries worldwide. Over xxxbn of its drinks are served every day, while recent acquisition activity has increased its presence in non-carbonated drinks sectors such as fruit juices. The company's structure is divided into the following regions: North America; South America; Europe; Pacific; and Eurasia and Africa. The structure is completed by its Bottling Investments unit, which comprises its bottling operations.

Coca-Cola accounts for a leading xx% of the US carbonated soft drinks market, a figure which increases to nearer xx% in global terms. The company occupies the number one spot in most countries worldwide, ranging from almost xx% of the growing Mexican and Indian markets to over xx% in Brazil. Within the energy drinks sector, Coca-Cola's Powerade brand trails PepsiCo's

## Chapter 5 The health issue

Health has long been a major driver within the global carbonated soft drinks industry. The primary health problems associated with excessive consumption of sugary drinks are well-known across most of the globe, and include tooth decay and gum disease on account of the drinks' sugar content. Other recent studies have linked carbonated soft drinks with weaker bone structures, hyperactivity in children and getting the 'jitters', the latter resulting from the high caffeine content of many leading brands.

In response, many in the soft drinks industry have claimed that the link between carbonated beverages and these health problems (as well as obesity) may have been over-stated. Hyperactivity in children, for example, may be the result of a number of additional factors not linked to diets, such as behavioural problems and mild medical complaints. Furthermore, Government data from the US indicates that carbonated soft drinks contributes less than x% of the calories in a typical diet, and reducing consumption levels will have little effect on obesity levels.

Nevertheless, addressing the health issue remains a cornerstone of strategy for most, if not all, suppliers of carbonated soft drinks. The industry has moved far beyond simply offering low or reduced-sugar versions of their brands, although this does remain an important part of strategy for many suppliers, as these words from PepsiCo UK president Richard Evans illustrate: *"We have responded to public health concerns by building strong no-sugar cola brands."*

Besides reducing calorie and sugar levels, some of the main industry responses to increased health concerns have been to address portion sizes, as well as restricting the availability of their drinks in places where children are present, such as schools. Carbonated soft drinks manufacturers are also increasing the amount of natural (rather than artificial) additives within their products, a trend particularly apparent of late in the colourings sector.

### **The regulatory environment**

At present, suppliers of carbonated soft drinks are operating against a backdrop of increasing pressure and scrutiny from government and other

## Chapter 6 Flavour innovation

From a flavour perspective, the global carbonated soft drinks market is dominated by cola, together with other popular variants such as orange and lemon drinks. In most instances across the world, these three varieties account for the bulk of sales of carbonated beverages, which is why the product ranges of many leading operators are heavily focused upon these sectors. As such, the carbonated beverages category shares similarities with the international fruit juices and drinks sector, which is dominated by flavours such as orange and apple.

However, it is worth noting that consumer fatigue is setting in for traditional drinks such as cola throughout many of the world's largest markets. People are now increasingly seeking out something different, examples of which include flavours based on unusual tropical fruits, as well as carbonated drinks remembered from yesteryear. The global carbonated beverages market is also witnessing greater fusion of flavours, which increases the novelty value of the drink in question and provides a new taste experience.

Health concerns continue to play a role in flavour development for carbonated soft drinks. Typically, this has taken the form of flavours based on antioxidant-rich superfruits such as pomegranate, as well as flavours derived from natural ingredients. Again, it is worth noting that demand for flavours based on superfruits has also increased of late within the fruit juices and drinks category. All of these areas are expected to witness continued growth in demand from consumers in the short-term.

### Cola

Cola continues to occupy a major position within the world market for carbonated soft drinks, mainly a result of the global presence of the Coca-Cola and Pepsi brands. In recent years, consumer interest in the cola category has been maintained by the introduction of new varieties featuring novel or unusual ingredients. Cola tends to be more popular with male consumers, many of whom use it as a mixer.

## Chapter 7 Performance/lifestyle drinks

The performance and/or lifestyle drinks category (which mainly encompasses sports and energy and stimulant drinks) continues to represent one of the best-performing sectors of the global carbonated soft drinks market. As such, many of the leading suppliers have been keen to increase their presence in the market to take advantage of this growth, usually via new product development.

Given that many of these products are classed as functional health drinks, much attention has been focused upon developing new varieties which offer different benefits to consumers. However, the ongoing development of the market has meant that companies are now experimenting with products which are marketed as offering mental as well as physical benefits.

### Sports drinks

The consumer base for sports drinks has widened considerably in recent years, as a result of which the products are no longer the exclusive preserve of athletes and people who lead particularly active lives. Although sports drinks have to a large extent lost their niche status, much of the future success of the category is thought to depend on how well they can respond to wider consumer demands and requirements.

The global sports drinks market is made up of the following three varieties of product:

- Isotonic – drinks which replace fluids lost by sweating and which also provide a carbohydrate boost, usually in the form of glucose.
- Hypotonic – drinks which replace fluids lost by sweating, but which do not provide additional carbohydrates.
- Hypertonic – drinks which are used to supplement carbohydrate intake, and are therefore normally consumed after exercise.

## Chapter 8 Packaging developments

Packaging represents an important consideration for the global soft drinks industry, and suppliers of carbonated varieties are no exception. The recent strategies pursued by the likes of Coca-Cola and PepsiCo have been driven to a large extent by demand for the various types of drinks packaging, one example of which has been increasing usage of plastic across the sector at the expense of glass. Meanwhile, carbonated drinks suppliers of all sizes are under increasing pressure to face up to environmental obligations to reduce the amount of packaging used, as well as to source their materials more responsibly.

A number of other less general trends have also influenced the market in recent years, all of which have been apparent in new product and brand activity. These are discussed in more detail towards the end of this chapter.

### Usage of the different materials

Carbonated soft drinks throughout the world are generally packaged either in metal cans or in plastic or glass bottles. The soft drinks industry represents a major end-user for beverage cans in most parts of the world, with aluminium having been the preferred choice of metal since the mid-1980s on account of its abundant nature, its recyclability and its non-rusting properties. Over the last couple of decades, plastic bottles made out of polyethylene terephthalate (or PET for short) have gained share of the global market, largely at the expense of glass.

Beverage cans continue to represent the most widely-used form of packaging within the global carbonated soft drinks market. Besides their recyclability, the benefits of cans include being easy to open and store, offering value for money and their unbreakable nature. The global market for beverage cans (which includes all varieties of drinks) amounted to some xxx bn units in volume terms in 2009, according to the latest estimates. By region, the leading markets included North America and Europe, which accounted for shares of xx% and