This global profile focuses on the industry trends in soft drinks.

All values expressed in this report are retail/off-trade in US dollar terms using a fixed exchange rate (2012).

2012 figures are based on part-year estimates.

All forecast data are expressed in constant terms; inflationary effects are discounted. Conversely, all historical data are expressed in current terms; inflationary effects are taken into account.

The Coca-Cola Company slightly underperformed the world’s soft drinks market amid the recession in Western Europe and slow economic recovery in the US. It is actively expanding in low calorie carbonates to retain consumers and widening the use of natural sweeteners in its beverages. The part acquisition of Aujan will help TCCC to accelerate its expansion into the Middle East and Africa region and the full takeover of Innocent is likely to boost its position in premium juice in Western Europe.
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Key company facts

The Coca-Cola Company

<table>
<thead>
<tr>
<th>Headquarters:</th>
<th>Georgia, US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional involvement:</td>
<td>Global</td>
</tr>
<tr>
<td>Category involvement:</td>
<td>Bottled water, carbonates, concentrates, fruit/vegetable juice, RTD coffee, RTD tea, sports and energy drinks, Asian speciality drinks</td>
</tr>
</tbody>
</table>

Global soft drinks leader to double revenue by 2020

- The Coca-Cola Company (TCCC) is the world’s largest non-alcoholic drinks company, controlling over 21% of soft drinks off-trade RTD volumes. Soft drinks represents TCCC’s core business and the company is actively diversifying into other categories such as dairy. The company has a stated aim to double in size of revenue for the Coca-Cola system from 2010 to 2020 and the company’s executive management is confident TCCC is on the right direction to achieve this goal.

General growth strategy

- The company is growing its business via both organic growth and acquisitions. Recent years saw the company increasing its investments in major emerging markets while making small-scale acquisitions in developed markets to enrich its health and wellness portfolio. Re-franchising and re-organising its bottling operations is also an important highlight of its corporate activities.
The company reported strong full-year global volume shipment growth of 4% and revenue grew 4% in 2012. Key developed markets performed well and these include North America and Japan (both up 2%). Europe volume declined 1% for the full year, reflecting ongoing uncertain macroeconomic conditions.

In terms of emerging markets, TCCC produced strong volume growth in key emerging markets such as Thailand (up 22%), India (16%) and Russia (8%) for the full year. Slightly affected by the slow economy, TCCC delivered 4% volume growth for the full year in China and poor weather and a later Chinese New Year contributed to the slow sales. However, the company is investing heavily in the country and has full confidence of its business.

TCCC reported that solid growth continued in countries with per capita consumption of the company’s brands of under 150 8oz servings per year, with volume up 7% for the full year.
SWOT: The Coca-Cola Company

STRENGTHS
Strength in size and financial clout
TCCC wields considerable financial muscle with strong acquisition capability and funds for marketing, which are crucial for expansion and retaining consumer loyalty during a time of difficult market conditions.

Global strength from geographic spread
TCCC has a very strong global geographic mix. Large volumes of sales are made outside core developed markets, vastly improving the company’s resilience to regional economic downturns.

Weaknesses
Heavy reliance on carbonates
While TCCC has expanded its soft drinks portfolio of late, it remains highly dependent on carbonates. Hence, it is vulnerable to a downturn in this category.

Image from “high sugar” carbonates
As consumer awareness of the risks of a high sugar diet has grown, the sugar content of regular Coca-Cola could hinder the company as the consumer agenda increasingly switches to looking for healthier food and drink options.

Opportunities
Health and wellness
A growing trend in soft drinks is that of health and wellness. Consumers increasingly understand the importance of healthy diets and are actively looking for healthier drinking options.

Emerging markets
India and China, in particular, represent good volume opportunities. Carbonates, juice drinks and bottled water should be the focus for the company.

Weaknesses
Strong competition
PepsiCo remains a considerable foe in soft drinks and having stolen a march in terms of bottler buyouts, it has possibly a crucial advantage in terms of repositioning itself in a redefined marketplace.

Strong competition
In some cases, and in particular in low calorie carbonates, TCCC’s brands can sometimes be found in direct competition with each other and at risk of cannibalisation.

Threats
Cannibalisation in low calorie categories
# TCCC vs PepsiCo: Top line long-term growth objectives/strategies

<table>
<thead>
<tr>
<th>Company</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCCC</td>
<td>The company is striving to sustain sales in developed markets with a focus on diet carbonates. Consumption of carbonates in emerging markets continues to increase. The Middle East and Africa is often mentioned as the next major growth area. The company has stated a financial objective to double its revenue between 2010 and 2020. TCCC has sought to increase its non-carbonates coverage in the wake of challenging market conditions in some carbonates markets, and the ongoing health and wellness trend affecting soft drinks markets globally. Its acquisitions are leaning towards still drinks.</td>
</tr>
<tr>
<td>PepsiCo</td>
<td>One of the company’s most significant corporate developments is the establishment of NutritionCo, which is designed to coordinate and oversee the development of its health and wellness business, comprising healthy snacks and wellness beverages - including dairy and soft drinks - and the innovation around it. This magnitude of ambition is considerable and will take time to realise. PepsiCo has spent large amounts of capital to acquire businesses in recent years and it is important that the company integrates these businesses effectively and efficiently to show their worth to its shareholders. By 2021, assuming the effective implementation of its Power of One initiative, PepsiCo’s current CEO envisaged the geographical breakdown of its corporate businesses would be 50:50 between developed and developing markets. In terms of category, beverages is expected to take 45% of total revenue and snacks 55%. The current Power of One strategy is intended to leverage the strong position of snacks to develop beverages. To this end, beverages may take a backseat in terms of investment in the short to medium term.</td>
</tr>
</tbody>
</table>
Soft drinks is TCCC’s focused business area and the company has established a better category presence than PepsiCo. However, PepsiCo increasingly packaged itself as a health and wellness food and beverage company, meaning its soft drinks business is fighting for attention with other business lines and might not receive the best resources for growth. Carbonates is TCCC’s core category and PepsiCo has done little to improve its carbonates share in 2007-2012. PepsiCo is clearly weak in concentrates and RTD tea and has no market share in RTD coffee. PepsiCo however has strategic alliance with Unilever (RTD tea Lipton) and Starbucks (RTD coffee) and show no clear intention to develop the two categories on its own. Both TCCC and PepsiCo made little improvement in sports and energy drinks. However, their alliances with Monster and Rockstar, respectively, have given them a regular income and diversified revenue stream.
Key strategic objectives and challenges

**Increasing revenue streams from all fronts**

- TCCC intends to double in size within the Coca-Cola system from 2010 to 2020 and has clearly made plans to set about this task. The company can achieve this by expanding its geographic spread; taking its products to new territories and also by developing new products as consumer trends change or become engaged in new business. Driving per capita consumption in underdeveloped markets and sustaining growth in developed markets remains the key task.

**Diet products cannibalising standard variants**

- Rising awareness of soft drinks-related health issues, in particular sugar levels, has sparked a trend for “better for you” beverages globally. As for TCCC’s carbonates, some countries saw standard cola are being cannibalised by low calorie colas and this represents a challenge. TCCC must continue to sustain growth in standard cola and expand low calorie cola.

**Diversification**

- The dilution of its exposure to carbonates is an important strategy for TCCC. The company has reduced its reliance on carbonates and has strong brands in both bottled water and fruit/vegetable juice. The company has further products in other categories and must continue to look to diversify, strengthening its portfolio in RTD tea and even Asian speciality drinks. The recent equity investment in the US’ added-value dairy brand Core Power is an astute move.

**Acquisition targets in developed markets**

- TCCC already has strong penetration in major soft drinks markets, which typically offers limited acquisition opportunities due to market consolidation. Much of the future volume growth is likely to come from secondary markets such as Vietnam and Indonesia. TCCC may be better advised to set its sights on larger acquisition targets in untapped regions such as the Middle East and Africa and some secondary markets.
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## HIGHLIGHTS OF ACQUISITIONS

**TCCC system beverage acquisition: Timeline 2009-2013**

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Acquired company/Market entry</th>
<th>Country of origin</th>
<th>Main businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Minority stake in Zico Beverages LLC</td>
<td>US</td>
<td>Coconut water</td>
</tr>
<tr>
<td>2010</td>
<td>A controlling stake in Innocent</td>
<td>UK</td>
<td>100% NFC juice</td>
</tr>
<tr>
<td>2010</td>
<td>Nidan</td>
<td>Russia</td>
<td>Fruit/vegetable juice</td>
</tr>
<tr>
<td>2010</td>
<td>Coca-Cola Enterprises North America</td>
<td>US</td>
<td>Bottling facilities</td>
</tr>
<tr>
<td>2011</td>
<td>Honest Tea</td>
<td>US</td>
<td>RTD tea</td>
</tr>
<tr>
<td>2012</td>
<td>A stake of 50% in Aujan</td>
<td>UAE</td>
<td>Soft drinks</td>
</tr>
<tr>
<td>2013</td>
<td>51% stake in Coca-Cola Bottlers Philippines (acquired by Coca-Cola FEMSA, TCCC’s anchor bottler)</td>
<td>Philippines</td>
<td>Soft drinks operations</td>
</tr>
<tr>
<td>2013</td>
<td>A stake in Fair Oaks Farms Brands LLC (Core Power)</td>
<td>US</td>
<td>Added-value dairy</td>
</tr>
</tbody>
</table>
## Highlights of Acquisitions

### PepsiCo System Beverage Acquisition: Timeline 2009-2013

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<th>Country of Origin</th>
<th>Main Businesses</th>
</tr>
</thead>
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<tr>
<td>2009</td>
<td>Amacoco Nordeste and Amacoco Sudeste</td>
<td>Brazil</td>
<td>Coconut water</td>
</tr>
<tr>
<td>2010</td>
<td>Pepsi Bottling and PepsiAmericas</td>
<td>Americas and Europe</td>
<td>Bottled water and juices and production facilities</td>
</tr>
<tr>
<td>2010</td>
<td>ONE</td>
<td>US</td>
<td>Juice drinks with coconut water</td>
</tr>
<tr>
<td>2011</td>
<td>Wimm-Bill-Dann</td>
<td>Russia</td>
<td>Fruit/vegetable juice and dairy</td>
</tr>
</tbody>
</table>
HIGHLIGHTS OF ACQUISITIONS

Summary of TCCC and PepsiCo acquisition activities

TCCC is definitely more active and assertive in forging beverage deals than PepsiCo. TCCC’s acquisition activities indicate that the company is looking to extend its range of health and wellness drinks. The company is also looking to strengthen its non-carbonates ranges, in particular RTD tea and fruit/vegetable juice. Similarly, PepsiCo has acquired in these areas including Wimm-Bill-Dann (WBD) which helped PepsiCo stay ahead of TCCC in Russia while expanding into packaged food.

The two companies have very different corporate objectives in terms of development direction. With soft drinks being its core business, TCCC is able to focus its energy on soft drinks-centric acquisition which serves its corporate objective well. Restricted by its wider commitment in other businesses such as packaged food, notably dairy, PepsiCo has made fewer deals in soft drinks.

TCCC’s acquisitions spread across continents, in both developed and emerging markets. In terms of the value of transactions, TCCC has made both small and large acquisitions. PepsiCo spent substantially on WBD which undermined the company’s ability to make acquisitions elsewhere. Both companies have not acquired major brands in Asia Pacific in recent years. Neither of them acquired any significant sports and energy drinks brands. At the time of writing, Lucozade is rumoured to be up for sale and they are both likely to bid for it.

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The company’s equity investment in Core Power demonstrated TCCC’s growing interest in dairy, and further participation in value-added milk businesses is expected to take place. TCCC acquired a stake in US-based Fair Oaks Farms Brands LLC, which produces and markets premium quality and value-added dairy products. Fair Oaks owns Core Power, a high protein milkshake, and TCCC started to distribute this brand in summer 2012. TCCC was expected to make this move into the dairy business as one of the possible areas that the cola giant would explore in order to boost its income streams. The number one soft drinks company has little development in dairy products in developed countries and it requires a strong brand as a vehicle to start the business.

In emerging countries, however, TCCC has been busy exploring the potential of dairy products. The company actively markets a juice mixed with milk hybrid product, Minute Maid Pulpy Super Milky, in a few countries such as China. Leveraging its leading position in fruit/vegetable juice, Minute Maid Pulpy doubled its sales within four years of its launch in China. However, the gap between the category leader Wahaha and TCCC remains huge. Globally, China has the largest flavoured milk drinks with fruit juice sales and the Middle East and Africa and Latin America are also expected to see strong growth. In recent years, TCCC enlarged its investments in the Middle East and Africa and acquired a stake in Aujan in 2012. Exploring this niche category in the Middle East is likely to prove a sensible move in the medium term.

From a competitor’s perspective, following PepsiCo’s Russian WBD acquisition, PepsiCo increasingly packaged itself as a comprehensive food and beverages player. Dairy appears to be a growing part of the company’s core business. In 2012, PepsiCo’s joint venture with Müller (Müller Quaker Dairy) introduced premium yoghurt to the US. As things stand, TCCC might choose to avoid direct competition with PepsiCo and Danone in Russia. However, pressed by its long-term financial objectives and the sluggishness in soft drinks in developed countries, TCCC’s involvement in dairy in various forms such as its Core Power initiative is likely to become common. Existing dairy giants such as Nestlé and Danone would be wise to take a close note of every step of TCCC’s dairy business progression.
**HIGHLIGHTS OF ACQUISITIONS**

**Innocent: From British starlet to potential international stardom**

- Given the shortage of large-scale candidates in developed markets, TCCC, Nestlé, PepsiCo and Danone have made a number of small-scale acquisitions. Identification of brands with long-term potential and commercial viability is the key for large investors. TCCC fully acquired or partially acquired Innocent (NFC juices), Zico (juice drinks with coconut water) and Honest tea (RTD tea). In February 2013, TCCC announced its intention to fully acquire Innocent. In 2010, PepsiCo purchased a majority stake in ONE (juice drinks with coconut water) and has an option to purchase the remainder of the company. In 2011, ONE entered the Pepsi system in the US, with products now available in two thirds of the country. In hot drinks, Tata Global Beverages Ltd acquired the herbal and speciality tea brand Good Earth in the US, and the brand is sold regionally in the country.

- Innocent was originally founded by a British entrepreneur and the brand is now the world’s largest commercially packaged smoothie brand. TCCC is expanding Innocent in Western Europe, and the brand now has a presence in France, Austria, Ireland, Sweden, Belgium, Switzerland and Denmark. Innocent appears well positioned to grow as a sophisticated premium juice brand in Europe within the Coca-Cola system.

- These are small start-up companies and some have not even registered a significant share in their country of origin. However, they have built a loyal consumer base and they are strong in their niche categories. By acquiring these small start-up companies, major companies save the time required to build up their own brands through in-house facilities. What they then need to do is nurture and grow them within a large corporation. Therefore, apart from large deals, major companies are also looking for small companies to acquire and build up value. Small deals carry fewer financial risks and integration is typically more manageable. However, manufacturers will need to be patient and create the right platform for the small arrivals to grow and excel in a complex and large portfolio.
Europe: Selection of brands to watch

- TCCC has a special venture unit especially for exploring on acquisition candidates. Although Asia Pacific and Latin America represent good growth, there are still some targets in Europe for TCCC to look out for. GlaxoSmithKline’s Lucozade and Ribena for example are rumoured to be up for sale. Lucozade, present primarily in sports and energy drinks, remains the leading soft drinks brand by retail value in the UK despite losing share in recent years. It also registers share in seven other markets. In recent years, the brand has seen particularly strong growth in Nigeria, tripling its sales over the last five years, meaning it is still viable in some markets when marketed properly.

- TCCC, which ranks third globally by value in sports and energy drinks, could be interested in acquiring Lucozade. In 2012, there was a rumour that TCCC might be interested in purchasing a stake in Monster, but the company refuted this. However, there are signs that the company desires a strong sports and energy drinks brand. Lucozade would lift TCCC’s category share by two percentage points, taking it closer to Red Bull.

Europe: Selection of Soft Drinks Brands to Watch 2012

<table>
<thead>
<tr>
<th>Brands</th>
<th>GBO</th>
<th>US$ million RSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucozade</td>
<td>GlaxoSmithKline Plc</td>
<td>1,057</td>
</tr>
<tr>
<td>Capri-Sonne</td>
<td>Wild GmbH &amp; Co KG, Rudolf</td>
<td>391</td>
</tr>
<tr>
<td>Ribena</td>
<td>GlaxoSmithKline Plc</td>
<td>314</td>
</tr>
<tr>
<td>Estathé</td>
<td>Ferrero Group</td>
<td>241</td>
</tr>
<tr>
<td>Sunniva</td>
<td>Tine SA</td>
<td>216</td>
</tr>
<tr>
<td>Sant'Anna di Vinadio</td>
<td>Fonti Di Vinadio SpA</td>
<td>207</td>
</tr>
<tr>
<td>Santàl</td>
<td>Parmalat Group</td>
<td>185</td>
</tr>
<tr>
<td>Farris</td>
<td>Carlsberg A/S</td>
<td>177</td>
</tr>
<tr>
<td>Hartwall</td>
<td>Heineken NV</td>
<td>127</td>
</tr>
<tr>
<td>Ramlösa</td>
<td>Carlsberg A/S</td>
<td>118</td>
</tr>
</tbody>
</table>
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TCCC slightly underperforms global market volume

- Affected by the slowdown in some developed markets, TCCC slightly underperformed the market in 2012. The company saw its volume growth mainly coming from China, India, Mexico, Brazil and Thailand. In terms of growth rates however, India (23% in 2012) far outpaced China (8%) thanks to relatively low consumption and solid market expansion. TCCC managed to push double-digit volume growth in secondary markets such as Ecuador, Vietnam and Algeria.

- In terms of developed markets, TCCC experienced a decline in off-trade RTD volumes in many Western European markets, Australia and the US. The company did not make any major acquisitions for branded products to boost sales in 2012.

In terms of retail value growth in 2012, TCCC matched the global market, with sales underpinned by good performances from Brazil, China, Mexico, Argentina and Venezuela. Brazil was the key driver, accounting for 20% of the company’s global growth in 2012 with sales of the standard Coca-Cola brand recording absolute value growth of around US$930 million in Brazil alone.

Affected by the severe recession and economic uncertainty, TCCC recorded a decline in many Western European markets, including Portugal, Ireland, Italy and Greece. Market saturation and sluggishness in these markets offer little incentive for manufacturers to launch new products and make major acquisitions.
COMPETITIVE POSITIONING

Top 10 soft drinks companies by off-trade RTD volume in 2012

- There was no significant change in the ranking of the global top 10 companies in the soft drinks market in 2012, with TCCC maintaining its top spot and continuing to keep a large gap between itself and the second player PepsiCo. Unsurprisingly, with a sharp focus on soft drinks, TCCC generated the most retail value growth in actual terms, at US$8.7 billion in 2012, contrasting with PepsiCo’s US$3.3 billion. TCCC’s continuous strong performance in Latin America’s carbonates category underpinned its global performance, with the Coca-Cola trademark single-handedly contributing a net increase of US$860 million.

- However, in their domestic market, PepsiCo outperformed TCCC in carbonates by retail value growth thanks to PepsiCo’s increased marketing budget in the US. This good performance might have served to ease investors’ anxiety slightly, although it is uncertain whether PepsiCo’s recovery will last long.

- Both water giants Nestlé and Danone sustained their global position in 2012. Danone outperformed Nestlé in terms of growth rate and net increase by retail value, thanks to its rapid expansion in Argentina. However, both companies continued to see sluggishness in developed markets.

### Soft Drinks: Top 10 Global Companies by % Off-Trade RTD Volume Share 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola Co, The</td>
<td>21.2</td>
</tr>
<tr>
<td>PepsiCo Inc</td>
<td>9.9</td>
</tr>
<tr>
<td>Danone, Groupe</td>
<td>4.7</td>
</tr>
<tr>
<td>Nestlé SA</td>
<td>3.7</td>
</tr>
<tr>
<td>Mondelez International, Inc</td>
<td>2.0</td>
</tr>
<tr>
<td>Ting Hsin International Group</td>
<td>1.6</td>
</tr>
<tr>
<td>Dr Pepper Snapple Group Inc</td>
<td>1.5</td>
</tr>
<tr>
<td>Suntory Holdings Ltd</td>
<td>1.1</td>
</tr>
<tr>
<td>Hangzhou Wahaha Group</td>
<td>0.9</td>
</tr>
<tr>
<td>Acqua Minerale San Benedetto SpA</td>
<td>0.6</td>
</tr>
</tbody>
</table>

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SOFT DRINKS: COCA-COLA CO, THE

PASSPORT  20
Following several years of aggressive overseas acquisitions and domestic market consolidation, major Japanese companies have cemented their rankings in global soft drinks. Additionally, the Tohoku earthquake and its aftermath impacted little on their performance, showing both resilience and the benefit of geographical diversification. As Japanese companies have enjoyed the initial benefits of overseas acquisitions, further activity is expected through the forecast period.

Achieving a growth rate of 23%, Asahi was the best performer among the top 10 companies in 2012. The acquisition of the domestic concentrate brand Calpis enhanced its position in concentrates; its global category ranking moved from 16th in 2011 to seventh in 2012.

With no major acquisition made in 2012, Suntory, ranking fourth in global soft drinks, managed just single-digit growth. Suntory is undergoing a major shake-up of its food and beverage business. In January 2013, Suntory established the Corporate Development Department specifically for mergers and acquisitions activity, and further announced placing Suntory Beverage & Food Middle East, African and LatAm S.L under the direct management of its international division, suggesting development in these regions is a priority. Suntory has no visible presence in Latin America yet and its exploration of buying opportunities is a strategy that could address this.
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**MARKET ASSESSMENT**

**Two-speed market in soft drinks to continue**

- Asia Pacific and the Middle East and Africa will outperform the global market for soft drinks over 2007-2012. There is a clear emerging/developed market divide when it comes to growth prospects for soft drinks; while emerging markets are expected to see positive growth, prospects are moderate in the developed markets of Western Europe and North America, while Australasia is expected to contract by 0.1% CAGR.

- TCCC has a good geographical spread and is investing heavily in major emerging markets such as China, India, Mexico and Brazil. Meanwhile, the Middle East and Africa is seen as the next wave of long-term growth spots and TCCC partly acquired Aujan to prepare for future growth. Favourable demographics and the noticeable rising level of disposable income in some African countries offer promising potential.

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- **Middle East and Africa**
- **Australasia**
- **Western Europe**
- **Latin America**
- **North America**
- **Asia Pacific**

*Note: Bubble size shows company share of soft drinks market in 2012. Range displayed 15.3-33.1%*
MARKET ASSESSMENT

RTD tea and bottled water continue to offer potential

- RTD tea is forecast to see the strongest growth in off-trade RTD volume CAGR terms over 2012-2017. Globally, TCCC has a weak position in China’s RTD tea and it also lost its top spot in RTD tea in Japan a few years ago, giving the company some concern. What TCCC needs to do is speed up its NPD in RTD tea and find the right product then support it with its strong brand-building and marketing muscle. The fact that its Gold Peak brand performed exceptionally well in the US and made share gains consecutively for several years has proved TCCC can still take share from RTD tea rivals. The revised deals with Nestlé regarding Beverage Partners Worldwide (BPW) should be an opportunity for TCCC to develop RTD tea independently and more aggressively. Nestlé has now become a rival rather than a partner in the US.

- TCCC continues to be overwhelmingly more powerful than PepsiCo in carbonates. The key issue for TCCC now is to sustain its sales in developed markets and continue to expand in untapped markets in which the penetration of carbonates remains low.


Note: Bubble size shows company share of category in 2012. Range displayed 1.3-48.3%
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Globally low calorie cola outpace regular

- Globally, low calorie cola carbonates are set to outperform regular cola in both off-trade volume and value growth terms. There is obvious opportunity in this category as consumers in key carbonates markets including emerging ones such as Mexico, China and Brazil are increasingly aware of the obesity issue and are opting for low calorie products. Brazil is identified as one of the major growth markets for low calorie cola carbonates over 2012-2017.

- Recently new developments within health and wellness have seen new “natural” sweeteners including “stevia” and more recently “monk fruit derivatives”. TCCC reported that it used stevia sweeteners in more than 25 products worldwide, in combination with other sweeteners such as fruit juice, sugar and other low and no calorie sweeteners. They are available in the UK, Argentina, Canada, France, Japan, Turkey and the US. The company needs to communicate its efforts on health and wellness to consumers and the media effectively and promote a good corporate image.

- While TCCC has an increasingly well-developed use of stevia, in order to retain its place as the global soft drinks leader, the company needs to lead the development of monk fruit, all the while searching for other “natural” sweetening alternatives.
TCCC dominates low calorie cola in most growth markets

- TCCC acted quicker than PepsiCo in building up its low calorie cola category and TCCC now has a dominant position in most core growth markets thanks to Diet Coke and Coca-Cola Zero. In Argentina, however, TCCC saw a rather fragmented low calorie cola market, which may offer the cola giant considerable room to expand and grab market share from smaller players which jointly account for 59% of off-trade volume sales.

- Competition in healthier beverages are also increasing, with fruit/vegetable juices, RTD tea and natural energy drinks are actively gaining attention from health-conscious consumers at all age groups. Manufacturers are working to claim a share of healthy beverages and NPD in healthy beverages is a growing focus.

- The potential levy of a “fat tax”, “soda tax” or “sugar tax” in some countries is also a challenge for cola manufacturers. Although these taxes are currently controversial and yet to be firmly set in most cases, the debate itself is already unfavourable for cola marketers. There is a danger that some consumers may well abandon all categories of cola in one go under the media influence.

Most Dynamic Low Calorie Cola Markets 2012-2017 and TCCC % Company Share 2012
Apart from regulatory challenges, TCCC is facing challenges of cannibalisation between its own brands; Diet Coke and Coca-Cola Zero, for example, do not appear to grow side by side in many countries. For example, France and the US saw Diet Coke decline over 2007-2012 while Coca-Cola Zero experienced positive growth in sales. The two brands are targeting similar consumer segments and clearly the concept of zero calorie is increasingly well received as consumers like the idea of being able to enjoy their cola without worrying about any calorie intake, thus feeling less “guilt” and more enjoyment.

TCCC appeared to spend more resources on building the zero platform and driving products with zero calorie than conventional diet variants over the past few years. As a result, TCCC’s advertising has been effective, which also unwittingly caused cannibalisation between sister brands.
Emerging markets are expected to account for the bulk of future growth. TCCC may have underestimated the growth potential of bottled water in these markets including China and Indonesia, thus underinvested there. In China, TCCC made a great effort in growing the Minute Maid juice brand while giving bottled water little attention. It ranks sixth in China’s bottled water market and is overpowered by local companies and Danone. Bottled water does not appear to be a strategic product for TCCC in China.

In India, TCCC improved its position in bottled water substantially over the past few years, taking share from market leader Parle Bisleri through leveraging its existing strength in soft drinks. Local players that are struggling to compete could be potential acquisition targets.

TCCC’s absence from Indonesia’s bottled water market is a concern that needs addressing as this affects its overall market share in this strong growth market. TCCC could consider acquiring Danone’s operation if the French giant puts its Indonesian subsidiary up for sale.
Finding growth at home: US RTD tea value opportunity

- TCCC and Nestlé revised their agreement for Beverage Partners Worldwide (BPW) and the US Nestea licence was terminated at the end of 2012. TCCC however entered into a licence agreement for Nestea in Taiwan and Hong Kong. US RTD tea accounts for around 6% of TCCC’s global sales by off-trade volume and the country is expecting to see absolute value growth in excess of US$1 billion over 2012-2017. TCCC ranks fourth by value in US RTD tea and has been making rapid improvement in terms of sales and share. Its Gold Peak brand posted a 41% CAGR in off-trade volume terms, outperforming market-leader Arizona (10%) over 2007-2012. All signs show that TCCC is determined to capitalise on the growth opportunity at home. A more aggressive move, such as acquisition of a majority stake in Arizona, should be considered in order to gain a greater presence in the premium RTD tea segment.

Untapped region with packed potential

- Multinationals are looking for the next long-term growth hot spots beyond the BRICs. For many, the Middle East and Africa (MEA) remains an untapped region with significant potential. Per capita consumption of soft drinks in the region stands at 31.8 litres, compared to 37.2 litres in Asia Pacific. The region’s population has a high proportion of young people, a factor that is expected to drive consumption growth.

- Currently, TCCC holds around 29% of the regional soft drinks market by volume, well ahead of PepsiCo, with 17%. Nestlé and Danone are minor players. TCCC’s part acquisition of Aujan will deepen its regional penetration, particularly in the Middle East and North Africa. In late 2011, TCCC announced its plan to invest US$5 billion in the region over the next 10 years and opened a new facility in Somaliland, a breakaway region of Somalia. PepsiCo has not announced a clear path for the region.

- Britvic and Suntory’s subsidiary Orangina Schweppes also seem to be increasing their activities in North Africa.

Regional hot spots - Iran, Saudi Arabia and Nigeria

- The Middle East and Africa is a diverse region in terms of economic development, culture and politics, which may call for a specific strategy to tackle each individual market. Some markets, such as the United Arab Emirates and Saudi Arabia, are more accessible than others, such as Iran. Although Iran is poised to generate the second largest absolute value growth in soft drinks over 2012-2017, its political situation may discourage investment. Nevertheless, TCCC managed to maintain its leadership in the country. TCCC has stated that the region represents a long-term growth area.

- Supported by a large population and economic boom, Nigeria is expected to be another soft drinks hot spot. TCCC accounts for over 40% of value sales, and PepsiCo 12%. There is no sign that PepsiCo is making Nigeria a core emerging geography. Nestlé is a minor player in Nigeria, and Danone has no presence. Danone’s key investment areas appear to be Iran and South Africa.
GEOGRAPHIC AND CATEGORY OPPORTUNITIES

Aujan investment to boost TCCC’s still beverage presence in MEA

- TCCC completed its acquisition of a 50% stake in Aujan in 2012. Aujan is a well-established regional player, with noticeable market shares in Iran, Saudi Arabia, the United Arab Emirates and Egypt. The Gulf Cooperation Council (GCC) nations are its core markets. The company is a strong player in fruit/vegetable juice in Egypt, Saudi Arabia, Iran and the United Arab Emirates. It aims to double its net sales within five years.

- The deal should complement TCCC’s portfolio in the region, where it holds strong leadership in carbonates but is relatively weak in still beverages. In early 2013, TCCC established two new companies with Aujan: Rani Refreshment and Aujan Coca-Cola Beverages Co. The former will hold the global rights to brands such as Rani and Barbican while the latter will manufacture and distribute the products. Aujan Coca-Cola will also be the licensed manufacturer of Vimto in the Middle East. Leveraging Aujan’s distribution capability, TCCC may well introduce Minute Maid Pulpy. Barbican, Aujan’s malt beverage brand, represents another growth avenue. Malt beverages are attracting much interest, with many beverage multinationals, including brewers, looking to expand into this category in the region. Thus far, TCCC has no major presence in malt-based beverages. This investment in the leading malt beverages expert may well offer it an opportunity to develop this category. As TCCC is diversifying into a variety of drinks to fit local preferences and palates, malt-based beverages might well be worth investing in before other large brewers enter en masse.
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TCCC: Broad brand portfolio in soft drinks

- Compared to PepsiCo, TCCC has a wide and solid brand portfolio in soft drinks, reflecting TCCC’s more powerful and effective brand building and marketing. It has strong cola brands including Coca-Cola, Diet Coke and Coca-Cola Zero, firmly grabbing consumers attention for regular cola and low calorie options. In non-cola carbonates, which saw strong growth in major emerging markets, TCCC offers Fanta and Sprite, with the latter growing rapidly in India and the former continuing good development in China.

- Minute Maid achieved the highest growth in 2011-2012 thanks to its expansion in China and other emerging markets.
Coca-Cola slowdown

- Coca-Cola continues to be the most valuable soft drinks brand globally, with no immediate challenger. Despite the enormous backing Coca-Cola receives in terms of product development, marketing, sponsorship and advertising, the brand saw growth slow down in 2012. The decline can be attributed to the strong trend for wellbeing, which has strengthened the hand of non-carbonates while negatively impacting carbonates.

- Sports and energy drinks brands such as Red Bull and Gatorade and fruit/vegetable juice brands such as Minute Maid continue to attract attention from consumers. Many consumers, particularly those in developed markets, have reduced consumption of any forms of carbonates altogether.

Soft Drinks Global: Major Brand Sales 2012 and % Growth 2011-2012
Minute Maid largely outperforms Tropicana

- Minute Maid is TCCC’s leading fruit/vegetable juice brand and is the global number one in its category. Its immediate rival in the fragmented fruit/vegetable juice marketplace is PepsiCo’s Tropicana. Both brands underperformed the US fruit/vegetable juice market while Minute Maid managed to significantly outperform Tropicana globally.

- Minute Maid Pulpy is a successful product concept and Tropicana reacted late in responding to Minute Maid's expansion. TCCC is making a great deal of effort in growing the Minute Maid Pulpy concept in emerging markets as juice drinks is the key driver for fruit/vegetable juice volumes.

- Nevertheless, the premium line Minute Maid is not well received in Europe and it was withdrawn from the UK in 2011. Strong competition from local brands and private label are the key factors.

- Minute Maid also has to compete with its sister brand Simply, which experienced very good growth in the US despite the recession. TCCC really should look to develop a wide variety of new flavours, blends or fortified variants to revive Minute Maid in the US.
Innocent: A healthy takeover

- At the time of writing, TCCC is planning to step up its holdings in Innocent to own 90% of the smoothies/juice drinks producer. Innocent has a healthy product image and its single-serve format is marketed as a children’s lunchbox drink. Innocent’s portfolio consists of smoothies and juice drinks including a variety of flavours. The company is constantly adding new blends to its portfolio to attract consumer interest. TCCC promised US$22.5 million for brand investment in the UK over the next 12 months.

- Following TCCC’s equity investment for several years, Innocent’s European coverage increased in real terms. It is also the best-performing small premium juice brand in some countries. TCCC reported the brand is sold in 15 European markets; however, it registered shares in NFC juice in eight countries, with the majority of sales still coming from its home market, the UK.

- As Minute Maid’s premium line is not well received in some European markets, TCCC is perhaps looking to grow Innocent as an alternative to Minute Maid as Innocent appears to be highly marketable and viable. However, the recession and private label remain the ongoing challenges for Innocent.
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TCCC’s operating structure is the basis for its internal financial reporting. As of 31 December 2011, its operating structure included the following operating segments:
Management and production

Georgia - 35-acre management complex

- TCCC’s worldwide headquarters are located on a 35-acre office complex in Atlanta, Georgia. The company owns or leases additional facilities, real estate and office space throughout the world which it uses for administrative activities, manufacturing, processing, packaging, packing, storage, warehousing, distribution and retail operations. These properties are generally included in the geographic operating segment in which they are located.

North America at the centre of production

- In North America, as of 31 December 2011, TCCC owned 69 beverage production facilities, 10 principal beverage concentrate and/or syrup manufacturing plants, one facility that manufactures juice concentrates for foodservice use and two bottled water facilities. TCCC also leased one bottled water facility, one beverage production facility and six container manufacturing facilities. The company also operated 287 principal beverage distribution warehouses, of which 104 were leased and the rest were owned.

Global production facilities also help TCCC’s global operations

- Additionally, as of 31 December 2011, TCCC owned and operated 20 principal beverage concentrate manufacturing plants outside North America, of which four are included in the company’s Eurasia and Africa operating segment; three are included in the Europe operating segment; five are included in the Latin America operating segment; and eight are included in the Pacific operating segment.
- TCCC also owns or holds a majority interest in 97 principal beverage bottling and canning plants located throughout the world.
Global bottling strength

- TCCC’s production strength lay in its widespread bottling capability which is at the heart of the company’s success. The company maintains such capability throughout the world through (as the company itself reports) “a network of company-owned or controlled bottling and distribution operations as well as independently owned bottling partners, distributors, wholesalers and retailers”. Consequently, the company claims itself to be in possession of the world’s largest “beverage distribution system”.

- In 2013, TCCC’s anchor bottler Coca-Cola FEMSA completed the takeover of a majority stake in Coca-Cola Bottlers Philippines, the company’s first acquisition outside Latin America. The operations include 23 production plants serving about 800,000 customers and the bottler is expected to sell about 530 million unit cases in 2013.

- In December 2012, the four Japanese bottlers from the greater Kanto region announced their agreement to merge into one integrated and publicly-listed company called Coca-Cola East Japan and TCCC holds a 33% stake in CCEJ. While this agreement is still pending final approval by each of the four bottler shareholders, once complete, Coca-Cola East Japan will become TCCC’s fifth largest global bottling partner in terms of annual revenue. TCCC supports this bottler-led consolidation in Japan and sees it as one example of the many ways its franchise system continues to evolve in full alignment with its 2020 vision.

Strength through distribution network

- TCCC has increasingly leveraged its impressive distribution network to market products of niche and growing players, taking a pragmatic approach in benefiting from their growth rather than trying to quell any competition as soon as it arises. By doing this, TCCC gains access to incremental growth with relatively little investment and can manage the growth of potential competitor brands.
Freestyle is expanding trialled location in developed markets

Freestyle dispenser key to on-trade distribution strategy

- TCCC also maintains a number of agreements in the on-trade soft drinks market with large foodservice chains. Key recent developments include a multi-year service agreement with US-based fast food chain Firehouse Subs and the development of TCCC’s Freestyle dispenser, which dispenses over 100 different fountain drinks using a touchscreen system. In North America, Freestyle has started its trial in some chain restaurants and entertainment venues. In Europe, the company is trialling and experimenting the concept of Freestyle in the UK and results are yet to be confirmed.
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Diversify and target growth categories in major markets

Continue with expansion of low calorie drinks, particularly low calorie carbonates
- Governments all over the world are publicising obesity concerns and the sugar content of soft drinks has come under increasing scrutiny. TCCC has already developed low and zero calorie drinks that are the top-ranked brands within their categories. However, the company should continue to research low calorie drinks and in particular, natural low calorie options such as those using stevia and more recent development monk fruit.

Major emerging markets
- TCCC has already firmly established itself in emerging markets, dominating carbonates in most and often dominating the entire soft drinks market. However, the company cannot rest on its laurels as it will see increasing domestic competition while global competitors, notably PepsiCo, will be eager to take TCCC’s market share. If the company is to double in size over 2010-2020 then BRIC growth and development of major secondary markets such as Indonesia and Vietnam are essential.

Capitalise on the wider health and wellness trend within soft drinks markets
- Areas such as “better for you”, “naturally healthy” and “fortified/functional” fit well within soft drinks formats. TCCC already has a range of juices and waters that could prove to be future winners for the company, but it must continue to develop and innovate new HW angles within its brands. A key growth area could be fortified/functional drinks, where opportunities to add new functional ingredients are continually being discovered.

Spread risk from carbonates - look to push other drinks categories
- The popularity of carbonated soft drinks has waned in many markets, or has at least seen a slowdown in growth. TCCC should look to expand its sales of other beverages. Categories in which the company is not dominant globally include RTD tea. Pushing development in these categories would provide a holistic growth opportunity into the all-important Chinese and Asia Pacific territories. Dairy is another area TCCC should explore further following the equity investment in Core Power.
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