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## CPE 702 – INTERNATIONAL MARKETING

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*Cadbury Schweppes*

### CADBURY BEVERAGES



*Orange  
Crush*

*Cadbury  
Beverages*



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## *Introduction*

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Cadbury is the beverage division of Cadbury Schweppes PLC, a major global soft drink and confectionery marketer. The turnover of the company was, in 1989, \$4.6 billion and the company was present in 110 countries. Cadbury Beverages' headquarters are in Stamford, Connecticut.

Cadbury Schweppes PLC was the world's first soft-drink maker. The first product was an artificial mineral water marketed in 1783, in London. There is an important point to set the brand image.

Cadbury Schweppes PLC expanded all over the world, especially in the British Commonwealth. In 1969, Schweppes decided to diversify into food products and merged with Cadbury, a major British candy maker who began its business in 1830.

In 1989, Cadbury Schweppes was one of the world's largest multinational firms and was ranked 457<sup>th</sup> in *Business Global 1000*.

Beverages accounted, in 1989, 60% of company's worldwide sales and 53% of operating incomes. Confectionery items accounted for 40% of worldwide sales and represented 40% of operating incomes.

Cadbury Beverages was present in three beverages categories with a huge quantity of brands:

- ◆ **Carbonates:** *Canada Dry, Schweppes, Sunkist, Crush, Hires, Sun-Drop, Gini, etc ...*
- ◆ **Waters:** *Schweppes, Canada Dry, Malvern, etc ...*
- ◆ **Still Drinks/Juices:** *Oasis, Vida, Trina, Mott's, Holland House, Red Cheek, etc ...*

These brands and beverages were differentiated in several categories like Regular or Diet and Crush and some other brands were differentiated by the flavor (orange, cherry, pineapple, etc ...).

Cadbury Beverages is trying to re-launch Crush, Hires and Sun-Drop, brands that had been acquired from Procter & Gamble in 1989. Managers decided to focus on the Crush brand of fruit-flavored carbonated beverages. The aims are:

- ◆ *Rejuvenate the bottling network for the brand,*
- ◆ *Develop a base positioning,*
- ◆ *Create a new advertising and promotion program.*

We will try to develop a re-launching marketing strategy for Crush, analyzing the industry, defining the competition advantages of Cadbury Schweppes and making some recommendations for the success of this brand.

## *I – The carbonated soft drink industry*

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### *A) An introduction*

Cadbury Schweppes is the world's third largest soft drink marketer. The leaders are Coca-Cola and PepsiCo. Cadbury acquired this position by a heavy marketing investment in the Schweppes brand name and extensions to different beverage products.

The company acquired other brands like Canada Dry or Sunkist with an established customer franchise for each one. The acquisitions continued with brands in Spain and Portugal. Cadbury acquired the leading bitter lemon brand, Gini, famous in France and Belgium.

Crush was acquired in 1989 for \$220 million from Procter & Gamble. In the United-States, Cadbury Schweppes was the fourth largest soft drink marketer with a 3.4% market share of carbonated soft drink market. The three leaders were (and are):

- ◆ *Coca-Cola*
- ◆ *PepsiCo*
- ◆ *Dr. Pepper/7UP (Cadbury acquired this company)*

The point is that the company's brands were market leader in their specific categories like, for example, Canada Dry or Schweppes.

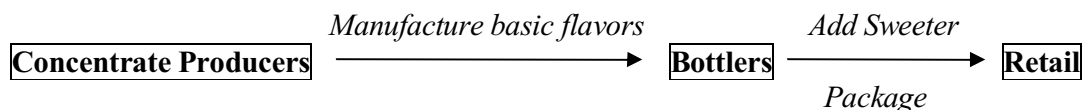
### *B) The industry structure*

American consumers' soft drinks consumption doubled between 1969 and 1989, from 23 to 46.7 gallons. The estimated turnover in retail sales in 1989 was \$43 billion.

There are three major participants in the production and distribution of carbonated soft drinks:

- ◆ *Concentrate producers*
- ◆ *Bottlers*
- ◆ *Retail outlets*

Below, we see the mechanism for regular drinks:



For diet drinks, the concentrate producers include an artificial sweetener.

There are over than 40 concentrate producers in the United-States even if 82% of sales are accounted by Coca-Cola, PepsiCo and Dr. Pepper/7UP. Bottlers are more numerous: 1000 bottling plants are present in the United-States. The bottlers are owned by concentrate producers or franchised to sell the brands of concentrate producers.

One-half of Pepsi-Cola's sales are through company-owned bottlers. Franchised bottlers distribute a concentrate producer's branded line in a defined territory. They can represent also noncompetitive brands and decline concentrate producer's secondary lines. A franchised

bottler of Pepsi-Cola cannot sell Royal Crown Cola but can bottle and market Orange Crush, for example.

The distribution and the sale of carbonated soft drinks is done across:

- ◆ *Supermarkets*
- ◆ *Convenience stores*
- ◆ *Vending machines*
- ◆ *Fountain service (McDonald's)*
- ◆ *Thousands of retail outlets*

Soft drinks are sold in bottles and cans except the fountain service. Supermarkets accounted for 40% of industry sales. Supermarkets are considered by analysts as the key of successful soft drink marketing.

### *C) The industry economics*

Soft drink industry is characterized by a heavy investment in advertising, selling and promotion.

Concentrate producers develop usually the national consumer advertising and promotion programs, product development & planning and marketing research. Bottlers develop trade promotions to retail outlets and local consumer promotions. They are responsible for selling and servicing retail accounts.

The pricing is difficult to evaluate. Differences exist between Regular and Diet soft drinks and between concentrate producers and bottlers. Below, we can see the cost structure in the Orange category:

	<b>Concentrate Producers</b>			
	<b>Regular</b>		<b>Diet</b>	
	<i>\$/Case</i>	<i>Percentage</i>	<i>\$/Case</i>	<i>Percentage</i>
<i>Net selling price</i>	<b>\$0.76</b>	<b>100 %</b>	<b>\$0.92</b>	<b>100 %</b>
<i>Cost of goods sold</i>	0.11	14	0.12	13
<i>Gross profit</i>	<b>\$0.65</b>	<b>86 %</b>	<b>\$0.80</b>	<b>87 %</b>
<i>Selling and delivery</i>	0.02	3	0.02	2
<i>Advertising and promotion</i>	0.38	50	0.38	41
<i>General and administrative expenses</i>	0.13	17	0.13	14
<i>Pretax cash profit/case</i>	<b>\$0.12</b>	<b>16 %</b>	<b>\$0.27</b>	<b>30 %</b>
	<b>Bottlers</b>			
	<b>Regular</b>		<b>Diet</b>	
	<i>\$/Case</i>	<i>Percentage</i>	<i>\$/Case</i>	<i>Percentage</i>
<i>Net selling price</i>	<b>\$5.85</b>	<b>100 %</b>	<b>\$5.85</b>	<b>100 %</b>
<i>Cost of goods sold</i>	3.16	54	3.35	57
<i>Gross profit</i>	<b>\$2.69</b>	<b>46 %</b>	<b>\$2.50</b>	<b>43 %</b>
<i>Selling and delivery</i>	1.35	23	1.35	23
<i>Advertising and promotion</i>	0.40	7	0.40	7
<i>General and administrative expenses</i>	0.05	1	0.05	1
<i>Pretax cash profit/case</i>	<b>\$0.89</b>	<b>15 %</b>	<b>\$0.71</b>	<b>12 %</b>

As we can see, the advertising and promotion costs are too high (almost 50% of net selling price) for concentrate producers. For bottlers, this is the cost of goods sold which is too high. Pretax cash profit/case is relatively the same for regular concentrate producers and bottlers (16% and 15%). Differences are to note for diet soft drinks (30% for concentrate producers and 12% for bottlers).

***D) Product and brands categories***

The leader of flavors is Cola with two-thirds of total carbonated soft drink sales. Other flavors (orange, lemon, cherry, root beer) represent one-third of sales. Below, market share of different flavors:

- ◆ **Cola:** 65.7%
- ◆ **Lemon:** 12.9%
- ◆ **Others:** 21.4%

Diet soft drinks represented 31% and regular 69% of sales in 1989. The share of diet drinks was important in 1980's.

Concerning brands, there are more than 900 registered brand names for soft drinks in the United-States. Most of them are sold regionally. Below, we can see soft drink brands market shares in the United-States, in 1989:

<b>BRAND</b>	<b>MARKET SHARE</b>	<b>TOTAL</b>
<i>Coca-Cola (all*)</i>	31.2 %	<b>71.4 %</b>
<i>Pepsi-Cola (all*)</i>	25.2 %	
<i>Dr. Pepper/7UP (all)</i>	15 %	
<i>Other brands</i>	28.6 %	<b>28.6 %</b>
<b>TOTAL</b>	<b>100 %</b>	

***E) Soft drink purchase and buyer behavior***

The purchase of soft drinks in supermarkets is often unplanned. Buyers respond favorably to price promotions, in-store displays and other promotions. The supermarket has a key function in the sales.

The classic supermarket buyer is a married woman with children under 18 years living at home. Soft drinks' buying is seasonal: the consumption is a little bit higher during summer months. The consumption depends also on regions.

Per capita consumption in the East South Central states was highest in 1989. This region consumed 54.9 gallons whereas the national per capita average was 46.7 gallons (a gallon equals almost 4 liters). The lowest consumption was in the mountain states (37.1 gallons). Consumption of diet beverages was more important among consumers over 25 years. Teenagers and younger consumers preferred regular soft drinks.

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\* Regular, Diet & Caffeine-free

## II – Changes in the orange category between 1985 and 1989

### A) The Situation

The orange flavored drinks' sales increased between 1984 and 1989. Thanks to heavy investment made by Coca-Cola (Minute Maid) and PepsiCo (Mandarin Orange Slice), the number of cases raised rapidly.

126 000 000 cases of orange-flavored soft drinks were sold in the supermarkets in 1989. So, the total is (with fountain service and retailers) is:

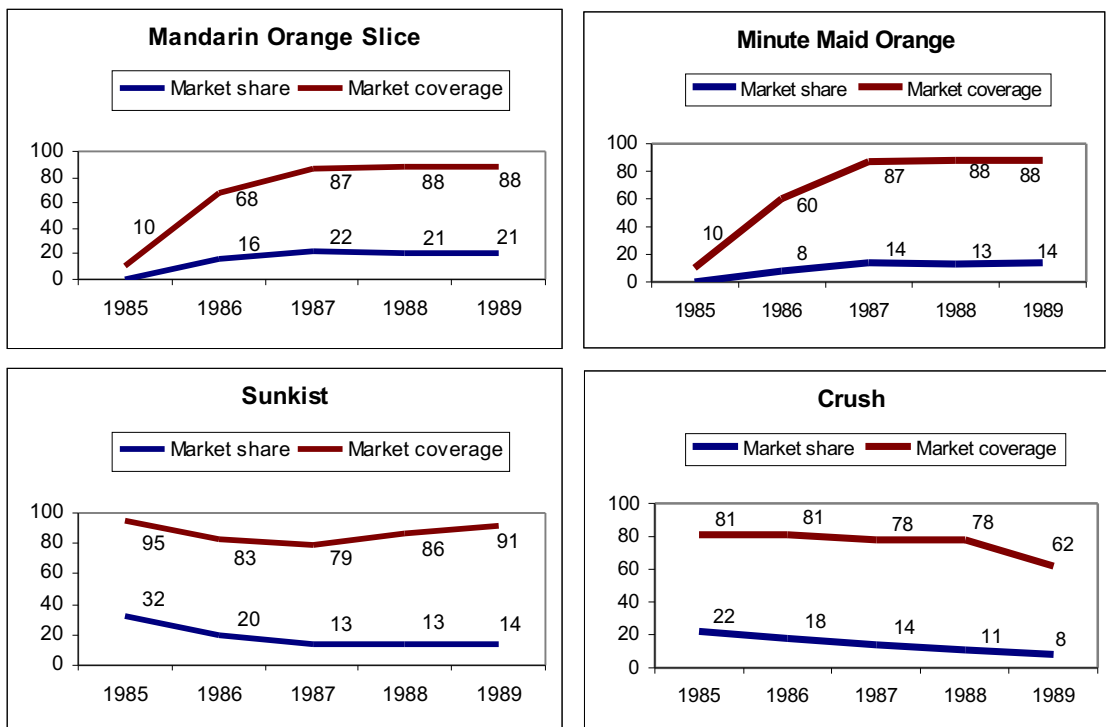
$$126\ 000\ 000 * 2.5 = 315\ 000\ 000 \text{ cases}$$

In 1989, four brands were leaders on the market:

- ✓ Mandarin Orange Slice (PepsiCo)
- ✓ Sunkist (Cadbury Beverages)
- ✓ Minute Maid Orange (Coca-Cola)
- ✓ Orange Crush (Cadbury Beverages)
- ✓ Others

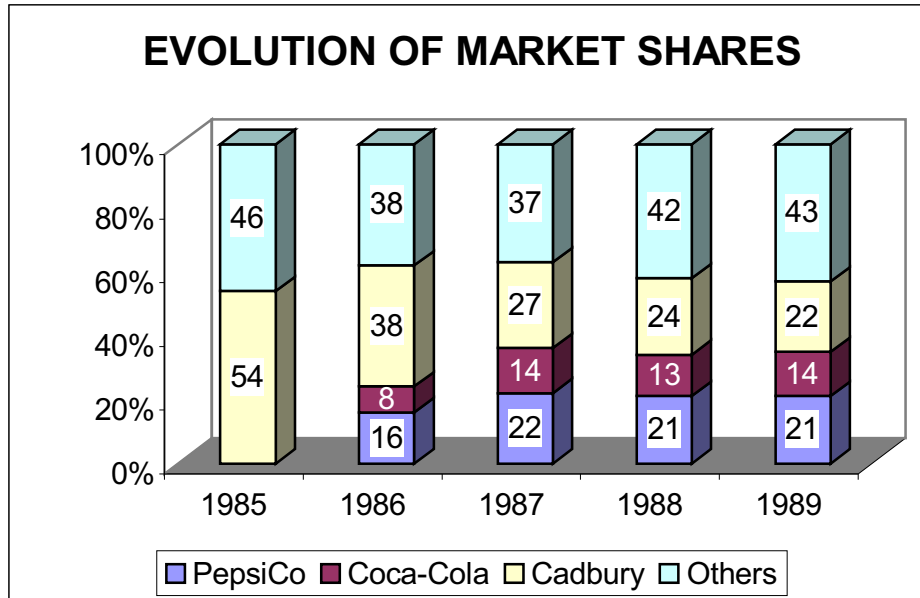
### B) Market shares and market coverage

Below, we can see the graphics of the relationship between market share and market coverage for four brands.





This is the graphic of the evolution of market shares for different competitors:



As we can see, the market share of Crush is decreasing. But, the cumulated market share for Cadbury was, in 1989, 22% (Sunkist and Crush). So, its market share is higher than PepsiCo and Coca-Cola. The market coverage differs from one to another company.

The competitors sold both regular and diet drinks. The importance of regular was great except for Minute Maid which splits between regular (53%) and diet (47%).

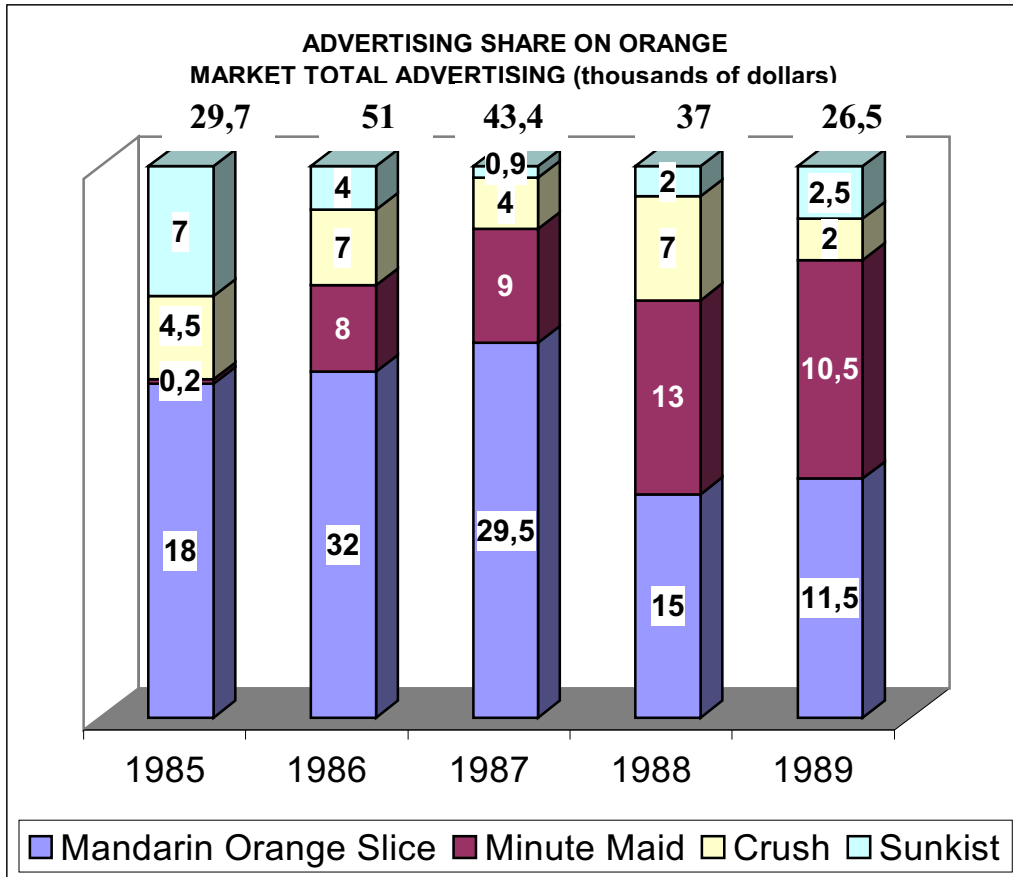
Type	Total Soft Drinks	Total Orange	Crush	Sunkist	Mandarin Orange Slice	Minute Maid Orange
Regular	69	73	71	82	49	53
Diet	31	27	29	18	51	47
	100 %	100 %	100 %	100 %	100 %	100 %

### C) Advertising and Positioning

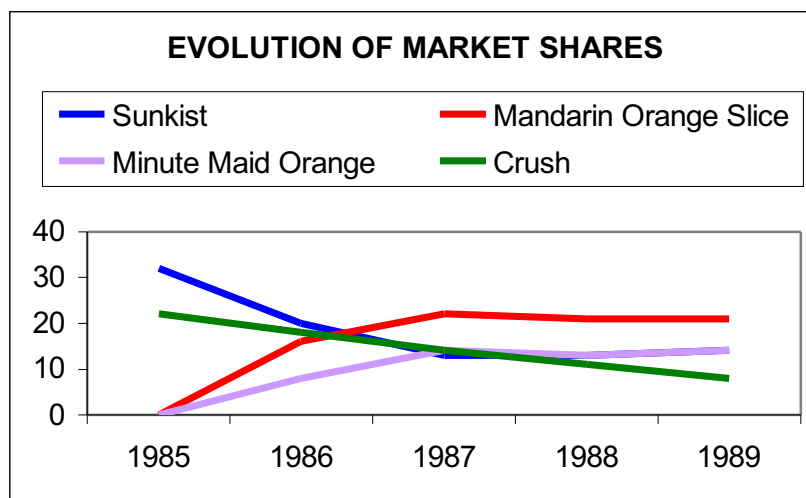
The targets of the brands were different. The positioning was also different. Some insisted on orange flavor, others on young lifestyle, etc...

The advertising budget for the four leaders was \$26 million in 1989. PepsiCo and Coca-Cola represented 84% of all advertising expenditures. So, their positioning was well done. The leaders used the television, the radio network, newspapers and billboards to promote their orange brands. Cadbury spent less money to advertise its brands.

Below, the graphic of relationship between brands advertising share and total advertising budget:



To compare their advertising budget with their market share, we present, below, the graphic of the evolution of different brands' market share.



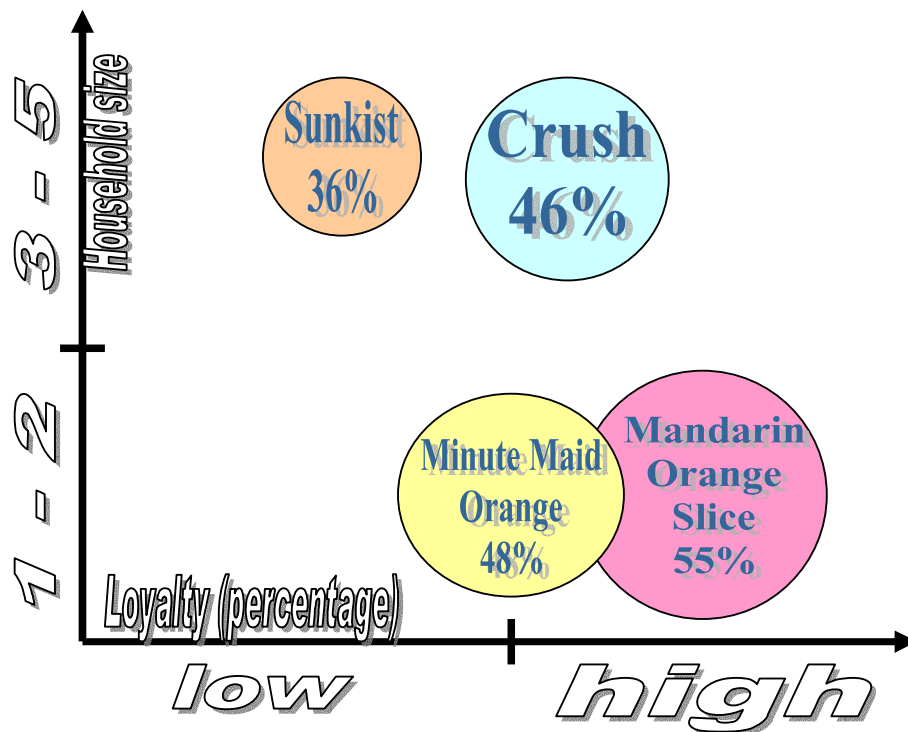
Minute Maid invested a huge amount of money to reach 14% of market share. Inversely, Sunkist has reduced this investment.

We know that expenditures for print and broadcast media declined each year after 1986. That was the year of the national launching of Minute Maid through United-States. The variety of media used enlarged.

The pricing was almost the same. Differences existed between regular and diet drinks' gross profit margin but the differences between markets shares were due to promotions. The cost of advertising and promotion programs was supported by the concentrate producers and bottlers.

**D) Brand positioning map**

The targets of competitors are teens, young adults and they defend a brand image. This image is different from a brand to another. Our Crush brand's household size is between 3 and 5. Our customers are teens and adults between 13 and 29. The graphic below represents the loyalty percentage of customers to the brand giving the household size.



### III - Cadbury's competitive position in the US soft drink market and orange category

#### A) Introduction

After having defined the characteristics of the soft drink industry and especially the orange category, we will now examine Cadbury's competitive position within this market thanks to a SWOT analysis.

#### B) SWOT Analysis

	<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<b>INTERNAL FACTORS</b>	<ul style="list-style-type: none"> <li>✓ Cadbury is the world's first soft drink marketer</li> <li>✓ Each Cadbury's brand has been acquired with an established customer franchise</li> <li>✓ Cadbury's orange products are not in competition with leaders on the market (Cola):               <ul style="list-style-type: none"> <li>• Leader in our category</li> <li>• We can use franchised bottlers who are not in competition on our segment</li> </ul> </li> <li>✓ Crush brand has high name awareness with consumers (in big cities) and bottlers</li> <li>✓ Agreements with 136 bottlers in the mid 90's</li> </ul>	<ul style="list-style-type: none"> <li>✓ Positioning problem:               <ul style="list-style-type: none"> <li>• Our target is too large and unadapted</li> <li>• Cannibalization risk of Sunkist</li> <li>• Advertising campaign untargetted clearly and not innovative enough</li> <li>• Amount of the advertising budget insufficient</li> <li>• Variety of media used insufficient</li> </ul> </li> <li>✓ The Diet segment is underdeveloped</li> </ul>
	<b>OPPORTUNITIES</b>	<b>THREATS</b>
<b>EXTERNAL FACTORS</b>	<ul style="list-style-type: none"> <li>✓ International development in the long term on the orange segment</li> </ul>	<ul style="list-style-type: none"> <li>✓ Dr Pepper could appear on the orange segment</li> </ul>

### ***C) Key Success Factors***

We can now determine the three key success factors of the company in the orange category:

- 1. Crush's brand image toward consumers and bottlers*
- 2. Underdevelopment of the diet segment*
- 3. Possibility to use Cola's bottlers channel for distribution*

#### ***IV - Media advertising \$ per case for major brands***

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We will now estimate the advertising budget of each brand on the 1989 basis.

**Total number of cases: 315 000 000**

- **Mandarin Orange Slice (21% market share):**

$3\,150\,000 * 21\% = 66\,150\,000$  cases

Media advertising per case:  $11\,388\,100 / 66\,150\,000 = \mathbf{0.17}$  \$ per case

- **Minute Maid (14%):**

$3\,150\,000 * 14\% = 44\,100\,000$  cases

Media advertising per case:  $10\,463\,100 / 44\,100\,000 = \mathbf{0.24}$  \$ per case

- **Sunkist (14%):**

$3\,150\,000 * 14\% = 44\,100\,000$  cases

Media advertising per case:  $2\,301\,900 / 44\,100\,000 = \mathbf{0.05}$  \$ per case

- **Crush (8%):**

$3\,150\,000 * 8\% = 25\,200\,000$  cases

Media advertising per case:  $1\,853\,600 / 25\,200\,000 = \mathbf{0.07}$  \$ per case

**Total Cadbury advertising budget:**

$44\,100\,000 + 25\,200\,000 = 69\,300\,000$  cases

Advertising budget:  $2\,301\,900 + 1\,853\,600 = 4\,155\,500$

Media advertising budget:  $4\,155\,500 / 69\,300\,000 = \mathbf{0.6}$  \$ per case

## *V - Pro forma income statement for Orange Crush*

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### *1. Forecast of \$ sales*

With 15% market share, we would obtain:  $315\,000\,000 \times 15\% = 47\,250\,500$  cases sold per year.

**Total value:**  $47\,250\,500 \times 5.85 \$ = 276\,412\,500 \$$  sales (138 206 250 \$ sales per segment).

### *2. Pro Forma Income Statement*

	Regular		Diet	
	\$	%	\$	%
<b>Number of cases</b>	23 625 250		23 625 250	
<b>Sales</b>	138 207 712,50	<b>100%</b>	138 207 712,50	<b>100%</b>
<b>Cost of goods sold</b>	74 655 790,00	<b>54%</b>	79 144 587,50	<b>57%</b>
<b>Gross profit</b>	63 551 922,50	<b>46%</b>	59 063 125,00	<b>43%</b>
<b>Gross profit/case</b>	2,69		2,50	
<b>Selling and delivery</b>	31 894 087,50	<b>23%</b>	31 894 087,50	<b>23%</b>
<b>Advertising and promotion</b>	5 000 000,00	<b>4%</b>	5 000 000,00	<b>4%</b>
<b>General and administrative expenses</b>	1 181 262,50	<b>1%</b>	1 181 262,50	<b>1%</b>
<b>Pretax cash profit</b>	25 476 572,50	<b>18%</b>	20 987 775,00	<b>15%</b>
<b>Pretax cash profit/case</b>	1,08		0,89	

## ***VI - Crush's objective and strategies in terms of advertising and promotion***

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First of all, Crush should forecast an advertising budget of 10 Million dollars in order to be able to reach a high market coverage rate of nearly 85% and to increase our market share from 8 to 15%.

To this purpose and as we previously said, we will focus on both national and local media:

As far as the national campaign is concerned, we will use TV cable and network, syndicated TV, radio, and magazines, sponsorship, games and competitions.

Concerning the local campaign, we will use TV commercials, radio, flyers, outdoor billboards, newspapers. We will also use incentive bonuses on sales with bottlers (for example we will allow them 15 to 25 cents per case sold).



## ***Conclusion: Crush orange positioning recommendations***

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There are different possibilities concerning Crush's positioning such as:

**1. Target:**

- *Focus on the young adults segment (18-34 years) with a household purchasing size of 1-2 persons*
- *Focus on the teens segment (12-24 years) with 3-4 persons*

**2. Segment:**

- *Development of the diet segment*
- *Focus on the regular*

**3. Advertising:**

- ***Theme campaign:***
  - *Sugar free*
  - *Natural flavour*
  - *Contemporary youth culture*
- ***Media campaign:***
  - *National campaign*
  - *Local campaign*

We will define a new positioning for orange Crush that is to say we will first focus on the young adults segment in order to prevent Sunkist's cannibalization and to establish Cadbury's presence on the two age categories segment.

Secondly, we will develop the diet segment (**50%**) because it has a great potential unexploited with a higher gross profit margin than the regular segment and a high growth; besides, as Sunkist is present on the regular segment, this tactic could enable again the brand to evolve on both diet and regular segments.

Thus, as we decided to develop the diet segment, we will insist, through our advertising campaign, on the sugar free and natural flavour, and keep Sunkist focusing on the youth culture campaign.

Finally, concerning the type of media that we will use, we will operate on both national and local market thanks to a higher variety of ways.